

Plantation

Stockpiles To Rise In September

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UNDERWEIGHT



August 2019 CPO inventory eased 5.3% to 2.25m MT, within consensus' estimate of 2.22m MT, but missed our forecast of 2.42m MT on higher-than-expected exports of 1.73m MT (vs. our 1.57m MT estimate) due to higher demand from China (+237.4% MoM), which we believe was due to festivity and its suspension on purchases of US agricultural products, as well as India (+22.6% MoM), as local consumption remains strong. For September, we believe production will rise 8.9% MoM to 1.98m MT as production picks up, leading up to peak production period in Oct/Nov 2019, while exports should fall 8.2% MoM to 1.59m MT after India increased import tariff by 5% (from 45% to 50%) on Malaysian refined palm oil. All-in, we expect supply of 2.03m MT to outstrip demand of 1.88m MT, leading to higher ending stocks of 2.40m MT in September 2019. **Maintain UNDERWEIGHT on the plantation sector** as we expect burgeoning stockpiles to exert pressure on CPO prices. No changes to our **CY19 CPO price forecast of RM2,000/MT**. However, we will closely watch production and exports to China and India in the coming months. Should there be signs of lower-than-expected production or continued higher-than-expected exports to China and softer-than-expected impact of India's import tariff increase on export volume, we would review the call and TP of planters under our coverage.



August 2019 CPO inventory eased 5.3% MoM to 2.25m metric tons (MT), in-line with the consensus estimate of 2.22m MT (-6.6% MoM), but missed our forecast of 2.42m (+1.3% MoM) mainly attributable to higher-than-expected exports of 1.73m MT (+16.4% MoM) vs. our forecast of 1.57m MT (+6.0% MoM). The growth in exports stemmed largely from: (i) China (+237.4% MoM to 308k MT), which we believe was due to the upcoming autumn festival as well as China's suspension on purchases of US agricultural products, and (ii) India (+22.6% MoM to 566k MT), as local consumption remains strong, evidenced

by the quick drawdown of palm oil inventory from 820k MT in February 2019 to 587k MT in July 2019. Meanwhile, CPO production of 1.82m MT (+4.6% MoM) was well within our forecast of 1.83m MT (+5.1% MoM) and consensus estimate of 1.78m MT (+2.1% MoM).

September 2019 production to grow by 8.9% MoM to 1.98m MT. From our channel checks with planters, due to a change in cropping patterns from the effects of El Nino and La Nina, most of them are expecting production to pick up further and peak in October-November. Consequently, we believe a pick-up in production in the coming months is on track and we forecast September's output to increase by 8.9% MoM to 1.98m MT.

Exports to fall 8.2% MoM to 1.59m MT in September 2019. We expect to see an 8.2% MoM decline in export volume to 1.59m MT, mainly attributed to decline in exports to India after its 5% increase in import tariff (from 45% to 50%) on Malaysian refined palm oil. However, we believe the impact may not be felt in full for September as some shipments have already been loaded onto the cargo ship and are in transit. Decline in exports to India should also be partially offset by demand from China following its suspension on purchases of US agricultural products. Additionally, based on cargo surveyor's (Intertek) data for 1st – 10th September, exports have seen a 15% decline MoM, corroborating our view.

September 2019 stocks to rise by 6.7% MoM to 2.40m MT. We expect supply of 2.03m MT to outstrip demand of 1.88m MT, leading to higher ending stocks of 2.40m MT in September 2019. To date, CPO price has recovered to RM2,105/MT (as at 6 September 2019) from a low of RM1,864/MT in early July, due to higher-than-expected exports to India and China. Nevertheless, moving forward, we expect India's 5% increase in import tariff to result in declining exports to India in the next few months. Additionally, with production likely to pick up and peak in Oct/Nov 2019, we believe stockpiles could rise in the coming months, capping further upside to CPO prices. All-in, we believe CPO price will continue to remain range-bound (RM1,900-RM2,200/MT) in the remaining 2H19.

Maintain UNDERWEIGHT on the plantation sector. Increasing production leading up to peak production period in Oct/Nov 2019 and lower exports to India after the import tariff increase are likely to lead to burgeoning stockpiles in the coming months, exerting pressure on CPO prices. As such, we are maintaining our CY19 CPO price forecast of RM2,000/MT and UNDERWEIGHT stance on the sector. However, we will closely watch production and exports to China and India in the coming months. Should there be signs of lower-than-expected production or continued higher-than-expected exports to China and softer-than-expected impact of India's 5% increase on import tariff to export volume, we would review the call and TP of planters under our coverage.

Exhibit 1: Palm Oil Statistics for Aug-2019 ('000 tonnes)

	Aug-19	Jul-19	Diff.	MoM %	Aug-18	YoY%
Opening Stks	2,378	2,411	(33)	-1.4%	2,215	7.4%
Production	1,822	1,741	81	4.6%	1,621	12.4%
Imports	51	40	11	27.4%	80	-36.3%
Total Supply	4,251	4,192	59	1.4%	3,915	8.6%
Exports	1,733	1,489	244	16.4%	1,100	57.6%
Dom Disapp	266	324	(58)	-18.0%	311	-14.4%
Total Demand	1,999	1,813	185	10.2%	1,411	41.7%
End Stks	2,252	2,378	(126)	-5.3%	2,505	-10.1%
Stock/Usage Ratio	9.4%	10.9%			14.8%	

Source: MPOB, Kenanga Research

Exhibit 2: Monthly Exports and YTD exports for Aug-2019 ('000 tonnes)

	Aug-19	Jul-19	Aug-18	MoM%	YoY%	8M19	8M18	YoY%
China	308	91	112	237.4%	176.1%	1,407	1,089	29.2%
India	566	462	139	22.6%	307.2%	3,613	1,660	117.7%
EU	147	147	80	0.3%	83.6%	1,411	1,273	10.8%
Pakistan	107	81	56	31.3%	89.0%	700	762	-8.1%
US	47	40	47	17.1%	0.1%	435	350	24.3%
Others	557	667	665	-16.5%	-16.2%	5,026	5,403	-7.0%
Total	1,733	1,489	1,100	16.4%	57.6%	12,592	10,538	19.5%

Source: MPOB, Kenanga Research

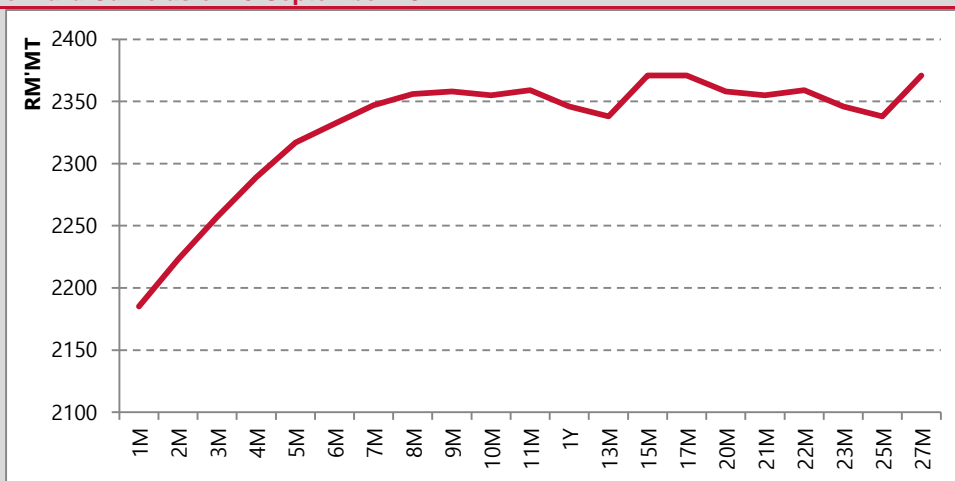
Exhibit 3: CPO Prices - Current & Forecast

	RM/MT
Last Price (6-September-19)	2,105
Year-to-date Average	1,993
2018 Average	2,235

	CY19 RM/MT
CPO Price Forecast	2,000
Revisions	+0%

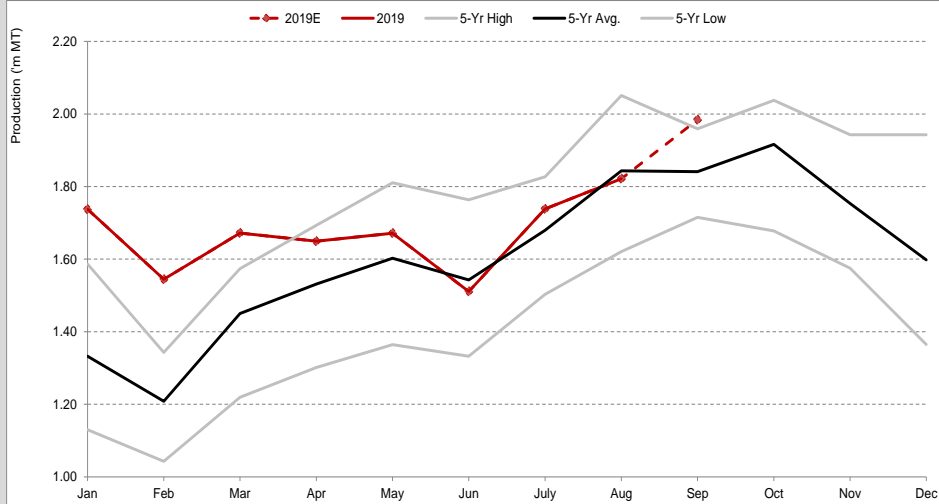
Source: Bloomberg, Kenanga Research

Exhibit 4: CPO Forward Curve as of 10-September-19



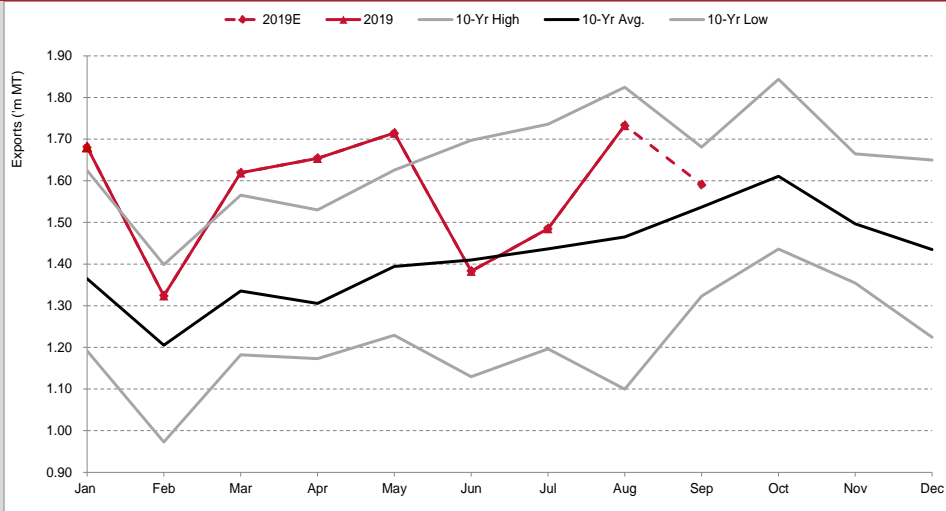
Source: Bloomberg, Kenanga Research

Exhibit 5: Malaysia 2019E CPO Production vs. 5-year Trends



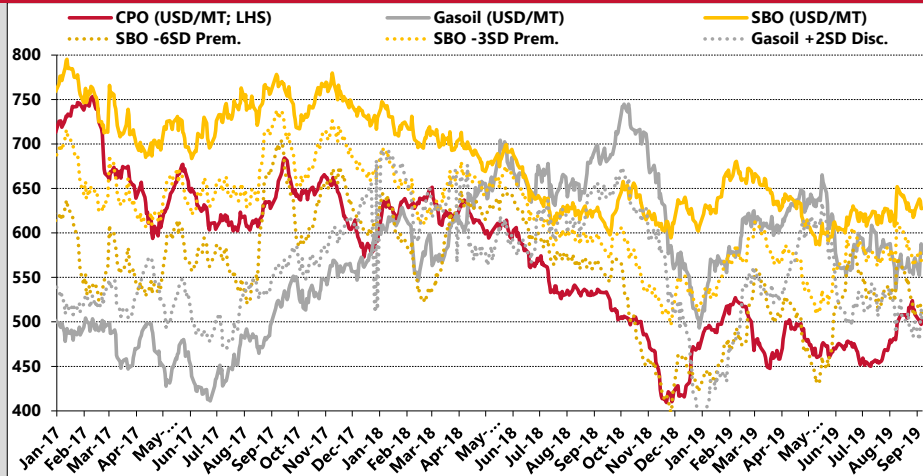
Source: MPOB, Kenanga Research

Exhibit 6: Malaysia 2019E CPO Exports vs. 10-year Trends



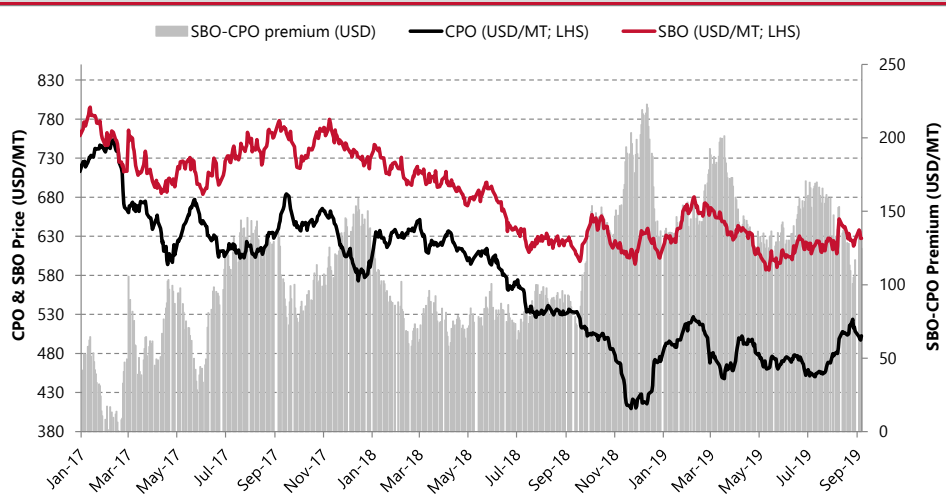
Source: MPOB, Kenanga Research

Exhibit 7: CPO vs. SBO Price and Gasoil Premium/Discount



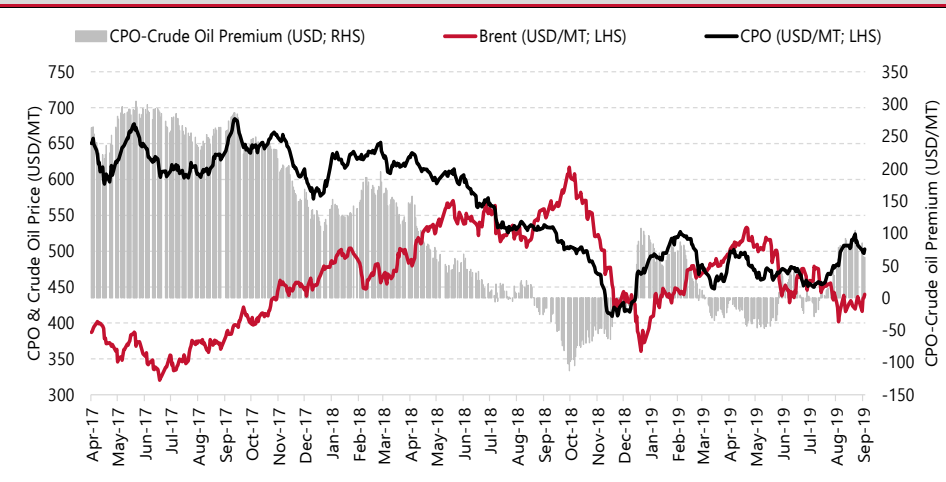
Source: Bloomberg, Kenanga Research

Exhibit 8: CPO vs. SBO Price and Historical Premiums



Source: Bloomberg, Kenanga Research

Exhibit 9: CPO vs. Crude Oil Price and Historical Premiums



Source: Bloomberg, Kenanga Research

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Peer Comparison																	
Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)	(RM'm)			1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
CB INDUSTRIAL PRODUCT HLDG	0.825	444.0	Y	12/2019	-23.6%	31.9%	-36.5%	45.9%	8.3	13.0	8.9	0.6	0.6	4.4%	4.8%	0.850	MP
FGV HOLDINGS BHD	0.940	3,429.3	Y	12/2019	3.1%	3.5%	-162.9%	-768.3%	N.A.	N.A.	N.A.	0.8	0.8	-2.4%	0.0%	1.00	MP
GENTING PLANTATIONS BHD	9.99	8,965.0	Y	12/2019	1.3%	6.3%	14.0%	46.9%	56.3	53.9	39.7	2.0	2.1	3.9%	1.0%	8.80	UP
HAP SENG PLANTATIONS HLDGS	1.45	1,159.6	Y	12/2019	-0.2%	10.2%	-76.7%	310.3%	39.9	171.0	41.7	0.7	0.7	0.4%	0.7%	1.50	MP
IJM PLANTATIONS BHD	1.50	1,320.9	Y	03/2020	-5.1%	11.5%	119.1%	177.8%	N.A.	149.0	53.6	0.8	0.8	0.5%	0.4%	1.40	MP
IOI CORP BHD	4.41	27,715.1	Y	06/2020	-7.7%	0.1%	24.1%	2.2%	36.4	29.4	28.7	3.0	2.9	9.9%	2.0%	4.10	MP
KUALA LUMPUR KEPONG BHD	23.66	25,257.0	Y	09/2019	-1.9%	6.5%	-25.5%	26.4%	28.2	37.9	30.0	2.5	2.4	5.8%	1.7%	21.50	UP
PPB GROUP BERHAD	18.48	26,289.6	Y	12/2019	5.4%	5.6%	18.0%	5.5%	27.8	22.6	21.7	1.2	1.2	5.4%	1.8%	15.60	UP
SIME DARBY PLANTATION BHD	4.89	33,666.0	Y	12/2019	71.0%	11.0%	14.0%	242.1%	150.5	132.0	38.6	2.5	2.5	1.9%	0.4%	4.00	UP
SOUTHERN ACIDS MALAYSIA BHD	3.57	488.9	Y	03/2020	9.7%	6.6%	32.5%	20.0%	28.2	21.3	17.8	0.8	0.8	3.8%	1.4%	2.90	UP
TA ANN HOLDINGS BERHAD	2.23	992.0	Y	12/2019	-7.8%	16.5%	-60.6%	117.0%	12.0	30.5	14.1	0.7	0.7	2.4%	1.8%	2.20	MP
TSH RESOURCES BHD	0.870	1,187.0	Y	12/2019	18.9%	12.0%	-8.2%	45.1%	24.3	26.3	18.1	0.8	0.8	3.2%	0.9%	0.900	MP
UNITED MALACCA BHD	5.14	1,077.7	Y	04/2020	15.3%	10.4%	-449.2%	78.8%	N.A.	N.A.	112.7	0.6	0.6	-0.4%	1.2%	5.00	MP
Simple Average					6.0%	10.2%	-46.0%	26.9%	41.2	62.4	35.5	1.3	1.3	3.0%	1.4%		

Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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