Plantation

Inventory Comes In at 2-Year Low

OVERWEIGHT

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December 2019 inventory fell (-11.0% MoM) to 2.01m MT, the lowest in 2 years (since September 2017), which also marks its third consecutive monthly decline. The inventory figure came below our estimate of 2.19m (-2.8% MoM), but within consensus' 2.06m MT (-8.5% MoM). The deviation came from: (i) better-than-expected exports of 1.40m MT (-0.7% MoM) vs. our/consensus' 1.26m/1.32m MT (-10.1%/-6.2% MoM), mainly due to Turkey (+195% MoM), Mozambique (+605% MoM), and Egypt (+65.6x) which negated a 24.6% MoM decline from China, and (ii) lower-than-expected production of 1.33m MT (-13.3% MoM), which also marks its third consecutive decline, compared to our/consensus' estimate of 1.41m/1.34m MT (-8.0%/-13.0% MoM). For January, we forecast: (i) further production decline (-5.5% MoM) on continued impact from dry weather, lower fertiliser application and replanting activities, and (ii) exports to hold steady (+1.3% MoM) as subdued demand from China and India is negated by stronger demand from EU. Based on cargo surveyor's (SGS) data, exports (1st – 10th Jan) to EU have already seen an increase of 60% MoM. All-in, we still expect total demand (1.61m MT) to outstrip supply (1.36m MT) leading to lower ending stocks of 1.76m MT (-12.5% MoM) in January, the first <2.0m MT level since August 2017. Meanwhile, we expect CPO prices to be supported by: (i) stronger exports data from cargo surveyors (+25.1% MoM), and (ii) potential widening of soybean oil-crude palm oil (SBO-CPO) premium (current: USD 9/MT) after more clarity on Chinese's agricultural buying (from U.S.) in the upcoming U.S.-China's phase-one trade deal. **Reiterate OVERWEIGHT on the plantation sector** with an unchanged **CY20 average CPO price forecast of RM2,700/MT** given the robust outlook of CPO price. Our top picks are **GENP (OP; TP: RM12.10) and KLK (OP; TP: RM32.90).** Key factors to watch out for are: (i) export data from cargo surveyors, and (ii) weather conditions.

December 2019 CPO inventory plunged 11.0% MoM to a 2-year low (since September 2017) of 2.01m metric tons (MT), which also marks its third consecutive monthly decline. December stockpile level came below our estimate of 2.19m (-2.8% MoM), but within consensus' 2.06m MT (-8.5% MoM). The deviation from our estimate is mainly attributed to: (i) higher-than-expected exports of 1.40m MT (-0.7% MoM) vs. our/consensus' 1.26m/1.32m MT (-10.1%/-6.2% MoM), and (ii) lower-than-expected production of 1.33m MT (-13.3% MoM), also marking its third consecutive decline, compared to our/consensus' estimate of 1.41m/1.34m MT (-8.0%/-13.0% MoM). Better-than-expected exports largely stemmed from: (i) Turkey (+195% MoM), (ii) Mozambique (+605% MoM), and Egypt (+65.6x), which we believe could be due to stocking up efforts amidst a CPO price rally. The surge in exports from these three countries negated a decline in China (-24.6% MoM).

January 2020 production to continue its decline by 5.5% MoM to 1.26m MT. Impact on production from the dry weather (in June-early October), lower fertiliser application and lower new planting activities (in the past 1-2 years), should continue into January. As such, we are forecasting January's output to fall by 5.5% MoM to 1.26m MT.

Exports are expected to increase to 1.41m MT (+1.3% MoM) in January 2020. Based on cargo surveyors' (Amspec, Intertek & SGS) data, exports (1st – 10th Jan) have surged 25.1% MoM. However, we are only forecasting an increase in exports of 1.31% MoM given our view that: (i) demand from China is expected to remain subdued as typically, palm oil buyers switch to soybean oil during winter (Dec to Feb) given palm oil's high solidification point of c.35°C (vs. soybean oil's -18°C to -8°C), and (ii) demand from India to decline following its recent restriction on imports of refined palm products. Nevertheless, subdued demand from China and India is expected to be negated by stronger demand from EU, as data from cargo surveyor (SGS) show exports to EU (1st – 10th Jan) have increased 60% MoM.

January 2020 inventory to decline further to 1.76m MT (-12.5% MoM) the first <2.0m MT since August 2017. Given our expectations of steady exports (+1.3% MoM) and a further 5.5% MoM decline in production, we expect demand of 1.61m MT to outstrip supply of 1.36m MT, leading to lower ending stocks of 1.76m MT (-12.5% MoM) in January. Meanwhile, we expect CPO prices to be supported by: (i) stronger exports data from cargo surveyors (+25.1% MoM), and (ii) potential widening of soybean oil-crude palm oil (SBO-CPO) premium (current: USD 9/MT) after more clarity on Chinese's agricultural buying (from U.S.) in the upcoming U.S.-China's phase-one trade deal on 15th January 2020.

Reiterate OVERWEIGHT on the plantation sector with an unchanged CY20 average CPO price forecast of RM2,700/MT. All-in, we believe CPO price outlook remains robust given: (i) production decline from dry weather, lower replanting and fertiliser application impact, and (ii) sturdy demand from the implementation of biodiesel mandates (B30 Indonesia; B20/B10 Malaysia for transport/industrial). Our top picks are **GENP (OP; TP: RM12.10) and KLK (OP; TP: RM32.90).** Key factors to watch out for are: (i) export data from cargo surveyors, and (ii) weather conditions.

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

	Dec-19	Nov-19	Diff.	MoM %	Dec-18	YoY%
Opening Stks	**2,255**	**2,352**	**-97**	**-4.1%**	**3,007**	**-25.0%**
Production	**1,334**	**1,538**	**-204**	**-13.3%**	**1,808**	**-26.2%**
Imports	123	75	48	64.7%	109	13.3%
Total Supply	**3,712**	**3,965**	**-253**	**-6.4%**	**4,924**	**-24.6%**
Exports	1,396	1,406	-9	-0.7%	1,383	0.9%
Dom Disapp	309	304	4	1.4%	325	-5.1%
Total Demand	**1,705**	**1,710**	**-5**	**-0.3%**	**1,709**	**-0.2%**
End Stks	**2,007**	**2,255**	**-248**	**-11.0%**	**3,215**	**-37.6%**
Stock/Usage Ratio	**9.8%**	**11.0%**			**15.7%**	

Source: MPOB, Kenanga Research

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

	Dec-19	Nov-19	Dec-18	MoM%	YoY%	12M19	12M18	YoY%
China	257	340	269	-24.6%	-4.6%	2,502	1,855	34.9%
India	139	143	284	-2.8%	-51.2%	4,425	2,514	76.1%
EU	144	178	93	-18.7%	54.9%	2,073	1,910	8.6%
Pakistan	91	91	104	-0.3%	-12.7%	1,083	1,161	-6.7%
Turkey	79	27	34	194.9%	136.0%	709	632	12.2%
US	32	16	58	102.5%	-45.2%	542	540	0.3%
Mozambique	39	6	0.1	604.8%	54500.0%	194	206	-5.8%
Egypt	45	1	1	6579.4%	4357.3%	85	67	26.2%
Others	571	601	574	-5.0%	-0.6%	6,841	7,593	-9.9%
Total	**1,396**	**1,401**	**1,418**	**-0.4%**	**-1.5%**	**18,460**	**16,485**	**12.0%**

Source: MPOB, Kenanga Research

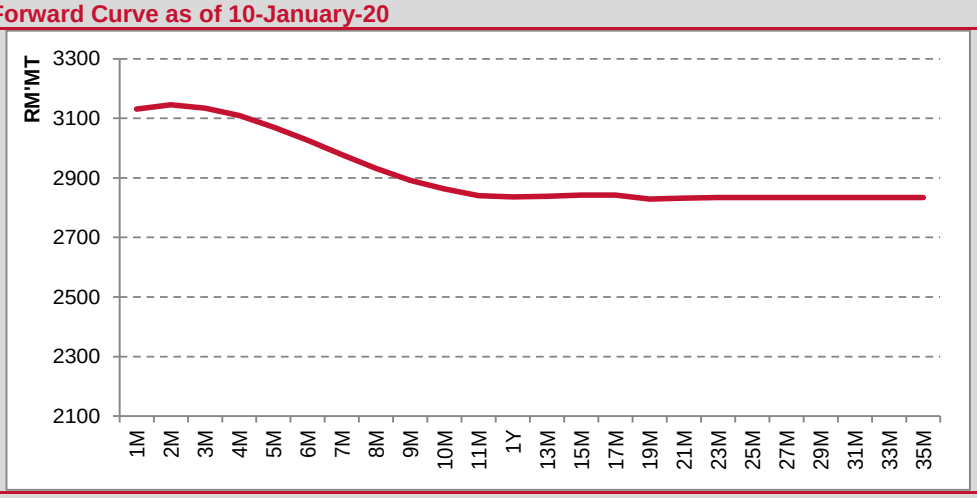
Exhibit 3: CPO Prices - Current & Forecast

	RM/MT
Last Price (09-January-20)	**3,096**
Year-to-date Average	3,063
2019 Average	2,129

	CY20 RM/MT
CPO Price Forecast	**2,700**
Revisions	+0%

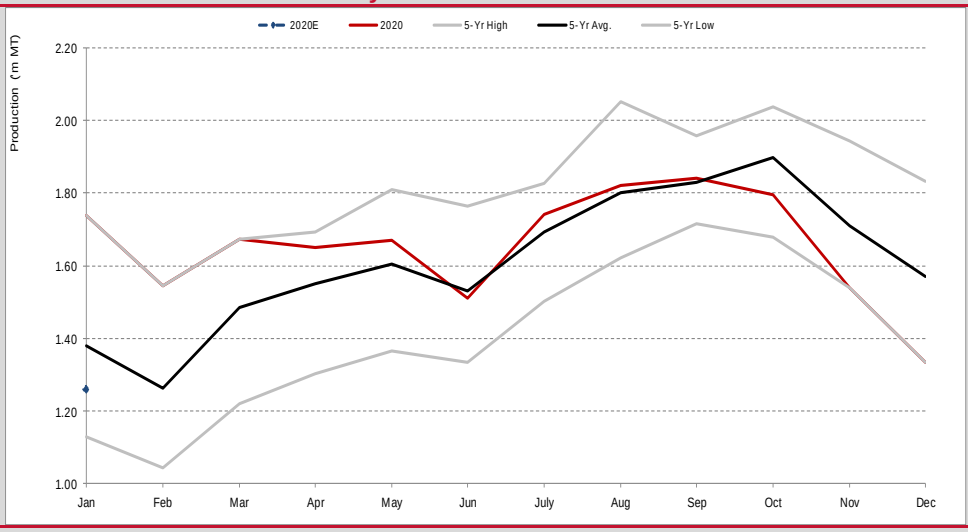
Source: Bloomberg, Kenanga Research

Exhibit 4: CPO Forward Curve as of 10-January-20



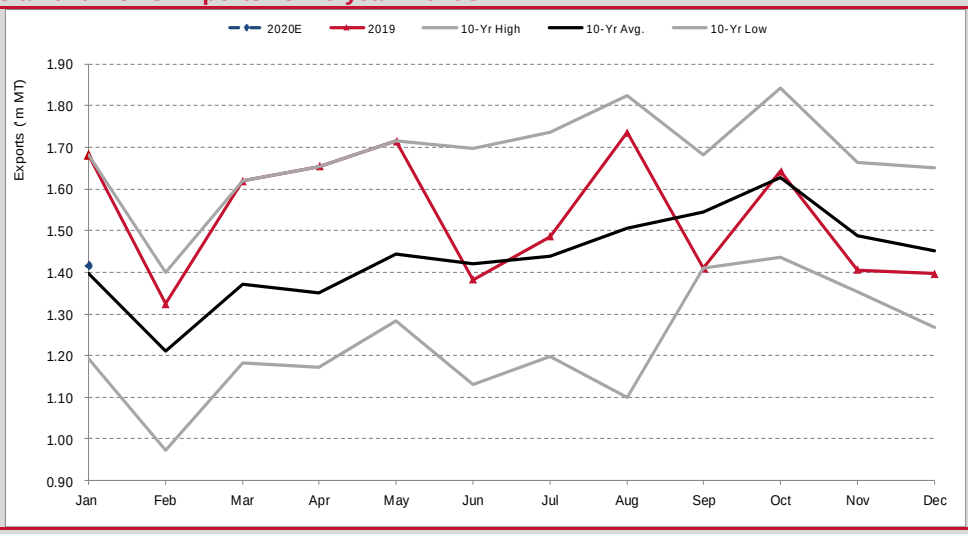
Source: Bloomberg, Kenanga Research

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



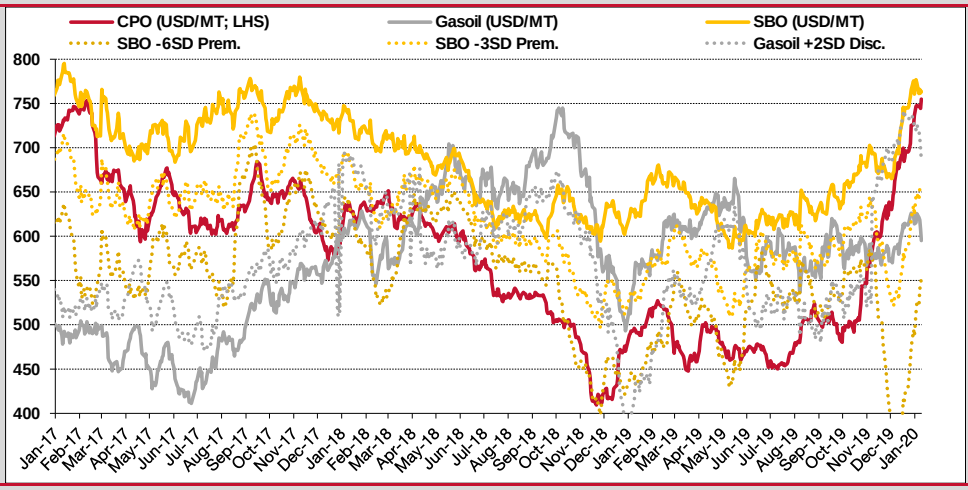
Source: MPOB, Kenanga Research

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



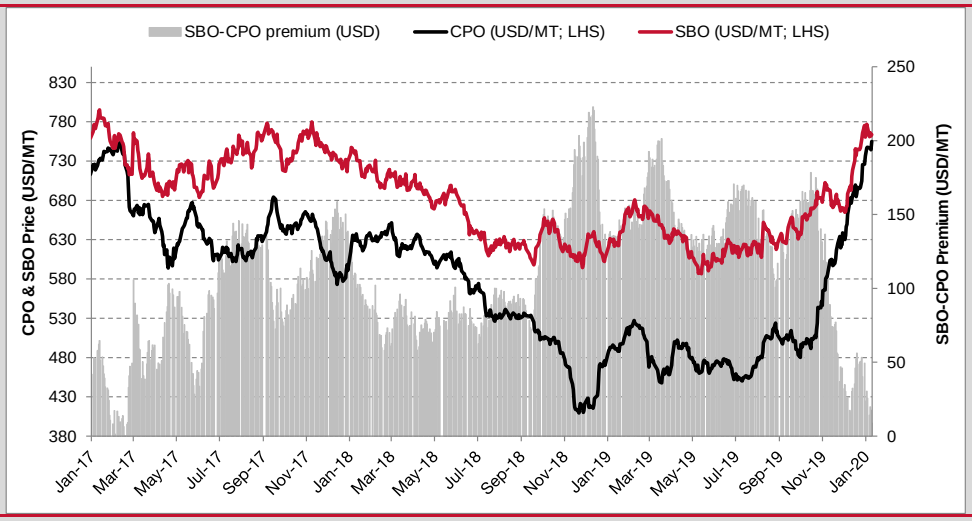
Source: MPOB, Kenanga Research

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



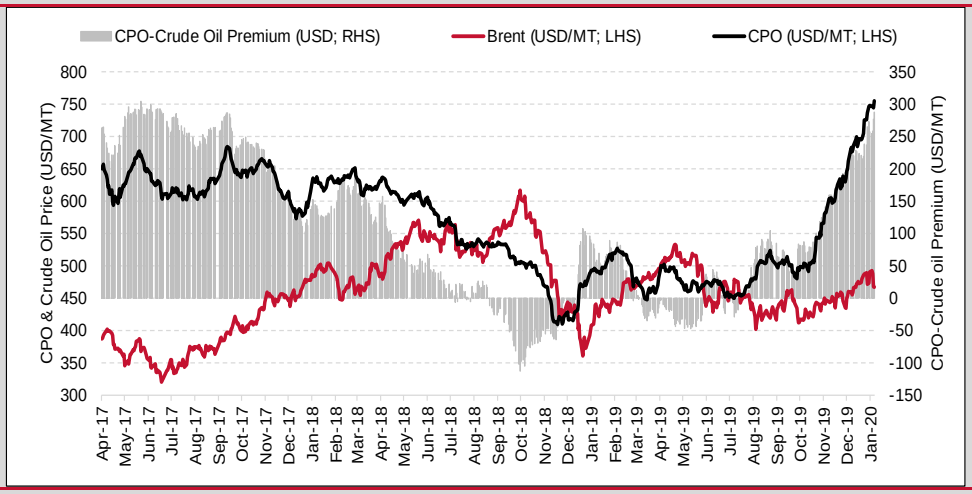
Source: Bloomberg, Kenanga Research

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 (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth 1-Yr. Fwd.	Revenue Growth 2-Yr. Fwd.	Core Earnings Growth 1-Yr. Fwd.	Core Earnings Growth 2-Yr. Fwd.	PER (x) - Core Earnings Hist.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) Hist.	PBV (x) 1-Yr. Fwd.	ROE (%) 1-Yr. Fwd.	Net Div. Yld. (%) 1-Yr. Fwd.	Target Price (RM)	Rating
STOCKS UNDER COVERAGE																	
CB INDUSTRIAL PRODUCT HLDG	1.07	540.4	Y	12/2019	-23.4%	16.0%	-57.2%	89.9%	10.7	25.1	13.2	0.7	0.7	3.0%	1.9%	1.00	MP
FGV HOLDINGS BHD	1.55	5,654.6	Y	12/2019	3.8%	6.0%	-1000.3%	5.0%	N.A.	N.A.	14.0	1.3	1.3	-0.5%	0.0%	1.70	OP
GENTING PLANTATIONS BHD	10.60	9,510.3	Y	12/2019	1.5%	23.5%	-17.0%	194.0%	59.7	73.6	25.0	2.1	2.1	2.9%	0.8%	12.10	OP
HAP SENG PLANTATIONS HLDGS	2.00	1,599.4	Y	12/2019	2.1%	29.1%	-61.0%	643.3%	55.0	140.9	19.0	1.0	1.0	0.7%	0.5%	2.50	OP
IJM PLANTATIONS BHD	2.24	1,972.5	N	03/2020	10.0%	18.0%	34.5%	192.8%	N.A.	64.5	22.0	1.2	1.1	1.8%	0.9%	2.90	OP
IOI CORP BHD	4.70	29,538.0	Y	06/2020	3.6%	11.2%	37.2%	16.6%	38.8	28.3	24.3	3.2	3.0	11.0%	2.1%	5.40	OP
KUALA LUMPUR KEPONG BHD	24.66	26,262.1	Y	09/2020	20.4%	16.3%	70.9%	14.7%	42.5	24.9	21.7	2.5	2.4	9.9%	1.8%	32.90	OP
PPB GROUP BERHAD	18.68	26,574.2	Y	12/2019	5.4%	5.6%	17.3%	9.4%	28.1	24.0	21.9	1.3	1.2	5.3%	1.8%	19.60	MP
SIME DARBY PLANTATION BHD	5.45	37,520.9	Y	12/2019	86.1%	17.5%	-6.7%	412.6%	167.7	179.7	35.1	2.8	2.8	1.6%	0.4%	5.60	MP
SOUTHERN ACIDS MALAYSIA BHD	3.78	517.6	Y	03/2020	18.4%	14.8%	63.1%	46.0%	29.9	18.3	12.5	0.9	0.8	4.6%	1.6%	4.10	MP
TA ANN HOLDINGS BERHAD	3.23	1,422.7	Y	12/2019	1.9%	25.3%	-22.4%	115.2%	17.4	22.4	10.4	1.1	1.0	4.7%	1.5%	4.15	OP
TSH RESOURCES BHD	1.50	2,070.3	Y	12/2019	1.0%	24.9%	-1.2%	116.1%	41.9	42.1	19.5	1.4	1.4	3.4%	0.7%	1.90	OP
UNITED MALACCA BHD	5.28	1,107.6	Y	04/2020	26.2%	17.8%	-133.7%	157.0%	N.A.	N.A.	68.7	0.6	0.7	-1.5%	1.5%	5.55	MP
Simple Average					**12.1%**	**17.4%**	**-82.8%**	**154.8%**	**49.2**	**58.5**	**23.6**	**1.5**	**1.5**	**3.6%**	**1.2%**		

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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