Plantation

Lowest Inventory Level Since June 2017

OVERWEIGHT

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January 2020 inventory fell (-12.5% MoM) to 1.76m MT, the lowest level since 2017, also marking its fourth consecutive monthly decline. The inventory figure came within both our/consensus' estimates of 1.76m/1.78m MT (-12.5%/11.3% MoM). However, January production fell 12.6% MoM to 1.17m MT, a larger-than-expected decline when compared to our estimate (-5.5% MoM) and consensus' (-7.0% MoM). Meanwhile, exports came in at 1.21m MT (-13.1% MoM; -27.8% YoY) dragged by: (i) India (-66% MoM; -85% YoY) due to the recent import restriction on refined palm oil, and (ii) China (-31% MoM; -45% YoY) due to the 2019-nCoV virus. The decline would have been more severe if not for Pakistan (+88% MoM; +112% YoY). For February, we forecast: (i) a slight increase (+5.2% MoM) in production as trees recover from stress after four consecutive monthly decline in production, and (ii) further easing of exports (-7.7% MoM) as demand from India and China remain subdued. Based on cargo surveyor's (SGS) data, exports (1st – 10th Feb) have shown a decline of 25% MoM. Having said that, we are not too concerned on the seasonal decline in demand as it should be cushioned by domestic consumption, estimated at 298k MT for February. All-in, we still expect total demand (1.42m MT) to outstrip supply (1.32m MT) leading to lower ending stocks of 1.66m MT (-5.5% MoM) in February. Meanwhile, we expect CPO prices to be supported by: (i) the heavier-than-expected adverse impact on production (from dry weather, lower fertiliser application and replanting activities), (ii) expected continuous decline in stockpile levels, and (iii) widening average (MTD) soybean oil-crude palm oil (SBO-CPO) premium of USD 17/MT (vs. average of USD 5/MT in January 2020). **Reiterate OVERWEIGHT on the plantation sector** with an unchanged **CY20 average CPO price forecast of RM2,700/MT** given our view of robust CPO demand-supply dynamics. Our top picks are **GENP (OP; TP: RM12.10) and KLK (OP; TP: RM32.90).**

January 2020 CPO inventory declined further by 12.5% MoM to 1.76m metric tons (MT). January stockpile was within both our/consensus' estimate of 1.76m/1.78m MT (-12.5%/-11.3% MoM). This marked the fourth consecutive monthly decline in stockpiles and its lowest level since June 2017. However, January production fell 12.6% MoM to 1.17m MT, a larger-than-expected decline when compared to our (-5.5% MoM) and consensus (-7.0% MoM) estimates. Meanwhile, exports came in at 1.21m MT (-13.1% MoM; -27.8% YoY) dragged by: (i) India (-66% MoM; -85% YoY) due to the recent import restriction on refined palm oil, and (ii) China (-31% MoM; -45% YoY) due to the 2019 novel coronavirus (2019-nCoV). The decline would have been more severe if not for Pakistan (+88% MoM; +112% YoY).

Forecasting a slight increase (+5.2% MoM) in February 2020 production to 1.23m MT as trees recover slightly after a prolonged stress and four consecutive monthly decline. Having said that, we believe the adverse impact on production (from the dry weather, lower fertiliser application and new planting activities) is far from over. As such, we expect only a short recovery before production continues its decline in 2QCY20.

Exports are expected to decline further to 1.12m MT (-7.7% MoM) in February 2020. Exports to India and China are expected to remain subdued given: (i) India's recent increase in import tariffs for CPO (from 37.5% to 44%), (ii) the on-going 2019-nCoV threat, and (iii) the winter season. 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). Accordingly, we are forecasting exports to decline further by 7.7% MoM to 1.12m MT in February 2020. Data from cargo surveyors (AmSpec, Intertek, SGS) for 1st – 10th Feb have shown an average decline in exports of 25% MoM. That said, we are not too concerned on the seasonal decline in demand as it should be cushioned by domestic consumption, which we estimate at 298k MT for February.

February 2020 inventory to decline further to 1.66m MT (-5.5% MoM). All-in, we still expect total demand of 1.42m MT to outstrip supply of 1.32m MT, leading to lower ending stocks of 1.66m MT (-5.5% MoM) in February. Meanwhile, we believe CPO price should be supported by: (i) heavier-than-expected adverse impact on production (from the dry weather, lower fertiliser application and replanting activities), (ii) expected continuous decline in stockpile levels, and (iii) widening average (MTD) soybean oil-crude palm oil (SBO-CPO) premium of USD 17/MT (vs. average of USD 5/MT in 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, (ii) production figures from MPOA, and (iii) weather conditions.

Exhibit 1: Palm Oil Statistics for Jan-2020 ('000 tonnes)

	Jan-20	Dec-19	Diff.	MoM %	Jan-19	YoY%
Opening Stks	**2,007**	**2,255**	**-248**	**-11.0%**	**3,215**	**-37.6%**
Production	**1,166**	**1,334**	**-168**	**-12.6%**	**1,737**	**-32.9%**
Imports	85	123	-38	-30.9%	81	4.4%
Total Supply	**3,258**	**3,712**	**-454**	**-12.2%**	**5,034**	**-35.3%**
Exports	1,214	1,396	-183	-13.1%	1,681	-27.8%
Dom Disapp	289	309	-20	-6.4%	350	-17.5%
Total Demand	**1,503**	**1,705**	**-202**	**-11.9%**	**2,031**	**-26.0%**
End Stks	**1,755**	**2,007**	**-252**	**-12.5%**	**3,003**	**-41.5%**
Stock/Usage Ratio	**9.7%**	**9.8%**			**12.3%**	

Source: MPOB, Kenanga Research

Exhibit 2: Monthly Exports and YTD exports for Jan-2020 ('000 tonnes)

	Jan-20	Dec-19	Jan-19	MoM%	YoY%	1M20	1M19	YoY%
China	177	257	319	-31.1%	-44.7%	177	319	-44.7%
India	47	139	318	-66.2%	-85.3%	47	318	-85.3%
EU	183	144	243	26.6%	-24.9%	183	243	-24.9%
Pakistan	171	91	81	87.7%	111.8%	171	81	111.8%
Turkey	37	79	60	-53.7%	-39.5%	37	60	-39.5%
US	53	32	62	66.9%	-13.5%	53	62	-13.5%
Mozambique	15	39	37	-61.3%	-59.6%	15	37	-59.6%
Egypt	1	45	1	-97.2%	1.7%	1	1	1.7%
Others	530	571	558	-7.1%	-5.1%	530	558	-5.1%
Total	**1,214**	**1,396**	**1,681**	**-13.1%**	**-27.8%**	**1,214**	**1,681**	**-27.8%**

Source: MPOB, Kenanga Research

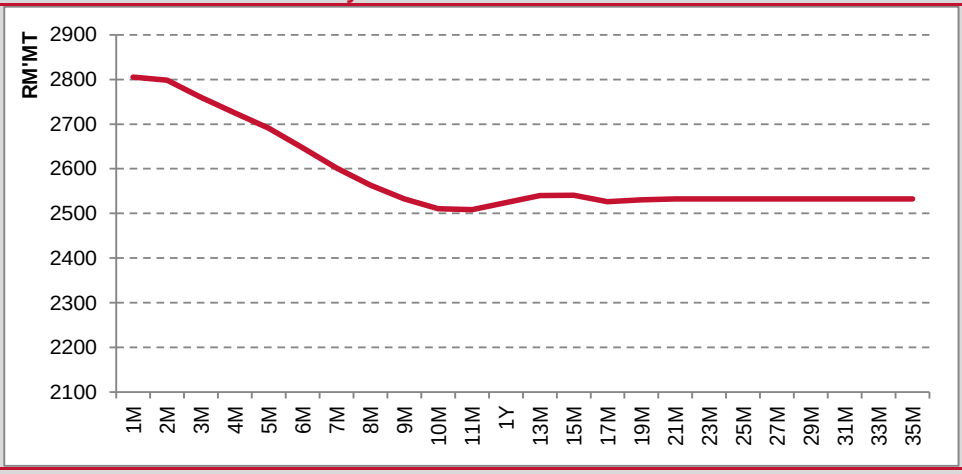
Exhibit 3: CPO Prices - Current & Forecast

	RM/MT
Last Price (07-February-20)	**2,890**
Year-to-date Average	2,934
2019 Average	2,129

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

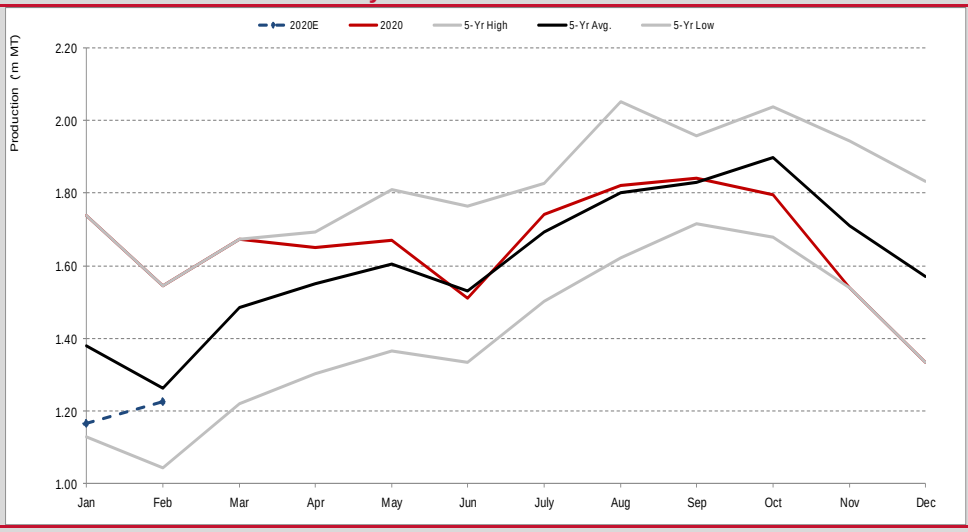
Source: Bloomberg, Kenanga Research

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



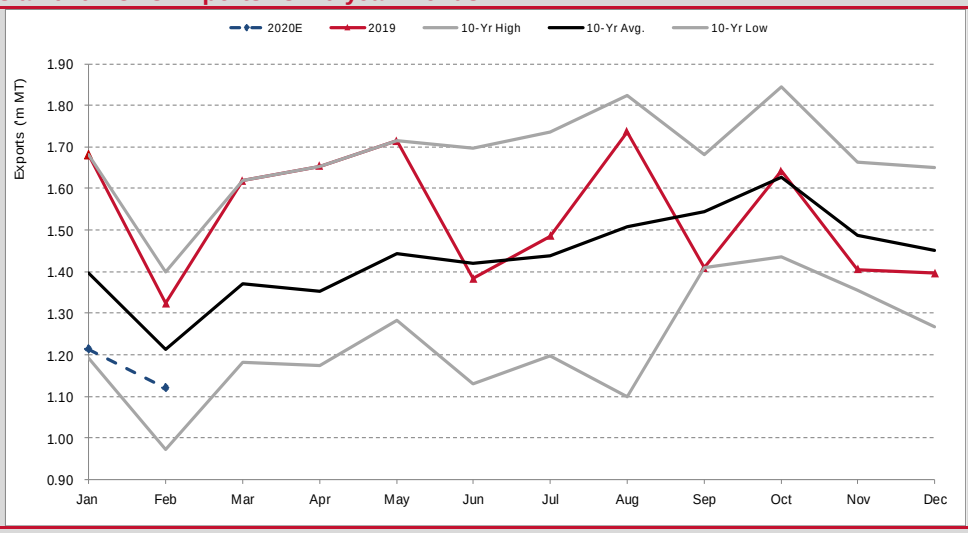
Source: Bloomberg, Kenanga Research

Exhibit 5: Malaysia 2020E CPO Production vs. 5-year Trends



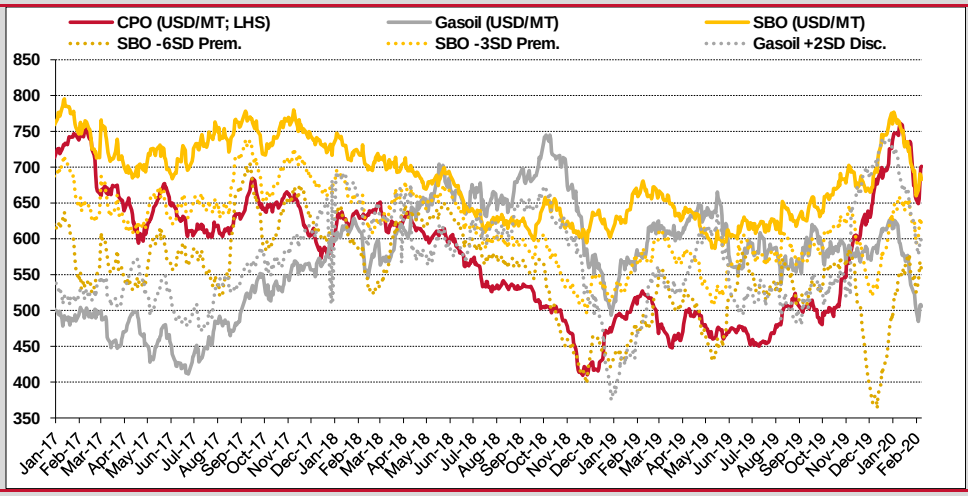
Source: MPOB, Kenanga Research

Exhibit 6: Malaysia 2020E CPO Exports vs. 10-year Trends



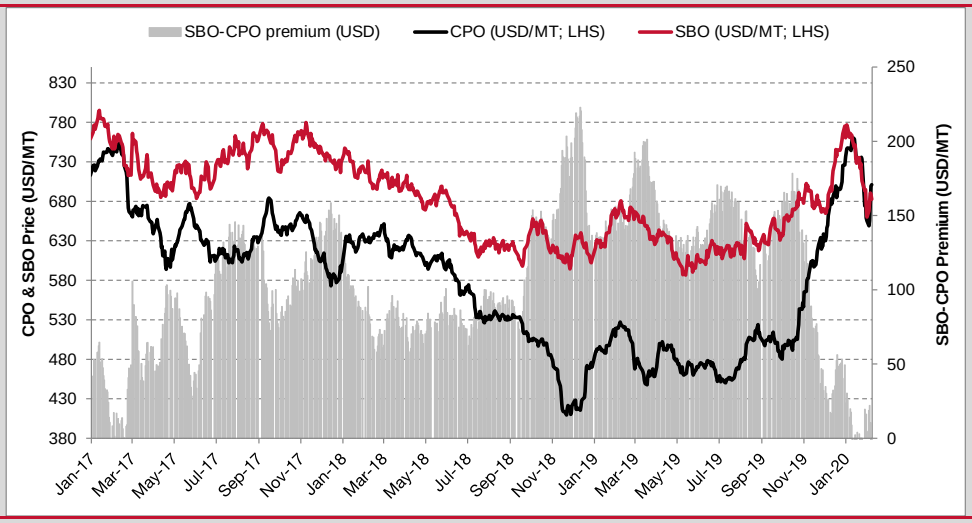
Source: MPOB, Kenanga Research

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



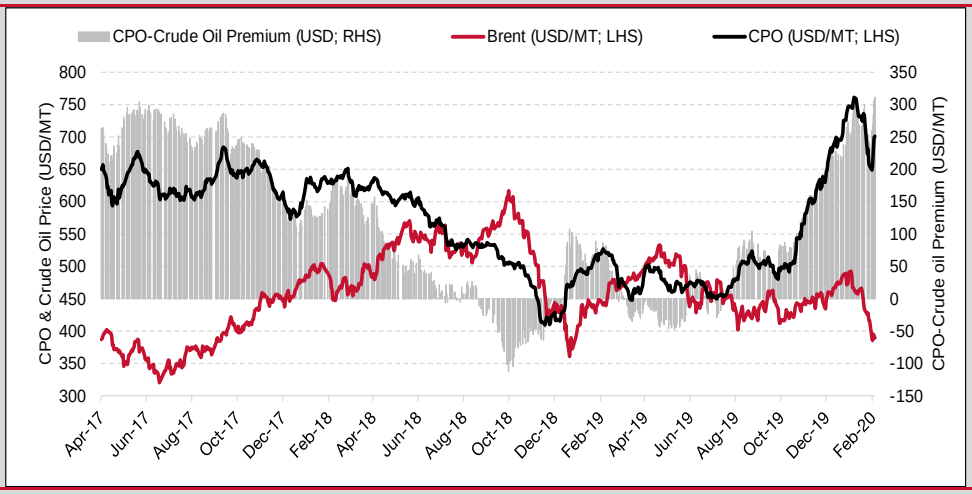
Source: Bloomberg, Kenanga Research

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	0.950	479.8	Y	12/2019	-23.4%	16.0%	-57.2%	89.9%	9.5	22.3	11.7	0.7	0.7	3.0%	2.1%	1.00	MP
FGV HOLDINGS BHD	1.34	4,888.5	Y	12/2019	3.8%	6.0%	-1000.3%	5.0%	N.A.	N.A.	12.1	1.1	1.1	-0.5%	0.0%	1.70	OP
GENTING PLANTATIONS BHD	10.68	9,582.1	Y	12/2019	1.5%	23.5%	-17.0%	194.0%	60.2	74.2	25.2	2.1	2.1	2.9%	0.7%	12.10	OP
HAP SENG PLANTATIONS HLDGS	1.68	1,343.5	Y	12/2019	2.1%	29.1%	-61.0%	643.3%	46.2	118.4	15.9	0.8	0.8	0.7%	0.6%	2.50	OP
IJM PLANTATIONS BHD	1.87	1,646.7	N	03/2020	10.0%	18.0%	34.5%	192.8%	N.A.	53.8	18.4	1.0	1.0	1.8%	1.1%	2.90	OP
IOI CORP BHD	4.51	28,345.4	Y	06/2020	3.6%	11.2%	37.2%	16.6%	37.3	27.2	23.3	3.0	2.9	11.0%	2.2%	5.40	OP
KUALA LUMPUR KEPONG BHD	23.58	25,111.9	Y	09/2020	20.4%	16.3%	70.9%	14.7%	40.7	23.8	20.7	2.4	2.3	9.9%	1.9%	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	5.17	35,593.3	Y	12/2019	86.1%	17.5%	-6.7%	412.6%	159.1	170.4	33.3	2.7	2.7	1.6%	0.4%	5.60	MP
SOUTHERN ACIDS MALAYSIA BHD	3.75	513.5	Y	03/2020	18.4%	14.8%	63.1%	46.0%	29.6	18.2	12.4	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	1.36	1,877.0	Y	12/2019	1.0%	24.9%	-1.2%	116.1%	38.0	38.2	17.7	1.3	1.3	3.4%	0.7%	1.90	OP
UNITED MALACCA BHD	5.20	1,090.8	Y	04/2020	26.2%	17.8%	-133.7%	157.0%	N.A.	N.A.	67.6	0.6	0.7	-1.5%	1.5%	5.55	MP
Simple Average					**12.1%**	**17.4%**	**-82.8%**	**154.8%**	**46.6**	**53.9**	**22.4**	**1.5**	**1.4**	**3.6%**	**1.3%**		

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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