

# PLANTATION

**Maintain NEUTRAL**

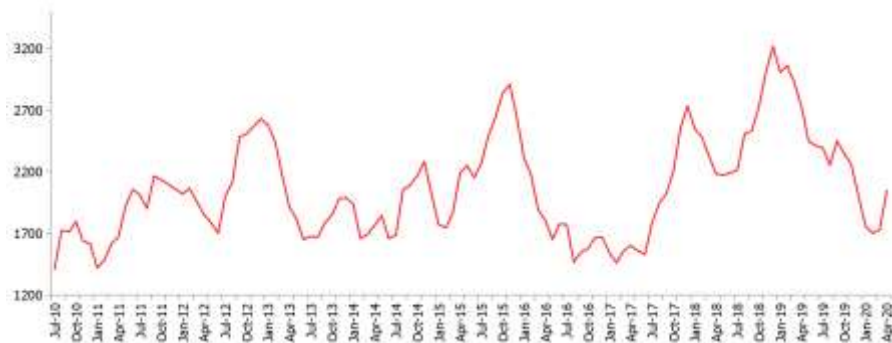
## Anticipating a gradual recovery in export demand

### KEY INVESTMENT HIGHLIGHTS

- April 2020 closing stock fell by -25.7%yoy to 2.0m metric tonnes (mt), primarily due to lower opening stock (-40.8%yoy) and static output level (+0.2%yoy)
- Meanwhile, we observe a sequential recovery of +4.7%mom in export demand, mainly driven by China (+34.7%mom), India (+60.4%mom) and EU (+7.4%mom).
- Nonetheless, the sequential increase in April output (+18.3%mom) and lower domestic consumption (-33.6%mom) in Malaysia will suppress CPO price in the near term
- Maintain NEUTRAL stance on the sector with an unchanged 2020 CPO target price of RM2,450/mt

**Inventory level at slightly above 2.0m mt.** Malaysia's palm oil inventory as at April 2020 posted an increase of +18.3%mom to 2.0m mt, the highest level since November 2019. The stockpiles level also came in at about +7.2% above consensus' expectations. We believe that this was predominantly premised on the dismal domestic consumption performance and seasonally higher production level. However, on a year-over-year basis, the stockpiles still plunged by -25.7%yoy which was mainly attributable to the lower opening stock of 1.7m mt (-40.7%yoy) and static production of 1.6m mt (+0.2%yoy). In the intermediate term, we expect inventory level to remain under pressure in view of the seasonally higher production period amidst the sector experiencing a lacklustre demand. On a longer term horizon, we believe the gradual resumption of economic activities to possibly prop up demand which could be a boon to the inventory level.

**Chart 1: Malaysia Palm Oil Inventory ('000 MT)**



Source: Malaysia Palm Oil Board (MPOB), MIDFR

**Marginal recovery seen in export demand.** April 2020 export posted an increase of +4.7%mom to about 1.2m mt, mainly driven by China (+34.7%mom), India (+60.4%mom) and EU (+7.4%mom). We are of the view that this was primarily attributable to the easing of lockdown and low vegetable oil stocks in the above major palm oil consuming countries. Note that this was slightly lower than the consensus' expectation by -0.3%. Moving forward, we expect the gradual resumption of the hotel, restaurant, café (HoReCa) businesses and economic activities in both the domestic and export market as well as the current Ramadan festival to continue to lend support to the CPO demand in coming months. However, we remain concerned that the anticipated recovery might be met with possible headwinds such as intermittent lockdowns should new cases of COVID-19 re-emerge and renewed India's ban on refined palm oil.

### COMPANY IN FOCUS

#### Genting Plantation Bhd

**Maintain BUY** | Unchanged target price: **RM11.80**

Price @ 12<sup>th</sup> May 2020: RM9.40

- Higher CPO price to uplift earnings momentum at its upstream operations
- Moderated FFB supplies is expected from its closure of Sabah's operations and MCO
- Downstream segment to continue to support the group's earnings momentum in view of B20

#### Share price chart



#### IOI Corporation Bhd

**Maintain NEUTRAL** | Unchanged target price: **RM4.30**

Price @ 12<sup>th</sup> May 2020: RM3.85

- Elevated CPO price to improve earnings prospects
- However, the group's larger exposure in recent closure of plantations operations in Sabah might affect its CPO supplies and hence sales
- Future catalyst to rerate the stock would be acquisition of brownfield plantation asset

#### Share price chart



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**Table 1: April 2020 Export Performance ('000 MT)**

Market	Apr-20	Mar-20	Apr-19	MoM%	YoY%	4M20	4M19	YoY%
China	199.5	148.0	201.0	34.7	-0.8	681.1	772.3	-11.8
India	17.3	10.8	524.1	60.4	-96.7	96.1	1,633.0	-94.1
EU	209.8	195.4	138.2	7.4	51.8	739.2	738.6	0.1
Pakistan	62.0	67.1	77.5	-7.6	-20.1	346.8	365.9	-5.2
US	41.7	50.0	28.1	-16.6	48.3	204.0	174.2	17.1
Others	706.2	710.2	682.2	-0.6	3.5	2,649.7	2,596.7	2.0
<b>Total</b>	<b>1,236.4</b>	<b>1,181.4</b>	<b>1,651</b>	<b>4.7</b>	<b>-25.1</b>	<b>4,717.0</b>	<b>6,281</b>	<b>-24.9</b>

Source: MPOB, MIDFR

**Entering a seasonally higher production period.** April 2020 production level rose by +18.3%mom to 1.6m mt, representing the fourth month of increase since January 2020. This was higher than the Bloomberg consensus by +2.7%. Note that the fresh fruit bunch (FFB) yield in April was 1.42mt/ha as compared to 1.19mt/ha in March, indicating a possible recovery of FFB yield going forward. Meanwhile, we view that the larger-than-expected jump in production in April 2020 was partly due to the delayed harvesting and processing activities shifting from March to April after a clearer directive from the Government to resume operation. As such, we expect production growth in coming months to be normalised albeit still having a relatively higher yield as compared to in 1QCY20. However, on a year-to-date basis, the production decreased by -16.6%yoy due to a high base effect and also driven by the lagged effects arising from lower fertiliser application and unfavourable weather conditions in the previous year. Geographically, the lower output mainly stemmed from the lower contribution from the state of Negeri Sembilan (-28.7%yoy), Kelantan (-26.9%yoy), Pahang (-26.4%yoy), Sabah state (-23.1%yoy) and Terengganu state (-20.2%yoy).

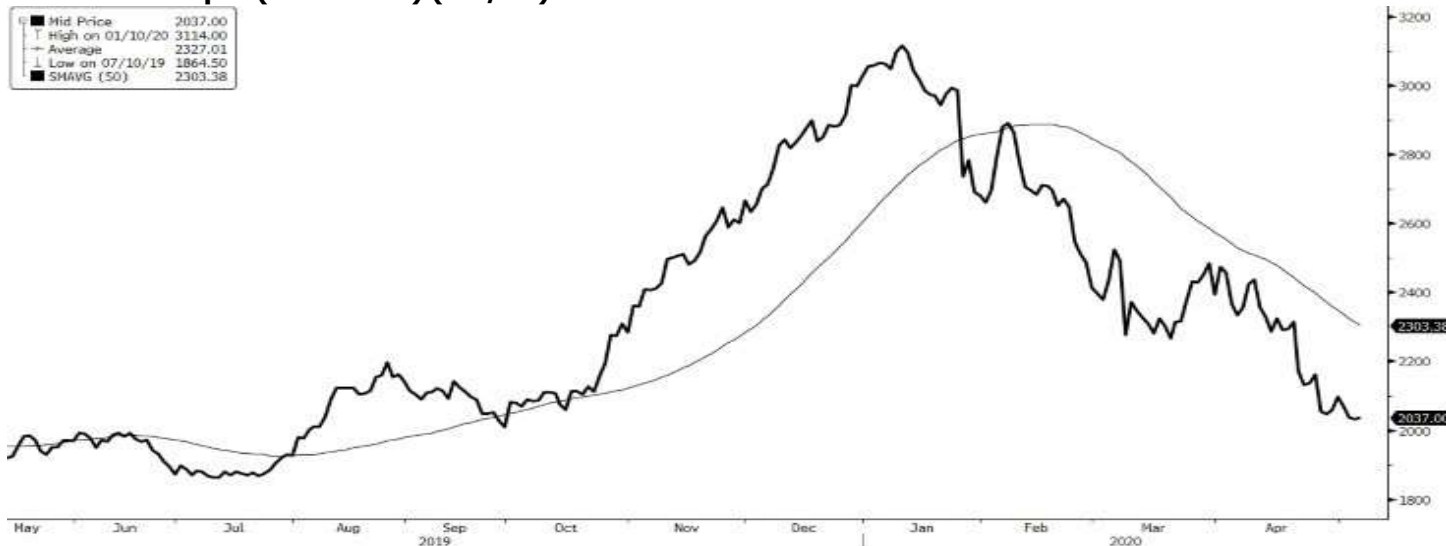
**Table 2: Palm Oil Statistics for April 2020 ('000 MT)**

	Apr-20	Mar-20	Apr-19	YoY %	MoM %	4M20	4M19	Ytd%
<b>Opening Stocks</b>	1,728.1	1,700.3	2,917.4	-40.8	1.6	2,007.1	3,215.1	-37.6
<b>Production</b>	1,652.8	1,397.3	1,649.3	0.2	18.3	5,510.1	6,603.4	-16.6
Imports	56.6	75.3	62.1	-8.9	-24.8	287.6	369.1	-22.1
<b>Total Supply</b>	<b>3,437.4</b>	<b>3,172.8</b>	<b>4,628.8</b>	<b>-25.7</b>	<b>8.3</b>	<b>7,804.8</b>	<b>10,187.6</b>	<b>-23.4</b>
Exports	1,236.4	1,181.4	1,651.2	-25.1	4.7	4,717.0	6,280.8	-24.9
Dom Disapp	174.8	263.3	248.2	-29.6	-33.6	1,061.6	1,177.4	-9.8
<b>Total Demand</b>	<b>1,411.2</b>	<b>1,444.7</b>	<b>1,899.4</b>	<b>-25.7</b>	<b>-2.3</b>	<b>5,778.6</b>	<b>7,458.2</b>	<b>-22.5</b>
<b>End Stocks</b>	<b>2,026.2</b>	<b>1,728.1</b>	<b>2,729.4</b>	<b>-25.8</b>	<b>17.3</b>	<b>2,026.2</b>	<b>2,729.4</b>	<b>-25.8</b>
<b>Stock/Usage Ratio (%)</b>	<b>12.0</b>	<b>10.0</b>	<b>12.0</b>			<b>2.9</b>	<b>3.0</b>	


Source: MPOB, MIDFR

**CPO price to continue to experience short term volatility.** In April 2020, the average CPO spot price retreated by -4.4%mom to RM2,267/mt, primarily in view of the (i) lower domestic consumption as both food and palm oil-based biodiesel demand has been disrupted by coronavirus lockdown and low crude oil prices, (ii) rising stockpiles level resulting from the seasonally higher production level, and (iii) delayed implementation of higher biodiesel mandate in both Malaysia and Indonesia. However, on a year-over-year basis, the spot price rose by +12.3%yoy, mainly driven by the lower stockpiles level and tighter supply of CPO. Note that at current price of about RM2,055/mt remains profitable to most plantation companies as the cost of production is normally below RM2,000/mt. Moving forward, we expect the anticipated sequential recovery in export demand and higher domestic consumption to continue to support the CPO price. Nonetheless, we continue to believe there might be price instability in the short-term dependent on the severity of the demand loss from the possible intermittent and extended coronavirus lockdowns.

Chart 2: CPO Spot (PAL2MALY) (RM/mt)



Source: Bloomberg, MIDFR

**Maintain NEUTRAL.** On a year-to-date basis, the spot price currently averaging at around RM2,548/mt, owing to moderated CPO production and lower inventory level. Moving forward, we expect the CPO price to trend lower towards our 2020 average CPO price target of **RM2,450/mt**. We expect inventory level to remain under pressure in the intermediate term as palm oil entering into seasonally higher production level amidst a lackluster demand due to coronavirus lockdowns in major export markets. There is also concern that the palm oil-based biofuel is losing its appeal in view of the subdued crude oil prices as evidenced from the delay in implementation of the higher biodiesel mandate in Malaysia and Indonesia. Nonetheless, we view that the CPO price to be mainly supported by the lower inventory level on a year-over-basis and the anticipated recovery in export demand arising from the gradual easing of lockdowns in major palm oil-importing countries such as China and EU. In addition, we expect there would be an increasingly healthy demand for CPO usage in oleochemicals of the downstream segment for the production of personal hygiene and cleaning products both during and post-Covid-19 pandemic. Taking into consideration all the above-mentioned factors, we are maintaining our **NEUTRAL** stance on the sector. Nevertheless, we observe that there would be a major downside risk on the plantation industry should the CPO demand continues to be disrupted by the possible intermittent and protracted lockdowns as well as renewed suspension of oil palm estates operation. 

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#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.