PLANTATION

***Maintain* NEUTRAL**

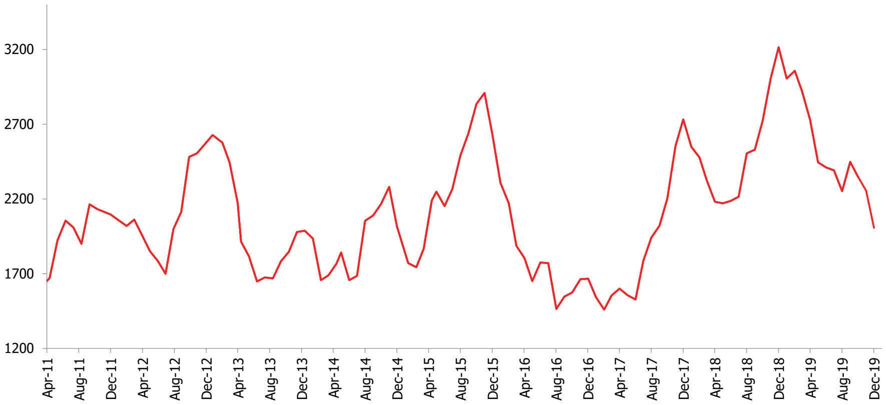
Inventory level declined to 27-month low

KEY INVESTMENT HIGHLIGHTS

- **2019 closing inventory declined by -37.6%yoy to 27-month low of 2.0m metric tonnes (mt), mainly attributable to higher export demand (+12.0%yoy) from India (+75.4%yoy) and China (+33.9%yoy).**
- **December 2019 output dipped by -26.2%yoy to 1.3m mt, the weakest monthly level observed since June 2018 while cumulative CY19 production increased marginally by +1.8%yoy to 19.8m mt**
- **The anticipated supply tightness driven by moderated production growth, higher domestic consumption and higher export demand to continue to support the current CPO price level**
- **Maintain NEUTRAL stance on the sector with an unchanged 2020 CPO target price of RM2,450/mt**

Lower-than-expected inventory level. Malaysian palm oil inventory at end 2019 fell by -37.6%yoy to 2.0m mt, the level last seen in August 2017. This was mainly attributable to a combination of higher CY19 export demand which rose by +12.0%yoy to 18.5m mt and the lower-than-expected output of 19.8m which translates into a marginal increase of +1.8%yoy. The stockpiles level also came in below Bloomberg and Reuters expectations by -3.0% and -2.8% respectively. Moving forward into CY20, we expect the stockpiles continues to trend below 2.0m mt amidst the seasonal low production period and higher export demand due to upcoming major festivities such as Chinese New Year and Thaipusam during 1QCY20.

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



Source: Malaysia Palm Oil Board (MPOB), MIDFR

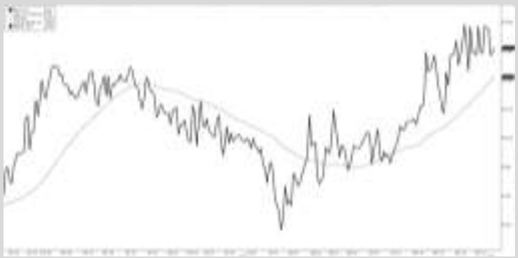
Export demand continues to grow steadily. On a year-over-year basis, December 2019 export increased marginally by +0.9%yoy to about 1.3m mt. This came in above the expectation of Bloomberg and Reuters consensus by +5.8%, mainly driven by export demand from EU which rose by +54.9%yoy to 144.5k mt. We suspect that this is due the reinstatement of Malaysian CPO export tax in January 2020. However, this was moderated by the plunge in India's export demand by -51.2%yoy to 138.6k mt. We opine this was due to the Indian buyers' fear of a trade ban as retaliation over the Kashmir issue. Meanwhile, on a year-to-date basis, total CY19 export demand increased by +12.0%yoy to 18.4m mt, underpinned by rising demand from India (+75.4%yoy) and China (+33.9%yoy). The spike in demand from both countries were predominantly attributable to previous preferential tariff trade agreement and China's larger vegetable oil demand amidst the protracted African swine fever phenomenon and US-China trade war.

COMPANY IN FOCUS

Genting Plantation Bhd
Maintain BUY | Unchanged target price: RM11.80
Price @ 10th January 2020: RM10.60

- Higher CPO price to uplift earnings momentum at its upstream operations
- Higher FFB yield is expected from its Indonesian plantation as age profile is improving
- Downstream segment to continue to support the group's earnings momentum

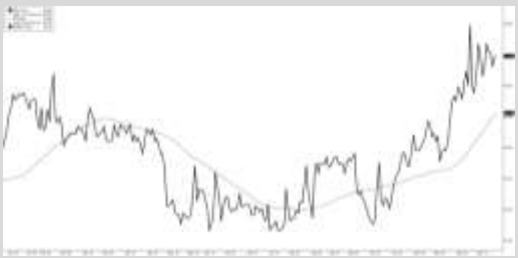
Share price chart



IOI Corporation Bhd
Maintain NEUTRAL | Unchanged target price: RM4.67
Price @ 10th January 2020: RM4.70

- Elevated CPO price to improve earnings prospects
- We expect steady contribution from the downstream segment
- Future catalyst to rerate the stock would be acquisition of brownfield plantation asset

Share price chart



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However, demand growth from India is expected to face with challenges. As part of the free trade agreement (FTA) with ASEAN nations, India has also lowered import duty on refined palm oil and crude palm oil to 45% and 37.5% respectively on 1st January 2020. However, on 8th January 2020, the Indian Ministry of Commerce and Industry has officially imposed a restriction on the imports of refined, bleached and deodorized (RBD) palm oil and palm olein as the FTA would prompt Indian buyers to opt for cheaper RBD palm oil abroad. We believe this is a move by the Indian government to help the local refiners to improve their refineries' utilisation rates. Despite the restriction, Malaysia could still continue to export crude palm oil to India but it could be competing with the Indonesia's cheaper pricing of CPO. Moving forward, we are of the view that export demand to largely remain stable in coming months. We expect the anticipated strengthening demand from China for restocking activities for the major Chinese New Year festival in January 2020 will help to partially offset the expected decline in export from India. In addition, the implementation of higher biodiesel mandate in both Malaysia and Indonesia to B20 and B30 respectively in CY20 to boost domestic consumption which could possibly cause some disruption in terms of CPO supply for the export market.

Table 1: December 2019 Export Performance ('000 MT)

Market	Dec-19	Nov-19	Dec-18	MoM%	YoY%	12M19	12M18	Ytd%
China	256.6	340.2	269.0	-24.6	-4.6	2,490.5	1,859.7	33.9
India	138.6	142.7	284.2	-2.8	-51.2	4,409.5	2,514.0	75.4
EU	144.5	177.7	93.3	-18.7	54.9	2,093.7	1,911.8	9.5
Pakistan	91.0	91.3	104.3	-0.3	-12.7	1,085.5	1,161.3	-6.5
US	31.9	15.8	58.3	102.5	-45.2	542.2	540.6	0.3
Others	733.5	633.8	574.0	15.7	27.8	7,847.8	8,500.2	-7.7
Total	**1,396.2**	**1,401.5**	**1,383.1**	**-0.4**	**0.9**	**18,469.3**	**16,487.5**	**12.0**

Source: MPOB, MIDFR

Production tapering off. December 2019 production level came in lower than expected at 1.3m mt which was the weakest monthly level observed since June 2018. This was slightly lower than the Bloomberg (-1.2%) and Reuters (-0.3%) consensus. We view that this was possibly due to the low fertiliser application since early 2019 and FFB yields being negatively impacted by dry weather as well. The lower output was mainly attributable to lower contribution from the state of Kedah (-49.7%yoy), Negeri Sembilan (-49.5%yoy), Pahang (-39.6%yoy), Kelantan (-32.9%yoy) and Johor state (-30.2%yoy). On a year-to-date comparison, full year CY19 CPO production remained just marginally higher (+1.8%ytd) due to higher output primarily from the state of Terengganu (+14.4%ytd), Kelantan (+12.7%ytd), Pahang (+9.6%ytd) and Negeri Sembilan (+2.8ytd). Moving forward, we view that the production growth to remain marginal throughout CY20 given the dry conditions affecting the yields, low fertiliser application and replanting efforts.

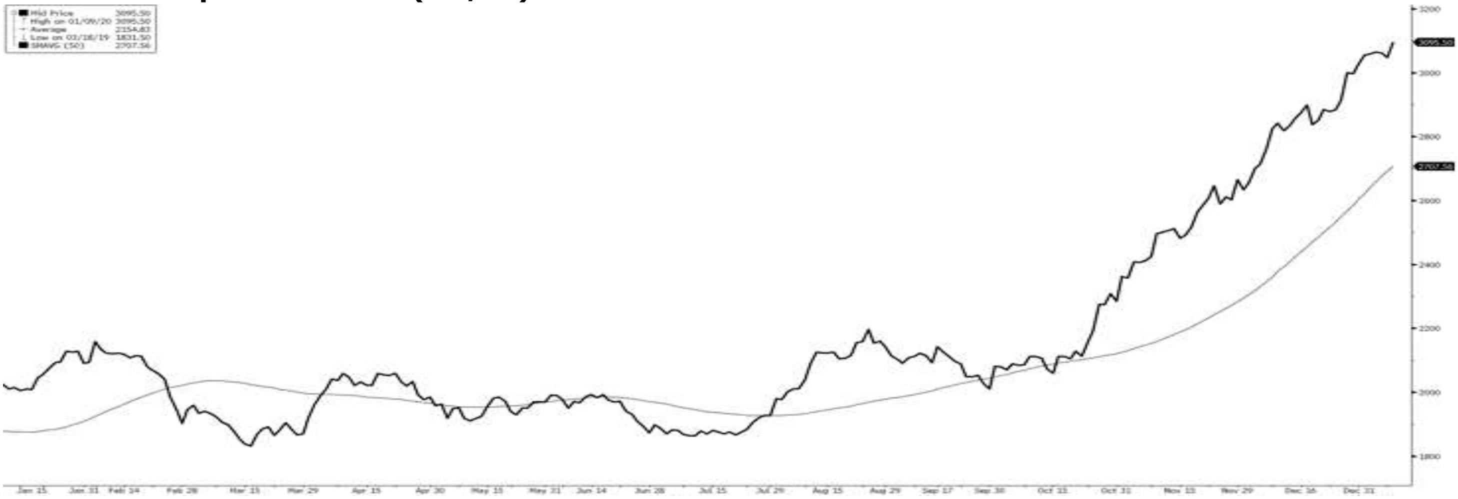
Table 2: Palm Oil Statistics for December 2019 ('000 MT)

	Dec-19	Nov-19	Dec-18	YoY %	MoM %	12MCY19	12MCY18	Ytd %
Opening Stocks	**2,256.0**	**2,348.1**	**3,007**	**-25.0**	**-3.9**	**3,215.1**	**2,732.1**	**17.7**
Production	**1,333.9**	**1,538.1**	**1,808**	**-26.2**	**-13.3**	**19,858.4**	**19,516.1**	**1.8**
Imports	123.0	74.7	109	13.3	64.7	977.1	841.5	16.1
Total Supply	**3,713.0**	**3,960.8**	**4,924**	**-24.6**	**-6.3**	**24,050.6**	**23,089.7**	**4.2**
Exports	1,396.2	1,401.5	1,383	0.9	-0.4	18,469.3	16,487.5	12.0
Dom Disapp	309.7	303.3	325	-4.8	2.1	3,574.2	3,387.1	5.5
Total Demand	**1,705.9**	**1,704.8**	**1,709**	**-0.2**	**0.1**	**22,043.5**	**19,874.7**	**10.9**
End Stocks	**2,007.1**	**2,256.0**	**3,215**	**-37.6**	**-11.0**	**2,007.1**	**3,215.0**	**-37.6**
Stock/Usage Ratio (%)	**9.8**	**11.0**	**15.7**			**0.8**	**1.3**	

Source: MPOB, MIDFR

Anticipated supply tightness to support the elevated CPO price. As at the end of 2019, the average CPO price jumped to RM3,025/mt level, representing an increase of +55.0%yoy, coming from a low base effect due to low CPO prices experiencing at end CY18. This is premised on the expectation that inventory will continue to trend downwards in view of the moderated production level, higher domestic consumption and a continued stable export demand. Thus, we believe that the CPO price could remain elevated in coming months. Meanwhile, we noted that full year CY19 average CPO price of about RM2,130/mt which is within our 2019 average CPO price assumption of RM2,090/mt, bearing a variance of +1.9%. However, we expect that the sentiment could be partially moderated by the lower-than-anticipated export demand from India as well as CPO losing its appeal as feedstock due to diminishing pricing advantage as compared to soybean oil and Brent crude oil.

Chart 2: CPO Spot Price Trend (RM/mt)



Source: Bloomberg, MIDFR

Maintain NEUTRAL. The outlook of the plantation sector has improved considerably into 2020 as evidenced by the strong recovery of the CPO price to above RM3,000/mt from a record low of about RM1,900/mt at the beginning of prior year. To recall, the sustained low CPO price in CY19 was caused by the prolonged elevated inventory level as driven by spurts in output level. Fortunately, the continual decline in stockpiles since September 2019 to a 27-month low of 2.0m mt as of December 2019 as well as the anticipated supply tightness of CPO in CY20 have sent the CPO price soaring to between RM2,500/mt to RM3,000/mt in the 4QCY19. As a result, we expect the earnings performance of most plantation companies to outperform in their upcoming quarterly results given the low base effects from 4QCY18. We are also of the view that the inventory level to continue trend lower in view of expected strong export demand growth in 1QCY20 and higher domestic consumption through higher biodiesel mandate amidst the lower production period. However, this could be moderated by diminishing export demand from India' curb on import of refined palm oil. In addition, we are concerned of CPO losing its appeal as feedstock. This is predicated on the narrowing spread between palm oil and soybean oil to a new low in two years and current premium over Brent crude oil which might dampen the demand of CPO moving forward. All factors considered, we are maintaining our **NEUTRAL** stance on the sector with an unchanged 2020 CPO price target of **RM2,450/mt**.

PEER COMPARISON TABLE

Stock	FYE	Rec.	Price @	Tgt Price (RM)	Core EPS (sen)		CORE PE (x)		Net DPS (sen)		Net Dvd Yield (%)	
			10-Jan-20		CY19F	CY20F	CY19F	CY20F	CY19F	CY20F	CY19F	CY20F
Genting Plantation	Dec	BUY	10.60	11.80	16.4	32.5	64.6	32.6	8.7	11.4	0.8	1.1
IOI Corporation	Jun	NEUTRAL	4.70	4.67	12.8	14.7	36.7	32.0	9.5	10.3	2.0	2.2
IJM Plantation	Mar	NEUTRAL	2.24	1.92	2.6	6.5	86.2	34.5	3.0	3.0	1.3	1.3
Kuala Lumpur Kepong	Sep	NEUTRAL	24.66	23.63	62.8	84.5	39.3	29.2	45.0	45.0	1.8	1.8
Sime Darby Plantation	Dec	NEUTRAL	5.45	4.96	2.1	8.9	259.5	61.2	1.1	5.4	0.2	1.0
PPB Group	Dec	NEUTRAL	18.68	17.88	72.2	81.4	25.9	22.9	21.6	24.4	1.2	1.3
Ta Ann Holdings	Dec	NEUTRAL	3.23	3.06	13.6	21.4	23.8	15.1	10.0	10.0	3.1	3.1
TSH Resources	Dec	NEUTRAL	1.50	1.27	3.6	5.2	41.3	29.0	1.0	1.2	0.7	0.8
FGV Holdings	Dec	NEUTRAL	1.55	1.30	-5.1	1.8	-30.3	86.6	N/A	N/A	N/A	N/A

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.