PLANTATION

Maintain NEUTRAL

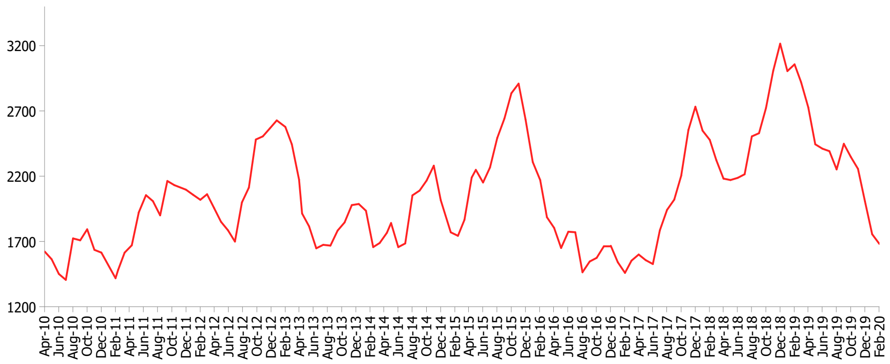
Lacklustre demand for CPO

KEY INVESTMENT HIGHLIGHTS

- **February 2020 closing inventory declined by -45.0%yoy to 32-month low of 1.7m metric tonnes (mt), primarily due to lower opening stock (-41.6%yoy) and lower year-on-year output level (-16.6%yoy)**
- **Export for February 2020 fell by -18.1%yoy to 1.1m mt, the weakest monthly level observed since February 2016, mainly caused by the lower export demand from India (-95.3%) and EU (-19.8%yoy)**
- **Moving forward, we opine that CPO price would be remained under pressure as COVID-19 outbreak and lower prices of soybean oil and gasoil impede demand**
- **Maintain NEUTRAL stance on the sector with an unchanged 2020 CPO target price of RM2,450/mt**

Easing inventory to provide slight reprieve. Malaysia's palm oil inventory as at February 2020 fell by -45.0%yoy to 1.7m mt, extending the decline for fifth straight month. This was mainly attributable to the lower opening stock of 1.8m mt and lower production of 1.1m which translated into a decline of -41.6%yoy and -16.6%yoy respectively. The stockpiles level also came in below consensus' expectations by a variance of -4.5%. Moving forward, we opine that with the gradual recovery in production and anticipation of lower demand in the coming months to keep inventory under pressure. We postulate that the lower demand to be caused by the worsening coronavirus outbreak, India's restriction of refined palm oil and lower prices of the substitute oils.

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



Source: Malaysia Palm Oil Board (MPOB), MIDFR

Weaker-than-expected export demand. February 2020 export dropped by -18.1%yoy to about 1.1m mt, mainly stemmed from the sharp drop in export demand from India (-95.3%yoy), Pakistan (-39.6%yoy) and EU (-19.8%yoy). This also came in below the consensus' expectation by -1.6%. The plunge in export demand from India continues to be a major concern for the Malaysian palm oil market as India used to be the largest export market, accounting for about 25.0% of total export. Unfortunately, that number has fallen to approximately 3.0% as of February 2020 since India had called for a ban on Malaysian refined palm oil due to political factor. The fall in EU export could be a sustained trend as the EU continues to call for the ban of palm biodiesel under the Delegated Act II and 3MCPG (3-monochloropropanediol) issue. To recall, the rationale for the two issues are linked to deforestation and food safety limit respectively. Nonetheless, we are of the view that the upcoming Ramadan festival would partially support the demand through restocking activities and higher consumption.

COMPANY IN FOCUS

Genting Plantation Bhd
Maintain BUY | Unchanged target price: **RM11.80**
Price @ 10th March 2020: RM9.70

- 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: **RM4.30**
Price @ 10th March 2020: RM3.93

- 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

ANALYST

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Demand to be under pressure in the coming months. We opine that there are several factors at play to keep demand under pressure in coming months. The worsening COVID-19 outbreak that is causing a slowdown in business activities, logistical constraints and restricted travelling will continue to put a dent in CPO demand from major economies such as China and EU. While India has decided not to extend the safeguard duty of 5% on certain palm oil varieties from Malaysia which could provide slight relief, we posit the positive impact will be minimal. This is due to the India ban on Malaysian refined palm oil which previously made up the majority of the export to India. In addition, the demand for CPO as feedstock will be met with resistance as the current price is becoming unattractive as compared to soybean oil and gasoil. This will cause buyers and consumers to switch to other substitute oils as a cheaper and more appealing alternative.

Table 1: February 2020 Export Performance ('000 MT)

Market	Feb-20	Jan-20	Feb-19	MoM%	YoY%	2M20	2M19	YoY%
China	156.8	176.8	80.4	-11.3	95.1	333.6	399.7	-16.5
India	21.1	46.9	449.0	-54.9	-95.3	68.0	767.3	-91.1
EU	151.8	182.8	189.2	-17.0	-19.8	334.6	435.8	-23.2
Pakistan	46.9	170.8	77.7	-72.5	-39.6	217.7	158.3	37.5
US	59.1	53.3	45.9	10.8	28.8	112.4	107.5	4.6
Others	646.6	582.9	479.2	10.9	34.9	1,229.5	1,136.4	8.2
Total	**1,082.3**	**1,213.5**	**1,321.3**	**-10.8**	**-18.1**	**2,295.9**	**3,005.5**	**-23.6%**

Source: MPOB, MIDFR

Higher-than-expected production level. February 2020 production level rebounded by +10.5%mom to 1.3m mt after a consecutive decline of five months since September 2019. This was marginally higher than the Bloomberg consensus (-0.7%). Note that the FFB yield in February was 1.11mt/ha as compared to 1.07mt/ha in January, indicating a possible gradual recovery of FFB yield going forward. However, on a year-over-year 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 lower contribution from the state of Kelantan (-37.8%yoy), Pahang (-31.8%yoy), Terengganu (-31.6%yoy), Sabah state (-25.5%yoy) and Negeri Sembilan state (-20.8%yoy). On a year-to-date basis, the production also plunged by -25.0%ytd to 2.5m mt which was caused by lower FFB yield as compared to prior year. Moving forward, we foresee that monthly production in 2QCY20 to trend upward, possibly driven by a recovery in FFB yield and higher production seasonality effects.

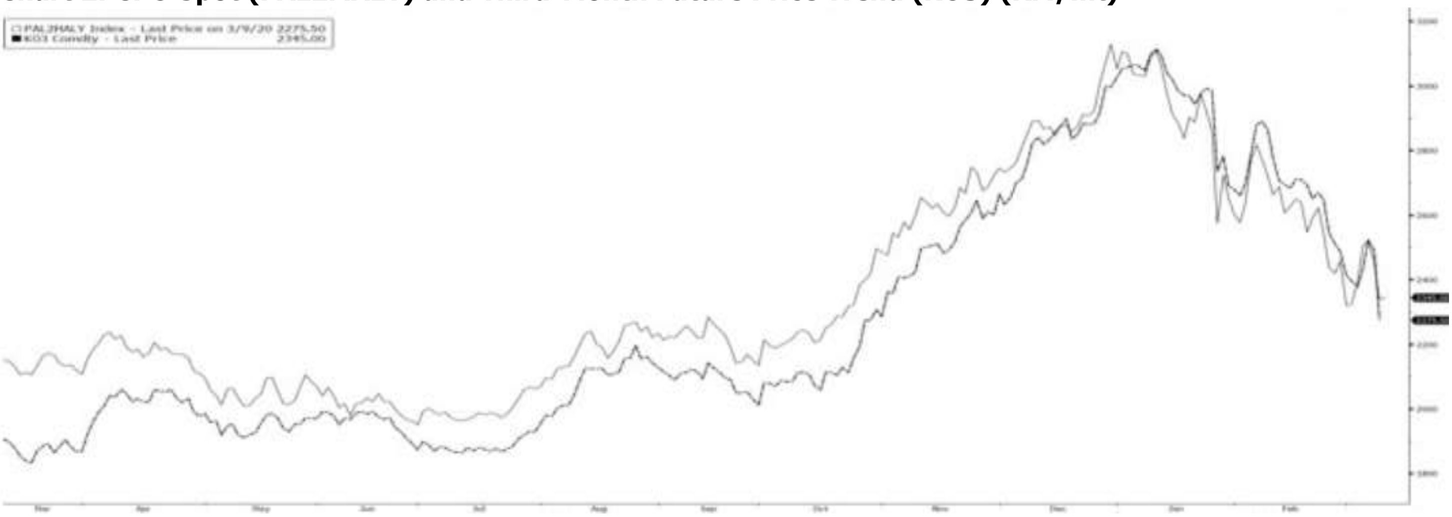
Table 2: Palm Oil Statistics for February 2020 ('000 MT)

	Feb-20	Jan-20	Feb-19	YoY %	MoM %	2M20	2M19	Ytd%
Opening Stocks	**1,755.5**	**2,007.1**	**3,005.3**	**-41.6**	**-12.5**	**2,007.1**	**3,215.1**	**-37.6**
Production	**1,288.5**	**1,171.5**	**1,544.5**	**-16.6**	**10.0**	**2,460.0**	**3,282.0**	**-25.2**
Imports	66.7	85.0	94.3	-29.2	-21.5	151.7	175.8	-13.6
Total Supply	**3,110.7**	**3,258.0**	**4,644.1**	**-33.0**	**-4.5**	**4,613.3**	**6,672.8**	**-30.9**
Exports	1,082.3	1,213.5	1,321.3	-18.1	-10.8	2,295.8	3,005.5	-23.6
Dom Disapp	346.8	289.0	263.4	31.6	20.0	635.8	610.7	4.1
Total Demand	**1,429.1**	**1,502.5**	**1,584.7**	**-9.8**	**-4.9**	**2,931.7**	**3,613.4**	**-18.9**
End Stocks	**1,681.6**	**1,755.5**	**3,059.4**	**-45.0**	**-4.2**	**1,681.6**	**3,059.4**	**-45.0**
Stock/Usage Ratio (%)	**9.8**	**9.7**	**16.1**			**4.8**	**12.3**	

Source: MPOB, MIDFR

CPO price to be under pressure. In February 2020, the average CPO spot price retreated by -10.0%mom to RM2,410/mt level, primarily in view of the worsening coronavirus outbreak to other major economics other than China as well as the continued low export demand from India. However, on a year-over-year basis, the spot price increased by +27.0%yoy, in anticipation of the lower stockpiles level, tighter production and lower supplies in the export market. While the market anticipates tighter supplies due to the higher domestic consumption via higher biodiesel mandate in both Malaysia and Indonesia, we opine that the recent tumble of gasoil to have a negative impact on CPO demand and feasibility as a biodiesel feedstock from a financial standpoint. Note that the palm oil is currently trading at a huge premium to gasoil of about USD197/mt vs average discount of USD19/mt in the past year. Meanwhile, demand of soybean remains weak, brought about by the African Swine Fever and H1N1 virus. This had led to narrowing spread between soybean oil and palm oil. On a positive note, we posit that the lower inventory level and moderated output level to partially support CPO price and the year-to-date CPO price remains elevated at about RM2,800/mt.

Chart 2: CPO Spot (PAL2MALY) and Third-Month Future Price Trend (KO3) (RM/mt)



Source: Bloomberg, MIDFR

Maintain NEUTRAL. The current spot price is on a downtrend, falling to about RM2,270/mt due to negative sentiments on the weakening export demand ahead and expected higher CPO production. Moving forward, we do not expect significant reduction in inventory level as the higher production cycle kicks in. In addition, we also expect export to contract due to challenges faced in the country’s two main export markets i.e. India and China. To recall, India has placed trade restriction while demand from China is expected to be impacted by the on-going coronavirus outbreak. On another note, there is concern that the elevated CPO price will lose its appeal as feedstock for biofuel as the CPO price is trading at a huge premium against the latter.Nonetheless, the current year-to-date CPO spot price remains elevated i.e. about RM2,800/mt. This was mainly driven by weaker CPO production and lower opening stock which has led to lower stock level. This could provide some slight reprieve to the CPO price. Meanwhile, the restocking activities ahead of the major Ramadan festival could partially support export demand. 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-Mar-20		CY20F	CY21F	CY20F	CY21F	CY20F	CY21F	CY20F	CY21F
Genting Plantation	Dec	BUY	9.70	11.80	32.0	43.1	30.3	22.5	13.0	13.0	1.3	1.3
IOI Corporation	Jun	NEUTRAL	3.93	4.30	14.5	15.5	27.2	25.4	10.3	10.8	2.6	2.7
IJM Plantation	Mar	NEUTRAL	1.48	1.92	6.6	8.9	22.5	16.7	3.0	3.0	2.0	2.0
Kuala Lumpur Kepong	Sep	NEUTRAL	20.30	23.64	84.5	91.2	24.0	22.3	45.0	45.0	2.2	2.2
Sime Darby Plantation	Dec	NEUTRAL	4.45	4.93	12.8	13.4	34.8	33.2	6.4	6.7	1.4	1.5
PPB Group	Dec	NEUTRAL	17.08	18.60	94.9	100.7	18.0	17.0	31.0	31.0	1.8	1.8
Ta Ann Holdings	Dec	NEUTRAL	2.45	3.06	13.9	11.9	17.6	20.6	10.0	10.0	4.1	4.1
TSH Resources	Dec	NEUTRAL	1.02	1.27	5.2	7.1	19.7	14.4	2.0	2.5	2.0	2.5
FGV Holdings	Dec	NEUTRAL	1.01	1.18	4.9	6.5	20.8	15.6	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.