

# PLANTATION

**Maintain NEUTRAL**

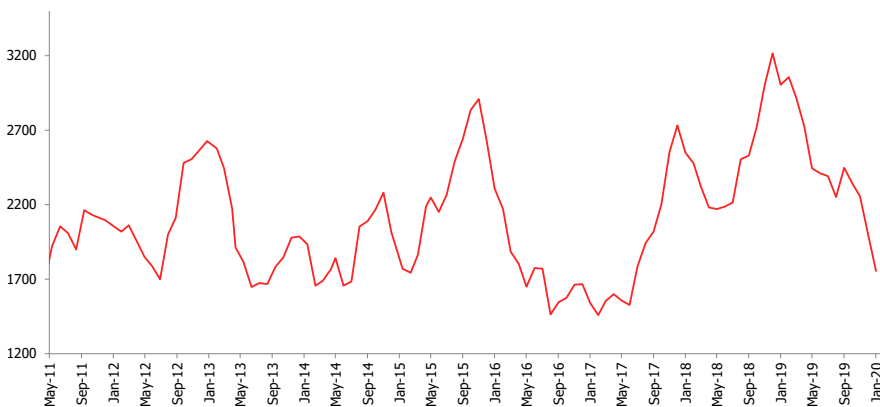
## Lower demand from major export destinations

### KEY INVESTMENT HIGHLIGHTS

- January 2020 closing inventory declined by -41.5%yoy to 29-month low of 1.7m metric tonnes (mt), mainly attributable to lower output which dropped by -32.9%yoy to 1.1m mt
- Export for January 2020 dipped by -27.6%yoy to 1.2m mt, the weakest monthly level observed since August 2018, predominantly due to lower export demand from India (-85.3%) and China (-44.3%yoy)
- We do not expect CPO price to trend upward in view of challenges in the export markets and upcoming higher production activities
- Maintain NEUTRAL stance on the sector with an unchanged 2020 CPO target price of RM2,450/mt

**Inventory level continues to trend lower.** Malaysian palm oil inventory as at January 2020 fell by -41.5%yoy to 1.7m mt, the level last seen in July 2017. This was mainly attributable to the dismal output of 1.1m which translated into a dip of -32.9%yoy. The stockpiles level also came in below Bloomberg expectations by a variance of -6.0%. While we opine that export demand to be under pressure in coming months due to India's restriction of refined palm oil and the China's coronavirus outbreak, the expectancy of weaker production in 1QCY20 will keep inventory level at below 2.0m mt.

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



Source: Malaysia Palm Oil Board (MPOB), MIDFR

**Export demand to be under pressure.** January 2020 export dropped by -27.6%yoy to about 1.2m mt, mainly driven by the sharp drop in export demand from India (-85.3%yoy) and China (-44.3%yoy). This also came in below the expectation of Bloomberg consensus by -5.2%. We opine that the current India's restriction on refined palm oil and purported trade ban on Malaysian palm oil amidst diplomatic tensions between the countries will continue to put downward pressure on export demand. Meanwhile, we believe that the lower export demand from China was primarily due to the limited business activities arising from the outbreak of coronavirus. To recall, India and China are the top two trading partners and, in aggregate account for 37.5% of total Malaysian palm oil export in 2019. However, this was partially moderated by the rise in Pakistan's export demand by +112.2%yoy to 170.8k mt. In addition, the higher domestic consumption through the implementation B30 and expectancy of lower output in Indonesia could result in tight supplies of its CPO for the global export market. This in turn could help divert buyers' purchases of palm oil from Malaysia when there is a shortage.

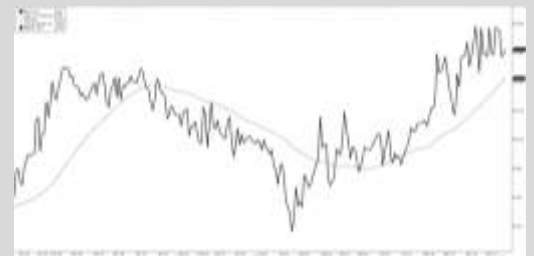
### COMPANY IN FOCUS

#### Genting Plantation Bhd

**Maintain BUY** | Unchanged target price: **RM11.80**  
Price @ 10<sup>th</sup> February 2020: RM10.68

- 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

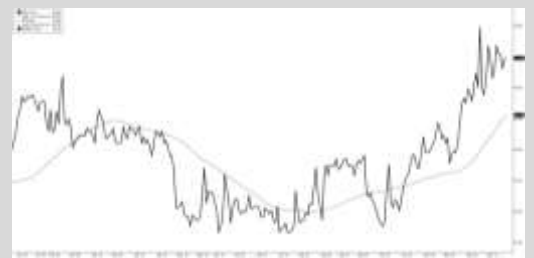


#### IOI Corporation Bhd

**Maintain NEUTRAL** | Unchanged target price: **RM4.67**  
Price @ 10<sup>th</sup> February 2020: RM4.51

- 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

**Martin** Foo Chuan Loong

[martin.foo@midf.com.my](mailto:martin.foo@midf.com.my)

03 -2173 8354

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

| Market       | Jan-19         | Dec-19         | Jan-18         | MoM%         | YoY%         | 1M20    | 1M19           | Ytd%         |
|--------------|----------------|----------------|----------------|--------------|--------------|---------|----------------|--------------|
| China        | 176.8          | 256.6          | 317.2          | -31.1        | -44.3        | 176.8   | 317.2          | -44.3        |
| India        | 46.9           | 138.6          | 318.3          | -66.2        | -85.3        | 46.9    | 318.3          | -85.3        |
| EU           | 182.9          | 144.5          | 243.5          | 26.6         | -24.9        | 182.9   | 243.5          | -24.9        |
| Pakistan     | 170.8          | 91.0           | 80.5           | 87.7         | 112.2        | 170.8   | 80.5           | 112.2        |
| US           | 53.3           | 31.9           | 61.6           | 66.9         | -13.5        | 53.3    | 61.6           | -13.5        |
| Others       | 582.9          | 733.5          | 655.4          | -20.5        | -11.1        | 582.9   | 655.4          | -11.1        |
| <b>Total</b> | <b>1,213.5</b> | <b>1,396.2</b> | <b>1,676.6</b> | <b>-13.1</b> | <b>-27.6</b> | 1,213.5 | <b>1,676.6</b> | <b>-27.6</b> |

Source: MPOB, MIDFR

**Production continued to decline.** January 2020 production level came in lower than expected at 1.1m mt which was the weakest monthly level observed since March 2016. This was slightly below than the Bloomberg (-6.0%) consensus. This was premised on lower fertiliser application in 2019, weaker FFB yields due to the dry weather as well as lower milling activities in conjunction with the Chinese Lunar New Year holidays. Geographically, the lower output mainly stemmed from lower contribution from the state of Negeri Sembilan (-52.0%yoy), Pahang (-50.7%yoy), Kelantan (-49.5%yoy), Kedah state (-41.4%yoy) and Johor state (-37.9%yoy). Moving forward, we foresee that monthly production in 1QCY20 to remain weak given the dry conditions earlier affecting the yields, low fertiliser application and minimal replanting efforts.

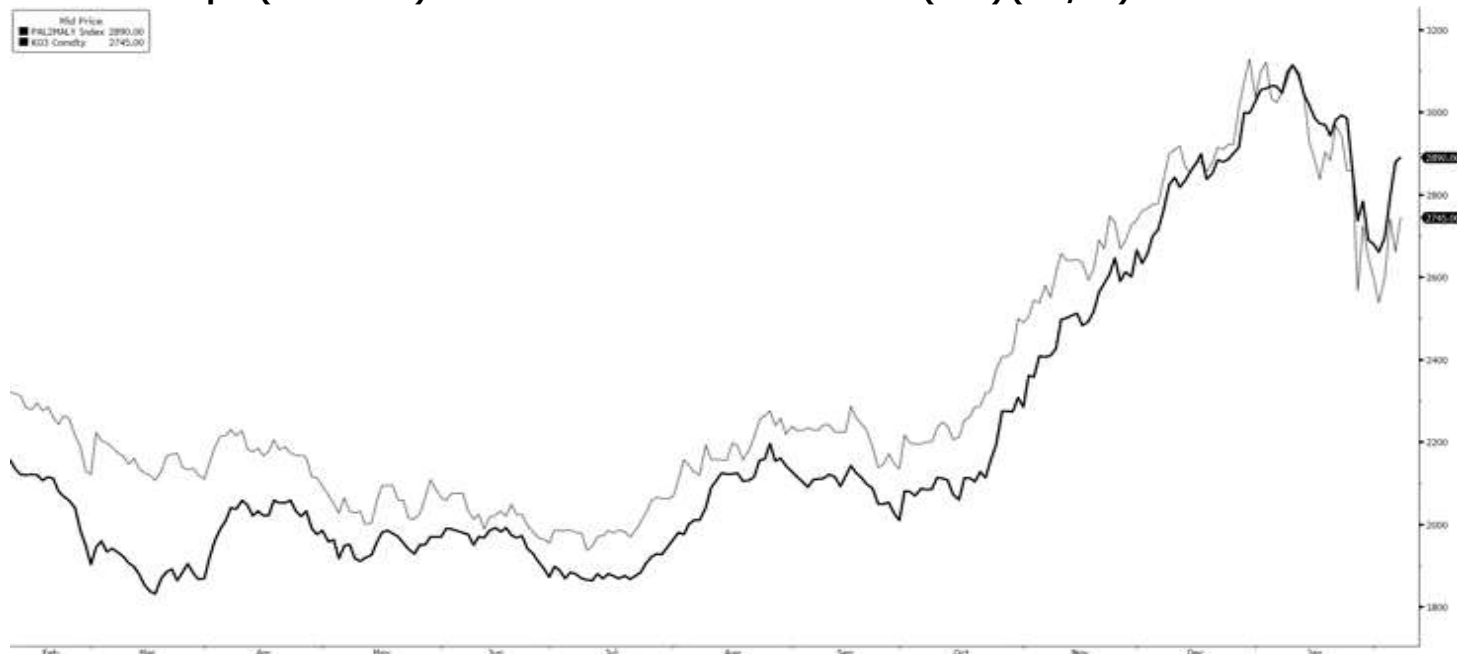
**Table 2: Palm Oil Statistics for January 2020 ('000 MT)**

|                              | Jan-19         | Dec-19         | Jan-18       | MoM%         | YoY%         | 1M20           | 1M19           | Ytd%         |
|------------------------------|----------------|----------------|--------------|--------------|--------------|----------------|----------------|--------------|
| <b>Opening Stocks</b>        | <b>2,007.1</b> | <b>2,256.0</b> | <b>3,215</b> | <b>-37.6</b> | <b>-11.0</b> | <b>2,007.1</b> | <b>3,215.1</b> | <b>-37.6</b> |
| <b>Production</b>            | <b>1,165.9</b> | <b>1,333.9</b> | <b>1,737</b> | <b>-32.9</b> | <b>-12.6</b> | <b>1,165.9</b> | <b>1,737.5</b> | <b>-32.9</b> |
| Imports                      | 85.0           | 123.0          | 81           | 4.9          | -30.9        | 85.0           | 81.1           | 4.9          |
| <b>Total Supply</b>          | <b>3,258.0</b> | <b>3,713.0</b> | <b>5,034</b> | <b>-35.3</b> | <b>-12.3</b> | <b>3,258.0</b> | <b>5,033.6</b> | <b>-35.3</b> |
| Exports                      | 1,213.5        | 1,396.2        | 1,676        | -27.6        | -13.1        | 1,213.5        | 1,676.4        | -27.6        |
| Dom Disapp                   | 289.0          | 309.7          | 356          | -18.8        | -6.7         | 289.0          | 356.0          | -18.8        |
| <b>Total Demand</b>          | <b>1,502.5</b> | <b>1,705.9</b> | <b>2,032</b> | <b>-26.1</b> | <b>-11.9</b> | <b>1,502.5</b> | <b>2,032.5</b> | <b>-26.1</b> |
| <b>End Stocks</b>            | <b>1,755.5</b> | <b>2,007.1</b> | <b>3,001</b> | <b>-41.5</b> | <b>-12.5</b> | <b>1,755.5</b> | <b>3,001.2</b> | <b>-41.5</b> |
| <b>Stock/Usage Ratio (%)</b> | <b>9.7</b>     | <b>9.8</b>     | <b>12.3</b>  |              |              | <b>9.7</b>     | <b>12.3</b>    |              |

Source: MPOB, MIDFR

**CPO market is in backwardation.** In January 2020, the average CPO spot price retreated by -11.4%mom to RM2,680/mt level, primarily in view of the India's trade restriction on Malaysian palm oil and China's coronavirus outbreak. However, on a year-over-year basis, the spot price increased by +28.2%, in anticipation of tighter supply which pushed the inventory level below the 2.0m level. The current premium of spot price over futures market suggests that the bearish outlook will prevail in the immediate term. The shortage is predominantly premised on the expectation that inventory level will remain low in view of the moderated production level and higher domestic consumption. 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. At present, soybean oil is trading at only a slight thin premium to palm oil of about USD5/mt vs average premium of USD100/mt in past year.

Chart 2: CPO Spot (PAL2MALY) and Third-Month Future Price Trend (K03) (RM/mt)



Source: Bloomberg, MIDFR

**Maintain NEUTRAL.** The current CPO spot price remains elevated i.e. above RM2,800/mt. This was mainly driven by weaker CPO production which has led to lower stock level. However, we note that the current spot price is trading at a premium against 3-months future price, indicating that the market is expecting a decline in CPO price. Moving forward, we do not expect significant reduction in inventory level as the higher production cycle kicks in 2QCY20. In addition, we also expect export growth could be muted 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. While we applaud the government's effort to increase demand from other countries, we have doubts that it could make up for the possible demand weakness coming from the two main markets. 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 premium against the latter. 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-Feb-20 |                | CY19F          | CY20F | CY19F       | CY20F | CY19F         | CY20F | CY19F             | CY20F |
| Genting Plantation    | Dec | BUY     | 10.68     | 11.80          | 16.4           | 32.5  | 65.1        | 32.9  | 8.7           | 11.4  | 0.8               | 1.1   |
| IOI Corporation       | Jun | NEUTRAL | 4.51      | 4.67           | 12.8           | 14.7  | 35.2        | 30.7  | 9.5           | 10.3  | 2.1               | 2.3   |
| IJM Plantation        | Mar | NEUTRAL | 1.87      | 1.92           | 2.6            | 6.5   | 71.9        | 28.8  | 3.0           | 3.0   | 1.6               | 1.6   |
| Kuala Lumpur Kepong   | Sep | NEUTRAL | 23.58     | 23.63          | 62.8           | 84.5  | 37.6        | 27.9  | 45.0          | 45.0  | 1.9               | 1.9   |
| Sime Darby Plantation | Dec | NEUTRAL | 5.17      | 4.96           | 2.1            | 8.9   | 246.2       | 58.1  | 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 | 1.36      | 1.27           | 3.6            | 5.2   | 37.5        | 26.3  | 1.0           | 1.2   | 0.7               | 0.9   |
| FGV Holdings          | Dec | NEUTRAL | 1.34      | 1.30           | -5.1           | 1.8   | -26.2       | 74.9  | N/A           | N/A   | N/A               | N/A   |

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### 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. |