PLANTATION

Maintain NEUTRAL

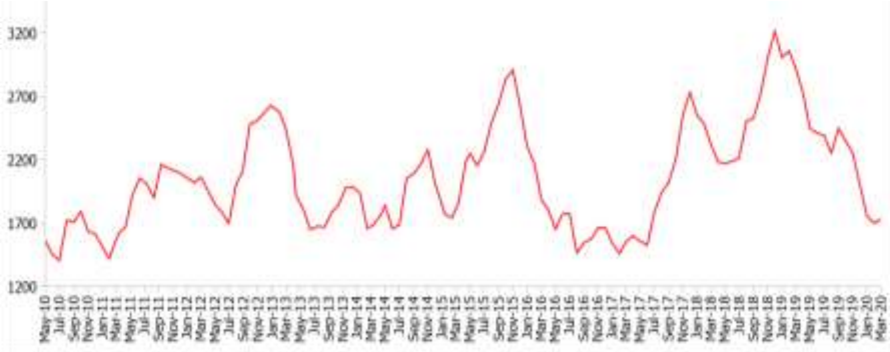
MCO to affect the supply of FFB

KEY INVESTMENT HIGHLIGHTS

- **March 2020 closing inventory declined by -40.8%yoy to 1.7m metric tonnes (mt), primarily due to lower opening stock (-44.4%yoy) and lower output level (-16.4%yoy)**
- **Export for March 2020 fell by -27.0%yoy to 1.2m mt, mainly caused by the lower export demand from India (-92.9%), China (-15.7%) and EU (-11.3%yoy) in view of the COVID-19 and trade spat with India**
- **We opine that CPO price movement to be volatile in the medium term, dependent on the severity of the Covid-19 situation**
- **Maintain NEUTRAL stance on the sector with an unchanged 2020 CPO target price of RM2,450/mt**

Inventory level rebounded slightly. Malaysia's palm oil inventory as at March 2020 posted an uptick of +1.6%mom to 1.7m mt after five consecutive months of decline. The stockpiles level also came in +4.7% above consensus' expectations. This was premised on the dismal export performance and higher production level. However, on a year-over-year basis, the stockpiles plunged by -40.8%yoy which was mainly attributable to the lower opening stock of 1.7m mt (-44.4%yoy) and lower production of 1.4m (-16.4%yoy). In the immediate term, we opine that the concern on demand pressure could be partially alleviated by lower production in view of the extension in movement control order (MCO) until the end of April 2020. On a longer term horizon, the on-going COVID-19 outbreak and India's restriction of refined palm oil would continue to impede the growth in palm oil demand.

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



Source: Malaysia Palm Oil Board (MPOB), MIDFR

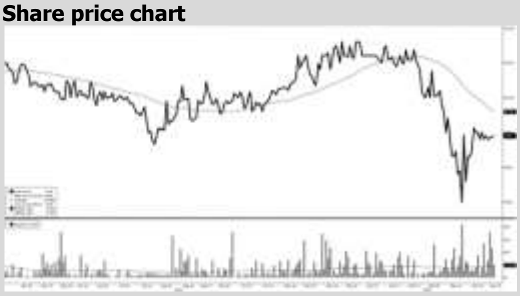
Pressure from COVID-19 is expected to persist. March 2020 export dropped by -27.0%yoy to about 1.2m mt, mainly stemmed from the sharp drop in export demand from India (-92.9%yoy) and China (-15.7%yoy). This outpaced the consensus' expectation by +3.6% in view of better-than-expected export performance from the EU (+22.5%yoy) and US (+29.2%yoy). Moving forward, the COVID-19 led lockdown in major palm oil consuming countries are anticipated to inhibit the demand, adding fuel to the already precipitous decline in export to India. In addition, the demand for CPO as biofuel feedstock might be dampened as well in view of the sustained low crude oil price. On a positive note, we opine that the possible gradual recovery in export to China as its COVID-19 situation continues to improve and upcoming Ramadan festival would partially lead to more active restocking activities.

COMPANY IN FOCUS

Genting Plantation Bhd
Maintain BUY | Unchanged target price: **RM11.80**
Price @ 10th April 2020: RM9.45

- 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 @ 10th April 2020: RM3.86

- 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: March 2020 Export Performance ('000 MT)

Market	Mar-20	Feb-20	Mar-19	MoM%	YoY%	3M20	3M19	YoY%
China	148.0	156.8	171.5	-5.6	-13.7	481.7	571.3	-15.7
India	10.8	21.1	341.5	-48.9	-96.8	78.8	1,108.9	-92.9
EU	195.4	151.8	159.5	28.7	22.5	530.0	597.4	-11.3
Pakistan	67.1	46.9	129.6	43.0	-48.3	284.8	288.4	-1.3
US	50.0	59.1	38.7	-15.4	29.2	162.3	146.1	11.1
Others	710.2	646.6	776.7	9.8	-8.6	1,939.7	1,914.2	1.3
Total	**1,181.4**	**1,082.3**	**1,618**	**9.2**	**-27.0**	**3,477.3**	**4,626**	**-24.8**

Source: MPOB, MIDFR

Mild recovery of FFB yield was observed. Despite the one-week closure of plantation operations in Sabah, March 2020 production level increased by +8.4%mom to four-month high of 1.4m mt. This was higher than the Bloomberg consensus by +6.7%. Note that the fresh fruit bunch (FFB) yield in March was 1.21mt/ha as compared to 1.10mt/ha in February, indicating a possible gradual recovery of FFB yield going forward. However, on a year-over-year basis, the production decreased by -16.4%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 Negeri Sembilan (-32.6%yoy), Sabah (-28.6%yoy), Kelantan (-28.3%yoy), Pahang state (-22.4%yoy) and Terengganu state (-18.1%yoy). On a year-to-date basis, the production also plunged by -22.1%ytd to 3.8m mt which was caused by lower FFB yield as compared to prior year. Moving forward, we foresee that 2QCY20's monthly production to be interfered by the extension in MCO which has seen to prevent Sabah's plantation operations from running at full capacity.

Temporary disruption in supply. We view that the upcoming April 2020 production is expected to be affected by the ongoing MCO. This is mainly due to the postponement of FFB collection which would indirectly affect the quality of the oil being produced as well. In addition, the extended closure of Sabah's plantation operations in six districts from 25th March 2020 until 14th April 2020 will further aggravate the supply issue. We gather that, in aggregate, the six districts which consist of Kalabakan, Semporna, Kunak, Tawau, Lahad Datu and Kinabatangan, represent about 65% of Sabah's total planted ha of 1.2m and 75% of production in Sabah. To recall, Sabah accounted for about 25% of Malaysia's total CPO output in CY19. Thus, we opine that the plantation companies whose planted areas are concentrated in the restricted area will be facing a greater supply disruption and translates into lesser CPO sales. While the resumption of the plantation operations in Sabah is allowed after 14th April 2020 by the state government, we do not discount the possibility of further closure should Covid-19 situation exacerbate.

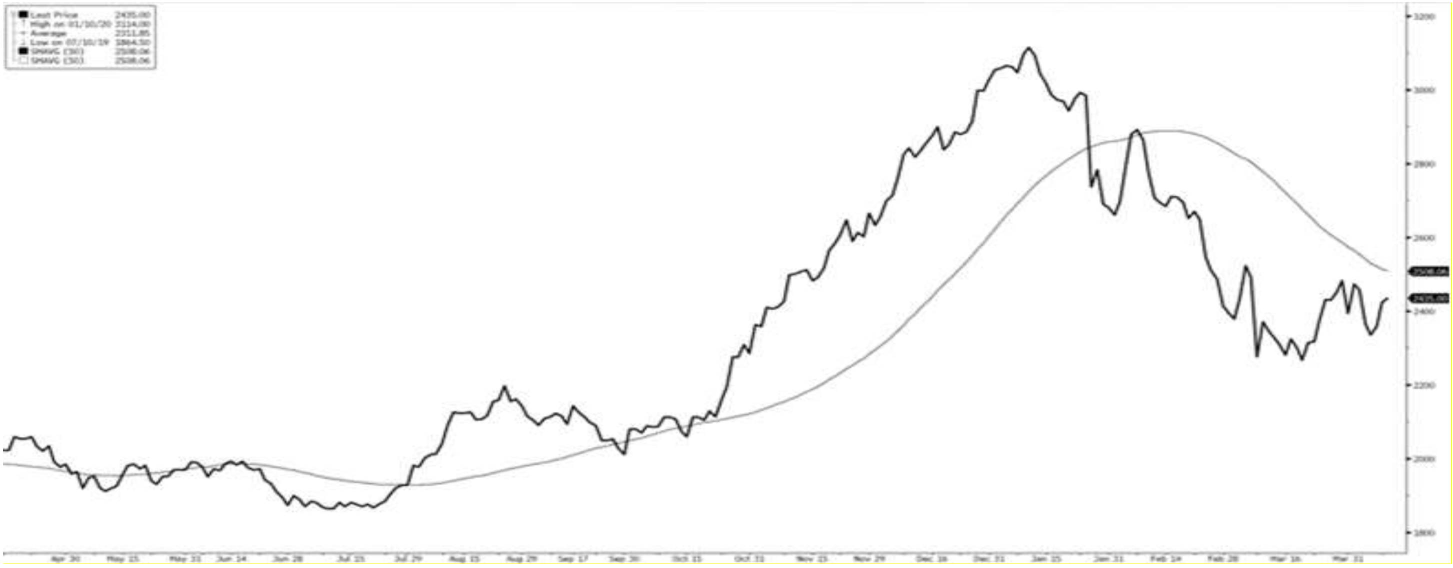
Table 2: Palm Oil Statistics for March 2020 ('000 MT)

	Mar-20	Feb-20	Mar-19	YoY %	MoM %	3M20	3M19	Ytd%
Opening Stocks	**1,700.3**	**1,755.5**	**3,059.4**	**-44.4**	**-3.1**	**2,007.1**	**3,215.1**	**-37.6**
Production	**1,397.3**	**1,288.5**	**1,671.9**	**-16.4**	**8.4**	**3,857.4**	**4,954.0**	**-22.1**
Imports	75.3	66.7	131.2	-42.7	12.8	227.0	307.0	-26.0
Total Supply	**3,172.8**	**3,110.7**	**4,862.5**	**-34.7**	**2.0**	**6,091.5**	**8,476.1**	**-28.1**
Exports	1,181.4	1,082.3	1,617.7	-27.0	9.2	3,477.3	4,626.3	-24.8
Dom Disapp	263.3	328.1	327.4	-19.6	-19.7	886.1	932.4	-5.0
Total Demand	**1,444.7**	**1,410.4**	**1,945.1**	**-25.7**	**2.4**	**4,363.4**	**5,558.6**	**-21.5**
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 experience short-term turbulence. In March 2020, the average CPO spot price retreated by -11.6%mom to RM2,373/mt, primarily in view of the sharp plunge in export to India due to a trade spat and expected COVID-19 led demand destruction in major palm oil consuming countries. However, on a year-over-year basis, the spot price rose by +25.2%yoy, mainly driven by the lower stockpiles level and tighter supply of CPO. Note that at current price of about RM2,400/mt remains favourable to most plantation companies as the cost of production is normally below RM2,000/mt. Moving forward, we expect the anticipated supply disruption due to extended MCO and lower stockpiles level to continue to support the CPO price. Nonetheless, we believe there might be price instability in the short-term dependent on the severity of the demand loss from the 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 RM2,650/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 as demand loss due to coronavirus lockdowns in major export markets and India-Malaysia trade spat might outpace the production level. There is also concern that the palm oil-based biofuel is losing its appeal in view of the subdued crude oil price. Nonetheless, we do not expect a drastic decline in CPO price towards the RM2,000/mt level. We view that CPO price to be mainly supported by the supply constraints as a result of closure of plantation operations in Sabah and the extension of MCO until the end of April. This is predicated on the reduction of workforce by half during the MCO which could lead to slower movement and lower collection of FFB during the period. In addition, the restocking activities ahead of the major Ramadan festival and possible gradual recovery of economic activities in China could partially support export demand. 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 lockdown in Sabah plantation estate is emulated by the Government of the Republic of Indonesia as it would further constrict the availability of FFB.

DISCLOSURES AND DISCLAIMER

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.