

11 April 2019 | Sector Update

## PLANTATION

**Maintain NEUTRAL**

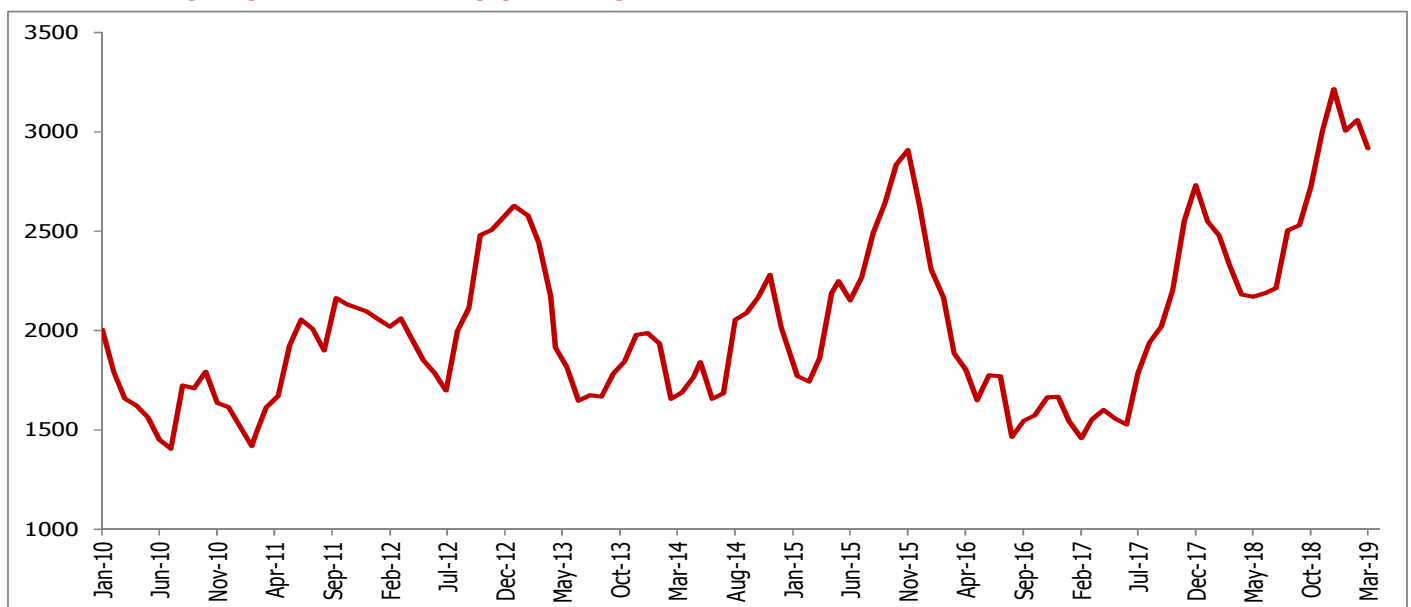
### *Slight Relieve in CPO Inventory Level*

#### KEY HIGHLIGHTS

- Stockpiles for the month of March 2019 remains elevated at 2.9m MT, declining at a slower-than-expected pace of -4.6%mom
- March 2019 CPO production still in overdrive mode, growing by +8.2%mom, despite the historically low seasonal production period
- Fortunately, the higher output level was overwhelmed by the rebounding from demand from notable export destination (+22.4%mom) such as China, Pakistan, Turkey, Nigeria and Japan
- The elevated stockpiles, weaker rival soybean oil price, looming US-China trade war and negative sentiments from EU continues to dampen the CPO price recovery
- **Maintain NEUTRAL stance on the sector**

**Inventory level remains elevated.** Malaysia's palm oil inventory for the month of March 2019 dropped slightly to 2.9m tonnes. Nonetheless, this was still higher than both Bloomberg and Reuters consensus by approximately +1.7% and +2.4% respectively. The higher-than-expected inventory level was primarily due to the stronger output in the historically lower seasonal production period. However, this was buffered by the stronger export demand from major and existing palm oil import markets. On a year-over-year basis, March 2019 inventory increased by +25.6%yoy mainly due to the stronger pace of production than that of export demand as well as higher inventory carried forward from February 2019. We opine that the inventory surplus to continue to add downward pressure on CPO price movement and will require greater pace of export demand over an extended period to sustain the decline of inventory level going forward.

**Chart 1: Malaysia palm oil inventory ('000 MT)**



Source: Malaysia Palm Oil Board (MPOB), MIDFR

**Export demand rebounded.** On a sequential basis, March 2019 export rose by +22.4%mom to approximately 1.6m tonnes. This was mainly attributable to the rise in demand from key destinations such as China (+113.5%mom), Pakistan (+66.9%mom), Turkey (+396.7%mom), Nigeria (+519.7%mom) and Japan (+150.2%mom). We view that the spike in CPO export to China in March was mostly due to the larger bulk purchases by Chinese businesses since they held back importing CPO in February in view of the US-China trade truce. This purchasing trend might normalize in subsequent months if there were a trade agreement between the two countries which favour soybean imports. Nonetheless, overall export performance still fell marginally short of both Bloomberg and Reuters consensus by -0.8% respectively caused by lower export demand from India (-23.9%mom) and EU (-15.7%mom). Moving forward, we view that the export demand will be primarily supported by China following the recently announced purchase intent agreements as well as the ECRL renegotiation plan which incorporate the palm oil deal.

**Higher-than-expected production level.** March 2019 production came in at RM1.6m tonnes, an increase of +8.2%mom. This came in higher than the Bloomberg and Reuters consensus by +1.3%. The rise was mainly attributable to higher production from the state of Pahang (11.3%mom), Sabah (+6.0%mom), Perak (+11.4%mom) and Sarawak (+5.93%). On a year-over-year comparison, CPO production increased by +6.2yoy premised on higher production primarily from the state of Sabah (+6.2%yoy), Perak (+14.1%yoy), Pahang (+6.6%yoy) and Johor (+4.6%yoy).

**Maintain NEUTRAL on the sector.** Moving forward, the inventory level is expected to continue to diminish further decline albeit at a slower pace. We opine that the improvement in export demand and domestic consumption at the moment weren't enough to offset the higher output and supply in the market. In addition, demand from India (Malaysia's biggest palm oil export market) could be affected by the expected high domestic supply of rapeseed in India) of about 8.5m tonnes in 2018/19 which will potentially limiting its overseas purchases. Coupled with record high soybean production, these would be considered limiting factors towards the CPO price movement as well. However, the palm oil trade developments between Malaysia and China seem to be promising at this juncture as deals could potentially raise the level of palm oil export share to China. Domestically, the biodiesel mandate for the transportation and industrial sectors might support the CPO domestic demand. All in, we are maintaining our **NEUTRAL** stance on the sector with an unchanged 2019 CPO price target of **RM2,280/mt** for 2019. 

**Table 1: Palm Oil Statistics for March 2019 ('000 MT)**

	Mar-19	Feb-19	Diff.	MoM %	Mar-18	YoY%
<b>Opening Stocks</b>	3,059	3,005	<b>54</b>	<b>1.8</b>	2,478	<b>23.5</b>
<b>Production</b>	1,672	1,545	<b>127</b>	<b>8.2</b>	1,574	<b>6.2</b>
Imports	131	94	37	39.2	40	231.2
<b>Total Supply</b>	<b>4,863</b>	<b>4,644</b>	<b>218</b>	<b>4.7</b>	<b>4,092</b>	<b>18.8</b>
Exports	1,618	1,321	296	22.4	1,565	3.3
Dom Disapp	327	263	64	24.3	203	61.3
<b>Total Demand</b>	<b>1,945</b>	<b>1,585</b>	<b>360</b>	<b>22.7</b>	<b>1,768</b>	<b>10.0</b>
<b>End Stocks</b>	<b>2,917</b>	<b>3,059</b>	<b>-142</b>	<b>-4.6</b>	<b>2,323</b>	<b>25.6</b>
<b>Stock/Usage Ratio (%)</b>	<b>12.5</b>	<b>16.1</b>			<b>10.9</b>	

Source: MPOB, MIDFR

**Table 2: Export performance for March-2019 ('000 MT)**

	Mar-19	Feb-19	Mar-18	MoM%	YoY%	3M19	3M18	YoY%
China	171.5	80.4	134.4	113.5	27.6	571.3	381.2	49.9%
India	341.5	449.0	394.9	-23.9	-13.5	1,108.9	858.3	29.2%
EU	159.5	189.2	133.1	-15.7	19.9	592.2	559.3	5.9%
Pakistan	129.6	77.7	115.9	66.9	11.8	288.0	269.9	6.7%
US	38.7	45.9	42.4	-15.6	-8.7	146.1	131.7	11.0%
Others	776.7	479.2	745.4	62.1	4.2	1,913.9	2,082.2	-8.1%
<b>Total</b>	<b>1,618</b>	<b>1,321</b>	1,566.2	<b>22.4</b>	<b>3.3</b>	<b>4,620</b>	<b>4,282</b>	<b>7.9%</b>

Source: MPOB, MIDFR

**Chart 2: CPO Futures Price Trend (K03)**



Source: Bloomberg,

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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 <i>rise</i> 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 <i>fall</i> 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.