12 March 2019 | Sector Update

PLANTATION

***Maintain* NEUTRAL**

Stockpiles remain above 3.0m tonnes

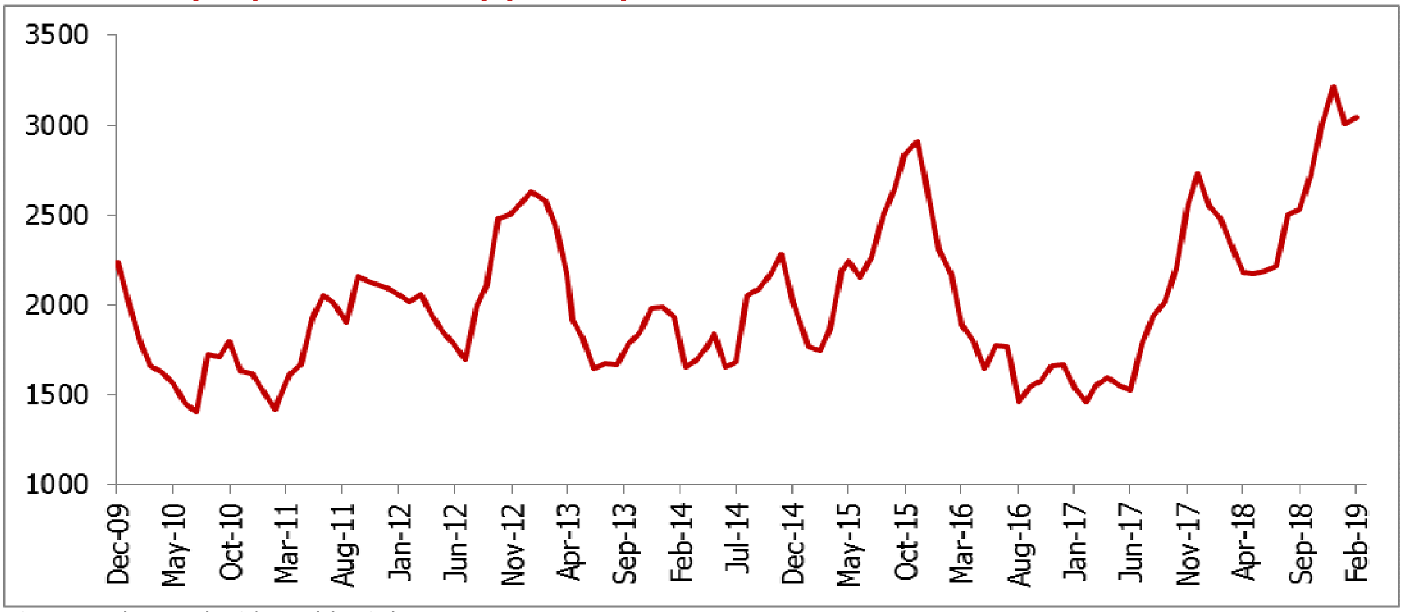
KEY HIGHLIGHTS

- **Inventory level increased marginally by +1.3%mom and remained above 3.0m tonnes**
- **Despite the output level was lower-than-expected, it couldn't kept pace with the fall in export demand from China and EU**
- **The looming outcome of US-China trade talks, record competing oilseeds production and supply glut to continue to cause downward pressure on CPO price movement**
- **Fortunately, the rising export demand from India and signing of purchase deals export to China are viewed as positive momentum to partially assuage the oversupply issue**
- **Maintain NEUTRAL on the sector**

Higher inventory level. Malaysia palm oil inventory for the month of February 2019 remained above 3.0m tonnes (+1.3%mom). This was above both Bloomberg and Reuters consensus by approximately +3.2% despite a lower-than-expected production. The higher-than-expected inventory level was primarily due to the lower-than-expected export demand, particularly from China and European Union countries. Historically, the month of February would record lower export demand on a month-over-month basis after the usually large festive orders in January. However, we observed that for February 2019, demand from China decline at a faster pace of -74.8%mom to 80.4m tonnes.

On a year-over-year basis, February 2019 inventory increased by +19.5%yoy mainly due to weaker export performance from EU and China as well as higher inventory carried forward from January 2019. We opine that surplus in Malaysian stockpiles to continue to weigh on CPO price movement and will require considerable export demand over an extended period to see improvement in inventory.

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



Source: Malaysia Palm Oil Board (MPOB), MIDFR

Lower-than-expected export demand. On a sequential basis, February 2019 export fell by -21.4%mom to approximately 1.3m tonnes. It came in below Bloomberg and Reuters consensus by -7.6% and -8.1% respectively. This was mainly due to the fall in demand from key destinations such as China (-74.8%mom), the EU countries (-22.3%mom), Turkey (-66.0%mom) and Nigeria (-79.3%mom). We view that Chinese importers and others are holding back purchases amid uncertainties in the outcome of US-China trade talks. Should a resolution is reached, China is likely to have bulk purchases of soybean from US which would have a negative effect on the demand for CPO. In addition, record high competing oilseeds production in South America and India might be another contributing factor to the fall in CPO demand. As such, commodity importers can now get access to them at a cheaper price due to higher supply. Meanwhile, India's export demand rise +41.0%mom in view of lower import duties for palm oil related products and preferential trade agreement with Malaysia.

Lower-than-expected production. February 2019 production came in at RM1.5m tonnes, a decline of -11.1%mom. This is below both Bloomberg and Reuters consensus by -3.5% and -3.4% respectively. Note that the pace of decline is much slower as compared to the dwindling export. The fall was mainly due to lower production from the state of Sabah (-9.2%mom), Sarawak (-11.6%mom), Johor (-13.4%mom) and Pahang (-11.9%) as oil palm entering its historically lower production cycle. However, on a year-over-year comparison, production growth increased by +15.0%yoy as a result of higher production mostly from the state of Sarawak (+17.5%yoy), Sabah (+7.4%yoy), Perak (+36.2%yoy) and Johor (+16.4%yoy).

Maintain NEUTRAL on the sector. We foresee stockpiles to remain elevated as we do not foresee much improvement in export demand going forward. The Lower CPO production domestically and rising export demand from India, the largest importer of Malaysian CPO, weren't enough to reduce the supply in the market. Coupled with external developments such as US-China trade truce and record high production of oilseeds in India and South America, all these might have taken a toll on CPO price movement in which continue to trend lower after a short-lived recovery in January. On the contrary, the recent Chinese purchase intent deals with buying 1.6m tonnes worth of CPO in CY19 could alleviate concerns on China export demand. Using CY18 as a benchmark, the purchase intent would account for approximately 87.0% of total export to China. Locally, the B10 mandate implemented in February 2019 for the transportation sector might lend additional support to CPO domestic demand. All factors considered, we are maintaining our **CPO price target of RM2,280/mt** for 2019.

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

	Feb-19	Jan-19	Diff.	MoM (%)	Feb-18	YoY(%)
Opening Stocks	**3,005**	**3,215**	**(210)**	**-6.5**	**2,549**	**17.9**
Production	**1,545**	**1,737**	**(193)**	**-11.1**	**1,343**	**15.0**
Imports	94	81	13	15.7	67	40.4
Total Supply	**4,644**	**5,034**	**(390)**	**-7.7**	**3,959**	**17.3**
Exports	1,321	1,681	(359)	-21.4	1,244	6.2
Dom Disapp	277	348	(70)	-20.2	167	65.7
Total Demand	**1,599**	**2,028**	**(430)**	**-21.2**	**1,411**	**13.3**
End Stocks	**3,045**	**3,006**	**40**	**1.3**	**2,548**	**19.5**
Stock/Usage Ratio (%)	**15.9**	**12.3**			**15.0**	

Source: MPOB, MIDFR

Table 2: Export performance for February-2019 (‘000 MT)

	Feb-19	Jan-19	Feb-18	MoM%	YoY%	2M19	2M18	YoY%
China	80	319	90	-74.8	-10.7	400	247	62.0
India	449	318	262	41.0	71.5	767	463	65.6
EU	189	243	244	-22.3	-22.4	433	426	1.5
Pakistan	78	81	68	-3.7	14.8	158	154	2.8
US	46	62	41	-25.6	12.3	107	89	20.3
Others	479	657	539	-27.1	-11.2	1,136	1,337	-15.0
Total	**1,321**	**1,681**	**1,244**	**-21.4**	**6.2**	**3,002**	**2,716**	**10.5**

Source: MPOB, MIDFR

Figure 1: CPO Futures Price Trend (KO3)

Source: Bloomberg,

Martin Foo Chuan Loong
martin.foo@midf.com.my
+603 2173 8354

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

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.