

13 May 2019 | Sector Update

PLANTATION

Maintain NEUTRAL

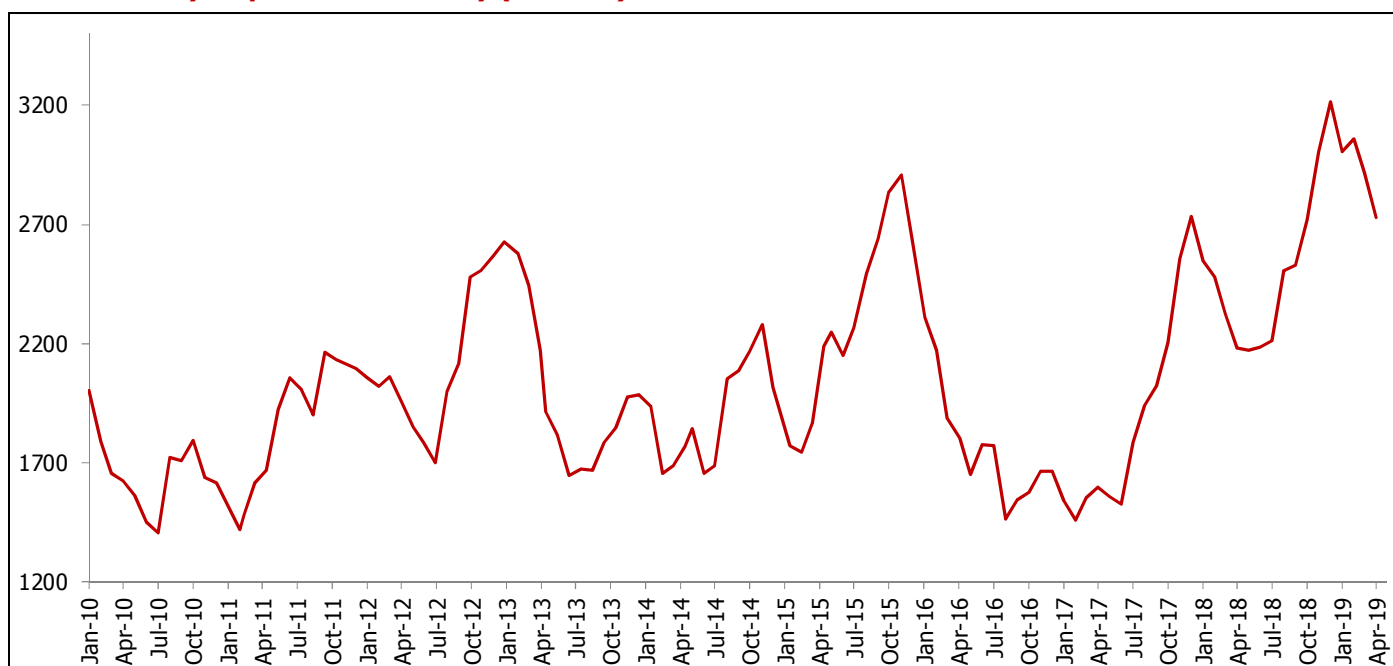
Trade war concerns remain overwhelming

KEY HIGHLIGHTS

- Slight reprieve in April 2019 inventory level to 2.7m MT, declining by -6.4%mom to a six-month low though remains elevated on a year-over-year basis of +25.1%yoy
- April 2019 CPO production waned marginally, reducing by mere -1.4%mom as it enter into the historically low seasonal production period
- Stockpiles partially moderated by slightly higher-than-expected export demand from notable export destination (+2.1%mom) such as China, India, Indonesia, Iran and Philippines
- However, the renewed trade dispute has caused CPO price to plunge further over concerns of a global soybean glut and heightened uncertainty of a trade agreement
- **Maintain NEUTRAL stance on the sector**

Inventory level contracted to a six-month low. Malaysia's April 2019 palm oil stockpiles dropped by -6.4%mom to 2.7m tonnes. This was slightly below both Bloomberg and Reuters consensus by -0.7%mom and -1.5%mom respectively. The lower inventory level was primarily owing to the higher export demand ahead of Ramadan season and tapering output level amid the historically low seasonal output period. However, on a year-on-year basis, we view that the current inventory level remains elevated as the April ending stock was still higher by +25.1%yoy. This is mainly due to both April 2019 and 4MCY19 output increased by +5.8%yoy and +8.9%yoy respectively and higher inventory carried forward. Nonetheless, we opine this was a slight relieve to the oversupply conundrum but weren't enough to mitigate the downward pressure on CPO price caused by the heightened trade tension.

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



Source: Malaysia Palm Oil Board (MPOB), MIDFR

Some recovery in export demand seen. On a sequential basis, April 2019 export improved marginally by +2.1%mom to approximately 1.6m tonnes and it was above Bloomberg and Reuters consensus by +1.9% and +0.4% respectively. This was mainly attributable to the rise in demand from key destinations such as China (+17.2%mom), India (+53.5%mom), Indonesia (+120.0%mom), Iran (+169.5%mom) and Philippines (+19.2%mom). We view that the increase in export demand from China in April was mostly due to the continued African swine fever which caused less soybean oil output in the region and resort to palm oil as alternative. Meanwhile, the higher export from key markets was largely expected ahead of Ramadan season which contributed to restocking activities for higher palm oil consumption during the festive period. Nonetheless, on a year-to-date basis, the 4MCY19 export demand (+7.9%yoy) was still growing at a slower pace than production (+8.9%yoy) partly due to tapering demand from EU (-4.5%yoy), Pakistan (-8.6%yoy), Singapore (-24.8%yoy) and Saudi Arabia (-66.4%yoy).

Output level softened. April 2019 production level recorded at RM1.6m tonnes, representing a marginal decrease of -1.4%mom. Market expectation came in mixed as it was lower than the Bloomberg but higher than Reuters consensus by -0.6% and 0.6%yoy respectively. The slight contraction was mainly attributable to lower production from the state of Sabah (-8.7%mom), Perak (-4.0%mom), and Johor (-1.8%mom). This is largely expected as palm oil entering into its historically low seasonal production period. However, on a year-to-date comparison, 4MCY19 CPO production remained elevated which increased by +8.9%yoy due to higher output predominantly from the state of Perak (+21.6%yoy), Pahang (+12.5%yoy), Johor (+9.3%yoy), Sabah (+3.9%yoy) and Sarawak (+4.0%yoy).

Maintain NEUTRAL on the sector. While the April inventory level has shown some encouraging signs, we continue to observe that the adverse effects on CPO price from US-China trade war have far outweighed the larger-than-expected decline in stockpiles. As the plunge in price of its close substitute, soybean to near decade low amid rising concerns of a global soybean glut continues to exert greater downward pressure on the price of palm oil. In addition, we opine that the tapering demand from EU and discounted pricing of Indonesia palm oil could be dampening factors to CPO price as well. Fortunately, the strengthening of bilateral ties with China, Ramadan season and higher domestic consumption for biodiesel are optimistic developments which partially supporting the CPO price. Moving forward, we view that in order to expect a rebound in the CPO price, a conclusion on trade agreement between US and China is necessary along with a sustained CPO export 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 April 2019 ('000 MT)

	Apr-19	Mar-19	Diff.	MoM %	Apr-18	YoY%
Opening Stocks	2,917	3,059	(142)	-4.6	2,323	25.6
Production	1,649	1,672	(23)	-1.4	1,558	5.8
Imports	62	131	(69)	-52.7	36	74.4
Total Supply	4,629	4,863	(234)	-4.8	3,917	18.2
Exports	1,651	1,618	34	2.1	1,530	7.9
Dom Disapp	248	327	(79)	-24.2	206	20.6
Total Demand	1,899	1,945	(46)	-2.3	1,736	9.4
End Stocks	2,729	2,917	(188)	-6.4	2,181	25.1
Stock/Usage Ratio (%)	12.0%	12.5%			10.5	

Source: MPOB, MIDF

Table 2: April 2019 export performance ('000 MT)

	Apr-19	Mar-19	Apr-18	MoM%	YoY%	4M19	4M18	YoY%
China	201.0	171.5	135.9	17.2	48.0	772.3	517.0	49.4
India	524.1	341.5	295.9	53.5	77.1	1,633.0	1,154.2	41.5
EU	138.2	159.5	205.4	-13.4	-32.7	730.5	764.7	-4.5
Pakistan	77.5	129.6	130.4	-40.2	-40.6	365.9	400.3	-8.6
US	28.1	38.7	45.5	-27.4	-38.2	174.2	177.1	-1.6
Others	682.2	776.7	717.4	-12.2	-4.9	2,596.6	2,799.6	-7.3
Total	1,651	1,618	1,530	2.1	7.9	6,273	5,813	7.9

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.