

PLANTATION

Maintain NEUTRAL

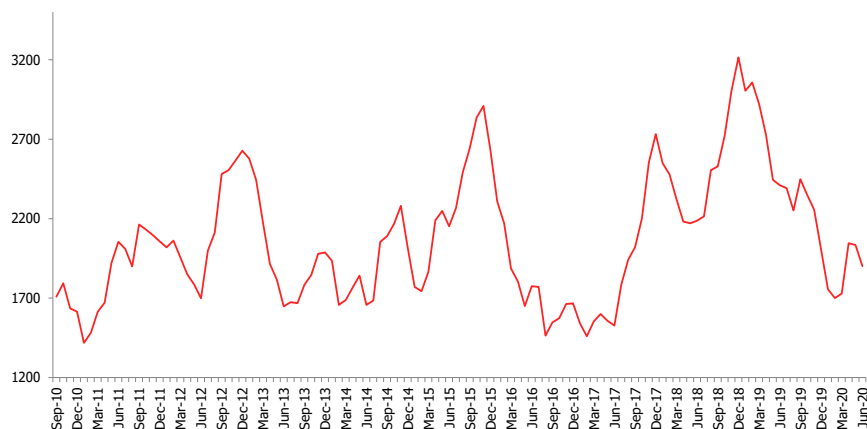
Entering into seasonally peak production period

KEY INVESTMENT HIGHLIGHTS

- June 2020 closing stock fell by -6.6%mom to 1.9m metric tonnes (mt), primarily due to higher export demand (+24.9%mom) on easing of lockdown and restocking activities by major export partners
- However, we expect inventory level to rebound above 2.0m mt in coming months with the advent of the peak production season
- Momentum in export demand is also expected to taper off given the replenishing activities have been largely done by major importers amidst the unrelenting Covid-19 pandemic globally
- Maintain NEUTRAL stance on the sector with an unchanged 2020 CPO target price of RM2,300/mt

Inventory level to trend higher in coming months. Malaysia's palm oil inventory as at June 2020 dropped by -6.6%mom to 1.9m mt, representing the third consecutive month of decline since Apr 2020. This was about -0.5% below consensus' expectations. The decline was mainly due to the higher export demand (+24.9%mom). Comparatively, production jumped at a slower pace of +14.2%mom. Moving forward, we expect stockpiles to revert above 2m mt level in anticipation of the upcoming peak production period and moderated export demand.

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



Source: Malaysia Palm Oil Board (MPOB), MIDFR

Momentum in export demand to gradually taper off. June 2020 export jumped by +24.9%mom to about 1.7m mt, mainly driven by higher demand from China (+55.6%mom), India (+347.7%mom) and Pakistan (+71.6%mom). This was the biggest monthly increase since Sep-18. We opine that this was primarily attributable to the easing of lockdown and low vegetable oil stocks in the major palm oil consuming countries as well as export duty exemption-induced demand. Note that this was slightly higher than the consensus' expectation by 0.6%. Nonetheless, we postulate that the export demand to gradually taper off given the possible slower movement in restocking activities in coming months. In addition, we also remain concerned that there could be possible headwinds such as intermittent and extended lockdowns should the spreading and new cases of COVID-19 re-emerge, especially from India where new coronavirus cases seems unabated. On a year-over-year basis, the export demand plunged by -17.0%yoy, primarily due to the fall in export demand to India (-84.6%yoy) and EU (-10.3%yoy).

COMPANY IN FOCUS

Genting Plantation Bhd

Maintain BUY | Unchanged target price: **RM12.10**

Price @ 10th July 2020: RM10.22

- Higher CPO price to uplift earnings momentum at its upstream operations
- Resilient FFB growth is expected in 2H, particularly from its Indonesian plantation
- Downstream segment to continue to support the group's earnings momentum in view of B20

Share price chart



IOI Corporation Bhd

Maintain SELL | Unchanged target price: **RM3.58**

Price @ 10th July 2020: RM4.38

- 9MFY20 earnings below expectation due to lower contribution from downstream segment
- Drastic decline in FFB yield remains concern, which would limit the potential upside from recovery in CPO price
- Current valuation close to 30x appears stretched at this juncture

Share price chart



ANALYST

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Table 1: June 2020 Export Performance ('000 MT)

Market	Jun-20	May-20	Jun-19	MoM%	YoY%	6M20	6M19	YoY%
China	351.5	225.9	107.6	55.6	226.6	1,258.5	1,007.6	24.9
India	246.0	55.0	423.6	347.7	-41.9	397.2	2,585.2	-84.6
EU	127.0	151.5	182.0	-16.2	-30.2	1,013.2	1,129.0	-10.3
Pakistan	131.6	97.1	76.7	35.5	71.6	575.5	512.8	12.2
US	46.5	43.8	52.1	6.1	-10.8	294.3	347.4	-15.3
Others	807.2	795.2	540.7	1.5	49.3	4,256.8	3,811.6	11.7
Total	1,709.8	1,368.5	1,383	24.9	23.6	7,795.5	9,393.6	-17.0

Source: MPOB, MIDFR

Entering into peak production period. June 2020 production level rose by +14.2%mom to 1.9m mt, the highest since Oct-18 which possibly act a precursor to the seasonal peak production season. This was also +5.9% higher than the Bloomberg consensus. Moving forward, we expect production to increase in the coming months as the palm oil industry is about to enter into its usual peak production period of July to October. Production could also be further boosted by more aggressive fertiliser application in 1HCY20 in view of the supportive palm oil price. Meanwhile, on a year-to-date basis, the production remained lower -7.5%yoy due to a high base effect as well as lagged effects arising from lower fertiliser application and unfavourable weather conditions in the previous corresponding period. Geographically, the lower output mainly stemmed from the lower contribution from the state of Negeri Sembilan (-19.5%ytd), Pahang (-14.4%ytd), Kelantan (-13.6%ytd), Sabah state (-11.2%ytd) and Terengganu state (-9.9%ytd).

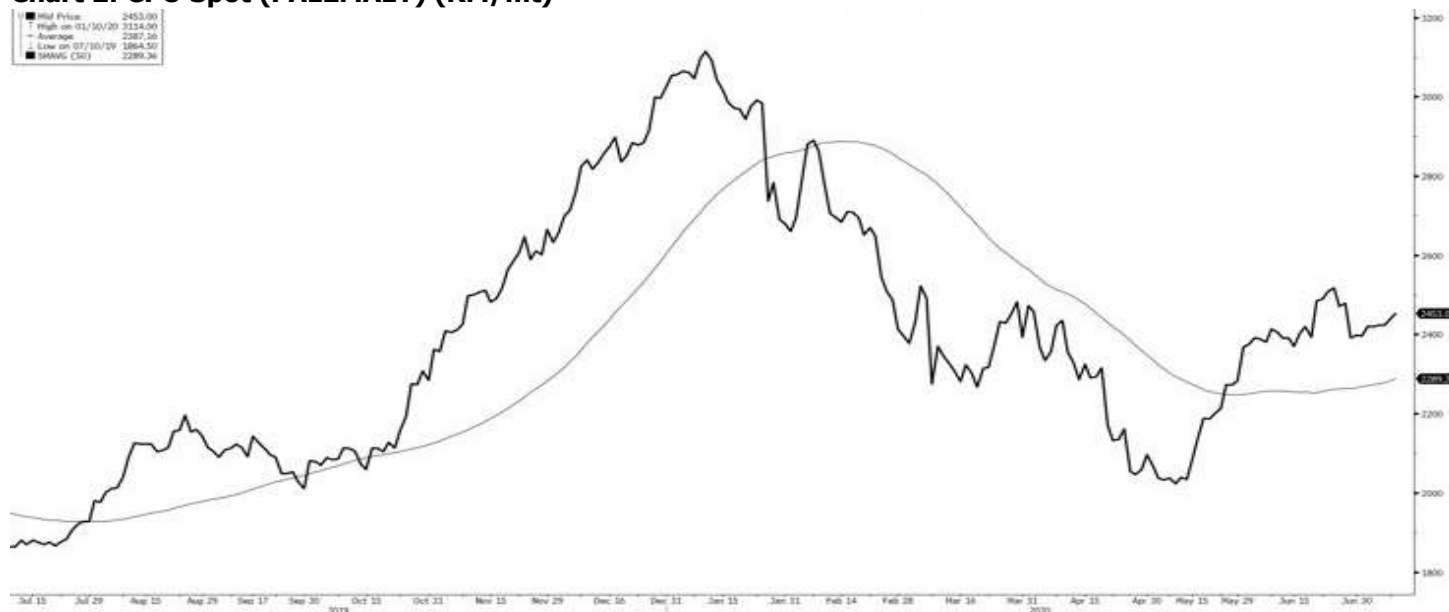
Table 2: Palm Oil Statistics for June 2020 ('000 MT)

	Jun-20	May-20	June-19	YoY %	MoM %	6M20	6M19	Ytd%
Opening Stocks	2,034.5	2,045.4	2,447.4	-16.9	-0.5	2,007.1	3,215.1	-37.6
Production	1,885.7	1,651.3	1,518.2	24.2	14.2	9,047.2	9,785.8	-7.5
Imports	48.8	37.1	101.3	-51.8	31.6	373.5	532.1	-29.8
Total Supply	3,969.1	3,733.8	4,066.9	-2.4	6.3	11,427.9	13,533.0	-15.6
Exports	1,709.8	1,368.5	1,382.8	23.6	24.9	7,795.5	9,393.6	-17.0
Dom Disapp	358.3	330.9	260.4	37.6	8.3	1,731.4	1,715.6	0.9
Total Demand	2,068.0	1,699.3	1,643.1	25.9	21.7	9,526.8	11,109.2	-14.2
End Stocks	1,901.0	2,034.5	2,423.8	-21.6	-6.6	1,901.0	2,423.8	-21.6
Stock/Usage Ratio (%)	7.7	10.0	12.3			1.7	1.8	


Source: MPOB, MIDFR

CPO price expected to trend lower. In June 2020, the average CPO spot price rose by +13.8%mom to RM2,420/mt, primarily in view of the sequential recovery in export demand from major export partners like India and China as well as the resumption of major economic activities following the easing of lockdown. On a year-over-year basis, the spot price jumped by +23.6%yoy, mainly driven by the lower stockpiles level (-21.6%yoy) and a moderated production level on an annual basis. Nonetheless, we believe that the CPO price may retrace moving forward, depending on the quantum of output level during the upcoming peak production and demand loss from the possibility of intermittent coronavirus lockdowns. Historically, we observe that there would normally be a downtrend movement in the CPO price in the third quarter of the year in-line with the seasonally peak production period. We gathered that the CPO price would normally decline by about -8.0%qoq, -2.4%qoq, -0.2%qoq, and -6.7%qoq in the third quarter of the year in 2018/17/16/15 respectively.

Chart 2: CPO Spot (PAL2MALY) (RM/mt)



Source: Bloomberg, MIDFR

Maintain NEUTRAL. We expect inventory level to revert to above the 2.0m mt level in the coming months as the industry enters into the seasonal peak production season. Meanwhile, growth momentum in export demand could also experience a slowdown due to the ongoing Covid-19 outbreak in major export markets such as India and EU as well as possibility of gradual reduction in restocking activities. While the exemption of export duty for Malaysian palm oil products could help to partially support demand momentum, we postulate that it would not be sufficient to offset the anticipated higher production growth. As a result, this will lead to a build-up in inventory level which would further weigh on the CPO price moving forward. In addition, there is also concern that the palm oil-based biofuel may lose its appeal in view of the subdued crude oil price. Taking into account all the above factors, we are maintaining our 2020 and 2021 average CPO price target of **RM2,300/mt** and **RM2,450/mt** respectively in view of the potentially higher inventory level and subdued export demand in 2HCY20. We note that should the Indonesia's stockpiles level continue to increase, the higher supply of palm oil would further put a downward pressure on the CPO price. All factors considered, we are maintaining our **NEUTRAL** stance on the sector. 

PEER COMPARISON TABLE

Stock	FYE	Rec.	Price @ 10-Jul-20	Target Price (RM)	Core EPS (sen)		CORE PE (x)		Net DPS (sen)		Net Dvd Yield (%)	
					CY20F	CY21F	CY20F	CY21F	CY20F	CY21F	CY20F	CY21F
Genting Plantation	Dec	BUY	9.90	12.10	27.7	38.8	35.7	25.5	13.0	13.0	1.3	1.3
TSH Resources	Dec	BUY	0.86	1.20	5.0	6.1	17.1	14.0	2.0	2.5	2.3	2.9
IJM Plantation	Mar	NEUTRAL	1.71	1.70	5.5	7.4	31.4	23.1	3.0	3.0	1.8	1.8
Kuala Lumpur Kepong	Sep	NEUTRAL	22.58	20.19	67.1	74.4	33.7	30.3	45.0	45.0	2.0	2.0
Sime Darby Plantation	Dec	NEUTRAL	5.03	5.19	11.3	12.8	44.5	39.3	6.4	6.7	1.3	1.3
PPB Group	Dec	NEUTRAL	17.38	17.95	61.4	70.4	28.3	24.7	23.0	26.0	1.3	1.5
Ta Ann Holdings	Dec	NEUTRAL	2.44	2.44	17.4	20.9	14.0	11.7	10.0	10.0	4.1	4.1
FGV Holdings	Dec	NEUTRAL	1.05	1.02	0.6	2.5	175.0	41.8	2.0	2.0	1.9	1.9
IOI Corporation	Jun	SELL	4.50	3.58	10.6	11.1	42.7	40.5	9.0	10.3	2.0	2.3

Source: Company, MIDFR

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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.