

12 May 2015 | Palm Statistics

Plantation sector**Maintain NEUTRAL****Robust demand from China offset by lower India
offtake****CPO price (11 May 2015) : RM2,192pmt
2015 forecast (average): RM2,400pmt****HIGHLIGHTS**

- **Crude palm oil (CPO) production in April increased by +13.3%mom and +8.8%yoy to 1.69mmt.**
- **Palm oil purchases from China almost doubled, but failed to lift total exports.**
- **Total exports in April declined -0.6%mom and -7.4%yoy to 1.18mmt.**
- **Inventory inched up +17.6% to 2.19mmt.**
- **Demand for palm oil in May seen rising, supported by the gain in soybean oil.**
- **Maintain NEUTRAL on plantation sector with average CPO price assumption of RM2,400pmt for 2015**

Review of MPOB's April 2015 Statistics

Production picked up. In line with its normal production trend, CPO production in April rose +13.3%mom and +8.8%yoy to 1.69mmt. Indeed, the 1.69mmt was a record production for the month of April. The increase was mainly contributed by the increase in CPO production in Kelantan and Terengganu, which rose +38.1%mom and +44.7%mom respectively. We believe that the favourable weather condition during March and April helped to stimulate production and expedite the harvesting process. This has contributed to higher fresh fruit bunch (FFB) yield (+7.6%yoy) in Malaysia.

Purchases from China nearly doubled... China continues to replenish its palm oil stock. In April, palm oil purchases from China increased +97.9%mom to 262,713MT. This is an important reversal as China's offtake of palm oil has been on downtrend since November 2012 (see Figure 3). The deterioration in demand for palm oil in China has been influenced by economic uncertainty as well as by tighter availability of credit financing. In China, commodities such as CPO, soybean and rubber are commonly purchased via financing.

...but failed to lift total export numbers. Despite the significant increase in palm oil purchases from China – the largest palm oil importer in 2012 and 2013, total palm oil exports in Malaysia fell by -0.6%mom and -7.4%yoy. The rise in the China's offtake was offset by the decline in palm oil purchases from India. In April, palm oil exports to India fell -70.6%mom and -45.7%yoy to only 87,391MT. This is the lowest export level to India since March 2013. Other than India, demand for palm oil from other major buyers, i.e – the EU countries, Pakistan and the United State in April improved sequentially.

Inventory rose to 2.19mmt. The imbalance between CPO production and demand has resulted in palm oil inventory rising +17.6%mom to 2.19mmt in April. The increase in palm oil supply, together with unexciting external demand increased the stock-to-usage ratio (SUR) from 11.0% in March 2015 to 12.8% in April 2015, the highest point since February 2013.

Industry Outlook

More upside potential foreseen in the near term. Year-to-date, CPO price has traded within the range of RM2,200-2,400pmt. Yesterday, despite the not-so-favourable statistics – softer exports and higher palm oil inventory, CPO price for June delivery closed higher at RM2,192pmt. The improvement in CPO price is expected to continue in the next couple of weeks. This will be underpinned by (i) expectation of better export numbers in May and (ii) wider price gap between CPO and soybean oil, which in turn will help to stimulate demand for CPO.

Exports expected to improve in May. Based on historical data, CPO exports from Malaysia typically will increase by about 4-5%mom in May. The preliminary exports numbers by Intertek, an independent cargo surveyor also supports this expectation. For the first ten (10) days of May, palm oil exports from Malaysia increased +41%mom to 458,677MT. The favourable demand pattern is expected to continue as the no CPO export tax will be charged in May and this will help to draw more interest for Malaysia's palm oil.

Improvement in soybean prices widening the price gap. Additionally, the widening price gap between CPO and its close substitute, soybean oil is expected to boost palm oil demand. Yesterday, CPO was traded lower by USD122pmt over soybean oil. This is +58% higher compared to the average discount between January 2014 to-date of USD77pmt (see Figure 4).

Production continue to pick up. The expectation of an upward trajectory in CPO price in the next couple of week however might be limited by the increase in CPO production. In May, CPO production generally will increase by about 8%mom.

Sector Recommendation


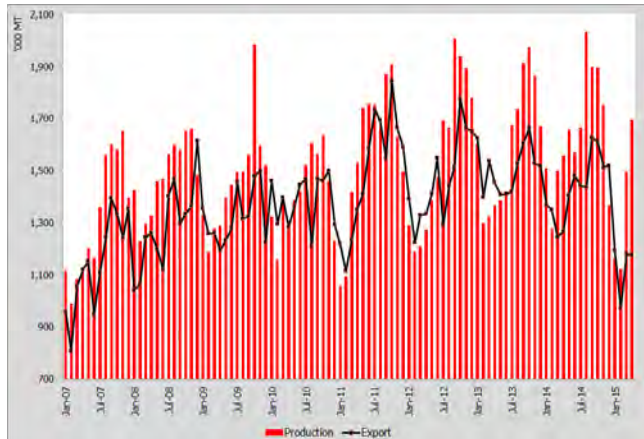
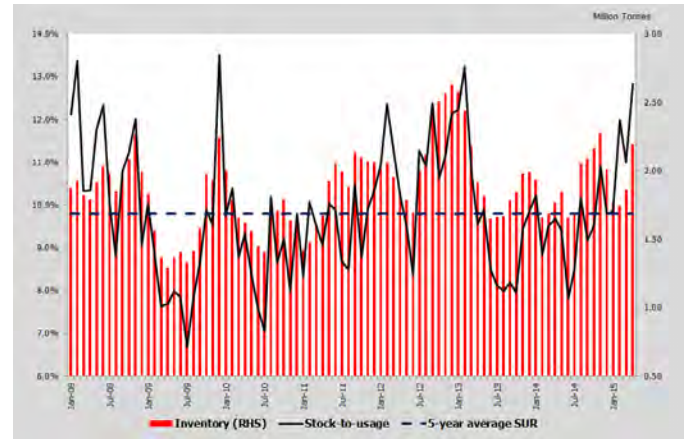
Maintain NEUTRAL. Given this situation, we are expecting CPO price to be traded within the current range bound of RM2,000 to 2,400pmt. We reiterating our NEUTRAL view on plantation sector with average CPO price assumption of RM2,400pmt for 2015. 

Figure 1: Monthly CPO production and export



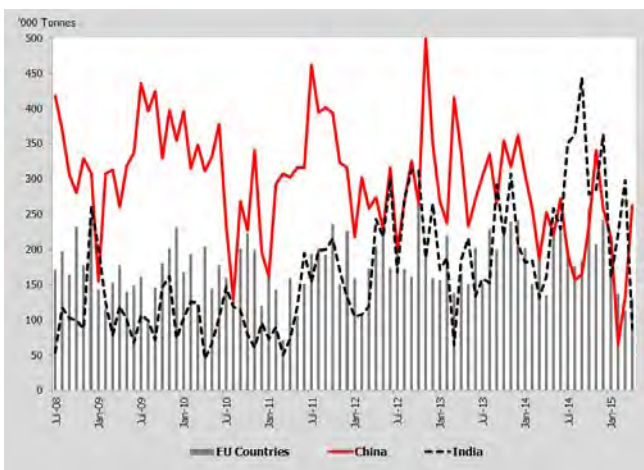
Source: MPOB, MIDFR

Figure 2: Palm oil inventory



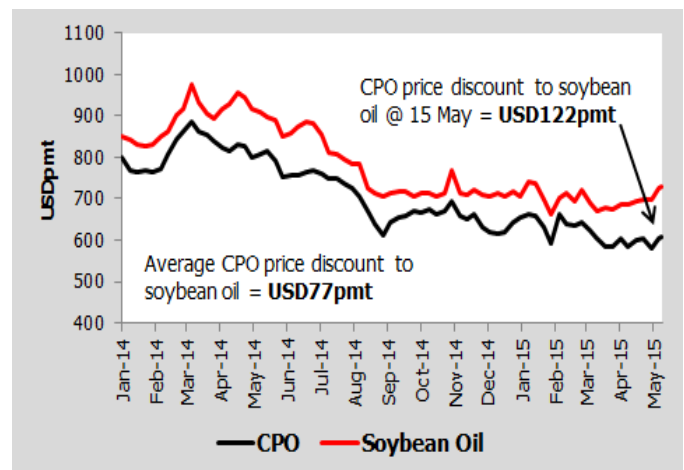
Source: MPOB, MIDFR

Figure 3: Palm oil exports to China, India & EU



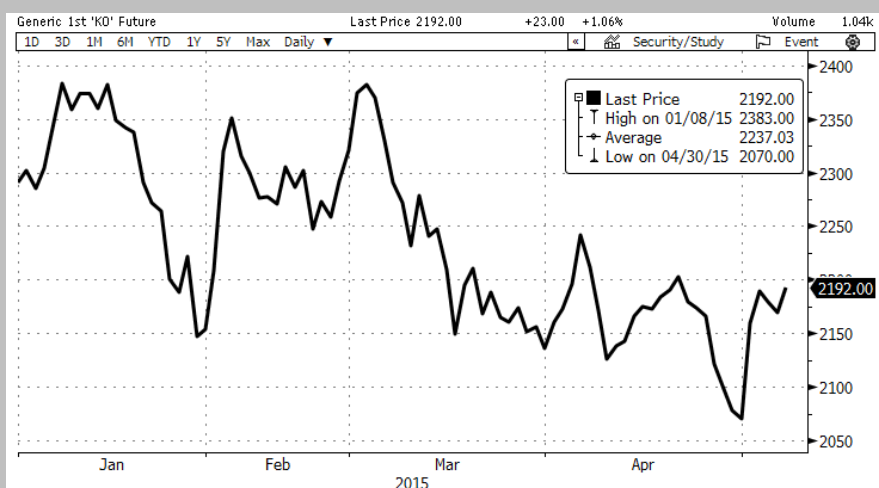
Source: MPOB, MIDFR

Figure 4: Palm oil discount to soy (USDpmt)



Source: MPOB, MIDFR

Daily CPO Price Chart



Source: Bloomberg

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MPOB Palm Oil Statistics (Tonnes)

	Apr-14	2015				2014	2015	
		Mar-15	Apr-15	m-o-m	y-o-y	Jan - Apr	Jan - Apr	y-o-y
Opening Stock	1,688,073	1,743,311	1,865,927					
Production	1,555,777	1,495,151	1,693,439	13.3%	8.8%	5,837,711	5,470,905	-6.3%
Imports	43,059	41,574	60,218	44.8%	39.8%	82,240	255,215	210.3%
Exports	1,268,647	1,182,169	1,175,228	-0.6%	-7.4%	5,233,701	4,521,302	-13.6%
Consumption	252,095	231,940	250,158	7.9%	-0.8%	907,194	1,026,409	13.1%
Closing Stock	1,766,167	1,865,927	2,194,198	17.6%	24.2%	1,865,927	2,194,198	17.6%

Major Palm Oil Exports Destinations (Tonnes)

	Apr-14	2015				2014	2015	
		Mar-15	Apr-15	m-o-m	y-o-y	Jan - Apr	Jan - Apr	y-o-y
China	252,536	132,722	262,713	97.9%	4.0%	1,001,306	676,453	-32.4%
EU Countries	134,222	112,938	130,520	15.6%	-2.8%	694,542	552,237	-20.5%
Pakistan	66,275	60,387	64,562	6.9%	-2.6%	277,289	213,767	-22.9%
India	161,001	297,549	87,391	-70.6%	-45.7%	659,097	767,272	16.4%
USA	55,584	49,213	77,324	57.1%	39.1%	267,102	243,481	-8.8%
Bangladesh	17,430	23,886	18,697	-21.7%	7.3%	117,874	82,798	-29.8%

CPO Output by Region (mt)

	Apr-14	2015				2014	2015	
		Mar-15	Apr-15	m-o-m	y-o-y	Jan - Apr	Jan - Apr	y-o-y
Peninsular Malaysia	798,500	842,832	933,085	10.7%	16.9%	2,995,736	2,932,704	-2.1%
Sabah	494,911	405,830	475,838	17.3%	-3.9%	1,867,139	1,608,797	-13.8%
Sarawak	262,366	246,489	284,516	15.4%	8.4%	974,836	929,404	-4.7%
Total	1,555,777	1,495,151	1,693,439	13.3%	8.8%	5,837,711	5,470,905	-6.3%

Source: MPOB

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BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.