

13 January 2015 | Palm Statistics

## Plantation sector

**Maintain NEUTRAL**

**Steepest decline in CPO production since 2006**

CPO price (12 Jan 2015) : RM2,374pmt  
2015 average CPO price forecast: RM2,650pmt

### HIGHLIGHTS

- Crude palm oil (CPO) production in December fell by -22.0%mom, the steepest monthly decline since 2006
- The significant drop in CPO production has dragged the palm oil inventory in December lower by -11.5% to 2.01mmt
- This could provide support to the recovery in CPO prices
- Additionally, palm oil export volume also rebounded in December, partly due to higher demand from European countries and India
- Demand is expected to continue to improve marginally in 1Q15 as consumption of palm oil is expected to increase due to the upcoming Chinese New Year celebration
- However, there is no strong re-rating catalyst yet to support the rally of CPO prices this year. Thus, we reiterate our NEUTRAL stance on plantation sector

### MPOB's December Statistics Review

**Flood damage exacerbates the low production cycle...** CPO production in December declined by -22.0%mom and -18.2%yoy to 1.36mmt. This is within the consensus expectations of 1.4mmt as heavy rainfalls and flood in some of the key producing states had caused interruption in the harvesting process. Moreover, the higher-than-normal rainfall towards the end of 2014 over Peninsular Malaysia in particular, has had adverse effects on the oil extraction rate (OER). In December, the OER in Peninsular Malaysia dropped by -0.32ppt month-over-month from 20.46% to 20.14%. We estimate that a one percentage point drop in OER will translate into a 68,000MT decline in CPO production.

**...and brought inventory to 2.0mmt.** The decline in CPO production in December 2014 helped to ease jitters over rising inventory due to slower export growth in the past few months. Inventory in December 2014 dropped by -11.5% to 2.01mmt, about the similar level in December 2013 of 1.98mmt.

**Exports improved marginally.** Apart from lower CPO production, the marginal increase in export volume also helped to reduce palm oil inventory. In December, palm oil export increased by 0.4%mom, supported by higher demand from the European countries (+16.7%mom, +0.5%yoy) and India (+27.5%mom, +76.2%yoy). Demand from China in December however weakened by -24.4%mom and -28.9%yoy to 257,378MT.

Cumulatively, total palm oil export in 2014 dropped by -4.6% from 18.1mmt in 2013 to 17.3mmt. The weak export numbers in 2014 was caused by lower purchases mainly from China (-23.3%), the United States (-27.3%) and Pakistan (-43.2%). We also believe that the weaker palm oil export was attributable to lower crude oil prices which subsequently affected the demand for palm oil derivative in the non-food sector, especially in the production of soap and detergents, pharmaceuticals, cosmetics and oleo chemicals products.

## Industry Outlook

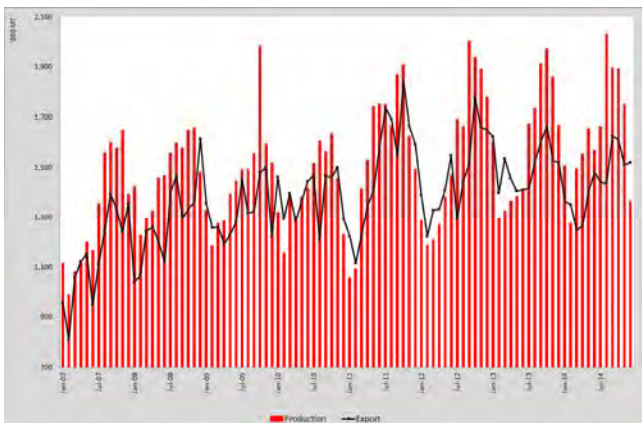
As heavy rainfalls are expected to continue in January 2015, we do not expect CPO production in January to recover significantly. The expectation of lower CPO supply in 1Q15 will provide some support to the recovery in CPO prices in the next 2-3 months. Additionally, the weakening Ringgit over the US Dollar will also help to stimulate demand and firm up CPO prices. Since mid-December 2014 to January 12, 2015, CPO prices have rallied from RM2,100pmt to RM2,300pmt.

## Sector Recommendation

**Maintain NEUTRAL.** We believe that the impact of heavy rainfalls and flood to the palm oil industry will be short-lived. We also believe that this occurrence will not severely affect the Fresh Fruit Bunch (FFB) yield unlike in the event of hot and dry weather condition. Flood will only disrupt the harvesting and the evacuation process of FFB to the mill. As the water subsides, production is expected to normalise. For 2015, we do not foresee any strong re-rating catalyst to lift CPO prices up higher. Hence, we reiterate our **NEUTRAL** stance on the sector with unchanged average CPO price assumption of RM2,650pmt for 2015.

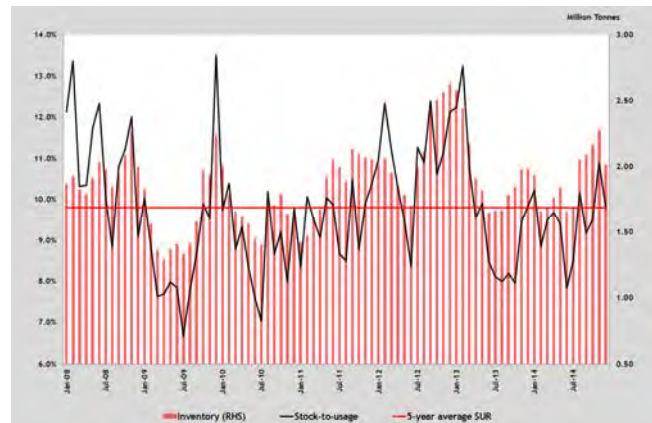


Figure 1: Monthly CPO production and export



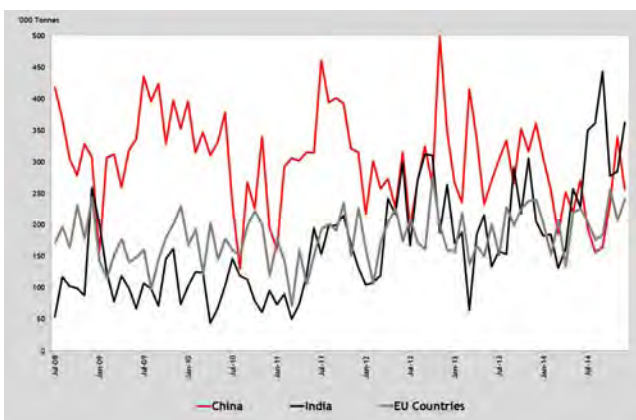
Source: MPOB, MIDFR

Figure 2: Palm oil inventory



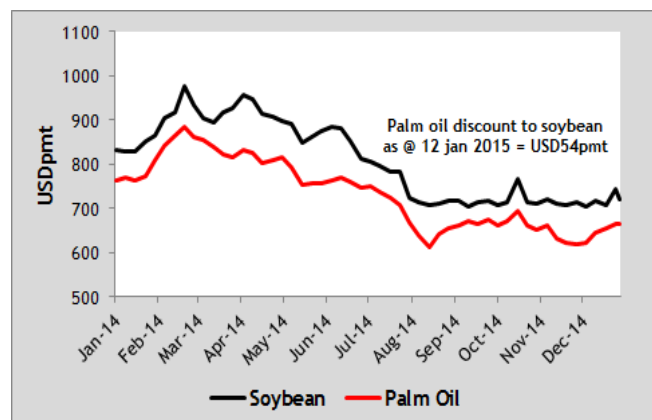
Source: MPOB, MIDFR

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



Source: MPOB, MIDFR

Figure 4: Price spread between CPO and soybean



Source: MPOB, MIDFR

## MPOB Palm Oil Statistics (Tonnes)

	Dec-13	2014				2013	2014	
		Nov-14	Dec-14	m-o-m	y-o-y	Jan - Dec	Jan - Dec	y-o-y
Opening Stock	1,977,895	2,166,525	2,276,177					
Production	1,668,668	1,750,567	1,364,797	-22.0%	-18.2%	19,216,459	19,666,990	2.3%
Imports	24,574	98,940	90,353	-8.7%	267.7%	555,776	485,567	-12.6%
Exports	1,519,765	1,513,103	1,519,549	0.4%	0.0%	18,099,306	17,275,646	-4.6%
Consumption	164,261	226,752	198,452	-12.5%	20.8%	2,313,237	2,850,696	23.2%
Closing Stock	1,987,111	2,276,177	2,013,326	-11.5%	1.3%	2,276,177	2,013,326	-11.5%

Source: MPOB

## Major Palm Oil Exports Destinations (Tonnes)

	Dec-13	2014				2013	2014	
		Nov-14	Dec-14	m-o-m	y-o-y	Jan - Dec	Jan - Dec	y-o-y
China	361,793	340,623	257,378	-24.4%	-28.9%	3,699,575	2,839,284	-23.3%
EU Countries	240,561	207,136	241,720	16.7%	0.5%	2,316,327	2,410,826	4.1%
Pakistan	66,427	50,014	64,366	28.7%	-3.1%	1,428,877	812,191	-43.2%
India	206,304	285,170	363,575	27.5%	76.2%	2,292,507	3,229,966	40.9%
USA	79,634	42,819	76,439	78.5%	-4.0%	1,076,814	783,105	-27.3%
Bangladesh	17,294	924	40,317	4263.3%	133.1%	442,055	321,706	-27.2%

Source: MPOB

## CPO Output by Region (mt)

	Dec-13	2014				2013	2014	
		Nov-14	Dec-14	m-o-m	y-o-y	Jan - Dec	Jan - Dec	y-o-y
Peninsular Malaysia	839,020	871,042	608,613	-30.1%	-27.5%	10,328,025	10,172,089	-1.5%
Sabah	549,590	569,465	489,781	-14.0%	-10.9%	5,776,459	6,055,558	4.8%
Sarawak	280,058	310,060	266,403	-14.1%	-4.9%	3,111,975	3,439,343	10.5%
Total	1,668,668	1,750,567	1,364,797	-22.0%	-18.2%	19,216,459	19,666,990	2.3%

Source: MPOB

## Daily CPO Price Chart



Source: Bloomberg

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#### STOCK RECOMMENDATIONS

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.