

11 March 2015 | Palm Statistics

Plantation sector

Maintain NEUTRAL

Exports slumped to seven-year low

CPO price (10 March 2015) : RM2,232pmt
Revised 2015 average CPO price forecast: RM2,400pmt

HIGHLIGHTS

- Crude palm oil (CPO) production in February dropped by -3.4%mom and -12.5%yoy to 1.12mmt
- Total palm oil exports in February was only 971,640 MT, the lowest monthly figure since June 2007
- Export numbers were dragged down by lower demand from China and the EU which are the major buyers of Malaysian palm oil
- Demand is expected to recover moderately in the next couple of months
- However, due the challenging commodity environment, the momentum for CPO price recovery seems to be limited
- Thus, we reiterate our NEUTRAL stance on plantation sector with a lower 2015 average CPO price assumption of RM2,400pmt

MPOB's February 2015 Statistics Review

Low cycle season persists. CPO production in February 2015 continued to decline on a monthly sequential basis by -3.4% to 1.12mmt from 1.16mmt in January 2015. This is within our expectation as the low cycle season generally starts from November till February. On a year-over-year basis, CPO production in February was -12.5% lower compared to that of February 2014. This is the lowest production level since January 2011.

Lower production from East Malaysia. We believe that the lower-than-expected production in February was partly due to the exceptionally heavy rains in East Malaysia during the early months of 2015. In February 2015, CPO production in Sabah and Sarawak dropped by -21.5%yoy and -10.5%yoy respectively. Meanwhile, CPO production declined by only -6.5%yoy in Peninsular Malaysia. For the past five years, Sabah and Sarawak have, on average, contributed approximately 46% to the total palm oil output in Malaysia.

Exports weakened further. On the demand side, palm oil exports in February fell significantly by -18.4%mom and -28.1%yoy to only 971.64kmt - the weakest level since June 2007. The decline in exports was mainly due to lower offtake from China (-70.1%mom and -74.8%yoy) and the European countries (-20.8%mom and -10.1%yoy). We believe that the demand from these countries was affected by (i) winter season in China which shifted the usage from palm oil to other edible oils; (ii) tighter credit condition in China; and (iii) stiff competition in the energy market which discouraged the production of biodiesel due to low crude oil prices.

Inventory remained low. Despite the unexciting demand from the major buyers, palm oil inventory in Malaysia remained low at 1.74mmt. The low inventory level could lend support to CPO prices in the near term.

Industry Outlook

CPO price to firm up moderately. As the low cycle season ends, we expect CPO production in March 2015 to rebound by at least +10%mom from February 2015. We also expect China to replenish their palm oil stocks in the coming months. Additionally, we anticipate strong buying interest from India, taking advantage of the low CPO prices and the devaluation of Ringgit against USD. With the expectation of better export numbers, we are expecting CPO prices to firm up moderately in the next couple of months.

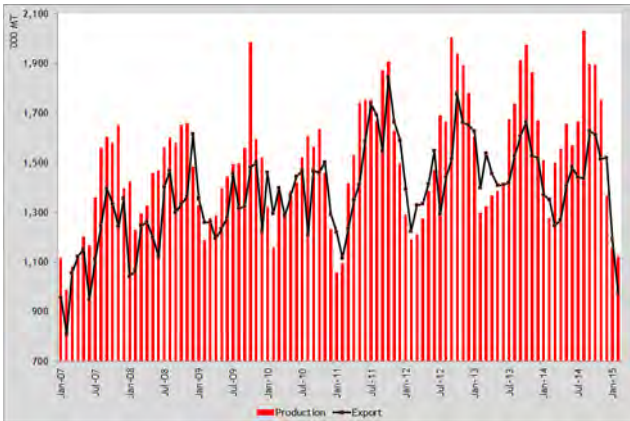
Limited growth due to challenging market condition. However, as the market for palm oil seems to be challenging this year due to (i) stiff competition in the energy market from low crude oil prices; and (ii) uncertain market condition in China, we are of the opinion that our average CPO price assumption of RM2,650pmt for 2015 is no longer achievable. Hence, we are revising downward our average CPO price assumption for this year to **RM2,400pmt**. Year-to-date, CPO price has averaged approximately RM2,300pmt, -16.7% lower compared to average CPO price in the same corresponding period of last year. As a caveat, our price forecast does not include the possibility of an El-Nino occurrence. According to the Climate Prediction Center of the National Oceanic and Atmospheric Administration (NOAA), there is only circa 50-60% chance that El-Nino condition will continue through the Northern Hemisphere summer 2015 (June to early September).

Sector Recommendation

Maintain NEUTRAL. Against this backdrop, we reiterate our **NEUTRAL** view on plantation sector with our new average CPO price assumption of RM2,400pmt for 2015 and RM2,600pmt for 2016. Pursuant to this revision, we will be adjusting our earnings forecasts for plantation companies under our coverage accordingly. We will be issuing separate reports on each plantation companies under our coverage as to highlight the changes in earnings and recommendations (if any).

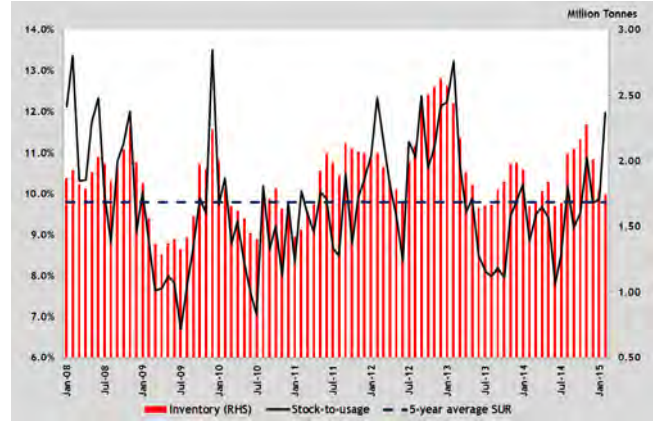


Figure 1: Monthly CPO production and export



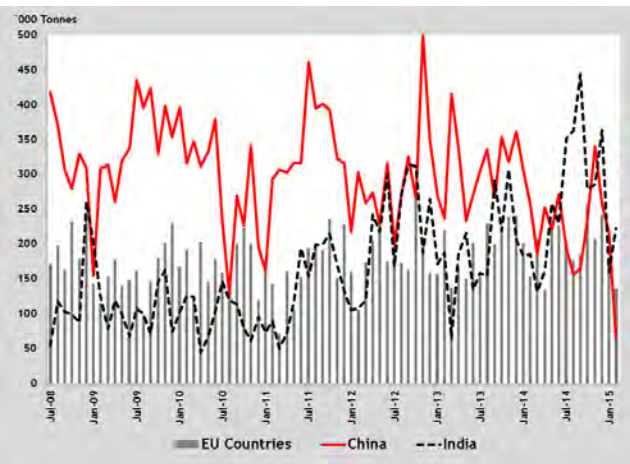
Source: MPOB, MIDFR

Figure 2: Palm oil inventory



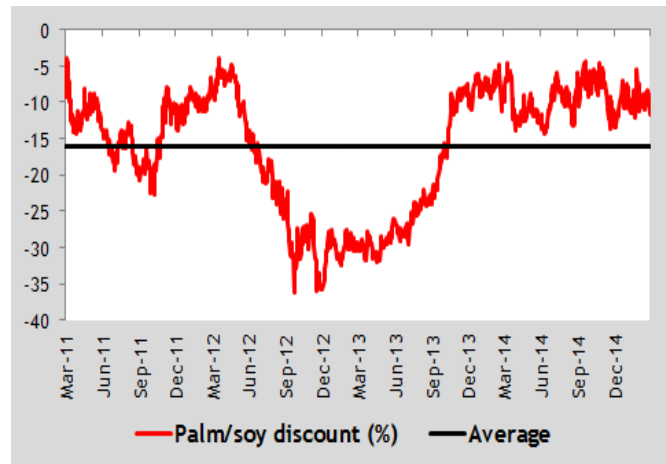
Source: MPOB, MIDFR

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



Source: MPOB, MIDFR

Figure 4: Palm oil discount to soy (%)



Source: MPOB, MIDFR

Daily CPO Price Chart



Source: Bloomberg

Nadia Kamil
nur.nadia@midf.com.my
 03-2772 1669

MPOB Palm Oil Statistics (Tonnes)

	Feb-14	2015				2014
		Jan-15	Feb-15	m-o-m	y-o-y	Jan - Feb
Opening Stock	1,935,238	2,015,789	1,770,142			
Production	1,275,812	1,160,687	1,121,628	-3.4%	-12.1%	2,784,792
Imports	8,258	89,908	63,515	-29.4%	669.1%	24,040
Exports	1,351,441	1,191,259	971,640	-18.4%	-28.1%	2,719,288
Consumption	210,959	304,983	240,543	-21.1%	14.0%	419,747
Closing Stock	1,656,908	1,770,142	1,743,102	-1.5%	5.2%	1,770,142

Source: MPOB

Major Palm Oil Exports Destinations (Tonnes)

	Feb-14	2015				2014
		Jan-15	Feb-15	m-o-m	y-o-y	Jan - Feb
China	257,428	216,253	64,765	-70.1%	-74.8%	563,323
EU Countries	151,843	172,269	136,510	-20.8%	-10.1%	353,390
Pakistan	98,883	55,513	33,305	-40.0%	-66.3%	166,973
India	185,055	160,170	222,162	38.7%	20.1%	366,976
USA	42,599	64,662	51,276	-20.7%	20.4%	137,416
Bangladesh	41,913	6,150	34,065	453.9%	-18.7%	65,912

Source: MPOB

CPO Output by Region (mt)

	Feb-14	2015				2014
		Jan-15	Feb-15	m-o-m	y-o-y	Jan - Feb
Peninsular Malaysia	647,969	551,155	605,632	9.9%	-6.5%	1,427,718
Sabah	415,250	401,299	325,830	-18.8%	-21.5%	896,591
Sarawak	212,593	208,233	190,166	-8.7%	-10.5%	460,483
Total	1,275,812	1,160,687	1,121,628	-3.4%	-12.1%	2,784,792

Source: MPOB

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

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

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.