

11 April 2014 | Palm Statistics

## Plantation sector

*Surge in output despite the dry spell*

**Maintain POSITIVE**

CPO price forecast: RM2,700pmt

### HIGHLIGHTS

- *MPOB palm oil statistics released yesterday show a strong rebound in production in March.*
- *CPO production surged to 1.49mmt in March, rising +17.3%mom and +13.0%yoy.*
- *External demand was, however, weak as total palm oil export fell -8.0%mom and -19.1%yoy to 1.24mmt.*
- *Despite higher production and weaker export, inventory in March remained low at 1.69mmt.*

### REVIEW OF MARCH STATISTICS

**Surge in CPO production.** CPO production in March came in above our expectation, rising +17.3%mom and +13.0%yoy to 1.49mmt. The commendable growth was recorded amid the current dry spell. The main contributor to the growth was the sharp increase in CPO production growth in Sarawak, where CPO production grew 30.8%yoy, the highest growth recorded in Sarawak since May 2011.

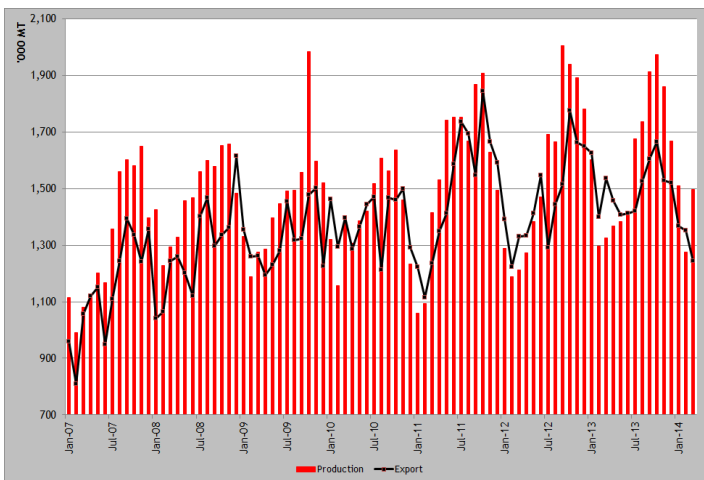
Cumulative CPO production from January to March was at 4.28mmt. This is in-line with our full year production estimate, accounting for 21.7% of our full year forecast. Due to the northeast monsoon season, CPO production in the first quarter is normally lower than the other quarters.

**Drop in exports for the fifth consecutive month.** Total exports in March declined -8.0%mom and -19.1%yoy to 1.24mmt, its lowest since February 2011. For the cumulative January to March, total export was 3.96mmt, -13.1%yoy lower. This was mainly due to lower offtake from China and the USA, which fell -18.6%yoy and -38.8%yoy respectively. However, purchases from the EU countries and India have shown some improvement. In 1Q14, palm oil export to EU countries and India increased +9.2%yoy and 16.9%yoy respectively.

Similar to production, export of palm oil also exhibits a seasonal pattern. In the past few years, export had generally been lower during November to March, but rebounded significantly in the months that followed. If the same trend were to persist, we are expecting total palm oil export to improve in April onwards.

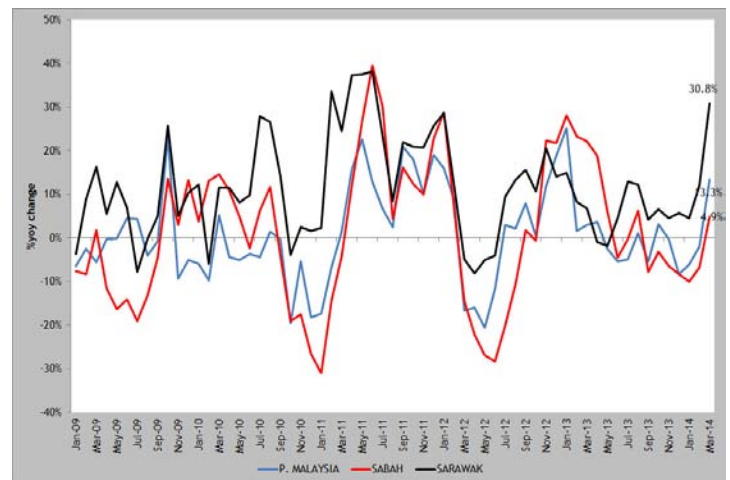
**Inventory remained at a comfortable level.** Despite sluggish export and higher CPO production, palm oil inventory in March increased by only +1.9% to 1.69mmt. At this current level, inventory is deemed supportive of price. The favorable inventory level is partly contributed by the increase in local consumption, which can be reflected by the increase in the utilization rate of FFB mills and refineries. In March, the utilization of FFB mills and refineries increased +17.8% and +11.0% respectively.

**Figure 1: Monthly CPO production and export**



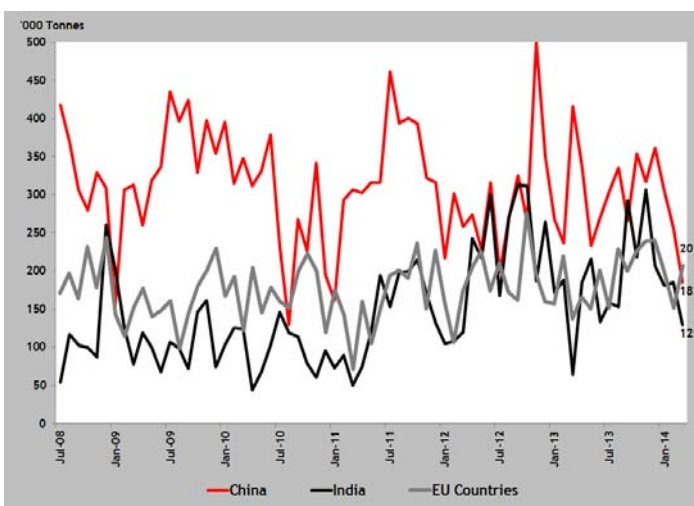
Source: MPOB, MIDFR

**Figure 2: CPO production growth (%yoy change)**



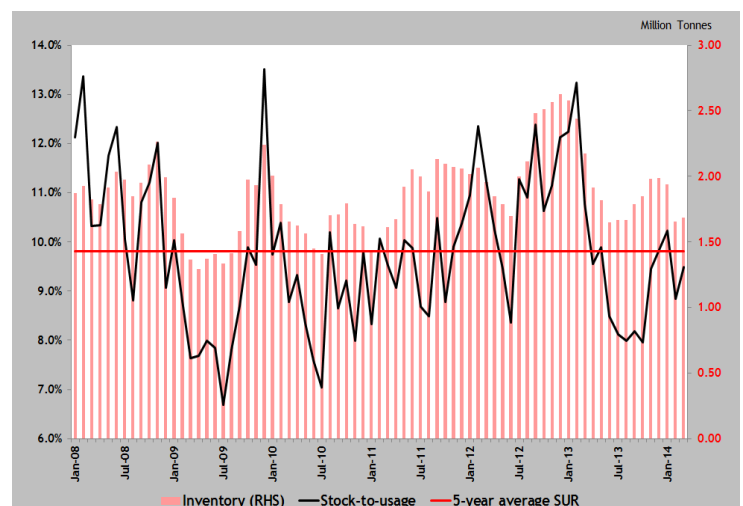
Source: MPOB, MIDFR

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



Source: MPOB, MIDFR

**Figure 4: Inventory and stock-to-use ratio (SUR)**



Source: MPOB, MIDFR

## OUTLOOK

**Wider discount palm oil to soybean help CPO price to sustain above RM2,600pmt.** According to the United States Department of Agriculture (USDA), global soybean production in April is projected to decline slightly to 284.0 million tons, down 1.4 million from last month. This was mainly due to the expectation of lower soybean production in Brazil, which is one of the major world soybean producers. USDA has forecasted Brazil's soybean production in April to be 87.5 million tons, down 1.0 million from that in March.

**Maintain POSITIVE.** The expectation of lower soybean supply has driven soybean prices higher and widened the discount of palm oil to soybean. Currently, CPO price is 13.8% lower than soybean price (the discount in value term is USD131pmt). If the discount continues to widen, this will help CPO price to sustain above the current level as buyer will prefer more palm oil due to its price attractiveness. We maintain POSITIVE on plantation sector with FY14 average CPO price of RM2,700pmt.



## MPOB Palm Oil Statistics (Tonnes)

	Mar-13	2014				2013	2014	
		Feb-14	Mar-14	m-o-m	y-o-y	Jan - Mar	Jan - Mar	y-o-y
Opening Stock	2,438,437	1,935,238	1,656,908					
Production	1,325,101	1,275,812	1,497,145	17.3%	13.0%	4,224,418	4,281,937	1.4%
Imports	90,205	8,259	15,141	83.3%	-83.2%	291,562	39,182	-86.6%
Exports	1,536,975	1,351,441	1,243,590	-8.0%	-19.1%	4,560,702	3,962,878	-13.1%
Consumption	143,484	210,960	237,895	12.8%	65.8%	409,413	657,643	60.6%
Closing Stock	2,173,284	1,656,908	1,687,709	1.9%	-22.3%	1,656,908	1,687,709	1.9%

Source: MPOB

## Major Palm Oil Exports Destinations (Tonnes)

	Mar-13	2014				2013	2014	
		Feb-14	Mar-14	m-o-m	y-o-y	Jan - Mar	Jan - Mar	y-o-y
China	415,559	257,428	185,447	-28.0%	-55.4%	919,992	748,770	-18.6%
EU Countries	137,210	151,843	206,930	36.3%	50.8%	513,063	560,320	9.2%
Pakistan	84,364	98,883	43,905	-55.6%	-48.0%	368,764	210,878	-42.8%
India	64,202	185,055	129,120	-30.2%	101.1%	423,403	495,096	16.9%
USA	84,765	42,599	74,102	74.0%	-12.6%	345,627	211,518	-38.8%
Bangladesh	56,119	41,913	34,532	-17.6%	-38.5%	159,436	100,444	-37.0%

Source: MPOB

## CPO Output by Region (mt)

	Mar-13	2014				2013	2014	
		Feb-14	Mar-14	m-o-m	y-o-y	Jan - Mar	Jan - Mar	y-o-y
Peninsular Malaysia	678,921	647,969	769,518	18.8%	13.3%	2,170,347	2,197,236	1.2%
Sabah	453,578	415,250	475,640	14.5%	4.9%	1,434,345	1,372,231	-4.3%
Sarawak	192,602	212,593	251,987	18.5%	30.8%	619,726	712,470	15.0%
Total	1,325,101	1,275,812	1,497,145	17.3%	13.0%	4,224,418	4,281,937	1.4%

Source: MPOB

## Daily CPO Price Chart



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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.