

11 December 2014 | Palm Statistics

Plantation Sector

Maintain NEUTRAL

Downward pressure on price remains as inventory rises

CPO price (10 Dec 2014) : RM2,171pmt
2015 average CPO price forecast: RM2,650pmt

HIGHLIGHTS

- Despite the decline in CPO production, palm oil inventory in November 2014 continued to increase, hitting a 21-month high of 2.3 million metric tonnes (mmt).
- The rise in inventory was also attributable to weaker external demand which had fallen by -6.1%mom and -1.0%yoy to 1.51mmt in November 2014.
- Additionally, the increase in palm oil imports had also partly resulted in palm oil inventory to end higher.
- We are maintaining our NEUTRAL stance on the local plantation sector with an average CPO price assumption of RM2,650pmt for 2015.

MPOB's November 2014 Statistical Review

November's CPO production staged a decline. CPO production in November declined -7.5%mom and -5.9%yoy to 1.75mmt. This was attributable to lower Fresh Fruit Bunch (FFB) yield from key palm oil producing states namely Johor, Pahang, Perak and Sarawak. Moreover, milling utilisation rate for November had also dropped by -6.8%mom. Despite the decline in November's production, the cumulative CPO production from January to November is still higher by +4.3%yoy. For 2014, we are expecting CPO production in Malaysia to reach approximately 19.7mmt, +2.6% higher compared to CPO production in 2013.

Exports continued to weaken. Despite higher export to China (+45.5%mom) and India (+2.5%mom), total palm oil exports in November declined by -6.1%mom and -1.0%yoy to 1.51mmt. The decline in exports was mainly attributable to lower offtake from the European countries (-19.5%mom), Pakistan (-42.0%mom) and the United States (-40.3%mom).

Cumulatively, total palm oil exports from January to November 2014 were weaker by -5.0% compared to the same corresponding period of last year. The weak export numbers this year was caused by lower purchases from China, the largest buyer of Malaysia's palm oil, due to the slowdown in its economy. Besides the slowdown in economic activity in China, we believe that weaker palm oil exports was also attributable to lower crude oil prices which had affected the production of biodiesel hence reducing the demand for palm oil as a feedstock.

Imports surged unexpectedly. Imports of palm oil in November increased for the third consecutive months to 98,940MT in November. This was the second highest level since January this year. We believe that the significant increase in palm oil imports was mainly due to the zero CPO export tax regime in Indonesia. Palm oil product prices from Indonesia are normally cheaper compared to that of Malaysia due to some cost advantages. Therefore, zero CPO export tax in Indonesia has attracted the interest of many Malaysian refiners.

Higher imports brought palm oil inventory to 2.3mmt. Higher imports coupled with weaker exports performance had pushed palm oil inventory in November higher by 5.2% to 2.3mmt, the highest since February 2013. In the next couple of months, we do not anticipate a strong

rebound in external demand. This will consequently sustain palm oil inventory in Malaysia at levels above 2.0mmt. High inventory normally creates jitters in the palm oil market and limits the upside potential of CPO prices.

Sector Recommendation


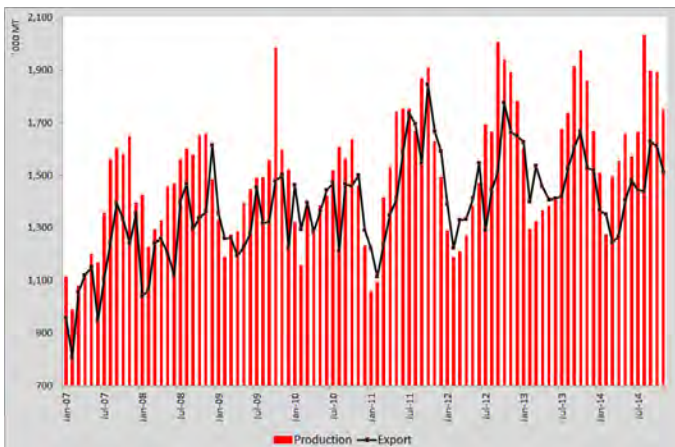
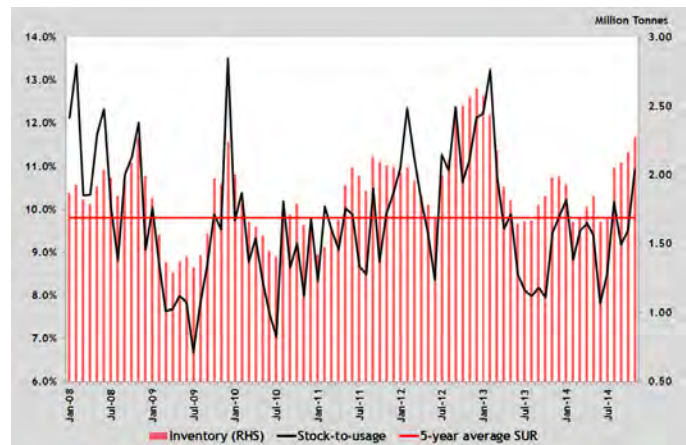
Maintain NEUTRAL. In the immediate term, we do not foresee any strong catalysts to lift sentiment and palm oil prices. We reiterate our **NEUTRAL** stance on plantation sector with an unchanged average CPO price assumption of RM2,650pmt for 2015. 

Figure 1: Monthly CPO production and export



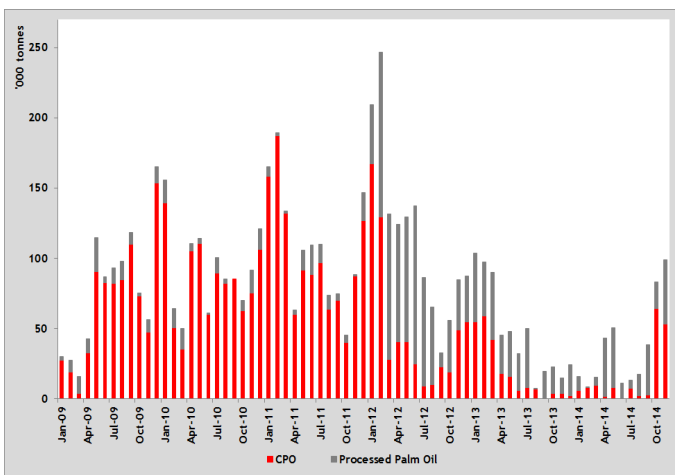
Source: MPOB, MIDFR

Figure 2: Palm oil inventory



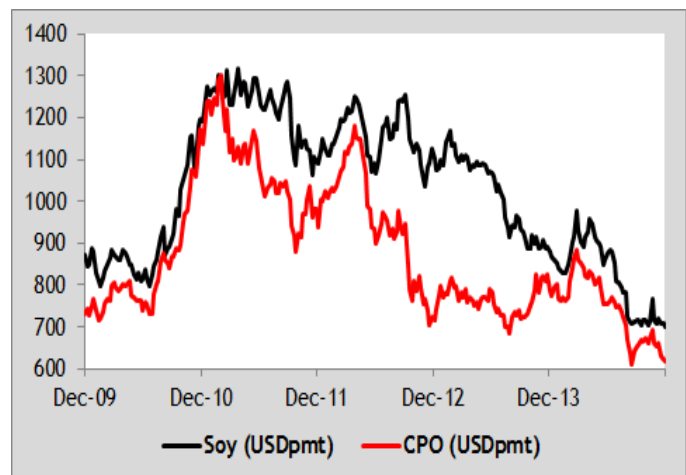
Source: MPOB, MIDFR

Figure 3: Palm oil imports



Source: MPOB, MIDFR

Figure 4: Price spread between CPO and soybean



Source: MPOB, MIDFR

MPOB Palm Oil Statistics (Tonnes)

	Nov-13	2014				2013	2014	
		Oct-14	Nov-14	m-o-m	y-o-y	Jan - Nov	Jan - Nov	y-o-y
Opening Stock	1,845,936	2,090,001	2,166,525					
Production	1,861,084	1,892,961	1,750,567	-7.5%	-5.9%	17,547,791	18,302,193	4.3%
Imports	14,859	82,971	98,940	19.2%	565.9%	531,202	395,214	-25.6%
Exports	1,528,281	1,611,459	1,512,951	-6.1%	-1.0%	16,579,541	15,755,945	-5.0%
Consumption	215,703	287,949	224,712	-22.0%	4.2%	2,148,976	2,650,204	23.3%
Closing Stock	1,977,895	2,166,525	2,278,369	5.2%	15.2%	2,166,525	2,278,369	5.2%

Major Palm Oil Exports Destinations (Tonnes)

	Nov-13	2014				2013	2014	
		Oct-14	Nov-14	m-o-m	y-o-y	Jan - Nov	Jan - Nov	y-o-y
China	317,378	234,151	340,623	45.5%	7.3%	3,337,782	2,581,882	-22.6%
EU Countries	238,750	257,296	207,136	-19.5%	-13.2%	2,075,766	2,170,606	4.6%
Pakistan	64,181	86,222	50,014	-42.0%	-22.1%	1,362,450	747,825	-45.1%
India	306,837	278,123	285,170	2.5%	-7.1%	2,086,203	2,866,391	37.4%
USA	78,462	71,724	42,819	-40.3%	-45.4%	997,180	706,666	-29.1%
Bangladesh	9,422	17,153	924	-94.6%	-90.2%	424,761	281,389	-33.8%

CPO Output by Region (mt)

	Nov-13	2014				2013	2014	
		Oct-14	Nov-14	m-o-m	y-o-y	Jan - Nov	Jan - Nov	y-o-y
Peninsular Malaysia	987,124	971,337	871,042	-10.3%	-11.8%	9,489,005	9,563,476	0.8%
Sabah	566,102	573,601	569,465	-0.7%	0.6%	5,226,869	5,565,777	6.5%
Sarawak	307,858	348,023	310,060	-10.9%	0.7%	2,831,917	3,172,940	12.0%
Total	1,861,084	1,892,961	1,750,567	-7.5%	-5.9%	17,547,791	18,302,193	4.3%

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.