

11 November 2014 | Palm statistics

Plantation sector

Low exports lift inventory level

Maintain NEUTRAL

CPO price (10 Nov 2014) : RM2,235pmt
2015 average CPO price forecast: RM2,650pmt

HIGHLIGHTS

- **Peak-harvest cycle has ended. Crude palm oil (CPO) production continued its decline, by -0.2% month-on-month in October 2014.**
- **Higher offtake from China failed to lift total palm oil exports in October 2014, leaving total export numbers slightly lower than that of last month**
- **Lacklustre exports drove up palm oil inventory by +3.7%mom to 2.17 million metric tonnes (mmt) – the highest level since March 2013**
- **No significant near term re-rating catalysts to improve sector sentiments**
- **Maintain NEUTRAL with unchanged average CPO price assumptions of RM2,650pmt for 2015**

MPOB's October 2014 Statistical Review

Production tapering-off. CPO production fell for two consecutive months after recording an all-time high production in August 2014. In October 2014, CPO production dropped -0.2%qoq and -4.0%yoy to 1.89mmt. This was mainly attributable to lower Fresh Fruit Bunches (FFB) yield in Peninsular Malaysia and Sarawak, which had dropped by -2.2%mom and -3.6%mom respectively.

Despite lower production in October 2014, the cumulative CPO production between January to October 2014 is higher compared to that in the same period of last year. As of October 2014, CPO production in Malaysia inched up by +5.5%yoy to 16.6mmt, accounting for 84% of our full year production forecast of 19.7mmt.

Deteriorating exports. On a monthly sequential basis, palm oil purchases from most of the major buyers – China, European countries, Pakistan and the United States have improved. Despite the improvement in purchases, demand from India which contributes about 18% to total exports declined significantly by -40.5%mom to 264,072MT in October 2014. This is within our expectation as India has been aggressively building-up its stockpiles for the past few months due to attractive CPO prices. Since June to September 2014, palm oil exports to India grew +94% from 229,066MT to 443,667MT. Lower purchases from India have caused a significant drag on the total palm oil exports in October 2014 to 1.61mmt from 1.63mmt in September 2014, a decline of -1.4%mom and -3.6%yoy respectively.

Year-to-date, export numbers remain weak. From January to October 2014, total palm oil exports from Malaysia fell by -5.4%yoy. The weak export numbers are due to lower demand from China, the largest buyer of Malaysian palm oil. Cumulative exports to China during the January to October period fell -26%yoy.

Inventory increased +3.7%. Due to weaker external demand, palm oil inventory climbed +3.7% to 2.17mmt in October 2014. However, we believe that the rise in palm oil inventory moving forward will be capped as: (i.) CPO production is expected to enter the low cycle

season; (ii.) further extension of CPO duty-free status up to December 2014 and; (iii.) the implementation of biodiesel, B7 programme.

Uninspiring short term-outlook. In the next three-to-six months, we do not anticipate a strong rebound in external demand. Since China and India are approaching winter season, we expect demand from these two countries to decline. During the cold temperature, palm oil tends to solidify which will consequently reduce the usage of palm oil.

Sector Recommendation

Maintain NEUTRAL. Since we do not foresee any strong catalyst to lift the plantation sector in the near term, we reiterate our **NEUTRAL** view on this sector with unchanged average CPO price assumptions of RM2,650pmt for 2015.



MPOB Palm Oil Statistics (Tonnes)

	Oct-13	2014				2013	2014	
		Sep-14	Oct-14	m-o-m	y-o-y		Jan - Oct	Jan - Oct
Opening Stock	1,784,397	2,053,175	2,090,001					
Production	1,972,278	1,896,898	1,892,996	-0.2%	-4.0%	15,686,707	16,551,661	5.5%
Imports	22,503	38,491	82,971	115.6%	268.7%	516,343	296,274	-42.6%
Exports	1,664,743	1,628,103	1,605,401	-1.4%	-3.6%	15,051,260	14,236,936	-5.4%
Consumption	268,499	270,460	294,114	8.7%	9.5%	1,933,273	2,431,657	25.8%
Closing Stock	1,845,936	2,090,001	2,166,453	3.7%	17.4%	2,090,001	2,166,453	3.7%

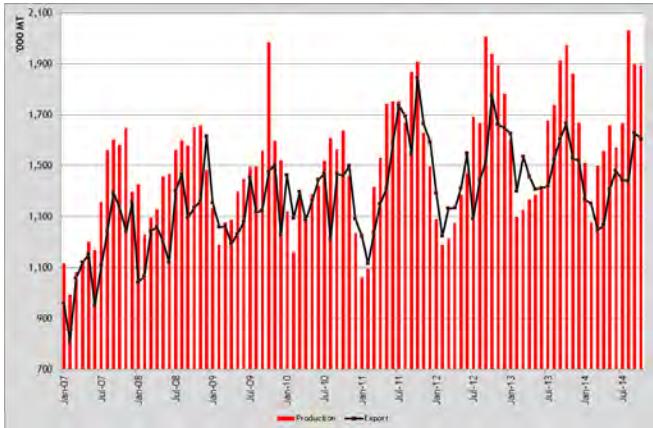
Source: MPOB

Major Palm Oil Exports Destinations (Tonnes)

	Oct-13	2014				2013	2014	
		Sep-14	Oct-14	m-o-m	y-o-y		Jan - Oct	Jan - Oct
China	353,875	164,105	240,151	46.3%	-32.1%	3,020,404	2,247,259	-25.6%
EU Countries	226,069	185,484	257,296	38.7%	13.8%	1,837,016	1,963,470	6.9%
Pakistan	197,119	47,556	86,222	81.3%	-56.3%	1,298,269	697,811	-46.3%
India	218,301	443,667	264,072	-40.5%	21.0%	1,779,366	2,567,170	44.3%
USA	84,938	48,940	71,724	46.6%	-15.6%	918,718	663,847	-27.7%
Bangladesh	55,519	37,634	17,153	-54.4%	-69.1%	415,339	280,465	-32.5%

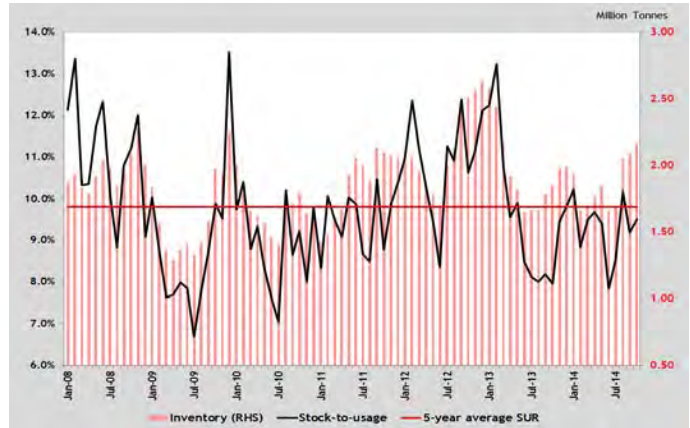
Source: MPOB

Figure 1: Monthly CPO production and export



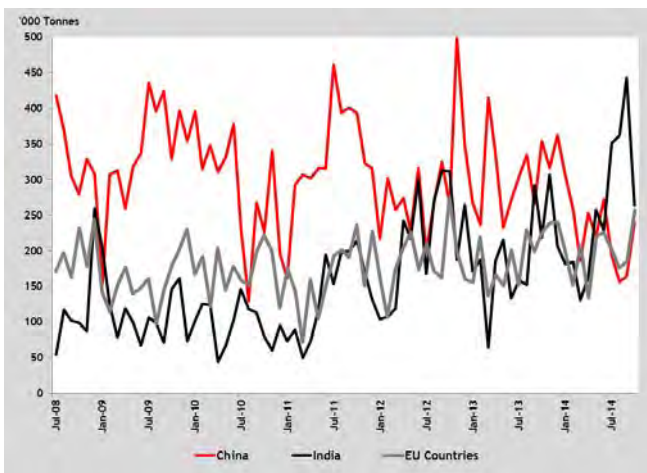
Source: MPOB, MIDFR

Figure 2: Palm oil inventory



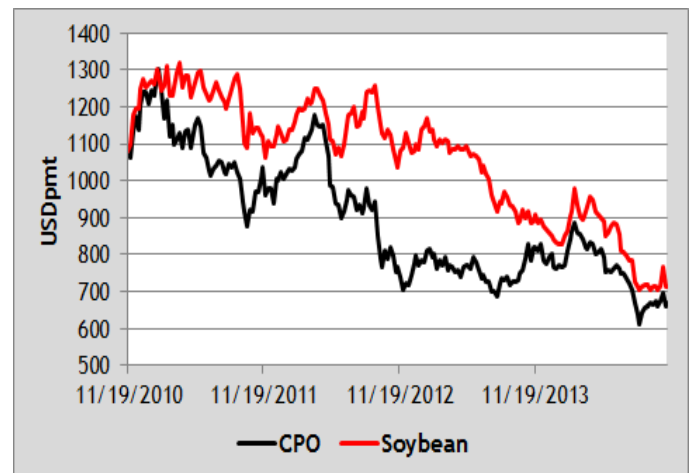
Source: MPOB, MIDFR

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



Source: MPOB, MIDFR

Figure 4: Price spread between CPO and soybean



Source: MPOB, MIDFR

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.