

# PLANTATION

**Maintain NEUTRAL**

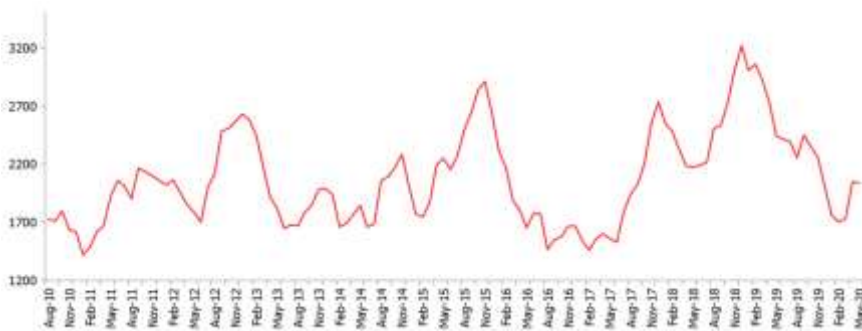
## Production to trend higher in the coming months

### KEY INVESTMENT HIGHLIGHTS

- May 2020 closing stock fell marginally by -0.5%mom to 2.0m metric tonnes (mt), primarily due to higher export demand (+10.7%mom) and lower output level (-0.1%mom)
- Unrelenting Covid-19 pandemic is expected to suppressed demand of palm oil, especially in India
- The anticipated increase in production during upcoming peak season and moderated CPO export demand in 2HCY20 to be a bane to the CPO price
- Maintain NEUTRAL stance on the sector with an adjusted 2020 CPO target price of RM2,300/mt

**Inventory level stagnated at about 2.0m mt.** Malaysia's palm oil inventory as at May 2020 posted a marginal decline of -0.5%mom to 2.0m mt, reversing the three consecutive months of increase in stockpiles since February 2019. This also came in about -8.4% below consensus' expectations. We posit that this was predominantly premised on the lower output level (-1.2%mom) and higher export demand (+10.7%mom). However, on a year-over-year basis, the stockpiles still plunged by -16.9%yoy which was mainly attributable to the lower opening stock of 2.0m mt (-25.1%yoy). In the intermediate term, we expect inventory level to stay above the 2m level in view of the upcoming peak production period. Albeit with easing of lockdown by palm oil consuming countries such as EU and India, we expect that the ongoing Covid-19 pandemic to continue to dampen export demand.

**Chart 1: Malaysia Palm Oil Inventory ('000 MT)**



Source: Malaysia Palm Oil Board (MPOB), MIDFR

**Future demand to face headwinds.** May 2020 export posted an increase of +10.7%mom to about 1.3m mt, mainly driven by higher demand from China (+13.3%mom) and India (+217.1%mom). We opine that this was primarily attributable to the easing of lockdown and low vegetable oil stocks in the major palm oil consuming countries. Note that this was slightly higher than the consensus' expectation by 2.1%. While we applaud the Malaysian government's move to exempt palm oil products from export duty from July to December 2020 in order to spur demand, we remain concerned that there could be possible headwinds such as intermittent and extended lockdowns should the spreading and new cases of COVID-19 re-emerge, especially from India where new coronavirus cases seems unabated. On a year-over-year basis, the export demand plunged by -20.1%yoy, primarily due to the fall in export demand to India (-89.6%yoy) and EU (24.5%yoy).

### COMPANY IN FOCUS

#### Genting Plantation Bhd

**Maintain BUY** | Unchanged target price: **RM12.10**

Price @ 10<sup>th</sup> June 2020: RM10.22

- Higher CPO price to uplift earnings momentum at its upstream operations
- Resilient FFB growth is expected in 2H, particularly from its Indonesian plantation
- Downstream segment to continue to support the group's earnings momentum in view of B20

#### Share price chart



#### IOI Corporation Bhd

**Maintain SELL** | Unchanged target price: **RM3.58**

Price @ 10<sup>th</sup> June 2020: RM4.38

- 9MFY20 earnings below expectation due to lower contribution from downstream segment
- Drastic decline in FFB yield remains concern, which would limit the potential upside from recovery in CPO price
- Current valuation close to 30x appears stretched at this juncture

#### Share price chart



**ANALYST**

**Martin** Foo Chuan Loong

[martin.foo@midf.com.my](mailto:martin.foo@midf.com.my)

03 -2173 8354

**Table 1: May 2020 Export Performance ('000 MT)**

Market	May-20	Apr-20	May-19	MoM%	YoY%	5M20	5M19	YoY%
China	225.9	199.5	127.1	13.3	77.7	907.0	899.4	0.8
India	55.0	17.3	528.6	217.1	-89.6	151.1	2,161.6	-93.0
EU	151.5	209.8	200.8	-27.8	-24.5	886.2	936.1	-5.3
Pakistan	97.1	62.0	69.7	56.6	39.3	443.9	435.6	1.9
US	43.8	41.7	121.1	5.1	-63.8	257.8	295.3	-12.7
Others	795.2	706.2	664.7	12.6	19.6	3,439.4	3,261.6	5.5
<b>Total</b>	<b>1,368.5</b>	<b>1,236.4</b>	<b>1,712</b>	<b>10.7</b>	<b>-20.1</b>	<b>6,085.5</b>	<b>7,990.0</b>	<b>-23.8</b>

Source: MPOB, MIDFR

**Expecting higher output in coming months.** May 2020 production level remained resilient at 1.6m mt (-0.1%mom), reversing the first four months of increase since January 2020. This was -2.3% lower than the Bloomberg consensus. Initially, production was expected to be higher in view of travel restriction imposed during the MCO which has also affected the palm oil workers. Historically, the palm oil production would normally dip during the festive month. Moving forward, we expect production to increase in the coming months as the palm oil industry is about to enter into its usual peak production period of July to October. Production could also be further boosted by more aggressive fertiliser application in 1QCY20. Meanwhile, on a year-to-date basis, the production decreased by -13.5%yoy due to a high base effect as well as lagged effects arising from lower fertiliser application and unfavourable weather conditions in the previous corresponding period. Geographically, the lower output mainly stemmed from the lower contribution from the state of Negri Sembilan (-26.3%ytd), Pahang (-22.8%ytd), Kelantan (-22.4%ytd), Sabah state (-16.9%ytd) and Terengganu state (-16.9%ytd).

**Table 2: Palm Oil Statistics for May 2020 ('000 MT)**

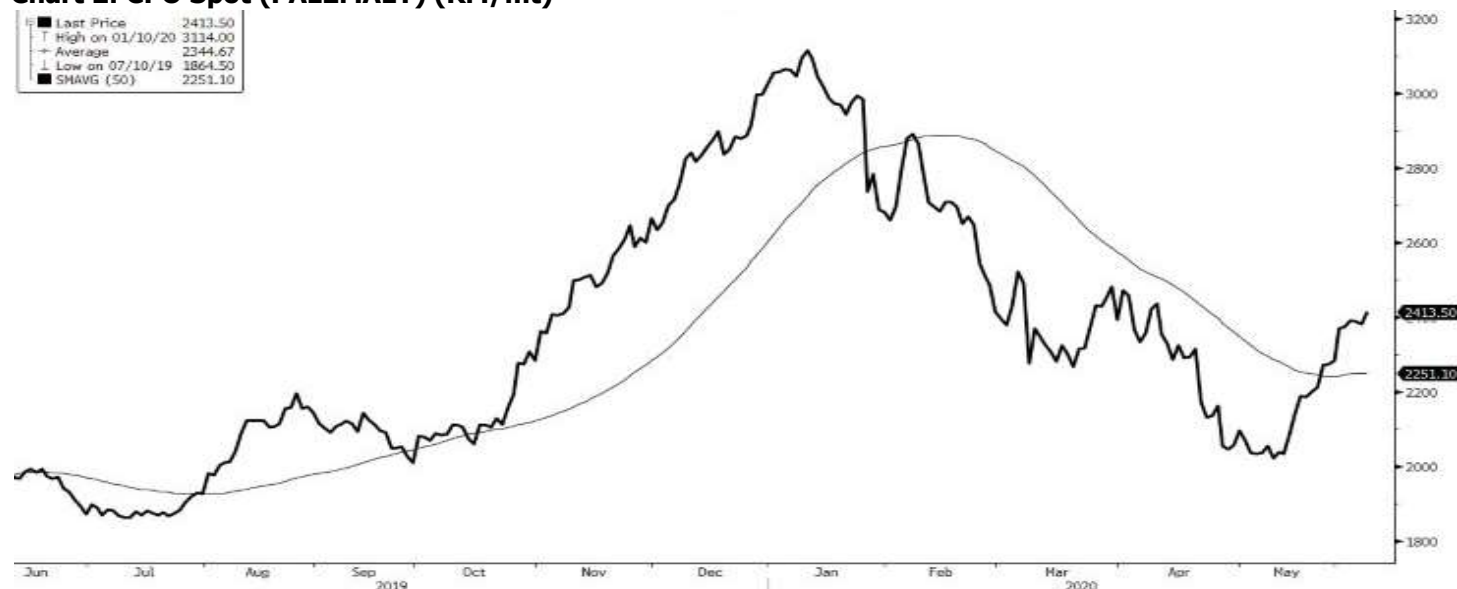
	May-20	Apr-20	May-19	YoY %	MoM %	5M20	5M19	Ytd%
<b>Opening Stocks</b>	<b>2,045.4</b>	<b>1,728.1</b>	<b>2,729.4</b>	<b>-25.8</b>	<b>17.3</b>	<b>2,007.1</b>	<b>3,215.1</b>	<b>-37.6</b>
<b>Production</b>	<b>1,651.3</b>	<b>1,652.8</b>	<b>1,671.5</b>	<b>-1.2</b>	<b>-0.1</b>	<b>7,161.5</b>	<b>8,274.9</b>	<b>-13.5</b>
Imports	37.1	56.6	61.8	-40.0	-34.4	324.7	430.9	-24.7
<b>Total Supply</b>	<b>3,714.6</b>	<b>3,437.4</b>	<b>4,462.6</b>	<b>-16.3</b>	<b>8.6</b>	<b>9,493.3</b>	<b>11,920.8</b>	<b>-20.4</b>
Exports	1,368.5	1,236.4	1,711.9	-20.1	10.7	6,085.5	7,996.5	-23.9
Dom Disapp	311.7	174.8	303.3	9.1	89.3	1,373.3	1,476.9	-7.0
<b>Total Demand</b>	<b>1,699.3</b>	<b>1,411.2</b>	<b>2,015.2</b>	<b>-15.7</b>	<b>20.4</b>	<b>7,458.8</b>	<b>9,473.4</b>	<b>-21.3</b>
<b>End Stocks</b>	<b>2,034.5</b>	<b>2,045.4</b>	<b>2,447.4</b>	<b>-16.9</b>	<b>-0.5</b>	<b>2,034.5</b>	<b>2,447.4</b>	<b>-16.9</b>
<b>Stock/Usage Ratio (%)</b>	<b>10.0</b>	<b>12.0</b>	<b>10.1</b>			<b>2.3</b>	<b>2.2</b>	

Source: MPOB, MIDFR


**CPO price could face downward pressure during peak production period.** In May 2020, the average CPO spot price retreated by -6.2%mom to RM2,127/mt, primarily in view of the (i) moderated export demand, (ii) higher stockpiles level resulting from the seasonally higher production level, and (iii) delayed implementation of higher biodiesel mandate. Meanwhile, on a year-over-year basis, the spot price rose by +9.3%yoy, mainly driven by the lower stockpiles level and tighter supply of CPO. Moving forward, we believe that the CPO price may retrace, depending on the quantum of demand loss from the possibility of intermittent and extended coronavirus lockdowns. In addition, the upcoming peak production period as well as moderated export demand amidst the ongoing Covid-19 outbreak at major palm oil consuming countries could put further downside pressure on the price. Historically, we observe that there would normally be a downtrend movement in the CPO price in the third quarter of the year because of seasonally peak production period. For example, the

CPO price would normally decline by -8.0%qoq, -2.4%qoq, -0.2%qoq, and -6.7%qoq in the third quarter of the year in 2018/17/16/15 respectively.

**Chart 2: CPO Spot (PAL2MALY) (RM/mt)**



Source: Bloomberg, MIDFR

**Maintain NEUTRAL.** We expect inventory level to stay above the 2m level in the intermediate term as the industry enters into the peak production season. Meanwhile, demand could slow down due to the ongoing Covid-19 outbreak in major export markets, especially in India and EU. While the exemption of export duty for Malaysian palm oil products from July to December 2020 could help to support demand momentum, we do not discount the possibility of the Government of Indonesia could impose the same measure or engage in a price war with Malaysia in an effort to increase its CPO price competitiveness. In addition, there is also concern that the palm oil-based biofuel may lose its appeal in view of the subdued crude oil price. Taking into account all the above factors, we have adjusted our 2020/21 average CPO price target to **RM2,300/mt** (previously RM2,450/mt) and **RM2,450/mt** (previously RM2,600/mt) respectively in view of the potentially higher inventory level and subdued export demand in 2HCY20. Note that we have reflected the revised 2020/21 CPO price for all plantation companies in our coverage with the exception of IJM Plantation Bhd. All factors considered, we are maintaining our **NEUTRAL** stance on the sector. 

## PEER COMPARISON TABLE

Stock	FYE	Rec.	Price @ 10-May-20	Tgt Price (RM)	Core EPS (sen)		CORE PE (x)		Net DPS (sen)		Net Dvd Yield (%)	
					CY20F	CY21F	CY20F	CY21F	CY20F	CY21F	CY20F	CY21F
Genting Plantation	Dec	BUY	10.33	12.10	27.7	38.8	37.3	26.6	13.0	13.0	1.3	1.3
TSH Resources	Dec	BUY	0.89	1.20	5.0	6.1	17.8	14.6	2.0	2.5	2.2	2.8
IJM Plantation	Mar	NEUTRAL	1.73	1.86	5.0	6.6	34.6	26.4	3.0	3.0	1.7	1.7
Kuala Lumpur Kepong	Sep	NEUTRAL	22.58	20.19	67.1	74.4	33.7	30.3	45.0	45.0	2.0	2.0
Sime Darby Plantation	Dec	NEUTRAL	4.97	5.19	11.3	12.8	44.0	38.8	6.4	6.7	1.3	1.3
PPB Group	Dec	NEUTRAL	17.38	17.95	61.4	70.4	28.3	24.7	23.0	26.0	1.3	1.5
Ta Ann Holdings	Dec	NEUTRAL	2.48	2.44	17.4	20.9	14.3	11.9	10.0	10.0	4.0	4.0
FGV Holdings	Dec	NEUTRAL	1.11	1.02	0.6	2.5	185.0	44.2	2.0	2.0	1.8	1.8
IOI Corporation	Jun	SELL	4.38	3.58	10.6	11.1	41.5	39.5	9.0	10.3	2.1	2.3

Source: Company, MIDFR

# IJM Plantations Berhad

(2216 | IJMP MK) Plantation | Plantation

## Maintain NEUTRAL


### Elevated production cost remains a concern

**Revised Target Price: RM1.86**  
(previously RM1.92)

**CPO price assumption.** We are revising downward our CY20/21/22 CPO price assumption to RM2,300/mt, RM2,450/mt and RM2,550/mt respectively. The downward trend on CPO price is mainly premised on: i) higher inventory level, ii) moderated export demand and, iii) resilient growth of FFB production.

**Impact to earnings.** In view of the revision in CPO price, we are revising downward FY21 and FY22 earnings to RM43.6m and RM59.0m respectively. Note that we are maintaining our FY20 earnings estimates.

**Target price.** Post our earnings adjustment, we are revising our target price to RM1.86 (previously RM1.92). This is premised on the group's FY21 book value per share of RM1.55 to a price-book ratio (PBR) of 1.2x which is the group's two-year historical average.

**Maintain NEUTRAL.** The group's 3QFY19 has shown improvement in margin as revenue increased by +66.5%yoy due to the increased sales volume. In view of the recent recovery of CPO price to above RM2,500/mt into 1QCY20, we expect it would help significantly in improving the group's profitability in its 4QFY20. Moreover, we believe the group's healthy growth of FFB production to further boost the earnings momentum moving forward. However, we remain wary on the group's ability to effectively manage production cost which could partially suppress the improvement in group's profit margin. All factors considered, we are maintaining our **NEUTRAL** recommendation on IJMP. 

### INVESTMENT STATISTICS

FYE 31 <sup>st</sup> March (RM'm)	2018	2019	2020E	2021F	2022F
<b>Revenue</b>	747.2	630.9	625.0	689.5	737.1
EBIT	123.9	22.0	49.2	56.0	71.3
PBT	77.3	-43.0	41.5	48.2	67.5
PATANCI	46.6	-36.0	36.9	43.6	59.0
<b>Normalised PATANCI</b>	<b>70.3</b>	<b>-11.0</b>	<b>37.0</b>	<b>43.6</b>	<b>59.0</b>
Normalised EPS (sen)	8.0	-1.3	4.4	5.2	7.0
Dividend per share (sen) (%)	5.0	2.0	3.0	3.0	3.0
Dividend yield (%)	2.9	1.2	1.7	1.7	1.7
PER (x)	21.7	(132.4)	39.3	33.4	24.7
NTA/share (RM)	1.93	1.92	1.93	1.96	2.00
P/NTA	0.90	0.90	0.89	0.88	0.87
Return on Equity (%)	2.9	-2.2	2.3	2.6	3.5
Return on Assets (%)	1.8	-1.3	1.4	1.6	2.1

Source: Company, MIDFR

RETURN STATISTICS	
Price @ 10 <sup>th</sup> June 2020 (RM)	1.73
Expected share price return (%)	+7.5
Expected dividend yield (%)	+1.7
<b>Expected total return (%)</b>	<b>+9.2</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	24.5	9.2
3 months	20.1	6.1
12 months	16.9	22.8

### KEY STATISTICS

FBM KLCI	1,575.27
Syariah compliant	No
Issue shares (m)	880.58
Estimated free float (%)	16.68
Market Capitalisation (RM'm)	1,523.40
52-wk price range (RM)	RM1.01 - RM2.48
Beta vs FBM KLCI (x)	1.51
Monthly velocity (%)	11.02
Monthly volatility (%)	29.76
3-mth average daily volume (m)	0.12
3-mth average daily value (RM'm)	0.18
Top Shareholders (%)	
IJM Corp Bhd	56.20
EPF	13.43
KWAP	4.73

**Analyst**  
**Khoo Zhen Ye**  
 khoo.zy@midf.com.my  
 03-27721655

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(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 (197501002077(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

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.