

# Equity Beat

## Sector Update

### Plantation

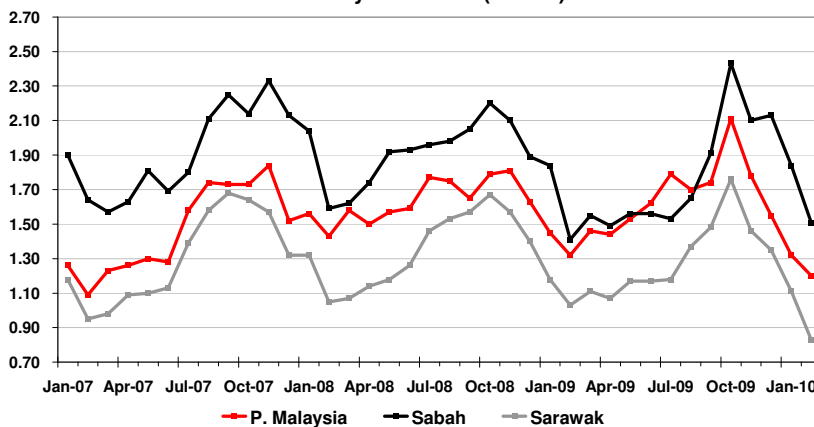
MPOB Feb 2010 Stats

NEUTRAL

CPO Price: RM2,709/MT

**Reaching the nadir of low production cycle.** Total output in February 2010 declined by -12.4%mom and by -2.6%yoy to 1.16 mmt. The decline in the year-on-year figure was attributed to the incident of biological tree stress consequent to the bumper crop output in the final quarter of 2009. The lower sequential figure however was not unexpected as oil palm trees generally exhibit declining yield pattern from around November to February (see Chart below). Empirical data suggest that total output is reaching the nadir of low production cycle hence we can expect production to begin rising in the coming months.

Monthly FFB Yield (MT/Ha)

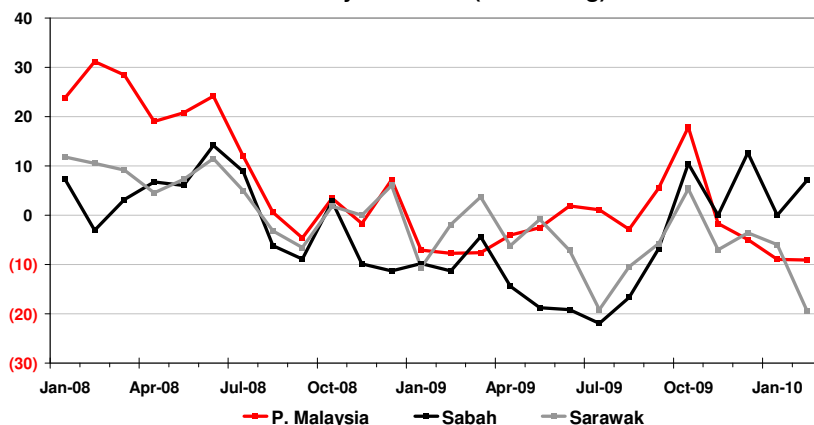


Bumper FFB yields (mt/ha) in early 4Q09 followed by sharp declines in 1Q10

Source: MPOB, MIDFR

**FFB yields (yoy %chg) in negative territory except for Sabah's.** FFB yields (mt/ha) for Peninsular Malaysia, Sabah and Sarawak were at 1.20, 1.51 and 0.83 respectively in February 2010. Moreover, the year-on-year FFB yields (%chg) for Peninsular Malaysia, Sabah and Sarawak were at -9.1%, 7.1% and -19.4% respectively. The FFB yield (%chg) of Sabah remained positive due to the low-base effect as it was the worst affected by the heavy rain spell during early last year.

Monthly FFB Yield (YOY %Chg)



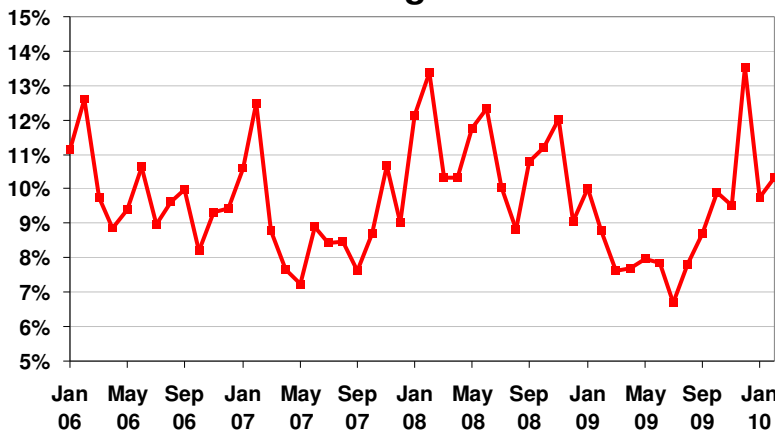
FFB yield (yoy %chg) of Sabah remained positive due to the low-base effect

Source: MPOB, MIDFR

**Total exports dropped sequentially but showed moderate gain over last year.** Total exports in February 2010 dropped by -11.6%mom but gained by a modest 2.7%yoy to 1.29 mmt. Total exports in February showed a hefty sequential decline due to high-base effect from the heavy pent-up buying in January particularly by the South Asians and Chinese importers. In February 2010, Malaysia's CPO exports to Pakistan and China slumped by -43.3%mom and -20.3%mom respectively. Exports to India however continued to grow at 19.5%mom. The year-on-year figure

showed a moderate gain in February 2010, mainly due to a surge in CPO purchases by the EU countries. Malaysia's CPO exports to the regional block jumped by 67.4%yoy in February.

## Stock/Usage ratio

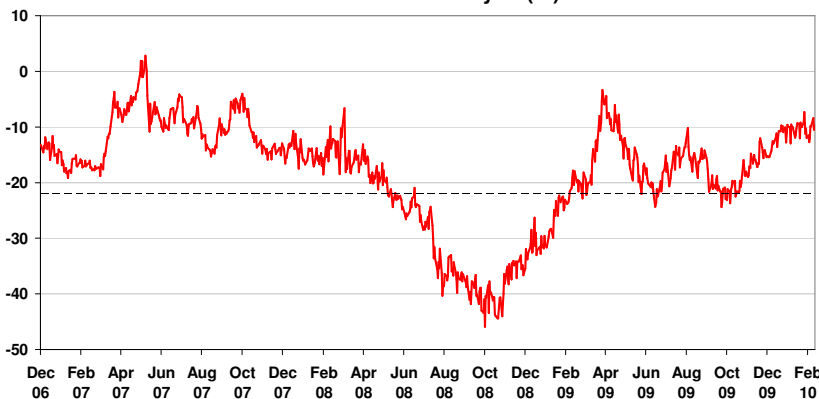


Stock/usage ratio edged up to 10.3%; slightly above its historical mean of 9.7%

Source: MPOB, MIDFR

**Low production number pulled down the inventory level.** In February 2010, the closing stock level declined by -10.9%mom but was higher by 14.0%yoy to 1.78 mmt. The lower sequential production number helped pulled down the inventory level vis-à-vis the previous month figure. The closing stock level is however neither too low, as it stands 14% higher than the same period last year, nor too high, as the current stock/usage ratio of 10.3% is only slightly above its historical average of 9.7%.

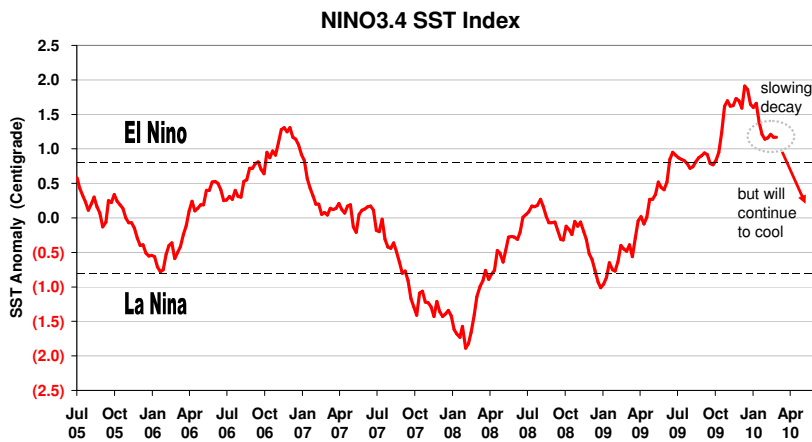
## CPO Discount to Soyoil (%)



CPO discount to Soyoil narrowed further to -9.7% compared to its historical mean of -21.7%

Source: Bloomberg, MIDFR

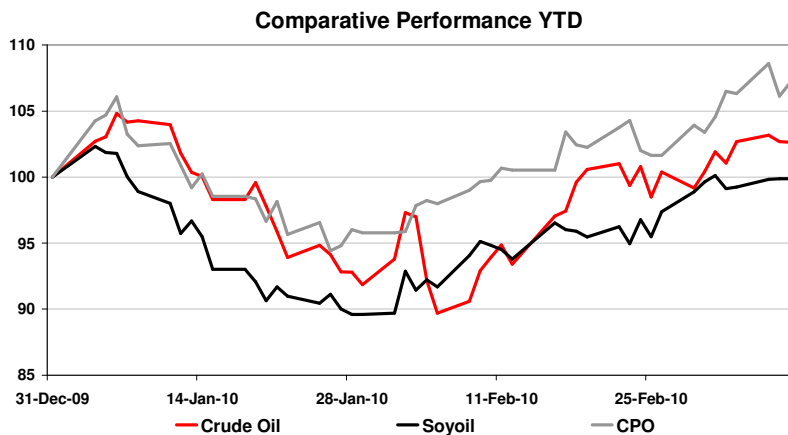
**Narrowing CPO discount to Soyoil may encourage switching.** The surge in CPO prices relative to Soyoil since November 2009 had starkly reduced its discount to Soyoil. During the past month, the discount of CPO to Soyoil narrowed further to -9.7%. The prevailing discount level is significantly narrower than its 10-year historical mean of -21.7%. At this discount level, it may encourage switching into Soyoil and pushing crushers to process more soybeans hence boosting global edible oil supplies. The substitution play into Soyoil will help to 'calm down' the upward momentum of CPO price.



Source: ABM, MIDFR

**SST will continue to cool.** Both the Sea Surface Temperature (SST) and the Sea Level Pressure (SLP) remained above threshold levels. In its 3 March update, the Australian Bureau of Meteorology (ABM) reported that the SST has “warmed slightly during the last fortnight, slowing the decay of the current El Nino event”. It added that the computer models are predicting that the SST “will continue to cool, returning to neutral levels by the southern hemisphere winter [June]”. In addition, southern hemisphere autumn [March to May] is typically a transitional period for the El Nino, and “the model forecasts suggest that the decay of the El Nino event is likely to follow the usual pattern”.

**Expect SST to dip below threshold level by southern winter**



Source: Bloomberg, MIDFR

**CPO price movements have been and will likely to continue to be greatly influenced by the general trend in commodities particularly crude oil and soyoil**

**Outlook on CPO.** We reiterate our view that we are positive but not overly bullish on the outlook for CPO prices. The two main factors providing support to CPO prices in the near term are:

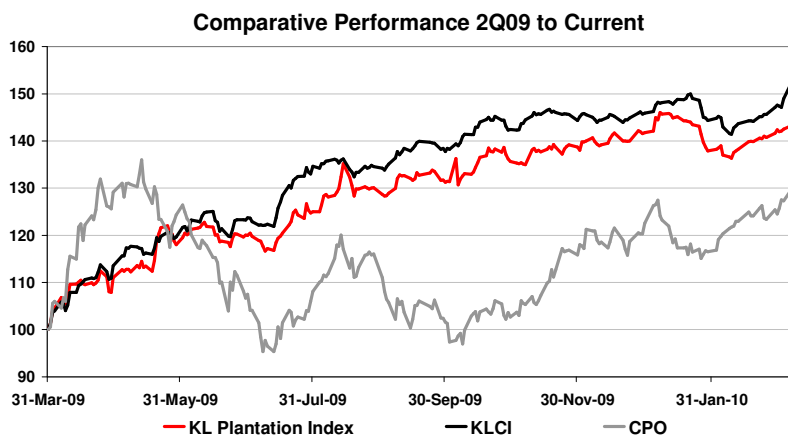
- (1) **El Nino-induced hot weather may curb palm oil output this year.** Output in Malaysia was forecast to grow 3.1% per cent this year to a record 18.1 million tonnes from 17.56 million tonnes in 2009. However, that target may not be attained because of El Nino. While the prevailing El Nino is comparatively mild, it may pack enough punch to impede the growth of palm flowers (which take six months to mature and produce FFB). The impact to the palm oil yields may be felt by the fourth quarter which coincides with the annual high production period.
- (2) **The bullishness of the world's commodities market.** CPO price movements have been and will likely to continue to be greatly influenced by the general trend in commodities particularly crude oil and soyoil (see Chart above). The general bullishness of the world's commodities market, while it lasts, is expected to be in favour of a positive trending CPO prices.

However, we also expect the CPO prices to encounter some resistance. The main reasons for this are:

- (1) **Indonesia rising output to offset the 'damage' engendered by El Nino.** The expansion and maturation of the planted area in Indonesia may help to make up for the impact of declining yields on total palm oil output. Indonesia's production is expected to continue growing and more than offset Malaysia's shortfall. Indonesia has projected 2010 output to reach 23 million tonnes, up by 9.5 percent from 21 million tonnes last year.


- (2) **Expectation of a bumper soy crop in South America.** While El Nino can bring dry spell to Asia, it may also bring rain spell to South America. Ample rainfall is expected to help boost yields of soybeans in South America. In its recent forecast of South American soybean production, the US Department of Agriculture Foreign Agricultural Services (USDA-FAS) forecasts a hefty 33% jump in the combined soybean output for Brazil and Argentina in 2010. The South American soybean harvest will begin in earnest later in the second quarter.
- (3) **Rising interest rates may cap the commodities upswing.** Economies worldwide are nearing the inflection point from an environment of easing interest rates to one that is on the tightening bias. Rising interest rate scenario will put a dampener to the prevailing commodities upswing as the cost of borrowing becomes dearer.

We maintain our mean CPO price forecast for 2010 at RM2,450/MT. As for 2011, our mean CPO price forecast is pegged at RM2,650/mt. However, if the general bullishness of the world's commodities were to intensify, we see an upside risk to our prevailing mean CPO forecasts.



**KL Plantation Index has outperformed CPO by 18 percentage points since April 2009**

Source: Bloomberg, MIDFR

**We retain our Neutral view on the Plantation Sector.** The share prices of plantation stocks are normally highly correlated to CPO prices. However, unlike in the previous years where the plantation stocks and CPO moved almost hand-in-glove, the KL Plantation Index had instead been tracking the benchmark KLCI since April 2009. Since April 2009, which coincided with the start of the prevailing equity market rally, the KL Plantation Index had outperformed the CPO prices by about 18 percentage points (see Chart above). This outperformance has contributed to the stretched valuations of plantation stocks at the moment. With the growing inflow of liquidity into our financial system (despite or rather due to the recent hike in interest rate) as attested by the strengthening Ringgit, it will not surprise us if the already lofty valuations continue to swell. Nevertheless, we shall refrain from the temptation to 'invest' solely based on the anticipated flow of liquidity into the market. Our NEUTRAL view on the sector remains. 

## Palm Oil Statistics for February (Tonnes)

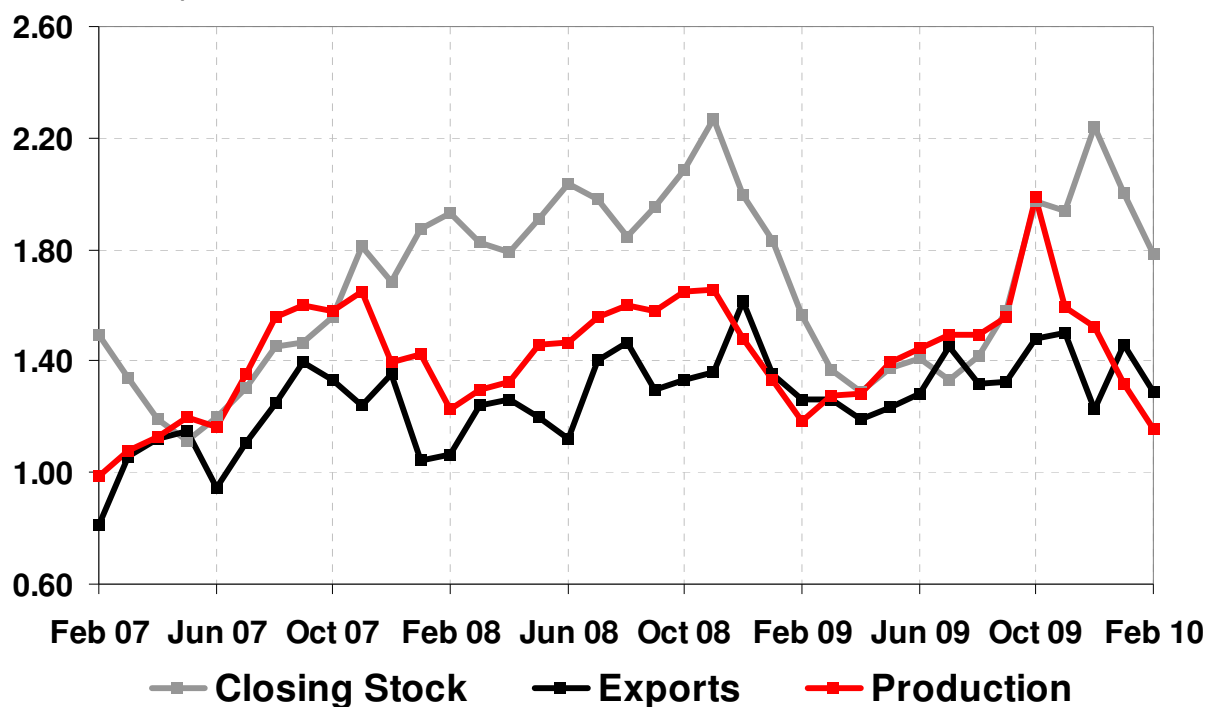
	2010 Feb	2009 Jan	2009 Feb			2010 YTD	2009 YTD	y-o-y
				m-o-m	y-o-y			
Opening Stock	2,003,175	2,239,257	1,832,907					
Production	1,156,814	1,321,304	1,187,381	-12.4%	-2.6%	2,478,118	2,517,576	-1.6%
Imports	64,091	155,803	27,423	-58.9%	133.7%	219,894	57,286	283.9%
Exports	1,291,999	1,461,727	1,258,531	-11.6%	2.7%	2,753,726	2,613,986	5.3%
Consumption	146,848	251,462	223,588	-41.6%	-34.3%	398,310	389,994	2.1%
Closing Stock	1,785,233	2,003,175	1,565,592	-10.9%	14.0%	1,785,233	1,565,592	14.0%

## Major Palm Oil Exports Destinations (Tonnes)

	2010 Feb	2009 Jan	2009 Feb			2010 YTD	2009 YTD	y-o-y
				m-o-m	y-o-y			
China	315,355	395,797	307,129	-20.3%	2.7%	711,152	461,396	54.1%
EU Countries	192,436	167,395	114,973	15.0%	67.4%	359,831	257,218	39.9%
Pakistan	127,176	224,278	184,251	-43.3%	-31.0%	351,454	408,186	-13.9%
India	122,570	102,546	125,214	19.5%	-2.1%	225,116	328,263	-31.4%
USA	59,437	83,666	50,268	-29.0%	18.2%	143,103	138,973	3.0%

## Total Production, Exports and Closing Stocks (Tonnes)

(Million Tonnes)



## CPO DAILY PRICE CHART



Syed Muhammed Kifni  
smkifni@midf.com.my  
03-2173 8383

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

OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.