Plantations

Regional

August 23, 2021

Maybank Kim Eng

Regional Plantations

Near term headwinds

POSITIVE *[Unchanged]*

Expect some CPO price pressure this week

We expect some price pressure on CPO in the week ahead. India's soyoil and sunflower oil import duty cuts of 7.5-ppts for a period of 6 weeks is expected to be mildly negative on CPO demand and price. The wetter weather forecast in the US in the coming days has also added some pressure on US soyoil prices. Meanwhile, the much awaited EPA's proposal on US biofuel blend in 2021 and 2022 will help set near term price direction. While we doubt the current high CPO price is long-term sustainable, it will nonetheless stay lofty (by historical standards) till early next year. Preferred BUYs are KLK, SOP and BPLANT.

India reduces soyoil and sunflower oil import duties

According to media reports, India has cut the base import duty on crude soyoil and sunflower oil by 7.5-ppts (from 15%, while keeping agri cess unchanged at 20%) for a period of 6 weeks (w.e.f 20 Aug 2021) to be on par with CPO with effective import duties of 27.5% (before social welfare cess) – see Fig.1. India aims to keep a lid on edible oil prices. The import duty on refined soyoil and sunflower oil have also been lowered to 37.5% (from 45%), on par with RBD Palm oil & Olein. According to Sandeep of Sunvin Group, it is logistically not feasible to sign contracts now and ensure vessels are unloaded in Indian ports before September end. Hence, although sunflower and soyoil may gain some market share in September, a big spike is therefore unlikely. Still, we estimate the lower import duties are estimated to help Indian importers save between USD80-100/t on imported soyoil and sunflower oils.

Price pressure ahead of US biofuel blend mandate?

According to Bloomberg, corn (-2.5% DoD) and soybeans (-2.2% DoD) prices fell last Friday amid concern that the USA may reduce the quantum of biofuels needed to be blended into fuel. The US Environmental Protection Agency (EPA) is preparing to submit a draft of biofuel-blending quotas to the White House for review. Such a review would set the stage for the EPA to formally propose how much renewable fuel must be mixed into diesel (and gasoline) in 2021 and 2022 within the coming weeks. Besides US EPA blend proposal, the market was also reacting to forecast for a more favourable wetter weather in the US Midwest. And US soybean oil price fell even more (-5.5% DoD) last Friday.

CPO price has narrowed its discount to others

The vegetable oil prices have corrected somewhat recently. As a result, CPO price discounts have narrowed against other major competing oils. As at 20 Aug, CPO price trades closer to long term average discounts to other major vegetable oils, namely SBO (USD173-203/t) and EU rapeseed oil (USD283/t) - Figs.6-11. Hence, we do expect some price pressure in the coming week(s) to help keep CPO price stay competitive. But we think CPO price will continue to stay lofty by historical standards till early 2022 due to present tight supply.

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Regional CPO price forecast

	2021F	2022F
	MYR/t	MYR/t
Full year avg (FOB)	3,500	2,800
MDEX / MPOB prices:		
3M CPO price (20 Aug)	4,265	
YTD (20 Aug) 3M CPO ASP	3,846	
YTD (20 Aug) spot CPO ASP	4,121	

Plantation stocks mentioned on cover page

Company	BBG ticker	Rec	Shr px	Tgt px
M'sia listed			**LCY**	**LCY**
KL Kepong	KLK	Buy	20.02	29.90
Swk Oil Palm	SOP	Buy	3.56	5.67
Bous.Plant	BPlant	Buy	0.595	0.79

Source: Maybank KE

Terms used in this note:

ASP - Average Selling Price
CPO - Crude Palm Oil
ID - Indonesia/ Indonesian
LCY - Local currency
mt - million tonnes
mth - month
MoM - Month-on-Month
MPOB - Malaysian Palm Oil Board
MY - Malaysia/ Malaysian
PO - Palm Oil
POGO - Palm Oil Gas Oil (ie diesel)
SBO - Soybean oil
t - tonnes
YoY - Year-on-Year
YTD - Year-to-date

SEE PAGE 7 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							21E	22E	21E	22E	21E	22E
Sime Darby Plant	SDPL MK	6,398	Hold	3.92	4.07	6	16.5	22.9	1.9	1.8	3.3	2.2
IOI Corp	IOI MK	5,577	Buy	3.76	4.71	27	20.1	24.0	2.4	2.3	3.4	2.5
KL Kepong	KLK MK	5,107	Buy	20.02	29.90	52	15.7	20.1	1.8	1.8	3.8	3.0
First Resources	FR SP	1,650	Buy	1.42	1.81	30	11.9	10.9	1.5	1.4	4.1	4.6
Genting Plant	GENP MK	1,508	Buy	7.12	8.96	29	23.9	23.8	1.3	1.2	2.5	2.5
Bumitama Agri	BAL SP	612	Buy	0.48	0.93	98	6.5	6.2	0.9	0.8	6.1	6.5
Swk Oil Palms	SOP MK	480	Buy	3.56	5.67	63	8.0	8.8	0.8	0.7	3.7	3.4
TSH Resources	TSH MK	346	Buy	1.06	1.40	33	13.5	16.3	1.0	0.9	2.2	1.8
Boustead Plant	BPLANT MK	315	Buy	0.60	0.79	35	22.0	27.1	0.5	0.5	2.7	2.2
Ta Ann	TAH MK	283	Buy	2.70	3.45	33	9.8	11.7	0.8	0.8	5.1	4.3
TH Plantations	THP MK	107	Sell	0.52	0.44	(15)	13.0	17.8	0.7	0.7	0.0	0.0

Fig 1: India's import duty and levy of vegetable oils

Product / Effective	Sep-15 %	Sep-16 %	Aug-17 %	Nov-17 %	Mar-18 %	Jun-18 %	Jan-19 %	Sep-19 %	Jan-20 %	Nov-20 %	Feb-21 %	30 Jun to 30 Sept 21 %	20 Aug to 30 Sept 21 %
Crude palm oil	12.5	7.5	15.0	30.0	44.0	44.0	40.0	40.0	37.5	27.5	32.5	27.5	27.5
Crude sunflower oil	12.5	12.5	12.5	25.0	25.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	27.5
Crude rapeseed oil	12.5	12.5	12.5	25.0	25.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0
Refined palm oil & Olein	20.0	15.0	25.0	40.0	54.0	54.0	45.0 - MY 50.0 - rest of ASEAN	50.0	45.0	45.0	45.0	37.5	37.5
Refined rapeseed oil	20.0	20.0	20.0	35.0	35.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0
Refined sunflower oil & others	20.0	20.0	20.0	35.0	35.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	37.5
Refined soybean oil	20.0	20.0	20.0	35.0	35.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	37.5
Degummed soybean oil	12.5	12.5	17.5	30.0	30.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	27.5

Source: SEA India, media (Note: The above figures have yet to factor in a 10% social welfare cess)

Fig 2: India's import of palm oil and soft oil (ratio)

Import of Vegetable Oil (Edible & Non-edible)
Nov.'20 – July '21

(Qty. in MT)

Month	2020-21			2019-20			%
	Edible	Non-edible	Total	Edible	Non-edible	Total	Change
Nov.'20	1,083,329	19,570	1,102,899	1,100,424	26,796	1,127,220	(-) 2%
Dec.'20	1,328,161	28,424	1,356,585	1,107,380	20,901	1,128,281	(+) 20.%
Jan.'21	1,074,635	22,034	1,096,669	1,157,123	38,689	1,195,812	(-) 8%
Feb.'21	796,568	42,039	838,607	1,089,661	22,817	1,112,478	(-) 25%
Mar.'21	957,633	22,610	980,243	941,777	13,645	955,422	(+) 2.6%
Apr.'21	1,029,912	23,435	1,053,347	795,025	3,690	798,715	(+) 32%
May'21	1,213,142	36,506	1,249,648	720,976	22,845	743,821	(+) 68%
June '21	969,431	26,583	996,014	1,168,138	30,201	1,198,339	(-) 17%
July '21	**917,336**	**63,288**	**980,624**	**1,517,350**	**47,995**	**1,565,345**	**(-) 37%**
Total	**9,370,147**	**284,489**	**9,654,636**	**9,597,854**	**227,579**	**9,825,433**	**(-) 2%**

Source: SEA India

Fig 3: India's import of refined and crude edible oils (summary)

Import of Refined & Crude Edible Oils (Ratio)
Nov.'20 – July '21

(Qty. in MT)

Year (Nov.-Oct)	Refined Oils	%	Crude Oils	%	Total
Nov.,2020	**10,000**	**1%**	**1,073,329**	**99%**	**1,083,329**
Dec.,2020	**2,900**	**0.2%**	**1,325,261**	**99.8%**	**1,328,161**
Jan.,2021	**2,701**	**0.2%**	**1,071,934**	**99.8%**	**1,074,635**
Feb.,2021	**6,000**	**0.8%**	**790,568**	**99.2%**	**796,568**
Mar.,2021	**2,500**	**0.3%**	**955,133**	**99.7%**	**957,633**
Apr.,2021	**---**	**--**	**1,029,912**	**100%**	**1,029,912**
May, 2021	**2,075**	**0.2%**	**1,211,067**	**99.8%**	**1,213,142**
June,2021	**3,200**	**0.3%**	**966,231**	**99.7%**	**969,431**
July,2021	**13,895**	**1.5%**	**903,441**	**98.5%**	**917,336**
Nov.'20- July '21	**43,271**	**0.5%**	**9,326,876**	**99.5%**	**9,370,147**
Nov.'19– June.'20	404,190	4.2%	9,193,664	**95.8%**	9,597,854
2019-20	421,340	3%	12,754,106	97%	13,175,446
2018-19	2,730,881	18%	12,182,526	82%	14,913,407
2017-18	2,135,780	15%	12,380,752	85%	14,516,532
2016-17	2,870,928	19%	12,206,492	81%	15,077,420

Source: SEA India

Fig 4: India's import of refined and crude edible oils (breakdown)

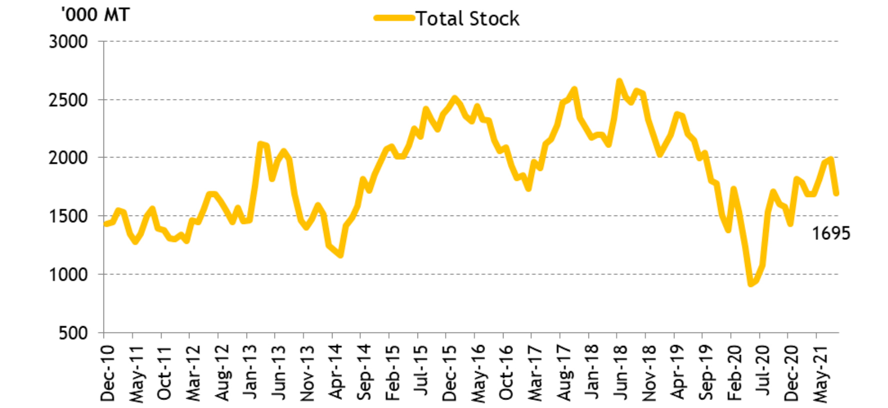
IMPORT OF VEGETABLE OILS

IMPORT OF EDIBLE OIL FOR THE MONTHS OF NOVEMBER 2020 TO JULY 2021
WITH COMPARATIVE PERIOD FOR PREVIOUS YEAR 2019-20 (09 MONTHS) (Qty. in M.T.)

Year (Nov-Oct)	Refined Oils: RBD Palmolein	Refined Oils: Ref.Sun flower Oil	Refined Oils: Ref.Soy bean Oil	Crude Oil: Crude Palm Oil *	Crude Oil: Crude Olein	Crude Oil: Sun-flower Oil	Crude Oil: Rape Oil (canola)	Crude Oil: Soybean Oil (degummed)	Crude Oil: Cotton seed Oil	Crude Oil: Coco-nut Oil	Crude Oil: Crude Palm Ker.Oil	Crude Oil: Saf-flower	Total Oil
Nov.,2020	**10,000**	---	---	**589,268**	---	**214,077**	---	**250,784**	---	---	**19,200**	---	**1,083,329**
	122,409	---	---	540,421	---	263,311	---	164,750	---	---	9,533	---	1,100,424
Dec.,2020	**2,900**	---	---	**748,006**	---	**234,960**	---	**322,809**	---	---	**19,486**	---	**1,328,161**
	94,816	---	---	631,824	---	197,842	---	168,048	---	---	14,850	---	1,107,380
Jan.,2021	**2,701**	---	---	**767,836**	---	**205,227**	---	**88,667**	---	---	**10,204**	---	**1,074,635**
	49,634	---	---	529,053	---	301,669	---	260,650	---	---	16,117	---	1,157,123
Feb.,2021	**6,000**	---	---	**383,995**	---	**116,100**	---	**285,973**	---	---	**4,500**	---	**796,568**
	33,677	---	---	488,354	---	226,743	---	322,448	---	---	18,439	---	1,089,661
Mar.,2021	**2,500**	---	---	**506,533**	---	**146,970**	---	**284,200**	---	---	**17,430**	---	**957,633**
	30,850	---	---	295,577	---	295,387	17,002	292,996	---	---	9,965	---	941,777
Apr.,2021	---	---	---	**689,731**	---	**184,097**	---	**144,020**	---	---	**12,064**	---	**1,029,912**
	37,754	---	---	343,207	---	226,303	---	183,762	---	---	3,999	---	795,025
May,2021	**2,075**	---	---	**755,633**	---	**175,759**	---	**267,781**	---	---	**11,894**	---	**1,213,142**
	32,050	---	---	360,548	---	133,688	---	186,782	---	---	7,908	---	720,976
June,2021	**3,200**	---	---	**576,890**	---	**175,702**	---	**206,262**	---	---	**7,377**	---	**969,431**
	3,000	---	---	563,539	---	269,428	---	331,171	---	---	1,000	---	1,168,138
July,2021	**13,895**	---	---	**451,461**	---	**71,838**	---	**379,892**	---	---	**250**	---	**917,336**
	---	---	---	820,078	---	208,747	---	484,525	---	---	4,000	---	1,517,350
Total	**43,271**	---	---	**5,469,353**	---	**1,524,730**	---	**2,230,388**	---	---	**102,405**	---	**9,370,147**
	404,190	---	---	4,572,601	---	2,123,118	17,002	2,395,132	---	---	85,811	---	9,597,854
2019-20	421,340	---	---	6,666,331	---	2,518,999	55,036	3,384,054	---	---	129,686	---	13,175,446
2018-19	2,730,881	---	---	6,534,693	---	2,350,875	59,171	3,094,113	---	---	143,674	---	14,913,407
2017-18	2,135,780	---	---	6,460,043	---	2,524,793	240,625	3,047,040	3,012	---	105,239	---	14,516,532
2016-17	2,870,928	---	---	6,335,321	---	2,168,754	292,652	3,316,207	---	---	87,468	6,090	15,077,420

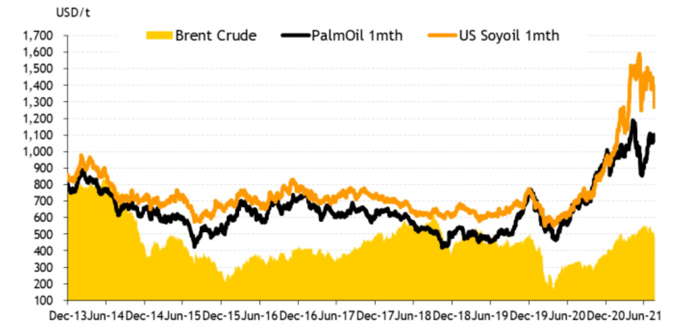
Source: SEA India

Fig 5: India's stockpile as 1.7mt (+10% YoY) as at 1 August 2021



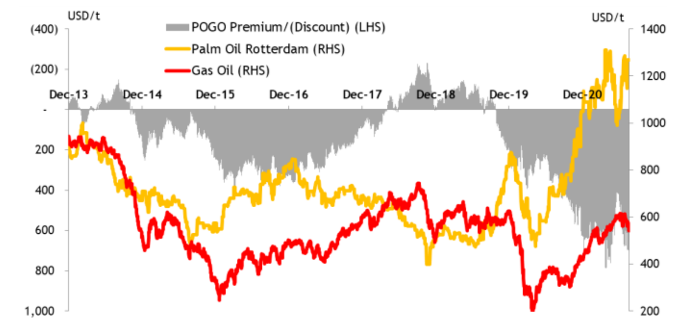
Source: SEA India

Fig 6: Soyoil and palm oil vs crude oil price



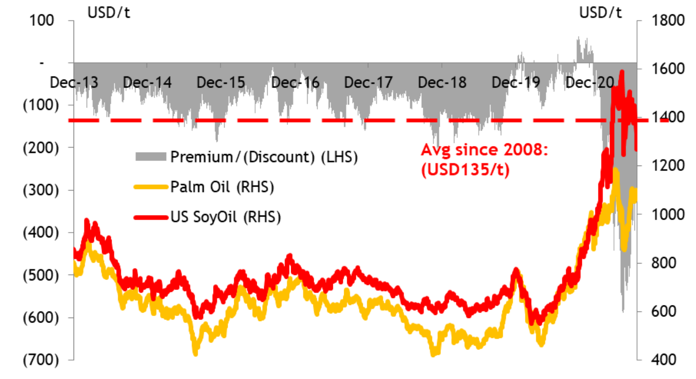
Source: Bloomberg

Fig 7: Palm Oil-Gas Oil (POGO) is unfavourable with palm oil trading at USD724/t (20 Aug 2021) premium to gas oil



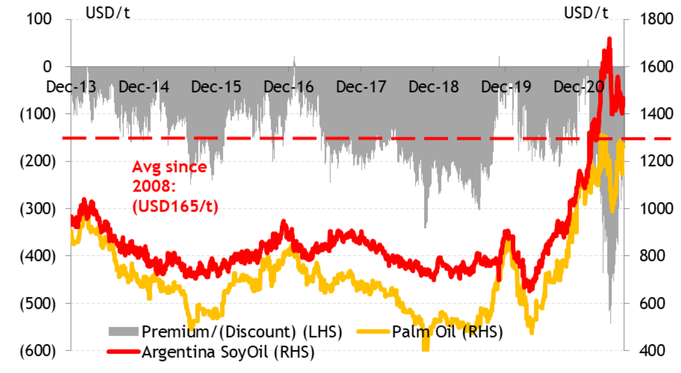
Source: Bloomberg, Maybank-KE

Fig.8: 1M palm oil price at a steep discount to US soybean oil at USD203/t (20 Aug 2021)



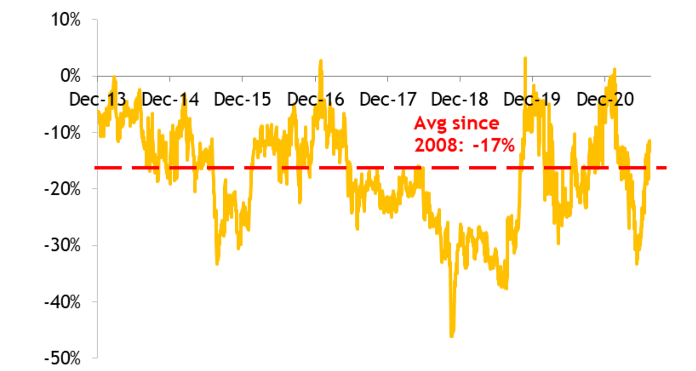
Source: Bloomberg, Maybank-KE

Fig.9: Rotterdam Palm Oil CIF price discount to Argentina Soybean Oil at USD173/t (20 Aug 2021)



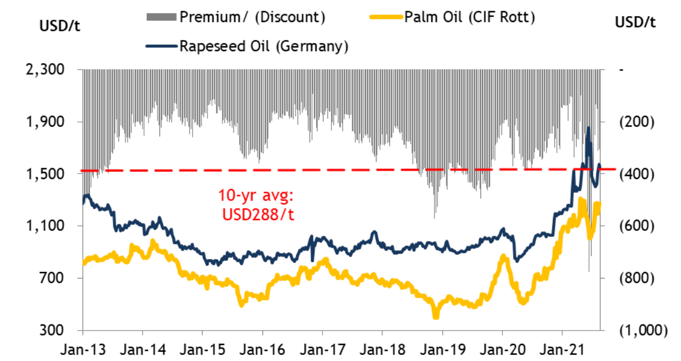
Source: Bloomberg, Maybank-KE

Fig.10: Palm oil price discount (in %) to Argentina soybean oil at -12% (20 Aug 2021)



Source: Bloomberg, Maybank-KE

Fig.11: Palm Oil price discount to Germany rapeseed oil at USD283/t (20 Aug 2021)



Source: Bloomberg (quoted weekly), Maybank-KE

Risk statement

There are several risk factors that may affect our sector view, earnings estimates, price targets, and ratings of stocks under coverage. Key risks to the sector and companies are:

Upside risks: (i) Weaker-than-expected production recovery of palm oil and other vegetable oils in 2021; (ii) Brent crude oil price recovers closer to USD80/barrel; (iii) Weather anomalies at major palm oil and oilseeds producing regions.

Downside risks: (i) Reversal of Brent crude oil price to sharply below USD40/barrel; (ii) Negative policies imposed by importing countries; (iii) Unfriendly government policies at producing or exporting countries; (iv) Production in 2021 turns out much stronger than expected; (v) Global demand turns out to be weaker than expected; and (v) Weaker competing oil prices (like soybean and rapeseed).

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