Plantations

Regional

Regional Plantations

Stockpile rose to 14-month high, but still relatively tight

POSITIVE *[Unchanged]*

August stockpile surprised the market negatively

MPOB's August 2021 stockpile rose to 1.87mt (+25% MoM, +10% YoY), ahead of street estimates of 1.74mt. Key surprise was the weak August exports although there is preliminary sign of an export recovery in September. Positively, India once again cut its import duties of palm oil, SBO and SFO by 5-ppts over the weekend, likely to spur more imports. Stay POSITIVE on the sector. Preferred BUYs are KLK, SOP and BPLANT.

Highest stockpile since June 2020

The higher MoM August stockpile was due to a combination of factors, but mainly on seasonal production recovery, lower-than-expected exports, and higher-than-expected imports (Fig.1). August's CPO production rose +12% MoM to 1.70mt, but still lower compared to a year ago (-9% YoY). Key surprise was the drop in exports to 1.16mt (-17% MoM, -26% YoY). By geographical breakdown, exports were weaker MoM to all key export markets except Bangladesh, India and Pakistan (Fig.2). Meanwhile domestic consumption was also weaker (0.25mt; -14% MoM, -19% YoY), perhaps due to FMCO and travel restrictions.

Prelim. export estimates for Sept looking positive

The preliminary MY export estimates for shipments in the first 10 days of September by Amspec (an independent cargo surveyor) shows positive sign of recovery with recorded exports of 554,875t (+50% MoM). However, if the current export trend do not sustain into the rest of the month, MPOB's stockpile may continue to rise in September as MY is currently in its peak production cycle. Nonetheless, the present acute shortage of workers (said to be at least 20-30% short) will lead to some crop losses due to inability to harvest all the FFB on a timely manner. This follows the foreign workers hiring freeze since 2020 due to COVID-19 and as some workers chose to return home upon contract expiry. MPOB has recently cut its outlook for MY's CPO production to 18mt (-6% YoY), compared to its earlier forecast of 19.7mt at the start of the year.

India has cut its import duties again

CPO price no longer trades at massive discounts recorded in May-June period. Its discounts are now normalized in absolute terms to other key vegetable oils, namely US's 1M SBO (USD123/t), Argentina CIF Rotterdam (USD140/t), and Germany's rapeseed oil (USD337/t) - Figs.7-12. We maintain our view that current high CPO price is not sustainable, more so if palm oil stockpile continues to grow from here on weak export demand. A wider discount is needed to stimulate demand again. Positively, India has over the weekend announced further cut in import duties of CPO, crude SBO, crude SFO, Palm Olein and Refined SBO by 5-ppts (see Fig.20) ahead of its Divali festival. This will likely help improve short term demand from India. In the Northern Hemisphere, US's soybean (and corn) early harvesting will start by month end. USDA, in its latest WASDE report, has raised US soybean production forecast by just 0.8% MoM due to the much needed rainfall it experienced late last month.

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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 (10 Sept)	4,278
YTD (10 Sept) 3M CPO ASP	3,886
YTD (10 Sept) spot CPO ASP	4,154

Plantation stocks mentioned on cover page

Company	BBG ticker	Rec	Shr px	Tgt px
M'sia listed			**LCY**	**LCY**
KL Kepong	KLK	Buy	20.98	29.90
Swk Oil Palm	SOP	Buy	3.68	5.80
Bous.Plant	BPlant	Buy	0.62	0.81

Source: Maybank KE

Terms used in this note:
ASP - Average Selling Price
CPO - Crude Palm Oil
FMCO - Full Movement Control Order (from 1Jun 2021)
ID - Indonesia/ Indonesian
LCY - Local currency
mt - million tonnes
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
SFO - Sunflower oil
t - tonnes
USDA - United States Department of Agriculture
WASDE - World Agricultural Supply and Demand Estimates
YoY - Year-on-Year
YTD - Year-to-date

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x) 21E	P/E (x) 22E	P/B (x) 21E	P/B (x) 22E	Div yld (%) 21E	Div yld (%) 22E
Sime Darby Plant	SDPL MK	6,537	Hold	3.91	4.07	6	16.5	22.8	1.9	1.8	3.3	2.2
IOI Corp	IOI MK	5,941	Buy	3.91	5.16	35	18.8	19.8	2.4	2.3	2.8	3.0
KL Kepong	KLK MK	5,483	Buy	20.98	29.90	45	16.4	21.0	1.9	1.8	3.7	2.9
First Resources	FR SP	1,750	Buy	1.48	1.81	24	12.6	11.6	1.5	1.4	3.8	4.3
Genting Plant	GENP MK	1,568	Buy	7.23	9.50	34	18.6	22.1	1.3	1.3	3.1	2.7
Bumitama Agri	BAL SP	663	Buy	0.51	0.93	86	6.9	6.5	1.0	0.9	5.8	6.1
Swk Oil Palms	SOP MK	507	Buy	3.68	5.80	62	7.7	8.9	0.8	0.8	3.9	3.4
TSH Resources	TSH MK	381	Buy	1.14	1.46	29	12.1	16.4	1.0	1.0	2.3	1.8
Boustead Plant	BPLANT MK	336	Buy	0.62	0.81	36	13.8	26.7	0.5	0.5	5.8	2.2
Ta Ann	TAH MK	323	Buy	3.00	3.27	13	8.5	12.8	0.9	0.8	6.7	3.9
TH Plantations	THP MK	120	Sell	0.56	0.44	(21)	9.3	16.4	0.8	0.7	0.0	0.0

Fig 1: Malaysia's Monthly Palm Oil Statistics for June - Aug 2021

	June 21 (t)	July 21 (t)	Aug 21 (t)	MoM chg (%)	YoY chg (%)	8M21 (t)	YoY chg (%)
Production	1,606,187	1,522,703	1,702,430	12	(9)	11,589,142	(9)
Imports	113,126	54,381	91,408	68	183	851,151	86
Consumption	255,501	292,805	252,743	(14)	(19)	2,192,185	(6)
Exports	1,419,004	1,402,042	1,162,812	(17)	(26)	9,639,060	(14)
Closing stock	1,614,226	1,496,463	1,874,746	25	10	1,874,746	10

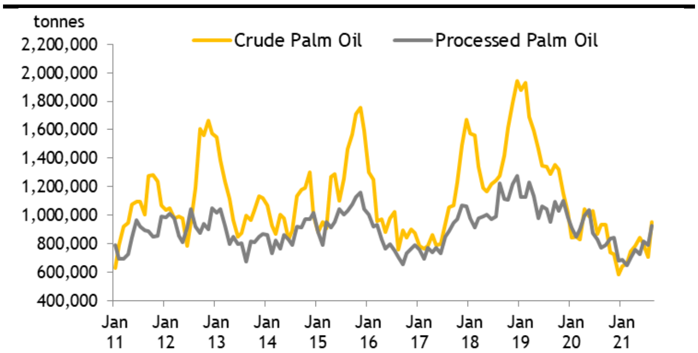
Source: MPOB

Fig 2: Malaysia's Monthly Export Destinations for June - Aug 2021

	June 21 (t)	July 21 (t)	Aug 21 (t)	MoM chg (%)	YoY chg (%)	8M21 (t)	YoY chg (%)
Bangladesh	10,455	2,634	3,617	37	100	73,768	(71)
China	215,534	166,425	137,458	(17)	(53)	1,045,469	(50)
EU	148,115	213,139	107,991	(49)	(32)	1,076,641	(28)
India	280,671	234,038	303,297	30	(8)	2,113,500	36
Pakistan	66,358	51,604	52,401	2	(12)	409,765	(49)
Philippines	31,264	53,396	42,577	(20)	(6)	387,082	(25)
Turkey	3,199	80,969	53,929	(33)	115	434,743	(9)
USA	11,632	32,234	24,012	(26)	(43)	187,291	(57)
Vietnam	39,855	38,159	15,981	(58)	(42)	200,876	(42)
Others	611,921	529,444	421,549	(20)	(29)	3,709,925	(23)
Total	**1,419,004**	**1,402,042**	**1,162,812**	(17)	(26)	**9,639,060**	(14)

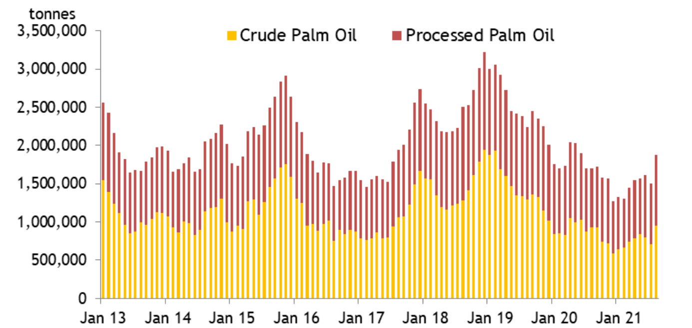
Source: MPOB

Fig 3: Monthly Stockpile (by type)



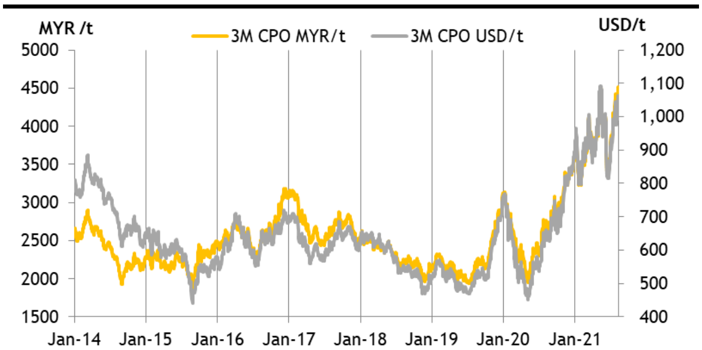
Source: MPOB

Fig 4: Cumulative Palm Oil Monthly Stockpile



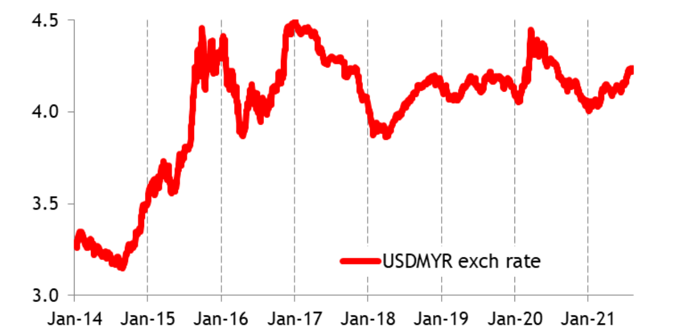
Source: MPOB

Fig 5: CPO price (in USD and MYR)



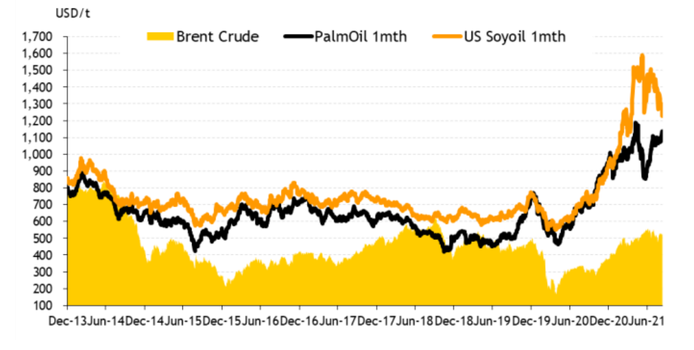
Source: Bloomberg

Fig 6: MYR per USD exchange rate



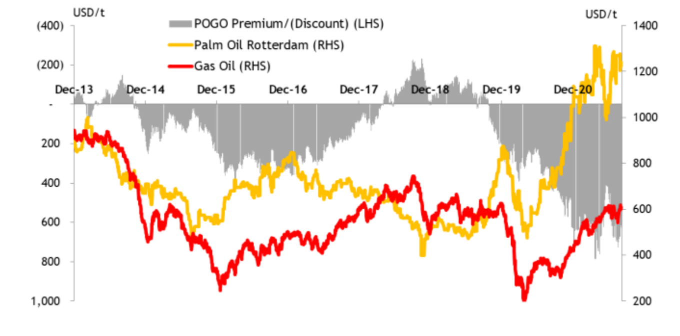
Source: Bloomberg

Fig 7: Soyoil and palm oil vs crude oil price



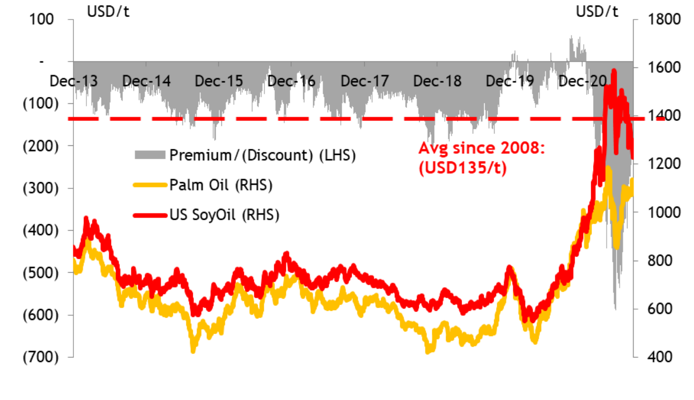
Source: Bloomberg

Fig 8: Palm Oil-Gas Oil (POGO) is unfavourable with palm oil trading at USD630/t (10 Sept 2021) premium to gas oil



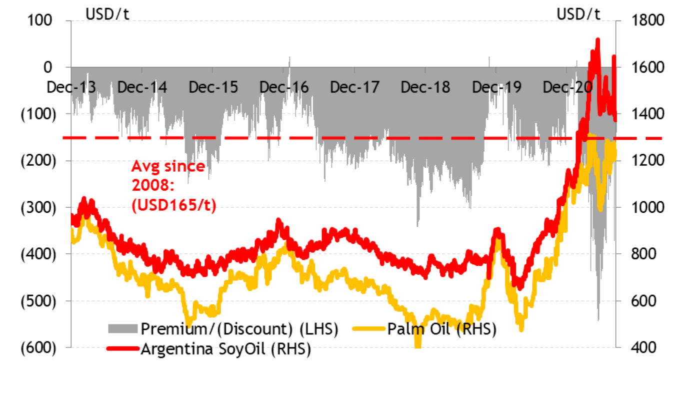
Source: Bloomberg, Maybank-KE

Fig.9: 1M palm oil price at a steep discount to US soybean oil at USD123/t (10 Sept 2021)



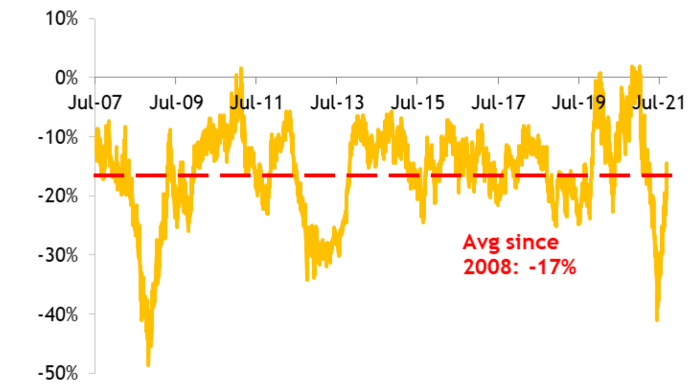
Source: Bloomberg, Maybank-KE

Fig.10: Rotterdam Palm Oil CIF price discount to Argentina Soybean Oil at USD140/t (10 Sept 2021)



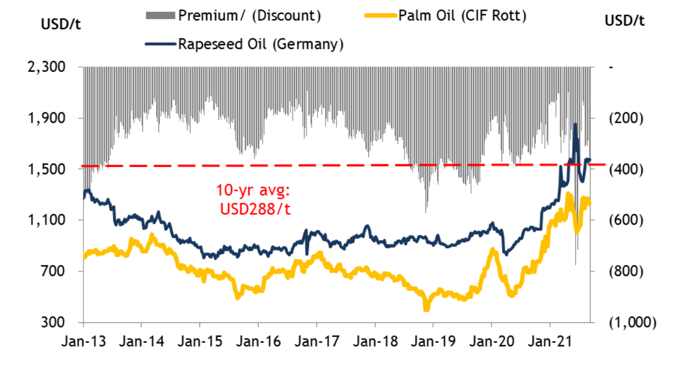
Source: Bloomberg, Maybank-KE

Fig.11: Palm oil price discount (in %) to Argentina soybean oil at -16% (10 Sept 2021)



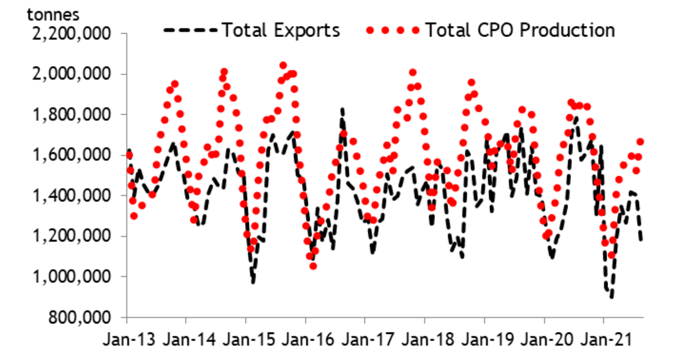
Source: Bloomberg, Maybank-KE

Fig.12: Palm Oil price discount to Germany rapeseed oil at USD337/t (10 Sept 2021)



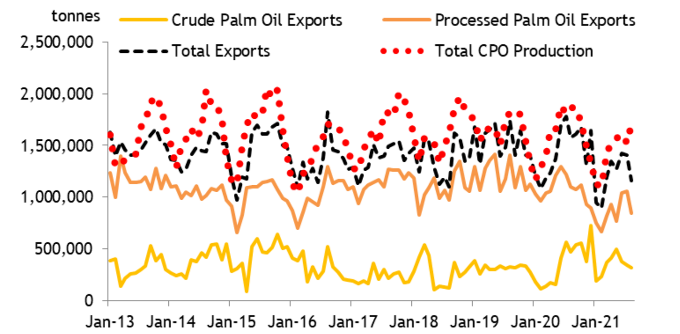
Source: Bloomberg (quoted weekly), Maybank-KE

Fig13: Malaysia's Monthly Export vs Production (by tonnes)



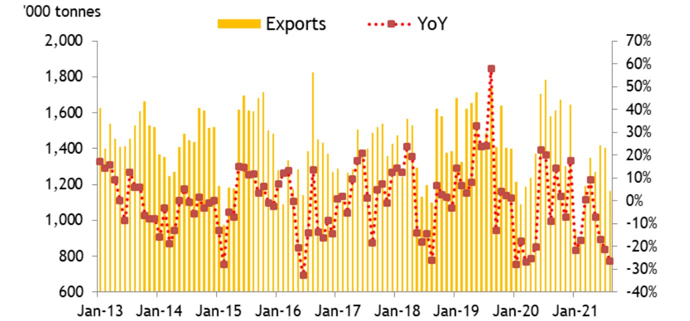
Source: MPOB

Fig 14: Monthly Export of Palm Oil Products (by tonnes)



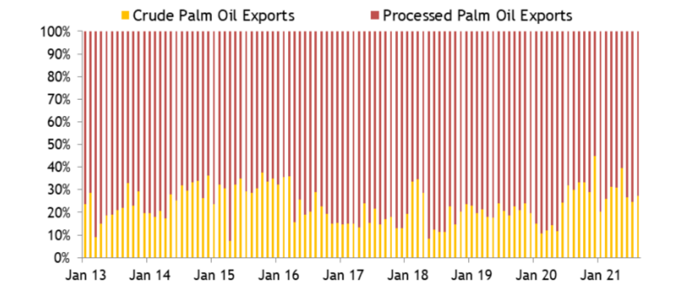
Source: MPOB

Fig 15: Monthly Export Trend of Palm Oil (by tonnes)



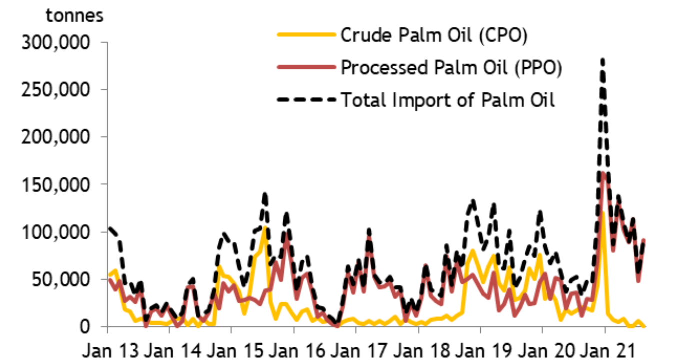
Source: MPOB

Fig 16: Monthly Export of Palm Oil Products (by %)



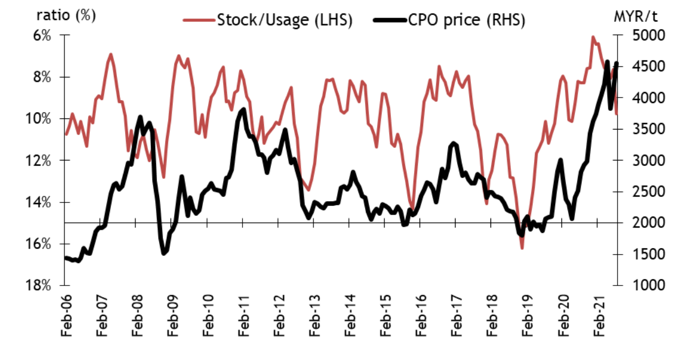
Source: MPOB

Fig 17: Import trend of Palm Oil Products (by tonnes)



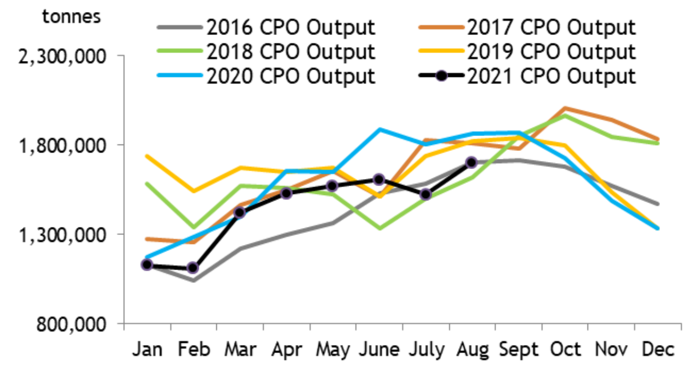
Source: MPOB

Fig 18: Monthly Stock-to-Usage Ratio vs. CPO prices



Source: MPOB, Maybank-KE

Fig 19: Malaysia's CPO production output



Source: MPOB

Fig 20: India's import duty and levy of vegetable oils

Product / Effective	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 %	11 Sept 21 %
Crude palm oil	7.5	15.0	30.0	44.0	44.0	40.0	40.0	37.5	27.5	32.5	27.5	27.5	22.5
Crude sunflower oil	12.5	12.5	25.0	25.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	27.5	22.5
Crude rapeseed oil	12.5	12.5	25.0	25.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0
Refined palm oil & Olein	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	32.5
Refined rapeseed oil	20.0	20.0	35.0	35.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0
Refined sunflower oil & others	20.0	20.0	35.0	35.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	37.5	32.5
Refined soybean oil	20.0	20.0	35.0	35.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	37.5	32.5
Degummed soybean oil	12.5	17.5	30.0	30.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	27.5	22.5

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

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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