Maybank Kim Eng

Plantations

Regional

Regional Plantations

NEUTRAL *[Unchanged]*

Low Sept stockpile supportive of CPO price for now

Fearing a strong ID output recovery in 4Q and 2021

Healthy September exports have helped kept Malaysia's stockpile low, aided by zero CPO export levy and weak 3Q20 Indonesian (ID) output. We believe a relatively stronger 4Q20 ID's FFB output recovery may cap near term CPO price upside. Still, there is upside risk to our 2020's CPO ASP of MYR2,400/t (YTD: MYR2,589/t) but this is priced in, in our view. Next year, given expectation of a strong output recovery post biological tree stress in ID, aided by anticipated good rainfall due to La Nina, we are keeping our CPO ASP est. of MYR2,400/t. Our sector NEUTRAL call is unchanged. BUYs remain with FR, BAL, SOP, BPLANT. SELL IOI and GENP.

Still tight September stockpile at 1.73mt

MPOB's Sept 2020 stockpile of 1.73mt (+1% MoM, -30% YoY) came in within street estimates. The relatively flattish MoM stockpile was mainly due to flattish output of 1.87mt (flat MoM, +1% YoY) that was matched (in absolute terms) by a combination of marginally higher exports of 1.61mt (+2% MoM, +14% YoY), lower domestic consumption of 0.28mt (-7% MoM, -4% YoY) and higher imports (+49% MoM, -32% YoY) – Fig.1. The marginally higher MoM September exports were due to higher exports to several major destinations, namely India (+14% MoM, +21% YoY), Philippines (+51% MoM, -1% YoY), Turkey (+77% MoM, +178% YoY), USA (+11% MoM, +50% YoY), and Bangladesh (+1755% MoM, -18% YoY) – Fig 2.

Prelim. est. for Oct exports on track to be flat MoM

The preliminary Malaysian export estimates for shipments in the first 10 days of October by Amspec and Intertek (independent cargo surveyors) were 535,552t / 529,462t (+13% / +12% MoM) respectively. When calendarised for the month of October, the absolute export figure is on course to be in the region of ~1.5-1.6mt. By our preliminary estimates, October's stockpile is likely to inch higher to ~1.82mt.

High CPO price is likely to hurt ID's B30 mandate

3Q20's crop output has been weak in Indonesia due to the lagged effects of a mini-drought there in 3Q19. This was compensated by relatively lofty CPO price in 3Q20 which averaged MYR2,771/t (+37% YoY, +22% QoQ) to compensate for the region's weak output. Nonetheless, we expect Indonesia to finish the year with stronger output in 4Q20, and hence a possible price correction.

The single biggest concern we have is the huge premium that palm oil price has developed over diesel with the POGO spread at USD423/t (9 Oct 2020), a multi-year high (Fig.9). At current spread, the subsidy required for ID's B30 mandate is even higher than the diesel price itself. Markets will inevitably question the sustainability of Indonesia's B30 mandate as the current CPO Fund is unlikely to sustain its B30 mandate beyond the coming few weeks if the spread remains huge and without further government subsidies/ support. In addition, the 3M CPO price is trading at a narrow discount to US soyoil (USD46/t vs historical average of USD150/t – Fig.10). Although it is trading at a wider discount against Germany rapeseed oil at USD266/t in EU, it is nonetheless narrower than the historical average of USD291/t (Fig.13).

Analyst

Ong Chee Ting, CA
(603) 2297 8678
ct.ong@maybank-ib.com

Regional CPO price forecast

	2020F	2021F
	MYR/t	MYR/t
Full year average (FOB)	2,400	2,400
MDEX / MPOB prices:		
3M CPO price (11 Oct)	2,911	
YTD (11 Oct) 3M CPO ASP	2,532	
YTD (11 Oct) spot CPO ASP	2,589	

Terms used in this note:

ASP – Average Selling Price
CPO - Crude Palm Oil
mt – million tonnes
ID - Indonesia
MPOB – Malaysian Palm Oil Board
POGO – Palm Oil - Gas Oil (ie diesel)
SMID – Small-to-Mid Cap
t - tonnes
YTD – Year-to-date

Corporate (Bloomberg) tickers:

BAL – Bumitama Agri (BUY; TP: SGD0.74)
BPLANT- Boustead Plantations (BUY; TP: MYR0.62)
FR – First Resource (BUY: TP: SGD1.79)
GENP – Genting Plantations (SELL; TP: MYR8.60)
IOI – IOI Corporation (SELL; TP: MYR4.27)
KLK – Kuala Lumpur Kepong (HOLD; TP: MYR23.70)
SDPL – Sime Darby Plantation (HOLD; TP: MYR5.19)
SOP – Sarawak Oil Palms (BUY; TP: MYR4.31)
TAH – Ta Ann Holdings (HOLD; TP: MYR2.89)
THP – TH Plantations (HOLD; TP: MYR0.35)
TSH – TSH Resources (HOLD; TP: MYR1.04)

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							20E	21E	20E	21E	20E	21E
Sime Darby Plant	SDPL MK	8,303	Hold	5.00	5.19	6	39.5	44.9	2.5	2.4	1.8	1.1
IOI Corp	IOI MK	6,670	Sell	4.40	4.27	(1)	34.1	32.0	2.9	2.9	1.8	1.9
KL Kepong	KLK MK	5,794	Hold	22.22	23.70	9	29.1	27.5	2.2	2.2	2.1	2.2
Genting Plant	GENP MK	2,102	Sell	9.71	8.60	(10)	45.2	35.3	1.8	1.7	1.4	1.7
First Resources	FR SP	1,471	Buy	1.26	1.79	44	12.8	11.1	1.3	1.2	2.3	2.7
Bumitama Agri	BAL SP	628	Buy	0.49	0.74	54	9.6	8.3	1.1	1.0	4.2	4.8
Swk Oil Palms	SOP MK	504	Buy	3.66	4.31	20	14.4	14.2	0.9	0.9	2.1	2.1
TSH Resources	TSH MK	330	Hold	0.99	1.04	6	19.0	17.6	0.9	0.9	1.6	1.7
Ta Ann	TAH MK	296	Hold	2.76	2.89	8	16.2	12.4	0.8	0.8	2.5	3.2
Boustead Plant	BPLANT MK	281	Buy	0.52	0.62	19	246.0	75.7	0.5	0.5	0.2	1.0
TH Plantations	THP MK	99	Hold	0.47	0.35	(25)	195.7	41.1	0.7	0.7	0.0	0.0

Fig 1: Malaysia's Monthly Palm Oil Statistics for July - Sept 2020

	July 20 (t)	Aug 20 (t)	Sept 20 (t)	MoM chg (%)	YoY chg (%)	9M20 (t)	YoY chg (%)
Production	1,807,397	1,863,309	1,869,339	0	1	14,587,257	(4)
Imports	52,691	32,311	48,273	49	(32)	506,797	(27)
Consumption	277,099	307,237	284,383	(7)	(4)	2,608,565	(1)
Exports	1,783,284	1,582,359	1,612,169	2	14	12,770,896	(9)
Closing stock	1,698,036	1,704,060	1,725,120	1	(30)	1,725,120	(30)

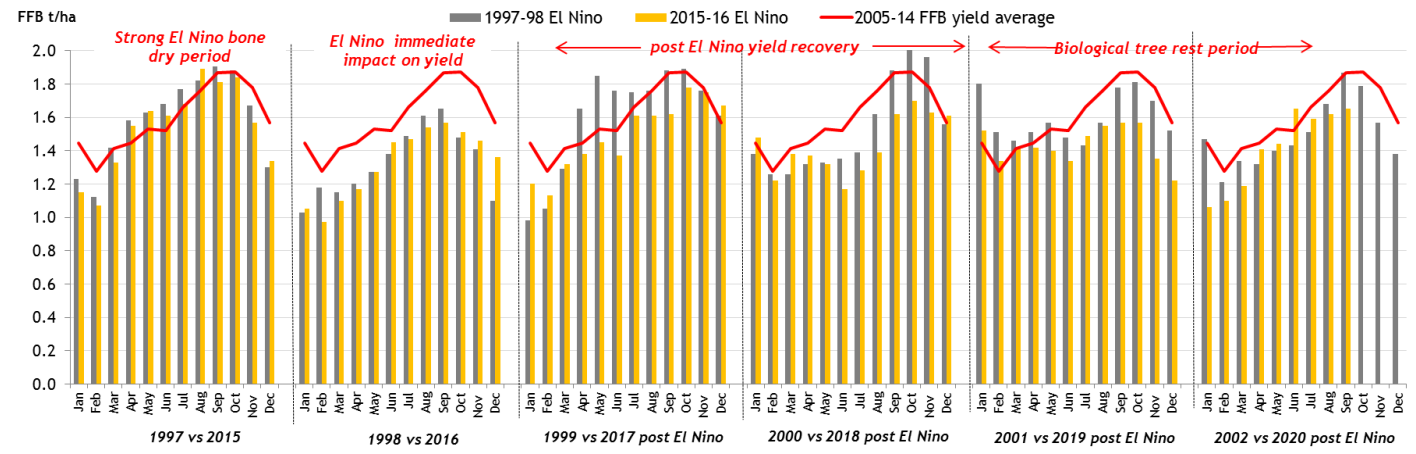
Source: MPOB

Fig 2: Malaysia's Monthly Export Destinations for July - Sept 2020

	July 20 (t)	Aug 20 (t)	Sept 20 (t)	MoM chg (%)	YoY chg (%)	9M20 (t)	YoY chg (%)
Bangladesh	3,340	1,806	33,495	1755	(18)	251,232	206
China	288,648	295,013	249,897	(15)	12	2,092,039	29
EU	172,061	159,180	156,426	(2)	12	1,498,205	(5)
India	455,299	329,827	374,553	14	21	1,550,828	(60)
Pakistan	115,899	59,737	59,160	(1)	(50)	810,255	(1)
Philippines	52,964	45,122	67,987	51	(1)	514,768	6
Turkey	83,034	25,060	44,395	77	178	477,994	(8)
USA	51,036	41,919	46,610	11	50	433,957	(7)
Vietnam	32,156	27,770	26,530	(4)	(52)	347,364	(17)
Others	528,847	596,925	553,116	(7)	37	4,794,254	16
Total	**1,783,284**	**1,582,359**	**1,612,169**	2	14	**12,770,896**	(9)

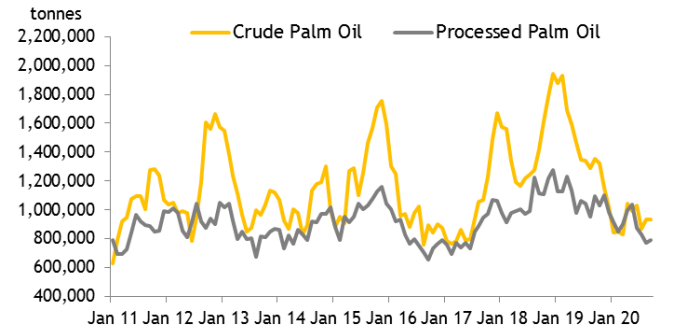
Source: MPOB

Fig 3: Comparison of Malaysia's FFB yield trend pre and post last two major El Ninos of 1997-98 & 2015-16



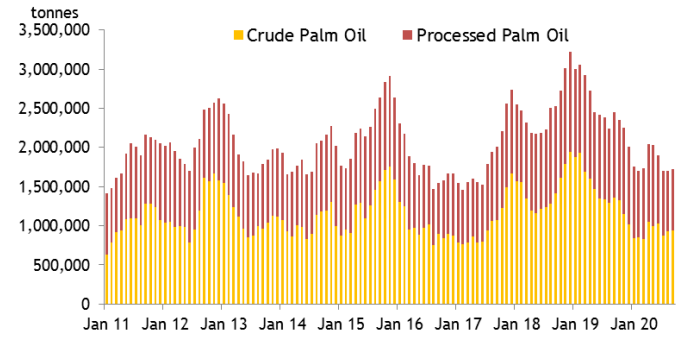
Source: MPOB, Maybank-KE

Fig 4: Monthly Stockpile (by type)



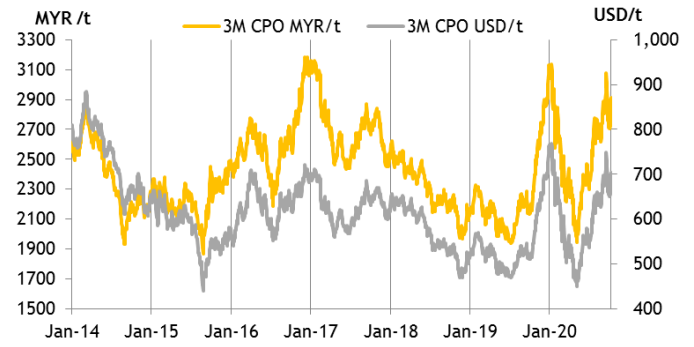
Source: MPOB

Fig 5: Cumulative Palm Oil Monthly Stockpile



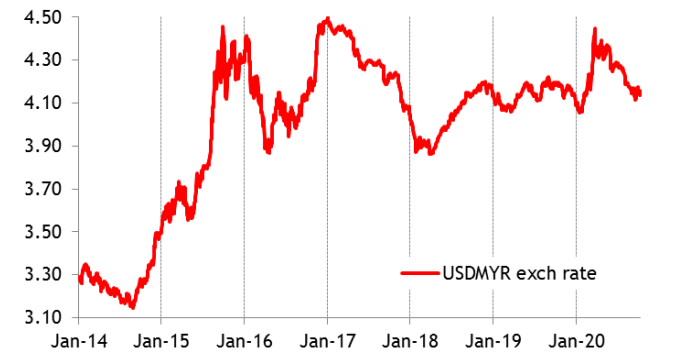
Source: MPOB

Fig 6: CPO price (in USD and MYR)



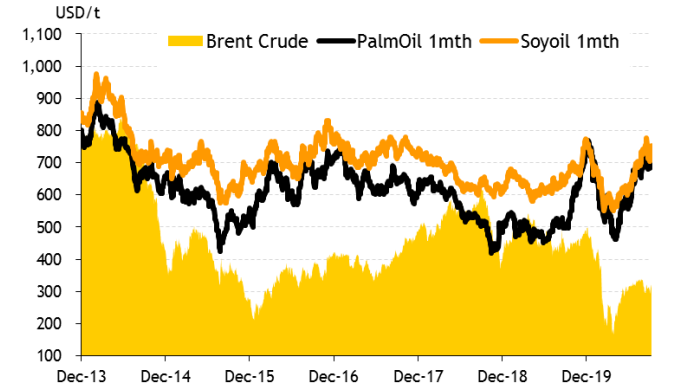
Source: Bloomberg

Fig 7: MYR per USD exchange rate



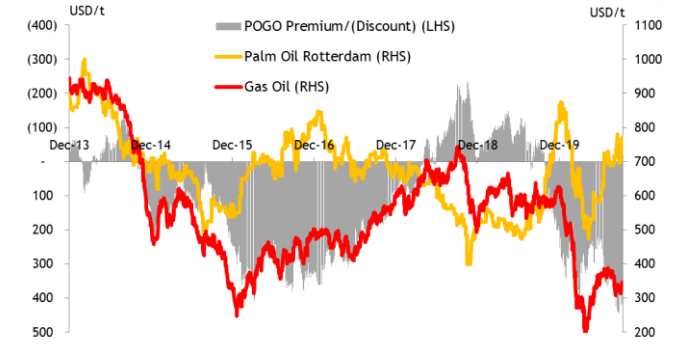
Source: Bloomberg

Fig 8: Soyoil and palm oil vs crude oil price



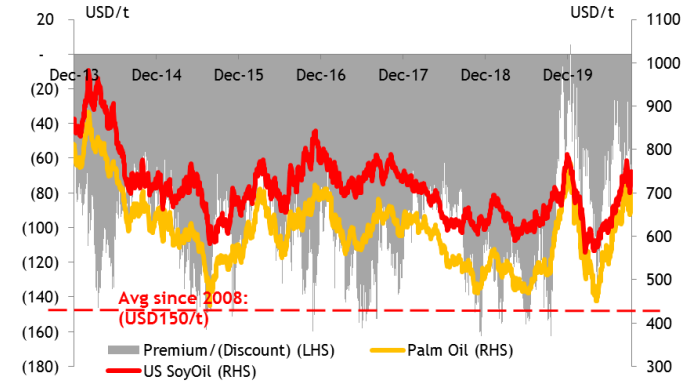
Source: Bloomberg

Fig 9: Palm oil-gas oil (POGO) spread at +USD423/t (9 Oct 2020)



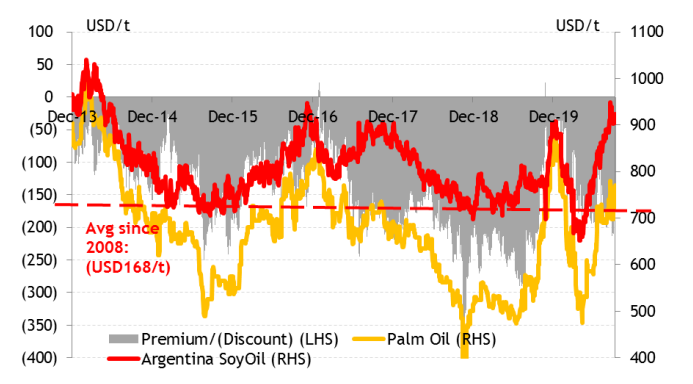
Source: Bloomberg, Maybank-KE

Fig 10: 3M palm oil price discount to US soybean oil at USD46/t (9 Oct 2020)



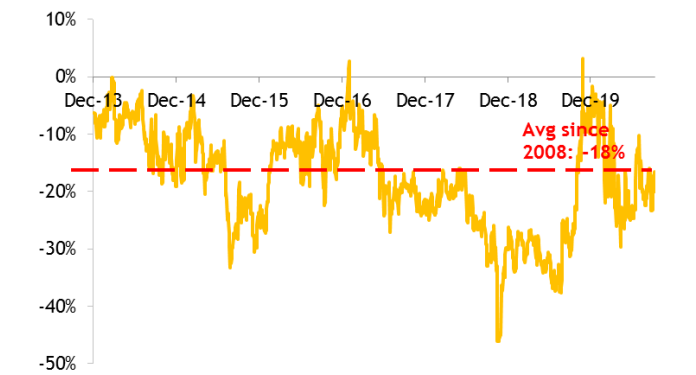
Source: Bloomberg, Maybank-KE

Fig 11: Rotterdam Palm Oil CIF price discount to Argentina Soybean Oil at USD153/t (9 Oct 2020)



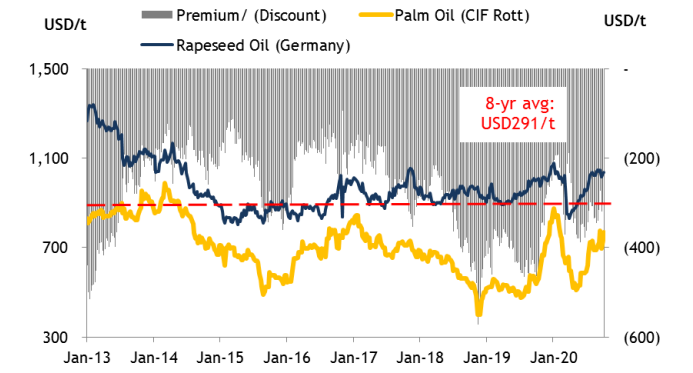
Source: Bloomberg, Maybank-KE

Fig 12: 3M palm oil price discount (in %) to Argentina soybean oil at 17% (9 Oct 2020)



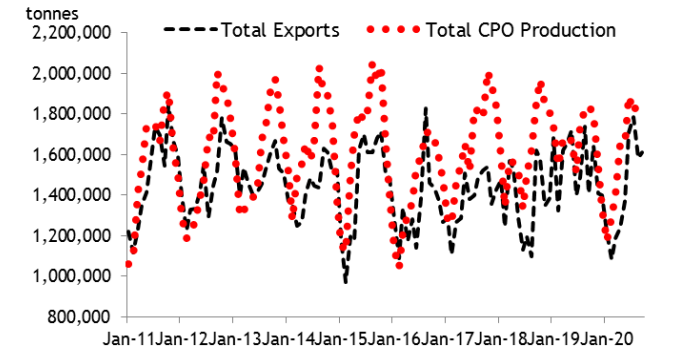
Source: Bloomberg, Maybank-KE

Fig 13: 3M Palm Oil price discount to Germany rapeseed oil at USD266/t (9 Oct 2020)



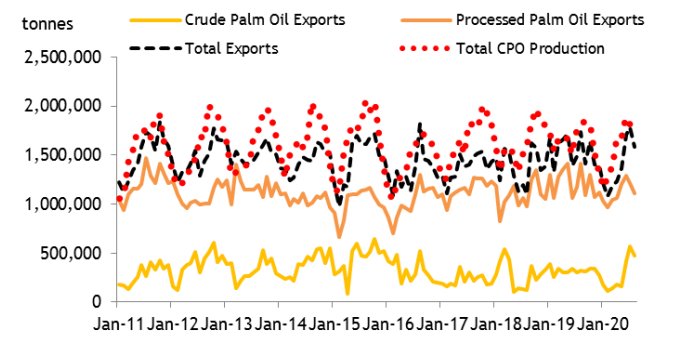
Source: Bloomberg (quoted weekly), Maybank-KE

Fig14: Malaysia's Monthly Exports vs Production (by tonnes)



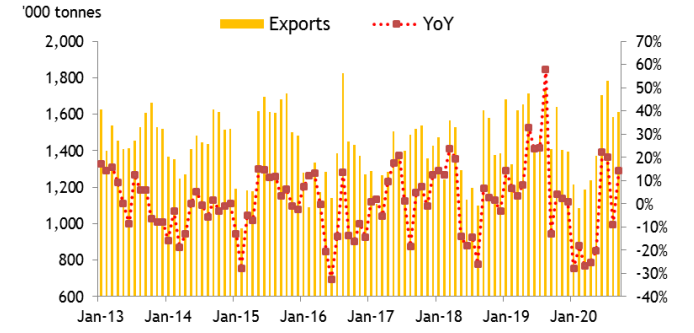
Source: MPOB

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



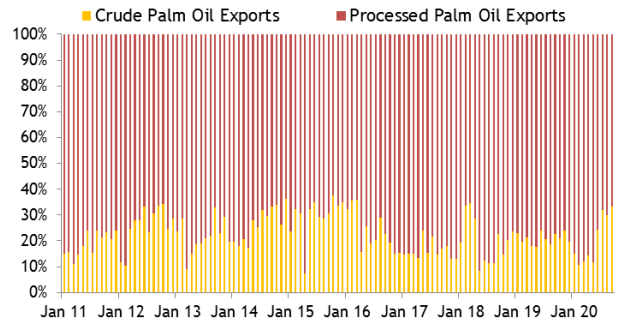
Source: MPOB

Fig 16: Monthly Exports Trends of Palm Oil (by tonnes)



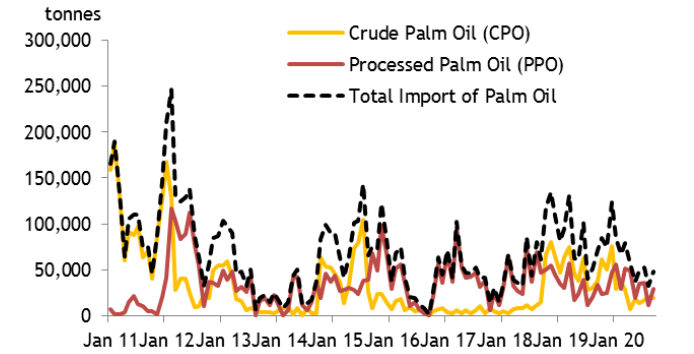
Source: MPOB

Fig 17: Monthly Export of Palm Oil Products (by %)



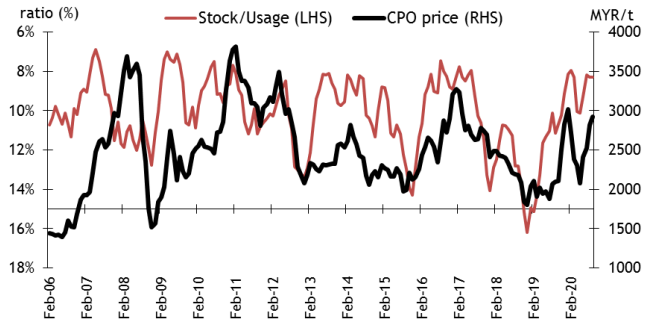
Source: MPOB

Fig 18: Import trend of Palm Oil Products (by tonnes)



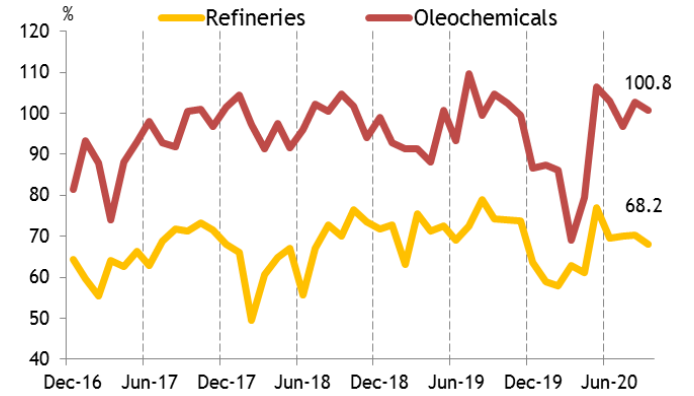
Source: MPOB

Fig 19: Monthly Stock-to-Usage Ratio vs. CPO prices



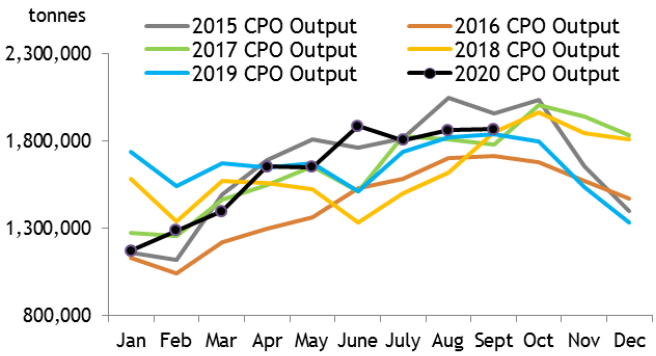
Source: MPOB, Maybank-KE

Fig 20: M'sia's Refinery & Oleochemicals Utilisation Rates



Source: MPOB

Fig 21: Malaysia's CPO production output



Source: MPOB

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: (i) weather anomalies resulting in lower-than-expected output growth; (ii) lower-than-expected CPO price achieved; (iii) negative policies imposed by import countries; (iv) unfriendly government policies at producing countries; (v) sharply lower crude oil prices, which make palm biodiesel demand not viable; and (vi) weaker competing oil prices (like soybean and rapeseed).

Research Offices

MACRO

Sadiq CURRIMBHOY
Head of Regional Macro Research
(65) 6231 5836
sadiq@maybank-ke.com.sg

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank-ke.com.sg

LEE Ju Ye
Singapore | Thailand
(65) 6231 5844
leejuye@maybank-ke.com.sg

Linda LIU
Singapore | Vietnam
(65) 6231 5847
lindaliu@maybank-ke.com.sg

Dr Zamros DZULKAFLI
(603) 2082 6818
zamros.d@maybank-ib.com

Ramesh LANKANATHAN
(603) 2297 8685
ramesh@maybank-ib.com

William POH
(603) 2297 8683
william.poh@maybank-ib.com

FX

Saktiandi SUPAAT
Head of FX Research
(65) 6320 1379
saktiandi@maybank.com.sg

Christopher WONG
(65) 6320 1347
wongkl@maybank.com.sg

TAN Yanxi
(65) 6320 1378
tanyx@maybank.com.sg

Fiona LIM
(65) 6320 1374
fionalim@maybank.com.sg

STRATEGY

Willie CHAN
Regional
(852) 2268 0631
williechan@kimeng.com.hk

Anand PATHMAKANTHAN
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winson PHOON, ACA
(65) 6812 8807
winsonphoon@maybank-ke.com.sg

SE THO Mun Yi
(603) 2074 7606
munyi.st@maybank-ib.com

REGIONAL EQUITIES

Anand PATHMAKANTHAN
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

WONG Chew Hann, CA
Head of ASEAN Equity Research
(603) 2297 8686
wchewh@maybank-ib.com

ONG Seng Yeow
Research, Technology & Innovation
(65) 6231 5839
ongsengyeow@maybank-ke.com.sg

MALAYSIA

Anand PATHMAKANTHAN *Head of Research*
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com
• Strategy

Desmond CH'NG, BFP, FCA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

LIAW Thong Jung
(603) 2297 8688 tjliaw@maybank-ib.com
• Oil & Gas Services- Regional
• Automotive

ONG Chee Ting, CA
(603) 2297 8678 ct.ong@maybank-ib.com
• Plantations - Regional

YIN Shao Yang, CPA
(603) 2297 8916 samuel.y@maybank-ib.com
• Gaming – Regional
• Media • Aviation

TAN Chi Wei, CFA
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679 weisum@maybank-ib.com
• Property

LEE Yen Ling
(603) 2297 8691 lee.yl@maybank-ib.com
• Glove • Ports • Shipping • Healthcare
• Petrochemicals

Kevin WONG
(603) 2082 6824 kevin.wong@maybank-ib.com
• REITs • Technology

Jade TAM
(603) 2297 8687 jade.tam@maybank-ib.com
• Consumer Staples & Discretionary

TEE Sze Chiah *Head of Retail Research*
(603) 2082 6858 szechiah.t@maybank-ib.com

Nik Ihsan RAJA ABDULLAH, MSTA, CFTe
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com
• Chartist

Amirah AZMI
(603) 2082 8769 amirah.azmi@maybank-ib.com
• Retail Research

SINGAPORE

Thilan WICKRAMASINGHE *Head of Research*
(65) 6231 5840 thilanw@maybank-ke.com.sg
• Banking & Finance - Regional
• Consumer

CHUA Su Tye
(65) 6231 5842 chuasutye@maybank-ke.com.sg
• REITs - Regional

LAI Gene Lih, CFA
(65) 6231 5832 laigenelih@maybank-ke.com.sg
• Technology • Healthcare

Kareen CHAN
(65) 6231 5926 kareenchan@maybank-ke.com.sg
• Transport

TAN Chin Poh *Head of Retail Research*
(65) 6231 5928 chinpoh@maybank-ke.com.sg

Eric ONG
(65) 6231 5924 ericong@maybank-ke.com.sg
• Retail Research

Matthew SHIM
(65) 6231 5929
matthewshim@maybank-ke.com.sg
• Retail Research

INDIA

Jigar SHAH *Head of Research*
(91) 22 4223 2632 jigars@maybank.com
• Strategy • Oil & Gas • Automobile • Cement

Neerav DALAL
(91) 22 4223 2606 neerav@maybank.com
• Software Technology • Telcos

Kshitiz PRASAD
(91) 22 4223 2607
kshitiz@maybank.com
• Banks

Vikram RAMALINGAM
(91) 22 4223 2607
vikram@maybank.com
• Automobile • Media

INDONESIA

Isnaputra ISKANDAR *Head of Research*
(62) 21 8066 8680
isnaputra.iskandar@maybank-ke.co.id
• Strategy • Metals & Mining • Cement
• Autos • Consumer • Utility

Rahmi MARINA
(62) 21 8066 8689
rahmi.marina@maybank-ke.co.id
• Banking & Finance

Aurellia SETIABUDI
(62) 21 8066 8691
aurellia.setiabudi@maybank-ke.co.id
• Property

Willy GOUTAMA
(62) 21 8066 8500
willy.goutama@maybank-ke.co.id
• Consumer

PHILIPPINES

Jacqui De JESUS
(63) 2 8849 8844
jacquiannekelly.dejesus@maybank-atrke.com
• Conglomerates

Romel LIBO-ON
(63) 2 8849 8844
romel_libo-on@maybank-atrke.com
• Property

Fredrick De GUZMAN
(63) 2 8849 8847
fredrickdaniel.deguzman@maybank.com
• Consumer • Banking & Finance

Bernadine B BAUTISTA
(63) 2 8849 8847
bernadine.bautista@maybank.com
• Utilities

THAILAND

Maria LAPIZ *Head of Institutional Research*
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399
Maria.L@maybank-ke.co.th
• Strategy • Consumer • Materials • Services

Jesada TECHAHUSDIN, CFA
(66) 2658 6300 ext 1395
jesada.t@maybank-ke.co.th
• Banking & Finance

Kaushal LADHA, CFA
(66) 2658 6300 ext 1392
Kaushal.l@maybank-ke.co.th
• Oil & Gas – Regional
• Petrochemicals - Regional

Vanida GEISLER, CPA
(66) 2658 6300 ext 1394
Vanida.G@maybank-ke.co.th
• Property

Yuwanee PROMMAPORN
(66) 2658 6300 ext 1393
Yuwanee.P @maybank-ke.co.th
• Services

Ekachai TARAPORNTIP *Head of Retail Research*
(66) 2658 5000 ext 1530
Ekachai.t@maybank-ke.co.th

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank-ke.co.th
• Food & Beverage • Commerce

Jaroonpan WATTANAWONG
(66) 2658 5000 ext 1404
jaroonpan.w@maybank-ke.co.th
• Transportation • Small cap

Thanatphat SUKSRICHAVALIT
(66) 2658 5000 ext 1401
thanaphat.s@maybank-ke.co.th
• Media • Electronics

Wijit ARAYAPISIT
(66) 2658 5000 ext 1450
wijit.a@maybank-ke.co.th
• Strategist

Theerasate PROMPONG
(66) 2658 5000 ext 1400
theerasate.p@maybank-ke.co.th
• Equity Portfolio Strategist

Apiwat TAVESIRIVATE
(66) 2658 5000 ext 1310
apiwat.t@maybank-ke.co.th
• Chartist and TFEX

VIETNAM

Quan Trong Thanh
(84 28) 44 555 888 ext 8184
thanh.quan@maybank-kimeng.com.vn
• Banks

Le Nguyen Nhat Chuyen
(84 28) 44 555 888 ext 8082
chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

Nguyen Thi Sony Tra Mi
(84 28) 44 555 888 ext 8084
mi.nguyen@maybank-kimeng.com.vn
• Consumer

Tyler Manh Dung Nguyen
(84 28) 44 555 888 ext 8180
dung.nguyen@maybank-kimeng.com.vn
• Utilities • Property

Nguyen Thi Ngan Tuyen
Head of Retail Research
(84 28) 44 555 888 ext 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil & Gas • Banking

Nguyen Thanh Lam
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank-kimeng.com.vn
• Technical Analysis

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Malaysia
Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

Singapore
Maybank Kim Eng Securities Pte Ltd
Maybank Kim Eng Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

London
Maybank Kim Eng Securities (London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302

New York
Maybank Kim Eng Securities USA Inc
400 Park Avenue, 11th Floor
New York, New York 10022,
U.S.A.

Tel: (212) 688 8886
Fax: (212) 688 3500

Hong Kong
Kim Eng Securities (HK) Ltd
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104

Indonesia
PT Maybank Kim Eng Securities
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

India
Kim Eng Securities India Pvt Ltd
1101, 11th floor, A Wing, Kanakia
Wall Street, Chakala, Andheri -
Kurla Road, Andheri East,
Mumbai City - 400 093, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604

Philippines
Maybank ATR Kim Eng Securities Inc.
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 8849 8888
Fax: (63) 2 8848 5738

Thailand
Maybank Kim Eng Securities (Thailand) Public Company Limited
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)

Vietnam
Maybank Kim Eng Securities Limited
4A-15+16 Floor Vincom Center Dong
Khoi, 72 Le Thanh Ton St. District 1
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888
Fax : (84) 8 38 271 030

Saudi Arabia
In association with
Anfaal Capital
Ground Floor, KANOO Building
No.1 - Al-Faisaliyah,Madina Road,
P.O.Box 126575 Jeddah 21352
Kingdom of Saudi Arabia

Tel: (966) 920023423

South Asia Sales Trading
Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank-ke.com.sg
Tel: (65) 6636-3620
US Toll Free: 1-866-406-7447

Indonesia
Iwan Atmadjaja
iatmadjaja2@bloomberg.net
(62) 21 8066 8555

New York
James Lynch
jlynch@maybank-keusa.com
Tel: (212) 688 8886

Philippines
Keith Roy
keith_roy@maybank-atrke.com
Tel: (63) 2 848-5288

North Asia Sales Trading
Andrew Lee
andrewlee@kimeng.com.hk
Tel: (852) 2268 0283
US Toll Free: 1 877 837 7635

London
Greg Smith
gsmith@maybank-ke.co.uk
Tel: (44) 207-332-0221

India
Sanjay Makhija
sanjaymakhija@maybank-ke.co.in
Tel: (91)-22-6623-2629

www.maybank-ke.com | www.maybank-keresearch.com