11 December 2020

Agriculture | Plantation

Plantation

Neutral (Maintained)

An Early Start To The Low Season

Stocks Covered	15
Rating (Buy/Neutral/Sell):	7 / 7 / 1
Last 12m Earnings Revision Trend:	Negative

- **Maintain NEUTRAL with Top Picks: Wilmar International, First Resources, Sarawak Oil Palms and Kuala Lumpur Kepong.** Malaysia's production fell further in November, an early start to the low season. We expect output to remain weak until 1Q21, thereby buoying CPO prices, before improving in late-2Q21 – leading to a moderation in prices.
- **Nov 2020's production was -13.5% MoM** (YTD-Nov 2020 output: -3.9% YoY). MoM. Production dropped across the nation, with Peninsular (-14.5%) taking the lead, followed by Sabah (-13.8%) and Sarawak (-10.7%).
- **Exports fell 22.2% MoM in Nov 2020,** bringing YTD exports to -7.6% YoY. This was due to declines from India (-52% MoM) and Bangladesh (-66% MoM), but slightly offset by an increase from China (58% MoM).
- **Inventory levels dropped to 1.56m (-0.6% MoM) in Nov 2020, the lowest in three years**. Annualised stock/usage ratio remained at 7.6% – below the 15-year historical mean of 9.8%. We expect stock levels to remain low in Dec and into 1Q21 as production remains in low season.
- **Latest developments:**
  i. **CPO prices remain buoyant** as soybean prices and recently Brent crude prices rise. The recent change in Indonesian export levies also provided confidence that the biodiesel mandate will be met, thus pushing prices up further. However, demand degradation from the high prices is a concern, with CPO now at a USD40.00/tonne premium to SBO;
  ii. **YTD-Oct 2020, China's palm oil imports fell 16% YoY.** China's CPO stock levels have recovered somewhat, down 23% YoY in November, while soybean stock levels remained high. China's CPO imports from Malaysia fell 11% YoY but rose 58% MoM in November. Given the price premium however, demand from China could moderate in the near term.
  iii. **YTD-Oct 2020, India's CPO demand fell 27% YoY.** Stock levels remained low in India (Nov 2020: -53% YoY), with the newly lowered CPO import duties of 27.5% (from 37.5%) taking effect from end-November. We expect CPO imports to rise in Dec 2020, after falling 52% MoM in Nov 2020, particularly since duties on SBO were kept at 35%.
  iv. **3Q20 results wrap.** We saw above expectation results this quarter, with seven companies beat, four in line and four missed. This was due to the leverage of higher CPO prices and downstream margins in Indonesia. This was offset by weaker-than-expected FFB output in Indonesia, with the pure Indonesian companies seeing a drop in output of c.7.5% YoY in 3Q20 vs -1.7% for the Malaysian companies. Indonesian output has started to pick up since Sep 2020 and is expected to peak in November, while Malaysia's peak is over. This, together with still strong CPO prices should ensure another good quarter for planters in 4Q20.
- **Still NEUTRAL on the sector.** While we expect prices to remain buoyant until 1Q21 on low stock levels and the low output season, we believe prices would moderate from late-2Q20, as productivity improves. Risks include: *La Nina* impact worsening in South America, crude oil prices reversing its trend, Malaysian labour shortage exacerbating, and rising ESG concerns.

Company Name	Rating	Target Price	% Upside (Downside)	P/E (x) Dec-21F	P/B (x) Dec-21F	Yield (%) Dec-21F
Bumitama Agri	BUY	SGD0.60	14.1	9.2	1.1	3.7
First Resources	BUY	SGD1.45	3.8	12.3	1.3	2.7
Kuala Lumpur Kepong	BUY	MYR26.65	12.4	26.6	2.3	2.3
Sarawak Oil Palms	BUY	MYR4.85	16.3	13.8	0.9	1.7
Ta Ann	BUY	MYR4.50	39.8	10.9	0.9	3.1
TSH Resources	BUY	MYR1.25	6.6	18.9	1.0	1.7
Wilmar International	BUY	SGD5.85	38.9	14.4	1.0	3.1
Astra Agro Lestari	NEUTRAL	IDR10,600	(11.1)	22.6	1.2	1.2
CB Industrial Product	NEUTRAL	MYR1.05	(9.7)	11.7	0.8	2.6
Genting Plantations	NEUTRAL	MYR10.30	4.5	29.0	1.7	1.9
IJM Plantations	NEUTRAL	MYR1.90	(0.8)	16.3	1.3	2.0
IOI Corp	NEUTRAL	MYR4.10	(7.9)	28.1	2.9	2.2
PP London Sumatra Indonesia	NEUTRAL	IDR1,060	(14.2)	19.9	1.0	1.7
Sime Darby Plantation	NEUTRAL	MYR4.80	(4.5)	32.8	2.4	1.3
Golden Agri	SELL	SGD0.13	(15.7)	31.9	0.4	0.6

Source: Company data, RHB

Top Picks	Target Price
Wilmar International (WIL SP) – BUY	SGD5.85
First Resources (FR SP) - BUY	SGD1.45
Sarawak Oil Palms (SOP MK) – BUY	MYR4.85
Kuala Lumpur Kepong (KLK MK) – BUY	MYR26.65

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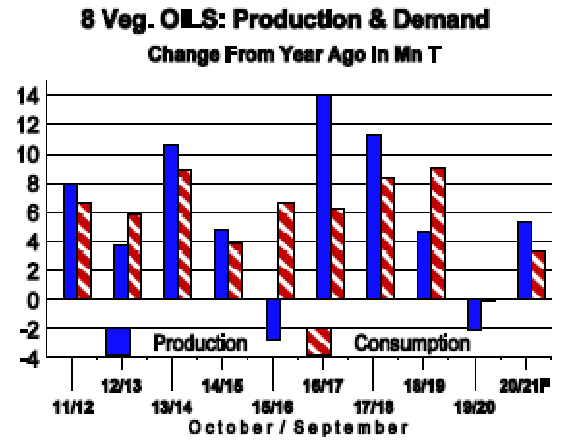
Eight vegetable oils demand and supply change



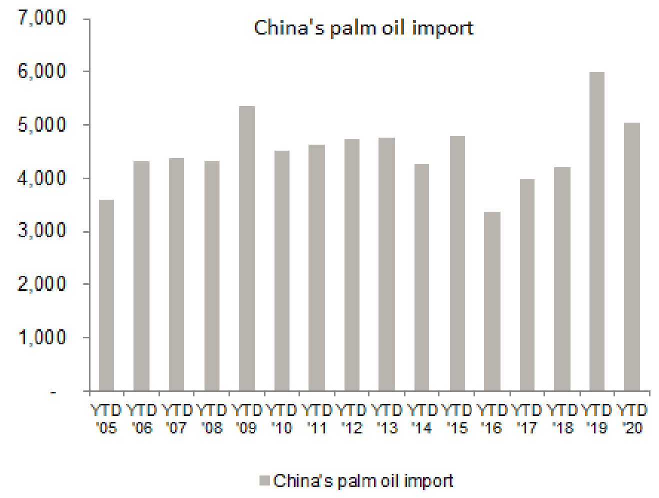
Source: Oil World

Figure 1: Monthly CPO statistics

('000 tonnes)	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Opening stocks	2,352	2,255	2,011	1,755	1,700	1,730	2,045	2,030	1,898	1,698	1,704	1,722	1,574
Imports	75	123	85	67	79	57	37	49	53	32	48	45	113
Production	1,538	1,334	1,172	1,289	1,397	1,653	1,651	1,886	1,807	1,863	1,869	1,724	1,492
Total supply	3,965	3,712	3,267	3,111	3,177	3,439	3,734	3,964	3,758	3,594	3,622	3,492	3,178
Exports	1,406	1,398	1,214	1,082	1,185	1,236	1,369	1,711	1,783	1,582	1,612	1,674	1,303
Domestic use	304	303	298	328	263	157	335	355	277	307	287	244	310
Total off take	1,710	1,701	1,512	1,410	1,447	1,394	1,704	2,066	2,060	1,890	1,900	1,918	1,613
End-month stocks	2,255	2,011	1,755	1,700	1,730	2,045	2,030	1,898	1,698	1,704	1,722	1,574	1,565
Production YTD	**18,524**	**19,858**	**1,172**	**2,460**	**3,857**	**5,510**	**7,161**	**9,047**	**10,855**	**12,718**	**14,587**	**16,312**	**17,803**
MoM (%)	(14.4)	(13.3)	(12.2)	10.0	8.4	18.3	(0.1)	14.2	(4.2)	3.1	0.3	(7.7)	(13.5)
YoY (%)	(16.6)	(26.2)	(32.6)	(16.6)	(16.4)	0.2	(1.2)	24.8	3.8	2.3	1.5	(4.0)	(3.0)
YTD (%)	4.6	1.8	(32.6)	(25.0)	(22.1)	(16.6)	(13.5)	(7.5)	(5.8)	(4.7)	(4.0)	(4.0)	(3.9)
Exports YTD	**17,055**	**18,453**	**1,214**	**2,296**	**3,480**	**4,717**	**6,086**	**7,796**	**9,580**	**11,162**	**12,774**	**14,448**	**15,752**
MoM (%)	(14.4)	(0.5)	(13.2)	(10.8)	9.4	4.4	10.7	25.0	4.2	(11.3)	1.9	3.9	(22.2)
YoY (%)	2.2	1.1	(27.8)	(18.1)	(26.8)	(25.2)	(20.2)	23.7	19.8	(8.8)	14.3	2.0	(7.3)
YTD (%)	12.2	11.2	(27.8)	(23.5)	(24.7)	(24.8)	(23.8)	(16.8)	(11.8)	(11.4)	(8.8)	(7.7)	(7.6)
Stocks													
MoM (%)	(4.1)	(10.8)	(12.7)	(3.1)	1.7	18.3	(0.8)	(6.5)	(10.6)	0.4	1.1	(8.6)	(0.6)
YoY (%)	-25.0	-37.5	-41.6	-44.4	-40.8	-25.1	-17.1	-21.3	-28.6	-23.9	-29.7	-33.1	-30.6

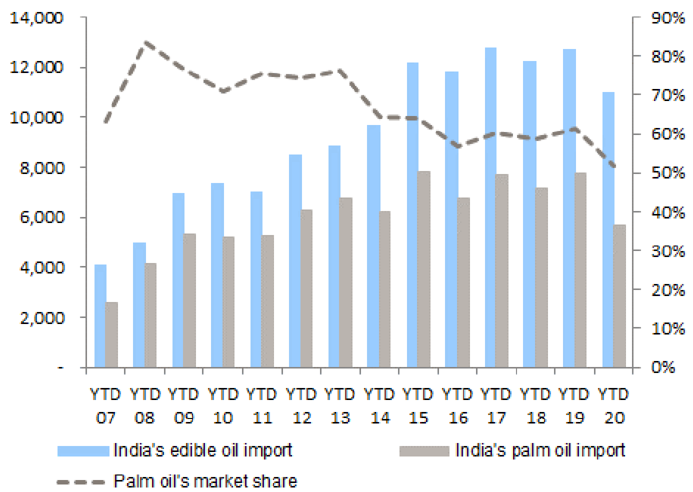
Source: Malaysian Palm Oil Board (MPOB), RHB

Figure 2: China's CPO imports declined 16% YTD-Oct 2020



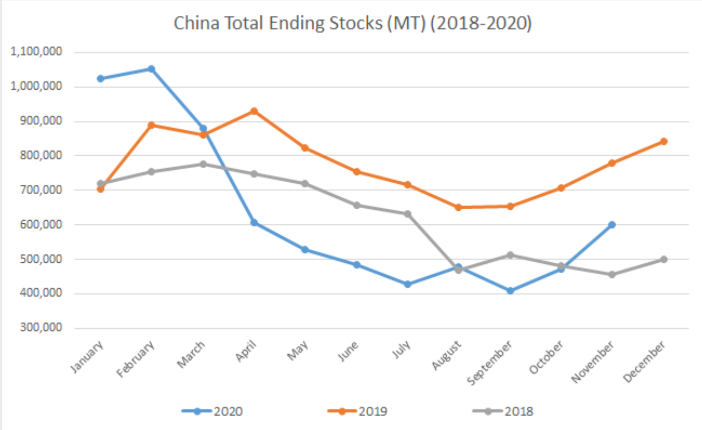
Source: Bloomberg

Figure 3: India's edible oil imports were down 13.8% YTD-Oct 2020 while CPO imports fell by 27% YoY



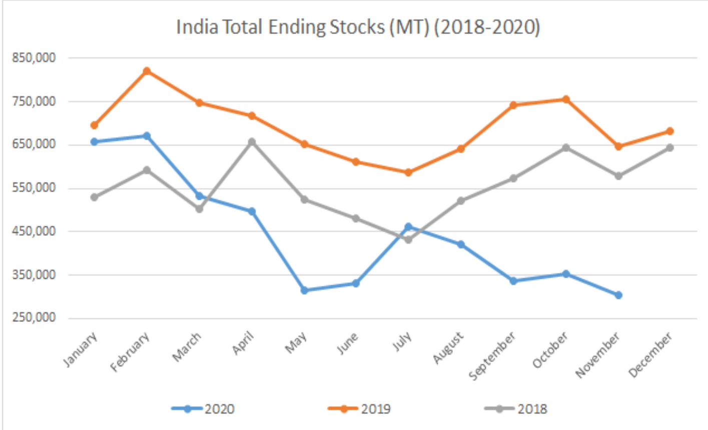
Source: Bloomberg

Figure 4: China's palm oil stock levels were down 23% YoY in Nov 2020



Source: Malaysian Palm Oil Council (MPOC)

Figure 5: India's vegetable oil stock levels were down 53% YoY in Nov 2020



Source: MPOC

Figure 6: Global soybean demand and supply

SOYBEANS : World Supply and Demand (Mn T)	20/21F	19/20	18/19	17/18
Opening stocks	97.10	111.00	93.42	93.77
Production	361.75*	338.30	360.99	343.25
N. Hemisphere	163.57*	144.53	169.60	168.58
EU-28	2.71*	2.75	2.85	2.68
Russia&Ukraine	8.10*	9.20*	8.83*	8.12*
Canada	6.14	6.15	7.42	7.72
U.S.A.	113.50	96.67	120.51	120.07
China, P.R.	17.90*	15.97	14.34	16.66
India	9.80*	8.50*	10.50*	8.30*
S. Hemisphere	198.18*	193.77	191.39	174.67
Argentina	49.50*	49.60*	54.30*	34.80*
Brazil	131.00*	126.50*	120.75*	123.38*
Paraguay	10.00*	10.55	8.52	9.95*
Uruguay	2.50*	2.35*	2.95*	1.50*
Total supply	458.85*	449.30	454.41	437.02
Crush (Sept/Aug) .	321.23*	309.09	301.76	302.89
Other use	44.10*	43.11	41.65*	40.71
Ending stocks	93.52*	97.10	111.00	93.42
U.S.A. Aug 31	5.00*	14.25	24.74	11.92
Argentina Aug 31	36.50*	33.20*	32.90*	23.60*
Brazil Aug 31	24.45*	22.45*	36.08*	35.42*
Other countries	27.57*	27.20*	17.28*	22.48*
Stocks/usage	25.6%	27.6%	32.3%	27.2%

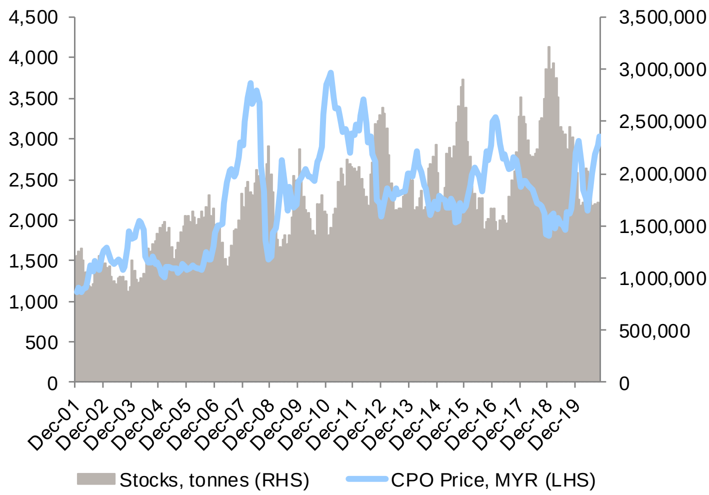
Source: Oil World

Figure 7: Global palm oil demand and supply

	Oct / Sept		
	20/21F	19/20	18/19
Op'g stocks	12.50*	14.87	14.62
Production .	77.89*	73.47	77.93
Indonesia . . .	45.28*	42.05*	44.23
Malaysia. . . .	19.70*	19.25	20.81
Imports.	53.31*	50.95	55.28
EU-28	8.27*	8.32*	8.68
China, P.R.	6.66*	6.84	6.89
India	8.70*	7.68	10.04
Pakistan . . .	3.27*	3.23	3.09
Exports.	53.43*	50.66	55.02
Indonesia . .	29.83*	27.59	30.15
Malaysia . . .	17.10*	17.21	18.36
Consumption	77.31*	76.14	77.94
Indonesia . . .	15.26*	15.10*	14.65
India	8.84*	8.48*	10.18
EU-28	8.20*	8.35*	8.51
China, P.R.	6.62*	6.96*	6.53
End'g stocks	12.95*	12.50	14.87
Indonesia . .	5.10*	4.90*	5.52
Malaysia . . .	2.00*	1.72	2.45
China, P.R.	.70*	.67*	.81
India	.98*	.84*	1.37
Stocks/usage	16.8%	16.4%	19.1%

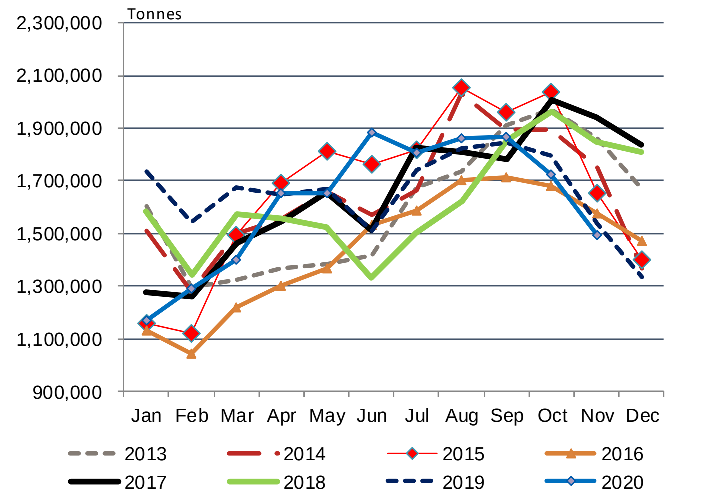
Source: Oil World

Figure 8: CPO inventory levels at 1.56m tonnes



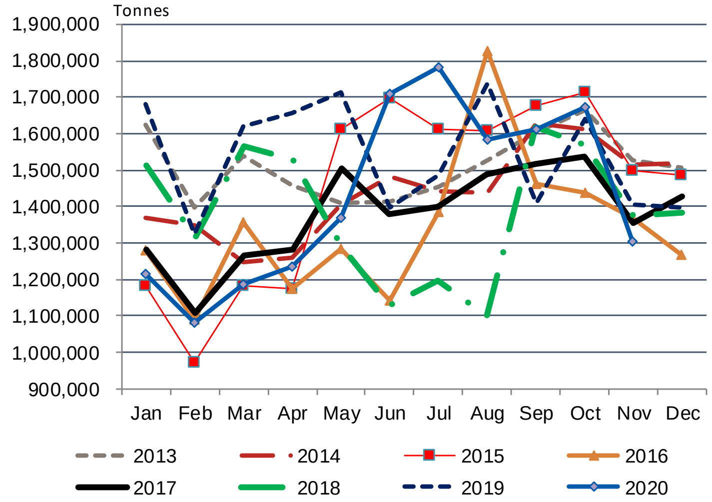
Source: MPOB, Bloomberg

Figure 9: Malaysia's CPO production (-3.9% YoY YTD-Nov 2020)



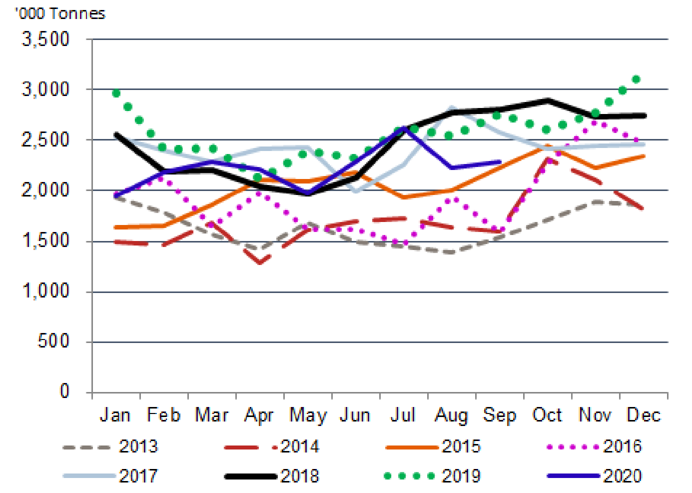
Source: MPOB, RHB

Figure 10: Malaysia's monthly palm oil exports (-7.6% YoY YTD-Nov 2020)



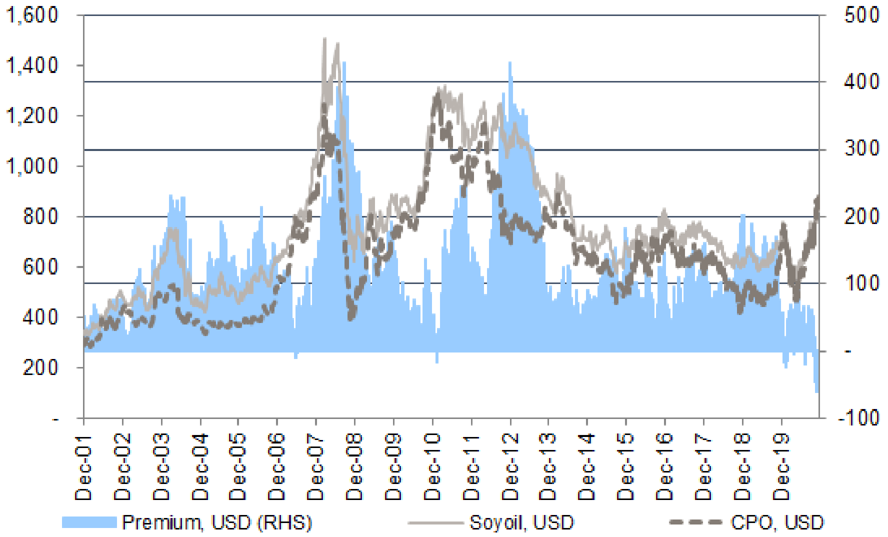
Source: MPOB

Figure 11: Indonesia's monthly palm oil exports (-21.4% YoY YTD-Sep 2020)



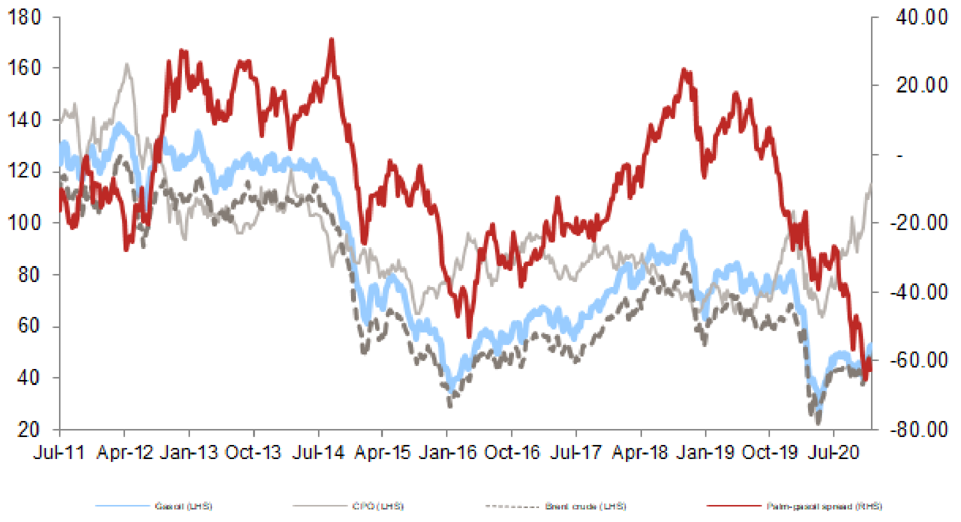
Source: Bloomberg

Figure 12: Palm oil is trading at a premium of USD40.00/tonne to soybean oil (from USD15.00/tonne premium last month)



Source: Bloomberg

Figure 13: CPO-gasoil spread is at -USD62.00/bbl (vs -USD60.00/bbl last month)



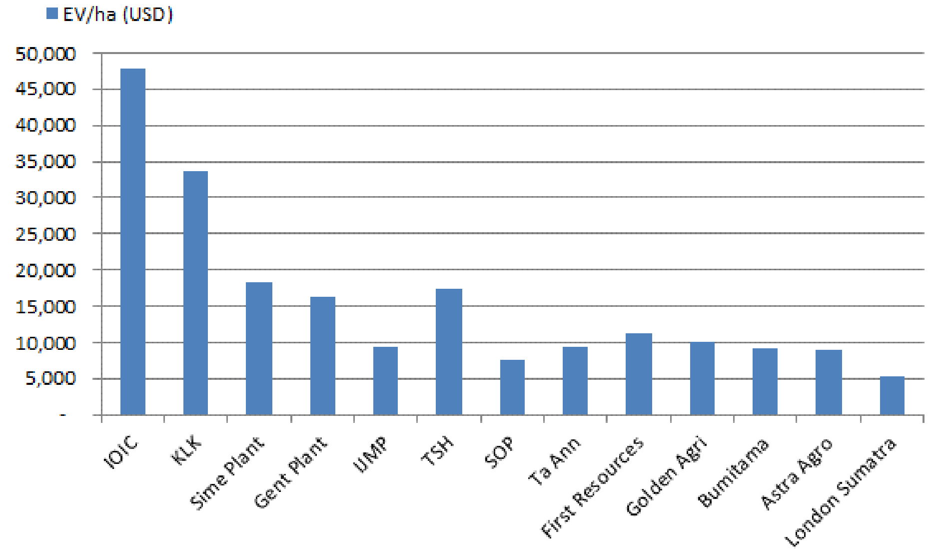
Source: Bloomberg

Figure 14: Regional peer comparison

	BBG ticker	Market cap (USDm)	Rating	Price (local ccy)	TP (local ccy)	Core P/E FY20F	Core P/E FY21F	P/BV FY21F	Net gearing FY21F	Div yield FY21F	ROE FY21F	EV/ha USD
Kuala Lumpur Kepong	KLK MK	6,292	Buy	23.70	26.65	36.8	26.3	2.3	29.6%	2.3%	8.8%	33,723
Sarawak Oil Palms	SOP MK	586	Buy	4.17	4.85	11.3	13.8	0.9	0.4%	1.7%	7.1%	7,643
Ta Ann	TAH MK	349	Buy	3.22	4.50	12.8	10.9	0.9	9.1%	3.1%	8.4%	9,515
TSH Resources	TSH MK	397	Buy	1.17	1.25	23.0	18.9	1.0	71.1%	1.7%	5.6%	14,680
CB Industrial Product	CBP MK	140	Neutral	1.16	1.05	15.7	11.7	0.8	Cash	2.6%	6.6%	N/A
Genting Plantations	GENP MK	2,178	Neutral	9.86	10.30	36.3	29.0	1.7	22.1%	1.9%	5.8%	16,252
IOI Corp	IOI MK	6,864	Neutral	4.45	4.10	35.2	28.9	3.0	24.0%	2.2%	10.5%	47,807
IJM Plantations	IJMP MK	414	Neutral	1.91	1.90	38.4	17.7	1.3	49.4%	1.8%	7.8%	9,363
Sime Darby Plantation	SDPL MK	8,524	Neutral	5.03	4.80	42.6	37.1	2.4	43.5%	1.3%	7.6%	18,409
Bumitama Agri	BAL SP	688	Buy	0.53	0.60	9.6	9.2	1.1	47.6%	3.7%	12.0%	9,088
First Resources	FR SP	1,653	Buy	1.40	1.45	14.7	12.3	1.3	12.4%	2.7%	11.4%	11,284
Wilmar	WIL SP	19,918	Buy	4.21	5.85	13.2	14.4	1.0	81.1%	3.1%	7.0%	N/A
Golden Agri	GGR SP	1,510	Sell	0.16	0.13	n.m.	31.9	0.4	52.0%	0.6%	1.1%	10,082
Astra Agro Lestari	AALI IJ	1,627	Neutral	11,925	10,600	25.4	22.6	1.2	23.4%	1.2%	5.5%	8,856
PP London Sumatra Indonesia	LSIP IJ	597	Neutral	1,235	1,060	24.3	19.9	1.0	Cash	1.7%	5.1%	5,330
Regional Average						**24.2**	**20.3**	**1.4**				**16,987**

Note: Prices are as at 9 Dec 2020
Source: RHB, Bloomberg, Company data

Figure 15: Peer comparison based on EV/ha



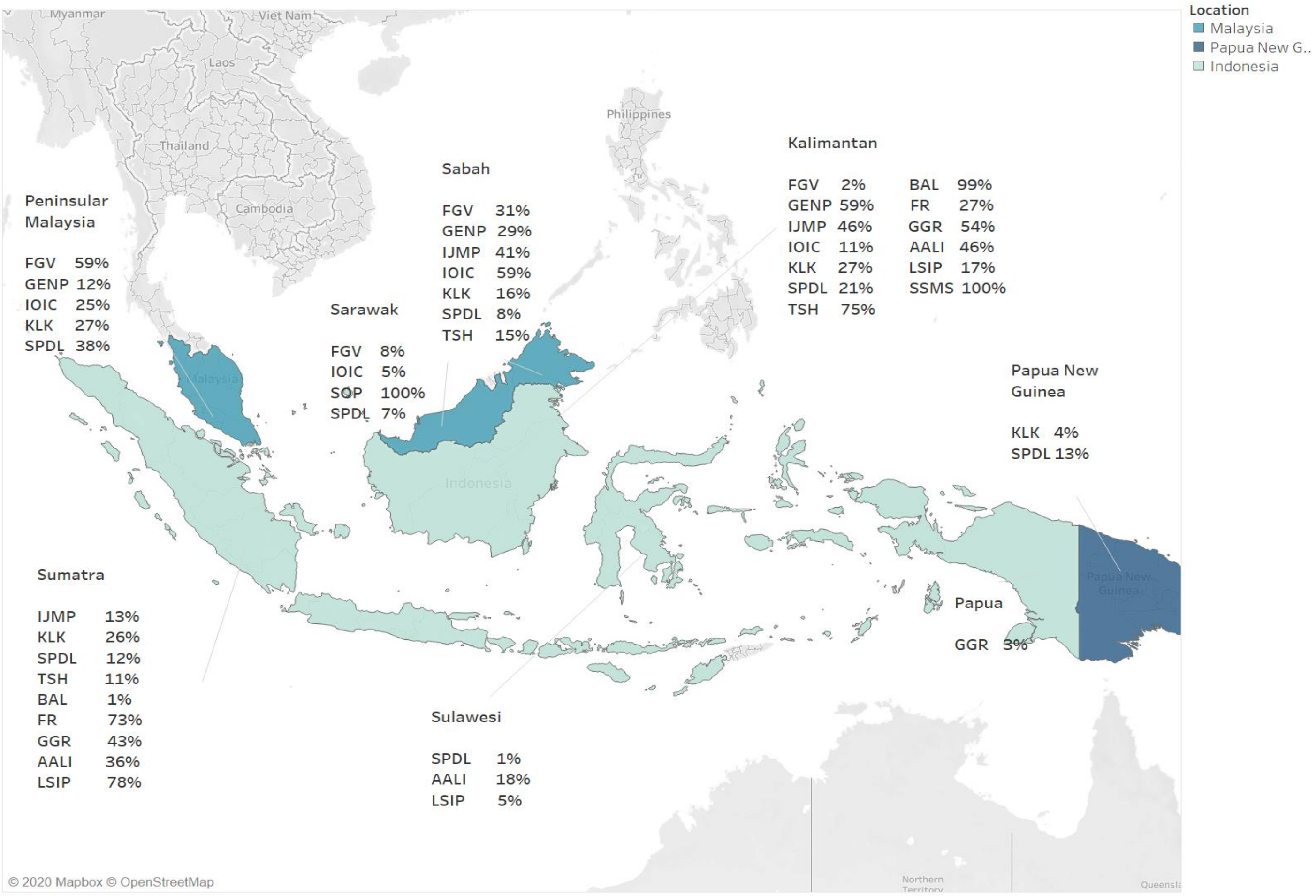
Source: Bloomberg, RHB

Figure 16: Earnings sensitivity of companies to changes in CPO prices

	Net profit change for every MYR100.00/tonne change
Genting Plantations	7-9%
KLK	5-7%
IJMP	10-12%
IOI Corp	4-6%
Sime Plantation	7-9%
SOP	10-12%
TSH	7-9%
Ta Ann	15-18%
Golden Agri (SGD)	8-10%
First Resources (SGD)	6-8%
Bumitama Agri (SGD)	7-9%
AALI (IDR)	9-11%
London Sumatera (IDR)	11-12%

Source: RHB

Figure 17: Breakdown of plantation companies' landbanks



Source: Company data, RHB

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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