

13 October 2020

Agriculture | Plantation

Plantation

Neutral (Maintained)

CPO Prices At Uncompetitive Levels

- **Maintain NEUTRAL with Top Picks: Wilmar, Sarawak Oil Palms and Astra Agro Lestari.** Inventory levels rose slightly, as production improved and domestic consumption weakened. We continue to caution of a possible pullback in prices on peak demand in 4Q20F.
- **Sep 2020 production rose 0.3% MoM** representing a 1.5% increase over FY19's peak month, bringing YTD-Sep 2020 output to -4.0% YoY. Growth was mainly from Sabah (11.8% MoM) but was dragged down by Sarawak (-6.3% MoM) and Peninsular Malaysia (-1.4% MoM).
- **Exports rose 1.9% MoM in Sep 2020**, bringing YTD exports to -8.8% YoY. This was due to increases from India (14% MoM) and the US (11% MoM), but slightly offset by a decline from China (-16% MoM).
- **Inventory levels marginally rose to 1.73m (+1.2% MoM) in Sep 2020**, where higher production was offset by a decrease in domestic consumption. Annualised stock/usage ratio remained flat at 8.3% – still below the 15-year historical mean of 9.8%.
- **Latest developments:**
 - CPO prices continued to stay elevated**, likely as a result of the buoyancy of soybean and sunflower prices on the back of weather disruptions. However, this has caused the price gap between CPO and soybean to narrow to USD15.00/tonne (vs average of USD100.00-150.00/tonne), making CPO highly uncompetitive. This could result in more substitution going forward;
 - YTD-Aug 2020, China's palm oil imports fell 18% YoY.** Although palm oil stocks were still low (-37% YoY) at end-Sep 2020, China continued buying soybean in large quantities due to increasing meal demand and also the more attractive prices;
 - YTD-Aug 2020, India's CPO demand decline moderated to -30% YoY.** Stock levels have fallen again, down 55% YoY in Sep 2020, despite India's imports from Malaysia rising 14% MoM. We expect India to continue its palm-buying activities given its low stock levels but note that the more competitive soybean oil pricing may dampen the process;
 - The Sabah lockdown has now been extended to the entire state.** The latest directive from the Government has now placed the entire state of Sabah under CMCO until 26 Oct. We understand that despite the inter-district travel ban, plantation trucks carrying oil and fruits are still allowed to move inter-district, as plantations operations are still considered essential. However, there could be delays resulting from police checks and roadblocks.
- **Maintain NEUTRAL.** We continue to caution of a possible pullback in CPO prices in 4Q20F from the seasonal peak and post-festive pullback in demand. We are likely to end the year closer to MYR2,550/tonne average, above our MYR2,400/tonne assumption, while we are currently in the midst of reviewing our CPO price forecasts for 2021 of MYR2,500/tonne.

Stocks Covered 15
Rating (Buy/Neutral/Sell): 7 / 6 / 2
Last 12m Earnings Revision Trend: Negative

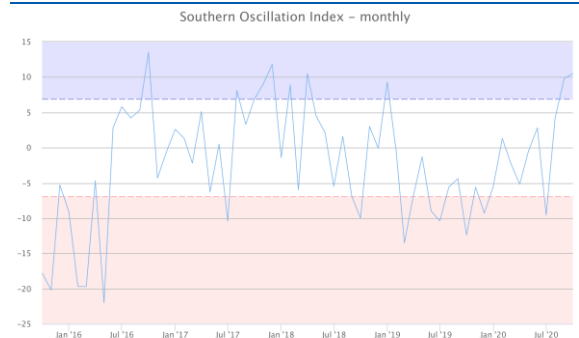
Top Picks

Top Picks	Target Price
Sarawak Oil Palms (SOP MK) – BUY	MYR4.20
Wilmar International (WIL SP) – BUY	SGD5.45
Astra Agro Lestari (AALI IJ) – BUY	IDR13,700

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Southern Oscillation Index now at 10.5 (<-7= El Nino, >+7 = La Nina)



Source: Australian Bureau of Meteorology

Company Name	Rating	Target Price	% Upside (Downside)	P/E (x) Dec-21F	P/B (x) Dec-21F	Yield (%) Dec-21F
Astra Agro Lestari	BUY	IDR13,700	25.4	12.0	1.1	1.3
Bumitama Agri	BUY	SGD0.65	34.3	8.7	1.0	3.0
IJM Plantations	BUY	MYR2.20	33.2	18.6	1.2	2.3
Sarawak Oil Palms	BUY	MYR4.20	16.6	13.8	0.9	1.9
Ta Ann	BUY	MYR3.30	21.3	12.0	0.8	2.9
TSH Resources	BUY	MYR1.25	26.4	17.6	0.9	1.5
Wilmar International	BUY	SGD5.45	18.3	17.0	1.2	2.7
CB Industrial Product	NEUTRAL	MYR0.90	(3.9)	10.6	0.6	4.3
First Resources	NEUTRAL	SGD1.45	15.8	12.6	1.2	2.8
Genting Plantations	NEUTRAL	MYR9.35	(4.7)	32.7	1.7	1.7
IOI Corp	NEUTRAL	MYR4.30	(3.2)	28.1	2.9	1.8
Kuala Lumpur Kepong	NEUTRAL	MYR24.25	7.8	25.3	2.1	2.2
PP London Sumatra Indonesia	NEUTRAL	IDR1,070	13.8	14.9	0.8	2.1
Golden Agri	SELL	SGD0.13	(11.3)	42.3	0.3	1.2
Sime Darby Plantation	SELL	MYR4.20	(18.6)	46.4	2.6	0.9

Source: Company data, RHB

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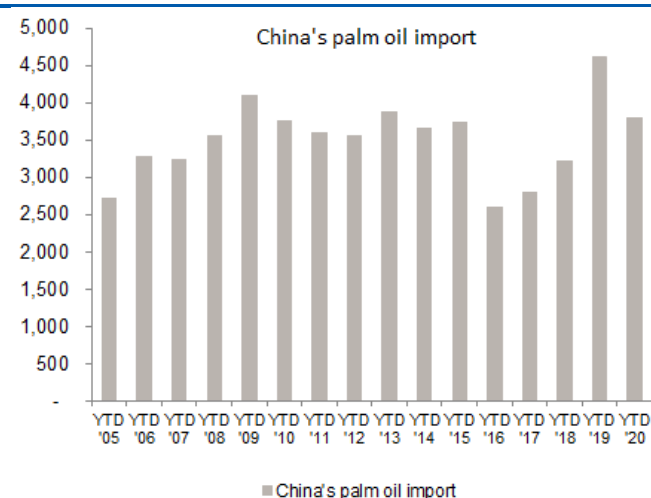
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Figure 1: Monthly CPO statistics

	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
('000 tonnes)													
Opening stocks	2,241	2,449	2,352	2,255	2,011	1,755	1,700	1,730	2,045	2,030	1,898	1,698	1,704
Imports	71	85	75	123	85	67	79	57	37	49	53	32	48
Production	1,842	1,796	1,538	1,334	1,172	1,289	1,397	1,653	1,651	1,886	1,807	1,863	1,869
Total supply	4,154	4,329	3,965	3,712	3,267	3,111	3,177	3,439	3,734	3,964	3,758	3,594	3,622
Exports	1,410	1,642	1,406	1,398	1,214	1,082	1,185	1,236	1,369	1,711	1,783	1,582	1,612
Domestic use	296	336	304	303	298	328	263	157	335	355	277	307	307
Total offtake	1,706	1,977	1,710	1,701	1,512	1,410	1,447	1,394	1,704	2,066	2,060	1,890	1,919
End-mth stocks	2,449	2,352	2,255	2,011	1,755	1,700	1,730	2,045	2,030	1,898	1,698	1,704	1,725
Production YTD													
MoM (%)	1.1	(2.5)	(14.4)	(13.3)	(12.2)	10.0	8.4	18.3	(0.1)	14.2	(4.2)	3.1	0.3
YoY (%)	(0.6)	(8.6)	(16.6)	(26.2)	(32.6)	(16.6)	(16.4)	0.2	(1.2)	24.8	3.8	2.3	1.5
YTD (%)	9.3	7.1	4.6	1.8	(32.6)	(25.0)	(22.1)	(16.6)	(13.5)	(7.5)	(5.8)	(4.7)	(4.0)
Exports YTD													
MoM (%)	(18.8)	16.4	(14.4)	(0.5)	(13.2)	(10.8)	9.4	4.4	10.7	25.0	4.2	(11.3)	1.9
YoY (%)	(12.9)	4.5	2.2	1.1	(27.8)	(18.1)	(26.8)	(25.2)	(20.2)	23.7	19.8	(8.8)	14.3
YTD (%)	14.3	13.1	12.2	11.2	(27.8)	(23.5)	(24.7)	(24.8)	(23.8)	(16.8)	(11.8)	(11.4)	(8.8)
Stocks													
MoM (%)	9.3	(3.9)	(4.1)	(10.8)	(12.7)	(3.1)	1.7	18.3	(0.8)	(6.5)	(10.6)	0.4	1.2
YoY (%)	-3.2	-13.6	-25.0	-37.5	-41.6	-44.4	-40.8	-25.1	-17.1	-21.3	-28.6	-23.9	-29.5

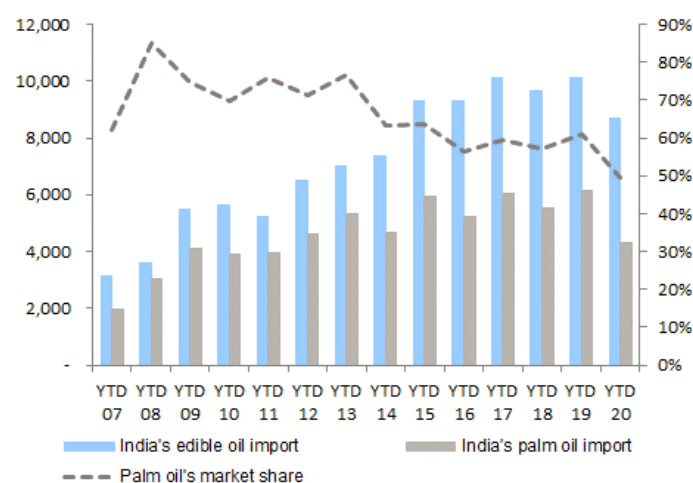
Source: Malaysian Palm Oil Board (MPOB), RHB

Figure 2: China's CPO imports declined 18% YTD-Aug 2020



Source: Bloomberg

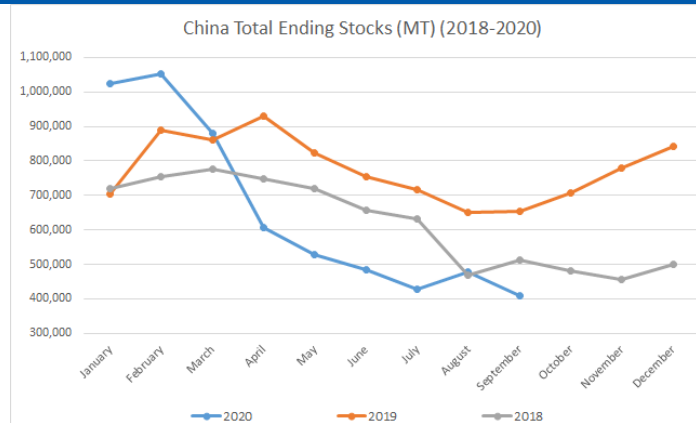
Figure 3: India's edible oil imports were down 14.2% YTD-Aug 2020 while CPO imports fell by 30.2% YoY



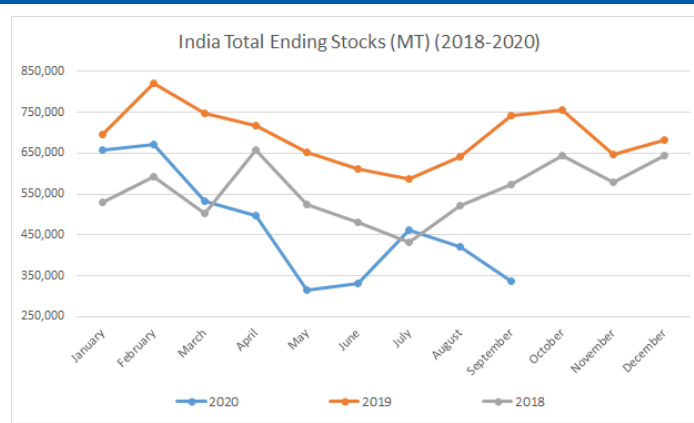
Source: Bloomberg

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Figure 4: China's vegetable oil stock levels were down 37% YoY in Sep 2020

Source: Malaysian Palm Oil Council (MPOC)

Figure 5: India's vegetable oil stock levels were down 55% YoY in Sep 2020

Source: MPOC

Figure 6: Global soybean demand and supply

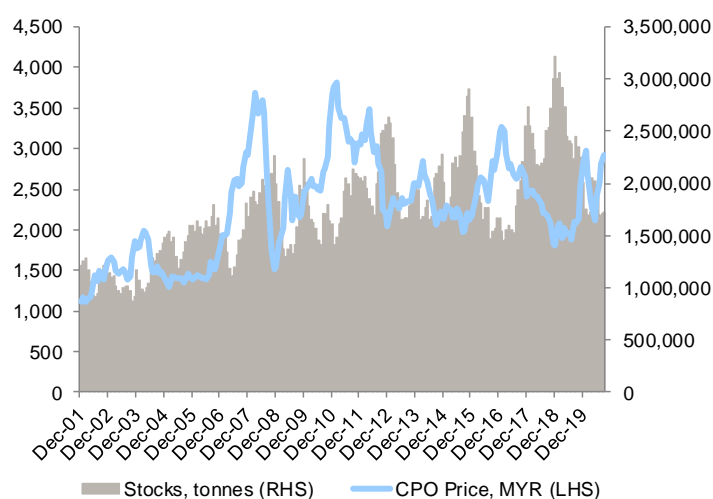
SOYBEANS : World Supply and Demand (Mn T)				
	20/21F	19/20	18/19	17/18
Opening stocks	98.60*	110.00	93.50	93.80
Production	369.64*	339.82	360.95	343.25
N. Hemisphere	167.61*	146.39	169.71	168.68
EU-28	2.84*	2.72	2.80	2.68
Russia&Ukraine	8.15*	9.06	8.83	8.12
Canada	5.96	6.05	7.42	7.72
U.S.A.	117.50*	98.70*	120.52	120.07
China, P.R.	17.70*	15.97	14.34	16.66
India	9.90*	8.50*	10.50	8.30
S. Hemisphere	202.03*	193.43	191.24	174.57
Argentina	51.50*	49.60*	54.30	34.80
Brazil	132.50*	126.50*	120.75	123.38*
Paraguay	10.30*	10.60	8.52	9.95
Uruguay	2.70*	2.11*	2.95	1.50
Total supply	468.24*	450.82	454.45	437.05
Crush (Sept/Aug)	319.82*	309.45*	301.75	302.89
Other use	43.82*	42.77*	41.70	40.66
Ending stocks	104.60*	98.60*	111.00	93.50
U.S.A. Aug 31	16.70*	16.30*	24.74	11.92
Argentina Aug 31	38.00*	33.43*	32.90*	23.60*
Brazil Aug 31	24.78*	22.14*	36.08*	35.42*
Other countries	25.12*	26.73*	17.28*	22.56*
Stocks/usage	28.8%	28.0%	32.3%	27.2%

Source: Oil World

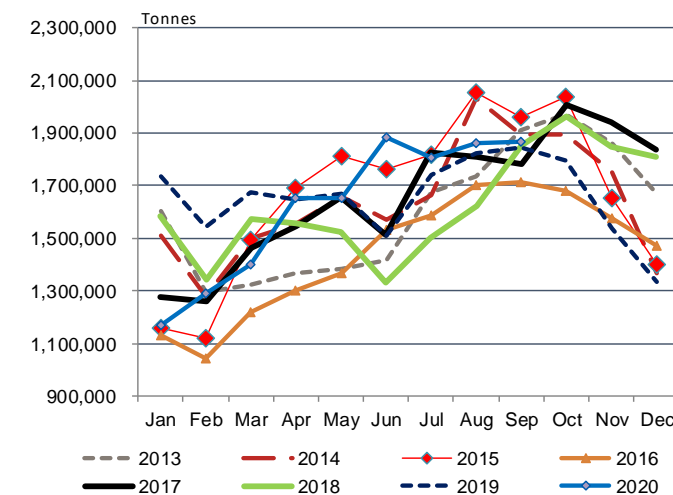
Figure 7: Global palm oil demand and supply

	Oct Sept	Oct Sept	Oct Sept	Oct Sept
Palm oil	20/21F	19/20	18/19	17/18
Open'g stocks	13.42	14.80	14.62	11.69
Production	78.09	74.44	77.84	73.66
Imports	53.77	51.21	55.26	50.38
Exports	53.73	51.05	55.01	51.25
Disappear. (a)	77.94	75.98	77.91	69.86
Ending stocks	13.60	13.42	14.80	14.62
Stocks/Usage(b)	17.4%	17.7%	19.0%	

Source: Oil World

Figure 8: CPO inventory levels at 1.73m tonnes

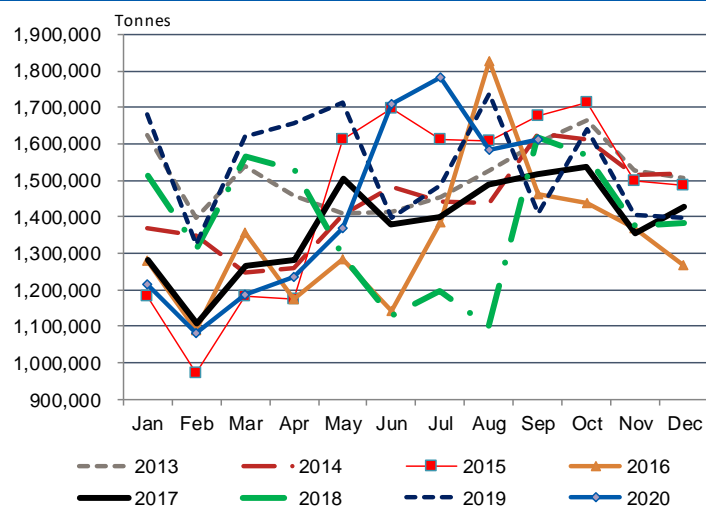
Source: MPOB, Bloomberg

Figure 9: Malaysia's CPO production (-4.0% YoY YTD-Sep 2020)

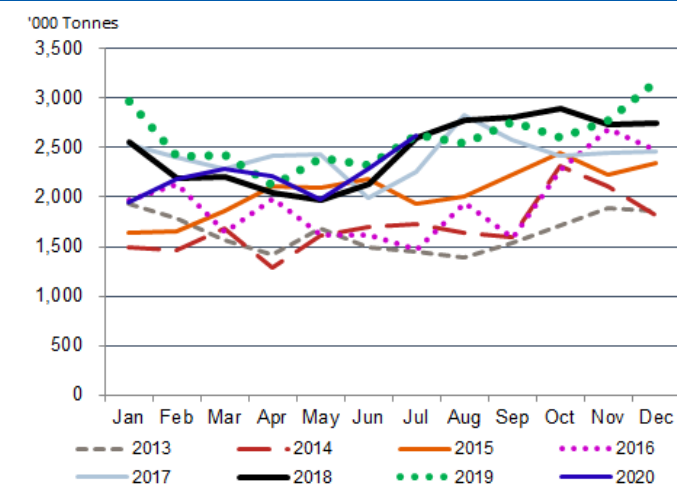
Source: MPOB, RHB

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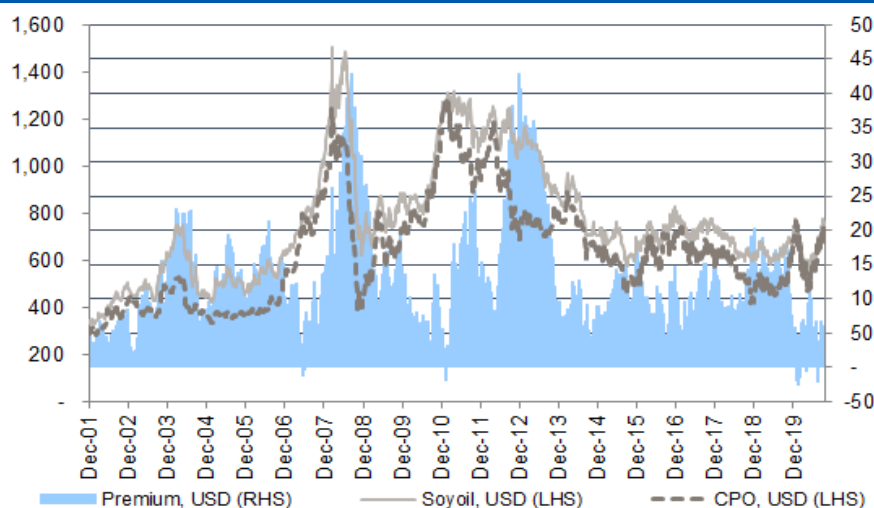
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Figure 10: Malaysia's monthly palm oil exports (-8.8% YoY YTD-Sep 2020)

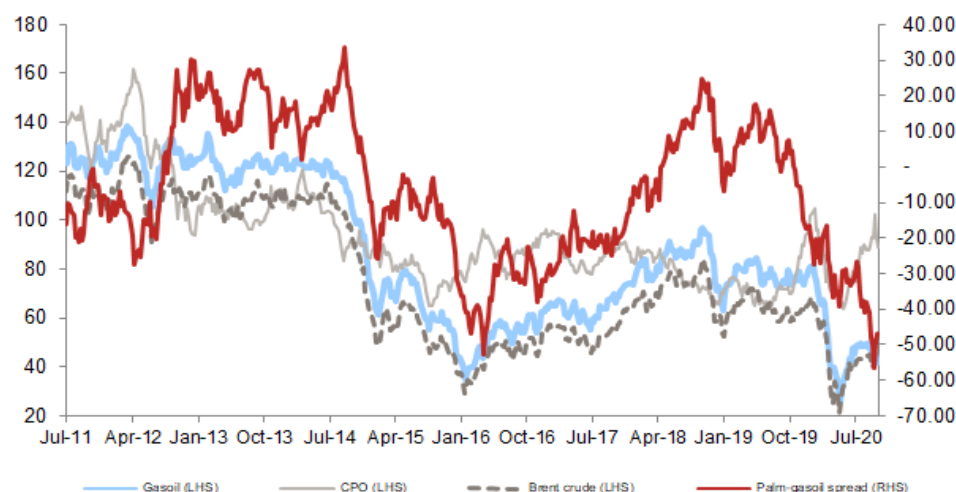
Source: MPOB

Figure 11: Indonesia's monthly palm oil exports (-10.2% YTD-Jul 2020)

Source: Bloomberg

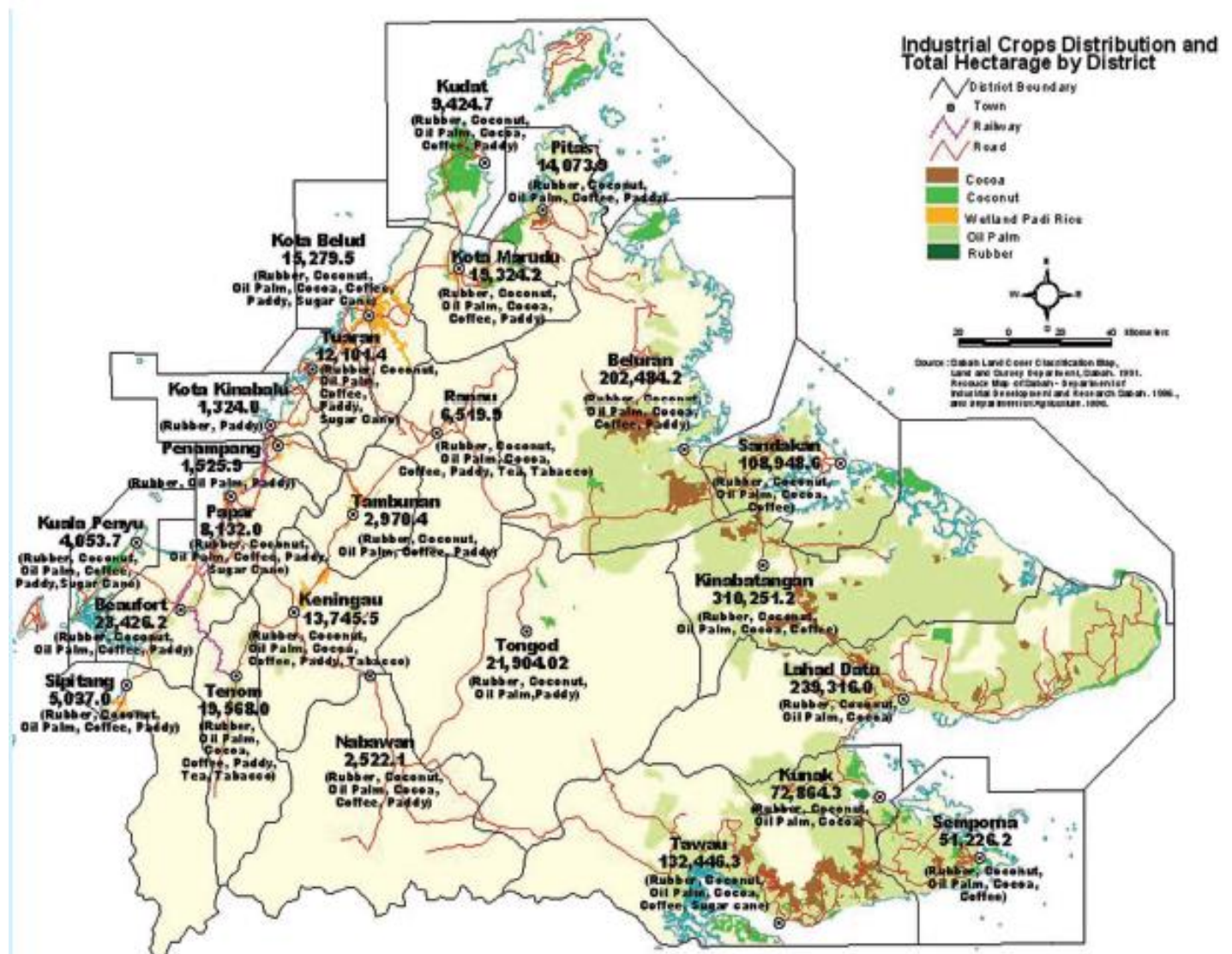
Figure 12: Palm oil is trading at a discount of USD15.00/tonne to soybean oil (from USD32.00/tonne last month)

Source: Bloomberg

Figure 13: CPO-gasoil spread is at -USD47.00/bbl (vs -USD48.00/bbl last month)

Source: Bloomberg

Figure 14: Sabah plantation areas

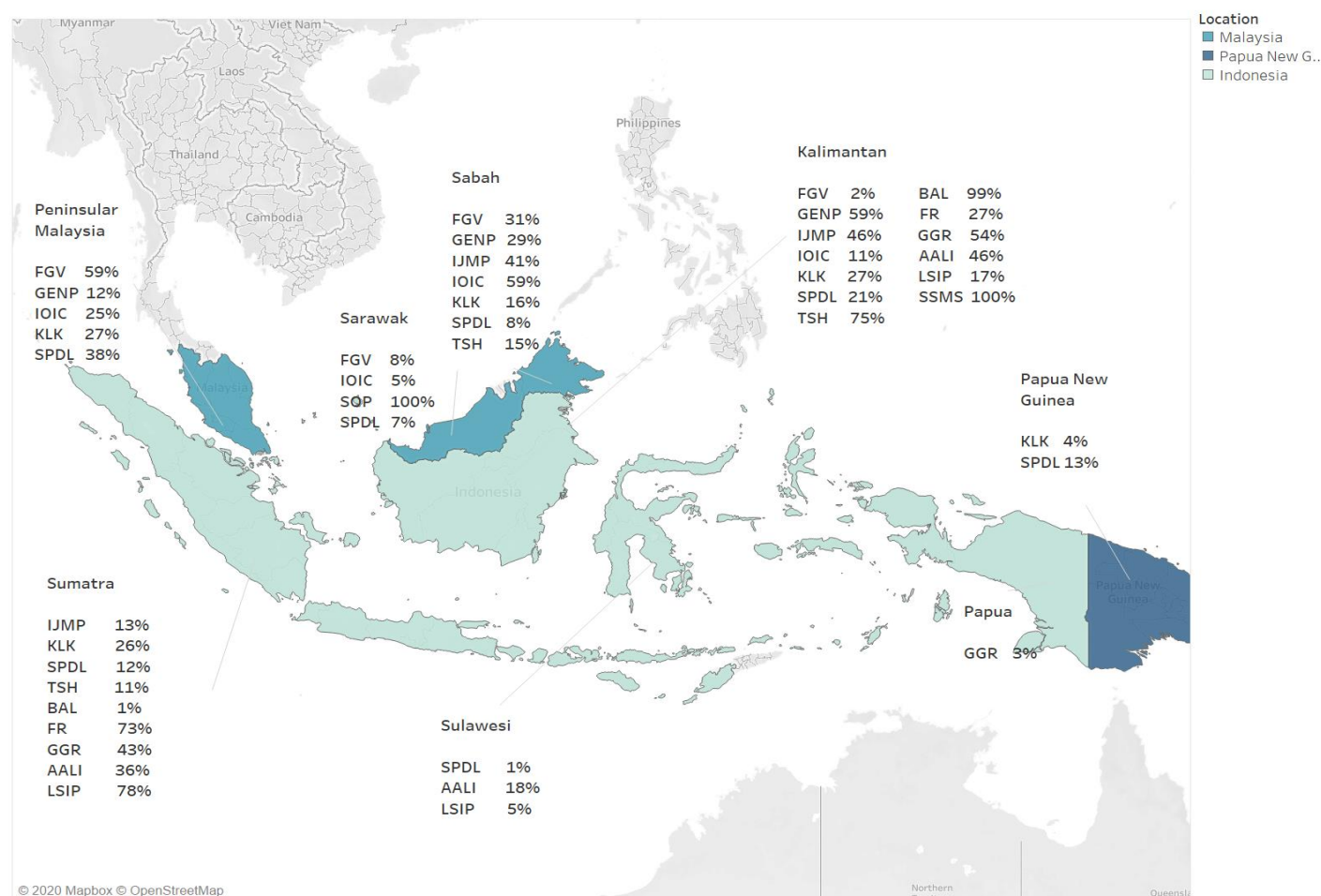


Source: Sabah Department of Statistics

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Figure 15: Breakdown of plantation companies' landbanks



Source: Company data, RHB

Figure 16: Regional peer comparison

	BBG ticker	Market cap (USDm)	Rating	Price (local ccy)	TP (local ccy)	Core P/E	Core P/E	P/BV	Net gearing	Div yield	ROE	EV/ha
						FY20F	FY21F	FY21F	FY21F	FY21F	FY21F	USD
IJM Plantations	IJMP MK	351	Buy	1.65	2.20	33.1	23.6	1.2	51.9%	2.1%	5.1%	8,162
Sarawak Oil Palms	SOP MK	497	Buy	3.60	4.20	15.4	13.8	0.9	7.4%	1.9%	6.4%	6,788
Ta Ann	TAH MK	290	Buy	2.72	3.30	20.4	12.0	0.8	12.5%	2.9%	6.6%	8,569
TSH Resources	TSH MK	329	Buy	0.99	1.25	22.4	17.6	0.9	70.7%	1.5%	5.1%	14,680
CB Industrial Product	CBP MK	122	Neutral	0.94	0.90	15.7	10.6	0.6	cash	4.3%	6.0%	na
Kuala Lumpur Kepong	KLK MK	5,869	Neutral	22.50	24.25	30.2	25.7	2.2	35.0%	2.2%	8.6%	31,633
Genting Plantations	GENP MK	2,129	Neutral	9.81	9.35	40.6	32.7	1.7	22.5%	1.7%	5.1%	16,153
IOI Corp	IOI MK	6,730	Neutral	4.44	4.30	35.2	30.0	2.9	20.6%	1.8%	10.0%	45,980
Sime Darby Plantation	SDPL MK	8,592	Sell	5.16	4.20	72.9	55.4	2.6	46.6%	0.9%	5.6%	18,144
Burnitama Agri	BAL SP	621	Buy	0.49	0.65	9.0	8.7	1.0	45.3%	3.0%	11.8%	8,552
Wilmar	WIL SP	21,635	Buy	4.61	5.45	16.1	17.0	1.2	92.6%	2.7%	7.1%	na
First Resources	FR SP	1,457	Neutral	1.25	1.45	16.3	12.6	1.2	15.6%	2.8%	10.1%	10,301
Golden Agri	GGR SP	1,358	Sell	0.15	0.13	nm	42.3	0.3	53.5%	1.2%	0.8%	9,780
Astra Agro Lestari	AALI IJ	1,430	Buy	10,925	13,700	23.8	12.0	1.1	23.8%	1.3%	9.4%	7,601
PP London Sumatra Indonesia	LSIP IJ	436	Neutral	940	1,070	20.0	14.9	0.8	cash	2.1%	5.2%	3,485
Regional Average						26.5	21.9	1.3				14,689

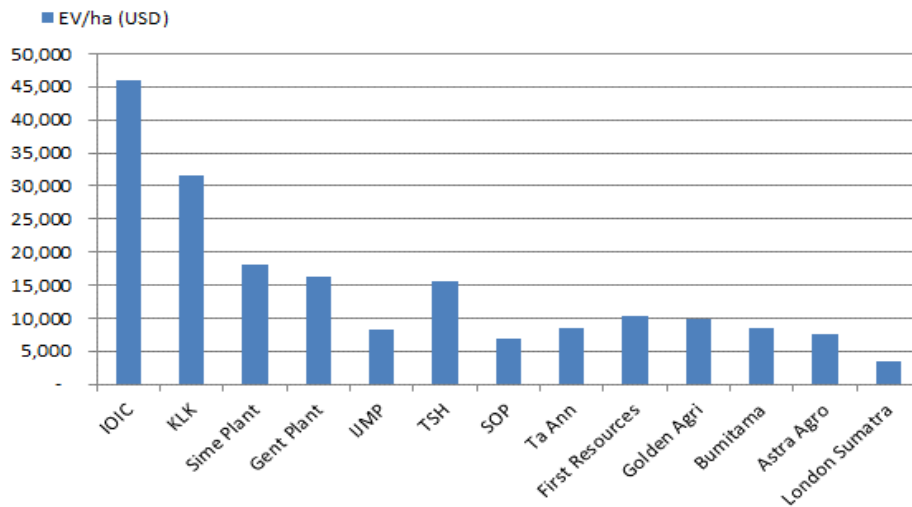
Note: Prices are as at 9 Oct 2020

Source: RHB, Bloomberg, Company data

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Figure 17: Peer comparison based on EV/ha



Source: Bloomberg, RHB

Figure 18: 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	8-10%
IOI Corp	4-6%
Sime Plantation	7-9%
SOP	8-10%
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

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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