

Regional Plantations

POSITIVE

[Unchanged]

Easing Sept stockpile pressure

Positive surprise on Sept exports and stockpile

MPOB's Sept 2021 stockpile fell MoM to 1.75mt (-7% MoM, +1% YoY), below street estimates of 1.87mt. Key surprise was the strong rebound in exports while Sept output remained relatively weak. CPO price will stay relatively lofty till 1Q22 on supply concerns although it may not sustain at MYR5,000/t. Stay POSITIVE on the sector. We downgrade FR and TAH to HOLDs (from BUYs) given limited upside following recent share price performance. Preferred BUYs are KLK, SOP and BPLANT.

Sept stockpile barely higher compared to a year ago

The lower MoM Sept stockpile was mainly due to a strong rebound in exports (1.60mt; +37% MoM, -1% YoY) while production output (1.70mt; flat MoM, -9% YoY) remains relatively weak by historical benchmarks due to shortage of estate workers in MY (Fig.1). By geographical breakdown, exports were stronger MoM to all key export markets except Bangladesh (Fig.2). India's recent import duty cuts (Fig.20) helped boost imports.

Meanwhile, MY's domestic consumption rebounded MoM to 0.31mt (+24% MoM, +9% YoY). Imports were still relatively high (0.075mt; -18% MoM, +55% YoY) compared to a year ago. Considering 95% of MY's 9M21 palm oil imports are now in the form of processed palm oil (9M20: 62%; 2019: 37%), it indicates that MY's domestic CPO price is not as competitive as refined palm oil products from ID due to the latter's differential export tax structure that favours refined products.

Slightly weaker prelim. export estimates for Oct

The preliminary MY export estimates for shipments in the first 10 days of October by Amspec and Intertek (independent cargo surveyors) indicated some weakness with exports at 500,381t/528,951t (-7.5%/-7.6% MoM), respectively. If the current export trend is sustained throughout the month, MPOB's stockpile may be flattish to higher MoM in October.

4Q21 lookouts - La Nina, PO output, and demand

Recent CPO price rally to above MYR5,000/t (spot month) has further narrowed CPO price discounts to US 1M SBO (USD119/t) and Argentina CIF Rotterdam (USD92/t) to below their historical averages - Figs.7-12. We maintain our view that the current high CPO price is not sustainable as a wider discount is needed to sustain demand. India's demand for vegetable oils will likely weaken post Diwali (4 Nov).

On the supply equation, there is still much uncertainty as to how PO output in the region will eventually turn out in Q4. However, near term CPO price may continue to be supported by the fact that PO output will enter into seasonal low yield period in 1Q22. This is despite recent media report that the MY government has granted special permission to the sector to bring in ~32,000 foreign workers to help ease labour shortages.

In Q4 too, the market will closely monitor ongoing SA planting season of crops for new price direction. The market is expecting record planting and harvest at this juncture. A confirmation and potential impact of La Nina on SA crop development till its harvest in Mar/Apr 2022 will be a key swing factor to watch in the coming months.

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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 (11 Oct) | 4,953 |
| YTD (11 Oct) 3M CPO ASP | 3,952 |
| YTD (11 Oct) spot CPO ASP | 4,206 |

Plantation stocks mentioned on cover page

| Company | BBG ticker | Rec | Shr px | Tgt px |
|-----------------|------------|------|--------|--------|
| MY listed | | | LCY | LCY |
| KL Kepong | KLK | Buy | 22.70 | 29.90 |
| Swk Oil Palm | SOP | Buy | 3.98 | 5.80 |
| Bous.Plant | BPLANT | Buy | 0.705 | 0.90 |
| Ta Ann | TAH | Hold | 3.35 | 3.27 |
| SG listed | | | | |
| First Resources | FR | Hold | 1.85 | 1.81 |

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
MoM - Month-on-Month
MPOB - Malaysian Palm Oil Board
MY - Malaysia/ Malaysian
PO - Palm Oil
POGO - Palm Oil Gas Oil (ie diesel)
SA - South America
SBO - Soybean oil
t - tonnes
YoY - Year-on-Year
YTD - Year-to-date

| 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 | 7,068 | Hold | 4.27 | 4.07 | (2) | 18.0 | 24.9 | 2.0 | 2.0 | 3.0 | 2.0 |
| IOI Corp | IOI MK | 6,123 | Buy | 4.07 | 5.16 | 29 | 18.8 | 20.7 | 2.4 | 2.4 | 2.8 | 2.9 |
| KL Kepong | KLK MK | 5,873 | Buy | 22.70 | 29.90 | 34 | 17.8 | 22.8 | 2.1 | 2.0 | 3.4 | 2.6 |
| First Resources | FR SP | 2,164 | Hold | 1.85 | 1.81 | (0) | 15.6 | 14.3 | 1.9 | 1.8 | 3.1 | 3.5 |
| Genting Plant | GENP MK | 1,667 | Buy | 7.76 | 9.50 | 26 | 19.9 | 23.7 | 1.4 | 1.3 | 2.9 | 2.5 |
| Bumitama Agri | BAL SP | 720 | Buy | 0.56 | 0.93 | 69 | 7.5 | 7.1 | 1.0 | 1.0 | 5.3 | 5.6 |
| Swk Oil Palms | SOP MK | 543 | Buy | 3.98 | 5.80 | 50 | 8.3 | 9.6 | 0.9 | 0.8 | 3.6 | 3.1 |
| TSH Resources | TSH MK | 413 | Buy | 1.25 | 1.46 | 18 | 13.2 | 18.0 | 1.1 | 1.1 | 2.1 | 1.7 |
| Boustead Plant | BPLANT MK | 378 | Buy | 0.71 | 0.90 | 33 | 15.6 | 30.4 | 0.6 | 0.6 | 5.1 | 2.0 |
| Ta Ann | TAH MK | 357 | Hold | 3.35 | 3.27 | 2 | 9.5 | 14.3 | 1.0 | 0.9 | 6.0 | 3.5 |
| TH Plantations | THP MK | 160 | Sell | 0.76 | 0.44 | (42) | 12.5 | 22.1 | 1.0 | 1.0 | 0.0 | 0.0 |

Fig 1: Malaysia's Monthly Palm Oil Statistics for July - Sept 2021

| | July 21 (t) | Aug 21 (t) | Sep 21 (t) | MoM chg (%) | YoY chg (%) | 9M21 (t) | YoY chg (%) |
|---------------|-------------|------------|------------|-------------|-------------|------------|-------------|
| Production | 1,522,703 | 1,710,356 | 1,703,740 | (0) | (9) | 13,300,808 | (9) |
| Imports | 54,381 | 91,408 | 74,992 | (18) | 55 | 926,143 | 83 |
| Consumption | 292,805 | 253,029 | 312,592 | 24 | 9 | 2,501,463 | (4) |
| Exports | 1,402,042 | 1,167,425 | 1,597,393 | 37 | (1) | 11,244,666 | (12) |
| Closing stock | 1,496,463 | 1,877,773 | 1,746,520 | (7) | 1 | 1,746,520 | 1 |

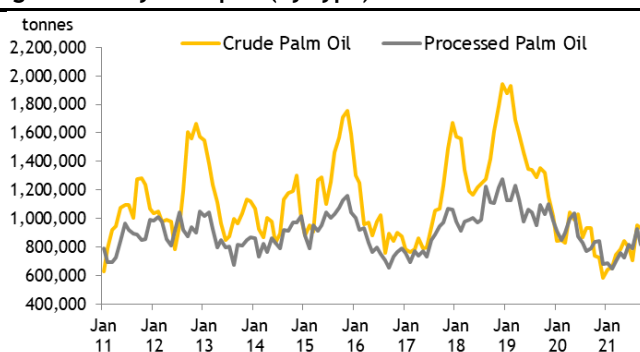
Source: MPOB

Fig 2: Malaysia's Monthly Export Destinations for July - Sept 2021

| | July 21 (t) | Aug 21 (t) | Sep 21 (t) | MoM chg (%) | YoY chg (%) | 9M21 (t) | YoY chg (%) |
|--------------|------------------|------------------|------------------|-------------|-------------|-------------------|-------------|
| Bangladesh | 2,634 | 3,617 | 3,255 | (10) | (90) | 77,023 | (69) |
| China | 166,425 | 137,458 | 234,355 | 70 | (6) | 1,279,824 | (39) |
| EU | 213,139 | 107,991 | 135,856 | 26 | (13) | 1,212,497 | (19) |
| India | 234,038 | 307,672 | 373,371 | 21 | (0) | 2,491,246 | 61 |
| Pakistan | 51,604 | 52,401 | 65,050 | 24 | 10 | 474,815 | (41) |
| Philippines | 53,396 | 42,577 | 69,873 | 64 | 3 | 456,955 | (11) |
| Turkey | 80,969 | 53,929 | 57,029 | 6 | 28 | 491,772 | 3 |
| USA | 32,234 | 24,012 | 30,295 | 26 | (35) | 217,586 | (50) |
| Vietnam | 38,159 | 15,981 | 36,985 | 131 | 39 | 237,861 | (32) |
| Others | 529,444 | 421,787 | 591,324 | 40 | 7 | 4,305,087 | (10) |
| Total | 1,402,042 | 1,167,425 | 1,597,393 | 37 | (1) | 11,244,666 | (12) |

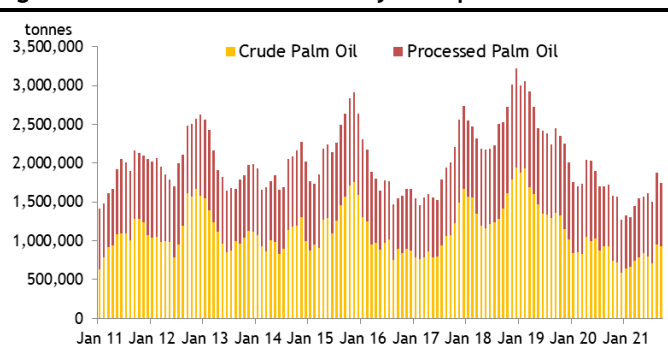
Source: MPOB

Fig 3: Monthly Stockpile (by type)



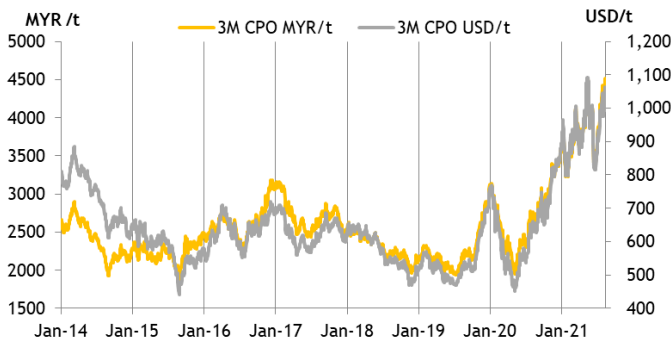
Source: MPOB

Fig 4: Cumulative Palm Oil Monthly Stockpile



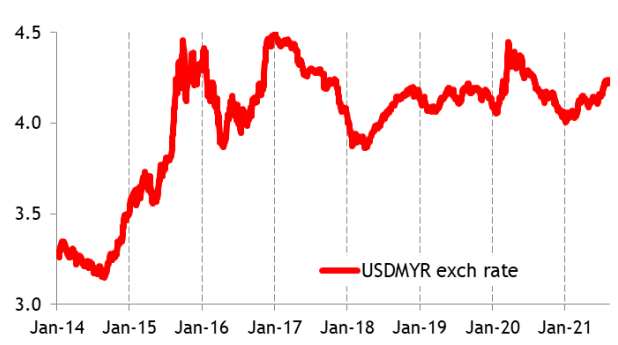
Source: MPOB

Fig 5: CPO price (in USD and MYR)



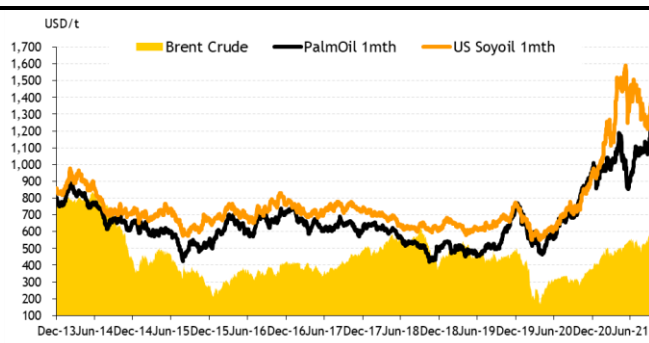
Source: Bloomberg

Fig 6: MYR per USD exchange rate



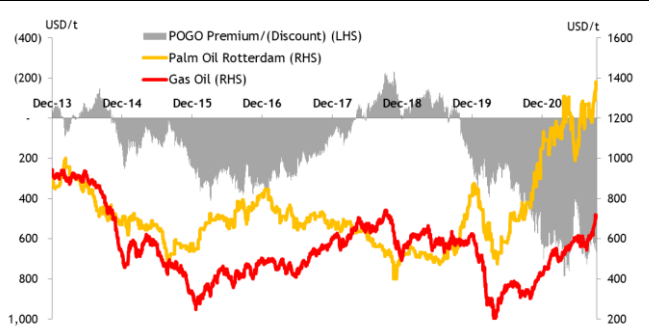
Source: Bloomberg

Fig 7: Soyoil and palm oil vs crude oil price



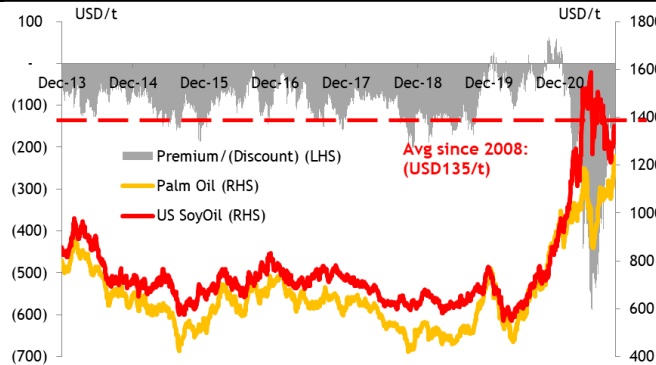
Source: Bloomberg

Fig 8: Palm Oil-Gas Oil (POGO) is unfavourable with palm oil trading at USD663/t (10 Oct 2021) premium to gas oil



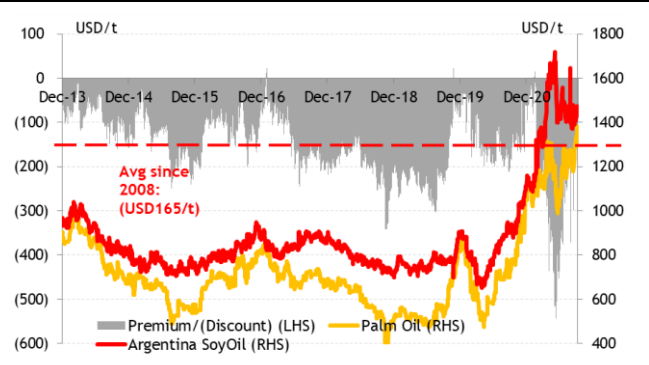
Source: Bloomberg, Maybank-KE

Fig 9: 1M palm oil price at a steep discount to US soybean oil at USD119/t (10 Oct 2021)



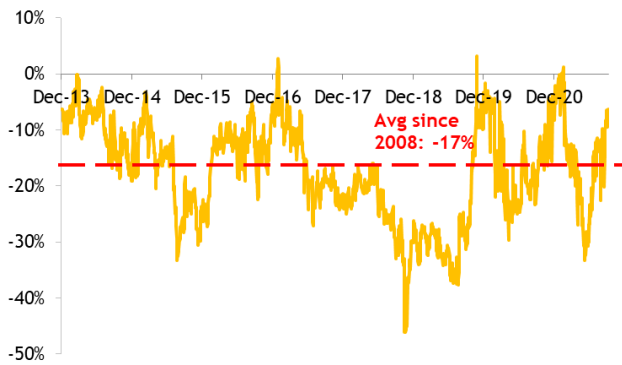
Source: Bloomberg, Maybank-KE

Fig 10: Rotterdam Palm Oil CIF price discount to Argentina Soybean Oil at USD92/t (10 Oct 2021)



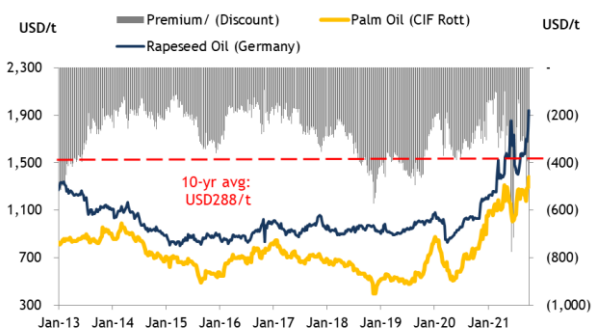
Source: Bloomberg, Maybank-KE

Fig 11: Palm oil price discount (in %) to Argentina soybean oil at -6% (10 Oct 2021)



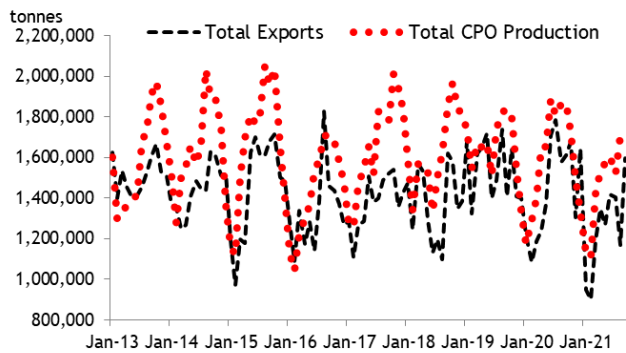
Source: Bloomberg, Maybank-KE

Fig 12: Palm Oil price discount to Germany rapeseed oil at USD563/t (8 Oct 2021)



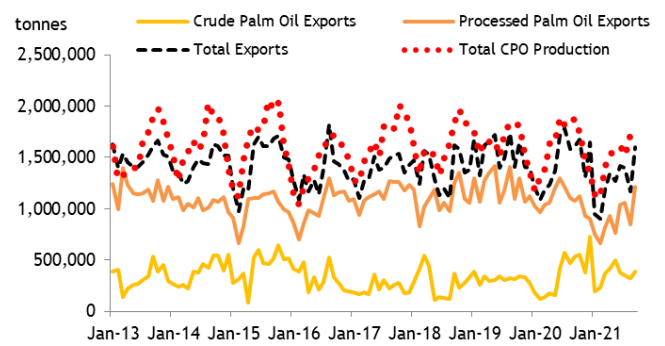
Source: Bloomberg (quoted weekly), Maybank-KE

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



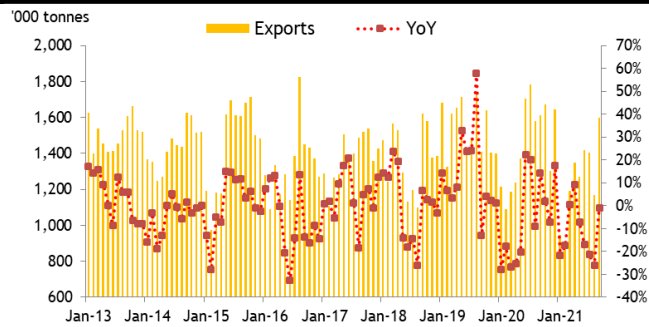
Source: MPOB

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



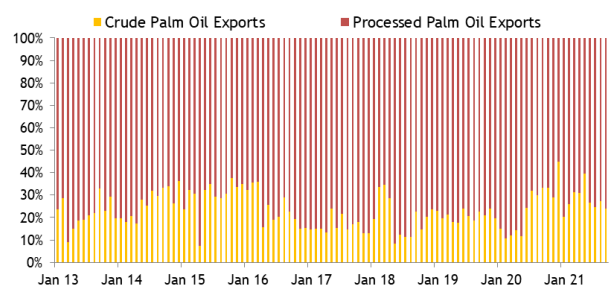
Source: MPOB

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



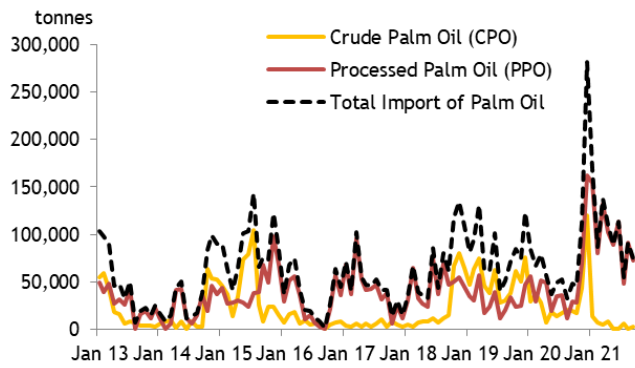
Source: MPOB

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



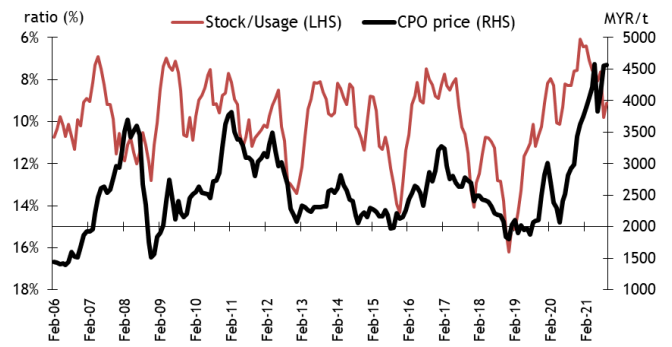
Source: MPOB

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



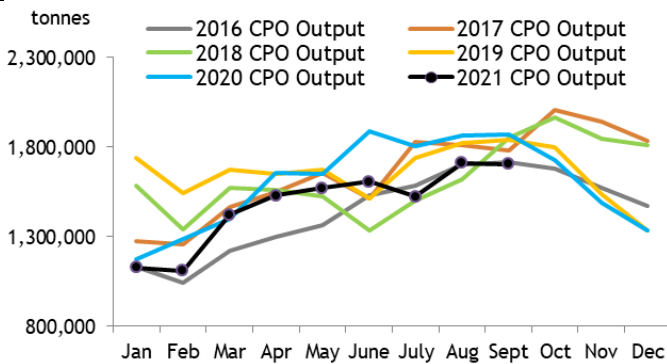
Source: MPOB

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 | 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 4Q 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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