

**MPOB Monthly Statistics June 2021****Inventory rose 2.8% mom to 1.61m tonnes**

- Inventory up by 2.8% mom to 1.61m tonnes in June.
- CPO production increased 2.2% mom to 1.61m tonnes.
- Palm oil exports improved 11.8% mom to 1.42m tonnes.
- Maintain Overweight on the sector with average CPO price of RM3,100/MT for 2021 and RM2,700/MT for 2022.

**Overweight** ◀▶**Table 1: Snapshot of the Malaysian Palm Oil Industry Data**

	Jun21	May21	Jun20	M-o-M	Y-o-Y	YTD'21	YTD'20	Chg.
Avg. CPO Price (RM/MT)	3,831	4,572	2,412	-16.2%	58.8%	4,051	2,482	63.2%
CPO Production (MT)	1.61	1.57	1.89	2.2%	-14.8%	8.36	9.05	-7.6%
Palm Oil Export (MT)	1.42	1.27	1.71	11.8%	-16.9%	7.07	7.80	-9.3%
Ending Stocks (MT)	1.61	1.57	1.90	2.8%	-15.0%	Nm	Nm	Nm

Source: BIMB Securities/ MPOB

**Closing stocks rose 2.8% mom to 1.61m tonnes in June**

Inventory as at end-June21 increased 2.82% mom to 1.614m tonnes as higher PO exports was negated by higher production and import during the month. Palm oil import expanded by 27.1% mom to 113.1k tonnes compared to 89.0k tonnes in May as we believe Malaysian refineries are taking advantage of price competitiveness of Indonesia's CPO price. Overall, the increase in inventory was due to higher stocks of PPO (processed palm oil) which rose by a bigger margin of 12% to 815,179 tonnes as compared to CPO stocks (crude PO) which declined by 5.1% mom to 798,478 tonnes – led by Sabah -17.9% to 193,622 tonnes and Peninsular by -1.5% to 421,560 tonnes. Nonetheless, CPO stock from Sarawak increased 3.2% mom to 183,296 tonnes. Still, the stockpiles remain relatively low at end-June21 versus a year ago, despite improving by 15.0% to 1.614m tonnes against 1.898m tonnes recorded in June 2020.

We expect stocks level in the next couple of months would hover at this level, i.e., in the region of 1.60m tonnes to 1.65m tonnes, in view of gradual growth in production (possibly at slower rate than expected due to labour shortage issues) as production cycle is in the seasonally higher palm oil productive month while export will gain momentum due to restocking activities ahead of festivities in October and November.

**Production improved 2.2% mom to 1.61m tonnes.**

CPO production increased 2.21% mom (-14.82% yoy) to 1.606m tonnes in June 2021 as oil extraction rate improved significantly to 20.27% from 19.99% achieved in May21. The higher OER was led by Kedah, registered at 20.85%, followed by Sabah 20.82%, Negeri Sembilan 20.76%, Kelantan 20.72% and Sarawak 20.19%. Year-to-date production decreased 7.59% yoy to 8.364m tonnes as we believe lower FFB yield would continue to shadow the CPO production as productivity is wedged by the lag impact of weaker yield from the dry weather experienced in 2019 coupled with hiccup in productivity due to labour shortage issues.

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**Maintain 2021/22 average CPO price forecast at RM3,100/MT-RM2,700/MT**

The BMD's 3-month CPO futures prices for the month of June was volatile, on concern over slower demand and higher production of palm oil from Indonesia, as well as tracking the decline in soybean oil price in Chicago soybean oil market and Dalian Commodity Exchange. The weakness in Chicago soybean oil market was due to a stronger dollar, improved supply prospect on favorable weather pattern in crop areas as well as concern over Biden administration easing the biofuel requirement for biofuel blending mandate. Hence, CPO price closed lower at RM3,599/MT (-8.2% mom), mirroring the trend in the soybean oil market. In line with the derivatives market, the average CPO price for local delivery dropped 16.2% mom (+58.8% yoy) to an average of RM3,830.50/MT against RM4,572/MT recorded in the previous month. As for Jan-June 2021 period, the MPOB average CPO price of RM4,051/MT was higher by RM1,569/MT or 63.2% against RM2,482/MT recorded in the same period last year.

We are of the view that higher near-term CPO price is possible, supported by tight palm oil supply scenario in Malaysia, given unresolved labour shortage issues as well as improved demand prospect especially from India and China – meaning CPO price could retain its upward trajectory, possibly up until Sep/Oct 2021. The prospect of higher PO exports from India is following the news on Indian Government reducing the import duty for CPO to 10% for 3 months, bringing effective import taxes (duty and levy) on CPO to 27.5% from 32.5% previously as well as removing the restriction on RBD palm olein imports under the restricted category. According to the Indian Commerce Ministry's Directorate General of Foreign Trade (DGFT), the imports of RDB palm olein will be allowed without restrictions until the end of December this year after almost 18-months under the restricted category. In light of these developments, we foresee that price (local delivery) for July/Aug 2021 would trade within a range of RM4,100/MT and RM3,800/MT as opposed to RM2,396/MT and RM2,859/MT during the same period last year.

**We believe the possible negative factors for CPO price are** 1) slower-than-expected economic growth and consumption of edible oils, 2) lower-than-expected demand due to changes in government policies of importing countries, 3) higher-than-expected supply and stockpiles of Soybean and SBO, 4) narrowing of the price differential between CPO and SBO, 5) weakening of crude oil prices, and 6) resurgence of Covid-19 pandemic with another round of movement restriction.

**Maintain "Overweight"**

Maintain Overweight call on plantation sector. Our base case scenario is for CPO prices to continue their upward trajectory in the short-to-medium-term – due to tighter supplies and improved demand – and then moderate in the later part of 3Q21. In view of this, we expect plantation companies' earnings growth to remain firmly on the upside as CPO price is anticipated to stay elevated above RM3,000/MT. We have BUY call on HAPL (RM2.17), SOP (RM4.50), TSH (TP: RM1.23), IOI (RM4.80), KLK (RM24.40) and SIME Darby Plants (TP: RM5.00), whilst HOLD recommendation on Sarawak Plant (RM2.64), GENP (TP: RM9.00) and FGV (TP: RM1.30); and non-rated for TH Plant.

**Table 2: Plantation Key Annual Statistics**

	2017	2018	2019	2020	2021F	% Change				
						2017	2018	2019	2020E	2021F
Average CPO Price (RM/MT)	2,798.00	2,235.00	2,079.00	2,685.50	3,100.00	5.5	(20.1)	(7.0)	29.2	15.4
CPO Production (Million Tonnes)	19.92	19.52	19.86	19.14	19.17	15.0	(2.0)	1.8	(3.6)	0.2
PalM Oil Export (Million Tones)	16.56	16.49	18.47	17.37	17.48	3.2	(0.4)	12.0	(6.0)	0.7
Ending Stocks (Million Tonnes)	2.73	3.22	2.01	1.26	1.82	63.9	17.8	(37.5)	(37.1)	44.2

Source: BIMB Securities/ MPOB

Table 2: YTD Major Export Destinations (Major Customers)

	YTD'20	YTD'21	Change (YoY)	
	('000 tonnes)	('000 tonnes)	('000 tonnes)	(%)
<b>Total</b>	<b>7,800.54</b>	<b>7,074.88</b>	<b>-725.66</b>	<b>-9.30%</b>
China	1,258.48	739.04	-519.44	-41.28%
India	391.15	1,576.17	1,185.02	302.96%
EU	1,010.54	755.51	-255.03	-25.24%
Pakistan	575.60	305.76	-269.84	-46.88%
USA	294.39	131.05	-163.35	-55.49%

Source : BIMB Securities/ MPOB

Table 3: Export by Selected Destination (yoy and mom performance)

	May'20	Apr'21	May21	Changes	
	('000 tonnes)	('000 tonnes)	('000 tonnes)	Y-o-Y	M-o-M
<b>Total</b>	<b>1,706.64</b>	<b>1,268.66</b>	<b>1,418.83</b>	<b>-16.9%</b>	<b>11.8%</b>
China	351.46	144.54	212.99	-39.4%	47.4%
India	242.05	388.95	280.67	16.0%	-27.8%
Pakistan	131.55	50.18	66.36	-49.6%	32.3%
Netherlands	73.66	117.93	68.30	-7.3%	-42.1%
USA	46.56	21.46	11.63	-75.0%	-45.8%
Singapore	47.20	11.44	14.00	-70.3%	22.4%
Vietnam	53.11	37.26	39.86	-25.0%	7.0%
Iran	12.65	21.29	55.58	339.5%	161.1%
South Korea	54.49	29.60	34.02	-37.6%	14.9%
South Africa	23.37	11.82	11.30	-51.7%	-4.4%
Philippines	55.04	63.20	31.26	-43.2%	-50.5%
Japan	33.47	32.27	37.82	13.0%	17.2%
UAE	8.11	16.06	29.94	269.3%	86.4%
EU	127.33	146.53	148.12	16.3%	1.1%
Benin	9.82	1.10	3.94	-59.9%	259.3%

Source: BIMB Securities/MPOB

Table 4: Stock under coverage – peer comparison

Companies	Price (RM)	Market Cap (RM m)	Net Profit (RM m)			PER (x)			FY1 Div. Yield	ROE	Target Price (RM)	Rating
			FY0	FY1	FY2	FY0	FY1	FY2				
SDPL	3.79	26,210.6	1346.7	1390.9	1349.5	19.5	18.8	19.4	2.1%	9.9	5.00	Buy
IOI Corp	3.67	22,910.3	600.9	1055.9	1033.6	38.1	21.7	22.2	2.2%	6.5	4.80	Buy
KLK	19.76	21,306.9	772.6	1075.0	981.6	27.6	19.8	21.7	2.5%	7.3	24.40	Buy
FGV	1.31	4,779.1	146.2	176.5	203.1	32.7	27.1	23.5	2.3%	3.5	1.30	Hold
TH Plantations	0.46	406.6	14.0	44.4	40.6	29.1	9.1	10.0	0.0%	2.4	NA	Non-Rated
Genting Plant	6.82	6,118.9	254.4	219.1	206.5	24.1	27.9	29.6	1.9%	5.2	9.00	Hold
Hap Seng	1.79	1,431.4	90.3	94.3	86.2	15.9	15.2	16.6	3.9%	5.4	2.17	Buy
TSH Resources	1.00	1,380.2	79.5	90.8	87.7	17.4	15.2	15.7	1.5%	5.5	1.23	Buy
SOP	3.39	1,938.0	204.1	287.0	254.1	9.5	6.8	7.6	1.8%	8.6	4.50	Buy
Sarawak Plant	2.20	613.9	61.0	75.4	66.8	10.1	8.1	9.2	4.5%	10.4	2.64	Hold

Source: BIMB Securities/ Bloomberg

**DEFINITION OF RATINGS**

BIMB Securities uses the following rating system:

**STOCK RECOMMENDATION**

<b>BUY</b>	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
<b>TRADING BUY</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
<b>HOLD</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>TAKE PROFIT</b>	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
<b>TRADING SELL</b>	Share price may fall by more than 15% in the next 3 months.
<b>SELL</b>	Share price may fall by more than 10% over the next 12 months.
<b>NOT RATED</b>	Stock is not within regular research coverage.

**SECTOR RECOMMENDATION**

<b>OVERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
<b>NEUTRAL</b>	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
<b>UNDERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

**Applicability of ratings**

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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