

MPOB Monthly Statistics July 2021**Overweight** ◀▶**Inventory improved 7.3% mom to 1.50m tonnes**

- Inventory fell by 7.3% mom to 1.50m tonnes in July.
- CPO production declined 5.2% mom to 1.52m tonnes.
- Palm oil exports slipped 0.8% mom to 1.41m tonnes.
- Maintain Overweight on the sector with average CPO price of RM3,100/MT for 2021 and RM2,700/MT for 2022.

Table 1: Snapshot of the Malaysian Palm Oil Industry Data

	July21	Jun21	July20	M-o-M	Y-o-Y	YTD'21	YTD'20	Chg.
Avg. CPO Price (RM/MT)	4,129	3,831	2,519	7.8%	63.9%	4,062	2,488	63.3%
CPO Production (MT)	1.52	1.61	1.81	-5.2%	-15.7%	9.89	10.86	-8.9%
Palm Oil Export (MT)	1.41	1.42	1.78	-0.8%	-21.0%	8.48	9.58	-11.5%
Ending Stocks (MT)	1.50	1.61	1.70	-7.3%	-11.9%	Nm	Nm	Nm

Source: BIMB Securities/ MPOB

Closing stocks fell 7.3% mom to 1.50m tonnes in July

Inventory in July 2021 improved 7.30% mom to 1.496m tonnes vs. 1.614m tonnes in June mainly supported by lower production and import as well as higher domestic consumption registered during the month. Palm oil import declined by 51.9% mom to 53.38k tonnes compared to 113.13k tonnes in June. Overall, the decline in inventory was due to lower stocks registered for both CPO (crude PO) and PPO (processed palm oil) which improved by 2.8% and 12% respectively to 703,886 tonnes and 792,574 tonnes during the period – except for Sabah, where CPO stock increase 1.9% mom to 197,259 tonnes. As of end-July21 versus a year ago, the stockpiles remain relatively lower, improved 11.9% to 1.496m tonnes against 1.61m tonnes recorded in July20.

We expect stocks level in the next couple of months would hover in the region of 1.50m tonnes to 1.60m tonnes, in view of gradual growth in production (possibly at slower rate than expected due to labour shortage issues) as production cycle is in seasonally higher palm oil productive month while export will gain momentum due to restocking activities ahead of festivities in October and November.

Production declined 5.2% mom to 1.52m tonnes.

CPO production decreased 5.17% mom (-15.73% yoy) to 1.523m tonnes in July 2021 on lower FFB yield and oil extraction rate across the country including Sabah and Sarawak. The lower OER was led by Sarawak, registered at 19.63%, followed by Negeri Sembilan 20.23%, Perak 19.31%, Pahang 19.92% and Sabah 20.82%. Year-to-date production decreased 15.73% yoy to 9.887m 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 July remained bullish, on strong market sentiment driven by the prospect of higher demand from India and China as well as the anticipation of a weaker than expected output – despite production currently in peak production cycle. This was also compounded by the rally in soybean oil price in CBOT as well as Palm Olein in Dalian Commodity Exchange. As such, CPO price at Bursa Derivatives Market (BMD) closed higher at RM4,369/MT (+21.4% mom) with the average CPO price for local delivery rising 7.8% mom (+63.9% yoy) to an average of RM4,128.50/MT against RM3,830.50/MT recorded in the previous month. As for Jan-July 2021 period, the MPOB average CPO price of RM4,062/MT was higher by RM1,575/MT or 63.3% against RM2,488/MT recorded in the same period last year.

We foresee that price for local delivery in August/September 2021 period would trade within a range of RM4,500/MT and RM3,800/MT as opposed to RM2,752/MT and RM3,074/MT recorded during the same period last year. This ties in with our positive view on the prospect of improved demand prior to festivities and tight supply situation underpinned by a hiccup in palm oil production as well as favorable SBO prices performance on higher demand for soybeans and its derivatives for food, feed-meal and biofuel feedstocks.

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) prolonged Covid-19 pandemic with another round of movement restriction worldwide.

Maintain “Overweight”

Maintain Overweight call on the 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 moderating in the later part of 3Q21 or in Oct21. 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 RM3,500/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	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 Tonnes)	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)	(%)
Total	9,583.82	8,482.53	-1101.29	-11.49%
China	1,547.13	902.92	-644.21	-41.64%
India	846.45	1,801.21	954.76	112.80%
EU	1,182.60	968.65	-213.95	-18.09%
Pakistan	691.50	357.36	-334.13	-48.32%
USA	345.43	163.28	-182.15	-52.73%

Source : BIMB Securities/ MPOB

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

	July'20	June'21	July21	Changes	
	('000 tonnes)	('000 tonnes)	('000 tonnes)	Y-o-Y	M-o-M
Total	1,783.28	1,419.00	1,408.32	-21.0%	-0.8%
China	288.65	212.99	163.88	-43.2%	-23.1%
India	455.30	280.67	225.04	-50.6%	-19.8%
Pakistan	115.90	66.36	51.60	-55.5%	-22.2%
Netherlands	88.48	68.30	120.85	36.6%	76.9%
USA	51.04	11.63	32.23	-36.8%	177.1%
Singapore	14.54	14.02	13.52	-7.0%	-3.6%
Vietnam	32.16	39.86	38.16	18.7%	-4.3%
Iran	92.45	55.58	27.44	-70.3%	-50.6%
South Korea	30.01	34.02	31.39	4.6%	-7.7%
South Africa	20.13	11.30	18.64	-7.4%	65.0%
Philippines	52.96	31.26	53.40	0.8%	70.8%
Japan	36.64	37.82	37.31	1.8%	-1.3%
UAE	9.23	29.94	21.14	129.1%	-29.4%
EU	172.06	148.12	213.14	23.9%	43.9%
Benin	6.53	3.94	3.89	-40.5%	-1.4%

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	3.48	24,066.7	1346.7	1390.9	1349.5	17.9	17.3	17.8	2.3%	9.9	5.00	Buy
IOI Corp	3.70	23,064.6	600.9	1055.9	1033.6	38.4	21.8	22.3	2.2%	6.5	4.80	Buy
KLK	19.38	20,895.2	772.6	1075.0	981.6	27.0	19.4	21.3	2.6%	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	0.50	441.9	14.0	44.4	40.6	31.6	9.9	10.9	0.0%	2.4	NA	Non-Rated
Genting Plant	6.52	5,849.7	254.4	219.1	206.5	23.0	26.7	28.3	2.0%	5.2	9.00	Hold
Hap Seng	1.82	1,455.4	90.3	94.3	86.2	16.1	15.4	16.9	3.8%	5.4	2.17	Buy
TSH Resources	1.03	1,421.6	79.5	90.8	87.7	17.9	15.7	16.2	1.5%	5.5	1.23	Buy
SOP	3.44	1,966.6	204.1	287.0	254.1	9.6	6.9	7.7	1.7%	8.6	4.50	Buy
Sarawak Plant	2.31	644.6	61.0	75.4	66.8	10.6	8.5	9.6	4.3%	10.4	2.64	Hold

Source: BIMB Securities/ Bloomberg

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

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

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	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
UNDERWEIGHT	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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