

## MPOB Monthly Statistics August 2021

**Overweight** ◀▶

### Ending stocks soar to 1.87m tonnes in August

- Inventory climbed 25.3% mom to 1.87m tonnes in August.
- CPO production improved 11.8% mom to 1.70m tonnes.
- Palm oil exports slipped 17.1% mom to 1.16m tonnes.
- Maintain Overweight on the sector with average CPO price of RM3,700/MT for 2021 and RM2,950/MT for 2022.

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

|                        | Aug21 | July21 | Aug20 | M-o-M  | Y-o-Y  | YTD'21 | YTD'20 | Chg.   |
|------------------------|-------|--------|-------|--------|--------|--------|--------|--------|
| Avg. CPO Price (RM/MT) | 4,555 | 4,129  | 2,815 | 10.3%  | 61.8%  | 4,124  | 2,529  | 63.1%  |
| CPO Production (MT)    | 1.70  | 1.52   | 1.86  | 11.8%  | -8.6%  | 11.59  | 12.72  | -8.9%  |
| Palm Oil Export (MT)   | 1.16  | 1.40   | 1.58  | -17.1% | -26.3% | 9.64   | 11.16  | -13.6% |
| Ending Stocks (MT)     | 1.87  | 1.50   | 1.70  | 25.3%  | 10.1%  | Nm     | Nm     | Nm     |

Source: BIMB Securities/ MPOB

### Closing stocks soar 25.3% mom to 1.87m tonnes in August

Inventory in August 2021 increased 25.28% mom to 1.875m tonnes vs. 1.496m tonnes in July (the highest in thirteen months) mainly due to higher production and lower export registered during the month. Aided by low domestic consumptions and higher PO import which increased 68.1% mom to 91.4k tonnes compared to 54.4k tonnes in July. Overall, higher inventory was due to higher stocks registered for both CPO (crude PO) and PPO (processed palm oil) which climbed 35.1% and 16.6% mom respectively to 950,711 tonnes and 924,035 tonnes during the period. As of end-Aug 2021 versus a year ago, the stockpiles were relatively higher, increased 10.1% yoy to 1.875m tonnes against 1.703m tonnes recorded in Aug20.

We expect stocks level in the next couple of months would improve and hover in the region of 1.60m tonnes to 1.70m tonnes, in view of gradual growth in production (possibly at slower rate than expected due to labour shortage issues) as production cycle is now in seasonally higher palm oil productive months, while export is expected to gain its momentum to satisfy demand ahead of festivities in October and November.

### Production increased 11.8% mom to 1.70m tonnes.

CPO production increased 11.8% mom (-8.63% yoy) to 1.70m tonnes in August 2021 on improved FFB yield and oil extraction rate across the country as production cycle is in the peak productive months. Year-to-date production decreased 8.91% yoy to 11.589m 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. Apart from lower yield, palm oil production is expected to grow at slower pace as harvesting and manuring activities are believed to be interrupted by an acute shortage of labour especially in Peninsular and Sarawak. As such, we revised lower our CPO production forecast for 2021 to 18.2m tonnes from 19.17m tonnes earlier estimated - Table 2.

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**Maintain 2021/22 average CPO price forecast at RM3,700/MT-RM2,950/MT**

The BMD's 3-month CPO futures prices for the month of August saw a mixed trading as concerns on lower edible oils demand intensified compounded by weakness in soybean oil price performance in CBOT and Dalian Commodity Exchange market. Given continuous concerns over tight edible oil supply worldwide led by tight supply of Malaysian production, average CPO price at Bursa Derivatives Market (BMD) closed relatively higher at RM4,318/MT (+7.45% mom) with CPO price for local delivery seen rising 10.3% mom (+61.8% yoy) to an average of RM4,555/MT against RM4,128.50/MT recorded in the previous month. As for Jan-Aug 2021 period, the MPOB average CPO price of RM4,124/MT was higher by RM1,595/MT or 63.1% against RM2,529/MT recorded in the same period last year.

We foresee that price for local delivery in September/October 2021 period would continue to trade higher within a range of RM4,600/MT and RM4,000/MT as opposed to RM2,841.50/MT and RM3,250/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 in Malaysia 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 on the sector as most stocks under our coverage are currently carrying attractive valuation. 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 4Q21. 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), GENP (TP: RM9.00) and SIME Darby Plants (TP: RM5.00), whilst HOLD recommendation on Sarawak Plant (RM2.64) 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     | 2020     | 2021F    | 2017     | 2018   | 2019   | 2020E  | 2021F |
| Average CPO Price (RM/MT)        | 2,798.00 | 2,235.00 | 2,079.00 | 2,685.50 | 3,700.00 | 5.5      | (20.1) | (7.0)  | 29.2   | 37.8  |
| CPO Production (Million Tonnes)  | 19.92    | 19.52    | 19.86    | 19.14    | 18.18    | 15.0     | (2.0)  | 1.8    | (3.6)  | (5.0) |
| Palm Oil Export (Million Tonnes) | 16.56    | 16.49    | 18.47    | 17.37    | 17.17    | 3.2      | (0.4)  | 12.0   | (6.0)  | (1.1) |
| Ending Stocks (Million Tonnes)   | 2.73     | 3.22     | 2.01     | 1.26     | 1.85     | 63.9     | 17.8   | (37.5) | (37.1) | 46.3  |

Source: BIMB Securities/ MPOB

**Table 3: YTD Major Export Destinations (Major Customers)**

|              | YTD'20           | YTD'21          | Change (YoY)    |                |
|--------------|------------------|-----------------|-----------------|----------------|
|              | ('000 tonnes)    | ('000 tonnes)   | ('000 tonnes)   | (%)            |
| <b>Total</b> | <b>11,161.90</b> | <b>9,639.06</b> | <b>-1522.84</b> | <b>-13.64%</b> |
| China        | 1,842.14         | 1,045.47        | -796.67         | -43.25%        |
| India        | 1,176.27         | 2,113.50        | 937.23          | 79.68%         |
| EU           | 1,341.78         | 1,076.64        | -265.14         | -19.76%        |
| Pakistan     | 751.27           | 409.76          | -341.51         | -45.46%        |
| USA          | 387.35           | 187.29          | -200.05         | -51.65%        |

Source : BIMB Securities/ MPOB

Table 4: Export by Selected Destination (yoy and mom performance)

|              | August'20       | July'21         | August21        | Changes       |               |
|--------------|-----------------|-----------------|-----------------|---------------|---------------|
|              | ('000 tonnes)   | ('000 tonnes)   | ('000 tonnes)   | Y-o-Y         | M-o-M         |
| <b>Total</b> | <b>1,578.08</b> | <b>1,402.04</b> | <b>1,162.81</b> | <b>-26.3%</b> | <b>-17.1%</b> |
| China        | 295.01          | 166.43          | 137.46          | -53.4%        | -17.4%        |
| India        | 329.83          | 234.04          | 303.30          | -8.0%         | 29.6%         |
| Pakistan     | 59.78           | 51.60           | 52.40           | -12.3%        | 1.5%          |
| Netherlands  | 76.62           | 120.85          | 58.25           | -24.0%        | -51.8%        |
| USA          | 41.92           | 32.23           | 24.01           | -42.7%        | -25.5%        |
| Singapore    | 17.16           | 13.52           | 16.80           | -2.1%         | 24.3%         |
| Vietnam      | 27.77           | 38.16           | 15.98           | -42.5%        | -58.1%        |
| Iran         | 34.43           | 27.44           | 20.42           | -40.7%        | -25.6%        |
| South Korea  | 48.24           | 31.39           | 27.31           | -43.4%        | -13.0%        |
| South Africa | 14.43           | 18.64           | 1.78            | -87.6%        | -90.4%        |
| Philippines  | 45.12           | 53.40           | 42.58           | -5.6%         | -20.3%        |
| Japan        | 34.05           | 37.31           | 32.48           | -4.6%         | -12.9%        |
| UAE          | 21.55           | 21.14           | 9.04            | -58.0%        | -57.2%        |
| EU           | 159.18          | 213.14          | 107.99          | -32.2%        | -49.3%        |
| Benin        | 9.53            | 3.89            | 7.85            | -17.7%        | 102.0%        |

Source: BIMB Securities/MPOB

Table 5: 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           | 3.95       | 27,317.1          | 1346.7            | 1899.3 | 1661.4 | 20.3    | 14.4 | 16.4 | 3.0%           | 9.9  | 5.00              | Buy       |
| IOI Corp       | 3.89       | 24,245.9          | 1394.3            | 1033.7 | 1018.8 | 17.4    | 23.5 | 23.8 | 2.7%           | 13.5 | 4.80              | Buy       |
| KLK            | 20.86      | 22,484.7          | 772.6             | 1334.9 | 1206.4 | 29.1    | 16.8 | 18.6 | 2.4%           | 7.3  | 24.40             | Buy       |
| FGV            | 1.39       | 5,070.9           | 146.2             | 361.3  | 293.1  | 34.7    | 14.0 | 17.3 | 2.2%           | 3.5  | 1.30              | Hold      |
| TH Plantations | 0.57       | 499.4             | 14.0              | 44.4   | 40.6   | 35.7    | 11.2 | 12.3 | 0.0%           | 2.4  | NA                | Non-Rated |
| Genting Plant  | 7.32       | 6,567.5           | 254.4             | 374.9  | 351.4  | 25.8    | 17.5 | 18.7 | 2.9%           | 5.2  | 9.00              | Buy       |
| Hap Seng       | 2.04       | 1,631.4           | 90.3              | 140.5  | 98.9   | 18.1    | 11.6 | 16.5 | 3.4%           | 5.4  | 2.17              | Buy       |
| TSH Resources  | 1.16       | 1,601.0           | 79.5              | 120.5  | 108.5  | 20.1    | 13.3 | 14.8 | 1.3%           | 5.5  | 1.23              | Buy       |
| SOP            | 3.67       | 2,098.0           | 204.1             | 346.5  | 270.8  | 10.3    | 6.1  | 7.7  | 1.6%           | 8.6  | 4.50              | Buy       |
| Sarawak Plant  | 2.51       | 700.4             | 61.0              | 79.8   | 67.5   | 11.5    | 8.8  | 10.4 | 4.0%           | 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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