

## MPOB Monthly Statistics Oct. 2021

Overweight ◀▶

### Ending stocks higher at 1.83m tonnes

- Inventory increased 4.4% mom to 1.83m tonnes in October.
- CPO production improved 1.3% mom to 1.73m tonnes.
- Palm oil exports declined 12.0% mom to 1.42m tonnes.
- Maintain Overweight on the sector with average CPO price forecast of RM4,000/MT for 2021 and RM2,950/MT for 2022.

Table 1: Snapshot of the Malaysian Palm Oil Industry Data

	Oct21	Sept21	Oct20	M-o-M	Y-o-Y	YTD'21	YTD'20	Chg.
Avg. CPO Price (RM/MT)	5,051	4,556	2,980	10.9%	69.5%	4,260	2,613	63.0%
CPO Production (MT)	1.73	1.70	1.72	1.3%	0.1%	15.03	16.32	-7.9%
Palm Oil Export (MT)	1.42	1.61	1.67	-12.0%	-15.3%	12.68	14.45	-12.3%
Ending Stocks (MT)	1.83	1.76	1.57	4.4%	16.6%	Nm	Nm	Nm

Source: BIMB Securities/ MPOB

### Closing stocks increased 4.4% mom to 1.83m tonnes in October

Malaysia's palm oil stocks increased 4.42% mom to 1.834m tonnes in October as export weakened 12.0% mom to 1.418m tonnes mainly due to lower PO intake from major importing countries like India, EU, Pakistan, Netherlands and Vietnam. The rise in inventory was aided by higher production and lower local consumption during the period. Both stocks of CPO (crude PO) and PPO (processed palm oil) increased 6.0% and 2.7% mom respectively to 986,168 tonnes and 847,935 tonnes during the period – except for Peninsular which registered lower stocks of CPO of approx. 426,944 tonnes or 8.8% declined mom. As of end-Oct 2021 versus a year ago, the stockpiles were relatively higher, up by 16.57% yoy to 1.83m tonnes against 1.57m tonnes recorded in Oct20.

We expect stocks level in the next couple of months to hover in the region of 1.70m tonnes to 1.80m tonnes, in view of slower growth in production while export is expected to pick up again to satisfy demand for other festivities such as Christmas and Chinese New Year, as well as to cater for improve demand from the reopening of global economy.

### Production improved 1.3% mom to 1.73m tonnes.

CPO production increased 1.3% mom (+0.07% yoy) to 1.726m tonnes in Oct 2021 as CPO extraction rate improved across the country with Peninsular Malaysia increased 1% mom to 20.46% against 20.25% registered in Sept20, followed by Sabah to 21.26% (1.9%) and Sarawak to 20.10% (+1.1%mom). Alternatively, year-to-date CPO production decreased 7.87% yoy to 15.03m tonnes as production is wedged by the lag impact of weaker yield from the dry weather, diseases and older trees as well as by the acute labour shortage especially from the skilled harvester in Peninsular and Sarawak.

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**Maintain average CPO price forecast of RM4,000/MT for 2021 and RM2,950/MT for 2022**

Crude palm oil (CPO) price for the month of October stayed bullish as sentiment remained strong on solid fundamental lifted by robust demand prospect, as well as anticipated weaker-than-expected output and stocks of PO from Malaysia. CPO futures price accelerated to a fresh record of above RM5,000/MT boosted by robust crude oil prices and concerns over tight supply of global vegetable oil as well as strong demand estimated from India and China. This was also compounded by firmer soybean oil price in CBOT as well as Palm Olein in Dalian Commodity Exchange. As such, the average CPO price at Bursa Derivatives Market closed relatively higher at RM4,885.05/MT (+12.3% mom) with CPO price for local delivery skyrocketing to an average of RM5,051/MT against RM4,556/MT recorded in the previous month. As for Jan-Oct 2021 period, the MPOB average CPO price of RM4,260/MT was higher by RM1,647/MT or 63.0% against RM2,613/MT recorded in the same period last year.

We are of the view that a higher near-term CPO price is possible, supported by tight palm oil supply scenario in Malaysia, given acute labor shortage caused by closure of Malaysia's borders and improved demand prospect from the reopening of global economies as well as favorable SBO prices performance on higher demand for soybeans and its derivatives for food, feed-meal and biofuel feedstocks – meaning CPO price could retain its upward trajectory, possibly up until Feb/Mar 2022. In light of these developments, we foresee that price (local delivery) for Nov/Dec 2021 would trade within a range of RM5,400/MT and RM4,500/MT as opposed to RM2,841/MT and RM3,620.50/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 new variant of Covid-19 virus 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 tight supplies of global edible oils and surging demand from reopening of economies – and then moderating in the later part of 1Q22. 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 (RM4.75), 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	2020E	2021F
Average CPO Price (RM/MT)	2,798.00	2,235.00	2,079.00	2,685.50	4,000.00	5.5	(20.1)	(7.0)	29.2	48.9
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 Tones)	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>14,448.41</b>	<b>12,677.56</b>	<b>-1770.85</b>	<b>-12.26%</b>
China	2,282.01	1,523.81	-758.20	-33.23%
India	1,974.55	2,801.86	827.31	41.90%
EU	1,618.13	1,319.43	-298.70	-18.46%
Pakistan	889.08	536.14	-352.94	-39.70%
USA	491.73	230.35	-261.38	-53.16%

Source : BIMB Securities/ MPOB

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

	October'20	September'21	October'21	Changes	
	('000 tonnes)	('000 tonnes)	('000 tonnes)	Y-o-Y	M-o-M
<b>Total</b>	<b>1,674.38</b>	<b>1,611.80</b>	<b>1,417.87</b>	<b>-15.3%</b>	<b>-12.0%</b>
China	189.97	234.36	243.98	28.4%	4.1%
EU	119.92	135.86	106.08	-11.5%	-21.9%
India	423.72	373.37	310.61	-26.7%	-16.8%
Iran	64.63	-	0.79	-98.8%	NA
Japan	44.86	36.11	34.82	-22.4%	-3.6%
Kenya	55.20	50.21	81.36	47.4%	62.0%
Netherlands	78.95	76.16	57.92	-26.6%	-24.0%
Pakistan	78.65	65.05	61.33	-22.0%	-5.7%
Philippines	73.15	69.87	36.72	-49.8%	-47.4%
Singapore	12.75	20.82	21.77	70.7%	4.6%
South Korea	25.15	33.82	19.30	-23.3%	-42.9%
South Africa	6.19	22.14	12.69	104.9%	-42.7%
Saudi Arabia	28.61	40.73	27.75	-3.0%	-31.9%
Turkey	48.40	57.03	81.78	69.0%	43.4%
USA	57.77	30.30	12.76	-77.9%	-57.9%
Vietnam	34.29	36.99	17.53	-48.9%	-52.6%

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	3.96	27,386.2	1346.7	1899.3	1661.4	20.3	14.4	16.5	3.0%	9.9	5.00	Buy
IOI Corp	3.78	23,518.5	1394.3	1033.7	1018.8	16.9	22.8	23.1	2.8%	13.5	4.80	Buy
KLK	20.52	22,118.2	772.6	1334.9	1206.4	28.6	16.6	18.3	2.4%	7.3	24.40	Buy
FGV	1.45	5,289.8	146.2	361.3	293.1	36.2	14.6	18.0	2.1%	3.5	1.30	Hold
TH Plantations	0.67	587.8	14.0	44.4	40.6	42.0	13.2	14.5	0.0%	2.4	NA	Non-Rated
Genting Plant	7.03	6,307.3	254.4	374.9	351.4	24.8	16.8	17.9	3.0%	5.2	9.00	Buy
Hap Seng	2.05	1,639.4	90.3	140.5	98.9	18.2	11.7	16.6	3.4%	5.4	2.17	Buy
TSH Resources	1.11	1,532.0	79.5	120.5	108.5	19.3	12.7	14.1	1.4%	5.5	1.23	Buy
SOP	3.63	2,075.2	204.1	299.7	238.3	10.2	6.9	8.7	1.7%	8.6	4.75	Buy
Sarawak Plant	2.43	678.1	61.0	79.8	67.5	11.1	8.5	10.0	4.1%	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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