

MPOB Monthly Statistics Jan 2022

Overweight ◀▶

Palm oil end-stocks fell 3.9% mom to 1.55m tonnes

- Inventory ended lower, fell 3.9% mom to 1.55m tonnes in January.
- Production dropped 13.5% mom to 1.25m tonnes.
- Palm oil exports slumped 18.7% mom to 1.16m tonnes.
- Maintain Overweight on the sector with average CPO price forecast of RM3,500/MT for 2022 and RM2,900/MT for 2023.

Table 1: Snapshot of the Malaysian Palm Oil Industry Data

	Jan22	Dec21	Jan21	M-o-M	Y-o-Y	YTD'22	YTD'21	Chg.
Avg. CPO Price (RM/MT)	5,355	5,070	3,749	5.6%	42.8%	5,355	3,749	42.8%
CPO Production (MT)	1.25	1.45	1.13	-13.5%	11.3%	1.25	1.13	11.3%
Palm Oil Export (MT)	1.16	1.42	0.95	-18.7%	22.2%	1.16	0.95	22.2%
Ending Stocks (MT)	1.55	1.61	1.32	-3.9%	17.2%	Nm	Nm	Nm

Source: BIMB Securities/ MPOB

Closing stocks declined 3.9% mom to 1.55m tonnes in January

Malaysia's palm oil stocks fell 3.85% mom to 1.552m tonnes in January as export weakened while import declined 31.31% mom to 70,596 tonnes. Overall, the lower end-stocks were due to lower stocks for CPO, which declined by 7.7% to 786,828 tonnes during the period though PPO (processed palm oil) stocks increase slightly by 0.5% mom to 765,586 tonnes. Compared to a year ago, the stockpiles were relatively higher, increasing by 17.2% yoy to 1.55m tonnes against 1.32m tonnes recorded in Jan21.

We expect stocks level in the next couple of months to hover in the region of 1.50m tonnes to 1.60m tonnes, in view of slower growth in production while export is expected to sustain to satisfy demand for festivities i.e., Ramadhan and Aidul Fitri, as well as to cater for improved demand from the reopening of global economy. Off note, palm oil exports improved 22.23% yoy to 1.158m tonnes against 947k tonnes recorded last year with palm oil export value of RM6,141.35m (+79% yoy). Nonetheless, we are cautious that higher CPO price will cause demand destruction for price-sensitive countries like India, Pakistan, Bangladesh and Africa, to name few. This would make palm oil less competitive against its rivals, soybean oil, of which the spread between SBO and PO has narrowed to USD70/MT-USD80/MT against its 5-yr average of circa USD119/MT.

Production slumped 13.5% mom to 1.25m tonnes.

CPO production declined 13.54% mom (+11.27% yoy) to 1.253m tonnes in Jan 2022 contributed by 20% dropped of production from Sarawak, followed by Peninsular Malaysia by -12.4% and Sabah by -9.8%; - as production is on low cycle of production months, compounded by flooding in some states in Malaysia which is within crops growing areas that has disrupted the harvesting and logistics of PO. Conversely, year-to-date CPO production improved 11.27% yoy to 1.253m tonnes.

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Maintain average CPO price forecast of RM3,500/MT for 2022.

Crude palm oil prices for the month of January saw bullish trading on strong market sentiment as concerns on tight supplies of vegetable oils worldwide intensified due to delays in foreign workers intake in Malaysia, drought in the growing crops areas in South America and geopolitical tension between Russia and Ukraine. Supply constraints of palm oil due to continuous shortage of labor and flooding in some states in Malaysia have led to a tight squeeze in palm oil supply and added an upward pressure on CPO price. As such, average CPO price at Bursa Derivatives Market (BMD) closed relatively higher at RM5,147/MT (+11.1% mom) with CPO price for local delivery climb higher to an average of RM5,354.50/MT against RM5,070/MT recorded in the previous month. On yearly basis, the MPOB average CPO price of RM5,354.50/MT was higher by RM1,606/MT or 42.8% against RM3748.50/MT recorded in the same period last year.

We continue to hold the view that a higher near-term CPO price is sustainable given improved demand prospect prior to festivities i.e., Ramadhan and Aidul Fitri, aided by tighter edible oils supply prospect and inventory level worldwide. Coupled with higher crude oil prices and Indonesia policy announcement that required palm oil producer to sell 20% of their planned export to domestic market at a maximum market price of Rp9,300/kg for CPO and Rp10,300/kg for Olein - would also add upward pressure on CPO price. These factors would continue to bolster price in the short-to-medium term, before moderating in the later part of 1Q2022. In light of these developments, we foresee that price (local delivery) for February-March 2022 would trade within a range of RM5,800/MT and RM5,000/MT as opposed to RM3,725/MT and RM4,250/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 valuations. We expect plantation companies' earnings risk to remain firmly on the upside as CPO price is anticipated to trade above RM4,500/MT (much higher than average yearly historical prices) that will amplify the revenue and earnings growth momentum up to 1Q22 or possibly for the rest of 1H22. We have BUY call on HAPL (RM2.36), SOP (RM4.75), TSH (TP: RM1.30), IOI (RM4.80), KLK (RM24.40), SIME Darby Plants (TP: RM5.00) and GENP (TP: RM9.00), Sarawak Plant (RM2.88), whilst HOLD recommendation on and FGV (TP: RM1.43); and non-rated for TH Plant.

Table 2: Plantation Key Annual Statistics

	2018	2019	2020	2021P	2022F	2017	2018	2019	2020P	2021F
								% Change		
Average CPO Price (RM/MT)	2,235.00	2,079.00	2,685.50	4,417.46	3,500.00	(20.1)	(7.0)	29.2	64.5	(20.8)
CPO Production (Million Tonnes)	19.52	19.86	19.14	18.12	18.5-19.15	(2.0)	1.8	(3.6)	(5.3)	2.1-5.3
PalM Oil Export (Million Tonnes)	16.49	18.47	17.37	15.56	16.0-16.4	(0.4)	12.0	(6.0)	(10.4)	2.8-5.4
Ending Stocks (Million Tonnes)	3.22	2.01	1.26	1.58	1.6-1.7	17.8	(37.5)	(37.1)	25.2	1.1-7.4

Source: BIMB Securities/ MPOB

Table 3: YTD Major Export Destinations (Major Customers)

	YTD'21	YTD'22	Change (YoY)	
	('000 tonnes)	('000 tonnes)	('000 tonnes)	(%)
Total	947.39	1,157.98	210.59	22.23%
China	113.71	75.12	-38.59	-33.94%
India	143.23	225.40	82.17	57.37%
EU	97.35	120.99	23.64	24.28%
Pakistan	41.66	29.58	-12.08	-28.99%
USA	44.65	2.89	-41.76	-93.52%

Source : BIMB Securities/ MPOB

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

	January'21	December'21	January'22	Changes	
	('000 tonnes)	('000 tonnes)	('000 tonnes)	Y-o-Y	M-o-M
Total	947.39	1,423.82	1,157.98	22.2%	-18.7%
China	113.71	147.02	75.12	-33.9%	-48.9%
EU	97.35	163.92	120.99	24.3%	-26.2%
India	143.23	382.95	225.40	57.4%	-41.1%
Iran	55.43	45.32	18.06	-67.4%	-60.2%
Japan	48.25	32.82	44.72	-7.3%	36.3%
Kenya	29.01	79.62	40.59	39.9%	-49.0%
Netherlands	65.65	96.59	55.18	-16.0%	-42.9%
Pakistan	41.66	35.20	29.58	-29.0%	-16.0%
Philippines	44.69	38.77	57.02	27.6%	47.1%
Singapore	15.58	27.43	21.37	37.2%	-22.1%
South Korea	22.37	25.22	58.20	160.2%	130.8%
South Africa	6.76	7.82	1.02	-85.0%	-87.0%
Saudi Arabia	25.09	43.06	38.64	54.0%	-10.3%
Turkey	47.99	65.80	97.33	102.8%	47.9%
USA	44.65	19.49	2.89	-93.5%	-85.2%
Vietnam	31.05	39.90	59.09	90.3%	48.1%

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	3.80	26,279.7	1346.7	2526.5	1742.3	19.5	10.4	15.1	3.2%	9.9	5.00	Buy
IOI Corp	4.00	24,851.9	1394.3	1242.4	1202.0	17.8	20.0	20.7	2.6%	13.5	4.80	Buy
KLK	22.60	24,360.2	772.6	2257.6	1206.4	31.5	10.8	20.2	2.4%	7.3	24.40	Buy
FGV	1.52	5,545.2	146.2	624.4	323.3	37.9	8.9	17.2	2.0%	3.5	1.43	Hold
TH Plantations	0.67	592.2	14.0	56.6	41.2	42.3	10.5	14.4	0.0%	2.4	NA	Non-Rated
Genting Plant	6.81	6,109.9	254.4	387.5	315.5	24.0	15.8	19.4	3.1%	5.2	9.00	Buy
Hap Seng	2.16	1,727.3	90.3	173.2	123.0	19.1	10.0	14.0	3.2%	5.4	2.36	Buy
TSH Resources	1.13	1,559.6	79.5	146.6	137.2	19.6	10.6	11.4	1.3%	5.5	1.30	Buy
SOP	4.04	2,309.6	204.1	368.1	248.4	11.3	6.3	9.3	1.5%	8.6	4.75	Buy
Sarawak Plant	2.53	706.0	61.0	97.8	72.3	11.6	7.2	9.8	4.0%	10.4	2.88	Buy

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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