

# PLANTATION

**Maintain NEUTRAL**

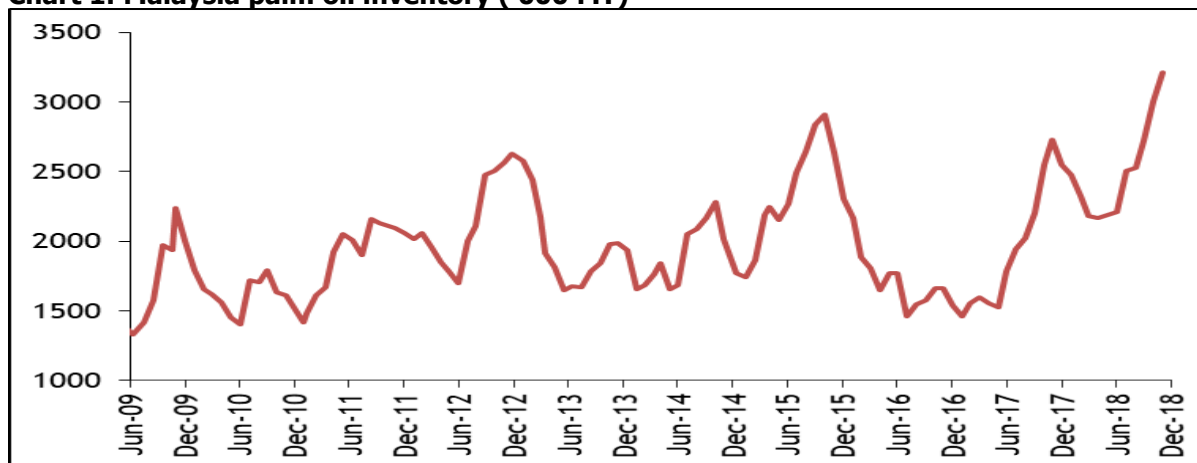
## Record high inventory in December 2018

### KEY HIGHLIGHTS

- Monthly palm oil inventory hit new high of 3.2m in December 2018, the highest level since 2009
- On a year-over-year basis, export declined at a faster pace as compared to production
- Fortunately, slight recovery in export seen supported by higher demand from China and India
- We expect future demand to improve, continue to be underpin by both China and India
- Maintain NEUTRAL on the sector

**Inventory at record level.** In December 2018, Malaysia palm oil inventory reached a record high of 3.2m tonnes. This translates into an increase of +17.7%yoy. The increase in inventory level was mainly attributable to lower export. Note that December 2018 export dropped at higher pace of -3.1%yoy as compared to production (-1.4%yoy). On a month-on-month comparison, grew at a slower pace of +6.9%mom as slight recovery in export was seen (+0.6%mom) while production slowdown marginally (-2.0%mom). Meanwhile, we view that Indonesia’s inventory level may also attained a new high as the country’s crude palm oil (CPO) output is expected to climbed by +13.1%yoy to 43m tonnes from 38m tonnes in 2017. We opine that the seemingly oversupply may continue to add downward pressure on CPO price given the current uncertain market and trade environment.

**Chart 1: Malaysia palm oil inventory ('000 MT)**




Source: Malaysia Palm Oil Board (MPOB), MIDFR

**Weaker export.** On a year-over-year basis, export shrunk by -3.1%yoy to 1.4m tonnes. This was below Bloomberg consensus of 1.5m tonnes. Note that export has come in below expectation for the second consecutive months since November 2018. This was mainly attributable to lower export from the European Union (-55%yoy), Iran (-95.5%yoy), Saudi Arabia (-68.7%yoy), Egypt (-95.6%yoy) and South Africa (-97.7%yoy). On a month-over-month basis, export to key destinations, namely China (+56%mom) and India (+17%mom). We view that the improvement in demand from China was mainly due to festive purchase. Moving forward, we expect China’s import of CPO will continue to increase as we see recovery in demand as its domestic crushers process fewer soybeans due to the spread of African swine fever. Meanwhile, growth in export for India would sustain given the import duty cuts on CPO for Malaysia from 44% to 40%.

**-1.4%yoy lower production.** Production for the month of December 2018 was down by -1.4%yoy to 1.8m tonnes. This was mainly impacted by lower production from the state of Johor Bahru (-10.1%yoy), Negri Sembilan (-13.8%), Pahang (-4.0%).

Palm oil production growth yoy is positive in Sarawak (+1.24%yoy to 5.1m tonnes) whereas in Peninsular Malaysia (-3.6%yoy to 10.2 tonnes) and Sabah (down -1.5%yoy to 5.14m tonnes) were in negative territory.

**Maintain NEUTRAL on the sector.** The inventory level of palm oil in Malaysia and Indonesia remain elevated. Coupled with anticipated higher soybean supply and uncertainties of external developments, we may not observe a significant improvement in CPO price. Nonetheless, we are also seeing some positive signs in export demand stemming from existing key importers such as the China and the India as well as new markets. Meanwhile, we view that local producers are thought to be facing a tough cost structure from MPOB price stabilization tax and additional certification requirement cost. Given the less favourable environment, we are maintaining our **CPO price target of RM2,280/MT** for 2019 at this juncture as we do not see any near-term re-rating catalysts. All factors considered, we are maintaining our NEUTRAL call on the sector. 

**Table 1: Palm Oil Statistics for December 2018 ('000 MT)**

	Dec-18	Nov-18	Diff.	MoM (%)	Dec-17	YoY (%)
<b>Opening Stocks</b>	<b>3,007</b>	<b>2,722</b>	<b>285</b>	<b>10.5</b>	<b>2,554</b>	<b>17.7</b>
<b>Production</b>	<b>1,808</b>	<b>1,845</b>	<b>-37</b>	<b>-2.0</b>	<b>1,834</b>	<b>-1.4</b>
Imports	109	134	-26	-19.2	15	624.6
<b>Total Supply</b>	<b>4,924</b>	<b>4,702</b>	<b>222</b>	<b>4.7</b>	<b>4,403</b>	<b>11.8</b>
Exports	1,383	1,375	8	0.6	1,427	-3.1
Dom Disapp	325	320	6	1.8	243	33.6
<b>Total Demand</b>	<b>1,709</b>	<b>1,695</b>	<b>14</b>	<b>0.8</b>	<b>1,671</b>	<b>2.3</b>
<b>End Stocks</b>	<b>3,215</b>	<b>3,007</b>	<b>208</b>	<b>6.9</b>	<b>2,732</b>	<b>17.7</b>
<b>Stock/Usage Ratio (%)</b>	<b>15.7</b>	<b>14.8</b>			<b>13.6</b>	

Source: MPOB, MIDFR

**Table 2: Export performance for December-2018 ('000 MT)**

	Dec-18	Nov-18	Dec-17	MoM%	YoY%	12M18	12M17	YoY%
China	269	173	175	56	53	1,860	1,917	-3
India	284	242	111	17	157	2,514	2,028	24
EU	93	149	209	-37	-55	1,912	1,992	-4
Pakistan	104	85	84	23	23	1,161	1,017	14
US	58	36	66	64	-12	541	555	-3
Others	574	691	782	-17	-27	8,499	9,051	-6
<b>Total</b>	<b>1,383</b>	<b>1,375</b>	<b>1,427</b>	<b>1</b>	<b>-3</b>	<b>16,486</b>	<b>16,560</b>	<b>-0.4</b>

Source: MPOB, MIDFR

**Figure 1: CPO Futures Price Trend**



Source: Bloomberg, MIDFR

Martin Foo Chuan Loong  
martin.foo@midf.com.my  
+603 2173 8354

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 (Bank Pelaburan)  
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### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.