

11 June 2015 | Statistics

Plantation sector

Maintain NEUTRAL

Export growth rebounded to positive territory

CPO price (10 June 2015) : RM2,287pmt
2015 average CPO price forecast: RM2,400pmt

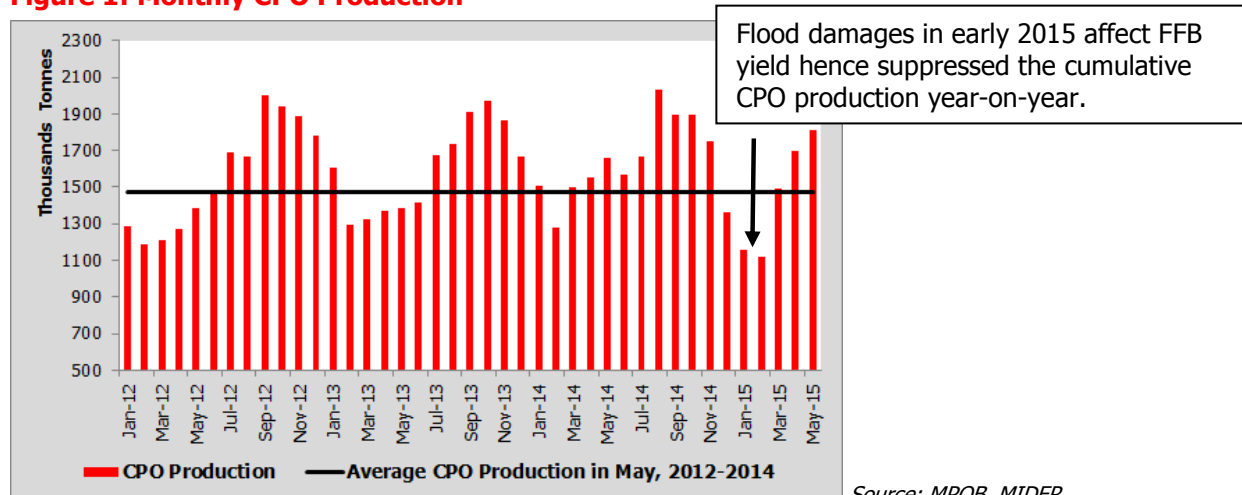
HIGHLIGHTS

- Crude Palm Oil (CPO) production in May increased +9.3%yoy to 1.81mnt.
- Higher take-up from major buyers China, India and the European countries brought total palm oil exports in May higher by +14.7%yoy to 1.61mnt
- Inventory however continued to build up on the back of (i) higher carry-over stock effect, (ii) higher CPO production, and (iii) higher palm oil imports.
- In the immediate term, we expect CPO to continue to recover moderately supported by (i) worries over El Nino weather pattern that could curb yields, (ii) weaker Ringgit which may stimulate demand, and (iii) wider price gap between CPO and soybean oil.
- However, challenging economy conditions, particularly in China, may limit the recovery.
- Therefore, we maintain our NEUTRAL stance on plantation sector.

MPOB's May 2015 Statistics Review

Production continued to recover. CPO production in May surpassed its 3-year average production for that month, as it rose by +9.3%yoy to 1.81mnt. The increase in CPO production was attributable to higher fresh fruit bunch (FFB) yield, which has improved by +8.5%yoy. However, cumulative CPO production for the first five months is still lower compared to that of the same period last year.

Figure 1: Monthly CPO Production

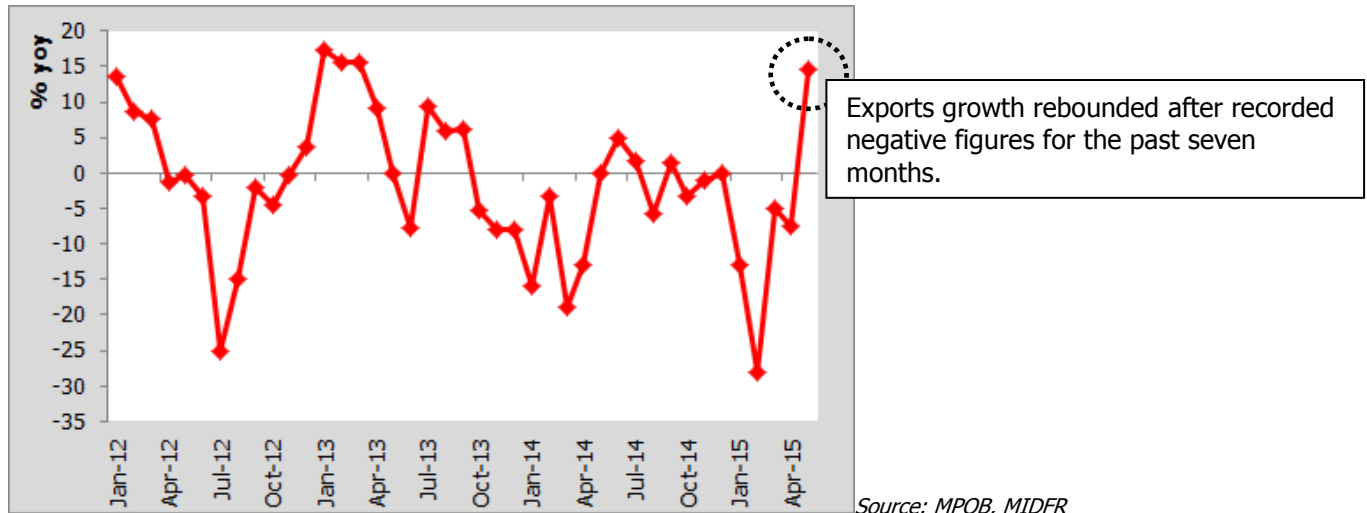


Source: MPOB, MIDFR

Exports improved. Palm oil exports in May increased +14.7%yoy to 1.61mnt. The significant improvement in exports was attributable to the higher offtake from the two major buyers, China and India. In May, palm oil shipments to China and India increased +63.3%yoy and +32.8%yoy respectively as they started to stock up their palm oil inventories ahead of Ramadhan and festive season. In 2014, palm oil exports to China and India accounted for 34.9% of the total palm oil exports. However, strong take-up from these two major buyers in May

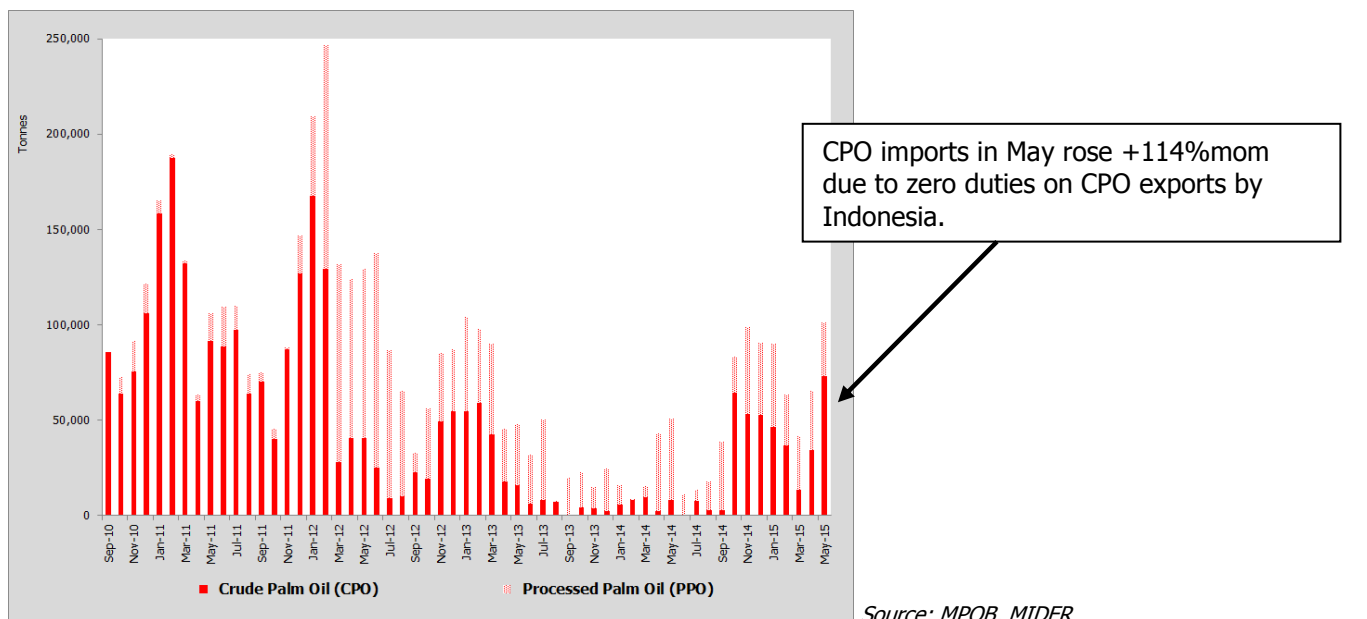
was insufficient to lift up the cumulative five months export number. The cumulative palm oil exports for January to May declined -7.6%yoy.

Figure 2: Year-on-year exports growth



Inventory built up. Despite higher take up from China, India and the European countries, palm oil inventory in Malaysia continued to increase by +2.5%mom to 2.24mmt. Higher carry-over palm oil stock from April, coupled with the rise in CPO production brought the inventory higher. Apart from these, higher palm oil imports in May also cause inventory to inch up. In May, palm oil imports increased +99.4%yoy to 101,107 MT. We believe that that the rise in imports was due to attractive price levels offered by Indonesia. Generally, Indonesia is enjoying a cost advantage of approximately USD15 to USD20pmt vis-à-vis Malaysian producers.

Figure 3: Monthly palm oil imports

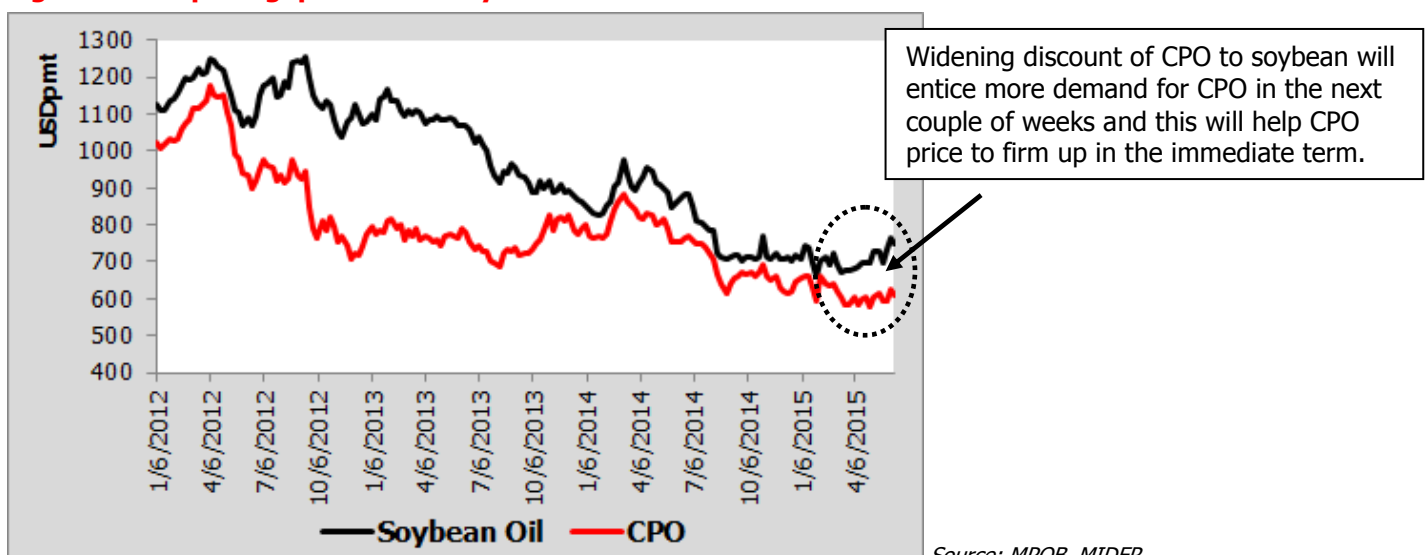


Industry Outlook

CPO prices to continue to improve. For the past few weeks, CPO prices have traded higher at around USD610-630pmt (c.RM2,300-2400pmt). The positive movement in CPO prices was mainly due to anticipation of the potential disruption in CPO supplies resulting from upcoming severe hot and dry weather conditions. We believe that there is still room for CPO price to move up in the next couple of months. Our assumption is premised on (i) unfavourable weather conditions that will curb yields, (ii) weaker Ringgit which may stimulate demand, and (iii) a wider price gap between CPO and soybean oil.


Update on global soybean production. According to the United States Department of Agriculture (USDA), global soybean production is projected at 317.3 million tonnes, almost unchanged from 2014/15 with gains in Brazil, India, Paraguay, and Ukraine being offset by reductions in the United States, Argentina, and China. The Argentina soybean crop is projected at 57.0 million tonnes, down 1.5 million from 2014/15. The Brazil soybean crop is projected to be a record 97.0 million tons, up 2.5 million. China soybean production is projected at 11.5 million tons, down 0.85 million as producers shift to more profitable crops. Against this backdrop, we do not foresee a significant movement in soybean oil prices in the future. We expect soybean prices to continue to trade at the current levels of USD700-780pmt. The anticipated subdued movement in soybean oil prices in the next couple of weeks will help to sustain the recent price gap between soybean oil and CPO. For the past few weeks, the gap between soybean oil and CPO was about USD125pmt, which is comparatively higher to the YTD average of USD90pmt.

Figure 4: The price gap between Soybean oil and CPO



Update on weather. Currently, the temperatures in the eastern tropical Pacific Ocean continued to show a weak state of El Nino. The Oceanic Nino Index – the average SST anomalies for March-Apr-May, for the month of April 2015 recorded a temperature of 0.7°C, while the latest weekly temperature in NINO3.4 monitoring area is 1.2°C. Based on these indicators, most of the international climate models now expect the possibility of a weak to moderate El Nino and this situation may continue until the end of 2015 with a probability of about 80-90%. Weak El Nino will not significantly affect Malaysia, but moderate El Nino can impose a relatively dry climate, particularly in Sabah and northern Sarawak.

Sector Recommendation

Maintain NEUTRAL. In view of the above scenario, we expect CPO prices to continue its modest improvement in the next couple of weeks. However, in the longer term (6 months ahead), we do not foresee any strong catalyst to push CPO price to above RM2,700pmt. Therefore, we maintain our NEUTRAL view on plantation sector with average CPO price assumption of RM2,400pmt for 2015. 

MPOB Palm Oil Statistics (Tonnes)

	May-14	2015				2014	2015	
		Apr-15	May-15	m-o-m	y-o-y	Jan - May	Jan - May	y-o-y
Opening Stock	1,766,167	1,865,927	2,189,479					
Production	1,656,957	1,693,424	1,810,692	6.9%	9.3%	7,494,668	7,281,582	-2.8%
Imports	50,698	65,006	101,107	55.5%	99.4%	132,938	361,110	171.6%
Exports	1,406,918	1,175,248	1,613,566	37.3%	14.7%	6,640,619	6,134,888	-7.6%
Consumption	225,544	259,630	243,188	-6.3%	7.8%	1,132,738	1,279,069	12.9%
Closing Stock	1,841,360	2,189,479	2,244,524	2.5%	21.9%	2,189,479	2,244,524	2.5%

Source: MPOB

Major Palm Oil Exports Destinations (Tonnes)

	May-14	2015				2014	2015	
		Apr-15	May-15	m-o-m	y-o-y	Jan - May	Jan - May	y-o-y
China	220,266	262,713	359,660	36.9%	63.3%	1,221,572	1,036,113	-15.2%
EU Countries	220,262	130,520	267,245	104.8%	21.3%	914,804	801,183	-12.4%
Pakistan	75,466	64,562	58,385	-9.6%	-22.6%	352,755	272,152	-22.8%
India	258,146	87,391	342,859	292.3%	32.8%	917,243	1,110,131	21.0%
USA	64,480	77,324	45,410	-41.3%	-29.6%	331,582	288,891	-12.9%
Bangladesh	8,392	18,697	8,318	-55.5%	-0.9%	126,266	91,116	-27.8%

Source: MPOB

CPO Output by Region (mt)

	May-14	2015				2014	2015	
		Apr-15	May-15	m-o-m	y-o-y	Jan - May	Jan - May	y-o-y
Peninsular Malaysia	858,806	933,068	972,575	4.2%	13.2%	3,854,542	3,905,262	1.3%
Sabah	526,124	475,838	530,644	11.5%	0.9%	2,393,263	2,139,441	-10.6%
Sarawak	272,027	284,518	307,473	8.1%	13.0%	1,246,863	1,236,879	-0.8%
Total	1,656,957	1,693,424	1,810,692	6.9%	9.3%	7,494,668	7,281,582	-2.8%

Source: MPOB

Daily CPO Price Chart



Source: Bloomberg

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BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.