

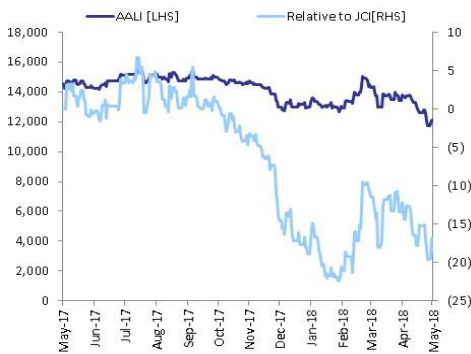
Wednesday, 20 June 2018

**NEUTRAL**

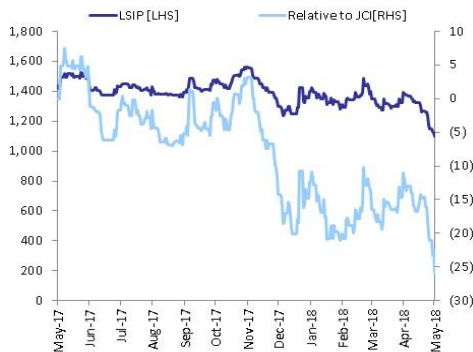
# Plantation

## May Inventory Hits A 9-Month Low

**AALI relative to JCI Index**



**LSIP relative to JCI Index**



Source : Bloomberg

Malaysia's palm oil inventory declined to a 9-month low of 2.17mn tons in May 18 (+39.4% YoY, -0.5% MoM), above the consensus estimate of 2.13mn tons, due to weaker-than-expected exports. We think that palm oil prices are likely to remain under pressure in the short-term due to seasonally-higher production and export normalization as well as weak soy prices resulting from the US-China trade spat and in anticipation of good soy harvests in the US. **Maintain neutral.**

**Malaysia's palm oil stockpile drops for the fifth time in a row.** According to the latest release by MPOB, Malaysia's palm oil inventory fell to 2.17mn tons in May 18 (+39.4% YoY, -0.5% MoM) from 2.18mn tons in Apr 18. Despite the decline, the 2.17mn tons figure is still above the consensus estimate of 2.13mn tons, mainly reflecting weaker-than-expected exports which offset the decline in output. We may see a flat or slightly lower inventory level in Jun 18 given the likelihood of subdued exports and output resulting from lower productivity associated with the fasting period.

**Output declined further on a MoM basis in May 18.** Palm oil output was reported at 1.53mn tons in May 18 (-7.8% YoY, -2.1% MoM), still above consensus estimates of 1.50mn tons. Peninsula areas led the decline in production (-8.6% YoY, -3.9% MoM) compared to Sabah/Sarawak (-6.9% YoY, -0.0% MoM). We think that the weak output may owe to lower productivity associated with the start of fasting in mid-May and may also be reflected in Jun 18's output figure. In our view, the MoM decline in output in May 18 is rather unusual as historically, the MoM output in May increases by 4.1% (5-year average). In 5M18, palm oil output reached 7.59mn tons (+5.3% YoY).

**Weaker-than-expected exports in May 18.** Palm oil exports reached 1.29mn tons in May 18 (-14.3% YoY, -15.7% MoM), falling short of consensus estimates of 1.35mn tons. We believe this largely owed to the reinstatement of Malaysia's CPO export duty in May 18. Exports were mainly dragged down by India (-72.5% YoY, -74.6% MoM) due to higher CPO import tax duty and the EU (-19.6% YoY, -33.7% MoM) on increased scrutiny of palm oil products. We believe exports will remain subdued in Jun 18 due to a lack of catalysts post Ramadan. In 5M18, palm oil exports totaled 7.10mn tons (+10.1% YoY).

**The soyoil-CPO price spread remained tight at USD75/ton** at the end of May 18 (compared to USD64/ton in Apr 18). Soy product prices remained under pressure throughout the month due to uncertainty over the US-China trade dispute.

**Maintain neutral.** We maintain our neutral call on the plantation sector with LSIP as our top pick. We believe that palm oil prices are likely to remain under pressure in the short-term due to seasonally-higher production and export normalization as well as weak soy prices resulting from the US-China trade spat and in anticipation of good soy harvests in the US. We forecast a CPO price of MYR2,700/ton in FY18.



**Yudha Gautama**

(62-21) 2955 5888 ext 3509

yudha.gautama@danareksa.com

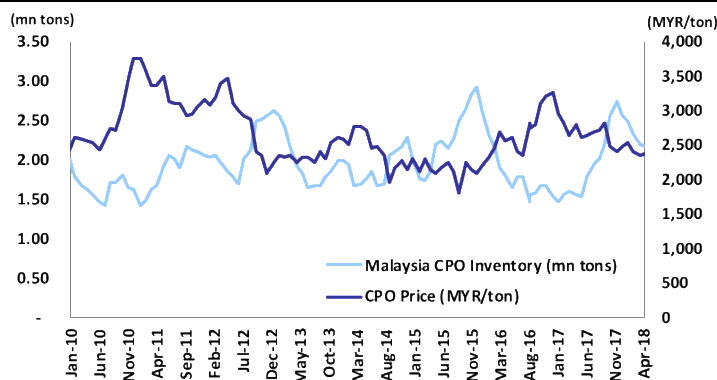
Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%)
					2018F	2019F	2018F	2019F	2019F
Astra Agro Lestari	AALI IJ	HOLD	14,800	23,240.6	12.2	12.2	1.2	1.1	9.5
London Sumatra	LSIP IJ	BUY	1,700	7,467.9	7.6	9.5	0.8	0.8	8.7
Sampoerna Agro	SGRO IJ	HOLD	2,700	4,255.6	11.0	10.9	1.0	0.9	9.0

### Exhibit 1. Malaysia Palm Oil Statistics Summary

(in '000 tons)	May17	Jun17	Jul17	Aug17	Sep17	Oct17	Nov17	Dec17	Jan18	Feb18	Mar18	Apr18	May18
Production	1,654	1,514	1,827	1,811	1,780	2,009	1,943	1,834	1,587	1,343	1,574	1,558	1,525
Imports	47	46	53	42	41	13	30	15	35	67	40	36	32
Domestic Consumption	239	210	223	207	228	297	266	248	331	239	203	206	278
Exports	1,506	1,380	1,399	1,488	1,519	1,538	1,356	1,423	1,472	1,243	1,566	1,530	1,291
<b>Ending Inventory Balance</b>	<b>1,557</b>	<b>1,527</b>	<b>1,785</b>	<b>1,942</b>	<b>2,016</b>	<b>2,203</b>	<b>2,554</b>	<b>2,732</b>	<b>2,550</b>	<b>2,478</b>	<b>2,323</b>	<b>2,181</b>	<b>2,170</b>
<b>% YoY Change</b>													
Production	21.2	-1.2	15.2	6.4	3.8	19.7	23.4	24.5	24.3	6.7	7.5	0.7	-7.8
Imports	137.0	133.4	313.0	433.6	2197.6	-49.8	-52.4	-66.5	-51.4	66.5	-61.1	-34.6	-32.0
Domestic Consumption	-7.1	-26.3	2.4	8.1	31.5	23.2	48.9	0.3	77.5	-12.4	-1.8	-24.2	16.6
Exports	17.4	20.8	1.0	-18.4	4.0	7.1	-1.0	12.2	14.3	12.2	23.7	19.2	-14.3
Ending Inventory Balance	-5.6	-13.9	0.8	32.6	30.3	39.9	53.5	63.9	65.5	69.8	49.6	36.3	39.4
<b>% MoM Change</b>													
Production	6.9	-8.5	20.6	-0.9	-1.7	12.9	-3.3	-5.6	-13.5	-15.4	17.2	-1.0	-2.1
Imports	-12.9	-3.4	15.6	-21.3	-1.2	-67.3	124.0	-50.3	132.3	92.9	-41.0	-10.1	-9.4
Domestic Consumption	-12.1	-11.8	5.9	-7.1	9.9	30.4	-10.3	-6.7	33.1	-27.7	-15.2	1.6	35.1
Exports	17.3	-8.4	1.4	6.4	2.1	1.2	-11.8	4.9	3.5	-15.6	25.9	-2.3	-15.7
Ending Inventory Balance	-2.7	-1.9	16.9	8.8	3.8	9.3	15.9	7.0	-6.6	-2.8	-6.2	-6.1	-0.5

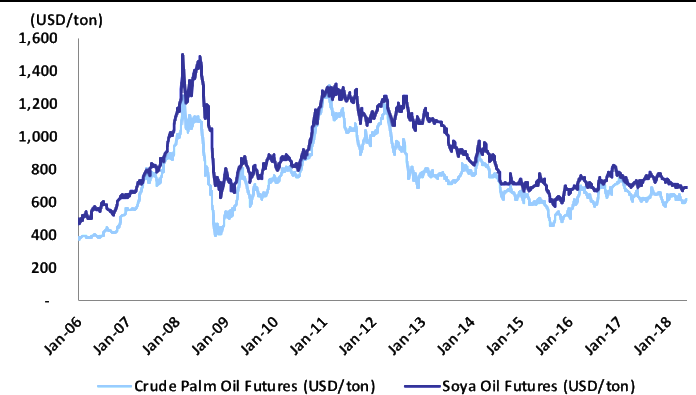
Source: MPOB

### Exhibit 2. Malaysia Inventory Balance vs. CPO Price



Source: Bloomberg, MPOB

### Exhibit 3. Soyoil – CPO price spread



Source: Danareksa Sekuritas, Bloomberg

### Exhibit 4. Gasoil – CPO price spread



Source: Danareksa Sekuritas, Bloomberg

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