

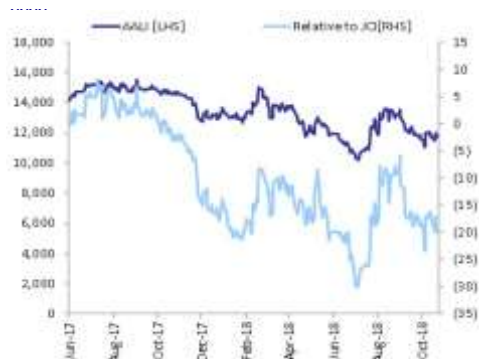
Friday, 11 January 2019

OVERWEIGHT

Plantation

Dec 18 Inventory: Another Record High

AAII relative to JCI Index



LSIP relative to JCI Index



Source : Bloomberg

Malaysia's palm oil inventory jumped to another record high of 3.22mn tons in Dec 18 (+17.7% YoY, +6.9% MoM), exceeding the street's estimate of 3.14mn tons, due to both weaker-than-expected exports and higher-than-expected output. Over the near term, we expect the CPO price to get support from seasonally-lower output and higher exports due to Chinese New Year demand. We remain positive on the FY19 CPO price outlook on slower supply growth and stronger demand boosted by the B20 program and India's recent move to cut import duty on ASEAN palm oil. Maintain OVERWEIGHT.

Malaysia's palm oil inventory hit a new record high in Dec 18. According to the latest data released by MPOB, Malaysia's palm oil inventory rose to a new high of 3.22mn tons in Dec 18 (+17.7% YoY, +6.9% MoM). The 3.22mn tons figure is higher than the consensus estimate of 3.14mn tons, mainly due to higher-than-expected output (-1.4% YoY, -2.0% MoM) and weaker-than-expected exports (-3.1% YoY, +0.6% MoM).

Dec 18 output is higher than anticipated. Palm oil output was reported at 1.81mn tons in Dec 18 (-1.4% YoY, -2.0% MoM), higher than the street's expectation of 1.75mn tons, although the MoM decline in production follows the seasonal trend. Peninsula Malaysia and Sabah/Sarawak posted output growth/declines of -4.4% YoY/-0.2% MoM and +2.1% YoY/-3.9% MoM, respectively. Overall, FY18 palm oil output reached 19.52mn tons (-2.0% YoY).

Dec 18 exports were lower than expected. Palm oil exports reached 1.38mn tons (-3.1% YoY, +0.6% MoM), missing consensus expectations of 1.47mn tons. Strong exports to China (+53.4% YoY, +55.6% MoM) and India (+157.0% YoY, +17.3% MoM) were negated by weak exports to Europe (-55.3% YoY, -37.3% MoM). Overall, palm oil exports reached 16.49mn tons in FY18 (-0.4% YoY). In the near-term we can expect exports to be supported by Chinese New Year demand. The recent reduction in Indian palm oil duties on ASEAN palm oil, with Malaysia getting a slight advantage thanks to the preferential rate on its refined palm oil exports, should boost Indian palm oil imports going forward.

The soyoil-CPO price spread narrowed to USD122/ton at the end of Dec 18 from USD166/ton at the end of Nov 18 (close to the average of USD130/ton). The narrowing in the spread mainly reflects the slight rebound in CPO prices on expectations of seasonally-lower output.

Maintain OVERWEIGHT. We maintain our OVERWEIGHT call on the plantation sector with LSIP as our top pick. Over the near-term, we think CPO prices will get support from an expected decline in stockpiles driven by seasonally low output and Chinese New Year demand. For FY19, we also remain upbeat on the CPO price outlook given a slower supply growth outlook and stronger expected demand from the B20 program, higher Indian imports thanks to the reduction in import duties and higher Chinese imports resulting from the US-China trade war. We maintain our FY19 CPO price assumption of MYR2,550/ton.



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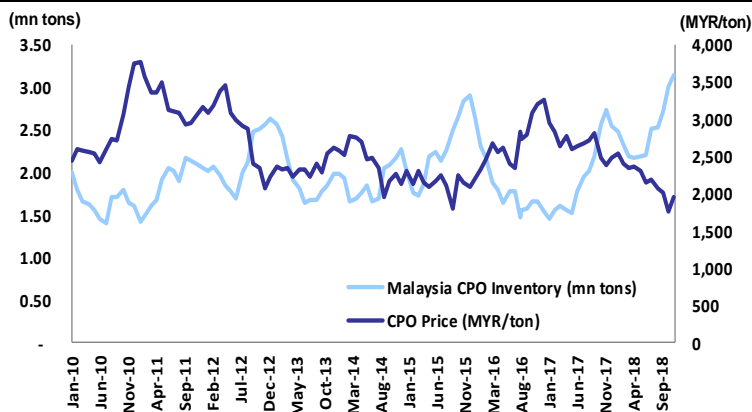
Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%)
					2018F	2019F	2018F	2019F	2019F
Astra Agro Lestari	AAII IJ	BUY	16,500	25,983.3	17.3	13.9	1.4	1.3	9.5
London Sumatra	LSIP IJ	BUY	2,000	9,513.8	13.9	11.8	1.1	1.1	9.2
Sampoerna Agro	SGRO IJ	BUY	3,000	4,164.6	16.3	10.5	1.0	0.9	9.4

Exhibit 1. Malaysia Palm Oil Statistics Summary

(in '000 tons)	Dec17	Jan18	Feb18	Mar18	Apr18	May18	Jun18	Jul18	Aug18	Sep18	Oct18	Nov18	Dec18
Production	1,834	1,587	1,343	1,574	1,559	1,525	1,333	1,503	1,621	1,854	1,965	1,845	1,808
Imports	15	35	67	40	36	32	86	44	80	62	117	134	109
Domestic Consumption	244	332	239	202	206	277	271	306	328	271	311	320	325
Exports	1,427	1,473	1,244	1,566	1,530	1,292	1,130	1,197	1,100	1,619	1,578	1,375	1,383
Ending Inventory Balance	2,732	2,549	2,476	2,322	2,180	2,169	2,187	2,232	2,505	2,529	2,723	3,007	3,215
% YoY Change													
Production	24.5	24.3	6.7	7.5	0.7	-7.8	-12.0	-17.7	-10.5	4.1	-2.2	-5.0	-1.4
Imports	-66.5	-51.4	66.5	-61.1	-34.6	-32.0	87.4	-16.9	92.5	49.6	770.0	345.0	624.6
Domestic Consumption	-1.5	78.2	-12.5	-2.0	-24.1	16.1	28.6	37.2	58.6	19.2	4.7	20.1	33.5
Exports	12.6	14.4	12.3	23.7	19.2	-14.2	-18.1	-14.5	-26.1	6.6	2.6	1.4	-3.1
Ending Inventory Balance	63.9	65.4	69.7	49.5	36.2	39.3	43.2	25.1	29.0	25.5	23.6	17.8	17.7
% MoM Change													
Production	-5.6	-13.5	-15.4	17.2	-1.0	-2.1	-12.6	12.8	7.8	14.4	6.0	-6.1	-2.0
Imports	-50.3	132.3	92.9	-41.0	-10.1	-9.4	166.2	-48.7	82.1	-23.2	90.4	14.6	-19.2
Domestic Consumption	-8.4	36.1	-28.1	-15.3	1.9	34.5	-2.2	13.0	7.1	-17.2	14.5	2.9	1.8
Exports	5.2	3.2	-15.6	25.9	-2.3	-15.6	-12.6	5.9	-8.1	47.2	-2.5	-12.9	0.6
Ending Inventory Balance	7.0	-6.7	-2.8	-6.2	-6.1	-0.5	0.8	2.0	12.3	1.0	7.6	10.4	6.9

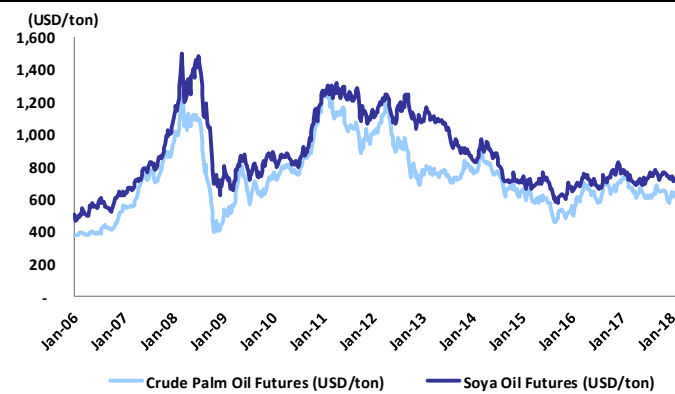
Source: MPOB

Exhibit 2. Malaysia Inventory Balance vs. CPO Price



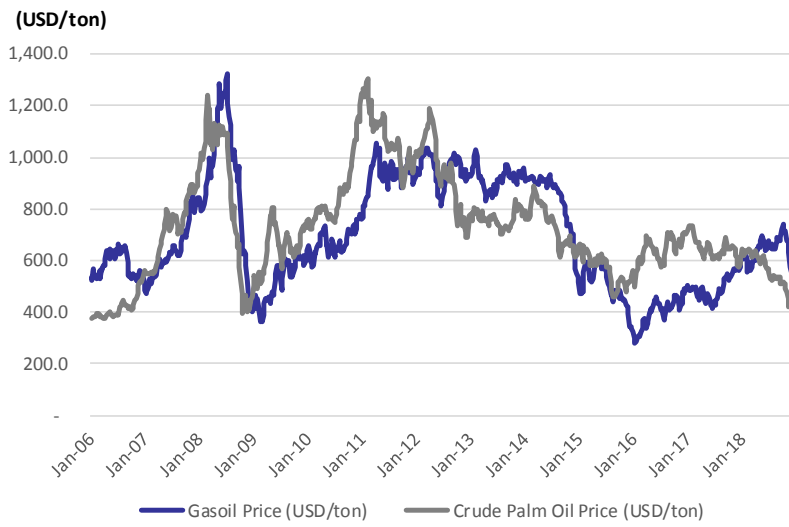
Source: Bloomberg, MPOB

Exhibit 3. Soyoil – CPO price spread



Source: Danareksa Sekuritas, Bloomberg

Exhibit 4. Gasoil – CPO price spread



Source: Danareksa Sekuritas, Bloomberg