

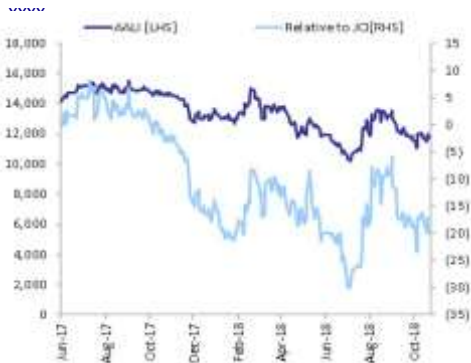
Tuesday, 12 February 2019

OVERWEIGHT

Plantation

Jan 19 Inventory: First Signs of a Decline

AALI relative to JCI Index



LSIP relative to JCI Index



Source : Bloomberg

Malaysia's palm oil inventory fell to 3.00mn tons in Jan 19 (+17.8% YoY, -6.7% MoM), below consensus estimates of 3.03mn tons, mostly due to higher-than-expected exports. We expect short-term support from the ongoing low crop season while slower supply growth, higher demand from the B20 mandate and higher exports to India and China will be key drivers in keeping the CPO price firm in the longer-term. Maintain OVERWEIGHT.

Malaysia's palm oil inventory fell for the first time in 8 months. According to the latest data released by MPOB, Malaysia's palm oil inventory fell to 3.00mn tons in Jan-19 (+17.8% YoY, -6.7% MoM). The 3.00mn tons figure is below consensus expectations of 3.03mn tons, mainly due to higher-than-expected exports performance (+13.8% YoY, +21.2% MoM).

Jan 19 output was above the street's estimate. Palm oil output was reported at 1.74mn tons (+9.5% YoY, -3.9% MoM), higher than the street's estimate of 1.63mn tons, although the MoM decline reflects the seasonal trend. Lower output numbers were seen in Sabah/Sarawak (+2.8% YoY/-8.6% MoM) in comparison to Peninsula Malaysia (+15.7% YoY/+0.3% YoY). We expect output to continue to show a MoM downtrend in 1Q19 at least.

Jan 19's exports performance was a positive surprise. Palm oil exports started the year strongly with exports volume of 1.68mn tons (+13.8% YoY, +21.2% MoM), exceeding consensus estimates of 1.56mn tons. The strong exports performance was boosted by exports to China (+102.3% YoY, +17.9% MoM), Europe (+33.6% YoY, +160.9% MoM) and India (+57.9% YoY, +12.0% MoM). We believe that the higher exports to China were mainly boosted by Chinese New Year demand while the strong exports to India were driven by the recent reduction in palm oil import duties on palm oil originated from ASEAN. We expect better exports performance throughout FY19 driven by lower Indian palm oil import duties and higher Chinese palm oil imports as we expect palm oil exports to benefit from the impact of the ongoing US-China trade dispute.

The soyoil-CPO price spread remained at USD122/ton at the end of Jan 19 (close to the average of USD130/ton). We believe that the recent pick-up in CPO prices was on the back of the rally in soyoil prices. The rebound in soyoil prices throughout Jan-19 mostly stemmed from concerns on lower output in Brazil and Argentina as a result of unfavourable weather conditions.

Maintain OVERWEIGHT. We maintain our OVERWEIGHT call on the plantation sector with LSIP as our top pick. We expect the CPO price to get short-term support in 1Q19 from the ongoing low crop season. Throughout FY19, we expect firmer CPO prices supported by the expectation of lower global supply growth, the realization of the B20 mandate and an improvement in exports to India and China. We maintain our FY19 CPO price assumption of MYR2,550/ton.



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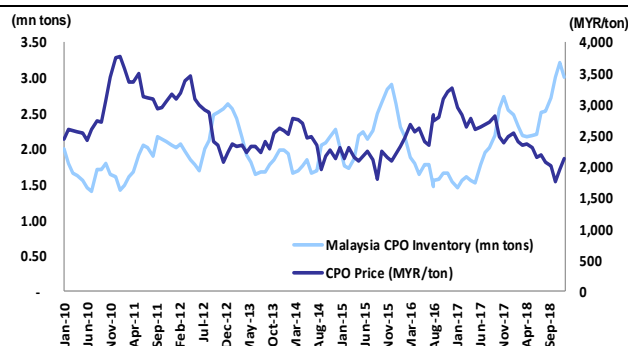
Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x) 2018F	P/E (x) 2019F	P/BV (x) 2018F	P/BV (x) 2019F	ROE (%) 2019F
Astra Agro Lestari	AALI IJ	BUY	16,500	25,983.3	17.3	13.9	1.4	1.3	9.5
London Sumatra	LSIP IJ	BUY	2,000	9,513.8	13.9	11.8	1.1	1.1	9.2
Sampoerna Agro	SGRO IJ	BUY	3,000	4,164.6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

Exhibit 1. Malaysia Palm Oil Statistics Summary

(in '000 tons)	Jan18	Feb18	Mar18	Apr18	May18	Jun18	Jul18	Aug18	Sep18	Oct18	Nov18	Dec18	Jan19
Production	1,587	1,343	1,574	1,559	1,525	1,333	1,503	1,621	1,854	1,965	1,845	1,808	1,737
Imports	35	67	40	36	32	86	44	80	62	117	134	109	81
Domestic Consumption	332	239	202	206	277	271	306	328	271	311	320	325	356
Exports	1,473	1,244	1,566	1,530	1,292	1,130	1,197	1,100	1,619	1,578	1,375	1,383	1,676
Ending Inventory Balance	2,549	2,476	2,322	2,180	2,169	2,187	2,232	2,505	2,529	2,723	3,007	3,215	3,001
% YoY Change													
Production	24.3	6.7	7.5	0.7	-7.8	-12.0	-17.7	-10.5	4.1	-2.2	-5.0	-1.4	9.5
Imports	-51.4	66.5	-61.1	-34.6	-32.0	87.4	-16.9	92.5	49.6	770.0	345.0	624.6	132.8
Domestic Consumption	78.1	-12.5	-2.0	-24.1	16.1	28.6	37.2	58.6	19.2	4.7	20.1	33.5	7.3
Exports	14.4	12.3	23.7	19.2	-14.2	-18.1	-14.5	-26.1	6.6	2.6	1.4	-3.1	13.8
Ending Inventory Balance	65.4	69.7	49.5	36.2	39.3	43.2	25.1	29.0	25.5	23.6	17.8	17.7	17.8
% MoM Change													
Production	-13.5	-15.4	17.2	-1.0	-2.1	-12.6	12.8	7.8	14.4	6.0	-6.1	-2.0	-3.9
Imports	132.3	92.9	-41.0	-10.1	-9.4	166.2	-48.7	82.1	-23.2	90.4	14.6	-19.2	-25.4
Domestic Consumption	36.1	-28.1	-15.3	1.9	34.5	-2.2	13.0	7.1	-17.2	14.5	2.9	1.8	9.4
Exports	3.2	-15.6	25.9	-2.3	-15.6	-12.6	5.9	-8.1	47.2	-2.5	-12.9	0.6	21.2
Ending Inventory Balance	-6.7	-2.8	-6.2	-6.1	-0.5	0.8	2.0	12.3	1.0	7.6	10.4	6.9	-6.7

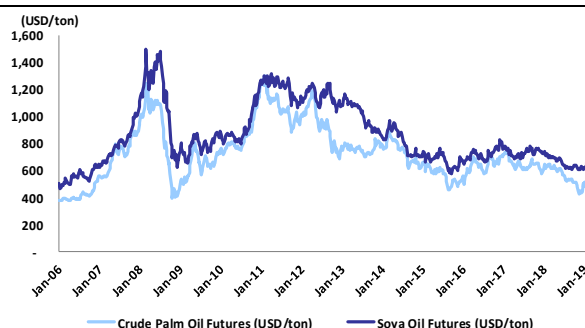
Source: MPOB

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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