

PLANTATION SECTOR

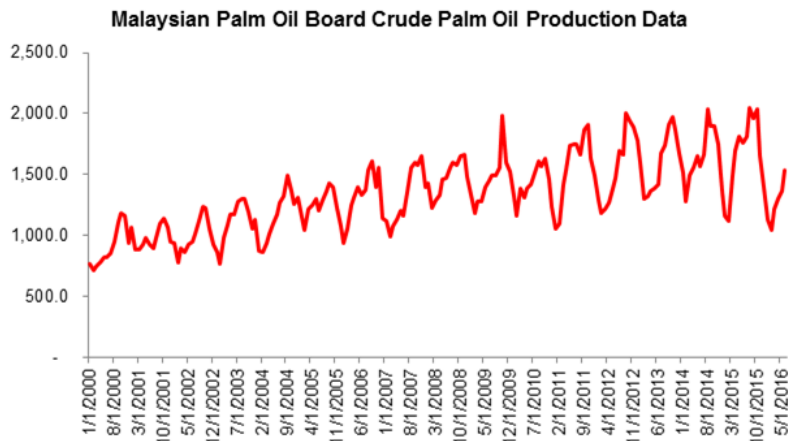
Waiting for Catalysts

July 13rd, 2016

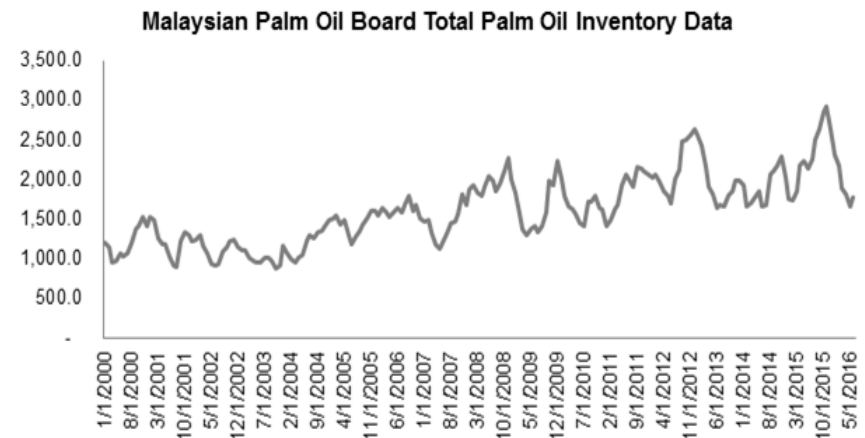
MPOB released June Malaysian Palm Oil Performance yesterday. In line with our expectations, crude palm oil (CPO) production continues its uptrend to 1.53 million tons in June, which indicates an increase of 12.3% MoM. On annual basis, CPO production level still fell by 13.1% YoY, though better than May performance which showed a decline of 24.6% YoY. Summing up the 1H16 performance, production weakened by 16.1% YoY (vs -16.8% up to May 2016). We still expect this rising trend to last, at least until its peak production cycle in 3Q16.

Recovery in production accompanied by soft export level led to increasing inventory in June. Total palm oil inventory increased by 7.7% MoM to 1.78 million tons after experiencing a six consecutive months of decline. Exports itself seen to go down by 11.7% MoM to 1.13 million tons, which we suspect to be the effect of global weak CPO demand.

Besides the palm oil performance, we also highlight CPO prices which have fallen back to about RM 2,320 (future prices), compared to its highest level at RM 2,740 by the end of March 2016. Considering the data, there is no change in our NEUTRAL outlook for the sector, as we continue to focus on upcoming production level along with any turnaround in global CPO demand which could drive up CPO prices going forwards. In the short term, we find out the industry to be lack of catalysts, until there is a clear sign of any severe weather issues (e.g. La Nina) which could disrupt the production of other edible oils.



Source: Bloomberg, Sinarmas Investment Research



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	MPOB CPO Production	YTD	MoM	YoY	YTD YoY
1/31/2015	1,160.7	1,160.7		-23.1%	-23.1%
2/28/2015	1,121.6	2,282.3	-3.4%	-12.1%	-18.0%
3/31/2015	1,495.2	3,777.5	33.3%	-0.1%	-11.8%
4/30/2015	1,693.4	5,470.9	13.3%	8.8%	-6.3%
5/31/2015	1,810.5	7,281.4	6.9%	9.3%	-2.8%
6/30/2015	1,763.7	9,045.1	-2.6%	12.4%	-0.2%
7/31/2015	1,815.6	10,860.7	2.9%	9.0%	1.2%
8/31/2015	2,051.0	12,911.7	13.0%	1.0%	1.2%
9/30/2015	1,959.1	14,870.8	-4.5%	3.3%	1.4%
10/31/2015	2,037.5	16,908.3	4.0%	7.6%	2.2%
11/30/2015	1,653.9	18,562.2	-18.8%	-5.5%	1.4%
12/31/2015	1,399.4	19,961.6	-15.4%	2.5%	1.5%
1/31/2016	1,129.7	1,129.7	-19.3%	-2.7%	-2.7%
2/29/2016	1,042.9	2,172.7	-7.7%	-7.0%	-4.8%
3/31/2016	1,219.5	3,392.1	16.9%	-18.4%	-10.2%
4/30/2016	1,301.3	4,693.4	6.7%	-23.2%	-14.2%
5/31/2016	1,364.6	6,058.0	4.9%	-24.6%	-16.8%
6/30/2016	1,532.6	7,590.6	12.3%	-13.1%	-16.1%

Source: Bloomberg, Sinarmas Investment Research

	MPOB CPO Inventory	YTD	MoM	YoY	YTD YoY
1/31/2015	1,761.9	1,761.9		-9.0%	-9.0%
2/28/2015	1,736.2	3,498.1	-1.5%	4.8%	-2.6%
3/31/2015	1,858.4	5,356.4	7.0%	10.1%	1.4%
4/30/2015	2,182.0	7,538.5	17.4%	23.5%	7.0%
5/31/2015	2,239.5	9,777.9	2.6%	21.6%	10.0%
6/30/2015	2,141.9	11,919.9	-4.4%	29.3%	13.0%
7/31/2015	2,257.9	14,177.8	5.4%	34.0%	15.9%
8/31/2015	2,492.0	16,669.7	10.4%	21.4%	16.7%
9/30/2015	2,641.3	19,311.0	6.0%	26.3%	17.9%
10/31/2015	2,835.3	22,146.4	7.3%	30.9%	19.5%
11/30/2015	2,910.9	25,057.3	2.7%	27.6%	20.4%
12/31/2015	2,633.9	27,691.2	-9.5%	30.7%	21.3%
1/31/2016	2,308.6	2,308.6	-12.4%	31.0%	31.0%
2/29/2016	2,170.3	4,478.9	-6.0%	25.0%	28.0%
3/31/2016	1,885.7	6,364.6	-13.1%	1.5%	18.8%
4/30/2016	1,803.9	8,168.5	-4.3%	-17.3%	8.4%
5/31/2016	1,649.9	9,818.4	-8.5%	-26.3%	0.4%
6/30/2016	1,776.3	11,594.7	7.7%	-17.1%	-2.7%

Source: Bloomberg, Sinarmas Investment Research

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