MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF THE OIL PALM INDUSTRY

Palm oil constituted 31% of the global 17 oils and fats production of 220.3 million mt in 2017 and remained a significant 56% contributor of the global 17 oils and fats' export market of 87.4 million mt. Indonesia commanded 54% of the world's palm oil production of 67.4 million mt and contributed 55% of the palm oil export market of 49.2 million mt. On the other hand, Malaysia contributed 30% and 34% of the world's palm oil production and export market respectively. Palm oil in Malaysia was a major source of export income and contributed RM78.0 billion to the GDP in 2017 (2016: RM64.6 billion) amounting to more than 5% of the Malaysian GDP.

During the year, the palm oil market witnessed gradual recovery in crop production from the 2015/2016 El Nino. The resulting fall in the price of CPO stimulated demand, resulting in greater imports notably by India, China and the EU. World consumption of palm oil, according to Oil World, rose by 4% to 65 million mt.

The oil palm planted area in Malaysia reached a total of 5.81 million hectares, a marginal increase of 1.2% from 2016. Sarawak has overtaken Sabah to be the largest oil palm planted state in Malaysia, with 1.56 million hectares or 27% of the total oil palm planted area. The entire upstream supply-chain in Malaysia is complemented by 454 palm oil mills, 45 palm kernel crushing plants, 53 refineries, 19 oleo chemical plants and 16 biodiesel plants.

The year saw recovery of the Malaysian palm oil production from the 2015/2016 El-Nino phenomenon, which hit output severely in 2016. Crude palm oil (“CPO”) production in 2017 recorded a double-digit growth of 15.0%, and achieved 19.92 million mt from 17.32 million mt in 2016. The increase was due to 17.7% higher FFB processed, arising from increased land productivity of 12.4% to record 17.89 mt per hectare. However, a slower recovery from prolonged dry weather was experienced in Sabah. Average FFB yield per hectare was 18.35 mt which was only 7% higher than the previous year.

From a high of RM3,268 per mt in Jan 2017, the average CPO price weakened by 26% to RM2,407 per mt within twelve months. The high CPO price at the beginning of the year was mainly due to firmer major competing oils prices, higher crude oil prices, improved export demand for palm oil due to its price competitiveness against its competitor and weaker Ringgit as against the US Dollar, which made palm oil cheaper as compared to other vegetable oils in the world market. However, it was short-lived when external factors such as the increase in level of protectionism in the form of tariff hikes, potential European ban on the use of palm oil based biodiesel and the revised and new sustainable certification standards by the European Union (“EU”) started to kick in, compounded by the crop recovery.

Moving into 2018, the industry is anticipating a stronger recovery from the prolonged dry weather. However, the average annual palm oil production growth in both Indonesia and Malaysia are expected to remain low at 1% and 3%. Various factors such as the 2011 moratorium on the issuance of license to open new plantations, reduced price incentives, extreme weather pattern, and productivity gap between smallholders and private plantations will continue to impede production expansion in the largest oil palm producing country, Indonesia. In Malaysia, the growth remains restricted by factors such as non-available of land for new planting, low replanting rate and labour shortages.

MALAYSIAN PALM OIL INDUSTRY (2017)

(Source: MPOB, 2018)