Sector Update | Wednesday, 13 July 2022

PLANTATION

***Maintain* POSITIVE**

Production surged by 5.8%mom to 1.55m tonnes

KEY INVESTMENT HIGHLIGHTS

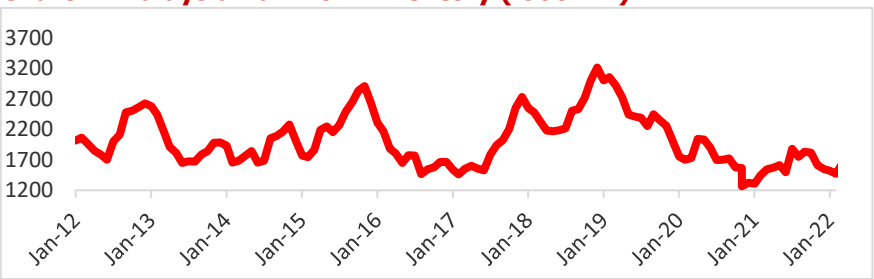
- **Production improved, however lower than last year**
- **Export hammered by Indonesia's policy**
- **Inventory level jump 6%ytd**
- **Maintain POSITIVE on the sector with CPO target price of RM5,500/mt for CY22**

Production improved, however lower than last year. On June, CPO production improved on month-on-month basis to 1.55m tonnes (+5.8%mom; -3.8%yoy; -1.1%Ytd). However, it was lower when compared against the 1.61m tonnes posted in subsequent year, dragged by lower contribution from Sabah (-18.4%yoy) and Pahang (-1.6%) states. Meanwhile, FFB yield increased to 1.24t/hectare from 1.18t/ha in-line with high cycle months but still below last year of 1.34t/hectare impacted by wet weather conditions. We expect production to improve further following more boots on the ground in 2HCY22 to meet the labour shortage.

Export hammered by Indonesia policy. Palm oil (PO) export volume declined in June, to 1.19m tonnes (-13.3%mom, -15.8%yoy) as importers switch back Indonesia PO after Indonesia's move to cut export and levy duty to USD200 to encourage shipments. India and EU total imports were lower at 171,081 tonnes (-45.6%mom, -39.0%yoy, -11.3%Ytd) and 123,605 tonnes (-11.3%mom, -16.5%yoy, +3.1%Ytd). While demand from China (+13.4%mom), US (+36.5%mom) and Pakistan (+492.7%mom) continued positive for the said month. With low planted soybean area in US compounded by ongoing Russia-Ukraine war and improved in demand on better economic activity, we expect PO demand to be remain robust.

Inventory level jump 6%Ytd. Closing stocks in June-22 rose 2.5%mom to 1.66m tonnes vs. 1.52m tonnes in May on reduced export numbers amidst high cycle seasons. CPO stock jumped 6.2% resulted from increased contribution from peninsular (+1.0%mom), Sabah (+18.2%mom) and Sarawak (+6.2%mom) areas. We anticipate the stockpiles of Malaysia's palm oil for 2QCY22 to 3QCY22 to be improve following the high production cycle.

Chart 1: Malaysia Palm Oil Inventory ('000 MT)



Source: Malaysia Palm Oil Board (MPOB), MIDFR

COMPANY IN FOCUS

Kuala Lumpur Kepong

Maintain BUY | Target price: **RM31.50**

Price @ 13th July 2022: RM21.00

- Its nitrile latex business is expected to improve on the back of better sales
- Replanting programme is expected to improve its production level in the longer term.
- Manufacturing segment is expected to continue recording steady increase in profit

Share price chart



TSH Resources Bhd

Maintain BUY | Target price: **RM1.90**

Price @ 13th July 2022: RM1.03

- Earnings to be amplified by favourable CPO price
- Going ahead, healthy FFB production and favourable CPO
- Moving forwards, production to be bolstered by young age profile of its Indonesian oil palm estates.

Share price chart



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Table 1: June 2022 Export Performance ('000 MT)

	Jun-22	May-22	Jun-21	MoM%	YoY%	6M22	6M21	YoY%
China	96.5	85.1	215.5	13.4%	-55.2%	565.8	741.5	-23.7%
India	171.1	314.2	280.7	-45.6%	-39.0%	1,397.3	1,576.2	-11.3%
EU	123.6	139.3	148.1	-11.3%	-16.5%	779.1	755.5	3.1%
Pakistan	57.2	9.7	66.4	492.7%	-13.8%	237.6	305.7	-22.3%
US	25.2	18.4	11.6	36.5%	116.6%	72.9	131.0	-44.4%
Others	720.3	809.7	696.2	-11.0%	3.5%	4,141.7	3,565.6	16.2%
Total	1,193.9	1,376.4	1,418.5	-13.3%	-15.8%	7,194.4	7,075.5	1.7%

Source: MPOB, MIDFR

Table 2: Palm Oil Statistics for June 2022 ('000 MT)

	Jun-22	May-22	Jun-21	YoY %	MoM %	6M22	6M21	Ytd%
Opening Stocks	1,521.8	1,642.8	1,569.4	-3.0%	-7.4%	1,614.6	1,265.7	27.6%
Production	1,545.1	1,461.0	1,606.2	-3.8%	5.8%	8,270.5	8,364.0	-1.1%
Imports	59.2	50.8	113.1	-47.7%	16.6%	491.7	701.8	-29.9%
Total Supply	3,126.2	3,154.6	3,288.7	-4.9%	-0.9%	10,376.7	10,331.6	0.4%
Exports	1,193.9	1,376.4	1,419.0	-15.9%	-13.3%	7,194.4	7,066.9	1.8%
Dom Disapp	277.2	256.4	255.5	8.5%	8.1%	(6,179.6)	(5,539.4)	11.6%
Total Demand	1,471.1	1,632.8	1,674.5	-12.1%	-9.9%	1,014.8	1,527.4	-33.6%
End Stocks	1,655.1	1,521.8	1,614.2	2.5%	8.8%	9,361.9	8,804.1	6.3%
Stock/Usage Ratio	9.4%	7.8%	8.0%			76.9%	48.0%	

Source: MPOB, MIDFR

Maintain **POSITIVE** with unchanged CY22 CPO price of **RM5,500/mt**. We anticipate that the CPO price will remain elevated in 2HCY22 as the price level will be supported by i) higher price of edibles oil on the back of supply concerns amid Russia – Ukraine prolongs war (disrupted sunflower supply), ii) subdued production outlook for soybean in 2022/23 due return in La-Nina in third year in a row in South America such Brazil and Argentina compounded by lower planted area in USA, and iii) improved demand outlook on improved economic activities. Despite our positive view on the sector, we do expect the CPO price will ease in 2HCY22 but at a gradual pace on concern of inflationary pressure globally after achieving higher-than-expected CPO price in 1HCY22. As such, we maintained our CY22 CPO price forecast of **RM5,500/mt** at this juncture. In line with this, we reaffirm our **POSITIVE stance** on plantation sector. Key risks to CPO prices are i) unprecedented new variants appear which resulting another lockdown worldwide, ii) above expectation stockpiles and supply of soybean and soybean oil and iii) changing policy in importing countries. Our top picks for the sector are **KLK (BUY, TP: RM31.50)** and **TSH (BUY, TP: RM1.90).**

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology