Sector Update | Thursday, 11 August 2022

# PLANTATION

***Maintain* POSITIVE**

## Palm oil export reversed down by -5.7%yoy in July

## KEY INVESTMENT HIGHLIGHTS

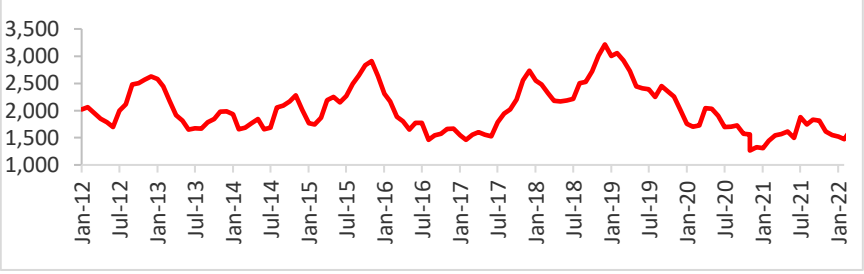
- **Production improved, tracking high cycle seasons. Export reversed in July**
- **Most standard major importing countries were slowed, especially China (-66.7%yoy), EU (-66.1%yoy) and Pakistan (-30.6%yoy). Nevertheless, intake coming from middle east countries such as Iran (+366.8%yoy), Saudi Arabia (+45.6%yoy) and Turkey (+28.9%yoy) were higher as they seek for alternate substitute of sunflower oil**
- **Maintain POSITIVE stance on the sector with average CPO target price of RM5,500/mt for CY22**

**Production improved, tracking high cycle seasons.** Overall, Malaysia's CPO production registered higher at 1.57m tonnes (+1.8%mom; +3.3%yoy; -0.4%YTD) versus 1.52m tonnes in previous year owing to the better contribution from most of the states except for Kedah (-2.6%yoy), Selangor(-5.2%yoy) and Sabah(-11.8%yoy). On year-to-date basis, Malaysia's FFB yield dropped to 8.18t/hectare from 8.46t/ha impacted by short labour-shortage. We expect production to improve further following positive development of foreign labour intake especially from Indonesia which has resumed in August 1,2022.

**Export reversed in July.** Palm oil (PO) export volume reversed in July, lower by -5.7%yoy. However, it still grew on month-on-month and year-to-date basis to 1.32m tonnes as traders seek more Indonesia's PO due to price competitiveness following Indonesia move to scrap their export levy until August 31,2022. Most standard major importing countries (*Table 1*) were slowed, especially China (-66.7%yoy), EU (-66.1%yoy) and Pakistan (-30.6%yoy). Nevertheless, intake coming from middle east countries such as Iran (+366.8%yoy), Saudi Arabia (+45.6%yoy) and Turkey (+28.9%yoy) were higher as they seek for alternate substitute of sunflower oil.

**High inventory level.** Closing stocks in July-22 rose +18.5%yoy to 1.77m tonnes vs. 1.50m tonnes due to low export demand and surged in production during the month. Both stocks, Crude Palm Oil (CPO) and Palm Kernel Oil (PKO) advanced +28.4%yoy and +5.9%yoy respectively, driven by resilient contribution of peninsular (+19.9%yoy), Sabah (+14.5%yoy) as well as Sarawak (+79.9%yoy) areas. We anticipate the stockpiles of Malaysia's palm oil for 2Q to 3Q to be improve following the high production seasons aided by more boots in the ground which starting this month.

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




*Source: Malaysia Palm Oil Board (MPOB), MIDFR*

**COMPANY IN FOCUS**

**Kuala Lumpur Kepong**

**Maintain BUY |** Unchanged target price: **RM31.50**

Price @ 10th July 2022: RM22.50

- We like KLK for its efficiency as it the most efficient planter with highest oil yield of 4.7/ha. It also has the highest FFB yield/mature of 21.4/ha among peers.
- In addition, post IJM acquisition has increased its total landbank in Malaysia and Indonesia by 73,827 ha to 279,037 ha, around 66,503 (24%) young mature coming into maturity ahead.

**Share price chart**



**Sime Darby Plantation**

**Maintain BUY |** Unchanged target price: **RM6.30**

Price @ 10th July 2022: RM4.52

- One of the key drivers we believe is that it is the largest planter in the sector with total landbank of 744,630, planted area around 579,708 ha (78%). It has FFB yield/mature of 18.5/ha and among the top tiers.
- Meanwhile, its oil yield is just slightly below that of KLK at 4.0/ha, which we believe is still impressive given it manages a large planted area.

**Share price chart**



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**Table 1: July 2022 Export Performance ('000 MT)**

| | Jul-22 | Jun-22 | Jul-21 | MoM% | YoY% | 7M22 | 7M21 | Ytd% |
|---|---|---|---|---|---|---|---|---|
| **China** | 55.3 | 96.5 | 166.4 | -42.7% | -66.7% | 621.2 | 907.9 | -31.6% |
| **India** | 258.8 | 171.2 | 234.0 | 51.2% | 10.6% | 1,652.4 | 1,810.2 | -8.7% |
| **EU** | 72.3 | 123.1 | 213.3 | -41.3% | -66.1% | 850.9 | 968.6 | -12.2% |
| **Pakistan** | 35.8 | 57.2 | 51.6 | -37.5% | -30.6% | 273.4 | 357.3 | -23.5% |
| **US** | 28.3 | 25.2 | 32.2 | 12.4% | -12.1% | 100.1 | 163.3 | -38.7% |
| **Others** | 871.4 | 720.8 | 704.8 | 20.9% | 23.6% | 5,005.2 | 4,270.5 | 17.2% |
| **Total** | 1,321.9 | 1,193.9 | 1,402.3 | 10.7% | -5.7% | 8,503.0 | 8,477.8 | 0.3% |

*Source: MPOB, MIDFR*

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

| | Jul-22 | Jun-22 | Jul-21 | YoY % | MoM % | 7M22 | 7M21 | Ytd% |
|---|---|---|---|---|---|---|---|---|
| **Opening Stocks** | 1,645.8 | 1,521.8 | 1,614.2 | 2.0% | 8.1% | 1,614.6 | 1,265.7 | 27.6% |
| **Production** | 1,573.6 | 1,545.1 | 1,522.7 | 3.3% | 1.8% | 9,844.0 | 9,886.7 | -0.4% |
| **Imports** | 130.6 | 59.2 | 54.4 | 140.2% | 120.7% | 622.3 | 756.2 | -17.7% |
| **Total Supply** | 3,350.0 | 3,126.2 | 3,191.3 | 5.0% | 7.2% | 12,080.9 | 11,908.6 | 1.4% |
| **Exports** | 1,321.9 | 1,193.9 | 1,402.0 | -5.7% | 10.7% | 8,503.0 | 8,468.9 | 0.4% |
| **Dom Disapp** | 255.3 | 286.4 | 292.8 | -12.8% | -10.8% | 1,805.0 | 1,943.3 | -7.1% |
| **Total Demand** | 1,577.2 | 1,480.3 | 1,694.8 | -6.9% | 6.5% | 10,308.1 | 10,412.2 | -1.0% |
| **End Stocks** | 1,772.8 | 1,645.8 | 1,496.5 | 18.5% | 7.7% | 1,772.8 | 1,496.5 | 18.5% |
| **Stock/Usage Ratio** | 9.4% | 9.3% | 7.4% | | | 1.4% | 1.2% | |

*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 well as Indonesia move to scrap export levy until 31st August 2022. 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 plantation companies are **KLK (TP: RM31.50), Sime Darby Plant. (TP: RM6.30) and GenP (TP: RM8.00)**

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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