PLANTATION

***Maintain* POSITIVE**

Closing stocks inched higher following productive seasons

KEY INVESTMENT HIGHLIGHTS

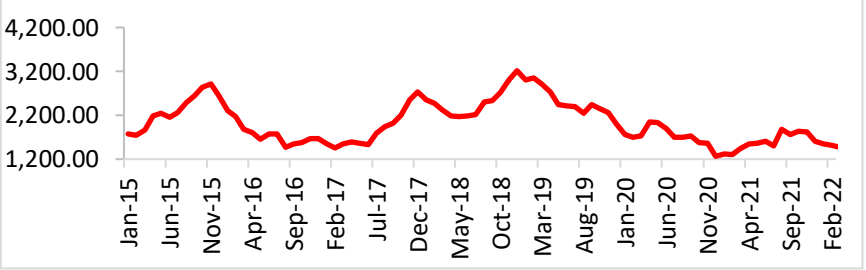
- **Production inch higher on productive seasons. Export jumped in August**
- **Intake from middle east countries such as Iran (-30.6%mom), Saudi Arabia (-38.0%mom) and Turkey (-47.2%mom) declined in the month following positive development in sunflower oil on reopening of Black Seaport in Ukraine**
- **Maintain POSITIVE stance on the sector with CPO target price of RM5,500/mt for CY22**

Production inched higher on productive seasons. Overall, Malaysia's CPO production surged to 1.73m tonnes (+9.7%mom; +0.9%yoy; -0.2%Ytd) versus 1.71m tonnes in previous year owing to the better contribution from most of the states except for Perak (-2.8%yoy), Kelantan (-5.6%yoy), Selangor (-7.6%yoy) and Terengganu (-17.8%yoy). On year-on-year basis, Malaysia's OER dropped to 19.67% from 19.86% impacted by slow intake of foreign labour. We expect production to improve further subsequent to positive development of foreign labour intake particularly from Indonesia which has resumed in 1 August 2022.

Export jumped in August. Palm oil (PO) export volume gained in August, rose by +11.3%yoy and +1.8%ytd despite slower on month-on-month basis to 1.30m tonnes as traders seek more PO due to price competitiveness against US's SBO c. USD477 discount parity based on recent USDA data. Most usual major importing countries continued sees (*Table 1*) low demand, especially from China (-7.9%yoy), India (-23.9%yoy) and US (-59.1%yoy). Furthermore, intake from middle east countries such as Iran (-30.6%mom), Saudi Arabia (-38.0%mom) and Turkey (-47.2%mom) declined in the month following positive development in sunflower oil on reopening of Black Seaport in Ukraine.

High inventory level. Closing stockpiles in August-22 increased +11.6%yoy to 2.09m tonnes vs. 1.88m tonnes on low export demand and spike in output. Both stocks, CPO and PKO are up +5.8%yoy and +11.7%yoy respectively, driven by sturdy contribution from peninsular (+5.8%yoy), Sabah (+6.0%yoy) as well as Sarawak (+16.7%yoy) areas. We anticipate the Malaysian palm oil stockpiles to improve in 3-4Q supported by more boots on the ground that begun last 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 @ 12th Sept 2022: RM22.00

- 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 @ 12th Sept 2022: RM4.33

- 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: August 2022 Export Performance ('000 MT)

	Aug-22	Jul-22	Aug-21	MoM%	YoY%	8M22	8M21	YoY%
China	126.7	55.3	137.5	128.9%	-7.9%	747.8	1,045.3	-28.5%
India	234.1	257.9	307.7	-9.2%	-23.9%	1,885.5	2,117.9	-11.0%
EU	130.4	74.5	108.8	74.9%	19.8%	983.5	1,077.5	-8.7%
Pakistan	51.6	35.8	52.4	44.3%	-1.5%	325.0	409.7	-20.7%
US	9.8	28.3	24.0	-65.3%	-59.1%	109.9	187.3	-41.3%
Others	747.1	873.5	536.8	-14.5%	39.2%	5,754.6	4,807.3	19.7%
Total	1,299.7	1,325.3	1,167.2	-1.9%	11.3%	9,806.3	9,645.0	1.7%

Source: MPOB, MIDFR

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

	Aug-22	Jul-22	Aug-21	YoY %	MoM %	8M22	8M21	Ytd%
Opening Stocks	1,772.8	1,645.8	1,498.3	18.3%	7.7%	1,614.6	1,265.7	27.6%
Production	1,725.8	1,573.6	1,710.4	0.9%	9.7%	11,569.8	11,597.1	-0.2%
Imports	145.5	130.6	91.4	59.1%	11.4%	767.7	847.6	-9.4%
Total Supply	3,644.0	3,350.0	3,300.0	10.4%	8.8%	13,952.1	13,710.4	1.8%
Exports	1,299.7	1,325.3	1,167.4	11.3%	-1.9%	9,806.3	9,636.3	1.8%
Dom Disapp	249.7	251.9	254.8	-2.0%	-0.9%	2,051.1	2,196.3	-6.6%
Total Demand	1,549.4	1,577.2	1,422.3	8.9%	-1.8%	11,857.4	11,832.6	0.2%
End Stocks	2,094.7	1,772.8	1,877.8	11.6%	18.2%	2,094.7	1,877.8	11.6%
Stock/Usage Ratio	11.3%	9.4%	11.0%			1.5%	1.3%	

Source: MPOB, MIDFR

We expect CPO price to be trading sideways in remaining month c. RM3,500/mt-RM4,000/mt benefitting from the price disparity between CPO against SBO prices which is now around USD477 in July, based on USDA data. However, we also recognized its downside risk on 1) fragile demand outlook on the back inflationary pressure coupled with tight household spending on high base interest rate locally and globally 2) Indonesia's extended zero-levy policy for PO exports until 31 Oct. All factored in considered, we still maintain our CPO price of **POSITIVE** stance on the sector with CPO target price of **RM5,500/mt** for CY22 but with a NEUTRAL bias towards CY23. Our top picks for plantation companies are **KLK (TP: RM31.50), Sime Darby Plant. (TP: RM6.30)** and **GenP (TP: RM8.00).**

Table 3: Summary of earnings, TP and recommendations

Stock	Rec.	Price @	Tgt Price (RM)	Core EPS (sen)		PE (x)		Net DPS (sen)		Div Yield (%)	
Companies		12-Sept-22		FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
Genting Plantation	BUY	6.6	8.0	68.3	52.7	2.2	2.9	35.0	27.0	5.3	4.1
IOI Corporation	BUY	4.1	6.0	29.7	19.6	5.1	7.7	14.0	10.0	3.4	2.5
Kuala Lumpur Kepong	BUY	22.0	31.5	208.7	161.4	0.7	0.9	100.0	80.0	4.5	3.6
Sime Darby Plantation	BUY	4.3	6.3	40.4	27.5	3.7	5.5	25.0	20.3	5.8	4.7
PPB Group	BUY	16.8	22.0	111.1	110.5	1.4	1.4	37.0	35.0	2.2	2.1
Ta Ann Holdings	BUY	4.1	5.25	78.9	53.4	1.9	2.8	30.0	25.0	7.4	6.1
TSH Resources	BUY	1.0	1.9	29.5	10.1	5.1	15.0	3.0	3.0	2.9	2.9
FGV Holdings	BUY	1.5	2.6	40.5	20.3	3.7	7.4	8.0	5.0	5.3	3.3

Source: MIDFR

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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