Sector Update | Friday, 11 November 2022

PLANTATION

Maintain POSITIVE

Export resilient on better demand of top-5 countries

KEY INVESTMENT HIGHLIGHTS

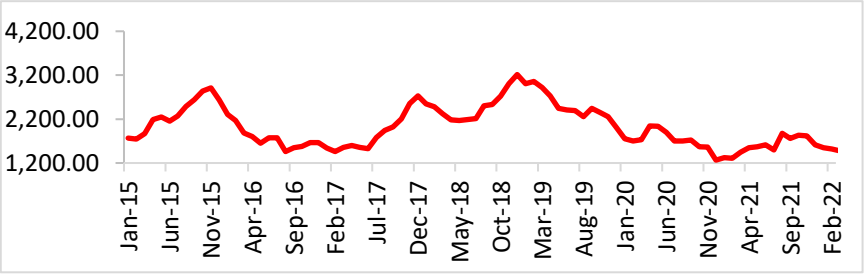
- **Higher production momentum continues**
- **Export stronger in October**
- **Closing stockpiles inched +3.7%yoy to 2.40m tonnes vs. 1.83m tonnes on better export demand and spike in output in-line with productive seasons**
- **Maintain POSITIVE stance on the sector with CPO target price of RM5,500/mt for CY22**

Higher production momentum continues. Malaysia's CPO production continued high at 1.81m tonnes (+5.1%mom; +2.4%yoy; +0.8%Ytd) versus 1.73m tonnes in subsequent year supported by the productive contribution from most of the states except for Sabah (-0.6%yoy), Terengganu (-2.2%yoy) and Selangor (-4.1%yoy). Additionally, on a cumulative 10-month basis, the average FFB yield recorded the strongest value of 1.54 t/ha, aided by a good OER performance of 19.78% due to favourable weather and an increase in the inflow of foreign labour. Following the significant use of mechanisation in estates and the gradual inflow of foreign labour, mainly from Indonesia, which commenced on August 1,2022, we anticipate output will continue to improve.

Export stronger in October. Palm oil (PO) export volume expanded in October, to 1.50m tonnes (+5.7%mom; +5.9%yoy; +0.5%Ytd) as traders seek more PO due to price competitiveness against SBO circa USD672 discount parity based on yesterday 3-months future price. Most usual major importing countries continued sees (*Table 1*) higher demand, especially from Pakistan (+15.8%yoy), USA (+16.8%yoy), EU (+30.9%yoy) and China (+47.1%yoy). Furthermore, intake from middle east countries such as Iran (-99.0%mom), Turkiye (-65.3%mom) and Saudi Arabia (-39.2%mom) eased further following normalization in sunflower oil export in Ukraine.

High inventory level. Closing stockpiles in October-22 slightly increased +3.7%yoy to 2.40m tonnes vs. 1.83m tonnes on better export demand and spike in output in-line with productive seasons. Both stocks, CPO and PKO were up +32.9%yoy and +24.0%yoy respectively, driven by robust contribution from peninsular (+58.5%yoy), Sarawak (+24.1%yoy) as well as Sabah (+6.7%yoy) areas. We view the Malaysian palm oil stockpiles has peaked and to be slow down in 4-1Q23 in anticipation of low cycle months.

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 Nov 2022: RM21.20

- 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 Nov 2022: RM4.35

- 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



MIDF RESEARCH
research@midf.com.my

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

	Oct-22	Sep-22	Oct-21	MoM%	YoY%	10M22	10M21	YoY%
China	358.9	264.1	244.0	35.9%	47.1%	1,370.8	1,523.7	-10.0%
India	212.3	187.3	311.6	13.3%	-31.9%	2,285.2	2,802.9	-18.5%
EU	138.9	83.4	106.1	66.6%	30.9%	1,205.8	1,319.4	-8.6%
Pakistan	71.0	31.6	61.3	125.0%	15.8%	427.4	536.0	-20.3%
US	14.9	15.4	12.8	-3.2%	16.8%	140.2	230.3	-39.2%
Others	707.8	841.4	684.8	-15.9%	3.4%	7,303.9	6,264.8	16.6%
Total	1,503.8	1,423.2	1,420.6	5.7%	5.9%	12,733.2	12,677.1	0.4%

Source: MPOB, MIDFR

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

	Oct-22	Sep-22	Oct-21	YoY %	MoM %	10M22	10M21	Ytd%
Opening Stocks	2,317.0	2,094.7	1,756.4	31.9%	10.6%	1,614.6	1,265.7	27.6%
Production	1,813.6	1,770.4	1,725.8	5.1%	2.4%	15,153.8	15,026.6	0.8%
Imports	66.3	132.3	44.7	48.5%	-49.9%	966.4	965.2	0.1%
Total Supply	4,197.0	3,997.4	3,526.9	19.0%	5.0%	17,734.8	17,257.6	2.8%
Exports	1,503.8	1,423.2	1,420.6	5.9%	5.7%	12,733.3	12,668.7	0.5%
Dom Disapp	289.5	257.2	271.8	6.5%	12.5%	2,597.8	2,754.3	-5.7%
Total Demand	1,793.2	1,680.4	1,692.3	6.0%	6.7%	15,331.1	15,423.0	-0.6%
End Stocks	2,403.7	2,317.0	1,834.6	31.0%	3.7%	2,403.7	1,834.6	31.0%
Stock/Usage Ratio	11.2%	11.5%	9.0%			1.3%	1.0%	

Source: MPOB, MIDFR

We expect CPO price to trade sideways in remaining month c. RM3,500/mt-RM4,500/mt benefited from price disparity between CPO against SBO price which to-date amounted USD672 and 3 years average of USD210, based on 3months future price. 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) ongoing Indonesia's extension of zero-levy policy for PO exports. 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 **Sarawak Plantation (TP: RM2.70).**

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		10-Nov-22		FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
Sarawak Plantation	BUY	2.2	2.7	43.4	36.9	5.1	6.0	20.0	20.0	9.0	9.0
Genting Plantation	BUY	6.3	8.0	68.3	52.7	9.2	12.0	35.0	27.0	5.5	4.3
IOI Corporation	BUY	4.0	6.0	29.7	19.6	13.4	20.4	14.0	10.0	3.5	2.5
Kuala Lumpur Kepong	BUY	21.2	31.5	208.7	161.4	10.2	13.1	100.0	80.0	4.7	3.8
Sime Darby Plantation	BUY	4.4	6.3	40.4	27.5	10.8	15.8	25.0	20.3	5.7	4.7
PPB Group	BUY	16.2	22.0	111.1	110.5	14.6	14.7	37.0	35.0	2.3	2.2
Ta Ann Holdings	BUY	3.7	5.3	78.9	53.4	4.7	6.9	30.0	25.0	8.1	6.8
TSH Resources	BUY	1.1	1.9	29.5	10.1	3.6	10.4	3.0	3.0	2.9	2.9
FGV Holdings	BUY	1.3	2.6	40.5	20.3	3.3	6.6	8.0	5.0	6.0	3.8

Source: MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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