Sector Update | Wednesday, 14 December 2022

PLANTATION

Maintain NEUTRAL

Rising ending stockpiles will keep CPO prices low

KEY INVESTMENT HIGHLIGHTS

- **Production momentum continues**
- **Export moderating in November**
- **Closing stockpiles surged +25.9%yoy to 2.29m tonnes vs. 1.82m tonnes**
- **Maintain NEUTRAL stance on the sector with CPO target price of RM5,000/mt and RM3,500/Mt for CY22-23**

Production momentum continues. Malaysia's CPO production was marginally higher at 1.68m tonnes (-7.3%mom; +2.8%yoy; +1.0%Ytd) versus 1.63m tonnes in subsequent year thanks to the productive contribution from most of the states except for Terengganu (-10.0%yoy). On to-date basis, the average FFB yield has increased year-on-year to 1.44 t/ha, aided by decent OER performance of 19.76% due to favourable weather and a modest increase in foreign labour inflow. Nonetheless, we expect the performance will begin to deteriorate in January 2023 when the palm trees enter the pollination cycle, resulting in lower FFB output.

Moderate demand in November. Palm oil (PO) export volumes gained in November, to 1.52m tonnes (+3.6%mom; +0.9%yoy; +0.8%Ytd) as traders seek more PO due to price competitiveness against SBO circa USD423 discount parity based on yesterday's 3-months future price. We anticipate continued demand ahead of the holiday season. As China's senior official signalled a possible easing of the country's tough zero-tolerance approach toward the virus between Christmas and CNY, we expect China to resume the majority of its imports, which began in July.

Inventory level remained high. Closing stockpiles in November-22 surged by +25.9%yoy to 2.29m tonnes vs. 1.82m tonnes due to a spike in output in-line with productive seasons. Both stocks, CPO and PKO are up +38.3%yoy and +54.7%yoy respectively, driven by healthy contribution from Sarawak (+70.4%yoy), peninsular (+43.1%yoy), as well as Sabah (+14.7%yoy) areas. We view the Malaysian palm oil stockpiles has peaked and expect a slowdown in 1Q23 in anticipation of low cycle months.

CPO prices to trend lower. In November, the local CPO delivery price finished marginally higher at RM4,089.50/t (+2.7%mom) in November, with an average of RM4,087.50/t. While to-date, daily prices have dropped to RM3,808/t with an average of RM5,190.7/t. Currently the discount parity between Malaysian and Indonesian CPO prices is now USD105.7/Mt or RM463.8/Mt, with a three-year average of USD210.7/Mt. Indonesian prices were traded discount to Malaysia due to extension of USD0/Mt of export levies. Overall, we expect Malaysian local delivery prices to be lower in CY23, ranging between RM3,000 and 4,000, on expectation of normalising stocks of 2.0-2.1m tonnes.

COMPANY IN FOCUS

Kuala Lumpur Kepong

Maintain BUY | Unchanged target price: **RM26.00**

Price @ 13th Dec 2022: RM21.00

- 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: **RM5.50**

Price @ 13th Dec 2022: RM4.25

- 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

The CPO price is expected to trade sideways in he remaining days of December at circa RM3,500/mt-RM4,000/mt benefiting from price disparity between CPO against SBO price which to-date amounted USD423/Mt and 3 years average of USD223/Mt, based on 3months future price. However, we also recognize 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 Indonesian extension of zero-levy policy for PO exports in CY23. All factors considered, we maintain our **NEUTRAL** stance on the sector with CPO target price of **RM5,000 Mt/ RM3,500 Mt** for CY22 and CY23. Our top picks for plantation companies are **KLK (TP: RM26.00), Sime Darby Plant. (TP: RM5.00)** and **Sarawak Plantation (TP: RM2.60).**

Table 1: Palm Oil Statistics for November 2022 ('000 MT)

	Nov-22	Oct-22	Nov-21	YoY %	MoM %	11M22	11M21	Ytd%
Opening Stocks	2,408.3	2,317.0	1,834.6	31.3%	3.9%	1,614.6	1,265.7	27.6%
Production	1,680.7	1,813.6	1,634.9	2.8%	-7.3%	16,834.6	16,661.6	1.0%
Imports	47.0	66.3	97.9	-51.9%	-29.1%	1,013.4	1,063.1	-4.7%
Total Supply	4,136.1	4,197.0	3,567.4	15.9%	-1.5%	19,462.6	18,990.4	2.5%
Exports	1,517.7	1,503.8	1,465.5	3.6%	0.9%	14,251.0	14,134.2	0.8%
Dom Disapp	329.9	284.8	284.8	15.8%	15.8%	2,923.1	3,039.1	-3.8%
Total Demand	1,847.6	1,788.7	1,750.3	5.6%	3.3%	17,174.1	17,173.3	0.0%
End Stocks	2,288.5	2,408.3	1,817.1	25.9%	-5.0%	2,288.5	1,817.1	25.9%
Stock/Usage Ratio	10.3%	11.2%	8.7%			1.1%	0.9%	

Source: MPOB, MIDFR

Table 2: Summary of earnings, TP and recommendations

Stocks	**Rec.**	**Price @**	**Tgt Price (RM)**	**Core EPS (sen)**		**PE (x)**		**Net DPS (sen)**		**Div Yield (%)**	
Companies		**13-Dec-22**		**FY22**	**FY23**	**FY22**	**FY23**	**FY22**	**FY23**	**FY22**	**FY23**
Sarawak Plantation	BUY	2.29	2.60	41.3	28.8	5.5	8.0	20.0	15.0	8.7	6.6
PPB Group	BUY	17.56	24.1	173.0	178.5	10.2	9.8	37.0	40.0	2.1	2.3
Sime Darby Plantation	BUY	4.3	5.50	36.9	32.9	11.5	12.9	23.0	15.0	5.4	3.5
IOI Corporation	BUY	3.74	5.00	29.6	17.8	12.6	21.0	14.0	10.5	3.7	2.8
Kuala Lumpur Kepong	BUY	21.00	26.00	209.6	141.1	10.0	14.9	100.0	70.0	4.8	3.3
Genting Plantation	NEUTRAL	5.97	7.00	60.0	47.4	10.0	12.6	35.0	27.0	5.9	4.5
Ta Ann Holdings	NEUTRAL	3.98	3.79	72.2	36.1	5.5	11.0	40.0	25.0	10.1	6.3
TSH Resources	NEUTRAL	1.00	1.01	14.3	10.1	7.0	9.9	3.0	3.0	3.0	3.0
FGV Holdings	NEUTRAL	1.34	1.38	35.8	17.2	3.7	7.8	8.0	4.0	6.0	3.0

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