Sector Update | Wednesday, 11 January 2023

PLANTATION

***Maintain* NEUTRAL**

Normalisation of ending stockpiles pushed CPO prices low

KEY INVESTMENT HIGHLIGHTS

- **Production remains elevated**
- **Stable demand in December**
- **Closing stockpiles surged +35.9%yoy to 2.20m tonnes vs. 1.61m tonnes**
- **Maintain NEUTRAL stance on the sector with CPO target price of RM3,500/mt**

Production remains elevated. Malaysia's CPO production ended the year at 1.62m tonnes (-3.7%mom; +11.7%yoy; +1.9%Ytd) versus 1.45m tonnes in subsequent year banking contribution from most of the states except for Terengganu (-10.9%yoy) due to wet weather seasons. The average FFB yield surged by +9.5% year-on-year to 1.38 t/ha, however OER marginally lower to 19.55% due to unfavourable weather and slow foreign labour inflow. Jumping into 1QCY23, we expect the performance will taper off a bit due the palm trees enter the pollination cycle and continuation of wet weather seasons, resulting in lower FFB output.

Stable demand in December. Palm oil (PO) export volumes remained sticky in December at 1.47m tonnes (-3.5%mom; +3.1%yoy; +1.1%Ytd) as traders seek more Malaysian PO due to price competitiveness against SBO circa USD455/Mt discount parity based on yesterday's 3-months future price. We anticipate strong demand in the run-up to the holiday season. We anticipate that China will resume the majority of its imports, which began in July, as the country's borders reopen, demonstrating the country's confidences in tackling the Covid.

Inventory level remained high. Closing stockpiles in December-22 surged by +35.9%yoy to 2.20m tonnes vs. 1.61m tonnes due to a spike in output in-line with productive seasons. Both stocks, CPO and PKO are up +51.5%yoy and +54.2%yoy respectively, boosted by healthy contribution from Peninsular (+53.4%yoy), Sabah (+51.8%yoy), as well as Sarawak (+51.5%yoy) areas. We believe the Malaysian palm oil stockpiles has peaked and gradually consolidate in 1QCY23 in anticipation of low cycle months.

CPO prices to trend lower. In December, the local CPO delivery price ended the year marginally lower at RM4,045.50/t (-1.1%mom), with an average of RM3,960.50/t. For the last year, CPO prices managed to settled at average daily/monthly price of RM5,131.9/t and RM5,125.6/t. Currently the discount parity between Malaysian and Indonesian CPO prices is USD154.9/Mt or RM536.8/Mt, with a three-year average of USD204.6/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 normalisation closing stocks of 2.0-2.1m tonnes.

COMPANY IN FOCUS

Sime Darby Plantation

Maintain BUY | Unchanged target price: **RM5.50**

Price @ 10th Jan 2023: RM4.37

- 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



Sarawak Plantation

Maintain BUY | Unchanged target price: **RM2.60**

Price @ 10th Jan 2023: RM2.20

- A turn around company that has improved 8.4Mt/ha to 15.7Mt/ha between 2018-21 after the acquisition.
- Expected to turn net cash after Nov 2022 settlement and now has stronger footing and liquidity to pursue landbank expansion.

Share price chart



MIDF RESEARCH
research@midf.com.my

The CPO price is expected to see volatile trade in month of January to March at circa RM3,500/mt-RM4,500/mt benefiting from price disparity between CPO against SBO price which to-date amounted USD455/Mt and 3 years average of USD236/Mt, based on 3-month 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) another 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 **RM3,500 Mt** for CY22. Our top picks for plantation companies are **Sime Darby Plant. (TP: RM5.50)** and **Sarawak Plantation (TP: RM2.60).**

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

	Dec-22	Nov-22	Dec-21	YoY %	MoM %	CY22	CY21	Ytd%
Opening Stocks	2,288.5	2,411.1	1,817.1	25.9%	-5.1%	1,614.6	1,265.7	27.6%
Production	1,618.9	1,680.7	1,449.7	11.7%	-3.7%	18,453.4	18,111.3	1.9%
Imports	47.1	47.0	102.8	-54.2%	0.1%	1,060.5	1,165.9	-9.0%
Total Supply	3,954.4	4,138.9	3,369.5	17.4%	-4.5%	21,128.5	20,542.9	2.9%
Exports	1,468.4	1,521.3	1,423.8	3.1%	-3.5%	15,725.0	15,558.1	1.1%
Dom Disapp	291.2	329.1	331.1	-12.1%	-11.5%	3,208.7	3,370.2	-4.8%
Total Demand	1,759.6	1,850.4	1,755.0	0.3%	-4.9%	18,933.7	18,928.3	0.0%
End Stocks	2,194.8	2,288.5	1,614.6	35.9%	-4.1%	2,194.8	1,614.6	35.9%
Stock/Usage Ratio	10.4%	10.3%	7.7%			1.0%	0.7%	

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		**10-Jan-23**		**FY22**	**FY23**	**FY22**	**FY23**	**FY22**	**FY23**	**FY22**	**FY23**
Sarawak Plantation	BUY	2.20	2.6	41.3	28.8	5.3	7.6	20.0	15.0	9.1	6.8
Sime Darby Plantation	BUY	4.37	5.5	36.9	32.9	11.8	13.3	23.0	15.0	5.3	3.4
Kuala Lumpur Kepong	BUY	21.96	26.0	209.6	141.1	10.5	15.6	100.0	70.0	4.6	3.2
IOI Corporation	BUY	3.96	5.0	29.6	17.8	13.4	22.2	14.0	10.5	3.5	2.7
PPB Group	BUY	17.52	24.1	173.0	178.5	10.1	9.8	37.0	40.0	2.1	2.3
Genting Plantation	NEUTRAL	6.02	7.0	60.0	47.4	10.0	12.7	35.0	27.0	5.8	4.5
Ta Ann Holdings	NEUTRAL	3.84	3.8	72.2	36.1	5.3	10.6	40.0	25.0	10.4	6.5
TSH Resources	NEUTRAL	1.08	1.0	14.3	10.1	7.6	10.7	3.0	3.0	2.8	2.8
FGV Holdings	NEUTRAL	1.35	1.4	35.8	17.2	3.8	7.8	8.0	5.0	5.9	3.7

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