Sector Update | Monday, 13 February 2023

PLANTATION

***Maintain* NEUTRAL**

Ending stockpiles were higher, demand eased

KEY INVESTMENT HIGHLIGHTS

- **Production surged higher**
- **Demand eased in January**
- **Inventory level remained high**
- **Maintain NEUTRAL stance on the sector with CPO target price of RM3,500/mt**

Production surged higher. Malaysia's CPO production started the year at 1.38m tonnes (-14.7%mom; **+10.1%yoy**; +10.1%ytd) versus 1.25m tonnes in subsequent year banking contribution from most of the states except for Kedah (-3.2%yoy) due to wettest month of the year. The average FFB yield surged by +8.2% year-on-year to 1.19 t/ha, while OER marginally higher to 19.71% due to favourable weather amidst improving foreign labour inflow. For this 1QCY23, we expect the performance will tapered off a bit due the palm trees enter the pollination cycle and continuation of uneven weather seasons, resulting difficulty in FFB evacuation process.

Demand eased in January. Palm oil (PO) export volumes easing in January at 1.14m tonnes (-23.0%mom; -1.8%yoy; -1.8%ytd) as traders rebalancing PO with SBO due to narrowed price competitiveness against SBO averaged USD454.6Mt (-5.4%mom) discount parity based on January's 3-months future price. We anticipate flattish demand ahead on absence of festival season which is only start on April due Eid al-Fitr festival.

Inventory level remained high. Closing stockpiles in January-23 surged by +46.1%yoy to 2.27m tonnes vs. 1.55m tonnes taking a toll on flat demand as well improved FFB yield and OER. Both stocks, CPO and PKO were up +59.5%yoy and +54.1%yoy respectively, fuelled by robust contribution from Peninsular (+70.5%yoy), Sabah (+38.8%yoy), as well as Sarawak (+84.0%yoy) areas. We believe the Malaysian PO stockpiles to continue recover to pre-pandemic level on improved harvesting activities.

CPO prices to trend lower. In January, the local CPO delivery price started the year marginally higher at RM4,165.50/t, but averaged monthly lower at RM3,922.00/t (-1.0%mom; -26.8%yoy) on better than expected output numbers. Currently the discount parity between Malaysian and Indonesian CPO prices is USD427.7/Mt, with a three-year average of USD246.2/Mt. Aside note, Indonesian prices were traded narrower discount to Malaysia due tighten export rules for PO in move aimed at ensuring sufficient domestic supply. 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 Feb 2023: 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



Sarawak Plantation

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

Price @ 10th Feb 2023: RM2.16

- 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



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Maintain NEUTRAL. The CPO price is expected to trade volatile in month of February to March at circa RM3,500/mt-RM4,000/mt benefiting from price disparity between CPO against SBO price which to-date amounted USD445.0/Mt and 3 years average of USD246.2/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) 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 CY23. Our top picks for plantation companies are **Sime Darby Plant. (TP: RM5.50)** and **Sarawak Plantation (TP: RM2.60).**

Table 1: Malaysia Palm Oil Statistics for January 2023 ('000 MT)

	Jan-23	Dec-22	Jan-22	YoY %	MoM %	CY23	CY22	YTD %
Opening Stocks	2,196.6	2,291.3	1,614.6	36.0%	-4.1%	2,196.6	1,614.6	36.0%
Production	1,380.4	1,618.8	1,253.6	10.1%	-14.7%	1,380.4	1,253.6	10.1%
Imports	144.9	102.8	70.6	105.3%	41.0%	144.9	70.6	105.3%
Total Supply	3,721.9	4,012.9	2,938.8	26.6%	-7.3%	3,721.9	2,938.8	26.6%
Exports	1,135.5	1,473.8	1,155.8	-1.8%	-23.0%	1,135.5	1,155.8	-1.8%
Dom Disapp	318.2	342.5	230.5	38.1%	-7.1%	318.2	230.5	38.1%
Total Demand	1,453.7	1,816.4	1,386.3	4.9%	-20.0%	1,453.7	1,386.3	4.9%
End Stocks	2,268.2	2,196.6	1,552.5	46.1%	3.3%	2,268.2	1,552.5	46.1%
Stock/Usage Ratio	13.0%	10.1%	9.3%			13.0%	9.3%	

Source: MPOB, MIDFR

Monthly Cooking Oil Price Review ~ Dec 2022

Cooking Oil. In December, the RBD palm Olein ended the year marginally lower at RM4,350.00/t, with a monthly average of RM4,232.50/t (-22.5%yoy). For the last year, RBD Palm Olein prices managed to settled at average of RM5,576.75/t (+18.5%Ytd). Currently the premium parity between CPO and RBD Palm Olein price is RM272.0/t, with a three-year average of RM296.5/t. Following the closely watched price trend for RBD Palm Olein, the price for 5kg Cooking Oil in December-22 was still elevated at RM31.13 but it had fallen by -0.8%mom and reached 6-month low. Last year average 5kg cooking oil price averaged at RM31.33 (+9.8%yoy), going ahead we anticipate Malaysia's average cooking oil prices to ease further, following declination of average CPO price.

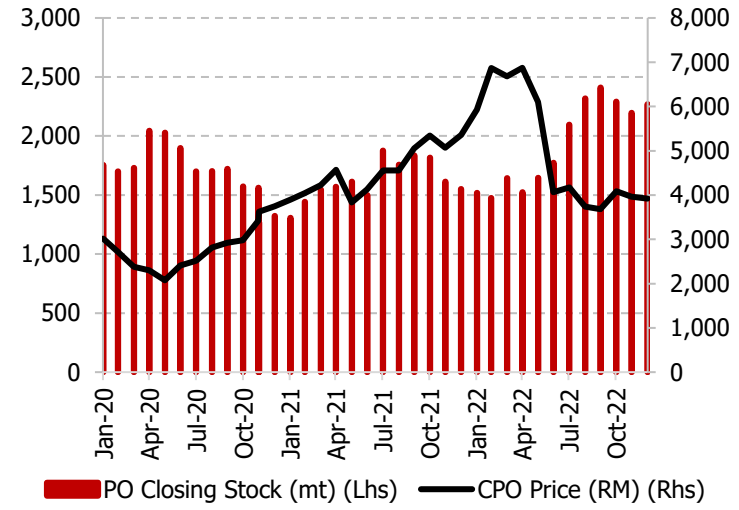
Inflationary pressure eased. Tracking correction of December average 5kg cooking oil price, food inflation rates during the month softened to +6.8%yoy (3-month low). Both Food at Home (FAH) and Food at Home: Oils & Fats (FAHOF) inflation averaged lower at +4.9%yoy (Nov: +5.8%yoy) and +1.0%yoy (Nov: +1.6%yoy). Meanwhile, Food away from Home (FAFH) numbers unchanged at +9.6%yoy (Nov: +9.6%yoy) due stickiness of cooking oil prices. We believe, supply-push factors on inflation are expected to soften among others underpin by appreciation of USD/MYR (firmer Ringgit as against US Dollar making CPO prices less competitive than competitors' vegetable oil prices), moderation in food prices, further easing in global supply chain pressure and lower commodity prices.

Cooking Oil Statistics

	Dec-2021	Nov-2022	Dec-2022	YoY%	MoM %	CY22	CY21	YTD %
Avg CPO Price (RM/t)	5,072.00	4,087.50	3,960.50	-21.9	-3.1	5,125.60	4,419.30	+16.0
Avg RBD Palm Olein (RM/t)	5,462.00	4,489.00	4,232.50	-22.5	-5.7	5,576.75	4,704.88	+18.5
Premium/Discount to CPO (RM/t)	389.50	401.50	272.00	-30.2	-32.3	451.10	285.60	+57.9
Avg 5kg Cooking Oil Prices (RM/bottle)	29.57	31.38	31.13	+5.3	-0.8	31.10	28.33	+9.8

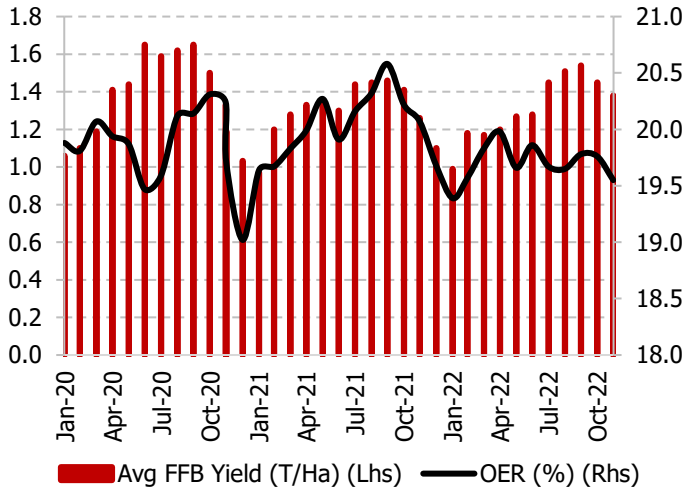
Source: MPOB, MIDFR

Chart 1: PO Closing stocks VS CPO Price



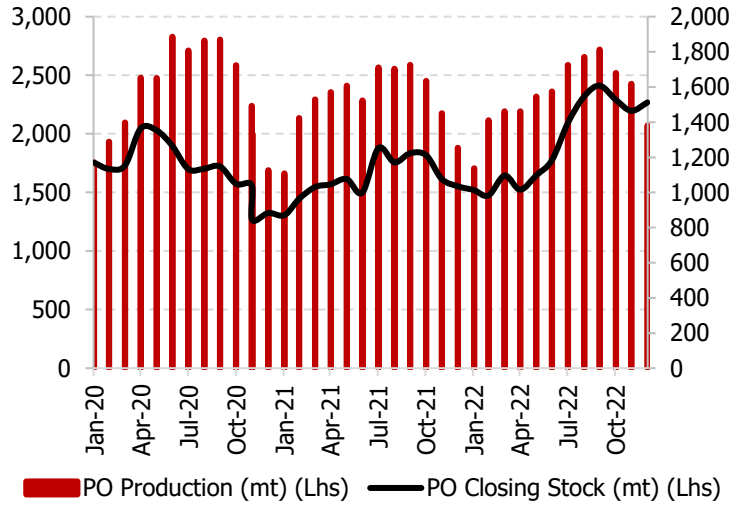
Source: MPOB, MIDFR

Chart 2: Average FFB Yield VS OER



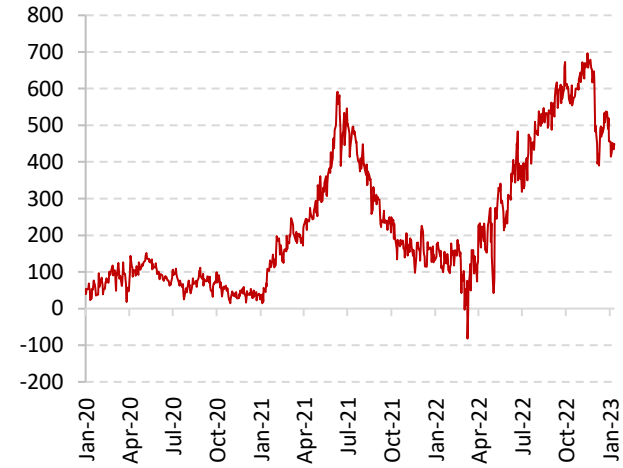
Source: MPOB, MIDFR

Chart 3: Malaysia PO Production VS Closing Stocks



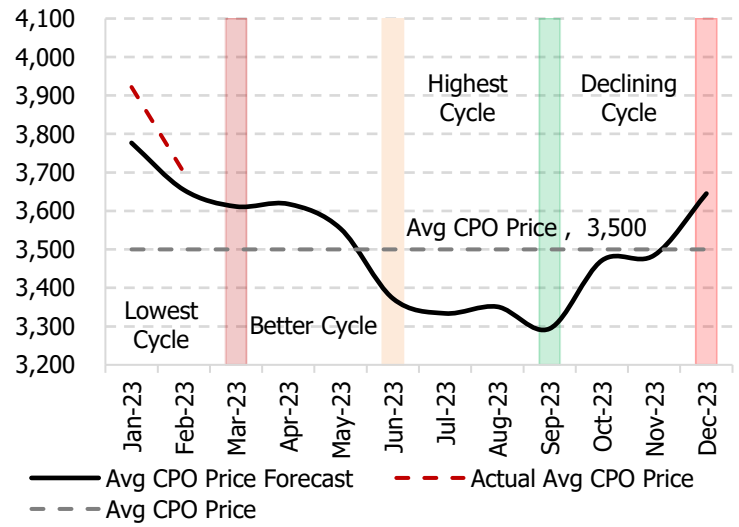
Source: MPOB, MIDFR

Chart 2: SBO-CPO Price Discount parity



Source: MPOB, MIDFR

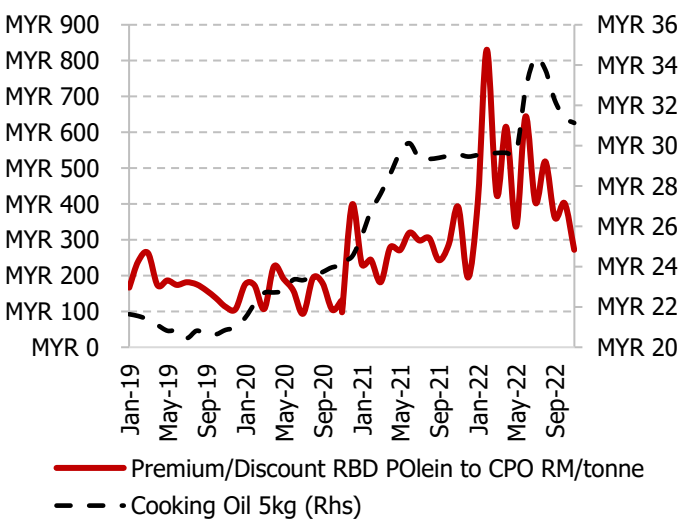
Chart 3: CY23 CPO Price Forecast VS Actual



** Production Cycle*

Source: MIDFR

Chart 4: Cooking Oil Price Monthly Performance



Source: 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-Feb-23		FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
Sarawak Plantation	BUY	2.16	2.60	41.3	28.8	5.2	7.5	20.0	15.0	9.3	6.9
Sime Darby Plantation	BUY	4.33	5.50	36.9	32.9	11.7	13.2	23.0	15.0	5.3	3.5
Kuala Lumpur Kepong	BUY	21.94	26.00	209.6	141.1	10.5	15.5	100.0	70.0	4.6	3.2
IOI Corporation	BUY	3.81	5.00	29.6	17.8	12.9	21.4	14.0	10.5	3.7	2.8
PPB Group	BUY	17.52	24.10	173.0	178.5	10.1	9.8	37.0	40.0	2.1	2.3
Genting Plantation	NEUTRAL	6.18	7.00	60.0	47.4	10.3	13.0	35.0	27.0	5.7	4.4
Ta Ann Holdings	NEUTRAL	3.53	3.79	72.2	36.1	4.9	9.8	40.0	25.0	11.3	7.1
TSH Resources	NEUTRAL	1.09	1.01	14.3	10.1	7.6	10.8	3.0	3.0	2.8	2.8
FGV Holdings	NEUTRAL	1.35	1.38	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