Sector Update | Friday, 17 February 2023

REGIONAL PLANTATION

***Maintain* NEUTRAL**

Another round of export ban

KEY INVESTMENT HIGHLIGHTS

- **Indonesia government announced to further curbs palm oil exports.**
- **We had anticipated this since its one of catalyst, keeping the CPO price elevated at least through April…**
- **Maintain NEUTRAL stance on the sector with CPO target price of RM3,500/mt**

CPO prices to remain elevated at least for 1HCY23. In summary, the CPO price (local delivery) began steadily at RM5,214/tonnes in early January 2022, witnessed active accelerations to RM8,077/tonnes in March, and then dipped to RM5,105/tonne (-2.09%Ytd) in June. Several factors lingering includes (1) Russia-Ukraine dispute (2) Indonesia's export ban and lowering its maximum PO export tax and levy to $488/tonnes, resulted Malaysia CPO less appealing due to price discounts, (3) low PO production cycle seasons (2–3Q), and (4) sentiment concerns on demand as inflationary fears set in, were contributing to this sharp decline.

Echoing the same pattern share ahead, we predict that average local CPO delivery prices would climb by +13% to RM4,288/Mt (following distortion on Indonesia's PO) level in April, and then decline by -11% to RM3,837/Mt in May after Eid Al-Fitr Festival as a result of the Indonesia government's decision to lift the export restriction in order to reduce glutting stockpiles (*Chart 5*). On top of that, price will be muted weighing from productive cycle months in 2Q23.

Inventory level to surge higher. Based on our precedence case studies, Indonesian stockpiles for the 1HCY23 would be similar to those from the beginning of last year, where inventory to surge by +55-58% bringing stockpiles to close average of 5.5-5.9m Mt monthly basis or 5.0-6.5m Mt monthly level. This is on limitation of two-thirds of PO export that normally accounted 66%-60% of total supply in last 2 years (pre-pandemic; 70-75%), in which we are now expected to weaken around 40-50% for 1H23.

With the government of Indonesia (GOI) reiterates its commitment to ensure ample cooking oil supplies at least by 50% to 450,000 tonnes a month, until April. This would resulted higher food component consumption to grow by +10% in CY23 based on Gapki forecast.

Aside note, following implementation Biodiesel blending mandate to 35% in Feb 2023 (expanding from the current 30%), this would translate to 11m tonnes of CPO absorption, up by 8.9m tonnes yoy. This would resulted higher Biodiesel component consumption to grow by +29.3% in CY23 based on Gapki forecast.

COMPANY IN FOCUS

Sime Darby Plantation

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

Price @ 17th Feb 2023: 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



Sarawak Plantation

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

Price @ 17th Feb 2023: RM2.15

- A turn 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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Indonesia PO Statistics

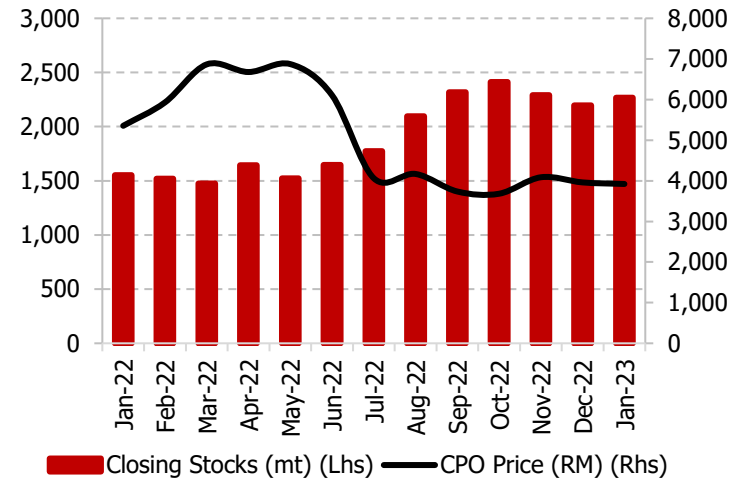
	2018	2019	2020	2021	2022	2023F	Chg	Remarks
Beginning Stock	**4,022**	**3,261**	**4,596**	**4,867**	**4,129**	**3,637**	**-11.9%**	wet weather impacts
Total Supply	**47,437**	**51,932**	**51,627**	**51,359**	**51,382**	**50,870**	**-1.0%**	
Local Consumption	**13,491**	**16,747**	**17,349**	**18,422**	**20,968**	**24,342**	**16.1%**	
Growth (tonnes)		0.241	0.036	0.062	0.138	0.161		
Growth %	-	24.1%	3.6%	6.2%	13.8%	16.1%		
Weightage from total supply	28%	32%	34%	36%	41%	48%		
1) Food	**8,704**	**9,860**	**8,428**	**8,954**	**9,941**	**10,940**	**10.0%**	Normal Growth
Growth (tonnes)		0.133	-0.145	0.062	0.110	0.100		
Growth %	-	13.3%	-14.5%	6.2%	11.0%	10.0%		
Weightage from total supply	65%	59%	49%	49%	47%	45%		
2) Biodiesel	**3,824**	**5,831**	**7,226**	**7,342**	**8,842**	**11,432**	**29.3%**	Increase in blending policy
Growth (tonnes)		0.525	0.239	0.016	0.204	0.293		
Growth %		52.5%	23.9%	1.6%	20.4%	29.3%		
Weightage from total supply	28%	35%	42%	40%	42%	47%		
Export	**36,333**	**37,430**	**34,007**	**33,674**	**30,906**	**26,420**	-14.5%	
Growth (tonnes)		0.030	-0.091	-0.010	-0.082	-0.145		
Growth %		3.0%	-9.1%	-1.0%	-8.2%	-14.5%		
Weightage from total supply	77%	72%	66%	66%	60%	52%		
Ending stocks	**3,261**	**4,596**	**4,867**	**4,129**	**3,637**	**3,745**	**3.0%**	

*Source: *GAPKI Forecast, MIDFR*

Operational impacts. During the export ban, the risk remains within the bloated tanks cause the ripple affect is that once the tanks are full, palm oil mills will stop operation due stocks overcapacity, which in turn will result no purchase of FFB from oil palm farmers. In conclusion, sales volume will be affected, and this has been seen in 6MFY22 performance of TSH, Sime Plant, IOI and GENP where their FFB production has eased to -10%/ -6%/ -6% and -4% respectively due geographical production exposure.

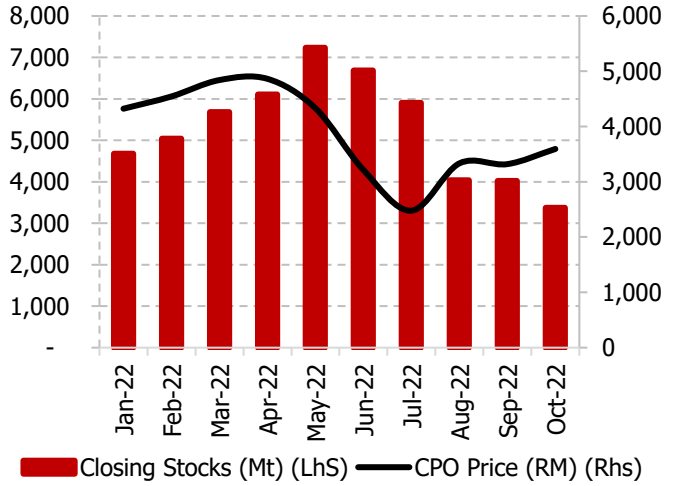
Maintain Neutral. The CPO price is expected to trade volatile in month of February to March at circa RM3,500/mt-RM4,000/mt benefiting from price disparity between CPO against SBO price which to-date amounted USD445.0/Mt and 3 years average of USD246.2/Mt, based on 3months future price. However, we also 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).**

Chart 1: Malaysia PO Closing stocks VS Price



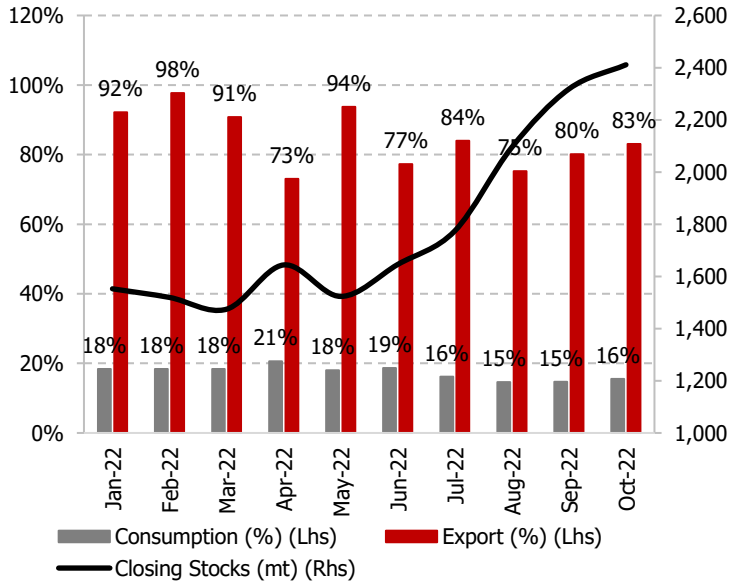
Source: MPOB, MIDFR

Chart 2: Indonesia CPO Closing stocks VS Price



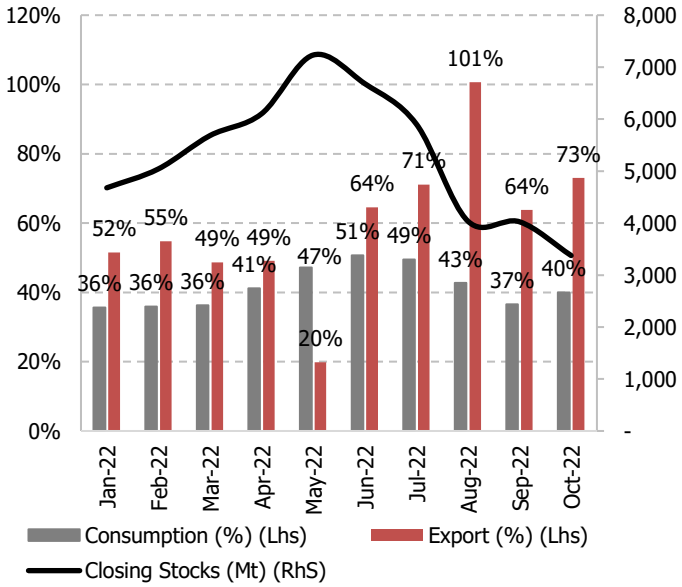
Source: GAPKI, MIDFR

Chart 3: Malaysia PO Export & Consumption



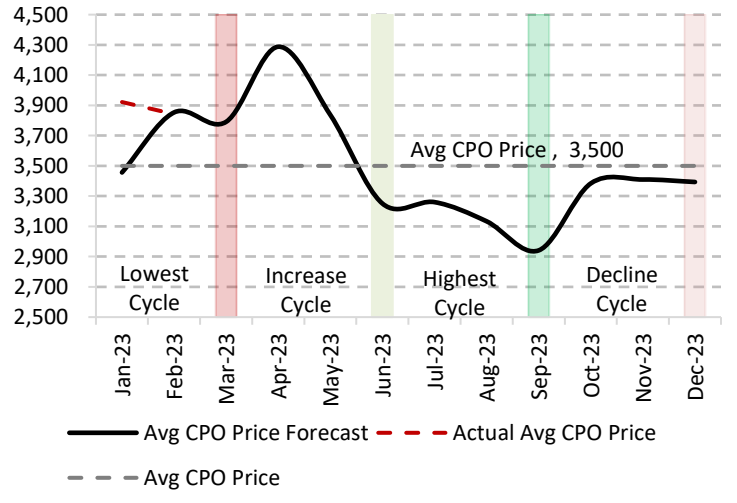
Source: MPOB, MIDFR

Chart 4: Indonesia PO Export & Consumption



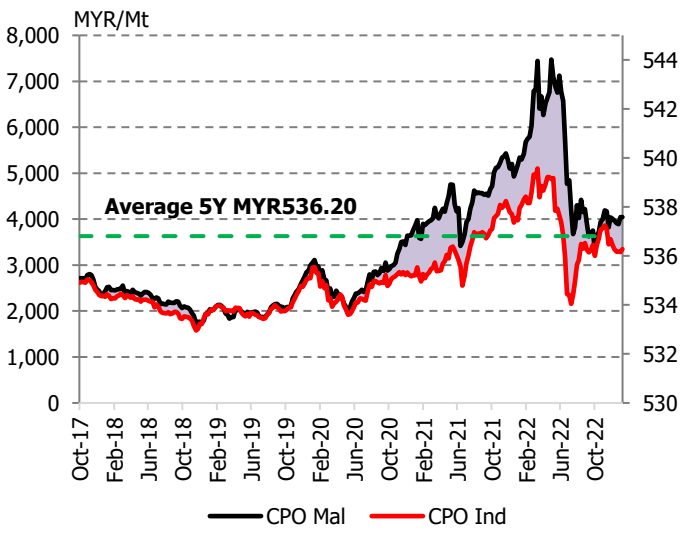
Source: GAPKI, MIDFR

Chart 5: CY23 CPO Price Forecast VS Actual



** Malaysia's Production Cycle*
Source: MIDFR

Chart 6: Premium/ Discount Mal- Ind CPO price



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