Sector Update | Monday, 13 March 2023

PLANTATION

Maintain NEUTRAL

Production remains resilience

KEY INVESTMENT HIGHLIGHTS

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

Production gained momentum. Malaysia's CPO production ended the February at 1.25m tonnes (-9.4%mom; **+10.0%yoy**; +10.1%Ytd) versus 1.14m tonnes in prior year supported by contribution from most of the states except for Negeri Sembilan (-1.0%yoy), impacted by uneven weather events of the month. The average FFB yield continued rose by +8.7% year-on-year to 1.07 t/ha, while OER inched lower to 19.24% following subdued mills operational on low cycle months, but performance relatively stable backed by improving foreign labour inflow. For this 1QCY23, we reiterate our view that the performance will taper off a bit as palm trees enter the pollination cycle and continuation of uneven weather seasons from last year, resulting difficulty in FFB evacuation process.

Flattish Demand in February. Palm oil (PO) export volumes were relatively unchanged in February at 1.11m tonnes (-1.9%mom; **+0.3%yoy**; -0.8%Ytd) in absence of festival seasons. We anticipate demand to pick up in mid-March in preparation of Ramadhan & Eid al-Fitr festival.

Inventory level remained high. Closing stockpiles in February-23 ballooned to 2.12m tonnes (**+39.5%yoy)** vs. 1.52m tonnes taking a toll on slower demand amidst stable FFB yield and OER performance. Both stocks, CPO and PKO are up +47.7%yoy and +70.0%yoy respectively, fuelled by robust contribution from Sabah (+71.9%yoy), Sarawak (+39.1%yoy) as well as Peninsular (+33.1%yoy) areas. We believe the Malaysian PO stockpiles to continue recover to pre-pandemic level on improved estates activities.

CPO prices to trend higher. In February, the local CPO delivery price ended marginally higher at RM4,150.00/t, but averaged monthly lower at RM3,908.00/t (-0.4%mom; **-34.0%yoy**) on better than expected output numbers. Currently the discount parity between Malaysian and Indonesian CPO prices is USD87.88/Mt, with a three-year average of USD210.7/Mt. Aside note, we expect that average local CPO delivery prices would climb by +13% to RM4,400/Mt (following distortion on Indonesia's PO) level from March to 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 lifting its export restriction in order to reduce glutting stockpiles.

COMPANY IN FOCUS

Sime Darby Plantation

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

Price @ 10th Mar 2023: RM4.33

- One of the key drivers we believe is that it is the largest planter in the sector with total landbank o 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 o KLK at 4.0/ha, which we believe is still impressive given it manages a large planted area

Share price chart



IOI Corp

Maintain BUY | Revised target price: **RM5.40**

Price @ 10th Mar 2023: RM3.80

- The RBM performance remained sturdy, with underlying profit of RM281.7m, an increase o >100% as opposed RM98.3m prior year.
- We expect its RBM business will continue to operate as a safety net against any possible downside risk from plantation segment, hence minimizing earnings instability.

Share price chart



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Maintain NEUTRAL. 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 **IOI Corp (TP: RM5.40).** A key downside risk for CPO price remains: 1) fragile demand outlook on the back inflationary pressure coupled with tight household spending on high base interest rate locally and globally 2) narrowed price discount parity between CPO against SBO averaged which has now averaged at USD298.4Mt (-7.9%mom), with a three-year average of USD254.3/Mt.

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

	Feb-23	Jan-22	Feb-22	YoY %	MoM %	2M23	2MY22	YTD %
Opening Stocks	2,268.2	2,196.6	1,552.5	46.1%	3.3%	2,196.6	1,614.6	36.0%
Production	1,251.3	1,380.4	1,137.5	10.0%	-9.4%	2,631.7	2,391.0	10.1%
Imports	52.4	144.9	149.8	-65.0%	-63.8%	197.4	220.4	-10.5%
Total Supply	3,572.0	3,721.9	2,839.8	25.8%	-4.0%	5,025.7	4,226.1	18.9%
Exports	1,114.3	1,135.5	1,111.5	0.3%	-1.9%	2,249.8	2,267.3	-0.8%
Dom Disapp	338.1	318.2	208.9	61.9%	6.2%	656.3	439.3	49.4%
Total Demand	1,452.4	1,453.7	1,320.4	10.0%	-0.1%	2,906.2	2,706.7	7.4%
End Stocks	2,119.5	2,268.2	1,519.4	39.5%	-6.6%	2,119.5	1,519.4	39.5%
Stock/Usage Ratio	12.2%	13.0%	9.6%			6.1%	4.7%	

Source: MPOB, MIDFR

Monthly Cooking Oil Price Review ~ Jan 2023

Cooking Oil. The RBD palm Olein started the year much lower in January at RM4,381.00/t, with a monthly average of RM4,196.50/t (-24.4%yoy). As compared to the pre-pandemic level of an average price of RM172.88/t, the premium parity between CPO and RBD Palm Olein prices remained high at RM274.50/t. Consequently, the price of 5 kg of cooking oil in January-23 was RM31.05 (-0.3%mom, **+5.4%yoy**, +5.4%Ytd), which was still higher than the year before. Additionally, rises in RBD palm oil prices often result in increases in cooking oil prices one to two months later owing to the clearing of old inventories activities. Hence, we anticipate that Malaysia's average cooking oil prices will gradually rise in line with the trend of higher CPO prices in the 1HCY23.

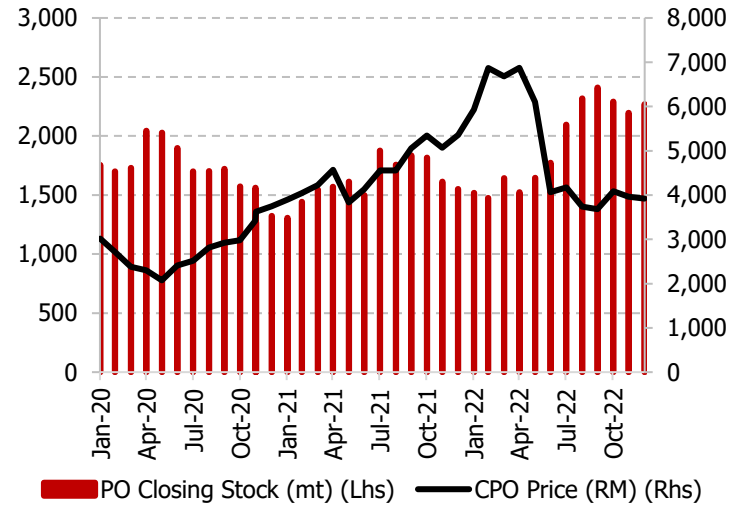
Inflationary pressure eased. Based on relatively unchanged of January average 5kg cooking oil price, food inflation rates during the month moderated to +6.7%yoy. Both Food at Home (FAH) and Food at Home: Oils & Fats (FAHOF) inflation averaged +5.1%yoy (Dec: +4.9%yoy) and +0.7%yoy (Dec: +1.0%yoy) respectively. Meanwhile, Food away from Home (FAFH) numbers decelerated to +9.3%yoy (Dec: +9.6%yoy), which was 4-month low due lag impact of cooking oil prices moderation. 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

	Jan-23	Dec-22	Jan-22	YoY%	MoM %	1M23	1M22	Ytd %
Avg CPO Price (RM/t)	3,922.00	3,960.50	5,354.50	-26.8	-1.0	3,922.0	5,354.5	-26.8
Avg RBD Palm Olein (RM/t)	4,196.50	4,232.50	5,549.00	-24.4	-0.9	4,196.5	5,549.0	-24.4
Premium/Discount to CPO (RM/t)	274.5	272.0	194.5	41.1	0.9	274.5	194.5	41.1
Avg 5kg Cooking Oil Prices (RM/bottle)	31.05	31.13	29.5	5.4	-0.3	31.1	29.5	5.4

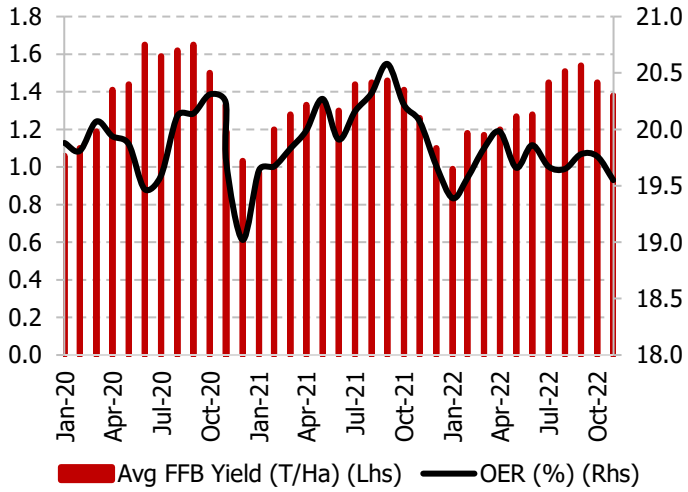
Source: MPOB, MIDFR

Chart 1: PO Closing stocks VS CPO Price



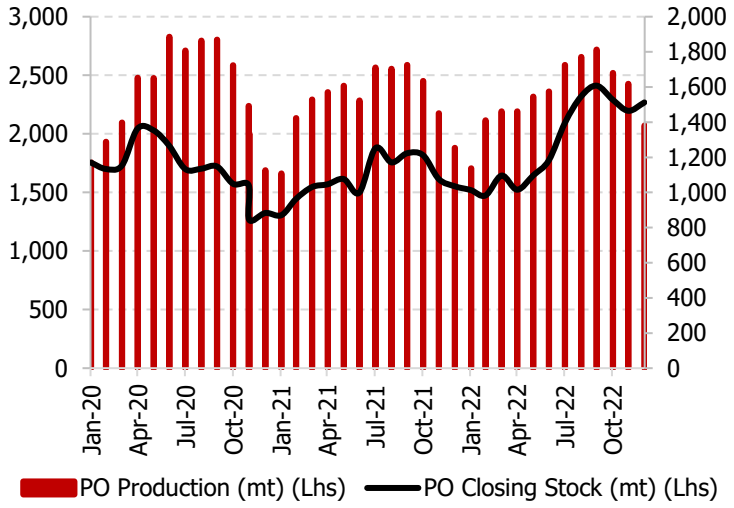
Source: MPOB, MIDFR

Chart 2: Average FFB Yield VS OER



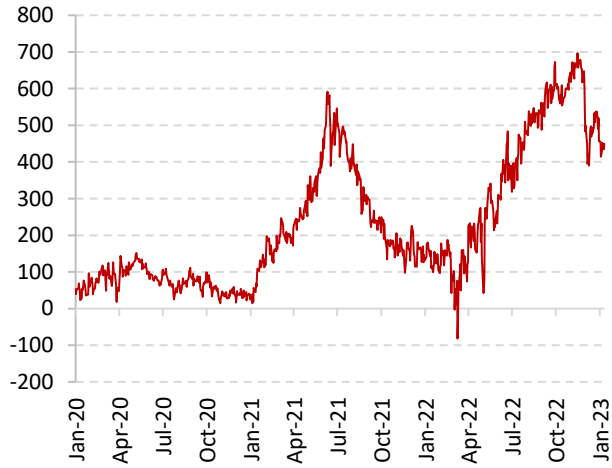
Source: MPOB, MIDFR

Chart 3: Malaysia PO Production VS Closing Stocks



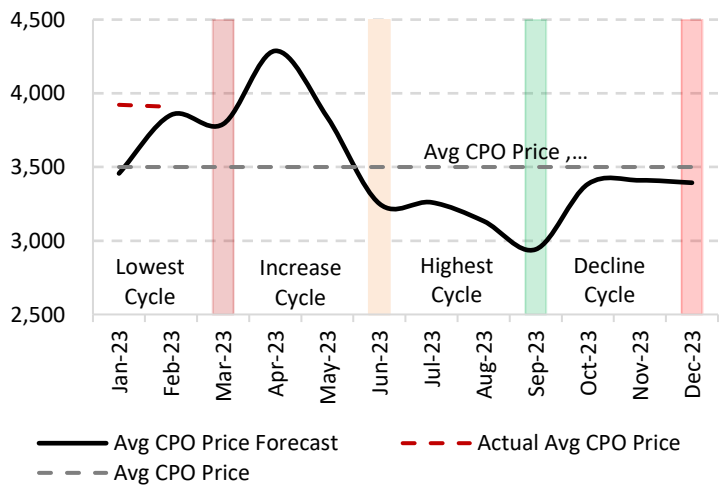
Source: MPOB, MIDFR

Chart 2: SBO-CPO Price Discount parity



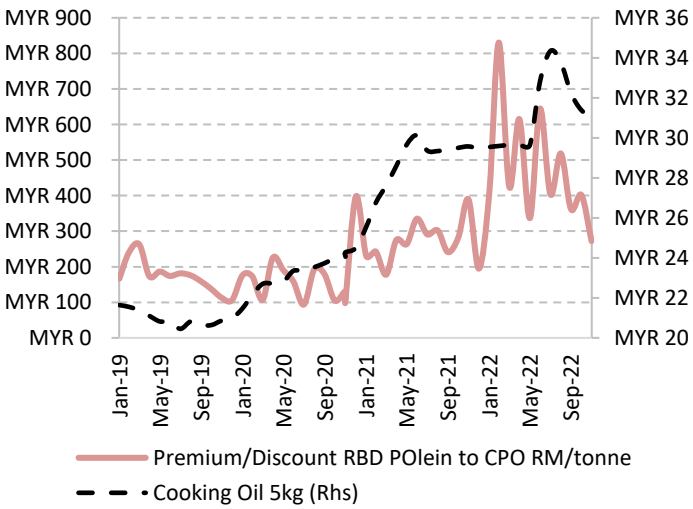
Source: MPOB, MIDFR

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	2.17	2.60	41.3	28.8	5.3	7.5	20.0	15.0	9.2	6.9
Sime Darby Plantation	BUY	4.25	5.50	36.9	32.9	11.5	12.9	16.0	15.0	3.8	3.5
Kuala Lumpur Kepong	BUY	20.70	26.00	209.6	141.1	9.9	14.7	100.0	70.0	4.8	3.4
IOI Corporation	BUY	3.80	5.40	31.0	22.2	12.3	17.1	14.0	12.0	3.7	3.2
PPB Group	BUY	16.50	24.10	173.0	178.5	9.5	9.2	37.0	40.0	2.2	2.4
Genting Plantation	NEUTRAL	5.96	6.16	55.5	47.4	10.7	12.6	34.0	27.0	5.7	4.5
Ta Ann Holdings	NEUTRAL	3.26	3.27	72.2	36.1	4.5	9.0	40.0	25.0	12.3	7.7
TSH Resources	NEUTRAL	1.07	1.01	14.3	10.1	7.5	10.6	3.0	3.0	2.8	2.8
FGV Holdings	NEUTRAL	1.50	1.38	35.8	17.2	4.2	8.7	8.0	5.0	5.3	3.3

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