Sector Update | Tuesday, April 11 2023

PLANTATION

***Maintain* NEUTRAL**

Export gained momentum

KEY INVESTMENT HIGHLIGHTS

- **Production in line with the season's worst months**
- **Robust demand ahead of Raya festival**
- **Inventory level remained high**
- **Maintain NEUTRAL stance on the sector with CPO target price of RM3,500/mt**

Production slower. Malaysia's CPO output decreased at the end of the 1QCY23 to 1.29m tonne (+2.8%mom; **-8.7%**yoy), but it has been strong on year-to-date basis at 3.80m tonne (+3.9%Ytd). With the exception of Sabah (+13.0%yoy), which had superior FFB yield performance of 1.29 tonne/ha (+13.0%yoy), most of the states recorded decreased production in line with the season's worst months. Following reduced production, FFB yield decreased on average by -7.0%yoy to 1.09 tonne/ha, but OER remained mostly similar at 19.59% due to mills operating during low cycle months. Performance was, however, largely consistent on an improving foreign worker influx (which is currently 80% resolved). Since the palm tree pollination cycle is now at a tail end and there won't be as many wet days ahead, we anticipate the performance to keep getting better.

Robust demand ahead of Raya festival. Palm oil (PO) export increased significantly in March to 1.49m tonne (+31.8%mom; **+16.0%yoy**; +17.0%Ytd) due to Ramadan and the Eid al-Fitr festival. The demand was supported by selected Middle-East nations that have some weight (based on CY22 total trade), such as Turkiye (5.2%), Pakistan (3.6%), Saudi Arabia (3.4%), Egypt (2.3%), and Iran (3.1%) from mid-March to mid-May.

Inventory level remained high. Closing stockpiles in March-23 ballooned to 1.67m tonne (**+13.5%yoy)** however year-to-date basis decelerated by -37.9%Ytd on improving demand. Both stocks, CPO and PKO are up +17.0%yoy and +14.0%yoy respectively, fuelled by robust contribution from Sabah (+61.0%yoy) and Sarawak (+11.0%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 March, the local CPO delivery price ended rather unchanged at RM4,151.00/t, but averaged monthly lower at RM4,159.50/tonne (+6.4%mom; **-39.4%yoy**) on better-than-expected output numbers. Aside note, we forecast that average local CPO delivery prices would inch by +3% to RM4,288/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 Apr 2023: RM4.31

- 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



IOI Corp

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

Price @ 10th Apr 2023: RM3.80

- The RBM performance remained sturdy, with underlying profit of RM281.7m, an increase c. >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 USD109.7Mt (-60.5%mom), with a three-year average of USD254.3/Mt.

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

	Mar-22	Feb-23	Mar-23	MoM %	YoY %	3M22	3M23	YTD %
Opening Stocks	2.12	2.27	2.12	-6.5%	0.0%	2.20	1.61	-26.5%
Production	1.41	1.25	1.29	2.8%	-8.7%	3.66	3.80	3.9%
Imports	0.08	0.05	0.04	-24.2%	-53.1%	0.39	0.31	-21.7%
Total Supply	3.62	3.57	3.45	-3.5%	-4.6%	6.2	5.7	-8.4%
Exports	1.28	1.13	1.49	31.8%	16.0%	3.03	3.55	17.01%
Dom Disapp	0.26	0.33	0.29	-11.6%	11.2%	0.84	0.70	-16.5%
Total Demand	1.54	1.45	1.77	22.0%	15.2%	3.87	4.25	9.8%
End Stocks	1.47	2.12	1.67	-21.1%	13.5%	2.37	1.47	-37.9%
Stock/Usage Ratio	8.0%	12.1%	7.9%	Nm	Nm	5.1%	2.9%	Nm

Source: MPOB, MIDFR

Monthly Cooking Oil Price Review ~ Feb 2023

Cooking Oil. The RBD palm Olein continued increased in February to RM4,360.00/tonne, with a monthly average of RM4,141.00/tonne (-1.3%mom, **-34.7%yoy**). Since the premium parity between CPO and RBD Palm Olein price still sticky at RM233.00/tonne, consequently, the nation's average price of 5 kg cooking oil in Feb-23 also high at RM31.92 (-0.4%mom, **+4.7%yoy**, +4.8%Ytd), which was still higher than the year before. The rise in CPO prices (80% input cost for cooking oil) 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.

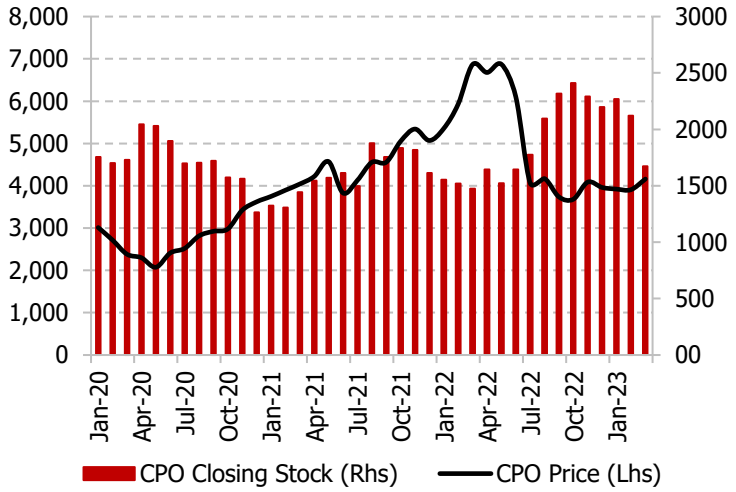
Inflationary pressure eased. Based on Feb average 5kg cooking oil price performance, food inflation rates during the month averaged to +7.0%yoy. Both Food at Home (FAH) and Food at Home: Oils & Fats (FAHOF) inflation averaged **+5.8%yoy** (Jan: +5.1%yoy, Dec: +4.9%yoy) and **+0.6%yoy** (Jan: +0.7%yoy, Dec: +1.0%yoy) respectively. Meanwhile, Food away from Home (FAFH) numbers slowed to **+8.9%yoy** (Jan: +9.3%yoy, Dec: +9.6%yoy), which was 4-month low due lag impact of cooking oil prices moderation on monthly basis. We reaffirm, supply-push (production of PO) 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

	Feb-22	Jan-23	Feb-23	MoM%	YoY %	2M22	2M23	Ytd %
Avg CPO Price (RM/t)	5,930.50	3,922.00	3,908.00	-0.4	-34.1	5,642.5	3,915.0	44.1
Avg RBD Palm Olein (RM/t)	6,340.50	4,196.50	4,141.00	-1.3	-34.7	5,944.8	4,168.8	42.6
Premium/Discount to CPO (RM/t)	410	274.5	233	-15.1	-43.2	302.3	253.8	19.1
Avg 5kg Cooking Oil Prices (RM/bottle)	29.54	31.05	30.9	-0.4	4.7	29.5	31.0	-4.8

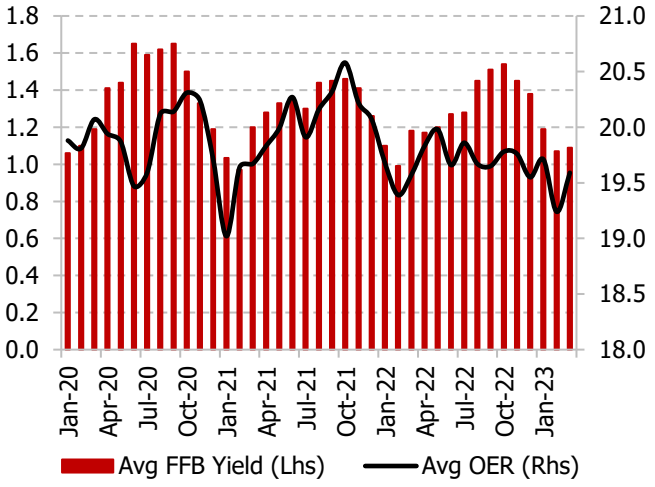
Source: MPOB, MIDFR

Chart 1: PO Closing stocks VS CPO Price



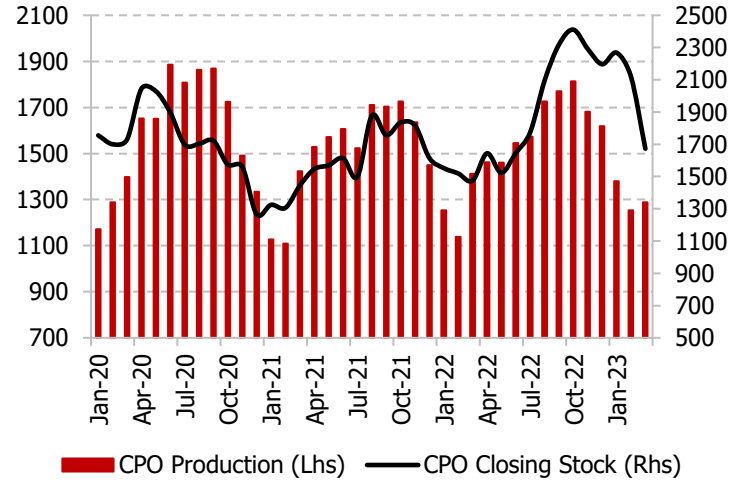
Source: MPOB, MIDFR

Chart 2: Average FFB Yield VS OER



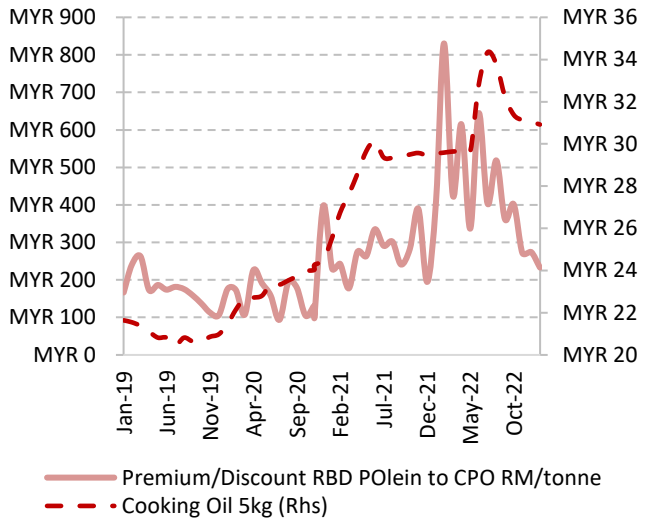
Source: MPOB, MIDFR

Chart 3: Malaysia PO Production VS Closing Stocks



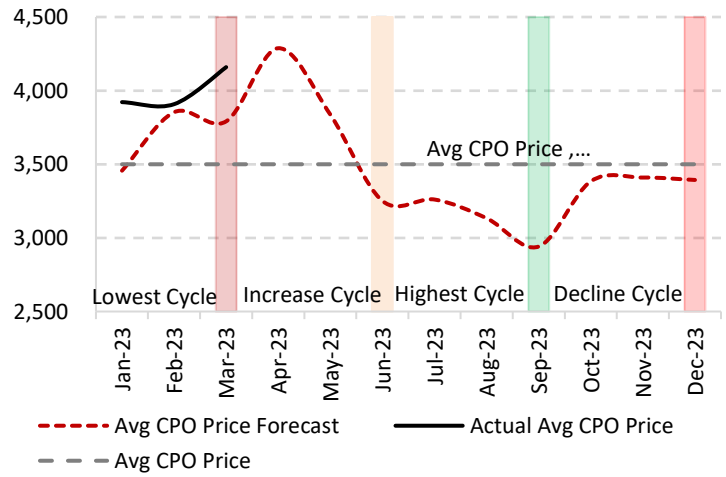
Source: MPOB, MIDFR

Chart 3: Cooking Oil Price Monthly Performance



Source: MIDFR

Chart 4: CY23 CPO Price Forecast VS Actual



** Production Cycle*

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-Apr-23		FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
Sarawak Plantation	BUY	2.18	2.60	41.3	28.8	5.3	7.6	20.0	15.0	9.2	6.9
Sime Darby Plantation	BUY	4.31	5.50	36.9	32.9	11.7	13.1	16.0	15.0	3.7	3.5
Kuala Lumpur Kepong	BUY	21.46	26.00	209.6	141.1	10.2	15.2	100.0	70.0	4.7	3.3
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	16.62	24.10	173.0	178.5	9.6	9.3	37.0	40.0	2.2	2.4
Genting Plantation	NEUTRAL	6.00	6.16	55.5	47.4	10.8	12.7	34.0	27.0	5.7	4.5
Ta Ann Holdings	NEUTRAL	3.20	3.27	72.2	36.1	4.4	8.9	40.0	25.0	12.5	7.8
TSH Resources	NEUTRAL	1.04	1.01	14.3	10.1	7.3	10.3	3.0	3.0	2.9	2.9
FGV Holdings	NEUTRAL	1.47	1.38	35.8	17.2	4.1	8.5	8.0	5.0	5.4	3.4

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