Sector Update | Thursday, 11 May 2023

PLANTATION

***Maintain* NEUTRAL**

Exports were muted

KEY INVESTMENT HIGHLIGHTS

- **Production in line with the season's worst months**
- **Slower demand despite Eid-al-Fitr celebrations**
- **Inventory level down by -8.9%yoy**
- **Maintain NEUTRAL stance on the sector with CPO target price of RM3,500/mt**

Production slower. Malaysia's CPO output decreased to 1.20m tonne (-7.1% mom; -18.2%yoy), but it has remained steady year to date at 5.12m tonne (-2.8%ytd). The nation's average FFB yield fell by -14.5%yoy to 1.00 tonne/ha as a result of slower production levels in the majority of the states during the worst seasonal months, although OER remained moderate at 20.03% due to better evacuation actions during dry months. However, performance was significantly hindered by fewer manuring activities completed previous year (on combination of labour shortage and lower round of fertiliser implication) exacerbated by unfavourable weather impacts (El-Nino) 2-years in a row.

Demand relatively unchanged. Despite Eid-al-Fitr celebrations, Palm oil (PO) exports were muted in April to 1.07 tonne (-27.8%mom; +0.6%yoy; +4.5%ytd) following tight household spending pattern on on the back of higher interest rates globally. Nonetheless, demand remained 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%).

Inventory level remained high. Closing stockpiles in Apr-23 reduced to 1.50m tonne (-8.9%yoy) in tandem with slower CPO supply. Both stocks, CPO and Processed PO are down -7.7%yoy and -10.4%yoy respectively, dragged by weaker contribution from Peninsular (-29.2%yoy) and Sarawak (-0.9%yoy) areas. We believe the Malaysian PO stockpiles to continue recover to pre-pandemic level thanks to the improved estates activities since labour shortage has now 80% resolved.

CPO prices to trend lower. In Apr, the local CPO delivery price was essentially stable at RM4,200.00/tonne, but averaged monthly higher at RM4,217.50/tonne (+1.4%mom; -36.8%yoy) on distortion on Indonesia's PO supplies. In addition, we forecast that average local CPO delivery prices would close lower by -9.0% mom to RM3,837/tonne in May, or decline by -5.1%qoq to RM3,769/tonne in 2QCY23 as a result of the Indonesia government's decision lifting its export restriction in mid-May (2022: 23 May) in order to reduce glutting stockpiles.

COMPANY IN FOCUS

Sime Darby Plantation

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

Price @ 11th May 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



IOI Corp

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

Price @ 11th May 2023: RM3.81

- 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 USD24.7Mt (-82.5%mom).

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

	Apr-22	Mar-23	Apr-23	MoM %	YoY %	4M22	4M23	YTD %
Opening Stocks	1.47	2.12	1.67	-21.0	13.5	1.61	2.20	36.0
Production	1.46	1.29	1.20	-7.1	-18.2	5.26	5.12	-2.8
Imports	0.08	0.04	0.03	-15.3	-55.9	0.38	0.27	-29.0
Total Supply	3.01	3.45	2.90	-15.8	-3.6	7.3	7.6	4.5
Exports	1.07	1.49	1.07	-27.8	0.6	4.62	4.83	4.53
Dom Disapp	0.30	0.29	0.33	16.1	10.5	1.00	1.26	26.3
Total Demand	1.37	1.77	1.41	-20.7	2.8	5.62	6.09	8.4
End Stocks	1.64	1.67	1.50	-10.5	-8.9	1.64	1.50	-8.9
Stock/Usage Ratio	10.0%	7.9%	8.9%	Nm	Nm	2.4%	2.0%	Nm

Source: MPOB, MIDFR

Monthly Cooking Oil Price Review ~ Mar 2023

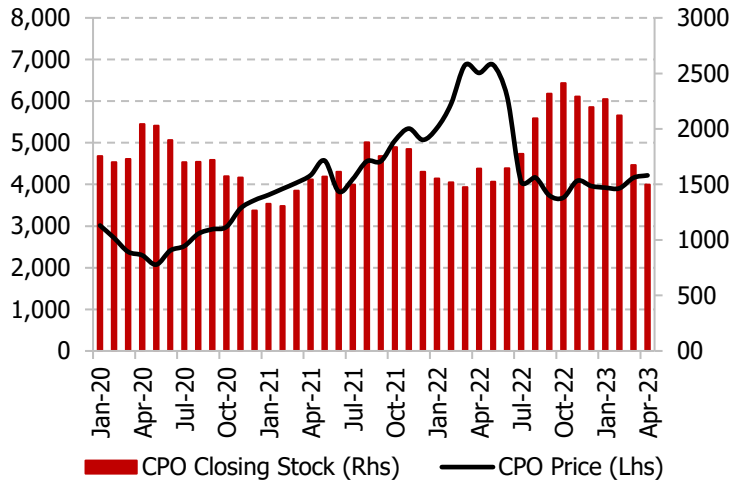
Cooking Oil. The RBD palm Olein continued declined in March to RM4,530.00/tonne, with a monthly average of RM4,535.00/tonne (-1.9% mom, -36.2%yoy). Since the premium parity between CPO and RBD Palm Olein price still sticky at RM290.50/tonne, consequently, the nation's average price of 5 kg cooking oil in Mar-23 also high at RM30.78 (-0.5%mom, +4.0%yoy, +4.7%ytd), which was still higher than the year before. The rises 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 fell in line with the trend of lower CPO price projected in the 2QCY23.

Cooking Oil Statistics

	Mar-22	Feb-23	Mar-23	MoM%	YoY %	3M22	3M23	Ytd %
Avg CPO Price (RM/t)	6,867.00	3,908.00	4,159.50	6.4	-39.4	6,050.7	3,996.5	51.4
Avg RBD Palm Olein (RM/t)	7,697.50	4,141.00	4,450.00	7.5	-42.2	6,529.0	4,262.5	53.2
Premium/Discount to CPO (RM/t)	830.5	233	290.5	24.7	-65.0	478.3	266.0	79.8
Avg 5kg Cooking Oil Prices (RM/bottle)	29.59	30.92	30.8	-0.5	4.0	29.5	30.9	-4.5

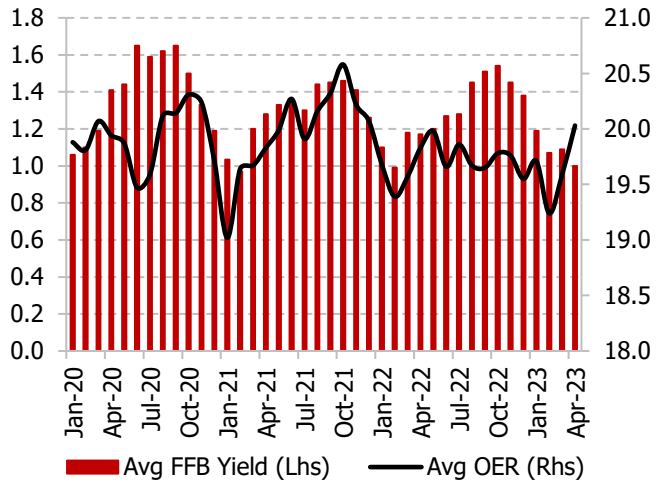
Source: MPOB, MIDFR

Chart 1: PO Closing stocks VS CPO Price



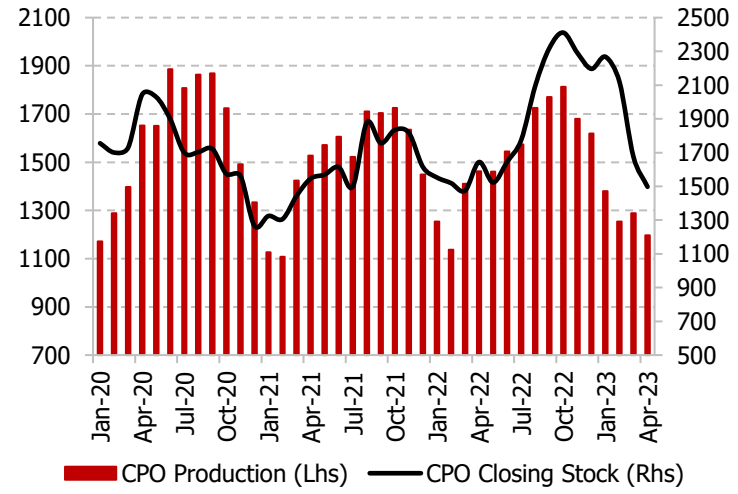
Source: MPOB, MIDFR

Chart 2: Average FFB Yield VS OER



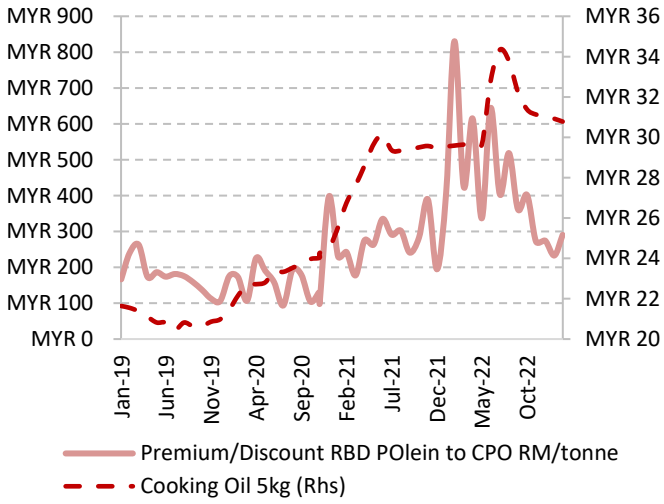
Source: MPOB, MIDFR

Chart 3: Malaysia PO Production VS Closing Stocks



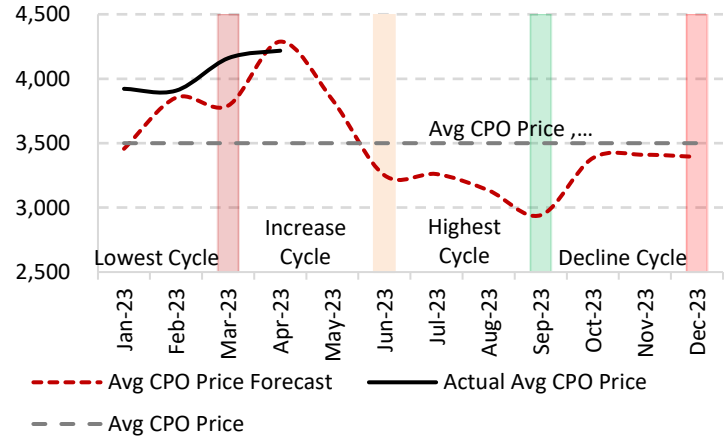
Source: MPOB, MIDFR

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		11-May-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	4.37	5.50	36.9	32.9	11.8	13.3	16.0	15.0	3.7	3.4
Kuala Lumpur Kepong	BUY	21.72	26.00	209.6	141.1	10.4	15.4	100.0	70.0	4.6	3.2
IOI Corporation	BUY	3.81	5.40	31.0	22.2	12.3	17.2	14.0	12.0	3.7	3.1
PPB Group	BUY	16.54	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	3.33	3.27	72.2	36.1	4.6	9.2	40.0	25.0	12.0	7.5
TSH Resources	NEUTRAL	1.01	1.01	14.3	10.1	7.1	10.0	3.0	3.0	3.0	3.0
FGV Holdings	NEUTRAL	1.46	1.38	35.8	17.2	4.1	8.5	8.0	5.0	5.5	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