

# PLANTATION

Still on the recovery mode

**Maintain NEUTRAL**

## KEY INVESTMENT HIGHLIGHTS

- **Production was slower inline on dry spell effects**
- **Slower demand due higher closing stocks from major importing countries**
- **Inventory level remained high +4.5% yoy**
- **Maintain NEUTRAL stance on the sector with CPO target price of RM3,500/mt**

**Slower production in June.** Malaysia's CPO output declined to 1.5m tonne (-4.6%mom, **-6.3%oyoy**), but it has remained steady on year-to-date basis at 8.1m tonne (-2.3%ytd). The nation's average FFB yield fell by -4.7%yoy to 1.2 tonne/ha inline with slower production levels in the Peninsular states which roughly down by -15.8%yoy, although OER remained relatively unchanged at 19.83% due to better evacuation activities during dry months. Overall, performance was deliberately hindered by low manuring activities completed prior year (on combination of labour shortage and lower round of fertiliser implication) exacerbated by unfavourable weather impacts (El-Nino) 2-years in a row.

**Inconsequential demand.** Post Eid-al-Fitr celebrations, Palm oil (PO) exports saw inconsequential demand in June to 1.2 tonne (+8.6%mom, **-1.9%oyoy**, -1.3%ytd) following tight household spending pattern on high base interest rates globally. Furthermore, year-to-date PO closing stocks in major importing countries are still on the high side, such as India (+76.6%ytd), China (+100%ytd), Pakistan (+69.8%ytd) and Bangladesh (+100%ytd). Hence, we anticipate demand would be sluggish in 2HCY23 ahead.

**Inventory level remained high.** Closing stockpiles in June-23 was higher at 1.7m tonne (+1.9%mom, **+4.5%oyoy**) in tandem with steady CPO supply condition. Both stocks, CPO and Processed PO were up +4.0%yoy and +4.5%yoy respectively, due to eastern contribution eg. Sabah (+25.1%yoy) and Sarawak (+54.2%yoy) areas. We believe the Malaysian PO stockpiles to continue recovering to pre-pandemic level thanks to the improved estates activities since labour shortage has now been 80% resolved.

**CPO prices to trend lower.** In June, the local CPO delivery price jumped to RM3,730.0/tonne, but still averaged monthly lower at RM3,525.0/tonne (-7.1%mom, **-42.3%oyoy**) following the decrease of other vegetable oil's prices trend. We actually estimate June's price to fall by -14.3% or at RM3,251/tonne level, but it appears that dry spell environments have cushioned the blow. Moving onwards, we forecast that average local CPO delivery prices would close lower by -7.5%mom to RM3,260/tonne in July, or decline by -19.1%qoq to RM3,112/tonne in 3QCY23 as a result of the peak crop seasonality amidst sluggish demand on no festival ahead.

## COMPANY IN FOCUS

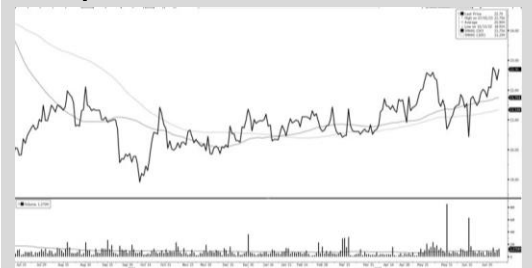
### Kuala Lumpur Kepong

**Maintain BUY** | Unchanged target price: **RM26.00**

Price @ 11<sup>th</sup> June 2023: RM22.70

- We like KLK for its efficiency as it the most efficient planter with highest oil yield of 4.7/ha. It also has the highest FFB yield/mature of 21.4/ha among peers.
- In addition, post IJM acquisition has increased its total landbank in Malaysia and Indonesia by 73,827 ha to 279,037 ha, around 66,503 (24%) young mature coming into maturity ahead.

## Share price chart




**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 **KLK (TP: RM26.00)**. 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 at USD190.2Mt (+100%mom).

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

	Jun-22	May-23	Jun-23	MoM%	YoY%	6MCY22	6MCY23	YTD%
Opening Stocks	1.52	1.50	1.69	12.8	10.8	1.61	2.20	36.0
Production	1.55	1.52	1.45	-4.6	-6.3	8.27	8.08	-2.3
Imports	0.06	0.08	0.14	67.2	128.5	0.49	0.50	1.0
Total Supply	3.13	3.10	3.27	5.7	4.6	10.4	10.8	3.8
Exports	1.19	1.08	1.17	8.6	-1.9	7.18	7.09	-1.3
Dom Disapp	0.29	0.33	0.38	15.4	31.6	1.55	1.97	26.9
Total Demand	1.48	1.41	1.55	10.2	4.6	8.73	9.05	3.7
End Stocks	1.65	1.69	1.72	1.9	4.5	1.65	1.72	4.5
Stock/Usage Ratio	9.3%	10.0%	9.2%	Nm	Nm	1.6%	1.6%	Nm

Source: MPOB, MIDFR

### Monthly Cooking Oil Price Review ~ May 2023

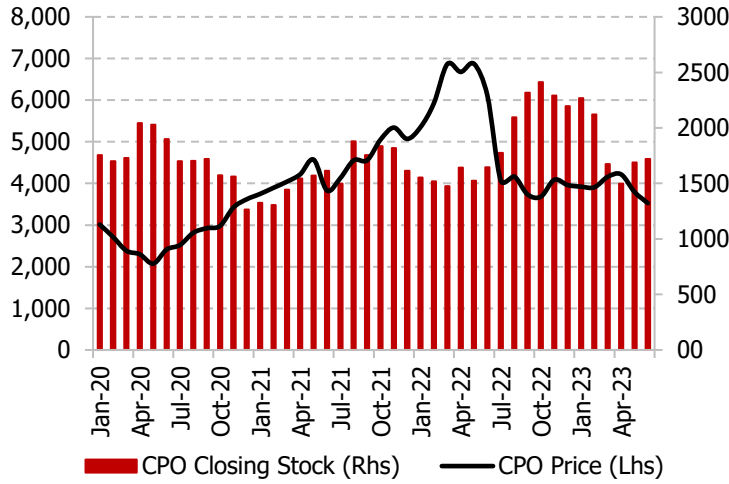
**Cooking Oil.** The RBD palm Olein continued declined in May to RM3,715.0/tonne, with a monthly average of RM4,535.00/tonne (-5.8%mom, **-43.0% yoy**). Since the premium parity between CPO and RBD Palm Olein price still sticky at RM487.0/tonne, consequently, the nation's average price of 5 kg cooking oil in May-23 also high at RM30.60 (+0.6% mom, **+3.3%yoy**, +4.0%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 3QCY23. 

### Cooking Oil Statistics

	May-22	Apr-23	May-23	MoM%	YoY%	5CYM22	5CYM23	YTD%
<b>Avg CPO Price (RM/t)</b>	6,873.00	4,217.50	3,784.00	-10.3	-44.9	6,340.6	3,998.2	-36.9
<b>Avg RBD Palm Olein (RM/t)</b>	7,488.00	4,535.00	4,271.00	-5.8	-43.0	6,835.6	4,318.7	-36.8
<b>Premium/Discount to CPO (RM/t)</b>	615	317.5	487	53.4	-20.8	495.0	320.5	-35.3
<b>Avg 5kg Cooking Oil Prices (RM/bottle)</b>	29.65	30.5	30.6	0.6	3.3	29.6	30.8	4.0

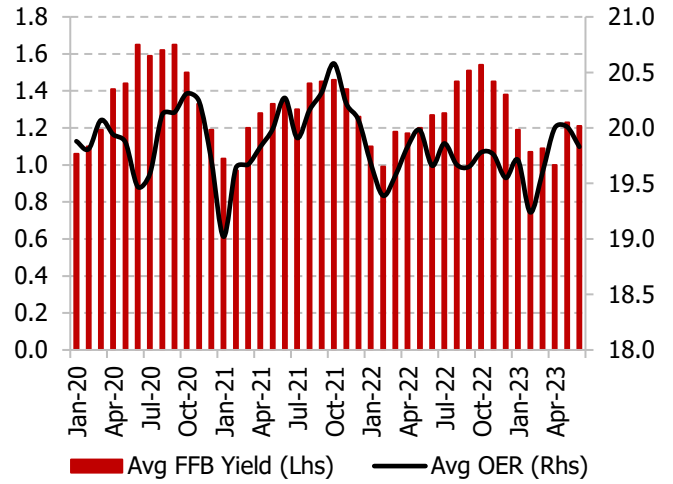
Source: MPOB, MIDFR

**Chart 1: PO Closing stocks VS CPO Price**



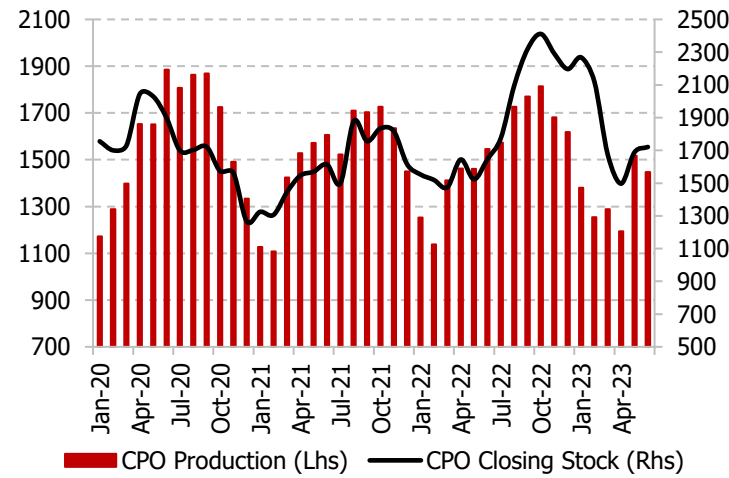
Source: MPOB, MIDFR

**Chart 2: Average FFB Yield VS OER**



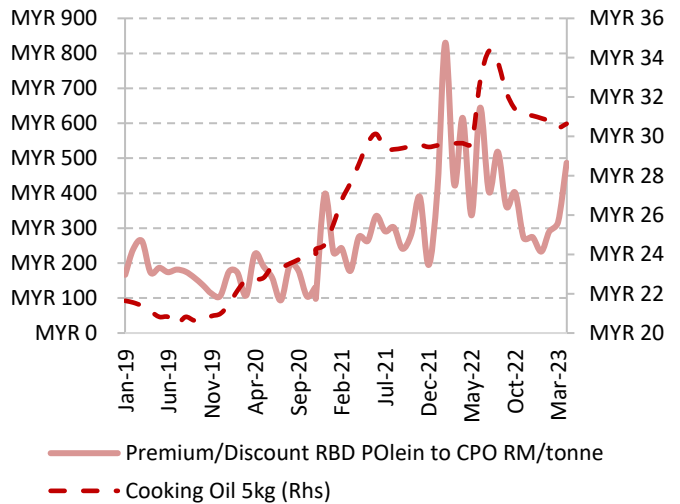
Source: MPOB, MIDFR

**Chart 3: Malaysia PO Production VS Closing Stocks**



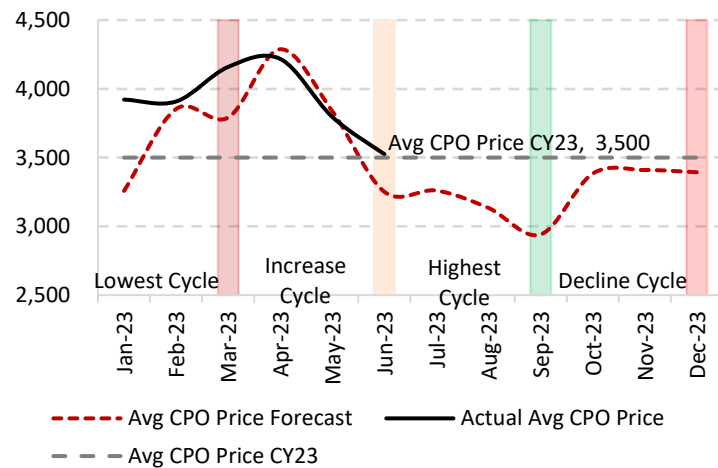
Source: MPOB, MIDFR

**Chart 4: Cooking Oil Price Monthly Performance**



Source: MIDFR

**Chart 5: 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 (%)	
		11-Jun-23		FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
Kuala Lumpur Kepong	BUY	22.70	26.00	141.1	81.6	16.1	27.8	70.0	50.0	3.1	2.2
IOI Corporation	BUY	3.77	4.89	16.0	14.8	23.6	25.5	12.0	10.5	3.2	2.8
PPB Group	BUY	15.90	19.00	114.9	98.8	13.8	16.1	40.0	40.0	2.5	2.5
Sarawak Plantation	NEUTRAL	2.07	2.20	27.2	23.9	7.6	8.7	2.0	1.0	1.0	0.5
Sime Darby Plantation	NEUTRAL	4.33	4.10	13.7	16.4	31.6	26.4	7.5	10.0	1.7	2.3
Genting Plantation	NEUTRAL	5.71	6.16	34.1	32.7	16.7	17.5	27.0	25.0	4.7	4.4
Ta Ann Holdings	NEUTRAL	3.37	3.27	36.3	29.0	9.3	11.6	15.0	15.0	4.5	4.5
TSH Resources	NEUTRAL	0.93	1.01	9.2	7.9	10.1	11.7	1.5	2.0	1.6	2.2
FGV Holdings	NEUTRAL	1.38	1.38	17.2	15.0	8.0	9.2	5.0	3.0	3.6	2.2

Source: MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).  
 (Bank Pelaburan)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

### 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 <i>rise</i> 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 <i>fall</i> 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