

PLANTATION

Maintain NEUTRAL

Production accelerated

KEY INVESTMENT HIGHLIGHTS

- **Production was better banking on Sabah and Sarawak performance**
- **Better demand due panic restocking activities from major importing countries**
- **Inventory level remained stable at 1.7m tonne**
- **Maintain NEUTRAL stance on the sector with CPO target price of RM3,500/mt**

Stronger production in July. Jumping into 2HCY23, Malaysia's CPO output surged to 1.6m tonne (+11.2%mom, +2.3%yoy) in July, and remained steady on year-to-date basis at 9.7m tonne (-1.5%ytd). The nation's average FFB yield rose by +7.0%yoy to 1.4 tonne/ha in tandem with improved production levels in the east states which had grew by +12.7%yoy, despite OER was relatively lower at 19.5% due to slowed harvesting activities during uneven weather months. Overall, performance was well supported by Sabah and Sarawak output (which accounts 46% of total nation's production), since the states are less impacted by Southwest monsoon which begun in May to September.

Better demand. Palm oil (PO) exports inched higher to 1.4m tonne (+15.5%mom, +2.5%yoy, -0.7%ytd) during the month over concerns Russia-Ukraine conflict development. Overall, CPO, PKO, PKC, Oleochemical and Biodiesel demand increased by +15.6%, +20.1%, +46.1%, +2.0% and +30.0% respectively following panic restocking activities by the refiners given uncertainty supplies from the Black Sea, benefitting from wider spread against SBO of USD257.2/Mt.

Inventory level remained high. Closing stockpiles in July-23 down at 1.7m tonne (+0.7%mom, -2.4%yoy, +14.1%ytd) in tandem with steady CPO supply condition. Both stocks, CPO and Processed PO were down -2.5%yoy and -2.3%yoy respectively, due to lower contribution from Peninsular (-20.2%yoy) whilst Sabah (+32.5%yoy) and Sarawak (-1.0%yoy) areas remained steady. 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 July, the local CPO delivery price ended at RM3,802.0/tonne with averaged monthly higher of RM3,897.0/tonne (+10.6%mom, -4.1%yoy) following continuation uptrend of other vegetable oil's prices. We are actually estimate July's price to fall by -7.5% or to RM3,260/tonne level, but it appears that Russia-Ukraine was surprised development have cushioned the blow. Moving onwards, we forecast that average local CPO delivery prices would close lower by -19.6%mom to RM3,134/tonne in August, or decline by -19.1%qoq to RM3,112/tonne in 3QCY23 as a result of the peak crop seasonality amidst normalisation demand on the back of concerns on war subsidising.

COMPANY IN FOCUS

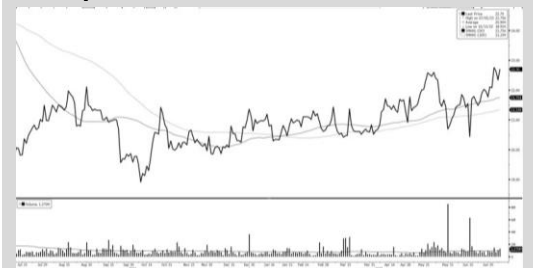
Kuala Lumpur Kepong

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

Price @ 10th Aug 2023: RM23.20

- 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) normalisation of local production and closing stocks 3) high closing stocks in major importing countries and 4) strengthening ringgit against US dollar (less competitive against other vegetable oils).

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

	July-22	Jun-23	July-23	MoM%	YoY%	7MCY22	7MCY23	YTD%
Opening Stocks	1.65	1.69	1.72	1.7%	4.5%	1.61	2.20	36.0%
Production	1.57	1.45	1.61	11.2%	2.3%	9.84	9.69	-1.5%
Imports	0.13	0.14	0.10	-23.2%	-20.5%	0.62	0.60	-3.5%
Total Supply	3.35	3.27	3.43	4.9%	2.5%	12.1	12.5	3.4%
Exports	1.32	1.17	1.35	15.5%	2.5%	8.50	8.44	-0.7%
Dom Disapp	0.25	0.38	0.35	-8.9%	36.9%	1.80	2.32	28.3%
Total Demand	1.58	1.55	1.70	9.5%	8.0%	10.31	10.76	4.4%
End Stocks	1.77	1.72	1.73	0.7%	-2.4%	1.77	1.73	-2.4%
Stock/Usage Ratio	9.4%	9.2%	8.5%	Nm	Nm	1.4%	1.3%	Nm

Source: MPOB, MIDFR

Monthly Cooking Oil Price Review ~ June 2023

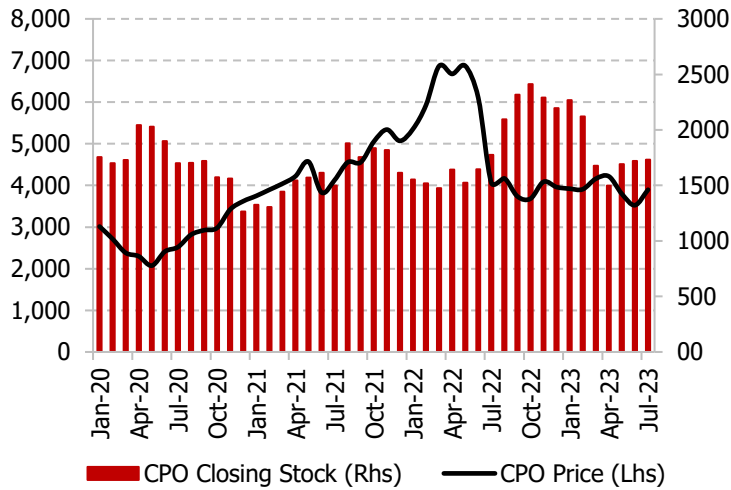
Cooking Oil. The RBD palm Olein continued declined in June to RM3,722.5/tonne, with a monthly average of RM3,722.5/tonne (-12.8%mom, **-42.2% yoy**). Since the premium parity between CPO and RBD Palm Olein price was still sticky at RM487.0/tonne in May, consequently, the nation's average price of 5 kg cooking oil in June-23 remained high at RM30.71 (+0.2% mom, **+3.6%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

	Jun-22	May-23	Jun-23	MoM%	YoY%	6CYM22	6CYM23	YTD%
Avg CPO Price (RM/t)	6,106.00	3,784.00	3,525.00	-6.8	-42.3	6,301.5	3,919.3	-37.8
Avg RBD Palm Olein (RM/t)	6,442.50	4,271.00	3,722.50	-12.8	-42.2	6,770.1	4,219.3	-37.7
Premium/Discount to CPO (RM/t)	336.5	487	197.50	-59.4	-41.3	468.6	300.0	-36.0
Avg 5kg Cooking Oil Prices (RM/bottle)	29.63	30.6	30.7	0.2	3.6	29.6	30.8	4.0

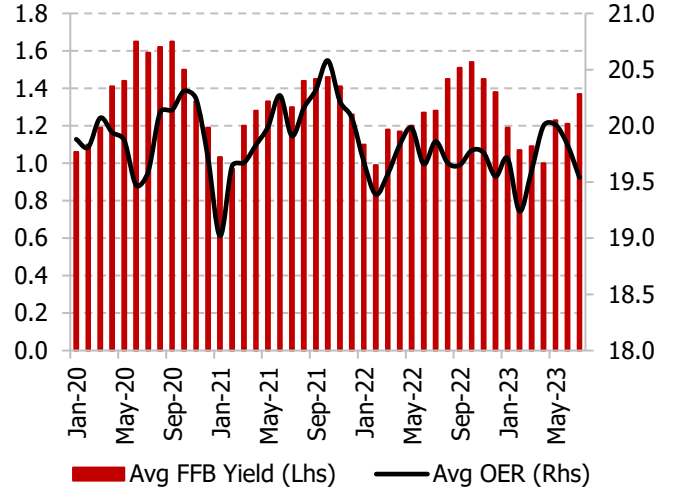
Source: MPOB, MIDFR

Chart 1: PO Closing stocks VS CPO Price



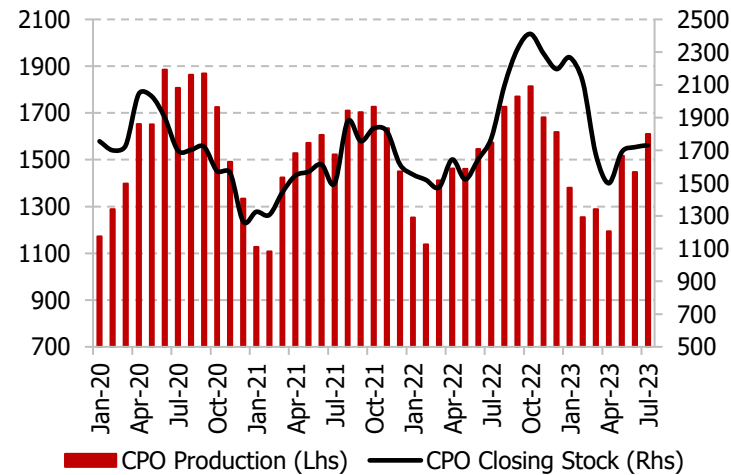
Source: MPOB, MIDFR

Chart 2: Average FFB Yield VS OER



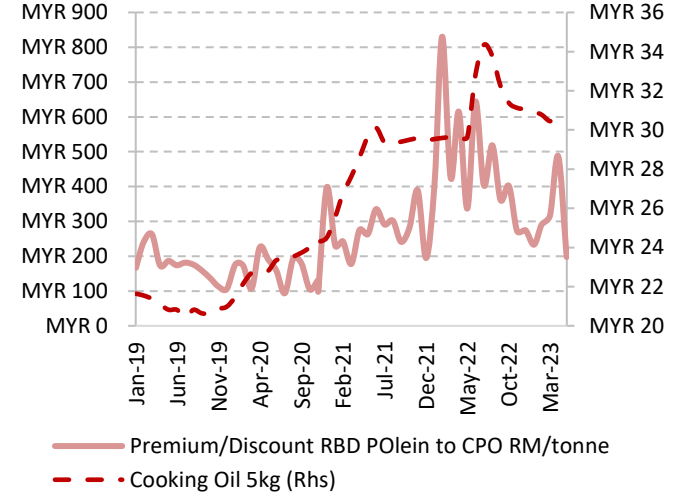
Source: MPOB, MIDFR

Chart 3: Malaysia PO Production VS Closing Stocks



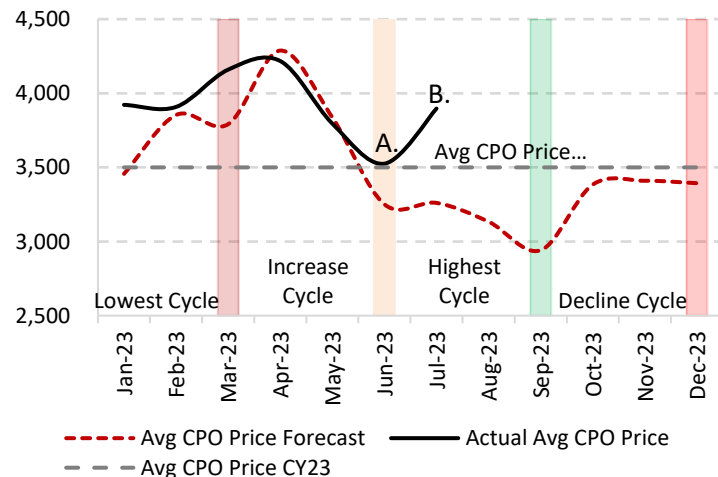
Source: MPOB, MIDFR

Chart 4: Cooking Oil Price Monthly Performance



Source: MIDFR

Chart 5: CY23 CPO Price Forecast VS Actual



- A. CPO price above estimates due on concern drought in US soybean planted area
- B. Renewed Russia-Ukraine war development

* 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-Aug-23		FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
Kuala Lumpur Kepong	BUY	23.18	26.00	141.1	81.6	16.4	28.4	70.0	50.0	3.0	2.2
IOI Corporation	BUY	4.09	4.89	16.0	14.8	25.6	27.6	12.0	10.5	2.9	2.6
PPB Group	BUY	16.80	19.00	114.9	98.8	14.6	17.0	40.0	40.0	2.4	2.4
Sarawak Plantation	NEUTRAL	2.10	2.20	27.2	23.9	7.7	8.8	2.0	1.0	1.0	0.5
Sime Darby Plantation	NEUTRAL	4.50	4.10	13.7	16.4	32.8	27.4	7.5	10.0	1.7	2.2
Genting Plantation	NEUTRAL	5.92	6.16	34.1	32.7	17.4	18.1	27.0	25.0	4.6	4.2
Ta Ann Holdings	NEUTRAL	3.60	3.27	36.3	29.0	9.9	12.4	15.0	15.0	4.2	4.2
TSH Resources	NEUTRAL	1.02	1.01	9.2	7.9	11.1	12.9	1.5	2.0	1.5	2.0
FGV Holdings	NEUTRAL	1.42	1.38	17.2	15.0	8.3	9.5	5.0	3.0	3.5	2.1

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 <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