

PLANTATION

Mixed views on CPO demand and price

KEY INVESTMENT HIGHLIGHTS

- We attended emPOC 2023's Conference
- East Malaysia oil palm performance remain stable
- Mixed views on CPO demand and price
- Maintain NEUTRAL stance on the sector with CPO target price of RM3,500/mt

emPOC 2023. We attended East Malaysia Palm Oil Conference 2023 (emPOC 2023) yesterday, to get on update surrounding the production side in East Malaysia and major edible price outlooks.

Oil Palm industry performance in East Malaysia. On to-date basis, Sabah & Sarawak's planted area marginally improved to 3.1m Ha (+0.2%ytd), while CPO production and FFB yield increased to 4.6m tonne (+7.5%ytd) and 8.20t/ha (+7.2%ytd) attributable on gradual influx of Indonesian labour. PO exports and closing stocks on the hand, remained steadfast with an incremental increase of +6.0%ytd and +9.5%ytd. However, export revenue declined by -32.6%ytd to RM19.15b on the back of lower CPO price realised of RM3,850/Mt (-32.1%ytd) and RM3,825/Mt (-33.5%ytd) for both state in tandem with lower overall Malaysia CPO price of RM3,897/Mt.

Following that, to address the revenue volatility issues (mainly resulted from the bulk of pure planters' coffers proposition), the government established Palm Oil Industrial Cluster (POIC) areas (which covered 7,210 acres and 414 acres in Sabah and Sarawak). These areas are well equipped with different logistics facilities, tax exemption incentives, and investment tax deductions, and it is intended to encourage pure planters' investment ventures into the downstream segment. However, the investment requires a substantial allocation of CAPEX, hence why the take-up rate is still challenging.

Mixed views from panellists on CPO demand;

- 1) Mr. Nagaraj Meda; Bracing for 'Soft Landing': Mild 2024 Recession Scenario Gains Ground
 He mentioned crude oil prices are expected to be 5% higher year-on-year during CY23 contributing positively to US CPI in coming months. This shall lead to further rate hike possibility before the end of the year leading to further higher yields. Supportive US yield differential against EM economies to result in flow of fund to Dollar assets (dollar demand supported) inducing further depreciation in EM currencies. Hence, demand for riskier assets like commodities eg. CPO to remain weak.

Maintain NEUTRAL

COMPANY IN FOCUS

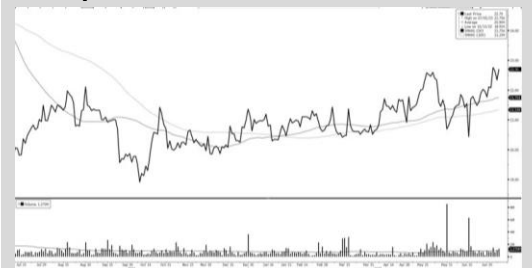
Kuala Lumpur Kepong

Maintain BUY | Unchanged target price: **RM24.60**

Price @ 05th Sep 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



2) Mr. Ling Ah Hong; El Nino to Drive Prices?

He mentioned major climate event like the El Nino/La Nina can change the supply-demand equation and trigger a major price movement, nonetheless there were a bit of delay in arrival of the dry weather. But the experts are predicting a moderately strong El Nino from Aug 23- Mar 24 (+95% chance). Additionally, there were an early sign of dryness have been detected in parts of Indonesia – Kalimantan in August due to the current developing El-Nino. Hence, this would usher CPO price to hinge on a high side for CY23-24.

Maintain NEUTRAL. While we acknowledge the El-Nino events (which would constrict the supply side) could be a potential catalyst for the CPO prices to remain elevated for the remaining of the months c. CY24 RM3,800-4,200/Mt, we are also concern on its fragile demand outlook on the back inflationary pressure coupled with tight household spending on high base interest rate locally and 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. All factors considered, we maintain our **NEUTRAL** stance on the sector with CPO target price of **RM3,500 Mt** for CY23. Our top pick for plantation company is **KLK** with a **TP** of **RM24.60**.

**Table 2: Summary of earnings, TP and recommendations**

Stocks	Rec.	Price @	TP (RM)	Core EPS (sen)		PE (x)		Net DPS (sen)		Div Yield (%)	
		5-Sep-23		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
Kuala Lumpur Kepong	BUY	21.30	24.60	219.20	76.9	9.7	27.7	61.0	42.0	2.9	2.0
IOI Corporation	BUY	4.02	4.45	25.7	16.0	15.6	25.1	12.0	10.5	3.0	2.6
PPB Group	NEUTRAL	15.70	15.17	94.8	96.7	16.6	16.2	30.0	30.0	1.9	1.9
Sarawak Plantation	NEUTRAL	2.14	2.20	27.2	23.9	7.9	9.0	2.0	1.0	0.9	0.5
Sime Darby Plantation	NEUTRAL	4.34	4.10	13.7	16.4	31.7	26.5	7.5	10.0	1.7	2.3
Genting Plantation	NEUTRAL	5.41	5.76	25.1	31.3	21.6	17.3	27.0	25.0	5.0	4.6
Ta Ann Holdings	NEUTRAL	3.50	3.27	36.4	29.0	9.6	12.1	25.0	15.0	7.1	4.3
TSH Resources	NEUTRAL	1.01	0.97	6.7	8.0	15.1	12.6	2.0	2.0	2.0	2.0
FGV Holdings	NEUTRAL	1.36	1.06	4.2	5.3	32.4	25.7	2.0	3.0	1.5	2.2

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