

PLANTATION

Maintain NEUTRAL

Price remains supported in anticipation of Strong EL-Nino events

KEY INVESTMENT HIGHLIGHTS

- **Production improved inline with peak crop season**
- **Slower demand due concerns about the Russia-Ukraine crisis subsides**
- **Inventory level remained high 2.1m tonne**
- **Maintain NEUTRAL stance on the sector with CPO target price of RM3,800/mt**

Steady production in August. Malaysia’s CPO output improved to 1.8m tonne (+8.9%mom, **+1.6%oyoy**), however remained flat on year-to-date basis at 11.5m tonne (-1.1%ytd). Nonetheless, the nation’s average FFB yield inched by +3.4%yoy to 1.5 tonne/ha inline with steady production levels eastern states which roughly ups by +4.5%yoy, while OER remained supportive at 19.92% due to better evacuation activities in the said month. Overall, performance was deliberately hindered by low manuring activities completed in the past 2 years (on combination of labour shortage and lower round of fertiliser application) exacerbated by unfavourable weather impacts of La-Nina events 2-years in a row.

Inconsequential demand. Palm oil (PO) exports tumbled to 1.2m tonne (-9.8%mom, -5.9%yoy, -1.4%ytd) following declined in panic restocking activity as concerns about the Russia-Ukraine crisis subsides. Overall, CPO, PPO, and Biodiesel demand fell by -21.5%yoy, -0.2%yoy and -25.1%yoy respectively following weak sentiment demand on lower restocking activities by the refiners.

Inventory level remained high. Closing stockpiles in August-23 was higher at 2.1m tonne (+22.5%mom, **+1.4%oyoy**) in tandem with increased in CPO supply condition. While processed PO decreased by +13.5% year-on-year, conversely CPO stocks increased by +17.0%yoy, with the east contributing the most, such as Sabah (+48.8%yoy) and Sarawak (+34.6%yoy) regions. Since the labor scarcity has steadily decreased, especially in the eastern side area, we think that the Malaysian PO stocks will continue to recover to pre-pandemic levels as a result of the better estates activity.

CPO prices to trend higher. In August, the local CPO delivery price slightly fell to RM3,797.0/Mt, and averaged monthly lower at RM3,805.0/Mt (-2.3%mom, **-8.7%oyoy**) following the decrease of other vegetable oil’s prices trend. We estimate August’s price to fall by -19.6% or at RM2,941/Mt level, but it appears that dry spell environments have cushioned the blow and price remain supportive although we are in a peak crop season. Moving onwards, we forecast that average local CPO delivery prices will close by +3.7%mom higher to RM3,945/Mt in September, as a result of developing EL-Nino events which has started in June-Dec, according to MET Malaysia.

COMPANY IN FOCUS

Kuala Lumpur Kepong

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

Price @ 11th Sept 2023: RM21.20

- 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

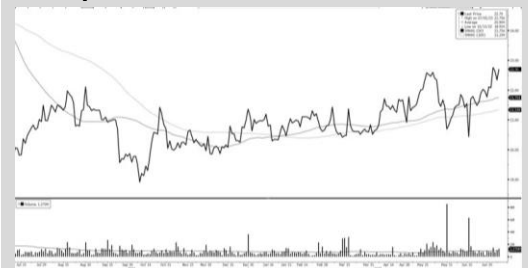


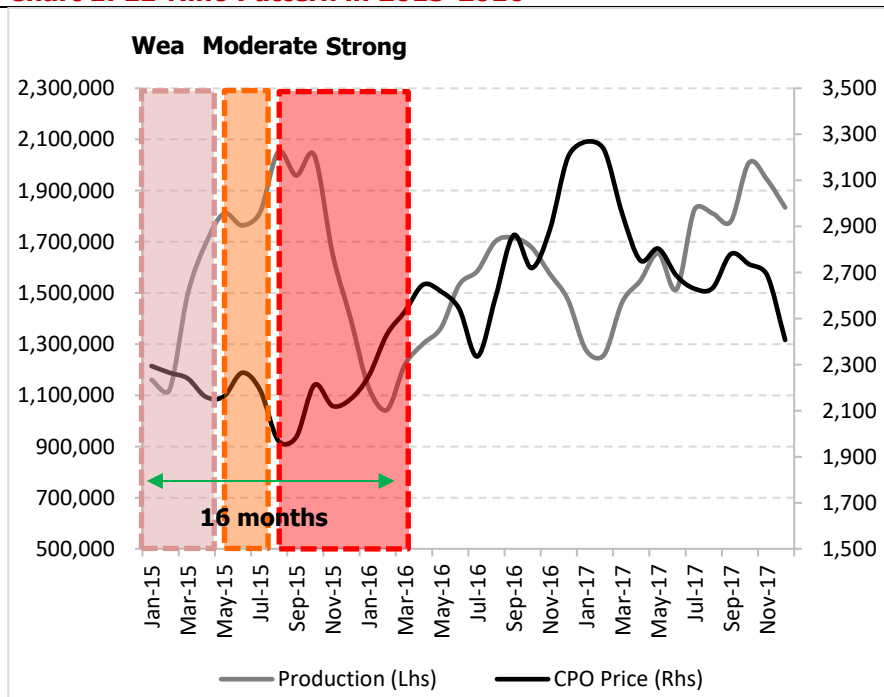
Table 1: Malaysia Palm Oil Statistics for Aug 2023 ('000 MT)

	Aug-22	July-23	Aug-23	MoM%	YoY%	8MCY22	8MCY23	YTD%
Opening Stocks	1.77	1.72	1.73	0.8%	-2.3%	1.61	2.20	36.0%
Production	1.73	1.61	1.75	8.9%	1.6%	11.57	11.45	-1.1%
Imports	0.15	0.10	0.11	6.5%	-23.9%	0.77	0.71	-7.4%
Total Supply	3.65	3.43	3.60	4.8%	-1.3%	14.0	14.4	2.9%
Exports	1.30	1.35	1.22	-9.8%	-5.9%	9.80	9.66	-1.4%
Dom Disapp	0.25	0.35	0.25	-27.2%	-0.5%	2.06	2.56	24.6%
Total Demand	1.55	1.70	1.47	-13.3%	-5.0%	11.86	12.23	3.1%
End Stocks	2.09	1.73	2.12	22.5%	1.4%	2.09	2.12	1.4%
Stock/Usage Ratio	11.3%	8.5%	12.0%	Nm	Nm	1.5%	1.4%	Nm

Source: MPOB, MIDFR

Looking at the past EL-Nino for the guidance

EL-Nino 2015-2016. Based on the Australian Bureau of Meteorology data, the last **Strong EL-Nino** happened in Malaysia was back in 2015-2016, where it started as a weak in Jan to moderate in June until it progressive higher to a Very Strong EL-Nino in September 2015. 'El Niño or La Niña events are characterized as times when Niño 3.4 SSTs exceed +/- 0.4C over a period of 6 months or longer and for Malaysia case, the lowest Niño 3.4 SSTs recorded is at 0.42C during the weak occurrences whilst the highest touched up to 2.72 in Nov-15. In facts, while El Nino affected our nations for 16 months (Jan 2015–April 2016), CPO production was only adversely affected (declined by double digits) starting in March 2016 and lasting until October 2016 (*Chart 1*). We saw that the CPO price only began to increase in Jan-16 — a year after the weak EL-Nino was recorded — to RM2,430/Mt (+7.3%yoy), before soaring in February 2017 to RM3,233/Mt (+33.0%yoy).

Chart 1: EL-Nino Pattern in 2015-2016

Source: MPOB, MIDFR

Table 1: CPO Production & Price

	El – Nino Events	Prod. mom	CPO Price mom
Jan-15	Weak	-3.4	-1.3
Feb-15	Weak	33.3	-1.1
Mar-15	Weak	13.3	-3.6
Apr-15	Weak	6.9	0.1
May-15	Weak	-2.6	4.7
Jun-15	Moderate	2.9	-3.3
Jul-15	Moderate	13.0	-10.0
Aug-15	Strong	-4.5	0.8
Sep-15	Very Strong	4.0	11.4
Oct-15	Very Strong	-18.8	-4.1
Nov-15	Very Strong	-15.4	1.4
Dec-15	Very Strong	-19.3	4.7
Jan-16	Very Strong	-7.7	8.0
Feb-16	Very Strong	16.9	4.1
Mar-16	Strong	6.7	4.6
Apr-16	Weak	4.9	-1.1
May-16	Normal	12.3	-2.9
Jun-16	Normal	-3.4	-1.3

Source: MPOB, MIDFR

As a result, the CPO production declined to 17.3m tonne (-13.2%yoy) in 2016, while CPO price were averaged higher by +21.5%yoy to RM2,634.2/Mt. Presently, EL-Nino is still in a weak stage, but currently building up its momentum to moderate events, before entering Strong phase in the 1Q24, according to MET Malaysia. We believe that due to recent changes in Malaysia's Southwest monsoon, the arrival of EL-Nino may be delayed somewhat. However, the event still has a +95% chance of happening in 2024, according to the experts.

Maintain NEUTRAL. We are revising our average CPO target price from RM3,500/Mt to RM3,800/Mt (+8.8%) for CY2023. 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. Our basis was supported by mixed views from panellists on CPO demand during last week emPOC 2023 conference;

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 yoy 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.

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.

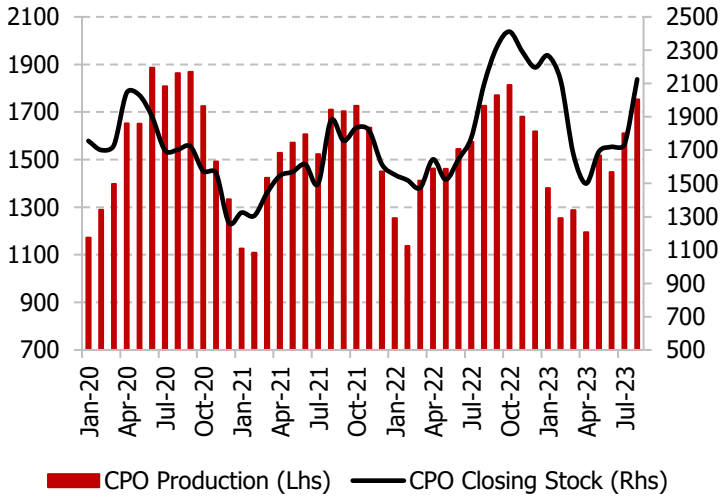
Furthermore, year-to-date PO closing stocks in major importing countries are still on the high side, such as India (+76.6%ytd), China (+100%ytd), Pakistan (+69.8%ytd) and Bangladesh (+100%ytd). Hence, we anticipate demand would be sluggish in 2HCY23 ahead. All factors considered, we maintain our **NEUTRAL** stance on the sector with CPO target price of RM3,800 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 @	Tgt Price (RM)	Core EPS (sen)		PE (x)		Net DPS (sen)		Div Yield (%)	
		11-Sep-23		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
Kuala Lumpur Kepong	BUY	21.20	24.6	141.1	81.6	15.0	26.0	61.0	42.0	2.9	2.0
IOI Corporation	BUY	4.03	4.45	16.0	14.8	25.2	27.2	12.0	10.5	3.0	2.6
PPB Group	NEUTRAL	15.72	15.17	114.9	98.8	13.7	15.9	230.0	30.0	14.6	1.9
Sarawak Plantation	NEUTRAL	2.11	2.2	27.2	23.9	7.8	8.8	12.0	12.0	5.7	5.7
Sime Darby Plantation	NEUTRAL	4.30	4.1	13.7	16.4	31.4	26.2	7.5	10.0	1.7	2.3
Genting Plantation	NEUTRAL	5.18	5.76	34.1	32.7	15.2	15.8	27.0	25.0	5.2	4.8
Ta Ann Holdings	NEUTRAL	3.43	3.27	36.3	29.0	9.4	11.8	25.0	15.0	7.3	4.4
TSH Resources	NEUTRAL	0.99	0.97	9.2	7.9	10.7	12.5	1.5	2.0	1.5	2.0
FGV Holdings	SELL	1.37	1.06	17.2	15.0	8.0	9.1	2.0	3.0	1.5	2.2

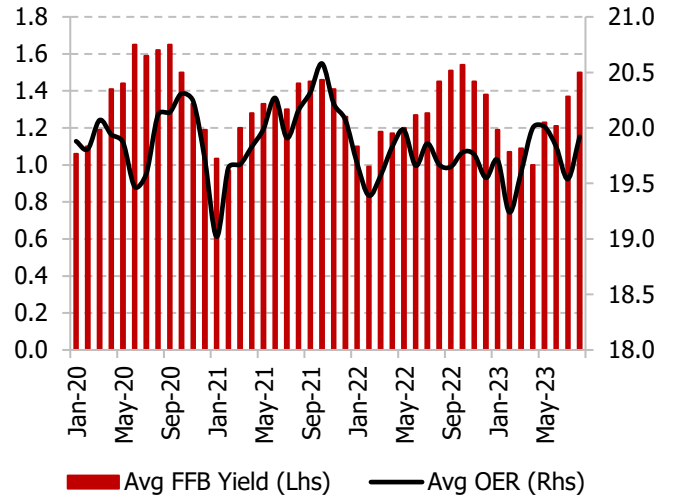
Source: MIDFR

Chart 2: PO Closing stocks VS CPO Price



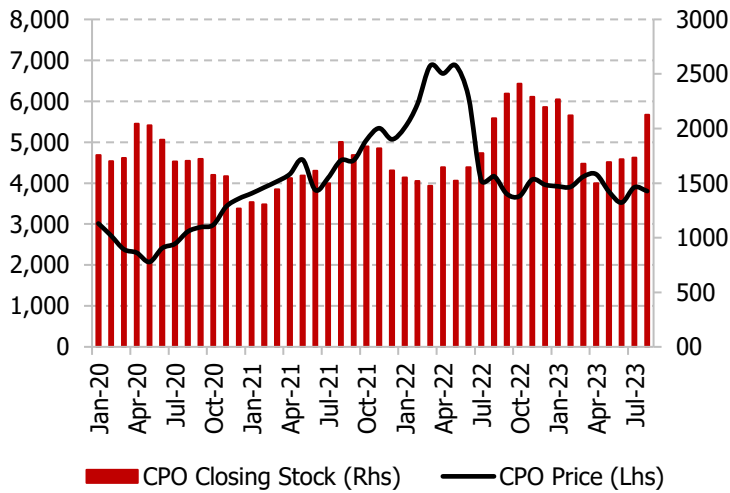
Source: MPOB, MIDFR

Chart 3: Average FFB Yield VS OER



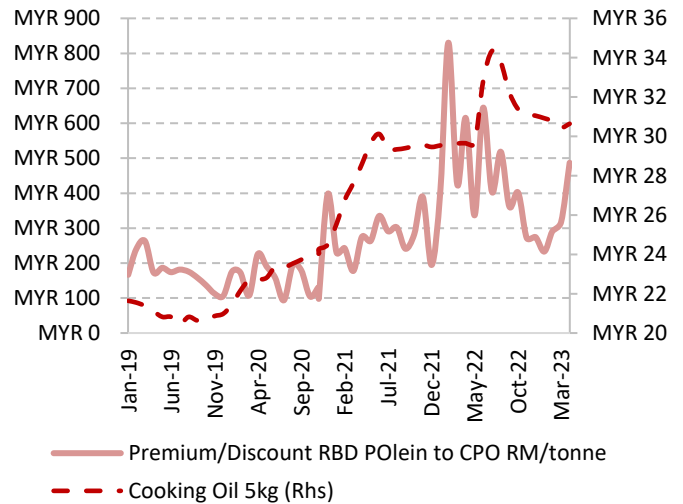
Source: MPOB, MIDFR

Chart 4: Malaysia PO Production VS Closing Stocks



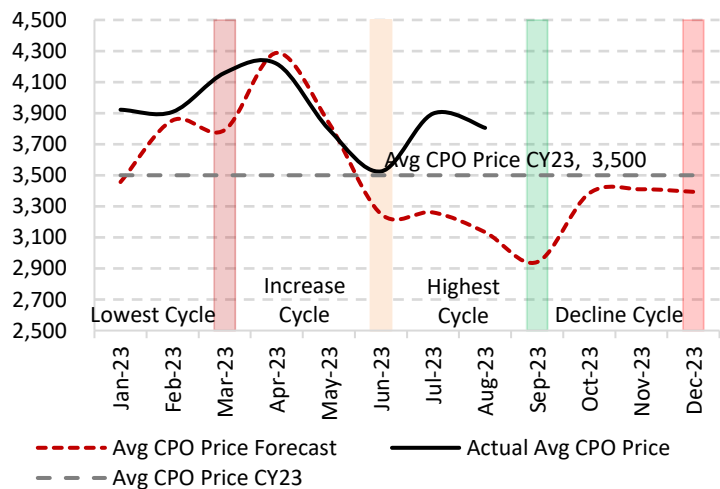
Source: MPOB, MIDFR

Chart 5: Cooking Oil Price Monthly Performance



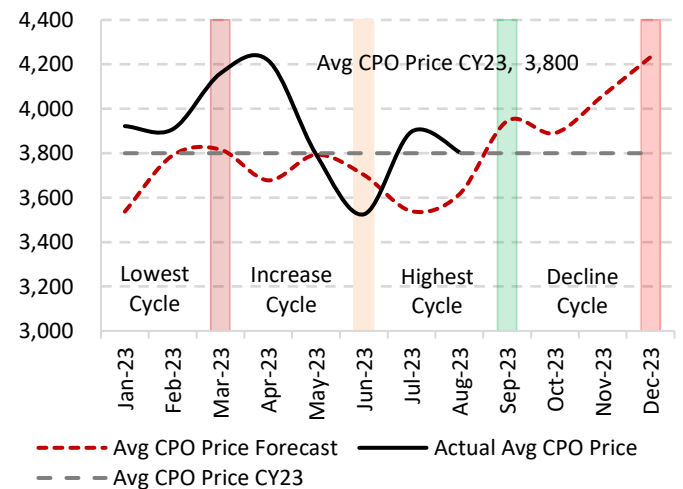
Source: MIDFR

Chart 6: CY23 CPO Price Forecast VS Actual (Old)



Source: MPOB, MIDFR
*Production cycle

Chart 7: CY23 CPO Price Forecast VS Actual (New)



Source: MIDFR
*Production cycle

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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