

PLANTATION

Production recovery continues

KEY INVESTMENT HIGHLIGHTS

- Production improved in line with peak crop season
- Export fell significantly amid no festival month
- Inventory level remained high 2.3m tonne
- Maintain NEUTRAL stance on the sector with CPO target price of RM3,800/mt

Better production in September. Malaysia's CPO output jumped to 1.8m tonne (+4.3%mom, +3.3%yoy), while broadly flat on year-to-date basis at 13.3m tonne (-0.5%ytd). Surprisingly, the nation's average FFB yield increased by +4.6%yoy to 1.58 tonne/ha thanks to the sturdy production levels from eastern states which roughly ups by +4.1%yoy, which well supported by OER of 20.08% due to better evacuation activities in the said month. Overall, performance remained supportive on improved estates activities following more boots on the ground (due to newly hired foreign workers) particularly in peninsular area aided by favourable weather situations.

Demand slower by double digit. Palm oil (PO) exports fell significantly to 1.2m tonne (-2.1%mom, -15.7%yoy, -3.2%ytd) following declined in panic restocking activity as concerns about the Russia-Ukraine crisis subsides. In fact, exports for CPO, PKO, and Oleochemical products were down by -2.1%mom, -12.8%mom and -6.6%mom respectively following weak sentiment demand on lower restocking activities by the refiners.

Inventory level remained stable. Closing stockpiles in Sep-23 was stabilized at 2.3m tonne (+9.6%mom, -0.2%yoy) in tandem with increased in supply dynamics. While processed PO decreased by -9.3% year-on-year, conversely CPO stocks increased by +7.2%yoy, with the east contributing the most, such as Sabah (+21.1%yoy) and Sarawak (+46.0%yoy) regions. Since the labour 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 September, the local CPO delivery price slightly fell to RM3,687.0/Mt (-2.9%mom), and averaged monthly lower at RM3,727.0/Mt (-2.0%mom, -0.3%yoy) dragged by optimism on local production levels. We estimated September's price to increase by +3.7%mom or to RM3,945/Mt level (due to the drier month), however it appears that favourable weather has erode the gains and price weaken in-line with improved estates productivity. Moving onwards, we forecast that average local CPO delivery prices will close by +4.4%mom higher to RM3,891/Mt in October, as a result of developing moderate EL-Nino events which has started in June-Dec, according to MET Malaysia.

Maintain NEUTRAL

COMPANY IN FOCUS

Kuala Lumpur Kepong

Maintain BUY | Unchanged target price: RM24.60

Price @ 10th Oct 2023: RM22.10

- We like KLK for its efficiency as it is 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

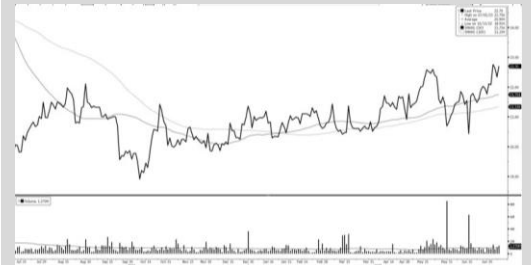


Table 1: Malaysia Palm Oil Statistics for Sep 2023 ('000 MT)

	Sep-22	Aug-23	Sep-23	MoM%	YoY%	9MCY22	9MCY23	YTD%
Opening Stocks	2.09	1.73	2.11	21.7%	0.8%	1.61	2.20	36.0%
Production	1.77	1.75	1.83	4.3%	3.3%	13.34	13.27	-0.5%
Imports	0.13	0.11	0.05	-55.7%	-62.9%	0.90	0.76	-15.6%
Total Supply	4.00	3.60	3.99	10.9%	-0.2%	15.9	16.2	2.4%
Exports	1.42	1.22	1.20	-2.1%	-15.7%	11.22	10.86	-3.2%
Dom Disapp	0.26	0.27	0.48	80.9%	84.5%	2.32	3.06	31.9%
Total Demand	1.68	1.49	1.68	12.7%	-0.2%	13.54	13.92	2.8%
End Stocks	2.32	2.11	2.31	9.6%	-0.2%	2.32	2.31	-0.2%
Stock/Usage Ratio	11.5%	11.8%	11.5%	Nm	Nm	1.4%	1.4%	Nm

Source: MPOB, MIDFR

Presently, EL-Nino is still in a weak stage, but currently building up its momentum to moderate events, before entering strong phase in the 1QCY24. 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 more than +95% chance of happening in 2024, according to the experts. Additionally, there were an early sign of dryness (hotspot) have been detected in parts of Indonesia – Kalimantan in past 2-3 months due to the current developing El-Nino. Hence, this would usher CPO price to hinge on a high side for towards end of CY23 to early of CY24.

As we shift from the Southwest to the Northeast monsoon in this October to November, we also rule out the likelihood of EL-Nino impacts returning to normal. Considering that it would provide mixed weather conditions in the peninsular region and reduce the hazards of hot weather.

Maintain NEUTRAL. We are maintaining our average CPO target price of 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. Furthermore, year-to-date PO closing stocks in major importing countries has reached to the pre-pandemic level, such as India c. 4.2m tonne, China 5.7m tonne, Pakistan c. 2.7m tonne and Bangladesh c. 1.0m tonne. Hence, we anticipate demand would be sluggish in the remainder of 2HCY23. 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**.

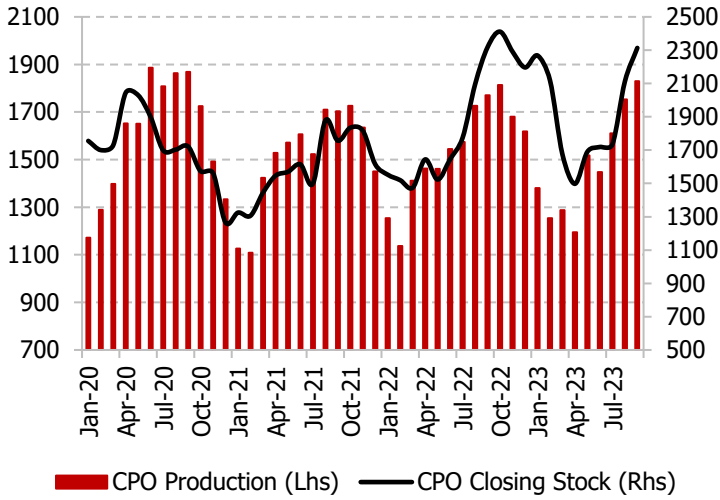


Table 2: Summary of earnings, TP and recommendations

Stocks	Rec.	Price @	Tgt Price (RM)	Core EPS (sen)		PE (x)		Net DPS (sen)		Div Yield (%)	
		11-Oct-23		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
Kuala Lumpur Kepong	BUY	22.10	24.6	141.1	81.6	15.7	27.1	61.0	42.0	2.8	1.9
IOI Corporation	BUY	3.95	4.45	16.0	14.8	24.7	26.7	12.0	10.5	3.0	2.7
PPB Group	NEUTRAL	15.12	15.17	114.9	98.8	13.2	15.3	230.0	30.0	15.2	2.0
Sarawak Plantation	NEUTRAL	2.07	2.2	27.2	23.9	7.6	8.7	12.0	12.0	5.8	5.8
Sime Darby Plantation	NEUTRAL	4.28	4.1	13.7	16.4	31.2	26.1	7.5	10.0	1.8	2.3
Genting Plantation	NEUTRAL	5.30	5.76	34.1	32.7	15.5	16.2	27.0	25.0	5.1	4.7
Ta Ann Holdings	NEUTRAL	3.33	3.27	36.3	29.0	9.2	11.5	25.0	15.0	7.5	4.5
TSH Resources	NEUTRAL	1.00	0.97	9.2	7.9	10.9	12.7	1.5	2.0	1.5	2.0
FGV Holdings	SELL	1.36	1.06	17.2	15.0	7.9	9.1	2.0	3.0	1.5	2.2

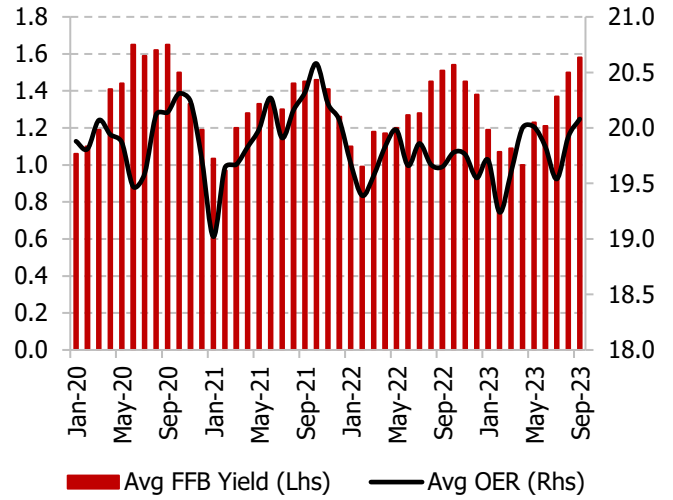
Source: MIDFR

Chart 2: PO Closing stocks VS CPO Price



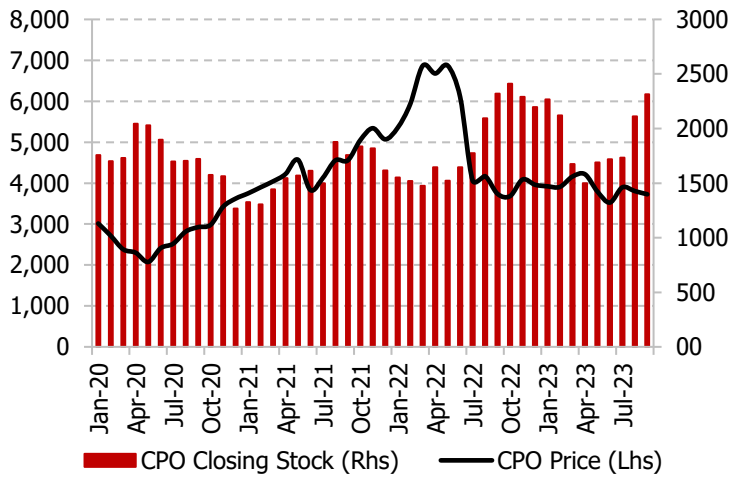
Source: MPOB, MIDFR

Chart 3: Average FFB Yield VS OER



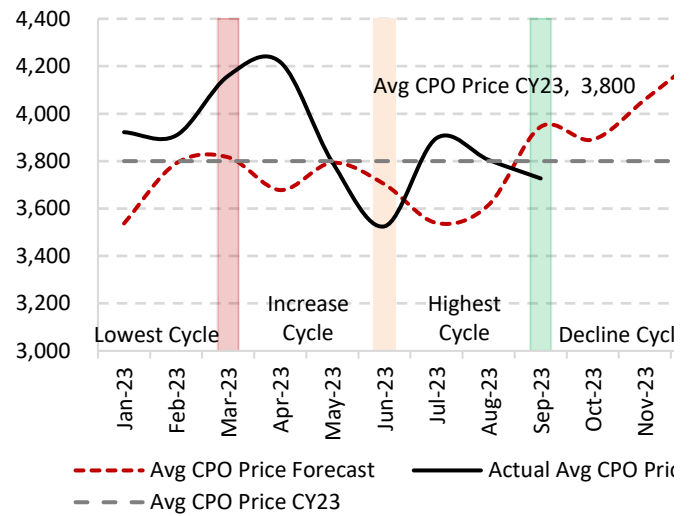
Source: MPOB, MIDFR

Chart 4: Malaysia PO Production VS Closing Stocks



Source: MPOB, MIDFR

Chart 5: CY23 CPO Price Forecast VS Actual



Source: MPOB, 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