

PLANTATION

Maintain NEUTRAL

Robust production level - since October 2018

KEY INVESTMENT HIGHLIGHTS

- **Production rose to 1.9m tonnes inline with peak crop season**
- **Export dropped amid high closing stocks level in major importing countries**
- **Inventory level remained high 2.5m tonne due to supply dynamics**
- **Maintain NEUTRAL stance on the sector with CPO target price of RM3,800/mt**

Robust production in October. Malaysia's CPO output rose to 1.9m tonnes (+5.9%mom, **+6.8%yoy**) - highest since October 2018, which in line with the increased in FFB received by mills at 9.7m tonnes, thanks to the higher tonnage contribution from eastern areas. The nation's average FFB yield increased by **+7.1%yoy** to 1.65 tonne/ha, this is well supported by OER of **20.34%** following better evacuation activities in the said month. Overall, performance remained encouraging on improved estates activities following more boots on the ground (due to newly hired foreign workers) particularly in peninsular area aided by optimum weather situations.

Demand was subdued. Palm oil (PO) exports dropped to 1.5m tonnes (+20.0%mom, **-2.6%yoy**, -2.9%ytd) on higher inventories of major importing countries. In fact, China, India, Pakistan, and Bangladesh closing stocks has now reached to pre-pandemic level at 7.4m tonnes (14.1%ytd), 5.4m tonnes (-1.6%ytd), 3.7m tonnes (+52.5%ytd), and 1.2m tonnes (-21.7%ytd).

Inventory level remained stable. Closing stockpiles in Oct-23 remained supportive at 2.5m tonne (+5.8%mom, **+1.6%yoy**) in tandem with increased in supply dynamics. While processed PO (downstream products) decreased by -4.1% year-on-year, however CPO stocks increased by +6.3%yoy, with the eastern areas contributing the most, such as Sabah (+32.0%yoy) and Sarawak (+18.6%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 October, the local CPO delivery price ended lower to RM3,560.0/tonne (-3.4%mom), and averaged monthly lower at RM3,640.0/tonne (-2.3%mom, **-1.1%yoy**, **-27.8ytd**) dragged by optimism on local production levels. We estimated October's price to increase by +4.4%mom or to RM3,891/tonne level (due to the drier month), however this was offset by the favourable weather that erode the gains and price weaken in-line with higher production levels. Moving forward, we forecast that average local CPO delivery prices to close by +1.7%mom higher to RM3,702/tonne in November, as we tweak our monthly CPO pricing model assumption due to the delayed arrival of El-Nino.

COMPANY IN FOCUS

Kuala Lumpur Kepong

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

Price @ 10th Nov 2023: RM22.68

- 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

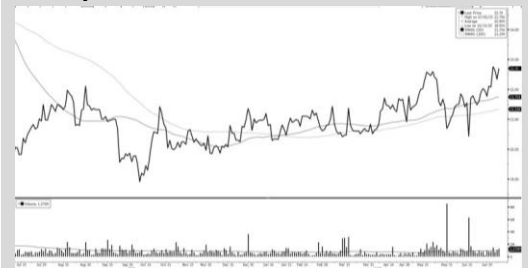


Table 1: Malaysia Palm Oil Statistics for Oct 2023 ('000 MT)

	Oct-22	Sep-23	Oct-23	MoM%	YoY%	10MCY22	10MCY23	YTD%
Opening Stocks	2.09	2.11	2.31	9.6%	10.5%	1.61	2.20	36.0%
Production	1.81	1.83	1.94	5.9%	6.8%	15.15	15.21	0.4%
Imports	0.07	0.05	0.05	-3.0%	-28.3%	0.97	0.81	-16.4%
Total Supply	3.97	3.99	4.30	7.7%	8.1%	17.7	18.2	2.7%
Exports	1.51	1.22	1.47	20.0%	-2.6%	12.73	12.35	-2.9%
Dom Disapp	0.28	0.45	0.38	-15.6%	36.4%	2.60	3.42	31.4%
Total Demand	1.79	1.68	1.85	10.4%	3.5%	15.32	15.77	2.9%
End Stocks	2.41	2.31	2.45	5.8%	1.6%	2.41	2.45	1.6%
Stock/Usage Ratio	11.2%	11.5%	11.0%	-4.1%	-1.9%	1.3%	1.3%	-1.3%

Source: MPOB, MIDFR

Presently, El-Nino is still lingering around however remained in a weak stage, but currently building up its momentum to moderate events, before entering Strong phase in the **2Q24**. We believe due to Inter Monsoon (Oct – Mid Nov) and upcoming Northeast Monsoon events, the arrival of El-Nino may be delayed somewhat. However, the event still has more than +80% (dropped from +95% probability) chance of happening in 2024, according to the Met Malaysia. Hence, we anticipate normal production level to remain in 1Q23 (subject to its seasonality) but would gradually decline in drier months in 2Q24. Hence, this would usher CPO price to hinge on a high side in 1HCY24.

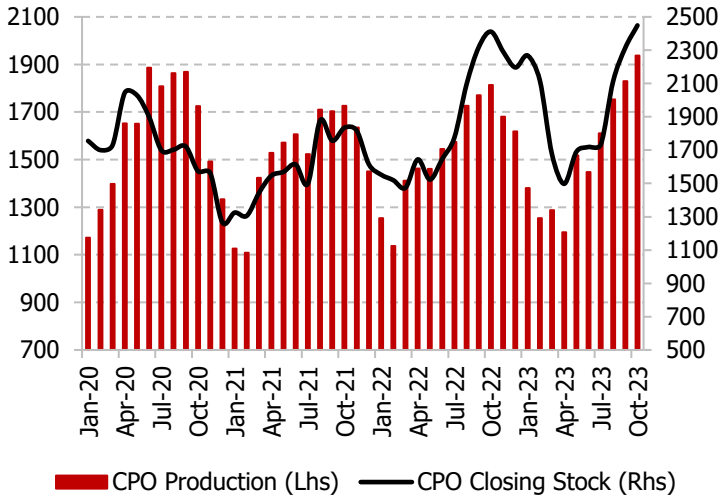
Maintain NEUTRAL. We are maintaining our average CPO target price of RM3,800/Mt (+8.8%) for CY2023. While we acknowledge the delayed upcoming El-Nino events (which would constrict the supply side) could be a potential catalyst for the CPO prices to remain elevated for the remaining of the months c. CY24 RM3,800-4,200/Mt. However, we are concerned about its downstream product prospects, as high inflationary pressures combined with tight household spending due to high base interest rates locally and worldwide are hindering demand. 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 (%)	
		10-Nov-23		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
Kuala Lumpur Kepong	BUY	21.68	24.6	141.1	81.6	15.4	26.6	61.0	42.0	2.8	1.9
IOI Corporation	BUY	3.94	4.45	16.0	14.8	24.6	26.6	12.0	10.5	3.0	2.7
PPB Group	NEUTRAL	14.42	15.17	114.9	98.8	12.6	14.6	230.0	30.0	16.0	2.1
Sarawak Plantation	NEUTRAL	2.09	2.2	27.2	23.9	7.7	8.7	12.0	12.0	5.7	5.7
Sime Darby Plantation	NEUTRAL	4.33	4.1	13.7	16.4	31.6	26.4	7.5	10.0	1.7	2.3
Genting Plantation	NEUTRAL	5.53	5.76	34.1	32.7	16.2	16.9	27.0	25.0	4.9	4.5
Ta Ann Holdings	NEUTRAL	3.45	3.27	36.3	29.0	9.5	11.9	25.0	15.0	7.2	4.3
TSH Resources	NEUTRAL	0.98	0.97	9.2	7.9	10.6	12.3	1.5	2.0	1.5	2.1
FGV Holdings	SELL	1.35	1.06	17.2	15.0	7.8	9.0	2.0	3.0	1.5	2.2

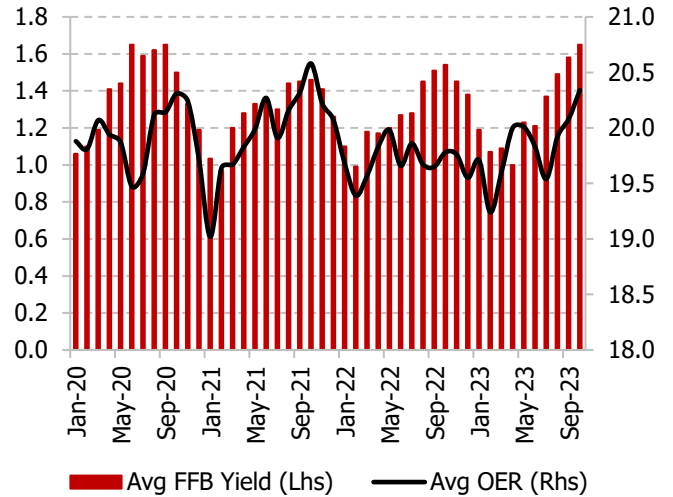
Source: MIDFR

Chart 2: PO Closing stocks VS CPO Price



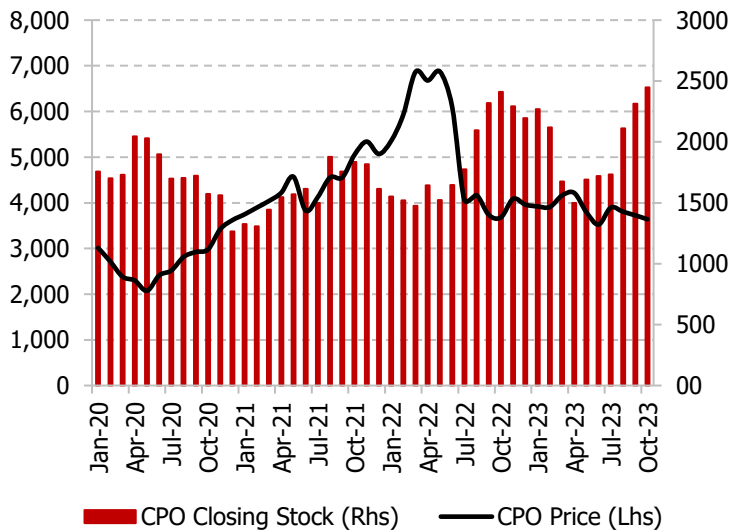
Source: MPOB, MIDFR

Chart 3: Average FFB Yield VS OER



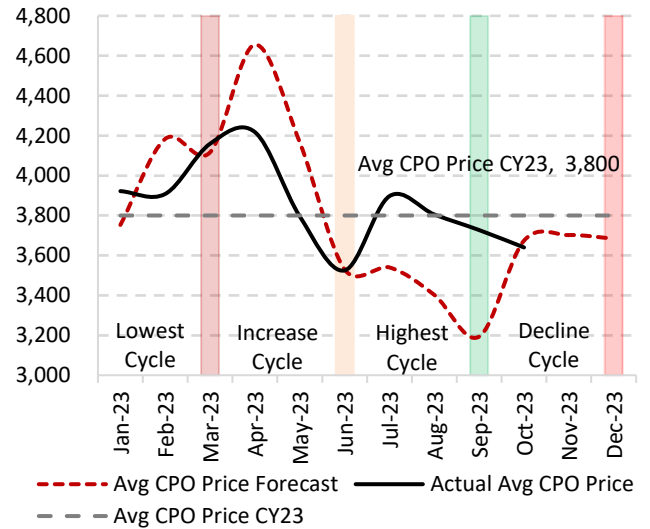
Source: MPOB, MIDFR

Chart 4: Malaysia PO Production VS Closing Stocks



Source: MPOB, MIDFR

Chart 5: CY23 CPO Price Forecast VS Actual



Source: MPOB, MIDFR

*Production cycle

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