

PLANTATION

Maintain NEUTRAL

Production recovery persisted

KEY INVESTMENT HIGHLIGHTS

- Production stayed at 1.8m tonnes level
- Export dropped amid high closing stocks level in major importing countries
- Inventory level remained high on abundant stockpiles from PO derivatives
- Maintain NEUTRAL stance on the sector with CPO target price of RM3,800/mt

Decent output in November. Malaysia’s CPO production climbed to 1.8m tonnes (+6.8%yoy, +1.0%ytd) – which nearly match October 2019 level, banking on higher FFB received by mills at 9.0m tonnes, thanks to the improved tonnage contribution from most of the states. The local average FFB yield rose by +6.2%yoy to 1.54 tonne/ha, with resilient OER marked at 20.11% on better harvesting activities in the said month. As outlined earlier, performance remained supportive on increased estates activities on combination of more boots on the ground (due to newly hired foreign workers) particularly in peninsular area aided with no strong El-Nino appearance.

Flattish demand. Palm oil (PO) exports continues see weaker demand at 1.4m tonnes (+4.7%mom, -7.7%yoy, -3.4%ytd) on high 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) respectively.

Inventory level remained high. CPO ending stockpiles in Nov-23 continued to be high at 2.4m tonne (-1.1%mom, +5.6%yoy) largely due to increase in supply dynamics. With abundant stockpiles of PO derivatives such as RBD P. Oil (+22.3%yoy), Olein (+49.4yoy) and Stearin (+4.7yoy), this indicates demand for cooking oils, trans-free fats such as margarine, shortening and vegetable ghee or food products particularly were seeing softer demand. This has been reflected in recent quarter results, where integrated companies like KLK, IOI Corp, and FGVH downstream arm (Oleo plant and refinery) have -1.6% to merely +0.7% profit margin.

Softer CPO prices ahead. In Nov-23, the local CPO delivery price ended higher at RM3,718.5/tonne (+4.5%mom), and averaged monthly higher at RM3,700.5/tonne (+1.7%mom, -9.5%yoy, -26.5ytd) dragged by optimism in local production levels. This was in line with ours estimated November’s price of RM3,702/tonne. Moving forward, we forecast that average local CPO delivery prices to close by -0.4%mom lower to RM3,684/tonne in December, as abundant of ending stocks towards end of the year normally would pushing CPO price to downward position.

COMPANY IN FOCUS

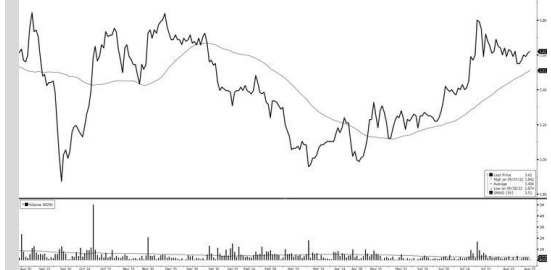
Ta Ann

Maintain BUY | Unchanged target price: **RM4.25**

Price @ 12th Dec 2023: RM3.45

- High correlation with CPO movement, in which to be benefited from jump in CPO price in 2Q24.
- High Div Yield c. 7.1% and 5.7% for FY23-24.
- Lowest cost of production among its peers c. RM1,900-2,000 / Mt.
- Decent age profile at 12 years.
- High production growth c. +11% supported by strong FFB yield and OER

Share price chart



MIDF RESEARCH

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

	Nov-22	Oct-23	Nov-23	MoM%	YoY%	11MCY22	11MCY23	YTD%
Opening Stocks	2.09	2.31	2.45	5.8%	16.8%	1.61	2.20	36.0%
Production	1.68	1.94	1.79	-7.7%	6.4%	16.83	17.00	1.0%
Imports	0.05	0.05	0.04	-16.6%	-15.6%	1.01	0.85	-16.4%
Total Supply	3.82	4.30	4.28	-0.5%	11.9%	19.5	20.0	3.0%
Exports	1.51	1.47	1.40	-4.7%	-7.7%	14.24	13.75	-3.4%
Dom Usage	0.33	0.38	0.46	19.4%	37.0%	2.93	3.88	32.1%
Total Demand	1.85	1.85	1.86	0.3%	0.4%	17.17	17.62	2.6%
End Stocks	2.29	2.45	2.42	-1.1%	5.6%	2.29	2.42	5.6%
Stock/Usage Ratio	10.3%	11.0%	10.9%	-1.4%	5.2%	1.1%	1.1%	2.9%

Source: MPOB, MIDFR


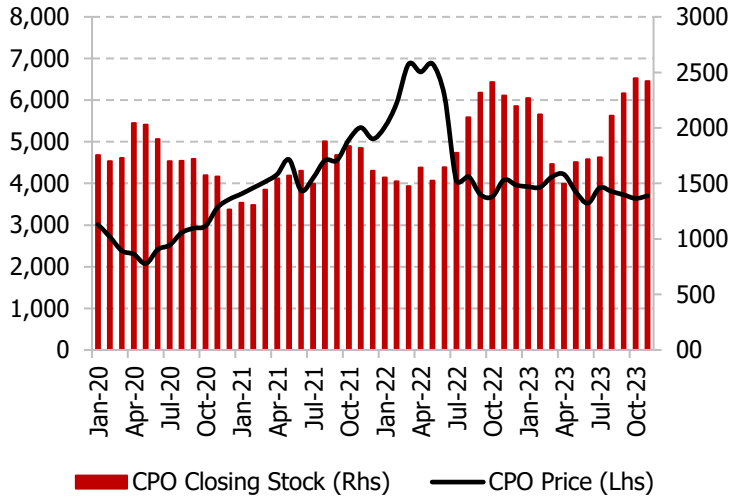
Maintain NEUTRAL. We maintain **NEUTRAL** call on the sector with an average CPO price of **RM3,800/Mt** and **RM3,600/Mt** for CY23-24. Our new top pick is **Ta Ann (BUY, TP: RM4.25)**. Note that Ta Ann is purely an upstream player, and the share price is highly connected with CPO movement c. 0.82 correlation, hence any upward trajectory in CPO prices (due to the upcoming EL-Nino in 2Q24) would provide trading opportunity in the stock. 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 remainder of the months c. RM3,600-3,900/Mt. However, we are also 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. 

Table 2: Summary of earnings, TP and recommendations

Stocks	Rec.	Price @	Tgt Price (RM)	Core EPS (sen)		PE (x)		Net DPS (sen)		Div Yield (%)	
		12-Dec-23		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
Kuala Lumpur Kepong	BUY	21.68	24.6	103.0	76.9	20.9	27.9	61.0	42.0	2.8	2.0
IOI Corporation	BUY	3.94	4.45	25.7	16.0	15.4	24.8	12.0	10.5	3.0	2.7
PPB Group	NEUTRAL	14.42	13.86	86.6	96.7	16.8	15.1	40.0	30.0	2.7	2.1
Sarawak Plantation	NEUTRAL	2.09	2.2	22.0	25.0	9.8	8.6	12.0	12.0	5.6	5.6
Sime Darby Plantation	NEUTRAL	4.33	4.1	13.7	16.7	32.8	26.9	8.5	8.0	1.9	1.8
Genting Plantation	NEUTRAL	5.53	5.76	25.1	31.3	21.9	17.5	15.0	15.0	2.7	2.7
Ta Ann Holdings	BUY	3.45	4.25	41.5	47.3	8.5	7.4	25.0	20.0	7.1	5.7
TSH Resources	NEUTRAL	0.98	0.97	6.7	8.0	14.3	12.0	2.0	2.0	2.1	2.1
FGV Holdings	SELL	1.35	1.06	4.2	5.3	32.1	25.5	2.0	3.0	1.5	2.2

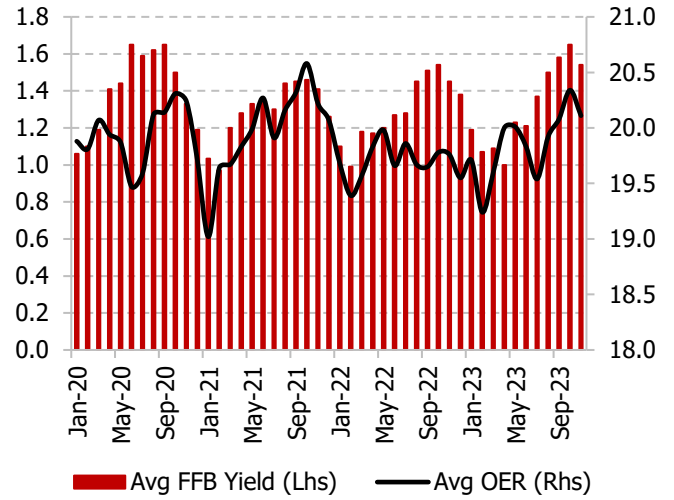
Source: MIDFR

Chart 2: PO Closing stocks VS CPO Price



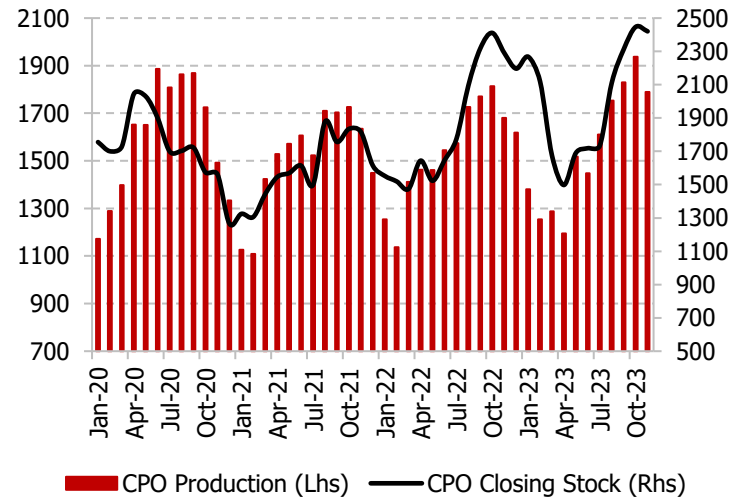
Source: MPOB, MIDFR

Chart 3: Average FFB Yield VS OER



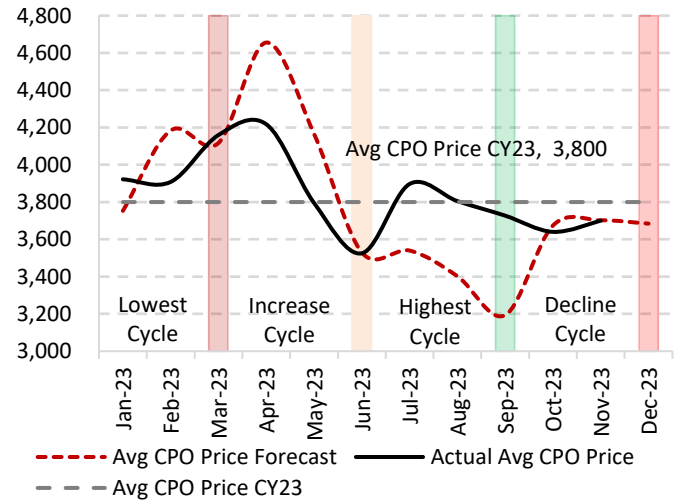
Source: MPOB, MIDFR

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