

PLANTATION

Maintain NEUTRAL

Exports continued sluggish in month of December

KEY INVESTMENT HIGHLIGHTS

- **Production recovery persisted**
- **Export fell amid no festival month**
- **Inventory level remained high 2.3m tonne (+4.3%yoy)**
- **Maintain NEUTRAL stance on the sector with CPO target price of RM3,600/mt**

Subdued Output in Dec. Comparing to Dec-22 CPO output, last month production was slightly lower at 1.6m tonne (-13.3%mom, **-4.2%yoy**), but relatively idle on annual basis with only +0.5%yoy growth, primarily due to lack of fertiliser application over the previous 2 years (especially in peninsular area) amidst challenging weather conditions (Mild El-Nino in June-July & Flood in December).

In contrast, our nation average FFB yield jumped by **+1.7%yoy** to 1.32 tonne/ha on better yield coming from eastern states which roughly ups by +5.4%yoy. Overall, performance for CY23 remained supportive and we anticipate production recovery to continue grow by +4.6% in CY24 banking on better estates productivity due to improved in newly hired foreign workers productivity aided by favourable weather situations (we anticipate Mild El-Nino to end by 2Q24).

Inventory level remained stable. Ending stockpiles in Dec-23 was higher at 2.3m tonne (-5.3%mom, **+4.3%yoy**), coinciding with a weaker local demand usage and depressed exports numbers recorded. Local demand for palm oil-based products remained sluggish due to slower consumer activity, as shown by the latest MIER CSI of 79.7 (down -11.9pts on quarter basis). While the decrease in exports was primarily due greater closure stockpiles in important major importing countries such India and China, where its stockpile has now reached pre-pandemic levels.

For this year, we project ending stockpiles to reach 3.1m tonne (+34.9%yoy) on the back of slower exports of 16.6m tonne and slower restocking activity from main importing countries. On the supply side, since the labour scarcity has steadily decreased, especially in the peninsular side, 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 at in 1HCY24. As outlined earlier, with the expected surge in ending stocks reaching 3.3m Mt (refer to Table 16), we maintain our CY24 CPO price forecast of RM3,600/Mt. This is in light of the expectation of abundant supply without any significant constraints in local productions. However, it's crucial to note that the potential delayed onset of the EL-Nino event could pose risks to crop productivity in the 2QCY24,

COMPANY IN FOCUS

Ta Ann

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

Price @ 10th Jan 2024: RM3.50

- 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



we opine this could create a favourable trajectory for CPO prices, potentially driving them from 3,600/Mt to nearly RM4,500/Mt in the 2QCY24.


Maintain NEUTRAL. We maintain **NEUTRAL** call on the sector with an average CPO price of RM3,800/Mt and RM3,600/Mt for CY23 and CY24 respectively. 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 1: Malaysia Palm Oil Statistics for Dec 2023 ('000 MT)

	Dec-22	Nov-23	Dec-23	MoM%	YoY%	CY22	CY23	YTD%
Opening Stocks	2.29	2.45	2.42	-1.1%	5.6%	1.61	2.20	36.0%
Production	1.62	1.79	1.55	-13.3%	-4.2%	18.45	18.55	0.5%
Imports	0.10	0.04	0.04	-7.9%	-64.4%	1.12	0.88	-20.8%
Total Supply	4.01	4.28	4.01	-6.3%	-0.1%	21.2	21.6	2.1%
Exports	1.47	1.40	1.33	-4.5%	-9.5%	15.71	15.08	-4.0%
Dom Disapp	0.34	0.46	0.38	-16.6%	11.6%	3.28	4.26	30.0%
Total Demand	1.82	1.86	1.72	-7.5%	-5.5%	18.99	19.34	1.9%
End Stocks	2.20	2.42	2.29	-5.3%	4.3%	2.20	2.29	4.3%
Stock/Usage Ratio	10.1%	10.9%	11.1%	2.3%	10.4%	1.0%	1.0%	2.4%

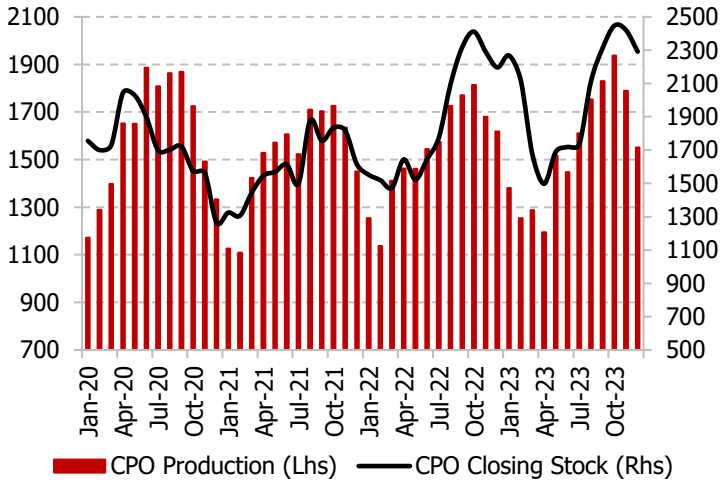
Source: MPOB, MIDFR

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-Jan-24		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
Kuala Lumpur Kepong	BUY	22.28	24.6	76.9	73.3	29.0	30.4	42.0	40.0	1.9	1.8
IOI Corporation	BUY	3.96	4.45	16.0	14.8	24.8	26.8	10.5	8.0	2.7	2.0
PPB Group	NEUTRAL	14.60	13.86	96.7	104.1	15.1	14.0	30.0	30.0	2.1	2.1
Sarawak Plantation	NEUTRAL	2.10	2.2	25.0	26.9	8.4	7.8	12.0	10.0	5.7	4.8
Sime Darby Plantation	NEUTRAL	4.35	4.1	16.7	16.0	26.0	27.2	8.0	8.0	1.8	1.8
Genting Plantation	NEUTRAL	6.01	5.76	31.3	35.9	19.2	16.7	15.0	15.0	2.5	2.5
Ta Ann Holdings	BUY	3.50	4.25	47.3	50.3	7.4	7.0	20.0	20.0	5.7	5.7
TSH Resources	NEUTRAL	0.99	0.97	8.0	9.2	12.3	10.7	2.0	2.0	2.0	2.0
FGV Holdings	SELL	1.41	1.06	5.3	4.1	26.6	34.4	3.0	2.0	2.1	1.4

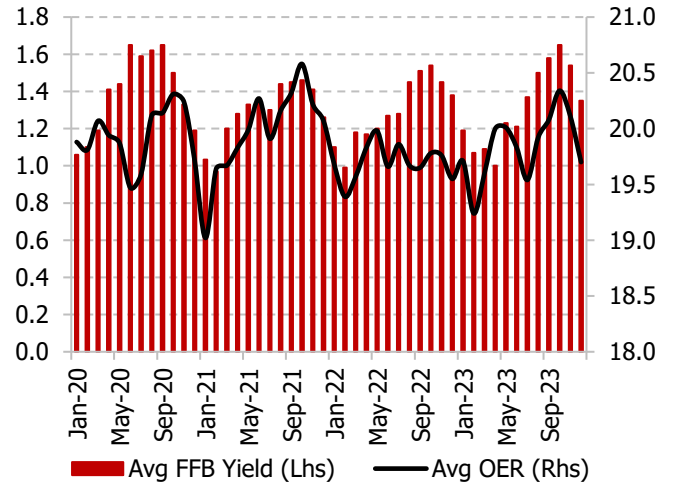
Source: MIDFR

Chart 2: PO Closing stocks VS CPO Price



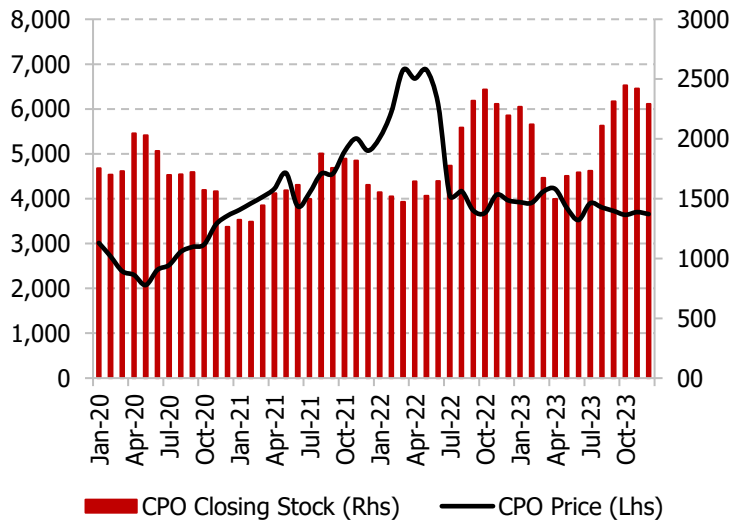
Source: MPOB, MIDFR

Chart 3: Average FFB Yield VS OER



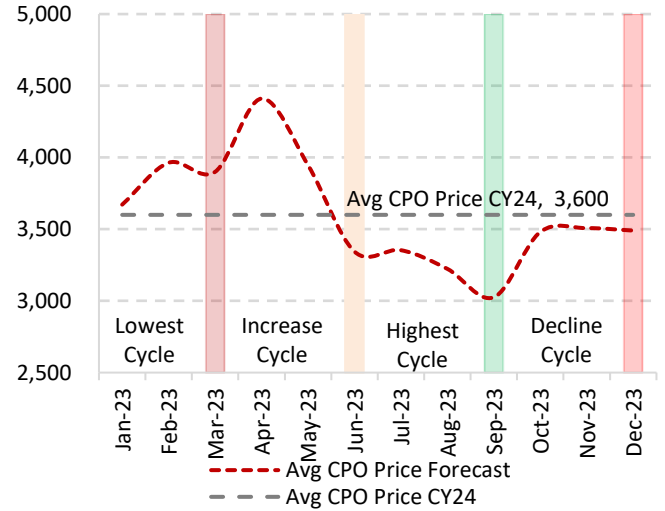
Source: MPOB, MIDFR

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