

PLANTATION

Nothing much catalyst for CPO price

Maintain NEUTRAL

KEY INVESTMENT HIGHLIGHTS

- We attended POC ~ R&O 2024's Conference
- Malaysia oil palm performance remain stable
- Traceability app development initiated
- Maintain NEUTRAL stance on the sector with CPO target price of RM3,600/mt

We recently went to Malaysia Palm Oil Conference & Seminar 2024 (R&O) to get better understanding of last year performance and the outlook of 2024. The key highlights from the conference as below:

	2022	2023	Volume/ Value	Chg%
Planted Area (m Ha)	5.65	5.67	0.02	-0.4
CPO Production (m Mt)	18.55	18.45	0.10	0.5
FFB Yield (T/Ha)	15.79	15.49	0.30	1.9
Oil Extraction Rate (%)	19.86	19.70	0.16	0.8
PO Imports (m Mt)	0.90	1.14	-0.24	-21.4
PO Exports (m Mt)	15.10	15.71	-0.61	-3.9
Ending Stocks (m Mt)	2.29	2.20	0.09	4.1
CPO Price (RM / Mt)	3,809.50	5,087.50	-1,278.00	-25.1
Export Revenue (RM B)	105.00	137.99	-32.99	23.9

2023 PO Performance in Retrospect. Comparing to CY22, planted area was relatively lower by 20k owing to the changes from agriculture land to industry/building as well replanting activity that being carried away particularly in Peninsular area. Broadly, CPO production, yield and OER inched only by +0.5%/+1.9%/+0.8% impacted by short labour shortage in the 1HCY23 but the productivity gets better later in 2HCY23 due intensive rehabilitation programme. The Yield was affected by low fertilisation application for the past 2 years, which was exacerbated by an increase in the age profile of old palm trees, while OER somehow influenced by the uneven weather throughout the year.

The speaker emphasizes that, improvement of yield may be increased when genomeslect type seeds were widely used in the next 3-5 years ahead. In 2023, PO production remain the largest against its competitor at 254.4m Mt or 32% share, followed by soybean oil c. 23%, rapeseed c. 12% and Sunflower c. 9%. Key producers for PO remain Indonesia with a share of 59% while Malaysia accounted for 23%. Exports wise, PO constituted more than half of vegetable oil market with 53% share c. 96.8m Mt. PO consumption in the major oils & fats industry continues to be popular, with a 32% share, followed by soybean oil c. 24%, rapeseed oil c. 24%, rapeseed oil c. 12% and sunflower oil c. 8%. The top 5 major consuming nations, accounting for 57% of global consumption,

COMPANY IN FOCUS

Ta Ann

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

Price @ 12th Jan 2024: RM3.65

- 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



were Indonesia c. 24%, India c. 12%, EU c. 8%, China c. 8% and Malaysia with 5% share.

Traceability development. During the conference, MPOB also mentioned that there will be an application namely Sawit Intelligent Management System (SIMS) that will be introduced, in which to facilitate the transactional data along the supply chain. With a RM10m investment from the Ministry of Plantation and Commodity, this app would help to address smallholders' traceability concerns in response to European Union Due Diligence Regulation (EUDR). The system is designed to monitor the entire supply chain for 500,000 smallholders across the country. During transactions between smallholders and dealers, this dedicated app will be used to ensure that all sales between smallholders and dealers are streamlined through this unique app. MPOB on the other hand, will help to display information on affiliated companies along the supply chain, spanning from FFB suppliers to palm oil exporters.

Edible Oils development: Malaysia & Asia. According to Euromonitor data, about 70% of edible oil consumed in Malaysia is PO - due to competitive price among its peers. This volume percentage outperformed the Asia Pacific by +24% and the global rate by +18%. Although the PO Contribution of total edible oil in 2023 in retail value sales terms remarked at 52%, it is still the lowest as opposed to Asia Pacific and global share accounting for just 22% and 15% - tougher competition against SBO and SFO. Based on <1kg on volume consumption per household 2023 data, Malaysia remains a substantial PO user, accounting for around 19-20kg per household followed by Thailand c. 13-15kg, Peru c. 13-14kg, Indonesia c. 13-14kg and India c. 13-14kg. By preference, margarine is the most favourable PO-based product in demand, c. 40-42% in Malaysia, while baked goods were among the top applications globally and Asia Pacific.

The speaker noted that future growth for the segment lies in a shift in channel packaging format - consumers are now preferring 99 Speedmart which is a convenience store chain due to the price competitiveness and accessibility in the mass market segment. In the absence of MCO in the pipeline, street stalls/kiosks also are set to drive growth for this marketing year. Last year, consumers were highly cautious on grocery spending activities owing to rate hikes, as seen by a +48.1% increase in savings money based on the sample collected.


Maintain NEUTRAL. We maintain **NEUTRAL** call on the sector with an average CPO price of RM3,600/Mt for CY24. 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 2QCY24) 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 month 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-Jan-24		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
Kuala Lumpur Kepong	BUY	22.42	24.6	103.0	76.9	21.8	29.2	61.0	42.0	2.7	1.9
IOI Corporation	BUY	3.98	4.45	25.7	16.0	15.5	24.9	12.0	10.5	3.0	2.6
PPB Group	NEUTRAL	14.70	13.86	86.6	96.7	17.0	15.2	40.0	30.0	2.7	2.0
Sarawak Plantation	NEUTRAL	2.14	2.2	22.0	25.0	9.7	8.6	12.0	12.0	5.6	5.6
Sime Darby Plantation	NEUTRAL	4.31	4.1	13.7	16.7	31.5	25.8	8.5	8.0	2.0	1.9
Genting Plantation	NEUTRAL	6.30	5.76	25.1	31.3	25.1	20.1	15.0	15.0	2.4	2.4
Ta Ann Holdings	BUY	3.65	4.25	41.5	47.3	8.8	7.7	25.0	20.0	6.8	5.5
TSH Resources	NEUTRAL	1.00	0.97	6.7	8.0	14.9	12.5	2.0	2.0	2.0	2.0
FGV Holdings	SELL	1.36	1.06	4.2	5.3	32.4	25.7	2.0	3.0	1.5	2.2

Source: MIDFR

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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