

PLANTATION

No Supply Issue, Sector Recovery on Track

Maintain NEUTRAL

KEY INVESTMENT HIGHLIGHTS

- **Output recovery maintains**
- **Exports increase ahead of CNY festivals**
- **Inventory level softened**
- **Maintain NEUTRAL stance on the sector with CPO target price of RM3,600/mt**

Output recovery maintains. Malaysia's CPO production started the year at 1.40m tonnes (-9.6%mom; **+1.6%yoy**) versus 1.38m tonnes in subsequent year, due to the contribution from most of the states particularly in peninsular area as it benefited from improved foreign labour productivity. The FFB received by mills rose to 7.3m tonne (**+3.1%yoy**) with a decent yield of 1.25 tonne/ha (+5.0%yoy) recorded, while OER marginally lower to 19.37% impacted by continuation of unfavourable weather in southern region area.

For the 1QCY24, we expect the production performance will be taper a bit as the palm trees enters the pollination cycle, while relatively idle on annual basis with c. +5.0%yoy growth, ahead of an anticipation of Mild El-Nino in 2QCY24. However, estates activity to remains intact, riding on improved newly foreign labour productivity.

Inventory level softened. Ending stockpiles in Jan-24 down to 2.0m tonne (-11.8%mom, **-11.0%yoy**), coinciding with jumped in our local demand usage and surged in exports numbers. Local demand for palm oil-based products was supported by better consumer sentiment activity, in preparation of CNY celebrations. While the increase in exports was primarily due competitive premium discount against SBO price amounted USD126/Mt, which was 56% below 3y-average. Note that, weaker ringgit also helps CPO to remain competitive among its rivals.

During the month, both stocks, CPO and Processed PO were down -11%yoy and -4.7%yoy respectively, due to lower contribution from Peninsular (-24.2%yoy) and Sabah (-21.3%yoy) areas whilst Sarawak remained at steady growth of +19.4%yoy. We believe the Malaysian PO stockpiles to continue recovering to pre-pandemic level given the improved estates productivity.

CPO prices to trend higher at in 1H24. In Jan, the local CPO delivery price inched slightly higher to RM3,832.5/Mt (+3.1%mom), but averaged monthly lower at RM3,783.5/Mt (+3.5%mom, **-3.5%yoy**) dragged by optimism on local production levels. We estimated January's price to flattish at RM3,672/Mt level, however it appears that risks of dry weather slated in. Moving onwards, we forecast that average local CPO delivery prices to close by +4.8%mom higher at RM3,900/Mt in February, as a result of developing Mild EL-Nino events as forecasted by MET Malaysia.

COMPANY IN FOCUS

Ta Ann

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

Price @ 13th Feb 2024: RM3.74

- 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



Note that the potential delayed onset of the EL-Nino event could pose risks to crop productivity in the 2QCY24, 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 RM3,600/Mt for CY24. Our 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. RM3,600-4,400/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  mand.

Table 1: Malaysia Palm Oil Statistics for Jan 2024 ('000 MT)

	Jan-23	Dec-24	Jan-24	MoM%	YoY%	1M23	1M24	YTD%
Opening Stocks	2.20	2.42	2.29	-5.3%	4.3%	1.61	2.20	36.0%
Production	1.38	1.55	1.40	-9.6%	1.6%	1.38	1.40	1.6%
Imports	0.14	0.04	0.03	-19.4%	-79.7%	0.14	0.03	-79.7%
Total Supply	3.72	4.01	3.72	-7.1%	0.0%	3.1	3.6	15.5%
Exports	1.14	1.33	1.35	1.2%	18.9%	1.14	1.35	18.9%
Dom Disapp	0.32	0.38	0.35	-7.8%	10.9%	0.32	0.35	10.9%
Total Demand	1.45	1.72	1.70	-0.8%	17.1%	1.45	1.70	17.1%
End Stocks	2.27	2.29	2.02	-11.8%	-11.0%	1.69	1.93	14.2%
Stock/Usage Ratio	13.0%	11.1%	9.9%	-11.1%	-24.0%	9.7%	9.4%	-2.5%

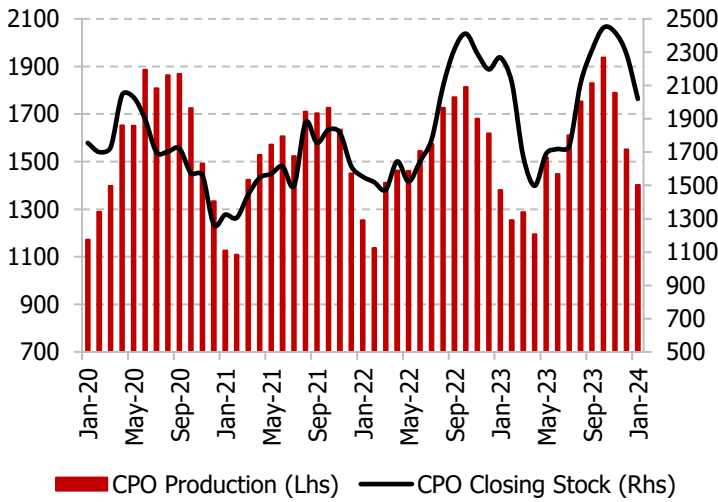
Source: MPOB, MIDFR

Table 2: Summary of earnings, TP and recommendations

Stocks	Rec.	Price @	Tgt Price (RM)	Core EPS (sen)		PE (x)		Net DPS (sen)		Div Yield (%)	
		13-Feb-24		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
Kuala Lumpur Kepong	BUY	22.58	24.6	76.9	73.3	29.4	30.8	42.0	40.0	1.9	1.8
IOI Corporation	BUY	4.04	4.45	16.0	14.8	25.3	27.3	10.5	8.0	2.6	2.0
PPB Group	NEUTRAL	15.00	13.86	96.7	104.1	15.5	14.4	30.0	30.0	2.0	2.0
Sarawak Plantation	NEUTRAL	2.16	2.2	25.0	26.9	8.6	8.0	12.0	10.0	5.6	4.6
Sime Darby Plantation	NEUTRAL	4.55	4.1	16.7	16.0	27.2	28.4	8.0	8.0	1.8	1.8
Genting Plantations	NEUTRAL	6.30	5.76	31.3	35.9	20.1	17.5	15.0	15.0	2.4	2.4
Ta Ann Holdings	BUY	3.74	4.25	47.3	50.3	7.9	7.4	20.0	20.0	5.3	5.3
TSH Resources	NEUTRAL	1.03	0.97	8.0	9.2	12.9	11.2	2.0	2.0	1.9	1.9
FGV Holdings	SELL	1.46	1.06	5.3	4.1	27.5	35.6	3.0	2.0	2.1	1.4

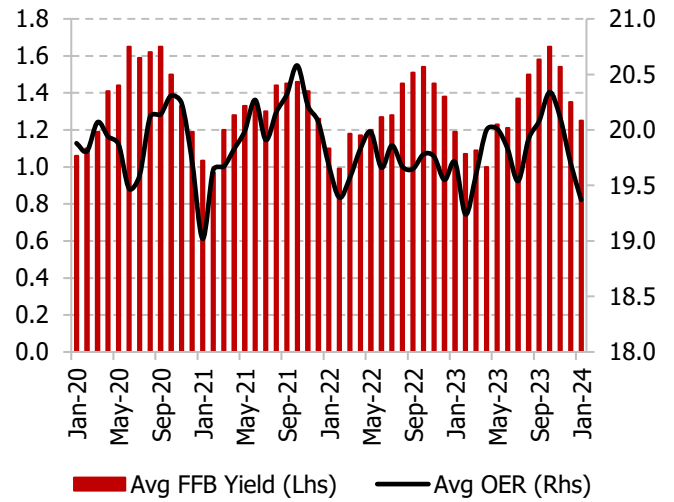
Source: MIDFR

Chart 2: PO Closing stocks VS CPO Price



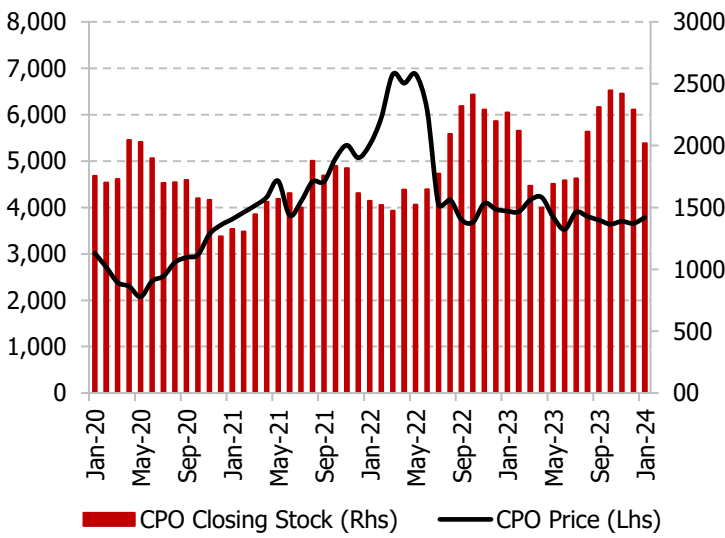
Source: MPOB, MIDFR

Chart 3: Average FFB Yield VS OER



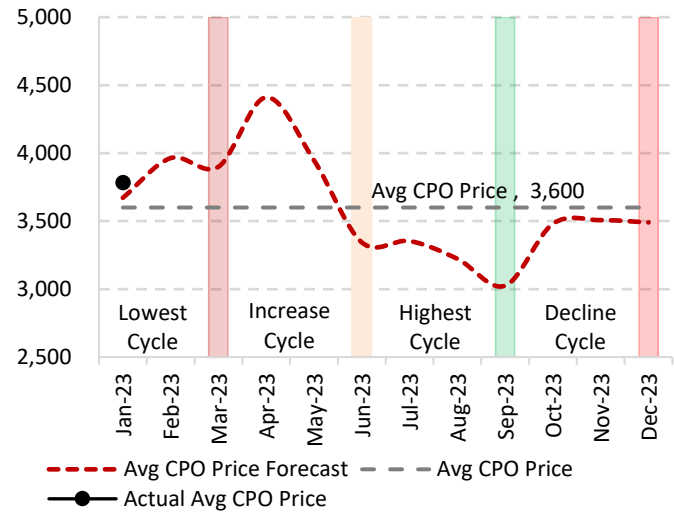
Source: MPOB, MIDFR

Chart 4: Malaysia PO Production VS Closing Stocks



Source: MPOB, MIDFR

Chart 5: CY24 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