

PLANTATION

Maintain NEUTRAL

1QCY24 Earnings Wrap-Up: Earnings Are Cyclically Low During the Pollination Months

KEY INVESTMENT HIGHLIGHTS

- Earnings came mostly within our forecast
- CPO Production remain intact due better estate activity in 1QCY24
- CPO prices hinged on the high side on low crops seasonality
- Maintain NEUTRAL stance on the sector with CPO target price of RM3,600/mt

1QCY24 earnings. Largely, 7 companies out of our 9 stocks universe came in within our expectations, with 1 registered below and 1 above namely FGV and IOICorp respectively. Sector earnings wrapped to RM976.9m (-41.8%qoq, +10.0%yoy), attributed to the higher contributions from SD Guthrie and IOI Corp, which hold 23% and 25% weightage, respectively. FY24-25F's earnings were adjusted lower following earnings adjustment of FGV. Key factors that influenced earnings volatility during the period are 1) low crops seasonality due to pollination months, 2) long dry weather days due to mild EL-Niño that have peaked in April, 3) elevated CPO price traded, hovering around RM3,600-4,200/Mt.

Upstream Subsegment. In 1QCY24, our CPO Production universe inched organically +3.3%yoy higher (Vs MPOB production; +3.4%yoy), driven by continues recovery in SD Guthrie and KLK production and estate activity. Broadly, this recovery moves in tandem MPOB production growth, as Malaysian planters were seen benefited from dry weather environment – better FFB evacuation process, on top of improved newly foreign labour productivity due to intensive rehabilitation process in 2023.

The estimated all-in cost of production has now fallen to an average of RM2,888/Mt (+4.6%qoq, -5.6%yoy), following a drop in fertiliser costs to 18-24% from 30% previously, of the total production cost. On that note, fertiliser price components such as Urea and Potassium have decreased to USD339/Mt (-8.8%yoy) and USD295/Mt (-39.2%yoy), respectively, due to easing natural gas prices in Europe.

CPO Prices, on the other hand, hinged on the high side mostly influenced by the low crop seasonality. It was muted by -0.7%yoy to an average RM3,788/Mt (Vs MPOB average; RM3,983/Mt). When stacked against the SBO price of USD1,063/Mt, the discount spread widened to USD181/Mt (+36.5%qoq).

Downstream Subsegment. Most of the integrated players were still affected by subdued demand for refinery and oleo products. The demand for RBD Palm Olein (RBDPO) and stearin (RBDPS) were softer to China refiners opting for CPO instead of these PPO products. This shift was primarily due small spread between the prices of RBDPO and RBDPS against CPO, ranging USD120-140/Mt.

COMPANY IN FOCUS

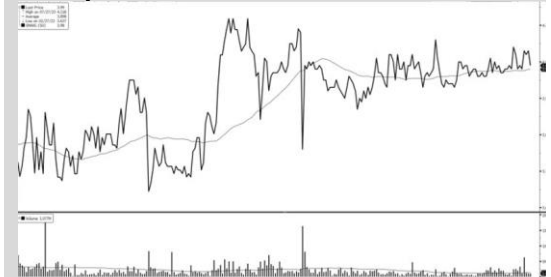
IOI Corp

Maintain BUY | Unchanged target price: **RM4.50**

Price @ 12th June 2024: RM3.81

- Upstream level remains intact with high production growth c. +5% supported by strong FFB yield of 19.5tonne/ha and OER 22%
- Lowest cost of production among its peers c. RM2,400-2,600 / Mt
- The downstream subsegment remain competitive, as its Malaysia's refinery and Oleo plant still operate at a profit as compared to its peers.

Share price chart




Maintain NEUTRAL. In summary, we opine that companies' top-line to continue uptick in 1Q-2QCY24, in line with elevated average CPO price traded, mostly influenced by low crop seasonality and mild El-Niño event. We deem it is the best time to lock the profits for our top picks such as Ta Ann as we anticipate the increase in share price will gradually decline towards the end of the quarter, prompting shift towards a trading strategy, of which we had recently downgraded Ta Ann to NEUTRAL (previously BUY), with unchanged TP of RM4.10, at current juncture. IOI Corp remains our top pick for the sector. IOI Corp's outlook remains steady and is well supported by both upstream and downstream profitability. Its refinery and oleo plant are well insulated from high input costs due to their strategic locations, unlike their peers operating in Europe, which are impacted by high production costs. We keep our **NEUTRAL** call for the sector at this juncture with average CPO target price of RM3,600/Mt for the whole year. 

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-June-24		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
IOI Corporation	BUY	3.81	4.50	16.2	16.0	23.5	23.8	7.5	6.5	2.0	1.7
Ta Ann Holdings	NEUTRAL	3.91	4.10	48.3	49.0	8.1	8.0	20.0	20.0	5.1	5.1
KLK	NEUTRAL	20.96	22.00	76.9	73.3	27.3	28.6	42.0	40.0	2.0	1.9
PPB Group	NEUTRAL	14.52	15.47	96.7	104.1	15.0	13.9	40.0	40.0	2.8	2.8
Sarawak Plantation	NEUTRAL	2.22	2.20	25.0	26.9	8.9	8.3	10.0	10.0	4.5	4.5
SD Guthrie	NEUTRAL	4.24	4.18	16.7	16.0	25.4	26.5	8.0	8.0	1.9	1.9
Genting Plantations	NEUTRAL	6.05	6.10	31.3	35.9	19.3	16.9	21.0	15.0	3.5	2.5
TSH Resources	NEUTRAL	1.13	1.18	8.0	9.2	14.1	12.3	2.0	2.0	1.8	1.8
FGV Holdings	SELL	1.30	1.14	5.3	4.1	24.5	31.7	3.0	2.0	2.3	1.5

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