

PLANTATION

Sector recovery is on track

KEY INVESTMENT HIGHLIGHTS

- **Production recovery continues to be sustained**
- **Inventory level stabilise, still grew on year-on-year basis**
- **CPO prices to moderate in 2Q24**
- **Maintain NEUTRAL stance on the sector with CPO target price of RM3,600/mt**

Production recovery continues to be sustained. Malaysia's CPO production in March remain decent at 1.39m tonnes (+10.6%mom; **+8.1%yoy**; +3.4%ytd) versus 1.29m tonnes in prior year, due to contribution from most of the states particularly in the peninsula area (+19.1%yoy) as it benefited from improved foreign labour productivity whilst Sabah (-9.3%yoy) was impacted by dry weather environment. On that note, the FFB received by mills also surged to 7.2m tonne (+6.7%yoy) with a higher yield of 1.17 tonne/ha (+7.3%yoy) recorded, while OER muted at 19.80% on low crop seasonality in most of the states.

For 2QCY24, we anticipate the production performance will improve, ahead of an anticipated mild La-Niña in 2H24. A mixed dry and rainy weather pattern can be seen toward May and June. This will leave the palm trees into better positions, as pollination cycle comes to its ends, with estate activity remaining intact, riding on improved productivity of newly hired foreign labour.

Inventory level at 9 month-low, however still grew on year-on-year basis. Ending stockpiles in Mar-24 saw a 9 month-low, however still grew to 1.7m tonne (-10.7%mom, **+2.4%yoy**), coinciding with dropped in exports numbers and higher local demand usage. Local demand for palm oil-based products was supported by better consumer sentiment activity, in preparation of Raya celebrations. While the decrease in exports was primarily due price effects, as strengthen in CPO price c. USD943/Mt, reduced its competitiveness against other vegetable-oils in sensitive major importing countries; as India and Pakistan are taking opportunities to import more SBO due narrowed premium discount against SBO price amounted USD22/Mt, which was 92% below 3y-average.

During the month, both stocks, CPO and Processed PO were up by +2.4%yoy and +17.3%yoy respectively, due to higher contribution from Sarawak (+13.6%yoy) whilst muted stockpiles in Peninsular area (-1.9%yoy).

CPO prices to moderate in 2Q24. The local CPO price delivery ended the month at RM4,285.0/Mt (+7.0%mom), and averaged monthly higher at RM4,215.5/Mt (+6.7%mom, **+1.3%yoy**) riding on EL-Nino premium risks. We estimated March's price to flattish at RM3,900/Mt level, however

COMPANY IN FOCUS

Ta Ann

Maintain BUY | Unchanged target price: **RM4.10**

Price @ 15th Apr 2024: RM4.21

- 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



it appears that at risk of dry weather climate. Moving forward, we forecast that the average local CPO delivery prices will close +4.6%mom higher at RM4,410.5/Mt in April, influenced by the peak of mild EL-Niño events as forecasted by MET Malaysia. However, we do anticipate a softening in May, to approximately RM3,946.7 (-10.5%mom) as uneven weather begins to normalise, ahead of La-Niña event in 2H24.


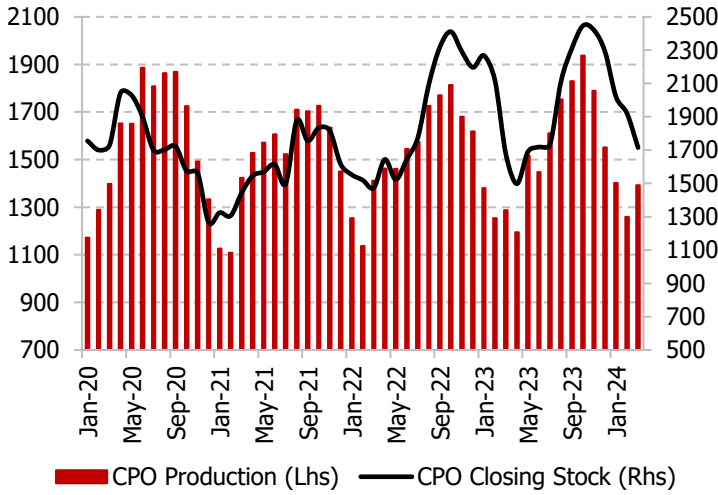
Maintain NEUTRAL. In summary, we opine that companies' top-line to continue uptick in 1Q-2QCY24, in line with elevated average CPO price traded, mostly influenced by low crop seasonality and mild EL-Niño event. We deem it is the best time to lock the profits for our top picks such as Ta Ann (already above our TP), KLK, and IOI Corp, as we anticipate the increase in share price will gradually decline towards the end of the quarter, prompting shift towards a trading strategy. 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 1: Malaysia Palm Oil Statistics for March 2024 ('000 MT)

	Mar-23	Feb-24	Mar-24	MoM%	YoY%	3M23	3M24	YTD%
Opening Stocks	2.12	2.02	1.92	-5.0%	-9.4%	2.20	2.29	4.3%
Production	1.29	1.26	1.39	10.6%	8.1%	3.92	4.05	3.4%
Imports	0.04	0.03	0.02	-32.7%	-45.0%	0.24	0.08	-64.6%
Total Supply	3.45	3.31	3.33	0.7%	-3.3%	6.4	6.4	1.2%
Exports	1.49	1.02	1.32	29.7%	-11.4%	3.75	3.68	-1.8%
Dom Disapp	0.29	0.38	0.30	-19.8%	5.6%	0.93	1.03	10.7%
Total Demand	1.77	1.39	1.62	16.3%	-8.7%	4.68	4.71	0.7%
End Stocks	1.67	1.92	1.71	-10.7%	2.4%	1.67	1.71	2.4%
Stock/Usage Ratio	7.9%	11.5%	8.8%	-23.2%	12.2%	3.0%	3.0%	1.7%

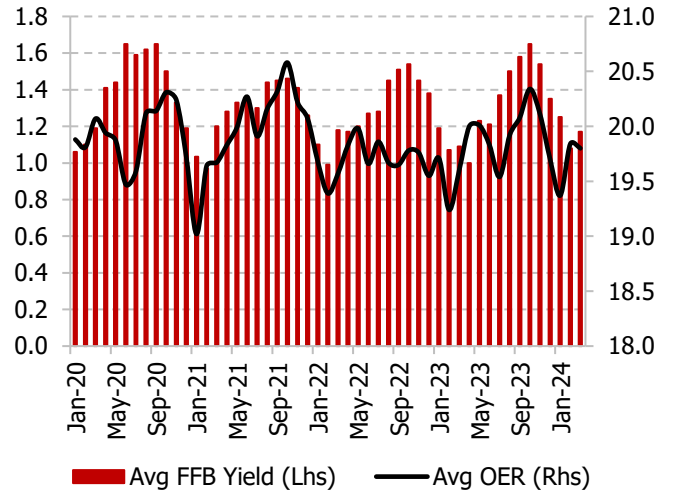
Source: MPOB, MIDFR

Chart 2: PO Closing stocks VS CPO Price



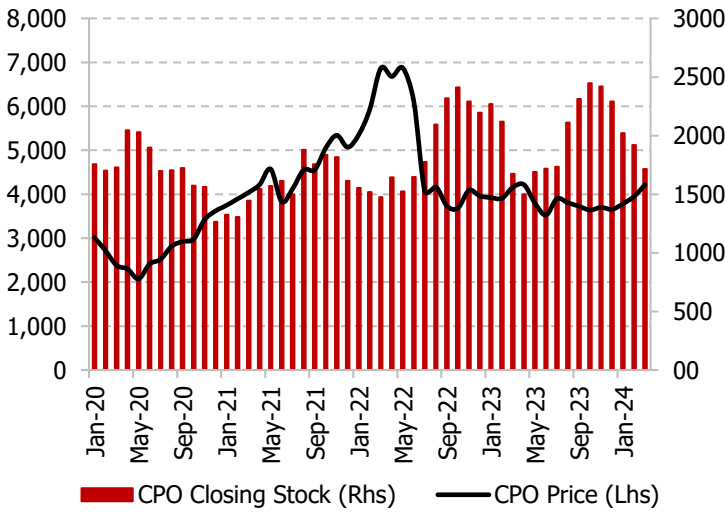
Source: MPOB, MIDFR

Chart 3: Average FFB Yield VS OER



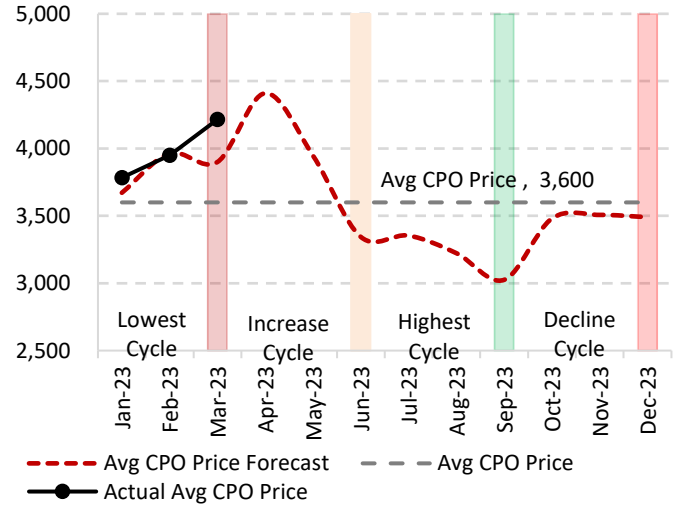
Source: MPOB, MIDFR

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