

PLANTATION

Stocks rise, premium risks fall

KEY INVESTMENT HIGHLIGHTS

- **Production recovery remains steady**
- **Stock level grew by double digit**
- **CPO prices trades lower than expected**
- **Maintain NEUTRAL stance on the sector with CPO target price of RM3,600/mt**

Production recovery remains steady. Malaysia’s CPO production in April inch to 1.50m tonnes (+7.9%mom; **+25.7%yoy**; +8.6%ytd) versus 1.19m tonnes in prior year, riding on contribution from most of the states particularly in the Terengganu area (+70.3%yoy) and Kedah (+65.7%yoy) as it benefited from dry weather environment on top of improved foreign labour productivity. Separately, the country’s FFB received by mills also climbed to 7.8m tonne (+27.9%yoy) with a higher average yield of 1.3 tonne/ha (+27.0%yoy) recorded, while average OER muted at 19.76% on low crop seasonality in most of the states.

Although the mild-EL-Niño peaked in April, it seems the dry weather has also contributed to improving the productivity in the estate, especially in term of FFB evacuation process and manuring activities. Upstream activities have maintained its momentum and are expected to continue in the remaining months, ahead of an anticipated La-Niña in 2HCY24, where a mixed dry and rainy weather pattern can be observed toward May and June particularly in Southern regions.

Stock level grew by double digit. Ending stockpiles in Apr-24 surged to 1.7m tonne (+1.9%mom, **+16.5%yoy**), supported by higher production levels recorded, amid relatively flat total demand at 1.5m tonne. Exports grew to 1.2m tonne, buoyed by the Raya festive season, in contrast to the feeble local demand for palm oil-based products, which was beset by weak consumer sentiment activity, despite the month of Raya celebrations, due to overlap with educational expenses as schools reopened.

While the increase in exports was primarily due price effects, as weaken in CPO price circa USD936/Mt (March: USD943/Mt), increased its competitiveness against other vegetable-oils in sensitive major importing countries; as India and Pakistan took opportunities to import more PO 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 +16.5%yoy and +17.5%yoy respectively, due to higher contribution from Peninsular (+35.2%yoy) and Sarawak area (+7.1%yoy).

COMPANY IN FOCUS

Ta Ann

Maintain BUY | Unchanged target price: **RM3.91**

Price @ 10th May 2024: RM4.10

- 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



CPO prices trades lower than expected. The local CPO price delivery ended the month at RM3,859.5/Mt (-9.9%mom), and averaged monthly flat at RM4,254.5/Mt (+0.9%mom, **+0.9%yoy**) as EL-Niño premium risks dissipated. We estimated that April's average CPO price would reach the RM4,410/Mt level (+4.6%mom), which was last year's resistance level. However, the price momentum cooled off earlier than expected, dialling back to February's prices, as it appears that the risk of dry weather has diminished. Moving forward, we forecast the average local CPO delivery prices will close **-7.2%mom** lower to approximately RM3,946.7/Mt in May, as uneven weather begins to normalise ahead of La-Niña event in 2HCY24. Broadly, with global oilseed and soybean production in 2024/25 projected to increase to 687m tonne (+4.0%yoy) and 422m tonne (+6.0%yoy), this will push other veg-oils and soybean oil prices into a downward trend (supply risks deescalating).


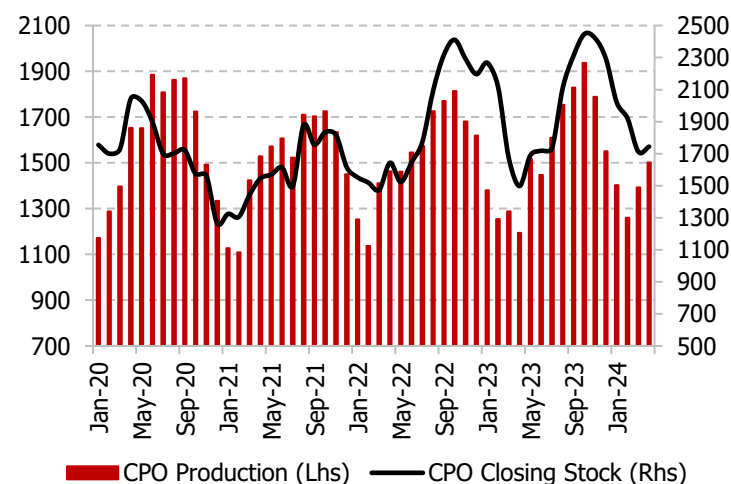
Maintain NEUTRAL. In summary, we opine that companies' top-line to continue uptick in 1Q-2QCY24, in line with elevated average CPO price traded, mostly influenced by low crop seasonality and mild EL-Niño event. We deem it is the best time to lock the profits for our top picks such as Ta Ann, KLK, and 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 April 2024 ('000 MT)

	Apr-23	Mar-24	Apr-24	MoM%	YoY%	4M23	4M24	YTD%
Opening Stocks	1.67	1.92	1.71	-10.8%	2.3%	2.20	2.29	4.3%
Production	1.19	1.39	1.50	7.9%	25.7%	5.12	5.56	8.6%
Imports	0.04	0.02	0.03	58.8%	-19.4%	0.28	0.12	-57.7%
Total Supply	2.91	3.33	3.25	-2.6%	11.6%	7.6	8.0	4.9%
Exports	1.09	1.32	1.23	-6.3%	13.5%	4.84	4.92	1.6%
Dom Disapp	0.33	0.30	0.27	-11.0%	-17.0%	1.26	1.30	3.7%
Total Demand	1.41	1.62	1.50	-7.2%	6.4%	6.10	6.22	2.1%
End Stocks	1.50	1.71	1.74	1.9%	16.5%	1.50	1.74	16.5%
Stock/Usage Ratio	8.8%	8.8%	9.7%	9.8%	9.4%	2.0%	2.3%	14.1%

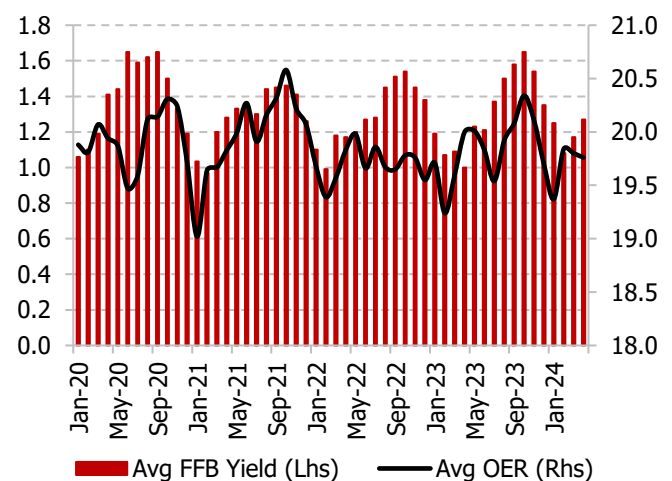
Source: MPOB, MIDFR

Chart 2: PO Closing stocks VS CPO Price



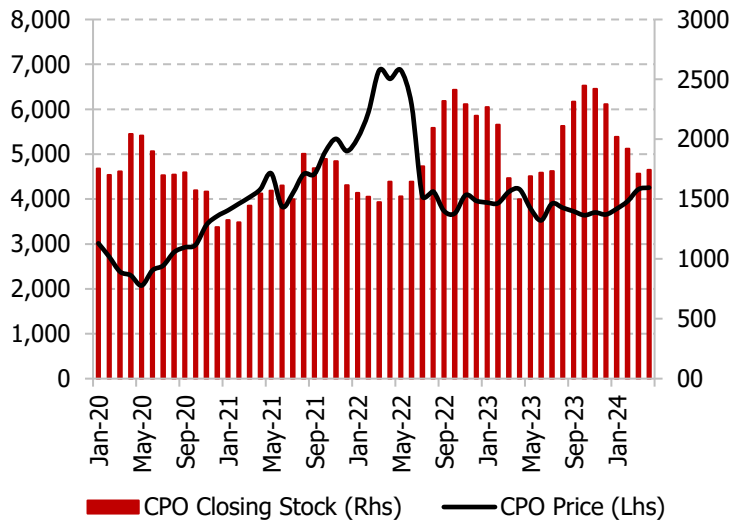
Source: MPOB, MIDFR

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

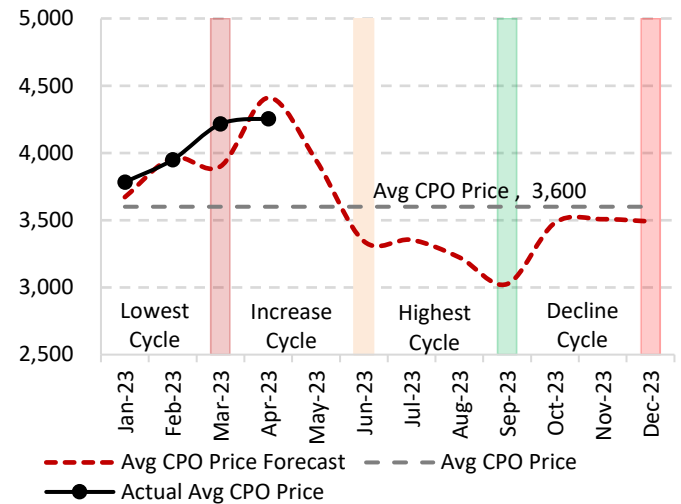
Source: MPOB, MIDFR
*Production cycle

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-May-24		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
Kuala Lumpur Kepong	BUY	22.66	24.60	76.9	73.3	29.5	30.9	42.0	40.0	1.9	1.8
IOI Corporation	BUY	4.04	4.50	16.2	16.0	24.9	25.3	10.5	8.0	2.6	2.0
PPB Group	NEUTRAL	15.48	15.47	96.7	104.1	16.0	14.9	40.0	40.0	2.6	2.6
Sarawak Plantation	NEUTRAL	2.18	2.20	25.0	26.9	8.7	8.1	12.0	10.0	5.5	4.6
Sime Darby Plantation	NEUTRAL	4.52	4.18	16.7	16.0	27.1	28.3	8.0	8.0	1.8	1.8
Genting Plantations	NEUTRAL	6.22	6.10	31.3	35.9	19.9	17.3	15.0	15.0	2.4	2.4
Ta Ann Holdings	BUY	3.91	4.10	48.3	49.0	8.1	8.0	20.0	20.0	5.1	5.1
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	1.36	1.06	5.3	4.1	25.7	33.2	3.0	2.0	2.2	1.5

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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