

# PLANTATION

## PO Estate Operations Remain Uninterrupted

### KEY INVESTMENT HIGHLIGHTS

- **Robust upstream activity in June**
- **Stock level surged higher on the back of sluggish exports**
- **CPO prices traded higher than expected**
- **Maintain NEUTRAL stance on the sector with a revised CPO target price of RM3,800/mt**

**Productive activity in June.** CPO output in June-24 rose meaningfully to 1.62m tonne (-5.2%mom, **+11.6%yoy**, +9.8%ytd) versus 1.45m tonne in prior year, banking on the contribution from most of the states particularly in the Kedah area (+76.5%yoy), Negeri Sembilan (+58.5%yoy), Pahang (+58.5%yoy) during this moderate dry environment - monsoon transition. Notably, the country's FFB received by mills also climbed to 8.65m tonne (+16.3%yoy) with a decent average yield of 1.40 tonne/ha (+15.7%yoy) recorded. Meanwhile average OER in mills maintained a supportive level of 19.24%, as the ripeness of the fruitlet were somewhat affected by dry weather.

The latest ENSO status indicates that ENSO-neutral conditions are present and are predicted to continue until August, providing a favourable environment to kick-start the harvesting season. However, La Niña is expected to develop during July-Sept with a probability of 65%, thereby risking an estate activity, particularly in terms of FFB evacuation process and manuring activities. Nonetheless, we suspect the wet weather will not significantly harm productivity, similar to the mild impact of the previous EL-Niño in Feb-April.

**Alarming stock levels.** Ending stockpiles mounted higher to 1.83m tonne (+4.3%mom, **+6.4%yoy**), dragged down by the sluggish export number recorded, which remained flat at 1.21m tonne (-12.6%mom; **+2.9%yoy**). There was a notable increase in PPO stock lines (downstream subsegment), particularly CP Olein (+83.4%yoy), RBD PO (+20.9%yoy), PFAD (+25.0%yoy) signalling subdued restocking activity for food and Oleo products.

Broadly, the share of PO imports in India, decreased to about 50-51% from 66% in Jan, as the soft oils share (soybean and sunflower) increased due stiff price differential with PO. As of June, premium discount between the PO and SBO was approximately USD137/Mt (-48.3% below 3y-average) and USD169/Mt (-17.5% below 3y-average) for SFO.

**CPO prices traded higher than expected.** The local CPO price delivery ended the month at RM3,996/Mt (-1.6%mom), and averaged monthly higher at RM3,958/Mt (+1.4%mom, **+12.3%yoy**) as supply risks priced in. We forecast the average local CPO delivery prices will close -11.4%mom lower to approximately RM3,507/Mt in July, as we believe the upside will

### COMPANY IN FOCUS

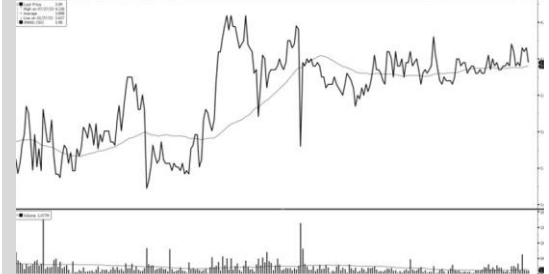
#### IOI Corp

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


Price @ 10<sup>th</sup> July 2024: RM3.68

- 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



be capped by the recovery in higher FFB & CPO output, as we are entering a high crops period seasonality and the pollination cycle comes to its end. Additionally, the buildup in PO stocks is understandable, moving in tandem with higher production month. However, the flat trend in demand remains unwarranted and may potentially curb upward price trend ahead.

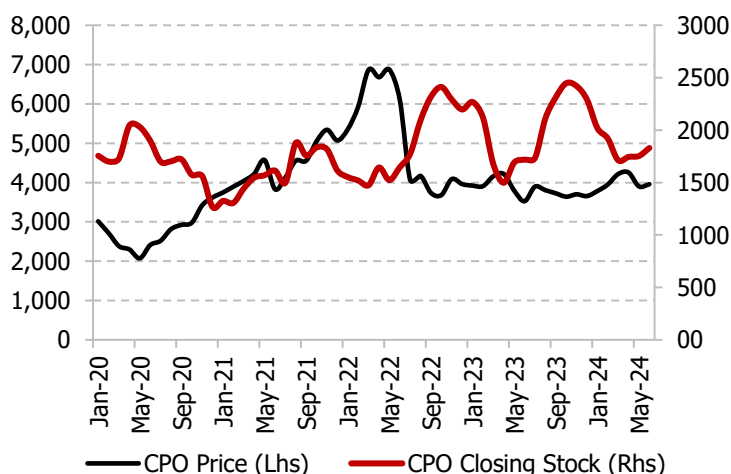
**Maintain NEUTRAL.** In summary, we opine that companies' top-line to continue uptick in 1Q-2QCY24, in line with elevated average CPO price traded, mostly influenced by low crop seasonality and mild EL-Niño event. Our top pick is IOI Corp. IOI Corp's outlook remains steady and is well supported by both 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 -high natural gas. Additionally, we tactically upgrade **KLK and PPB** to **BUY** Call, as the recent softened share price has increased its upside to 12% and 11%, which led to valuable buying opportunities, due to cheaper valuations. We keep our **NEUTRAL** call for the sector at this juncture with a revised average CPO target price of RM3,800/Mt for the whole year. 

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

	June-23	May-24	June-24	MoM%	YoY%	1H23	1H24	YTD%
Opening Stocks	1.69	1.74	1.75	0.5%	3.7%	2.20	2.29	4.3%
<b>Production</b>	<b>1.45</b>	<b>1.70</b>	<b>1.62</b>	<b>-5.2%</b>	<b>11.6%</b>	<b>8.08</b>	<b>8.88</b>	<b>9.8%</b>
Imports	0.14	0.02	0.01	-43.5%	-91.3%	0.50	0.15	-69.5%
<b>Total Supply</b>	<b>3.27</b>	<b>3.47</b>	<b>3.38</b>	<b>-2.6%</b>	<b>3.3%</b>	<b>10.8</b>	<b>11.3</b>	<b>5.0%</b>
Exports	1.17	1.38	1.21	-12.6%	2.9%	7.09	7.50	5.8%
Dom Disapp	0.38	0.34	0.35	2.1%	-9.7%	1.97	1.99	1.0%
<b>Total Demand</b>	<b>1.55</b>	<b>1.72</b>	<b>1.55</b>	<b>-9.7%</b>	<b>-0.2%</b>	<b>9.06</b>	<b>9.49</b>	<b>4.8%</b>
<b>End Stocks</b>	<b>1.72</b>	<b>1.75</b>	<b>1.83</b>	<b>4.3%</b>	<b>6.4%</b>	<b>1.72</b>	<b>1.83</b>	<b>6.4%</b>
Stock/Usage Ratio	9.2%	8.5%	9.8%	-	-	1.6%	1.6%	-

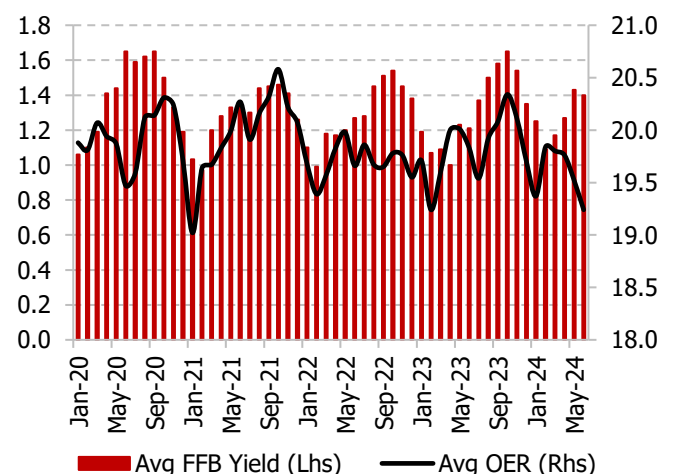
Source: MPOB, MIDFR

**Chart 2: PO Closing stocks VS CPO Price**



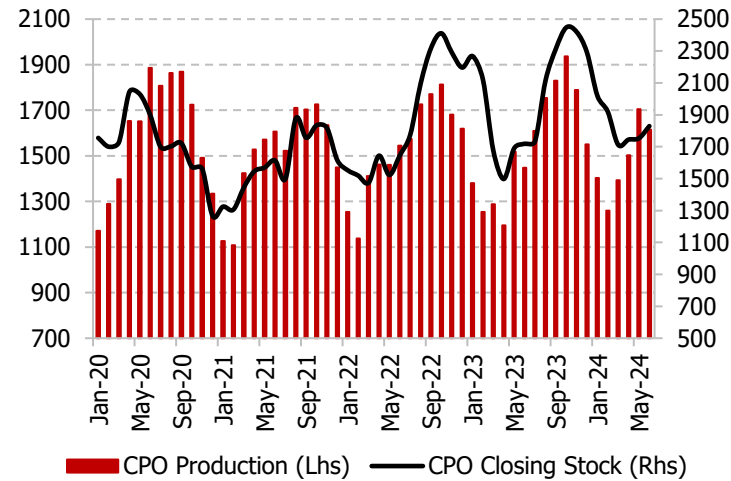
Source: MPOB, MIDFR

**Chart 3: Average FFB Yield VS OER**



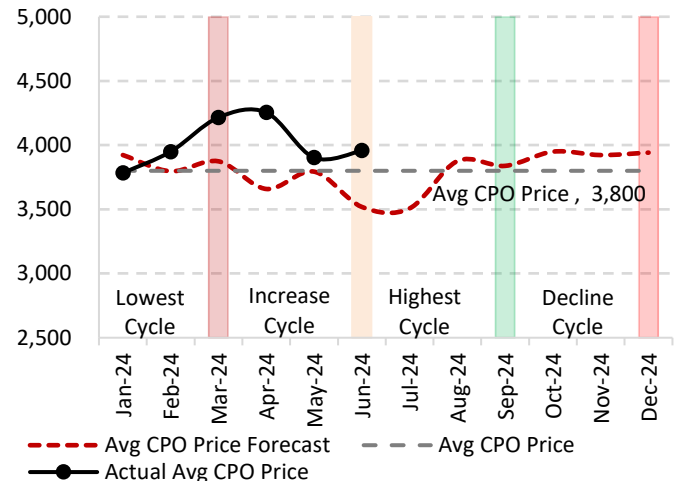
Source: MPOB, MIDFR

Chart 4: Malaysia PO Production VS Closing Stocks



Source: MPOB, MIDFR

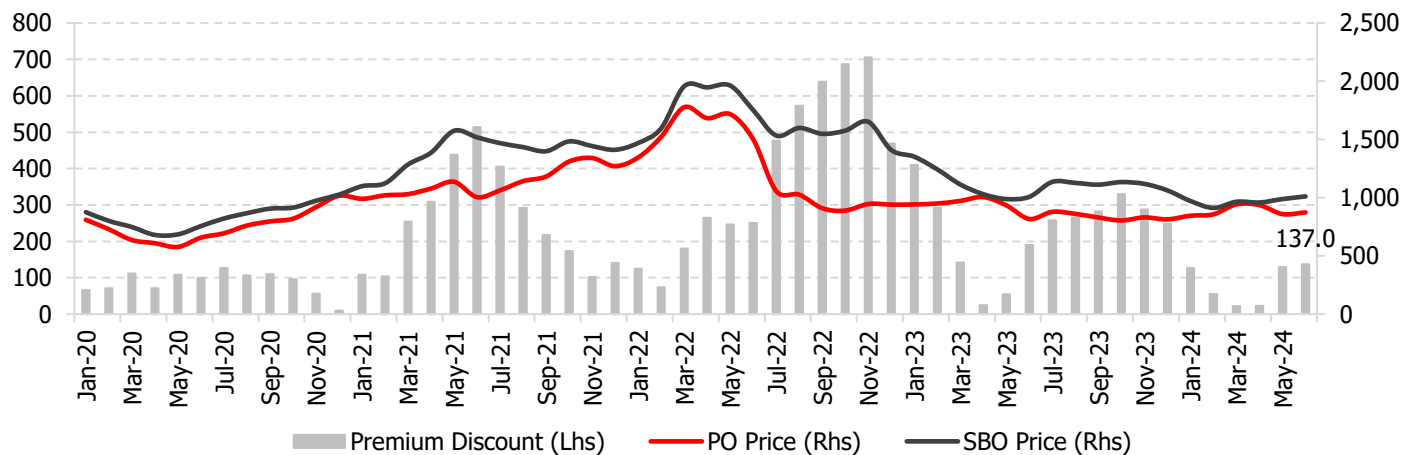
Chart 5: CPO Price Movement Forecast VS Actual



Source: MPOB, MIDFR

\*Crops cycle

Chart 6: Palm Oil – Soybean Oil Price Spread (USD/Mt)



Source: 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 (%)	
		10-July-24		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
IOI Corporation	BUY	3.68	4.50	16.2	16.0	22.7	23.0	7.5	6.5	2.0	1.8
Ta Ann Holdings	BUY	3.88	4.10	48.3	49.0	8.0	7.9	20.0	20.0	5.2	5.2
KLK	BUY	20.02	22.00	76.9	73.3	26.0	27.3	42.0	40.0	2.1	2.0
PPB Group	BUY	14.28	15.47	96.7	104.1	14.8	13.7	40.0	40.0	2.8	2.8
Sarawak Plantation	NEUTRAL	2.17	2.20	25.0	26.9	8.7	8.1	10.0	10.0	4.6	4.6
SD Guthrie	NEUTRAL	4.21	4.18	16.7	16.0	25.2	26.3	8.0	8.0	1.9	1.9
Genting Plantations	NEUTRAL	5.85	6.10	31.3	35.9	18.7	16.3	21.0	15.0	3.6	2.6
TSH Resources	NEUTRAL	1.22	1.18	8.0	9.2	15.3	13.3	2.0	2.0	1.6	1.6
FGV Holdings	SELL	1.31	1.14	5.3	4.1	24.7	32.0	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