

# PLANTATION

## No Slowdown in Production

### KEY INVESTMENT HIGHLIGHTS

- **Upstream output continued its momentum in July**
- **Stock level turned flat on the back of rebound in exports**
- **CPO prices maintained its RM4,000/Mt price level**
- **Maintain NEUTRAL stance on the sector with a revised average CPO target price of RM3,800/Mt**

**Fruitful activity in July.** CPO output in July-24 surged by double digit growth to 1.84m tonne (+14.4%mom, **+14.4%yoy**, +10.6%ytd) versus prior year, showed no slowdown in estate activity from most of the states, notably in the Kedah area (+80.3%yoy), Pahang (+43.6%yoy) and Negeri Sembilan (+41.4%yoy). The progress was well supported by higher FFB received by mills which also rose to 9.53m tonne (+14.1%yoy) on combination of the robust average yield of 1.56 tonne/ha (+13.9%yoy) recorded. Meanwhile, average OER in mills remained at supportive level of 19.44%, as the ripeness of the fruitlet were somewhat affected by the past dry weather months.

The latest report from Met Malaysia indicates that the long-term weather outlook for Aug 2024 - Jan 2025 is neutral, with no strong La Niña indications expected to arise. This will provide a favourable environment for the current 2024/25 marketing year harvesting season. Consequently, the FFB evacuation process and manuring activities would continue unaffected, leaving an estate productivity remains intact.

**Muted stock levels.** Ending stockpiles comparatively the same to prior year at 1.73m tonne, following higher exports number recorded, which grew to 1.69m tonne (**+24.7%yoy**). There was a notable increase in PO derivatives export lines, particularly CPKO (+18.2%yoy), PPKO (+58.6%yoy), PKO (+41.4%yoy), PKC (+11.8%yoy) and Oleo products (+17.8%yoy) signalling active restocking activity coming from food and Oleo industries (normal trend in preparation of upcoming festivals in India and China).

This was due to major importing countries such as India and China placed higher orders in July shipments, due to healthy refining margin it has made in past May and June months, where correction of PO price – made PO cheaper than the rival oils. Note that, May and June’s spread discount between the PO and SBO were approximately around USD128/Mt and USD137/Mt - below 3y-average of USD263/Mt, however already above 3y-average pre-pandemic level of USD112/Mt.

**CPO prices traded higher than expected.** The local CPO price delivery ended the month at RM4,043/Mt (+1.2%mom), averagely inched to RM4,034/Mt (+1.9%mom) mirroring sudden demand in major importing countries. We forecast the average local CPO delivery prices will close

### COMPANY IN FOCUS

#### IOI Corp

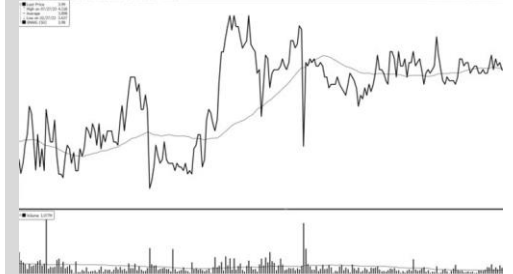
**Maintain BUY** | Unchanged target price:

**RM4.50**

Price @ 12<sup>th</sup> August 2024: RM3.78


- 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

#### Share price chart



-3.9%mom lower to approximately RM3,876/Mt in August, as we believe the upside will 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.

**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 dry weather event. Our top pick remains IOI Corp. As its outlook maintains 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 its strategic locations it operates in, unlike its peers that were operating in Europe, that mostly are impacted by high production costs - high natural gas.

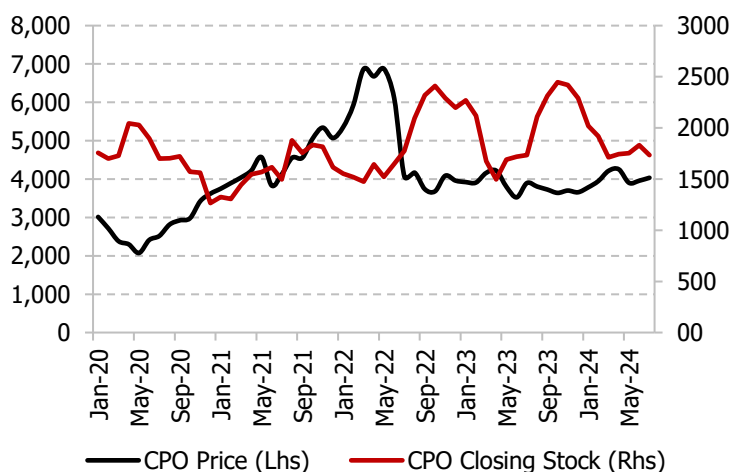
Additionally, we tactically downgrade KLK and PPB to NEUTRAL Call, as the recent surge in the share price has limited their upside to 7.6% and 8.0%, respectively. Additionally, we are also upgrade FGVH to NEUTRAL call from SELL call due to limited downside as the share price has nearly reached our TP of RM1.14. We keep our **NEUTRAL** call for the sector at this juncture with a revised average CPO target price of RM3,800/Mt (previously RM3,600/MT) for the whole year. 

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

	July-23	June-24	July-24	MoM%	YoY%	7M23	7M24	YTD%
Opening Stocks	1.72	1.75	1.83	4.4%	6.5%	2.20	2.29	4.3%
<b>Production</b>	<b>1.61</b>	<b>1.62</b>	<b>1.84</b>	<b>14.0%</b>	<b>14.4%</b>	<b>9.69</b>	<b>10.72</b>	<b>10.6%</b>
Imports	0.10	0.01	0.01	-10.7%	-89.9%	0.60	0.16	-73.1%
<b>Total Supply</b>	<b>3.43</b>	<b>3.38</b>	<b>3.68</b>	<b>8.9%</b>	<b>7.3%</b>	<b>12.5</b>	<b>13.2</b>	<b>5.5%</b>
Exports	1.35	1.21	1.69	39.9%	24.7%	8.44	9.22	9.2%
Dom Disapp	0.34	0.34	0.26	-23.9%	-24.4%	2.31	2.22	-4.0%
<b>Total Demand</b>	<b>1.70</b>	<b>1.55</b>	<b>1.95</b>	<b>25.8%</b>	<b>14.8%</b>	<b>10.76</b>	<b>11.44</b>	<b>6.3%</b>
<b>End Stocks</b>	<b>1.73</b>	<b>1.83</b>	<b>1.73</b>	<b>-5.4%</b>	<b>0.0%</b>	<b>1.73</b>	<b>1.73</b>	<b>0.0%</b>
Stock/Usage Ratio	8.5%	9.9%	7.4%	-	-	1.3%	1.3%	-

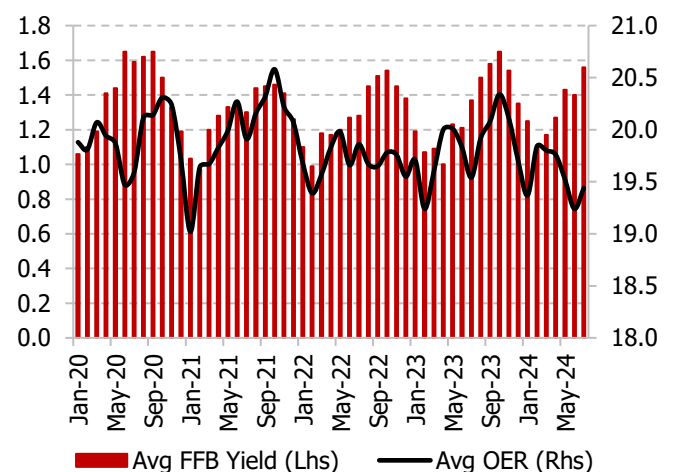
Source: MPOB, MIDFR

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



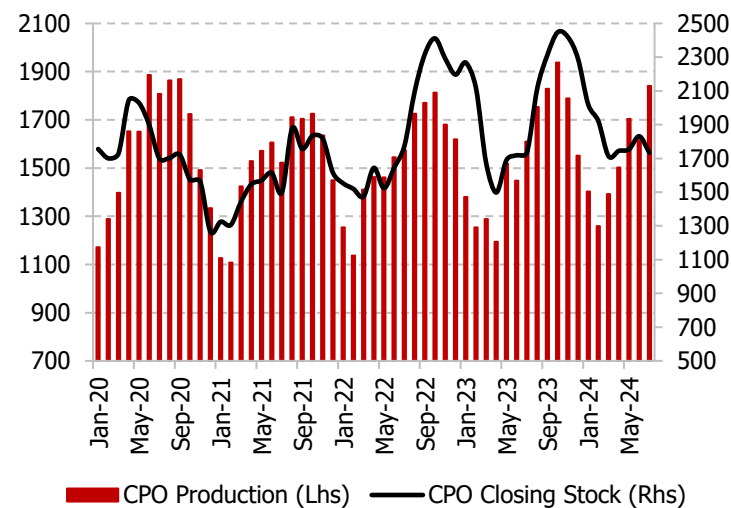
Source: MPOB, MIDFR

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



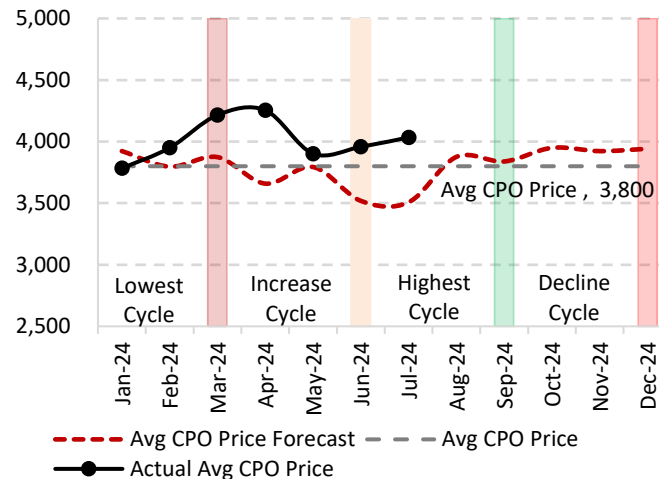
Source: MPOB, MIDFR

Chart 4: Malaysia PO Production VS Closing Stocks



Source: MPOB, MIDFR

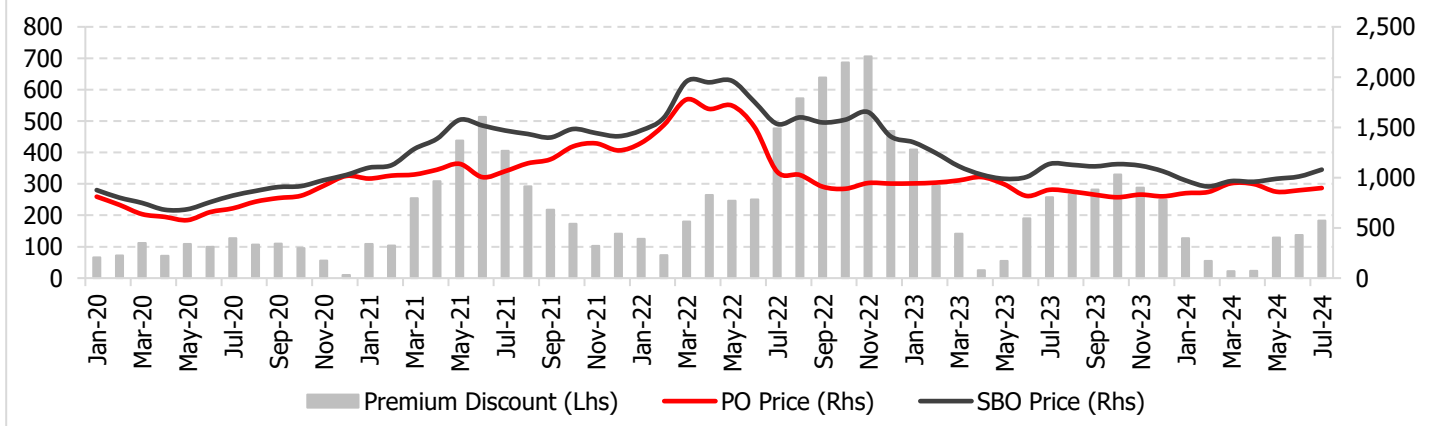
Chart 5: CPO Price Movement Forecast VS Actual



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 (%)	
		12-Aug-24		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
IOI Corporation	BUY	3.78	4.50	16.2	16.0	23.3	23.6	7.5	6.5	2.0	1.7
Ta Ann Holdings	BUY	3.85	4.10	48.3	49.0	8.0	7.9	20.0	20.0	5.2	5.2
KLK	NEUTRAL	20.86	22.00	76.9	73.3	27.1	28.5	42.0	40.0	2.0	1.9
PPB Group	NEUTRAL	14.70	15.47	96.7	104.1	15.2	14.1	40.0	40.0	2.7	2.7
Sarawak Plantation	NEUTRAL	2.11	2.20	25.0	26.9	8.4	7.8	10.0	10.0	4.7	4.7
SD Guthrie	NEUTRAL	4.50	4.18	16.7	16.0	26.9	28.1	8.0	8.0	1.8	1.8
Genting Plantations	NEUTRAL	5.79	6.10	31.3	35.9	18.5	16.1	21.0	15.0	3.6	2.6
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	NEUTRAL	1.17	1.14	5.3	4.1	22.1	28.5	3.0	2.0	2.6	1.7

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