PLANTATION

***Maintain* NEUTRAL**

2QCY24 Earnings Wrap-Up

KEY INVESTMENT HIGHLIGHTS

- **Upstream division remains a key pillar for intergarted player**
- **Margins for derivative products expanding on better PPO demand**
- **Sector profits forecasts tweaked by +3%yoy/+3%yoy/+2%yoy over FY24E-26F**
- **Maintain NEUTRAL stance on the sector with an average CPO target price of RM3,800/Mt**

For the 2QCY24, planter performance under our coverage was mixed, with 5 companies performing within expectations, 1 falling short and 3 were above expectations. The total improved in earnings was driven by decent crops ripeness, amidst the elevated average CPO price realized, which hovered around RM3,834 to RM4,129/Mt levels. In 2QCY24, the average selling price (ASP) of CPO strengthen to RM4,038/Mt (+1.4%qoq, +5.0%yoy, +2.3%ytd).

PPB was the only one of the companies that produced results falling short of our expectations. The variation was mostly caused to the weakness of its core business namely consumer products, film exhibition and the Wilmar contribution, note that, we revised our earnings estimates for the stock by -5.0%/-7.3%/-13.6% over FY24E-26F due weaker estate activity seen in Plantation & Sugar business, particularly when the FFB, CPO and PK production, FFB Yield and OER were down by -6%/-10%/-10%/-7% and -2% respectively, due to prolonged dry weather (El-Nino in Indonesia and Sabah area) conditions, which resulted squeezed in margins due to fixed input cost in cost production items.

On the other hand, demand for oleochemical, biodiesel, and oil & fats products has rebounded significantly, leading to a notable turnaround in operational profits for biodiesel and oleo and fats refineries. Many refineries are now benefiting from expanded margins, with improvements seen in both oleo sales and profits. In Europe, oleo has experienced a strong recovery, driven by increased demand and better margins, despite continuing high utility costs. However, the Chinese market remains relatively weak, with sluggish demand and ongoing uncertainties affecting derivatives products.

All in, we tweaked higher our sector profits forecasts, by +3%yoy/+3%yoy/+2%yoy over FY24E-26F, respectively. Higher estimates were pushed up by higher earnings revisions for KLK and SD Guthrie after considering revision of our new average CPO price expectation of RM3,800/Mt and RM3,600/Mt as well improvement in FFB production and yield on Indonesia side (these 2 companies carried considerable weightage in our sector universe roughly 40%).

COMPANY IN FOCUS

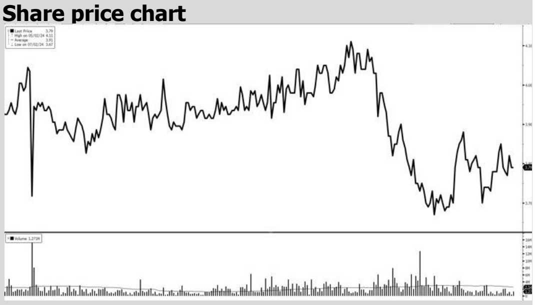
IOI Corp

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

Price @ 5th September 2024: RM3.88

- 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



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Maintain NEUTRAL. Looking ahead, we maintain **NEUTRAL** call on the sector with average CPO price of RM3,800/Mt. Our top pick remains **IOI Corp (BUY, TP: RM4.50)** and **Ta Ann (BUY, TP: RM4.16)**. IOI Corp outlook maintains steadfast 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 they operated in, unlike its peers that were operating in Europe, that mostly are impacted by high production costs - high natural gas. Note that Ta Ann is purely an upstream player, and the share price is highly connected with CPO movement c. 0.82 correlation, hence any upward trajectory in CPO prices (due to prolong dry in 3-4Q24) would provide trading opportunity in the stock.

Downside risk. The sector's downside risks remain continuation of domestic sales obligations (DMO) in Indonesia, (ii) the appreciation of the ringgit (which will reduce the price of CPO's competitiveness to compete with other vegetable oils); (iii) high cost of production c. RM2,500-2,800/Mt (1Q24:RM2,700-2,900Mt; 4QCY23: RM2,700-3,100Mt); and (vi) EUDR implementation in which will slow the CPO and PPO trade due rigid environmental policy.

Table 2: Summary of earnings, TP and recommendations

Stocks	Rec.	Price @	Tgt Price (RM)	Core EPS (sen)		PE (x)		Net DPS (sen)		Div Yield (%)	
		5-Sept-24		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
IOI Corporation	BUY	3.88	4.50	17.9	16.0	21.7	24.3	7.5	6.5	1.9	1.7
Ta Ann Holdings	BUY	3.90	4.16	48.3	49.0	8.1	8.0	20.0	20.0	5.1	5.1
KLK	BUY	21.28	23.42	89.4	90.1	23.8	23.6	49.0	50.0	2.3	2.3
PPB Group	NEUTRAL	14.26	14.47	91.8	96.4	15.5	14.8	40.0	40.0	2.8	2.8
Sarawak Plantation	NEUTRAL	2.23	1.98	25.6	22.0	8.7	10.1	10.0	10.0	4.5	4.5
SD Guthrie	NEUTRAL	4.62	4.80	17.6	19.2	26.3	24.1	10.0	10.0	2.2	2.2
Genting Plantations	BUY	5.37	6.10	31.4	35.9	17.1	15.0	21.0	20.0	3.9	3.7
TSH Resources	NEUTRAL	1.15	1.19	8.0	9.1	14.4	12.6	2.0	2.0	1.7	1.7
FGV Holdings	NEUTRAL	1.25	1.31	3.0	2.0	41.7	62.5	3.0	2.0	2.4	1.6

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 *rise* 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 *fall* 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