

# PLANTATION

## Supply Risks Kicked In

### KEY INVESTMENT HIGHLIGHTS

- **Upstream output continued its momentum in August**
- **Stock level dropped on the back of rebound in exports**
- **CPO prices lowered to RM3,900/Mt price level**
- **Maintain NEUTRAL stance on the sector with an average CPO target price of RM3,800/Mt**

**Decent activity in Aug.** CPO output in Aug-24 jumped to 1.89m tonne (+2.9%mom, **+8.0%yoy**, +10.2%ytd) versus prior year, the slowing in growth of total production due to the decline in the Sabah (-3.1%yoy) and Sarawak (-1.9%yoy) area, that hold the chunk of local output circa 20% and 22%, respectively. The FFB received by mills on the other hand, grew to 9.83m tonne (+9.9%yoy) on combination of the robust average yield of 1.65 tonne/ha (+10.0%yoy) and supportive average OER in mills of 19.44%, although the FFB evacuation process were slightly affected by the few wet weather days.

The latest report from Met Malaysia indicates that the La Niña (noticeably delayed for about 2 months) to develop this Sept - Nov 2024 with a probability of 66% and is expected to continue until early of next year. This will provide a favourable environment and to reverse the El-Niño effect in early part of the year.

**Lower stock levels.** Ending stockpiles dropped to 1.88m tonne (-10.8%yoy), following relatively high exports numbers recorded, which grew to 1.53m tonne (**+24.8%yoy**). There was a mixed demand in the basket, where CPO and PPO were up +16.4%yoy and +26.9%yoy, whilst the CPKO and PKC were down by -31.7%yoy and -11.3%yoy, respectively, following softer demand of lauric acid products - confectionary and margarine as well animal feed. Meanwhile, Oleo export increased by +7.7%yoy, signalling continuation active restocking activity coming from food and Oleo industries (normal trend in preparation of Mooncake and Deepavali festivals in China and India).

The major importing countries such as China and India placed higher orders in Aug shipments, due to healthy refining margin they have made in past June and July months, where correction of PO price – made PO cheaper than the rival oils. Note that, June and July’s spread discount between the PO and SBO were approximately around USD137/Mt and USD182/Mt, 60.2% below 3y-average of USD247/Mt.

**CPO prices lower as expected.** The local CPO price delivery ended the month at RM4,070/Mt (+0.6%mom), averagely lowered to RM3,911/Mt (-3.0%mom) as supply risks kicked in. Going forward, we forecast the average local CPO delivery prices will close to RM3,839/Mt or -1.8%mom

### COMPANY IN FOCUS

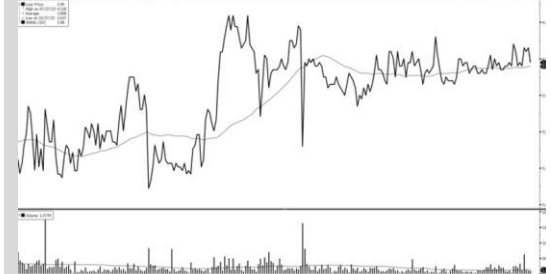
#### IOI Corp

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

Price @ 10<sup>th</sup> 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



lower in August, as we believe the upside will be capped by the recovery in higher FFB & CPO output, due to high seasonal output.

**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 wet weather situation in 3Q-4QCY24) would provide trading opportunity in the stock.

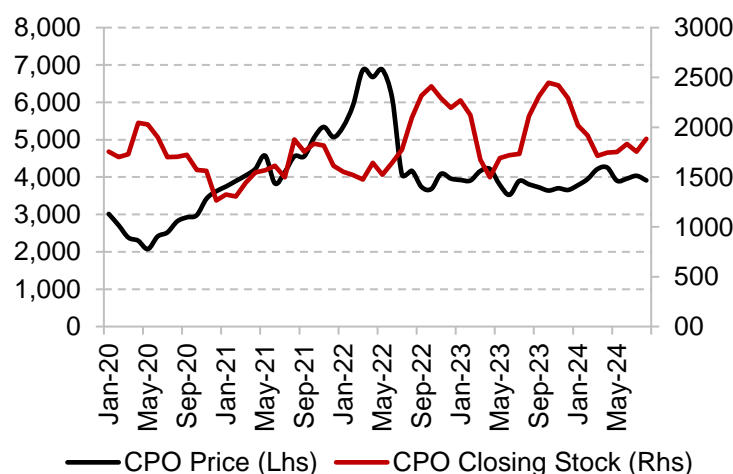
**Downside risk.** The sector's downside risks remain continuation of domestic sales obligations (DMO) in Indonesia, (ii) the appreciation of the ringgit (which will reduce the price of CPO's competitiveness to compete with other vegetable oils); (iii) high cost of production c. RM2,500-2,800/Mt (1Q24:RM2,700-2,900Mt;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

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

	Aug-23	July-24	Aug-24	MoM%	YoY%	8M23	8M24	YTD%
Opening Stocks	1.73	1.75	1.75	0.1%	1.2%	2.20	2.29	4.3%
<b>Production</b>	<b>1.75</b>	<b>1.84</b>	<b>1.89</b>	<b>2.9%</b>	<b>8.0%</b>	<b>11.45</b>	<b>12.61</b>	<b>10.2%</b>
Imports	0.11	0.01	0.01	-4.9%	-91.0%	0.71	0.17	-75.9%
<b>Total Supply</b>	<b>3.60</b>	<b>3.60</b>	<b>3.66</b>	<b>1.5%</b>	<b>1.7%</b>	<b>14.4</b>	<b>15.1</b>	<b>5.0%</b>
Exports	1.22	1.69	1.53	-9.7%	24.8%	9.66	10.74	11.2%
Dom Disapp	0.27	0.24	0.25	4.7%	-5.8%	2.58	2.45	-5.0%
<b>Total Demand</b>	<b>1.49</b>	<b>1.93</b>	<b>1.77</b>	<b>-8.0%</b>	<b>19.4%</b>	<b>12.24</b>	<b>13.19</b>	<b>7.7%</b>
<b>End Stocks</b>	<b>2.11</b>	<b>1.75</b>	<b>1.88</b>	<b>7.3%</b>	<b>-10.8%</b>	<b>2.11</b>	<b>1.88</b>	<b>-10.8%</b>
Stock/Usage Ratio	11.8%	7.6%	8.8%	-	-	1.4%	1.2%	-

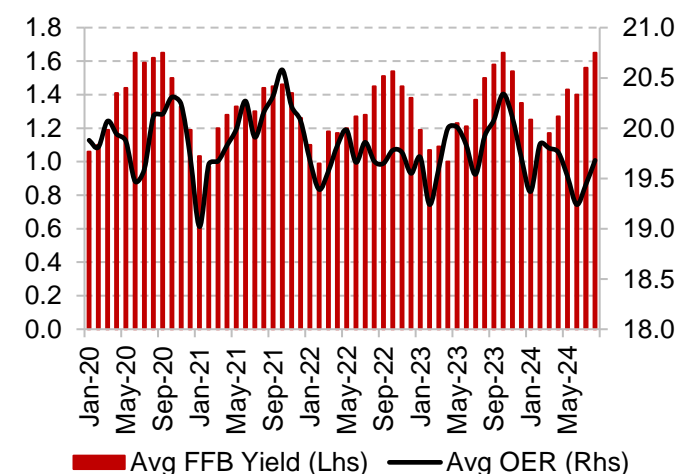
Source: MPOB, MIDFR

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



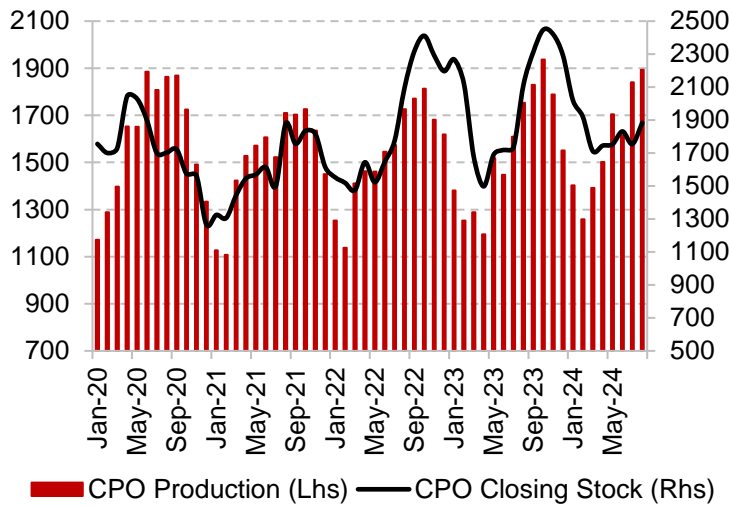
Source: MPOB, MIDFR

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



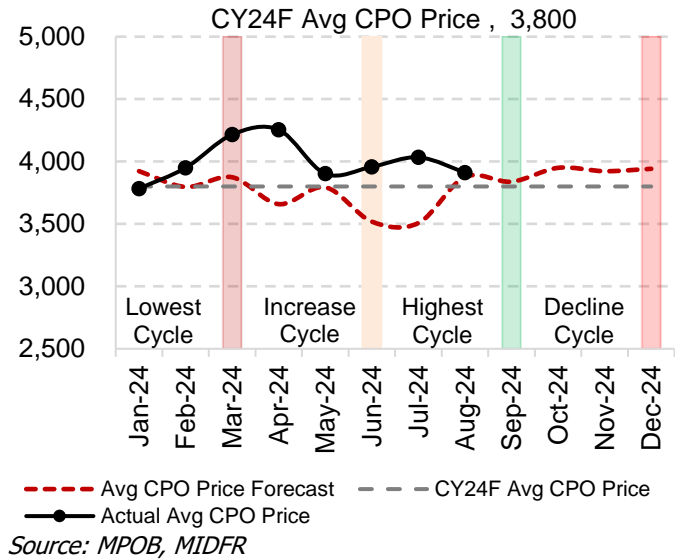
Source: MPOB, MIDFR

**Chart 4: Malaysia PO Production VS Closing Stocks**



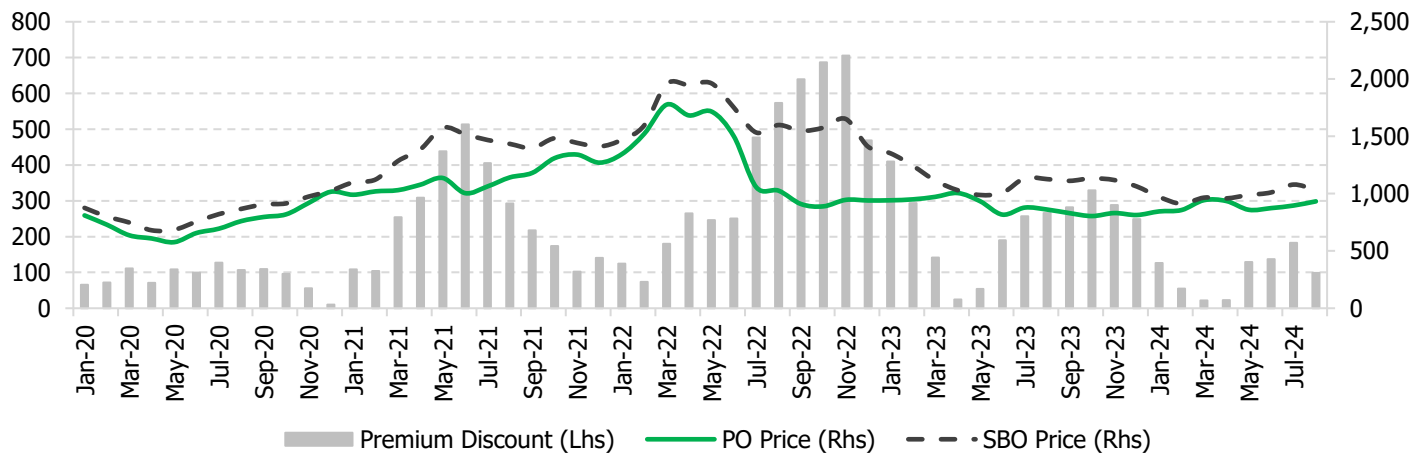
Source: MPOB, MIDFR

**Chart 5: CPO Price Movement Forecast VS Actual**



Source: MPOB, MIDFR

**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-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	3.82	4.16	48.3	49.0	7.9	7.8	20.0	20.0	5.2%	5.2%
KLK	NEUTRAL	21.16	23.42	89.4	90.1	23.7	23.5	49.0	50.0	2.3%	2.4%
PPB Group	NEUTRAL	14.34	14.47	91.8	96.4	15.6	14.9	40.0	40.0	2.8%	2.8%
Sarawak Plantation	NEUTRAL	2.21	1.98	25.6	22.0	8.6	10.0	10.0	10.0	4.5%	4.5%
SD Guthrie	NEUTRAL	4.54	4.80	17.6	19.2	25.8	23.6	10.0	10.0	2.2%	2.2%
Genting Plantations	BUY	5.40	6.10	31.4	35.9	17.2	15.0	21.0	20.0	3.9%	3.7%
TSH Resources	NEUTRAL	1.12	1.19	8.0	9.1	14.0	12.3	2.0	2.0	1.8%	1.8%
FGV Holdings	NEUTRAL	1.22	1.31	3.0	2.0	40.7	61.0	3.0	2.0	2.5%	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 <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