

# PLANTATION

## Weather disruption

### KEY INVESTMENT HIGHLIGHTS

- **Upstream output inched lower in September**
- **Stock level dropped on the back of jump in exports**
- **CPO prices remain elevated at RM4,024/Mt price level**
- **Maintain NEUTRAL stance on the sector**

**Weather disruption in Sept.** CPO output in Sep-24 flattish at 1.88m tonne (-3.8%mom, **-0.4%yoy**, +8.7%ytd) versus prior year, the slowing growth was seen in most of the states particularly in Sabah (-5.7%yoy) and Sarawak (-7.8%yoy) area, that hold chunk of total local output circa 21.4% and 21.3%, respectively. The FFB received by mills was also affected, down to 9.24m tonne (-1.1%yoy) with an unchanged average FFB yield and OER in mills of 1.58 tonne/ha and 20.07% recorded, the FFB evacuation process were interrupted by the wet weather days.

The latest report from Met Malaysia indicates that La Niña conditions developed in September, leading to a forecast of continued wet weather until November 2024, with a 71% probability of persistence into early next year. While this shift is expected to reverse the effects of El Niño in the early part of the year, the harvesting and evacuation of FFB are likely to face interruptions due to flooding along the routes to the mills.

**Lower stock levels.** Ending stockpiles dropped to 2.01m tonne (-12.9%yoy), following high exports numbers recorded, which been grew to 1.54m tonne (**+26.3%yoy**). There was a notable increase in PO derivatives export lines, particularly PPKO (+81.4%yoy), PKO (+49.7%yoy), PKC (+10.4%yoy), and Oleo products (+7.8%yoy) signalling active restocking activity coming from higher demand of lauric acid products - confectionary and margarine as well animal feed food and Oleo industries (normal trend in preparation of upcoming Deepavali and CNY festive).

The major importing country such as India placed higher orders in Sep shipments, as a recovery in consumption and competitive prices prompt refiners to increase purchases. Notably, July and August's spread discount between the PO and SBO were approximately around USD99/Mt and USD61/Mt, 74.8% below 3y-average of USD242/Mt.

**CPO prices remain elevated.** The local CPO price delivery ended the month at RM4,202/Mt (+3.6%mom), averagely higher to RM4,024/Mt (+2.9%mom) as supply risks kicked in. We are raising our average CPO price target to RM4,000/Mt in consideration of local and SBO supply output on the risks of La Niña impacts this near term. We forecast the average local CPO delivery prices will close to RM4,157/Mt or +3.3%mom higher in

### COMPANY IN FOCUS

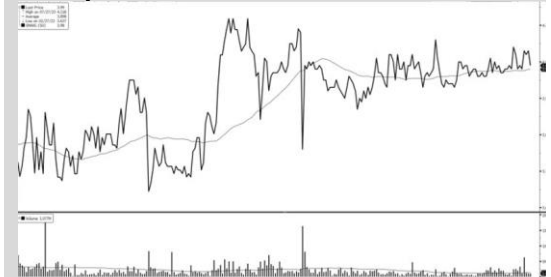
#### IOI Corp

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


Price @ 10<sup>th</sup> Oct 2024: RM3.74

- 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



October. The sector's downside risks remain reduced 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).

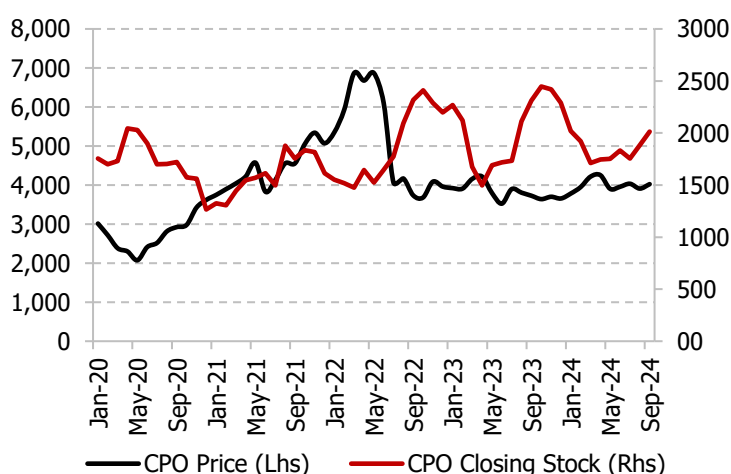
**Maintain NEUTRAL.** Looking ahead, we maintain **NEUTRAL** call on the sector with an average CPO price of RM4,000/Mt. Our top pick remains **IOI Corp (BUY, TP: RM4.50)** and **Ta Ann (BUY, TP: RM4.41)**. IOI Corp outlook maintains steadfast and is well supported by both upstream and downstream profitability. 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 3-4Q24) would provide trading opportunity in the stock. 

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

	Sep-23	Aug-24	Sep-24	MoM%	YoY%	9M23	9M24	YTD%
Opening Stocks	2.11	1.75	1.88	7.3%	-10.8%	2.20	2.29	4.3%
<b>Production</b>	<b>1.83</b>	<b>1.89</b>	<b>1.82</b>	<b>-3.8%</b>	<b>-0.4%</b>	<b>13.27</b>	<b>14.43</b>	<b>8.7%</b>
Imports	0.05	0.01	0.01	-45.0%	-88.8%	0.76	0.18	-76.7%
<b>Total Supply</b>	<b>3.99</b>	<b>3.66</b>	<b>3.71</b>	<b>1.4%</b>	<b>-7.0%</b>	<b>16.2</b>	<b>16.9</b>	<b>4.1%</b>
Exports	1.22	1.53	1.54	0.9%	26.3%	10.89	12.30	13.0%
Dom Disapp	0.46	0.25	0.15	-37.4%	-66.2%	3.03	2.59	-14.7%
<b>Total Demand</b>	<b>1.68</b>	<b>1.77</b>	<b>1.70</b>	<b>-4.4%</b>	<b>1.2%</b>	<b>13.92</b>	<b>14.89</b>	<b>7.0%</b>
<b>End Stocks</b>	<b>2.31</b>	<b>1.88</b>	<b>2.01</b>	<b>6.9%</b>	<b>-12.9%</b>	<b>2.31</b>	<b>2.01</b>	<b>-12.9%</b>
Stock/Usage Ratio	11.5%	8.8%	9.9%	-	-	1.4%	1.1%	-

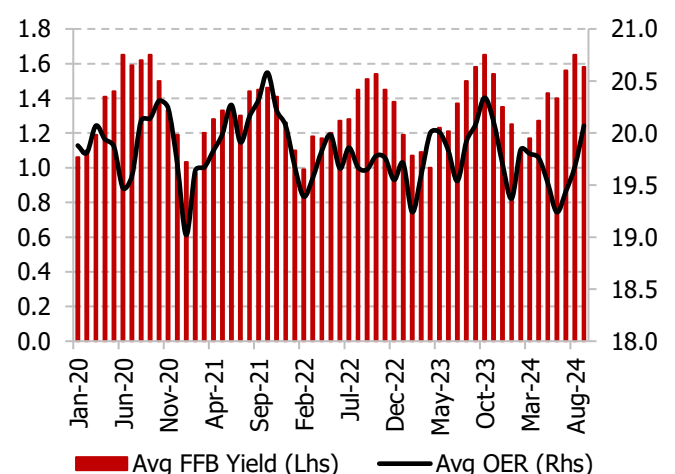
Source: MPOB, MIDFR

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



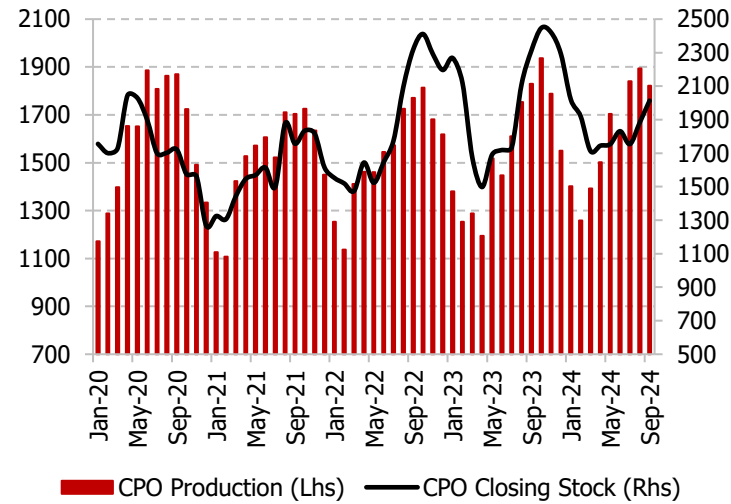
Source: MPOB, MIDFR

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



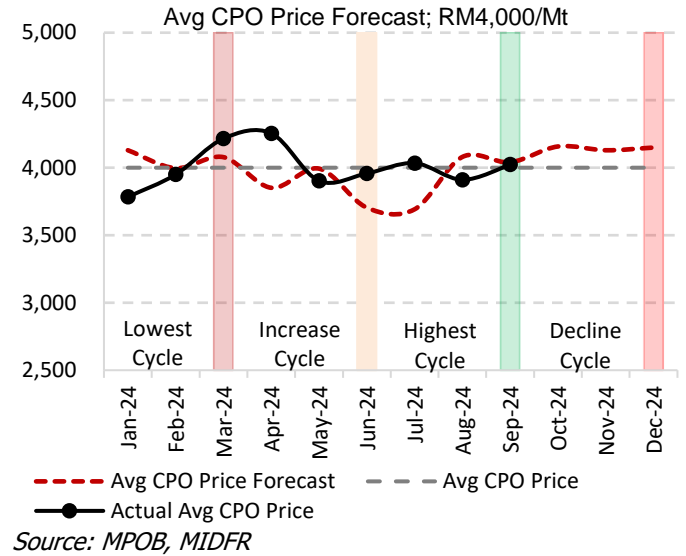
Source: MPOB, MIDFR

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



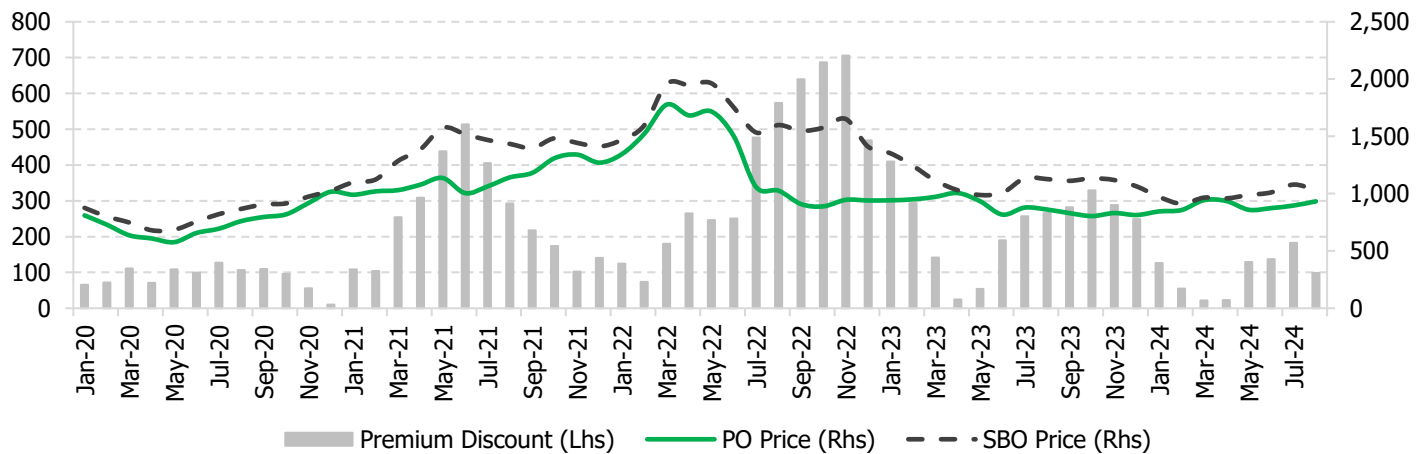
Source: MPOB, MIDFR

**Chart 5: 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-Oct-24		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
IOI Corporation	BUY	3.74	4.50	17.9	16.0	20.9	23.4	7.5	6.5	1.7%	2.0%
Ta Ann Holdings	BUY	4.03	4.41	49.1	51.8	8.2	7.8	23.0	23.0	5.7%	5.7%
KLK	BUY	21.12	23.42	89.4	90.1	23.6	23.4	49.0	50.0	2.4%	2.3%
PPB Group	NEUTRAL	14.42	14.47	91.8	96.4	15.7	15.0	40.0	40.0	2.8%	2.8%
Sarawak Plantation	NEUTRAL	2.31	1.98	25.6	22.0	9.0	10.5	10.0	10.0	4.3%	4.3%
SD Guthrie	NEUTRAL	4.64	4.80	17.6	19.2	26.4	24.2	10.0	10.0	2.2%	2.2%
Genting Plantations	BUY	5.52	6.10	31.4	35.9	17.6	15.4	21.0	20.0	3.6%	3.8%
TSH Resources	NEUTRAL	1.07	1.19	8.0	9.1	13.4	11.8	2.0	2.0	1.9%	1.9%
FGV Holdings	NEUTRAL	1.13	1.31	3.0	2.0	37.7	56.5	3.0	2.0	1.8%	2.7%

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