

# PLANTATION

## Robust Demand

## Upgrade to POSITIVE

(Previously NEUTRAL)

### KEY INVESTMENT HIGHLIGHTS

- **Upstream output declined in October**
- **Stock level dropped on the back of jump in exports**
- **CPO prices remain spiked to RM5,000/Mt price level**
- **Upgrade to POSITIVE call on the sector with a new average CPO price of RM4,200/Mt and RM4,300/Mt for CY25**

**Softer estates activity in Oct.** CPO output in Oct-24 surprisingly came down to 1.80m tonne (-1.3%mom, **-7.2%yoy**, +6.7%ytd) versus prior year, dragged by most of the state's performance particularly in Sabah (-11.1%yoy) and Sarawak (-8.1%yoy) area, that hold chunk of total local output circa 24.2% and 21.9%, respectively. The FFB received by mills was also hit, dropped to 9.05m tonne (-6.5%yoy) with lower average FFB yield and OER in mills of 1.55 tonne/ha and 20.03% recorded, the FFB evacuation process were continued interrupted by the wet weather seasonality. The latest report from Met Malaysia indicates that La Niña conditions developed in September-November to continue, with a 60% probability of persistence into early next year, it also risks delaying the harvesting and evacuation of FFB in the estates.

**Lower stock levels.** Ending stockpiles dropped to 1.88m tonne (-23.0%yoy), following high exports numbers recorded, which been grew to 1.73m tonne (**+18.2%yoy**). There was a notable increase in PO derivatives export lines (inline to-date local refineries' utilisation rate of 53.4%), particularly PPKO (+21.2%yoy), PKO (+19.2%yoy), PKC (+8.6%yoy), and Oleo products (+7.8%yoy) signalling strong restocking activity coming from higher demand of lauric acid products - confectionary and margarine as well animal feed food and Oleo industries (in preparation of Deepavali and upcoming Chinese New Year festivities).

Notably, India, a major importing country, placed higher orders for October shipments. This was driven by refiners' efforts to restock after a period of subdued imports and to meet the surge in demand ahead of the festive season, despite the spread discount between SBO and PO in October being only USD 18/mt, or 71.1%/82.1% lower than September and August.

**CPO prices to remain elevated.** The local CPO price delivery ended the month at RM4,735/Mt (+12.7%mom), averagely higher to RM4,388/Mt (+9.0%mom) as supply risks kicked in. We are raising our average CPO price target to RM4,200/Mt from RM4,000/Mt in consideration of local and SBO supply output on the risks of La Niña impacts this near term. We anticipate the average local CPO delivery prices will close to RM4,336/Mt or -1.2%mom lower in November.

**Upgrade to POSITIVE.** Looking ahead, we upgrade our sector call to POSITIVE, which comes with a new average CPO target price of RM4,200

### COMPANY IN FOCUS

#### IOI Corp

**Maintain BUY** | Unchanged target price:

**RM4.50**

Price @ 11<sup>th</sup> Nov 2024: RM3.95


- 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



/Mt. We are seeing that the current CPO price movement is well supported by 1) flattish supply in local production amid lower ending stocks, that were to be left due to higher export demand, 2) on the Indonesia side, production is still slower due mixed weather effects, exacerbated by the implementation of B40 blending rate starting in January 2025. This could result a potential of 1-2 million drop in its exports to cater for the local biodiesel mandate, and 3) with Thailand suspended its exports until December – to stabilize its local cooking oil (because of the dry weather), the PO supply dynamics now appear imbalanced. Note that, Malaysia and Indonesia PO output represent 82% of the world PO production.

Moreover, we also believe the potential intensification of the Russia-Ukraine war will play a pivotal part on CPO price movements, due to its impact on sunflower oil production. Over the last decade, Ukraine and Russia have accounted for approximately 45-55% and 15-25% of global sunflower oil exports, respectively. With the latest developments, where Russia allegedly received support from North Korea, there is concern that an intensified war could be looming in the near-midterm and eventually affecting the cultivation area. Overall, we will adjust our earnings estimates, target prices, and recommendations for individual companies to reflect our updated CPO price and FFB output assumptions in the upcoming results season, starting from November 2024.

Our top pick remains **IOI Corp (BUY, TP: RM4.50)** and **Ta Ann (BUY, TP: RM4.41 (under review))**. 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 as of October 2024 ('000 MT) against our forecast**

Malaysia	CY23	CY24E	Diff	YOY%	10M23	10M24	Diff	YTD%
Opening Stocks	2.2	2.3	0.1	4.3	2.20	2.29	0.1	4.3%
<b>*Production</b>	<b>18.6</b>	<b>19.3</b>	<b>0.7</b>	<b>4.0</b>	<b>15.21</b>	<b>16.23</b>	<b>1.0</b>	<b>6.7%</b>
*Imports	0.9	0.4	-0.5	-54.7	0.81	0.19	-0.6	-76.0%
<b>Total Supply</b>	<b>21.6</b>	<b>22.0</b>	<b>0.4</b>	<b>1.6</b>	<b>18.2</b>	<b>18.7</b>	<b>0.5</b>	<b>2.7%</b>
*Exports	15.1	16.5	1.4	9.4	12.35	14.05	1.7	13.8%
*Dom Usage	4.3	3.5	-0.8	-17.8	3.42	2.78	-0.6	-18.8%
<b>Total Demand</b>	<b>19.3</b>	<b>20.0</b>	<b>0.7</b>	<b>3.4</b>	<b>15.77</b>	<b>16.83</b>	<b>1.1</b>	<b>6.7%</b>
<b>End Stocks</b>	<b>2.3</b>	<b>2.0</b>	<b>-0.3</b>	<b>-13.4</b>	<b>2.45</b>	<b>1.88</b>	<b>-0.6</b>	<b>-23.0%</b>

Source: MPOB, MIDFR

**Table 2: Indonesia Palm Oil Statistics as of August 2024 ('000 MT) against our forecast**

Indonesia	CY23	CY24E	Diff	YOY%	8M23	8M24	Diff	YTD%
Opening Stocks	3.7	3.1	-0.5	-14.8	3.7	3.1	-0.5	-14.8
<b>*Production</b>	<b>54.8</b>	<b>52.4</b>	<b>-2.5</b>	<b>-4.5</b>	<b>36.3</b>	<b>34.5</b>	<b>-1.8</b>	<b>-4.9</b>
*Imports	0.0	0.0	0.0	0.0	0.1	0.0	0.0	-51.3
<b>Total Supply</b>	<b>58.6</b>	<b>55.6</b>	<b>-3.0</b>	<b>-5.1</b>	<b>40.1</b>	<b>37.7</b>	<b>-2.3</b>	<b>-5.9</b>
*Exports	32.2	29.0	-3.2	-10.0	21.9	19.7	-2.2	-10.1
*Dom Usage	23.2	23.5	0.3	1.2	15.3	15.6	0.3	1.9
<b>Total Demand</b>	<b>55.4</b>	<b>52.5</b>	<b>-2.9</b>	<b>-5.3</b>	<b>37.2</b>	<b>35.3</b>	<b>-1.9</b>	<b>-5.2</b>
<b>End Stocks</b>	<b>3.1</b>	<b>3.1</b>	<b>-0.1</b>	<b>-2.8</b>	<b>2.9</b>	<b>2.4</b>	<b>-0.4</b>	<b>-15.0</b>

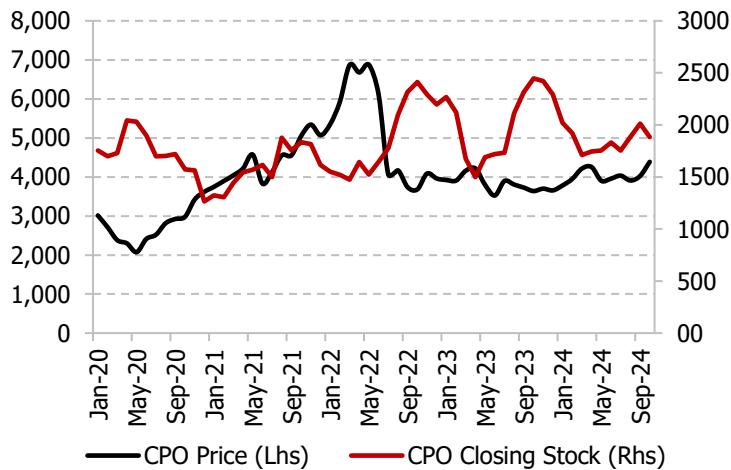
Source: GAPKI, MIDFR

**Table 3: Malaysia Palm Oil Statistics for October 2024 ('000 MT)**

	Oct-23	Sep-24	Oct-24	MoM%	YoY%	10M23	10M24	YTD%
Opening Stocks	2.31	1.88	2.01	6.8%	-13.0%	2.20	2.29	4.3%
<b>Production</b>	<b>1.94</b>	<b>1.82</b>	<b>1.80</b>	<b>-1.3%</b>	<b>-7.2%</b>	<b>15.21</b>	<b>16.23</b>	<b>6.7%</b>
Imports	0.05	0.01	0.02	>100%	-65.6%	0.81	0.19	-76.0%
<b>Total Supply</b>	<b>4.30</b>	<b>3.71</b>	<b>3.83</b>	<b>3.1%</b>	<b>-11.0%</b>	<b>18.2</b>	<b>18.7</b>	<b>2.7%</b>
Exports	1.47	1.56	1.73	11.1%	18.2%	12.35	14.05	13.8%
Dom Disapp	0.38	0.14	0.21	49.8%	-45.7%	3.42	2.78	-18.8%
<b>Total Demand</b>	<b>1.85</b>	<b>1.70</b>	<b>1.94</b>	<b>14.2%</b>	<b>4.9%</b>	<b>15.77</b>	<b>16.83</b>	<b>6.7%</b>
<b>End Stocks</b>	<b>2.45</b>	<b>2.01</b>	<b>1.88</b>	<b>-6.3%</b>	<b>-23.0%</b>	<b>2.45</b>	<b>1.88</b>	<b>-23.0%</b>
Stock/Usage Ratio	11.0%	9.9%	8.1%	-	-	1.3%	0.9%	-

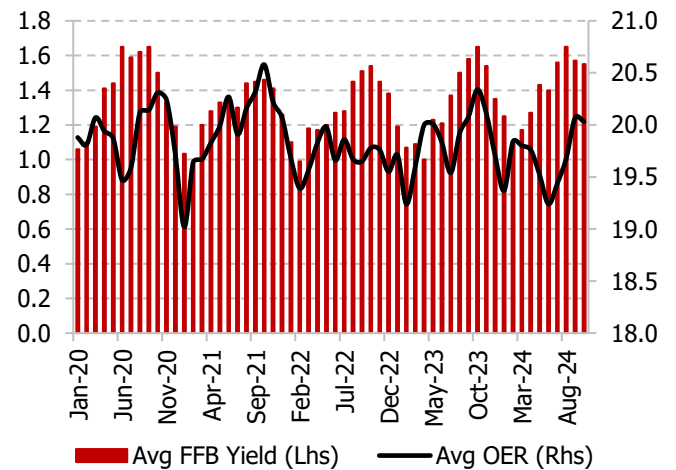
Source: MPOB, MIDFR

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



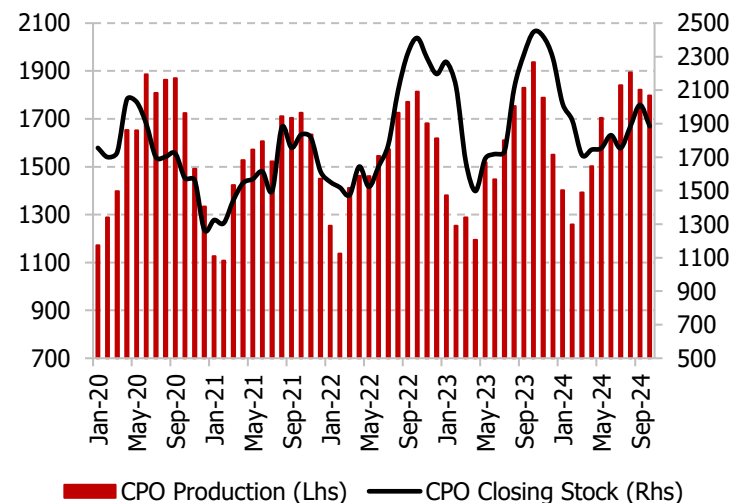
Source: MPOB, MIDFR

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



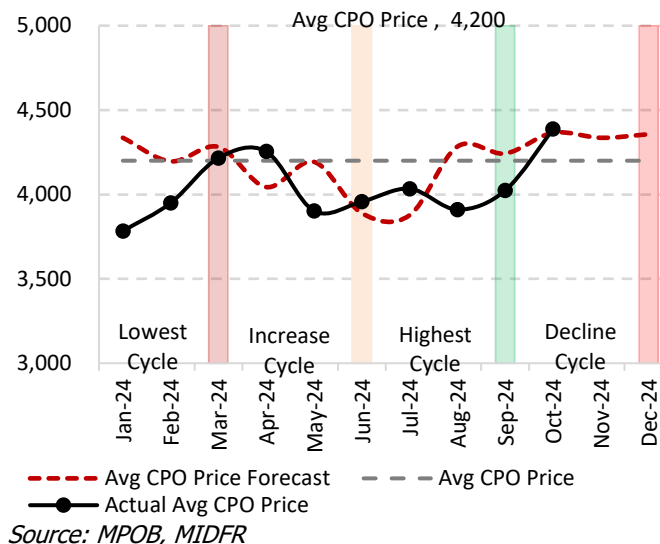
Source: MPOB, MIDFR

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



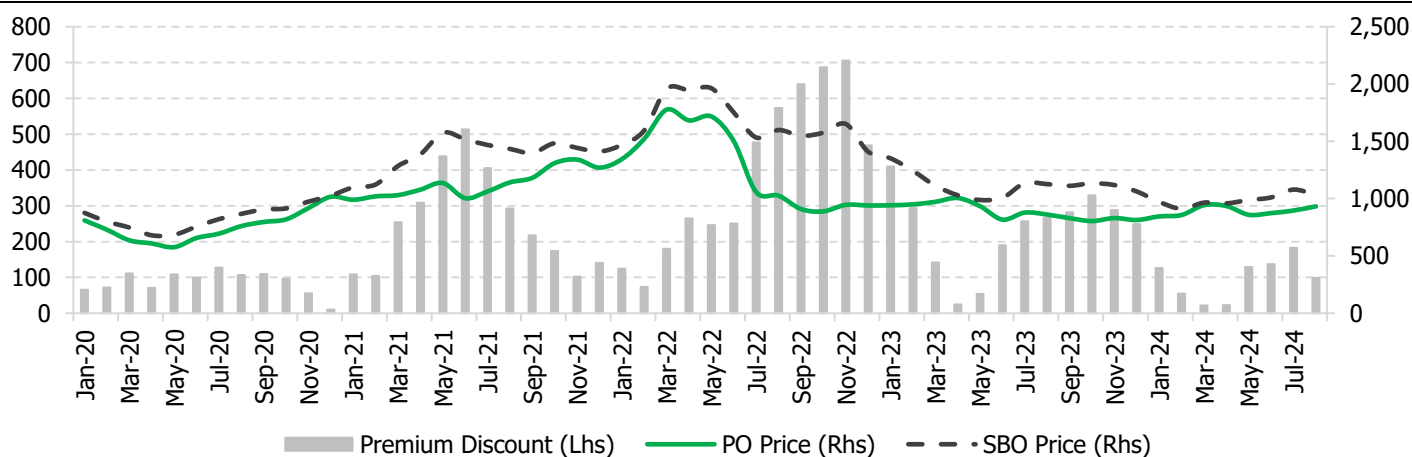
Source: MPOB, MIDFR

**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 (%)	
		11-Nov-24		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
IOI Corporation	BUY	3.95	4.50	17.9	16.0	22.1	24.7	7.5	6.5	1.6%	1.6%
Ta Ann Holdings	BUY	4.54	4.41*	49.1	51.8	9.2	8.8	49.2	51.8	5.1%	5.1%
KLK	BUY	22.34	23.42*	89.4	90.1	25.0	24.8	49.0	50.0	2.2%	2.3%
Genting Plantations	BUY	5.51	6.10	31.4	35.9	17.5	15.3	21.0	20.0	3.6%	3.6%
PPB Group	NEUTRAL	14.24	14.47	91.8	96.4	15.5	14.8	40.0	40.0	2.8%	2.8%
Sarawak Plantation	NEUTRAL	2.45	1.98*	25.6	22.0	9.6	11.1	10.0	10.0	4.1%	4.1%
SD Guthrie	NEUTRAL	5.13	4.80	17.6	19.2	29.1	26.7	10.0	10.0	1.9%	1.9%
TSH Resources	NEUTRAL	1.18	1.19	8.0	9.1	14.8	13.0	2.0	2.0	1.7%	1.7%
FGV Holdings	NEUTRAL	1.20	1.31*	3.0	2.0	40.0	60.0	3.0	2.0	1.7%	1.7%

Source: MIDFR

\* under review

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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