Plantation

MPOA Engagement Takeaways

NEUTRAL

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Key takeaways from our engagement session with Datuk Nageeb (CEO of MPOA) centered around: (i) labour shortage, (ii) CPO outlook, (iii) taxation, and (iv) ESG concerns. To ease the current labour shortage situation (~75k harvester), MPOA is hopeful for the government to allow the intake of ~32k foreign workers (initially approved), which will also translate to higher tax revenue, by virtue of higher production. Efforts to recruit locals are on-going, but attrition rate is high (~60% leaving within a year). **Our 2021 CPO production estimate of ~18m MT** (-7% YoY) is in line with MPOA's view. **A fund of ~RM60m has been allocated to MARCOP to explore oil palm mechanisation** (drones with laser/mechanical harvesters, and exoskeleton systems – arm lifting assist mechanism), but efforts will take time (over the next 5 years). **CPO price is expected to remain elevated** until early-2022, but no official price forecasts were provided. While MPOA remains hopeful to a certain degree for the government to reassess current tax structure (e.g. higher threshold for windfall tax), this is not our base case. **Our base case assumes no changes to the windfall tax structure and threshold.** Based on our scenario analysis, every 1% increase in windfall tax *(refer to Exhibit 1)* @ CY21-22E CPO price of RM3,700-3,200/MT is estimated to impact earnings of planters under our coverage by 1.3-13.1% (FY21/22E) and 0.3-6.1% (for FY22/23E). With regards to sustainability, we were reassured that while sustainable certifications (RSPO, MSPO) are not failproof, they do give buyers some degree of confidence. MPOA has also requested government-to-government (G2G) engagement to resolve the U.S. CBP WRO issue. Maintain **NEUTRAL** with **unchanged CY21-22E CPO price of RM3,700-3,200/MT**. Integrated players like **KLK (OP; TP: RM23.60)** with defensive overall margin against CPO price variability, and **GENP (OP; TP: RM8.40)** with an upstream laggard and reopening/recovery angle appeal to us.

MPOA engagement. We hosted an engagement session with Malaysian Palm Oil Association's (MPOA) CEO – Datuk Nageeb Wahab recently. The session was attended by ~20 participants from the investment community. Overall, it was an informative session to understand the palm oil sector's plight, but resolution remains uncertain. We maintain our NEUTRAL stance on the sector, while our CY21-22 CPO price forecast of RM3,700-3,200/MT remains unchanged for now. Key takeaways from our engagement session are as below.

Labour shortage takes centre stage. Current labour shortage situation has deteriorated to ~75k harvesters (from ~40k harvesters and ~20% loss of yield pre-MCO). We estimate an average ~2k additional worker shortage with each passing month. Efforts to recruit locals are on-going, but attrition rate is high with ~60% leaving within a year. **Our 2021 CPO production estimate of ~18m MT** (-7% YoY) is in line with MPOA's view. Meanwhile, MPOA is hopeful for the government to allow the intake of ~32k foreign workers (initially approved), to ease the labour shortage situation. The easing of the labour shortage situation will also translate into higher tax revenue for the government, by virtue of higher production.

Mechanisation and automation efforts will take time. To address the industry's long-standing reliance on manual and foreign workers, we understand the Mechanisation and Automation Research Consortium of Oil Palm (MARCOP) has been allocated a **fund of ~RM60m to explore oil palm mechanisation**, especially in harvesting technology such as: (i) drones with laser/mechanical harvesters, and (ii) exoskeleton systems (arm lifting assist mechanism) to reduce harvesters' arm muscle fatigue during tool lifting and handling. However, the efforts will take time, spanning over the next 5 years.

CPO price to remain elevated. While no official CPO price forecast was provided, MPOA expects CPO price to remain elevated for the rest of 2021 and potentially spilling over into early-2022, given the tight edible oil situation. We are keeping our CY21-22 CPO price forecast unchanged at RM3,700-3,200/MT for now, but recognize that there could be some upside to our CPO price forecasts. On a separate note, with regards to sustainability, we were reassured that while sustainable certifications (RSPO, MSPO) are not failproof, they do give buyers some degree of confidence. MPOA has also requested government-to-government (G2G) engagement to resolve the U.S. CBP WRO issue.

Hopeful for reassessment of current tax structure. MPOA remains hopeful to a certain degree for the government to address the current tax structure, with potentially higher threshold for windfall tax (from current RM2,500/MT in Peninsular; RM3,000/MT in East Malaysia). Having said that, this is not our base case given the government's plans to increase tax revenue. Our base case assumes no changes to the windfall tax structure and threshold. In our scenario analysis, we outlined the estimated impact to planters under our coverage for every 1% increase in windfall tax *(refer to Exhibit 1)* @ CY21-22E CPO price of RM3,700-3,200/MT. Notably, planters most affected are FGV, HSPLANT, TAANN, and UMCCA, coinciding with their higher production concentration in Malaysia – *refer to Exhibit 2*.

Maintain NEUTRAL on the plantation sector with an unchanged CY21-22 CPO price forecast of RM3,700-3,200/MT. Headwinds such as CPO price volatility and ESG concerns continue to weigh on the sector, but valuations of planters under our coverage and KLPLN index (-1.5SD from mean) have priced in the bulk of the negatives. Integrated players like **KLK (OP; TP: RM23.60)** with defensive overall margin against CPO price variability, and **GENP (OP; TP: RM8.40)** with an upstream laggard and reopening/recovery angle appeal to us.

Exhibit 1: Impact of every 1% windfall tax increase @ CY21-22E CPO price of RM3,700-3,200/MT

	Old earnings		New earnings		Difference	
	FY21/22E	FY22/23E	FY21/22E	FY22/23E	FY21/22E	FY22/23E
FGV	292	328	254	308	-13.1%	-6.1%
GENP	313	341	305	338	-2.5%	-0.8%
HSPLANT	96	103	92	101	-4.6%	-1.3%
IJMPLNT	119	130	116	129	-2.8%	-0.8%
IOICORP	1043	1102	1019	1092	-2.4%	-0.9%
KLK	1154	1194	1136	1184	-1.5%	-0.8%
SIMEPLT	1697	1776	1648	1750	-2.9%	-1.5%
TAANN	102	109	97	108	-4.8%	-1.3%
TSH	78	86	77	86	-1.3%	-0.3%
UMCCA	41	42	38	41	-6.4%	-2.7%

Source: Kenanga Research

Exhibit 2: Breakdown of Production By Region (Estimate)

	Peninsular	Sabah	Sarawak	Indonesia	Others	Malaysia
FGV	65%	30%	4%	1%	-	99%
GENP	13%	38%	-	49%	-	51%
HSPLANT	-	100%	-	-	-	100%
IJMPLNT	-	44%	-	56%	-	44%
IOICORP	25%	65%	-	10%	-	90%
KLK	26%	18%	-	53%	3%	44%
SIMEPLT	38%	7%	8%	28%	19%	53%
TAANN	-	-	100%	-	-	100%
TSH	-	15%	-	85%	-	15%
UMCCA	30%	53%	-	17%	-	83%

Source: Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
FGV HOLDINGS BHD	1.39	5,070.9	Y	12/2021	17.4%	-2.9%	30.7%	1.9%	20.5	15.7	15.4	1.2	1.2	7.5%	4.0%	1.45	MP
GENTING PLANTATIONS BHD	6.80	6,100.9	Y	12/2021	11.8%	-4.9%	57.8%	-3.1%	25.6	16.2	16.7	1.2	1.2	7.5%	3.8%	8.40	OP
HAP SENG PLANTATIONS HLDGS	2.04	1,631.4	Y	12/2021	45.7%	-10.7%	117.5%	-18.3%	23.6	10.8	13.2	1.0	0.9	8.6%	5.4%	2.30	OP
IJM PLANTATIONS BHD	3.09	2,721.0	N	03/2022	16.5%	-3.7%	53.3%	-20.6%	22.2	14.5	18.2	1.9	1.8	12.6%	2.9%	3.10	Accept Offer
IOI CORP BHD	3.77	23,495.5	Y	06/2022	5.1%	-5.8%	11.6%	-10.6%	28.1	19.7	22.0	2.3	2.2	11.5%	2.4%	4.05	MP
KUALA LUMPUR KEPONG BHD	20.24	21,816.4	Y	09/2021	22.4%	-2.3%	83.0%	-8.5%	28.7	15.7	17.1	2.0	1.9	12.2%	2.7%	23.60	OP
PPB GROUP BERHAD	18.30	26,033.6	Y	12/2021	18.4%	11.1%	3.7%	7.9%	19.9	19.2	17.8	1.2	1.1	6.1%	2.2%	19.40	MP
SIME DARBY PLANTATION BHD	3.80	26,279.7	Y	12/2021	30.9%	-6.0%	165.3%	-20.2%	31.2	11.8	14.8	1.9	1.8	15.8%	5.0%	4.60	OP
TA ANN HOLDINGS BERHAD	2.95	1,299.4	Y	12/2021	33.1%	-12.6%	178.1%	-25.6%	20.5	7.4	9.9	0.9	0.9	12.0%	5.4%	2.85	MP
TSH RESOURCES BHD	1.12	1,545.8	Y	12/2021	64.2%	-10.8%	92.2%	-27.1%	21.4	11.2	15.3	1.0	0.9	9.2%	2.7%	1.17	MP
UNITED MALACCA BHD	5.08	1,065.6	Y	04/2022	2.6%	4.8%	42.9%	2.9%	37.5	26.3	25.5	0.8	0.8	3.1%	2.0%	5.20	MP
Simple Average					**24.4%**	**-4.0%**	**76.0%**	**-11.0%**	**25.4**	**15.3**	**16.9**	**1.4**	**1.3**	**9.6%**	**3.5%**		

Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

Published and printed by:

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