Plantation

High Inventory on Weak Exports

NEUTRAL
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Review of April 2022 figures:
Monthly palm oil output normally bottoms out in February and starts improving MoM until around September or October. 2022 palm oil monthly output is following this trend with April output up MoM. With monthly production set to improve further, downward pressure on palm oil prices is likely. However, international edible oils market remains tight. Although Malaysian's April export was disappointing, we believe international demand remains healthy. Demand as been certainly strong enough to prompt Indonesia ban palm oil exports to ensure locals have enough cooking oil for Hari Raya. Overall, palm oil prices may have either peaked or peaking but price downside could be well supported; thus, prices are likely to stay firm till late 2022 and even 2023.

As expected, Malaysia's output for palm products in April inched up 4% MoM to 1.462m MT but was still down YoY (-4%). Overall, April output was within estimates, slightly (+1%) above ours but a little (-1%) below the market. The surprise was the disappointing exports of 1.055m MT (-17% MoM, -22% YoY). Exports were particularly weak to China, Pakistan and Turkey. April exports to EU were also weaker compared to March but remains good YoY and also firmer YoY on a cumulative YTD basis. On a cumulative YTD basis, exports to China and India were quite steady while Turkey actually imported more in the first four months of this year compared to a year ago. Nevertheless, as a consequence of weak April exports, closing inventory rose to 1.642m MT (+11% MoM, +6% YoY). MPOB's average CPO price for April was firm at RM6,678 (-3% MoM, +58% YoY), a little softer than a month ago but not by very much.

The soft exports in April could be misleading as we believe international demand for edible oils including palm oil is far from weak. April prices may be lower than March but remained at unprecedented levels. Indonesia - the world's top palm oil producer, an archipelago of 17,000 islands with many having easy access to the busiest international sea lane (the Straits of Malacca) and the most populous Muslim nation - had to ban palm oil exports ahead of Hari Raya celebration on 1 May 2022. The reason was persistent outflow as international prices far exceeded the ceiling price imposed on some products at home. Indonesia first ruled that 20% of output must be set aside for local use in January but poor results led to a higher quota of 30% in March. Two weeks later, this "Domestic Market Obligation" local quota scheme was abandoned and higher export levy to encourage local supply was introduced. However, domestic cooking oil continue to sell at almost twice the ceiling price of Rph14,000 per litre prompting Indonesia to ban palm oil exports altogether on 28 April ahead of the festivity.

Looking ahead, CPO prices are likely to consolidate downward due to pending uptrend in monthly FFB production rather than poor demand. Nevertheless, CPO prices should stay elevated due to the following factors:

a) Supply of edible oils, including vegetable oils competing with palm oil, is tight across the world. As such, prices of soyabean, rapeseed and sunflower oils are also strong. Indications from US spring planting, which is on-going, suggest a decent soyabean crop in 2H of 2022. Together with seasonally stronger palm oil production in 2H 2022, edible oils and fats supply tightness should ease by 4Q this year but not by much. The prospect of a recovery is more likely in 2023; hence, our expectation of palm oil prices staying elevated till about mid-2023.

b) Despite some "demand destruction" due to very high prices, we believe the overall market for palm oil remains robust. Indonesia's challenge to meet domestic requirement indicate the strength of the international market for palm oil.

c) Uptake from China - a key market for palm oil – may increase later in the year as the economy is only gradually re-opening from the pandemic. Similarly, demand from the EU is likely to increase following the disruption to its traditional supply of sunflower and rapeseed oil from Ukraine and Russia.

d) The Russia – Ukraine conflict has also push up the prices of hydrocarbon fuels, creating a latent or "hidden" demand for biofuels should vegetable oil prices were to fall sufficiently. Concurrently, prices of nitrogen fertilizer have soared (its production requires a lot of energy) and big international buyers are US and Brazil. Malaysia and Indonesia are not big exporters of nitrogen fertiliser but they are net exporters which give the local agriculture sector some edge in supply and pricing.

Our projection for May:
We are estimating a May output of around 1.521m MT (+4% MoM, -3% YoY). Essentially, a MoM improvement though there is still no news on the guest workers arriving and reporting for work hence some possible risks of production being held back by labour shortages. Guest workers should begin to arrive in June or July.

With May supply due to improve, prices should ease and exports to pick up. However, an important caveat is the Indonesian export ban. We believe many traders are taking the view that the exports ban is temporary and could be lifted within a month or two. If indeed so, overall supply is not affected but merely diverted from the international to the home market. However, if the ban prolongs to the extent that storage facilities are filled up, CPO mills may hold back on processing more fruits. This will then dampen the FFB market which may result in cut back in harvesting - a much more negative scenario as supply will actually fall and not merely being diverted from one market to another.

Our thoughts on the sector:
Downward pressure on palm oil prices is expected to weigh in over the coming months as fruiting picks up seasonally. However, downside to palm oil prices could be limited due to: (a) supply tightness in the global edible oils and fats market worldwide, (b) output of palm oil and soyabean oil (SBO) should improve in 2H albeit by not much – the improvement can best be described as preventing the tight situation from deteriorating further rather than lifting supply significantly, (c) China's inventory is believed to be low and the economy has yet to fully restart, and lastly (d) firm hydrocarbon oil prices will encourage biodiesel usage if vegetable oil prices weaken sufficiently.

On balance, palm oil prices should stay firm for CY22 and probably into CY23 as well. Our current CPO price assumptions for CY22 and CY23 remain at RM4,000 and RM3,500 per MT but we are upgrading on a case-by-case to RM4,500 for CY22 and RM4,000 for CY23.

We prefer to stay selective on the sector in light of easing CPO prices and ESG overhang, hence the NEUTRAL call on the sector. Within the sector, we like KLK (OP, TP: RM30.00) which expanded significantly recently so strong FY22 YoY growth is expected. We also like TSH (OP, TP: RM2.08) as it embarks to nearly double its planted area over the next 5-10 years thanks to stronger cashflow from operations as well as disposal of non-core assets.

Exhibit 1: Monthly Palm Oil Statistics ('000 tonnes)

	Apr-22	Mar-22	Diff.	MoM %	Apr-21	YoY%
Opening Stocks	**1,473**	**1,518**	**(45)**	**-3%**	**1,444**	**2%**
Production	**1,462**	**1,411**	**51**	**4%**	**1,528**	**-4%**
Imports	76	85	(8)	-10%	110	-30%
Total Supply	**3,011**	**3,014**	**(3)**	**0%**	**3,082**	**-2%**
Exports	1,055	1,265	(211)	-17%	1,351	-22%
Domestic Disappearance	315	276	38	14%	185	70%
Total Demand	**1,369**	**1,542**	**(172)**	**-11%**	**1,536**	**-11%**
End Stocks	**1,642**	**1,473**	**169**	**11%**	**1,546**	**6%**
Stock/Usage Ratio	**10.0%**	**8.0%**			**8.4%**	

Source: MPOB, Kenanga Research

Exhibit 2: Monthly Exports and YTD exports ('000 tonnes)

	Apr-22	Mar-22	Apr-21	MoM%	YoY%	4M22	4M21	YoY%
China	71	144	111	-51%	-36%	378	381	-1%
India	241	246	363	-2%	-34%	899	907	-1%
EU	127	165	94	-23%	35%	523	461	14%
Pakistan	8	81	62	-90%	-87%	170	189	-10%
Turkey	40	62	89	-36%	-55%	263	242	9%
US	11	9	22	26%	-48%	29	98	-70%
Mozambique	8	15	17	-46%	-53%	60	88	-32%
Egypt	21	27	11	-21%	97%	139	33	318%
Others	527	532	582	-1%	-9%	2,143	1,989	8%
Total	1,055	1,282	1,351	-18%	-22%	4,604	4,389	5%

Source: MPOB, Kenanga Research

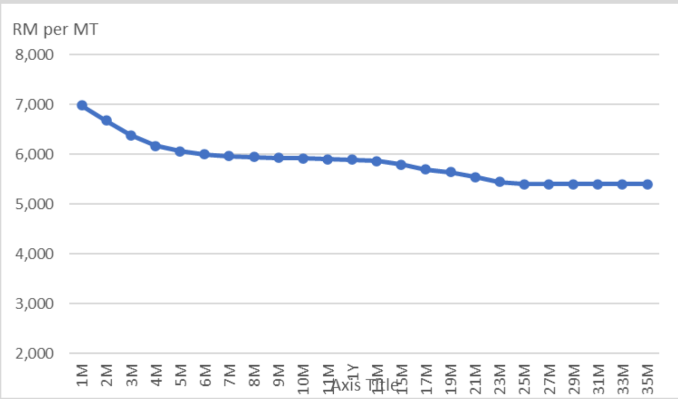
Exhibit 3: April-2022 Production, Import, Export & Domestic disappearance forecast

	'000 MT	MoM chg
Opening stocks	**1,642.0**	
Production	1,520.5	*4.0%*
Imports	100.0	*30.9%*
Total supply	3,262.5	
Exports	1,160.0	*10.0%*
Domestic disappearance	300.0	*-4.7%*
Total demand	1,460.0	
Ending stocks	**1,802.5**	*9.8%*
Stock/Usage Ratio	10.3%	

Source: MPOB, Kenanga Research

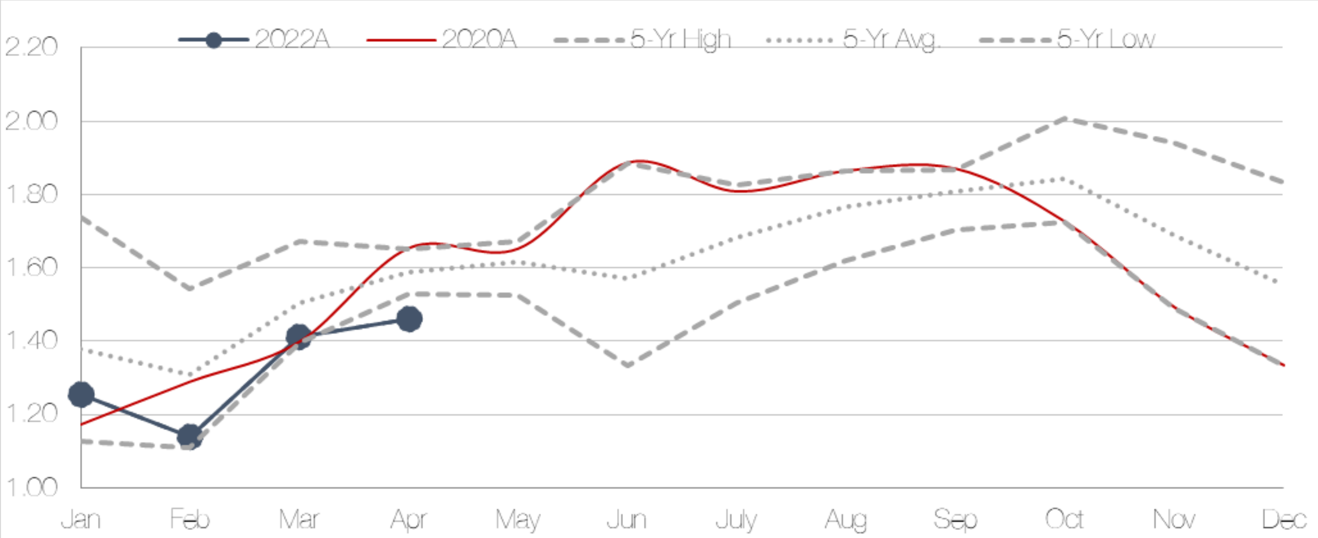
Source: Bloomberg, Kenanga Research

Exhibit 4: CPO Forward Curve as of 11 May 2022



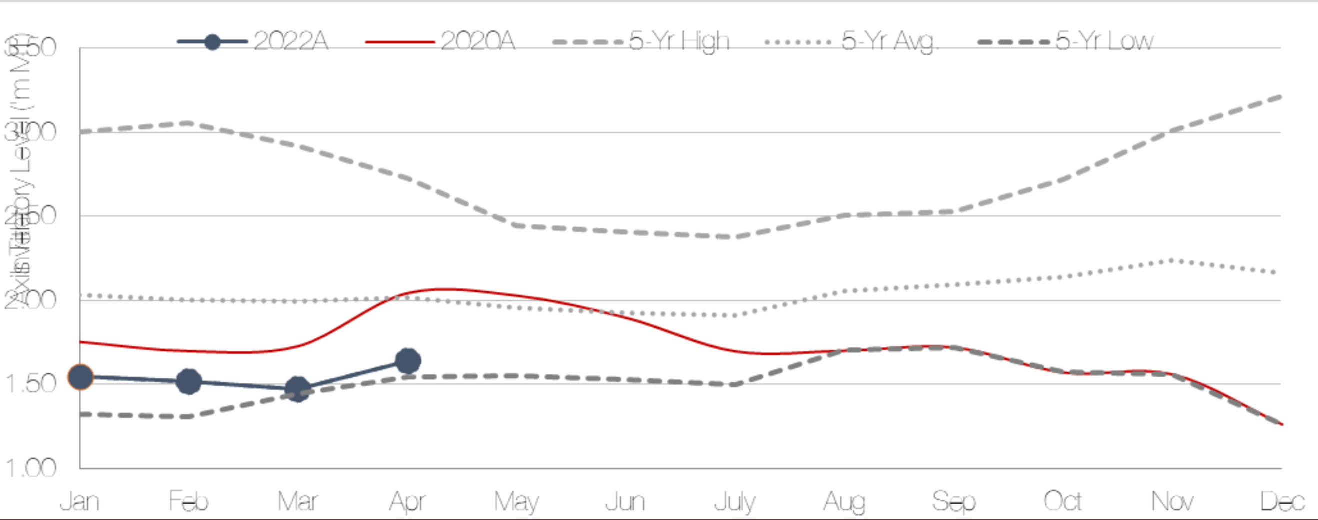
Source: Bloomberg, Kenanga Research

Exhibit 5: Malaysia 2022A CPO Production vs. 5-year Trends



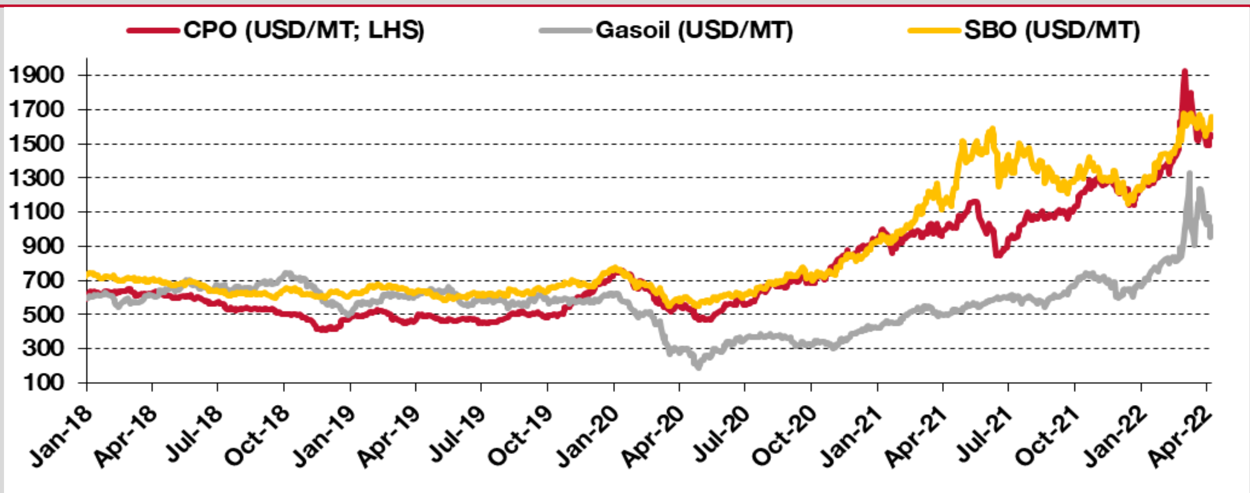
Source: MPOB, Kenanga Research

Exhibit 6: Malaysia 2022 CPO Inventory vs. 5-year Trends



Source: MPOB, Kenanga Research

Exhibit 7: CPO vs. SBO Price vs. Gasoil Price



Source: Bloomberg, Kenanga Research

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	1.85	6,749.1	Y	12/2022	19.4%	-4.5%	109.8%	-31.1%	27.3	13.0	18.9	1.6	1.5	11.9%	4.6%	2.30	MP
GENTING PLANTATIONS BHD	8.16	7,321.1	Y	12/2022	23.2%	-9.2%	73.7%	-11.9%	30.7	17.7	20.1	1.5	1.4	8.3%	3.6%	10.00	OP
HAP SENG PLANTATIONS HLDGS	3.00	2,399.1	Y	12/2022	60.8%	-18.4%	174.6%	-25.3%	34.6	12.6	19.8	1.4	1.3	10.8%	4.7%	2.65	OP
IOI CORP BHD	4.39	27,274.9	Y	06/2022	13.5%	-8.4%	20.6%	-14.1%	32.7	21.2	24.6	2.7	2.5	12.4%	2.2%	4.65	MP
KUALA LUMPUR KEPONG BHD	26.80	28,894.6	Y	09/2022	19.4%	-4.0%	20.3%	-10.1%	17.2	20.2	21.8	2.4	2.3	16.1%	2.1%	30.00	OP
PPB GROUP BERHAD	16.66	23,700.5	Y	12/2022	18.4%	11.1%	3.7%	5.2%	18.1	17.5	16.6	1.1	1.0	6.1%	2.4%	18.90	MP
SIME DARBY PLANTATION BHD	4.90	33,887.0	Y	12/2022	39.5%	-8.0%	194.3%	-35.7%	40.7	13.9	21.6	2.5	2.3	17.2%	4.3%	5.25	MP
TA ANN HOLDINGS BERHAD	5.70	2,510.6	Y	12/2022	44.8%	-19.0%	305.5%	-42.9%	39.6	9.8	17.1	1.8	1.6	17.4%	5.3%	6.00	MP
TSH RESOURCES BHD	1.50	2,070.3	Y	12/2022	45.5%	-7.1%	20.5%	4.1%	9.5	7.9	7.6	1.4	1.2	14.9%	2.7%	2.08	OP
UNITED MALACCA BHD	5.50	1,153.7	Y	04/2022	20.4%	-5.6%	219.7%	-36.5%	40.7	18.2	24.6	0.9	0.8	7.4%	2.7%	5.90	MP
Simple Average					**30.5%**	**-7.3%**	**114.3%**	**-19.8%**	**29.9**	**12.0**	**16.4**	**1.3**	**1.2**	**12.3%**	**3.6%**		

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.***

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