Plantation

May Output Flat but Export Strong

NEUTRAL

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Overview of MPOB May 2022 figures:
Flattish Malaysia's May palm oil output was largely within expectations but exports came in much stronger than anticipated at 7% above the market and 15% higher than ours as Indonesia banned palm oil exports from 28 April till 23 May. Not surprisingly, MoM, Malaysia ended May with lower closing inventory and firmer CPO prices. Looking ahead, we expect monthly production to inch up till the months of Sept and Oct. Hence, some downward pressures on palm oil prices are likely. Likewise, soyabean prices are also expected to ease as US harvest runs from Sept to Nov. Nevertheless, despite demand "destruction" due to high prices and some supply improvements in the 2H of 2022, overall edible oil supply is likely to stay tight with more meaningful supply recovery only in 2023. As the world transitions towards a post Covid normal, demand should also firm up. China, for example, a big user of palm oil is restarting normalisation albeit cautiously.

Review: Malaysian palm oil production usually picks up MoM from around Feb and peaks in the month of Sept or Oct. Therefore, May and June are about midway along this seasonal uptrend. However, for this year, Hari Raya Aidilfitri fell on the 1st of May which cut the number of working days. Hence, the softer May output of 1.461 MT (-0.1% MoM, -7% YoY) was not all surprising though a tad (-4%) weaker than we expected. However, May exports of 1.359m MT (+29% MoM, +7% YoY) was stronger than our estimate (+15%) as well as the market's (+7%) expectations as Indonesia unexpectedly banned palm oil exports from 28 April till 23 May attempting to improve availability to locals and manage-down cooking oil prices over Hari Raya festivity.

Exports were particularly strong to India, EU and Turkey. Disappointingly, Chinese imports remain subdued in May, at only 0.085m MT (+11% MoM, -41% YoY). Though higher MoM, it was still much weaker than a year back. On a 5-month cumulative basis, exports, to China and India were down by 11% YoY and 6% YoY but to EU rose 7% YoY. Given the softer output but stronger exports, May's closing inventory dipped to 1.522m MT (-7% MoM, -3% YoY) while CPO price stayed firm at RM6,873/MT (+3% MoM, +50% YoY).

Outlook: Overall, palm oil prices might be toppish. The Indonesian export ban created some uncertainties and caused some disruptions but the overall impact on supply may be more contained as (a) it lasted for under a month and (b) while inventory dropped in Malaysia, it rose in Indonesia, thus the aggregated effect is smaller. As such, we expect palm oil prices to ease moving forward on seasonally higher production in the 2H of 2022. However, prices are likely to still stay firm on the back of the following factors:

a) Supply of edible oils across the world is still tight. Although soyabean supply should improve in the coming 2H from US planting along with seasonally higher palm output, the overall edible oil supply is still stretched. Meaningful supply recovery is more likely to take place in 2023, hence edible oil prices should stay firm still.

b) Covid-19 has also dampened demand since 2020. In spite of the lockdowns, interruptions to social and economic activities as well as supply chain disruptions, global usage of edible oils did not contract during 2020 and 2021 but kept growing. However, the increment was small with the growth estimated inching up by less than 1% each year over 2020-21, well below the usual 3-4% annual growth in consumption. As such, demand for edible oils should firm up as the world transitions to a post Covid-19 normal even if economic growth is slow.

c) The resiliency in demand is because the bulk of edible oils is consumed as food. Nevertheless, the market for biofuel cannot be ignored and current high hydrocarbon energy prices meant that if and when vegetable oil prices fall sufficiently low, conversion to biofuel will be encouraged.

d) The risk of supply destruction for palm oil is also growing due to the labour shortage in Malaysia. With peak harvesting months coming within sight, fresh batches of guest workers have yet to arrive. If this delay persists, some fruit may be left unharvested resulting in lower-than-expected supply for palm oil.

Our projection for June:
We are estimating a June output of around 1.519m MT (+4% MoM, -0.3% YoY) - essentially, a stronger MoM improvement as May production was affected by fewer working days due to Hari Raya festivity. With supply due to improve seasonally, prices should ease. Malaysia should also see slower exports in June and higher month-end inventories following Indonesia's decision to lift its export ban on 23 May. Indonesia may still be trying to manage palm products outflow with "quotas" but exports are resuming nonetheless. Note that in Malaysia, export license is also required for specific palm product but there no restriction or control imposed over the quantity exported.

Our thoughts on the sector:
With palm oil prices possibly having peaked, the sector might appear less exciting moving forward. Nevertheless, we are still expecting good CPO prices of RM4,500/RM4,000 per MT over 2022 and 2023 respectively with the investment case for the plantation evolving from earnings upside to more of earnings (and balance sheet) resilience:

a) Despite downside pressure on palm oil prices as well as rising costs, we expect palm oil price to stay sufficiently firm to generate good earnings and cash-flows for 2022-23, and possibly beyond.

b) Inflation, especially rising food and fuel prices, is a growing concern across the world and the palm oil sector stands to benefit from both rising edible oil as well as energy prices.

c) Broadly, strong cash-flows since 2021 has helped strengthened the sector's financial position. The sector is also defensive with land-backed NTA and in some cases, both land as well as cash rich NTA.

Our NEUTRAL call on the sector acknowledges some lingering ESG concerns and also our preference to stay selective. Among the larger integrated players, we find KLK (OP, TP: RM30.00) attractive for its strong FY22E growth, upstream efficiency and track record. Meanwhile, TSH (OP, TP: RM1.90) offers visible growth as it expands from under 40K Ha of planted area to 60-65K Ha over the long term. Whilst the sector should pay decent dividends in 2022, Hap Seng Plantations (OP, TP: RM3.30) has the ability to surprise more given its highly liquid balance sheet.

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

	May-22	Apr-22	Diff.	MoM %	May-21	YoY%
Opening Stocks	**1,642**	**1,473**	**169**	**11%**	**1,546**	**6%**
Production	**1,461**	**1,462**	**(1)**	**0%**	**1,572**	**-7%**
Imports	51	76	(26)	-34%	89	-43%
Total Supply	**3,154**	**3,011**	**143**	**5%**	**3,206**	**-2%**
Exports	1,359	1,055	305	29%	1,268	7%
Domestic Disappearance	273	315	(42)	-13%	369	-26%
Total Demand	**1,632**	**1,369**	**263**	**19%**	**1,637**	**0%**
End Stocks	**1,522**	**1,642**	**(120)**	**-7%**	**1,569**	**-3%**
Stock/Usage Ratio	**7.8%**	**10.0%**			**8.0%**	

Source: MPOB, Kenanga Research

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

	May-22	Apr-22	May-21	MoM%	YoY%	5M22	5M21	YoY%
China	85	77	145	11%	-41%	469	526	-11%
India	303	254	389	19%	-22%	1,215	1,295	-6%
EU	139	116	147	20%	-5%	652	607	7%
Pakistan	10	9	50	10%	-81%	180	239	-25%
Turkey	97	40	55	140%	77%	360	297	21%
US	18	11	21	64%	-14%	48	119	-60%
Mozambique	22	8	13	181%	77%	83	101	-18%
Egypt	21	21	13	-3%	59%	160	46	246%

Others	665	536	437	24%	52%	2,817	2,426	16%
Total	1,359	1,073	1,268	27%	7%	5,982	5,657	6%

Source: MPOB, Kenanga Research

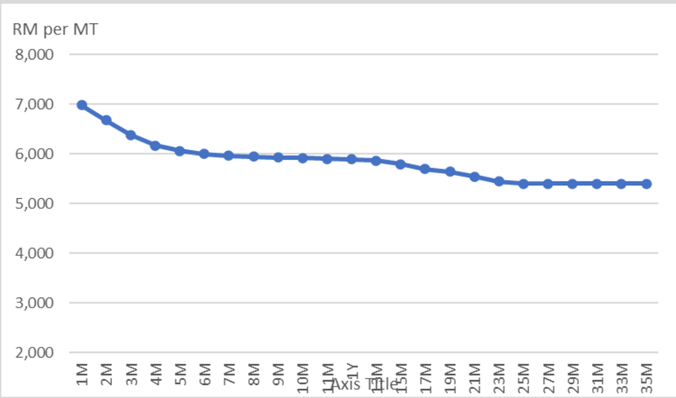
Exhibit 3: June-2022 Production, Import, Export & Domestic disappearance forecast

	'000 MT	MoM chg
Opening stocks	**1,521.8**	*-5.4%*
Production	1,519.4	*4.0%*
Imports	80.0	*57.6%*
Total supply	3,121.2	
Exports	1,200.0	*-11.7%*
Domestic disappearance	285.0	*4.5%*
Total demand	1,485.0	
Ending stocks	**1,636.2**	*7.5%*
Stock/Usage Ratio	9.2%	

Source: MPOB, Kenanga Research

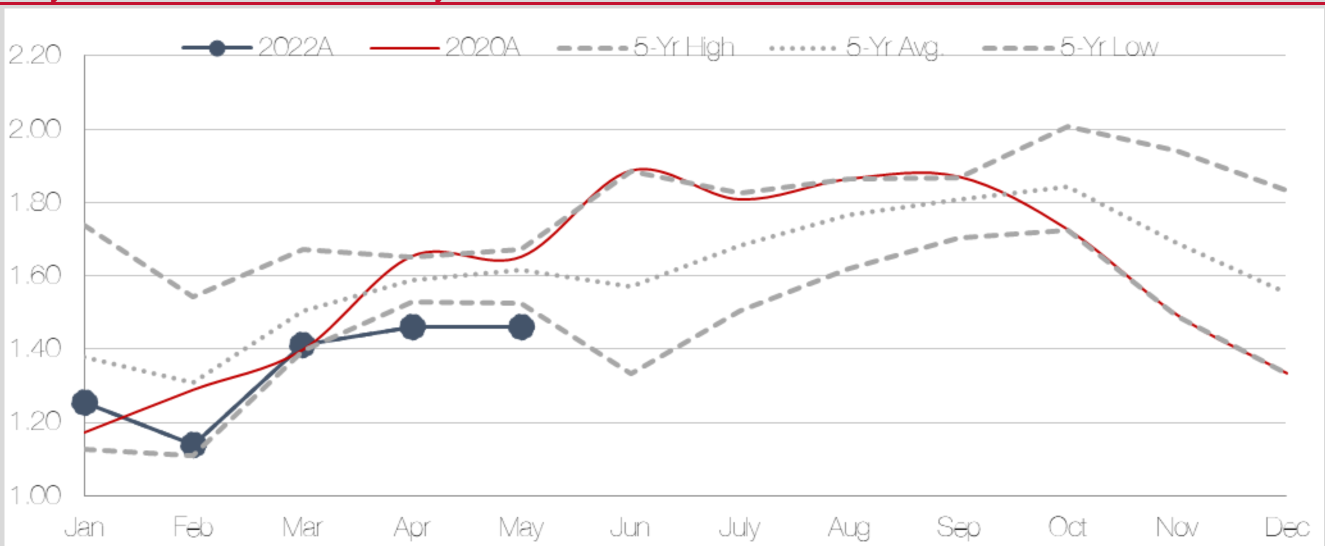
Source: Bloomberg, Kenanga Research

Exhibit 4: CPO Forward Curve as of 11 May 2022



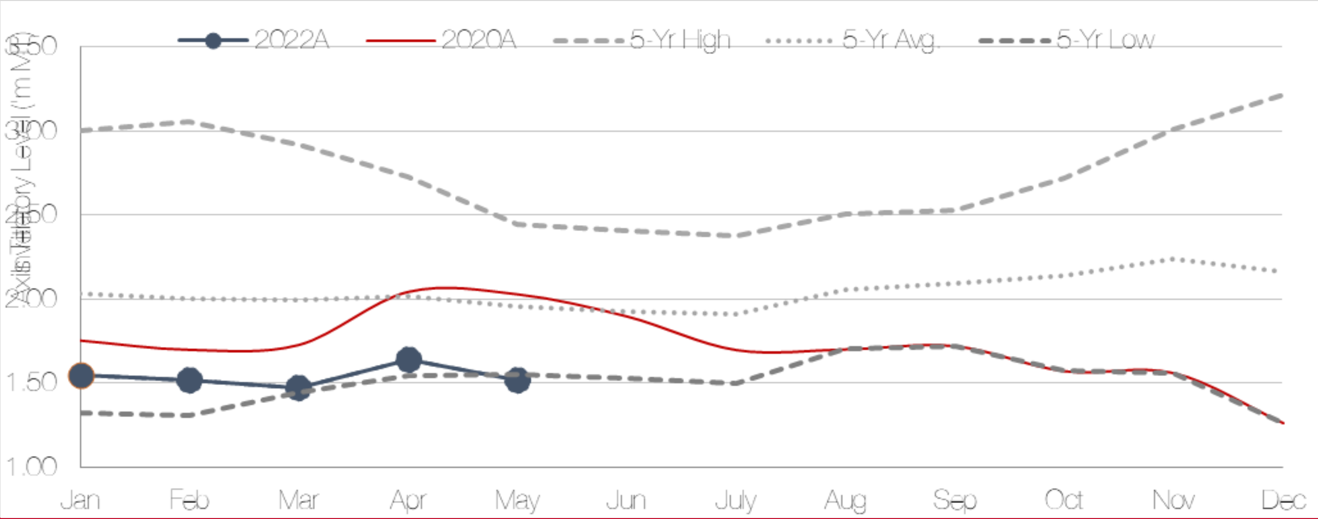
Source: Bloomberg, Kenanga Research

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



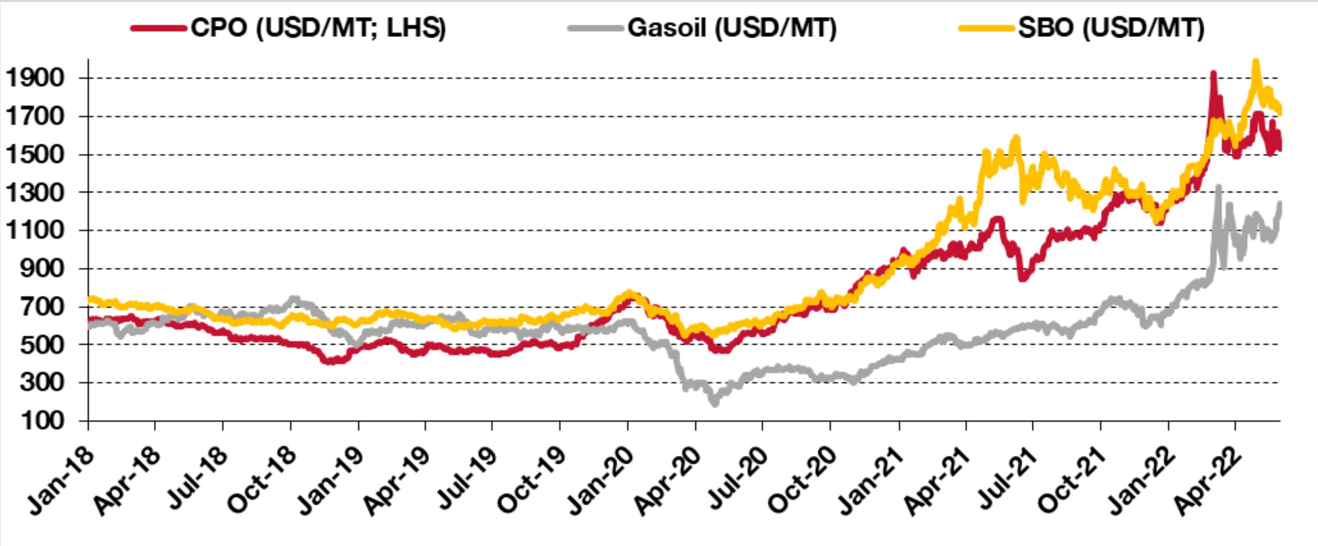
Source: MPOB, Kenanga Research

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 1-Yr. Fwd.	Revenue Growth 2-Yr. Fwd.	Core Earnings Growth 1-Yr. Fwd.	Core Earnings Growth 2-Yr. Fwd.	PER (x) - Core Earnings Hist.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) Hist.	PBV (x) 1-Yr. Fwd.	ROE (%) 1-Yr. Fwd.	Net Div. Yld. (%) 1-Yr. Fwd.	Target Price (RM)	Rating
STOCKS UNDER COVERAGE																	
FGV HOLDINGS BHD	1.63	5,946.5	Y	12/2022	10.9%	-6.1%	-2.2%	-20.9%	24.1	11.5	16.7	1.4	1.3	19.5%	5.2%	2.30	MP
GENTING PLANTATIONS BHD	7.17	6,432.9	Y	12/2022	23.0%	-5.4%	32.1%	-6.2%	27.0	15.5	17.6	1.3	1.3	10.4%	4.0%	9.50	OP
HAP SENG PLANTATIONS HLDGS	2.54	2,031.2	Y	12/2022	32.0%	-14.7%	15.0%	-17.2%	29.3	10.7	16.7	1.2	1.1	13.1%	5.5%	3.30	OP
IOI CORP BHD	4.09	25,411.1	Y	06/2022	46.7%	-15.7%	64.6%	-17.5%	30.5	19.7	23.0	2.5	2.4	15.8%	2.3%	4.65	MP
KUALA LUMPUR KEPONG BHD	24.98	26,932.3	Y	09/2022	26.1%	-2.8%	23.4%	-3.3%	16.0	18.9	20.4	2.3	2.2	17.3%	2.2%	30.00	OP
PPB GROUP BERHAD	15.88	22,590.9	Y	12/2022	12.0%	5.2%	-7.7%	7.9%	17.3	16.6	15.8	1.0	1.0	6.0%	2.5%	15.00	UP
SIME DARBY PLANTATION BHD	4.64	32,088.9	Y	12/2022	19.9%	-13.2%	39.1%	-23.0%	38.5	13.2	20.5	2.3	2.2	17.4%	4.5%	5.25	MP
TA ANN HOLDINGS BERHAD	4.90	2,158.3	Y	12/2022	17.7%	-6.5%	-8.1%	-4.9%	34.1	8.4	14.7	1.5	1.4	16.2%	6.1%	6.00	MP
TSH RESOURCES BHD	1.24	1,711.4	Y	12/2022	38.4%	-8.9%	9.9%	1.0%	23.8	9.1	16.9	1.1	1.0	13.7%	3.2%	1.90	OP
UNITED MALACCA BHD	5.60	1,174.7	Y	04/2022	20.4%	-5.6%	219.7%	-36.5%	41.4	18.6	25.0	0.9	0.9	7.4%	2.7%	5.90	MP
Simple Average					**24.7%**	**-7.4%**	**38.6%**	**-12.1%**	**33.1**	**12.0**	**18.9**	**1.2**	**1.1**	**13.7%**	**4.0%**		

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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