

Plantation

Inventory Dips MoM On Weaker Output

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NEUTRAL



Malaysia ended Feb 2023 with 2.12m MT closing inventory, 6% lower than our expectation of 2.26m MT and 4% below consensus' 2.206m MT. Monthly production is often lower in February due to fewer working days, so Feb 2023 production of 1.251m MT (-9% MoM, +10% YoY) was not surprising, coming in within 1% of our and consensus' estimates. After a weak Jan, Feb exports recovered to 1.114m MT, 3% above our, but 2% below consensus, estimate, resulting in flat YoY cumulative Jan-Feb 2023 exports of 2.25m MT. Average CPO price held firm MoM at RM3,908/MT (-0.3% MoM, -43% YoY). Average CPO price forecasts of RM3,800-3,500/MT for 2023-24 are kept unchanged. **Maintain NEUTRAL. We like the sector's defensive earnings, asset rich NTA and low P/BV ratings but margins are facing cost pressures, thus capping upside somewhat for now.** Stay selective with the following stock picks. KLK is our large integrated pick, TSH for its long-term expansion growth, and HSPLANT for income yield.

MPOB Feb 2023 Highlights

Mil MT	Feb-23	MoM %	YoY%
Opening Inventory	2.268	▲ 3%	▲ 46%
Production	1.251	▼ -9%	▲ 10%
Imports	0.052	▼ -64%	▼ -65%
Exports	(1.114)	▼ -2%	▲ 2%
Domestic Usage	(0.338)	▲ 7%	▲ 52%
Closing Inventory	2.120	▼ -7%	▲ 40%

Source: MPOB, Kenanga Research

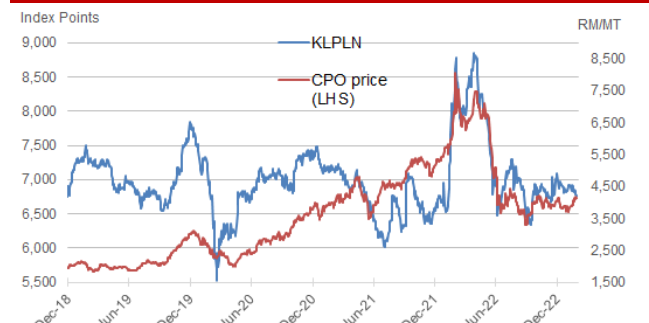
Key Feb 2023 Statistics vs Historical Trend

Mil MT	Feb-23	10Y-Low	10Y-Avg	10Y-High
Production	1.251	1.043	1.242	1.545
Exports	1.114	0.901	1.082	1.324
C.Inventory	2.120	1.306	1.953	3.057

Source: MPOB, Kenanga Research

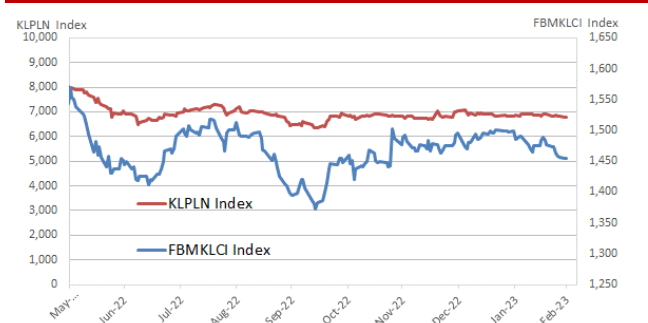
Outlook: Edible oil supply is improving in 2023 but so is demand driven by: (a) post-Covid normalisation uptick in demand after stagnating since 2020 and delayed by high prices in 2022, (b) recent post pandemic reopening of China (the world's biggest vegetable oil market), and (c) firm demand for biodiesel with countries such as Indonesia raising its B30 blend to B35 whilst keeping its B40 target intact. Firm average CPO prices of RM3,800-3,500 per MT are thus expected for CY23-24 but rising production cost is an issue this year. Despite average fertiliser price having eased by about 20% since peaking in Apr/May 2022, it is still 60% above the average in 2021. Another pressure-point on unit cost of FFB production which is weighed down by old palms and replanting. Margin is expected to stay under some pressure for CY23.

KL Plantation Index vs CPO (RM/MT)



Source: Bloomberg, Kenanga Research

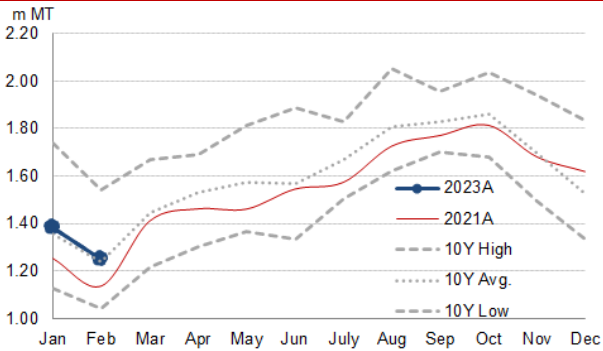
KL Plantation Index vs KLCI



Source: Bloomberg, Kenanga Research

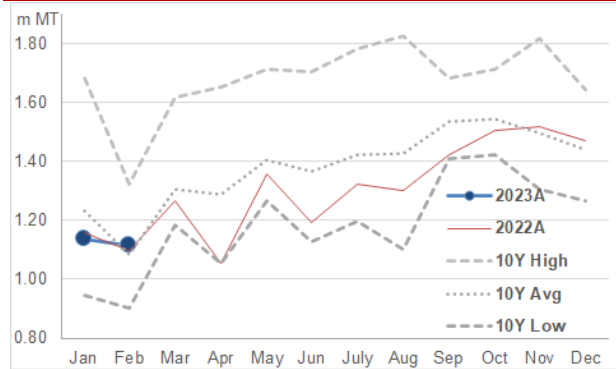
Recommendation: Maintain NEUTRAL. The sector is highly defensive in view of: (i) the wide and versatile usage of palm oil as food, manufacturing ingredient and fuel, (ii) asset-rich books, and (iii) undemanding valuations. However earnings are capped by limited margins upside due to: (i) rising costs, and (ii) easier YoY palm oil prices. Selectively, we prefer companies with the ability to expand upstream such as KLK (OP, TP: RM27.00) or TSH (OP, TP: RM1.35) which is set to expand its planted area by c.30%-50% after having de-gear'd while for investors seeking dividend yields, HSPLNT (OP, TP: RM2.30) looks attractive.

10-Year Monthly Production Trend ('000MT)



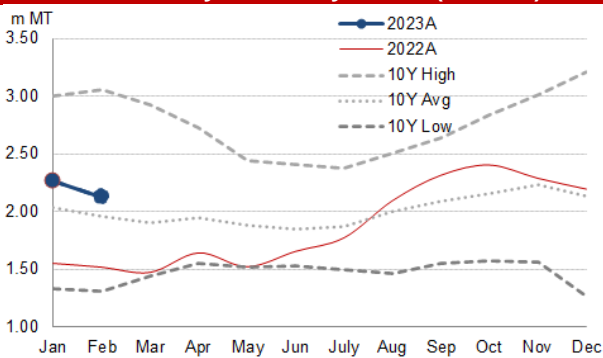
Source: MPOB, Kenanga Research

10-Year Monthly Exports Trend ('000MT)



Source: MPOB, Kenanga Research

10-Year Monthly Inventory Trend ('000MT)



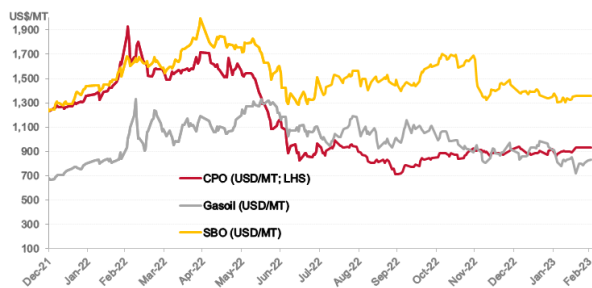
Source: MPOB, Kenanga Research

Forecast for Following Month

'000 MT	Mar-23	MoM	YoY
Opening Inventory	2,119.5	-7%	40%
Production	1,451.5	16%	3%
Imports	50.0	-5%	-41%
Total Supply	3,621.0	1%	20%
Exports	(1,281.5)	15%	-201%
Domestic Usage	(350.0)	4%	-227%
Total Demand	(1,631.5)	12%	-206%
Closing Inventory	1,989.5	-6%	35%

Source: MPOB, Kenanga Research

CPO vs Soyabean Oil vs Gasoil Prices



Source: Bloomberg, Kenanga Research

36-Month Forward Crude Palm Oil Curve



Source: Bloomberg, Kenanga Research

MPOB Production, Exports & Inventory

'000 MT	Feb-23	Jan-23	Diff.	MoM %	Feb-22	YoY%
Opening Inventory	2,268	2,195	73	3%	1,551	46%
Production	1,251	1,380	(129)	-9%	1,137	10%
Imports	52	145	(92)	-64%	150	-65%
Total Supply	3,572	3,720	(148)	-4%	2,838	26%
Exports	(1,114)	(1,135)	21	-2%	(1,098)	2%
Domestic Usage	(338)	(316)	(22)	7%	(222)	52%
Total Demand	(1,452)	(1,452)	(0)	0%	(1,320)	10%
Ending Inventory	2,120	2,268	(149)	-7%	1,518	40%
Stock/Usage Ratio	-12.2%	13.0%			-9.6%	

Source: MPOB, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
PLANTATION																	
FGV HOLDINGS BHD	MP	1.50	1.40	-6.67%	5,472.2	Y	12/2023	23.8	21.2	-38.6%	-11.1%	6.3	7.1	0.8	13.3%	8.0	5.3%
GENTING PLANTATIONS BHD	MP	5.96	5.50	-7.72%	5,347.3	Y	12/2023	40.9	39.3	-21.9%	-3.9%	14.6	15.2	1.0	7.0%	20.0	3.4%
HAP SENG PLANTATIONS HOLDINGS	OP	1.89	2.30	21.69%	1,511.4	Y	12/2023	19.2	18.5	-25.0%	-3.3%	9.9	10.2	0.7	7.7%	12.0	6.3%
IOI CORP BHD	MP	3.80	4.20	10.53%	23,587.3	Y	06/2023	26.8	19.5	-7.6%	-27.1%	14.2	19.4	2.1	15.7%	14.0	3.7%
KUALA LUMPUR KEPONG BHD	OP	20.70	27.00	30.43%	22,323.6	Y	09/2023	171.6	152.5	-10.5%	-11.1%	12.1	13.6	1.5	13.1%	50.0	2.4%
PPB GROUP BHD	OP	16.50	19.30	16.97%	23,472.9	Y	12/2023	122.8	128.9	-19.5%	5.0%	13.4	12.8	0.8	6.6%	45.0	2.7%
SIME DARBY PLANTATION BHD	UP	4.25	3.65	-14.12%	29,391.8	Y	12/2023	24.3	21.9	-17.8%	-9.8%	17.5	19.4	1.7	10.0%	16.0	3.8%
TA ANN HOLDINGS BHD	MP	3.26	3.90	19.63%	1,435.9	Y	12/2023	41.7	38.9	-45.9%	-6.7%	7.8	8.4	0.8	10.4%	25.0	7.7%
TSH RESOURCES BHD	OP	1.07	1.35	26.17%	1,476.8	Y	12/2023	12.4	10.8	-39.5%	-12.9%	8.7	9.9	0.7	14.6%	3.0	2.8%
UNITED MALACCA BHD	MP	5.42	5.00	-7.75%	1,136.9	Y	04/2023	41.1	35.6	-25.6%	-13.6%	13.2	15.2	0.8	5.6%	15.0	2.8%
Sector Aggregate					115,156.1					-19.6%	-10.2%	13.1	14.6	1.1	10.4%		4.1%

Source: Bloomberg, Kenanga Research

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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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