

Plantation

NEUTRAL

A Poorer-than-expected June Output



By **Teh Kian Yeong** | tehy@kenanga.com.my

Malaysia June palm oil output of 1.448m MT fell 10% short of Kenanga's forecast and came in 4% weaker than consensus. Exports of 1.172m MT was muted, coming in 3% lower than our estimate, but 8% above consensus. Consequently, inventory closed just 1% above our estimate but 8% short of consensus. Average CPO price for June was RM3,525/MT (-7% MoM, -45% YoY) but for the full-year to 2023, we continue to expect average CPO prices of RM3,700/MT. A severe El Nino can push prices up but thus far CPO prices are still trading within our expected range. **Maintain NEUTRAL as the threat of El Nino is not a foregone conclusion.** Meanwhile, the sector's cash flows and balance sheet remain defensive, while cost pressures should ease in the 2H of 2023. Ratings are not demanding either; hence, an opportunity to selectively accumulate in the event of stronger CPO prices and earnings from a severe El Nino. **KLK is our sector choice.**

MPOB Sept 2022 Highlights

Mil MT	Jun-23	MoM %	YoY%
Opening Inventory	1.688	▲ 13%	▲ 11%
Production	1.448	▼ -5%	▼ -6%
Imports	0.135	▲ 67%	▲ 129%
Exports	(1.172)	▲ 9%	▼ -2%
Domestic Usage	(0.379)	▲ 15%	▲ 37%
Closing Inventory	1.721	▲ 2%	▲ 4%

Source: MPOB, Kenanga Research

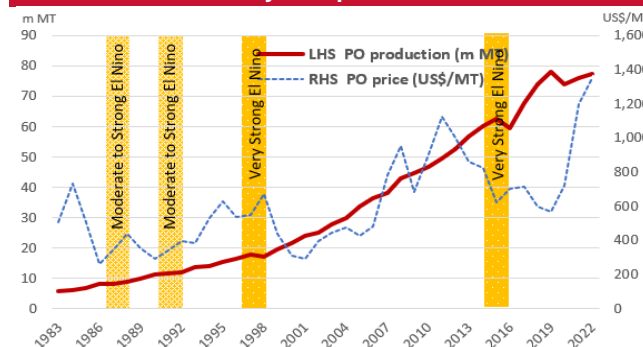
KL Plantation Index vs KLCI

Mil MT	Jun-23	10Y-Low	10Y-Avg	10Y-High
Production	1.448	1.333	1.568	1.886
Exports	1.172	1.130	1.366	1.707
End Inventory	1.721	1.527	1.851	2.411

Source: MPOB, Kenanga Research

Although Malaysia's end-June inventory inched up, the level is not excessive and remains below the historic average for the month. **Looking ahead, FFB output should improve seasonally in July to peak in Sept or Oct 2023. However, an El Nino is looking likely come the end of 2023 or early 2024.** If serious, our current expectation of a small 2024 global edible surplus can turn into a deficit even with a small fall in palm oil output of just 2% in 2024. Hence, current expected CPO prices of RM3,700/MT for 2023-24 may end up stronger. **So far, the threat of El Nino seems to have provided some support to edible oil prices from easing further but yet to raise prices above our expected range of RM3,500-4,000/MT for CPO.**

A Serious El Nino May Dampen 2024 Oil Palm Yields



Source: Oil World, NOAA, Kenanga Research

2024 Vegoil Surplus Is Sensitive To Palm Oil Yields

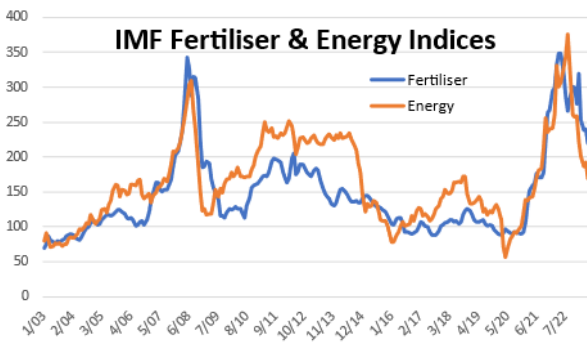
Global Edible Oil Supply & Demand	2022	2023F	2024F
Demand (m MT)	242	252	259
Supply (m MT)			
Base Case	245	252	260
-1% fall in 2024 palm oil output	245	252	259
-3% fall in 2024 palm oil output	245	252	258
-5% fall in 2024 palm oil output	245	252	256

Source: Bloomberg, Kenanga Research

Cost pressures are still high but easing. Fertiliser prices have fallen by about 35% from the peak in 2Q CY22 but are still more than 50% above the 10-year average. Likewise, diesel cost has eased but still not cheap while wages are still trending up only that the increment is now slower. A side product of FFB after CPO is extracted, palm kernel (PK) is sold to offset the cost of producing CPO. Whilst CPO is largely consumed as food, palm kernel oil (PKO) is used more in personal care, cosmetics and industrial products such as coatings or greases. Therefore, PKO prices can react more to economic slowdown as recently demonstrated - trading close to CPO prices instead at the usual 20%-30% premium. This should reverse as PKO inventory adjusts to the new demand environment but this transition may stretch beyond 2023 so the benefit of higher PK prices to lower CPO cost and lift margin may have to wait till then.

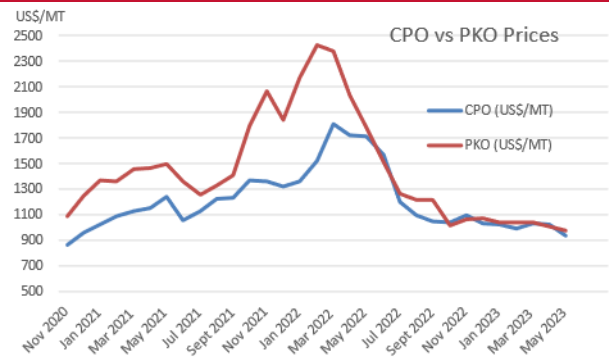
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Easier Fertiliser & Energy Costs But Still Not Low



Source: Bloomberg, Kenanga Research

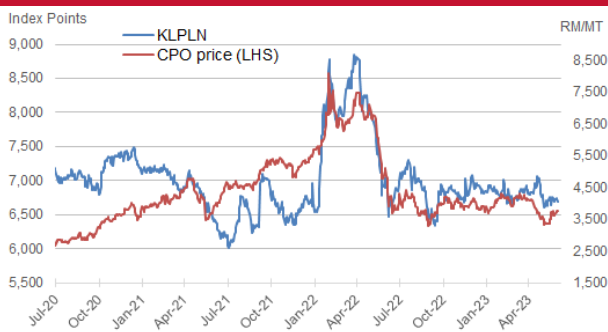
Unusually Low PKO Prices Since Mid-2022



Source: Bloomberg, Kenanga Research

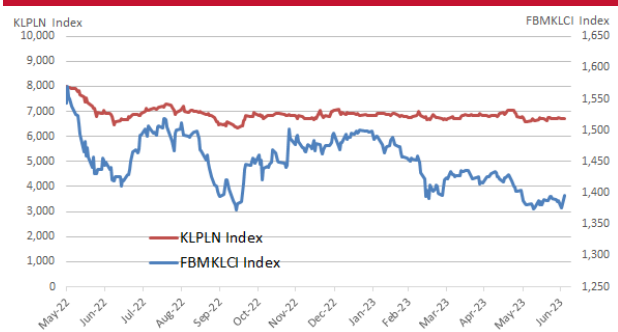
Maintain NEUTRAL as a serious El Nino is still not conclusive. However, given that the sector is already trading at 1.1x PBV with plenty of negative news reflected into the sector's equity prices, investors may want to consider some selective accumulation in the event CPO prices and earnings are lifted by a severe El Nino. In any case, the market for palm oil should stay robust, underpinned by demand from the food and biofuel sectors. Moreover, many players in the sector own land banks with market value worth far higher than their reported book value. Gearing is also low to moderate with several in net cash position. While CPO selling prices can be volatile, efficient operators with good cost control can generate healthy cash flows along with decent returns. **We like: (i) KLK (OP; TP: RM24.50)** for its strong track record, regional upstream operations and growing downstream operations, **(ii) PPB (OP; TP: 19.30)** for its exposure to Wilmar and strong market position in Southeast Asia's growing consumer essential segment and **(ii) HSPLNT (OP; TP: RM2.30)** which offers upstream exposure with cash surplus to sustain a decent dividend yield.

KL Plantation Index vs CPO (RM/MT)



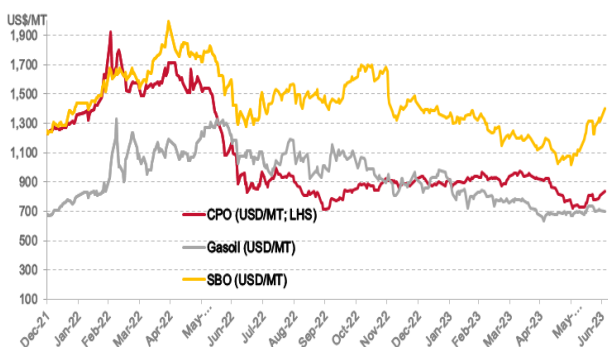
Source: Bloomberg, Kenanga Research

KL Plantation Index vs KLCI



Source: Bloomberg, Kenanga

CPO vs Soyabean Oil vs Gasoil Prices



Source: Bloomberg, Kenanga Research

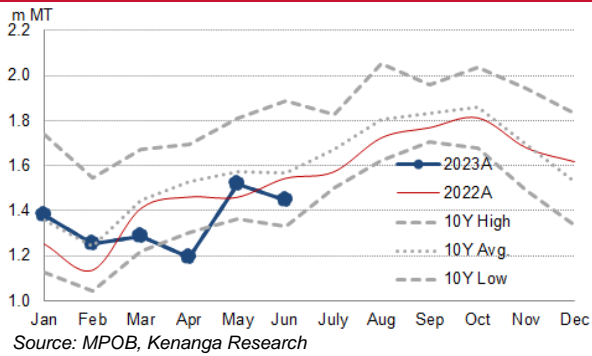
36-Month Forward Palm Oil Curve



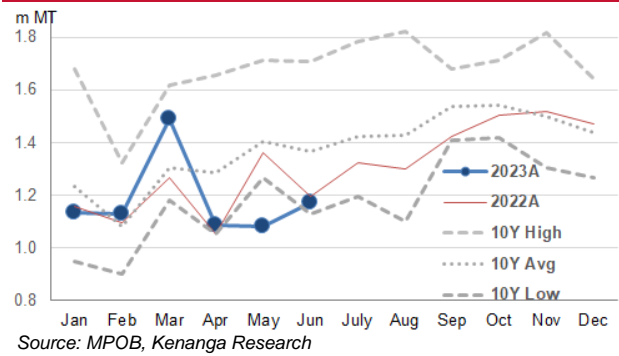
Source: Bloomberg, Kenanga

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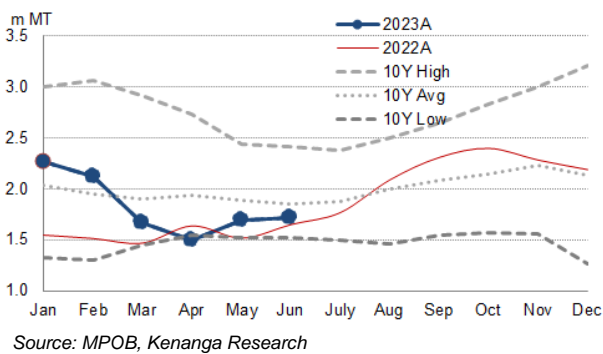
10-Year Monthly Production Trend ('000MT)



10-Year Monthly Exports Trend ('000MT)



10-Year Monthly Inventory Trend ('000MT)



Forecast for July 2023

'000 MT	Jul-23	MoM	YoY
Opening Inventory	1,721	2%	4%
Production	1,549	7%	-2%
Imports	50	-63%	-62%
Total Supply	3,320	1%	-1%
Exports	(1,207)	3%	-9%
Domestic Usage	(500)	32%	89%
Total Demand	(1,707)	10%	8%
Closing Inventory	1,613	-6%	-9%

Source: Kenanga Research

MPOB June 2023 Production, Exports & Inventory

'000 MT	Jun-23	May-23	Diff.	MoM %	Jun-22	YoY%
Opening Inventory	1,688	1,498	191	13%	1,522	11%
Production	1,448	1,518	(70)	-5%	1,545	-6%
Imports	135	81	54	67%	59	129%
Total Supply	3,271	3,096	175	6%	3,126	5%
Exports	(1,172)	(1,079)	(93)	9%	(1,194)	-2%
Domestic Usage	(379)	(329)	(50)	15%	(277)	37%
Total Demand	(1,551)	(1,408)	(143)	10%	(1,471)	5%
Ending Inventory	1,721	1,688	32	2%	1,655	4%

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																	
BOUSTEAD PLANTATIONS BHD	MP	0.980	0.640	-34.7%	2,195.2	Y	12/2023	2.0	3.1	-85.5%	53.1%	48.6	31.7	0.8	1.6%	8.0	8.2%
GENTING PLANTATIONS BHD	MP	5.71	5.50	-3.7%	5,123.0	Y	12/2023	24.0	26.2	-54.1%	8.8%	23.8	21.8	0.9	4.0%	12.0	2.1%
HAP SENG PLANTATIONS HOLDINGS	OP	1.90	2.30	21.1%	1,519.4	Y	12/2023	14.1	15.1	-45.0%	7.2%	13.5	12.6	0.8	5.8%	12.0	6.3%
IOI CORP BHD	MP	3.77	3.80	0.8%	23,387.9	Y	06/2023	24.9	23.5	-14.1%	-5.8%	15.1	16.1	2.1	14.6%	13.0	3.4%
KUALA LUMPUR KEPONG BHD	OP	22.70	24.50	7.9%	24,480.5	Y	09/2023	118.3	155.7	-38.6%	31.6%	19.2	14.6	1.6	7.8%	50.0	2.2%
PPB GROUP BHD	OP	15.90	19.30	21.4%	22,619.3	Y	12/2023	78.3	115.9	-48.7%	48.0%	20.3	13.7	0.8	4.3%	45.0	2.8%
SIME DARBY PLANTATION BHD	UP	4.33	3.65	-15.7%	29,945.0	Y	12/2023	7.2	8.3	-75.5%	15.1%	59.8	51.9	1.8	3.4%	5.0	1.2%
TA ANN HOLDINGS BHD	MP	3.37	3.40	0.9%	1,484.4	Y	12/2023	31.3	34.2	-67.2%	9.3%	10.8	9.9	0.8	7.8%	25.0	7.4%
TSH RESOURCES BHD	MP	0.925	1.10	18.9%	1,276.7	Y	12/2023	8.3	10.8	-59.2%	29.1%	11.1	8.6	0.6	13.1%	2.0	2.2%
UNITED MALACCA BHD	MP	5.20	5.00	-3.8%	1,090.8	Y	04/2024	29.7	36.4	1.0%	22.4%	17.5	14.3	0.8	4.4%	12.0	2.3%
Sector Aggregate					118,156.7					-51.1%	20.5%	21.5	17.8	1.1	7.0%		3.6%

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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my