

Plantation

NEUTRAL

Weak Exports Push Up Inventory



By Teh Kian Yeong | tehky@kenanga.com.my

Malaysia's Aug 2023 palm oil output of 1.753m MT (+1% MoM, -2% YoY) came 1% above Kenanga's, and 2% higher than consensus', estimate. MoM palm oil output in Malaysia typically jumps the most during July and Aug, thereafter, monthly production creeps up by another 5%-10% to peak in Sept or Oct but occasionally in Nov (or even Aug itself). However, Aug 2023 export of 1.222m MT was 12% weaker than our expectation and 8% lower than consensus; thus, end-Aug inventory surged 23% MoM. Average CPO price for Aug softened to RM3,805 (-2% MoM, -9% YoY) but is still within our CPO price estimate of RM3,800 per MT for 2023-24. **Maintain NEUTRAL sector call.** We suspect equity prices have already factored in a "strong" El Nino impact on the sector which now looks likely to occur. Likewise, easier costs in the 2H of 2023 are also largely anticipated with overall ratings not very demanding. **PPB is our sector pick.**

MPOB Aug 2023 Highlights

Mil MT	Aug-23	MoM %	YoY%
Opening Inventory	1.732	▲ 1%	▼ -2%
Production	1.753	▲ 9%	▲ 2%
Imports	0.111	▲ 7%	▼ -24%
Exports	(1.222)	▼ -10%	▼ -6%
Domestic Usage	(0.249)	▼ -29%	▼ 0%
Closing Inventory	2.125	▲ 23%	▲ 1%

Source: MPOB, Kenanga Research

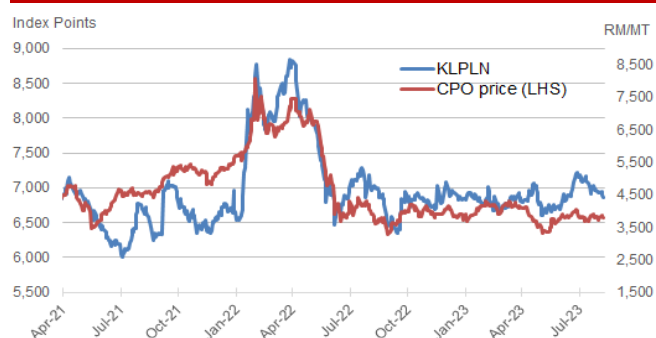
KL Plantation Index vs. KLCI

Mil MT	Aug-23	10Y-Low	10Y-Avg	10Y-High
Production	1.753	1.621	1.807	2.051
Exports	1.222	1.100	1.427	1.824
End Inventory	2.125	1.464	2.004	2.505

Source: MPOB, Kenanga Research

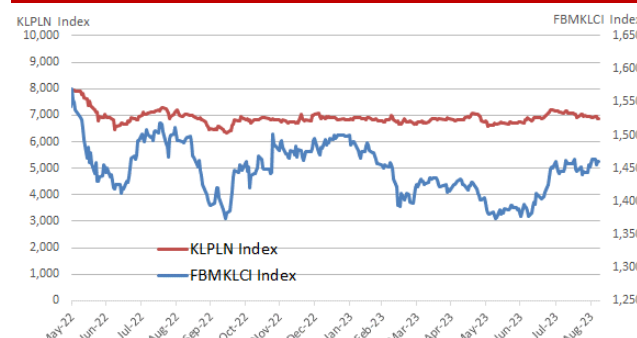
2024 supply hinges very much on Brazil and Argentina. US-based NOAA (National Oceanic and Atmospheric Administration) is now expecting a "strong" El Nino for Nov 2023 to Feb 2024. The impact on oil palm has been minimal so far but a "very strong" El Nino can disrupt supply in 2024. Meanwhile, upcoming US soyabean harvest is being cramped by dryness even as 2023 edible oil demand stayed buoyant. Therefore, under current "strong" El Nino scenario, global edible oil is already likely to begin 2024 with relatively tight edible oil inventory. Very strong Latin American soya harvest in 1H 2024 may ease the tightness but otherwise, full-year 2024 edible oil supply-demand balance should stay fragile on muted palm, rapeseed and sunflower oil supplies. Relatively firm CPO price of RM3,800/MT is maintained for 2023-24.

KL Plantation Index vs. CPO (RM/MT)



Source: Bloomberg, Kenanga Research

KL Plantation Index vs. KLCI



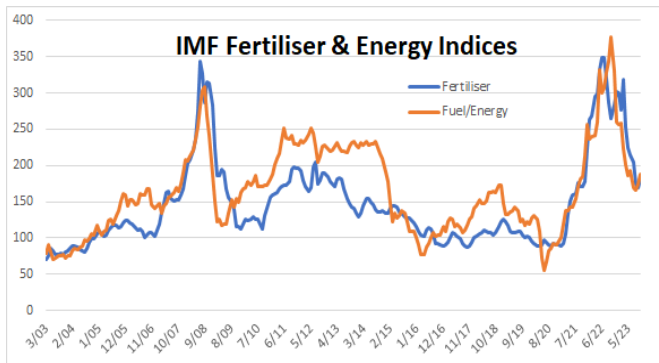
Source: Bloomberg, Kenanga Research

Cost pressures should ease. YTD fertiliser prices have come off 40% from peak prices during the 2QCY23 but are still 50% above the 10-year average level, hence not cheap still. Likewise, diesel cost has also eased but higher wages will stay. Palm kernel (PK), a side product from milling FFB to extract CPO, is sold to help offset CPO production cost. Whilst CPO is consumed mainly (70%) as food, PK is used to produce personal

12 September 2023

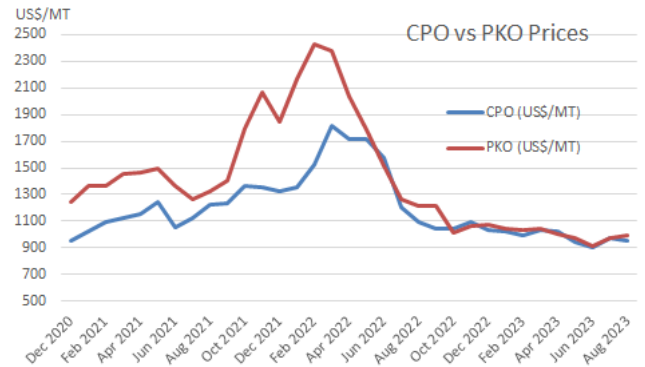
care, cosmetics and industrial products which can be more sensitive to economic slowdown. Recent PKO (PKO) prices seem to reflect this, trading at around CPO prices minus the usual 20–30% premium. This should revert to the norm as PKO inventory adjusts to the new demand but this may take some time, hence the benefit to CPO production cost is more likely in 2024.

Easier Fertiliser & Energy Costs But Still Not Low



Source: IMF, Kenanga Research

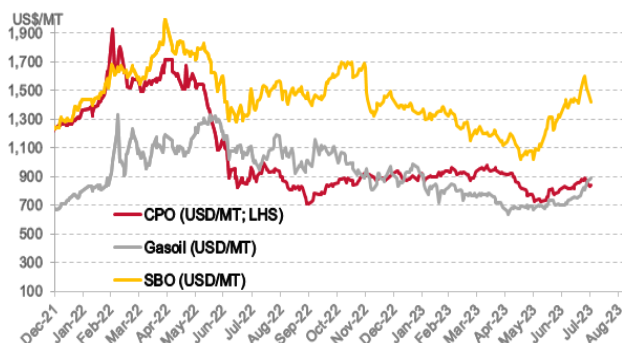
Unusually Low PKO Prices Since Mid-2022



Source: Oilworld, Kenanga Research

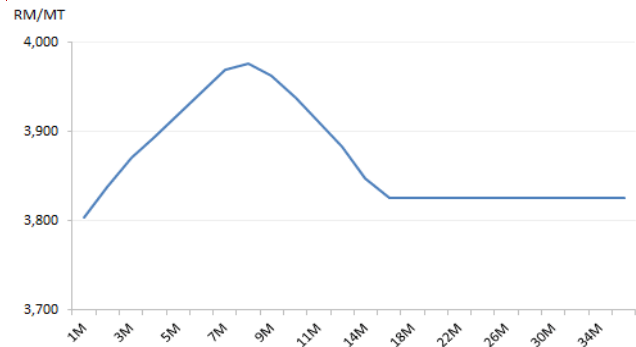
Maintain NEUTRAL. Trading at 1.2x PBV, the plantation sector offers deep value — from a long-term exposure to robust palm oil demand underpinned by the food and biofuel sectors to increasingly valuable land holding as new regional oil palm development is becoming scarce due to limited land availability, and regulations. While CPO selling prices can be volatile, well managed plantations can offer good returns and cash flow. **We like PPB (OP; TP: RM19.30)** for its Wilmar’s exposure to China and India along with PPB’s own exposure into SE Asia’s growing consumer essential segment.

CPO vs. Soyabean Oil vs. Gasoil Prices



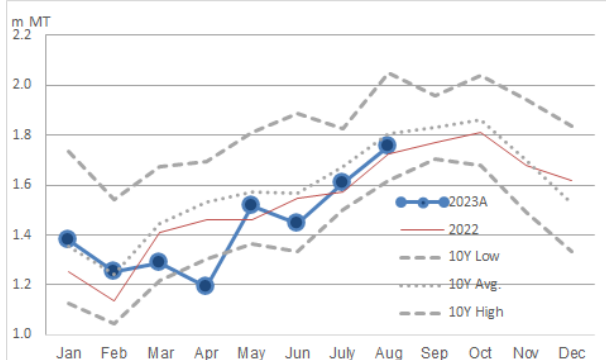
Source: Bloomberg, Kenanga Research

36-Month Forward Palm Oil Curve



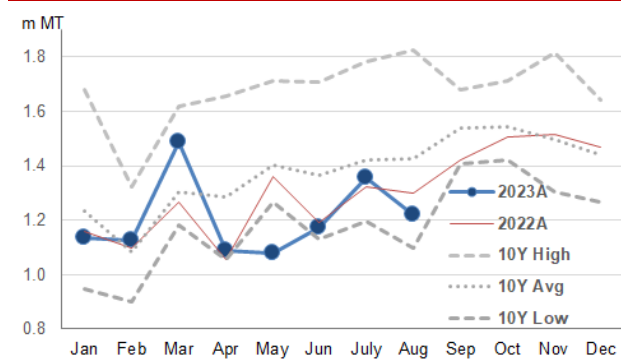
Source: Bloomberg, Kenanga

10-Year Monthly Production Trend ('000 MT)



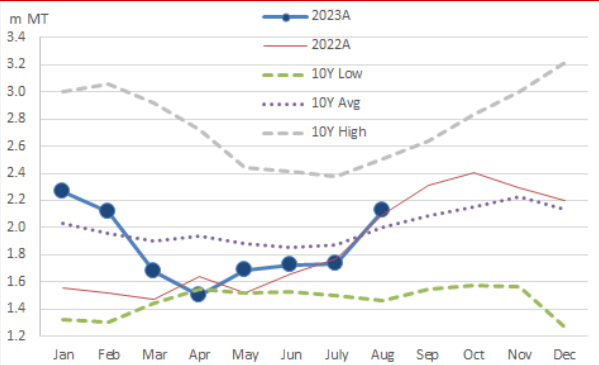
Source: MPOB, Kenanga Research

10-Year Monthly Exports Trend ('000 MT)



Source: MPOB, Kenanga Research

10-Year Monthly Inventory Trend ('000 MT)



Source: MPOB, Kenanga Research

Forecast for Sept 2023

'000 MT	Sep-23	MoM	YoY
Opening Inventory	2,125	23%	1%
Production	1,789	2%	1%
Imports	50	-55%	-62%
Total Supply	3,964	10%	-1%
Exports	(1,320)	8%	-7%
Domestic Usage	(500)	101%	93%
Total Demand	(1,820)	24%	8%
Closing Inventory	2,144	1%	1%

Source: Kenanga Research

MPOB August 2023 Production, Exports & Inventory

'000 MT	Aug-23	Jul-23	Diff.	MoM %	Aug-22	YoY%
Opening Inventory	1,732	1,721	11	1%	1,773	-2%
Production	1,753	1,610	143	9%	1,726	2%
Imports	111	104	7	7%	145	-24%
Total Supply	3,596	3,434	161	5%	3,644	-1%
Exports	(1,222)	(1,354)	132	-10%	(1,300)	-6%
Domestic Usage	(249)	(349)	100	-29%	(250)	0%
Total Demand	(1,471)	(1,703)	232	-14%	(1,549)	-5%
Ending Inventory	2,125	1,732	393	23%	2,095	1%
Stock/Usage Ratio	-12.0%	-8.5%			-11.3%	

Source: MPOB, Kenanga Research

12 September 2023

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																	
GENTING PLANTATIONS BHD	MP	5.18	5.50	6.2%	4,647.5	Y	12/2023	25.2	26.9	-51.8%	6.5%	20.5	19.3	0.8	4.2%	13.0	2.5%
HAP SENG PLANTATIONS HOLDINGS	MP	1.85	1.80	-2.7%	1,479.4	Y	12/2023	10.6	11.8	-58.4%	10.7%	17.4	15.7	0.8	4.4%	7.0	3.8%
IOI CORP BHD	MP	4.03	3.80	-5.7%	25,000.9	Y	06/2024	24.6	24.7	1.4%	0.1%	16.4	16.3	2.3	14.5%	11.0	2.7%
PPB GROUP BHD	OP	15.72	19.30	22.8%	22,363.3	Y	12/2023	75.0	114.3	-50.8%	52.4%	21.0	13.7	0.8	4.1%	45.0	2.9%
SIME DARBY PLANTATION BHD	UP	4.30	3.65	-15.1%	29,737.6	Y	12/2023	11.2	10.7	-62.3%	-4.3%	38.6	40.3	1.8	5.0%	8.0	1.9%
TA ANN HOLDINGS BHD	MP	3.43	3.40	-0.9%	1,510.8	Y	12/2023	32.8	34.4	-65.5%	4.6%	10.4	10.0	0.8	8.2%	25.0	7.3%
TSH RESOURCES BHD	MP	0.985	1.00	1.5%	1,359.5	Y	12/2023	4.2	6.3	-79.6%	51.6%	23.6	15.6	0.7	6.5%	1.0	1.0%
UNITED MALACCA BHD	MP	5.10	5.00	-2.0%	1,069.8	Y	04/2024	29.7	36.4	1.0%	22.4%	17.1	14.0	0.7	4.4%	12.0	2.4%
Sector Aggregate					118,411.9					-48.5%	19.9%	21.0	17.5	1.1	6.4%		3.3%

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

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