

# Plantation

# NEUTRAL

Stronger Than Expected Exports



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**Strong Oct 2023 palm oil output of 1.937m MT (+6% MoM, +7% YoY) was within Kenanga (4%) and consensus (3%) expectations.** It also could be the monthly peak output for 2023 or very near so. After Sept decade low exports, **exports in Oct improved 21% MoM to 1.466m MT which was in line with our estimate (4%) but 13% above consensus.** However, closing inventory continued to inch up to 2.449 MT (+6% MoM, +2% YoY) but still comparable to last Oct level. Average Oct 2024 CPO price softened a little to RM3,640 (-2% MoM, -1% YoY) but with stronger seasonal demand looming ahead, we are maintaining 2023-24 CPO price forecasts at RM3,800 per MT. The supply-demand outlook is expected to stay tight with continual growth in demand likely against an uncertain supply recovery. Trading at 1.1x PBV, the sector's downside is supported to some extent but with a strong El Nino probably priced in, there is no strong upside catalyst unless El Nino worsens. **Maintain NEUTRAL** on the sector with **KLK (OP, TP RM24.50)** as our preferred pick in view of its good track record, expansion appetite and defensive balance sheet.

MPOB Oct 2023 Highlights				
Mil MT	Oct-23	MoM %	YoY%	
Opening Inventory	2.314	▲ 9%	▼ 0%	
<b>Production</b>	<b>1.937</b>	<b>▲ 6%</b>	<b>▲ 7%</b>	
Imports	0.048	▼ -3%	▼ -28%	
<b>Exports</b>	<b>(1.466)</b>	<b>▲ 21%</b>	<b>▼ -3%</b>	
Domestic Usage	(0.383)	▼ -20%	▲ 33%	
<b>Closing Inventory</b>	<b>2.449</b>	<b>▲ 6%</b>	<b>▲ 2%</b>	

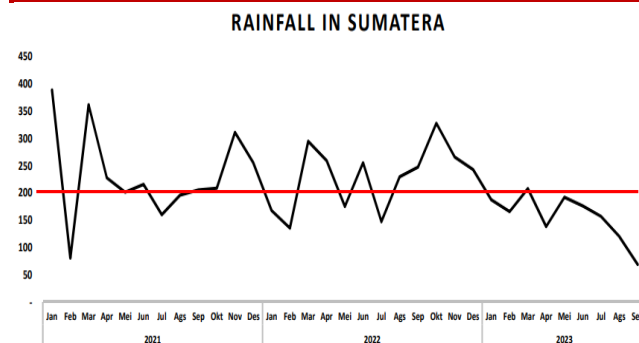
Source: MPOB, Kenanga Research

Oct 2023 vs Past 10-Yr (2013-22) in Oct				
Mil MT	Oct-23	10Y-Low	10Y-Avg	10Y-High
Production	1.937	1.678	1.861	2.037
Exports	1.466	1.421	1.544	1.712
End Inventory	2.449	1.573	2.151	2.835

Source: MPOB, Kenanga Research

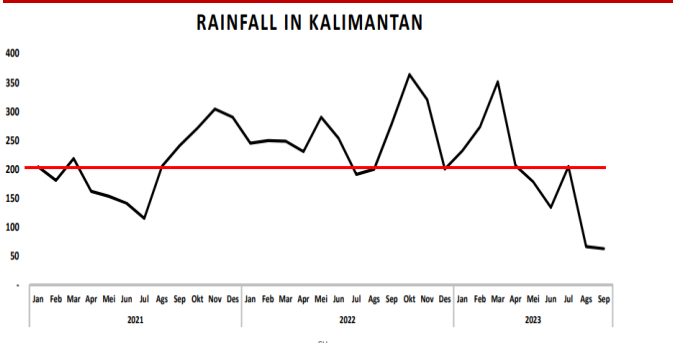
**2024 supply-demand situation looks tight.** 2023 palm oil output is improving but 2024 FFB harvest may encounter delays due to rain deficits in Indonesia's key palm oil producing areas, namely Sumatera and Kalimantan. So far, the rain deficit is not expected to dampen overall harvest much unless El Nino worsens, which is possible but not yet probable. Edible oil demand for 2023 is reverting back to its usual 3%-4% YoY trendline growth. This is likely to persist into 2024 thanks to robust demand for food and biodiesel. Moreover, Indonesia – the largest user of palm oil - is likely to keep inventory levels high as it faces an election later in 2024. Likewise, India – a major palm oil importer – will also be holding a general election in early to mid-2024. As such, 2024 supply-demand trend is expected to stay tight unless Latin America's soya harvest in Apr/May 2024 is bountiful. Maintain average CPO price forecasts of RM3,800 per MT over 2023 and 2024.

## Sumatera Is Experiencing Less Rainfall



Source: GAPKI, Kenanga Research

## Kalimantan Is Also Seeing Less Rain

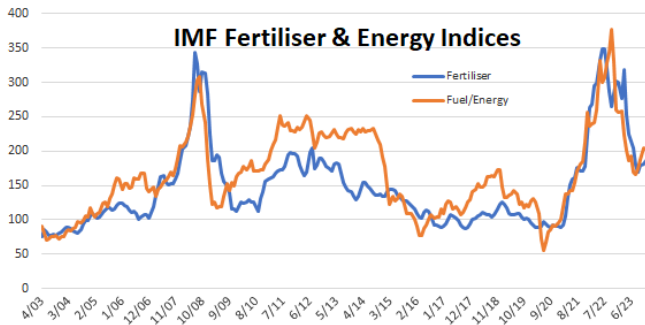


Source: GAPKI, Kenanga Research

**Margins should improve on easier costs.** Although still high by historical count, average fertiliser price has fallen by 30% YoY despite a MoM uptick in Oct 2023. Likewise, diesel cost has also eased YoY and FFB harvesting routine is normalising in Malaysia. Demand for PKO (hence PK) should also normalise over 2024

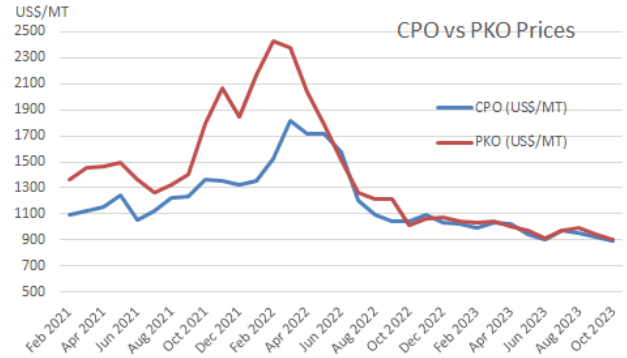
as inventory adjustment bottoms out to trigger fresh buying resumes. CPO cost is affected by palm kernel (PK) sales, a palm oil mill by-product when extracting CPO. While CPO prices have held firmer on steadier food (70%) and biofuel (30%) demand, PKO's usual 20%-30% price premium to CPO disappeared since mid-2022 as demand for personal care and cosmetic products is more sensitive to economic slowdown.

**Easing Fertiliser & Energy Costs**



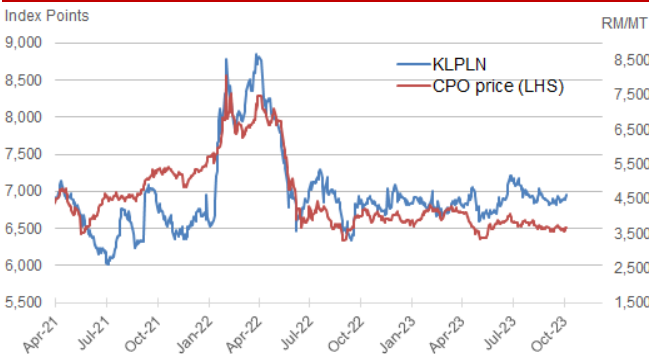
Source: Bloomberg, Kenanga Research

**PKO Prices Have Unusually Weak Since Mid-2022**



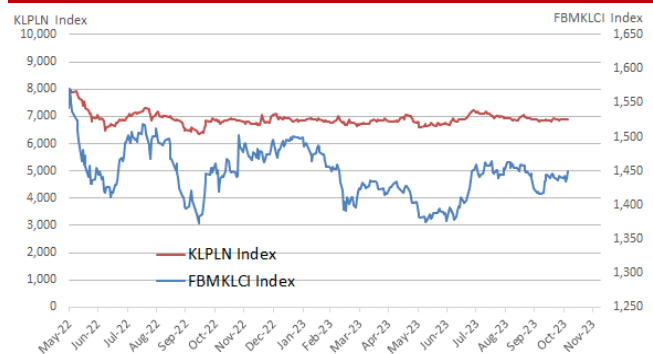
Source: Oilworld, Kenanga Research

**KL Plantation Index vs. CPO (RM/MT)**



Source: Bloomberg, Kenanga Research

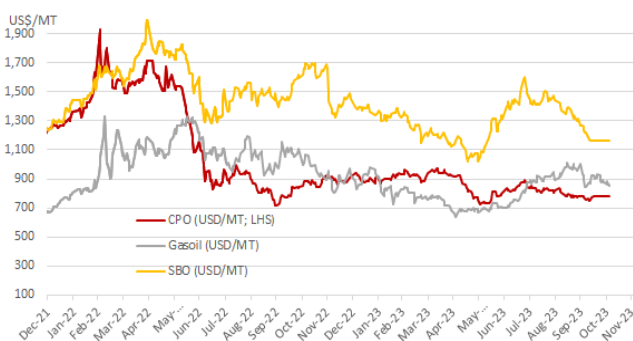
**KL Plantation Index vs. KLCI**



Source: Bloomberg, Kenanga Research

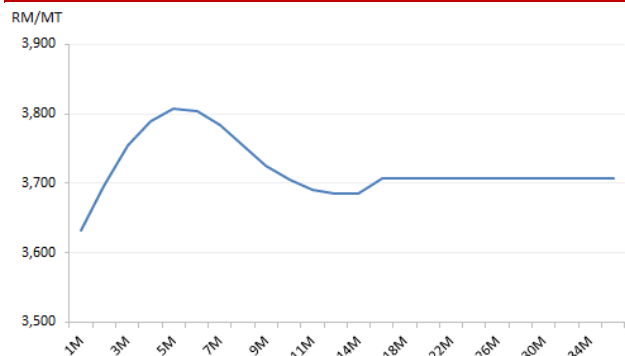
**Maintain NEUTRAL.** The plantation sector is defensive and not overly expensive. Palm oil offers good long-term exposure into the global food chain and biofuel supply. Although CPO prices and earnings can be volatile, well managed plantation groups offer good returns as well as growth. Estates are also great store of value as agriculture land for new oil palm development is now scarce and the competition for land from infrastructure and urbanisation is not abating. **We like KLK (OP; TP: RM24.50)** for the group's strong track record, expansionary plan and strong balance sheet. **PPB (OP; TP: RM19.30)** should see earnings recovery in FY24 thanks as to associate's (Wilmar) exposure into China and India along with its own growing consumer essential products (flour, feed, bread, canned food) in SE Asia.

**CPO vs. Soyabean Oil vs. Gasoil Prices**



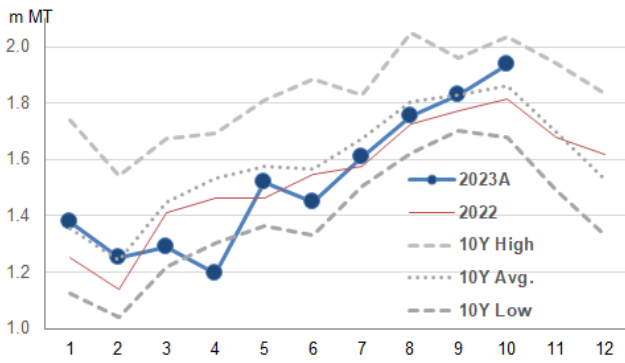
Source: Bloomberg, Kenanga Research

**36-Month Forward Palm Oil Curve**



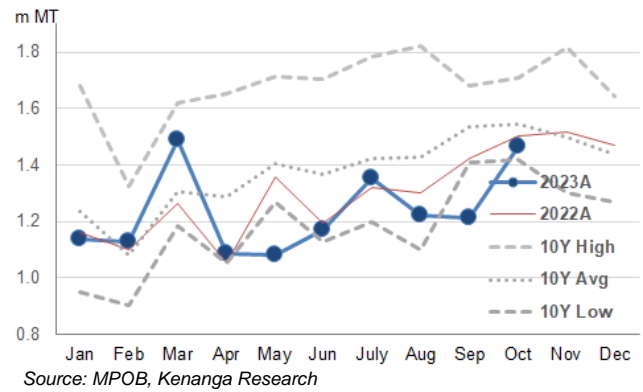
Source: Bloomberg, Kenanga

**10-Year Monthly Production Trend ('000 MT)**



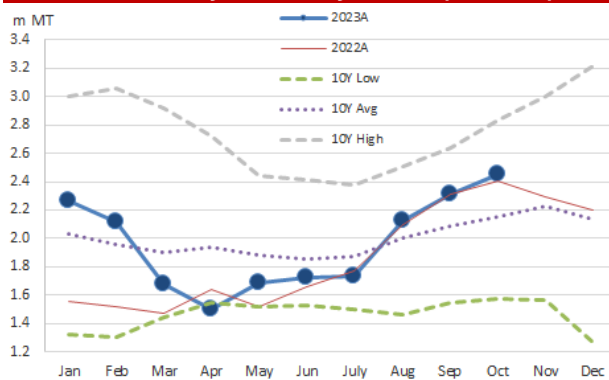
Source: MPOB, Kenanga Research

**10-Year Monthly Exports Trend ('000 MT)**



Source: MPOB, Kenanga Research

**10-Year Monthly Inventory Trend ('000 MT)**



Source: MPOB, Kenanga Research

**Kenanga's Expectation for Nov 2023**

'000 MT	Nov-23	MoM	YoY
Opening Inventory	2,449	6%	2%
Production	1,821	-6%	8%
Imports	50	5%	6%
<b>Total Supply</b>	<b>4,320</b>	<b>1%</b>	<b>5%</b>
Exports	(1,407)	-4%	-7%
Domestic Usage	(400)	4%	23%
<b>Total Demand</b>	<b>(1,807)</b>	<b>-2%</b>	<b>-2%</b>
<b>Closing Inventory</b>	<b>2,512</b>	<b>3%</b>	<b>10%</b>

Source: Kenanga Research

**MPOB October 2023 Production, Exports & Inventory**

'000 MT	Oct-23	Sep-23	Diff.	MoM %	Oct-22	YoY%
Opening Inventory	2,314	2,125	189	9%	2,315	0%
<b>Production</b>	<b>1,937</b>	<b>1,829</b>	<b>108</b>	<b>6%</b>	<b>1,814</b>	<b>7%</b>
Imports	48	49	(1)	-3%	66	-28%
<b>Total Supply</b>	<b>4,298</b>	<b>4,003</b>	<b>295</b>	<b>7%</b>	<b>4,195</b>	<b>2%</b>
Exports	(1,466)	(1,211)	(255)	21%	(1,504)	-3%
Domestic Usage	(383)	(479)	95	-20%	(288)	33%
<b>Total Demand</b>	<b>(1,849)</b>	<b>(1,690)</b>	<b>(160)</b>	<b>9%</b>	<b>(1,792)</b>	<b>3%</b>
<b>Ending Inventory</b>	<b>2,449</b>	<b>2,314</b>	<b>135</b>	<b>6%</b>	<b>2,404</b>	<b>2%</b>
Stock/Usage Ratio	-11.0%	-11.4%			-11.2%	

Source: MPOB, Kenanga Research

14 November 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. 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.
<b>PLANTATION</b>																	
BOUSTEAD PLANTATIONS BHD	AO	1.53	1.55	1.3%	3,427.2	Y	12/2023	2.0	3.1	-85.5%	53.1%	75.8	49.5	1.2	1.6%	8.0	5.2%
GENTING PLANTATIONS BHD	MP	5.53	5.50	-0.5%	4,961.3	Y	12/2023	25.2	26.9	-51.8%	6.5%	21.9	20.6	0.9	4.2%	13.0	2.4%
HAP SENG PLANTATIONS HLDGS	MP	1.79	1.80	0.6%	1,431.4	Y	12/2023	10.6	11.8	-58.4%	10.7%	16.8	15.2	0.7	4.4%	7.0	3.9%
IOI CORP BHD	MP	3.94	3.80	-3.6%	24,442.6	Y	06/2024	24.6	24.7	1.4%	0.1%	16.0	16.0	2.2	14.5%	11.0	2.8%
KUALA LUMPUR KEPONG BHD	OP	21.68	24.50	13.0%	23,380.5	Y	09/2023	118.3	155.7	-38.6%	31.6%	18.3	13.9	1.6	7.8%	50.0	2.3%
PPB GROUP BHD	OP	14.42	19.30	33.8%	20,513.9	Y	12/2023	75.0	114.3	-50.8%	52.4%	19.2	12.6	0.8	4.1%	45.0	3.1%
SIME DARBY PLANTATION BHD	UP	4.33	3.65	-15.7%	29,945.0	Y	12/2023	11.2	10.7	-62.3%	-4.3%	38.8	40.6	1.8	5.0%	8.0	1.8%
TA ANN HOLDINGS BHD	MP	3.45	3.40	-1.4%	1,519.6	Y	12/2023	32.8	34.4	-65.5%	4.6%	10.5	10.0	0.9	8.2%	25.0	7.2%
TSH RESOURCES BHD	MP	0.975	1.00	2.6%	1,345.7	Y	12/2023	4.2	6.3	-79.6%	51.6%	23.4	15.4	0.7	6.5%	1.0	1.0%
UNITED MALACCA BHD	MP	5.00	5.00	0.0%	1,048.8	Y	04/2024	33.0	25.3	-40.3%	-23.4%	15.1	19.8	0.7	4.4%	12.0	2.4%
<b>Simple Average</b>					<b>112,016.0</b>					<b>-45.1%</b>	<b>18.9%</b>	<b>21.2</b>	<b>17.9</b>	<b>1.1</b>	<b>6.6%</b>		<b>3.0%</b>

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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