Plantation

South American Supply To Set Pricing Tone

NEUTRAL

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Malaysia's March palm oil output rose to 1.392m MT (+11% MoM, +8% YoY), 2% above market expectation but still 3% below Kenanga's estimate. Malaysia's palm oil production tends to spike up in March after a low February month. Likewise, exports also often bottom out in February; so recent March export spike to 1.318m MT (+30% MoM, -11% YoY) was no surprise but end-inventory of 1.715m MT (-11% MoM, +3% YoY) was 3% tighter than consensus estimate and 12% below Kenanga's as we had expected stronger output and softer exports. March average CPO price of RM4,216/MT was 7% stronger MoM but flattish YoY (+1%), helping to lift 1QCY24 average price to RM3,983/MT (versus RM3,997 in 1QCY23). Prices are likely to ease in 2Q as South America starts harvesting soyabean and Hari Raya and Indian election-related orders fade. CPO price of RM3,800/MT for CY24-25 is maintained along with **our NEUTRAL call.** Sector valuation of 1.2x PBV is defensive but upside catalyst is not strong. Smaller upstream-centric players should see decent 1Q earnings but weak downstream margins are expected to dampen profitability of larger integrated such as SIMEPLT, IOI and KLK which dominate 60% of sector capitalisation. **We prefer PPB (OP; TP: RM18.50) for its regional agro/consumer exposure as well as upstream-centric players with growth potential such as TSH (OP; TP RM1.30) which is expanding, and rising Indonesian profits at UMCCA (OP; TP: RM6.00)**.

MPOB March 2024 Highlights

Mil MT	Mar-24		MoM %		YoY%
Opening Inventory	1.919	▼	-5%	▼	-9%
Production	**1.392**	▲	**11%**	▲	**8%**
Imports	0.022	▼	-33%	▼	-45%
Exports	**(1.318)**	▲	**30%**	▼	**-11%**
Domestic Usage	(0.301)	▼	-20%	▲	5%
Closing Inventory	**1.715**	▼	**-11%**	▲	**3%**

Source: MPOB, Kenanga Research

March 2024 vs. Historic 10-Year (2014-23)

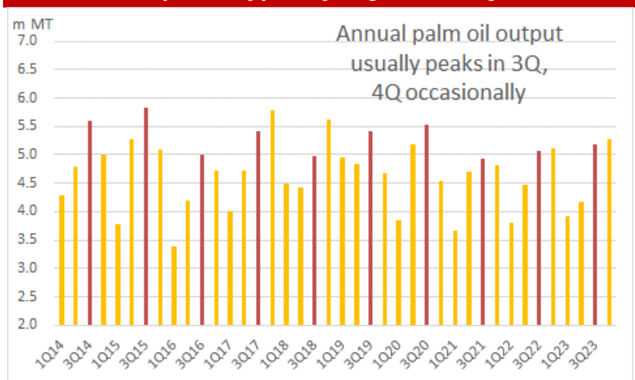
Mil MT	Mar-24	10Y-Low	10Y-Avg	10Y-High
Production	**1.392**	1.219	1.444	1.672
Exports	**1.318**	1.185	1.337	1.619
End Inventory	**1.715**	1.444	1.855	2.920

Source: MPOB, Kenanga Research

Ongoing South American soyabean harvest is likely to set the tone for 2Q edible oil prices. Latest USDA (US Dept of Agriculture) estimates are Brazilian soyabean harvest of 155m MT (-4% YoY) and 50m MT (+100% YoY) for Argentina. The expected doubling in Argentina's CY24 harvest is due to a drought hitting CY23 harvest. Otherwise, Argentina's estimated CY24 soyabean harvest of 50m MT is only a notch above its 10-year average of 48m MT. Argentina's CY24 planted area of 17m Ha for soyabean is also mid-way between the 14-19m Ha of soyabean which the country often plants annually in the recent decade.

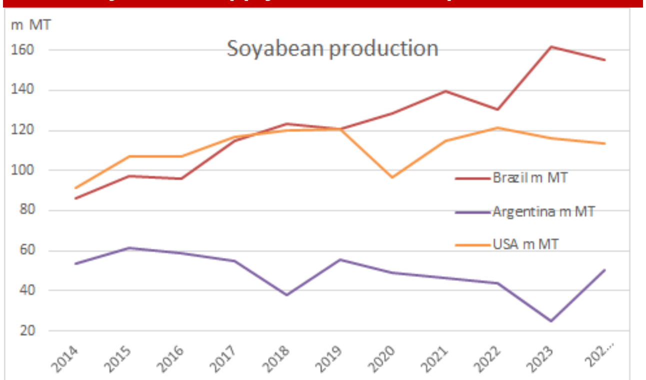
Importantly, despite surging Argentinian soyabean harvest prospects, overall global soyabean oil supply is likely to grow by merely 4%-5% YoY in CY24. An even smaller YoY increment of 1%-2% is estimated from palm oil as ageing trees drag down yields. Meanwhile, demand is expected to grow by 3%-4% YoY hence edible oil supply in CY24 should just about balance out demand with some risk of supply shortfall if the weather does not cooperate. Amidst a manageable but tight edible oil backdrop; CY24-25 CPO prices are expected to trade sideways at around RM3,800/MT.

Palm Oil Output Is Typically Highest In 3Q



Source:MPOB, Kenanga Research

2024 Soyabean Supply Should Inch Up 5% YoY



Source: USDA, Oilworld, Kenanga Research

As current CPO prices are trading above our expected CY24-25 CPO price of RM3,800/MT, we are expecting CPO prices to moderate somewhat moving forward on the back of the following key factors:

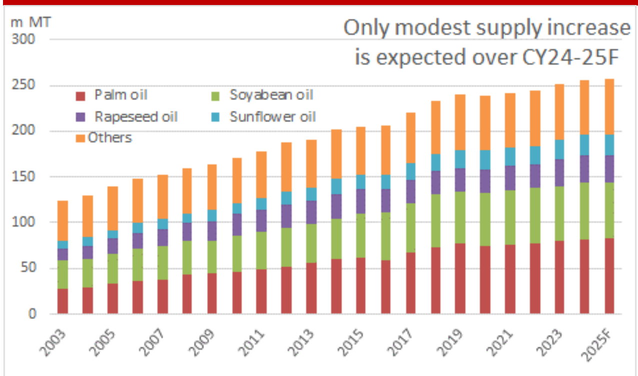
(a) Globally, edible oil prices are often firmer in 1H. Oil palm, soya, rapeseed and sunflower make up 70%-80% of global edible oil supply and they are farmed mostly in the northern hemisphere thus harvests peak in 3Q. Consequently, global edible oil prices are often weaker over the Jul-Sept quarter (3Q). Soya bean, which enjoys two major harvests - 2Q from South America and 3Q from US - may be a factor for less volatile intra-year soyabean oil prices while palm oil prices tend to suffer more pronounced swings. We attribute this partly to palm oil harvest dipping in 2Q and peaking in 3Q but also palm oil is heavily traded internationally hence various global factors, ranging from geopolitical tension to shipping disruption and unexpected changes in weather patterns can affect prices.

(b) 2H FFB harvest is usually about 20% higher than 1H. FFB yields often bottom out in Feb before gradually improving MoM to peak in Sept or Oct (sometimes Nov). Cumulatively, 2H fruit output is often about 20% higher than 1H harvest. As such, palm oil supply and inventory levels should start creeping up after 1Q.

(c) Palm oil demand should also ease in 2Q as many potential triggers for time-sensitive buying are already behind us for CY24, namely Indonesian election (Jan), Lunar New Year (Feb), Ramadan (mid-Mar to mid-Apr) and Hari Raya (Apr). As such, staying well-stocked and buying pressure for palm oil should abate. Only the Indian election (19 Apr to May) remains outstanding at this juncture. Nevertheless, supportive biofuel help CPO prices stay at around RM3,800/MT over CY24-25 but below recent CPO prices of over RM4,000/MT. Thus far, the Middle East situation is tense but has not deteriorated further.

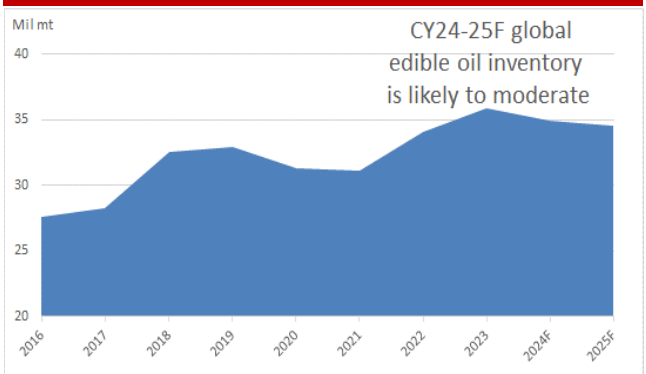
All in all, we expect CY24 and potentially even CY25 to end up with lower YoY inventory levels. The prospective YoY dip is not expected to be much but sufficiently tighter to keep prices on a relatively firm note.

2024-25 Edible Oil Supply Faces Headwind



Source: FAO, Oilworld, Kenanga Research

Lower 2024-25 Inventories Expected

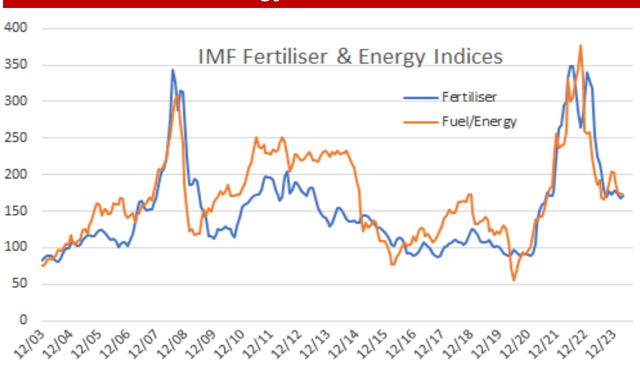


Source: FAO, Oilworld, Kenanga Research

1Q CY24 should see better margins. Inputs such as fertiliser and energy prices are down YoY by 20%-40% while Malaysian FFB yield is normalising (i.e. improving) thanks to returning guest workers. Coupled with flattish CPO prices of RM3,800/MT, easier upstream margins should be expected in 1QCY24. Palm kernel (PK) prices which has been on the downtrend since mid-CY22 may be bottoming out as well as the prices of palm kernel oil (PKO) has been rising MoM since Dec 2023. Since PKO is the oil extracted from PK, their demand and prices are thus closely intertwined. Higher PK prices in turn can help improve upstream margins as the selling of PK (a byproduct from milling FFB to obtain CPO) essentially helps to lower the cost of producing CPO.

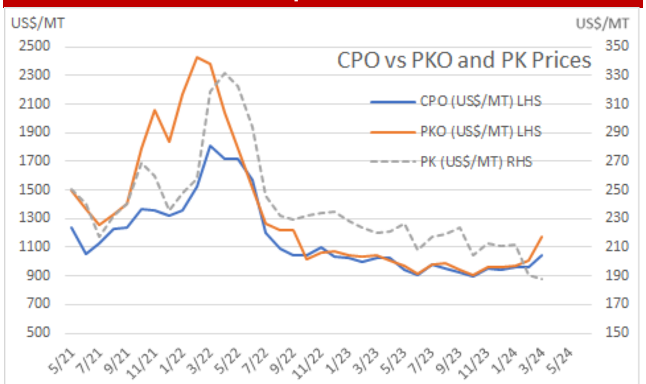
However, downstream margins might stay soft in 1QCY24 even though the worst might be over. Some oleochemical restocking seems to be taking place as sales volume is improving but on still flat prices. PKO, a key input for the oleochemical sector, which has seen higher MoM prices since Dec 2023 seem to reflect this volume uptick as well.

YTD Fertiliser & Energy Prices Continue to Ease



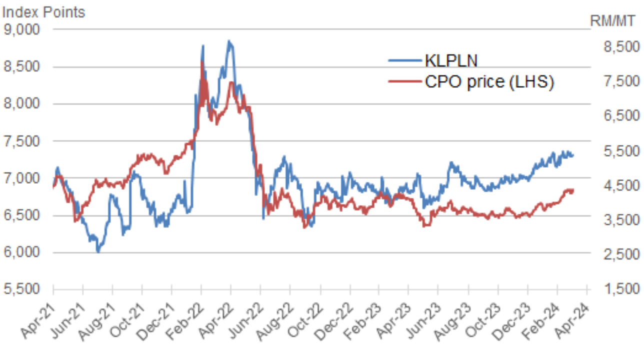
Source: IMF, Kenanga Research

PKO Prices Have Inch Up But Not For PK Prices



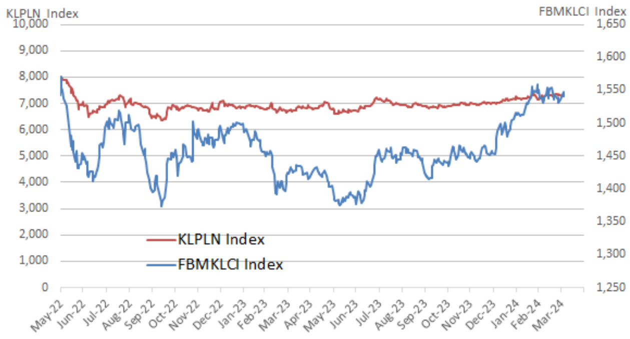
Source: Oilworld, Kenanga Research

KL Plantation Index vs. CPO (RM/MT)



Source: Bloomberg, Kenanga Research

KL Plantation Index vs. KLCI



Source: Bloomberg, Kenanga Research

Maintain NEUTRAL. The Bursa Plantation Index strengthened 3% QoQ so far but sector PBV remains at around 1.2x with 17x-20x PER. Given the already low PBV, downside to the sector's equity prices may be quite limited but without strong upside catalyst, no strong sector outperformance is expected at this juncture - though we are monitoring the Middle East situation closely. YTD, Bursa Plantation Index uptick of 3% is largely within the index's 10-year historical 4% QoQ seasonal swing during Jan-March (i.e. 1Q). The plantation sector can be defensive with gradual increments in price inflation over time as (i) palm oil is largely (70%) for food usage despite a growing biofuel market, (ii) gearing among most planters are manageable with cash generative upstream operations, and (iii) the value of agriculture land, especially those along the west coast of Peninsular Malaysia, are often much higher than their book value.

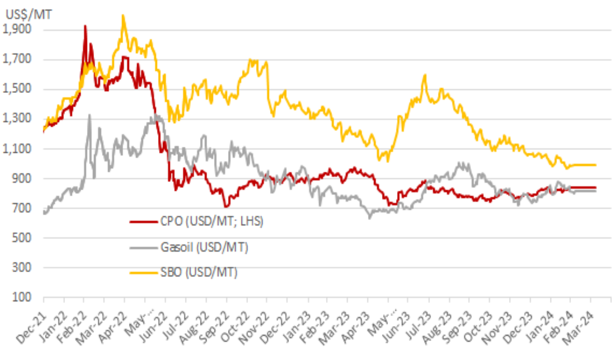
Within the sector, we prefer growth over income for the next 3-6 months. We like:

PPB (OP; TP: RM18.50) on FY24F earnings recovery on decent associate Wilmar's earnings but most of all we like the group's agro-based and consumer essential businesses in Malaysia and the ASEAN region such as flour, feed, basic ready-to-eat products such as bread as well as cinema whilst trading lower than market PER and below book value.

TSH (OP; TP: RM1.30), after having de-geared substantially, TSH is back in expansion mode. It has started development work to plant 8k-10k Ha (20-25% expansion) over the coming 2-3 years. Concurrently, it is also exploring carbon-trading or other carbon related opportunities in the region.

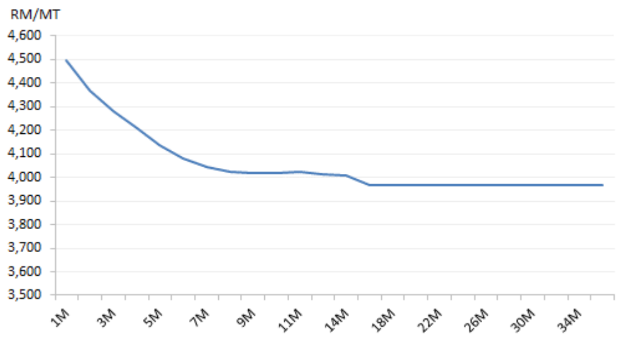
UMCCA (OP; TP: RM6.00). Although UMCCA's Indonesian earnings could still be volatile, we believe the worst is probably behind with forward yields expected to gradually improve, unit cost to ease hence better earnings prospects ahead.

CPO vs. Soyabean Oil vs. Gasoil Prices



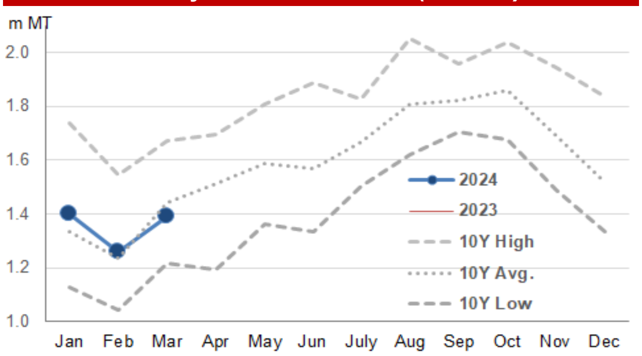
Source: Bloomberg, Kenanga Research

36-Month Forward Palm Oil Curve



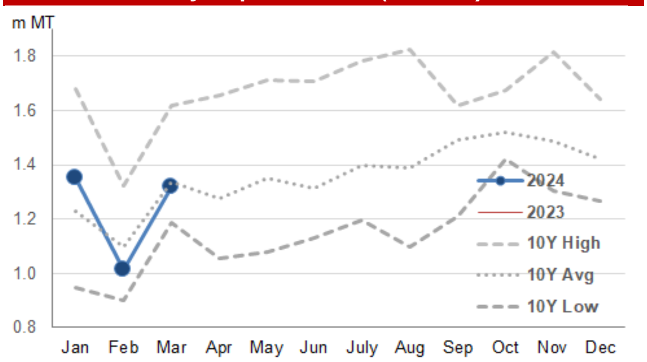
Source: Bloomberg, Kenanga

10-Year Monthly Production Trend ('000 MT)



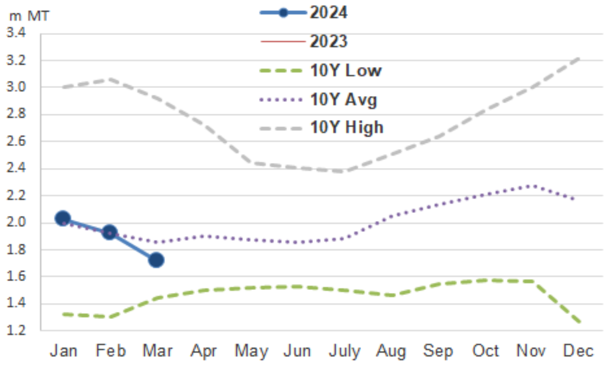
Source: MPOB, Kenanga Research

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 April 2024

'000 MT	Apr-24	MoM	YoY
Opening Inventory	1,715	-11%	3%
Production	1,462	5%	22%
Imports	50	128%	16%
Total Supply	3,227	-3%	11%
Exports	(1,318)	-	21%
Domestic Usage	(300)	-0%	-8%
Total Demand	(1,618)	-0%	14%
Closing Inventory	*1,609*	*-6%*	7%

Source: Kenanga Research

MPOB March 2024 Production, Exports & Inventory

'000 MT	Mar-24	Feb-24	Diff.	MoM %	Mar-23	YoY%
Opening Inventory	1,919	2,020	(101)	-5%	2,120	-9%
Production	**1,392**	**1,260**	**133**	**11%**	**1,288**	**8.1%**
Imports	22	33	(11)	-33%	40	-45%
Total Supply	**3,334**	**3,312**	**22**	**1%**	**3,448**	**-3%**
Exports	(1,318)	(1,016)	(302)	30%	(1,488)	-11%
Domestic Usage	(301)	(377)	76	-20%	(287)	5%
Total Demand	**(1,619)**	**(1,393)**	**(226)**	**16%**	**(1,775)**	**-9%**
Ending Inventory	***1,715***	***1,919***	***(204)***	***-11%***	***1,673***	***3%***
Stock/Usage Ratio	-8.8%	-11.5%			-7.9%	

Source: MPOB, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld 1-Yr. Fwd.
PLANTATION																	
GENTING PLANTATIONS BHD	MP	6.19	6.00	-3.1%	5,553.4	Y	12/2024	33.9	36.1	21.0%	6.4%	18.2	17.1	1.0	5.6%	21.0	3.4%
HAP SENG PLANTATIONS HLDGS	MP	1.91	2.00	4.7%	1,527.4	Y	12/2024	12.8	13.1	13.0%	2.9%	14.9	14.5	0.8	5.1%	7.0	3.7%
IOI CORP BHD	MP	4.05	3.80	-6.2%	25,125.0	Y	06/2024	20.0	23.0	-17.9%	14.9%	20.3	17.6	2.3	12.1%	11.0	2.7%
KUALA LUMPUR KEPONG BHD	MP	22.90	23.00	0.4%	25,107.7	Y	09/2024	113.3	138.8	50.6%	22.5%	20.2	16.5	1.6	8.2%	50.0	2.2%
PPB GROUP BHD	OP	15.80	18.50	17.1%	22,477.1	Y	12/2024	115.9	137.1	44.0%	18.3%	13.6	11.5	0.8	5.8%	45.0	2.8%
SIME DARBY PLANTATION BHD	MP	4.44	4.00	-9.9%	30,705.8	Y	12/2024	16.6	18.8	30.1%	13.5%	26.8	23.6	1.8	6.6%	15.0	3.4%
TA ANN HOLDINGS BHD	MP	4.21	4.00	-5.0%	1,854.3	Y	12/2024	40.9	43.5	3.5%	6.2%	10.3	9.7	1.0	10.0%	25.0	5.9%
TSH RESOURCES BHD	OP	1.14	1.30	14.0%	1,573.4	Y	12/2024	7.2	7.4	29.2%	3.7%	15.9	15.3	0.8	10.3%	3.0	2.6%
UNITED MALACCA BHD	OP	5.08	6.00	18.1%	1,065.6	Y	04/2024	24.6	32.8	-25.4%	33.3%	20.6	15.5	0.7	3.2%	12.0	2.4%
Simple Average					**114,989.7**					**19.6%**	**16.2%**	**19.2**	**16.5**	**1.2**	**7.4%**		**3.2%**

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.***

Published by:

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