

11 June 2024

Plantation

Flattish Inventory On Healthy Demand

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NEUTRAL



May 2024 palm oil production of 1.704m MT (+13% MoM, +12% YoY) was above the 10-year average, 8% higher than Kenanga, and 2% better than market, expectation. Exports of 1.378 MT (+12% MoM, +28% YoY) was also slightly above trend and, coupled with higher domestic consumption, May ended with flattish MoM inventory of 1.754m MT (+1% MoM, +4% YoY) which was just 2% above Kenanga estimate but 2% below consensus'. May 2024 CPO price softened MoM to RM3,903/MT (-8% MoM, +3% YoY) and should ease further as sizeable South American soyabean harvest ends while US soyabean is maturing for 3Q harvest. **Maintain CPO price of RM3,800/MT for CY24-25 along with our NEUTRAL call.** Sector's PBV of 1.1x is defensive but lacks strong upside catalyst given flattish CPO price prospects. **Planters with more growth potentials remain our preference, such as PPB (OP; TP: RM17.50) for its regional consumer agri and food operations, TSH (OP; TP RM1.30) and its ongoing upstream expansion, and UMCCA (OP; TP: RM6.00) for its maturing Indonesian estates.**

MPOB May 2024 Highlights

Mil MT	May-24	MoM %	YoY%
Opening Inventory	1.744	▲ 2%	▲ 16%
Production	1.704	▲ 13%	▲ 12%
Imports	0.021	▼ -40%	▼ -74%
Exports	(1.378)	▲ 12%	▲ 28%
Domestic Usage	(0.338)	▲ 24%	▲ 3%
Closing Inventory	1.754	▲ 1%	▲ 4%

Source: MPOB, Kenanga Research

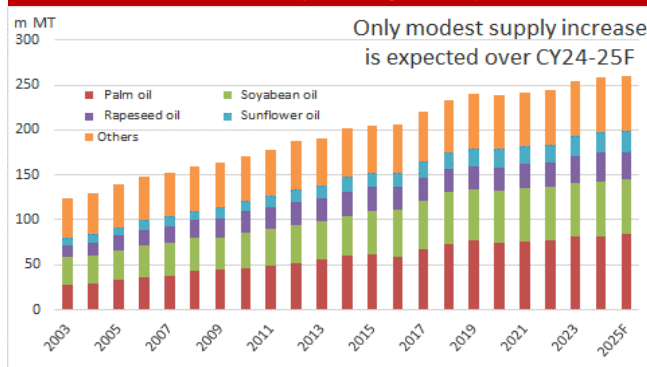
May 2024 vs. Historic 10-Year (2014-23)

Mil MT	May-24	10Y-Low	10Y-Avg	10Y-High
Production	1.704	1.365	1.588	1.811
Exports	1.378	1.079	1.350	1.715
End Inventory	1.754	1.522	1.871	2.444

Source: MPOB, Kenanga Research

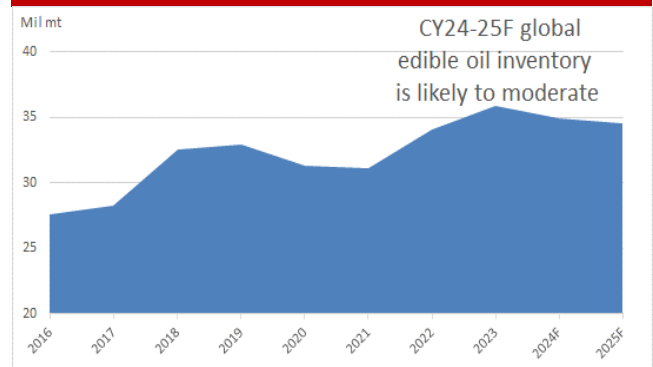
Easier edible oil inventory should keep CPO prices firm. Despite weather-induced production downgrades, the Brazilian soya bean season is coming to an end, and coupled with estimated Argentinian harvest of 50m MT, a record soya bean output is expected for CY24. This is a welcome relief as edible oil demand is set to outstrip supply due to flat palm oil output with only modest increase in rapeseed harvest. Therefore, CY24 inventory level is likely to moderate though staying manageable. Given such supply-demand scenario; CY24-25 CPO prices are expected to stay firm, trading sideways, averaging at RM3,800/MT.

2024-25 Edible Oil Supply Facing Supply Headwinds



Source: FAO, Oilworld, Kenanga Research

2024-25 Inventories Expected To Fall

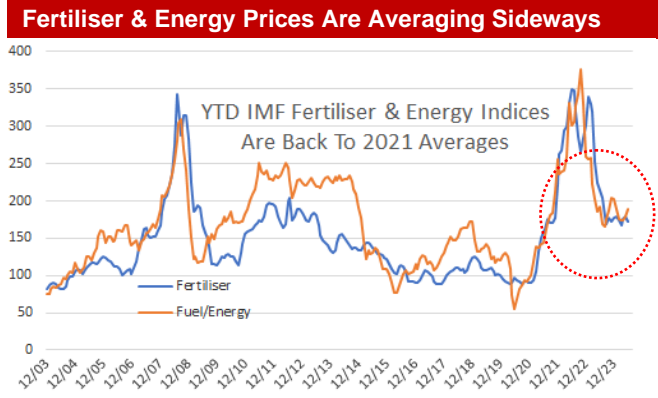


Source: FAO, Oilworld, Kenanga Research

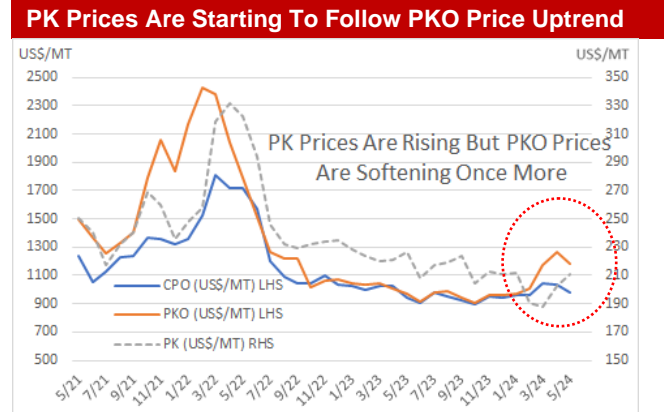
Easing cost pressures. Monthly energy and fertiliser prices have fallen by 15%-35% YoY. Many planters have reported higher palm kernel (PK) prices in 1QCY24 and high PK sales proceed helps contain CPO cost as PK is a byproduct when milling FFB to extract CPO. Labour cost pressure is rising but still manageable. Indonesia has seen higher minimum wages and Malaysia may follow suit. However, many planters have progressively raised productivity, from replanting with higher yielding planting materials to automation and upgraded infrastructure including mills. Coupled easing production cost with flattish CPO prices, upstream margins have inched up 2%-3% on average in 1QCY24 and should stay so for the rest of the year.

Downstream margin, on the other hand, is expected to stay soft in 1HCY24 but headwinds could be abating. Some oleo-chemical restockings have been taking place but overall demand remains soft. However, refining margins are not expected to recover soon due to excess capacity in the region as Indonesia is promoting the integration of the country oil palm sector with its own downstream capability.

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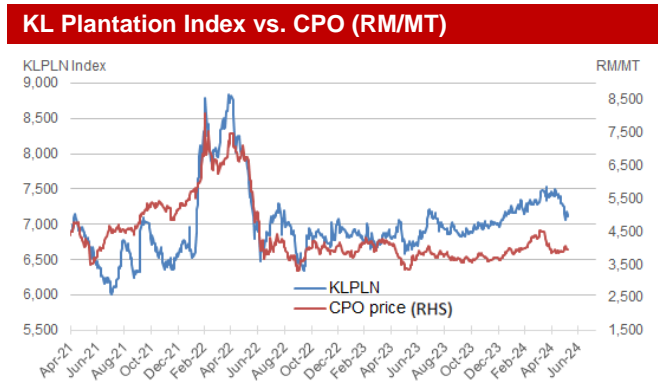


Source: IMF, Kenanga Research

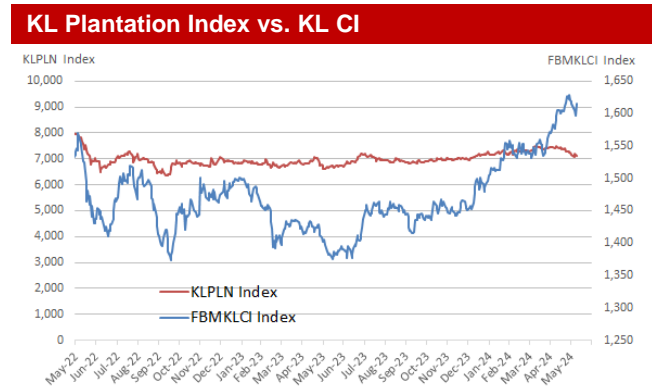


Source: Oilworld, Kenanga Research

Maintain NEUTRAL. The Bursa Plantation Index inched up 2% MoM in April but is now diverging from the weakness in CPO prices. Nevertheless, the sector's valuation is not excessive, trading at 1.2x PBV and 16x prospective PER. However, there is no strong upside catalyst in sight, with firm rather than bullish CPO price expectation. Overall, the plantation sector provides defensive exposure with gradual increments in price inflation over time as: (i) palm oil is largely (70%) used 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.



Source: Bloomberg, Kenanga Research



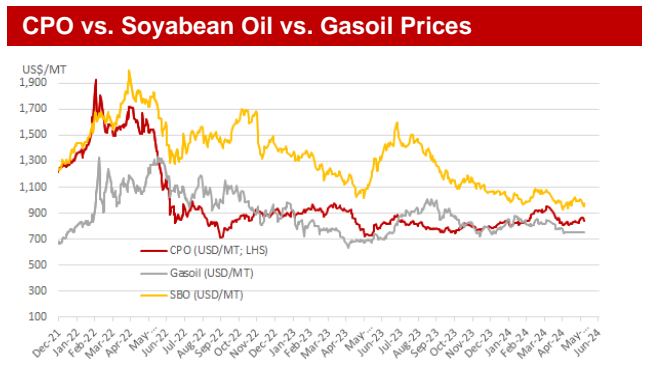
Source: Bloomberg, Kenanga Research

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

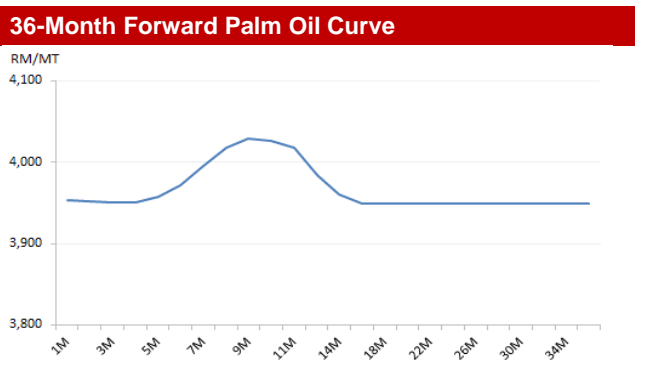
PPB (OP; TP: RM17.50). Despite a weak 1QFY24, full-year's earnings should still inch up YoY. Associate Wilmar suffered from weaker commodity trades in 1Q and several relocations also disrupted PPB's cinema chain. Further ahead, Wilmar enjoy strong positions in the Chinese and Indian edible oils and processed food markets while PPB's regional flour and feed businesses is also growing. Altogether, good exposure into the region's expanding middle class consumers at below book value and market PER.

TSH (OP; TP: RM1.30). After de-gearing over FY22-23, TSH is now in expansion mode once more. Work on planting 8k-10k Ha of oil palm (20-25% expansion) has commenced and it is also exploring regional carbon-related opportunities.

UMCCA (OP; TP: RM6.00). Although UMCCA's Indonesian earnings could still be volatile, its Sumatran estate is maturing; hence, forward yields are trending up. Coupled with lower unit cost, the group's Indonesian earning base looks set to improve moving ahead.



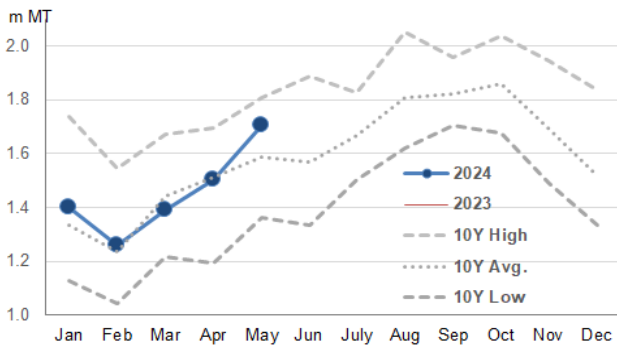
Source: Bloomberg, Kenanga Research



Source: Bloomberg, Kenanga

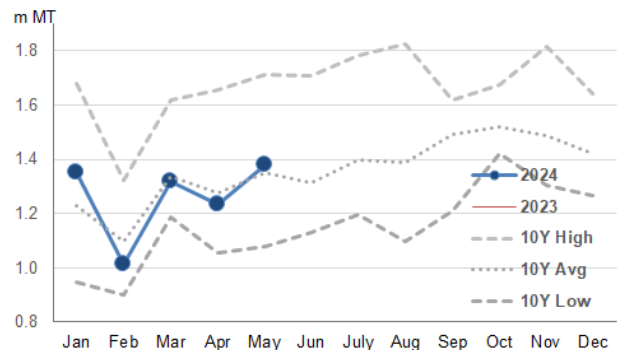
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10-Year Monthly Production Trend ('000 MT)



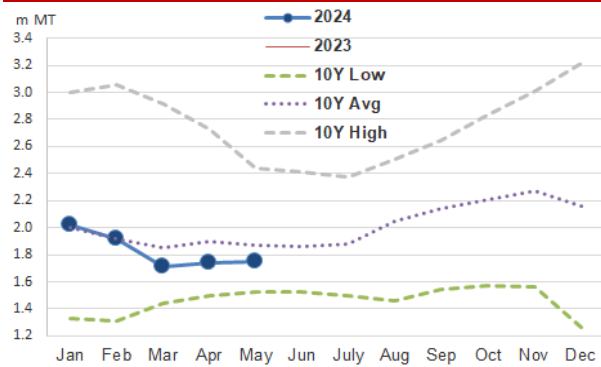
Source: MPOB, Kenanga Research

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 May 2024

'000 MT	Jun-24	MoM	YoY
Opening Inventory	1,754	1%	4%
Production	1,721	1%	19%
Imports	50	141%	-63%
Total Supply	3,525	2%	8%
Exports	(1,392)	1%	19%
Domestic Usage	(300)	-11%	-21%
Total Demand	(1,692)	-1%	9%
Closing Inventory	1,833	5%	7%

Source: Kenanga Research

MPOB April 2024 Production, Exports & Inventory

'000 MT	May-24	Apr-24	Diff.	MoM %	May-23	YoY%
Opening Inventory	1,744	1,715	29	2%	1,498	16%
Production	1,704	1,502	203	13%	1,518	12%
Imports	21	35	(14)	-40%	81	-74%
Total Supply	3,470	3,252	218	7%	3,096	12%
Exports	(1,378)	(1,234)	(144)	12%	(1,079)	28%
Domestic Usage	(338)	(273)	(65)	24%	(329)	3%
Total Demand	(1,716)	(1,507)	(209)	14%	(1,408)	22%
Ending Inventory	1,754	1,744	9	1%	1,688	4%
Stock/Usage Ratio	-8.5%	-9.6%				-10.0%

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. 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	5.93	6.00	1.2%	5,320.2	Y	12/2024	33.9	36.1	21.0%	6.4%	17.5	16.4	1.0	5.6%	21.0	3.5%
HAP SENG PLANTATIONS HLDGS	MP	1.78	2.00	12.4%	1,423.4	Y	12/2024	12.8	13.1	13.0%	2.8%	13.9	13.5	0.7	5.2%	8.0	4.5%
IOI CORP BHD	MP	3.86	3.80	-1.6%	23,946.3	Y	06/2024	18.9	21.2	-22.3%	12.0%	20.4	18.2	2.2	11.6%	11.0	2.8%
KUALA LUMPUR KEPONG BHD	MP	20.86	21.00	0.7%	22,871.0	Y	09/2024	90.0	125.7	8.7%	39.7%	23.2	16.6	1.5	6.7%	50.0	2.4%
PPB GROUP BHD	OP	14.68	17.50	19.2%	20,883.8	Y	12/2024	111.1	132.5	38.1%	19.3%	13.2	11.1	0.7	5.6%	45.0	3.1%
SIME DARBY PLANTATION BHD	MP	4.31	4.00	-7.2%	29,806.7	Y	12/2024	16.1	18.9	25.9%	17.7%	26.8	22.8	1.7	6.2%	15.0	3.5%
TA ANN HOLDINGS BHD	MP	4.11	4.00	-2.7%	1,810.3	Y	12/2024	40.9	43.5	3.5%	6.2%	10.0	9.5	1.0	10.0%	25.0	6.1%
TSH RESOURCES BHD	OP	1.11	1.30	17.1%	1,532.0	Y	12/2024	6.9	7.4	-1.8%	6.3%	16.0	15.1	0.7	9.2%	2.0	1.8%
UNITED MALACCA BHD	OP	5.02	6.00	19.5%	1,053.0	Y	04/2024	24.6	32.8	-25.4%	33.3%	20.4	15.3	0.7	3.2%	12.0	2.4%
Simple Average					108,646.7					8.9%	19.5%	19.5	16.3	1.1	7.0%		3.3%

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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