

12 September 2023

Agriculture | Plantation

Plantation

Neutral (Maintained)

August Stocks Rose, S/U Above Historical Levels

- **Maintain NEUTRAL, with a tactically positive trading strategy; Top Picks: IOI Corp (IOI), Ta Ann (TAH), Sarawak Oil Palms (SOP).** Sector 2Q23 earnings disappointed. Still, 2H23F should improve on better output and lower unit costs. Malaysia's August palm oil (PO) stocks rose 22.5% MoM to 2.12m tonnes as output lifted 8.9% and exports fell 9.8% MoM. A likely pickup in festive demand in the coming months should be offset by the continued peak season – potentially leading to Malaysian PO stocks staying above the 2m tonne mark till year-end, at least.
- **Regional planters' 2Q23 earnings disappointed** – as eight companies reported below expectations results, while five companies were in line and one came in above. The main causes of the disappointment were higher-than-expected unit costs and lower-than-expected output. We make no changes to our CPO price assumptions, which are MYR3,900/tonne, MYR3,900/tonne and MYR3,800/tonne for 2023, 2024 and 2025.
- **Planters looking forward to higher output and lower costs in 2H23...** In Malaysia, FFB output for companies under our coverage rose by an average 4.8% QoQ in 2Q23 but fell 5.5% YoY. In Indonesia, 2Q23 FFB output for stocks under our coverage rose 3.3% QoQ but fell 3.8% YoY. Going forward, both Malaysian and Indonesian planters are expecting a strong recovery in output in 2H23 – ranging from a mid-single digit to low double digits, with 1H:2H output in the range of 42-45%:55-58%. Weather is still relatively normal with sufficient rain, and planters are not seeing any signs of *El Nino* as yet. Planters are also expecting unit costs to moderate slightly in 2H on the back of lower fertiliser prices, although this would be offset slightly by higher fertiliser application as most planters applied less than 50% of their full year requirements in 1H23.
- **...and better volumes for downstream on switching and restocking activities.** For planters with downstream operations, we saw lower QoQ margins for most players in both countries. Most planters saw low single digit or negative refining margins during the period due to higher-priced feedstock as well as lower demand. Going forward, planters are hoping for volumes to pick up in 2H23, on restocking and switching activities. CPO is now trading at a significant USD605/tonne discount to soybean oil (SBO), which should make PO products more attractive to buyers.
- **Malaysia's August PO stocks jumped to 2.12m tonnes (+22.5% MoM)** as output grew 8.9% MoM and exports fell 9.8% MoM. Stock/usage (S/U) ratio is now at 11%, above the 20-year historical average of 9.7%. Although we see a pickup in demand in the coming months with the festive season, this will be offset with the peak season. As such, we believe PO stocks could stay above the 2m tonne mark potentially until the end of the year, at least.
- **Stay NEUTRAL, with a tactical positive trading strategy.** We make no changes to our MYR3,900/tonne CPO price assumption for 2023 and 2024. We continue to prefer Malaysian players vs regional players. Top Picks: IOI, SOP and TAH. Regionally, prefer integrated exporters like Wilmar International and Golden Agri.

Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
Astra Agro Lestari	Sell	IDR6,430	(14.0)	12.3	0.6	4.7	3.2
BM Greentech	Neutral	MYR0.90	(8.2)	16.7	1.9	11.6	2.0
Bumitama Agri	Neutral	SGD0.61	7.0	6.8	0.8	11.4	6.1
First Resources	Neutral	SGD1.50	(1.6)	8.5	1.2	14.3	5.9
Golden Agri	Buy	SGD0.28	13.9	5.9	0.4	20.6	3.4
IOI Corp	Buy	MYR4.55	13.0	18.1	2.0	11.5	2.5
PP London Sumatra Indonesia	Neutral	IDR960	(3.0)	10.7	0.5	5.3	3.3
Sarawak Oil Palms	Buy	MYR2.85	11.4	7.8	0.6	8.0	2.0
Sime Darby Plantation	Neutral	MYR4.20	(2.4)	19.2	1.7	9.0	2.6
Ta Ann	Buy	MYR4.10	19.6	6.4	0.8	12.4	7.3
Wilmar International	Buy	SGD4.25	16.0	10.2	0.8	7.7	3.6

Source: Company data, RHB

Stocks Covered 11
Rating (Buy/Neutral/Sell): 5 / 5 / 1
Last 12m Earnings Revision Trend: Negative

Top Picks

Target Price

IOI Corp (IOI MK) – BUY	MYR4.55
Ta Ann (TAH MK) – BUY	MYR4.10
Sarawak Oil Palms (SOP MK) – BUY	MYR2.85

Analysts

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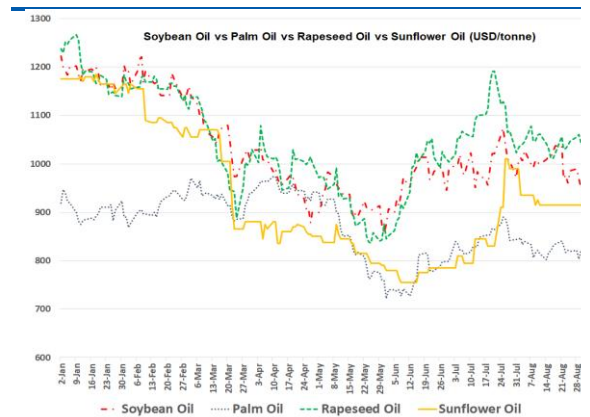
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CPO vs SBO, rapeseed oil and sunflower oil



Source: Bloomberg, RHB

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Monthly statistics

August production rose +8.9% MoM (+1.6% YoY), bringing YTD growth to -1.1% YoY. The MoM output growth came from all states with Sarawak up 7.2% MoM, West Malaysia up 9.3% MoM and Sabah up 9.8% MoM. We continue to expect the peak of output to be in September-October, especially since *El Nino* has not had any impact as yet, with rainfall still abundant. In June, Indonesia's production actually fell 13% MoM, although it grew 22.2% YoY, bringing YTD output growth to 16.1%. Exports in Indonesia jumped 55% MoM and 48% YoY in June, bringing YTD-June exports growth to 43%.

Malaysian exports fell 9.8% MoM in June and 6.6% YoY, likely due to continued competition from Indonesia. The decline in MoM exports was likely due to a pausing of stock replenishment activities by top importing countries, given that as at end-July, China and Pakistan's stock levels were already above historical levels, while India and Bangladesh were at close to historical averages. Going forward however, we believe exports could start picking up again soon on the back of year-end festive demand from Deepavali and Christmas, particularly given CPO's more attractive discount to SBO currently.

Indonesian PO advantage over Malaysia widens. We note India's and China's total YTD-July PO imports jumped 30% and 78% YoY, Malaysia's YTD-July export growth to India and China was only -4.5% YoY and +23.4% YoY. Meanwhile, Indonesia continues to record strong YTD export growth of 43%. We expect this to continue going forward, especially as Indonesia's export tax and levies have risen to USD169 per tonne (or 18%) for 1-15 Sep (up from USD118 per tonne in 1-15 Aug) vs Malaysia's 8%, making Indonesian PO more attractive than Malaysian PO.

August S/U ratio now above historical average, as inventory levels jumped 22.5% MoM and 1.4% YoY to 2.125m tonnes. This came on the back of higher output and lower exports. With this, August annualised S/U ratio rose to 11%, back to above the 20-year historical average of 9.7%. Although we should see a pickup in demand in the coming months with the upcoming festive season, this will be offset with the continued peak season. As such, we believe Malaysian PO stocks could stay above the 2m tonne mark potentially until the end of the year, at least.

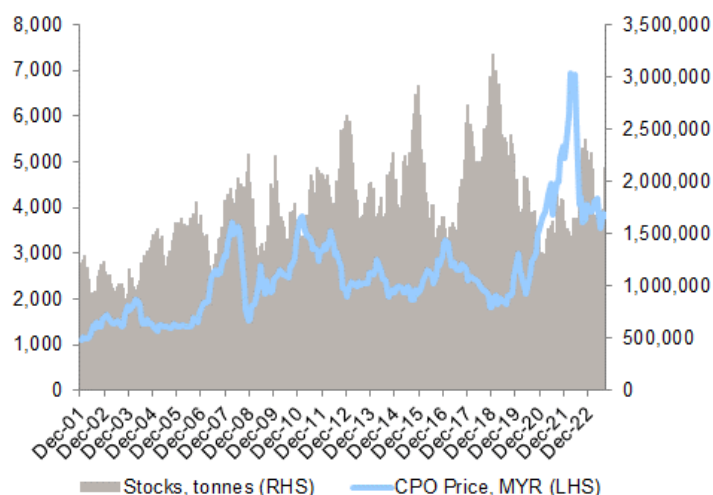
Figure 1: Monthly CPO statistics

('000 tonnes)	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
Opening stocks	1,773	2,095	2,317	2,408	2,288	2,197	2,268	2,120	1,674	1,498	1,688	1,720	1,734
Imports	172	132	69	47	65	145	53	40	43	81	135	104	111
Production	1,726	1,770	1,814	1,681	1,619	1,380	1,254	1,288	1,197	1,518	1,448	1,610	1,753
Total supply	3,671	3,997	4,200	4,136	3,972	3,722	3,574	3,448	2,914	3,096	3,271	3,434	3,598
Exports	1,300	1,423	1,504	1,521	1,474	1,137	1,128	1,488	1,088	1,079	1,172	1,354	1,222
Domestic use	276	257	288	326	302	317	327	286	329	329	380	345	251
Total off take	1,576	1,680	1,791	1,848	1,776	1,454	1,455	1,774	1,416	1,408	1,551	1,699	1,473
End-month stocks	2,095	2,317	2,408	2,288	2,197	2,268	2,120	1,674	1,498	1,688	1,720	1,734	2,125
Production YTD	11,570	13,340	15,154	16,835	18,453	1,380	2,634	3,922	5,119	6,637	8,084	9,694	11,448
MoM (%)	9.7	2.6	2.4	(7.3)	(3.7)	(14.7)	(9.2)	2.8	(7.1)	26.8	(4.6)	11.2	8.9
YoY (%)	0.9	3.9	5.1	2.8	11.7	10.1	10.2	(8.7)	(18.1)	3.9	(6.3)	2.3	1.6
YTD (%)	(0.2)	0.3	0.8	1.0	1.9	10.1	10.2	3.2	(2.8)	(1.3)	(2.2)	(1.5)	(1.1)
Exports YTD	9,817	11,240	12,744	14,265	15,739	1,137	2,265	3,753	4,840	5,919	7,091	8,445	9,667
MoM (%)	(1.9)	9.5	5.7	1.2	(3.1)	(22.9)	(0.8)	31.9	(26.9)	(0.8)	8.6	15.6	(9.8)
YoY (%)	11.8	(11.7)	5.9	3.8	3.5	(1.8)	1.7	16.1	1.4	(21.6)	(1.9)	2.2	(6.0)
YTD (%)	1.9	(0.0)	0.6	1.0	1.2	(1.8)	(0.1)	5.8	4.7	(1.3)	(1.4)	(0.8)	(1.5)
Stocks													
MoM (%)	18.2	10.6	3.9	(5.0)	(4.0)	3.3	(6.5)	(21.0)	(10.5)	12.7	1.9	0.8	22.5
YoY (%)	11.7	31.9	31.3	25.9	36.0	46.2	39.6	13.7	(8.8)	10.9	4.5	(2.2)	1.4

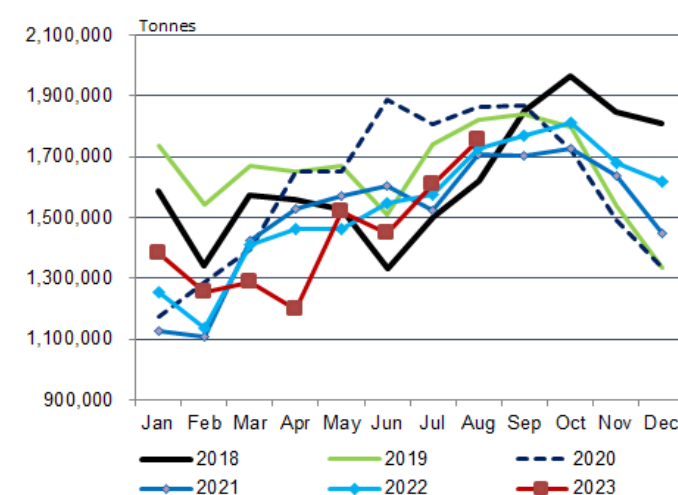
Source: Malaysian Palm Oil Board (MPOB), RHB

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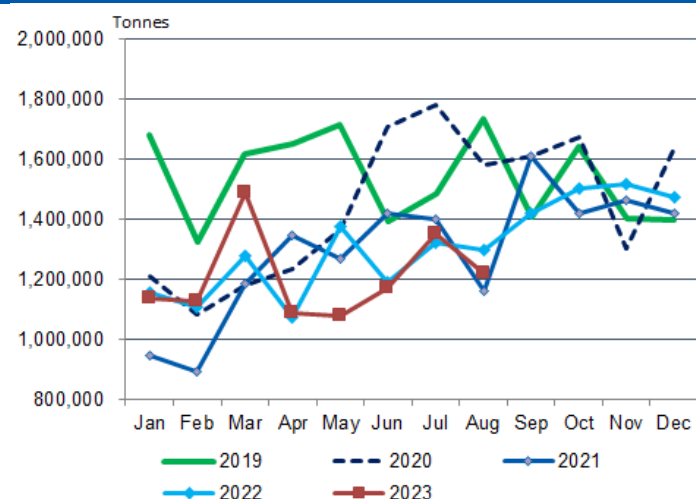
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Figure 2: CPO inventory is at 2.12m tonnes


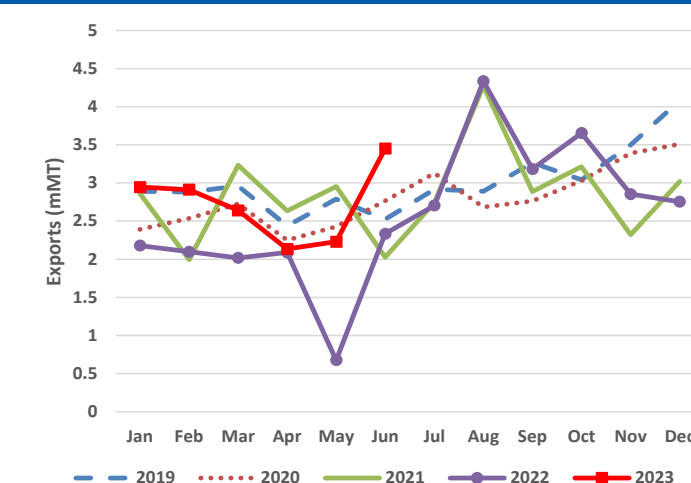
Source: MPOB, Bloomberg

Figure 3: Malaysia's CPO production (-1.1% YoY in YTD-Aug 2023)


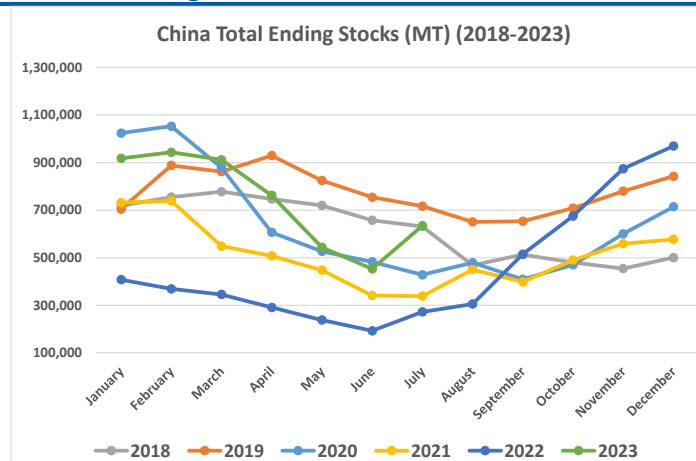
Source: MPOB, RHB

Figure 4: Malaysia's monthly palm oil exports (-1.5% YoY in YTD-Aug 2023)


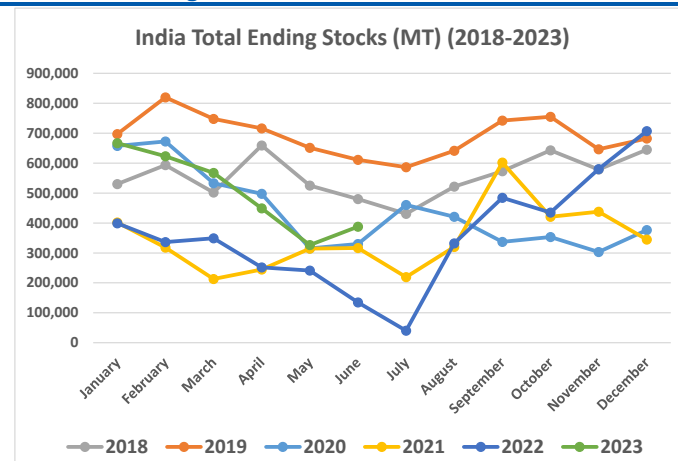
Source: MPOB

Figure 5: Indonesia's monthly palm oil exports (+43.1% YoY in YTD-Jun 2023)


Note: Nov and Dec 2022 figures are estimates
Source: Association of Indonesian Palm Oil Producers (GAPKI)

Figure 6: China's palm oil stocks are at 5.7% above the historical average as at Jul 2023


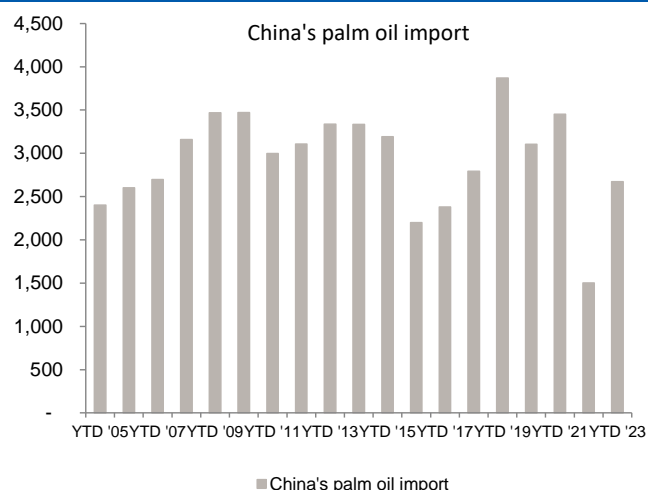
Source: Malaysian Palm Oil Council (MPOC)

Figure 7: India's palm oil stocks are at 6.8% below the historical average as at Jul 2023


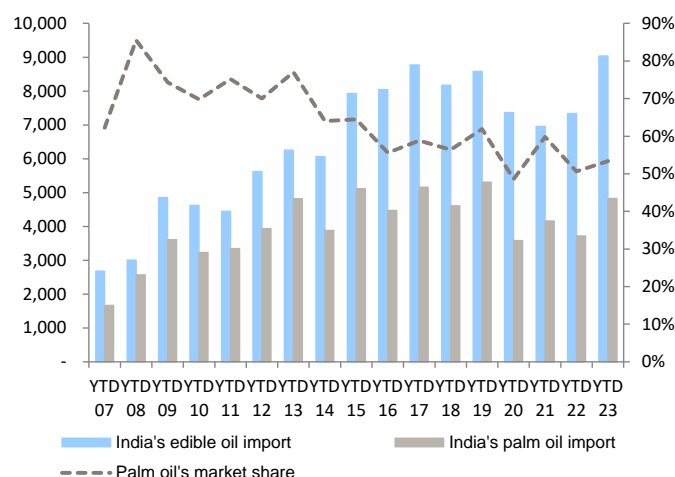
Source: MPOC

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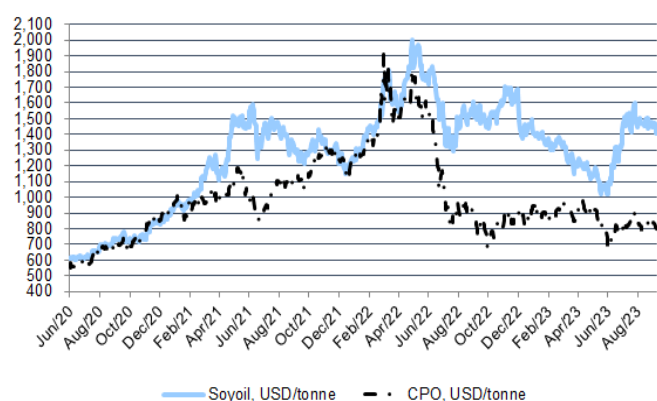
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Figure 8: China's PO imports jumped 78% in YTD-Jul 2023

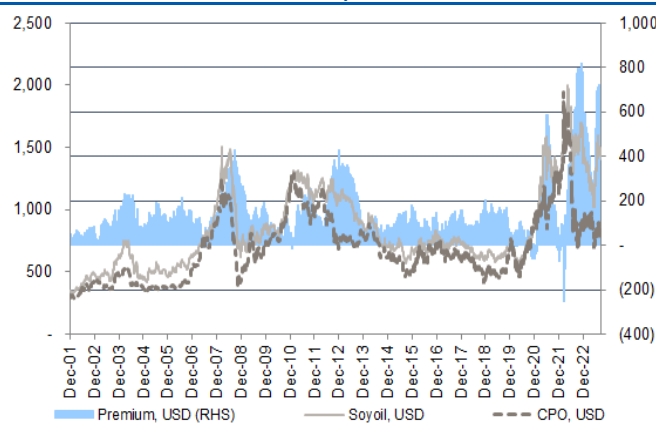
Source: Bloomberg

Figure 9: India's edible oil imports rose 23.1% in YTD-Jul 2023, while PO imports rose 30% YoY

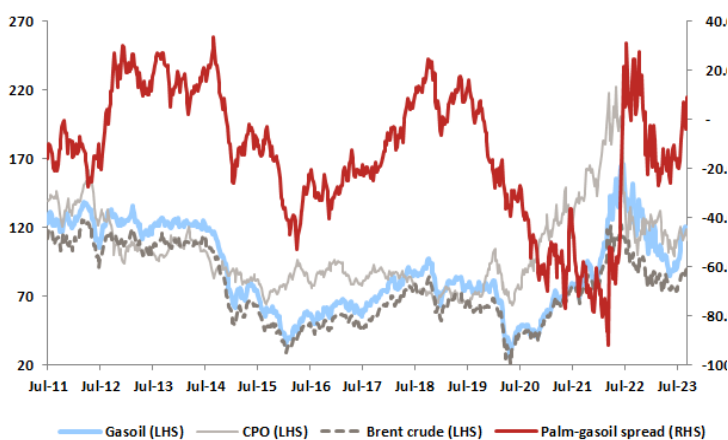
Source: Bloomberg

Figure 10: CPO prices tracked SBO prices closely since Nov 2021 but have been diverging since May 2022

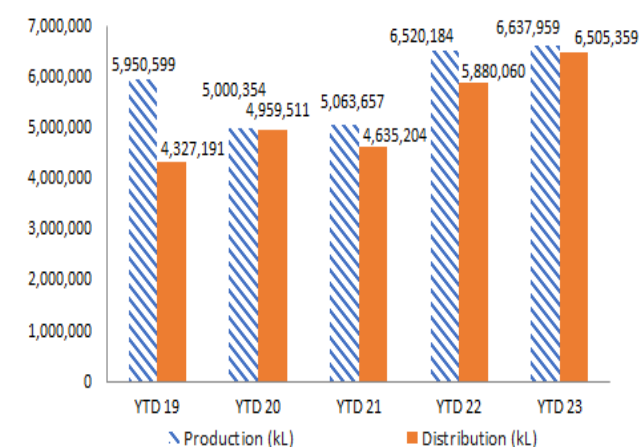
Source: Bloomberg

Figure 11: CPO is trading at a USD606/tonne discount to SBO (from USD659/tonne last month)

Source: Bloomberg

Figure 12: Gas oil and CPO price gap is positive – at +USD9.06/bbl

Source: Bloomberg

Figure 13: Biodiesel production (+2% YoY) and distribution in Indonesia (+11% YoY) in YTD-Jul 2023

Source: Indonesia Biofuel Producer Association

Risks

The main downside risks to our outlook include:

- i. Russia-Ukraine war being prolonged and exacerbated;
- ii. Significant changes in the crude oil price trend that may result in changes in biodiesel mandates;
- iii. Weather abnormalities resulting in an oversupply or undersupply of vegetable oils;
- iv. Significant changes in the demand for vegetable oils, caused by changes in economic cycles or price dynamics;
- v. Worsening labour situation in Malaysia causing production to be affected negatively;
- vi. Revision in Indonesia's tax structure and trade policies;
- vii. Resurgence of COVID-19 cases;
- viii. More ESG issues pinpointed for listed companies.

Figure 14: Effective CPO prices in Indonesia (post-change in the levy tax rate in mid-Nov 2022)

CPO price at MYR/tonne	4,500	4,400	4,300	4,200	4,100	4,000	3,900	3,800	3,700	3,600	3,500	3,400	3,300	3,200	3,100	3,000
CPO Price (USD)	975	953	931	910	888	866	845	823	801	780	758	736	715	693	671	650
Levy Rate (USD)	100	100	100	95	95	90	90	85	85	75	75	75	65	65	55	55
Levy Rate (MYR)	462	462	462	439	439	416	416	392	392	346	346	346	300	300	254	254
Export Tax (USD)	124	124	124	74	74	52	52	33	33	18	18	18	3	3	-	-
Export Tax (MYR)	573	573	573	342	342	240	240	152	152	83	83	83	14	14	-	-
Effective Indo Price	3,466	3,366	3,266	3,420	3,320	3,344	3,244	3,255	3,155	3,171	3,071	2,971	2,986	2,886	2,846	2,746

Note: *Exchange rate conversion applied = MYR4.617/USD
Source: RHB

Figure 15: Effective CPO prices in Malaysia

CPO price at MYR/tonne	4,500	4,400	4,300	4,200	4,100	4,000	3,900	3,800	3,700	3,600	3,500	3,400	3,300	3,200	3,100	3,000
West Malaysia – Windfall tax (15% above MYR3,000/tonne)	225	210	195	180	165	150	135	120	105	90	75	60	45	30	15	-
East Malaysia – Windfall tax (15% above MYR3,500/tonne)	150	135	120	105	90	75	60	45	30	15	-	-	-	-	-	-
Export tax	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	7.5%	7.0%	7.0%	6.5%	6.0%
Export tax (MYR/tonne)	360	352	344	336	328	320	312	304	296	288	280	255	231	224	201.5	180
Effective West Malaysia price (MYR/tonne)	3,915	3,838	3,761	3,684	3,607	3,530	3,453	3,376	3,299	3,222	3,145	3,085	3,024	2,946	2,883.50	2,820
Effective East Malaysia price (MYR/tonne)	3,990	3,913	3,836	3,759	3,682	3,605	3,528	3,451	3,374	3,297	3,220	3,145	3,069	2,976	2,898.50	2,820

Source: RHB

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Figure 16: Sensitivity of company earnings to changes in CPO prices

	Net profit change for every MYR100/tonne change
IOI Corp (MYR)	4-6%
Sime Darby Plantation (MYR)	7-9%
Sarawak Oil Palms (MYR)	10-12%
Ta Ann(MYR)	12-15%
Golden Agri (SGD)	8-10%
First Resources (SGD)	6-8%
Bumitama Agri (SGD)	7-9%
Astra Agro Lestari (IDR)	9-11%
PP London Sumatra (IDR)	11-12%

Source: RHB

Figure 17: Labour shortage among Malaysian planters

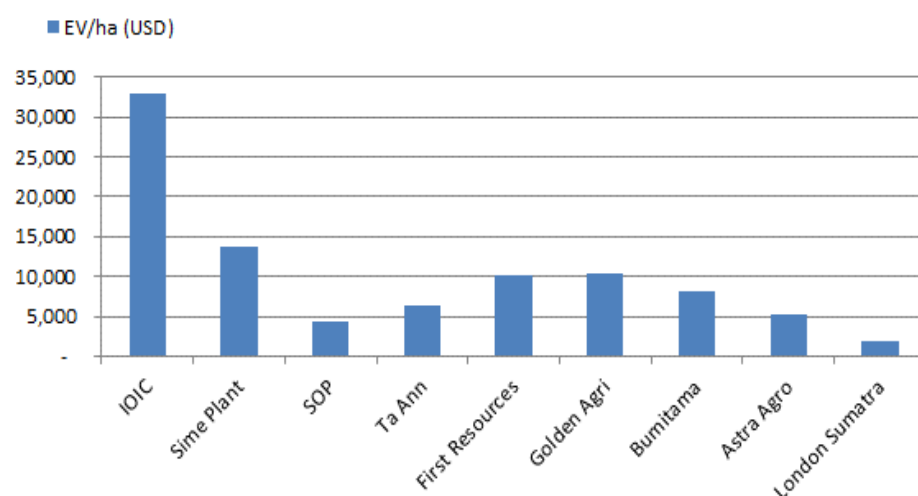
	Shortage (end-Jun 2023)	Comments
SDPL	4-5%	It is 30% short in Sarawak and 15-16% in Sabah. It has received sufficient workers for its operations in Peninsular Malaysia.
IOI	Fully staffed	
SOP	15%	Received workers from Indonesia. Expects to improve gradually and be resolved by end of the year
TAH	Fully staffed	Helped by contract workers

Source: RHB

Figure 18: Regional companies' forward sales positions

Company	Forward sales for 2023 (as at end-Jun 2023)
IOI	10-20% of production, sold on average three months forward
SDPL	For 2H23, it has sold about 50% of its Malaysian output forward at MYR3,950/tonne, while for PNG, it has sold 25% of its output at USD970/tonne
SOP	None
TAH	None
FR	No quantum given, but continues to hedge 2-4 weeks ahead
BAL	None
GGR	1-2 months of production, 3-6 months forward
LSIP	Minimal to none
AALI	Minimal

Source: Company data, RHB

Figure 19: Peer comparison based on EV/ha

Source: RHB

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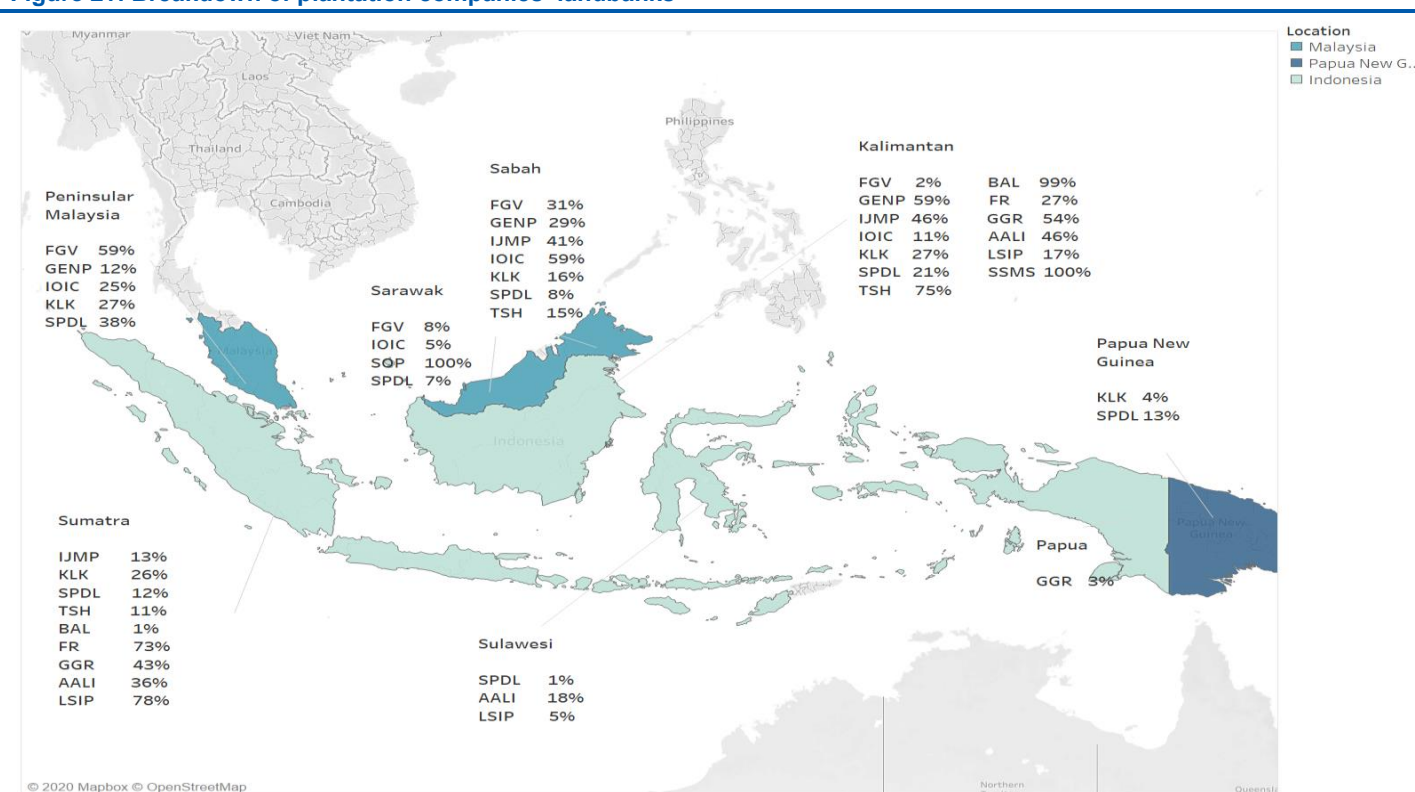
Figure 20: Regional peer comparison

	BBG ticker	Market cap (USDm)	Rating	Price (local ccy)	TP (local ccy)	Core P/E FY24F	Core P/E FY25F	P/BV FY24F	Net gearing FY24F	Div yield FY24F	ROE FY24F	EV/ha USD
Sarawak Oil Palms	SOP MK	487	Buy	2.56	2.85	7.8	8.4	0.6	Cash	2.0%	8.0%	4,392
IOI Corp	IOI MK	5,345	Buy	4.03	4.55	18.5	17.7	2.1	9.8%	2.5%	11.6%	33,002
Sime Darby Plantation	SDPL MK	6,358	Neutral	4.30	4.20	19.2	19.4	1.7	29.0%	2.6%	9.0%	13,752
Ta Ann	TAH MK	323	Buy	3.43	4.10	6.4	6.6	0.8	Cash	7.3%	12.4%	6,327
BM Greentech	BMGREE N MK	108	Neutral	0.98	0.90	17.7	16.4	2.0	Cash	2.0%	11.6%	N/A
Wilmar	WIL SP	16,749	Buy	3.66	4.25	10.2	9.0	0.8	106.4%	3.6%	7.7%	N/A
Bumitama Agri	BAL SP	725	Neutral	0.57	0.61	6.8	6.3	0.8	3.9%	6.1%	11.4%	8,052
Golden Agri	GGR SP	2,324	Buy	0.25	0.28	5.9	6.0	0.4	Cash	3.4%	20.6%	10,377
First Resources	FR SP	1,745	Neutral	1.52	1.50	8.5	9.2	1.2	Cash	5.9%	14.3%	10,128
PP London	LSIP IJ	441	Neutral	990	960	10.7	10.6	0.5	Cash	3.3%	5.3%	1,878
Sumatra Indonesia	AALI IJ	939	Sell	7,475	6,430	12.3	11.4	0.6	4.5%	3.2%	4.7%	5,332
Astra Agro Lestari						11.9	11.6	1.0				10,807

Note: Prices are as at 11 Sep 2023

Source: RHB, Bloomberg, Company data

Figure 21: Breakdown of plantation companies' landbanks



Source: Company data, RHB

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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