

Malaysia Morning Cuppa

Top Story & Regional Research

Plantation (NEUTRAL)

CPO Prices May Be Rangebound In 2023F

Sector Update

Top Picks are integrated players Kuala Lumpur Kepong (KLK), IOI Corp (IOI) and Wilmar. CPO prices should stay relatively rangebound in 2023F, as supply improvements will be relatively balanced with a rise in demand. We maintain 2023-2024F CPO prices at MYR3,900/tonne and MYR3,500/tonne. We expect supply to improve further in 2024, while pent-up demand in 2023 may moderate, leading to lower prices.

Analysts: Hoe Lee Leng +603 9280 8860, Singapore Research (sg.research@rhbgroup.com), Indonesia Research +6221 5093 9888

Today's Report: [Plantation : CPO Prices May Be Rangebound In 2023F \(14 Dec 2022\)](#)

Previous Report: [Plantation : Inventory Likely Above 2m Tonnes Until Year-End \(11 Nov 2022\)](#)

Chart 1: FBM KLCI chart



Chg

KLCI Futures Dec 2022	1,468.00	(4.0)
KLCI Futures Jan 2023	1,470.00	(5.0)
Brent Crude Oil (USD/bbl)	80.40	+2.4
CPO Spot Price (MYR/Tonne)	3,808.00*	(125.5)
USD/EUR	1.06	0.0
JPY/USD	135.59	(2.1)
USD/MYR	4.43	0.0
JPY/MYR	3.27	+0.1
EUR/MYR	4.67	0.0

Note: * As at 12 Dec 2022 closing

Table 1: Regional markets (13 Dec 2022)

	Bloomberg Code	Index	Chg	YTD (%)
FTSE KLCI	: FBMKLCI	1,470.12	↓ (4.26)	(6.2)
FTSE Emas	: FBMEMAS	10,579.54	↓ (6.98)	(6.4)
FTSE 70	: FBM70	13,006.00	↑ +87.73	(8.5)
FTSE 100	: FBM100	10,282.60	↓ (5.98)	(6.7)
Singapore	: FSSTI	3,271.28	↑ +31.62	+4.7
Thailand	: SET	1,625.91	↑ +2.78	(1.9)
Philippines	: PCOMP	6,582.38	↑ (2.82)	(7.6)
Indonesia	: JCI	6,810.32	↑ +75.86	+3.5
Hong Kong	: HSI	19,596.20	↑ +132.57	(16.2)
China, Shanghai	: SHCOMP	3,176.33	↓ (2.72)	(12.7)
China, Shenzhen	: SZCOMP	2,050.37	↓ (11.50)	(19.0)
Korea	: KOSPI	2,372.40	↓ (0.62)	(20.3)
Taiwan	: TWSE	14,522.96	↓ (89.63)	(20.3)
Japan	: NKY	27,954.85	↑ +112.52	(2.9)
Dow Jones	: INDU	34,108.64	↑ +103.60	(6.1)
S&P 500	: SPX	4,019.65	↑ +29.09	(15.7)
Nasdaq	: CCMP	11,256.81	↑ +113.07	(28.0)

Bulletins

STOCK/SECTOR	NEWS	COMMENTS	RATING
Advancecon (ADVC MK)	<p>Advancecon was awarded a contract by KEB Builders to be the subcontractor for preliminary works, site clearance, earthworks, geotechnical works, erosion sediment, and the control plan scope of Section 7, part 2 of 2 of a highway project (CH57800 to CH65820), which we believe relates to the West Coast Expressway (WCE) project.</p> <p>The total value of the contract is MYR86.8m, for a period of 30 months commencing from 13 Dec 2022. (<i>Bursa Malaysia</i>)</p>	<p>This is the second job Advancecon has won from KEB Builders in FY22, taking the number of jobs it has secured YTD to five. The first was in August (worth MYR17.2m) for the same scope of works as the latest contract, but from CH.54900 to CH.57800 of the highway's section. Around 20-30% of its orderbook comprises jobs related to the WCE. The latest job brings its YTD new job wins to MYR162m (vs our FY22 replenishment target of MYR250m). The latest job win also brings Advancecon's outstanding construction orderbook to c.MYR590m, representing an orderbook/revenue cover ratio of c.1.7x.</p> <p>As the YTD new job wins are within our replenishment assumption of MYR250m for FY22, we are maintaining our projections. Maintain NEUTRAL with a SOP-based TP of MYR0.28, after ascribing a 4% ESG discount to its intrinsic value, based on our in-house ESG methodology. Valuations are justified, with the stock trading at a 45x FY23F P/E, or >+2SD from its 5-year mean.</p> <p>While there is expected earnings growth in FY23-24, we think it will take time to reach pre-pandemic earnings levels of MYR11-18m. Also, earnings from the power purchase agreement for its Large Scale Solar 4 (LSS4) project will only be seen in the next six years. Re-rating catalysts include securing more contracts from Sarawak, given its exposure to the Pan Borneo Highway and road projects under the Upper Rajang Development Authority or URDA.</p>	NEUTRAL, TP: MYR0.28

Hartalega
(HART MK)

Glovesmaker Hartalega Holdings is buying land for a total of MYR54.32m as part of its expansion plans. (*TheEdge*)

The said acquisition involves a piece of land located in Bukit Kayu Hitam measuring approximately 60acres. The MYR54.3m for the purchase will be fully funded via internal funds and any other available existing credit lines, as announced. We gather that the deal was initially entered on 10 Mar 2021 when the agreed land size was measured at about 250acres with a price tag of MYR228.7m. The initial agreement also entailed an option for Hartalega to purchase another 130 acres of land in the same location. The said expansion plan in Kedah, together with its NGC1.5 plant in Sepang were initially touted to grow its total annual capacity to 95bn pieces by 2027, from the current annual capacity of 44bn pieces.

Nonetheless, the initial agreement had lapsed with no further reason given. Both parties were said to have mutually terminated the SPA due to the inability to fulfill the conditions precedent within the period provided.

As such, the announcement was not a surprise to us, given that Malaysia's top four producers had collectively postponed the commissioning of new production capacity until 2023, in view of the current low industry utilisation rate. At this juncture, the industry utilisation rate has further deteriorated to 30-40% as at Nov 2022 from 50% in Sep 2022. This is on the back of the subdued demand outlook, as we understand glove distributors are still holding approximately six months of inventory on hand. We maintain our UNDERWEIGHT view on the sector, as well as our SELL rating and TP for Hartalega.

SELL,
TP: MYR1.47

Top BUYs

	TP (MYR)	Upside (%)	Shariah	Catalysts
AMMB (AMM MK)	4.80	13.5	N	<ul style="list-style-type: none"> Targeting ROE of 10% (FY22: 5%) on above-industry average loan growth of 7%, stable to higher NIM, and lower credit cost of 35-40bps (FY22: 64bps) With LLC for oil & gas exposures raised to >80%, there is no further need of future overlays Dividend payout to normalise to 35-40% from FY23 (FY22: 11%) with good progress on capital rebuild
CIMB (CIMB MK)	7.00	21.5	N	<ul style="list-style-type: none"> Growing traction in ROE recovery, with FY22F target at 8-9% (FY21: 8.1%) Asset quality issues mostly addressed, credit cost to decline to 50-60bps (FY21: 73bps) Loan portfolio reshaping and cost take-outs bearing fruit
CTOS Digital (CTOS MK)	1.92	37.1	Y	<ul style="list-style-type: none"> Unique leading position and growth proposition (3-year CAGR of 34%) in secular digitalisation trends such as e-KYC and credit rating-related solutions Synergy from new acquisitions to accelerate growth avenue via its various digital solutions, analytical insights, and exposure to fintechs on the back of the growing digital economy
Guan Chong (GUAN MK)	4.00	66.7	Y	<ul style="list-style-type: none"> Undemanding valuation of c.10x FY23F P/E vs its consumer peers and international peers for Asia's largest cocoa grinder with a consistent earnings base secured by its forward-selling mechanism and unique exposure to growing global demand for chocolate Various expansions-driven growth and via its venture into Ivory Coast and Europe, which is likely to contribute significantly from FY23 onwards Inflection point for cocoa butter ratio amid strong demand, lower inventory levels, and normalised freight costs
Heineken Malaysia (HEIM MK)	30.50	19.7	N	<ul style="list-style-type: none"> Proxy for consumption recovery thanks to its established brand equity and products portfolio The reopening of international borders and more entertainment outlets (nightclubs) should further boost consumption Earnings growth should also be aided by the ASP increases to mitigate cost inflation
Kerjaya Prospek (KPG MK)	1.44	18.0	Y	<ul style="list-style-type: none"> KPG's construction orderbook stands at MYR4.3bn, which translates to an orderbook/revenue cover ratio of c.3.8x Further opportunities in infrastructure contracts under Seri Tanjung Pinang Phase 2 or STP2, which amount to c.MYR2bn in the next 5-7 years More job wins are achievable, given KPG's net cash pile of MYR214.6m as at 30 Jun 2022

Mr DIY (MRDIY MK)	2.62	27.2	Y	<ul style="list-style-type: none"> Gravity-defying growth underpinned by strong brand equity and efficient business model Robust outlet expansion plans across brands to support longer-term growth Valuation should play catch-up to consumer large-cap peers
Malaysian Pacific Industries (MPI MK)	31.70	5.7	Y	<ul style="list-style-type: none"> Resilient pipeline and earnings visibility with additional capacity coming on-stream and China's localisation efforts Sustained growth in the automotive and industrial segment, which will better insulate from any prolonged slowdown Structural growth trend in the advance packaging technology that involves silicon carbide or SiC and gallium nitride or GaN
Matrix Concepts (MCH MK)	1.75	15.9	Y	<ul style="list-style-type: none"> Resilient sales from existing township developments should ensure sustainable earnings growth and dividend payouts The 1,382 acres of new land in Seremban will underpin the long-term growth of the company The upcoming completion and potential en-bloc sale of Menara Shariah twin towers in Jakarta may suggest possible upside to FY23 dividend
SKP Resources (SKP MK)	1.95	16.1	Y	<ul style="list-style-type: none"> Earnings should pick up strongly in upcoming quarters considering the peak seasonality – driven by the year-end festive season and arrival of new labour supply Largely insulated from the rising costs environment given its cost-plus model Putting behind the labour-related ESG issues with the positive audit results – supportive of the share price and valuation recoveries
TASCO (TASCO MK)	1.75	96.6	N	<ul style="list-style-type: none"> TASCO has a pandemic-resistant business. It is also leveraged to post-COVID-19-recovery tailwinds, which translate into a 3-year core earnings CAGR of c.26%, subsequent to FY21's 400% YoY growth Multi-pronged expansion plan backed by the integrated logistics services tax incentive scheme that should also take place in subsequent quarters – this could potentially lead to better profitability going forward The stock's current below peers' valuation provides investors with good opportunities to ride on a renowned logistics player with strong earnings growth momentum
Telekom Malaysia (T MK)	7.55	42.5	Y	<ul style="list-style-type: none"> Structural growth in fibre broadband demand (still modest fibre broadband penetration), enterprise digitalisation, and wholesale services Wholesale business to benefit from 5G backhaul fiberisation contract with Digital Nasional or DNB and the high-speed broadband access or HSBA Strong 1H22 EBIT growth suggests that management's guidance remains conservative, supported by good cost rationalisation
Yinson (YNS MK)	3.28	17.8	N	<ul style="list-style-type: none"> Yinson currently interested in four projects, including three in Angola and one in Suriname. It highlighted that ENI's Agogo project, with an estimated capex of >USD1bn, could be awarded in 2022 with the rest in 2023 We also expect strong earnings growth of 45-83% in FY24-25 once it achieves final acceptance of the three new projects Yinson has been aggressive in expanding its renewables and green technologies division – it has a target to secure a 3GW pipeline by end 2022 – and expand the operating portfolio of 5-10GW by 2028 in 5-7 markets

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