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POSITIVE *[Unchanged]*

Raising 2022E CPO ASP to MYR4,100/t

CPO price may possibly peak in 1Q22

We raise 2022 CPO ASP forecast to MYR4,100/t from MYR3,200/t after a confluence of factors that have driven present CPO prices to above MYR5,000/t. We maintain our view that high CPO prices may not sustain once supply normalizes, likely in 2H22. Except for KLK, we are keeping EPS forecasts, call and TP for our other stock coverage pending updates on their FFB output and cost expectations during 4QCY21 results release. Stay POSITIVE on the sector. Preferred BUYs are KLK, SOP, and BPLANT.

YTD CPO prices driven up by multiple factors

Since our last CPO price revision in early Nov 2021, prices have been on a tear for multiple reasons:- 1) CPO output has remained tight in supply as 4Q21 output fell short of market expectations, especially in Indonesia; 2) South American crop prospects have deteriorated sharply over the past 2 months due to the drought experienced in the southern part of Brazil and Argentina on the *La Nina* phenomenon; 3) crude oil prices have surpassed USD90/bbl, in part due to geopolitical tensions; 4) cost pressures have been rising, especially from high fertilizer prices. High fertilizer prices and disruption in global supplies also cast uncertainties over the application of fertilizer (especially by smallholders) which may impact oil yields further out; 5) labour shortages in Malaysia persist with foreign workers yet to return; and 6) Indonesia's latest export policy announced on 27 Jan 2022 requiring exporters to set aside 20% of industry's export volume for domestic market obligation has raised some concern over the availability of palm oil in the global market, at least, in the short term.

A possible two halves in 2022 for CPO price

The confluence of factors above drove CPO price to record levels, above MYR5,000/t in recent weeks. We do not expect the present high prices to sustain. But in the immediate term, we do anticipate CPO price to stay lofty as the industry is in its seasonally low production cycle, limiting available supply. Industry output is likely to pick up from Q2 onwards.

For the oilseeds perspective, South America's new harvest will hit the global market from March onwards. US planting season will start in April and given the recent rally in soybean prices and high fertilizer prices, there is a good chance that US farmers may prefer more soybean planting (see Figs.7-8 for soybean/corn ratio) as soybean requires less fertilizer than corn. Assuming US farmers prefers to plant more soybean (than corn) this season, and assuming favourable weather (as *La Nina* is forecasted to end by mid-2022; Fig.9) in the northern hemisphere, supply will play catch up in 2H22. The seasonal uptick in CPO output is also typically in the 2H of the calendar year. As and when supply normalizes, CPO price will start to ease. As for demand, present high prices will likely lead to some demand destruction especially those of price sensitive consumers. We have also seen some countries (such as Brazil, and Thailand) cutting back on their biodiesel blend mandates.

Overall, following the good start to the year, we now raise our 2022 / 2023 / 2024 CPO ASP forecasts (per tonne) to MYR4,100 / 3,200 / 3,100 (from MYR3,200 / 3,000 / 3,000) respectively. Our earnings, calls and TPs (ex-KLK - see link) will be reviewed during the upcoming results season.

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Regional CPO price forecast

	2022F	2023F
	MYR/t	MYR/t
Full year avg (FOB) - new	4,100	3,200
Full year avg (FOB) -old	3,200	3,000
MDEX / MPOB prices:		
3M CPO price (16 Feb)	5,433	
YTD (16 Feb) 3M CPO ASP	5,280	
YTD (16 Feb) spot CPO ASP	5,486	

Plantation stocks mentioned on cover page

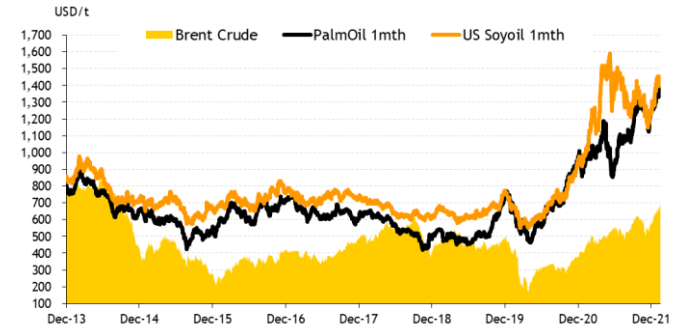
Company	BBG ticker	Rec	Shr px	Tgt px
MY listed			**LCY**	**LCY**
KL Kepong	KLK	Buy	25.60	29.60
Swk Oil Palm	SOP	Buy	4.67	5.60
Bous.Plant	BPLANT	Buy	0.885	0.93

Source: Maybank IBG Research

Terms used in this note:
ASP - Average Selling Price
CPO - Crude Palm Oil
FCPO - Futures Crude Palm Oil
Feb - February
ID - Indonesia/ Indonesian
Jan - January
LCY - Local currency
mt - million tonnes
MoM - Month-on-Month
MPOB - Malaysian Palm Oil Board
MY - Malaysia/ Malaysian
PO - Palm Oil
SA - South America
SBO - Soybean oil
t - tonnes
USDA - United States Department of Agriculture
WASDE - World Agricultural Supply and Demand Estimates
YoY - Year-on-Year
YTD - Year-to-date

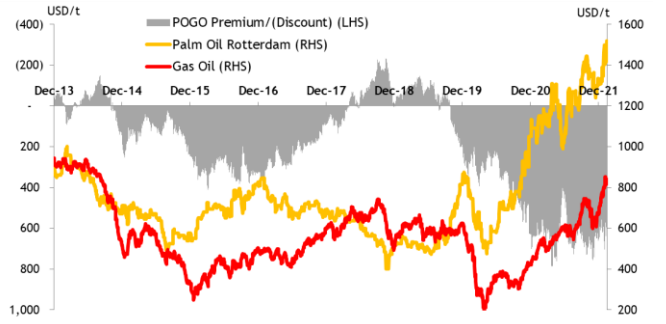
Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x) 21E	P/E (x) 22E	P/B (x) 21E	P/B (x) 22E	Div yld (%) 21E	Div yld (%) 22E
Sime Darby Plant	SDPL MK	7,667	Buy	4.64	4.47	(1)	15.5	24.9	2.2	2.1	3.5	2.0
KL Kepong	KLK MK	6,612	Buy	25.60	29.60	20	12.2	13.7	1.8	2.2	5.0	3.9
IOI Corp	IOI MK	6,518	Buy	4.34	4.54	8	18.8	20.5	2.4	2.6	2.8	2.9
First Resources	FR SP	2,133	Hold	1.81	1.68	(4)	15.1	14.1	1.9	1.8	3.2	3.6
Genting Plant	GENP MK	1,672	Buy	7.80	8.28	9	18.5	22.6	1.4	1.3	3.1	2.7
Bumitama Agri	BAL SP	830	Buy	0.64	0.93	48	7.6	7.6	1.2	1.1	5.2	5.3
Swk Oil Palms	SOP MK	638	Buy	4.67	5.60	25	7.3	10.8	1.0	1.0	4.1	2.8
Boustead Plant	BPLANT MK	474	Buy	0.89	0.93	13	9.6	21.9	0.7	0.7	6.8	2.7
Ta Ann	TAH MK	457	Buy	4.30	3.96	(2)	8.8	14.1	1.2	1.2	7.0	4.3
TSH Resources	TSH MK	429	Buy	1.30	1.48	16	12.0	17.6	1.2	1.1	2.4	1.7
TH Plantations	THP MK	159	Sell	0.76	0.48	(36)	12.3	15.8	1.0	0.9	0.0	0.0

Fig 1: Soyoil and palm oil vs crude oil price



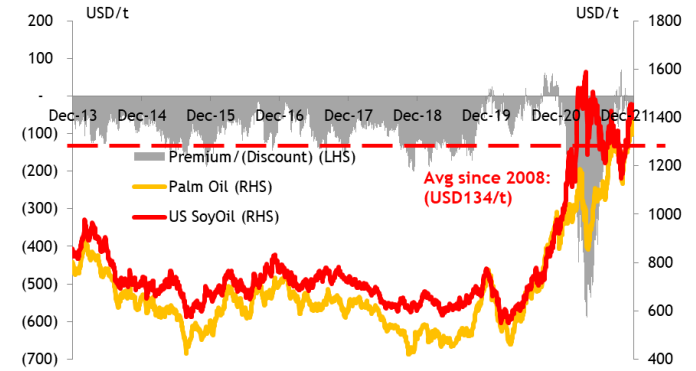
Source: Bloomberg

Fig 2: Palm Oil-Gas Oil (POGO) is unfavourable with palm oil trading at USD702/t (15 Feb 2022) premium to gas oil



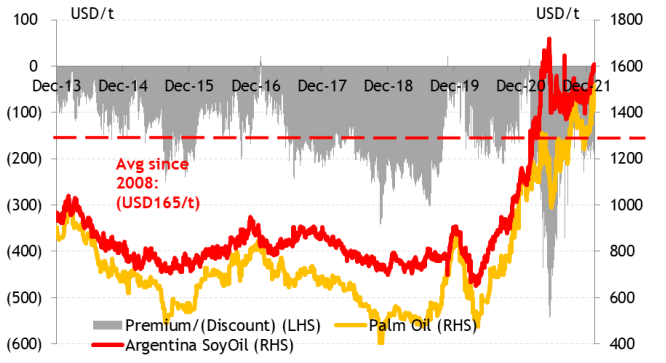
Source: Bloomberg

Fig 3: 1M palm oil price discount to US soybean oil at USD46/t (15 Feb 2022)



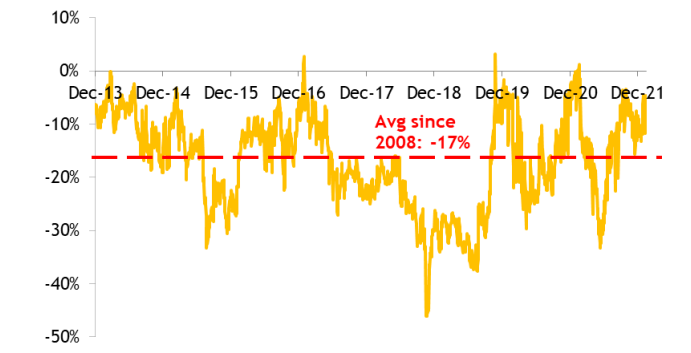
Source: Bloomberg

Fig 4: Rotterdam Palm Oil CIF price discount to Argentina Soybean Oil at USD75/t (15 Feb 2022)



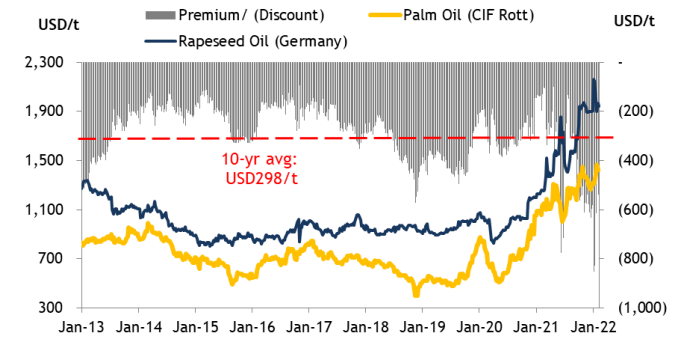
Source: Bloomberg

Fig 5: Palm oil price discount (in %) to Argentina soybean oil at -5% (15 Feb 2022)



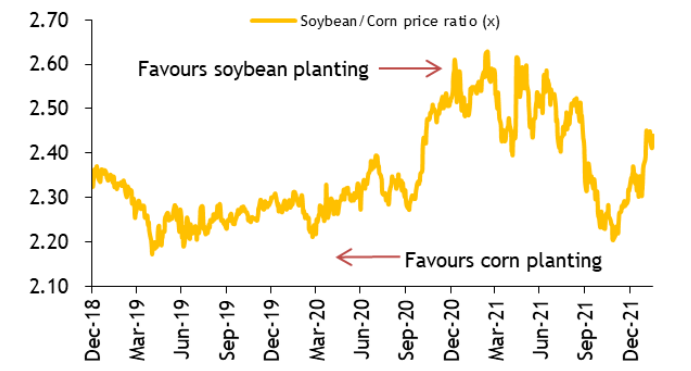
Source: Bloomberg

Fig 6: Palm Oil price discount to Germany rapeseed oil at USD518/t (15 Feb 2022)



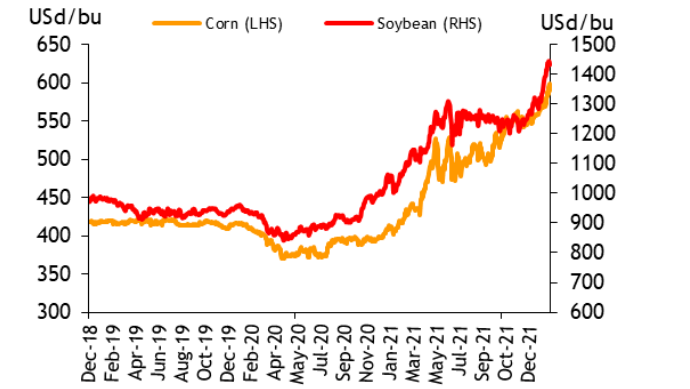
Source: Bloomberg (quoted weekly)

Fig 7 : Soybean gaining favour over corn in recent weeks



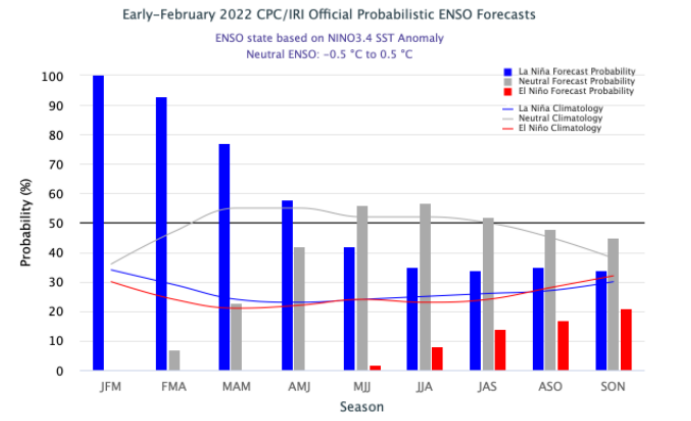
Source: Bloomberg, Maybank IBG Research

Fig 8: Soybean (Nov 22) vs Corn (Dec 22) prices



Source: Bloomberg

Fig 9: La Nina likely to turn ENSO-Neutral by mid-2022



Source: CPC/IRI

Risk statement

There are several risk factors that may affect our sector view, earnings estimates, price targets, and ratings of stocks under coverage. Key risks to the sector and companies are:

Upside risks: (i) Weaker-than-expected production recovery of palm oil and other vegetable oils in 2022; (ii) Brent crude oil price inches closer to USD120/barrel; (iii) Weather anomalies at major palm oil and oilseeds producing regions persist into 2022.

Downside risks: (i) Reversal of Brent crude oil price to sharply below USD80/barrel; (ii) Negative policies imposed by importing countries; (iii) Unfriendly government policies at producing or exporting countries; (iv) Production in 2022 turns out much stronger than expected; (v) Global demand turns out to be weaker than expected; and (v) Weaker competing oil prices (like soybean and rapeseed).

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