Regional Plantations

Indonesia proposes to reduce export levies

POSITIVE [Unchanged]

ID's planters to benefit if CPO price stays lofty

Indonesia (ID) is mulling a reduction in export levies. The proposed revision is generally positive for the industry's earnings there as net receipts from the sale of CPO will improve, but only if CPO price continues to stay lofty in the coming months. Prime beneficiaries will be ID upstream planters, followed closely by integrated players there. Positive sector call maintained. Our top BUYs are KLK, SOP, and BPLANT.

ID mulls lowering export levies

According to media reports, the Finance Minister of Indonesia will soon cut the ceiling rate for CPO levies from USD255/t (Fig.4) to USD175/t (Fig.5). It is proposed that for every USD50/t increase in prices, the levy will rise by USD20/t for CPO and USD16/t for palm derivative products (ie RBD palm oil, RBD palm olein, and biodiesel). The maximum tariff will be flat at USD175/t when CPO prices are above USD1,000/t. However, it is not clear from the media reports whether there is a minimum CPO export levy although one of the corporates shared that there is a minimum USD55/t export levy to be imposed when CPO price is below USD750/t. The incremental tariff for export levy begins when prices go above USD750/t (Fig.5).

No changes to Indonesia's export duty

However, it is not clear when the new proposal will be approved and implemented. If approved, it will replace the previous export levy that was revised on 10 Dec 2020. Due to the high CPO price in 1H21, we understand the CPO Fund (collected from ID's export levies) has recorded surplus in recent months and accumulated sufficient funds to finance ID's B30 mandate the rest of the year. Nonetheless, it is not made known the total reserves accumulated in the CPO Fund thus far. Nonetheless, do note that the ID's export duty is likely to be left unchanged (Fig.6).

Both ID upstream and integrated players to benefit

By our estimate, the proposed export tax will raise the net increment receipts of upstream planters by USD5-80/t (see Figs.2a&2b) and integrated planters by USD5-72/t (see Figs.3a&3b) when CPO price trades between USD695/t to USD1,020/t. For instance, at present CPO price of ~MYR3,560/t, the incremental net receipt is estimated at USD50/t or MYR205/t, a 7.4% increment to existing revenue. However, at our average CPO price assumption of MY3,100/t for 2021, the revenue increments will be smaller at USD30/t (MYR123/t) or 4.5%. As for our 2022's CPO ASP forecast at MYR2,600/t, there will be no impact to revenue or profitability. Overall, ID's upstream and integrated players will enjoy higher net receipts from lower export levies. **Potential beneficiaries** - (i) All companies with upstream and/or integrated operations in ID such as FR, BAL and Wilmar. For MY-listed companies under our coverage, TSH, GENP, KLK and SDPL are prime beneficiaries given their sizeable exposure in Indonesia (see Fig.7). **Potential loser** - the Indonesia government (ie lower export levy collection).

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Regional CPO price forecast

	2020F	2021F
	MYR/t	MYR/t
Full year average (FOB)	3,100	2,600
MDEX / MPOB prices:		
3M CPO price (22 June)	3,390	
YTD (22 June) 3M CPO ASP	3,766	
YTD (22 June) spot CPO ASP	4,083	

Plantation stocks mentioned on cover page

Company	BBG ticker	Rec	Shr px	Tgt px
M'sia listed			LCY	LCY
Sime Plant	SDPL	Hold	4.14	4.71
KL Kepong	KLK	Buy	20.84	29.60
Swk Oil Palm	SOP	Buy	3.59	5.67
Bous.Plant	BPlant	Buy	0.56	0.79
Genting Plant	GENP	Hold	7.10	8.96
TSH Resources	TSH	Buy	1.06	1.40
S'pore listed				
First Res.	FR	Buy	1.31	1.88
Wilmar Int'l	WIL	Buy	4.51	6.21
Bumitama	BAL	Buy	0.47	0.65

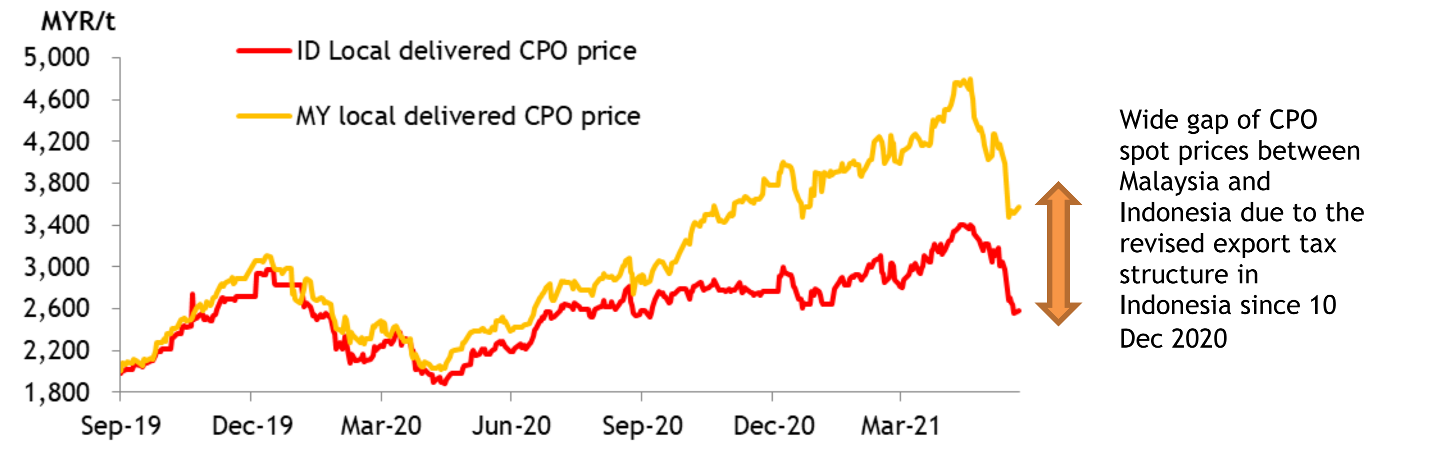
Source: Maybank KE

Terms used in this note:

ASP - average selling price
CPO - crude palm oil
ID - Indonesia / Indonesian
LCY - Local currency
mt - million tonnes
MoF - Ministry of Finance
MPOB - Malaysian Palm Oil Board
MY - Malaysia / Malaysian
PO - Palm oil
RBD - Refined, bleached, deoderised
Ref. - Reference
t - tonne

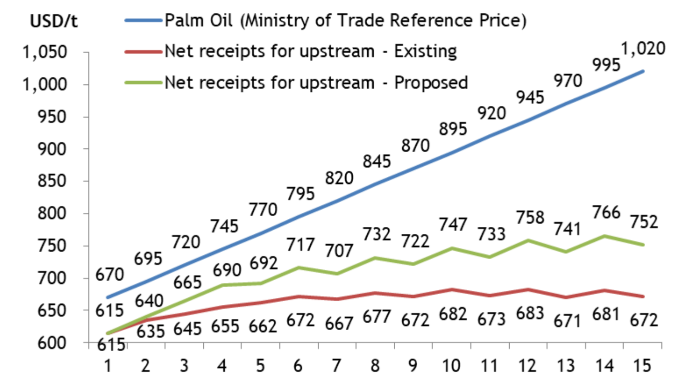
Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x) 21E	P/E (x) 22E	P/B (x) 21E	P/B (x) 22E	Div yld (%) 21E	Div yld (%) 22E
Sime Darby Plant	SDPL MK	6,849	Hold	4.14	4.71	15	21.8	30.4	2.0	1.9	2.5	1.6
IOI Corp	IOI MK	5,769	Buy	3.82	4.71	25	20.4	24.3	2.4	2.3	3.4	2.5
KL Kepong	KLK MK	5,414	Buy	20.84	29.60	44	19.3	21.8	2.0	1.9	3.1	2.7
First Resources	FR SP	1,541	Buy	1.31	1.88	46	11.7	10.6	1.4	1.3	4.3	4.7
Genting Plant	GENP MK	1,531	Hold	7.10	8.96	28	23.8	23.8	1.3	1.2	2.5	2.5
Bumitama Agri	BAL SP	607	Buy	0.47	0.65	41	8.7	6.3	0.9	0.8	4.6	6.4
Swk Oil Palms	SOP MK	493	Buy	3.59	5.67	61	8.1	8.9	0.8	0.8	3.7	3.4
TSH Resources	TSH MK	352	Buy	1.06	1.40	33	13.5	16.3	1.0	0.9	2.2	1.8
Boustead Plant	BPLANT MK	299	Buy	0.56	0.79	45	20.5	25.3	0.5	0.5	2.9	2.4
Ta Ann	TAH MK	285	Buy	2.67	3.45	34	9.7	11.6	0.8	0.8	5.2	4.3
TH Plantations	THP MK	101	Sell	0.48	0.44	(7)	12.0	16.4	0.7	0.7	0.0	0.0

Fig 1: Wide CPO price gap between Malaysia and Indonesia for upstream players since late 2020



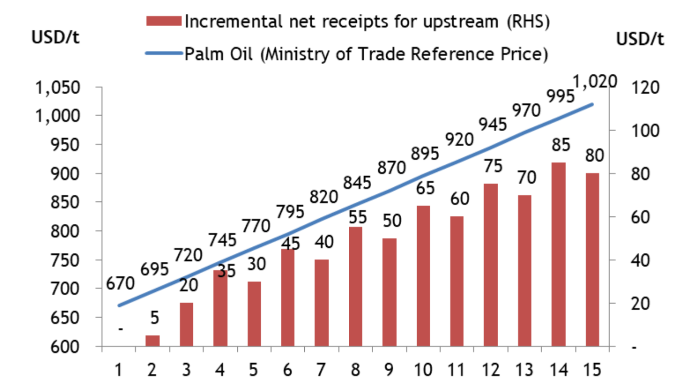
Sources: GAPKI, Bloomberg

Fig 2a: A comparison of anticipated net receipts for Indonesia's upstream planters based on existing and proposed export levy (in USD/t)



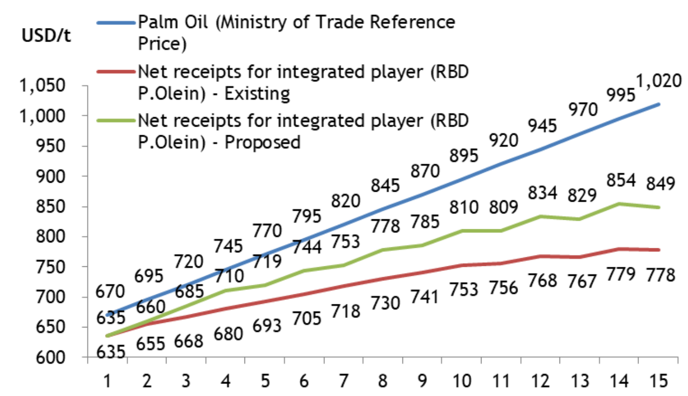
Source: Maybank KE estimates

Fig 2b: Anticipated incremental net receipts for upstream planters in Indonesia



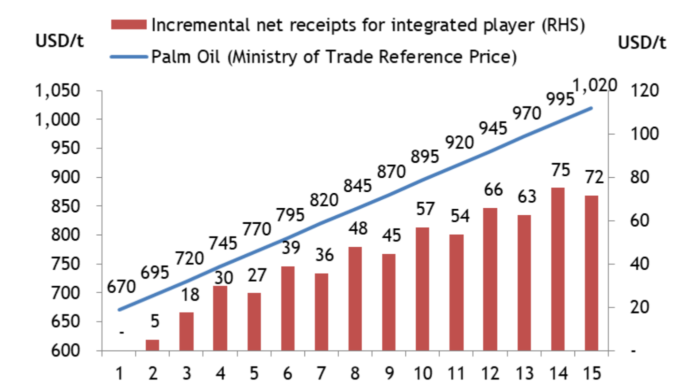
Source: Maybank KE estimates

Fig 3a: A comparison of anticipated net receipts for integrated players in Indonesia based on existing and proposed export levy (in USD/t)



Source: Maybank KE estimates

Fig 3b: Anticipated incremental net receipts for integrated players in Indonesia



Source: Maybank KE estimates

Fig 4: Indonesia's existing Export Levy (since 10 Dec 2020)

Palm oil (Ministry of Trade Reference Price)	<670	670-695	695-720	720-745	745-770	770-795	795-820	820-845	845-870	870-895	895-920	920-945	945-970	970-995	>995
	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t
Palm oil Ref price	670	695	720	745	770	795	820	845	870	895	920	945	970	995	1,020
CPO	55.0	60.0	75.0	90.0	105.0	120.0	135.0	150.0	165.0	180.0	195.0	210.0	225.0	240.0	255.0
RBD Palm Olein	35.0	40.0	52.5	65.0	77.5	90.0	102.5	115.0	127.5	140.0	152.5	165.0	177.5	190.0	202.5
RBD Palm Oil	25.0	30.0	42.5	55.0	67.5	80.0	92.5	105.0	117.5	130.0	142.5	155.0	167.5	180.0	192.5
Biodiesel	25.0	30.0	42.5	55.0	67.5	80.0	92.5	105.0	117.5	130.0	142.5	155.0	167.5	180.0	192.5

Source: Indonesia's Ministers Decree No 191/ PMK. 05/ 2020

Fig 5. Indonesia's proposed new Export Levy

Palm oil (Ministry of Trade Reference Price)	<750	751-800	801-850	851-900	901-950	951-1000	1001-1050	1051-1100	1100-1150	1151-1200	1021-1250	>1251
	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t
<u>Proposed</u>												
CPO	55	75	95	115	135	155	175	175	175	175	175	175
RBD Palm Olein	35	51	67	83	99	115	131	131	131	131	131	131
RBD Palm Oil	25	41	57	73	89	105	121	121	121	121	121	121
Biodiesel	25	41	57	73	89	105	121	121	121	121	121	121

Source: Media, Maybank KE

Fig 6: Indonesia's existing Export Duty (unchanged since 2015)

Palm oil (Ministry of Trade Reference Price)	<750	751-800	801-850	851-900	901-950	951-1000	1001-1050	1051-1100	1100-1150	1151-1200	1021-1250	>1251
	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t	USD/t
<u>Existing</u>												
CPO	-	3	18	33	52	74	93	116	144	166	183	200
RBD Palm Olein	-	-	-	2	12	26	40	56	70	83	100	117
RBD Palm Oil	-	-	-	-	5	17	30	44	57	70	81	92
Biodiesel	-	-	-	-	-	-	1	3	3	36	36	64

Sources: Indonesia's Ministers Decree No 136 / PMK. 010/ 2015

Fig 7: Geographical exposure of companies (by oil palm planted area)

Company	Total planted (hectare)	Malaysia (%)	Indonesia (%)	Others (%)
SDPL - Sime Darby Plantation	583,339	51	33	16
IOI - IOI Corp	176,909	88	12	-
KLK - KL Kepong	213,411	43	54	3
FGV - Felda Global	335,404	100	-	-
GENP - Gent Plant	139,225	42	58	-
THP - TH Plant	56,763	97	3	-
SOP - Swk Oil Palms	87,964	100	-	-
TAH - Ta Ann	49,817	100	-	-
TSH - TSH Resources	42,471	15	85	-
BPlant - Bous Plant	73,494	100	-	-

Source: Company (based on annual reports)

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: (i) weather anomalies resulting in lower-than-expected output growth; (ii) lower-than-expected CPO price achieved; (iii) negative policies imposed by import countries; (iv) unfriendly government policies at producing countries; (v) sharply lower crude oil prices, which make palm biodiesel demand not viable; and (vi) weaker competing oil prices (like soybean and rapeseed).

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