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Maybank

Plantations

Regional

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2Q22: Heightened price volatility on ID's export ban

NEUTRAL *[Unchanged]*

Latest policy poses ST earnings risk to ID planters

ID's ban on palm oil exports will worsen the tightness in global edible oil supply. But we think the ban will be a short 1-2 months. Prices of edible oils will remain lofty in 2Q22 to ration demand. We expect BMD's FCPO to trade higher (possibly retesting recent highs) while ID's domestic CPO price will gravitate towards subsidized cooking oil price if the ban stays. MY-based planters are clear winners. We expect ST negative knee-jerk reaction on ID planters. We raise IOI to BUY but downgrade TAH to HOLD following the latter's outperformance. Preferred BUYs: IOI & KLK.

Excess supply in ID will lead to lower domestic prices

Last Friday, Indonesia's (ID) President Joko Widodo decided to ban exports of cooking oil and its raw material from 28 April. The ban will be in place until ID has an "abundant and affordable" supply of cooking oil. Little details were provided in his brief speech. We take the view that the ban will likely be on CPO, RBD Palm Oil, and RBD Palm Olein which form the bulk of ID's production and exports. ID is projected to produce ~48mt of CPO in 2022 (Fig.3) while domestic consumption is just ~18mt; comprising ~9mt of biodiesel and ~9mt of food use (mainly cooking oil). A ban on palm oil exports will mean an excess CPO of ~30mt in ID (annually). Without an export market, we anticipate the storage tanks to "overflow" within 1-2 months if the export ban stays. We believe ID's domestic CPO price should gravitate towards ID's subsidized cooking oil price (ie IDR14,000/liter; assuming this scheme is intact); down from present domestic CPO price of IDR16,563/kg or MYR4,971/t (21 Apr). In contrast, we should witness firmer CPO prices in BMD's FCPO. 1M FCPO may again gap up to trade on par with US SBO in the ST. 1M FCPO price is currently at USD247/t discount to US SBO (historical discount: USD134/t; Figs.5a-b).

ID + Ukraine = 39% of global edible oil exports

ID, the world's largest producer and exporter of palm oil, made up 31% of global exports in 2020 (Fig.4). According to *Oil World*, Ukraine exported 7.2mt of edible oils (mainly sunflower oils) in 2020, which accounted for 8% of global exports of 95.1mt. Ukraine ports in the Black Sea region are still temporarily closed since the Russia-Ukraine war started on 24 Feb. The disrupted exports from ID and Ukraine will keep global edible oil prices lofty until such time when either ID export ban is lifted or shipment from Ukraine in the Black Sea region is allowed to resume.

Risk of CPO price correction remains in 2H22

MY-based planters are clear winners for now (see Fig.1). Pure MY plays include SOP, TAH, BPLANT, and HAPL. Among the large caps, IOI has the least exposure to ID. But bear in mind, this ID export ban is temporary. We expect the ban to be lifted by end-2Q22. When the ban is lifted, we expect ID to flood the global market with its inventory accumulated during the ban. And as the industry enters into its seasonal peak output period in 2H22, this could trigger sharp price correction. 2022 will likely be a year of two halves for CPO price. CPO spot price has averaged MYR6,248/t YTD. Given the high prices and new export ban, we now raise our 2022E/2023E CPO ASP to MYR5,000/ 3,400/t (from MYR4,100/ 3,200/t). Changes to our EPS, TPs and stock calls are reflected in Figs.2a-b.

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Regional CPO price forecast

	2022F	2023F
	MYR/t	MYR/t
Full year avg (FOB) - new	5,000	3,400
Full year avg (FOB) - old	*4,100*	*3,200*
MDEX / MPOB prices:		
3M CPO price (22 Apr)	6,355	
YTD (22 Apr) 3M CPO ASP	5,795	
YTD (22 Apr) spot CPO ASP	6,248	

Plantation stocks mentioned on cover page

Company	BBG ticker	Rec	Shr px	Tgt px
MY listed			LCY	LCY
KL Kepong	KLK	Buy	28.00	30.90
IOI Corp	IOI	Buy	4.43	4.87
Ta Ann	TAH	Hold	6.16	5.87
Swk Oil Palm	SOP	Hold	6.41	6.52
Bous Plant	BPLANT	Hold	1.13	1.03
Hap Seng Plant	HAPL	N.R	3.20	-

Source: Maybank IBG Research

Terms used in this note:
ASP - Average Selling Price
BMD - Bursa Malaysia Derivative
CPO - Crude Palm Oil
FCPO - Futures Crude Palm Oil
ID - Indonesia/ Indonesian
LCY - Local currency
l - liter
mt - million tonnes
MoM - Month-on-Month
MY - Malaysia/ Malaysian
PO - Palm Oil
SBO - Soybean oil
ST - short term
t - tonnes
YTD - Year-to-date

SEE PAGE 8 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x) 22E	P/E (x) 23E	P/B (x) 22E	P/B (x) 23E	Div yld (%) 22E	Div yld (%) 23E
Sime Darby Plantation	SDPL MK	8,395	Hold	5.25	4.97	(1)	12.8	20.9	2.2	2.1	4.7	2.9
KL Kepong	KLK MK	6,998	Buy	28.00	30.90	14	13.7	19.9	2.3	2.2	3.9	3.0
IOI Corp	IOI MK	6,438	Buy	4.43	4.87	13	15.6	19.1	2.6	2.5	3.8	3.1
First Resources	FR SP	2,602	Sell	2.25	1.94	(9)	11.1	13.9	2.0	1.8	4.5	3.6
Genting Plant	GENP MK	1,884	Hold	9.08	9.52	9	13.5	21.0	1.5	1.5	4.4	2.9
Bumitama Agri	BAL SP	1,097	Buy	0.86	0.98	20	7.8	8.7	1.4	1.2	5.1	4.6
Swk Oil Palms	SOP MK	854	Hold	6.41	6.52	4	7.6	12.8	1.1	1.1	2.6	2.3
Ta Ann	TAH MK	634	Hold	6.16	5.87	2	8.8	13.6	1.6	1.5	6.8	4.4
Boustead Plant	BPLANT MK	585	Hold	1.13	1.03	4	8.0	21.0	0.8	0.8	12.5	2.9
TSH Resources	TSH MK	578	Hold	1.81	1.79	1	13.9	20.3	1.4	1.3	2.2	1.5
TH Plantations	THP MK	203	Sell	1.00	0.73	(27)	7.6	19.0	1.2	1.1	0.0	0.0

We expect the ID export ban to be lifted in 1-2 months

The ID export ban is likely to be temporary. Once the President is satisfied there is sufficient cooking oil to serve the masses, the export ban will be lifted. Bear in mind that unlike oilseeds which can be kept for a year or two (without losing too much quality), the FFB (ie fresh fruit bunches that contains the palm oil) that is harvested daily in the estate cannot be stored and needs to be processed at the mill within 24 hours to ensure the highest quality. And once processed into CPO, the oil also has short shelf life.

If the export ban is not lifted quickly, the anticipated problem faced by growers and refiners will be insufficient storage capacity. Ultimately, when storage tanks are full, FFBs will have to be left to rot in the fields as the mills will not be able to buy FFBs (especially from smallholders) to process; creating a different set of social and economic problem for the President of ID. Hence, we believe the ban will be lifted before the end of 2Q22. Nonetheless, we expect short term negative knee-jerk reaction to plantation stocks with relatively bigger presence in Indonesia.

In the meantime, the MY-centric planters (see Fig.1 for oil palm planted area exposure for selected planters) will be prime beneficiaries although we caution that the benefits may be short-lived. When the ID export ban is lifted, we expect ID's palm oil to flood the global market with the inventory accumulated during the ban and as the industry prepares to make room for the bigger seasonal harvest in 2H22. When that happens, prices on BMD Futures may correct sharply.

Fig.1: Geographical exposure (by oil palm planted area)

Company	Malaysia (%)	Indonesia (%)	Others (%)
SDPL MK - Sime Darby Plantation	51	33	16
IOI MK - IOI Corporation	88	12	-
KLK MK - KL Kepong	43	55	2
GENP MK - Genting Plantations	41	59	-
THP MK - TH Plantations	97	3	-
SOP MK - Sarawak Oil Palms	100	-	-
TAH MK - Ta Ann Holdings	100	-	-
TSH MK - TSH Resources	15	85	-
BPLANT MK -Boustead Plantations	100	-	-
HAPL MK – Hap Seng Plantations	100	-	-
FR SP – First Resources	-	100	-
BAL SP – Bumitama Agri	-	100	-

Source: Companies

Raising our 2022E CPO ASP forecast to MYR5,000/t

CPO spot price has averaged MYR6,248/t YTD (3M FCFO: MYR5,795/t YTD). Given the high prices and new export ban by ID, we now raise our 2022E CPO ASP to MYR5,000/t (from MYR4,100/t) and 2023E CPO ASP to MYR3,400/t (from MYR3,200/t). Imputing the higher CPO assumptions (and adjusting for some output and cost assumptions), the core PATMI of plantation stocks under our coverage were raised by 5-56% for FY22E-23E. A summary of the core PATMI changes are tabulated in Fig.2a.

Correspondingly, our target prices and stocks call were also tweaked following the earnings revision. A summary of the changes are tabulated in Fig.2b. In terms of key changes, we now raise IOI MK to BUY (CP: MYR4.43, TP: MYR4.87) but downgrade TAH MK to HOLD (from BUY; CP: MYR6.16, TP: MYR5.87) following the latter's outperformance.

As for IOI, it is set to benefit the most among the large caps from ID's misfortune (although temporary) given it has the least presence in ID.

Fig.2a: Core PATMI revisions of plantation stocks under coverage

	BBG ticker	FYE	FY22E (Old)	FY23E (Old)	FY22E (New)	FY23E (New)	FY22E Change	FY23E Change
Malaysia listed			MYR' m	MYR' m	MYR' m	MYR' m	(%)	(%)
Sime Darby Plant	SDPL	Dec	2,177	1,589	*2,840*	*1,733*	+31%	+10%
KL Kepong	KLK	Sept	2,011	1,450	*2,208*	*1,515*	+10%	+5%
IOI Corporation	IOI	June	1,545	1,264	*1,775*	*1,452*	+15%	+15%
Genting Plant	GENP	Dec	461	349	*604*	*389*	+31%	+11%
Sarawak Oil Palms	SOP	Dec	370	259	*483*	*286*	+30%	+11%
Ta Ann Holdings	TAH	Dec	255	180	*309*	*199*	+21%	+10%
TSH Resources	TSH	Dec	164	110	*180*	*123*	+10%	+12%
Boustead Plant	BPLANT	Dec	203	95	*316*	*121*	+56%	+27%
TH Plantations	THP	Dec	94	40	*115*	*46*	+23%	+16%
Singapore listed			SGD 'm	SGD 'm	SGD 'm	SGD 'm		
First Resources	FR	Dec	204	168	*232*	*186*	+14%	+11%
			IDR 'b	IDR 'b	IDR 'b	IDR 'b		
Bumitama Agri	BAL	Dec	1,727	1,632	*1,990*	*1,784*	+15%	+9%

Source: Maybank IBG Research

Fig.2b: Target prices and stocks calls for plantation stocks under coverage

	BBG ticker	FYE	Stock call (Old)	Stock call (New)	Target price (Old)	Target price (New)	Valuation basis (Old)	Valuation basis (New)
Malaysia listed			**MYR**	**MYR**	**MYR**	**MYR**		
Sime Darby Plant	SDPL	Dec	Hold	Hold	*4.78*	*4.97*	0.45x RNAV-TP	unchanged
KL Kepong	KLK	Sept	Buy	Buy	*29.60*	*30.90*	22x FY23 PER	unchanged
IOI Corporation	IOI	June	Hold	Buy	*4.53*	*4.87*	22x CY23 PER	unchanged
Genting Plant	GENP	Dec	Hold	Hold	*8.95*	*9.52*	23x FY23 PER	22x FY23 PER on updated 8Y mean
Sarawak Oil Palms	SOP	Dec	Hold	Hold	*5.88*	*6.52*	13x FY23 PER	unchanged
Ta Ann Holdings	TAH	Dec	Buy	Hold	*5.32*	*5.87*	13x FY23 PER	unchanged
TSH Resources	TSH	Dec	Hold	Hold	*1.60*	*1.79*	20x FY23 PER	unchanged
Boustead Plant	BPLANT	Dec	Hold	Hold	*1.03*	*1.03*	RNAV-TP	unchanged
TH Plantations	THP	Dec	Sell	Sell	*0.71*	*0.73*	0.8x FY23 PBV	unchanged
Singapore listed			**SGD**	**SGD**	**SGD**	**SGD**		
First Resources	FR	Dec	Sell	Sell	*1.88*	*1.94*	13x FY23 PER	12x FY23 PER updated 5Y mean
Bumitama Agri	BAL	Dec	Buy	Buy	*0.98*	*0.98*	11x FY23 PER	10x FY23 PER on updated 5Y mean

Source: Maybank IBG Research

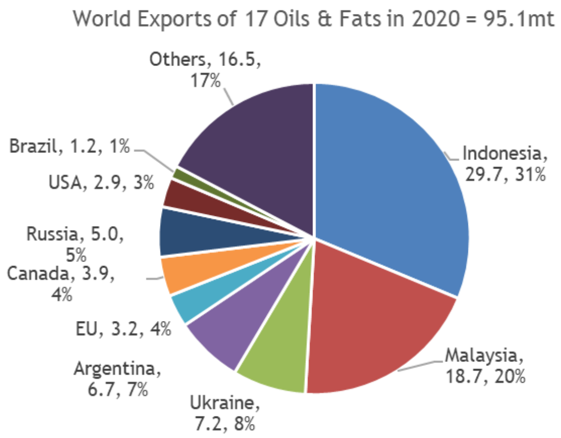
Fig.3: Indonesia's palm oil performance 2019-2022E

	2019	2020	2021	2022	%
Beginning Stock	3,261	4,596	4,867	4,131	
CPO Prod	47,180	47,034	46,888	48,035	2.45%
CPKO Prod	4,648	4,549	4,411	4,561	3.41%
Import	104	43	59	60	
Subtotal Supply	51,932	51,626	51,358	52,656	2.53%
Local Consumption					
- Food	9,860	8,428	8,954	8,991	0.41%
- Industry					
Oleochemicals	1,056	1,695	2,125	2,163	1.79%
Biodiesel	5,831	7,226	7,342	8,817	20.10%
Subtotal Domestic Demand	16,747	17,349	18,421	19,971	8.42%
Export					
Crude	7,399	7,171	2,482	913	-63.20%
Refined	23,677	21,120	25,481	23,596	-7.40%
Lauric	2,047	1,813	1,509	1,290	-14.51%
Biodiesel	1,090	32	167	63	-62.06%
Oleochemicals	3,218	3,871	4,036	3,947	-2.21%
Subtotal Export Demand	37,430	34,007	33,674	29,809	-11.48%
Subtotal Demand	54,177	51,357	52,094	49,780	-4.44%
End Stock	4,596	4,867	4,131	7,007	

POC2022

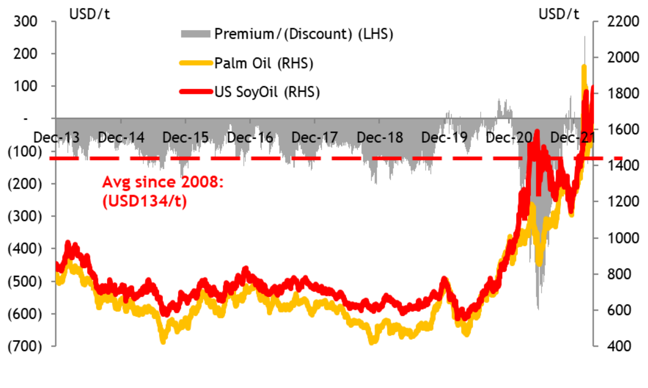
Sources: GAPKI (POC2022)

Fig.4: World Exporters of 17 Oils & Fats



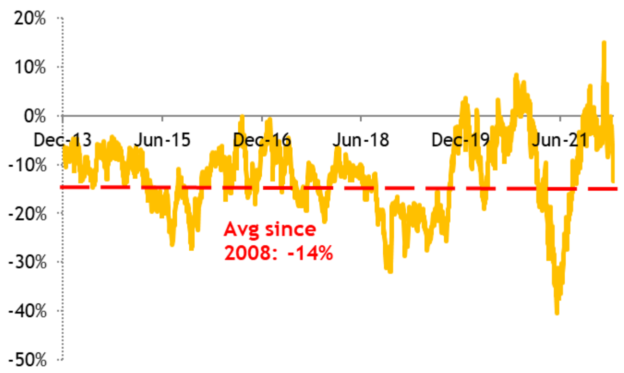
Sources: MPOB, Oil World

Fig.5a: 1M palm oil price discount to US soybean oil at USD247/t (22 Apr 2022)



Source: Bloomberg

Fig.5b: 1M palm oil price discount (in %) to US soybean oil at 13% (22 Apr 2022)



Source: Bloomberg

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 USD150/barrel; (iii) Weather anomalies at major palm oil and oilseeds producing regions persist into 2022; (iv) Unfriendly government policies at producing or exporting countries; and (v) the Russia-Ukraine war extends into 2H22.

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 on demand destruction; and (vi) Weaker competing oil prices (like soybean and rapeseed).

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