Plantations

Regional

Maybank

Regional Plantations

NEUTRAL *[Unchanged]*

Sharp drop in CPO price is always disruptive

Watch out for default or deferment of deliveries

The recent sharp decline in CPO price can be rather disruptive to business. There is also rising risk of default by buyers, or buyers seeking to defer some shipments of higher priced palm oil locked in earlier. Positively, the current CPO ASP is still above the industry's average operating cost of production estimated for FY22E at <MYR2,500/t. But the situation in Indonesia is worrisome (although temporary) as domestic net CPO ASP was last quoted at IDR8,000/kg (or MYR2,374/t on 24 June). We maintain our NEUTRAL call on the sector. Preferred BUYs: KLK, IOI and BAL.

ID's domestic CPO price approaching 2-year low

1M FCPO price fell -16% WoW to MYR4,798/t last Friday (-27% MTD-to-24 June or -MYR1,809/t). 1M FCPO has given back almost all of this year's CPO price gain. 1M FCPO has fallen 41% since hitting a high of MYR8,163/t on 1 Mar. Positively, the price gaps between CPO and other vegetable oils (namely soybean oil and rapeseed oil) have remained wide, lending some support to CPO price - see Figs.1-4. While CPO price is attractive relative to peers, the recent sharp decline in CPO price can be disruptive to business as buyers may adopt a wait-and-see attitude hoping to catch even lower prices considering Indonesia's tanks are presently "overflowing". The situation in Indonesia (ID) seems dire judging from the recent sharp decline in domestic CPO price that hit record ~2-year low (Fig.5). Last quoted price of MYR2,374/t (-14% YoY) is 40% below the price at the start of the year in Indonesia, and at ~MYR2,421/t discount to Malaysian CPO price. But we reckon this is temporary as domestic price should recover quickly as soon as Indonesia's stockpile normalizes.

POGO spread now favourable for discretionary

The recent drop in CPO price has rendered discretionary palm biodiesel viable again as the POGO (ie palm oil -gas oil) spread is now favourable. 1M FCPO now trades at a USD212/t discount to gas oil price - Fig.6. The last time POGO spread was favourable was back in 2018-19. Nonetheless, it remains to be seen if this spread can be sustained long enough to help stimulate the palm biodiesel demand in a meaningful way in the coming weeks.

ID's CPO price fast approaching cost of production

The industry's average all-in operating cost of production (to customer) for FY21 is estimated at ~MYR1,900/t (Fig.7). Even after factoring higher fertilizer cost pressures in FY22E, we estimate the industry's operating cost to be less than MYR2,500/t. Given current global CPO price of above MYR4,000/t, there are still good margins to be made but mostly for Malaysia-based growers as Indonesia-based growers are presently hurt by the burdensome export taxes (and domestic market obligation) and slow issuance of export permits. The latest transacted price of IDR8,000/kg (or MYR2,374/t on 24 June) is fast approaching breakeven costs of some companies. Nonetheless, we believe Indonesia's low net CPO prices is temporary. Under normal circumstances, the net CPO price in Indonesia would have been ~MYR1,000/t higher than current level.

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Regional CPO price forecast

	2022F	2023F
	MYR/t	MYR/t
Full year avg (FOB)	5,000	3,400
MDEX / MPOB prices:		
3M CPO price (27 June)	4,922	
YTD (27 June) 3M CPO ASP	5,884	
YTD (27 June) spot CPO ASP	6,353	

Plantation stocks mentioned on cover page

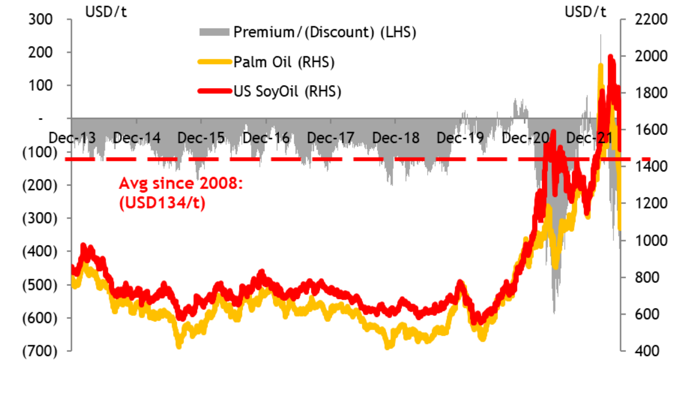
Company	BBG ticker	Rec	Shr px	Tgt px
MY listed			LCY	LCY
KL Kepong	KLK	Buy	22.36	30.90
IOI Corp	IOI	Buy	3.78	4.87
SG listed				
Bumitama	BAL	Buy	0.65	0.98

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
FFB - Fresh fruit bunches
ID - Indonesia/ Indonesian
LCY - Local currency
mt - million tonnes
MTD - Month-to-date
MY - Malaysia/ Malaysian
PO - Palm Oil
t - tonne
WoW - Week-on-week

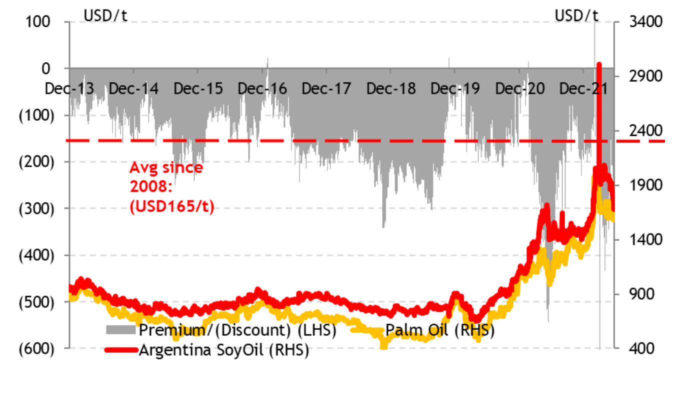
Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							22E	23E	22E	23E	22E	23E
Sime Darby Plant	SDPL MK	6,752	Hold	4.30	4.97	20	10.5	17.2	1.8	1.7	5.7	3.5
KL Kepong	KLK MK	5,488	Buy	22.36	30.90	42	10.9	15.9	1.9	1.8	4.9	3.8
IOI Corp	IOI MK	5,394	Buy	3.78	4.87	32	14.6	16.3	2.2	2.1	4.1	3.7
First Resources	FR SP	1,992	Sell	1.74	1.94	16	8.5	10.6	1.5	1.4	5.9	4.7
Genting Plant	GENP MK	1,320	Hold	6.48	8.40	34	10.2	16.2	1.1	1.1	5.9	3.7
Bumitama Agri	BAL SP	819	Buy	0.65	0.98	57	6.0	6.7	1.0	1.0	6.7	6.0
Swk Oil Palms	SOP MK	553	Hold	4.18	6.52	59	4.9	8.3	0.7	0.7	4.0	3.6
Ta Ann	TAH MK	427	Hold	4.23	5.87	46	6.0	9.4	1.1	1.0	9.9	6.4
Boustead Plant	BPLANT MK	420	Hold	0.83	1.03	38	5.8	15.3	0.6	0.6	17.1	3.9
TSH Resources	TSH MK	348	Hold	1.11	1.43	33	8.7	12.4	0.8	0.8	5.5	2.4
TH Plantations	THP MK	123	Sell	0.62	0.73	19	4.7	11.7	0.7	0.7	0.0	0.0

Fig.1: 1M palm oil price discount to US soybean oil at USD448/t (24 June 2022)



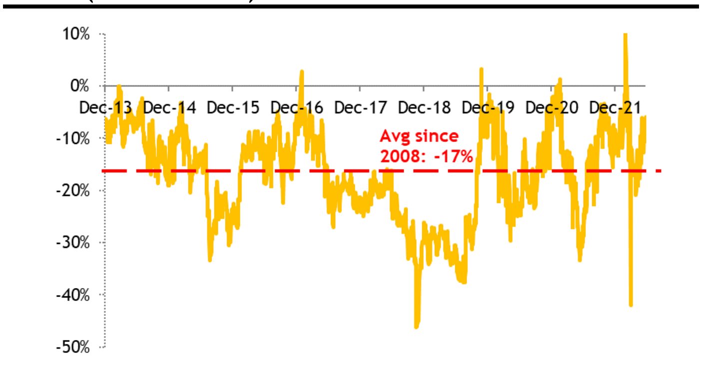
Source: Bloomberg

Fig.2: Rotterdam Palm Oil CIF price discount to Argentina Soybean Oil at USD101/t (24 June 2022)



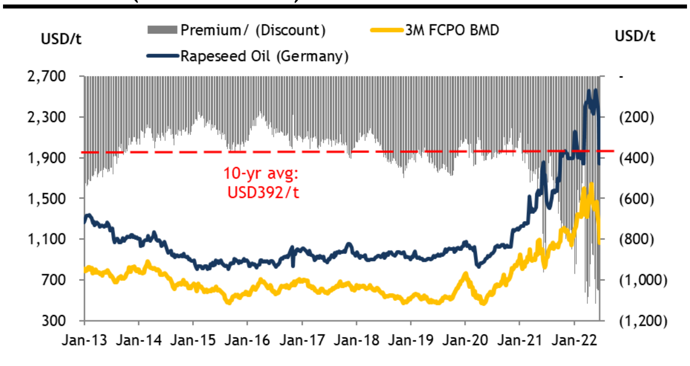
Source: Bloomberg

Fig.3: Palm oil price discount (in %) to Argentina soybean oil at 6% (24 June 2022)



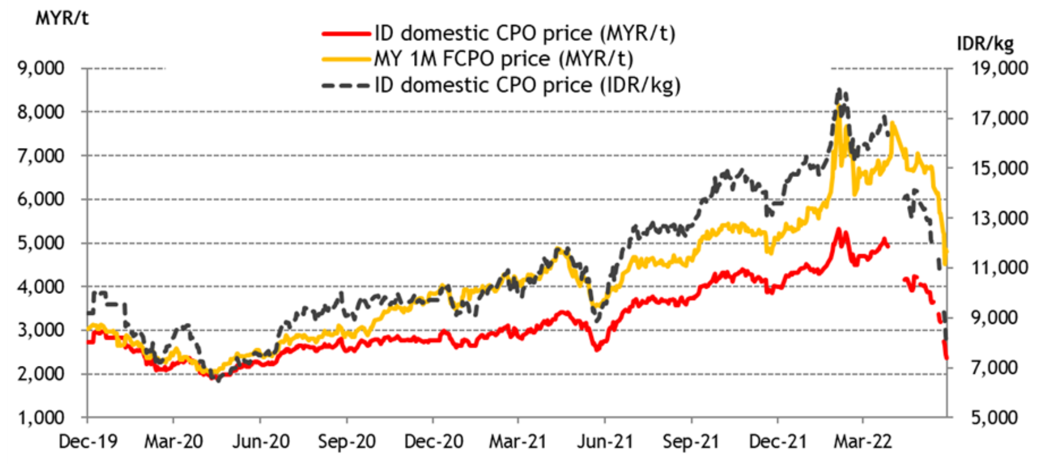
Source: Bloomberg

Fig.4: Palm Oil price premium to Germany rapeseed oil at USD781/t (24 June 2022)



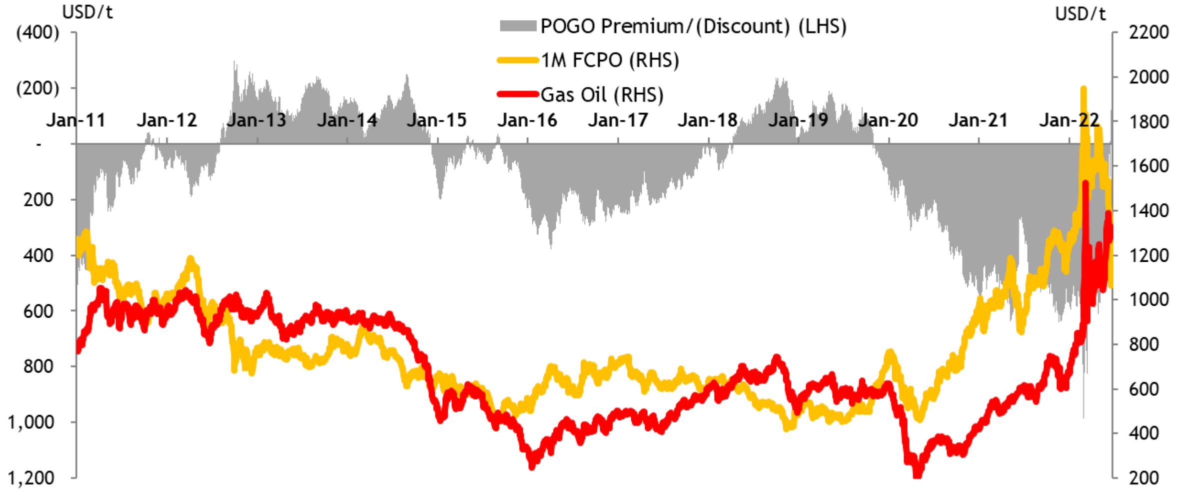
Source: Bloomberg (quoted weekly)

Fig. 5: Domestic CPO spot prices in Malaysia and Indonesia (converted from IDR into MYR per tonne)



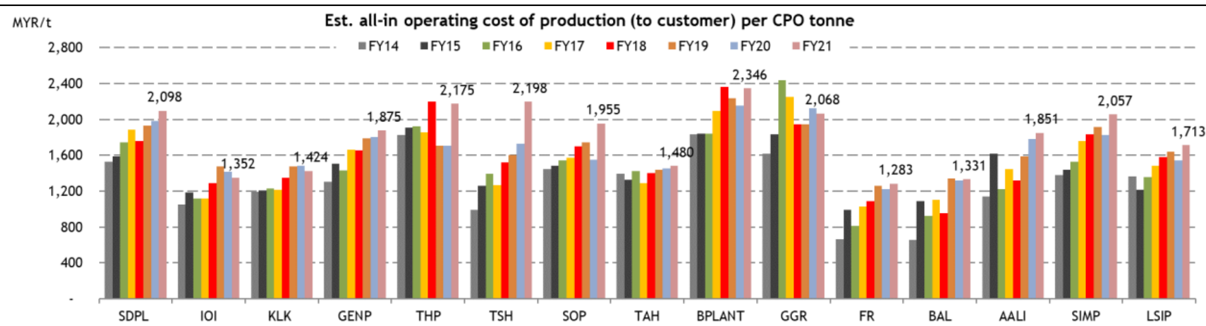
Source: Bloomberg, GAPKI

Fig. 6: Palm Oil-Gas Oil (POGO) is favourable with palm oil trading at USD212/t (24 June) discount to gas oil



Source: Bloomberg

Fig. 7: Estimated all-in operating cost of production (to customer) per CPO tonne



Sources: Company, MIBG estimates

Fig.8: Geographical exposure (by oil palm planted area)

Company	Malaysia (%)	Indonesia (%)	Others (%)	Remarks
SDPL MK - Sime Darby Plantation	51	33	16	Has integrated operations in ID
IOI MK - IOI Corporation	88	12	-	
KLK MK - KL Kepong	43	55	2	Has integrated operations in ID
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	-	Has integrated operations in ID
BAL SP – Bumitama Agri	-	100	-	

Source: Companies

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 persisting into 2022; (iv) Unfriendly government policies at producing or exporting countries; and (v) the Russia-Ukraine war extending 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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