

Regional Plantations

NEUTRAL

[Unchanged]

Desperate situation requires immediate adaptation

A normalization of inventory still 2 months away

The Indonesian (ID) government announced a USD200/t export levy waiver with immediate effect till end-August in its bid to stimulate exports given bloated domestic inventories. While a step in the right direction (as we suggested last week), we maintain our view that it may still take at least 2 months for inventories to normalize as ID is now entering its seasonal peak production cycle in 2H. Nonetheless, the price gap between MY and ID has quickly narrowed last Thursday to reflect ID's revised export taxes. Stay NEUTRAL. Our preferred BUYs are IOI and KLK.

USD288/t export duty remains despite levy waiver

Just as we [highlighted last week in our report](#) on the need to cut export taxes to help boost exports, the Indonesian (ID) government announced over the weekend a waiver of its palm oil export levy with effect from 15 July till the end of August. The export levy is now cut to zero for CPO (as well as other palm oil products) from USD200/t starting 15 July (see Figs.2-3). The export levy, which is payable to the Indonesia Oil Palm Plantations Fund Management (ie CPO Fund that is used to fund its biodiesel mandate and replanting programme) will return to USD240/t by 1 September if CPO price exceeds USD1,500/t. In the meantime, it is important to note that export duty remains in force (see Fig.1) which is at USD288/t for the month of July. Nonetheless, with the export levy waiver, the total export taxes have been immediately reduced by USD200/t (from USD488/t) to USD288/t (see Fig.3).

Going all out to boost exports and demand

The ID government is going all out to boost demand and exports of palm oil to address its bloated stockpile (estimated to be >8.5mt as at end-June vs normal stockpile of 3mt-4mt). Recall that the ID government has also lifted its domestics vs. export ratio to 1:7 from 1:5 effective 1 July. Under the changes, exporters can now export palm oil at a rate of seven times their domestic sales (ie. the so-called DMO or domestic market obligation). Additionally, the ID government plans to implement B35 biodiesel blend (from B30) starting 20 July. According to senior energy ministry official Dadan Kusdiana, the higher mandate could create additional demand for 0.73m KL of palm biodiesel this year, bringing the full year KL consumption to 10.88m. This translates to additional 0.15mt of CPO usage a month by our estimate.

MY-ID price gap has mirrored revised export taxes

Last Friday, BMD's 1M FCPO fell 14% WoW to MYR3,560/t. In sharp contrast, the domestic CPO price in ID actually rose 10% WoW to close at IDR8,000/kg (or MYR2,374/t equivalent; Fig.4) on 14 July (being the last reported domestic price) as market talk surfaced of an imminent export levy cut. With the export levy waiver, the price gap between MY and ID has narrowed to MYR1,269/t on 14 July (Fig.5) vs MYR2,138/t a week earlier. The MYR1,269/t (or USD285/t) price gap almost mirrors the USD288/t applicable export taxes effective 15 July. All eyes will now be on the weather condition and crop development in the Northern Hemisphere, and refreshed guidance by the US Fed later this month with regards the trajectory of rising US interest rates, for new price direction.

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Regional CPO price forecast

	2022E	2023E
	MYR/t	MYR/t
Full year avg (FOB)	5,000	3,400
MDEX / MPOB prices:		
3M CPO price (15 July)	3,630	
YTD (15 July) 3M CPO ASP	5,765	
YTD (15 July) spot CPO ASP	6,173	

Plantation stocks mentioned on cover page

Company	BBG ticker	Rec	Shr px	Tgt px
MY listed			LCY	LCY
KL Kepong	KLK	Buy	20.76	28.10
IOI Corp	IOI	Buy	3.89	4.21

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
KL - kiloliters
LCY - Local currency
mt - million tonnes
MY - Malaysia/ Malaysian
PO - Palm Oil
t - tonnes
WoW - Week-on-week

Related report: [12 July - Indonesia taking measures to lift demand and exports](#)

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	6,342	Hold	4.08	4.42	14	9.9	16.3	1.7	1.7	6.0	3.7
IOI Corp	IOI MK	5,495	Buy	3.89	4.21	12	15.0	16.8	2.3	2.2	4.0	3.6
KL Kepong	KLK MK	5,044	Buy	20.76	28.10	40	10.1	14.8	1.7	1.7	5.3	4.1
First Resources	FR SP	1,561	Hold	1.38	1.62	24	6.7	8.3	1.2	1.1	7.5	6.0
Genting Plant	GENP MK	1,301	Hold	6.45	6.40	5	10.1	16.1	1.1	1.0	5.9	3.7
Bumitama Agri	BAL SP	697	Buy	0.56	0.78	47	5.2	5.8	0.9	0.8	7.7	6.9
Swk Oil Palms	SOP MK	502	Hold	2.51	2.67	13	4.5	7.5	0.7	0.6	4.5	4.0
Boustead Plant	BPLANT MK	368	Hold	0.73	0.87	23	5.2	13.6	0.5	0.5	19.3	4.4
Ta Ann	TAH MK	343	Hold	3.43	4.06	29	4.9	7.6	0.9	0.8	12.3	7.9
TSH Resources	TSH MK	298	Hold	0.96	0.98	8	7.5	10.8	0.7	0.7	6.3	2.8
TH Plantations	THP MK	103	Sell	0.52	0.55	6	4.0	9.9	0.6	0.6	0.0	0.0

Fig 1: Indonesia's Export Duty (effective 10 June 2022)

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- 1300	1301- 1350	1351- 1400	1401- 1450	1451- 1500	>1500
Per tonne	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
CPO	0	3	18	33	52	74	124	148	178	201	220	240	250	260	270	280	288
RBD Palm Olein	0	0	0	2	12	26	71	88	104	118	137	140	150	160	170	180	192
RBD Palm Oil	0	0	0	0	5	17	61	76	91	105	118	110	118	126	134	142	151
Biodiesel	0	0	0	0	0	0	32	35	37	71	73	77	82	88	93	98	105

Source: Indonesia's Ministers Decree No 136 / PMK. 010/ 2015; & No 98 / PMK. 010/2022

Fig 2: Indonesia's Export Levy (effective 15 July 2022 to 31 Aug 2022)

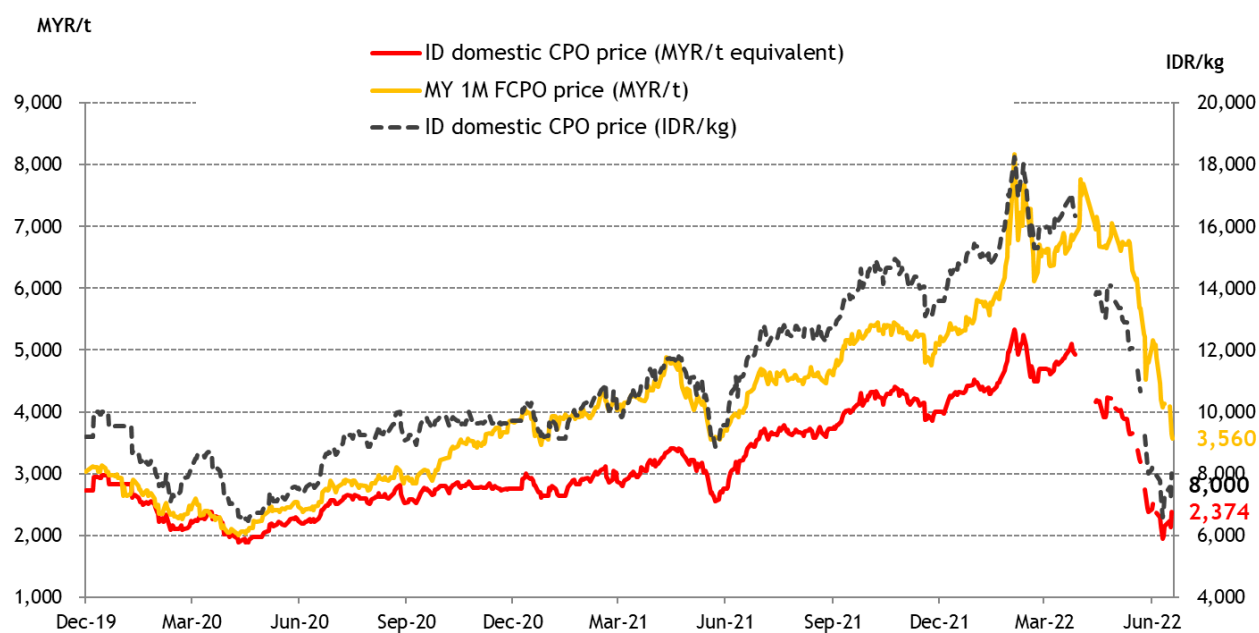
Palm oil (Ministry of Trade Reference Price)	<750	751- 800	801- 850	851- 900	901- 950	951- 1000	1001- 1050	1051- 1100	1100- 1150	1151- 1200	1021- 1250	1251- 1300	1301- 1350	1351- 1400	1401- 1450	1451- 1500	>1500
Per tonne	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
New																	
CPO	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
RBD Palm Olein	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
RBD Palm Oil	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Biodiesel	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Old																	
CPO	55	75	95	115	135	145	150	155	160	165	170	175	180	185	190	195	200
RBD Palm Olein	35	51	67	83	99	105	110	115	120	125	130	135	140	145	150	155	160
RBD Palm Oil	38	54	70	86	102	108	113	118	123	128	133	138	143	148	153	158	163
Biodiesel	25	41	57	73	89	95	100	105	110	115	120	125	130	135	140	145	150

Source: Indonesia's Ministers Decree No 76/ PMK. 05/ 2021, & No 23/ PMK.05/ 2022, & No 103/PMK.05/2022, & 115/PMK.05/2022

Fig 3: Indonesia's combined export taxes (Fig 1+ Fig 2) - effective 15 July 2022

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- 1300	1301- 1350	1351- 1400	1401- 1450	1451- 1500	>1500
Per tonne	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
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RBD Palm Olein	0	0	0	2	12	26	71	88	104	118	137	140	150	160	170	180	192
RBD Palm Oil	0	0	0	0	5	17	61	76	91	105	118	110	118	126	134	142	151
Biodiesel	0	0	0	0	0	0	32	35	37	71	73	77	82	88	93	98	105
Old																	
CPO	55	78	113	148	187	219	274	303	338	366	390	415	430	445	460	475	488
RBD Palm Olein	35	51	67	85	111	131	181	203	224	243	267	275	290	305	320	335	352
RBD Palm Oil	38	54	70	86	107	125	174	194	214	233	251	248	261	274	287	300	314
Biodiesel	25	41	57	73	89	95	132	140	147	186	193	202	212	223	233	243	255

Source: Indonesia's Ministers Decree

Fig.4: Domestic CPO spot prices in Malaysia and Indonesia (converted from IDR into MYR per tonne)


Source: Bloomberg, GAPKI (latest published prices as at 14 July while BMD's 1M FCPO was based on 15 July's closing)

Fig.5: Indonesia's CPO price discount to Malaysia (in MYR per tonne)


Source: Bloomberg, GAPKI, Maybank IBG Research

Fig.6: Geographical exposure (by oil palm planted area) for stocks under coverage

Company	Malaysia (%)	Indonesia (%)	Others (%)	Remarks
SDPL MK - Sime Darby Plantation	51	33	16	Integrated player
IOI MK - IOI Corporation	88	12	-	Integrated player
KLK MK - KL Kepong	43	55	2	Integrated player
GENP MK - Genting Plantations	41	59	-	Integrated player
THP MK - TH Plantations	97	3	-	
SOP MK - Sarawak Oil Palms	100	-	-	Integrated player
TAH MK - Ta Ann Holdings	100	-	-	
TSH MK - TSH Resources	15	85	-	
BPLANT MK -Boustead Plantations	100	-	-	
FR SP - First Resources	-	100	-	Integrated player
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 2H22; (ii) Brent crude oil price inches closer to USD150/barrel; (iii) Weather anomalies at major palm oil and oilseeds producing regions persisting into 2H22; (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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