

Regional Plantations

NEUTRAL

 [Unchanged]

MPOB stockpile on seasonal build-up mode

CPO price should gravitate higher towards year-end

MPOB's Sept stockpile hit a 35-month high at 2.32mt as seasonally strong output continues to outpace exports and domestic consumption. CPO price downside is presently buffered by the huge price gaps relative to other vegetable oils. The gap is needed to boost demand and flush out Indonesia's bloated stockpile amid this peak cropping season. We believe CPO price will trade sideways for now and will make a gradual recovery towards year end. Stay NEUTRAL. Preferred BUYS: KLK, FR, BAL.

Stockpile hits 35-month high

September's MPOB stockpile rose to 2.32mt (+11% MoM, +32% YoY), slightly above street estimates of 2.26mt. Stockpile accumulated on seasonal recovery in palm oil output (1.77mt; +3% MoM, +4% YoY) while exports growth lagged (1.42mt; +9% MoM, -12% YoY) and domestic consumption was relatively weak (0.26mt; -5% MoM, -9% YoY) - see Fig.1. Imports remained relatively high (0.13mt; -23% MoM, +76% YoY) despite growing domestic output, signifying palm oil prices from Indonesia origin remained competitive vis-a-vis Malaysia origin. On exports, higher MoM exports were recorded to all key destinations except Bangladesh, EU, India, Pakistan and Philippines (see Fig.2).

MPOB's CPO ASP for the month of September slipped to its lowest point this year at MYR3,737/t (-10% MoM, -18% YoY). As for its by-product PK, ASP recovered marginally to MYR2,469/t (+1% MoM, -5% YoY).

October stockpile will likely trend higher still

The preliminary MY export estimates for shipments in the first 10 days of Oct 2022 by Amspec and Intertek (independent cargo surveyors) were mixed at 373,030t/350,767t (+1%/-13% MoM) respectively. While still early days, exports need to pick up stronger for the month of October to prevent further build-up of stockpile by month-end.

It all boils down to year-end weather

CPO price currently trades at more than USD500/t discounts to US soyoil, Argentina soyoil and Germany rapeseed oil (Figs.9-12). The price gaps are justified given the large palm oil stockpile in this region amid peak output cycle. CPO price is even trading at huge discounts to gas oil price (Fig.8). However, we believe CPO price should recover somewhat and narrow its gap by year end as the market looks forward into 1Q23's anticipated seasonally low output cycle. On 11 Oct 2022, the Australia Bureau of Meteorology (ABM) reiterated its view that La Nina is likely to persist into early 2023, and negative Indian Ocean Dipole (IOD) event will also continue until end of the year. The combination of La Nina and negative IOD are likely to bring above average rainfall to Malaysia (and the region), prompting Malaysia's Meteorology Department to warn of possible flood risk for parts of Peninsular Malaysia in November / December 2022 which in turn may disrupt palm oil supply (Figs.20-21). Across the globe, La Nina could also impact South America's ongoing planting and eventual harvest in 1Q23. The market is presently anticipating a large harvest from South America on the assumption of a normalized weather.

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Regional CPO price forecast

	2022E	2023E
	MYR/t	MYR/t
Full year avg (FOB)	5,000	3,400
<u>MDEX / MPOB prices:</u>		
3M CPO price (11 Oct)	3,692	
YTD (11 Oct) 3M CPO ASP	5,155	
YTD (11 Oct) spot CPO ASP	5,443	

Plantation stocks mentioned on cover page

Company	BBG ticker	Rec	Shr px	Tgt px
			LCY	LCY
<u>MY listed</u>				
KL Kepong	KLK	Buy	19.80	28.10
<u>SG listed</u>				
First Res.	FR	Buy	1.35	1.62
Bumitama Agri	BAL	Buy	0.56	0.88

Source: Maybank IBG Research

Terms used in this note:

ASP - Average Selling Price
CPO - Crude Palm Oil
ID - Indonesia/ Indonesian
LCY - Local currency
mt - million tonnes
MoM - Month-on-Month
MPOB - Malaysian Palm Oil Board
MY - Malaysia/ Malaysian
PK - Palm kernel
PO - Palm Oil
t - tonnes
YoY - Year-on-Year

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	5,949	Hold	4.02	4.42	15	11.1	16.0	1.7	1.6	6.0	3.7
IOI Corp	IOI MK	4,950	Hold	3.68	4.21	18	13.8	16.0	2.2	2.0	3.6	3.7
KL Kepong	KLK MK	4,580	Buy	19.80	28.10	47	9.7	14.1	1.7	1.6	5.5	4.3
First Resources	FR SP	1,487	Buy	1.35	1.62	27	6.4	7.9	1.1	1.1	7.9	6.3
Genting Plant	GENP MK	1,072	Hold	5.58	6.40	21	8.8	14.0	0.9	0.9	6.8	4.3
Bumitama Agri	BAL SP	678	Buy	0.56	0.88	68	3.7	5.0	0.9	0.8	10.9	8.0
Swk Oil Palms	SOP MK	446	Hold	2.34	2.67	18	4.2	7.0	0.6	0.6	4.8	4.3
Ta Ann	TAH MK	319	Buy	3.35	4.06	32	4.8	7.4	0.9	0.8	12.6	8.1
Boustead Plant	BPLANT MK	295	Buy	0.62	0.87	46	4.7	11.4	0.5	0.4	21.3	5.3
TSH Resources	TSH MK	272	Hold	0.92	0.98	12	7.2	10.3	0.7	0.7	6.6	2.9
TH Plantations	THP MK	76	Hold	0.40	0.55	40	4.7	7.8	0.5	0.5	3.8	0.0

Fig 1: Malaysia's Monthly Palm Oil Statistics for July - Sept 2022

	July 22 (t)	Aug 22 (t)	Sept 22 (t)	MoM chg (%)	YoY chg (%)	9M22 (t)	YoY chg (%)
Production	1,573,560	1,725,781	1,770,441	3	4	13,340,219	0
Imports	130,615	172,151	132,303	(23)	76	937,013	1
Consumption	251,860	276,139	261,712	(5)	(9)	2,349,873	(5)
Exports	1,325,342	1,299,930	1,420,235	9	(12)	11,226,489	(0)
Closing stock	1,772,804	2,094,667	2,315,464	11	32	2,315,464	32

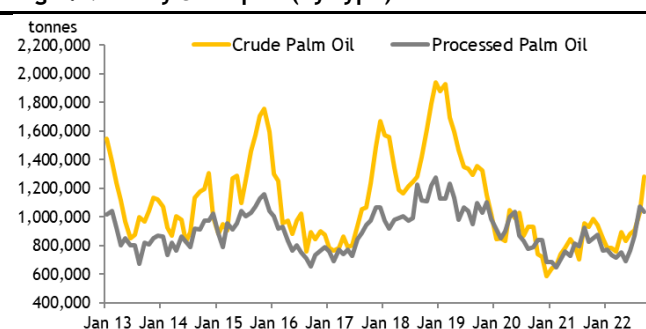
Source: MPOB

Fig 2: Malaysia's Monthly Export Destinations for July - Sept 2022

	July 22 (t)	Aug 22 (t)	Sept 22 (t)	MoM chg (%)	YoY chg (%)	9M22 (t)	YoY chg (%)
Bangladesh	15,968	14,176	1,586	(89)	(51)	164,752	114
China	55,325	126,657	264,089	109	13	1,011,914	(21)
EU	74,534	130,353	83,386	(36)	(39)	1,066,872	(12)
India	257,860	234,112	185,061	(21)	(50)	2,070,636	(17)
Pakistan	35,769	51,444	31,489	(39)	(52)	356,285	(25)
Philippines	85,332	49,924	39,732	(20)	(43)	515,339	13
Turkey	104,358	55,141	82,355	49	44	678,433	38
USA	28,319	9,818	9,818	0	(68)	119,687	(45)
Vietnam	14,871	25,286	26,133	3	(29)	244,281	3
Others	653,006	603,019	696,586	16	15	4,998,290	16
Total	1,325,342	1,299,930	1,420,235	9	(12)	11,226,489	(0)

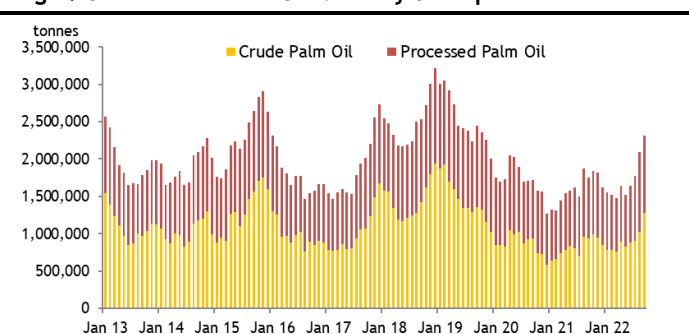
Source: MPOB

Fig 3: Monthly Stockpile (by type)



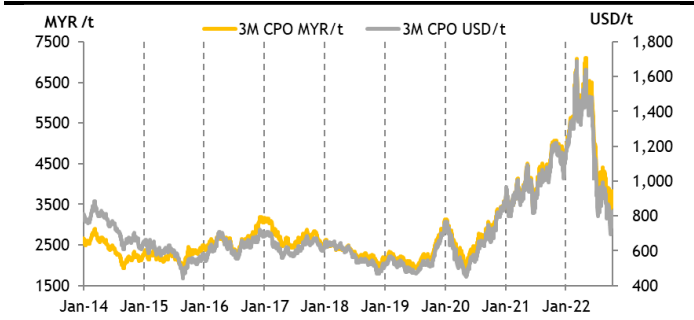
Source: MPOB

Fig 4: Cumulative Palm Oil Monthly Stockpile



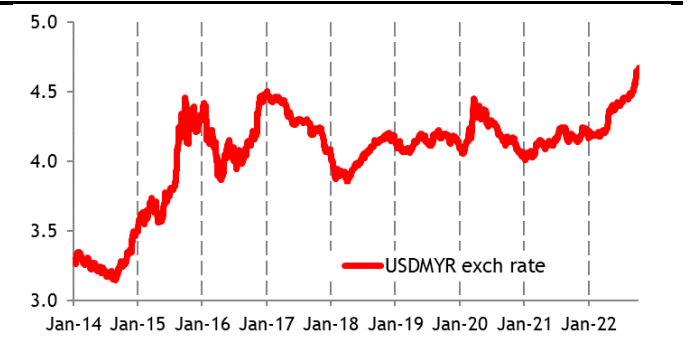
Source: MPOB

Fig 5: CPO price (in USD and MYR)



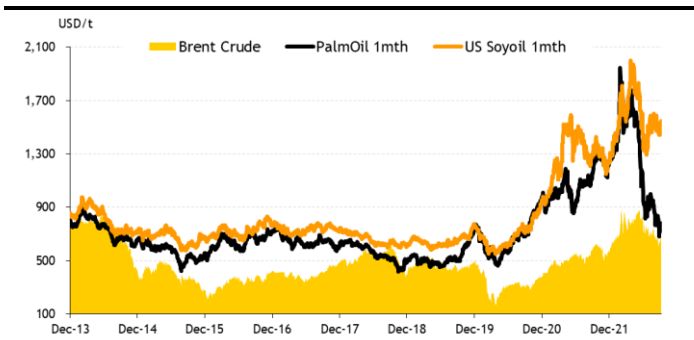
Source: Bloomberg

Fig 6: MYR per USD exchange rate



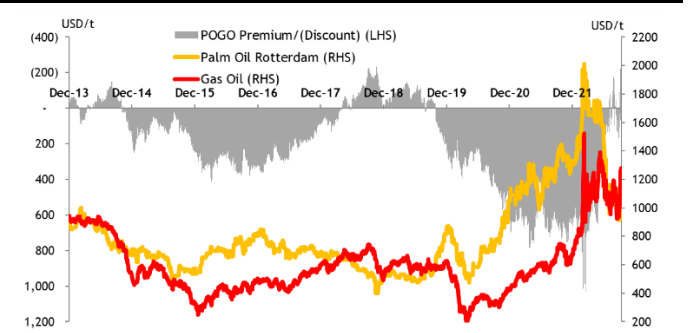
Source: Bloomberg

Fig 7: Soyoil and palm oil vs crude oil price



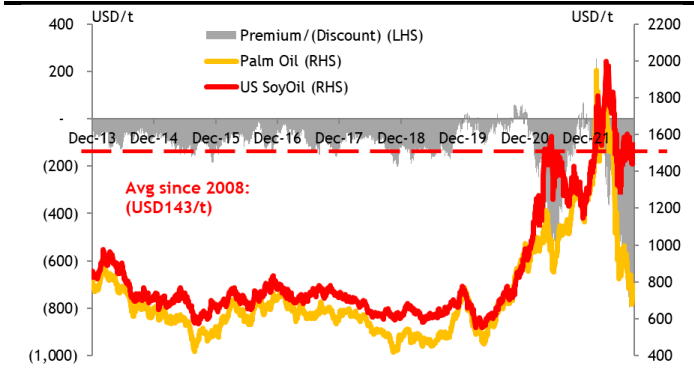
Source: Bloomberg

Fig 8: Palm Oil-Gas Oil (POGO) is favourable with palm oil trading at USD314/t (10 Oct) discount to gas oil



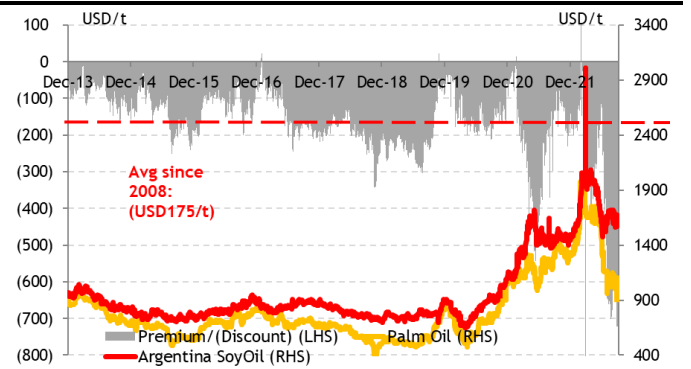
Source: Bloomberg

Fig.9: 1M palm oil price discount to US soybean oil at USD752/t (10 Oct)



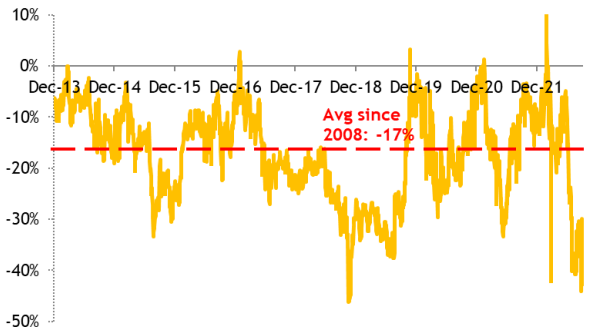
Source: Bloomberg

Fig.10: Rotterdam Palm Oil CIF price discount to Argentina Soybean Oil at USD675/t (10 Oct)



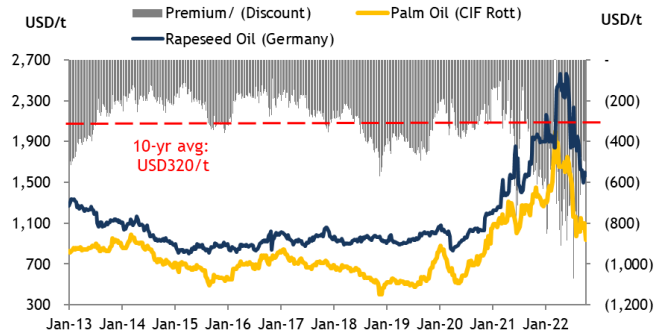
Source: Bloomberg

Fig. 11: Palm oil price discount (in %) to Argentina soybean oil at 33% (10 Oct 2022)



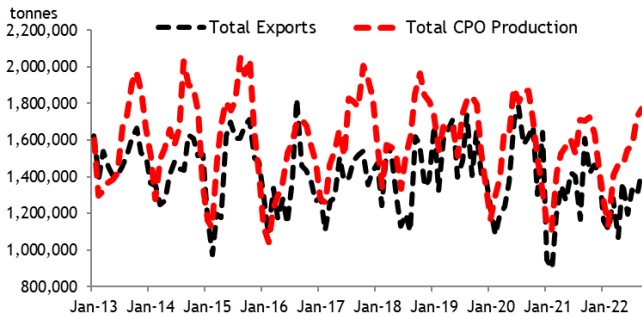
Source: Bloomberg

Fig. 12: Palm Oil (CIF Rotterdam) price trades at USD628/t (10 Oct 2022) discount to Germany rapeseed oil



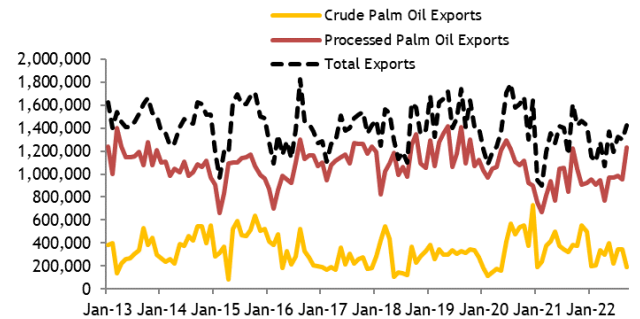
Source: Bloomberg (quoted weekly)

Fig. 13: Malaysia's Monthly Export vs Production (by tonnes)



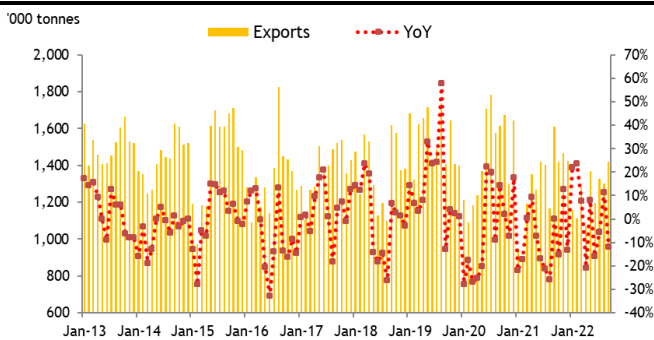
Source: MPOB

Fig. 14: Monthly Export of Palm Oil Products (by tonnes)



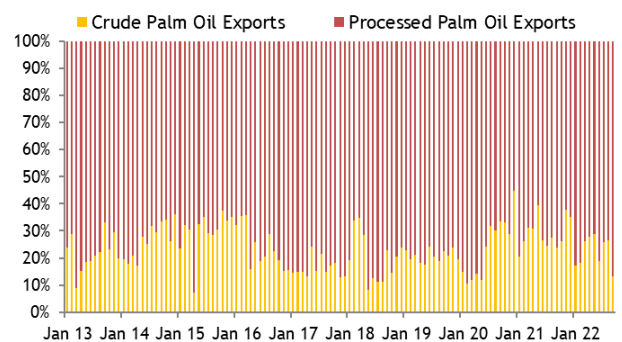
Source: MPOB

Fig. 15: Monthly Export Trend of Palm Oil (by tonnes)



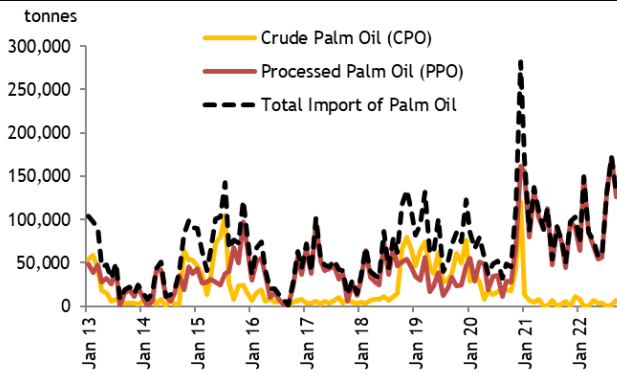
Source: MPOB

Fig. 16: Monthly Export of Palm Oil Products (by %)



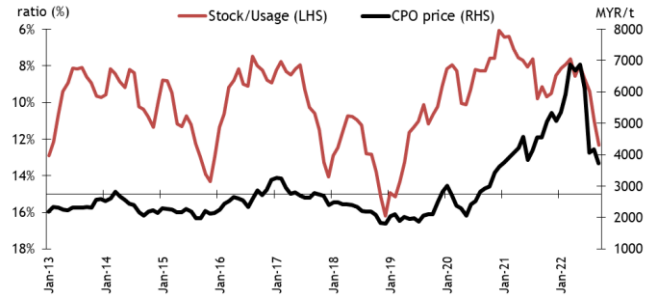
Source: MPOB

Fig 17: Import trend of Palm Oil Products (by tonnes)



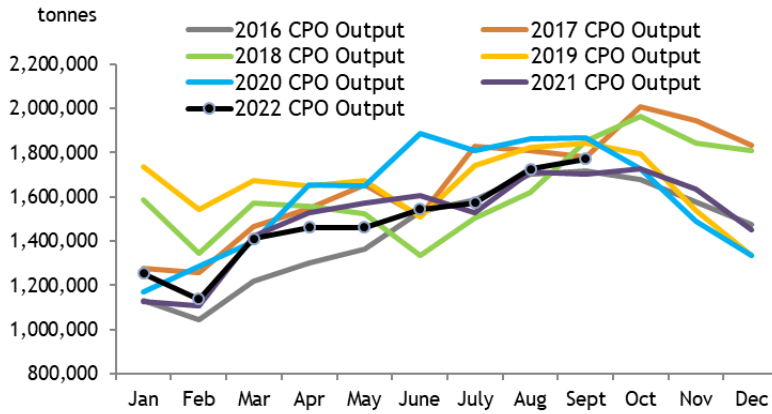
Source: MPOB

Fig 18: Monthly Stock-to-Usage Ratio vs. CPO prices



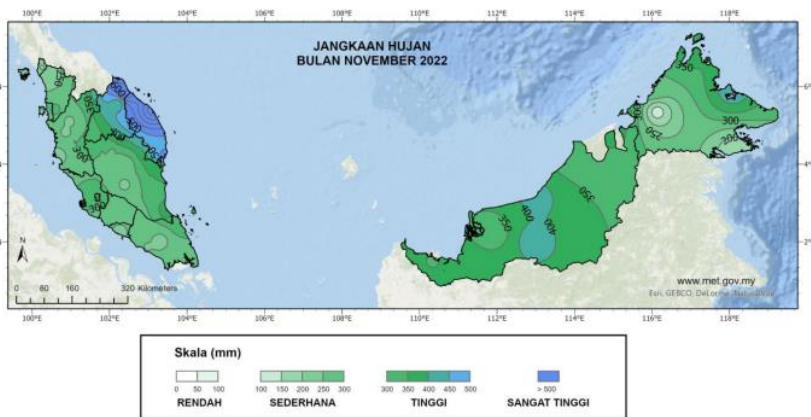
Source: MPOB, Maybank IBG Research

Fig 19: Malaysia's CPO production output

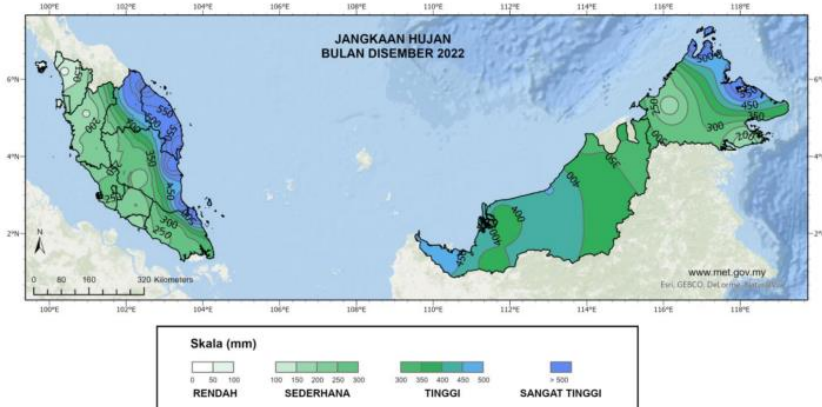


Source: MPOB

Fig 20: Long range weather outlook (rainfall forecast for Nov 2022)



Source: Malaysian Meteorological Department

Fig 21: Long range weather outlook (rainfall forecast for Dec 2022)


Source: Malaysian Meteorological Department

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 4Q22; (ii) Brent crude oil price inches closer to USD150/barrel; (iii) Weather anomalies at major palm oil and oilseeds producing regions persisting into 4Q22; (iv) Unfriendly government policies at producing or exporting countries; and (v) the Russia-Ukraine war extending into 2023.

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 4Q22 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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