

Regional Plantations

NEUTRAL

[Unchanged]

MPOB's 2022 report card and 2023 outlook

Remain NEUTRAL on the sector

Record high CPO ASP (MYR5,088/t, +15% YoY) in 2022 more than compensated for the industry's low productivity as MY's palm oil export revenue grew 24% YoY to c.MYR135b. MY's oil palm sector is saddled with a few ongoing structural issues such as declining yield trend, declining planted area, and MY's PO losing price competitiveness vis-à-vis ID due to the latter's export tax structure. Our preferred BUYs are KLK, FR, & BAL.

MY's CPO yield of 3.05t/ha at a 24-year low

In 2022, MY's CPO yield contracted 1% YoY to 3.05t/ha while FFB yield was a tad higher at 15.49t/ha (+0.1% YoY) - Fig.1. CPO yield was the lowest in 24 years, likely due to severe labour shortage and ageing tree profile. The last time yield was this low was back in 1998 due to the severe drought unleashed by the super El Nino of 1997-98. Overall, 2022's CPO output was slightly higher at 18.45mt (+1.9% YoY) as output and yields picked up towards end-2022 owing to a gradual return of foreign workers.

Structural issues that need to be addressed

While worker shortage is expected to normalize by 2Q23, MY's oil palm sector has other structural issues to contend with: (1) declining planted area, (2) lack of price competitiveness vis-à-vis ID, and (3) declining yield (see above).

On point (1), MY's oil palm planted area has fallen by another 0.063m ha in 2022 to 5.67m ha, its 3rd consecutive year of decline (Figs.2-3). Pen. Malaysia (-0.063m ha) and Sabah (-0.016m ha) led the fall while Sarawak bucked the trend with a small expansion (+0.016m ha). Cumulatively, MY lost 0.225m ha in planted area between 2020 and 2022. We offer a few possible explanations: (i) conversion of land to other agricultural crops in part due to oil palm diseases, lack of workers, lack of interest by the younger generation, ESG considerations, and/or better profitability of other crops, (ii) conversion of strategically located estates for property development and/or infrastructure developments such as solar farms.

On point (2), while MY's domestic CPO ASP averaged MYR5,088/t in 2022, ID's domestic CPO ASP merely averaged IDR12,680/kg or MYR3,753/t largely due to ID's hefty export taxes (ie export levy plus duty) - Fig.5. The lower CPO ASP in ID meant lower feedstock costs for downstream players in ID, which in turn boosted the margins of downstream players there. ID's hefty export taxes is disruptive and will continue to hurt MY's PO price competitiveness. In fact, MY's RBD PO (MYR4,974/t) and RDB Palm Olein (MYR5,006/t) prices (ie. PO's derivative products) had averaged below CPO feedstock price. MY's refinery utilization rate at 57.8% (Fig.6) was naturally low in 2022.

MPOB projects CPO ASP of MYR4,000-4,200/t in 2023

At recent outlook seminar, MPOB has projected a CPO ASP of MYR4,000-4,200/t in 2023 premised on: (a) labour availability still an issue, (b) ID's production (recovery) being questionable (*MIBG's comments*: likely due to lack of fertilizer application over the last few years and ageing tree profile), (c) ID's higher biodiesel mandate to B35 (from B30), (d) concern over soybean supply risks in South America, (e) lower sunflower seed production from Ukraine, (f) higher demand from China re-opening, and (g) tightened export policy by ID. MPOB expects MY's CPO output to recover to 19mt (+3% YoY), and end-2023 stockpile at 2.0m tonnes (-9% YoY) - Fig.7.

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Regional CPO price forecast

	2022A	2023E
	MYR/t	MYR/t
Full year avg (FOB)	5,088	3,400
<u>MDEX / MPOB prices:</u>		
3M CPO price (17 Jan)		3,797
YTD (17 Jan) 3M CPO ASP		4,050
YTD (17 Jan) spot CPO ASP		3,977

Plantation stocks mentioned on cover page

Company	BBG ticker	Rec	Shr px	Tgt px
<u>MY listed</u>			LCY	LCY
KL Kepong	KLK	Buy	21.80	23.90
<u>SG listed</u>				
First Res.	FR	Buy	1.41	1.79
Bumitama Agri	BAL	Buy	0.59	0.89

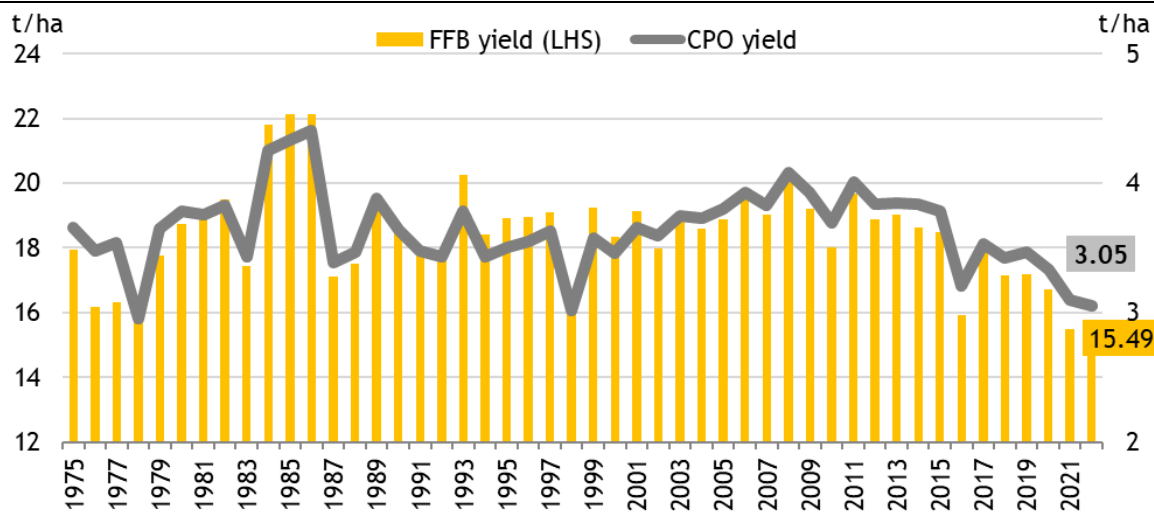
Source: Maybank IBG Research

Terms used in this note:

ASP - Average Selling Price
CPO - Crude Palm Oil
ID - Indonesia/ Indonesian
LCY - Local currency
mt - million tonnes
MPOB - Malaysian Palm Oil Board
MY - Malaysia/ Malaysian
OER - Oil Extraction Rate
PK - Palm kernel
PO - Palm Oil
RBD - Refined Bleached Deoderised
t - tonnes
YoY - Year-on-Year

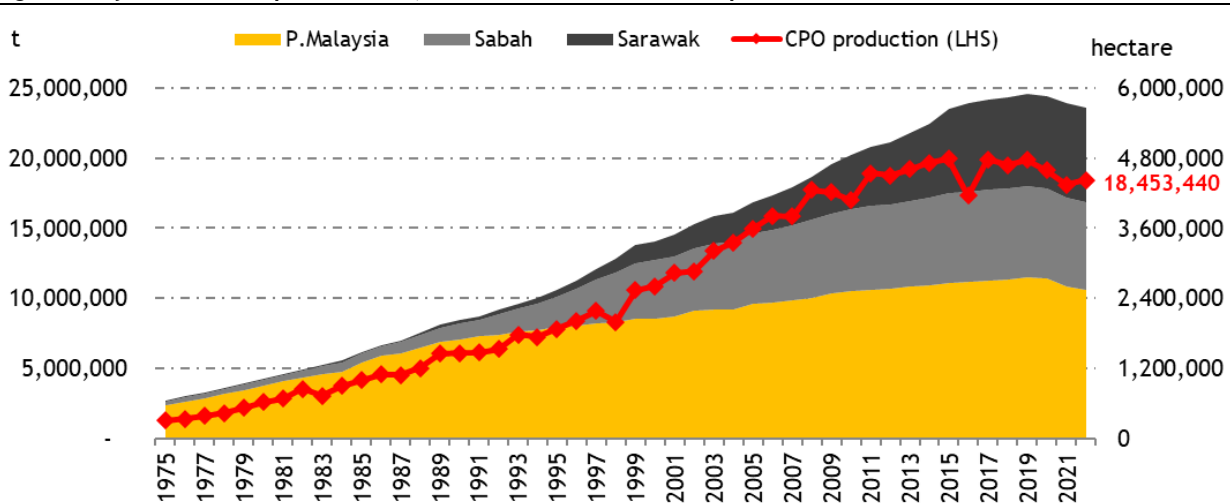
Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							22E	23E	22E	23E	22E	23E
Sime Darby Plant	SDPL MK	7,034	Hold	4.39	4.38	3	13.4	17.6	1.9	1.8	5.0	3.4
IOI Corp	IOI MK	5,709	Hold	3.92	4.21	11	13.8	17.1	2.2	2.1	3.6	3.5
KL Kepong	KLK MK	5,460	Buy	21.80	23.90	14	10.1	15.5	1.6	1.6	4.8	3.9
First Resources	FR SP	1,690	Buy	1.41	1.79	35	5.6	9.0	1.2	1.2	9.0	5.5
Genting Plant	GENP MK	1,256	Hold	6.04	6.40	11	10.6	15.1	1.0	1.0	5.7	4.0
Bumitama Agri	BAL SP	785	Buy	0.59	0.89	61	3.5	5.3	0.9	0.9	11.5	7.5
Swk Oil Palms	SOP MK	540	Hold	2.62	2.70	8	4.5	7.8	0.7	0.7	4.5	3.9
Ta Ann	TAH MK	377	Buy	3.66	4.06	23	4.8	8.1	0.9	0.9	12.6	7.4
TSH Resources	TSH MK	349	Hold	1.09	1.01	2	7.7	11.8	0.8	0.7	9.0	2.5
Boustead Plant	BPLANT MK	348	Buy	0.67	0.84	30	7.0	12.6	0.5	0.5	19.6	4.8
TH Plantations	THP MK	104	Hold	0.51	0.55	8	6.0	10.0	0.6	0.6	2.9	0.0

Fig 1: Malaysia's (MY) CPO and FFB yields since 1975



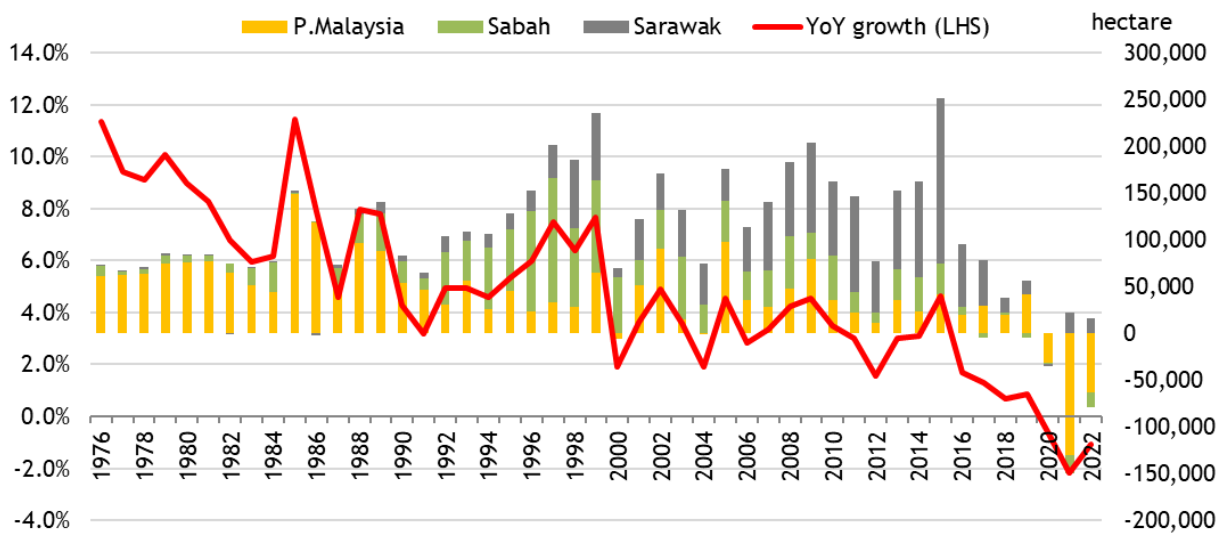
Source: MPOB

Fig 2: Malaysia's CPO output declined, in line with the decline in planted mature area



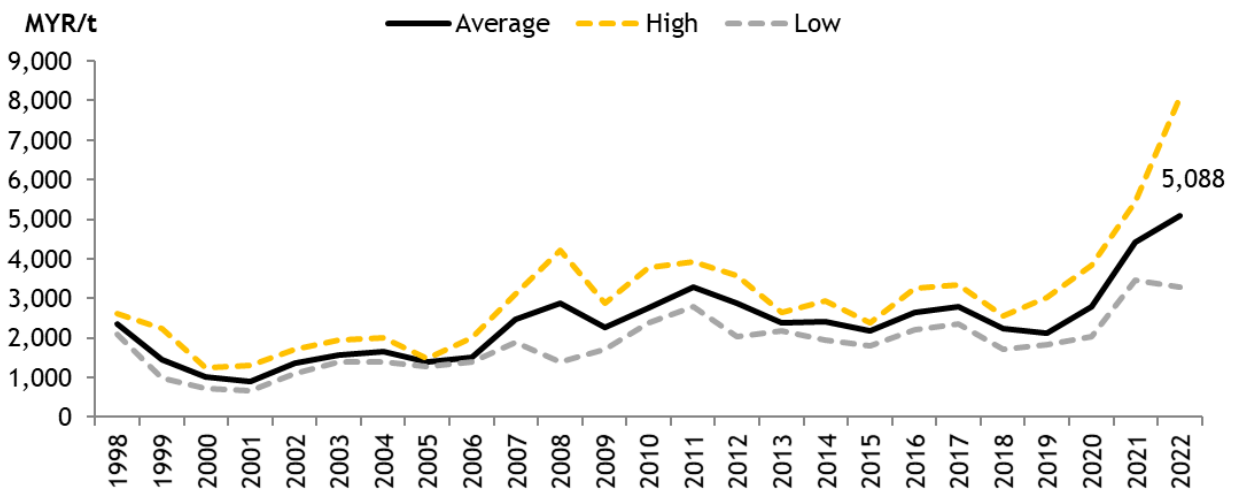
Source: MPOB

Fig.3: Malaysia's planted area in decline since 2020



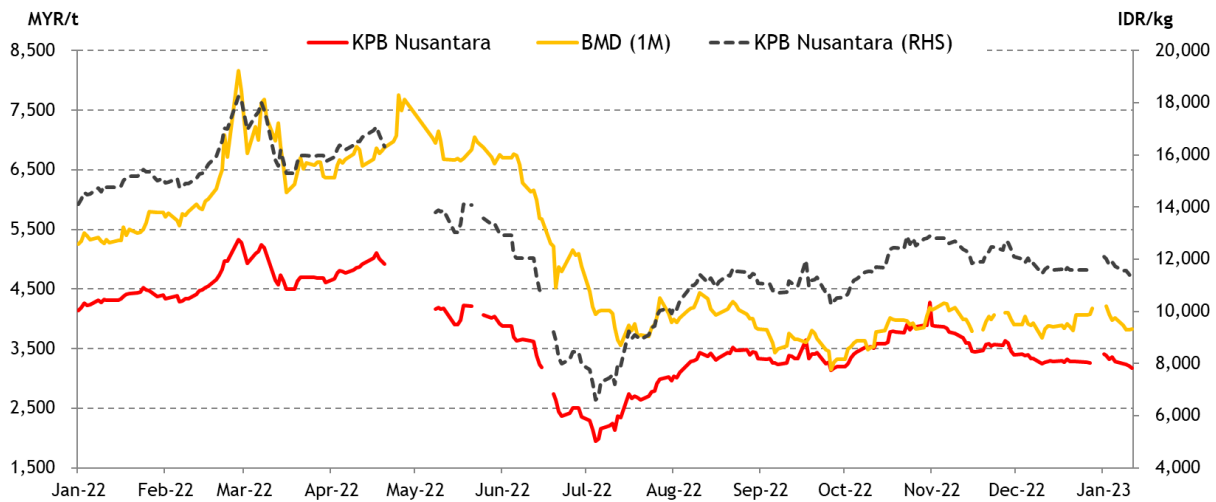
Source: MPOB

Fig.4: Malaysia's annual CPO spot prices since 1998 (MYR/t)



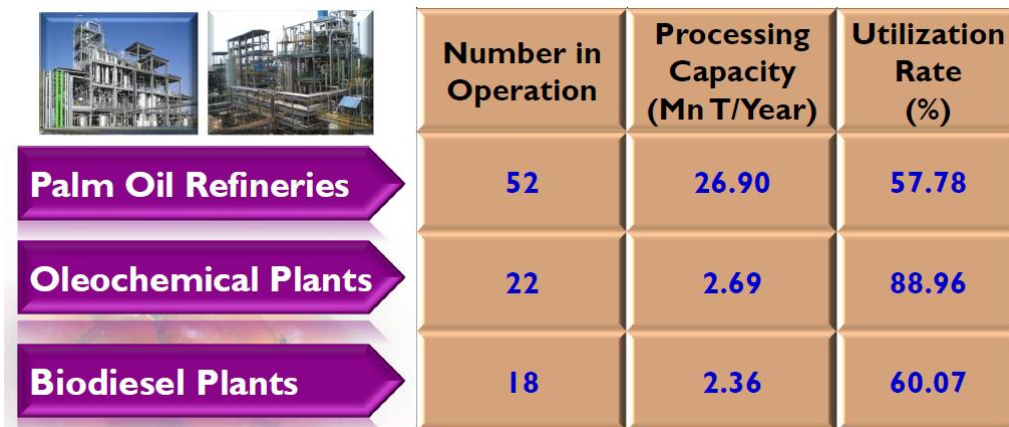
Source: Bloomberg, MPOB

Fig.5: Domestic CPO spot prices in Malaysia (ie BMD) and Indonesia (ie KPB Nusantara in IDR/kg - dotted black line, which is translated into MYR/t - red line)



Sources: Bloomberg, MPOB, GAPKI

Fig.6: Status of Malaysia’s downstream sectors in 2022



Source: MPOB

Fig.7: MPOB’s Annual Palm Oil Statistics for 2021, 2022 and forecast for 2023

	2021 (million t)	2022 (million t)	2023's forecast by MPOB (million t)	YoY chg (%)	Comments
Production	18.12	18.45	19.00	3.0	MPOB's forecast
Imports	1.18	1.12	N/A	N/A	
Consumption	3.38	3.27	N/A	N/A	
Exports	15.57	15.72	16.30	3.7	MPOB's forecast
Closing stock	1.61	2.19	2.00	-8.7	MPOB's forecast

Source: MPOB

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; (ii) Brent crude oil price inching closer to USD150/barrel; (iii) Weather anomalies at major palm oil and oilseeds producing regions persisting into 1H23; (iv) Unfriendly government policies at producing or exporting countries; and (v) the Russia-Ukraine war extending throughout 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 1Q23 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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