

Regional Plantations

June's MPOB stockpile grew slower than expected

CPO price needs to be more competitive

June's MPOB stockpile turned out softer than expected on weak June output but strong domestic consumption. Anticipation of a seasonal pick-up in 2H output will continue to keep CPO prices in check in the near term (unless output recovery disappoints again). The present healthy CPO price discount against other competing veg oils are required to help stimulate demand in 2H. Stay NEUTRAL for now while we monitor weather development in July & August. Preferred BUYs are KLK, FR, & BAL.

June's output were smaller than expected

June 2023's MPOB stockpile grew slower than expected MoM to 1.72mt (+2% MoM, +5% YoY; see Fig.1) as it came below street's estimates of 1.87mt. June's production was weaker at 1.45mt (-5% MoM, -6% YoY) post the strong rebound in May while exports climbed higher MoM to 1.17mt (+9% MoM, -2% YoY). Meanwhile, domestic consumption was surprisingly strong at 0.38mt (+15% MoM, +32% YoY). Imports was also strong at 0.14mt (+67% MoM, +128% YoY).

A relatively good start to July's exports

The preliminary MY export estimates for shipments in the first 10 days of July 2023 by Amspec and Intertek (independent cargo surveyors) showed improving demand at 326,569t/373,204t (+19%/+26% MoM) respectively, albeit due to the low base a month ago. The stronger demand is likely due to improving production prospects as the industry heads into its seasonal peak output period in 2H, as well as recent widening of price discounts between palm oil against other major vegetable oils which lifted CPO's price competitiveness (relative to past two months). We also anticipate a pick-up in demand from India ahead of its Diwali celebration on 2 Nov.

July & August months are crucial weather periods

The market is still anticipating improving CPO production prospects as the industry enters into its seasonal peak output period in 2H. The anticipated production recovery in MY in 2H is also premised on the recent influx of guest workers since end-2022. Positively, the recent weather scare in the month of June in the US have lifted prices of major competing oils from their low (which at various points in time in 2Q23 were trading on par with CPO price). While crop producing regions in the US have received beneficial rainfall in the early parts of July (during these crucial soybean pod settings period in July-August), the US's Climate Prediction Center is now anticipating near normal-to-above normal rainfall over the next 14 days (see Figs.19-20). Weather development in the US, MY and ID will be closely monitored by the market as it will continue to drive price volatility, and fresh price discoveries for CPO and other vegetable oils. At present, CPO price trades at a huge discount to US soyoil (see Fig.8), but still slightly below historical averages against Argentina soyoil at Rotterdams and rapeseed oil in Germany (see Figs. 9-11). The fragile global macroeconomic outlook will continue to be seen as a headwind for CPO price in the immediate term, capping the upside of CPO price.

NEUTRAL

[Unchanged]

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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 (10 July)		3,923
YTD (10 July) 3M CPO ASP		3,787
YTD (10 July) spot CPO ASP		3,926

Plantation stocks mentioned on cover page

Company	BGB ticker	Rec	Shr px	Tgt px
<u>MY listed</u>			LCY	LCY
KL Kepong	KLK	Buy	22.70	23.90
<u>SG listed</u>				
First Res.	FR	Buy	1.51	1.85
Bumitama Agri	BAL	Buy	0.57	0.84

Source: Maybank IBG Research

Terms used in this note:

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

See El Nino related report: [El Nino may not be all that friendly these days](#)

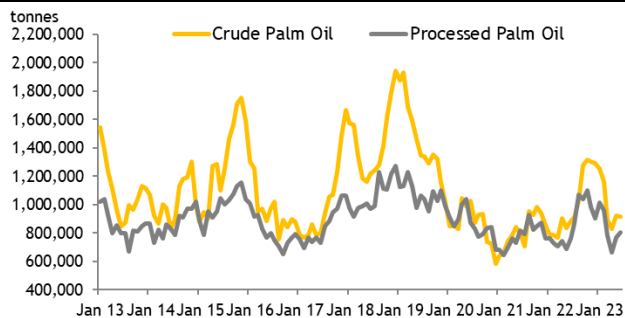
Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							23E	24E	23E	24E	23E	24E
Sime Darby Plant	SDPL MK	6,412	Hold	4.33	4.30	1	24.5	18.5	1.8	1.7	2.2	2.7
KL Kepong	KLK MK	5,255	Buy	22.70	23.90	9	16.2	17.4	1.6	1.6	3.7	3.4
IOI Corp	IOI MK	5,074	Hold	3.77	3.85	6	16.4	17.6	2.0	1.9	3.7	3.4
First Resources	FR SP	1,776	Buy	1.51	1.85	28	9.2	9.7	1.3	1.2	5.4	5.1
Genting Plant	GENP MK	1,097	Hold	5.71	6.30	14	17.2	18.1	1.0	0.9	3.5	3.3
Bumitama Agri	BAL SP	744	Buy	0.57	0.84	55	5.4	5.3	0.8	0.8	7.4	7.5
Swk Oil Palms	SOP MK	477	Hold	2.50	2.73	12	10.1	9.5	0.6	0.6	3.0	3.2
Boustead Plant	BPLANT MK	470	Hold	0.98	0.92	(5)	41.9	43.0	0.7	0.7	1.4	1.4
Ta Ann	TAH MK	321	Buy	3.37	3.72	18	8.2	8.9	0.8	0.8	7.4	6.7
TSH Resources	TSH MK	274	Hold	0.93	0.94	6	10.8	10.3	0.6	0.6	4.4	2.9
TH Plantations	THP MK	99	Hold	0.53	0.49	(7)	20.2	21.4	0.6	0.6	0.0	0.0

Fig 1: Malaysia's Monthly Palm Oil Statistics for Apr - June 2023

	Apr 23 (t)	May 23 (t)	June 23 (t)	MoM chg (%)	YoY chg (%)	6M23 (t)	YoY chg (%)
Production	1,196,782	1,517,546	1,447,795	(5)	(6)	8,084,551	(2)
Imports	43,118	80,926	135,271	67	128	505,028	(3)
Consumption	329,266	328,421	378,904	15	32	1,975,394	25
Exports	1,087,541	1,079,020	1,171,741	9	(2)	7,090,192	(1)
Closing stock	1,497,115	1,688,146	1,720,567	2	5	1,720,567	5

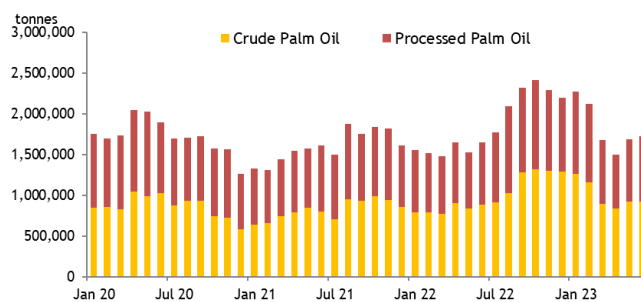
Source: MPOB

Fig 2: Monthly Stockpile (by type)



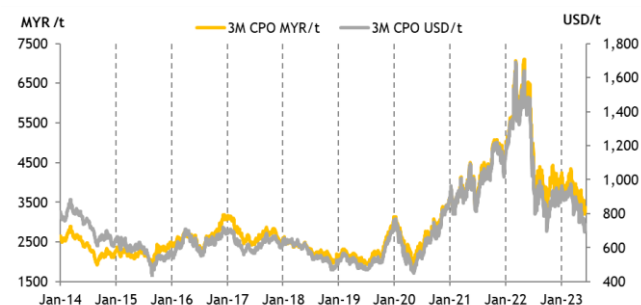
Source: MPOB

Fig 3: Cumulative Palm Oil Monthly Stockpile



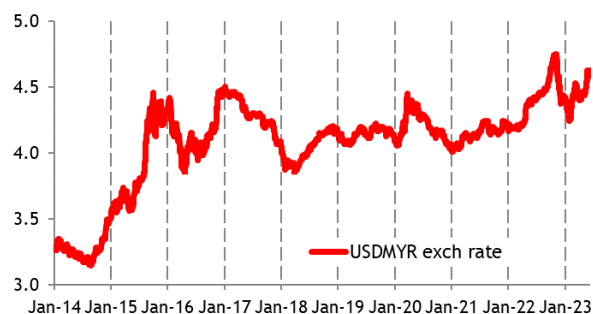
Source: MPOB

Fig 4: CPO price (in USD and MYR)



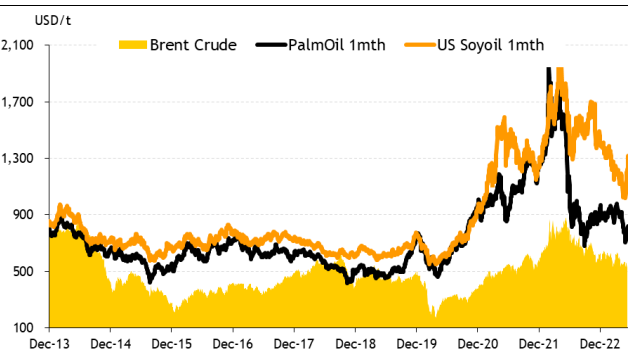
Source: Bloomberg

Fig 5: MYR per USD exchange rate



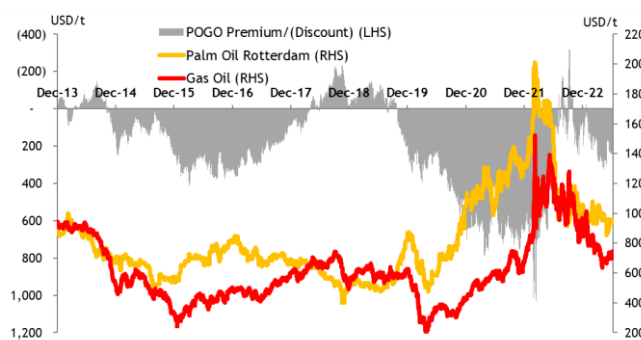
Source: Bloomberg

Fig 6: Soyoil and palm oil vs crude oil price



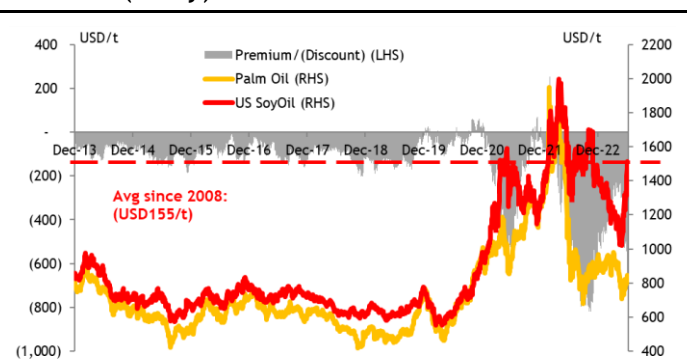
Source: Bloomberg

Fig 7: Palm Oil-Gas Oil (POGO) spread : Palm oil trading at USD216/t (7 July) premium to gas oil



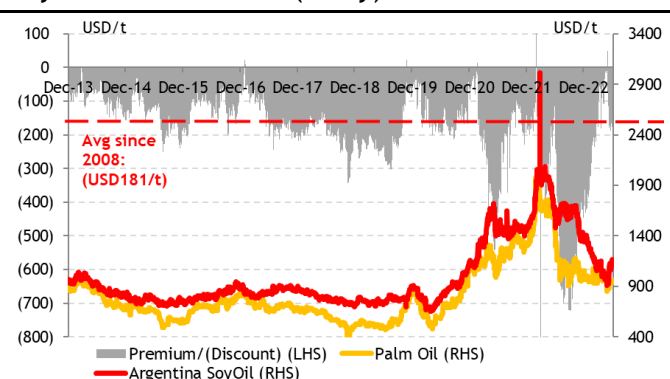
Source: Bloomberg

Fig.8: 1M palm oil price discount to US soybean oil at USD662/t (7 July)



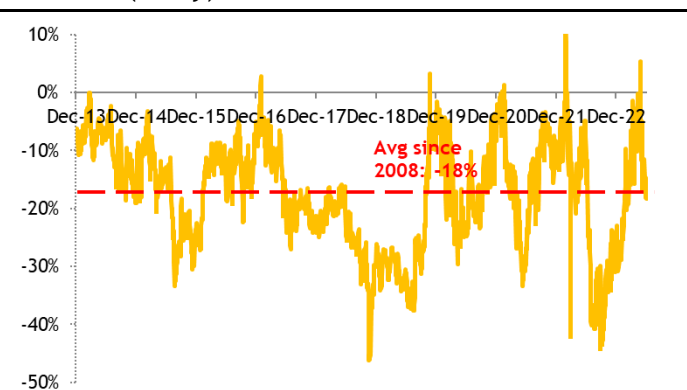
Source: Bloomberg

Fig.9: Rotterdam Palm Oil CIF price discount to Argentina Soybean Oil at USD179/t (7 July)



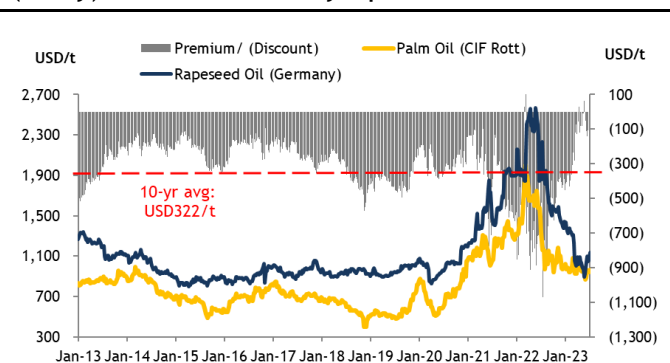
Source: Bloomberg

Fig.10: Palm oil price discount (in %) to Argentina soybean oil at 16% (7 July)



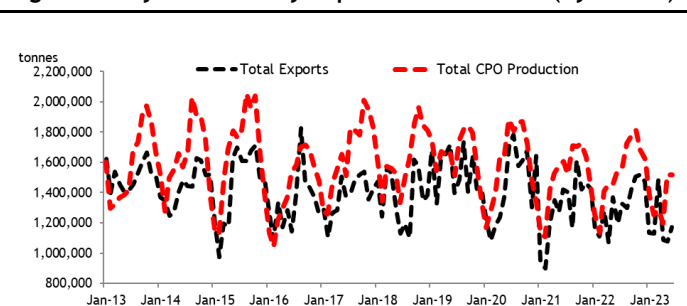
Source: Bloomberg

Fig.11: Palm Oil (CIF Rotterdam) price trades at USD178/t (7 July) discount to Germany rapeseed oil



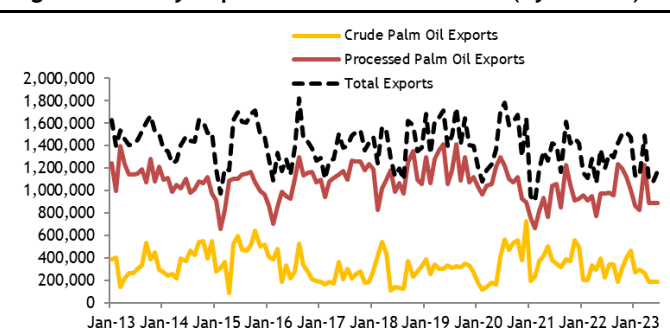
Source: Bloomberg (quoted weekly)

Fig 12: Malaysia's Monthly Export vs Production (by tonnes)



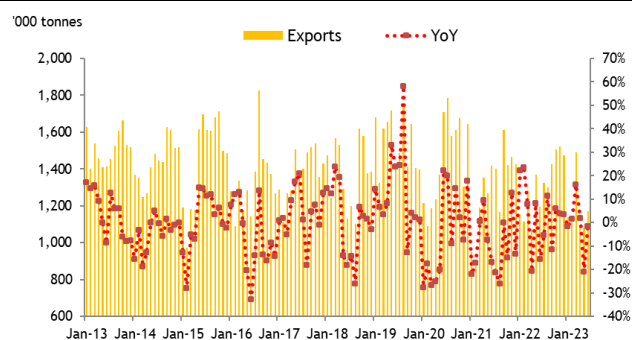
Source: MPOB

Fig 13: Monthly Export of Palm Oil Products (by tonnes)



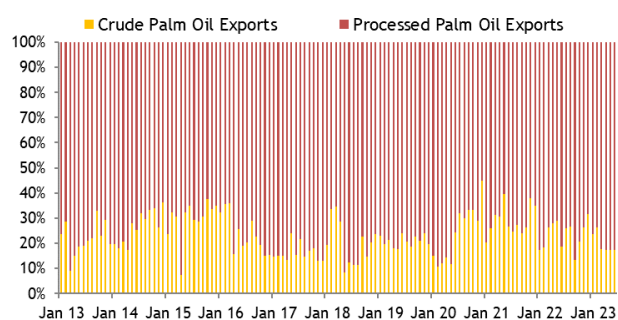
Source: MPOB

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



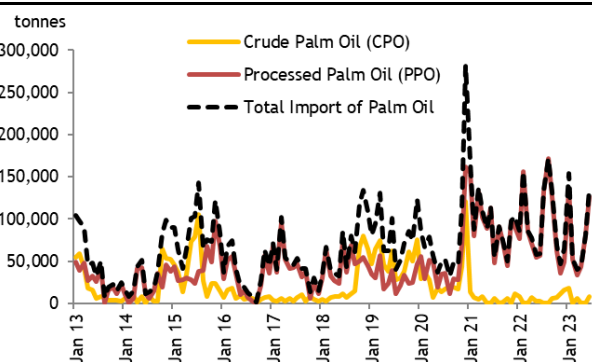
Source: MPOB

Fig 15: Monthly Export of Palm Oil Products (by %)



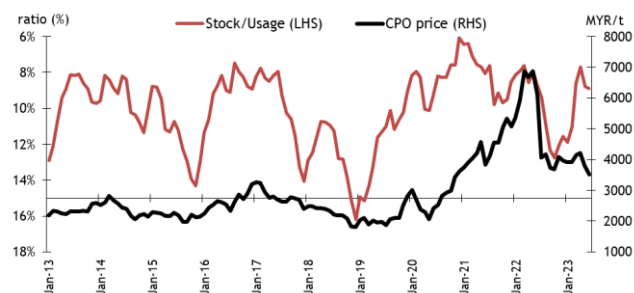
Source: MPOB

Fig 16: Import trend of Palm Oil Products (by tonnes)



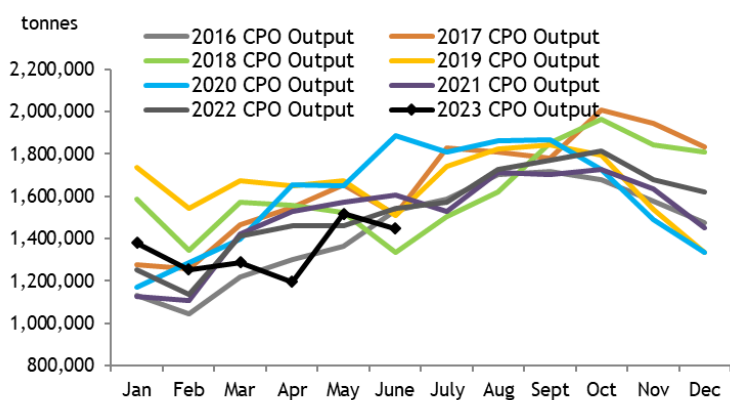
Source: MPOB

Fig 17: Monthly Stock-to-Usage Ratio vs. CPO prices



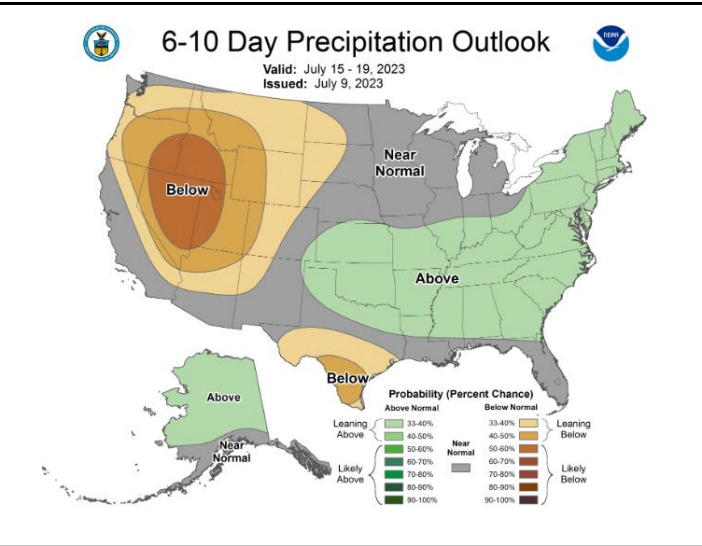
Source: MPOB, Maybank IBG Research

Fig 18: Malaysia's CPO production output



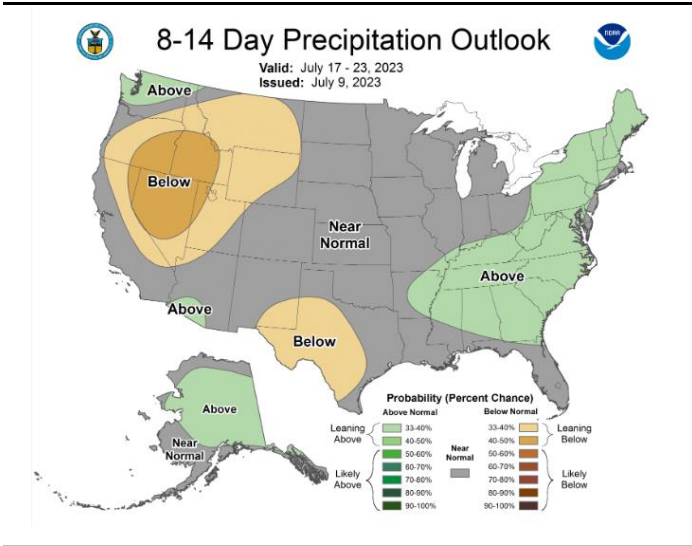
Source: MPOB

Fig 19: US’s 6-10 Day Precipitation Outlook (issued: 9 July)



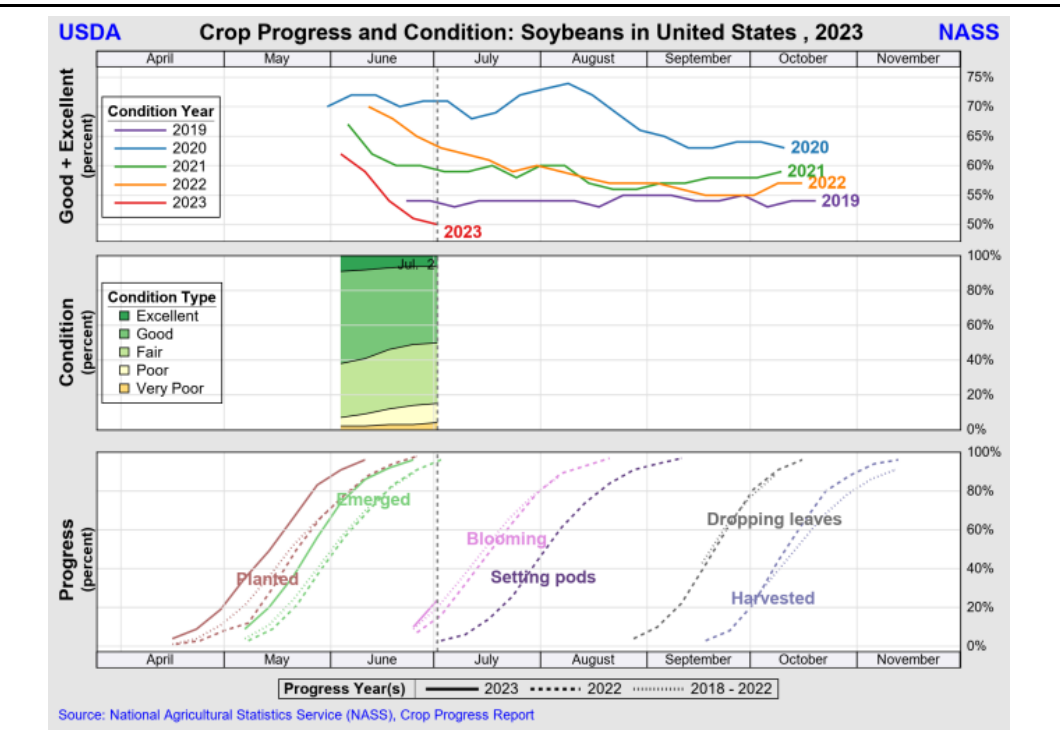
Source: NOAA

Fig 20: US’s 6-10 Day Precipitation Outlook (issued: 9 July)



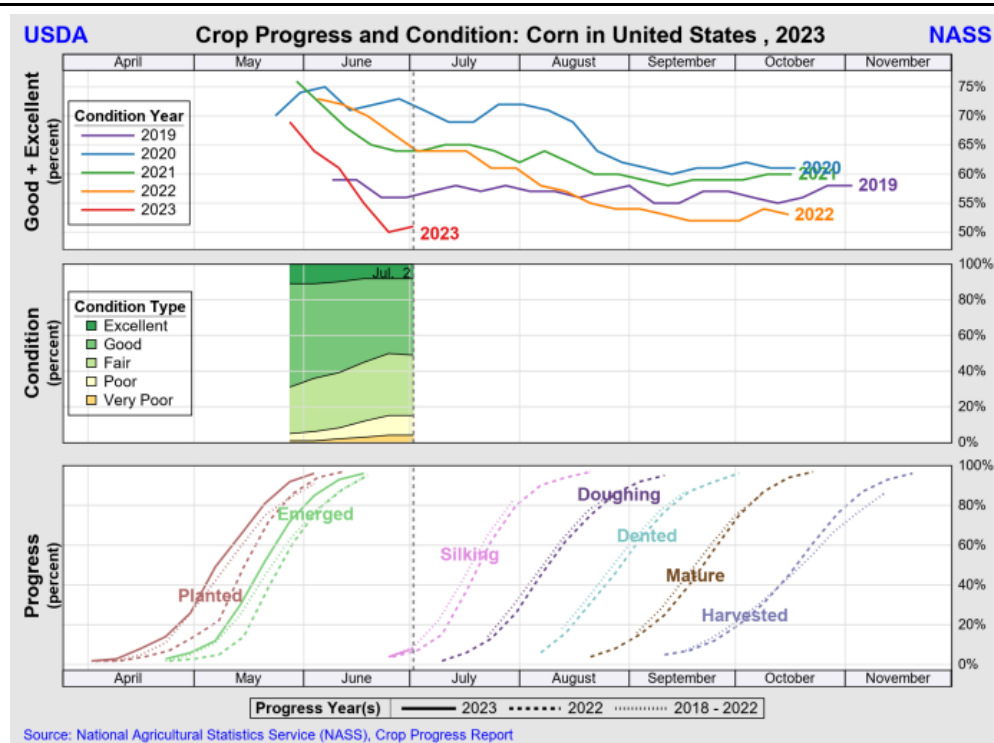
Source: NOAA

Fig 21: US Soybean Crop Progress and Condition (as at 2 July 2023)



Source: USDA

Fig 22: US Corn Crop Progress and Condition (as at 2 July 2023)



Source: USDA

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 2H23; (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) Global demand turns out to be weaker than expected on demand destruction; (v) Weaker competing oil prices (like soybean and rapeseed); and (vi) Banking crisis in the West extending into a global crisis.

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