

Regional Plantations

Situational play again, but with headwinds ahead

Pricing in war premium again

CPO price and plantations stocks are off to a good start in 2H 2023, in part due to recent escalations in the Russia-Ukraine conflict. While positive in the short term price impact, an eventual resolution relating to trade may quickly reverse some of these gains. In the US, crop conditions have improved sharply due to recent favourable weather. Closer to home, we see the upcoming seasonal peak crop and lackluster 2Q results as near-term headwinds. For now, however, the sector appears good for a trade. Preferred BUYs: KLK, FR, BAL & TAH.

Russia cuts off Ukraine's export routes to get a new deal

On 17 July, Russia quit the Black Sea grain deal (brokered by the UN and Turkey) that had allowed the safe export of Ukraine grain for the past year. In order to return to the deal, Russia seeks easier access to world markets for its own food and fertilizer exports. On 24 July, Russia targeted another vital export route, the Danube River, as it was reported to have destroyed the Ukrainian grain warehouses on the Danube River. Positively, Russia did not wipe out Ukraine's crop area, just temporarily cut-off export routes. Still, grains prices (especially wheat and corn - see Figs.1-2 for Ukraine's main produce) reacted positively, with oilseeds and vegetable oils prices trailing. CPO price became an indirect beneficiary too as war premium was again being priced in, by the market. However, taking a cue from the Russia-Ukraine conflict in 2022, a restoration of the Black Sea grain deal may lead to a quick reversal of commodity prices on the downside. Hence, there is risk that the current price hikes may be short-lived.

US crop conditions have improved in July thus far

After an initial weather scare in June, US crop conditions have improved due to a return of rainfall (Figs.3-6). US soybean's good-to-excellent conditions have risen to 54% on 23 July, from 51% on 25 June. Meanwhile US corn's good-to-excellent conditions jumped to 57% on 23 July, from 50% on 25 June. At present, the weather forecast by US NOAA for the next 6-14 days (Figs.7-8) are expected to be near normal-to-above normal. Favourable weather over the next 1-1.5 months is crucial i.e. during this soybean pod-setting period which will determine the final crop yield when harvested from Sept onwards. If weather permits, an anticipated ample supply may pressure oilseed prices on the downside in the near future.

Profit warning for upcoming 2Q23 results season

Relative to 2Q22's historic peak CPO ASP of MYR6,552/t, MY's 2Q23 spot CPO ASP was sharply lower YoY at MYR3,840/t (-41.4% YoY, -4.4% QoQ). However, those with higher ID exposure will be relatively better off as ID's domestic CPO ASP of IDR10,695/kg (-20.8% YoY, -11.1% QoQ) or MYR3,253/t equivalent (Figs.9-13) did not fall as much as MY given its lower CPO ASP base in 2Q22 owing to the high export taxes imposed by the ID government then. On PK, a by-product, MY's PK price fell just as much YoY to MYR1,990/t (-43.5% YoY, -3.1% QoQ). Besides lower ASPs, 2Q23's planters earnings will also be dragged down by (i) lower-than-expected output as MY's 2Q23 output fell 6.9% YoY (+6.1% QoQ), and (ii) higher costs i.e. higher wages, and higher fertilizer expenses due to (a) higher tender prices locked-in at end-2022 and (b) higher fertilizer applied owing to relatively more conducive weather in 2Q23.

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 (25 July)		4,070
YTD (25 July) 3M CPO ASP		3,800
YTD (25 July) spot CPO ASP		3,923

Plantation stocks mentioned on cover page

Company	BBG ticker	Rec	Shr px	Tgt px
<u>MY listed</u>			LCY	LCY
KL Kepong	KLK	Buy	23.40	23.90
Ta Ann	TAH	Buy	3.80	3.72
<u>SG listed</u>				
First Res.	FR	Buy	1.55	1.85
Bumitama Agri	BAL	Buy	0.585	0.84

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
PO - Palm Oil
QoQ - Quarter-on-Quarter
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 (%)	
							23E	24E	23E	24E	23E	24E
Sime Darby Plant	SDPL MK	6,957	Hold	4.59	4.30	(4)	25.9	19.6	1.9	1.8	2.1	2.5
IOI Corp	IOI MK	5,662	Hold	4.11	3.85	(3)	17.9	19.2	2.2	2.1	3.3	3.1
KL Kepong	KLK MK	5,544	Buy	23.40	23.90	6	16.6	17.9	1.7	1.6	3.6	3.3
First Resources	FR SP	1,849	Buy	1.55	1.85	25	9.6	10.1	1.3	1.2	5.2	4.9
Genting Plant	GENP MK	1,180	Hold	6.00	6.30	8	18.1	19.0	1.0	1.0	3.3	3.2
Bumitama Agri	BAL SP	774	Buy	0.59	0.84	51	5.5	5.5	0.8	0.8	7.2	7.3
Swk Oil Palms	SOP MK	537	Hold	2.75	2.73	2	11.1	10.4	0.7	0.7	2.7	2.9
Boustead Plant	BPLANT MK	520	Hold	1.06	0.92	(12)	45.4	46.5	0.8	0.8	1.3	1.3
Ta Ann	TAH MK	371	Buy	3.80	3.72	5	9.2	10.1	0.9	0.9	6.5	6.0
TSH Resources	TSH MK	321	Hold	1.06	0.94	(7)	12.4	11.8	0.7	0.7	3.9	2.5
TH Plantations	THP MK	114	Hold	0.59	0.49	(17)	22.7	24.0	0.7	0.7	0.0	0.0

Fig 1: Ukraine's crop calendar



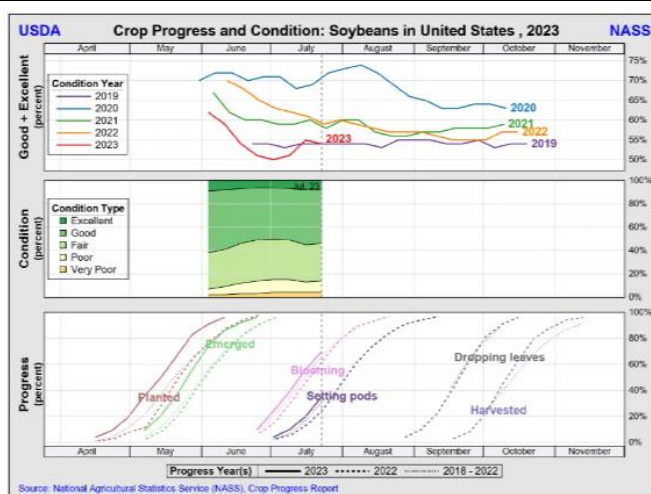
Source: USDA

Fig 2: Ukraine's production (per USDA forecast)

Crops	5-yr Avg (2018-2022) (1000 Tons)	2022/23 (1000 Tons)	2023/24 (1000 Tons)	% Change 2023-24/Avg
Corn	34,223	27,000	25,000	-27
Wheat	26,831	21,500	17,500	-35
Sunflowerseed	15,060	12,200	12,400	-18
Barley	8,220	6,100	5,700	-31
Soybean	4,046	4,100	4,600	14
Rapeseed	3,116	3,500	4,000	28
Millet	163	90	100	-39
Sorghum	141	40	90	-36
Rice	31	3	3	-90

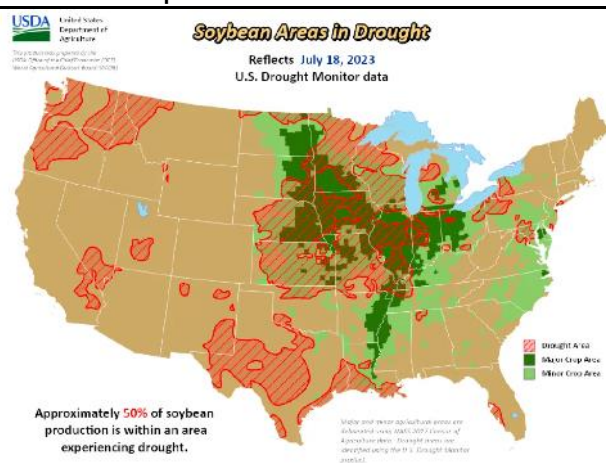
Source: USDA

Fig 3: US Soybean Crop Progress and Condition (23 July 2023)



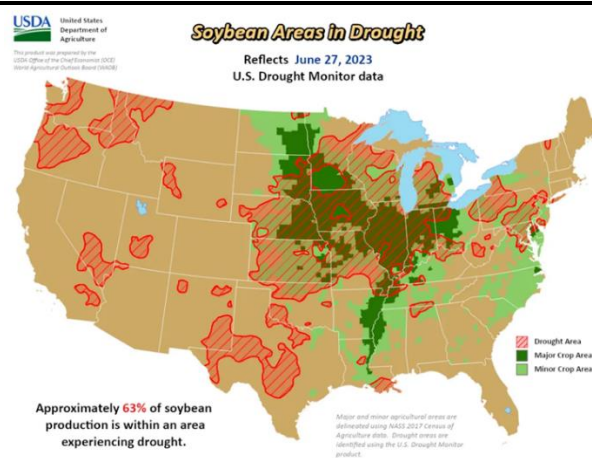
Source: USDA

Fig 4a: US's soybean areas in drought (as at 18 July 2023) has reduced compared to end-June



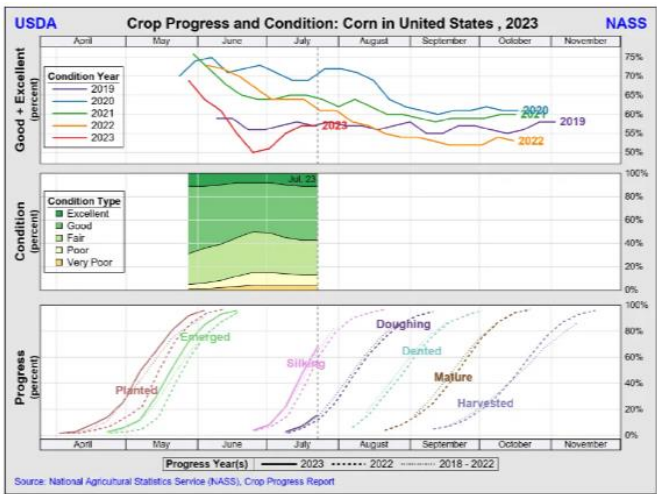
Source: USDA

Fig 4b: US's soybean areas in drought (as at 27 June 2023)



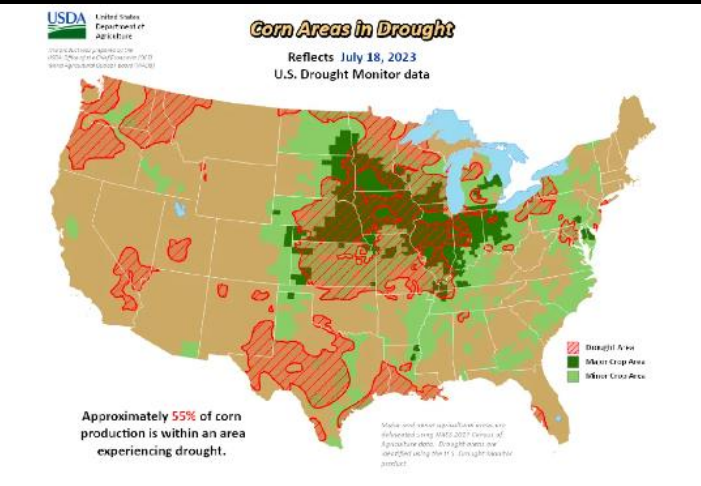
Source: USDA

Fig 5: US Corn Crop Progress and Condition (23 July 2023)



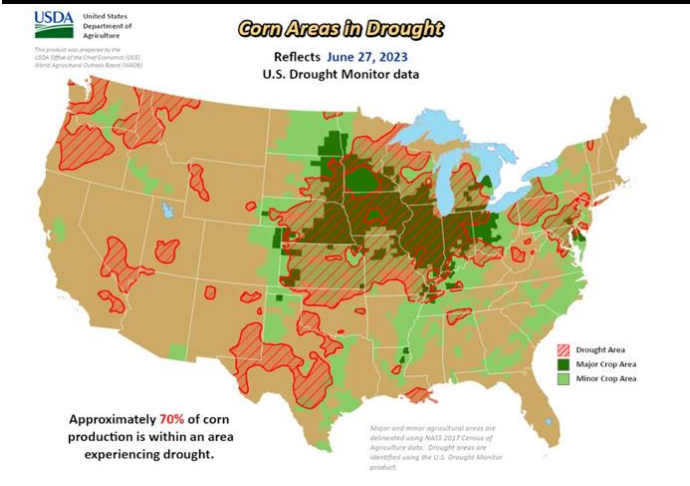
Source: USDA

Fig 6a: US’s corn areas in drought (as at 18 July 2023) have reduced compared to end-June



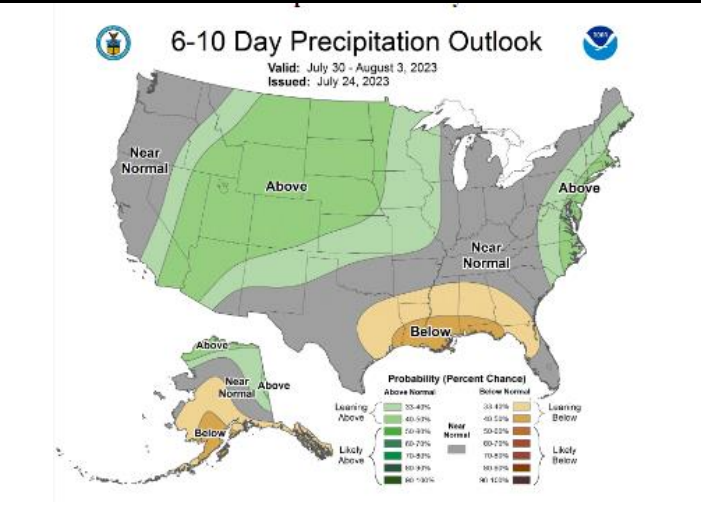
Source: USDA

Fig 6b: US’s corn areas in drought (as at 27 June 2023)



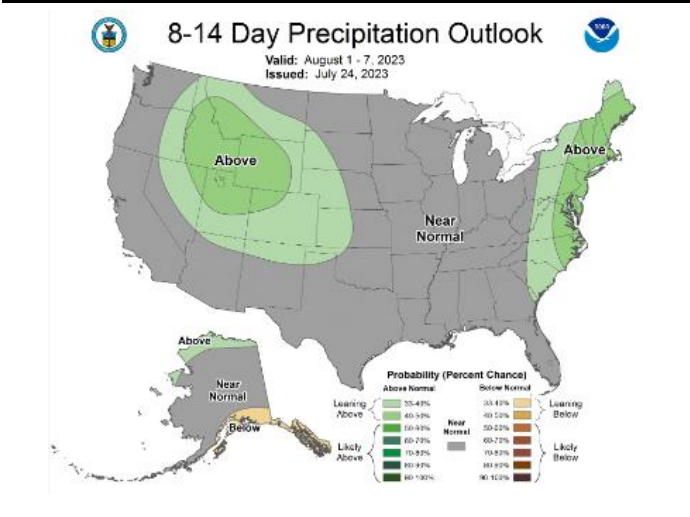
Source: USDA

Fig 7: US’s 6-10 Day Precipitation Outlook (issued 24 July)



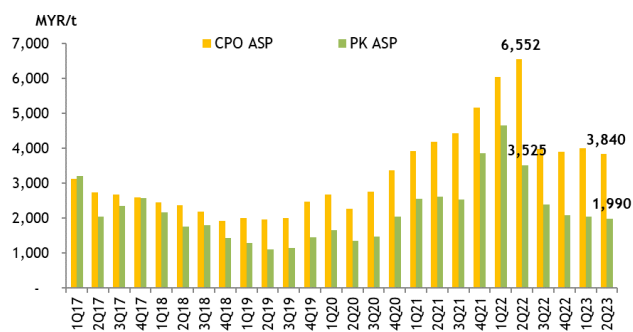
Source: NOAA

Fig 8: US’s 6-10 Day Precipitation Outlook (issued 24 July)



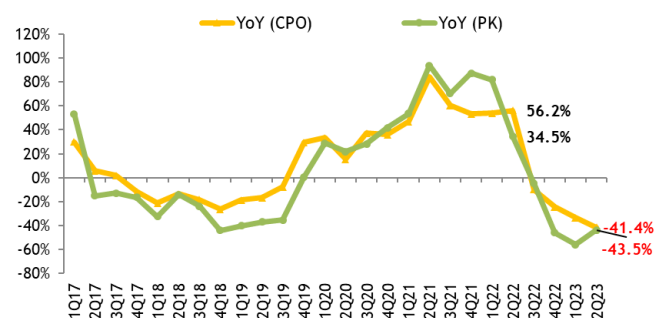
Source: NOAA

Fig 9: Quarterly CPO and PK prices (in MYR/t)



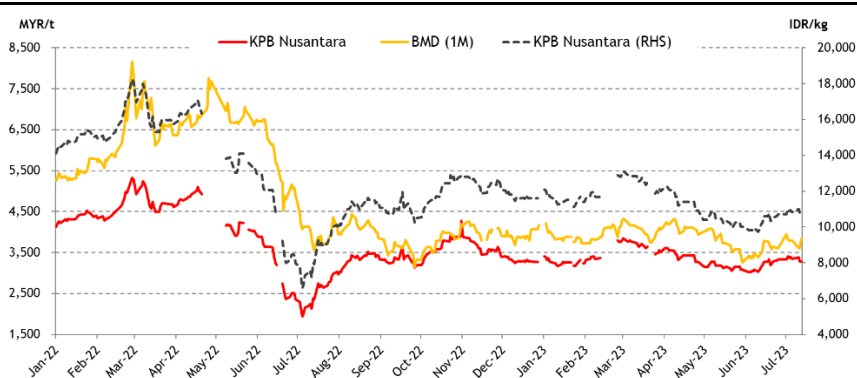
Sources: Bloomberg, MPOB

Fig 10: Quarterly CPO and PK prices (YoY change in %)



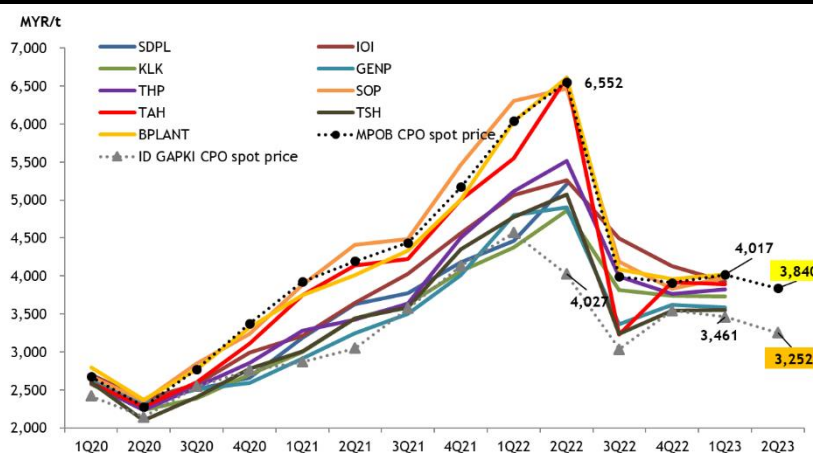
Sources: Bloomberg, MPOB

Fig 11: CPO price (Indonesia - KPB Nusantara) and Malaysia (BMD - 1M FCPO)



Sources: Bloomberg, GAPKI (red line is Indonesia's KPB Nusantara price in MYR equivalent)

Fig 12: MPOB and GAPKI's quarterly CPO spot ASP vs CPO ASP achieved of respective companies under coverage (MYR/t)



Sources: Company, MPOB, GAPKI

Fig 13: Quarterly FFB, CPO output and prices

Company	2Q22 (tonnes)	3Q22 (tonnes)	4Q22 (tonnes)	1Q23 (tonnes)	2Q23 (tonnes)	QoQ %	YoY %	FYE
FFB output								
SDPL - Sime Darby Plantation	2,074,081	2,149,888	2,072,744	1,823,486	2,035,245	11.6	(1.9)	Dec
IOI - IOI Corp	611,374	665,762	773,422	628,290	618,882	(1.5)	1.2	June
KLK - KL Kepong	1,209,141	1,407,899	1,399,041	1,189,764	1,170,885	(1.6)	(3.2)	Sept
GENP - Gent Plant	492,917	527,507	530,564	456,541	497,610	9.0	1.0	Dec
THP - TH Plant	154,714	202,363	208,375	141,647	163,770	15.6	5.9	Dec
SOP - Swk Oil Palms	280,206	332,451	327,646	260,735	264,453	1.4	(5.6)	Dec
TAH - Ta Ann	161,755	212,877	196,628	127,352	143,072	12.3	(11.6)	Dec
TSH - TSH Resources	239,398	263,865	222,807	199,334	222,119	11.4	(7.2)	Dec
BPlant - Bous Plant	197,346	227,335	251,715	190,400	180,726	(5.1)	(8.4)	Dec
CPO output								
Sabah	967,068	1,105,815	1,281,209	1,047,037	1,048,329	0.1	8.4	
Sarawak	949,074	1,145,043	1,133,410	815,916	953,396	16.8	0.5	
Peninsular Malaysia	2,552,069	2,818,924	2,698,568	2,059,475	2,160,398	4.9	(15.3)	
Malaysia	4,468,211	5,069,782	5,113,187	3,922,428	4,162,123	6.1	(6.9)	
CPO and PK Prices								
MPOB (MY) - CPO ASP (MYR/t)	6,552	3,990	3,910	4,017	3,840	(4.4)	(41.4)	(Figs.11-12)
MPOB (MY) - PK ASP (MYR/t)	3,525	2,405	2,081	2,053	1,990	(3.1)	(43.5)	
GAPKI (ID) - CPO ASP (IDR/kg)	13,503	10,108	12,035	12,031	10,695	(11.1)	(20.8)	
GAPKI equivalent - CPO ASP (MYR/t)	4,027	3,038	3,546	3,461	3,252	(6.0)	(19.2)	(Figs.11-12)

Sources: Bursa, Company, MPOB, GAPKI

Risk statement

There are several risk factors that may affect our sector view, earnings estimates, price targets, and ratings of stocks under our 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) Production in 2Q23 turns out much stronger than expected; (v) Global demand turns out to be weaker than expected on demand destruction; (vi) Weaker competing oil prices (like soybean and rapeseed); and (vii) Banking crisis in the West extending into a global crisis.

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