Plantations

Regional

August 11, 2023

Maybank

Regional Plantations

NEUTRAL *[Unchanged]*

Raising our 2023/24E CPO ASPs to MYR3,700/3,500 per tonne

EPS revisions to reflect output and cost pressures too

MY's 7M23 CPO output (-2% YoY) came in lower than expected, raising concerns that 2023's output could end up lower than 2022. While we anticipate CPO price to weaken in 2H23 on seasonal output recovery, we now raise our 2023-24 CPO ASPs (per t) to MYR3,700/3,500 (from 3,400/ 3,200) on lower-than-expected output (thus, higher-than-expected ASPs) YTD, higher cost pressures, as well as some El Nino and war risk premiums. We will review our EPS forecasts under coverage in the upcoming results season to reflect revisions to ASPs, output and unit cost. As we have forewarned, we expect a challenging 2Q earnings outlook. Stay NEUTRAL. Preferred BUYs: KLK, FR, & BAL.

July stockpile at 5-month high

July 2023's MPOB stockpile grew slower than anticipated to 1.73mt (+1% MoM, -2% YoY; Fig.1) as it came below street's estimates of 1.79mt. July's production rebounded MoM to 1.61mt (+11% MoM, +2% YoY) following a rather dismal June output. July's exports kept pace with output growth at 1.35mt (+16% MoM, +2% YoY) while domestic consumption and imports fell MoM to 0.35mt (-9% MoM, +37% YoY) and 0.10mt (-23% MoM, -22% YoY).

Prelim. exports est. in August = seasonally higher

The preliminary MY export estimates for shipments in the first 10 days of August 2023 by Amspec and Intertek (independent cargo surveyors) showed further seasonal improvement in demand at 383,795t/395,145t (+18%/+6% MoM) respectively. The stronger demand is in-line, in tandem with anticipation of seasonally higher production prospects till Oct 2023.

El Nino & war risk premium partly factored in

Since early June, the market has been pricing in some El Nino weather risk premium in commodity prices following earlier weather scare in the month of June in the USA. USA's weather has since turned friendlier in the month of July with improved rainfall to benefit soybean (and corn) crop development during the crucial pod-setting periods of July-August. This was reflected in the improved good-to-excellent crop conditions throughout July (see Figs.21-22). As rainfall is forecasted to be normal-to-above normal for major US crop producing regions over the next 6-14 days (see Figs.19-20), there is hope for further improvement in crop conditions. Besides weather, the market has also priced in some war risk premium on Russia-Ukraine's escalating conflict (since June).

Besides El Nino and war risk premiums, CPO price has also stayed relatively resilient (YTD 3M FCPO/ spot CPO ASP at MYR3,803/ 3,917/t respectively) mainly due to the weaker-than-expected CPO output in 2023 YTD. The higher-than-expected YTD CPO ASP was also in part supported by recent widening in price gaps between CPO and other major vegetable oils (Figs.8-11), narrowed POGO spread (Fig.7) and weakened MYR against USD. The wide price gaps are needed to stimulate demand in anticipation of seasonal peak crops in the coming months. Hence, we expect CPO price to be under pressure in 2H23. For 2024, our base case assumption is for CPO output to post a recovery unless hit by a severe El Nino.

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Regional CPO price forecast

	2023E	2024E
	MYR/t	MYR/t
Full year avg (FOB) - new	3,700	3,500
Full year avg (FOB) - old	*3,400*	*3,200*
MDEX / MPOB prices:		
3M CPO price (10 Aug)	3,728	
YTD (10 Aug) 3M CPO ASP	3,803	
YTD (10 Aug) spot CPO ASP	3,917	

Plantation stocks mentioned on cover page

Company	BBG ticker	Rec	Shr px	Tgt px
MY listed			LCY	LCY
KL Kepong	KLK	Buy	23.18	23.90
SG listed				
First Res.	FR	Buy	1.58	1.85
Bumitama Agri	BAL	Buy	0.58	0.84

Source: Maybank IBG Research

Terms used in this note:

ASP - Average Selling Price
CPO - Crude Palm Oil
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]

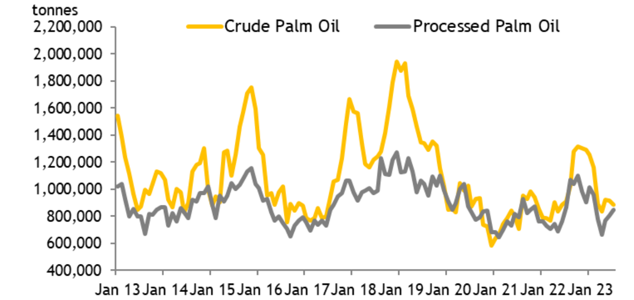
Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							23E	24E	23E	24E	23E	24E
Sime Darby Plant	SDPL MK	6,807	Hold	4.50	4.30	(2)	25.4	19.2	1.8	1.7	2.1	2.6
IOI Corp	IOI MK	5,623	Hold	4.09	3.85	(2)	17.8	19.1	2.2	2.1	3.4	3.1
KL Kepong	KLK MK	5,481	Buy	23.18	23.90	7	16.5	17.8	1.7	1.6	3.6	3.4
First Resources	FR SP	1,858	Buy	1.58	1.85	22	9.6	10.2	1.3	1.2	5.2	4.9
Genting Plant	GENP MK	1,162	Hold	5.92	6.30	10	17.9	18.7	1.0	1.0	3.4	3.2
Bumitama Agri	BAL SP	750	Buy	0.58	0.84	53	5.4	5.4	0.8	0.8	7.4	7.4
Boustead Plant	BPLANT MK	573	Hold	1.17	0.92	(20)	50.1	51.4	0.9	0.9	1.2	1.2
Swk Oil Palms	SOP MK	489	Hold	2.51	2.73	12	10.1	9.5	0.6	0.6	3.0	3.2
Ta Ann	TAH MK	350	Buy	3.60	3.72	11	8.7	9.5	0.9	0.8	6.9	6.3
TSH Resources	TSH MK	308	Hold	1.02	0.94	(3)	12.0	11.3	0.7	0.7	4.0	2.6
TH Plantations	THP MK	103	Hold	0.54	0.49	(8)	20.6	21.8	0.7	0.6	0.0	0.0

Fig 1: Malaysia's Monthly Palm Oil Statistics for May – July 2023

	May 23 (t)	June 23 (t)	July 23 (t)	MoM chg (%)	YoY chg (%)	7M23 (t)	YoY chg (%)
Production	1,517,634	1,447,697	1,610,052	*11*	*2*	9,692,148	*(2)*
Imports	80,926	135,271	103,837	*(23)*	*(22)*	608,865	*(7)*
Consumption	327,891	382,200	348,287	*(9)*	*37*	2,323,715	*27*
Exports	1,079,055	1,171,739	1,353,925	*16*	*2*	8,442,360	*(1)*
Closing stock	1,690,806	1,719,835	1,731,512	*1*	*(2)*	1,731,512	*(2)*

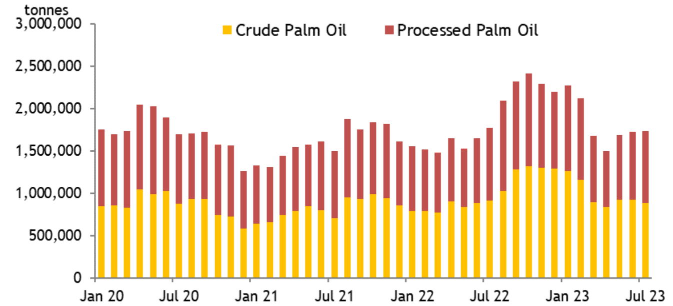
Source: MPOB

Fig 2: Monthly Stockpile (by type)



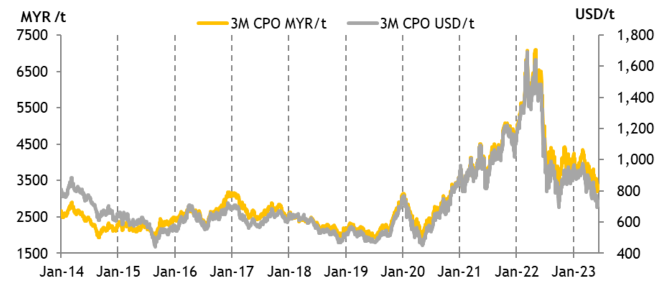
Source: MPOB

Fig 3: Cumulative Palm Oil Monthly Stockpile



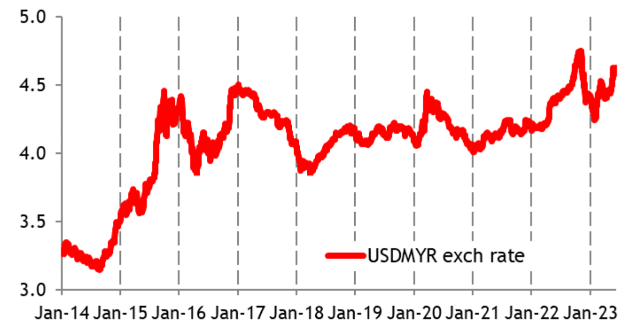
Source: MPOB

Fig 4: CPO price (in USD and MYR)



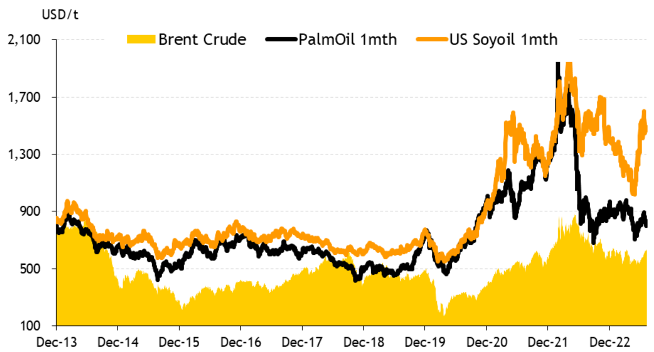
Source: Bloomberg

Fig 5: MYR per USD exchange rate



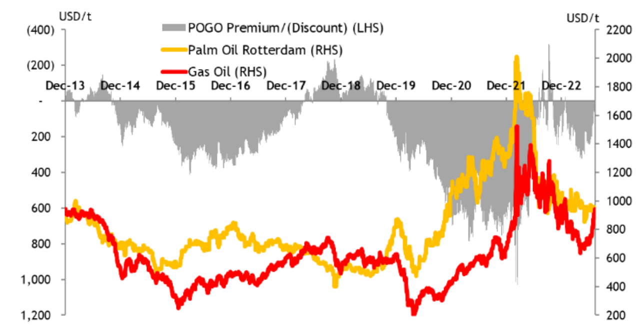
Source: Bloomberg

Fig 6: Soyoil and palm oil vs crude oil price



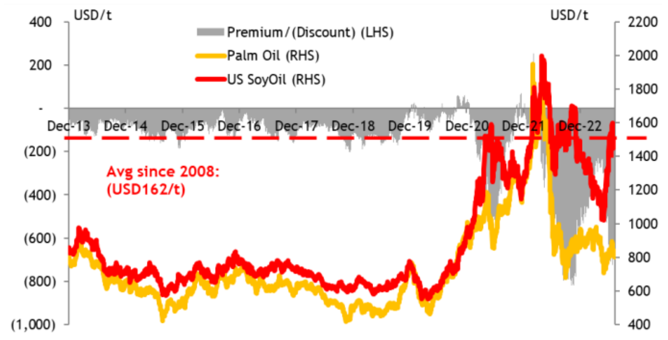
Source: Bloomberg

Fig 7: Palm Oil–Gas Oil (POGO) spread : Palm oil trading at just USD3/t (9 Aug) premium to gas oil



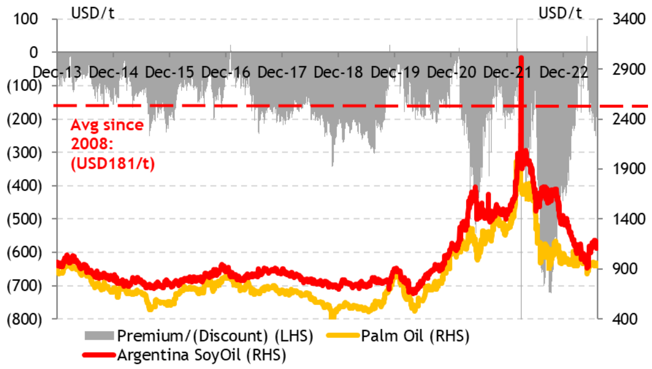
Source: Bloomberg

Fig.8: 1M palm oil price discount to US soybean oil at USD654/t (9 Aug)



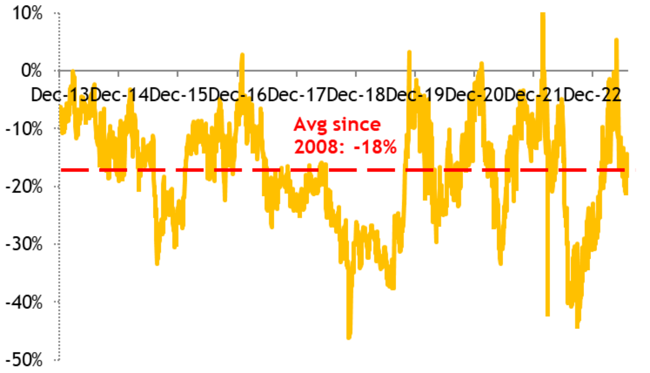
Source: Bloomberg

Fig.9: Rotterdam Palm Oil CIF price discount to Argentina Soybean Oil at USD188/t (9 Aug)



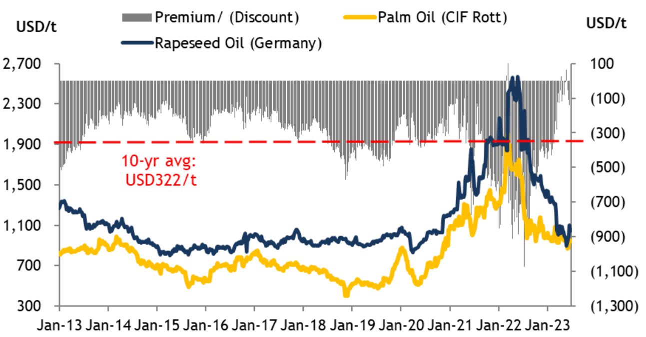
Source: Bloomberg

Fig.10: Palm oil price discount (in %) to Argentina soybean oil at 17% (9 Aug)



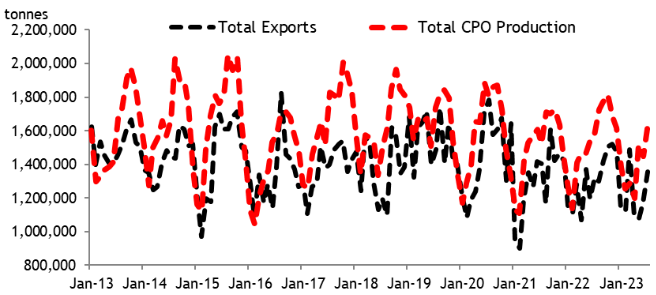
Source: Bloomberg

Fig.11: Palm Oil (CIF Rotterdam) price trades at USD172/t (4 Aug) discount to Germany rapeseed oil



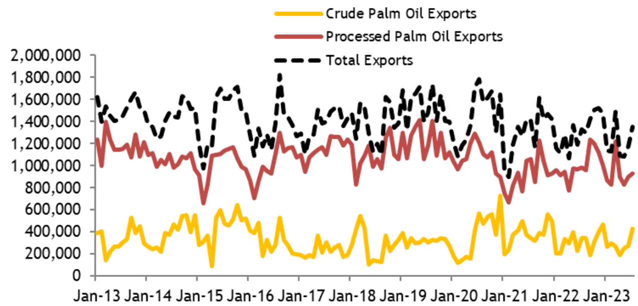
Source: Bloomberg (quoted weekly)

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



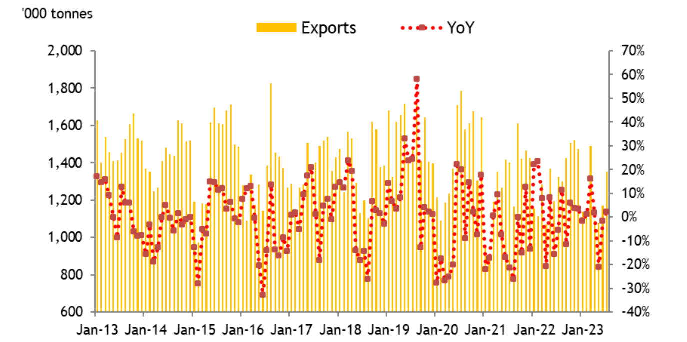
Source: MPOB

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



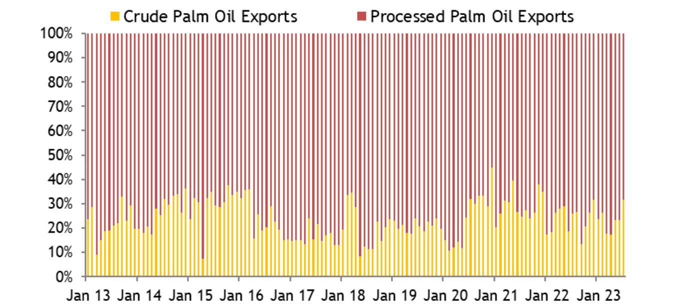
Source: MPOB

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



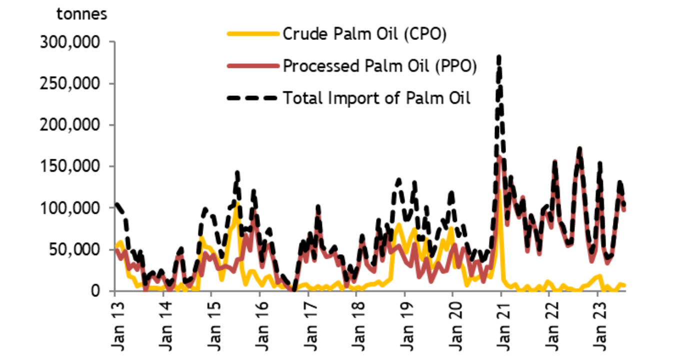
Source: MPOB

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



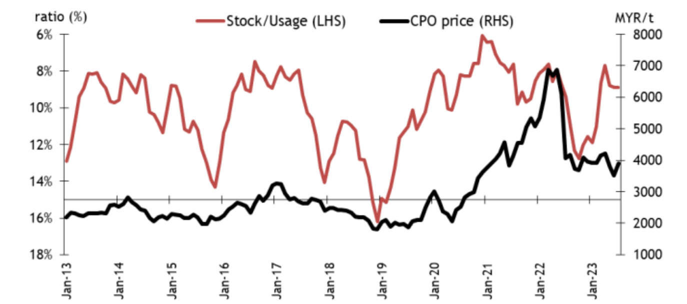
Source: MPOB

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



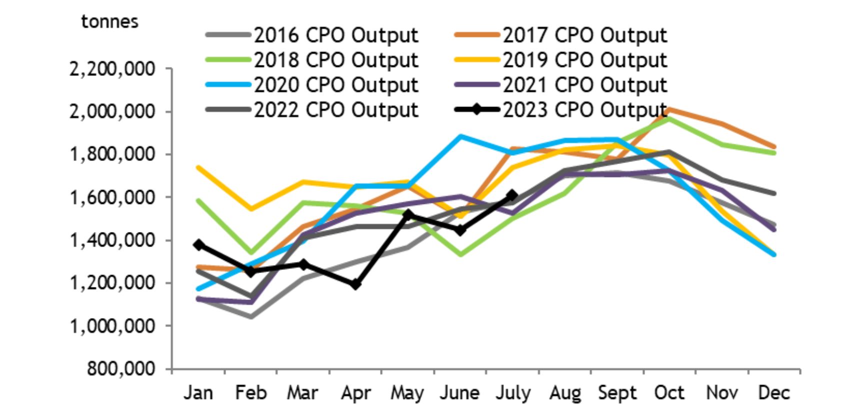
Source: MPOB

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



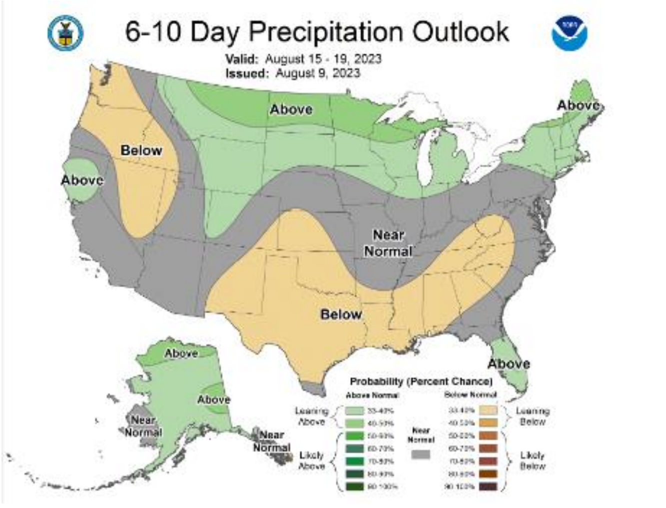
Source: MPOB, Maybank IBG Research

Fig 18: Malaysia's CPO production output



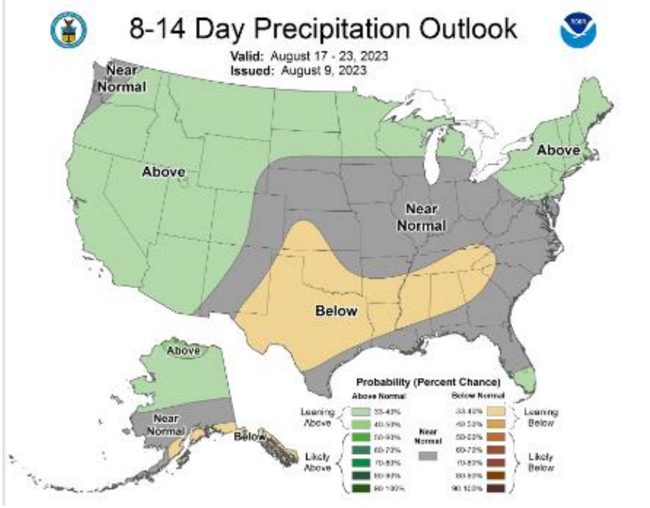
Source: MPOB

Fig 19: US's 6-10 Day Precipitation Outlook (issued: 9 Aug)



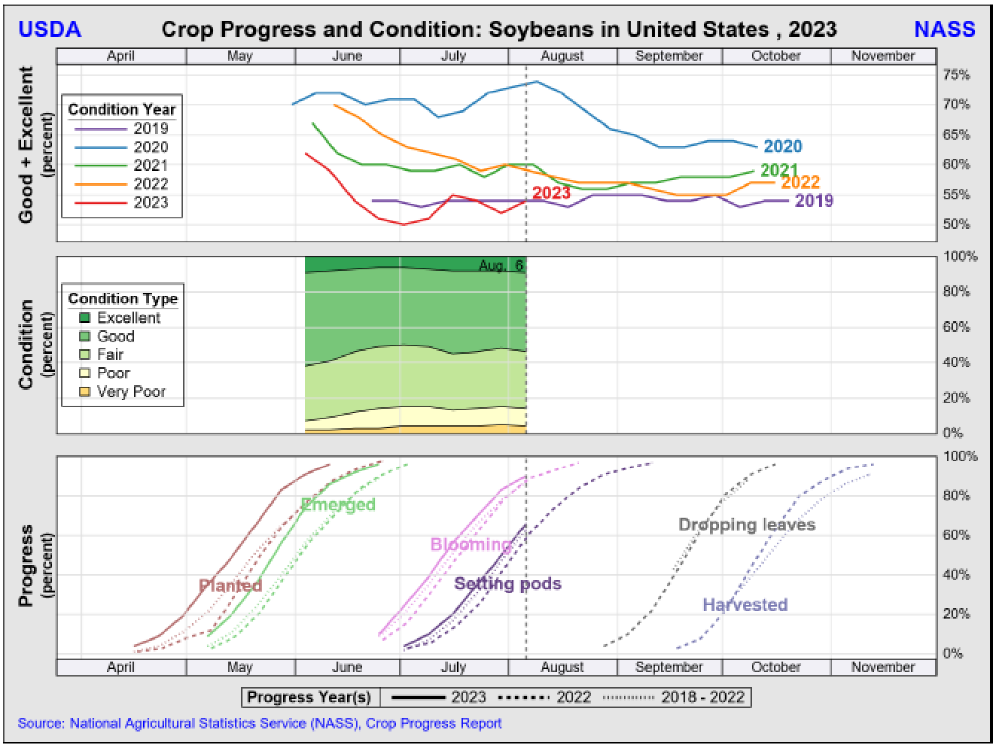
Source: NOAA

Fig 20: US's 6-10 Day Precipitation Outlook (issued: 9 Aug)



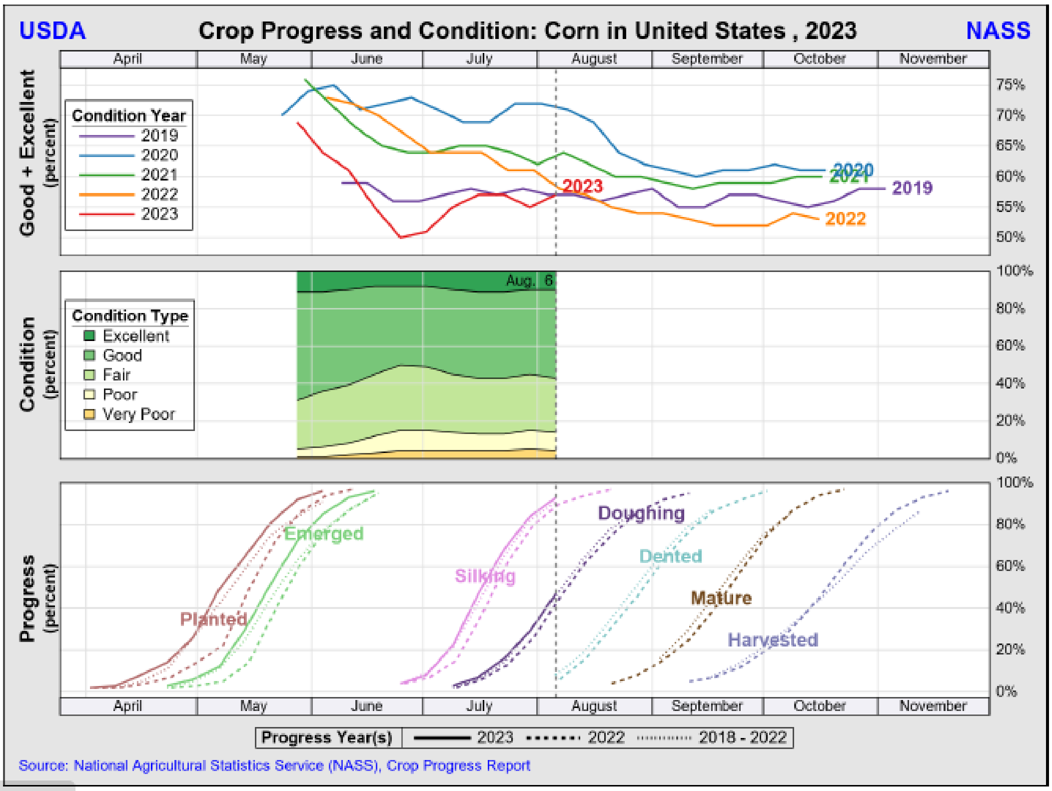
Source: NOAA

Fig 21: US Soybean Crop Progress and Condition (as at 6 Aug 2023)



Source: USDA

Fig 22: US Corn Crop Progress and Condition (as at 6 Aug 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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