

Regional Plantations

NEUTRAL

[Unchanged]

Stockpile jumped on weak exports

Production hit 10-month high

August stockpile of 2.12mt hit a 7-month high on seasonal output recovery and weak exports. We maintain our 2023 CPO ASP forecast of MYR3,700/t as CPO price needs to stay competitive in the short term to help stimulate demand amid anticipated strong output recovery in 2H23. We maintain our NEUTRAL call on the sector. Preferred BUYs are FR, BAL, SOP, & TAH.

Stockpiling on weak August exports

Aug 2023's MPOB stockpile leaped to 2.12mt (+23% MoM, +1% YoY; Fig.1) and way surpassed street's estimates of 1.90mt. Aug's production made a strong seasonal recovery to 1.75mt (+9% MoM, +2% YoY). Key surprise was exports which failed to keep up with output growth. Exports for the month of August were just 1.22mt (-10% MoM, -6% YoY). Meanwhile, domestic consumption tapered off to just 0.25mt (-27% MoM, -9% YoY) while imports rose to 0.11mt (+7% MoM, -36% YoY).

Not a good start to Sept export estimates either

The preliminary MY export estimates for shipments in the first 10 days of September 2023 by Amspec and Intertek (independent cargo surveyors) showed some further weakness in demand at 305,594t/350,823t (-20%/-11% MoM) respectively. The weak exports contrast with our expectation of strong production prospects till Oct 2023.

CPO needs to be price competitive in the near term

Over the past month, CPO price has softened marginally following a narrowing of its price gaps against other vegetable oils (Figs.8-11; with the exception of US soyoil prices), but was still below historical averages. Recent jump in August stockpile amid high production period suggests a wider price gap is needed to help stimulate demand in the near term. Hence, we continue to expect CPO price to remain under pressure for the rest of 2H23 despite concerns over potential El Nino impact on output (which will likely only impact CPO output in 2Q24 at the earliest, if any). Thus far, weather has been relatively favourable for most of the oil palm planting regions, especially those north of the equator. There were some hotspots recorded in South Sumatra and parts of Kalimantan but nowhere the peak of previous major El Nino period in 2015 (Figs.19-20). Still, this seasonal dry period usually last till end October.

Soybean progress in the USA: In the first half of August, USA's weather improved in the soybean (and corn) growing regions. But dry weather quickly set in towards the second half of August. This was reflected in the improvement of good-to-excellent crop conditions in the early part of August but crop conditions came off thereafter (see Figs.21-22). The crucial pod setting period is over and soon US farmers will start harvesting. Harvesting activities will pick up momentum in October. Dryer conditions will be required during the harvesting period. The market now eagerly awaits USDA's WASDE report to be released on 12 Sept (USA time) on any significant revision to yield expectations.

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Regional CPO price forecast

	2023E	2024E
	MYR/t	MYR/t
Full year avg (FOB)	3,700	3,500

MDEX / MPOB prices:

3M FCPO price (11 Sept)	3,713
YTD (11 Sept) 3M FCPO ASP	3,814
YTD (11 Sept) spot CPO ASP	3,904

Plantation stocks mentioned on cover page

Company	BBG ticker	Rec	Shr px	Tgt px
			LCY	LCY
MY listed				
Swk Oil Palms	SOP	Buy	2.56	2.81
Ta Ann	TAH	Buy	3.43	3.75
SG listed				
First Res.	FR	Buy	1.52	1.83
Bumitama Agri	BAL	Buy	0.57	0.89

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](#)

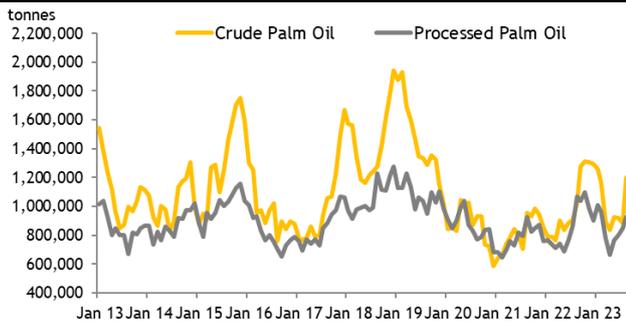
Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							23E	24E	23E	24E	23E	24E
Sime Darby Plant	SDPL MK	6,362	Hold	4.30	4.44	7	24.9	17.2	1.7	1.6	3.4	2.9
IOI Corp	IOI MK	5,419	Hold	4.03	3.85	(1)	17.8	18.9	2.0	2.1	2.9	3.2
KL Kepong	KLK MK	4,903	Hold	21.20	23.00	12	19.2	15.7	1.5	1.5	3.1	3.8
First Resources	FR SP	1,770	Buy	1.52	1.83	26	9.1	9.3	1.3	1.2	5.5	5.4
Genting Plant	GENP MK	994	Hold	5.18	6.08	21	16.2	16.1	0.9	0.9	3.7	3.7
Bumitama Agri	BAL SP	736	Buy	0.57	0.89	64	5.1	5.2	0.8	0.7	7.8	7.7
Boustead Plant	BPLANT MK	724	Buy	1.51	1.55	3	64.6	66.3	1.1	1.1	0.9	0.9
Swk Oil Palms	SOP MK	488	Buy	2.56	2.81	13	10.0	9.4	0.7	0.6	3.0	3.2
Ta Ann	TAH MK	326	Buy	3.43	3.75	16	8.2	8.6	0.8	0.8	7.3	7.0
TSH Resources	TSH MK	291	Hold	0.99	0.96	2	11.3	10.6	0.7	0.6	4.2	2.8
TH Plantations	THP MK	101	Sell	0.54	0.48	(10)	35.4	19.2	0.7	0.6	0.0	0.0

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

	June 23 (t)	July 23 (t)	Aug 23 (t)	MoM chg (%)	YoY chg (%)	8M23 (t)	YoY chg (%)
Production	1,447,697	1,609,977	1,753,472	9	2	11,445,545	(1)
Imports	135,271	103,837	110,621	7	(36)	719,486	(13)
Consumption	382,200	345,156	251,473	(27)	(9)	2,572,057	22
Exports	1,171,739	1,354,336	1,221,814	(10)	(6)	9,664,585	(1)
Closing stock	1,719,835	1,734,157	2,124,963	23	1	2,124,963	1

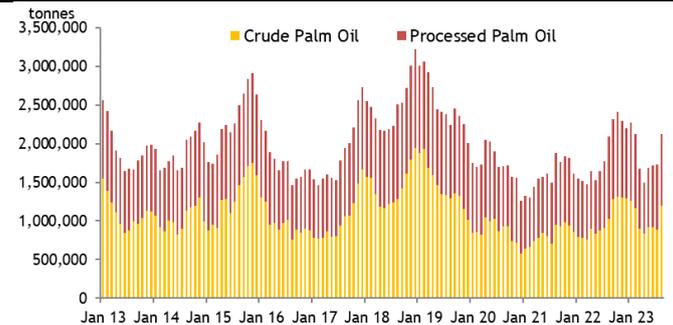
Source: MPOB

Fig 2: Monthly Stockpile (by type)



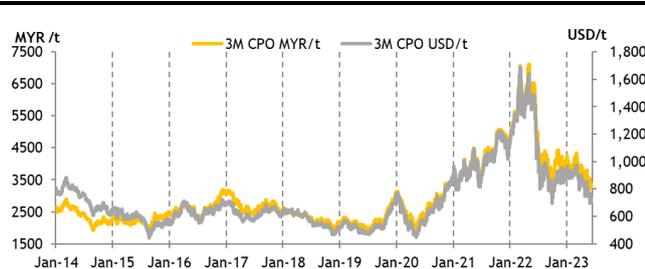
Source: MPOB

Fig 3: Cumulative Palm Oil Monthly Stockpile



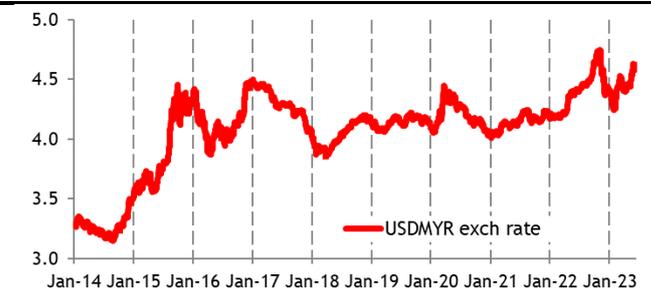
Source: MPOB

Fig 4: CPO price (in USD and MYR)



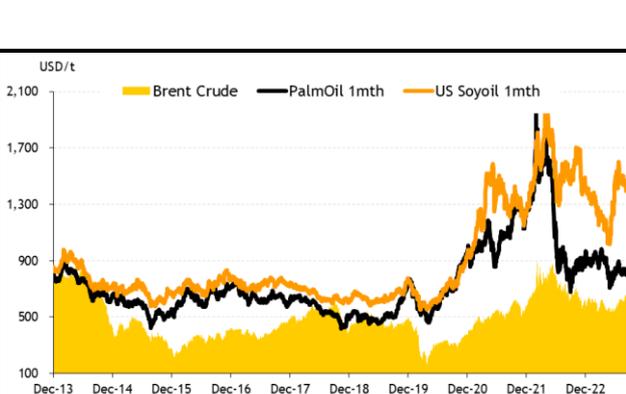
Source: Bloomberg

Fig 5: MYR per USD exchange rate



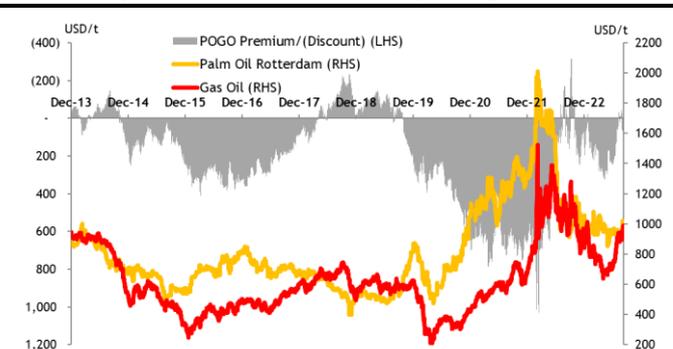
Source: Bloomberg

Fig 6: Soyoil and palm oil vs crude oil price



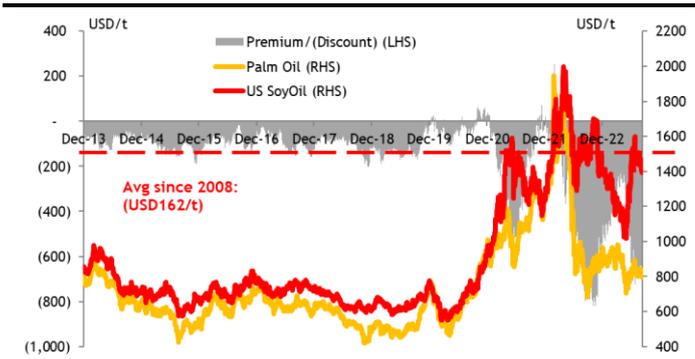
Source: Bloomberg

Fig 7: Palm Oil-Gas Oil (POGO) spread : Palm oil trades at a narrow premium of USD21/t (8 Sept) to gas oil



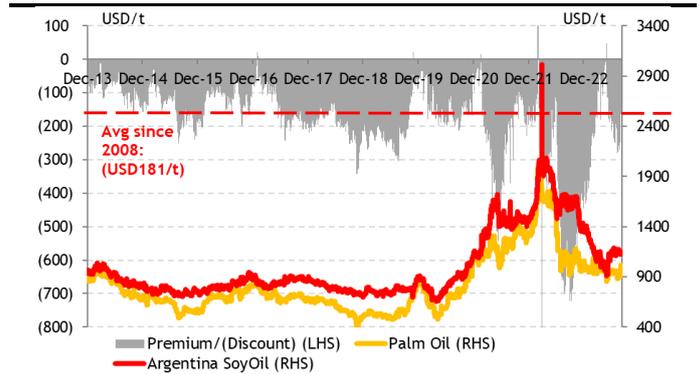
Source: Bloomberg

Fig.8: 1M palm oil price discount to US soybean oil at USD595/t (8 Sept)



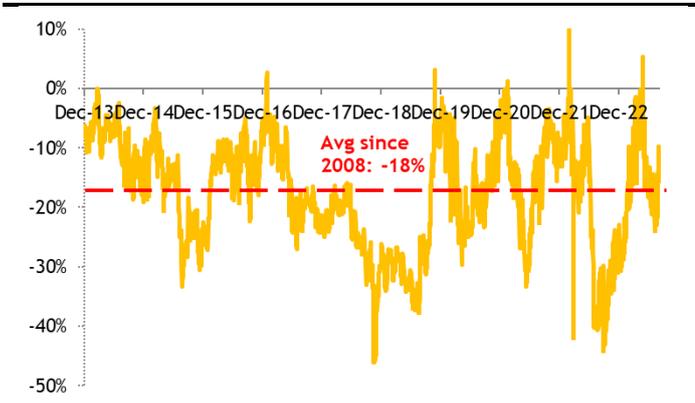
Source: Bloomberg

Fig.9: Rotterdam Palm Oil CIF price discount to Argentina Soybean Oil at USD121/t (8 Sept)



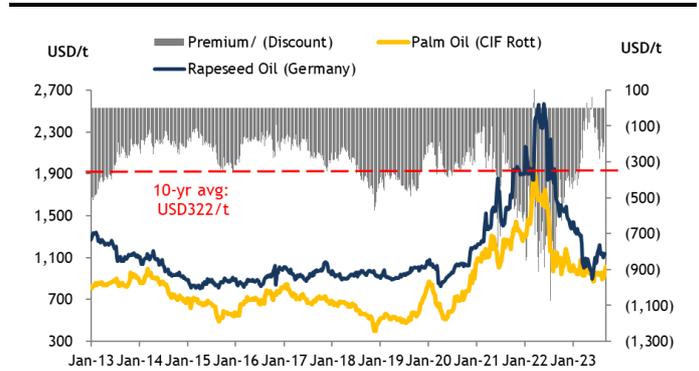
Source: Bloomberg

Fig.10: Palm oil price discount (in %) to Argentina soybean oil at 11% (8 Sept)



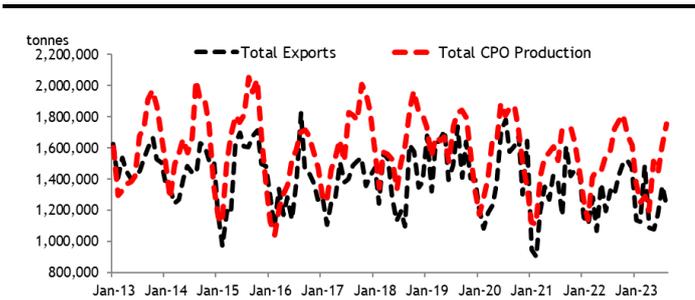
Source: Bloomberg

Fig.11: Palm Oil (CIF Rotterdam) price trades at USD124/t (8 Sept) discount to Germany rapeseed oil



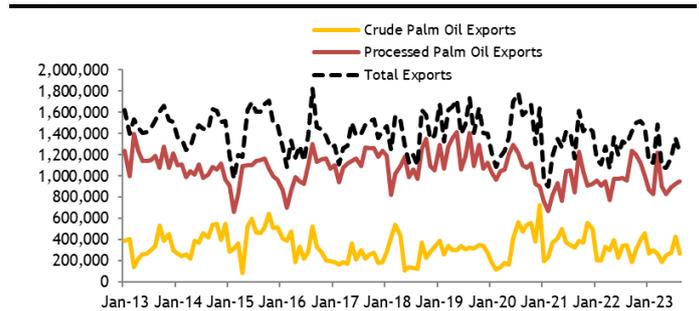
Source: Bloomberg (quoted weekly)

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



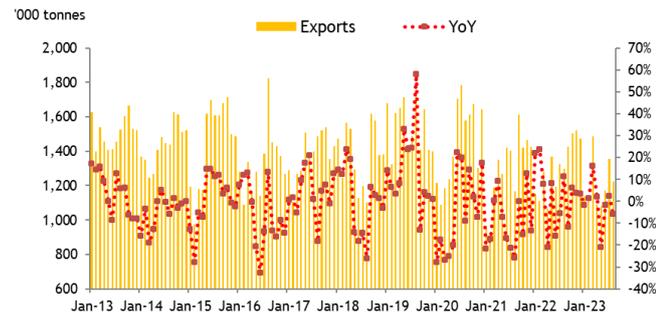
Source: MPOB

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



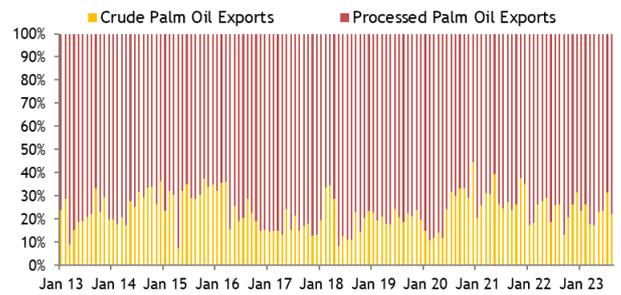
Source: MPOB

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



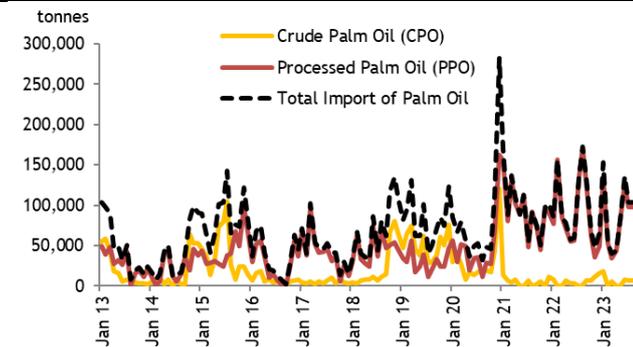
Source: MPOB

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



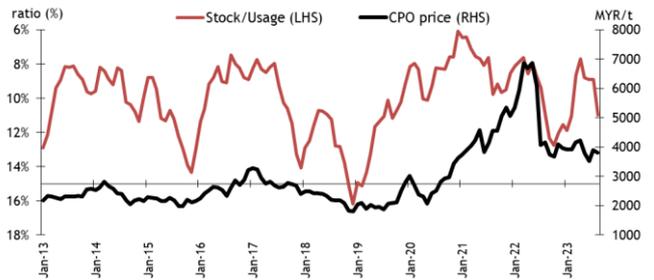
Source: MPOB

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



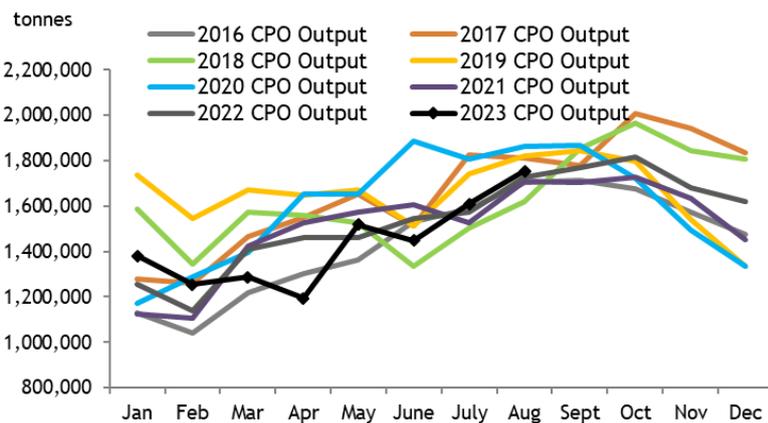
Source: MPOB

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



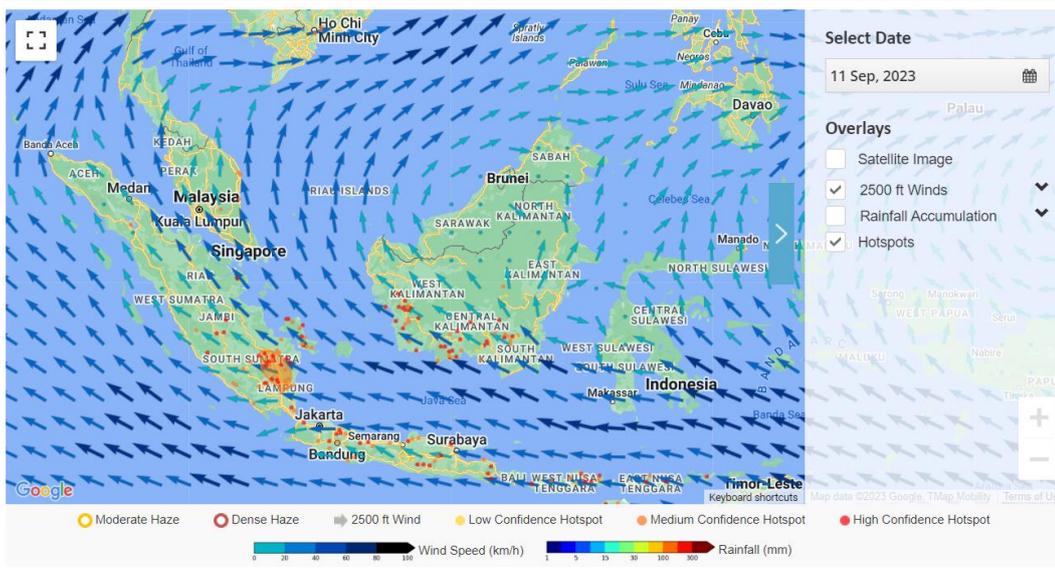
Source: MPOB, Maybank IBG Research

Fig 18: Malaysia's CPO production output



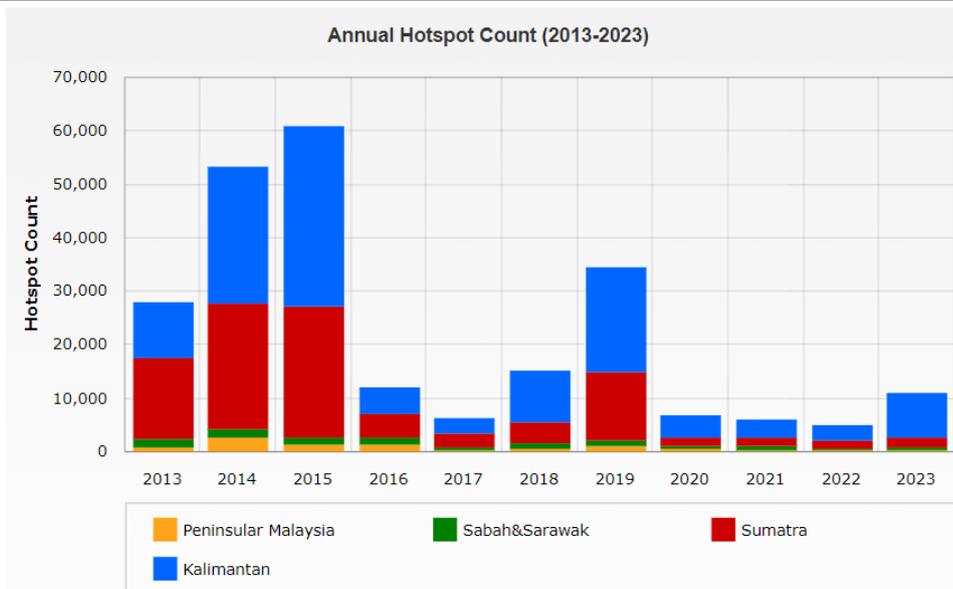
Source: MPOB

Fig 19: Regional Haze and Hotspots Situation (as at 11 Sept 2023)



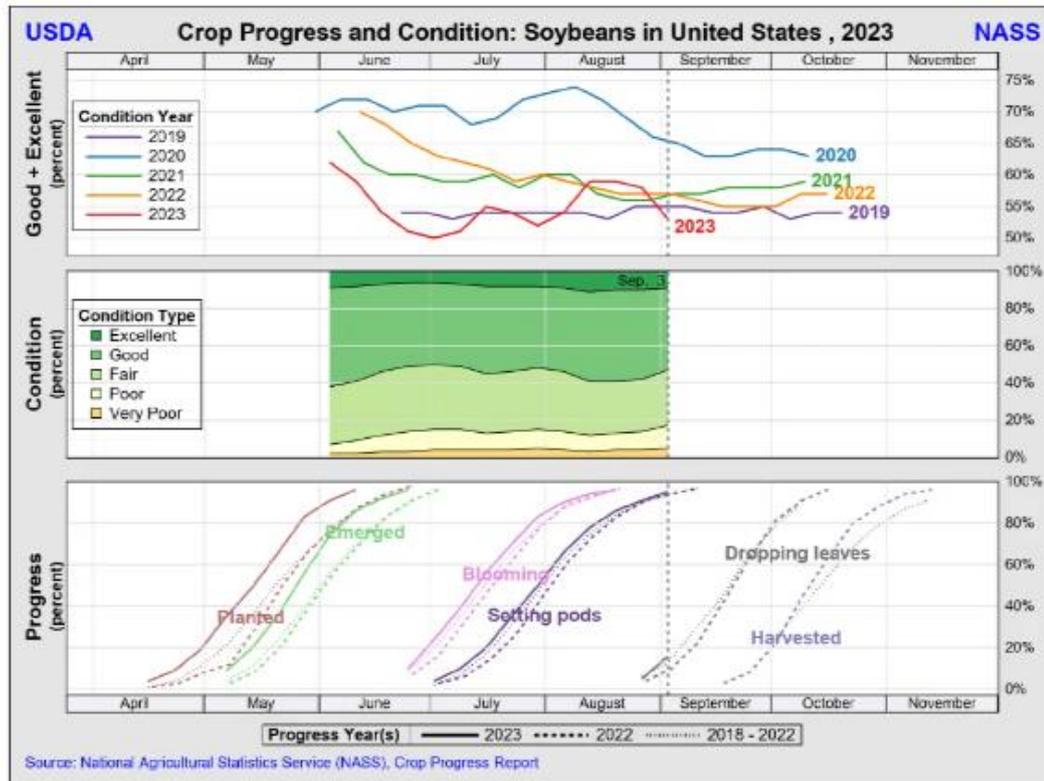
Source: ASMC

Fig 20: Annual Hotspot Count (2013-2023) - as at 11 Sept 2023



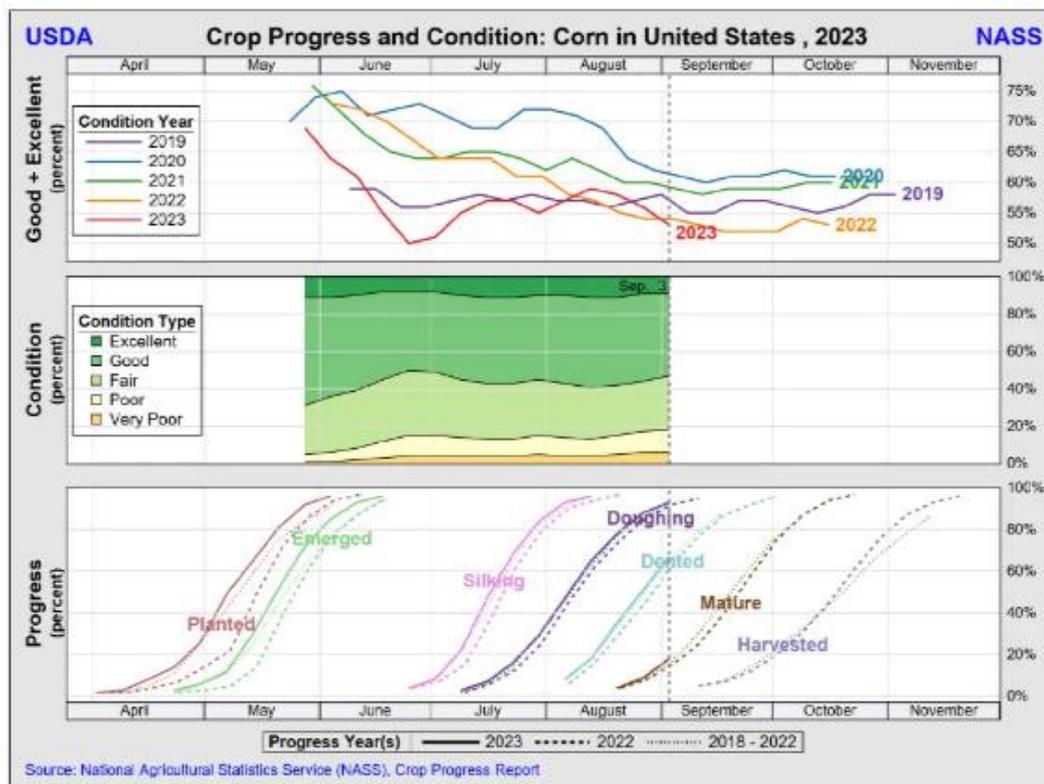
Source: ASMC

Fig 21: US Soybean Crop Progress and Condition (as at 3 Sept 2023)



Source: USDA

Fig 22: US Corn Crop Progress and Condition (as at 3 Sept 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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