

Regional Plantations

NEUTRAL

[Unchanged]

Sept output hit 36-month high

Stockpile at 11-month high

Had it not been for the unexpected strong domestic consumption, MPOB's September stockpile of 2.31mt (+9% MoM, flat YoY) would have been even higher. We posit that October stockpile may continue to climb on still strong output trend. Hence, we maintain our 2023 CPO ASP forecast of MYR3,700/t as CPO needs to stay price competitive in the short term to help boost demand. We maintain our NEUTRAL call on the sector. Preferred BUYs are FR, BAL, GENP, SOP, & TAH.

Strong domestic consumption surprised the market

Sept 2023's MPOB stockpile continued its seasonal climb to 2.31mt, but it was below street's estimates of 2.41mt on surprisingly strong domestic consumption. Sept's CPO production hit a 36-month high at 1.83mt (+4% MoM, +3% YoY) owing to improved labour situation and seemingly delayed peak cropping pattern this year. While imports more than halved MoM to just 0.05mt (-56% MoM, -63% YoY), overall key surprises lie with the weak exports which was offset by an even more surprisingly strong domestic consumption. Exports were mildly weaker MoM at 1.2mt (-2% MoM, -16% YoY) despite growing output and ample stockpile. Meanwhile domestic consumption surprised the market with a new record of 0.49mt (+96% MoM, +93% YoY) that surpassed the previous record of 0.37mt set in May 2021.

An encouraging start to October export estimates

The preliminary Malaysian export estimates for shipments in the first 10 days of October 2023 by Amspec and Intertek (independent cargo surveyors) showed improvements in demand at 395,890t/394,570t (+30%/+12% MoM) respectively. The higher exports are crucial to keep stockpile in check amid ongoing seasonal peak output cycle.

CPO needs to stay price competitive in the near term

The present wide CPO price gaps vis-à-vis other major competing oils (Figs.8-12) are needed to be sustained in order to stimulate demand of palm oil until such time that the market believes stockpile has peaked, and production is anticipated to come off rapidly. We reiterate our view that CPO price will likely soften or at best stay at current levels at least for the rest of the year (before trending higher into early part of 2024 on seasonal low output cycle).

Weather update: El Nino's impact on rainfall distribution in the oil palm producing regions have thus far been asymmetrical. While we witnessed rainfall deficit reported south of the equator in the months of August and September (namely in South Sumatra, and south of the Kalimantan Island - see Figs. 19-21), it was not the same in other parts. Rainfall has been relatively ample north of the equator (ie Malaysia, East Kalimantan and North Sumatra). Even the annual hotspot counts observed YTD in 2023 (see Fig 23) are nowhere near those experienced in the severe El Nino year of 2015. The hotspot observations are reminiscent of a mild-to-moderate El Nino although we caution that the present dry spell will continue for another month or so before a final assessment can be made. And based on past studies, El Nino typically has a lagged effect on output, and hence any impact on CPO output may only be felt in 2Q24 at the earliest.

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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 (10 Oct) | 3,565 |
| YTD (10 Oct) 3M FCPO ASP | 3,802 |
| YTD (10 Oct) spot CPO ASP | 3,876 |

Plantation stocks mentioned on cover page

| Company | BBG ticker | Rec | Shr px | Tgt px |
|------------------|------------|-----|--------|--------|
| | | | LCY | LCY |
| MY listed | | | | |
| Genting Plant | GENP | Buy | 5.30 | 6.08 |
| Swk Oil Palms | SOP | Buy | 2.56 | 2.81 |
| Ta Ann | TAH | Buy | 3.33 | 3.75 |
| SG listed | | | | |
| First Res. | FR | Buy | 1.50 | 1.83 |
| Bumitama Agri | BAL | Buy | 0.56 | 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](#)

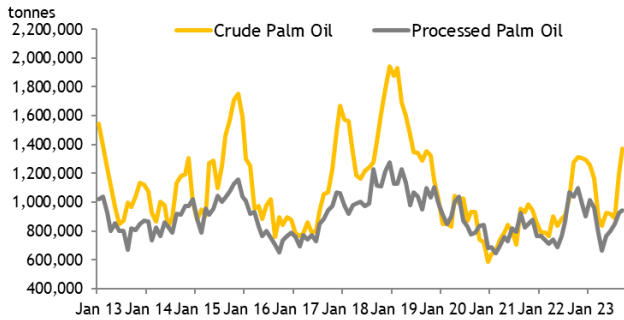
| Stock | Bloomberg code | Mkt cap (USD'm) | Rating | Price (LC) | TP (LC) | Upside (%) | P/E (x) | | P/B (x) | | Div yld (%) | |
|------------------|----------------|-----------------|--------|------------|---------|------------|---------|------|---------|-----|-------------|-----|
| | | | | | | | 23E | 24E | 23E | 24E | 23E | 24E |
| Sime Darby Plant | SDPL MK | 6,258 | Hold | 4.28 | 4.44 | 7 | 24.8 | 17.1 | 1.7 | 1.6 | 3.4 | 2.9 |
| IOI Corp | IOI MK | 5,249 | Hold | 3.95 | 3.85 | 1 | 17.8 | 18.5 | 2.0 | 2.1 | 2.9 | 3.2 |
| KL Kepong | KLK MK | 5,051 | Hold | 22.10 | 23.00 | 8 | 20.0 | 16.3 | 1.6 | 1.6 | 3.0 | 3.7 |
| First Resources | FR SP | 1,741 | Buy | 1.50 | 1.83 | 27 | 8.9 | 9.1 | 1.2 | 1.2 | 5.6 | 5.5 |
| Genting Plant | GENP MK | 1,005 | Buy | 5.30 | 6.08 | 18 | 16.6 | 16.5 | 0.9 | 0.9 | 3.6 | 3.6 |
| Bumitama Agri | BAL SP | 721 | Buy | 0.56 | 0.89 | 67 | 5.1 | 5.2 | 0.8 | 0.8 | 7.8 | 7.7 |
| Boustead Plant | BPLANT MK | 691 | Buy | 1.46 | 1.55 | 6 | 62.5 | 64.1 | 1.1 | 1.1 | 1.0 | 0.9 |
| Swk Oil Palms | SOP MK | 482 | Buy | 2.56 | 2.81 | 13 | 10.0 | 9.4 | 0.7 | 0.6 | 3.0 | 3.2 |
| Ta Ann | TAH MK | 313 | Buy | 3.33 | 3.75 | 20 | 8.0 | 8.3 | 0.8 | 0.8 | 7.5 | 7.2 |
| TSH Resources | TSH MK | 292 | Hold | 1.00 | 0.96 | 0 | 11.5 | 10.7 | 0.7 | 0.6 | 4.1 | 2.8 |
| TH Plantations | THP MK | 98 | Sell | 0.53 | 0.48 | (9) | 34.8 | 18.9 | 0.7 | 0.6 | 0.0 | 0.0 |

Fig 1: Malaysia's Monthly Palm Oil Statistics for July-Sept 2023

| | July 23 (t) | Aug 23 (t) | Sept 23 (t) | MoM chg (%) | YoY chg (%) | 9M23 (t) | YoY chg (%) |
|---------------|----------------|---------------|----------------|----------------|----------------|-------------|----------------|
| Production | 1,609,977 | 1,753,472 | 1,829,434 | 4 | 3 | 13,274,979 | (0) |
| Imports | 103,837 | 110,621 | 49,054 | (56) | (63) | 768,540 | (20) |
| Consumption | 345,156 | 251,473 | 493,769 | 96 | 93 | 3,065,826 | 30 |
| Exports | 1,354,336 | 1,221,814 | 1,196,113 | (2) | (16) | 10,860,698 | (3) |
| Closing stock | 1,734,157 | 2,124,963 | 2,313,569 | 9 | (0) | 2,313,569 | (0) |

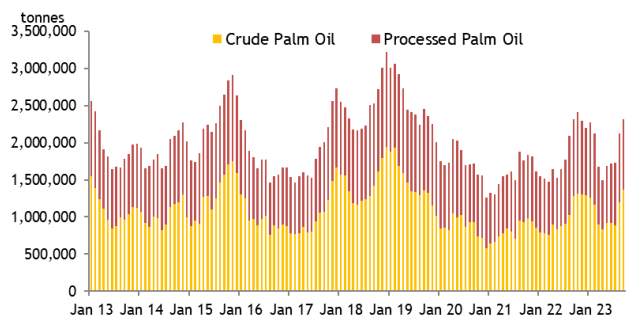
Source: MPOB

Fig 2: Monthly Stockpile (by type)



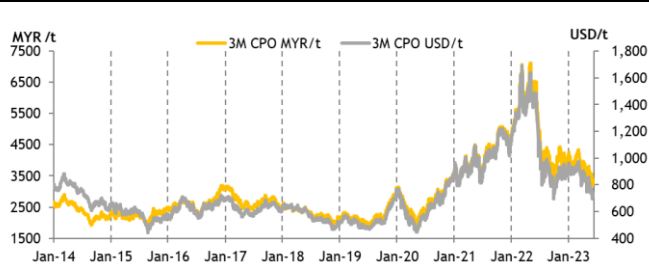
Source: MPOB

Fig 3: Cumulative Palm Oil Monthly Stockpile



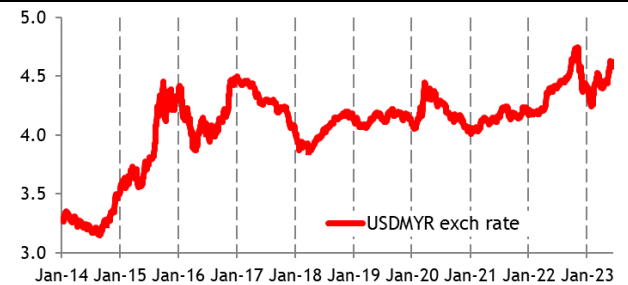
Source: MPOB

Fig 4: CPO price (in USD and MYR)



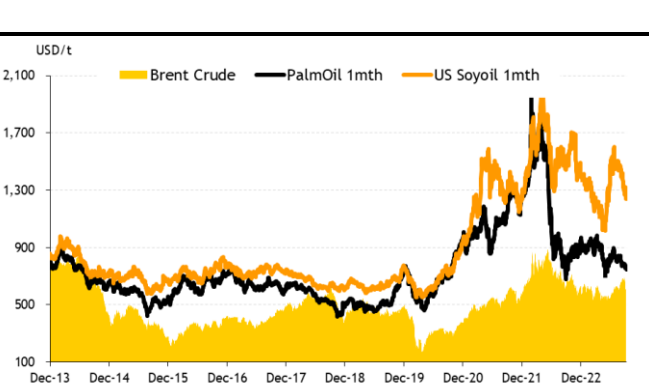
Source: Bloomberg

Fig 5: MYR per USD exchange rate



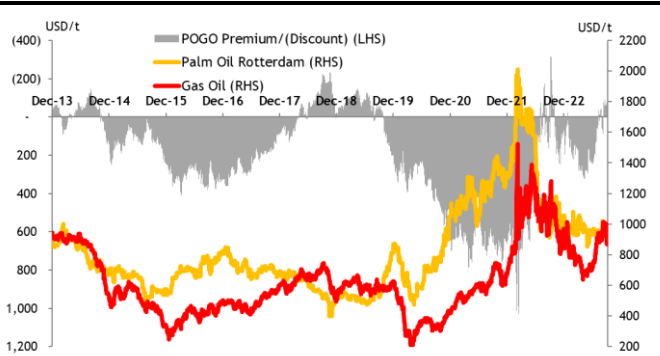
Source: Bloomberg

Fig 6: Soyoil and palm oil vs crude oil price



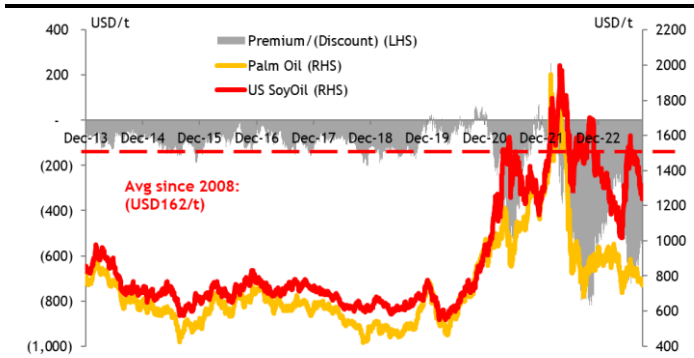
Source: Bloomberg

Fig 7: Palm Oil-Gas Oil (POGO) spread : Palm oil trades at a narrow discount of USD4/t (9 Oct) to gas oil



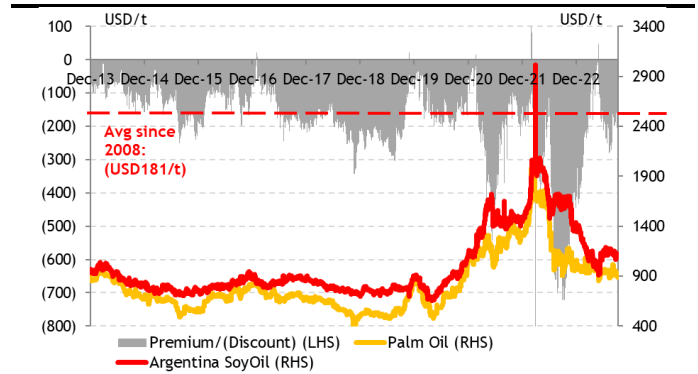
Source: Bloomberg

Fig 8: 1M palm oil price discount to US soybean oil at USD481/t (9 Oct)



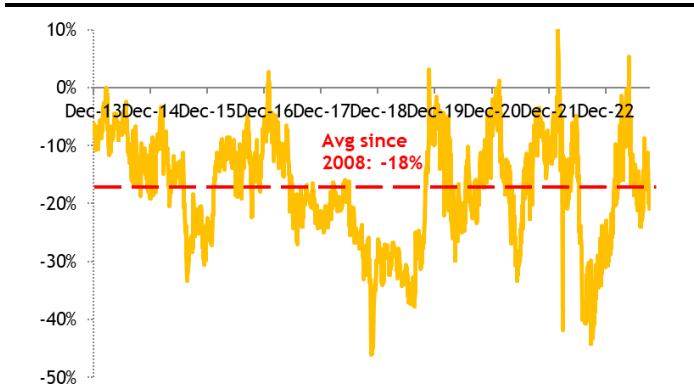
Source: Bloomberg

Fig 9: Rotterdam Palm Oil CIF price discount to Argentina Soybean Oil at USD234/t (9 Oct)



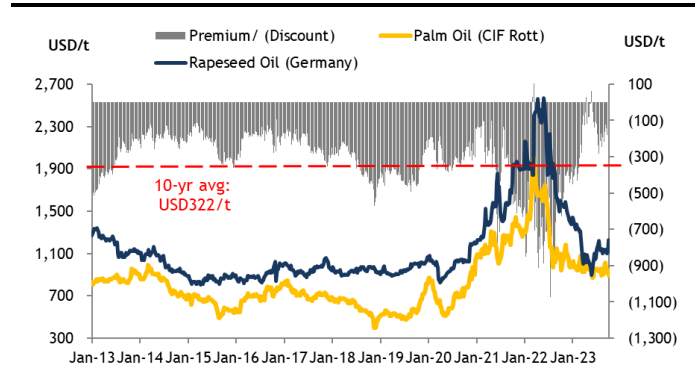
Source: Bloomberg

Fig 10: Palm oil price discount (in %) to Argentina soybean oil at 21% (9 Oct)



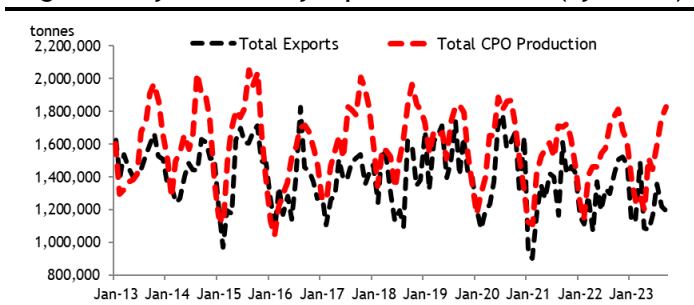
Source: Bloomberg

Fig 11: Palm Oil (CIF Rotterdam) price trades at USD333/t (9 Oct) discount to Germany rapeseed oil



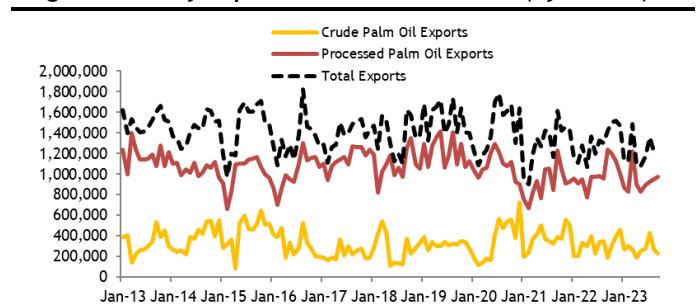
Source: Bloomberg (quoted weekly)

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



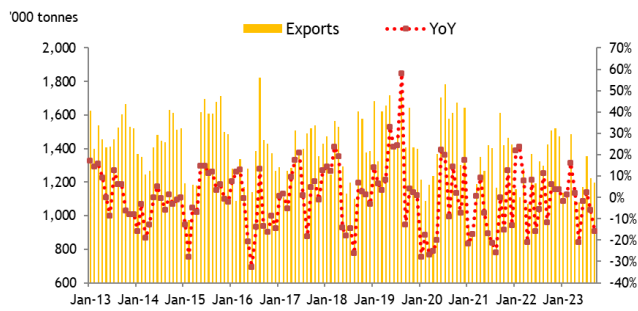
Source: MPOB

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



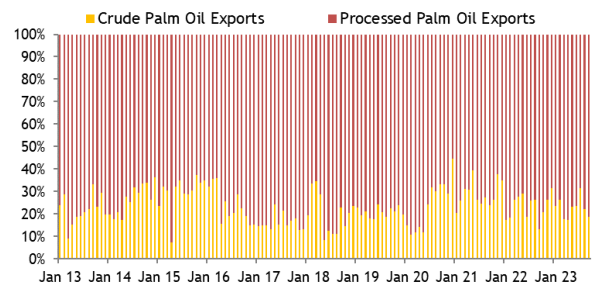
Source: MPOB

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



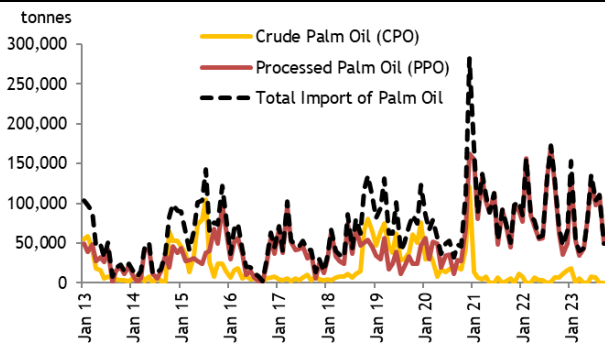
Source: MPOB

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



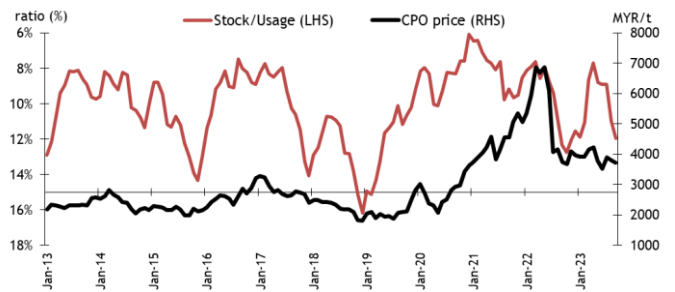
Source: MPOB

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



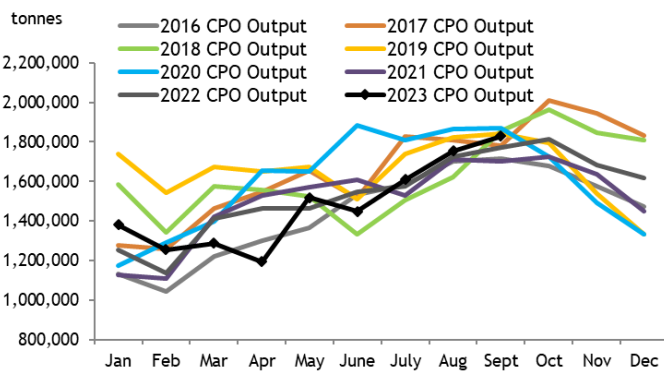
Source: MPOB

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



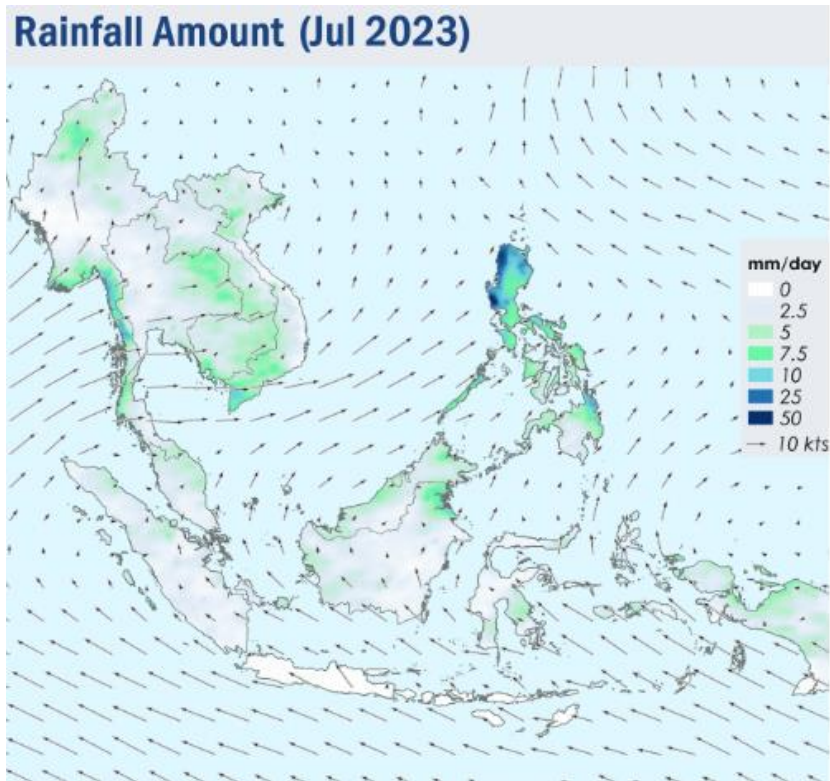
Source: MPOB, Maybank IBG Research

Fig 18: Malaysia's CPO production output



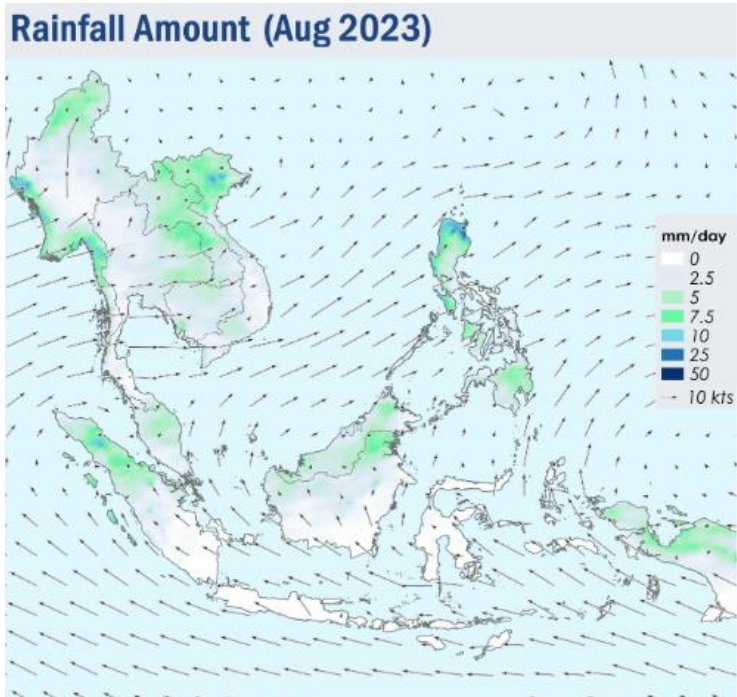
Source: MPOB

Fig 19: Average daily rainfall for July 2023 appears to be ample in oil palm producing regions



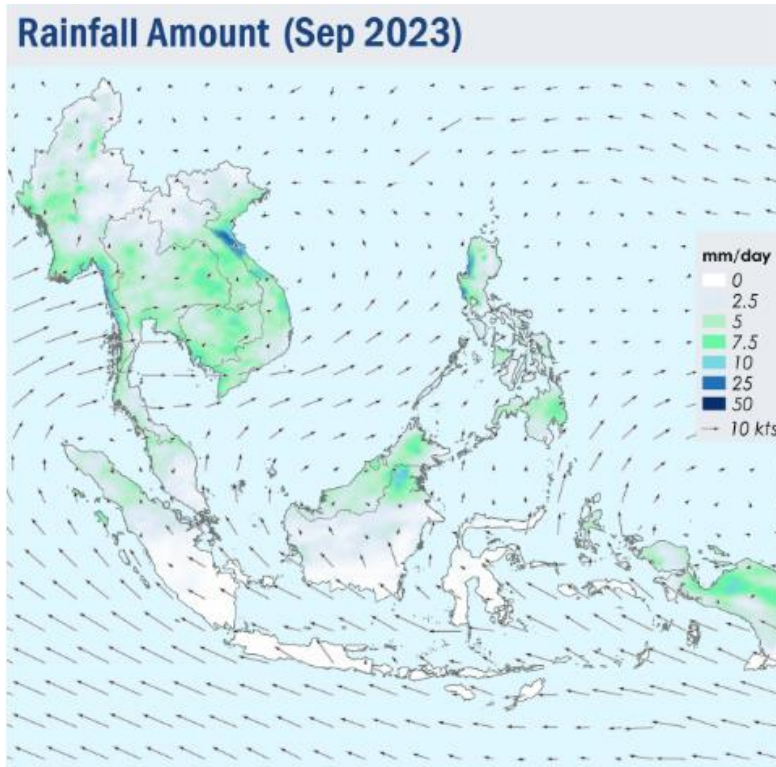
Source: ASMC

Fig 20: Average daily rainfall for August 2023 appears to be in deficit south of the equator but sufficient north of the equator



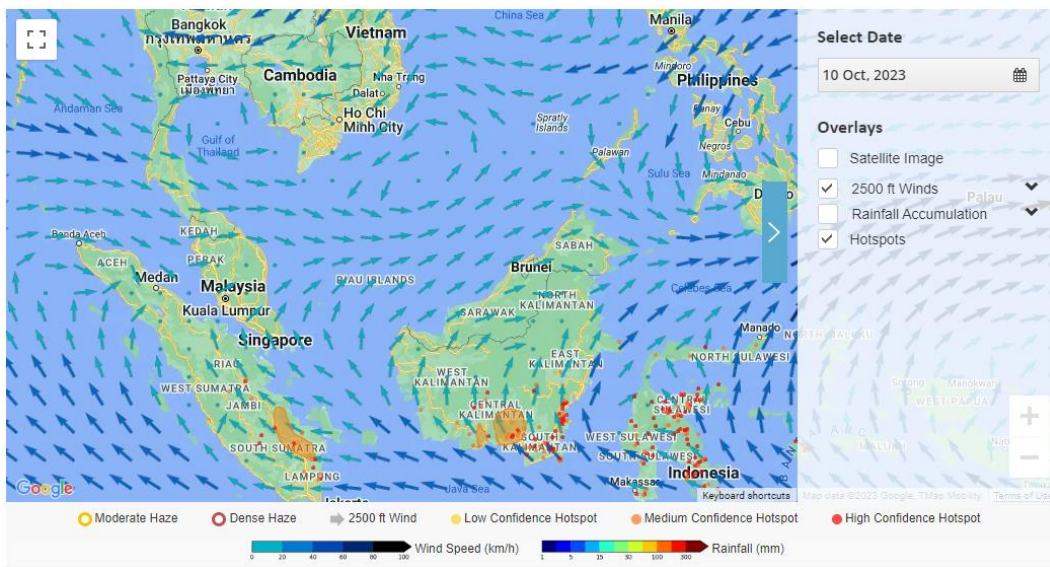
Source: ASMC

Fig 21: Average daily rainfall for September 2023 appears to be in deficit south of the equator but sufficient north of the equator

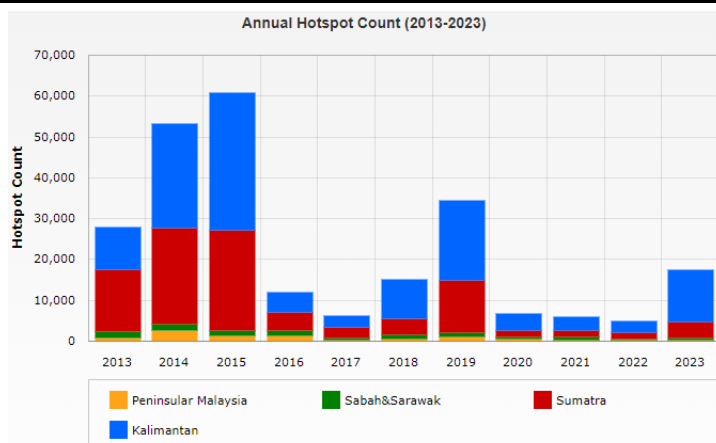


Source: ASMC

Fig 22: Regional hotspots situation (as at 9 Oct 2023)



Source: ASMC

Fig 23: Annual Hotspot Count (2013-2023) - as at 10 Oct 2023


Source: ASMC

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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