

Regional Plantations

NEUTRAL

 [Unchanged]

MPOB's 2023 report card and 2024 outlook

A more normalized 2023 performance

2023 CPO ASP of MYR3,810/t was 25% below 2022's unsustainably high CPO ASP. This led to a 24% YoY fall in MY's total export revenue in 2023 to MYR105b. MY's oil palm sector remains saddled with a few ongoing issues such as low yield, ageing trees, declining planted area, and high unit cost. Disciplined replanting with higher yielding seeds, mechanization and more consolidation (ie M&A) will remain the industry's key focus in the years to come. Our BUYs are FR, GENP, BAL, SOP & TAH.

2023 CPO yield recovered slightly

In 2023, CPO yield rose slightly to 3.14t/ha (+3.0% YoY) on better FFB yield of 15.79t/ha (+1.9% YoY) and higher OER of 19.86% (+0.16-ppts YoY) - Fig.1. The improved yield was mainly due to a better 2H23 as labour situation gradually improved. Besides higher fertilizer and wage bills over the past two years, the low yields experienced by MY planters have partly pushed up unit cost of production in FY22-23 (see Fig.2). By our estimate, MY planters' unit cost has jumped by 45% to an average of MYR2,670/t for the period of FY22-23 compared to FY17-21's 5-year average unit cost of MYR1,843/t. Nonetheless, we expect MY planters' unit cost to ease somewhat in FY24 on lower fertilizer prices and improving yields.

There are rooms for improvement

While the labour situation is expected to improve further in 2024, MY's oil palm sector continues to face several challenges such as: (1) declining planted area, (2) lacking in price competitiveness vis-à-vis ID, and (3) low yield (see above).

On point (1), MY's oil palm planted area has declined by another 0.022m ha in 2023, albeit at a slower rate compared to the past 3 years. It is the 4th consecutive year of decline in planted area (Figs.3-4) led by Pen. Malaysia (-0.025m ha) but mitigated by Sabah (+0.002m ha) and Sarawak (+0.0013m ha) which posted a small expansion. Cumulatively, MY has lost 0.25m ha in planted area between 2020 and 2023. Possible reasons for the decline include: (i) conversion to other agri crops due to oil palm diseases, worker shortages, lack of interest by the younger generation, and/or ESG considerations, (ii) unlocking of land value via property development and/or infrastructure developments such as solar farms.

On point (2), MY's domestic CPO ASP in 2023 averaged MYR3,810/t while ID's domestic CPO ASP averaged around IDR11,183/kg or MYR3,345/t mainly due to ID's export taxes (Figs.6a-6b). The lower CPO ASP in ID meant lower feedstock costs for downstream players in ID, which in turn (theoretically) should offer better margins to downstream players there (although somewhat watered down by the domestic market obligation in ID). Overall, MY's refinery utilization rate (UR) has improved to 61.8% in 2023 (Fig.7; 2022: 57.8%) but remained low due to overall over-capacity.

MPOB projects CPO price to be slightly better in 2024

At a recent outlook seminar, MPOB has projected CPO ASP of MYR3,900-4,200/t in 2024 (higher than our forecast of MYR3,700/t) mainly due to insufficient palm oil supply. Other reasons included: (a) implementation of B35 biodiesel mandate in ID that will limit exports of PO, (b) unfavourable weather conditions in 2023, (c) soybean production to be tight at least until April 2024, and (d) drawdown in MY PO stocks to 1.95mt (-14.8% YoY) by year-end - Fig.8.

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Regional CPO price forecast

	2023A	2024E
	MYR/t	MYR/t
Full year avg (FOB)	3,810*	3,700

MDEX / MPOB prices:

3M FCPO price (16 Jan)	3,861
YTD (16 Jan) 3M FCPO ASP	3,738
YTD (16 Jan) spot CPO ASP	3,722

* MPOB's official average price

Plantation stocks mentioned on cover page

Company	BBG ticker	Rec	Shr px	Tgt px
			LCY	LCY
MY listed				
Genting Plant	GENP	Buy	6.36	6.00
Swk Oil Palms	SOP	Buy	2.65	3.15
Ta Ann	TAH	Buy	3.71	3.80
SG listed				
First Res.	FR	Buy	1.48	1.82
Bumitama Agri	BAL	Buy	0.615	0.94

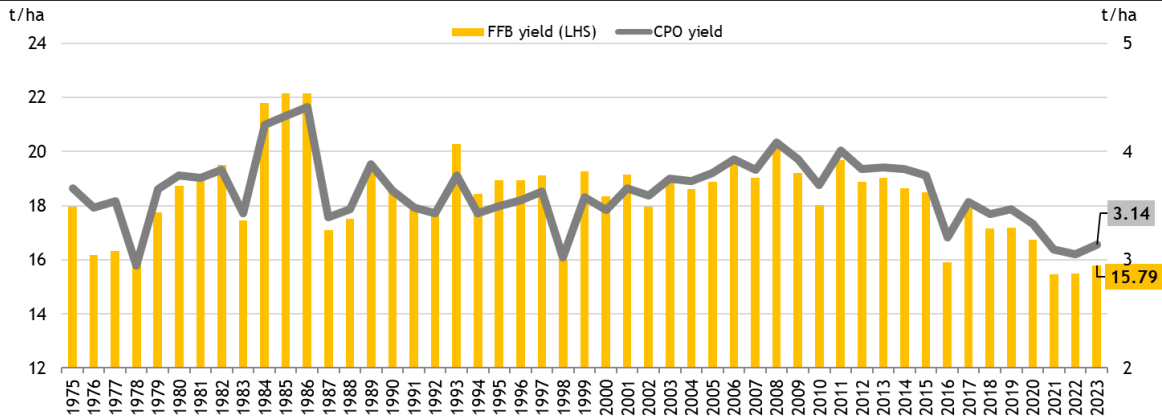
Source: Maybank IBG Research

Terms used in this note:

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

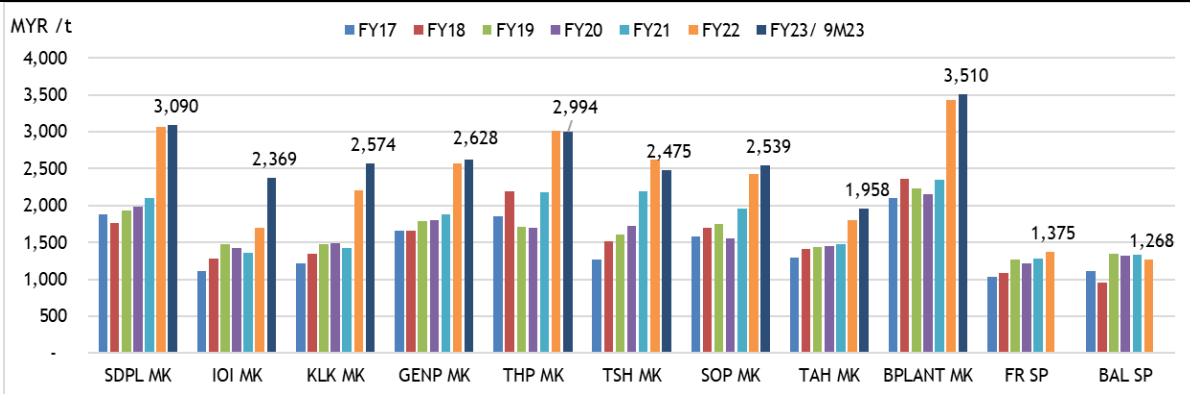
Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							24E	25E	24E	25E	24E	25E
Sime Darby Plant	SDPL MK	6,574	Hold	4.46	4.58	6	17.5	17.5	1.7	1.6	2.8	2.9
IOI Corp	IOI MK	5,305	Hold	3.96	4.07	6	18.6	18.4	2.1	2.0	3.2	3.3
KL Kepong	KLK MK	5,184	Hold	22.50	21.30	(2)	18.0	17.8	1.6	1.5	2.8	2.8
First Resources	FR SP	1,747	Buy	1.48	1.82	29	9.3	8.7	1.2	1.1	5.4	5.7
Genting Plant	GENP MK	1,216	Buy	6.36	6.00	(2)	19.1	17.8	1.0	1.0	3.1	3.4
Bumitama Agri	BAL SP	805	Buy	0.62	0.94	61	5.5	5.4	0.8	0.8	7.3	7.4
Swk Oil Palms	SOP MK	503	Buy	2.65	3.15	22	9.3	8.8	0.6	0.6	3.2	3.4
Ta Ann	TAH MK	352	Buy	3.71	3.80	10	8.8	8.8	0.9	0.8	6.8	6.8
TSH Resources	TSH MK	290	Hold	0.99	1.03	8	10.5	10.2	0.6	0.6	2.9	2.9
TH Plantations	THP MK	94	Hold	0.50	0.51	4	11.6	10.7	0.6	0.6	1.7	1.9

Fig 1: Malaysia's (MY) CPO and FFB yields since 1975



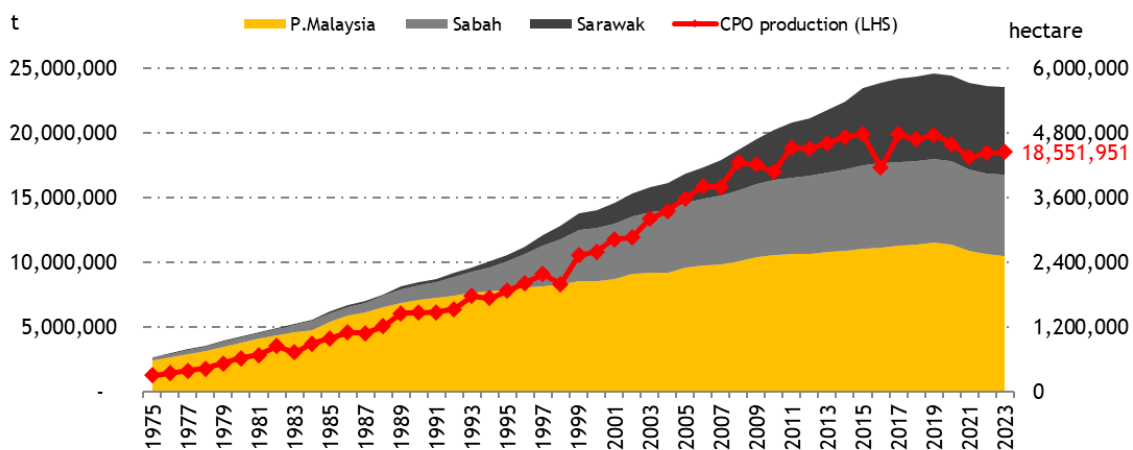
Source: MPOB

Fig 2: Estimated operating cost-to-customers of selected planters



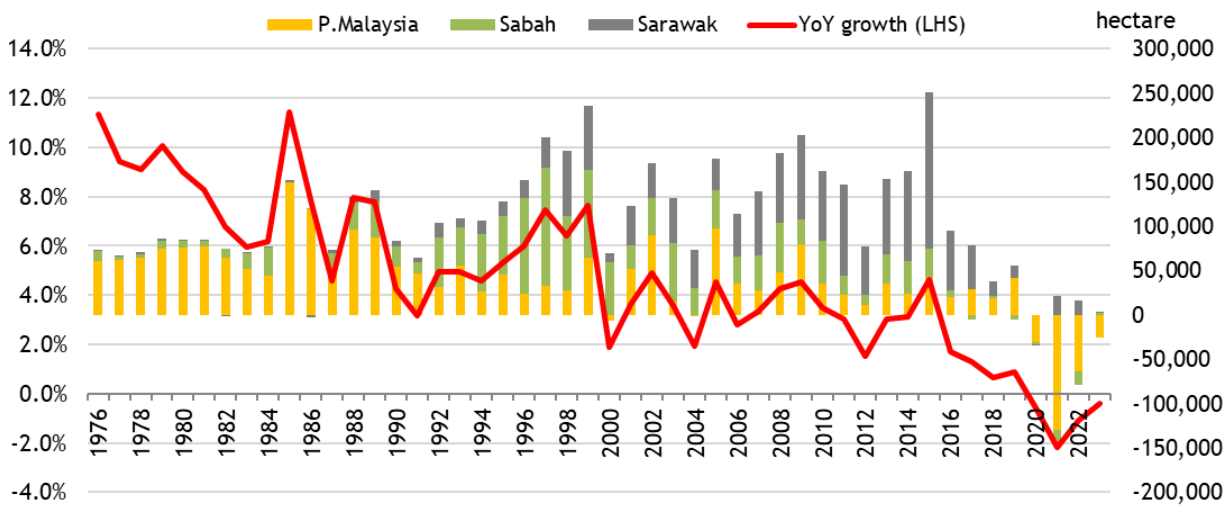
Source: Company, Maybank IBG (9M23 estimates not available for FR and BAL due to limited disclosures)

Fig 3: Malaysia's CPO output declined, in line with the decline in planted mature area



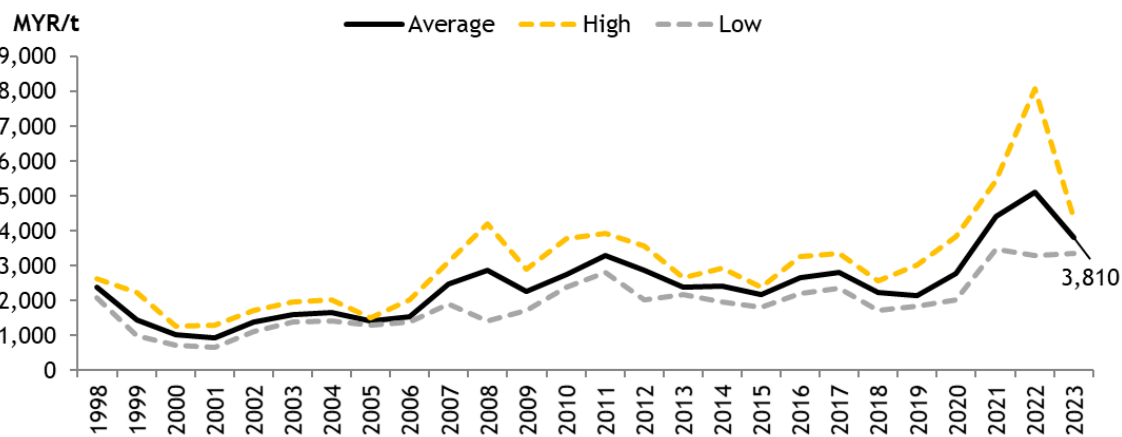
Source: MPOB

Fig 4: Malaysia's planted area in decline since 2020



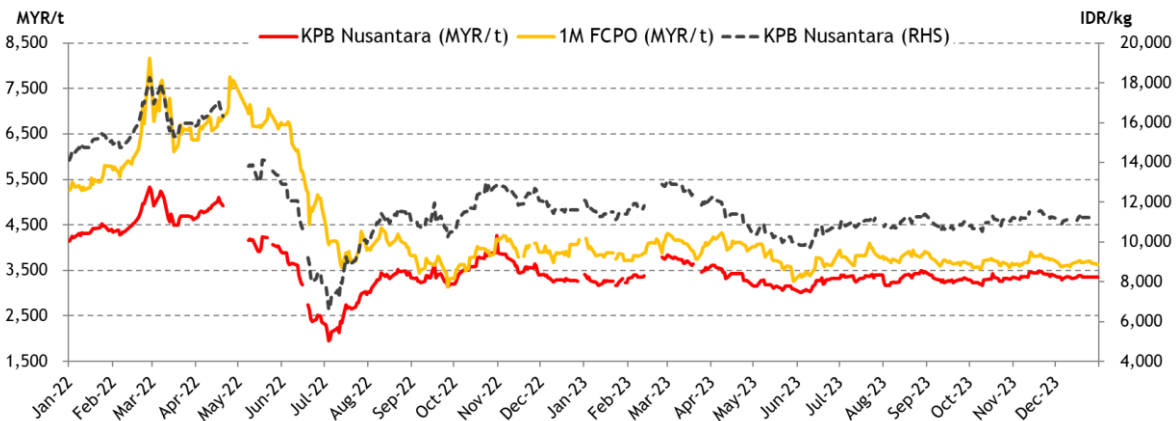
Source: MPOB

Fig 5: Malaysia's annual CPO spot prices since 1998 (MYR/t)



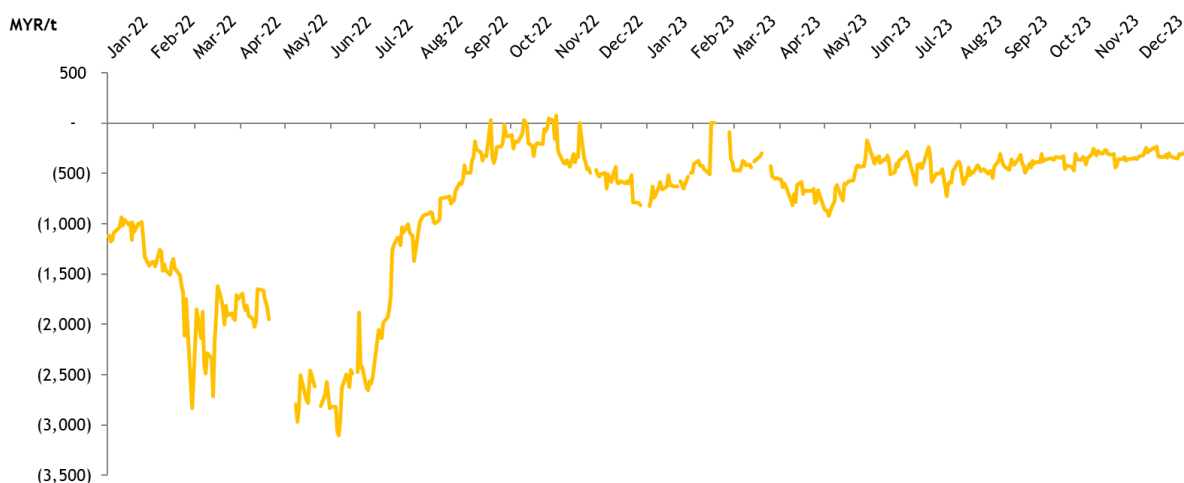
Source: Bloomberg, MPOB

Fig 6a: Domestic CPO spot prices in Malaysia (ie 1M FCPO) and Indonesia (ie KPB Nusantara in IDR/kg - dotted black line, which is translated into MYR/t - red line)







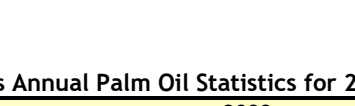
Sources: Bloomberg, MPOB, GAPKI

Fig 6b: Price spread between domestic CPO spot prices in Malaysia (ie 1M FCPO) and Indonesia (ie KPB Nusantara) in MYR/t for 2022 and 2023



Sources: Bloomberg, MPOB, GAPKI, Maybank IBG

Fig 7: Status of Malaysia's downstream sectors in 2023

	Number in Operation	Processing Capacity (Mn T/Year)	Utilization Rate (%)
	446	118.95	78.28
	40	7.34	60.44
	54	25.94	61.81
	19	2.68	95.94
	18	2.36	67.04

Source: MPOB

Source: MPOB

Fig 8: MPOB's Annual Palm Oil Statistics for 2022, 2023 and forecast for 2024

	2022 (million t)	2023 (million t)	2024's forecast by MPOB (million t)	YoY chg (%)	Comments
Production	18.45	18.55	18.75	1.1	MPOB's forecast
Imports	1.14	0.90	N/A	N/A	
Consumption	3.28	4.26	N/A	N/A	
Exports	15.73	15.10	15.60	3.3	MPOB's forecast
Closing stock	2.20	2.29	1.95	-14.8	MPOB's forecast

Source: MPOB

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 rising closer to USD150/barrel; (iii) weather anomalies at major palm oil and oilseeds producing regions; (iv) unfriendly government policies at producing or exporting countries; and (v) escalation of geopolitical tensions in Russia-Ukraine and/or the Middle East.

Downside risks: (i) Reversal of Brent crude oil price to sharply below USD80/barrel; (ii) negative policies imposed by importing countries and/or exporting countries; (iii) global demand turns out to be weaker than expected on demand destruction and/or global recession; (iv) weaker competing oil prices (like soybean and rapeseed); and (v) banking crisis in the West extending into a global crisis.

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