

SECTOR UPDATE

Plantation – Malaysia

MPOB Jun 24: Data Remains Supportive To CPO Prices

The MPOB June 2024 data is supportive to CPO prices: the increase in palm oil inventory is slow and is likely to remain at the current level for the next few months in view of slower production growth. We maintain our view that CPO prices will trend higher in 2H24 due to tighter supplies and steady palm oil demand from India and China. Maintain OVERWEIGHT and focus on companies with good growth prospects and dividend yields like IOI Corporation (IOI MK) and Hap Seng Plantations (HAPL MK).

MPOB'S JUN 24 STATISTICS

(m tonnes)	Jun 24	mom % chg	yoy % chg	1H24	yoy % chg
CPO Production	1.62	(5.2)	11.6	8.88	9.9
Palm Oil Stocks	1.83	4.3	6.6	1.83	6.6
Palm Oil Domestic Use	0.35	3.3	(10.3)	1.97	(0.6)
Palm Oil Exports	1.21	(12.8)	2.9	7.52	6.1
Oleochemical	0.22	(15.6)	(0.4)	1.48	8.2
Biodiesel	0.0	(35.3)	12.5	0.16	72.2
Palm Oil Imports	0.01	(43.5)	(19.4)	0.15	(70.1)
CPO Price (RM/tonne)	3,957.5	1.4	12.3	4,010.5	2.3

Source: MPOB, UOB Kay Hian

WHAT'S NEW

- Jun 24: Within market expectations.** Palm oil inventory as at end-Jun 24 came in within expectations at 1.83m tonnes (+4.3% mom or +76,000 tonnes mom). The increase in palm oil inventory was mainly due to lower exports mom. The key highlights from the MPOB June report are:
 - Production:** Although production came in within our latest estimates, it was below our initial estimate of 1.65m tonnes. The adjustment was made after the high rainfall in Sabah and Sarawak in late-Jun 24. This led to slower harvesting and also lower OER for June at 19.4% vs May of 19.52%. For 1H24, CPO production was up by 9.9% or 793,000 tonnes yoy. This strong recovery was driven largely by improvement in overall labour productivity and yield recovery in Sarawak.
 - Exports:** Despite being lower mom, Jun 24 exports were still up yoy, with the demand likely to come from India and China.
 - Imports:** Jun 24 imports slumped by 43.5% mom and 19.4% yoy. Despite lower export duty and levies in Indonesia, we are not seeing big movement of palm oil from Indonesia, which could be an indicator of lower palm oil supply in Indonesia.

ACTION

- Maintain OVERWEIGHT.** We maintain our view on: a) firm CPO prices and the recovery of by-product prices, b) lower cost of production supported by better oil yield per ha and lower fertiliser prices, and c) strong cashflow which continues to support decent yield for some of the mid-sized plantation companies. This coupled with the recent 1Q24 results show a positive yoy earnings trend, which we reckon will continue the momentum to the next result.

PEER COMPARISON

Company	Ticker	Rec	Price @	Target	Market Cap (US\$m)	PE			ROE (%)	P/B (x)	2024F	Div Yield (%)
			10 July 24	Price		2023 (x)	2024F (x)	2025F (x)			Div (sen)	
			(RM)	(RM)								
Genting Plantations	GENP MK	BUY	5.85	6.65	1116.8	16.9	15.0	20.0	4.8	1.0	17.1	2.9
Hap Seng Plantations	HAPL MK	BUY	1.74	2.25	296.1	14.0	8.6	13.1	4.7	0.7	11.8	6.8
IOI Corporation	IOI MK	BUY	3.68	4.8	4857.7	15.6	14.4	13.9	10.0	2.0	14.7	4.0
KL Kepong	KLK MK	BUY	20.02	24.8	4670.5	23.3	19.3	14.2	5.8	1.5	76.3	3.8
Kim Loong	KIML MK	HOLD	2.21	1.95	458.5	13.0	14.7	11.6	17.4	2.5	15.5	7.0
SD Guthrie	SDG MK	HOLD	4.21	4.15	6195.1	33.1	17.4	20.5	9.6	1.5	14.5	3.4
Sarawak Oil Palms	SOP MK	HOLD	2.85	3	540.8	8.5	6.6	5.7	8.8	0.7	8.6	3.0

Source: Respective companies, Bloomberg, UOB Kay Hian

OVERWEIGHT

(Maintained)

STOCK PICKS

Company	Rec	Share Price (RM)	Target Price (RM)
Genting Plantations	BUY	5.85	6.65
Hap Seng Plantations	BUY	1.74	2.25
IOI Corporation	BUY	3.68	4.80
KL Kepong	BUY	20.02	24.80

Source: UOB Kay Hian

CPO PRICE ASSUMPTIONS (RM/TONNE)

	CPO Price (RM/tonne)
2020	2,686
2021	4,408
2022	5,088
2023	3,810
Our forecast:	
2024F	4,200
CPO Price:	
MPOB @ 7 June 24	3,985.50
BMD 3 rd Month Contract	3,917.00

Source: MPOB, Bloomberg, UOB Kay Hian

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- **Top picks:** Our top picks include companies with good growth prospects and dividend yields. We also expect higher CPO prices. Our top picks for the sector remain IOI Corporation and Hap Seng Plantations.

SECTOR CATALYSTS

- **Outlook for July.** Oil palm trees are expected to enter the high production season in 3Q24. Although we are looking at mom growth for Jul 24, it is likely to be low- to mid-single-digit. Malaysia exports are expected to be good in July, which will offset the production growth and lead to lower to flattish end-stocks mom. Thus, the upcoming data remains supportive to elevated CPO prices.
- **2Q24 pure upstream companies should report better earnings yoy and qoq.** This is driven by: a) better selling volume and production (up yoy and qoq), b) better selling price, and c) lower cost of production due largely to lower fertiliser prices. For companies with downstream exposure, refining margins remain thin and competitive, which may offset the improvement from upstream.

ASSUMPTION

- **Maintain CPO price assumption at RM4,200/tonne.** For 1H24, CPO spot price was at an average of RM4,018.3/tonne (+2.5% yoy). As we expect higher trading prices in 2H24, we are maintaining our CPO ASP assumption for 2024 at RM4,200/tonne.

CPO JUN 24 CPO PRODUCTION BY REGION

(m tonnes)	Jun 24	mom % chg	yoy % chg	1H24	yoy % chg
CPO Production	1.6	(5.2)	11.6	8.8	9.9
Pen Malaysia	0.9	(4.7)	27.1	5.0	19.3
Sabah	0.3	(8.2)	(8.2)	1.9	(5.4)
Sarawak	0.3	(3.8)	(1.9)	1.8	3.6

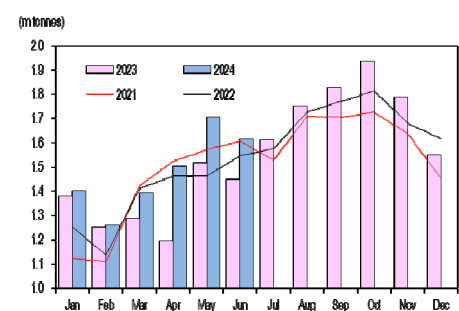
Source: MPOB

CPO PRICE MOVEMENT



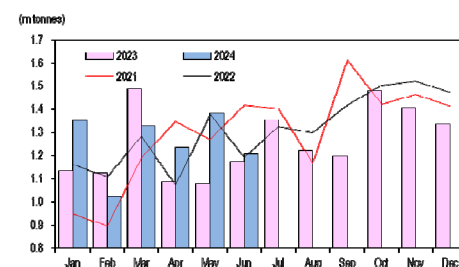
Source: Bloomberg

MALAYSIA PALM OIL PRODUCTION



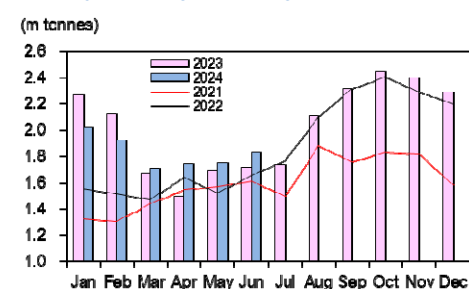
Source: MPOB

MALAYSIA PALM OIL EXPORTS



Source: MPOB

MALAYSIA PALM OIL INVENTORY



Source: MPOB

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