

## SECTOR UPDATE

### Plantation – Malaysia

MPOB Aug 22: Inventory Hit 33-Month High On Higher Production And Imports

Malaysian palm oil inventory hit a 33-month high as at end-Aug 22 on better production as trees are at peak season and the recent small intake of new foreign workers has led to better crop recovery. Production was flat yoy for 8M22 and total production for 2022 is likely to only be at 18.0-18.2m tonnes. More foreign workers may start coming in towards 4Q22 which will reduce crop losses but it is still far from solving the shortage issue. Maintain MARKET WEIGHT.

#### MPOB'S AUG 22 STATISTICS

(m tonne)	Aug 22	mom % chg	yoy % chg	8M22	yoy % chg
CPO Production	1.73	9.7	1.4	11.57	(0.1)
Pen Malaysia	0.95	4.5	0.2	6.51	1.2
Sabah	0.38	19.3	(6.2)	2.60	(3.6)
Sarawak	0.40	14.6	13.6	2.47	0.1
Palm Oil Stocks	2.09	18.2	11.6	2.09	11.6
Palm Oil Domestic Use	0.25	(4.4)	(1.3)	2.01	(8.4)
Palm Oil Exports	1.30	(1.9)	11.3	9.82	1.9
Oleochemical	0.21	(2.3)	(8.7)	1.81	(5.6)
Biodiesel	0.03	(48.9)	(40.6)	0.22	1.2
Palm Oil Imports	0.15	11.4	59.1	0.77	(9.4)
CPO Price (RM/tonne)	4,169.0	2.6	(8.5)	5,755	39.6

Source: MPOB, UOB Kay Hian

#### WHAT'S NEW

- **Data came in within expectations.** The latest data released by Malaysian Palm Oil Board (MPOB) for Aug 22 is well within expectations, with end-stocks climbing above the 2m tonne mark since Dec 19 at 2.01m tonnes, which is a 33-month high. This came within market expectations. Aug 22 end stocks were up by 12% yoy or 18% mom, driven by higher production and imports while exports were down marginally mom.
- **Higher production driven by EM.** 74% of the yoy production incremental was driven by East Malaysia (EM). The growth in EM was mainly driven by better harvesting, with less disruption from rains and the return of some employees from their home countries leading to a better harvesting round and loose fruits recovery. For Oct 22, production may still see good growth though we do expect lower production towards end-4Q22. For 8M22, total CPO production was only at 11.57m tonnes, which was marginally lower than the 11.60m tonnes for 8M21. Thus, we have revised down 2022 Malaysia CPO production forecast to 18.0-18.2m tonnes from 18.7m tonnes previously.

#### ACTION

- **Maintain MARKET WEIGHT.** Recent CPO price weakness could have factored in the rising palm oil inventory, but we do expect CPO prices to recover from the current level as production from both Malaysia and Indonesia towards 4Q22 may not be as great as the market anticipates. Thus, end-22 inventory may not be at a burdensome level yet. However, there are no near-term catalysts for plantation share price performance with the exception of IOI Corporation (**IOI MK/BUY/Target: RM4.80**) and Hap Seng Plantations (**HAPL MK/BUY/Target: RM2.80**), for which we expect their financial performance to outperform peers' and be supportive to share price performance.

#### PEER COMPARISON

Company	Ticker	Rec	Price @ 13 Sep 22	Target Price	Market Cap (US\$m)	PE			ROE (%)	P/B (x)	2022F Div	Div Yield (%)
			(RM)	(RM)		2021 (x)	2022F (x)	2023F (x)			(sen)	
<b>Malaysia</b>												
Hap Seng Plantations	HAPL MK	BUY	2.30	2.8	408	8.2	8.0	16.3	12.5	1.0	17.2	7.5
IOI Corporation	IOI MK	BUY	4.06	4.80	5,602	18.3	16.0	20.5	16.5	2.3	13.2	3.3
Genting Plantations	GENP MK	HOLD	6.56	5.90	1,307	13.6	15.6	26.1	8.6	1.1	25.2	3.8
Kim Loong	KIML MK	HOLD	1.69	1.80	363	8.5	8.9	9.5	17.5	1.9	15.4	9.1
KL Kepong	KLK MK	HOLD	22.00	25.25	5,268	10.5	13.2	16.1	19.9	1.8	99.8	4.5
Sime Darby Plantation	SDPL MK	HOLD	4.33	4.75	6,650	12.7	13.5	28.3	13.6	1.6	9.8	2.3
Sarawak Oil Palms	SOP MK	HOLD	2.57	2.47	508	2.9	4.5	8.0	19.7	1.1	23	8.9

Source: UOB Kay Hian

## MARKET WEIGHT

(Maintained)

#### STOCK PICKS

Company	Rec	Share Price (RM)	Target Price (RM)
Hap Seng Plantations	BUY	2.30	2.80
IOI Corporation	BUY	4.06	4.80

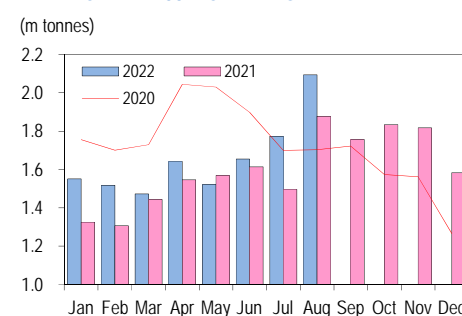
Source: UOB Kay Hian

#### CPO PRICE ASSUMPTIONS (RM/TONNE)

	CPO Price (RM/tonne)
2020	2,686
2021	4,408
<b>Our forecast:</b>	
2022F	5,200
2023F	4,000
<b>CPO Price:</b>	
MPOB @ 12 Sep 22	3,623
BMD 3rd Month Contract	3,550

Source: UOB Kay Hian

#### INVENTORY HIT 33-MONTH HIGH



Source: Malaysian Palm Oil Board (MPOB)

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## ESSENTIALS

- **Export declined mom in Aug 22.** As Indonesian palm oil is slow in regaining its market share with its competitive pricing and higher exports quota, Malaysia palm oil exports dropped by 2% mom in Aug 22. Having said that, we expect Malaysia palm oil exports to increase in Sep-Oct 22, with palm oil being more attractive for India and China buyers, given positive import margins and huge palm oil-soybean oil (PO-SBO) price spread.
- **1H22 results wrap.** Among all plantation companies under our coverage, results were mostly within our expectations with companies' earnings coming in higher yoy for 1H22 (thanks to high CPO prices). However, Genting Plantations (GENP) earnings came in way higher than our and consensus' expectations, mainly due to unexpected low fertiliser application. Both IOI Corporation (IOI) and Kuala Lumpur Kepong (KLK) earnings were slightly above our expectations, with higher contribution from downstream operations as the Malaysian downstream benefitted from the Indonesian export limitation, resulting in higher demand in 2Q22. For 2H22, we expect most of the plantation companies to report lower hoh earnings due to the softening CPO prices and higher cost of production (higher fertiliser costs and higher wages) despite higher production.

## SECTOR CATALYSTS

- **Lower-than-expected Malaysia palm oil production.** Due to the weather uncertainties and a triple-dip La Nina weather phenomenon, we expect a slower-than-expected yield recovery from the older trees and lower oil extraction rate (OER). Hence, we expect Malaysia palm oil production to come in lower than market expectation at ~18.0m tonnes (market expectation: 18.3-18.7m tonnes)
- **Indonesia's production growth may suffer from crop losses.** Recall that some of the Indonesian palm oil mills were closed or refused to take in external crops in 2Q22 due to the internal stockpile. Hence, a lot of fruit were left on the trees to rot. This would affect the production in the upcoming months as harvesters would need to spend more time to trim the brunches and may also affect the production yield moving forward. With this, we expect that Indonesia's palm oil production growth may come in lower than market expectations.

## ASSUMPTION CHANGES

- **No change to CPO ASP assumptions.** We maintain our CPO price assumptions at RM5,200/tonne and RM4,000/tonne for 2022 and 2023 respectively.

## RISKS

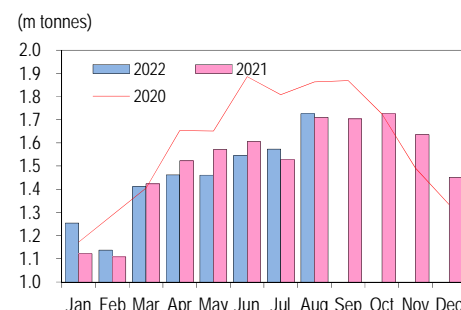
- Higher demand from biodiesel and renewable diesel may lead to higher-than-expected vegoil consumption and mitigate the recession risk concern.

## MALAYSIA: PALM OIL EXPORTS BY DESTINATION

('000 tonne)	Aug 22	mom % chg	yoy % chg	8M22	yoy % chg	Remarks
TOTAL	1,300	(1.9)	11.8	8,819	(8.4)	
India	234	(9.2)	(23.9)	1,889	(10.6)	Weaker mom as Indonesia is regaining exports market share. Overall demand slowed down partly due to weaker demand from energy sector. Exports momentum is picking up as palm oil is more competitively priced in China vs soybean oil.
EU	130	74.9	19.8	980	(8.9)	
China	127	128.9	(7.9)	748	(28.3)	
Japan	56	25.0	71.2	359	28.9	
Pakistan	52	44.3	(1.5)	325	(20.8)	
US	10	(65.3)	(59.1)	111	(40.7)	
Others	692	(16.6)	38.3	4,408	(2.6)	

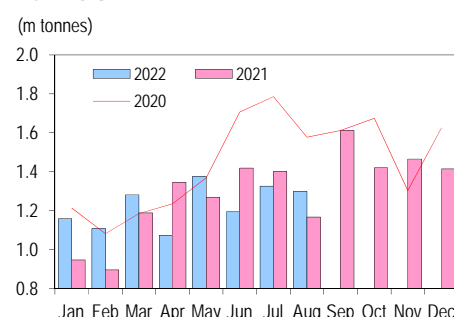
Source: MPOB, UOB Kay Hian

## PRODUCTION ON RECOVERY STAGE BUT MAY NOT SUSTAIN INTO 4Q22



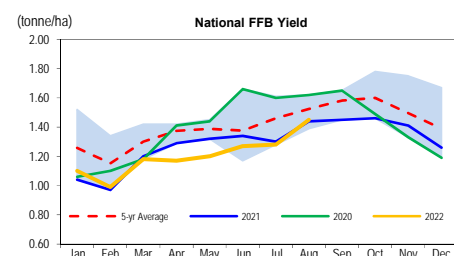
Source: MPOB

## FLATTISH EXPORTS AS INDONESIA EXPORTS PICKING UP



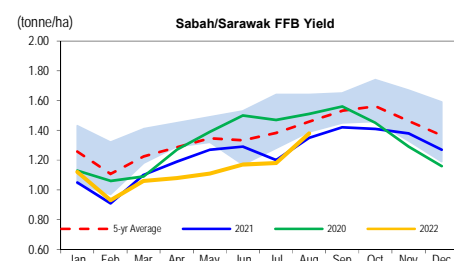
Source: MPOB

## NATIONAL FFB YIELD



Source: MPOB

## STRONGER FFB YIELD RECOVERY FROM EAST MALAYSIA



Source: MPOB

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