

SECTOR UPDATE

Plantation – Regional

Palm Oil Sector Facing Multiple Headwinds

The arrival of foreign workers in Malaysia helps in crop recovery but is still far from solving the problem. Beside worker shortage, the Malaysia palm oil industry is also heavily taxed, with about 31% of profit paid to the government in the form of cess, taxes and levies. Government policies on palm oil trade need to take into account the price factor, producers' margin and distribution network. Maintain MARKET WEIGHT.

WHAT'S NEW

These are the key takeaways from the recent forum attended:

- **The Malaysia palm oil industry is heavy taxed, with about 31% of profit going to various cess, taxes and levies.** Among the states, Sabah paid the most (~36% of profit) for the above items compared to its peers in Sarawak (~35% of profit) and Peninsula Malaysia (~27% of profit). This was an abstract from the paper presented by the Malaysian Palm Oil Association's (MPOA) chief executive Joseph Tek. Please refer to table on the next page for details on the various taxes and impacts. This is not a surprise as we have highlighted this issue before.
- **The approved FW for the sector amounted to only 19% of the total required in 2022.** In the latest press statement by Joseph Tek, he mentioned that from Jan-Nov 22, Malaysia's top 10 plantation companies managed to bring in about 12,159 foreign workers (FW) which represent 49% of the 28,724 approved workers. However, these approvals represent only 19% of the total number of FW required in 2022 (74,664 FW required). Since the border reopening, however, more FW have left and the shortage has increased to an estimated 120,000 FW (80,000 for Peninsular Malaysia and 40,000 for East Malaysia). The arrivals of FW thus far have helped to improve crop recovery in Malaysia. Malaysia CPO production since Sep 22 has been better-than-expected, which we attribute to the additional workforce allowing harvesters to focus on harvesting while maintenance work is handled by the new FW.
- **Dr Julian McGill of LMC International presented a paper on governments policies and their impacts on palm oil trade.** The paper mainly focused on recent Indonesia policies. It highlighted that the cost of the Indonesian policies far outweighed the benefits from the (eventual) reduction in cooking oil price. Some of the lessons learned include: a) commodity price cycles move significantly less quickly than news cycles, b) retail prices are much stickier than raw material prices, c) distribution is difficult and the much-scorned middlemen are needed, and d) price signals guide market participants, where there is a margin there will also be a way to exploit it. When it comes to price control, policy makers may want to take into consideration of producers' margins in order to ensure the participation from the producers.

PEER COMPARISON

Company	Ticker	Rec	Price @ 6 Dec 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)	
Malaysia												
Hap Seng Plantations	HAPL MK	BUY	1.95	2.80	355	7.0	6.8	13.8	12.5	0.8	17.2	8.8
IOI Corporation	IOI MK	BUY	3.80	4.80	5,367	17.1	15.0	19.2	16.5	2.2	13.2	3.5
Kim Loong	KIML MK	HOLD	1.79	1.80	394	9.0	9.5	10.1	17.5	2.0	15.4	8.6
KL Kepong	KLK MK	HOLD	21.00	23.40	5,151	10.0	12.6	15.3	16.6	1.6	99.8	4.8
Sime Darby Plantation	SDPL MK	HOLD	4.31	4.75	6,782	12.7	13.5	28.2	13.6	1.6	9.8	2.3
Sarawak Oil Palms	SOP MK	HOLD	2.54	2.47	514	2.8	4.4	7.9	19.7	0.7	23.0	9.1
Genting Plantations	GENP MK	HOLD	6.01	5.90	1,227	12.5	14.3	23.9	8.6	1.0	25.2	4.2
Singapore											(cent)	
Wilmar International	WIL SP	BUY	4.04	5.50	18,816	11.6	9.4	10.0	9.7	1.0	16.1	4.0
Bumitama Agri	BAL SP	HOLD	0.555	0.65	780	8.4	6.2	4.6	17.8	1.4	3.7	6.7
First Resources	FR SP	HOLD	1.38	1.85	1,724	14.4	10.0	7.4	14.3	1.4	9.3	6.7
Indonesia											(Rp)	
Tripura Agro	TAPG IJ	BUY	655	1,125	833	13.6	11.5	6.4	16.6	1.4	30.8	4.7
Astra Agro Lestari	AALI IJ	HOLD	8025	8,575	989	18.5	5.7	7.7	10.0	0.7	463.8	5.8
Tunas Baru Lampung	TBLA IJ	HOLD	725	820	248	5.2	4.7	6.7	12.9	-0.1	25.0	3.4
London Sumatra	LSIP IJ	SELL	1045	1,075	457	10.2	6.9	6.7	10.2	0.7	47.1	4.5

Source: UOB Kay Hian

MARKET WEIGHT

(Maintained)

STOCK PICKS

Company	Rec	Share Price (lcl curr)	Target Price (lcl curr)
Hap Seng Plantations	BUY	2.08	2.80
IOI Corporation	BUY	4.00	4.80
Wilmar International	BUY	4.04	5.50
Tripura Agro	BUY	685	1,125

Source: UOB Kay Hian

CPO PRICE ASSUMPTIONS (RM/TONNE)

	CPO Price (RM/tonne)
2020	2,686
2021	4,408
Our forecast:	
2022F	5,200
2023F	4,000

CPO Price:

MPOB @ 6 Dec 22	4,003
BMD 3 rd Month Contract	4,096

Source: UOB Kay Hian

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SECTOR CATALYSTS

- **Lack of fertiliser application for four years.** Lack of fertiliser programmes for four consecutive years (2019-22) due to low CPO price, COVID-19 disruption and prolonged wet weather may affect the yield recovery in 2023.
- **Higher biodiesel and renewable diesel demand.** Indonesia is highly likely to increase its biodiesel mandate from B30 to B40 in 2023. This would translate to an additional 4.0m kl (3.5m tonnes) of palm oil needed.
- **Black Sea War.** A continuation of the Black Sea War would be supportive for vegoil prices. However, if the Black Sea War ends, the market will be flooded by a huge vegoil supply.

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-than-expected oilseed production may lead to oversupply in 2023.
- Collapse of crude oil price may reduce the demand from the biofuel industry.

SUMMARY OF TAXES ON THE MALAYSIAN PALM OIL INDUSTRIES

Corporate tax	24% of corporate profit
Prosperity Tax (Cukai Makmur) Year 2022 only	Chargeable income above RM100m to be taxed at 22% instead of 24%
MPOB Cess (Latest Order 2021)	RM16 per tonne of CPO & CPKO
Windfall profit levy	Peninsula: 3% on FFB for CPO price above RM3,000/tonne Sabah & Sarawak: 3% on FFB for CPO price above RM3,500/tonne
Foreign workers levy New - Budget 2023: Multi-Tier Levy Mechanism	Peninsula RM640 per worker Sabah & Sarawak RM590 per worker
Sabah sales tax	7.5% if CPO price at RM1,000/tonne and above
Sarawak sales tax	5.0% if CPO price at RM1,500/tonne 5.0% if CPO price at RM1,500/tonne (2.5% applicable when CPO & CPKO prices >RM1,000/tonne)
Export duty on CPO	3.0% – 8.0% per tonne of CPO
Import duties/Form 4, excise Duties on Plantation Machineries, SST, Property Assessment Tax, Quit Rent, other foreign workers charges etc	

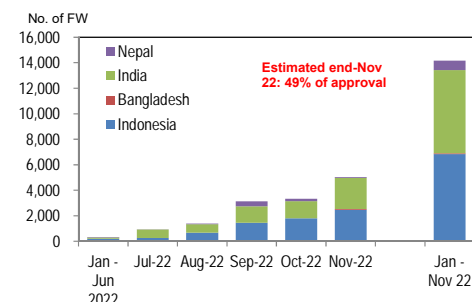
Source: MPOA

TOTAL ESTIMATED TAXES ON OIL PALM GROWERS, 2021

		Pen. Malaysia	Sabah	Sarawak	Malaysia	
CPO Production	m tonnes	9,847,022	4,362,698	3,907,820	18,117,540	
PK Production	m tonnes	2,598,137	956,791	862,791	4,417,719	
CPKO Production	m tonnes	1,243,432	445,051	360,952	2,049,435	
MPOB Cess	(RM m)	175	76	67	318	2.2%
Windfall Profit Levy (WPL)	(RM m)	1,444	286	262	1,992	13.8%
State Government CPO Sales Tax	(RM m)	0	1,454	898	2,351	16.3%
State Government CPKO Sales Tax	(RM m)	0	0	108	108	0.7%
A Sub-Total Cess, WPL, State Sales Taxes	(RM m)	1,619	1,816	1,334	4,768	33.1%
Business Profit Pre A	(RM m)	28,129	10,639	8,546	47,314	
Business Profit Post A	(RM m)	26,685	8,899	7,279	42,863	
B Effective Income Tax assumed at avg 22.5%	(RM m)	6,004	2,002	1,638	9,644	66.9%
C A+B	(RM m)	7,623	3,818	2,972	14,413	100%
C as a % of Business Profit		27.1%	35.9%	34.8%	30.5%	
Key Assumptions						
Average CPO Price (MEOA estimates are underlined)	(RM/tonne)	4,400.50	<u>4,442.73</u>	<u>4,374.65</u>	4,407.00	
Average PK Price (MEOA estimates are underlined)	(RM/tonne)	2,865.64	2,518.88	n.a.	2,773.00	
Average CPKO Price	(RM/tonne)	n.a.	n.a.	n.a.	5,674.50	
Overall Avg All In Cost of Production (incld HQ, replanting costs)	(RM/CPO)	2,300	2,550	2,800		
FFB Yield	(tonnes/ha)	16.24	15.77	13.94	15.47	

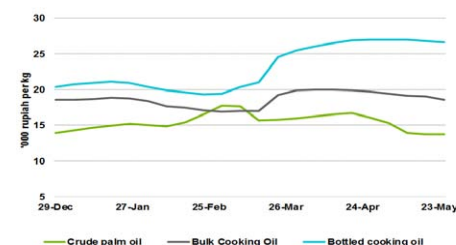
Source: MPOA, MEOA

FOREIGN WORKERS RECRUITMENT



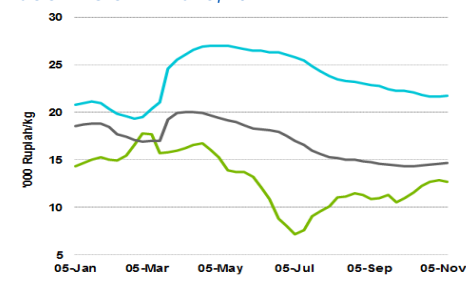
Source: MPOA

INDONESIAN CPO, BULK COOKING OIL AND BOTTLED COOKING OIL PRICES, 2022



Source: LMC

INDONESIAN CPO, BULK COOKING OIL & BOTTLED COOKING OIL PRICES, 2022



Source: LMC

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