

SECTOR UPDATE

Plantation – Malaysia

MPOB Nov 22: Rainy Weather Affects Production

Malaysia's palm oil inventory came in lower than market expectation mainly due to lower production and better-than-expected exports. We expect CPO prices to continue to trade at about RM4,000/tonne as we do not expect any near-term major catalysts. Maintain MARKET WEIGHT with IOI Corporation (IOI MK/BUY/Target: RM4.80) as our top pick, as its outperforming downstream operations should cushion the expected normalisation of CPO prices in 2023.

MPOB'S NOV 22 STATISTICS

(m tonne)	Nov 22	mom % chg	yoy % chg	11M22	yoy % chg
CPO Production	1.68	(7.3)	2.8	16.83	1.1
Palm Oil Stocks	2.29	(5.0)	26.0	2.29	26.0
Palm Oil Domestic Use	0.33	15.8	16.3	2.88	(5.2)
Palm Oil Exports	1.52	0.9	3.6	14.26	0.9
Oleochemical	0.23	(4.2)	(7.6)	2.50	(5.4)
Biodiesel	0.02	(35.6)	(1.6)	0.29	(16.8)
Palm Oil Imports	0.05	(29.1)	(51.5)	1.01	(5.3)
CPO Price (RM/tonne)	4,087.5	11.0	(23.5)	5,167	20.0

Source: MPOB, UOB Kay Hian

WHAT'S NEW

- Key take from Malaysian Palm Oil Board (MPOB) Nov 22 data:

- Inventory:** Came in lower than market expectation due mainly to lower production and lower imports, while exports were better than expected.
- Production:** Production came in slightly below market expectation as high rainfall towards the end of November impacted the harvesting and evacuation process.
- Exports:** Exports remain strong, which we attribute to the delivery for orders placed back in Jul/Aug 22 when CPO price crashed. Note that MPOB's data for exports by destinations is no longer available publicly. However, we believe China and Pakistan could still be the two importing countries that contributed to the export growth in Nov 22.
- Domestic consumption:** Came in above expectation, with Nov 22 being the only month that domestic consumption exceeded 300,000 tonnes during 11M22. This could be due to preparation for the early Chinese New Year in 2023.

Outlook for Dec 22:

- Inventory:** Inventory could possibly hit 2m tonnes if exports are able to be sustained at the same level as Nov 22. At this point, we are looking at a possible 2.1-2.15m tonnes of end stocks by 31 Dec 22.
- Production:** High rainfall continues to drag on production with potential crop losses. We are expecting Dec 22 production to be 1.51m-1.53m tonnes, which is about 9% lower mom but higher yoy. The return of labours has helped in terms of better crops recovery despite higher rainfall.

PEER COMPARISON

Company	Ticker	Rec	Price @ 13 Dec 22 (RM)	Target Price (RM)	Market Cap (US\$m)	PE 2021 (x)	PE 2022F (x)	PE 2023F (x)	ROE (%)	P/B (x)	2022F Div (sen)	Div Yield (%)
Malaysia												
Hap Seng Plantations	HAPL MK	BUY	1.98	2.80	358	7.1	6.9	14.0	12.5	0.8	17.2	8.7
IOI Corporation	IOI MK	BUY	3.74	4.80	5,242	16.8	14.8	18.9	16.5	2.2	13.2	3.5
Genting Plantations	GENP MK	HOLD	5.97	5.90	1,209	12.4	14.2	23.7	8.6	1.0	25.2	4.2
Kim Loong	KIML MK	HOLD	1.78	1.80	389	9.0	9.4	10.0	17.5	2.0	15.4	8.7
KL Kepong	KLK MK	HOLD	21.00	23.40	5,112	10.0	12.6	15.3	16.6	1.6	99.8	4.8
Sime Darby Plantation	SDPL MK	HOLD	4.25	4.75	6,636	12.5	13.3	27.8	13.6	1.6	9.8	2.3
Sarawak Oil Palms	SOP MK	HOLD	2.64	2.47	531	2.9	4.6	8.2	19.7	0.7	23.0	8.7

Source: UOB Kay Hian

MARKET WEIGHT

(Maintained)

STOCK PICKS

Company	Rec	Share Price (RM)	Target Price (RM)
Hap Seng Plantations	BUY	1.98	2.80
IOI Corporation	BUY	3.74	4.80

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 10M22 average	5,167
MPOB @ 12/12/2022	3,808
BMD 3rd Month Contract	3,880

Source: UOB Kay Hian

ANALYST(S)

Leow Huey Chuen
+603 2147 1990
hueychuen@uobkayhian.com

Jacquelyn Yow
+603 2147 1995
jacquelyn@uobkayhian.com

ACTION

- **Maintain MARKET WEIGHT.** The lower production is well within our expectation, which we have been highlighting in our previous reports. We expect CPO prices to continue to trade sideways as we do not expect any near-term major catalysts in the vegoil industry. Our top pick for the sector is **IOI Corporation (IOI MK/BUY/Target: RM4.80)** with it having the highest downstream margin among peers. We expect this to be sustainable, and also believe its expansion in downstream operations will be able to cushion some of the potential downside from the CPO ASP downtrend in 2023.

ESSENTIALS

- **More foreign workers' arrival.** From Jan-Nov 22, Malaysia's top 10 plantation companies managed to bring in 12,159 foreign workers (FW), which represents 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). The arrivals of FW thus far have helped to improve crop recovery in Malaysia. This has been reflected in Malaysia's FFB yield, which has recovered back to 2019's level since Oct 22. For our 2023 production forecast, we are factoring in the bulk of the approved workers to have arrived by 1H23. Any delay may lead to a downward revision to production.
- **Global palm oil outlook for 2023:**
 - Strong palm oil demand.** We expect global palm oil demand to grow by 3.5m tonnes, or 4.7% yoy, in 2023 after three years of weak growth. Demand should mainly come from China and India as well as higher domestic usage in Indonesia. For 2023, we are expecting lower demand from EU due partly to a reduction in demand from the biofuel sector. We are factoring in a 12% decline in EU palm oil consumption for 2023.
 - Production recovery.** We expect global palm oil production to increase by 3.0m tonnes, or 3.8% yoy. CPO production is expected to come in at 19.1m tonnes for Malaysia and 47.7m tonnes for Indonesia. The increase in production will be supported mainly by yield recovery in 2023 after three consecutive years of disruption caused by La Nina. However, production is still behind its potential due to the cutbacks in fertiliser application over the last 2-3 years.
 - Lower SUR but still relatively high.** Based on the above production and consumption estimation, we are expecting the global stock-to-usage (SUR) ratio to drop from 19.4% in 2022 to about 17.6% for 2023. Although SUR will be lower in 2023, we are not expecting CPO price to strengthen due to potentially higher oilseeds production globally, which potentially could result in good vegoil supplies as well.

SECTOR CATALYSTS

- **La Nina.** We are experiencing a triple La Nina for the first time in this century, which brought heavier rainfall than usual in palm oil-producing countries. Experts foresee a mild La Nina this time round and expect it to end by early-23. If La Nina lasts longer than market expectations, this may affect soybean production in Brazil and Argentina. If heavy rains in Indonesia and Malaysia continue, it will delay harvesting, slow down fruit evacuation and disrupt logistic connections to mills, refineries and ports.
- **Higher biodiesel and renewable diesel demand.** Indonesia is highly likely to increase its biodiesel blending 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, assuming the Black Sea war ends, the market will then 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

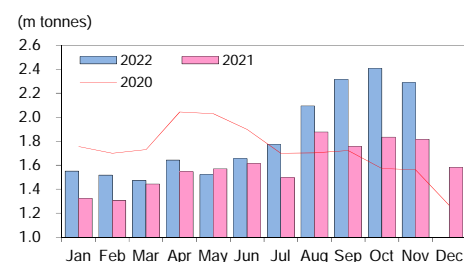
- Higher demand from biodiesel and renewable diesel may lead to higher-than-expected vegoil consumption and mitigate the recession risk concern.

CPO PRODUCTION BY REGION

(m tonne)	Nov 22	mom % chg	yoy % chg	11M22	yoy % chg
CPO Production	1.68	(7.3)	2.8	16.83	1.1
Pen Malaysia	0.88	(10.0)	2.6	9.32	2.3
Sabah	0.43	(2.1)	2.4	3.87	(2.7)
Sarawak	0.37	(6.6)	3.8	3.65	2.4

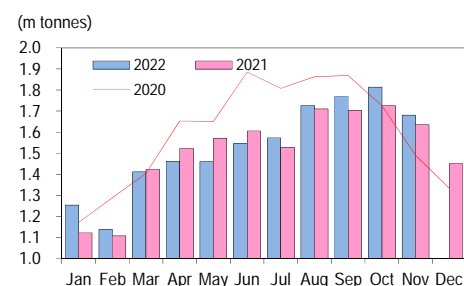
Source: MPOB

MALAYSIA PALM OIL INVENTORY



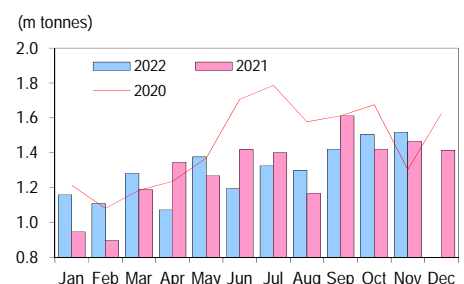
Source: Malaysian Palm Oil Board (MPOB)

LOWER MOM PRODUCTION



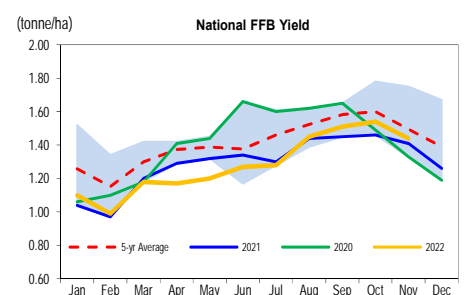
Source: MPOB

EXPORT REMAINS STRONG



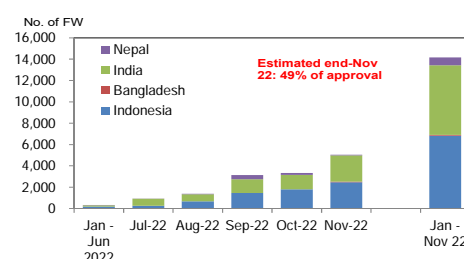
Source: MPOB

FFB YIELD RECOVERY



Source: MPOB

FOREIGN WORKERS RECRUITMENT



Source: MPOA

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W