

SECTOR UPDATE

Plantation – Malaysia

Stagnant Prices Amid Potentially Higher Supply From Competing Vegoil

Malaysia's palm oil inventory came in below market expectation for Jan 24 on higher-than-expected exports and domestic disappearance. End inventory for Feb 24 is expected to be below 2m tonnes on lower production mom due to fewer harvesting days. Having said that, CPO prices are likely to trade within the current range of RM3,600-4,000/tonne due to pricing pressure caused by other vegoils. An improved 2024 profit on higher CPO ASP and lower costs will support share price performance. Maintain OVERWEIGHT.

MPOB'S JAN 24 STATISTICS

(m tonnes)	Jan 23	Dec 23	Jan 24	mom % chg	yoy % chg
CPO Production	1.38	1.55	1.40	(9.6)	1.6
Palm Oil Stocks	2.27	2.29	2.02	(11.8)	(11.0)
Palm Oil Domestic Use	0.32	0.36	0.35	(3.5)	8.5
Palm Oil Exports	1.14	1.33	1.35	1.2	18.9
Oleochemical	0.21	0.25	0.25	3.3	20.0
Biodiesel	0.01	0.02	0.04	127.4	184.8
Palm Oil Imports	0.14	0.04	0.03	(19.4)	(80.8)
CPO Price (RM/tonne)	3,922.0	3,656.5	3,783.4	3.5	(3.5)

Source: MPOB, UOB Kay Hian

WHAT'S NEW

- The Malaysia Palm Oil Board (MPOB) reported palm oil inventory of 2.02m tonnes as of end-Jan 24, lower than market expectations of 2.05m-2.26m tonnes. The variance was mainly due to stronger-than-expected exports in Jan 24 despite higher-than-expected production.
- Key highlights for Jan 24 include:
 - Weak production mom, but above expectations.** It is normal that January's palm oil production comes in lower mom due to the production cycle. Having said that, Jan 24's palm oil production came in above market expectation due to a strong pick-up in harvesting during the last week of Jan 24 after the rains stopped and the floods subsided.
 - Palm oil exports stronger than market expectations.** We attribute this mainly to the continued strong demand from the West Asian and African regions. Recall that for 2023, Malaysia exports to the West Asian and African regions outperformed traditional markets such as India, China and Europe. On top of that, biodiesel exports also increased significantly in Jan 24 by 127% mom and 185% yoy.
 - Malaysia palm oil imports came in lower in Jan 24.** This was mainly due to tighter palm oil supplies in Indonesia where Indonesian domestic CPO prices are relatively stronger than refined products. This will lead to lower imports from Indonesia.

ACTION

- Maintain OVERWEIGHT.** We expect CPO prices to trade sideways in the short term due to pricing pressure from other softoils at the destination markets. Having said that, we still believe that CPO prices would trade between RM3,800-4,200/tonne in 1Q24 as we foresee CPO production being lower than market expectation.
- In the light of this outlook, we recommend investors to strategically accumulate positions in upstream plantation companies with above-peers growth arising from: a) higher production growth on favourable age profile, and b) their plantations being located in areas least affected by El Nino/recent high rainfall. We also expect strong upcoming 4Q23 earnings for most upstream players on the back of margin expansion with lower production costs.

PEER COMPARISON

Company	Ticker	Rec	Price @ 13 Feb 24	Target Price	Market Cap (US\$m)	PE			ROE	P/B	2024F Div	Div Yield
			(RM)	(RM)		2022 (x)	2023F (x)	2024F (x)	(%)	(x)	(sen)	(%)
Malaysia												
Hap Seng Plantations	HAPL MK	BUY	1.82	2.25	305.3	6.9	11.7	8.3	11.0	0.8	13.1	7.2
IOI Corporation	IOI MK	BUY	4.04	4.80	5,258.1	15.8	16.7	15.4	10.0	2.2	13.7	3.4
KL Kepong	KLK MK	BUY	22.58	25.90	5,108.8	11.3	16.6	14.1	5.8	1.7	80.0	3.5
Sime Darby Plantation	SDPL MK	BUY	4.55	5.00	6,601.6	15.1	26.7	15.4	13.8	1.5	17.7	3.9
Genting Plantations	GENP MK	BUY	6.30	6.65	1,185.8	12.0	18.2	16.7	9.1	1.1	16.5	2.6
Kim Loong	KIML MK	HOLD	2.15	1.95	439.1	11.4	11.8	11.2	19.7	2.4	16.3	7.6
Sarawak Oil Palms	SOP MK	HOLD	2.72	3.00	508.1	5.0	7.8	6.3	15.7	0.7	17.3	6.4

Source: UOB Kay Hian

OVERWEIGHT

(Maintained)

STOCK PICKS

Company	Rec	Share Price (RM)	Target Price (RM)
Hap Seng Plantations	BUY	1.82	2.25
IOI Corporation	BUY	4.04	4.80
KL Kepong	BUY	22.58	25.90
Sime Darby Plantation	BUY	4.55	5.00
Genting Plantations	BUY	6.30	6.65

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 @ 14 Feb 24	3,953
BMD 3 rd Month Contract	3,909

Source: UOB Kay Hian

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- Thus, we recommend investors to accumulate plantation stocks. Top picks: IOI Corporation, Hap Seng Plantations and Genting Plantations. Trading BUY: Sime Darby Plantation, Kuala Lumpur Kepong.

ESSENTIALS

- Feb 24 outlook:
 - Inventory: Lower mom, and could potentially dip below 2m tonnes.** This will be mainly due to weak production and lower imports.
 - Production** is expected to be lower mom, mainly due to fewer working days. Having said that, Feb 24's monthly palm oil production would be the highest for the corresponding period since 2019 as we expect higher FFB yield with the return of sufficient work force.
 - Exports: Lower mom** with weak demand from destination countries like China and India. The record-high South American soybean crop has driven down soybean prices and we have observed a narrowing CPO-SBO spread. Soybean oil and sunflower oil prices in some destination countries like India are at a discount or almost on a par with palm oil pricing.

SECTOR CATALYSTS

- **Hot weather in Argentina** (the world's largest exporter of soybean oil and second largest exporter of soybean). With the recent dry conditions in Argentina, there are market concerns that Argentina's soybean yield would be affected since they have just entered the pods filling stage. The rain will be critical for them to maintain current yield projections; without the rain, the yield would be lower.
- **Upcoming Indonesian presidential election.** Indonesia's presidential election will be held on 14 Feb 24, which will determine if there are any policy changes.

ASSUMPTION CHANGES

- **No changes to CPO ASP assumptions.** We maintain our CPO price assumption at RM4,200/tonne for 2024.

CPO JAN 24 CPO PRODUCTION BY REGION

(m tonne)	Dec 23	Jan 24	mom % chg	yoy % chg
CPO Production	1.55	1.40	(9.6)	1.6
Pen Malaysia	0.83	0.74	(11.3)	3.7
Sabah	0.37	0.34	(7.3)	(7.1)
Sarawak	0.35	0.32	(7.8)	7.2

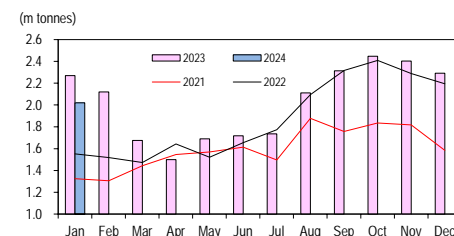
Source: MPOB

2023 MALAYSIA PALM OIL EXPORTS BY TOP 15 COUNTRIES

(m tonnes)	2023	2022	Yoy % Chg
India	2.81	2.89	(2.8)
China	1.47	1.76	(16.8)
Kenya	0.92	0.76	20.0
Turkiye	0.88	0.82	6.9
Japan	0.55	0.56	(2.7)
Netherlands	0.52	0.82	(36.3)
Pakistan	0.50	0.57	(11.7)
South Korea	0.47	0.42	12.5
Vietnam	0.46	0.31	46.3
Philippines	0.44	0.64	(30.8)
Saudi Arabia	0.36	0.51	(29.4)
Tanzania	0.32	0.25	29.0
Nigeria	0.30	0.23	33.9
Djibouti	0.30	0.28	9.5
U.A.E	0.29	0.34	(14.1)

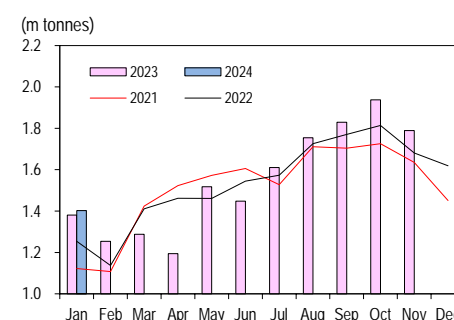
Source: MPOB

JAN 24 PALM OIL INVENTORY LEVEL LOWER THAN MARKET EXPECTATIONS



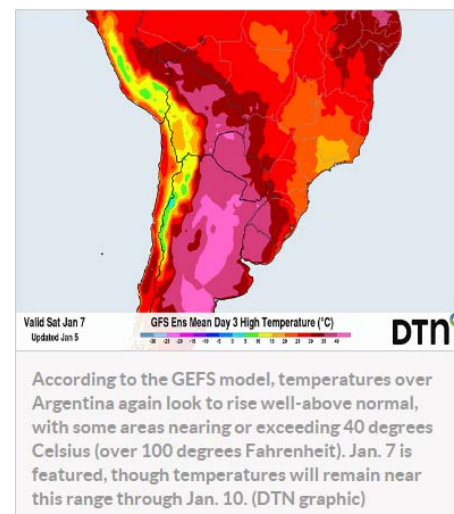
Source: MPOB

BETTER JAN 24 PALM OIL PRODUCTION PARTLY ATTRIBUTED TO BETTER LABOUR FORCE



Source: MPOB

HEATWAVE IN ARGENTINA



Source: Progressive Farmer, DTN

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