

SECTOR UPDATE

Plantation – Malaysia

Riding The Wave Of Opportunity

Total palm oil futures contracts at BMD reached a record high, reflecting bullish sentiment amid expectations of tighter palm oil supply. While we anticipate short-term support for CPO prices, signs indicate a potential peak and subsequent retracement. We advise investors to consider trimming holdings in companies with slower earnings growth. Nonetheless, opportunities persist in the plantation sector, particularly for pure upstream players demonstrating robust production growth. Maintain OVERWEIGHT.

WHAT'S NEW

- CPO prices are getting 'HOT' again with the highest open interest recorded for total palm oil future contracts traded at Bursa Malaysia Derivative (BMD). This surge signifies a bullish market sentiment with new positions being established. We attribute this phenomenon to several factors:
 - Recognition of palm oil supply tightness.** Market players and traders are adjusting their outlook, leaning towards a more bearish stance on palm oil supply. This shift follows the realisation of the impact from El Niño and recent reports such as those from the Malaysia Palm Oil Board (MPOB), indicating a 10% mom drop in CPO production in Feb 24 due to lower harvesting days. Insights shared at the recent Palm Oil Conference in early-Mar 24 further affirmed concerns regarding palm oil availability despite widespread complaints about the high prices of CPO.
 - Panic buying from India.** Purchases from India surpassed expectations, driven by fears of dwindling near-term supplies and favourable import margins.
 - Positive news from biofuel/biodiesel industry** where the Indonesian government is looking at B40 biodiesel implementation and the Brazil government is also looking to increase its biodiesel mandate to B15 in 2025 and B20 in 2030 (currently: B14).
 - US Department of Agriculture (USDA) revised down the soybean oil inventory level in Mar 24** mainly due to lower soybean oil production from Brazil.
- More exports from Indonesia.** Anticipating a higher reference price for Indonesia in Apr 24 which would result in elevated export duties and levies, exporters are striving to bolster sales in Mar 24.

We expect CPO prices to remain supportive at their current levels in the short term, buoyed by supply tightness in the market. However, it also suggests that CPO prices may be approaching a peak and due for some retracement as we expect:

- Higher mom palm oil production from May 24 onwards.** Note that the lower mom palm oil production reported from MPOB was mainly disrupted by fewer harvesting days and short-term weather disruption. But if we were to look at the FFB yield, it has been improving, indicating that the trees are in recovery phase and there are sufficient workers in Malaysia.
- Buyers are buying what they need for now.** Despite India buyers buying lately, we understand that they are at a hand to mouth situation where buyers are only buying what they need in the short term as they are still awaiting other vegoil such as soybean oil to come into the market in May/June 24.

PEER COMPARISON

Company	Ticker	Rec	Price @ 10 Mar 24 (RM)	Target Price (RM)	Market Cap (US\$m)	PE			ROE (%)	P/B (x)	2024F Div (sen)	Div Yield (%)
						2022 (x)	2023F (x)	2024F (x)				
Genting Plantations	GENP MK	BUY	6.13	6.65	1,165.7	17.7	17.7	15.7	4.8	1.0	17.1	2.8
Hap Seng Plantations	HAPL MK	BUY	1.92	2.25	325.4	7.3	16.8	9.7	4.7	0.8	11.8	6.2
IOI Corporation	IOI MK	BUY	3.98	4.80	5,233.3	15.6	15.0	14.1	10.0	2.1	14.7	3.7
KL Kepong	KLK MK	BUY	22.02	24.80	5,117.2	11.0	15.1	14.4	5.8	1.7	76.3	3.5
Kim Loong	KIML MK	HOLD	2.16	1.95	446.0	11.4	12.8	11.8	19.7	2.4	15.5	7.2
Sime Darby Plantation	SDPL MK	HOLD	4.34	4.15	6,361.6	14.4	36.8	18.0	9.6	1.5	14.5	3.3
Sarawak Oil Palms	SOP MK	HOLD	3.20	3.00	603.9	5.9	9.5	7.4	8.8	0.8	8.6	2.7

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT
(Maintained)

SECTOR PICKS

Company	Rec	Share Price (RM)	Target Price (RM)
Genting Plantations	BUY	6.13	6.65
Hap Seng Plantations	BUY	1.92	2.25
IOI Corporation	BUY	3.98	4.80
KL Kepong	BUY	22.02	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 @ 15 Mar 24	4,329
BMD 3rd Month Contract	4,290

Source: UOB Kay Hian

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ACTION

- **Maintain OVERWEIGHT.** We still expect CPO prices to remain supportive in the short term. However, it also suggests that CPO prices may be approaching a peak and due for some retracement. We would suggest investors to trim holdings in companies with smaller earnings growth. That said, we still reckon that there are some opportunities for the plantation sector especially pure upstream players with good production growth. Top pick: Hap Seng Plantations.

ESSENTIALS

- **Upstream players poised for growth.** Pure upstream players, particularly those who sell their products at spot market, are set to reap significant benefits from the ongoing uptrend in CPO prices. As these companies show superior production growth compared with their peers, they are positioned to capitalise on the current market dynamics. Additionally, most upstream players are expected to experience higher operating margins, attributed to declining production costs since the second half of 2023, largely driven by a reduction in fertiliser expenses.
- **Downstream players' margins are still under pressure, but we see some improvement.** Downstream players continue to grapple with depressed margins amid a persistent price war among Indonesian competitors, aiming to boost utilisation rates of their facilities. Consequently, both Indonesian and Malaysian downstream players are experiencing margin compression. This situation is exacerbated by Indonesian players gaining a larger share of the export market at the expense of Malaysian counterparts. That said, we have observed some improvement in the price spread between refined products and CPO.

SECTOR CATALYSTS

- **Never ending weather risk with La Nina expected.** Despite looking at the impact from El Nino for 2024, the market is now looking at the potential of La Nina happening in 2H24 which may disrupt vegoil supply in the 2024/25 season. If a strong La Nina comes in 2H24, this would bring dryness/drought, affecting the soybean supply in Argentina, Southern Brazil and Midwest US.

ASSUMPTION CHANGES

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

COMPANIES' FFB PRODUCTION

	2022 (m tonnes)	2023 (m tonnes)	yoy % chg	Company production growth guidance for 2024
Sime Darby Plantation	8.21	8.71	6.1	Single digit growth
Kuala Lumpur Kepong	5.08	5.34	5.1	n.a
IOI Corporation	2.65	2.80	5.7	+7 - 10% yoy *
Genting Plantations	1.99	2.11	6.2	+5% yoy
Hap Seng Plantations	0.58	0.64	9.4	+9 - 10% yoy
Sarawak Oil Palms	1.21	1.23	1.4	+5% yoy
FGV Holdings	4.0	3.6	(8.8)	+10 - 15% yoy

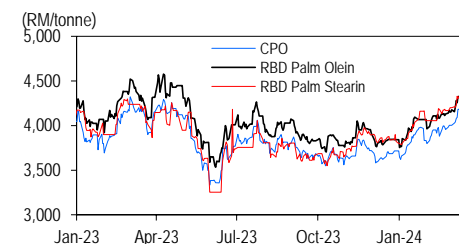
* Based on the companies' financial year
Source: UOB Kay Hian

COMPANIES CPO ASP FOR 2023

	2022 (RM/tonne)	2023 (RM/tonne)	yoy % chg	Companies' forward selling position for 2024 (Based on companies' briefing in Feb 24)
Sime Darby Plantation	4,456	3,772	(15.4)	Peninsular Malaysia: Sold forward 20%/15%/10% of its total production in 1Q24/2Q24/3Q24 respectively with ASP at RM3,800/tonne.
IOI Corporation	4,737	3,881	(18.0)	n.a
Kuala Lumpur Kepong	4,197	3,573	(14.9)	n.a
Genting Plantations	4,100	3,483	(15.0)	n.a
Hap Seng Plantations	5,499	3,947	(28.2)	100% sell at spot market.
Sarawak Oil Palms	5,200	3,891	(25.2)	n.a
FGV Holdings	5,285	3,880	(26.6)	Sold forward 20% of its production at RM3,800 - 3,900/tonne.

Source: Respective companies, UOB Kay Hian

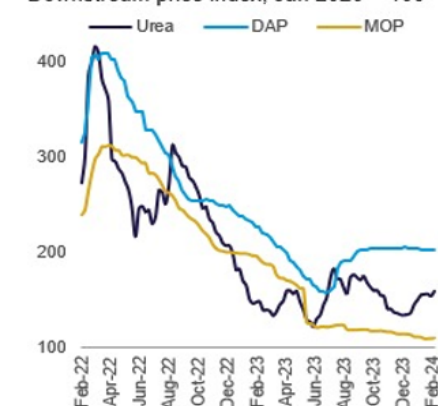
PALM OIL PRODUCTS PRICES



Source: Bloomberg

LOWER FERTILISER PRICES

Downstream price index, Jan 2020 = 100



Source: CRU

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