

SECTOR UPDATE

Plantation – Malaysia

Mar 24: Higher Palm Oil Exports From Malaysia

Malaysia's palm oil inventory came in lower than market estimates, thanks to strong exports despite production increasing mom. We attribute this to the limited palm oil exports from Indonesia due to lower production and strong demand domestically. We expect CPO prices to continue to be supported as we reckon that inventory in Apr 24 would remain low and supply tight in the market. Maintain OVERWEIGHT.

WHAT'S NEW

MPOB'S MAR 24 STATISTICS

(m tonne)	Mar 24	mom % chg	yoy % chg	1Q24	yoy % chg
CPO Production	1.39	10.6	8.1	4.05	3.4
Palm Oil Stocks	1.71	(10.7)	2.3	1.71	2.3
Palm Oil Domestic Use	0.30	(17.9)	6.4	1.02	9.0
Palm Oil Exports	1.32	28.6	(11.4)	3.69	(1.5)
<i>Oleochemical</i>	<i>0.26</i>	<i>0.6</i>	<i>(1.6)</i>	<i>0.77</i>	<i>9.3</i>
<i>Biodiesel</i>	<i>0.02</i>	<i>(46.1)</i>	<i>(50.7)</i>	<i>0.09</i>	<i>40.4</i>
Palm Oil Imports	0.02	(32.7)	(45.0)	0.08	(65.8)
CPO Price (RM/tonne)	4216	6.7	1.3	3,983	(0.3)

Source: MPOB, UOB Kay Hian

The Malaysia Palm Oil Board (MPOB) has reported that Malaysia's palm oil inventory came in lower mom at 1.71m tonnes as at end-Mar 24. This is beneath market's expectation of 1.76m-1.79m tonnes. The inventory drawdown was faster than market expectation despite a strong 11% mom rise in palm oil production, mainly due to the very strong exports which had increased by 29% mom.

Key highlights for Mar 24 include:

- a) **Strong exports mom.** Palm oil exports exceeded market expectations, reaching 1.32m tonnes compared with estimated figures of 1.22m-1.23m tonnes. This notable surge is largely attributed to the limited availability of palm oil exports from Indonesia, particularly in Mar and Apr 24, a critical period coinciding with the Lebaran celebrations. The tightness in the Indonesian market was compounded by lower-than-expected production, primarily caused by weather disruptions in 2H23. Consequently, Malaysian industry players experienced significant gains through increased export opportunities.
- b) **Higher mom CPO production but below market expectation.** CPO production for Mar 24 increased mom as oil palm trees entered their seasonal upcycle. However, the growth was lower than market expectations due to the dry conditions from late February to early March, which delayed the ripening process. Without the rains in late March, production could have been even lower.

ACTION

Maintain OVERWEIGHT. We anticipate that CPO prices will remain supported at their current levels in the short term, buoyed by supply tightness in the market. However, a key risk to the price outlook is the imminent entry of soybean supply from Brazil and Argentina to the market in May 24. This coincides with a period of higher palm oil production, which could potentially exert downward pressure on prices.

PEER COMPARISON

Company	Ticker	Rec	Price @ 15 Apr 24	Target Price	Market Cap (US\$m)	PE			ROE (%)	P/B (x)	2024F Div	Div Yield (%)
						2023 (x)	2024F (x)	2025F (x)				
			(RM)	(RM)								
Malaysia											(sen)	
Genting Plantations	GENP MK	BUY	6.19	6.65	1,162	17.9	17.9	15.8	4.8	1.0	17.1	2.8
Hap Seng Plantations	HAPL MK	BUY	1.91	2.25	320	7.3	16.7	9.7	4.7	0.8	11.8	6.2
IOI Corporation	IOI MK	BUY	4.05	4.80	5,256	15.9	15.2	14.3	10.0	2.2	14.7	3.6
KL Kepong	KLK MK	BUY	22.9	24.80	5,253	11.4	15.7	15.0	5.8	1.7	76.3	3.3
Kim Loong	KIML MK	HOLD	2.29	1.95	467	12.1	13.6	12.6	17.4	2.6	15.5	6.8
Sime Darby Plantation	SDPL MK	HOLD	4.44	4.15	6,424	14.8	37.6	18.4	9.6	1.5	14.5	3.3
Sarawak Oil Palms	SOP MK	HOLD	3.08	3.00	574	5.7	9.1	7.1	8.8	0.8	8.6	2.8

Source: UOB Kay Hian

OVERWEIGHT
(Maintained)

SECTOR PICKS

Company	Rec	Share Price (RM)	Target Price (RM)
Genting Plantations	BUY	6.19	6.65
Hap Seng Plantations	BUY	1.91	2.25
IOI Corporation	BUY	4.05	4.80
KL Kepong	BUY	22.9	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 Apr 24	4,206.0
BMD 3rd Month Contract	4,291.0

Source: UOB Kay Hian

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- In light of this outlook, we recommend investors to strategically accumulate positions in upstream plantation companies that are exhibiting better-than-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.

Top picks: IOI Corporation and Hap Seng Plantations.

ESSENTIALS

- Domestic consumption of palm oil returned to normal levels in Mar 24 at ~300,000 tonnes, compared with the elevated figures of 350,000-400,000 tonnes observed in the previous months. This decrease in domestic disappearance can be attributed to a potential shift in cooking oil usage towards other channels. Our channel checks indicate a weakening trend in the exports of used cooking oil (UCO), coinciding with a strengthening in CPO prices.

- Benefitting from high cocoa prices.** PKO and palm stearin prices have seen larger increments as compared with CPO prices, thanks to record-high cocoa prices. PKO and palm stearin are both feedstock for the production of cocoa butter substitute and cocoa butter equivalent.

Apr 24 outlook:

- Inventory:** Inventory may continue to be drawn down to lower levels with flattish production and good exports.
- Production:** We expect production to be flat or see marginal growth for Apr 24 vs the usual mom drop during Hari Raya/Lebaran month. Based on ground observations, after the recent rains, more FFB are ready for harvesting and the harvesting round could be escalated towards the last week of April when workers return from their holidays.
- Exports:** Based on the ITS survey, Malaysia's exports during 1-15 April had increased by 9% mom. We expect Malaysia's palm oil exports to remain strong in Apr 24 with limited palm oil exports from Indonesia.

SECTOR CATALYSTS

- Escalation of Iran-Israel tensions.** Iran unleashed a barrage of drones and missiles on Israel on last Saturday night in retaliation to a suspected Israeli strike that resulted in the deaths of top Iranian officials in Syria. This heightened confrontation raises concerns about potential disruptions to the supply of crude oil, which could lead to price hikes. Consequently, such developments are likely to provide support to CPO prices, should the tensions escalate further.
- Never-ending weather risk with La Nina expected.** The market is now looking at the probability of La Nina happening in 2H24 which may disrupt vegoil supply in the 2024/25 season. If a strong La Nina takes place in 2H24, this would result in dryness/drought and affect the soybean supply in Argentina, Southern Brazil and mid-west US.

ASSUMPTION CHANGES

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

CPO MAR 24 CPO PRODUCTION BY REGION

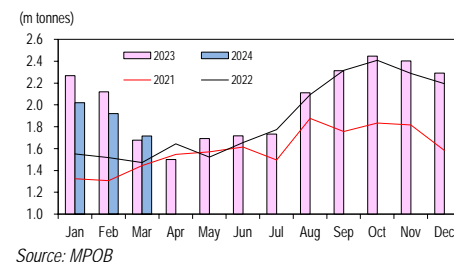
(m tonne)	Mar 24	mom % chg	yoy % chg	3M24	yoy % chg
CPO Production	1.39	10.6	8.1	4.05	3.4
Pen Malaysia	0.80	15.0	19.1	2.23	8.3
Sabah	0.32	10.5	(9.3)	0.95	(9.1)
Sarawak	0.25	(10.2)	(6.7)	0.85	3.8

Source: MPOB

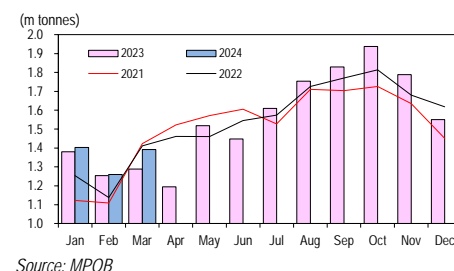
PKO & PALM STEARIN INCREASED MORE THAN CPO, THANKS TO RECORD-HIGH COCOA PRICE



LOWER PALM OIL INVENTORY LEVEL



HIGHER PALM OIL PRODUCTION



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