



AmInvestment Bank

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# PLANTATION

Inventory up 3.7% MoM to 2.4mil tonnes in October

**NEUTRAL**

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Rationale for report: Sector update

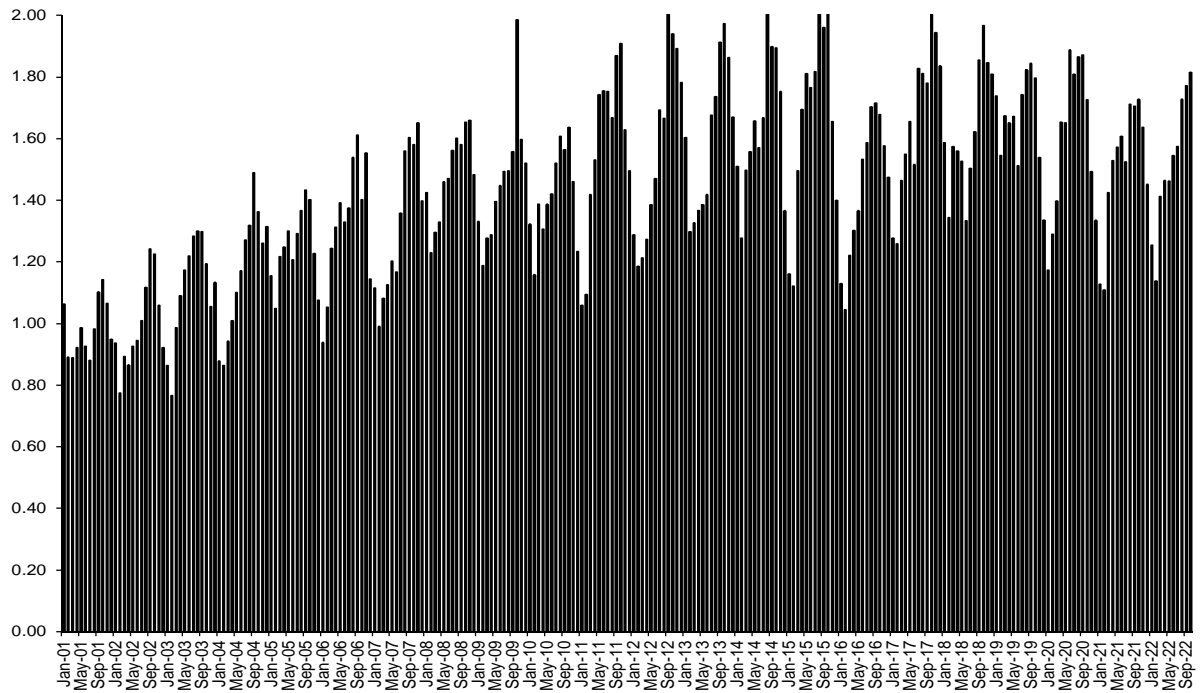
- The Malaysian Palm Oil Board (MPOB) has released the country's palm oil statistics for October. The inventory of palm products increased for the fifth month in a row. Palm stockpiles rose by 3.7% to 2.4mil tonnes as at end-October from 2.3mil tonnes as at end-September. The monthly increase in October inventory can be attributed to higher carry-over stocks and production. The inventory of 2.4mil tonnes in October was below *Bloomberg* consensus of 2.5mil tonnes. We believe that this was due to lower-than-expected imports and higher-than-estimated domestic consumption.
- Domestic consumption improved by 8.9% MoM to 307,975 tonnes in October as Hotel/Restaurant/Café (HORECA) activities picked up during the Deepavali festive period. Comparing 10M2022 against 10M2021, domestic consumption eased by 7.8% to 2.7mil tonnes due to the surge in Covid cases in 1Q.
- Malaysia's palm imports fell by 46.2% to 84,862 tonnes in October from 157,832 tonnes in September as the price differential of CPO between Malaysia and Indonesia narrowed. However, palm imports may increase in November and December as the price differential is expected to widen on higher taxes in Indonesia. Indonesia may impose a CPO export levy of US\$85/tonne and raise the CPO export tax to US\$33/tonne from US\$18/tonne in line with the stronger CPO reference price. In the first half of November, Indonesia's CPO export levy was zero while the export tax was US\$18/tonne.
- CPO output improved by 2.4% MoM to 1.8mil tonnes in October. We believe that Malaysia's CPO production would reach the highest level in either October or November before easing in December due to the monsoon season. Comparing 10M2022 against 10M2021, Malaysia's CPO output was flat at 15.2mil tonnes, dragged by a shortage of workers. We believe that the arrival of foreign workers in 2H2022 would improve CPO production in 2023F. *Oil World* forecasts Malaysia's CPO output to rise by 0.3mil tonnes in 2023F. We think that the country's CPO production would stagnate at 18.1mil tonnes in 2022E.
- CPO exports rose by 5.7% to 1.5mil tonnes in October from 1.4mil tonnes in September. According to SGS, China and the EU increased their purchases of Malaysian palm products in October. On yearly basis however, China's palm imports fell by 20.8% to 1mil tonnes in 9M2022 as Covid-19 lockdowns affected consumption. Also, India's palm imports declined by 15.5% YoY to 2.1mil tonnes in 9M2022 as the country has abundant reserves. Inventory of edible oils at the ports and pipelines in India stood at 2.4mil tonnes as of 1 September compared with 1.8mil tonnes a year ago.
- We upgrade the plantation sector to NEUTRAL from UNDERWEIGHT. We believe that the recent fall in share prices has already reflected the risks of higher palm supply and weak demand. Our average CPO price assumptions (including the Indonesian price discount of RM500/tonne to RM1,000/tonne) are RM4,500/tonne for 2022E and RM3,000/tonne for 2023F. We upgrade KL Kepong to HOLD from SELL as its share price has fallen below our fair value of RM21.75/share.

TABLE 1: VALUATION MATRIX

	Share price	Basic EPS (sen)		Basic PE (x)		Fair values	Upside	FY22F/FY23F	FY22F/FY23F	Rec
	(RM)	FY22F/FY23F	FY23F/FY24F	FY22F/FY23F	FY23F/FY24F	(RM)		DPS (sen)	Div yield	
IOI Corp	3.99	19.8	21.2	20.2	18.8	3.55	-11.0%	11.5	2.9%	Hold
KLK	21.20	193.2	120.8	11.0	17.5	21.75	2.6%	100.0	4.7%	Hold
SD Plantation	4.35	37.1	24.3	11.7	17.9	3.65	-16.1%	20.0	4.6%	Sell
Gent Plant	6.31	71.0	36.3	8.9	17.4	6.55	3.8%	30.0	4.8%	Hold
Hap Seng Plant	2.10	34.6	14.5	6.1	14.5	2.20	4.8%	21.0	10.0%	Hold
TSH Resources	1.05	16.2	5.6	6.5	18.8	0.85	-19.0%	3.0	2.9%	Sell
FGV Holdings	1.33	26.4	7.4	5.0	18.0	1.35	1.5%	8.5	6.4%	Sell

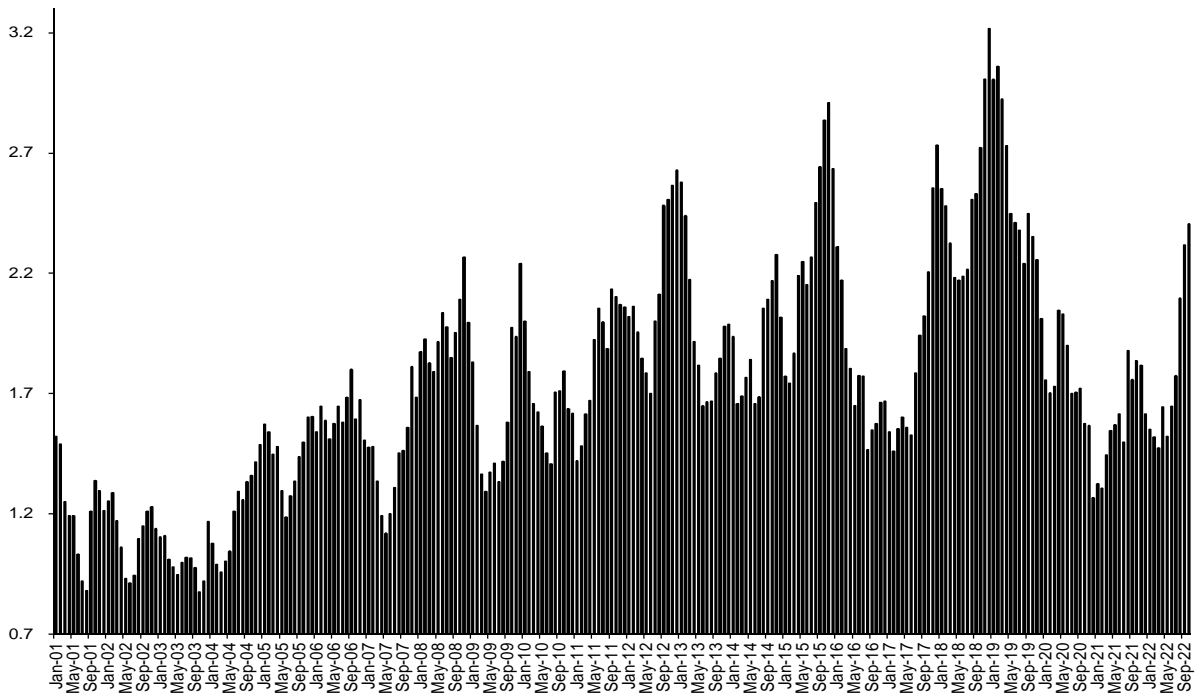
Source: AmInvestment Bank

CHART 1 : CPO PRODUCTION (MIL TONNES)



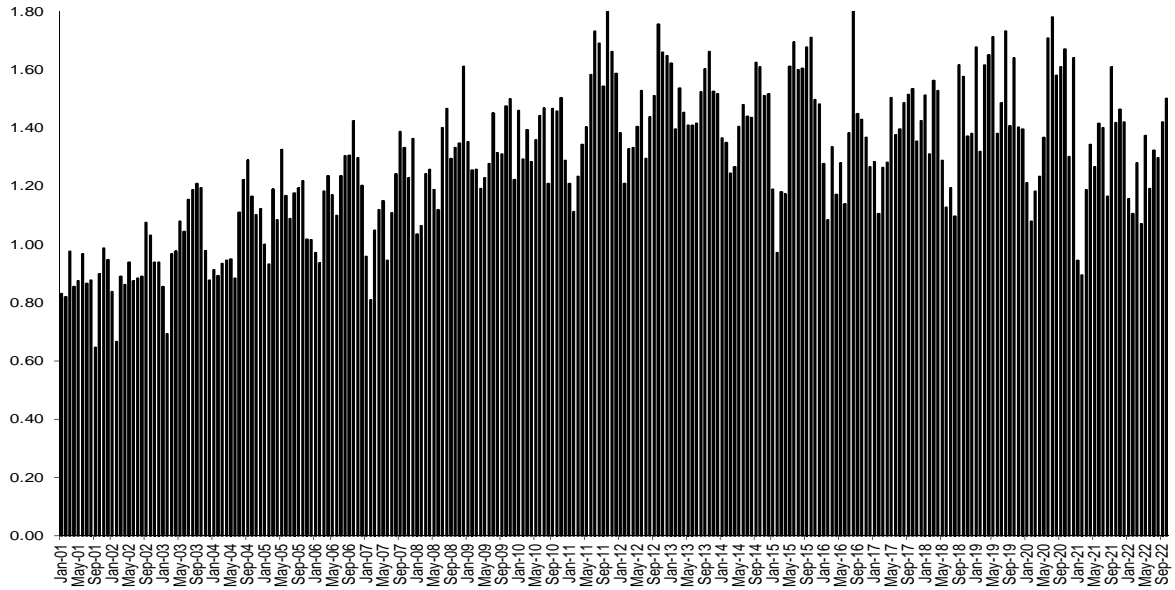
Source: MPOB

CHART 2 : CPO INVENTORY (MIL TONNES)



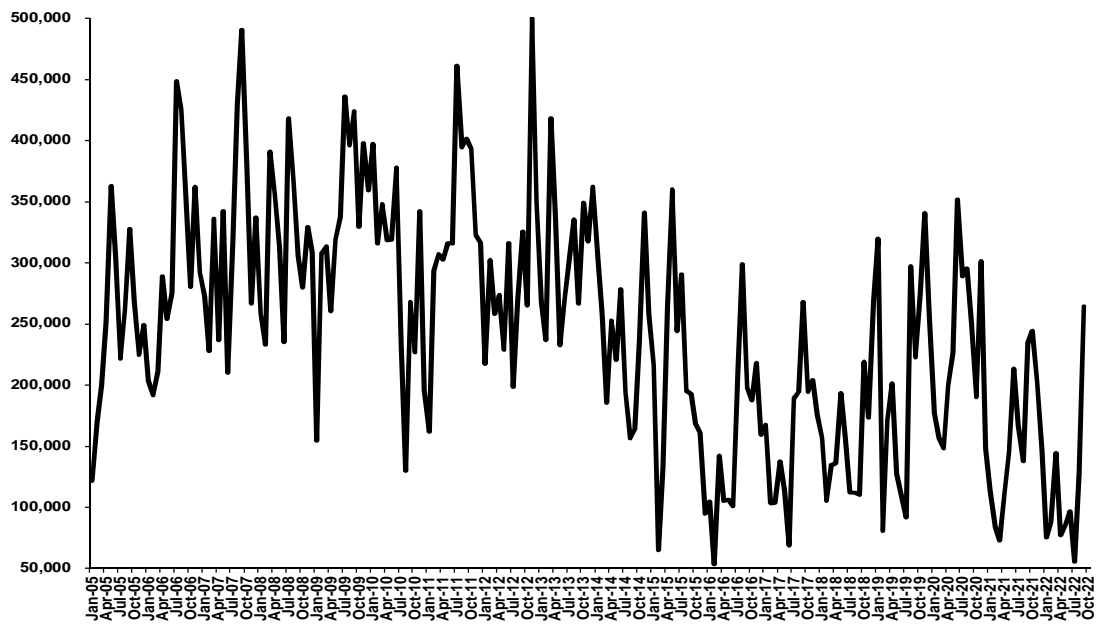
Source: MPOB

**CHART 3 : CPO EXPORTS (MIL TONNES)**



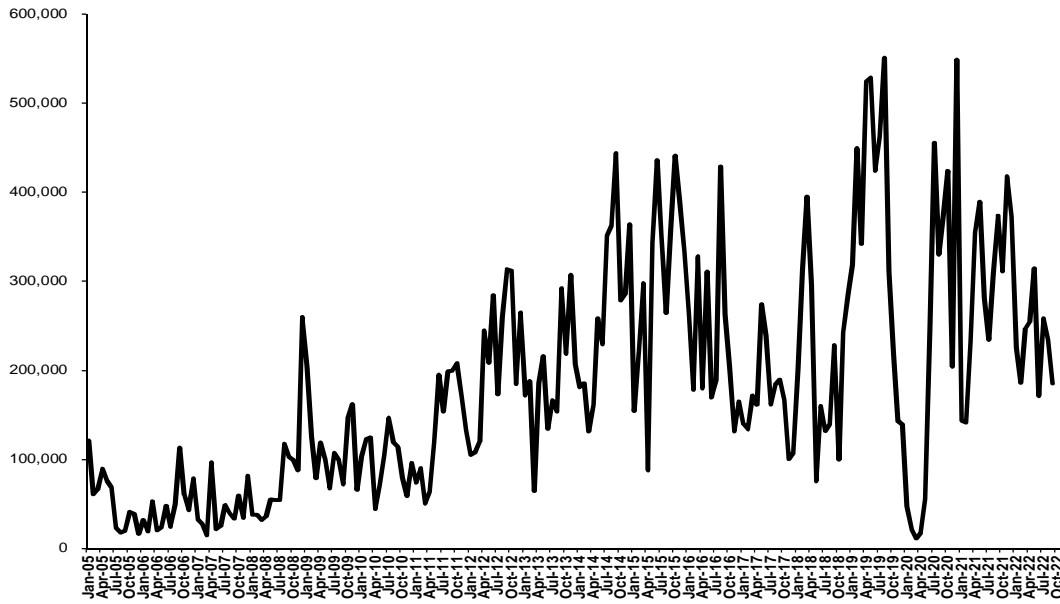
Source: MPOB

**CHART 4 : EXPORTS TO CHINA (TONNES) (UNTIL SEPT 2022)**



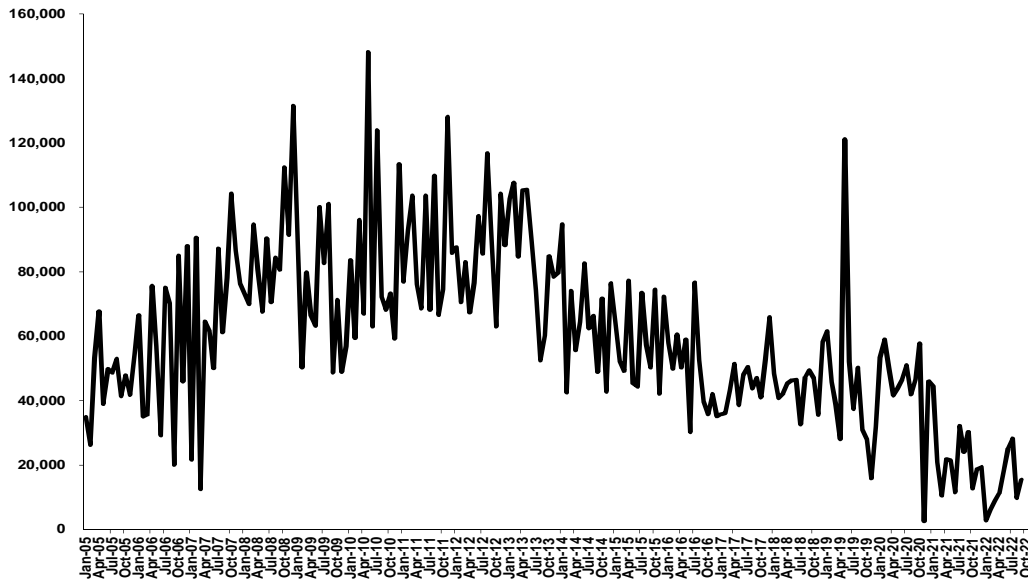
Source: MPOB

CHART 5 : EXPORTS TO INDIA (TONNES) (UNTIL SEPT 2022)



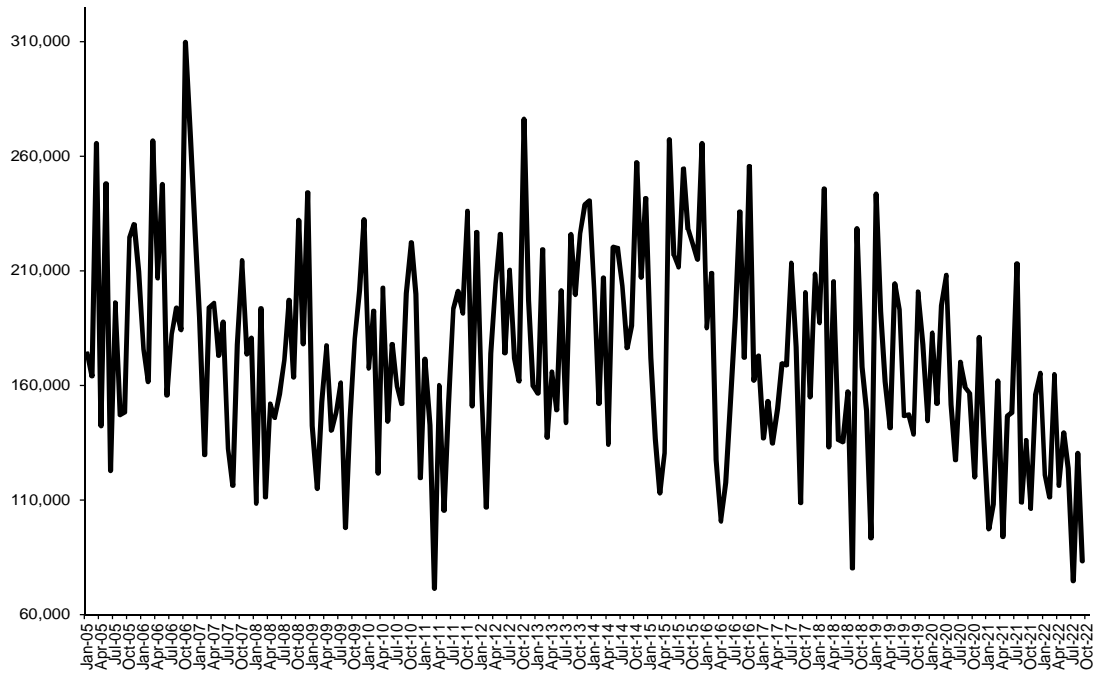
Source: MPOB

CHART 6 : EXPORTS TO USA (TONNES) (UNTIL SEPT 2022)



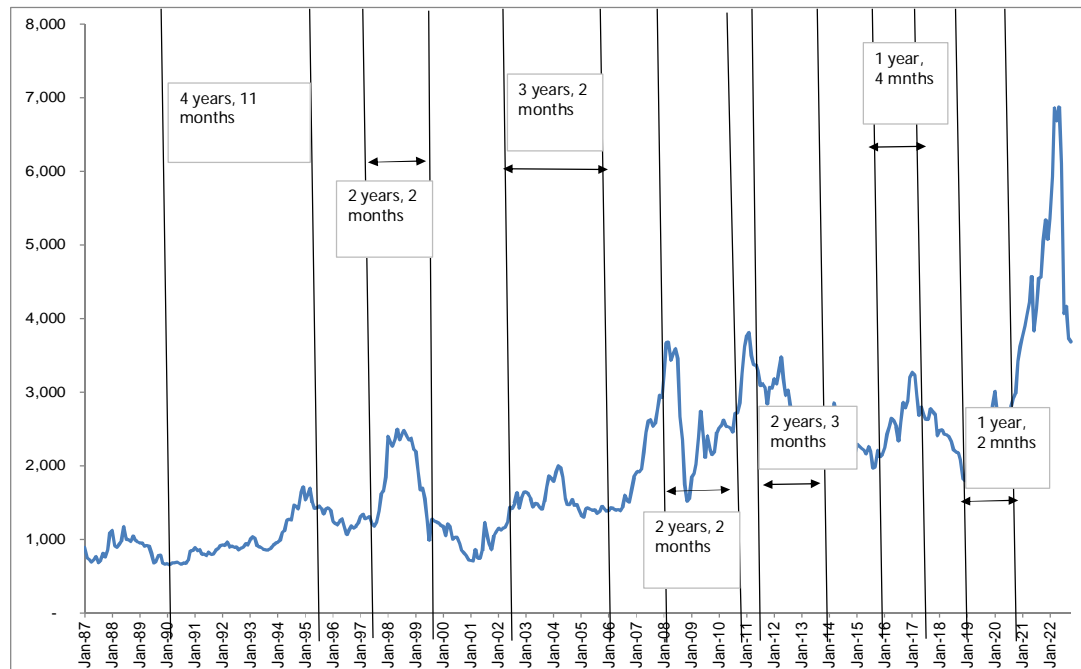
Source: MPOB

**CHART 7 : EXPORTS TO EU (TONNES) (UNTIL SEPT 2022)**



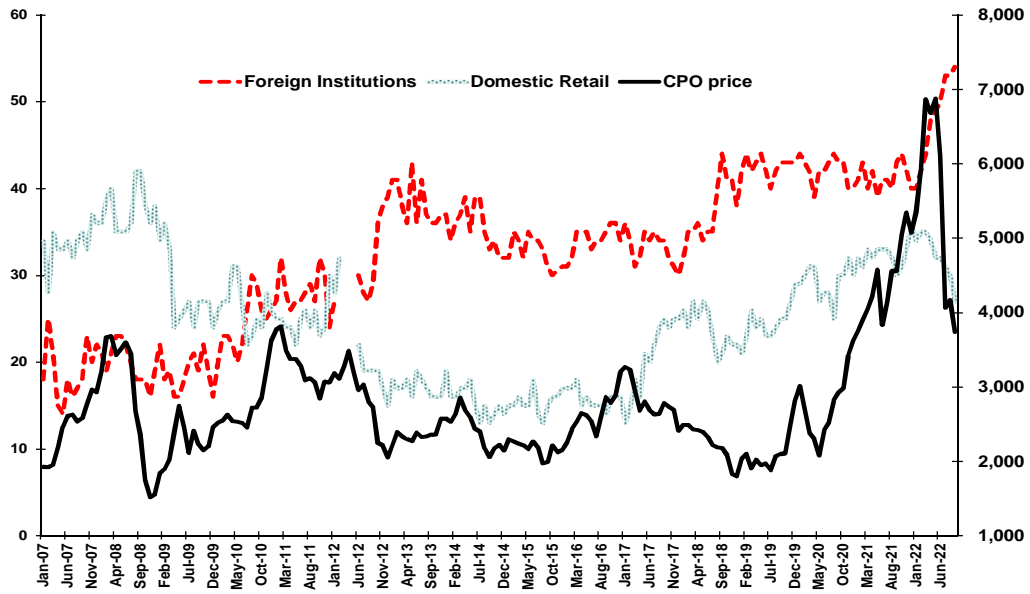
Source: MPOB

**CHART 8 : HISTORICAL CPO PRICE CYCLE (RM/TONNE)**



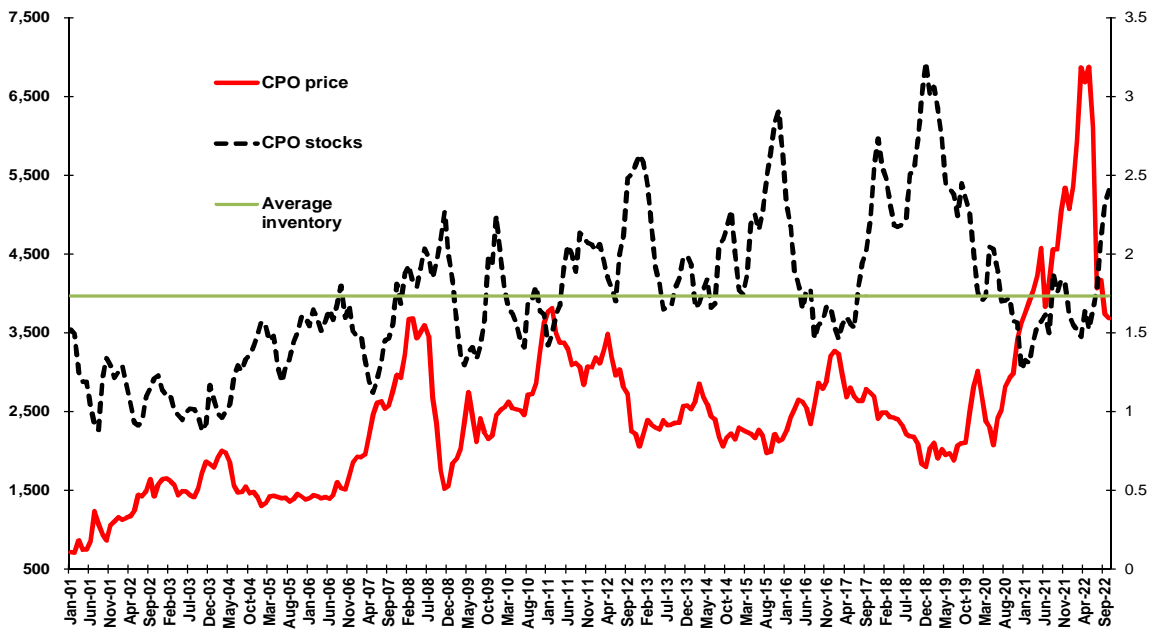
Source: MPOB

**CHART 9 : MARKET DEMOGRAPHICS OF CPO FUTURES (%) VS. CPO PRICE (RM/TONNE) (UP TO SEPT 2022)**



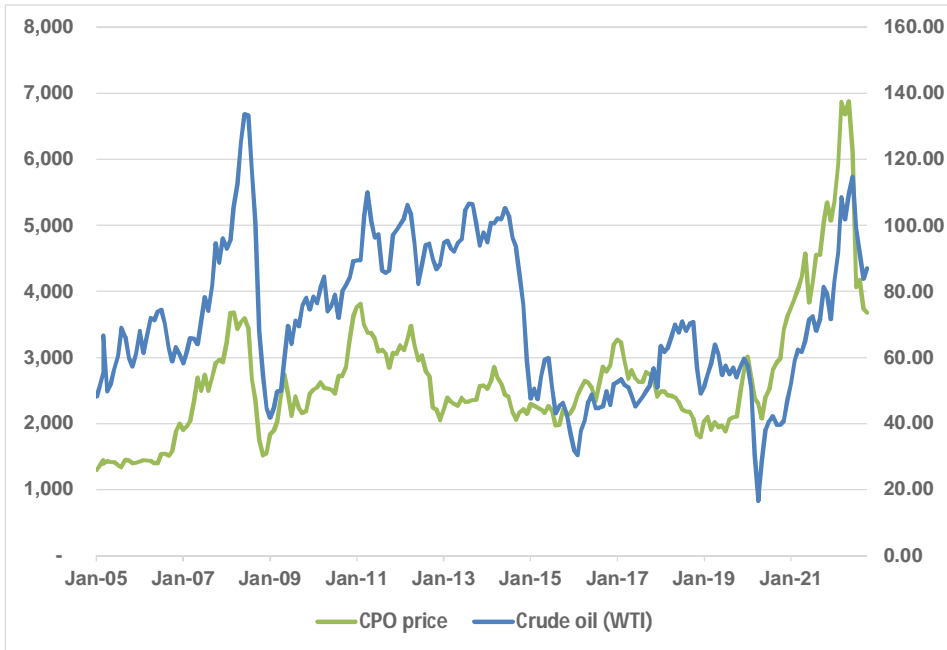
Source: Bursa Malaysia

**CHART 10 : CPO INVENTORY (MIL TONNES) VS. CPO PRICE (RM/TONNE)**



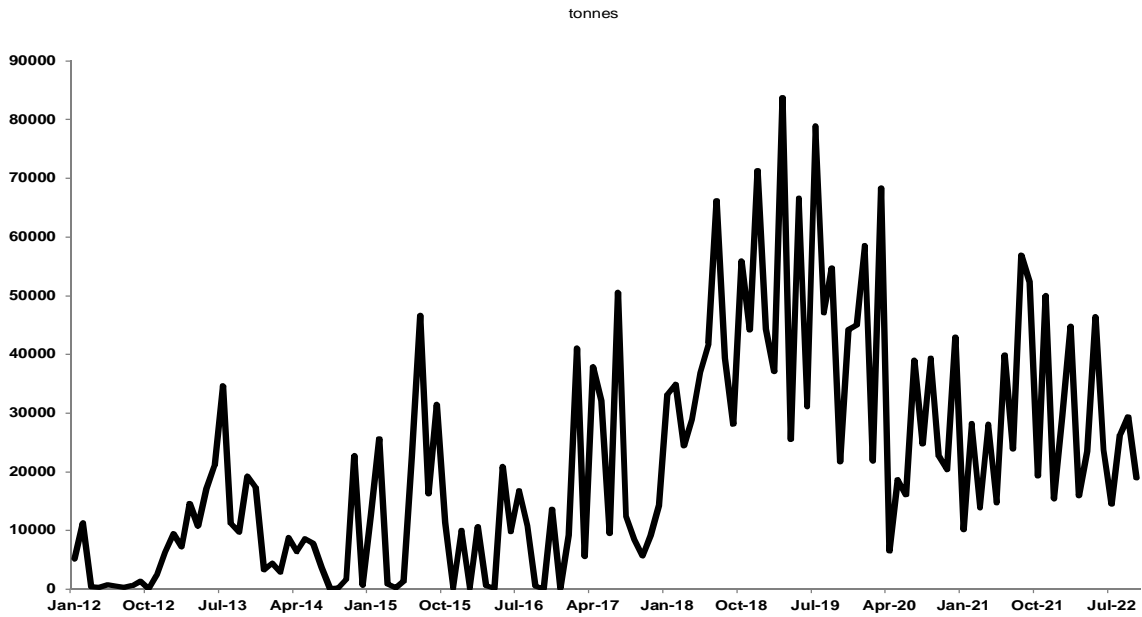
Source: MPOB

**CHART 11 : CPO PRICE (RM/TONNE) VS. CRUDE OIL (US\$/BARREL)**



Source: MPOB, Bloomberg

**CHART 12: BIODIESEL EXPORTS (TONNES)**



Source: MPOB

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