



AmInvestment Bank

Sector report

PLANTATION

16 Jan 2023

News flow for week 9 - 13 Jan

NEUTRAL

Gan Huey Ling, CFA

gan-huey-ling@ambankgroup.com

03-2036 2305

Rationale for report: Sector update

Quick Take

- The USDA has released its monthly demand and supply projections for vegetable oils. The USDA has reduced its forecast of 2022/2023F soybean inventory to 210mil from 220mil bushels due to lower production. US soybean yield is now estimated to be 49.5 bushels per acre vs. 50.2 bushels per acre previously. Soybean yields are expected to be affected by dry weather conditions in 2022/2023F. Comparing 2022/2023F against 2021/2022, US soybean inventory is envisaged to fall by 22% to 210mil bushels while soybean production is anticipated to decline by 4% to 4,276mil bushels.
- In contrast to the downward revision in US soybean numbers, the USDA has raised its forecast of global soybean inventory to 103.5mil tonnes from 102.7mil tonnes. This was due to higher soybean production and inventory in Brazil. Soybean output in Brazil is anticipated to increase by 18% to 153mil tonnes in 2022/2023F in the absence of drought. Comparing 2022/2023F against 2021/2022, world soybean inventory is forecast to increase by 5% to 103.5mil tonnes from 98.2mil tonnes.
- *Bloomberg* reported that India will stop duty-free imports of soybean oil from 1 April 2023 onwards. However, duty-free imports of sunflower oil will still continue. Currently, India allows annual duty-free imports of 2mil tonnes of crude soybean oil and sunflower oil for 2022/2023F and 2023F/2024F.
- *Kompas* quoted an official with Indonesia Palm Oil Association (GAPKI) as saying that the country's CPO and PKO production may fall to 49mil tonnes in 2023F, below the 3-year annual average of 52mil tonnes. The lower output is due to higher costs of fertiliser and replanting of ageing oil palm trees.
- *S&P Global Platts* cited traders as saying that weather vagaries that have hit soybean crop plantings in Argentina and Brazil's higher biodiesel blending mandate could squeeze global soybean derivatives supply in 2023F. Market participants are worried that the USDA's initial soybean crushing estimate of 39.8mil tonnes and production of 49.5mil tonnes for Argentina in 2022/2023F may be too high. Crushing may drop due to La Nina for the third consecutive year. According to Rosario Grains Exchange, soybean plantings were about 60.6% completed as at 21 December, 12.6 pp lower YoY.
- *Biofuels International* quoted an industry expert as saying that in the most recent IEA (International Energy Agency) report, total global biofuel demand is estimated to increase more than 20% between 2020 and 2027F. According to IEA, ethanol consumption in Europe is expected to remain steady at 2021 levels. The most significant growth will take place in the UK where consumption is projected to expand by more than 50% to meet the Renewable Transport Fuel Obligation and E10 blending. IEA projects biofuel demand in Brazil to expand by 40% between 2022 and 2027F with ethanol accounting for 70% of the change. This is attributed to Brazil's ethanol mandate, discretionary blending, RenovaBio programme and increasing gasoline demand.
- *Hindustan Times* reported that ghee and cooking oil are short in supply in Pakistan. If the government does not take corrective measures, most goods will be costlier ahead of the holy month of Ramadan. The Pakistan Vanaspati Manufacturers Association said that palm oil rate in Pakistan has already gone up by 7.7%, which means that there will be a jump in the prices of ghee and cooking oil as well.

TABLE 1: REGIONAL VALUATION COMPARISONS

Company	Price (lcl cry)	Mkt Cap (lcl cry mil)	P/E (x)		ROE (%)		Net Dividend Yield (%)	
			CY22E	CY23F	CY22E	CY23F	CY22E	CY23F
Malaysia								
IOI Corp	3.98	24,707.7	15.3	17.7	15.0	12.3	3.4	3.0
Kuala Lumpur Kepong	22.10	23,827.3	11.7	14.8	15.5	11.6	4.2	3.3
Sime Darby Plantation	4.37	30,221.7	13.4	16.8	13.8	10.3	4.4	3.4
TSH Resources	1.09	1,504.4	6.7	10.1	13.7	7.4	5.4	2.5
Genting Plantations	6.07	5,446.0	10.2	13.7	10.0	7.1	5.1	4.2
Hap Seng Plantations	1.99	1,591.4	7.1	10.2	11.0	7.2	9.0	6.7
FGV Holdings	1.33	4,852.0	4.1	7.3	21.2	10.3	6.5	4.7
Boustead Plantations	0.65	1,456.0	4.4	12.0	13.2	4.0	20.0	7.2
Sarawak Oil Palms	2.69	2,394.5	4.5	7.2	17.5	10.2	5.0	3.7
Ta Ann Holdings	3.68	1,620.9	4.7	8.0	19.8	11.0	11.8	7.0
Singapore								
Wilmar International	4.16	25,969.0	9.0	10.2	11.1	9.0	4.4	4.0
First Resources	1.44	2,258.6	5.1	7.3	24.7	15.5	8.5	6.2
Bumitama Agri	0.62	1,075.2	3.6	5.8	29.4	15.9	9.0	6.5
Golden Agri-Resources	0.245	3,107.0	3.1	6.0	18.7	7.0	12.4	5.9
Indonesia								
Astra Agro Lestari	7,975	15,349,389.5	8.8	7.5	8.0	8.4	5.8	6.6
Perusahaan Perkebunan London	1,005	6,856,978.3	6.9	7.4	9.2	8.1	5.8	5.0
Dharma Satya Nusantara	630	6,677,900.7	5.8	5.8	15.0	13.4	3.0	5.0

Source: Bloomberg

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures, investment or other products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.