



AmInvestment Bank

# PLANTATION

11 Jan 2023

Palm inventory slips 4% MoM to 2.2mil tonnes

**NEUTRAL**

(Maintained)

Gan Huey Ling, CFA

gan-huey-ling@ambankgroup.com

+603 2036 2305

Rationale for report : Sector update

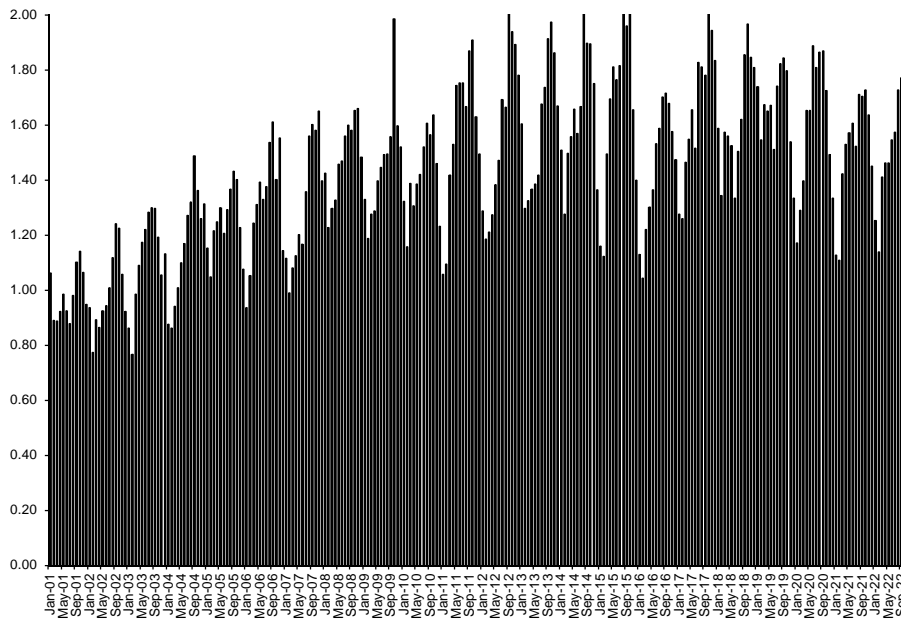
- The Malaysian Palm Oil Board (MPOB) has released the country's palm oil statistics for December 2022. Palm inventory in Malaysia slid for the second month in a row due to weak production. Malaysia's stockpiles of palm products eased by 4.1% to 2.2mil tonnes as at end-December from 2.3mil tonnes as at end-November. The inventory of 2.2mil tonnes in December was within *Bloomberg* consensus.
- Malaysia's palm imports declined by 20% MoM to 57,000 tonnes in December. Comparing 2022 against 2021, palm imports fell by 13% to 1.3mil tonnes as Indonesia banned exports of crude and refined palm oil in May. Due to the ban, Malaysian downstream companies did not import palm products from Indonesia. Indonesia's reinstatement of the CPO export levy and increase in export tax also restrained the country's exports in 4Q2022.
- Domestic consumption of palm oil fell by 14% MoM to 301,095 tonnes in December. Domestic consumption slid by 7% to 3.4mil tonnes in 2022 from 3.7mil tonnes in 2021. Domestic consumption of palm oil was weak in 2022 as the surge in Covid cases in 1Q affected demand from the HORECA segment.
- CPO production in Malaysia inched up to 18.5mil tonnes in 2022 from 18.1mil tonnes in 2021. CPO output was unexciting in 2022 due to insufficient harvesters. It is estimated that the palm industry in Malaysia is short of 70,000 to 80,000 workers. We believe that the situation will improve in 2023F as foreign workers have been arriving. *Oil World* forecasts Malaysia's CPO production to improve by 0.3mil tonnes in 2023F from 18.5mil tonnes in 2022.
- On a monthly basis, CPO output shrank by 3.7% to 1.6mil tonnes in December due to seasonal factors. CPO production in Peninsular Malaysia slipped by 3.9% MoM to 844,170 tonnes in December while in Sabah, CPO output eased by 2.4%. CPO production in Sarawak slid by 4.7% MoM to 357,365 tonnes in December.
- CPO exports inched up to 15.7mil tonnes in 2022 from 15.6mil tonnes in 2021. We believe that the improvement in exports was underpinned by higher demand from India. This helped compensate for a plunge in demand from China. China was affected by Covid-19 lockdowns in 2022. On a monthly basis, CPO exports edged down by 3.5% to 1.5mil tonnes in December. According to SGS, palm exports to India contracted by 18.2% while shipments to China plunged by 36.7%.
- We are NEUTRAL on the plantation sector. We believe that CPO prices would be restrained by higher production in supply from Malaysia and Indonesia in 2023F. Our CPO price assumptions are RM3,000/tonne (includes Indonesia price discount of RM500/tonne to RM1,000/tonne) for the large planters and RM3,500/tonne for the pure Malaysian companies. Average MPOB spot price was RM5,126/tonne in 2022.

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	3.96	19.8	21.2	20.0	18.7	3.55	-10.4%	11.5	2.9%	Hold
KLK	21.96	120.8	125.9	18.2	17.4	21.75	-1.0%	80.0	3.6%	Hold
SD Plantation	4.37	30.4	24.3	14.4	18.0	3.65	-16.5%	20.0	4.6%	Sell
Gent Plant	6.02	52.8	36.3	11.4	16.6	6.55	8.8%	30.0	5.0%	Hold
Hap Seng Plant	1.93	24.9	14.5	7.8	13.3	2.20	14.0%	21.0	10.9%	Hold
TSH Resources	1.08	14.9	5.6	7.2	19.3	0.85	-21.3%	3.0	2.8%	Sell
FGV Holdings	1.35	24.2	7.4	5.6	18.2	1.35	0.0%	8.5	6.3%	Sell

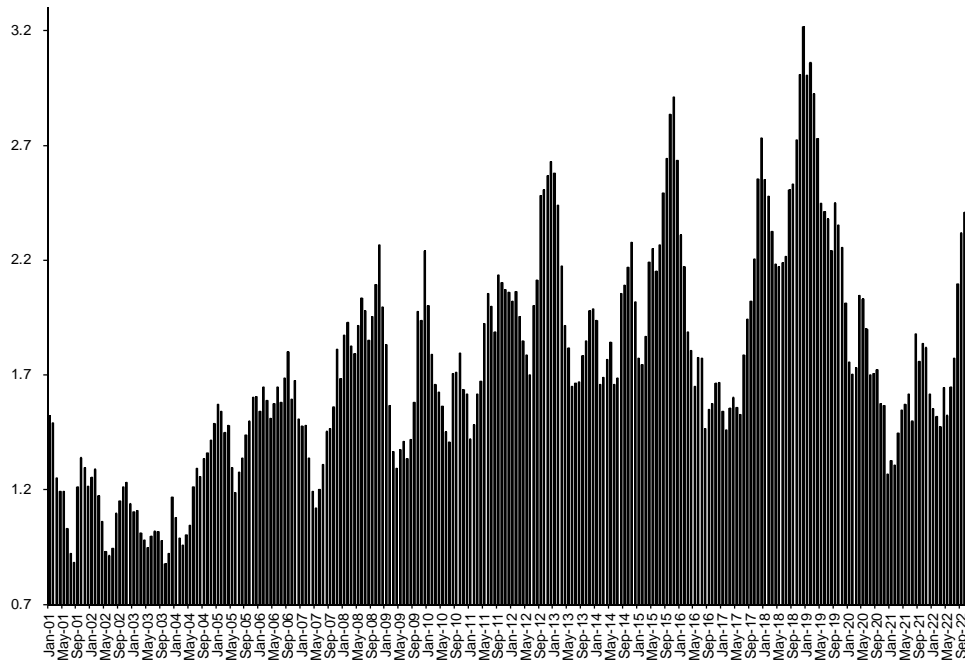
Source: AmInvestment Bank

**CHART 1 : CPO PRODUCTION (MIL TONNES)**



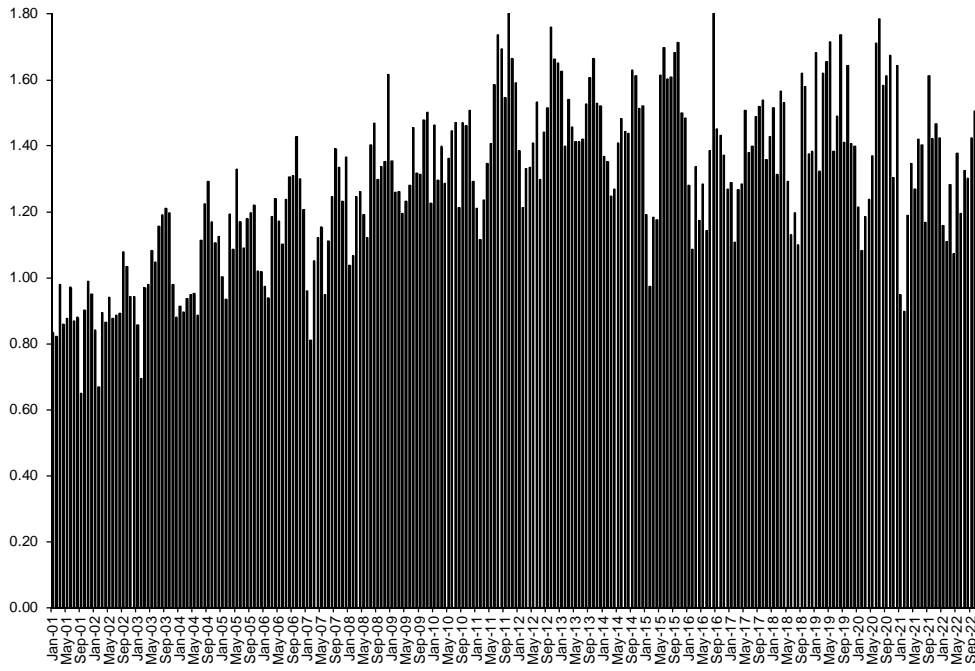
Source: MPOB

**CHART 2 : CPO INVENTORY (MIL TONNES)**



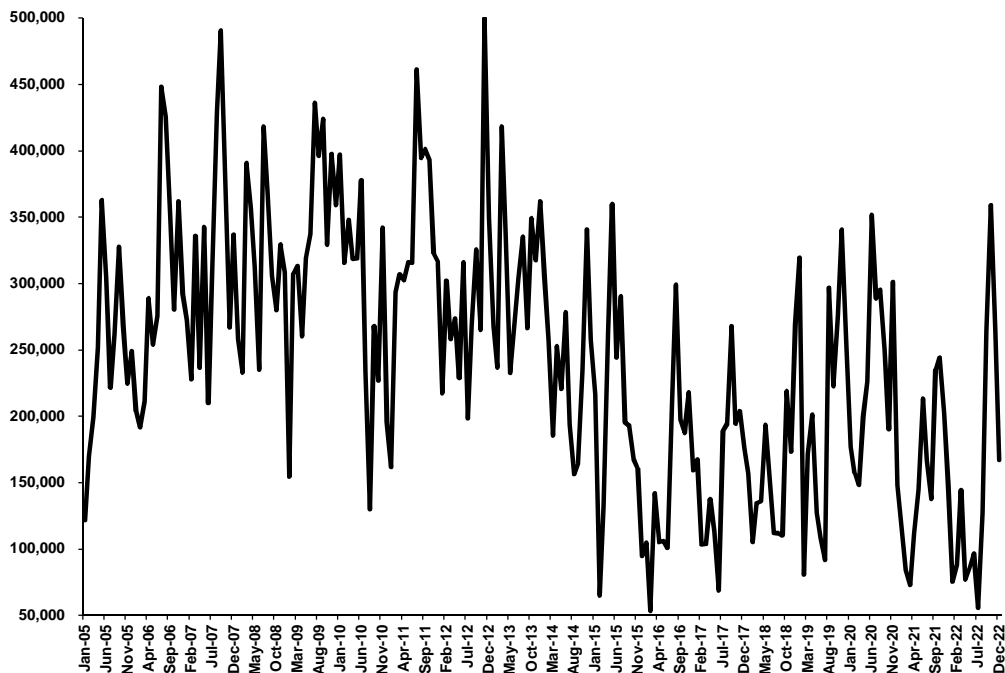
Source: MPOB

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



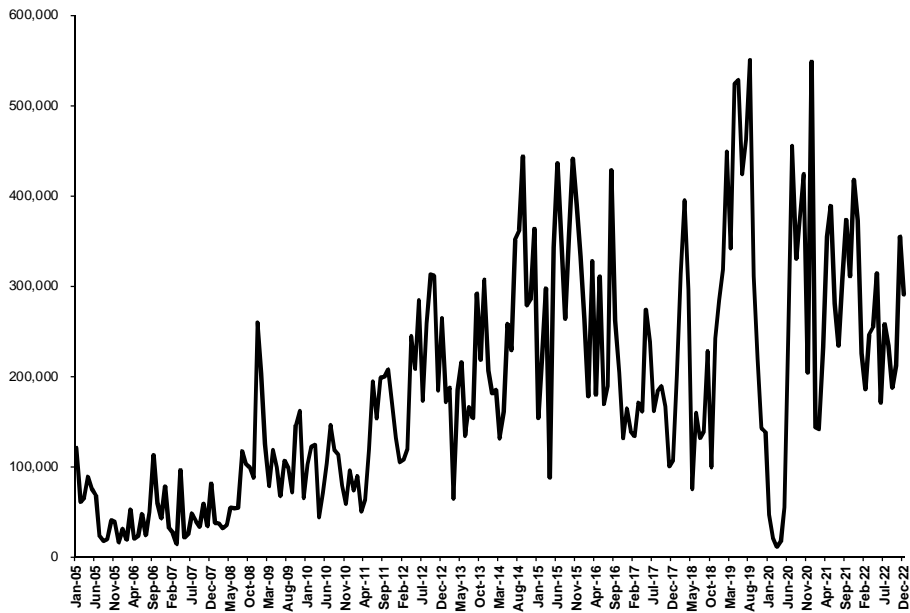
Source: MPOB

**CHART 4 : EXPORTS TO CHINA (TONNES)**



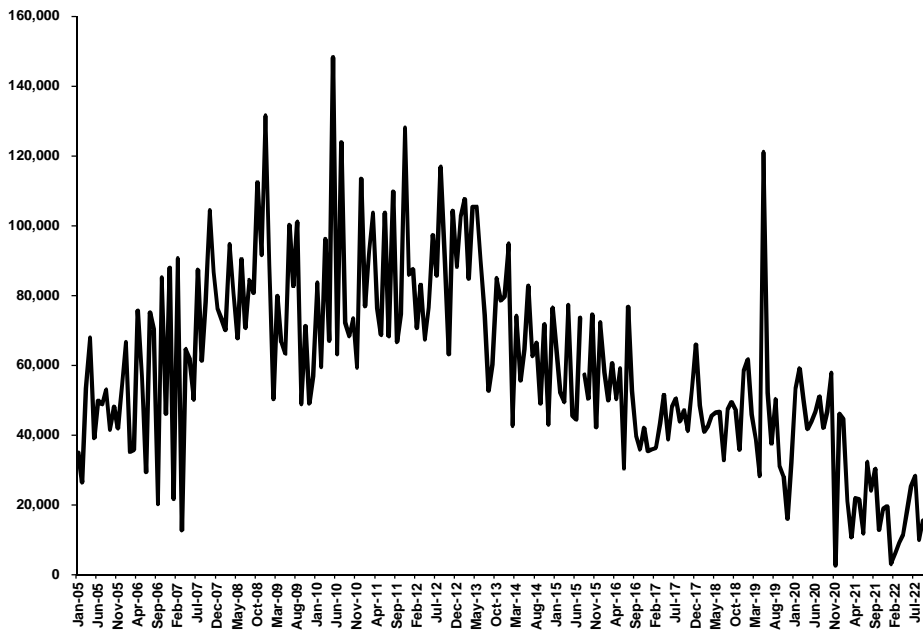
Source: MPOB and SGS

CHART 5 : EXPORTS TO INDIA (TONNES)



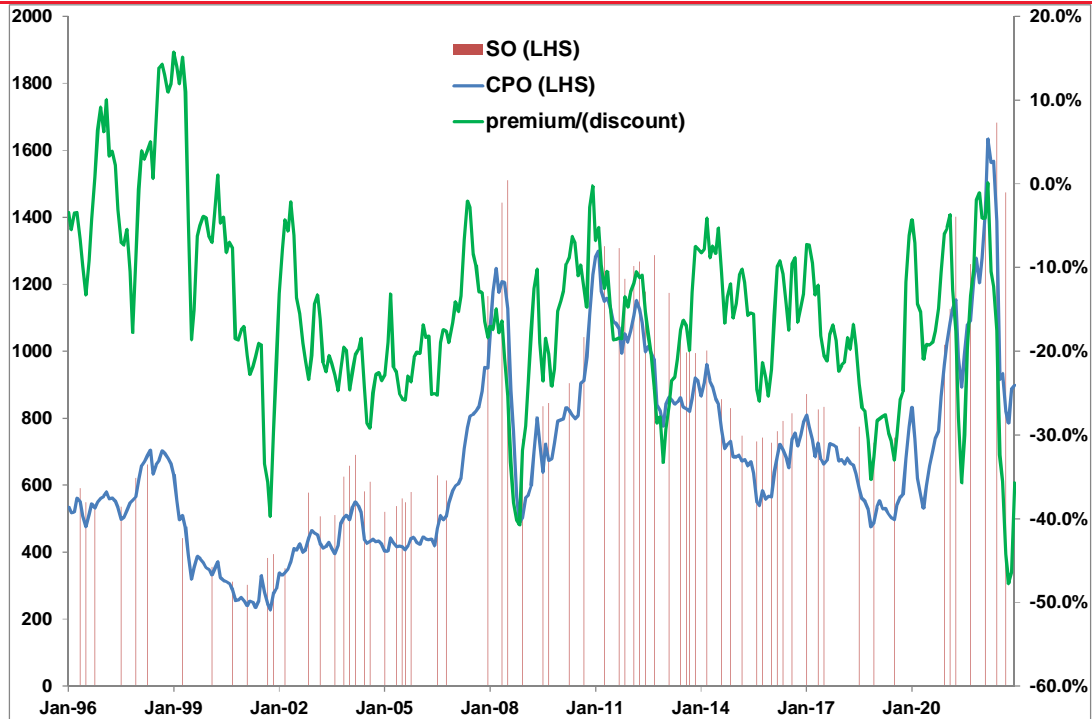
Source: MPOB and SGS

CHART 6 : EXPORTS TO USA (TONNES)



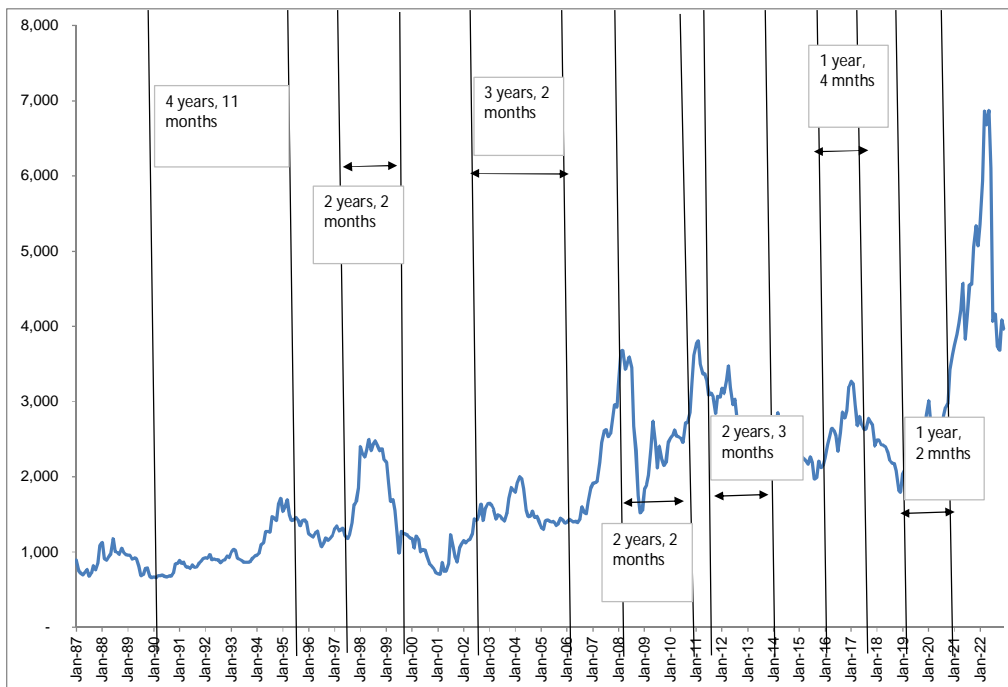
Source: MPOB and SGS

**CHART 7 : PRICE DISCOUNT BETWEEN CPO AND US SOYBEAN OIL**



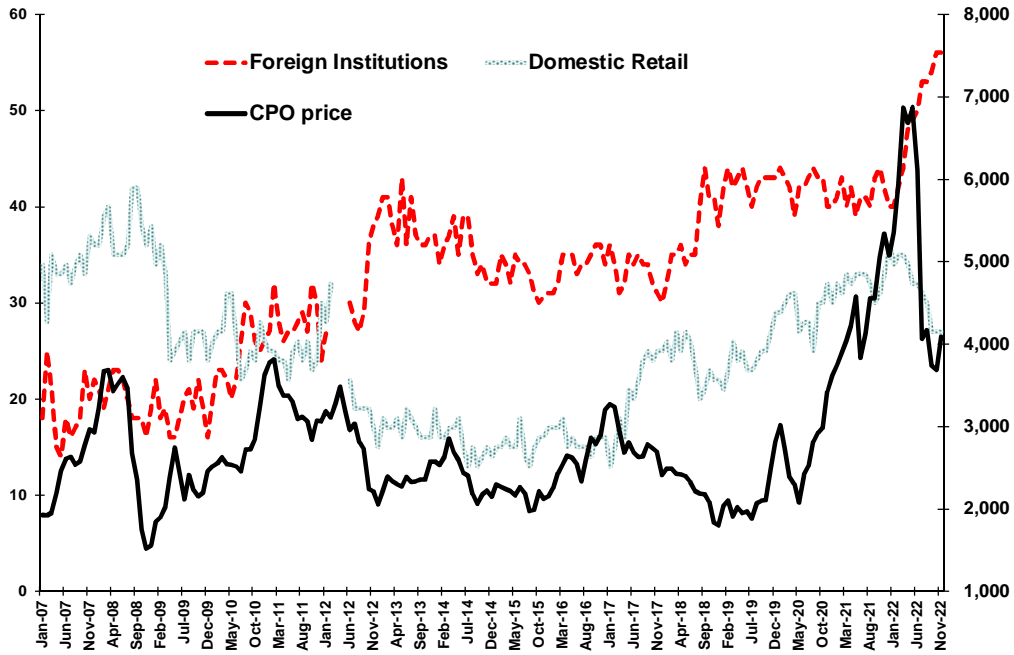
Source: MPOB, Bloomberg

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



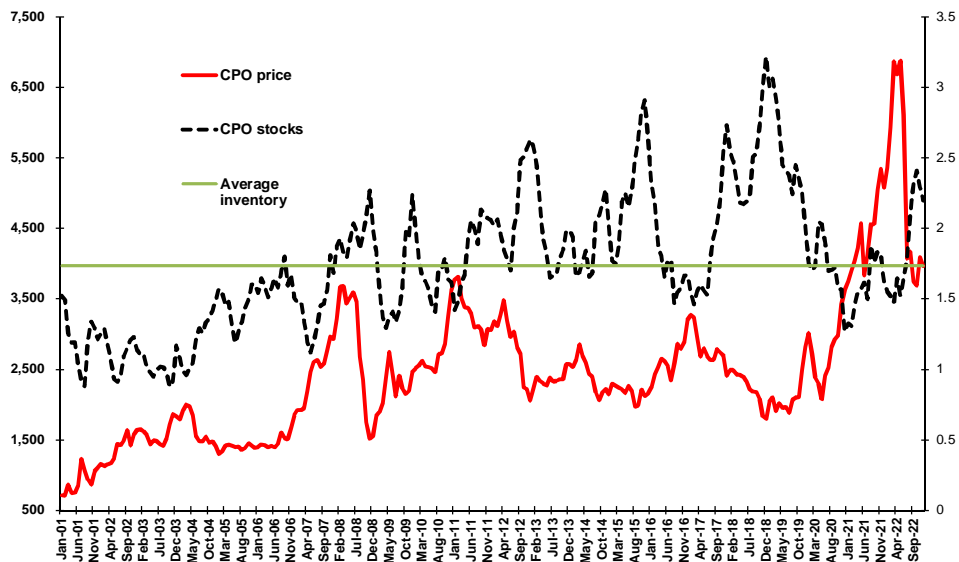
Source: MPOB

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



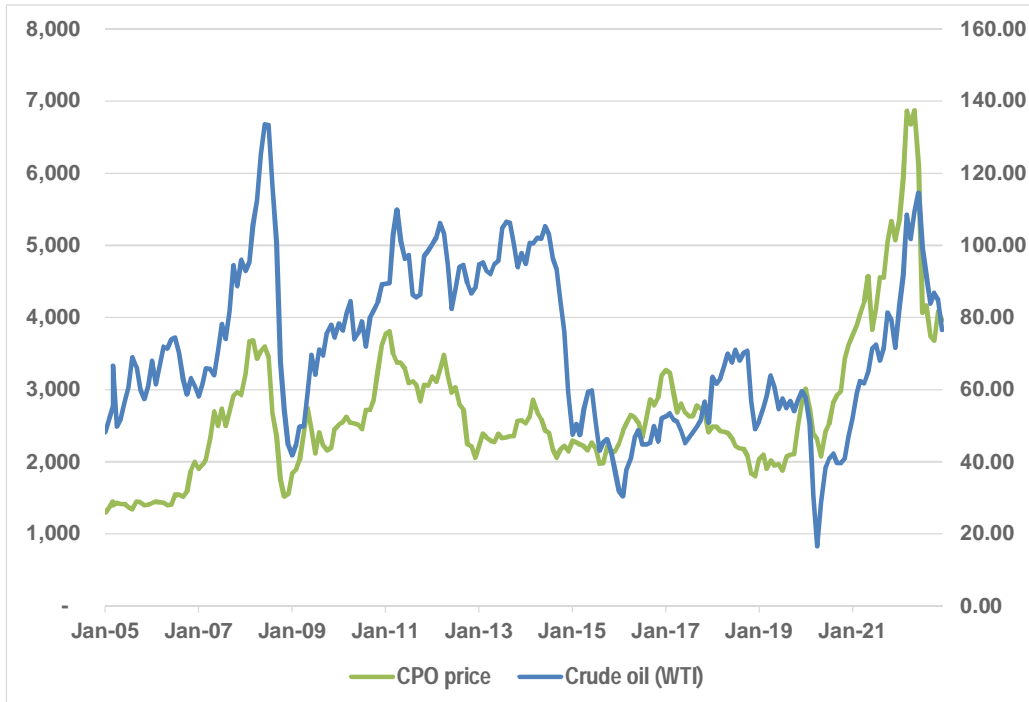
Source: Bursa Malaysia

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



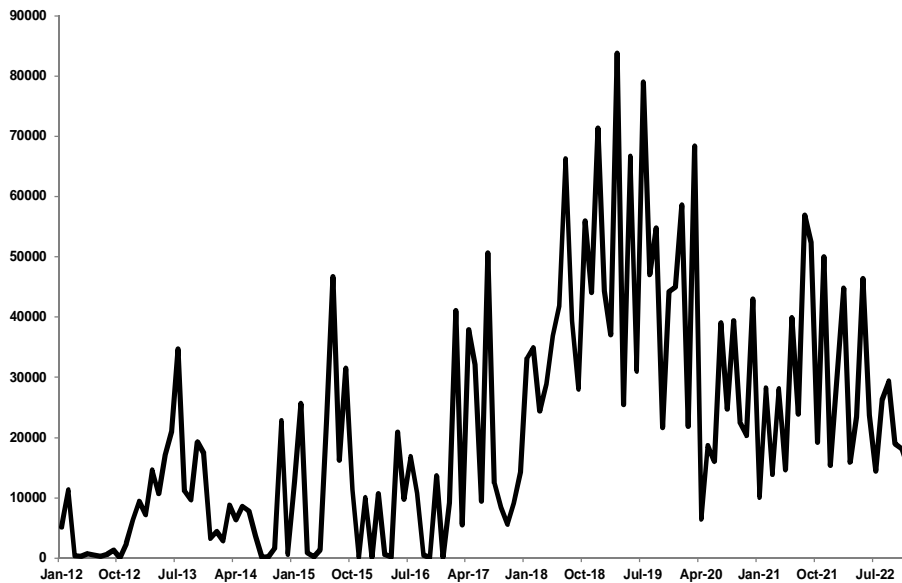
Source: MPOB

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



Source: MPOB, Bloomberg

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



Source: MPOB

**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.