



AmInvestment Bank

Sector report

PLANTATION

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NEUTRAL

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Rationale for report: Sector update

Quick Take

- The USDA has released its monthly demand and supply vegetable oils report. The USDA has raised its forecast of US soybean inventory for 2022E/2023F to 220mil from 200mil bushels. This was due to an upward revision in soybean yield to 50.2 from 49.8 bushels per acre. Comparing 2022E/2023F against 2021/2022E, however, US soybean inventory is estimated to fall to 220mil from 274mil bushels. US soybean production is expected to decline to 4,346mil bushels in 2022E/2023F from 4,465mil bushels in 2021/2022E as the drought in the Mid-West has affected yields.
- World soybean inventory is forecast to rise by 8% to 102.2mil tonnes in 2022E/2023F from 94.7mil tonnes in 2021/2022E on the back of higher stockpiles in Brazil and Argentina. Soybean production in Brazil is estimated to increase by 20% to 152mil tonnes in 2022E/2023F while in Argentina, soybean output is anticipated to improve by 13% to 49.5mil tonnes.
- *Bloomberg* cited Indonesian Palm Oil Association as saying that the country's palm oil production will be slightly lower in 2022E and will also drop by a small amount next year amid stagnant growth in plantation area and yields. Based on production performance in 1H2022, Indonesia's CPO production will fall to 51.3mil tonnes in 2022E from 51.6mil tonnes in 2021. Indonesian palm oil exports this year are likely to be near 2021 level of 33.7mil tonnes. Overseas shipments are in negative growth, except for those going to India, the US and Middle East.
- According to *Bloomberg* also, China is preparing to import soybean meal from Brazil as part of broader efforts to diversify sources of animal feed, ease a near-term supply shortage and curb inflation risks. Traders are taking steps to bring in the first Brazilian soymeal shipment to China after Beijing gave the go-ahead a couple of months ago. China has approved 14 Brazilian facilities to ship soymeal, including some that belong to Bunge, Olam Group and Coamo. Brazil is the world's second biggest soymeal exporter after Argentina, shipping 20.3mil tonnes in 2021/2022E.
- *Reuters* reported that the US Environmental Protection Agency (EPA) and a biofuels trade group have agreed to extend the deadline to issue a proposal on 2023F biofuel blending obligations by 2 weeks. The new deadline is 30 November 2022. For years, US administrations have had to deal with leaks ahead of releasing proposals for volume obligations. By delaying the proposal by 2 weeks, the EPA and White House are less likely to face criticisms about the proposal being released ahead of the mid-term elections. Under the Renewable Fuel Standard, oil refiners are required to blend billions of gallons of biofuels into the nation's fuel mix or buy tradable credits from those that do.
- *HRM Asia* said that Indonesia's Manpower Ministry is still finalising details on worker minimum wage in 2023F, which will be announced at the end of November this year. When asked about the possibility of a wage increase, the Manpower Minister Ida Fauziyah said that there would be a hike of a few percentage points. Workers are demanding a 13% increase in wages in 2023F due to inflation. On 1 January 2022, the monthly minimum wage in Indonesia was raised to IDR4,641,854 (US\$297) from IDR4,416,186 (US\$283).
- *The Star* reported that FGV Holdings is recruiting an additional 16,000 migrant workers by the end of 2023F to resolve labour shortage. FGV received 4,980 workers from India and Indonesia in October and expects another 3,000 workers in November. In total, FGV will receive 10,000 new workers by year-end and another 6,000 workers by 2023F.

TABLE 1: REGIONAL VALUATION COMPARISONS

Company	Price	Mkt Cap	P/E (x)		ROE (%)		Net Dividend Yield (%)	
	(tcl cry)	(tcl cry mil)	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F
Malaysia								
IOI Corp	4.03	25,018.1	15.7	18.1	14.7	12.1	3.3	3.0
Kuala Lumpur Kepong	21.34	23,007.9	10.6	13.2	16.1	11.8	4.6	3.7
Sime Darby Plantation	4.33	29,945.0	11.4	15.5	16.2	11.1	5.0	3.8
TSH Resources	1.06	1,463.0	7.0	10.0	12.5	7.2	3.3	2.5
Genting Plantations	6.30	5,652.3	9.3	13.1	10.8	6.9	5.4	4.1
Hap Seng Plantations Holdings	2.10	1,679.3	6.6	10.7	13.0	7.7	9.0	6.1
FGV Holdings	1.33	4,852.0	3.9	7.7	21.3	9.3	6.5	4.4
Boustead Plantations	0.70	1,568.0	3.8	10.8	18.0	4.4	19.0	7.3
Sarawak Oil Palms	2.62	2,332.2	4.6	7.6	16.3	9.0	4.1	3.2
Ta Ann Holdings	3.70	1,629.7	5.0	7.2	18.7	10.8	10.5	6.6
Singapore								
Wilmar International	4.01	25,028.5	8.4	9.4	10.8	9.1	4.7	4.4
First Resources	1.54	2,417.2	6.8	7.7	20.3	15.5	7.2	6.4
Bumitama Agri	0.625	1,083.8	3.6	5.8	30.3	16.3	11.0	7.1
Golden Agri-Resources	0.29	3,677.7	4.1	6.4	17.5	8.2	8.6	5.2
Indonesia								
Astra Agro Lestari	8,200	15,782,444.3	7.8	8.2	8.4	7.2	5.8	4.7
Perusahaan Perkebunan London S	1,095	7,471,036.0	7.0	7.5	9.0	8.1	4.0	4.0
Dharma Satya Nusantara	600	6,359,905.4	6.4	6.4	12.4	10.2	3.2	4.3
Sawit Sumbermas Sarana	1,410	13,430,250.0	5.0	6.8	28.9	21.8	5.6	10.0

Source: Bloomberg

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