



AmInvestment Bank

## Sector report

# PLANTATION

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*Dry weather in South America pushes up soybean price*

**NEUTRAL**

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Rationale for report: Sector update

Quick Take

- US soybean price rose this week on the back of dry weather conditions in Brazil and Argentina. There is risk that the dry weather may affect crops in South America.
- US soybean price for January 2022 increased to US\$13.27/bushel yesterday from a three-month low of US\$11.88/bushel on 8 November 2021. Prior to this week's rise in prices, soybean has been easing, dragged by expectations of bumper crops in the USA and South America. Crude oil prices had also been softening after touching a high of US\$84.65/barrel (West Texas) on 26 October 2021.
- Rains are expected to arrive in Brazil in the coming weeks, which should provide a reprieve to farmers. Still, Planalytics, which is an industry expert, has tweaked its forecast of Brazil's soybean yield to 3.52 tonnes/ha from 3.53 tonnes/ha previously.
- Currently, the USDA is anticipating soybean production in Brazil to expand by 4.3% to 144.0mil tonnes in 2021E/2022F from 138.0mil tonnes in 2020/2021E. US soybean output is envisaged to climb to 120.4mil tonnes in 2021E/2022F from 114.8mil tonnes in 2020/2021E. In Argentina, soybean production is estimated to rise to 49.5mil tonnes in 2021E/2022F from 46.2mil tonnes in 2020/2021E.
- If bumper soybean crops materialise in the USA and South America in 2021E/2022F, this would increase the global supply of soybean oil. This may in turn exert downward pressure on CPO prices.
- Also based on current price levels, the discount between US soybean oil and CPO is small at a mere 0.7% or US\$9/tonne compared with the five-year average of 18.5%. The small price discrepancy between soybean oil and CPO may encourage buyers to switch to the former. In the first 25 days of December 2021, SGS said that Malaysia's palm shipments inched up by 0.2% compared with the same period in November. In contrast, Intertek reported that Malaysia's palm shipments fell by 2.6%.
- Additionally, most industry experts are forecasting CPO production in Malaysia and Indonesia to improve in 2022F. The increase in CPO output in 2022F is expected to be underpinned by enhancements in FFB yields partly supported by the gradual entry of foreign workers in Malaysia. As at 27 November 2021, *Oil World* forecasts 2022F CPO production to rise by 1.0mil to 1.1mil tonnes in Malaysia and 1.7mil to 1.9mil tonnes in Indonesia.
- In the short term however, Malaysia's CPO production in December may be affected by torrential rains in Johor, Pahang and Selangor. The three states accounted for 34.8% of Malaysia's CPO production in 2020. Companies with oil palm estates in Johor, Pahang and Selangor include Genting Plantations, Kuala Lumpur Kepong, FGV Holdings and Sime Darby Plantation. However, we do not expect the earnings impact to be significant as these companies also have palm operations in Indonesia and Sabah.
- We are NEUTRAL on the plantation sector as ESG concerns are expected to affect the valuations of the plantation companies. Price of CPO for January 2022 is currently hovering between RM4,700/tonne and RM5,200/tonne while CPO for March is at a discount of RM400 to RM500/tonne to spot.

TABLE 1 : REGIONAL VALUATION COMPARISONS

	PE (x)			Div yield (%)			ROE (%)		
	FY21E	FY22F	FY23F	FY21E	FY22F	FY23F	FY21E	FY22F	FY23F
<b>Indonesia</b>									
PT Astra Agro	8.0	8.9	9.1	2.0	4.3	4.1	11.5	9.3	9.2
PT Bakrie Sumatra	-	-	-	-	-	-	-	-	-
PT London Sumatra	7.9	8.3	8.4	3.4	4.9	4.4	10.7	10.0	9.0
BW Plantation	-	71.0	-	-	-	-	-	-	-
Gozco Plantation	-	-	-	3.1	3.7	4.3	-	-	-
PT SMART	-	-	-	-	-	-	-	-	-
PT Salim Ivomas Pratama	-	-	-	-	-	-	-	-	-
JA Wattie	-	-	-	-	-	-	-	-	-
Provident Agro	-	-	-	-	-	-	-	-	-
Multi Agro Gemilang	-	-	-	-	-	-	-	-	-
Austindo Nusantara	-	-	-	-	-	-	-	-	-
Dharma Satya Nusantara	6.0	5.3	4.4	3.1	4.7	5.5	13.6	13.7	14.9
Sampoerna Agro	-	-	-	-	-	-	-	-	-
Sawit Sumbermas	6.7	7.0	6.6	3.1	3.7	4.3	26.0	20.7	19.1
<b>Simple average</b>	<b>7.2</b>	<b>20.1</b>	<b>7.1</b>	<b>2.9</b>	<b>4.3</b>	<b>4.5</b>	<b>15.4</b>	<b>13.4</b>	<b>13.0</b>
<b>Singapore</b>									
Wilmar International	11.6	11.3	10.7	3.6	3.8	3.7	8.7	8.5	8.5
Olam International	-	-	-	-	-	-	-	-	-
Noble Group	-	-	-	-	-	-	-	-	-
Golden Agri Resources	5.7	7.2	7.2	4.4	4.4	4.4	9.2	7.0	6.0
Indofood Agri Resources	-	-	-	-	-	-	-	-	-
Kencana Agri	-	-	-	-	-	-	-	-	-
First Resources	11.7	8.6	8.7	4.1	5.0	5.2	13.0	15.0	13.3
Bumitama Agri	6.7	6.2	6.8	4.6	4.3	4.4	16.0	15.7	13.3
Global Palm Resources	-	-	-	-	-	-	-	-	-
Mewah International	-	-	-	-	-	-	-	-	-
GMG Global	-	-	-	-	-	-	-	-	-
<b>Simple average</b>	<b>8.9</b>	<b>8.4</b>	<b>8.4</b>	<b>4.2</b>	<b>4.4</b>	<b>4.4</b>	<b>11.7</b>	<b>11.5</b>	<b>10.3</b>
<b>Malaysia</b>									
Genting Plantations	14.9	14.4	15.3	3.3	3.4	3.2	7.8	7.0	6.9
IJM Plantations	24.6	14.1	13.5	1.1	-	-	7.9	12.9	13.9
United Plantations	-	-	-	-	-	-	-	-	-
IOI Corporation	21.0	17.8	19.8	2.7	2.9	2.8	12.0	12.5	11.0
Kuala Lumpur Kepong	16.8	15.9	18.2	2.8	3.0	2.9	12.6	11.8	10.5
Felda Global Ventures	8.9	14.2	16.4	3.0	2.3	2.3	14.6	8.9	7.4
Kulim	-	-	-	-	-	-	-	-	-
Sarawak Oil Palms	4.9	7.1	8.5	5.2	3.6	3.3	14.6	10.1	9.0
TH Plantations	9.8	12.8	16.6	-	-	-	11.4	6.2	4.5
TSH Resources	9.9	12.5	12.4	2.2	2.0	2.2	10.2	7.4	7.0
SD Plantation	11.1	15.6	21.5	4.9	3.6	3.1	15.5	10.8	8.6
Sarawak Plantations	7.1	9.3	9.3	4.1	4.1	4.1	14.7	10.5	10.0
TDM Bhd	-	-	-	-	-	-	-	-	-
Ta Ann Holdings	6.9	9.3	10.3	8.8	4.9	4.5	15.8	10.4	8.3
Jaya Tiasa	8.5	6.8	9.5	4.6	4.4	3.3	7.0	7.5	-
Hap Seng Plantations	8.5	11.4	14.5	6.2	5.1	4.3	9.5	7.3	6.1
<b>Simple average</b>	<b>11.8</b>	<b>12.4</b>	<b>14.3</b>	<b>4.1</b>	<b>3.6</b>	<b>3.3</b>	<b>11.8</b>	<b>9.5</b>	<b>8.6</b>

Source: Bloomberg

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