

18 March 2022

Agriculture | Plantation

Plantation

Neutral (Maintained)

Higher Indonesia Tax Levies And Scrapped DMO

- Top Picks: Pure Malaysian planters Sarawak Oil Palms (SOP) and Ta Ann, and Indonesian planters with downstream exposure, ie Wilmar and Kuala Lumpur Kepong (KLK).** Indonesia's move to revoke the Domestic Market Obligation (DMO) one week after raising the quantum and raise the export levy has been confusing to the market. While CPO prices may rise as a result, the net impact for pure planters with Indonesian exposure would be slightly negative. Maintain NEUTRAL on sector.
- The Indonesian Government made several changes this week.** First, it removed the IDR14,000/litre price ceiling for packaged cooking oil, while keeping the price subsidy for bulk cooking oil. Then, it revoked the 30% DMO one week after raising it to 30%, from 20%. Third, it raised the export tax and levies on CPO to a USD575.00/tonne limit (from USD375.00/tonne), if prices exceed USD1,500/tonne (from USD1,000/tonne).
- Need to increase Biodiesel Fund to subsidise bulk cooking oil.** We understand that the rationale for these changes stems from the desire to ensure enough cooking oil is supplied to the domestic market, and to effectively raise CPO global prices. We understand that the differential between the current market price and subsidised bulk cooking oil price will now be subsidised by the Biodiesel Fund. As bulk cooking oil consumption in Indonesia is around 2.1m tonnes per year, this subsidy could utilise as much as USD1bn/year (assuming the subsidy is around IDR6,400/litre) from the fund. With this, the Government decided to raise the export levies to improve the biodiesel fund collection. In 2020, when levies were raised, international CPO prices rose to compensate for the higher levies – which is something the Indonesian Government is counting on. So while the removal of the DMO would release more supplies of palm oil to the export market – thereby resulting in an easing of CPO prices – the raising of export levies may have the opposite effect of raising CPO prices, as the market adjusts upwards to account for the increased tax levels in Indonesia.
- Net impact to Indonesian planters is slightly negative.** Based on the new tax range, the net realisable price for planters would be slightly negative, ranging from -1 to -5% (Figure 4), if we were to compare current tax levies to the old tax levies plus a 30% DMO impact. However, Indonesian planters with a downstream presence should be able to gain slightly from this, as they could buy feedstock at lower prices, while benefitting from the lower tax rate for refined products.
- Still NEUTRAL on sector.** While it is not certain if CPO prices will rise as a result of this move, the net impact for pure planters with Indonesian exposure would be slightly negative. We continue to prefer pure Malaysian planters like SOP and Ta Ann, as well as Indonesian planters with downstream exposure like KLK and Wilmar. We also have BUY calls on PP London Sumatra Indonesia and Bumitama Agri on valuation grounds.

Stocks Covered 14
 Rating (Buy/Neutral/Sell): 5 / 8 / 1
 Last 12m Earnings Revision Trend: Positive

Top Picks

Stock	Target Price
Kuala Lumpur Kepong (KLK MK) – BUY	MYR31.45
Sarawak Oil Palms (SOP MK) – BUY	MYR6.05
Ta Ann Holdings (TAH MK) - BUY	MYR6.40
Wilmar International (WIL SP) – BUY	SGD5.30

Analysts

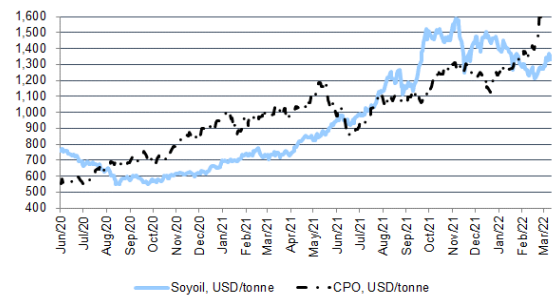
Hoe Lee Leng
 +603 9280 8860
hoe.lee.leng@rhbgroup.com



Singapore Research
sg.research@rhbgroup.com

Indonesia Research Team
 +6221 5093 9888
rhb.id.research@rhbgroup.com

CPO vs SBO prices



Source: Bloomberg, RHB

Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-22F	P/B (x) Dec-22F	ROAE (%) Dec-22F	Yield (%) Dec-22F
Astra Agro Lestari	Neutral	IDR11,820	(2.7)	8.7	1.1	11.7	5.0
Bumitama Agri	Buy	SGD0.90	19.4	6.0	1.2	20.9	6.7
CB Industrial Product	Neutral	MYR1.40	(2.4)	7.2	0.8	11.7	5.3
FGV Holdings	Neutral	MYR2.05	14.5	7.4	1.1	15.3	3.4
First Resources	Neutral	SGD2.00	1.1	9.3	1.7	19.6	5.4
Genting Plantations	Neutral	MYR8.90	4.1	15.4	1.4	9.4	2.5
Golden Agri	Neutral	SGD0.31	5.7	6.1	0.5	9.2	5.0
IOI Corp	Neutral	MYR4.70	13.5	14.7	2.2	15.8	2.7
Kuala Lumpur Kepong	Buy	MYR31.45	25.8	13.5	2.7	16.0	4.4
PP London Sumatra Indonesia	Buy	IDR1,690	23.4	6.6	0.9	13.6	4.2
Sarawak Oil Palms	Buy	MYR6.05	12.9	5.9	0.9	17.1	2.1
Sime Darby Plantation	Neutral	MYR5.30	8.2	13.7	2.1	16.6	4.5
Ta Ann	Buy	MYR6.40	36.2	5.3	1.1	22.7	7.4
Wilmar International	Buy	SGD5.30	14.9	10.5	1.0	9.9	2.9

Source: Company data, RHB

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Figure 1: New levy range (Mar 2022)

	CPO ≤ US\$ 750	US\$ 750 - 800	US\$ 800- 850	US\$ 850- 900	US\$ 900- 950	US\$ 950- 1000	US\$ 1000- 1050	US\$ 1,050 - 1,100	US\$ 1,100- 1,150	US\$ 1,150- 1,200	US\$ 1,200- 1,250	US\$ 1,250 - 1,300	US\$ 1,300- 1,350	US\$ 1,350 - 1,400	US\$ 1,400- 1,450	US\$ 1,450- 1,500	US\$ 1,500 ≤ CPO
CPO	55	75	95	115	135	155	175	195	215	235	255	275	295	315	335	355	375
RBD Palm Oil	38	54	70	86	102	118	134	150	166	182	198	214	230	246	262	278	294
RBD Olein	35	51	67	83	99	115	131	147	163	179	195	211	227	243	259	275	291
Biodiesel	25	41	57	73	89	105	121	137	153	169	185	201	217	233	249	265	281

Source: Bloomberg, RHB

Figure 2: Old levy range (Jun 2021)

	CPO ≤ USD750	USD750- 800	USD800- 850	USD850- 900	USD900- 950	USD950- 1000	>USD1000
CPO	55	75	95	115	135	155	175
RBD Palm Oil	25	41	57	73	89	105	121

Source: Indonesia Ministry of Finance

Figure 3: Export tax (unchanged since 2015)

	CPO ≤ USD750	USD750- 800	USD800- 850	USD850- 900	USD900- 950	USD950- 1000	US\$1000- 1050	US\$1,050 - 1,100	US\$1,100- 1,150	US\$1,150- 1,200	US\$1,200- 1,250	> US\$1,250
CPO	0	3	18	33	52	74	93	116	114	166	183	200
RBD Palm Olein	0	0	0	0	12	26	40	56	70	83	100	117
RBD PO	0	0	0	0	5	17	30	44	57	70	81	92

Source: Indonesia Ministry of Finance

Figure 4: Effective CPO prices in Indonesia (new vs old)

CPO price at MYR/tonne	7,000	6,900	6,800	6,700	6,600	6,500	6,400	6,300	6,200	6,100	6,000	5,900	5,800	5,700	5,600	5,500
CPO Price (USD)	1,647	1,624	1,600	1,576	1,553	1,529	1,506	1,482	1,459	1,435	1,412	1,388	1,365	1,341	1,318	1,294
Old Levy Rate (USD)	175	175	175	175	175	175	175	175	175	175	175	175	175	175	175	175
New Levy Rate (USD)	375	375	375	375	375	375	375	355	355	335	335	315	315	295	295	275
Old Levy (MYR)	744	744	744	744	744	744	744	744	744	744	744	744	744	744	744	744
New Levy (MYR)	1,594	1,594	1,594	1,594	1,594	1,594	1,594	1,509	1,509	1,424	1,424	1,339	1,339	1,254	1,254	1,169
Export Tax (USD)	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200
Export Tax (MYR)	850	850	850	850	850	850	850	850	850	850	850	850	850	850	850	850
DMO Price (30% of output)	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700
Effective Indo Price (Old) - Incl DMO impact	4,594	4,524	4,454	4,384	4,314	4,244	4,174	4,104	4,034	3,964	3,894	3,824	3,754	3,684	3,614	3,544
Effective Indo Price (New) - No DMO impact	4,556	4,456	4,356	4,256	4,156	4,056	3,956	3,941	3,841	3,826	3,726	3,711	3,611	3,596	3,496	3,481
Difference (New - Old)	(38)	(68)	(98)	(128)	(158)	(188)	(218)	(163)	(193)	(138)	(168)	(113)	(143)	(88)	(118)	(63)

Note: *Exchange rate conversion applied = MYR4.25/USD
Source: RHB

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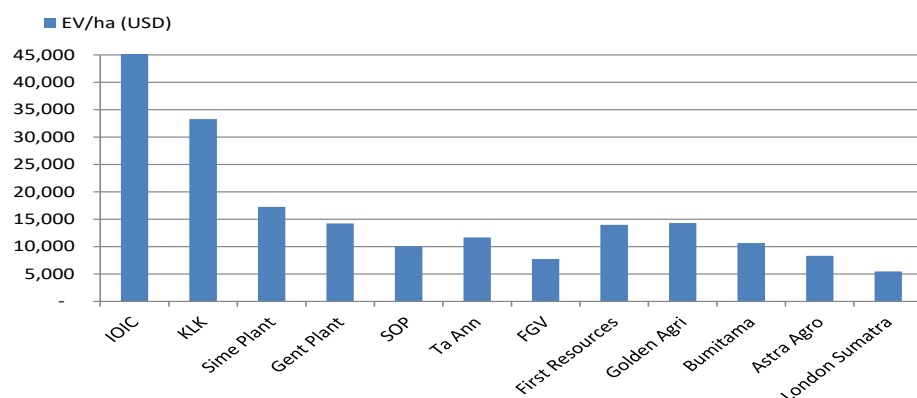
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Figure 5: Effective CPO prices in Malaysia

CPO price at MYR/tonne	7,000	6,900	6,800	6,700	6,600	6,500	6,400	6,300	6,200	6,100	6,000	5,900	5,800	5,700	5,600	5,500
West Malaysia - NEW (15% above MYR3,000/tonne)	600	585	570	555	540	525	510	495	480	465	450	435	420	405	390	375
East Malaysia - NEW (15% above MYR3,500/tonne)	525	510	495	480	465	450	435	420	405	390	375	360	345	330	315	300
Export tax	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Export tax (MYR/tonne)	595	586.50	578	569.50	561	552	544	535.50	527	518.50	510	501.50	493	484.50	476	467.50
Effective West Malaysia price (MYR/tonne)	5,805	5,728.50	5,652	5,575.50	5,499	5,422.50	5,346	5,269.50	5,193	5,116.50	5,040	4,963.5	4,887	4,810.50	4,734	4,657.50
Effective East Malaysia price (MYR/tonne)	5,880	5,803.50	5,727	5,650.50	5,574	5,497.50	5,421	5,344.50	5,268	5,191.50	5,115	5,038.5	4,962	4,885.50	4,809	4,732.50

Source: RHB

Figure 6: Peer comparison based on EV/ha



Source: Bloomberg, RHB

Figure 7: Regional peer comparison

	BBG ticker	Market cap (USDm)	Rating	Price (local ccy)	TP (local ccy)	Core P/E FY22F	Core P/E FY23F	P/BV FY22F	Net gearing FY22F	Div yield FY22F	ROE FY22F	EV/ha USD
Kuala Lumpur Kepong	KLK MK	6,421	Buy	25.00	31.45	13.0	15.1	2.6	32.3%	4.0%	16.8%	33,253
Sarawak Oil Palms	SOP MK	731	Buy	5.36	6.05	5.9	7.2	0.8	Cash	1.7%	17.1%	10,034
Sime Darby Plantation	SDPL MK	8,072	Neutral	4.90	5.30	13.7	16.5	2.0	16.9%	3.7%	16.6%	17,232
Ta Ann	TAH MK	493	Buy	4.70	6.40	5.3	7.5	1.0	Cash	5.3%	22.7%	11,661
CB Industrial Product	CBP MK	163	Neutral	1.43	1.40	7.2	7.5	0.8	Cash	5.7%	11.7%	N/A
IOI Corp	IOI MK	6,127	Neutral	4.14	4.70	13.6	16.0	2.1	9.7%	2.7%	17.9%	48,096
FGV Holdings	FGV MK	1,556	Neutral	1.79	2.05	7.4	10.1	1.0	3.2%	2.8%	15.3%	7,715
Genting Plantations	GENP MK	1,827	Neutral	8.55	8.90	15.4	17.7	1.3	11.4%	2.3%	9.4%	14,236
Wilmar	WIL SP	21,341	Buy	4.61	5.30	10.5	10.0	0.9	88.9%	2.9%	9.9%	N/A
First Resources	FR SP	2,295	Neutral	1.98	2.00	9.3	8.6	1.6	-17.8%	5.8%	19.6%	13,959
Golden Agri	GGR SP	2,703	Neutral	0.29	0.31	6.1	6.3	0.5	3.8%	4.8%	9.2%	14,293
Bumitama Agri	BAL SP	956	Buy	0.75	0.90	6.0	6.4	1.1	11.1%	6.0%	20.9%	10,633
PP London Sumatra Indonesia	LSIP IJ	653	Buy	1,370	1,690	6.6	7.2	0.8	Cash	6.0%	13.6%	5,473
Astra Agro Lestari	AALI IJ	1,634	Neutral	12,150	11,820	8.7	9.7	1.1	5.9%	6.8%	11.7%	8,319
Regional Average						9.1	10.4	1.3				16,457

Note: Prices are as at 17 Mar 2022

Source: RHB, Bloomberg, Company data

Figure 8: Malaysian companies' labour shortage estimates

Company	Shortage
Sime Darby Plantation	25%
IOI	20-25%
KL Kepong	10%
Genting Plantations*	5-10%
Sarawak Oil Palms	30-35%
Ta Ann	25-30%
FGV	30%

Note: *RHB estimates

Source: RHB, Company data

Figure 9: Sensitivity of company earnings to changes in CPO prices

	Net profit change for every MYR100.00/tonne change
Genting Plantations	7-9%
KL Kepong	6-8%
IOI	4-6%
Sime Darby Plantation	7-9%
FGV	12-15%
Sarawak Oil Palms	10-12%
Ta Ann	12-15%
Golden Agri (SGD)	8-10%
First Resources (SGD)	6-8%
Bumitama Agri (SGD)	7-9%
Astra Agro Lestari (IDR)	9-11%
PP London Sumatra (IDR)	11-12%

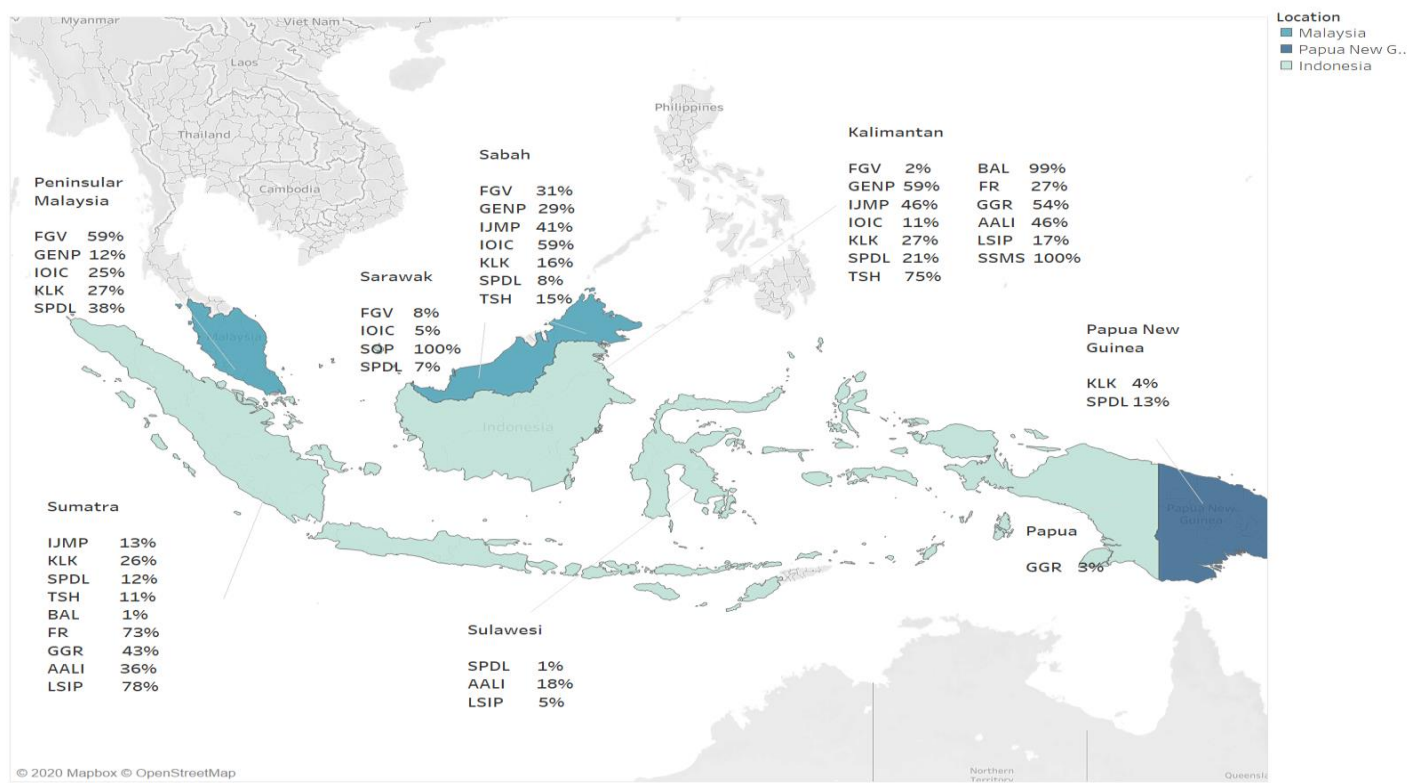
Source: RHB

Figure 10: Regional companies' forward sales positions

Company	Forward sales (as at end Dec 2021)
KL Kepong	60% of production three months ahead (West Malaysia)
IOI	More significant forward sales (undisclosed)
Sime Darby Plantation	For 2022, it has locked in 35% of PM output at c.MYR3,950/tonne
Genting Plantations	15% of 2022 production
Sarawak Oil Palms	None for 2022
FGV	30-50% of own production 3 to 6 months forward
Ta Ann	None
First Resources	Some forwards done for 2022, no quantum given
Bumitama Agri	Minimal in 2022
Golden Agri	Downstream products 2-3 months forward, upstream mostly on spot
PP London Sumatra	None
Astra Agro Lestari	Minimal

Source: RHB, Company data

Figure 11: Breakdown of plantation companies' landbank



Source: Company data, RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470