

31 January 2023

Agriculture | Plantation

Plantation

Neutral (Maintained)

Diverse Earnings Trends In 4Q22; Still NEUTRAL

- **Top Picks: Kuala Lumpur Kepong (KLK), IOI Corp (IOI) and Wilmar International (Wilmar).** We expect to see mostly in-line earnings this coming quarter, with two players that could book better-than-estimated results, and one that could come in below projections. Also, earnings trends between the Malaysian and Indonesian planters could vary in 4Q22, due to the change in tax structure in Indonesia in mid-Nov 2022. Maintain NEUTRAL on sector.
- **4Q22 earnings to drop QoQ for Malaysian planters, and be flattish for Indonesian players.** In Malaysia, FFB output for the companies under our coverage fell by an average of 0.5% QoQ in 4Q22, while spot CPO prices decreased by 1% QoQ – which would translate to slightly lower QoQ earnings. In Indonesia, we estimate 4Q FFB output also fell by c.14% QoQ, based on the trend in 3Q. However, CPO prices net of taxes rose 11.6% QoQ (due to the impact of the levy-free period until mid-Nov 2022), which could translate to flattish QoQ earnings.
- **On a YoY basis, the earnings trend may also be different for Malaysian and Indonesian planters.** For the Malaysian planters, although average FFB output rose 5% YoY in 4Q22, spot CPO prices dropped 24% YoY. In Indonesia, we estimate FFB output rose c.11.6% YoY in 4Q22, while net CPO prices were relatively flat YoY (-1.6%) due to the change in tax structure. As such, we may see Malaysian planters post weaker YoY earnings while Indonesian planters post stronger YoY earnings in 4Q22.
- **As CPO price has a greater effect on earnings than output growth,** each company's forward selling policies would also affect its earnings outlook. As such, planters like KLK, IOI, Sime Darby Plantation and FGV Holdings (Figure 4) that undertook more aggressive forward selling activities should be able to recognise better CPO prices than their peers in 4Q22. Spot CPO prices in 4Q22 were flattish QoQ at MYR3,931/tonne, but fell 24% YoY. For 2022, spot CPO prices averaged MYR5,136/tonne (+16% YoY). For 1Q23, given the 26% YoY decline in spot CPO prices so far, planters may likely see another YoY drop in quarterly earnings.
- **4Q22 likely to bring mostly in-line earnings for most players,** based on our estimates of production output alone (Figure 1). Two may outperform forecasts based on FFB output (KLK and FGV), while one could post disappointing numbers due to weak FFB output (ie IOI). Nevertheless, as it is only the 1HFY23 for IOI, there could be a turnaround in output trends in the later quarters.
- **For those with downstream operations** in Indonesia, we expect margins to improve QoQ in 4Q22 as the tax levy holiday ended in mid-November. As such, the tax differential between upstream and downstream products should widen, resulting in better downstream margins. However, Malaysian downstream counterparts should see narrower QoQ margins with the reinstatement of the levy, as stiff competition resumes from Indonesia.
- **Maintain NEUTRAL,** with a trading strategy. We still like the integrated players like KLK, IOI and Wilmar, but also see value in counters like Sarawak Oil Palms, Bumitama Agri and Golden Agri.

Stocks Covered 14
 Rating (Buy/Neutral/Sell): 6 / 5 / 3
 Last 12m Earnings Revision Trend: Positive

Top Picks

Kuala Lumpur Kepong (KLK MK) – BUY Target Price MYR27.85
 IOI Corp (IOI MK) – BUY Target Price MYR4.60
 Wilmar International (WIL SP) – BUY Target Price SGD5.40

Top SELL

Astra Agro Lestari (AALI IJ) Target Price IDR7,420

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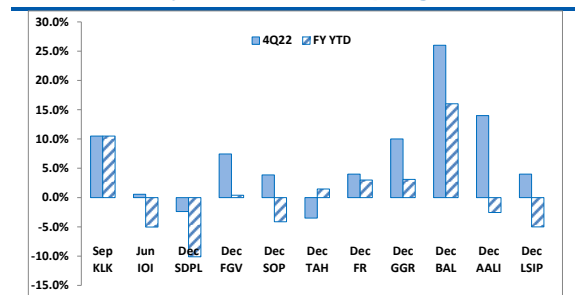
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4Q22 and full-year YTD FFB output growth



Source: Company data, RHB

Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-23F	P/B (x) Dec-23F	ROAE (%) Dec-23F	Yield (%) Dec-23F
Astra Agro Lestari	Sell	IDR7,420	(9.2)	9.5	0.7	7.1	5.8
Boilermech	Sell	MYR0.62	(23.0)	19.7	1.6	8.4	2.4
Bumitama Agri	Buy	SGD0.80	31.0	5.4	0.9	16.9	7.9
CB Industrial Product	Sell	MYR0.90	(18.8)	7.8	0.6	8.3	5.0
FGV Holdings	Neutral	MYR1.40	4.5	7.3	0.7	9.9	3.7
First Resources	Neutral	SGD1.75	19.2	6.8	1.2	18.0	7.3
Golden Agri	Buy	SGD0.33	32.3	5.3	0.4	22.7	5.7
IOI Corp	Buy	MYR4.60	18.2	14.6	2.0	14.2	4.0
Kuala Lumpur Kepong	Buy	MYR27.85	27.9	13.2	2.0	11.9	4.4
PP London Sumatra Indonesia	Neutral	IDR1,070	0.9	7.5	0.6	8.8	5.6
Sarawak Oil Palms	Buy	MYR3.00	15.0	6.0	0.7	11.5	3.8
Sime Darby Plantation	Neutral	MYR4.60	7.5	16.1	1.8	12.1	4.0
Ta Ann	Neutral	MYR3.80	8.4	5.9	0.8	14.2	7.1
Wilmar International	Buy	SGD5.40	31.7	9.0	0.9	10.0	4.0

Source: Company data, RHB

Figure 1: 4Q22 earnings preview based on FFB output

		YoY	QoQ	YoY	YoY	
	FYE	4Q22	4Q22	FY	Change	4Q22 Results preview comments
				YTD	RHB FY	
					Forecast	
KLK	Sep	10.5%	-0.6%	10.5%	4.7%	Earnings should be slightly above, based on FFB output
IOIC	Jun	0.6%	16.2%	-5.0%	5.3%	Earnings could be below expectations, based on FFB output
Sime	Dec	-2.4%	-3.6%	-10.1%	-12.7%	Earnings should be largely in line, based on FFB output
FGV	Dec	7.4%	5.2%	0.4%	-3.3%	Earnings should be slightly above, based on FFB output
SOP	Dec	3.9%	-1.4%	-4.1%	-4.9%	Earnings should be in line, based on FFB output
Ta Ann	Dec	-3.5%	-7.6%	1.5%	1.4%	Earnings should be in line, based on FFB output
FR *	Dec	4.0%	-16.0%	3.0%	2.7%	No visibility for 4Q22 but, based on 9M22 output, earnings could be in line based on FFB output trend
GGR *	Dec	10.0%	-16.0%	3.1%	3.0%	No visibility for 4Q22 but, based on 9M22 output, earnings could be in line based on FFB output trend
Bumitama *	Dec	26.0%	-13.0%	16.0%	14.0%	No visibility for 4Q22 but, based on 9M22 output, earnings could be in line based on FFB output trend
Astra Agro ^	Dec	14.0%	N/A	-2.5%	-4.0%	Earnings should be in line, based on FFB output of -2.5% for 11M22
LonSum *	Dec	4.0%	N/A	-5.0%	-6.0%	No visibility for 4Q22 but, based on 9M22 output, earnings could be in line based on FFB output trend

Source: Bursa Malaysia, Companies data, RHB

* Estimates ^ Output for 11M22

Risks

The main risks to our outlook include:

- Russia-Ukraine war being prolonged and extended into other territories;
- Significant changes in the crude oil price trend that may result in changes in biodiesel mandates;
- Weather abnormalities resulting in an oversupply or undersupply of vegetable oils;
- Significant changes in the demand for vegetable oils, caused by changes in economic cycles or price dynamics;
- Worsening labour situation in Malaysia causing production to be affected negatively;
- Revision in Indonesia's tax structure and trade policies;
- Worsening of the COVID-19 pandemic;
- More ESG issues pinpointed for listed companies.

Figure 2: Effective CPO prices in Malaysia

CPO price at MYR/tonne	4,500	4,400	4,300	4,200	4,100	4,000	3,900	3,800	3,700	3,600	3,500	3,400	3,300	3,200	3,100	3,000
West Malaysia – Windfall tax (15% above MYR3,000/tonne)	225	210	195	180	165	150	135	120	105	90	75	60	45	30	15	-
East Malaysia – Windfall tax (15% above MYR3,500/tonne)	150	135	120	105	90	75	60	45	30	15	-	-	-	-	-	-
Export tax	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	7.5%	7.0%	7.0%	6.5%	6.0%
Export tax (MYR/tonne)	360	352	344	336	328	320	312	304	296	288	280	255	231	224	201.5	180
Effective West Malaysia price (MYR/tonne)	3,915	3,838	3,761	3,684	3,607	3,530	3,453	3,376	3,299	3,222	3,145	3,085	3,024	2,946	2,883.50	2,820
Effective East Malaysia price (MYR/tonne)	3,990	3,913	3,836	3,759	3,682	3,605	3,528	3,451	3,374	3,297	3,220	3,145	3,069	2,976	2,898.50	2,820

Source: RHB

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Figure 3: Effective CPO prices in Indonesia (post-change in the levy tax rate in mid-Nov 2022)

CPO price at MYR/tonne	4,500	4,400	4,300	4,200	4,100	4,000	3,900	3,800	3,700	3,600	3,500	3,400	3,300	3,200	3,100	3,000
CPO Price (USD)	1,017	994	972	949	927	904	881	859	836	814	791	768	746	723	701	678
Levy Rate (USD)	105	105	100	100	95	95	95	90	90	85	85	75	75	65	65	55
Levy Rate (MYR)	465	465	443	443	420	420	420	398	398	376	376	332	332	288	288	243
Export Tax (USD)	148	148	124	124	74	74	74	52	52	33	33	18	18	3	3	-
Export Tax (MYR)	655	655	549	549	327	327	327	230	230	146	146	80	80	13	13	-
Effective Indo Price	3,380	3,280	3,309	3,209	3,352	3,252	3,152	3,172	3,072	3,078	2,978	2,988	2,888	2,899	2,799	2,757

Note: *Exchange rate conversion applied = MYR4.425/USD

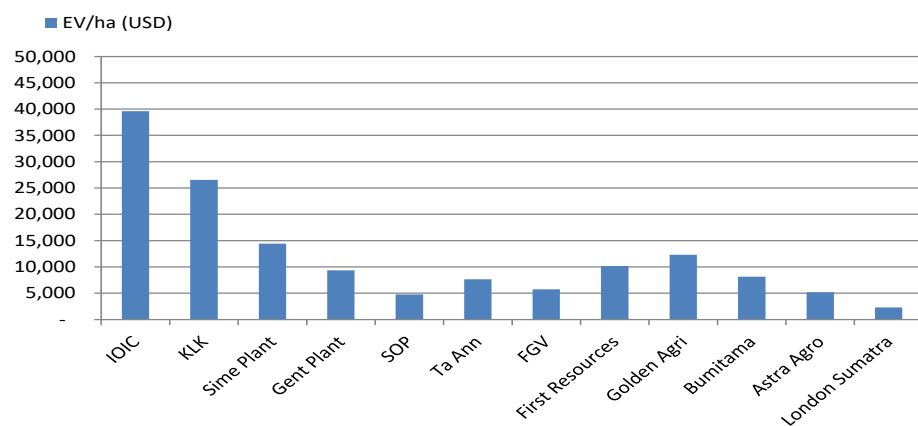
Source: RHB

Figure 4: Regional companies' forward sales positions

Company	Forward Sales (as at end-Nov 22)
KLK	60% of Malaysian production three months ahead
IOI	20-50% of production, sold on average four months forward
SDPL	For 4Q22, it has fully sold forward all its Malaysian output at MYR4,200-4,500/tonne. For 2023, it has sold 8% of its Malaysian output at MYR4,400-4,500/tonne
SOP	None
FGV	30-40% of own 4Q22 production sold forward at c.MYR4,500-5,000/tonne. For 2023, less than 5% sold forward
Ta Ann	Minimal (less than 10% of 4Q22 production)
FR	No quantum given, but continues to hedge 2-4 weeks ahead
BAL	None
GAR	1-2 months of production 3-6 months forward
LSIP	Minimal to none
AALI	Minimal

Source: RHB, Company data

Figure 5: Peer comparison based on EV/ha



Source: Bloomberg, RHB

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Figure 6: Sensitivity of company earnings to changes in CPO prices

Net profit change for every MYR100.00/tonne change	
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

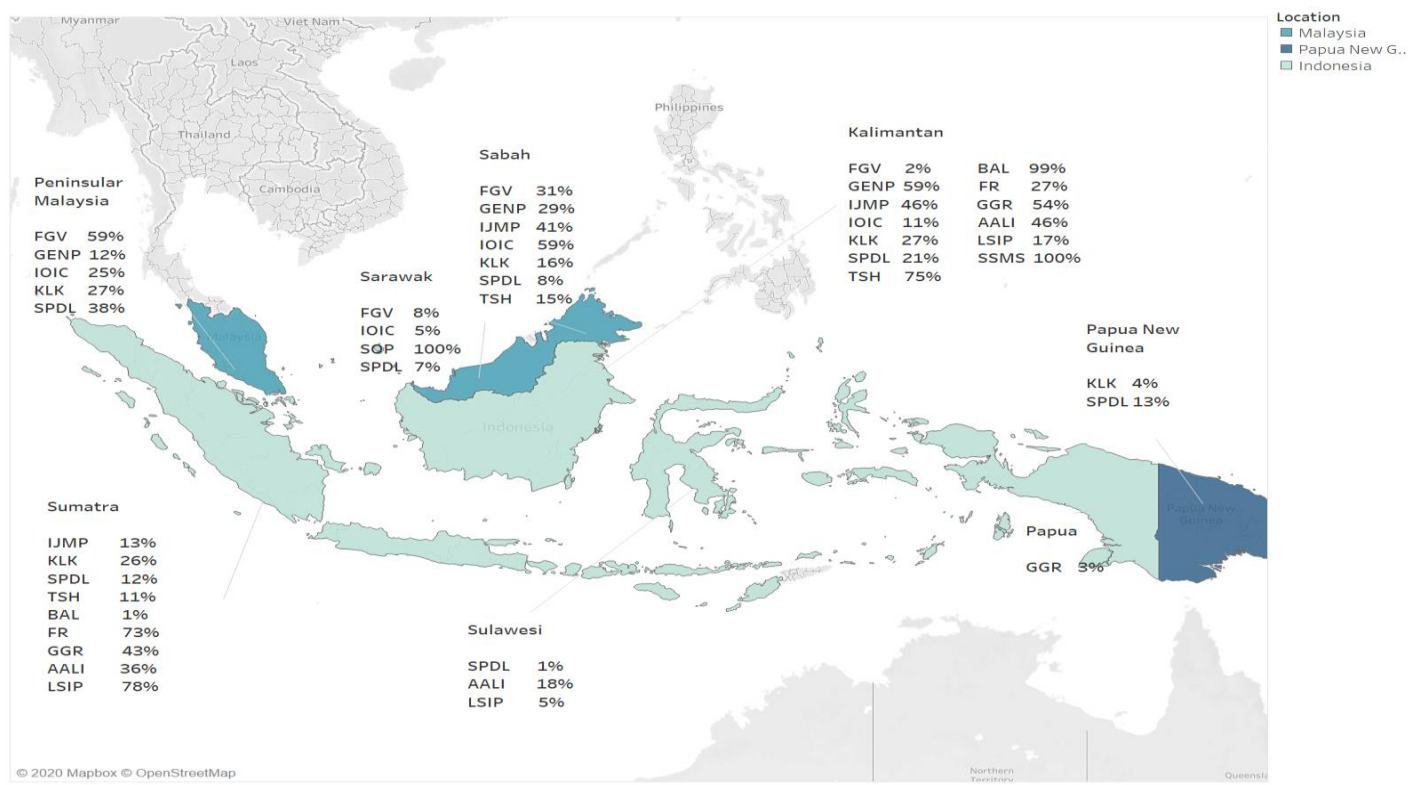
Figure 7: Regional peer comparison

	BBG ticker	Market cap (USDm)	Rating	Price (local ccy)	TP (local ccy)	Core P/E FY23F	Core P/E FY24F	P/BV FY23F	Net gearing FY23F	Div yield FY23F	ROE FY23F	EV/ha USD
Kuala Lumpur Kepong	KLK MK	5,533	Buy	21.78	27.85	12.6	15.6	2.0	34.8%	4.6%	12.7%	26,554
Sarawak Oil Palms	SOP MK	547	Buy	2.61	3.00	6.0	6.1	0.7	Cash	3.8%	11.5%	4,792
IOI Corp	IOI MK	5,690	Buy	3.89	4.60	13.4	16.0	2.1	11.2%	4.4%	16.0%	39,600
Sime Darby Plantation	SDPL MK	6,974	Neutral	4.28	4.60	16.1	16.6	1.8	22.9%	4.0%	12.1%	14,410
Ta Ann	TAH MK	363	Neutral	3.50	3.80	5.9	6.7	0.8	Cash	7.1%	14.2%	7,632
FGV Holdings	FGV MK	1,152	Neutral	1.34	1.40	7.3	9.8	0.7	0.9%	3.7%	9.9%	5,740
CB Industrial Product Boilermach	CBP MK	125	Sell	1.11	0.90	7.8	7.9	0.6	Cash	5.0%	8.3%	N/A
	BMHB MK	98	Sell	0.81	0.62	23.2	18.7	1.7	Cash	2.2%	7.4%	N/A
Wilmar	WIL SP	19,478	Buy	4.10	5.40	9.0	8.6	0.9	88.0%	4.0%	10.0%	N/A
Bumitama Agri	BAL SP	805	Buy	0.61	0.80	5.4	6.1	0.9	3.9%	7.9%	16.9%	8,153
Golden Agri	GGR SP	2,413	Buy	0.25	0.33	5.3	6.0	0.4	8.2%	5.7%	22.7%	12,301
First Resources	FR SP	1,754	Neutral	1.47	1.75	6.8	7.8	1.2	-20.0%	7.3%	18.0%	10,154
PP London Sumatra Indonesia	LSIP IJ	483	Neutral	1,060	1,070	7.5	7.5	0.6	Cash	5.6%	8.8%	2,283
Astra Agro Lestari	AALI IJ	1,050	Sell	8,175	7,420	9.5	9.6	0.7	0.6%	5.8%	7.1%	5,180
Regional Average						10.6	10.9	1.0				12,018

Note: Prices are as at 27 Jan 2023

Source: RHB, Bloomberg, Company data

Figure 8: 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
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Not Rated:	Stock is not within regular research coverage

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