

## Plantation

### Little Surprises Save Good Dec Output

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# NEUTRAL



Malaysia's Dec palm oil output of 1.619m MT exceeded Kenanga's expectation of 1.513m MT but is below market's 1.720m MT. Inventory thus came in 8% below consensus but 12% above our estimate on exports of 1.468m MT, just slightly below our and consensus estimates. Altogether, Dec 2022 production was a tad stronger than historical trend, but exports and end-inventory were in line with historical averages. Full year, 2022 output inched up 2% YoY to 18.5m MT with average CPO price of RM5,126/MT (+6% YoY) even as Dec CPO price eased to RM3,961/MT (-3% MoM, -22% YoY). Due to price differential outside Malaysia, our CY22 and CY23 average CPO prices are kept at RM4,500/MT and RM3,800/MT, respectively, along with our NEUTRAL sector recommendation. The sector enjoys defensive earnings and NTA but cost inflation amidst softer CPO prices meant margin upside is somewhat capped. On stock selections, KLK is our large integrated pick; TSH for visible long-term expansion and, for income, HSPLANT.

#### MPOB Dec 2022 Highlights

Mil MT	Dec-22	MoM %	YoY%
Opening Inventory	2.288	▼ -5%	▲ 26%
<b>Production</b>	<b>1.619</b>	▼ -4%	▲ 12%
Imports	0.047	▲ 0%	▼ -54%
<b>Exports</b>	<b>(1.468)</b>	▼ -3%	▲ 3%
Domestic Usage	(0.291)	▼ -10%	▼ -20%
<b>Closing Inventory</b>	<b>2.195</b>	▼ -4%	▲ 39%

Source: MPOB, Kenanga Research

#### Key Dec 2022 Statistics vs Historic Trend

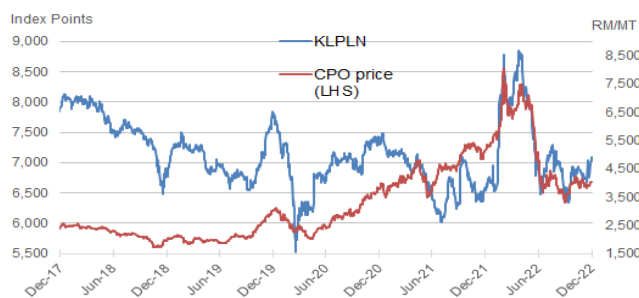
Mil MT	Dec-22	10Y-Low	10Y-Avg	10Y-High
Production	1.619	1.334	1.545	1.834
Exports	1.468	1.268	1.471	1.650
C.Inventory	2.195	1.265	2.173	3.215

Source: MPOB, Kenanga Research

**Outlook:** Edible oil prices have eased after mid-2022 on higher supply but demand, which has been subdued by Covid since 2020, is likely to recover in 2023 as well. Inventory levels are thus expected to stay range-bound for much of 2023. Therefore, palm oil prices should stay relatively firm, and we maintain 2023-24 CPO price forecast at RM3,800-3,500 per MT.

Rising production cost is a concern as labour, fertilizer and energy costs have increased. Improving workers availability in Malaysia should mitigate some of the unit cost inflation as better 2023-24 FFB output is anticipated. All in all, we expect margins to stay subdued with the possibility of upside capped somewhat.

#### KL Plantation Index vs CPO (RM/MT)



Source: Bloomberg, Kenanga Research

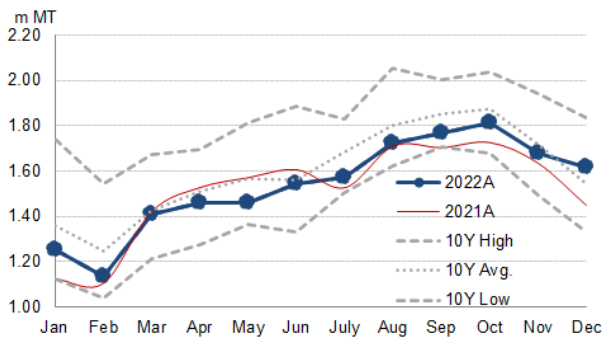
#### KL Plantation Index vs KLCI



Source: Bloomberg, Kenanga Research

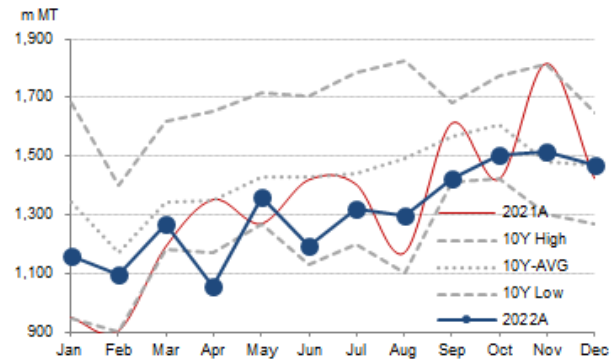
**Recommendation:** Maintain NEUTRAL. The sector offers highly defensive qualities, from resilient food and fuel driven demand to asset-rich NTA and undemanding valuations but margins are facing pressures from rising labour, fertiliser and transportation costs against easier palm oil prices. Within the sector, we prefer those with the ability to expand upstream such as KLK (OP, TP: RM25.50). TSH (OP, TP: RM1.35) has recapitalised substantially and is proceeding to expand its planted area from 40k ha to 60k ha while for investors prioritising yields, HSPLNT (OP, TP: RM2.50) looks attractive.

**10-Year Monthly Production Trend ('000MT)**



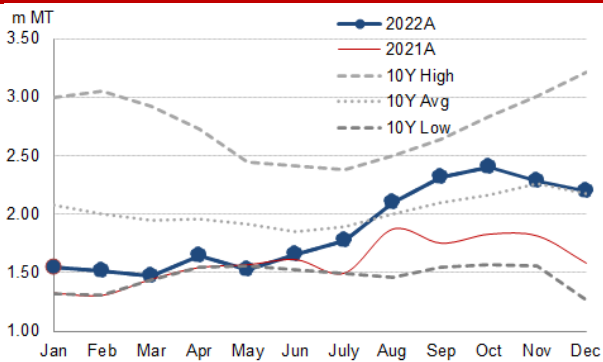
Source: MPOB, Kenanga Research

**10-Year Monthly Exports Trend ('000MT)**



Source: MPOB, Kenanga Research

**10-Year Monthly Inventory Trend ('000MT)**



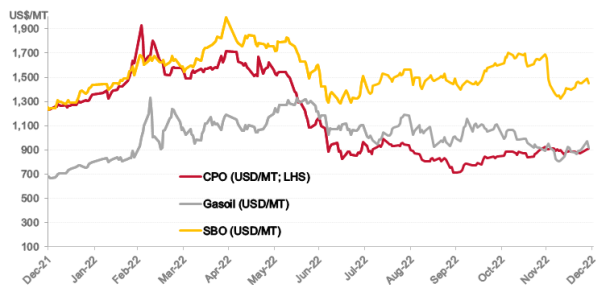
Source: MPOB, Kenanga Research

**Forecast for Jan 2023**

'000 MT	Jan-23	MoM	YoY
<b>Opening Inventory</b>	<b>2,194.8</b>	<b>-4%</b>	<b>39%</b>
<b>Production</b>	<b>1,457.0</b>	<b>-10%</b>	<b>16%</b>
<b>Imports</b>	<b>89.1</b>	<b>89%</b>	<b>26%</b>
<b>Total Supply</b>	<b>3,740.9</b>	<b>-5%</b>	<b>29%</b>
<b>Exports</b>	<b>(1,321.6)</b>	<b>-10%</b>	<b>14%</b>
<b>Domestic Usage</b>	<b>(241.8)</b>	<b>-17%</b>	<b>23%</b>
<b>Total Demand</b>	<b>(1,563.4)</b>	<b>-11%</b>	<b>15%</b>
<b>Closing Inventory</b>	<b>2,177.5</b>	<b>-1%</b>	<b>40%</b>

Source: MPOB, Kenanga Research

**CPO vs Soyabean Oil vs Gasoil Prices**



Source: Bloomberg, Kenanga Research

**36-Month Forward Crude Palm Oil Curve**



Source: Bloomberg, Kenanga Research

**MPOB Dec 2022 Production, Exports & Inventory**

'000 MT	Dec-22	Nov-22	Diff.	MoM %	Dec-21	YoY%
<b>Opening Inventory</b>	<b>2,288</b>	<b>2,404</b>	<b>(115)</b>	<b>-5%</b>	<b>1,817</b>	<b>26%</b>
<b>Production</b>	<b>1,619</b>	<b>1,681</b>	<b>(62)</b>	<b>-4%</b>	<b>1,450</b>	<b>12%</b>
<b>Imports</b>	<b>47</b>	<b>47</b>	<b>0</b>	<b>0%</b>	<b>103</b>	<b>-54%</b>
<b>Total Supply</b>	<b>3,954</b>	<b>4,132</b>	<b>(177)</b>	<b>-4%</b>	<b>3,370</b>	<b>17%</b>
<b>Exports</b>	<b>(1,468)</b>	<b>(1,518)</b>	<b>49</b>	<b>-3%</b>	<b>(1,424)</b>	<b>3%</b>
<b>Domestic Usage</b>	<b>(291)</b>	<b>(325)</b>	<b>34</b>	<b>-10%</b>	<b>(363)</b>	<b>-20%</b>
<b>Total Demand</b>	<b>(1,760)</b>	<b>(1,843)</b>	<b>83</b>	<b>-5%</b>	<b>1,787</b>	<b>-198%</b>
<b>Ending Inventory</b>	<b>2,195</b>	<b>2,288</b>	<b>(94)</b>	<b>-4%</b>	<b>1,583</b>	<b>39%</b>
<b>Stock/Usage Ratio</b>	<b>-10.4%</b>	<b>10.3%</b>			<b>-7.4%</b>	

Source: MPOB, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>PLANTATION</b>																	
BOUSTEAD PLANTATIONS BHD	MP	0.650	0.650	0.00%	1,456.0	Y	12/2022	9.3	5.5	-14.1%	-40.6%	7.0	11.8	0.5	20.3%	12.5	19.2%
FGV HOLDINGS BHD	MP	1.35	1.40	3.70%	4,925.0	Y	12/2022	32.7	22.5	2.1%	-31.1%	4.1	6.0	0.8	20.3%	8.0	5.9%
GENTING PLANTATIONS BHD	MP	6.02	6.00	-0.33%	5,401.1	Y	12/2022	56.6	44.3	26.3%	-21.8%	10.6	13.6	1.0	10.0%	27.0	4.5%
HAP SENG PLANTATIONS HOLDINGS	OP	1.93	2.50	29.53%	1,543.4	Y	12/2022	28.2	21.0	12.5%	-25.7%	6.8	9.2	0.8	12.9%	18.0	9.3%
IOI CORP BHD	MP	3.96	4.00	1.01%	24,583.6	Y	06/2023	24.8	19.6	-14.4%	-21.2%	16.0	20.3	2.2	14.6%	14.0	3.5%
KUALA LUMPUR KEPONG BHD	OP	21.96	25.50	16.12%	23,676.3	Y	09/2023	159.2	140.9	-17.0%	-11.5%	13.8	15.6	1.6	12.2%	50.0	2.3%
PPB GROUP BHD	OP	17.52	18.60	6.16%	24,924.0	Y	12/2022	130.6	118.4	24.1%	-9.3%	13.4	14.8	1.0	8.2%	40.0	2.3%
SIME DARBY PLANTATION BHD	UP	4.37	3.65	-16.5%	30,221.7	Y	12/2022	29.5	24.3	1.3%	-17.7%	14.8	18.0	1.9	12.7%	17.0	3.9%
TA ANN HOLDINGS BHD	OP	3.84	5.10	32.81%	1,691.4	Y	12/2022	75.8	51.3	15.0%	-32.3%	5.1	7.5	1.0	19.8%	50.0	13.0%
TSH RESOURCES BHD	OP	1.08	1.35	25.00%	1,490.6	Y	12/2022	14.5	12.4	-7.8%	-14.3%	7.5	8.7	0.7	35.3%	5.0	4.6%
UNITED MALACCA BHD	MP	5.33	5.00	-6.19%	1,118.1	Y	04/2023	41.1	35.6	-25.6%	-13.6%	13.0	15.0	0.8	5.6%	15.0	2.8%
<b>Simple Average</b>					<b>121,031.1</b>					<b>-1.1%</b>	<b>-18.5%</b>	<b>12.2</b>	<b>15.0</b>	<b>1.2</b>	<b>15.2%</b>		<b>5.2%</b>

Source: Bloomberg, Kenanga Research

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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