

### SECTOR UPDATE

## Plantation – Malaysia

Surprisingly Low Inventory Level Due To Year-end Adjustment

**Dec 21 palm oil inventory came in way below market expectation, where we believe is mainly due bulk purchase of cooking oil as food aid for the flood victims and restocking ahead of Chinese New Year. We reckon that CPO prices would remain elevated due to the tight supply in 1Q22 and would start to correct later. Maintain UNDERWEIGHT on the back of lower earnings growth in 2022 and a downtrend in CPO prices.**

### MPOB OCT 21 STATISTICS SUMMARY

(m tonnes)	Dec 21	mom % chg	yoy % chg	2021	yoy % chg
CPO Production	1.45	(11.3)	8.8	18.10	(5.4)
<i>Pen Malaysia</i>	0.73	(14.7)	4.2	9.84	(5.7)
<i>Sabah</i>	0.38	(9.0)	16.4	4.36	(6.2)
<i>Sarawak</i>	0.36	(5.6)	11.2	3.90	(3.7)
Palm Oil Stocks	1.58	(12.9)	25.1	1.58	25.1
Palm Oil Domestic Use	0.37	31.4	29.9	3.41	(1.3)
Palm Oil Exports	1.41	(3.5)	(12.9)	15.55	(10.5)
<i>Oleochemical</i>	0.24	(1.7)	(2.3)	2.89	(5.6)
<i>Biodiesel</i>	0.01	(76.6)	(68.8)	0.36	(4.3)
Palm Oil Imports	0.10	92.5	(13.8)	1.07	13.0
CPO Price (RM/tonne)	5,070	(5.1)	40.0	4,407	64.1

Source: MPOB, UOB Kay Hian

### WHAT'S NEW

- **Inventory way below market expectation.** The Malaysian Palm Oil Board (MPOB) reported lower-than-expected inventory of 1.58m tonnes vs market expectation of about 1.70m tonnes as at end-Dec 21. Having said that, if we look at production and exports alone, the reported numbers are in line with market expectations. The variance mainly came from higher-than-expected domestic consumption which we reckon was partly contributed by the bulk cooking oil purchases by the government and NGOs as food aid for the flood victims and could also be restocking by wholesalers ahead of the Chinese New Year demand.
- **2021 total production within our expectation.** Despite the recent heavy rainfall and severe floods in some of the regions in Malaysia in Dec 21, the production came in in line with market expectation at 1.45m tonnes (-11.3% mom). This is mainly due to the readiness of plantation companies when it comes to a flood situation where most of them are well prepared with good drainage systems and the skillsets to handle such situations (such as harvesting and evacuating fresh fruit bunches (FFB)). For 2021, total production come in well within our expectation at 18.1m tonnes (-5.4% yoy).

### ACTION

- **Maintain UNDERWEIGHT.** We believe CPO prices may sustain at these levels in 1Q22 due to short-term supply tightness. Our CPO price assumptions are at RM3,800/tonne and RM3,000/tonne for 2022-23. Having said that, we remain UNDERWEIGHT for the sector as we expect earnings to contract by 24% in 2022 as compared with a >100% yoy growth in sector earnings in 2021 which failed to lift the plantation stocks' performance. This sector is unlikely to outperform the market with the expected earnings contractions for 2022 and 2023.
- For investors with appetite for good dividend yield, they may consider to HOLD companies with decent dividend yield at about 8%, such as Kim Loong Resources (KIML MK), Hap Seng Plantations (HAPL MK), Sarawak Oil Palm (SOP MK), Kuala Lumpur Kepong (KLK MK). Our top pick for the sector is still HAPL as it gives the highest dividend yield with a dividend yield of 8% in the upcoming results announcement in Feb 22.

### PEER COMPARISON

Company	Ticker	Rec	Price @ 10 Jan 22 (RM)	Target Price (RM)	Market Cap (US\$m)	2020 (x)	2021F (x)	2022F (x)	ROE (%)	P/B (x)	2021F Div (sen)	Div Yield (%)
Hap Seng Plantations	HAPL MK	BUY	2.07	2.40	394.08	18.32	9.54	13.80	5.36	0.93	15.20	7.34
Kim Loong	KIML MK	HOLD	1.71	1.30	393.21	12.86	9.55	11.48	12.92	2.02	11.20	6.55
KL Kepong	KLK MK	HOLD	21.96	23.00	5635.14	30.37	17.29	19.31	19.90	2.00	109.90	5.00
IOI Corporation	IOI MK	HOLD	3.88	3.90	5738.92	40.42	16.37	21.44	14.45	2.45	11.80	3.04
Genting Plantations	GENP MK	HOLD	6.82	6.90	1456.71	24.01	17.04	22.82	5.20	1.23	24.00	3.52
Sime Darby Plantation	SDPL MK	HOLD	3.94	4.35	6486.83	32.03	18.50	23.04	8.80	1.87	17.10	4.34
Sarawak Oil Palms	SOP MK	HOLD	3.58	4.00	487.24	10.11	6.92	10.03	8.91	0.78	27.90	7.79

Source: UOB Kay Hian

## UNDERWEIGHT

(Maintained)

### CPO PRICE ASSUMPTIONS (RM/TONNE)

	CPO Price (RM/tonne)
2020	2,686
2021	4,408
<b>Our forecast:</b>	
2022F	3,800
2023F	3,000
<b>CPO Price:</b>	
MPOB @ 10 Jan 22	5,341
BMD 3 <sup>rd</sup> Month Contract	5,023

Source: UOB Kay Hian

### ANALYST(S)

**Leow Huey Chuen**  
+603 2147 1990  
hueychuen@uobkayhian.com

**Jacquelyn Yow**  
+603 2147 1995  
jacquelyn@uobkayhian.com

### ESSENTIALS

- Exports for 2021.** Malaysian palm oil exports were down by 10.5% yoy in 2021 to 15.5m tonnes. Exports to India reported a growth of 31% yoy mainly due to a lower base in 2020 and the lower import duty in 1H21. The top two exports destinations - China and Europe reported a drop of 32% yoy and 16% yoy respectively due to competitive pricing from Indonesian players on refined products. In China, palm oil is also losing market share to SBO in 2H21 as SBO price did not increase due to higher soybean crush in 2H21.
- 2021 average CPO price higher than our estimate.** The average CPO price for 2021 was at RM4,407/tonne vs our expectation of RM4,200/tonne. The high price in 2021 was mainly supported by the tight supply and global vegoil rally on the back of the decarbonisation policy. However, only few plantation companies were able to enjoy this high price due to forward sales committed much earlier. Under our coverage, only HAPL is enjoying this rising trend due to their spots selling policy. Next would be SOP as management stopped forward commitment in early-21.
- La Nina to support soybean and palm oil prices in 1Q22.** The La Nina weather phenomenon eventually turned into reality and caused disruption to soybean and palm oil production since Dec 21. Dry weather in South America had urged some of the market analysts to slash their soybean production estimate for Brazil by up to 10m-11m tonnes (7% to 8%). Looking at palm oil producing countries, heavy rainfall is interrupting the harvesting and logistic processes. Although the rainfall in key oil palm states such as Sabah, Johor and Pahang is easing, a lot of after-flood maintenance needs to be done before harvesting of FFB can be resumed. Thus, the tight palm oil supply may persist in 1Q22. After 1Q22, production is expected to be back on its recovery mood.
- Slightly better production in 2022, but only from 2H22.** For 2021, total production came in well within our expectation at 18.1m tonnes (-5.4% yoy). The low production in 2021 was mainly due to a labour shortage and unfavourable weather in 2019 and 2020, which led to much lower oil yield of 3.1 tonnes/ha for 2021 vs 3.33 tonnes/ha for 2020. If not for the higher oil extraction rate achieved in 2021 (20.01% vs 19.92% in 2020), production could be even lower. For 2022, we are expecting palm oil production to increase by 3.3% yoy to 18.7m tonnes. This production is based on our expectation of migrant workers starting to arrive in Malaysia from Jan 22 and the impact to production to be seen by 2H22.
- Global vegoil consumption should see better growth.** Oil World forecasts the global consumption of eight vegoils to increase by 5.3m tonnes to 206.3m tonnes in 2021/22, vs +1.5m tonnes in 2020/21. The highest demand growth is expected to be for sunflower oil which is taking more market share from palm oil and soybean oil due to better price competitiveness. The growth in 2021/22 is expected to come from the EU, the US and Indonesia, with these countries seeing higher demand from the rapidly growing renewable fuel/biofuel industry. Growth from India is still expected to be sizeable due to a lower base and pent-up demand. However, a continued rise in prices could derail recovery.

### ASSUMPTION CHANGES

- CPO ASP assumptions.** Our CPO price assumptions for 2022-23 are at RM3,800/tonne (US\$898/tonne) and RM3,000/tonne (US\$709/tonne) respectively.

### SECTOR CATALYSTS

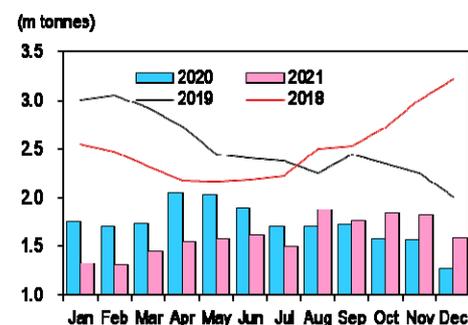
- Lower-than-expected global vegoil supply due to the impact of La Nina.
- Stronger-than-expected commodity cycle.
- US green diesel demand.

### MALAYSIA: PALM OIL EXPORTS BY COUNTRY – arranged according to total exports vol

('000 tonne)	Dec 21	mom % chg	yoy % chg	2021	yoy % chg
Total	1,466	(3.5)	(12.9)	15,544	(10.53)
India	418	(10.8)	(32.1)	3,587	31.26
China	202	(27.3)	(0.4)	1,870	(31.51)
EU	156	6.2	19.7	1,639	(15.58)
Pakistan	39	(8.7)	(26.4)	610	(39.22)
Japan	39	(16.5)	45.7	421	(2.75)
US	19	3.7	(57.7)	269	(50.28)
Others	593	8.2	(4.7)	7,147	(10.55)

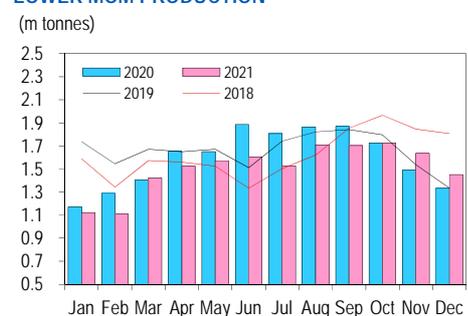
Source: MPOB

### LOWER-THAN-EXPECTED INVENTORY LEVEL



Source: Malaysian Palm Oil Board (MPOB)

### LOWER MOM PRODUCTION



Source: Malaysian Palm Oil Board (MPOB)

### FLOOD WATER SUBSIDED BUT....



Source: UOB Kay Hian

### SOME INFRASTRUCTURE NEEDS TIME TO BE REPAIRED



Source: UOB Kay Hian

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

**IMPORTANT DISCLOSURES FOR U.S. PERSONS**

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W