

ASEAN

Neutral (no change)

Highlighted Companies

Dharma Satya Nusantara
ADD, TP Rp1,250, Rp685 close

We view Dharma Satya Nusantara (DSNG) as one of the best-positioned Indonesian plays for rising CPO prices. DSNG's estate has expanded by 25% over the past five years, with a young average age profile. As such, it has superior yield, with a projected CPO production CAGR of 6% in FY20-23F.

First Resources Ltd
ADD, TP S\$2.12, S\$1.98 close

First Resources is a beneficiary of rising CPO prices. On top of this, the group offers attractive P/E valuations, dividend yields and a strong balance sheet.

Kuala Lumpur Kepong
ADD, TP RM29.57, RM25.00 close

We favour Kuala Lumpur Kepong (KLK) as it stands to benefit from the rising CPO price and offers stronger output growth against its peers following the acquisition of IJMP last year. KLK's other attraction is the potential earnings accretion from its recent acquisition of a majority stake in IJM Plantations.

Summary Valuation Metrics

P/E (x)	Dec-22F	Dec-23F	Dec-24F
Dharma Satya Nusantara	7.56	7.67	
First Resources Ltd	11.06	14.84	15.37
Kuala Lumpur Kepong	13.11	17.58	
P/BV (x)	Dec-22F	Dec-23F	Dec-24F
Dharma Satya Nusantara	1.01	0.92	
First Resources Ltd	1.77	1.67	1.58
Kuala Lumpur Kepong	1.92	1.85	
Dividend Yield	Dec-22F	Dec-23F	Dec-24F
Dharma Satya Nusantara	3.15%	3.10%	
First Resources Ltd	4.52%	3.37%	3.25%
Kuala Lumpur Kepong	3.68%	2.78%	

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Agribusiness

Higher levy taking the cream off planters

- We are negative on reports that Indonesia plans to raise the maximum export levy on CPO exports from US\$375/tonne to US\$575-675 per tonne.
- This will reduce Indonesian palm oil producers' ability to fully benefit from rising international CPO price.
- The tax changes will not affect our earnings forecasts for FY22-24F but we turn less positive on Indonesia planters' earnings prospects.

Abolishing exports restrictions, DMO but raising export levy

Reuters reported that Indonesia will remove export volume restrictions on palm oil products and raise its export levy instead, quoting its trade minister yesterday. This is a surprise policy U-turn just a week after it shocked markets by further tightening its curbs. Indonesia had required exporters/plantation companies to sell 30% of their planned export volume of palm oil products, up from 20% imposed in January, under a so-called domestic market obligation (DMO) aimed at ensuring local supply amid soaring cooking oil prices. However, in a parliamentary hearing, Trade Minister Muhammad Lutfi said that policy has resulted in supply scarcity and the DMO will be withdrawn. The regulations were agreed to and approved yesterday. Instead, the ceiling of palm export tax and levy will be raised, he said, from a combined maximum of US\$375 per tonne to between US\$575 and US\$675/tonne. For every US\$50/tonne increase in the palm oil reference price, the levy will be raised by US\$20/tonne, Lutfi added. The maximum CPO levy will be applied when prices reach US\$1,500/tonne (see Fig 2).

Indonesia issuing more export permits for palm oil

Trade Minister Muhammad Lutfi also said that Indonesia issued permits for 3.51m tonnes of palm oil exports between 14 Feb and 16 March 2022. This will lead to higher export volumes from Indonesia in the coming weeks. Over 1 Jan-24 Feb, Indonesia exported 2.78m tonnes of palm oil, according to BDPKS (Indonesia's CPO Fund).

Allocating Rp7.28tr from exports levy to subsidise cooking oil

A statement from the Coordinating Ministry of Economic Affairs revealed that Indonesia is allocating Rp7.28tr (US\$508m) from the palm oil exports levy to subsidise bulk and unbranded cooking oil. He added that 202m litres of cooking oil will be subsidised each month for six months, to keep prices at or below Rp14,000/litre. Subsidy value is estimated to be around Rp6,398/litre (US\$0.48/litre) and will be reviewed every two weeks.

Higher export levy is negative for CPO producers in Indonesia

It is unclear whether Indonesia plans to raise the export taxes as details on the latest regulations have not been issued. We are negative on the plans to increase the export levy on palm oil producers. Our estimates show that palm oil producers may need to pay additional export levy of US\$160/tonne (+43%) at Indonesia's CPO reference price for March of US\$1,432/tonne. We estimate this will raise the total export tax and levy to be paid for CPO exports to US\$535/tonne from US\$375/tonne, representing an effective export tax and levy rate of 37% vs. 26% previously. The local CPO price in Indonesia of Rp16,161/kg (or RM4,740 per tonne) as at 16 March 2022 appears to only partially reflect the higher export levy and tax as it trades at RM2,155 per tonne (or US\$513/tonne) to Malaysia's CPO price of RM6,895 per tonne. The Indonesia price discount against Malaysia is below the theoretical potential discount of US\$575/tonne if the new export levy comes into effect on 1 April and based on the CPO reference price of US\$1,500/tonne or more. We turn less bullish on Indonesian producers as their ability to benefit from the current high CPO price will be affected by the higher export levy, based on our estimates. However, this will not significantly affect our FY22/23-24F earnings forecasts, which assume CPO price of US\$1,146/US\$900 per tonne. Integrated planters like Wilmar, FR and GGR are likely to be less negatively affected compared to upstream planters like AALI, LSIP, DNSG and TAPG. Winners are cooking oil producers and consumers in Indonesia.

Figure 1: Sector comparison – Agribusiness

Company	BB Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recur. ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
						CY2022F	CY2023F		CY2022F	CY2023F	CY2022F	CY2023F	CY2022F	CY2023F	CY2022F	CY2023F
IOI Corporation	IOI MK	Hold	RM4.14	RM4.57	6,130	16.8	20.3	10.3%	2.31	2.18	15.0%	11.0%	10.2	12.4	2.4%	2.3%
Kuala Lumpur Kepong	KLK MK	Add	RM25.00	RM29.57	6,423	13.1	17.6	18.3%	1.92	1.85	15.6%	10.7%	7.4	9.2	3.7%	2.8%
FGV Holdings Bhd	FGV MK	Hold	RM1.79	RM1.95	1,556	6.7	11.0	8.9%	1.07	1.00	17.1%	9.4%	4.2	5.4	4.5%	2.8%
Genting Plantations	GENP MK	Add	RM8.55	RM9.18	1,828	15.4	25.6	7.4%	1.43	1.41	9.5%	5.5%	8.2	11.8	3.5%	2.9%
Hap Seng Plantations	HAPL MK	Add	RM2.40	RM2.79	457	10.8	17.9	16.1%	1.05	1.02	9.6%	5.8%	4.9	7.0	6.1%	3.7%
Ta Ann	TAH MK	Hold	RM4.70	RM5.05	493	8.1	15.7	7.4%	1.18	1.13	15.2%	7.4%	4.4	6.7	5.3%	2.7%
United Malacca Bhd	UMR MK	Hold	RM5.45	RM5.41	272	15.3	25.1	-0.8%	0.81	0.79	5.4%	3.2%	6.6	7.9	1.8%	1.5%
Malaysia Average						13.9	18.9	12.8%	1.9	1.8	14.5%	9.8%	8.0	10.1	3.4%	2.6%
Wilmar International	WIL SP	Add	SGD4.61	SGD5.69	21,413	12.2	12.1	23.5%	1.04	0.99	8.8%	8.4%	11.1	10.5	3.7%	3.7%
Golden Agri-Resources	GGR SP	Add	SGD0.29	SGD0.33	2,713	6.7	9.8	15.4%	0.55	0.52	8.8%	5.7%	4.5	5.2	3.1%	2.1%
First Resources Ltd	FR SP	Add	SGD1.98	SGD2.12	2,303	11.1	14.8	6.9%	1.77	1.67	16.7%	11.6%	5.7	7.1	4.5%	3.4%
Singapore Average						11.5	12.1	21.2%	1.1	1.0	9.5%	8.4%	10.0	9.7	3.7%	3.5%
Astra Agro Lestari	AALI IJ	Add	Rp12,150.00	Rp12,300.00	1,635	9.5	13.3	1.2%	1.05	1.00	11.4%	7.7%	5.7	6.3	4.5%	3.2%
Dharma Satya Nusantara	DSNG IJ	Add	Rp685.00	Rp1,250.00	508	7.6	7.7	82.5%	1.01	0.92	14.1%	12.6%	5.5	5.0	3.2%	3.1%
London Sumatra	LSIP IJ	Add	Rp1,370.00	Rp1,510.00	654	7.7	12.6	10.2%	0.91	0.88	12.4%	7.1%	3.1	4.0	5.2%	3.1%
Triputra Agro Persada	TAPG IJ	Add	Rp795.00	Rp1,110.00	1,104	8.8	10.1	39.6%	1.78	1.58	20.2%	15.5%	6.5	6.7	3.5%	3.1%
Indonesia Average						8.7	11.5	24.2%	1.2	1.1	14.4%	10.4%	5.4	5.9	4.2%	3.1%
Sector average						11.4	14.2	19.4%	1.4	1.3	12.8%	9.5%	7.8	8.6	3.7%	3.1%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Higher levy taking the cream off planters

Figure 2: Current export tax, export levy for CPO and estimated changes in export levy for CPO based on media reports (US\$/tonne)

Price	Export tax	Export levy		Total		Changes	
	Old	Old	New	Old	New		
≥ US\$750	0	55	55	55	55	0	0%
US\$750.1 to US\$800	3	75	75	78	78	0	0%
US\$800.1 to US\$850	18	95	95	113	113	0	0%
US\$850.1 to US\$900	33	115	115	148	148	0	0%
US\$900.1 to US\$950	52	135	135	187	187	0	0%
US\$950.1 to US\$1000	74	155	155	229	229	0	0%
US\$1000.1 to US\$1050	93	175	175	268	268	0	0%
US\$1051 to US\$1100	116	175	195	291	311	20	7%
US\$1101 to US\$1150	144	175	215	319	359	40	13%
US\$1151 to US\$1200	166	175	235	341	401	60	18%
US\$1201 to US\$1250	183	175	255	358	438	80	22%
US\$1251 to US\$1300	200	175	275	375	475	100	27%
US\$1301 to US\$1350	200	175	295	375	495	120	32%
US\$1351 to US\$1400	200	175	315	375	515	140	37%
US\$1401 to US\$1450	200	175	335	375	535	160	43%
US\$1451 to US\$1500	200	175	355	375	555	180	48%
> US\$1500	200	175	375	375	575	200	53%

SOURCES: CGS-CIMB RESEARCH, REUTERS, REGULATIONS



ESG in a nutshell

The current ESG concern affecting the sector is the allegation of forced labour by US Customs and Border Protection (CBP) on Malaysian plantation companies. On 28 Jan 2022, the US CBP issued a Notice of Finding on Sime Darby Plantation (SDP) as it said it has sufficient information to determine that SDP uses forced labour and that the company's goods are subject to seizure. US CBP issued a Withhold Release Order (WRO) on 30 Sep 2020 against palm oil products made by FGV and its subsidiaries and joint ventures on 30 Aug 2021. These ESG issues partly contributed to the Malaysian planters underperforming the KLCI in 2021 as some funds may have sold in response to these risks.

Keep your eye on

On 15 Feb, Sime Darby Plantation announced that it will institute sweeping changes in governance structures, policies and procedures. It will reimburse recruitment fees to its current foreign workers, establish an improved Responsible Recruitment Procedure and implement new processes to enable better dialogue with workers. The group has provided RM82m to reimburse recruitment fees to current and past foreign workers.

The US CBP has seized four shipments of Malaysian palm oil valued at nearly US\$2.5m in Baltimore since 11 Feb 2022 due to information indicating that the products were manufactured by forced labour.

Implications

The forced labour issue is likely to lead to permanently higher costs for the plantation companies affected as they could be required to provide for remediation fees for their current and past workers and face higher recruitment costs for foreign workers due to additional measures taken to ensure no forced labour issues arise. The compliance costs to lower this risk could also increase as companies step up their governance structure for foreign workers. We have applied a discount of up to 10% to our SOP assumptions to reflect concerns over ESG risks for some of the plantation companies under our coverage.

ESG highlights

In the latest rankings by SPOTT on ESG policy transparency assessments on Nov 2021, Wilmar was ranked no.1/100 with a score of 91.3% and had the highest ESG score among the agribusiness companies under our coverage. United Plantation had the highest ranking in SPOTT among the Malaysian listed plantation companies, followed by Sime Darby Plantations and Hap Seng Plantations. Among the Indonesian listed plantation players under our coverage, DSNG had the highest ranking in SPOTT, followed by Triputra. Among Singapore agribusiness companies under our coverage, Wilmar had the highest ranking followed by Golden Agri and First Resources.

Implications

Wilmar is ahead of the pack in terms of ESG transparency and practices and this is recognised via the company's entry into the global sustainability indices. Wilmar is a member of the FTSE4Good Developed Index, FTSE4Good ASEAN 5 Index and Dow Jones Sustainability Indices (under Asia Pacific for the Food, Beverage and Tobacco industry grouping). Its strong ESG transparency will improve its investability among investor communities who are concerned about ESG risks.

Trends

The steps taken by Sime Darby Plantations to address concerns of forced labour, including an external audit on its labour practices and engaging US CBP, could lead to a resolution of this issue late this year or in 2023, in our view.

Implications

This could lift the current negative sentiment on Malaysian plantation companies as investors will be able to better gauge the potential implications of the additional costs on future earnings.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 - 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2021		
619 companies under coverage for quarter ended on 31 December 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified,

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- CG Score 2021 from Thai Institute of Directors Association (IOD)

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.