

SECTOR UPDATE

Plantation – Regional

No Price Forecast From Forecasters

Forecasters did not provide any price forecast for the first time with so many uncertainties and political issues overriding the fundamental analysis. Mid-way through the second day of the conference, the Indonesian government shocked the market with the increase of DMO from 20% to 30%. CPO prices may rise in the near term with limited vegoil supply globally, but the current level is pricing in a high risk premium which may soften towards 2H22. Maintain MARKET WEIGHT.

WHAT'S NEW

- No price forecast.** This is the first time some of the key speakers at the Palm & Lauric Oil Price Outlook Conference (POC) did not give the average CPO price for the year with too many uncertainties and political issues involved, which has gone beyond the fundamentals on supply and demand of vegetable oil (vegoil).
- Market was shocked!** The Indonesian government shocked the market with the announcement that the Domestic Market Obligation (DMO) will increase from 20% to 30%, effective 10 Mar 22. This had caused a limit up in Malaysian CPO futures during the afternoon session and 3rd month CPO futures hit high at RM7,268/tonne yesterday. We reckon this would benefit and continue to boost Malaysian CPO price with more export control implementation on Indonesian CPO and hence more backlog at the port as exporters will need to fulfil higher domestic sales in order to get the export license. Malaysian upstream players will continue to benefit the most by leveraging the high CPO prices, while we might see some dilutive impact on Indonesian players with relatively lower realised CPO ASP with approximately 23% of their nucleus CPO sales at Rp9,300/kg.
- Key factors to monitor.** With so many uncertainties and changes in the market, speakers mentioned that we need to closely monitor: a) Russia-Ukraine war, b) sanctions on Russia, c) next planting season for crops like sunflower, soybean and corn, d) movement of Brent crude oil prices, and e) Indonesian policies on exports levy, biodiesel mandate and DMO.
- Maintain MARKET WEIGHT.** With the restrictions on Indonesian palm oil exports, we expect that Malaysian CPO price may continue to rise in the near term with the limited supply of vegoil in the world. Malaysian upstream players will benefit the most, especially those who sell in the spot market. For Indonesian players, we might see some dilutive impact as the net realised CPO ASP might be lower than the international pricing.
- Our top pick would still be Hap Seng Plantation (HAPL MK/BUY/TP: RM3.15), who will benefit the most as they only sell in the spot market with better CPO ASP as compared to peers, thanks to their sustainability certifications.

PEER COMPARISON

Company	Ticker	Rec	Price @ 3 Mar 22	Target Price	Market Cap	PE			ROE (x)	P/B (x)	2022F Div (sen)	Div Yield (%)
			(RM)	(RM)	(US\$m)	2021 (x)	2022F (x)	2023F (x)			(sen)	
Malaysia												
Hap Seng Plantations	HAPL MK	BUY	2.75	3.15	526	9.8	9.6	19.5	12.5	1.2	17.2	6.3
Kim Loong	KIML MK	HOLD	1.92	2.00	444	9.7	9.4	16.3	12.9	2.3	15.4	8.0
KL Kepong	KLK MK	HOLD	27.70	28.00	7,146	13.2	16.6	20.2	19.9	2.4	99.8	3.6
IOI Corporation	IOI MK	HOLD	4.54	5.15	6,750	20.5	17.9	22.9	14.4	2.7	13.2	2.9
Sime Darby Plantation	SDPL MK	HOLD	5.04	5.45	8,341	14.8	15.8	32.9	13.6	2.0	9.8	1.9
Sarawak Oil Palms	SOP MK	HOLD	6.22	4.60	851	6.9	10.8	19.3	19.7	1.3	23.0	3.7
Genting Plantations	GENP MK	SELL	9.26	7.15	1,988	19.2	22.1	36.8	8.6	1.6	25.2	2.7
Singapore												
Bumitama Agri	BAL SP	BUY	0.80	0.85	1,018	12.2	9.0	6.7	17.8	2.0	3.7	4.6
First Resources	FR SP	BUY	2.14	2.10	2,476	22.3	15.5	11.4	14.3	2.1	9.3	4.3
Wilmar International	WIL SP	BUY	4.72	5.50	21,801	13.6	11.0	11.7	9.7	1.1	16.1	3.4
Indonesia												
Triputra Agro	TAPG IJ	BUY	875	860	1,206	18.2	15.3	8.5	15.1	2.5	30.8	3.5
Astra Agro Lestari	AALI IJ	HOLD	12,525	11,070	1,673	28.9	8.9	12.0	10.0	1.2	463.8	3.7
London Sumatra	LSIP IJ	SELL	1,520	1,100	720	14.9	10.0	9.7	10.2	1.0	47.1	3.1
Tunas Baru Lampung	TBLA IJ	SELL	855	670	317	6.1	5.5	8.0	12.1	(0.1)	25.0	2.9

Source: UOB Kay Hian

MARKET WEIGHT

(Maintained)

TOP PICKS

	Share Price (lcl Crncy)	Target Price (lcl Crncy)
HAPL MK	2.75	3.15
BAL SP	0.80	0.85
FR SP	2.14	2.10
TAPG IJ	875	860

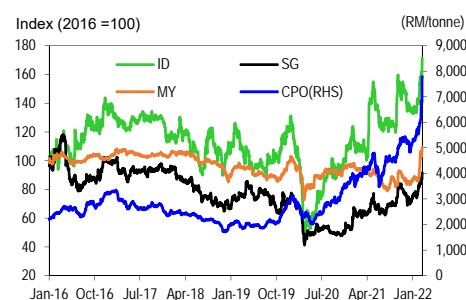
Source: UOB Kay Hian

CPO PRICE ASSUMPTIONS (RM/TONNE)

	CPO Price Assumption (RM/tonne)
2022F	4,200
2023F	3,000

Source: UOB Kay Hian

PLANTATION INDEX VS CPO PRICE



Source: Bloomberg, UOB Kay Hian

ANALYST(S)

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

Jacquelyn Yow
+603 2147 1995
jacquelyn@uobkayhian.com

- Among the big cap plantations in Malaysia, we prefer KLK MK as it is expected to see stronger production recovery in FY22 by riding on current high prices. SDPL MK has the largest CPO volume, so its earnings have the highest leverage due to rising CPO prices.
- We have BUY calls on Hap Seng plantation (HAPL MK/BUY/TP:RM3.15), Bumitama Agri (BAL SP/ BUY/TP:S\$0.85), First Resources (FR SP/ BUY/ TP: S\$2.10), Triputra Agro (TAP IJ/ BUY/TP: Rp860)

ESSENTIALS

- **Consumer countries are in hand to mouth situation.** With the unprecedented high CPO prices, consumer countries such as China, India and Pakistan are slowing down on their purchases by: a) buying other alternatives such as soybean oil (which is cheaper than CPO), and b) releasing reserves (in China). The consumer countries are not willing to take in such expensive oil with their end consumers having a slowdown in edible oil consumption due to the high inflation.
- **Global vegoil production may improve in 2H22** with new crops in the northern hemisphere. India had also recently achieved record high mustard production that will increase from Apr 22, which would bring relief to the vegoil market.
- **Urge government to look into the biofuel/biodiesel mandate.** The speakers urged the Indonesian government to consider reducing the usage of vegoil for biofuel/biodiesel purposes in order to relieve the vegoil supply shortage in the current situation. Indonesia makes up 25% of global palm oil consumption, while biodiesel contributed about 11% of global palm oil consumption. With Indonesia being the largest palm oil producer and palm oil consumer, speakers suggested that the Indonesian government should consider a more flexible biodiesel programme in order to balance the palm oil demand and supply in the global market where food vs fuel remains a huge topic to be discussed by stakeholders.

ACTION

- **Maintain MARKET WEIGHT.** We expect the Malaysian CPO price to continue rising in the short term due to the sudden change in Indonesia's DMO policy which we foresee will lead to some backlog at Indonesia's ports. The elevated price is likely to stay for longer and higher than expected. This will continue to drive investors' appetite towards plantation stocks. Our BUYs are HAPL ML, BAL SP, FR SP and TAPG IJ.
- **The beta.** Should the high prices be sustained for longer periods, pure upstream players would have higher leverage and beta to the CPO uptrend. Among companies under our coverage, SDPL MK, HAPL MK, TAPG IJ and AALI IJ are those with higher earnings sensitivity towards CPO prices.

RISKS

- **Backlog and cooking oil shortage issues to be resolved in Indonesia.** If the backlog issues in Indonesia's ports are resolved with exporters getting their export licences after fulfilling Domestic Market Obligation (DMO), we expect buyers to turn to Indonesia as Indonesia's palm oil products are still at a discount to those from Malaysia.
- **Increase in US soybean planting area.** The USDA expects farmers to plant 88m acres of soybeans for 2022, up by 0.8m acres from 87.2m acres in 2021. This may result in higher-than-expected soybean production in the market for 2022, and hence, we might see some price weakness in SBO moving forward.

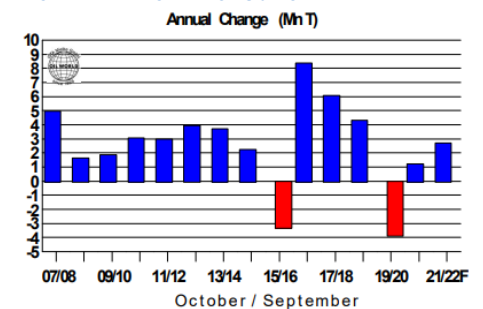
EARNINGS SENSITIVITY WHEN CPO PRICES (% CHANGE ON EARNINGS)

(%) change from our current earnings based on CPO price of RM4,200/tonne

	RM5,500/tonne	Potential Fair Value
Malaysia (RM)		
SDPL MK	83.1	9.98
HAPL MK	73.3	5.46
GENP MK	68.3	12.03
SOP MK	61.0	7.41
KLK MK	60.7	45.00
KIML MK	42.0	2.92
IOI MK	16.9	6.02
Singapore (\$S)		
BAL SP	33.5	1.86
FR SP	24.4	3.95
Indonesia (Rp)		
TAPG IJ	88.9	1,558
AALI IJ	68.3	18,631
LSIP IJ	54.2	1,712

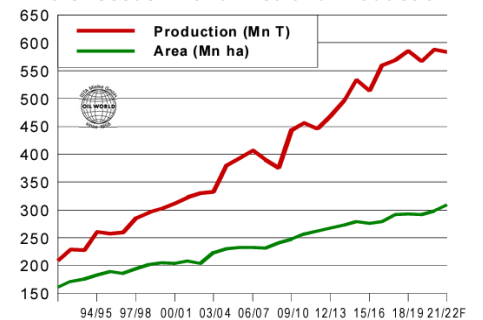
Source: UOB Kay Hian

WORLD PALM OIL PRODUCTION



Source: Oil World

WORLD OILSEED PLANTING AREA & PRODUCTION



Source: Oil World

INDONESIA SUPPLY AND DEMAND FORECAST - GAPKI

	2019	2020	2021	2022	%
Beginning Stock	3,261	4,596	4,867	4,131	
CPO Prod	47,180	47,034	46,888	48,035	2.45%
CPKO Prod	4,648	4,549	4,411	4,561	3.41%
Import	104	43	59	60	
Subtotal Supply	51,932	51,626	51,358	52,656	2.53%
Local Consumption					
- Food	9,860	8,428	8,954	8,991	0.41%
- Industry					
Oleochemicals	1,056	1,695	2,125	2,163	1.79%
Biodiesel	5,831	7,226	7,342	8,817	20.10%
Subtotal Domestic Demand	16,747	17,349	18,421	19,971	8.42%
Export					
Crude	7,399	7,171	2,482	913	-63.20%
Refined	23,677	21,120	25,481	23,596	-7.40%
Lauric	2,047	1,813	1,509	1,290	-14.51%
Biodiesel	1,090	32	167	63	-62.06%
Oleochemicals	3,218	3,871	4,036	3,947	-2.21%
Subtotal Export Demand	37,430	34,007	33,674	29,809	-11.48%
Subtotal Demand	54,177	51,357	52,094	49,780	-4.44%
End Stock	4,596	4,867	4,131	7,007	

Source: GAPKI

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