

## SECTOR UPDATE

### Plantation – Regional

Flip-flopping By Indonesia Government Again

The Indonesian government has decided to ban all exports of raw materials for cooking oil effective from 28 Apr 22. This would lift international CPO prices with the largest palm oil producer banning exports. We reckon this gives investors a short-term trading opportunity for plantation companies with high exposure to Malaysia operations. Companies under our coverage are HAPL, SOP, KIML and IOI. Maintain MARKET WEIGHT.

#### WHAT'S NEW

- Indonesia has decided to ban all exports of raw materials for cooking oil, said President Joko Widodo in a Friday briefing. The policy will be effective from 28 Apr 22 until the local shortage is resolved.

#### COMMENTS

- CPO prices to strengthen with latest move by Indonesia.** Last Friday, Indonesia's President make a surprise announcement to halt shipments of cooking oil and its raw materials from 28 Apr 22 to address the cooking oil shortage and soaring domestic prices. Indonesia is the world largest palm oil producer with 56% market share of global palm oil exports and 30% market share of global exports for 17 oils and fats. This will further tighten global vegoil supplies and push prices higher. The CPO third-month futures contract price rose by RM155/tonne to RM6,900/tonne after the President's speech, 30 minutes before the market closed on 22 Apr 22.
- May see CPO price divergence between Indonesia's domestic and international pricing.** This announcement is a total surprise to us and the market. In our opinion, the main aim of this ban is to control the soaring cooking oil price in Indonesia. Since the lifting of domestic market obligation and domestic price obligation in late-Mar 22, more cooking oil was made available but at much higher prices except for bulk cooking oil at the controlled price of Rp14,000/litre. The exports ban on cooking oil and its raw material will lead to oversupply of CPO domestically and domestic prices will drop significantly. Recall that Indonesia is a palm oil exporter with the domestic market only making up approximately 35% of total palm oil production while the household cooking oil market is estimated about 8-9% of total palm oil production.
- Trading BUY for plantation companies with pure or high exposure in Malaysia.** Rising palm oil prices will definitely benefit the Malaysia players, which will see higher demand and higher sales volume as well. **Companies with high exposure in Malaysia under our coverage are Hap Seng Plantations, Sarawak Oil Palms and Kim Loong Resources.** Among the big cap companies, IOI Corporation has the least exposure in Indonesia and its performance is likely to catch up.

#### PEER COMPARISON

Company	Ticker	Rec	Price @ 22 Apr 22	Target Price	Market Cap (US\$m)	PE			ROE (%)	P/B (x)	2022F Div	Div Yield (%)
			(RM)	(RM)		2021 (x)	2022F (x)	2023F (x)			(sen)	
<b>Malaysia</b>												
Hap Seng Plantations	HAPL MK	BUY	3.20	3.15	591.67	11.43	11.15	22.70	12.45	1.36	17.20	5.38
Kim Loong	KIML MK	HOLD	2.12	2.00	473.83	10.71	10.34	17.97	17.59	2.53	15.40	7.26
KL Kepong	KLK MK	HOLD	28.00	30.00	6979.97	13.38	16.83	20.44	19.90	2.44	99.80	3.56
IOI Corporation	IOI MK	HOLD	4.43	5.15	6363.81	19.95	17.51	22.37	14.45	2.68	13.20	2.98
Sime Darby Plantation	SDPL MK	HOLD	5.25	5.45	8394.80	15.44	16.41	34.31	13.55	2.07	9.80	1.87
Sarawak Oil Palms	SOP MK	HOLD	6.41	4.60	854.31	7.16	11.15	19.85	19.73	1.31	23.00	3.59
Genting Plantations	GENP MK	SELL	9.08	7.15	1883.60	18.85	21.66	36.09	8.59	1.58	25.20	2.78
<b>Singapore</b>												
Bumitama Agri	BAL SP	BUY	0.86	0.85	1081.39	13.01	9.59	7.12	17.82	2.10	3.70	4.33
First Resources	FR SP	BUY	2.25	2.10	2588.02	23.44	16.30	12.03	14.25	2.16	9.30	4.13
Wilmar International	WIL SP	BUY	4.54	5.50	20864.68	13.08	10.61	11.27	9.74	1.05	16.10	3.55
<b>Indonesia</b>												
Triputra Agro	TAPG IJ	BUY	650	930	898.52	13.54	11.38	6.32	16.58	1.72	30.80	4.74
Astra Agro Lestari	AALI IJ	HOLD	13,150	11,070	1762.33	30.38	9.37	12.59	10.01	1.23	463.79	3.53
London Sumatra	LSIP IJ	SELL	1,440	1,100	684.12	14.10	9.49	9.17	10.19	0.97	47.12	3.27
Tunas Baru Lampung	TBLA IJ	SELL	815	670	303.16	5.81	5.26	7.58	12.07	(0.05)	25.00	3.07

Source: UOB Kay Hian

## MARKET WEIGHT

(Maintained)

#### TOP PICKS

	Price (lcl Crncy)	Target Price (lcl Crncy)
HAPL MK	3.20	3.15
BAL SP	0.86	0.85
FR SP	2.25	2.10
TAPG IJ	650	930

Source: UOB Kay Hian

#### CPO PRICE ASSUMPTIONS (RM/TONNE)

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

Source: UOB Kay Hian

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• **Will this be temporary?** Based on our channel checks and data collected, we strongly believe that the palm oil supply in Indonesia is enough for domestic consumption. Based on the Indonesian Palm Oil Association (GAPKI) data, the domestic consumption of palm oil for food only accounted for 19% of total Indonesian CPO production in 2021. Having said that, we understand that some of the smaller towns/ rural areas are experiencing a lower supply of cooking oil. We reckon that lower supply in these areas is mainly due to: a) the high food inflation which dissuades citizens from buying cooking oil, leading to lower supply due to lower demand, and b) longer transportation period needed to deliver into smaller towns and rural areas. From the President's speech, he highlighted the need to ensure the availability of food products at home after global food inflation soared to a record high, so we reckon that the ban would only be lifted once the issue of food inflation and food supply is solved in Indonesia.

• **The uncertainty.** At the point of writing, the official document with details is not available yet, thus we are still not certain which products are subject to this exports ban and how long this new regulation will last. Based on the President's speech, the ban is on cooking oil and its raw materials. Cooking oil raw materials would be CPO, which is then refined in RBD Palm Oil and RBD Palm Olein. Indonesia's palm oil exports largely focus on process palm oil which made up about 75% of 2021 exports.

#### ACTION

• **Maintain MARKET WEIGHT.** We reckon that there might be a short term trading opportunity for companies with higher exposure in Malaysia riding on the short term pent-up demand for Malaysia palm oil which would buoy Malaysia CPO prices further. Under our coverage, they would be companies like Hap Seng Plantations, Sarawak Oil Palms, Kim Loong Resources and IOI Corporations.

• Companies with Indonesia exposure may have lower average selling prices until the ban is lifted by the Indonesian government. With this, we reckon that companies such as Bumitama, First Resources, Astra Agro Lestari, London Sumatra, Triputra Agro earnings would see some negative impact. Having said that, we maintain our earnings forecast for the companies while we are waiting for further official statement from the Indonesian government on the details.

#### SECTOR CATALYSTS

• **Increase in US soybean planting area.** The US Department of Agriculture 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 soybean oil moving forward.

• **Prolonged Russia-Ukraine war** could further tighten the global oilseed and vegoil supplies and this would prolong the upcycle in vegoil prices. Ukraine and Russia are entering the critical month for sunflower planting which should start in April, and the prolonged war could hamper the coming planting season. Ukraine's and Russia's sunflower oil exports account for 10% of global vegoil exports.

#### COMPANIES' OPERATIONS EXPOSURE

	Sabah	Sarawak	Pen. Msia	M'sia	Sumatra	Kali-mantan	Others	I'sia	Other
GENP MK	33	-	13	46	-	54	-	54	-
HAPL MK	100	-	-	100	-	-	-	-	-
IOI MK	65	-	25	90	-	10	-	10	-
KIML MK	72	19	9	100	-	-	-	-	-
KLK MK	16	-	27	43	30	23	-	53	4
SDPL MK	8	7	35	50	11	20	1	32	18
SOP MK	-	100	-	100	-	-	-	-	-
BAL SP	-	-	-	-	2	98	-	100	-
FR SP	-	-	-	-	33	67	-	100	-
WIL SP	n.a	n.a	-	24	n.a	n.a	-	68	8
AALI IJ	-	-	-	-	36	47	18	100	-
LSIP IJ	-	-	-	-	82	9	8	100	-
TAPJ IJ	-	-	-	-	-	100	-	100	-
TBLA IJ	-	-	-	-	84	16	0	100	-

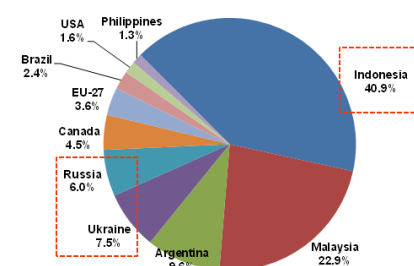
Source: Companies' reports

#### INDONESIA PALM OIL SUPPLY & DEMAND

Indonesia ('000 tonnes)	2M22	yoy % chg	2021	yoy % chg
Opening stock	4,678	10.1	3,888	(15.4)
Production	8,062	13.0	51,300	(0.6)
CPO	7,368	13.4	46,888	(0.3)
CPKO	694	9.3	4,311	(5.2)
Import	11	120.0	53	26.2
Export (CPO, Lauric Oil & Biodiesel)	4,277	(11.9)	33,597	(1.2)
CPO	90	(87.6)	2,727	(62.0)
Processed CPO	3,383	0.5	25,276	19.8
Lauric (PKO & Processed PKO)	174	(26.9)	1,476	(19.3)
Biodiesel	10	n.m!	164	429.0
Oleochemical	615	16.7	3,920	1.3
Domestic Consumption	2,883	(7.6)	18,740	8.0
Food products	1,080	(30.7)	8,954	6.2
Oleochemical	361	2.6	2,126	25.4
Biodiesel	1,442	19.2	7,660	6.0
Ending stock	5,042	25.3	4,129	(15.2)

Source: GAPKI

#### 2021: 8 MAJOR VEGOIL EXPORTS BY COUNTRY



Source: Oil World

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