

SECTOR UPDATE

Plantation – Malaysia

Indonesia Exporters Getting Back Into The Picture

Despite higher palm oil production, palm oil inventory came in lower than expectations due to higher-than-expected exports. We reckon that the high exports may not recur in Apr 22 after the removal of Indonesia's DMO policy. We expect CPO prices to remain high at RM5,000-6,000/tonne in view of the short-term global vegoil disruption. Maintain MARKET WEIGHT.

MPOB MAR 22 STATISTICS SUMMARY

(m tonnes)	Mar 22	mom % chg	yoy % chg	1Q22	yoy % chg
CPO Production	1.41	24.1	(0.9)	3.80	3.9
<i>Pen Malaysia</i>	0.82	29.2	(0.4)	2.09	3.0
<i>Sabah</i>	0.31	13.1	4.6	0.93	17.5
<i>Sarawak</i>	0.28	23.2	(7.5)	0.78	(6.7)
Palm Oil Stocks	1.47	(3.0)	2.0	1.47	2.0
Palm Oil Domestic Use	0.28	30.5	17.9	0.68	(17.8)
Palm Oil Exports	1.27	14.1	6.5	3.53	16.5
<i>Oleochemical</i>	0.24	3.2	(9.0)	0.70	(8.3)
<i>Biodiesel</i>	0.02	(64.6)	14.6	0.09	72.7
Palm Oil Imports	0.08	(43.4)	(38.2)	0.31	(21.7)
CPO Price (RM/tonne)	6,867.0	15.8	69.9	6,050.7	55.3

Source: MPOB, UOB Kay Hian

WHAT'S NEW

- **Inventory below market expectation.** As at end-Mar 22, the Malaysian Palm Oil Board (MPOB) reported palm oil inventory at 1.47m tonnes, lower than market expectation of 1.49m-1.52m tonnes. The variance was mainly due to the higher-than-expected exports despite the CPO production coming in higher than market expectations.
- We attribute the higher-than-expected exports to:
 - Malaysia benefitting from Indonesia's palm oil export disruption.** Recall that the Indonesian government had increased the Domestic Market Obligation (DMO) from 20% to 30% in early-Mar 22. This had worsened Indonesia's exports as shipments are being held while exporters would need to fulfil the sales of 30% of exports volume domestically before exports licences can be issued. Hence, Malaysia producers benefitted as buyers turned to Malaysia due to the uncertainty of shipment timings.
 - Higher market share in EU, Central Asia and Middle East.** We observed that EU, Central Asia and Middle East countries had increased their palm oil imports. Some countries with high usage of sunflower oil increased their palm oil imports by >100% mom in Mar 22. We reckon that this was due to the absence of sunflower oil supply due to the Black Sea tensions, which led to these regions switching to palm oil.
- **Lower palm oil exports from Apr 22 onwards.** Even though we believe the market share of palm oil will increase in major sunflower oil-importing countries, we expect Malaysia's palm oil exports to be lower in Apr 22 as Indonesia will recapture the exports market share for refined palm products after the removal of DMO on 20 Mar 22. Channel checks reveal that Indonesia-based exporters are offering more competitive pricing to clear the backlog due to the delays caused by the DMO policy. Based on the Intertek and Amspec surveys, Malaysia palm oil exports for 1-10 Apr 22 had dropped by 26% mom.

PEER COMPARISON

Company	Ticker	Rec	Price @ 11 Apr 22	Target Price	Market Cap (US\$m)	----- PE -----			ROE (%)	P/B (x)	2022F Div	Div Yield (%)
						2020 (x)	2021F (x)	2022F (x)				
Malaysia												
Hap Seng Plantations	HAPL MK	BUY	2.99	3.15	565.20	10.68	10.42	21.21	12.45	1.27	17.20	5.75
Kim Loong	KIML MK	HOLD	2.02	2.00	461.56	10.20	9.85	17.12	17.59	2.41	15.40	7.62
KL Kepong	KLK MK	HOLD	27.00	30.00	6881.03	12.90	16.23	19.71	19.90	2.35	99.80	3.70
IOI Corporation	IOI MK	HOLD	4.37	5.15	6417.84	19.68	17.27	22.07	14.45	2.64	13.20	3.02
Sime Darby Plantation	SDPL MK	HOLD	5.30	5.45	8664.06	15.59	16.56	34.64	13.55	2.09	9.80	1.85
Sarawak Oil Palms	SOP MK	HOLD	6.04	4.60	822.97	6.75	10.50	18.70	19.73	1.23	23.00	3.81
Genting Plantations	GENP MK	SELL	9.20	7.15	1951.12	19.10	21.94	36.56	8.59	1.60	25.20	2.74

Source: UOB Kay Hian

MARKET WEIGHT

(Maintained)

STOCK PICKS

Company	Rec	Share Price	Target Price
Hap Seng Plantations	BUY	RM2.99	RM3.15

Source: UOB Kay Hian

CPO PRICE ASSUMPTIONS (RM/TONNE)

	CPO Price (RM/tonne)
2020	2,686
2021	4,408
Our forecast:	
2022F	4,200
2023F	3,000

CPO Price:

MPOB @ 10 Apr 22	6,526
BMD 3 rd Month Contract	6,025

Source: UOB Kay Hian

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ESSENTIALS

- **Higher production in Apr 22 but lower in May 22.** Even though palm oil production came in higher than expectations, palm oil production had increased by 24% mom in Mar 22 in view of more harvesting days and strong production recovery. We reckon the strong palm oil production would continue to increase in Apr 22 as the harvesters would usually harvest more before the Ramadan festive season. However, the oil extraction rate may be lower in Apr 22 because of the loosened harvesting practises by the harvesters (such as harvesting unripe fruits) before the long Raya festive season in May 22.
- **Impact from rise in minimum wage on Malaysia plantation companies.** The Malaysian government will raise the minimum wage from RM1,200 to RM1,500 with effect from 1 May 22. We reckon that this is unlikely to have a significant impact on companies' earnings. Due to the acute labour shortage over the last two years, plantation companies have made adjustments to most of their estates workers' wage to retain them and also to entice the locals to join as well. Based on our channel checks, the impact on the total cost of production would be less than 5%, and hence, the impact on earnings would be marginal at less than 3%.

ASSUMPTION CHANGES

- **CPO ASP assumptions.** We maintain our CPO assumptions at RM4,200/tonne and RM3,000/tonne for 2022-23 respectively.
- If ASP comes in higher than our current assumptions, **Hap Seng Plantations (HAPL MK/BUY)** would benefit the most in terms of earnings upsides among the three big caps, although **Sime Darby Plantations (SDPL MK/HOLD)** has the highest earnings sensitivity to CPO price upside.
- For big caps, we prefer **KL Kepong (KLK MK/HOLD)** for its higher contribution from upstream operations, while its production growth would be relatively better compared with the others, supported by its younger profile plantation in Indonesia.

ACTION

- **Maintain MARKET WEIGHT.** We believe CPO prices may remain at these levels in 1H22 due to the short-term supply disruption. We maintain MARKET WEIGHT and expect Malaysian pure upstream players to benefit the most, leveraging on the unprecedentedly high CPO prices.
- Our top pick would still be Hap Seng Plantation (HAPL MK/BUY/Target: RM3.15), who will benefit the most as it only sells in the spot market with better CPO ASP as compared with peers, thanks to their sustainability certifications.
- Among the big-cap plantations in Malaysia, we prefer KL Kepong (KLK) as it is expected to see stronger production recovery in FY22 by riding on current high prices. Sime Darby Plantations (SDPL) has the largest CPO volume, so its earnings have the highest leverage due to rising CPO prices.

SECTOR CATALYSTS

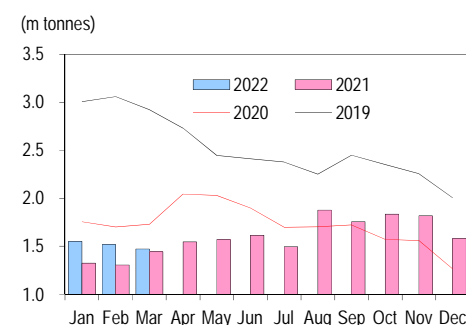
- Lower-than-expected global vegoil supply due to the impact of La Nina.
- Stronger-than-expected commodity cycle.
- US green diesel demand.

MALAYSIA: PALM OIL EXPORTS BY DESTINATION

('000 tonnes)	Mar 22	mom % chg	yoy % chg	1Q22	yoy % chg
Total	1,265	14.1	6.5	3,532	16.5
India	144	63.8	98.3	307	13.8
EU	81	59.0	32.1	162	27.6
China	165	48.3	1.8	397	8.0
Pakistan	224	20.8	(3.4)	636	18.2
Japan	9	46.4	(14.8)	18	(76.4)
US	36	(19.1)	24.2	125	18.1
Others	606	(2.6)	(2.4)	1,887	21.8

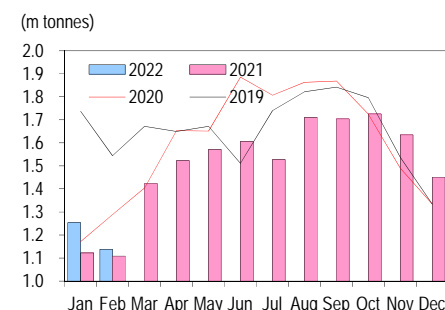
Source: MPOB

INVENTORY REMAINS LOW



Source: Malaysian Palm Oil Board (MPOB)

SLUGGISH PRODUCTION DUE TO FEWER WORKING DAYS AND LABOUR SHORTAGE



Source: MPOB

PALM OIL IS LOSING MARKET SHARE IN INDIA

Oct/Sep ('000 tonnes)	20-21	21-22
Soybean oil	2,880	3,600
Palm Oil	8,210	6,950
Sunflower Oil	1,950	2,200
Others	450	250
Total	13,490	13,000

Source: Dorab Mistry, POC 2022

COUNTRIES THAT SHOWED SIGNIFICANT YOY GROWTH IN EXPORTS FROM MALAYSIA

(tonnes)	1Q22	yoy % chg
Switzerland	3,125	450.2
Egypt	117,878	424.0
Oman	35,244	324.5
Ukraine	9,152	283.2
United Kingdom	5,432	274.1
Germany	10,140	117.7

Source: MPOB

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