

SECTOR UPDATE

Plantation – Malaysia

Higher Exports In May With The Absence Of Indonesia Palm Oil Exports

Apr 22 Malaysia palm oil inventory came in slightly higher than market expectations, mainly due to lower-than-expected exports. We expect Malaysia's palm oil inventory level to be lower mom in May 22 mainly due to a jump in palm oil exports and lower mom production in May. Maintain MARKET WEIGHT. Top picks: Hap Seng Plantations and IOI Corporation.

MPOB'S APR 22 STATISTICS SUMMARY

(m tonnes)	Apr 22	mom % chg	yoy % chg	4M22	yoy % chg
CPO Production	1.46	3.6	(4.0)	5.26	1.6
<i>Pen Malaysia</i>	<i>0.84</i>	<i>2.7</i>	<i>(1.4)</i>	<i>2.93</i>	<i>1.7</i>
<i>Sabah</i>	<i>0.33</i>	<i>4.6</i>	<i>(6.2)</i>	<i>1.26</i>	<i>10.3</i>
<i>Sarawak</i>	<i>0.29</i>	<i>5.2</i>	<i>(8.5)</i>	<i>1.07</i>	<i>(7.2)</i>
Palm Oil Stocks	1.64	11.5	6.2	1.64	6.2
Palm Oil Domestic Use	0.31	21.1	70.7	0.98	(3.4)
Palm Oil Exports	1.05	(17.7)	(21.7)	4.60	5.1
<i>Oleochemical</i>	<i>0.24</i>	<i>(0.5)</i>	<i>2.6</i>	<i>0.95</i>	<i>(4.9)</i>
<i>Biodiesel</i>	<i>0.02</i>	<i>47.7</i>	<i>(16.5)</i>	<i>0.11</i>	<i>41.5</i>
Palm Oil Imports	0.08	(43.4)	(38.2)	0.38	(23.6)
CPO Price (RM/tonne)	6,678.0	(2.8)	58.2	6,207.5	56.1

Source: MPOB, UOB Kay Hian

WHAT'S NEW

- **Inventory slightly higher than market expectations.** As at end-Apr 22, the Malaysian Palm Oil Board (MPOB) reported palm oil inventory at 1.64m tonnes, slightly higher than market expectations. The variance was mainly due to the lower-than-expected exports which came in at only 1.05m tonnes in Apr 22 vs market expectation of 1.10m-1.20m tonnes.
- **The lower palm oil exports came in within our expectations** where we had previously highlighted that 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 Domestic Market Obligation (DMO) on 20 Mar 22. Having said that, we expect Malaysia palm oil exports to see a sharp increase with the Indonesian government banning palm oil exports.
- **Prices weaken despite supplies remaining tight.** Despite supply tightness, agri commodity prices trended down over the last two weeks, largely driven by: a) concern of demand weakening due to high prices, b) the potential reduction in biodiesel mandate in the EU to increase vegoil supplies for food use, and c) the expectation that Indonesia will lift the exports ban as early as next week as production recovery in April and May is strong and Indonesia could run out of storage space if the ban prolongs.
- In our view, as long the Indonesia retail price for cooking oil refuse to come down to the level closer to Rp14,000/litre the ban likely to stay. Based on our checks the bulk cooking oil (minyak goreng curah) still selling hovering around between Rp14,500-16,500/litre.

PEER COMPARISON

Company	Ticker	Rec	Price @ 10 May 22	Target Price	Market Cap (US\$m)	----- PE -----			ROE	P/B	2022F Div	Div Yield
			(RM)	(RM)		2020 (x)	2021F (x)	2022F (x)	(%)	(x)	(sen)	(%)
Malaysia												
Hap Seng Plantations	HAPL MK	BUY	3.00	4.00	547.42	10.71	10.45	21.28	12.45	1.27	17.20	5.73
Kim Loong	KIML MK	HOLD	1.90	2.00	419.10	9.60	9.27	16.10	17.59	2.26	15.40	8.11
KL Kepong	KLK MK	HOLD	26.80	30.00	6593.17	12.80	16.11	19.56	19.90	2.33	99.80	3.72
IOI Corporation	IOI MK	BUY	4.39	5.15	6223.60	19.77	17.35	22.17	14.45	2.65	13.20	3.01
Sime Darby Plantation	SDPL MK	HOLD	4.90	5.45	7732.35	14.41	15.31	32.03	13.55	1.95	9.80	2.00
Sarawak Oil Palms	SOP MK	HOLD	5.94	4.60	786.59	6.64	10.33	18.39	19.68	1.21	23.00	3.87
Genting Plantations	GENP MK	SELL	8.16	7.15	1670.54	16.94	19.46	32.43	8.59	1.42	25.20	3.09

Source: UOB Kay Hian

MARKET WEIGHT

(Maintained)

STOCK PICKS

Company	Rec	Share Price	Target Price
Hap Seng Plantations	BUY	RM3.00	RM4.00
IOI Corporation	BUY	RM4.39	RM5.15

Source: UOB Kay Hian

CPO PRICE ASSUMPTIONS (RM/TONNE)

	CPO Price (RM/tonne)
2020	2,686
2021	4,408
Our forecast:	
2022F	5,200
2023F	4,000
CPO Price:	
MPOB @ 10 May 22	7,052
BMD 3 rd Month Contract	6,312

Source: UOB Kay Hian

ANALYST(S)

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

Jacquelyn Yow
+603 2147 1995
jacquelyn@uobkayhian.com

ACTION

- **Maintain MARKET WEIGHT.** We believe CPO prices may sustain at these levels in 1H22 due to short-term supply disruption. We maintain MARKET WEIGHT and expect Malaysian pure upstream players to benefit the most, leveraging on the 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.
- For big caps, **we prefer IOI Corporation (IOI MK/BUY/Target: RM5.15)** as it has the highest Malaysia exposure as well as higher refining margin as compared with other big cap plantation companies. We take this opportunity to upgrade IOI Corporation from HOLD to BUY due to the recent share price weakness.

ESSENTIALS

- **Outlook for May 22.** We think that Malaysia's palm oil inventory level would be lower mom in May 22, mainly due to:
 - Jump in palm oil exports.** With the absence of Indonesian palm oil exports, we expect Malaysia's palm oil exports to see a huge mom jump in May 22 with buyers diverting to Malaysia for their raw materials. On top of that, we reckon that the stickiness of buyers would remain with Malaysia due to the high frequency of changes in Indonesia's policies.
 - Lower production in May 22.** Palm oil production in May 22 is expected to be lower mom due to fewer working days. Operations were closed due to four days of public holidays in conjunction of Labour Day and Hari Raya.
- **Malaysia may cut palm oil export tax amid global supply crisis.** Malaysia is considering cutting its export tax on palm oil from the current 8% to 4-6% and plans to slow the implementation of its biodiesel mandate to help meet global demand amid an edible oil shortage. The minister of plantation industries and commodities mentioned that the cut would likely to be temporary and the decision could be made as early as Jun 22. We think that Malaysia is:
 - Taking opportunity...** We believe Malaysia is taking the opportunity arising from Indonesia's ban on exports to maximise its exports, where Malaysia is the current major global palm oil export player.
 - ...but might want to focus on production.** We think the Malaysian government might need to focus more on domestic palm oil production where our palm oil production has not been doing great due to the ongoing labour shortage. In our view, it would be more critical to bring in labour to catch up the harvesting round and productivity for Malaysia planters during the period when CPO prices are high.

ASSUMPTION CHANGES

- **CPO ASP assumptions.** We had revised our CPO assumptions to RM5,200/tonne and RM4,000/tonne (previous: RM4,200/tonne and RM3,000/tonne) for 2022-23 respectively. We only factored in our higher CPO assumption for Hap Seng Plantations and will eventually reflect accordingly in all of our coverage during this results season.

SECTOR CATALYSTS

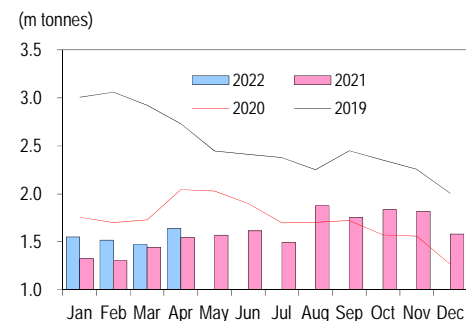
- Lower-than-expected global vegoil supply due to the impact of La Nina.
- Stronger-than-expected commodity cycle.
- US green diesel demand.

MALAYSIA: PALM OIL EXPORTS BY DESTINATIONS

('000 tonnes)	Apr 22	mom % chg	yoy % chg	4M22	yoy % chg
TOTAL	1,055	(17.7)	(21.7)	4,603	5.1
India	241	(2.0)	(33.6)	899	(0.2)
EU	127	(23.2)	37.1	523	13.9
China	71	(50.8)	(36.2)	378	(0.8)
Japan	34	(6.6)	4.6	159	14.9
US	11	25.5	(48.5)	29	(70.1)
Pakistan	8	(90.3)	(87.4)	170	(10.4)
Others	563	(6.2)	(15.1)	2,444	10.5

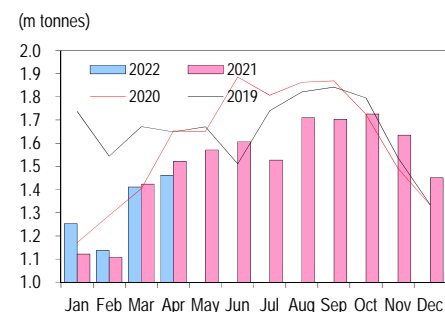
Source: MPOB

INVENTORY CAME IN SLIGHTLY HIGHER THAN MARKET EXPECTATIONS



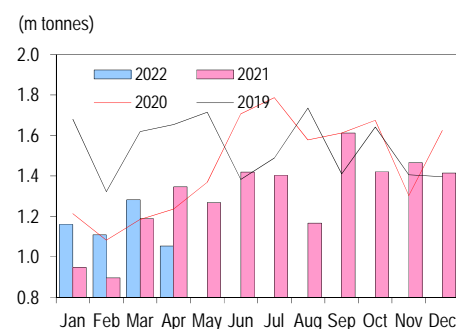
Source: Malaysian Palm Oil Board (MPOB)

INCREASING CPO PRODUCTION



Source: MPOB

LOWER EXPORT IN APR 22



Source: MPOB

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