

### SECTOR UPDATE

## Plantation – Regional

Near-term Palm Oil Prices To Rebound But Unlikely To Go Back To Previous Peak

Thomas Mielke of Oil World is expecting palm oil prices to recover as the recent 30% correction is not justifiable with supply still tight and at these prices, demand is returning as well with better demand from the biofuel segment. However, he expects prices to be lower in 2022/23 on the back of a stronger supply but will still be at a supportive level as conventional demand is returning from both the food and fuel sectors. Maintain MARKET WEIGHT. BUY HAPL MK, IOI MK and TAPG IJ.

### WHAT'S NEW

- **Expect short-term price rebound...** Mr Thomas Mielke, MD of Oil World shared that the slump in CPO prices over the past three weeks had been overly reacted during our palm oil webinar yesterday. He expects some price rebound in the near term mainly attributed to: a) relatively tight supply (due to the limited exports from Indonesia), b) pent-up demand from the consumption countries with its current low inventory and attractive pricing, and c) additional biofuel demand with the widening palm oil–gas oil (PO-GO) discount.
- **...but agri-commodity prices to be lower in 2022/23**, where CPO will be the price leader on the back of higher global supply where he expects the 17 oils & fats production to increase by 2.9% yoy for 2022/23 (+7.1m tonnes), where palm oil production is expected to accelerate by 3.9% yoy for 2022/23(+3.0m tonnes). On top of that, Thomas is also expecting soybean surplus (gaining market share and planted areas from grains due to lower fertiliser cost) and canola/rapeseed is also expected to recover in 2022/23 under the assumption of normal weather.
- **Lower agri-commodity prices in 2022/23 will lead to higher vegoil demand...** With the expectations of lower global agri commodity prices, Thomas expects the demand for 17 oils & fats to increase by at least 6m tonnes globally. He highlighted that there is a potential increase in edible oil consumption by 4-5m tonnes worldwide (especially from China, India, Pakistan and India which contributed about 3m tonnes) mainly attributed to the more affordable pricing.
- **...and higher biofuel demand which provides support.** With the widening PO-GO price discount, Thomas expects additional demand for the biofuel segment. The discretionary demand for biofuel would easily increase by 1.5m-2.0m tonnes due to price competitiveness against crude oil prices.

### ACTION

- **Maintain MARKET WEIGHT.** Despite our expectation of a CPO downtrend in 2H22, we reckon that CPO prices would still remain high, supported by the slow exports from Indonesia (logistic issue) and the tight vegoil situation in 2022.

### PEER COMPARISON

Company	Ticker	Rec	Price @ 27 Jun 22	Target Price	Market Cap (US\$m)	----- PE -----			ROE (%)	P/B (x)	2022F Div	Div Yield (%)
						2021 (x)	2022F (x)	2023F (x)				
<b>Malaysia</b>												
Hap Seng Plantations	HAPL MK	BUY	(RM) 2.37	(RM) 2.80	456	9.0	8.8	17.9	12.5	1.1	(sen) 17.2	6.8
IOI Corporation	IOI MK	BUY	3.78	5.15	5,777	18.5	16.2	20.8	14.4	2.5	13.2	3.2
Kim Loong	KIML MK	HOLD	1.61	1.80	394	9.1	8.8	15.3	17.5	2.1	15.4	8.6
KL Kepong	KLK MK	HOLD	22.36	25.25	6,024	11.8	14.8	18.0	19.9	2.0	99.8	4.0
Sime Darby Plantation	SDPL MK	HOLD	4.30	3.70	7,494	14.1	15.0	31.3	13.6	1.9	9.8	2.0
Sarawak Oil Palms	SOP MK	HOLD	4.18	4.75	644	5.4	8.5	15.1	19.7	0.9	23.0	4.7
Genting Plantations	GENP MK	SELL	6.48	5.20	1,433	14.7	16.8	28.1	8.6	1.2	25.2	3.6
<b>Singapore</b>												
Bumitama Agri	BAL SP	HOLD	(S\$) 0.65	(S\$) 0.65	836	10.2	7.5	5.6	17.8	1.7	(cent) 3.7	5.5
First Resources	FR SP	HOLD	1.74	1.70	2,089	19.2	13.3	9.8	14.3	1.7	9.3	5.1
Wilmar International	WIL SP	BUY	4.15	5.50	18,152	11.6	9.4	10.0	9.7	0.9	16.1	4.0
<b>Indonesia</b>												
Tripultra Agro	TAPG IJ	BUY	(Rp) 635	(Rp) 1,125	912	14.1	11.8	6.6	16.6	1.6	(Rp) 30	4.6
Tunas Baru Lampung	TBLA IJ	HOLD	790	820	283	5.6	5.0	7.3	12.9	(0.1)	25	3.2
Astra Agro Lestari	AALI IJ	SELL	9,725	8,575	1,411	24.9	7.7	10.3	10.0	1.0	464	4.3
London Sumatra	LSIP IJ	SELL	1,190	1,075	585	12.3	8.3	8.0	10.2	0.8	47	3.7

Source: Bloomberg, UOB Kay Hian

## MARKET WEIGHT (Maintained)

### SECTOR CALL BY COUNTRIES

Countries	Sector Call
Indonesia	UNDERWEIGHT
Malaysia	MARKET WEIGHT
Singapore	MARKET WEIGHT

Source: UOB Kay Hian

### TOP PICKS

	Price (Icy)	Target Price (Icy)
HAPL MK	2.37	2.80
IOI MK	3.78	5.15
TAPG IJ	635	1,125

Source: UOB Kay Hian

### CPO PRICE ASSUMPTIONS (RM/TONNE)

	CPO Price Assumption (RM/tonne)
2022F	5,200
2023F	4,000

Source: UOB Kay Hian

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- **Adjusted our valuations.** We have rolled over our valuations for Malaysian companies to 2023 to better reflect the CPO price downtrend; we expect a lower average CPO price of RM4,000/tonne for 2023 vs RM5,200/tonne for 2022. We had rolled over our valuations for Singaporean and Indonesian companies in our previous note. Maintain BUY on Hap Seng Plantation (**HAPL MK/BUY/Target: RM2.80**) and IOI Corporation (**IOI MK/BUY/Target: RM5.15**).

### ESSENTIALS

- Some other catalysts to monitor include:
  - Indonesian government intervention.** Thomas urges the Indonesian government to allow open market pricing for palm oil. If this happens, it may be a short-term bearish for palm oil given the high inventory level in Indonesia (Thomas expects Indonesia inventory level to be 8m tonnes as of early-Jun 22) which would be flushed out into the global market. Having said that, Thomas highlighted that this would be the only way for CPO prices to be supported and stabilised in the medium term.
  - Uncertainty in Ukraine** where Thomas expects a sharp decline in Ukraine's crops (especially sunflower) which results in a huge carry forward stock from 2021/22 to 2022/23. Thomas does not expect the export corridor between Ukraine-Russia to be open; thus, there will be sluggish exports and high inventory by end-22.
  - Better-than-expected soybean production.** Soybean planted area may come in higher than expected as farmers may turn from planting feed grains to soybean. This is mainly due to the lower fertiliser cost to plant soybean vs feed grain and hence allowing higher soybean production. Thomas had also mentioned that the current soybean meal prices are very attractive as compared with feed grains meal which might stimulate more soybean crushing, which may result in lower soybean oil prices.
  - Food vs Fuel?** Thomas reckons that current CPO prices are getting more competitive for biofuel and he expects more demand to come. Having said that, if countries cut the biofuel mandate to stave off inflation, Thomas reckons that one might need to watch the development of crude oil prices closely. If the crude oil prices soften slower than palm oil prices, then it will still continue to support CPO prices. Based on Thomas' forecast, the potential non-discretionary blending for palm oil is at about 2.5-3.0m tonnes for 2021/22.
- **Palm oil has lost its growth dynamics over the last three years.** There has been a lower-than-expected palm oil production worldwide since 2018/19. Thomas mentioned that Malaysia had at least lost 4.0m tonnes below its potential due to lower yield, lack of new plantings and labour shortage. The labour shortage issue in Malaysia has caused harvest loss and reduction in fertiliser application which resulted in lower yield and poorer fruit quality. For Indonesia, the yield has also started declining (mainly coming from smallholders).

### ASSUMPTION CHANGES

- **CPO ASP assumptions.** We maintain our CPO price assumptions at RM5,200/tonne and RM4,000/tonne for 2022-23 respectively.
- We have rolled over our valuation for Malaysian companies to 2023 to better reflect the CPO price downtrend.

### REVISED RECOMMENDATION AND TARGET PRICES

	Recommendation		Target Price	
	Revised	Previous	Revised	Previous
Hap Seng Plantations	BUY	BUY	2.80	4.00
IOI Corporation	BUY	BUY	5.15	5.15
Kim Loong Resources	HOLD	HOLD	1.80	2.00
Kuala Lumpur Kepong	HOLD	HOLD	25.25	27.70
Sarawak Oil Palms	HOLD	HOLD	3.70	5.85
Sime Darby Plantation	HOLD	HOLD	4.75	5.60
Genting Plantations	SELL	SELL	5.20	6.50

Source: Bloomberg, UOB Kay Hian

### SECTOR CATALYSTS

- Higher-than-expected US green diesel demand.
- Stronger-than-expected commodity cycle.

### OILWORLD PRICE FORECAST

	2022F	January / June 2022	2021	July / December 2021	2020
Soybeans, US cif R'dam	560*	688	600	620*	550
Soya oil, Dutch, fob ex-mill	1430*	1805	1336	1630*	1449
Soya oil, Arg. fob	1340*	1656	1180	1540*	1330
Soyapell. 47%, Arg. fob	410*	497	450	430*	399
Soyapell. 48%, Arg., Rott	470*	557	499	490*	486
Sun oil, EU fob N.W.Eur.	1550*	1913	1477	1690*	1384
Rape oil, Dutch, fob ex-mill	1510*	2033	1361	1670*	1633
Palm oil crude, cif N.W.Eur.	1290*	1621	1116	1470*	1273
Palm olein RBD, Mal. fob	1230*	1596	1048	1410*	1218

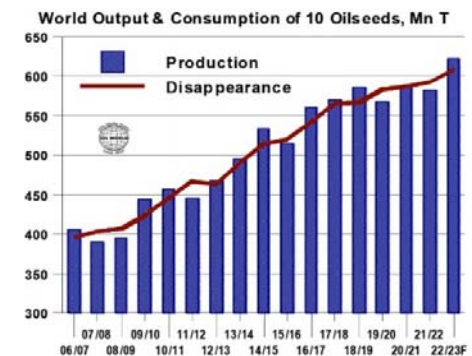
Source: Oil World

### HIGHER END STOCK IN 2022/23

	Forecast	October/September					
	22/23F	21/22	20/21	19/20	18/19	17/18	
Op'g stocks	32.14*	30.97	31.30	32.87	32.67	28.31	
Production	250.59*	243.50*	240.27	237.97	239.27	234.56	
Annual change	+2.9%	+1.4%	+1.0%	-0.5%	+2.0%	+5.9%	
Imports	95.67*	89.98*	96.01	96.34	95.97	89.37	
Exports	96.09*	90.53*	95.51	96.49	97.68	90.40	
Consumption	248.20*	241.79*	241.10	239.38	238.36	229.17	
Annual change	+2.7%	+0.3%	+0.7%	+0.4%	+4.1%	+4.2%	
End stocks	34.11*	32.14*	30.97	31.30	32.87	32.67	
Stocks/usage	13.7%	13.3%	12.8%	13.1%	13.8%	14.3%	

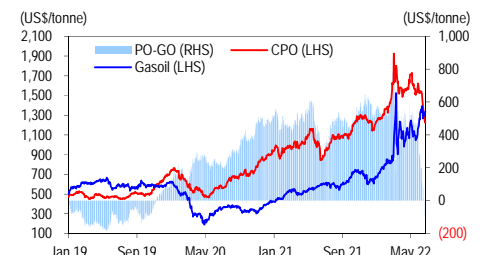
Source: Oil World

### PRODUCTION TO INCREASE SIGNIFICANTLY IN 2022/23



Source: Oil World

### WIDENING PO-GO DISCOUNT



Source: Bloomberg

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