

## ASEAN

**Neutral** (no change)

### Highlighted Companies

**Kuala Lumpur Kepong**  
ADD, TP RM28.64, RM21.94 close

KLK's upstream palm oil business in Indonesia will likely be negatively impacted by the palm oil export ban in 2Q, though this will be partially offset by better profit from its upstream estates in Malaysia. Its downstream business and higher palm oil sales volumes from Indonesia will partially cushion the earnings impact from lower CPO prices in 2H22F, in our view.

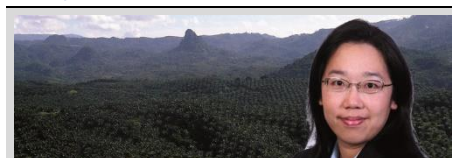
**Wilmar International**  
ADD, TP S\$5.69, S\$4.04 close

Wilmar's upstream estates and downstream processing business in Indonesia will likely show lower profits in 2Q22F before rebounding in 3Q22F. We expect its consumer product business to benefit from lower raw material costs in 2H22F. We estimate every US\$10/tonne change in net CPO price assumption could impact its FY22F net profit by 0.3%.

### Summary Valuation Metrics

P/E (x)	Dec-22F	Dec-23F	Dec-24F
Kuala Lumpur Kepong	10.52	13.97	
Wilmar International	10.37	10.33	9.52
P/BV (x)	Dec-22F	Dec-23F	Dec-24F
Kuala Lumpur Kepong	1.66	1.58	
Wilmar International	0.89	0.85	0.81
Dividend Yield	Dec-22F	Dec-23F	Dec-24F
Kuala Lumpur Kepong	4.19%	3.17%	
Wilmar International	4.34%	4.35%	4.73%

### Analyst(s)



**Ivy NG Lee Fang, CFA**

T (60) 3 2635 9292

E ivy.ng@cgs-cimb.com

**Nagulan RAVI**

T (60) 3 2635 9264

E nagulan.ravi@cgs-cimb.com

# Agribusiness

## Indonesia mulls raising the biodiesel mix

- Indonesia is considering plans to raise biodiesel mandate to 35% from 30%.
- We estimate that this could raise CPO demand by 1.5-1.6m tonnes/annum.
- However, it is unlikely to have a significant impact on near-term CPO price as it may take time to implement the higher biodiesel mandates.

### Indonesia considers raising biodiesel mix to 35% from 30%

Indonesia's Deputy at Coordinating Ministry, Septian Hario Seto, said that Indonesia is considering a plan to raise its biodiesel mandate to help lower fuel import costs and absorb overflowing palm oil stockpiles. He added that the government plans to raise the biodiesel mandate to 35% from 30%. The plan is being discussed by related ministries, biodiesel producers and automakers. The government is preparing to road test vehicles using 40% palm-biodiesel fuel at the end of Jul, which was delayed from 2021 due to falling fuel costs and high palm oil prices at that time.

### Potential impact on palm oil demand in Indonesia

If the government carries out the plan to raise the biodiesel mandate to 35% from 30%, we estimate that this could raise Indonesia's annual biodiesel demand to 11.8m kls from the current 10.1m kls annual target, assuming the new mandates are applied to all sectors. This implies potential incremental palm oil usage of 1.5-1.6m tonnes for biodiesel purposes. The news is positive in the medium term for CPO prices as higher usage of palm oil for biodiesel will boost demand for palm oil. However, we believe it is unlikely to significantly alter the current palm oil supply glut situation in Indonesia as it will take time for Indonesia to implement the higher biodiesel mandates. In 5M22, Indonesia consumed 3.75m kls of palm-based biodiesel which is broadly in line with its full-year target of 10.1m kls.

### Special US\$200/tonne export tax and high stocks pressure price

We attribute the recent 40% decline in CPO price in Indonesia to Rp8,443/kg (RM2,512/tonne) as at 28 Jul 2022, from Rp14,090/kg (RM4,216/tonne) prior to the lifting of the export ban as at 23 May 2022, to several factors: (1) fall in international CPO price due to concerns over higher export supplies from Indonesia as well as rising risk of a US recession, (2) implementation of the additional special export tax of US\$200/tonne for Domestic Market Obligation (DMO) exemption, which appears to be partially reflected in Indonesia's CPO price. The latest CPO price in Indonesia of RM2,512/tonne represents a discount of RM2,580/tonne (US\$587/tonne) from Malaysia's CPO price of RM5,092/tonne. The discount is higher than the current total export tax and levy of US\$488/tonne in Indonesia for CPO, which we believe is to reflect the special export tax or DMO obligation plus current high inventory in Indonesia; and (3) slow issuance of export permits since the export ban (28 Apr to 23 May) was lifted. As at 28 Jun, the government has issued permits for a total of 1.89m tonnes of palm oil exports. Of this, 1.08m tonnes were based on domestic market obligations, while 806,000 tonnes were export permits exempted from DMO. The export permits issued since the export ban on 28 Apr of 1.89m tonnes is low relative to Indonesia's 2021 average monthly palm oil exports volume of 2.85m tonnes.

### Potential impact on palm oil players

We believe the higher biodiesel mandate in Indonesia will be medium-term positive for Indonesian biodiesel producers like Wilmar, Golden Agri and First Resources as it will allow them to expand their revenue and earnings base. However, we do not expect the earnings impact to be significant. The recent decline in spot CPO price in Malaysia of 26% since the export ban was lifted is due partly to concerns over higher export supplies from Indonesia. This has improved palm oil price competitiveness against soybean oil and gas oil, which should boost demand. We maintain our average CPO price forecasts of RM5,600/RM3,800/tonne for 2022/2023F, and Neutral rating on the sector as valuations are undemanding following the recent price corrections. Wilmar and KL Kepong are our key picks in the sector.

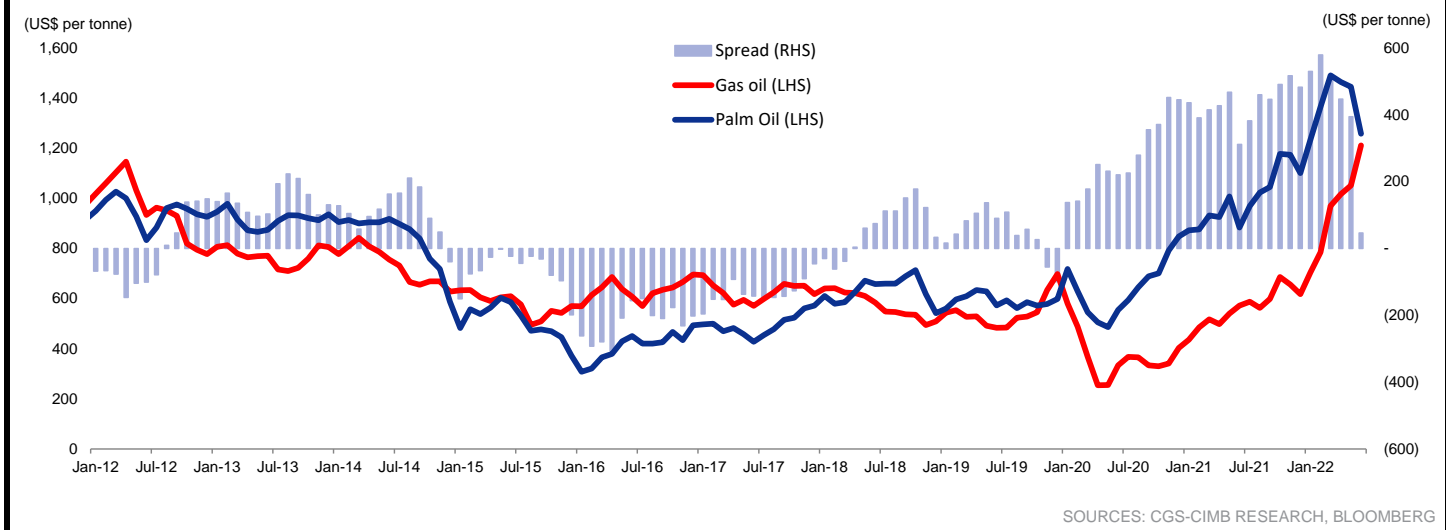
**Figure 1: Sector comparison – Agribusiness**

Company	BB Ticker	Recom.	Price	Target Price	Market Cap	Core P/E (x)		3-year EPS	P/BV (x)		Recur. ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
			(local curr)	(local curr)		CY2022F	CY2023F	CAGR (%)	CY2022F	CY2023F	CY2022F	CY2023F	CY2022F	CY2023F	CY2022F	CY2023F
IOI Corporation	IOI MK	Hold	RM3.84	RM4.56	5,423	16.9	20.0	-12.9%	2.15	2.03	15.7%	11.7%	8.9	10.8	3.8%	2.9%
Kuala Lumpur Kepong	KLK MK	Add	RM21.94	RM28.64	5,377	10.5	14.0	-18.9%	1.66	1.58	17.2%	11.6%	6.1	7.6	4.3%	3.2%
FGV Holdings Bhd	FGV MK	Hold	RM1.46	RM1.69	1,211	4.1	9.4	-55.4%	0.84	0.79	22.7%	8.6%	3.0	4.8	7.0%	3.4%
Genting Plantations	GENP MK	Hold	RM6.45	RM8.76	1,315	10.2	18.3	-16.6%	1.08	1.06	11.1%	5.9%	5.5	8.6	6.4%	3.9%
Hap Seng Plantations	HAPL MK	Hold	RM2.30	RM2.80	418	6.8	13.1	-33.5%	0.92	0.90	14.4%	7.0%	2.7	4.4	9.1%	4.6%
Ta Ann	TAH MK	Hold	RM3.98	RM5.45	398	4.8	8.4	-39.4%	0.96	0.90	22.1%	11.2%	2.6	3.8	8.6%	4.8%
United Malacca Bhd	UMR MK	Hold	RM5.50	RM5.55	262	8.8	14.0	-58.8%	0.79	0.76	9.4%	5.5%	4.8	6.1	3.4%	2.4%
<b>Malaysia Average</b>						<b>12.1</b>	<b>16.1</b>	<b>-21.2%</b>	<b>1.7</b>	<b>1.6</b>	<b>16.4%</b>	<b>10.6%</b>	<b>6.6</b>	<b>8.5</b>	<b>4.8%</b>	<b>3.2%</b>
Wilmar International	WIL SP	Add	SGD4.04	SGD5.69	18,232	10.4	10.4	-6.9%	0.89	0.85	8.8%	8.4%	10.3	9.7	4.3%	4.3%
Golden Agri-Resources	GGR SP	Hold	SGD0.25	SGD0.30	2,282	5.0	10.5	-35.7%	0.46	0.44	9.9%	4.4%	3.9	5.1	4.2%	2.0%
First Resources Ltd	FR SP	Hold	SGD1.63	SGD2.10	1,850	7.8	12.0	-7.1%	1.41	1.33	18.9%	11.4%	4.1	5.6	6.4%	4.2%
<b>Singapore Average</b>						<b>9.6</b>	<b>10.5</b>	<b>-9.9%</b>	<b>0.9</b>	<b>0.8</b>	<b>9.7%</b>	<b>8.2%</b>	<b>9.2</b>	<b>8.9</b>	<b>4.5%</b>	<b>4.1%</b>
Astra Agro Lestari	AALI IJ	Add	Rp9,800.00	Rp12,300.00	1,270	7.6	10.7	-31.7%	0.84	0.80	11.4%	7.7%	4.6	5.1	5.6%	4.0%
Dharma Satya Nusantara	DSNG IJ	Add	Rp494.00	Rp1,250.00	353	5.4	5.5	-26.7%	0.73	0.66	14.1%	12.6%	4.5	4.1	4.4%	4.3%
London Sumatra	LSIP IJ	Add	Rp1,160.00	Rp1,510.00	533	6.5	10.7	-17.4%	0.77	0.74	12.4%	7.1%	2.0	2.3	6.1%	3.7%
Triputra Agro Persada	TAPG IJ	Add	Rp640.00	Rp1,110.00	855	7.1	8.1	-17.7%	1.43	1.27	20.2%	15.5%	5.1	5.1	4.4%	3.8%
<b>Indonesia Average</b>						<b>7.0</b>	<b>9.4</b>	<b>-24.6%</b>	<b>1.0</b>	<b>0.9</b>	<b>14.4%</b>	<b>10.4%</b>	<b>4.3</b>	<b>4.5</b>	<b>5.2%</b>	<b>3.9%</b>
<b>Sector average</b>						<b>9.6</b>	<b>12.0</b>	<b>-18.6%</b>	<b>1.2</b>	<b>1.1</b>	<b>13.5%</b>	<b>9.7%</b>	<b>6.7</b>	<b>7.3</b>	<b>4.8%</b>	<b>3.7%</b>

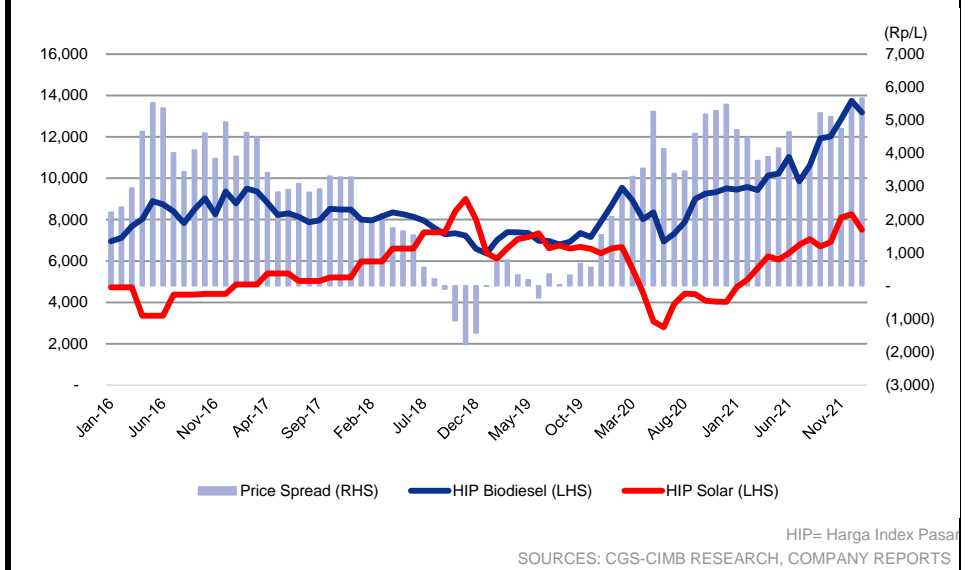
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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**Figure 2: Palm Oil and Gas Oil Spread**



**Figure 3: Price Spread between Biodiesel and Gas Oil in Indonesia up till Jan 22**





## ESG in a nutshell

The current ESG concerns affecting the sector are the allegations of forced labour by the US Customs and Border Protection (CBP) on Malaysian plantation companies. On 28 Jan 2022, the US CBP issued a Notice of Finding on Sime Darby Plantation (SDP) as it said it has sufficient information to determine that SDP uses forced labour and that the company's goods are subject to seizure. US CBP issued a Withhold Release Order (WRO) on 30 Sep 2020 against palm oil products made by FGV and its subsidiaries and joint ventures on 30 Aug 2021. These ESG issues partly contributed to the underperformance of Malaysian planters vs. the KLCI in 2021 as some funds may have sold in response to these risks.

### Keep your eye on

On 15 Feb, Sime Darby Plantation announced that it will institute sweeping changes in governance structures, policies and procedures. It will reimburse recruitment fees to its current foreign workers, establish an improved Responsible Recruitment Procedure and implement new processes to enable better dialogue with workers. The group has provided RM82m to reimburse recruitment fees to current and past foreign workers.

The US CBP has seized four shipments of Malaysian palm oil valued at nearly US\$2.5m in Baltimore since 11 Feb 2022 due to information indicating that the products were manufactured by forced labour.

### Implications

The forced labour issue is likely to lead to permanently higher costs for the plantation companies affected as they could be required to provide remediation fees for their current and past workers and face higher recruitment costs for foreign workers due to additional measures taken to ensure no forced labour issues arise. The compliance costs to lower this risk could also increase as companies step up their governance structure for foreign workers. We have applied a discount of up to 20% to our SOP assumptions to reflect concerns over ESG risks for some of the plantation companies under our coverage.

### ESG highlights

In the latest rankings by SPOTT on ESG policy transparency assessments on Nov 2021, Wilmar was ranked no.1/100 with a score of 91.3% and had the highest ESG score among the agribusiness companies under our coverage. United Plantation had the highest ranking in SPOTT among the Malaysian listed plantation companies, followed by Sime Darby Plantations and Hap Seng Plantations. Among the Indonesian listed plantation players under our coverage, DSNG had the highest ranking in SPOTT, followed by Triputra. Among Singapore agribusiness companies under our coverage, Wilmar had the highest ranking followed by Golden Agri and First Resources.

### Implications

Wilmar is ahead of the pack in terms of ESG transparency and practices and this is recognised via the company's entry into the global sustainability indices. Wilmar is a member of the FTSE4Good Developed Index, FTSE4Good ASEAN 5 Index and Dow Jones Sustainability Indices (under Asia Pacific for the Food, Beverage and Tobacco industry grouping). Its strong ESG transparency will improve its investability among investor communities who are concerned about ESG risks.

### Trends

The steps taken by Sime Darby Plantations to address concerns over forced labour, including an external audit on its labour practices and engaging the US CBP, could lead to a resolution of this issue late this year or in 2023F, in our view.

### Implications

This could lift the current negative sentiment on Malaysian plantation companies as investors will be able to better gauge the potential implications of the additional costs on their future earnings.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

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<b>Description:</b>	Excellent	Very Good	Good	N/A	N/A

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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2022		
632 companies under coverage for quarter ended on 31 March 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%

## Anti-Corruption 2021

**ADVANC** – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

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### Recommendation Framework

#### Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.