

Temporary price retreat

- CPO price tumbled after Indonesia resumed CPO exports
- Indonesia biodiesel programme and lower levies to support domestic price and global CPO demand
- Indo-Singapore CPO stocks trading at single digit PE
- Maintain BUY for [First Resources \(FR\)](#), [Bumitama \(BAL\)](#), [Lonsum \(LSIP\)](#), and [Wilmar \(WIL\)](#)

Indonesia's CPO inventory liquidation derailed CPO price. Indonesia's domestic CPO price dropped to Rp8,000/kg level in early July – lower than the 1H22 average of Rp14,918/kg – due to the revoked export ban and US\$200 per tonne 'flush-out' scheme extra charges. Indonesia exporters rushed due to limited storage capacity, and thus crashed domestic CPO price and put pressure to global CPO price benchmark.

Malaysia inventory climbed 9% m-o-m to 1.65m MT (+3% y-o-y). Higher inventory was driven by a 12% m-o-m lower export volume of 1.19m MT (-16% y-o-y). Meanwhile CPO production volume climbed by 6% m-o-m to 1.55m MT (-4% y-o-y). Malaysia's CPO export volume was affected by excess volume from Indonesia, which also affected Malaysia's CPO benchmark price.

We think current CPO price downturn is temporary. We believe the situation is temporary, as the current vegetable oil price remains strong as seen on wide gap to soybean oil price. Furthermore, Indonesia is likely to increase biodiesel blending to B35 to reduce national energy subsidies and push CPO price to recover. Moreover, major importing countries such as China and India held a relatively low CPO inventory in June 2022.

Market priced in weaker earnings in 2H22. While we believe the current CPO price correction is temporary, CPO stocks affected by the drop in Indonesia's domestic CPO price may affect 3Q22 earnings performance. However, we believe any weaker-than-expected earnings already priced in at current share price level. Meanwhile, Indonesia and Singapore-listed CPO stocks are trading at single digit PE 6.7x-8.5x, which we believe is undemanding. The key downside risk to our forecast is any worse-than-expected recession that can derail commodity prices in 2H22. Maintain BUY on FR, WIL, BAL and LSIP.

JCI : 6,740.00

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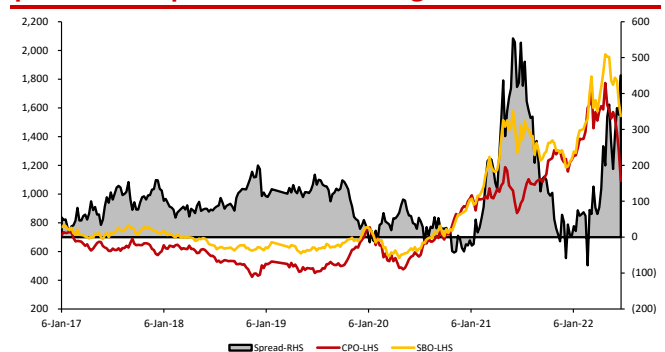
STOCKS

	Price Rp	Mkt Cap US\$m	12-mth		Rating
			Target Price Rp	Performance (%) 3-mth 12-mth	
Indonesia (Rp)					
Astra Agro	9,575	1,230	12,500	(24.9) 24.0	HOLD
London	1,175	535	2,000	(20.1) 10.3	BUY
Singapore (S\$)					
Bumitama Agri	0.62	769	1.00	(19.5) 33.3	BUY
First	1.51	1,702	2.50	(25.3) 11.9	BUY
Wilmar	4.13	18,591	6.67	(12.1) (8.8)	BUY

Source: DBSVI, Bloomberg Finance L.P.

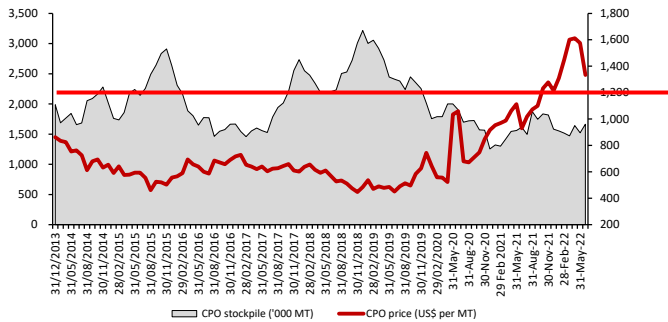
Closing price as of 8 Jul 2022

The gap between CPO price and SBO price will prevent CPO price from correcting further



Source: DBSVI, Bloomberg Finance L.P.

Inventory climbed in June 2022, but remains within our forecast



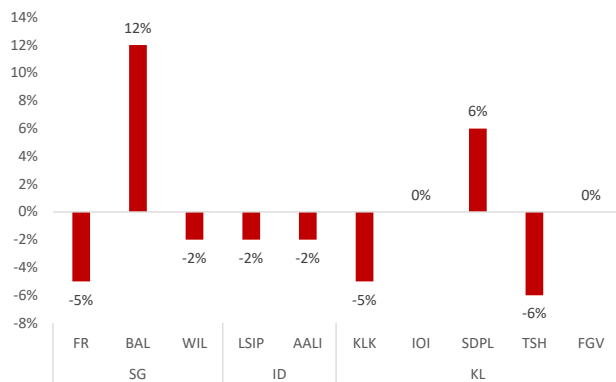
Source: MPOB, Bloomberg Finance L.P., DBSVI

Raising biodiesel blending in Indonesia could boost Indonesia domestic CPO price trend



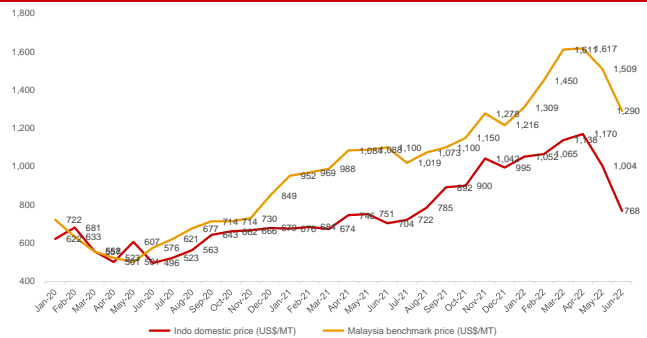
Source: Company, MPOB, DBSVI

Plantation share price performance YTD - CPO stocks affected by fears of recession and tumbling price



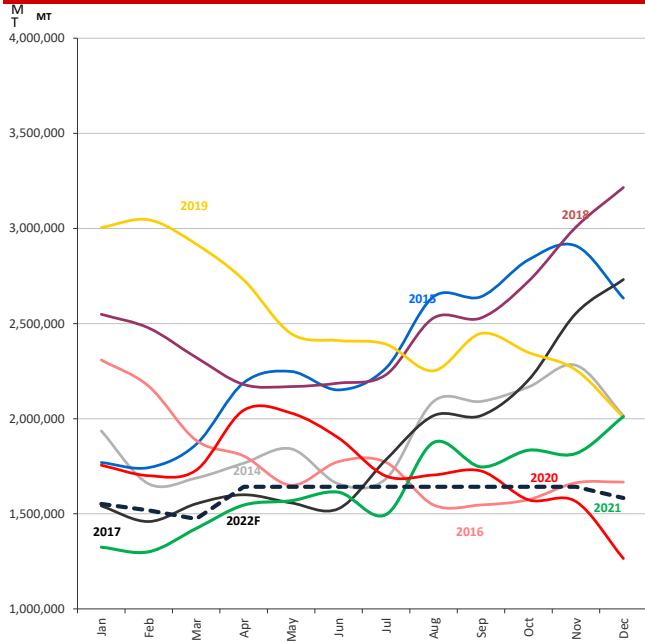
Source: Bloomberg Finance L.P., DBSVI

Indonesia's domestic CPO price resumed correction and hit bottom at Rp8,000/kg at end of June



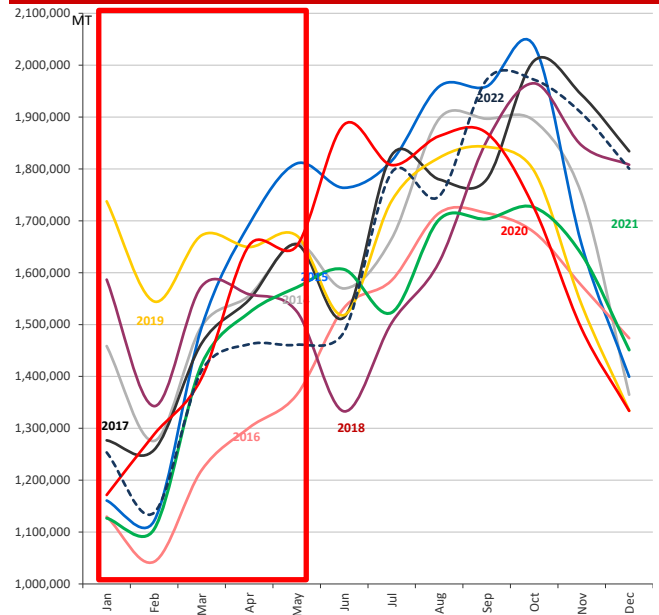
Source: EBTKE, MPOC, Bloomberg Finance L.P., DBSVI

Stockpile reverted to our bottom range of Malaysia's stockpile forecast - 1.5m-1.7m MT in June 2022



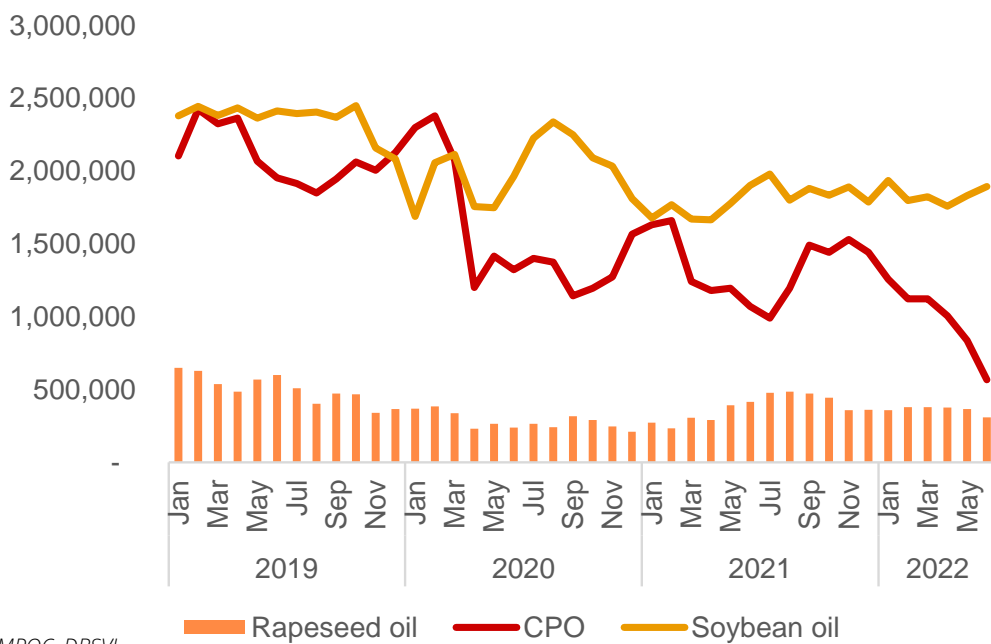
Source: MPOB, DBSVI

CPO production expanded 6% m-o-m in June 2022 (-4% y-o-y)



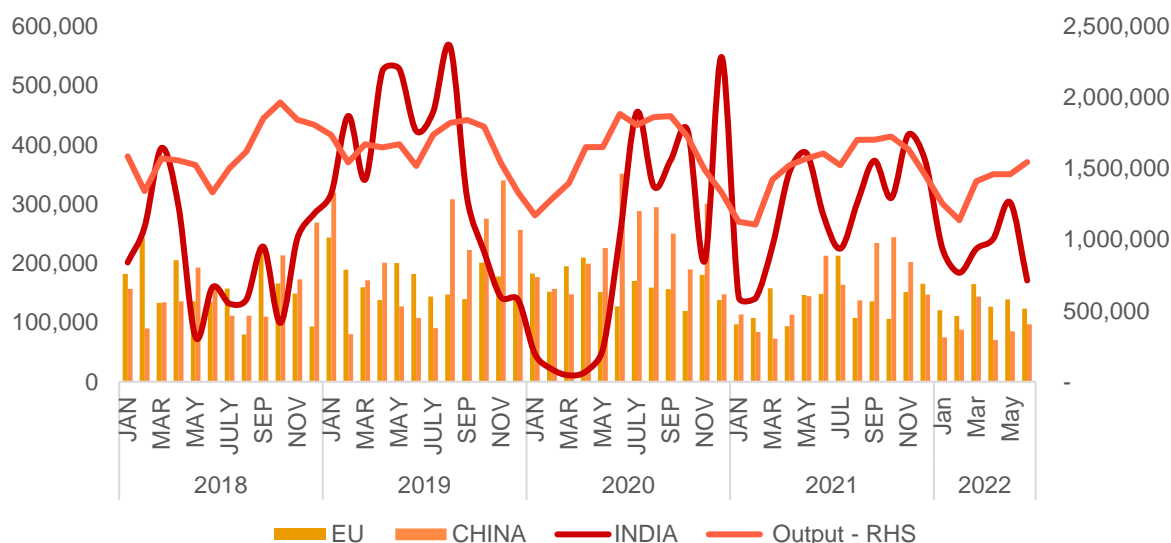
Source: MPOB, DBSVI

Low inventory level across vegetable oil buyers to support demand in 2H22 (MT)



Source: MPOC, DBSVI

Export affected by Indonesia CPO volumes; meanwhile production expansion drove higher inventory in June 2022 (MT)



Source: MPOB, DBSVI

Malaysian palm oil exports (by destination, 2021)

COUNTRY	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP	OCT	NOV	DEC	%Chg. m-o-m	Chg. m-o-m (MT)	%Chg. y-o-y	Chg. y-o-y (MT)	Jan-Dec 21	Jan-Dec 20	%Chg. y-o-y
INDIA	143,231	141,173	230,167	354,555	386,000	280,671	225,041	303,297	373,371	310,611	417,502	372,453	-11%	(45,049)	-32%	(175,986)	3,538,072	2,733,004	29%
EU	97,309	108,076	157,862	93,804	146,526	148,115	213,139	107,991	135,856	106,082	151,711	165,299	9%	13,588	20%	27,223	1,631,770	1,943,454	-16%
CHINA	113,644	83,955	72,721	113,130	144,537	212,990	163,879	137,458	234,355	243,984	202,195	147,018	-27%	(55,177)	0%	(618)	1,869,866	2,730,622	-32%
PAKISTAN	41,659	22,607	61,366	62,516	50,175	66,358	51,604	52,401	65,050	61,330	38,572	35,119	-9%	(3,453)	-27%	(12,730)	608,757	1,003,598	-39%
PHILIPPINES	44,964	43,828	48,369	59,489	63,195	31,264	53,396	42,577	69,873	36,720	47,970	38,718	-19%	(9,252)	-31%	(17,493)	580,363	692,906	-16%
TURKEY	47,988	22,866	82,476	88,642	54,617	3,199	80,696	53,929	57,029	81,777	64,241	65,796	2%	1,555	-17%	(13,168)	703,256	613,908	15%
IRAN	55,252	17,187	85,405	74,546	21,285	55,578	27,436	20,415	0	789	1015	45,321	4365%	44,306	33%	11,182	404,229	321,040	26%
U.S.A	44,651	20,928	10,495	21,878	21,461	11,632	32,234	24,012	30,294	12,763	18,791	9,289	-51%	(9,502)	-80%	(36,753)	258,428	540,215	-52%
VIETNAM	31,047	6,175	23,474	8,882	37,259	39,855	38,159	15,981	36,985	17,527	51,345	39,901	-22%	(11,444)	252%	28,572	346,590	437,937	-21%
JAPAN	48,206	28,847	29,012	32,140	32,267	37,815	37,306	32,483	36,098	34,818	39,298	32,822	-16%	(6,476)	46%	10,294	421,112	432,925	-3%

Source: MPOB, DBSVI

Malaysian palm oil exports (by destination, 2022)

COUNTRY	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP	OCT	NOV	DEC	%Chg. m-o-m	Chg. m-o-m (MT)	%Chg. y-o-y	Chg. y-o-y (MT)	Jan-June 22	Jan-June 21	%Chg. y-o-y
INDIA	225,402	184,063	246,470	241,447	302,857	171,081							-44%	(131,776)	-39%	(109,590)	1,371,320	1,535,797	-11%
EU	120,992	111,083	164,759	126,610	138,896	123,605							-11%	12,286	-17%	(24,510)	785,945	751,692	5%
CHINA	75,115	88,033	144,196	70,881	85,123	96,945							14%	14,242	-54%	(116,045)	560,293	740,977	-24%
PAKISTAN	29,582	51,009	81,083	7,851	9,655	57,225							493%	1,804	-14%	(9,133)	236,405	304,681	-22%
PHILIPPINES	57,018	49,700	63,029	55,405	62,884	52,315							-17%	7,479	67%	21,051	340,351	291,109	17%
TURKEY	97,327	62,778	62,484	40,220	96,703	77,044							-20%	56,483	2308%	73,845	436,556	299,788	46%
IRAN	18,058	828	44,701	0	45,842	1,101							-98%	45,842	-98%	(54,477)	110,530	309,253	-64%
U.S.A	2,892	6,128	8,938	11,268	18,448	25,190							37%	7,180	117%	13,558	72,864	131,045	-44%
VIETNAM	59,091	23,690	21,008	13,733	45,832	14,678							-68%	32,099	-63%	(25,177)	178,032	146,692	21%
JAPAN	44,721	44,538	36,025	33,616	41,354	58,216							41%	7,738	54%	20,401	258,470	208,287	24%

Source: MPOB, DBSVI

Peer comparison table

	Est. total land bank (ha.)	FY21 own mat. (ha.)	FY21 own planted (ha.)	Share price 12-July-2022	Market cap (m)	Adjusted plantation EV (m)	Adjusted 21F EV/planted (own)	Adjusted 21F EV/mature (own)	CYPER, x 22F 23F	FY Div. yield, % 22F 23F	EPS growth (inc. BA gains), % 22F 23F	FY Net gearing, % 22F 23F	FYEV/ EBITDA, x 22F 23F	21-23F own FFB vol CAGR %	20-23F EPS CAGR %	12-month Rec target price Basis	
Indonesia																	
Astra Agro L.	242,335	192,025	214,498	Rp	9,475 US\$	1,217 US\$	1,601 US\$	7,464 US\$	8,337	6.8	7.3	4.1 5.6	35.8 -7.2	0 0	4.9 3.5	2.0	12.3 H Rp 12,500 DCF
London Sum.*	99,547	85,630	93,853	Rp	1,170 US\$	533 US\$	454 US\$	4,837 US\$	5,301	6.5	6.4	5.0 6.2	42.4 1.1	NC NC	3.9 2.0	4.4	11.8 B Rp 2,000 DCF
Simple avg					US\$ 1,484		US\$ 6,150	US\$ 6,819	6.7	6.9					4.4 2.7		
Singapore																	
Bumitama A	191,561	126,582	132,728	S\$	0.62 US\$	769 US\$	1,230 US\$	9,269 US\$	9,719	6.0	5.6	5.8 5.8	10.3 8.3	5 0	4.9 3.8	4.2	9.3 B S\$ 1.00 DCF
First Resource	196,742	162,560	178,733	S\$	1.51 US\$	1,702 US\$	1,978 US\$	11,068 US\$	12,169	9.1	8.7	2.3 2.6	20.5 5.5	15 3	5.3 5.2	4.7	12.7 B S\$ 2.50 DCF
Wilmar Intl	269,335	208,054	230,480	S\$	4.13 US\$	18,591 US\$	1,843 US\$	7,997 US\$	8,859	10.3	9.9	4.0 4.2	0.3 4.4	79 72	10.2 10.5	0.9	2.3 B S\$ 6.67 SOTP
Simple avg					US\$ 7,021		US\$ 9,445	US\$ 10,249	8.5	8.0					6.8 6.5		

*Including rubber and other crops

**Excluding effective stake in associates land bank

Source: Bloomberg Finance L.P, Company, MPOB, DBSVI

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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