

Navigating the turning point

- Palm oil price to improve to US\$920 per MT in 2024 (2023 : US\$843 per MT) and trending higher to US\$950 per MT in 2025
- Recovering sunflower oil price (+15% y-o-y) to pave the recovery path for palm oil price and demand in 2024
- Wilmar is our top pick, and its recovering profitability outlook is poised to lead the industry earnings growth of 27% y-o-y in 2024 vs. -45% y-o-y in 2023
- Maintain BUY for [WIL](#), [FR](#), [BAL](#) and [LSIP](#)

Palm oil price to average US\$920 per MT in 2024 and US\$950 per MT in 2025. We project palm oil price to average US\$920 per MT in 2024 vs. US\$843 per MT in 2023 and trending higher to US\$950 per MT in 2025. We have revised down our palm oil price projection slightly for 2024 to account for the stronger dollar, and lower than expected sunflower oil supply which will impact palm oil demand in 1Q24. We believe palm oil price should recover gradually in 2024 with the weak production outlook and higher sunflower oil price.

Wilmar to lead earnings recovery in 2024. Our new palm oil forecast has a minimal impact on FY24F/FY25F earnings since we believe the lower palm oil price will be offset by improving profitability trend, hence overall earnings growth prospects remain intact. We are maintaining our earnings forecast for Wilmar as its food products should propel margin expansion. Meanwhile, upstream palm oil stocks are still expected to churn positive net profit growth next year except Bumitama (BAL) which booked exceptionally strong production volume. Downside risks for palm stocks are limited as even if palm oil price stays at the 2023 low, palm oil companies are trading below decades mean PE. Positive earnings growth is the key share price driver for next year.

Maintain BUY with TP of WIL, BAL, FR and LSIP. We maintain our BUY rating for Wilmar (WIL) on better profitability from its food products division, as well as improving palm oil refining margin. Meanwhile First Resources (FR) and Lonsum (LSIP)'s earnings are set to rebound from the 2023 low. We expect BAL's earnings to stay above Rp2tr supported by its strong profitability trend. However, Astra Agro (AALI)'s earnings are set to decline next year due to cost pressures. Our Plantation universe has been affected by palm oil price volatility and operational challenges due to tighter compliance towards deforestation. Overall, we believe larger listed companies should benefit and outperform given better preparedness, amid a challenging environment that could hurt the smaller players.

JCI : 7,279.00

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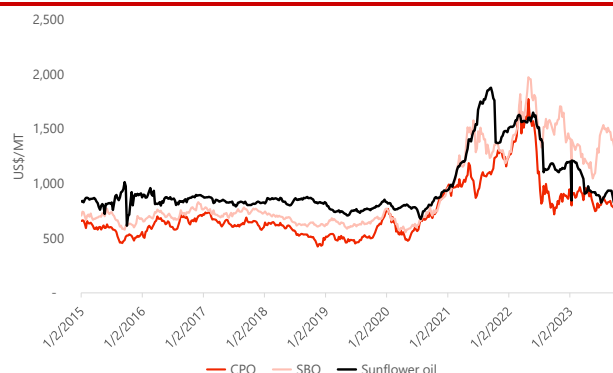
STOCKS

	Price	Mkt Cap US\$m	12-mth Target Rp	Performance (%)		Rating
				3 mth	12 mth	
Indonesia (Rp)						
Astra Agro Lestari	7,125	886	7,500	(3.4)	(11.5)	HOLD
London Sumatra	900	397	1,300	(8.2)	(13.0)	BUY
Singapore (S\$)						
Bumitama Agri	0.60	785	0.90	5.3	1.7	BUY
First Resources	1.44	1,703	2.00	(3.4)	(2.7)	BUY
Wilmar	3.51	16,529	4.30	(2.5)	(15.8)	BUY

Source: DBSVI, Bloomberg Finance L.P.

Closing price as of 3 Jan 2024

Palm oil, soybean oil and sunflower oil price trend



Source: Bloomberg Finance L.P., DBSVI

Palm oil price to average US\$920 per MT in 2024, before trending higher to US\$950 per MT in 2025

Palm oil price reached US\$850 per MT in 2023, largely in line with our US\$900 per MT CPO price forecast while Indonesia domestic CPO price averaged around US\$750 per MT (Rp11,500/kg), also close to our FY23F projection.

Going forward, we forecast palm oil price benchmark to head higher in 2024 at US\$920 per MT before trending up to US\$950 per MT. Palm oil price to improve y-o-y on demand recovery and weaker production from Indonesia due to late impact from El Nino in 2024. We also expect to see improving demand after the weak import trend among countries like India and China due to the slow economic recovery post pandemic reopening, as well as availability of cheap alternative edible oils.

Palm oil price forecast summary

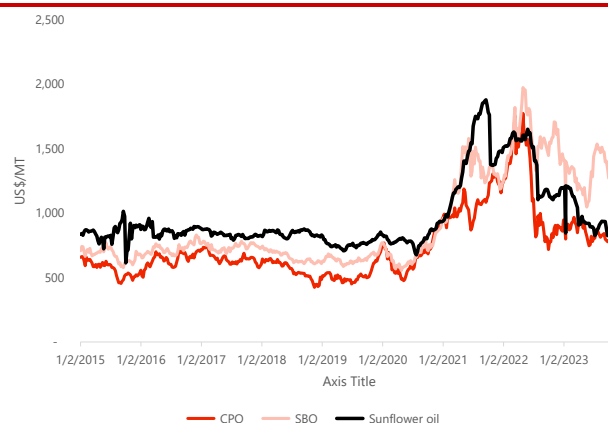
	CPO price (US\$/MT) FOB	CPO price (US\$/MT) FOB	Ending Stocks (k MT)	Global demand (k MT)	Global supply (k MT)	Stock/usage ratio (%)	Soybean oil price (US\$/MT) FOB
2016	696	640	9,890	62,341	58,875	15.9%	696
2017	753	645	12,890	65,250	68,250	19.8%	753
2018	706	575	14,850	70,090	72,050	21.2%	706
2019	630	500	12,680	78,670	76,500	16.1%	630
2020	651	600	14,500	72,340	74,160	20.0%	691
2021	1,085	796	11,767	75,230	72,497	15.6%	1,257
2022	1,167	899	11,344	72,856	72,434	15.6%	1,592
2023F	844	746	11,120	73,524	73,300	15.1%	1,044
2024F	920	750	11,089	75,082	75,051	14.8%	1,120
2025F	950	750	12,406	77,504	78,821	16.0%	1,150
2026F	850	701	13,524	80,381	81,498	16.8%	1,050
2027F	850	701	13,108	83,883	83,467	15.6%	1,050
2028F	850	701	13,581	84,477	84,949	16.1%	1,050
2029F	850	701	13,642	86,326	86,387	15.8%	1,050
2030F	850	701	14,343	86,680	87,381	16.5%	1,050

Source: Company, DBSVI estimate

Palm oil price affected by falling sunflower oil price in 2H23

Palm oil demand has been subdued, affected by the weaker than expected sunflower oil price due to excess supply from the Black Sea. As the war started to subside in the Black Sea, the port started to open and logistics activity around the Black Sea started to gradually normalize. Hence, the previously trapped sunflower seeds could be crushed and sold overseas.

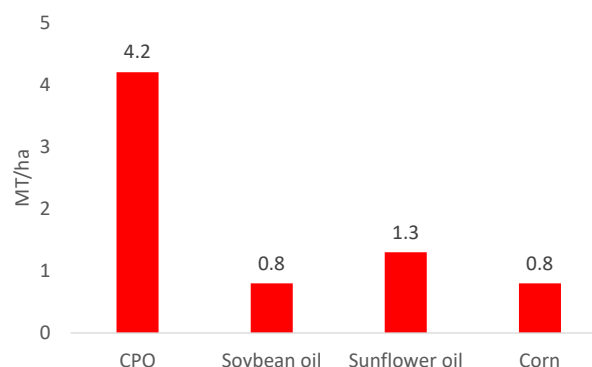
Sunflower oil price is now trading at palm oil price level



Source: Company, DBSVI estimate

However, we believe the pressure on sunflower oil prices will gradually ease. Average global sunflower oil yield was around 1 ton/ha on average, despite reaching 3ton/ha in some regions. This was lower than palm oil's 5ton/ha and was like other crops such as rapeseed oil and soybean oil.

CPO yield per hectare vs. its substitutes



Source: Company, DBSVI estimate

Sunflower oil price is now trading at a nil spread to CPO, however, given its lower yield profile, we think sunflower farmers and crushers are barely profitable. As the price tumbles, we believe crushers will scale back crushing volumes, and thereby reduce farmers' appetites to plant sunflower seeds for the next harvest season. This should help sunflower oil price to recover.

The cheap sunflower oil price has been attracting buyers and temporarily replaced palm oil imports. This trend may stay in 1Q24 and this has prompted us to revisit our forecast due to

weaker than expected demand recovery. Malaysia palm oil exports have been weak since 2023 as reflected by export trend data, and palm oil price has been resilient despite the decent Brent crude oil price level and mild production expansion in 2023.

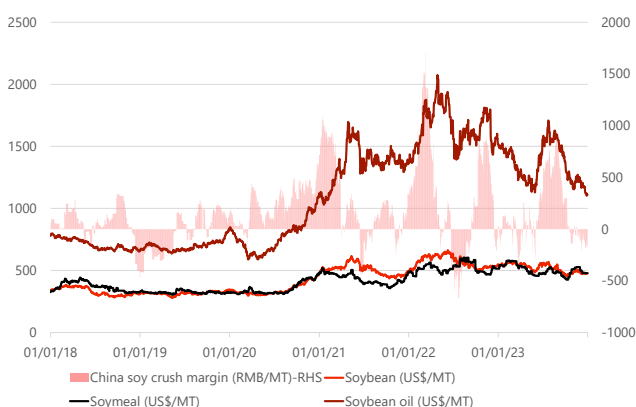
Malaysia palm oil export to production ratio (%)



Source: MPOB, DBSVI estimate

Improving sunflower oil price should pave the way for palm oil price to improve and help soybean oil to sustain its pricing premium to CPO. Soybean oil price is now at a US\$300 per MT premium to palm oil. It has also been affected by excess sunflower oil supply as prices had tumbled from around US\$1,500 per MT to US\$1,300 per MT in October-November 23.

Weak soy crushing margin will prevent oversupply in soybean oil market in 2024



Source: Company, DBSVI estimate

For soybean oil, we believe the limited crushing activities will keep soybean oil supply in check and prevent prices from trending lower in 2024. China crushing margin has been thin

due to limited soybean availability domestically as well as soft soymeal prices. As such, we maintain our FY24F and FY25F soybean price forecast of US\$500 per MT and US\$550 per MT respectively, followed by soybean oil price forecast of US\$1,120 per MT and US\$1,150 per MT respectively.

Soybean supply and demand summary

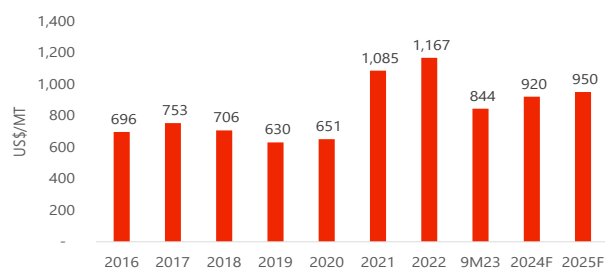
	Price of soybeans (US\$/MT) (FOB)	Ending Stocks (k MT)	Global demand (k MT)	Global supply (k MT)	Stock/usage ratio (%)	Crude oil price (US\$/bbl)
2016	360	80,480	315,180	311,680	25.5%	42.5
2017	352	88,280	343,600	343,200	25.7%	51.6
2018	330	70,680	343,400	361,000	20.6%	56.7
2019	319	111,830	344,370	362,200	32.5%	60.4
2020	348	97,130	355,200	340,100	27.3%	65.0
2021	505	99,580	363,170	366,100	27.4%	65.0
2022	565	87,560	367,930	355,910	23.8%	96.5
2023F	500	86,442	367,930	366,792	23.5%	85.0
2024F	510	92,582	371,609	377,750	24.9%	85.0
2025F	550	101,332	375,325	384,075	27.0%	70.0
2026F	550	103,044	380,955	382,667	27.0%	70.0
2027F	550	103,607	384,765	385,328	26.9%	70.0
2028F	550	104,439	388,612	389,444	26.9%	70.0
2029F	550	103,994	392,499	392,054	26.5%	70.0
2030F	550	98,513	400,349	394,867	24.6%	70.0

Source: Bloomberg Finance L.P., DBSVI

Palm oil price was resilient in 2023 despite external pressures

We continue to believe that palm oil supplies will not outpace demand growth due to limited investments in the sector in the past decade. Palm oil price has been fluctuating in the past few years due to external factors such as the Indonesia export ban, followed by export ban relaxation which caused an unfavorable price trend. In 2023, palm oil price has been facing external pressure from sunflower oil. However, palm oil price has held relatively well above US\$700 per MT, which is higher than 2016-2020 average price level.

Malaysia palm oil price benchmark trend and forecast

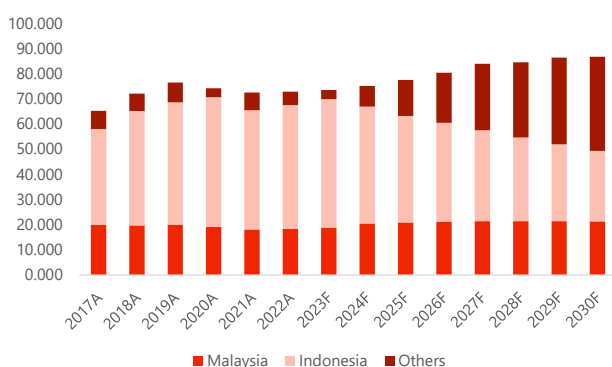


Source: Bloomberg Finance L.P., DBSVI estimate

The downside risk to palm oil price is limited given that it has been trading sideways since 3Q23. We see that palm oil price is demonstrating resiliency despite pressure from sunflower oil, and has not trended further down, thus maintaining the discount to the closest alternative fuels. We note that palm oil price tends to be fall when the prices of alternative fuels tumble.

Another factor that helps palm oil price to remain steady is the limited new supply. We think this trend will continue as the industry is getting more challenging for newcomers, while existing players are also operating in very guarded manner to avoid deforestation and other risks that may impact their existing operations.

Risk of CPO output declining in Indonesia due to ageing trees



Source: Bloomberg Finance L.P., Companies, Oil World, DBSVI estimate

We maintain our long-term palm oil price at US\$850 per MT for 2025 and onwards. Given the tax structure that supports Indonesia's domestic biodiesel program, we forecast Indonesia palm oil price to trend at US\$701 per MT in 2025 and onwards.

Palm oil refining margin to improve alongside CPO prices

Palm oil refining margin among planters is dependent on CPO prices being high. The high CPO price, plus higher export tax and levies can provide trading opportunities among refiners as the price differential between domestic CPO and international prices, including the refined product such as Refined Bleach Deodorant, will widen.

Palm oil refining margin has retreated from the high in 2022 alongside falling CPO price in 2023



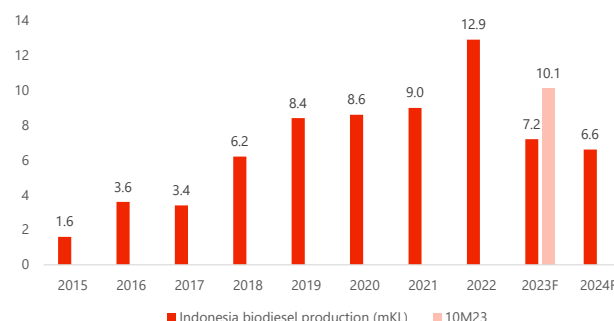
Source: Bloomberg Finance L.P., DBSVI estimate

Indonesia aims to collect US\$2bn of CPO funds to support its B35 program

Indonesia aims to collect US\$2bn in CPO funds to finance the national biodiesel program. The CPO fund collection is like 2023's level assuming CPO price stays flat y-o-y. At the current Brent crude oil price level, CPO fund collection is crucial to allow the Biodiesel program to resume since palm oil is now trading at a slight premium to Sing Gasoil price.

Indonesia set to commence B35 biodiesel program in 2024 according to Reuters, which is set to absorb 9-11m MT of CPO and provide some demand buffer if palm oil exports remain weak in 1Q24 due to the thin differential price with sunflower oil. Our current palm oil demand projection for Indonesia biodiesel program is 6.5m MT in 2024.

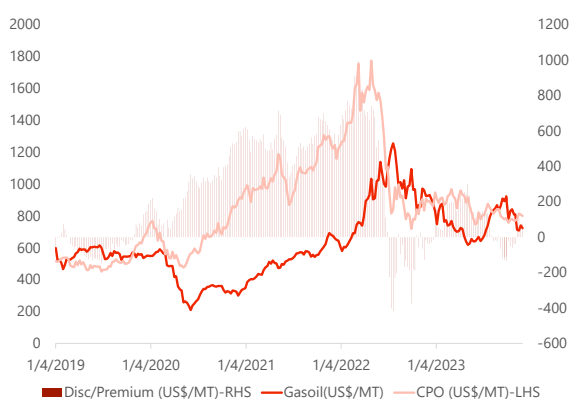
Indonesia biodiesel blending helps to add 2m MT of biodiesel demand as a cushion in 2024 if B35 is successful



Source: APROBI, DBSVI estimate

Our forecast of lower [Brent crude oil price in 2024](#) also means more incentives or CPO funds are required to bridge the price differential between CPO and gas oil. However, the wider price differential may impact palm oil biodiesel blending overseas which has also prompted us to scale back demand recovery expectations for next year. The Gasoil price premium of US\$20 per bbl is sustained, and we estimate that the premium will continue due to limited gasoil refining capacity expansion and recovering demand in Asia.

CPO price is now trading at US\$70 per MT premium to Sing Gasoil price



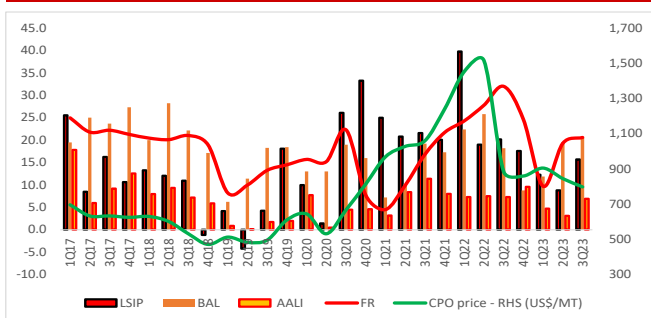
Source: Bloomberg Finance L.P., DBSVI estimate

2024 earnings outlook – Wilmar lead earnings recovery in 2024

Wrapping up 2023 performance

Palm oil companies performed relatively well in 9M23, as they selling price benefitted from low export levies and taxes, thus there was less pressure on domestic CPO price. The cost pressure came mainly from fertilizers, where prices gradually eased and helped companies to churn higher margins q-o-q in 3Q23.

Profitability of upstream palm oil companies improved in 3Q23 after dipping in 1H23



Source: Companies, DBSVI estimate

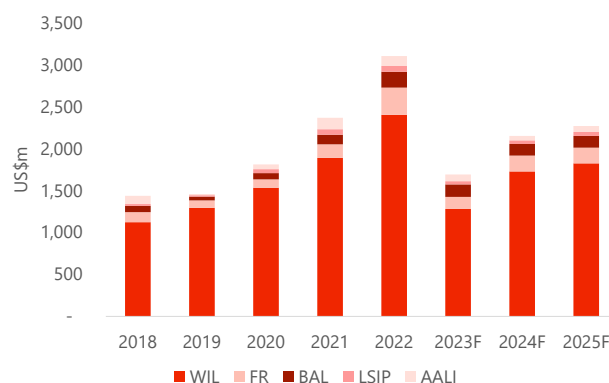
Meanwhile Wilmar’s earnings rebounded q-o-q mainly on an improvement in food products profitability led by higher sales volume and easing cost pressures, despite continued weak palm oil refining margins in 3Q23.

We anticipate that 3Q23 profitability can be sustained in 4Q23 as CPO price has been relatively stable q-o-q combined with a new batch of cheaper fertilizers post the 2022 commodities price boom.

Earnings to trend higher in 2024

We forecast sector earnings to grow by 27% y-o-y in 2024 led by higher earnings from Wilmar. We are projecting Wilmar’s earnings to grow by 34% in 2024 to US\$1.7bn, benefitting from easing cost pressures as inventory of more expensive stockpiles for grains and oils are currently low. Upstream plantation earnings projected to grow by only 3% amid modest selling price expansion and volume growth. Wilmar’s earnings account for 80% of plantation universe’s earnings.

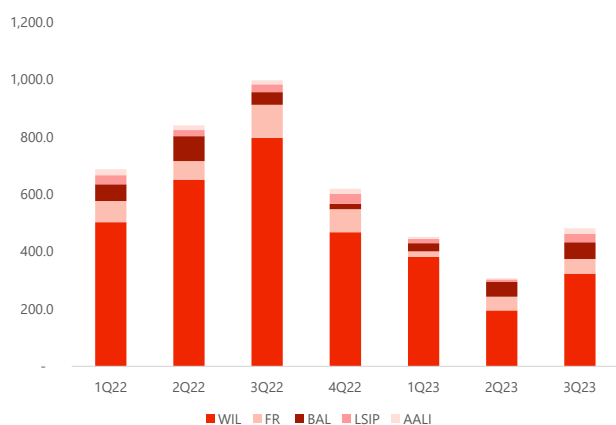
Plantation universe earnings outlook



Source: Companies, DBSVI estimate

We forecast plantation universe earnings to grow primarily from a low base in 1H23 where palm oil price dipped in 2Q23. Production volume is expected to remain soft in 2024, with flat to single digit growth y-o-y due to the impact of El Nino except for LSIP, where we expect the production trend to rebound earlier than peers as it has experienced earlier than expected yields distress since 2Q23.

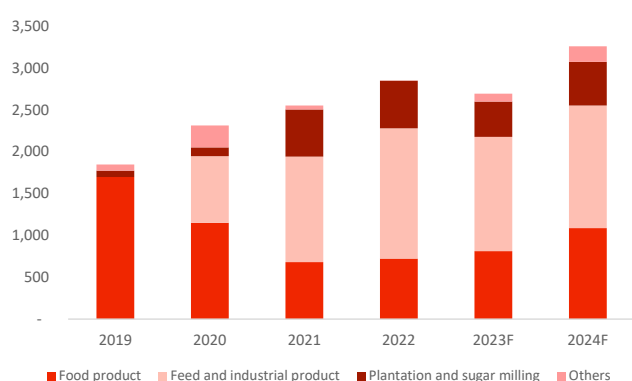
Quarterly earnings trend (US\$m)



Source: Company, DBS Bank

Higher sales volume of food products would propel a further recovery in profitability in 2024. Meanwhile, we assume palm oil refining margin will recover by 2025. We believe feed and industrial products will rebound on improving soymeal demand and refined palm oil products, even though palm oil refining margin should stay below 2022's record-high level.

Wilmar's PBT trend and breakdown (US\$m)



Source: Company, DBS Bank

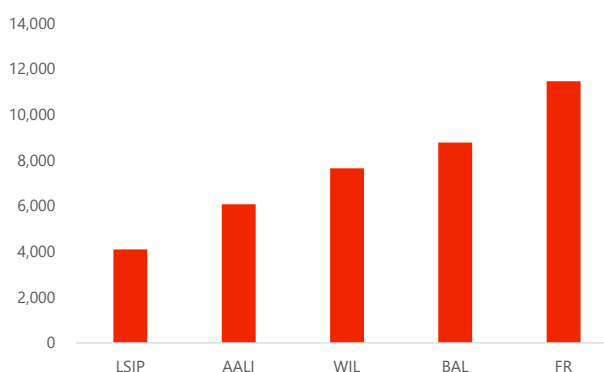
We have revised down LSIPs FY24F earnings and 16% mainly on lower CPO selling price assumption, while we are keeping our earnings forecast for FR, AALI and WIL. We have revise up 38%/11% FY23F earnings to Rp2.2tr/Rp2.2tr for BAL as 9M23 earnings had already surpassed our previous earnings forecast.

Stock picks: Prefer Wilmar for China consumption recovery prospects.

CPO stocks are trading close to their replacement value in terms of EV/ha despite their sublime profitability profile outlook. Palm oil demand amid the global push to avoid deforestation linked products may rattle investors, but we think the policy would not severely hurt palm oil demand since palm oil is the largest supply of edible oil in the world.

New planting and replanting cost per hectare are estimated to be US\$8,000/ha and US\$5,000/ha respectively, including land bank, while the asking price for potential palm oil assets is around US\$10,000/ha. Since palm oil stocks are now trading below those levels, we think the listed palm oil companies with healthy profitability could lead to privatization by their sponsors, or M&A, since strategic buyers are acquiring listed companies with proven earnings and operations track record, which is lower risk than investing in greenfield palm projects.

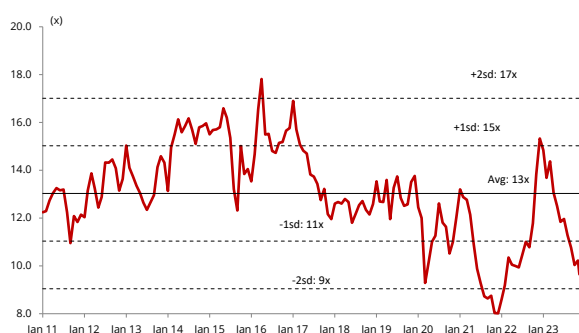
Palm oil is trading at EV/ha that is close to new planting level of US\$7,000/ha



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

On PE multiples, palm oil stocks are trading below their five-year mean PE, even close to a bottom in Jan 22 before palm oil price recovered alongside other commodities. The valuation was impacted by weak investor appetite towards the sector due to commodity price volatility and tighter regulatory pressure that had impacted operations. However, there is no major oversupply risk as seen in 2017-2019 since there is no new supply in the pipeline, thus benefitting plantation companies that are operating today.

PE band (X)



Source: Bloomberg Finance L.P., DBSVI estimate

Bank on Wilmar while waiting for inflection point in CPO price

We continue to prefer Wilmar as it set to benefit from an improving economy in China, which should drive consumption towards high value food products. Meanwhile, we expect palm oil refining margin will inch up only slightly next year unless CPO prices rally to above US\$1,000 per MT.

- **Wilmar (BUY, TP S\$4.30) on a recovery in the consumer product segment.** Wilmar is trading at FY24F PE of 8x which we believe assumes that Wilmar will deliver weak earnings as in 2023. However, we believe that investors are undervaluing Wilmar's vast product line which is set to benefit from improving consumption in 2024. While we expect CPO prices to recover in 2024, we believe Wilmar's integrated platform is set to benefit from lower input cost and improving consumption in China and other Asia regions. We forecast earnings to grow by 34.9% y-o-y to US\$1.7bn in 2024.
- **We like BAL (BUY, TP S\$0.9) for exposure to upstream small caps given its strong productivity.** BAL has proved itself with a strong performance in 9M23 despite palm oil price and cost volatility. BAL's good estate management has helped to churn strong yields which allows the company to reap strong profitability despite lower CPO prices y-o-y. We forecast BAL's earnings to remain around Rp2tr in 2024-2025, not too far off from its record in 2022 at Rp2.4tr.

- **We also like FR (BUY, TP S\$2.0) as it should sustain double-digit ROE.** 2023 has proven to be challenging year for FR but it has successfully weathered the palm oil price dynamics by [shifting its sales volume more to CPO vs. refined products to keep its profitability in check](#). We forecast earnings are set to rise 31% y-o-y to US\$188m in 2024 mainly on improving sales volume and mild palm oil refining margin improvement.
- **For Indonesia-listed palm oil companies, we like London Sumatra (LSIP, BUY, TP Rp1,300) since it is trading below its replacement cost.** LSIP is a proxy to improving CPO price due to its fixed cost structure and stable production volumes. Every 1% change in CPO price will raise earnings by 4%.

Key risks

Sunflower oil price. If we have misread the impact on sunflower oil supply and demand dynamics and sunflower oil price remains low in March 2024, palm oil price will remain under pressure since export volumes are unlikely to recover.

Limited impact from recent El Nino. If El Nino does not hinder CPO production expansion in 2024, and with the current state of demand, we think it is hard for palm oil prices to recover next year from the current low level.

Regulatory pressure. Any regulatory pressure from CPO producer countries like Indonesia or importers such as European Union (EU) may impact palm oil price, as well as other edible oil dynamics in 2024.

Peers comparison table

	Est. total land bank (ha.)	FY22 own mat. (ha.)	FY22 own planted (ha.)	Share price 04-Jan-2023	Market cap (m)	Adjusted plantation EV (m)	Adjusted 22F EV/planted (own)	Adjusted 22F EV/mature (own)	CY PER, x 23F 24F	FY Div. yield, % 23F 24F	EPS growth (inc. BA gains), % 23F 24F	FY Net gearing, % 23F 24F	FY EV/ EBITDA, x 23F 24F	21-23F own FFB vol CAGR %	21-24F EPS CAGR %	12-month Rec target price Basis
Indonesia																
Astra Agro L.	242,335	193,319	214,815	Rp	8,125 US\$	1,001 US\$ 1,278 US\$	5,949 US\$	6,610 US\$	13.5 20.9	5.2 3.5 -33.1 -35.4	11 0	4.3 4.6	-5.7	(27.6)	H Rp	7,500 DCF
London Sum.*	99,547	84,704	91,255	Rp	1,020 US\$	446 US\$ 322 US\$	3,532 US\$	3,806 US\$	11.8 10.4	6.8 3.9 -43.1 13.2	NC NC	1.3 1.1	4.2	(12.4)	B Rp	1,300 DCF
Simple avg					US\$ 1,224	US\$ 4,741	US\$ 5,208	12.7 15.7				2.8 2.8				
Singapore																
Bumitama A	187,628	125,462	132,099	S\$	0.59 US\$	757 US\$ 1,276 US\$	9,663 US\$	10,174 US\$	4.9 4.7	5.5 5.5 -21.6 2.5	17 0	3.2 2.8	5.2	9.7	B S\$	0.90 DCF
First Resource	211,409	160,095	175,563	S\$	1.40 US\$	1,638 US\$ 1,989 US\$	11,329 US\$	12,424 US\$	11.4 8.7	3.4 2.1 -55.6 30.3	0 3	3.2 5.9	5.7	5.3	B S\$	2.00 DCF
Wilmar Int'l	269,335	218,409	238,970	S\$	4.09 US\$	19,047 US\$ 1,891 US\$	7,911 US\$	8,656 US\$	15.1 11.2	3.0 4.1 -46.7 34.9	100 112	9.2 11.7	0.6	(2.9)	B S\$	4.30 SOTP
Simple avg					US\$ 7,147	US\$ 9,634	US\$ 10,418	10.5 8.2				5.2 6.8				

* Including rubber and other crops

** Excluding effective stake in associates land bank

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

DBS Group Research recommendations are based on an Absolute Total Return* Rating system, defined as follows:
 STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
 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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