

SECTOR UPDATE

Plantation – Malaysia

Sep 24: Inventory Rebuilding Slow As Production Declines

MPOB's Sep 24 data showed slow inventory rebuilding due to a decline in production, though exports improved. CPO prices are expected to remain steady at RM4,000-4,500/tonne, driven by the global tightness in palm oil supply. Notable companies offering sustained dividend yields within the sector include Hap Seng Plantations (HAPL MK/BUY) and Kim Loong Resources (KIML MK/HOLD). Maintain OVERWEIGHT.

MPOB'S SEP 24 STATISTICS

(m tonne)	Sep 24	Mom % chg	Yoy % chg	9M24	Yoy % chg
CPO Production	1.82	(3.8)	(0.4)	14.4	8.7
Palm Oil Stocks	2.01	6.9	(13.0)	2.01	(13.0)
Palm Oil Domestic Use	0.15	(52.1)	(67.9)	2.61	(14.9)
Palm Oil Exports	1.54	1.2	29.0	2.61	(14.9)
<i>Oleochemical</i>	0.26	(5.7)	8.0	2.28	9.0
<i>Biodiesel</i>	0.02	(44.0)	(41.7)	0.22	36.7
Palm Oil Imports	0.01	(45.0)	(88.8)	0.18	(77.0)
CPO Price (RM/tonne)	4023.5	2.9	8.0	4003.4	3.1

Source: MPOB, UOB Kay Hian

WHAT'S NEW

- MPOB's September data showed mixed results.** Inventory rebuilding remains slow compared to 2023, with production declining mom and yoy. However, exports improved and also exceeded market expectations. Key highlights from MPOB's Sep 24 data are as follows:
 - Production:** Production declined to 1.82m tonnes (-3.8% mom, -0.4% yoy), which is below market expectations. Ytd CPO production increased by 8.7% yoy (+1.17m tonnes). Sabah recorded a 5.3% mom production increase, though it was down 5.7% yoy. This improvement was driven by a higher oil extraction rate (OER).
 - Export:** Sep 24 Malaysia palm oil export improved mom and yoy, which exceeded market expectations. Based on the cargo surveyor, exports to the EU and China improved mom in Sep 24, offsetting weaknesses in other regions.
 - Inventory:** Inventory increased by 7% mom but decreased 13% yoy. Although 2H24 is typically a period of higher production for inventory rebuilding, the pace has been slower than in previous years, with an increase of only 0.2m tonnes in Jun-Sep 24 (compared to 0.6m tonnes in Jun-Sep 23, and 0.7m tonnes in Jun-Sep 22).

ACTION

- Maintain OVERWEIGHT.** We expect CPO prices to trade at RM4,000-4,500/tonne in the near term till year-end. From the recent Malaysian Palm Oil Forum 2024, we noted that speakers were also short-term bullish on CPO prices due to the global tightness in palm oil supply. Notable companies offering sustained dividend yields within the sector include Hap Seng Plantations (HAPL MK/BUY) and Kim Loong Resources (KIML MK/HOLD).

PEER COMPARISON

Company	Ticker	Rec	Price @	Target	Market	PE			ROE	P/B	2024F	Div
			10 Oct 24	Price		Cap	2023	2024F				
Malaysia												
Hap Seng Plantations	HAPL MK	BUY	1.77	2.25	329.7	14.3	8.7	13.3	4.7	0.7	11.8	6.7
Genting Plantations	GENP MK	HOLD	5.52	5.15	1153.7	15.9	18.2	18.8	4.8	0.9	17.1	3.1
IOI Corporation	IOI MK	HOLD	3.74	3.6	5405.2	15.8	0.2	17.8	9.6	2.0	14.7	3.9
KL Kepong	KLK MK	HOLD	21.12	19.5	5394.5	24.6	24.9	18.4	5.8	1.6	76.3	3.6
Kim Loong	KIML MK	HOLD	2.37	1.95	538.7	13.9	15.8	12.5	17.4	2.6	15.5	6.5
SD Guthrie	SDG MK	HOLD	4.64	4.75	7475.6	39.0	21.8	21.3	9.6	1.6	12.6	2.7
Sarawak Oil Palms	SOP MK	HOLD	3.19	3	663.0	9.5	7.4	6.4	8.8	0.8	8.6	2.7

Source: Respective companies, Bloomberg, UOB Kay Hian

OVERWEIGHT

(Maintained)

STOCK PICKS

Company	Rec	Share Price (RM)	Target Price (RM)
Hap Seng Plantations	BUY	1.77	2.25

Source: UOB Kay Hian

CPO PRICE ASSUMPTIONS (RM/TONNE)

	CPO Price (RM/tonne)
2020	2,686
2021	4,408
2022	5,088
2023	3,810
Our forecast:	
2024F	4,200
CPO Price:	
MPOB @ 9 Oct 24	4,381.5
BMD 3 rd Month Contract	4,255

Source: MPOB, Bloomberg, UOB Kay Hian

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ESSENTIALS

Oct 24 Outlook:

- **Production to slow down.** Recall that Malaysia's production increased by 14% qoq in 3Q24, supported by improvement from Sabah and Sarawak. We reckon that production in 4Q24 is likely to decline slowly mom as it has peaked.
- **Slower demand from largest importers.** Demand from major importing countries like China and India has slowed down, with India's imports dropping as of Sep 24, as the increase in import duties has led refiners to cancel and postpone purchases. Palm oil prices are at a premium compared to other soft oils due to lower-than-expected production, a decline in exports and decreasing stocks, which has caused palm oil to lose competitiveness in the market. Hence, we expect lower or flat exports mom.
- **Inventory to increase marginally.** We expect inventory rebuilding in 2H24, as this period is seasonally stronger, though the increase may be marginal. This is driven by lower exports and expectations of slower production

SECTOR CATALYSTS

- **Monitoring La Nina's emergence in late-24.** There is a potential emergence of La Nina in late-24, which could bring heavy rainfall, possibly leading to short-term disruptions in palm oil production. Conversely, this phenomenon may result in drier conditions across North and South America (El Nino), potentially affecting soybean production in regions like Brazil and Argentina.
- **Pre-Budget 2025 assumptions: Anticipated revision on windfall profit levy.** The Ministry of Plantation & Commodities has resubmitted a proposal to the Ministry of Finance (MOF) to revise the windfall profit levy given stakeholders' concerns that the current levy structure is not reflective of rising production cost for planters over recent years. To recap, under the current levy structure, a 3% levy is charged when MPOB reference prices exceed RM3,000/tonne in Peninsular Malaysia and RM3,500/tonne in Sabah and Sarawak.
- **CPO prices steady amid global supply tightness.** For 9M24, the average CPO ASP stood at RM4,000/tonne, and we expect prices to remain stable at RM4,000-4,500/tonne. The current global tightness in palm oil supply continues to support prices, keeping them at a premium compared to other soft oils.

ASSUMPTION CHANGES

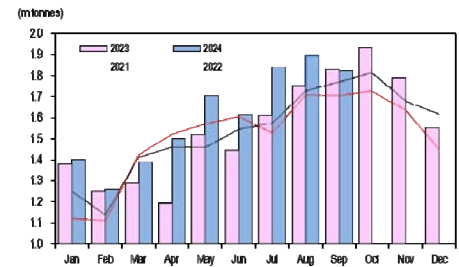
- **Maintain our CPO ASP assumption at RM4,200/tonne.** We maintain our CPO price assumption at RM4,200/tonne in 2024.

SEPT 24 CPO PRODUCTION BY REGION AND STATES

(m tonnes)	Sept 24	mom % chg	yoy % chg	9M24	yoy % chg
Johor	0.30	(5.0)	4.9	2.35	16.8
Pahang	0.33	(4.6)	18.6	2.51	26.7
Perak	0.16	(11.8)	(9.5)	1.45	5.4
Negeri Sembilan	0.07	(12.2)	6.2	0.55	25.2
Selangor	0.05	(2.3)	8.9	0.41	11.4
Terengganu	0.05	(7.4)	(2.4)	0.35	23.7
Kelantan	0.03	(9.2)	(0.7)	0.27	14.1
Kedah	0.02	(20.7)	(6.3)	0.21	35.2
Other States	0.02	(14.4)	(18.4)	0.17	9.7
Pen Malaysia	1.02	(7.2)	5.2	8.26	18.0
Sabah	0.39	5.3	(5.7)	3.09	(4.8)
Sarawak	0.40	(3.1)	(7.8)	3.05	0.8
East Malaysia	0.80	0.9	(6.8)	6.14	(2.1)

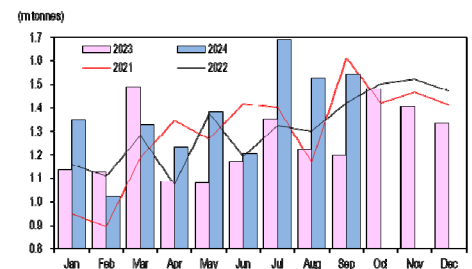
Source: MPOB

MALAYSIA PALM OIL PRODUCTION



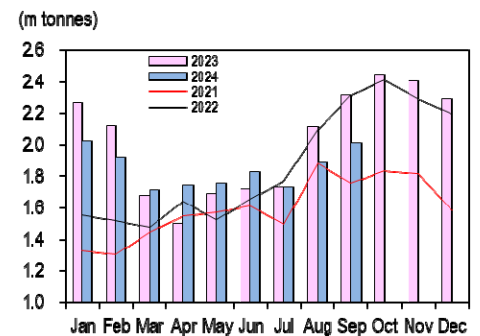
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MALAYSIA PALM OIL EXPORTS



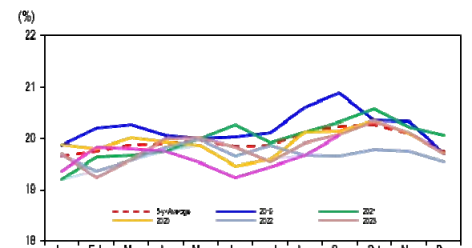
Source: MPOB

MALAYSIA PALM OIL INVENTORY



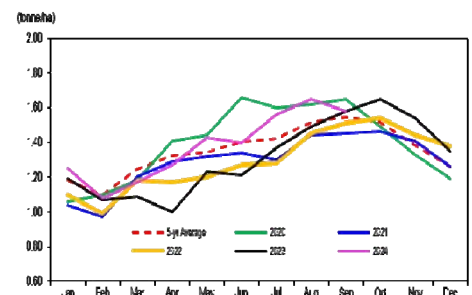
Source: MPOB

MALAYSIA OIL EXTRACTION RATE



Source: MPOB

MALAYSIA FFB YIELD AVERAGE



Source: MPOB

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