Sector Update

Neutral ◄►

Insights and Outlook for Malaysia's Palm Oil Industry

- **Malaysia's March 2024 Palm Oil (PO) end-stocks contracted by -10.7% MoM to 1.71mn tonnes, wedged by 28.6% MoM rise in export and a whopping 32.7% MoM decrease in imports.**
- **We anticipate that CPO prices will remain stable within the range of circa RM400/MT above or below RM3,800/MT in the near term on the back of festive season strong demand, despite facing challenges including stiffer competition from other edible oils.**
- **Maintain a NEUTRAL call on the sector with a base-case 2024 average CPO price forecast of RM3,600/MT, given the risk of challenging earnings on the back of lower palm product prices, and muted demand.**

A Drawdown in Palm Oil (PO) Stocks. Malaysia's March PO end-stocks decreased by 10.7% MoM but increased slightly by 2.4% YoY in March, reaching a low of 1.71mn tonnes. The decrease was primarily driven by an increase in exports, which surged by 28.6% MoM to 1.32mn tonnes, further supported by a 32.7% drop in PO imports to 22k tonnes, compared to 32.7k tonnes recorded in February 2024. The pick up in exports were believe due to Ramadhan and preparation of Aidil Fitri festivities. The lower production and inventory in previous months, couple with strong demand during the month, led to a surge in the average CPO price to RM4,160 per metric ton (+6.7% MoM) in March.

Production Starting to Pick Up. CPO production improved by 10.6% MoM to 1.39mn tonnes, attributed to a positive recovery in the labour force (harvesters) and an improved fresh fruit bunch (FFB) yield by +8.3% MoM and 7.3% YoY. It is expected that production trend will gradually increase going forward, putting pressure on the CPO price, especially after Raya festivities.

Outlook. We believe the current volatility and elevated CPO futures prices observed are driven by the dynamics of the various determining factors involved. This can be evidenced by the benchmark Food and Agriculture Organization of the United Nations (FAO) Food Price Index (FFPI) for world food commodity prices released on April 5, showing an increase of 1.3 points (1.1%) to 118.3 points in March from its revised February level. This increase is attributed to the rise in international quotations for vegetable oils, dairy products, and meat. The rebound came following a seven-month-long declining trend and is led by the FAO Vegetable Oil Price Index, which rose by 8% from February, reaching a one-year high as quotations for palm, soy, sunflower, and rapeseed oils all contributed to this increase. The report added that international palm oil prices increased due to seasonally lower outputs in leading producing countries and firm domestic demand in Southeast Asia. Meanwhile, soybean oil (SBO) price recovered from multi-year lows, boosted by robust demand from the biofuel sector, particularly in Brazil and the United States of America (US).

Table 1: Snapshot of the Malaysian Palm Oil Industry Data

	Mar 2024	Feb 2023	Mar 2023	MoM %	YoY %	YTD 2024	YTD 2023	Chg. %
Avg. CPO Price (RM/MT)	4,216	3,950	4,160	6.7%	1.3%	3,991	3,997	-0.2%
CPO Production (MT)	1.39	1.26	1.29	10.6%	8.1%	4.05	3.92	3.4%
Palm Oil Export (MT)	1.32	1.02	1.49	28.6%	-11.4%	3.69	3.75	-1.6%
Ending Stocks (MT)	1.71	1.92	1.67	-10.7%	2.4%	nm	Nm	nm

CPO price (3-months future) (USD/MT)	:	879.87
Soybean Oil price (3-months future) (USD/MT)	:	1034.19
Discount/(Premium) spread (USD/MT)	:	154.10
5-years mean (USD/MT)	:	237.05

Source: BIMB Securities/ MPOB/Bloomberg

Key Risks to CPO Price:

1) Slower-than-expected economic growth and consumption of edible oils
2) Lower-than-projected demand due to changes in government policies of importing and/or exporting countries
3) Higher-than-expected supply and stockpiles of PO, Soybean and SBO, rapeseed oil and sunflower oil
4) Narrowing price differential between CPO and SBO
5) Weakening of crude oil prices
6) Unprecedented events i.e., prolonged COVID-19 pandemic with a new variant and therefore, another round of movement restriction worldwide, new Zero COVID-19 policy in China and prolonged Russia-Ukraine war conflict

Saffa Amanina
saffa@bimbsec.com.my
+(603) 2613 1736

Sector Update

Plantation

Equity

In addition, we believe the potential change in Indonesia's domestic market obligations (DMO) policy, which could limit its exports and thus, increase the demand for Malaysian palm oil, has also contributed in propping up current CPO prices. Though elevated CPO prices currently appear to be holding, we are of the view that over the longer term, this is not sustainable. Looking ahead, we believe the forthcoming seasonal palm output recovery, greater competition from an increase in production of competing edible oils, and subdued global demand, all of which may cause CPO prices to go into reverse gear.

We envisage that the end of the dry season will witness palm oil production in the country to increase from 2Q24 onwards. Proper maintenance and manuring of oil palm estates, boosted by adequate manpower, would enable greater FFB and yields to be generated. We believe CPO production will improve in 2024, reaching around 18.86mn tonnes (+1.7% YoY). In view of this, we are maintaining our forecast for ending stocks to be close to approximately 2.16mn tonnes and export demand is projected to remain supported at 16.27mn tonnes (Table2).

As for increased competition from other edible oils, the United States Department of Agriculture (USDA), in its recent April Crop Production and World Agricultural Supply and Demand Estimates (WASDE) report of April 11, 2024, left both the Brazilian and Argentine soybean production unchanged at 155mn MT and 50mn MT respectively. It is noteworthy that the estimated soybean production in Argentina for the current 2023/24 growing season is double that of the drought-afflicted 2022/23 growing season, and this could provide ample supply of soybean in the global market, exerting pressure not only on soybean prices but also on palm oil prices as well, due to the narrowing of the discount price between the two (as time writing: USD154.10/MT; 5-years average discount: USD237.05/MT). In addition, USDA reported 1.845 bn bushels of soybean stocks as of March. This was 13mn bushels above estimates and thus offered sizable inventory which could cap near-term prices of SBO and CPO.

Global demand continues to show signs of weakness with China, the world's second-largest economy, struggling to sustain its post-pandemic recovery. Chinese exports plunged more than expected last month with the General Administration of Customs reporting that shipments sank 7.5% YoY, while imports shrank 1.9%. The country is also battling deep-seated domestic issues ranging from a debt-battered property sector to high youth unemployment and low consumption which could prolong muted demand from China. On the other hand, in the case of the world's biggest importer of vegetable oils, India, palm oil demand is impacted by current high prices. India's palm oil imports fell about 2.5% in March from the previous month to stand at 485,354 MT, the lowest level in 10 months. According to the Solvent Extractors' Association of India (SEA), higher prices prompted refiners to substitute palm oil with sunflower oil. For comparison purposes, it was mentioned that CPO imports are offered at about $1,040 a metric ton, including cost, insurance and freight (CIF), in India for May delivery, while soybean oil and sunflower oil are offered around $1,015 and $975 a ton, respectively. Apart from the aforementioned economic hindrances, heightened geopolitical tensions across the globe is now becoming a major inhibiting factor in global demand growth including that of palm oil products.

New Development of Major Concern. Of particular concern at the moment is the potential of a wider war in the Middle East with Iran launching direct drone and missile attacks on Israel in retaliation to the April 1, attack purportedly by Israel on its embassy in Damascus, Syria. A wider war in the Middle East could easily spread uncontrollably involving superpower countries with grave consequences for the world population and global economies. As the region is the world's major producer of crude oil, any disruption to the global supply of crude oil has the potential to wreak havoc on global trade and finance. The graveness of the situation has compelled the country's Prime Minister to issue a statement informing that the government is closely monitoring developments in the Middle East conflict and the financial market situation, including any potential impact on Malaysia. We believe the ripple effect from a major conflict would most probably cause global commodity prices and other costs to rise which would include CPO prices.

On a country-to-country basis, bilateral trade between Malaysia and Iran reached RM2.08bn in 2023 and was Malaysia's 7th largest trading partner among West Asia countries. Malaysia exported RM1.87bn to Iran which among the main exported products include Palm Oil (>50%), other vegetable oils, and rubber. If Iran were to be engulfed in a war, it is only logical to expect that Malaysia's trade with the country would be disrupted.

Maintain CPO price range near RM3,800/MT, to trade within a range of RM400/MT above or below for the rest of the year. In the midst of global and domestic industry-wide challenges, including escalating operational costs and consistently low yields, plantation companies are finding reassurance in the optimistic sentiment surrounding the current CPO price outlook, which is anticipated to offer sustained support for CPO prices. Barring any unexpected events, we expect the CPO price to remain within a range of RM400/MT above or below RM3,800/MT for the rest of the year. This expectation is supported by: i) normalizing in palm oil (PO) supply, coupled with the strength in other edible oil prices such as soybean oil (SBO), ii) prolonged geopolitical tensions, including the Black Sea and Red Sea tension, and iii) potential increases in production costs that might surpass initial projections.

Maintain a **NEUTRAL** call on the plantation sector with a **2024 CPO average selling price of RM3,600/MT**, considering the anticipated risk of challenging earnings due to lower-than-expected palm product prices, muted demand, and narrowing/negative discount gap of PO and SBO price, which are expected to pose challenges for plantation companies' prospects. We have a **BUY** call on **IOI (TP: RM4.50)** and **SELL** call on **FGV (TP: RM1.23).**

Table 2: Plantation Key Annual Statistics – Sector Projections

						% Change				
	2020	2021	2022	2023	2024F	2020	2021	2022	2023	2024F
Average CPO Price (RM/MT)	2,685.50	4,407.00	5,087.50	3,809.50	3,600.00	29.2	64.1	15.4	(25.1)	(5.5)
CPO Production (Million Tonnes)	19.14	18.12	18.45	18.55	18.86	(3.6)	(5.3)	1.8	0.5	1.7
Palm Oil Export (Million Tonnes)	17.37	15.56	15.71	15.13	16.27	6.0	(10.4)	1.0	(3.7)	7.5
Ending Stocks (Million Tonnes)	1.26	1.58	2.20	2.29	2.16	(37.1)	25.4	39.2	4.1	(5.7)

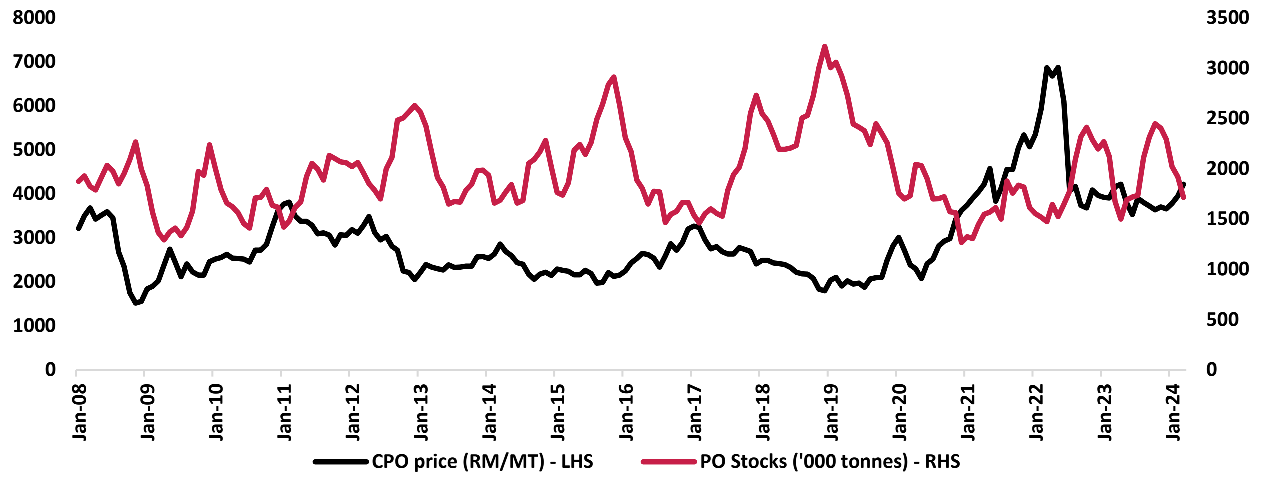
Source: BIMB Securities, MPOB

Table 3: Stock under coverage – peer comparison

Company	Rec.	RM		Mkt cap	EPS (sen)		PER (x)		PB (x)		ROE (%)		EBITDA margin (%)		Dividend yield (%)	
		TP	Price^	(RM m)	CY23	CY24	CY23	CY24	CY23	CY24	CY23	CY24	CY23	CY24	CY23	CY24
SDPL	Hold	4.68	4.44	30,706	26.9	17.7	16.5	25.0	1.8	1.7	10.6	6.8	23.6	20.5	3.4	2.3
IOI	Buy	4.50	4.05	25,125	17.8	17.1	22.8	23.7	2.4	2.1	10.5	8.8	18.4	19.9	2.6	2.5
KLK	Hold	24.05	22.90	25,108	75.8	73.8	30.2	31.0	1.7	1.7	5.7	5.4	10.4	10.7	3.8	2.2
FGV	Sell	1.23	1.41	5,144	2.8	1.8	49.9	78.1	0.8	0.8	1.6	1.0	6.1	6.3	2.1	1.1
THP	Non Rated	NA	0.71	623	5.3	3.6	13.4	19.4	0.9	0.8	6.4	4.3	28.1	25.4	2.8	0.0
GENP	Hold	6.00	6.19	5,553	28.3	26.7	21.9	23.2	1.0	1.0	4.8	4.4	25.5	25.5	3.4	2.4
HAPL	Hold	1.85	1.91	1,527	11.4	10.6	16.7	18.1	0.8	0.8	4.7	4.3	30.8	31.7	3.6	3.4
TSH	Hold	1.01	1.14	1,573	6.9	6.9	16.6	16.6	0.8	0.8	4.8	4.6	28.7	22.7	2.2	0.9
SOP	Hold	2.74	3.08	2,744	33.7	23.4	9.1	13.2	0.8	0.8	8.6	5.7	11.4	11.0	1.3	1.9
SPLB	Hold	2.16	2.23	622	23.1	17.9	9.7	12.4	0.8	0.8	8.6	6.5	22.0	19.9	4.5	4.5
Sector Weighted Average				**9,873**	**35.3**	**31.3**	**23.4**	**28.2**	**1.7**	**1.6**	**8.2**	**6.4**	**18.0**	**17.4**	**3.2**	**2.2**

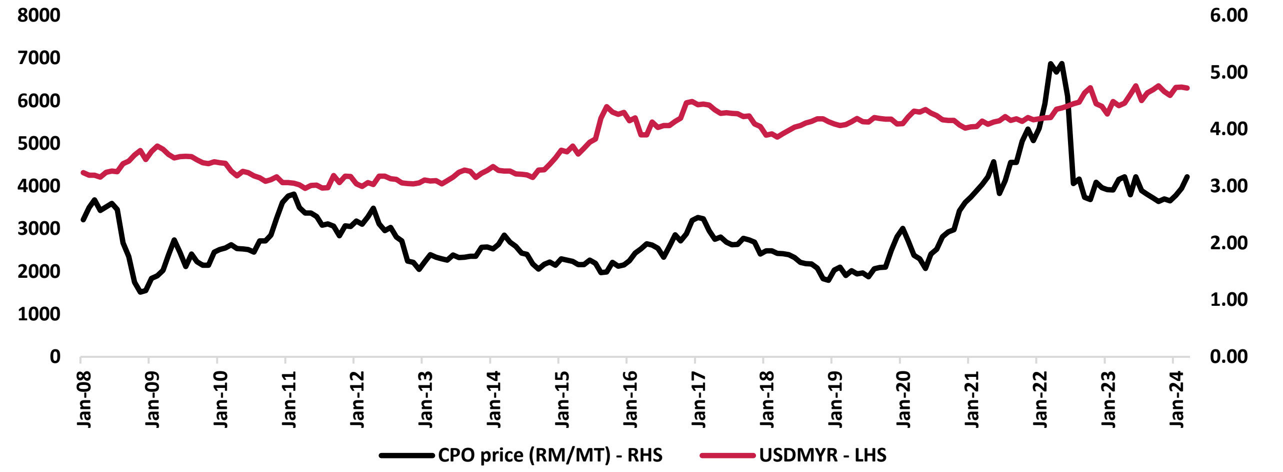
Note: NR – non-rated; ^ Closing price as at 15th April 2024
Source: Bloomberg, Companies, BIMB Securities

Chart 1: CPO price vs. stocks level (January 2008 – March 2024)



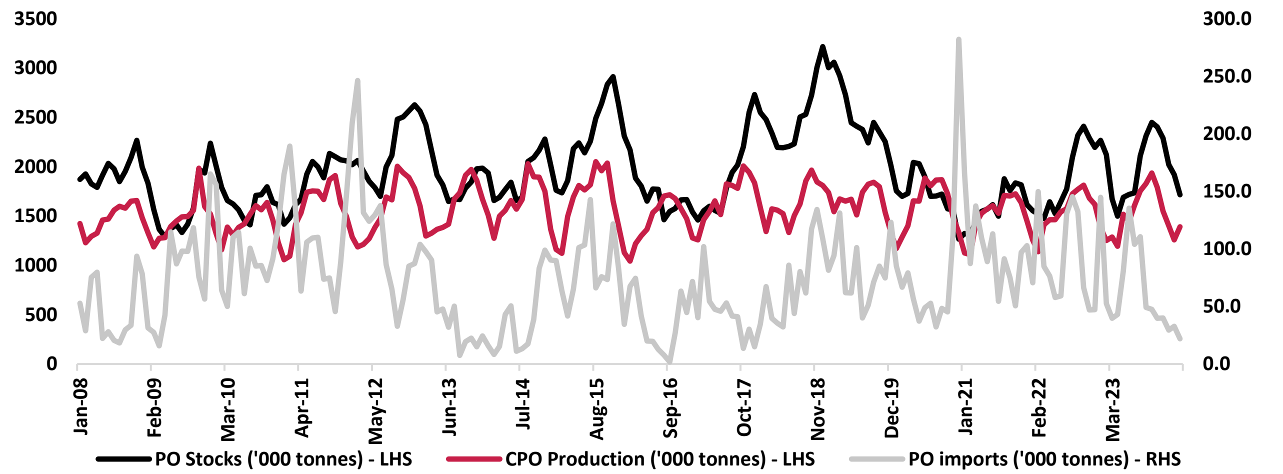
Source: BIMB Securities/ MPOB

Chart 2: CPO price vs. USD (monthly)



Source: BIMB Securities/ MPOB

Chart 3: Stocks, Productions and Imports (January 2008 – March 2024)



Source: BIMB Securities/ MPOB

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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BIMB SECURITIES

BIMB SECURITIES SDN BHD (290163-X)
A Participating Organisation of Bursa Malaysia Securities Berhad
Level 34, Menara Bank Islam,
No. 22 Jalan Perak,
50450 Kuala Lumpur
Tel: 03-2613 1600 Fax: 03-2613 1799
http://www.bimbsec.com.my

Noorhayati Maamor
Head of Research