

Plantation sector

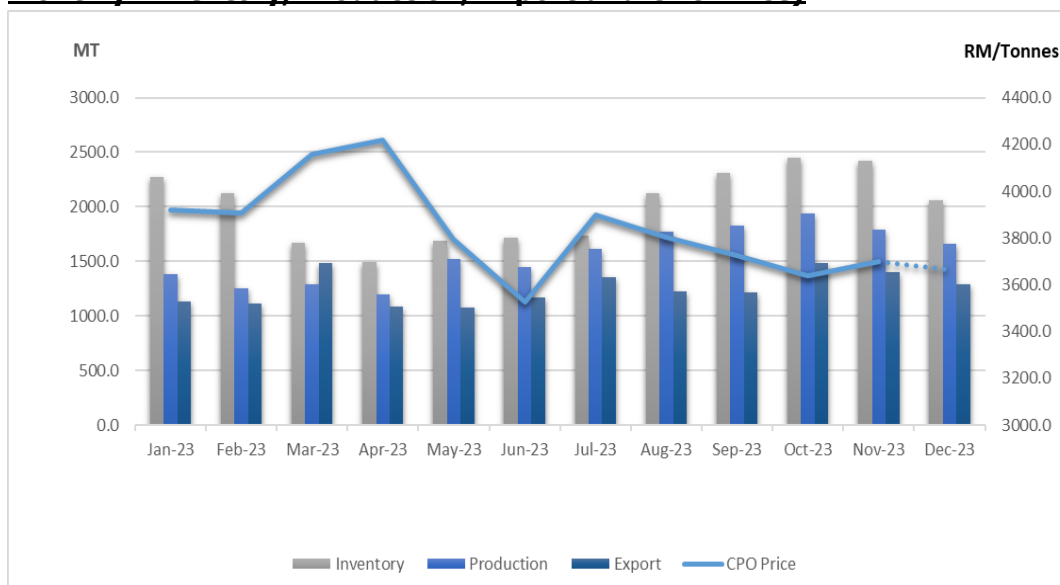
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Rising supply will be a concern

- Review.** Palm oil production experienced a significant surge of +25.2% qoq (3Q23: 5.2bn tonnes, compared to 2Q23: 4.2bn tonnes), slightly surpassing our anticipated growth of +24% qoq. This surge in production can be attributed to the seasonal peak crop period in Malaysia. For the final quarter, we reckon that palm oil production is unlikely to match the previous quarter's surge and is expected to maintain a more modest increase at 3.3% qoq. We foresee production to gradually decline in December 2023 following its peak in October 2023.
- Palm oil exports increased +13.0% qoq from previous quarter to 3.8bn tonnes in 3Q23 driven by the absence of Black Sea sunflower oil supplies. Sunflower oil from the Black Sea region have stalled after Russia refused to extend a safe passage grain corridor. Consequently, palm oil's discount against competing sunflower oil and soy oil has attracted more demand, especially during the Indian festivals in September. Moving forward, we expect exports to continue to experience robust growth of (+9.9% qoq) in 4Q23 mainly buoyed by the strong demand in October 2023.
- Palm oil inventory experienced a notable +25.8% qoq increase in 3Q23, reaching a total of 6.1bn tonnes on the back of higher production outpacing export demand. For 4Q23, we anticipate an increase in palm oil inventory (+12.4% qoq), reaching an estimated of 6.9bn tonnes.

Monthly Inventory, Production, Export and CPO Price)



Source: MPOB, Apex Securities

- Outlook.** The average CPO price extended its decline, dropping from RM3,846/tonne in 2Q23 to RM3,809.7/tonne in 3Q23. Looking ahead to 2023, we expect the average CPO price to conclude on a softer note, mainly due to increased production outpacing demand. As we move into the 1H24, we anticipate weakness in CPO price driven by a narrowed premium spread between soybean oil and palm oil, thus diminishing the competitiveness of palm oil. Nevertheless, we maintain optimism that CPO price may experience a rebound in the 2H24 as palm oil yield is affected by the dry weather.
- Valuation & Recommendation.** We are **Neutral** with the sector for 2023 as we expect recovery of FFB production is neutralised by softening in CPO price coupled with inventory piling up. For stocks under our coverage, we retain **HOLD** calls for **Kuala Lumpur Kepong Bhd (FV: RM 20.00)**, **Hap Seng Plantations Holdings Bhd (FV:**

RM1.80), Kim Loong Resources Bhd (RM1.84) and Sarawak Plantations Bhd (FV:2.04). At last, we keep our **BUY** call on **United Plantation Bhd (FV: RM17.66)** due to its inexpensive valuation and high dividend yield. The Plantation sector is trading at forward PERs of 23.2x/16.9x for 2023F/2024F and is currently above its historical three-year average of 14.6x, implying the sector has been overvalued at the moment.

- **Key Risk.** Changing weather patterns affect FFB production, lower tax rate and import duties of Indonesia threatens local CPO demand, shortage of labours and rising operational cost.
- **Summary.** We reckon the plantation sector will continue to face downward pressure due narrowed premium spread between soybean oil and palm oil coupled with building up of palm oil inventory. That being said, we believe there is potential uptick in CPO price trend in 2H24 due to the implication of El-Nino on production. We continue to favour plantation stocks with solid fundamentals with decent yields and limited downside.

Top Picks

Company	Price (RM)		P/E (x)		Dividend Yield (%)	Target Price (RM)	Potential Upside
	as at 31Dec23	2022	2023F	2024F			
United Plantation Bhd	17.80	10.10	13.94	13.58	6.10	17.66	-0.8%
Kuala Lumpur Kepong Bhd#	21.82	28.19	18.93	19.55	3.96	20.00	-8.3%
Hap Seng Plantations Bhd#	1.72	15.32	12.90	12.47	4.65	1.80	4.7%
Kim Loong Resources Bhd#	2.02	12.19	12.10	12.39	5.69	1.84	-8.9%
Sarawak Plantations Bhd	2.10	9.67	10.20	9.14	3.92	2.04	-2.9%

Kuala Lumpur Kepong Bhd data based on FYE Sep

Kim Loong Resources Bhd data based on FYE Jan

Source: Apex Securities Bhd, Bloomberg