

PLANTATIONS: PRICES STABILISING AROUND THE KEY SUPPORT ZONE



26 OCTOBER 2022

Coming off by circa 25% from its April peak, the Bursa Malaysia Plantation Index (KLPLN) is trading almost flat year-to-date (YTD). On this note, we outline some of the areas that could help investors form their short-term investment thesis for the sector.

Crude palm oil's (CPO) sharp pullback triggered a wave of downgrades

Overall, analysts rated the plantation sector with a Hold call. Of the 13 rated KLPLN members (covered by at least 2 analysts), 4 are rated as BUY while 9 are HOLD-rated. The CPO's sharp pullback between April and September triggered a sector-wide downgrade in both earnings estimates and valuation multiples, the downgrade pressure was particularly intense during the June-August period but has since been stabilised.

Latest consensus estimates suggest KLPLN's index-weighted Earnings Per Share (EPS) to normalise by -28% next year to RM487 - still higher than any single year between 2012-2020. The index is currently valued at 10.1x and 13.9x of the financial year (FY)22 and FY23 EPS, a steep discount to its 5-year average of 24x. Understandably, the steep valuation discount in good part reflects uncertainties over CPO's medium to longer-term price trend.

At their recent lows, sector leaders such as IOI Corp, KLK and Genting Plantations were trading around -2 Standard Deviation from their 5-year average across key valuation metrics including PE, EV/EBITDA, EV/EBIT, EV/Revenue and Price/Book. Valuations have somewhat expanded following the sector's recent rebound.

Figure 1: Rating table - Sorted by rating (as of 25 October)

Name	Market Cap (RM'm)	Price (RM)	Consensus Rating	Target Price (RM)	Upside / Downside	Current Year (PE)	Next Year (PE)	Estimted Div Yield (%)
SARAWAK PLANTATION BHD	603	2.16	4.5	2.66	23%	5.27	7.13	8.80
KUALA LUMPUR KEPONG BHD	23,073	21.4	4.4	26.94	26%	9.83	12.54	4.68
BOUSTEAD PLANTATIONS BHD	1,534	0.685	4.3	0.84	22%	3.74	10.54	19.42
GENTING PLANTATIONS BHD	5,320	5.93	4.1	7.38	25%	8.71	12.33	5.80
IOI CORP BHD	24,273	3.91	3.9	4.56	17%	16.36	18.53	3.25
TSH RESOURCES BHD	1,373	0.995	3.7	1.44	44%	6.59	9.39	3.52
KIM LOONG RESOURCES BHD	1,675	1.73	3.7	1.81	4%	9.35	14.30	8.96
UNITED MALACCA BHD	1,133	5.4	3.7	5.69	5%	11.25	17.59	3.33
HAP SENG PLANTATIONS HLDGS	1,655	2.07	3.6	2.59	25%	6.51	10.51	9.08
SIME DARBY PLANTATION BHD	30,498	4.4	3.5	4.76	8%	11.64	15.66	5.02
SARAWAK OIL PALMS BERHAD	2,243	2.52	3.4	2.78	10%	4.42	7.28	4.25
FGV HOLDINGS BHD	4,961	1.35	3.0	1.63	21%	3.97	7.71	6.30
CHIN TECK PLANTATIONS BHD	789	8.64	3.0	7.69	-11%	n.a	n.a	n.a

Source: Bloomberg

Figure 2: Sector leaders' valuation metrics: Some are trading around -2 standard deviation from their 5-year average (as of 25 October)

Sime Darby					IOI				
Metric	Current(x)	Hist 5-Y Avg(x)	Diff(%)	SD	Metric	Current(x)	Hist 5-Y Avg(x)	Diff(%)	SD
BF P/E	14.7	30.0	-50.9	-1.3	BF P/E	17.1	24.9	-31.2	-1.7
BF EV/EBITDA	8.4	12.9	-35.4	-1.4	BF EV/EBITDA	12.7	16.6	-23.5	-1.6
BF EV/EBIT	11.3	22.4	-49.7	-1.3	BF EV/EBIT	14.8	21.8	-31.8	-1.7
BF EV/Rev	1.8	2.6	-30.3	-1.8	BF EV/Rev	2.0	3.0	-34.1	-1.8
LF P/BV	1.6	2.1	-19.7	-1.5	LF P/BV	2.3	2.9	-22.3	-1.5

KLK					GENP				
Metric	Current(x)	Hist 5-Y Avg(x)	Diff(%)	SD	Metric	Current(x)	Hist 5-Y Avg(x)	Diff(%)	SD
BF P/E	12.7	22.7	-43.9	-2.0	BF P/E	11.3	24.2	-53.2	-1.8
BF EV/EBITDA	9.2	13.0	-29.4	-1.8	BF EV/EBITDA	6.8	14.4	-52.9	-2.2
BF EV/EBIT	11.3	17.6	-35.8	-1.9	BF EV/EBIT	8.9	21.2	-57.9	-2.0
BF EV/Rev	1.3	1.5	-10.0	-1.5	BF EV/Rev	1.9	4.0	-52.1	-2.2
LF P/BV	1.7	2.2	-23.0	-2.4	LF P/BV	1.0	1.7	-41.5	-2.4

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Glossary for Figure 2:

BF: Blended forward 12-month

PE: Price Earnings

EV: Enterprise value

EBITDA: Earnings before interest, taxes, depreciation, and amortization

EBIT: Earnings before interest and taxes

Rev: Revenue

LF: Latest filling

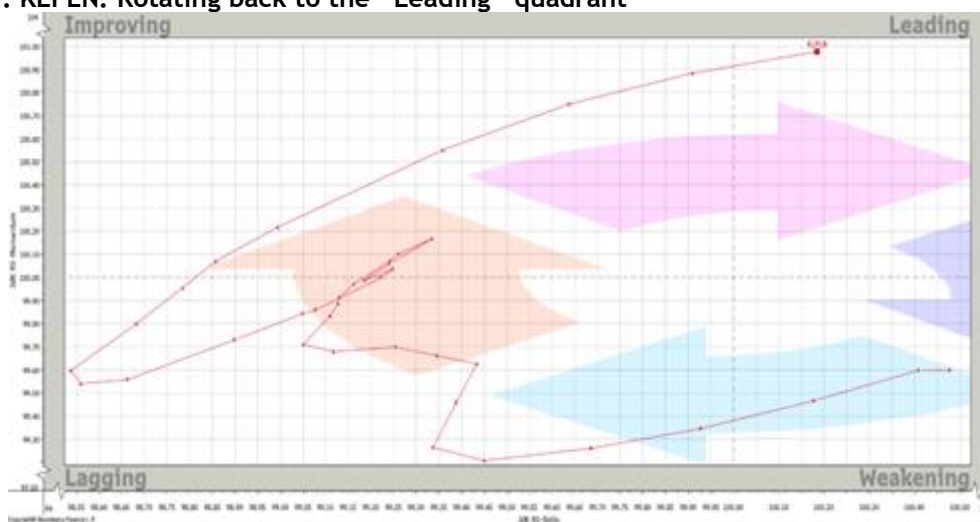
BV: Book value

Source: Bloomberg

KLPLN: Daily Relative Rotation Graph (RRG)

After underperforming the FTSE Bursa Malaysia EMAS Index in recent months, the KLPLN managed to transition into the “Leading” quadrant recently. Investors who are looking to have exposure to this sector should look at the individual stocks’ technical setup in making their trade decisions (trade entry/sizing/exit).

Figure 3: KLPLN: Rotating back to the “Leading” quadrant



Source: Bloomberg

KLPLN: Lingering around the 50-day SMA line

KLPLN rebounded recently after testing the upper bound of the crucial medium-term support zone of 6,350 - 5,960 pts. The support zone consists of the index’s uptrend line that stretches from the pandemic low and the low formed in August 2021. On the lower timeframe, the rebound has started to show signs of pausing in the latest two sessions at around the 50-day SMA line.

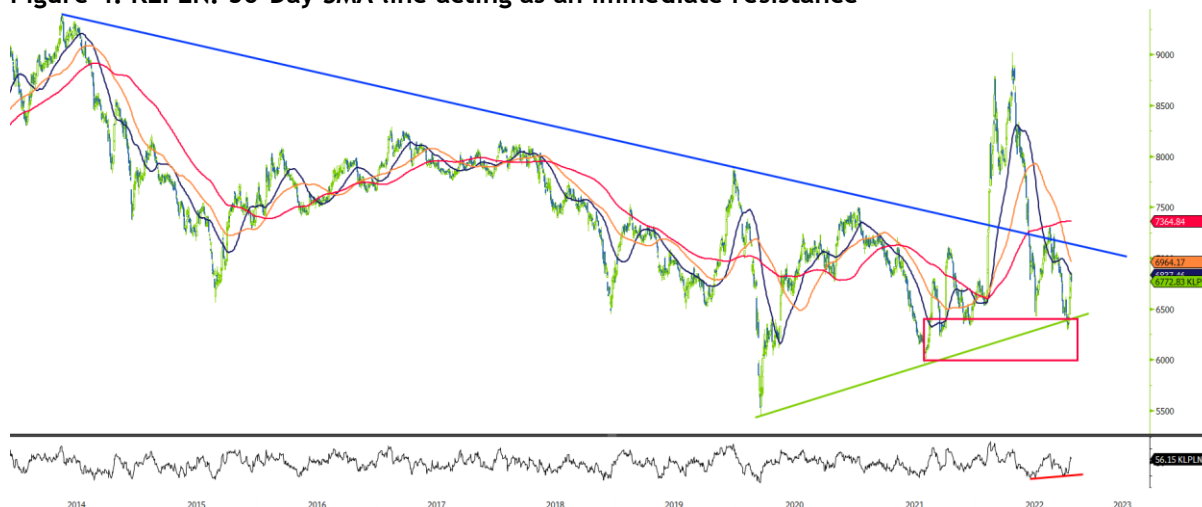
Investors are likely paying close attention to the index’s price actions around the 50-day SMA line. Towards the upside, a breakout following a consolidation from the said SMA line could open the door for further upside in the immediate-term. Meanwhile, a price rejection from the said line may see the index retesting the 6,350 - 5,960 pts support zone.

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Figure 4: KLPLN: 50-Day SMA line acting as an immediate resistance



Source: Bloomberg

CPO: Rebounding from a crucial long-term support zone

At its low in September, CPO corrected by 55% from its record high in March. The sharp price correction saw the benchmark hit the upper-bound (RM3,200-RM3,000) of its previous multi-year sideways trading range, which also coincided with the 76% Fibonacci Retracement (measured between the historic high and the low during the pandemic). Since then, the commodity has rebounded 30% and it is now testing the RM4,300-RM4,500 resistance zone

Technically, the commodity may have found its medium-term (a period of > 3 months, but less than 12 months) low with RM3,200-RM3,000 acting as a crucial support zone. The price action for the past three weeks indicates a fair possibility that the commodity has entered a short-term (a period of 1-3 months) sideways trading/rebound phase. However, given the commodity’s recent sharp rebound, the possibility for a consolidation phase to develop in the immediate-term (a period of days until 3-4 weeks) under the RM4,300-MYR4,500 resistance zone should not be ruled out. Towards the downside, RM3,800 - RM3,600 can be seen as a support zone.

Figure 5: CPO - Reacting positively to MYR3,200-MYR3,000 support zone



Source: Bloomberg

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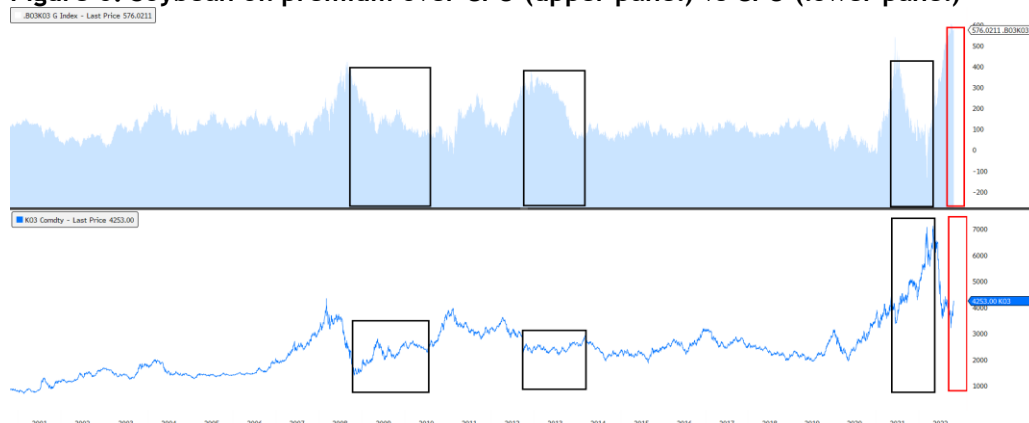


Soybean oil vs CPO: Unprecedented spreads

Based on Bloomberg’s calculations, soybean oil is currently trading at the extreme spreads (absolute terms: current USD568/mt, 10-year average: USD145/mt & relative terms: current 69%, 10-year average: 20%) vs the CPO as far back as the year 2000. The CPO’s historical price behaviours suggest whenever the spreads hit an extreme range, CPO’s prices tend to stabilise or even stage a sharp rebound.

On Soybean Oil Futures (Bloomberg Ticker: BO2), despite experiencing a retracement between May-July, the commodity’s long-term price trend remains positive, with USD60-USD55 acting as a crucial support zone.

Figure 6: Soybean oil premium over CPO (upper panel) vs CPO (lower panel)



Source: Bloomberg

Figure 7: Soybean Oil: Uptrend remains intact



Source: Bloomberg

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