

# BURSA INSTI SECTORIAL SERIES

## Notepad with Ibrahim Sani – PLANTATION

Bursa Malaysia worked together with Astro Awani's Notepad with Ibrahim Sani to feature the Plantation sector. We invited CGS-CIMB's Head of Research and Regional Plantation Analyst, Ivy Ng to talk about her views on the sector and key takeaways as below.

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- Overview: Plantation companies have done quite well in 2020. The average CPO price for 2020 is RM2,500/MT vs RM2,000/MT in 2019 and earnings for plantation companies have improved YoY. However, KL Plantation Index were down 8.8% YTD due to some profit-taking in the plantation companies.
- Potential concerns from Covid-19: Demand is not fully realized, and supply is disrupted due to lockdown.
- CPO price movement: CPO price recently hit RM3,000/MT level which is above market estimates due to:
  - Tighter supply
  - Higher demand from China
  - Lower-than-expected production in Indonesia
- Impact on production from riots in Jakarta: Minimal impact as most of the plantation is outside of Jakarta such as Kalimantan and Sumatera.
- Weather is a key factor in determining CPO price. Current La Nina situation is good for supply due to heavy rain, unless there is massive flooding. However, La Nina will cause drought in North and South America. There is drought in some parts of South America currently, which has caused soybean prices to move up and this has benefited CPO price which is viewed as a competing oil.
- Foreign labour: No issuance of foreign worker permits until end of 2020. This will have an impact on the production of CPO. Plantation companies are lobbying for the lifting of foreign worker suspension.
- Impact from EU. Foreign investors have reduced exposure on plantation companies due to ESG issues. This has affected plantation companies with huge foreign exposures. Government has engaged with its EU counterpart to address the sustainability concerns.
- RSPO accreditation: The sustainability standards applied by RSPO are generally accepted by all the stakeholders. Large cap plantation companies have joined RSPO to get their palm oil certified.
- MSPO: Government has introduced MSPO to be more inclusive and to assure the stakeholders that palm oil is produced in a sustainable way. Currently, c.80% of estates are MSPO-certified with a target of 100% compliance by 2021/22.
- Exports is expected to improve in 2021 as global economy reopens post-Covid 19. Current stock level is 1.7m MT (vs. historical average of 2m MT).
- Budget 2021 wishlist:
  - Remove windfall tax on palm oil.
  - Foreign worker permit.
  - Tax incentive for mechanization.
- Summary: Plantation sector was affected in recent years due to ESG and weak CPO prices. However, investors should reconsider the sector again as there is a potential for planters to report better earnings due to higher CPO prices from better demand and supply dynamics.