



Industry Focus: **PALM OIL**

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Since last year, the CPO prices have been trending upwards given supply shocks induced by lockdowns. The prices jumped 59.8% y-o-y to RM4,417 in 2021 (2017-2019 average: RM2,348). The price rally continues, averaging at RM6,051 in 1Q2022. Malaysia Palm Oil Board (MPOB) expects prices to hover RM5,000-RM8,000 before stabilising in 2H (full year forecast: ~RM4,250/tonne).


Sub-Sector (Description)	Outlook
Growing of oil palm	Positive

While high CPO prices is beneficial to the upstream segment of palm oil, midstream and downstream segments would face heftier input/production costs.

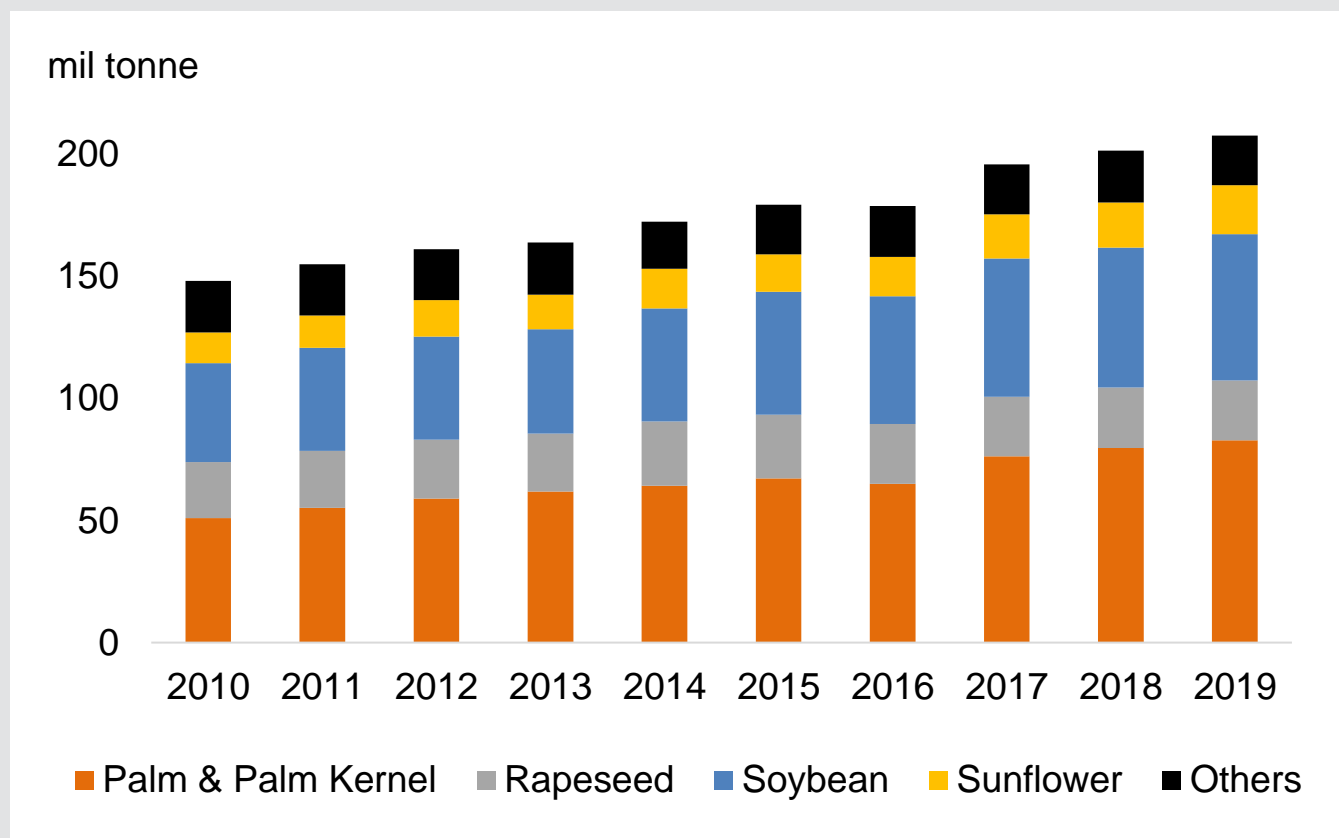
CPO prices will remain elevated in the near-term due to:

- Supply disruptions in Malaysia
- Output uncertainties on major oilseeds due to the Russia-Ukraine conflict & drought in South America
- Indonesia's higher export levies

Key downside risks in the medium/long term include:

- Lower demand due to a global slowdown
- Protracted shortages of workers/ Untimely arrival of foreign workers 
- Insufficient fertiliser application could lead to lower Fresh Fruit Bunch (FFB) yield
Russia is a major producer of fertiliser, at ~22% of global ammonia exports, 14% of the world's urea exports & ~14% of monoammonium phosphate.



Palm oil and palm kernel oil contributed 39.9% of global vegetable oil production in 2019

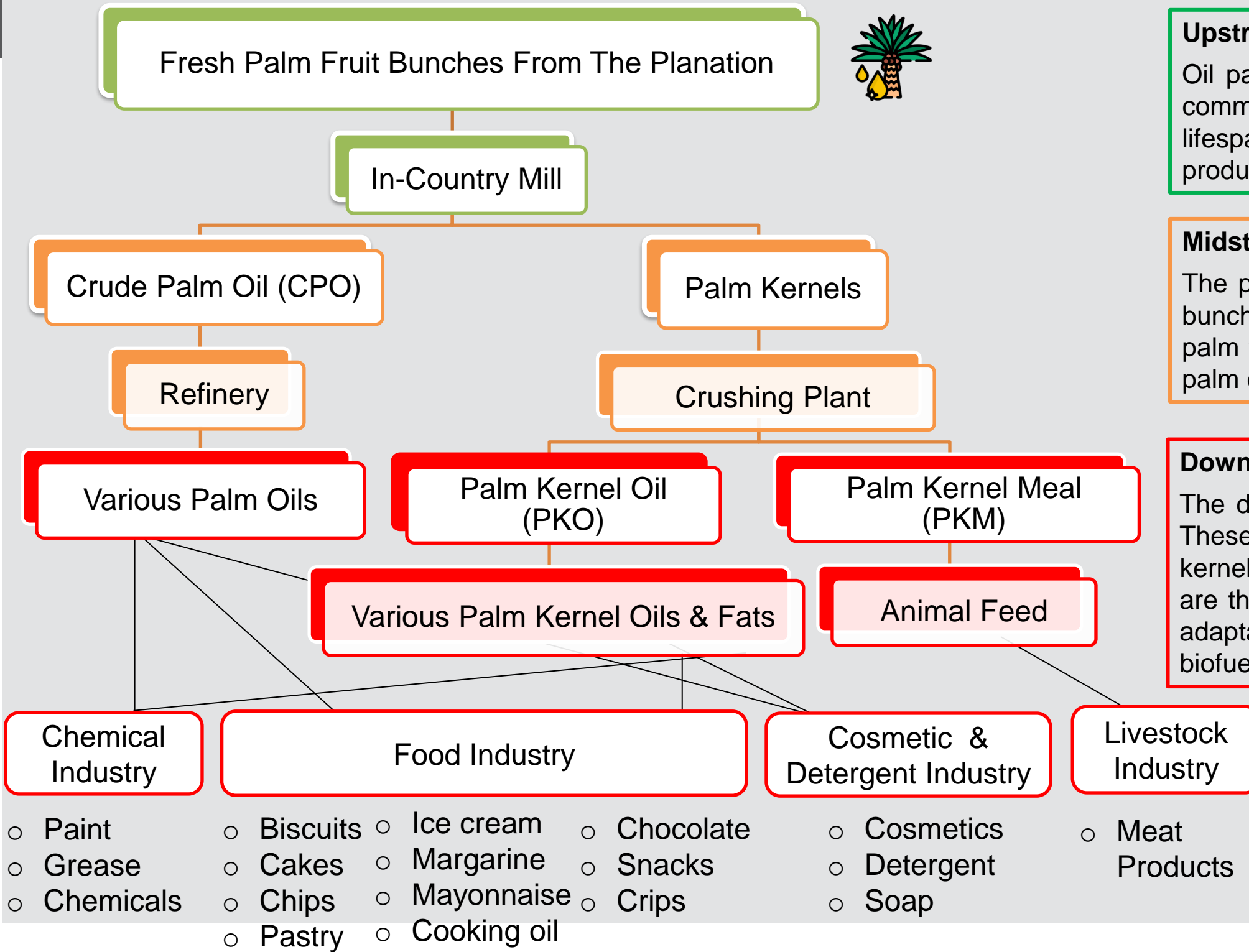


Recent developments

- + Previously, the Indonesian government compelled companies to sell 30% of their projected CPO and olein exports domestically. **While the restriction had been eliminated, the upper limit of palm oil export levies was doubled, from USD375/mt to USD675/mt.**
- + Ukraine and Russia produced 7.3 mil tonnes and 5.8 mil tonnes of sunflower oil, respectively, in 2020. Around 73% of global supply come from these 2 countries. Due to a shortage of sunflower oil caused by the war, **EU is considering lifting a prohibition on palm oil**
- + Although India's rapeseed production hit a new high of 11 mil tonnes in Mar (+28% y-o-y), it would still need to import more than 1 mil tonnes of vegetable oils each month as Ukraine & Russia supplied >90% of its imported sunflower oil. To meet demand, **India reduced CPO import duties from 7.5% to 5%.**
- In early March, the MPOC projected that China's palm oil imports would remain flat at 6.7 mil tonnes in 2022 (2021: 6.63 mil). That was **before the government imposed lockdowns** in cities like Shenzhen and Shanghai. **Given dented demand, China's palm oil imports are likely to drop.**
- Oil palm growers are facing a **10%-15% increase in operational costs**, which include fertilisers, labour costs and fuel.

Differences between palm oil and palm kernel oil

	
<p>Palm oil is extracted from the flesh or pulp of the fruit (the outer part).</p>	<p>Palm kernel oil is extracted from the soft part of the seed (the inner part).</p>
<p>Palm oil is traditionally used for edible purposes such as cooking, frying and as a food ingredient.</p>	<p>Palm kernel oil is generally used for non-edible purposes such as the formulation of soaps, cosmetics and detergents.</p>
<p>Palm oil is a rich source of carotenoids and vitamin E.</p>	<p>Also popularly used in commercial cooking and frying because it remains stable at high cooking temperatures, is lower in cost and allows for a longer shelf life than other vegetable oils.</p>
<p>Trans fat-free and cholesterol-free. Boasts a balanced ratio of unsaturated and saturated fatty acids.</p>	<p>Palm kernel oil, semi-solid at room temperature, is more saturated than palm oil and comparable to coconut oil.</p>



Upstream: Planting, Cultivation, and Harvesting

Oil palm trees typically bear fruit 30 months after being planted, with commercial harvest starting 6 months later. The average commercial lifespan of an oil palm tree is about 25 years. Fully mature oil palms can produce 18-30 metric tons of fresh fruit bunches (FFB) per hectare.

Midstream: Crushing, Refining, and Processing

The palm fruits are enzyme-deactivated and separated from the palm bunches after sterilisation (high-pressure steam) in palm oil mills. The palm fruitlets will then be crushed in a pressing machine to extract the palm oil.

Downstream: End Application

The downstream segment refers to the **retailing** of the end-products. These include palm olein (CPO), palm stearin (CPO and PKO), palm kernel cake (PKO), and other substrate bases. CPO olein and stearin are the leading segments among **palm's derivatives** because of their adaptability and application range: edible oil, surfactants, cosmetics, biofuel, animal feed and lubricants.

High CPO prices will translate into better revenue for the upstream sector. On the other hand, the midstream and downstream sectors would need to incur higher production costs.



Wide range of uses for palm oil, palm kernel oil and their related products



Competition from rapeseed, soybean & sunflower oils

Growing demand as global population rise

By 2028, global demand for palm oil will surpass USD75.7 bil at 3.30% CAGR growth (2021: USD62.3 bil)



Long Term Drivers & Challenges

Increase demand for biodiesel

Currently, Malaysia & Indonesia have adopted B20 and B30 programmes



ESG concerns

Palm oil plantations have sparked conflict with local communities, especially indigenous people, due to land issues.



There have also been serious concerns about violations of worker rights.



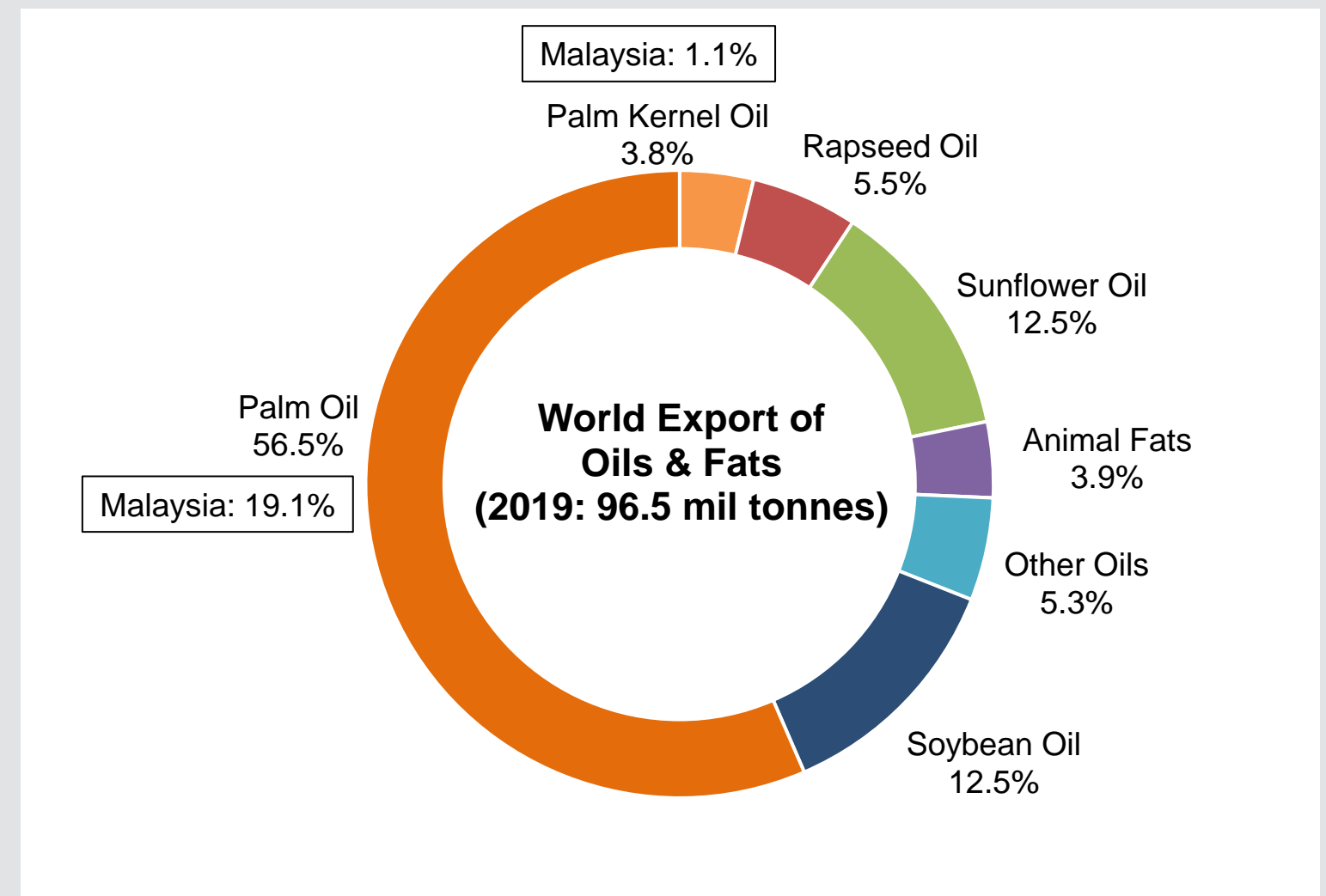
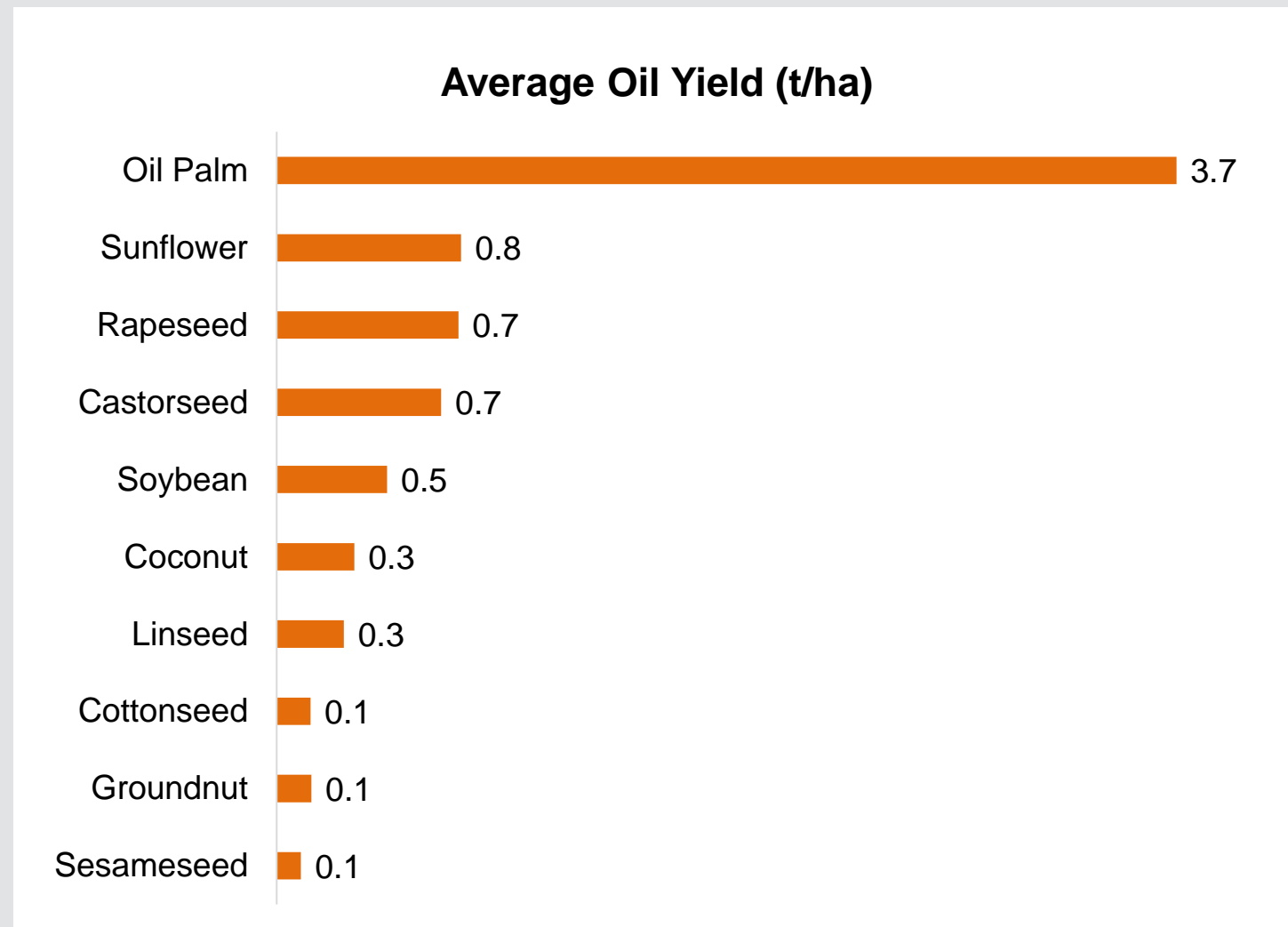
Rampant deforestation for plantation in Indonesia & Malaysia has been destroying the habitat of endangered creatures such as orangutans, tigers, rhinos and elephants.

Most efficient crop



Industry Focus: Palm Oil (5/9)

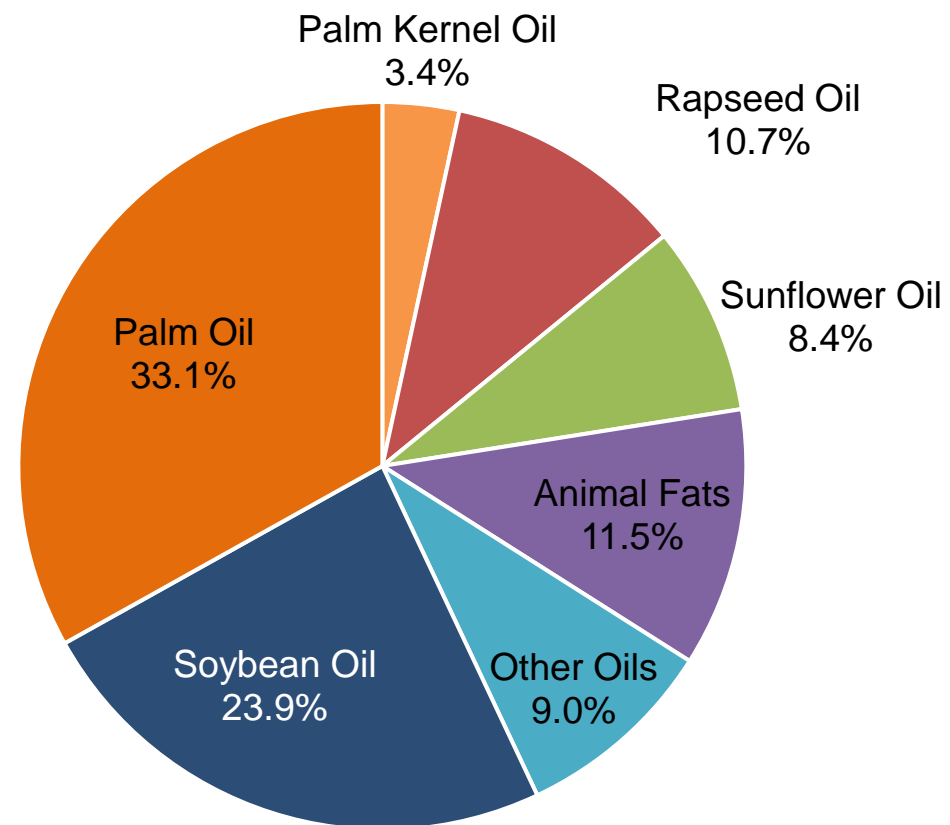
- **Oil palm generates the most vegetable oil per hectare** among the world's top 10 primary oil seeds. It is an extremely efficient crop since it can produce large amount of oil over small areas of land, almost all year round.
- In 2019, **palm oil and palm oil kernel made up 60.3% of world oils & fats export**. **Malaysia plays an important role as a supplier** in the global oils & fats market, contributing to 20.2% of world exports.



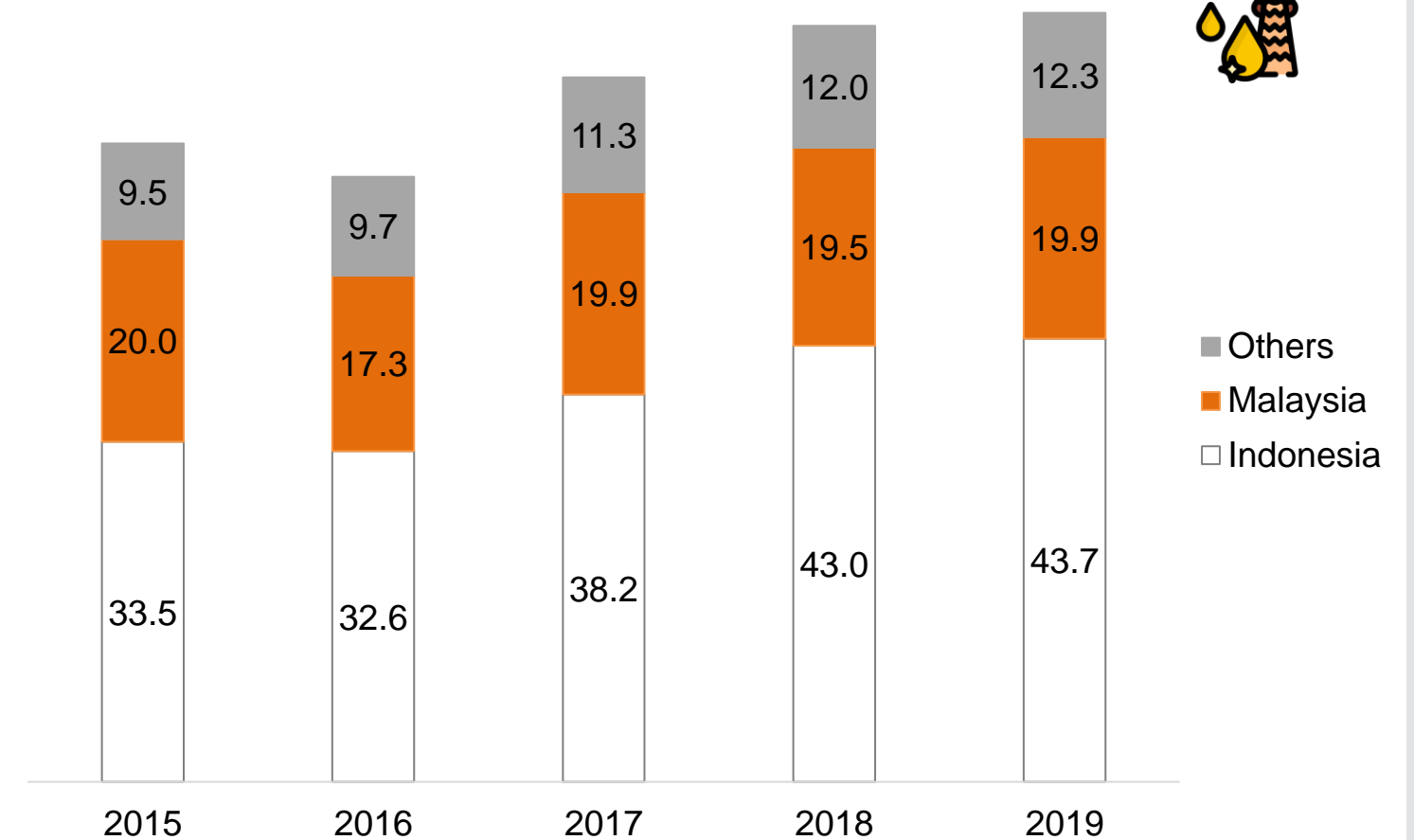
Industry Focus: Palm Oil (6/9)

- Of 237.6 mil tonnes of oils & fats consumed globally in 2019, palm oil and palm kernel constituted 36.5% of the total.
- **Malaysia is the 2nd largest producers of palm oil & palm kernel oil in the world.** While our production level has been relatively stable at ~19-20 mil tonnes per year, rival **Indonesia has been gradually increasing its output** over the past few years.

**World Consumption of Oils & Fats
(2019: 237.6 mil tonnes)**

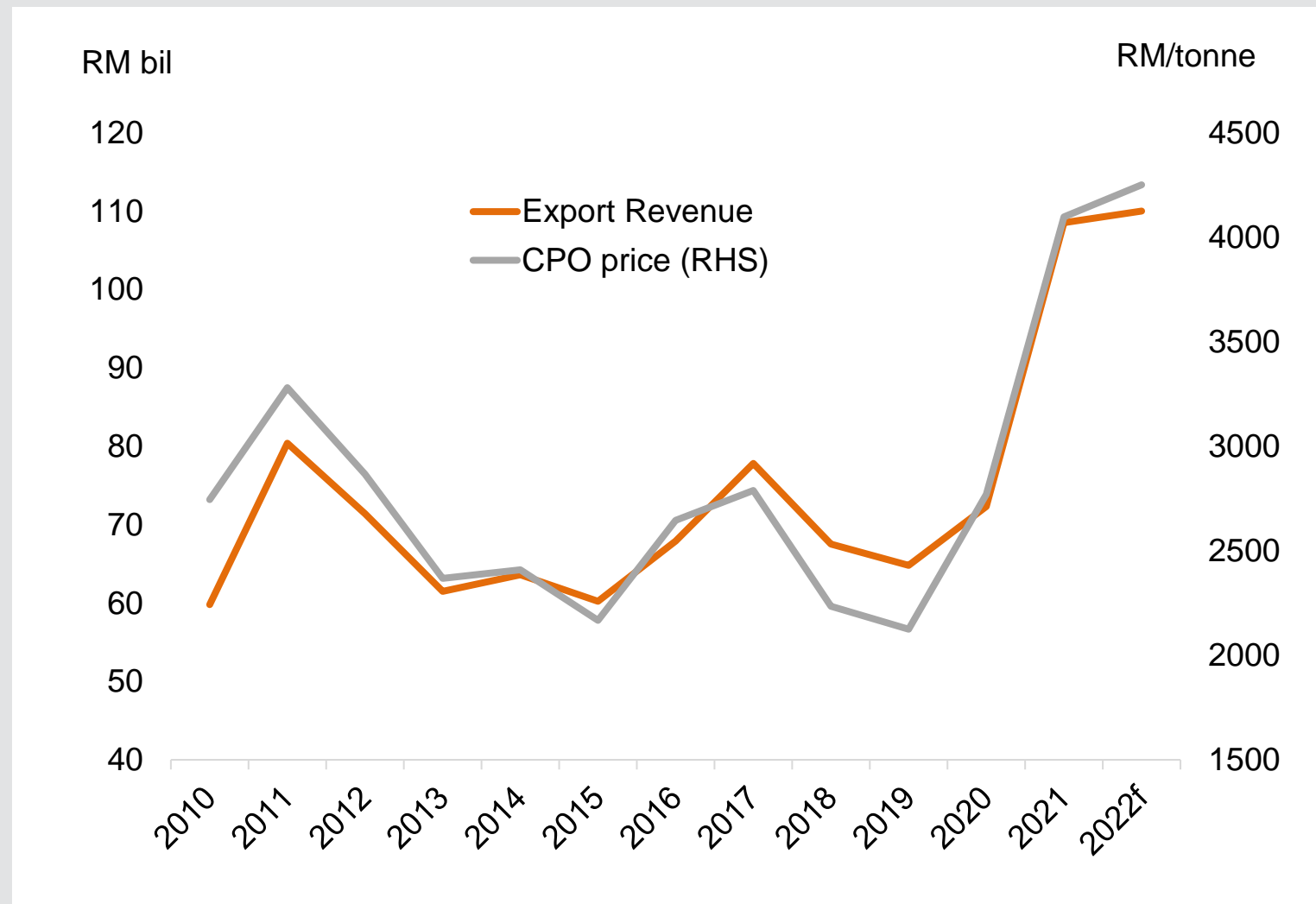
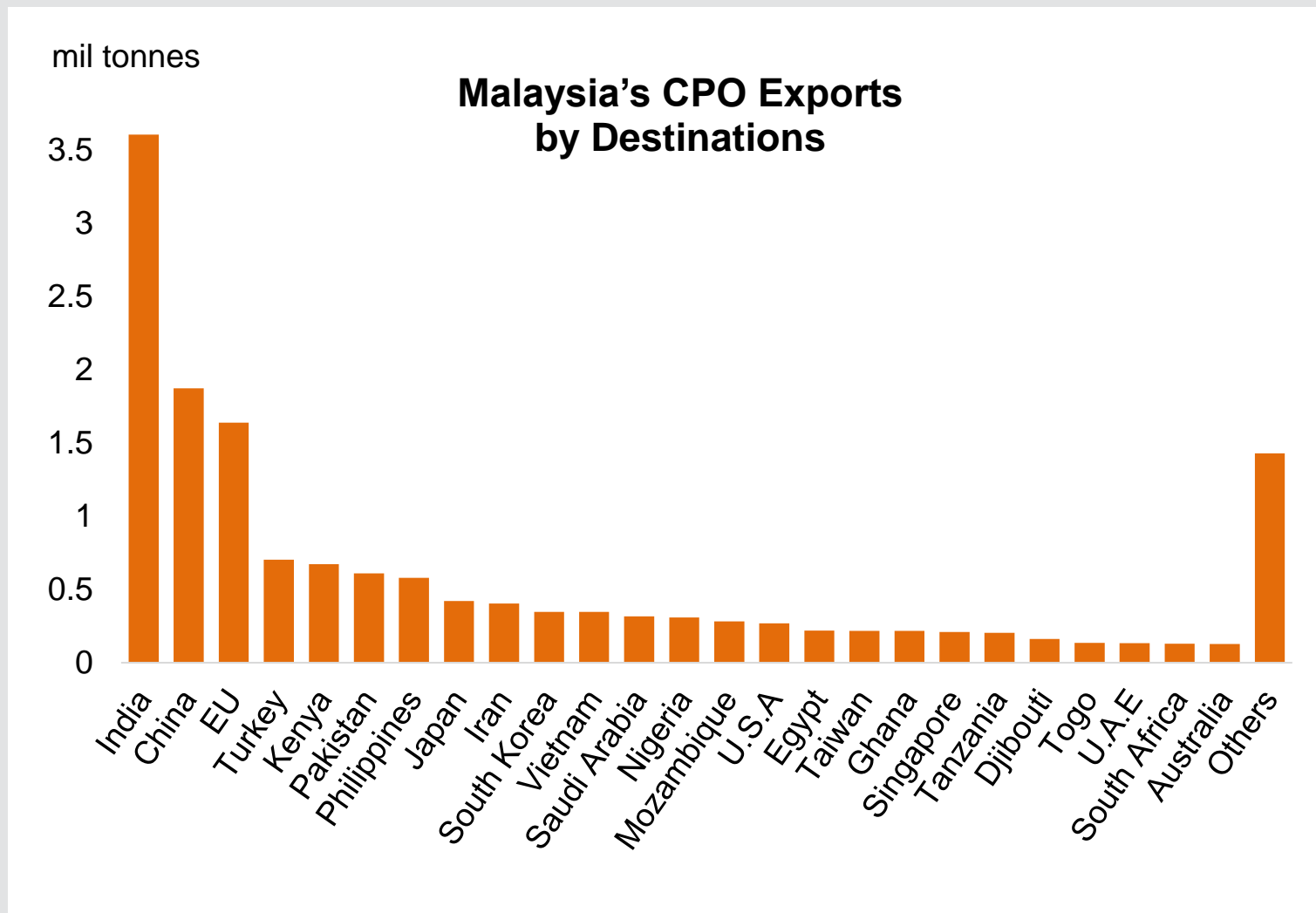


World Palm Oil Production (mil tonnes)



Industry Focus: Palm Oil (7/9)

- India (20.7% of Malaysia’s exports), China (10.8%) and EU (9.4%) are the top 3 largest importers of Malaysia’s palm oil in 2021.
- MPOB expects **CPO prices to remain around the RM5,000-RM8,000 range until Apr-May 2022** before stabilising during the high CPO production season in 2H. **For full year 2022, CPO price is forecast to average at RM4,250/tonne.** The export revenue of palm oil and other palm-based products is expected to improve 1.4% to RM110 bil this year (2021: RM108.52 bil).



*2022f is MPOB's projection



Industry Focus: Palm Oil (8/9)

Perak	
Production (Ton th)	1,902
FFB Yield per Hectare (Ton)	1.6
Planted Area (ha)	391,768
Average Capacity Utilisation Rate (%)	90.9

Sabah (24.1%), Sarawak (21.6%), Johor (15.7%) & Pahang (15.4%) account for ~80% of Malaysia's palm oil production in 2021.
 Malaysia's **overall average capacity utilisation rate by mills stood at 83%** in 2020.

Sabah	
Production (Ton th)	4,362
FFB Yield per Hectare (Ton)	1.3
Planted Area (ha)	1,543,054
Average Capacity Utilisation Rate (%)	65.4

In terms of **efficiency in land use, Perak & Selangor** are the top 2 Malaysian states, with FFB yield/hectare of 1.62 & 1.60, respectively (national avg: 1.29)

Pahang	
Production (Ton th)	2,796
FFB Yield per Hectare (Ton)	1.3
Planted Area (ha)	782,247
Average Capacity Utilisation Rate (%)	96.2

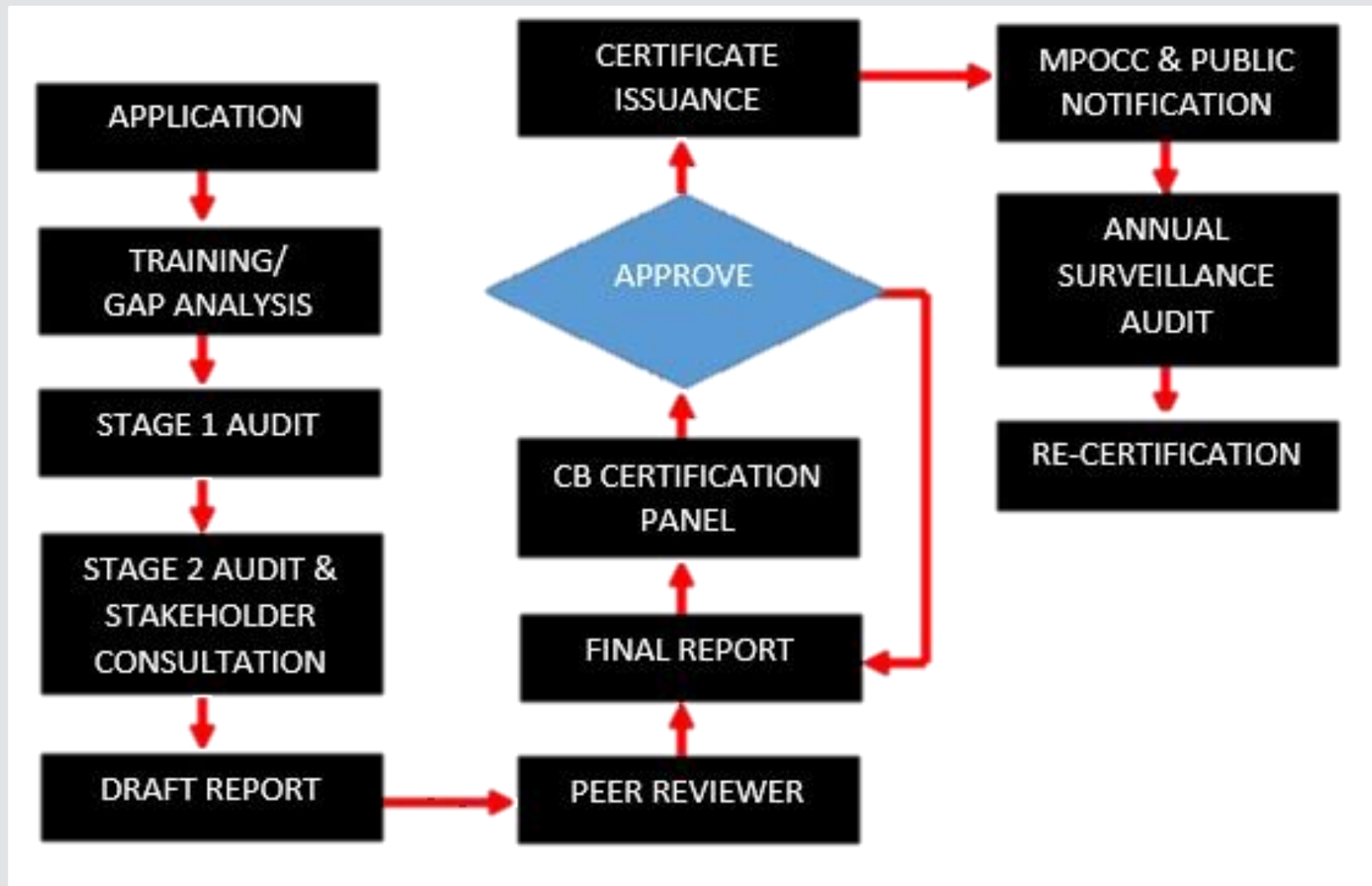
Borneo states have a combined 3.13 mil hectare of planted area in 2020 (**53.3% of country's total planted area**).

Selangor	
Production (Ton th)	522
FFB Yield per Hectare (Ton)	1.6
Planted Area (ha)	126,525
Average Capacity Utilisation Rate (%)	80.2

Johor	
Production (Ton th)	2,851
FFB Yield per Hectare (Ton)	1.5
Planted Area (ha)	740,828
Average Capacity Utilisation Rate (%)	95.5

Sarawak	
Production (Ton th)	3,908
FFB Yield per Hectare (Ton)	1.2
Planted Area (ha)	1,584,520
Average Capacity Utilisation Rate (%)	88.4

*The deeper the colour of the state, the higher the production of palm oil.

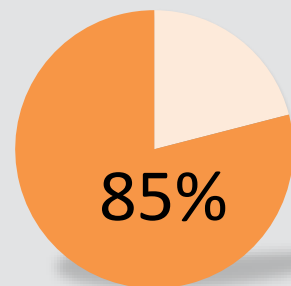
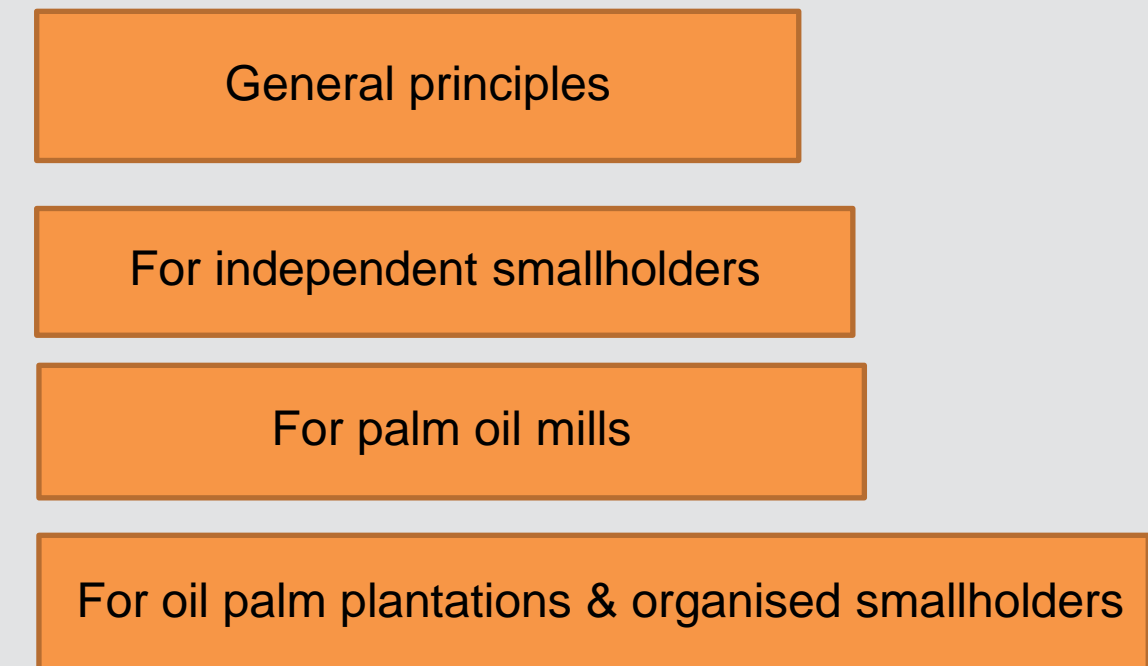


The **MSPO Principles** consists:

- i. Management Commitment & Responsibilities
- ii. Transparency
- iii. Compliance to Legal Requirements
- iv. Social Responsibility, Health, Safety and Employment Conditions
- v. Environment, Natural Resources, Biodiversity and Ecosystem
- vi. Best Practices
- vii. The Development of New Planting



The MSPO is divided into 4 parts of general principles:



Proportion of palm oil certified by MSPO which addresses the environmental, social & economic aspects of palm oil production

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