Plantation companies have near-term rosy patch

THE oil palm plantation sector, which is enjoying higher prices on crude palm oil (CPO), looks set to re-rated higher due to its palatable valuations and good near-term earnings prospects, The Edge Markets reported.

Hong Leong Investment Bank Bhd (HLIB) predicted that CPO price is expected to remain at elevated levels in the near-term and to trend down more noticeably in 2022 on the back of better vegetable oil supply prospects.

"We raise our CPO price assumptions in 2021 to 2022 to RM3,800/metric tonne (MT) and RM2,900/MT) HLIB said.

In the midst of the devastating effects of the Covid-19 pandemic, the forecast must mean positive news to oil palm companies in Sabah which has close to 1.6 million hectares of oil palm, and account for about 25% of Malaysia's total CPO output.

HLIB expects the near-term CPO price elevation until end of 2021 supported by the tight inventory level of major vegetable oil arising from weak output and the onset of the La Nina weather pattern which will curb soybean output in South America.

Prices are expected to weaken in 2022 as now fresh demand is seen on the horizon.

Labour shortfall that has been besieging the industry due to Covid-19 is predicted to ease as Malaysia pushes for 80% vaccination rate by October 2021. This is expected to result in reopening of more economic and social and possibly the easing of labour issue and allow plantation production to recover.

CPO prices are trending at over RM4,100 per metric tonne. HLIB predicts the price to ease to RM3,800/MT for 2021, and RM2,900/MT for 2022.

HLIB raised the issue of compliance with the environmental, social governance (ESG) by the oil palm industry players, adding that the concerns have affected earnings forecast and investors' confidence.

The oil palm industry has been blamed for habitat destruction and environmental degradation.