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CPO PRICE, BORDER REOPENING

SOME SECTORS OF INTEREST

THERE are two events that are going to add to shareholders' stock selection interest. Firstly, it is the runaway crude palm oil (CPO) prices. Secondly, it is the imminent reopening of Malaysia's borders on April 1.

Crude palm oil

There are many reasons for the runaway CPO price of RM7,440.50 per tonne as of March 11 (source: Malaysian Palm Oil Board website).

Firstly, there is a shortage of sunflower oil due to the Russia-Ukraine conflict.

Secondly, the harvest of palm oil's competitor oils has been hampered by weather conditions resulting from climate change challenges. Consumers of sunflower oil and other oils now have to look at alternatives and palm oil is a readily available alternative.

Thirdly, some countries are stocking up CPO due to the shortage of oils. This has driven CPO prices up.

Other factors that drove CPO prices up include labour shortage in Malaysia and Indonesia's domestic market obligation rule which restricts the export of CPO.

And lastly, bullish predictions create demand for public-listed company (PLC) stocks that are involved in the palm oil business. We talk the price up based on our forecasts.

Needless to say, there is bullish sentiment in the air when it comes to palm oil stocks. The blogs are having a fine time

adding to the bullish exuberance. And as noted earlier, there seems to be a valid basis for such bullish exuberance.

Take the recent statement by Plantation Industries and Commodities Minister Datuk Zuraida Kamaruddin, who expects the CPO price to continue rising at least until the third quarter of this year and reach RM9,300 per tonne.

That is an upside of about RM1,860 based on the March 11 price of RM7,440.50.

We remember that palm oil PLCs were already making money when the CPO prices were around RM3,000 per tonne — what more with the current astronomical CPO prices, analysts and blogs point out.

The collateral damage of increasing CPO prices will be on the consumer products that use palm oil as a substantial ingredient — there are many of them and expect their prices to go up.

PLCs in this sector will be all right if they are able to pass the increased cost of CPO to consumers. Otherwise, there will be a dent to their bottom line.

Yes, it has been pointed out that the palm oil sector is one that is worth considering for the four stated reasons.

Reopening of borders

The second mega event that is going to shape investors' stock selection is the reopening of borders on April 1.

To a large extent, the reopening has been much talked about and dates have been bandied about.

Some share prices might have

moved to accommodate the undated reopening. Now that the date is known, there is a possibility of squeezing out some further upside.

Some PLCs will be direct beneficiaries while others will be collateral beneficiaries.

An obvious beneficiary will be the aviation sector as tourists and locals can travel internationally.

There are two listed airlines and they are Capital A Bhd (formerly known as AirAsia Group Bhd) and AirAsia X Bhd.

Both companies are working hard to address their financial position after being classified under Practice Note 17.

Once air travel is allowed, that will help alleviate some of Capital A's and AirAsia X's financial distress.

There will be much revenge flying. Nevertheless, the soaring fuel prices is likely to dent the earnings recovery of airline stocks.

Another direct beneficiary will be airport operator Malaysia Airports Holdings Bhd, especially through higher volume of passenger service charge from the robust rebound in passenger traffic.

Tourists will flock to popular destinations and the collateral beneficiary will be the hotel industry.

When talking of popular destinations, Genting Malaysia Bhd and Genting Bhd spring to mind. The hotel industry in general will be a beneficiary as Malaysia offers one of, if not, the cheapest hotel rates in the region.

Then there are brewery counters Carlsberg Brewery Bhd and

Heineken Malaysia Bhd.

They will benefit from the normalisation of operating hours in restaurants and pubs. Nightclubs are still not allowed to open.

Shopping centres will also benefit from the increased footfall and spending by customers. This benefit is expected to accrue to the real estate investment trust companies which have the mega shopping centres in their portfolios.

Risks

One of the risks that must be considered is the prevailing Russia-Ukraine war as we are not sure where it is heading. It has been such a dampener on global stock markets thanks to the interconnectivity of capital markets — welcome to the global village.

In addition, foreign labour shortage will affect many of the industries. Imagine, if we had enough labour to harvest all the oil palm fruits (fresh fruit bunches) and that too at prevailing CPO prices, it will be a major boon to palm oil stocks and investors.

But beware of demand destruction as high CPO prices may cause lower-income nations to reduce their demand or hold back their purchases, which may weaken CPO prices.

Let us not forget that China still has a zero-Covid policy with harsh lockdowns. We won't be expecting flight loads of China tourists at our shores anytime soon.

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