OPERATIONS REVIEW

FEED & INDUSTRIAL PRODUCTS

This segment comprises the processing, merchandising and distribution of animal feeds, non-edible palm and lauric products, agricultural commodities, oleochemicals, gas oil and biodiesel.

We operate crushing plants in China, India, Vietnam, Malaysia, Pakistan, Zimbabwe, Zambia and South Africa. We crush a wide range of oilseeds including soybean, rapeseed, groundnut, sunflower seed, sesame seed, cotton seed, copra and palm kernel. We are one of the world's largest copra and palm kernel crushers as well as the world's largest producer of palm biodiesel and oleochemicals, offering a comprehensive range of products from basic oleochemicals, derivatives to biofuels.

We also operate an integrated sugar business with milling, refining and ethanol production. We are one of the world's largest sugar traders with offices in Singapore, Dubai, Geneva, Sao-Paulo, and Mexico, trading about 13 million MT of raw and white sugar globally on an annual basis.

Oilseeds & Grains - Crushing

The effects of the drought in Argentina, which began in 2022 and continued into 2023, affected soybean production. This led to soybean prices remaining at relatively elevated levels in the first quarter of 2023 before starting to come off in April 2023. From May 2023, prices fluctuated amid weather concerns in the United States of America (US). Soybean prices began to rise in June 2023, as US reported hot and dry weather conditions but started to retreat towards end-June as there were expectations of better production. However, prices bounced back in July when the actual rainfall was less than forecasted. Thereafter, soybean prices eased again as the rain came during the critical soybean yield determination stages. The year ended with lacklustre export demand amid poor crush margins in China and slower selling from Brazil.

Soybean meal demand in China remained weak due to poor hog prices and margins.

Sugar Refinery in Mackay, Australia.

Tropical Oils

Crude palm oil (CPO) prices started the year at RM4,270 and trended downwards in anticipation of higher oil palm production, better weather conditions, as well as increased supply of other major vegetable oils. This trend reversed after Indonesia announced in February the suspension of some palm oil export permits to secure domestic supply ahead of the Ramadan festival. However, prices started to ease with improved weather conditions and concerns of a typical slowdown in demand post Ramadan season, coupled with lower competing vegetable oils prices. In May 2023, Indonesia allowed the use of the previously suspended palm oil export permits, causing CPO prices to retreat further.

In the second half of 2023, CPO prices rallied briefly because of supply concerns from drier weather conditions which began in the second quarter of the year, but subsequently came off as rainfall resumed. CPO prices remained rangebound for the rest of the year and closed at RM3,748, down 12% from the beginning of the year.

Indonesia also remained committed to its biodiesel mandate and increased its blending ratio to B35 during the year.

Sugar

A tighter sugar supply market prevailed in 2023 due to lower production from Europe, Thailand and China, and lower exports from India, which resulted in sugar prices moving from 19 US cents per pound to a 12-year high of nearly 28 US cents per pound. This tight situation is expected to continue into the first half of 2024.

However, given the coming bumper crop in Centre-South Brazil and a larger beet crop in the Northern Hemisphere, the supply situation is expected to ease in the second half of 2024. Brazil's ethanol parity is still well below sugar price, with a parity spread of over US$200 in favour of sugar.

Our Performance

In FY2023, the Feed and Industrial Products segment recorded lower pre-tax profit of US$926.7 million (FY2022: US$1.56 billion) mainly as the tropical oils business experienced weaker margins for its mid and downstream operations. The oilseeds division also saw weak crush margins in the first half of the year, arising from lower demand from the poultry and hog industries and elevated soybean prices in the second quarter. However, this was offset by better crush margins in the second half of the year. The sugar division also achieved better performance on the back of higher merchandising activities.

Despite challenging market conditions and poor hog margins, the Group recorded higher crushing volume mainly due to the resumption of Canada canola seeds imports into China in the first half of the year. Overall sales volume for the segment increased by 10% to 61.3 million MT as all the main businesses recorded a higher volume of sales.

Outlook & Strategy

Going into 2024, we expect soybean demand in China to remain soft as hog margins remain depressed.

For sugar, the refining and distribution businesses should stay supported most of 2024, as white sugar supply is expected to remain limited from key producing countries such as Thailand and Mexico. Therefore, the white premium should stay above a certain level to incentivise refining.

For tropical oils, we expect global demand to be muted but still supported by the Indonesian B35 biodiesel mandate.