Plantation Sector

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CPO production in high gear

Summary

- **CPO production shifts to higher gear in July 2024 which registered a whopping jump of +14% mom to 1.8m tonnes, bringing 7M24 CPO production to 10.7m tonnes (+10.6% yoy).**
- **We foresee CPO price heading towards an average of RM3,800 in 2H24 underpinned by higher soybean and palm oil production coupled with the strengthening of Ringgit.**
- **Under our core coverage, we upgrade our recommendation to BUY (previously HOLD) for Hap Seng Plantation with a TP of RM1.93 as recent weakness in the share price presents an opportunity for investors seeking for laggard play.**

Sector Update

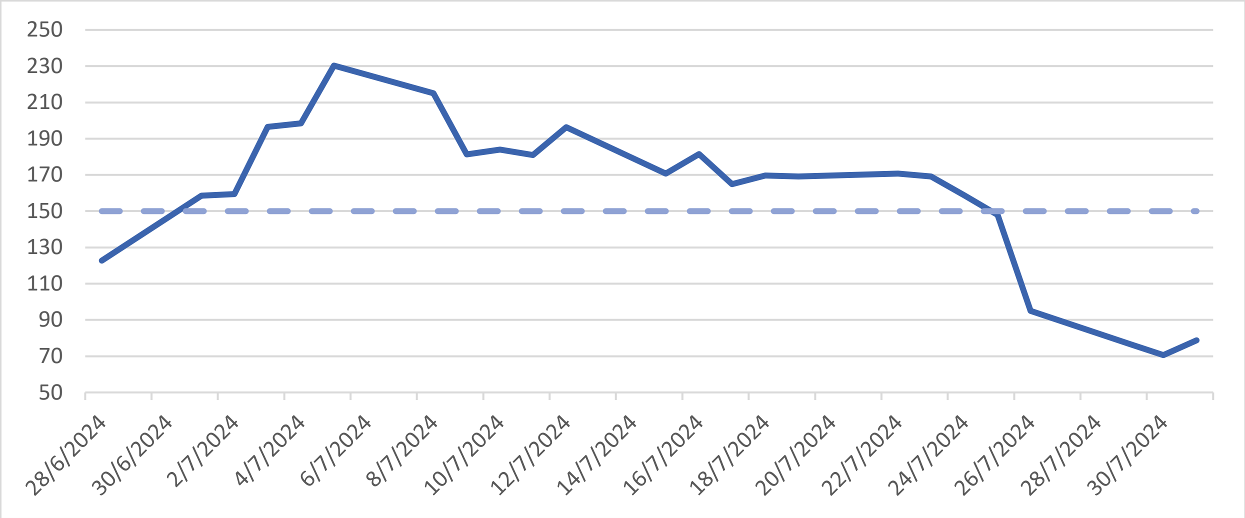
- **CPO production shifts to higher gear.** Positive CPO production growth in July was in line with our expectation of higher CPO production in 3Q24. However, the quantum of CPO production growth was above our expectation. CPO production growth in July 2024 registered a whopping jump of +14% mom to 1.8m tonnes, compared to -5.2% mom in June 2024 at 1.6m tonnes. Moving forward, we expect CPO production to gather momentum in 3Q24 upon entering the high production cycle. At the nutshell, 7M24 CPO production recorded 10.7m tonnes (+10.6% yoy), owing to lower fertiliser cost as well as improved availability of labour.

- **Palm oil supply fell in July.** Palm oil closing stock slid by -5.4% mom in July, in line with the robust CPO export. In July, palm oil inventory was still below the 2.0m tonnes high stockpile threshold level, due to strong consumption from export market which surged by +39.9% mom. We opined the strong surge in palm oil export was driven by firm soybean oil and energy prices where both commodities stayed elevated for most of the period in the month.

- **Falling soybean prices prompt the demand shift to palm oil.** Soybean prices tapered off at the end of July amid the stronger soybean production outlook. Moving forward, we expect soybean production may trend higher due to increased supply from the three major suppliers, US, Brazil and Argentina. According to US Department of Agriculture (USDA), soybean production is projected to reach 422.0m MT, up 6.8% in 2024/25. We reckon that soybean prices will continue to be affected by the higher soybean production.

- **Average CPO price in July was RM4,034/tonne, marginally up 1.9% mom.** CPO price posted marginal gain in July after tumbled for two consecutive months. We gather that CPO price has rebounded in early of July, hitting its peak at RM4,110/tonne mainly attributable to the weakness in Ringgit and strong demand China. CPO price discount to soy oil has widened, staying mostly above USD150 throughout the month, thus providing support to CPO price. Nevertheless, we foresee CPO price heading towards an average of RM3,800 in 2H24 underpinned by higher soybean and palm oil production coupled with the strengthening of Ringgit.

Soybean oil premium to palm oil



Source: Bloomberg

- **Keeping Neutral stance.** We are maintaining our **Neutral** stance on the sector, as we see the seasonally higher crop production in 2H24 would keep CPO prices upside limited. However, we see the implementation of B-40 palm oil biodiesel could serve as potential catalyst to the sector.

- For stocks under our coverage, we upgrade our recommendation to **BUY** (previously HOLD) for **Hap Seng Plantation** with a **TP** of **RM1.93** following the share price retracement We believe the recent weakness in the share price presents an opportunity for investors seeking a laggard play, as the Group's growth outlook remains strong, supported by robust FFB production and inexpensive valuation. We maintain our recommendation on **HOLD** for **United Plantation (TP: RM27.21), Kuala Lumpur Kepong (TP: RM19.57), Sarawak Plantation (TP: RM2.15),** and **Hap Seng Plantations (TP: RM1.93)**. We are revising our recommendation for **Kim Loong** to **HOLD** (previously BUY) with unchanged **TP of RM2.34** as we reckon the recent surged in share price has reflected its fundamental values.

Company	Price (RM) as at 13Aug24	P/E (x) 2022	P/E (x) 2023F	P/E (x) 2024F	Dividend Yield (%)	Target Price (RM)	Potental Upside
United Plantation Bhd	25.50	10.1	14.2	14.2	6.1	25.83	1.3%
Kuala Lumpur Kepong Bhd#	20.86	27.7	18.5	15.4	4.1	19.57	-6.2%
Hap Seng Plantations Bhd#	1.70	14.6	11.7	11.5	5.8	1.93	13.5%
Kim Loong Resources Bhd#	2.30	11.8	15.0	14.1	5.2	2.34	1.7%
Sarawak Plantations Bhd	2.11	8.9	8.0	6.1	5.0	2.15	1.9%

 # Kuala Lumpur Kepong Bhd data based on FYE Sep
 # Kim Loong Resources Bhd data based on FYE Jan
Source: Apex Securities Bhd, Bloomberg

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RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain + dividend yield

SECTOR RECOMMENDATIONS
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

DISCLAIMER