

Plantation Sector

Steven Chong
stevenchong@apexsecurities.com.my

Soybean Oil and Palm Oil Price Spread Goes Negative

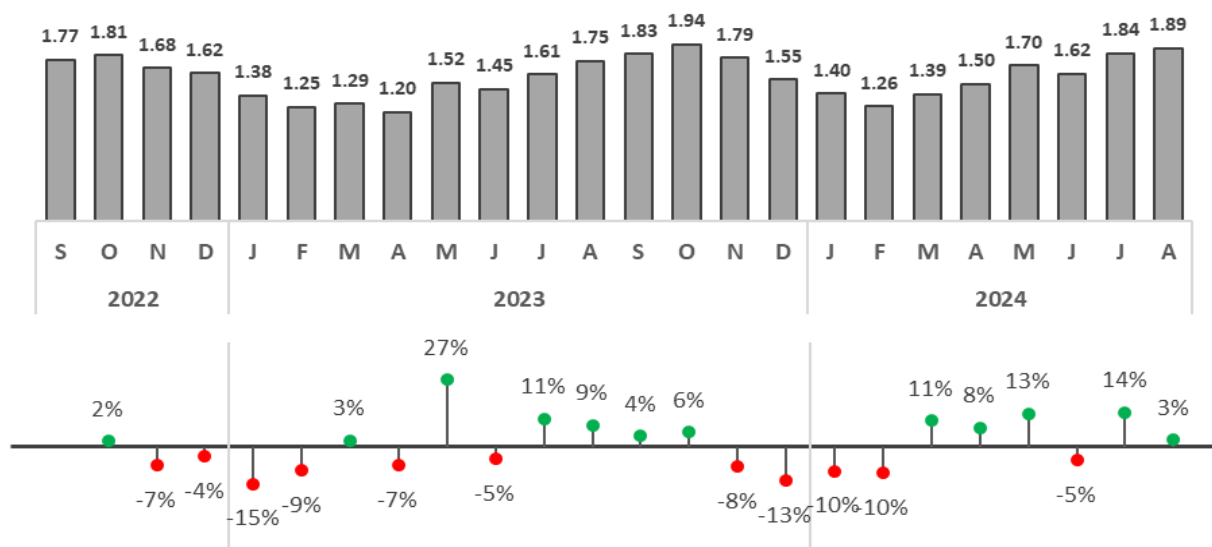
Summary

- CPO production rose marginally while palm oil inventory inched closer to the 2.0m tonnes mark, driven by high production cycle.
- Palm oil's price competitiveness against soybean oil has weakened as price spread turned negative, prompting a shift in demand towards soybean oil.
- Maintain Neutral rating on the sector at the moment in view of the absence of fresh catalyst.

Sector Update

- **CPO production was marginally higher in August.** CPO production in August was marginally higher (+2.9% mom) at 1.9m tonnes as compared to a sharp growth of +14% mom in July. CPO production in August was at the highest level in 8 months, in line with market expectations. Growth was mainly driven by high production cycle but the dry weather had impacted fruit yield. Looking ahead, we are anticipating CPO production growth to remain robust in September as the sector enters the seasonally peak production cycle.

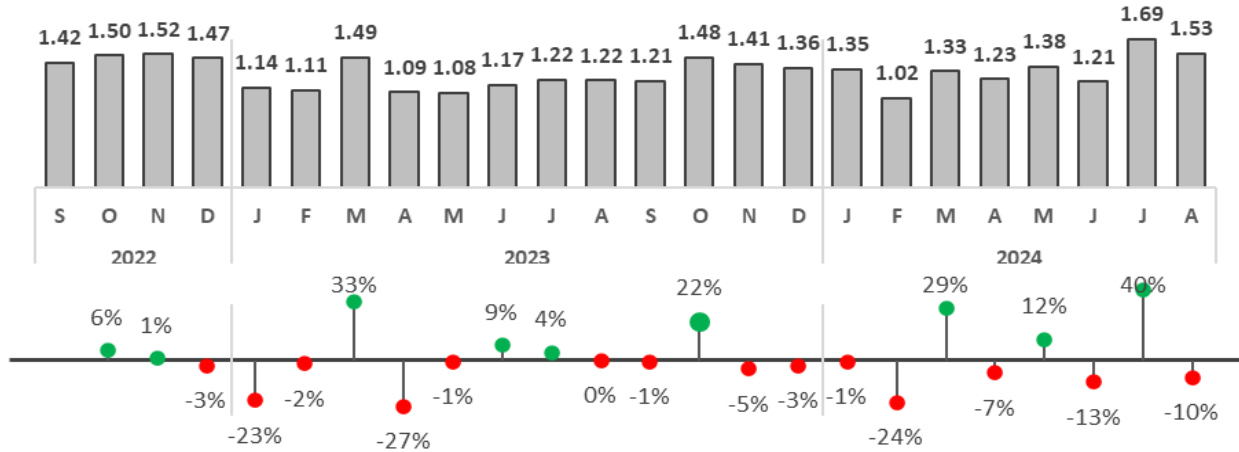
CPO production ('M tonnes) with MoM %



Source: MPOB

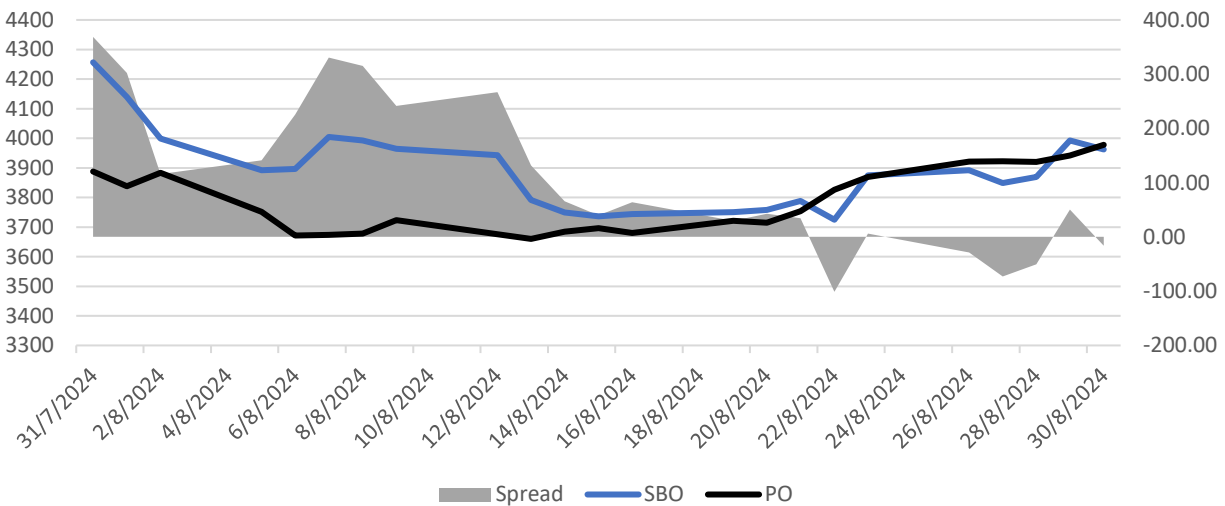
- **Palm oil exports slid with soybean oil trading at discount.** Exports in palm oil retreated -9.7% mom and to 1.5m tonnes in August. During the month, we gather that the spread between soybean oil and palm oil narrowed and has turned negative on the final week of the month, on the back of firmer CPO prices. Consequently, CPO's price competitiveness against SBO has diminished, prompting a shift in demand towards SBO. Moving forward, we anticipate export growth will remain subdued in the coming month, as weaker demand alongside with the strengthening of Ringgit, will likely dampen palm oil exports.

CPO export (^M tonnes) with MoM %



Source: MPOB

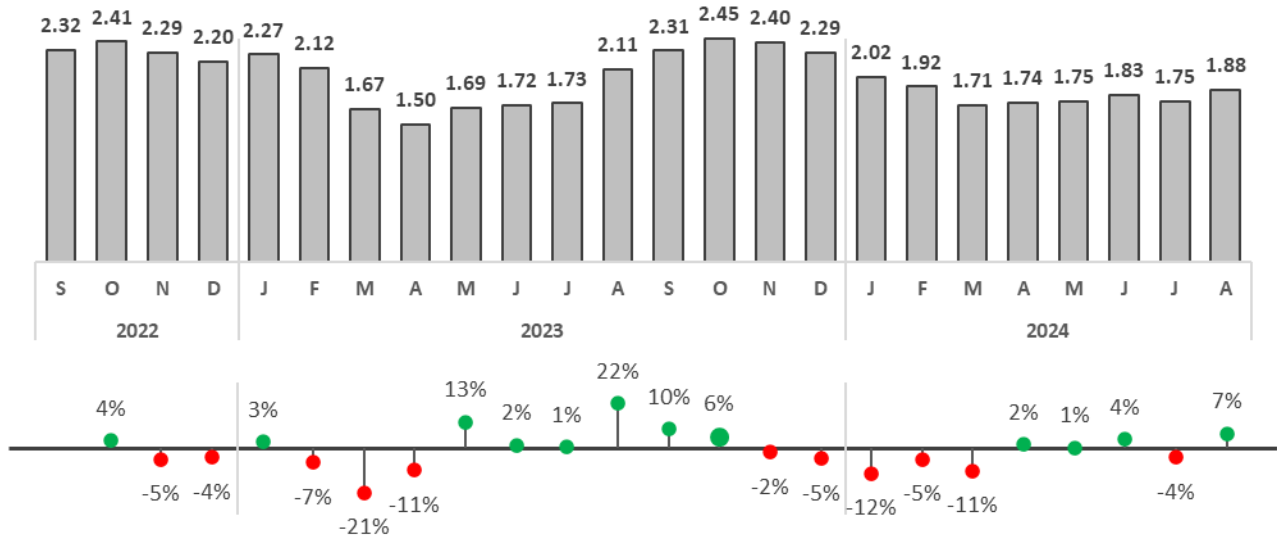
Spread between SBO and CPO – (MYR/MT) Aug24



Source: Bloomberg

- Palm oil closing stocks piling up.** Palm oil closing stock grew in August, recording 1.9m tonnes (+7.3% mom) stockpiles. The burgeoning palm oil inventory was mainly attributed to the subdued palm oil demand in August. Meanwhile, the surge in palm oil inventory is detrimental to the recovery of CPO prices, as it would stoke concern of looming oversupply of the commodity. We opined that palm oil inventory could climb further amid ample CPO production coupled with tepid demand.

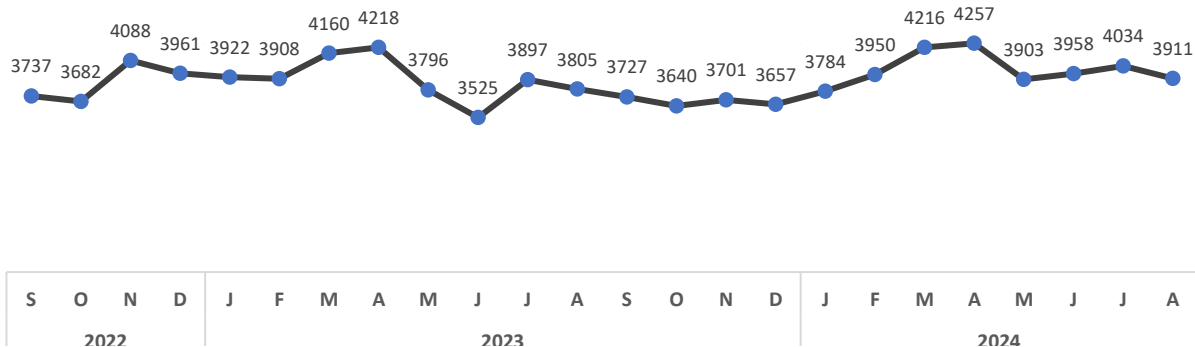
CPO inventory with MoM %



Source: MPOB

- CPO prices moved sideways in August by trading in the range of RM3,833/mt to RM4,070/mt.** CPO prices recorded an average of RM3,910/mt in August, which represents a downtick of -3.1% from RM4,034/mt in July. We believe the weakness in CPO prices stem from the recovery of Ringgit against USD and expectations of higher CPO production going forward. Nevertheless, we maintain our full-year forecast for average CPO price at RM4,000/RM3800 for CY24 and CY25.

24-month CPO price trend (MYR/mt)



Source: MPOB

- Keeping Neutral stance.** We are maintaining our **Neutral** stance on the sector, as we do not foresee immediate catalyst to the sector at the moment. We keep our HOLD calls for Kuala Lumpur Kepong (FV: RM20.35), Kim Loong Resources (FV: RM2.34), Hap Seng Plantations (FV: RM1.79), United Plantation (FV: RM27.21), and Sarawak Plantations (FV: RM2.24).

Company	Price (RM)	P/E (x)			Dividend Yield	Target Price	Potential
	as at 11Sep24	2023	2024F	2025F	(%)	(RM)	Upside/Downside
United Plantation Bhd	27.00	10.10	15.07	15.00	5.79	27.21	0.8%
Kuala Lumpur Kepong Bhd#	21.16	27.70	18.80	15.61	3.99	20.35	-3.8%
Hap Seng Plantations Bhd	1.69	14.60	11.67	11.45	5.86	1.79	5.9%
Kim Loong Resources Bhd#	2.45	11.80	15.88	15.03	4.90	2.34	-4.5%
Sarawak Plantations Bhd	2.21	8.90	8.36	6.37	4.78	2.24	1.4%

Kuala Lumpur Kepong Bhd based on FYE Sep

Kim Loong Resources Bhd based on FYE Jan

Source: Apex Securities Bhd, Bloomberg

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
<p>Head Office: 5th Floor Menara UAC, 12, Jalan PJU 7/5, Mutiara Damansara, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7890 8899</p>	<p>Head Office: Kong Ming Ming (ext 2002) Lee Chen Ming (ext 2029) Shirley Chang (ext 2026) Ahmad Mujib (ext 2028) Azfar Bin Abdul Aziz (ext 2031) Aizzat Bin Mohd Daud (ext 2030)</p> <p>Institutional Dealing Team: Low Jin Wu (ext 2109)</p> <p>PJ Office: General Line: (603) 7620 1118</p>	<p>Head Office: Kenneth Leong (ext 2093) Steven Chong (ext 2068) Jayden Tan (ext 2069) Chelsea Chew (ext 2070) Tan Sue Wen (ext 2095) Ong Tze Hern (ext 2113)</p>
<p>Petaling Jaya Office: 16th Floor, Menara Choy Fook Onn, No.1B Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7620 1118</p>		

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

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.

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