Plantation Sector

Steven Chong
stevenchong@apexsecurities.com.my

CPO production losing steam in September

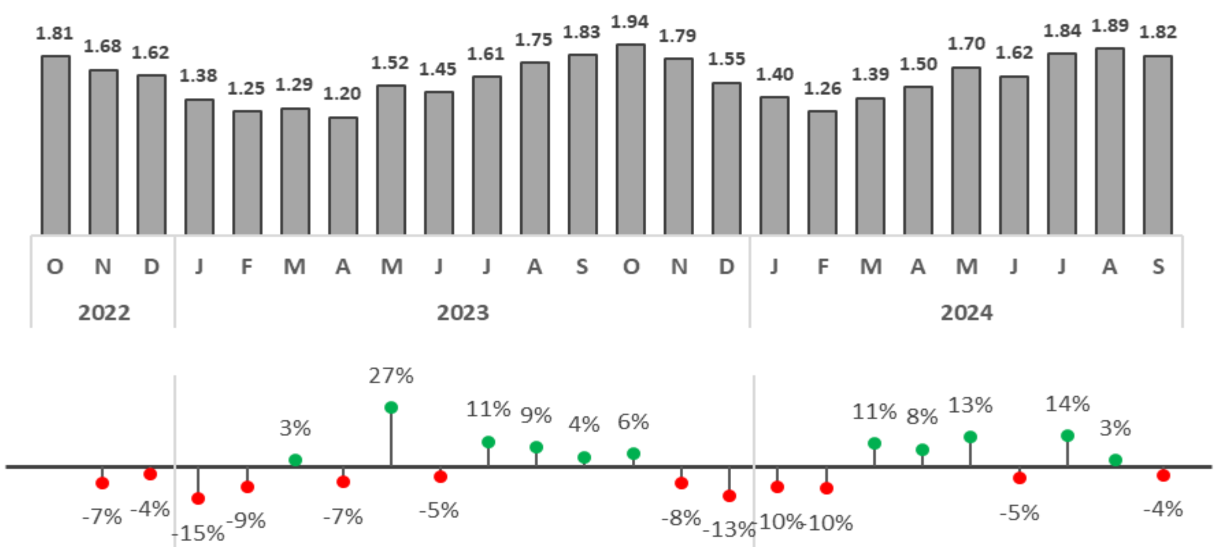
Summary

- **CPO production shed marginally while palm oil inventory hit the 2m tonnes mark.**
- **Competition within the vegetable oil market is set to intensify following the announcement of levy cut in Indonesia as well as ample soybean supply.**
- **Maintain Neutral rating on the sector in view of rising competition from Indonesia.**

Sector Update

- **CPO production inched down in September.** CPO production registered a negative growth of -3.8% mom (1.82m tonnes in September against 1.89m tonnes in August) which was below expectation as historical data traditionally recorded a growth in month of September on a monthly basis. We believe the unfavorable production performance was partly due to the laggard effect of El Nino last year. Looking forward, production is expected to remain weak in view of the continued effect of the dry weather.

CPO production ('M tonnes) with MoM %

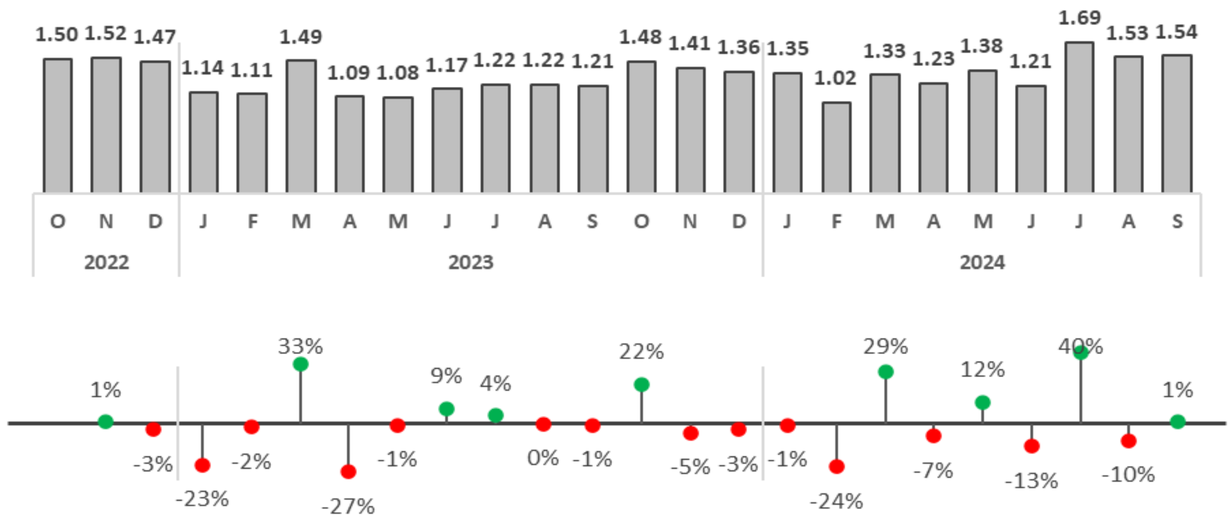


Source: MPOB

- **Indonesian government announces update in export levy scheme.** During the month (22 Sep), the Indonesian Government implemented a significant amendment to its export tax policy, moving from an incremental scale to a flat export tax of 7.5% for CPO and 4.5% for refined palm oil. The new rule is estimated to create savings of c. USD23-25/tonne in September. As a result, this has created a surge in supply within the export market given that Indonesian planters may command a more competitive pricing in the global market under the new levy structure.

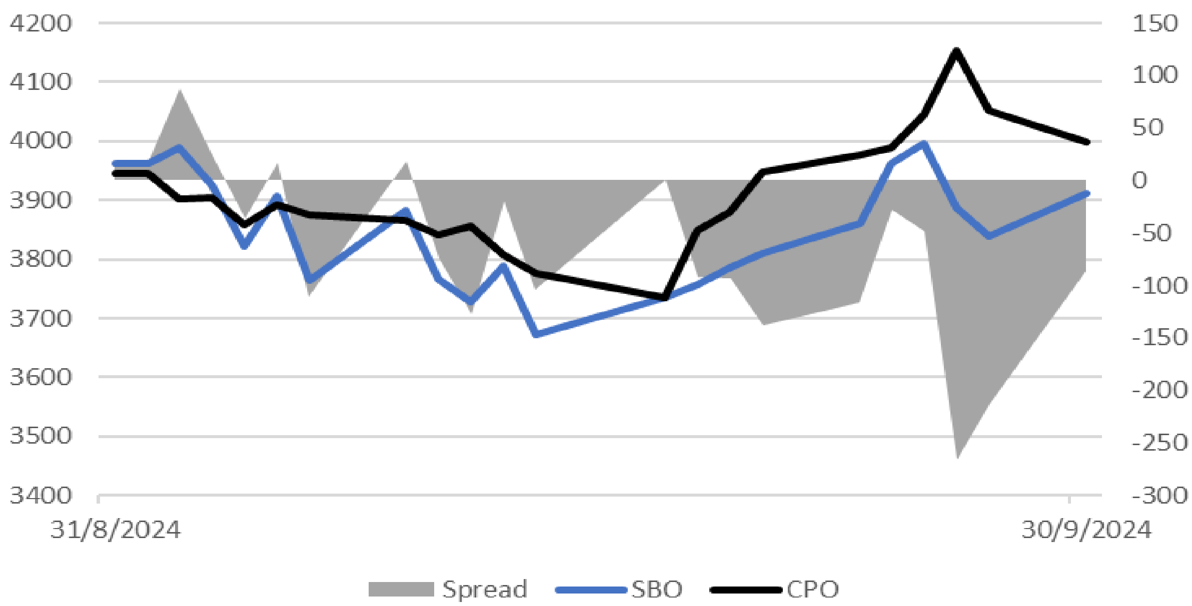
- **Flattish palm oil export in September.** Palm oil export in September was little changed (+0.9% mom) and against the expectations. The official palm oil exports figure released by MPOB was below the estimates of cargo surveyors of 9-10% exports growth. We noted that price spread between SBO and CPO remained narrow, with CPO price at a slight premium against SBO. This, together with increased competition from Indonesia, may have dampened export demand for Malaysian palm oil.

CPO export ('M tonnes) with MoM %



Source: MPOB

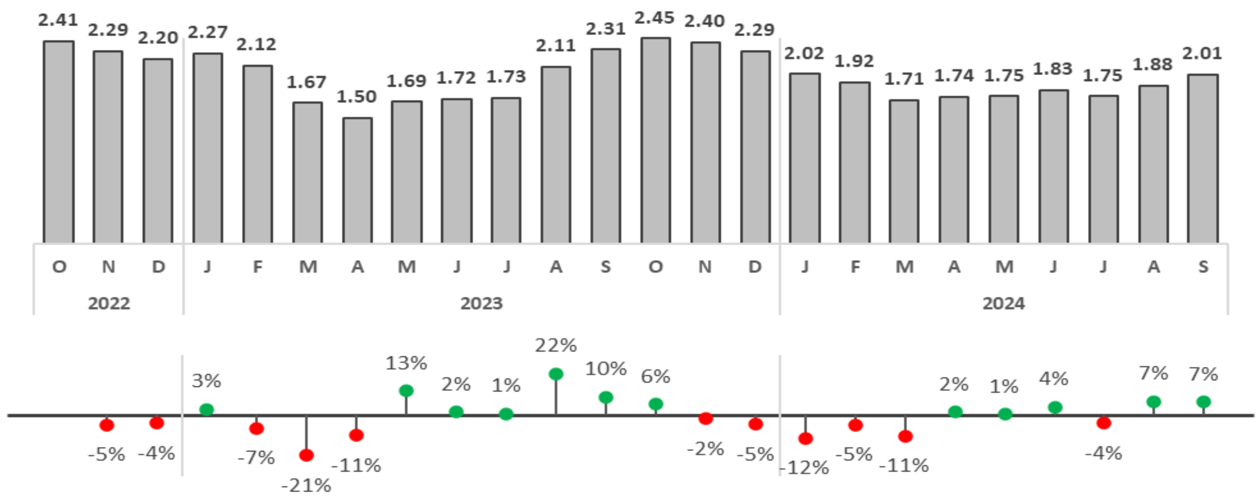
Spread between SBO and CPO – (MYR/MT) Sep24



Source: Bloomberg

- **Palm oil closing stocks continued piling up in view of tepid consumption.** Palm oil closing stock continued piling up in September, crossing above the 2.0m tonnes mark. Palm oil inventory has been steadily climbing since March in tandem with the higher CPO production. We opined the bourgeoning palm oil inventory in September was mainly attributed to mediocre export coupled with subdued domestic consumption. Looking forward, we expect palm oil inventory to ease in 4Q24 on the back of seasonally lower CPO production.

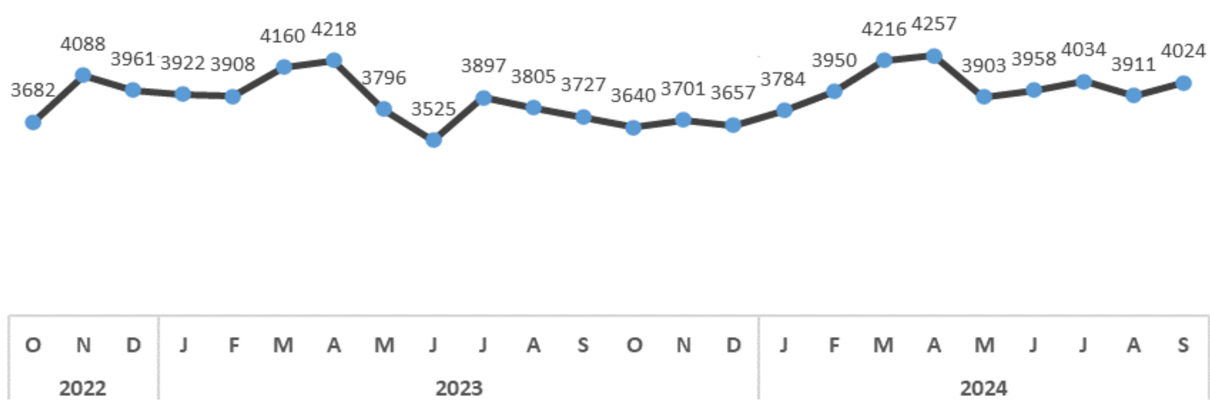
CPO inventory with MoM %



Source: MPOB

- **Average CPO price in September was RM4,023/tonne, grew +2.9% mom.** Performance of CPO price was stable in September where price was steady to close at RM4,000/tonne. We believe Malaysia's palm oil producers may may face challenges over the coming months due to tax cuts from competing producers in Indonesia and a hike in import levies by key market India. Concurrently, CPO price premium against SBO might also exert further downward pressure on CPO prices due to substitution effect within the vegetable oil market. For now, we maintain our full-year forecast for average CPO price at RM4,000/RM3900 for CY24/C25.

24-month average CPO price trend (MYR/mt)



Source: MPOB

- **Keeping Neutral stance.** We are maintaining our **Neutral** stance on the sector, as we expect the softening of CPO price with inventory pilling up. Furthermore, the plantation sector may continue to face significant challenges, including intensifying competition from neighboring countries and other global vegetable oil producers, which could further pressure market dynamics. We keep our **HOLD** calls for **Kuala Lumpur Kepong (FV: RM20.35)**, **Kim Loong Resources (FV: RM2.35), Hap Seng Plantations (FV: RM1.80), United Plantation (FV: RM27.00), and Sarawak Plantations (FV: RM2.25).**

Company	Price (RM) as at 10Oct24	P/E (x) 2023	2024F	2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside
United Plantation Bhd	25.90	15.55	14.43	14.29	6.02	27.00	4.2%
Hap Seng Plantations Holdings Bhd	1.76	14.15	13.52	12.68	5.11	1.80	2.3%
Kim Loong Resources Bhd	2.37	15.54	14.72	14.90	6.33	2.35	-0.8%
Sarawak Plantations Bhd	2.31	10.00	8.95	8.17	7.36	2.25	-2.6%
Kuala Lumpur Kepong Bhd	21.12	27.30	26.10	18.68	2.84	20.35	-3.6%

 # Kuala Lumpur Kepong Bhd data based on FYE Sep

 # Kim Loong ResourcesBhd data based on FYE Jan

Source: Apex Securities Bhd, Bloomberg

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

Head Office:
5th Floor Menara UAC, 12, Jalan PJU 7/5,
Mutiara Damansara,
47800 Petaling Jaya,
Selangor Darul Ehsan, Malaysia

General Line: (603) 7890 8899

Petaling Jaya Office:
16th Floor, Menara Choy Fook Onn,
No.1B Jalan Yong Shook Lin,
46050 Petaling Jaya,
Selangor Darul Ehsan, Malaysia

General Line: (603) 7620 1118

DEALING TEAM

Head Office:
Kong Ming Ming (ext 2002)
Shirley Chang (ext 2026)
Norisam Bojo (ext 2027)
Ahmad Mujib (ext 2028)

Institutional Dealing Team:
Siti Nur Nadhirah (ext 2032)

PJ Office:
General Line: (603) 7620 1118
Azfar Bin Abdul Aziz (Ext 822)

RESEARCH TEAM

Head Office:
Kenneth Leong (ext 2093)
Steven Chong (ext 2068)
Jayden Tan (ext 2069)
Chelsea Chew (ext 2070)
Tan Sue Wen (ext 2095)

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