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## Plantation Sector

Neutral (↔)

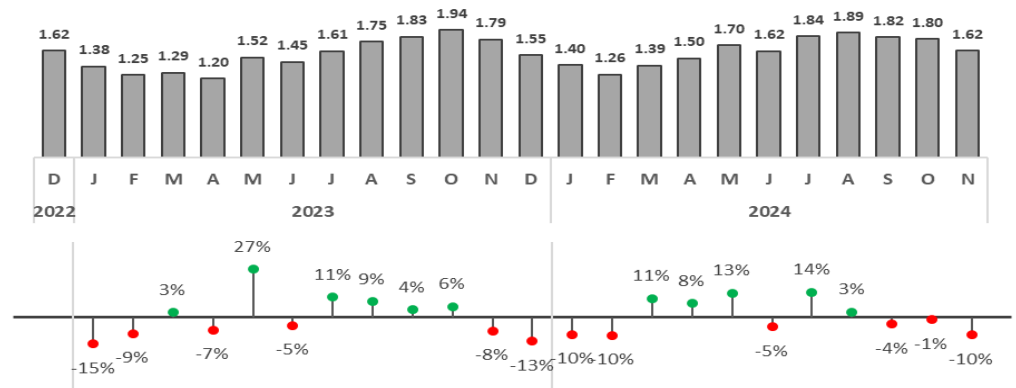
### CPO prices surged with the onset of the monsoon.

#### Executive Summary

- CPO production tumbled due to the wet weather, but it was slightly below our expectation.
- CPO price soared above RM5,300/mt level amid low production cycle due to the monsoon season.
- Maintain neutral rating on the sector given that valuation has fully reflected the surge in CPO price. Top pick: Nil.

**Lower CPO production in November.** CPO production in November was -9.8% mom lower and was slightly below with ours and market expectations. We reckon that the weaker CPO production was attributed to the wet weather that had complicated harvesting. We expect CPO production to remain tepid going forward, as the wet weather and floods would continue to weigh on CPO production.

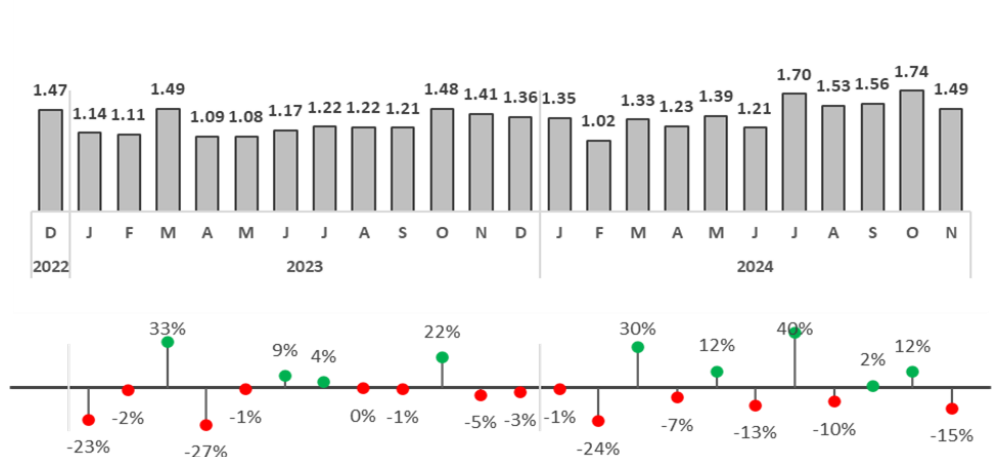
#### Monthly CPO production ('m tonnes)



Source: MPOB

**Weaker palm oil demand.** Palm oil export eased -14.7% mom in November as palm oil export normalised from the strong demand in the past five months. Palm oil export dropped after having a good run since June as refiners delayed palm oil shipment amid colder weather in the Northern Hemisphere. Meanwhile, independent cargo surveyor Intertek reported that palm oil export data for the first 10 days of November fell -15.8% mom of which we reckon that was attributed to the colder weather effect.

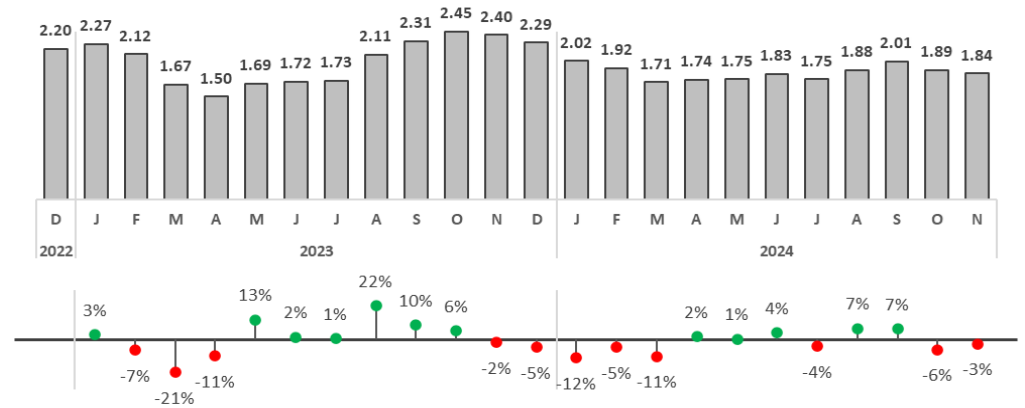
#### Monthly CPO export ('m tonnes)



Source: MPOB

**Palm oil inventory stayed benign below 2mil tonnes mark.** November palm oil stock level recorded at 1.84m tonnes (-2.6% mom). The lower stockpile was rendered to the lower palm oil production coupled with slight increase in domestic consumption. Moving forward, we expect palm oil inventory trend downwards in the coming months amid low production cycle.

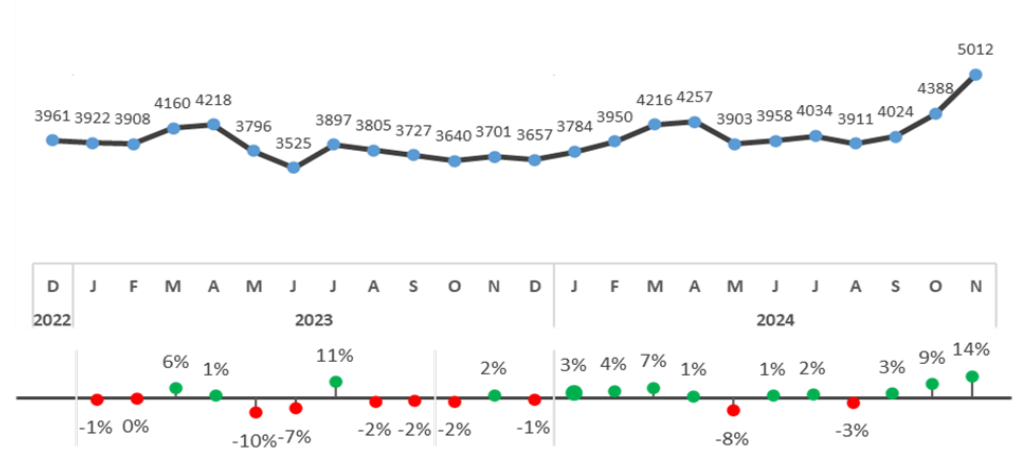
Monthly CPO inventory



Source: MPOB

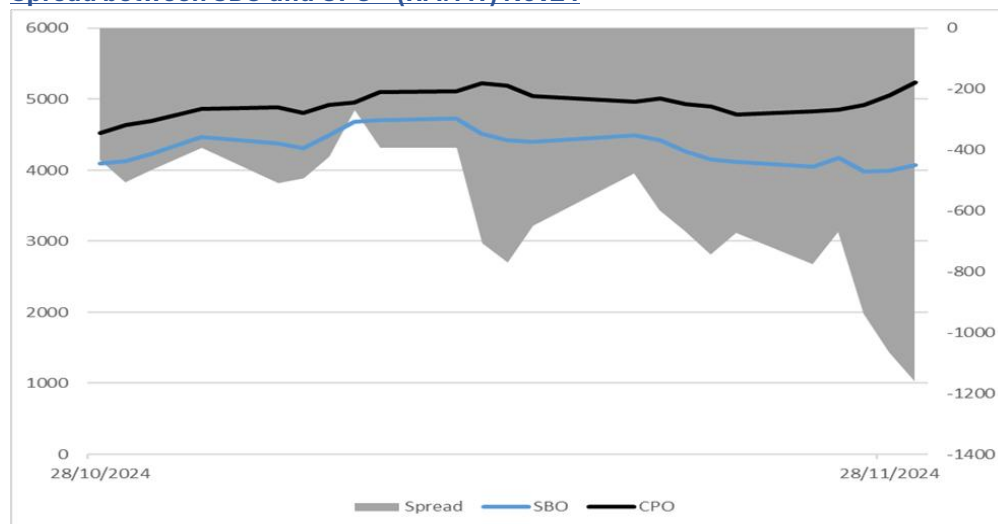
**CPO price soared in November on low supply concern.** CPO price was having a bull run in November by surging to the highest level in more than one year. Average CPO price in November recorded at RM5,012/mt, jumped +14.2% mom against the average price of RM4,388/mt in October. CPO price was boosted by concerns that the monsoon season on eastern coast of Peninsular Malaysia would result in lower CPO supply, as the risk of flooding may disrupt harvesting. Meanwhile, spot CPO price is currently hovering at above RM5,341/mt level. We reckon that CPO price would stay put above RM5,000/mt ,supported in the coming months amid low production cycle.

24-month CPO price trend (RM/mt)



Source: MPOB

## Spread between SBO and CPO – (RM/MT) Nov24



Source: Bloomberg

**Floods alert was issued but could be milder.** The heavy rainfall in eastern Malaysia has led to severe flooding at end-Nov. The situation was further aggravated by high sea tides, which obstructed the drainage of rainwater from rivers into the South China Sea. According to the Malaysian Meteorological Department, a week-long monsoon surge could bring renewed heavy rain to the seven states including Perlis, Kedah, Kelantan, Terengganu, Perak, Pahang, and Johor which was already affected by floods. While a second wave of heavy rainfall is expected in mid-Dec, the department expect it to be less severe than the previous one.

**Keeping Neutral stance.** Although concerns over low supply due to the monsoon floods may affect CPO production moving forward, we believe investors have already factored in this impact, as reflected in the lack of movement in the share prices for most planters. We keep our **HOLD** calls with unchanged TP for **Kuala Lumpur Kepong (FV: RM21.60)**, **Kim Loong Resources (FV: RM2.80)**, **Hap Seng Plantations (FV: RM2.20)**, **United Plantation (FV: RM28.40)**, and **Sarawak Plantations (FV: RM2.50)** and **Sime Darby Guthrie (FV: RM4.50)**.

## Peers Comparison

Company	FYE	Price (RM)	P/E (x)		P/B (x)		Dividend Yield (%)	Target Price (RM)	Potential Upside/Downside	ESG Rating
		as at 10Dec24	2024F	2025F	2024F	2025F				
Kim Loong Resources Bhd	Jan	2.54	15.2	15.2	2.7	2.6	5.7	2.80	15.9%	★★★
Sarawak Plantations Bhd	Dec	2.41	9.5	8.9	0.9	0.8	6.6	2.50	10.3%	★★★
Hap Seng Plantations Hldg Bhd	Dec	2.14	12.6	12.7	0.9	0.8	3.7	2.20	6.5%	★★★
Kuala Lumpur Kepong Bhd	Sep	21.60	18.9	17.4	1.7	1.6	2.8	21.60	2.8%	★★★
United Plantation Bhd	Dec	31.60	17.5	17.0	4.4	4.2	4.9	28.40	-4.3%	★★★★
Sime Darby Guthrie Bhd	Dec	5.02	24.4	21.5	1.8	1.7	2.7	4.50	-6.7%	★★★★

\*FY23F and FY24F refers to FY24F and FY25F data

Source: Apex Securities Bhd

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#### Recommendation Framework:

**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.

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#### ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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As of **Wednesday, 11 Dec, 2024**, the analyst(s), whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

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