

Steven Chong  
 (603) 7890 8888 (ext 2093)  
[stevenchong@apexsecurities.com.my](mailto:stevenchong@apexsecurities.com.my)

## Plantation Sector

Neutral (↔)

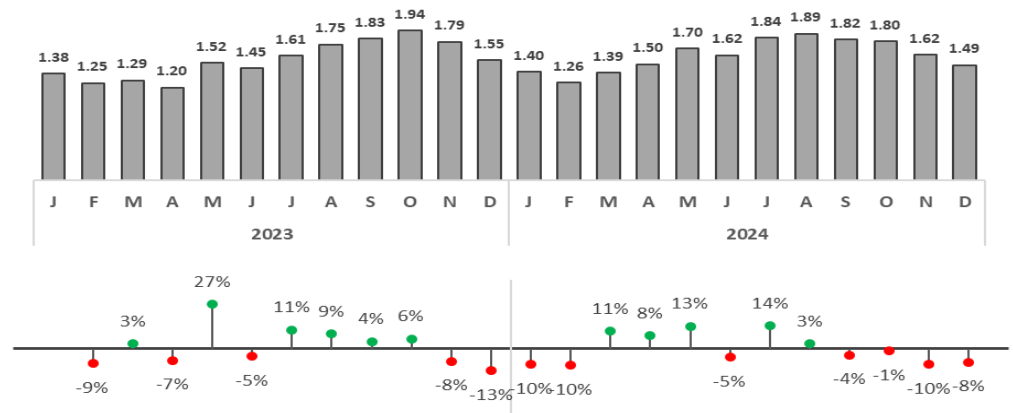
### Low production cycle keeping CPO price elevated

#### Executive Summary

- We estimate CPO production to recover going forward after getting bogged down by El Nino in 2024.
- CPO price is expected to remain elevated in 1QCY25 as the implementation of biodiesel mandates in Indonesia is well poised to increase the CPO consumption, resulting in palm oil inventory to be kept in check.
- Maintain Neutral rating on the sector given that valuation has fully reflected the surge in CPO price. Top pick: KIML and HAPL.

**Lower CPO production in December.** CPO production in Dec 2024 weakened by -8.3% mom after posting three consecutive months of lower production as CPO production as it entered the low cycle in Q4 2024. CPO production in Dec 2024 registered at 1.5m tonnes, bringing full year CPO production to 19.3m tonnes, an increase of +4.2% yoy as compared to 18.6m tonnes in CY23. Looking ahead, we forecast CPO production to grow moderately at +1.3% to 19.5m tonnes in CY25 as we reckon that CPO production would recover after production was bogged down by El Nino in CY24.

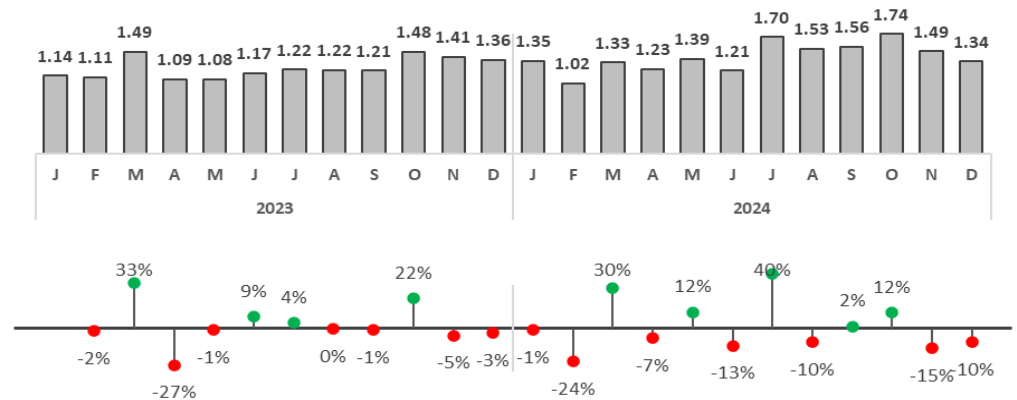
#### Monthly CPO production ('m tonnes)



Source: MPOB

**Palm oil export heading downwards which is in line with past trend.** Palm oil export slid -10.0% mom in Dec 2024 after declining -14.6% in the previous month. Palm oil export in CY24 registered at 16.2m tonnes, declined by -4.3% yoy as compared to palm oil export of 16.9m tonnes in CY23. The decrease was attributed to an increased supply of substitute edible oils, weaker-than-anticipated demand from China and India, and adverse weather conditions. Meanwhile, independent cargo surveyor Intertek reported that palm oil export data for the first 15 days of Dec 2024 fell -9.8% as compared to the corresponding period in November of which we reckon that was attributed Northern winter season.

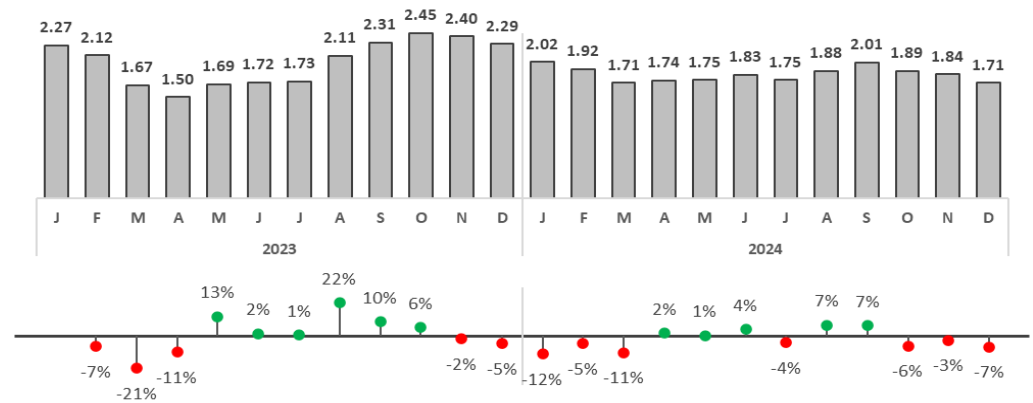
### Monthly CPO export ('m tonnes)



Source: MPOB

**Palm oil inventory closed lower in 2024.** End Dec 2024 palm oil stock level recorded at 1.7m tonnes, dropped -5.4% mom from 1.8m tonnes in Nov 2024. The drawdown in stockpile was rendered to the low production cycle of palm oil which is in line with past performance in the last quarter. Moving forward, we expect palm oil inventory to decline in the coming month, led by softer palm oil production and higher demand during the festive seasons in 1QCY25.

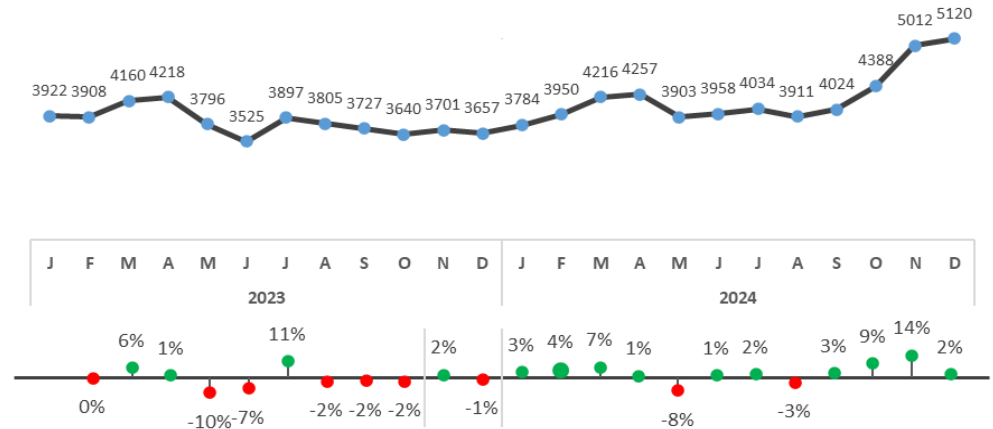
### Monthly CPO inventory



Source: MPOB

**CPO price flattish in Dec 2024.** Average CPO price in Dec 2024 was little changed as compare to the previous month as the positive expectation of lower CPO supply going forward was offset by the weak CPO demand amid winter season. In a nutshell, CPO price in CY24 averaged at RM4213/mt, up +10.0% as compared to 2023. CPO price had a strong run in CY24, owing to tightening of supply from Indonesia and Malaysia from adverse weather coupled with optimism from Indonesia biodiesel demand.

### 24-month CPO price trend (RM/mt)



Source: MPOB

**CPO price assumption for CY25 – RM4,300/mt.** While the CPO price surged in 2024, we expect CPO price to average at RM4,300/mt in CY25. This is premised on the recovery on CPO supply in the Q2 CY25 onwards from both Indonesia and Malaysia. That said, we expect CPO price to remain elevated in Q1 CY25 as the implementation of biodiesel mandates in Indonesia is well poised to increase the CPO consumption and keep the palm oil inventory in check.

**Keeping Neutral stance.** We maintain a **Neutral** stance for now, as we believe CPO prices are unlikely to remain sustainable above RM5,000/mt throughout the year, which is a key factor for a potential sector re-rating. We keep our **HOLD** recommendation for **Kuala Lumpur Kepong (FV: RM21.60)**, **United Plantation Bhd (FV: RM28.40)** and **Sime Darby Guthrie (FV: RM4.50)**. On the flip side, we continue to favour pure planters like **Kim Loong Resources (BUY; FV: RM2.80)**, **Hap Seng Plantations (BUY; FV: RM2.20)** **Sarawak Plantations (HOLD; FV: RM2.50)** as they are well-positioned to benefit from the near-term rise in CPO prices.

### Peers Comparison

Company	FYE	Price (RM)	P/E (x)		P/B (x)		Dividend Yield (%)	Target Price (RM)	Capital Upside/Downside	ESG Rating
		as at 10Jan25	2024E	2025F	2024E	2025F				
Kim Loong Resources Bhd*	Jan	2.38	15.2	15.2	2.7	2.6	5.7	2.80	17.6%	★★★
Hap Seng Plantations Hldg Bhd	Dec	1.88	12.6	12.7	0.9	0.8	3.7	2.20	17.0%	★★★
Sarawak Plantations Bhd	Dec	2.33	9.5	8.9	0.9	0.8	6.6	2.50	7.3%	★★★
Kuala Lumpur Kepong Bhd*	Sep	21.10	18.9	17.4	1.7	1.6	2.8	21.60	2.4%	★★★
United Plantation Bhd	Dec	31.50	17.5	17.0	4.4	4.2	4.9	28.40	-9.8%	★★★★
Sime Darby Guthrie Bhd	Dec	4.92	24.4	21.5	1.8	1.7	2.7	4.50	-8.5%	★★★★

\*2024 and 2025 refers to 2025F and 2026F 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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(a) nil.

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