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Plantation Sector

Neutral (↔)

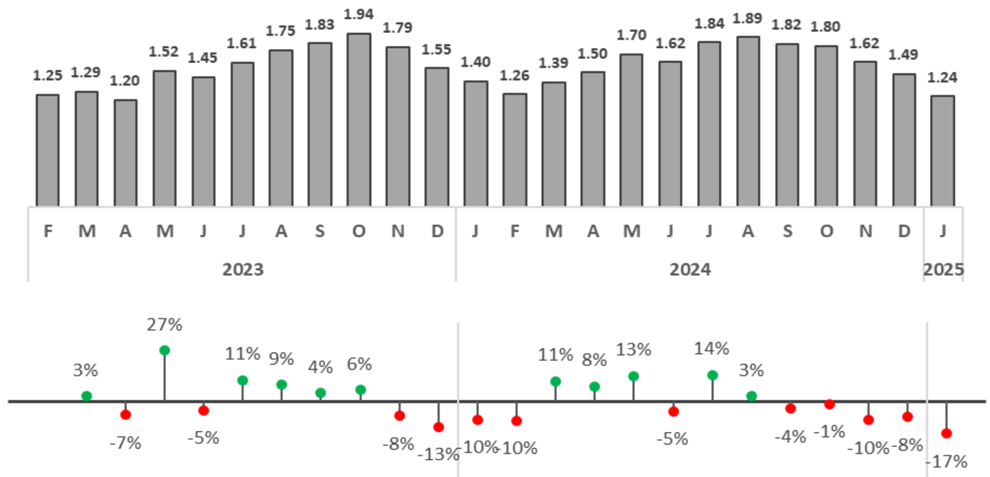
Soft demand triggers CPO price correction

Executive Summary

- **We estimate CPO production to pick up in Mar 2024 as weather conditions stabilise, allowing for improved harvesting and better FFB yield.**
- **CPO price to stay elevated throughout Q1 2025, as we expect palm oil demand to recover post winter in Feb 2025.**
- **Maintain Neutral rating on the sector given that valuations has fully reflected the surge in CPO price. Top pick: KIML and HAPL.**

CPO production shrank in January 2024. CPO production fell for the fifth consecutive month in Jan 2025 amid low production season. CPO production in Jan fell 16.8% mom. CPO production was typically lower in the first quarter as wet weather had complicated harvesting. Looking ahead, we expect this downward trend to continue in Feb 2025 before picking up in Mar 2025 as weather conditions stabilise, allowing for improved harvesting and better FFB yield.

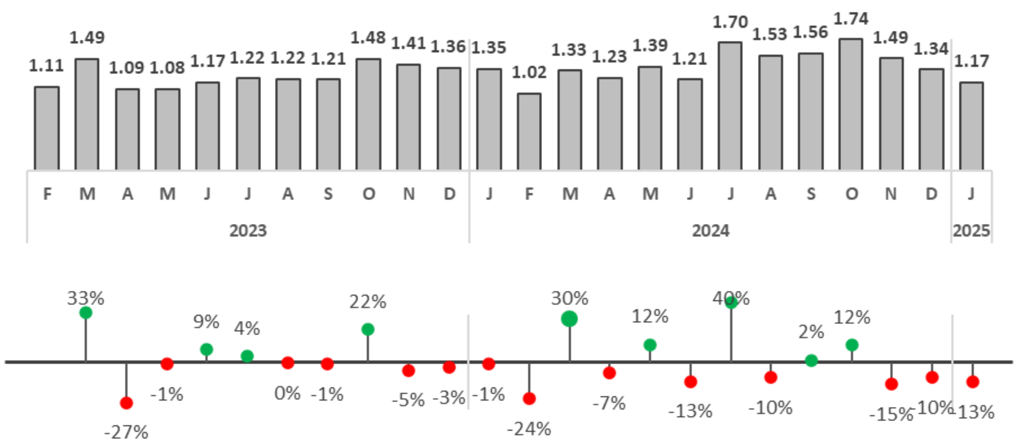
Monthly CPO production ('m tonnes)



Source: MPOB

Weaker palm oil demand. Palm oil exports in Jan 2025 were -12.9% lower than the previous month following notable decline of -14.6% mom in Nov 2024 and -10.0% mom in Dec 2024. Palm oil demand stayed subdued in the past three months as cold weather in Northern Hemisphere has dented demand for palm oil. Nonetheless, actual export figures were still better than independent cargo surveyor Intertek's initial projection, which had forecasted an -18.9% mom drop for the first 25 days of January.

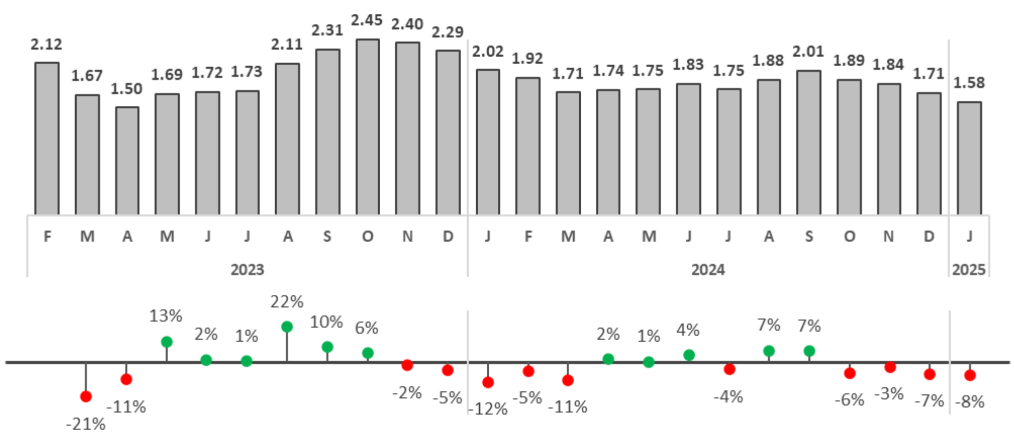
Monthly CPO export ('m tonnes)



Source: MPOB

Drawdown in palm oil inventory. End Jan 2025 palm oil stock level recorded at 1.58m tonnes, -7.5% mom lower than the inventory level of 1.71m tonnes in end Dec 2024. The decline in palm oil stock level was in line with past historical trend due to the sharp fall of CPO production. Going forward, we anticipate a further decrease in palm oil inventory in February, as CPO production are expected to remain tepid from seasonal low yields.

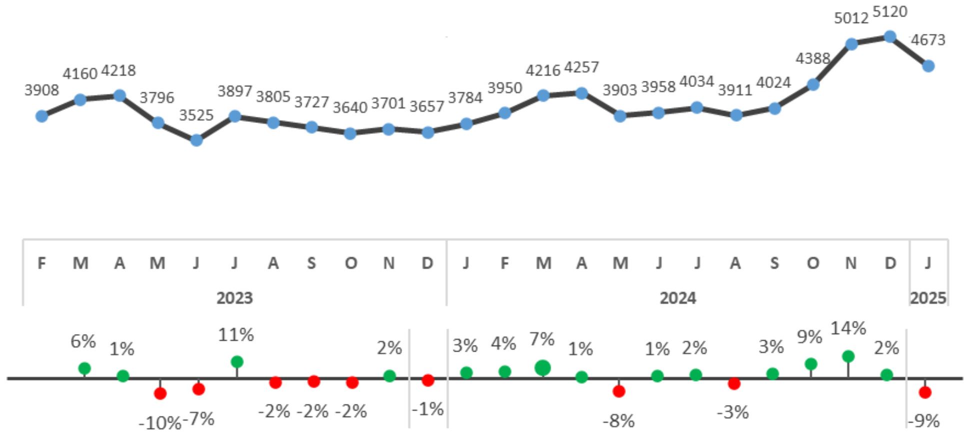
Monthly CPO inventory



Source: MPOB

CPO price in Jan 2025 average at RM4,673, down -8.7% mom. CPO price fell in Jan 2025 after recording two consecutive months of gains, sliding by -8.7% mom as compared to the preceding month. We reckon the correction was weighed down by the lingering concern over weak palm oil demand amid winter in Northern Hemisphere despite CPO production was seasonally lower during the period. Nevertheless, we expect CPO price to gain traction when the palm oil demand recovers post winter in Feb 2025. Besides, we believe the narrowing price gap between soybean oil and CPO, along with a weaker Ringgit, will support palm oil exports by making it more affordable for overseas refiners.

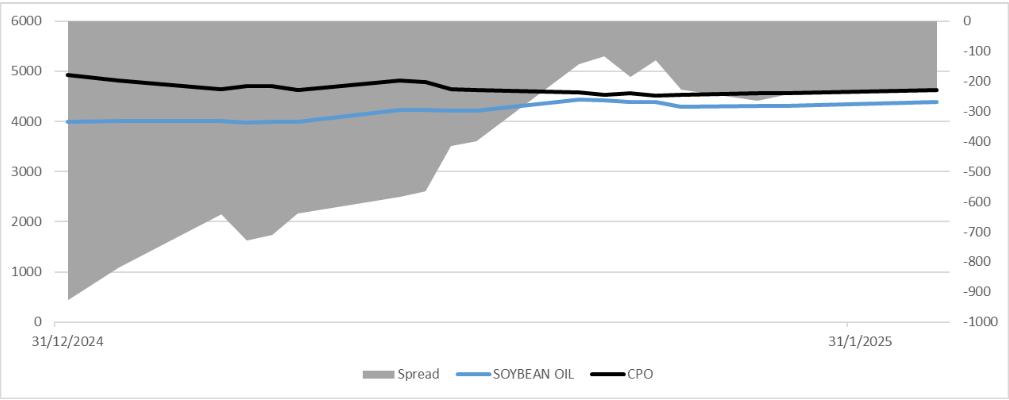
24-month CPO price trend (RM/mt)



Source: MPOB

Impending volatility in soybean oil price from trade war. To recap, during the 2018 trade war, US soybean exports to China sank from USD12.2bn in 2017 to USD3.1bn in 2018, with China turning to Brazil and Canada to fill the gap. As a result, soybean oil prices fell sharply during this period, extending through 2020. However, the downward trend was eventually halted after the US and China signed the "Phase One" trade deal, which gradually supported a recovery in soybean oil prices. While China has yet to target the soybean market in retaliation to the new US tariffs, such an action could reduce demand for soybeans, which would negatively impact soybean oil prices. This could also widen the price gap between CPO and soybean oil, making soybean oil more competitive in the vegetable oil market.

1-month price spread between spot SBO and CPO price (RM/mt)



Source: Bloomberg

Keeping Neutral stance. We maintain our neutral stance for 2025 with unchanged CPO price assumption of RM4,300 for the year. That said seasonally lower CPO production in the first quarter is expected to support higher prices in Q1 2025, with pure-play planters likely to benefit more than integrated players. We keep **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 (FV: RM2.60)**, **Hap Seng Plantations (FV: RM2.20) Sarawak Plantations (FV: RM2.50)** as they are well-positioned to benefit from the near-term rise in CPO prices.

Peers Comparison

Company	FYE	Price (RM) as at 10Jan25	P/E (x) 2024E	P/E (x) 2025F	P/B (x) 2024E	P/B (x) 2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside/Downside	ESG Rating
Kim Loong Resources Bhd*	Jan	2.35	15.2	15.2	2.7	2.6	5.7	2.60	16.3%	★★★
Hap Seng Plantations Hldg Bhd	Dec	1.99	12.6	12.7	0.9	0.8	3.7	2.20	14.3%	★★★
Sarawak Plantations Bhd	Dec	2.37	9.5	8.9	0.9	0.8	6.6	2.50	12.0%	★★★
Kuala Lumpur Kepong Bhd*	Sep	20.22	18.9	17.4	1.7	1.6	2.8	21.60	9.6%	★★★
Sime Darby Guthrie Bhd	Dec	4.80	24.4	21.5	1.8	1.7	2.7	4.50	-3.6%	★★★
United Plantation Bhd	Dec	31.24	17.5	17.0	4.4	4.2	4.9	28.40	-4.2%	★★★

**2024 and 2025 refers to 2025F and 2026F data*

Source: Apex Securities Bhd

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

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.

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

As of **Wednesday, 12 Feb, 2025**, 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.