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Plantation Sector

Neutral (↔)

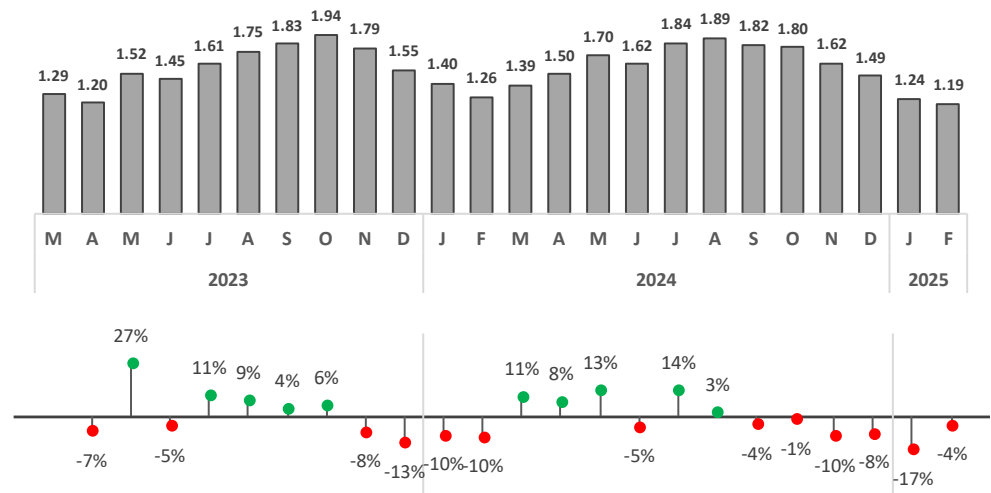
CPO Price Stabilising for Now

Executive Summary

- Lower CPO production in February due to shorter working month and the impact of wet weather.
- CPO price may extend its upward trajectory in coming months, underpinned by easing palm oil inventory level.
- Maintain Neutral rating on the sector with unchanged CPO price assumption of RM4,300 for the year. Top pick: KIML (BUY; TP:RM2.60), SWKPLNT (BUY; TP:RM2.60) and HAPL (BUY; TP:RM2.35).

CPO production in February contracted. CPO production in Feb 2025 declined by -4.2% mom to 1.2m tonnes after posted a -16.6% mom decrease in the previous month. We reckon that the lower production in Feb 2025 was mainly due to the shorter working month and disruptions caused by flooding. Meanwhile, CPO production slid for six consecutive months since Sep 2024 as 4QCY24 and 1QCY25 are traditionally the weaker production seasons. Moving forward, we expect CPO production in Mar 2025 to tick up as CPO production normalises.

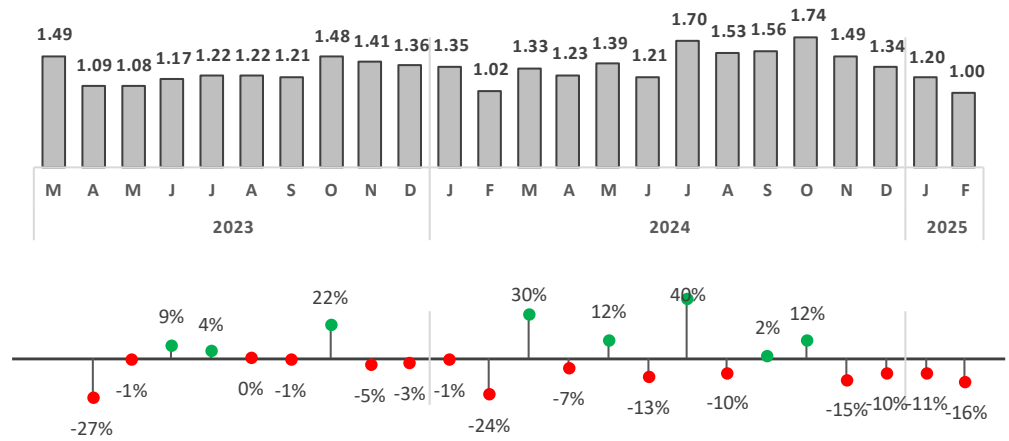
Monthly CPO production ('m tonnes)



Source: MPOB

Weaker palm oil demand. Palm oil export in Feb 2025 dropped -16.3% mom after registered a decline of -10.8% in Jan 2025. We reckon that the sharp decline in palm oil export was owing to normalised palm oil demand in 1QCY25 from seasonally stronger demand in 4QCY24. In addition, we believe the shorter working month in Feb 2025 has attributed to the lower export figures. Meanwhile, cumulative 2-month palm oil export registered at 2.2m tonnes, down -7.4% yoy, indicated weaker palm oil demand amid the strengthening of CPO prices.

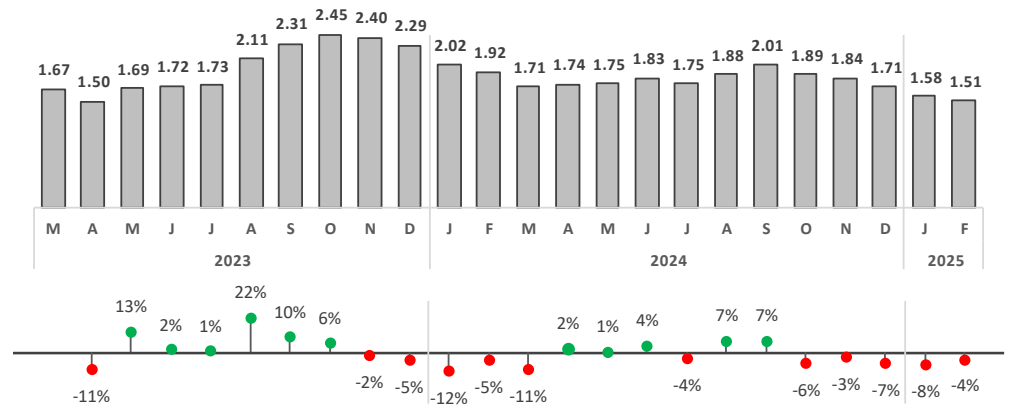
Monthly CPO export ('m tonnes)



Source: MPOB

Easing palm oil inventory. Palm oil inventory declined by -4.3% mom in Feb 2025 to 1.5m tonnes from 1.6m tonnes in Jan 2025. This decline was in line with lower palm oil production and is likely to remain supportive towards CPO prices in the 1QCY25. At 1.5m tonnes, inventory levels remain relatively low, well below the 2.0m-tonne threshold. We believe a meaningful correction in CPO prices will only occur if inventory levels exceed the 2.0m-tonne mark.

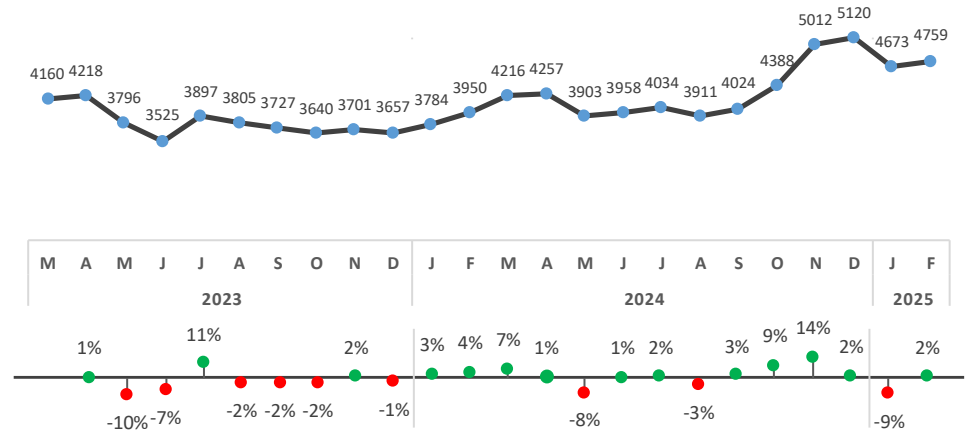
Monthly CPO inventory



Source: MPOB

Average CPO price in Feb 2025 was RM4,759/tonne. CPO price recovery has recorded mild recovery in Feb 2025 by posting +1.9% mom gain to RM4,759/tonne. MPOB's CPO spot price is currently hovering at above RM4,700 level and we expect the CPO price to remain on the upward trajectory in the coming months underpinned by easing palm oil inventory level.

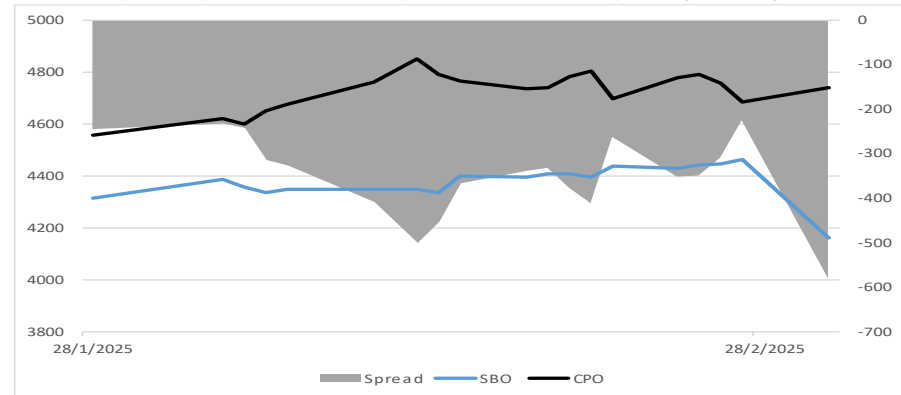
24-month CPO price trend (RM/mt)



Source: MPOB

Generally bearish view on 2025 CPO price outlook presented by renowned industry consultants in Palm Oil Conference last month. 2025 Palm Oil Conference was held in Kuala Lumpur last month and generally most of the speakers hold bearish view on CPO price outlook. Notably, Dorab Mistry pointed out that palm oil is losing its competitiveness to other edible oils, such as soybean oil. He expects CPO prices to trade between MYR4,000 and MYR4,600 until the end of Mar 2025 before declining as palm oil production picks up. Meanwhile, Dr. McGill forecasts that CPO prices will weaken in the first half of the year, reaching MYR4,000–4,200 by Jul 2025. However, he anticipates a rebound in the second half, driven by Indonesia’s biodiesel B40 mandate.

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. In the meantime, the shrinking palm oil inventory and higher demand for palm oil ahead of Ramadhan month shall provide mild support to the CPO price. We keep **HOLD** recommendation for **Kuala Lumpur Kepong (FV: RM21.60)**, **United Plantation Bhd (FV: RM21.50)** and **Sime Darby Guthrie (FV: RM5.20)**. On the flip side, we continue to favour pure planters like **Kim Loong Resources (FV: RM2.60)**, **Hap Seng Plantations (FV: RM2.35)** **Sarawak Plantations (FV: RM2.60)** 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)		P/B (x)		Dividend Yield (%)	Target Price (RM)	Potential Upside/Downside	ESG Rating
			2025E	2026F	2025E	2026F				
Hap Seng Plantations Hldg Bhd	Dec	2.03	10.2	10.4	0.7	0.7	5.9	2.35	21.6%	★★★
Sarawak Plantations Bhd	Dec	2.28	7.1	7.0	0.8	0.8	6.6	2.60	20.6%	★★★
Kim Loong Resources Bhd*	Jan	2.29	13.5	13.7	2.2	2.2	5.9	2.60	19.5%	★★★
Sime Darby Guthrie Bhd	Dec	4.80	19.8	18.9	1.5	1.5	3.5	5.20	11.9%	★★★
Kuala Lumpur Kepong Bhd*	Sep	20.46	17.3	19.8	1.5	1.4	1.0	21.60	6.5%	★★★
United Plantation Bhd	Dec	23.04	17.0	16.9	5.1	4.9	5.0	21.50	-1.7%	★★★

*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

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(a) nil.
