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Plantation Sector

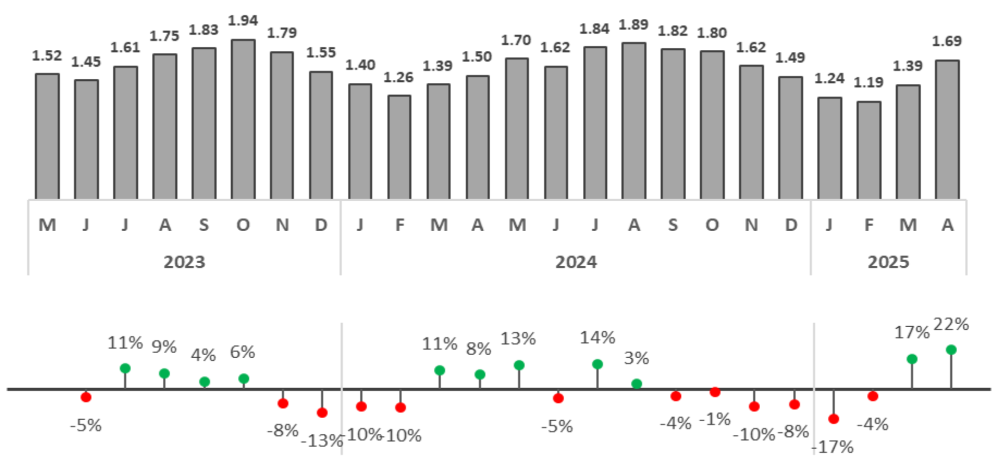
Neutral (↔)

CPO production in high gear

- **CPO production jumped +21.5% mom and +12.3% yoy in April as output normalised following better weather condition.**
- **Market sentiment improved following the US-China 90 days trade deal; however, CPO price weakness remains a concern.**
- **Maintain Neutral rating on the sector with unchanged CPO price assumption of RM4,300 for the year. Top pick: SDG.**

CPO production surged in April in line with expectations. CPO production increased +21.5% mom in April after recorded strong growth (+16.8% mom) in March. Positive CPO production growth is within our expectation as we believe CPO production would normalise starting from 2QCY25. On a yoy basis, CPO production growth in April rose +12.3% yoy, reinforces our view that CPO production growth in 2025 would strengthen to c.19.7 mt (+2.0% yoy) following the dry spell in 2024. Moving forward, we expect CPO production to continue pick up in May at the range of 4%-8%.

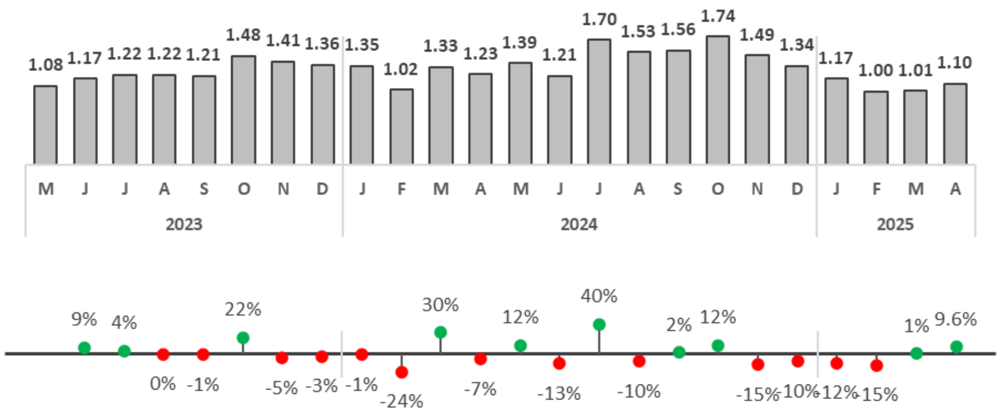
Monthly CPO production ('m tonnes)



Source: MPOB

Robust palm oil export growth. Palm oil export in April rose +9.6% mom in April rebounding from relatively flat export figures in March. We reckon that the recovery in palm oil export was owing to stronger demand from importing countries due to diminishing competitiveness of soybean oil prices and trade diversion triggered by tariff-related factors. According to Intertek, stronger palm oil export in April primarily stem from the higher demand from China (+54.4% mom) and India (+25.3% mom), while exports to the EU declined (-21.1% mom). Nevertheless, on a yoy basis, all three major importers continue to record negative growth, indicating weakness in consumption amid ongoing global uncertainties. Moving forward, we expect palm oil export in May to remain resilient underpinned by the current CPO price weakness.

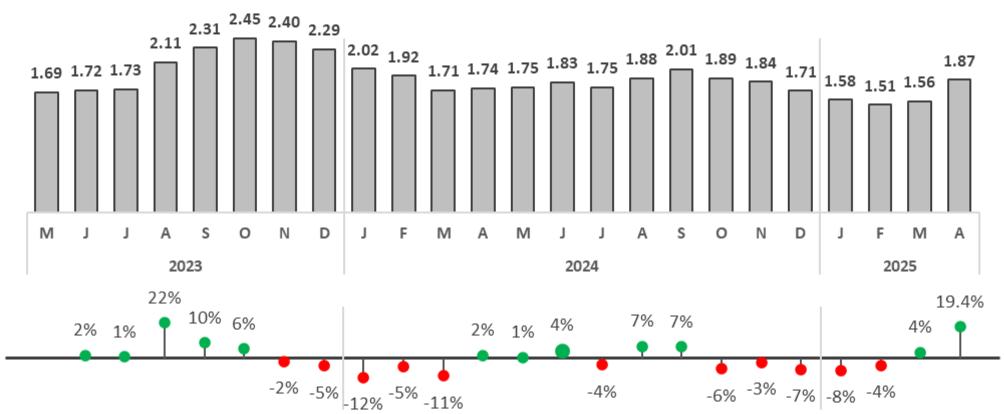
Monthly CPO export ('m tonnes)



Source: MPOB

Palm oil inventory at all-time high. Palm oil inventory in April has achieved this year's all-time high level, registered at 1.8m tonnes. Surge in palm oil stockpiles was owing to the high CPO production that had outstripped the export growth. Looking forward, we expect palm oil closing stocks to build up, ranging between 1.8m-1.9m tonnes in tandem with the higher CPO production in 2Q25.

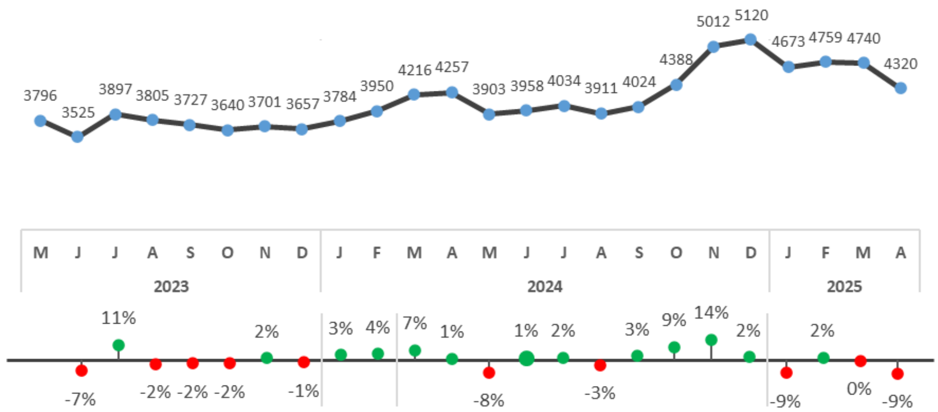
Monthly CPO inventory



Source: MPOB

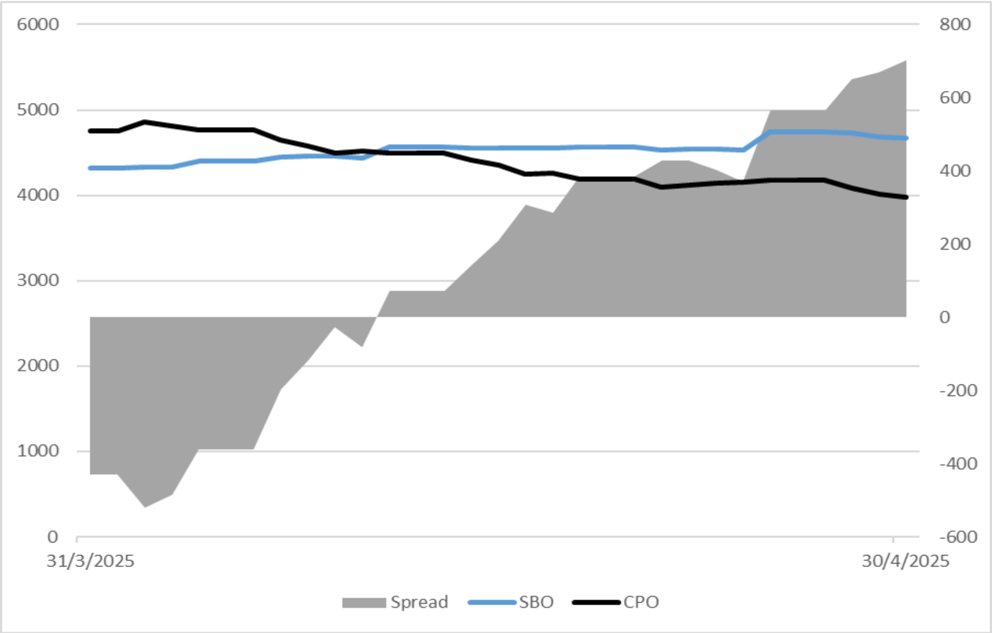
CPO prices experiencing freefall in April. Average CPO price in April was RM4,319.5/mt, sliding -8.9% mom. We note that CPO prices slid to a new low in May (dropping below RM3,800/mt) dragged by uncertainty on Trump's reciprocal tariff. On the bright side, the sharp decline in CPO prices has brought it back to a discount relative to soybean oil. We anticipate this price gap will encourage buyers to switch to palm oil, thus keeping CPO prices stable in the coming months. Looking ahead, we expect CPO prices to ease further on a mom basis and eventually hover within the RM3,600–3,800/mt range.

24-month CPO price trend (RM/mt)



Source: MPOB

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



Source: Bloomberg

Global trade flow temporary affected. The trade dispute between the US and China has inevitably caused disruptions to global trade, at least in the short term, as importers move to diversify their supply chains to mitigate the impact of tariffs. In 1Q25, China's imports of US soybeans declined significantly, with much of the trade shifting towards Brazil. Although the temporary 90-day trade agreement between the US and China may lead to a partial rebound in demand for US soybeans, we believe the restoration of trust between both trading partners will take time, resulting in a slower pace of demand recovery.

USDA estimated higher world soybean production and closing stock. Global soybean production is forecast at a new record in 2025/26, with yet another record crop in Brazil driving global production despite smaller crops in North. We reckon higher soybean production coupled with slower pace demand recovery could pressure near-term soybean prices.

Plantation stocks remained resilience despite setbacks. Despite the recent weakness in CPO prices, which have declined -23.0% YTD, the KL Plantation Index remained relatively stable, shedding just -3.8% over the same period. The historical correlation between the index and CPO prices has remained notably low over the past year at 0.28x, suggesting a shift in investor focus toward business fundamentals rather than short-term commodity price movements. In addition, we also note that the plantation index is currently trading at a PE of 14.9x (mean), in line with its three-year historical average, which may be providing valuation support and limiting further downside.

Keeping Neutral stance. We maintain our Neutral stance on the sector, with valuations of our stock coverage based on 2025's expectations. We continue to favour integrated planters like **Sime Darby Guthrie (BUY; FV: RM5.20)** as their diversified operations are expected to provide earnings resilience amid the backdrop on CPO prices. At the same time, we maintain our **HOLD** call on **Kim Loong Resources (FV: RM2.10), Hap Seng Plantations (FV: RM2.00), and Sarawak Plantations (FV: RM2.30), United Plantation (FV: RM21.60)**. We also downgrade **Kuala Lumpur Kepong (FV: RM21.60) to HOLD (from BUY)** following the recent surge in share price.

Peers Comparison

Company	FYE	Recommendation	Price (RM) as at 13May25	Target Price (RM)	Upside/Downside	P/E (x)		P/B (x)		Dividend Yield (%)	ESG Rating
						2025F	2026F	2025F	2026F		
Sime Darby Guthrie Bhd	Dec	BUY	4.69	5.20	10.9%	19.3	18.5	1.5	1.5	3.6	★★★
Kuala Lumpur Kepong Bhd*	Sep	HOLD	20.24	21.60	6.7%	17.1	19.6	1.5	1.4	1.0	★★★
Hap Seng Plantations Hldg Bhd	Dec	HOLD	1.9	2.00	5.3%	9.6	9.8	0.7	0.7	6.3	★★★
Sarawak Plantations Bhd	Dec	HOLD	2.41	2.30	-4.6%	7.5	7.4	0.8	0.8	6.2	★★★
United Plantation Bhd	Dec	HOLD	22.98	21.60	-6.0%	18.1	18.0	5.1	4.9	2.8	★★★
Kim Loong Resources Bhd*	Jan	HOLD	2.25	2.10	-6.7%	13.9	14.0	2.2	2.2	6.1	★★★

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, 14 May, 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.