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Plantation Sector

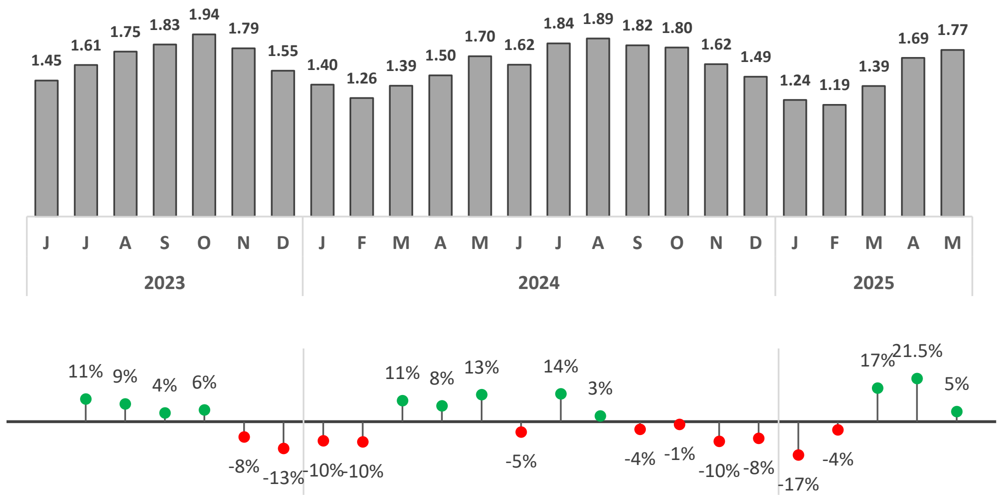
Neutral (↔)

Palm oil inventory heading north

- **CPO production in May climbed +5.1% mom as the industry enters the seasonally high output period.**
- **Malaysia's lower June CPO export duty c.USD87 per tonne vs Indonesia's steeper USD124 per tonne charges provides a competitive pricing advantage, potentially redirecting demand and supporting near-term prices.**
- **Maintain neutral rating on the sector with unchanged CPO price assumption of RM4,300 for the year. Top pick: SDG and HAPL.**

CPO production uptick in May. CPO production continued to expand in May, albeit at a slower pace, rising +5.1% mom compared to the strong +21.5% mom growth recorded in April. This marks the third consecutive month of production increase as the industry enters the seasonally high output period. Nonetheless, the growth in May fell short of market expectations at +7.7% mom. Looking ahead, we expect the uptrend in CPO production to persist in the coming months, in line with the seasonal peak typically observed throughout the third quarter.

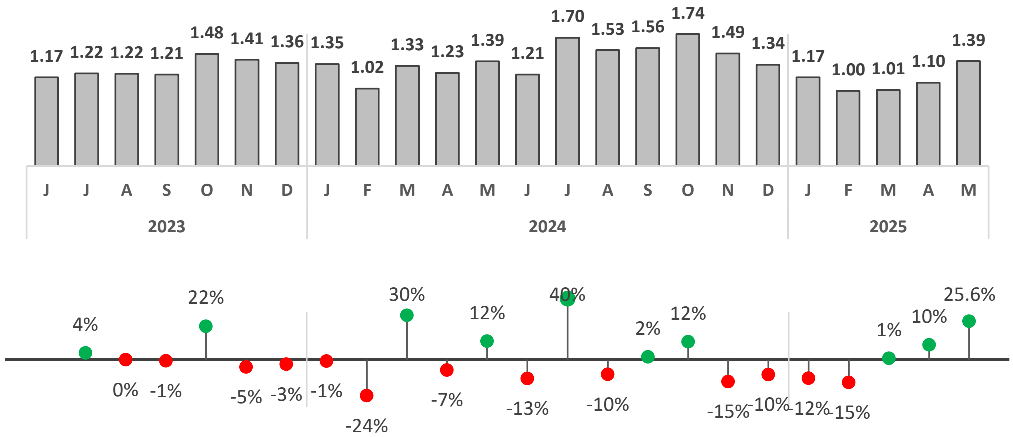
Monthly CPO production ('m tonnes)



Source: MPOB

Export registered relatively strong growth. Palm oil exports surged in May, rising +25.6% mom, driven by strong demand from key markets. According to Intertek, exports to China jumped +52.7% mom to 128,220 tonnes, while shipments to India and the EU rose +41.0% mom and +11.9% mom to 287,800 tonnes and 297,351 tonnes, respectively. That said, preliminary data for the first 15 days of June showed a -7.8% mom decline in export, suggesting that the earlier restocking momentum may be tapering off.

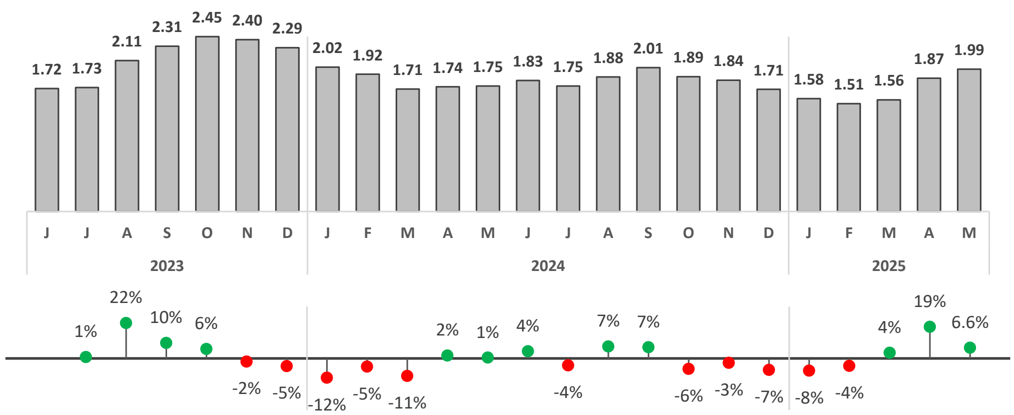
Monthly CPO export ('m tonnes)



Source: MPOB

Palm oil closing stocks pilling up. Palm oil closing stocks expanded further in May, edging closer to the 2.0 mn tonnes mark. Inventories rose +6.6% mom (from 1.87mn tonnes) and +13.5% yoy (from 1.75 mn tonnes). Despite the increase in stock levels, the stock-to-usage ratio declined to 1.6x from 1.9x, thanks to the robust export demand. Looking ahead, palm oil inventories are likely to build up in the coming months as CPO production enters its peak season.

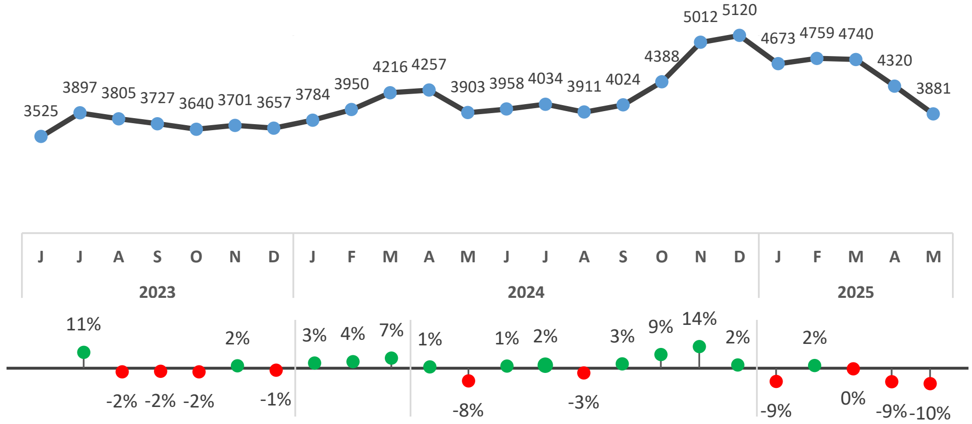
Monthly CPO inventory



Source: MPOB

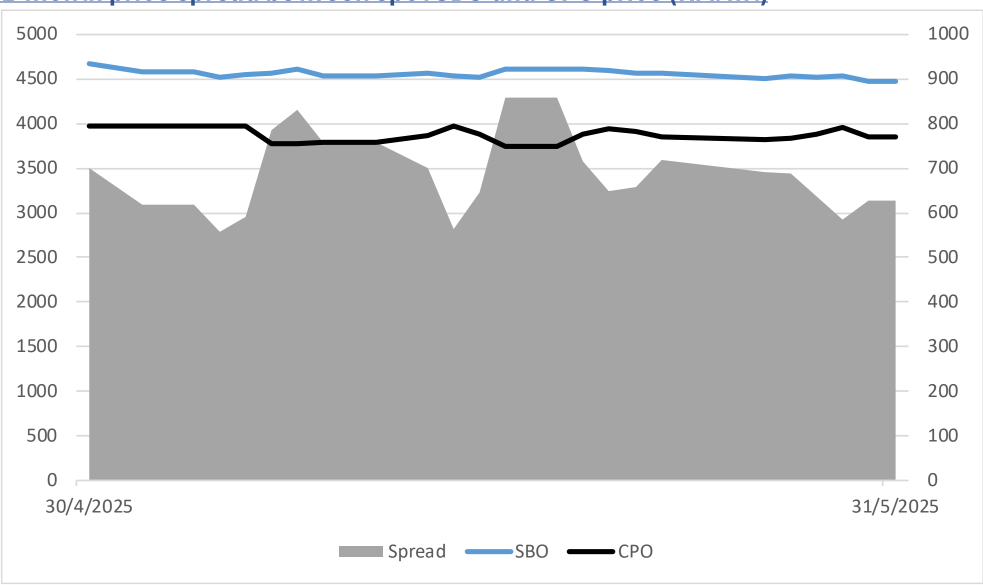
CPO price eased in May. Average CPO price in May was RM3,881/mt, eased -10.2% mom due to seasonal output increases. Nevertheless, CPO price in early-June has gained mild momentum and closing above RM3,900/mt. Soybean oil prices remain stable, supported by tighter soybean supply in the US and firm demand from China, which continues to sustain CPO's discount to soybean oil. That said, we expect gains to be capped by the seasonal peak in palm oil production, which is likely to limit further upside in the coming months.

24-month CPO price trend (RM/mt)



Source: MPOB

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



Source: Bloomberg

Malaysia CPO export duty is set at 9.5% in June. Malaysia is poised to gain a competitive advantage in the global palm oil export market in June, as its CPO export duty has been set at 9.5%, based on a reference price of RM3,926.59 per tonne (c. USD915). This translates to an effective export duty of c.USD87 per tonne. In contrast, Indonesia's CPO reference price is slightly lower at USD856.38; however, its total export charges (export tax of USD52 and a levy of USD72) amount to a steeper USD124 per tonne. While Indonesia typically dominates in terms of volume due to its larger production scale, the heavier duty may reduce its price competitiveness, potentially redirecting some demand to Malaysia and lending near-term support to CPO prices.

Keeping neutral stance. We maintain our neutral stance on the sector, as we expect softening CPO price amid a hefty inventory. We continue to favour integrated planters like **Sime Darby Guthrie (FV: RM5.20)** as we see potential upside from value unlocking of its sizeable landbank, particularly in the Klang Valley, which could act as a re-rating catalyst should monetisation efforts accelerate. We also like **Hap Seng Plantations (FV: RM2.00)**, viewing its valuation as compelling, currently trading at -0.5 std below its 3-year forward mean. At the same time, we maintain our **HOLD** call on **Kim Loong Resources (FV: RM2.10), Kuala Lumpur Kepong (FV: RM21.60), Sarawak Plantations (FV: RM2.30), and United Plantation (FV: RM21.60)**.

Peers Comparison

Company	FYE	Recommendation	Price (RM) as at 10/6/2025	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	4.52	5.20	15.0%	17.9	16.8	1.4	1.4	3.6	★★★
Hap Seng Plantations Hldg Bhd	Dec	BUY	1.79	2.00	11.7%	11.0	11.1	0.7	0.7	7.7	★★★
Kuala Lumpur Kepong Bhd*	Sep	HOLD	19.96	21.60	8.2%	82.2	78.7	1.5	1.4	0.9	★★★
United Plantation Bhd	Dec	HOLD	21.66	21.60	-0.3%	17.0	16.8	4.8	4.6	3.0	★★★
Sarawak Plantations Bhd	Dec	HOLD	2.46	2.30	-6.5%	8.2	8.7	0.9	0.9	8.1	★★★
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 + 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.

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, 11 Jun, 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.