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Plantation Sector

Neutral (↔)

Another record high palm oil inventory

- **CPO production slipped -4.5% mom in June but is expected to recover in July as the industry enters its seasonal peak.**
- **Inventory rose to 2.03m tonnes (+2.4% mom) due to softer demand from India and EU.**
- **Maintain neutral rating as the robust CPO production ahead would weigh on CPO price. Top pick: SDG and HAPL.**

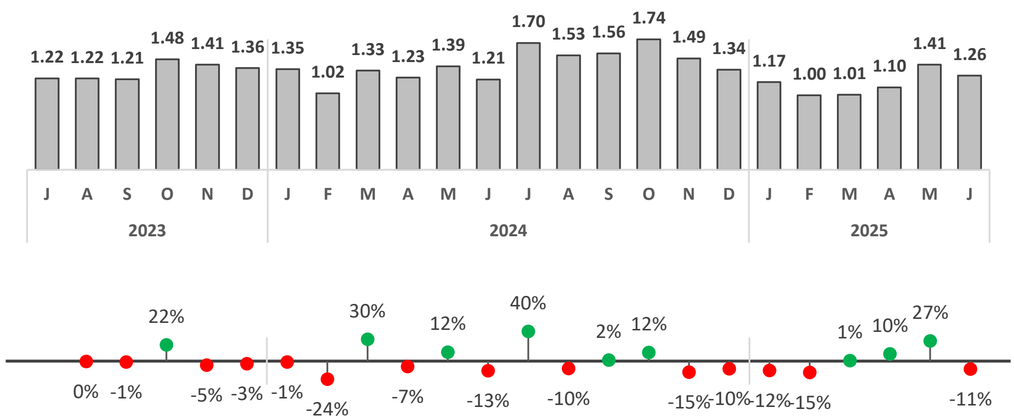
CPO production taking breather. CPO production took a breather in June, losing -4.5% mom after recording production growth for three consecutive months from March to May. The quantum of CPO production growth in June was largely in line with market expectations at 1.7m tonnes. Looking forward, we estimate a rebound in July, as palm oil production typically picks up and stays strong throughout the third quarter.

Monthly CPO production ('m tonnes)

Source: MPOB

Lower demand whittled June exports but partly mitigated by China export. Exports of palm oil shed -10.5% mom to 1.26m tonnes in June given soft demand from various export destinations, i.e India (-14.7% mom to 247,145 tonnes) and EU (-3.1% mom to 288,045 tonnes). However better demand from China (+1.3% mom to 129,905 tonnes) mitigated the adverse effect. We believe the slowdown reflects the tapering of restocking efforts in key importing countries.

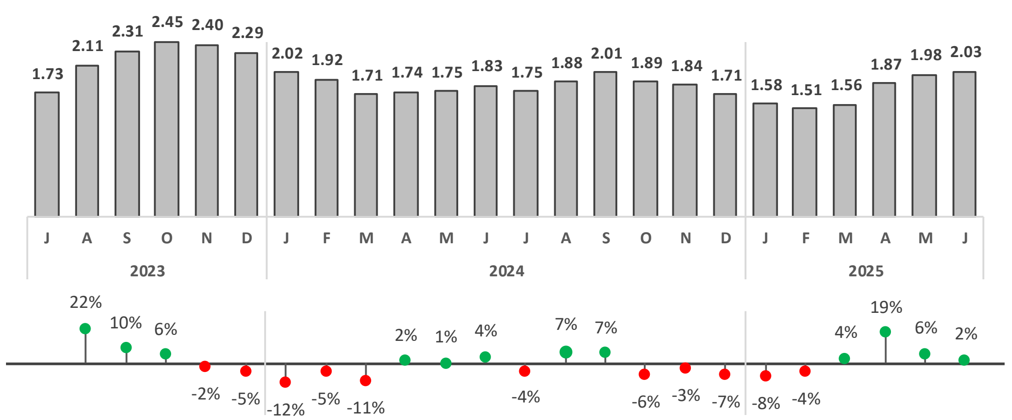
Monthly CPO export ('m tonnes)



Source: MPOB

Palm oil inventory inched up. Palm oil closing stocks recorded at 2.03m tonnes, a +2.4% increase from the stock level of 1.98m tonnes in May. The stock level in June was a tad higher than market expectation of 1.99m tonnes. The inventory build-up was largely driven by a sharp decline in exports, resulting in slower drawdown from domestic stockpiles. Meanwhile, the stock-to-usage ratio rose to 1.92x from 1.58x mom in view of poor exports in June. Moving forward, we expect palm oil inventory to continue piling up in the coming months as CPO production enters into high production season.

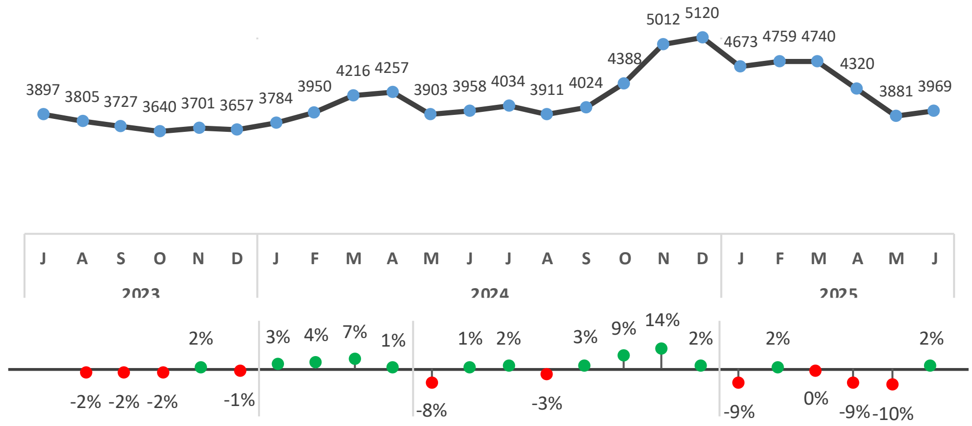
Monthly CPO inventory



Source: MPOB

CPO price kept steady in June. CPO prices remained relatively stable in June, averaging RM3,969/mt, a modest increase of +2.3% mom from RM3,881.5/mt in May. The slight uptick was led by firm soyoil prices, which made palm oil relatively more affordable and attractive, prompting buyers to shift demand in its direction. China was notably active in the market, snapping up June shipments to take advantage of palm oil's growing price gap versus soybean oil. Consequently, we expect CPO prices to remain fairly firm and hover at the c.RM4,000/mt mark through July.

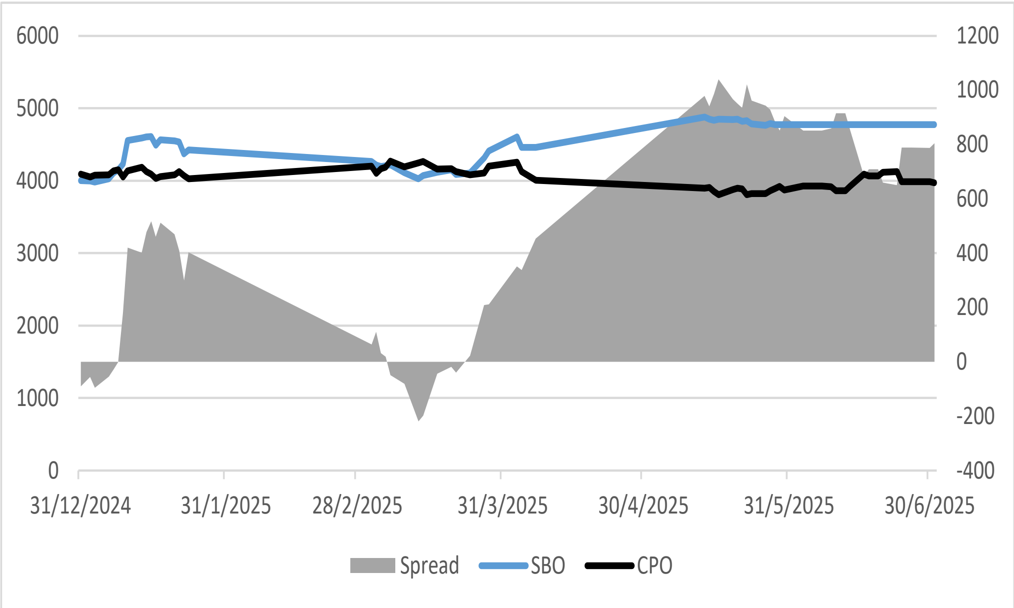
24-month CPO price trend (RM/mt)



Source: MPOB

Soybean supply remained abundant. According to USDA, world soybean stocks is projected to reach 125.3m tonnes (+0.9% yoy) in CY25, as higher output from Brazil and strong beginning stocks help offset slightly lower US production and rising global demand. Moving forward, we expect soybean oil prices to soften in 2H25, as supply typically builds during this period driven by a seasonal supply build-up from peak U.S. crush activity, stronger South American exports, and overlapping harvests of competing oils. These factors are expected to weigh on prices, particularly between July and September. Given that both soybean oil and palm oil supplies are likely to stay ample, we expect the current discount spread between both commodities to persist.

YTD price spread between SBO and CPO price (RM/mt)



Source: Bloomberg

Keeping Neutral stance. We maintain our **Neutral** stance on the sector as we expect CPO prices to soften in the near term amid elevated inventory levels. We continue to favour integrated players like **Sime Darby Guthrie Bhd (BUY; FV: RM5.20)**, viewing it as a situational play with upside potential from landbank monetisation. We also like **Hap Seng Plantations Bhd (BUY; FV: RM2.00)** for its compelling valuation and attractive dividend yield. Meanwhile, we maintain our **HOLD calls** on **Kim Loong Resources Bhd (FV: RM2.10)**, **Kuala Lumpur Kepong Bhd (FV: RM21.60)**, **Sarawak Plantations Bhd (FV: RM2.30)**, and **United Plantations Bhd (FV: RM21.60)**.

Peers Comparison

Company	FYE	Recommendation	Price (RM) as at 11Jul25	Target Price (RM)	Upside/Downside	P/E (x) 2025F	P/E (x) 2026F	P/B (x) 2025F	P/B (x) 2026F	Dividend Yield (%)	ESG Rating
Hap Seng Plantations Hldg Bhd	Dec	BUY	1.88	2.00	12.7%	9.5	9.7	0.7	0.7	6.3	★★★
Sime Darby Guthrie Bhd	Dec	BUY	4.76	5.20	12.6%	18.8	17.7	1.5	1.5	3.4	★★★
Kuala Lumpur Kepong Bhd*	Sep	HOLD	20.84	21.60	4.6%	17.6	20.2	1.5	1.5	1.0	★★★
United Plantation Bhd	Dec	HOLD	21.60	21.60	3.0%	17.0	16.8	4.8	4.6	3.0	★★★
Sarawak Plantations Bhd	Dec	HOLD	2.5	2.30	-2.0%	8.3	8.8	0.9	0.9	6.0	★★★
Kim Loong Resources Bhd*	Jan	HOLD	2.26	2.10	-1.0%	13.9	14.1	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 **Friday, 11 Jul, 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.