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Plantation Sector

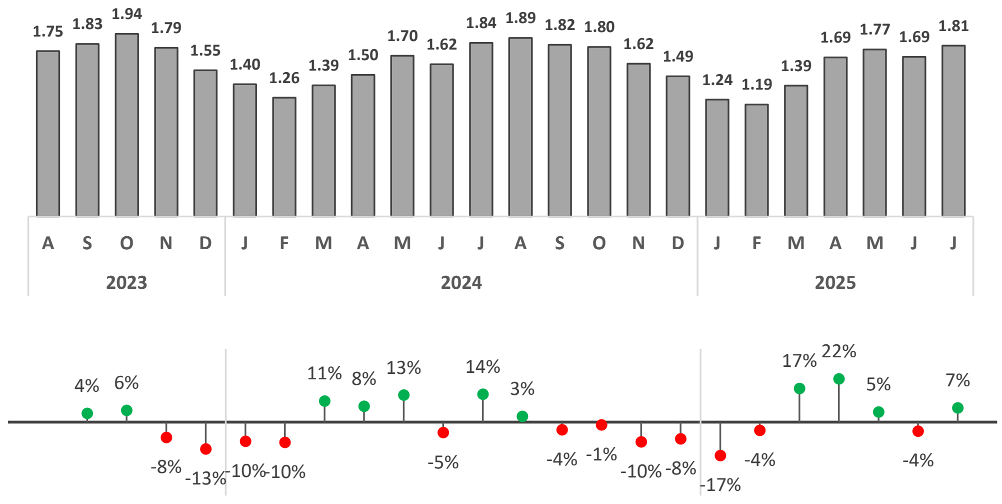
Neutral (↔)

High Inventories Keep CPO Price Gains in Check

- **CPO production rose to 1.81m mt, driven by improved harvesting and favourable weather, in line with seasonal uptrend.**
- **2025 CPO price forecast trimmed to RM4,250/mt, with prices seen hovering around RM4,000/mt, supported by strong US biodiesel demand, but further gains are likely capped by elevated inventories.**
- **Maintain Neutral rating as the robust CPO production ahead would weigh on CPO price. Top picks: SDG and KLK.**

CPO production in high gear. Crude palm oil production rebounded in July, in line with our expectations of a seasonal uptrend in 3Q25. Output rose to 1.81m mt, supported by improved harvesting activities and better estate accessibility due to favourable weather conditions. That said, production was still marginally below our and consensus estimates of 1.83m mt, likely due to slowing yield recovery in the Sabah and certain peninsular regions. Looking ahead, we anticipate growth momentum to sustain in August as estates approach the peak production window in September–October.

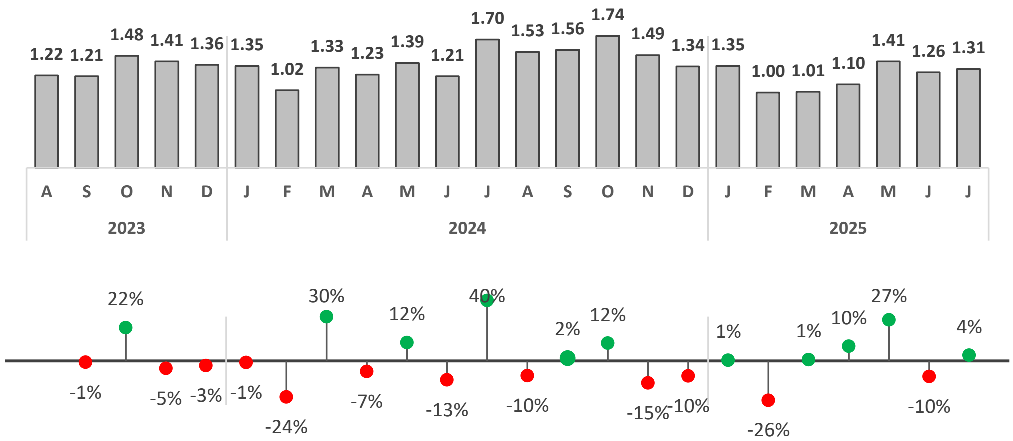
Figure 1: Monthly CPO production (‘m tonnes) and MoM growth (%)



Source: MPOB

Weaker palm oil demand. Palm oil exports grew 3.8% MoM in July to 1.31m mt, reflecting moderate demand. Looking ahead, we expect the positive momentum to persist in August, supported by early Intertek data showing a strong 23.3% YoY jump in exports during 1–10 August. We believe the strong surge in palm oil export was driven by firm soybean oil prices, which remained elevated for most of the period.

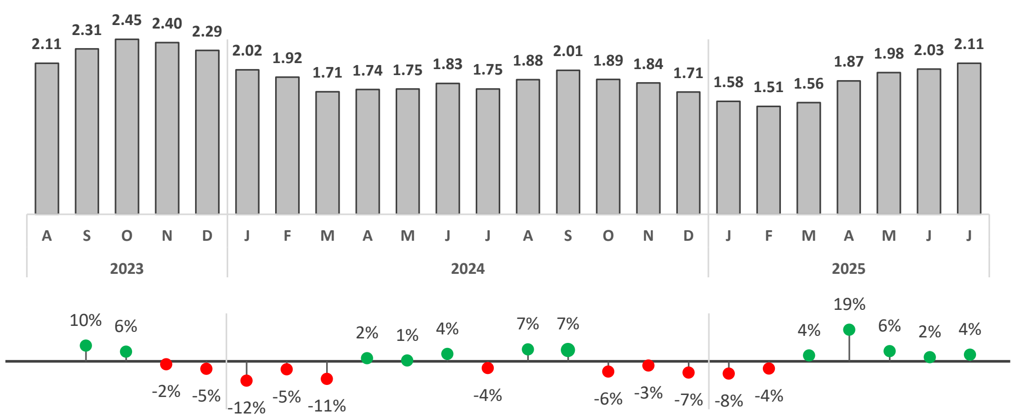
Figure 2: Monthly CPO export ('m tonnes) and MoM growth (%)



Source: MPOB

Swelling palm oil inventory. Palm oil inventories climbed for the fifth straight month in July to 2.11m mt, underpinned by steady production gains since May. The stock-to-usage ratio edged up to 1.94x from 1.91x in June, as supply growth outpaced the rise in exports. We anticipate inventory levels to stay elevated in the near term, reflecting the ongoing seasonal uptrend in output.

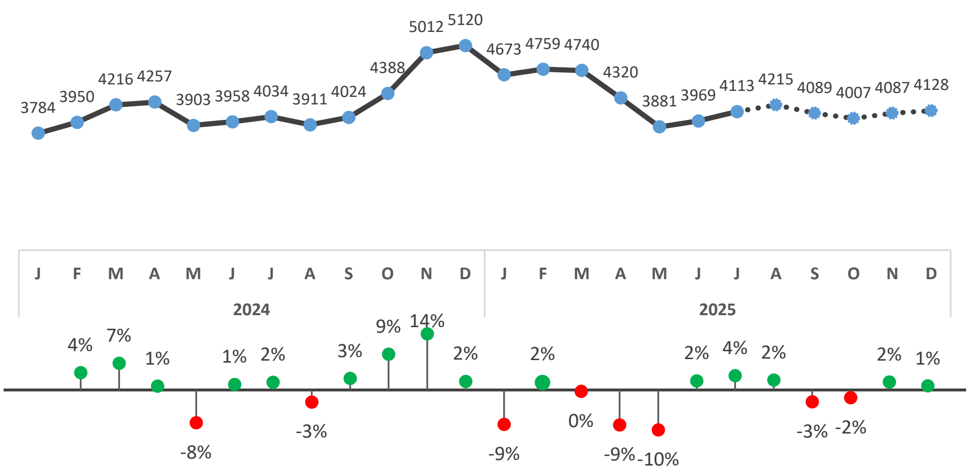
Figure 3: Monthly CPO inventory and MoM growth (%)



Source: MPOB

CPO price marginally higher in July. CPO prices edged up 3.6% MoM in July to RM4,113/tonne, supported by a surge in soybean prices, but remained below our 2025 forecasts of RM4,300. Consequently, we are revising down our 2025 CPO price assumptions to RM4,250 (from RM4,300). For the rest of the year, we expect CPO prices to hover at c.RM4,000, underpinned by stronger US biodiesel demand and sustained competitiveness against other vegetable oils, which should attract price-sensitive buyers.

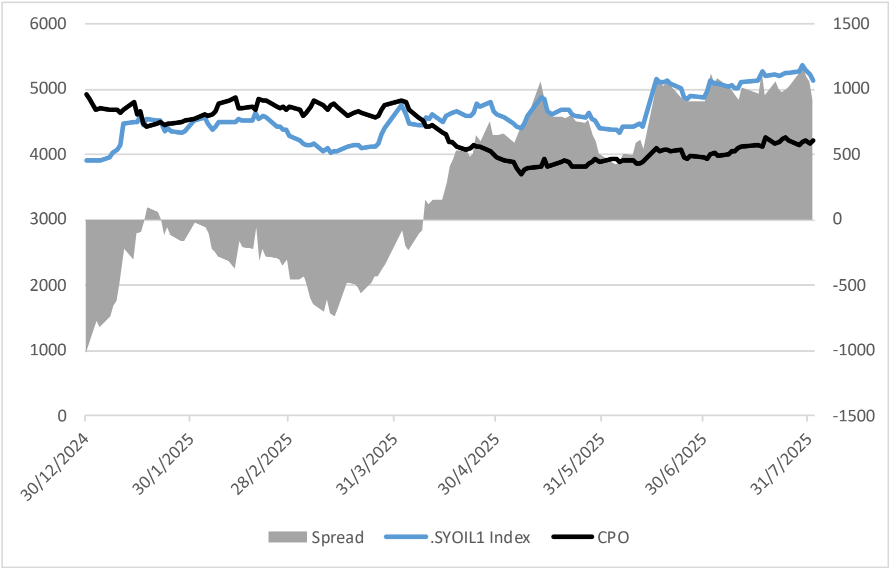
Figure 4: 24-month CPO price trend (RM/mt)



Source: MPOB

Widening CPO price discount to soybean oil. Soybean oil prices jumped in July amid a weaker US production outlook, driven by lower yield forecasts and strong biofuel demand. The USDA projects record biofuel use of 15.5bn pounds in 2025/26, up from 12.3bn pounds in 2024/25. Under the Renewable Fuel Standard, biomass-based diesel mandates will increase from 3.04bn gallons in 2024 to 3.35bn gallons in 2025, further boosting soybean oil consumption as the primary biodiesel feedstock. Consequently, global supply pressures are expected to persist, keeping soy oil prices elevated. While the CPO discount to soybean oil has widened beyond RM800/mt, upside for CPO prices remains limited due to the bulging stockpile.

Figure 5: 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 the elevated inventories. We continue to favour integrated players such as **Sime Darby Guthrie (BUY; TP: RM5.50)**, supported by potential upside from landbank monetisation and contributions from its industrial park. We maintain our **HOLD** calls on **Kim Loong Resources (TP: RM2.10)**, **Sarawak Plantations (TP: RM2.30)**, and **United Plantations (TP: RM21.60)**. Following recent share price movements, we upgrade **Kuala Lumpur Kepong (TP: RM21.60)** from **HOLD** to **BUY** and downgrade **Hap Seng Plantations (TP: RM2.00)** from **BUY** to **HOLD**.

Peers Comparison

Company	FYE	Recommendation	Price (RM) as at 11Aug25	Target Price (RM)	Potental Upside/Downside	P/E (x) 2025F	P/E (x) 2026F	P/B (x) 2025F	P/B (x) 2026F	Dividend Yield (%)	ESG Rating
Sime Darby Guthrie Bhd	Dec	BUY	4.91	5.50	15.4%	18.8	17.7	1.5	1.5	3.4	★★★
Kuala Lumpur Kepong Bhd*	Sep	BUY	19.42	21.60	12.2%	17.6	20.2	1.5	1.5	1.0	★★★
Hap Seng Plantations Hldg Bhd	Dec	HOLD	2.01	2.00	5.8%	9.5	9.7	0.7	0.7	6.3	★★★
United Plantation Bhd	Dec	HOLD	22.00	21.60	1.2%	17.0	16.8	4.8	4.6	3.0	★★★
Kim Loong Resources Bhd*	Jan	HOLD	2.29	2.10	-2.3%	14.1	14.2	2.2	2.2	6.0	★★★
Sarawak Plantations Bhd	Dec	HOLD	2.59	2.30	-5.2%	8.3	8.8	0.9	0.9	6.0	★★★

**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

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(a) nil.