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Plantation Sector

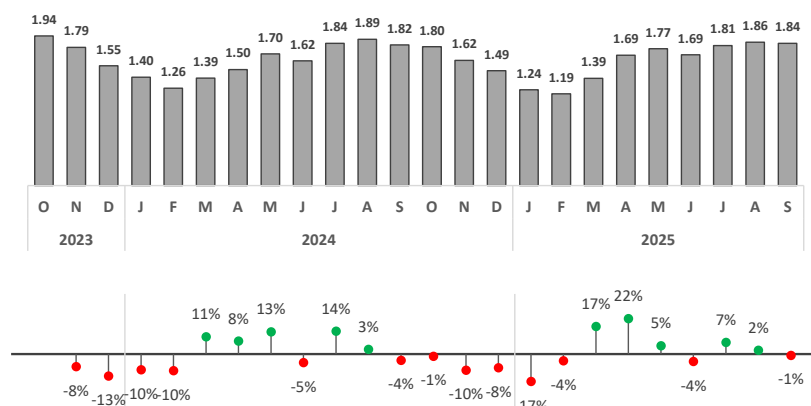
Overweight (↑)

Turning Up the Blend

- CPO production eased to 1.84m tonnes (-0.7% MoM). We reckon that CPO production has peaked in August and expect growth to remain flattish in the coming months.
- Indonesia's adoption of B50 biodiesel mandate coupled with year-end wet weather condition is set to keep CPO prices firm in 2026.
- Upgrade to Overweight (from Neutral) with a new CPO price assumption at RM4,350 (from RM4,250) for 2025 and RM4,300 (from RM4,000) for 2026.

CPO production took a breather in September. CPO production growth eased to -0.7% MoM in September, dragged by sustained weakness in Peninsular Malaysia estates (-5.3% MoM) following July's strong rebound and August's moderate increase. However, robust output growth in East Malaysia (+6.0% MoM) partially cushioned the decline. On a YTD basis, output growth inched up +0.3% YoY to 14.5m tonnes. We reckon that CPO production peaked in August and expect output growth to remain flattish in the coming months.

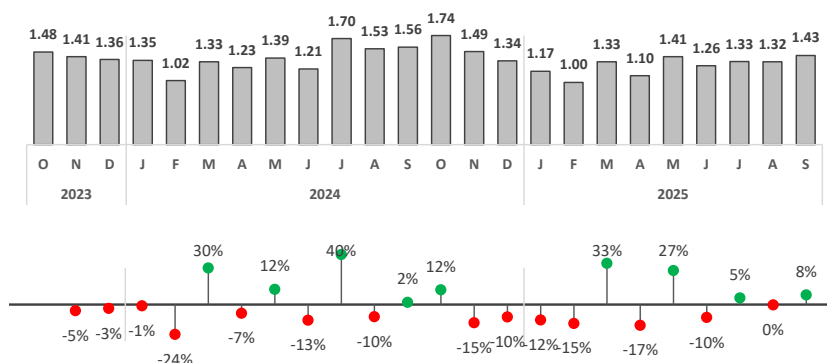
Figure 1: Monthly CPO production ('m tonnes)



Source: MPOB, Apex Securities

Palm oil demand recovered. Palm oil demand strengthened in September, with exports growth surging +7.8% MoM after a -0.3% MoM decline in August. We believe the rebound was primarily driven by stronger demand from China, reflecting aggressive restocking ahead of the Golden Week holiday in early October. Nevertheless, we expect exports to ease in October as buying momentum from China moderates following the elevated base in September.

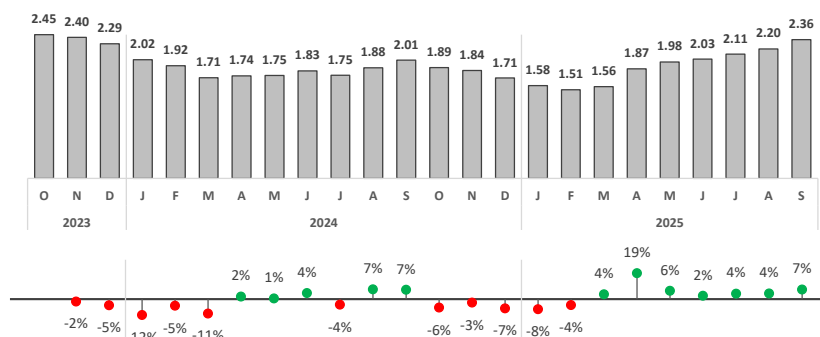
Figure 2: Monthly CPO export ('m tonnes)



Source: MPOB, Apex Securities

Palm oil closing stocks pilling up. Palm oil closing stocks continue to expand to reach 2.36m tonnes in September. Inventories rose +4.2% MoM from 2.20m tonnes in August and surged +17.2% YoY from 2.01m tonnes in the same month last year. Meanwhile, the stock-to-usage ratio edged down to 1.8x from 2.0x, supported by strong export growth during the month. Looking ahead, we expect palm oil inventories to hover around current levels before gradually tapering downwards during November.

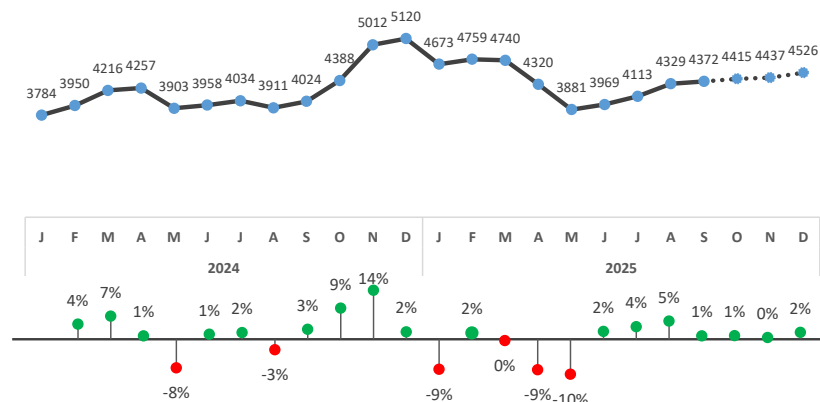
Figure 3: Monthly CPO inventory



Source: MPOB, Apex Securities

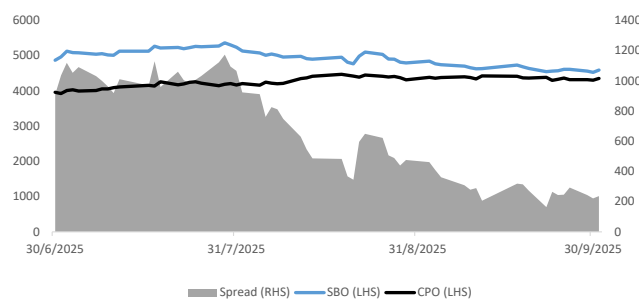
CPO prices inched up +1.0% MoM to close at RM4,372 in September. CPO prices in September came higher than our expectation despite the narrowing of soybean oil–palm oil price spread (Figure 5) and swelling CPO inventory (Figure 3). We believe this was largely due to growing optimism on Indonesia’s B50 mandate coupled with stronger export performance. As such, we have raised our 2025 assumption to RM4,350/tonne (from RM4,250/tonne) and 2026 forecast to RM4,300/tonne (from RM4,000/tonne). We expect CPO prices to remain firm in Nov–Dec due to seasonally lower output during the monsoon period. YTD, CPO prices averaged at RM4,350/tonne.

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



Source: MPOB, Apex Securities

Figure 5: Futures - SBO vs CPO price



Source: Bloomberg, Apex Securities

Indonesia biodiesel mandate will serve as key catalyst for 2026. Indonesia's move to adopt the B50 biodiesel mandate is expected to be a significant catalyst for 2026. According to the Energy Ministry, implementing B50 would require 20.1m kilolitres (kl) of palm oil-based biofuel annually, compared to 15.6m kl under B40. This implies an incremental 4m tonnes of CPO demand, based on a conversion rate of 0.9 tonne per kl of biodiesel produced. The government is currently conducting road tests for the B50 blend, with targeted rollout by 2H2026. Meanwhile, authorities have not ruled out the possibility of introducing a B45 blend as an interim step, allowing a smoother transition ahead of the full-scale implementation of B50.

Figure 6: CPO consumption rising with the introduction of B50

Year	CPO Output ('000 tonnes)	Biodiesel ('000 tonnes)	% of Output	Biodiesel Mandate	Remarks
2023	50069	10647	21.3%	B35	Rolled out B35 in Feb and nationwide adoption in Aug
2024	48164	11447	23.8%	B35	
2025 (est)	48980	13600	27.8%	B40	GAPKI estimate
2026 (est)	49470	17600	35.6%	B50	Assuming incremental 4m tonnes of CPO consumption for biodiesel; flattish CPO production growth

Source: GAPKI, Apex Securities

Upgrade to Overweight stance. We upgrade our sector outlook to **Overweight** (from Neutral) attributed to i) the future rollout of B50 biodiesel mandate from Indonesia and ii) palm oil supply to tighten from the upcoming monsoon season. We place the TPs of our stock coverage **Under Review** pending earnings and price adjustments. We continue to prefer integrated players such as **Sime Darby Guthrie (UR, TP: RM5.50)**, supported by potential upside from landbank monetisation and industrial park development.

Peers Comparison

Company	FYE	Recommendation	Price (RM) as at 10Oct25	Target Price (RM)	Potential Upside/Downside	P/E (x) 2025F 2026F	P/B (x) 2025F 2026F	Dividend Yield (%)	ESG Rating
Sime Darby Guthrie Bhd	Dec	UR	5.34	-	-	19.5 19.9	1.7 1.7	3.3	★★★★
Hap Seng Plantations Hldg Bhd	Dec	UR	2.12	-	-	9.9 10.1	0.7 0.7	5.4	★★★★
Kuala Lumpur Kepong Bhd	Sep	UR	20.46	-	-	17.3 19.8	1.4 1.3	2.9	★★★★
United Plantation Bhd	Dec	UR	23.60	-	-	17.0 16.9	4.3 4.2	2.8	★★★★
Kim Loong Resources Bhd	Jan	UR	2.40	-	-	14.7 14.7	2.3 2.2	5.9	★★★★
Sarawak Plantations Bhd	Dec	UR	2.91	-	-	10.4 9.9	1.0 1.0	5.2	★★★★

Source: Apex Securities Bhd

Kim Loong 2025F and 2026F represents FY26/FY27

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.
