

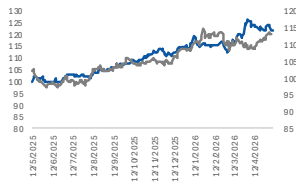
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Plantation Sector

Overweight (↔)

Biodiesel Mandates to Anchor Demand Despite Near-Term Inventory Build

KL Plantation Index vs FBM KLCI

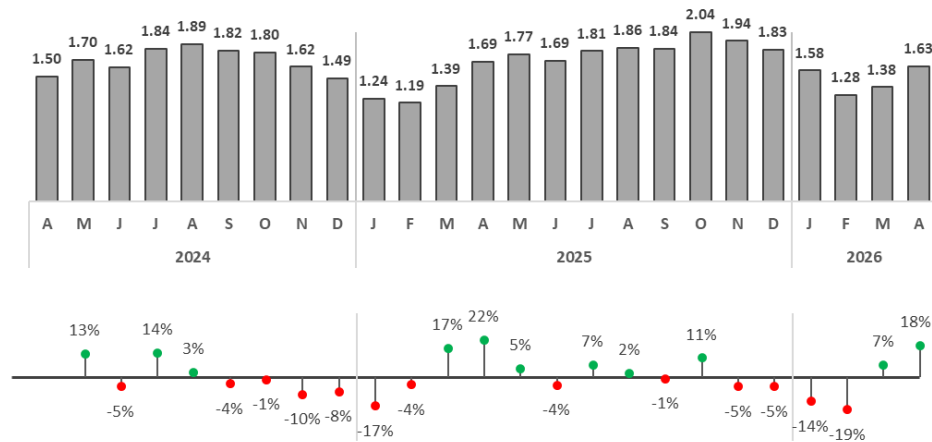


Company	Rating	Price	Target
SDG	BUY	6.10	7.01
HAPL	BUY	2.21	2.80
KLK	BUY	21.00	26.40
SPLB	HOLD	3.77	3.81

- April CPO production rose 18.4% MoM to 1.63m tonnes, though exports fell 14.3% MoM and inventories rose to 2.31m tonnes, lifting STU to an elevated 1.45x.
- CPO prices average RM4,568/tonne in April, with near-term support from energy-biodiesel correlations and longer-term support from global biodiesel mandates.
- Biodiesel mandates continue to be a key demand catalyst with Malaysia’s B15 rollout incrementally supportive, while Indonesia’s B50 mandate could add 3.08m tonnes of CPO feedstock demand, although utilisation-adjusted capacity constraints may temper demand momentum going into CY27.
- Maintain Overweight and CY26/27 CPO average price forecast of RM 4,400.

April CPO production at 1.63m tonnes in line with seasonal trends. Total CPO production for April rose 18.4% MoM to 1.63m tonnes with a slight decline seen YoY (-3.4%). MoM, Peninsular Malaysia rose 138k tonnes followed by Sarawak at 62k tonnes and Sabah at 51k tonnes. We believe seasonal trends continue to influence MoM increases in FFB and thus CPO production. Relative to our CY26 CPO production forecast (20.7m), YTD output is at 28% of our expectations and we continue to expect an improving trend in production with peaks expected in Sept-Oct CY26.

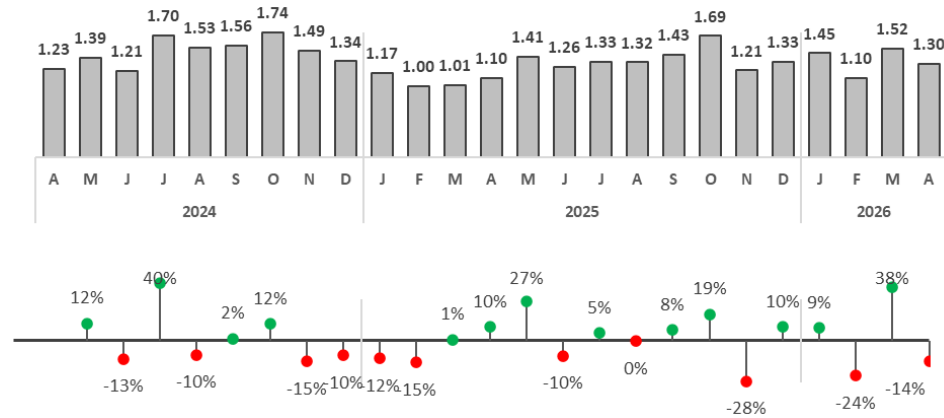
Figure 1: Monthly CPO production ('m tonnes) and MoM changes (%)



Source: MPOB, Apex Securities

Palm oil exports fell in April. Palm oil exports fell in April to 1.30m tonnes from March’s 1.52m tonnes (-14.3%). On a YoY basis, monthly exports had risen by 18%. Demand continues to be supported by the global demand for CPO including Indonesia’s B50 mandate which is expected to roll out on July 1, 2026. However, we note that moving into CY27, biodiesel production capacity constraints may influence momentum in export demand as highlighted below.

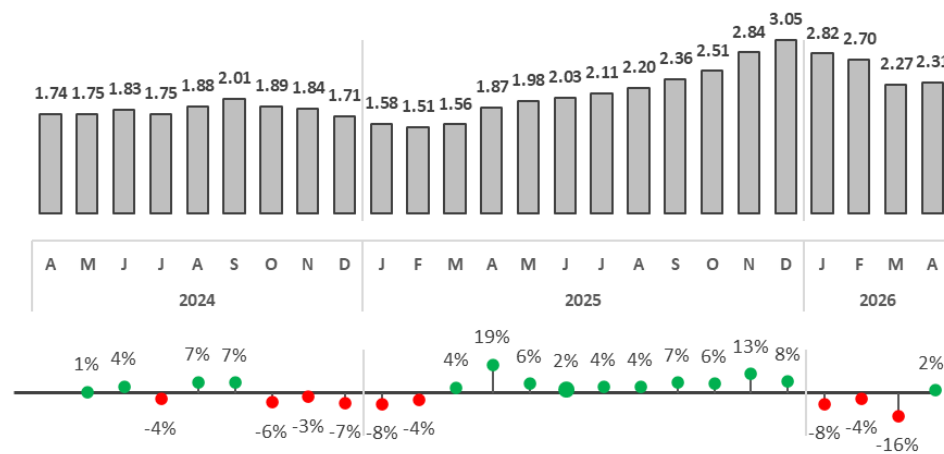
Figure 2: Monthly CPO export ('m tonnes) and MoM changes (%)



Source: MPOB, Apex Securities

Inventories rise in April as production picks up. April palm oil closing stocks stood at 2.31m or a 1.7% increase from March's 2.27m. YoY, inventories rose 23.8%. The stock-to-use ratio (STU) is estimated to be 1.45x, rising from March's 1.25x, due to rising production levels. Considering a ten-year average of c.1.25x, the STU ratio remains elevated although we expect a pullback from this level within CY26 as export demand picks up owing to Indonesia's higher blending mandate.

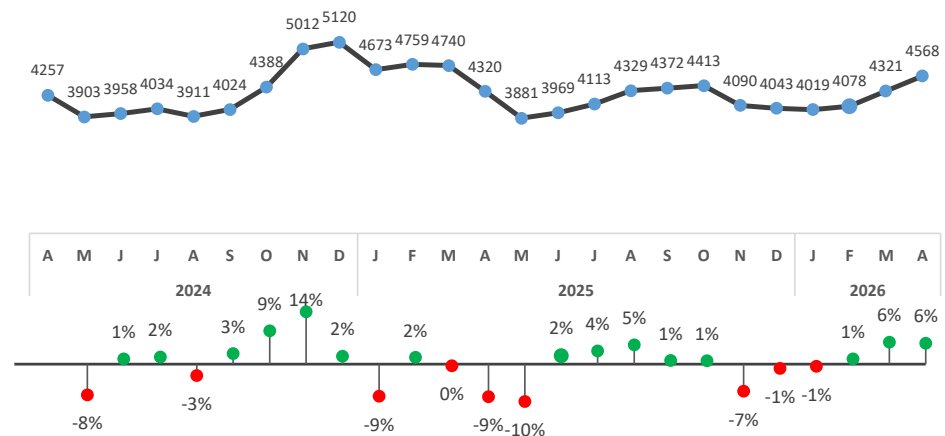
Figure 3: Monthly CPO inventory



Source: MPOB, Apex Securities

CPO prices average RM 4,568 in April. CPO prices in April had averaged higher to RM 4,568 from RM 4,321 (+5.7%) in March with a peak of RM 4,758 seen closer to the start of the month. In the near term, prices continue to be supported by the geopolitical conflict in the Middle East via the energy-biodiesel correlation channel and in the longer-term global biodiesel mandates are expected to lend support. **Maintain CY26/27 average CPO forecast of RM4,400.**

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



Source: MPOB, Apex Securities

Malaysia biodiesel developments. The government has announced that 19 licensed plants will begin producing B15 biodiesel from June 1 this year, as part of efforts to reduce diesel prices across the country. The rollout was quoted to be implemented gradually with a potential advancement to B50 within the next two to three years. Separately, the Malaysia Biodiesel Association has stated that domestic biodiesel production capacity stands at 2.4m tonnes p.a. while actual biodiesel production for the national biodiesel blending programme was 1.0m tonnes in CY25. Based on back-of-the-envelope calculations, moving from B10 to B15 would represent an increase of 421k MT of CPO feedstock annually or 2% of CY25 CPO production. Additionally, a full year of B20 represents an increase of 795k MT or 4% of CY25 CPO production.

Of note is the decision to roll out higher blends gradually rather than moving immediately to B50. Recall that in our previous sector report, we highlighted that the sustainability of higher biodiesel blends would depend partly on infrastructure investment and capacity readiness as well as the relative attractiveness of biodiesel versus petroleum diesel amid elevated diesel prices. While aggregate biodiesel production capacity appears sufficient to support blends up to B20, we believe the decision to roll out the mandate gradually is intended to avoid overcommitting to additional investments in production capacity, should the current energy crisis prove short-lived and lead to a normalization of diesel prices. Thus, we believe that the Malaysia biodiesel mandate likely represents a partial hedge against elevated diesel prices as opposed to a wide-scale replacement of petroleum diesel. Overall, these developments are somewhat supportive of CPO prices although support would likely become much more meaningful at higher blends.

Indonesia B50 to commence on July 1. The Indonesian government is set to roll out the B50 mandate starting July 1, 2026. According to Unggul Priyanto, member of the National Energy Council's Technology Stakeholder Committee, biodiesel demand under B50 is estimated to be 19m kiloliters against a biodiesel production capacity of 22m kiloliters per annum. Under these assumptions, we estimate that the increase in CPO feedstock required would amount to 3.08m tonnes. We also highlight that at 19m kiloliters of demand and assuming a maximum utilisation rate of 85%, effective production capacity would fall short as the estimated demand would exceed theoretical maximum capacity of 18.7m kiloliters. Going into CY27, momentum for higher blends could fade if capacity is unable to catchup. Nevertheless, the increase to B50 is generally supportive for CPO prices.

Table 5: Estimated feedstock under different % blends (M' sia)

	10%	15%	20%
Biodiesel volume (liters) est.	1,136,363,636	1,593,750,000	2,000,000,000
Biodiesel tonnes	1,000,000	1,402,500	1,760,000
Est CPO feedstock used (MT) est.	1,045,413	1,466,191	1,839,926
Cumulative Increase	-	420,779	794,514
% of CY25 Production	-	2.1%	3.9%

Source: Malaysia Biodiesel Association, Apex Securities
 CY25 production = 20,283,475 MT

Conversion assumptions: 1 CPO MT = 1,087 liters of Palm Methyl ester

1 Palm Methyl ester MT = 1,136.36 liters

Assumed that biodiesel is 100% palm methyl ester

Table 6: Estimated feedstock under different % blends (Indonesia)

	40%	50%
Biodiesel volume (liters)	15,650,000,000	19,000,000,000
Est CPO feedstock used (MT) est.	14,397,424	17,479,301
Increase in CPO feedstock used (MT)	-	3,081,877

Source: National Energy Council's Technology Stakeholder Committee, Apex Securities

Conversion assumptions: 1 CPO MT = 1,087 liters of Palm Methyl ester

1 Palm Methyl ester MT = 1,136.36 liters

Assumed that biodiesel is 100% palm methyl ester

Maintain Overweight stance. We continue to favour the plantation sector, supported by improving biodiesel-led CPO demand and the prospect of tighter stock levels as Indonesia and Malaysia move toward said blending mandates. In the near-term, geopolitical conflict continues to lend support for prices. Moving into CY27, we flag a potential capacity constraint that could temper export demand momentum despite the otherwise supportive biodiesel demand outlook.

Maintain **BUY** on **SDG (TP: RM 7.01)**, **HSPLANT (TP: RM 2.80)**, **KLK (TP: RM 26.40)**. Meanwhile, we issue a **HOLD** call on **SPLB** given its proximity to our target price of RM3.81, although the TP is currently under review amid the ongoing earnings season.

Peers Comparison

Company	FYE	Recommendation	Price (RM)	Target	Potential	P/E (x)		P/B (x)		Dividend Yield	ESG Rating
			at 11May2	Price (RM)	Upside/Downside	2026F	2027F	2026F	2027F		
Sime Darby Guthrie Bhd	Dec	BUY	6.10	7.01	18.1%	20.9	18.4	1.9	1.7	3.2%	★★★
Hap Seng Plantations Hldg Bhd	Dec	BUY	2.21	2.80	32.7%	10.0	9.6	0.8	0.8	6.0%	★★★
Kuala Lumpur Kepong Bhd	Sept	BUY	21.00	26.40	29.0%	15.1	14.5	1.4	1.3	3.3%	★★★
Sarawak Plantations Bhd	Dec	HOLD	3.77	3.81	7.3%	9.8	9.8	1.2	1.1	6.2%	★★★

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.
