Plantation

Stock Levels Hit 22-Month Low

Overweight (Maintained)

Stocks Covered	13
Rating (Buy/Neutral/Sell):	7 / 6 / 0
Last 12m Earnings Revision Trend:	Negative

- **Stay OVERWEIGHT on sector; Top Picks are pure planters Johor Plantations Group (JPG), Sarawak Oil Palms (SOP), Bumitama Agri (BAL), PP London Sumatra Indonesia (LSIP) and SD Guthrie (SDG).** As a result of lower MoM output, palm oil (PO) inventory declined to 1.58m tonnes in January. We expect PO inventory to remain below the 2m tonne mark for the next few months. As for the upcoming results season, we expect earnings to be largely within expectations, based on output estimates.
- **4Q24F earnings to be higher QoQ for planters, buoyed by higher CPO prices**. In Malaysia, FFB output of the companies under our coverage dipped by an average of 2.5% QoQ, while spot prices surged by 26.3% QoQ to MYR4,840/tonne in 4Q24. In Indonesia, we estimate that 4Q24 FFB output for the stocks under our coverage rose by an average of 8% QoQ (based on seasonal trends) while CPO prices – net of taxes – rose 14% QoQ. The QoQ rise in FFB output in Indonesia was due to the delayed peak season experienced in 4Q vs Malaysia's peak in 3Q.
- **YoY, both Malaysian and Indonesian planters should also see higher earnings due to stronger ASPs.** In Malaysia, YoY FFB output was lower for the companies under our coverage, with average output falling 5% YoY in 4Q24, while CPO prices rose by a significant 31.6% YoY. In Indonesia, FFB output growth should be relatively flattish, at -1% YoY in 4Q24, but CPO prices (net of taxes) rose 25.3% YoY.
- **4Q24F is likely to bring largely in-line earnings**, based on our estimates of production levels alone (Figure 1). Five planters may underperform forecasts based on FFB output while seven others should book numbers that are largely in line. The disappointment in productivity was largely experienced by planters with landbank Indonesia, as output in that country was affected by the delayed *El Nino* impact in 2024.
- **On planters with downstream operations.** In Indonesia, we expect margins to improve QoQ due to a larger tax differential between upstream and downstream products of USD98/tonne (vs USD62 in 3Q24). On a YoY basis, Indonesia planters' margins could also strengthen due to a substantially wider tax differential (from USD35/tonne in 4Q23). Conversely, Malaysian downstream counterparts may see slightly weaker QoQ margins due to the increase in competition from Indonesia.
- **Inventory levels fell to 1.58m tonnes in Jan 2024 (-21% YoY),** on lower production (-12% YoY), offset by lower exports (-13.4% YoY). The Jan 2025 stock/usage ratio was at 7.9%, ie well below the 15-year historical average of 10%. We continue to expect stock levels to remain below 2m tonnes for the next few months, on the back of the low output season and upcoming festive season, which is supportive of higher CPO prices.
- **Maintain OVERWEIGHT**, as we believe fundamentals are more positive now with global supply likely to remain in deficit in 2025. Our Top Picks remain a mix of pure planters and situational plays – JPG, SOP, SDG, BAL and LSIP.

Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-25F	P/B (x) Dec-25F	ROAE (%) Dec-25F	Yield (%) Dec-25F
Astra Agro Lestari	Neutral	IDR6,940	23.9	8.5	0.5	5.1	4.5
Bumitama Agri	Buy	SGD0.95	16.7	7.7	1.1	14.9	6.7
FGV Holdings	Neutral	MYR1.27	11.1	11.2	0.7	5.9	3.7
First Resources	Neutral	SGD1.65	13.9	8.2	1.1	14.1	6.1
IOI Corp	Buy	MYR4.90	30.6	16.5	1.8	11.3	2.7
Johor Plantations Group	Buy	MYR1.55	29.2	11.3	1.0	9.3	4.6
Kuala Lumpur Kepong	Buy	MYR24.80	22.6	19.9	2.4	7.9	2.3
PP London Sumatra Indonesia	Buy	IDR1,540	58.8	5.4	0.5	8.9	6.5
Sarawak Oil Palms	Buy	MYR4.15	33.4	7.1	0.7	9.8	3.9
SD Guthrie	Buy	MYR5.55	15.6	21.0	1.8	8.7	2.7
Ta Ann	Neutral	MYR4.50	10.3	7.8	0.9	12.3	8.8
TSH Resources	Neutral	MYR1.10	(10.0)	13.5	0.8	5.7	1.6
Wilmar International	Neutral	SGD3.10	(4.3)	10.5	0.7	6.6	5.2

Source: Company data, RHB

Top Picks	Target Price
SD Guthrie (SDG MK) – BUY	MYR5.55
Johor Plantations (JPG MK) – BUY	MYR1.55
Sarawak Oil Palms (SOP MK) – BUY	MYR4.15
Bumitama Agri (BAL SP) – BUY	SGD0.95
PP London Sumatra Indonesia (LSIP IJ) – BUY	IDR1,540

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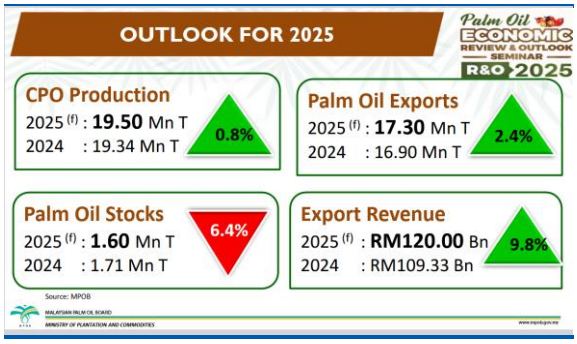
MPOB's Forecast for Malaysia's 2025 PO Stats



Source: Malaysian Palm Oil Board (MPOB)

Figure 1: 4Q24F earnings preview based on FFB output

	FYE	YoY 4Q24F	QoQ 4Q24F	YoY FY-YTD	YoY change in RHB's FY Forecast	1Q24 results preview comments
KL Kepong	Sep	-0.2%	4.6%	-0.2%	6.6%	Earnings could be below expectations, based on FFB output
Johor Plantations	Dec	-13.4%	-15.6%	9.3%	11.1%	Earnings should be largely in line based on FFB output
IOI Corp	Jun	-6.2%	1.1%	-1.6%	5.0%	Earnings could be below expectations, based on FFB output
SD Guthrie	Dec	-3.6%	0.8%	0.8%	1.7%	Earnings should be largely in line, based on FFB output
FGV	Dec	1.7%	-11.6%	8.9%	9.5%	Earnings should be largely in line, based on FFB output
Sarawak Oil Palms	Dec	-5.2%	-2.5%	2.0%	3.4%	Earnings should be largely in line, based on FFB output
TSH Resources	Dec	-8.0%	12.7%	-12.2%	-9.0%	Earnings could be slightly below expectations, based on FFB output
Ta Ann	Dec	-11.5%	-20.0%	-1.4%	1.3%	Earnings should be largely in line, based on FFB output
First Resources*	Dec	-2.2%	-5.0%	5.5%	3.5%	No visibility for 4Q24, but based on output trends, earnings could be largely in line based on FFB output trend
Bumitama Agri*	Dec	-3.0%	20.0%	-16.6%	-9.0%	No visibility for 4Q24, but based on output trends, earnings could be below expectations based on FFB guidance
Astra Agro Lestari	Dec	-5.0%	5.0%	-15.0%	-8.0%	No visibility for 4Q24, but based on output trends, earnings could be below expectations based on FFB output trend
London Sumatra	Dec	1.0%	10.0%	-3.0%	0.0%	No visibility for 4Q24, but based on output trends, earnings could be within expectations based on FFB output trend

*Note: * Estimates*
Source: Bursa Malaysia, Company data, RHB

Monthly statistics

Figure 2: Monthly CPO statistics

('000 tonnes)	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
Opening stocks	2,291	2,020	1,920	1,713	1,745	1,753	1,831	1,754	1,883	2,012	1,885	1,836	1,709
Imports	29	33	22	35	21	12	10	10	5	16	22	38	88
Production	1,402	1,260	1,392	1,502	1,704	1,615	1,841	1,894	1,822	1,797	1,621	1,487	1,237
Total supply	3,722	3,312	3,334	3,249	3,470	3,380	3,683	3,658	3,711	3,825	3,529	3,361	3,034
Exports	1,350	1,025	1,327	1,235	1,382	1,207	1,690	1,529	1,560	1,744	1,490	1,342	1,168
Domestic use	353	368	295	270	334	342	239	246	139	196	203	310	286
Total off take	1,702	1,392	1,622	1,505	1,717	1,549	1,928	1,775	1,699	1,940	1,693	1,652	1,455
End-month stocks	2,020	1,920	1,713	1,745	1,753	1,831	1,754	1,883	2,012	1,885	1,836	1,709	1,580
Production YTD	**1,402**	**2,662**	**4,054**	**5,556**	**7,261**	**8,876**	**10,717**	**12,611**	**14,433**	**16,230**	**17,851**	**19,338**	**1,237**
MoM (%)	(9.6)	(10.2)	10.6	7.9	13.5	(5.2)	14.0	2.9	(3.8)	(1.3)	(9.8)	(8.3)	(16.8)
YoY (%)	1.6	0.5	8.1	25.5	12.3	11.6	14.3	8.0	(0.4)	(7.2)	(9.4)	(4.1)	(11.8)
YTD (%)	1.6	1.0	3.4	8.5	9.4	9.8	10.5	10.2	8.7	6.7	5.0	4.2	(11.8)
Exports YTD	**1,350**	**2,374**	**3,701**	**4,935**	**6,318**	**7,525**	**9,215**	**10,743**	**12,303**	**14,048**	**15,538**	**16,880**	**1,168**
MoM (%)	(0.9)	(24.1)	29.5	(6.9)	12.0	(12.7)	39.9	(9.5)	2.0	11.8	(14.6)	(10.0)	(12.9)
YoY (%)	18.7	(9.2)	(10.8)	13.5	28.1	3.0	24.8	25.1	28.8	17.8	6.0	(1.5)	(13.4)
YTD (%)	18.7	4.8	(1.4)	2.0	6.7	6.1	9.1	11.1	13.1	13.7	12.9	11.6	(13.4)
Stocks													
MoM (%)	(11.8)	(5.0)	(10.8)	1.9	0.5	4.5	(4.2)	7.3	6.8	(6.3)	(2.6)	(6.9)	(7.5)
YoY (%)	(10.9)	(9.4)	2.3	16.5	3.9	6.5	1.2	(10.8)	(13.1)	(23.0)	(23.6)	(25.4)	(21.8)

Source: MPOB, RHB

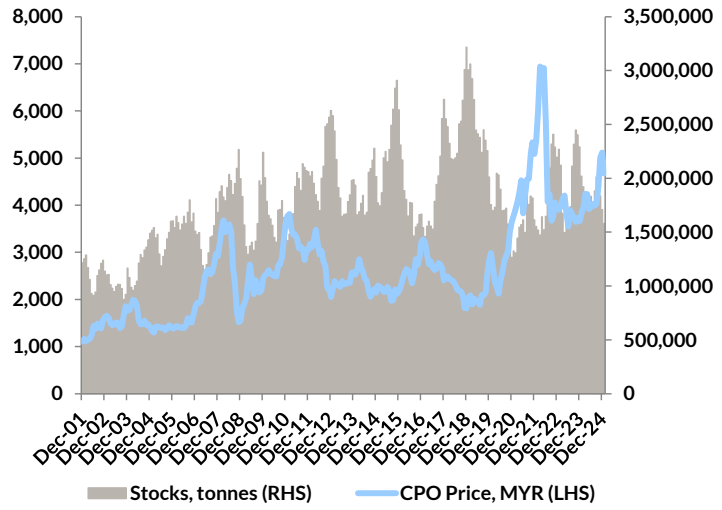
January production declined by 16.8% MoM (-11.8% YoY), resulting Jan 2024 output growth decreasing by 11.8% YoY. The MoM output decrease mainly came from all regions, with that of West Malaysia falling by 18.3%, followed by Sabah and Sarawak at 15.6% and 14.6%. Meanwhile, the YoY decline was driven by West Malaysia and Sabah (-13.1% and -12.9%), while Sarawak saw a relatively softer decline of 7.7%. In Indonesia, YTD-Oct 2024 output continued to decline, by -4.4% YoY (from -4.6% in YTD-Sep 2024), albeit a slight improvement. We expect output in Malaysia to continue moderating in the next few months due to the low output season while, for Indonesia, 4Q24 may see a higher QoQ output, with the low output season starting in earnest in 1Q25.

Malaysian exports dropped 12.9% MoM, bringing Jan 2025 exports to -13.4% YoY – despite the festive Lunar New Year season. We believe the decrease in exports was likely due to switching activities away from palm oil in India as CPO prices remained at a significant premium to soybean oil for much of Dec 2024 – ie when buyers make their buying decisions for the following month. However, with the rise in soybean prices of 12% in the last few weeks, CPO prices have since returned to trade a discount to soybean oil since mid-Jan 2025. CPO is now trading at a discount of USD28/tonne (vs a premium of USD72/tonne in Dec 2024), the first time since September. CPO is also now trading at a larger USD73/tonne discount to sunflower oil now (vs USD52/tonne discount last month). As such, we expect demand to gradually return in the coming months, given the upcoming Ramadan and Aidil Fitri season.

Inventory restocking may have paused in Jan 2025, but will likely to resume with more competitive PO prices. With the switching activities in India and the still-weak demand from China amid trade uncertainties, it is likely that restocking activities were paused in Jan 2025. However, with the more attractive pricing currently, we may see some restocking activities starting from Jan-Feb 2025. As at-Dec 2024 - China's stock levels rose to 23% below historical averages (vs -30% at end-Nov 2024 and end-Oct 2024), India's increased to 7% below historical levels (vs -23% and -36% at end-Nov 2024 and end-Oct 2024), and Pakistan's rose to 32% below historical levels (vs -45% and -57% at end-Nov 2024 and end-Oct 2024). We highlight, however, that once restocking activities resume, buying activities may likely will focus on Indonesian PO, given its more advantageous tax structure – 24% vs Malaysia's 10%.

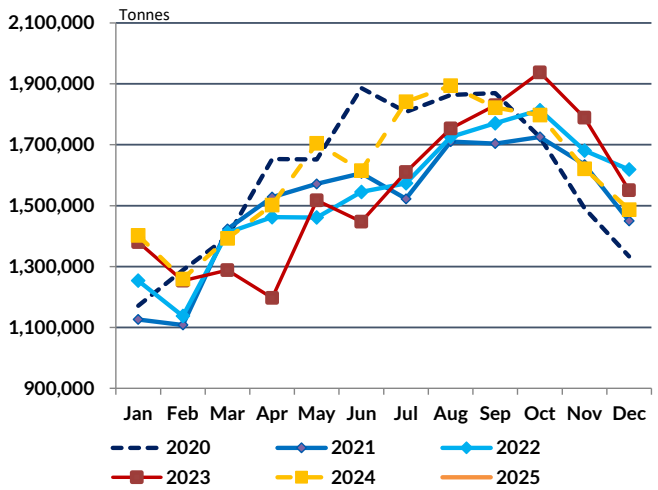
January inventory levels at 1.58m tonnes in Jan 2025 (-8% MoM from 1.71m tonnes in Dec 2024), lowest since April 2023. This was mainly due to the decline in production, offset by the decrease in exports. With this, Jan-2025 annualised stock/usage ratio further dropped to 7.9%, well below the 15-year historical average of 10%. Going forward, as we are in the midst of the low output season, inventory levels are likely to remain below the 2m-tonne mark for the next few months, thereby being supportive of higher CPO prices.

Figure 3: CPO inventory was at 1.58m tonnes in January (-21.8% YoY from 2.02m tonnes)



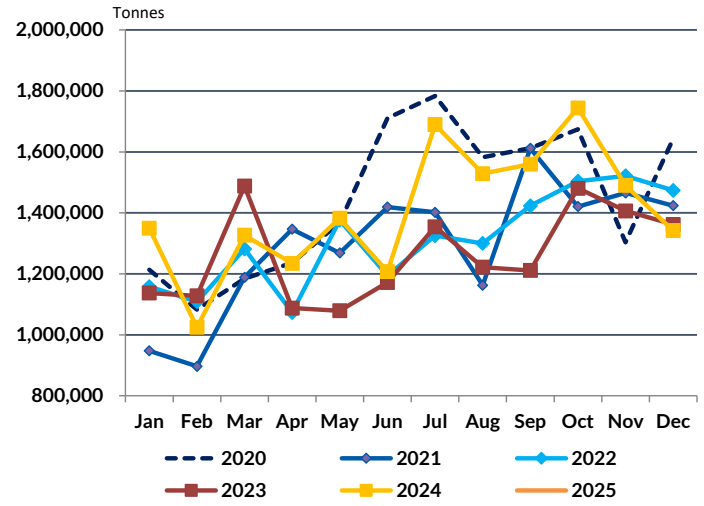
Source: MPOB, Bloomberg

Figure 4: Malaysia's CPO production (-11.8% YoY in Jan-2025)



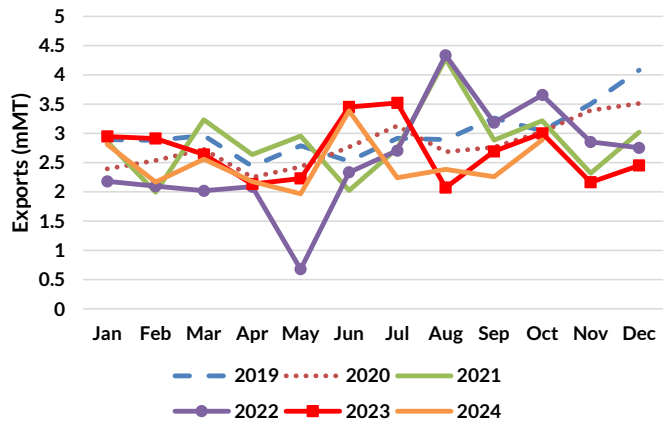
Source: MPOB, RHB

Figure 5: Malaysia's monthly palm oil exports (-13.4% YoY in Jan-2025)



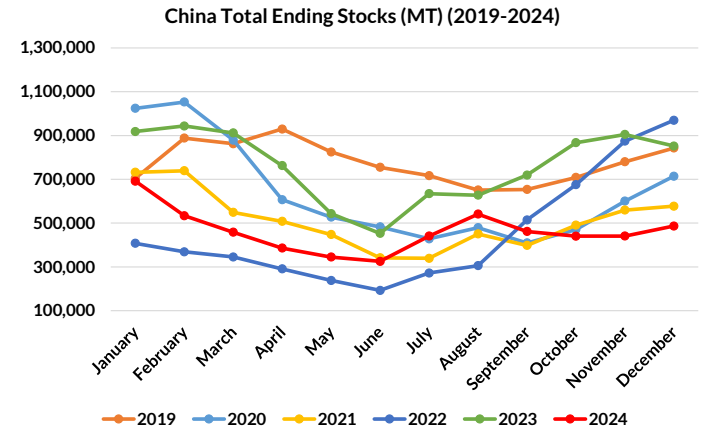
Source: MPOB

Figure 6: Indonesia monthly exports YTD-Oct 2024 at -10% YoY



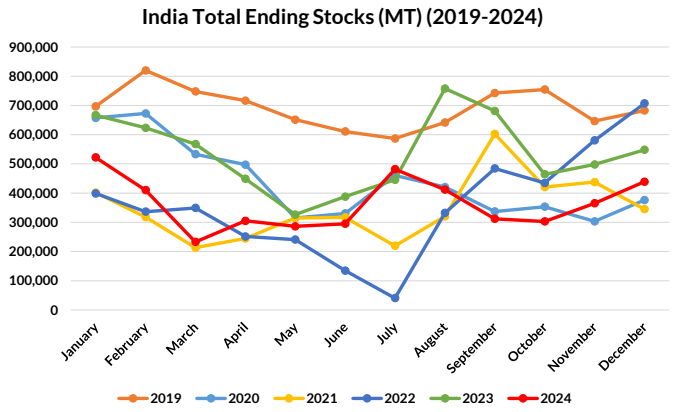
Source: Indonesian Palm Oil Association (GAPKI)

Figure 7: China's palm oil stocks were 23% below the historical average as at end-2024 (vs -30% last month)



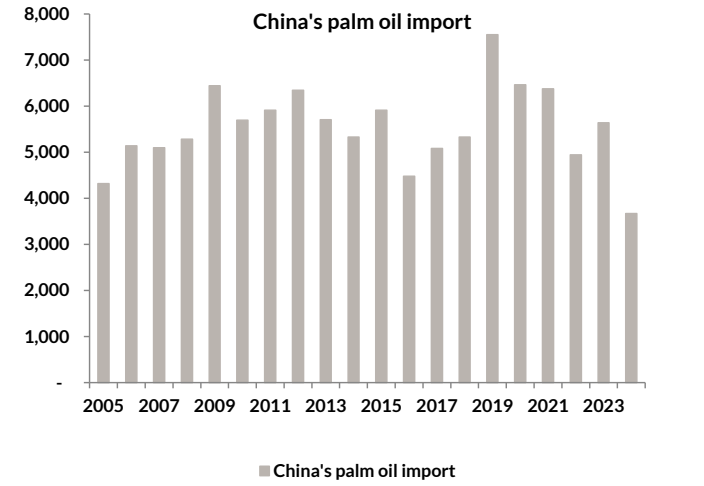
Source: Malaysian Palm Oil Council (MPOC)

Figure 8: India's palm oil stocks were -7% below the historical average as at end-2024 (vs -23% last month)



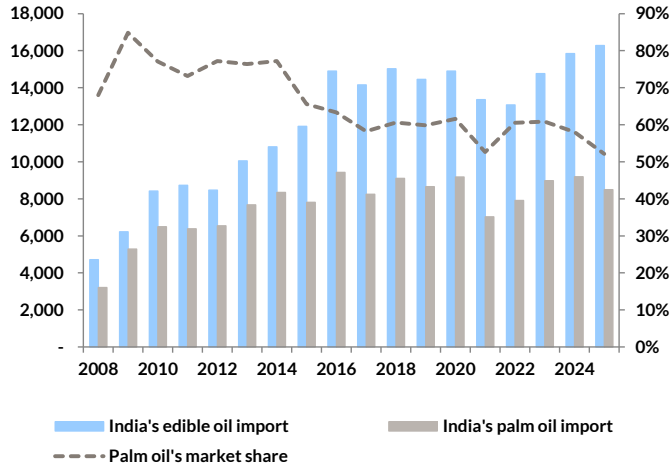
Source: MPOC

Figure 9: China's PO imports declined by 35% in 2024 (vs -37% YoY in YTD-Nov)



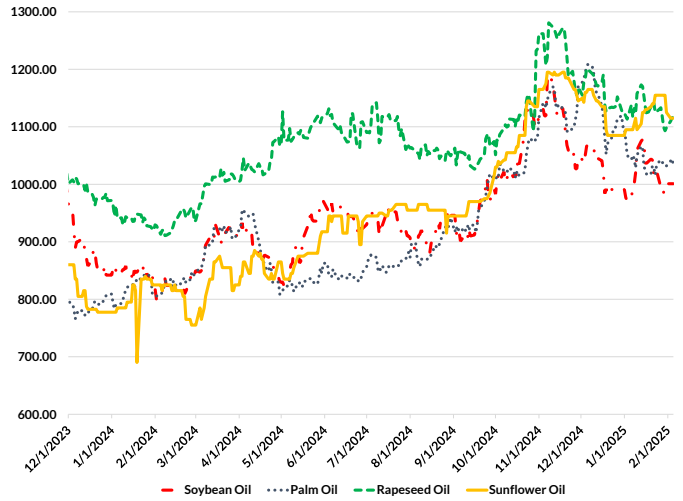
Source: Bloomberg

Figure 10: India's edible oil imports increased by 2.8% in 2024, while PO imports decreased by 8%



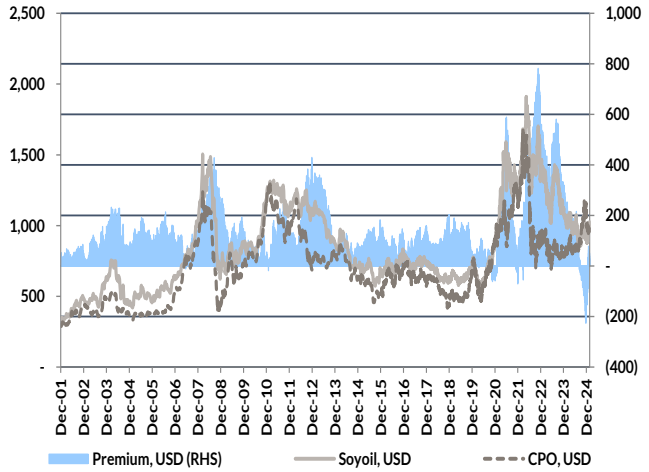
Source: Bloomberg

Figure 11: CPO is now trading at USD73/tonne discount to sunflower oil (from USD52/tonne discount last month)



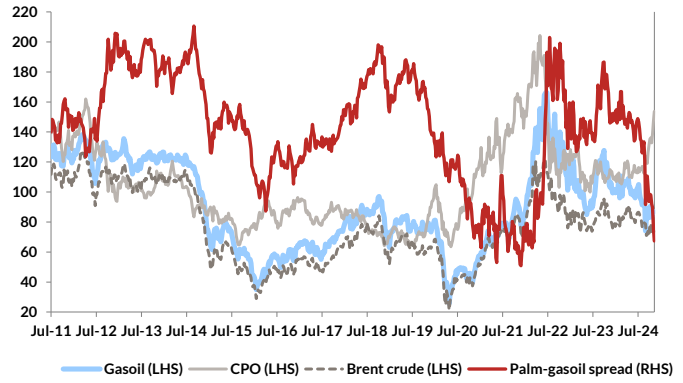
Note: Prices here refer to the FOB spot price
Source: Bloomberg

Figure 12: CPO is currently trading at a USD28/tonne discount to soybean oil (from USD72/tonne premium last month)



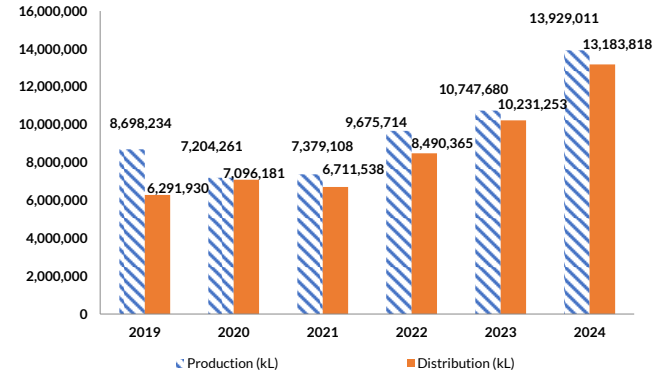
Source: Bloomberg

Figure 13: Gasoil and CPO price gap has reduced – at -USD35/bbl now vs USD61/bbl last month



Source: Bloomberg

Figure 14: Biodiesel production (+6% YoY) and distribution in Indonesia (+6% YoY) in 2024



Source: Indonesia Biofuel Producer Association

Risks

The main downside risks to our outlook include:

i. The Russia-Ukraine war being prolonged and exacerbated;

ii. Significant changes in the crude oil price trend, which may result in changes in biodiesel mandates;

iii. Weather abnormalities resulting in an oversupply or undersupply of vegetable oils;

iv. Significant changes in the demand for vegetable oils, caused by changes in economic cycles or price dynamics;

v. Worsening labour situation in Malaysia causing production to be affected negatively;

vi. Revision in Indonesia's tax structure and trade policies;

vii. More ESG issues being pinpointed for listed companies.

Figure 15: New effective CPO prices in Indonesia (applicable from 21 Sep 2024)

CPO price at MYR/tonne	4,500	4,400	4,300	4,200	4,100	4,000	3,900	3,800	3,700	3,600	3,500	3,400	3,300	3,200	3,100	3,000
CPO Price (USD)	1,096	1,072	1,048	1,023	999	974	950	926	901	877	853	828	804	780	755	731
Levy Rate (USD) (7.5% of CPO price)	82	80	79	77	75	73	71	69	68	66	64	62	60	58	57	55
Levy Rate (MYR)	338	330	323	315	308	300	293	285	278	270	263	255	248	240	233	225
Export Tax (USD)	201	178	178	148	148	124	124	74	74	52	52	33	33	18	18	18
Export Tax (MYR)	825	731	731	608	608	509	509	304	304	213	213	135	135	74	74	74
Effective Indo Price	**3,337**	**3,339**	**3,247**	**3,277**	**3,185**	**3,191**	**3,098**	**3,211**	**3,119**	**3,117**	**3,024**	**3,010**	**2,917**	**2,886**	**2,794**	**2,701**

*Note: *Exchange rate conversion applied = MYR4.105/USD*
Source: RHB

Figure 16: New effective CPO prices in Malaysia (Applicable from 1 Nov 2024 and 1 Jan 2025)

CPO price at MYR/tonne	4,500	4,400	4,300	4,200	4,100	4,000	3,900	3,800	3,700	3,600	3,500	3,400	3,300	3,200	3,100	3,000
West Malaysia – Windfall tax (15% above MYR3,150/tonne	203	188	173	158	143	128	113	98	83	68	53	38	23	8	-	-
East Malaysia – Windfall tax (15% above MYR3,650/tonne	128	113	98	83	68	53	38	23	8	-	-	-	-	-	-	-
Export tax (%)	10.0	10.0	10.0	10.0	10.0	9.5	9.0	9.0	8.5	8.0	8.0	7.5	7.5	7.0	6.5	6.0
Export tax (MYR/tonne)	450	440	430	420	410	380	351	342	315	288	280	255	248	224	202	180.00
Effective West Malaysia price (MYR/tonne)	**3,848**	**3,773**	**3,698**	**3,623**	**3,548**	**3,493**	**3,437**	**3,361**	**3,303**	**3,245**	**3,168**	**3,108**	**3,030**	**2,969**	**2,899**	**2,820**
Effective East Malaysia price (MYR/tonne)	**3,923**	**3,848**	**3,773**	**3,698**	**3,623**	**3,568**	**3,512**	**3,436**	**3,378**	**3,312**	**3,220**	**3,145**	**3,053**	**2,976**	**2,899**	**2,820**
NEW minus OLD Effective East Malaysia price (MYR/tonne)	**(68)**	**(66)**	**(64)**	**(62)**	**(60)**	**(38)**	**(17)**	**(16)**	**4**	**23**	**23**	**23**	**6**	**23**	**15**	**-**
NEW minus OLD Effective East Malaysia price (MYR/tonne)	**(68)**	**(66)**	**(64)**	**(62)**	**(60)**	**(38)**	**(17)**	**(16)**	**4**	**15**	**-**	**-**	**-**	**-**	**-**	**-**

Source: RHB

Figure 17: Sensitivity of company earnings to changes in CPO prices

	Net profit change for every MYR100/tonne change
Kuala Lumpur Kepong (KLK) (MYR)	6-8%
IOI Corp (IOI) (MYR)	4-6%
SD Guthrie (SDG) (MYR)	7-9%
FGV (MYR)	12-15%
Sarawak Oil Palms (SOP) (MYR)	10-12%
Ta Ann (TAH) (MYR)	12-15%
Johor Plantations Group (JPG) (MYR)	6-7%
TSH Resources (TSH) (MYR)	7-8%
First Resources (FR) (SGD)	6-8%
Bumitama Agri (BAL) (SGD)	7-9%
Astra Agro Lestari (AALI) (IDR)	9-11%
London Sumatra (LSIP) (IDR)	11-12%

Source: RHB

Figure 18: Labour shortage among Malaysian planters

	Shortage (end-3Q24)	Comments
SDG	Fully staffed	
IOI	Fully staffed	
KLK	Fully staffed	
SOP	4-8%	Management has been focusing on training existing workers and note that it is no longer a concern
TAH	Fully staffed	Helped by contract workers
FGV	5%	Sabah: 12% shortage, Sarawak: 45% shortage. FGV intends to reduce the shortages in Sabah by 1Q25, although its situation in Sarawak remains challenging

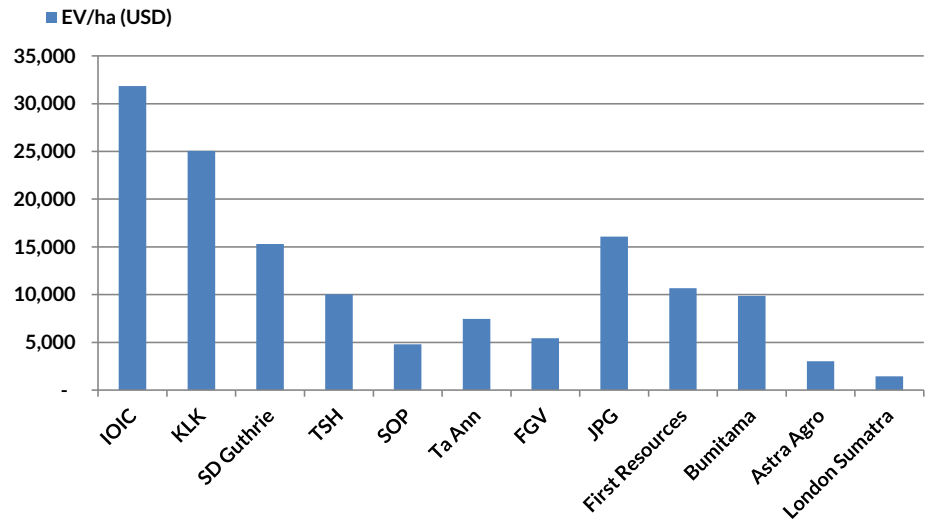
Source: RHB

Figure 19: Regional companies' forward sales positions

Company	Forward sales for 2024 (as at end-3Q24)
KLK	10% of Malaysian production three months ahead
IOI	20-50% of production, sold on an average of three months forward
SDG	It has sold c.10% of its FY25 Malaysian output at MYR4,240/tonne
SOP	None
FGV	Around 50% of its West Malaysia 4Q24 output sold forward at above MYR4,000/tonne
TAH	None
FR	No quantum given, but continues to hedge 2-4 weeks ahead
BAL	None
LSIP	Minimal to none
AALI	Minimal

Source: Company data, RHB

Figure 20: Peer comparison based on EV/ha



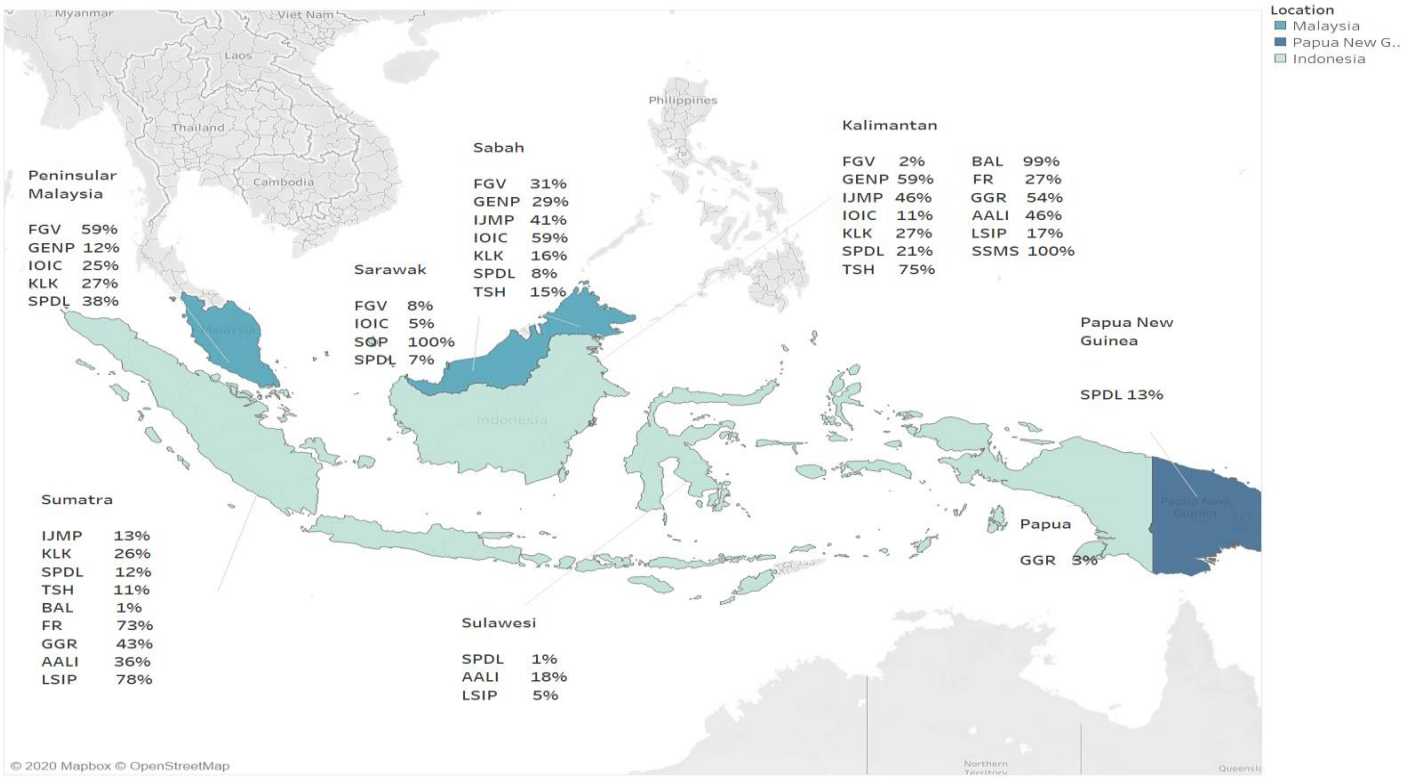
Source: RHB

Figure 21: Regional peer comparison

	BBG ticker	Market cap (USDm)	Rating	Price (local ccy)	TP (local ccy)	Core P/E FY24F	Core P/E FY25F	P/BV FY24F	Net gearing FY24F	Div yield FY24F	ROE FY24F	EV/ha USD
Kuala Lumpur Kepong	KLK MK	4,994	Buy	20.22	24.80	26.0	20.5	2.6	58.9%	1.7%	2.3%	25,044
Sarawak Oil Palms	SOP MK	626	Buy	3.11	4.15	6.7	7.1	0.7	Cash	3.5%	11.2%	4,801
IOI Corp	IOI MK	5,240	Buy	3.75	4.90	15.2	17.1	2.0	13.1%	2.5%	13.2%	31,846
SD Guthrie	SDG MK	7,477	Buy	4.80	5.55	24.7	21.0	1.8	24.7%	2.2%	7.5%	15,289
Ta Ann	TAH MK	405	Neutral	4.08	4.50	9.5	7.8	1.0	Cash	8.6%	10.4%	7,464
TSH Resources	TSH MK	373	Neutral	1.22	1.10	14.9	13.5	0.8	-1.9%	1.6%	5.4%	14,680
Johor Plantations	JPG MK	719	Buy	1.20	1.55	12.3	11.3	1.1	37.2%	4.2%	9.7%	16,079
FGV Holdings	FGV MK	937	Neutral	1.14	1.27	11.9	11.2	0.7	23.4%	3.5%	5.8%	5,436
Wilmar	WIL SP	14,969	Neutral	3.24	3.10	13.1	10.5	0.7	105.1%	4.3%	5.5%	N/A
Bumitama Agri	BAL SP	1,040	Buy	0.81	0.95	8.5	7.7	1.2	15.0%	6.1%	14.4%	9,873
First Resources	FR SP	1,663	Neutral	1.45	1.65	8.4	8.2	1.2	13.3%	5.9%	14.8%	10,678
PP London Sumatra Indonesia	LSIP IJ	406	Buy	970	1,540	5.2	5.4	0.5	Cash	6.6%	10.2%	1,433
Astra Agro Lestari	AALI IJ	662	Neutral	5,600	6,940	10.0	8.5	0.5	6.3%	4.4%	4.5%	3,029
Regional Average						**12.7**	**11.1**	**1.1**				**11,295**

Note: Prices are as at 10 Feb 2025
Source: Bloomberg, Company data, RHB

Figure 22: Breakdown of plantation companies' landbanks



Source: Company data, RHB

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