Uniquely RHB

REGIONAL THEMATIC APRIL 2025

Plantation: On The Ground With Johor's Sustainable Leaders

Plantation

On The Ground With Johor's Sustainable Leaders

Overweight (Maintained)

Stocks Covered	12
Rating (Buy/Neutral/Sell):	8 / 4 / 0
Last 12m Earnings Revision Trend:	Positive

- **Maintain OVERWEIGHT.** We recently visited Johor Plantations Group's (JPG) oil palm estates and SD Guthrie's (SDG) downstream facilities in Johor. These two players are leaders in plantation sustainability, and have solid certificates (both are 100% RSPO- and MSPO-certified). Overall, we expect both companies to record robust earnings growth YoY this year – on higher ASPs, new product lines, and rising efficiency.
- **We visited JPG's Basir Ismail and Kuala Kabong estates in Johor.** Despite the two estates being located near each other, yields vary due to soil type – Basir Ismail land contains mineral soil, while the oil palms in Kuala Kabong are planted on peat soil, which has a soft and spongy texture. This prevents oil palms from receiving enough nutrition, as the trees will start to bend and strain due to their weight as they age. We also visited JPG's Sedenak mill, which has a processing capacity of 90 tonnes per hour. Within the mill complex, there is also a biomethane plant to capture palm oil mill effluent (POME) and a palm fibre oil extraction (PFOE) plant to produce red palm oil.
- **Overall, we remain bullish on JPG's operational efficiency**, which translates to consistently higher-than-average FFB yields as well as a labour-to-land ratio. While challenges remain at the Kuala Kabong estate due to peat soil conditions and mechanisation limitations, it accounts for only 3% of JPG's planted area. Meanwhile, the ongoing ramp-up of the biomethane and PFOE facilities supports JPG's push into sustainable revenue streams. While the incremental revenue is only expected to make up 1-2% of JPG's topline pa, we are positive on the initiatives as they strengthen JPG's ESG credentials.
- **SDG's Pasir Gudang refinery is more of a specialty fats plant**. Our visit to SDG's downstream refinery in Pasir Gudang was interesting, as this plant is more of a specialty fats plant than a bulk refinery, with differentiated products making up >50% of its sales volume of 120k tonnes a year. The specialty fats products it produces include confectionary fats (cocoa butter substitutes, cocoa butter equivalents, chocolate spread etc) and bakery fats (cake and cream margarine, bakery shortening, margarine, etc), amongst others. We believe SDG will stand to benefit from the higher cocoa prices globally, as cocoa butter substitutes (CBS) and cocoa butter equivalents (CBE) make up c.30-40% of its sales volumes. This percentage should increase further once the repairs to its plant are completed (post-fire incident in Jul 2024) and it is able to fully resume production of CBE – estimated by Aug 2025.
- **Focus on differentiated products essential.** We believe SDG's downstream units should remain profitable if it continues to focus on growing its further downstream differentiated products. Downstream EBIT margins have weakened in the last two quarters, on thin bulk margins and some challenges in its Indonesia and Europe facilities. Note: Generally, the differentiated products segment has contributed more to SDG's downstream EBIT over the last six years (averaging c.36% of EBIT) vs bulk products (c.26%) and trading activities (c.30%), despite only representing 25-35% of total sales volumes.
- **Maintain our sector OVERWEIGHT and** CPO price of MYR4,300/tonne for 2025F. Top Picks are listed in the table on the top right corner of this page.

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	IDR6,150	8.4	8.9	0.5	5.0	4.8
Bumitama Agri	Buy	SGD1.00	25.3	7.8	1.2	15.5	7.5
First Resources	Buy	SGD1.85	23.2	7.7	1.2	16.4	6.5
IOI Corp	Buy	MYR4.90	34.5	16.2	1.8	11.2	2.8
Johor Plantations Group	Buy	MYR1.65	41.0	10.4	1.0	9.7	5.0
Kuala Lumpur Kepong	Buy	MYR25.40	27.4	18.4	2.4	8.4	2.5
PP London Sumatra Indonesia	Buy	IDR1,530	38.5	5.0	0.5	11.0	6.8
Sarawak Oil Palms	Buy	MYR4.80	63.8	5.2	0.6	12.4	4.4
SD Guthrie	Buy	MYR5.65	21.4	19.9	1.7	8.6	3.0
Ta Ann	Neutral	MYR3.90	0.8	8.5	0.9	10.7	8.5
TSH Resources	Neutral	MYR1.20	10.3	10.7	0.7	6.8	1.8
Wilmar International	Neutral	SGD3.00	(3.2)	11.6	0.7	6.4	5.0

Source: Company data, RHB

Top Picks	Target Price
SD Guthrie (SDG MK) – BUY	MYR5.65
Johor Plantations Group (JPG MK) – BUY	MYR1.65
Sarawak Oil Palms (SOP MK) – BUY	MYR4.80
Bumitama Agri (BAL SP) – BUY	SGD1.00
London Sumatra Indonesia (LSIP IJ) – BUY	IDR1,530

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Comparison of sustainability credentials

Companies	RSPO	MSPO	ISPO
Johor Plantations Group	**100%**	**100%**	**N/A**
SD Guthrie	100%	100%	100%
IOI Corp	94%	100%	N/A
Kuala Lumpur Kepong	78%	100%	96%
Hap Seng Plantations	100% mills, 81% estates	100%	100%
United Plantations	84%	100%	76%
Boustead Plantations	40%	100%	N/A
Sarawak Oil Palms	-	100%	N/A
Ta Ann	-	100%	N/A
Jaya Tiasa	-	100%	N/A
Sarawak Plantation	-	100%	N/A
TH Plantations	-	100%	-

Source: Company data, RHB

Day 1 – Visit to JPG's palm oil estates

Standing at the frontline of ESG metrics. JPG stands head and shoulders with the big boys when it comes to sustainability certifications, as evidenced by its 100% RSPO and MSPO certifications. This impressive track record is also above its Sarawak-listed peers which have no RSPO certifications. In terms of traceability to mills (TTM) and plantation (TTP), we understand that JPG has achieved 100% TTM and 82% TTP, which are also above most of its peers – only behind the likes of Hap Seng Plantations and United Plantations. These robust ESG credentials have enabled JPG to secure pricing premium for its products, seen in its premium CPO ASPs vs the average Malaysian Palm Oil Board (MPOB) price (3-10% higher) over the last five years

Our first stop in our Johor site visit was at Basir Ismail Estate, one of JPG's estates in Kota Tinggi, which sits on mineral soil. The 3,204ha estate has an average tree age profile of 17 years old, with prime age trees making up 62% of the planted area (FY24 yield: 19.46MT/ha). When we arrived at the estate, we noticed that the trees were evenly planted and there were little to no weeds nearby, indicating regular weeding routines were adhered to. The estate is operated by around 300 workers, with 60% consisting of foreign workers. The land-to-labour ratio at the estate stands at 1:10.67ha, and there is no labour shortage currently.

Figure 1: The landscape of Basir Ismail estate

Source: RHB

Figure 2: Harvested FFB

Source: RHB

Mechanisation at the estate includes MB Raker (mechanised buffalo equipped with raker) and a mini tractor grabber scissor lift (MTGSL), which are developed internally. It also had smart manure spreaders for the application of fertilisers, allowing JPG to achieve higher efficiency. For example, by using MTGSL, JPG is able to cover 20-30ha vs 8-10ha using manual labour. As at FY24, it has achieved a 78.3% mechanisation rate of harvesting area, with an average labour-to-land ratio of 1:11. JPG is targeting to improve its ratio to 1:12.75 by the end of 2025.

Figure 3: Usage of MB Raker

Source: RHB

Figure 4: FFB harvested using MTGSL

Source: RHB

Vast difference in peat soil estate. Our next stop was at the Kuala Kabong estate, which mainly comprises peat soil and is one of JPG's rented estates. This estate has a total area of 1,511.5ha and an average tree age profile of 24 years. Its relatively low yield (10.5 tonnes/ha in FY24) is primarily due to the terrain's peat soil, which has a soft and spongy texture. This prevents palm oil trees from receiving enough nutrition, as the trees will start to bend and strain under their weight the older they get. The spongy soil also prevents the operation or entry of heavy machineries, leading to a more manual harvesting and collection process. In this case, the conventional sickle is preferred over the MTGSL, while weeding and collection is done manually. We note, however, that the land-to-labour ratio at this estate stands at 1:20ha, which much higher than Basir Ismail's – mainly due to i) The labour shortage at the estate (25% shortage), and ii) the lower yields and the spread between the trees, which lead to workers having to cover a wider area during harvesting process. We highlight that the trees at this estate are planted much further apart, at a stand rate of 112/ha (vs Basir Ismail's 136/ha), given the need to provide space for the trees to bend.

Figure 5: Peat soil is softer and spongier

Source: RHB

Figure 6: Trees are bent due to the soft and spongy soil texture

Source: RHB

Sedenak mill complex, a model of sustainability. In the afternoon, we went to visit Sedenak mill, which has a milling capacity of 90 tonnes per hour and is currently running at a 75-80% utilisation rate. We noted that the mill is the only mass balance (MB) mill out of five mills owned by JPG, and mainly takes outside crop purchases (OCP) crops. Within the mill complex, there is also a biomethane plant to capture methane gas from POME, as well as a PFOE plant.

Recall that JPG signed a 15-year agreement with Gas Malaysia in 2019 to sell its biomethane, with a minimum offtake of 250,000mmbtu. JPG guided that the capex for the facility is MYR20m and it is currently ramping up capacity to meet the offtake (JPG is currently fulfilling 50-60% of the minimum offtake). Additionally, the PFOE plant is also used to extract oil from mesocarp fibre to produce red palm oil (RPO), which will be sold to biodiesel players, at a maximum capacity of 2,476 tonnes per year. JPG expects the sale of RPO to contribute around MYR7-8m in sales pa to group numbers, with the project costing around MYR14m. On top of utilising POME and mesocarp fibre, JPG uses PK shells for internal power and steam generations, further showcasing its sustainability efforts.

Figure 7: FFB transported to the palm oil mill

Source: RHB

Figure 8: Biomethane plant

Source: RHB

Figure 9: Methane capture

Source: RHB

Figure 10: Red palm oil obtained from mesocarp fibre

Source: RHB

Mechanisation and discipline leads to higher FFB yields. Overall, we reaffirm our view that JPG's operational efficiency and its usage of mechanisation will translate to consistently higher-than-average FFB yields and labour-to-land ratios in the years ahead. While challenges remain at the Kuala Kabong estate – due to peat soil conditions and mechanisation limitations – we note that peat soil estates only make up 3% of JPG's planted area. Meanwhile, the ongoing ramp-up of the biomethane and PFOE facilities supports JPG's push into sustainable revenue streams. While the incremental revenue is only expected to make up 1-2% of JPG's topline pa, we are positive on the initiatives – as they strengthen JPG's ESG credentials as a leader in sustainability practices.

Day 2 – Visit to SDG's International Refinery in Pasir Gudang

We believe SDG is also a leader in sustainability, given its 100% RSPO, MSPO, and ISPO certifications. While SDG's TTM (93%) and TTP (71%) fall slightly behind that of its peers, its operational efficiency stands above them, demonstrated through its outstanding labour-to-land ratio of 1:13.6ha in FY24. This is higher than the national average of 1:8-9ha and its peer range of 1:8-1:10ha. We also like SDG for its usage of renewable energy (RE), which accounts for 88% of all energy produced within the group in FY24, vs its peer range of 30-50%. Notably, SDG's participation in Kerian Green Industrial Park (KIGIP) in May 2024 further underscores its commitment towards RE and sustainable value creation. The park is designed to attract green E&E investments and includes plans for large-scale solar farms.

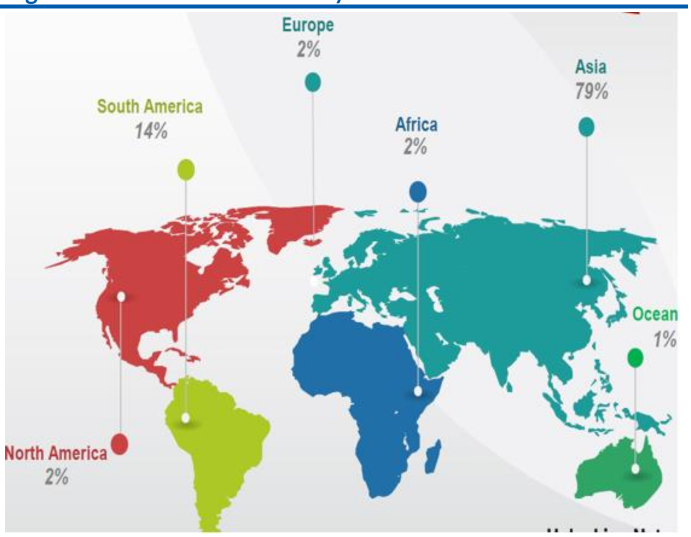
SDG's International Refinery in Pasir Gudang is more of a specialty fats plant. The next day, we visited SDG's International Refinery in Pasir Gudang (SDGIPGR), which sits on 15.5 acres and comprises several complexes including a refinery, a hydrogenation and interesterification plant, a fractionation plant and a texturisation and liquid plant. Besides basic refining (refining capacity of 500 tonnes per day), this plant also produces specialty fats, which makes up more than 50% of its sales volume of 120k tonnes a year. The specialty fats products it produces includes confectionary fats (cocoa butter substitutes, cocoa butter equivalent, chocolate spread etc) and bakery fats (cake and cream margarine, bakery shortening, margarine, etc), amongst others. The remaining sales volumes comprise bulk refined products.

Asia-centric exporter. The raw materials for this plant come from crude palm kernel oil (CPKO, 64%), crude coconut oil (21%), CPO (14%) and soft oils like sunflower, canola, soybean and corn oil (1-2%). SDG sources its raw materials like CPO and CPKO internally, while its soft oils and coconut oil are sourced through imports. In terms of sales destinations, SDG sends its products mostly to Asia (79%), followed by South America (14%), with the rest being sold to areas like Europe (2%), Africa (2%), North America (2%), and Oceania (1%).

Figure 11: SDG's Pasir Gudang refinery

Source: RHB

Figure 12: 2024 sales volume by destination



Source: Company data

Figure 13: Confectionary fats produced by SDGIPGR

Source: Company data

Figure 14: Bakery fats produced by SDGIPGR

Source: Company data

Figure 15: Finished products by texturisation plant

Source: Company data

Figure 16: Finished products by liquid plant

Source: Company

No major changes in demand patterns of late, with the bulk of products sold to the B2B market. SDGIGPR has not seen any significant change in demand patterns for its finished goods, with plant utilisation running at around 80% currently. In terms of demand, currently its specialty fats products are mostly sold to the business-to-business (B2B) market (80%), with the remaining 20% sold to the business-to-consumer (B2C) market. SDGIGPR locks in about half of the sales volume from this plant in long-term contracts ranging between 3-5 months tenure. For these contracts, the ASP and margins are fixed, as SDGIGPR would then ensure its raw material requirements are already purchased and priced in to the contracts.

Figure 17: Specialty fats products

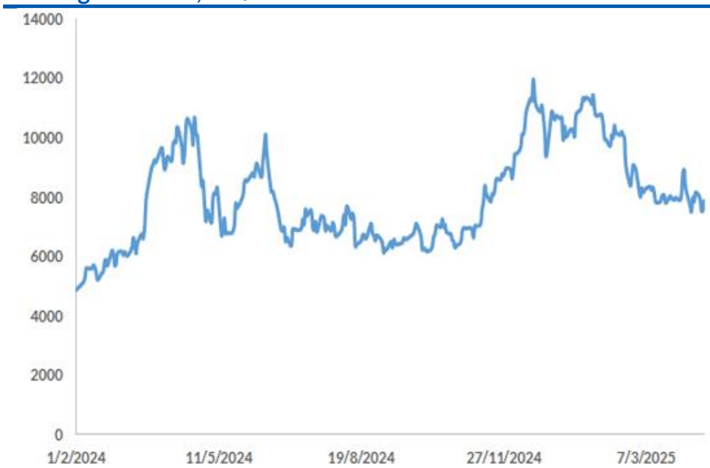
Source: RHB

Figure 18: Packing finished products into cartons

Source: RHB

Beneficiary of high cocoa prices. We believe SDGIGPR could potentially benefit from the higher cocoa prices globally given that CBS and CBE generally comprise about 30-40% of its sales volumes. This percentage should increase further once the repairs to its plant are completed and it is able to fully resume production of CBE. Note that, in Apr 2024, part of its refinery caught fire, and 40% of the structure was razed. SDGIGPR expects the plant to be back up and running fully by August.

Figure 19: YTD-2025 cocoa prices at USD9,299/tonne vs 2024's average of USD7,318/tonne



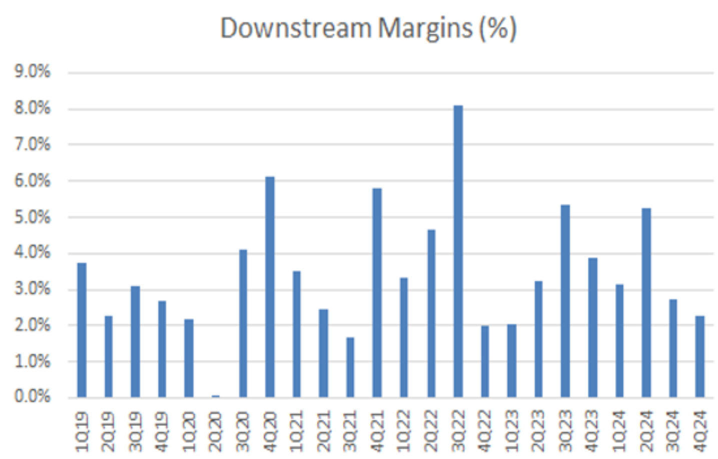
Source: Bloomberg, RHB

Figure 20: Sample Testing of CPO Received

Source: Company data, RHB

Focus on differentiated products essential. Overall, we believe SDG's downstream operations will remain profitable as long as it continues to focus on growing its further downstream differentiated products. EBIT margins for the downstream division have weakened in the last two quarters, due to thin bulk margins as well as some challenges in its Indonesia and Europe facilities. We highlight that, generally, the differentiated products segment contribute more to the downstream division EBIT over the last six years (averaging c.36% of EBIT) than bulk products (c.26%) and trading activities (c.30%), despite only representing only 25-35% of total sales volumes.

Figure 21: SDG's quarterly downstream margins



Source: Company data, RHB

Figure 22: Breakdown of SDG's downstream EBIT contributions

Source: Company data, RHB

Figure 23: ESG scores for stocks under our coverage

	Environment	Social	Governance	Aggregate Score
Wilmar International	3.7	2.7	3.3	**3.3**
Johor Plantations Group	3.3	3.3	3.0	**3.2**
Kuala Lumpur Kepong	3.0	3.3	3.3	**3.2**
IOI Corporation	3.0	2.7	3.3	**3.0**
SD Guthrie	3.3	2.3	3.0	**3.0**
TSH Resources	3.0	2.0	2.7	**2.6**
Bumitama	2.7	2.0	3.0	**2.6**
First Resources	2.7	2.0	3.3	**2.7**
Astra Agro Lestari	2.7	2.0	2.3	**2.4**
Sarawak Oil Palms	2.3	2.0	2.7	**2.3**
London Sumatra	2.3	2.3	2.0	**2.3**
Ta Ann	1.7	2.0	2.3	**1.9**
Average Score	**2.7**	**2.3**	**2.9**	**2.6**

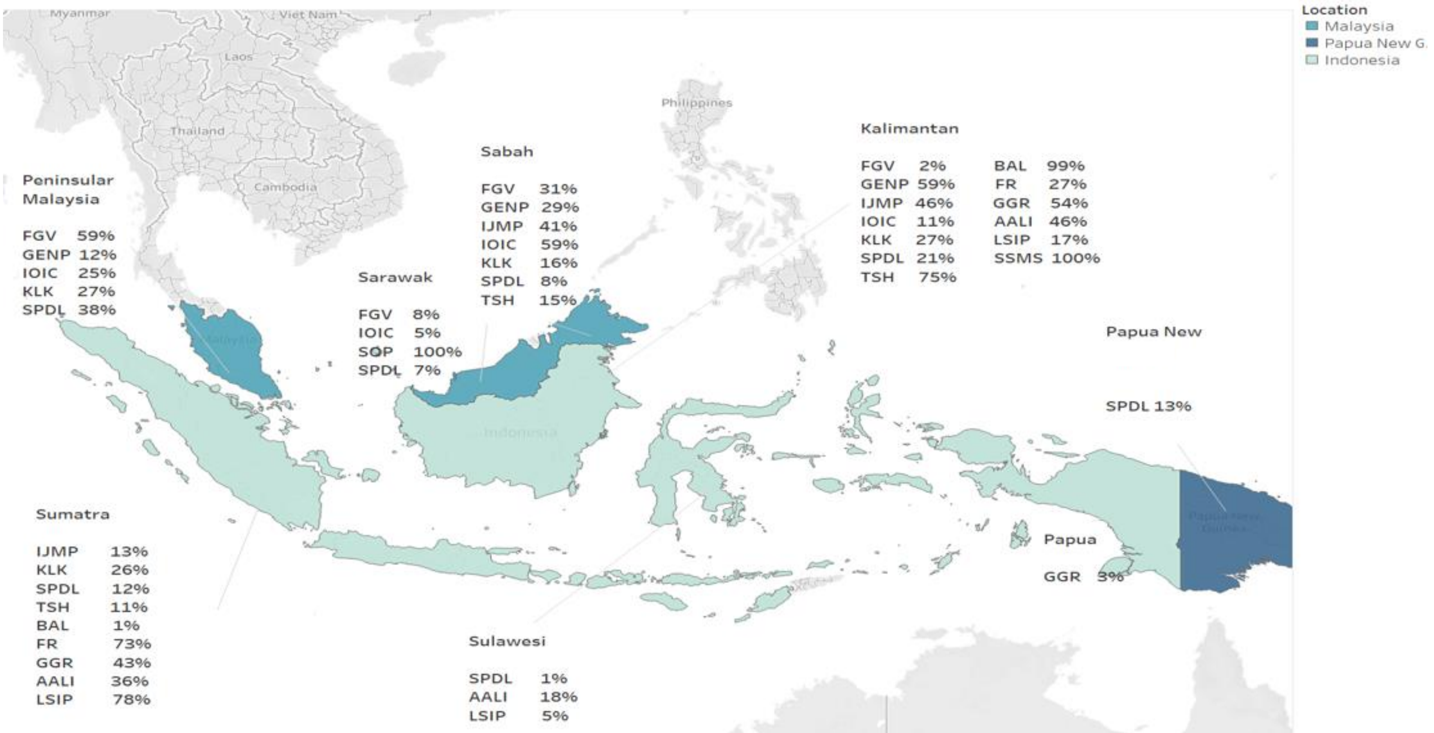
Source: RHB

Figure 24: Regional peer comparison

	BBG ticker	Market cap (USDm)	Rating	Price (local ccy)	TP (local ccy)	Core P/E FY25F	Core P/E FY26F	P/BV FY25F	Net gearing FY25F	Div yield FY25F	ROE FY25F	EV/ha USD
Kuala Lumpur Kepong	KLK MK	5,081	Buy	19.94	25.40	18.3	18.8	2.4	53.5%	2.5%	8.5%	27,016
Sarawak Oil Palms	SOP MK	599	Buy	2.93	4.80	5.2	5.7	0.6	Cash	4.4%	12.4%	4,601
IOI Corp	IOI MK	5,167	Buy	3.64	4.90	17.1	15.4	1.8	13.4%	2.7%	11.0%	31,091
SD Guthrie	SDG MK	7,358	Buy	4.65	5.65	19.9	20.5	1.7	20.3%	3.0%	8.6%	14,574
Ta Ann	TAH MK	390	Neutral	3.87	3.90	8.5	9.0	0.9	Cash	8.5%	10.7%	7,308
TSH Resources	TSH MK	331	Neutral	1.09	1.20	10.7	11.4	0.7	Cash	1.8%	6.8%	9,293
Johor Plantations	JPG MK	719	Buy	1.17	1.65	10.4	11.2	1.0	41.2%	5.0%	9.7%	15,343
Wilmar	WIL SP	14,842	Neutral	3.10	3.00	11.6	10.8	0.7	110.4%	5.0%	6.4%	N/A
Bumitama Agri	BAL SP	1,064	Buy	0.80	1.00	7.8	8.6	1.2	4.3%	7.5%	15.5%	9,631
First Resources	FR SP	1,782	Buy	1.50	1.85	7.7	8.2	1.2	1.8%	6.5%	16.4%	11,444
PP London Sumatra Indonesia	LSIP IJ	448	Buy	1,105	1,530	5.0	5.2	0.5	Cash	6.8%	11.0%	1,424
Astra Agro Lestari	AALI IJ	650	Neutral	5,675	6,150	8.9	9.4	0.5	Cash	4.8%	5.0%	3,162
Regional Average						**10.6**	**10.9**	**1.0**				**11,327**

Note: Prices are as at 22 Apr 2025
Source: Bloomberg, Company data, RHB

Figure 25: Breakdown of plantation companies' landbanks



Source: Company data, RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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