PLANTATION

***Maintain* POSITIVE**

Weather Disruption 2.0

KEY INVESTMENT HIGHLIGHTS

- **Upstream output reversed in November**
- **Stock level softened on the back of lower production and decent exports numbers**
- **CPO prices remain elevated at RM5,000/Mt level**
- **Maintain our tactical POSITIVE stance on the sector**

Weather disruption in Sept. CPO output in Nov-24 fell to 1.62m tonne (-9.8%mom, **-9.4%yoy,** +5.0%ytd) versus prior year, the slowing growth was seen in most of the states particularly in Kelantan (-17.1%yoy), Terengganu (-12.3%yoy) and Sarawak (-11.9%yoy) area. The FFB received by mills was also affected, down to 8.38m tonne (-7.1%yoy) with weaker average FFB yield and OER in mills of 1.42 tonne/ha and 19.83% recorded, the FFB evacuation process was interrupted by continuous rainy weather, which led to flooding in some areas.

Looking ahead, we opine that biological tree rest and a slower-than-expected recovery in output will persist, with local production projected to grow by only +1.0%yoy to 19.5m Mt in CY25F. The continuation of an adverse weather event, such as La Niña, could further impact crop productivity. Met Malaysia stated, the likelihood of this event occurring in the 1HCY25 remains high, at 57%, although this is a slight decrease from the previous 60% probability.

Lower stock levels. Ending stockpiles dropped substantially to 1.84m tonne (-24.1%yoy), in line with lower production and decent exports numbers recorded, which been grew to 1.49m tonne (**+6.5%yoy**). There was a notable increase in PPO (+16.4%yoy), however, CPO sales volume weaken to 237,923 Mt (-50.5%mom, -28.6%yoy, +8.6%ytd), dragged by slower CPO output and price effect where the average CPO price expensively higher at RM5011.5/Mt. Note that, Oct and Nov's spread discount between the PO and SBO price were approximately around USD18/Mt and -USD23/Mt.

CPO prices remain elevated. The local CPO price delivery ended the month at RM5,000/Mt (+5.6%mom), and averagely higher to RM5,012/Mt (+14.2%mom) as supply risks kicked in. With the expected decline in ending stocks reaching 1.8m Mt, we have projected CY25F's average CPO price +2.4%yoy higher to approximately RM4,300/Mt (CY24: RM4,200/Mt). This CPO price target is made in light of the expectation of i) slower PO production growth in Malaysia and Indonesia due to La Niña and biological tree rest, ii) reduced PO export due to higher biodiesel blending rate (B40) in Indonesia and iii) potential PO export ban from Indonesia in 1QCY25 (in preparation of Eid festival). It is crucial to note that the potential PO export ban from Indonesia onset of the Raya festival

COMPANY IN FOCUS

IOI Corp

Maintain BUY | Unchanged target price: **RM4.42**

Price @ 11th Dec 2024: RM3.90

- Upstream level remains intact with high production growth c. +5% supported by strong FFB yield of 19.5tonne/ha and OER 22%
- Lowest cost of production among its peers c. RM2,400-2,600 / Mt
- The downstream subsegment remain competitive, as its Malaysia's refinery and Oleo plant still operate at a profit as compared to its peers.

Share price chart



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could pose risks to PO supply availability in 1Q-2QCY25, we opine this could create a favourable trajectory for CPO prices, potentially driving them from RM5,000/Mt to nearly RM5,500/Mt in the 2QCY25.

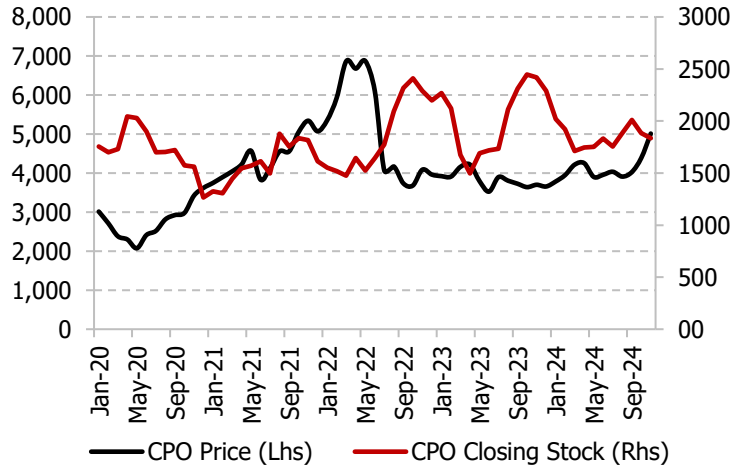
Tactically POSITIVE call on the sector at least until 1HCY25. We maintain a **POSITIVE** outlook on the sector, but we foresee only a handful of players likely to benefit from elevated CPO prices. Unlike in 2022, current local CPO production (as of 3QCY24 results) is underperforming, with many small planters such as TSH, Ta Ann, and Sarawak Plantation unable to fully capitalize on higher CPO prices due to a contraction in CPO production and sales volume. This is mainly due to reduced external FFB purchases from smallholders, who have struggled due to factors such as lack of fertiliser application, inadequate upkeep and difficulty in evacuating FFB during wet weather, compounded by a lack of machinery. Hence, we recommend avoiding smaller players with significant exposure to external FFB purchases, as the aforementioned factors could risk their CPO production, particularly during the current biological tree rest environment. Instead, we suggest focusing on larger players like **IOI Corp (BUY, TP: RM4.42)**, **SD Guthrie (BUY, TP: RM5.43)**, and GENP (BUY, TP: RM6.10), whose CPO procurement (>50%) from their own estates offers more stability in realizing CPO prices.

Table 1: Malaysia Palm Oil Statistics for November 2024 ('000 MT)

	Nov-23	Oct-24	Nov-24	MoM%	YoY%	11M23	11M24	YoY%
Opening Stocks	2.45	2.01	1.89	-6.3%	-23.0%	2.20	2.29	4.3%
Production	**1.79**	**1.80**	**1.62**	**-9.8%**	**-9.4%**	**17.00**	**17.85**	**5.0%**
Imports	0.04	0.01	0.02	54.0%	-44.4%	0.85	0.21	-74.8%
Total Supply	**4.28**	**3.82**	**3.53**	**-7.7%**	**-17.5%**	**20.0**	**20.4**	**1.6%**
Exports	1.40	1.74	1.49	-14.7%	6.5%	13.75	15.56	13.2%
Dom Disapp	0.46	0.19	0.21	5.8%	-55.2%	3.88	2.96	-23.6%
Total Demand	**1.86**	**1.94**	**1.69**	**-12.7%**	**-8.8%**	**17.62**	**18.52**	**5.1%**
End Stocks	**2.42**	**1.89**	**1.84**	**-2.6%**	**-24.1%**	**2.42**	**1.84**	**-24.1%**
Stock/Usage Ratio	10.9%	8.1%	9.0%	-	-	1.1%	0.8%	-

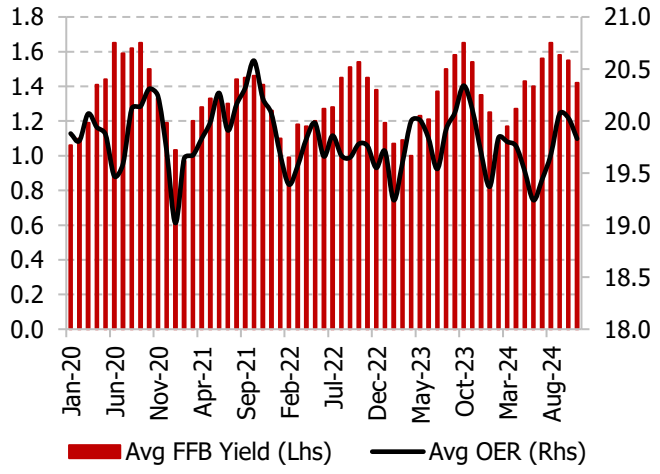
Source: MPOB, MIDFR

Chart 2: PO Closing stocks VS CPO Price



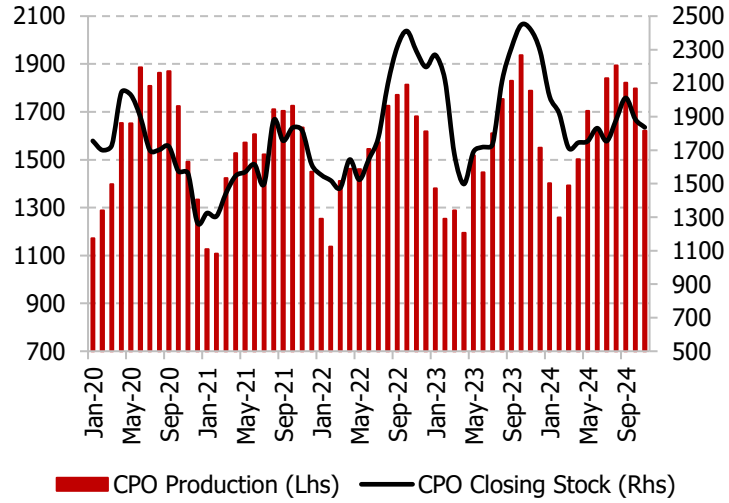
Source: MPOB, MIDFR

Chart 3: Average FFB Yield VS OER



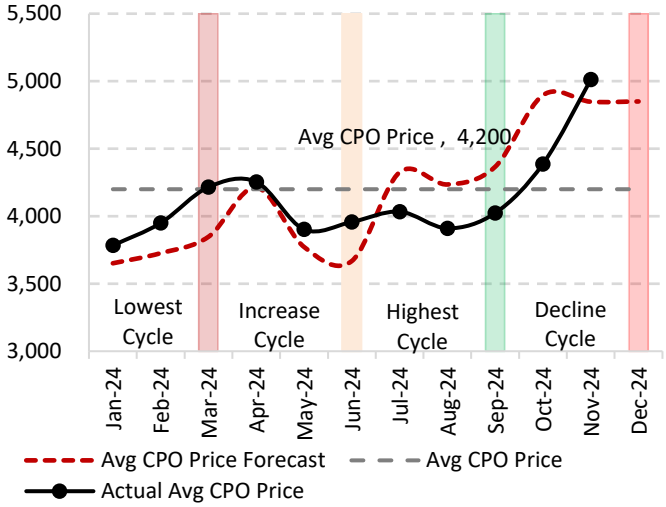
Source: MPOB, MIDFR

Chart 4: Malaysia PO Production VS Closing Stocks



Source: MPOB, MIDFR

Chart 5: CPO Price Movement Forecast VS Actual



Source: MPOB, MIDFR – New chart based on recent avg CPO Price target adjustment

Table 2: Summary of earnings, TP and recommendations

Stocks	Rec.	Price @	Tgt Price (RM)	Core EPS (sen)		PE (x)		Net DPS (sen)		Div Yield (%)	
		11-Dec-24		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
IOI Corporation	BUY	3.90	4.42	18.8	20.5	20.7	19.0	8.5	8.5	2.2%	2.2%
SD Guthrie	BUY	5.02	5.43	18.1	24.7	27.7	20.3	11.0	11.0	2.2%	2.0%
KLK	BUY	21.60	23.63	112.5	113.6	19.2	19.0	62.0	64.0	3.0%	3.1%
Genting Plantations	BUY	5.87	6.10	31.4	35.9	18.7	16.4	21.0	20.0	3.4%	3.4%
Ta Ann Holdings	NEUTRAL	4.45	4.34	44.2	51.1	10.1	8.7	20.0	20.0	4.5%	4.5%
PPB Group	NEUTRAL	12.90	13.18	83.6	88.0	15.4	14.7	35.0	35.0	2.7%	2.7%
Sarawak Plantation	NEUTRAL	2.41	2.15	22.1	23.9	10.9	10.1	10.0	10.0	4.1%	4.1%
TSH Resources	NEUTRAL	1.25	1.24	7.7	9.6	16.2	13.0	2.0	2.0	1.6%	1.6%
FGV Holdings	NEUTRAL	1.15	1.16	5.6	7.0	20.5	16.4	3.0	3.0	2.6%	2.6%

Source: MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology