PLANTATION

***Maintain* POSITIVE**

Slower Output Continues

KEY INVESTMENT HIGHLIGHTS

- **Upstream output reversal trend in December**
- **Stock level weaken on the back of lower production and higher exports numbers**
- **CPO prices remain elevated at RM5,000/Mt level**
- **Maintain our tactical POSITIVE stance on the sector at least until 1HCY25**

Slower output in Dec. CPO output in Dec-24 softened to 1.49m tonne (-8.3%mom, **-4.1%yoy,** +4.2%ytd) versus prior year, the slowing growth was seen in most of the states particularly in Negeri Sembilan (-18.8%yoy), Kedah (-18.2%yoy) and Sabah (-4.4%yoy) area. The FFB received by mills was also affected, down to 7.79m tonne (-2.0%yoy) with weaker average FFB yield and OER in mills of 1.34 tonne/ha and 19.41% recorded, the FFB evacuation process was interrupted by continuous rainy weather, which led to flooding in some areas.

Looking ahead, with closing stocks now nearly at 1.7m Mt (vs CY19: 2.0m Mt), this marks -15.0% below from pre-pandemic level. 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 and North-East Monsoon (Nov-Mar), could further impact crop productivity. According to the met Malaysia, the likelihood of this event occurring in the 1HCY25 remains high, at 57%, although this is a slight decrease from the previous 60% probability. As a result, peak production levels in the 2HCY25 are anticipated to be lower, which will likely support a high average CPO price trading during that period despite the peak seasonality.

Lower stock levels. Ending stockpiles dropped substantially to 1.71m tonne (-25.4%yoy), in tandem with lower production and flattish exports numbers recorded at 1.3m Mt (**+0.5%yoy**). There was a notable increase in PPO (+22.7%yoy) and PPKO (+58.2%yoy) exports, however, CPO sales volume weaken to only 167,331 Mt (-29.7%mom, -58.9%yoy, +0.9%ytd), following smaller CPO output and price effect where the average CPO price expensively higher at RM5119.5/Mt. Note that, Nov and Dec's spread discount between the PO and SBO price were approximately around -USD23/Mt and -USD126/Mt.

CPO prices remain elevated. The local CPO price delivery ended the month at RM5,001/Mt, and averagely higher to RM5,120/Mt (+2.2%mom) as supply risks kicked in. Jumping into Jan 2025, with the expected slower recovery in the local output amidst low stock level on top of delayed B4O rate in Indonesia, we anticipate the average CPO price to stabilised RM4,815/Mt (-6.0%mom). It is crucial to note the slower PO production

COMPANY IN FOCUS

IOI Corp

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

Price @ 10th Jan 2025: RM3.83

- 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



growth in Malaysia and Indonesia and the potential PO export ban to La Niña event and biological tree rest, 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 RM4,500/Mt to nearly RM5,000/Mt in the 2QCY25.

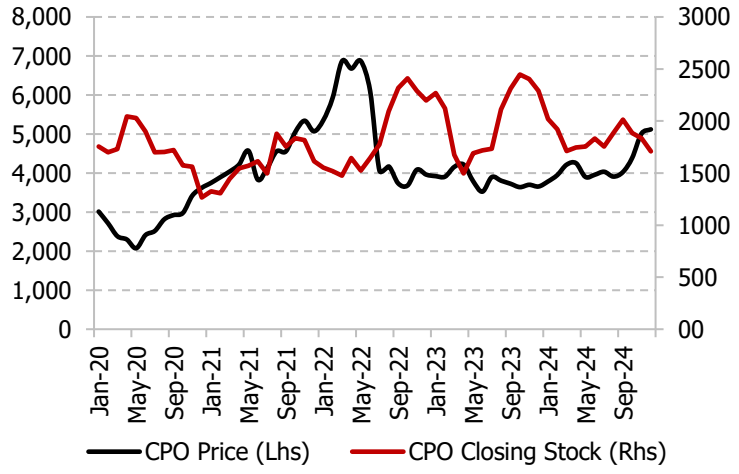
Tactically POSITIVE call on the sector at least until 1HCY25. We maintain a **POSITIVE** outlook on the sector, but we foresee only a handful of players likely to benefit from elevated CPO prices. Unlike in 2022, current local CPO production (as of 3QCY24 results) had underperformed, with many small 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 was 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 December 2024 ('000 MT)

	Dec-23	Nov-24	Dec-24	MoM%	YoY%	12M23	12M24	YoY%
Opening Stocks	2.40	1.89	1.84	-2.6%	-23.6%	2.20	2.29	4.3%
Production	**1.55**	**1.62**	**1.49**	**-8.3%**	**-4.1%**	**18.55**	**19.34**	**4.2%**
Imports	0.04	0.02	0.04	71.7%	3.7%	0.88	0.25	-71.5%
Total Supply	**3.99**	**3.53**	**3.36**	**-4.8%**	**-15.8%**	**21.6**	**21.9**	**1.1%**
Exports	1.33	1.49	1.34	-10.0%	0.5%	15.08	16.90	12.1%
Dom Disapp	0.36	0.20	0.31	52.9%	-15.0%	4.26	3.27	-23.2%
Total Demand	**1.70**	**1.69**	**1.65**	**-2.4%**	**-2.8%**	**19.34**	**20.17**	**4.3%**
End Stocks	**2.29**	**1.84**	**1.71**	**-6.9%**	**-25.4%**	**2.29**	**1.71**	**-25.4%**
Stock/Usage Ratio	11.2%	9.0%	8.6%	-	-	1.0%	0.7%	-

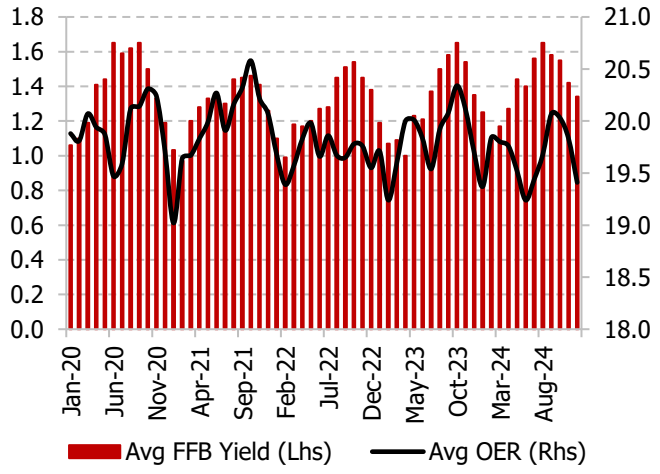
Source: MPOB, MIDFR

Chart 2: PO Closing stocks VS CPO Price



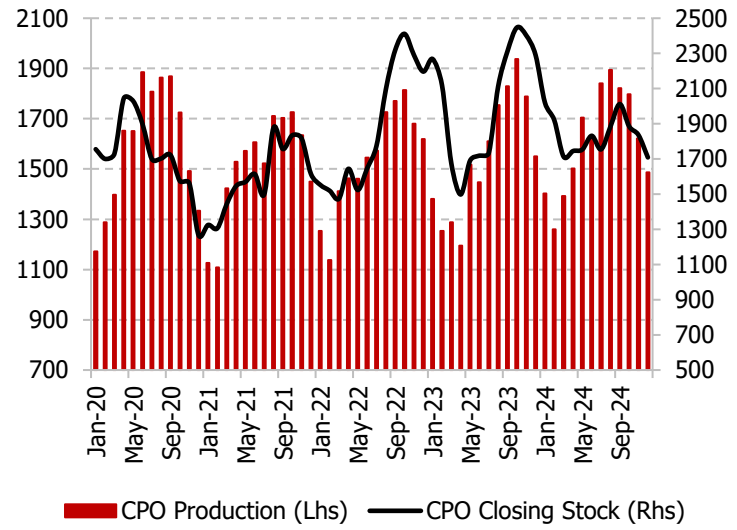
Source: MPOB, MIDFR

Chart 3: Average FFB Yield VS OER



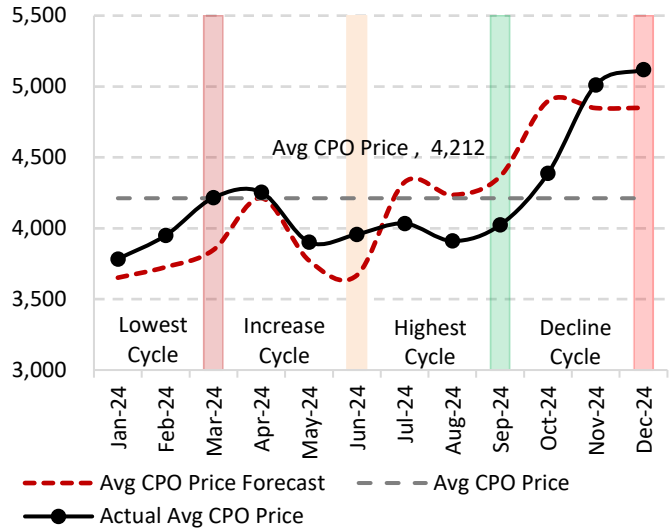
Source: MPOB, MIDFR

Chart 4: Malaysia PO Production VS Closing Stocks



Source: MPOB, MIDFR

Chart 5: CPO Price Movement Forecast VS Actual



Source: MPOB, MIDFR

Table 2: Summary of earnings, TP and recommendations

Stocks	Rec.	Price @	Tgt Price (RM)	Core EPS (sen)		PE (x)		Net DPS (sen)		Div Yield (%)	
		10-Jan-25		FY25	FY26	FY24	FY25	FY24	FY25	FY24	FY25
IOI Corporation	BUY	3.83	4.42	20.5	20.5	18.7	18.7	8.5	8.5	2.2%	2.2%
SD Guthrie	BUY	4.92	5.43	24.7	25.9	19.9	19.0	11.0	10.0	2.2%	2.0%
KLK	BUY	21.10	23.63	113.6	109.2	18.6	19.3	64.0	66.0	3.0%	3.1%
Genting Plantations	BUY	5.74	6.10	35.9	39.4	16.0	14.6	20.0	20.0	3.5%	3.5%
Ta Ann Holdings	NEUTRAL	4.18	4.34	51.1	48.3	8.2	8.7	20.0	20.0	4.8%	4.8%
PPB Group	NEUTRAL	12.20	13.18	88.0	91.1	13.9	13.4	35.0	35.0	2.9%	2.9%
Sarawak Plantation	NEUTRAL	2.33	2.15	23.9	21.9	9.7	10.6	10.0	10.0	4.3%	4.3%
TSH Resources	NEUTRAL	1.18	1.24	9.6	10.9	12.3	10.8	2.0	2.0	1.7%	1.7%
FGV Holdings	NEUTRAL	1.10	1.16	7.0	7.7	15.7	14.3	3.0	3.0	2.7%	2.7%

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