Plantation

Tactical Positive (Maintain)

Jan '25 MPOB Statistics

HIGHLIGHTS

- Jan '25 saw monthly average pricing of CPO rising +24%yoy.
- Production slipped -12%yoy, due to pollination seasonality and uneven weather conditions.
- Endings stocks weakened by -22%yoy amidst slower production numbers.
- Maintain **Tactical Positive** with average CPO Price target of RM4,300/Mt for CY25.

SECTOR RECAP

CPO Price strengthened by +24%yoy. The local CPO price delivery ended the month at RM4,600/Mt with an average price of RM4,673/Mt (-8.7% mom, **+23.5%yoy**) due to concerns over escalating supply risks escalated ahead of Ramadhan demand. Prices were firmer at the beginning of the month, reaching a high of RM4,819/Mt, but moderated by -4.5% to RM4,600/Mt towards the end in view of the delayed optimism regarding the B4O blending rate in Indonesia.

Moving into February, we anticipate that the current CPO prices will remain stable, hovering within the range of RM4,500–5,000/Mt. This will be driven by restocking activities in preparation for pre-Ramadhan demand amidst slower PO output and lower closing stock.

Production slipped -12%yoy. CPO output in Jan-25 weakened to 1.24m tonne, a decline of -16.8%mom and **-11.8%yoy**. Lower production was seen in most states particularly in Terengganu (-26%yoy), Negeri Sembilan (-25.3%yoy). Meanwhile, the eastern area (i.e. Sabah and Sarawak) saw a decline of -10.4%yoy, due to pollination cycle amidst biological tree rest conditions. The FFB received by mills was also affected, dropping to 6.56m tonne (-10.8%yoy). This is a reflection of weaker average FFB yield and OER in mills of 1.15 tonne/ha and 19.24% respectively. The FFB evacuation process was interrupted by heavy rainfall, 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 marginally by only +1.0%yoy to 19.5m Mt in CY25F. The continuation of current La Niña (Feb-Apr) and North-East Monsoon (Nov-Mar), could further hinder crop productivity. According to the MET Malaysia, the likelihood of this event occurring in Feb-Apr remains elevated at 59%, up from the previously probability of 57%.

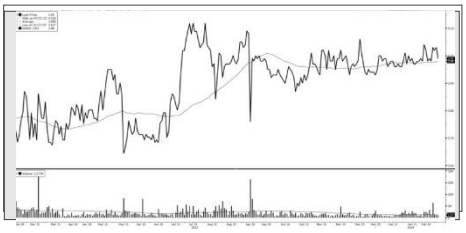
COMPANY *IN FOCUS*

IOI Corp

Maintain BUY | Target Price: RM4.42
Price @ 10 February 2025: RM3.75

- 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



End stocks fell -9%yoy. Ending stockpiles dropped substantially to 1.58m tonne (-7.5%mom, **-21.8%yoy**), in tandem with lower production and lowered exports numbers recorded at 1.17m Mt (-12.9%mom, **-13.4%yoy**). There was a notable decline in CPKO (-62.6%yoy) and CPO (-47.2%yoy) exports volume during the month, no thanks to the price effect, as the average CPO price became expensively premium on a year-on-year basis. Note that, Nov and Dec's spread discount between the PO and SBO price were approximately -USD126/Mt and -USD9/Mt respectively. SBO prices have stabilised at USD1,000-1,100/Mt in recent months, supported by ample supplies projections. The USDA expected the 2024/25 marketing year to grow by +8.2%yoy, thanks to favourable weather conditions in producer countries.

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 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 2: PEER COMPARISON

Company	Rating	Last Price	Target Price	PER (x)		EPS (sen)		Dividend Yield (%)	
		(RM)	(RM)	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
IOI Corp.	Buy	3.75	4.42	18.3	18.3	20.5	20.5	2.3%	2.3%
SD Guthrie	Buy	4.80	5.43	19.4	18.5	24.7	25.9	2.3%	2.1%
KLK	Buy	20.22	23.63	17.8	18.5	113.6	109.2	3.2%	3.3%
Genting Plant.	Buy	5.67	6.10	15.8	14.4	35.9	39.4	3.5%	3.5%
Ta Ann	Neutral	4.08	4.34	8.0	8.4	51.1	48.3	4.9%	4.9%
PPB Group	Neutral	11.64	13.18	13.2	12.8	88.0	91.1	3.0%	3.0%
Sarawak Plant.	Neutral	2.37	2.15	9.9	10.8	23.9	21.9	4.2%	4.2%
TSH	Neutral	1.22	1.24	12.7	11.2	9.6	10.9	1.6%	1.6%
FGVH	Neutral	1.14	1.16	16.3	14.8	7.0	7.7	2.6%	2.6%

Source: Bloomberg, 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	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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