SECTOR UPDATE

Plantation – Malaysia

Higher Palm Oil Prices Likely Offset By Slowing Production In 4Q

CPO prices have rallied ~15% since August to RM4,400/tonne on supply tightness. However, further price upside into the year-end may be capped by a potential production recovery in Indonesia, while CPO now trades at a premium vs other vegoils. Meanwhile, Malaysian planters' outputs are likely to have peaked in August and could decline both mom and yoy thereafter. We downgrade the sector to MARKET WEIGHT (from OVERWEIGHT) on muted near-term catalysts.

WHAT'S NEW

- **CPO spot prices hit RM4,400/tonne.** Prices in the spot market began picking up sharply from Aug 24's six-month low of RM3,830/tonne, and have since risen by around 15% to hit the RM4,400/tonne mark in October. This is in line with expectations outlined under our 2H24 sector outlook, amid production shortfalls and tightening palm oil stocks at top-producing country Indonesia. Malaysia's palm inventory also began to trend lower yoy despite higher yoy production during 8M24, led by strong export outperformance during the recent months.
- **Production trends in Indonesia and Malaysia seen diverging.** Indonesia's CPO production declined 6% yoy in 7M24, whereas Malaysia's CPO production rose 9% yoy during 9M24. Heading into 4Q24 however, we anticipate production trends in both countries to reverse course, with Indonesia's production staying muted till Sep 24 according to our channel checks, with a possible ramp up from Oct 24 onwards. As for Malaysia, MPOB's Sep 24 data suggests that production may have peaked in August (Sep 24: -3.8% mom) – two months earlier than the October peak month observed in previous years – and may possibly trend lower on a yoy basis as well.
- **CPO price strength may be capped but downside is limited as well.** We see limited upside to CPO prices in the immediate term following the recent rally, given expectations of Indonesia's production recovery potentially outpacing Malaysia's production shortfall heading into 4Q24. Demand by importing countries may also begin to moderate after the Diwali festive season, whereas palm oil currently trades at a premium vs its rival vegoils, which should induce buyers to switch to cheaper substitutes in the interim. On the other hand, downside is also capped amid pockets of supply tightness observed for other vegoils (SFO/RSO), while overall inventory levels at top importing countries such as India and China remain tight relative to 2023 levels. All in all, we anticipate CPO spot prices to trade at RM4,100-4,400/tonne for the rest of 2024.

ACTION

- **Downgrade to MARKET WEIGHT.** We downgrade the Malaysia plantation sector to MARKET WEIGHT from OVERWEIGHT, which follows our stock recommendation downgrades after the 2Q24 earnings release (GENP, IOI, and KLK revised from BUY to HOLD) in addition to limited upside for CPO prices in the near term. Our 2024 CPO price assumption of RM4,200/tonne remains unchanged for now. Hap Seng Plantations (HAPL MK/BUY) is our sole BUY call amongst Malaysia-listed players, which we continue to like for its upstream exposure, favourable production trend and high dividend yields.

MARKET WEIGHT

(Downgraded)

STOCK PICKS

Company	Rec	Share Price (RM)	Target Price (RM)
Hap Seng Plantations	BUY	1.82	2.25

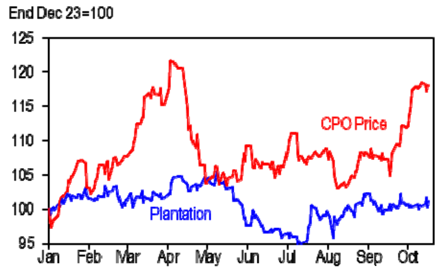
Source: UOB Kay Hian

CPO PRICE ASSUMPTIONS (RM/TONNE)

	CPO Price (RM/tonne)
2020	2,686
2021	4,408
2022	5,088
2023	3,810
Our forecast:	
2024F	4,200
CPO Price:	
MPOB @ 9 Oct 24	4,381.5
BMD 3rd Month Contract	4,255

Source: MPOB, Bloomberg, UOB Kay Hian

CPO VS PLANTATION INDEX



Source: Bloomberg

ANALYST(S)

Anas Fitri Ahmad
+603 2147 1915
anasfitri@uobkayhian.com

Malaysia Research Team
+603 2147 1988
research@uobkayhian.com

PEER COMPARISON

Company	Ticker	Rec	Price @ 17 Oct 24 (RM)	Target Price (RM)	Market Cap (US$m)	PE 2023 (x)	PE 2024F (x)	PE 2025F (x)	ROE (%)	P/B (x)	2024F Div (sen)	Div Yield (%)
Malaysia												
Hap Seng Plantations	HAPL MK	BUY	1.82	2.25	337.8	14.7	9.0	13.7	4.7	0.7	11.8	6.5
Genting Plantations	GENP MK	HOLD	5.45	5.15	1134.7	15.7	18.0	18.6	4.8	0.9	17.1	3.1
IOI Corporation	IOI MK	HOLD	3.77	3.6	5427.7	16.0	21.2	18.0	9.6	2.0	14.7	3.9
KL Kepong	KLK MK	HOLD	21.24	19.5	5404.4	24.7	25.0	18.5	5.8	1.6	76.3	3.6
Kim Loong	KIML MK	HOLD	2.41	1.95	545.8	14.2	16.1	12.7	17.4	2.6	15.5	6.4
SD Guthrie	SDG MK	HOLD	4.68	4.75	7511.2	39.3	22.0	21.5	9.6	1.6	12.6	2.7
Sarawak Oil Palms	SOP MK	HOLD	3.1	3	641.8	9.2	7.1	6.2	8.8	0.8	8.6	2.8

Source: Respective companies, Bloomberg, UOB Kay Hian

ESSENTIALS

- **2H24 earnings outlook.** Broadly, we anticipate Malaysian planters under our coverage to post stronger earnings in 2H24 as compared to 1H24, underpinned by stronger upstream performance on seasonal production ramp-up as well as higher average CPO realised prices as well as palm kernel prices. On a quarterly basis, 3Q24's print is expected to come in stronger qoq mainly on increased production qoq while spot CPO prices should remain at an average of RM4,000/tonne vs 2Q24. Subsequently, we anticipate 4Q24 results to be relatively flat qoq, with lower sequential production to be offset by higher ASPs. As for integrated players such as KLK, margins visibility for downstream operations still remain cloudy for now but the worst should nonetheless be over, in our view.

- **Comparison of covered companies' production trends.** Based on our covered companies' latest monthly disclosures, upstream production continued to rise by 2% mom in September while decelerating sharply from the +6%/+8% mom growths observed in July/August respectively. On a yoy basis, most companies under our coverage have begun to see production decline over 3Q24. The sole exception to this is HAPL, whose FFB output began to rise sharply by 10-12% yoy in the months of Jul-Sep 24, which should place the company in a favourable position to capitalise on stronger CPO selling prices.

- **Production risks may linger well into 2025**. Based on our recent conversations with industry players, the shortfall in FFB output that was observed in Indonesia and Malaysia during the past few months could be attributed to unfavourable weather patterns such as last year's El Nino impacting certain palm planting regions, as the shortfall appears to be industry-wide. Some are of the view that palm trees are entering a resting phase, having come off three years of relatively healthy harvests (triple-dip La Nina), especially those in Indonesia, in addition to lagged effects of under-application of fertilisers during 2022-23 amid supply disruptions linked to the Black Sea conflict and the corresponding surge in fertiliser prices. As a result, downside risks to both countries' palm oil production could persist moving into 1H25. Adding to the uncertainty is the potential emergence of La Nina heading into the finals months of 2024, whose direct impact on palm oil harvests remains uncertain and hinges upon the severity of the weather phenomenon. A weak-to-moderate La Nina bringing about slightly improved rainfall is seen as a short-term positive for yields, whereas a severe onset of La Nina is deemed to be a short-term negative for yields due to logistical challenges in harvesting FFB during periods of excessive rainfall and flood occurrences.

SECTOR CATALYSTS

- **Continuing to monitor La Nina's emergence in late-24.** The potential onset of La Nina in late-24 remains a wildcard weather risk given the uncertainty to its occurrence as well as potential severity, although the risk appears remote thus far for palm-producing regions. La Nina's supply disruption risks appear to be more pronounced for soybean plantings in the Americas region with relatively drier conditions being observed.

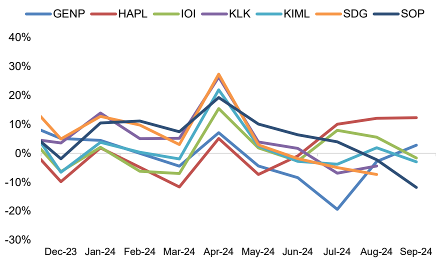
- **Potential Budget 2025 developments.** There may be mixed implications for Malaysian planters potentially coming out of Budget 2025, namely on: a) revisions in Malaysia's palm oil windfall profit levy structure (which is a positive for the sector); and b) the minimum wage hike from the present RM1,500/month (which is a negative for the sector).

- **Production surprises.** Weaker-than-expected 4Q24 production numbers in Malaysia and Indonesia may spur CPO prices to exceed RM4,500/tonne, in our view. On the other hand, positive production surprises may result in CPO prices retesting the RM4,000/tonne level.

ASSUMPTION CHANGES

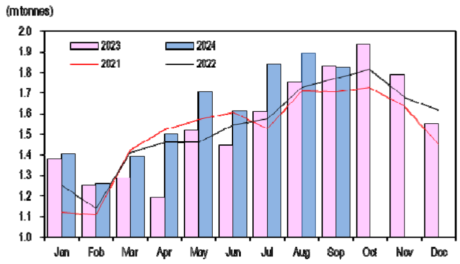
- **Maintain 2024 CPO price assumption at RM4,200/tonne.** Our 2024 CPO price forecast remains unchanged for now, while we note that both current spot prices of RM4,400/tonne and forward curves imply a full-year average of RM4,100/tonne (ytd average: RM4,020/tonne).

PLANTERS' FFB PRODUCTION TREND YOY



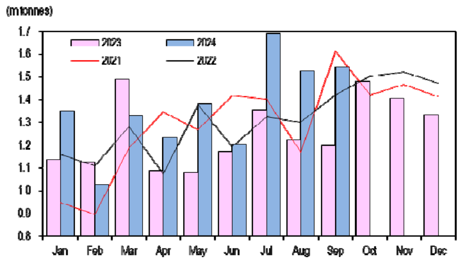
Source: Bursa Malaysia

MALAYSIA PALM OIL PRODUCTION



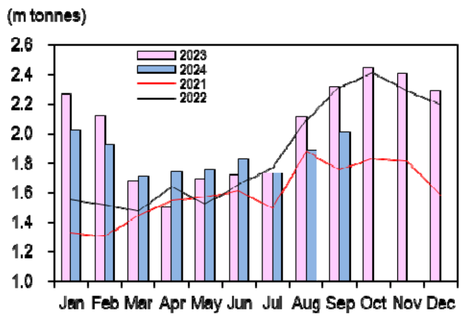
Source: MPOB

MALAYSIA PALM OIL EXPORTS



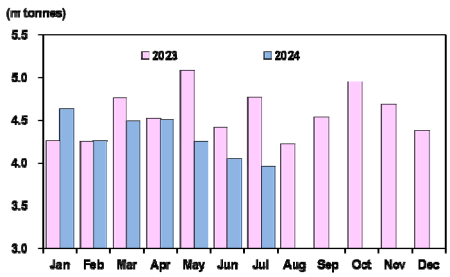
Source: MPOB

MALAYSIA PALM OIL INVENTORY



Source: MPOB

INDONESIA PALM OIL PRODUCTION



Source: GAPKI

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries or jurisdictions by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore.Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

http://research.uobkayhian.com

RCB Regn. No. 197000447W