ESG - PLANTATION

OVERWEIGHT
(Maintained)

Rationale for report: Sector Update

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Quick Take

Amazon Soy Moratorium Collapses

Brazil's largest soybean producers and traders have pulled out from the Amazon Soy Moratorium, which was launched in 2006. Companies that took part in the moratorium included Archer Daniels, Cargill and Bunge. Under the moratorium, soybean producers and commodity traders were not allowed to buy soybeans from areas that were deforested after 2008. The moratorium was successful as it slowed the rate of deforestation in the Amazon. WWF Brazil quoted industry data as indicating that since 2008, only 2.1% of the areas that were deforested, were planted with soybeans and more than 13,000 sq km of forests were preserved.

- **Negative for the environment.** We believe that the collapse of the soy moratorium would result in more areas in the Amazon being cleared to plant soybeans. This would increase greenhouse emissions and global supply of soybeans. We reckon that China would continue to be the main buyer of the soybeans and not the EU. Under EUDR guidelines, EU importers cannot buy cocoa, coffee, palm oil and soybeans from areas that were deforested after 31 December 2020. EUDR is expected to be implemented in December 2026 after being delayed for two years. China accounts for about 70% to 80% of Brazil's soybean exports.

- **China's soybean purchases from Brazil to pick up as harvest starts.** We expect China to switch to Brazil from the US as Brazil starts harvesting soybeans in late-January. Recall that China stepped up purchases of US soybeans following a trade agreement in October. *Reuters* reported that China's total purchases of US soybeans amount to about 10mil tonnes currently. This means that China is on track towards achieving its commitment of buying 12mil tonnes of US soybeans by the end of February 2026.

- **No more tax incentives for companies taking part in the soy moratorium.** A change in the tax law in Mato Grosso on 1 January 2026 stripped out tax incentives for companies participating in the soy moratorium. This triggered the withdrawal of soybean producers and traders from the soy moratorium. According to *Reuters,* a preliminary report by state auditors found that grain traders enjoyed tax incentives of 4.7bil Reais or US$840mil between 2019 and 2024. The soy moratorium was voluntary for soybean producers and traders.

- **No more moratorium on oil palm in Indonesia.** Late last year, an Indonesian government official said that the country would be opening 600,000 hectares of non-forest land for plantings of oil palm. This came after the expiry of the moratorium on new plantings of oil palm, in 2021. In another development, it was reported that Indonesia would seize another four to five million hectares of oil palm estates, which do not have land titles. The country had already seized about 4.1mil hectares of land.

- **No plantings of oil palm in forest and peatland in Malaysia.** Malaysia aims to preserve biodiversity and maintain a forest cover of more than 50%. Hence, plantings of oil palm on peat and forest land are not allowed. There were 5.7mil hectares of palm oil planted areas in Malaysia as at end-2025 compared to 5.65mil hectares as at end-2023.

VALUATION MATRIX

Stock	Call	Share price RM/share	Market cap RMmil	Fair value RM/share	EPS (sen)	EPS (sen)	PE (x)	PE (x)
					FY26F	FY27F	FY26F	FY27F
IOI Corp	Hold	4.00	24,814.8	4.12	24.0	26.2	16.7	15.3
KLK	Hold	20.40	22,719.5	20.80	117.7	134.5	17.3	15.2
SD Guthrie	Buy	5.60	38,727.9	6.20	34.4	36.0	16.3	15.6
Gent Plant	Buy	5.02	4,503.9	6.07	40.5	41.0	12.4	12.2
Johor Plantations	Buy	1.46	3,650.0	2.00	13.2	13.3	11.1	11.0
TSH Resources	Hold	1.23	1,697.6	1.33	11.1	11.7	11.1	10.5
Kim Loong	Buy	2.39	2,347.2	2.91	18.2	18.8	13.1	12.7

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