AmInvestment Bank

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PLANTATION

Prefer upstream

NEUTRAL

(Downgraded)

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Rationale for report: Sector Update

Key Indicators

2025F CPO Price:
RM4,250/tonne

Stock Universe

Johor Plantations
TP: RM2.00 → RM1.67
Rec: BUY
Upside/Downside: +51.5%

TSH Resources
TP: RM1.72 → RM1.38
Rec: BUY
Upside/Downside: +27.8%

Genting Plantations
TP: RM6.55 → RM5.84
Rec: BUY
Upside/Downside: +15.0%

IOI Corp
TP: RM5.00 → RM4.05
Rec: BUY → HOLD
Upside/Downside: +14.1%

KL Kepong
TP: RM26.55 → RM21.71
Rec: BUY → HOLD
Upside/Downside: +11.2%

SD Guthrie
TP: RM5.00 → RM4.28
Rec: HOLD
Upside/Downside: -5.9%

Investment Highlights

We downgrade the plantation sector to Neutral from Overweight. Although the three-month pause in USA's tariffs would give time to customers to stock up on inventory, we reckon that the oleochemical industry would face challenges after that. We believe that downstream companies especially oleochemicals will be hit by (1) slower demand from consumer and industrial companies and their customers; (2) competition from Indonesia, which has a competitive advantage not only due to a lower cost of feedstock but also because the Rupiah has fallen by about 11% from the peak, (3) competition from China as the country sells more of its products overseas and (4) oversupply in the oleochemical industry. We prefer purer planters to the large integrated companies. As such, we downgrade KL Kepong and IOI Corporation to Hold from Buy. Our new target prices are RM21.71 for KLK and RM4.05 for IOI. SD Guthrie (SDG) is a Hold with a target price of RM4.28. We maintain Buy on Genting Plantations (TP: RM5.84), Johor Plantations (TP: RM1.67) and TSH Resources (TP: RM1.38).

- **We have reduced the PE assumptions and net profit of the large integrated companies.** We have lowered the net profit of KLK, IOI and SDG by 5% to 10% to account for weaker downstream revenue and EBIT margins. Downstrteam revenue of the three companies fell between 13% and 20% in 2023 after soaring in 2022 on higher selling prices and customers' purchases. During the 2008/2009 global financial crisis, manufacturing revenue sank by 15% to 20%. We believe that selling prices of oleochemical products such as fatty acids and fatty alcohols, would be under pressure in 2H2025. Customers in Europe and Asia may delay or halt orders due to the tariffs and economic uncertainties.We have also reduced our PE assumptions as the market de-rates due to the tariffs.

- **On a brighter note, we believe that CPO prices would be supported.** If CPO prices fall below RM4,000/tonne, we believe that China and India would step up purchases. We reckon that CPO prices would be supported by (1) China's purchases in 2H as the country replenishes its reserves. China's imports of US soybeans are likely to drop due to the 125% import tariff. China usually buys more US soybeans in 2H as this is the harvesting period; (2) resilient US soybean oil prices as the US may raise its biodiesel blending mandate and (3) unexciting production of CPO in Malaysia and Indonesia. As such, we maintain our 2025F average CPO price assumption of RM4,250/tonne for the pure Malaysian planters and RM3,950/tonne for those with Indonesia exposure, for now. Year-to-date, average spot CPO price is RM4,492/tonne.

- **1Q2025 sector earnings would be decent YoY but weaker QoQ.** On a yearly basis, stronger palm product prices are expected to compensate for a slump in FFB production in 1Q2025. According to the MPOB, average CPO price was RM4,724/tonne in 1Q2025, 18.6% higher than RM3,983/tonne in 1Q2024. In comparison, industry CPO production was 5.9% weaker YoY. We believe that downstream earnings would improve QoQ but decline YoY in 1Q2025. The QoQ earnings growth is envisaged to be led by a reversal of fair value losses and higher sales volume for oleochemicals. On a YoY basis, downstream earnings are anticipated to be affected by weaker refining margins.

Challenging times for the oleochemical industry

Selling prices may come under pressure

We believe that selling prices of oleochemical products would come under pressure due to oversupply and weak global demand. Altbough the three-month pause in USA's tariffs would allow customers to stock up on inventory, demand is likely to soften after that. In the consumer space, demand for detergent, personal healthcare and cosmetics products would be affected. In the industrial segment, demand for plastics and paints may ease. On a positive note, we think that demand from the pharmaceutical sector would be resilient.

Oversupply in the industry coupled with the depreciation of the Indonesian Rupiah

Competition from Indonesia is expected to intensify as Indonesia exports most of its oleochemical products to the US. Also, ICIS estimates that 1.2mil tonnes of new fatty alcohol capacity would come on-stream in South-East Asia from 2025F to 2027F. About 1.1mil tonnes of the new capacity are envisaged to be located in Indonesia. The biggest is Ecogreen's 400,000 tonnes per year plant on Batam Island, which would be completed in 1Q2026 *(see Exhibit 1)*.

EXHIBIT 1: NEW FATTY ALCOHOL CAPACITY

Companies	Location	New capacity (tonnes/year)	Time of completion
Wilmar International	Gresik, Surabaya	110,000	1Q2025
KL Kepong	Port Klang, Malaysia	50,000	1Q2025
Permata Hijau	Medan, Sumatra	120,000	2Q2025
Unilever	Sei Mangkei, Sumatra	120,000	3Q2025
Apical	Dumai, Sumatra	150,000	2H2025
SinarMas*	Lubuk, Gaung	160,000	2025F
Ecogreen	Batam, Indonesia	400,000	1Q2026
Global Green*	Rayong, Thailand	100,000	2027F

** Not confirmed, ICIS estimates*

Source: ICIS

In addition from the peak in September 2024 to currently, the Indonesian Rupiah has depreciated by 10.5% against the USD, sharper than MYR's decline of 7.8%. Hence, Indonesian oleochemical companies has a currency advantage of about 3-percentage points. Also based on the latest CPO export tax and levy, CPO price in Indonesia is at least US$220/tonne or RM980/tonne cheaper than Malaysia. On 9 April, it was reported that Indonesia may reduce its CPO export tax to cushion the impact of USA's import tariff. In contrast early this year, it was reported that Indonesia would be raising its CPO export tax to 10% from 7.5% to finance B40.

Indonesia is the largest producer of oleochemical products in the world. The country's oleochemical production capacity is estimated to be more than 23mil tonnes per year. Malaysia's oleochemical production capacity is about 2.6mil tonnes per year.

Competition from China may also affect selling prices

Apart from Indonesia, we believe that Malaysian oleochemical companies would be facing competition from China as demand in the country slows. China's oleochemical production capacity is estimated to be more than five million tonnes per year. Indonesia and Malaysian companies with oleochemical operations in China include KL Kepong, which is expanding its plant in Zhangjiagang, Suzhou to 500,000 tonnes per year, Wilmar International (estimated to be 1.5mil tonnes/year) and Apical Oleochemical (600,000 tonnes per year).

At the same time, CPO prices are envisaged to be resilient

China may step up palm purchases as it reduces imports of US soybeans

China has imposed an import tariff of 125% on all of USA's imports. Although China has reduced its reliance on US soybeans since the trade war in 2018, a significant portion still comes from the US. More than half of China's soybeans are imported from Brazil while another 20% to 30% are from the US. On the other hand, almost half of US soybeans are exported to China.

As US soybeans would be pricier, we believe that China would be buying more soybeans from Brazil and palm oil from Indonesia and Malaysia. We reckon that most of the purchases will take place in 2H2025 as currently, China may still have sufficient reserves. China usually buys more US soybeans during the harvesting season in the 2H of the year.

China's palm purchases sank by 44.9% YoY to 210,000 tonnes in 2M2025. In contrast, the country's soybean imports rose by 4.4% YoY to 13.6mil tonnes in 2M2025.

US may raise its biodiesel blending mandate

Reuters reported that the US may be raising its biodiesel blending mandate to a range of 4.8bil to 5.5bil gallons per year from 3.4bil gallons currently. This would benefit US soybean oil as almost half of the output are used to produce biodiesel. Due to the potential increase in biodiesel mandate, US soybean oil price surged by 17% from US$0.41/pound on 13 March to a high of US$0.48/pound on 2 April. The timeline of the final biodiesel announcement is not known.

On the back of a higher US soybean oil price and retracement of CPO price, CPO is now 1.7% cheaper than US soybean. In comparison, CPO was 13.2% more expensive than US soybean oil in March. CPO's discount to soybean oil coupled with the import tariff on US soybeans are expected to support China's palm purchases.

CPO production may be unexciting in 2025F

CPO production in Malaysia slid by 5.9% YoY in 1Q2025 due mainly to floods. The MPOC (Malaysian Palm Oil Council) forecasts the country's CPO production to be 19.5mil tonnes in 2025F vs. 19.3mil tonnes in 2024.

In Indonesia, we reckon that CPO output was just slightly higher YoY in 2M2025. TSH Resources' FFB production inched up by 0.9% YoY in 2M2025. More than 80% of TSH's FFB are from Indonesia. GAPKI (Indonesia Palm Oil Association) estimates Indonesia's CPO output to be 49mil tonnes in 2025F vs. 48.2mil tonnes in 2024. Although CPO production would either be flat or marginally higher in Malaysia and Indonesia in 2025F, output in 2H would still be larger than 1H due to seasonal reasons.

Although B40 has yet to be fully implemented in Indonesia, the country's palm exports are still forecast to decline in 2025F due to higher consumption in the food sector. GAPKI anticipates domestic consumption to increase to 27.4mil tonnes in 2025F from 23.9mil tonnes in 2024. According to Intertek, Indonesia's palm shipments slipped by 2% YoY in 2M2025. In February, an industry player said that Indonesia is probably closer to B37 or B38, just a tad shy of B40.

Downward revision in FY26F net earnings and PE assumptions

Assume a 15% fall in manufacturing revenue in FY26F

For KLK, IOI and SDG, we have assumed that their manufacturing revenue would decline by 15% in FY26F. During the 2008/2009 global financial crisis, manufacturing revenue fell by 15% to 20%. After the Ukraine War in 2022, manufacturing revenue slid by 13% to 20% in 2023. We have assumed manufacturing EBIT margins of 1.5% to 3% in FY26F vs. the normal levels of 3% to 5%.

As for Genting Plantations (GenP), we have lowered its FY25F FFB output growth to 4% from 7% and downstream EBITDA to RM8mil from RM10mil. For FY26F, we have reduced the group's FFB production growth to 4.5% from 7% and downstream EBITDA to RM8mil from RM15mil. Our FY26F earnings forecasts for the pure planters such as TSH Resources and Johor Plantations Group (JPG) are unchanged *(see Exhibit 2)*.

PE de-rating as market grapples with economic uncertainties

In arriving our target prices for KLK, IOI and SDG, we have reduced our CY26F PE assumption to 18x from 20x. The PE of 18x is one SD below the five-year mean of 20x. For Genting Plantations (GenP) and Johor Plantations (JPG), we have assumed a CY26F PE of 15x vs. 18x originally. The PE of 15x is one SD below GenP's five-year average of 18x. For TSH, we have assumed a CY26F PE of 12x, which is one SD below the five-year average of 15x *(see Exhibits 3 to 8)*.

EXHIBIT 2: CHANGES IN NET EARNINGS

	FY25F			FY26F		
RMm	**Old**	**New**	**%**	**Old**	**New**	**%**
IOI Corp						
Revenue	10,585.7	10,539.8	-0.4%	11,712.2	9,321.8	-20.4%
Earnings	1,348.9	1,272.2	-5.7%	1,478.3	1,332.6	-9.9%
KL Kepong						
Revenue	25,282.6	23,924.0	-5.4%	26,440.2	21,337.6	-19.3%
Earnings	1,347.5	1,267.0	-6.0%	1,468.2	1,332.2	-9.3%
SD Guthrie						
Revenue	20,623.8	20,623.8	0.0%	21,145.2	18,110.2	-14.4%
Earnings	1,647.4	1,621.5	-1.6%	1,729.7	1,645.2	-4.9%
Gent Plant						
Revenue	3,296.4	3,175.3	-3.7%	3,475.4	3,162.4	-9.0%
Earnings	351.6	333.9	-5.0%	376.1	349.2	-7.2%
Johor Plantations						
Revenue	1,627.2	1,627.2	0.0%	1,650.7	1,650.7	0.0%
Earnings	273.2	273.2	0.0%	277.5	277.5	0.0%
TSH Resources						
Revenue	1,162.2	1,162.2	0.0%	1,221.9	1,221.9	0.0%
Earnings	148.2	148.2	0.0%	158.6	158.6	0.0%

Source: AmInvestment Bank

EXHIBIT 3: KLK'S VALUATIONS

Target PE (x)	18 (from 20)
CY26F EPS (sen)	120.6 (from 132.7)
ESG premium	0
12-month TP (RM)	21.71 (from 26.55)

EXHIBIT 4: IOI'S VALUATIONS

Target PE (x)	18 (from 20)
CY26F EPS (sen)	22.5 (from 25.1)
ESG premium	0
12-month TP (RM)	4.05 (from 5.00)

EXHIBIT 5: SDG'S VALUATIONS

Target PE (x)	18 (from 20)
CY26F EPS (sen)	23.8 (from 25.0)
ESG premium	0
12-month TP (RM)	4.28 (from 5.00)

EXHIBIT 6: GENP'S VALUATIONS

Target PE (x)	15 (from 18)
CY26F EPS (sen)	38.9 (from 41.9)
ESG premium	0
12-month TP (RM)	5.84 (from 7.55)

EXHIBIT 7: TSH'S VALUATIONS

Target PE (x)	12 (from 15)
CY26F EPS (sen)	11.5
ESG premium	0
12-month TP (RM)	1.38 (from 1.72)

EXHIBIT 8: JPG'S VALUATIONS

Target PE (x)	15 (from 18)
CY26F EPS (sen)	11.1
ESG premium	0
12-month TP (RM)	1.67 (from 2.00)

EXHIBIT 9: VALUATION MATRIX

	Share price (RM)	EPS (sen) FY25F	EPS (sen) FY26F	PE (x) FY25F	PE (x) FY26F	Target price (RM)	Upside	FY25F Div yield	Rec
IOI Corp	3.55	21.7	23.8	16.4	14.9	4.05	14.1%	3.1%	Hold
KLK	19.52	125.0	131.7	15.6	14.8	21.71	11.2%	3.3%	Hold
SD Guthrie	4.55	23.8	25.0	19.1	18.2	4.28	-5.9%	3.7%	Hold
Gent Plant	5.08	39.2	41.9	13.0	12.1	5.84	15.0%	5.5%	Buy
Johor Plantations	1.10	10.9	11.1	10.1	9.9	1.67	51.5%	5.0%	Buy
TSH Resources	1.08	10.7	11.5	10.1	9.4	1.38	27.8%	1.9%	Buy

Source: AmInvestment Bank

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