



AmInvestment Bank

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# ESG - PLANTATION

*Wait for the next EUDR risk review*

## NEUTRAL

(Maintained)

*Rationale for report: Sector Update*

### Key Indicators

2025F CPO Price:  
RM4,250/tonne

### Stock Universe

**Johor Plantations**  
TP: RM1.67  
Rec: BUY  
Upside/Downside: +40.1%

**IOI Corp**  
TP: RM4.05  
Rec: HOLD  
Upside/Downside: +11.6%

**TSH Resources**  
TP: RM1.38  
Rec: BUY  
Upside/Downside: +26.6%

**KL Kepong**  
TP: RM20.50  
Rec: HOLD  
Upside/Downside: +3.9%

**SD Guthrie**  
TP: RM4.89  
Rec: HOLD  
Upside/Downside: +7.7%

### Investment Highlights

In May 2025, the European Commission (EC) released the risk classification for countries exporting commodities such as soybean, palm oil, cocoa and timber. This is to facilitate the implementation of the EUDR (EU Deforestation Regulation), which will take place on 30 December 2025. The risk classification determines the amount of documentation and compliance that is required. Brazil, Malaysia and Indonesia are “standard risk” while EU member countries, the US and China are “low risk”. “High risk” countries are Belarus, Russia, Myanmar and North Korea. The next benchmarking review will take place in 2026F. Malaysia can submit updated data to the EU for the next review. Although the MPOC (Malaysian Palm Oil Council) is challenging the EU’s benchmarking methodology, the impact on the large Malaysian palm exporters is not expected to be significant as they are prepared for the EUDR and have been sending trial shipments of EUDR-compliant palm products. We are Neutral on the plantation sector with selective BUYs on Johor Plantations Group (TP: RM1.67/share) and TSH Resources (TP: RM1.38/share).

- **EU’s methodology is based on forest loss.** EU’s risk classification depends on the deforestation rate of each country. This is based on a combination of two criteria i.e. (1) an annual forest loss of less than 70,000ha and (2) an annual forest loss level of less than 0.2% of total forest areas. In response to this, Malaysia’s commodities minister said that EU’s risk classification for the country is based on old data i.e. a 2020 United Nations Food and Agriculture Organisation report. The MPOB (Malaysian Palm Oil Board) said that EU’s classification is based on Malaysia’s average annual forest loss between 2015 and 2020.
- **Due diligence and compliance are more stringent under “Standard Risk” compared to “Low Risk”.** According to the MPOC, Malaysian exporters have to meet the full due diligence obligations for EUDR. This means that companies must verify that their products are free of deforestation (timeline is after 2020) and fully traceable to their origins, using geolocation data. There are also more compliance checks i.e. 3% annual compliance checks for countries under “standard risk” compared to only 1% for “low risk”.
- **Palm smallholders in Malaysia can sell to other countries instead of the EU.** Palm exporters to the EU are required to sell products, which are traceable to their origins. This means that CPO from smallholders’ FFB, which do not have geolocation data, cannot be exported to the EU. We reckon that their products would probably be exported to other markets such as India, China, Africa or Turkey. Exporters like SD Guthrie or KL Kepong may need separate storage tanks for CPO from smallholders. Smallholders in Indonesia may not be affected by EUDR as their products are largely sold to the domestic market.
- **The EU market cannot be ignored.** In spite of the challenges, we believe that the EU market is too big to be ignored. EU’s palm consumption amounts to about three to four million tonnes per year. Most of their palm products are imported from Indonesia. Currently, most of the palm products exported to the EU are used in the oleochemical and biodiesel industries.

## EXHIBIT 1: VALUATION MATRIX

	Share price	EPS (sen)	EPS (sen)	PE (x)	PE (x)	Target price	Upside	FY25F Div yield
	(RM)	FY25F	FY26F	FY25F	FY26F	(RM)		
IOI Corp	3.63	20.3	21.4	17.9	17.0	4.05	11.6%	3.0%
KLK	19.74	77.9	112.9	25.3	17.5	20.50	3.9%	3.3%
SD Guthrie	4.54	26.4	27.2	17.2	16.7	4.89	7.7%	3.7%
Johor Plantations	1.19	10.9	11.1	10.9	10.7	1.67	40.1%	4.6%
TSH Resources	1.09	10.8	11.5	10.1	9.5	1.38	26.6%	1.8%

Source: AmlInvestment Bank

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