Portfolio Manager's Views

Investment Team

16 June 2025

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1. Executive Summary

1. **Special Feature: Why are we invested in the Plantation Sector?**

2. **The global markets sell-off in April bottomed-out** after the US delayed the implementation of Reciprocal Tariffs for 90 days from 9th April 2025.

3. **We are cautious and would be buyers only on weakness.** Beyond the ongoing negotiations on reciprocal tariffs, the U.S. government's push for sectoral tariffs under Section 232 poses a downside risk to Malaysia's semiconductor sector

4. **The USD index (DXY) fell by 8.5% YTD-25** and is likely to weaken further as the US economy slows and the FED begins easing. weaker USD gives Asian central banks greater flexibility to cut interest rates, which should stimulate their economies and support the recent strength in Asian currencies.

5. **We believe that the KLCI is bottoming.** KLCI has historically found strong support at PER of 14x in the last 10 years. If we assume 0 earnings growth in 2025 (EPS integer of 105) and a historical PER of 14x, we believe the trough is approximately 1,470. Our strategy is biased towards domestic plays insulated from the external uncertainty. We are keeping a higher level of cash and are looking for lower levels to buy.

2. Feature: Plantation Sector

We remain positive on the sector and expect crude palm oil (CPO) prices to rebound by end-2025.

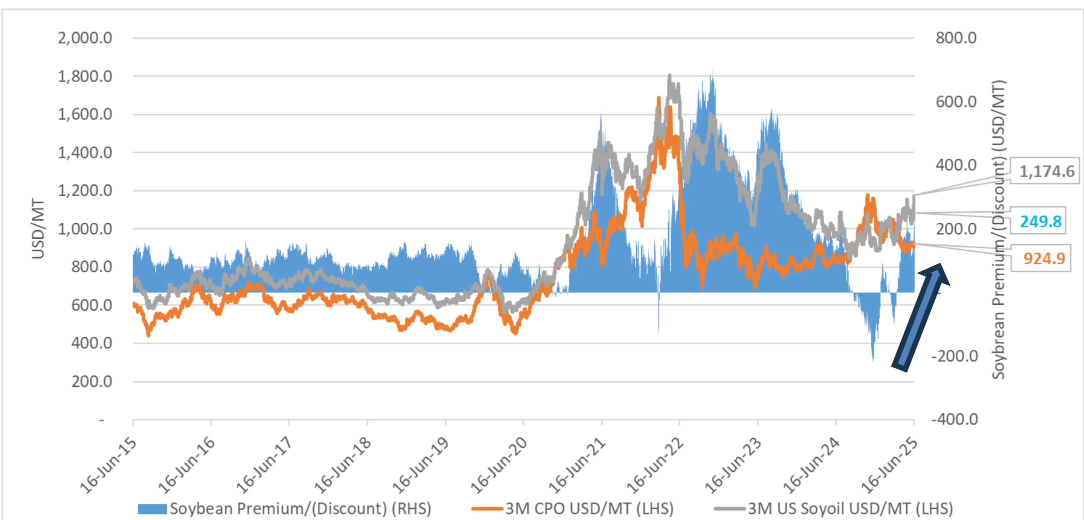
Exhibit 1: 3M Crude Palm Oil (CPO) Price

Source: Bloomberg

1 **While 3M CPO price have declined -12% YTD, we expect it to rebound by end-2025.**

3M CPO prices fell -12% YTD to RM3,927, weighed down by recessions fears and expectations of seasonal output gains in June and September quarters.

Exhibit 2: 10Y Soybean Oil Premium/(Discount) to Palm Oil (USD/MT)



Source: Bloomberg

2 **Demand for CPO is supported by the reversion of soybean oil (SBO) premium to CPO.**

SBO's premium of USD249.8/MT is 53% higher than its 10Y historical average premium of USD163/MT. This makes CPO more attractive than SBO for major importers like the EU, India and China.

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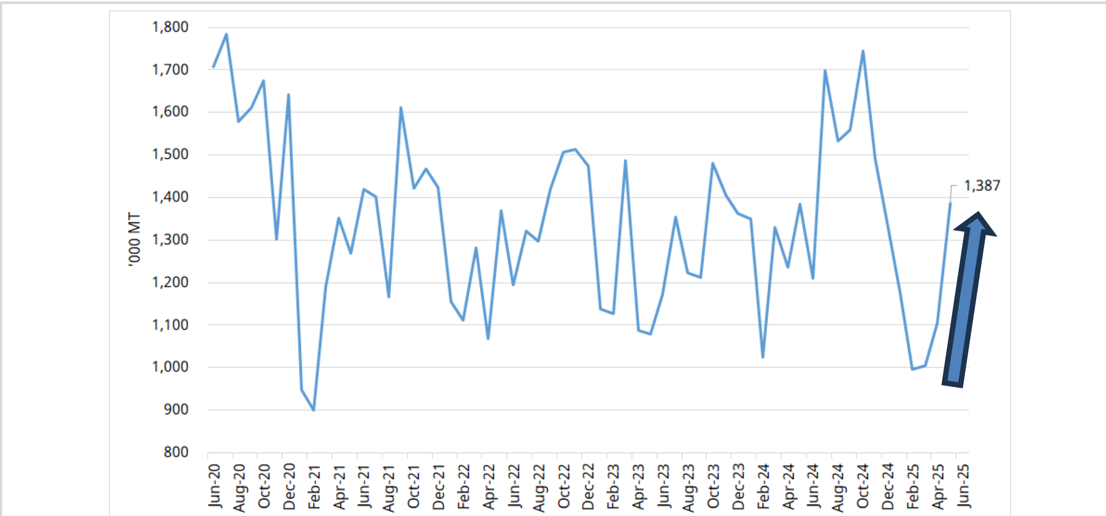
Exhibit 3: Malaysia Palm Oil Exports ('000 MT)

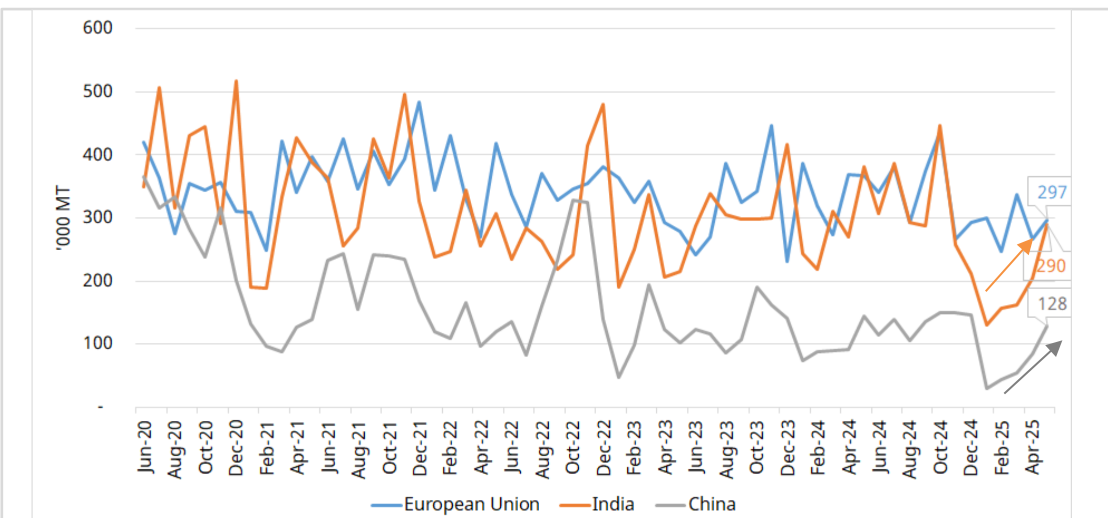


Source: Bloomberg

3 **Following the reversion of the soybean oil (SBO) premium, Malaysia's palm oil (PO) exports have rebounded since February 2025.**

Malaysia PO exports rebounded by +39% from the low of 996k MT in February 2025 to 1,387k MT in May 2025.

Exhibit 4: Malaysia Palm Oil Exports to EU, India and China ('000 MT)



Source: Bloomberg

4 **Malaysia PO exports rebounded strongly to major importers such as India and China.**

According to Intertek, Malaysia's palm oil exports to India rebounded by 121% from the January low to 290k MT in May, while exports to China surged 327% to 128k MT over the same period.

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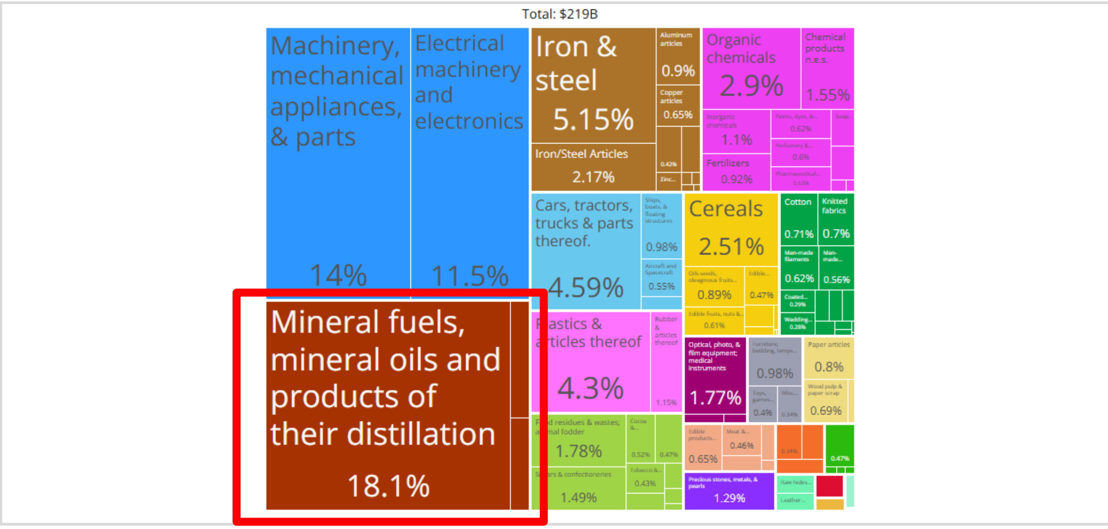
Exhibit 5: Indonesia 2023 Imports by Products

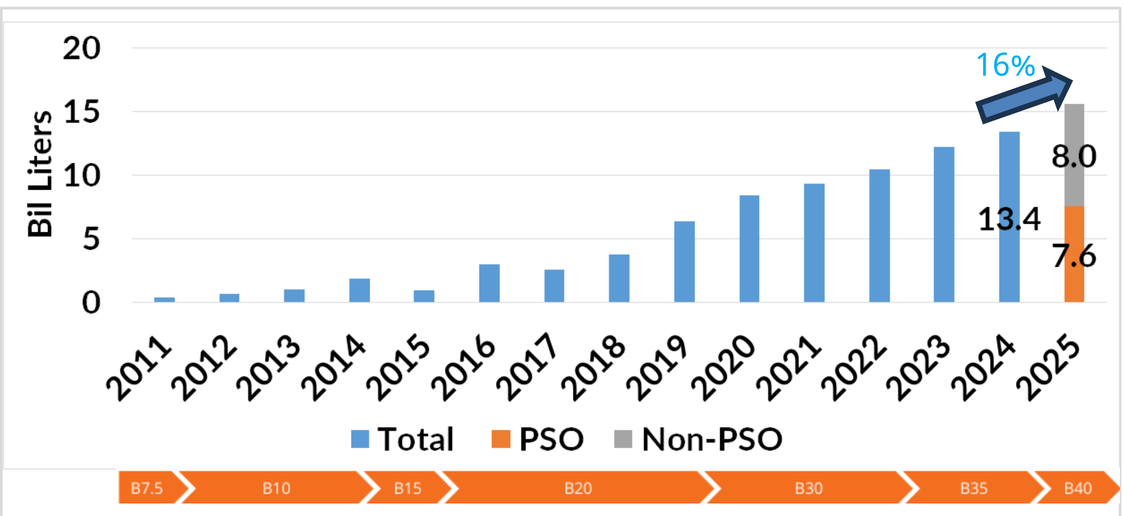


Source: OEC World

5 **Long-term demand will be driven by Indonesia's biodiesel mandate.**

Since 2008, the Indonesian government has progressively raised its biodiesel mandate and subsidies to reduce fossil fuel imports, strengthen energy security, and boost domestic PO consumption.

Exhibit 6: Indonesia Biodiesel Mandate Volume Requirements



Source: Ministry of Energy and Mineral Resources, USDA

6 **B40 expected to increase domestic consumption by +16% YoY in 2025f.**

In 2025f, **biodiesel consumption is projected to grow to 15.6 billion liters**, with 7.6 billion liters allocated under the government's Public Service Obligation (PSO) subsidy program.

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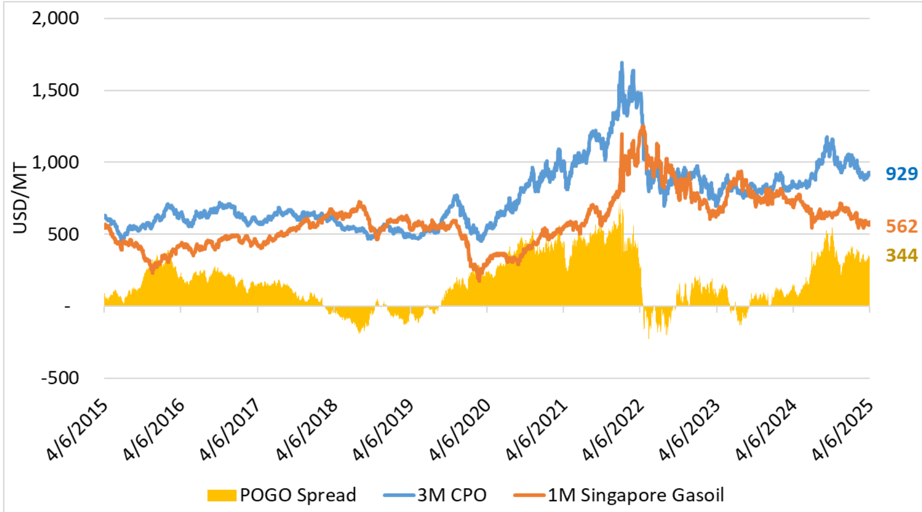
Exhibit 7: 3M CPO vs 1M Singapore Gasoil (USD/MT)



Source: Bloomberg

7 **Indonesia subsidies the palm oil-gas oil (POGO) spread for its biodiesel mandate.**

Whenever palm oil is more expensive than gas oil, Indonesia subsidies the difference (POGO spread) via its biodiesel fund. The POGO spread is now at +USD344/MT.

Exhibit 8: Sensitivity of POGO spread vs biodiesel fund requirements for **B40** – assume 10% levy

POGO Spread (USD/MT)	344.0	350	400	450	500	550	600
Est. Biodiesel fund end-2024 (USD Mil)	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Less: B40 Mandate Requirements	**2,312**	**2,352**	**2,688**	**3,024**	**3,360**	**3,696**	**4,032**
Add: Export Levy Received	2,611	2,611	2,611	2,611	2,611	2,611	2,611
Surplus/(Shortage)	**1,299**	**1,259**	**923**	**587**	**251**	**-85**	**-421**

B40 Mandate Requirements (Mil Tons)	6.72
Export Levy (%)	10%
Reference Price (USD)	954.5
Estimated FY25 Export (Mil Tons)	27.4

Source: Astute Research

8 **Despite the high POGO spread, we believe its biodiesel fund is sufficient for B40.**

We believe there will be sufficient funds as long as CPO prices doesn’t go higher than USD1,135* (RM4,892).

*POGO Spread of USD550.

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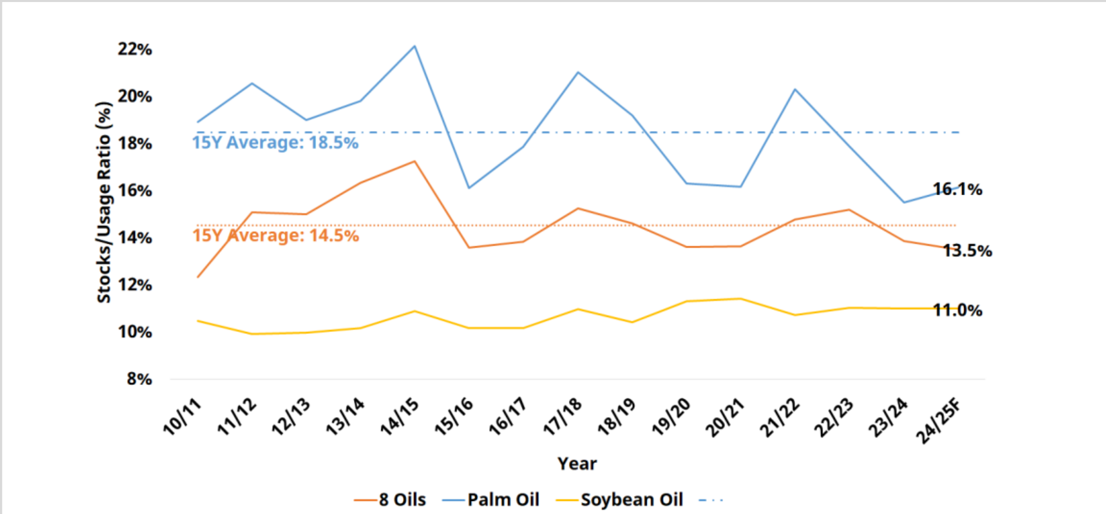
Exhibit 9: Stock/Usage Ratio (SUR) of 8 Oils vs PO vs SBO

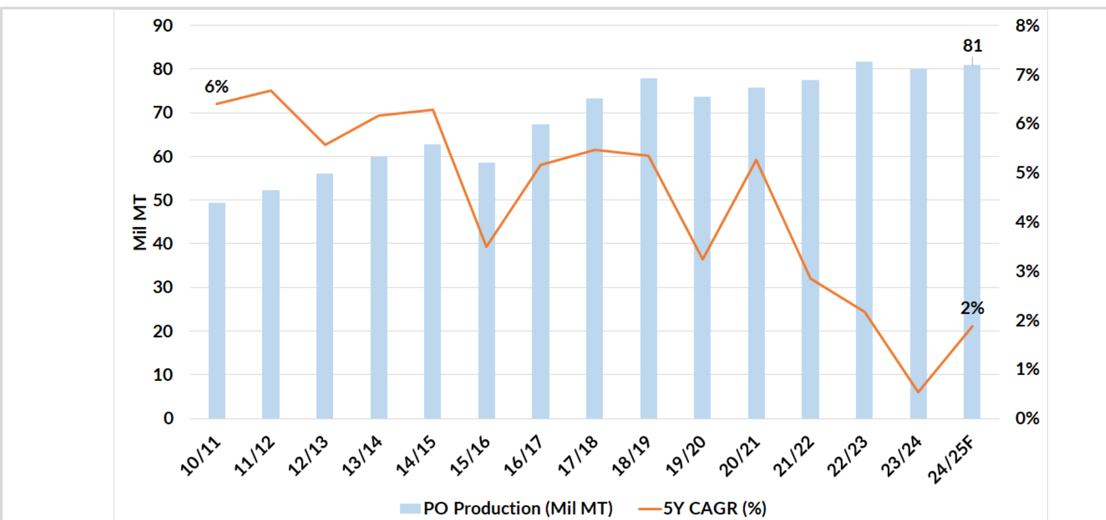


Source: Oil World

9 SUR for 8 Oils is expected to decline in 2025F, indicating global supply tightness.

2025F Stock-usage ratio (SUR) for 8 oils is expected to be the lowest in 15 years at 13.5%. This is largely contributed by declining output in rapeseed and sun seed.

Exhibit 10: PO Production, Demand & SUR



Source: Oil World

10 Global PO Production is slowing down.

Global palm oil production growth has moderated in recent years, with a 5-year CAGR of 2% as of 2025, down from 6% during the 5-year period ending in 2010.

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Exhibit 11: Plantation Sector Peer Comparison

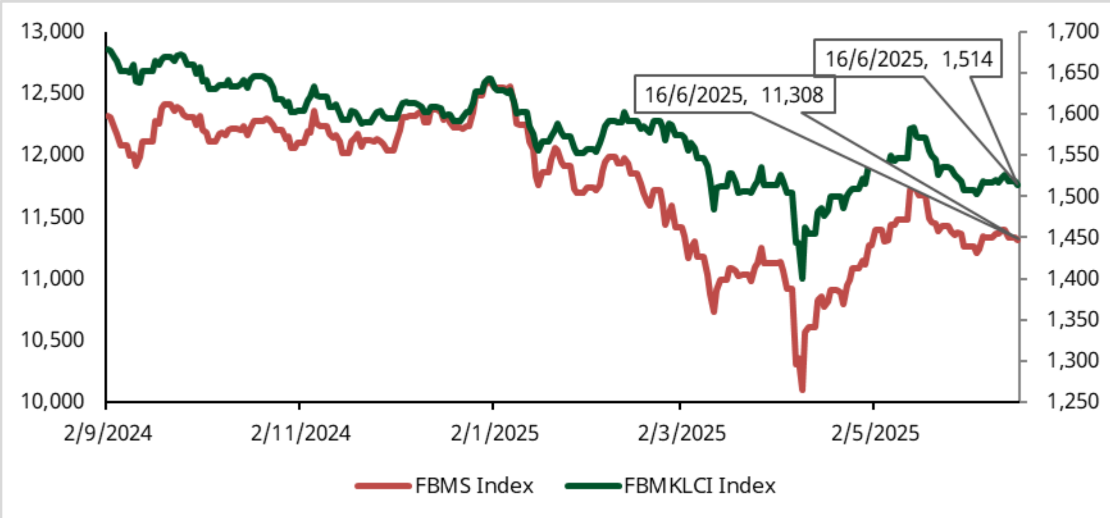
Company/Index	Mkt Cap (LC Mil)	EPS Growth (%) 1FY	EPS Growth (%) 2FY	P/E (x) 1FY	P/E (x) 2FY	Div Yld (%) 1FY	Div Yld (%) 2FY	EV/Ha (USD'000)	FFB Yield (MT/Ha)	OER (%)
Bursa Plantation (RM)	133.3	58.4	6.1	15.8	14.9	3.4	3.4			
KLCI	1,062.7	9.5	7.8	14.0	12.9	4.3	4.6			
Our Holdings										
United Plant	13,787.5	5.5	5.9	18.3	17.3	5.4	5.7	72.2	28.1	21.1%
Innoprise	828.4	12.5	2.4	10.9	10.6	7.8	8.0	15.8	22.5	21.4%
MKH Oil Palm	625.0	20.1	-6.7	8.2	8.8	7.8	7.3	5.4	23.9	21.2%
MEDIAN		**9.0**	**4.2**	**14.6**	**14.0**	**6.6**	**6.9**	**31.1**	**24.8**	**21.3%**
Above 10b										
SD Guthrie Bhd	32,503.9	38.3	3.3	19.4	18.8	3.1	3.1	19.5	18.3	21.0%
IOI Corp Bhd	23,077.8	-11.1	3.3	17.8	17.2	2.8	2.8	40.1	19.1	21.8%
Kuala Lumpur Kepong	22,406.8	-8.2	8.5	18.5	17.0	2.9	3.0	30.4	20.6	21.4%
MEDIAN		**-8.2**	**3.3**	**18.5**	**17.2**	**2.9**	**3.0**	**30.0**	**19.3**	**21.4%**
Between 2b and 10b										
Genting Plantations	4,369.2	31.2	-1.6	12.7	12.9	4.7	4.6	11.1	17.0	21.4%
FGV Holdings	4,779.1	168.8	2.3	15.2	14.9	3.3	3.3	7.9	13.6	20.7%
Sarawak Oil Palms	2,833.6	75.9	-5.3	6.2	6.6	4.2	4.1	6.2	16.7	20.0%
Johor Plantations Group	3,100.0		-4.8	11.8	12.4	4.3	4.2	18.6	22.4	20.0%
Kim Loong Resources	2,210.3	8.7	-	13.8	13.8	7.1	6.9	30.7	21.7	20.6%
MEDIAN		**8.7**	**-2.4**	**12.8**	**13.1**	**5.7**	**5.5**	**14.9**	**18.3**	**20.5%**
Selected Indonesian Planters										
Bumitama	1,326.6	-11.5	-0.6	8.0	8.0	7.5	7.3	10.7	18.6	22.0%
Golden Agri	3,233.8	-42.9	-					11.8	18.7	21.4%
First Resources	2,231.1	27.3	-	6.9	6.9	7.3	7.1	12.7	20.6	21.9%
Wilmar	18,853.1	11.3	11.5	10.4	9.4	5.6	6.1	171.2	18.7	
Astra Agro	11,451,895.6							3.1	15.5	19.0%
MEDIAN		**11.3**	**11.5**	**10.4**	**9.4**	**5.6**	**6.1**	**41.9**	**18.4**	**21.1%**

Source: Astute Research, Bloomberg
Data as of 16th June 2025.

11 **We own United Plantation, Innoprise and MKH Oil Palm for their superior FFB and dividend yields.**

Appendices

Exhibit 12: KLCI & Shariah Index

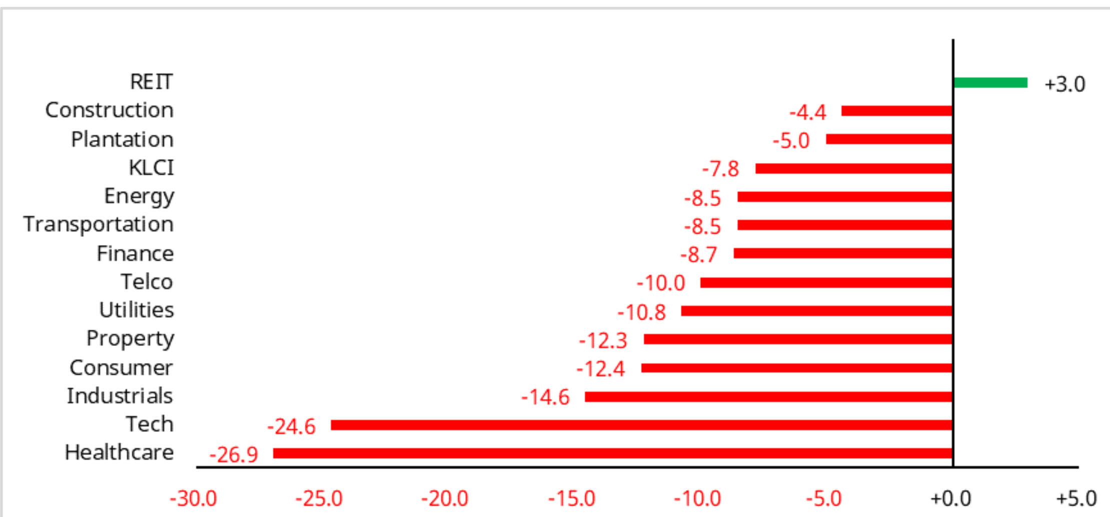


Source: Bloomberg

1 The KLCI has rebounded amid broad base buying.

The KLCI recovered +8% from the trough during Trump's liberation day tariffs sparked a global selloff. Trump paused reciprocal tariffs for 90 days while keeping a 10% baseline tariff on 9th April, 2025.

Exhibit 13: Sector Performances Year-to-Date (2/1/25 – 16/6/25, %)



Source: Bloomberg

2 KLCI kept in the red due to external pressures.

The healthcare and technology sectors were the top losers. Trump signaled future tariffs on semiconductors despite initial exemptions. Rising costs could reduce Malaysian tech exports' competitiveness in the U.S., negatively impacting the outlook for local technology firms.

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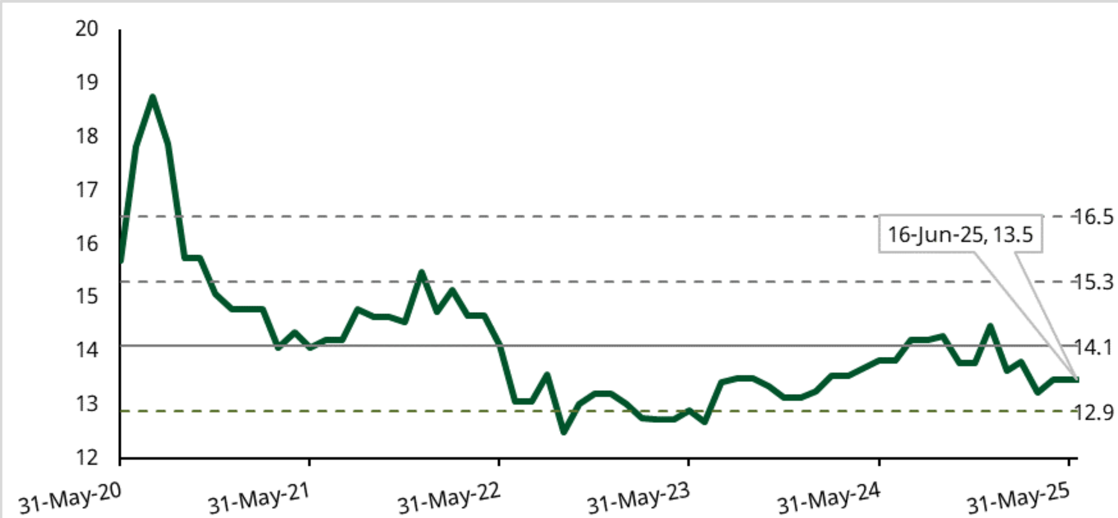
Exhibit 14: KLCI's 12M Forward PER (x)

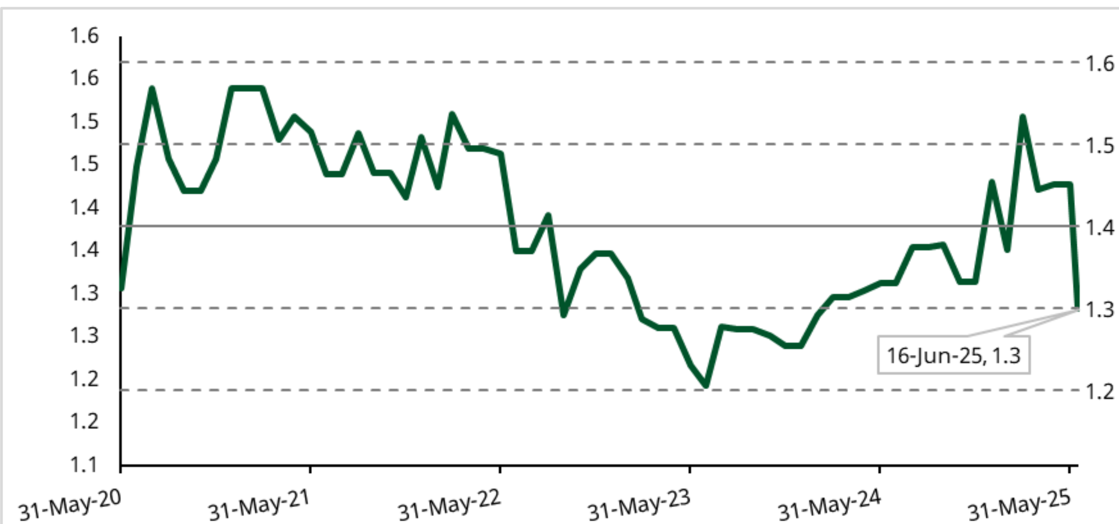


Source: Bloomberg

3 **The KLCI's valuation is undervalued below the 5Y mean.**

The KLCI trades at a 12-month forward PER of 13.5x (5Y range 12.5x to 18.7x, 5Y mean of 14.1x).

Exhibit 15: KLCI's 12M Forward PBR (x)



Source: Bloomberg

4 **This is the same for KLCI's PBR.**

The KLCI trades at a 12-month forward PBR of 1.3x (5Y range 1.2x to 1.5x, 5Y mean 1.4x).

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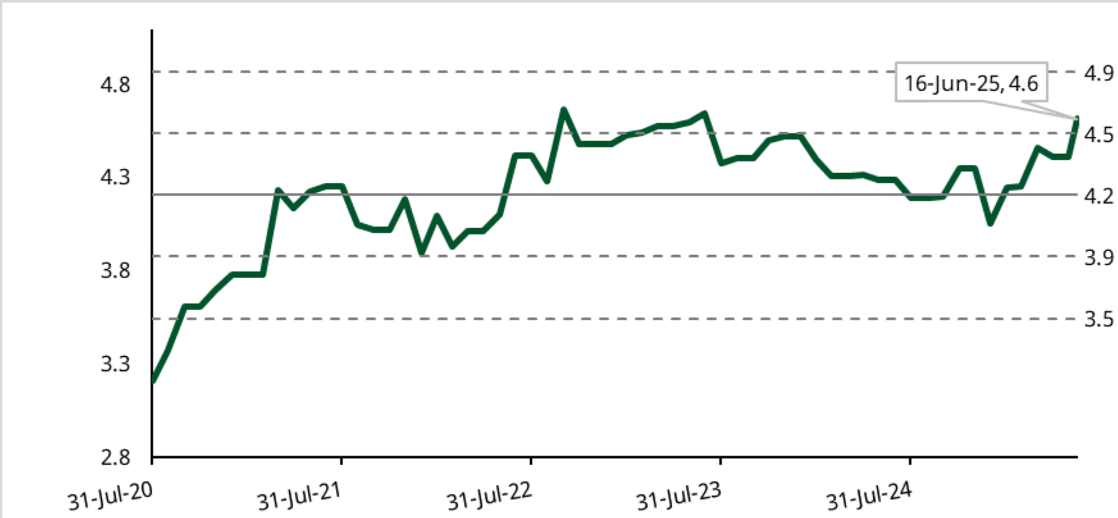
Exhibit 16: KLCI's 12M Forward DY (%)

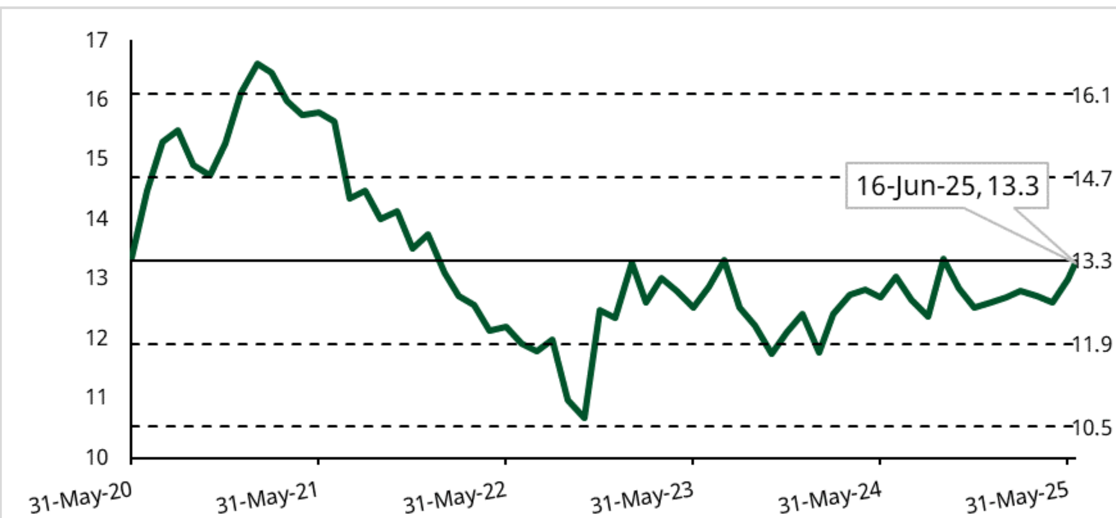


Source: Bloomberg

5 The KLCI dividend yield is still attractive.

The KLCI trades at a 12-month forward forecast DY of 4.6%, above its 5Y mean of 4.2%. The appealing dividend yield is likely to help limit potential losses.

Exhibit 17: MSCI AxJ Index's 12M Forward PER (x)



Source: Bloomberg

6 Asia ex Japan is still trading below historical averages.

The MSCI AC Asia ex Japan index trades at a 12-month forward PER of 13.3x (5Y range 10.7x to 16.6x, mean of 13.3x). Asia ex Japan is also seeing recoveries as Trump's tariff paused and US-China tariff war de-escalate.

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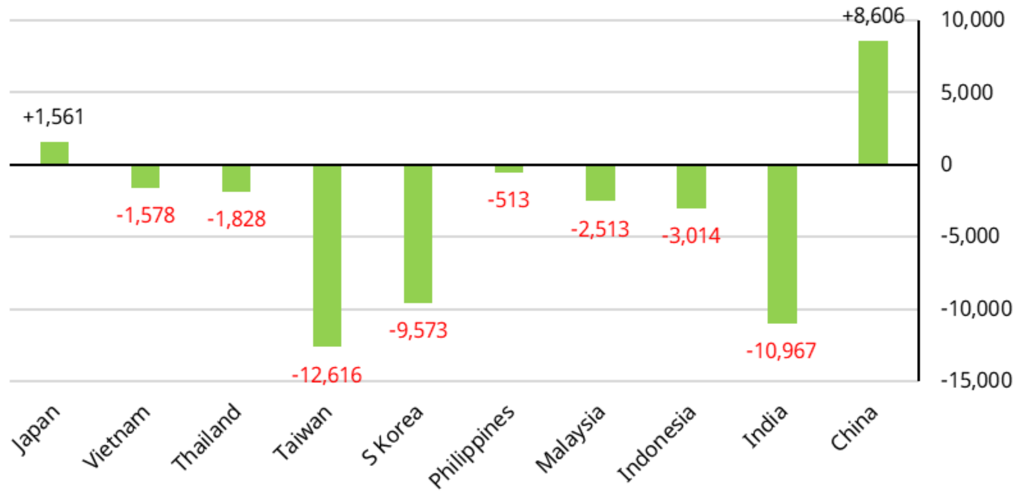
Exhibit 18: Selected ASEAN Markets (Net USD mil)



Source: Bloomberg, data as of 16 June 2025, China's data is as of 31 Dec 2024.

7 **Outflows were the highest in East Asia and India. Southeast Asia sees outflows as well.**

Overseas investors turned net sellers of Asian equities except China. Investors are still concern on Trump’s trade policies might hit the Asian economies.

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