

## OVERWEIGHT

Return (%)	-1D	-1W	-1M
JCI	-1.2	-0.2	-4.3
LQ45	-0.7	-1.0	-6.3
AALI IJ	-2.2	-1.5	-4.0
DSNG IJ	-15.7	-1.3	18.5
LSIP IJ	-12.0	-8.1	1.3
STAA IJ	-2.8	-4.3	-0.6

EPS Growth (%)	FY25F	FY26F
AALI IJ	7.4	3.3
DSNG IJ	71.3	-28.6
LSIP IJ	9.8	-17.2
STAA IJ	51.9	-47.9

## Plantation Sector

### Upside Potential from Favorable ASP to Boost Profitability

#### Expected flat CPO output amid solid domestic demand

We anticipate flat CPO output in FY25F, attributed to another year of La Nina. On the flip side, export volume is expected to weaken amid solid domestic demand, which underpins CPO prices. Notably, CPO production dropped by -4.8% YoY to 31.5mn tons in 7M24 (vs 33.1mn tons in 7M23), with PKO output tumbling by -5.2% YoY to 3.0mn tons (vs 3.2mn tons in 7M23). Meanwhile, total domestic palm oil consumption remained resilient, rising by +2.4% YoY to 15.6mn tons in 7M24 (vs 15.2mn tons in 7M23), largely due to an increase in biodiesel usage by +10.6% YoY. This demand has caused export performance to fall by -10.1% YoY, reducing ending stock levels to 2.5mn tons, the lowest so far this year. Concurrently, CPO prices have surged +35% YTD, boosting the blended ASP of plantation companies under our coverage by +10% YoY in 9M24. In addition, lower raw material prices, especially fertilizer, drove aggregate net profit up +46.5% YoY, translating to a NPM increase of +2.9 ppt YoY to 10.7% (vs 7.8% in 9M23).

#### Government initiatives to secure supply and advantageous regulation for exporters

- The government has mandated B40 biodiesel for early FY25F, which is expected to increase CPO demand volume for biodiesel by around 1.6-2.4mn kl, bringing the total to 15.8mn kl. Additionally, we assess the **Ministry of Trade Regulation No.26/2024** as extending the domestic market obligation (DMO) to include products like Palm Oil Mill Effluent (POME), aimed not only at securing supply for MynyaKita but also supporting B40 needs.
- Furthermore, the **Ministry of Finance Regulation No.62/2024** will benefit exporters by relaxing and simplifying levy tariffs. For instance, CPO products will now be subject to a 7.5% levy based on reference prices, instead of the previous USD55-240/MT. As an example, the Nov-24 CPO reference price is USD961.97/MT, translating to a levy cost of USD72.1/MT, which is lower than USD100/MT under previous regulation No.154/2022, if spot prices are equivalent (see [Exhibit 10](#)).

#### Confidence in La Nina momentum, leading to higher price projections

In its 2025 climate outlook, the BMKG projects a mild La Nina extending until Mar-25, with roughly 67% of Indonesian regions, including palm oil plantation areas, likely to experience above-average rainfall. Similarly, MET Malaysia forecasts slightly higher-than-average rainfall for the Sabah region (~24% of CPO production) through Apr-25. Given these conditions, we expect a supportive environment for CPO prices amid potential supply constraints. **Our projection indicates CPO prices will continue to strengthen in FY25F, with a range of MYR4,700-5,700/MT** and an annual average at MYR5,000/MT (see [Exhibit 03](#)). This forecast is based on back-testing of Malaysian CPO stock levels and the Oceanic NiNo Index (ONI) as a proxy for El Nino/La Nina conditions. Meanwhile, we expect minimal risk to CPO prices amid the positive spread with Soybean Oil (resulted in a premium, see [Exhibit 06](#)). We anticipate a lower output from Brazil (16% cont.) moving forward, with an expected decline of -1.3% YoY in FY24E.

#### Limited risk from mixed export performance

We believe the potential decline in export demand to India in FY25F, due to rising domestic production, should not pose a major threat. Notably, India's market share volume of total palm oil exports fell to ~19% in FY23 (vs ~25% in FY17). In contrast, exports to China and the US have shown promising growth, with CAGR of 5.2% and 12.1%, respectively, from FY18 to FY23. Export volumes to Pakistan and Bangladesh have also remained relatively resilient in recent years (see [Exhibit 09](#)). Our discussions with one plantation company indicate plans to explore opportunities in Pakistan. Thus, we consider any mixed export performance in FY25F as a limited risk, likely offset by rising domestic demand through B40.

#### Overweight Recommendation for Plantation Sector

Given the potential for continued CPO price increases, driven by La Nina momentum and solid domestic demand due to B40, we give an **Overweight rating for the Plantation sector**. Our top picks are **DSNG (BUY; TP: IDR1,400/share)** and **STAA (BUY; TP: IDR1,000/share)**, with implied FY25F PE of 7.8x/7.0x. We anticipate these companies will benefit from rising prices and sound cash control. Meanwhile, we put a **HOLD recommendation for AALI (TP: IDR7,100/share) and LSIP (TP: IDR1,150/share)**, as they offer limited upside. With a proven track record, we expect DSNG's oil extraction rate (OER) to remain solid at ~23-24% in FY25F, supporting a projected net profit increase of 71.3% YoY. We also like STAA, which plans to double its palm kernel crushing (PKC) capacity to 600tons/day and expand into midstream processing through a new refinery and fractionation plant. Interestingly, foreign institutional ownership in DSNG and STAA has continued to rise, reaching 4.7%/0.4% in Oct-24 (vs 1.5%/0.1% in Jan-24). Downside risks include CPO prices falling below expectations, prolonged ENSO Neutral conditions, and potential unfavorable government policies.



**Research Analyst**

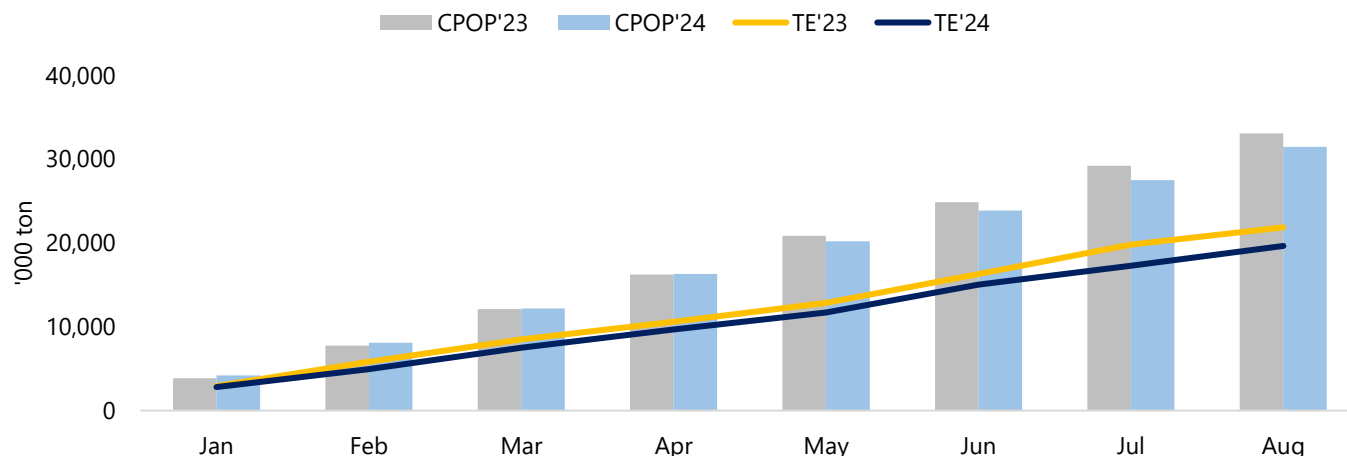
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Ticker	Mkt Cap (IDR tn)	P/E (x)		PBV (x)		Rec	TP (IDR/sh)
		FY24E	FY25F	FY24E	FY25F		
AALI IJ	12.6	13.1	12.2	0.6	0.6	HOLD	7,100
DSNG IJ	12.3	13.3	7.8	1.5	1.3	BUY	1,400
LSIP IJ	7.7	7.7	7.0	0.6	0.6	HOLD	1,150
STAA IJ	9.6	10.6	7.0	2.0	1.8	BUY	1,000

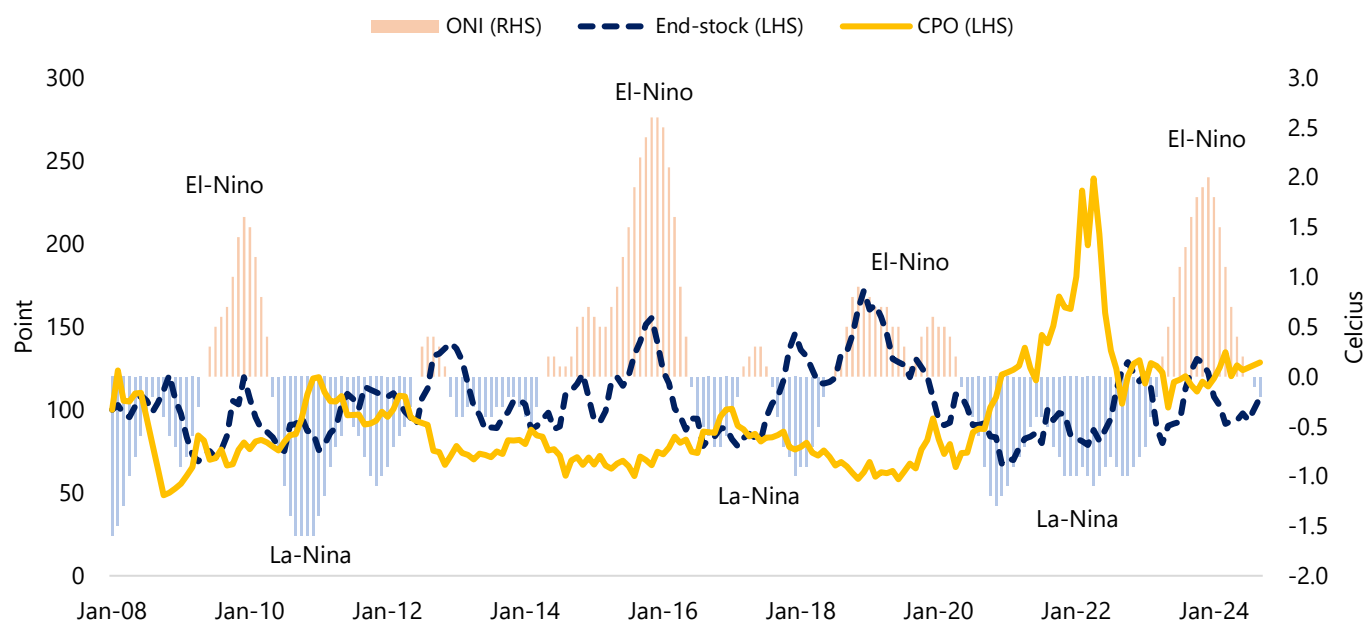
Sources : IDX, MNCS Research

**Exhibit 01. Output production and export volume in FY24 vs FY23 (cumulative)**



Sources : GAPKI, MNCS Research (CPOP: CPO production, TE: Total Export)

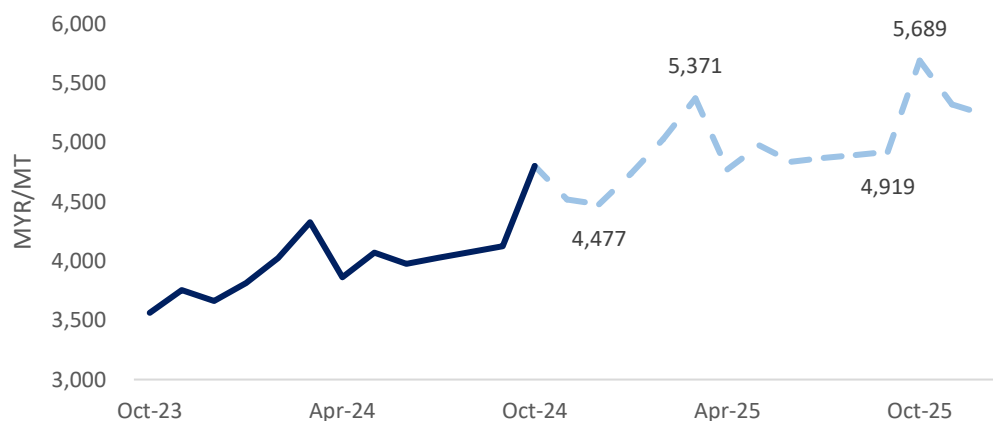
**Exhibit 02. Anticipated lower stock levels may ramp up CPO prices**



Sources : Bloomberg, MPOB, NOAA, MNCS Research (Rebased)

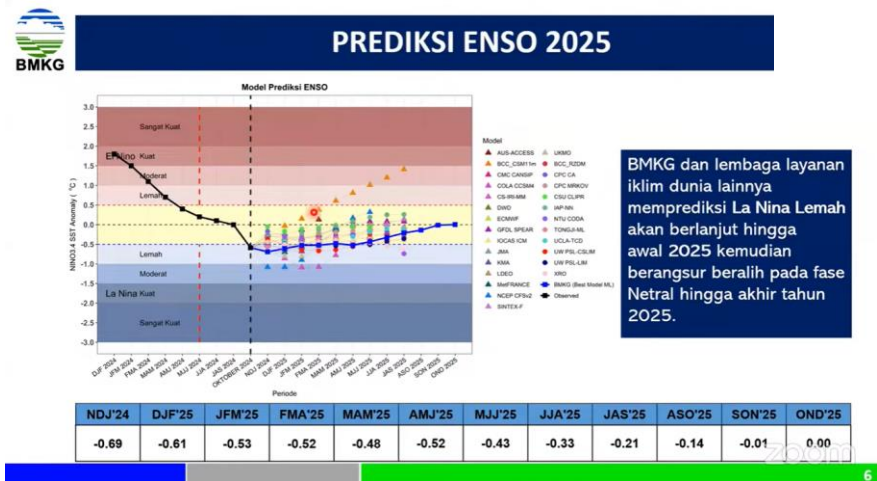
**Exhibit 03. Our projection for CPO prices is within the MYR4,700–5,700/MT range, with an annual average of MYR5,000/MT**

We used ONI and Malaysian CPO stock levels as variables to simulate CPO pricing under La Nina conditions in FY25F. ONI and stock levels demonstrate a negative correlation with CPO prices, as shown in Exhibit 02



Sources : Bloomberg, MNCS Research

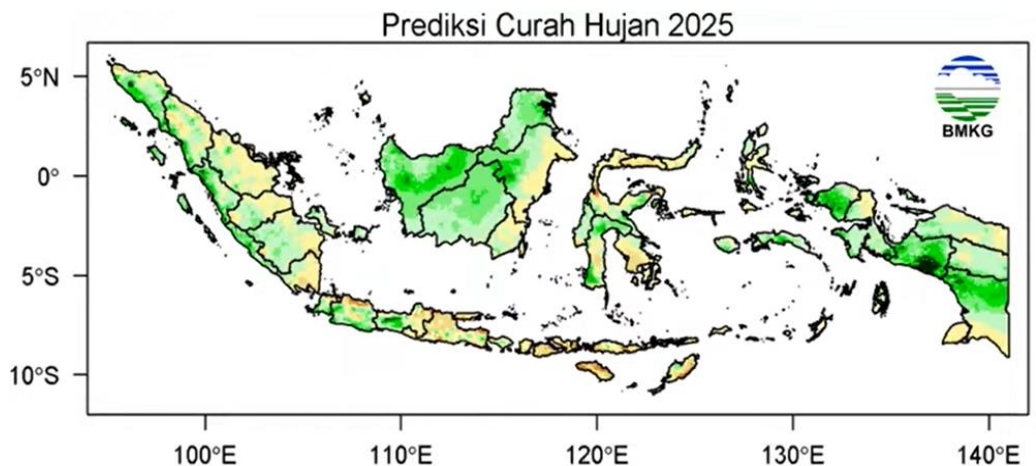
Exhibit 04. We expect ENSO Neutral in 2H25 to act as a buffer for productivity yield



Source : BMKG

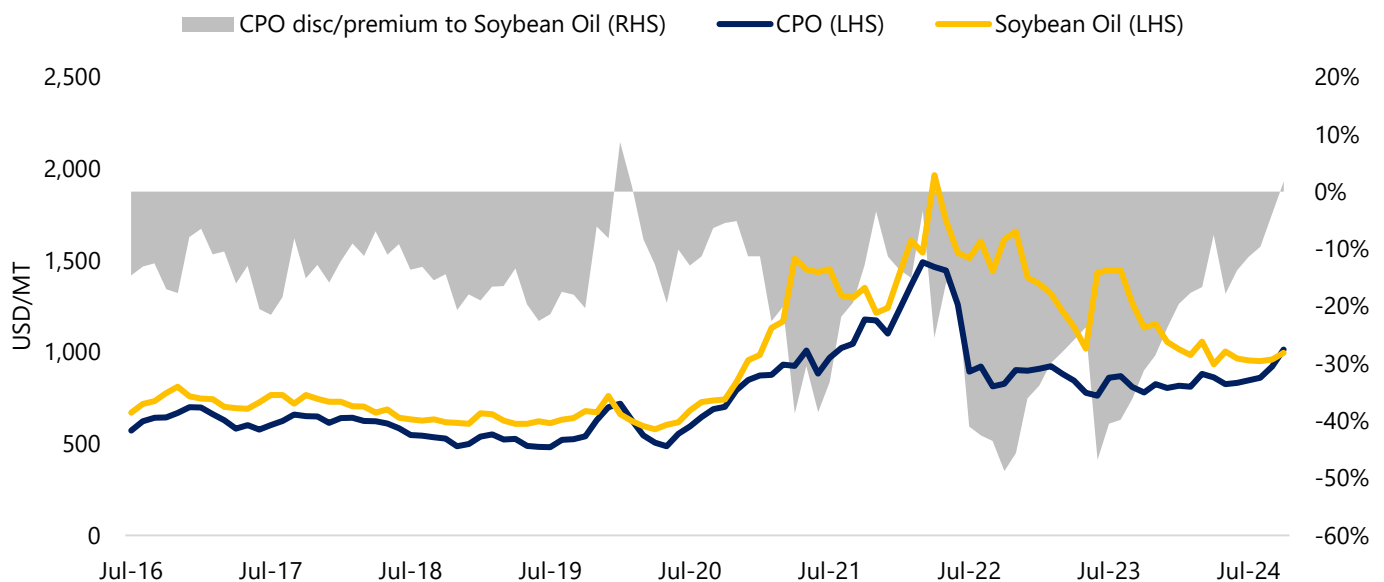
Exhibit 05. BMKG forecasts that 67% of the regions will experience high rainfall levels in FY25F

Regions likely to experience high rainfall include key palm oil plantation areas such as North Sumatra, parts of Riau, South Sumatra, parts of Kalimantan, and central and southern Sulawesi



Source : BMKG

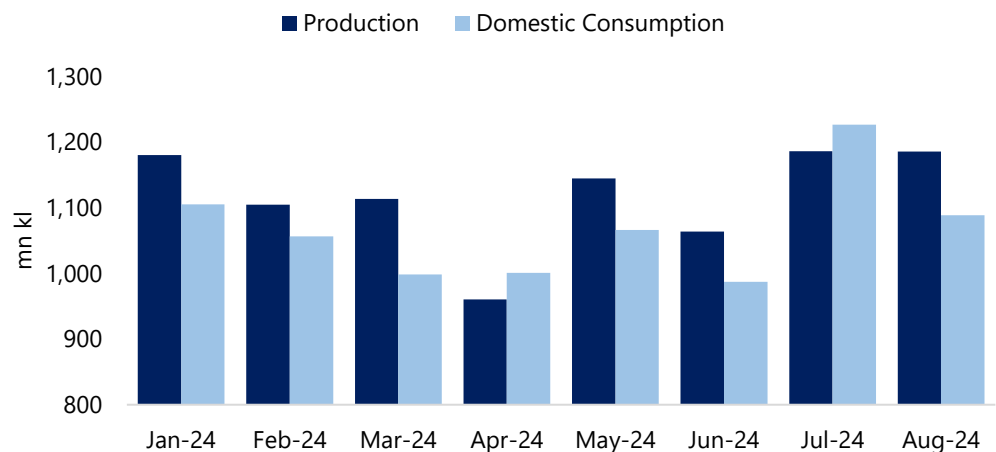
Exhibit 06. Recently, CPO has been trading at a premium to soybean oil



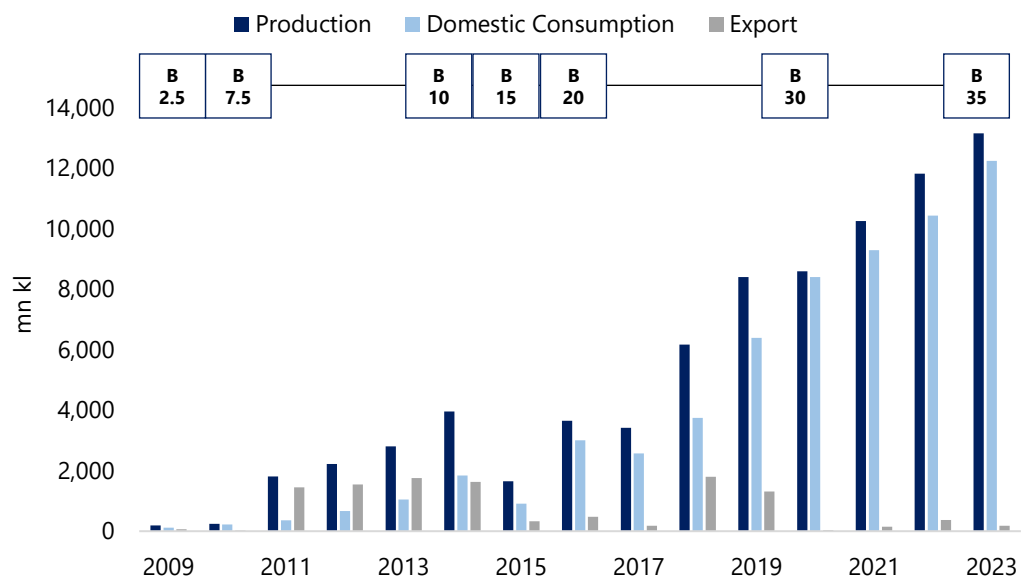
Sources : Bloomberg, MNCS Research

## Exhibit 07. Biodiesel production has steadily increased since the implementation of B20

### a. Jan-Aug'24

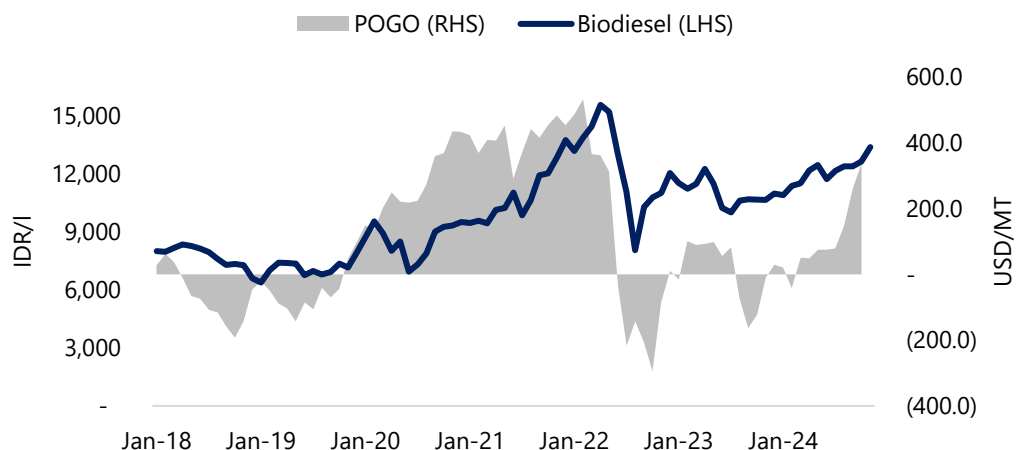


### b. Annual



Sources : EBTKE, MNCS Research

## Exhibit 08. The Biodiesel Market Index Price (HIP) has continued to rise, aligning with the widening spread between palm oil and gas oil (POGO)



Given the limited BDPKPS budget, we see a possibility for the government to increase export levy, particularly to support Biodiesel-related incentives

Sources : EBTKE, Bloomberg, MNCS Research



**Exhibit 09. Palm oil export by country; although there is a potential for higher US tariffs on palm oil products with the Trump's victory, the easing geopolitical situation in the Middle East may offset this impact**

**a. % Contribution**

Country	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
India	26.6%	20.4%	20.7%	22.2%	25.2%	21.5%	15.3%	16.6%	11.3%	18.4%	18.9%
China	12.1%	11.3%	14.9%	13.0%	12.4%	14.2%	19.7%	16.1%	17.6%	15.7%	19.0%
Pakistan	4.7%	7.5%	8.2%	8.6%	7.5%	8.3%	7.3%	8.9%	9.7%	10.3%	8.8%
Netherlands	7.5%	5.9%	5.1%	4.7%	4.9%	4.2%	3.6%	2.7%	2.1%	2.0%	1.4%
US	2.0%	2.0%	2.6%	3.9%	4.0%	3.8%	3.9%	4.1%	6.0%	6.7%	6.9%
Spain	2.8%	3.8%	3.6%	4.6%	4.7%	3.9%	3.6%	4.1%	3.6%	2.3%	2.3%
Egypt	3.3%	4.3%	4.1%	4.1%	4.1%	3.1%	3.6%	3.5%	3.8%	2.5%	3.4%
Bangladesh	3.4%	4.3%	4.0%	3.8%	4.2%	4.7%	4.5%	3.7%	4.8%	4.9%	4.8%
Italy	4.5%	5.6%	4.2%	4.1%	3.9%	3.0%	2.5%	3.4%	2.3%	2.2%	1.4%
Singapore	3.7%	3.3%	2.8%	3.0%	2.1%	1.5%	2.0%	1.3%	0.2%	0.4%	0.1%
Others	29.2%	31.8%	29.9%	28.1%	26.9%	31.8%	34.0%	35.5%	38.6%	34.5%	33.1%

**b. Volume '000 ton**

Country	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
India	6,192	4,984	5,887	5,459	7,377	6,416	4,655	4,632	3,102	4,999	5,407
China	2,824	2,761	4,230	3,209	3,642	4,216	5,983	4,484	4,860	4,279	5,441
Pakistan	1,104	1,828	2,326	2,109	2,194	2,460	2,217	2,491	2,680	2,811	2,514
Netherlands	1,748	1,451	1,441	1,157	1,429	1,262	1,104	766	580	552	393
US	469	492	737	960	1,159	1,121	1,195	1,130	1,651	1,810	1,985
Spain	659	924	1,011	1,127	1,378	1,171	1,086	1,144	995	637	655
Egypt	762	1,042	1,158	1,002	1,203	938	1,096	975	1,042	682	968
Bangladesh	800	1,050	1,143	934	1,240	1,410	1,360	1,035	1,327	1,330	1,369
Italy	1,043	1,369	1,204	1,012	1,129	900	753	945	623	596	401
Singapore	855	801	797	730	624	436	595	367	56	110	22
Others	6,800	7,779	8,498	6,921	7,885	9,464	10,336	9,876	10,655	9,372	9,474
<b>Total</b>	<b>23,255</b>	<b>24,481</b>	<b>28,432</b>	<b>24,621</b>	<b>29,258</b>	<b>29,794</b>	<b>30,380</b>	<b>27,844</b>	<b>27,571</b>	<b>27,177</b>	<b>28,628</b>
YoY Growth	13.3%	5.3%	16.1%	-13.4%	18.8%	1.8%	2.0%	-8.3%	-1.0%	-1.4%	5.3%

Sources : BPS, MNCS Research

**Exhibit 10. The new levy tariff will benefit exporters, but risks remain due to potential increases in import tariffs**

Products	Levies		Nov-24 reference prices at USD961.97/MT	
	Old (USD/MT)	New	Old	New
CPO	55-240	7.5%	100	72.1
POME	5	7.5%	5	72.1
UCO	35	6%	35	57.7
PFAD	45-214	6%	90	57.7
RBD Palm Olein	35-204	4.5%	80	43.3
Biodiesel	25-194	3%	70	28.9

Sources : MoF, MNCS Research

**MNC Research Industry Ratings Guidance**

- **OVERWEIGHT** : Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months
- **NEUTRAL** : Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months
- **UNDERWEIGHT** : Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

**MNC Research Investment Ratings Guidance**

- **BUY** : Share price may exceed 10% over the next 12 months
- **HOLD** : Share price may fall within the range of +/- 10% of the next 12 months
  - **SELL** : Share price may fall by more than 10% over the next 12 months
  - **Not Rated** : Stock is not within regular research coverage

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