

Palm Oil Sector

Tight Balance, Strong Floor

- B40 has lifted biodiesel’s share of Indonesian palm oil use above 50%, structurally tightening export availability and underpinning a price floor.
- Indonesia’s production is set to climb to 47 MMT in 2025/26, while Malaysia remains stagnant around 19.5 MMT due to structural constraints.
- CPO maintains a USD 100–300/t discount to soybean oil and USD 500–700/t to sunflower oil, creating substitution risks but keeping palm oil competitive.
- TAPG stands out with young plantations, double-digit growth, and strong margin leverage, making it our top pick with a TP of Rp1,580.

Prices Resilient Amid Volatility

The CPO industry enters late 2025 with a mix of near-term volatility and medium-term resilience. Malaysian futures slipped back toward RM4,400/t in August on ringgit strength and softer rival oils, but structural demand continues to hold prices above the trough of RM3,780/t seen in May. Moody’s has lifted its medium-term sensitivity range to RM3,800–4,200/t, reflecting stronger Indonesian biodiesel demand, modest regional supply growth, and the expected pre-EUDR restocking before December 2025. The USDA has trimmed Indonesia’s 2024/25 export forecast to 22.8 MMT, down from over 24 MMT, as the B40 mandate diverts more crude palm oil into the domestic market. Indeed, since January 2025 when B40 was implemented, biodiesel’s share of domestic palm oil consumption has climbed to above 50% of total usage (vs 46–48% in 2024), while food’s share has declined toward 39–42%. This structural shift illustrates how energy policy is anchoring domestic absorption and tightening the pool of exportable supply, supporting CPO prices despite softer external demand from key importers such as China and the U.S.

Indonesia Leads, Malaysia Lags

On the supply side, Indonesia remains the swing producer. Output is projected at 45.5 MMT in 2024/25 and 47.0 MMT in 2025/26 (+3% YoY) underpinned by favorable weather and higher fertilizer application. The latest production trend confirms this momentum, with monthly volumes climbing steadily through 2025 and reaching 5.3 MMT in June, the highest in more than a year. Yet exports have not kept pace, falling sharply to just 1.8 MMT in April 2025 before recovering to 3.6 MMT in June, as the B40 mandate absorbed more supply into the domestic market. Ending stocks built gradually in early 2025, peaking at around 2.9 MMT in May before softening to 2.5 MMT in June as exports improved. Malaysia, meanwhile, is expected to edge production up only slightly to 19.5 MMT, with aging trees and replanting delays limiting structural upside despite improved labor availability. Trade flows remain fluid: Indonesian shipments to the US fell 32% in October–May as tariff uncertainty weighed, but could recover following tariff exemptions. In Europe, restocking is gathering pace ahead of the EUDR deadline, with compliant producers positioned to capture a premium.

Policy the Biggest Swing Factor

In the US, biofuel mandates and the 45Z credit support demand for vegetable oils, but tariff uncertainty introduces volatility. In Europe, the EUDR is a structural driver of traceable supply chains, rewarding compliant companies. Price competitiveness also plays a major role: since early 2025, CPO has consistently traded at a discount of USD 100–300/t versus soybean oil and USD 500–700/t versus sunflower oil, widening substitution risks in key markets. This narrowing premium window explains why USDA cut Indonesia’s 2024/25 export outlook, as buyers in China, India, and the US shifted temporarily toward non-palm oils. Nevertheless, Indonesia’s B40 biodiesel program has absorbed much of the surplus, providing a domestic floor for prices. Against this backdrop, we expect CPO to trade within a range of RM4,200–4,800/t into the 4Q25, with upside risks tied to tighter Indonesian exports and stronger Indian or European demand, and downside risks tied to soybean harvest outcomes, crude oil softness, or currency appreciation.

TAPG the Clear Winner

Against this industry backdrop, Indonesian plantation names offer differentiated exposure. DSNG should see steady margin support from mechanization and a 29% revenue lift in 1H25, but its higher cost structure makes earnings more sensitive if prices fall closer to RM4,200. SSMS, with its integrated downstream capacity, captures stable offtake and premium ESG positioning under the EUDR, but volume growth is more modest. TAPG, however, is structurally best placed: its prime-age estates ensure double-digit output growth, driving a +57% YoY surge in EBITDA and +76% YoY net profit gain in 1H25. Even at the low end of the RM4,200–4,800/t range, TAPG’s younger tree profile and efficiency give it a superior cost cushion, while at the higher end, the company leverages operating leverage to expand margins further. With attractive valuations and stronger growth visibility, we highlight **TAPG** as our Top Pick with a **target price of Rp1,580** (implied 8.4x PE 2026F).

NEUTRAL

Palm Oil Sector Universe

Ticker	Last Price	Target Price	Call	Upside
TAPG	1,425	1,580	BUY	10.9%
DSNG	1,555	1,620	HOLD	4.2%
SSMS	1,450	2,000	BUY	37.9%

Source: Bloomberg, Ajaib Research

Palm Oil Sector Valuation

Ticker	PE (x)	EPS Gth	Div. Yield
TAPG	8.4	7.4%	8.1%
DSNG	8.6	0.2%	1.5%
SSMS	9.2	103.9%	3.3%

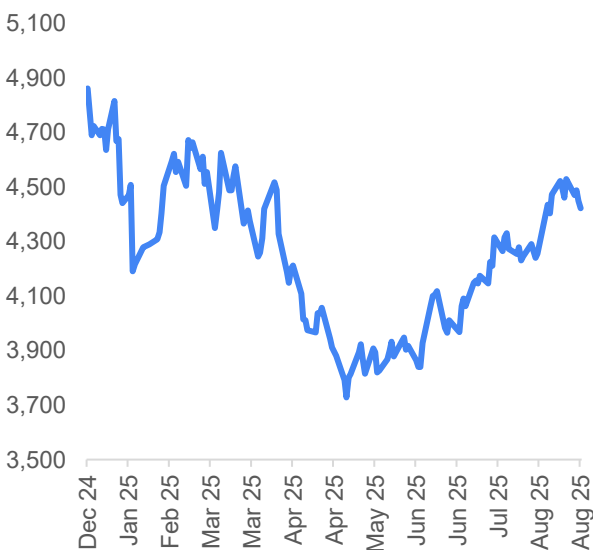
Source: Bloomberg, Ajaib Research

YTD Performance Palm Oil Sector vs JCI



Source: Bloomberg, Ajaib Research

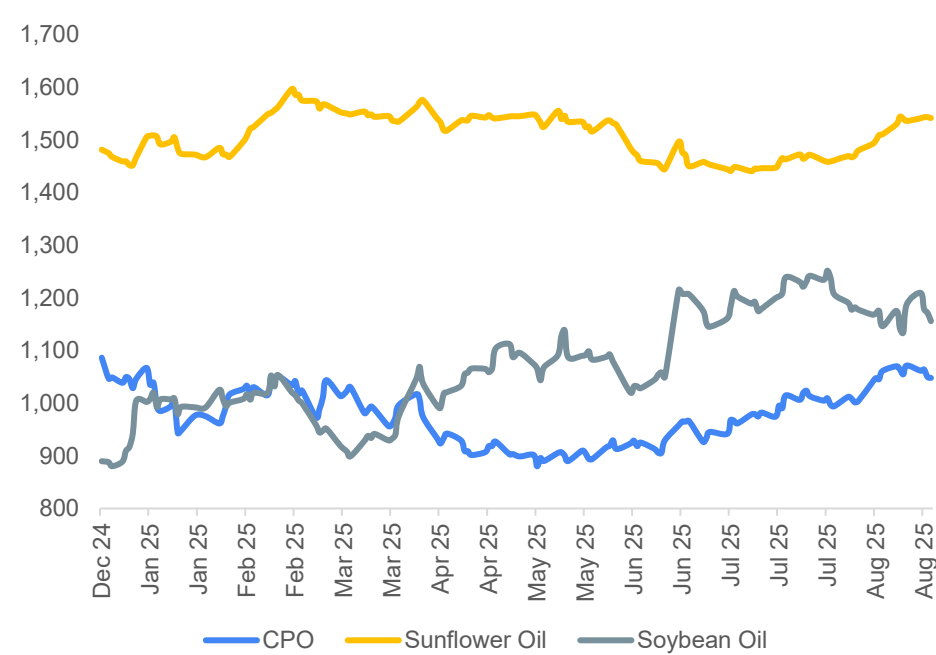
YTD Palm Oil Price Trend (MYR/ton)



Source: Bloomberg, Ajaib Research

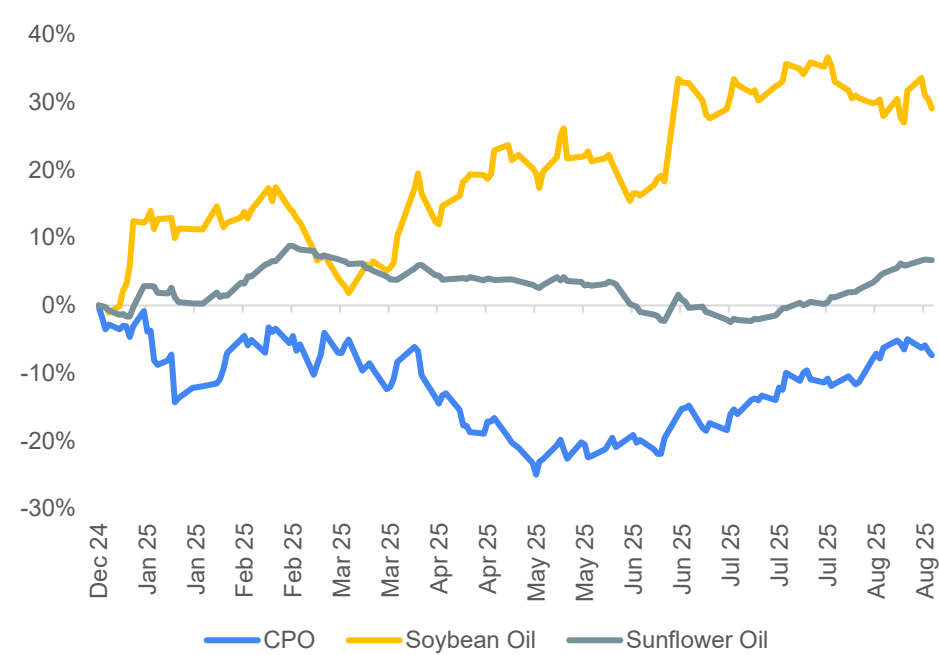
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Figure 1. YTD Palm, Sunflower & Soybean Oil Price Trend (USD/ton)



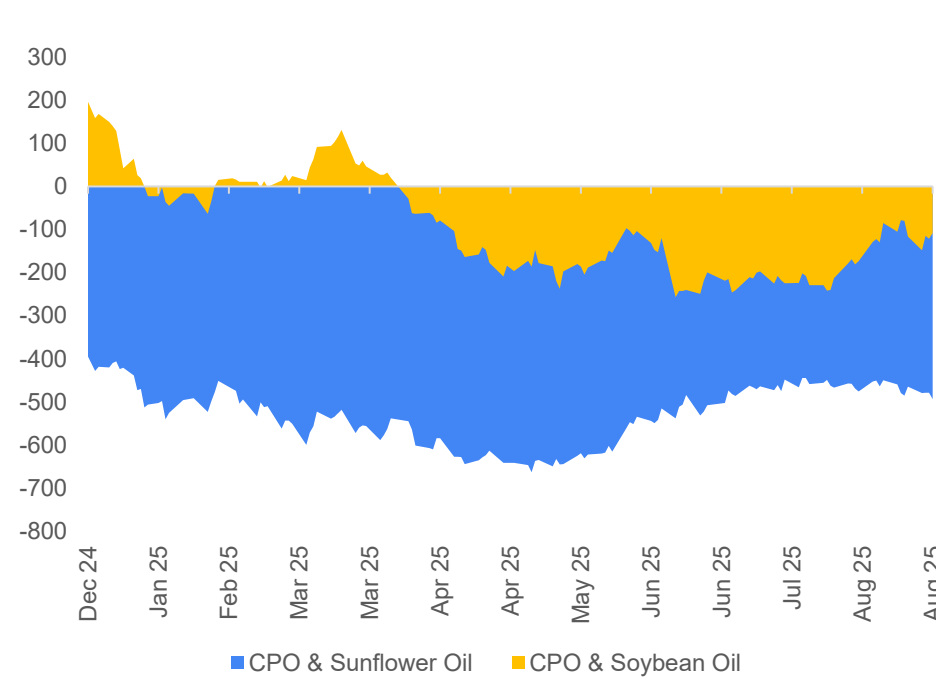
Source: Bloomberg, Ajaib Research

Figure 2. YTD Palm, Sunflower & Soybean Oil Price Return Comparison



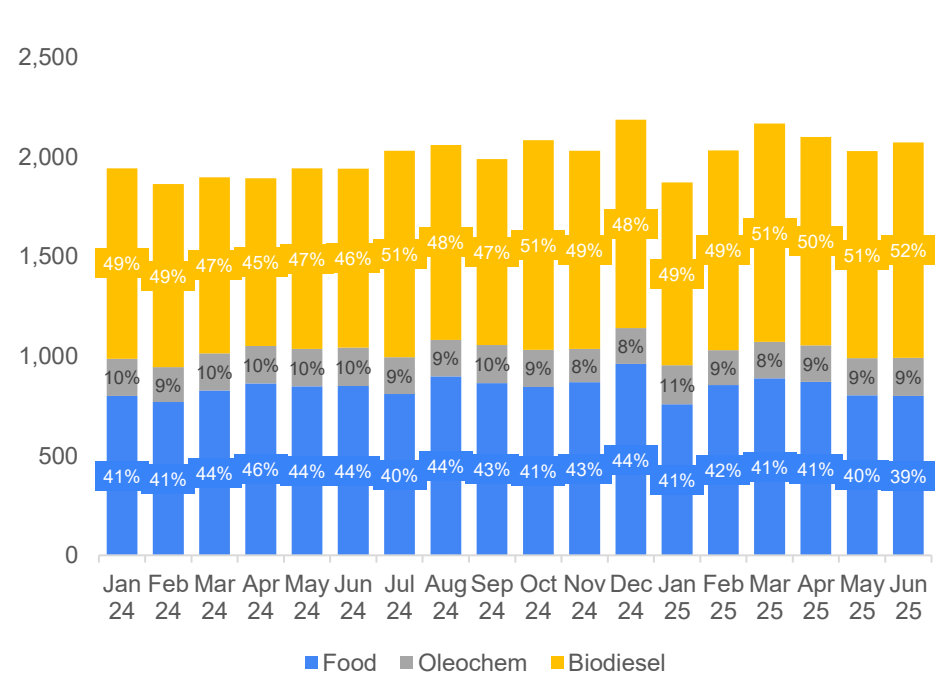
Source: Bloomberg, Ajaib Research

Figure 3. YTD Price Gap Trend Palm vs Sunflower & Soybean Oil (USD/ton)



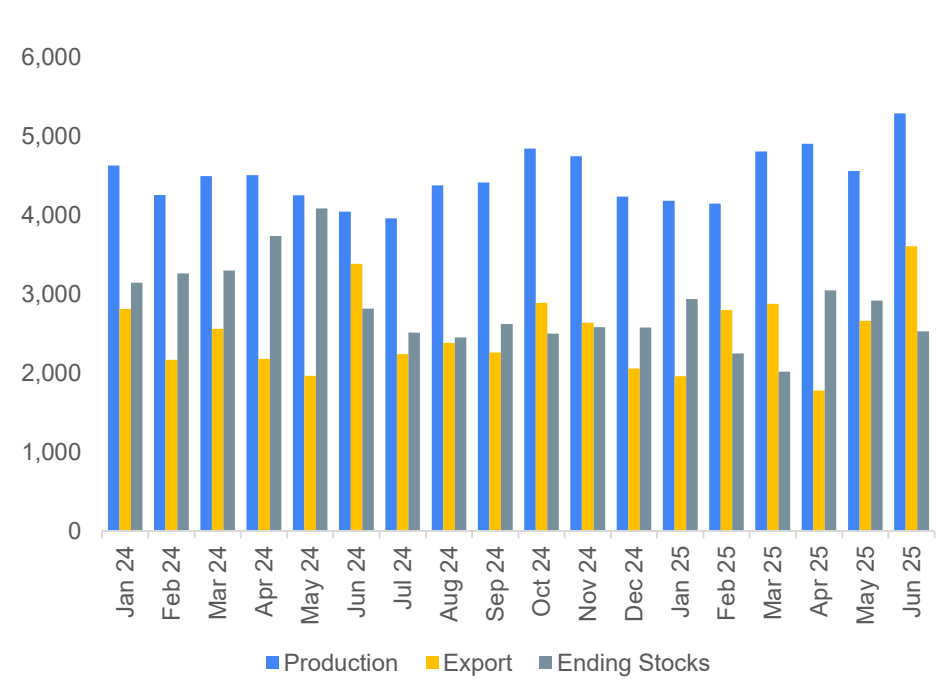
Source: Bloomberg, Ajaib Research

Figure 4. Monthly Indonesia Palm Oil Consumption ('000 ton)



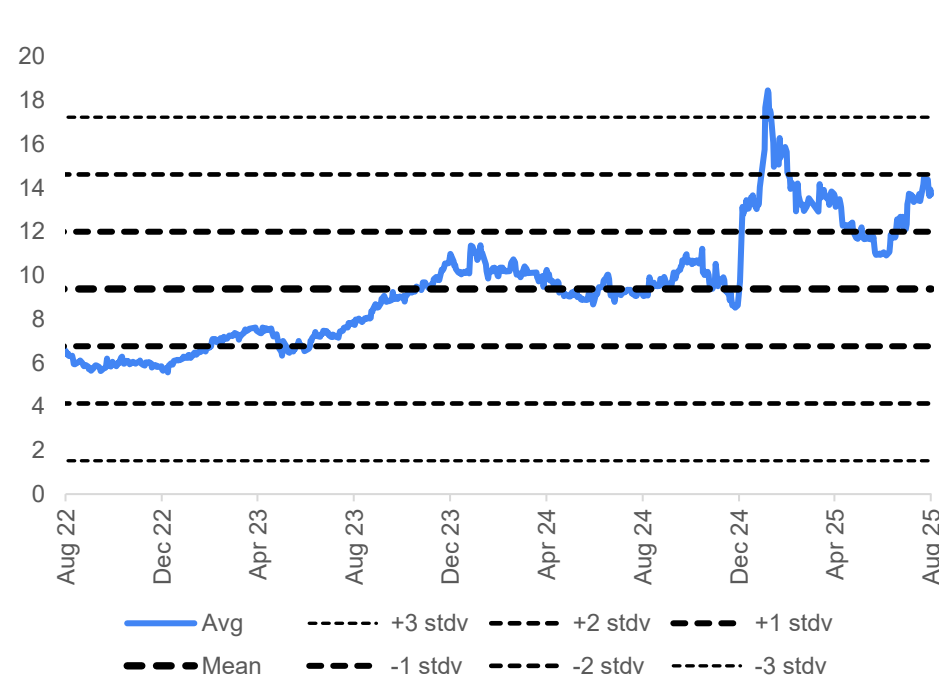
Source: GAPKI, Ajaib Research

Figure 5. Indonesia Monthly CPO Production, Export, and Stocks ('000 ton)



Source: GAPKI, Ajaib Research

Figure 6. 3-Year Forward PE Band Palm Oil Sectors



Source: Bloomberg, Ajaib Research

#### Rating for Sectors:

Overweight : We expect the industry to perform better than the primary market index (JCI) over the next 12 months.

Neutral : We expect the industry to perform in line with the primary market index (JCI) over the next 12 months.

Underweight : We expect the industry to underperform the primary market index (JCI) over the next 12 months.

#### Rating for Stocks:

Buy : The stock is expected to give total return (price appreciation + dividend yield) of  $> +10\%$  over the next 12 months.

Hold : The stock is expected to give total return of  $> 0\%$  to  $\leq +10\%$  over the next 12 months.

Sell : The stock is expected to give total return of  $< 0\%$  over the next 12 months.

Outperform : The stock is expected to do slightly better than the market return. Equal to "moderate buy"

Underperform : The stock is expected to do slightly worse than the market return. Equal to "moderate sell"

#### Analyst Certification:

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PREPARED BY AJAIB RESEARCH TEAM



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