

MKH Oil Palm (5319)

Back to Square One



Stock Highlights

Rally in CPO prices. Crude palm oil (CPO) prices have recently surged to a two-year high of RM4,500/MT, amid ongoing supply constraints from the two key producer countries i.e. Indonesia and Malaysia. This rally, now up by over 20% in 2024, is also fueled by strong demand for edible oils. Additionally, higher crude oil prices and tensions in the Middle East have boosted palm oil's demand as a biofuel, lending further support to its price rally.

Poised for upbeat earnings. Given the recent rally in CPO price, we believe MKHOP could be a compelling play, underpinned by the favourable age profile and superior FFB yield of its plantation. Furthermore, its estates are mainly located in East Kalimantan, Indonesia and will therefore remain unaffected by the recent headwinds from Budget 2025 such as the hike in minimum wages and adjustment in export duties tax on CPO. Based on its latest quarterly disclosures, the production figures for 4QFY24 (ending Sept) are trending higher q-o-q, with CPO, FFB and palm kernel production up by 5.7%, 9.5% and 4.1%, respectively. On this basis, we believe MKHOP's 4QFY24 results will remain satisfactory and meet our FY24 full-year earnings forecast of RM58m (per [our IPO Note](#) issued on 12 Apr).

Attractive valuation supported by share buyback. MKHOP is currently trading at just 10.0x our FY25 EPS, vs. larger Malaysian peers' average of 18.9x PE. Our FY25 forecast was based on a conservative CPO price assumption (Indonesia domestic) of RM3,400/MT, suggesting there are further upsides should current CPO prices remain high around RM3,900-4,000/MT (Indonesia domestic). The stock has generally underperformed post-IPO, but has now caught back up amid active share buyback activities by management since Sept (6.3m shares bought back).

Triangle formation nearing breakout. The stock has recently formed a bullish W pattern and broke through the key resistance level at RM0.60. It has since pulled back to retest this level while consolidating in a triangle pattern. An ideal entry point lies between RM0.60 and RM0.62, with trend-based Fibonacci extensions setting the first target at RM0.66 and a second target at RM0.70. On the downside, a break below RM0.59 could lead to a correction towards RM0.57, where strong buying interest has historically supported the stock.

Technical

Resistance 1 (RM)	0.66
Resistance 2 (RM)	0.70
Support 1 (RM)	0.59
Support 2 (RM)	0.57
MACD	Neutral
RSI	Positive

Stock Information

Last Close (RM)	0.615
Market cap (RM m)	625.7
52-week Range (RM)	0.53-0.655

Financial Highlights

FYE Sep	FY21	FY22	FY23	9MFY24
Revenue (RM m)	306.6	315.8	338.0	261.6
Core PAT (RM m)	77.5	60.1	31.3	43.2
Core EPS (sen)	9.6	7.5	3.9	4.2
DPS (sen)	-	-	-	2.0
BV/share (RM)	0.26	0.35	0.39	0.56
P/E (x)	8.0	10.3	19.8	10.7
P/B (x)	2.3	1.8	1.6	1.1

Source: Bloomberg, Mercury Securities

Company Profile

MKH Oil Palm specialises in cultivating oil palm and producing crude palm oil (CPO) and palm kernel (PK), with its plantation landbank mainly located at East Kalimantan, Indonesia. The company adopts sustainable plantation practices and is ISPO-certified.

Glossary of commonly use technical terms

Moving Average (MA)	An indicator frequently used in technical analysis showing the average value of a security's price over a set period.
Moving Average Convergence Divergence (MACD)	A trend-following momentum indicator that shows the relationship between two moving averages of prices. The MACD is calculated by subtracting the 26-day exponential moving average (EMA) from the 12-day EMA. A 9-day EMA of the MACD, called the "signal line", is then plotted on top of the MACD, functioning as a trigger for buy and sell signals.
Stochastic	A technical momentum indicator that compares a security's closing price to its price range over a given time period. The indicator's sensitivity to market movements can be reduced by adjusting the time period or by taking a moving average of the result.
Average True Range (ATR)	A measure of volatility whereby the indicator is the greatest of the following: <ul style="list-style-type: none">- current high less the current low;- the absolute value of the current high less the previous close;- the absolute value of the current low less the previous close;
Bollinger Band	A band plotted 2 standard deviations away from a simple moving average.
On-Balance Volume (OBV)	A method used in technical analysis to detect momentum, the calculation of which relates volume to price change. OBV provides a running total of volume and shows whether this volume is flowing in or out of a given security.
Support	The price level which, historically, a stock has had difficulty falling below. It is thought of as the level at which a lot of buyers tend to enter the stock.
Resistance	The price at which a stock or market can trade, but not exceed, for a certain period of time. Often referred to as "resistance level".
Reversal	A change in the direction of a price trend. On a price chart, reversals undergo a recognizable change in the price structure. An uptrend, which is a series of higher highs and higher lows, reverses into a downtrend by changing to a series of lower highs and lower lows. A downtrend, which is a series of lower highs and lower lows, reverses into an uptrend by changing to a series of higher highs and higher lows.
Divergence	When the price of an asset and an indicator, index or other related asset move in opposite directions.
Overbought	In technical analysis, this term describes a situation in which the price of a security has risen to such a degree – usually on high volume – that an oscillator has reached its upper bound. This is generally interpreted as a sign that the price of the asset is becoming overvalued and may experience a pullback.
Oversold	A situation in technical analysis where the price of an asset has fallen to such a degree – usually on high volume – that oscillator has reached a lower bound. This is generally interpreted as a sign that the price of the asset is becoming undervalued and may represent a buying opportunity for investors

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MERCURY SECURITIES SDN BHD
Registration No. 198401000672 (113193-W)
L-7-2, No 2, Jalan Solaris, Solaris Mont’ Kiara,
50480 Kuala Lumpur
Telephone: (603) - 6203 7227
Website: www.mercurysecurities.com.my
Email: mercurykl@mersec.com.my