

Is an Oil Palm Plantation Still a Competitive Business?

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Despite a dramatic increase in the profitability of palm plantations since 2019, their valuation in the stock market remains depressed. The industry appears to be unable to escape a widespread feeling of terminal decline. Investors cite two major issues: the oil palm's environmental record and difficulties finding workers amidst rising labour costs. This article examines both of these concerns. It finds that sustainability concerns today do not threaten the industry, but rather that they have become a source of additional profitability. The oil palms' higher labour requirement, while very noticeable, is a structural issue which has traditionally been defrayed by higher yields. The central issue for the oil palm is not its higher labour requirements, but its relatively poor yield performance. Higher yielding plantations are significantly more profitable, yet listed plantations have underperformed the average in terms of their yield. As we demonstrate this is driven predominantly by a sharp decline among the bottom third of listed plantation companies.

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