

# Plantation

Good 2025 but Further Upside May be Limited

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**NEUTRAL**



CY25 was a good year for the plantation sector with results rising YoY. Better harvest and CPO as well as PK prices boosted upstream earnings to offset otherwise softer downstream results. Non-plantation segments also reported profits on more aggressive push into real estate. Peering ahead, global edible oil should improve but still staying tight overall; hence, we recently upgraded CY26-27F CPO price from RM4,000 to RM4,100 per MT but suggest staying NEUTRAL on undemanding valuation constrained by limited earnings growth, where we expect that aggregate sector earnings for CY26 to be down by 11% YoY.

Preferred picks are planters with earnings recovery or those still able to grow; hence, we like PPB (OP; TP: RM14.75) for its recovering food FMCG operations, stronger harvest, and property outlook for KLK (OP, TP: RM24.00) while TSH (OP, TP: RM1.55) offers organic upstream growth over the coming 3-5 years. The sector is currently trading at 1.1x Price-to-Book (PBV).

In the 4QCY25 reporting season, 45% of planters met consensus estimates while 56% surpassed Kenanga's expectation. Upstream margins turned out better than we had expected, hence our estimates for larger, more income-diversified integrated planters were fine – IOI, PPB, and SDG came within our expectations leaving only KLK which came below our forecast due to weaker CPO prices and property contributions. However purer planters with more sensitive upstream earnings generally beat our expectations in 4QCY25. Nevertheless, we downgraded HSPLANT's TP from RM2.40 to RM1.95 and from MARKET PERFORM to an UNDERPERFORM despite beating our estimate due to a surprise cut in dividends and the absence of strong growth ahead.

	4QCY25						3QCY25					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below									
GENP	1				1				1			1
HSPLANT	1				1				1			1
IOI		1		1				1			1	
KLK			1			1			1		1	
PPB		1			1			1			1	
SDG		1			1			1		1		
TAANN	1				1		1			1		
TSH	1				1		1			1		
UMCCA	1			1				1		1		
<b>Total</b>	<b>5</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>2</b>
<b>Total (%)</b>	<b>56</b>	<b>33</b>	<b>11</b>	<b>22</b>	<b>45</b>	<b>33</b>	<b>22</b>	<b>45</b>	<b>33</b>	<b>45</b>	<b>33</b>	<b>22</b>

**Upstream had a mix 4Q but still up on full-year basis.** For Kenanga universe of planters, 4QCY25 upstream revenue was mixed (+11% QoQ, -4% YoY) as muted CPO prices (-0.2% QoQ, -6% YoY) were offset by better FFB harvest. Rising 4% QoQ and 2% YoY, FFB production in 4QCY25 was the strongest quarterly production in five years which helped lower unit CPO cost even though CPO prices eased. Consequently, upstream PBT ended up firmer QoQ but slipped YoY, reflecting the quarter's revenue performance as well as underlying trend in margins.

Despite the mixed 4QCY25 performance, full-year CY25 upstream performance was outrightly better YoY with revenue and earnings rising 7% and 14%, respectively, on firmer CPO prices (+4%), better FFB production (+2%), and higher PK prices (+34%). Margins thus expanded from 25% a year ago to 28% for CY25, above past 5-year average margin of 26% for upstream.

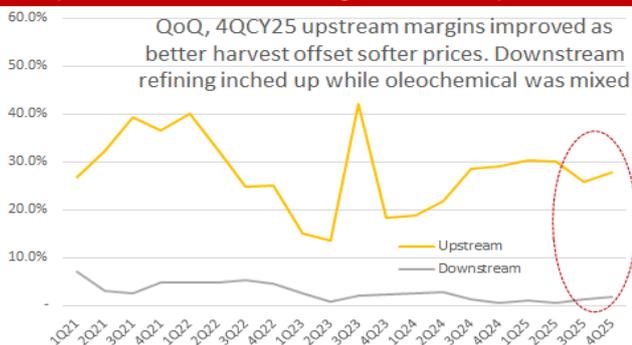
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Peering into 1QCY26, we expect upstream margins to either stay flat or ease a little on flattish CPO and PK prices but on seasonally lower harvest while higher labour, fertiliser and energy costs are creeping up. While planters generally guided for stronger FFB production (ranging between 3-16% higher) in CY26, we are more cautious as CY25 saw unusually strong harvest.

**Downstream improved in 4Q but full-year stayed poor.** Despite recording the strongest revenue in three years, CY25 downstream earnings was the lowest as margins shrunk from 5% in CY21 to 1% in CY25 due to intense competition in refining and oleochemical (basic products) due to new Indonesian capacity. Specialty products are faring better thus far but forward specialty food product margins are set to come under pressure as well due to new capacity with Johor Plantation-Fuji Oil plant at Kota Tinggi commencing later this year while KLK-AAK joint venture Pasir Gudang plant is due later next year.

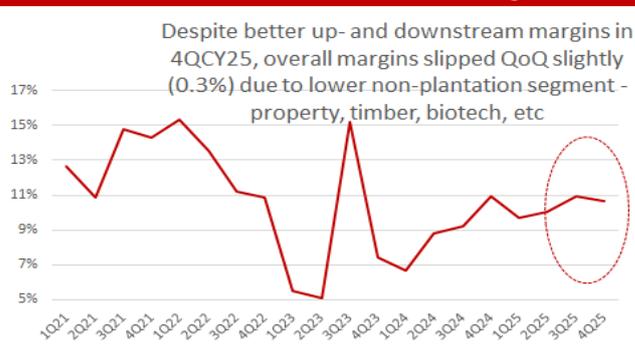
Nevertheless, downstream momentum has improved QoQ. 4QCY25 revenue rose (+1% QoQ, +7% YoY) with the strongest margins since mid-CY24, thus 4QCY25 earnings rose 36% QoQ and 191% YoY. While probably early to be bullish on downstream, the segment may be bottoming with the worst possibly behind us.

**4Q Up- and Down-stream Margins Inched Up QoQ**



Source: Kenanga Research

**But Non-Plantation Pulled Down Overall Margin**

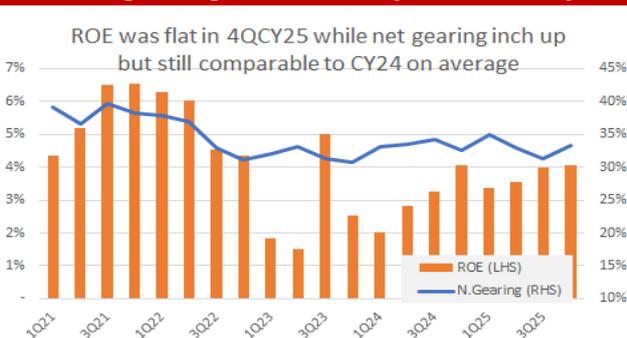


Source: Kenanga Research

**Non-plantation turned positive.** After turning positive in 3QCY25 from a lumpy land disposal gain of RM490m by SDG, 4QCY25 non-plantation segment reverted into losses again. However, more frequent positive contributions are expected as SDG, KLK, and GENP are pushing more aggressively into real estates. Over time, SDG should also report more renewable energy (solar farms) earnings while IOI's palm wood and EFB-to-pulp JV projects should start contributing in CY27-28.

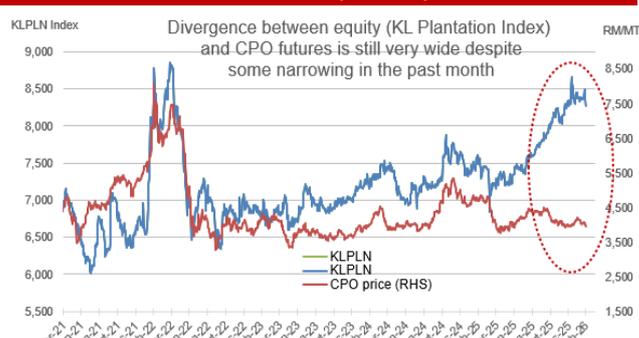
**Net gearing inched up QoQ.** 4QCY25 net borrowings rose from RM17.3b or 31% net gearing a quarter ago to RM18.4b (33% net gearing) due mainly to capex at larger planters such as KL, SDG, and GENP. Smaller planters generally saw their net cash holding rising QoQ in 4QCY25. Overall, net interest expenses declined QoQ and YoY to quarterly levels seen in CY21-22.

**Net Gearing Easing While Quarterly ROE is Steady**



Source: World Bank, Kenanga Research

**KL Plantation Index vs. CPO (RM/MT)**



Source: Kenanga Research

**Stay NEUTRAL.** CY26 global edible oil supply is expected to increase 2%-3%. Unfortunately, demand is also expected to increase by similar quantum. Consequently, flattish CY26 inventory is likely leading to CPO prices initially softening on better-than-expected palm oil harvest in CY25 but still staying firm at RM4,100 per MT over CY26-27. With limited downside risk and undemanding valuations but no strong upside catalyst, we stay NEUTRAL. The divergence between the strong FBM KLCI/KL Plantation Index and CPO price softness also suggests limited upside, potentially some downside risk. Nonetheless, we like **PPB (OP; TP: RM14.75)** for its recovering earnings trajectory. **KLK (OP; TP: RM24.00)** is also expected to see stronger harvest and property earnings in FY26 while **TSH (OP; TP: RM1.55)** offer longer organic growth from its expanding planted area from 39k Ha currently to c.55k Ha in FY28-29.

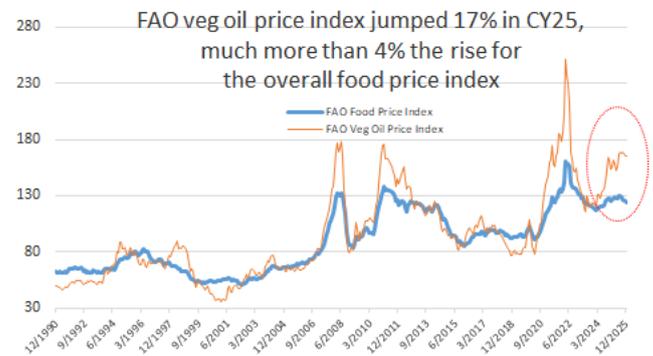
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**Sensitivity Of Core EPS to CPO Prices**

	FY26 RM/MT	FY26 Core EPS (Sen)	Impact on CEPS if CPO price +/- 5%
Genting Plantations	3,900	43.7	+/- 15%
HS Plantations	4,250	16.3	+/- 15%
IOI Corp	4,100	23.9	+/- 8%
KL Kepong	4,100	127.1	+/- 11%
PPB Group	4,100	115.2	+/- 5%
SD Guthrie	4,100	27.8	+/- 15%
Ta Ann	4,100	43.9	+/- 12%
TSH Resources	3,800	13.3	+/- 10%
United Malacca	4,100	70.8	+/- 14%

Source: Kenanga Research

**Firm Global Edible Oil Prices in General**



Source: FAO, Kenanga Research

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## Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen) 1-Yr. Fwd.	Net Div Yld 1-Yr. Fwd.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
<b>PLANTATION</b>																	
GENTING PLANTATIONS BHD	MP	5.09	5.40	6.1%	4,566.6	Y	12/2026	43.7	44.2	10.7%	1.2%	11.6	11.5	0.8	7.2%	28.0	5.5%
HAP SENG PLANTATIONS HOLDINGS	UP	2.10	2.15	2.4%	1,679.3	Y	12/2026	16.3	16.7	-6.4%	2.2%	12.9	12.6	0.8	5.9%	8.0	3.8%
IOI CORP BHD	MP	3.93	4.35	10.7%	24,700.8	Y	06/2026	23.9	23.5	18.8%	-1.5%	16.4	16.7	1.9	12.5%	11.0	2.8%
KUALA LUMPUR KEPONG BHD	OP	18.72	24.00	28.2%	20,847.7	Y	09/2026	127.1	137.8	17.2%	8.4%	14.7	13.6	1.3	9.7%	60.0	3.2%
PPB GROUP BHD	OP	10.90	12.50	14.7%	15,506.3	Y	12/2026	98.5	115.3	21.5%	17.0%	11.1	9.5	0.5	3.0%	45.0	4.1%
SD GUTHRIE BHD	MP	5.60	5.45	-2.7%	38,728.0	Y	12/2026	27.8	28.0	-3.3%	0.5%	20.1	20.0	1.9	11.9%	15.0	2.7%
TA ANN HOLDINGS BHD	MP	4.83	3.90	-19.3%	2,127.4	Y	12/2026	45.5	41.5	20.4%	-8.8%	10.6	11.6	1.1	10.9%	40.0	8.3%
TSH RESOURCES BHD	OP	1.21	1.55	28.1%	1,523.1	Y	12/2026	12.6	13.0	-9.5%	3.1%	9.6	9.3	0.7	7.9%	5.0	4.1%
UNITED MALACCA BHD	OP	5.69	6.45	13.4%	1,193.6	Y	04/2026	76.1	70.8	37.2%	-7.0%	7.5	8.0	0.7	10.4%	20.0	3.5%
<b>Simple Average</b>					<b>110,872.8</b>					<b>10.8%</b>	<b>4.5%</b>	<b>15.3</b>	<b>14.6</b>	<b>1.1</b>	<b>8.8%</b>		<b>4.2%</b>

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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