Plantation

No Geo-political Premium Yet

OVERWEIGHT
↑

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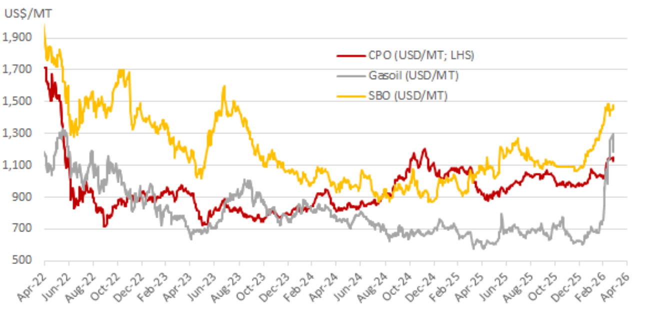
We are upgrading the plantation sector to OVERWEIGHT, from Neutral on several counts (a) CPO prices is set to gain from rising energy prices (b) while its food-derived demand should not contract much (c) sector is also asset rich and (d) valuations are not excessive nor demanding any premium for its potential upside, with downside limited.

Our sector picks are: (i) KLK (OP; TP: RM24.50) for better FFB output and property earnings, (ii) PPB (OP; TP: RM14.85) given its earnings recovery amidst low valuation, and (iii) TSH (OP; TP: RM1.60) from organic upstream growth. We also upgraded IOI from MP to OP on a higher TP of RM4.55 due to good FFB growth and higher CPO prices.

After two years of premium, CPO is now trading at a discount to gasoil again. The disruptions caused by the ongoing Middle East conflict on global crude oil supply has caused Brent crude prices to soar >50% and gasoil prices to spike by over 70% since late Feb CY26. Actual direct disruption to the international palm oil supply chain is manageable if not limited as over 80% of palm oil originates from Asia (notably Indonesia and Malaysia) and more than 60% of palm oil is used within Asia – Indonesia, India, China and Malaysia alone absorbed half of the world's palm oil supply last year. However, about 22% of edible oil goes into the production of bio-diesel, hence the recent spike in crude oil prices have led to higher edible oil prices as well, to the extent that CPO price is now cheaper than gasoil price.

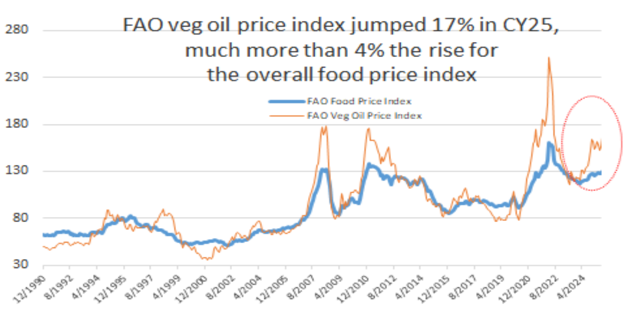
Edible oil supply was already tight even before the Middle East conflict. CY25 was a good year for the plantation sector due to an unusual confluence of higher harvest and stronger prices for CPO (and PK); normally higher supply pressures prices. Therefore**,** CY26 started with better-than-expected opening inventory and even so the overall outlook is still one of tightness as supply can only match the pace of demand growth in an optimistic case. As such, edible oil prices were already elevated compared to other food prices such as meat, dairy, cereals and sugar which formed the FAO Food Price index. Hence, during the February reporting season, our CY26-27F CPO price assumptions had already been raised from RM4,000 to RM4,100 per MT. Now, with bio-diesel demand on the rise, CPO prices staying higher for longer is looking likely in CY26 and CY27.

CPO Price Is Now Cheaper Than Gasoil Again



Source: Bloomberg, Kenanga Research

Edible Oil Prices Already Elevated Beforehand



Source: FAO, Kenanga Research

Higher energy prices are supportive of firmer edible oil prices. While escalating energy costs is causing fertiliser and transport costs to rise for planters, on the whole the sector is set to be a net beneficiary due to higher CPO prices. Importantly, besides shipping disruption along the Strait of Hormuz, more lasting damage on regional oil production infrastructure also suggest crude prices may stay not only elevated for several months but likely to settle at prices above the levels seen before the conflict started. Kenanga has upgraded CY26-27F Brent crude oil prices from USD67 per barrel to USD80 for CY26F and USD74 in CY27F. As the bulk of palm oil is traded within Asia, more muted impact on CPO prices is expected but an upgrade is still warranted for CY26-27F CPO prices, from RM4,100 per MT to RM4,250 for CY26 and RM4,200 in CY27 as we expect CPO prices to spike in 2Q then ease gradually to around RM4,200 come late CY26 and into CY27.

Cost wise, higher energy price is set to push up the cost of fertilizer and transport. In percentage terms, fertilisers typically make up 10-15% and transport 3-5% of total cost. The larger cost items are labour and depreciation which make up 35-40% and 20% of overall cost respectively. More importantly, many planters have tendered out and locked in about half their CY26 fertiliser requirements at lower prices already. SDG has even locked both prices and volume for its entire fertiliser programme in CY26.

Revised Core EPS Following CPO Price Upgrade

	------ Core EPS (sen) ------		% Change in
	Old FY26F	New FY26F	Core EPS
Genting Plantations	43.7	46.9	+7%
HS Plantations	16.3	17.6	+8%
IOI Corp*	23.5	24.6	+5%
KL Kepong	127.1	133.2	+5%
PPB Group	115.2	117.7	+2%
SD Guthrie**	27.8	29.7	+7%
Ta Ann	43.9	46.4	+6%
TSH Resources	13.3	13.9	+5%
United Malacca*	70.8	76.0	+7%

**Based FY27 CEPS as IOI FY26 ends in June & UMCCA ends in April.*
***SDG has locked in both prices and volume for its entire FY26 fertiliser requirement.*
Source: Kenanga Research

Core EPS Sensitivity To CPO Prices

	FY26 RM/MT	FY26 Core EPS (Sen)	Impact on CEPS if CPO price +/- 5%
Genting Plantations	4,050	46.9	+/- 14%
HS Plantations	4,400	17.6	+/- 14%
IOI Corp	4,250	24.9	+/- 9%
KL Kepong	4,250	133.2	+/- 11%
PPB Group	4,250	117.7	+/- 5%
SD Guthrie	4,250	29.7	+/- 10%
Ta Ann	4,250	46.4	+/- 12%
TSH Resources	3,950	13.9	+/- 10%
United Malacca	4,250	76.0	+/- 14%

Source: Kenanga Research

Plantation sector ratings are not excessive. Using the Bursa Plantation Sector as consensus, consensus plantation multiples of 15.6x PER and 1.6x PBV are slightly lower and comparable to the broader Bursa KLCI PER of 16.1x and PBV of 1.6x respectively. Consensus PERs have also been falling for the past 12 months (from 16.3x to 15.6x) indicating earnings upgrades while the KLCI PER trend is the reverse, rising from 14.3x 12 months ago to 16.1x currently. Kenanga's plantation universe PER and PBV are lower than consensus and broader market, a consistent trend for the past 12 months, reflective of different constituents. Compared to past ratings, Kenanga's latest 12.9x PER is below historical 3-10-year PERs of 15.5-34.8x while current 1.25x PBV is slightly above the 3-year average of 1.2x though below the 5-year PBV of 1.3x and 10-year's 1.5x PBV.

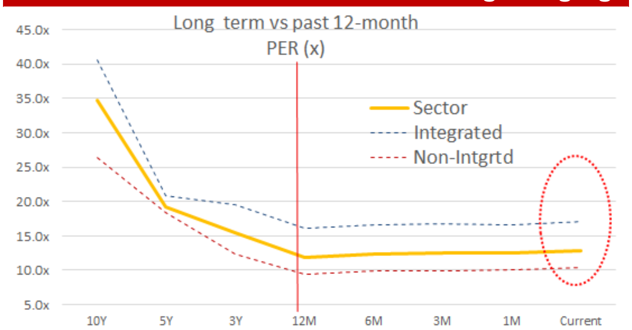
All in, plantation sector valuations suggest the sector is not expensive, be it against historical ratings or relative to the KLCI. While there is room to argue the sector should trade at premium valuations to the broader market given that planters stand to gain from the current CPO price uptick while downside is limited by defensive food (and fuel) driven earnings, dividend yields of 4% and strong asset backing, such premium is not in the price at this juncture.

New Kenanga PER < Consensus & KLCI PERs

PER (x)	--------------- Kenanga Integrated	Non-Intgrtd	-------------- Sector	Bursa Plnt Sctr	Bursa KLCI
10Y	40.6x	26.4x	34.8x	30.8x	17.0x
5Y	20.8x	18.4x	19.2x	17.5x	16.3x
3Y	19.5x	12.3x	15.5x	14.9x	15.1x
12M	16.0x	9.4x	11.9x	16.3x	14.3x
6M	16.7x	9.9x	12.4x	14.5x	15.1x
3M	16.8x	10.0x	12.6x	14.9x	16.1x
1M	16.7x	10.1x	12.6x	15.0x	17.0x
Current	**17.1x**	**10.4x**	**12.9x**	**15.6x**	**16.1x**

Source: Bloomberg, Kenanga Research

PER Indicators HaveAlso Been Rising Nudging



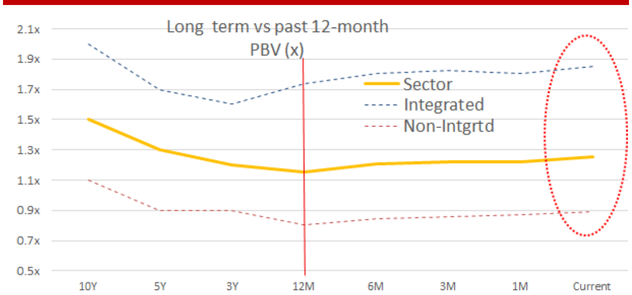
Source: Bloomberg, Kenanga Research

Our Upgraded PBV Is Also < Consensus & KLCI

PBV (x)	--------------- Kenanga Integrated	Non-Intgrtd	-------------- Sector	Bursa Plnt Sctr	Bursa KLCI
10Y	2.00x	1.10x	1.50x	1.50x	1.60x
5Y	1.70x	0.90x	1.30x	1.40x	1.50x
3Y	1.60x	0.90x	1.20x	1.37x	1.40x
12M	1.74x	0.81x	1.16x	1.36x	1.41x
6M	1.80x	0.85x	1.21x	1.44x	1.47x
3M	1.82x	0.86x	1.22x	1.54x	1.58x
1M	1.81x	0.87x	1.22x	1.53x	1.61x
Current	**1.85x**	**0.89x**	**1.25x**	**1.60x**	**1.60x**

Source: Bloomberg, Kenanga Research

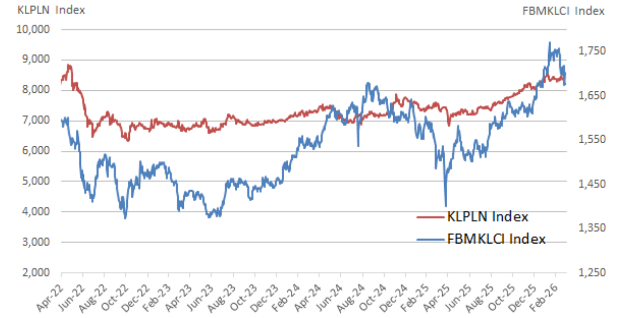
PBVs Are Inching Up But Still Not Excessive



Source: Bloomberg, Kenanga Research

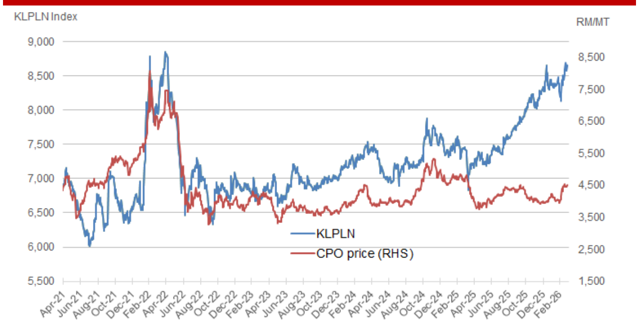
KL Plantation Index is starting to outperform the KLCI. YTD, KL Plantation Index is up 5% versus KLCI's 3%. Peering ahead, KL Plantation Index should continue to be well supported due to its defensive qualities and with potential upside included, further uptick cannot be ruled out. Despite slower widening recently, the divergence between the KL Plantation Index and CPO prices is still large and likely to stay sticky given the net gains to the sector from the current conflict.

KL Plantation Index Starting to Outperform The KLCI



Source: Bloomberg, Kenanga Research

Sticky KL Plantation Index & CPO Price Divergence



Source: Bloomberg, Kenanga Research

Upgrade from NEUTRAL to OVERWEIGHT on the back of the following:

a) The plantation sector is set to be a net gainer as the current surge in energy prices support more elevated CPO prices with little impact on its food and bio-fuel driven demand. This is amid the risk of higher global inflation and slower economic activity dampening many other sectors.
b) Target prices for planters have been revised up by between 1 to 5% on higher CPO prices assumptions of RM4,250 in CY26 and RM4,200 in CY27, up from RM4,100 per MT previously.
c) Sector valuations are not demanding either, trading at or even below the broader KLCI.
d) Over half our coverage is now rated OP as we upgraded IOI from MP to OP for its improving harvest coupled with the CPO price upgrade.

Looking ahead, we are watchful for any policy measures undertaken including price caps on cooking oil or restriction of exports to mitigate the impact of rising living costs. As it is, planters in Malaysia are also paying windfall taxes while those in Indonesia just faced higher export levy (from 10% to 12.5%) since 1 March 2026.

Planters with less or no non-plantation earnings are preferred. Our sector picks are thus as follow:

(a) **KLK (OP; TP: RM24.50)** for recovering FFB output and stronger property earnings ahead.
(b) **PPB (OP; TP: RM14.85)** on strong position in the region's food FMCG markets and decade low valuations.
(c) **TSH (OP; TP: RM1.60)** offers rare exposure into organic upstream growth over the coming 3-5 years.

We also like **IOI (OP; TP: RM4.55)** for improving FFB output and upgrades to its Indonesian upstream associate as well as **UMCCA (OP; TP: RM6.70)** for growth from maturing Indonesian estates.

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Plantation																	
GENTING PLANTATIONS BHD	MP	5.20	5.50	5.8%	4,665.2	Y	12/2026	46.9	46.1	18.8%	-1.8%	11.1	11.3	0.9	7.8%	30.0	5.8%
HAP SENG PLANTATIONS HOLDINGS	UP	2.35	2.00	-14.9%	1,879.3	Y	12/2026	17.6	17.4	0.9%	-1.0%	13.4	13.5	0.8	6.4%	8.0	3.4%
IOI CORP BHD	OP	4.25	4.55	7.1%	26,712.1	Y	06/2026	24.7	24.6	22.8%	-0.5%	17.2	17.3	2.0	12.9%	11.0	2.6%
KUALA LUMPUR KEPONG BHD	OP	21.48	24.50	14.1%	23,921.4	Y	09/2026	133.2	143.0	22.8%	7.3%	16.1	15.0	1.5	10.2%	60.0	2.8%
PPB GROUP BHD	OP	11.66	14.85	27.4%	16,587.5	Y	12/2026	117.7	119.1	23.7%	1.2%	9.9	9.8	0.7	6.9%	42.0	3.6%
SD GUTHRIE BHD	MP	6.21	5.55	-10.6%	42,946.6	Y	12/2026	29.7	27.7	3.2%	-6.7%	20.9	22.4	2.0	12.4%	15.0	2.4%
TA ANN HOLDINGS BHD	MP	5.29	4.40	-16.8%	2,330.0	Y	12/2026	46.4	45.8	-4.3%	-1.4%	11.4	11.6	1.2	10.8%	40.0	7.6%
TSH RESOURCES BHD	OP	1.37	1.55	13.1%	1,720.6	Y	12/2026	12.6	13.0	-9.5%	3.1%	10.8	10.5	0.8	7.9%	5.0	3.6%
UNITED MALACCA BHD	OP	5.80	6.45	11.2%	1,216.7	Y	04/2026	76.1	70.8	37.2%	-7.0%	7.6	8.2	0.7	10.4%	20.0	3.4%

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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