

Plantation

The Age of Abundance

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OVERWEIGHT



Elevated edible oil prices have been increasingly sticky due to supply limitations. Oil palm, the most productive oil crop, expansion has slowed significantly. However, demand is still growing while yields from other oil crops are not improving fast enough. The Middle East conflict has also raised demand for bio-diesel. In short, elevated edible oil price may be turning structural which in turn may spur expansion or higher dividends ahead (or both). As it is, many smaller planters are already in net cash and sector teens ROE is back. Maintain OVERWEIGHT on potentially better growth, returns, and dividend than consensus may be expecting. Our sector picks are: (i) KLK (OP; TP: RM24.50) for better harvest and property earnings, (ii) PPB (OP; TP: RM14.85) given its earnings recovery and re-rating potentials, and (iii) TSH (OP; TP: RM1.55) for its long-term upstream growth.

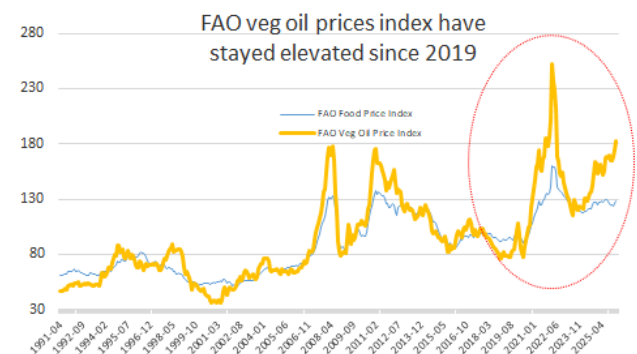
Food (and fuel) security are headlines again. Actual direct disruption of the Middle East conflict to the international palm oil supply chain is manageable if not limited. Over 80% of palm oil is from Asia and more than 60% of demand also comes from within Asia. In any case, palm oil export to Europe passes through the Red Sea into the Mediterranean rather than the Strait of Hormuz. Nonetheless, the conflict has tightened supply as the spike in crude oil prices have led to higher demand:

- a) 22% of edible oil in CY25 was used for bio-diesel production; hence, rising energy prices will thus push up bio-diesel demand. Thus far, Indonesia has announced plans to raise its B40 bio-diesel blend from 1 July to B50 by CY28. Malaysia also intends to raise its B10 admixture to B15.
- b) Food security has re-emerged as a national agenda; hence, importing countries are more ready to buy ahead of demand even at elevated prices. Technically, this does not change the global inventory level – a mere shift in inventory from seller to buyer – but the urgency to transact has tilted from seller to the buyer.
- c) Natural gas (and coal) is a raw material as well as energy source when producing nitrogen fertiliser so prices are linked to energy prices. With rising fertiliser prices, crop prices have to increase sufficiently as well to ensure fresh production. Otherwise, supply will fall to a level where prices rise enough to prompt planting again.

Tight supply looks sticky. Although CY26 opening inventory was better-than-expected following a good palm oil harvest, global edible oil supply over CY26-27 was already looking tight then, even before the Middle East conflict as supply growth struggles to outpace rising demand leading to minimal (if at all) improvement in inventory. Supply growth has halved from 4% to 2% post CY18 on slowing palm oil expansion and Indonesia’s moratorium on new oil palm planting permit.

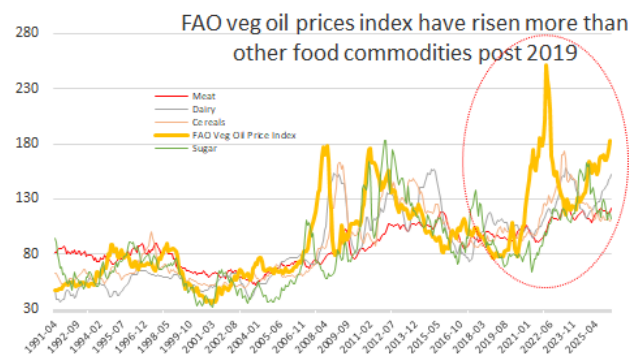
The impact of tighter supply on edible oil price is reflected in the FAO Food Price Index which tracks global prices of food commodities such as meat, dairy, cereals and sugar. It is the prices of edible oils which have risen most since CY19, 2-3x more than the prices of other food commodities and we expect it to stay for the coming few years

Edible Oil Prices Have Been Elevated Since 2019



Source: FAO, Kenanga Research

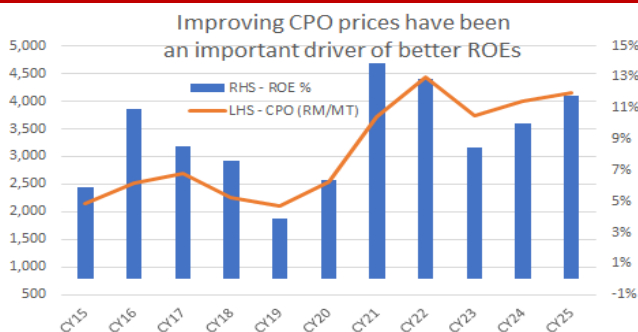
Post 2019 Edible Oil Prices > Other Food Items



Source: FAO, Kenanga Research

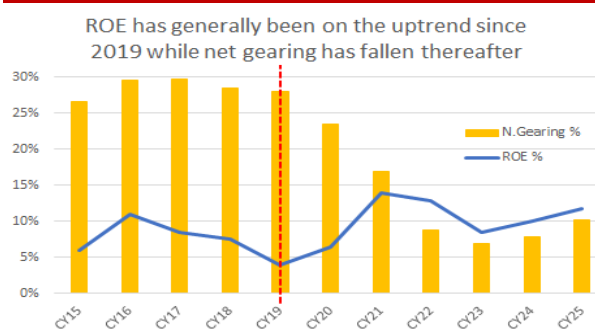
Robust CY26-27 ROEs likely. ROE for the plantation sector have been improving since CY19 and expected to stay robust over CY26-27 on good CPO prices due to supply tightness and now the Middle East conflict. The conflict has lifted demand for bio-diesel, causing CPO prices to soar from RM4,019 in Jan to RM4,500-RM4,700 per MT in Apr. This increase in CPO prices should more than offset the higher input fertiliser and fuel cost. No change to our CPO price assumptions of RM4,250 per MT for CY26 and RM4,200 in CY27.

Rising CPO Prices Have Lifted Sector ROEs



Source: MPOB, Kenanga Research

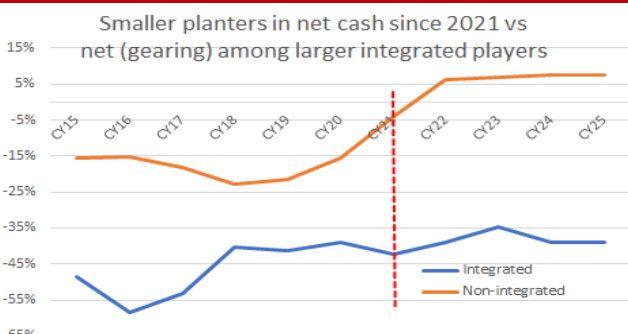
Net Gearing Has Dropped Significantly



Source: Kenanga Research

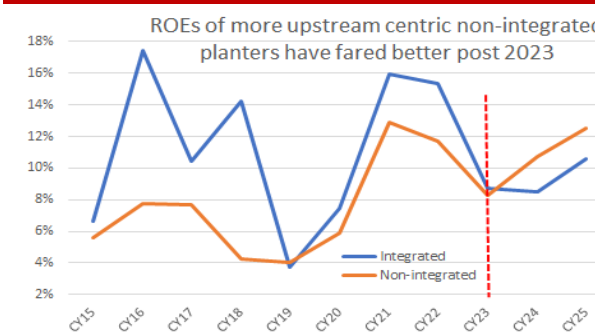
Net gearing looks set to fall further. Aggregated plantation sector net borrowing is down significantly since CY19 but this hides a bifurcating trend. All the smaller, purer upstream planters covered by Kenanga turned net cash from CY21 onwards while the larger, integrated planters remained indebted with 35%-40% in net gearing for the past three years, still below the 40%-60% levels before CY19. Even at Bursa Plantation Index level, 23 or 61% out of the 39 component planters are in net cash and the average net gearing for the index stands at just 6%.

Smaller Planters Turned Net Cash Since CY21



Source: Kenanga Research

ROEs Are Improving, Especially for Smaller Planters



Source: Kenanga Research

Capital buildup should gain momentum. Thanks to falling debts, improving ROEs and lower capex – land in hand has largely been planted and new land is increasingly limited. Malaysia’s oil palm area has not grown for a decade (hovering at 5.7m Ha) and Indonesia’s moratorium on new oil palm permits in CY18 remains though there are rumblings current President Prabowo Subianto may relax the moratorium.

Appetite for expansion could be on the rise. Large integrated planters with hundreds of thousands of hectares need huge tracts of land to generate meaningful growth but such tracts are now limited in Malaysia and Indonesia. Indonesia also needs to settle its “One Map” issue to attract more investments into the sector.

The “One Map” project was initiated by Indonesia in CY18 to unify mapping data of various government agencies onto a single standardise platform which led to a CY21 audit conclusion that (a) 16.8m Ha has been planted with oil palm of which 3.3m Ha of which have infringed into protected forest hence illegal with (c) another 2.5m Ha falling short of compliance, e.g. oil palm is cultivated in area for forest plantation. Indonesia thus summoned 83 plantation companies in CY25 with 41 having settled RM1b in fines, RM0.6b due from 13 others and pursuing the rest in CY26/27. Nonetheless, some owners facing hefty penalties may have to divest unaffected assets to pay the fines.

Altogether, smaller to mid-sized players are more likely look for new land to expand while larger integrated players are expected to favour new verticals such as real estates, renewable energy and even new products. Some consolidation cannot be dismissed - the last notable acquisition was KLK’s takeover of IJM Plantations Bhd in 2HCY21 which added 74,632 Ha to KLK’s landbank for RM2.7b.

Market may not have rated the sector for longer term earnings uptrend. Historically, plantation PBV does not swing as much as PER. Plantation PBV also tracks ROE better than PER tracks growth unless the growth or recovery is strong (>30% YoY). Therefore, as ROE inched up from 10% in CY24 to 12% in CY25, PBV did nudge up from 1.2x to 1.3x respectively but staying well within the past 10-year PBV range of 1.2-1.3x. This suggests the equity market is not expecting much long-term growth ahead. Current PER of 13x-16x for CY26-CY27 is also at the low-end of the historic PER band of 15x-35x and current gross dividend yield (GDY) of 4% is also within the historic range of 2%-4%.

Essentially, the market may be expecting good CPO prices to drive earnings and/or dividends for selective planters but not a sector wide structural growth coming from elevated CPO prices staying sticky. Our view is CPO prices can stay firm (RM4,000-4,500 per MT) for longer than earlier expected which may in turn encourage more aggressive expansion or higher dividend payout (or a bit of both).

Recent Acquisitions or Takeover of Plantation Interests

- In Jul CY25, UK-listed MP Evans PLC (MP Evans) paid RM134.5m (USD35m) or RM49k per Ha cash for 2,750 Ha of planted but still young oil palm in East Kalimantan (note that KLK holds 24.3% of MP Evans).
- In Aug CY25, MKH Oil Palm (East Kalimantan) bought 3,097 Ha for RM9.1m or RM3k per Ha of agri-land pending Hak Guna Usaha (HGU) in East Kalimantan. Indonesian HGU land resembles a Malaysian leasehold title, giving the owner legal protection to cultivate the land over a finite period (e.g. 35 years with option for another 25 years) and owner can transfer or sell the land.
- In Oct CY25, UK-listed Anglo-Eastern Plantations plc bought 6,925 Ha of plantable Central Kalimantan land for RM38m (RM6k per Ha) from CB Industrial Product Holdings Bhd.
- In Apri CY26, TSH proposed to pay RM36m for 11,254 Ha with about 6,200 Ha plantable (or RM6k per Ha) in Central Kalimantan but still pending HGU land.

Consolidating and Growing from Strategic Holdings

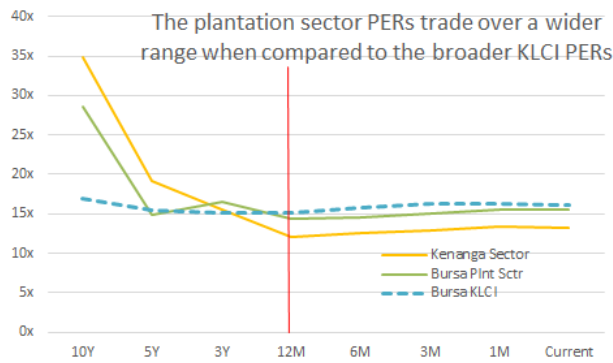
- In CY07, PPB swapped its palm oil assets for an 18% associate stake in Wilmar International Limited (WIL). WIL's net profit has grown from USD580m in FY07 to USD1,411m in FY25 from vertical, geographical as well as product expansion but staying within the food FMCG market. PPB is the 2nd largest shareholder in WIL after Archer Daniels Midland (22%) but the Kuok family still control WIL as Chairman/CEO, Kuok Khoon Hong, holds the 3rd largest stake of 14%.
- In late CY07, IOI gained exposure into Indonesian oil palm via a 32% stake in Bumitama Agri Ltd (BAL) and since then, BAL has expanded its planted area by over three folds to 122k Ha today. IOI is the 2nd largest shareholder of BAL after the Hariyanto family's 52%.
- While ME Evan was expanding its landbank, KLK have been raising its stake in MP Evans from 12% in CY16 to 24% currently thus making KLK the single largest shareholder of MP Evans. It is also worth noting that ME Evans is not deemed an associate of KLK but only an investment but in CY23, Mr Lee Yuan Zhang, the Chief Operating Officer of Batu Kawan Berhad and the holding company of KLK, was also appointed to MP Evans' board.
- As TSH continues to expand its own upstream operations, it also has a long standing 22% associate stake in Innoprise Plantations Bhd which owns 12k Ha of oil palm in Sabah. TSH is the second largest shareholder in Innoprise after the Sabah state government.

Ventures Beyond Oil Palm Verticals

- SDG is the most aggressive on this front, with targets of RM500m-RM800m in real estate profits over FY26-27F from the disposal and recognition of development profits from industrial property. SDG is also planning to have a 1GW renewable energy vertical over the next few years.
- KLK is also beefing up its longstanding property development business.
- IOI's push to process oil palm trunks into wood panel alternatives and empty fruit bunches (or EFB) into higher value pulp will leave its landbank hence long-term upstream capacity intact but does have some scaling up risks for next 2-3 years.

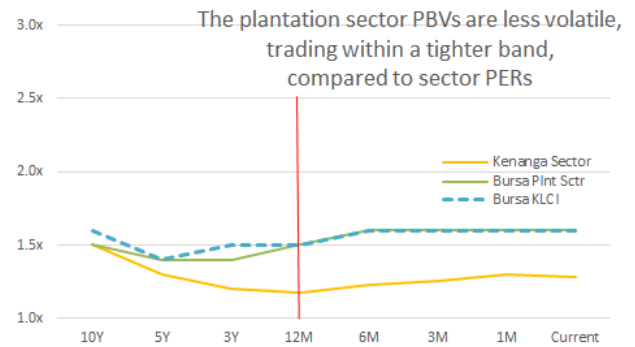
OVERWEIGHT. Current plantation valuations suggest the sector is not expensive, compared to historical ratings or relative to the FBM KLCI. There is room for the sector to trade at premium valuations to the broader market for (a) being a beneficiary of higher CPO prices following the Middle East conflict whilst downside is limited by its defensive food (and fuel) exposure underpinning its earnings, dividends not to mention strong asset backing and (b) firm CPO prices may stay longer than the market is currently expecting which may in turn fuel stronger expansion (hence longer term growth) or higher payout. As it is, sector ROE is expected to stay robust over CY26-CY27 while gearing decline on growing smaller planters' cash hoard and debt trimming by larger integrated players. Hence, HSPLANT, IOI, PPB, SDG, TSH and UMCCA have the potential to raise dividends (please refer to table overleaf). However, our picks are **KLK (OP; TP:RM24.50)** for better harvest and property earnings, (b) **PPB (OP; TP: RM14.85)** given its earnings recovery and re-rating potentials as well as (c) **TSH (OP; TP: RM1.55)** for its long-term organic growth prospects.

Sector PERs Have Fallen on Slower Growth



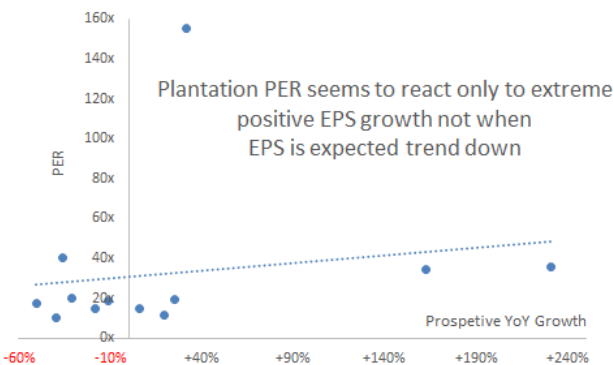
Source: Bloomberg, Kenanga Research

Plantation PBV Held Steadier over Same Period



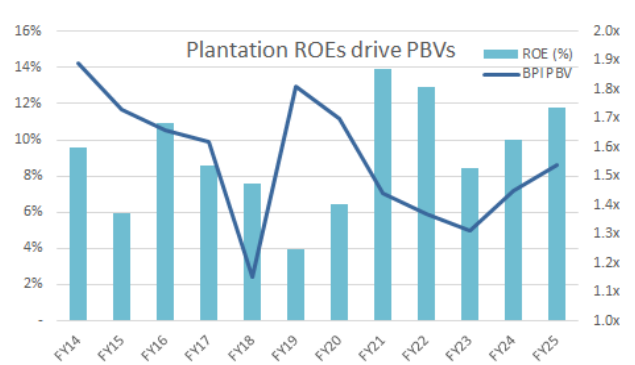
Source: Bloomberg, Kenanga Research

PER Is Less Relevant When Growth Is Moderate



Source: Bloomberg, Kenanga Research

PBVs Generally Track ROEs More Closely



Source: Bloomberg, Kenanga Research

There Is Some Headroom for Higher Dividend Payouts

	FY25A		5YA		Comments
	Dividend Payout	N.Debt (-ve) or N.Cash (+ve)	Dividend Payout	N.Debt (-ve) or N.Cash (+ve)	
Genting Plantations	0.7	-34%	0.7	-22%	-- Despite rising debts, GENP may maintain payout for its holding parent capital management
HS Plantations	0.5	30%	0.5	25%	-- Can afford higher payout from rising net cash holding
IOI Corp	0.7	-14%	0.7	-19%	-- IOI may raise payout despite upstream expansion ambition as borrowings fall
KL Kepong	0.8	-67%	0.7	-56%	-- KLK is more likely to focus on paring debts for another year or two
PPB Group	0.5	7%	0.4	2%	-- Further rise in net cash may prompt PPB to pay higher dividends
SD Guthrie	0.5	-36%	0.5	-42%	-- Falling debts and substantial land sales may trigger higher dividends
Ta Ann	0.8	20%	0.7	14%	-- TAANN lacks clear payout policy but has raised dividend on rising cash holding
TSH Resources	0.4	5%	0.3	-11%	-- Can raise payout given rising cash holding but priority is capex to plant up of 15-20k H
United Malacca	0.4	10%	0.4	1%	-- Good candidate for higher payout as cash position has risen significantly

Source: Kenanga Research

30 April 2026

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.
Stocks Under Coverage																	
GENTING PLANTATIONS BHD	MP	5.10	5.50	7.8%	4,575.5	Y	12/2026	46.9	46.1	18.8%	-1.8%	10.9	11.1	0.8	7.8%	30.0	5.9%
HAP SENG PLANTATIONS HOLDINGS	UP	2.14	2.00	-6.5%	1,711.3	Y	12/2026	17.6	17.4	0.9%	-1.0%	12.2	12.3	0.8	6.4%	8.0	3.7%
IOI CORP BHD	MP	4.26	4.55	6.8%	26,774.9	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	20.56	24.50	19.2%	22,896.8	Y	09/2026	133.2	143.0	22.8%	7.3%	15.4	14.4	1.4	10.2%	60.0	2.9%
PPB GROUP BHD	OP	11.38	14.85	30.5%	16,189.2	Y	12/2026	117.7	119.1	23.7%	1.2%	9.7	9.6	0.6	6.9%	42.0	3.7%
SD GUTHRIE BHD	MP	6.05	5.55	-8.3%	41,840.1	Y	12/2026	29.7	27.7	3.2%	-6.7%	20.4	21.8	2.0	12.4%	15.0	2.5%
TA ANN HOLDINGS BHD	MP	5.41	4.40	-18.7%	2,382.9	Y	12/2026	46.4	45.8	-4.3%	-1.4%	11.7	11.8	1.2	10.8%	40.0	7.4%
TSH RESOURCES BHD	OP	1.27	1.55	22.0%	1,589.5	Y	12/2026	12.6	13.0	-9.5%	3.1%	10.0	9.7	0.8	7.9%	5.0	3.9%
UNITED MALACCA BHD	OP	5.91	6.70	13.4%	1,239.7	Y	04/2026	79.3	76.5	43.0%	-3.5%	7.5	7.7	0.8	10.8%	20.0	3.4%
SECTOR AGGREGATE					119,200.0					15.2%	-0.4%	15.3	15.3	1.2	9.6%		4.0%

Source: Kenanga Research

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30 April 2026

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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