Plantation

Soft Start But Expect Stronger 2Q

OVERWEIGHT

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By Khoo Teng Chuan / khootc@kenanga.com.my

1QCY26 saw softer plantation earnings on slower harvest seasonally but also weaker prices from larger-than-expected inventory overhang. The sector generally met our expectations but failed to meet that of consensus. Better earnings are likely ahead from stronger CPO prices even as downstream margins stay tight. Non-plantation income will still hinge on land disposals as property development profit needs time to grow. CPO prices may rise further as 2HCY26 looks set to face an El Nino, only the severity level is unclear. For now, we maintain respective CY26-27F CPO prices of RM4,250 and RM4,200 per MT and OVERWEIGHT call. Valuations are not demanding with Indonesian uncertainties already partially priced-in while a possible El Nino upside is largely ignored; please see page 3 for our analysis and risk assessment of each planter's involvement in Indonesia.

Our preference is for planters with strong earnings, priced-in Indonesia risk as well as upside if a severe El Nino occurs. With an expected strong 4QFY26, a limited 12% earnings from Indonesia and sector leading ROE, IOICORP (OP; TP:RM4.55), which is our new sector pick, looks even more attractive after recent sector softening. KLK (OP, TP: RM24.50) offers CPO price sensitive earnings as expanded downstream contribution is still small while KLK's risk in Indonesia, where it is well regarded, could be priced-in to some extent already. Among smaller caps, TSH (OP, TP: RM1.55) offers CPO price sensitive upstream earnings, organic long-term growth and already discounted valuation for its Indonesian footprint.

Unlike a typical 1Q whereby seasonally harvest is often slowest and CPO price is lifted the highest, upstream in 1QCY26 saw a slower harvest that met with lower selling prices due to higher-than-expected inventory. As such, 2/3 or 67% of planters failed to meet consensus estimates while just over half (56%) met our expectation. Besides weaker CPO prices, there was not any common reason for the failure to meet expectations – GENP and KLK saw softer than expected property earnings while PPB's associate Wilmar International Limited (WIL) earnings were dampened by marked-to-market loss which would be due to reverse in coming quarters. Elsewhere, heavy rain affected TSH's 1Q harvest more than usual but has since been recovering. Downstream results were mixed, weaker QoQ but still better YoY while non-plantation performed better QoQ and YoY thanks to land disposal gain of RM160m by SDG which offset slower-than-expected property profits from GENP and KLK.

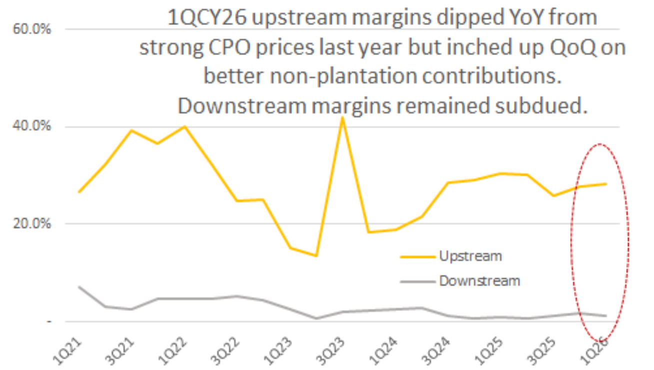
	1QCY26						4QCY25					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
GENP			1			1	1				1	
HSPLANT		1				1	1				1	
IOI		1			1			1		1		
KLK			1			1			1			1
PPB			1			1		1				1
SDG		1				1		1				1
TAANN		1			1		1				1	
TSH			1			1	1				1	
UMCCA		1		1			1			1		
Total	**0**	**5**	**4**	**1**	**2**	**6**	**5**	**3**	**1**	**2**	**4**	**3**
Total (%)	**0**	**56**	**44**	**11**	**22**	**67**	**56**	**33**	**11**	**22**	**45**	**33**

Upstream temporary softness. 1Q harvest is often the poorest for many in the plantation sector and the first quarter of this year was no different. Overall 1QCY26 FFB production fell 17% QoQ (which is the historical average) but still managed to eke out a 2% higher growth YoY. Arising from the seasonally slower production, historically CPO prices tended to be firm in 1Q. However, this was not the case in 1QCY26 due to a higher-than-expected inventory following a good harvest last year. 1QCY26 CPO prices thus came off (-3% QoQ, - 11% YoY) and so did PK prices (-3% QoQ, -6% YoY). Consequently, 1QCY26 witnessed weaker QoQ and YoY revenue and earnings for upstream operations.

However, since the Middle East conflict started on 28 Feb, MPOB CPO prices have risen by 6% MoM in March followed by another 6% MoM increase in April. Coupled with seasonal uptick in 2Q FFB output (historically +10% QoQ), a better 2QCY26 reporting season can be envisaged. Hence, many planters are more upbeat of the coming quarter, with higher FFB output coupled with higher selling prices expected in 2QCY26, constrasting with the slower harvest and lower prices in 1QCY26.

Downstream margin tightened. 1QCY26 downstream revenue dipped 5% QoQ but still up 1% YoY. The QoQ weakness is partly seasonal as 4Q is often the best quarter for downstream. Margins also shrank QoQ but remain better YoY. Overall, 1QCY26 downstream performance suggests the contraction in downstream margin might be bottoming out but headwind remains due to overcapacity in the region. Specialty products are faring better but margins are also set to face pressures, from easing cocoa prices (which affect cocoa butter equivalent pricing) from new capacity - Johor Plantation-Fuji Oil Kota Tinggi plant is due this year while KLK-AAK joint venture Pasir Gudang plant is due next year.

1Q Upstream & Downstream Margins Slipped QoQ



Source: Kenanga Research

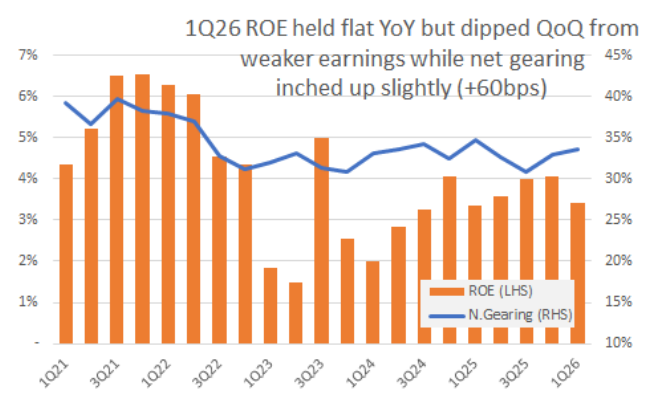
But Non-Plantation Pulled Down Overall Margin

Source: Kenanga Research

Non-plantation turned positive. Underpinned by a sale of 253 acres in Kulai for industrial development, SDG reported RM160m in disposal gain. This turned non-plantation losses in 1QCY25 and 4QCY25 into profits for 1QCY26. More frequent positive contributions are expected from SDG, KLK, and GENP as they push further into real estates. SDG is also seeking more renewable energy (solar farms) earnings while IOI's palm wood and EFB-to-pulp JV projects should start contributing in CY27.

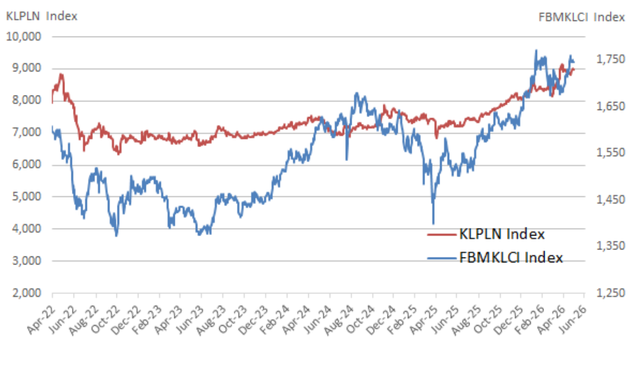
Net gearing rose QoQ. Historically, net borrowings in the sector increased QoQ in the first quarter, often due to dividend payout. Typically, this QoQ uptick arose from lower cash rather than higher borrowings. Likewise, although 1QCY26 debt fell QoQ net gearing still rose QoQ - from RM18.4b in 4QCY25 to RM18.6b – due to lower cash holding. YoY, 1QCY26 net gearing at 34% was slightly lower than the 35% a year ago. To recap, the sector's net gearing is concentrated among the larger integrated players - IOI, KLK and SDG. All non-integrated planters covered by Kenanga had net cash except for GENP.

Net Gearing Easing While Quarterly ROE was Steady



Source: World Bank, Kenanga Research

KL Plantation Index vs KLCI



Source: Kenanga Research

Stay OVERWEIGHT. Apart from better-than-expected opening inventory, CY26 supply was already looking tight as global edible oil production struggles to keep pace with demand growth. Then demand rose further following the Middle East conflict on additional uptake of bio-diesel while El Nino looks imminent in 2H CY26 with only the level of severity still unclear.

A very strong El Nino can cut palm oil output (2%-9% in the past) which can in turn lead CPO prices to rise 5%-10%. We maintain CPO price assumptions at RM4,250 and RM4,200 for CY26-27 for now but we are monitoring the severity of impending El Nino closely in case there is a need for higher CPO price assumptions.

However, Indonesia's push to centralise key exports such as palm oil including probes into under-invoicing/transfer pricing of exports is causing some uncertainties. All in, we divide Malaysian planters in our coverage into three groups:

i. Planters operating only in Malaysia such as HSPLANT and TAANN. However, growth can be limited hence they are often sought for their dividend yields.

ii. Those with only upstream and no downstream operations in Indonesia, i.e. the likes of IOI, GENP, TSH and UMCCA sell CPO to local Indonesia refiners. The risks over exports related issues would thus be mitigated considerably because Indonesia exports mostly processed palm oil; only 10-15% of exports comprise raw CPO.

    Note that IOICORP is the only large integrated planter with no downstream facility in Indonesia. Its 32%-associate Bumitama Agri Ltd, a Singapore listed Indonesian planter, also sells almost all its CPO to local Indonesian refiners.

iii. Although all integrated planters have Indonesian presence, their exposure to ongoing export restructuring and probes vary considerably. Aforementioned IOICORP has the least of such risks while conversely PPB's associate WIL probably has more due to its business model.

    WIL runs a highly integrated agribusiness, involving crop growing, sourcing, processing, distributing and/or branding of end product to consumers in China, India, SE Asia to Australia and Africa. However, WIL's international scale and reach meant only about 10% earnings is from Indonesian oil palm, for which we have since adjusted for such risk over the course of this results season in our Target Price for PPB by imputing in a 10% discount. KLK and SD have Indonesian downstream facilities (including refining) but more to serve inhouse requirements hence resulting in a more contained exposure.

Current sector valuations of <15x PER and 1.1x PBV are far from stretched with Indonesian risk possibly already reflected and the possibility of El Nino upside. We maintain an **OVERWEIGHT** call for the sector.

Our picks include IOICORP given a strong 4Q ahead, sector leading ROE with only 12% of earnings coming from Indonesia. Among larger planters, KLK offers more CPO price sensitive earnings due to minimal downstream contribution while its weaker valuation for a big planter suggests risk for KLK, which is well established in Indonesia, is priced-in to some extent. TSH is a pure upstream CPO sensitive play with long-term expansion underway and a valuation which has probably discounted for its Indonesian footprint. PPB (OP; TP: RM12.90) could be oversold given its decade low valuations so it is worth considering for long-term holding but near-term uncertainties over WIL's Indonesian operation remains. UMCCA (OP; TP: RM6.70) offers rising FFB production and improving ROE as its Indonesian estates mature and we believe the risk is largely accounted for given current attractive valuation.

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld 1-Yr. Fwd.
PLANTATION																	
GENTING PLANTATIONS BHD	MP	5.14	5.50	7.0%	4,611.4	Y	12/2026	44.0	44.7	11.5%	1.5%	11.7	11.5	0.9	7.8%	28.0	5.4%
HAP SENG PLANTATIONS HOLDINGS	MP	2.16	1.95	-9.7%	1,727.3	Y	12/2026	17.5	16.2	0.4%	-7.3%	12.4	13.3	0.8	5.3%	8.0	3.7%
IOI CORP BHD	OP	4.18	4.55	8.9%	26,272.1	Y	06/2026	24.7	24.6	22.8%	-0.5%	16.9	17.0	2.0	12.9%	11.0	2.6%
KUALA LUMPUR KEPONG BHD	OP	20.20	24.50	21.3%	22,495.9	Y	09/2026	133.2	143.0	22.8%	7.3%	15.2	14.1	1.4	10.2%	60.0	3.0%
PPB GROUP BHD	OP	9.63	12.90	34.0%	13,697.3	Y	12/2026	108.3	114.8	13.9%	5.9%	8.9	8.4	0.6	6.6%	42.0	4.4%
SD GUTHRIE BHD	MP	6.04	5.80	-4.0%	41,770.9	Y	12/2026	29.7	27.7	3.2%	-6.7%	20.3	21.8	2.0	12.4%	15.0	2.5%
TA ANN HOLDINGS BHD	MP	5.44	4.40	-19.1%	2,396.1	Y	12/2026	46.4	45.8	-4.3%	-1.4%	11.7	11.9	1.2	10.8%	40.0	7.4%
TSH RESOURCES BHD	OP	1.09	1.60	46.8%	1,357.9	Y	12/2026	11.7	12.3	-16.7%	5.2%	9.3	8.9	0.7	7.3%	5.0	4.6%
UNITED MALACCA BHD	OP	5.86	6.70	14.3%	1,229.2	Y	04/2026	79.3	76.5	43.0%	-3.5%	7.4	7.7	0.8	10.8%	20.0	3.4%
Simple Average					**115,558.2**					**12.6%**	**0.6%**	**15.1**	**15.0**	**1.1**	**9.4%**		**4.1%**

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.***

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my