

12 June 2026

Plantation

Growing Certainty of a Severe El Nino

OVERWEIGHT

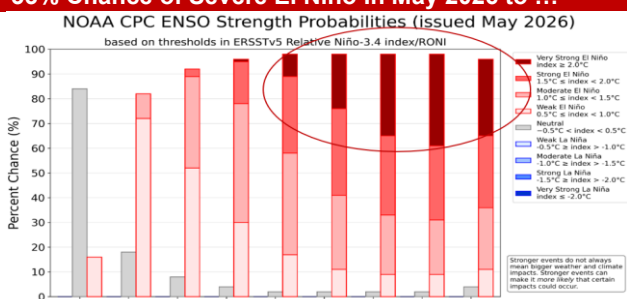


By Khoo Teng Chuan | khootc@kenanga.com.my,

US-based National Oceanic and Atmospheric Administration (NOAA) reported that El Nino conditions are already present. It has raised the likelihood of a severe or “very strong” El Nino occurring from 33% chance in May to 63% in June. We are raising our CPO prices from RM4,250 per MT in CY26 to RM4,400 and from RM4,200 per MT in CY27 to RM4,450. Our forecasts have been upgraded accordingly, as well our target prices (by 1-4%). While further CPO price upgrades cannot be ruled out, key at this early juncture is to have exposure in the sector and stay invested, hence keeping **OVERWEIGHT**.

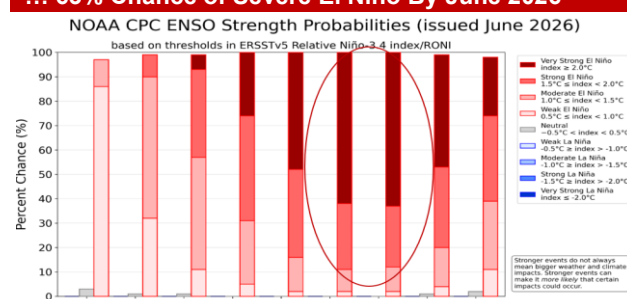
Our picks are **IOI (OP; TP: RM4.65)** given it set to end its FY26 on a strong note along with sector leading ROE and limited earnings exposure from Indonesia (12%). Among larger planters, **KLK (OP; TP:RM25.20)** offers CPO price sensitive earnings due to minimal downstream contribution while trading at a discount to other big planter due possibly to its Indonesian exposure which we believe has partially been priced in. **TSH (OP; TP:RM1.60)** is a pure upstream CPO-sensitive play with long-term expansion underway and a valuation which has probably been discounted for its Indonesian footprint. Other groups offering value include **PPB (OP; TP: RM13.00)** which could be oversold given its decade low valuations hence worth considering for the longer term notwithstanding some near-term uncertainties over WIL’s Indonesian operation remains. **UMCCA (OP; TP: RM6.80)** offers rising FFB production and improving ROE as its Indonesian estates mature and we believe the risk is largely accounted for given its attractive valuation.

33% Chance of Severe El Nino In May 2026 to ...



Source: NOAA, Kenanga Research

... 63% Chance of Severe El Nino By June 2026



Source: NOAA, Kenanga Research

A severe El Nino can curb palm oil output. Depending on sea surface temperature deviation from the norm, NOAA has four categories of El Nino (a) weak (+0.5°C to +0.9°C) (b) moderate (+1°C to +1.4°C), strong (+1.5°C to +1.9°C), and very strong El Nino (+2°C or higher). Historically, palm oil production is not affected unless it is a very strong El Nino, whereby pro-longed dryness (six months or longer) can disrupt the fruiting and flowering cycles. As El Nino usually starts in the 2H, crop yields in the following year would more affected under a very strong El Nino. Globally, palm oil supply can thus swing from YoY growth to YoY contraction of between 2% to 9%, based on historical observation.

Firmer CPO price is thus likely. Historically, El Nino tends to lift CPO prices, with the prices starting to increase either in the 2H of the year the El Nino starts or, more often, in 1H of the following year. The price changes vary considerably from initially dipping QoQ to spiking 10-40% QoQ in subsequent quarters. On the whole, we believe a 5-10% uptick is reasonable for now considering CPO (and PK) prices have already been elevated since the Middle East conflict. We are thus raising our CY26 CPO price by 4% from RM4,250 per MT to RM4,400 and by 6% from RM4,200 to RM4,450 in CY27. Partially pricing in the effects for now, under a very strong El Nino scenario, further upward adjustments cannot be ruled out, including in our valuation Price to Book multiples that we have left unchanged in this note.

Revised Core EPS and Target Prices From Rising Risks of El Nino

CORE EPS (sen) & TARGET PRICE (RMps)	OLD				NEW					
	FY25A	FY26F	FY27F	TP	FY26F	chg	FY27F	chg	TP	chg
Genting Plantations	39.5	44.0	44.7	5.50	46.7	+6%	49.3	+10%	5.70	+4%
Hap Seng Plantations	17.4	17.5	16.2	1.95	18.5	+6%	18.5	+14%	2.00	+3%
IOI Corporation	20.3	23.9	24.1	4.55	24.0	+0%	25.1	+4%	4.65	+2%
KL Kepong	108.5	132.6	142.8	24.50	134.0	+1%	154.7	+8%	25.20	+3%
PPB Group	95.2	108.3	112.0	12.90	109.2	+1%	114.4	+2%	13.00	+1%
SD Guthrie	28.8	29.6	28.9	5.80	30.2	+2%	30.6	+6%	5.90	+2%
Ta Ann Holdings	48.4	46.4	45.8	4.40	49.9	+8%	52.2	+14%	4.55	+3%
TSH Resources	14.8	12.8	13.4	1.55	13.6	+6%	15.4	+15%	1.60	+3%
United Malacca	55.5	79.3	76.5	6.70	79.3	-	88.8	+16%	6.80	+1%

Source: Kenanga Research

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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	5.70	9.6%	4,665.2	Y	12/2026	46.7	49.3	18.2%	5.6%	11.1	10.6	0.9	8.3%	30.0	5.8%
HAP SENG PLANTATIONS HOLDINGS	MP	2.13	2.00	-6.1%	1,703.3	Y	12/2026	18.5	18.5	6.2%	0.3%	11.5	11.5	0.8	5.7%	8.0	3.8%
IOI CORP BHD	OP	4.23	4.65	9.9%	26,586.4	Y	06/2026	24.0	25.1	19.5%	5.1%	17.6	16.8	2.0	12.6%	11.0	2.6%
KUALA LUMPUR KEPONG BHD	OP	20.94	25.20	20.3%	23,320.0	Y	09/2026	134.0	154.7	23.6%	15.4%	15.6	13.5	1.5	10.4%	60.0	2.9%
PPB GROUP BHD	OP	9.33	13.00	39.3%	13,259.8	Y	12/2026	109.2	114.4	14.7%	4.8%	8.5	8.2	0.6	6.7%	42.0	4.5%
SD GUTHRIE BHD	MP	6.05	5.90	-2.5%	41,840.1	Y	12/2026	30.2	30.6	4.9%	1.4%	20.0	19.8	2.1	13.6%	15.0	2.5%
TA ANN HOLDINGS BHD	UP	5.27	4.55	-13.7%	2,321.2	Y	12/2026	49.9	52.2	2.9%	4.7%	10.6	10.1	1.2	11.8%	40.0	7.6%
TSH RESOURCES BHD	OP	1.15	1.60	39.1%	1,430.2	Y	12/2026	12.4	14.0	-11.5%	13.2%	9.3	8.2	0.7	7.7%	5.0	4.3%
UNITED MALACCA BHD	OP	5.85	6.80	16.2%	1,227.1	Y	04/2026	79.3	88.8	43.0%	12.0%	7.4	6.6	0.8	10.8%	20.0	3.4%
Simple Average					116,353.4					13.6%	6.2%	15.1	14.2	1.2	9.7%		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.**

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