

05 October 2026

Plantation

Some Tightness Looked Priced In

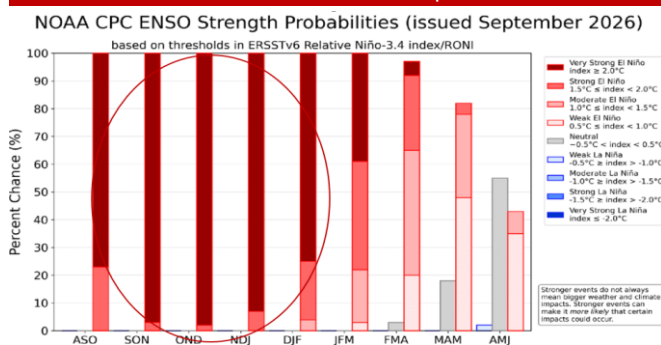
By Khoo Teng Chuan | khootc@kenanga.com.my

Planters have shift focus from severity of the El Nino to severity of yield reduction come CY27. QoQ, sector PBV has also inched up 7% to 1.3x PBV, at the higher end of historic band of 0.9x-1.5x as rising bio-diesel demand and a severe El Nino are being priced in. However, spot CPO price is capped by high Malaysian inventory but should stay elevated as supply still look tight over CY26-27. Concerns of inventory rising further from ongoing peak production and cost pressures are also taking shape. Coupled with the higher ratings, we are toning down our sector call from OVERWEIGHT to NEUTRAL.

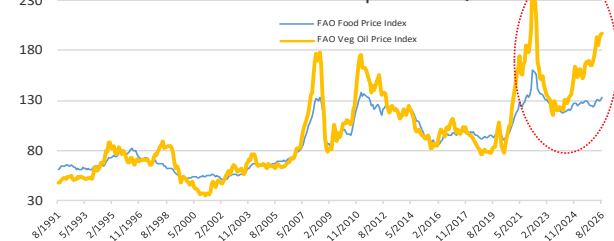
Our sector picks are IOI (OP; TP:RM5.40) for its strong team and sector-leading ROE and KLK (OP; TP: RM25.80) for earnings sensitivity to CPO prices. PPB (OP; TP: RM13.40) offer longer term recovery at decade low valuation. Among smaller planters, we like HSPLANT (OP; TP:RM3.00) for higher dividends potentials while UMCCA (OP; TP: RM7.00) offer value growth amid still maturing estates, and TSH (OP; TP: RM1.85) for CPO price sensitivity and ongoing 40% expansion in new planting.

El Nino is already in SE Asia. The haze since Aug is evident of droughts and wildfires in Sumatra and Kalimantan, Indonesia. The dryness is expected to prevail for another 3-6 months and its full impact on lowering palm oil yields is often felt 10 months thereafter or early 2H of CY27. As such, we expect palm oil production to dip by 4% YoY in CY27, higher than Oilworld's estimate of a 2% YoY decline. Historically, a very strong El Nino can lower palm oil output in the following year by between 2% to 9% YoY. We suspect Oilworld might be conservative given that (a) new oil palm planting in Indonesia has slowed since CY18 hence the trees in Indonesia (and Malaysia) are older compared to previous severe El Ninos and (b) US-based National Oceanic and Atmospheric Administration (NOAA) warned that the probability of a very strong El Nino occurring between Sept CY26 to Jan CY27 has exceeded 90%. NOAA also added that "there is a 75% chance of a historic event i.e. the current El Nino that would exceed the strength of previous El Nino events dating back to 1950."

>90% Chance of Severe El Nino from Sept 2026 to Jan 2027



Veg oil prices are now at record levels except for when the Ukraine conflict erupted in 1Q22



Impact of Past El Nino on Global Palm Oil Supply & Prices

	Very Strong El Nino				Moderate El Nino				Moderate El Nino				Very Strong El Nino				Strong El Nino			
	CY96	CY97	CY98	CY99	CY01	CY02	CY03	CY04	CY08	CY09	CY10	CY11	CY14	CY15	CY16	CY17	CY22	CY23	CY24	CY25
Global Supply																				
Palm Oil (m MT)	16.1	17.5	17.0	19.3	23.8	25.0	27.7	29.6	42.9	44.6	46.5	49.5	60.2	62.3	59.2	67.6	77.5	81.8	80.3	83.3
YoY	+7%	+8%	-3%	+13%	+12%	+5%	+11%	+7%	+13%	+4%	+4%	+6%	+7%	+3%	-5%	+14%	+2%	+6%	-2%	+4%
Palm Kernel Oil (m MT)	2.1	2.2	2.2	2.4	2.9	3.0	3.3	3.5	4.9	5.0	5.2	5.4	6.5	6.8	6.4	7.1	8.1	8.4	8.3	8.5
YoY	+7%	+6%	+0%	+10%	+10%	+3%	+10%	+5%	+13%	+1%	+3%	+5%	+5%	+5%	-6%	+11%	+2%	+4%	-1%	+3%
Average Prices																				
Palm Oil Price (USD/MT)	531	546	671	436	286	390	443	471	949	683	807	1,146	867	659	655	727	1,425	996	1,020	1,211
YoY	-15%	+3%	+23%	-35%	-8%	+36%	+14%	+6%	+22%	-28%	+18%	+42%	+4%	-24%	-1%	+11%	+33%	-30%	+2%	+19%
Palm Kernel Oil Price (USD/MT)	729	680	653	708	313	379	439	619	1,248	662	972	1,741	1,146	941	1,126	1,307	1,809	1,007	1,233	1,874
YoY	+7%	-7%	-4%	+8%	-41%	+21%	+16%	+41%	+63%	-47%	+47%	+79%	+37%	-18%	+20%	+16%	+39%	-44%	+22%	+52%

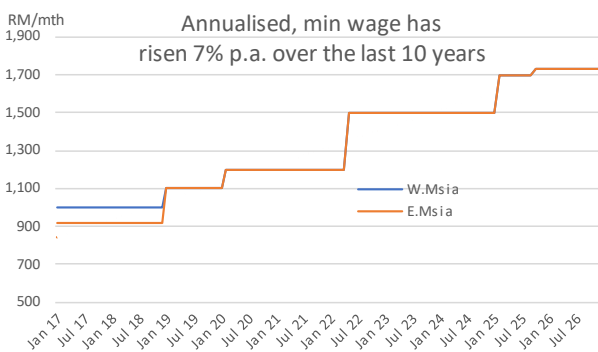
Source: Oilworld, FAO, Kenanga Research

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Rising input costs may also curb some CY27 oil seeds production. Aside from the impact of El Nino on oil palm, there are concerns that higher diesel, fertiliser, pesticides as well as borrowing costs may slow area expansion and lower input applications leading to lower yields for other oil crops such as soyabean, rapeseed and/or sunflower. On 15 Sept, CONAB, a Brazilian government agency, released its estimate for the country's CY27 soyabean production of 181.6m MT, which is high but only 0.7% higher YoY due to expectation of only 1.4% increase in planted area (to 49.3m Ha), the slowest pace in two decades. CONAB attribute the slowdown to lower profitability and less attractive new area given current economic condition for farmers. Brazil is the world top soyabean producer – about US, Argentina and China production added together.

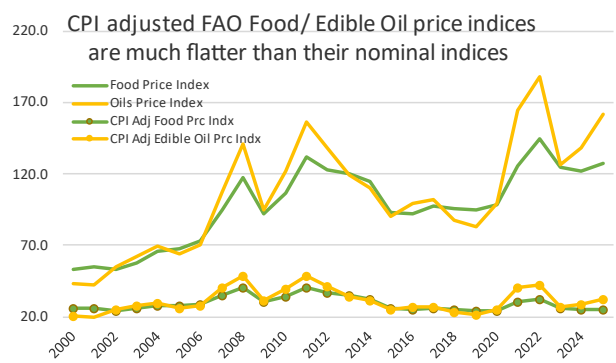
Cost inflation is a concern in the short term. Many planters are expected to see a 10-20% increase in fertiliser prices from 4QCY26 or 1QCY27 onwards as lower priced fertiliser inventory are depleting and old contracts are expiring. Higher minimum wages is another concern. Unlike Indonesia which raises minimum wages by 5-9% annually depending on region, Malaysia does so on a step basis, having raised five times in the past 14 years with annualized increment at 6% on average since CY13 and 7% in the past 10 years. Longer term, edible oil prices (including CPO) tend to adjust for inflation quite well hence real or CPI adjusted edible oil prices are often relatively stable. Nevertheless, higher input costs are expected to drag down profit for a year, or maybe two.

Malaysian Minimum Wage Increasment In The Past Decade



Source: Kenanga Research

Kenanga Plantation Sector PBV Also Dipped A Little



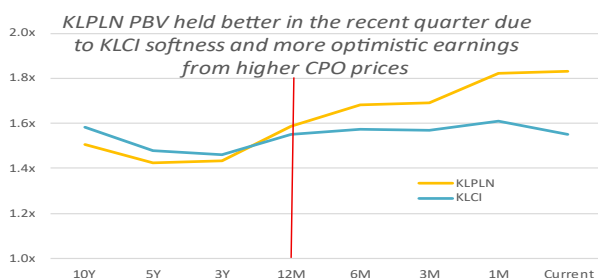
Source: FAO, IMF, Kenanga Research

KL Plantation Index (KLPLN) held better than KLCI. YTD, the KLPLN is up 11% compared to flat for the KLCI. Not surprisingly, KLPLN ratings (PER and PBV) which trailed KLCI in 1HCY26 have risen above KLCI. However, within the Kenanga plantation sector (c.65% of KLPLN total market cap), both PBV and PER moderated very slightly due to post-2QCY26 reporting season earnings adjustment to account for higher CPO prices due to a very strong El Nino.

Tactical pause, downgrade from OVERWEIGHT to NEUTRAL. The KL Plantation Index has done better than the broader market over the recent months. Sector PBV of 1.3x may not be overly demanding but is up from 1.2x PBV a quarter ago which is also the 3-year average. Compared to the longer term PBV band of 0.9-1.5x (3-10 year), current 1.3x PBV is closer to the upper end as well. While edible oil demand is expected to stay robust with supply tightness likely in CY27, hence we maintain CY26-27 CPO prices of RM4,500 and RM4,700 per MT respectively, and there are valid concerns over (i) high inventory levels in Malaysia capping CPO prices as peak harvesting is ongoing and (ii) rising cost pressures from diesel and fertiliser to potential upward revision in Malaysian minimum wages.

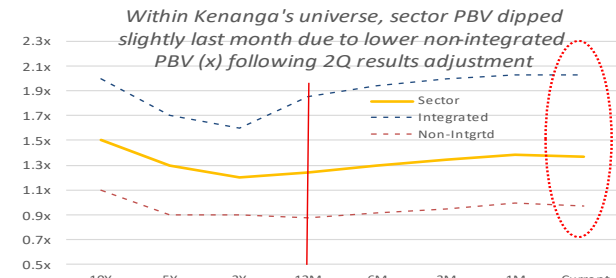
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Recent KL Plantation PBV Held As KLCI's PBV Softened



Source: Bloomberg, Kenanga Research

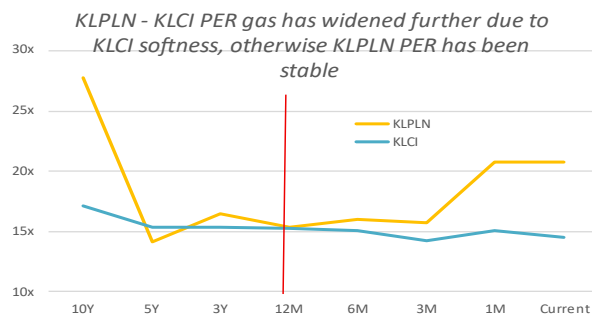
Kenanga Plantation Sector PBV Also Dipped A Little



Source: Bloomberg, Kenanga Research

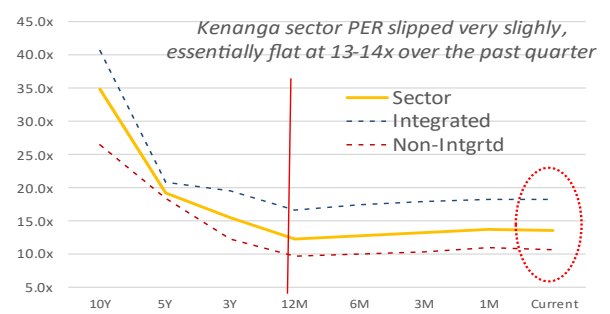
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KLPLN PER Has Also Risen Above KLCI



Source: Bloomberg, Kenanga Research

However, Plantation Sector PER Also Declined Slightly



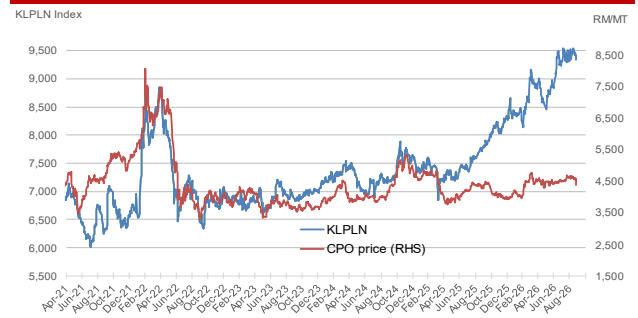
Source: Bloomberg, Kenanga Research

KLPLN Started Faring Better Than KLCI After 1H 2026



Source: Bloomberg, Kenanga Research

KLPLN & CPO Prices Currently Consolidating



Source: Bloomberg, Kenanga Research

Peer Table Comparison

Name	Rating	Last rice (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.			
Plantation																		
GENTING PLANTATIONS BHD	OP	5.54	6.40	15.5%	4,969.7	Y	12/2026	49.8	57.8	26.2%	16.0%	11.1	9.6	1.0	8.8%	28.0	5.1%	
HAP SENG PLANTATIONS HLDGS	OP	2.36	3.00	27.1%	1,887.3	Y	12/2026	18.9	20.1	8.6%	6.5%	12.5	11.7	0.9	6.1%	9.0	3.8%	
IOI CORP BHD	OP	4.67	5.40	15.6%	29,351.9	Y	06/2027	24.0	25.1	19.5%	5.1%	19.4	18.6	2.2	12.6%	11.0	2.4%	
KUALA LUMPUR KEPONG BHD	OP	21.42	25.80	20.4%	23,854.6	Y	09/2026	125.6	163.9	15.8%	30.4%	17.0	13.1	1.7	-1.6%	60.0	2.8%	
PPB GROUP BHD	OP	9.07	13.40	47.7%	12,890.3	Y	12/2026	103.3	116.2	8.6%	12.5%	8.8	7.8	0.5	6.3%	45.0	5.0%	
SD GUTHRIE BHD	MP	6.05	7.20	19.0%	41,840.1	Y	12/2026	33.6	34.1	16.7%	1.7%	18.0	17.7	2.1	16.5%	16.0	2.6%	
TA ANN HOLDINGS BHD	UP	5.82	5.00	-14.1%	2,563.4	Y	12/2026	53.9	60.7	11.2%	12.8%	10.8	9.6	1.3	12.3%	40.0	6.9%	
TSH RESOURCES BHD	OP	1.25	1.85	48.0%	1,530.6	Y	12/2026	14.2	17.0	-7.4%	19.6%	8.8	7.4	0.8	9.1%	5.0	4.0%	
UNITED MALACCA BHD	OP	5.95	7.00	17.6%	1,248.1	Y	04/2027	79.6	68.8	6.8%	-13.6%	7.5	8.6	0.7	10.1%	30.0	5.0%	
								120,135.9		14.7%		15.3	13.9	1.3	8.9%	4.2%		

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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