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Sector – Update | Malaysia

Wednesday, 23 September 2026

Plantation

El Niño And B50 To Keep CPO Supply Tight And Prices High In 2027

Highlights

- We raise our 2027 CPO price assumption to RM4,700/tonne from RM4,400, a 6.8% upgrade, and hold 2026 at RM4,500/tonne. We maintain our OVERWEIGHT call on the sector.
- Rainfall already lost during the build-up to El Niño through August is committed to the 2027 harvest; our model cuts Malaysia's 2027 crop by 10.5% and Indonesia's by 2.9%.
- We sit deliberately below the Bursa Malaysia crude palm oil futures curve, which implies an RM4,900-5,200 average for 2027. Demand destruction should cap the move: soft oils already represent 52% of India's vegetable oil imports.

Analysis

- **Stocks built on soft exports in 2026.** The Malaysian Palm Oil Board's (MPOB) August release put ending stocks at 2.82m tonnes, +7.5% mom and +28.2% yoy, the highest in over two years. The build is mainly due to softer exports: January-August production of 12.63m tonnes was flat yoy and the August print was the fifth consecutive yoy decline. We close 2026 at 19.67m tonnes, inside MPOB's 19.50m-19.80m guidance.
- **The supply shock is already in the ground.** The relative oceanic Niño index (RONI) read +1.36 in July and is building at 0.39/month against a best historical build of 0.323; the US Climate Prediction Center puts a 75% probability on a +2.5 peak in October-December, above every event since 1950. August palm-belt rainfall was 53% below normal, the second driest since 1950. Palm's lag structure carries that deficit into the 2027 harvest, and five of six prior episodes with crop records cut the following crop 7-17% below trend.
- **B50 removes exports while adding demand domestically.** Indonesia's 50% palm-based biodiesel mandate reaches full pump coverage on 1 October, absorbing roughly 17m tonnes a year, about 35% of national output and some 3m more than B40. We put Indonesian exports at 22.99m tonnes in 2027, down 10.6% yoy, against 24m-28m historically. A palm-gasoil spread of -US$195/tonne means biodiesel output would not require subsidies, making the mandate enforceable.
- **The balance tightens sharply in 2027.** We take Malaysian output down 4.0% to 18.88m tonnes and Indonesian output down 3.0% to 52.87m tonnes due to El Niño, against Indonesian domestic disappearance up 9.8% to 30.88m tonnes on biodiesel. Combined ending stocks fall to 2.67m tonnes from 5.76m and Malaysia's stocks-to-use ratio drops to 4.6% from 15.5%.

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OVERWEIGHT (Maintained)

Segmental Rating

Segment	Rating
Malaysia	OVERWEIGHT (Maintained)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
KL Kepong	KLK MK	BUY	22.54	24.65
SD Guthrie	SDG MK	BUY	6.25	7.65

Source: Bloomberg, UOB Kay Hian

CPO Price Assumptions (RM/tonne)

Calendar year	Previous	New	Change
2026F	4,500	4,500	Unchanged
2027F	4,400	4,700	+6.8%

Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec*	Price 21 Sep 26 (RM)	Target Price (RM)	Upside To TP (%)	Last Year End	PE 2025 (x)	PE 2026F (x)	PE 2027F (x)	Yield 2026F (%)	ROE 2026F (%)	Market Cap. (RM)	Price/ NAV ps (x)
Hap Seng Plantations	HAPL MK	BUY	2.49	3.05	22.5	Dec-26	16.0	11.6	9.8	4.0	6.3	1,991.2	0.9
Genting Plantations	GENP MK	BUY	6.05	7.42	22.6	Dec-26	14.2	12.8	11.4	4.4	6.1	5,427.2	1.1
IOI Corporation	IOI MK	BUY	4.77	5.50	15.3	Jun-27	19.7	17.2	16.5	2.7	13.2	29,980.4	2.3
KL Kepong	KLK MK	BUY	22.54	28.50	26.4	Sep-26	29.8	16.2	13.8	2.9	-4.3	25,101.9	2.0
SD Guthrie	SDG MK	BUY	6.25	8.30	32.8	Dec-26	17.3	15.7	14.3	3.2	15.4	43,223.2	2.3

Source: Bloomberg, UOB Kay Hian

Supply And Demand Balance (m tonnes)

Calendar year	2025	2026F	2027F	27F yoy%
Malaysia (MPOB)				
Production	20.28	19.67	18.88	(4.0)
Exports	15.27	16.00	17.26	7.9
Domestic use	4.43	4.29	4.44	3.5
Ending stocks	3.05	3.15	1.00	(68.3)
Stocks-to-use (%)	15.5	15.5	4.6	n.m.
Indonesia (GAPKI)				
Production	51.98	54.51	52.87	(3.0)
Exports	25.51	25.72	22.99	(10.6)
Domestic disappearance	26.40	28.13	30.88	9.8
Ending stocks	1.89	2.61	1.67	(36.0)
Combined ending stocks	4.94	5.76	2.67	(53.6)

Source: MPOB, Indonesian Palm Oil Association (GAPKI), UOB Kay Hian

- **Demand destruction could cap the upside to CPO price.** The US Department of Agriculture's September balance sheet has 2026/27 sunflower oil production up 2.81m tonnes with exports up 15%, rapeseed oil up 1.41m and soybean oil up 1.76m. Soft oils took 52% of India's Nov 25-Aug 26 vegetable oil imports against palm's 48%, well below palm's usual high-50s share, as the soybean oil premium over crude palm oil (CPO) narrowed to US$30/tonne in August from US$102 in February.
- **Earnings estimates.** We raised our CPO price expectation for 2027 to RM4,700/tonne (from RM4,400/tonne), while maintaining our 2026 forecast at RM4,500/tonne. We also revised down our 2027 FFB growth assumption across the sector from positive to a low single-digit decline, expecting El Niño to weigh on production next year. In tandem with our CPO forecast upgrade, we revised up our sector coverage's 2027 earnings by 2-13%.

FFB Production Growth (%)

	--- Revised ---			--- Previous ---		
Company	FY26F (%)	FY27F (%)	FY28F (%)	FY26F (%)	FY27F (%)	FY28F (%)
Genting Plantations	8.5	-1.5	3.8	8.5	3.0	3.5
Hap Seng Plantations	7.0	-0.7	2.5	9.0	2.5	3.0
IOI Corporation	4.2	2.8	1.5	4.2	4.5	4.5
KL Kepong	5.0	-1.4	2.0	5.0	2.5	2.5
SD Guthrie	2.5	-0.8	3.5	2.5	2.0	2.0

Source: Bloomberg, UOB Kay Hian

Earnings, Rating And Target Price Revision

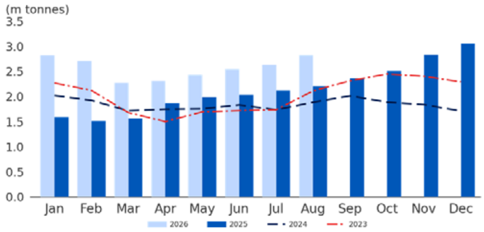
	--- EPS Changes ---		--- Target Price Changes ---		--- Rating Changes ---	
Company	FY27F (%)	FY28F (%)	Previous (RM)	New (RM)	Previous	New
Genting Plantations	13.0	9.6	6.10	7.42	HOLD	BUY
Hap Seng Plantations	2.1	-0.2	2.70	3.05	HOLD	BUY
IOI Corporation	2.5	0.0	5.15	5.50	BUY	BUY
KL Kepong	7.3	5.0	24.65	28.50	BUY	BUY
SD Guthrie	12.8	8.8	7.65	8.30	BUY	BUY

Source: UOB Kay Hian

Valuation/Recommendation

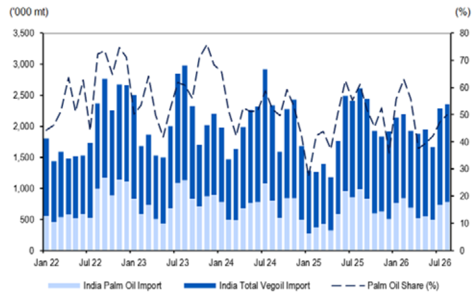
- **Maintain OVERWEIGHT.** We remain positive on the sector underpinned by firmer CPO prices and constructive supply-demand outlook, with higher target prices across our coverage. We upgrade GENP and HAPL to BUY from HOLD, supported by a more favourable earnings outlook amid firmer CPO prices. Given their high upstream exposure and greater earnings sensitivity to CPO prices, we raise their valuation multiples to +0.5SD above the two-year average (from mean previously), at 14x and 12x PE for GENP

Malaysia Palm Oil Production



Source: MPOB, UOB Kay Hian

India Palm Oil Import



Source: SEA, UOB Kay Hian

Past EL Nino Episodes

Event	Next-crop vs trend (%)	Note
1982-83	-16.4	Record event: +2.40c
1997-98	-17.3	Deepest cut in production
2009-10	-8.4	Moderate impact
2015-16	-16.1	Severe followed by Argentine floods
2023-24	+10.1	Exception: labour return

Source: Bloomberg, UOB Kay Hian

Palm Oil And Soybean Oil Prices

Source: Bloomberg, UOB Kay Hian

CPO Price Sensitivity (Per RM100/Tonne)

Company	Net Profit Impact (%)
Hap Seng Plantations	8-9
Genting Plantations	7-8
IOI Corporation	4-5
KL Kepong	5-6
SD Guthrie	7-8

Source: Bloomberg, UOB Kay Hian

and HAPL, respectively. Both remain attractively valued against integrated peers at 17-19x PE. We also maintain BUY on SDG, IOI and KLK.

- **Top picks.** We like SD Guthrie as a liquid large-cap proxy for the CPO upcycle, with additional upside from its renewable energy and industrial park ventures. KL Kepong remains our laggard pick, underpinned by a gradual recovery in downstream earnings and a more stable earnings base following the Synthomer impairment**.**

Sector Catalyst/Risk

- **B50 slippage following a steep decline in crude oil prices.** Allocation or pump-coverage slippage would put Indonesian exports back into the market and is a significant bear trigger for our forecast.
- **A weaker-than-expected El Niño peak.** A RONI peak stalling below +1.5 would trim the Malaysian production cut towards 9% and allows for a stock rebuild.
- **India's possible import duty cut.** India has historically cut duty instead of cutting consumption, holding total imports near 16m tonnes through past spikes, which supports the export path of our 2027 balance sheet.