UOBKayHian

Sector – Update
Malaysia
Thursday, 30 July 2026

Plantation

B50: Feedstock Secured; Funding Borrowed

OVERWEIGHT
(Maintained)

Highlights

- **B50 is live, and feedstock is still ample.** Indonesia began mandatory 50% blending on 1 July under ESDM Decree 257/2026. GAPKI's May release, published in July on the usual two-month lag, shows closing stocks of 3.04m tonnes against 2.07m in January, with January-May production up 10.7% yoy.
- **The levy base is shrinking amid a rising subsidy requirement.** Cargo surveyor estimates put 1-25 July exports at 1.10m tonnes against 1.43m for 1-25 June, down 23.2%. With the levy held at 12.5% on CPO and the July reference price cut 2.8% to US$1,000.90/tonne, we estimate collections for the comparable window fell about a quarter to roughly US$109m.
- **Maintain OVERWEIGHT, but we tighten our POGO risk threshold.** We reiterate CPO assumptions of RM4,500/RM4,400 for 2026/27 and our preference for SD Guthrie and KL Kepong (both BUY). We now regard a palm oil – gas oil (POGO) premium of above US$70-85/tonne as the baseline level at which levy collections stop covering the monthly subsidy requirement.

Analysis

- **Indonesia's biodiesel subsidy funding is kept afloat by the geopolitical conflict in the Middle East.** The POGO premium sits at +US$48/tonne against a 1,000-day mean of +US$146. On that basis, B50's monthly subsidy requirement amounts to roughly US$75m against a normalised US$230m. The compression is mostly driven by a rallying crude oil market: ICE gasoil is up 96.6% ytd amid the Hormuz disruption and the recent Jazan outage, while CPO has held firm.
- Two conditions determine whether B50 can fund itself:
  - **Indonesia's Palm Oil Fund's (BPDPKS) own test is only half-met.** Chief Eddy Abdurrachman has said the present levy rate suffices, provided Brent holds near US$85/bbl and CPO near US$1,000/tonne. Brent settled at US$84.09, but only after a three-session fall of some 16%. According to Indonesia's Institute for Essential Services Reform (IESR), CPO price should be 10x below Brent price for blending to be self-sustaining. By using the current Dumai FOB price assessment of US$1,185/tonne, the current ratio stands at 14.1x, well above the 10x no-subsidy line.
  - **Our breakeven POGO is US$70-85/tonne.** On a 1.57m tonne monthly feedstock draw and collections near US$129m, with 85% going to biodiesel, that is where the levy stops covering the subsidy. Our previous US$147 assessment was the long-run POGO mean and only holds if BPDPKS can draw on reserves.

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Segmental Rating

Segment	Rating
Malaysia	OVERWEIGHT

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
KL Kepong	KLK MK	BUY	20.76	24.65
SD Guthrie	SDG MK	BUY	6.57	7.25

Source: Bloomberg, UOB Kay Hian

CPO Price Assumptions (RM/Tonne)

	CPO Price (RM/tonne)
2021	4,408
2022	5,088
2023	3,810
2024	4,180
2025	4,306
Our Forecast:	
2026F	4,500
2027F	4,400
CPO Price:	
MPOB CPO Local @ 28 Jul 26	4,499
BMD 3rd Month @ 28 Jul 26	4,642

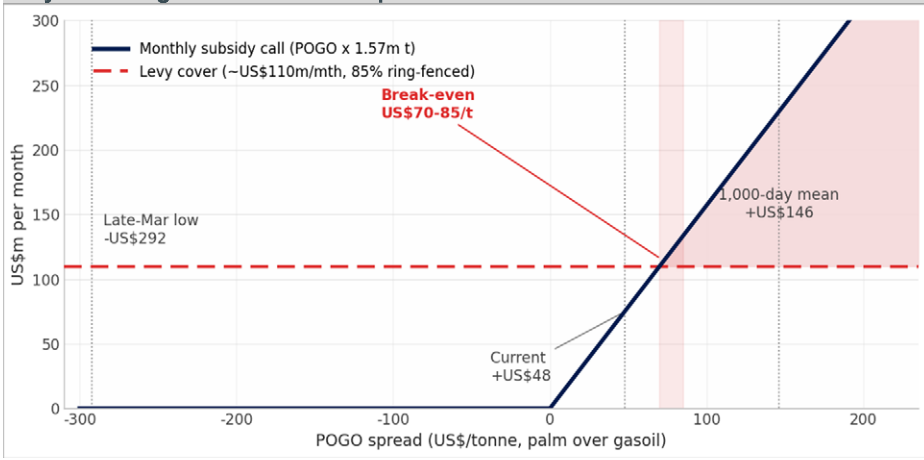
Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Price 29 Jul 26 (lcy)	Target Price (lcy)	Upside To TP (%)	Last Year End	PE 2025 (x)	PE 2026F (x)	PE 2027F (x)	Yield 2026F (%)	ROE 2026F (%)	Market Cap. (lcy)	Price/ NAV ps (x)
Hap Seng Plantations	HAPL MK	HOLD	2.43	2.47	1.6	Dec-26	12.5	8.2	8.1	4.9	5.9	1,759.3	0.8
Genting Plantations	GENP MK	HOLD	5.71	5.44	(4.7)	Dec-26	13.4	12.5	11.8	4.2	6.9	4,755.0	1.0
IOI Corporation	IOI MK	BUY	4.45	4.90	10.1	Jun-26	18.4	18.2	16.3	2.6	12.7	26,586.4	2.1
KL Kepong	KLK MK	BUY	20.76	24.65	18.7	Sep-26	27.4	14.3	13.0	3.1	5.8	23,119.6	1.6
SD Guthrie	SDG MK	BUY	6.57	7.25	10.4	Dec-26	23.3	20.9	22.7	2.7	12.2	41,494.3	2.3

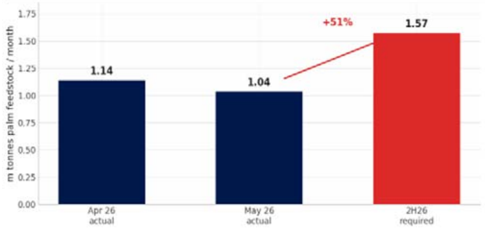
Source: Bloomberg, UOB Kay Hian

Levy Cover Against The POGO Spread



Source: LSEG, GAPKI, UOB Kay Hian

Biodiesel Absorption Vs 2H26 Requirement



Source: GAPKI, ESDM, UOB Kay Hian

Indonesia vs Malaysia Exports, 1-25 June vs 1-25 July

Source: AmSpec, ITS, UOB Kay Hian

- **The export drop reported by cargo surveyors overstates the direct B50 effect.** Surveyor estimates of vessel loadings are the only near-real-time read on Indonesian flows, with GAPKI running two months behind. These currently show exports down 23.2% to 1.10m tonnes for 1-25 July. The steep decline in exports does not prove strong biodiesel feedstock absorption as June exports were front-loaded ahead of the B50 implementation. The Ministry of Trade cited weaker Indian demand, especially with export tax and levies amounting to US$273/tonne. Malaysian exports rose 15.9% over the same window, so the divergence still points to a cost- and policy-driven shortfall.

Valuation/Recommendation

- **Maintain OVERWEIGHT.** B50 absorbs Indonesian supply, but its support is underwritten by the ongoing war in the Middle East, leaving it more fragile than supply-driven support. We reiterate CPO assumptions of RM4,500/RM4,400 for 2026/27. Malaysian players should gain near-term share, while Indonesia's upstream exposure provides a complementary route which captures the domestic feedstock absorption for B50.
- **SD Guthrie (BUY) and KL Kepong (BUY) are our top picks.** We like SD Guthrie as a liquid big cap play on the CPO backdrop, as it should remain supported by its renewable energy and industrial park pivot. Meanwhile, we favour KL Kepong for its Indonesian upstream exposure which captures B50's domestic absorption directly.

Sector Catalyst/Risk

- **Indonesian exports normalise steeply.** Danantara Sumberdaya Indonesia (DSI) is expected to become the country's sole export channel on 1 Jan 27, delayed from September, giving shippers reason to clear volume into 4Q26. DSI's price verification may also lift levy capture per tonne even where volumes do not recover.
- **A further decline in crude oil price.** POGO past US$70-85/tonne leaves collections short of the subsidy funding requirement and forces the levy higher.
- **B50 offtake undershoots.** Absorption fell to 1.035m tonnes in May from 1.137m in April, against a required step-up of about 51% across 2H26.

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