Plantation

Third Straight Buildup, But Absorption Keeps Pace

OVERWEIGHT
(Maintained)

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Highlights

- MPOB's Jun 26 data showed a 4.8% rise in Malaysia's palm oil stockpiles to 2.54m tonnes, the highest for any June on record and slightly above the 2.50m Reuters consensus.
- June rainfall was broadly supportive across the regions, so the output divergence reflects the lagged imprint of earlier dry spells: Sarawak's March deficit drove its June decline, while Sabah's April deficit lands into 3Q. Both are lagged headwinds consistent with our El Niño thesis.
- Maintain OVERWEIGHT. Sector picks: SD Guthrie (BUY/Target: RM6.90) and Kuala Lumpur Kepong (BUY/Target: RM24.65).

Analysis

- **MPOB's Jun 26 data.** Palm oil inventory rose to 2.54m tonnes (+4.8% mom), a third straight buildup and the highest June number on record, a shade above the 2.50m Reuters consensus but below our 2.65m estimate. The stock/usage ratio eased to 1.56x from 1.68x, showing CPO absorption largely keeping pace with the seasonal growth in supply.
  - **Production rose 8.1% mom to 1.64m tonnes**, at the low end of our estate survey range of +8% to +12% and near the 1.65m consensus. Peninsular Malaysia (+15.4% mom) led on a well-distributed 2Q rainfall recovery. With June rainfall broadly supportive, the divergence between states reflects lagged moisture effects - Sarawak saw a rainfall deficit in March, while Sabah's deficit in April should limit its output in 3Q.
  - **Exports rose 6.2% mom to 1.20m tonnes**, above our 1.16m estimate but well below the 1.30m consensus. Palm's decreased price competitiveness capped the recovery, with Indian buyers favouring South American soybean oil; the CPO discount to soybean oil into India remains near US$30/tonne vs a five-year average of about US$125/tonne.
  - **Imports more than doubled to 103,113 tonnes** (+135% mom) as processed palm oil inflows surged in June. Implied domestic disappearance of 421,754 tonnes ran well above our pre-report assumption of 340,000 tonnes.
- **Outlook.** Production should climb further into the September-October seasonal peak, but the easing stock/usage ratio suggests absorption is largely keeping pace with supply. Near-term direction hinges on whether the July export recovery sustains and on whether gasoil stabilises. On supply, Sarawak's March and Sabah's April rainfall deficits are lagged headwinds to 2H output, consistent with our El Niño thesis of delayed, asymmetric yield loss building into 1Q27.

Segmental Rating

Segment	Rating
Malaysia	OVERWEIGHT (Maintained)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Kuala Lumpur Kepong	KLK MK	BUY	21.60	24.65
SD Guthrie	SDG MK	BUY	6.24	6.90

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
CPO Price:	
MPOB @ 9 Jul 26	4,482
BMD 3rd Month Contract	4,511

Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec*	Price 9 Jul 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	2.35	2.47	5.1	Dec-25	10.9	8.0	7.8	5.1	5.9	1,759.3	0.8
Genting Plantations	GENP MK	HOLD	5.48	5.44	(0.7)	Dec-25	12.1	12.0	11.3	4.4	6.9	4,755.0	1.0
IOI Corporation	IOI MK	BUY	4.51	4.90	8.6	Jun-25	17.7	18.4	16.5	2.5	12.7	26,586.4	2.1
KL Kepong	KLK MK	BUY	21.60	24.65	14.1	Sep-26	27.1	14.9	13.2	3.0	5.8	23,119.6	1.6
SD Guthrie	SDG MK	BUY	6.24	6.90	10.6	Dec-25	21.4	19.9	21.6	2.9	12.2	41,494.3	2.3

Source: Bloomberg, UOB Kay Hian

MPOB'S JUN 26 STATISTICS

(m tonne)	Jun 25	May 26	Jun 26	mom % chg	yoy % chg	6M25	6M26
CPO Production	1.69	1.52	1.64	8.1	(3.2)	8.97	9.02
Palm Oil Domestic Use	0.46	0.27	0.42	55.6	37.3	2.17	2.22
Palm Oil Exports	1.26	1.13	1.20	6.2	(4.7)	6.95	7.73
Oleochemical	0.20	0.26	0.22	(12.4)	0.10	1.29	1.45
Biodiesel	0.00	0.04	0.00	(88.4)	0.12	0.15	0.13
Palm Oil Imports	0.07	0.04	0.10	135.1	47.1	0.47	0.40
Palm Oil Stocks	2.03	2.43	2.54	4.8	25.1	2.03	2.54

Source: MPOB, UOB Kay Hian

Jun 26 CPO Production By Region And State

(m tonne)	Jun 25	May 26	Jun 26	mom % chg	yoy % chg	6M25	6M26
Johor	0.27	0.24	0.28	16.4	4.4	1.39	1.41
Pahang	0.30	0.22	0.23	8.9	(20.7)	1.45	1.35
Perak	0.18	0.15	0.18	22.5	1.8	0.96	0.92
Negeri Sembilan	0.07	0.05	0.05	17.3	(17.9)	0.32	0.30
Selangor	0.05	0.04	0.05	12.2	(0.1)	0.27	0.26
Terengganu	0.04	0.04	0.04	16.0	4.3	0.18	0.21
Kelantan	0.04	0.03	0.03	9.6	(26.8)	0.17	0.16
Kedah	0.03	0.02	0.03	29.1	(1.5)	0.14	0.12
Other States	0.02	0.02	0.02	15.1	(2.5)	0.10	0.10
Pen Malaysia	0.99	0.79	0.92	15.4	(6.9)	4.97	4.83
Sabah	0.36	0.35	0.36	5.1	(0.2)	2.01	2.12
Sarawak	0.34	0.38	0.36	(4.6)	4.4	1.98	2.07
East Malaysia	0.71	0.72	0.72	0.0	2.0	3.99	4.19

Source: MPOB, UOB Kay Hian

Valuation/Recommendation

- **Maintain OVERWEIGHT.** We remain constructive on the sector, underpinned by structural demand growth from regional biofuel mandates, including Indonesia's B50 policy. We keep our CPO price forecasts at RM4,500/4,400 per tonne for 2026/27 respectively.
- **Top picks.** We favour SD Guthrie as our preferred liquid big-cap exposure to the supportive CPO price environment, underpinned by its renewable energy and industrial park initiatives. Kuala Lumpur Kepong is our laggard pick, offering potential upside from a progressive recovery in downstream earnings alongside resilient upstream contributions. Meanwhile, pure-play Hap Seng Plantations trades at an attractive valuation while offering a compelling 5.5% dividend yield.

Sector Catalyst/Risk

- The incremental demand uplift from Malaysia's B15 mandate may disappoint.
- A softer ringgit could support India's import demand for CPO.
- Elevated crude oil prices due to geopolitical concerns would keep the palm oil-gas oil spread supportive.

Malaysia Palm Oil Production

Source: MPOB, UOB Kay Hian

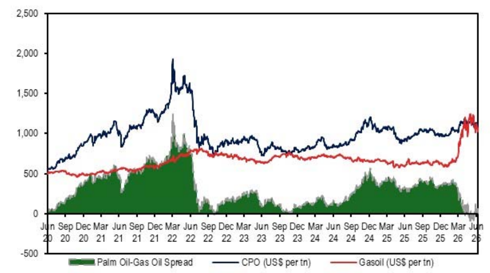
Rainfall By Region, Jan-Jun 26 (MM/MTH)

	Jan	Feb	Mar	Apr	May	Jun
North Pen.	51	148	117	254	354	213
East Pen.	90	146	76	155	278	194
West Pen.	67	180	138	249	219	171
Sabah	281	481	207	127	224	176
Sarawak	432	424	219	276	365	278
MALAYSIA	256	330	170	214	300	221

Colour: % of long-term avg <50 50-80 80-120 120-160 >160

Note: June 2026 data is preliminary.
Source: CHIRPS/in-house, UOB Kay Hian.

Palm Oil-Gas Oil Spread



Source: Bloomberg, UOB Kay Hian