UOBKayHian

Country Daily | Malaysia

Wednesday, 23 September 2026

Key Indices

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	51,863.7	(0.4)	(0.4)	(2.7)	7.9
S&P 500	7,764.6	(0.0)	2.4	1.2	13.4
FTSE 100	10,708.3	(0.3)	0.5	(1.0)	7.8
AS30	8,951.0	0.4	1.1	(3.4)	(0.8)
CSI 300	4,544.6	0.1	2.1	(1.6)	(1.8)
FSSTI	5,723.8	0.9	1.5	0.6	23.2
HSCEI	8,362.6	0.3	1.9	(3.1)	(6.2)
HSI	25,087.8	0.2	1.7	(3.5)	(2.1)
JCI	6,277.0	(1.7)	(2.8)	(3.8)	(27.4)
KLCI	1,683.5	1.0	(0.9)	(3.1)	0.2
KOSPI	7,017.9	0.1	5.9	1.5	66.5
Nikkei 225	65,019.0	1.4	1.6	(0.8)	29.2
SET	1,604.4	0.4	1.6	(0.6)	27.4
TWSE	47,800.2	0.2	5.0	5.7	65.0
BDI	3,432	1.0	2.1	20.8	82.8
CPO (RM/mt)	4,601	(0.7)	(0.2)	(1.8)	17.0
Brent Crude (US$/bbl)	99	(1.1)	(8.7)	5.1	63.1

Source: Bloomberg

Corporate Events

	Venue	Begin	Close
17th Asian Gems Conference 2026 (Virtual)	Singapore	22 Sep	23 Sep
Post-results NDR with Sunny Optical (2382 HK)	Taipei	22 Sep	23 Sep
New Economy Conference at The Ritz Carlton Hotel	Malaysia	07 Oct	07 Oct
NDR with Food Empire Holdings Ltd (FEH SP)	Malaysia	08 Oct	08 Oct

Corporate and Macro Calendar

Economic Indicator/Event	Country/Region	Date
Foreign Reserves	Malaysia	23 Sep
Malaysia PMI Manufacturing	Malaysia	01 Oct

Top Stories

Sector Update | Banking Page 3 →

- Nature-related exposure is material: 54% of RM816b commercial loans have high ecosystem dependency, while 36% have high environmental pressure. Our assessment suggests CIMB Group and Public Bank show relatively developed readiness, while Malayan Banking benefits from lower exposure and peers remain at varying stages. Near-term earnings impact should be limited, but regulation is the key medium-term catalyst to embed nature into borrower assessment. Maintain OVERWEIGHT.

Sector Update | Plantation Page 9 →

- We raise our 2027 CPO price forecast to RM4,700/tonne from RM4,400 and keep the 2026 estimate at RM4,500. Our fundamentals model shows combined Malaysian and Indonesian ending stocks shrinking to 2.67m tonnes in 2027 from 5.76m in 2026 on B50 biodiesel absorption and an El Niño crop loss already guaranteed by rainfall. Maintain OVERWEIGHT; top picks: SD Guthrie and Kuala Lumpur Kepong.

What's Inside

Company Update | Tenaga Nasional (TNB MK/**HOLD**/RM13.10/Target: RM14.60) Page 12 →

- Tenaga articulated its opinion that the RM120m-150m subsidy is a one-off and that the AFA mechanism remains intact. The government is currently re-assessing the AFA structure and will come up with a final decision for 2027. We believe the government may revert to previous ICPT tiered practices, where commercial and industrial users will bear full AFA surcharges/rebates while domestic users will fall back under a government subsidy scheme. Maintain HOLD with a DCF-based target price of RM14.60.

Market Spotlight

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- Despite selling pressure, the FBMKLCI added 16.56pt to close at 1,683.50 yesterday on the back of rejuvenated buying interest.
- US stocks were mixed after the close on Tuesday, as gains in the basic materials, consumer goods and healthcare sectors led shares higher while losses in the telecommunications, financials and oil & gas sectors led shares lower.

Technical Analysis

Banking

ESG: Assessing TNFD Readiness

Highlights

- Nature-related exposure is material: 54% of RM816b commercial loans have high ecosystem dependency, while 36% have high environmental pressure.
- CIMB Group and Public Bank show relatively developed readiness, while Malayan Banking (Maybank) benefits from lower exposure and peers remain at varying stages.
- Near-term earnings impact should be limited, but regulation is the key medium-term catalyst to embed nature into borrower assessment. Maintain OVERWEIGHT.

Analysis

- **Nature-related risk is becoming increasingly relevant to conventional credit risk.** Malaysian banks have meaningful exposure to sectors that depend on ecosystem services or exert pressure on nature, with palm oil and construction particularly relevant. The financial implications should emerge progressively through borrower selection, loan pricing, portfolio composition and, potentially, asset quality rather than through an immediate earnings impact.
- **Bank-level differentiation reflects both exposure and readiness.** Our peer assessment combines exposure to nature-sensitive sectors with publicly disclosed evidence of Taskforce on Nature-related Financial Disclosures (TNFD) reporting, nature integration in credit-risk processes and nature-related targets or metrics. CIMB Group currently shows the strongest disclosed readiness, with Public Bank also relatively advanced, while the remaining banks are at different stages of implementation.
- **Regulation could accelerate the transition from disclosure to credit decisions.** Current Malaysian nature-related assessment remains less developed than climate-risk management. As supervisory guidance, taxonomy requirements and disclosure expectations evolve, banks with established nature-risk data and credit processes should face a smaller implementation gap.
- **Nature finance also creates an emerging opportunity.** Beyond managing downside risk, banks may increasingly finance sustainable agriculture, water management, ecosystem restoration and other nature-positive activities as customer and regulatory demand develops.

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OVERWEIGHT (Maintained)

Segmental Rating

Segment	Rating
Bank	OVERWEIGHT (MAINTAINED)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Hong Leong Bank	HLBK MK	BUY	22.54	24.50
CIMB Group	CIMB MK	BUY	7.63	9.30

Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Share Price 22 Sep 26 (RM)	Target Price (RM)	PE 2025 (x)	PE 2026F (x)	PE 2027F (x)	Yield 2026F (%)	ROE 2026F (%)	Market Cap (S$m)	Price/ NAV ps (x)
Public Bank	PBK MK	BUY	4.84	5.54	12.8	12.3	11.4	6.1	12.4	22,693	1.5
CIMB Group Holdings	CIMB MK	BUY	7.90	9.30	10.5	9.9	9.1	6.6	11.6	20,216	1.1
Hong Leong Bank	HLBK MK	BUY	23.80	24.50	10.0	10.3	9.8	4.9	10.8	11,976	1.1
RHB Bank	RHBBANK MK	BUY	7.90	9.10	10.2	9.7	9.3	6.7	10.2	8,409	1.0
Hong Leong Financial Group	HLFG MK	BUY	18.76	22.00	6.8	6.4	5.3	5.3	9.6	5,182	0.6
Malayan Banking	MAY MK	HOLD	10.44	11.58	11.0	10.5	10.3	6.4	11.0	30,595	1.2
AMMB Holdings	AMM MK	HOLD	6.64	7.30	10.6	10.1	9.5	5.9	9.7	5,439	1.0
Alliance Bank Malaysia	ABMB MK	HOLD	4.85	5.20	10.2	9.8	9.1	5.7	9.3	2,074	0.9
Affin Bank	ABANK MK	HOLD	2.02	2.48	9.0	8.3	7.5	4.8	4.8	1,297	0.4
Bank Islam Malaysia	BIMB MK	HOLD	2.07	2.45	7.4	7.5	8.2	6.7	7.1	1,133	0.5

Source: Bloomberg, UOB Kay Hian

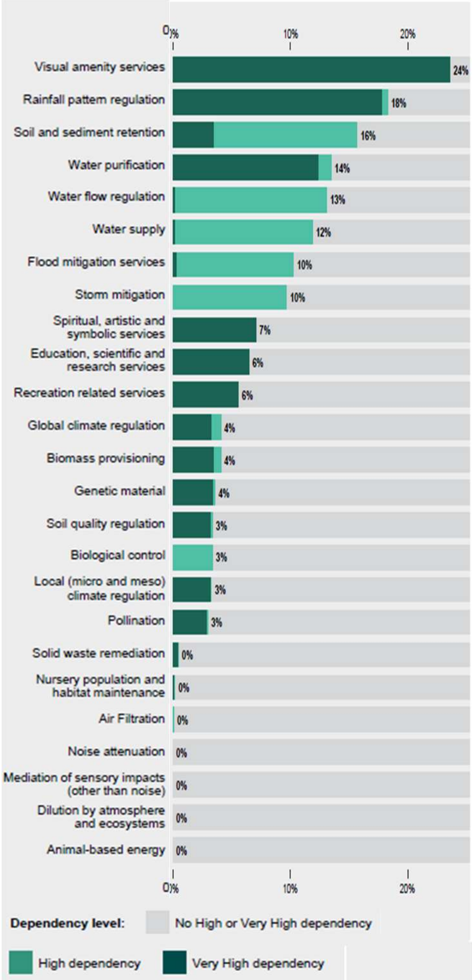
How Meaningful Nature Risk Becomes Financial Risk

- **System-wide exposure is already material.** According to Bank Negara Malaysia (BNM), the World Bank and the United Nations Development Programme, 54% of Malaysian banks' RM816b commercial loan portfolio at end-24 was extended to sectors with high or very high dependency on at least one ecosystem service. Separately, 36% was extended to sectors exerting high or very high pressure on nature, exposing banks to both physical and transition risks.
- **Physical risk transmits through borrower cash flow and collateral values.** Deterioration in ecosystem services such as water supply and purification, rainfall regulation, flood mitigation and soil retention can disrupt operations, reduce productivity and raise operating or remediation costs. Where these effects weaken earnings, cash flow or asset values, borrowers' repayment capacity may deteriorate, converting nature loss into conventional bank credit risk.
- **Transition risk arises as environmental requirements tighten.** Borrowers with significant impacts on nature may face stricter regulation, restrictions on activities in environmentally sensitive areas, higher traceability or certification requirements and changing customer preferences. These pressures can increase compliance costs or alter business-model viability, requiring banks to reassess credit appetite, underwriting standards and loan pricing.
- **The financial effects ultimately emerge through conventional credit channels.** Nature-related risk does not require a new earnings line to become financially relevant. Weaker borrower cash flows or collateral values can increase probability of default or loss given default, while greater uncertainty may lead banks to tighten underwriting standards, reprice risk or reduce exposure to vulnerable sectors. In more severe cases, this could translate into higher expected credit losses and net credit costs.
- **The next step is integration into core credit decisions.** BNM finds that most financial institutions still rely on broader environmental, social and governance or climate assessments rather than dedicated nature-specific analysis. Nature-risk management should therefore evolve progressively from identification and disclosure towards more explicit use in borrower assessment, credit approval, investment decisions and risk pricing.

Nature-Related Exposure Across Malaysian Banking

- **Nature dependencies extend beyond agriculture.** Nature-related exposure extends beyond conventionally sensitive sectors. At end-24, 24% of commercial lending had high or very high dependency on visual amenity services, 18% on rainfall regulation and 16% on soil and sediment retention. Water dependencies were also material: 14% for water purification, 13% for water-flow regulation and 12% for water supply. Deteriorating ecosystem services can directly weaken borrowers. This broadens the potential transmission of nature degradation beyond agriculture into property, infrastructure and other commercial activities.
- **Palm oil and construction stand out as key sources of nature-related exposure.** Perennial crops, predominantly oil palm, and construction combine relatively high dependence on ecosystem services with meaningful representation in Malaysian banks' commercial loan portfolios. Perennial crops account for much of the banking system's dependency on water purification and water supply, while construction is particularly relevant to rainfall regulation, soil and sediment retention and flood mitigation.
- **Palm oil is directly exposed to deterioration in natural systems.** Production depends on water availability and quality, rainfall patterns and soil condition. Deterioration in these ecosystem services can reduce agricultural yields, raise production costs and require additional investment in water management or land remediation, potentially weakening borrowers' operating performance and repayment capacity.

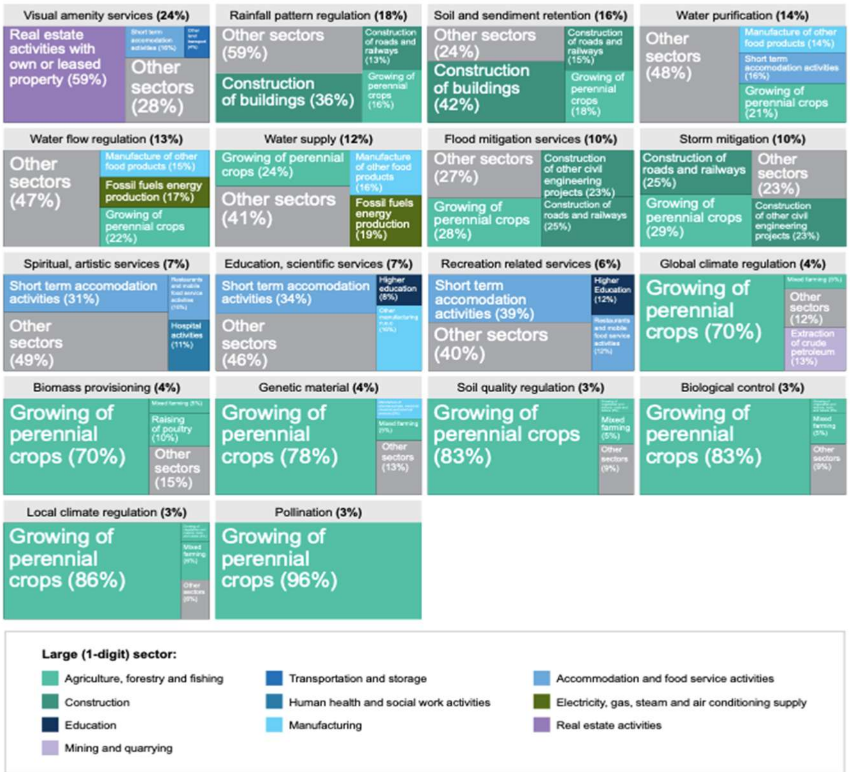
High Or Very High Dependency Of The Commercial Lending Portfolio To Individual Ecosystem Services (% of Total Loans)



Source: BNM

- **Construction faces a different set of physical vulnerabilities.** Project location and surrounding environmental conditions can influence exposure to floods, storms and landslides, while degradation of natural flood protection, soil retention and water-purification services can raise remediation and infrastructure costs. BNM estimates that construction of buildings alone accounts for 36% of banking-sector exposure to rainfall-pattern regulation.

Sectoral Contribution To Loans' Dependencies On Ecosystem Services – Malaysia, 2024 (% Of Total Loans, Top) And % Of Exposure Explained By The Sector (Inside Boxes)



Source: BNM

- **Environmental pressure creates an additional transition-risk channel.** At end-24, 29% of commercial lending was extended to sectors exerting high pressure through toxic soil and water pollutants, while 22% was associated with noise and light disturbance. The corresponding proportions were 13% for greenhouse-gas emissions and 9% for other air pollutants.
- **Borrowers with greater environmental impacts may face rising adjustment costs.** Tighter environmental standards, restrictions in sensitive locations, greater scrutiny of deforestation-linked commodities and higher biodiversity, certification or traceability requirements could increase operating costs or constrain activity. Banks with larger exposures to such borrowers may therefore need to differentiate credit appetite, underwriting standards and pricing more clearly over time.

Scoring Methodology

- TNFD reporting, nature in credit risk, and targets and metrics are each scored from zero to three: zero indicates no meaningful public disclosure; one, recognition or mainly qualitative disclosure; two, evidence of implementation; and three, systematic implementation supported by specific processes, assessments or quantitative evidence. The overall readiness score is the sum of these categories, with a maximum of nine. Sector exposure is assessed separately.
- Caveat: The comparison is a sector-based proxy, not a direct measure of each bank's nature-related financial risk. Disclosure classifications and granularity differ, so we include only six sectors that can be mapped reasonably consistently and exclude materially inconsistent mixed categories. Maybank and Hong Leong Bank report comparable sectors using loan carrying values rather than the gross-loan basis used by several peers. This should not change their exposure bands, but small percentage differences should not be overinterpreted. The exposure bands are peer-relative, not regulatory classifications.

Source: UOB Kay Hian

Bank Loan Exposure And Management Readiness

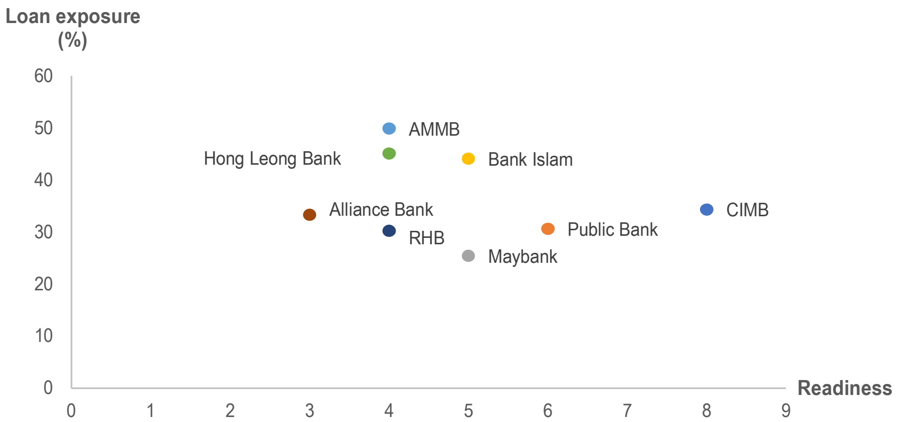
- **Malaysian banks are at different stages of incorporating nature into readiness.** We assess each bank across four dimensions: exposure to nature-sensitive sectors, maturity of TNFD reporting, integration of nature into credit-risk processes, and availability of nature-related targets and metrics. Sector exposure indicates where nature-related risks may arise, while the remaining three measures assess the maturity of publicly disclosed risk-management practices.
- **Our assessment shows meaningful differences in exposure and preparedness.** CIMB Group currently shows the strongest disclosed readiness alongside moderate sector exposure, with Public Bank also screening relatively well. Maybank benefits from comparatively lower exposure, although its nature-related framework remains at an earlier stage of development. AMMB, Hong Leong Bank and Bank Islam have relatively higher exposure to nature-sensitive sectors, though Bank Islam shows more developed integration of biodiversity considerations into credit assessment. Overall, the differences largely reflect varying stages of disclosure and implementation rather than a judgement on the effectiveness of each bank's underlying risk-management framework.
- Readiness differences should not drive near-term earnings, but stronger capabilities may increasingly support better borrower selection, underwriting and risk pricing. Over time, the effects could appear in the portfolio mix, asset quality and credit costs.

Banks' Loan Nature-Related Exposure (Non-Household Loans) And Management Readiness[2]

Bank	Core Nature-Sensitive Exposure[1]	TNFD Disclosure	Nature in Credit Risk	Nature Targets/Metrics	Overall Readiness
CIMB Group Holdings	34.3%	3	3	2	8 / 9
Public Bank	30.6%	2	3	1	6 / 9
Malayan Banking	25.4%	2	2	1	5 / 9
Bank Islam Malaysia	44.1%	1	3	1	5 / 9
AMMB Holdings	49.9%	1	2	1	4 / 9
Hong Leong Bank	45.1%	0	3	1	4 / 9
RHB Bank	30.2%	0	3	1	4 / 9
Alliance Bank Malaysia	33.3%	0	2	1	3 / 9

1 Core nature-sensitive exposure comprises agriculture, mining and quarrying, manufacturing, electricity, gas and water, construction, and transport, storage and communications as a percentage of non-household loans.
2 Refer Appendix for detailed breakdown
Source: Respective companies, UOB Kay Hian

Loan Nature-Related Exposure (Non-Household Loans) vs Management Readiness



Source: UOB Kay Hian

Financial Effects Will Emerge Through Credit Decisions

- **Asset quality: A medium-term rather than immediate earnings risk.** TNFD adoption itself should not materially affect near-term net credit cost or sector earnings. The financial impact would instead arise if ecosystem deterioration or tighter environmental requirements weaken borrower cash flows, collateral values or business viability. Over time, this could translate into a higher probability of default or loss given default, prompting tighter underwriting standards, higher risk pricing and, in more severe cases, higher expected credit losses and net credit costs. The impact should therefore be more relevant for banks with larger nature-sensitive exposures and less developed capabilities to identify these risks early.
- **Loan growth vs risk pricing: nature also presents an opportunity.** Nature-risk management is not purely defensive. BNM encourages financial institutions to finance nature-positive activities including sustainable agriculture, water efficiency and watershed management, ecosystem restoration and nature-based infrastructure. CIMB Group has identified opportunities in areas such as water security, mangrove and blue-carbon restoration and regenerative land management, while Bank Islam highlights sustainable agriculture, water management and biodiversity-sensitive infrastructure. Banks that build expertise earlier could therefore improve risk selection while also capturing financing demand from customers adapting to tighter environmental requirements.
- **Regulation is likely to be the key catalyst.** The pace of regulatory development will likely determine how quickly nature moves from sustainability reporting into mainstream banking decisions. BNM notes that current Malaysian frameworks remain predominantly climate-focused and broader biodiversity assessments are still largely voluntary. Its recommendations include integrating nature into the Malaysia Taxonomy, broadening the Joint Committee on Climate Change's mandate, strengthening supervisory guidance and developing a phased path towards mandatory nature-related disclosure.
- Banks that have already begun building nature-specific data, assessment tools and credit processes should face a smaller implementation gap if supervisory expectations tighten, while banks at earlier stages may need to accelerate the development of underwriting, monitoring and client-engagement practices.
- **Conclusion.** Nature-related risk is unlikely to become a major near-term earnings driver for Malaysian banks, but its relevance to conventional credit-risk management should increase as data, methodologies and regulation mature.

Valuation/Recommendation

- **Maintain OVERWEIGHT.** We remain constructive on the sector, underpinned by: a) potential dividend upside, supporting attractive yields of around 5.5%; b) a relatively defensive earnings profile compared with export sectors exposed to tariff risks; c) potential inflows from emerging market MSCI rebalancing; and d) strong provision buffers across the sector. The sector's 1.0x P/B remains undemanding relative to its ROE of about 10%. By comparison, Singapore banks trade at a significantly higher P/B of about 1.65x, despite delivering only a modestly stronger ROE of around 13%.
- **Stock picks.** Amid the ongoing geopolitical uncertainties in the Middle East, we adopt a barbell investment approach. We favour Hong Leong Bank for their defensive earnings profiles and near-term capital management upside following the adoption of Basel III reforms in Jun 26. At the other end, we like CIMB Group as a high-beta and liquid laggard that is likely to recover the fastest once geopolitical tensions ease.

Sector Catalyst/Risk

- **Catalysts:** Stronger-than-expected dividend payouts, stronger-than-expected NIM recovery.
- **Risks:** Higher-than-expected asset quality deterioration from the sustained spike in oil prices on businesses.

Banks' Loan Nature-Related Exposure (Non-Household Loans) And Management Readiness

Bank	Core Nature-Sensitive Loans (RMb)*	Non-household Loans (RMb)	Exposure	TNFD Disclosure	Nature in Credit Risk	Nature Targets/Metrics	Overall Readiness
CIMB Group Holdings	75.7	220.6	34.3%	3/3. Published its first dedicated Nature and Biodiversity Report in 2025, aligned with TNFD recommendations. Applies double materiality, identifies priority sectors and uses tools including ENCORE, Global Forest Watch and WWF Biodiversity Risk Filter. Also participated in Malaysia's TNFD LEAP pilot.	3/3. Nature considerations are incorporated into environmental and social due diligence. More than 70 in-depth nature-risk assessments were conducted in 2025; 114 of 707 enhanced sustainability due-diligence cases identified nature-related risks and led to client action plans. Material issues can trigger monitoring, watchlist placement or financing restrictions.	2/3. Quantitative nature assessment and monitoring are already in place, but formal portfolio-level nature and biodiversity targets have not yet been established.	8/9
Public Bank	40.5	132.0	30.6%	2/3. Has begun assessing biodiversity-related risks and dependencies across its portfolio under the TNFD framework and is piloting the TNFD LEAP approach, but has not yet published a full portfolio-level TNFD assessment.	3/3. ESG due diligence, sector-specific Risk Acceptance Criteria and an ESG Exclusion List are embedded in financing decisions. Nature-related exclusions cover Ramsar wetlands, Key Biodiversity Areas, endangered-species habitats, high-conservation-value forests, peatlands and activities affecting water security.	1/3. Has substantial sustainable-finance and decarbonisation targets, but no mature portfolio-level biodiversity, deforestation, water or ecosystem targets were identified.	6/9
Malayan Banking	100.8	396.4	25.4%	2/3. Explicitly recognises biodiversity risk and is developing a Nature and Biodiversity Framework aligned with TNFD. A Nature and Biodiversity Primer was introduced in 2025, but a substantive published TNFD-aligned assessment is not yet available.	2/3. Biodiversity and land-use considerations are embedded within its ESG Risk Management Framework and Risk Acceptance Criteria. Pilot assessments cover Key Biodiversity Areas, Biodiversity Protected Areas and Water-Stressed Areas, although disclosed transaction-level financing consequences remain less developed.	1/3. Nature-related data collection has begun, but quantitative environmental targets remain predominantly climate- and operations-focused rather than portfolio-level nature targets.	5/9
Bank Islam Malaysia	8.0	18.1	44.2%	1/3. Explicitly recognises TNFD and nature-related financial risk and discusses biodiversity and nature-related impacts, but has not yet disclosed a TNFD-aligned DIRO or LEAP portfolio assessment.	3/3. Nature-related considerations are embedded in financing safeguards. A third-party biodiversity tool is being incorporated into the CCPT Due Diligence Questionnaire to identify protected areas, Key Biodiversity Areas and water-stressed regions and to support credit decision-making and mitigation.	1/3. Biodiversity and ecosystem preservation are identified as emerging priorities, but no portfolio-level quantitative nature targets have been disclosed.	5/9
AMMB Holdings	38.8	77.8	49.9%	1/3. Nature and biodiversity risks are explicitly recognised, but the bank identifies a preliminary nature and biodiversity risk assessment as a future step rather than a completed TNFD-style assessment.	2/3. Its Climate Change and ESG Risk Assessment is integrated into corporate lending and project-finance evaluation, supported by nature-related restrictions including NDPE requirements and prohibitions involving endangered habitats and sensitive sites. Nature remains embedded within a broader ESG framework rather than a dedicated nature-risk process.	1/3. Quantitative climate-risk metrics are relatively developed, but dedicated portfolio-level biodiversity, deforestation, protected-area or water-dependency targets have not been identified.	4/9
Hong Leong Bank	35.0	77.5	45.1%	0/3. No TNFD/LEAP assessment or dedicated portfolio nature-risk assessment was identified in its FY2025 disclosures.	3/3. Environmental and social due diligence is applied across new and renewed SME, commercial and corporate facilities and annual reviews. Nature-related exclusions cover illegal deforestation, degradation of high-biodiversity-value areas, destructive land-clearing practices and other environmentally harmful activities. Assessment outcomes can influence risk rating, mitigation, lending strategy and pricing.	1/3. The bank discloses various sustainability and climate indicators, but no meaningful portfolio-level nature-specific targets were identified.	4/9
RHB Bank	34.1	113.1	30.2%	0/3. Its sustainability reporting refers to frameworks including TCFD and IFRS S1/S2, but no TNFD-aligned assessment, LEAP exercise or portfolio nature DIRO assessment was identified.	3/3. Nature-related financing restrictions are embedded in Group Credit Policy. These include restrictions relating to High Biodiversity Value and High Conservation Value forests, peatlands and deforestation, alongside NDPE requirements for relevant sectors. Such considerations can determine financing eligibility.	1/3. Quantitative targets are largely climate- and sustainable-finance-related, with no portfolio-level biodiversity, KBA, deforestation or water-dependency targets identified.	4/9
Alliance Bank Malaysia	11.3	33.9	33.3%	0/3. No dedicated TNFD-aligned assessment, LEAP exercise or portfolio-level analysis of nature-related dependencies, impacts, risks and opportunities was identified.	2/3. ESG Risk Acceptance Criteria form part of financing and credit assessment for environmentally sensitive industries, supported by a Prohibited Lending List covering activities causing significant environmental harm and unsustainable forestry. However, evidence of systematic nature-specific assessment remains more limited.	1/3. The bank has extensive climate and ESG metrics, but no dedicated portfolio-level biodiversity, deforestation, water or ecosystem targets were identified.	3/9

** Core nature-sensitive exposure comprises agriculture, mining and quarrying, manufacturing, electricity, gas and water, construction, and transport, storage and communications loans.*
Source: Respective companies, UOB Kay Hian

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)
Kuala Lumpur 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	Share 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
Kuala Lumpur 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	2027F 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
Kuala Lumpur 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

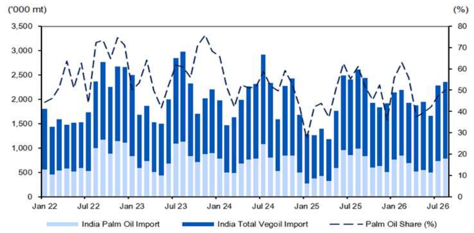
	EPS Changes		Target Price Changes		Rating Changes	
Company	FY27F (%)	FY28F (%)	Previous (RM)	New (RM)	Previous	New
Genting Plantations	13.0	9.6	6.10	7.42	HOLD	BUY
Hap Seng Plantations	2.1	(0.2)	2.70	3.05	HOLD	BUY
IOI Corporation	2.5	0.0	5.15	5.50	BUY	BUY
Kuala Lumpur Kepong	7.3	5.0	24.65	28.50	BUY	BUY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

Source: UOB Kay Hian

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
Kuala Lumpur Kepong	5-6
SD Guthrie	7-8

Source: Bloomberg, 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 Genting Plantations 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 Genting Plantations and HAPL, respectively. Both remain attractively valued against integrated peers at 17-19x PE. We also maintain BUY on SD Guthrie, IOI Corporation and Kuala Lumpur Kepong.
- **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. Kuala Lumpur 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.

Tenaga Nasional
(TNB MK/HOLD/RM13.10/Target: RM14.60)

AFA Mechanism To Be Adjusted In 2027; Company Believes The 4Q26 Subsidy A One-Off

Highlights

- **RM120m-150m AFA subsidy is a one-off to Tenaga.** In yesterday evening's conference call, Tenaga Nasional (Tenaga) articulated its opinion that the RM120m-150m subsidy is a one-off and that the automatic fuel adjustment (AFA) mechanism remains intact. While no clarity is provided for 2027, management believes that as a government linked company, Tenaga may be called upon to undertake corporate social responsibility efforts every now and then. The size of the Kumpulan Wang Industri Elektrik (KWIE) fund remains unknown and the market is under the assumption that the KWIE fund may be thinning and therefore, Tenaga needs to step in and shoulder part of the AFA subsidy. In arriving at the RM150m estimate for the AFA subsidy, Tenaga is assuming Brent crude oil price at US$110/barrel, coal at US$136/MT and LNG at RM74/mmbtu.
- **New AFA policy in 2027– likely similar to ICPT's tiered system.** The government is currently re-assessing the AFA structure and will come up with a final decision towards Dec 26. The idea is to make the AFA structure more sustainable while protecting domestic users from bill shocks. We believe the government may revert to previous Imbalance Cost Pass-Through (ICPT) tiered practices, where commercial and industrial users will bear full AFA surcharges/rebates while domestic users will fall back under a government subsidy scheme. This tiered AFA structure suggests that the government will pay Tenaga for the subsidy via the KWIE fund.
- **Tenaga is only shouldering 6% of Sep-Dec 26 subsidy.** The main reason for the higher baseline subsidy – from 600kwh to 800kwh - is because current high temperature led to higher usage and the government wants to subsidise 85-90% of domestic users from tariff shocks. Hence, the government's decision to raise the subsidy threshold. The RM120m-150m subsidy to be shouldered by Tenaga only accounts for 6% of total AFA surcharges. In May-Sep 26, total AFA surcharge amounted to RM800m and a total of RM435m KWIE fund was utilised to cushion the increase in AFA (May-Aug 26).

Valuation

- **Minimal earnings impact to 2026.** Earnings impact is 2% to 2026's forecast. However, the decision above implies that the AFA mechanism may be subject to government intervention in the near future and we expect investors to gradually discount the sanctity of the Incentive Based Regulation and cost pass-through framework as we await further clarity on the AFA mechanism in 2027.
- **Maintain HOLD with a DCF-based target price of RM14.60** (discount rate: 8.2%, growth rate: 4%). At our target price, the stock trades at mean valuation.

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Market Spotlight

Market News

Despite selling pressure, the FBMKLCI added 16.56pt to close at 1,683.50 yesterday on the back of rejuvenated buying interest. Meanwhile, Asian stocks rose broadly on Tuesday, led by technology shares, as a rally on Wall Street revived appetite for artificial intelligence-related stocks and investors looked ahead to a meeting between US President Donald Trump and Chinese President Xi Jinping later this week. The FBMKLCI's top gainers were IHH Healthcare (+5.0%), Sunway Bhd (+5.0%) and CIMB Group Holdings (+3.3%), while the top losers were Sunway Healthcare Holdings (-5.2%), Mr D.I.Y. Group (M) (-1.5%) and Petronas Chemicals Group (-1.3%). In the broader market, gainers outpaced losers 678 to 458 with 572 counters unchanged. Turnover was 3.58b shares valued at RM3.11b.

US stocks were mixed after the close on Tuesday, as gains in the basic materials, consumer goods and healthcare sectors led shares higher while losses in the telecoms, financials and oil & gas sectors led shares lower. At the close in NYSE, the Dow Jones Industrial Average declined 0.36%, while the S&P 500 index climbed 0.00%, and the NASDAQ Composite index gained 0.45%.Falling stocks outnumbered advancing ones on the New York Stock Exchange by 1,357 to 1,346 and 101 ended unchanged; on the Nasdaq Stock Exchange, 1,927 rose and 1,465 declined, while 193 ended unchanged. (*Sources: Investing.com)*

FBMKLCI, FCPO & FKLI Index Outlook

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FBMKLCI

Source: UOBKH ChartGenie

FTSE Bursa Malaysia KLCI

Last close:	1,683.50
Expected moving range:	1,665-1,700

Technical View:

A positive follow-through from Monday's breakout could spell a further climb in the near term, given the strong buying interest yesterday. With the MACD histogram approaching the zero level, and both the DMI and signal lines on the verge of forming a bullish crossover, we re-iterate that the positive sentiment is in line with a short-term rising trendline. Going forward, we expect the index to retest the immediate resistance of 1,650 in the near term. Support and resistance levels are still maintained as follows:

Support: 1,665, 1,652

Resistance: 1,720, 1,755

FCPO

Source: TradingView

Futures Crude Palm Oil (FCPO) Active Contract, 1 Hour Chart

Technical BUY with +4.4% potential return	
Trading BUY range:	RM4,900-5,020
Last price:	RM4,817
Target price:	RM4,974, RM5,029
Support:	RM4,751
Stop-loss:	RM4,749

BUY with a target price of RM5,029 and stop-loss at RM4,749. Based on the chart, FCPO continue the bullish movement and closed at RM4,817 yesterday. This bullish movement is supported by an uptick in RSI and bullish crossover in both MACD and DMI indicators. We maintained our targets at RM5,029 and RM5,099 in the near term.

Expected timeframe: One day to three days

FKLI

Source: TradingView
4

FTSE Bursa Malaysia KLCI Futures (FKLI), 1 Hour Chart

Technical SELL with -1.9% downside	
Trading SELL range:	1,643-1,650
Last price:	1,674.5
Target price:	1,644, 1,634
Resistance:	1,684
Stop-loss:	1,685

SELL with a target price of 1,634 and stop-loss at 1,685. Based on the chart, FKLI continues the bearish movement and closd lower at 1,674.5 yesterday. This bearish movement is supported by the downtick in the RSI and bearish crossovers in both MACD and DMI indicators. We maintained our targets at 1,644 and 1,634 in the near term.

Expected timeframe: One day to three days

Traders' Corner

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Source: UOBKH ChartGenie

Pos Malaysia
POSM MK

Technical BUY on breakout with +25.5% potential return

Trading BUY range:	RM0.275-0.28
Last price:	RM0.275
Target price:	RM0.325, RM0.345
Support:	RM0.235
Stop-loss:	RM0.23

BUY on breakout with a target price of RM0.345 and stop-loss at RM0.23. Share price has consolidated within the immediate support of RM0.235 before yesterday's positive closing above the BBI set a new tone for the short-term outlook. We expect POSM to continue to form higher highs and higher lows towards our target prices once it penetrates the breakout level of RM0.275. The bullish bias has been established following an uptick in the DMI and a bullish crossover in the MACD.

Expected timeframe: Two weeks to two months

Note: Not available for CFD Trading

Source: UOBKH ChartGenie

PRG Holdings
PRG MK

Technical BUY with +42.3% potential return

Trading BUY range:	RM0.10-0.11
Last price:	RM0.11
Target price:	RM0.135, RM0.17
Support:	RM0.08
Stop-loss:	RM0.075

BUY with a target price of RM0.17 and stop-loss at RM0.075. Based on the daily chart, PRG has formed a series of higher highs and higher lows that indicates the uptrend pattern. A successful close above the BBI line yesterday suggests improving sentiment as FFB looks set to resume the upward trend. This is supported by an uptick in the RSI. Currently, the DMI is showing positive signal, which will support the upward momentum. We peg our targets at RM0.135 and RM0.17 in the near term.

Expected timeframe: Two weeks to two months

Note: Not available for CFD Trading

Source: UOBKH ChartGenie

Supercomnet Technologies SCT MK

Technical BUY on breakout with +21.7% potential return

Trading BUY range:	RM0.53-0.535
Last price:	RM0.505
Target price:	RM0.61, RM0.645
Support:	RM0.465
Stop-loss:	RM0.46

BUY on breakout with a target price of RM0.645 and stop-loss at RM0.46. Yesterday, the stock closed above the BBI line, indicating upward potential in the near term. This is supported by the 7-day EMA crossing above the 21-day EMA, which indicates a bullish signal. This is consistent with the uptick in the RSI and a bullish crossover in the DMI, which suggest stronger buying momentum ahead. We peg our target prices at RM0.61 and RM0.645 once the stock penetrates the breakout level of RM0.53.

Expected timeframe: Two weeks to two months

Note: Not available for CFD Trading