Research Team
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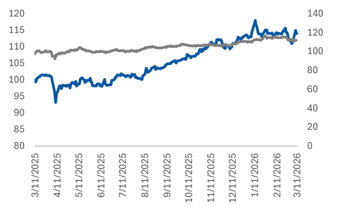
Plantation Sector

Neutral (↔)

Middle-East Conflict to Dictate CPO volatility

KL Plantation vs FBMKLCI Index

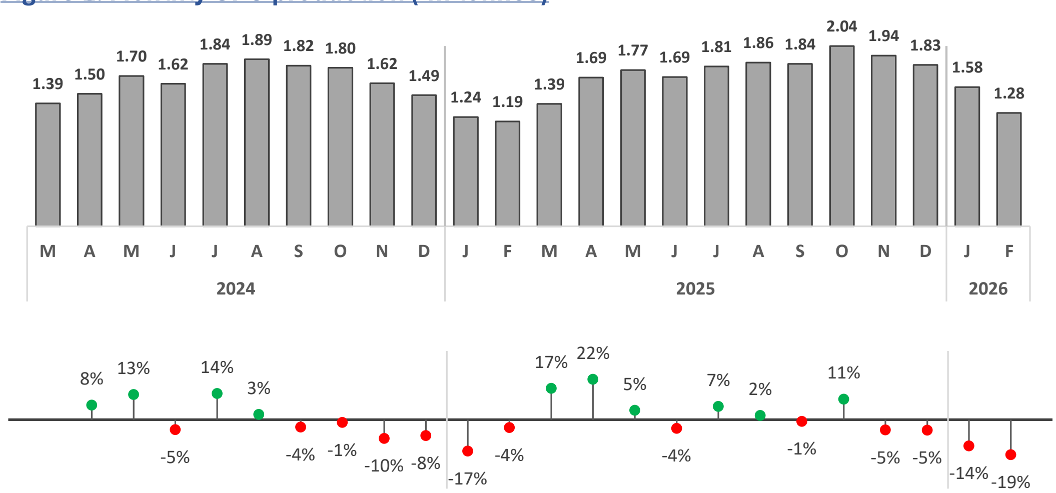


Company	Rating	Price	Target
Sime Darby Guthrie Bhd	HOLD	5.73	5.88
Hap Seng Plantations Hldg Bhd	HOLD	2.17	2.00
Kuala Lumpur Kepong Bhd	HOLD	19.54	19.90
Sarawak Plantations Bhd	HOLD	3.63	3.76

- **Unfavourable weather in February led to weaker FFB yields, though production is expected to improve in the latter half of the year. We introduce a CY26 CPO production forecast of 20.7m tonnes.**
- **Middle East tensions are likely to drive near-term CPO price volatility, with a 2QCY26 CPO price assumption of RM4,300.**
- **Sector stance revised to Neutral (from Overweight) while maintaining our CY26 CPO price assumption of RM4,200, reflecting weaker-than-expected prices in January and February.**

February softness for CPO production at 1.28m tonnes. Total CPO production eased 19% MoM to 1.28m tonnes in February, with declines recorded across all regions. On a MoM basis, production in Peninsular Malaysia fell by 135k tonnes, followed by Sabah (-89k tonnes) and Sarawak (-67k tonnes). We believe this was due to wetter weather conditions in February, which resulted in weaker MoM FFB yields, with February's yields at 1.14 compared with 1.38 in January. On a YoY basis, February production increased by 8%. Moving further into the year, we expect production to trend higher, with peak output typically occurring between September and October. **We introduce our CY26 CPO production forecast of 20.7m tonnes. Based on this forecast, YTD output currently accounts for around 14% of our full-year expectation.**

Figure 1: Monthly CPO production ('m tonnes)

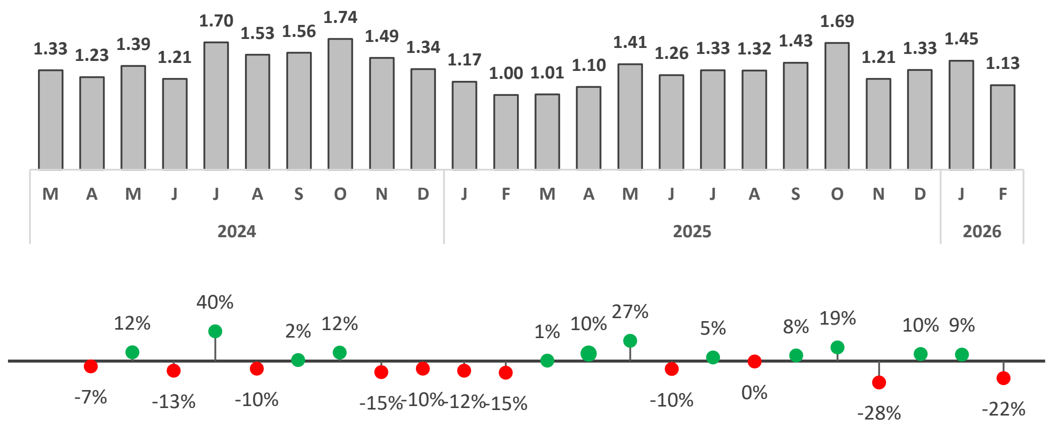


Source: MPOB, Apex Securities

Palm oil exports softened due to seasonal factors. Palm oil exports fell in February to 1.13m tonnes from January's 1.46m tonnes (-23%). On a YoY basis, monthly exports rose by 13% from 996k tonnes. After accounting for February's shorter duration, we believe that the drop was due to seasonality, as February typically records MoM declines, historically. Looking ahead, we expect demand to recover more meaningfully in 2HCY26 as the Indonesian B50 mandate rolls out.

KDN PP13226/06/2024 (035469)

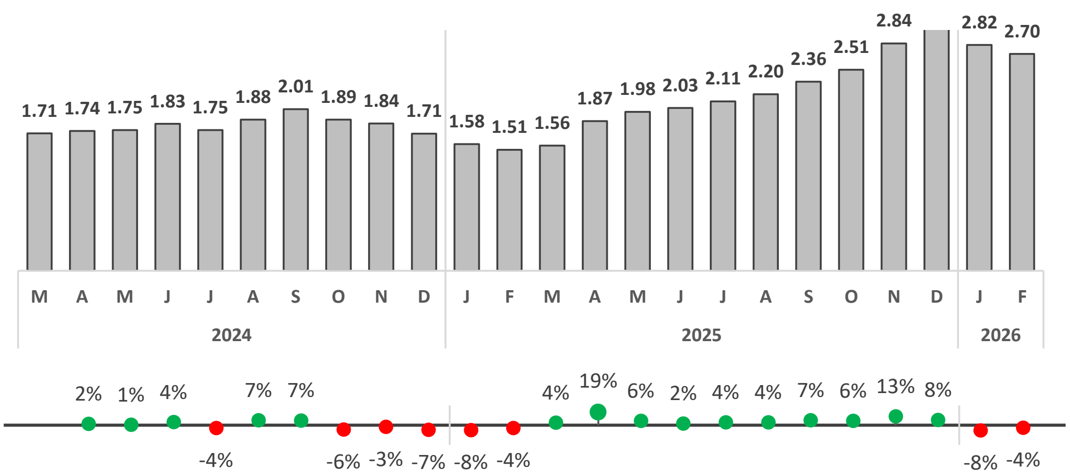
Figure 2: Monthly CPO export ('m tonnes)



Source: MPOB, Apex Securities

Stocks remained elevated in February amid weaker exports. February palm oil closing stocks stood at 2.7m tonnes, representing a 3.9% decline from January's 2.8m tonnes. On a YoY basis, inventories rose 79% from the same month last year. Due to weaker exports in February, the stock-to-use (STU) ratio is estimated at 1.94x, up from 1.55x in January.

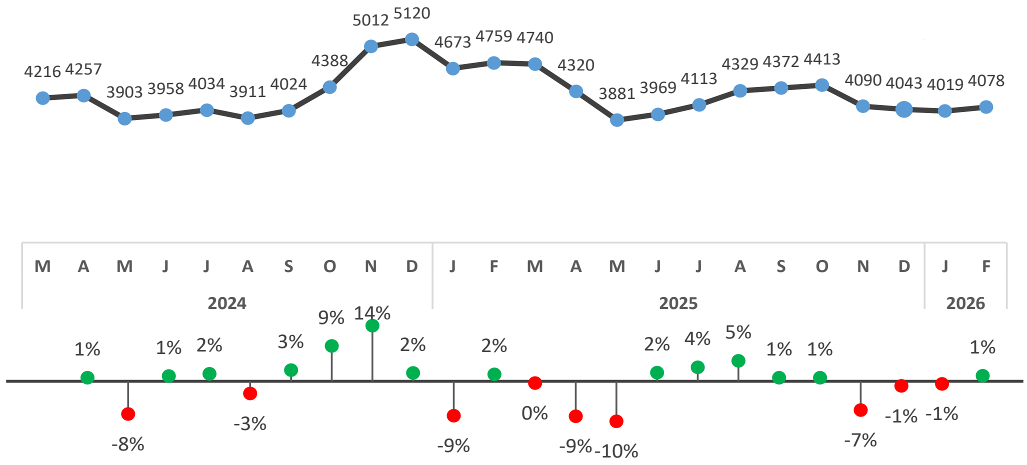
Figure 3: Monthly CPO inventory



Source: MPOB, Apex Securities

CPO prices average RM 4,078 in February, up 1.5% from RM4,019 in January. Between November 2025 and February 2026, prices remained range-bound at around RM4,000–RM4,100 amid broadly balanced supply-demand conditions. Full-year production reached a record high of 20.28m tonnes, while inventories reached a post-Covid average high of 2.13m tonnes with December ending with 3.05m tonnes. This was further compounded by softer Chinese demand as buyers shifted towards canola and soybean oil. On the supportive side, expectations of seasonal production slowdown and stronger Indian demand helped underpin prices. Looking ahead, we maintain our CY26 CPO price forecast of RM4,200, with near-term prices expected to average around RM4,300, as discussed below.

Figure 4: 24-month MPOB CPO price trend (RM/tonne)

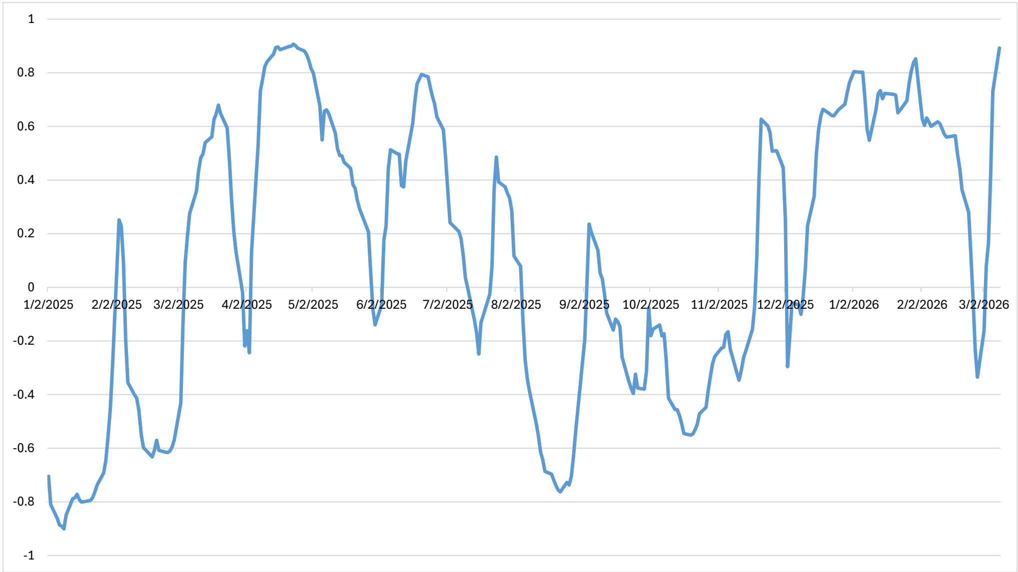


Source: MPOB, Apex Securities

Developments in Indonesia's biodiesel mandate. Indonesia's biodiesel policy has remained fluid since the start of CY25. While the government maintained the B40 mandate and deferred the B50 mandate in January due to technical and funding constraints, it also raised export levies to support biodiesel financing. More recently, the spike in crude oil prices has reopened the possibility of an earlier B50 rollout from 2HCY26, provided energy prices remain elevated. The rationale is straightforward: higher crude prices narrow the palm oil–gasoil (POGO) spread and reduce the subsidy burden associated with implementing higher biodiesel blending mandates. However, we believe the base case remains a B50 rollout in 2HCY26, as an earlier implementation could increase subsidy burdens should oil prices retreat following potential geopolitical de-escalation.

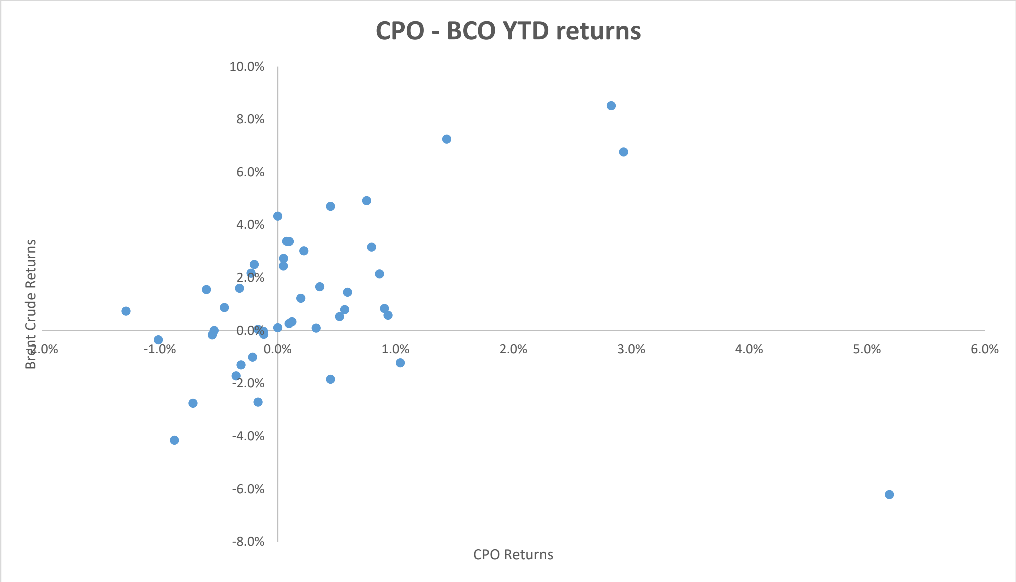
Implications from higher oil prices. Rising oil prices should keep CPO prices supported as long as geopolitical tensions persist or expectations of supply disruptions remain elevated, even if the conflict does not materially escalate. We observe that CPO–Brent price correlations typically strengthen for several weeks during periods of energy shocks. With correlations still elevated, this dynamic could continue to provide near-term support for CPO prices. (See Figures 5-7).

Figure 5: 30MA Rolling Correlation of CPO and Brent Crude Oil prices



Source: Apex Securities

Figure 6: CPO and Brent Crude Daily YTD returns



Source: Apex Securities

Figure 7: CPO and Brent Crude Five-year Daily Returns Matrix

		Brent Crude Oil					
		< -5%	-5% to -2.5%	-2.5% to 0%	0% to 2.5%	2.5% to 5%	> 5%
CPO Returns	<-2%	10	11	19	35	7	2
	-2% to -1%	7	15	50	49	10	4
	-1% to 0%	12	42	184	195	30	6
	0% to 1%	11	34	215	282	54	8
	1% to 2%	1	11	50	73	**22**	**7**
	> 2%	5	8	30	36	**10**	**5**

Source: Apex Securities

As shown in the returns matrix above, since 2020 there have been 49 trading days where Brent crude oil (BCO) prices rose by at least 2.5% while CPO prices gained at least 1% on the same day. While caution is warranted when interpreting correlations, the relationship nevertheless suggests that movements in Brent prices can influence CPO returns, partly reflecting palm oil's role as a biodiesel feedstock. As such, the duration of elevated energy prices will be important in shaping near-term CPO price dynamics. **Under our base case, we expect 2QCY26 CPO prices to average around RM4,300 before normalising to RM4,200 for the remainder of the year**. We therefore maintain our CY26 CPO price assumption at RM4,200, as the expected rebound in 2QCY26 should offset weaker-than-expected prices in January and February.

Change to Neutral stance. We **revise our sector outlook to Neutral** amid ongoing geopolitical uncertainties and a more balanced demand–supply outlook. While production levels remain strong, demand is expected to recover gradually with the anticipated rollout of Indonesia's B50 mandate in 2HCY26. For now, we maintain our HOLD calls on plantation stocks under our coverage, although we highlight dividend plays such as **Hap Seng Plantations (HOLD, TP: RM2.00)** and **Sarawak Plantations (HOLD, TP: RM3.76)**, which offer attractive dividend yields of around 6%.

Peers Comparison

Company	FYE	Recommendat	Price (RM) as at 11Mar26	Target Price (RM)	Potental Upside/Downside	P/E (x) 2026F	P/E (x) 2027F	P/B (x) 2026F	P/B (x) 2027F	Dividend Yield (%)	ESG Rating
Sime Darby Guthrie Bhd	Dec	HOLD	5.73	5.88	5.9%	19.0	16.5	1.8	1.7	3.3	★★★
Hap Seng Plantations Hldg Bhd	Dec	HOLD	2.17	2.00	-1.4%	9.4	9.5	0.6	0.6	6.4	★★★
Kuala Lumpur Kepong Bhd	Sept	HOLD	19.54	19.90	4.8%	19.3	19.3	1.3	1.2	3.0	★★★
Sarawak Plantations Bhd	Dec	HOLD	3.63	3.76	9.9%	9.6	10.2	1.1	1.1	6.3	★★★

Recommendation Framework:
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain + dividend yield

Sector Recommendations:
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:
★★★★★ : Appraised with 3% premium to fundamental fair value
★★★★ : Appraised with 1% premium to fundamental fair value
★★★ : Appraised with 0% premium/discount to fundamental fair value
★★ : Appraised with -1% discount to fundamental fair value
★ : Appraised with -5% discount to fundamental fair value

As of **Wednesday, 11 Mar, 2026**, the analyst(s), whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
(a) nil.