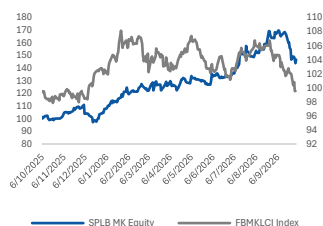


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KL Plantation Index vs FBMKLCI



Company	Rating	Closing Price as at 5 Oct 26	TP	Upside
SDG	BUY	6.02	7.70	31.5%
HAPL	BUY	2.34	3.31	47.9%
KLK	HOLD	20.86	23.80	17.0%
SPLB	BUY	4.28	4.67	15.3%
JPG	BUY	1.75	2.23	31.5%

Earnings Summary

SD Guthrie Bhd	BUY	TP: RM7.70
Earnings Summary	FY25	FY26F
Revenue (RMm)	20895	21835
PATAM (RMm)	2503	2949
CNP (RMm)	1982	2151
EPS - core (sen)	29	31
P/E (x)	23.8	22.0

Hap Seng Plantations Hldg	BUY	TP: RM 3.31
Earnings Summary	FY25	FY26F
Revenue (RMm)	702.4	762.6
PATAM (RMm)	124.9	185.6
CNP (RMm)	112.2	185.6
EPS - core (sen)	14.0	23.2
P/E (x)	18.1	10.9

Kuala Lumpur Kepong Bhd	HOLD	TP: RM23.80
Earnings Summary	FY25	FY26F
Revenue (RMm)	25019.5	25042.1
PATAM (RMm)	817.3	1353.4
CNP (RMm)	1159.1	1353.4
EPS - core (sen)	1.0	1.2
P/E (x)	21.0	18.0

Sarawak Plantations Bhd	BUY	TP: RM4.67
Earnings Summary	FY25	FY26F
Revenue (RMm)	571.6	580.7
PATAM (RMm)	105.8	117.6
CNP (RMm)	90.7	117.6
EPS - core (sen)	32.5	42.1
P/E (x)	14.0	10.8

Johor Plantations Group Bt	BUY	TP: RM2.23
Earnings Summary	FY25	FY26F
Revenue (RMm)	1724.7	1821.8
PATAM (RMm)	343.6	286.3
CNP (RMm)	343.2	286.3
EPS - core (sen)	13.7	11.5
P/E (x)	13.1	15.7

Plantation Sector

Smallholders in Focus, CPO Stays Firm

Overweight (↔)

- Smallholders remain a key focus, with replanting and MSPO certification likely to receive further support.
- CPO price forecast: RM4,500/tonne in CY26 and RM4,700/tonne in CY27.
- Rising estate costs remain a concern, particularly for labour, fertiliser and fuel.
- WPL could come under review, given the elevated CPO price environment.
- Minimum wage remains a key cost risk, with any increase adding pressure to plantation margins.
- Tighter supply should support CPO prices, with the lagged impact of El Niño likely to weigh on 2027 production.
- Biodiesel mandates provide structural demand support, although near-term B60 impact may be capped by production capacity.
- We remain **OVERWEIGHT**, underpinned by potentially tighter supply, resilient demand and elevated CPO prices.
- Our Top picks are HAPL (BUY; TP: RM 3.31) and JPG (BUY; TP: RM2.23).

Sector Outlook

Tighter Supply to Support CPO Prices with 2027 El Niño risks

We remain **OVERWEIGHT** on the plantation sector, underpinned by a supportive CPO price environment and improving supply-demand dynamics. While Malaysian CPO production has remained relatively resilient in 2026, we expect the impact of El Niño-like weather conditions to become more apparent with a lag, particularly from 1HCY27 onwards with prolonged dryness resulting in weaker FFB yields. Our forecasts already incorporate a **7% decline in monthly FFB yields in 1HFY27**, and any prolonged weather impact could provide further upside risk to our CPO price assumptions. As a result, **2027 could be a more supply-constrained year for the industry.**

CPO Price Forecast: RM4,500/tonne in CY26, RM4,700/tonne in CY27.

We maintain our **CY26 and CY27 average CPO price forecasts of RM4,500/tonne and RM4,700/tonne, respectively.** For CY27, we expect CPO prices to average **RM4,800/tonne in 1H and RM4,600/tonne in 2H.** We expect **CY27 supply tightness, stable underlying demand and firm biodiesel requirements** to remain supportive of CPO prices. Should the lagged El Niño impact extend beyond our current assumptions, there could be further upside risk to our CPO price forecasts.

Demand Outlook

Biodiesel Remains a Structural Demand Driver. Biodiesel remains an important structural support for palm oil demand, particularly with Indonesia continuing to increase its blending requirements. Indonesia has implemented the B50 biodiesel mandate in 2026 and is evaluating a higher B60 blend for 2027, although the timing remains subject to technical testing, feedstock availability and biodiesel production capacity.

We believe the immediate impact on CPO demand could be capped by existing biodiesel production capacity. Based on our previous estimates, Indonesia's B50 mandate would require around **3.08m tonnes of additional CPO feedstock annually**, while biodiesel production capacity was estimated at around 22m kilolitres against B50 demand of approximately 19m kilolitres. A further increase under B60 could therefore create a capacity shortfall and limit the near-term increase in CPO feedstock demand. As such, we have **not factored additional B60-related demand into our current CPO price assumptions.** The more important catalyst would be the timing of new biodiesel production capacity, which could eventually allow higher CPO feedstock demand.

Upstream Remains Preferred

We continue to favour upstream plantation exposure given the sector's operating leverage to CPO prices. Although estate costs have risen, plantation operations carry a relatively high proportion of

semi-fixed costs. Consequently, sustained CPO price strength should translate disproportionately into earnings growth for upstream planters.

This is particularly relevant under our current CPO assumptions, where the average price is expected to remain at or above RM4,500/tonne through CY26-27. We therefore prefer companies with **higher upstream exposure, stronger production profiles and direct earnings sensitivity to CPO prices**.

EUDR: Increasingly a Compliance Issue

The implementation of the EU Deforestation Regulation represents an additional regulatory requirement for palm oil producers and downstream players, with the regulation applying to large and medium operators from 30 December 2026.

However, we believe the risk to large Malaysian plantation companies is manageable. Established operators have already invested in traceability, mapping and due-diligence systems, reducing the incremental compliance burden. We therefore view EUDR as a **manageable compliance requirement rather than a major earnings overhang**.

Budget 2027 Preview

Smallholders and Replanting Likely to Remain the Focus.

We expect Budget 2027's plantation-specific measures to remain predominantly focused on independent smallholders, with **replanting support likely to be a key priority**. Malaysia's national replanting rate remains around 3.4%, below the 4% target, while the replanting rate among independent smallholders has been even lower (2025: 0.7%). With the Hormuz backdrop in mind, we believe that replanting activity has been stalled due to elevated estate costs from rising diesel and fertilizer prices. Thus, to maintain replanting momentum, we believe that government support would be required.

We therefore expect the government to consider an expansion of TSPKS through higher allocations, larger grants, improved financing terms or easier access for independent smallholders. This should be positive for the industry's long-term productivity, although the direct earnings impact on large listed planters is likely to remain limited.

MSPO Support to Improve Market Access.

Further assistance for MSPO certification could also feature in Budget 2027, particularly for remaining uncertified smallholders. Higher certification coverage should strengthen the marketability of Malaysian palm oil and improve the industry's readiness for increasingly stringent sustainability and traceability requirements. However, the direct earnings benefit to large plantation companies should remain limited as most major operators are already certified.

WPL Review Could Provide Some Cost Relief.

The current WPL structure imposes a 3% levy when monthly average CPO prices exceed RM3,150/tonne in Peninsular Malaysia and RM3,650/tonne in Sabah and Sarawak. Additionally, estate costs have risen significantly since then owing to the Hormuz conflict. Given that CPO prices have remained well above these thresholds, the sector continues to bear the levy despite higher estate costs. Therefore, we believe the industry could push for a higher WPL threshold or an adjustment to the levy structure to provide a tangible reduction in the effective levy burden. However, a significant raise to the threshold would be required owing to elevated CPO prices and measured against whether the current price/cost environment would persist long enough to justify such a change.

Minimum Wages.

The current RM1,700 minimum wage remains well below the RM3,100 "Living Wage" benchmark adopted by GLICs and GLCs. With the government seeking to narrow the structural wage gap, **we expect Budget 2027 to potentially announce a revision to the minimum wage, with the new rate potentially falling within the RM1,700–2,000 range**. For plantation, a potential increase in the minimum wage remains another key concern for plantation companies given the sector's relatively labour-intensive nature. Higher wages would increase estate operating costs, although the impact

should be partly mitigated by elevated CPO prices. We therefore view minimum wage as a **cost headwind** provided CPO prices remain around our current forecasts.

Figure 1: Sensitivity of Core Net Profit to Minimum Wage Increase

New min. wage (RM)	HAPL	JPG	SPLB	SDG	KLK
1,700	0.0%	0.0%	0.0%	0.00%	0.0%
1,800	-3.60%	-2.26%	-2.32%	-0.90%	-1.51%
1,900	-7.21%	-4.52%	-4.63%	-1.79%	-3.02%
2,000	-10.81%	-6.77%	-6.95%	-2.69%	-4.53%

Source: Apex Securities

Note: For companies with Indonesian exposure (SDG & KLK), we only utilize Malaysian workforce estimates.

Our View

We remain **OVERWEIGHT** on the plantation sector. Our positive view is underpinned by three key factors: **potentially tighter palm oil supply, resilient demand and elevated CPO prices**.

While 2026 production is expected to remain relatively resilient, we believe the lagged impact of El Niño could result in weaker FFB yields and tighter CPO supply from 1HCY27 onwards. At the same time, biodiesel mandates should continue to provide a structural demand floor, although the near-term contribution from Indonesia's B60 programme could be limited by biodiesel production capacity.

We maintain our **CY26/CY27 average CPO price forecasts at RM4,500/RM4,700 per tonne**, with CY27 prices expected to average RM4,800/tonne in 1H and RM4,600/tonne in 2H.

Our Top picks are **HAPL (BUY; TP: RM 3.31)** and **JPG (BUY; TP: RM2.23)**. Owing to their relatively high exposure to upstream operations, uptrends in CPO prices should be supportive for earnings. While estate costs have risen amid higher input and logistics costs following the Hormuz crisis, the semi-fixed costs nature of estate operations means that operating leverage allows an increase in CPO prices to flow disproportionately into earnings. Furthermore, expectations of El-Nino supply risks have been conducive for CPO prices and after considering a 7% drop in monthly FFB yields in 1HFY27, we believe that the event remains largely beneficial for the sector performance.

Figure 2: Peers Comparison

Company	FYE	Recommendation	Price (RM) as at 5 Oct 26	Target Price (RM)	Potential 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	BUY	6.02	7.70	31.5%	22.0	17.6	2.1	2.0	3.6%	★★★
Hap Seng Plantations Hldg Bhd	Dec	BUY	2.34	3.31	47.9%	10.9	9.6	0.9	0.9	6.3%	★★★
Kuala Lumpur Kepong Bhd	Sept	HOLD	20.86	23.80	17.0%	18.0	17.0	1.5	1.4	2.9%	★★★
Sarawak Plantations Bhd	Dec	BUY	4.28	4.67	15.3%	10.8	9.8	1.4	1.4	6.1%	★★★
Johor Plantations Group Bhd	Dec	BUY	1.75	2.23	31.5%	15.7	12.2	1.4	1.3	4.1%	★★★

Source: Apex Securities Bhd

Source: Apex Securities

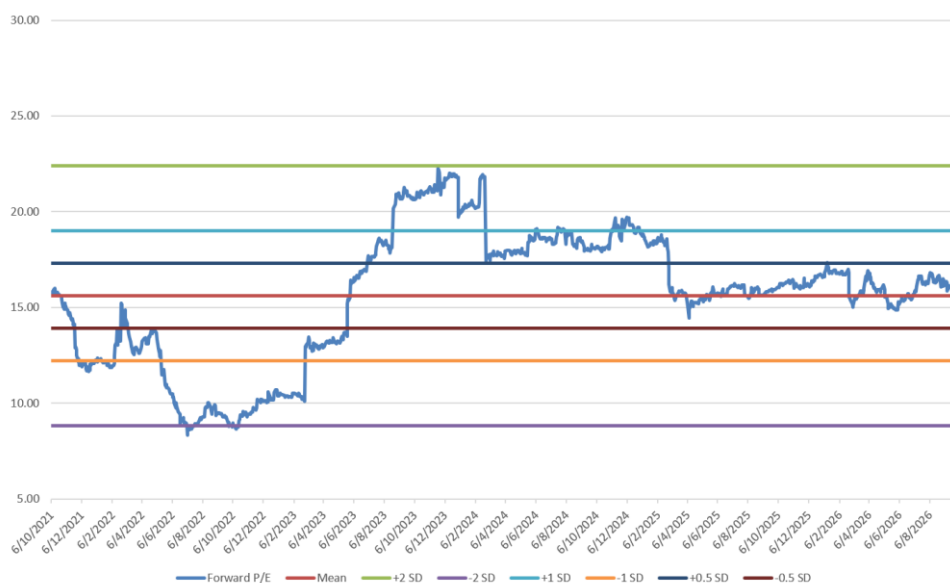
Valuation

The KL Plantation Index is currently trading at around **15.2x forward P/E**, below its **5-year mean of approximately 15.6x**, but above the **-0.5 standard deviation level of around 13.9x**. The sector has experienced a wide valuation range over the past five years, from around 8–10x forward P/E during the 2022 trough to above 20x during 2023-24.

Since early 2025, valuations have gradually de-rated towards their historical mean as improving supply expectations and competition from other vegetable oils offset support from higher biodiesel mandates and firm CPO prices.

At current levels, we view sector valuations as **reasonable rather than stretched**. A meaningful re-rating would likely require further earnings upgrades from stronger-than-expected CPO prices or a more pronounced tightening in palm oil supply.

Figure 3: 5-year chart of the KL Plantation Index's forward P/E



Source: Bloomberg, Apex Securities

Key Risks

- **Higher estate costs**, particularly from labour, fertiliser and fuel.
- **Unfavourable changes to the windfall profit levy**, including a lower threshold or higher effective levy.
- **Higher minimum wage**, increasing plantation labour costs.
- **Weaker-than-expected El Niño impact**, resulting in stronger FFB yields and palm oil production.
- **Higher-than-expected inventories**, particularly if Indian demand remains subdued.
- **Weaker export demand**, due to competition from soybean and other vegetable oils.
- **Delayed B60 implementation**, limiting incremental biodiesel-driven CPO demand.
- **Lower CPO prices**, should global vegetable oil supply recover more strongly than expected.

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

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(a) nil.
