It's Getting Hot in Here

Impact of Potential Very Strong El Nino

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Strategy Report

KEY INVESTMENT HIGHLIGHTS

- High probability of a very strong El Niño peaking around November 2026 to January 2027, with Malaysia facing hotter weather, reduced rainfall, haze, peatland and forest fire risks, and water stress.
- We maintain maintains a positive view on selected sectors, especially plantations, consumer, utilities, water, and fertiliser, as El Niño could lift CPO prices, bottled-water demand, electricity consumption, and water-security investment.
- Key risks remain, as drought may reduce oil palm yields, raise food and feed costs, pressure water supply, increase electricity operating costs, and create grid stress during peak cooling demand periods.
- Stock mentioned in this report: SD Guthrie (BUY, TP: RM7.00), Johor Plantation (NR, FV: RM1.51), Petronas Chemicals (BUY, TP: RM6.60), Cropmate (NR, FV: RM0.20), Hextar Industries (NR), Hap Seng Consolidated (NR), Imaspro (NR), Tenaga Nasional (BUY, TP: RM16.40), Spritzer (NEUTRAL, TP: RM2.45), Life Water (BUY, TP: RM1.63), 99 Speedmart (BUY, TP: RM4.37), Mr DIY (BUY, TP: RM2.13), Ranhill Utilities (BUY, TP: RM2.56), Taliworks (NR), PBA Holdings (NR), and Engtex Group consensus (NR).

Strong Chance of a "Super" El Nino

High probability of a very strong El Nino.

El Nino has returned as one of the most important climate and economic risks for 2026 and early 2027. On 11 June 2026, US' National Oceanic and Atmospheric Administration's (NOAA) Climate Prediction Center issued an El Nino Advisory, stating that El Nino conditions are present and expected to strengthen into the Northern Hemisphere winter 2026/27. NOAA's latest diagnostic discussion assigns a 63% probability that the event will become very strong during November 2026 to January 2027, a magnitude that would place the event among the largest El Niño episodes in the historical record going back to 1950.

No such thing as a "super" El Nino.

Although media headlines often use the phrase "super El Nino", scientific agencies such as the World Meteorological Organization (WMO) do not use "super" as an official classification. The accepted nomenclature is weak, moderate, strong, or very strong El Nino.

Above-normal temperatures were forecast "nearly everywhere".

The importance of the current event lies not only in the ocean signal but also in its timing. WMO's 2 June 2026 update warned that warm ocean waters were fuelling the development of El Nino, with an 80% likelihood of El Nino during June–August 2026 and probabilities near or above 90% for continuation until at least November. WMO also warned that above-normal temperatures were forecast "nearly everywhere" for June to August, making the current event especially relevant for agriculture, energy, water management, trade and public health.

We can think of El Nino as the Pacific Ocean's weather engine shifting into a different gear. Normally, winds push warm ocean water toward Indonesia and Southeast Asia, helping bring clouds and rain to the region. During El Nino, those winds weakened, so the warm water slides back toward the central and eastern Pacific near South America. When the warm water moves away from Southeast Asia, the rain clouds also shift away, which is why countries like Malaysia, Indonesia and parts of ASEAN often become hotter and drier. This change can have a global effect due to its influence on global wind, rain and temperature patterns.

A brief explanation of El Nino phenomenon.

Timeline of El Nino 2026/2027

The current El Nino developed rapidly during 2QCY26 where NOAA's 11 June 2026 diagnostic discussion states that El Nino conditions developed over the previous month, with above-average sea-surface temperatures across the central to eastern equatorial Pacific. The latest weekly Nino-3.4 index recorded +0.7°C, while the Nino-1+2 region reached +2.1°C, showing particularly strong warming in the eastern Pacific.

Current El Nino developed rapidly during 2QCY26.

NOAA's official ENSO strength probabilities show the chance of very strong El Nino rising from 6% in July–September to 48% in September–November, 62% in October–December, and 63% in November–January. Hence, the focus on the November 2026 to January 2027 window as the peak-risk period.

The critical period will be late 2026.

Meanwhile, MetMalaysia's long-range weather outlook aligns with this timeline as it states that El Nino is expected to strengthen and become established by July 2026, with potential to last at least into early 2027. For Malaysia, the timing is significant because the El Nino development phase overlaps with the Southwest Monsoon, which began on 14 May 2026 and is expected to continue until September, a period that normally has lower humidity, fewer rain clouds and more dry days.

MetMalaysia's long-range weather outlook aligns with this timeline.

A practical timeline can therefore be divided into six phases. May–June 2026 marks the transition and advisory phase; July–September 2026 is the development phase with Southwest Monsoon overlap; October–December 2026 is the strengthening phase; November 2026–January 2027 is the most likely peak window; February–April 2027 is the mature or early decay phase; and May–July 2027 would historically be the likely weakening or transition period.

Timeline can be divided into six phases.

Potential impact on Malaysia's climate

Malaysia and much of ASEAN sit close to the western Pacific and Maritime Continent, where El Nino typically reduces rainfall. NOAA states that during El Nino, rainfall tends to become reduced over Indonesia while rainfall increases over the tropical Pacific Ocean. MetMalaysia's June–November 2026 forecast warns that the Southwest Monsoon period already favours drier conditions, with lower humidity suppressing cloud formation and rainfall across much of the region.

El Nino typically reduces rainfall.

For Malaysia, the most immediate risks are hotter weather, reduced rainfall, haze, peatland and forest fire risk, and water stress. MetMalaysia warned in June 2026 that El Nino could bring hotter and drier conditions into early 2027, with reduced rainfall in several areas increasing the risk of water shortages, forest and peatland fires and haze episodes. NADMA

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also reported that MetMalaysia was intensifying monitoring and preparedness as the country heads into a hotter, drier period.

Potential sectoral beneficiaries

Some sectors will benefit from El Nino.

The clearest potential beneficiaries are upstream palm oil producers, water-related companies, bottled-water companies, selected fertiliser producers and utilities with exposure to higher cooling demand. Palm oil companies benefit if CPO prices rise faster than production volumes fall; water and bottled-water companies benefit from higher demand and water-security investment; fertiliser producers benefit if crop-input demand and selling prices remain strong; and power utilities benefit if heat increases electricity consumption.

Plantation (Maintain POSITIVE – tactical)

A strong El-Nino risk is emerging.

While the tailwind from energy-linked demand has moderated (current price less USD80/bbl), the increasing likelihood of an El Nino event could provide a fresh catalyst for CPO prices through potential supply-side disruptions, supporting our continued (tactical) Positive view on the sector. Based on NOAA projections, strong El-Nino conditions are expected to emerge from September 2026 and intensify between November 2026 and February 2027. Historically, very strong El Nino episodes were recorded in 1997/98 and 2015/16, both of which had meaningful implications for PO production and pricing. The impact is typically more pronounced in East Malaysia, where rainfall declined by 34% in Sabah and 24% in Sarawak during the 1997/98 event, compared to a smaller decline of around 15% in Peninsular Malaysia.

Importantly, El Niño does not immediately affect PO yields, as the biological impact is transmitted through earlier growth stages. MPOB data showed, prolonged water stress occurring 20-24 months before harvesting can reduce the female flower ratio, resulting in fewer fruit bunches being formed, while higher bunch abortion rates typically emerge around 8-10 months before harvesting. As a rain-fed crop, oil palm is highly dependent on consistent rainfall distribution, and any prolonged dry spell could eventually weigh on FFB yields and overall production, in our view.

CPO prices could find renewed support heading into 2HCY26.

During the strong El-Nino episodes of 1997/98 and 2015/16, CPO prices rose by approximately 13%-23% as production concerns tightened supply expectations. That said, weather alone does not determine CPO prices, as the market ultimately responds to the availability of supply. If inventories remain well above comfort levels - now at 2.4m tonnes (+22.4%ytd), the impact on prices may be less pronounced. While our coverage earnings outcome depends on the balance between higher prices and lower production volumes as well geographical exposure - where the hotspot may arise. Should the rise in CPO prices outweigh the decline in output, planters could still benefit from stronger profitability despite softer production.

Consumer (Maintain POSITIVE)

- Beverage producers

Direct demand catalyst for bottled water

El Nino is a direct demand catalyst for bottled water. Hotter and drier conditions increase hydration demand across retail, convenience stores, foodservice and out-of-home channels. As dry conditions intensify, droughts and water rationing become a possibility, and bottled

water consumption tends to step up from impulse and convenience purchases toward regular household stocking, supporting both volume and frequency of purchase.

Spritzer, Life Water Sabah and F&N to benefit.

Among our covered names, **Spritzer (NEUTRAL, TP: RM2.45)** is the largest domestic bottled water player and stands to benefit from elevated out-of-home and household consumption across both small-format and larger-format carton water. Its protected water sources, strong retail distribution and brand presence make it a key volume beneficiary. **Life Water Sabah (BUY, TP: RM1.63)** has an even more pronounced exposure through Sabah's structural water infrastructure deficit, where treated water access and distribution reliability remain meaningfully weaker than Peninsular Malaysia, and water disruptions during dry spells can make bottled water an essential household item rather than a discretionary purchase. Life Water's mass-market brands (K2, Sabah Water) are well-positioned to capture this demand, and production capacity remains below full utilisation, providing headroom for volume spikes without requiring new capex. **F&N (NEUTRAL, TP: RM28.43)** is a meaningful beneficiary of heat-driven beverage demand. 100PLUS, the country's leading isotonic brand, sees direct volume uplift during prolonged heatwaves as hydration and active lifestyle consumption increases. RTD beverages, sweetened condensed milk-based drinks and chilled products similarly benefit from hotter weather, while out-of-home channels such as restaurants and foodservice outlets tend to see higher drink attachment rates during dry spells.

Still, some downside risk due to water source supply.

That said, hotter weather is not a pure margin story for bottled water. Electricity is a cost variable, prolonged heatwaves increase cooling, refrigeration and production energy demand across the supply chain, and any upward revision in electricity tariffs during a period of elevated national power consumption would flow directly into operating costs. This is particularly relevant for Life Water, where Sabah electricity tariffs have already been revised upward. Both companies have invested in solar energy to partially cushion this, but solar generation alone may not fully offset a sustained increase in grid-level energy costs during peak demand periods. More fundamentally, El Nino introduces a source-side risk that is unique to this subsector. Spritzer relies on protected underground water sources in Perak, but Life Water draws from Sabah's municipal and natural water supply, which is exposed to the same drought conditions that drive demand. A prolonged dry spell could reduce rain and river flows and create raw water quality issues that affect production reliability. The paradox is that the hotter and drier it gets, the stronger the demand, but also the greater the risk to the water supply that these companies need to meet it. The net impact remains positive, demand driven earnings uplift should more than offset incremental cost pressure and supply side risk, but investors should monitor water reserve levels, electricity tariff developments and raw water quality as the El Nino intensifies.

- Retailers

Benefit from downtrading behaviour.

Value-oriented and essentials-led retailers are well positioned under an El Nino scenario because the weather phenomenon drives consumer behaviour in their favour. When food inflation accelerates, whether through higher agricultural input costs, supply disruptions or utility price pressure, households prioritise essential spending and trade down to more affordable channels. This directly benefits **99 Speedmart (BUY, TP: RM4.37)**, whose customer base is approximately 85% B40/M40 households purchasing food essentials that account for around 70% of revenue. During heat-driven inflation, these consumers become even more value-conscious, and 99 Speedmart's "Near 'n Save" neighbourhood format captures incremental visits as shoppers shift away from hypermarkets and higher-cost grocers. Hot

weather also lifts sales of fast-moving chilled beverages, bottled water, ice cream and convenience food, high-frequency, high-turnover categories that play directly into 99 Speedmart's centralised procurement and logistics model.

MR D.I.Y. benefits from a slightly different but equally supportive mechanism.

MR D.I.Y. (BUY, TP: RM2.13) benefits from a slightly different but equally supportive mechanism. Food inflation compresses household budgets, and when grocery bills rise, consumers trade down on non-food household essentials, cleaning products, storage containers, small hardware, kitchen items, stationery. MR D.I.Y.'s "Always Low Prices" positioning captures this wallet reallocation. El Nino can also create product-specific demand tailwinds: fans, cooling accessories, water storage containers, buckets, plumbing supplies and basic home maintenance items tend to see elevated sales during prolonged heatwaves and water rationing periods. With over 48% private-label penetration, MR D.I.Y. has direct control over pricing and mix, allowing it to maintain margin discipline even as landed costs fluctuate.

Mixed exposure for AEON.

AEON (BUY, TP: RM1.47) has a more mixed exposure. Its supermarket and grocery operations benefit from essential food spending and the "air-conditioned sanctuary" effect, prolonged heat drives footfall into malls as consumers seek shelter, supporting both tenant sales and F&B activity, which feeds through to property management rental income. However, AEON's discretionary retail categories (apparel, household goods, non-essential items) remain exposed to the same wallet compression that benefits 99 Speedmart and MR D.I.Y., as consumers redirect spending toward food and utilities. Additionally, AEON faces higher electricity and cooling costs during extended heatwaves given its large-format mall operations. The net effect is positive for traffic and PMS income but neutral-to-negative for discretionary retail margins, reinforcing our view that the essentials-and-PMS combination provides an earnings floor while discretionary recovery remains a lagging factor.

- Food producers

Complex exposure.

Food producers face the most complex El Nino exposure because they sit on both sides of the equation, costs rise while demand remains largely volume resilient. The key risk is margin compression. Poultry and livestock producers such as **Leong Hup (BUY, TP: RM1.07)** and **QL Resources (BUY, TP: RM4.11)** are exposed through imported corn and soybean meal, which form the bulk of feed costs. El Nino can disrupt crop yields in major grain-producing regions including the US, Brazil and Argentina, tightening global feed supply and lifting procurement costs. Extreme heat also introduces biological risk, heat stress can reduce feed intake, slow weight gain, increase mortality and lower egg productivity in poultry operations, although LHI's and QL's closed-house farming systems provide mitigation. Demand for affordable protein remains defensive even during food inflation, as chicken and eggs are household staples.

Cost pressures from agricultural commodities.

For packaged food manufacturers, El Nino pressures come through a broader basket of agricultural commodities. **Nestlé (NEUTRAL, TP: RM95.70)** faces cocoa, coffee, dairy, wheat and packaging cost risk, cocoa supply from West Africa and Robusta coffee production in Southeast Asia are particularly sensitive to El Nino-related drought. **F&N (NEUTRAL, TP: RM28.43)** carries similar exposure through dairy inputs, sugar and packaging, compounded by its upstream AgriValley dairy operations where heat stress can reduce cattle productivity and raise feed and water costs. **Hup Seng (BUY, TP: RM1.09)** is exposed through wheat flour, sugar, CPO-based shortening and edible oil, all of which can reprice during El Nino-driven supply disruptions. For these manufacturers, volume demand is defensive because consumers still

purchase staple packaged foods, but gross margin preservation becomes the central earnings question. Their ability to reprice is constrained by price sensitivity in the mass market, and government intervention through price controls on essentials such as flour, cooking oil, poultry and eggs remains a key downside risk if food inflation accelerates.

PPB Group occupies a unique position.

PPB Group (BUY, TP: RM11.20) occupies a unique position as Malaysia's leading flour miller and Wilmar associate holder. Malaysia imports all of its wheat, making PPB's FFM operations strategically important to the national food supply chain. El Nino-driven wheat price spikes can pressure flour milling margins, but PPB's procurement scale and forward sourcing capability provide some cushion. Importantly, the Wilmar associate stake introduces a hedge, higher CPO prices during El Nino can benefit Wilmar's commodity-linked earnings, partially offsetting margin pressure in PPB's own operations. QL Resources similarly benefits from its Palm Oil & Clean Energy (POCE) segment, which captures the CPO price tailwind during drought conditions. This portfolio effect makes diversified food groups more resilient than pure-play manufacturers, though the hedge breaks down in a severe recessionary scenario where commodity demand destruction removes the offset.

Utilities (Maintain POSITIVE)

- Power

Stronger electricity demand.

The potential intensifying of the El Nino phenomenon may result in stronger electricity demand, due to higher consumption of air-conditioning, fans, refrigeration and data centre cooling on the back of the hotter weather. This can lift electricity consumption, particularly during afternoon and evening peak periods when the load is highest, giving **Tenaga Nasional (BUY, TP: RM16.40)** stronger electricity sales. The power system may experience higher peak demand, requiring sufficient generation availability, grid capacity and reserve margin to maintain supply reliability. Back in 2016 when the El Nino heatwave occurred, the peninsula's peak demand surged +5.7% to 17,788MW on 20th April, as compared to 16,822MW in 2015. TNB's FY16, (Sep-15 to Aug 16) saw the peninsula recording an electricity demand growth of +4.0% to 108,858GWh, largely driven by a growth from the domestic sector to 25,323GWh (+11.2%). The quarter of 3QFY16 (Mar-May), the period of which the peak demand took place, saw among the highest electricity demand growth among the domestic sector by +16.0%yoy to 6,700GWh.

Potential stress on the grid.

While the impact on annual electricity sales may vary depending on economic conditions, the more immediate impact is the higher peak-load pressure rather than a uniform increase in baseload demand. During periods of higher temperatures, equipment such as transformers, cables, substations and distribution lines may run hotter than usual, which may potentially affect efficiency. This may raise the risk of localised constraints or more vulnerable to faults in areas where network capacity is already tight.

Higher reliance on thermal plants.

As the El Nino phenomenon causes lower rainfall, this could also affect power generation from hydro. As electricity demand is expected to increase, this requires heavier reliance on coal and gas generation, resulting in more fossil fuel burning. Solar farms may be potential beneficiaries of the phenomenon due to higher irradiance though this may be partially offset by efficiency lost due to heat. We remain positive on the renewable energy subsector as it is comparatively well-positioned to benefit from the dry-weather conditions and the country's structural RE

policy rollout. We continue to favour **Pekat (BUY, TP: RM2.03) and Samaiden (BUY, TP: RM1.88).**

- Water

Raise water demand.

Similarly for water utilities, a hotter weather will raise water demand among household, commercial and industrial segments. While this may be a boon for companies such as **Ranhill Utilities (BUY, TP: RM2.56)**, balancing the demand and supply becomes challenging when a prolonged dry weather affects raw water availability, especially in catchment areas and reservoirs that depend on rainfall, on top of higher evaporation.

Others (Fertilizer producers)

Fertiliser is a second-order El Nino beneficiary and risk factor.

Fertiliser is a second-order El Nino beneficiary and risk factor. On one hand, high crop prices and yield-protection behaviour can support demand for fertiliser inputs. On the other hand, drought can reduce fertiliser uptake, delay applications and weaken farmer affordability.

The supply side is also important.

The World Bank's April 2026 Commodity Markets Outlook states that fertiliser prices are projected to increase 31% in 2026, driven by a 60% jump in urea prices, while fertiliser affordability is expected to fall to its worst level since 2022. The World Bank warns that higher fertiliser costs can erode farmers' incomes and threaten future crop yields.

Petronas Chemicals is the clearest nitrogen-fertiliser proxy.

For Malaysian listed companies, **Petronas Chemicals (BUY, TP: RM6.60)** is the clearest nitrogen-fertiliser proxy because of its ammonia and urea exposure. We opine that this is due to its feedstock cost advantages, rising urea prices and stronger margin resilience amid supply disruption.

Other fertiliser related exposure.

Other Malaysian fertiliser-related names include **Hextar Industries (NR), Cropmate (NR), Hap Seng Consolidated (NR) and Imaspro (NR)**, though their exposure differs. Hextar Industries manufactures and distributes NPK compound, straight and mixture, organic and specialty fertilisers, while Cropmate is involved in compacted, blended and specialty fertiliser formulation. Hap Seng has fertiliser trading and an NPK granulation plant, while Imaspro has crop nutrition products such as foliar and organic fertilisers.

Potential stock beneficiaries

The potential to benefit from the El Nino event is as follow:

Theme	Company	Investment highlights from El Nino	Recomm.	TP (RM)
Plantation	SD Guthrie	• Benefit from higher CPO prices	BUY	7.00
Plantation	Johor Plantation	• Should the rise in CPO prices outweigh the decline in output, planters could still benefit from stronger profitability despite softer production.	n/a	FV: 1.51
Fertilizer	Petronas Chemicals	• Strong El Niño can support food/crop prices and fertiliser demand. • Benefits if urea/methanol prices stay elevated while its feedstock cost advantage protects margins.	BUY	6.60
Fertilizer	Cropmate	• It could benefit if plantations and farmers maintain fertiliser usage to protect yields, but drought can also delay application. • Fertiliser upcycle beneficiary due to higher urea prices and tight supply.	n/a	FV: 0.20
Fertilizer	Hextar Industries	• El Niño could increase focus on crop nutrition, especially for plantations, but benefit depends on affordability and rainfall.	n/a	n/a
Fertilizer	Hap Seng Consolidated	• Could benefit from fertiliser replacement demand or higher selling prices, but group exposure is diversified and fertiliser is only one segment.	n/a	n/a
Fertilizer	Imaspro	• El Niño can raise demand for yield-protection products, but Imaspro is more agrochemical/crop nutrition than mainstream fertiliser.	n/a	n/a
Electricity demand	Tenaga Nasional	• El Niño heat can lift cooling load, • Expect +5.4% electricity demand growth in CY26.	BUY	16.40
Bottled water	Spritzer	• Hotter/drier weather can support bottled water demand.	NEUTRAL	2.45
Bottled water	Life Water	• One of the clearer dry-season beneficiaries: • ASP hikes plus low-cost resin inventory support near-term margins.	BUY	1.63
Value retailer	99 Speedmart	• Potentially increase in spendings on beverages esp. bottled water.	BUY	4.37
Value retailer	Mr DIY	• Downtrading behaviour	BUY	2.13
Water utility	Ranhill Utilities	• El Niño/dry weather raises focus on water security. • Benefits from tariff revision, stronger water demand, data-centre growth in Johor.	BUY	2.56
Water infrastructure	Taliworks	• Dry conditions may accelerate attention to water infrastructure and supply security.	n/a	Consensus: 0.82
Water supplier	PBA Holdings	• Could be seen as a defensive water-security proxy during drought, but earnings are regulated and drought can also bring supply stress.	n/a	n/a
Water infrastructure	Engtex Group	• Drought and water-security capex can support water infrastructure spending.	n/a	Consensus: 0.61

Source: Bloomberg, MBSBR

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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology