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El Nino to benefit upstream planters, beverage firms

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Hotter weather to be bane for poultry, livestock players

ECONOMY

PETALING JAYA: The strength of the El Nino weather phenomenon could have a significant impact on the economy this year and into early 2027, according to MBSB Research.

El Nino has been identified as a critical climate and economic risk with a 63% probability of becoming a “very strong” event between November 2026 and January 2027.

This phenomenon typically brings hotter, drier conditions to the South-East Asian region, leading to reduced rainfall and water stress.

“Normally, winds push warm ocean water toward Indonesia and South-East 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 South-East Asia, the rain clouds also shift away, which is why countries like Malaysia, Indonesia and parts of Asean often become hotter and drier,” the research house explained in a report.

This shift in climate conditions can create a distinct divide between sectors that can leverage the heat and those facing severe margin compression.

The research house believes the upstream plantation companies stand out as a primary tactical beneficiary from a strong El Nino event.

While prolonged drought conditions will weigh on oil palm production and yields, strong El Nino episodes in the past (like 1997/1998 and 2015/2016) have led to price spikes of 13% to 23% in crude palm oil price as supply expectations tightened.

The problem could be made even worse by the lower application of fertilisers, prices of which have spiked following the United States-Iran war.

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MBSB Research

The Malaysian Palm Oil Council, in a recent release noted as the climate event is still emerging, the impact on palm oil yields and production would only become evident after a lag of nine to 12 months.

It added price gains may be capped by elevated vegetable oil inventories in key importing markets like China and India.

Furthermore, biodiesel economics have also become less supportive, as gasoil prices have fallen below palm oil prices in the futures market as peace talks between Iran and the United States advance.

MBSB Research suggested that if price increases outweigh production declines, planters like SD Guthrie Bhd and Johor Plantations Group Bhd could enjoy enhanced profitability.

Companies in the consumer space such as beverage producers like Spritzer Bhd could see hotter weather conditions drive a rise in demand for its products.

Spritzer is highlighted as a key beneficiary due to its strong brand presence, while Life Water Bhd is uniquely positioned to capture demand in Sabah, where structural water infrastructure deficits make bottled water a household essential during dry spells.

Fast moving consumer goods (FMGC) players like Fraser & Neave Holdings Bhd also stand to gain from increased consumption of its leading isotonic brand like *100Plus*.

MBSB Research noted value-oriented

retailers such as 99 Speed Mart Retail Holdings Bhd and MR DIY Group (M) Bhd could do well as heat-driven food inflation accelerates, households “trade down” to affordable neighbourhood channels.

99 Speedmart benefits from its essential-food-heavy revenue mix, while MR DIY sees elevated sales for “cooling” hardware like fans, water storage containers and plumbing supplies.

Power utility Tenaga Nasional Bhd is projected to benefit from higher electricity sales as cooling demand from air-conditioning and data centres peaks.

Sectors and companies that are likely to suffer under strong El Nino weather conditions are FMGC giant Nestle (M) Bhd and poultry and livestock players like Leong Hup International Bhd and QL Resources Bhd.

Such companies are exposed to rising costs for commodities such as corn and soybean, which spike when El Nino disrupts global grain yields.

Extreme heat introduces biological risks, such as heat stress, which can slow weight gain and increase mortality rates primarily in poultry.

MBSB Research noted that water utility companies like Ranhill Utilities Bhd could face a paradox as the rise in demand from households, commercial and industrial segments cannot be met adequately as raw water availability in reservoirs drop due to low rainfall and high evaporation.