First Resources (FR SP)

1H26: Above Expectations On Volume Growth And Stronger Downstream Margins

Highlights

- FR delivered 1H26 core net profit of US$216.2m (+42.2% yoy), above expectations at 56%/55% of our/consensus previous full-year forecasts respectively. 2Q26 core net profit of US$119.6m was up 23.8% qoq on higher palm product prices and 38.9% yoy on higher sales volume.
- Sales volume ran ahead of production on a net inventory drawdown of 39,000 tonnes (1H25: 75,000-tonne build-up). FFB output grew 10.2% yoy and CPO production rose 18.4% yoy on a full six-month contribution from PT Austindo Nusantara Jaya (ANJ) against two months in 1H25, while refinery EBITDA nearly doubled to US$62.8m.
- We lift 2026-28 net profit forecasts by 7-13%. Maintain BUY with a higher target price of S$4.57 (from S$3.65), based on 14x 2027F PE.

1H26 Results

Year to 31 Dec (US$m)	2Q26	qoq %	yoy %	1H26	hoh %	yoy %
Revenue	496	4.0	26.0	974	(1.4)	44.5
EBITDA	179	7.9	15.1	344	(2.3)	31.3
Net profit	138	43.2	60.6	235	14.8	57.4
Core net profit	120	23.8	38.9	216	4.9	42.2
EBITDA margin (%)	36.0	34.7	39.4	35.4	35.7	38.9

Source: First Resources, UOB Kay Hian

Analysis

- **Above expectations.** First Resources' (FR) revenue rose 44.5% yoy to US$973.6m, EBITDA increased 31.3% yoy to US$344.4m, and reported net profit rose 57.4% yoy to US$234.9m. With the company's financial performance typically stronger in the second half of the calendar year, we consider our previous full-year forecasts too conservative.
- **Strong production momentum.** FFB rose 10.2% yoy to 2.23m tonnes and CPO production rose 18.4% yoy to 656,605 tonnes, with the oil extraction rate up to 21.9% (1H25: 21.7%). On a clean quarter (ANJ was already consolidated in 2Q25), 2Q26 FFB rose 2.9% yoy and CPO rose 6.9% yoy. Realised CPO price was broadly flat at US$860/tonne (1H25: US$873/tonne).

Key Financials

Year to 31 Dec (US$m)	2024	2025	2026F	2027F	2028F
Net turnover	1,038.7	1,661.1	2,016.2	2,063.4	2,116.7
EBITDA	399.0	614.8	730.5	678.7	655.6
Net profit (rep./act.)	245.8	353.9	436.9	399.7	384.7
Net profit (adj.)	245.8	356.4	436.9	399.7	384.7
EPS (US cent)	15.5	22.5	27.6	25.2	24.3
PE (x)	19.1	13.1	11.5	11.7	12.2
P/B (x)	3.4	3.0	2.9	2.5	2.3
EV/EBITDA (x)	15.3	9.9	8.7	10.2	10.3
Dividend yield (%)	2.5	3.7	5.2	5.1	4.9
ROE (%)	18.3	24.4	26.9	22.3	19.7
Consensus net profit	n.a.	n.a.	393.1	411.8	405.7
UOBKH/Consensus (x)	n.a.	n.a.	1.11	0.97	0.95

Source: First Resources, Bloomberg, UOB Kay Hian

Analyst(s)

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BUY (Maintained)

Share Price	S$3.95
Target Price	S$4.57
Upside	+15.6%
Previous TP	S$3.65

Stock Data

Sector	Consumer Staples
Bloomberg ticker	FR SP
Shares issued (m)	1,584.1
Market cap (S$m)	6,257.1
Market cap (US$m)	4,916.2
3-mth avg daily t'over (US$m)	3.3

Price Performance (%)

52-week high/low: S$3.95/S$1.62

1mth	3mth	6mth	1yr	YTD
15.2	3.7	74.8	124.4	89.9

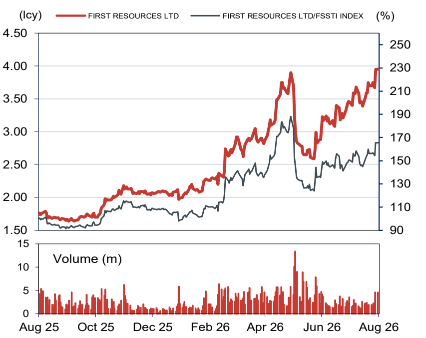
Major Shareholders (%)

Eight Capital Inc.	67.5
Infinite Capital Fund Limited	5.8

Balance Sheet Metrics

FY26 NAV/Share (US$)	1.08
FY26 Net Debt/Share (US$)	0.33

Price Chart



Source: Bloomberg

Company Description

First Resources is an Indonesia-based oil palm producer with 273,156ha of planted area. Operations span oil palm cultivation and palm oil mills, plus downstream refining, fractionation, biodiesel and kernel crushing plants.

- **Plantations lagged on cost.** Segment EBITDA rose 13.0% yoy to US$279.3m, well behind the 27.1% revenue growth, with margin narrowing to 39.2% from 44.1% in 1H25. Management attributes most of this to a deliberate step-up in third-party fruit and CPO purchases (above 15% of intake) taken to lift mill utilisation. Bought fruit carries a thinner margin than own crop, so its higher share dilutes the margin even as it adds absolute profit. Fertiliser is locked in for the rest of 2026 at a 30% higher price compared to last year.
- **Refining margins soared but are not repeatable.** Segment EBITDA almost doubled to US$62.8m on a 34.0% increase in volume and a margin of 7.3% (1H25: 5.5%). In 2Q26, processing contributed around 20% of group EBITDA against a normal 10%. The driver was a substantial discount in the domestic CPO price while export cancellations pushed volume into the local market during the uncertainty over the new export framework, which FR captured as refining spread. Management says the discount has faded; we assume it will normalise in 2H26.
- **Guidance brackets our numbers.** Management has guided for 5-10% FFB and 9-10% CPO production growth for 2026. Our assumptions are at 6.1% and 9.6% respectively.
- **Balance sheet and cash flow.** Net gearing was unchanged at 0.40x and operating cash flow before working capital rose to US$367.1m from US$263.7m. Cash of US$229.2m now includes US$115.4m restricted under Indonesia's revised export proceeds rules. The interim dividend was raised by 78% to 8.00 S cents (1H25: 4.50 S cents), at a 45% payout.

Valuation/Recommendation

- **Maintain BUY with a higher target price of S$4.57** (previously S$3.65), based on 14x 2027F PE against 12x. We see upside risk to CPO prices in 2H26 and more materially into 2027 as El Nino-induced dryness in late-26 manifests after a 9-18-month lag. The stock currently trades at 11.5x 2026F PE.
- **Higher realised CPO price should support earnings.** We maintain our CPO assumption at RM4,500/tonne for 2026, netting to US$858/tonne after the US$165/tonne levy. Management sees scope for US$950/tonne or slightly above, and has not forward-sold, particularly for 2027. Every US$50/tonne is worth about US$70m to group EBITDA.

Earnings Revision/Risk

- **We raise 2026-28 net profit forecasts by 12.8%, 8.1% and 7.3% respectively.** The upgrade is led by downstream, where we lift 2026 refining EBITDA estimate to US$118m from US$55m on throughput of 1.82m tonnes (from 1.23m) and unit EBITDA of US$65/tonne (from US$45). For upstream, we raise 2026F CPO production to 1.43m tonnes (+9.6% yoy, within management's 9-10% guidance) and re-base palm kernel pricing to US$788/tonne from US$706. Our 2026 EBITDA estimate is now US$730.5m (+18.8% yoy).
- **Key risks. a)** 2027 production, as the current dryness feeds through with a 6-9 month lag; b) a sharper fall in CPO prices; c) further changes to the export levy or repatriation rules; and d) faster normalisation of the domestic refining spread.

Share Price Catalyst

- **Stronger 2H26 peak crop.** Management still expects 4Q to be the seasonal high. A delivery at or above our 3% yoy assumption would support consensus upgrades.
- **B50 ramp-up.** FR is fully allocated at around 700,000 tonnes with plants at full utilisation; a larger 2027 allocation would lift volume.

Earnings Revision

Net profit (adj., US$m)	2026F	2027F	2028F
Previous	387.2	369.6	358.4
Revised	436.9	399.7	384.7
% change	12.8	8.1	7.3

Source: UOB Kay Hian

Segmental EBITDA

US$m	1H26	1H25	yoy %
Plantations and palm oil mills	279.3	247.1	13.0
Refinery and processing	62.8	32.2	94.7
Inter-segment elimination	2.3	(17.1)	n.m.
Total EBITDA	344.4	262.3	31.3
Segment margin (%)			
Plantations and palm oil mills	39.2	44.1	(4.9)ppt
Refinery and processing	7.3	5.5	+1.8ppt

Source: UOB Kay Hian

1H26 Production Summary

'000 tonnes	1H26	1H25	yoy %
FFB harvested	2,234.8	2,027.1	10.2
CPO produced	656.6	554.5	18.4
PK produced	143.1	122.2	17.1
Efficiency			
FFB yield (tonnes/ha)	9.6	9.6	–
OER (%)	21.9	21.7	+0.2ppt

Source: UOB Kay Hian

Profit & Loss

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Net turnover	1,661.1	2,016.2	2,063.4	2,116.7
EBITDA	614.8	730.5	678.7	655.6
Deprec. & amort.	(115.0)	(116.0)	(118.8)	(119.2)
EBIT	494.6	614.5	559.9	536.4
Total other non-operating income	15.0	9.0	9.0	9.0
Net interest income/(expense)	(29.6)	(36.5)	(31.8)	(28.1)
Pre-tax profit	483.7	586.8	537.1	517.3
Tax	(110.1)	(130.3)	(119.5)	(115.4)
Minorities	(19.6)	(19.6)	(18.0)	(17.3)
Net profit	353.9	436.9	399.7	384.7
Net profit (adj.)	356.4	436.9	399.7	384.7

Balance Sheet

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Fixed assets	788.0	822.9	827.0	828.2
Other LT assets	1,271.4	1,205.9	1,270.9	1,335.9
Cash/ST investment	292.2	331.8	414.1	497.5
Other current assets	541.0	473.5	492.6	508.3
Total assets	2,892.6	2,834.2	3,004.6	3,169.8
ST debt	96.8	80.0	80.0	80.0
Other current liabilities	207.4	215.3	217.1	219.0
LT debt	857.6	770.0	770.0	770.0
Other LT liabilities	63.1	(93.2)	(102.3)	(110.2)
Shareholders' equity	1,537.6	1,712.4	1,872.2	2,026.1
Minority interest	130.0	149.7	167.6	184.9
Total liabilities & equity	2,892.6	2,834.2	3,004.6	3,169.8

Cash Flow

Year to 31 Dec (US$m)	2025	2026F	2027F	2028F
Operating	230.9	655.4	516.2	508.3
Pre-tax profit	483.7	586.8	537.1	517.3
Tax	(110.1)	(130.3)	(119.5)	(115.4)
Deprec. & amort.	115.0	116.0	118.8	119.2
Working capital changes	(256.0)	90.3	(17.4)	(13.8)
Other operating cashflows	(1.6)	(7.5)	(2.8)	0.9
Investing	(125.7)	(245.7)	(205.7)	(205.7)
Capex	(120.0)	(240.0)	(200.0)	(200.0)
Financing	293.9	(366.6)	(224.8)	(215.8)
Dividend payments	(171.1)	(262.1)	(239.8)	(230.8)
Net change in debt	465.0	(104.4)	15.0	15.0
Net cash inflow/(outflow)	399.1	43.0	85.7	86.7
Beginning cash & cash equivalent	103.1	292.2	331.8	414.1
Ending cash & cash equivalent	292.2	331.8	414.1	497.5

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	37.0	36.2	32.9	31.0
Pre-tax margin	29.1	29.1	26.0	24.4
Net margin	21.5	21.7	19.4	18.2
ROE	24.4	26.9	22.3	19.7
Growth				
Turnover	59.9	21.4	2.3	2.6
EBITDA	54.1	18.8	(7.1)	(3.4)
Net profit (adj.)	45.0	22.6	(8.5)	(3.7)
Leverage				
Debt to equity	62.1	49.6	45.4	42.0
Net debt/(cash) to equity	43.1	30.3	23.3	17.4
Interest cover (x)	11.5	12.4	12.0	11.5
Operating				
FFB harvested ('000 tonnes)	4,678	4,965	4,965	5,008
CPO produced ('000 tonnes)	1,303	1,427	1,427	1,436
CPO ASP net of levy (US$/t)	825	858	835	824