

Plantation

Firmer 2027 CPO Lifts Upstream Earnings

Highlights

- We raise our 2027 CPO price assumption to RM4,700/tonne from RM4,400, as El Niño-induced dryness should strain production while Indonesia's B50 mandate would limit the country's exportable supply.
- We increase our 2027 net profit forecasts for Bumitama (BAL) by 9.6% and 12.1% for First Resources (FR). Indonesian producers keep less of each ringgit of price upside than Malaysian peers, as the export levy rises with the reference price.
- We raise our target prices for BAL to S\$2.54 (from S\$2.15) and FR to S\$5.09 (from S\$4.57), and maintain BUY on both. BAL remains our top pick as it has the purest upstream exposure, with 21% upside to its share price.
- Maintain OVERWEIGHT on the sector.

Analysis

- **Indonesian supply is holding up for now.** The Indonesian Palm Oil Association's (GAPKI) July data put production at 5.37m tonnes, up 1.9% mom, taking January-July output to 35.65m tonnes, up 6.4% yoy. Ending stocks stood at 2.76m tonnes, 7.4% higher than a year earlier. The squeeze will come in 2027 - we expect Indonesian output to fall 3.0% to 52.87m tonnes as the El Niño rainfall deficit feeds through to the harvest.
- **B50 to limit Indonesia's exportable supply of CPO.** Biodiesel absorbed 7.86m tonnes of palm oil in January-July, up 8.6% yoy, with July's 1.29m tonnes being the highest monthly figure this year. Total domestic consumption rose 6.4% yoy to 15.22m tonnes, well ahead of exports at +2.9%. With the 50% biodiesel mandate reaching full pump coverage on 1 October, we expect Indonesian exports to fall 10.6% to 22.99m tonnes in 2027.
- **Indonesian growers keep less of the upside.** Indonesia's export levy rises with the CPO reference price, so part of any price gain is deducted before it reaches growers. Our RM300/tonne upgrade is worth about US\$70/tonne, and we raise our 2027 levy assumptions by 10% of that increase, to US\$251/tonne for BAL and US\$172/tonne for FR. The higher levy takes about 2ppt off each company's 2027 earnings upgrade.
- **El Niño trims the 2027 crop.** We now assume own fresh fruit bunch (FFB) output falls 1.0% yoy in 2027 for both companies, from +2.5% previously for BAL and flat for FR. For BAL, we maintain our previous forecast for bought-in fruit volumes, so its 2027 CPO output is 2.1% below our earlier estimate. Our 2028 FFB growth assumptions are unchanged, as the lower 2027 base carries into 2028.
- **Earnings estimates.** We raise our 2027 net profit forecasts by 9.6% for BAL and 12.1% for FR. The higher CPO price alone adds 15-20% to the companies' 2027 earnings, before the negative impact of the higher export levy (-1.6ppt to -2.4ppt) and the smaller FFB output (-1.6ppt to -7.5ppt) are taken into account.

Peer Comparison

			Price	Target	Upside	Last	PE			Yield	ROE	Market	Price/
Company	Ticker	Rec*	29 Sep 26	Price	To TP	Year	2025	2026F	2027F	2026F	2026F	Cap.	NAV ps
			(\$S)	(\$S)	(%)	End	(x)	(x)	(x)	(%)	(%)	(\$Sm)	(x)
Bumitama Agri	BAL SP	BUY	2.10	2.54	21.0	Dec-26	15.9	12.3	11.6	5.7	24.6	3,676.9	2.9
First Resources	FR SP	BUY	4.47	5.09	13.9	Dec-26	15.4	12.6	12.3	4.8	26.9	7,080.8	3.2

Source: Bloomberg, UOB Kay Hian. PE and yields at US\$1:S\$1.29

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OVERWEIGHT (Maintained)

Segmental Rating

Segment	Rating
Singapore	OVERWEIGHT (Maintained)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (S\$)	Target Price (S\$)
Bumitama Agri	BAL SP	BUY	2.10	2.54

Source: Bloomberg, UOB Kay Hian

CPO Price Assumptions (RM/Tonne)

Calendar year	Previous	New	Change
2026F	4,500	4,500	Unchanged
2027F	4,400	4,700	+6.8%
2028F	4,350-4,450	4,500	+1-3%

Source: UOB Kay Hian

FFB Production Growth (%)

Company	Revised			Previous		
	FY26F (%)	FY27F (%)	FY28F (%)	FY26F (%)	FY27F (%)	FY28F (%)
Bumitama Agri	9.8	-1.0	0.8	9.8	2.5	0.8
First Resources	6.1	-1.0	0.9	6.1	0.0	0.9

Source: Respective companies, UOB Kay Hian. Own FFB (nucleus and plasma)

Earnings, Rating And Target Price Revision

Company	Net Profit Changes		Target Price Changes		Rating Changes	
	FY27F (%)	FY28F (%)	Previous (\$)	New (\$)	Previous	New
Bumitama Agri	9.6	-3.5	2.15	2.54	BUY	BUY
First Resources	12.1	5.9	4.57	5.09	BUY	BUY

Source: UOB Kay Hian. Net profit changes in reporting currency (Rp for BAL; US\$ for FR)

Valuation/Recommendation

- **Maintain OVERWEIGHT.** Firmer CPO prices in 2027 and a tightening Indonesian balance support upstream earnings, although the export levy and a smaller crop limit how much of the price gain Indonesian growers can keep. We keep our valuation bases and multiples unchanged.
- **Top pick: BAL (BUY/Target: S\$2.54).** BAL is the purest upstream name in our coverage and the most sensitive to CPO prices. Our target price is based on 14x 2027F PE, and the stock offers a 2026 dividend yield of 5.7%.
- **Maintain BUY on FR with a higher target price of S\$5.09 (from S\$4.57).** The target price remains based on 14x 2027F PE. The higher CPO price lifts 2027 earnings per share by 12% to 28.3 US cents (36.3 S cents), leaving 13.9% upside. Its refining business remains a strength.

Sector Risks

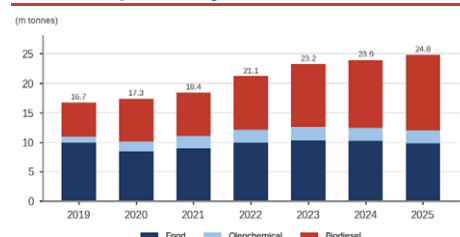
- **B50 slippage following a steep decline in crude oil prices.** Allocation or pump-coverage slippage would put Indonesian exports back into the market and is the main downside risk to our 2027 forecast.
- **A weaker-than-expected El Niño.** A milder dry spell would limit the 2027 crop loss in Indonesia and Malaysia, allowing stocks to rebuild and weigh on CPO prices.
- **Higher Indonesian export levies.** The government could raise the levy further to fund biodiesel subsidies, cutting the price Indonesian growers receive.
- **Agrarian reform law could force landbank adjustments.** Civil society groups reviewing the drafts say concession holders may have to give up at least 20% of their land for redistribution, or pay an equivalent 20% of profits, within a year. The final text is not yet public, and listed companies may be partly exempt.

Indonesia Palm Oil Production And Ending Stocks



Source: GAPKI, UOB Kay Hian

Indonesia Domestic Palm Oil Consumption By Use



Source: GAPKI, UOB Kay Hian

Past El Nino Episodes

Event	Next-crop vs trend (%)	Note
1982-83	-16.4	Record event: +2.40c
1997-98	-17.3	Deepest production cut
2009-10	-8.4	Moderate impact
2015-16	-16.1	Severe; Argentine floods
2023-24	+10.1	Exception: labour return

Source: Bloomberg, UOB Kay Hian

Palm Oil And Soybean Oil Prices



Source: Bloomberg, UOB Kay Hian

CPO Price Sensitivity (Per Rm100/Tonne)

Company	FY27F Net Profit (%)
Bumitama Agri	6.0
First Resources	4.0

Source: UOB Kay Hian

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