

26 February 2020

Agriculture | Plantation

## First Resources (FR SP)

**Buy** (Maintained)

### Spike In Downstream Margins; Keep BUY

Target Price (Return): SGD2.00 (21%)  
 Price: SGD1.66  
 Market Cap: USD1,879m  
 Avg Daily Turnover (SGD/USD) 1.96m/1.44m

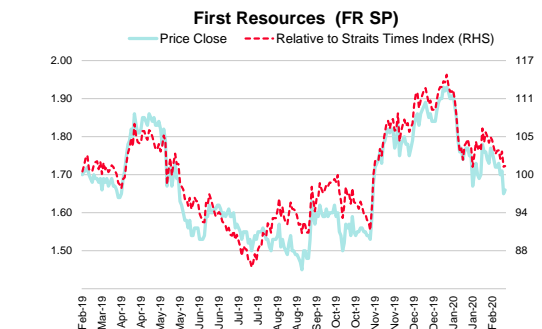
- **Keep BUY, with new SGD2.00 TP from SGD2.30, 21% upside**, derived from 17x 2020F P/E. FY19 earnings slightly surpassed our expectations, but were below consensus projections. We like First Resources for its cost-efficient operations, while biodiesel expansion plans will capture upside in Indonesia's biodiesel mandate.
- **FY19 core net profit was above our expectations**, comprising 112% of our forecast, but below consensus at 95% of earnings. The main differences were slightly lower-than-expected FY19 unit costs (estimated at -3% YoY) and higher-than-expected downstream margins which rose to a high of 11.4% in 4Q19 (from 4.3% in 3Q19). FR drew down 53,000 tonnes of CPO during FY19 vs FY18's build-up of 69,000 tonnes.
- **FR declared a final net DPS of 1.725 SG cents**, bringing FY19 DPS to 2.35 SG cents, or net payout of 32% and net yield of 1.4%.
- **Briefing highlights:**
  - Management is targeting 0-5% FFB output growth** for FY20, expecting lower fertilisation and dry weather in 3Q19 to impact productivity. FR is targeting to replant 3,000ha of land in FY20, while 5,000ha is expected to come into maturity. We lower our FFB growth forecast to 2.5% for FY20 (from 6%) and to 6-8% (from 8-10%) for FY21-22;
  - FR achieved a cash cost of USD230.00/tonne in FY19**, down from FY18's USD237.00/tonne. For FY20, it is targeting a cash cost of between USD210.00-230.00/tonne, coming from lower fertiliser prices (-10% YoY), but offset slightly by higher minimum wages (+8% YoY). We are projecting cash cost of between USD230.00-240.00/tonne for the next few years;
  - Downstream margins jumped in 4Q19 to 11.4%** from 4.3% in 3Q19 (4Q18: 4.7%), coming from better margins from biodiesel exports and lower feedstock inventory costs. Both its refinery and biodiesel plants were running at full capacity in 4Q19. For FY20, FR's biodiesel allocation of 280k kilolitres (+63%YoY) implies that all of its capacity will be for domestic use.
  - FR is expanding its downstream capacity** by putting up a new plant in East Kalimantan (600k tonne refining capacity and 250k tonne biodiesel capacity). This will cost USD100m and will start operations in 2022. This is to cater for the lower feedstock pricing in East Kalimantan which will boost refining margins, increasing biodiesel mandates in Indonesia and export demand for biodiesel.
- **BUY maintained.** Post-adjustment for lower FFB growth, we tweak our FY20-21 forecasts down by 5-8% and introduce FY22F. Our TP falls to SGD2.00 from SGD2.30 on a slightly lower 17x 2020 P/E (from 18x), 1SD above FR's historical average, and in line with peers. This implies an EV/ha of USD13,000, in line with its peers' USD10,000-15,000 range.

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(12.6)	(5.2)	(9.3)	7.8	(1.8)
Relative	(10.6)	(2.8)	(7.4)	6.3	1.7
52-wk Price low/high (SGD)	1.45 – 1.93				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (USDm)	633	615	600	610	743
Recurring net profit (USDm)	112	89	135	136	141
Recurring net profit growth (%)	(18.2)	(21.3)	53.0	0.5	4.0
Recurring P/E (x)	16.71	21.23	13.88	13.81	13.28
P/B (x)	2.0	1.8	1.6	1.5	1.4
P/CF (x)	12.42	12.74	7.77	8.34	9.14
Dividend Yield (%)	2.7	2.0	2.5	2.5	2.6
EV/EBITDA (x)	8.66	10.43	7.36	7.09	6.62
Return on average equity (%)	12.6	9.0	12.4	11.4	10.9
Net debt to equity (%)	28.5	28.1	18.6	10.9	5.1

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (USD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.07	0.06	0.09	0.09	0.09
Agriculture	DPS	0.03	0.02	0.03	0.03	0.03
<b>First Resources</b>	BVPS	0.59	0.66	0.72	0.79	0.85
FR SP	Return on average equity (%)	12.6	9.0	12.4	11.4	10.9
Buy						
	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Recurring P/E (x)	16.71	21.23	13.88	13.81	13.28
	P/B (x)	2.0	1.8	1.6	1.5	1.4
	FCF Yield (%)	3.9	1.9	7.0	6.1	5.6
	Dividend Yield (%)	2.7	2.0	2.5	2.5	2.6
	EV/EBITDA (x)	8.66	10.43	7.36	7.09	6.62
	EV/EBIT (x)	11.62	15.31	9.94	9.87	9.34
	<b>Income statement (USDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total turnover	633	615	600	610	743
	Gross profit	346	298	368	369	397
	EBITDA	256	215	295	296	307
	Depreciation and amortisation	(65)	(69)	(76)	(83)	(89)
	Operating profit	191	147	218	213	218
	Net interest	(17)	(16)	(13)	(11)	(9)
	Pre-tax profit	181	131	205	201	209
	Taxation	(53)	(38)	(61)	(57)	(59)
	Reported net profit	120	89	135	136	141
	Recurring net profit	112	89	135	136	141
	<b>Cash flow (USDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Change in working capital	(36)	(12)	21	(3)	(34)
	Cash flow from operations	151	147	242	225	206
	Capex	(77)	(113)	(110)	(110)	(100)
	Cash flow from investing activities	(94)	(120)	(110)	(110)	(100)
	Dividends paid	(81)	(33)	(34)	(34)	(35)
	Cash flow from financing activities	(197)	(8)	(134)	(84)	(85)
	Cash at beginning of period	234	55	59	43	75
	Net change in cash	(139)	19	(2)	31	20
	Ending balance cash	94	75	57	75	95
	<b>Balance sheet (USDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total cash and equivalents	100	102	86	118	138
	Tangible fixed assets	986	1,066	1,100	1,127	1,137
	Total assets	1,571	1,709	1,723	1,785	1,860
	Short-term debt	30	195	195	145	95
	Total long-term debt	351	217	117	117	117
	Total liabilities	585	607	511	462	422
	Total equity	986	1,102	1,212	1,323	1,438
	Total liabilities & equity	1,571	1,709	1,723	1,785	1,860
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	(2.1)	(2.9)	(2.3)	1.6	21.8
	Recurrent EPS growth (%)	(18.2)	(21.3)	53.0	0.5	4.0
	Gross margin (%)	54.6	48.5	61.3	60.6	53.5
	Operating EBITDA margin (%)	40.4	35.0	49.1	48.5	41.4
	Net profit margin (%)	18.9	14.5	22.5	22.3	19.1
	Capex/sales (%)	12.2	18.3	18.3	18.0	13.5
	Interest cover (x)	9.86	8.32	15.59	18.08	22.93

Source: Company data, RHB

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Figure 1: Results review

FYE Dec (USDm)	4Q18	3Q19	4Q19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)	Comments
<b>Revenue</b>	145.5	137.6	184.2	33.9	26.6	633.5	614.9	(2.9)	See below.
<b>EBITDA</b>	50.0	61.1	71.9	17.6	43.6	260.3	215.7	(17.1)	
<i>EBITDA margin (%)</i>	34.4	44.4	39.0			41.1	35.1		
Depreciation	(16.6)	(18.4)	(18.7)	1.7	12.4	(67.3)	(70.9)	5.3	
<b>EBIT</b>	33.4	42.7	53.2	24.5	59.1	193.1	144.9	(25.0)	
<i>EBIT margin (%)</i>	23.0	31.0	28.9	60.7	(10.6)	30.5	23.6		
Interest expense	(4.4)	(4.6)	(4.5)	(1.7)	3.1	(19.4)	(17.6)	(9.1)	
Interest income	0.3	0.4	0.3	(18.3)	(2.8)	2.3	1.6	(31.6)	
Associates	0.0	0.0	0.0	-	-	0.0	0.0	-	
El/Others	(4.0)	0.8	2.1	175.1	(153.5)	5.1	2.4	n.m.	FX gains/(losses), fair value changes on derivatives and biological assets.
<b>Pre-tax profit</b>	25.4	39.3	51.1	30.1	101.5	181.1	131.2	(27.5)	
<b>Core PBT</b>	29.4	38.5	49.0	27.2	66.8	176.0	128.8	(26.8)	
<i>Pre-tax margin (%)</i>	17.4	28.5	27.7			28.6	21.3		
Tax	(6.7)	(10.0)	(17.6)	76.9	163.2	(53.4)	(38.0)	(28.8)	
<i>Effective tax rate (%)</i>	(26.4)	(25.4)	(34.5)			(29.5)	(29.0)		
Minority interest	(1.3)	(1.4)	(1.5)	3.1	11.4	(7.7)	(4.0)	(47.3)	
<b>Net profit</b>	17.3	27.9	32.0	14.8	84.6	120.0	89.1	(25.7)	
<b>Core profit</b>	21.3	27.1	29.9	10.2	39.9	114.8	86.7	(24.5)	Comprising 112% and 95% of our and consensus full-year forecasts.
<i>Net margin (%)</i>	11.9	20.3	17.4			18.9	14.5		
<b>Segmental breakdown</b>	<b>4Q18</b>	<b>3Q19</b>	<b>4Q19</b>	<b>QoQ (%)</b>	<b>YoY (%)</b>	<b>FY18</b>	<b>FY19</b>	<b>YoY (%)</b>	<b>Comments</b>
<b>Revenue</b>									
CPO	104.4	103.4	116.5	12.7	11.6	446.6	395.2	(11.5)	Lower production and decreased ASP.
PK	15.1	13.7	15.5	12.9	2.5	75.2	53.7	(28.6)	Lower sales volumes and decreased ASP.
FFB	3.1	3.9	3.3	(15.1)	7.8	13.0	14.3	9.9	
Downstream	138.8	129.4	178.5	38.0	28.6	604.7	592.7	(2.0)	Impacted by lower ASP.
<b>EBITDA</b>									
Plantation & palm oil mills	46.9	58.7	51.2	(12.8)	9.3	249.7	177.0	(29.1)	Margins decreased due to lower selling prices.
Downstream	6.6	5.6	20.3	261.2	208.1	17.0	29.0	70.5	Higher QoQ margin in 4Q19, resulting in higher FY19 margin of 4.9% vs 2.8% in FY18.
<b>Operating statistics '000 tonnes</b>	<b>4Q18</b>	<b>3Q19</b>	<b>4Q19</b>	<b>QoQ (%)</b>	<b>YoY (%)</b>	<b>FY18</b>	<b>FY19</b>	<b>YoY (%)</b>	<b>Comments</b>
FFB production (nucleus)	775	893	807	(9.7)	4.1	3,062	3,009	(1.7)	Below our projection of 0.7% YoY and management's guidance of flat growth for FY19.
CPO production	193	243	220	(20.8)	14.4	824	812	(1.4)	
PK production	45	56	50	(10.0)	10.4	188	186	(1.5)	
FFB yield (tonne/ha)	4.6	5.1	4.5	(11.8)	(2.2)	17.9	16.9	(5.6)	
OER (%)	22.5	23.3	23.1	(0.9)	2.7	22.9	23.1	0.9	
KER (%)	5.3	5.2	5.2	0.0	(1.9)	5.2	5.3	1.9	
CPO yield (tonne/ha)	1.0	1.2	1.0	(16.7)	0.0	4.1	3.9	(4.9)	
<b>Sales volume</b>									
CPO	212	228	248	9.0	17.4	827	845	2.2	53,000 tonnes of stock drawdown in FY19 vs 69,000 tonnes of build-up in FY18.
PK	45	52	60	15.6	34.5	190	191	0.4	
Refinery & processing	256	272	333	22.5	30.0	1,011	1,168	15.5	Higher utilisation rate.
ASP CPO	493	454	469	3.3	(5.0)	540	468	(13.4)	Lower than our ASP forecast of USD493.00/tonne.
ASP downstream	542	476	536	12.6	(1.1)	598	508	(15.1)	Spread between downstream and CPO ASPs fell to USD40.00/tonne in FY19 (USD58.00/tonne in FY18).

Source: Company data, RHB

Figure 2: Key assumptions for FR

	FY17	FY18	FY19	FY20F	FY21F	FY22F
Nucleus FFB production, tonnes	2,682,942	3,061,819	3,009,424	3,083,548	3,317,230	3,530,056
% change	13.3%	14.1%	-1.7%	2.5%	7.6%	6.4%
CPO price assumption, USD/tonne	603	540	468	583	561	561
% change	2.7%	-10.4%	-13.4%	24.7%	-3.8%	0.0%

Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-01-20	Buy	2.30	1.74
2019-11-12	Buy	1.95	1.78
2019-09-30	Buy	1.90	1.60
2019-08-14	Neutral	1.45	1.57
2019-05-15	Neutral	1.53	1.70
2019-03-04	Neutral	1.60	1.70
2018-11-12	Neutral	1.60	1.60
2018-08-15	Neutral	na	1.59

Source: RHB, Bloomberg

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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