Singapore Company Update

20 January 2020

Agriculture | Plantations

First Resources (FR SP)

Buy (Maintained)

Imputing Higher CPO Prices; Keep BUY

Target Price (Return)	SGD2.30 (+28%)
Price:	SGD1.79
Market Cap:	USD2,100m
Avg Daily Turnover	2.55m/0.63m

- **Keep BUY with a new higher TP of SGD2.30 from SGD1.95, 28% upside plus c.2% FY20F yield.** After imputing our revised CPO prices assumptions, we have revised up our FY20F earnings by 17%. Given the company's earnings exposure to CPO price fluctuations, we believe First Resources will be able to capitalise on higher CPO prices and present better 1H20 earnings. We continue to like FR for its cost-efficient operations and biodiesel industry exposure.
- **CPO prices have risen** sharply to >MYR3,000/tonne. While we had expected an improvement in prices towards the year's end, the strength of the price rally caught us by surprise. We believe there could be a slight correction, as there could be some speculative elements at play currently. Nevertheless, we expect 1H20 prices to remain high at a range of MYR2,700-3,100/tonne before seasonally weakening to a range of MYR2,400-2,700/tonne in 2H20.
- **Given this scenario, we are revising our CPO price forecasts up** to MYR2,600/tonne for 2020 while leaving our 2021 forecasts intact at MYR2,500/tonne. This will imply a substantial 22% YoY increase in CPO prices from 2019's average of MYR2,129/tonne. With this, plantation companies' earnings are expected to re-rate upwards significantly, particularly as the leverage of CPO price change to earnings is much more significant than FFB output growth. For the firms under our coverage, every MYR100/tonne change in CPO prices impacts earnings by between 4% and 18% pa. We expect to start to see the impact of strong CPO prices on earnings from the 4Q19 reporting period onwards, ie Feb 2020, which could trigger another round of share price retracements.
- **Despite the run-up in share prices, we believe there is still upside** for some stocks, as our sensitivity analysis indicates that most of our stock picks are still reflecting CPO prices of c.MYR2,400-2,500/tonne.
- **We continue to remain positive on sector fundamentals** and believe there are three key factors that will keep CPO prices high in 2020:
  i. A CPO deficit is imminent in 2020, as demand growth outstrips supply growth and stock/usage ratios fall below historical averages;
  ii. Biodiesel – the largest demand catalyst – is still very much a "GO" in Indonesia and Malaysia;
  iii. Food demand should remain strong from China and India.
- **Our TP rises to SGD2.30** on an unchanged 18x P/E, 1SD above FR's historical average. This implies an EV/ha of USD13,000, in line with its peers' USD10,000-15,000 range. FR's mostly upstream operations will stand it in good stead in a CPO price upcycle; it will also benefit from higher biodiesel profits, as Indonesia begins to implement its B30 mandate this year.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (USDm)	647.0	633.5	473.9	621.4	657.6
Recurring net profit (USDm)	137.4	112.5	77.2	142.5	147.4
Recurring net profit growth (%)	22.2	(18.2)	(31.3)	84.5	3.4
Recurring P/E (x)	15.9	18.7	26.4	14.3	13.9
P/BV (x)	2.2	2.3	2.1	1.9	1.7
P/CF (x)	15.9	34.0	21.2	18.3	16.1
Dividend Yield (%)	3.8	1.8	1.0	1.8	1.8
EV/EBITDA (x)	11.0	12.2	15.4	10.1	9.5
ROE (%)	14.9	12.6	7.5	13.1	12.9
Net debt to equity (%)	27.0	34.9	26.1	16.3	6.1
Interest coverage (x)	9.7	9.7	7.7	18.0	27.7

Source: Company data, RHB

Analyst

Singapore Research
+65 6533 0781
sg.research@rhbgroup.com

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.79)	(4.28)	12.58	15.48	7.83
Relative	(5.56)	(5.28)	11.93	20.51	13.09
52-wk Price low/high (MYR)					1.44 - 1.94

First Resources (FR SP)

Source: Bloomberg

Financial Exhibits

Asia
Singapore
Agriculture
First Resources
FR SP

Valuation basis

18x 2020F P/E, at 1SD above its historical average. This implies an EV/ha of USD13,000, in line with its peers' range of USD10,000-15,000.

Key drivers

CPO prices, FFB production, and refinery and biodiesel margins.

Key risks

CPO price movement, weather risks, and the demand and supply dynamics of the global vegetable oils industry.

Company Profile

First Resources is an Indonesian planter listed on the Singapore Exchange, with most estates located in Sumatra. It is involved in both upstream and downstream palm oil businesses.

Financial summary	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**
Recurring EPS (SGD)	0.11	0.10	0.07	0.13	0.13
DPS (SGD)	0.07	0.03	0.02	0.03	0.03
BVPS (SGD)	0.80	0.79	0.87	0.97	1.06
ROE (%)	14.86	12.60	7.48	13.12	12.92

Valuation metrics	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**
Recurring P/E (x)	15.9	18.7	26.4	14.3	13.9
P/B (x)	2.24	2.25	2.06	1.85	1.70
FCF Yield (%)	10.85	6.73	4.35	11.48	11.48
Dividend yield (%)	3.8	1.8	1.0	1.8	1.8
EV/EBITDA (x)	11.0	12.2	15.4	10.1	9.5
EV/EBIT (x)	14.0	16.6	24.1	13.6	13.3

Income statement (USDm)	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**
Total turnover	647	633	474	621	658
Gross profit	370	346	264	382	397
EBITDA (adj.)	290	254	205	306	317
Depreciation & amortisation	(63)	(67)	(74)	(78)	(91)
Operating profit	227	187	131	228	226
Net interest	(21)	(17)	(16)	(11)	(7)
Pre-tax profit	209	181	118	219	221
Taxation	(64)	(53)	(33)	(65)	(62)
Net profit	138	120	79	144	149
Recurring net profit	137	112	77	142	147

Cash flow (USDm)	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**
Change in working capital	26	(56)	28	(16)	(7)
Cash flow from operations	232	112	186	216	243
Capex	(85)	(77)	(100)	(100)	(100)
Cash flow from investing activities	(93)	(94)	(100)	(100)	(100)
Dividends paid	(43)	(81)	(20)	(36)	(37)
Cash flow from financing activities	(12)	(197)	(20)	(136)	(137)
Cash at beginning of period	108	234	55	122	102
Net change in cash	126	(179)	66	(20)	5
Ending balance cash	234	55	122	102	107

Balance sheet (USDM)	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**
Total cash and equivalents	279	100	166	146	152
Tangible fixed assets	1,119	1,033	1,059	1,081	1,090
Total investments	-	-	-	-	-
Total assets	1,731	1,571	1,628	1,648	1,672
Short-term debt	21	30	30	30	30
Total long-term debt	475	351	351	251	151
Total liabilities	759	639	636	548	460
Total equity	972	932	992	1,100	1,212
Total liabilities & equity	1,731	1,571	1,628	1,648	1,672

Key metrics	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**
Revenue growth (%)	12.5	(2.1)	(25.2)	31.1	5.8
Recurrent EPS growth (%)	22.2	(18.2)	(31.3)	84.5	3.4
Gross margin (%)	57.1	54.6	55.7	61.4	60.4
Operating EBITDA margin (%)	44.8	40.2	43.3	49.2	48.2
Net profit margin (%)	21.2	17.8	16.3	22.9	22.4
Capex/sales (%)	13.1	12.2	21.1	16.1	15.2
Interest cover (x)	11.1	11.6	8.5	20.6	33.8

Source: Company data, RHB

Figure 1: Key assumptions for FR

	FY16	FY17	FY18	FY19F	FY20F	FY21F
Nucleus FFB production, tonnes	2,367,767	2,682,942	3,061,819	3,083,715	3,269,304	3,622,262
% change	-6.4%	13.3%	14.1%	0.7%	6.0%	10.8%
CPO price assumption, USD/tonne	587	603	540	493	590	567
% change	8.6%	2.7%	-10.4%	-8.7%	19.6%	-3.8%

Source: RHB

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

HONG KONG

RHB Securities Hong Kong Ltd.
12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

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RHB Securities Singapore Pte Ltd.
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211