Singapore Company Update

24 March 2020

Agriculture | Plantation

First Resources (FR SP)

Buy (Maintained)

Lowering CPO Prices, Maintain BUY

Target Price (Return):	SGD1.20 (14.3%)
Price:	SGD1.05
Market Cap:	USD1,141m
Avg Daily Turnover (SGD/USD)	1.84m/1.31m

- **Maintain BUY, with a lower TP of SGD1.20 from SGD2.00, 14% upside and c.3% yield.** After imputing our revised CPO price assumptions, we have cut our earnings for FY20F by 17%. Despite the lower CPO price environment, we believe FR's share price correction has already reflected the risk of lower prices, as valuations are already below 1SD of historical mean.
- **Our worst case scenario for demand is still a possibility, if COVID-19 is not contained until the year-end and crude oil prices do not recover in 2H20**, as projected by our in-house crude oil forecasts. Please refer to our recent report: *Plantation : COVID-19 + Crude Oil = Correction*. Currently, at a palm oil and gasoil futures or POGO price gap of USD37/barrel, it results that biodiesel demand in Indonesia could be short by 2.1m tonnes (instead of the 1.4m tonnes we had originally projected). This could mean that the worst case scenario is for CPO stock/usage ratio to rise to 24.4% from 18.6% in 2019. Based on historical guidelines, this could imply that CPO prices could fall to between MYR2,000-2,200/tonne.
- **Our in-house assumption currently is for COVID-19 to be under control within 1H20,** which means our second scenario (Scenario 2) is more probable. It assumes a 10% decline in demand from EU, the US and China as well as a 2.1m tonne decline in biodiesel demand in Indonesia, or a total 3.8m tonne decline in CPO demand. Therefore, we estimate an increase in CPO stock/usage ratio to 20.1% (from 18.6%). Based on historical data, CPO prices ranged between MYR2,200.00 and MYR2,400.00 per tonne, when stock/usage ratios were at these levels in 2011 and 2018.
- **We are cutting our CPO price forecasts to MYR2,400/tonne for 2020** (from MYR2,600), while leaving intact our MYR2,500/tonne forecast for 2021 and 2022. We have also adjusted our FX assumptions to be in line with our latest in-house assumptions. With this reduction in prices, we have cut the earnings for FY20-21F by 3-17%.
- **Maintain BUY**, with a lower SOP-based TP of SGD1.20 (from SGD2.00) with a lower 2020F P/E target of 12x (from 17x). We lower the target P/Es for the plantation companies to reflect the lower peer valuations, while our target P/E is more than 1SD below its 5-year historical mean. This implies an EV/ha of USD12,000, in line with its peers' USD5,000-15,000 range.

Analyst

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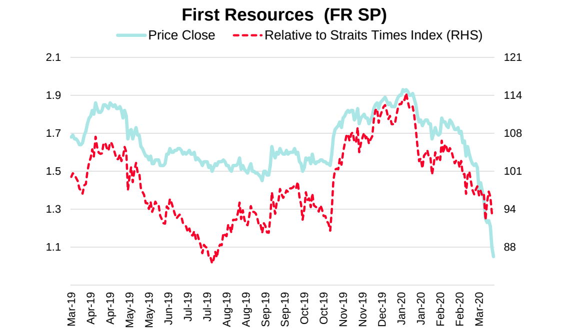
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(44.7)	(38.2)	(43.3)	(34.0)	(37.1)
Relative	(16.4)	(10.4)	(15.2)	(7.1)	(9.1)
52-wk Price low/high (SGD)					1.05 – 1.93



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (USDm)	633	615	541	603	690
Recurring net profit (USDm)	112	89	112	133	138
Recurring net profit growth (%)	(18.2)	(21.3)	27.1	18.0	3.9
Recurring P/E (x)	10.16	12.90	10.15	8.60	8.28
P/B (x)	1.2	1.1	1.0	0.9	0.9
P/CF (x)	7.55	7.74	5.06	5.33	5.32
Dividend Yield (%)	4.5	3.3	3.5	4.1	4.2
EV/EBITDA (x)	5.77	7.00	5.54	4.74	4.33
Return on average equity (%)	12.6	9.0	10.4	11.3	10.8
Net debt to equity (%)	28.5	28.1	19.7	12.6	5.9

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Agriculture
First Resources
FR SP
Buy

Valuation basis

Target P/E of 12x 2020 P/E, in line with its historical average. This implies an EV/ha of USD12,000, in line with its peers' range of USD10,000-15,000.

Key drivers

i) CPO price movement;
ii) FFB production output;
ii) Competitiveness of its downstream processing division versus its peers.

Key risks

i) CPO price movement;
ii) Weather risks;
ii) The demand and supply dynamics of the global vegetable oil industry.

Company Profile

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

Financial summary (USD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	0.07	0.06	0.07	0.08	0.09
DPS	0.03	0.02	0.03	0.03	0.03
BVPS	0.59	0.66	0.71	0.78	0.84
Return on average equity (%)	12.6	9.0	10.4	11.3	10.8

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	10.16	12.90	10.15	8.60	8.28
P/B (x)	1.2	1.1	1.0	0.9	0.9
FCF Yield (%)	6.5	3.1	10.1	9.1	10.0
Dividend Yield (%)	4.5	3.3	3.5	4.1	4.2
EV/EBITDA (x)	5.77	7.00	5.54	4.74	4.33
EV/EBIT (x)	7.75	10.29	7.85	6.64	6.14

Income statement (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	633	615	541	603	690
Gross profit	346	298	327	364	386
EBITDA	256	215	260	291	302
Depreciation and amortisation	(65)	(69)	(76)	(83)	(89)
Operating profit	191	147	184	208	213
Net interest	(17)	(16)	(14)	(11)	(9)
Pre-tax profit	181	131	170	197	204
Taxation	(53)	(38)	(51)	(55)	(57)
Reported net profit	120	89	112	133	138
Recurring net profit	112	89	112	133	138

Cash flow (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	(36)	(12)	30	(10)	(22)
Cash flow from operations	151	147	226	214	215
Capex	(77)	(113)	(110)	(110)	(100)
Cash flow from investing activities	(94)	(120)	(110)	(110)	(100)
Dividends paid	(81)	(33)	(28)	(33)	(34)
Cash flow from financing activities	(197)	(8)	(128)	(83)	(84)
Cash at beginning of period	234	55	59	33	54
Net change in cash	(139)	19	(12)	21	30
Ending balance cash	94	75	47	54	84

Balance sheet (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	100	102	76	97	127
Tangible fixed assets	986	1,066	1,100	1,127	1,137
Total assets	1,571	1,709	1,703	1,763	1,832
Short-term debt	30	195	195	145	95
Total long-term debt	351	217	117	117	117
Total liabilities	585	607	509	462	418
Total equity	986	1,102	1,193	1,302	1,414
Total liabilities & equity	1,571	1,709	1,703	1,763	1,832

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	(2.1)	(2.9)	(12.0)	11.4	14.4
Recurrent EPS growth (%)	(18.2)	(21.3)	27.1	18.0	3.9
Gross margin (%)	54.6	48.5	60.3	60.3	55.9
Operating EBITDA margin (%)	40.4	35.0	48.1	48.3	43.9
Net profit margin (%)	18.9	14.5	20.8	22.0	20.0
Capex/sales (%)	12.2	18.3	20.3	18.2	14.5
Interest cover (x)	9.86	8.32	13.12	17.68	22.40

Source: Company data, RHB

Figure 1: 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	516	548	548
% change	2.7%	-10.4%	-13.4%	10.4%	6.0%	0.0%

Source: RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-26	Buy	2.00	1.58
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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