

26 June 2020

Agriculture | Plantation

First Resources (FR SP)

Neutral (Maintained)

Downstream Division Gains Competitive Advantage

- **Maintain NEUTRAL, new rolled-forward TP of SGD1.35 from SGD1.25, 2% upside with c.2% FY20F yield.** We expect First Resources to see stronger downstream contributions in the near term, from improved margins on the back of the recent change in export duty structure. However, this would be partially offset by weaker biodiesel margins. FR is trading close to its historical mean currently, implying fair valuations.
- **FR expects FFB growth for FY20 to be on the low end of the 0-5% range,** after recording a -3.9% YoY decline in FFB output in 1Q20. The company is not as bullish on FFB output recovery in 2H20F as some of its peers, citing the dry weather impact from 3Q19 being expected to still carry through somewhat in 2H20. We make no changes to our FFB growth assumptions of 0.4% for FY20 and 6-7% for FY21-22.
- **FR should be able to benefit from the recent change in export tax structure** – as companies with downstream refineries in Indonesia would be at a greater competitive advantage compared to those in Malaysia. This is due to the fact that downstream refineries will be able to buy CPO feedstock at CPO minus export duty of USD55.00/tonne, while exporting its refined products with a lower export tax of USD35.00/tonne. With that extra margin of USD20.00/tonne, downstream players are able to offer more competitive pricing to its customers.
- **As FR's refineries were still running at 100% utilisation in 1Q20,** we do not expect them to be able to increase sales volumes. However, refining margins could improve going forward, on the change in duty structure.
- **On the biodiesel front, the company is likely to see lower margins in 2H20,** given the recent change in pricing structure for Indonesian biodiesel to CPO plus USD80.00/tonne (from USD100.00/tonne) from Jun 2020. It is unclear how long this change in pricing will be in effect – with some parties saying it is determined every month, while others expect it to last for three months. Nevertheless, FR expects to still be able to make a comfortable margin with this price reduction, as methanol prices have come down in line with crude oil prices.
- **We make no changes to our forecasts,** as we had already previously assumed a discount of 5-10% to Malaysian CPO prices for our CPO price assumptions in Indonesia.
- **Maintain NEUTRAL.** Despite our unchanged forecasts, we raise our TP to SGD1.35, after rolling forward our valuation period to Jun 2021F, to reflect a 1-year investment horizon. We maintain our P/E target of 14x, in line with its historical mean. Our TP implies an EV/ha of USD12,000/ha, which is at the mid-end of its peer range of USD10,000-15,000/ha.

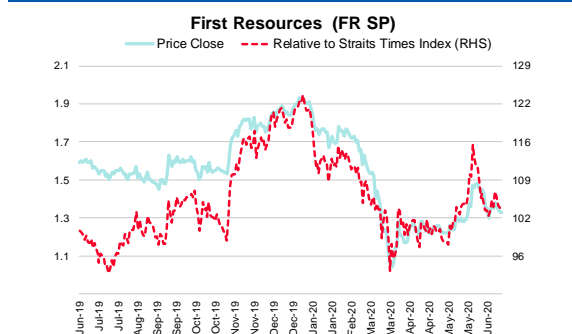
Target Price (Return):	SGD1.35 (+2%)
Price:	SGD1.33
Market Cap:	USD1,516m
Avg Daily Turnover (SGD/USD)	1.54m/1.10m

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(30.0)	3.9	16.7	(27.7)	(17.4)
Relative	(11.6)	(1.3)	11.8	(9.3)	3.1
52-wk Price low/high (SGD)				1.04 – 1.93	



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (m)	633	615	522	571	608
Recurring net profit (m)	112	89	100	118	125
Recurring net profit growth (%)	(18.2)	(21.3)	12.5	18.7	5.5
Recurring P/E (x)	13.49	17.14	15.23	12.83	12.16
P/B (x)	1.6	1.5	1.4	1.3	1.2
P/CF (x)	10.02	10.29	7.23	7.62	7.14
Dividend Yield (%)	3.4	2.5	2.3	2.7	2.9
EV/EBITDA (x)	7.24	8.75	7.70	6.66	6.07
Return on average equity (%)	12.6	9.0	9.2	10.2	9.9
Net debt to equity (%)	28.5	28.1	21.0	14.7	7.8

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.07	0.06	0.06	0.07	0.08
Agriculture	DPS	0.03	0.02	0.02	0.03	0.03
First Resources	BVPS	0.59	0.66	0.71	0.76	0.82
FR SP	Return on average equity (%)	12.6	9.0	9.2	10.2	9.9
Neutral						
Valuation basis	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
14x Jun 2021F P/E, in line with its historical average. This implies an EV/ha of USD12,000, which is within its peer range of USD10,000-15,000.	Recurring P/E (x)	13.49	17.14	15.23	12.83	12.16
	P/B (x)	1.6	1.5	1.4	1.3	1.2
	FCF Yield (%)	4.9	2.3	6.6	5.9	7.4
	Dividend Yield (%)	3.4	2.5	2.3	2.7	2.9
	EV/EBITDA (x)	7.24	8.75	7.70	6.66	6.07
	EV/EBIT (x)	9.72	12.85	11.13	9.53	8.79
Key drivers	Income statement (m)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. CPO price increase;	Total turnover	633	615	522	571	608
ii. FFB production output;	Gross profit	346	298	306	341	357
iii. Competitiveness of its downstream processing division vs peers.	EBITDA	256	215	237	267	281
	Depreciation and amortisation	(65)	(69)	(73)	(80)	(87)
	Operating profit	191	147	164	187	194
	Net interest	(17)	(16)	(14)	(11)	(9)
	Pre-tax profit	181	131	151	175	185
	Taxation	(53)	(38)	(45)	(49)	(52)
	Reported net profit	120	89	100	118	125
	Recurring net profit	112	89	100	118	125
Key risks	Cash flow (m)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. CPO price decrease;	Change in working capital	(36)	(12)	31	(7)	(7)
ii. Weather risks;	Cash flow from operations	151	147	210	199	212
iii. The demand and supply dynamics of the global vegetable oil industry.	Capex	(77)	(113)	(110)	(110)	(100)
	Cash flow from investing activities	(94)	(120)	(110)	(110)	(100)
	Dividends paid	(81)	(33)	(25)	(30)	(31)
	Cash flow from financing activities	(197)	(8)	(125)	(80)	(81)
	Cash at beginning of period	234	55	59	20	30
	Net change in cash	(139)	19	(25)	10	31
	Ending balance cash	94	75	34	30	61
Company Profile	Balance sheet (m)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
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.	Total cash and equivalents	100	102	63	73	104
	Tangible fixed assets	986	1,066	1,103	1,133	1,146
	Total assets	1,571	1,709	1,692	1,740	1,793
	Short-term debt	30	195	195	145	95
	Total long-term debt	351	217	117	117	117
	Total liabilities	585	607	509	461	413
	Total equity	986	1,102	1,183	1,279	1,381
	Total liabilities & equity	1,571	1,709	1,692	1,740	1,793
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	(2.1)	(2.9)	(15.1)	9.5	6.3
	Recurrent EPS growth (%)	(18.2)	(21.3)	12.5	18.7	5.5
	Gross margin (%)	54.6	48.5	58.6	59.6	58.8
	Operating EBITDA margin (%)	40.4	35.0	45.5	46.7	46.2
	Net profit margin (%)	18.9	14.5	19.1	20.7	20.5
	Capex/sales (%)	12.2	18.3	21.1	19.2	16.5
	Interest cover (x)	9.86	8.32	11.73	15.86	20.38

Source: Company data, RHB

Figure 1: Key assumptions for First Resources

	FY17	FY18	FY19	FY20F	FY21F	FY22F
Nucleus FFB production, tonnes	2,682,942	3,061,819	3,009,424	3,020,391	3,202,842	3,418,581
% change	13.3%	14.1%	-1.7%	0.4%	6.0%	6.7%
CPO price assumption, USD/t	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
2020-05-22	Neutral	1.25	1.28
2020-03-23	Buy	1.20	1.04
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
2018-08-15	Neutral	na	1.59
2018-08-14	Neutral	1.60	1.58

Source: RHB, Bloomberg

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