

30 September 2019

Agriculture | Plantations

## First Resources (FR SP)

**Buy** (From Neutral)

### Sensitive To CPO Prices; Upgrade To BUY

Target Price (Return)	SGD1.90 (+19%)
Price:	SGD1.59
Market Cap:	USD1,828m
Avg Daily Turnover	1.44m/0.35m

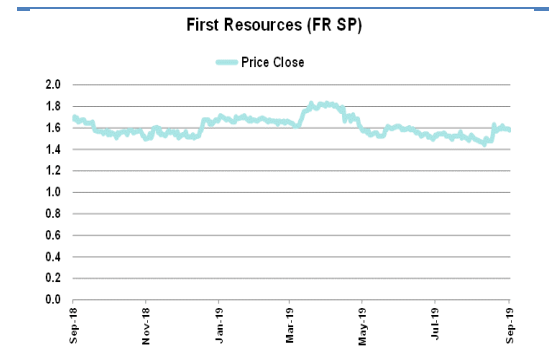
- **Upgrade to BUY from Neutral, new TP of SGD1.90** from SGD1.45, 19% upside. This is on our sector upgrade to OVERWEIGHT, as we expect CPO prices to rerate upwards in 4Q19 and continue increasing in 1H20. We believe plantation stocks would also likely rerate on the back of this price movement, as CPO prices are the leading indicator for plantation companies' P/Es.
- **When CPO prices start moving, plantation companies' P/Es will expand first**, before earnings catch up and valuations return to normal. As such, we lift our target P/Es for the plantation stocks under our coverage by 3-5x to trade at 1SD above their historical averages. This is because we expect plantation stocks to trade at more inflated valuations in the short term, before earnings start improving.
- **We leave our CPO price assumptions unchanged** at MYR2,200/tonne for 2019 and MYR2,400/tonne for 2020.
- **The main premises for our upgrade are:**
  - Trade war is still on, with import duties being levied on US soybeans;
  - A CPO production slowdown is imminent in 2020, while inventories should normalise by 1Q20;
  - Demand should remain strong from China, due to the continuing African swine flu epidemic in the country;
  - The B30 biodiesel mandate in Indonesia will mop up any excess supply from the market in 2020;
  - Crude oil prices will remain at relatively high levels, resulting in a positive CPO-gasoil price gap;
  - Weather conditions remain normal.
- **The trade war continues to have far-reaching effects on the sector**, not only on soybean demand and supply dynamics, but also on crude oil prices and FX volatilities. This, combined with the improving supply-demand dynamics of the CPO and eight vegetable oil complex, should lead to improved CPO prices in 2020.
- **We opine investors should position for the run-up in CPO prices** that we expect to see within the next few months, as share prices should also react positively in tandem. In addition, we believe the market would need to look for stock ideas with positive earnings growth momentum during this period of uncertain global economic conditions.
- **Our TP rises SGD1.90 from SGD1.45**, on higher 18x P/E (from 15x), 1SD above First Resources' historical average. This implies an EV/ha of USD13,000, in line with the peers' USD10,000-15,000 range. Its mostly upstream operations will stand it in good stead in a CPO price upcycle, while it will also benefit from higher biodiesel profits as Indonesia implements its B30 mandate in 2020. Upgrade to BUY.

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.6	2.6	(2.5)	(6.5)	(7.6)
Relative	8.5	3.8	2.7	(1.9)	4.1
52-wk Price low/high (MYR)	1.44 - 1.88				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (USDm)	647.0	633.5	485.8	602.7	663.5
Recurring net profit (USDm)	137.4	112.5	69.3	118.1	137.5
Recurring net profit growth (%)	22.2	(18.2)	(38.4)	70.5	16.4
Recurring P/E (x)	14.1	16.6	26.2	15.3	13.3
P/BV (x)	2.0	2.0	1.8	1.7	1.5
P/CF (x)	14.1	30.2	27.0	15.4	13.8
Dividend Yield (%)	4.3	2.0	1.0	1.7	1.9
EV/EBITDA (x)	9.9	10.9	14.7	10.5	9.1
ROE (%)	14.9	12.6	6.8	11.1	12.3
Net debt to equity (%)	27.0	34.9	32.5	21.4	10.1
Interest coverage (x)	9.7	9.7	7.0	14.7	25.8

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Singapore	Recurring EPS (SGD)	0.11	0.10	0.06	0.10	0.12
Agriculture	DPS (SGD)	0.07	0.03	0.02	0.03	0.03
<b>First Resources</b>	BVPS (SGD)	0.80	0.79	0.87	0.95	1.03
FR SP	ROE (%)	14.86	12.60	6.82	11.10	12.34

Valuation basis	Valuation metrics	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
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.	Recurring P/E (x)	14.1	16.6	26.2	15.3	13.3
	P/B (x)	1.99	2.00	1.84	1.68	1.54
	FCF Yield (%)	12.21	7.57	3.53	9.21	11.26
	Dividend yield (%)	4.3	2.0	1.0	1.7	1.9
	EV/EBITDA (x)	9.9	10.9	14.7	10.5	9.1
	EV/EBIT (x)	12.6	14.9	23.8	15.3	13.1

Key drivers	Income statement (USDm)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
CPO prices, FFB production, and refinery and biodiesel margins.	Total turnover	647	633	486	603	664
	Gross profit	370	346	256	343	384
	EBITDA (adj.)	290	254	194	269	302
	Depreciation & amortisation	(63)	(67)	(74)	(83)	(93)
	Operating profit	227	187	120	186	210
	Net interest	(21)	(17)	(15)	(10)	(6)
	Pre-tax profit	209	181	107	178	206
	Taxation	(64)	(53)	(31)	(50)	(58)
	Net profit	138	120	71	120	139
	Recurring net profit	137	112	69	118	137

Key risks	Cash flow (USDm)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
CPO price movement, weather risks, and the demand and supply dynamics of the global vegetable oils industry.	Change in working capital	26	(56)	(23)	14	8
	Cash flow from operations	232	112	129	227	252
	Capex	(85)	(77)	(107)	(107)	(107)
	Cash flow from investing activities	(93)	(94)	(107)	(107)	(107)
	Dividends paid	(43)	(81)	(18)	(30)	(35)
	Cash flow from financing activities	(12)	(197)	(18)	(130)	(134)
	Cash at beginning of period	108	234	56	61	51
	Net change in cash	126	(179)	5	(10)	11
	Ending balance cash	234	55	61	51	61

Company Profile	Balance sheet (USDm)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
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.	Total cash and equivalents	279	100	105	95	106
	Tangible fixed assets	1,119	1,054	1,106	1,130	1,144
	Total investments	-	-	-	-	-
	Total assets	1,731	1,571	1,623	1,631	1,666
	Short-term debt	21	30	30	30	30
	Total long-term debt	475	351	351	251	151
	Total liabilities	759	639	637	553	483
	Total equity	972	932	987	1,078	1,183
	Total liabilities & equity	1,731	1,571	1,623	1,631	1,666

Key metrics	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Revenue growth (%)	12.5	(2.1)	(23.3)	24.1	10.1
Recurrent EPS growth (%)	22.2	(18.2)	(38.4)	70.5	16.4
Gross margin (%)	57.1	54.6	52.7	56.9	57.8
Operating EBITDA margin (%)	44.8	40.2	39.8	44.7	45.6
Net profit margin (%)	21.2	17.8	14.3	19.6	20.7
Capex/sales (%)	13.1	12.2	22.0	17.8	16.1
Interest cover (x)	11.1	11.6	8.3	18.1	36.2

Source: Company data, RHB

**Figure 1: Key assumptions for First Resources**

	FY16	FY17	FY18	FY19F	FY20F	FY21F
Nucleus FFB production (tonnes)	2,367,767	2,682,942	3,061,819	3,171,822	3,417,909	3,660,391
% change	(6.4%)	13.3%	14.1%	3.6%	7.8%	7.1%
CPO price assumptions (IDR/kg)	587	603	540	493	544	567
% change	8.6%	2.7%	(10.4%)	(8.7%)	10.4%	4.2%

Source: RHB

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