

12 August 2024

Agriculture | Plantation

First Resources (FR SP)

Neutral (Maintained)

Improving ESG Score, Fair Valuation

| | |
|------------------------------|---------------------|
| Target Price (Return): | SGD1.45 (+5%) |
| Price (Market Cap): | SGD1.38 (USD1,611m) |
| ESG score: | 2.7 (out of 4) |
| Avg Daily Turnover (SGD/USD) | 1.27m/0.95m |

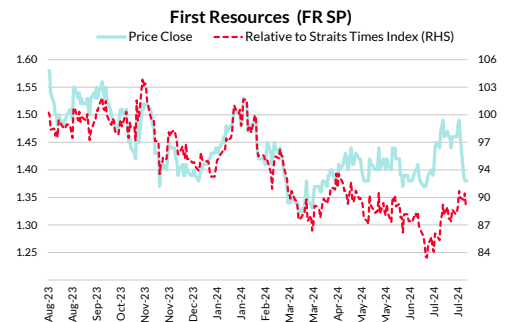
- **Maintain NEUTRAL and SGD1.45 TP, 5% upside with c.5% yield.** The sector is at a crossroads. With rising costs, falling yields and little chance for landbank expansion, planters need to do a lot more to boost their bottomlines – so, is diversification the key? First Resources may be able to diversify via further downstream ventures, but more needs to be done to improve profit per ha. Our ESG score rises to 2.7 (from 2.5) post-annual review. Valuation is fair – trading at 9.2x 2025F P/E (vs peer range of 6-11x).
- **Face the hard facts, and adapt.** With headwinds like lower yields, older trees, environmental pressures, higher costs, labour issues and lower profitability, the sector has to find ways to circumvent these. CPO prices have risen to highs unseen in the last 10 years, but there is always a risk that extenuating circumstances can push prices down to below breakeven cost levels. We expect long-term CPO prices per tonne to be at the higher end of MYR3,000-3,500 and above (historical average: MYR1,800-2,000), but prices are likely to stay volatile. As this is not within the planters' control, they need to focus more on revenue growth, cost control and potential diversification efforts.
- **Diversification may be the name of the game, going forward.** Some planters have already diversified into other industries like property, fruit farming, glove manufacturing and dairy farming. In recent times, we have seen more ESG-friendly diversification like producing wood and fertiliser, etc and using palm oil waste. However, other than ventures that take advantage of their landbank like land sales and property development, none of these have moved the needle in terms of earnings contributions. With landbank monetisation like data centres or renewable energy ventures like solar farms now being a feasible diversification, this may change going forward – if more planters opt to engage. We estimate profitability/ha/year for solar is 26x more than oil palm.
- **Other than diversifying earnings,** planters will need to increase mechanisation to raise efficiency and reduce their reliance on labour, spend more on R&D to produce better seedlings with higher yields and lower maintenance costs, and put more emphasis on ESG to attain ESG premiums.
- **We believe the sector is moving in the right direction in terms of ESG standards,** with more disclosure and more targets being set. Our overall average sector ESG score has improved this year to 2.6 (from 2.5).
- **For FR, we have raised its ESG score to 2.7 (from 2.5)** as we have seen improvements in its GHG intensity as well as progress made in certifications and traceability, which has led us to raise its "Environment" pillar scoring.
- **Maintain NEUTRAL and TP of SGD1.45,** after imputing our higher ESG score, updating FX assumptions and rolling forward our valuations to FY25 (from FY24). Our TP now includes an ESG discount of 8% (from 12%). We make no changes to our earnings forecasts.

Analyst

Singapore Research
sg.research@rhbgroup.com

Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|-------------|-------|-------|-------|--------|
| Absolute | (3.5) | (1.4) | (1.4) | (2.8) | (12.7) |
| Relative | (3.8) | 3.2 | (0.9) | (6.2) | (10.8) |
| 52-wk Price low/high (SGD) | 1.32 – 1.58 | | | | |



Source: Bloomberg

Overall ESG Score: 2.7 (out of 4)

E: GOOD

FR discloses its greenhouse gas (GHG) emission reduction every year, with the main method of reduction being methane capture facilities. With the help of eight methane capture facilities, FR is able to reduce GHG emissions by c.213,000 tCO₂e per year. The planter also has RSPO certification for 36% of its plantation area as at end-2023.

S: MODERATE

In accordance with national labour laws and regulations, FR does not tolerate forced or bonded labour, or the employment of underaged workers, while employees are not subjected to the unlawful withholding of wages, identification cards, passports or other travel documents without their consent. FR has a grievance procedure in place, which is open for whistleblowing and grievance considerations.

G: EXCELLENT

63% of FR's board members are independent, with full disclosure on director remuneration including salaries and bonuses on a named basis. Note that women comprised 38% of the board in 2023. FR has an in-house investor relations team and holds investor meetings regularly, embodying good transparency and disclosure practices.

| Forecasts and Valuation | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
|---------------------------------|----------|--------|---------|---------|---------|
| Total turnover (USDm) | 1,225 | 981 | 787 | 856 | 874 |
| Recurring net profit (USDm) | 322 | 165 | 175 | 178 | 179 |
| Recurring net profit growth (%) | 164.5 | (48.7) | 6.1 | 1.5 | 0.5 |
| Recurring P/E (x) | 5.09 | 9.92 | 9.35 | 9.21 | 9.16 |
| P/B (x) | 1.3 | 1.3 | 1.2 | 1.1 | 1.0 |
| P/CF (x) | 4.63 | 5.25 | 5.13 | 5.61 | 5.28 |
| Dividend Yield (%) | 9.8 | 4.5 | 5.3 | 5.4 | 5.4 |
| EV/EBITDA (x) | 3.13 | 6.47 | 5.58 | 5.53 | 5.46 |
| Return on average equity (%) | 25.9 | 11.1 | 12.9 | 12.3 | 11.7 |
| Net debt to equity (%) | net cash | 5.3 | 13.8 | 19.8 | 21.2 |

Source: Company data, RHB

Financial Exhibits

| Asia | Financial summary (USD) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
|---|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Singapore | Recurring EPS | 0.20 | 0.10 | 0.11 | 0.11 | 0.11 |
| Agriculture | DPS | 0.10 | 0.05 | 0.06 | 0.06 | 0.06 |
| First Resources | BVPS | 0.83 | 0.83 | 0.88 | 0.94 | 1.00 |
| FR SP | Return on average equity (%) | 25.9 | 11.1 | 12.9 | 12.3 | 11.7 |
| Neutral | | | | | | |
| | Valuation metrics | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| Valuation basis | Recurring P/E (x) | 5.09 | 9.92 | 9.35 | 9.21 | 9.16 |
| Target P/E of 11x 2024 P/E, in line with its peers. This implies an EV/ha of USD12,000, in line with its peer range of USD10,000-15,000. | P/B (x) | 1.3 | 1.3 | 1.2 | 1.1 | 1.0 |
| | FCF Yield (%) | 16.9 | (2.1) | (2.6) | (1.3) | 2.9 |
| | Dividend Yield (%) | 9.8 | 4.5 | 5.3 | 5.4 | 5.4 |
| | EV/EBITDA (x) | 3.13 | 6.47 | 5.58 | 5.53 | 5.46 |
| | EV/EBIT (x) | 3.68 | 9.09 | 7.73 | 7.91 | 7.99 |
| Key drivers | Income statement (USDm) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| i. CPO price movement; | Total turnover | 1,225 | 981 | 787 | 856 | 874 |
| ii. FFB production output; | Gross profit | 708 | 445 | 466 | 501 | 518 |
| iii. Competitiveness of its downstream processing division vs that of peers. | EBITDA | 506 | 280 | 349 | 374 | 389 |
| | Depreciation and amortisation | (76) | (80) | (97) | (112) | (123) |
| | Operating profit | 429 | 199 | 252 | 262 | 265 |
| | Net interest | (7) | 3 | (11) | (17) | (19) |
| | Pre-tax profit | 428 | 197 | 240 | 244 | 245 |
| | Taxation | (88) | (45) | (58) | (58) | (59) |
| | Reported net profit | 325 | 145 | 174 | 177 | 178 |
| | Recurring net profit | 322 | 165 | 175 | 178 | 179 |
| Key risks | Cash flow (USDm) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| i. CPO price movement; | Change in working capital | (58) | 72 | 38 | (7) | (1) |
| ii. Weather risks; | Cash flow from operations | 354 | 312 | 319 | 292 | 310 |
| iii. Negative effect of a change in the demand and supply dynamics of the global vegetable oil industry. | Capex | (77) | (346) | (362) | (312) | (262) |
| | Cash flow from investing activities | (52) | (351) | (362) | (312) | (262) |
| | Dividends paid | (87) | (171) | (87) | (88) | (89) |
| | Cash flow from financing activities | (217) | (287) | (37) | 12 | (39) |
| | Cash at beginning of period | 381 | 434 | 111 | 30 | 20 |
| | Net change in cash | 84 | (326) | (80) | (9) | 9 |
| | Ending balance cash | 461 | 108 | 31 | 21 | 28 |
| Company Profile | Balance sheet (USDm) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| 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 | 440 | 163 | 81 | 71 | 79 |
| | Tangible fixed assets | 880 | 1,142 | 1,407 | 1,607 | 1,746 |
| | Total assets | 1,833 | 1,775 | 1,904 | 2,104 | 2,251 |
| | Short-term debt | 93 | 112 | 162 | 262 | 312 |
| | Total long-term debt | 202 | 126 | 126 | 126 | 126 |
| | Total liabilities | 434 | 373 | 407 | 510 | 560 |
| | Total equity | 1,399 | 1,402 | 1,497 | 1,594 | 1,691 |
| | Total liabilities & equity | 1,833 | 1,775 | 1,904 | 2,104 | 2,251 |
| | Key metrics | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| | Revenue growth (%) | 18.7 | (20.0) | (19.7) | 8.7 | 2.2 |
| | Recurrent EPS growth (%) | 165.0 | (48.7) | 6.1 | 1.5 | 0.5 |
| | Gross margin (%) | 57.8 | 45.4 | 59.2 | 58.5 | 59.3 |
| | Operating EBITDA margin (%) | 41.3 | 28.5 | 44.4 | 43.7 | 44.5 |
| | Net profit margin (%) | 26.5 | 14.8 | 22.1 | 20.6 | 20.3 |
| | Dividend payout ratio (%) | 49.5 | 50.9 | 50.0 | 50.0 | 50.0 |
| | Capex/sales (%) | 6.3 | 35.3 | 46.0 | 36.5 | 30.0 |
| | Interest cover (x) | 40.6 | 24.6 | 19.5 | 15.0 | 13.5 |

Source: Company data, RHB

Figure 1: FR's progress on ESG factors

| | | 2021 | 2022 | 2023 |
|--|--|-------------------------------------|-------------------------------------|-------------------------------------|
| ENVIRONMENT | | | | |
| GHG emissions | Emissions (tCO2e) | 104,225 | 501,355 | 908,089 |
| GHG emissions | Intensity (tCO2e per tonne of palm product) | 0.76 | 1.72 | 0.93 |
| Waste treatment | Recycling/Repurposing of waste | Yes | Yes | Yes |
| Energy efficiency (water) | Water usage (m3) and intensity (m3/tonne of palm product) | 3,677,740 Intensity: 0.95 | 3,699,302 Intensity: 0.92 | 3,999,543 Intensity: 0.94 |
| Energy efficiency | Energy consumption and intensity | 497,796 | 790,167 | 917,436 |
| Certifications | RSPO/MSPO/ISPO certified (%) | RSPO: 15% MSPO: N/A ISPO: 49% | RSPO: 34% MSPO: N/A ISPO: 72% | RSPO: 36% MSPO: N/A ISPO: 76% |
| Use of peat land | Peat land (%) | Not disclosed | Not disclosed | Not disclosed |
| Fire accidents | Number of accidents | 122 | 67 | 41 |
| Usage of renewable energy | Percentage of renewable energy used | 30.7% | 30.4% | 34.8% |
| Traceability | Traceable to mills (%) | 100.00% | 100.00% | 100.00% |
| Traceability | Traceable to plantation (%) | 88.00% | 94.00% | 100.00% |
| SOCIAL | | | | |
| Channels for workers to raise concerns | Existence of grievance channels to raise concerns | Yes | Yes | Yes |
| Whistleblowing policy | Policies to protect whistleblowers | Yes | Yes | Yes |
| Employees' professional/personal development | Provision of training and education | Yes | Yes | Yes |
| Policy for smallholders | Policy in place for training, yield improvement and RSPO certification | Yes | Yes | Yes |
| Employees' welfare | Accommodation and amenities provided | Yes | Yes | Yes |
| GOVERNANCE | | | | |
| Board composition | At least half of the board being independent directors | 5/7 are independent | 4/7 are independent | 5/8 are independent |
| Limiting to nine years (for independent directors) | Limitation of tenure to nine years (for independent directors) | Not applicable | Not applicable | Not applicable |
| Gender inclusivity | Female representation in the board | 14.3% | 14.3% | 37.5% |
| Emphasis of sustainability at board level | Formation of a sustainability group | No | No | No |
| Remuneration transparency | Full disclosure of fees and benefits on named basis | Yes | Yes | Yes |

Source: Company data, RHB

Figure 2: Key assumptions for FR

| | FY22 | FY23 | FY24F | FY25F | FY26F |
|---------------------------------|-----------|-----------|-----------|-----------|-----------|
| Nucleus FFB production, tonnes | 3,055,203 | 3,070,683 | 3,179,326 | 3,302,796 | 3,390,332 |
| % change | 3.9% | 0.5% | 3.5% | 3.9% | 2.7% |
| CPO price assumption, USD/tonne | 841 | 764 | 708 | 721 | 721 |
| % change | 46.7% | -9.1% | -7.3% | 1.9% | 0.0% |

Source: RHB

Emissions And ESG

Trend analysis

In FY23, the planter's GHG emissions amounted to 908k tonnes of CO2e. Comparison against the prior year is unfeasible due to a change in reporting, which results in distorted of numbers. The GHG emission calculation encompasses six of its RSPO-certified mills in 2023.

| Emissions (tCO2e) | Dec-21 | Dec-22 | Dec-23 |
|------------------------|----------------|----------------|----------------|
| Scope 1 | 104,225 | 501,355 | 888,742 |
| Scope 2 | na | na | 19,347 |
| Scope 3 | na | na | na |
| Total emissions | 104,225 | 501,355 | 908,089 |

Source: Company data, RHB

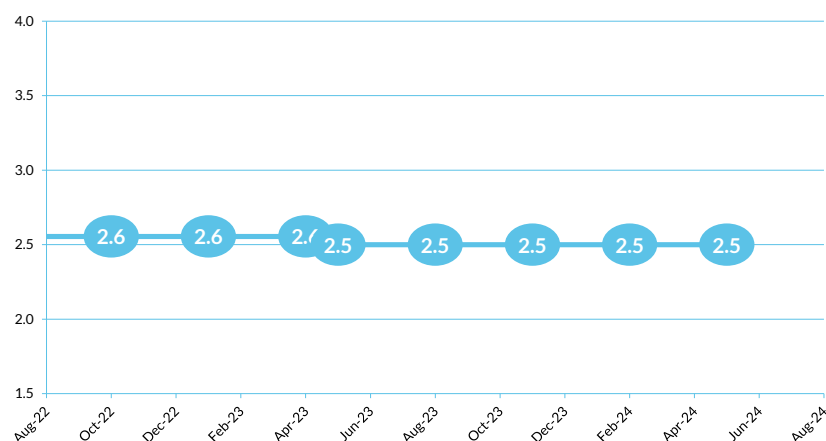
Latest ESG-Related Developments

Sustainability certification: In FY23, 36% of FR's plantation area are RSPO-certified while 76% of the area are ISPO-certified.

Traceability: In FY23, FR achieved 100% traceability to mills and plantation.

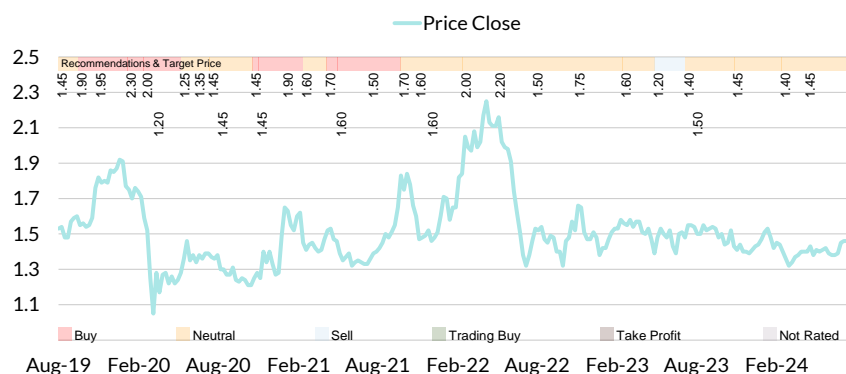
GHG emissions: FR has expanded the boundaries of GHG emissions by including all operating units, in accordance with GHG reporting protocol. As such, the numbers have been revised and categorised under Scope 1 and Scope 2.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2024-05-15 | Neutral | 1.45 | 1.42 |
| 2024-02-29 | Neutral | 1.40 | 1.42 |
| 2023-11-13 | Neutral | 1.45 | 1.43 |
| 2023-08-13 | Neutral | 1.50 | 1.54 |
| 2023-07-23 | Neutral | 1.40 | 1.48 |
| 2023-05-14 | Sell | 1.20 | 1.39 |
| 2023-03-01 | Neutral | 1.60 | 1.63 |
| 2022-11-15 | Neutral | 1.75 | 1.64 |
| 2022-08-12 | Neutral | 1.50 | 1.53 |
| 2022-08-10 | Neutral | 1.50 | 1.45 |
| 2022-05-16 | Neutral | 2.20 | 2.11 |
| 2022-02-27 | Neutral | 2.00 | 1.84 |
| 2021-12-12 | Neutral | 1.60 | 1.52 |
| 2021-11-15 | Neutral | 1.60 | 1.58 |
| 2021-10-08 | Neutral | 1.70 | 1.83 |

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

| | |
|---------------------|--|
| Buy: | Share price may exceed 10% over the next 12 months |
| Trading Buy: | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| Neutral: | Share price may fall within the range of +/- 10% over the next 12 months |
| Take Profit: | Target price has been attained. Look to accumulate at lower levels |
| Sell: | Share price may fall by more than 10% over the next 12 months |
| Not Rated: | Stock is not within regular research coverage |

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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 2302 8100
Fax : +603 2302 8134

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

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

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470