

16 May 2024

Agriculture | Plantation

First Resources (FR SP)

Neutral (Maintained)

Pulled Down By Downstream Unit

Target Price (Return):	SGD1.45 (+2%)
Price (Market Cap):	SGD1.42 (USD1,630m)
ESG score:	2.5 (out of 4)
Avg Daily Turnover (SGD/USD)	2.20m/1.56m

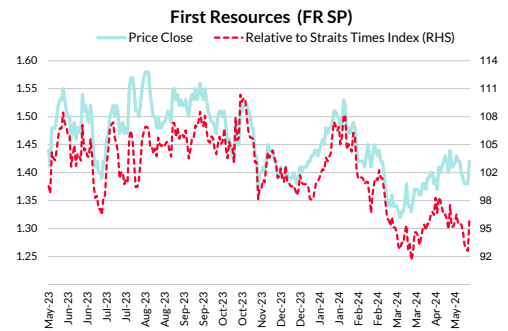
- **Still NEUTRAL, new SGD1.45 TP from MYR1.40, 2% upside with c.5% FY24F yield.** First Resources' 1Q24 results were slightly below expectations, mainly due to higher-than-expected losses at its downstream segment. In FY24F, productivity should improve and costs decrease, but downstream margins may remain under pressure. The stock's valuation remains fair – it is trading at 9.4x 2024F P/E – at the higher end of its peer range of 7-11x.
- **FR recorded a 58% QoQ and 87% YoY surge in net profit in 1Q24** to USD36.1m. This came in slightly below our and Street forecasts (at 20% and 19% of FY24 estimates), likely due to higher-than-expected losses incurred by its downstream segment.
- **Analyst briefing highlights:**
 - 1Q24 FY24 nucleus FFB production dropped by 20% QoQ but rose 7.1% YoY.** This is above management's guidance of c.5% and our forecast of 3.5% growth for 2024. Weather conditions have somewhat regularised since February, and FR is expecting output to continue improving from 2Q24 onwards, before peaking in 3Q24. We make no changes to our (conservative) FFB growth assumptions of 2-4% YoY for FY24-26F.
 - FR recorded a net inventory drawdown in 1Q24** of 28,000 tonnes in 1Q24, which led to higher sales volumes booked during the quarter. Inventory levels returned to normal levels in end-March.
 - Unit costs likely rose QoQ in 1Q24 on the back of lower productivity.** However, this should moderate in the coming quarters due to lower fertiliser costs as FR has secured its FY24 fertiliser requirements at prices that are 30% lower YoY. As such, FR is maintaining its unit cost guidance for FY24 at USD280-300/tonne (-8-15% YoY). FR applied about 20% of its fertiliser requirements in 1Q24. We maintain our unit cost assumptions.
 - Refining margins remained negative in 1Q24.** Management has not seen any marked improvement in downstream margins in 1Q24, given the still-weak demand from its destination markets, while competition from other CPO producers is heating up. Going forward, management highlighted that refining margins will only turn positive if prices move up and demand improves. We note that its utilisation rate has also declined significantly to 20-25% in 1Q24 (from >50% in 1Q23). This was also likely due to FR shifting its sales mix ratio of CPO:refined product volume to 40:60 in 1Q24 (from <10:90 in 1Q23). We have toned down our downstream utilisation and margin assumptions accordingly, for FY24-26F.
- **Keep NEUTRAL, with a slightly higher SGD1.45 TP,** based on a higher 2024F P/E of 11x (from 10x previously) as we update the historical peer range. We trim FY24F-26F earnings by 2-7%, in tandem with our paring down of forecasts for its downstream numbers. Our TP includes a 12% ESG discount.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.7)	2.9	(0.7)	1.4	(0.7)
Relative	(2.2)	(0.4)	(4.2)	(3.6)	(3.0)
52-wk Price low/high (SGD)	1.32 – 1.58				



Source: Bloomberg

Overall ESG Score: 2.5 (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, it is able to reduce GHG emissions by c.213,000 tCO₂e per year. FR has RSPO certification for 34% of its plantation area as at end-2022.

S: MODERATE

In accordance with national labour laws and regulations, FR does not tolerate forced or bonded labour, or the employment of under-aged 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

57% 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 only 14% of the Board in 2021. 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)	5.13	10.00	9.42	9.28	9.23
P/B (x)	1.3	1.3	1.2	1.1	1.1
P/CF (x)	4.67	5.29	5.17	5.66	5.32
Dividend Yield (%)	9.8	4.5	5.3	5.4	5.4
EV/EBITDA (x)	3.15	6.52	5.62	5.57	5.49
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

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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
	Recurring P/E (x)	5.13	10.00	9.42	9.28	9.23
	P/B (x)	1.3	1.3	1.2	1.1	1.1
	FCF Yield (%)	16.8	(2.1)	(2.6)	(1.2)	2.9
	Dividend Yield (%)	9.8	4.5	5.3	5.4	5.4
	EV/EBITDA (x)	3.15	6.52	5.62	5.57	5.49
	EV/EBIT (x)	3.71	9.15	7.78	7.96	8.04
	Income statement (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	1,225	981	787	856	874
	Gross profit	708	445	466	501	518
	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
	Cash flow (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(58)	72	38	(7)	(1)
	Cash flow from operations	354	312	319	292	310
	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
	Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	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

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Figure 1: Results review

FYE Dec (USDm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments
Revenue	198.2	283.5	210.5	(25.7)	6.2	Largely driven by higher FFB output, partially offset by lower downstream revenue
EBITDA	55.1	78.6	69.4	(11.7)	26.0	
EBITDA margin (%)	27.8	27.7	33.0			
Net profit	19.3	22.8	36.1	58.1	87.0	Shift to produce more higher-margin upstream products
Net margin (%)	9.7	8.1	17.1			

Source: Company data, RHB

Figure 2: Operating statistics

Op. stats ('000 tonne)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments
FFB production (nucleus)	624.3	835.8	668.6	(20.0)	7.1	Higher than our and management's guidance of +3.5% and +5% growth.
CPO production	185.3	258.2	201.8	(21.9)	8.9	
PK production	41.3	57.1	45.3	(20.8)	9.5	
FFB yield (tonnes/ha)	3.7	5.0	3.9	(22.0)	5.4	
OER	22.5	22.7	22.3	(1.8)	(0.9)	
KER	5.0	5.0	5.0	-	-	
CPO yield (tonnes/ha)	0.8	1.1	0.9	(18.2)	12.5	

Source: Company data, RHB

Figure 3: 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 FY22, GHG emissions increased to 501k tonnes of CO2 equivalents (FY21: 104k tonnes of CO2 equivalents). The GHG emission calculation encompasses six of its RSPO-certified mills in 2022.

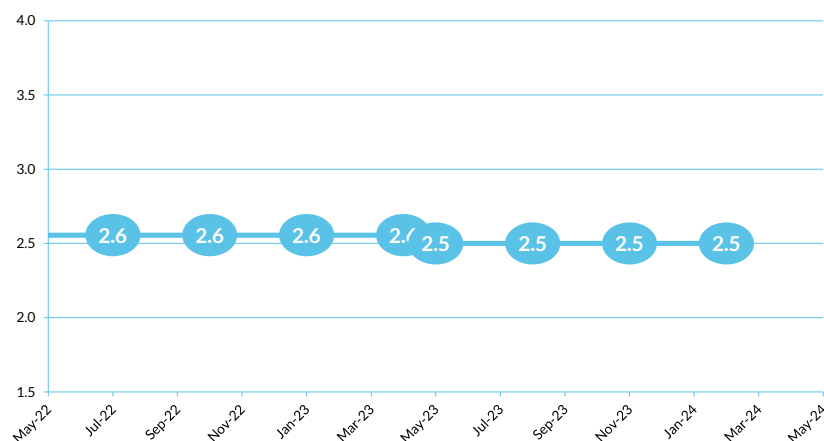
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	104,225	501,355	na
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	104,225	501,355	na

Source: Company data, RHB

Latest ESG-Related Developments

- **Sustainability certification:** As of FY22, 34% of FR’s plantation area is RSPO-certified, while 72% of the area is Indonesia Sustainable Palm Oil (ISPO) certified.
- **Traceability:** In FY22, FR managed to maintain 100% traceability to mills and plantation.
- **GHG emissions:** GHG emissions are currently calculated using the latest RSPO PalmGHG calculator (version 4). FR is in the midst of adopting the GHG Protocol in the future calculation of its emissions.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-07-29	Buy	1.50	1.35

Source: RHB, Bloomberg

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Not Rated:	Stock is not within regular research coverage

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