

14 August 2024

Agriculture | Plantation

First Resources (FR SP)

Neutral (Maintained)

Good Catch-Up In 2Q24

Target Price (Return):	SGD1.45 (4.9%)
Price (Market Cap):	SGD1.38 (USD1,618m)
ESG score:	2.7 (out of 4)
Avg Daily Turnover (SGD/USD)	1.26m/0.93m

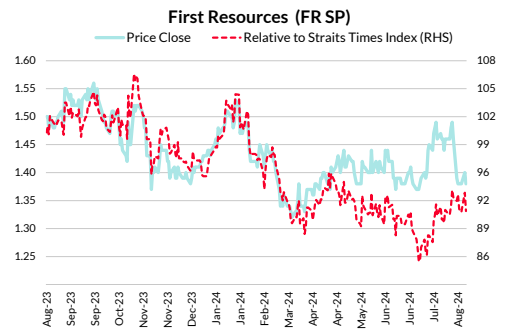
- **Still NEUTRAL and SGD1.45 TP, 5% upside with c.5% FY24F yield.** 2Q24 results were largely in line with our expectations. Going into 2H24, productivity should improve while costs decline, but downstream margins could reverse back to the red unless policy changes are instituted. First Resources' valuation remains fair – it is trading at 9.3x 2025F P/E – at the higher end of its peer range of 6-11x.
- **FR recorded a 45% QoQ (+88% YoY) surge in core net profit in 2Q24.** This came in largely in line with our and Street's forecasts – at 53% and 49% of FY24 estimates – on higher FFB production volume and the downstream segment returning to the black. The company declared an interim DPS of 3.5 sen, in line with expectations.
- **Analysts briefing highlights:**
 - 2Q24 FY24 nucleus FFB production rose by 11.7% QoQ (+6.4% YoY), bringing 1H24 FFB output growth to 6.7% YoY.** This was above management's guidance of c.5% and our forecast of 3.5% growth for 2024. Weather conditions have normalised and FR is expecting output to see the normal seasonal peak in 3Q24. However, it maintains its FY24 FFB growth assumption at 5%. We make no changes to our conservative FFB growth assumptions of 3.5%, 3.9%, and 2.7% YoY for FY24-26;
 - FR recorded a 1H24 net inventory drawdown of 44,000 tonnes.** However, despite this and the higher CPO output of +5.8% YoY, CPO sales volumes declined 2.6%. This was due to lower external purchases of PO;
 - Unit costs decreased QoQ in 2Q24 thanks to higher productivity.** We expect the decline in costs to persist on seasonal trends and lower fertiliser costs – recall that FR secured its FY24 fertiliser requirements at prices that were 30% YoY lower. As such, it is maintaining its FY24 unit cost guidance at USD280-300/tonne (-8% to -15% YoY). FR applied c.40% of its fertiliser requirements in 1H24 and expects to be able to catch up in 2H24. We maintain our unit cost assumptions;
 - Refining margins returned to the black in 2Q24.** The firm saw a QoQ improvement in downstream margins in 2Q24, bringing 1H24 margins to 2.6% (2H23: -4.9%). This came from higher ASPs and an elevated utilisation rate of 70% in 2Q24 from 1Q24's 20%. However, since then, margins have reversed back to the red on declining ASPs. Going forward, margins direction will depend on the Indonesian Government's new domestic market obligation (DMO) policy, which could potentially see an increase in the DMO ceiling price and, hence, margins.
- **Keep NEUTRAL with an unchanged SGD1.45 TP** based on 11x 2025F P/E, which incorporates an 8% ESG discount. We make no changes to earnings.

Analyst

Singapore Research
research.sg.equity@rhbgroup.com

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.5)	(4.8)	0.0	(2.8)	(10.4)
Relative	(4.1)	2.0	1.4	(6.5)	(9.3)
52-wk Price low/high (SGD)	1.32 – 1.56				



Source: Bloomberg

Overall ESG Score: 2.7 (out of 4)

E: GOOD

FR discloses its greenhouse gas (GHG) emissions reduction every year, with the main method of reduction being methane capture facilities. With the help of eight methane capture facilities, FR can reduce GHG emissions by c.213,000 tCO₂e per year. The company 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/bonded labour or the employment of under-aged workers. Employees are also 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 disclosures on director remuneration – including salaries and bonuses – on a named basis. Note: 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)	5.12	9.97	9.39	9.25	9.21
P/B (x)	1.3	1.3	1.2	1.1	1.0
P/CF (x)	4.65	5.28	5.16	5.64	5.31
Dividend Yield (%)	9.8	4.5	5.3	5.4	5.4
EV/EBITDA (x)	3.14	6.50	5.60	5.55	5.48
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)	5.12	9.97	9.39	9.25	9.21
Target P/E of 11x 2025 P/E, in line with its peers. This implies an EV/ha of USD12,000, in line with its peers' range of USD10,000-15,000.	P/B (x)	1.3	1.3	1.2	1.1	1.0
	FCF Yield (%)	16.8	(2.1)	(2.6)	(1.3)	2.9
	Dividend Yield (%)	9.8	4.5	5.3	5.4	5.4
	EV/EBITDA (x)	3.14	6.50	5.60	5.55	5.48
	EV/EBIT (x)	3.70	9.13	7.76	7.94	8.02
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 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. 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: Results review

FYE Dec (USDm)	1H23	1H24	YoY (%)	Comments
Revenue	448.8	457.2	1.9	Flattish estimated CPO ASP (-0.4% YoY), but offset by higher FFB output (+6.7% YoY).
EBITDA	135.1	170.2	26.0	
<i>EBITDA margin (%)</i>	30.1	37.2		
Depreciation	(41.3)	(41.4)	(0.4)	
EBIT	93.8	128.8	37.3	
<i>EBIT margin (%)</i>	20.9	28.2		
Interest expense	(4.5)	(5.7)	(27.2)	
Interest income	6.4	3.1	(51.8)	
Associates				
El/Others	(2.8)	11.3	496.8	FX gains/(losses), gains on derivative financial instruments, gains on disposal of PPE, and gains on FV of biological assets.
Pre-tax profit	92.9	137.5	48.0	
Core PBT	95.7	126.2	31.8	
<i>Pre-tax margin (%)</i>	20.7	30.1		
Tax	(18.8)	(28.9)	(53.3)	
<i>Effective tax rate (%)</i>	(20.3)	(21.0)		
Minority interest	(2.5)	(4.6)	(82.3)	
Net profit	71.5	103.9	45.4	Attributable to estimated lower unit costs (-7.2% YoY) and downstream segment turning profitable.
Core profit	74.3	92.6	24.7	Accounting for 53% of our and 49% of consensus estimates.
<i>Net margin (%)</i>	15.9	22.7		
Segmental breakdown	1H23	1H24	YoY (%)	Comments
Revenue				
CPO	338.8	328.7	(3.0)	Flattish estimated ASP and slightly lower sales volume.
PK	34.3	39.4	14.9	Higher estimated ASP (+10% YoY) and higher sales volume.
FFB	3.1	3.1	-	
Downstream	339.2	335.2	(1.2)	Flattish ASP and sales volume.
EBITDA				
Plantation & palm oil mills	151.5	150.4	(0.7)	Slight decrease in margins due to flattish ASP and lower sales volume.
Downstream	(24.0)	8.6	135.8	Improved processing margins.
Sales volume				
CPO	436.1	424.6	(2.6)	Net inventory drawdown of 44,000 tonnes in 1H24, but partially offset by lower purchases of palm oil products.
PK	88.6	92.4	4.3	
Refinery & processing	445.0	438.1	(1.6)	
ASP CPO	776.9	774.1	(0.4)	
ASP downstream	762.2	765.1	0.4	

Source: Company data, RHB

Figure 2: Operating statistics

Operating statistics '000 tonnes	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY (%)	Comments
FFB production (nucleus)	701.9	668.6	746.5	11.7	6.4	1,326.2	1,415.1	6.7	Slightly above our expectation (+1.8%).
CPO production	221.4	201.8	228.5	13.3	3.2	406.6	430.2	5.8	Higher external FFB purchased.
PK production	46.9	45.3	48.3	6.8	3.1	88.2	93.6	6.1	
FFB yield (tonne/ha)	4.2	3.9	4.5	15.4	7.1	7.9	8.4	6.3	
OER (%)	22.7	22.3	22.3	-	(1.8)	22.6	22.3	(1.3)	
KER (%)	4.8	5.0	4.6	(8.0)	(4.2)	4.9	4.8	(2.0)	
CPO yield (tonne/ha)	1.0	0.9	1.0	11.1	(0.0)	1.8	1.9	5.6	

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 FY23, GHG emissions amounted to 908k tonnes of CO2e. Comparisons against the prior year is unfeasible due to a change in reporting, which results in the distortion of numbers. The GHG emissions calculation encompasses six of its Roundtable on Sustainable Palm Oil (RSPO)-certified mills in 2023.

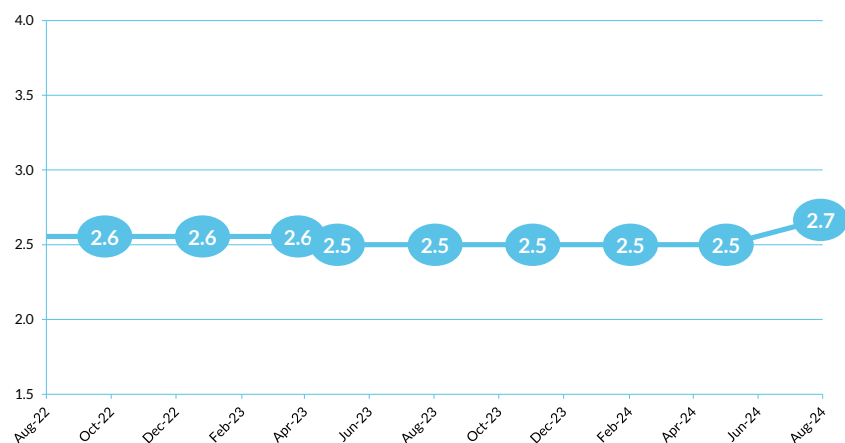
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	104,225	501,355	888,742
Scope 2	na	na	19,347
Scope 3	na	na	na
Total emissions	104,225	501,355	908,089

Source: Company data, RHB

Latest ESG-Related Developments

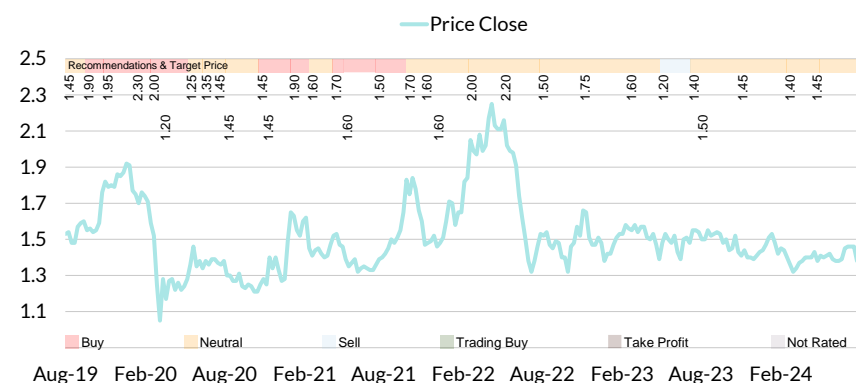
- **Sustainability certification:** In FY23, 36% of FR's plantation area was RSPO certified while 76% of the area is Indonesian Sustainable Palm Oil or ISPO certified.
- **Traceability:** In FY23, FR managed to achieve 100% traceability to mills and plantation.
- **GHG emissions:** FR has expanded the boundaries of GHG emissions by including all its operating units, in accordance with GHG protocols. As such, the numbers have been revised and categorised into Scopes 1 and 2.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-12	Neutral	1.45	1.40
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

Source: RHB, Bloomberg

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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