

11 August 2022

Agriculture | Plantation

## First Resources (FR SP)

**Neutral** (Maintained)

### Valuations Are Decent; Keep NEUTRAL

Target Price (Return):	SGD1.50 (+8%)
Price (Market Cap):	SGD1.39 (USD1,590m)
ESG score:	2.56 (out of 4)
Avg Daily Turnover (SGD/USD)	5.52m/3.98m

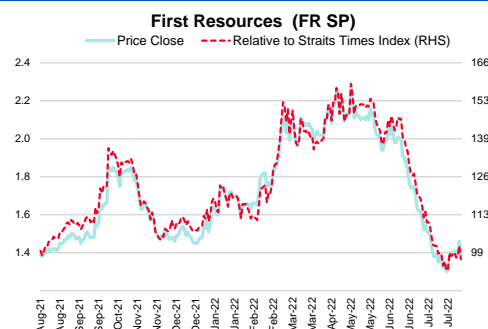
- **Maintain NEUTRAL, new SOP-based TP of SGD1.50 from SGD2.20, 8% upside.** First Resources provides good disclosures in relation to ESG. Efforts have been made to reduce greenhouse gas (GHG) emissions in recent years, but its progress in resources efficiency and obtaining certifications is rather slow. As such, we maintain its 2.6 ESG score. That said, we think FR is fairly valued – it is trading at 7x FY23F P/E, in line with its peer range of 6-11x.
- **CPO prices have plunged** from the unwinding impact of Indonesia's export ban, as well as fears of recession, which pulled down commodity prices in general. We believe the price decline could have been slightly overdone (-44% in seven weeks) – much more than the decrease in soybean, crude oil and wheat prices (down 31%, 17% and 16%). While regulatory risks still exist, particularly for players in Indonesia, we believe supply concerns will continue to haunt the sector for the rest of 2022 – in view of the logistics backlog in Indonesia and the labour shortages in Malaysia. If these issues are resolved by end-2022, and Ukraine is able to export its oilseed products as per the grains deal agreement signed, 2023 should continue to be a better year for supply and prices should remain under pressure.
- **ESG concerns are still present, but may have taken a backseat.** However, the ESG discounts we previously assigned to valuations are still in place. We have reassessed our ESG scores by relooking at the progress made by the industry, identifying shortcomings and any room for improvement. From our analysis, we highlight that, while better disclosure on ESG-related information has been made over the years, progress in mitigating these issues is rather slow. As a result, we have made some upward revisions to the ESG scores of some planters that have made progress – but highlight that several peers have remained relatively stagnant in their ESG efforts, while others have even reduced disclosures.
- **We tone down CPO price assumptions.** We continue to expect stock levels to remain tight for the next 2-3 months, possibly until end-3Q, which would provide support for CPO prices. We trim CPO price assumptions for 2022 to MYR5,100/tonne (from MYR5,300/tonne). For 2023, as fundamentals continue to improve – assuming labour shortages are somewhat resolved and the Ukrainian oilseed output is able to be exported, CPO prices could decrease even more. However, support from a ramp-up in biodiesel mandates and discretionary biodiesel demand coming back would keep CPO prices above MYR3,000/tonne in the medium term. We lower our 2023 estimate to MYR3,900/tonne (from MYR4,300/tonne). Our MYR3,500/tonne assumption for 2024 remains unchanged. As a result, we cut FR's FY22-24F earnings by 11-17%.
- **NEUTRAL, with a lower TP of SGD1.50 (from SGD2.20)** based on a FY23F P/E target of 8x. Our TP includes an 8% ESG discount based on its ESG score of 2.6, which is below the country median of 3.

#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.0)	(8.0)	(34.1)	(16.3)	0.0
Relative	(12.7)	(12.5)	(33.5)	(12.4)	(3.0)
52-wk Price low/high (SGD)	1.30 – 2.28				



Source: Bloomberg

#### Overall ESG Score: 2.56 (out of 4)

##### E: GOOD

FR discloses its GHG emission reduction every year, with the main method of reduction being methane capture facilities. With the help of seven methane capture facilities, it has been able to cut GHG emissions by c.180,000 tCO<sub>2</sub>e per year. It has RSPO certification for 15% of its plantation area as at end-2021.

##### 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. The company has procedures in place, for whistleblowing and grievance considerations.

##### G: EXCELLENT

71% 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-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (USDm)	660	1,032	912	892	864
Recurring net profit (USDm)	117	139	277	235	210
Recurring net profit growth (%)	32.1	18.5	99.7	(15.1)	(10.6)
Recurring P/E (x)	13.64	11.48	5.75	6.77	7.57
P/B (x)	1.5	1.3	1.2	1.1	1.0
P/CF (x)	11.37	6.04	3.83	4.70	4.94
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	7.38	5.44	3.01	3.18	3.19
Return on average equity (%)	9.5	14.3	21.9	16.9	14.0
Net debt to equity (%)	21.9	2.0	net cash	net cash	net cash

Source: Company data, RHB

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (USD)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Singapore	Recurring EPS	0.07	0.09	0.18	0.15	0.13
Agriculture	BVPS	0.67	0.76	0.85	0.92	0.99
<b>First Resources</b>	Return on average equity (%)	9.5	14.3	21.9	16.9	14.0
FR SP						
Neutral						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Target P/E of 8x 2023 P/E, in line with its historical average. This implies an EV/ha of USD13,000, in line with its peer range of USD10,000-15,000.	Recurring P/E (x)	13.64	11.48	5.75	6.77	7.57
	P/B (x)	1.5	1.3	1.2	1.1	1.0
	FCF Yield (%)	4.0	13.7	19.9	15.0	14.0
	EV/EBITDA (x)	7.38	5.44	3.01	3.18	3.19
	EV/EBIT (x)	10.23	7.38	3.64	4.01	4.18
<b>Key drivers</b>	<b>Income statement (USDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
i. CPO price movement;	Total turnover	660	1,032	912	892	864
ii. FFB production output;	Gross profit	367	542	632	569	531
iii. Competitiveness of its downstream processing division vs that of peers.	EBITDA	258	311	508	448	414
	Depreciation and amortisation	(72)	(82)	(87)	(93)	(98)
	Operating profit	186	229	421	356	316
	Net interest	(16)	(13)	(11)	(8)	(5)
	Pre-tax profit	157	246	410	348	311
	Taxation	(49)	(70)	(115)	(98)	(88)
	Reported net profit	100	161	277	235	210
	Recurring net profit	117	139	277	235	210
<b>Key risks</b>	<b>Cash flow (USDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
i. CPO price movement;	Change in working capital	(52)	32	34	(4)	0
ii. Weather risks;	Cash flow from operations	140	264	416	339	322
iii. Demand and supply dynamics of the global vegetable oil industry.	Capex	(76)	(46)	(100)	(100)	(100)
	Cash flow from investing activities	(37)	(1)	(100)	(100)	(100)
	Dividends paid	(33)	(41)	(138)	(117)	(105)
	Cash flow from financing activities	(23)	(100)	(188)	(167)	(154)
	Cash at beginning of period	59	191	381	509	580
	Net change in cash	80	162	127	71	68
	Ending balance cash	139	353	509	580	648
<b>Company Profile</b>	<b>Balance sheet (USDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
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	195	382	509	580	648
	Tangible fixed assets	1,039	976	989	996	998
	Total assets	1,786	1,874	1,964	2,049	2,120
	Short-term debt	185	115	65	15	(34)
	Total long-term debt	257	292	292	292	292
	Total liabilities	660	603	536	490	441
	Total equity	1,126	1,271	1,427	1,560	1,678
	Total liabilities & equity	1,786	1,874	1,964	2,049	2,120
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	7.4	56.3	(11.6)	(2.2)	(3.1)
	Recurrent EPS growth (%)	32.3	18.8	99.7	(15.1)	(10.6)
	Gross margin (%)	55.5	52.5	69.3	63.8	61.5
	Operating EBITDA margin (%)	39.1	30.1	55.7	50.3	47.9
	Net profit margin (%)	15.1	15.6	30.3	26.3	24.3
	Capex/sales (%)	11.5	4.4	11.0	11.2	11.6
	Interest cover (x)	10.7	15.6	26.2	25.8	27.2

Source: Company data, RHB

Figure 1: Progress on ESG factors

		2017	2018	2019	2020	2021
<b>Environmental</b>						
<b>GHG Emission</b>	<b>Emission and intensity</b>	Not disclosed	76,969	618,849	304,595	104,225
<b>Waste treatment</b>	<b>Recycling/ Repurposing of waste</b>	Yes	Yes	Yes	Yes	Yes
<b>Energy Efficiency (water)</b>	<b>Water usage (m3) and intensity (m3/tonne of palm product)</b>	2,520,863 Intensity: 0.80	3,005,415 Intensity: 0.82	3,867,756 Intensity: 1.09	3,479,456 Intensity: 0.94	3,677,740 Intensity: 0.95
<b>Energy Efficiency (electricity)</b>	<b>Energy consumption and intensity</b>	Not disclosed	Not disclosed	Not disclosed	Not disclosed	497,796
<b>Certifications</b>	<b>RSPO / MSPO / ISPO certified (%)</b>	RSPO: - MSPO: N/A ISPO: 43%	RSPO: 10% MSPO: N/A ISPO: 49%	RSPO: 10% MSPO: N/A ISPO: 49%	RSPO: 15% MSPO: N/A ISPO: 49%	RSPO: 15% MSPO: N/A ISPO: 49%
<b>Use of peat land</b>	<b>Peat land (%)</b>	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed
<b>Fire accidents</b>	<b>Number of accidents</b>	Not disclosed	68	47	142	122
<b>Usage of renewable energy</b>	<b>% of renewable energy used</b>	Not disclosed	Not disclosed	Not disclosed	Not disclosed	30.7%
<b>Traceability</b>	<b>Traceability (%) group-wide</b>	100.00%	100.00%	100.00%	100.00%	100.00%
<b>Efficiency of land use</b>	<b>Policy to increase yields and minimise land use or any research and development done/ ongoing</b>	Yes	Yes	Yes	Yes	Yes
<b>Social</b>						
<b>Channels for workers to raise concerns</b>	<b>Existence of grievance channels to raise concerns</b>	Yes	Yes	Yes	Yes	Yes
<b>Whistleblowing policy</b>	<b>Policies to protect whistleblowers</b>	Yes	Yes	Yes	Yes	Yes
<b>Employees' professional/ personal development</b>	<b>Provision of training and education</b>	Yes	Yes	Yes	Yes	Yes
<b>Policy for smallholders*</b>	<b>Policy in place for training, yield improvement and RSPO certification</b>	Yes	Yes	Yes	Yes	Yes
<b>Employees' welfare</b>	<b>Accommodation and amenities provided</b>	Yes	Yes	Yes	Yes	Yes
<b>Governance</b>						
<b>Board composition</b>	<b>At least half of the board being independent directors</b>	5/8 are independent	5/8 are independent	6/9 are independent	6/9 are independent	5/7 are independent
<b>Limiting to 9 years (for independent directors)</b>	<b>Limitation of tenure to 9 years (for independent directors)</b>	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
<b>Gender inclusivity</b>	<b>Female representation in the board</b>	12.5%	12.5%	11.1%	11.1%	14.3%
<b>Emphasis of sustainability at board level</b>	<b>Formation of a sustainability group</b>	No	No	No	No	No
<b>Remuneration transparency</b>	<b>Full disclosure of fees and benefits on named basis</b>	Yes	Yes	Yes	Yes	Yes

Source: Company data, RHB estimates

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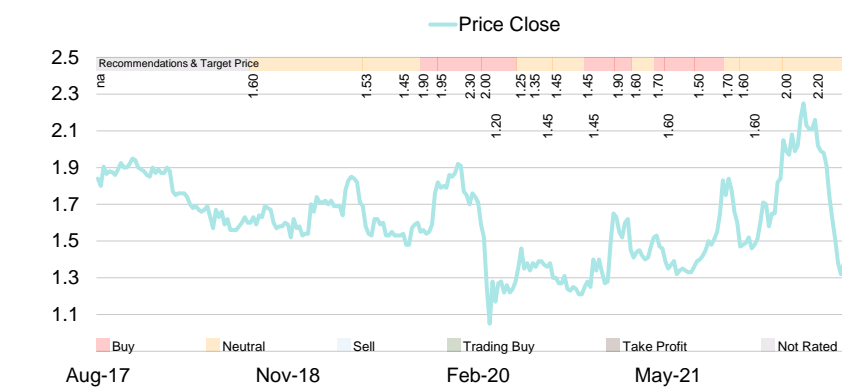
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Figure 2: Key assumptions for FR

	FY20	FY21	FY22F	FY23F	FY24F
Nucleus FFB production, tonnes	3,009,424	2,903,800	3,019,404	3,150,797	3,301,360
% change	-1.7%	-3.5%	2.7%	4.4%	4.8%
CPO price assumption, USD/tonne	468	541	795	720	701
% change	-13.4%	15.6%	38.8%	-9.5%	-2.6%

Source: RHB

## Recommendation Chart

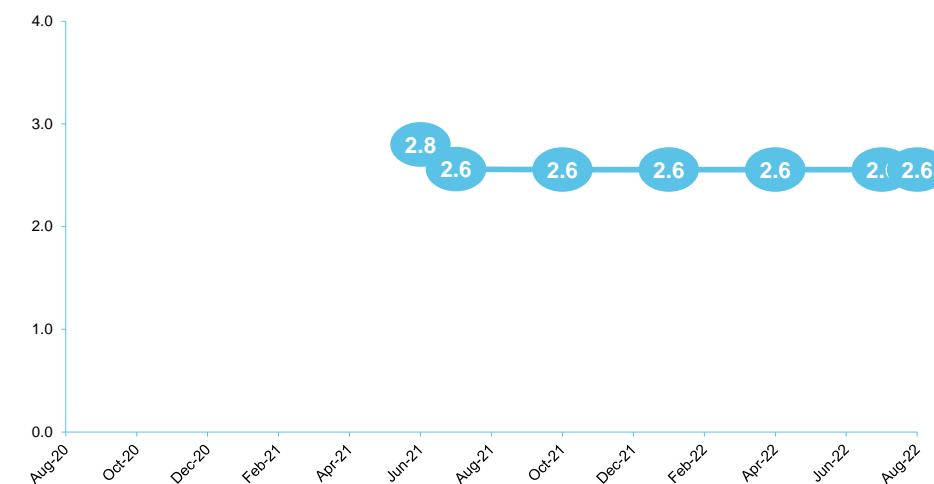


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-05-17	Buy	1.60	1.43
2021-04-21	Buy	1.70	1.47
2021-02-26	Neutral	1.60	1.45
2021-01-14	Buy	1.90	1.63
2020-11-15	Buy	1.45	1.28
2020-11-01	Buy	1.45	1.21
2020-08-17	Neutral	1.45	1.35
2020-07-26	Neutral	1.45	1.39
2020-06-25	Neutral	1.35	1.33

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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