

12 August 2022

Agriculture | Plantation

First Resources (FR SP)

Neutral (Maintained)

High Inventory Build-Up In 1H22

Target Price (Return):	SGD1.50 (4.9%)
Price (Market Cap):	SGD1.43 (USD1,648m)
ESG score:	2.56 (out of 4)
Avg Daily Turnover (SGD/USD)	5.33m/3.85m

- **Maintain NEUTRAL and SGD1.50 TP, 5% upside.** We consider the 1H22 results to be in line with expectations, as we expect First Resources to clear its high inventory build-up of 131,000 tonnes in 2H22. We believe FR is fairly valued, trading at 7x 2023F P/E – in line with its peer range of 6-11x. Nevertheless, dividend yield at 50% payout should lend support, implying 8.5% FY22F yield.

- **1H22 net profit rose 617.8% YoY to USD130.9m.** We consider this to be in line, making up 47-49% of our and Street's FY22F earnings. This is due to the large inventory build-up in 2Q22. FR declared an interim DPS of 2.5 cents (1H21: 1.3 cents).

- **Briefing highlights:**

- 1H22 nucleus FFB production dropped 2.1% YoY**, lower than our 2.7% growth projection and management's 0-5% guidance for FY22. FR is maintaining its FFB growth guidance, as it has seen production picking up strongly in 3Q. Meanwhile, the slight labour shortage issue faced in 1H22 has been relatively resolved. We keep our FY22-23 growth assumptions at 2-5%;

- High inventory build-up to be disposed in 2H22.** We highlight that there was an inventory build-up of 131,000 tonnes in 2Q22 – much higher than 1H21's 20,000 tonnes. This was due to the export ban impact and export permit issues in May/June. FR expects to only be able to normalise inventory by year's end due to the logistics backlog in the country;

- Domestic CPO price improved.** With the current tax levy holiday, domestic CPO prices have improved to around MYR3,350/tonne (+45% from a month ago). However, once the export levy holiday ends at end August, we could see prices coming back down;

- Unit costs expected to rise 10-15% YoY to USD270-290/tonne in FY22** due to higher fertiliser costs of >60% YoY. FR has only applied 35% of its fertiliser requirements in 1H22 so far given the wet weather in 2Q, but hopes to catch up on application in 2H;

- Downstream margins rose to 11.3% in 1H22 (1H21: 6.9%)** on the back of the wide tax differential between CPO and PPO. This margin is likely to narrow in 3Q, however, given the 2-month tax levy holiday. However, once this ends, we could see margins improving again in 4Q22. Both the refinery and biodiesel operations were running at close to full capacity in 1H. Note: FR managed to export more biodiesel in 1H22 as biodiesel was not affected by the export ban.

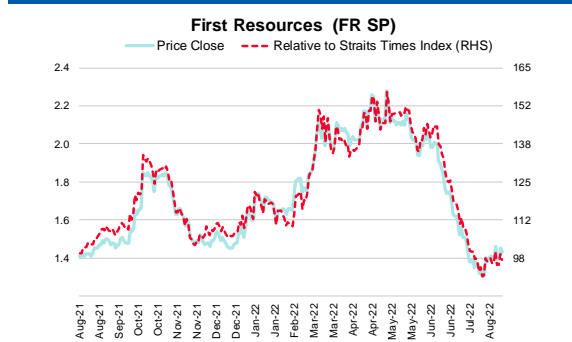
- **Maintain NEUTRAL.** We make no changes to our forecasts. Our TP is unchanged at SGD1.50 based on unchanged 8x 2023F P/E. This includes an 8% ESG discount – calculated using our proprietary in-house methodology – given its ESG score of 2.6.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.3)	(5.3)	(32.6)	(13.3)	2.9
Relative	(11.0)	(10.8)	(35.0)	(9.6)	(0.9)
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 greenhouse gas (GHG) emission reduction every year, with the main method of reduction being methane capture facilities. With the help of seven methane capture facilities, FR is able to reduce GHG emissions by c.180,000 tCO₂e per year. FR 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. FR has a grievance procedure in place, which is open 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)	14.13	11.89	5.95	7.02	7.85
P/B (x)	1.6	1.4	1.2	1.1	1.1
P/CF (x)	11.78	6.25	3.96	4.87	5.12
Dividend Yield (%)	2.1	4.5	8.4	7.1	6.4
EV/EBITDA (x)	7.60	5.63	3.12	3.30	3.33
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

Financial Exhibits

Asia	Financial summary (USD)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS	0.07	0.09	0.18	0.15	0.13
Agriculture	DPS	0.02	0.05	0.09	0.07	0.07
First Resources	BVPS	0.67	0.76	0.85	0.92	0.99
FR SP	Return on average equity (%)	9.5	14.3	21.9	16.9	14.0
Neutral						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Recurring P/E (x)	14.13	11.89	5.95	7.02	7.85
	P/B (x)	1.6	1.4	1.2	1.1	1.1
	FCF Yield (%)	3.9	13.2	19.2	14.5	13.5
	Dividend Yield (%)	2.1	4.5	8.4	7.1	6.4
	EV/EBITDA (x)	7.60	5.63	3.12	3.30	3.33
	EV/EBIT (x)	10.54	7.63	3.77	4.17	4.37
	Income statement (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total turnover	660	1,032	912	892	864
	Gross profit	367	542	632	569	531
	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
	Cash flow (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	(52)	32	34	(4)	0
	Cash flow from operations	140	264	416	339	322
	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
	Balance sheet (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	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
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	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
	Dividend payout ratio (%)	34.4	46.2	50.0	50.0	50.0
	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

Results At a Glance

Figure 1: Results review

FYE Dec (USDm)	1H21	1H22	YoY (%)	Comments
Revenue	412.9	535.2	29.6	See below.
EBITDA	97.5	227.5	133.3	
<i>EBITDA margin (%)</i>	23.6	42.5		
Depreciation	(42.6)	(40.7)	4.5	
EBIT	54.9	186.8	240.3	
<i>EBIT margin (%)</i>	13.3	34.9		
Interest expense	(7.9)	(5.4)	31.4	
Interest income	0.6	0.9	45.6	
Associates				
EI/Others	14.3	(2.9)	(120.2)	FX gains/(losses), losses on FV of biological assets, gains on disposal of bearer plants, and gains from changes in carrying value of plasma receivables.
Pre-tax profit	62.0	179.4	189.5	
Core PBT	47.7	182.3	282.5	
<i>Pre-tax margin (%)</i>	15.0	33.5		
Tax	(23.2)	(42.6)	(83.5)	
<i>Effective tax rate (%)</i>	(37.4)	(23.7)		
Minority interest	(6.2)	(8.9)	(42.8)	
Net profit	32.6	128.0	293.1	
Core profit	18.2	130.9	617.8	Comprising 47-49% of our and consensus' full-year forecasts.
<i>Net margin (%)</i>	7.9	23.9		
Segmental breakdown	1H21	1H22	YoY (%)	Comments
Revenue				
CPO	210.3	288.0	36.9	Higher ASPs offset by lower sales volumes.
PK	50.7	71.0	40.0	Higher ASPs offset by lower sales volumes.
FFB	2.9	4.2	44.8	
Downstream	373.0	514.8	38.0	Higher ASPs offset by lower sales volumes.
EBITDA				
Plantation & palm oil mills	84.0	197.8	135.5	Due to higher ASPs.
Downstream	25.8	58.2	125.6	Higher ASPs led to margins rising to 11.31% in 1H22 from 6.92% in 1H21.
Sales volume				
CPO	457.8	344.1	(24.8)	In line with CPO output.
PK	102.6	88.4	(13.9)	In line with PK output.
Refinery & processing	541.1	457.8	(15.4)	
ASP CPO	459.3	837.0	82.2	
ASP downstream	689.3	1,124.5	63.1	Spread between downstream and CPO ASPs grew to USD287.50/tonne in 1H22 (USD230/tonne in 1H21).

Source: Company data, RHB

Figure 2: Operating statistics

Operating statistics '000 tonnes	2Q21	1Q22	2Q22	QoQ (%)	YoY (%)	1H21	1H22	YoY (%)	Comments
FFB production (nucleus)	720.3	645.4	745.2	15.5	3.5	1,420.4	1,390.6	(2.1)	Below our projection of +2.7% YoY and management's guidance of 0-5% growth. Stronger FFB plasma harvested (+17.8% YoY) offset by lower OER.
CPO production	215.8	192.7	207.5	7.7	(3.9)	428.4	400.2	(6.6)	
PK production	48.0	43.3	45.7	5.5	(4.8)	95.0	89.1	(6.3)	
FFB yield (tonne/ha)	4.2	3.8	4.4	15.8	4.8	8.2	8.2	-	
OER (%)	22.9	22.4	22.4	-	(2.2)	23.0	22.4	(2.6)	
KER (%)	5.1	5.0	5.0	-	(2.0)	5.1	5.0	(2.0)	
CPO yield (tonne/ha)	1.0	0.8	1.0	25.0	0.0	1.9	1.8	(5.3)	

Source: Company data, RHB

Figure 3: 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

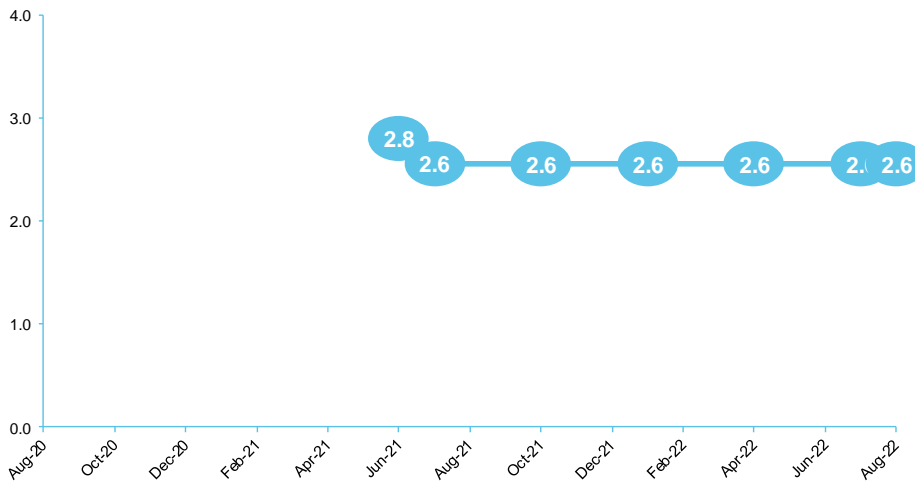


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-08-10	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
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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