

17 May 2022

Agriculture | Plantation

First Resources (FR SP)

Neutral (Maintained)

Decent Start To The Year

Target Price (Return):	SGD2.20 (+4%)
Price (Market Cap):	SGD2.11 (USD2,384m)
ESG score:	2.56 (out of 4)
Avg Daily Turnover (SGD/USD)	8.54m/6.30m

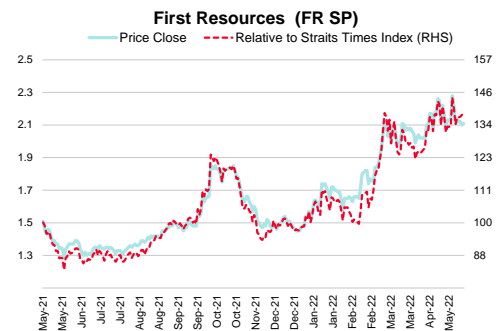
- **Maintain NEUTRAL, with new SGD2.20 TP from SGD2.00, 4% upside.** First Resources' 1QFY22 results came in slightly above expectations. While the current export ban will be negative for all Indonesian players, we do not expect it to be in place for long. While earnings should continue to be strong with FR fairly valued, it is trading at 8.7x 2023F P/E – the high end of its peer range of 5-10x. Nevertheless, dividend yield at 50% payout should lend support, implying 6.5% FY22F yield.
- **1Q22 net profit rose 736.4% YoY to USD73.6m.** This came in slightly above expectations, making up 29-30% of our and Street FY22F earnings, largely due to higher ASPs achieved.
- **Briefing highlights:**
 - 1Q22 nucleus FFB production dropped 7.8% YoY**, lower than our 2.7% growth projection and management's 0-5% guidance for FY22F. FR is maintaining its FFB growth guidance, as it expects production to pick up in 2H22, with 1H:2H output being in the 45%:55% range. We keep our FY22-23 growth assumptions at 2-5%;
 - Forward sales continue, but to a lesser extent.** FR continues to hedge forward for 2022. However, no details were disclosed on volume, except that some of these shipments would be delayed due to the export ban, while there are also some sold forward up to 3Q. We highlight that there was an inventory build-up of 31,000 tonnes in 1Q22;
 - Export ban impact.** About half of FR's sales volume is affected by this ban, while about 25% is sold as biodiesel domestically and another 25% as exportable derivatives. Management highlighted that some changes could be made with the policy soon, with some possibilities including the raising of the ceiling price for bulk cooking oil to IDR17,000/litre; the appointment of a government entity to buy controlled price olein from producers to ensure supply to the domestic market; and potentially raising export levy by another USD10-14/tonne to set aside specifically for cooking oil subsidies. To address the ban, FR has reduced purchasing of third party fruits, while holding back sales of CPO given its storage capacity which can last for another month.
 - Unit costs expected to rise 10-15% YoY** to USD270-290/tonne in FY22, due to higher fertiliser costs of >60% YoY. FR has applied <25% of its fertiliser requirements in 1Q22 thus far, and has secured about 60-70% of its fertiliser requirements for the year.
- **Maintain NEUTRAL.** We raise FY22-23 forecasts by 3-26%, after imputing higher CPO prices of MYR5,300/tonne (from MYR4,300) for 2022F and MYR4,300/tonne for 2023F (from MYR3,600). With this, our TP rises to SGD2.20 (from SGD2.00), after rolling forward our valuation period to 10x 2023F P/E. This includes an 8% ESG discount, given its ESG score of 2.6.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	39.7	0.5	27.9	31.9	39.7
Relative	38.4	5.8	35.6	33.9	38.4
52-wk Price low/high (SGD)	1.29 – 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. In 2020, its five methane capture facilities reduced GHG emissions by 128,000 tCO₂e (+59% YoY). FR built two more methane capture facilities in 2020 that, when commissioned, should reduce GHG emissions by another c.50,000 tCO₂e per year. FR has RSPO certification for 15% of its estates and 17% of its CPO mills, as at end-2020.

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

66% 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 11% of the board in 2020. 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	971	935	883
Recurring net profit (USDm)	117	139	309	282	241
Recurring net profit growth (%)	32.1	18.5	123.2	(8.7)	(14.8)
Recurring P/E (x)	20.45	17.20	7.71	8.45	9.91
P/B (x)	2.2	2.0	1.8	1.6	1.5
P/CF (x)	17.05	9.05	5.34	6.04	6.70
Dividend Yield (%)	1.4	3.1	6.5	5.9	5.0
EV/EBITDA (x)	10.46	8.00	4.15	4.20	4.48
Return on average equity (%)	9.5	14.3	24.3	19.9	15.5
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	0.20	0.18	0.15
Agriculture	DPS	0.02	0.05	0.10	0.09	0.08
First Resources	BVPS	0.67	0.76	0.86	0.95	1.02
FR SP	Return on average equity (%)	9.5	14.3	24.3	19.9	15.5
Neutral						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Valuation basis	Recurring P/E (x)	20.45	17.20	7.71	8.45	9.91
Target P/E of 10x 2023F P/E, in line with its historical average. This implies an EV/ha of USD13,000, in line with its peers' range of USD10,000-15,000.	P/B (x)	2.2	2.0	1.8	1.6	1.5
	FCF Yield (%)	2.7	9.1	14.5	12.4	10.7
	Dividend Yield (%)	1.4	3.1	6.5	5.9	5.0
	EV/EBITDA (x)	10.46	8.00	4.15	4.20	4.48
	EV/EBIT (x)	14.50	10.85	4.93	5.12	5.71
Key drivers	Income statement (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. CPO price movement;	Total turnover	660	1,032	971	935	883
ii. FFB production output;	Gross profit	367	542	688	645	578
iii. Competitiveness of its downstream processing division versus its peers.	EBITDA	258	311	557	518	459
	Depreciation and amortisation	(72)	(82)	(87)	(93)	(98)
	Operating profit	186	229	469	425	360
	Net interest	(16)	(13)	(11)	(7)	(4)
	Pre-tax profit	157	246	458	418	356
	Taxation	(49)	(70)	(129)	(118)	(100)
	Reported net profit	100	161	309	282	241
	Recurring net profit	117	139	309	282	241
Key risks	Cash flow (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. CPO price movement;	Change in working capital	(52)	32	30	1	1
ii. Weather risks;	Cash flow from operations	140	264	447	395	356
iii. The 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)	(155)	(141)	(120)
	Cash flow from financing activities	(23)	(100)	(205)	(191)	(169)
	Cash at beginning of period	59	191	381	523	627
	Net change in cash	80	162	142	103	86
	Ending balance cash	139	353	523	627	713
Company Profile	Balance sheet (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
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	523	627	713
	Tangible fixed assets	1,039	976	989	996	998
	Total assets	1,786	1,874	1,982	2,092	2,180
	Short-term debt	185	115	65	15	(34)
	Total long-term debt	257	292	292	292	292
	Total liabilities	660	603	537	487	439
	Total equity	1,126	1,271	1,446	1,605	1,741
	Total liabilities & equity	1,786	1,874	1,982	2,092	2,180
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	7.4	56.3	(5.9)	(3.8)	(5.6)
	Recurrent EPS growth (%)	32.3	18.8	123.2	(8.7)	(14.8)
	Gross margin (%)	55.5	52.5	70.8	69.0	65.5
	Operating EBITDA margin (%)	39.1	30.1	57.3	55.4	52.0
	Net profit margin (%)	15.1	15.6	31.9	30.2	27.3
	Dividend payout ratio (%)	34.4	46.2	50.0	50.0	50.0
	Capex/sales (%)	11.5	4.4	10.3	10.7	11.3
	Interest cover (x)	10.7	15.6	29.2	30.8	31.1

Source: Company data, RHB

Results At a Glance

Figure 1: Results review

FYE Dec (USDm)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)	Comments
Revenue	196.9	305.2	303.5	(0.5)	54.1	Due to higher ASPs, but dragged by a decline in production volume.
EBITDA	41.5	97.6	123.3	26.3	197.1	
EBITDA margin (%)	21.1	32.0	40.6			
Net profit	8.8	75.8	73.6	(2.8)	736.4	Comprising 30% of our and 29% of consensus forecasts
Net margin (%)	4.5	24.8	24.3			

Source: Company data, RHB

Figure 2: Operating statistics

Operating statistics '000 tonnes	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)	Comments
FFB production (nucleus)	700.0	722.0	645.4	(10.6)	(7.8)	Lower than our projection of +2.7% YoY and management's guidance of 0-5% growth for FY22
CPO production	212.6	212.4	192.7	(9.3)	(9.4)	
PK production	47.0	49.3	43.3	(12.1)	(7.7)	
FFB yield (tonne/ha)	4.0	4.3	3.8	(11.6)	(5.0)	
OER (%)	23.1	22.4	22.4	-	(3.0)	
KER (%)	5.1	5.2	5.0	(3.8)	(2.0)	
CPO yield (tonne/ha)	0.9	1.0	0.8	(20.0)	(11.1)	

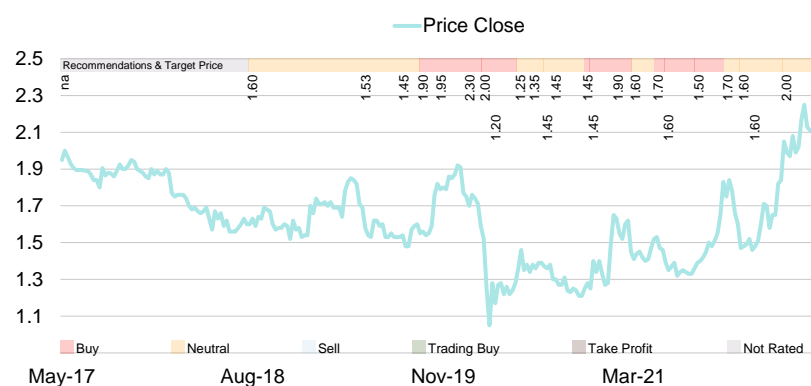
Source: Company data, RHB

Figure 3: Key assumptions for FR

	FY20	FY21	FY22F	FY23F	FY24F
Nucleus FFB production, tonnes	3,009,424	2,940,434	3,019,404	3,150,797	3,301,360
% change	-1.7%	1.3%	2.7%	4.4%	4.8%
CPO price assumption, USD/tonne	468	573	823	751	716
% change	-13.4%	5.9%	43.6%	-8.8%	-4.6%

Source: RHB

Recommendation Chart

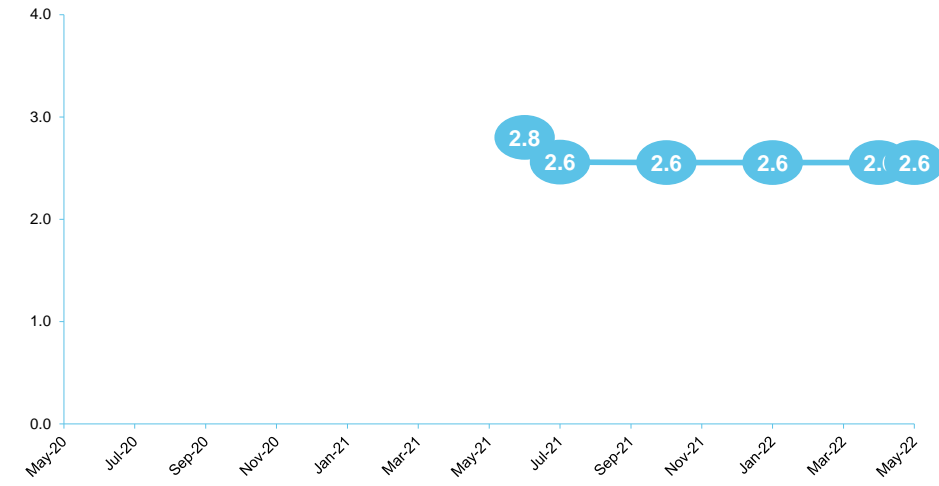


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-02-27	Neutral	2.00	1.84
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
2020-11-01	Buy	1.45	1.21
2020-07-26	Neutral	1.45	1.39
2020-06-25	Neutral	1.35	1.33
2020-05-22	Neutral	1.25	1.28

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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