15 November 2022

Agriculture | Plantation

First Resources (FR SP)

Neutral (Maintained)

Benefitting From The Tax Levy Holiday

Target Price (Return):	SGD1.75 (2.5%)
Price (Market Cap):	SGD1.71 (USD1,949m)
ESG score:	2.56 (out of 4)
Avg Daily Turnover (SGD/USD)	4.20m/2.85m

- **Still NEUTRAL, higher SGD1.75 TP from SGD1.50, 3% upside.** 9M22 numbers came in strongly above expectations, as First Resources benefited from the tax levy holiday and forward hedges. Given yesterday's positive share price reaction, we deem valuations as fair – trading in line with its 5-9x peer range. Nevertheless, dividend yield at 50% payout should lend support, implying 9% FY22F yield.
- **9M22 earnings rose 205.8% YoY,** exceeding expectations at 92-94% of our and Street's FY22F earnings on the tax levy holiday impact, forward hedging gains, lower-than-expected unit costs, and effective tax rate.
- **Briefing highlights:**
  i. **9M22 nucleus FFB production rose 2.9% YoY,** in line with our 2.7% growth projection and management's 0-5% guidance for FY22. 3Q FFB output saw a strong recovery of 19.7% QoQ (+11.8 YoY) despite the wetter-than-expected weather. While the floods have subsided in most parts of FR's Kalimantan estates, the weather is still wetter than usual. As such, it is maintaining its FFB growth guidance for FY22. We keep our FY22-23 growth assumptions at 2-5%;
  ii. **High inventory build-up not disposed in 3Q22.** As at end-3Q22, the inventory build-up was at 117k tonnes, not much lower than 2Q22's 131k tonnes. FR expects to only be able to normalise inventory by year's end;
  iii. **Tax levy holiday impact.** It benefitted from the tax levy holiday in 3Q22 – forward sales volumes contracted earlier during the high tax period got executed when levies were zerorised, thereby recording an additional gain. However, now that the taxes have been reinstated since mid-Nov 2022, the opposite applies, where losses can be booked instead. While FR does not reveal its forward hedging stance, it did state that it continues to hedge forward, albeit at only 2-4 weeks ahead;
  iv. **Fertiliser application slow, resulting in lower unit costs.** FR has lowered its FY22 unit cost guidance to USD250-270/tonne (+5-8% YoY) from USD270-290/tonne. This is due to slower fertiliser application, as it is unlikely to complete its targeted application for this year. We understand fertiliser application is not much more than the 35% applied at end 1H22 due to the wet weather and labour shortages;
  v. **Downstream margins fell QOQ in 3Q22** on the smaller tax differential between CPO and PPO due to the tax levy holiday. However, once this ends, we could see margins improving again.
- **We up our forecasts by 8-23% for FY22-24F** after imputing the impact of the tax levy holiday, and lower unit costs and effective tax rates.
- **Maintain NEUTRAL.** Our TP is raised to SGD1.75 based on an unchanged 8x 2023F P/E – in line with its peers. This includes an 8% ESG discount, given its ESG score of 2.6.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (USDm)	660	1,032	988	915	885
Recurring net profit (USDm)	117	139	341	258	228
Recurring net profit growth (%)	32.1	18.5	145.8	(24.3)	(11.7)
Recurring P/E (x)	16.80	14.13	5.75	7.60	8.61
P/B (x)	1.8	1.6	1.4	1.3	1.2
P/CF (x)	14.00	7.43	4.07	5.36	5.76
Dividend Yield (%)	1.7	3.8	8.7	6.6	5.8
EV/EBITDA (x)	8.81	6.63	3.18	3.68	3.77
Return on average equity (%)	9.5	14.3	26.6	18.0	14.7
Net debt to equity (%)	21.9	2.0	net cash	net cash	net cash

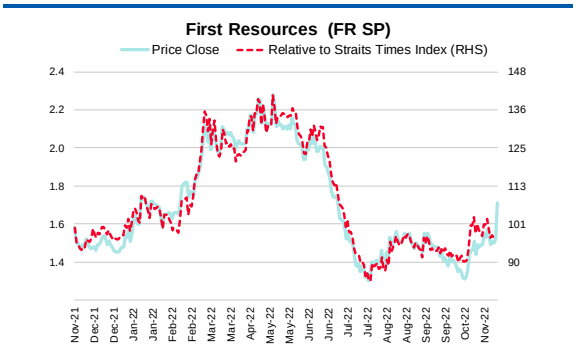
Source: Company data, RHB

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	13.2	29.5	11.8	(19.0)	6.9
Relative	9.8	23.3	13.1	(20.2)	6.9
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.

Financial Exhibits

Asia
Singapore
Agriculture
First Resources
FR SP
Neutral

Valuation basis

Target P/E of 8x 2023 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.

Key drivers

i. CPO price movement;
ii. FFB production output;
iii. Competitiveness of its downstream processing division versus its peers.

Key risks

Risks include increase or decrease of CPO prices; extreme weather conditions resulting in over/under supply of global vegetable oils, and geopolitical risks.

Company Profile

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.

Financial summary (USD)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Recurring EPS	0.07	0.09	0.22	0.16	0.14
DPS	0.02	0.05	0.11	0.08	0.07
BVPS	0.67	0.76	0.87	0.95	1.02
Return on average equity (%)	9.5	14.3	26.6	18.0	14.7

Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Recurring P/E (x)	16.80	14.13	5.75	7.60	8.61
P/B (x)	1.8	1.6	1.4	1.3	1.2
FCF Yield (%)	3.3	11.1	19.4	13.5	12.3
Dividend Yield (%)	1.7	3.8	8.7	6.6	5.8
EV/EBITDA (x)	8.81	6.63	3.18	3.68	3.77
EV/EBIT (x)	12.21	8.99	3.73	4.57	4.88

Income statement (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover	660	1,032	988	915	885
Gross profit	367	542	722	600	554
EBITDA	258	311	588	476	434
Depreciation and amortisation	(72)	(82)	(87)	(93)	(98)
Operating profit	186	229	501	383	336
Net interest	(16)	(13)	(11)	(7)	(4)
Pre-tax profit	157	246	490	376	332
Taxation	(49)	(70)	(127)	(101)	(90)
Reported net profit	100	161	341	258	228
Recurring net profit	117	139	341	258	228

Cash flow (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Change in working capital	(52)	32	31	(2)	(0)
Cash flow from operations	140	264	481	365	340
Capex	(76)	(46)	(100)	(100)	(100)
Cash flow from investing activities	(37)	(1)	(100)	(100)	(100)
Dividends paid	(33)	(41)	(170)	(129)	(114)
Cash flow from financing activities	(23)	(100)	(220)	(179)	(163)
Cash at beginning of period	59	191	381	542	629
Net change in cash	80	162	161	86	78
Ending balance cash	139	353	542	629	706

Balance sheet (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total cash and equivalents	195	382	542	629	706
Tangible fixed assets	1,039	976	989	996	998
Total assets	1,786	1,874	1,999	2,098	2,178
Short-term debt	185	115	65	15	(34)
Total long-term debt	257	292	292	292	292
Total liabilities	660	603	535	489	441
Total equity	1,126	1,271	1,463	1,609	1,737
Total liabilities & equity	1,786	1,874	1,999	2,098	2,178

Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Revenue growth (%)	7.4	56.3	(4.3)	(7.4)	(3.3)
Recurrent EPS growth (%)	32.3	18.8	145.8	(24.3)	(11.7)
Gross margin (%)	55.5	52.5	73.1	65.6	62.6
Operating EBITDA margin (%)	39.1	30.1	59.5	52.0	49.1
Net profit margin (%)	15.1	15.6	34.5	28.2	25.7
Dividend payout ratio (%)	34.4	46.2	50.0	50.0	50.0
Capex/sales (%)	11.5	4.4	10.1	10.9	11.3
Interest cover (x)	10.7	15.6	31.2	27.7	28.9

Source: Company data, RHB

Figure 1: Results review

FYE Dec (USDm)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)	Comments
Revenue	**314.2**	**231.7**	**361.9**	**56.2**	**15.2**	**727.1**	**897.1**	***23.4***	Due to higher ASPs.
EBITDA	**108.8**	**104.2**	**160.4**	**54.0**	**47.4**	**204.3**	**390.7**	***91.2***	
EBITDA margin (%)	34.6	1.9	44.3			28.1	43.6		
Net profit	**52.8**	**54.4**	**116.3**	**113.9**	**120.3**	**83.0**	**253.8**	***205.8***	Comprising 92% and 94% of our and consensus' forecasts.
Net margin (%)	*16.8*	*23.5*	*32.1*			*11.4*	*28.3*		

Source: Company data, RHB

Figure 2: Operating statistics

Operating statistics '000 tonnes	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)	Comments
FFB production (nucleus)	798.0	745.2	892.2	*19.7*	*11.8*	2,218.4	2,282.8	*2.9*	In line with our projection of 2.7% YoY and management's guidance of 0-5% growth for FY22.
CPO production	228.5	207.5	252.5	*21.7*	*10.5*	656.9	652.7	*(0.6)*	
PK production	53.1	45.7	56.9	*24.4*	*7.1*	148.1	146.0	*(1.4)*	
FFB yield (tonne/ha)	4.0	4.4	5.2	*18.2*	*30.0*	12.9	13.5	*4.7*	
OER (%)	22.5	22.4	22.3	*(0.4)*	*(0.9)*	22.8	22.4	*(1.8)*	
KER (%)	5.2	5.0	5.0	-	*(3.8)*	5.1	5.0	*(2.0)*	
CPO yield (tonne/ha)	1.0	1.0	1.2	*20.0*	*20.0*	3.0	3.0	-	

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	772	716	685
% change	-13.4%	15.6%	34.8%	-7.3%	-4.4%

Source: RHB

Recommendation Chart

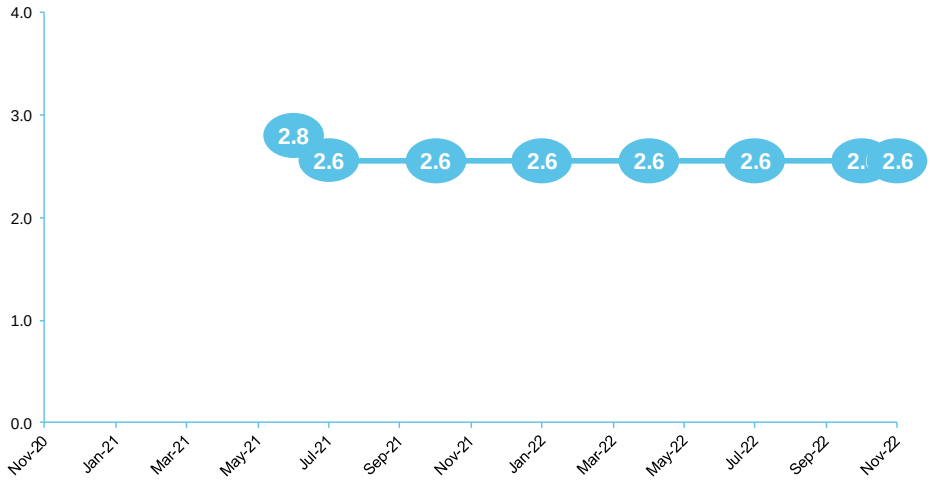


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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