

# First Resources (FR SP)

## Sharply better 2H21 results

# HOLD

Share Price SGD 1.84  
 12m Price Target SGD 1.88 (+7%)  
 Previous Price Target SGD 1.68

### Limited upside; HOLD for 5.1cts SGD final DPS

FY21 core PATMI beat ours but was within street estimates. Better 2H21 results were lifted by higher CPO ASP and improved downstream margins. We expect FR to deliver +37% YoY growth in FY22E core PATMI mainly on higher CPO ASP. FR has significantly lower forward sales in FY22E vs FY21. Following our PATMI revisions, we raise our TP to SGD1.88 after rolling forward valuation to FY23E on unchanged 13x PER at -1SD of 5Y mean (previously SGD1.68 on 13x FY22 PER). Given limited upside, FR remains a HOLD. We prefer Bumitama Agri (BAL SP, Buy, TP: SGD0.93).

### 2H21: Results picked up sharply HoH

2H21 core PATMI of USD119m (+117% YoY, +393% HoH) brings FY21 core PATMI to USD149m (+54% YoY) which met 107%/104% of our/street full-year estimates. 2H21 revenue rose 62% YoY to USD619m mainly driven by higher CPO/ PK ASPs of USD688/t (+29% YoY) / USD565/t (+68% YoY) and a net drawdown of inventory of 50,000 tonnes (2H20: build-up of ~25,000 tonnes), which more than offset lower FFB nucleus output (-6% YoY). The 2H21 plantation EBITDA grew 28% YoY to USD168m. As for downstream, its EBITDA grew 103% YoY to USD44m on higher margins of USD69/t (+94% YoY) which benefited from inventory gains and Indonesia's differential export tax rates between processed palm oil and CPO.

### FY22E: 0-5% FFB growth guidance

FY21's unit cost of production was USD250/t (+13% YoY), due to higher fertilizer cost even though it has only completed 80% of its plan. With fertilizer and higher wage pressures in FY22E, FR is guiding for its unit cost to go up to USD270-290/t (+8%-16% YoY; MIBG Research: +10% YoY). As for FFB output, FR is guiding for 0-5% YoY growth for FY22E (FY21: +1% YoY). Without providing any details, FR guides that it has made some forward sales in FY22E but significantly lower in volume than FY21.

### Raising FY22E/23E core PATMI by 35%/6%

Following our industry-wide CPO ASP revisions to MYR4,100/t (from MYR3,200/t) for 2022E and MYR3,200/t (from MYR3,000/t) for 2023E, we raise our FY22E/23E core PATMI forecasts for FR by 35%/6% respectively. We also introduce our FY24E EPS forecast. FR declared a final DPS of 5.1cts SGD (ex-date: 6 May), bringing total DPS to 6.35cts (ie 50% DPR).

FYE Dec (USD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	660	1,032	999	903	911
EBITDA	233	275	381	324	323
Core net profit	98	149	204	168	167
Core EPS (cts)	6.2	9.4	12.9	10.7	10.6
Core EPS growth (%)	12.7	52.6	37.4	(17.5)	(0.8)
Net DPS (cts)	2.2	4.7	6.5	5.3	5.3
Core P/E (x)	15.7	11.9	10.5	12.7	12.8
P/BV (x)	1.4	1.5	1.7	1.5	1.5
Net dividend yield (%)	2.3	4.2	4.8	3.9	3.9
ROAE (%)	9.6	14.3	16.4	12.6	11.7
ROAA (%)	5.6	8.1	10.5	8.2	7.8
EV/EBITDA (x)	7.9	6.8	5.8	6.6	6.3
Net gearing (%) (incl perps)	21.9	2.0	net cash	net cash	net cash
Consensus net profit	-	-	178	160	na
MKE vs. Consensus (%)	-	-	14.7	5.5	na

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### Company Description

First Resources Ltd. engages in the cultivation of oil palms in Indonesia. It also operates palm oil refinery and biodiesel processing facilities.

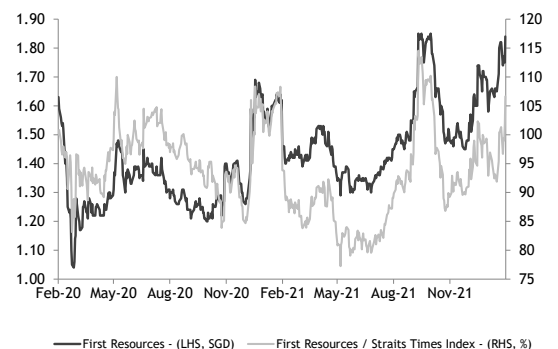
### Statistics

52w high/low (SGD)	1.85/1.29
3m avg turnover (USDm)	1.5
Free float (%)	23.2
Issued shares (m)	1,584
Market capitalisation	SGD2.9B
	USD2.2B

### Major shareholders:

TMF Group BV	65.9%
Fidelity Management & Research Co. LLC	6.1%
King Fortune Trust	5.6%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	9	22	14
Relative to index (%)	7	19	3

Source: FactSet

Fig 1: First Resources results review

FYE Dec	2H21	2H20	% YoY	FY21	FY20	% YoY
	(USD m)	(USD m)		(USD m)	(USD m)	
<b>Revenue</b>	619	382	62	1,032	660	56
<b>Core EBITDA</b>	217	152	43	313	259	21
Depn & amortisation	(42)	(37)	12	(84)	(74)	13
Core EBIT	176	116	51	229	186	23
FV on biological assets	13	8	66	16	4	312
EBIT	189	124	52	245	190	29
Net interest	(6)	(7)	(19)	(13)	(16)	(17)
Other expenses	-	(1)	(100)	-	(1)	(100)
Losses from FV on unquoted investment	1	(16)	NM	14	(16)	NM
PBT	184	99	86	246	157	57
Tax	(46)	(33)	41	(70)	(49)	41
Minority interests	(9)	(5)	66	(15)	(8)	99
<b>PATMI</b>	129	61	112	161	100	62
Core PATMI	119	55	117	149	97	54

	1H21	1H20	+/- ppts	FY21	FY20	+/- ppts
<b>Core EBITDA margin (%)</b>	35	40	(5)	30	39	(9)
Core EBIT margin (%)	28	30	(2)	22	28	(6)
Effective tax rate (%)	25	33	(8)	28	32	(3)

Revenue	USD m	USD m	%YoY	USD m	USD m	%YoY
Plantation	378	290	30	642	545	18
Downstream	545	368	48	918	640	43
Inter-segment elimination	(303)	(276)	10	(527)	(524)	1
<b>Revenue</b>	619	382	62	1,032	661	56

EBITDA	USD m	USD m	%YoY	USD m	USD m	%YoY
Plantation	168	131	28	252	236	7
Downstream	44	22	103	70	32	121
Inter-segment elimination	5	(1)	NM	(9)	(8)	10
<b>Core EBITDA</b>	217	152	43	313	259	21

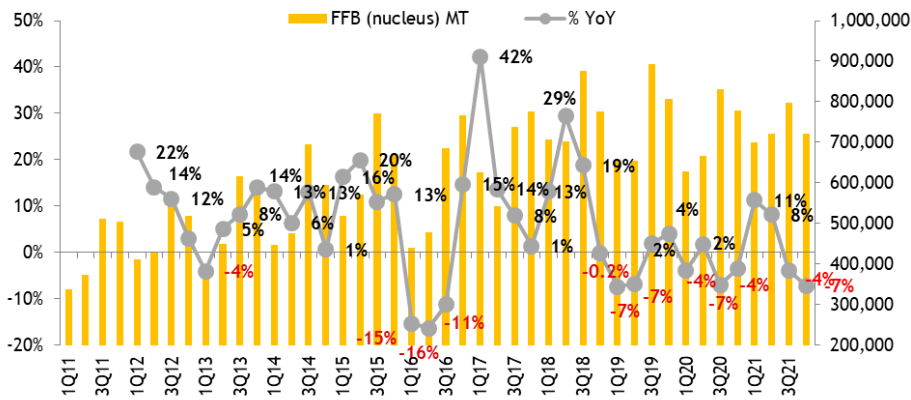
### Operational

#### Production

<b>FFB nucleus (t)</b>	1,520,066	1,608,925	(6)	2,940,434	2,903,800	1
<b>CPO (t)</b>	440,833	487,486	(10)	869,241	858,668	1
<b>Sales</b>						
CPO (t)	453,391	468,606	(3)	911,239	870,433	5
PK (t)	110,893	105,035	6	213,530	195,634	9
Refinery and processing (t)	630,778	602,455	5	1,171,795	1,078,105	9
CPO ASP (USD/t)	688	533	29	573	541	6
PK ASP (USD/t)	565	337	68	531	324	64

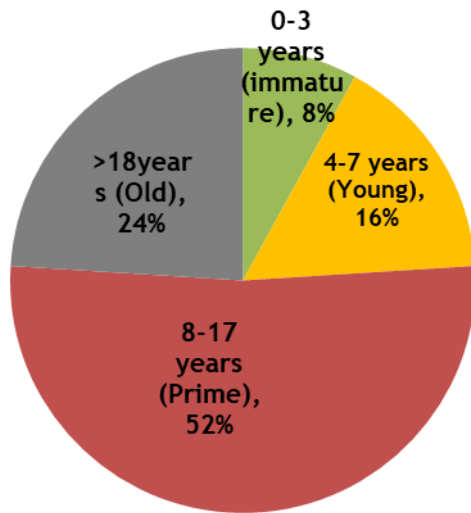
Source: Company

**Fig 2: FR's quarterly FFB nucleus output & YoY growth**



Source: Company

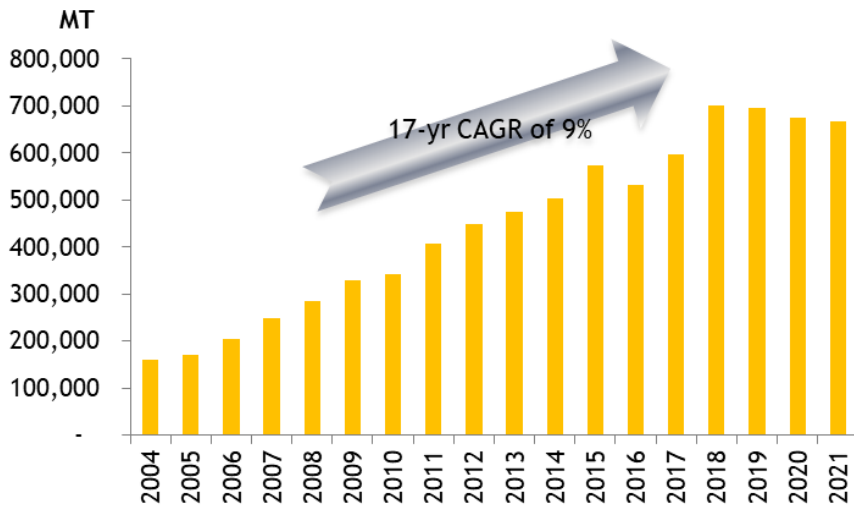
**Fig 3: FR's tree age profile (212,208 ha, including plasma of 33,475ha)**



Weighted average age of ~13 years

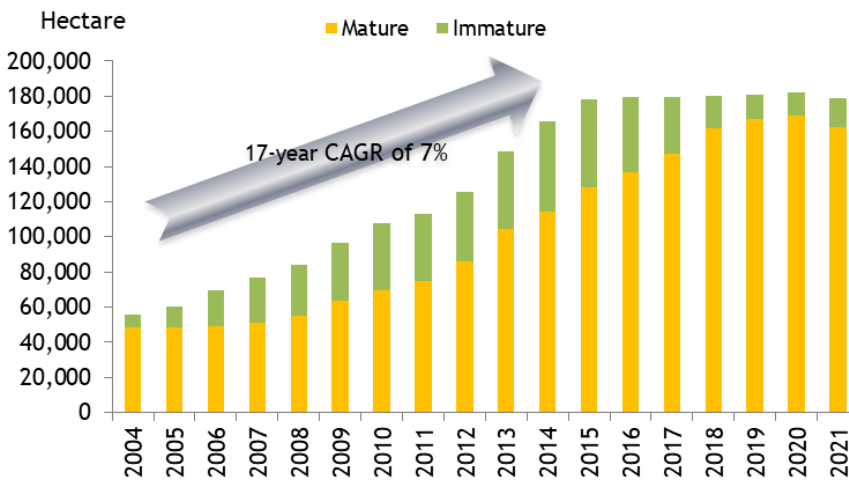
Source: Company (as at 31 Dec 2021)

**Fig 4: FR's CPO nucleus production (2004-2021)**



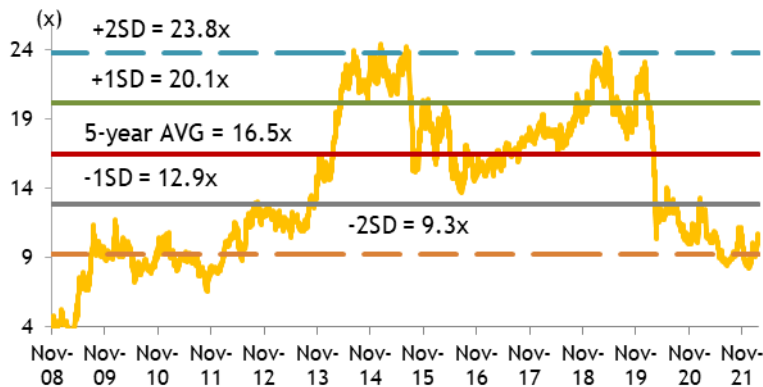
Source: Company

**Fig 5: FR's planted nucleus area (2004-2021)**



Source: Company

**Fig 6: FR's 12-month forward rolling P/E**



Source: Bloomberg, Maybank IBG Research

## Risk statement

There are several risk factors to our earnings estimate, price target, and rating for First Resources (FR). Key risks to the palm oil sector and FR are: (i) weather anomalies resulting in poorer-than-expected output growth, (ii) lower-than-expected CPO price achieved, (iii) negative policies imposed by import countries, (iv) unfriendly policies imposed by the Indonesian government on upstream or downstream segments, (v) sharply lower crude oil prices which make palm biodiesel demand not viable, and (vi) weaker competing oil prices (such as for soybean and rapeseed).

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	15.7	10.9	10.5	12.7	12.8
Core P/E (x)	15.7	11.9	10.5	12.7	12.8
P/BV (x)	1.4	1.5	1.7	1.5	1.5
P/NTA (x)	1.6	1.6	1.8	1.7	1.6
Net dividend yield (%)	2.3	4.2	4.8	3.9	3.9
FCF yield (%)	7.6	13.2	7.7	7.4	8.7
EV/EBITDA (x)	7.9	6.8	5.8	6.6	6.3
EV/EBIT (x)	9.9	8.1	6.6	7.8	7.5
<b>INCOME STATEMENT (USD m)</b>					
Revenue	660.4	1,032.3	998.6	902.9	910.7
EBITDA	233.5	275.1	381.1	324.3	323.3
Depreciation	(47.3)	(46.0)	(49.2)	(51.7)	(53.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	186.1	229.0	331.9	272.7	270.0
Net interest income / (exp)	(16.1)	(13.3)	(12.5)	(12.6)	(11.9)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	3.9	16.0	0.0	0.0	0.0
Other pretax income	(15.7)	14.3	0.0	0.0	0.0
Pretax profit	158.2	246.0	319.5	260.0	258.1
Income tax	(49.5)	(69.5)	(95.8)	(78.0)	(77.4)
Minorities	(7.7)	(15.3)	(19.4)	(13.7)	(13.5)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	101.0	161.1	204.2	168.4	167.1
Core net profit	97.7	148.7	204.2	168.4	167.1
<b>BALANCE SHEET (USD m)</b>					
Cash & Short Term Investments	195.1	381.5	445.4	519.5	623.5
Accounts receivable	85.8	80.7	91.6	82.8	83.6
Inventory	102.8	100.1	117.9	116.9	118.5
Property, Plant & Equip (net)	992.7	933.8	977.0	996.9	985.5
Intangible assets	112.4	111.2	111.2	111.2	111.2
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	297.1	266.3	266.3	266.3	266.3
<b>Total assets</b>	<b>1,785.9</b>	<b>1,873.6</b>	<b>2,009.4</b>	<b>2,093.6</b>	<b>2,188.5</b>
ST interest bearing debt	184.7	114.9	114.9	114.9	114.9
Accounts payable	64.8	84.8	99.6	98.8	100.1
LT interest bearing debt	257.0	291.8	291.8	291.8	291.8
Other liabilities	153.0	111.0	116.0	108.0	108.0
<b>Total Liabilities</b>	<b>659.8</b>	<b>602.5</b>	<b>622.6</b>	<b>613.1</b>	<b>614.9</b>
Shareholders Equity	1,063.6	1,197.1	1,299.2	1,383.4	1,467.0
Minority Interest	62.6	74.0	87.6	97.1	106.6
<b>Total shareholder equity</b>	<b>1,126.1</b>	<b>1,271.1</b>	<b>1,386.8</b>	<b>1,480.5</b>	<b>1,573.6</b>
<b>Total liabilities and equity</b>	<b>1,785.9</b>	<b>1,873.6</b>	<b>2,009.4</b>	<b>2,093.6</b>	<b>2,188.5</b>
<b>CASH FLOW (USD m)</b>					
Pretax profit	158.2	246.0	319.5	260.0	258.1
Depreciation & amortisation	47.3	46.0	49.2	51.7	53.3
Adj net interest (income)/exp	16.1	13.3	12.5	12.6	11.9
Change in working capital	(13.9)	64.7	0.7	12.0	11.6
Cash taxes paid	(22.3)	(51.2)	(95.8)	(78.0)	(77.4)
Other operating cash flow	6.9	(26.6)	0.0	0.0	0.0
Cash flow from operations	192.4	292.2	286.0	258.3	257.5
Capex	(76.2)	(59.9)	(120.0)	(100.0)	(70.0)
Free cash flow	116.1	232.3	166.0	158.3	187.5
Dividends paid	(33.1)	(41.5)	(102.1)	(84.2)	(83.6)
Equity raised / (purchased)	(5.6)	(1.1)	0.0	0.0	0.0
Change in Debt	15.4	(57.5)	0.0	0.0	0.0
Other invest/financing cash flow	39.1	58.5	0.0	0.0	0.0
Effect of exch rate changes	0.0	(0.3)	0.0	0.0	0.0
Net cash flow	132.0	190.4	63.9	74.1	103.9

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	7.4	56.3	(3.3)	(9.6)	0.9
EBITDA growth	20.2	17.8	38.6	(14.9)	(0.3)
EBIT growth	26.9	23.0	44.9	(17.8)	(1.0)
Pretax growth	16.2	55.5	29.9	(18.6)	(0.8)
Reported net profit growth	7.5	59.4	26.7	(17.5)	(0.8)
Core net profit growth	12.5	52.1	37.4	(17.5)	(0.8)
<b>Profitability ratios (%)</b>					
EBITDA margin	35.4	26.6	38.2	35.9	35.5
EBIT margin	28.2	22.2	33.2	30.2	29.6
Pretax profit margin	24.0	23.8	32.0	28.8	28.3
Payout ratio	34.7	45.9	50.0	50.0	50.0
<b>DuPont analysis</b>					
Net profit margin (%)	15.3	15.6	20.4	18.6	18.3
Revenue/Assets (x)	0.4	0.6	0.5	0.4	0.4
Assets/Equity (x)	1.7	1.6	1.5	1.5	1.5
ROAE (%)	9.6	14.3	16.4	12.6	11.7
ROAA (%)	5.6	8.1	10.5	8.2	7.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	68.9	45.9	43.7	48.6	46.6
Days receivable outstanding	36.8	29.0	31.1	34.8	32.9
Days inventory outstanding	90.3	64.0	82.1	89.1	88.2
Days payables outstanding	58.2	47.2	69.4	75.3	74.5
Dividend cover (x)	2.9	2.2	2.0	2.0	2.0
Current ratio (x)	1.3	2.4	2.6	2.9	3.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.7	3.1	3.2	3.4	3.6
Net gearing (%) (incl perps)	21.9	2.0	net cash	net cash	net cash
Net gearing (%) (excl. perps)	21.9	2.0	net cash	net cash	net cash
Net interest cover (x)	11.6	17.2	26.7	21.6	22.7
Debt/EBITDA (x)	1.9	1.5	1.1	1.3	1.3
Capex/revenue (%)	11.5	5.8	12.0	11.1	7.7
Net debt/ (net cash)	246.5	25.2	(38.7)	(112.8)	(216.7)

Source: Company; Maybank

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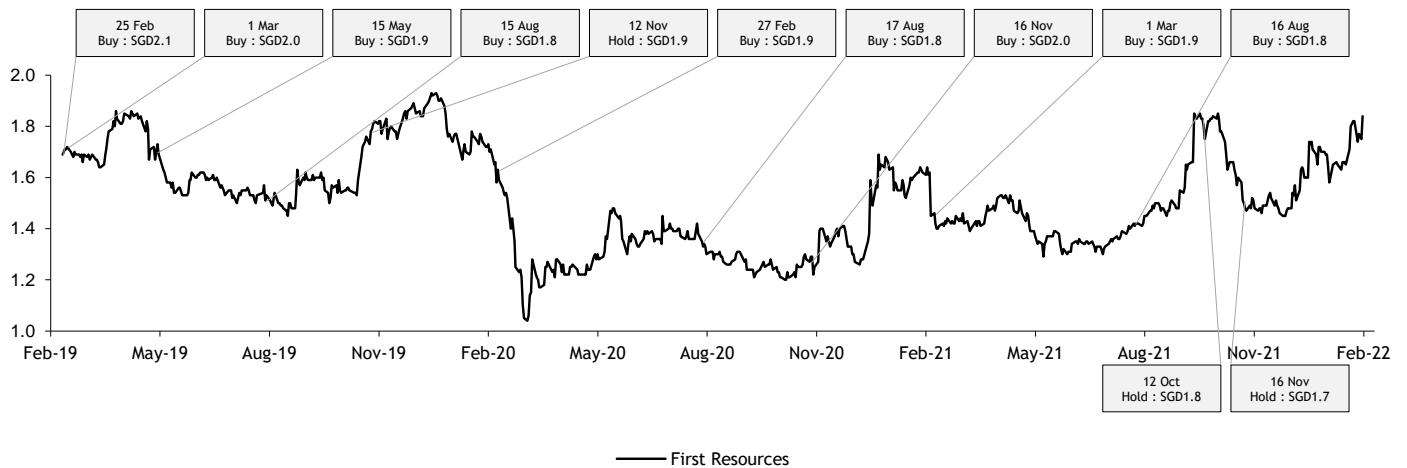
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