

COMPANY RESULTS

First Resources (FR SP)

2H21: Results Above Expectations

FR's 2021 results came in above our expectations lifted by higher CPO ASP and better-than-expected downstream contribution. We reckon that the impact of DMO would reflect lower net realised CPO ASP but we still expect upstream to continue to perform with current increasing CPO prices. Downstream margin would remain stable. Revise earnings on the back of higher CPO assumption of RM4,200/tonne and downstream margin. Upgrade to BUY with a higher target price of S\$2.10.

2H21 RESULTS

Year to 31 Dec (US\$m)	2H21	Hoh % chg	Yoy % chg	2021	Yoy % chg	Comments
Revenue	619.4	50.0	62.0	1032.3	56.3	
- Plantation and Palm Oil Mills	378.1	43.3	30.3	642.1	17.9	
- Refinery and Processing	544.7	46.0	48.1	917.6	43.4	
EBITDA	217.4	127.5	42.8	344.4	31.1	
- Plantation and Palm Oil Mills	168.3	100.4	28.1	252.3	7.0	
- Refinery and Processing	43.7	69.4	103.2	69.6	121.1	
EBIT	204.4	254.8	80.3	260.2	38.2	
PBT	184.0	196.9	95.9	246.0	56.8	
Net Profit	128.6	295.0	127.8	161.1	61.6	Above expectation.
Core Net Profit	119.0	295.3	121.2	149.2	53.8	

Source: First Resources, UOB Kay Hian

RESULTS

- Results above expectations.** First Resources (FR) reported its 2H21 core net profit at US\$119m (+>100% qoq, >+100% yoy), bringing 2021 core net profit to US\$149m (+54% yoy). The results are above our and consensus expectations on the back higher crude palm oil (CPO) ASP and better-than-expected downstream contribution.
- Strong upstream hoh and yoy in 2H21,** mainly lifted by its strong upstream performance from its higher average ASP and better sales volumes. The higher sales volume in 2H21 was also driven by a net inventory drawdown of 50,000 tonnes and higher purchases of third-party CPO.
- Downstream operation performed well too.** The refining and processing segment had improved by >100% qoq and 96% yoy in 2H21 on the back of higher sales volume and the reduction in export levies effective 2 Jul 21 by the Indonesian government.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2020	2021	2022F	2023F	2024F
Net turnover	660	1,032	1,131	1,246	1,299
EBITDA	263	344	413	352	377
Operating profit	188	260	335	281	312
Net profit (rep./act.)	100	161	220	186	211
Net profit (adj.)	103	161	220	186	211
EPS (US\$ cent)	6.5	10.2	13.9	11.7	13.3
PE (x)	21.0	13.4	9.8	11.6	10.2
P/B (x)	2.0	1.8	1.7	1.6	1.7
EV/EBITDA (x)	7.9	6.1	5.0	5.9	5.5
Dividend yield (%)	2.2	5.1	6.9	5.8	19.8
Net margin (%)	15.1	15.6	19.4	15.0	16.2
Net debt/(cash) to equity (%)	23.2	2.1	(11.3)	(31.5)	(26.0)
Interest cover (x)	16.3	25.9	40.3	65.0	453.6
ROE (%)	9.5	14.3	17.8	14.1	16.0
Consensus net profit	-	-	190	185	-
UOBKH/Consensus (x)	-	-	1.15	1.01	-

Source: First Resources, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	S\$1.84
Target Price	S\$2.10
Upside	+14.1%
(Previous TP)	S\$1.65

COMPANY DESCRIPTION

Business activities include plantation, palm oil mill, refinery, fractionation, biodiesel and kernel crushing plants

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	FR SP
Shares issued (m):	1,577.1
Market cap (S\$m):	2,901.8
Market cap (US\$m):	2,142.0
3-mth avg daily t'over (US\$m):	1.4

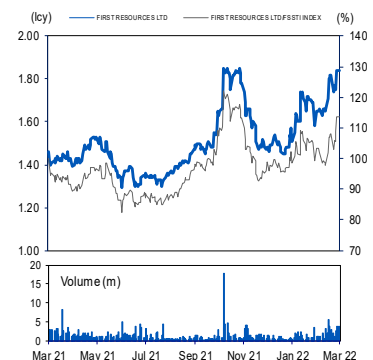
Price Performance (%)

52-week high/low	S\$1.85/S\$1.29			
1mth	3mth	6mth	1yr	YTD
8.9	21.9	26.9	13.6	21.9

Major Shareholders

Eight Capital	66.0
FY22 NAV/Share (US\$)	0.80
FY22 Net Cash/Share (US\$)	0.09

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- FFB production guidance for 2022.** 2021 fresh fruit bunch (FFB) nucleus production was at 2.94m, slightly lower than our full-year estimate of 2.98m, whereby we reckon the variance was mainly due to the high rainfall in Indonesia in 4Q21. Management guided its FFB nucleus production growth guidance at 0-5% yoy for 2022, supported by a recovery in production as well as higher yield.
- Fertiliser application is behind schedule.** Management had mentioned that fertiliser application for 2021 was behind schedule (80% from its initial target), mainly attributed to the wet weather.
- Impact from domestic market obligation (DMO).** FR's upstream would be the one taking an impact from the new Indonesia ruling on exporters to fulfil domestic cooking oil. The upstream is obliged to supply certain amounts of CPO from its nucleus production at the stipulated price of Rp9300/kg vs market price of around Rp17,000/kg. Thus, the full-year net realised price for upstream could come in much lower than ASP. Fortunately, FR has its own downstream operation which can take the low priced CPO to be further processed into olein and sell to domestic cooking oil producers in order to secure an exports licence.

EARNINGS REVISION/RISK

- Revised earnings forecast.** We had revised up our earnings forecast by 24% for 2022, factoring in high CPO price assumption of RM4,200/tonne but this resulted in lower net realised selling price after the impact of DMO. We had also adjusted our downstream margin slightly higher as it is benefitting from the limited supply in Indonesia as well as the Indonesian export levy structure.

VALUATION/RECOMMENDATION

- Upgrade to BUY with higher target price of S\$2.10 (previous: S\$1.65).** The valuation is pegged at 11x 2022F PE, which is 2SD below the stock's five-year average mean.
- Proposed a final dividend of S\$0.051/share (div yield: 2.9%),** bringing total dividend to S\$0.0635/share (div yield: 3.6%) vs 2020 of S\$0.03/share. FR revised its dividend payout to 50% from 30% previously.

SHARE PRICE CATALYST

- Stronger-than-expected CPO price recovery.** FR's earnings are still largely dependent on upstream contributions, and higher CPO prices are positive to its earnings. With every 10% increase in CPO price, FR earnings would be boosted by 22%.
- Higher-than-expected FFB and CPO production.**

PRODUCTION HIGHLIGHTS

	2H21	Qoq % chg	Yoy % chg	2021	Yoy % chg
FFB yield/ha	8.9	8.5	(2.2)	17.2	4.9
OER (%)	22.4	(2.6)	(3.4)	22.7	(2.2)
Total FFB ('000 tonne)	1,744	7.4	(3.9)	3,368	2.9
Nucleus	1,520	7.0	(5.5)	2,940	1.3
Plasma	224	9.9	9.1	427	15.5
CPO	441	2.9	(9.0)	869	1.6

Source: FR

STRONG CPO PRICE



Source: KomPlant UNIB (Universitas Bengkulu), Indonesia

PROFIT & LOSS

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Net turnover	1,032	1,131	1,246	1,299
EBITDA	344	413	352	377
Deprec. & amort.	84	78	71	65
EBIT	260	335	281	312
Total other non-operating income	11	0	0	0
Net interest income/(expense)	(13)	(10)	(5)	(1)
Pre-tax profit	246	325	275	311
Tax	(70)	(91)	(77)	(87)
Minorities	(15)	(14)	(12)	(13)
Net profit	161	220	186	211
Net profit (adj.)	161	220	186	211

BALANCE SHEET

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Fixed assets	415	376	342	314
Other LT assets	819	834	849	866
Cash/ST investment	382	536	806	689
Other current assets	258	234	89	99
Total assets	1,874	1,981	2,088	1,969
ST debt	115	115	115	115
Other current liabilities	148	87	91	92
LT debt	292	277	262	247
Other LT liabilities	47	142	155	141
Shareholders' equity	1,197	1,272	1,365	1,260
Minority interest	74	88	100	113
Total liabilities & equity	1,874	1,981	2,088	1,969

CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	292	293	253	307
Pre-tax profit	246	325	275	311
Tax	(51)	(91)	(77)	(87)
Deprec. & amort.	84	78	71	65
Working capital changes	52	(33)	(37)	(8)
Other operating cashflows	(39)	15	21	26
Investing	(4)	(20)	(20)	(20)
Capex (growth)	(31)	(45)	(44)	(43)
Capex (maintenance)	(15)	(15)	(15)	(15)
Investments	0	0	0	0
Proceeds from sale of assets	3	4	5	6
Others	41	40	39	38
Financing	(100)	(95)	(78)	(301)
Dividend payments	(41)	(110)	(93)	(316)
Issue of shares	0	0	0	0
Proceeds from borrowings	148	30	30	30
Loan repayment	(207)	(15)	(15)	(15)
Others/interest paid	1	0	0	0
Net cash inflow (outflow)	188	179	156	(13)
Beginning cash & cash equivalent	271	462	645	806
Changes due to forex impact	0	(110)	0	(110)
Ending cash & cash equivalent	382	536	806	689

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	33.4	36.5	28.3	29.0
Pre-tax margin	23.8	28.7	22.1	24.0
Net margin	15.6	19.4	15.0	16.2
ROA	8.8	11.4	9.2	10.4
ROE	14.3	17.8	14.1	16.0
Growth				
Turnover	56.3	9.6	10.1	4.3
EBITDA	31.1	20.0	(14.8)	7.1
Pre-tax profit	56.8	32.0	(15.2)	13.0
Net profit	61.6	36.4	(15.2)	13.0
Net profit (adj.)	56.8	36.4	(15.2)	13.0
EPS	56.8	36.4	(15.2)	13.0
Leverage				
Debt to total capital	24.2	22.4	20.5	20.9
Debt to equity	34.0	30.8	27.6	28.7
Net debt/(cash) to equity	2.1	(11.3)	(31.5)	(26.0)
Interest cover (x)	25.9	40.3	65.0	453.6

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