

First Resources (FR SP)

A decent start to the year

Export ban may hurt revenue in 2Q22

1Q22 PATMI broadly met our / consensus expectations. FR's 2Q22 results may be impacted by the recent export ban as we estimate 50-60% of its monthly sales volume is affected by the export ban; potentially only playing catch-up in 2H22. As for forward sales commitment, we understand it is now within normal percentage range done in the past. We make no changes to our earnings forecasts. FR remains a SELL with unchanged TP of SGD1.94 on 12x FY23E PER at -1SD of its 5Y mean.

A decent start despite export restrictions

FR provided an executive summary of key financial and operational information on its 1Q22 performance. Its 1Q22 headline PATMI of USD74m (+736% YoY, -3% QoQ) met 32%/31% of our/consensus full year estimates. Stronger YoY earnings were boosted by higher revenue of USD304m (+54% YoY, -1%) and the absence of forward sales commitments with punitive tax implications suffered a year ago. Overall sales volumes were impacted by export quota imposed by the Indonesian government (for the month of Feb and first half of March) that led to a net inventory build-up of 31,000t in 1Q22 (1Q21: net drawdown of 4,000t). In 1Q22, fertiliser applied was behind schedule at <25% of full-year's requirements.

A slow start to 1Q22 nucleus output

In terms of production, its 1Q22 FFB nucleus output of 645,383t (-8% YoY, -11% QoQ) met just 21% of our full-year forecast (Fig.2). FR is keeping its 0-5% YoY FFB growth forecast for FY21E (MIBG: +3% YoY) as it is expecting a normalisation of industry output with 1H:2H ratio at 45:55 (2021: 50:50).

Procured 60-70% of full-year fertilizer requirements

The length of the export ban (the came into effect on 28 April) will have an impact on FR's 2Q22 performance. FR still has storage capacity to last more than a month. Although the ban may be short-lived, the potential bottleneck at the port once the ban is lifted may delay shipments and sales recognition into 3Q22. As for unit cash cost, guidance is unchanged at USD270-290/t (+8%-16% YoY) as FR has thus far procured 60%-70% of its fertilizer full-year requirements (fertilizer cost has averaged +60% YoY).

FYE Dec (USD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	660	1,032	1,065	943	918
EBITDA	233	275	426	352	328
Core net profit	98	149	233	186	170
Core EPS (cts)	6.2	9.4	14.8	11.8	10.8
Core EPS growth (%)	12.7	52.6	56.6	(19.9)	(8.6)
Net DPS (cts)	2.2	4.6	7.4	5.9	5.4
Core P/E (x)	15.7	11.9	10.3	12.8	14.0
P/BV (x)	1.4	1.5	1.8	1.7	1.6
Net dividend yield (%)	2.3	4.1	4.9	3.9	3.6
ROAE (%)	9.6	14.3	18.5	13.7	11.8
ROAA (%)	5.6	8.1	11.9	9.0	7.8
EV/EBITDA (x)	7.9	6.8	5.7	6.7	6.9
Net gearing (%) (incl perps)	21.9	2.0	net cash	net cash	net cash
Consensus net profit	-	-	220	205	194
MKE vs. Consensus (%)	-	-	5.8	(9.0)	(12.2)

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SELL

Share Price	SGD 2.11
12m Price Target	SGD 1.94 (-4%)
Previous Price Target	SGD 1.94

Company Description

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

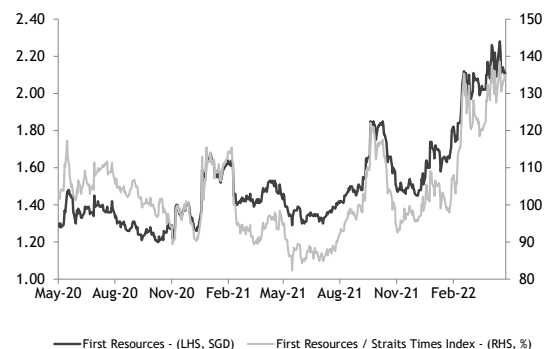
Statistics

52w high/low (SGD)	2.28/1.29
3m avg turnover (USDm)	6.4
Free float (%)	23.1
Issued shares (m)	1,584
Market capitalisation	SGD3.3B
	USD2.4B

Major shareholders:

TMF Group BV	65.9%
Fidelity Management & Research Co. LLC	6.5%
King Fortune Trust	5.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	28	40
Relative to index (%)	5	37	37

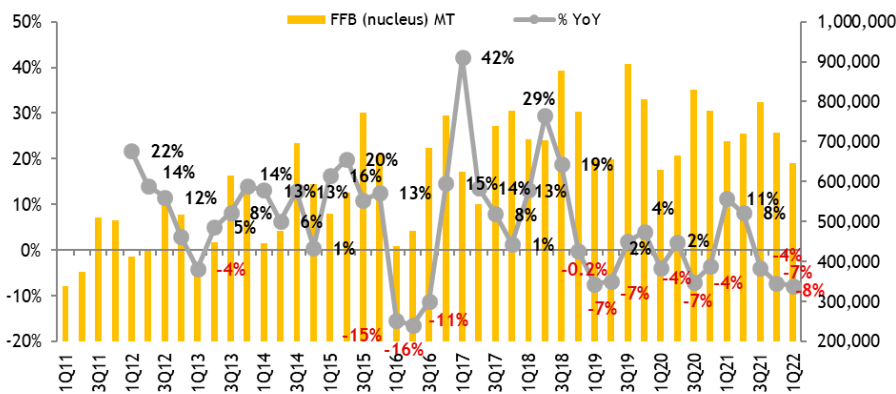
Source: FactSet

Fig 1: FR's 1Q22 limited results review

FYE Dec	1Q22 (USD m)	1Q21 (USD m)	% YoY	4Q21* (USD m)	% QoQ
Revenue	304	197	54	305	(1)
EBITDA	123	42	197	109	14
Headline PATMI	74	9	736	76	(3)
EBITDA margin (%)	123	42	197	109	13
			+/- pts		+/- pts
Operational					
Production					
FFB nucleus (t)	645,383	700,037	(8)	722,018	(11)
CPO (t)	192,667	212,564	(9)	212,373	(9)

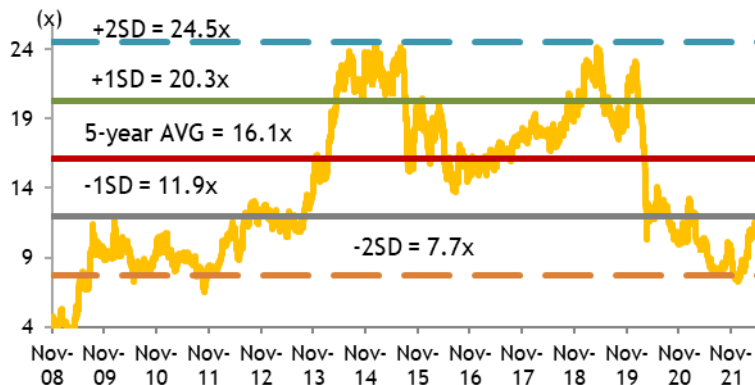
Source: Company; *Maybank IBG Research estimate

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



Source: Company

Fig 3: 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
Key Metrics					
P/E (reported) (x)	15.7	10.9	10.3	12.8	14.0
Core P/E (x)	15.7	11.9	10.3	12.8	14.0
P/BV (x)	1.4	1.5	1.8	1.7	1.6
P/NTA (x)	1.6	1.6	2.0	1.8	1.7
Net dividend yield (%)	2.3	4.1	4.9	3.9	3.6
FCF yield (%)	7.6	13.2	8.3	7.4	8.0
EV/EBITDA (x)	7.9	6.8	5.7	6.7	6.9
EV/EBIT (x)	9.9	8.1	6.4	7.8	8.2

INCOME STATEMENT (USD m)

Revenue	660.4	1,032.3	1,064.8	943.3	917.6
EBITDA	233.5	275.1	425.8	352.0	328.0
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	376.6	300.3	274.7
Net interest income / (exp)	(16.1)	(13.3)	(12.5)	(12.5)	(11.6)
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	364.1	287.8	263.0
Income tax	(49.5)	(69.5)	(109.2)	(86.4)	(78.9)
Minorities	(7.7)	(15.3)	(22.2)	(15.1)	(13.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	101.0	161.1	232.7	186.4	170.3
Core net profit	97.7	148.7	232.7	186.4	170.3

BALANCE SHEET (USD m)

Cash & Short Term Investments	195.1	381.5	462.2	546.2	651.6
Accounts receivable	85.8	80.7	97.7	86.5	84.2
Inventory	102.8	100.1	120.9	118.7	118.8
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
Total assets	1,785.9	1,873.6	2,035.3	2,125.7	2,217.5
ST interest bearing debt	184.7	114.9	114.9	114.9	114.9
Accounts payable	64.8	84.8	102.2	100.3	100.4
LT interest bearing debt	257.0	291.8	291.8	291.8	291.8
Other liabilities	153.0	111.0	123.0	112.0	109.0
Total Liabilities	659.8	602.5	632.3	619.0	615.9
Shareholders Equity	1,063.6	1,197.1	1,313.5	1,406.7	1,491.9
Minority Interest	62.6	74.0	89.5	100.0	109.7
Total shareholder equity	1,126.1	1,271.1	1,403.0	1,506.7	1,601.6
Total liabilities and equity	1,785.9	1,873.6	2,035.3	2,125.7	2,217.5

CASH FLOW (USD m)

Pretax profit	158.2	246.0	364.1	287.8	263.0
Depreciation & amortisation	47.3	46.0	49.2	51.7	53.3
Adj net interest (income)/exp	16.1	13.3	12.5	12.5	11.6
Change in working capital	(13.9)	64.7	0.4	11.6	11.5
Cash taxes paid	(22.3)	(51.2)	(109.2)	(86.4)	(78.9)
Other operating cash flow	6.9	(26.6)	0.0	0.0	0.0
Cash flow from operations	192.4	292.2	317.0	277.2	260.6
Capex	(76.2)	(59.9)	(120.0)	(100.0)	(70.0)
Free cash flow	116.1	232.3	197.0	177.2	190.6
Dividends paid	(33.1)	(41.5)	(116.4)	(93.2)	(85.2)
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	80.7	84.0	105.4

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	7.4	56.3	3.2	(11.4)	(2.7)
EBITDA growth	20.2	17.8	54.8	(17.3)	(6.8)
EBIT growth	26.9	23.0	64.4	(20.3)	(8.5)
Pretax growth	16.2	55.5	48.0	(21.0)	(8.6)
Reported net profit growth	7.5	59.4	44.5	(19.9)	(8.6)
Core net profit growth	12.5	52.1	56.6	(19.9)	(8.6)
Profitability ratios (%)					
EBITDA margin	35.4	26.6	40.0	37.3	35.7
EBIT margin	28.2	22.2	35.4	31.8	29.9
Pretax profit margin	24.0	23.8	34.2	30.5	28.7
Payout ratio	34.2	45.3	50.0	50.0	50.0
DuPont analysis					
Net profit margin (%)	15.3	15.6	21.9	19.8	18.6
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	18.5	13.7	11.8
ROAA (%)	5.6	8.1	11.9	9.0	7.8
Liquidity & Efficiency					
Cash conversion cycle	68.9	45.9	42.7	49.0	47.2
Days receivable outstanding	36.8	29.0	30.2	35.2	33.5
Days inventory outstanding	90.3	64.0	81.1	89.6	88.7
Days payables outstanding	58.2	47.2	68.6	75.7	75.0
Dividend cover (x)	2.9	2.2	2.0	2.0	2.0
Current ratio (x)	1.3	2.4	2.6	3.0	3.4
Leverage & Expense Analysis					
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	30.2	24.1	23.6
Debt/EBITDA (x)	1.9	1.5	1.0	1.2	1.2
Capex/revenue (%)	11.5	5.8	11.3	10.6	7.6
Net debt/ (net cash)	246.5	25.2	(55.4)	(139.4)	(244.9)

Source: Company; Maybank IBG Research

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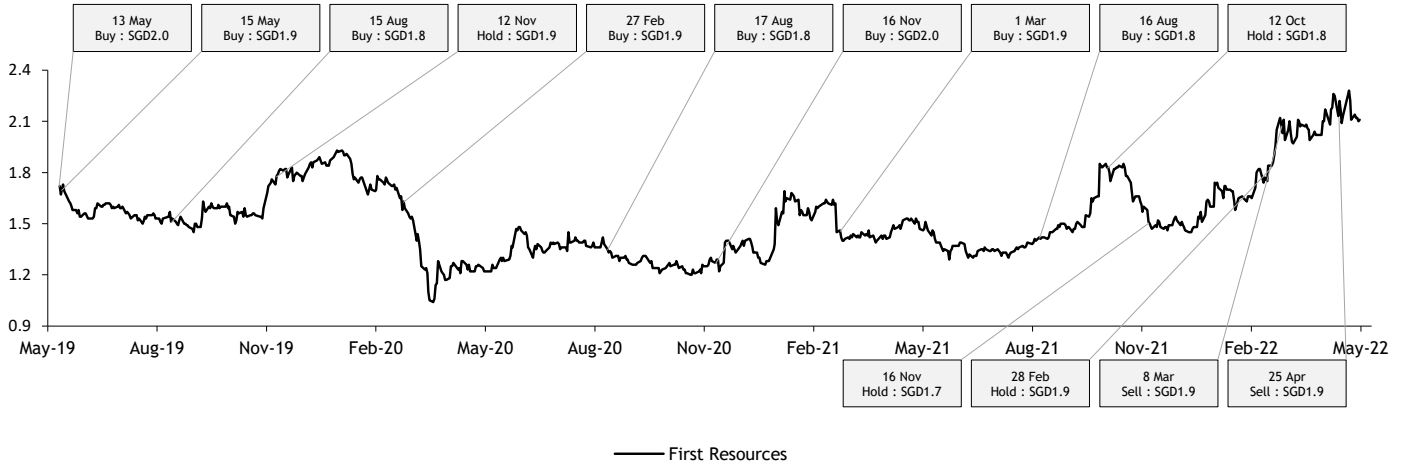
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Historical recommendations and target price: First Resources (FR SP)



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