

COMPANY RESULTS

First Resources (FR SP)

1Q22: Results Slightly Above Expectations

FR's 1Q22 results came in slightly above expectations mainly due to strong ASP despite lower qoq sales volume. We expect 2Q22 earnings to be lower qoq, dragged by the impact from Indonesia's export ban which resulted in lower CPO ASP, refining margins and sales volume. We have revised our earnings forecasts, factoring in higher CPO ASP assumptions but slightly muted by higher export duties and levies and lower downstream margins. Downgrade to HOLD with a higher target price of S\$2.30.

1Q22 RESULTS

Year to 31 Dec (US\$m)	1Q21	4Q21	1Q22	qoq % chg	yoy % chg	Comments
Revenue	196.9	831.0	303.5	(63.5)	54.1	
EBITDA	41.5	344.6	123.3	(64.2)	197.1	
Net Profit	8.8	190.6	73.6	(61.4)	736.4	Slightly above our expectations.

Source: First Resources, UOB Kay Hian

RESULTS

- **Results above expectations.** First Resources (FR) reported 1Q22 net profit of US\$73.6m (+738.5% yoy), on the back of a 54.1% yoy increase in sales to US\$303.5m. Results came in slightly higher than our expectations mainly supported by strong ASP, especially from palm kernel despite lower qoq sales volume.
- **Lower qoq results** were due to the impact from domestic market obligation (DMO) which has slowed the exports sales and lowered ASP due to the commitment to domestic price obligation (DPO). As a result of lower sales volumes, 1Q22 recorded a net inventory build-up of 31,000 tonnes despite lower production.
- We expect 2Q22 earnings to be lower qoq, mainly due to:
 - Lower CPO ASP and sales volume**, dragged by the Indonesia export bans. Since the announcement, Indonesian domestic CPO prices have dropped 20-25%. FR had guided that delivery have been paused/rescheduled but does not expect to incur any significant holding cost. With the assumption that the export ban would not last long, FR has put most of its delivery on hold where its storage tank can still sustain for another 1-2 months.
 - Lower total FFB processed.** The fresh fruit bunch (FFB) prices from external smallholders have fallen around 50-75% where most of the Indonesian players are trying to keep their storage tank capacity for their internal FFB usage.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2020	2021	2022F	2023F	2024F
Net turnover	660	1,032	845	1,116	1,155
EBITDA	263	344	457	420	410
Operating profit	188	260	379	348	345
Net profit (rep./act.)	100	161	247	230	231
Net profit (adj.)	103	161	247	230	231
EPS (US\$ cent)	6.5	10.2	15.6	14.5	14.5
PE (x)	23.3	14.9	9.7	10.4	10.4
P/B (x)	2.2	2.0	1.9	1.7	1.9
EV/EBITDA (x)	8.5	6.5	4.9	5.3	5.5
Dividend yield (%)	2.0	4.6	4.9	4.6	4.6
Net margin (%)	15.1	15.6	29.2	20.6	20.0
Net debt/(cash) to equity (%)	23.2	2.1	(17.9)	(36.6)	(31.1)
Interest cover (x)	16.3	25.9	55.4	102.1	n.a.
ROE (%)	9.5	14.3	19.9	17.1	17.2
Consensus net profit	-	-	238	208	194
UOBKH/Consensus (x)	-	-	1.04	1.11	1.19

Source: First Resources, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	S\$2.11
Target Price	S\$2.30
Upside	+9.0%
(Previous TP)	S\$2.10)

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):	3,327.6
Market cap (US\$m):	2,382.5
3-mth avg daily t'over (US\$m):	6.5

Price Performance (%)

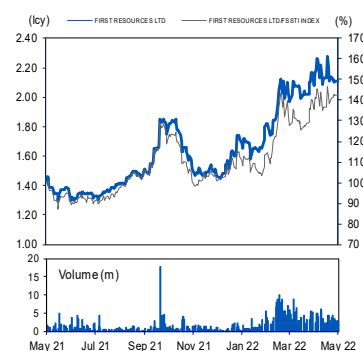
52-week high/low	S\$2.28/S\$1.29			
1mth	3mth	6mth	1yr	YTD
0.5	27.9	31.9	39.7	39.7

Major Shareholders

Eight Capital	66.2
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FY22 NAV/Share (US\$)	0.81
FY22 Net Cash/Share (US\$)	0.15

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Downstream margin may be squeezed.** As export sales have been halted for the time being and coupled with the limited storage capacity, refining operation would have to be reduced which would result in a low utilisation rate and lower downstream margin. Even though FR would be able to convert some of its CPO into other items that can be exported (eg stearin and palm fatty acid distillate), we reckon that the sales volume would be small.
- **Impact from exports ban is affecting cash flow if sales continue to be held up due to the ban.** As mentioned, local sales are slow while the exports market is temporarily closed, which means short-term cashflow could be affected for most of the palm players in Indonesia. FR is in a better position, ie still being able to generate operating cashflow from the sales of biodiesel (25% of its CPO production) to fulfill the local mandate and export the balance of the palm products that are not subjected to the ban (approximately 20% of the palm value chain).
- **Secured 60-70% of its 2022 fertiliser.** FR had procured 60-70% fertiliser for 2022, where there would be another tender in Jun 22. The fertiliser prices that FR had locked in have increased about 60% yoy, whereas the upcoming tender prices are expected to increase further. Despite FR securing its fertiliser, there are still some delays in its fertiliser delivery in 1Q22, where we believe that it was mainly due to logistic issues.

EARNINGS REVISION/RISK

- **Revised earnings forecasts.** We had revised up our earnings forecasts by 10%/25% for 2022/23, factoring in: a) higher CPO assumptions of RM5,200/tonne and RM4,000/tonne respectively (previous: RM4,200/tonne and RM3,000/tonne), b) higher export levy and duty, and c) lower downstream utilisation rate.
- Our net profit forecasts for 2022-24 are at US\$247m, US\$229m and US\$231m respectively.

VALUATION/RECOMMENDATION

- **Downgrade to HOLD despite a higher target price of S\$2.30 (previous: S\$2.10)** where we reckon that the current share price have already factored in the stronger yoy CPO prices for 2022. With the uncertainty from Indonesian policies and the impact from the current export bans, we had downgraded to stock from BUY to HOLD.

SHARE PRICE CATALYST

- Stronger-than-expected CPO price recovery.
- Higher-than-expected FFB and CPO production.
- Changes in Indonesia's policy.

PRODUCTION HIGHLIGHTS

	1Q21	4Q21	1Q22	qoq % chg	yoy % chg
FFB yield/ha	4.0	4.3	3.8	(11.6)	(5.0)
OER (%)	23.1	22.4	22.4	0.0	(3.0)
Total FFB ('000 tonne)	797	834	753	(9.7)	(5.5)
Nucleus	700	722	645	(10.6)	(7.8)
Plasma	97	112	108	(4.2)	10.9
CPO	213	212	193	(9.3)	(9.5)

Source: FR

CPO PRODUCTION TREND



Source: FR

PROFIT & LOSS

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Net turnover	1,032	845	1,116	1,155
EBITDA	344	457	420	410
Deprec. & amort.	84	78	71	65
EBIT	260	379	348	345
Total other non-operating income	11	0	0	0
Net interest income/(expense)	(13)	(8)	(4)	0
Pre-tax profit	246	370	344	345
Tax	(70)	(107)	(100)	(100)
Minorities	(15)	(16)	(15)	(15)
Net profit	161	247	230	231
Net profit (adj.)	161	247	230	231

CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	292	394	272	327
Pre-tax profit	246	370	344	345
Tax	(51)	(107)	(100)	(100)
Deprec. & amort.	84	78	71	65
Working capital changes	52	36	(66)	(11)
Other operating cashflows	(39)	17	22	27
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)	(109)	(100)	(331)
Dividend payments	(41)	(124)	(115)	(346)
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	266	152	(24)
Beginning cash & cash equivalent	271	462	732	889
Changes due to forex impact	0	(110)	0	(110)
Ending cash & cash equivalent	382	622	889	762

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	622	889	762
Other current assets	258	144	217	229
Total assets	1,874	1,978	2,299	2,171
ST debt	115	115	115	115
Other current liabilities	148	79	87	88
LT debt	292	277	262	247
Other LT liabilities	47	132	330	317
Shareholders' equity	1,197	1,286	1,401	1,285
Minority interest	74	90	104	119
Total liabilities & equity	1,874	1,978	2,299	2,171

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	33.4	54.1	37.6	35.5
Pre-tax margin	23.8	43.8	30.9	29.9
Net margin	15.6	29.2	20.6	20.0
ROA	8.8	12.8	10.7	10.3
ROE	14.3	19.9	17.1	17.2
Growth				
Turnover	56.3	(18.1)	32.0	3.5
EBITDA	31.1	32.7	(8.2)	(2.3)
Pre-tax profit	56.8	50.6	(7.0)	0.3
Net profit	61.6	53.4	(7.0)	0.3
Net profit (adj.)	56.8	53.4	(7.0)	0.3
EPS	56.8	53.4	(7.1)	0.3
Leverage				
Debt to total capital	24.2	22.2	20.0	20.5
Debt to equity	34.0	30.5	26.9	28.1
Net debt/(cash) to equity	2.1	(17.9)	(36.6)	(31.1)
Interest cover (x)	25.9	55.4	102.1	n.a.

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