

First Resources (FR SP)

Upgrade to HOLD as negatives largely priced-in

Govt. achieved its target to bring down CPO price

We cut FR's TP to SGD1.62 on lowered 10x FY23 PER, its -1.5SD 5Y mean (previously SGD1.94 on 12x FY23 PER, its -1SD 5Y mean) due to Indonesia's regulatory risk. Nonetheless, we believe FR's recent share price sell-off has largely priced in the regulatory risk relating to continuing uncertainty with regards to its export policy. As the government has achieved its target, this should limit further downside risk from hereon. With current stock price in line with revised TP, we upgrade FR to a HOLD (from SELL).

CPO price has given up all gains for the year

BMD's 1M FCPO price is down to just MYR4,897/t on 1 July, which is 40% below the peak price on 1 March. The correction came earlier than we expected due to the following factors: (1) Indonesia lifted its export ban on 23 May leading to anticipation of a sudden gush in available global palm oil supplies as oil tanks are reportedly "overflowing" now; (2) to top that, there is also expectation of a seasonal pick up in CPO output in 2H22; (3) Northern Hemisphere crop planting has progressed well due to conducive weather, fuelling concern over potentially strong YoY rebound in crops; and (4) recent aggressive interest rate hike by the US Fed (with potentially more to come) has also dampened overall market sentiment.

Weak domestic CPO price likely to be temporary

The situation in Indonesia appears even more dire judging from the recent sharp decline in domestic CPO price that hit record ~2-year low (see Figs.1&2). Last quoted price of MYR2,507/t (on 28 June) is 38% below the price at the start of the year in Indonesia, and at MYR2,652/t discount to Malaysian CPO price. But we reckon this is just temporary as Indonesia's domestic price should recover when domestic stockpile normalizes or as soon as end-July/ early Aug when Indonesia's export taxes (which are revised monthly) are cut to reflect the present lower global CPO prices.

Keeping our earnings forecasts

We make no changes to earnings forecasts as we keep our industry-wide 2022E and 2023E CPO ASP forecasts of MYR5,000/t (1H22 CPO ASP: ~MYR6,300/t) and MYR3,400/t respectively. Nonetheless, we do not discount the possibility of its 2Q22's sales and profit recognitions being deferred to 3Q22 due to export restrictions/ban imposed in 2Q22.

| 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 | 7.8 | 9.8 | 10.7 |
| P/BV (x) | 1.4 | 1.5 | 1.4 | 1.3 | 1.2 |
| Net dividend yield (%) | 2.3 | 4.1 | 6.4 | 5.1 | 4.7 |
| 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 | 4.4 | 5.1 | 5.2 |
| Net gearing (%) (incl perps) | 21.9 | 2.0 | net cash | net cash | net cash |
| Consensus net profit | - | - | 242 | 211 | 182 |
| MKE vs. Consensus (%) | - | - | (4.0) | (11.8) | (6.6) |

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HOLD

[Prior: Sell]

Share Price SGD 1.62
12m Price Target SGD 1.62 (+6%)
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.

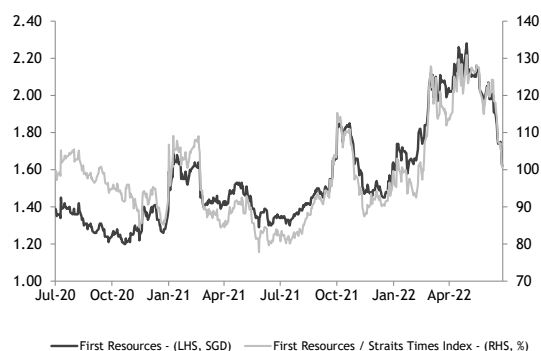
Statistics

| | |
|------------------------|-----------|
| 52w high/low (SGD) | 2.28/1.30 |
| 3m avg turnover (USDm) | 4.7 |
| Free float (%) | 23.1 |
| Issued shares (m) | 1,584 |
| Market capitalisation | SGD2.6B |
| | USD1.8B |

Major shareholders:

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

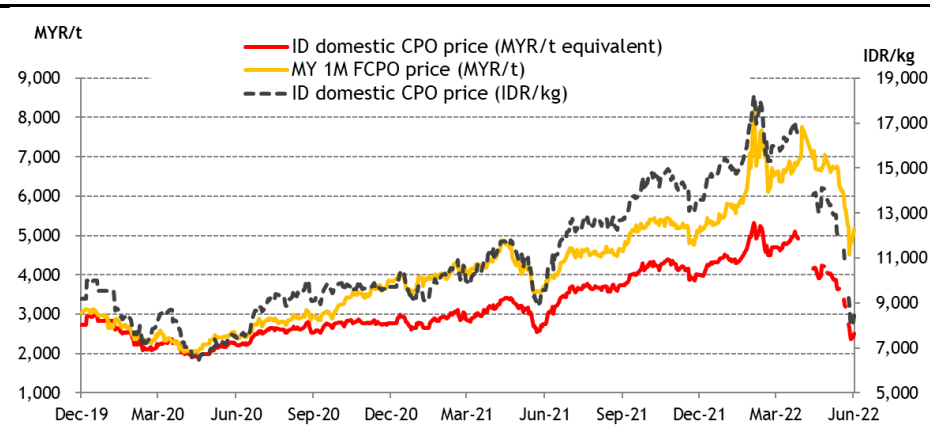
Price Performance



| | | | |
|-----------------------|------|------|------|
| | -1M | -3M | -12M |
| Absolute (%) | (16) | (19) | 19 |
| Relative to index (%) | (12) | (10) | 20 |

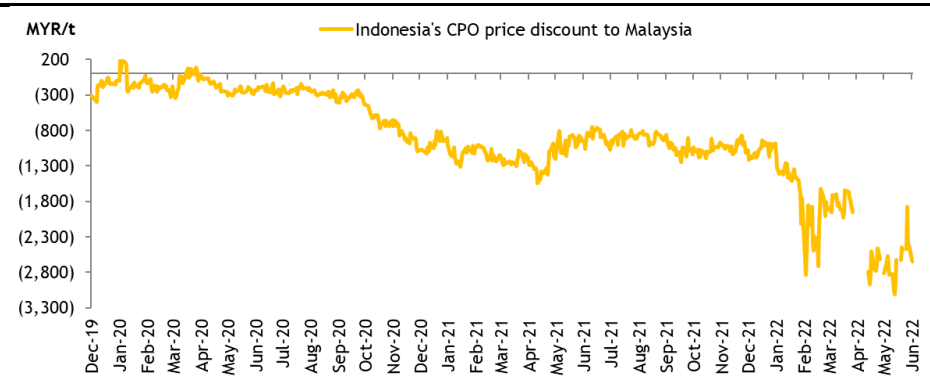
Source: FactSet

Fig 1: Recent sharp drop in domestic CPO prices in Malaysia and Indonesia (converted from IDR into MYR per tonne)



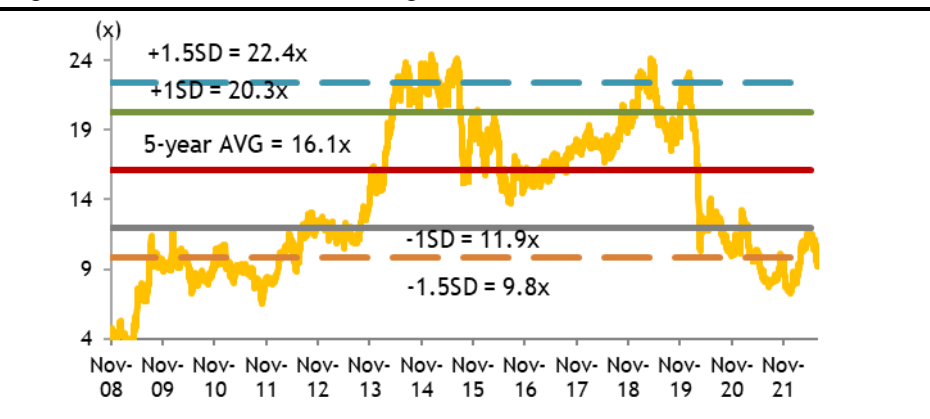
Sources: Bloomberg, GAPKI

Fig 2: Widened price gaps should narrow from 1 Aug



Sources: Bloomberg, GAPKI

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 | 7.8 | 9.8 | 10.7 |
| Core P/E (x) | 15.7 | 11.9 | 7.8 | 9.8 | 10.7 |
| P/BV (x) | 1.4 | 1.5 | 1.4 | 1.3 | 1.2 |
| P/NTA (x) | 1.6 | 1.6 | 1.5 | 1.4 | 1.3 |
| Net dividend yield (%) | 2.3 | 4.1 | 6.4 | 5.1 | 4.7 |
| FCF yield (%) | 7.6 | 13.2 | 10.8 | 9.7 | 10.4 |
| EV/EBITDA (x) | 7.9 | 6.8 | 4.4 | 5.1 | 5.2 |
| EV/EBIT (x) | 9.9 | 8.1 | 4.9 | 6.0 | 6.2 |
| 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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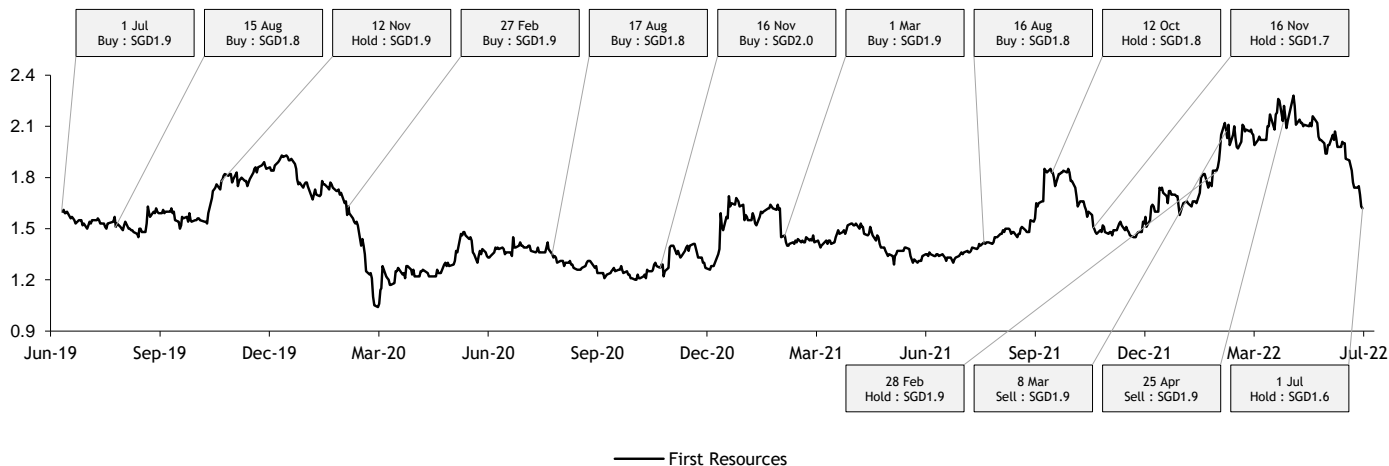
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Historical recommendations and target price: First Resources (FR SP)



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