

First Resources (FR SP)

An outstanding 3Q performance

4Q22 results likely weaker QoQ

3Q22 core PATMI beat expectations on strong output, forward sales with higher CPO ASP locked-in previously, export levy exemption since mid-July, and lower-than-expected unit cost of production. 3Q's stellar performance is unlikely to be repeated in 4Q although some forward sales remain. BUY with a new TP of SGD1.79 on 11x FY23 PER, its -1SD of 5Y mean (previously SGD1.62 on 10x FY23E PER at -1.5SD of its 5Y mean) on reduced regulatory risk. BUY for its attractive valuation and dividend yields.

3Q22 results exceeded our/ consensus expectations

3Q22 core PATMI of USD116m (+120% YoY, +114% QoQ) brings 9M22 core PATMI to USD254m (+206% YoY) which met 109%/100% of our/consensus full-year estimates. 3Q22 revenue rose 15% YoY to USD362m (+56% QoQ) despite lower CPO ASP in the spot market. In 3Q, FR benefited from (1) forward sales locked-in in prior quarter(s) but it is unclear what overall ASP was achieved in 3Q22 due to its limited disclosure; (2) strong 3Q FFB nucleus output (+12% YoY, +20% QoQ); (3) the export levy exemption since mid-July have also boosted margins (though one-off savings) especially for earlier locked in sales; (4) net inventory drawdown of 14,000t to lift sales; (5) missed fertiliser application (ie lower expenses); and (6) to a lesser extent lower-than-usual effective tax rates (without specifics).

Nucleus FFB output have peaked in 3Q

3Q FFB nucleus output (+12% YoY, +20% QoQ) picked up momentum on seasonal output recovery. This brings 9M22 FFB nucleus output to 2.28mt (+3% YoY) which met 75% of our full-year forecast (on track). FR maintains its 0-5% YoY FFB growth forecast for FY22E (MIBG: +3% YoY).

FY22E EPS raised by 30%

FR guides that this year's fertilising programme will not be completed in time due to the non-conductive wet weather. While FR did not provide an update on fertiliser applied this quarter (1H22: -35% of full-year plan), it did guide for lower unit cash cost to USD250-270/t on missed fertiliser application (previously USD270-290/t). We raised our FY22E EPS by 30% largely on lower fertiliser cost, and savings on export levy exemptions. Our FY23E-24E EPS forecasts are broadly unchanged.

FYE Dec (USD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	660	1,032	1,165	943	918
EBITDA	233	275	483	352	328
Core net profit	98	149	302	186	171
Core EPS (cts)	6.2	9.4	19.1	11.8	10.8
Core EPS growth (%)	12.7	52.6	103.1	(38.2)	(8.6)
Net DPS (cts)	2.2	4.6	9.6	5.9	5.4
Core P/E (x)	15.7	11.9	6.5	10.5	11.5
P/BV (x)	1.4	1.5	1.5	1.4	1.3
Net dividend yield (%)	2.3	4.1	7.7	4.7	4.3
ROAE (%)	9.6	14.3	23.7	13.4	11.5
ROAA (%)	5.6	8.1	15.4	8.9	7.7
EV/EBITDA (x)	7.9	6.8	4.1	5.4	5.5
Net gearing (%) (incl perps)	21.9	2.0	net cash	net cash	net cash
Consensus net profit	-	-	256	213	194
MKE vs. Consensus (%)	-	-	18.0	(12.3)	(12.0)

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BUY

Share Price	SGD 1.71
12m Price Target	SGD 1.79 (+12%)
Previous Price Target	SGD 1.62

Company Description

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

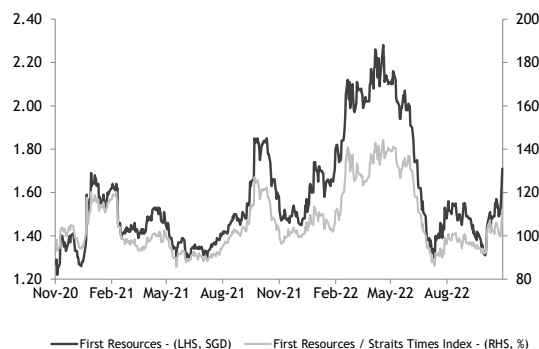
Statistics

52w high/low (SGD)	2.28/1.30
3m avg turnover (USDm)	2.9
Free float (%)	22.6
Issued shares (m)	1,584
Market capitalisation	SGD2.7B
	USD2.0B

Major shareholders:

TMF Group BV	65.9%
King Fortune Trust	5.6%
Employees Provident Fund	4.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	30	12	7
Relative to index (%)	22	13	7

Source: FactSet

Terms used in this note:

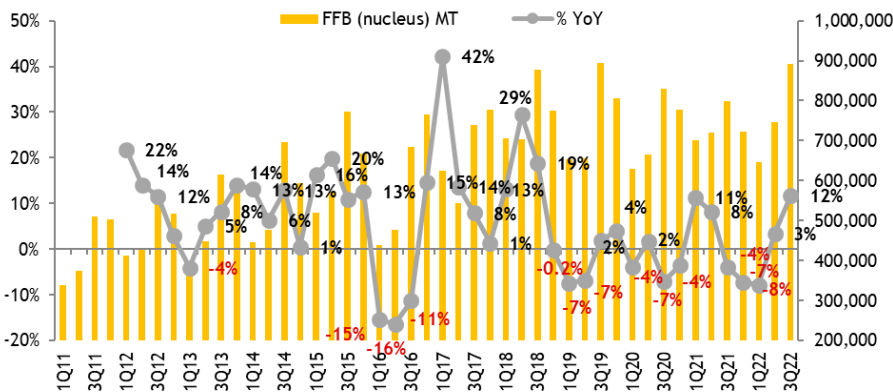
ASP - Average Selling Price
 CPO - Crude Palm Oil
 QoQ - Quarter-on-Quarter
 t - tonne
 YoY - Year-on-year

Fig 1: First Resources 3Q22 limited results review

FYE Dec	3Q22 (USD m)	3Q21 (USD m)	% YoY	2Q22 (USD m)	% QoQ	9M22 (USD m)	9M21 (USD m)	% YoY
Revenue	362	314	15	232	56	897	727	23
Core EBITDA	160	109	47	107	50	391	204	91
PATMI	116	53	120	54	114	244	85	186
Core PATMI	116	53	120	64	82	254	83	206
Core EBITDA margin (%)	44	35	10	46	(2)	44	28	15
Operational								
Production								
FFB nucleus (t)	892,230	798,048	12	745,184	20	2,282,797	2,218,416	3
CPO (t)	252,533	228,460	11	207,492	22	652,692	656,868	(1)

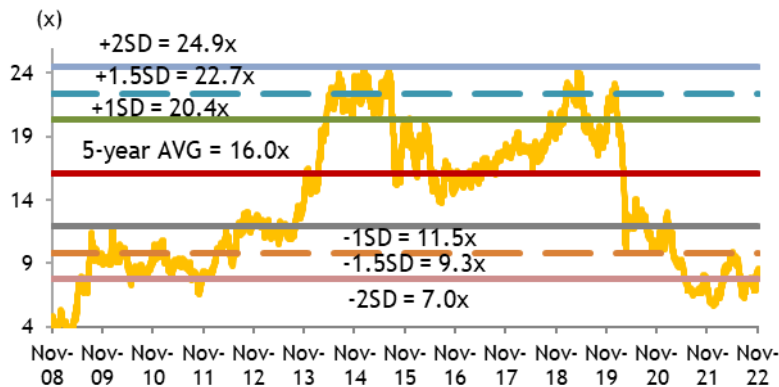
Source: Company

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	6.5	10.5	11.5
Core P/E (x)	15.7	11.9	6.5	10.5	11.5
P/BV (x)	1.4	1.5	1.5	1.4	1.3
P/NTA (x)	1.6	1.6	1.6	1.5	1.4
Net dividend yield (%)	2.3	4.1	7.7	4.7	4.3
FCF yield (%)	7.6	13.2	12.7	9.6	9.7
EV/EBITDA (x)	7.9	6.8	4.1	5.4	5.5
EV/EBIT (x)	9.9	8.1	4.6	6.3	6.5
INCOME STATEMENT (USD m)					
Revenue	660.4	1,032.3	1,164.8	943.3	917.6
EBITDA	233.5	275.1	483.2	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	433.9	300.3	274.7
Net interest income / (exp)	(16.1)	(13.3)	(12.5)	(12.3)	(11.3)
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	421.5	288.0	263.3
Income tax	(49.5)	(69.5)	(105.4)	(86.4)	(79.0)
Minorities	(7.7)	(15.3)	(14.2)	(15.1)	(13.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	101.0	161.1	301.9	186.5	170.5
Core net profit	97.7	148.7	301.9	186.5	170.5
BALANCE SHEET (USD m)					
Cash & Short Term Investments	195.1	381.5	480.5	575.3	680.8
Accounts receivable	85.8	80.7	106.9	86.5	84.2
Inventory	102.8	100.1	117.5	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	2,059.3	2,154.9	2,246.7
ST interest bearing debt	184.7	114.9	114.9	114.9	114.9
Accounts payable	64.8	84.8	99.3	100.3	100.4
LT interest bearing debt	257.0	291.8	291.8	291.8	291.8
Other liabilities	153.0	111.0	121.0	112.0	109.0
Total Liabilities	659.8	602.5	627.3	619.0	616.0
Shareholders Equity	1,063.6	1,197.1	1,348.1	1,441.3	1,526.6
Minority Interest	62.6	74.0	83.9	94.5	104.2
Total shareholder equity	1,126.1	1,271.1	1,432.0	1,535.8	1,630.8
Total liabilities and equity	1,785.9	1,873.6	2,059.3	2,154.9	2,246.7
CASH FLOW (USD m)					
Pretax profit	158.2	246.0	421.5	288.0	263.3
Depreciation & amortisation	47.3	46.0	49.2	51.7	53.3
Adj net interest (income)/exp	16.1	13.3	12.5	12.3	11.3
Change in working capital	(13.9)	64.7	(7.9)	22.5	11.8
Cash taxes paid	(22.3)	(51.2)	(105.4)	(86.4)	(79.0)
Other operating cash flow	6.9	(26.6)	0.0	0.0	0.0
Cash flow from operations	192.4	292.2	369.9	288.0	260.8
Capex	(76.2)	(59.9)	(120.0)	(100.0)	(70.0)
Free cash flow	116.1	232.3	249.9	188.0	190.8
Dividends paid	(33.1)	(41.5)	(150.9)	(93.2)	(85.3)
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	99.0	94.8	105.5

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	7.4	56.3	12.8	(19.0)	(2.7)
EBITDA growth	20.2	17.8	75.7	(27.2)	(6.8)
EBIT growth	26.9	23.0	89.5	(30.8)	(8.5)
Pretax growth	16.2	55.5	71.3	(31.7)	(8.6)
Reported net profit growth	7.5	59.4	87.4	(38.2)	(8.6)
Core net profit growth	12.5	52.1	103.1	(38.2)	(8.6)
Profitability ratios (%)					
EBITDA margin	35.4	26.6	41.5	37.3	35.7
EBIT margin	28.2	22.2	37.3	31.8	29.9
Pretax profit margin	24.0	23.8	36.2	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	25.9	19.8	18.6
Revenue/Assets (x)	0.4	0.6	0.6	0.4	0.4
Assets/Equity (x)	1.7	1.6	1.5	1.5	1.5
ROAE (%)	9.6	14.3	23.7	13.4	11.5
ROAA (%)	5.6	8.1	15.4	8.9	7.7
Liquidity & Efficiency					
Cash conversion cycle	68.9	45.9	41.7	50.6	47.2
Days receivable outstanding	36.8	29.0	29.0	36.9	33.5
Days inventory outstanding	90.3	64.0	82.2	88.3	88.7
Days payables outstanding	58.2	47.2	69.5	74.6	75.0
Dividend cover (x)	2.9	2.2	2.0	2.0	2.0
Current ratio (x)	1.3	2.4	2.7	3.1	3.5
Leverage & Expense Analysis					
Asset/Liability (x)	2.7	3.1	3.3	3.5	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	34.8	24.5	24.2
Debt/EBITDA (x)	1.9	1.5	0.8	1.2	1.2
Capex/revenue (%)	11.5	5.8	10.3	10.6	7.6
Net debt/ (net cash)	246.5	25.2	(73.8)	(168.5)	(274.1)

Source: Company; Maybank IBG Research

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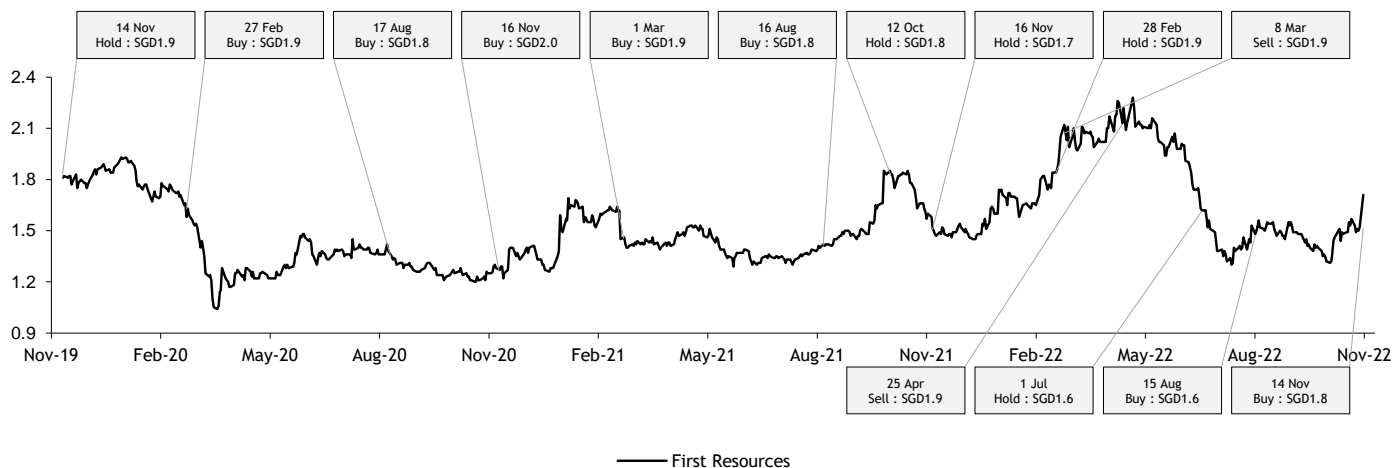
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Historical recommendations and target price: First Resources (FR SP)



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