

# Singapore Company Update

## First Resources

Bloomberg: FR SP | Reuters: FRLD.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 Jul 2023

### BUY

Last Traded Price (10 Jul 2023): S\$1.51 (STI : 3,149.32)

Price Target 12-mth: S\$2.00 (32% upside) (Prev S\$2.50)

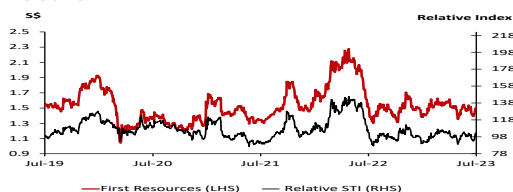
#### Analyst

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#### What's New

- Maintain our BUY rating despite lower TP of S\$2.0
- Revised FY23F/24F earnings by 29%/16% on lower selling price assumption in 2023 and production volumes in 2024
- Market is overly pessimistic on current CPO price; expect better 2H23 benchmark price of US\$920-950 per MT vs. 1H23 870 per MT
- FR is trading in line with its Indonesian peers which have an older age profile of palm oil estates

#### Price Relative



#### Forecasts and Valuation

FY Dec (US\$m)	2021A	2022A	2023F	2024F
Revenue	1,032	1,225	1,001	1,105
EBITDA	343	516	313	374
Pre-tax Profit	246	428	216	279
Net Profit	161	325	144	186
Net Pft (ex. BA gains)	157	329	144	186
Net Pft (Pre Ex.)	161	325	144	186
Net Pft Gth (Pre-ex) (%)	61.6	101.8	(55.6)	28.8
EPS (S cts)	13.7	27.6	12.3	15.8
EPS Pre Ex. (S cts)	13.7	27.6	12.3	15.8
EPS Gth Pre Ex (%)	62	102	(56)	29
Diluted EPS (S cts)	13.7	27.6	12.3	15.8
Net DPS (S cts)	3.53	4.30	4.92	3.08
BV Per Share (S cts)	102	111	120	133
PE (X)	11.0	5.5	12.3	9.5
PE Pre Ex. (X)	11.0	5.5	12.3	9.5
P/Cash Flow (X)	6.1	5.2	7.1	6.9
EV/EBITDA (X)	5.5	3.3	6.1	4.8
Net Div Yield (%)	2.3	2.8	3.3	2.0
P/Book Value (X)	1.5	1.4	1.3	1.1
Net Debt/Equity (X)	0.0	CASH	0.0	CASH
ROAE (%)	14.3	25.9	10.6	12.5
Earnings Rev (%)			(29)	(16)
Consensus EPS (S cts):			13.7	13.4
Other Broker Recs:		B: 5	S: 2	H: 2

Source of all data on this page: Company, DBSVI, Bloomberg Finance L.P.

### Riding on palm oil price recovery

#### Investment Thesis:

**Room for earnings and share price performance improvement in the horizon.** First Resources (FR) offers 13% return YTD (including 2022 final dividend) and has legs to perform further as earnings recover on improving palm oil price trend expected in 2H23. Coupled with its low cash cost ex. mill of around US\$250-300 per MT, we believe FR could capitalize on the rising CPO price trend and churn higher earnings trend starting 2H23.

**Upstream plantation is a profitable business.** Despite earnings volatility alongside CPO price, FR's upstream palm oil business is attractive as it generates US\$1,500 EBITDA/hectare vs. replacement cost of US\$5,500/hectare. The high productivity will help FR to maintain strong EBITDA/hectare performance ahead and generates dividend to shareholders.

**Improving CPO price is the positive key catalyst for FR share price.**

Improving CPO prices recovering crude oil and soybean oil price trends will drive FR's share price underpinned by rising earnings trend. Even during El Nino, we believe FR should be able to capitalize on higher selling price outlook with its productive estates and low operating cost.

**Maintain our BUY rating with TP of S\$2.0.** Our target price implies FY24F PE of 13x slightly higher than its five years mean PE on potential earnings recovery in 2024. We think FR's share price has room to rise if it can outperform its peers in term of productivity and profitability performance amid dry weather conditions.

#### Key Risks

**Lower than expected CPO price.** If CPO prices remain the same in 2H23 vs 1H23, FR is unlikely to meet our earnings projections. Room for production improvement is relatively limited in the short term due to emerging El Nino hence rising CPO price will be crucial to lift earnings this year.

#### At A Glance

Issued Capital (m shrs)	1,568
Mkt. Cap (S\$m/US\$m)	2,368 / 1,758
Major Shareholders (%)	
Eight Capital Inc	66.7
FMR LLC	6.0
King Fortune Interna	5.7
Free Float (%)	11.5
3m Avg. Daily Val (US\$m)	3.5
<b>GIC Industry :</b> Consumer Staples / Agricultural Products	

**WHAT'S NEW**

**Riding on palm oil price recovery**

Maintain BUY with lower TP of S\$2.0

We maintain our BUY rating with 2024 DCF-based TP at S\$2.0 (WACC: 11.8% TG: 2%) mainly on lower FY23/24F earnings forecast. Our target price implies 12.5x FY24F PE, which is slightly higher its five-year average PE of 11.4x on recovering earnings outlook next year in 2024F, after a challenging year in 2023, especially in 1H23. We believe FR's valuation is undemanding for a well-managed, young palm oil assets play which can capitalize on the recovering palm oil price trend better than its peers with older assets.

FR is trading at FY24F PE of 9.5x, which is below its five-year average PE multiple, hence we believe the weaker earnings trend in 1H23 is already well priced in. In addition, we think that the valuation does not reflect the expected CPO price improvement in 2H23 as the general market is focused on the soft CPO price currently. Instead, we believe one should cast their views further on the potential impact of the emerging El Nino that could reduce CPO production and hence lift prices in 2024.

FR was previously hit by changes in Indonesian regulations such as the progressive levies in 2021 and Domestic Market Obligation (DMO) in 2022 but given the stable regulatory framework ahead, we think FR earnings driver will rest purely on the palm oil price supply and demand dynamics.

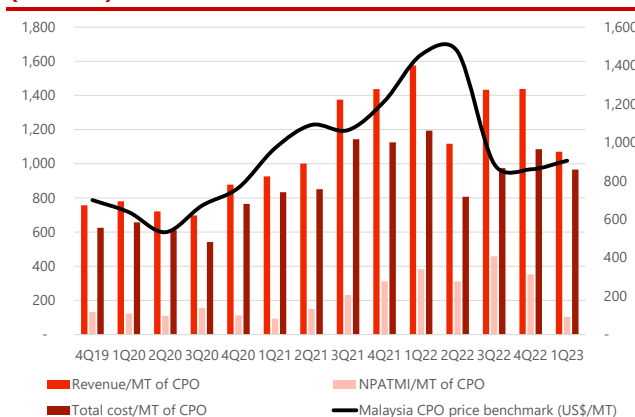
**Room for earnings and share price improvement in 2H23**

We believe FR share price has room to improve in 2H23 on the back of rising CPO price trend flowing through to its earnings performance. We expect CPO price is set to recover alongside soybean oil and crude oil price trend; and, it should positively impact FR earnings trend, as well as FY23F dividend.

FR's strong 2022 earnings was driven by its stellar operational strategy. Beyond the strong palm oil price trend last year, FR was capable of capitalizing on the export regulation dynamic last year. Management was able to time the sale of most of its CPO volume at good pricing which resulted in a stellar performance last year. This year, despite the lower palm oil price trend, we believe FR also could maximize the profit via prudent fertilizer cost management.

FR's share price trend and valuation at this level is implying that the market hasn't priced in the recovering prospect of palm oil price and earnings performance. The share price has been weak since 2022 dividend distribution due to lacklustre CPO prices, which has remained sideways in 1Q23. This is despite a stellar soybean oil price premium to CPO price as major importing countries held relatively high CPO stockpile and have not restock palm oil significantly until the end of 1H23.

**FR revenue/MT and NPATMI/MT (US\$) vs. CPO price (US\$/MT)**

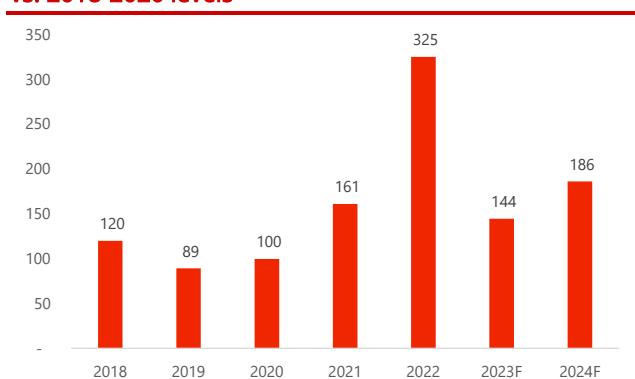


Source: Company, DBSVI

**Earnings revisions to account for weaker selling price in 1H23 and, more conservative production volume in 2024**

We revised down earnings by 29%/16% in FY23F/24F to US\$144m (-55.6% y-o-y)/US\$186m (+28.8% y-o-y) mainly on weaker than expected profitability trend and CPO price trend seen in 1H23. Meanwhile we conservatively assume lower CPO production volume in 2024 mainly on the emerging El Nino event, which may hinder young trees yield expansion potential amid the unusual dry weather.

**Earnings (US\$m) to retreat from 2022 high but decent vs. 2018-2020 levels**



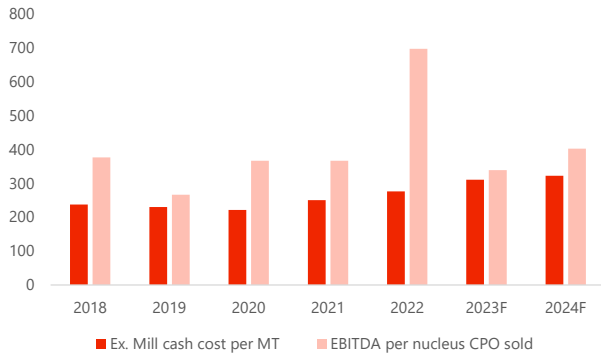
Source: Company, DBSVI

FR's upstream asset is profitable but its short-term earnings may fluctuate alongside CPO prices and palm oil yields may also be affected by the weather in certain clusters of estates and regions. Historically, FR yield has outperformed its peers due to its young age profile, but we reckon the premium has narrowed by improving yields from Astra Agro Lestari and Bumitama in 2022.

**First Resources**

Meanwhile there is room for earnings to rebound in 2H23, coupled with an improving CPO price trend in our latest revision amid soft output expansion outlook on emerging El Nino, as well as decent soybean oil and crude oil price trend. FR's low cash cost can be maintained on easing fertilizer cost.

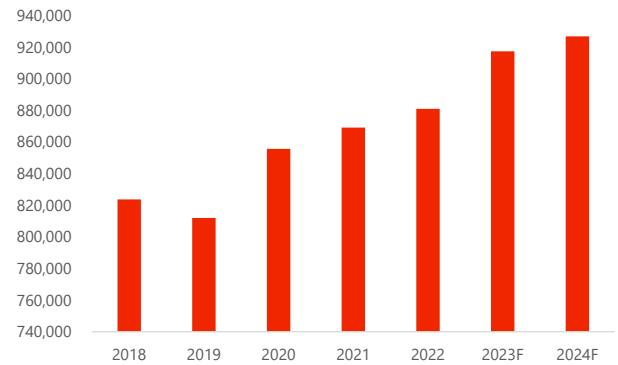
**CPO cash cost and EBITDA per nucleus CPO sold (US\$/MT)**



Source: Company, DBSVI

FR's operational excellence and young tree age profile will help to minimize the impact from El Nino. Despite our lower output revision, we believe FR's profitability will hold up relatively well in 2024 since FR has relatively low cash cost per MT. Young trees age profile also help FR to minimize the operating cost since younger trees require relatively lower maintenance cost to keep the productivity strong.

**FR's CPO production volume trend (MT) - We believe 2024 El Nino will have a mild impact on FR's production uptrend**

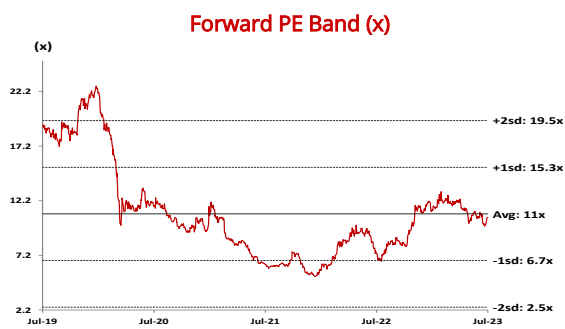


Source: Company, DBSVI

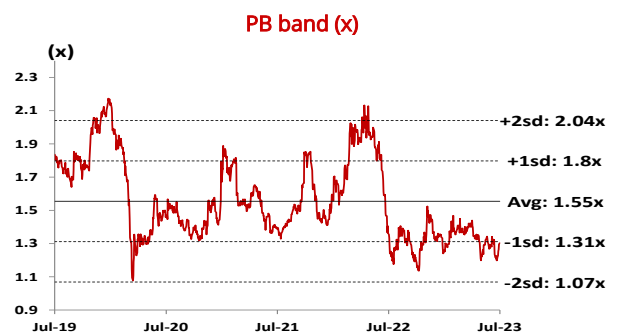
**Company Background**

First Resources (FR) is a mid-sized planter with a strong balance sheet and decent growth outlook. It has been aggressively planting since 2004 and is one of the few upstream planters that have successfully expanded downstream, albeit on a small scale.

**Historical PE and PB band**



Source: Bloomberg Finance L.P., DBSVI estimates



Source: Bloomberg Finance L.P., DBSVI estimates

## First Resources

### Key Assumptions

FY Dec	2020A	2021A	2022A	2023F	2024F
CPO price assumption, net (US\$/MT)	600	798	850	750	830
Mature oil palm hectareage	169,106	169,229	169,880	170,773	171,737
CPO sales volume (MT)	855,668	869,241	881,062	917,385	926,886
Palm kernel sales vol. (MT)	192,840	197,834	197,620	205,944	208,077
Avg. USD/IDR rate	14,150	14,150	14,150	14,150	14,150

### Segmental Breakdown

FY Dec	2020A	2021A	2022A	2023F	2024F
<b>Revenues (US\$m)</b>					
CPO	435	464	1,574	864	955
Palm kernel	67.9	69.3	65.9	70.3	68.6
Olein, RBDPO, biodiesel	265	275	397	355	388
PKO	44.7	44.5	44.3	44.1	43.8
Others	(153)	180	(856)	(333)	(350)
<b>Total</b>	<b>660</b>	<b>1,032</b>	<b>1,225</b>	<b>1,001</b>	<b>1,105</b>

### Income Statement (US\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	660	1,032	1,225	1,001	1,105
Cost of Goods Sold	(368)	(571)	(596)	(535)	(545)
<b>Gross Profit</b>	<b>292</b>	<b>462</b>	<b>629</b>	<b>466</b>	<b>560</b>
Other Opng (Exp)/Inc	(102)	(217)	(211)	(241)	(278)
<b>Operating Profit</b>	<b>190</b>	<b>245</b>	<b>418</b>	<b>225</b>	<b>282</b>
Other Non Opg (Exp)/Inc	(17.1)	14.3	16.9	1.72	1.74
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(16.1)	(13.3)	(7.3)	(10.1)	(5.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>157</b>	<b>246</b>	<b>428</b>	<b>216</b>	<b>279</b>
Tax	(49.5)	(69.6)	(88.4)	(64.1)	(82.4)
Minority Interest	(7.7)	(15.3)	(13.9)	(7.9)	(10.2)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>99.7</b>	<b>161</b>	<b>325</b>	<b>144</b>	<b>186</b>
Net Profit before Except.	99.7	161	325	144	186
Net Pft (ex. BA gains)	99.2	157	329	144	186
EBITDA	247	343	516	313	374
EBITDA (ex. BA gains)	267	297	520	311	372
<b>Growth</b>					
Revenue Gth (%)	7.4	56.3	18.7	(18.3)	10.4
EBITDA Gth (%)	12.9	38.9	50.3	(39.4)	19.6
Opg Profit Gth (%)	22.9	28.9	70.6	(46.2)	25.4
Net Profit Gth (Pre-ex) (%)	11.8	61.6	101.8	(55.6)	28.8
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	44.3	44.7	51.4	46.6	50.7
Opg Profit Margin (%)	28.8	23.7	34.1	22.5	25.5
Net Profit Margin (%)	15.1	15.6	26.5	14.4	16.8
ROAE (%)	9.5	14.3	25.9	10.6	12.5
ROA (%)	5.7	8.8	17.5	7.6	9.1
ROCE (%)	8.1	10.5	19.2	9.1	10.9
Div Payout Ratio (%)	33.2	25.7	15.5	40.1	19.5
Net Interest Cover (x)	11.8	18.4	57.5	22.3	55.0

Source: Company, DBSVI

## First Resources

### Balance Sheet (US\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	433	415	395	605	637
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	901	819	695	841	851
Cash & ST Invt	195	382	434	159	272
Inventory	103	100	136	134	137
Debtors	81.1	64.2	84.1	95.8	106
Other Current Assets	72.7	93.4	88.5	114	116
<b>Total Assets</b>	<b>1,786</b>	<b>1,874</b>	<b>1,833</b>	<b>1,949</b>	<b>2,117</b>
ST Debt	185	115	93.3	0.0	0.0
Creditor	137	102	80.7	179	182
Other Current Liab	26.6	46.2	24.9	28.4	31.4
LT Debt	257	292	202	200	200
Other LT Liabilities	54.3	47.4	32.4	34.1	35.8
Shareholder's Equity	1,064	1,197	1,310	1,411	1,561
Minority Interests	62.6	74.0	89.3	97.2	107
<b>Total Cap. &amp; Liab.</b>	<b>1,786</b>	<b>1,874</b>	<b>1,833</b>	<b>1,949</b>	<b>2,117</b>
Non-Cash Wkg. Capital	92.8	109	203	137	145
Net Cash/(Debt)	(247)	(25.2)	138	(40.8)	71.7
Debtors Turn (avg days)	34.9	25.7	22.1	32.8	33.3
Creditors Turn (avg days)	152.9	89.8	64.8	105.6	145.0
Inventory Turn (avg days)	114.7	76.1	83.7	109.9	108.8
Asset Turnover (x)	0.4	0.6	0.7	0.5	0.5
Current Ratio (x)	1.3	2.4	3.7	2.4	3.0
Quick Ratio (x)	0.8	1.7	2.6	1.2	1.8
Net Debt/Equity (X)	0.2	0.0	CASH	0.0	CASH
Net Debt/Equity ex MI (X)	0.2	0.0	CASH	0.0	CASH
Capex to Debt (%)	9.7	1.3	34.9	45.0	44.7
Z-Score (X)	4.2	4.8	4.8	4.8	4.8

Source: Company, DBSVI

## First Resources

### Cash Flow Statement (US\$m)

FY Dec	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	157	246	428	216	279
Dep. & Amort.	74.3	84.2	81.3	86.3	90.5
Tax Paid	(22.3)	(69.6)	(88.4)	(64.1)	(82.4)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(18.7)	52.5	(99.5)	72.3	(8.3)
Other Operating CF	2.23	(20.9)	21.4	(59.5)	(20.0)
<b>Net Operating CF</b>	<b>192</b>	<b>292</b>	<b>342</b>	<b>251</b>	<b>258</b>
Capital Exp.(net)	(42.9)	(5.5)	(103)	(90.1)	(89.3)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	5.76	(0.2)	(119)	(55.3)	(21.7)
<b>Net Investing CF</b>	<b>(37.1)</b>	<b>(5.6)</b>	<b>(222)</b>	<b>(145)</b>	<b>(111)</b>
Div Paid	(33.1)	(41.5)	(50.6)	(57.9)	(36.2)
Chg in Gross Debt	(23.5)	(61.6)	(111)	(88.6)	0.0
Capital Issues	(5.6)	(1.1)	(129)	0.0	0.0
Other Financing CF	0.04	4.01	(8.1)	(3.5)	1.19
<b>Net Financing CF</b>	<b>(62.2)</b>	<b>(100)</b>	<b>(298)</b>	<b>(150)</b>	<b>(35.0)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	93.1	186	(178)	(44.0)	112
Opg CFPS (S cts)	17.9	20.4	37.5	15.2	22.7
Free CFPS (S cts)	12.7	24.4	20.3	13.7	14.4

Source: Company, DBSVI

### Target Price & Ratings 12-mth History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	11 Jan 23	1.39	2.50	BUY

Source: DBSVI

Analyst: William Simadiputra

DBSVI recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

Completed Date: 11 Jul 2023 15:51:26 (SGT)

Dissemination Date: 11 Jul 2023 18:05:29 (SGT)

Sources for all charts and tables are DBSVI unless otherwise specified.

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## First Resources

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