

COMPANY UPDATE

First Resources (FR SP)

4Q23 Results Preview: Supported By Strong Domestic CPO Pricing

We expect FR's 4Q23 net profit to come in at US\$50-55m (3Q23: US\$51.1m, 4Q22: US\$80.9m). This is mainly on the back of higher domestic CPO pricing, and FR sells more CPO domestically. There was also a higher inventory level in 3Q23 that would be reflected in 4Q23 due to timing issues. We also expect FR's operating margin to improve in 4Q23 due to lower production costs, higher CPO ASP and higher sales volumes. Maintain BUY with a target price of S\$1.65.

WHAT'S NEW

- 4Q23 results preview.** First Resources (FR) will release its 4Q23 results on 29 Feb 24. We expect FR to report a net profit of US\$50m-55m for 4Q23 (3Q23: US\$51.1m, 4Q22: US\$80.9m) on the back of higher operating margins brought about by lower production costs (due to lower fertiliser costs), higher CPO ASP and higher sales volumes. The potential slight qoq increase should be supported by:
 - Strong domestic CPO pricing, especially in Kalimantan.** From our recent meetings with industry players, we understand that Indonesian domestic CPO pricing remained relatively stable at around Rp11,000/tonne in 4Q23 whereas Kalimantan has the highest pricing as there is huge demand from increasing refining capacity in the region. Note that 33% of FR's estates are located in West and East Kalimantan.
 - Stronger CPO recently.** FR sells more CPO domestically given the stable pricing of domestic Indonesia CPO as compared with exports. We also understand that FR has recently been selling more CPO than refined products, which is strategic given the challenging environment for downstream operations.
 - Carried-forward high inventory level from 3Q23.** Notably, over 50% of the accumulated inventory in 3Q23 is in the form of CPO, and the margin for CPO sales is better than that of refined products. The majority of this build-up was due to timing differences in delivery. This situation is poised to positively impact profit margins for 4Q23.
- Partially offset by the challenging downstream operation** (which contributes 10-15% to operating profit). We reckon that the downstream operation would continue to face challenges due to the competitive pricing environment in Indonesia with more refined products supply in the market. Hence, we expect the downstream utilisation rate for FR to be lower in the upcoming quarters.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	1,032	1,225	1,250	1,425	1,455
EBITDA	344	425	332	408	361
Operating profit	260	346	258	340	300
Net profit (rep./act.)	161	251	172	229	205
Net profit (adj.)	161	266	172	229	205
EPS (US\$ cent)	10.2	16.7	10.9	14.4	12.9
PE (x)	10.9	6.6	10.2	7.7	8.6
P/B (x)	1.5	1.3	1.3	1.2	1.1
EV/EBITDA (x)	3.9	3.2	4.1	3.3	3.7
Dividend yield (%)	6.2	13.1	6.9	9.1	8.1
Net margin (%)	15.6	20.5	13.8	16.1	14.1
Net debt/(cash) to equity (%)	2.1	(11.0)	(15.1)	(33.5)	(35.7)
Interest cover (x)	25.9	58.4	95.2	186.4	n.a.
ROE (%)	14.3	20.0	12.7	15.8	13.1
Consensus net profit	-	-	169	214	201
UOBKH/Consensus (x)	-	-	1.02	1.07	1.02

Source: First Resources, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.48
Target Price	S\$1.65
Upside	+11.5%

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):	1,565.0
Market cap (S\$m):	2,316.2
Market cap (US\$m):	1,734.7
3-mth avg daily t'over (US\$m):	1.3

Price Performance (%)

52-week high/low S\$1.63/S\$1.35

1mth	3mth	6mth	1yr	YTD
2.8	(2.6)	(1.3)	(3.9)	3.5

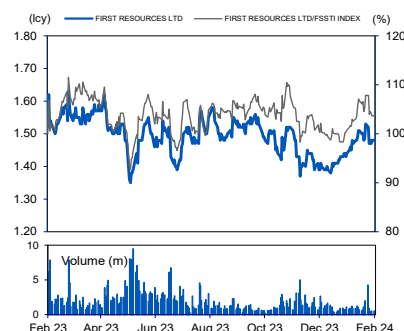
Major Shareholders

Eight Capital	66.2
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FY24 NAV/Share (US\$) 0.95

FY24 Net Cash/Share (US\$) 0.32

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Strategic acquisition.** FR announced the acquisition of plantation assets held by PT Tri Bakti Sarimas (TBS) for a cash consideration of Rp1.9t (or US\$122.7m) in early-Jan 24. These assets are located in Riau Province, Indonesia, and cover approximately 17,600 ha, with 14,000 ha planted with oil palm.
- The acquired price values the landbank at approximately US\$6,970/ha, which appears low compared with recent transactions. This lower valuation could be attributed to the substandard condition, given that the asset was acquired through a bank auction.
- We view the acquisition positively, as it effectively utilises FR's cash reserves, enhances its upstream operations, and is synergistic to its downstream expansion in Dumai, Indonesia. Considering the time required for rehabilitation where replanting and maintenance work are required, we expect no financial contributions from the acquired assets in the next 3-4 years

EARNINGS REVISION/RISK

- **Maintain earnings forecasts.** Our net profit forecasts for 2023-25 are US\$172m, US\$229m and US\$204m respectively.

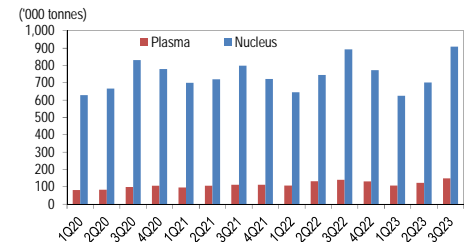
VALUATION/RECOMMENDATION

- **Maintain BUY with target price of S\$1.65.** Our valuation is pegged to 8x 2024F PE.

SHARE PRICE CATALYST

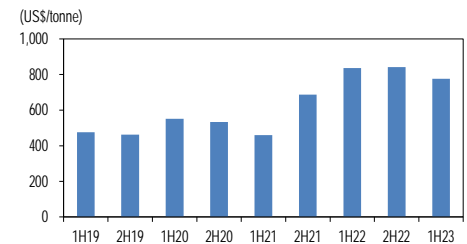
- Stronger-than-expected CPO price recovery.
- Higher-than-expected FFB and CPO production.

FFB PRODUCTION TREND



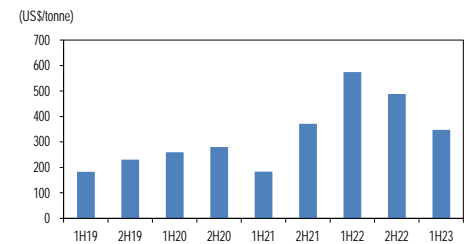
Source: FR

CPO ASP



Source: FR

UPSTREAM MARGIN



Source: FR

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	1,225	1,250	1,425	1,455
EBITDA	425	332	408	361
Deprec. & amort.	79	73	67	62
EBIT	346	258	340	300
Total other non-operating income	15	0	0	0
Net interest income/(expense)	(7)	(3)	(2)	3
Pre-tax profit	353	255	338	302
Tax	(88)	(71)	(95)	(85)
Minorities	(14)	(11)	(15)	(13)
Net profit	251	172	229	205
Net profit (adj.)	266	172	229	205

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	326	282	311	294
Pre-tax profit	428	255	338	302
Tax	(99)	(71)	(95)	(85)
Deprec. & amort.	79	73	67	62
Working capital changes	(99)	2	(25)	(16)
Other operating cashflows	18	23	25	31
Investing	(56)	(43)	(43)	(43)
Capex (growth)	(58)	(44)	(43)	(42)
Capex (maintenance)	(19)	(19)	(19)	(19)
Investments	0	0	0	0
Proceeds from sale of assets	4	5	6	7
Others	21	20	19	18
Financing	(217)	(71)	(100)	(87)
Dividend payments	(87)	(86)	(115)	(102)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	30	30	30
Loan repayment	(114)	(15)	(15)	(15)
Others/interest paid	(16)	0	0	0
Net cash inflow (outflow)	53	167	168	163
Beginning cash & cash equivalent	381	434	601	771
Changes due to forex impact	(4)	(114)	(4)	(114)
Ending cash & cash equivalent	440	492	771	827

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	395	360	330	305
Other LT assets	695	722	733	760
Cash/ST investment	440	492	771	827
Other current assets	302	249	279	295
Total assets	1,833	1,824	2,114	2,188
ST debt	93	93	93	93
Other current liabilities	106	58	63	64
LT debt	202	187	172	157
Other LT liabilities	32	(11)	160	133
Shareholders' equity	1,310	1,396	1,510	1,613
Minority interest	89	100	115	128
Total liabilities & equity	1,833	1,824	2,114	2,188

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	34.7	26.5	28.6	24.8
Pre-tax margin	28.8	20.4	23.7	20.8
Net margin	20.5	13.8	16.1	14.1
ROA	13.5	9.4	11.6	9.5
ROE	20.0	12.7	15.8	13.1
Growth				
Turnover	18.7	2.0	14.0	2.1
EBITDA	23.3	(21.9)	22.9	(11.3)
Pre-tax profit	43.6	(27.9)	32.8	(10.6)
Net profit	55.8	(31.3)	32.8	(10.6)
Net profit (adj.)	64.8	(35.1)	32.8	(10.6)
EPS	64.8	(35.1)	32.7	(10.7)
Leverage				
Debt to total capital	17.5	15.8	14.1	12.6
Debt to equity	22.6	20.1	17.6	15.5
Net debt/(cash) to equity	(11.0)	(15.1)	(33.5)	(35.7)
Interest cover (x)	58.4	95.2	186.4	n.a.

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