

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%

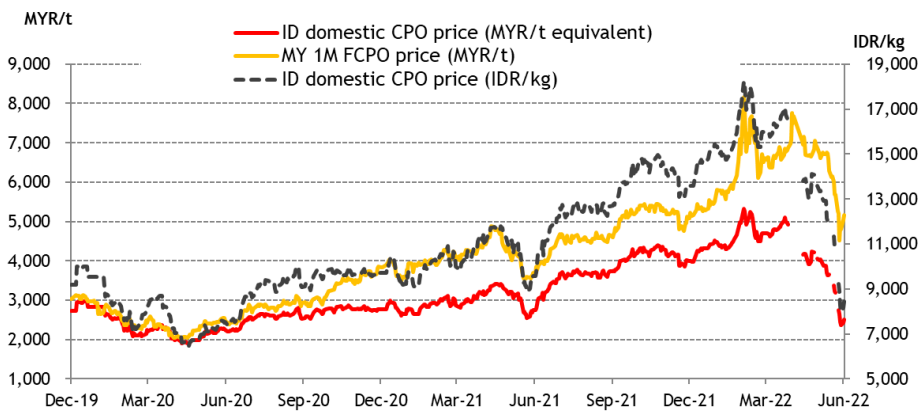
Price Performance



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

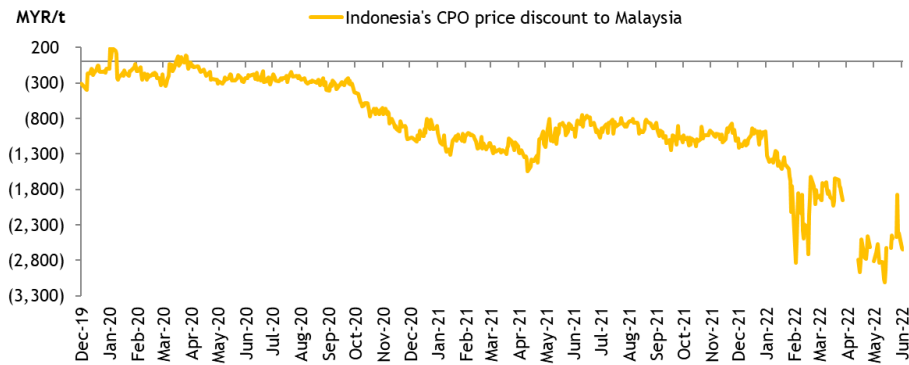
Source: FactSet

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



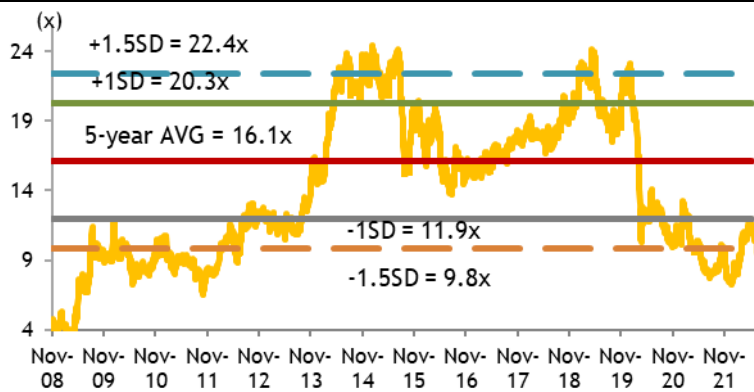
Sources: Bloomberg, GAPKI

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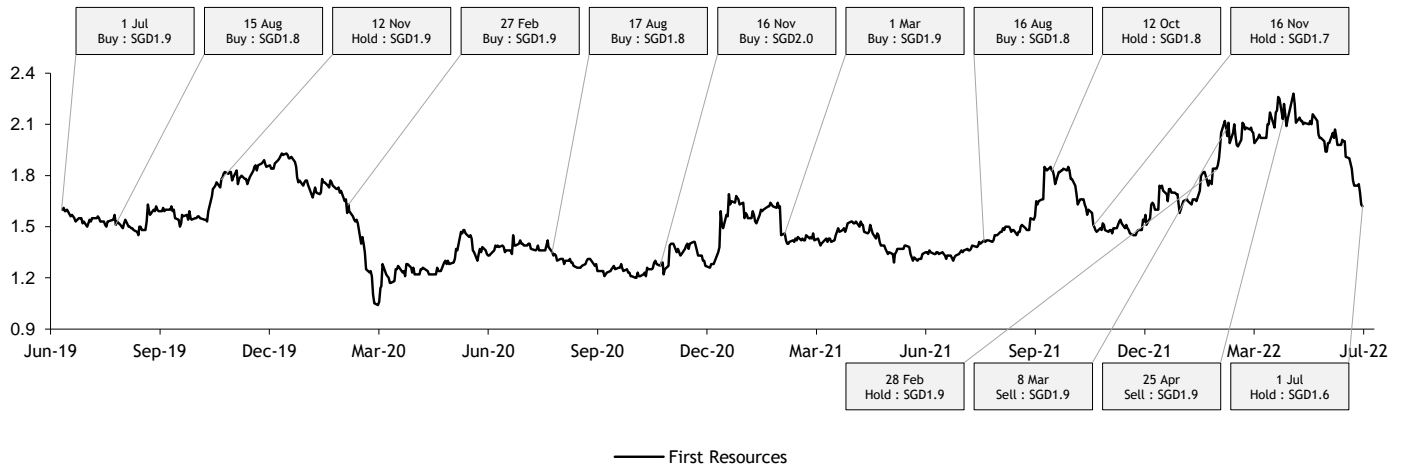
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Historical recommendations and target price: First Resources (FR SP)



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