

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

7 Dec 2021

BUY (Upgrade from HOLD)

Last Traded Price (6 Dec 2021): S\$1.49 (STI : 3,116.32)

Price Target 12-mth: S\$1.83 (23% upside)

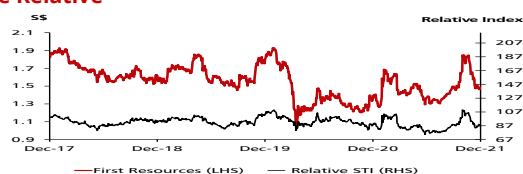
Analyst

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What's New

- Share price correction an open opportunity to revisit the stock
- Strong CPO price provides room for earnings recovery in 4Q21 before further growth in 2022
- Trading at below historical PE level
- Upgrade to BUY with unchanged TP of S\$1.83

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2020A	2021F	2022F	2023F
Turnover	660	641	686	724
EBITDA	247	285	303	312
Pre-tax Profit	157	201	218	223
Net Profit	100	134	146	149
Net Pft (Pre Ex.)	100	134	146	149
Net Pft (ex. BA gains)	99	134	146	149
Net Pft Gth (Pre-ex) (%)	11.8	34.5	8.6	2.1
EPS (S cts)	8.63	11.6	12.6	12.9
EPS Pre Ex. (S cts)	8.63	11.6	12.6	12.9
EPS Gth Pre Ex (%)	12	35	9	2
Diluted EPS (S cts)	8.63	11.6	12.6	12.9
Net DPS (S cts)	2.9	0.9	2.7	2.9
BV Per Share (S cts)	92.1	99.2	109.1	119.1
PE (X)	17.3	12.8	11.8	11.6
PE Pre Ex. (X)	17.3	12.8	11.8	11.6
P/Cash Flow (X)	8.9	9.8	7.6	7.1
EV/EBITDA (X)	8.2	7.4	6.7	6.1
Net Div Yield (%)	1.9	0.6	1.8	1.9
P/Book Value (X)	1.6	1.5	1.4	1.3
Net Debt/Equity (X)	0.2	0.3	0.2	0.1
ROAE (%)	9.5	12.1	12.1	11.3
Earnings Rev (%):		0	0	7
Consensus EPS (S cts):		12.1	15.7	15.4
Other Broker Recs:		B: 4	S: 0	H: 5

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

Good chance to buy on dip

Investment Thesis

Share price has corrected by c. 20% in November, presenting a good buying opportunity. First Resources' (FR) share price correction in November is a good opportunity to revisit the counter. Amid a current high CPO price trend, we believe FR has room to deliver strong earnings in 4Q21 and 2022.

Maintaining our FY22 earnings forecast of U\$146m (+8.6% y-o-y). We maintain our FY22 earnings forecast despite the higher CPO selling price assumption, to buffer against any unexpected cost escalation especially on fertilizers. We forecast earnings to expand 8.6% y-o-y to US\$146m in 2022.

Share price de-rating to -1 standard deviation of five-year PE level. FR has been trading below its five-year average PE multiple due to a narrowing CPO yield premium vs. peers. However, we believe those concerns are well priced in at the current share price level. Stronger earnings growth ahead should help FR's PE multiple rerate above -1 SD, in our view.

Valuation:

We employed discounted cash flow (DCF) methodology (FY21F as base year; WACC 11.8%; TG 3%) to arrive at our target price of S\$1.83/share. This implies a 15.0x FY22 PE.

Where we differ:

Share price correction is opportunity to revisit. Meanwhile FR has solid underlying CPO estates. Higher CPO yields on maturing trees would improve FR's ROE and profitability metrics on the back of an expanded operating scale, which could lead to stronger earnings growth momentum in 2022.

Key Risks to Our View:

Lower-than-expected realised CPO selling prices. If CPO prices drop below our forecast, FR may miss our earnings estimates and thus hinder any prospects of a valuation re-rating.

At A Glance

Issued Capital (m shrs)	1,578
Mkt. Cap (S\$m/US\$m)	2,351 / 1,714
Major Shareholders (%)	
Eight Capital Inc	66.0
FMR LLC	6.1
King Fortune International Inc	5.6
Free Float (%)	16.7
3m Avg. Daily Val (US\$m)	1.9
GIC Industry : Consumer Staples / Agricultural Products	



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WHAT'S NEW

Tumbling share price prompts a revisit

Upgrade to BUY with TP of S\$1.83 (unchanged)

FR's share price 20% correction in November 2021 prompted us to revisit our rating. We upgrade FR to BUY with an unchanged TP of S\$1.83. Upside potential from the current share price level is appealing, considering the CPO price trend that allows FR to recover its earnings in 4Q21 and 1H22, since last year's earnings were hurt by unfavorable CPO price hedges.

We maintain our S\$1.83 TP for now, as we maintained our FY22 earnings forecast of US\$146m (+8.6% y-o-y), to buffer against any higher-than-expected fertilizers cost, despite our higher CPO assumption of US\$700 per MT in 2022 and 2023. Previously, FR's earnings have been underperforming peers despite the lesser pressure to hedged CPO sales volume as seen in 3Q21.

We forecast FR is set to achieve US\$52m of earnings in 4Q21, largely like 3Q21 levels due to the current firm CPO price and relatively stable export levies and taxes at US\$175 per MT and US\$166 per MT respectively.

Despite the higher CPO selling price outlook, we prefer to stay conservative, as we prefer to see whether FR could start to beat our expectation at least in 4Q21, amid the current favourable selling price environment.

Despite the volume and selling price recovery prospect, we also anticipate higher fertiliser costs arising from the higher gas price trend. Our FY22 and FY23 earnings forecast are 20% below consensus forecast, which we believe sufficiently capture the cost escalation potential.

Valuation de-rating to below average PE level

Although FR share price's is still up by 10% year to date (YTD) in 2021, we believe FR is still attractively valued. Its currently trading at an 11.9x FY22 PE, well below its five-year average PE multiple of 16.5x.

We think FR's premium PE multiple to its upstream planters' peers at current share price level attributed to its relatively young trees age profile of 13 years old which provide a decade prime age high productivity trees cycle potential.

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



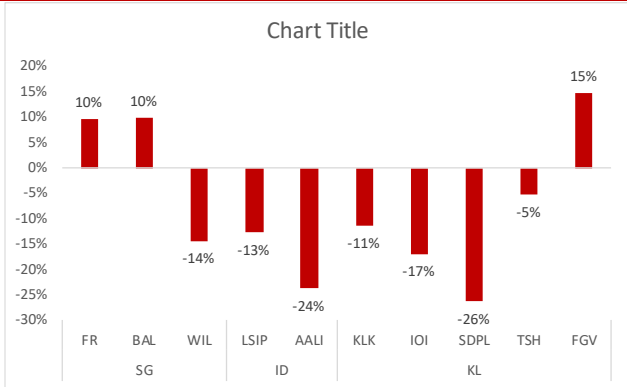
Source: Bloomberg Finance L.P., DBSVI, DBS Bank estimates



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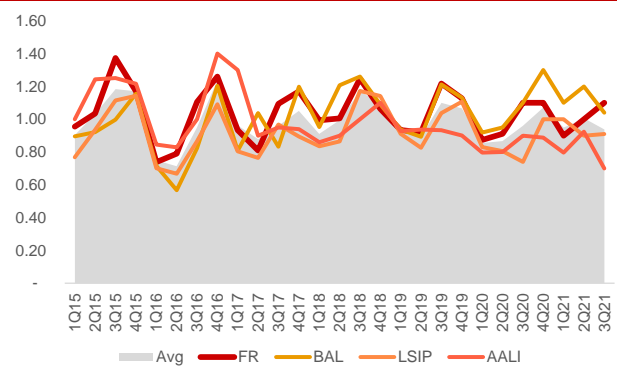
First Resources

FR's share price is still +10% ytd despite the recent correction



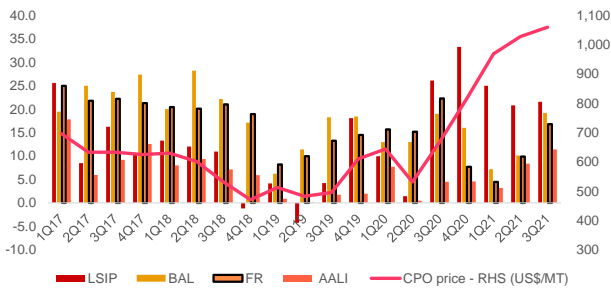
Source: Company, DBSVI, DBS Bank

FR's CPO yield premium to peers has been trending down in 2021



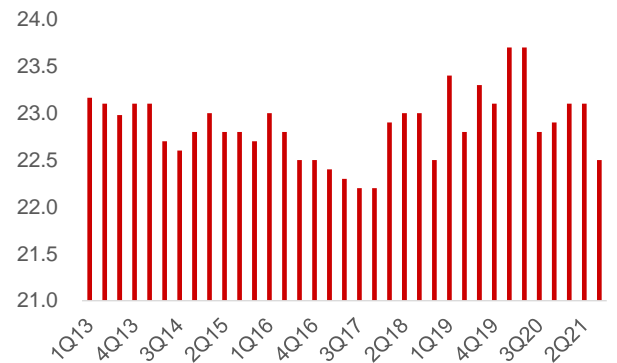
Source: Company, DBSVI, DBS Bank

4Q21 and 1H22 earnings has room to improve y-o-y on better selling prices



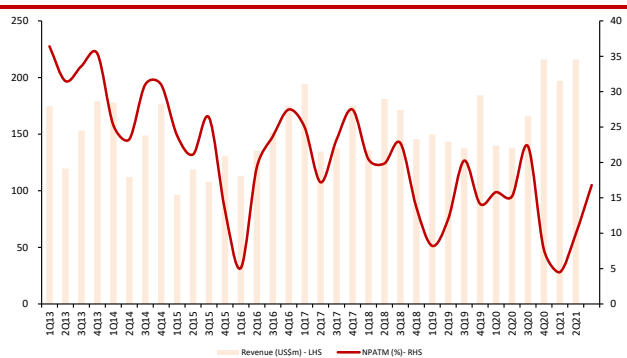
Source: Company, DBSVI, DBS Bank

CPO extraction rate performed well



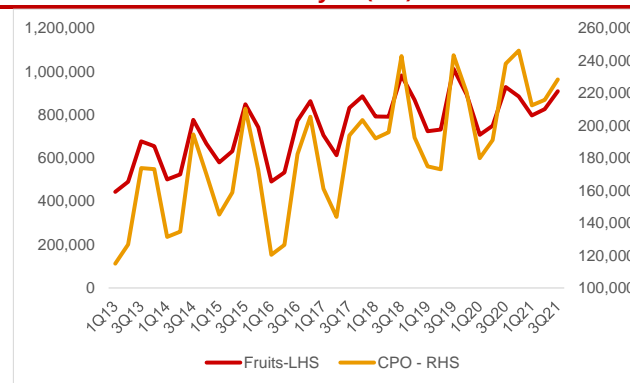
Source: Company, DBSVI, DBS Bank

Margin could recover further in 4Q21 onward



Source: Company, DBSVI, DBS Bank

Production uptrend will sustain in the future on prime age trees cycle (MT)



Source: Company, DBSVI, DBS Bank

Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
CPO price (RM/MT)	2,090	2,450	2,750	2,880	2,880
Mature oil palm	168,927	169,987	171,110	170,761	173,161
CPO sales volume (MT)	833,368	770,379	833,266	899,243	926,333
Palm kernel sales vol.	202,495	187,190	202,362	217,298	222,731
Avg. USD/IDR rate	14,362	14,150	14,150	14,150	14,150

Segmental Breakdown

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenues (US\$m)					
CPO	372	392	444	484	533
Palm kernel	72	66	71	76	77
Olein, RBDPO, biodiesel	223	265	275	278	279
PKO	45	45	45	44	44
Others	(97)	(107)	(194)	(195)	(210)
Total	615	660	641	686	724

Income Statement (US\$m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	615	660	641	686	724
Cost of Goods Sold	(388)	(368)	(360)	(385)	(416)
Gross Profit	227	292	281	301	307
Other Opng (Exp)/Inc	(73)	(102)	(75)	(79)	(82)
Operating Profit	155	190	206	222	225
Other Non Opg (Exp)/Inc	(7)	(17)	(2)	(2)	(2)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(17)	(16)	(4)	(2)	(1)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	131	157	201	218	223
Tax	(38)	(49)	(59)	(64)	(66)
Minority Interest	(4)	(8)	(7)	(8)	(8)
Preference Dividend	0	0	0	0	0
Net Profit	89	100	134	146	149
Net Profit before Except.	89	100	134	146	149
EBITDA	219	247	285	303	312
Growth					
Revenue Gth (%)	(2.9)	7.4	(2.9)	7.1	5.4
EBITDA Gth (%)	(17.4)	12.9	15.1	6.5	2.8
Opg Profit Gth (%)	(17.4)	22.9	8.6	7.6	1.5
Net Profit Gth (%)	(25.7)	11.8	34.5	8.6	2.1
Margins & Ratio					
Gross Margins (%)	36.9	44.3	43.9	43.9	42.5
Opg Profit Margin (%)	25.1	28.8	32.2	32.4	31.1
Net Profit Margin (%)	14.5	15.1	20.9	21.2	20.6
ROAE (%)	9.0	9.5	12.1	12.1	11.3
ROA (%)	5.4	5.7	7.6	8.0	7.9
ROCE (%)	7.1	8.1	9.0	9.3	9.1
Div Payout Ratio (%)	37.4	33.2	8.0	21.5	22.3
Net Interest Cover (x)	9.2	11.8	51.6	97.2	293.0

Source: Company, DBSVI, DBS Bank

Balance Sheet (US\$m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	420	433	516	568	605
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	975	901	981	966	924
Cash & ST Invt	102	195	36	118	92
Inventory	82	103	90	97	104
Debtors	45	81	61	66	69
Other Current Assets	84	73	77	82	89
Total Assets	1,709	1,786	1,761	1,896	1,884
ST Debt	195	185	0	0	0
Creditor	109	137	120	129	139
Other Current Liab	11	27	18	19	21
LT Debt	217	257	350	350	200
Other LT Liabilities	76	54	57	59	62
Shareholder's Equity	1,044	1,064	1,146	1,260	1,376
Minority Interests	58	63	70	78	86
Put Equity Reserve	N/A	N/A	N/A	N/A	N/A
Total Cap. & Liab.	1,709	1,786	1,761	1,896	1,884
Non-Cash Wkg. Capital	91	93	90	96	103
Net Cash/(Debt)	(309)	(247)	(314)	(232)	(108)
Debtors Turn (avg days)	25.5	34.9	40.5	33.8	34.0
Creditors Turn (avg days)	99.4	152.9	167.9	150.3	149.1
Inventory Turn (avg days)	103.3	114.7	125.9	112.7	111.8
Asset Turnover (x)	0.4	0.4	0.4	0.4	0.4
Current Ratio (x)	1.0	1.3	1.9	2.4	2.2
Quick Ratio (x)	0.5	0.8	0.7	1.2	1.0
Net Debt/Equity (X)	0.3	0.2	0.3	0.2	0.1
Net Debt/Equity ex MI (X)	0.3	0.2	0.3	0.2	0.1
Capex to Debt (%)	27.1	9.7	36.9	32.2	43.9
Z-Score (X)	3.3	4.2	4.8	4.8	4.8

Source: Company, DBSVI, DBS Bank

Cash Flow Statement (US\$m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	131	157	201	218	223
Dep. & Amort.	71	74	80	83	88
Tax Paid	(65)	(22)	(59)	(64)	(66)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	(4)	(19)	3	(6)	(6)
Other Operating CF	(1)	2	(49)	(2)	4
Net Operating CF	132	192	176	228	242
Capital Exp.(net)	(112)	(43)	(129)	(113)	(88)
Other Invs.(net)	0	0	0	0	0
Invs in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(8)	6	(18)	(4)	2
Net Investing CF	(121)	(37)	(147)	(117)	(86)
Div Paid	(33)	(33)	(11)	(31)	(33)
Chg in Gross Debt	23	(24)	(178)	0	(150)
Capital Issues	0	(6)	0	0	0
Other Financing CF	0	0	2	2	2
Net Financing CF	(9)	(62)	(187)	(29)	(181)
Currency Adjustments	0	0	0	0	0
Chg in Cash	2	93	(159)	81	(25)
Opg CFPS (S cts)	9	13	11	15	16
Free CFPS (S cts)	1	9	3	7	10

Source: Company, DBSVI, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	02 Feb 21	1.59	1.83	BUY
2:	02 Nov 21	1.69	1.83	HOLD

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

Source: DBSVI, DBS Bank

Analyst: William Simadiputra

Singapore Research Team

DBSVI, DBS Bank 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: 7 Dec 2021 17:35:20 (SGT)

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