

COMPANY UPDATE

First Resources (FR SP)

2Q23 Preview: Another Weak Quarterly Earnings; This Could Be The Bottom

We are expecting FR's 2Q23 core net profit at US\$25m-28m, lower yoy and qoq due mainly to lower ASP and weak downstream contributions. This could be the worst quarter for 2023 but we are seeing higher earnings as CPO prices recover and downstream margin is relatively better now. Trim 2023 earnings by 17% after lowering production growth and refining margin. We roll over fair value to 2024 at PE of 9x. Dividend yield is still good at 5-6%. Maintain HOLD. Target price: S\$1.55.

WHAT'S NEW

- 2Q23 results preview.** We expect First Resources' (FR) 2Q23 net profit to come in at US\$25m-28m, lower qoq and yoy (core net profit for 1Q23: US\$29m; 2Q22: US\$54m). We believe 2Q23 would be the worst quarter for 2023 with pressure coming from lower CPO pricing and higher cost of production (catch up in fertiliser application in anticipation of the upcoming El Nino). These would be partially cushioned by higher sales volume given the attractive CPO pricing and lower export duty and levy in 2Q23.
- Look forward to 2H23 and beyond.** We anticipate a more positive outlook for 2H23, as we foresee improvements in upstream margins and a decrease in fertiliser pricing. Currently, fertiliser prices have experienced a significant decline of approximately 50% compared with Dec 22. It is worth noting that companies typically secure their fertiliser supplies six months in advance of application, buying them semi-annually. The downward trend in fertiliser costs, coupled with a decrease in fuel expenses (which account for about 50% of total production costs), contributes to our expectation of improved operating margins in 2H23. Furthermore, our internal analysis supports the belief that CPO prices may trade higher from 3Q23-1Q24. We believe that there would be more potential upside for 2024 with the uncertainties from weather risk.
- Trimmed 2023 earnings.** We have trimmed our 2023 earnings by 17%, pencilling in lower production growth to flat yoy (previously 5%) and lower downstream margin. This revision came after our recent site visit and channel checks. For downstream operations, the frequent changes in exports duty and levy have made it tougher for refiners to price CPO (CPO prices paid to millers are net of the export duty and levy). A sudden increase in CPO prices could led to higher export duty and levy which could negatively impact refiners' margin as CPO purchased earlier factored in lower export duty and levy.
- Good dividend yield.** Despite lower earnings estimates, at current CPO prices, FR is still generating good cashflow and is in a net cash position. Based on dividend payout of 50%, potential dividend for 2023 would be about S\$0.098/share or yield of 5-6%.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	1,032	1,225	1,250	1,403	1,455
EBITDA	344	425	332	368	361
Operating profit	260	346	258	301	300
Net profit (rep./act.)	161	251	172	202	204
Net profit (adj.)	161	266	172	202	204
EPS (US\$ cent)	10.2	16.7	10.9	12.7	12.9
PE (x)	11.0	6.6	10.2	8.7	8.7
P/B (x)	1.5	1.3	1.3	1.2	1.1
EV/EBITDA (x)	4.7	3.8	4.9	4.4	4.5
Dividend yield (%)	6.2	13.0	5.2	6.1	6.1
Net margin (%)	15.6	20.5	13.8	14.4	14.0
Net debt/(cash) to equity (%)	2.1	(11.0)	(15.1)	(32.6)	(35.1)
Interest cover (x)	25.9	58.4	95.2	168.5	n.a.
ROE (%)	14.3	20.0	12.7	14.0	13.2
Consensus net profit	-	-	189	193	189
UOBKH/Consensus (x)	-	-	0.91	1.05	1.08

Source: First Resources, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$1.47
Target Price	S\$1.55
Upside	+5.4%

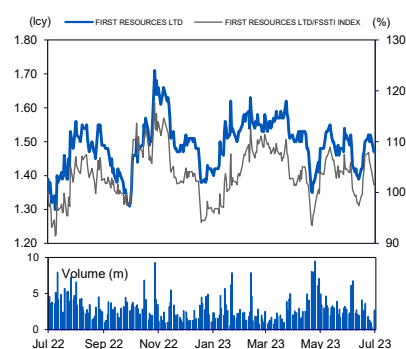
COMPANY DESCRIPTION

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):	1,566.4				
Market cap (S\$m):	2,302.7				
Market cap (US\$m):	1,743.3				
3-mth avg daily t'over (US\$m):	3.5				
Price Performance (%)					
52-week high/low	S\$1.71/S\$1.30				
1mth	3mth	6mth	1yr	YTD	
(3.3)	(3.3)	4.3	6.5	(0.7)	
Major Shareholders					
Eight Capital					66.2
-					-
-					-
FY23 NAV/Share (US\$)					0.88
FY23 Net Cash/Share (US\$)					0.13

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Production may come in at the lower end of guidance.** Upon our recent visit to the estate located in Pekan Baru of approximately 4,400 ha, we were pleased to observe the good upkeep and maintenance of the premises. Nevertheless, we noticed that some of the older fronds exhibited nutrient deficiency symptoms. This could be attributed to the delayed application of fertilisers, owing to the unusually high levels of rainfall experienced in 2021 and 2022, as previously discussed in the results briefing. Nonetheless, we noted the emergence of healthier new fronds on the oil palm trees, indicative of management's efforts to optimise fertiliser application and subsequently bridge the gap in catch-up measures.
- **Seed production growth over the last six years.** We visited FR's research and seed production centre again after six years. We were impressed with the upkeep of the centre and it has expanded its operation to produce about 7m seeds a year (six years ago only for internal use). FR has successfully commercialised two types of seeds – FR1 and FR2, with potential FFB yield of 35.3 tonnes/ha and 34.0 tonnes/ha at age of seven. Its research team also started to produce clonal seeds from tissue culture and began to use these when replanting older areas.
- **Downstream expansion on track.** We also visited its integrated downstream complex in Dumai – Bangsal Aceh Integrated Complex. This complex has a total of 40 ha and is equipped with a jetty with the capacity to receive a vessel of up to 80,000 DWT. Currently there is a CPO mill (45mt/hour), a palm kernel crusher (350mt per day), as well as a refinery and fractionation plant (2,000mt per day). FR is planning for further expansion with additional refining and fractional capacity to come on stream in 2024 which will be funded internally. There is still ample land area within the premises of the complex for further expansion in the future.

EARNINGS REVISION/RISK

- **Revised earnings forecasts.** We revised our earnings forecasts lower by 17%/5%/5% for 2023/24/25 respectively, pencilling in lower FFB yield lower downstream margin for 2023.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a target price of S\$1.55** after rolling our valuation to 2024, considering our anticipation of a CPO uptrend in late-3Q23 to 1Q24. Our valuation is pegged to 9x 2024F PE.
- We recommend investors to accumulate FR on the back of its high dividend yield of 5%/6.0% for 2023/24.

SHARE PRICE CATALYST

- **Better CPO selling prices.** For every 10% increase in CPO ASP, FR's core net profit will increase by 29%. This will also lift the fair value.

SOME OF THE FACILITIES THAT WE VISITED

DOWNSTREAM COMPLEX



Source: FR, UOB Kay Hian

BIOGAS PLANT



Source: FR, UOB Kay Hian

INTERACTED WITH FEW YOUNG TALENTS THAT ARE TRAINED IN THIS LEARNINGS CENTRE



Source: FR, UOB Kay Hian

WELL-EQUIPPED FIREFIGHTING TEAM STATIONED IN ESTATE



Source: FR, UOB Kay Hian

OLDER TREES WILL BE REPLANTED IN 2024



Source: FR, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	1,225	1,250	1,403	1,455
EBITDA	425	332	368	361
Deprec. & amort.	79	73	67	62
EBIT	346	258	301	300
Total other non-operating income	15	0	0	0
Net interest income/(expense)	(7)	(3)	(2)	2
Pre-tax profit	353	255	299	302
Tax	(88)	(71)	(84)	(85)
Minorities	(14)	(11)	(13)	(13)
Net profit	251	172	202	204
Net profit (adj.)	266	172	202	204

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	326	282	280	296
Pre-tax profit	428	255	299	302
Tax	(99)	(71)	(84)	(85)
Deprec. & amort.	79	73	67	62
Working capital changes	(99)	2	(28)	(13)
Other operating cashflows	18	23	25	30
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)	(86)	(87)
Dividend payments	(87)	(86)	(101)	(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	150	166
Beginning cash & cash equivalent	381	434	601	753
Changes due to forex impact	(4)	(114)	(4)	(114)
Ending cash & cash equivalent	440	492	753	811

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	753	811
Other current assets	302	249	281	295
Total assets	1,833	1,824	2,098	2,173
ST debt	93	93	93	93
Other current liabilities	106	58	62	64
LT debt	202	187	172	157
Other LT liabilities	32	(11)	160	133
Shareholders' equity	1,310	1,396	1,497	1,599
Minority interest	89	100	113	126
Total liabilities & equity	1,833	1,824	2,098	2,173

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	34.7	26.5	26.2	24.8
Pre-tax margin	28.8	20.4	21.3	20.8
Net margin	20.5	13.8	14.4	14.0
ROA	13.5	9.4	10.3	9.6
ROE	20.0	12.7	14.0	13.2
Growth				
Turnover	18.7	2.0	12.3	3.7
EBITDA	23.3	(21.9)	11.1	(1.8)
Pre-tax profit	43.6	(27.9)	17.4	1.0
Net profit	55.8	(31.3)	17.4	1.0
Net profit (adj.)	64.8	(35.1)	17.4	1.0
EPS	64.8	(35.1)	17.3	1.0
Leverage				
Debt to total capital	17.5	15.8	14.2	12.7
Debt to equity	22.6	20.1	17.8	15.7
Net debt/(cash) to equity	(11.0)	(15.1)	(32.6)	(35.1)
Interest cover (x)	58.4	95.2	168.5	n.a.

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