

COMPANY RESULTS

First Resources (FR SP)

2H23: Results Below Expectations

2H23 results came in below expectations, due to higher production cost and larger losses from downstream as both refining & fractionation and biodiesel reported losses in 4Q23. 2024 earnings would be better supported by better production growth, lower production cost and improving outlook for its downstream operation. Additional areas from acquisition and conversion from rubber are expected to propel its production growth 3-4 years later. Maintain BUY. Target price: S\$1.65.

2H23 RESULTS

Year to 31 Dec (US\$m)	2H23	hoh % chg	yoy % chg	2023	yoy % chg	Comments
Revenue	531.8	18.5	(23.0)	980.6	(20.0)	
- Plantation and Palm Oil Mills	474.4	40.0	(1.7)	850.6	0.6	
- Refinery and Processing	342.2	0.9	(38.5)	681.4	(36.4)	
EBITDA	149.2	12.2	(46.4)	282.6	(43.4)	
- Plantation and Palm Oil Mills	172.5	13.8	(31.9)	324.0	(28.2)	
- Refinery and Processing	(16.6)	n.m	n.m	(40.6)	n.m	
EBIT	103.3	0.3	(57.0)	200.4	(52.3)	
PBT	104.1	12.1	(58.0)	197.0	(53.9)	
Net Profit	73.9	3.4	(62.5)	145.4	(55.3)	
Core Net Profit	78.8	16.4	(59.9)	146.6	(56.1)	Below our and consensus

Source: First Resources, UOB Kay Hian

RESULTS

- **Results came in below our and consensus expectations.** First Resources' (FR) 2H23 core net profit came in at US\$78.8m (+16% -60%yoy), with 2023 core net profit at US\$146.6m (-56% yoy). 2023 earnings account for only 85% of our full-year estimate, below our and consensus estimates. We believe the negative variance came from higher-than-expected production cost (due to higher fertiliser application) and weaker-than-expected downstream performance.
- **2H23 earnings increased 16% hoh, mainly thanks to the higher sales volume.** 2023 overall earnings dropped 56% yoy, mainly dragged by lower CPO ASP.
- **4Q23 earnings dropped significantly by 55% qoq;** we attribute this to lower production which was affected by the wet weather (some production pushed to Jan 24) and hence resulted in lower sales volume. On top of that, FR has an inventory build-up of 11,000 tonnes as at end-Dec 23.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023	2024F	2025F
Net turnover	1,032	1,225	981	1,424	1,454
EBITDA	344	425	199	393	342
Operating profit	260	346	117	316	270
Net profit (rep./act.)	161	340	145	225	194
Net profit (adj.)	161	354	145	225	194
EPS (US\$ cent)	10.2	22.3	9.2	14.2	12.2
PE (x)	10.4	4.7	11.5	7.5	8.7
P/B (x)	1.4	1.3	1.3	1.2	1.1
EV/EBITDA (x)	5.1	4.2	8.9	4.5	5.2
Dividend yield (%)	6.5	13.7	6.1	9.4	8.1
Net margin (%)	15.6	27.7	14.8	15.8	13.3
Net debt/(cash) to equity (%)	2.1	(11.0)	5.7	(0.2)	(4.5)
Interest cover (x)	25.9	58.4	n.a.	59.3	82.4
ROE (%)	14.3	27.1	11.1	16.5	13.2
Consensus net profit	-	-	-	202	180
UOBKH/Consensus (x)	-	-	-	1.12	1.08

Source: First Resources, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.42
Target Price	S\$1.65
Upside	+16.2%

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):	2,222.3
Market cap (US\$m):	1,653.1
3-mth avg daily t'over (US\$m):	1.0

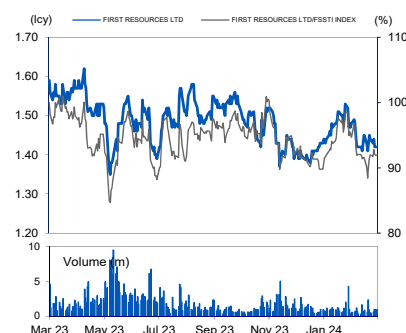
Price Performance (%)

52-week high/low	S\$1.62/S\$1.35			
1mth	3mth	6mth	1yr	YTD
(4.1)	2.2	(8.4)	(7.8)	(0.7)

Major Shareholders

Eight Capital	66.2
FY24 NAV/Share (US\$)	0.89
FY24 Net Cash/Share (US\$)	0.00

PRICE CHART



Source: Bloomberg

ANALYST(S)

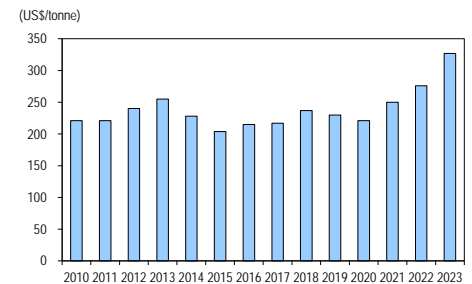
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STOCK IMPACT

- We expect FR's 2024 performance to be lifted mainly by the upstream performance, on the back of:
- **Strong FFB production growth.** Management guided for a 5% yoy FFB production growth for 2024, at low single-digit or flat yoy, which is higher than its Indonesian peers'. The higher FFB production growth would mainly come from yield improvement and larger replanted areas coming into maturity. This is in line with our forecast where we have factored in 4% yoy production growth. Note that FFB contribution from its recent acquired plantation is not included in this guidance. Thus, there could be some upside to production and earnings. As a conservative estimate, the acquired assets could contribute additional 1.5-2.0% growth in 2024.
- **Strong domestic CPO pricing, especially in Kalimantan.** From our recent meetings with industry players, we understand that Indonesia's domestic CPO pricing remained relatively stable at Rp11,000-12,000/tonne where 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.
- **Lower cost of production in 2024** on the back of lower fertiliser prices despite management mentioning that it will apply higher fertiliser volume due to the under-fertilised estates in 2023 and would catch up in fertiliser application in 2024.
- **Changing strategy to sell more CPO.** FR sells more CPO domestically given the stable pricing of Indonesia's domestic CPO as compared with exports. We also understand that FR sells more CPO than refined products recently, which is strategic given the challenging environment for downstream operations.
- **Partially offset by the tough downstream business.** The downstream operation may still be in red in 1H24, given the stiff competition in the refined palm oil market and lower downstream utilisation rate. However, its biodiesel production is profitable now as methanol prices stabilise and pricing for crude glycerine is improving.
- **More replanting activities.** FR is planning to replant 8,000-9,000 ha for 2024 (up from the usual 4,000-5,000 ha replanting per annum). Of which, about 2,500 ha will be converted from rubber to oil palm estates. Management mentioned there will be more replanting activities from 2025 at about 10,000 ha each year as FR would need to replant about 14,000 ha of its recent acquired plantation from PT Tri Bakti Sarimas. This acquisition added about 17,600 ha to its landbank and the balance of unplanted areas of 3,600 ha need to undergo agronomic and sustainability assessment before any planting activities start.

HIGHER CASH COST IN 2023



Source: FR

PRODUCTION HIGHLIGHTS

	2H23	hoh % chg	yoy % chg	2023	yoy % chg
FFB yield/ha	10.4	31.6	5.1	18.4	1.1
OER (%)	22.7	0.4	1.8	22.7	1.8
Total FFB	2,028	30.3	4.7	3,584	0.5
Nucleus	1,745	31.5	4.8	3,071	0.5
Plasma	283	22.8	4.4	514	0.6
CPO	545	34.0	13.3	951	19.6

Source: FR

EARNINGS REVISION/RISK

- Maintain earnings forecast.

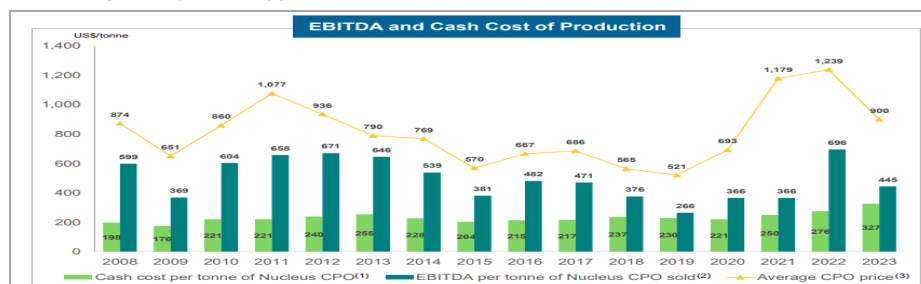
VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of S\$1.65.** We peg our valuation at 8x 2024F PE, which is at -1SD to its five-year mean.
- Declared final dividend of 3.7 cents per share, translating a dividend yield of 2.6%. Total dividend for 2023 is at 6.2 cents (dividend yield: 4.3%).

SHARE PRICE CATALYST

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

KEY PERFORMANCE METRICS



Source: FR

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F
<b>Net turnover</b>	<b>1,225</b>	<b>981</b>	<b>1,424</b>	<b>1,454</b>
EBITDA	425	199	393	342
Deprec. & amort.	79	82	77	71
EBIT	346	117	316	270
Total other non-operating income	15	(6)	0	0
Net interest income/(expense)	(7)	3	(7)	(4)
<b>Pre-tax profit</b>	<b>353</b>	<b>114</b>	<b>309</b>	<b>266</b>
Tax	(88)	(45)	(70)	(60)
Minorities	(14)	(7)	(14)	(12)
<b>Net profit</b>	<b>340</b>	<b>145</b>	<b>225</b>	<b>194</b>
Net profit (adj.)	354	145	225	194

### CASH FLOW

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F
<b>Operating</b>	<b>326</b>	<b>315</b>	<b>264</b>	<b>284</b>
Pre-tax profit	428	197	309	266
Tax	(99)	(80)	(70)	(60)
Deprec. & amort.	79	82	77	71
Working capital changes	(99)	101	(72)	(18)
Other operating cashflows	18	15	20	24
<b>Investing</b>	<b>(56)</b>	<b>(356)</b>	<b>(217)</b>	<b>(217)</b>
Capex (growth)	(58)	(184)	(43)	(42)
Capex (maintenance)	(19)	(162)	(162)	(162)
Investments	0	0	0	0
Proceeds from sale of assets	4	5	6	7
Others	21	(11)	(12)	(13)
<b>Financing</b>	<b>(217)</b>	<b>(287)</b>	<b>(97)</b>	<b>(82)</b>
Dividend payments	(87)	(171)	(112)	(97)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	30	30	30
Loan repayment	(114)	(92)	(15)	(15)
Others/interest paid	(16)	(54)	0	0
<b>Net cash inflow (outflow)</b>	<b>53</b>	<b>(328)</b>	<b>(50)</b>	<b>(15)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>381</b>	<b>434</b>	<b>111</b>	<b>63</b>
Changes due to forex impact	(4)	52	158	221
<b>Ending cash &amp; cash equivalent</b>	<b>440</b>	<b>163</b>	<b>226</b>	<b>276</b>

### BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F
<b>Fixed assets</b>	<b>395</b>	<b>532</b>	<b>493</b>	<b>458</b>
Other LT assets	695	837	997	1,161
Cash/ST investment	440	163	226	276
Other current assets	302	243	276	295
<b>Total assets</b>	<b>1,833</b>	<b>1,775</b>	<b>1,994</b>	<b>2,192</b>
ST debt	93	112	112	112
Other current liabilities	106	100	67	68
LT debt	202	126	111	96
Other LT liabilities	32	35	176	278
Shareholders' equity	1,310	1,303	1,416	1,513
Minority interest	89	98	113	125
<b>Total liabilities &amp; equity</b>	<b>1,833</b>	<b>1,775</b>	<b>1,994</b>	<b>2,192</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023	2024F	2025F
<b>Profitability</b>				
EBITDA margin	34.7	20.3	27.6	23.5
Pre-tax margin	28.8	11.6	21.7	18.3
Net margin	27.7	14.8	15.8	13.3
ROA	18.3	8.1	11.9	9.3
ROE	27.1	11.1	16.5	13.2
<b>Growth</b>				
Turnover	18.7	(20.0)	45.2	2.2
EBITDA	23.3	(53.1)	97.2	(13.0)
Pre-tax profit	43.6	(67.9)	172.4	(13.9)
Net profit	110.9	(57.2)	54.8	(13.9)
Net profit (adj.)	120.0	(59.0)	54.8	(13.9)
EPS	120.0	(59.0)	54.7	(14.0)
<b>Leverage</b>				
Debt to total capital	17.5	14.5	12.7	11.3
Debt to equity	22.6	18.2	15.7	13.7
Net debt/(cash) to equity	(11.0)	5.7	(0.2)	(4.5)
Interest cover (x)	58.4	n.a.	59.3	82.4

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