

COMPANY UPDATE

First Resources (FR SP)

3Q23 Preview: Strong Earnings Coming Through

Upgrade to BUY with the same target price of S\$1.65 given the softer share price performance. We recommend investors to BUY with the CPO uptrend in 4Q23-2024 as we expect FR's 3Q23 earnings to come in strongly at US\$70m-80m. This is on the back of higher upstream margins, thanks to high production, sales volume and lower fertiliser costs. Refining and processing margins may be at breakeven with better pricing and good sales volume.

WHAT'S NEW

• **3Q23 results preview.** We anticipate First Resources (FR) will make a substantial earnings contribution in 2H23, accounting for 60% of our full-year forecast for 2023. This projection is based on anticipated improvements in upstream margins and a decrease in fertiliser pricing. We expect robust earnings in 3Q23, with net profit estimated to be in the range of US\$70m-80m, representing a qoq increase but a yoy decrease (2Q23 core net profit: US\$52m; 3Q22: US\$116m). This positive outlook is primarily attributed to:

a) Peak production in 3Q23: We anticipate that FR's peak production will likely occur in 3Q23, contrary to market expectations of 4Q23. Despite the recent dryness and haze in Indonesia, FR may experience a smaller impact compared with its peers, as the affected areas are primarily located in South Sumatra, South Kalimantan, and Central Kalimantan whereas FR's estates are predominantly situated in Riau (64%), West Kalimantan (25%), and East Kalimantan (11%). With this, we still stick with our FFB production for FR at flat yoy which is in line with management's previous guidance of 0-5% yoy FFB production growth for 2023.

b) Lower fertiliser cost: Fertiliser prices have witnessed a significant decline of approximately 50% compared with Dec 22. This downward trend in fertiliser costs contributes to our expectation of improved operating margins. Furthermore, FR slowed down fertiliser application starting Aug 23 due to drier weather conditions.

c) Refining and processing margins improvement: Recall that FR's refining margin in 1H23 was negative, primarily due to intense pricing competition and domestic market obligations (DMO) commitments. We anticipate that the refining margin in 3Q23 will improve, driven by better selling prices and reduced DMO commitments post Lebaran. Additionally, we expect an enhanced contribution from biodiesel sales volume with higher domestic consumption, owing to a widening palm oil-gasoil spread.

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) | 10.2 | 6.2 | 9.6 | 7.2 | 8.1 |
| P/B (x) | 1.4 | 1.3 | 1.2 | 1.1 | 1.0 |
| EV/EBITDA (x) | 4.4 | 3.6 | 4.6 | 3.7 | 4.2 |
| Dividend yield (%) | 6.6 | 14.0 | 7.3 | 9.7 | 8.7 |
| 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 | - | - | 178 | 192 | 194 |
| UOBKH/Consensus (x) | - | - | 0.97 | 1.19 | 1.05 |

Source: First Resources, Bloomberg, UOB Kay Hian

BUY
(Upgraded)

| | |
|--------------|---------|
| 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): | 1,566.3 |
| Market cap (S\$m): | 2,224.1 |
| Market cap (US\$m): | 1,627.8 |
| 3-mth avg daily t'over (US\$m): | 1.2 |

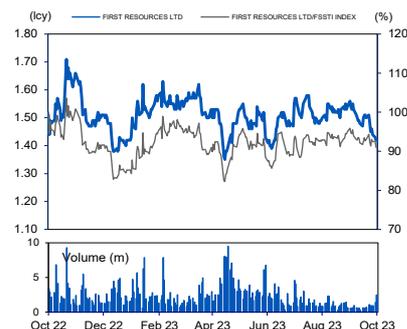
Price Performance (%)

| | | | | |
|------------------|-----------------|-------------|------------|------------|
| 52-week high/low | S\$1.71/S\$1.35 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| (7.8) | (3.4) | (7.2) | (2.7) | (4.1) |

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

- Better sales volume in 2H23.** With the attractive widening of palm oil - gasoil spread, we expect better biodiesel demand in 2H23 and hence higher utilisation rate of FR's biodiesel plant. We expect FR's biodiesel plant to run close to 100%, thanks to strong domestic consumption. On top of that, we expect the CPO sales volume to be high in 2H23, given its attractive pricing. Note that Indonesia's CPO pricing has been very attractive as compared with its Malaysia peers, and the Indonesian domestic CPO pricing has been trading relatively firm thanks to the lower-than-market-expectation supply. With FR selling both crude and refined palm oil products domestically and internationally, we believe that FR would be benefitting directly.
- 4Q23 to be strongest quarter.** Despite 3Q23 having the highest CPO production, we reckon that 4Q23 earnings would be the strongest with higher sales volume and CPO prices being more attractive as compared with other vegoil prices. We also expect higher CPO ASP in 4Q23 with the anticipated worsening of El Nino in Nov/Dec 23.
- Share buybacks.** FR has been buying 161,500 of its own shares at the purchase price of S\$1.44; such a move signifies the company's confidence in its intrinsic value and its commitment to enhancing shareholder value.

EARNINGS REVISION/RISK

- Maintain earnings forecast.** Our net profit forecasts for 2023-25 are at US\$173m, US\$229m and US\$205m respectively.

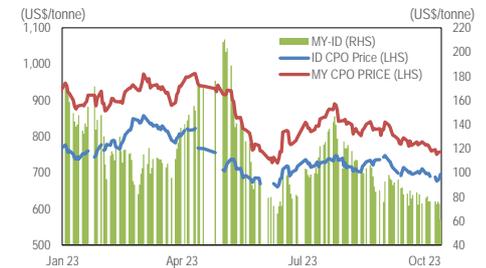
VALUATION/RECOMMENDATION

- Upgrade to BUY with the same target price of S\$1.65** with the recent share price correction. FR's share price has dropped by 10% from its recent peak in end-Sep 23 along with the weakening CPO prices (dragged by weak sunflower oil prices and other vegoil prices.)
- We recommend investors to BUY with the upcoming strong earnings as well as our in-house view of the upcoming CPO price uptrend in Nov/Dec 23 towards 2024. We peg our valuation at 8x 2024F PE.

SHARE PRICE CATALYST

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

FIRMER INDONESIA CPO SPOT PRICES



Source: UOB Kay Hian, Bloomberg

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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