

### COMPANY RESULTS

#### First Resources (FR SP)

##### 3Q22: Results Beat Expectations

FR's 3Q22 results beat expectations on strong ASPs, lower costs and lower effective tax rates. Downstream margins may not have been as strong as we expected but would remain healthy supported by lower feedstock prices. 4Q22 earnings are likely to remain strong as FR's CPO ASPs may be higher than the industry's, and also due to FR's larger inventory drawdown and lower cash cost. Downgrade to HOLD with a higher target price of S\$1.85. Share price went up by 16% since our last upgrade, and we reckon the good results have been priced in.

##### 3Q22 RESULTS

Year to 31 Dec (US\$m)	3Q22	qoq % chg	yoy % chg	9M22	yoy % chg	Comments
Revenue	361.9	56.2	15.2	897.1	23.4	
EBITDA	160.4	49.8	47.4	390.7	91.2	
Net Profit	116.3	113.9	120.3	244.3	186.2	Above our and consensus expectations.
EBITDA Margin	44.3	(1.9)	9.7	43.6	15.5	
Net profit margin	32.1	8.7	15.3	27.2	15.5	

Source: First Resources, UOB Kay Hian

##### RESULTS

- **Results above expectations.** First Resources (FR) reported 3Q22 core net profit of US\$116.3m (+114% qoq, +120% yoy), bringing 9M22 core net profit to US\$244m (+186% yoy). This accounts for 99% of our full-year assumption, which is above our and consensus expectations, mainly supported by strong sales volume and stable refining margin. The stronger yoy 9M22 was on the back of stronger CPO ASP.
- **The main variances from 3Q22 strong results vs our expectations are:**
  - Higher ASP.** FR benefitted from earlier sales commitment with higher ASP vs current price. On top of that, management expects satisfactory ASP for 4Q22 as well which would bring positive impact in 4Q22.
  - Lower cash cost** as fertiliser application was behind the schedule and the full application for 2022 will not be able to meet the target (1H22 only 35% applied vs 1H21 at 50%).
  - Lower effective tax rate** in 3Q22 because of higher profit booked from Singapore.
  - Healthy refining margin but lower than our expectation.** To our surprise, downstream margin was not as strong as our expectation. Management mentioned that refining margin in 3Q22 was lower compared with 1H22 due to the narrower duty and levy advantages.

##### KEY FINANCIALS

Year to 31 Dec (US\$m)	2020	2021	2022F	2023F	2024F
Net turnover	660	1,032	1,081	1,358	1,411
EBITDA	263	344	594	451	425
Operating profit	188	260	515	380	360
Net profit (rep./act.)	100	161	343	248	238
Net profit (adj.)	103	161	343	248	238
EPS (US\$ cent)	6.5	10.2	21.6	15.6	15.0
PE (x)	19.2	12.3	5.8	8.0	8.3
P/B (x)	1.9	1.6	1.5	1.4	1.3
EV/EBITDA (x)	6.8	5.2	3.0	4.0	4.2
Dividend yield (%)	2.4	5.6	8.5	6.3	6.1
Net margin (%)	15.1	15.6	31.8	18.2	16.8
Net debt/(cash) to equity (%)	23.2	2.1	(19.4)	(36.4)	(41.0)
Interest cover (x)	16.3	25.9	72.0	122.2	n.a.
ROE (%)	9.5	14.3	27.1	17.8	15.7
Consensus net profit	-	-	257	217	190
UOBKH/Consensus (x)	-	-	1.33	1.14	1.25

Source: First Resources, Bloomberg, UOB Kay Hian

### HOLD

#### (Downgraded)

Share Price	S\$1.71
Target Price	S\$1.85
Upside	+8.2%
(Previous TP)	S\$1.70)

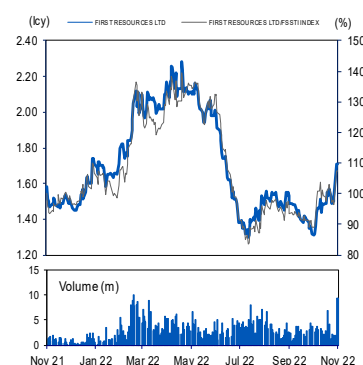
##### COMPANY DESCRIPTION

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):	1,569.6				
Market cap (S\$m):	2,684.0				
Market cap (US\$m):	1,953.9				
3-mth avg daily t'over (US\$m):	3.1				
Price Performance (%)					
52-week high/low					S\$2.28/S\$1.30
1mth	3mth	6mth	1yr	YTD	
29.5	11.8	(19.0)	6.9	13.2	
Major Shareholders					%
Eight Capital					66.2
-					-
-					-
FY22 NAV/Share (US\$)					0.84
FY22 Net Cash/Share (US\$)					0.16

##### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **Strong exports and sales volume in 3Q22.** The strong set of results in 3Q22 was mainly driven by an improvement in ASP with some forward sales and strong sales pick-up. The strong sales were supported by higher production in 3Q22 (+10.5% yoy and +21.4% qoq) as well as some inventory drawdown from its record-high inventory as at end-2Q22 after the Indonesian government allowed the resumption of palm oil exports.
- **Healthy refining margin.** Refining margin remained healthy in 3Q22, thanks to the Indonesian export duty structure and lower feedstock prices. Of course, this was also supported by the strong sales volume after the relaxation of palm oil exports in Indonesia.
- **Forward commitments at higher selling price boosted 3Q22 ASP.** As per management's statement, part of the strong 3Q22 earnings were supported by improvement in ASP despite market prices being lower yoy and qoq. We reckon that the higher ASP achieved for 3Q22 partly came from its forward sales committed at higher prices in 1H22.
- **4Q22 outlook.** We expect flat qoq earnings for 4Q22 on the back:
  - a) **Strong CPO ASP.** As FR had sold forward some of its contracts in 1H22, we reckon that the CPO ASP for 4Q22 may come in flat qoq.
  - b) **Healthy sales volume.** We anticipate more demand in 4Q22 with attractive CPO pricing in 4Q22. On top of that, we expect higher drawdown in 4Q22 which is in line with management guidance as management expects the lumpy inventory level to normalise in 4Q22.
  - c) **Stable refining margin.** With the current export duty and levy structure, we expect refining margin to still remain stable.

### EARNINGS REVISION/RISK

- **Revised earnings forecast.** We had revised up our earnings forecast by 39% for 2022, factoring in higher CPO ASP and higher downstream contribution. For 2023-24, we had also adjusted about 5-10% after some house-keeping adjustment.
- Our net profit forecasts for 2022-24 are at US\$343m, US\$245m and US\$237m respectively. With this, 2022 may hit record-high earnings with net profit exceeding the US\$300m mark.

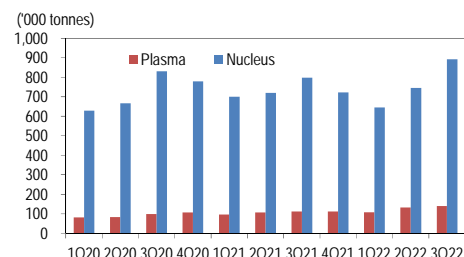
### VALUATION/RECOMMENDATION

- **Downgrade to HOLD despite a higher target price of S\$1.85 (previous: S\$1.70)** where we reckon that the current share price have already factored in the surprise from the strong set of results. Our valuation is pegged to 9x 2023F.
- **Share price up by 16% since our last upgrade in late-Oct 22,** and we reckon the good results have been priced in. We recommend HOLD for FR with a higher target price of S\$1.85 on the back of its good dividend yield of 6-8% for 2022-24, based on its revised dividend payout of 50% (form 30% previously).

### SHARE PRICE CATALYST

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

### FFB PRODUCTION TREND



Source: FR

**PROFIT & LOSS**

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Net turnover	1,032	1,081	1,358	1,411
EBITDA	344	594	451	425
Deprec. & amort.	84	78	71	65
EBIT	260	515	380	360
Total other non-operating income	11	0	0	0
Net interest income/(expense)	(13)	(8)	(4)	1
Pre-tax profit	246	507	377	361
Tax	(70)	(142)	(113)	(108)
Minorities	(15)	(22)	(16)	(15)
Net profit	161	343	248	238
Net profit (adj.)	161	343	248	238

**BALANCE SHEET**

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Fixed assets	415	376	342	314
Other LT assets	819	834	849	866
Cash/ST investment	382	650	908	1,009
Other current assets	258	178	271	289
<b>Total assets</b>	<b>1,874</b>	<b>2,039</b>	<b>2,371</b>	<b>2,478</b>
ST debt	115	115	115	115
Other current liabilities	148	86	94	96
LT debt	292	277	262	247
Other LT liabilities	47	132	331	318
Shareholders' equity	1,197	1,334	1,458	1,576
Minority interest	74	96	112	127
<b>Total liabilities &amp; equity</b>	<b>1,874</b>	<b>2,039</b>	<b>2,371</b>	<b>2,478</b>

**CASH FLOW**

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	292	470	271	328
Pre-tax profit	246	507	377	361
Tax	(51)	(142)	(113)	(108)
Deprec. & amort.	84	78	71	65
Working capital changes	52	9	(86)	(17)
Other operating cashflows	(39)	17	22	28
Investing	(4)	(20)	(20)	(20)
Capex (growth)	(31)	(45)	(44)	(43)
Capex (maintenance)	(15)	(15)	(15)	(15)
Investments	0	0	0	0
Proceeds from sale of assets	3	4	5	6
Others	41	40	39	38
Financing	(100)	(157)	(109)	(104)
Dividend payments	(41)	(172)	(124)	(119)
Issue of shares	0	0	0	0
Proceeds from borrowings	148	30	30	30
Loan repayment	(207)	(15)	(15)	(15)
Others/interest paid	1	0	0	0
Net cash inflow (outflow)	188	294	142	205
Beginning cash & cash equivalent	271	462	760	907
Changes due to forex impact	0	(110)	0	(110)
Ending cash & cash equivalent	382	650	908	1,009

**KEY METRICS**

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	33.4	54.9	33.2	30.2
Pre-tax margin	23.8	46.9	27.7	25.6
Net margin	15.6	31.8	18.2	16.8
ROA	8.8	17.5	11.2	9.8
ROE	14.3	27.1	17.8	15.7
<b>Growth</b>				
Turnover	56.3	4.7	25.7	3.9
EBITDA	31.1	72.4	(24.0)	(5.8)
Pre-tax profit	56.8	106.1	(25.7)	(4.1)
Net profit	61.6	113.0	(27.8)	(4.1)
Net profit (adj.)	56.8	113.0	(27.8)	(4.1)
EPS	56.8	113.0	(27.8)	(4.2)
<b>Leverage</b>				
Debt to total capital	24.2	21.5	19.4	17.5
Debt to equity	34.0	29.4	25.8	22.9
Net debt/(cash) to equity	2.1	(19.4)	(36.4)	(41.0)
Interest cover (x)	25.9	72.0	122.2	n.a.

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