

COMPANY UPDATE

First Resources (FR SP)

4Q22 Results Preview: Highest-Ever Yearly Profit

We upgrade FR to BUY on the back of: a) its high dividend yield of 9.7% and 7.2% for 2022 and 2023 respectively, b) it turning into net cash as of Dec 22, and c) better-than-peers financial performance. We reckon that the upstream performance would remain strong in 4Q22 with strong sales volume, while downstream performance could be lower qoq in 4Q22. However, refining margin should remain relatively stable. Upgrade to BUY with an unchanged target price of S\$1.85.

WHAT'S NEW

- **Upgrade to BUY with an unchanged target price of S\$1.85.** First Resources' (FR) share price has declined by 12% since our last downgrade in Nov 22. This may due to the recent weakening in CPO prices, which have dropped by 11% ytd. We interpret the recent drop in CPO prices as slower demand from importing countries. Hence, we see this an opportunity for investors to BUY FR on the back of: a) its high dividend yield of 9.7% and 7.2% for 2022 and 2023 respectively, b) it turning into net cash as of Dec 22, and c) its better-than-peers financial performance.
- **4Q22 results preview.** FR's 4Q22 results are scheduled to be released on 1 Mar 23 before market opens. Based on our estimates, we expect FR to report a core net profit of about US\$90m-100m for 4Q22 (3Q22: US\$116m, 4Q21: US\$290m). Key items to watch out for are:
 - a) **Better-than-peers CPO ASP.** As FR had sold forward some of its contracts in 1H22, we believe that CPO ASP for 4Q22 may be flat qoq but come in higher than peers. We think the risk management strategy of FR positioned in 1H22 would allow FR to have a better pricing strategy.
 - b) **Healthy sales volume.** We anticipate more sales volume in 4Q22 with higher drawdown, especially from China buyers due to the attractive CPO pricing in 4Q22. This is in line with management's expectation of lumpy inventory level normalising in 4Q22.
 - c) **Stable refining margin.** With CPO pricing remaining relatively stable in 4Q22, we expect refining margin to also remain stable. Refining margin would also be supported by the lower feedstock prices and strong export sales volume.
- **To turn to net cash position in 4Q22.** We expect FR to have turned to a net cash position in 4Q22 on the back of its strong cashflow-generating upstream operations. We expect FR's net cash position to translate to about S\$0.22/share as of end-Dec 22. With this, we expect attractive dividend yields of 9.7% and 7.2% for 2022 and 2023 respectively.

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)	17.8	11.3	5.3	7.4	7.7
P/B (x)	1.7	1.5	1.4	1.3	1.2
EV/EBITDA (x)	5.3	4.0	2.3	3.1	3.3
Dividend yield (%)	2.6	6.0	9.7	7.2	7.2
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	-	-	324	229	216
UOBKH/Consensus (x)	-	-	1.06	1.08	1.10

Source: First Resources, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	S\$1.51
Target Price	S\$1.85
Upside	+22.5%

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):	1,568.0
Market cap (S\$m):	2,367.7
Market cap (US\$m):	1,805.9
3-mth avg daily t'over (US\$m):	2.9

Price Performance (%)

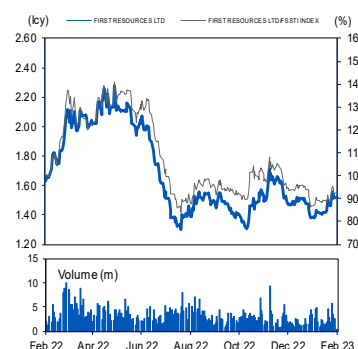
52-week high/low				S\$2.28/S\$1.30
1mth	3mth	6mth	1yr	YTD
4.9	(1.3)	8.6	(9.0)	2.0

Major Shareholders

Eight Capital	%
	66.2

FY23 NAV/Share (US\$)	0.92
FY23 Net Cash/Share (US\$)	0.34

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **FFB production to recover strongly in 2023.** 4Q22 production is likely to come in lower qoq due to the seasonally low production cycle and heavier rainfall. However, this is within our expectation and is still on track to meet our expectation of a 4% yoy growth for 2022. Recall that Indonesia experienced high rainfall mainly due to the impact of the triple La Nina (which affects harvesting and transportation activities). Moving forward to 2023, we had pencilled in a higher FFB production growth of 7% yoy on the back of yield recovery, better harvesting round and crop recovery with the expectation of more normalised weather.
- **Cost of production may be slightly lower yoy.** Based on our channel checks, fertiliser prices have dropped significantly by 30-40% since Jan 23 as compared to 2H22. In addition, shipment fees have also dropped significantly by 40-50% in Jan 23 as compared with 2H22. Hence, we reckon that the cost of production may be slightly lower yoy even though we are expecting a slight increase in labour and operational cost. Most of the impact of the lower fertiliser cost would be reflected in 2H23.

EARNINGS REVISION/RISK

- Our net profit forecasts for 2022-24 are at US\$343m, US\$245m and US\$237m respectively. We believe FR could see record-high earnings in 2022 with net profit exceeding the US\$300m mark.

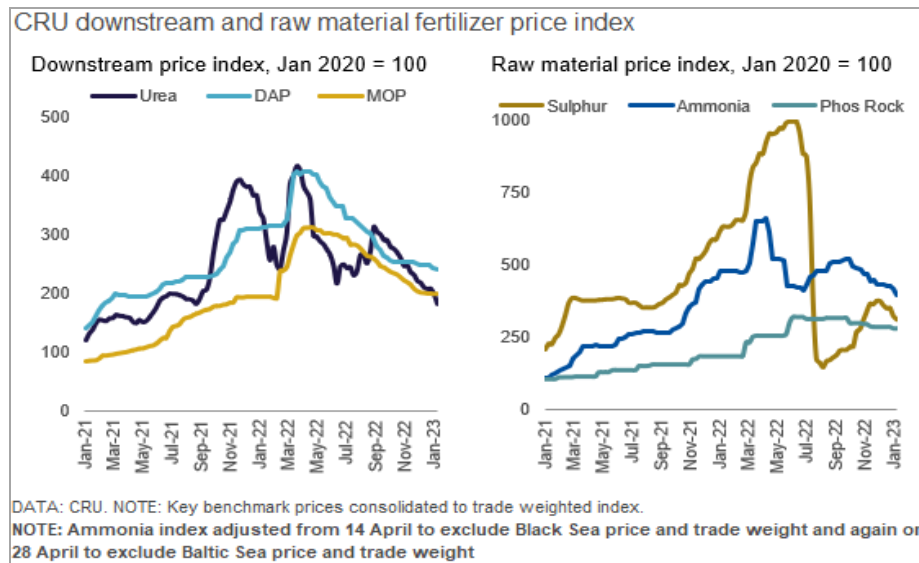
VALUATION/RECOMMENDATION

- **Upgrade to BUY with an unchanged target price of S\$1.85** as we see opportunity to buy on the stock on the back of strong dividend yield and better-than-peers financial performance in 4Q22. Our valuation is pegged to 9x 2023F PE.
- **Strong final dividend yield of 8%** in Feb 23 along with the upcoming 4Q22 result announcement. This is based on our assumption of 50% payout ratio.

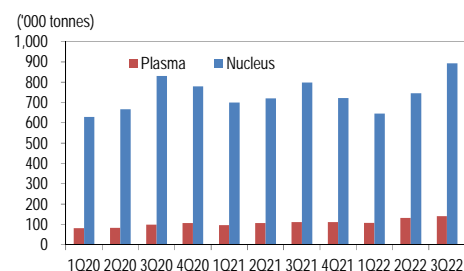
SHARE PRICE CATALYST

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

FERTILISER PRICE DROPPED SIGNIFICANTLY FROM ITS PEAK



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
Total assets	1,874	2,039	2,371	2,478
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
Total liabilities & equity	1,874	2,039	2,371	2,478

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
Profitability				
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
Growth				
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)
Leverage				
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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