

First Resources (FR SP)

FY21E remains promising despite uncertain forward sales impact

New dividend payout ratio of up to 50% from FY21E

2H20 core PATMI missed our / consensus estimates on several factors. But the net inventory build-up at end-2H20 and FV loss on derivative FI (USD11m) will likely benefit FY21E's bottom line. Recent guidance on forward sales created some uncertainty on its 1H21 downstream outlook. Even assuming zero downstream EBITDA contribution for FY21E, we still forecast a 34% core EPS growth in FY21E on higher price and output. Following our EPS revisions, our new TP is SGD1.88 (-4%) on unchanged 17x 2021 PER peg, its 5-yr mean. FR remains a BUY. A final DPS of 2 SGD cents was proposed, and a new DPR of up to 50% was announced.

Several factors led to weak 2H20 earnings

2H20 core PATMI of USD53m (-7% YoY, +23% HoH), brings 12M20 core PATMI to USD97m (+11% YoY) which met just 75%/72% of our/street full-year estimates. 2H20 results were below expectations due to (1) lower-than-expected CPO ASP achieved due to forward sales done earlier and also the lagged nature of sales recognition of an integrated player, (2) net inventory build-up (end-2H20: +25,000t) as logistics were affected by heavy rainfall, (3) FV loss (USD11m), (4) FX losses (USD5m), and (5) high effective tax rate (34%) due to withholding tax and deferred tax adjustments on Indonesia's lowered corporate tax rates.

All-in cost to customer still low at USD300/t, we est.

FY20's plantation EBITDA rose 33% YoY to MYR236m as higher CPO ASP (+16% YoY) offset weaker output (-4% YoY). We estimate its all-in operating cost to customers was at USD300/t (+4.5% YoY). Meanwhile, downstream EBITDA rose 9% YoY to USD32m on higher margin of USD29/t.

Expect 34% EPS growth despite downstream hedges

FR guides that it has forward sold a meaningful percentage of its 1H21 output without providing specifics. What we know is the export taxes payable to the government cannot be hedged and hence FR would have the bear the difference between the export taxes in the month of delivery compared to when it was locked in. Given much uncertain forward sales impact, we have assumed zero FY21E downstream EBITDA. Still we forecast 34% EPS growth for FY21E due to its upstream growth.

FYE Dec (USD m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	615	660	737	747	775
EBITDA	194	239	260	280	292
Core net profit	87	98	131	145	152
Core EPS (cts)	5.5	6.2	8.3	9.2	9.6
Core EPS growth (%)	(29.1)	12.7	34.2	10.5	4.8
Net DPS (cts)	1.8	2.3	4.1	4.6	4.8
Core P/E (x)	25.8	15.7	13.2	11.9	11.4
P/BV (x)	2.1	1.4	1.5	1.4	1.4
Net dividend yield (%)	1.2	2.3	3.8	4.2	4.4
ROAE (%)	9.5	9.6	12.0	12.4	12.3
ROAA (%)	5.3	5.6	7.2	7.5	7.6
EV/EBITDA (x)	13.4	7.7	7.4	6.6	6.0
Net gearing (%) (incl perps)	28.1	21.9	10.6	3.3	net cash
Consensus net profit	-	-	146	146	na
MKE vs. Consensus (%)	-	-	(10.2)	(0.5)	na

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BUY

Share Price	SGD 1.45
12m Price Target	SGD 1.88 (+32%)
Previous Price Target	SGD 1.96

Company Description

First Resources Ltd. engages in the cultivation of oil palms in Indonesia. It also operates palm oil refinery and biodiesel processing facilities.

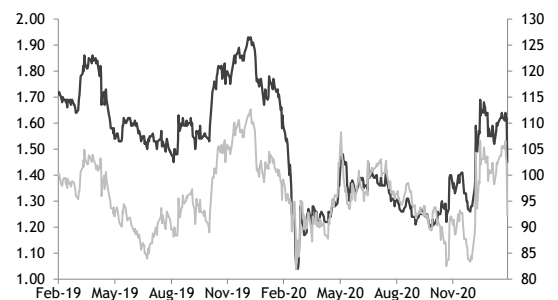
Statistics

52w high/low (SGD)	1.69/1.04
3m avg turnover (USDm)	2.4
Free float (%)	23.1
Issued shares (m)	1,584
Market capitalisation	SGD2.3B
	USD1.7B

Major shareholders:

TMF Group BV	65.8%
Fidelity Management & Research Co. LLC	5.9%
King Fortune Trust	5.6%

Price Performance



— First Resources - (LHS, SGD) — First Resources / Straits Times Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(6)	4	(8)
Relative to index (%)	(7)	0	(3)

Source: FactSet

Fig 1: First Resources results review

FYE Dec	Half-yearly					Cumulative		
	2H20	2H19	% YoY	1H20	% HoH	12M20	12M19	% YoY
	(USD m)	(USD m)		(USD m)		(USD m)	(USD m)	
Revenue	382	322	19	278	37	660	615	7
Core EBITDA	152	137	11	107	42	259	219	18
Depn & amortisation	(38)	(37)	3	(36)	6	(74)	(71)	5
Core EBIT	115	99	16	71	62	186	147	27
FV on biological assets	4	8	(51)	-	NM	4	8	(51)
EBIT	119	107	11	71	68	190	155	23
Net interest	(7)	(8)	(11)	(9)	(13)	(16)	(16)	0
Losses from FV on unquoted investment	(1)	(5)	(72)	-	NM	(1)	(5)	(72)
Other expenses	(16)	(3)	421	1	NM	(16)	(2)	553
PBT	94	90	4	63	49	157	131	20
Tax	(32)	(28)	16	(17)	85	(49)	(38)	30
Minority interests	(5)	(3)	86	(2)	134	(8)	(4)	91
PATMI	56	60	(6)	43	30	100	89	12
Core PATMI	53	58	(7)	43	23	97	87	11
	2H20	2H19	+/- ppts	1H20	+/- ppts	12M20	12M19	% YoY
Core EBITDA margin (%)	40	43	(3)	38	1	39	36	4
Core EBIT margin (%)	30	31	(1)	26	5	28	24	4
Effective tax rate (%)	34	31	4	28	7	32	29	3
Revenue	USD m	USD m	%YoY	USD m	%QoQ	USD m	USD m	%YoY
Plantation	290	256	13	254	14	545	463	18
Downstream	368	308	19	272	35	640	593	8
Inter-segment elimination	(276)	(242)	14	(249)	11	(524)	(441)	19
Revenue	382	322	19	278	37	660	615	7
EBITDA	USD m	USD m	%YoY	USD m	%QoQ	USD m	USD m	%YoY
Plantation	131	110	19	104	26	236	177	33
Downstream	22	26	(17)	10	117	32	29	9
Inter-segment elimination	(1)	1	NM	(7)	(92)	(8)	13	NM
Core EBITDA	152	137	11	107	42	259	219	18
Operational								
Production								
FFB nucleus (t)	1,608,925	1,700,236	(5)	1,294,875	24	2,903,800	3,009,424	(4)
CPO (t)	487,486	463,845	5	371,182	31	858,668	811,947	6
Sales								
CPO (t)	468,606	476,251	(2)	401,827	17	870,433	844,626	3
Refinery and processing (t)	602,455	604,353	(0)	475,650	27	1,078,105	1,167,641	(8)
CPO ASP (USD/t)	533	462	15	551	(3)	541	468	16
PK ASP (USD/t)	337	261	29	308	9	324	281	15

Sources: Company, Maybank KE

Forward sales causes some uncertainty on 1H21 outlook

FR guides that it has forward sold a meaningful percentage of its 1H21 output without providing specific details (ie quantity, price, and timing of delivery). The forward sales are mainly in the form of processed palm oil which attracts lower export taxes compared to CPO. The latter attracts relatively much higher export taxes under Indonesia’s newly revised export tax structure announced in Dec 2020 (to fund its B30 mandate). While FR has locked in the forward sales when CPO price was uptrending towards late last year, the export tax (determined by the government on a monthly basis) remains unhedged. Hence at higher CPO spot prices (which in turn attracts higher export taxes), FR would have the bear the difference between the export taxes in the month of delivery compared to when it was locked in, eating into its downstream margin, and vice versa.

These forward sales will likely reduce FR’s downstream margin in 1Q21 given the current high palm oil prices and its corresponding export taxes. However, we doubt the current high CPO price will sustain into 2Q21 and the rest of 2021. Nonetheless, given much unknown and uncertainty on forward sales impact on earnings, we have conservatively assumed zero downstream EBITDA contributions in our FY21E EPS, but assumed a normalized downstream EBITDA of USD24m in our FY22-23E EPS. In FY20, FR posted USD29/t EBITDA margin (FY19: USD25/t) or a downstream EBITDA of USD32m (+9% YoY).

Still anticipating a 34% FY21E core EPS growth

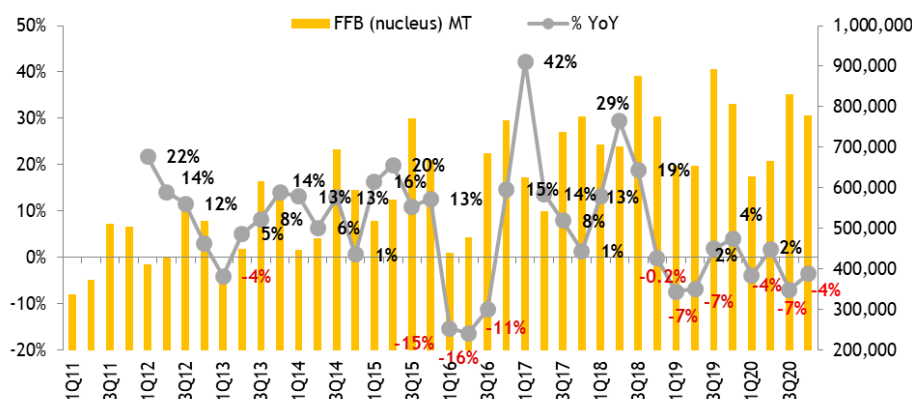
Despite downstream uncertainties, we are still projecting a 34% FY21E core EPS growth premised on higher CPO ASP for its upstream division of USD607/t (+12% YoY) and higher FFB output (+5% YoY), which should more than offset lower YoY downstream contribution. Our EPS forecast incorporated our higher industry-wide CPO ASP forecasts of MYR2,700/t (from 2,500) for 2021, and MYR2,600/t (from 2,500) for 2022. In addition, a USD6m deferred tax expense recognized in FY20 due to Indonesia’s lower corporate tax should not recur in FY21E.

Incorporating the above, our FY21E/22E EPS are revised by -3.2%/-1.2% respectively. We also introduce our FY23E EPS.

Increasingly a dividend yield stock with its higher DPR

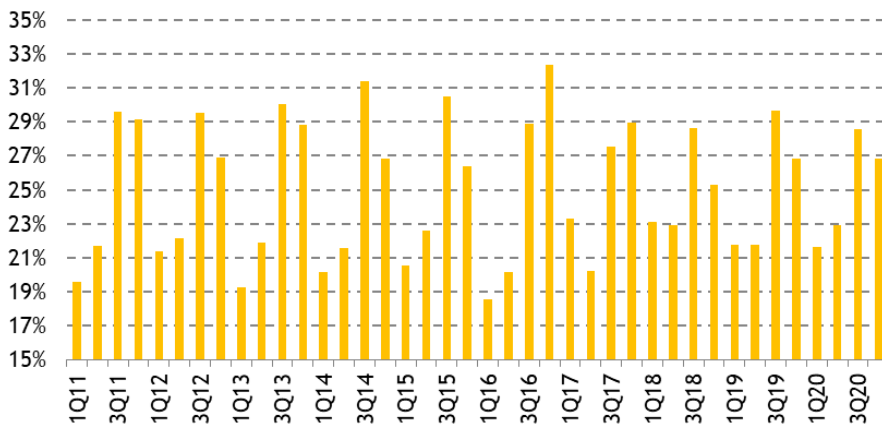
A final DPS of 2.0 SGD cents was proposed, bringing FY20 DPS to 3.0 SGD cents, or a dividend payout ratio (DPR) of 37%. It is payable on 18 May 2021, if approved at the AGM. Going forward, FR is revising its dividend policy to distribute up to 50% of its underlying net profit annually, an increase from 30% presently. We have thus factored in a 50% DPR for FY21E-23E.

Fig 2: FR’s quarterly FFB nucleus output & YoY growth



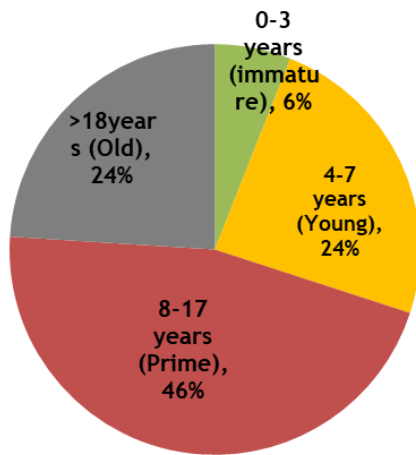
Sources: Company, Maybank KE

Fig 3: FR's historical FFB output as a % of full-year output



Sources: Company, Maybank KE

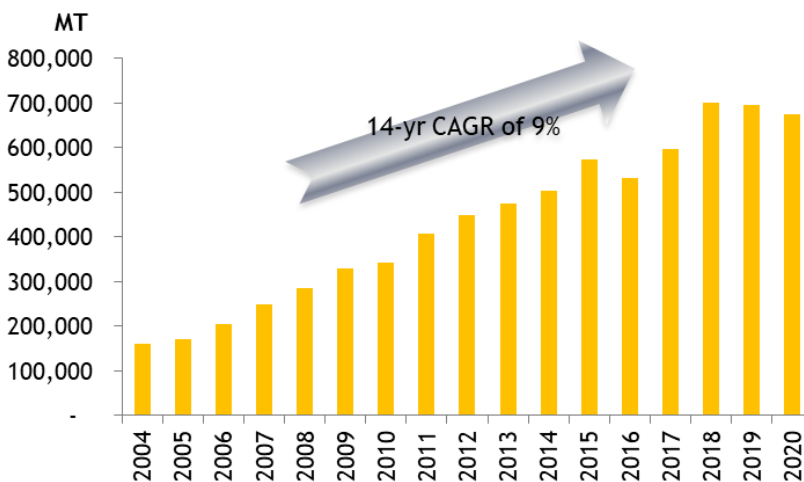
Fig 4: FR's tree age profile (213,461 ha, including plasma of 31,432ha)



Weighted average age of ~12 years

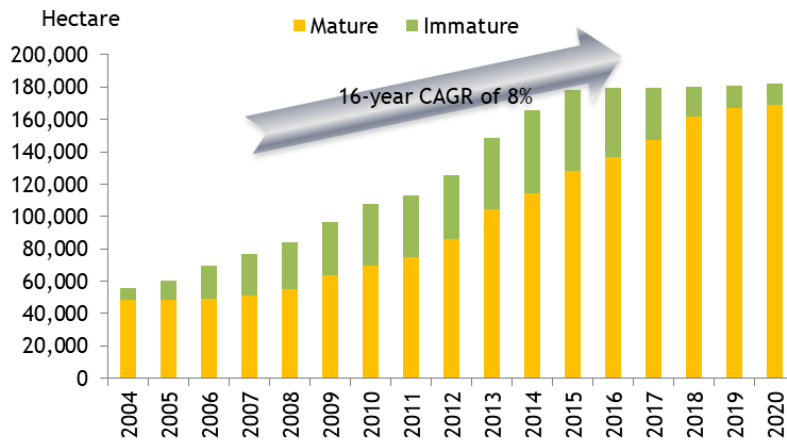
Source: Company (as at 31 Dec 2020)

Fig 5: FR's CPO nucleus production (2004-2020)



Source: Company

Fig 6: FR's planted nucleus area (2004-2020)



Source: Company

Fig 7: FR's 12-month forward rolling P/E



Source: Bloomberg

Risk statement

There are several risk factors to our earnings estimate, price target, and rating for First Resources (FR). Key risks to the palm oil sector and FR are: (i) weather anomalies resulting in poorer-than-expected output growth, (ii) lower-than-expected CPO price achieved, (iii) negative policies imposed by import countries, (iv) unfriendly policies imposed by the Indonesian government on upstream or downstream segments, (v) sharply lower crude oil prices which make palm biodiesel demand not viable, and (vi) weaker competing oil prices (such as for soybean and rapeseed).

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	20.5	15.7	13.2	11.9	11.4
Core P/E (x)	25.8	15.7	13.2	11.9	11.4
P/BV (x)	2.1	1.4	1.5	1.4	1.4
P/NTA (x)	2.4	1.6	1.7	1.6	1.5
Net dividend yield (%)	1.2	2.3	3.8	4.2	4.4
FCF yield (%)	nm	7.6	10.7	9.1	9.4
EV/EBITDA (x)	13.4	7.7	7.4	6.6	6.0
EV/EBIT (x)	17.8	9.9	9.2	8.1	7.4
INCOME STATEMENT (USD m)					
Revenue	614.9	660.4	736.7	747.0	774.8
Gross profit	227.2	292.4	330.4	324.1	338.4
EBITDA	194.2	238.8	259.6	280.5	291.6
Depreciation	(47.5)	(52.6)	(51.1)	(51.9)	(52.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	146.7	186.1	208.5	228.6	239.0
Net interest income / (exp)	(16.1)	(16.1)	(14.8)	(14.5)	(14.5)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	7.9	3.9	0.0	0.0	0.0
Other pretax income	(2.4)	(15.7)	0.0	0.0	0.0
Pretax profit	136.1	158.2	193.7	214.1	224.5
Income tax	(38.0)	(49.5)	(54.2)	(60.0)	(62.9)
Minorities	(4.0)	(7.7)	(8.4)	(9.2)	(9.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	94.0	101.0	131.1	144.9	151.9
Core net profit	86.9	97.7	131.1	144.9	151.9
BALANCE SHEET (USD m)					
Cash & Short Term Investments	102.0	195.1	314.8	400.1	485.8
Accounts receivable	49.4	85.8	67.6	68.5	71.1
Inventory	81.7	102.8	100.2	104.3	107.6
Property, Plant & Equip (net)	1,015.9	992.7	988.0	983.7	980.0
Intangible assets	114.3	112.4	112.4	112.4	112.4
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	345.6	297.1	297.1	297.1	297.1
Total assets	1,708.9	1,785.9	1,880.0	1,966.1	2,053.9
ST interest bearing debt	194.7	184.7	184.7	184.7	184.7
Accounts payable	54.3	64.8	84.7	88.1	90.9
LT interest bearing debt	216.6	257.0	257.0	257.0	257.0
Other liabilities	141.0	153.0	156.0	160.0	162.0
Total Liabilities	607.0	659.8	682.5	689.7	694.7
Shareholders Equity	1,044.3	1,063.6	1,129.1	1,201.6	1,277.5
Minority Interest	57.6	62.6	68.4	74.9	81.7
Total shareholder equity	1,101.9	1,126.1	1,197.6	1,276.5	1,359.2
Total liabilities and equity	1,708.9	1,785.9	1,880.0	1,966.1	2,053.9
CASH FLOW (USD m)					
Pretax profit	136.1	158.2	193.7	214.1	224.5
Depreciation & amortisation	47.5	52.6	51.1	51.9	52.6
Adj net interest (income)/exp	16.1	16.1	14.8	14.5	14.5
Change in working capital	(35.4)	(19.2)	49.8	7.2	2.9
Cash taxes paid	(65.3)	(22.3)	(54.2)	(60.0)	(62.9)
Other operating cash flow	(7.1)	6.9	0.0	0.0	0.0
Cash flow from operations	91.9	192.4	255.2	227.8	231.7
Capex	(112.5)	(76.2)	(70.0)	(70.0)	(70.0)
Free cash flow	(20.6)	116.1	185.2	157.8	161.7
Dividends paid	(33.3)	(33.1)	(65.6)	(72.5)	(76.0)
Equity raised / (purchased)	0.0	(5.6)	0.0	0.0	0.0
Change in Debt	25.0	15.4	0.0	0.0	0.0
Other invest/financing cash flow	(8.1)	39.1	0.0	0.0	0.0
Effect of exch rate changes	0.4	0.0	0.0	0.0	0.0
Net cash flow	(36.6)	132.0	119.7	85.3	85.7

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	(2.9)	7.4	11.6	1.4	3.7
EBITDA growth	(17.8)	23.0	8.7	8.0	4.0
EBIT growth	(23.1)	26.9	12.0	9.6	4.5
Pretax growth	(24.9)	16.2	22.4	10.5	4.8
Reported net profit growth	(21.6)	7.5	29.7	10.5	4.8
Core net profit growth	(29.1)	12.5	34.2	10.5	4.8
Profitability ratios (%)					
EBITDA margin	31.6	36.2	35.2	37.5	37.6
EBIT margin	23.9	28.2	28.3	30.6	30.9
Pretax profit margin	22.1	24.0	26.3	28.7	29.0
Payout ratio	29.7	35.2	50.0	50.0	50.0
DuPont analysis					
Net profit margin (%)	15.3	15.3	17.8	19.4	19.6
Revenue/Assets (x)	0.4	0.4	0.4	0.4	0.4
Assets/Equity (x)	1.6	1.7	1.7	1.6	1.6
ROAE (%)	9.5	9.6	12.0	12.4	12.3
ROAA (%)	5.3	5.6	7.2	7.5	7.6
Liquidity & Efficiency					
Cash conversion cycle	59.0	68.9	61.2	46.3	46.0
Days receivable outstanding	28.8	36.8	37.5	32.8	32.4
Days inventory outstanding	83.2	90.3	89.9	87.0	87.4
Days payables outstanding	53.0	58.2	66.2	73.5	73.9
Dividend cover (x)	3.4	2.8	2.0	2.0	2.0
Current ratio (x)	1.0	1.3	1.5	1.7	1.9
Leverage & Expense Analysis					
Asset/Liability (x)	2.8	2.7	2.8	2.9	3.0
Net gearing (%) (incl perps)	28.1	21.9	10.6	3.3	net cash
Net gearing (%) (excl. perps)	28.1	21.9	10.6	3.3	net cash
Net interest cover (x)	9.1	11.6	14.1	15.7	16.4
Debt/EBITDA (x)	2.1	1.8	1.7	1.6	1.5
Capex/revenue (%)	18.3	11.5	9.5	9.4	9.0
Net debt/ (net cash)	309.3	246.5	126.8	41.5	(44.2)

Source: Company; Maybank

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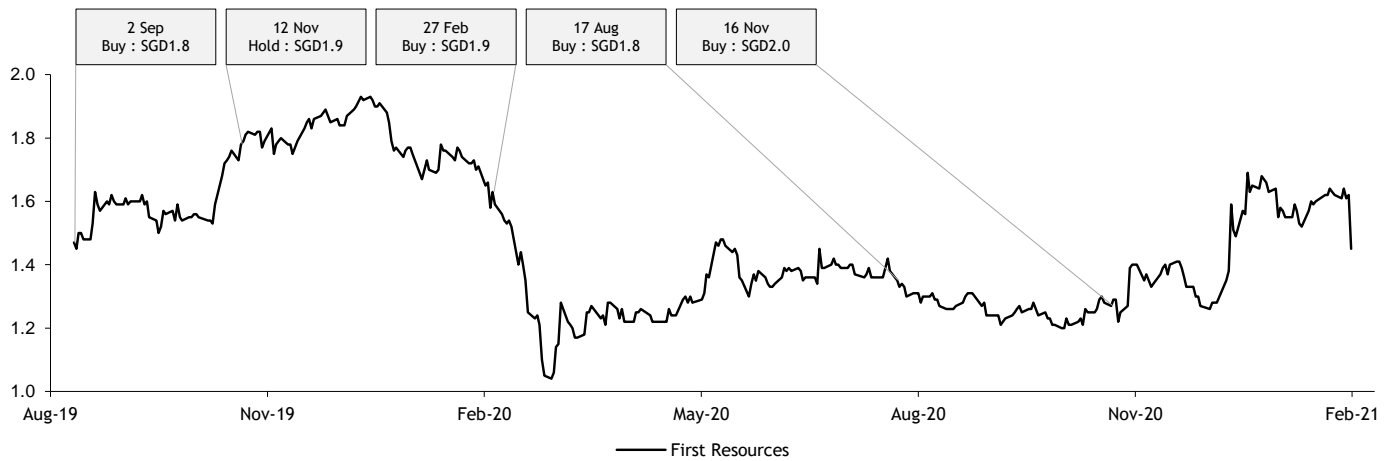
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