

First Resources (FR SP)

3Q23 results dragged down by net inventory build-up

Anticipate a better 4Q performance

3Q23 core PATMI missed our/consensus expectations due to a significant net inventory build-up and accelerated fertilising application during the quarter. We expect a much stronger 4Q23 performance as we anticipate a drawdown in inventory in the final quarter to help boost sales and profits. Following our EPS revisions, FR remains a BUY with a tweaked TP of SGD1.82 (previously SGD1.83) on unchanged 11x FY23 PER, its -1SD of 5Y mean. BUY for its single-digit PER and >5% DY.

A mismatch of output and sales in 3Q23

3Q23 core PATMI of USD51m (-56% YoY, +6% QoQ) brings 9M23 core PATMI to USD119m (-53% YoY) which met just 61%/67% of our/consensus full-year estimates. 3Q23 revenue fell 31% YoY to USD248m (-1% QoQ) despite an improvement in FFB nucleus output (+2% YoY, +29% QoQ). 3Q sales were impacted by a significant net inventory build-up of 50,000t in 3Q23 (3Q22: a net drawdown of 14,000t. We believe the net inventory build-up is likely a timing issue that should benefit 4Q23 in terms of sales, leading to a stronger catch up in profits in 4Q. We understand FR has accelerated its fertilizer application in 3Q as it has applied c.60% of annual budget for 9M23 (1H23: about 1/3 of annual budget done due to wet weather). We understand its 3Q23 downstream margin remained challenging.

Nucleus FFB output have peaked in 3Q

3Q FFB nucleus output (+2% YoY, +29% QoQ) grew slightly YoY but picked up sharply QoQ on seasonality. This brings 9M23 FFB nucleus output to 2.23mt (-2% YoY; 1H23's output: -4.6% YoY). While FR guides that its 4Q23 output will likely be lower QoQ, it will beat that of 4Q22. For FY23, FR kept its flattish YoY FFB growth guidance (MIBG: flat YoY).

Tweaking our EPS forecasts marginally

Following FR's revised unit cash cost guidance to USD300-320/t (from USD280-300/t), we too have raised our cash cost by +4% (MIBG: +14% YoY). And coupled with our industry-wide CPO ASP revisions to MYR3,800/t (from MYR3,700/t) for 2023E, and MYR3,700/t (from MYR3,500/t) for 2024E, our FY23E/24E EPS forecasts are tweaked by -1.2%/-1.5% respectively.

FYE Dec (USD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	1,032	1,225	974	908	926
EBITDA	281	479	322	328	343
Core net profit	149	334	191	187	199
Core EPS (cts)	9.4	21.2	12.2	11.9	12.6
Core EPS growth (%)	52.6	125.1	(42.7)	(2.4)	6.3
Net DPS (cts)	4.7	10.7	6.1	5.9	6.3
Core P/E (x)	11.9	5.2	8.6	8.9	8.3
P/BV (x)	1.5	1.3	1.2	1.1	1.0
Net dividend yield (%)	4.2	9.7	5.8	5.6	6.0
ROAE (%)	14.3	25.9	14.1	12.9	12.8
ROAA (%)	8.1	18.0	10.0	9.2	9.3
EV/EBITDA (x)	6.6	3.5	4.5	4.1	3.6
Net gearing (%) (incl perps)	2.0	net cash	net cash	net cash	net cash
Consensus net profit	-	-	170	197	205
MIBG vs. Consensus (%)	-	-	12.4	(5.0)	(3.1)

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BUY

Share Price	SGD 1.43
12m Price Target	SGD 1.82 (+33%)
Previous Price Target	SGD 1.83

Company Description

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

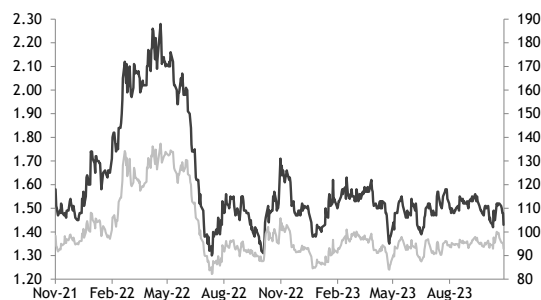
Statistics

52w high/low (SGD)	1.71/1.35
3m avg turnover (USDm)	1.1
Free float (%)	27.4
Issued shares (m)	1,584
Market capitalisation	SGD2.3B
	USD1.7B

Major shareholders:

TMF Group BV	64.7%
King Fortune Trust	5.6%
Fidelity/ FMR / Abigail	4.2%

Price Performance



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

	-1M	-3M	-12M
Absolute (%)	(5)	(7)	(6)
Relative to index (%)	(2)	(2)	(2)

Source: FactSet

Terms used in this note:

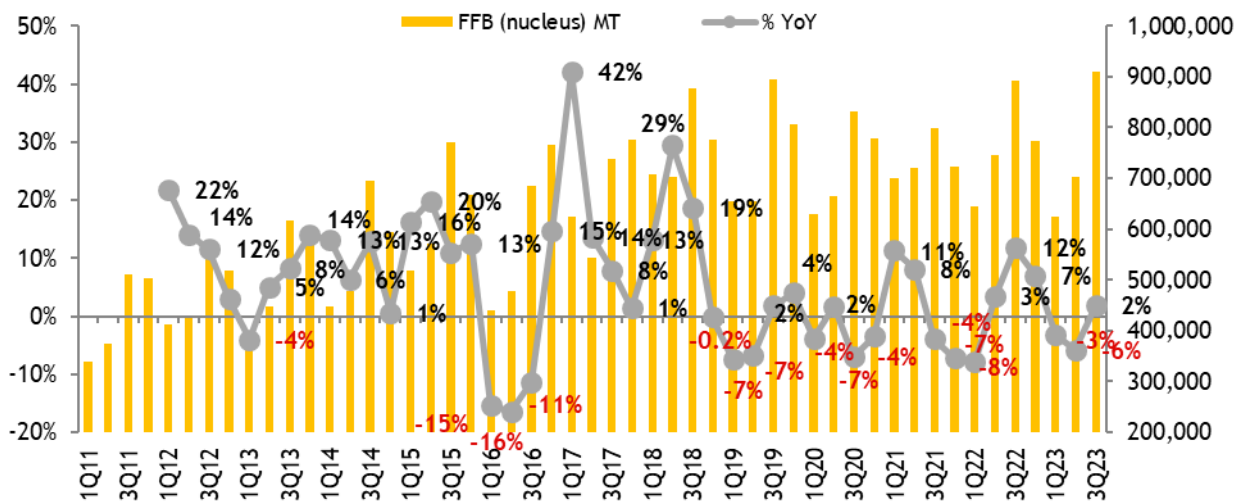
ASP - Average Selling Price
DY - Dividend yield
FFB - Fresh Fruit Bunches
PATMI - Profit after tax and minority interest
QoQ - Quarter-on-Quarter
t - tonne
YoY - Year-on-year

Fig 1: First Resources 3Q23 limited results review

FYE Dec	3Q23 (USD m)	3Q22 (USD m)	% YoY	2Q23 (USD m)	% QoQ	9M23 (USD m)	9M22 (USD m)	% YoY
Revenue	248	362	(31)	251	(1)	697	897	(22)
Core EBITDA	83	160	(48)	78	6	216	391	(45)
PATMI	51	116	(56)	52	(2)	123	244	(50)
Core PATMI	51	116	(56)	48	6	119	254	(53)
Core EBITDA margin (%)	33	44	(11)	31	2	31	44	(13)
Operational								
Production								
FFB nucleus (t)	908,674	892,230	2	701,856	29	2,234,835	2,282,797	(2)
CPO (t)	286,574	252,533	13	221,385	29	693,222	652,692	6

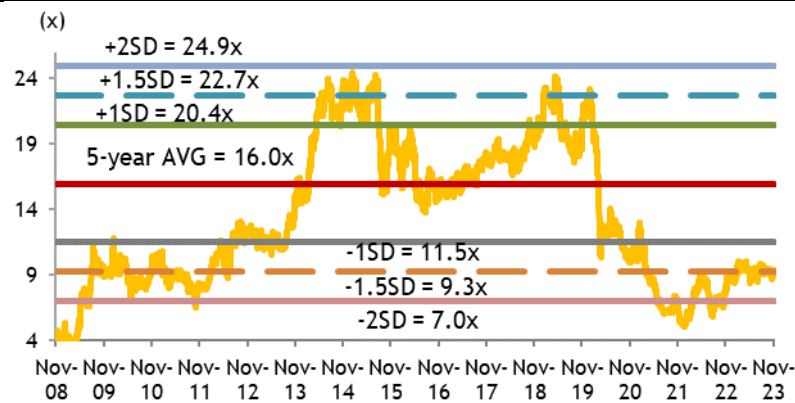
Source: Company

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



Source: Company

Fig 3: FR's 12-month forward rolling P/E



Source: Bloomberg, Maybank IBG Research

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	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	10.9	6.0	8.6	8.9	8.3
Core P/E (x)	11.9	5.2	8.6	8.9	8.3
P/BV (x)	1.5	1.3	1.2	1.1	1.0
P/NTA (x)	1.6	1.4	1.3	1.2	1.1
Net dividend yield (%)	4.2	9.7	5.8	5.6	6.0
FCF yield (%)	13.2	13.4	15.2	12.7	12.9
EV/EBITDA (x)	6.6	3.5	4.5	4.1	3.6
EV/EBIT (x)	8.1	3.9	5.3	4.8	4.2

INCOME STATEMENT (USD m)

Revenue	1,032.3	1,225.4	974.5	907.5	926.4
EBITDA	280.6	478.6	321.8	327.5	343.2
Depreciation	(51.6)	(49.3)	(45.7)	(47.7)	(48.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	229.0	429.4	276.1	279.8	294.4
Net interest income / (exp)	(13.3)	(7.3)	3.7	8.7	12.5
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	16.0	(11.5)	0.0	0.0	0.0
Other pretax income	14.3	16.9	0.0	0.0	0.0
Pretax profit	246.0	427.5	279.9	288.5	306.8
Income tax	(69.5)	(88.4)	(78.4)	(86.6)	(92.1)
Minorities	(15.3)	(13.9)	(10.1)	(15.1)	(16.1)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	161.1	325.2	191.4	186.8	198.7
Core net profit	148.7	334.1	191.4	186.8	198.7

BALANCE SHEET (USD m)

Cash & Short Term Investments	381.5	440.3	596.8	713.2	827.3
Accounts receivable	80.7	98.5	76.1	70.8	72.3
Inventory	100.1	137.0	118.1	119.0	121.0
Property, Plant & Equip (net)	933.8	843.4	873.0	870.6	868.7
Intangible assets	111.2	100.8	100.8	100.8	100.8
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	266.3	212.8	212.8	212.8	212.8
Total assets	1,873.6	1,832.7	1,977.5	2,087.2	2,202.9
ST interest bearing debt	114.9	93.3	93.3	93.3	93.3
Accounts payable	84.8	80.7	99.8	100.6	102.3
LT interest bearing debt	291.8	202.4	202.4	202.4	202.4
Other liabilities	111.0	57.0	80.0	85.0	89.0
Total Liabilities	602.5	433.8	475.8	481.5	486.5
Shareholders Equity	1,197.1	1,309.7	1,405.4	1,498.8	1,598.1
Minority Interest	74.0	89.2	96.3	106.9	118.2
Total shareholder equity	1,271.1	1,398.9	1,501.7	1,605.7	1,716.3
Total liabilities and equity	1,873.6	1,832.7	1,977.5	2,087.2	2,202.9

CASH FLOW (USD m)

Pretax profit	246.0	427.5	279.9	288.5	306.8
Depreciation & amortisation	51.6	49.3	45.7	47.7	48.8
Adj net interest (income)/exp	13.3	7.3	(3.7)	(8.7)	(12.5)
Change in working capital	59.1	(75.4)	108.8	38.8	32.3
Cash taxes paid	(51.2)	(94.0)	(78.4)	(86.6)	(92.1)
Other operating cash flow	(26.6)	11.5	0.0	0.0	0.0
Cash flow from operations	292.2	326.2	352.2	279.8	283.4
Capex	(59.9)	(94.0)	(100.0)	(70.0)	(70.0)
Free cash flow	232.3	232.1	252.2	209.8	213.4
Dividends paid	(41.5)	(86.6)	(95.7)	(93.4)	(99.3)
Equity raised / (purchased)	(1.1)	(8.0)	0.0	0.0	0.0
Change in Debt	(57.5)	(122.9)	0.0	0.0	0.0
Other invest/financing cash flow	58.5	42.1	0.0	0.0	0.0
Effect of exch rate changes	(0.3)	(4.4)	0.0	0.0	0.0
Net cash flow	190.4	52.3	156.5	116.4	114.1

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	56.3	18.7	(20.5)	(6.9)	2.1
EBITDA growth	20.2	70.6	(32.8)	1.8	4.8
EBIT growth	23.0	87.5	(35.7)	1.3	5.2
Pretax growth	55.5	73.8	(34.5)	3.1	6.3
Reported net profit growth	59.4	101.8	(41.1)	(2.4)	6.3
Core net profit growth	52.1	124.8	(42.7)	(2.4)	6.3
Profitability ratios (%)					
EBITDA margin	27.2	39.1	33.0	36.1	37.0
EBIT margin	22.2	35.0	28.3	30.8	31.8
Pretax profit margin	23.8	34.9	28.7	31.8	33.1
Payout ratio	45.7	51.6	50.0	50.0	50.0
DuPont analysis					
Net profit margin (%)	15.6	26.5	19.6	20.6	21.4
Revenue/Assets (x)	0.6	0.7	0.5	0.4	0.4
Assets/Equity (x)	1.6	1.4	1.4	1.4	1.4
ROAE (%)	14.3	25.9	14.1	12.9	12.8
ROAA (%)	8.1	18.0	10.0	9.2	9.3
Liquidity & Efficiency					
Cash conversion cycle	45.9	47.9	60.3	42.8	41.5
Days receivable outstanding	29.0	26.3	32.2	29.1	27.8
Days inventory outstanding	64.0	71.6	95.9	88.4	88.0
Days payables outstanding	47.2	50.0	67.9	74.7	74.4
Dividend cover (x)	2.2	1.9	2.0	2.0	2.0
Current ratio (x)	2.4	3.7	3.6	3.9	4.3
Leverage & Expense Analysis					
Asset/Liability (x)	3.1	4.2	4.2	4.3	4.5
Net gearing (%) (incl perps)	2.0	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	2.0	net cash	net cash	net cash	net cash
Net interest cover (x)	17.2	59.1	na	na	na
Debt/EBITDA (x)	1.4	0.6	0.9	0.9	0.9
Capex/revenue (%)	5.8	7.7	10.3	7.7	7.6
Net debt/ (net cash)	25.2	(144.6)	(301.1)	(417.5)	(531.5)

Source: Company; Maybank IBG Research

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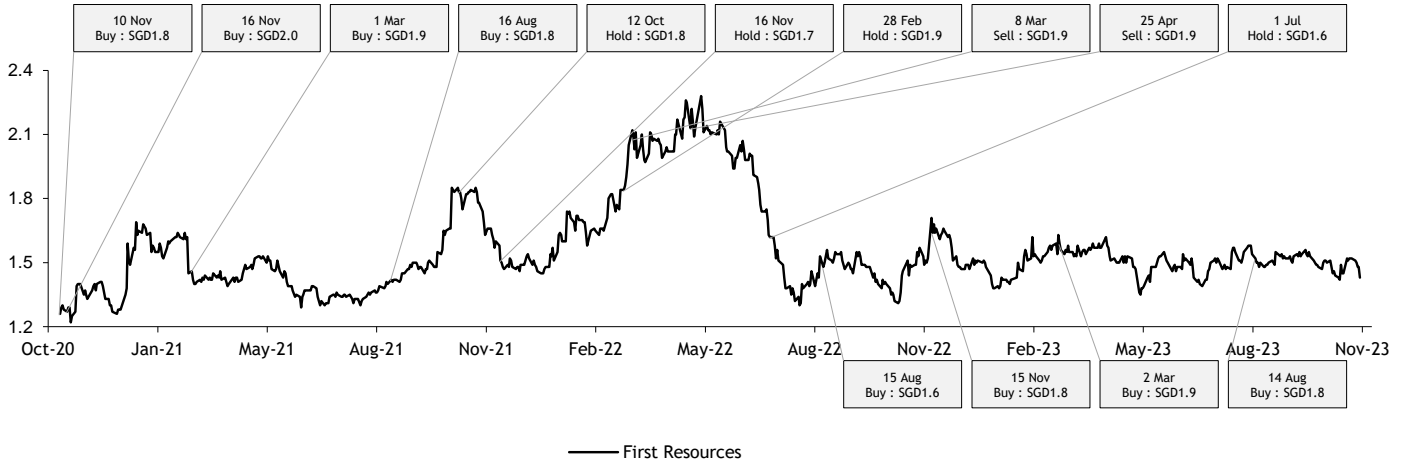
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Historical recommendations and target price: First Resources (FR SP)



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