

# First Resources (FR SP)

## Special dividend awaits

# BUY

[Prior:HOLD]

Share Price SGD 1.76  
 12m Price Target SGD 2.20 (+25%)  
 Previous Price Target SGD 2.04

### Share price sell-down overdone, U/G to BUY

2017 results are within expectations. For 2018, we expect FFB output recovery and new areas coming to maturity to drive e.+12% EPS growth. Recent share price weakness presents accumulation opportunity for this sector bellwether. The stock now trades at 1SD below its historical mean. We upgrade FR to a BUY (from HOLD) with a new TP of SGD2.20 on 17x 2018 PER (5-year mean) as we roll forward our valuation year (previously SGD2.04 on 17x 2017 PER). FR is proposing a final (2.15cts) and special (3.4cts) DPS, bringing 2017 total DPS to 6.8 SG cents (2016: 3cts).

### Strong upstream and downstream performance

2017 headline PATMI was USD138m (+10% YoY). Adjusted for FV gain on biological assets, core PATMI grew 21% YoY to USD139m which met 99%/100% of our/consensus estimates. Its key contributor, the upstream division, enjoyed 6% growth in EBITDA to USD272m underpinned by higher FFB output (+13% YoY) and higher CPO ASP achieved of USD603/t (+3% YoY). Even its downstream division returned to the black with an EBITDA of USD19m and an estimated EBITDA margin of USD21/t (FY16: -USD2/t).

### Still one of the lowest cost producer in the region

Post El Nino, FFB output rebounded strongly by 13% YoY in 2017, driven by higher FFB yield (+4% to 17.5t/ha) and higher mature area (+8%). But 2017's FFB growth was 3% below expectation as 4Q17 output growth slowed sharply. However, 4Q17 earnings did not disappoint due to inventory drawdown (-14,000 MT QoQ). As for cost, FR's unit cash cost of production was flattish YoY at USD217/t, one of the lowest in the region.

### 12% EPS growth in 2018 driven by output

Following the results, we have tweaked our financial parameters and trim 2018-19E nucleus output by -2%/-3% (but still forecasting +17%/+8% output growth premised on post El Nino recovery and 18,000 ha (+9%) of total area coming into maturity). This led to -4% decline in our 2017-18 PATMI forecasts. Despite that, we anticipate a 12%/11% core EPS growth for 2018-19. Our 2018 net CPO ASP assumption is unchanged at USD572/t (-5% YoY). We introduce our 2020 forecast.

FYE Dec (USD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	575	647	661	714	770
EBITDA	227	262	283	305	334
Core net profit	115	139	156	172	193
Core EPS (cts)	7.3	8.8	9.8	10.9	12.2
Core EPS growth (%)	21.4	20.8	11.6	10.6	11.9
Net DPS (cts)	2.3	5.2	2.9	3.3	3.6
Core P/E (x)	18.3	15.2	13.6	12.3	11.0
P/BV (x)	2.4	2.2	2.0	1.8	1.6
Net dividend yield (%)	1.7	3.9	2.2	2.4	2.7
ROAE (%)	15.5	14.9	15.2	15.1	15.2
ROAA (%)	7.1	8.1	8.6	8.8	9.2
EV/EBITDA (x)	10.2	9.5	8.1	7.2	6.3
Net gearing (%) (incl perps)	20.5	21.3	9.8	1.4	net cash
Consensus net profit	-	-	157	175	na
MKE vs. Consensus (%)	-	-	(0.8)	(1.5)	na

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### Company Description

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

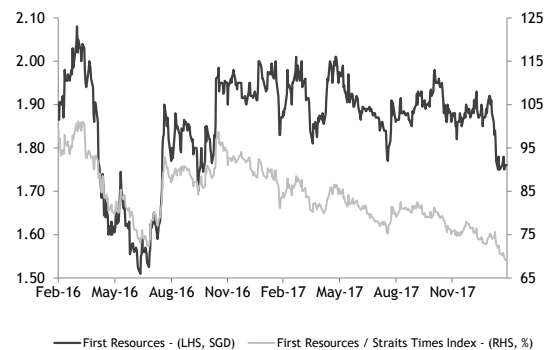
### Statistics

52w high/low (SGD)	2.01/1.75
3m avg turnover (USDm)	1.1
Free float (%)	29.5
Issued shares (m)	1,584
Market capitalisation	SGD2.8B
	USD2.1B

### Major shareholders:

Eight Capital Trust	64.5%
King Fortune Trust	5.6%
FIL Investment Management (Singapore) Lt	3.6%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(7)	(7)	(6)
Relative to index (%)	(6)	(9)	(17)

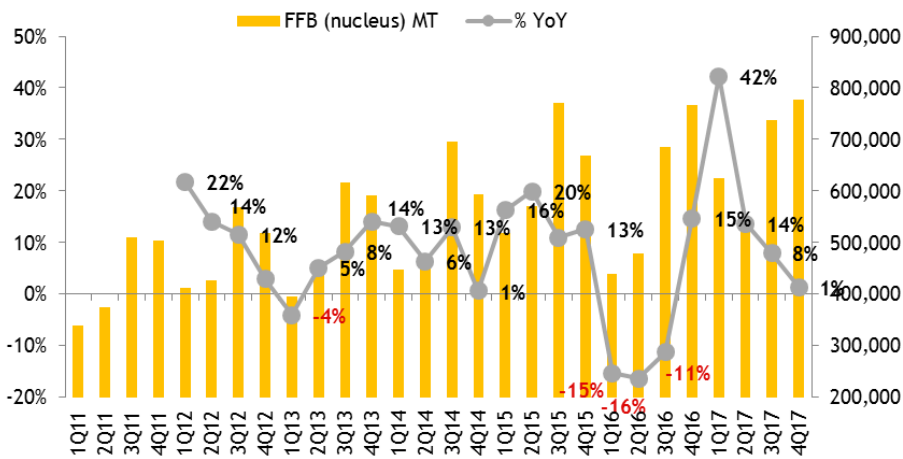
Source: FactSet

Fig 1: First Resources 4Q17 results review

FYE Dec	Quarterly					Cumulative		
	4Q17	4Q16	% YoY	3Q17	% QoQ	12M17	12M16	% YoY
	(USD m)	(USD m)		(USD m)		(USD m)	(USD m)	
Revenue	181	175	3	137	32	647	575	12
Core EBITDA	78	91	(14)	69	13	292	251	16
Depn & amortisation	(16)	(17)	(5)	(16)	(0)	(63)	(57)	11
<b>Core EBIT</b>	<b>62</b>	<b>74</b>	<b>(16)</b>	<b>53</b>	<b>17</b>	<b>229</b>	<b>195</b>	<b>18</b>
FV on biological assets	(2)	13		-		(2)	13	
<b>EBIT</b>	<b>60</b>	<b>88</b>	<b>(32)</b>	<b>53</b>	<b>13</b>	<b>227</b>	<b>208</b>	<b>9</b>
Net interest	(5)	(6)	(19)	(5)	(8)	(21)	(24)	(15)
Other expenses	(0)	(0)	16	2	NM	3	(0)	NM
<b>PBT</b>	<b>55</b>	<b>81</b>	<b>(33)</b>	<b>50</b>	<b>10</b>	<b>209</b>	<b>183</b>	<b>14</b>
Tax	(18)	(21)	(11)	(16)	18	(64)	(51)	24
Minority interests	(2)	(3)	(25)	(2)	(2)	(8)	(6)	17
<b>PATMI</b>	<b>34</b>	<b>58</b>	<b>(41)</b>	<b>32</b>	<b>7</b>	<b>138</b>	<b>125</b>	<b>10</b>
<b>Core PATMI</b>	<b>36</b>	<b>48</b>	<b>(25)</b>	<b>32</b>	<b>13</b>	<b>139</b>	<b>115</b>	<b>21</b>
	<b>4Q17</b>	<b>4Q16</b>	<b>+/- ppts</b>	<b>3Q17</b>	<b>+/- ppts</b>	<b>12M17</b>	<b>12M16</b>	<b>% YoY</b>
Core EBITDA margin (%)	43	52	(9)	50	(7)	45	44	1
Core EBIT margin (%)	34	42	(8)	39	(4)	35	34	2
Effective tax rate (%)	34	25	8	32	2	30	28	2
<b>Revenue</b>	<b>USD m</b>	<b>USD m</b>	<b>%YoY</b>	<b>USD m</b>	<b>%QoQ</b>	<b>USD m</b>	<b>USD m</b>	<b>%YoY</b>
Plantation	151	164	(8)	130	17	525	474	11
Downstream	170	157	8	121	40	600	498	20
Inter-segment elimination	(140)	(146)	(4)	(113)	24	(478)	(397)	20
<b>Revenue</b>	<b>181</b>	<b>175</b>	<b>3</b>	<b>137</b>	<b>32</b>	<b>647</b>	<b>575</b>	<b>12</b>
<b>EBITDA</b>	<b>USD m</b>	<b>USD m</b>	<b>%YoY</b>	<b>USD m</b>	<b>%QoQ</b>	<b>USD m</b>	<b>USD m</b>	<b>%YoY</b>
Plantation	71	106	(33)	71	0	272	257	6
Downstream	5	(8)	NM	3	61	19	(1)	NM
Inter-segment elimination	2	(7)	NM	(5)	NM	1	(4)	NM
<b>Core EBITDA</b>	<b>78</b>	<b>91</b>	<b>(14)</b>	<b>69</b>	<b>13</b>	<b>292</b>	<b>251</b>	<b>16</b>
<b>Operational</b>								
<b>Production</b>								
FFB nucleus (t)	776,876	766,298	1	738,398	5	2,682,944	2,367,767	13
CPO (t)	203,383	205,534	(1)	194,014	5	702,368	634,941	11
<b>Sales</b>								
CPO (t)	207,266	212,074	(2)	187,511	11	708,213	660,994	7
Refinery and processing (t)	263,783	230,693	14	193,458	36	900,577	792,415	14
CPO ASP (USD/t)	589	629	(6)	576	2	603	587	3
PK ASP (USD/t)	518	551	(6)	425	22	500	493	1

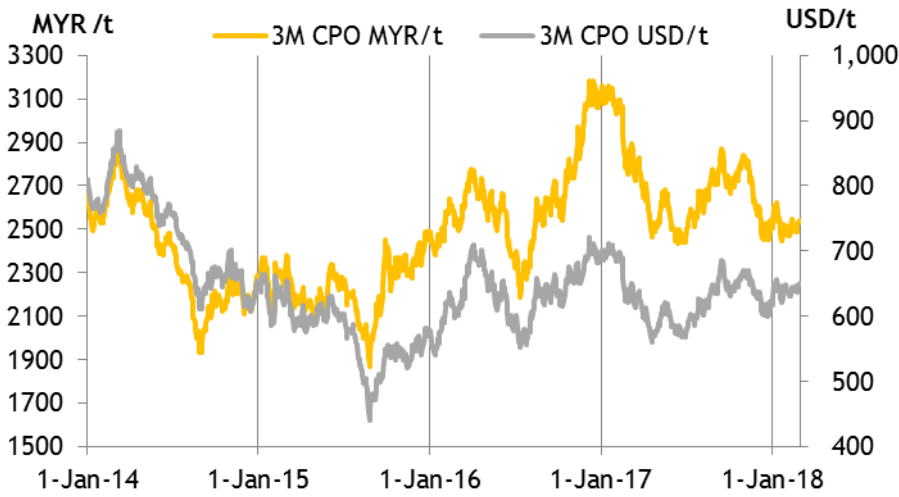
Sources: Company, Maybank KE

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



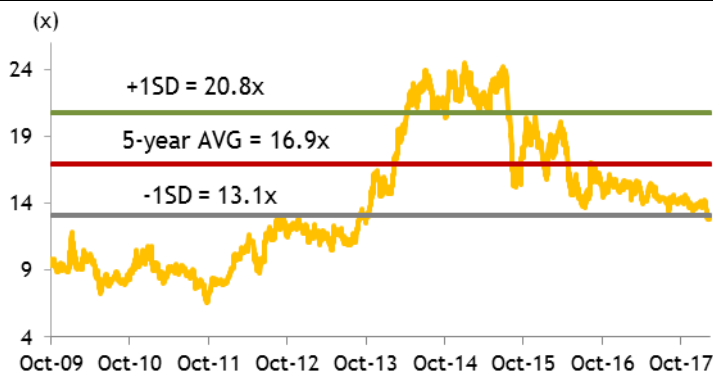
Sources: Company, Maybank KE

Fig 3: CPO spot prices in Malaysia (in Ringgit & US Dollar terms)



Source: Bloomberg

Fig 4: FR's 12-month forward rolling P/E



Sources: Bloomberg, Maybank KE

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Metrics</b>					
P/E (reported) (x)	16.5	15.9	13.6	12.3	11.0
Core P/E (x)	18.3	15.2	13.6	12.3	11.0
P/BV (x)	2.4	2.2	2.0	1.8	1.6
P/NTA (x)	2.7	2.5	2.2	1.9	1.7
Net dividend yield (%)	1.7	3.9	2.2	2.4	2.7
FCF yield (%)	5.4	6.9	7.2	6.8	7.9
EV/EBITDA (x)	10.2	9.5	8.1	7.2	6.3
EV/EBIT (x)	11.9	10.8	9.2	8.2	7.1
<b>INCOME STATEMENT (USD m)</b>					
Revenue	575.2	647.0	661.2	713.9	769.9
Gross profit	267.3	306.7	330.3	355.8	388.1
EBITDA	226.9	262.5	283.0	305.4	334.1
Depreciation	(32.4)	(33.2)	(35.6)	(36.4)	(37.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	194.5	229.3	247.5	269.0	296.8
Net interest income / (exp)	(24.3)	(20.7)	(23.0)	(20.9)	(19.0)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	13.2	(2.4)	0.0	0.0	0.0
Other pretax income	(0.3)	2.6	0.0	0.0	0.0
Pretax profit	183.1	208.9	224.4	248.1	277.7
Income tax	(51.3)	(63.6)	(60.6)	(67.0)	(75.0)
Minorities	(6.4)	(7.5)	(8.2)	(9.1)	(10.1)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	125.4	137.7	155.6	172.1	192.6
Core net profit	115.5	139.5	155.6	172.1	192.6
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
<b>BALANCE SHEET (USD m)</b>					
Cash & Short Term Investments	258.2	278.9	385.2	478.2	587.9
Accounts receivable	35.6	35.0	42.5	45.9	49.5
Inventory	78.2	66.9	90.7	98.1	104.6
Property, Plant & Equip (net)	951.8	950.4	985.6	1,019.6	1,052.7
Intangible assets	109.9	108.8	108.8	108.8	108.8
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	265.8	291.0	269.0	269.0	269.0
<b>Total assets</b>	<b>1,699.6</b>	<b>1,731.0</b>	<b>1,881.8</b>	<b>2,019.6</b>	<b>2,172.5</b>
ST interest bearing debt	224.2	21.0	21.0	21.0	21.0
Accounts payable	57.0	62.0	87.1	94.2	100.5
LT interest bearing debt	223.6	475.3	475.3	475.3	475.3
Other liabilities	269.0	151.0	162.0	165.0	170.0
<b>Total Liabilities</b>	<b>773.4</b>	<b>708.8</b>	<b>745.0</b>	<b>755.9</b>	<b>766.9</b>
Shareholders Equity	881.2	971.9	1,080.9	1,201.3	1,336.1
Minority Interest	45.0	50.3	56.0	62.4	69.5
<b>Total shareholder equity</b>	<b>926.2</b>	<b>1,022.2</b>	<b>1,136.9</b>	<b>1,263.7</b>	<b>1,405.6</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>1,699.6</b>	<b>1,731.0</b>	<b>1,881.8</b>	<b>2,019.6</b>	<b>2,172.5</b>
<b>CASH FLOW (USD m)</b>					
Pretax profit	183.1	208.9	224.4	248.1	277.7
Depreciation & amortisation	32.4	33.2	35.6	36.4	37.3
Adj net interest (income)/exp	24.3	20.7	23.0	20.9	19.0
Change in working capital	9.4	32.2	15.6	(8.8)	(6.6)
Cash taxes paid	(49.1)	(65.4)	(60.6)	(67.0)	(75.0)
Other operating cash flow	(13.5)	2.2	0.0	0.0	0.0
Cash flow from operations	186.6	231.7	238.1	229.5	252.5
Capex	(72.2)	(84.8)	(85.0)	(85.0)	(85.0)
Free cash flow	114.5	146.9	153.1	144.5	167.5
Dividends paid	(22.7)	(42.9)	(46.7)	(51.6)	(57.8)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	(37.1)	30.6	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(8.9)	(8.2)	0.0	0.0	0.0
Effect of exch rate changes	0.2	0.0	0.0	0.0	0.0
Net cash flow	46.0	126.4	106.4	92.9	109.7

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	26.8	12.5	2.2	8.0	7.9
EBITDA growth	23.9	15.7	7.8	7.9	9.4
EBIT growth	15.0	17.9	7.9	8.7	10.3
Pretax growth	26.4	14.1	7.4	10.6	11.9
Reported net profit growth	31.1	9.8	13.0	10.6	11.9
Core net profit growth	21.4	20.8	11.6	10.6	11.9
<b>Profitability ratios (%)</b>					
EBITDA margin	39.4	40.6	42.8	42.8	43.4
EBIT margin	33.8	35.4	37.4	37.7	38.5
Pretax profit margin	31.8	32.3	33.9	34.8	36.1
Payout ratio	28.8	59.4	30.0	30.0	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	21.8	21.3	23.5	24.1	25.0
Revenue/Assets (x)	0.3	0.4	0.4	0.4	0.4
Assets/Equity (x)	1.9	1.8	1.7	1.7	1.6
ROAE (%)	15.5	14.9	15.2	15.1	15.2
ROAA (%)	7.1	8.1	8.6	8.8	9.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	46.0	33.5	25.7	26.1	26.1
Days receivable outstanding	23.6	19.6	21.1	22.3	22.3
Days inventory outstanding	85.4	76.8	85.7	94.9	95.6
Days payables outstanding	62.9	62.9	81.1	91.1	91.8
Dividend cover (x)	3.5	1.7	3.3	3.3	3.3
Current ratio (x)	1.1	4.0	3.8	4.2	4.7
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.2	2.4	2.5	2.7	2.8
Net gearing (%) (incl perps)	20.5	21.3	9.8	1.4	net cash
Net gearing (%) (excl. perps)	20.5	21.3	9.8	1.4	net cash
Net interest cover (x)	8.0	11.1	10.7	12.9	15.6
Debt/EBITDA (x)	2.0	1.9	1.8	1.6	1.5
Capex/revenue (%)	12.5	13.1	12.9	11.9	11.0
Net debt/ (net cash)	189.6	217.4	111.0	18.1	(91.6)

Source: Company; Maybank

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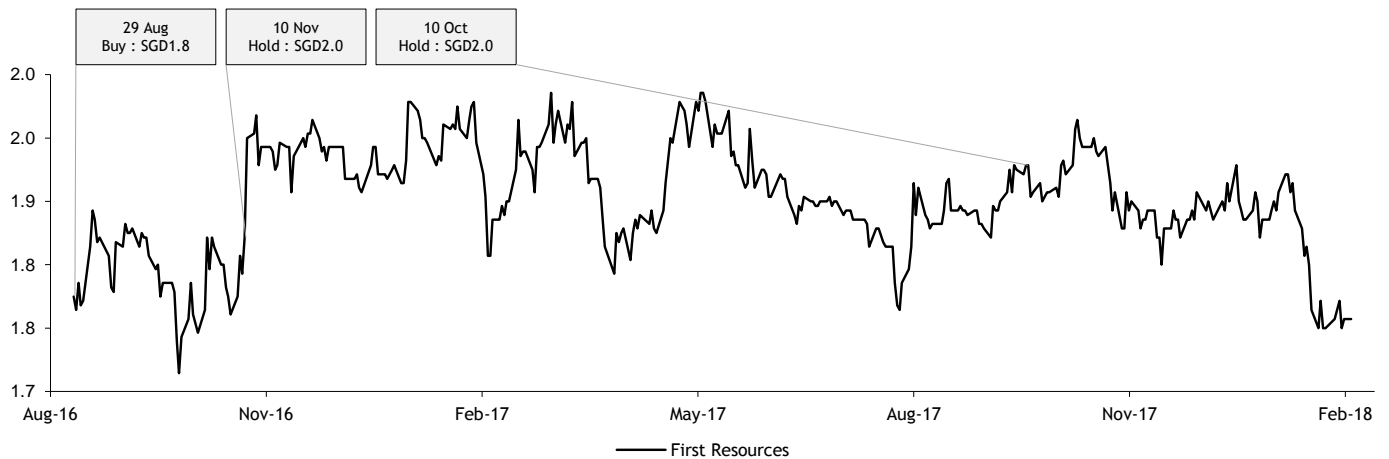
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