

First Resources (FR SP)

Share Price: SGD1.90

Target Price: SGD1.73 (-9%)

MCap (USD): 2.1B

ADTV (USD): 3M

Singapore

Plantations

HOLD

 (Unchanged)

Expect Stronger 4Q15

- 3Q15 results in line.
- We raise 2016-17 EPS by 5-8% after cutting USD costs to reflect IDR depreciation.
- Accordingly, we lift TP to SGD1.73 from SGD1.60 on unchanged 13x 2016 PER. Maintain HOLD as we believe positives are in its price.

Low 3Q on low ASPs & net build-up of stock

3Q15 core PATMI of USD32m (-26% YoY, +11% QoQ) brings 9M15 core PATMI to USD88m (-23% YoY). This met 70% / 67% of our / consensus estimates, in line.

3Q's YoY weakness was mainly due to a 25% YoY/16% QoQ decline in CPO ASPs, mitigated by FFB nucleus output, up 11% YoY and 35% QoQ. Net inventory build-up was also high at 70,000 MT. However, this was merely a timing issue as inventory normalised in Oct 2015. Downstream absolute margins were good at USD105/tonne, up 111% YoY and 15x QoQ. Besides benefiting from an export-tax differential of USD20-30/tonne, the division profited from hedging positions.

Output peaked in 3Q15 but profit to peak in 4Q15

We expect a much stronger 4Q15. While its FFB output could decline QoQ as production traditionally peaks in 3Q, 4Q15 sales are expected to be strong following inventory drawdowns. Downstream margins are also expected to be good.

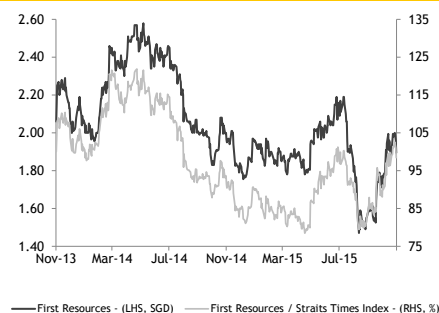
FR maintains its full-year FFB nucleus growth guidance of 10-15% (9M15: 15% YoY) as its oil palm estates, predominantly in Riau province, were largely spared from the dry spell enveloping the region in the last 2-3 months. While we maintain our HOLD, we raise TP to SGD1.73 from SGD1.60 after increasing EPS by 5-8% for lower USD costs. This is pegged at unchanged 13x 2016 PER, its 5-year mean valuation.

FYE Dec (USD m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	626.5	615.5	532.6	614.4	688.2
EBITDA	331.9	288.6	213.3	260.8	292.4
Core net profit	217.0	172.0	126.0	148.5	165.6
Core EPS (cts)	13.7	10.9	8.0	9.4	10.5
Core EPS growth (%)	(1.0)	(20.7)	(26.7)	17.9	11.5
Net DPS (cts)	3.2	2.5	2.4	2.8	3.1
Core P/E (x)	9.7	12.3	16.8	14.2	12.8
P/BV (x)	2.1	2.0	2.3	2.1	1.9
Net dividend yield (%)	2.4	1.9	1.8	2.1	2.4
ROAE (%)	20.7	16.7	12.8	15.5	15.5
ROAA (%)	11.7	9.1	6.7	8.1	8.4
EV/EBITDA (x)	8.8	8.7	10.9	8.8	7.7
Net debt/equity (%)	21.9	21.8	16.2	11.7	6.4

Key Data

52w high/low (SGD)	2.19/1.47
3m avg turnover (USDm)	3.2
Free float (%)	30.5
Issued shares (m)	1,584
Market capitalization	SGD3.0B
Major shareholders:	
-Eight Capital Trust	63.2%
-King Fortune Trust	5.6%
-Fidelity Management & Research Co.	2.0%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	7.1	3.6	(5.3)
Relative to index (%)	9.7	7.1	5.1

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	14	2	0
	Maybank Consensus		% +/-
Target Price (SGD)	1.73	2.30	(24.7)
'15 PATMI (USDm)	126	128	(1.7)
'16 PATMI (USDm)	149	153	(3.0)

Source: FactSet; Maybank

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Figure 1: 3Q15 results

FYE Dec	Quarterly					Cumulative		
	3Q15 (USD m)	3Q14 (USD m)	% YoY	2Q15 (USD m)	% QoQ	9M15 (USD m)	9M14 (USD m)	% YoY
Revenue	108	149	(28)	119	(9)	323	439	(26)
Core EBITDA	62	79	(22)	55	13	170	205	(17)
Depn & amortisation	(8)	(8)	(2)	(8)	(2)	(23)	(23)	0
Core EBIT	54	72	(25)	47	15	147	182	(19)
FV on biological assets	-	-		-		-	-	
EBIT	54	72	(25)	47	15	147	182	(19)
Net interest	(6)	(4)	64	(5)	20	(16)	(11)	46
Other expenses	(3)	(1)	170	(1)	196	(7)	(5)	41
PBT	45	67	(33)	41	10	124	167	(25)
Tax	(12)	(21)	(45)	(12)	1	(33)	(47)	(29)
Minority interests	(1)	(3)	(47)	(1)	108	(3)	(5)	(42)
PATMI	32	43	(26)	29	11	88	114	(23)
Core PATMI	32	43	(26)	29	11	88	114	(23)

	3Q15	3Q14	+/- ppts	2Q15	+/- ppts	9M15	9M14	% YoY
Core EBITDA margin (%)	57	53	4	46	11	53	47	6
Core EBIT margin (%)	50	48	2	40	11	45	41	4
Effective tax rate (%)	26	32	(6)	28	(2)	27	28	(1)

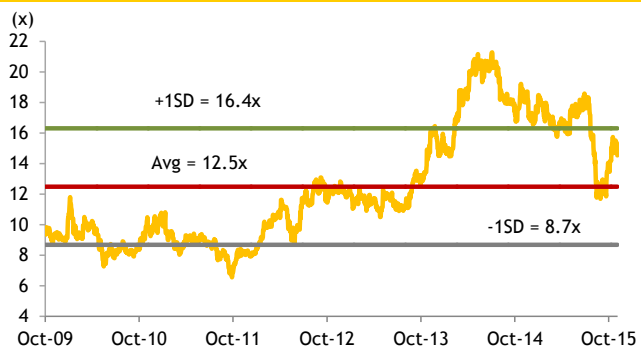
Revenue	USD m	USD m	%YoY	USD m	%QoQ	USD m	USD m	%YoY
Plantation	93	141	(34)	119	(21)	320	385	(17)
Downstream	84	131	(36)	77	9	184	306	(40)
Inter-segment elimination	(70)	(123)	(44)	(77)	(9)	(181)	(252)	(28)
Revenue	108	149	(28)	119	(9)	323	439	(26)

EBITDA	USD m	USD m	%YoY	USD m	%QoQ	USD m	USD m	%YoY
Plantation	51	80	(36)	59	(13)	163	189	(14)
Downstream	14	9	58	1	1,700	17	27	(39)
Inter-segment elimination	(4)	(10)	(57)	(5)	(21)	(10)	(11)	(9)
Core EBITDA	62	79	(22)	55	13	170	205	(17)

<u>Operational</u>								
<u>Production</u>								
FFB nucleus (t)	771,344	695,089	11	571,381	35	1,861,975	1,618,199	15
CPO (t)	210,488	194,643	8	158,791	33	514,499	460,855	12
<u>Sales</u>								
CPO (t)	163,278	184,668	(12)	170,304	(4)	481,149	481,956	(0)
Refinery and processing (t)	137,196	183,294	(25)	123,681	11	302,725	410,108	(26)
CPO ASP (USD/t)	497	660	(25)	593	(16)	572	699	(18)

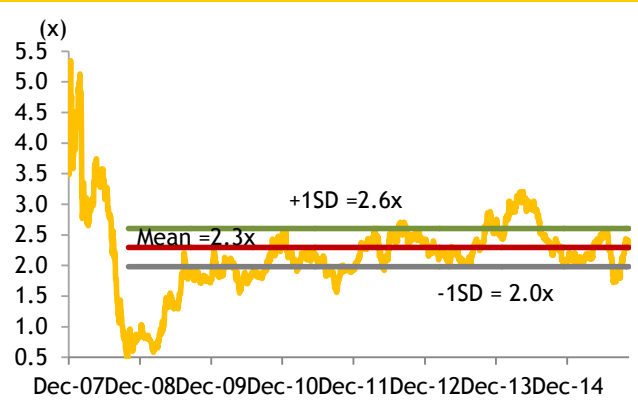
Sources: Company, Maybank KE

Fig 2: Forward P/E



Sources: Bloomberg, Maybank KE

Fig 3: Historical P/BV



Sources: Bloomberg, Maybank KE

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
P/E (reported) (x)	8.9	12.2	16.8	14.2	12.8
Core P/E (x)	9.7	12.3	16.8	14.2	12.8
P/BV (x)	2.1	2.0	2.3	2.1	1.9
P/NTA (x)	2.4	2.2	2.6	2.3	2.0
Net dividend yield (%)	2.4	1.9	1.8	2.1	2.4
FCF yield (%)	0.9	0.9	5.9	3.4	4.5
EV/EBITDA (x)	8.8	8.7	10.9	8.8	7.7
EV/EBIT (x)	9.4	9.4	11.9	10.2	8.8

INCOME STATEMENT (USD m)

Revenue	626.5	615.5	532.6	614.4	688.2
Gross profit	381.7	323.4	249.4	282.6	317.7
EBITDA	331.9	288.6	213.3	260.8	292.4
Depreciation	(20.6)	(19.5)	(19.2)	(36.8)	(36.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	311.3	269.1	194.1	224.0	256.0
Net interest income / (exp)	(18.3)	(15.0)	(19.0)	(17.7)	(20.2)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	29.6	1.9	0.0	0.0	0.0
Other pretax income	(8.9)	(4.0)	0.0	0.0	0.0
Pretax profit	313.6	251.9	175.0	206.3	235.8
Income tax	(67.5)	(71.2)	(43.8)	(51.6)	(58.9)
Minorities	(7.9)	(7.4)	(5.3)	(6.2)	(11.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	238.2	173.4	126.0	148.5	165.6
Core net profit	217.0	172.0	126.0	148.5	165.6

BALANCE SHEET (USD m)

Cash & Short Term Investments	272.2	350.9	437.0	464.8	511.1
Accounts receivable	41.9	39.1	34.3	39.5	44.3
Inventory	59.2	48.6	62.1	72.7	81.2
Property, Plant & Equip (net)	1,172.4	1,299.5	973.5	1,055.3	1,133.9
Intangible assets	102.3	85.9	85.9	85.9	85.9
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	132.3	173.9	173.9	173.9	173.9
Total assets	1,780.3	1,997.9	1,766.7	1,892.2	2,030.4
ST interest bearing debt	2.6	10.9	10.9	10.9	10.9
Accounts payable	60.0	57.0	74.5	87.3	97.5
LT interest bearing debt	487.1	572.2	572.2	572.2	572.2
Other liabilities	190.0	242.0	150.0	154.0	158.0
Total Liabilities	740.1	882.1	807.2	824.4	838.8
Shareholders Equity	993.5	1,063.2	903.2	1,007.2	1,123.1
Minority Interest	46.6	52.6	56.2	60.6	68.4
Total shareholder equity	1,040.1	1,115.8	959.5	1,067.8	1,191.6
Total liabilities and equity	1,780.3	1,997.9	1,766.7	1,892.2	2,030.4

CASH FLOW (USD m)

Pretax profit	313.6	251.9	175.0	206.3	235.8
Depreciation & amortisation	20.6	19.5	19.2	36.8	36.5
Adj net interest (income)/exp	18.3	15.0	19.0	17.7	20.2
Change in working capital	(60.3)	12.3	84.4	(6.9)	(7.5)
Cash taxes paid	(65.3)	(76.7)	(43.8)	(51.6)	(58.9)
Other operating cash flow	(27.0)	0.8	0.0	0.0	0.0
Cash flow from operations	200.0	222.9	253.9	202.4	226.0
Capex	(181.0)	(204.2)	(130.0)	(130.0)	(130.0)
Free cash flow	19.0	18.7	123.9	72.4	96.0
Dividends paid	(51.0)	(57.6)	(37.8)	(44.6)	(49.7)
Equity raised / (purchased)	0.2	0.3	0.0	0.0	0.0
Change in Debt	(58.6)	100.4	0.0	0.0	0.0
Other invest/financing cash flow	(54.5)	(10.3)	0.0	0.0	0.0
Effect of exch rate changes	(7.4)	0.6	0.0	0.0	0.0
Net cash flow	(152.3)	52.0	86.1	27.8	46.3

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Revenue growth	3.8	(1.8)	(13.5)	15.4	12.0
EBITDA growth	4.5	(13.1)	(26.1)	22.3	12.1
EBIT growth	4.5	(13.6)	(27.9)	15.4	14.3
Pretax growth	(3.9)	(19.7)	(30.5)	17.9	14.3
Reported net profit growth	0.5	(27.2)	(27.3)	17.9	11.5
Core net profit growth	2.7	(20.7)	(26.7)	17.9	11.5
Profitability ratios (%)					
EBITDA margin	53.0	46.9	40.0	42.4	42.5
EBIT margin	49.7	43.7	36.4	36.5	37.2
Pretax profit margin	50.1	40.9	32.9	33.6	34.3
Payout ratio	21.1	22.8	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	38.0	28.2	23.7	24.2	24.1
Revenue/Assets (x)	0.4	0.3	0.3	0.3	0.3
Assets/Equity (x)	1.8	1.9	2.0	1.9	1.8
ROAE (%)	20.7	16.7	12.8	15.5	15.5
ROAA (%)	11.7	9.1	6.7	8.1	8.4
Liquidity & Efficiency					
Cash conversion cycle	20.5	18.1	11.5	7.0	6.9
Days receivable outstanding	22.1	23.7	24.8	21.6	21.9
Days inventory outstanding	86.1	66.4	70.3	73.1	74.8
Days payables outstanding	87.7	72.0	83.6	87.8	89.8
Dividend cover (x)	4.7	4.4	3.3	3.3	3.3
Current ratio (x)	5.1	5.4	5.1	4.8	4.7
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.3	2.2	2.3	2.4
Net debt/equity (%)	21.9	21.8	16.2	11.7	6.4
Net interest cover (x)	17.0	17.9	10.2	12.6	12.7
Debt/EBITDA (x)	1.5	2.0	2.7	2.2	2.0
Capex/revenue (%)	28.9	33.2	24.4	21.2	18.9
Net debt/ (net cash)	217.6	232.2	146.1	118.3	72.0

Source: Company; Maybank

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