

Singapore Company Guide

Indofood Agri Resources

Version 14 | Bloomberg: IFAR SP | Reuters: IFAR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 Aug 2018

HOLD

Last Traded Price (1 Aug 2018): S\$0.225 (STI : 3,328.95)

Price Target 12-mth: S\$0.21 (7% downside) (Prev S\$0.24)

Analyst

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What's New

- Earnings revised down on still weak edible oil and fats outlook
- Inventory drawdown to help boost volume and 3Q18 earnings
- Profitability improvement is the key share price catalyst
- Maintain Hold with lower TP of S\$0.21

Price Relative



Forecasts and Valuation

FY Dec (Rpbn)	2017A	2018F	2019F	2020F
Revenue	15,827	16,316	17,441	18,392
EBITDA	3,108	2,420	2,795	2,979
Pre-tax Profit	1,138	461	753	856
Net Profit	447	194	309	360
Net Pft (ex. BA gains)	362	194	309	360
Net Pft (Pre Ex.)	447	194	309	360
Net Pft Gth (Pre-ex) (%)	(11.7)	(56.6)	59.2	16.5
EPS (S cts)	2.96	1.29	2.05	2.39
EPS Pre Ex. (S cts)	2.96	1.29	2.05	2.39
EPS Gth Pre Ex (%)	(12)	(57)	59	17
Diluted EPS (S cts)	2.96	1.29	2.05	2.39
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	80.1	81.4	83.5	85.8
PE (X)	7.6	17.4	11.0	9.4
PE Pre Ex. (X)	7.6	17.4	11.0	9.4
P/Cash Flow (X)	1.7	1.7	1.7	1.5
EV/EBITDA (X)	6.5	8.6	7.7	7.5
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.3	0.3	0.3	0.3
Net Debt/Equity (X)	0.4	0.4	0.4	0.4
ROAE (%)	3.7	1.6	2.5	2.8

Earnings Rev (%): (45) (3) (13)

Consensus EPS (S cts): 3.29 3.89 5.07

Other Broker Recs: B: 1 S: 2 H: 3

Source of all data on this page: Company, DBSVI, DBS Bank, Bloomberg Finance L.P.

Undemanding but lacks catalyst

TP lowered to S\$0.21, maintain HOLD rating. We have accounted for the unexpected losses in 2Q18, and lower profitability contribution from sugar business in 2H18, and its ex. LSIP plantation division in FY18 and FY19. This, we lowered FY18/19F earnings by 45%/3%. Moving forward, we see some scope of a rebound in earnings in 2019, albeit limited due to still low profitability from Indofood Agri Resources (IFAR)'s edible oils and fats segment.

Where we differ: Limited profitability expansion in sight. We expect margin expansion to be insignificant (which is a critical driver to IFAR's share price). Moreover, in our view, a steady CPO price outlook means that IFAR has limited room to improve its downstream division's profitability performance.

Potential catalyst: Improving downstream division market. An improving downstream market may help IFAR to fix its downstream division's profitability. For now, IFAR's performance will be supported by its profitable upstream plantation division, such as LSIP.

Valuation:

We lowered our DCF-based TP (FY19F as base year) to S\$0.21, assuming 11.6% WACC and 3% terminal growth rate. Our target price implies 7% share price upside potential; maintain HOLD.

Key Risks to Our View:

Commodity prices. IFAR's share price is driven by CPO price expectations and, to a certain extent, by refining margins and sugar prices. There would be downside risk to our CPO price forecast if output expands substantially ahead of industry projections.

At A Glance

Issued Capital (m shrs)	1,396
Mkt. Cap (S\$bn/US\$m)	0.31 / 230
Major Shareholders (%)	
First Pacific Company Limited	74.3
Free Float (%)	37.2
3m Avg. Daily Val (US\$m)	0.13

ICB Industry : Consumer Goods / Plantation

WHAT'S NEW

Undemanding, but lacks catalyst

Earnings revision: Earnings revision, still on margin issues.

We accounted for the unexpected losses in 2Q18, lower profitability performance from its ex. LSIP's upstream plantation division in FY18 and FY19, including sugar, which led us to cut FY18/19F earnings by 45%/3% to Rp194bn/Rp309bn. Moving forward, we see some scope of a profitability rebound in 2019, albeit limited due to still low profitability from IFAR's edible oils and fats segment.

Our earnings revision implies 3Q18 and 4Q18 earnings estimate of Rp70bn each, which is similar to IFAR's 1Q18 net earnings as we believe the inventory drawdown will help boost sales volume and revenues, besides stricter cost control.

Our earnings forecast is below consensus - we believe IFAR's edible oil and fats profitability performance will remain weak as seen in the last two years, on weak pricing trend due to competition.

What happened in 2Q18: Earnings swung into the red in 2Q18, on still weak edible oil and fats profitability.

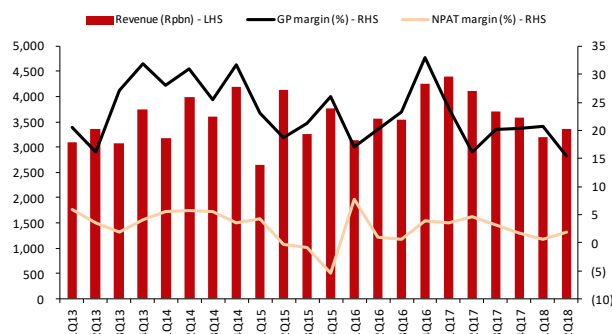
IFAR booked core net losses of Rp27bn, sending 1H18 core earnings to Rp54bn, below expectation. Upstream contribution contracted q-o-q due to lower top-line performance, on lower-than-expected quarterly sales volume and ASP trend of Palm Kernel (PK) despite the still robust quarterly CPO ASP and sales volume. Meanwhile, IFAR's downstream division was still weak. As other non-operating expenses such as SG&A and financing cost were relatively flat q-o-q, IFAR reported losses at the bottomline.

Rating and target price: Maintain HOLD with new TP of S\$0.21

Our DCF based target price of S\$0.21 (WACC: 11.6% and TG: 3%) implies 11x FY19F P/E, which we believe is fair considering the weak consolidated earnings performance despite the sublime yield and productivity of its upstream division. Moreover, valuation premium over a pure upstream planter does not apply here, due to its subpar profitability performance. IFAR's downstream product line also does not have strong brand power and price elasticity as pure consumer products – as it is still pretty much linked to commodities prices.

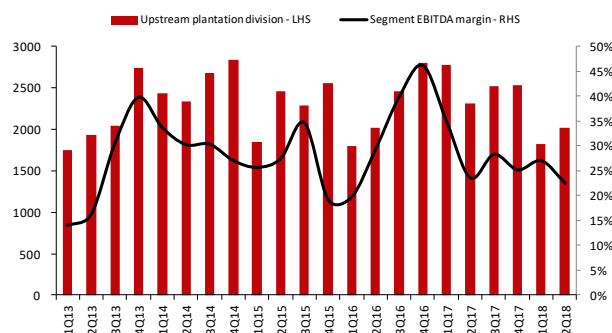
Asset based valuation metrics reveal that upstream plantation assets are valued at EV/ha of US\$2,721 per hectare which is at a 40%-50% discount vs. its upstream players, and even more vs. its Malaysian based peers, but we believe IFAR deserves the discount due to the lackluster performance on its edible oil and fats division. Steady yield performance on its upstream division did not translate into a higher margin performance by venturing downstream.

Quarterly earnings trend



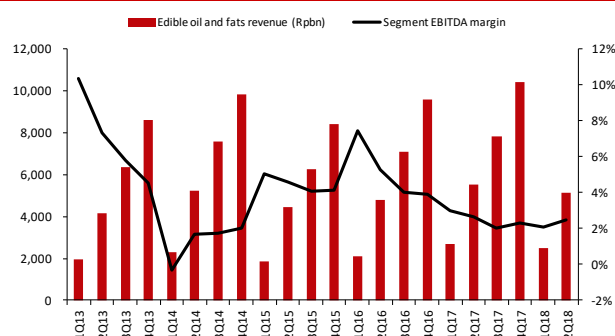
Source: Company, DBSVI

Quarterly upstream performance trend



Source: Company, DBSVI

Quarterly downstream performance trend



Source: Company, DBSVI

CRITICAL DATA POINTS TO WATCH

Critical Factors

CPO price. As a commodity producer, IFAR is a price-taker. Movements in international CPO prices would directly have an impact on the group's profitability. We currently expect CPO prices (FOB Pasir Gudang) to average US\$616/MT (-4.5% y-o-y) in CY18 and US\$608 in CY19 (-1.2% y-o-y).

CPO output. As at the end of FY17, IFAR's oil palm trees (excluding the smallholders' estates) had an estimated average age of 15 years. Based on its age profile, approximately 9,500 ha will mature between FY18-19F, representing c.5% of its own matured areas at the end of FY18F. This should keep the average age of its trees at 16 years by the end of FY18F. Geographically, the group's North, Central and South Sumatra estates, as well as Kalimantan estates, saw yield recovery ex. El Nino in 2016. We expect FY18 FFB to grow by 5.5% y-o-y to 3.38m MT.

Refining facility provides margin buffer. IFAR does not have a biodiesel production facility – hence, it is not a direct beneficiary of the government's biodiesel programme. However, the group has 1.425m MT of refining capacity – which benefits from lower feedstock (CPO) cost as a result of biodiesel.

Export levies. Under the programme, Indonesian refiners have differentiated export levies between CPO (US\$50/MT) and RBD Olein (US\$30/MT). This spread should more than cover the refining cost.

Demand seasonality. As a major vegetable oil, palm oil is an important food staple with 38% share globally. The other vegetable oils are soybean oil with 29% market share, followed by rapeseed/canola oil and sunflower oil (high price elasticity of demand), although certain vegetable oils are more suitable than others in certain applications. Relative to other oil crops, palm oil has the highest productivity per hectare (c.5 MT/ha), while it is only 0.5 MT/ha for soybean oil. Demand for palm oil is especially strong in Asia, where local festivities (i.e. Ramadan) typically drive up demand in certain months of the year.

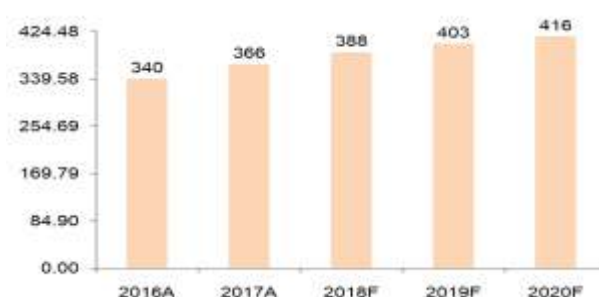
CPO price (RM/MT)



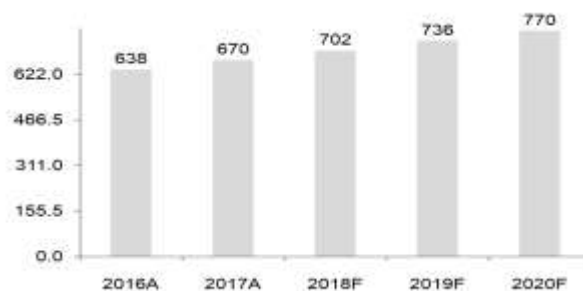
Mature oil palm hectareage



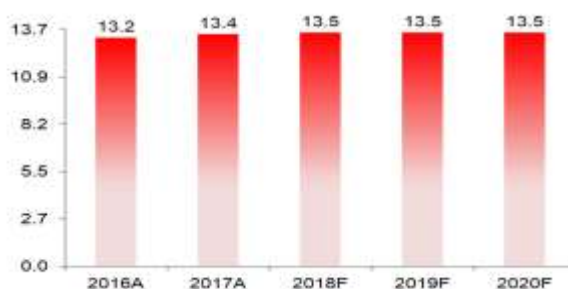
CPO sales volume (MT)



Cooking oil sales vol. (MT)



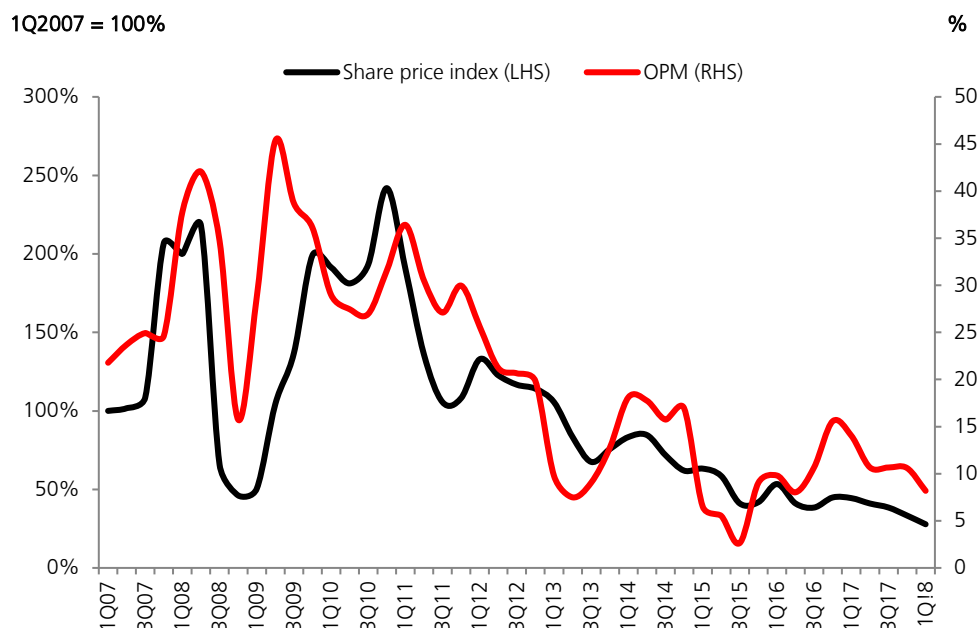
Avg. USD/IDR rate



Source: Company, DBSVI, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?

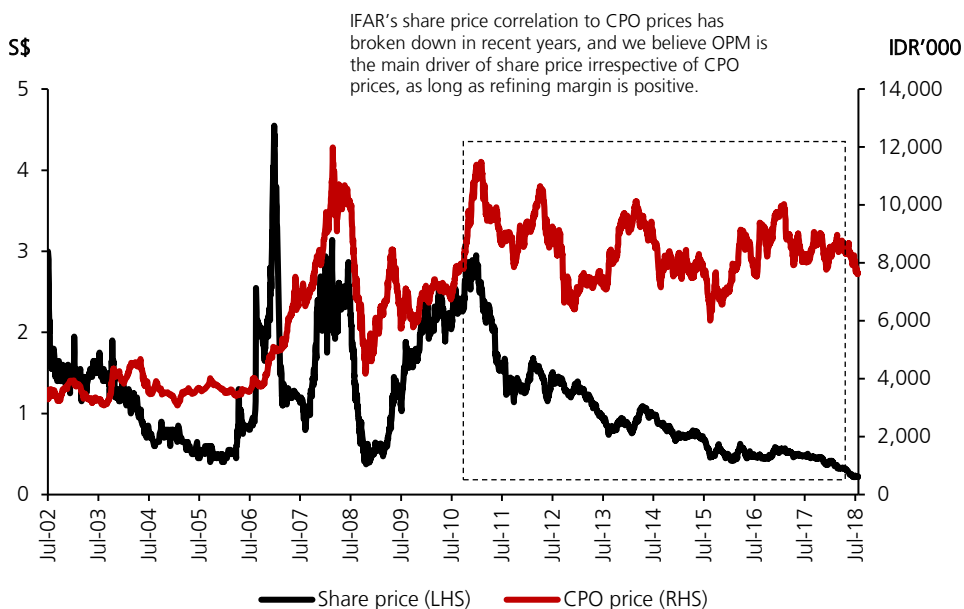
Chart 1: IFAR's share price performance vs CPO yield performance relative to sector



Remarks

IFAR's share price correlates well with operating profit margin (OPM) performance in general.

Chart 2: CPO prices (in IDR) as a critical factor



Remarks

Palm oil price is the key catalyst for plantation stocks; share price trend generally tracks palm oil spot price. However, the outperformance and underperformance of plantation stocks to CPO price are dictated by the productivity factor i.e. stronger- or weaker- than-expected yields.

IFAR's share price correlation to CPO prices has broken down in recent years, and we believe OPM is the main driver to share price irrespective of CPO prices, as long as refining margin is positive.

Source : Company, Bloomberg Finance L.P., DBS Bank, DBS VI

Balance Sheet:

High capex. We expect IFAR to incur capex of Rp1.9-2.0tr p.a. over the next three years – principally to maintain its immature estates and to expand its palm oil milling capacity as maturity rates ramp up. Based on our forecast, total interest-bearing debt will reach Rp8,393bn by end-FY18F – of which 30% is USD-denominated. This translates into a net debt-to-total equity ratio of 24%. FY18F blended borrowing cost is estimated at 7.6% and interest cover at 2.4x. At end-December 2017, IFAR's 4-quarter rolling cash conversion cycle stood at 43 days (vs. 33.2 days at end-September 2017) – representing higher receivable days and lower payable days.

Stable free cash flow. We expect IFAR to still generate positive free cash flow of Rp113bn and Rp203bn in FY19F and FY20F – thanks to anticipated FFB yield recovery and rising output from maturing estates, despite the slightly lower CPO and PK ASP outlook.

Share Price Drivers:

Execution is key. Historically, IFAR's quarterly results have, more often than not, underperformed consensus forecasts since 2013 (based on Bloomberg data). The counter's P/BV ratio has likewise been below 1.0x since 2013 – thus underperforming its own subsidiary, LSIP. For this reason, we believe execution is key to its share price performance.

Key Risks:

Volatility in CPO prices and USD exchange rates. Continued strength in CPO prices may deliver better-than-expected earnings, while lower energy prices from the expansion of US shale gas would have an adverse impact on demand for vegetable oils for biofuels. Likewise, volatility in USD would affect profitability of planters in general.

Setback in expansion plans. Our forecast is based on assumed hectareage for new planting and replanting. Any setback on these plans would negatively affect our valuation due to slower volume growth.

Regulatory changes. Any further increase in Indian import duty of refined oils or changes in the structure of Indonesian/Malaysian export taxes would impact demand for CPO/refined oils.

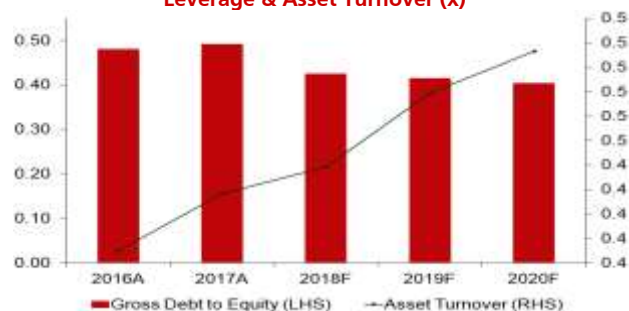
Market sentiment. Changes in fund flows in or out of emerging markets would affect valuations of plantation counters.

Weather. Changes in rainfall patterns (caused by either El Nino or La Nina) would affect FFB yields with some lag time.

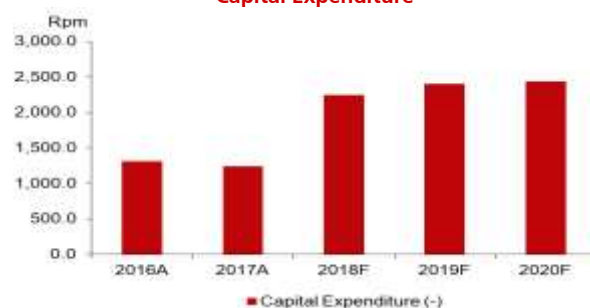
Company Background

Indofood Agri Resources (IFAR) is an integrated agribusiness company. The company and its subsidiaries are involved in sugarcane and oil palm cultivation and milling, research and development, and seed breeding. IFAR also refines, brands and markets its cooking oil, margarine, shortening and other palm oil products. As at end-December 2017, its own oil palm planted area stood at 247,630 ha; while sugarcane estates stood at 12,618 ha.

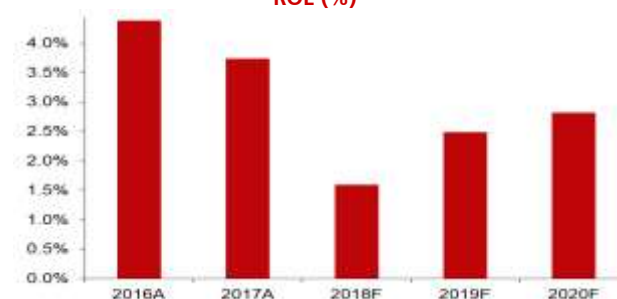
Leverage & Asset Turnover (x)



Capital Expenditure



ROE (%)



PB Band (x)



Source: Company, DBSVI, DBS Bank

Key Assumptions

FY Dec	2016A	2017A	2018F	2019F	2020F
CPO price (RM/MT)	2.65	2.76	2.62	2.60	2.63
Mature oil palm	204	210	211	209	209
CPO sales volume (MT)	340	366	388	403	416
Cooking oil sales vol. (MT)	638	670	702	736	770
Avg. USD/IDR rate	13.2	13.4	13.5	13.5	13.5

Income Statement (Rpbn)

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenue	14,531	15,827	16,316	17,441	18,392
Cost of Goods Sold	(11,042)	(12,632)	(13,689)	(14,404)	(15,256)
Gross Profit	3,489	3,195	2,627	3,038	3,136
Other Opng (Exp)/Inc	(1,125)	(1,638)	(1,686)	(1,793)	(1,869)
Operating Profit	2,364	1,557	942	1,245	1,267
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(101)	121	30.1	(3.0)	51.2
Net Interest (Exp)/Inc	(573)	(540)	(511)	(489)	(462)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	1,690	1,138	461	753	856
Tax	(897)	(485)	(121)	(212)	(225)
Minority Interest	(286)	(206)	(146)	(232)	(271)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	507	447	194	309	360
Net Profit before Except.	507	447	194	309	360
Net Pft (ex. BA gains)	441	362	194	309	360
EBITDA	3,665	3,108	2,420	2,795	2,979
EBITDA (ex. BA gains)	3,547	2,953	1,978	2,386	2,517
Growth					
Revenue Gth (%)	5.0	8.9	3.1	6.9	5.5
EBITDA Gth (%)	65.3	(15.2)	(22.1)	15.5	6.6
Opg Profit Gth (%)	108.5	(34.1)	(39.5)	32.2	1.8
Net Profit Gth (Pre-ex) (%)	nm	(11.7)	(56.6)	59.2	16.5
Margins & Ratio					
Gross Margins (%)	24.0	20.2	16.1	17.4	17.1
Opg Profit Margin (%)	16.3	9.8	5.8	7.1	6.9
Net Profit Margin (%)	3.5	2.8	1.2	1.8	2.0
ROAE (%)	4.4	3.7	1.6	2.5	2.8
ROA (%)	1.4	1.2	0.5	0.8	1.0
ROCE (%)	3.3	2.6	2.0	2.6	2.7
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	4.1	2.9	1.8	2.5	2.7

Source: Company, DBSVI, DBS Bank

Quarterly / Interim Income Statement (Rpbn)

FY Dec	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018
Revenue	4,401	4,117	3,715	3,593	3,190
Cost of Goods Sold	(3,344)	(3,456)	(2,967)	(2,864)	(2,531)
Gross Profit	1,057	661	748	729	658
Other Oper. (Exp)/Inc	(439)	(370)	(353)	(355)	(397)
Operating Profit	618	291	395	374	261
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(135)	(137)	(137)	(130)	(130)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	483	154	258	243	131
Tax	(154)	(74.3)	(145)	(113)	(78.6)
Minority Interest	(158)	20.0	(13.2)	(54.0)	(2.7)
Net Profit	171	99.3	101	76.9	49.8
Net profit bef Except.	171	99.3	101	76.9	49.8
EBITDA	935	665	813	695	584

Growth

Revenue Gth (%)	3.2	(6.4)	(9.8)	(3.3)	(11.2)
EBITDA Gth (%)	(32.3)	(28.8)	22.1	(14.5)	(15.9)
Opg Profit Gth (%)	(47.0)	(52.9)	35.8	(5.4)	(30.2)
Net Profit Gth (Pre-ex) (%)	(23.3)	(41.8)	1.3	(23.5)	(35.3)

Margins

Gross Margins (%)	24.0	16.1	20.1	20.3	20.6
Opg Profit Margins (%)	14.0	7.1	10.6	10.4	8.2
Net Profit Margins (%)	3.9	2.4	2.7	2.1	1.6

Balance Sheet (Rpbn)

FY Dec	2016A	2017A	2018F	2019F	2020F
Net Fixed Assets	21,397	21,178	21,970	22,806	23,572
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	8,352	8,861	8,978	9,065	9,207
Cash & ST Invts	2,405	2,971	1,249	706	273
Inventory	2,271	2,205	2,425	2,526	2,649
Debtors	1,123	1,200	1,198	1,267	1,323
Other Current Assets	956	999	1,035	1,083	1,134
Total Assets	36,504	37,415	36,855	37,453	38,158
ST Debt	2,481	4,463	4,571	4,583	4,583
Creditor	1,500	1,631	1,872	1,969	2,086
Other Current Liab	669	286	523	556	595
LT Debt	7,546	6,068	4,681	4,684	4,684
Other LT Liabilities	3,429	3,544	3,446	3,356	3,274
Shareholder's Equity	11,835	12,104	12,299	12,608	12,968
Minority Interests	9,043	9,318	9,464	9,696	9,967
Total Cap. & Liab.	36,504	37,415	36,855	37,453	38,158
Non-Cash Wkg. Capital	2,181	2,487	2,263	2,351	2,425
Net Cash/(Debt)	(7,623)	(7,559)	(8,003)	(8,562)	(8,995)
Debtors Turn (avg days)	28.0	26.8	26.8	25.8	25.7
Creditors Turn (avg days)	62.5	51.0	52.2	54.6	54.4
Inventory Turn (avg days)	79.7	72.9	69.0	70.3	69.5
Asset Turnover (x)	0.4	0.4	0.4	0.5	0.5
Current Ratio (x)	1.5	1.2	0.8	0.8	0.7
Quick Ratio (x)	0.8	0.7	0.4	0.3	0.2
Net Debt/Equity (X)	0.4	0.4	0.4	0.4	0.4
Net Debt/Equity ex MI (X)	0.6	0.6	0.7	0.7	0.7
Capex to Debt (%)	13.1	11.7	24.3	25.9	26.3
Z-Score (X)	1.3	1.2	1.2	1.2	1.2

Source: Company, DBSVI, DBS Bank

Cash Flow Statement (Rpbn)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	1,690	1,138	461	753	856
Dep. & Amort.	1,402	1,430	1,448	1,553	1,661
Tax Paid	(504)	(711)	(121)	(212)	(225)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(935)	(396)	224	(87.9)	(74.4)
Other Operating CF	306	608	5.57	6.69	7.88
Net Operating CF	2,069	1,949	2,018	2,013	2,226
Capital Exp.(net)	(1,309)	(1,236)	(2,244)	(2,399)	(2,437)
Other Invt.(net)	0.0	0.0	41.8	0.0	0.0
Invt in Assoc. & JV	(24.0)	(349)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(291)	(141)	(73.2)	(41.1)	(96.4)
Net Investing CF	(1,624)	(1,726)	(2,275)	(2,440)	(2,534)
Div Paid	(68.3)	(86.6)	0.0	0.0	0.0
Chg in Gross Debt	(13.5)	466	(1,278)	14.9	0.0
Capital Issues	7.00	58.0	0.0	0.0	0.0
Other Financing CF	77.2	(142)	(138)	(131)	(125)
Net Financing CF	2.44	295	(1,416)	(116)	(125)
Currency Adjustments	(11.3)	6.80	0.0	0.0	0.0
Chg in Cash	436	525	(1,674)	(544)	(433)
Opg CFPS (\$ cts)	19.9	15.5	11.9	13.9	15.2
Free CFPS (\$ cts)	5.03	4.72	(1.5)	(2.6)	(1.4)

Source: Company, DBSVI, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	10 Aug 17	0.48	0.49	HOLD
2:	14 Aug 17	0.47	0.49	HOLD
3:	13 Sep 17	0.47	0.49	HOLD
4:	10 Oct 17	0.45	0.49	HOLD
5:	27 Oct 17	0.46	0.48	HOLD
6:	10 Nov 17	0.46	0.48	HOLD
7:	27 Nov 17	0.40	0.48	HOLD
8:	21 Dec 17	0.37	0.48	HOLD
9:	12 Jan 18	0.41	0.48	HOLD
10:	12 Feb 18	0.35	0.48	HOLD
11:	01 Mar 18	0.34	0.36	HOLD
12:	12 Apr 18	0.33	0.36	HOLD
13:	30 Apr 18	0.32	0.36	HOLD
14:	11 May 18	0.31	0.36	HOLD
15:	20 Jun 18	0.24	0.36	HOLD
16:	02 Jul 18	0.22	0.24	HOLD
17:	10 Jul 18	0.24	0.24	HOLD
18:	27 Jul 18	0.22	0.24	HOLD

Source: DBSVI, DBS Bank

Analyst: William Simadiputra

Rui Wen LIM

DBSVI, DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 2 Aug 2018 15:53:05 (SGT)
 Dissemination Date: 2 Aug 2018 16:26:06 (SGT)

Sources for all charts and tables are DBSVI, DBS Bank unless otherwise specified.

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