

Indonesia Industry Focus

Regional plantation companies

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Oct 2018

Bottoming out, poised for rebound

- More positive outlook for 2019, on better supply and demand dynamics
- Positive oil price outlook supports biodiesel demand
- Revise CY19/20 CPO price to US\$610/US\$611 per MT
- Top picks : AALI, LSIP, FR, BAL, WIL and TSH

New CPO price forecast US\$610/US\$611 per MT in

CY19/CY20. We foresee higher CPO price in 2019 on:- 1) Stronger demand from CPO restocking by major importing countries amid current low price levels – countries such as India need imported CPO to fulfill its domestic edible oil demand; 2) brief dip in global supply from declines in Indonesian output after a bumper 2018 crop; and 3) better biodiesel economics due to its price differential with the higher crude oil price. We expect CPO price to recover to US\$610 per MT in 2019 before reaching US\$611 per MT in 2020. In the medium to longer term, we expect price trajectory to remain positive as there is limited room for supply expansion for palm oil on ageing trees and absence of new planting in the past five years since Indonesia scrapped approvals for new planting.

Successful implementation of Indonesia's biodiesel mandate is potential catalyst.

The difference between CPO and crude oil price is attractive at this point, as reflected in the reignition of Indonesia's 20% bio content (B20) mandate in September. We believe that if this programme is fully and successfully implemented, it could result in up to 7-8m MT of CPO demand for biodiesel blending (compared to our base case annual biodiesel volume of 4m MT), and potentially driving CPO price to approach US\$650 per MT. This bull-case scenario would imply global CPO demand that is 7% higher than our CY19 base case of 69.9m MT.

Defensive play, stay afloat amid low price. Amid pressures on CPO price, CPO planters' profitability and cash flow remain solid thanks to their low cost structure and yield performance. We still prefer a defensive play on strong yield to keep cost per tonne minimal, while still providing sound earnings growth potential. Our picks are Astra Agro Lestari (AALI), London Sumatra (LSIP), Bumitama Agri (BAL), First Resources (FR), Wilmar International (WIL) and TSH Resources (TSH).

JCI : 5,820.67

KLCI : 1,375.2

SGX : 3,131.4

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STOCKS

	Price	Mkt Cap US\$m	12-mth		Performance (%)	Rating
			Target			
			Price	3 mth		
Indonesia (IDR)						
Astra Agro Lestari	11,850	1,500	14,150	9.1	(22.0)	BUY
London Sumatra Indonesia	1,215	545	1,400	29.3	(17.4)	BUY
Singapore (SGD)						
Bumitama Agri	0.66	831	0.85	3.9	(8.2)	BUY
First Resources	1.68	1,925	1.97	7.7	(13.3)	BUY
Indofood Agri Resources	0.22	217	0.21	(2.1)	(48.3)	HOLD
Wilmar International	3.14	14,368	3.59	2.9	(4.8)	BUY
Malaysia (MYR)						
TSH Resources	1.10	365	1.35	(4.2)	(31.9)	BUY
Genting Plantations	9.48	1,835	9.45	4.6	(8.8)	HOLD
Sime Darby Plantation	5.24	8,572	5.15	(1.5)	N.A	HOLD
KL Kepong	24.94	6,389	23.30	3.1	0.5	HOLD
FGV Holdings	1.43	1,255	1.20	(3.3)	(14.0)	FULLY
IOI Corporation	4.52	6,639	4.70	0.0	0.2	HOLD

Source: DBSVI, DBS Bank, AllianceDBS, Bloomberg Finance L.P.

Closing price as of 10 Oct 2018

DBS Bank key assumption

	15	16	17	18F	19F	20F	21F
CPO price (RM/MT FOB P.Gudang)	2,168	2,652	2,760	2,340	2,560	2,560	2,590
CPO price (US\$/MT FOB P.Gudang)	560	640	645	575	610	611	618
Prev. CPO price (RM/MT FOB P.Gudang)	2,168	2,652	2,760	2,620	2,600	2,630	2,640
Prev. CPO price (US\$/MT FOB P.Gudang)	560	640	645	616	608	616	618
Soybean price (US\$/MT FOB Chicago)	346	360	352	330	330	335	345
Soybean oil price (US\$/MT FOB Chicago)	667	696	753	706	706	717	738
Previous SB price (US\$/MT FOB Chicago)	346	360	352	340	340	345	351
Previous SBO price (US\$/MT FOB Chicago)	667	696	753	727	727	737	750
STR20 price (US\$/MT)	1,337	1,392	1,497	1,516	1,555	1,595	1,638
Prev. STR20 px (US\$/MT)	1,337	1,392	1,497	1,516	1,555	1,595	1,638
Sugar price (US\$/MT)	300	400	400	400	400	400	398
Prev. sugar px (US\$/MT)	300	400	400	400	400	400	398

Source: DBSVI

Strategy and stock picks

Our key message

1. **Valuation is at four-year low.** We continue to prefer Indonesia and Singapore listed planters for their stronger rebound prospects in output, earnings and undemanding valuations. We believe selected counters remain undervalued and share price valuation is still at a four-year low.
2. **We expect higher CPO price in 2019.** We expect CPO price to rebound from its current low in 2019, later than previously expected in 2H18. The dust should settle on the current trade war to normalise global sentiment on edible oils. Demand should also recover due to affordability which would drive tighter supply and demand.
3. **Slower crude oil price and output growth to prevent CPO price from dropping further.** Despite exports being tamed by concerns over the trade war, we reiterate our view that CPO price is not likely to sustain at US\$535 per MT (RM2,200 per MT). CPO will become even more attractive as a global biofuel feedstock based on the strong oil price outlook. Moreover, the effects of a longer than expected bumper crops is expected to end in 4Q18 and dissipate in 2019.
4. **Planters are on a defensive mode in 2018, cash accumulation still ongoing.** Planters are winding down their aggressive expansion due to the dwindling supply of suitable land, strict sustainability standards and potentially more regulatory restrictions. We expect more operating cashflow to be set aside for higher dividends, in the absence of any opportunistic acquisitions.

Our recommendations

We favour planters with younger tree age profiles for their higher volume growth. We also like planters with strong balance sheet, which would allow them to take advantage of any opportunistic brown field acquisitions, expand value chains downstream, and/or to diversify their businesses to other crops. We employ a new earnings forecast mainly on the new assumption in CPO price and foreign exchange (FX) assumptions. Our new target price (TP) still provides 11%-15% share price upside potential, excluding a dividend yield potential of 2%-4%.

Since we continue to see the value emerging from our picks, even with our more conservative edible oil assumption, we maintain our recommendation for investors to increase exposure to **Astra Agro Lestari** (AALI: BUY, TP: Rp14,150), **London Sumatra** (LSIP: BUY, TP: Rp1,400); **TSH Resources** (TSH: BUY, TP: RM1.35), **Bumitama Agri** (BAL: BUY, TP: S\$0.85), **First Resources** (FR: upgraded to BUY, TP: S\$1.97), **Wilmar International** (WIL: BUY, TP: S\$3.59).

We also maintain our Hold ratings on **Indofood Agri** (IFAR: HOLD, TP: S\$0.21) and **Genting Plantations** (GENP: HOLD: TP: RM9.45) on limited upside potential. We also reiterate our HOLD calls, **IOI Corporation** (IOI: HOLD, TP: RM4.70), **KL Kepong** (KLK: HOLD, TP: RM23.30), **Sime Darby** (SDPL: HOLD, TP: RM5.15).

Changes to our key assumptions

We revise slightly our CY19F/20F CPO prices (US\$/MT, FOB) by +1%/-1% to US\$610/MT/US\$611/MT. In MYR (Ringgit) terms, they are lowered by 2%/3% to account for the Ringgit's appreciation. We also impute lower CY19F/20F soybean oil prices, which also affects our CPO price forecast. Our CPO and soybean oil (SBO) price forecast implies a spread of US\$110 per tonne in CY19/20, relatively in line with its five-year average spread level. We maintain our sugar, cocoa and coffee price forecasts, based on the World Bank Commodity Outlook (January 2018).

Summary of CPO, soybean, and soybean oil price revisions

	15	16	17	18F	19F	20F	21F
CPO price (RM/MT FOB P.Gudang)	2,168	2,652	2,760	2,340	2,560	2,560	2,590
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Source: Bloomberg Finance L.P., Datastream, DBS Bank estimates

Incorporating the latest (September 2018) in-house currency forecasts, we anticipate an appreciation trend in USD/MYR, ut weakening USD/IDR exchange rates. While we have lowered USD palm oil price forecast by 2-4%, the free cash flow impact from CY19F onwards is less significant, resulting in a slightly lower TP.

We assume no changes in the prevailing export tax/levy structure. However, this may change via a possible policy synchronisation recommended by the Council of Palm Oil Producing Countries (CPOPC) and development of global trade policies going forward.

Revisions to our currency exchange rates

FX rates (YE)	15	16	17	18F	19F	20F	21F
USD/MYR	3.88	4.13	4.35	4.02	4.21	4.21	4.21
USD/IDR	13,378	13,327	13,372	14,353	15,075	15,075	15,075
USD/SGD	1.37	1.37	1.40	1.35	1.41	1.41	1.41
USD/THB	34.5	35.2	34.7	32.4	33.6	33.6	33.6
Previous FX rates (YE)	15	16	17	18F	19F	20F	21F
USD/MYR	4.29	4.49	4.22	4.26	4.29	4.29	4.29
USD/IDR	13,795	13,436	13,411	13,483	13,556	13,556	13,556
USD/SGD	1.42	1.38	1.39	1.41	1.41	1.41	1.41
USD/THB	36.0	35.8	34.5	34.8	34.8	34.8	34.8
% strengthen (weaken)	15	16F	17	18F	19F	20F	21F
USD/MYR	11%	9%	-3%	6%	2%	2%	2%
USD/IDR	3%	1%	0%	-6%	-10%	-10%	-10%
USD/SGD	4%	1%	-1%	4%	0%	0%	0%
USD/THB	4%	2%	-1%	7%	4%	4%	4%

Source: Bloomberg Finance L.P., DBS Bank estimates

Indonesia's biodiesel B20 wildcard, potential upside to our forecast

Indonesia plan to reinforce the implementation of the B20 biodiesel programme is positive for CPO price. With availability in installed capacity, execution remains key. We believe that biodiesel absorption also depends on the underlying demand for blended diesel. Our biodiesel projection is based on long term crude oil price of US\$65 per bbl, in line with DBS oil price forecast.

Based on Indonesia's CY18 forecast palm oil export volume of 24.8m MT (i.e. c. 76% of which is RBD Olein), we estimate a collection of US\$865m of export levies by the Indonesian Oil Palm Estate Fund Administrator (BPDP or CPO Fund). The proceeds are available to subsidise the difference between

biodiesel price (based on a fixed formula of domestic CPO price + US\$125) and imported diesel price. Based on our revised forecasts, this difference should average US\$282/MT this year (the higher the crude oil price, the lower the subsidy and vice versa).

Including non-subsidised biodiesel output, we anticipate Indonesia to produce 3.3m MT or 3.4m KL of biodiesel, representing an increase of 0.5m MT y-o-y. According to the United States Department of Agriculture (USDA), Indonesia currently has a nameplate capacity of 7.3m MT p.a. This is expected to expand to 7.6m MT in CY19, implying a low c.45% utilisation rate.

A breakdown of our estimates is presented below:

Estimated CPO Fund proceeds, diesel spread to be subsidised and estimated biodiesel produced

Indonesia biodiesel mandate estimates	2014	2015	2016	2017	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
CPO price forecast (US\$/MT, FOB)	738.3	560	640	645	575	610	611	618	620	648	666	682
Domestic CPO price (net of export levy) (US\$/MT)		510	590	595	525	560	561	568	570	598	616	632
Biodiesel price (dom. CPO px + US\$125) (US\$/MT)		635	715	720	650	685	686	693	695	723	741	757
Crude oil price - Brent (US\$/bbl)		52	43	52	53	57	60	64	69	73	78	83
Gas oil price (US\$/MT)		450	392	452	464	489	516	545	576	609	644	679
Biodiesel & diesel fuel px-spread (subsidy needed) (US\$/MT)		185	323	268	186	196	170	147	119	114	97	78
CPO export vol. subject to levy (m MT)		3.4	5.6	6.3	6.6	5.9	5.7	5.3	4.9	4.5	4.2	4.2
share of export vol.		26%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%
CPO export levies - US\$50/MT (US\$ m)		170	278	317	330	295	286	264	246	223	212	212
Olein export vol. subject to levy (m MT)		9.8	17.2	19.7	20.5	18.3	17.7	16.4	15.2	13.8	13.1	13.1
share of export vol.		74%	76%	76%	76%	76%	76%	76%	76%	76%	76%	76%
Olein export levies - US\$30/MT (US\$ m)		294	516	590	614	548	532	491	457	414	393	394
Export levies collected (US\$ m)		464	794	907	944	843	819	755	704	636	605	606
How much biodiesel can be produced (m MT)		0.600	2.454	3.383	5.075	4.299	4.818	5.120	5.919	5.577	6.247	7.766
How much biodiesel can be produced (m kl)		0.620	2.535	3.494	3.229	4.440	4.976	5.287	6.113	5.760	6.452	8.021
% effective blend		2%	10%	13%	12%	16%	18%	19%	22%	21%	23%	29%

Sources: USDA, Handbook of Energy & Economic Statistics of Indonesia, Oil World, Pertamina, Kontan newspaper, DBS Bank estimates
Biodiesel pricing formula: CPO price + US\$125/MT

Indonesia's biodiesel demand projections

Indonesia	2014	2015	2016	2017	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
Transport diesel consumption (m litres)	26,437	26,142	26,220	26,966	27,053	27,140	27,227	27,315	27,403	27,491	27,579	27,668
in m MT	23.265	23.005	23.074	23.730	23.806	23.883	23.960	24.037	24.114	24.192	24.270	24.348
growth	-5%	-1%	0%	3%	0%	0%	0%	0%	0%	0%	0%	0%
GDP growth	5.0%	4.7%	5.1%	5.4%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
correlation	-108%	-24%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
Biodiesel exports (m litres)	1,350	343	200	100	-	-	-	-	-	-	-	-
Domestic biodiesel PSO (m litres)	1,520	817	2,490	3,332	2,826	4,812	5,496	6,198	7,433	7,325	8,116	9,143
implied blend	6%	3%	9%	12%	10%	18%	20%	23%	27%	27%	29%	33%
Domestic biodiesel non subsidised (m litres)	80	43	247	144	144	145	145	146	146	147	147	148
implied blend	0%	0%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Chg. in inventory (m litres)	50	-23	0	0	0	0	0	0	0	0	0	0
Total biodiesel produced (m litres)	3,000	1,180	2,937	3,130	2,971	4,957	5,642	6,344	7,580	7,472	8,263	9,291
growth	7%	-61%	149%	7%	-5%	67%	14%	12%	19%	-1%	11%	12%
Nameplate capacity (m litres)	5,670	6,750	7,280	7,628	7,628	7,628	7,628	7,628	7,628	7,628	7,628	7,628
utilisation rate	53%	17%		41%	39%	65%	74%	83%	99%	98%	108%	122%
Indonesia palm oil production (MT)	31,400,000	33,400,000	31,800,000	36,004,151	38,157,681	36,454,919	37,122,158	36,782,543	36,943,068	36,812,061	37,880,813	40,054,240
growth	9%	6%	-5%	13%	6%	-4%	2%	-1%	0%	0%	3%	6%
Palm oil required for biodiesel production (MT)	2,904,725	1,142,525	2,843,600	3,030,596	2,876,303	4,799,916	5,462,632	6,142,756	7,339,077	7,234,651	8,000,748	8,995,757
% energy recovery rate	91%	91%	91%	91%	91%	91%	91%	91%	91%	91%	91%	91%
Non biodiesel palm oil consumption (MT)	5,688,275	5,884,475	6,206,400	6,360,659	6,710,495	7,079,572	7,468,948	7,879,741	8,313,126	8,770,348	9,252,717	9,761,617
growth	6%	3%	5%	2%	6%	6%	6%	6%	6%	6%	6%	6%
correlation to GDP	118%	73%	107%	46%	100%	100%	100%	100%	100%	100%	100%	100%
Total domestic palm oil consumption (MT)	8,593,000	7,027,000	9,050,000	9,391,255	9,586,797	11,879,488	12,931,581	14,022,497	15,652,203	16,005,000	17,253,466	18,757,374
growth	6%	-18%	29%	4%	2%	24%	9%	8%	12%	2%	8%	9%
Indonesia palm oil available for exports (MT)	22,807,000	26,373,000	22,750,000	26,612,896	28,570,883	24,575,431	24,190,577	22,760,046	21,290,865	20,807,062	20,627,347	21,296,866
growth	11%	16%	-14%	17%	7%	-14%	-2%	-6%	-6%	-2%	-1%	3%

Malaysia's biodiesel demand projections

Malaysia	2014	2015	2016	2017	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
Diesel consumption (m litres)	5,286	5,416	5,544	5,793	6,054	6,326	6,611	6,908	7,219	7,544	7,884	8,238
in m MT	4.652	4.766	4.878	5.098	5.327	5.567	5.818	6.079	6.353	6.639	6.938	7.250
growth	2%	2%	2%	5%	5%	5%	5%	5%	5%	5%	5%	5%
GDP growth	6%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
correlation	41%	50%	47%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Biodiesel exports (m litres)	95	195	74	74	74	74	74	74	74	74	74	74
Domestic on-road biodiesel (m litres)	370	525	530	770	805	841	879	918	960	1,003	1,048	1,095
implied blend	7%	10%	10%	13%	13%	13%	13%	13%	13%	13%	13%	13%
Domestic biodiesel non subsidised (m litres)	-	-	-	-	-	-	-	-	-	-	-	-
implied blend	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Chg. in inventory (m litres)	-14	-170	93	-60	0	0	0	0	0	0	0	0
Total biodiesel produced (m litres)	451	550	697	784	878	914	952	992	1,033	1,076	1,121	1,169
growth	-12%	22%	27%	12%	12%	4%	4%	4%	4%	4%	4%	4%
Nameplate capacity (m litres)	2,880	2,880	2,880	2,880	2,880	2,880	2,880	2,880	2,880	2,880	2,880	2,880
utilisation rate	16%	19%	24%	27%	30%	32%	33%	34%	36%	37%	39%	41%
Malaysia palm oil production (MT)	19,666,993	19,961,581	18,428,981	19,919,331	21,307,088	22,323,167	23,322,607	24,142,387	24,894,194	25,548,517	26,580,884	27,611,442
growth	2%	1%	-8%	8%	7%	5%	4%	4%	3%	3%	4%	4%
Palm oil required for biodiesel production (MT)	436,633	532,533	674,430	758,667	850,311	885,370	922,007	960,293	1,000,301	1,042,110	1,085,801	1,131,457
% energy recovery rate	91%	91%	91%	91%	91%	91%	91%	91%	91%	91%	91%	91%
Non biodiesel domestic palm oil consumption (MT)	2,381,367	2,384,467	2,058,464	2,161,387	2,269,456	2,382,929	2,502,075	2,627,179	2,758,538	2,896,465	3,041,288	3,193,353
growth	31%	0%	-14%	5%	5%	5%	5%	5%	5%	5%	5%	5%
correlation to GDP	516%	3%	-273%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total domestic palm oil consumption (MT)	2,818,000	2,917,000	2,732,893	2,920,054	3,119,767	3,268,299	3,424,083	3,587,472	3,758,839	3,938,575	4,127,089	4,324,809
growth	22%	4%	-6%	7%	7%	5%	5%	5%	5%	5%	5%	5%
Malaysia palm oil available for exports (MT)	16,848,993	17,044,581	15,696,088	16,999,277	18,187,321	19,054,868	19,898,525	20,554,915	21,135,355	21,609,942	22,453,795	23,286,632
growth	0%	1%	-8%	8%	7%	5%	4%	3%	3%	2%	4%	4%

Sources: USDA, Handbook of Energy & Economic Statistics of Indonesia, Oil World, Pertamina, Kontan newspaper, DBS Bank estimates
 Biodiesel pricing formula: CPO price + US\$125/MT

Regional peers comparison

	Est. land bank (ha.)	18F own mat. (ha.)	18F own planted (ha.)	Share price 10-October-2018	Market cap (m)	Adjusted plantation EV (m)	Adjusted 18F EV/planted (own)	Adjusted 18F EV/mature (own)	CY PER, x 18F 19F	FY Div. yield, % 18F 19F	EPS growth (inc. BA gains), % 18F 19F	FY Net gearing, % 18F 19F	FY EV/ EBITDA, x 18F 19F	16-19F own FFB vol CAGR %	16-19F EPS CAGR %	Rec	12-month target price	Basis	
Indonesia																			
Astra Agro L.	n/a	220,184	236,311	Rp	11,675	US\$ 1,478	US\$ 2,000	US\$ 8,465	19.5	13.5	4.1 3.4	-43 45	20 11	8.4	5.8	5.5	(5.9)	B Rp 14,150	DCF
London Sum.*	215,917	87,144	96,232	Rp	1,215	US\$ 545	US\$ 500	US\$ 5,197	16.7	13.0	3.7 3.1	-35 28	NC NC	10.8	6.2	6.5	2.4	B Rp 1,400	DCF
Simple avg					US\$ 2,023		US\$ 6,831	US\$ 7,412	18.1	13.2				9.6	6.0				
Malaysia																			
Felda Global V.	355,864	289,248	338,161	RM	1.47	US\$ 1,290	US\$ 2,934	US\$ 8,676	-61.8	48.5	3.4 3.4	NM NM	64 76	16.7	9.7	6.9	(11.2)	FV RM 1.20	DCF
Genting Plant.	150,912	109,317	148,552	RM	9.52	US\$ 1,843	US\$ 2,070	US\$ 13,932	30.5	23.8	2.7 1.1	-26 28	32 34	18.8	14.2	12.7	3.6	H RM 9.45	SOP
IOI Corp**	220,593	154,613	174,081	RM	4.55	US\$ 6,683	US\$ 5,762	US\$ 33,101	14.1	28.3	2.1 4.5	324 -69	75 26	15.5	16.6	4.8	31.0	H RM 4.70	DCF
KL Kepong	245,905	186,831	212,968	RM	24.92	US\$ 6,383	US\$ 5,397	US\$ 25,342	27.4	23.3	2.0 2.0	-8 21	19 19	16.0	12.5	5.6	3.0	H RM 23.30	DCF
SD Plant.	647,373	493,076	599,992	RM	5.27	US\$ 8,621	US\$ 9,925	US\$ 16,542	25.6	31.4	2.5 3.3	-51 -38	47 38	13.8	12.8	2.6	5.9	H RM 5.15	SOP
TSH Res.	82,841	31,961	44,489	RM	1.13	US\$ 375	US\$ 618	US\$ 13,885	24.9	18.4	1.8 1.0	-31 35	87 85	12.3	10.2	14.4	(26.7)	B RM 1.35	DCF
Simple avg					US\$ 25,195		US\$ 18,580	US\$ 22,448	10.1	28.9				15.5	12.7				
Singapore																			
Burnitama A.	191,561	110,210	133,788	S\$	0.66	US\$ 831	US\$ 1,375	US\$ 10,274	13.1	10.0	3.0 1.9	-30 31	53 60	10.3	7.7	11.6	3.0	B S\$ 0.85	DCF
First Resources	312,488	164,586	182,921	S\$	1.68	US\$ 1,925	US\$ 2,193	US\$ 11,989	15.4	12.7	2.2 4.1	-11 21	21 9	8.2	5.7	11.4	5.9	B S\$ 1.97	DCF
Golden Agri R.	558,000	382,451	385,997	S\$	0.26	US\$ 2,349	US\$ 4,675	US\$ 12,111	14.4	14.0	5.7 1.8	-2 3	58 55	6.5	5.3	4.9	(26.7)	NR S\$ 0.33	DCF
Indofood Agri*	541,224	210,518	248,453	S\$	0.22	US\$ 217	US\$ 676	US\$ 2,720	22.0	9.7	0.0 0.0	-70 126	35 37	8.9	7.5	5.0	(16.1)	H S\$ 0.21	DCF
Wilmar Int'l	573,401	211,580	244,935	S\$	3.14	US\$ 14,368	US\$ 1,404	US\$ 5,730	14.1	13.0	3.2 2.7	-16 8	90 74	11.9	10.8	1.7	4.3	B S\$ 3.59	DCF
Simple avg					US\$ 19,689		US\$ 9,274	US\$ 10,308	15.8	11.9				9.2	7.4				
* Including rubber and other crops																			
** Excluding effective stake in associates land bank																			

* Including rubber and other crops
** Excluding effective stake in associates land bank

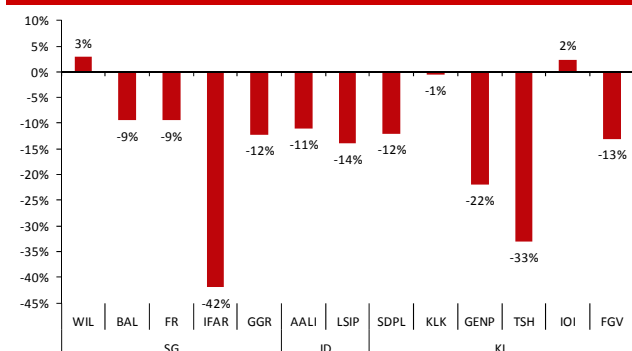
Source: Companies, DBSVI, Bloomberg Finance L.P.

Yield expansion remains key component in our stock picks

Only Indonesia listed planters LSIP and AALI rallied last month, despite Singapore listed planters (mostly with estates located in Indonesia) benefiting from the weakening Indonesian Rupiah (IDR) on more favourable CPO pricing.

Overall, regional CPO stocks have underperformed in their respective country's indexes since last year. CPO price and developments in the global edible oil market, especially the lingering trade war, remain key factors in determining sentiment on the sector. Issues such as India's import tax hike and European Union (EU) countries' attempts to curb CPO-based biodiesel would also impact CPO price and inventory.

Share price performance YTD



Source: DBSVI

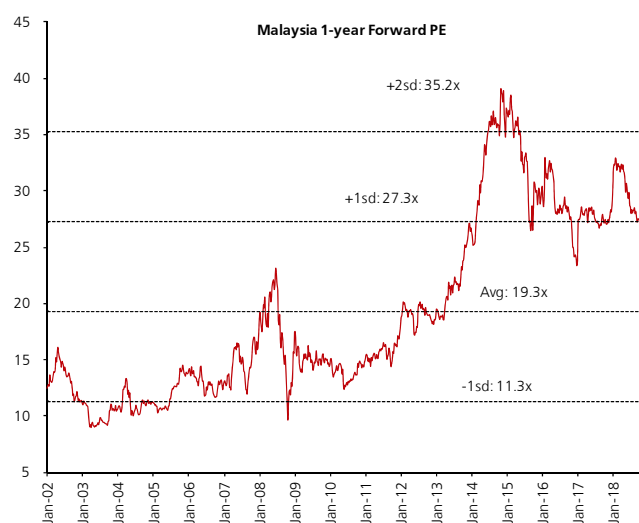
Our BUY rating for several counters in the region reflects our view that the current low CPO price is not likely to sustain. However, CPO planters should perform positively even amid the low price of CPO and related products. The potential of yield expansion means they could keep operational cost low and earnings growth momentum intact.

Changing structural demand is not going to be easy, given the affordability and availability of CPO. On the other hand, output expansion will also be challenging. This scenario provides a positive picture for the supply and demand dynamics affecting CPO price.

Given share price performance and earnings prospects, we reiterate our view that CPO stocks are undervalued. Investors may position for tight supply-demand conditions by accumulating our picks in the sector, as these stocks are pure CPO price plays. Their volume expansion could also boost earnings performance. Thanks to strong profitability, cash accumulation over years may translate into dividends or pursuit of inorganic growth, if the opportunity arises.

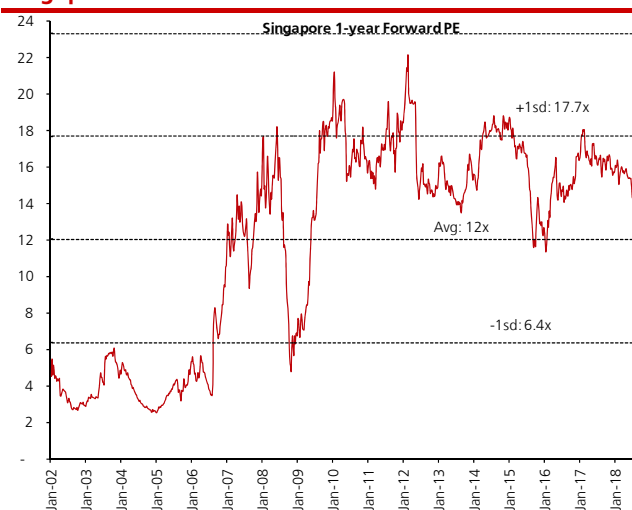
The market is currently underappreciating palm oil planters, as evidenced by the inexpensive PE valuation for these stocks, which is below the five-year average. Market scepticism is due to preference to wait for earnings delivery in 2H18, even though 2Q18 posted quarterly improvement due to CPO average selling price (ASP) and output performance.

Malaysia forward PE band



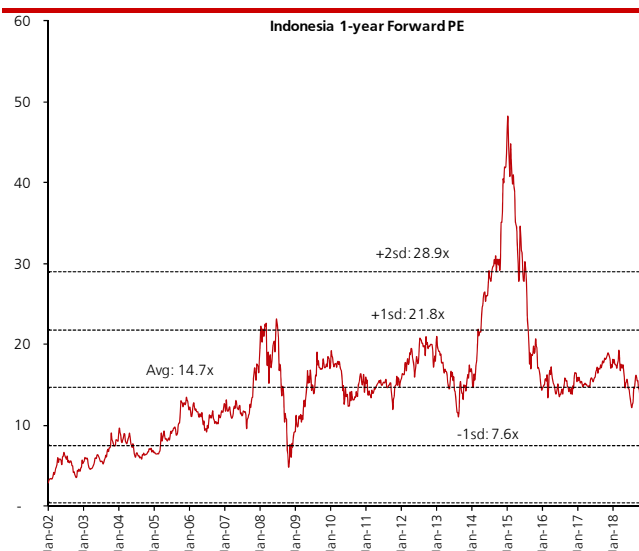
Source: Company, DBSVI, DBS Bank

Singapore forward PE band



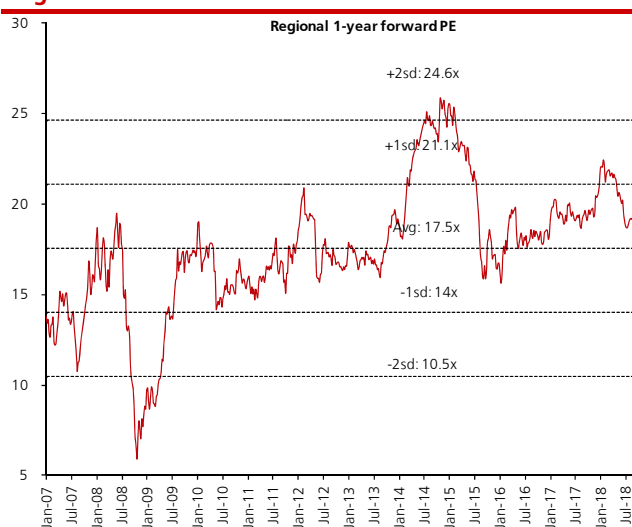
Source: Company, DBSVI, DBS Bank

Indonesia forward PE band



Source: Company, DBSVI, DBS Bank

Regional forward PE band



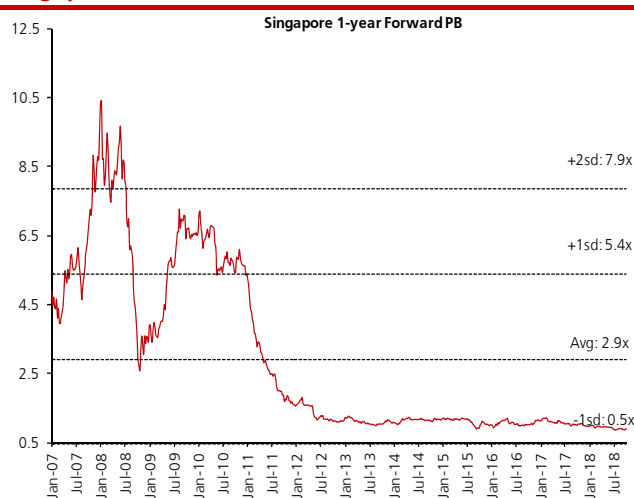
Source: Company, DBSVI, DBS Bank

Malaysia forward P/B band



Source: Company, DBSVI, DBS Bank

Singapore forward PE band



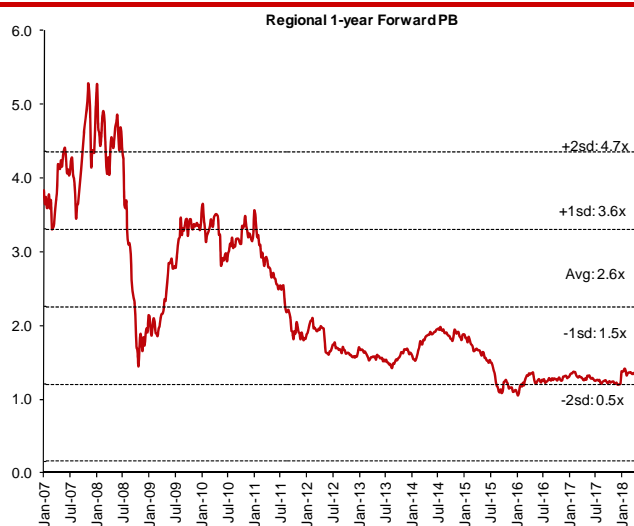
Source: Company, DBSVI, DBS Bank

Indonesia forward P/B band



Source: Company, DBSVI, DBS Bank

Regional forward P/B band



Source: Company, DBSVI, DBS Bank

Earnings revision – new FX and commodities assumptions

With our new CPO price assumptions, we are conducting selective earnings adjustments for CPO planters across the board. Our new earnings forecast adjustments are relatively minor for Singapore and Indonesia listed companies (except IFAR). Planters are likely to reap benefits from the weakening IDR against the US dollar, while a younger tree age profile with promising yields would keep cost low.

Despite the revisions, planters' earnings in our top picks are expected to grow by double digits in 2019 on average amid low price cycle and high cost in previous year, thanks to their yield expansion which would drive output and keep operating cost per hectare in check.

We conservatively assume a slower sequential earnings expansion for the rest of this year and next, due to higher production cost (related to fertilisers and third-party fruit purchases). Our checks revealed that several fertilising activities were still ongoing in 2Q this year and will most likely persist in 3Q due to the relatively dry weather. We will only see the strongest earnings contribution in 4Q this year.

This outlook also prompted us to reiterate our stock picking strategy. We only choose companies with yield expansion and volume growth potential, which would will keep cost low and earnings growth amid the relatively flattish y-o-y CPO price expansion in 2019. We assume CPO price at US\$610 per MT (RM2,560 per MT, +9.4% y-o-y).

Summary of EPS and TP revisions

	R	Prev. CY19F EPS	Prev. CY20F EPS	New CY19F EPS	New CY20F EPS	CY19F EPS rev.	CY20F EPS rev.	Prev. TP	New TP	TP rev.
Indonesia (EPS/TP)										
Astra Agro Lestari (Rp)	B	974	1,192	868	977	-11%	-18%	15,000	14,150	-6%
London Sumatra (Rp)	B	101	111	93	104	-7%	-6%	1,450	1,400	-3%
Malaysia (EPS/TP)										
Felda Global V. (sen/RM)	FV	4	7	3	6	-25%	-11%	1.30	1.20	-8%
Genting Plant. (sen/RM)	H	42	48	40	44	-5%	-7%	9.75	9.45	-3%
IOI Corporation (sen/RM)	H	17	9	16	8	-4%	-3%	4.90	4.70	-4%
KL Kepong (sen/RM)	H	111	89	107	86	-3%	-3%	23.80	23.30	-2%
Sime Darby (sen/RM)	H	18	9	17	9	-7%	-4%	5.30	5.15	-3%
TSH Resources (sen/RM)	B	7	8	6	7	-6%	-11%	1.50	1.35	-10%
Singapore (EPS/TP)										
Bumitama Agri (Rp/S\$)	B	640	645	624	627	-2%	-3%	0.88	0.85	-4%
First Resources (US¢/S\$)	B	10	11	9	11	-5%	-2%	2.00	1.97	-2%
Golden Agri R. (US¢/S\$)	NR	1	2	1	2	0%	0%	0.33	0.33	0%
Indofood Agri (Rp/S\$)	H	217	253	210	226	-3%	-11%	0.21	0.21	0%
Wilmar Int'l (US¢/S\$)	B	18	19	17	18	-6%	-6%	3.61	3.59	-1%

Source: DBS Bank, DBSVI estimates

Supply and demand to normalise in 2019

Soft start in 2H18, lingering trade war hindered price recovery

Palm oil price stayed flat at US\$535/MT (RM2,200/MT) in 3Q18. The recovery that we had previously expected in the second semester of 2018 (as stated in our July industry piece) has not materialised so far. The main culprits have been the trade war and global currencies woes, which have pressurised soybean price longer than we had anticipated weakening soybean import trend on freight cancellation from major buyers in China. This also impact CPO as a soybean oil substitute.

The stronger than expected bumper crops around the Kalimantan area in 2Q18 also affected global palm oil stockpile levels. We started off 3Q18 with a higher base stock pile which did not move significantly in August.

We see CPO price trending sideways, despite improving exports due to restocking among the buyers, starting in September. CPO price has hardly moved beyond US\$610 per MT level, due to strong output and pressure from soybean oil amid sentiments on the trade war.

2019 CPO rebound expected, but no major rally due to modest export outlook

Although CPO has stayed flat so far, we believe the low price is not likely to sustain at that level. Despite pressure on CPO price partially driven by soybean price, demand is poised to recover once sentiment settles down on the trade war.

With the view that soybean price may bottom out post harvest season in 3Q18, we also believe that CPO price will do the same. The dissipating effects of bumper crops and recovering exports would drive global stockpile drawdown to support prices.

Demand to pick up, Indonesia B20 biodiesel wild card

The demand pick up should normalise inventory at a healthy level, despite a rising output outlook in 3Q18. In the near term, we believe there are two key demand drivers that should maintain near term momentum for palm oil prices:

1. Continuous restocking from major buyers such as India and China after relatively weak CPO purchases in the last 12 months
2. EU CPO restocking in upcoming winter season for biodiesel blending. Historically, demand of CPO-based biodiesel picks up near winter due to its durability in cold temperatures.

3. Indonesia's next batch of B20 biodiesel allocation (May – October 2017) – which we expect to increase to 1.64m KL vs. November 2016 – April 2017 allocation of 1.53m kl. This is based on our revised FY forecast of 3.2m kl (subsidised portion).

Slow output growth to minimise impact of weak exports

Malaysian palm oil output did not recover as strongly as we had previously anticipated. Indonesian palm oil output (based on data reported by Bumitama and First Resources) has recovered better. However, the increased supply was more than compensated by a strong demand recovery over the same period on restocking activities.

Following 15% and 14% drops last year, we expect this year's fresh fruit bunches (FFB) yields to rebound 6% in Indonesia and 8% in Malaysia. FFB yields are not expected to fully normalise back to CY15 levels, given the lingering impact of reduced fertiliser application in 2015, as well as a typical second-year after effects of a severe El Nino.

We adjusted our CY18F and CY19F palm oil supply forecasts. This mainly reflects higher forecast output on bumper crops across Indonesia and Malaysia. We now expect global palm oil supply to be contract 1% y-o-y at 68m MT in CY19F, decelerating 3% y-o-y to 70m MT in CY20F.

From the expected 6.0m MT output growth this year, Malaysia will contribute 40% and Indonesia 55% (partly powered by its strong pipeline of maturing trees). Approximately 526k ha of oil palm estates are due to mature in Indonesia this year, while 620k ha that matured last year will continue to pick up additional yields. New maturities are comparatively lower in Malaysia (251k ha this year and 204k ha last year).

Palm oil inventory drawdown likely

By end of this year, we expect palm oil inventory to settle at 16.4m MT or 24% of global annual demand in 2019. Our new palm oil inventory forecast reflects the higher than expected FFB output outlook this year. This is due to longer than expected bumper crops, which also affects the lower CPO price outlook in CY18 before recovering in CY19 and CY20.

CY19F/20F palm oil prices tweaked by -2%/-3%

Palm oil demand is expected to expand at a moderate rate of 7.3% to 69.9m MT in 2019. The bulk of this growth (or c.4.8m MT) should come from food demand. Biodiesel demand is forecast to expand by 1.9m MT which would come from Indonesia's B20 mandate.

We maintain our overall Indonesia and Malaysia biodiesel production and consumption related forecasts, despite the effects of the B20 mandate started September 2018. Indonesia is forecast to produce c.3.1m MT this year. Likewise, including 74k MT of exports, we now expect Malaysia to produce c.878k MT of biodiesel. We believe the revised biodiesel production target for Indonesia is achievable, based on an estimated export levy collection of US\$944m in CY18.

Having imputed our revised volume, CY19F/20F CPO prices (US\$/MT, FOB basis) are adjusted +1%/-1% to US\$610/US\$611. In MYR terms, they were revised by -2%/-3% to RM2,560/RM2,560, reflecting a slight appreciation on the Ringgit vis-à-vis previous expectations.

Strong output caps CPO price upside in 2H18

With the prospects of a recovery in global palm oil inventory, palm oil price may trend sideways in the short term. However, on the back of normalising CPO demand, we believe that palm oil price trend is on track with our average CPO price forecast this year. However, this assumes no disruptions in supply throughout the year and next year, normalising tree yields and upcoming maturities resulting in lower CPO price in CY18.

Palm oil supply and demand forecasts

New forecasts - Palm Oil							Prev. forecasts - Palm Oil						
	CPO price (US\$/MT) FOB	Ending Stocks (k MT)	Global demand (k MT)	Global supply (k MT)	Stock/usage ratio (%)	Soybean oil price (US\$/MT) FOB		CPO price (US\$/MT) FOB	Ending Stocks (k MT)	Global demand (k MT)	Global supply (k MT)	Stock/usage ratio (%)	Soybean oil price (US\$/MT) FOB
2016	640	9,890	62,341	58,875	15.9%	696	2016	640	9,890	62,341	58,875	15.9%	696
2017	645	14,232	63,599	67,941	22.4%	753	2017	645	11,174	63,599	64,883	17.6%	753
2018F	575	18,098	65,160	69,026	27.8%	706	2018F	616	12,772	66,773	68,371	19.1%	727
2019F	610	16,411	69,950	68,263	23.5%	706	2019F	608	14,584	69,906	71,718	20.9%	727
2020F	611	16,694	69,950	70,234	23.9%	717	2020F	616	16,265	72,659	74,339	22.4%	737
2021F	618	15,239	72,282	70,827	21.1%	738	2021F	618	17,546	75,168	76,449	23.3%	750
2022F	620	14,881	72,282	71,923	20.6%	742	2022F	631	18,343	77,382	78,180	23.7%	768
2023F	648	14,506	72,944	72,568	19.9%	744	2023F	648	18,389	79,374	79,420	23.2%	788
2024F	666	15,067	74,489	75,051	20.2%	807	2024F	666	17,843	81,197	80,651	22.0%	807
2025F	682	16,397	77,491	78,821	21.2%	821	2025F	682	16,454	82,690	81,301	19.9%	821
2026F	687	18,635	79,261	81,498	23.5%	821	2026F	687	20,850.7	84,136.1	83,443.0	25%	821
2027F	687	19,388	82,714	83,467	23.4%	821	2027F	687	20,328	85,325	84,802	24%	821
2028F	687	19,673	84,664	84,949	23.2%	821	2028F	687	20,000	86,323	85,996	23%	821
2029F	687	19,542	86,518	86,387	22.6%	821	2029F	687	19,977	87,167	87,144	23%	821
2030F	687	20,051	86,873	87,381	23.1%	821	2030F	687	19,930	87,886	87,839	23%	821

Source: USDA, Oil World, EIA short-term outlook, Bloomberg Finance L.P., DBS Bank estimates

Palm oil hectareage forecasts

Oil palm planted area ('000 hectares)														
	2017A	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Mature	5,110.7	5,306.4	5,463.7	5,531.4	5,579.5	5,613.5	5,638.3	5,655.8	5,667.2	5,674.1	5,677.6	5,678.5	5,677.5	5,675.0
Immature	700.4	559.6	443.5	406.7	381.7	365.0	353.2	345.5	341.4	340.0	340.7	342.8	346.2	350.4
New planting	73.2	54.9	41.2	30.9	23.1	17.4	13.0	9.8	7.3	5.5	4.1	3.1	2.3	1.7
Malaysia	5,811.1	5,866.0	5,907.2	5,938.0	5,961.2	5,978.5	5,991.6	6,001.3	6,008.7	6,014.1	6,018.3	6,021.4	6,023.7	6,025.4
Mature	9,327.4	9,539.5	9,751.6	9,784.2	9,755.9	9,688.7	9,621.8	9,565.1	9,502.7	9,437.0	9,369.7	9,301.8	9,234.0	9,166.5
Immature	2,438.1	2,316.7	2,154.6	2,149.4	2,192.8	2,268.3	2,339.8	2,399.0	2,462.8	2,529.2	2,597.0	2,665.1	2,733.0	2,800.6
New planting	165.0	90.8	49.9	27.5	15.1	8.3	4.6	2.5	1.4	0.8	0.4	0.2	0.1	0.1
Indonesia	11,765.5	11,856.2	11,906.2	11,933.6	11,948.7	11,957.0	11,961.6	11,964.1	11,965.5	11,966.2	11,966.7	11,966.9	11,967.0	11,967.1
Mature	14,438.1	14,845.9	15,215.2	15,315.6	15,335.4	15,302.2	15,260.1	15,220.9	15,169.9	15,111.2	15,047.3	14,980.3	14,911.5	14,841.5
Immature	3,138.5	2,876.4	2,598.1	2,556.1	2,574.5	2,633.3	2,693.0	2,744.6	2,804.2	2,869.2	2,937.6	3,007.9	3,079.2	3,151.0
New planting	238.2	145.6	91.1	58.3	38.2	25.7	17.6	12.3	8.7	6.3	4.5	3.3	2.4	1.8
Total	17,576.6	17,722.3	17,813.3	17,871.6	17,909.9	17,935.6	17,953.2	17,965.4	17,974.1	17,980.4	17,984.9	17,988.3	17,990.7	17,992.5
% growth	1.4	0.8	0.5	0.3	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0

Source: Oil World, MPOB, Ministry of Agriculture of Indonesia, DBS Bank estimates

Palm oil supply forecasts

	2017A	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Malaysia	19.919	21.307	22.323	23.323	24.142	24.894	25.549	26.581	27.611	28.618	29.564	30.195	30.779	31.331
vol. growth	2.6	1.4	1.0	1.0	0.8	0.8	0.7	1.0	1.0	1.0	0.9	0.6	0.6	0.6
% growth	15.0	7.0	4.8	4.5	3.5	3.1	2.6	4.0	3.9	3.6	3.3	2.1	1.9	1.8
Indonesia	36.004	38.158	36.455	37.122	36.783	36.943	36.812	37.881	40.054	41.311	42.020	42.623	43.234	43.496
vol. growth	3.9	2.2	-1.7	0.7	-0.3	0.2	-0.1	1.1	2.2	1.3	0.7	0.6	0.6	0.3
% growth	12.2	6.0	-4.5	1.8	-0.9	0.4	-0.4	2.9	5.7	3.1	1.7	1.4	1.4	0.6
Others	8.959	9.561	9.485	9.789	9.902	10.086	10.208	10.589	11.155	11.569	11.884	12.132	12.374	12.554
vol. growth	-0.5	0.6	-0.1	0.3	0.1	0.2	0.1	0.4	0.6	0.4	0.3	0.2	0.2	0.2
% growth	-5.3	6.7	-0.8	3.2	1.2	1.9	1.2	3.7	5.3	3.7	2.7	2.1	2.0	1.5
Total	64.883	69.026	68.263	70.234	70.827	71.923	72.568	75.051	78.821	81.498	83.467	84.949	86.387	87.381
vol. growth	6.0	4.1	-0.8	2.0	0.6	1.1	0.6	2.5	3.8	2.7	2.0	1.5	1.4	1.0
% growth	10.2	6.4	-1.1	2.9	0.8	1.5	0.9	3.4	5.0	3.4	2.4	1.8	1.7	1.2

Source: Oil World, MPOB, Ministry of Agriculture of Indonesia, DBS Bank estimates

Lowering CY19F/20F soybean oil price

Trade war: Starting from a low base in 2019

The longer than expected effects of the trade war, order cancellations and uncertainties will impact development of 2H18 soybean price. The harvest season in 2018 will also cap soybean price recovery, despite signs of improvement from China imports.

There is higher than expected soybean crop yield in 2018, due to planting earlier in the year. We revise down our soybean price forecast this year on higher than expected output potential in 2H18, due to stronger than expected soybean crop yield this year. We forecast soybean price to average US\$330/MT this year, lower than our previous forecast of US\$340/MT in CY19.

New planting appetite may be affected by prices

We expect global soybean production to increase 2% y-o-y to 356.2m MT in 2019, relatively higher than the previous forecast of 353.9m MT. Our new soybean supplies forecast is lower given the Oil World's latest forecast in August 2018. We believe that new appetite for planting would be affected by prices and the trade war. We raise Argentina and Brazil's soybean output forecast to 59m MT and 110m MT

respectively, to account for the higher than expected output from producers in the Southern Hemisphere.

Demand to hold steady

We maintain global soybean demand at 355mn tonnes in CY19, which is largely in line with Oil World's forecast. World soybean crushing is expected to expand 3% y-o-y on demand from China after soy meal hit a one year low, offset by lower crushing in Argentina due to weaker than expected demand for soybean meal, as well as slower release by farmers.

Based on adjusted supply and demand, revisions in soybean and soybean oil price expectations, as well as changes in our foreign exchange rate forecasts, CY18F/19F soybean price (USD/MT, FOB basis) was adjusted by -3%/-2% to US\$330 per MT/ US\$332 per MT. Likewise, we revised CY19F/20F soybean oil price (USD/MT, FOB basis) by -3%/-3% to US\$706/US\$706, premised on lower soybean price and current developments in China's soy meal market. We expect soybean meal price to average US\$330 per MT next year, adjusted from US\$340/MT previously. This is mainly driven by c.4% y-o-y expansion in global soybean output and steady demand this year, before further accelerating from 2% growth in CY19F.

Soybean supply and demand forecasts

New forecasts - Soybeans							Prev. forecasts - Soybeans						
	Price of soybeans (US\$/MT) (FOB)	Ending Stocks (k MT)	Global demand (k MT)	Global supply (k MT)	Stock/usage ratio (%)	Crude oil price (US\$/bbl)		Price of soybeans (US\$/MT) (FOB)	Ending Stocks (k MT)	Global demand (k MT)	Global supply (k MT)	Stock/usage ratio (%)	Crude oil price (US\$/bbl)
2016	360	80,480	315,180	311,680	25.5%	42.5	2016	360	80,480	315,180	311,680	25.5%	42.5
2017	352	88,280	329,580	337,380	26.8%	51.6	2017F	352	88,280	329,580	337,380	26.8%	51.6
2018F	330	96,420	342,297	350,437	28.2%	56.7	2018F	340	89,853	342,297	343,870	26.3%	72.0
2019F	330	97,603	355,091	356,274	27.5%	60.4	2019F	340	88,730	355,091	353,968	25.0%	72.0
2020F	335	97,040	367,613	367,051	26.4%	73.0	2020F	345	85,954	367,613	364,838	23.4%	70.0
2021F	345	99,103	379,833	381,896	26.1%	78.0	2021F	351	85,782	379,833	379,661	22.6%	70.0
2025F	384	118,100	424,316	431,394	27.8%	83.0	2025F	384	94,463	424,316	428,799	22.3%	65.0
2026F	384	122,701	431,674	436,274	28.4%	65.0	2025F	384	98,400	431,674	435,611	22.8%	65.0
2027F	384	125,128	439,057	441,484	28.5%	65.0	2025F	384	102,150	439,057	442,807	23.3%	65.0
2028F	384	125,887	446,189	446,949	28.2%	65.0	2025F	384	106,028	446,189	450,067	23.8%	65.0
2029F	384	124,378	453,989	452,479	27.4%	65.0	2025F	384	109,387	453,989	457,348	24.1%	65.0
2030F	384	120,495	461,924	458,041	26.1%	65.0	2025F	384	112,070	461,924	464,607	24.3%	65.0

Source: USDA, Oil World, DBS Bank estimates

Exports won't sustain current low, modest output to support stockpile drawdown

As palm oil output recovers seasonally, coupled with weak exports, we expect palm oil prices to move in tandem with soybean oil prices. This leads to a deeper revision in our average benchmark price for CY18, in tandem with soybean price.

In our view, palm oil downside risks at this range seem minimal, as output expansion opportunities in CY19 onwards are limited. On the demand side, India, China and EU will provide demand support, thanks to a positive import outlook on palm oil affordability vs. other edible oils.

On the other hand, given recent developments in the soybean market, we believe that we can't rely solely on the recovery of China's palm oil imports this year. Based on both Oil World and USDA data, China is expected to import c.5.7m MT palm oil this year, up 6% from last year's reported volume of 5.4m MT.

Long term view: Market underestimated tight palm oil supply outlook

Running out of land, limited room for output expansion...

Despite the short term hiccup of soft commodity prices, we see long term upside to our forecast for CPO price, given the tighter than expected inventory from 2020 onwards on the back of growing demand but limited structural output expansion potential. There is a need for long term tree productivity to meet growing global CPO demand. Amid the ageing process and the lack of tree regeneration, we could see diminishing palm oil output in the long term if there are no serious efforts to mitigate this risk in the face of rising demand.

Planters could capitalise on this by strengthening their upstream divisions. Maximising yield-per-hectare is the key

strategy in sustaining growth, especially in the wake of the lack of new planting over the last five years. Mechanisation and adopting technologies to intensify yields may make planting more precise and effective, as well as improve productivity-per-hectare.

The challenge to grow and stay profitable may lead to industry consolidation. Malaysian planters have started to consider acquiring Indonesian estates, given their value-unlocking potential. Indonesian estates are also searching for land available for sale. Plantations with strong balance sheet and cashflow may emerge as winners in the industry in the next several years.

...while demand grows steadily

We think that replacing demand for CPO in consumer products would be a huge challenge, given CPO's affordability and availability. Its special characteristics with regards to balance fat composition, carotenoid and Vitamin E mean that CPO is a actually a better option than some people might think, relative to some of the negative perceptions on CPO. Further upside may come when the biodiesel project kicks in. At current crude oil price level, we estimate there will be no additional incentives required to boost biodiesel production.

Other edible oils supply and demand also will remain steady going forward, on the back of a muted outlook for acreage and yield expansion, and growing food-based demand.

One could address the issue of demand growth by looking at global sustainable issues such as Roundtable on Sustainable Palm Oil (RSPO) compliance and joint efforts by both Indonesia and Malaysia to fight smear campaigns against palm oil.

New planting trend among CPO planters

New planting, excluding replanting - own estates (Ha)								
Indonesia	2014	2015	2016	2017	2018	2019	2020	2021
Astra Agro Lestari	10,337	1,000	0	0	0	0	0	0
London Sumatra	2,107	934	625	800	800	800	800	0
Malaysia	2014	2015	2016	2017	2018	2019	2020	2021
Felda Global V.	0	0	0	0	0	0	0	0
Genting Plant.	3,229	4,547	1,111	500	2,000	2,500	2,500	2,000
IOI Corporation	0	0	0	0	0	0	0	0
KL Kepong*	11,650	4,600	0	0	0	0	0	0
Sime Darby*	0	0	0	0	0	0	0	0
TSH Resources	2,800	1,717	200	500	2,500	2,500	1,000	838
Singapore	2014	2015	2016	2017	2018	2019	2020	2021
Bumitama Agri	511	2,802	909	2,500	2,367	2,100	2,615	0
First Resources	17,209	2,606	1,600	2,400	2,400	2,400	2,400	0
Golden Agri Resources*	849	0	0	0	0	0	0	0
Indofood Agri	6,350	1,641	1,083	850	823	813	810	0
Total	55,042	19,847	5,528	7,550	10,890	11,113	10,125	2,838
*excluding Liberia								

Source: USDA, Oil World, DBS Bank estimates

Scenario analysis

Our scenario analysis also reveals that the downside risk for CPO price is minimal at this level. Lower CPO price could also attract more demand from biofuel. Our worst-case scenario puts CPO price at RM2,100 per MT (US\$550 per MT), or 7% below the current CPO price level. This is assuming an average crude oil price of US\$50 per bbl in 2019, which means that any excess supply or slower than expected food-based demand growth, could not be readily be offset by biodiesel demand whose growth outlook would be muted due to weak crude oil price.

Beyond the biodiesel factor, any oversupply in our bear-case scenario will also not drag CPO price to around US\$2,200 per MT. This is due to the remote possibility of CPO yields going beyond six tonnes per hectare, coupled with the scarcity of land.

The key factor that may cap CPO price upside is the performance of its main competitor in the edible oils space, soybean oil. We do not expect CPO price can trade at a premium over soybean oil unless, 1) CPO-based biodiesel can prove itself to be of better quality vs. soybean oil and, 2) soybean oil loses its grip on major consuming countries such as China, which we think is highly unlikely. Under our best-case scenario that excludes weather issues, the upside potential for CPO price stands at 10%. The different characteristics and lower yields of the other edible oils, in our view, will maintain their price premium over CPO.

We find that the current demand projection is heavily reliant on food consumption, not biodiesel demand. If crude oil price stays above US\$65/bbl, we believe that CPO price could average above RM2,700 per MT if Indonesia and Malaysia biodiesel demand kicks in.

Trade war?

A prolonged trade war, in our view, could be a positive for CPO price, despite recent short term pressures. There are different characteristics of CPO price demand patterns. China's purchase patterns follow soybean oil. Lower than expected soybean crushing activities means lower soybean oil output and more opportunities for CPO. Our base case scenario assumes the effects of the trade war in 2018-2020.

Base-case scenario

Tight supply-demand conditions will keep CPO price above US\$600 per MT over in 2019. We do not see any excess supply potential due to the lack of land expansion and slowing smallholders' yield expansion that could keep production in check. Meanwhile, food-based demand will be the key demand

driver on the back of CPO affordability and availability. We conservatively assume Indonesia's annual biodiesel demand to stay at around 3m KL going forward. Our 2019 crude oil price assumption stands at US\$65/bbl-US\$70/bbl.

Bull-case scenario output

Indonesia biodiesel consumption takes off. Indonesia's biodiesel programme is expected to add 4m-5m MT of demand per annum, or 7% of global CPO demand. With a stable output forecast, we expect CPO price to average above RM2,700 per MT (US\$640 per MT) if Indonesia can boost its national biodiesel production to 6m MT. Our bull-case scenario assumes that oil price will hover around at US\$70-75 per bbl in 2018 and US\$60-65/bbl in 2019 and beyond.

Slower than expected acreage expansion. Soybean acreage expansion of <1% per annum may structurally tighten the supply-demand conditions of other edible oils, as output expansion will grow at a slower pace vs. demand.

Stalling output from Indonesia's smallholders. Indonesia's replanting programme will not start until 2020. Indonesia's CPO production may start to flatten in 2019 and drop by 3% y-o-y from 2020. This may cause CPO price to exceed our forecast. We estimate that if this materialises, CPO price would trade at RM2,968 per MT (US\$707 per MT) in the next decade, on par with soybean oil price next year.

Bear-case scenario

EU eliminates CPO-based biodiesel by 2020. The EU plans to totally eliminate CPO from its biodiesel mandate by 2020. The EU's accounts for 12% of global CPO demand. At the moment, EU demand is also able to sufficiently offset any seasonal demand weakness from Asia.

India import tax remains at >30%. India has implemented a higher import tariff of 44% for CPO. Despite the lack of a self-sufficiency programme in India so far, this tariff may be maintained, limiting import volume.

Increasing yields and acreage expansion of >2% for other edible oils. If research and development (R&D) for tree productivity delivers higher than expected yields for other edible oils, this will affect palm oil's price and position as a cheaper substitute. At this scenario, we expect price to hover at RM2,329 per MT (US\$555 per MT) in 2019.

Oil price hits US\$50, CPO price may fall further. In the case of growing crude oil production at a CAGR of 7% and crude oil

price heading towards US\$50 per bbl, CPO price could hit RM2,000 per MT (US\$488 per MT). We believe this is the worst-case scenario for CPO price, not taking into account weather-related factors.

Scenario analysis summary

	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
Bull case												
Indonesia biodiesel reach 6m KL												
US\$/MT	619.5	646.6	665.9	679.6	682.0	713.0	732.8	749.9	749.9	749.9	749.9	749.9
RM/MT	2,520	2,714	2,790	2,849	2,860	2,992	3,069	3,146	3,146	3,146	3,146	3,146
% changes vs. base case	5%	6%	9%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Slower than expected land expansion edible oil												
US\$/MT	602	628	635	667	670	700	719	736	723	723	723	723
RM/MT	2,448	2,637	2,662	2,797	2,808	2,938	3,013	3,089	3,032	3,032	3,032	3,032
% changes vs. base case	2%	3%	4%	8%	8%	8%	8%	8%	6%	6%	6%	6%
Stalling output from Indonesia's smallholders plantation estates												
US\$/MT	614	641	661	701	703	756	777	795	780	780	780	780
RM/MT	2,497	2,690	2,769	2,937	2,948	3,173	3,254	3,336	3,274	3,274	3,274	3,274
% changes vs. base case	2%	2%	4%	5%	5%	8%	8%	8%	8%	8%	8%	8%
Base case												
	590	610	611	618	620	648	666	682	682	682	682	682
	2,400	2,560	2,560	2,590	2,600	2,720	2,790	2,860	2,860	2,860	2,860	2,860
Bear case												
EU eliminate CPO biodiesel by 2020												
US\$/MT	578.2	579.5	574.3	580.8	582.8	609.3	626.1	640.8	640.8	640.8	640.8	640.8
RM/MT	2352	2432	2406.4	2434.6	2444	2556.8	2622.6	2688.4	2688.4	2688.4	2688.4	2688.4
% changes vs. base case	-2%	-5%	-6%	-6%	-6%	-6%	-6%	-6%	-6%	-6%	-6%	-6%
Other edible oil acreage expansion 2% y-o-y												
US\$/MT	560.5	567.3	568.2	574.5	576.6	602.8	619.5	627.2	627.2	627.2	627.2	627.2
RM/MT	2280	2380.8	2380.8	2408.7	2418	2529.6	2594.7	2631.2	2631.2	2631.2	2631.2	2631.2
% changes vs. base case	-5%	-7%	-7%	-7%	-7%	-7%	-7%	-8%	-8%	-8%	-8%	-8%
Oil price hit US\$50 per bbl												
US\$/MT	536.9	488.0	488.8	494.3	496.0	518.6	532.9	545.4	545.4	545.4	545.4	545.4
RM/MT	2,184	2,048	2,048	2,072	2,080	2,176	2,232	2,288	2,288	2,288	2,288	2,288
% changes vs. base case	-9%	-20%	-20%	-20%	-20%	-20%	-20%	-20%	-20%	-20%	-20%	-20%

Source : DBS Bank estimate

Company Guides

Indonesia Company Guide

Astra Agro Lestari

Version 11 | Bloomberg: AALI JJ | Reuters: AALI.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Oct 2018

BUY

Last Traded Price (10 Oct 2018): Rp11,850 (JCI : 5,796.79)
Price Target 12-mth: Rp14,150 (19% upside) (Prev Rp15,000)

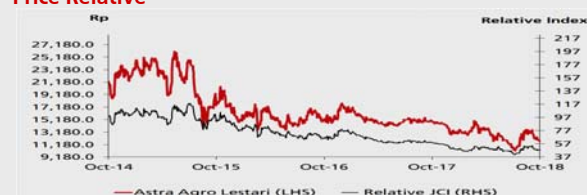
Analyst

William Simadiputra +62 2130034939
william.simadiputra@id.dbsvickers.com

What's New

- FY18/FY19 earnings forecast cut by 22%/11%
- Cost and ASP drive new earnings forecast
- Undemanding valuation at FY19 14.0x PE
- Maintain BUY rating with lower TP of Rp14,150

Price Relative



Forecasts and Valuation

FY Dec (Rpbn)	2017A	2018F	2019F	2020F
Revenue	17,306	15,621	18,864	19,781
EBITDA	4,245	3,013	3,793	3,931
Pre-tax Profit	2,939	1,714	2,488	2,800
Net Profit	2,010	1,150	1,670	1,880
Net Pft (Pre Ex.)	2,010	1,150	1,670	1,880
Net Pft Gth (Pre-ex) (%)	0.2	(42.8)	45.2	12.6
EPS (Rp)	1,044	598	868	977
EPS Pre Ex. (Rp)	1,044	598	868	977
EPS Gth Pre Ex (%)	0	(43)	45	13
Diluted EPS (Rp)	1,277	731	1,061	1,194
Net DPS (Rp)	544	477	273	396
BV Per Share (Rp)	9,386	9,539	10,134	10,714
PE (X)	11.3	19.8	13.7	12.1
PE Pre Ex. (X)	11.3	19.8	13.7	12.1
P/Cash Flow (X)	9.1	6.5	8.2	7.4
EV/EBITDA (X)	6.4	8.5	6.5	5.9
Net Div Yield (%)	4.6	4.0	2.3	3.3
P/Book Value (X)	1.3	1.2	1.2	1.1
Net Debt/Equity (X)	0.2	0.1	0.1	CASH
ROAE (%)	11.4	6.3	8.8	9.4
Earnings Rev (%):		(22)	(11)	(18)
Consensus EPS (Rp):		839	936	943
Other Broker Recs:		B: 13	S: 0	H: 10

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

Reasonably priced, modest prospect

Earnings revision: TP lowered to Rp14,150, maintain BUY rating. After a stronger than expected 2Q18, we revise down our earnings forecast for Astra Agro Lestari (AALI), with a higher cost outlook in the second semester, before rebounding next year on continuous cost control and higher output from its higher margin estates. AALI's palm oil products' average selling prices (ASP) has also benefited from the weakening Indonesian Rupiah (IDR) trend against the US Dollar, which minimised the effects of low crude palm oil (CPO) price to date.

Where we differ: We like AALI's efficiency and yield enhancement programmes. We expect EBITDA to continue recovering in FY18F, premised on higher fresh fruit bunches (FFB) yields, resilient ASP and expanded downstream operations. AALI's production intensification and mechanisation programmes will continue to optimise operational efficiencies and yields, resulting in a steady long term profitability outlook.

Yield recovery, steady profitability positive to stock price. We believe AALI's share price will react positively to its improving profitability outlook on the back of its strong operational performance, coupled with CPO yield expansion.

Valuation:

We employed DCF methodology (FY18F base year) to arrive at a fair value of Rp14,150/share (WACC 12.0%, TG 3%) post earnings revision. Our TP implies 16.3x FY19 PE, which is lower than its 5-year average of 20x.

Key Risks to Our View:

CPO price. There would be downside risks to our CPO price forecasts if Pertamina's biodiesel off-take fails to live up to our expectations of 3.1m MT this year.

At A Glance

Issued Capital (m shrs)	1,925
Mkt. Cap (Rpbn/US\$m)	22,808 / 1,500
Major Shareholders (%)	
PT Astra International Tbk	79.7
Free Float (%)	20.3
3m Avg. Daily Val (US\$m)	1.3

ICB Industry : Consumer Goods / Plantation

CRITICAL DATA POINTS TO WATCH

Critical Factors

CPO price: Key driver for earnings and share price. As a commodity producer, AALI is a price-taker. Movements in international CPO prices have direct impact on the group's profitability. We expect CPO prices (FOB Pasir Gudang) to average US\$610/MT (+6.1% y-o-y) in CY18 and US\$611/MT in CY18 (+1% y-o-y). CPO price movements are also key drivers to share price (See next page, Appendix section).

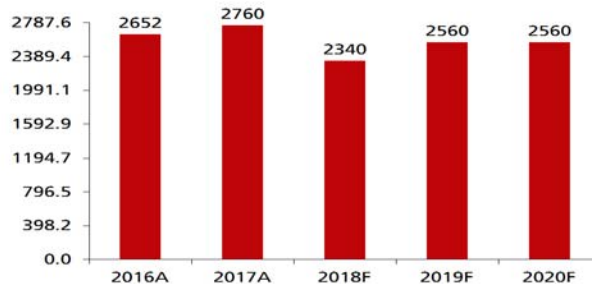
Trees profile, yield enhancement programme. As at end-December 2017, AALI's trees were estimated to have an average age of 19 years. AALI will continue to implement its yield enhancement programme to maximise yields of relatively older trees.

CPO volume growth. Despite the lack of aggressive expansion since 2012, AALI'S FFB is expected to expand at a CAGR of 3% in FY17-20F on the back of recovering yields. We imputed flat y-o-y nucleus FFB output growth in FY18F, mainly from a high base last year post a 2016 El Nino output recovery. To maximise its CPO processing mill, AALI purchases 30% of its processed fruits from third party planters.

CPO yield expansion, mechanisation programme. We are expecting CPO yield to expand steadily from 4.3MT/ha in 2017 to 4.6MT/ha in 2019 on maturing estates and AALI's yield enhancement programme. Relative to other oil crops, palm oil has the highest productivity per hectare at 5 MT/ha, while soybean oil is typically at 0.5 MT/ha. CPO yield also reflects on a planters' management strength, which ultimately affects return on invested capital (ROIC) and profitability.

Revenue exposure to domestic market. AALI sells its CPO output to local third parties under the spot pricing mechanism. While the group is not subject to biodiesel export levies (US\$50/MT on CPO) on all of its CPO sales volume, local ASP would nevertheless roughly reflect the same discount. This is due to increasing domestic supply caused by export levies. We have already imputed this into our forecast.

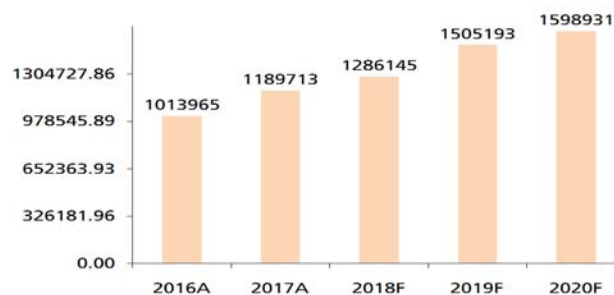
CPO price (RM/MT)



Mature oil palm hectareage



CPO sales volume (MT)



Palm kernel sales vol. (MT)



Avg. USD/IDR rate



Source: Company, DBSVI

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

Yield a critical factor for upstream planters

Historically, CPO price has been a key catalyst for plantation stocks, with share price generally tracking spot CPO prices. However, the outperformance/underperformance of plantation stocks in relation to CPO prices are also dictated by productivity. Stronger/weaker-than-expected yields have led to higher/lower share price sensitivity to CPO prices.

Looking at Indonesia's plantation sector index since 2003, this correlation is still relevant today. We have identified two notable periods of divergence between share and CPO prices:

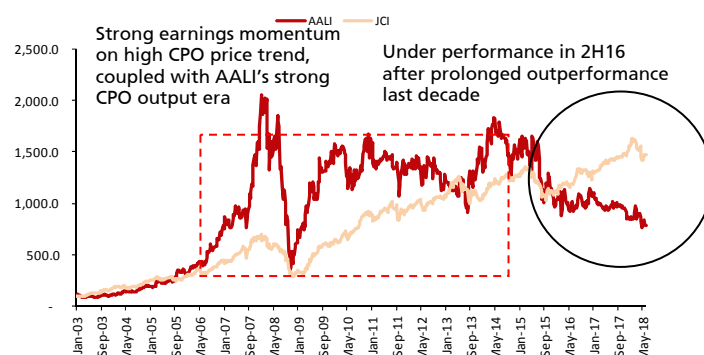
1. Outperformance during August 2009-April 2010, due to better-than-expected CPO yields
2. Conversely, underperformance from September 2015 to now as yields have not fully recovered from the El Nino climate change in 2015.

Indonesia-listed CPO planters AALI and LSIP saw their share price mirror their CPO yield differentials, particularly from 2012 onwards.

CPO yields seem to be common drivers for CPO planters' share price movements, as they are all subject to the same weather vagaries and CPO price movements. CPO yields also reflect a planters' management strength, which ultimately affects return on invested capital (ROIC) and profitability.

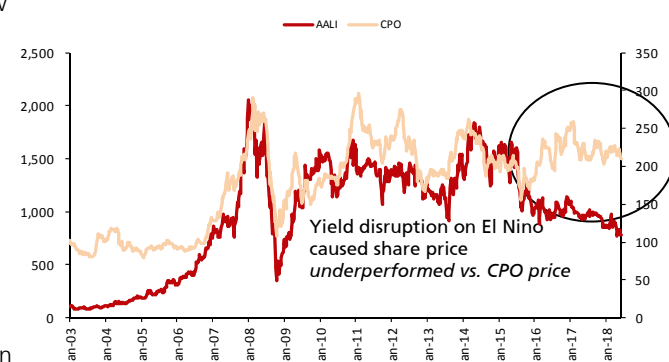
We reckon that the sector's outperformance was driven by better estate management that resulted in a higher yield than regional peers, regardless of the production cycle. A higher yield ensures better economies of scale, enabling the company to attain higher operating margins and better earnings.

Stock performance relative JCI (Jakarta Composite Index)



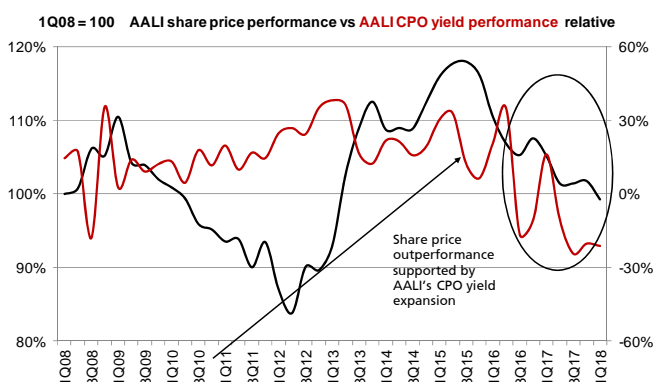
Source: Bloomberg Finance L.P., DBSVI

Stock performance vs. CPO price



Source: Bloomberg Finance L.P., DBSVI

Stock performance relative to yield outperformance



Source: Bloomberg Finance L.P., DBSVI

Balance Sheet:

Conservative borrowings. AALI has mostly taken a conservative approach to borrowings. However, the group has taken on additional leverage over the past three years as it embarked on high capital expenditure (capex) outlays to fund immature estates, additional mills, and building its downstream business. As at end June 2018, the group's net debt-to-total equity ratio was 24 (vs. 20% at end-December 2017) as output surged.

Healthy working capital, capex to moderate. Its cash conversion cycle is expected to remain healthy, mainly representing stable receivable and inventory days. This year, we expect the group to spend c.Rp1,017bn (assuming no new planting) on new mills, as well as on immature estates in FY19.

Share Price Drivers:

Strong earnings as near term catalyst. We believe AALI could achieve our FY18 earnings forecast on the back of resilient CPO and palm kernel (PK) price performance, as well as AALI's internal efficiency programme which will keep AALI's operational costs low.

Key Risks:

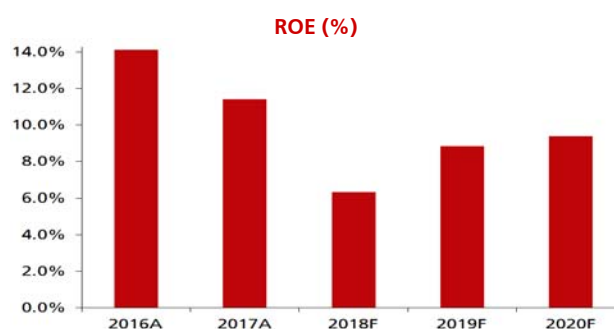
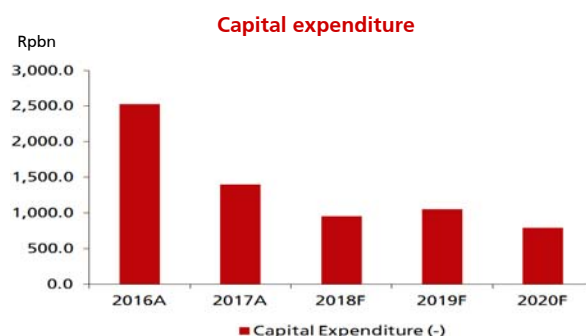
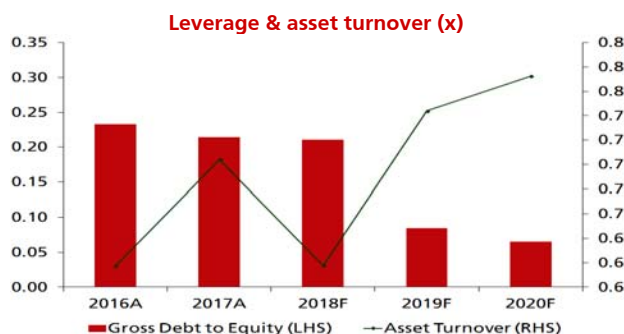
Volatility in CPO price, USD exchange rates. Continued strength in CPO price may lead to better than expected earnings, while lower energy prices from the expansion of US shale gas production would have an adverse impact on demand for vegetable oils for biofuels. Likewise, volatility in USD would affect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

Setback in expansion plans. Our forecasts are based on assumptions of new hectareage for planting/replanting. Any setbacks 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 the demand for CPO/refined oils.

Company Background

AALI is the largest listed plantation company in Indonesia with c.230k ha of planted oil palm estates. Approximately 72% of its revenue is from sales of CPO and PK, while the remaining 27% is from its 600k MT p.a. refining operations. The group also has a 300k MT p.a. refinery under a joint venture (JV) with Kuala Lumpur Kepong. AALI is majority-owned (c.80%) by Astra International, a prominent conglomerate in Indonesia known for its good corporate governance.



Source: Company, DBSVI

Key Assumptions

FY Dec	2016A	2017A	2018F	2019F	2020F
CPO price (RM/MT)	2,652	2,760	2,340	2,560	2,560
Mature oil palm	205,488	212,455	220,184	220,768	220,501
CPO sales volume (MT)	1,013,965	1,189,713	1,286,145	1,505,193	1,598,931
Palm kernel sales vol. (MT)	275,812	374,380	395,251	442,662	467,341
Avg. USD/IDR rate	13,237	13,356	14,527	15,175	15,175

Segmental Breakdown

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenues (Rpbn)					
CPO	7,876	9,454	9,122	11,512	12,251
PK	1,751	2,286	2,611	3,036	3,188
PKO	0.0	0.0	0.0	0.0	0.0
Refined products	2,934	3,991	3,888	4,316	4,342
Others	1,559	1,575	0.0	0.0	0.0
Total	14,121	17,306	15,621	18,864	19,781

(Rpbn)

Income Statement (Rpbn)

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenue	14,121	17,306	15,621	18,864	19,781
Cost of Goods Sold	(10,445)	(13,160)	(12,403)	(14,919)	(15,532)
Gross Profit	3,676	4,145	3,218	3,945	4,248
Other Opg (Exp)/Inc	(1,017)	(1,094)	(1,278)	(1,400)	(1,448)
Operating Profit	2,659	3,051	1,940	2,545	2,800
Other Non Opg (Exp)/Inc	(331)	(4.0)	(169)	(22.1)	(3.9)
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(119)	(108)	(58.0)	(35.1)	4.10
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	2,209	2,939	1,714	2,488	2,800
Tax	(94.5)	(825)	(480)	(697)	(784)
Minority Interest	(107)	(103)	(83.3)	(121)	(136)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	2,007	2,010	1,150	1,670	1,880
Net Profit before Except.	2,007	2,010	1,150	1,670	1,880
EBITDA	3,398	4,245	3,013	3,793	3,931
Growth					
Revenue Gth (%)	8.1	22.5	(9.7)	20.8	4.9
EBITDA Gth (%)	54.7	24.9	(29.0)	25.9	3.7
Opg Profit Gth (%)	43.5	14.8	(36.4)	31.2	10.0
Net Profit Gth (Pre-ex) (%)	224.2	0.2	(42.8)	45.2	12.6
Margins & Ratio					
Gross Margins (%)	26.0	24.0	20.6	20.9	21.5
Opg Profit Margin (%)	18.8	17.6	12.4	13.5	14.2
Net Profit Margin (%)	14.2	11.6	7.4	8.9	9.5
ROAE (%)	14.1	11.4	6.3	8.8	9.4
ROA (%)	8.8	8.2	4.5	6.6	7.3
ROCE (%)	12.0	9.6	6.0	7.9	8.7
Div Payout Ratio (%)	9.5	52.0	79.8	31.5	40.6
Net Interest Cover (x)	22.3	28.1	33.5	72.6	NM

Source: Company, DBSVI

Quarterly / Interim Income Statement (Rpbn)

FY Dec	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018
Revenue	4,055	3,947	4,813	4,446	4,575
Cost of Goods Sold	(3,391)	(3,104)	(3,572)	(3,701)	(3,669)
Gross Profit	665	843	1,241	746	906
Other Oper. (Exp)/Inc	(265)	(285)	(267)	(279)	(285)
Operating Profit	400	558	974	466	620
Other Non Opg (Exp)/Inc	(3.1)	(5.5)	(17.8)	82.0	38.8
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(25.4)	(26.7)	(38.4)	(41.6)	(50.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	371	525	918	507	609
Tax	(115)	(140)	(282)	(133)	(167)
Minority Interest	(13.9)	(22.6)	(31.3)	(18.0)	(13.4)
Net Profit	243	362	605	355	429
Net profit bef Except.	243	362	605	355	429
EBITDA	610	764	1,189	770	881

Growth

Revenue Gth (%)	(9.7)	(2.7)	21.9	(7.6)	2.9
EBITDA Gth (%)	(54.6)	25.3	55.6	(35.3)	14.5
Opg Profit Gth (%)	(64.3)	39.5	74.6	(52.1)	33.1
Net Profit Gth (Pre-ex) (%)	(69.7)	49.4	66.9	(41.3)	20.7

Margins

Gross Margins (%)	16.4	21.4	25.8	16.8	19.8
Opg Profit Margins (%)	9.9	14.1	20.2	10.5	13.6
Net Profit Margins (%)	6.0	9.2	12.6	8.0	9.4

Balance Sheet (Rpbn)

FY Dec	2016A	2017A	2018F	2019F	2020F
Net Fixed Assets	10,028	10,152	9,888	9,760	9,520
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	10,147	10,537	10,715	10,827	10,841
Cash & ST Invt	532	262	1,822	595	1,749
Inventory	2,097	2,018	2,249	2,706	2,817
Debtors	527	548	47.2	57.0	59.7
Other Current Assets	895	1,418	928	1,121	1,175
Total Assets	24,226	24,935	25,650	25,066	26,162
ST Debt	1,985	600	3,981	700	400
Creditor	940	833	994	1,195	1,244
Other Current Liab	1,018	877	1,007	1,200	1,254
LT Debt	2,116	3,369	0.0	1,000	1,000
Other LT Liabilities	574	720	755	792	831
Shareholder's Equity	17,135	18,066	18,359	19,504	20,621
Minority Interests	458	471	554	675	811
Total Cap. & Liab.	24,226	24,935	25,650	25,066	26,162
Non-Cash Wkg. Capital	1,562	2,274	1,224	1,488	1,553
Net Cash/(Debt)	(3,569)	(3,707)	(2,159)	(1,105)	349
Debtors Turn (avg days)	7.4	11.3	6.9	1.0	1.1
Creditors Turn (avg days)	32.6	27.0	29.9	29.3	30.9
Inventory Turn (avg days)	73.7	62.8	69.8	66.3	70.0
Asset Turnover (x)	0.6	0.7	0.6	0.7	0.8
Current Ratio (x)	1.0	1.8	0.8	1.4	2.0
Quick Ratio (x)	0.3	0.4	0.3	0.2	0.6
Net Debt/Equity (X)	0.2	0.2	0.1	0.1	CASH
Net Debt/Equity ex MI (X)	0.2	0.2	0.1	0.1	CASH
Capex to Debt (%)	61.7	35.1	24.0	62.3	56.7
Z-Score (X)	3.9	4.3	4.3	4.0	6.5

Source: Company, DBSVI

Cash Flow Statement (Rpbn)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	2,209	2,939	1,714	2,488	2,800
Dep. & Amort.	1,070	1,198	1,241	1,270	1,135
Tax Paid	0.0	0.0	0.0	0.0	0.0
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(623)	(869)	1,038	(276)	(76.9)
Other Operating CF	(825)	(774)	(480)	(697)	(784)
Net Operating CF	1,830	2,494	3,513	2,785	3,074
Capital Exp.(net)	(2,529)	(1,394)	(955)	(1,059)	(794)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	702	(205)	(61.5)	(65.5)	(70.1)
Net Investing CF	(1,827)	(1,599)	(1,016)	(1,124)	(864)
Div Paid	(191)	(1,046)	(918)	(525)	(763)
Chg in Gross Debt	(3,619)	(123)	13.3	(2,280)	(298)
Capital Issues	3,970	(33.4)	61.1	0.0	0.0
Other Financing CF	73.2	38.6	(93.3)	(83.3)	5.31
Net Financing CF	234	(1,164)	(937)	(2,888)	(1,056)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	237	(269)	1,560	(1,227)	1,154
Opg CFPS (Rp)	1,275	1,747	1,286	1,590	1,637
Free CFPS (Rp)	(363)	572	1,329	897	1,185

Source: Company, DBSVI

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 Oct 17	14850	17700	BUY
2:	30 Oct 17	14675	17700	BUY
3:	10 Nov 17	14600	17700	BUY
4:	27 Nov 17	14300	17700	BUY
5:	21 Dec 17	12950	17700	BUY
6:	12 Jan 18	13325	17700	BUY
7:	12 Feb 18	13325	17700	BUY
8:	27 Feb 18	14000	17700	BUY
9:	13 Mar 18	14000	17700	BUY
10:	12 Apr 18	13575	17700	BUY
11:	24 Apr 18	12875	17700	BUY
12:	11 May 18	12500	17700	BUY
13:	20 Jun 18	11600	17700	BUY
14:	02 Jul 18	11350	15000	BUY
15:	10 Jul 18	10700	15000	BUY
16:	26 Jul 18	10925	15000	BUY
17:	10 Aug 18	12275	15000	BUY
18:	13 Aug 18	11875	15000	BUY
19:	13 Sep 18	13025	15000	BUY

Source: DBSVI

Analyst: William Simadiputra

Indonesia Company Guide

London Sumatra Indonesia

Version 13 | Bloomberg: LSIP IJ | Reuters: LSIP.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Oct 2018

BUY

Last Traded Price (10 Oct 2018): Rp1,215 (JCI : 5,796.80)
Price Target 12-mth: Rp1,400 (15% upside) (Prev Rp1,450)

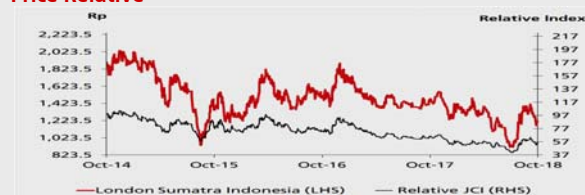
Analyst

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What's New

- Revise down FY18/FY19 earnings by 16%/7%
- ASP benefited from weakening IDR trend
- Yield performance to keep cost under control
- Maintain BUY with slightly higher TP of Rp1,400

Price Relative



Forecasts and Valuation

FY Dec (Rpbn)	2017A	2018F	2019F	2020F
Revenue	4,738	4,355	4,845	4,916
EBITDA	950	569	728	799
Pre-tax Profit	1,006	662	849	947
Net Profit	763	497	638	712
Net Pft (Pre Ex.)	763	497	638	712
Net Pft Gth (Pre-ex) (%)	28.5	(34.8)	28.2	11.6
EPS (Rp)	112	72.9	93.5	104
EPS Pre Ex. (Rp)	112	72.9	93.5	104
EPS Gth Pre Ex (%)	29	(35)	28	12
Diluted EPS (Rp)	112	72.9	93.5	104
Net DPS (Rp)	44.1	45.3	29.5	37.8
BV Per Share (Rp)	1,190	1,215	1,279	1,346
PE (X)	10.9	16.7	13.0	11.6
PE Pre Ex. (X)	10.9	16.7	13.0	11.6
P/Cash Flow (X)	6.7	8.0	7.3	6.8
EV/EBITDA (X)	7.0	10.8	7.7	6.2
Net Div Yield (%)	3.6	3.7	2.4	3.1
P/Book Value (X)	1.0	1.0	0.9	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	9.7	6.1	7.5	7.9
Earnings Rev (%):		(16)	(7)	(6)
Consensus EPS (Rp):		80.8	98.2	111
Other Broker Recs:		B: 19	S: 0	H: 2

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

Remains solid

Maintain BUY with new TP of Rp1,430. We lift our FY19 profit by 4% for our new FX assumption, despite lower USD-based CPO prices. Also, we impute relatively lower cost per hectare for better yield performance and lower fertiliser application. All in all, LSIP will benefit from a weakening IDR against USD on the back of firmer local ASP, after global CPO price reached its 12-month low in July.

Where we differ: Steady yield and margins to drive earnings.

We continue to believe that LSIP's share price could outperform its peers, thanks to its solid estate yield and profitability outlook, which should persist in light of stable overall operating costs. However, the market is concerned about its flat volume growth. LSIP's earnings should broadly reflect ASP movements for CPO, palm kernel (PK) and rubber. We also believe that such fears are well priced in at the current share price level.

Potential catalysts: Steady CPO prices to drive earnings and dividend payment. We expect LSIP's earnings to expand at a CAGR of 16% between FY16 and FY19F (due to the low base effect). This will be primarily driven by fresh fruit bunches (FFB) yield recovery and resilient ASP performance. The solid earnings growth will also come with decent dividend yields of 3%-4% going forward.

Valuation:

We have employed DCF methodology (FY18F base year) to arrive at a fair value of Rp1,400/share (WACC 12.9%; TG 3%) post earnings revision. Our TP implies an FY19 PE of 14.9x.

Key Risks to Our View:

CPO price. There would be downside risks to our CPO price forecasts if Pertamina's biodiesel off-take fails to live up to our expectations (3.1m MT) next year. CPO prices could also move ahead of our forecast if there is significant yield deterioration in South American soybean crops.

At A Glance

Issued Capital (m shrs)	6,823
Mkt. Cap (Rpbn/US\$m)	8,290 / 545
Major Shareholders (%)	
Salim Invomas	59.5
Free Float (%)	40.5
3m Avg. Daily Val (US\$m)	1.8
ICB Industry : Consumer Goods / Rubber & Plantation	

CRITICAL DATA POINTS TO WATC Critical Factors

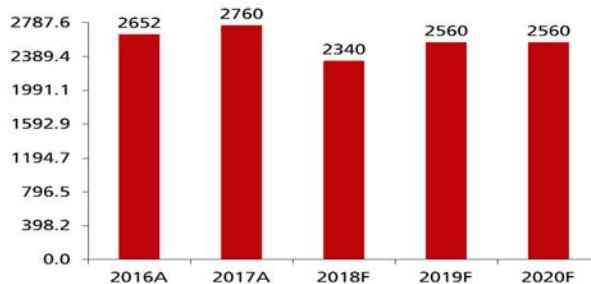
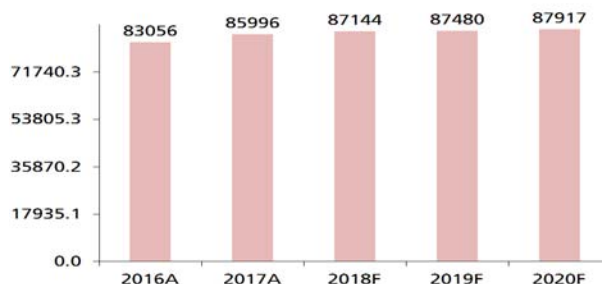
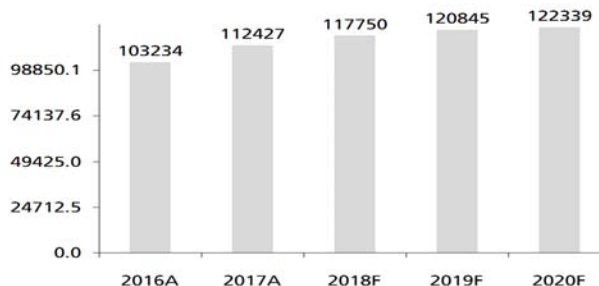
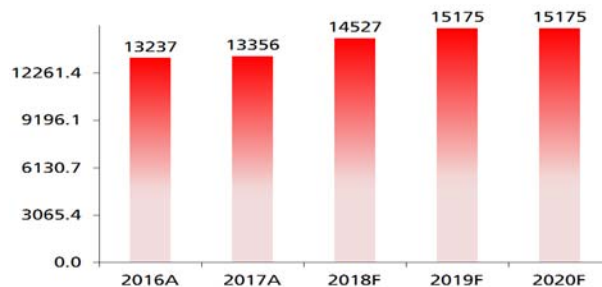
CPO price: Key driver for earnings and share price. As a commodity producer, LSIP is a price-taker. Movements in international CPO prices would have direct impact on the group's profitability. We currently expect CPO prices (FOB Pasir Gudang) to average US\$610/MT (+6.1% y-o-y) in CY19 and US\$611/MT in CY20 (+1.0% y-o-y). CPO price movements are also key drivers for share price.

Trees profile: Prime age. As at end-December 2017, LSIP's trees were estimated to have an average age of 13 years. Approximately 2,500ha will mature in FY18F through FY19F – representing 4% of its own mature hectare at the end of FY16 – but not enough to keep its average age from rising towards 15 years by end- FY19F.

CPO volume growth, driven by nucleus estates. Despite its lack of aggressive expansion since 2009, LSIP'S FFB expanded at a CAGR of 3.6% in FY17-19F. We imputed a 5% y-o-y higher FY18F nucleus FFB output, mainly on yield expansion from its newly maturing trees.

CPO yield expansion supports profitability. We are expecting CPO yield to expand steadily from 3.6MT/ha in 2017 to 3.9MT/ha in 2019 on maturing estates. Relative to other oil crops, palm oil has the highest productivity per hectare at 5 MT/ha, while soybean oil is typically at 0.5 MT/ha. CPO yield also reflects on a planters' management strength, which ultimately affects return on invested capital (ROIC) and profitability.

Revenue exposure to domestic market. LSIP sells more than half of its CPO output to its parent company, Salim Ivomas Pratama (SIMP II, Not Rated), while the remaining CPO is sold locally. LSIP sells its CPO under the spot pricing mechanism. While the group is not subject to biodiesel export levies (US\$50/MT on CPO) on all of its CPO sales volume, local ASP would nevertheless roughly reflect the same discount. This is due to increasing domestic supply caused by export levies. We have already imputed this into our forecast.

CPO price (RM/MT)**Mature oil palm hectareage****CPO sales volume (MT)****Palm kernel sales vol. (MT)****Avg. USD/IDR rate**

Source: Company, DBSVI

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

Yield a critical factor for upstream planters

Historically, CPO price has been a key catalyst for plantation stocks, with share price generally tracking spot CPO prices. However, the outperformance/underperformance of plantation stocks in relation to CPO prices is also dictated by productivity. Stronger/weaker-than-expected yields have led to higher/lower share price sensitivity to CPO prices.

Looking at Indonesia's plantation sector index since 2003, this correlation is still relevant today. We have identified two notable periods of divergence between share and CPO prices:

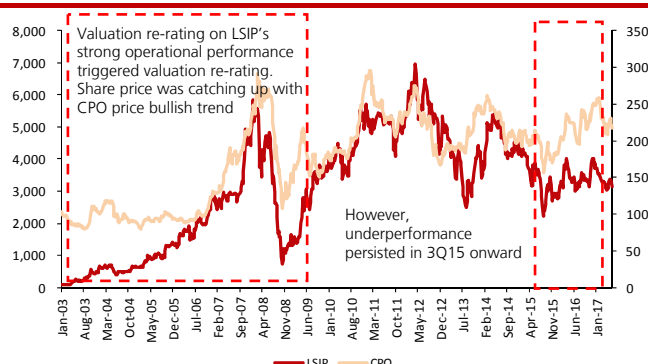
1. Outperformance during August 2009-April 2010, due to better-than-expected CPO yields
2. Conversely, underperformance from September 2015 to now as yields have not fully recovered from the El Nino climate change in 2015.

Indonesia-listed CPO planters AALI and LSIP saw their share price mirror their CPO yield differentials, particularly from 2012 onwards.

CPO yields seem to be common drivers for CPO planters' share price movements, as they are all subject to the same weather vagaries and CPO price movements. CPO yields also reflect on a planters' management strength, which ultimately affects return on invested capital (ROIC) and profitability.

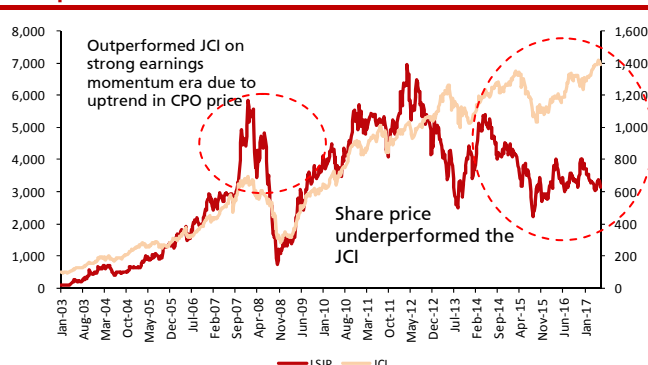
We reckon that the sector's outperformance was driven by better estate management that resulted in a higher yield than regional peers, regardless of the production cycle. A higher yield ensures better economies of scale, enabling the company to attain a higher operating margin and better earnings.

Stock performance relative to CPO price



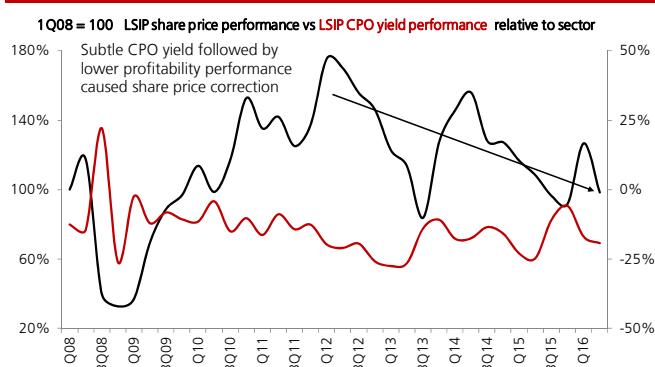
Source: Bloomberg Finance L.P., DBSVI

Stock performance relative to JCI index



Source: Bloomberg Finance L.P., DBSVI

LSIP share price vs. CPO yield performance



Source: Bloomberg Finance L.P., DBSVI

Balance Sheet:

Strong net cash. As at end-June 2018, LSIP remained debt-free. This reflects the group's lack of major expansion of both its biological assets and processing capacity. As at end-June 2018, the group's 4-quarter rolling cash conversion cycle stood at 52 days – up from 36 days at the end of last year on higher inventory days.

Headroom to leverage up to pursue any significant growth opportunities. Amid strict sustainability standards, we expect more private estates to be sold off. Given its strong net cash position, we believe LSIP could acquire more brownfields to boost its flattish output growth outlook. Otherwise, we believe the group should be able to increase its dividend payout to enhance ROE.

Share Price Drivers:

Due for re-rating. The stock is currently trading around -1SD of its 5-year average PE, having plummeted from its December 2016 high. Although no massive PE expansion is expected, we believe the market has yet to fully appreciate its strong production recovery and free cashflow position.

Key Risks:

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

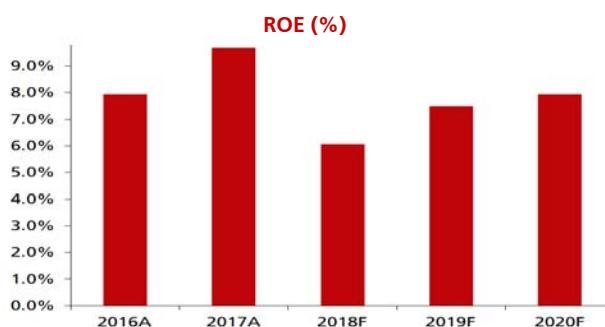
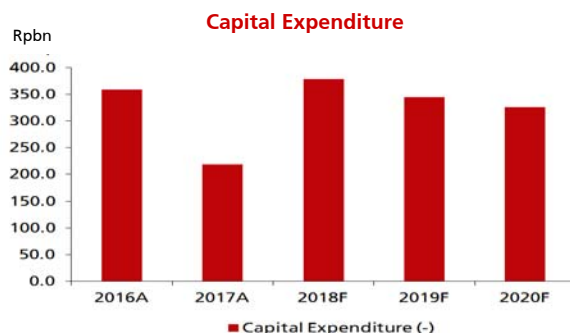
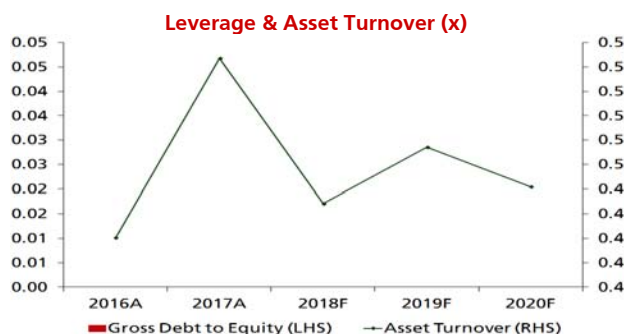
Setback in expansion plans. Our forecasts are based on assumptions of new hectareage for planting/replanting. Any setbacks on these plans would negatively affect our valuation due to slower volume growth.

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

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

Company Background

London Sumatra Indonesia (LSIP) is the second largest listed upstream plantation player in Indonesia and is a subsidiary of Indofood Agri Resources (IFAR SP). Besides palm oil, LSIP also has rubber, cocoa and seed businesses.



Source: Company, DBSVI

Key Assumptions

FY Dec	2016A	2017A	2018F	2019F	2020F
CPO price (RM/MT)	2,652	2,760	2,340	2,560	2,560
Mature oil palm	83,056	85,996	87,145	87,480	87,917
CPO sales volume (MT)	384,535	432,652	453,138	465,048	471,102
Palm kernel sales vol. (MT)	103,234	112,427	117,750	120,845	122,339
Avg. USD/IDR rate	13,237	13,356	14,527	15,175	15,175

Segmental Breakdown

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenues (Rpbn)					
Crude palm oil	2,839	3,678	3,176	3,592	3,650
Palm kernel	666	686	778	829	835
Rubber	200	249	268	281	288
Seeds	74.4	75.3	78.2	84.2	84.5
Others	69.1	49.6	55.0	58.6	59.7
Total	3,848	4,738	4,355	4,845	4,916

(Rpbn)

Income Statement (Rpbn)

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenue	3,848	4,738	4,355	4,845	4,916
Cost of Goods Sold	(2,737)	(3,395)	(3,526)	(3,819)	(3,821)
Gross Profit	1,111	1,343	829	1,026	1,096
Other Opng (Exp)/Inc	(300)	(384)	(253)	(291)	(291)
Operating Profit	811	958	577	735	805
Other Non Opg (Exp)/Inc	(59.7)	(8.9)	(8.0)	(7.2)	(6.5)
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	27.5	56.7	93.5	121	149
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	779	1,006	662	849	947
Tax	(186)	(243)	(166)	(212)	(237)
Minority Interest	1.10	(0.1)	0.90	1.10	1.30
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	594	763	497	638	712
Net Profit before Except.	594	763	497	638	712
EBITDA	751	950	569	728	799
Growth					
Revenue Gth (%)	(8.2)	23.1	(8.1)	11.2	1.5
EBITDA Gth (%)	(3.1)	26.4	(40.1)	28.0	9.7
Opg Profit Gth (%)	(3.0)	18.2	(39.8)	27.5	9.5
Net Profit Gth (Pre-ex) (%)	(4.7)	28.5	(34.8)	28.2	11.6
Margins & Ratio					
Gross Margins (%)	28.9	28.3	19.0	21.2	22.3
Opg Profit Margin (%)	21.1	20.2	13.2	15.2	16.4
Net Profit Margin (%)	15.4	16.1	11.4	13.2	14.5
ROAE (%)	7.9	9.7	6.1	7.5	7.9
ROA (%)	6.5	8.0	5.0	6.0	6.4
ROCE (%)	7.3	8.1	4.6	5.6	5.8
Div Payout Ratio (%)	42.5	39.4	62.1	31.6	36.3
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBSVI

Quarterly / Interim Income Statement (Rpbn)

FY Dec	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018
Revenue	1,004	1,107	1,163	868	895
Cost of Goods Sold	(815)	(798)	(866)	(666)	(701)
Gross Profit	189	309	298	202	194
Other Oper. (Exp)/Inc	(81.4)	(88.7)	(130)	(80.2)	(61.7)
Operating Profit	107	221	168	122	132
Other Non Opg (Exp)/Inc	(1.8)	(0.7)	(4.7)	1.00	(0.3)
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	16.6	12.7	15.4	18.8	17.3
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	122	232	178	142	149
Tax	(36.8)	(52.6)	(54.7)	(26.2)	(40.5)
Minority Interest	0.20	0.20	0.10	(0.3)	(0.6)
Net Profit	85.2	180	124	115	108
Net profit bef Except.	85.2	180	124	115	108
EBITDA	196	327	224	225	229

Growth

Revenue Gth (%)	(31.4)	10.3	5.0	(25.3)	3.1
EBITDA Gth (%)	(64.5)	66.4	(31.5)	0.3	2.1
Opg Profit Gth (%)	(76.9)	105.9	(23.9)	(27.3)	8.1
Net Profit Gth (Pre-ex) (%)	(77.2)	111.3	(31.2)	(6.8)	(6.5)

Margins

Gross Margins (%)	18.8	27.9	25.6	23.3	21.6
Opg Profit Margins (%)	10.7	19.9	14.4	14.1	14.7
Net Profit Margins (%)	8.5	16.3	10.6	13.3	12.0

Balance Sheet (Rpbn)

FY Dec	2016A	2017A	2018F	2019F	2020F
Net Fixed Assets	3,436	3,234	3,167	3,028	2,876
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	4,103	4,342	4,199	4,241	4,287
Cash & ST Invt	1,141	1,634	2,131	2,723	3,357
Inventory	569	308	623	675	675
Debtors	203	176	178	198	201
Other Current Assets	7.20	51.4	17.6	19.1	19.2
Total Assets	9,459	9,744	10,316	10,884	11,416
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	241	213	355	384	384
Other Current Liab	540	203	399	435	440
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	1,033	1,206	1,266	1,332	1,405
Shareholder's Equity	7,640	8,116	8,291	8,727	9,181
Minority Interests	5.90	5.80	5.80	5.80	5.80
Total Cap. & Liab.	9,459	9,744	10,316	10,884	11,416
Non-Cash Wkg. Capital	(1.6)	119	65.4	73.5	71.9
Net Cash/(Debt)	1,141	1,634	2,131	2,723	3,357
Debtors Turn (avg days)	14.9	14.6	14.8	14.2	14.8
Creditors Turn (avg days)	36.7	24.4	29.4	35.3	36.7
Inventory Turn (avg days)	64.5	47.2	48.2	62.0	64.5
Asset Turnover (x)	0.4	0.5	0.4	0.5	0.4
Current Ratio (x)	2.5	5.2	3.9	4.4	5.2
Quick Ratio (x)	1.7	4.3	3.1	3.6	4.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A
Z-Score (X)	4.9	5.5	5.5	4.7	4.6

Source: Company, DBSVI

Cash Flow Statement (Rpbn)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	779	1,006	662	849	947
Dep. & Amort.	387	390	419	445	424
Tax Paid	(186)	(243)	(166)	(212)	(237)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(32.5)	(67.2)	52.1	(9.3)	0.50
Other Operating CF	(65.0)	(15.9)	2.00	2.30	2.50
Net Operating CF	975	1,244	1,030	1,140	1,211
Capital Exp.(net)	(359)	(218)	(379)	(345)	(326)
Other Invt.(net)	179	(249)	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(99.3)	3.20	170	(2.3)	7.20
Net Investing CF	(279)	(464)	(209)	(347)	(319)
Div Paid	(252)	(301)	(309)	(201)	(258)
Chg in Gross Debt	0.0	0.0	0.0	0.0	0.0
Capital Issues	(40.3)	13.5	(14.1)	0.0	0.0
Other Financing CF	0.0	(0.1)	0.0	0.0	0.0
Net Financing CF	(293)	(287)	(323)	(201)	(258)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	404	493	498	591	634
Opg CFPS (Rp)	148	192	143	168	177
Free CFPS (Rp)	90.4	150	95.5	117	130

Source: Company, DBSVI

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 Oct 17	1480	1630	BUY
2:	27 Oct 17	1505	1780	BUY
3:	10 Nov 17	1555	1780	BUY
4:	27 Nov 17	1405	1780	BUY
5:	21 Dec 17	1250	1780	BUY
6:	12 Jan 18	1390	1780	BUY
7:	12 Feb 18	1340	1780	BUY
8:	28 Feb 18	1390	1780	BUY
9:	13 Mar 18	1320	1780	BUY
10:	12 Apr 18	1375	1780	BUY
11:	30 Apr 18	1260	1780	BUY
12:	11 May 18	1100	1780	BUY
13:	20 Jun 18	1095	1780	BUY
14:	02 Jul 18	985	1450	BUY
15:	10 Jul 18	940	1450	BUY
16:	27 Jul 18	1000	1450	BUY
17:	10 Aug 18	1215	1450	BUY
18:	13 Aug 18	1180	1450	BUY
19:	13 Sep 18	1380	1450	BUY

Source: DBSVI

Analyst: William Simadiputra

Singapore Company Guide

Bumitama Agri

Version 14 | Bloomberg: BAL SP | Reuters: BUMI.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Oct 2018

BUY

Last Traded Price (10 Oct 2018): S\$0.66 (STI : 3,131.48)

Price Target 12-mth: S\$0.85 (28% upside) (Prev S\$0.88)

Analyst

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What's New

- Domestic ASP and yield to provide a buffer to 2019 earnings
- Pure upstream play to leverage on CPO price swing
- Young trees underpin strong growth potential
- Maintain BUY with lowered TP of S\$0.85

Price Relative



Forecasts and Valuation

FY Dec (Rpbn)	2017A	2018F	2019F	2020F
Revenue	8,131	7,796	8,947	9,475
EBITDA	2,431	1,892	2,304	2,291
Pre-tax Profit	1,894	1,249	1,652	1,654
Net Profit	1,193	836	1,097	1,102
Net Pft (ex. BA gains)	1,166	836	1,097	1,102
Net Pft (Pre Ex.)	1,193	836	1,097	1,102
Net Pft Gth (Pre-ex) (%)	18.7	(29.9)	31.1	0.5
EPS (S cts)	6.17	4.33	5.67	5.70
EPS Pre Ex. (S cts)	6.17	4.33	5.67	5.70
EPS Gth Pre Ex (%)	19	(30)	31	1
Diluted EPS (S cts)	6.17	4.33	5.67	5.70
Net DPS (S cts)	1.98	1.24	0.87	1.14
BV Per Share (S cts)	38.5	41.6	46.4	51.0
PE (X)	10.7	15.3	11.6	11.6
PE Pre Ex. (X)	10.7	15.3	11.6	11.6
P/Cash Flow (X)	6.8	17.7	6.9	6.4
EV/EBITDA (X)	7.5	10.3	8.1	7.7
Net Div Yield (%)	3.0	1.9	1.3	1.7
P/Book Value (X)	1.7	1.6	1.4	1.3
Net Debt/Equity (X)	0.5	0.6	0.4	0.3
ROAE (%)	16.8	10.8	12.9	11.7

Earnings Rev (%):	(20)	(2)	(3)
Consensus EPS (S cts):	6.48	7.06	7.73
Other Broker Recs:	B: 5	S: 0	H: 0

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

Defensive play on decent yield performance

Earnings buffered by yield and domestic ASP. Our minor earnings forecast adjustment reflects Bumitama Agri (BAL)'s resilient yield performance to offset cost escalations. BAL is poised to benefit from the lucrative long-term CPO price outlook given its younger tree age of 8.5 years and sizeable plantable land bank. Domestic CPO ASP would benefit from a weakening IDR trend against the US dollar.

Where we differ: Besides CPO price, volume expansion will underpin earnings growth. Higher milling capacity outlook is positive for BAL's profitability. We forecast BAL to increase its third-party FFB (fresh fruit bunch) purchase to achieve milling capacity utilisation rate of 68%. Moreover, we believe its aggressive expansion in FY05-13 has kept BAL's tree-age profile younger relative to peers, with double-digit fruit output outlook of 8.5% CAGR in FFB output (including smallholder estates) between FY17 and FY19F.

Potential catalyst: Re-rating on performance delivery. We believe there is currently an excessive liquidity discount placed on the counter. Moreover, higher CPO yield on upcoming maturing trees will improve the company's ROIC and profitability, resulting in consistent earnings delivery trend.

Valuation:

We maintain our BUY rating with discounted cash flow (DCF)-based fair value of S\$0.85/share (WACC: 10.4%, Rf: 8.4%, Rm: 13.3%, β : 0.8, TG: 3%) offering c.26% potential upside from the current level. Our TP implies FY19F PE of 13.7x.

Key Risks to Our View:

CPO price. There would be downside risk to our CPO price forecast if 2018 output grows beyond our expectation. Stronger-than-expected yields across Indonesia and Malaysia may pressurise CPO price trend next year.

At A Glance

Issued Capital (m shrs)	1,740
Mkt. Cap (S\$bn/US\$m)	1.15 / 831
Major Shareholders (%)	
Fortune Holdings Ltd	51.9
IOI Corp Bhd	32.0
Free Float (%)	16.1
3m Avg. Daily Val (US\$m)	0.15
ICB Industry : Consumer Goods / Plantation	

CRITICAL DATA POINTS TO WATCH

Critical Factors

CPO price is key driver of earnings and share price. As a commodity producer, BAL is a price-taker. Movement in international CPO prices would directly impact the group's profitability. We currently expect CPO prices (FOB Pasir Gudang) to average US\$610/MT (+6.1% y-o-y) in CY19 and US\$611/MT in CY20 (+1.0% y-o-y). CPO price movement is also the key driver to plantation companies' share prices (see appendix).

Tree profile: Prime age. As at end-December 2017, BAL's trees were estimated to have an average age of 9 years. We expect the mature area to be flat at 110,000 ha – as the expected maturing 3,000 ha of trees are offset by the replanting phase – which is enough to keep its average age from rising towards 10 years by end-FY19F.

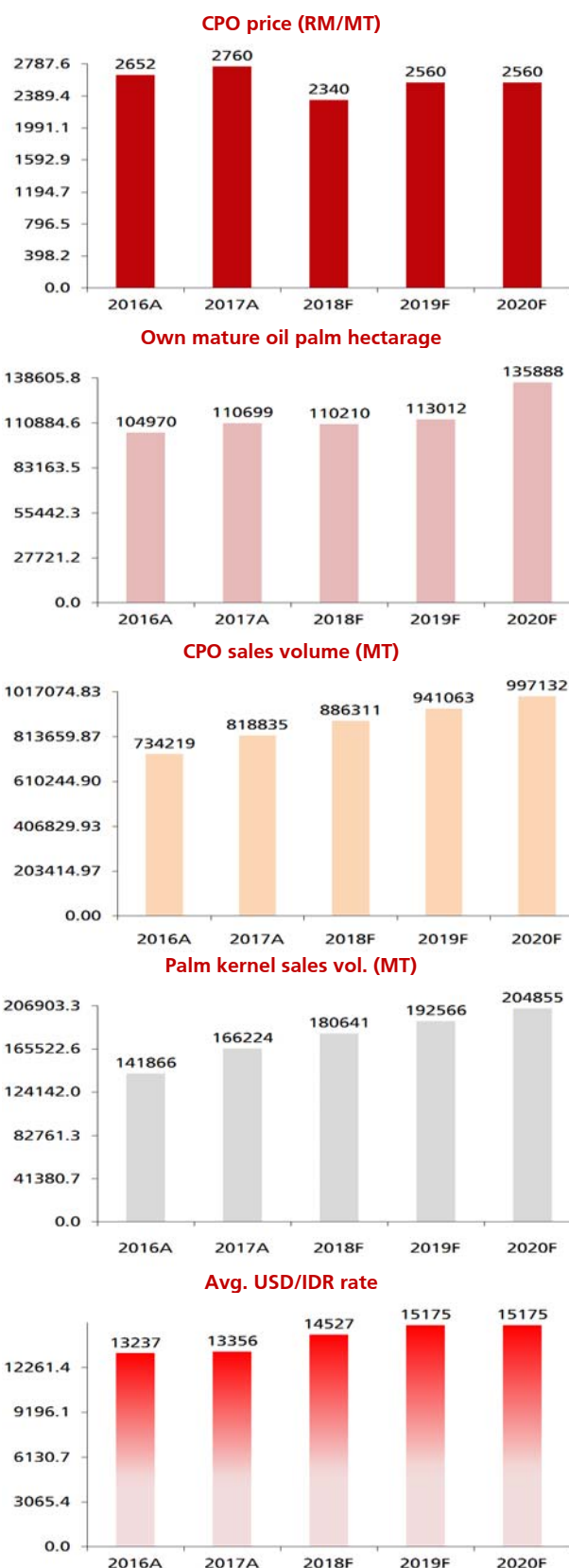
CPO volume growth: CPO output continues to grow in 2018.

We believe aggressive expansion in FY05-13 has kept BAL's tree-age profile younger relative to peers, with double-digit fruit output outlook. We forecast 9.0% CAGR in FFB output (including smallholder estates) between FY17 and FY20F, mainly on yield expansion from its relatively young trees. To maximise its CPO-processing capacity at its mills, BAL will continue to purchase fruits from third-party farmers. We forecast CPO sales volume to grow at a 9% CAGR in FY17-19F.

Sustaining high CPO yield means strong profitability outlook.

We are expecting CPO yield to expand from 3.4MT/ha in 2017- to 3.8MT/ha in 2020 on maturing estates. Relative to other oil crops, palm oil has the highest productivity per hectare at 5MT/ha, while soybean oil's productivity is typically 0.5 MT/ha. Besides, CPO yield also reflects planters' management strength, which ultimately affects return on invested capital (ROIC) and profitability.

Revenue exposure to domestic market. BAL sells its CPO output to the third parties locally at spot prices. While the group is not subject to biodiesel export levies (US\$50/MT on CPO) on all of its CPO sales volume, local ASP would nevertheless roughly reflect the same discount, given the increasing domestic supply as a result of the export levies. We have already imputed this into our forecast.

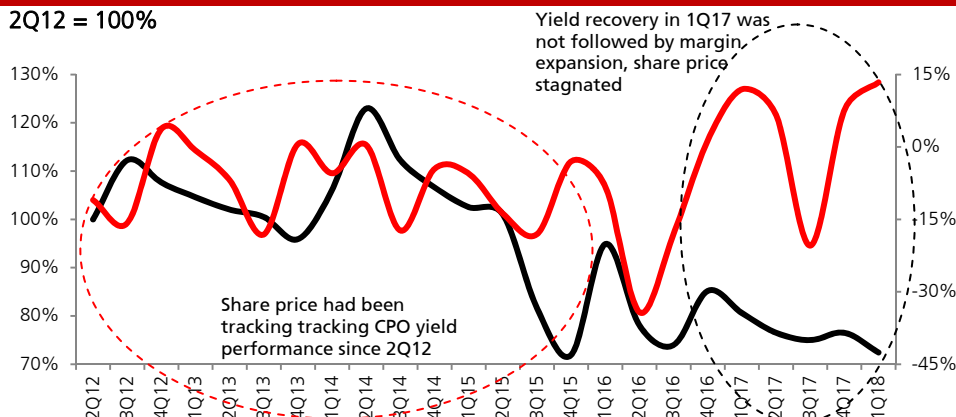


Source: Company, DBSVI, DBS Bank

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

Bumitama's share price performance vs CPO yield performance relative to sector

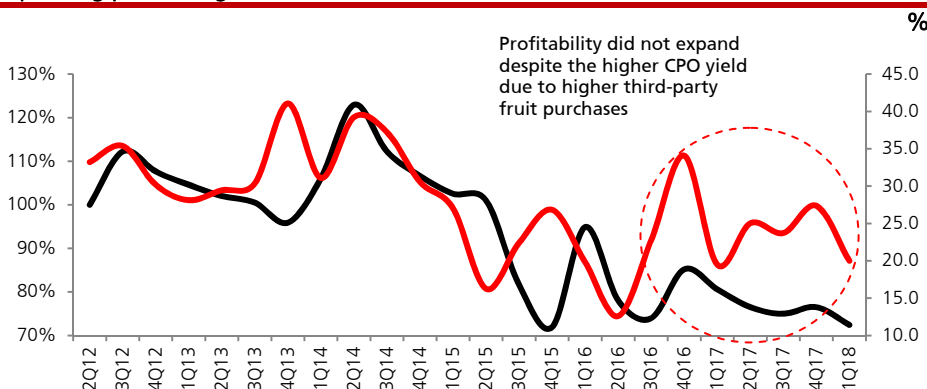
2Q12 = 100%



Remarks

Bumitama's share price has been tracking CPO yield performance since 2Q12. However, the share price diverged in 2Q16 as yield expansion was not followed by margin expansion.

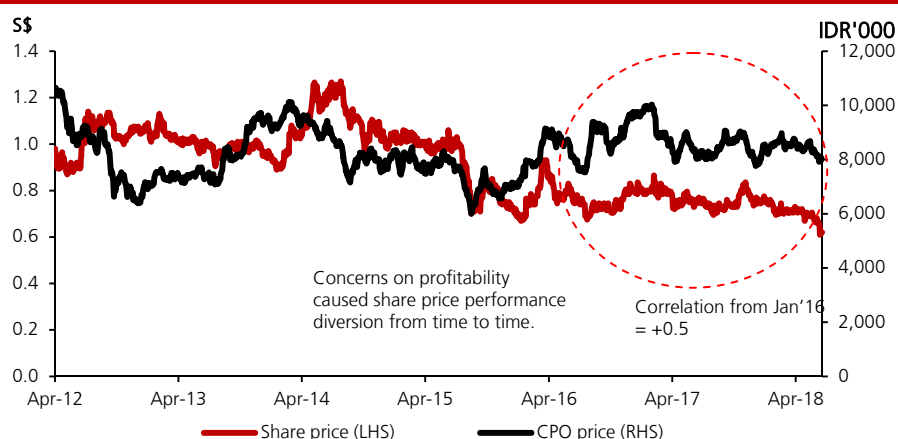
Operating profit margin as a critical factor



Remarks

Bumitama's operating profit margin (OPM) will generally dictate its share price direction, with exceptions noted in 2H13 and 2H15.

CPO prices (in IDR) as a critical factor



Remarks

Palm oil price is the key catalyst for plantation stocks; share price movement trend generally tracks palm oil spot prices. However, the outperformance and underperformance of plantation stocks to CPC prices is dictated by the productivity factor or yields.

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

Balance Sheet:

BAL's balance sheet should be able to withstand any downcycles. BAL's net gearing ratio is forecast to settle at 30% by the end of FY18 and 20% at end-FY19. On our estimates, BAL's borrowing costs should continue to remain lower than peers. BAL's interest coverage is forecast to average 7.8x in FY18 and 8.9x in FY19.

Share Price Drivers:

No urgency to expand downstream. On our estimates, BAL's mature estates are due to expand by 500 ha in FY18F, followed by 2,600 ha in FY19F (reflecting the lack of new expansion in FY14 – as the group is working towards ensuring sustainable development). BAL's milling capacity should nevertheless expand through FY21F, and we should see expansion of its workforce to process the exponential growth in harvested FFB. Until its CPO output reaches critical mass of 1m MT or more, we do not see BAL expanding downstream. BAL's relatively higher margins (even with export tax policies) – vis-à-vis integrated players – should maximise its shareholders' return on equity, in our view.

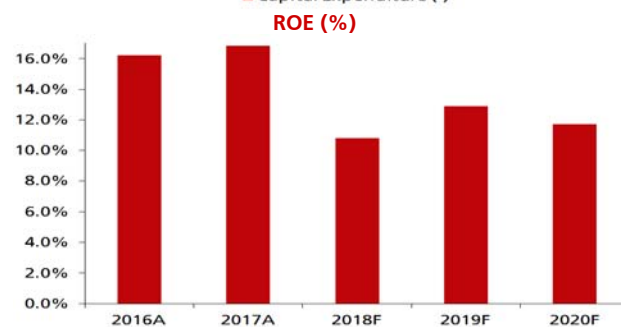
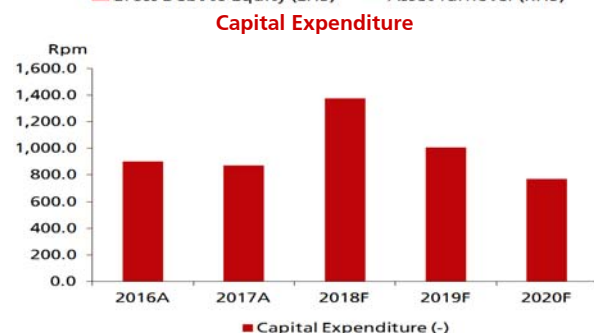
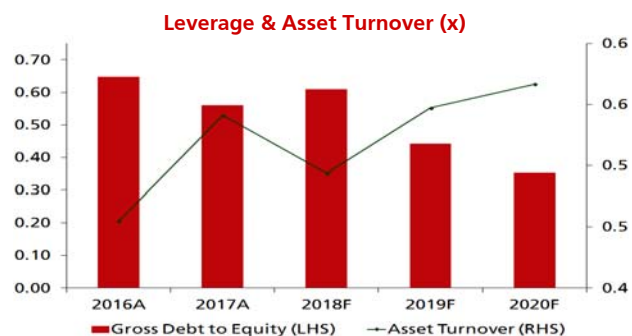
Steady expansion ahead. Having committed itself to a sustainable development programme, the group has slowed its expansion since FY14, and intends to undertake a more sustainable 3,000-ha p.a. expansion pace (including smallholder estates) from FY17F onwards.

Key Risks:

Where we may go wrong. Our earnings expectations and valuation are based on several key assumptions. Any setback in FFB yields (due to severe weather) or expansion (i.e. lower than 3,000 ha p.a.) would adversely impact our long-term forecast and valuation. BAL's share price is also linearly driven by CPO price expectations and partly by rupiah movements. A drop in CPO prices may drag the share price below our fair value, and vice versa.

Company Background

Fast-growing palm oil producer Bumitama Agri (BAL) was established in 1996 by Harita Group through the acquisition of 17,500 ha of land bank in Central Kalimantan. After aggressive new plantings and a string of subsequent acquisitions, BAL controlled an aggregate of c.207,778 ha of land as at end-2017 (including land under the smallholder schemes), of which 167,954 ha was planted as at end-Dec 2017. BAL was listed on the Singapore Exchange in April 2012.



Source: Company, DBSVI, DBS Bank

Key Assumptions

FY Dec	2016A	2017A	2018F	2019F	2020F
CPO price (RM/MT)	2,652	2,760	2,340	2,560	2,560
Own mature oil palm	104,970	110,699	110,210	113,012	135,888
CPO sales volume (MT)	734,219	818,835	886,311	941,063	997,132
Palm kernel sales vol. (MT)	141,866	166,224	180,641	192,566	204,855
Avg. USD/IDR rate	13,237	13,356	14,527	15,175	15,175

Segmental Breakdown

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenues (Rpbn)					
CPO	5,417	6,744	6,286	7,277	7,725
PK	902	1,119	1,258	1,392	1,473
Biodiesel	310	265	251	276	277
Glycerin	0.89	3.23	0.98	1.08	1.08
Total	6,630	8,131	7,796	8,947	9,475

Income Statement (Rpbn)

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenue	6,630	8,131	7,796	8,947	9,475
Cost of Goods Sold	(4,654)	(5,742)	(5,940)	(6,680)	(7,265)
Gross Profit	1,976	2,389	1,856	2,267	2,210
Other Opg (Exp)/Inc	(394)	(449)	(499)	(536)	(571)
Operating Profit	1,581	1,940	1,357	1,731	1,639
Other Non Opg (Exp)/Inc	(62.8)	(25.0)	(100.0)	(92.2)	(52.3)
Associates & JV Inc	(21.8)	(2.3)	(0.1)	2.07	4.25
Net Interest (Exp)/Inc	18.9	(18.1)	(8.2)	11.7	62.6
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	1,516	1,894	1,249	1,652	1,654
Tax	(328)	(470)	(260)	(356)	(350)
Minority Interest	(183)	(231)	(152)	(200)	(201)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	1,005	1,193	836	1,097	1,102
Net Profit before Except.	1,005	1,193	836	1,097	1,102
Net Pft (ex. BA gains)	985	1,166	836	1,097	1,102
EBITDA	1,933	2,431	1,892	2,304	2,291
EBITDA (ex. BA gains)	1,906	2,395	1,892	2,304	2,291
Growth					
Revenue Gth (%)	19.6	22.6	(4.1)	14.8	5.9
EBITDA Gth (%)	41.2	25.8	(22.2)	21.8	(0.5)
Opg Profit Gth (%)	25.9	22.7	(30.1)	27.6	(5.3)
Net Profit Gth (Pre-ex) (%)	40.8	18.7	(29.9)	31.1	0.5
Margins & Ratio					
Gross Margins (%)	29.8	29.4	23.8	25.3	23.3
Opg Profit Margin (%)	23.9	23.9	17.4	19.3	17.3
Net Profit Margin (%)	15.2	14.7	10.7	12.3	11.6
ROAE (%)	16.2	16.8	10.8	12.9	11.7
ROA (%)	6.9	7.9	5.3	6.7	6.6
ROCE (%)	9.2	10.3	7.2	8.8	8.3
Div Payout Ratio (%)	11.2	32.0	28.7	15.4	20.0
Net Interest Cover (x)	NM	107.1	166.2	NM	NM

Source: Company, DBSVI, DBS Bank

Quarterly / Interim Income Statement (Rpbn)

FY Dec	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018
Revenue	2,094	1,920	2,051	2,066	1,908
Cost of Goods Sold	(1,558)	(1,358)	(1,441)	(1,385)	(1,390)
Gross Profit	537	562	609	681	518
Other Oper. (Exp)/Inc	(129)	(81.7)	(123)	(116)	(137)
Operating Profit	408	480	486	565	382
Other Non Opg (Exp)/Inc	2.34	(4.9)	(60.2)	21.1	(15.9)
Associates & JV Inc	4.26	0.16	4.43	5.60	0.46
Net Interest (Exp)/Inc	(1.8)	(9.3)	(6.5)	(0.5)	(9.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	413	466	424	591	357
Tax	(90.5)	(129)	(114)	(136)	(83.5)
Minority Interest	(43.7)	(52.1)	(43.5)	(91.5)	(41.9)
Net Profit	278	285	266	364	232
Net profit bef Except.	278	285	266	364	232
EBITDA	415	476	430	592	366

Growth

Revenue Gth (%)	(7.7)	(8.3)	6.8	0.7	(7.6)
EBITDA Gth (%)	(39.4)	14.7	(9.5)	37.5	(38.1)
Opg Profit Gth (%)	(47.3)	17.8	1.2	16.2	(32.5)
Net Profit Gth (Pre-ex) (%)	(39.7)	2.4	(6.6)	36.6	(36.3)

Margins

Gross Margins (%)	25.6	29.3	29.7	33.0	27.2
Opg Profit Margins (%)	19.5	25.0	23.7	27.4	20.0
Net Profit Margins (%)	13.3	14.8	13.0	17.6	12.1

Balance Sheet (Rpbn)

FY Dec	2016A	2017A	2018F	2019F	2020F
Net Fixed Assets	3,307	3,443	3,866	4,100	4,209
Invts in Associates & JVs	2.29	0.0	0.0	0.0	0.0
Other LT Assets	9,163	9,940	10,229	9,968	9,692
Cash & ST Invts	517	217	111	83.8	745
Inventory	612	444	605	681	740
Debtors	278	287	405	465	492
Other Current Assets	888	960	1,066	1,111	1,147
Total Assets	14,767	15,290	16,283	16,409	17,026
ST Debt	1,008	339	339	939	339
Creditor	572	500	554	623	678
Other Current Liab	336	440	386	414	428
LT Debt	3,860	4,410	5,277	3,643	3,698
Other LT Liabilities	1,469	1,130	506	441	453
Shareholder's Equity	6,718	7,449	8,045	8,974	9,855
Minority Interests	804	1,022	1,175	1,374	1,575
Total Cap. & Liab.	14,767	15,290	16,283	16,409	17,026
Non-Cash Wkg. Capital	870	751	1,136	1,219	1,274
Net Cash/(Debt)	(4,351)	(4,532)	(5,505)	(4,498)	(3,291)
Debtors Turn (avg days)	24.1	12.7	16.2	17.7	18.4
Creditors Turn (avg days)	65.2	37.4	36.3	35.7	36.2
Inventory Turn (avg days)	54.6	36.9	36.1	39.0	39.5
Asset Turnover (x)	0.5	0.5	0.5	0.5	0.6
Current Ratio (x)	1.2	1.5	1.7	1.2	2.2
Quick Ratio (x)	0.4	0.4	0.4	0.3	0.9
Net Debt/Equity (X)	0.6	0.5	0.6	0.4	0.3
Net Debt/Equity ex MI (X)	0.6	0.6	0.7	0.5	0.3
Capex to Debt (%)	18.5	18.3	24.5	21.9	19.0
Z-Score (X)	2.5	2.8	2.7	3.1	3.3

Source: Company, DBSVI, DBS Bank

Cash Flow Statement (Rpbn)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	1,516	1,894	1,249	1,652	1,654
Dep. & Amort.	436	518	635	663	700
Tax Paid	(231)	(361)	(260)	(356)	(350)
Assoc. & JV Inc/(loss)	21.8	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(253)	(253)	(279)	(37.3)	(19.3)
Other Operating CF	(116)	84.9	(625)	(67.8)	10.1
Net Operating CF	1,372	1,883	720	1,854	1,994
Capital Exp.(net)	(901)	(871)	(1,374)	(1,004)	(765)
Other Invt.(net)	(96.2)	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	292	(159)	(79.5)	323	197
Net Investing CF	(705)	(1,030)	(1,454)	(681)	(569)
Div Paid	(112)	(382)	(240)	(168)	(221)
Chg in Gross Debt	(499)	(469)	867	(1,034)	(545)
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(137)	(300)	1.96	2.06	2.16
Net Financing CF	(748)	(1,151)	629	(1,200)	(764)
Currency Adjustments	(0.8)	(3.0)	0.0	0.0	0.0
Chg in Cash	(81.7)	(300)	(106)	(27.2)	662
Opg CFPS (\$ cts)	8.41	11.1	5.17	9.79	10.4
Free CFPS (\$ cts)	2.44	5.24	(3.4)	4.40	6.36

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 Oct 17	0.73	0.94	BUY
2:	13 Oct 17	0.74	0.94	BUY
3:	10 Nov 17	0.81	0.94	BUY
4:	14 Nov 17	0.84	0.94	BUY
5:	27 Nov 17	0.78	0.94	BUY
6:	21 Dec 17	0.75	0.94	BUY
7:	12 Jan 18	0.76	0.94	BUY
8:	12 Feb 18	0.70	0.94	BUY
9:	27 Feb 18	0.75	0.94	BUY
10:	13 Mar 18	0.72	0.94	BUY
11:	12 Apr 18	0.72	0.94	BUY
12:	08 May 18	0.67	0.94	BUY
13:	11 May 18	0.69	0.94	BUY
14:	20 Jun 18	0.65	0.94	BUY
15:	02 Jul 18	0.64	0.88	BUY
16:	10 Jul 18	0.65	0.88	BUY
17:	10 Aug 18	0.70	0.88	BUY
18:	13 Aug 18	0.70	0.88	BUY
19:	14 Aug 18	0.71	0.88	BUY
20:	13 Sep 18	0.69	0.88	BUY

Source: DBSVI, DBS Bank

Analyst: William Simadiputra

Rui Wen LIM

Singapore Company Guide

First Resources

Version 13 | Bloomberg: FR SP | Reuters: FRLD.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Oct 2018

BUY

Last Traded Price (10 Oct 2018): S\$1.68 (STI : 3,131.48)

Price Target 12-mth: S\$1.97 (17% upside) (Prev S\$2.00)

Analyst

William Simadiputra +62 2130034939

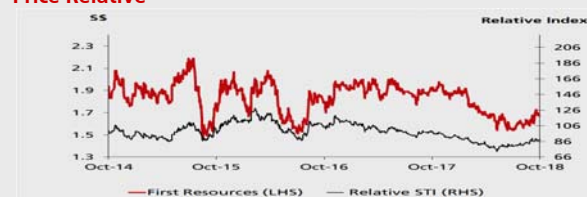
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What's New

- Positive earnings growth of 13% y-o-y in 2019
- Yield to keep cost low
- Earnings revision on new FX and CPO price assumption
- Maintain BUY with new TP of S\$1.97

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2017A	2018F	2019F	2020F
Turnover	647	583	643	692
EBITDA	292	252	287	320
Pre-tax Profit	209	173	206	242
Net Profit	138	123	149	174
Net Pft (Pre Ex.)	138	123	149	174
Net Pft (ex. BA gains)	139	123	149	174
Net Pft Gth (Pre-ex) (%)	9.8	(10.8)	21.2	17.2
EPS (S cts)	12.0	10.7	13.0	15.2
EPS Pre Ex. (S cts)	12.0	10.7	13.0	15.2
EPS Gth Pre Ex (%)	10	(11)	21	17
Diluted EPS (S cts)	12.0	10.7	13.0	15.2
Net DPS (S cts)	3.7	6.8	3.4	4.0
BV Per Share (S cts)	84.8	88.7	98.3	109.4
PE (X)	14.0	15.7	12.9	11.0
PE Pre Ex. (X)	14.0	15.7	12.9	11.0
P/Cash Flow (X)	8.3	7.6	8.6	7.5
EV/EBITDA (X)	7.5	8.2	6.9	5.7
Net Div Yield (%)	2.2	4.1	2.0	2.4
P/Book Value (X)	2.0	1.9	1.7	1.5
Net Debt/Equity (X)	0.2	0.1	CASH	CASH
ROAE (%)	14.9	12.4	13.9	14.7
Earnings Rev (%):		(15)	(5)	(2)
Consensus EPS (S cts):		12.9	15.5	16.9
Other Broker Recs:		B: 11	S: 0	H: 6

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

Ample growth trajectory

Aiming for positive earnings growth in FY19. We remain positive on First Resources (FR)'s earnings performance on decent output and yield prospects. We expect earnings to grow by 13% y-o-y to US\$149m on the back of flat ASP and volume expansion. Yield performance will also help to keep FR's cost per hectare low.

Where we differ: We like FR's organic growth prospects. We believe FR's young trees will continue to boost its CPO yield and drive CPO volume growth. Higher CPO yields on maturing trees will improve FR's ROIC and profitability on the back of better operating scale, resulting in strong earnings growth momentum ahead. FR's aggressive planting in East and West Kalimantan between FY12 and FY14 should contribute to the group's strong volume and earnings growth in FY19F.

Potential catalyst: Consistent earnings delivery. We believe consistent earnings delivery should move FR's stock price higher. Moreover, a more stable CPO price outlook will mean that FR's earnings growth will be driven by volume and CPO yield expansion.

Valuation:

We employed DCF methodology (FY19F as base year; WACC 11.8%; TG 3%) to arrive at a slightly lower fair value of S\$1.97/ share after imputing our earnings forecast adjustments.

Key Risks to Our View:

CPO output may affect CPO price trend. Stronger-than-expected yields across Indonesia and Malaysia may pressurise CPO price trends next year.

At A Glance

Issued Capital (m shrs)	1,584
Mkt. Cap (S\$m/US\$m)	2,661 / 1,925
Major Shareholders (%)	
Eight Capital Inc	64.5
FIL Ltd / Bermuda	6.5
King Fortune International Inc	5.6
Free Float (%)	30.4
3m Avg. Daily Val (US\$m)	0.46

ICB Industry : Consumer Goods / Plantation

CRITICAL DATA POINTS TO WATCH

Critical Factors

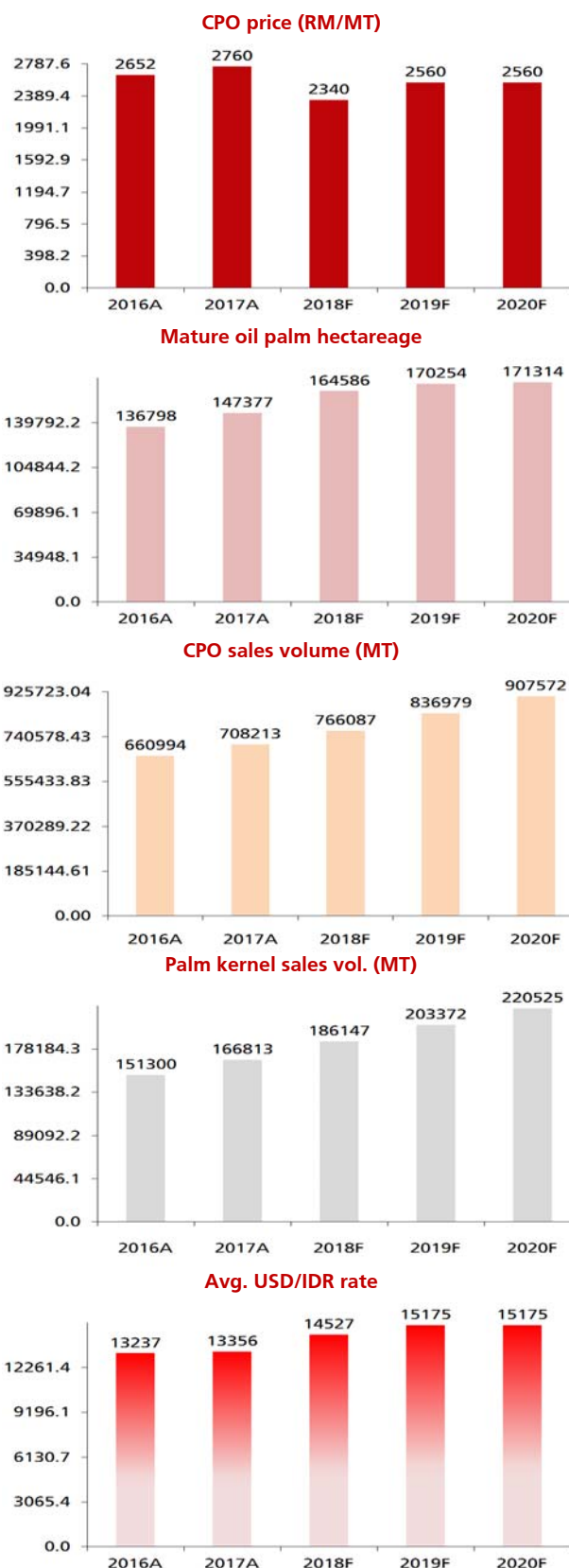
CPO price is key driver of earnings and share price. As a commodity producer, FR is a price-taker. Movements in international CPO prices would directly impact the group's profitability. We currently expect CPO prices (FOB Pasir Gudang) to average US\$610/MT (+6.1% y-o-y) in CY19 and US\$611/MT in CY20 (+1.0% y-o-y). CPO price movements is the key driver to plantation companies' share price (see appendix).

Trees profile: Young tree age. As at end-December 2017, the average age of FR's trees was estimated to be 11 years. Approximately 18,000 ha will mature in FY18F and FY19F – representing 20% of its own mature hectareage at the end of FY19 – which would raise the average age of its trees to 12 years by end-FY19F.

CPO volume growth: CPO output recovered in 2017, and will continue to grow in 2018 and 2019. FR's aggressive planting in East and West Kalimantan between FY12 and FY14 will contribute to the group's strong volume and earnings growth through to FY18F. FR's FFB expanded at a CAGR of 9% in FY17-20F on the back of recovering yields. We imputed 11% y-o-y higher FY19F nucleus FFB output on yield expansion.

Sustaining high CPO yield means strong profitability outlook. We are expecting CPO yields to sustain at 4.0MT/ha in 2017-2019 from its maturing estates. Relative to other oil crops, palm oil has the highest productivity per hectare of 5.0MT/ha, while soybean oil's productivity is typically 0.5MT/ha. Besides, CPO yield also reflects planters' management strength, which ultimately affects return on invested capital (ROIC) and profitability.

Revenue exposure to domestic market. FR sells its CPO output to third parties locally based on a spot pricing mechanism. While the group is not subject to biodiesel export levies (US\$50/MT on CPO) on all of its CPO sales volume, local ASP would nevertheless roughly reflect the same discount, given the increasing domestic supply as a result of the export levies. We have already imputed this into our forecast.

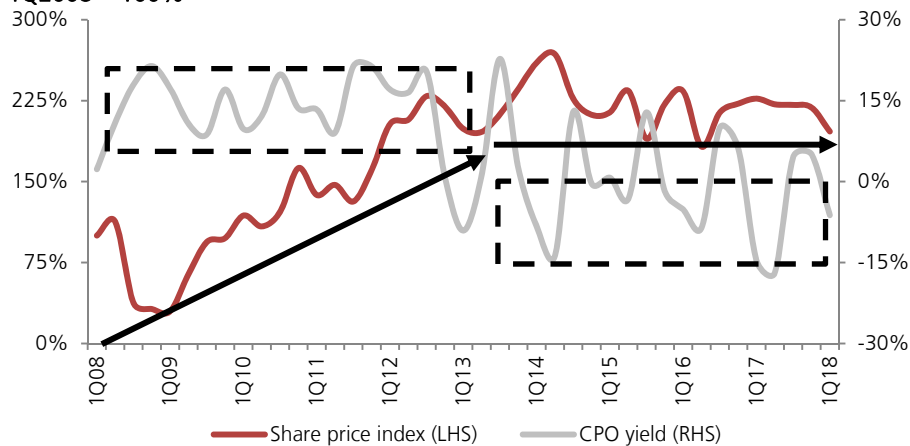


Source: Company, DBSVI, DBS Bank

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

First Resources' share price performance vs CPO yield performance relative to sector

1Q2008 = 100%



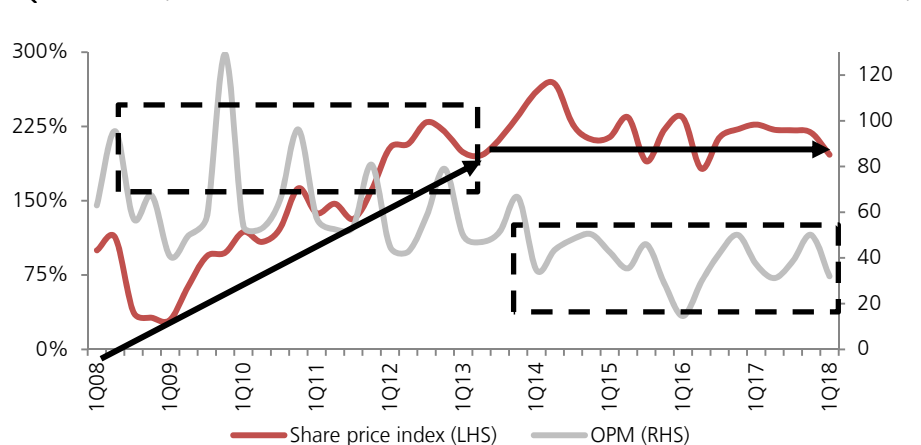
Remarks

FR's share price has high correlation to CPO yield.

The share price has consistently outperformed its index (GGR, FR, BAL), averaging 14% p.a. in 1Q08-4Q12.

Operating profit margin as a critical factor

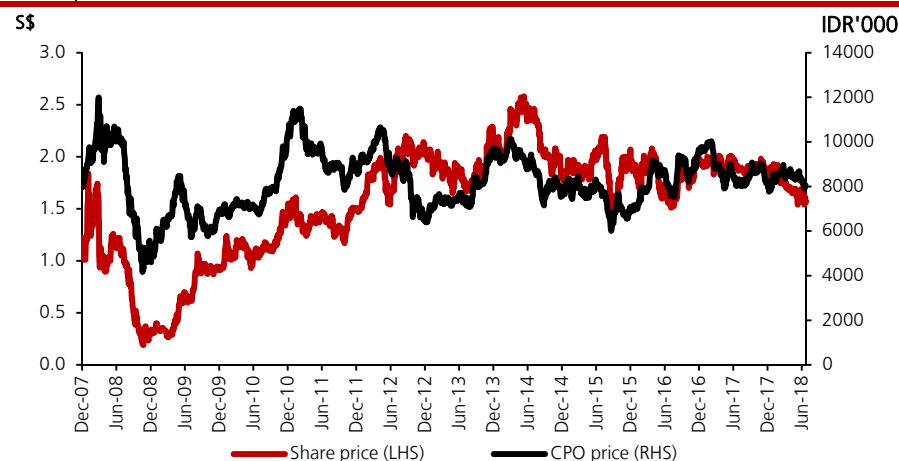
1Q2008 = 100%



Remarks

Share price outperformance over 1Q08-4Q12 may be explained by its high operating profit margin (OPM) over the period. OPM is still relevant in explaining share price sensitivity.

CPO prices (in IDR) as a critical factor



Remarks

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

Share price correlation with CPO prices over the last 9 years is ~44%.

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

Balance Sheet:

Balance sheet deleveraging potential. On our estimates, FR's debt cost is a paltry 3.9% p.a. The low cost comes primarily from Sukuk issuances between 2012 and 2014 – which were subsequently swapped into USD. While the group had indicated its intention to refinance maturing Sukuk this year, we are maintaining our debt profile forecast for now. The group's net debt-to-total equity ratio is projected to be 10% at end-December 2018 vs. 20% at end-December 2017.

Strong free cash flow generation. We expect the group to spend US\$2.2m in FY18 (c.2,000 ha on new planting and 15,000 ha immature). This would translate into free cash flow generation of US\$202m in FY18F and US\$230m in FY19F – translating into free cash flow yield of ~9% relative to its intrinsic value.

Share Price Drivers:

Trading at a discount. The stock is currently trading close to -1SD from its average historical PE. We believe consistent earnings delivery in FY18 should move the stock price higher.

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 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.

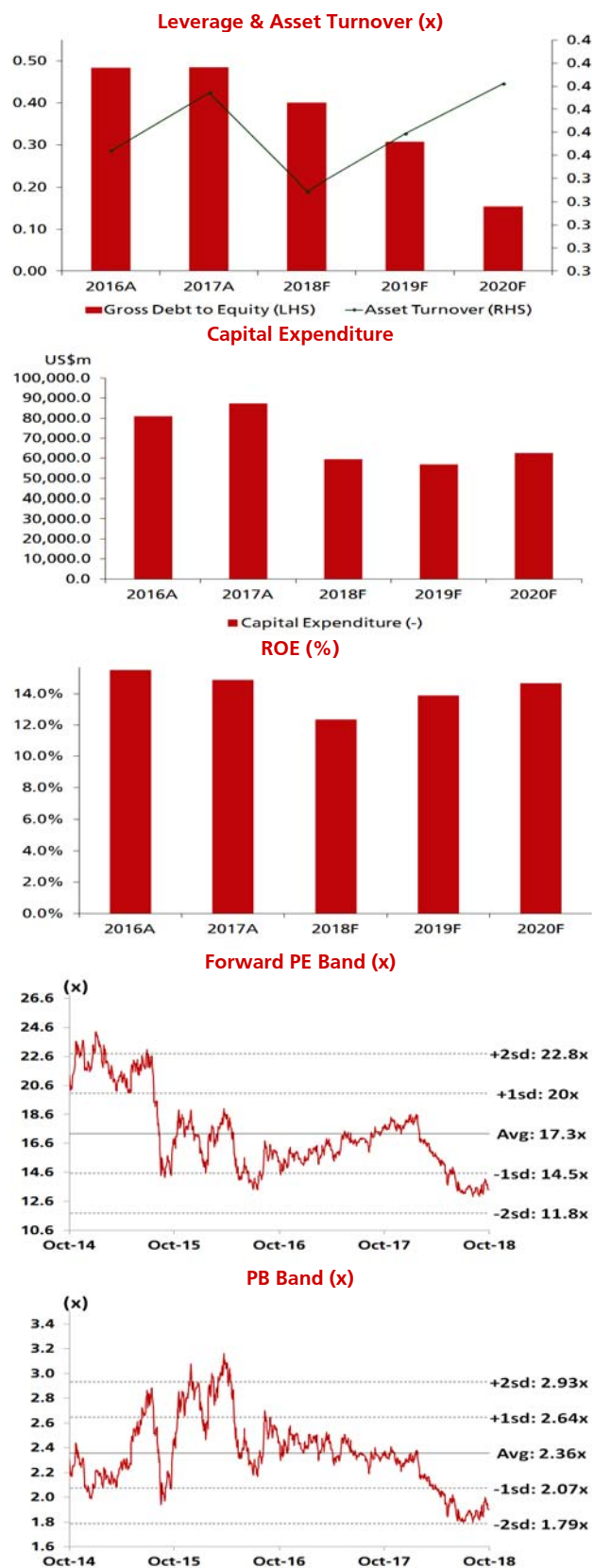
Setback in expansion plans. Our forecasts are based on assumed hectareage for new planting and replanting. Any setback on these plans would negatively affect our valuation due to slower volume growth.

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 towards or out of emerging markets would affect valuations for plantation counters.

Company Background

First Resources (FR) is a mid-sized planter with a strong balance sheet and decent growth outlook. FR has been aggressively planting since 2004, and is one of the few upstream planters that have successfully expanded downstream – albeit on a small scale.



Source: Company, DBSVI, DBS Bank

Key Assumptions

FY Dec	2016A	2017A	2018F	2019F	2020F
CPO price (RM/MT)	2,652	2,760	2,340	2,560	2,560
Mature oil palm	136,798	147,377	164,586	170,254	171,314
CPO sales volume (MT)	660,994	708,213	766,087	836,979	907,572
Palm kernel sales vol. (MT)	151,300	166,813	186,147	203,372	220,525
Avg. USD/IDR rate	13,237	13,356	14,527	15,175	15,175

Segmental Breakdown

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenues (US\$m)					
CPO	388	427	342	436	479
Palm kernel	75	76	85	92	99
Olein, RBDPO, biodiesel	361	354	303	270	272
PKO	55	45	45	45	45
Others	(304)	(256)	(191)	(200)	(202)
Total	575	647	583	643	692

(US\$m)

Income Statement (US\$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenue	575	647	583	643	692
Cost of Goods Sold	(308)	(340)	(320)	(350)	(364)
Gross Profit	267	307	263	293	328
Other Opng (Exp)/Inc	(60)	(80)	(76)	(75)	(79)
Operating Profit	208	227	187	218	249
Other Non Opg (Exp)/Inc	(1)	3	(2)	(2)	(2)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(24)	(21)	(12)	(9)	(4)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	183	209	173	206	242
Tax	(51)	(64)	(43)	(50)	(58)
Minority Interest	(6)	(8)	(7)	(8)	(10)
Preference Dividend	0	0	0	0	0
Net Profit	125	138	123	149	174
Net Profit before Except.	125	138	123	149	174
EBITDA	264	292	252	287	320
Growth					
Revenue Gth (%)	26.8	12.5	(9.9)	10.3	7.6
EBITDA Gth (%)	22.0	10.7	(13.6)	13.7	11.6
Opg Profit Gth (%)	22.3	9.3	(17.5)	16.5	13.9
Net Profit Gth (%)	31.1	9.8	(10.8)	21.2	17.2
Margins & Ratio					
Gross Margins (%)	46.5	47.4	45.1	45.6	47.3
Opg Profit Margin (%)	36.1	35.1	32.1	33.9	35.9
Net Profit Margin (%)	21.8	21.3	21.1	23.1	25.2
ROAE (%)	15.5	14.9	12.4	13.9	14.7
ROA (%)	7.7	8.0	7.0	8.3	9.6
ROCE (%)	9.9	10.0	8.6	10.0	11.3
Div Payout Ratio (%)	18.1	31.2	63.8	26.1	26.6
Net Interest Cover (x)	8.6	11.0	15.1	23.4	59.7

Source: Company, DBSVI, DBS Bank

Quarterly / Interim Income Statement (US\$m)

FY Dec	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018
Revenue	194	135	137	175	136
Cost of Goods Sold	(102)	(77)	(66)	(80)	(72)
Gross Profit	92	57	71	96	63
Other Oper. (Exp)/Inc	(20)	(15)	(18)	(8)	(20)
Operating Profit	72	42	53	88	43
Other Non Opg (Exp)/Inc	2	(1)	2	0	2
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(6)	(5)	(5)	(6)	(4)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	68	36	50	81	41
Tax	(17)	(12)	(16)	(21)	(11)
Minority Interest	(2)	(1)	(2)	(3)	(2)
Net Profit	48	23	32	58	28
Net profit bef Except.	48	23	32	58	28
EBITDA	74	41	55	87	45

Growth

Revenue Gth (%)	10.8	(30.7)	2.1	27.5	(22.6)
EBITDA Gth (%)	(15.1)	(44.1)	32.3	59.3	(48.5)
Opg Profit Gth (%)	(17.7)	(41.8)	26.6	65.1	(50.6)
Net Profit Gth (%)	(16.5)	(52.2)	37.8	81.9	(52.2)

Margins

Gross Margins (%)	47.4	42.6	51.9	54.5	46.7
Opg Margins (%)	37.1	31.2	38.6	50.0	32.0
Net Profit Margins (%)	25.0	17.2	23.2	33.1	20.5

Balance Sheet (US\$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Net Fixed Assets	329	337	345	345	342
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	936	961	903	895	892
Cash & ST Invt	258	279	330	390	371
Inventory	78	67	76	83	86
Debtors	36	35	38	42	45
Other Current Assets	63	51	63	69	72
Total Assets	1,700	1,731	1,755	1,824	1,809
ST Debt	224	21	72	160	198
Creditor	159	65	109	119	124
Other Current Liab	18	21	15	17	18
LT Debt	224	475	358	206	7
Other LT Liabilities	148	126	128	130	133
Shareholder's Equity	881	972	1,016	1,126	1,254
Minority Interests	45	50	57	65	75
Put Equity Reserve	N/A	N/A	N/A	N/A	N/A
Total Cap. & Liab.	1,700	1,731	1,755	1,824	1,809
Non-Cash Wkg. Capital	0	67	53	58	61
Net Cash/(Debt)	(190)	(217)	(99)	24	166
Debtors Turn (avg days)	23.9	19.9	22.9	22.8	23.1
Creditors Turn (avg days)	152.5	147.4	125.9	149.5	153.1
Inventory Turn (avg days)	106.2	95.4	103.2	104.1	106.6
Asset Turnover (x)	0.4	0.4	0.3	0.4	0.4
Current Ratio (x)	1.1	4.0	2.6	2.0	1.7
Quick Ratio (x)	0.7	2.9	1.9	1.5	1.2
Net Debt/Equity (X)	0.2	0.2	0.1	CASH	CASH
Net Debt/Equity ex MI (X)	0.2	0.2	0.1	CASH	CASH
Capex to Debt (%)	18.1	17.6	13.8	15.5	30.5
Z-Score (X)	3.2	3.7	3.7	3.9	4.6

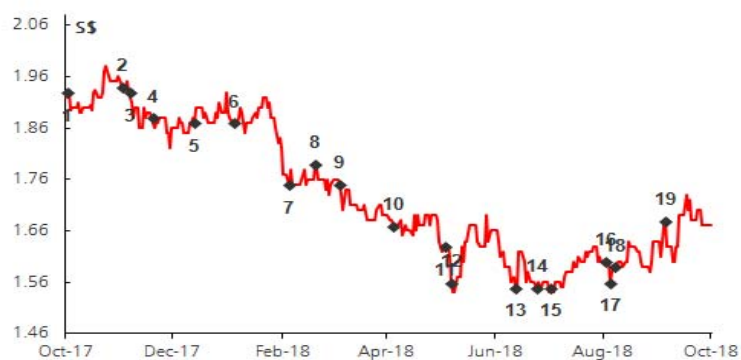
Source: Company, DBSVI, DBS Bank

Cash Flow Statement (US\$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	183	209	173	206	242
Dep. & Amort.	57	63	67	71	74
Tax Paid	(49)	(65)	(43)	(50)	(58)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	12	21	14	(5)	(3)
Other Operating CF	(16)	5	43	1	1
Net Operating CF	187	232	253	224	256
Capital Exp.(net)	(81)	(87)	(59)	(57)	(63)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	(6)	1	(6)	(6)
Net Investing CF	(81)	(93)	(58)	(63)	(68)
Div Paid	(23)	(43)	(78)	(39)	(46)
Chg in Gross Debt	(30)	(75)	(66)	(64)	(161)
Capital Issues	0	(4)	0	0	0
Other Financing CF	(7)	4	1	1	1
Net Financing CF	(60)	(118)	(144)	(102)	(206)
Currency Adjustments	7	0	0	0	0
Chg in Cash	53	21	52	60	(19)
Opg CFPS (\$ cts)	11	13	15	14	16
Free CFPS (\$ cts)	7	9	12	11	12

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 Oct 17	1.93	2.13	BUY
2:	10 Nov 17	1.94	2.13	BUY
3:	14 Nov 17	1.93	2.18	BUY
4:	27 Nov 17	1.88	2.18	BUY
5:	21 Dec 17	1.87	2.18	BUY
6:	12 Jan 18	1.87	2.18	BUY
7:	12 Feb 18	1.75	2.18	BUY
8:	27 Feb 18	1.79	2.18	BUY
9:	13 Mar 18	1.75	2.18	BUY
10:	12 Apr 18	1.67	2.18	BUY
11:	11 May 18	1.63	2.18	BUY
12:	15 May 18	1.56	2.18	BUY
13:	20 Jun 18	1.55	2.18	BUY
14:	02 Jul 18	1.55	2.00	BUY
15:	10 Jul 18	1.55	2.00	BUY
16:	10 Aug 18	1.60	2.00	BUY
17:	13 Aug 18	1.56	2.00	BUY
18:	15 Aug 18	1.59	2.00	BUY
19:	13 Sep 18	1.68	2.00	BUY

Source: DBSVI, DBS Bank

Analyst: William Simadiputra

Rui Wen LIM

Singapore Company Guide

Indofood Agri Resources

Version 15 | Bloomberg: IFAR SP | Reuters: IFAR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Oct 2018

HOLD

Last Traded Price (10 Oct 2018): S\$0.22 (STI : 3,131.48)
Price Target 12-mth: S\$0.21 (2% downside) (Prev S\$0.21)

Analyst

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What's New

- Profitability of downstream division remains the wild card
- Cut earnings on new FX and lower margin assumptions
- Prefer its upstream division (via listed LSIP)
- Maintain HOLD with TP of S\$0.21

Price Relative



Forecasts and Valuation

FY Dec (Rpbn)	2017A	2018F	2019F	2020F
Revenue	15,827	16,272	17,580	17,954
EBITDA	3,108	2,334	2,828	2,944
Pre-tax Profit	1,138	373	782	815
Net Profit	447	132	299	322
Net Pft (ex. BA gains)	362	132	299	322
Net Pft (Pre Ex.)	447	132	299	322
Net Pft Gth (Pre-ex) (%)	(11.7)	(70.4)	126.5	7.7
EPS (S cts)	2.86	0.84	1.91	2.06
EPS Pre Ex. (S cts)	2.86	0.84	1.91	2.06
EPS Gth Pre Ex (%)	(12)	(70)	126	8
Diluted EPS (S cts)	2.86	0.84	1.91	2.06
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	77.3	78.1	80.0	82.1
PE (X)	7.5	25.5	11.2	10.4
PE Pre Ex. (X)	7.5	25.5	11.2	10.4
P/Cash Flow (X)	1.7	1.7	1.7	1.5
EV/EBITDA (X)	6.5	8.9	7.6	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	1.1	2.4	2.5
Earnings Rev (%):		(32)	(3)	(11)
Consensus EPS (S cts):		2.43	3.04	3.92
Other Broker Recs:		B: 1	S: 2	H: 3

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

Still no signs of bottoming out

TP maintained at S\$0.21, maintain HOLD rating. We had earlier accounted for the unexpected losses in 2Q18, and lower profitability contribution from sugar business in 2H18, and ex. LSIP plantation division in FY18 and FY19. We now conservatively lower FY19F/20F earnings by 3%/11% on new FX and input commodities cost assumption. Moving forward, we see some scope of a rebound in earnings in 2019, albeit limited due to the still low profitability from Indofood Agri Resources (IFAR)'s edible oils and fats segment.

Where we differ: Limited margin 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 maintain 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 1% 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)	0.30 / 217
Major Shareholders (%)	
First Pacific Company Limited	74.3
Free Float (%)	37.2
3m Avg. Daily Val (US\$m)	0.11

ICB Industry : Consumer Goods / Plantation

CRITICAL DATA POINTS TO WATCH

Critical Factors

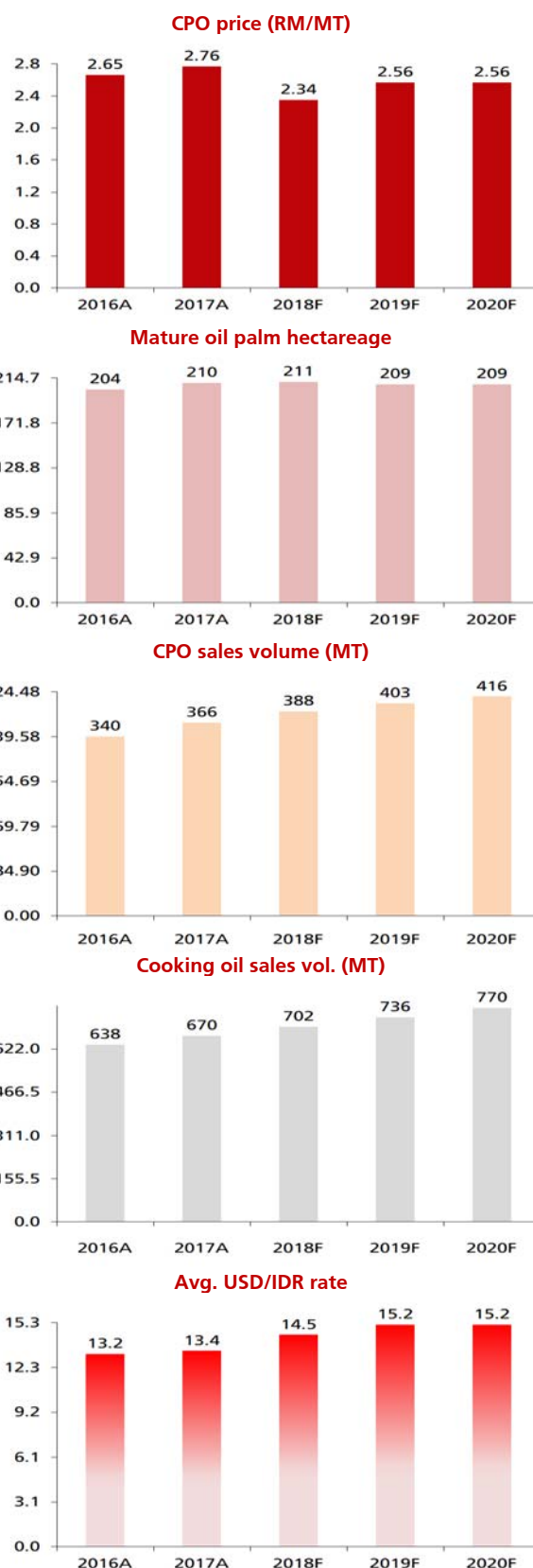
CPO price. As a commodity producer, IFAR is a price-taker. Movements in international CPO prices would directly have an impact on the group's profitability. We currently expect CPO prices (FOB Pasir Gudang) to average US\$610/MT (+6.1% y-o-y) in CY19 and US\$611 in CY20 (+1.0% y-o-y).

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 potentially to 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.

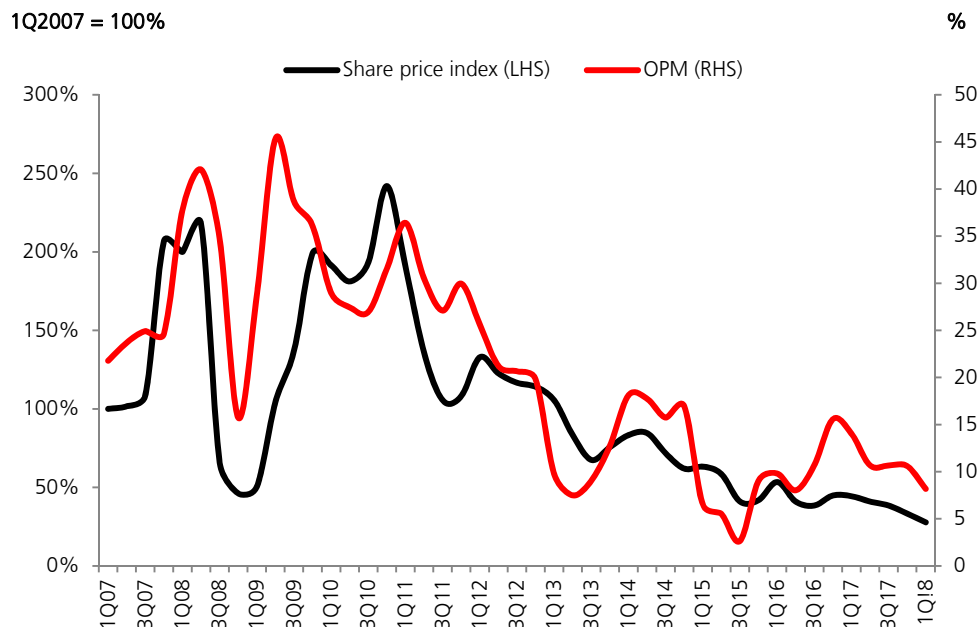
Demand seasonality. As a major vegetable oil, palm oil is an important food staple with 38% share globally. The other vegetable oils are soybean oil with 29% market share, followed by rapeseed/canola oil and sunflower oil (high price elasticity of demand), although certain vegetable oils are more suitable 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.



Source: Company, DBSVI, DBS Bank

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

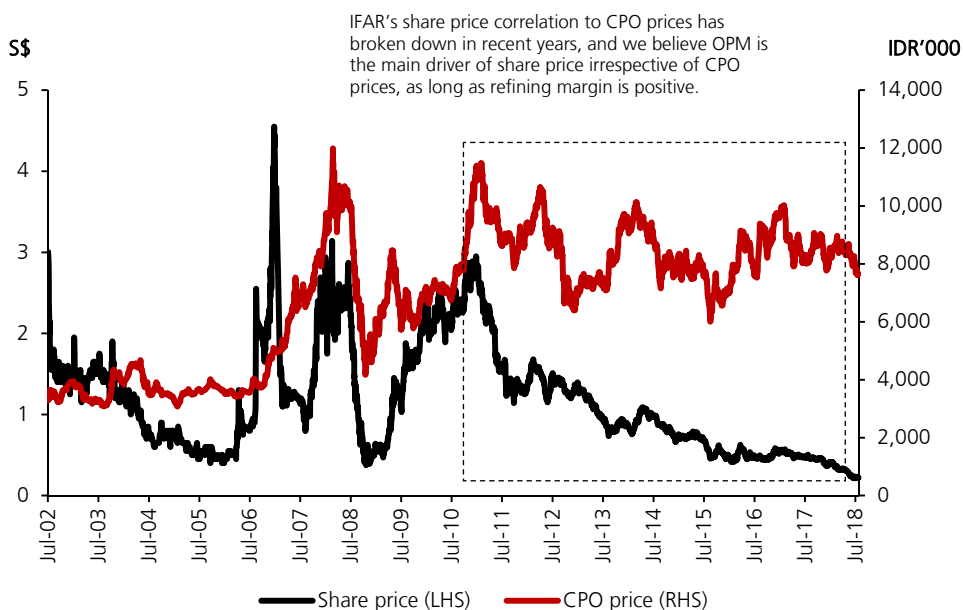
Chart 1: IFAR's share price performance vs CPO yield performance relative to sector



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 Rp9,572bn by end-FY18F – of which 30% is USD-denominated. This translates into a net debt-to-total equity ratio of 40%. FY18F blended borrowing cost is estimated at 7.6% and interest cover at 2.4x. At end-June 2018, IFAR's 4-quarter rolling cash conversion cycle stood at 53 days (vs. 44.3 days at end-December 2017) in 2Q18 – 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.

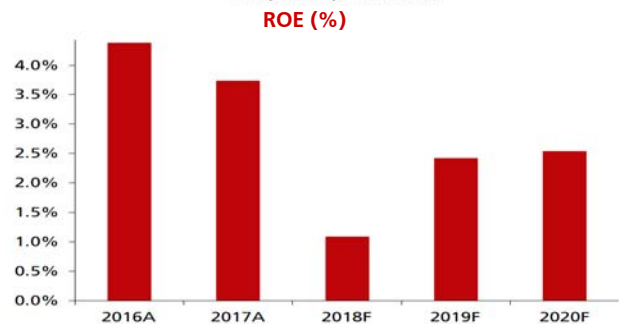
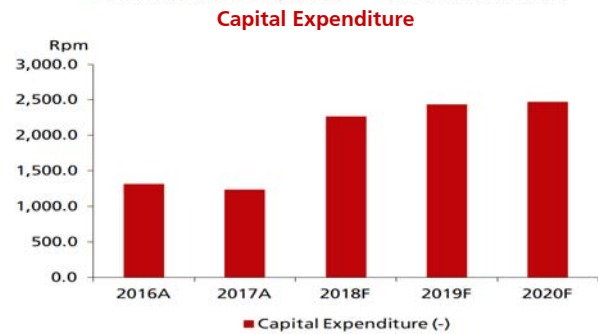
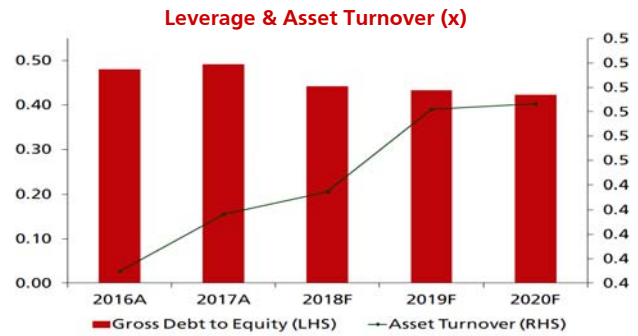
Regulatory changes. Any further increase in Indian import duty of refined oils or changes in the structure of Indonesian/Malaysian export taxes would impact demand for CPO/refined oils.

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.



Source: Company, DBSVI, DBS Bank

Key Assumptions

FY Dec	2016A	2017A	2018F	2019F	2020F
CPO price (RM/MT)	2.65	2.76	2.34	2.56	2.56
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	14.5	15.2	15.2

Segmental Breakdown

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenues (Rpbn)					
Plantations	5,068	5,505	4,703	5,532	5,497
Edible Oil & Fats	9,463	10,322	11,569	12,048	12,457
Total	14,531	15,827	16,272	17,580	17,954

Income Statement (Rpbn)

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenue	14,531	15,827	16,272	17,580	17,954
Cost of Goods Sold	(11,042)	(12,632)	(13,223)	(14,314)	(14,693)
Gross Profit	3,489	3,195	3,049	3,265	3,261
Other Opng (Exp)/Inc	(1,125)	(1,638)	(2,030)	(1,851)	(1,903)
Operating Profit	2,364	1,557	1,020	1,414	1,359
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(101)	121	(133)	(140)	(79.4)
Net Interest (Exp)/Inc	(573)	(540)	(513)	(491)	(464)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	1,690	1,138	373	782	815
Tax	(897)	(485)	(142)	(258)	(250)
Minority Interest	(286)	(206)	(99.2)	(225)	(242)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	507	447	132	299	322
Net Profit before Except.	507	447	132	299	322
Net Pft (ex. BA gains)	441	362	132	299	322
EBITDA	3,665	3,108	2,334	2,828	2,944
EBITDA (ex. BA gains)	3,547	2,953	2,057	2,557	2,612
Growth					
Revenue Gth (%)	5.0	8.9	2.8	8.0	2.1
EBITDA Gth (%)	65.3	(15.2)	(24.9)	21.1	4.1
Opg Profit Gth (%)	108.5	(34.1)	(34.5)	38.7	(3.9)
Net Profit Gth (Pre-ex) (%)	nm	(11.7)	(70.4)	126.5	7.7
Margins & Ratio					
Gross Margins (%)	24.0	20.2	18.7	18.6	18.2
Opg Profit Margin (%)	16.3	9.8	6.3	8.0	7.6
Net Profit Margin (%)	3.5	2.8	0.8	1.7	1.8
ROAE (%)	4.4	3.7	1.1	2.4	2.5
ROA (%)	1.4	1.2	0.4	0.8	0.8
ROCE (%)	3.3	2.6	1.8	2.7	2.7
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	4.1	2.9	2.0	2.9	2.9

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	21,993	22,864	23,663
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	8,352	8,861	8,815	8,764	8,776
Cash & ST Invts	2,405	2,971	1,633	1,162	835
Inventory	2,271	2,205	2,342	2,510	2,551
Debtors	1,123	1,200	1,194	1,277	1,292
Other Current Assets	956	999	1,008	1,080	1,096
Total Assets	36,504	37,415	36,985	37,657	38,212
ST Debt	2,481	4,463	4,828	4,861	4,861
Creditor	1,500	1,631	1,808	1,957	2,009
Other Current Liab	669	286	505	552	573
LT Debt	7,546	6,068	4,744	4,753	4,753
Other LT Liabilities	3,429	3,544	3,446	3,356	3,274
Shareholder's Equity	11,835	12,104	12,237	12,536	12,858
Minority Interests	9,043	9,318	9,417	9,642	9,884
Total Cap. & Liab.	36,504	37,415	36,985	37,657	38,212
Non-Cash Wkg. Capital	2,181	2,487	2,232	2,358	2,357
Net Cash/(Debt)	(7,623)	(7,559)	(7,940)	(8,452)	(8,779)
Debtors Turn (avg days)	28.0	26.8	26.9	25.7	26.1
Creditors Turn (avg days)	62.5	51.0	53.3	53.9	55.6
Inventory Turn (avg days)	79.7	72.9	70.5	69.4	70.9
Asset Turnover (x)	0.4	0.4	0.4	0.5	0.5
Current Ratio (x)	1.5	1.2	0.9	0.8	0.8
Quick Ratio (x)	0.8	0.7	0.4	0.3	0.3
Net Debt/Equity (X)	0.4	0.4	0.4	0.4	0.4
Net Debt/Equity ex MI (X)	0.6	0.6	0.6	0.7	0.7
Capex to Debt (%)	13.1	11.7	23.7	25.3	25.7
Z-Score (X)	1.2	1.2	1.1	1.1	1.1

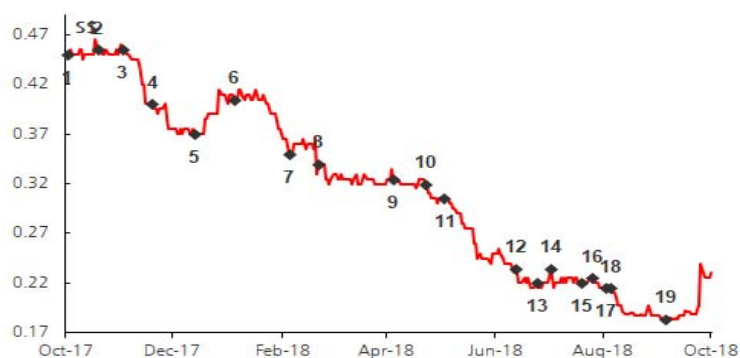
Source: Company, DBSVI, DBS Bank

Cash Flow Statement (Rpbn)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	1,690	1,138	373	782	815
Dep. & Amort.	1,402	1,430	1,448	1,554	1,665
Tax Paid	(504)	(711)	(142)	(258)	(250)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(935)	(396)	255	(126)	1.20
Other Operating CF	306	608	5.57	6.69	7.88
Net Operating CF	2,069	1,949	1,940	1,958	2,238
Capital Exp.(net)	(1,309)	(1,236)	(2,267)	(2,435)	(2,475)
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)	90.3	96.3	34.2
Net Investing CF	(1,624)	(1,726)	(2,135)	(2,339)	(2,440)
Div Paid	(68.3)	(86.6)	0.0	0.0	0.0
Chg in Gross Debt	(13.5)	466	(958)	40.9	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	(1,096)	(90.2)	(125)
Currency Adjustments	(11.3)	6.80	0.0	0.0	0.0
Chg in Cash	436	525	(1,290)	(471)	(327)
Opg CFPS (\$ cts)	19.2	15.0	10.8	13.3	14.3
Free CFPS (\$ cts)	4.85	4.55	(2.1)	(3.0)	(1.5)

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 Oct 17	0.45	0.49	HOLD
2:	27 Oct 17	0.46	0.48	HOLD
3:	10 Nov 17	0.46	0.48	HOLD
4:	27 Nov 17	0.40	0.48	HOLD
5:	21 Dec 17	0.37	0.48	HOLD
6:	12 Jan 18	0.41	0.48	HOLD
7:	12 Feb 18	0.35	0.48	HOLD
8:	01 Mar 18	0.34	0.36	HOLD
9:	12 Apr 18	0.33	0.36	HOLD
10:	30 Apr 18	0.32	0.36	HOLD
11:	11 May 18	0.31	0.36	HOLD
12:	20 Jun 18	0.24	0.36	HOLD
13:	02 Jul 18	0.22	0.24	HOLD
14:	10 Jul 18	0.24	0.24	HOLD
15:	27 Jul 18	0.22	0.24	HOLD
16:	02 Aug 18	0.23	0.21	HOLD
17:	10 Aug 18	0.22	0.21	HOLD
18:	13 Aug 18	0.22	0.21	HOLD
19:	13 Sep 18	0.18	0.21	HOLD

Source: DBSVI, DBS Bank

Analyst: William Simadiputra

Rui Wen LIM

Singapore Company Guide

Wilmar International

Version 15 | Bloomberg: WIL SP | Reuters: WLIL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Oct 2018

BUY

Last Traded Price (10 Oct 2018): S\$3.14 (STI : 3,166.60)

Price Target 12-mth: S\$3.59 (14% upside) (Prev S\$3.61)

Analyst

William Simadiputra +62 2130034939

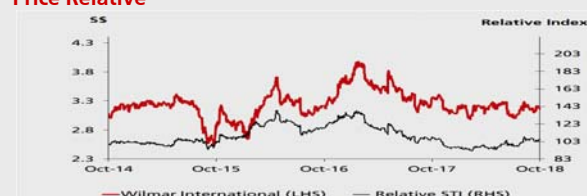
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What's New

- New earnings forecast to factor in latest FX and commodities price assumptions
- We believe Wilmar can withstand trade war tensions
- Positive earnings momentum to sustain in 2019
- Maintain BUY rating with TP of S\$3.59

Price Relative



Forecasts and Valuation

FY Dec (US\$ m)	2017A	2018F	2019F	2020F
Revenue	43,846	40,635	41,548	42,235
EBITDA	2,359	2,414	2,547	2,588
Pre-tax Profit	1,598	1,377	1,492	1,524
Net Profit	1,219	1,018	1,104	1,127
Net Pft (Pre Ex.)	1,025	1,018	1,104	1,127
Net Pft (ex. BA gains)	1,226	1,018	1,104	1,127
Net Pft Gth (Pre-ex) (%)	6.5	(0.7)	8.4	2.1
EPS (S cts)	26.3	22.0	23.8	24.3
EPS Pre Ex. (S cts)	22.1	22.0	23.8	24.3
EPS Gth Pre Ex (%)	7	(1)	8	2
Diluted EPS (S cts)	26.3	22.0	23.8	24.3
Net DPS (S cts)	10.1	8.4	9.2	9.3
BV Per Share (S cts)	344.7	357.1	372.2	387.3
PE (X)	11.9	14.3	13.2	12.9
PE Pre Ex. (X)	14.2	14.3	13.2	12.9
P/Cash Flow (X)	37.6	4.1	9.9	9.4
EV/EBITDA (X)	13.1	11.9	11.2	10.8
Net Div Yield (%)	3.2	2.7	2.9	3.0
P/Book Value (X)	0.9	0.9	0.8	0.8
Net Debt/Equity (X)	0.9	0.7	0.7	0.6
ROAE (%)	8.0	6.3	6.5	6.4
Earnings Rev (%):		(7)	(6)	(6)
Consensus EPS (S cts):		25.2	25.7	27.8
Other Broker Recs:		B: 9	S: 1	H: 8

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

Withstanding the trade wars

We keep our BUY rating and new TP to S\$3.59. Wilmar's solid earnings performance is likely to continue into 2H18 and 2019. Wilmar's share price valuation is undemanding and offers an attractive risk and reward profile to investors, even amid the uncertainties arising from the US-China trade wars. We revised down our FY19F-FY20F earnings by 5-6% to factor in our new FX and commodities price assumptions, and continue to maintain a solid view toward its earnings prospects.

Where we differ: Trade war tensions is not a major concern. We believe Wilmar is able to withstand the trade war tensions and continue to book solid profitability as it maximises crushing capacity and efficiencies. Wilmar's downstream on Tropical Oil division should also maintain their profitability amid the low CPO price environment. At the current price, we believe that the market has fully priced in concerns over earnings fluctuation in its Tropical Oils as well as Oil, Seeds and Grains segments, on account of lower commodity prices.

Beyond earnings performance: Catalyst from listing of China operations. Possible IPO plan (A-share listing) for its China operations may drive its share price at a time closer to its potential listing date. We note that China operations contribute c.60% of Wilmar's pretax profits.

Valuation:

We rolled forward the base year in our DCF methodology (to FY19F) to arrive at our slightly lower TP of S\$3.59 (WACC 7%, TG 3%) post earnings revision

Key Risks to Our View:

CPO and soybean prices. Wilmar's share price is influenced by palm oil refining/soybean crushing margins on top of crude palm oil (CPO) and sugar price expectations.

At A Glance

Issued Capital (m shrs)	6,327
Mkt. Cap (S\$m/US\$m)	19,866 / 14,368
Major Shareholders (%)	
Archer-Daniels-Midland Co	24.9
Kuok Brothers Sdn Bhd	18.6
Longlin Asia Ltd / Singapore	5.3
Free Float (%)	45.9
3m Avg. Daily Val (US\$m)	12.1
ICB Industry : Consumer Goods / Plantation	

CRITICAL DATA POINTS TO WATCH

Critical Factors

CPO and soybean prices. Approximately 20% of its EBIT comes from sales of CPO and Palm Kernel. Movements in CPO price hence directly affects the profit of the group's Plantation segment. As one of the largest processors of both CPO and soybeans globally, the group holds varying amounts of inventories. Generally, changes in commodity prices would also affect the group's Consumer segment with some lag.

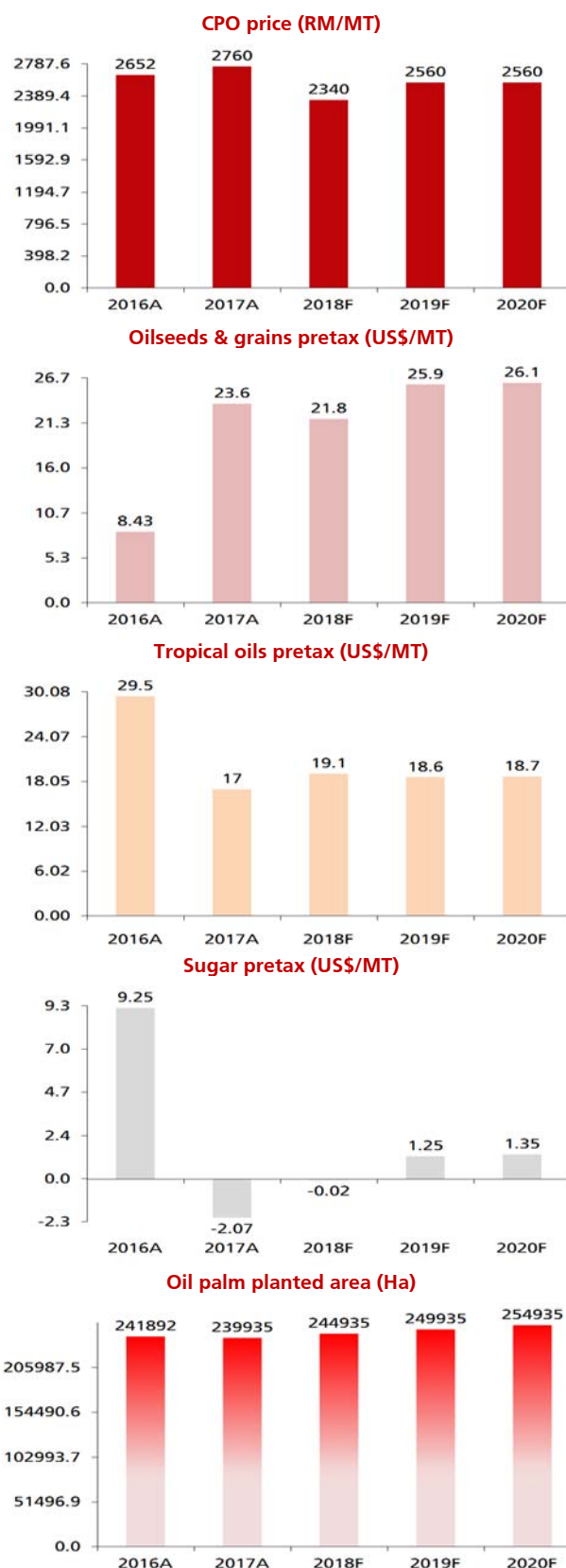
Capacity utilisation and volume output. Wilmar continually assesses its capacity utilisation. Changes in soybean imports by competitors to China and soybean prices may prompt Wilmar to adjust its crushing volumes as well as margins.

Weather and supply-chain congestion. A worse-than-expected drop in FFB yield would adversely impact our forecast for this year, due to the continued dry weather in some parts of Malaysia and Indonesia. Wilmar continually monitors its supply chain to avoid delays in deliveries to customers.

Changes in export tax policy. A prospective increase in biodiesel production in Indonesia may cause an oversupply and lower the price of glycerin (by-product of biodiesel output) in Wilmar's Oleo chemical unit – although this makes up only a small share of the group's downstream operations. Zero export taxes instituted for much of CY15 in both Malaysia and Indonesia had an adverse impact on palm oil refining margins. Changes in tax policy should therefore have a direct impact on Wilmar's refining profits.

Movement in crude oil prices. Global demand for both ethanol and biodiesel are subject to certain crude oil price thresholds. Below this level, demand for both products would be adversely affected, and would influence sugarcane, corn and palm oil prices. Wilmar's sugar milling segment is exposed to volatility in sugar prices if left unhedged.

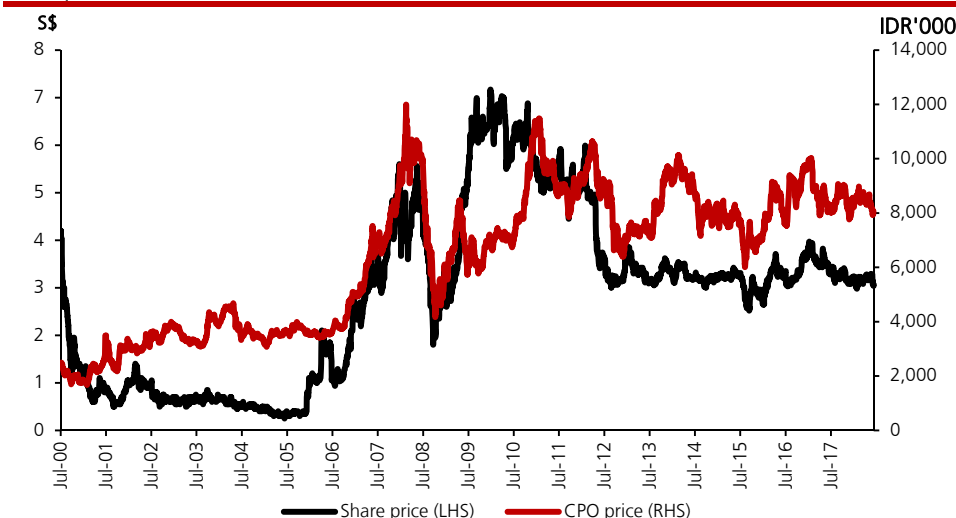
Geographic exposure. Wilmar's consolidated revenue is globally distributed, with China contributing over 50% in FY17. Southeast Asia accounted for 20%, while Europe contributed 6% of revenue. This means that currency movements in China and Southeast Asia would affect Wilmar's earnings. Prospective economic recovery in these markets should also improve Wilmar's earnings outlook. Yet, we should also note that competing processors are also vying for the same markets - which would make recoveries not unique to Wilmar. The group also requires a significant amount of working capital, which would affect its borrowing cost.



Source: Company, DBSVI, DBS Bank

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

CPO prices (in IDR) as a critical factor

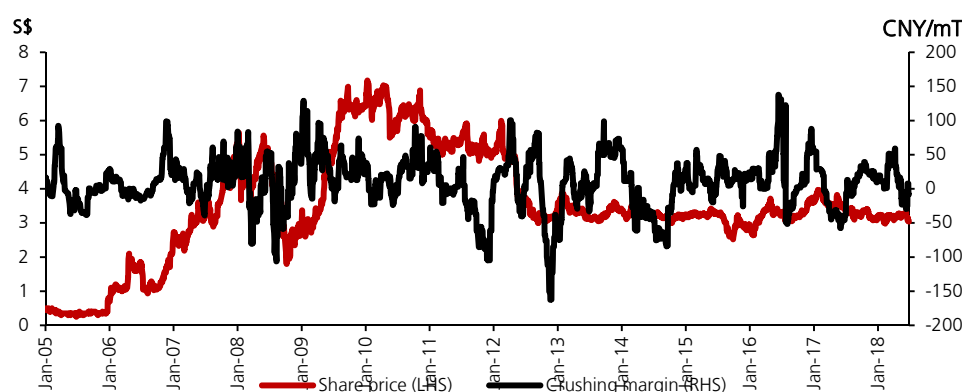


Remarks

Palm oil price is the key catalyst for plantation stocks; Wilmar's share price movements generally tracks palm oil spot prices. 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.

Wilmar's share price correlation with CPO prices over the last 16 years is ~76%, the highest among SGX-listed plantation stocks.

Soy crushing margin vs. Share price performance

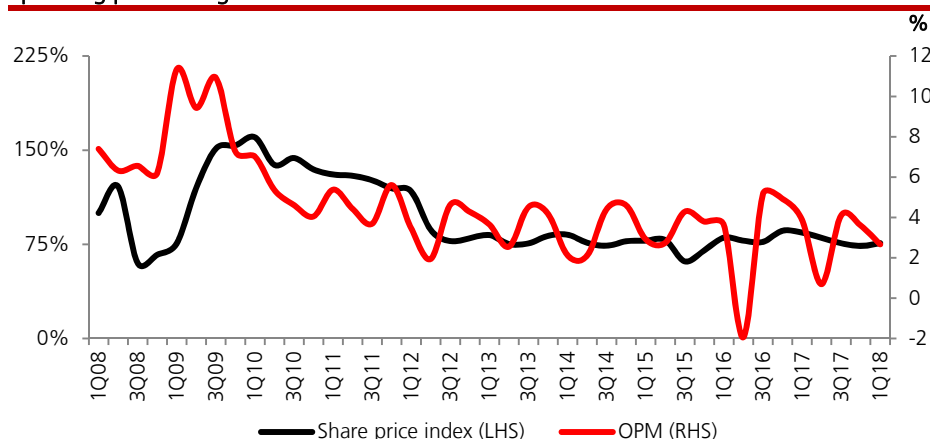


Remarks

While historically, spot crushing margin statistic had no direct correlation with Wilmar's Oilseeds & Grains pretax margins, soy crushing margin had a correlation of ~67% with Wilmar's share price from Jan – Jun 2017. Thereafter, the relationship broke down with improving soy crushing margins.

Wilmar hedging strategy offers some protection to its consolidated profitability (see chart below), with consolidated pre-tax losses recorded only in 1Q16 since 2008.

Operating profit margin as a critical factor



Remarks

Wilmar's share price direction generally tracks that of its operating profit margin (OPM), with the exception of 2Q16 where Wilmar recorded significant realised mark-to-market losses in its short positions.

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

Balance Sheet:

Decent balance sheet. Adjusted for liquid working capital, the group's net debt-to-total equity ratio was 82% as at end of June 2018. We forecast FY18 EBITDA/interest ratio at 4.9x, while FY18 current ratio is forecast at 1.2x

Value creation on progress. We expect the group to earn a ROE-WACC spread of 1.0% in FY18F/19F versus negative in the last two years. With capex outlay of c.US\$847-830m p.a. in FY18F-19F, we expect Wilmar to continue to record positive free cash flow.

Share Price Drivers:

Rising contribution from Consumer and JV may address concerns over exposure to commodities price. Wilmar currently trades close to -1SD forward PE (traded at +1SD in 2016), principally reflecting concerns about the latest development in China soybean crush margins. We believe the market has already priced in the group's performance in the last two years. Any visible improvements in its Consumer division (i.e. rice & flour milling) and/or JV contribution from Goodman Fielder, as well as potential inclusion of Soya Ruchi would drive Wilmar's share price higher, in our view.

Key Risks:

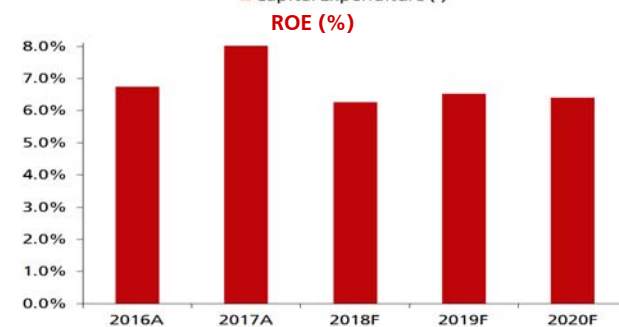
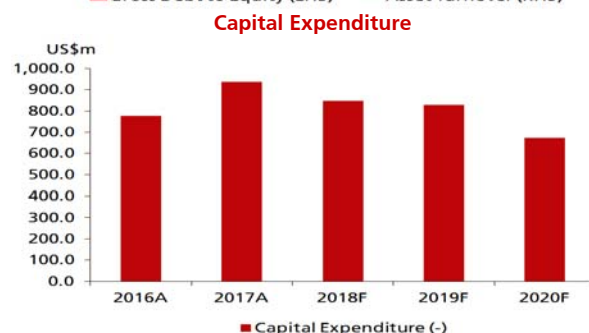
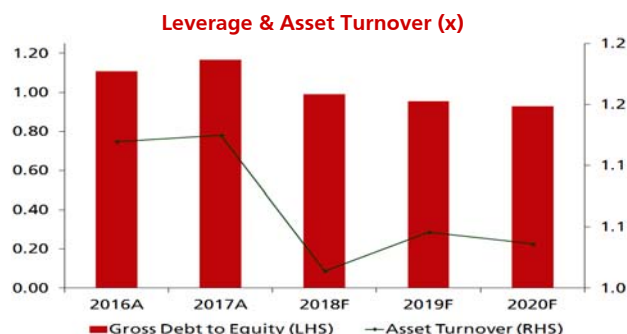
Volatility in CPO prices and USD exchange rates. Continued strength in CPO prices may deliver better-than-expected earnings, while lower energy prices from expansion of US shale gas would have an adverse impact on demand for vegetable oils for biofuels. Likewise, volatility in USD would affect profitability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

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 towards or out of emerging markets would affect valuations of plantation counters.

Company Background

Wilmar International (Wilmar) is an integrated agribusiness company. It is involved in oil palm cultivation, edible oil refining, oilseed crushing, consumer pack edible oil processing and merchandising, specialty fats, oleochemical and biodiesel manufacturing, and grain processing and merchandising. Wilmar also manufactures and distributes fertilisers and owns a fleet of vessels.



Source: Company, DBSVI, DBS Bank

Key Assumptions

FY Dec	2016A	2017A	2018F	2019F	2020F
CPO price (RM/MT)	2,652	2,760	2,340	2,560	2,560
Oilseeds & grains pretax	8.43	23.6	21.8	25.9	26.1
Tropical oils pretax (US\$/MT)	29.5	17.0	19.1	18.6	18.7
Sugar pretax (US\$/MT)	9.25	(2.07)	(0.02)	1.25	1.35
Oil palm planted area (Ha)	241,892	239,935	244,935	249,935	254,935

Segmental Breakdown

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenues (US\$ m)					
Tropical oils	16,855	18,067	16,766	17,413	17,436
Oilseeds & grains	18,577	19,806	20,349	20,151	20,580
Sugar	5,862	5,181	3,884	4,378	4,611
Others	1,868	2,120	2,055	2,155	2,260
Elimination	(1,760)	(1,328)	(2,418)	(2,549)	(2,652)
Total	41,402	43,846	40,635	41,548	42,235
Pretax (US\$ m)					
Tropical oils	685	426	476	461	459
Oilseeds & grains	251	735	668	784	797
Sugar	125	(25)	0	17	19
Others	101	242	30	15	14
Unallocated costs	138	219	204	216	235
Total	1,300	1,598	1,377	1,492	1,524
Pretax Margins (%)					
Tropical oils	4.1	2.4	2.8	2.6	2.6
Oilseeds & grains	1.4	3.7	3.3	3.9	3.9
Sugar	2.1	(0.5)	0.0	0.4	0.4
Others	5.4	11.4	1.5	0.7	0.6
Total	3.1	3.6	3.4	3.6	3.6

Income Statement (US\$ m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenue	41,402	43,846	40,635	41,548	42,235
Cost of Goods Sold	(37,391)	(40,369)	(37,364)	(38,148)	(38,821)
Gross Profit	4,011	3,477	3,271	3,401	3,415
Other Opng (Exp)/Inc	(2,704)	(2,121)	(1,893)	(1,921)	(1,933)
Operating Profit	1,306	1,356	1,378	1,480	1,481
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	141	228	248	245	263
Net Interest (Exp)/Inc	(157)	(181)	(248)	(233)	(220)
Exceptional Gain/(Loss)	10	194	0	0	0
Pre-tax Profit	1,300	1,598	1,377	1,492	1,524
Tax	(206)	(291)	(291)	(316)	(322)
Minority Interest	(121)	(88)	(68)	(73)	(74)
Preference Dividend	0	0	0	0	0
Net Profit	972	1,219	1,018	1,104	1,127
Net Profit before Except.	962	1,025	1,018	1,104	1,127
Net Pft (ex. BA gains)	983	1,226	1,018	1,104	1,127
EBITDA	2,162	2,359	2,414	2,547	2,588
Growth					
Revenue Gth (%)	6.8	5.9	(7.3)	2.2	1.7
EBITDA Gth (%)	1.9	9.1	2.3	5.5	1.6
Opg Profit Gth (%)	(2.8)	3.8	1.6	7.4	0.1
Net Profit Gth (%)	(5.0)	25.4	(16.5)	8.4	2.1
Margins & Ratio					
Gross Margins (%)	9.7	7.9	8.0	8.2	8.1
Opg Profit Margin (%)	3.2	3.1	3.4	3.6	3.5
Net Profit Margin (%)	2.3	2.8	2.5	2.7	2.7
ROAE (%)	6.7	8.0	6.3	6.5	6.4
ROA (%)	2.6	3.1	2.5	2.8	2.8
ROCE (%)	3.3	3.2	3.0	3.2	3.1
Div Payout Ratio (%)	30.6	38.4	38.4	38.4	38.4
Net Interest Cover (x)	8.3	7.5	5.5	6.4	6.7

Source: Company, DBSVI, DBS Bank

Quarterly / Interim Income Statement (US\$ m)

FY Dec	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018
Revenue	10,599	11,129	11,548	11,169	10,798
Cost of Goods Sold	(9,973)	(10,112)	(10,590)	(10,211)	(9,694)
Gross Profit	626	1,017	958	959	1,103
Other Oper. (Exp)/Inc	(538)	(561)	(542)	(661)	(623)
Operating Profit	88	456	416	298	480
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	23	51	112	41	50
Net Interest (Exp)/Inc	(73)	(41)	(44)	(52)	(76)
Exceptional Gain/(Loss)	24	51	66	22	(34)
Pre-tax Profit	62	518	549	309	420
Tax	(2)	(120)	(83)	(74)	(75)
Minority Interest	(1)	(27)	(38)	(32)	(28)
Net Profit	59	370	428	203	316
Net profit bef Except.	35	319	363	183	351
EBITDA	307	696	755	530	726

Growth

Revenue Gth (%)	0.3	5.0	3.8	(3.3)	(3.3)
EBITDA Gth (%)	(51.3)	126.6	8.5	(29.7)	36.8
Opg Profit Gth (%)	(78.6)	420.2	(8.9)	(28.3)	61.0
Net Profit Gth (%)	(83.7)	527.6	15.5	(52.5)	55.6

Margins

Gross Margins (%)	5.9	9.1	8.3	8.6	10.2
Opg Profit Margins (%)	0.8	4.1	3.6	2.7	4.4
Net Profit Margins (%)	0.6	3.3	3.7	1.8	2.9

Balance Sheet (US\$ m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Net Fixed Assets	8,297	8,756	8,728	8,678	8,440
Invt in Associates & JVs	2,903	3,428	3,676	3,921	4,183
Other LT Assets	6,396	6,169	6,255	6,319	6,395
Cash & ST Invt	5,375	4,532	4,445	4,841	5,544
Inventory	7,022	8,224	7,056	7,203	7,331
Debtors	6,442	9,456	8,693	8,888	9,035
Other Current Assets	596	368	368	368	368
Total Assets	37,032	40,933	39,222	40,219	41,296
ST Debt	12,689	16,130	13,354	13,091	13,307
Creditor	3,420	2,893	2,922	2,983	3,036
Other Current Liab	614	663	631	642	644
LT Debt	4,331	3,696	4,096	4,480	4,480
Other LT Liabilities	599	564	592	622	653
Shareholder's Equity	14,435	15,964	16,537	17,239	17,940
Minority Interests	944	1,022	1,089	1,162	1,237
Put Equity Reserve	N/A	N/A	N/A	N/A	N/A
Total Cap. & Liab.	37,032	40,933	39,222	40,219	41,296
Non-Cash Wkg. Capital	10,026	14,491	12,564	12,835	13,054
Net Cash/(Debt)	(11,645)	(15,295)	(13,005)	(12,729)	(12,243)
Debtors Turn (avg days)	57.7	66.2	81.5	77.2	77.4
Creditors Turn (avg days)	32.1	29.1	29.0	28.9	28.9
Inventory Turn (avg days)	66.4	70.3	76.2	69.7	69.8
Asset Turnover (x)	1.1	1.1	1.0	1.0	1.0
Current Ratio (x)	1.2	1.1	1.2	1.3	1.3
Quick Ratio (x)	0.7	0.7	0.8	0.8	0.9
Net Debt/Equity (X)	0.8	0.9	0.7	0.7	0.6
Net Debt/Equity ex MI (X)	0.8	1.0	0.8	0.7	0.7
Capex to Debt (%)	4.6	4.7	4.9	4.7	3.8
Z-Score (X)	2.1	2.0	2.1	2.1	2.1

Source: Company, DBSVI, DBS Bank

Cash Flow Statement (US\$ m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	1,300	1,598	1,377	1,492	1,524
Dep. & Amort.	764	775	788	822	845
Tax Paid	(307)	(286)	(291)	(316)	(322)
Assoc. & JV Inc/(loss)	(141)	(228)	(248)	(245)	(263)
Chg in Wkg.Cap.	(523)	(1,728)	1,960	(282)	(221)
Other Operating CF	30	256	(49)	(6)	(15)
Net Operating CF	1,124	386	3,537	1,466	1,547
Capital Exp.(net)	(777)	(938)	(847)	(830)	(672)
Other Invt.(net)	0	0	0	0	0
Invt. in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(33)	1	(63)	(71)	(81)
Net Investing CF	(811)	(937)	(909)	(901)	(753)
Div Paid	(371)	(320)	(445)	(401)	(427)
Chg in Gross Debt	(2,157)	3,167	(2,376)	120	216
Capital Issues	(7)	22	0	0	0
Other Financing CF	2,423	(3,268)	28	30	31
Net Financing CF	(113)	(399)	(2,793)	(251)	(179)
Currency Adjustments	0	0	0	0	0
Chg in Cash	200	(949)	(165)	313	615
Opg CFPS (\$ cts)	25.7	33.0	24.6	27.3	27.6
Free CFPS (\$ cts)	5.4	(8.6)	42.0	9.9	13.7

Source: Company, 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 Oct 17	3.37	3.52	HOLD
2:	10 Nov 17	3.31	3.52	HOLD
3:	15 Nov 17	3.22	3.50	HOLD
4:	27 Nov 17	3.16	3.50	HOLD
5:	21 Dec 17	3.09	3.50	HOLD
6:	12 Jan 18	3.16	3.50	HOLD
7:	12 Feb 18	3.03	3.50	HOLD
8:	23 Feb 18	3.13	3.65	BUY
9:	13 Mar 18	3.23	3.65	BUY
10:	12 Apr 18	3.16	3.65	BUY
11:	11 May 18	3.16	3.65	BUY
12:	20 Jun 18	3.12	3.65	BUY
13:	02 Jul 18	3.04	3.50	BUY
14:	04 Jul 18	3.04	3.50	BUY
15:	10 Jul 18	3.07	3.50	BUY
16:	14 Aug 18	3.25	3.61	BUY
17:	13 Sep 18	3.16	3.61	BUY

Source: DBSVI, DBS Bank

Analyst: William Simadiputra

Rui Wen LIM

Malaysia Company Guide

TSH Resources

Version 13 | Bloomberg: TSH MK | Reuters: TSHR.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Oct 2018

BUY

Last Traded Price (10 Oct 2018): RM1.10 (KLCI : 1,774.15)

Price Target 12-mth: RM1.35 (23% upside) (Prev RM1.50)

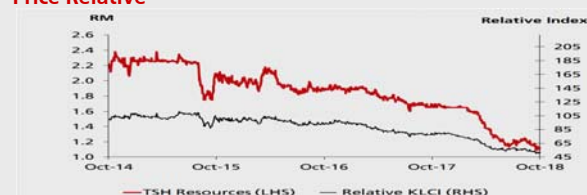
Analyst

Marvin KHOR +60 32604 3911 marvinkhor@alliancedbs.com

What's New

- Trim CY18/19/20F average CPO price forecasts to RM2,340/RM2,560/RM2,560 per MT
- Hit by lower ASP in the near term but expect continued volume growth to drive medium-term prospects, with FFB CAGR of 10% into 2020
- Reduce forward earnings estimates by 6-21%, and TP to RM1.35 – maintain BUY

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Revenue	1,074	954	1,071	1,120
EBITDA	273	245	284	306
Pre-tax Profit	162	103	139	157
Net Profit	91.4	62.8	85.0	97.8
Net Pft (Pre Ex.)	78.8	62.8	85.0	97.8
Net Pft Gth (Pre-ex) (%)	43.1	(20.3)	35.5	14.9
EPS (sen)	6.61	4.54	6.15	7.07
EPS Pre Ex. (sen)	5.70	4.54	6.15	7.07
EPS Gth Pre Ex (%)	39	(20)	35	15
Diluted EPS (sen)	6.61	4.54	6.15	7.07
Net DPS (sen)	2.00	1.14	1.54	1.77
BV Per Share (sen)	99.5	102	107	113
PE (X)	16.6	24.2	17.9	15.5
PE Pre Ex. (X)	19.3	24.2	17.9	15.5
P/Cash Flow (X)	7.3	11.4	10.9	9.0
EV/EBITDA (X)	10.8	12.1	10.6	10.1
Net Div Yield (%)	1.8	1.0	1.4	1.6
P/Book Value (X)	1.1	1.1	1.0	1.0
Net Debt/Equity (X)	0.9	0.8	0.8	0.8
ROAE (%)	6.6	4.5	5.9	6.4
Earnings Rev (%):		(21)	(6)	(11)
Consensus EPS (sen):		5.00	6.10	6.90
Other Broker Recs:		B: 2	S: 3	H: 7

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Getting past the worst

Look past price impact. As an upstream producer, TSH is now expected to see FY18F core earnings decline as we revise down average CPO price forecasts to factor in the drag from lower soybean oil prices. However, we expect a rebound to materialise as prices stabilise thereafter, supported by the group's organic FFB growth which has already surpassed its peers at +24% in 1H18. Continued increases in mature area within its Indonesian hectareage provide the potential for continued volume expansion, for which we expect a CAGR of 10% into 2020. Despite near-term price-related dampeners, we continue to view TSH positively for its medium-term prospects as well as exposure to an eventual CPO price recovery. Maintain BUY.

Where we differ. Taking a longer view. Our earnings are within the range of consensus, though our view and valuation are broadly more positive as we expect the build-up of production from its younger plantation to result in a better earnings trajectory over the medium to long term.

Potential catalyst. Improved earnings delivery. TSH's profits over the past few years have been dragged by low CPO prices, adverse currency effects and the write-off of non-core businesses. The resumption of normalised profits and growth will help re-rate the stock.

Valuation:

Our DCF-based TP stands at RM1.35, imputing CY18/19/20F CPO spot price forecasts of RM2,340/2,560/2,560 per MT.

Key Risks to Our View:

A strong change in CPO prices (either data or regulatory-driven) could raise or lower TSH's share price above or below our fair value. A severe El Nino could also affect TSH's productivity, cash generation, and ultimately its share price performance.

At A Glance

Issued Capital (m shrs)	1,381
Mkt. Cap (RMm/US\$m)	1,519 / 365
Major Shareholders (%)	
Aik Pen Tan	12.2
Employees Provident Fund	6.8
Tunas Lestari Sdn Bhd	6.2
Free Float (%)	69.3
3m Avg. Daily Val (US\$m)	0.03

ICB Industry : Consumer Goods / Plantation

WHAT'S NEW**Reducing CPO price expectations**

Lower CPO prices forecasts. We are cutting our average CPO price forecasts for CY18/19/20F to RM2,340/2,560/2,560 per MT, from RM2,620/2,600/2,630 previously. This factors in the weak YTD price performance dragged by soybean oil prices, which had corrected sharply in response to trade tensions between the US and China. Our US dollar estimates for CPO had been trimmed to USD575/610/611 per MT from USD616/608/616 previously to reflect this; coupled with imputing relatively stronger USDMYR assumptions of 4.1/4.2/4.2. All said, we maintain our medium-term view that CPO prices will be well supported near current levels given its maintained price discount to soybean oil, plus a demand recovery that is assisted by rising discretionary biodiesel blending from higher crude oil prices.

Prospects anchored on growth pipeline. Given its pure upstream exposure, we believe a decline in FY18F earnings will be unavoidable for TSH post imputing revised CPO price forecasts. However, the group's key bright spot remains growth in its FFB production, which has thus far outperformed peers by rising 23.6% in 1H18. This was contributed by the increasing mature area in its young Indonesian estates, which we expect to persist in the coming years. We currently also revise our yield growth estimates to factor in 1H18 performance, raising FFB growth to +15.6%/+8.8%/+5.1% in FY18/19/20F, from +12%/+9%/+7% previously. On the back of a 6% CAGR in group mature area, we expect FFB growth to chart a CAGR of 10% into 2020. Also factoring in revised CPO price forecasts, **our earnings estimates are cut by 21%/6%/11% for FY18/19/20F**, and our DCF-based TP lowered to RM1.35. We continue to remain positive on TSH's medium-term prospects and positioned exposure to an eventual recovery in CPO prices – maintain BUY.

CRITICAL DATA POINTS TO WATCH

Critical Factors

CPO prices. As a commodity producer, TSH is a price-taker. Movements in international CPO prices would directly impact the group's profitability. We are expecting spot CPO prices (FOB Pasir Gudang) to average US\$575/MT (-8.5% y-o-y) in CY18, translating to RM2,340/MT (-15%), and the decline may negatively impact near-term selling prices of both CPO and its derivatives. We expect marginal recovery to US\$610/MT in CY19F, or RM2,560/MT which will generally help boost revenues and plantation margins.

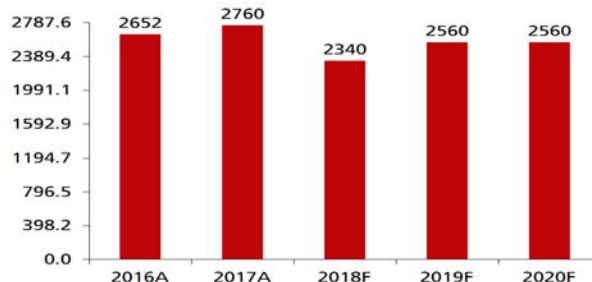
Size of mature plantations. Due to its aggressive planting over the past few years, TSH is expected to see a steady climb in mature hectareage, which currently makes up 69% of 42k ha of total planted area. We expect the mature planted area to grow by 19% to c.34.6k ha from 2017-2020, and total planted area to grow by 11% to 46.9k ha. All these will support its internal FFB output, which we expect grow 16%/8%/5% in FY18/19/20F.

Production volume. TSH has seven palm oil mills: three in Sabah, two in Sumatra, and two in Kalimantan. The Sabah mills currently process the bulk of FFB from external sources, and so its overall CPO production trend also depends on FFB production at nearby plantations. TSH's oil extraction rate has been decent, averaging 20% in Sabah and 21% in Indonesia. Currently, c.61% of its overall CPO production comes from Sabah, but that ratio will drop as FFB production at its Indonesian plantations picks up.

Regulations. Tariff and non-tariff regulations are common in the agricultural commodity sector, and palm oil is no exception. Any changes in export/import tariffs, as well as various taxes and levies, would affect trade flows and prices. The USD50/MT export levy implemented by Indonesia since August 2015 impacts the CPO sales from Indonesia-based operations.

Seasonal demand. As a major vegetable oil with 36% global market share, palm oil is an important food staple. The next largest is soybean oil, with 27% market share. These two vegetable oils are direct substitutes (suggesting high price elasticity of demand), although certain vegetable oils are more suitable than others for certain applications. Demand for palm oil is dominant in Asia, where local festivities result in seasonal demand during different months of the year. The Ramadan month, Chinese New Year, and Divali are typically high-demand periods in Asia.

CPO price



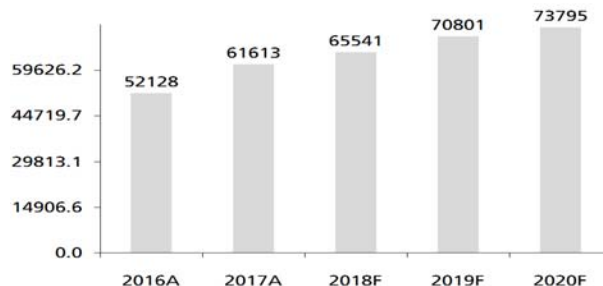
Mature palm oil hectareage



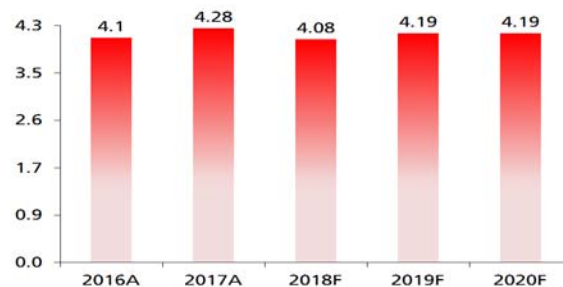
CPO sales volume



PK sales volume



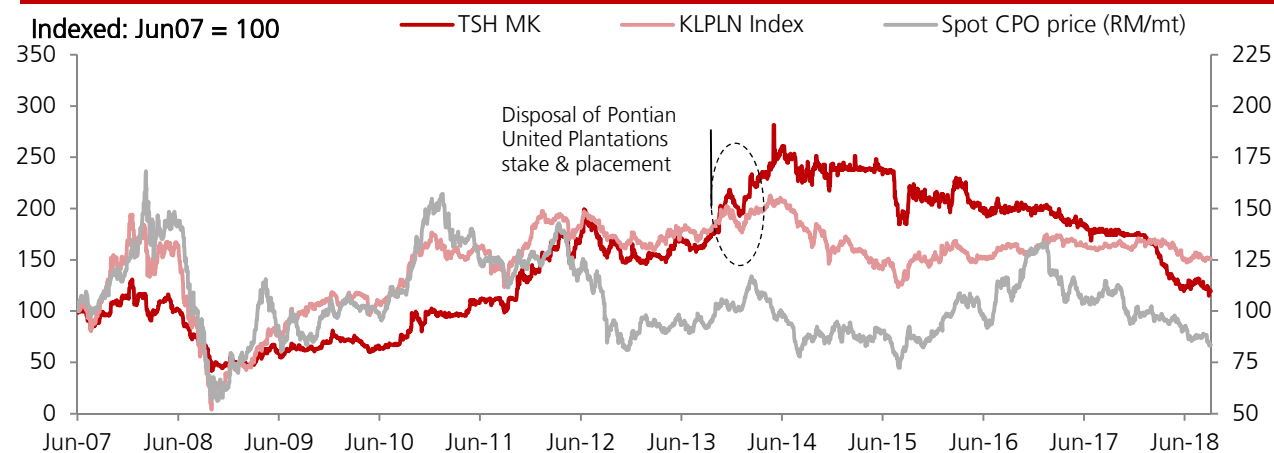
Average MYR/USD



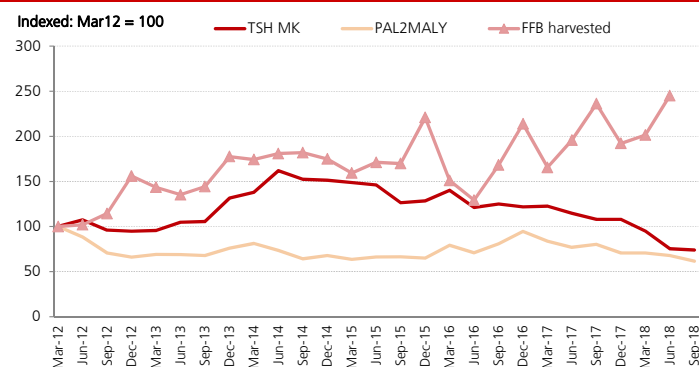
Source: Company, AllianceDBS

Appendix 1: TSH price correlation with critical factors

Graph 1: Share price vs key benchmarks



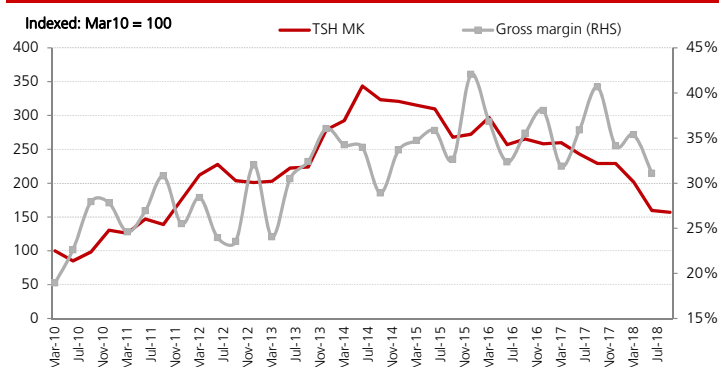
TSH share price vs production and CPO prices



Remarks

TSH's share price has previously been more heavily influenced by its production volume rather than CPO prices, but this relationship has disentangled following a moderation from peak growth rates since 2015.

TSH share price vs gross margins



Remarks

TSH's share price is influenced by its profitability which can be tracked by gross margins. Margins can be boosted by stronger CPO selling prices, or a larger proportion of its internal FFB output.

Balance Sheet:

Elevated gearing, though on downwards trajectory. TSH's net gearing stood at 0.95x at end-FY17 (easing from 0.99x), following its restatement for MFRS accounting standards; before which it was 0.88x (easing from 0.93x). Of its overall debt, 29% is denominated in US dollar as at end-FY17. Management aims to reduce gearing to near the 0.8x level. We think its leverage will ease naturally from improving earnings, though this may be accelerated by other means such as divestments.

Share Price Drivers:

Look for sustained output and earnings recovery. We expect TSH to see steady production growth over the coming years from the young age profile of its estates and rising maturities, which should translate into earnings growth with favourable CPO prices. The stock may be re-rated once macro issues (such as weather impact) dissipate and it delivers earnings growth.

Key Risks:

Volatility in CPO prices and USD exchange rate. Persistently depressed CPO prices would hurt earnings, especially for upstream planters. Additionally, low crude oil prices may affect CPO demand for biofuel. Finally, CPO prices in ringgit would also be directly affected by the currency's strength relative to the US dollar.

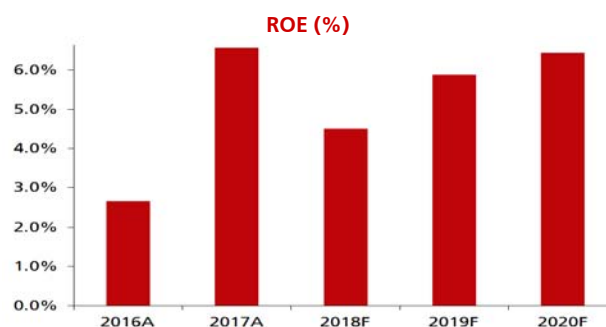
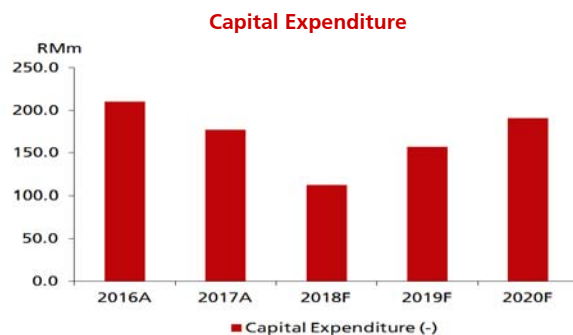
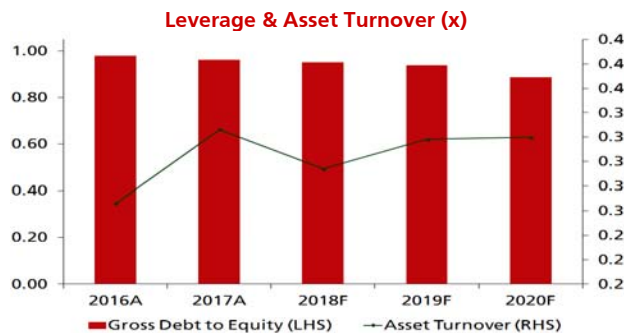
Setback in expansion plans. Our forecasts are based on assumed hectareage for new planting and replanting. A setback to these plans could hurt our valuation through slower volume growth.

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

Extreme changes in the weather. Sudden and significant changes in rainfall and humidity, such as in the case of a strong El Nino event (prolonged dryness), can affect FFB yields.

Company Background

TSH Resources (TSH) is an upstream planter, owning c.100k ha of plantation land in Sabah and Kalimantan and six palm oil mills, of which around 42k ha is planted. It also has a 50:50 JV refinery with Wilmar International. Non-core businesses include wood flooring, cocoa processing, and palm waste integration.



Source: Company, AllianceDBS

Key Assumptions

FY Dec	2016A	2017A	2018F	2019F	2020F
CPO price	2,652	2,760	2,340	2,560	2,560
Mature palm oil hectareage	26,464	29,028	31,961	34,465	34,627
CPO sales volume	235,825	267,804	294,933	317,066	334,483
PK sales volume	52,128	61,613	65,541	70,801	73,795
Average MYR/USD	4.10	4.28	4.08	4.19	4.19

Segmental Breakdown

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenues (RMm)					
Oil Palm Plantation	778	974	852	968	1,015
Wood Products	52.2	54.5	55.1	55.6	56.1
Cocoa & others	41.8	45.4	46.4	47.3	48.2
Total	872	1,074	954	1,071	1,120
EBIT (RMm)					
Oil Palm Plantation	122	196	149	186	205
Wood Products	(0.7)	(6.3)	(4.2)	(4.2)	(4.3)
Cocoa & others	3.34	1.36	2.32	2.36	2.41
Total	125	192	147	184	204
EBIT Margins (%)					
Oil Palm Plantation	15.7	20.2	17.4	19.2	20.2
Wood Products	(1.3)	(11.6)	(7.6)	(7.6)	(7.6)
Cocoa & others	8.0	3.0	5.0	5.0	5.0
Total	14.3	17.8	15.4	17.2	18.2

Income Statement (RMm)

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenue	872	1,074	954	1,071	1,120
Cost of Goods Sold	(560)	(693)	(610)	(690)	(718)
Gross Profit	312	381	344	381	401
Other Opng (Exp)/Inc	(205)	(206)	(203)	(206)	(210)
Operating Profit	107	175	141	175	191
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	18.1	16.8	5.65	9.25	12.0
Net Interest (Exp)/Inc	(21.4)	(41.8)	(43.8)	(45.2)	(46.2)
Exceptional Gain/(Loss)	(18.2)	12.6	0.0	0.0	0.0
Pre-tax Profit	85.6	162	103	139	157
Tax	(39.5)	(42.4)	(25.7)	(34.7)	(37.8)
Minority Interest	(9.2)	(28.6)	(14.4)	(19.1)	(21.9)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	36.9	91.4	62.8	85.0	97.8
Net Profit before Except.	55.0	78.8	62.8	85.0	97.8
EBITDA	199	273	245	284	306
Growth					
Revenue Gth (%)	9.1	23.1	(11.2)	12.3	4.6
EBITDA Gth (%)	14.8	36.9	(10.1)	15.8	7.6
Opg Profit Gth (%)	(5.7)	63.3	(19.3)	24.0	9.5
Net Profit Gth (Pre-ex) (%)	(37.9)	43.1	(20.3)	35.5	14.9
Margins & Ratio					
Gross Margins (%)	35.8	35.5	36.1	35.6	35.8
Opg Profit Margin (%)	12.3	16.3	14.8	16.3	17.1
Net Profit Margin (%)	4.2	8.5	6.6	7.9	8.7
ROAE (%)	2.7	6.6	4.5	5.9	6.4
ROA (%)	1.1	2.8	1.9	2.5	2.8
ROCE (%)	1.8	4.1	3.4	4.0	4.3
Div Payout Ratio (%)	73.0	30.2	25.0	25.0	25.0
Net Interest Cover (x)	5.0	4.2	3.2	3.9	4.1

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Dec	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018
Revenue	258	257	270	226	233
Cost of Goods Sold	(166)	(152)	(178)	(146)	(161)
Gross Profit	92.7	104	92.1	80.0	72.4
Other Oper. (Exp)/Inc	(49.3)	(47.9)	(41.9)	(54.5)	(30.7)
Operating Profit	43.4	56.5	50.3	25.5	41.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.73	5.09	8.61	2.16	1.19
Net Interest (Exp)/Inc	(8.8)	(10.5)	(12.7)	(10.5)	(10.9)
Exceptional Gain/(Loss)	2.63	1.67	2.76	11.1	(14.6)
Pre-tax Profit	37.9	52.8	48.9	28.3	17.5
Tax	(8.5)	(13.8)	(15.6)	(9.7)	(9.0)
Minority Interest	(4.2)	(8.3)	(11.7)	(0.8)	(4.4)
Net Profit	25.3	30.7	21.6	17.8	4.11
Net profit bef Except.	22.7	29.0	18.9	6.71	18.7
EBITDA	44.1	61.6	58.9	27.7	42.9

Growth

Revenue Gth (%)	(10.5)	(0.5)	5.1	(16.2)	3.0
EBITDA Gth (%)	(2.4)	39.6	(4.5)	(53.0)	55.1
Opg Profit Gth (%)	1.3	30.2	(11.1)	(49.3)	63.6
Net Profit Gth (Pre-ex) (%)	4.8	28.1	(35.0)	(64.4)	178.0

Margins

Gross Margins (%)	35.9	40.7	34.1	35.4	31.1
Opg Profit Margins (%)	16.8	22.0	18.6	11.3	17.9
Net Profit Margins (%)	9.8	12.0	8.0	7.9	1.8

Balance Sheet (RMm)

FY Dec	2016A	2017A	2018F	2019F	2020F
Net Fixed Assets	2,315	2,234	2,284	2,376	2,502
Invt in Associates & JVs	157	159	165	174	186
Other LT Assets	357	337	329	321	313
Cash & ST Invt	131	139	167	197	154
Inventory	238	212	211	239	249
Debtors	132	103	110	124	129
Other Current Assets	50.5	17.9	17.9	17.9	17.9
Total Assets	3,380	3,201	3,283	3,448	3,551
ST Debt	663	649	649	649	649
Creditor	123	107	105	119	124
Other Current Liab	22.1	13.9	13.9	13.9	13.9
LT Debt	867	793	827	890	890
Other LT Liabilities	144	138	138	138	138
Shareholder's Equity	1,408	1,375	1,410	1,480	1,556
Minority Interests	153	124	139	158	180
Total Cap. & Liab.	3,380	3,201	3,283	3,448	3,551
Non-Cash Wkg. Capital	276	211	220	247	258
Net Cash/(Debt)	(1,399)	(1,303)	(1,310)	(1,342)	(1,385)
Debtors Turn (avg days)	53.1	40.0	40.7	39.8	41.2
Creditors Turn (avg days)	96.8	70.6	76.9	70.7	73.6
Inventory Turn (avg days)	177.2	137.8	152.6	141.4	147.2
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.3
Current Ratio (x)	0.7	0.6	0.7	0.7	0.7
Quick Ratio (x)	0.3	0.3	0.4	0.4	0.4
Net Debt/Equity (X)	0.9	0.9	0.8	0.8	0.8
Net Debt/Equity ex MI (X)	1.0	0.9	0.9	0.9	0.9
Capex to Debt (%)	13.7	12.3	7.6	10.2	12.4
Z-Score (X)	1.0	1.3	1.2	1.3	1.3

Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	85.6	162	103	139	157
Dep. & Amort.	64.3	68.4	70.5	72.2	72.2
Tax Paid	(39.5)	(42.4)	(25.7)	(34.7)	(37.8)
Assoc. & JV Inc/(loss)	(18.1)	(16.8)	(5.7)	(9.3)	(12.0)
Chg in Wkg.Cap.	(34.4)	40.3	(8.5)	(27.4)	(10.6)
Other Operating CF	73.6	(2.3)	0.0	0.0	0.0
Net Operating CF	132	210	134	140	169
Capital Exp.(net)	(210)	(177)	(112)	(157)	(190)
Other Invt.(net)	0.0	5.01	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	36.4	46.3	0.0	0.0	0.0
Net Investing CF	(174)	(126)	(112)	(157)	(190)
Div Paid	(26.9)	(27.1)	(27.6)	(15.7)	(21.3)
Chg in Gross Debt	136	(69.0)	33.7	62.7	0.0
Capital Issues	0.0	41.2	0.0	0.0	0.0
Other Financing CF	(3.0)	(15.4)	0.0	0.0	0.0
Net Financing CF	106	(70.3)	6.01	47.0	(21.3)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	64.2	13.4	27.4	29.9	(42.4)
Opg CFPS (sen)	12.3	12.2	10.3	12.1	13.0
Free CFPS (sen)	(5.8)	2.35	1.55	(1.2)	(1.5)

Source: Company, AllianceDBS

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 Oct 17	1.69	2.05	BUY
2:	10 Nov 17	1.66	2.05	BUY
3:	23 Nov 17	1.64	2.05	BUY
4:	27 Nov 17	1.65	2.05	BUY
5:	21 Dec 17	1.65	2.05	BUY
6:	12 Jan 18	1.67	2.05	BUY
7:	12 Feb 18	1.60	2.05	BUY
8:	28 Feb 18	1.58	2.05	BUY
9:	13 Mar 18	1.58	2.05	BUY
10:	12 Apr 18	1.37	2.05	BUY
11:	11 May 18	1.29	2.05	BUY
12:	24 May 18	1.23	1.50	BUY
13:	20 Jun 18	1.16	1.50	BUY
14:	02 Jul 18	1.16	1.50	BUY
15:	10 Jul 18	1.18	1.50	BUY
16:	10 Aug 18	1.21	1.50	BUY
17:	13 Aug 18	1.23	1.50	BUY
18:	24 Aug 18	1.20	1.50	BUY
19:	13 Sep 18	1.15	1.50	BUY

Source: AllianceDBS

Analyst: Marvin KHOR

Malaysia Company Guide

Genting Plantations

Version 14 | Bloomberg: GENP MK | Reuters: GENP.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Oct 2018

HOLD

Last Traded Price (10 Oct 2018): RM9.48 (KLCI : 1,774.15)

Price Target 12-mth: RM9.45 (0% downside) (Prev RM9.75)

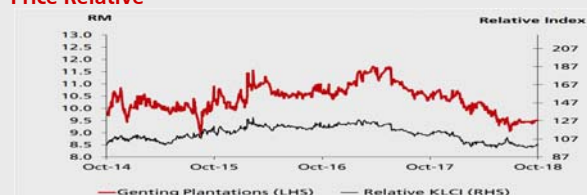
Analyst

Marvin KHOR +60 32604 3911 marvinkhor@alliancedbs.com

What's New

- Trim CY18/19/20F average CPO price forecasts to RM2,340/RM2,560/RM2,560 per MT
- Volume growth only partially offsets lower price impact, before material contribution from refining operations kicks in
- Lower estimates by 21%/5%/7% for FY18/19/20F, TP reduced to RM9.45 – maintain HOLD

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Revenue	1,804	1,962	2,374	2,567
EBITDA	618	516	680	742
Pre-tax Profit	461	344	496	552
Net Profit	338	254	359	398
Net Pft (Pre Ex.)	326	254	359	398
Net Pft Gth (Pre-ex) (%)	20.0	(21.9)	41.1	11.0
EPS (sen)	42.0	31.2	39.9	44.3
EPS Pre Ex. (sen)	40.5	31.2	39.9	44.3
EPS Gth Pre Ex (%)	19	(23)	28	11
Diluted EPS (sen)	37.6	28.3	39.9	44.3
Net DPS (sen)	26.0	10.9	14.0	15.5
BV Per Share (sen)	539	584	564	594
PE (X)	22.6	30.4	23.7	21.4
PE Pre Ex. (X)	23.4	30.4	23.7	21.4
P/Cash Flow (X)	12.8	22.3	19.5	16.2
EV/EBITDA (X)	15.1	18.7	15.4	14.1
Net Div Yield (%)	2.7	1.2	1.5	1.6
P/Book Value (X)	1.8	1.6	1.7	1.6
Net Debt/Equity (X)	0.3	0.3	0.3	0.3
ROAE (%)	7.8	5.6	7.3	7.6
Earnings Rev (%):		(21)	(5)	(7)
Consensus EPS (sen):		39.9	44.9	48.9
Other Broker Recs:		B: 12	S: 0	H: 8

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Awaiting refinery ramp-up

Upstream sees price impact before downstream margins kick in.

We revise down our near-term CPO price expectations to factor in the drag from lower soybean oil prices; and thus now expect a wider decline in FY18F earnings prior to a rebound in FY19F. Upstream operations will bear the brunt of the impact of soft prices, despite expectations for it to chart firm FFB growth of 14% this year from its young Indonesian plantations. However, there is yet no major offset from downstream as refining operations have yet to reach the necessary volumes, in part due to minimal Malaysian CPO export duties from lower ringgit-denominated prices. Before a swifter ramp-up of the aforementioned refining unit, we do not foresee major re-rating before sustained CPO price increases – maintain HOLD.

Where we differ. Conservative on costs and downstream

contributions. We have imputed GENP's refinery operations into our forecasts, though assume minimal near-term bottomline accretion as well as generally thinner margins than consensus.

Potential catalyst. Ramp-up in refinery profitability.

GENP aims to reach a utilisation rate of near 60% for its 600k MT p.a. refinery in Lahad Datu, Sabah, which is a collaboration with the Musim Mas Group. Faster or further ramp-up of utilisation will allow for bottom-line accretion.

Valuation:

After earnings adjustments, our SOP-based TP (Plantations segment valued with DCF) is lowered to RM9.45.

Key Risks to Our View:

A strong recovery in CPO prices (either data, weather or regulatory-driven) would lift the share price above our fair value, and vice versa.

At A Glance

Issued Capital (m shrs)	805
Mkt. Cap (RMm/US\$m)	7,630 / 1,835
Major Shareholders (%)	
Genting Berhad	51.2
Employees Provident Fund	13.1
Kumpulan Wang Persaraan	5.1
Free Float (%)	35.7
3m Avg. Daily Val (US\$m)	1.4
ICB Industry : Consumer Goods / Plantation	

WHAT'S NEW

Reducing CPO price expectations

Lower CPO prices forecasts. We are cutting our average CPO price forecasts for CY18/19/20F to RM2,340/2,560/2,560 per MT, from RM2,620/2,600/2,630 previously. This factors in the weak YTD price performance dragged by soybean oil prices, which had corrected sharply in response to trade tensions between the US and China. Our US dollar estimates for CPO had been trimmed to USD575/610/611 per MT from USD616/608/616 previously to reflect this; coupled with imputing relatively stronger USDMYR assumptions of 4.1/4.2/4.2. All said, we maintain our medium-term view that CPO prices will be well supported near current levels given its maintained price discount to soybean oil, plus a demand recovery that is assisted by rising discretionary biodiesel blending from higher crude oil prices.

Crucial refinery ramp-up partially dependent on CPO prices.

We continue to view the improvement of utilisation and margins at its palm oil refinery unit as a potential catalyst to re-rate the group. While general downstream contribution has improved in 1H18 on the back of higher biodiesel earnings, palm oil refinery operations have seen headwinds in increasing utilisation and thus profitability. This is likely in part due to the low spot CPO prices in ringgit terms, which had rendered Malaysian CPO export taxes nil and hurt refining margins. We now expect a more gradual ramp in average utilisation (40%/50%/55% in FY18/19/20F), though securing of stronger offtake sources can help improve its sustainable volumes and thus better insulate the group's earnings against CPO price variations going forward. After incorporating updated CPO price forecasts, our **GENP earnings estimates are cut by 21%/5%/7% for FY18/19/20F**; and our **TP reduced to RM9.45**. Our neutral view on the counter remains, pending a substantive move in CPO prices – maintain HOLD.

CRITICAL DATA POINTS TO WATCH

Critical Factors

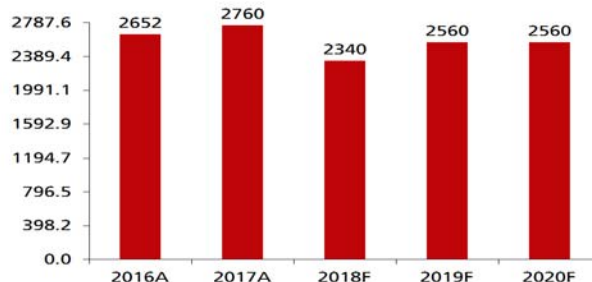
CPO price. As a commodity producer, GENP is a price-taker. Movements in international CPO prices would directly impact the group's profitability. We currently expect CPO prices (FOB Pasir Gudang) to average US\$575/MT (-10.8% y-o-y) in CY18, translating to RM2,340/MT (-15%), and the decline may negatively impact near-term selling prices of both CPO and its derivatives. We expect marginal recovery to US\$610/MT in CY19F, or RM2,560/MT which will generally help boost revenues and plantation margins.

Volume output. GENP has c.150k ha planted area in Malaysia and Indonesia with its recent purchase of additional hectareage in Indonesia. From 2017-2020F, we expect GENP's internal FFB output to chart a CAGR of 9% as rising Indonesian volumes are slightly offset by reduced Malaysian hectareage, given its replanting programme. GENP has 11 palm oil mills which primarily processes its own FFB. The group's Malaysian hectareage is primarily in Sabah, while its Indonesian plantations are in West and Central Kalimantan.

Growing downstream presence. GENP has a 72% stake in a palm oil refinery in Lahad Datu, Sabah, in collaboration with the Musim Mas group. The plant has a capacity of 600k MT p.a. which began operations in 2017. We expect utilisation to only gradually ramp up assuming average rates of 40%/50%/55% in FY18/19/20F, initially processing its own CPO feedstock prior to sourcing external volumes. Contribution will rise with higher volumes and more favourable palm oil product spreads; though margins will be thinner than its upstream operations. The group also has a biodiesel plant in the same area of Sabah, though volumes and contribution remain immaterial for now.

Demand seasonality. As a major vegetable oil with 38% market share globally, palm oil is an important food staple. The other major vegetable oils are soybean oil with 29% market share, followed by rapeseed/canola oil and sunflower oil with 16% and 10% market shares respectively. There is generally demand substitutability between vegetable oils (high price elasticity of demand), although certain vegetable oils are more suitable than others for certain applications. Relative to other oil crops, palm oil has the highest productivity per hectare (i.e. c.5 MT/ha), while soybean oil's productivity is typically 0.5 MT/ha. Demand for palm oil is dominant in Asia where local festivities drive higher demand in certain months of the year, for example, Ramadan month, Chinese New Year, and Divali are typically high-demand periods in Asia.

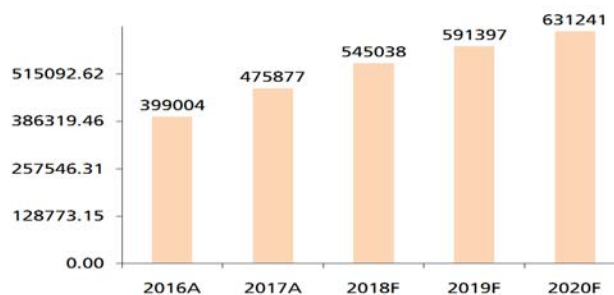
CPO price



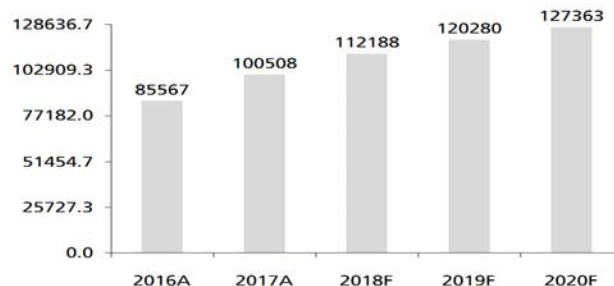
Mature palm oil hectareage



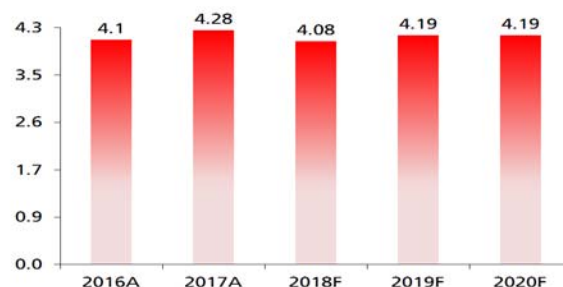
CPO production volume



Refined palm oil volume



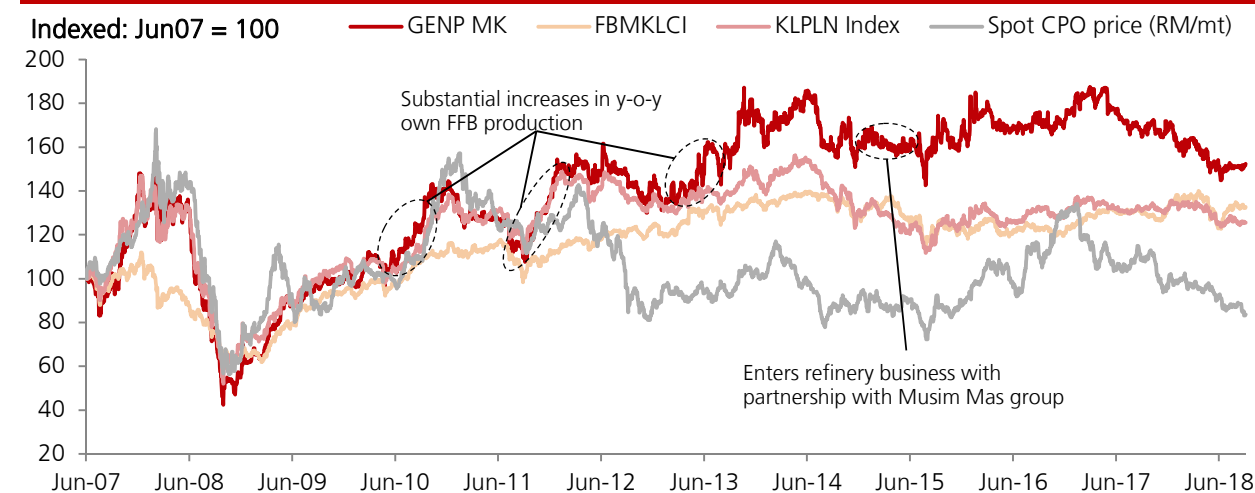
Average MYR/USD



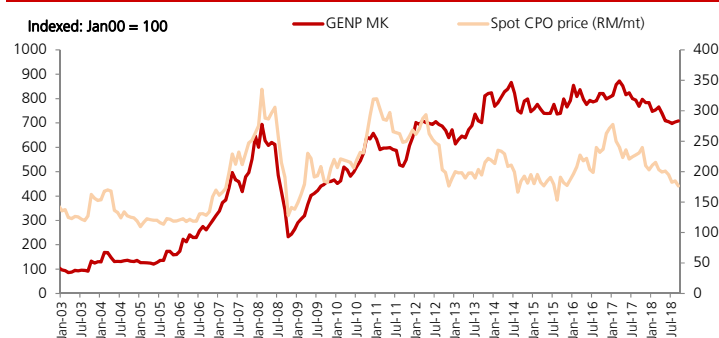
Source: Company, AllianceDBS

Appendix 1: GENP price correlation with critical factors

Graph 1: Share price vs key benchmarks



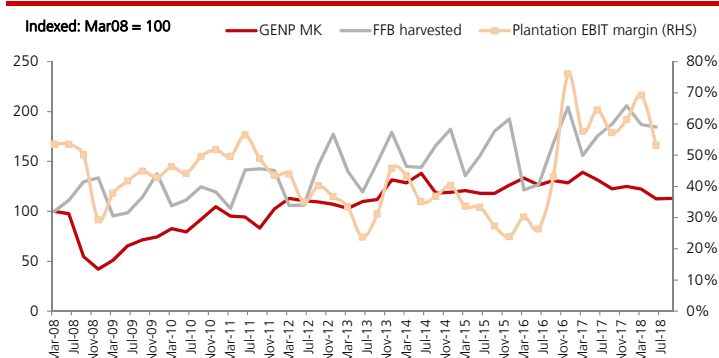
GENP share price vs CPO prices



Remarks

GENP's share price is principally influenced by the movement of CPO prices, with a long-run correlation coefficient of 0.8.

GENP share price vs production and margins



Remarks

GENP's share price is moved by the growth in its internal production, which can also be beneficial to its operating margins and thus profitability.

Genting Plantations

Balance Sheet:

Manageable leverage levels. As at end-FY17, GENP had a net gearing ratio of c.0.2x, including USD debts amounting to US\$302m, which represented debts incurred by its Indonesian subsidiaries to fund its ongoing capex programme there (interest expense and FX losses are partly capitalised). We expect minimal changes on its leverage, barring further large capex for downstream investments.

Share Price Drivers:

Value enhancement from downstream venture. Following its venture into the palm oil refinery business since early-2017, GENP has to deliver incrementally improved performances, which can be heightened if its additional biorefinery plans are successful.

Key Risks:

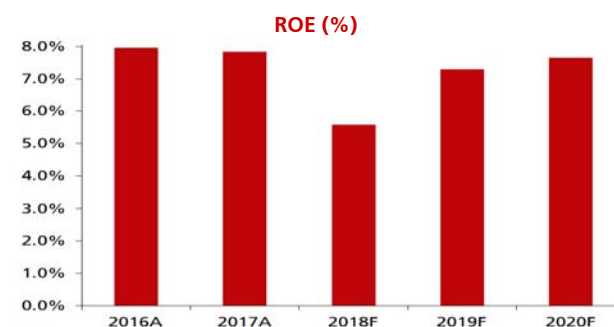
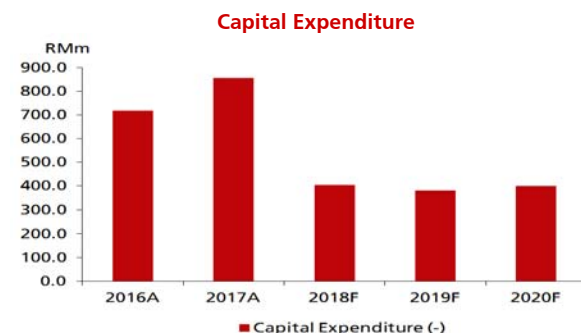
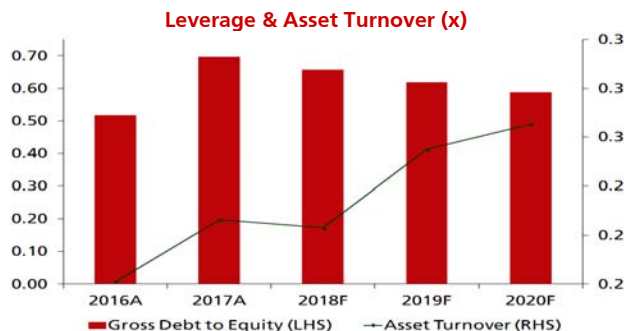
Volatility in CPO prices and USD exchange rate. Large changes in CPO prices would materially affect earnings, while volatility in USD affects both CPO prices and USD debt.

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

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

Company Background

GENP is in the palm oil plantation business with over 220k ha of plantations in Malaysia and Indonesia, and nine palm oil mills currently. Its other/non-core businesses are biotechnology and property development.



Source: Company, AllianceDBS

Key Assumptions

FY Dec	2016A	2017A	2018F	2019F	2020F
CPO price	2,652	2,760	2,340	2,560	2,560
Mature palm oil hectarage	92,691	94,663	109,317	115,922	119,794
CPO production volume	399,004	475,877	545,038	591,397	631,241
Refined palm oil volume	85,567	100,508	112,188	120,280	127,363
Average MYR/USD	4.10	4.28	4.08	4.19	4.19

Segmental Breakdown

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenues (RMm)					
Plantation	1,258	968	981	1,169	1,270
Property	126	112	116	119	123
Others	96.1	723	865	1,086	1,175
Total	1,480	1,804	1,962	2,374	2,567
EBIT (RMm)					
Plantation	394	477	390	523	568
Property	42.2	24.7	25.5	26.3	27.1
Others	7.93	(41.4)	(68.2)	(47.4)	(41.1)
Total	444	460	347	502	554
EBIT Margins (%)					
Plantation	31.3	49.2	39.8	44.8	44.7
Property	33.6	22.0	22.0	22.0	22.1
Others	8.3	(5.7)	(7.9)	(4.4)	(3.5)
Total	30.0	25.5	17.7	21.1	21.6

Income Statement (RMm)

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenue	1,480	1,804	1,962	2,374	2,567
Cost of Goods Sold	(923)	(1,182)	(1,431)	(1,679)	(1,812)
Gross Profit	557	623	531	695	755
Other Opng (Exp)/Inc	(113)	(162)	(183)	(193)	(201)
Operating Profit	444	460	347	502	554
Other Non Opng (Exp)/Inc	(66.9)	(12.1)	0.0	0.0	0.0
Associates & JV Inc	25.0	34.7	39.3	42.8	46.7
Net Interest (Exp)/Inc	(20.2)	(33.8)	(42.6)	(48.9)	(48.8)
Exceptional Gain/(Loss)	66.9	12.1	0.0	0.0	0.0
Pre-tax Profit	449	461	344	496	552
Tax	(121)	(116)	(89.5)	(129)	(144)
Minority Interest	10.7	(7.1)	(0.5)	(8.5)	(10.6)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	338	338	254	359	398
Net Profit before Except.	271	326	254	359	398
EBITDA	599	618	516	680	742
Growth					
Revenue Gth (%)	7.6	21.9	8.7	21.0	8.1
EBITDA Gth (%)	89.4	3.1	(16.5)	31.9	9.0
Opg Profit Gth (%)	95.6	3.7	(24.5)	44.5	10.4
Net Profit Gth (Pre-ex) (%)	38.8	20.0	(21.9)	41.1	11.0
Margins & Ratio					
Gross Margins (%)	37.6	34.5	27.1	29.3	29.4
Opg Profit Margin (%)	30.0	25.5	17.7	21.1	21.6
Net Profit Margin (%)	22.9	18.7	13.0	15.1	15.5
ROAE (%)	8.0	7.8	5.6	7.3	7.6
ROA (%)	4.6	4.2	2.9	3.9	4.1
ROCE (%)	4.7	4.5	3.1	4.2	4.5
Div Payout Ratio (%)	49.3	61.9	35.0	35.0	35.0
Net Interest Cover (x)	22.0	13.6	8.2	10.3	11.3

Source: Company, AllianceDBS

Genting Plantations

Quarterly / Interim Income Statement (RMm)

FY Dec	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018
Revenue	446	429	528	529	403
Cost of Goods Sold	(306)	(261)	(358)	(381)	(304)
Gross Profit	140	168	170	148	98.2
Other Oper. (Exp)/Inc	(28.1)	(50.5)	(15.5)	(1.0)	(43.3)
Operating Profit	112	118	155	147	54.9
Other Non Opg (Exp)/Inc	6.32	2.56	(24.8)	(27.7)	24.2
Associates & JV Inc	7.57	9.32	11.8	9.82	10.5
Net Interest (Exp)/Inc	(16.7)	(18.5)	(24.2)	(26.1)	(28.2)
Exceptional Gain/(Loss)	(6.3)	(2.6)	24.8	27.7	(24.2)
Pre-tax Profit	103	108	142	131	37.2
Tax	(27.6)	(28.9)	(30.2)	(36.3)	(12.4)
Minority Interest	(5.1)	(2.8)	5.78	6.63	1.31
Net Profit	70.5	76.7	118	101	26.1
Net profit bef Except.	76.9	79.3	93.0	73.3	50.3
EBITDA	112	118	155	147	54.9

Growth

Revenue Gth (%)	11.5	(3.8)	23.1	0.1	(23.9)
EBITDA Gth (%)	(3.7)	4.6	31.5	(5.0)	(62.6)
Opg Profit Gth (%)	(3.7)	4.6	31.5	(5.0)	(62.6)
Net Profit Gth (Pre-ex) (%)	0.5	3.2	17.2	(21.1)	(31.3)

Margins

Gross Margins (%)	31.5	39.1	32.2	28.0	24.4
Opg Profit Margins (%)	25.2	27.4	29.2	27.8	13.6
Net Profit Margins (%)	15.8	17.9	22.3	19.1	6.5

Balance Sheet (RMm)

FY Dec	2016A	2017A	2018F	2019F	2020F
Net Fixed Assets	3,811	4,393	4,982	5,183	5,396
Invt in Associates & JVs	90.4	121	160	203	250
Other LT Assets	1,061	1,200	1,206	1,210	1,212
Cash & ST Invt	1,760	1,722	1,588	1,589	1,587
Inventory	174	233	220	257	276
Debtors	505	397	550	663	713
Other Current Assets	73.7	403	404	405	406
Total Assets	7,476	8,469	9,111	9,511	9,840
ST Debt	29.1	625	625	625	625
Creditor	412	367	474	559	607
Other Current Liab	15.7	16.7	19.2	22.6	24.4
LT Debt	2,316	2,559	2,659	2,659	2,659
Other LT Liabilities	166	332	332	332	332
Shareholder's Equity	4,281	4,334	4,765	5,068	5,338
Minority Interests	255	235	236	244	255
Total Cap. & Liab.	7,476	8,469	9,111	9,511	9,840
Non-Cash Wkg. Capital	325	650	681	743	764
Net Cash/(Debt)	(585)	(1,463)	(1,697)	(1,695)	(1,697)
Debtors Turn (avg days)	103.4	91.2	88.2	93.2	97.8
Creditors Turn (avg days)	183.8	138.9	121.6	125.7	131.0
Inventory Turn (avg days)	64.7	72.5	65.5	58.0	59.9
Asset Turnover (x)	0.2	0.2	0.2	0.3	0.3
Current Ratio (x)	5.5	2.7	2.5	2.4	2.4
Quick Ratio (x)	5.0	2.1	1.9	1.9	1.8
Net Debt/Equity (X)	0.1	0.3	0.3	0.3	0.3
Net Debt/Equity ex MI (X)	0.1	0.3	0.4	0.3	0.3
Capex to Debt (%)	30.6	26.9	12.3	11.6	12.2
Z-Score (X)	3.0	2.4	2.3	2.5	2.5

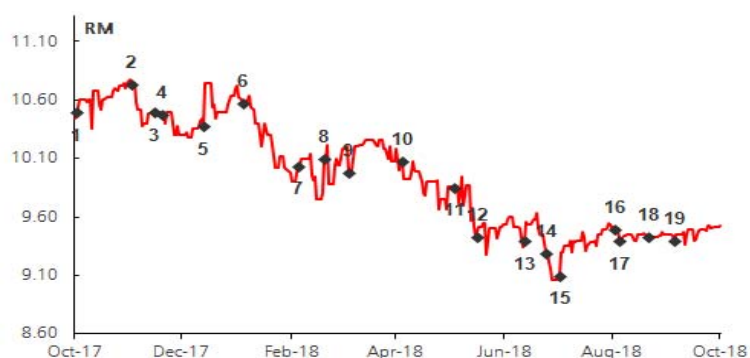
Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	449	461	344	496	552
Dep. & Amort.	155	158	168	178	187
Tax Paid	(121)	(116)	(89.5)	(129)	(144)
Assoc. & JV Inc/(loss)	(25.0)	(34.7)	(39.3)	(42.8)	(46.7)
Chg in Wkg.Cap.	(196)	3.57	(33.2)	(64.3)	(22.0)
Other Operating CF	113	125	(4.0)	(1.7)	(0.6)
Net Operating CF	375	596	347	436	527
Capital Exp.(net)	(718)	(855)	(403)	(380)	(400)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	189	41.6	0.0	0.0	0.0
Net Investing CF	(529)	(814)	(403)	(380)	(400)
Div Paid	(39.6)	(196)	(184)	(96.7)	(128)
Chg in Gross Debt	83.2	243	100	0.0	0.0
Capital Issues	115	(88.9)	6.00	41.3	0.0
Other Financing CF	(169)	221	0.0	0.0	0.0
Net Financing CF	(10.6)	179	(77.5)	(55.4)	(128)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(165)	(38.6)	(134)	1.52	(2.0)
Opg CFPS (sen)	71.9	73.7	46.6	55.8	61.1
Free CFPS (sen)	(43.2)	(32.3)	(6.9)	6.33	14.1

Source: Company, AllianceDBS

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 Oct 17	10.50	11.05	HOLD
2:	10 Nov 17	10.74	11.05	HOLD
3:	23 Nov 17	10.50	10.95	HOLD
4:	27 Nov 17	10.48	10.95	HOLD
5:	21 Dec 17	10.38	10.95	HOLD
6:	12 Jan 18	10.58	10.95	HOLD
7:	12 Feb 18	10.04	10.95	HOLD
8:	27 Feb 18	10.10	10.45	HOLD
9:	13 Mar 18	9.99	10.45	HOLD
10:	12 Apr 18	10.08	10.45	HOLD
11:	11 May 18	9.86	10.45	HOLD
12:	24 May 18	9.44	10.45	HOLD
13:	20 Jun 18	9.40	10.45	HOLD
14:	02 Jul 18	9.30	10.45	HOLD
15:	10 Jul 18	9.10	10.45	HOLD
16:	10 Aug 18	9.50	10.45	HOLD
17:	13 Aug 18	9.40	10.45	HOLD
18:	29 Aug 18	9.44	9.75	HOLD
19:	13 Sep 18	9.40	9.75	HOLD

Source: AllianceDBS

Analyst: Marvin KHOR

Malaysia Company Guide

Sime Darby Plantation

Version 3 | Bloomberg: SDPL MK | Reuters: N/A

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Oct 2018

HOLD

Last Traded Price (10 Oct 2018): RM5.24 (KLCI : 1,774.15)

Price Target 12-mth: RM5.15 (-2% downside) (Prev RM5.30)

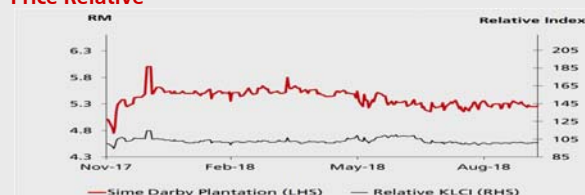
Analyst

Marvin KHOR +60 32604 3911 marvinkhor@alliancedbs.com

What's New

- Trim CY18/19/20F average CPO price forecasts to RM2,340/RM2,560/RM2,560 per MT
- Soft near-term production and rising costs to dampen earnings growth, while downstream pushes for higher weightage of differentiated products
- Cut forward earnings by 10-4%, and TP to RM5.15 – maintain HOLD

Price Relative



Forecasts and Valuation

FY Jun (RMm)	2018A	2019F	2020F	2021F
Revenue	14,369	14,335	14,992	15,185
EBITDA	3,235	3,177	3,443	3,686
Pre-tax Profit	2,377	1,672	1,851	2,001
Net Profit	1,727	1,075	1,208	1,321
Net Pft (Pre Ex.)	1,172	1,075	1,208	1,321
Net Pft Gth (Pre-ex) (%)	(8.4)	(8.2)	12.4	9.3
EPS (sen)	25.4	15.8	17.8	19.4
EPS Pre Ex. (sen)	17.2	15.8	17.8	19.4
EPS Gth Pre Ex (%)	(8)	(8)	12	9
Diluted EPS (sen)	17.2	15.8	17.8	19.4
Net DPS (sen)	17.5	7.90	8.88	9.71
BV Per Share (sen)	201	209	218	228
PE (X)	20.6	33.1	29.5	27.0
PE Pre Ex. (X)	30.4	33.1	29.5	27.0
P/Cash Flow (X)	13.3	13.0	12.8	11.6
EV/EBITDA (X)	13.7	13.9	12.7	11.8
Net Div Yield (%)	3.3	1.5	1.7	1.9
P/Book Value (X)	2.6	2.5	2.4	2.3
Net Debt/Equity (X)	0.4	0.3	0.3	0.3
ROAE (%)	12.6	7.6	8.2	8.5
Earnings Rev (%):		(10)	(4)	(9)
Consensus EPS (sen):		18.5	20.0	20.0
Other Broker Recs:		B: 4	S: 2	H: 11

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Lukewarm outlook remains

Expect minimal growth in the near term. We revise down our near-term CPO price expectations to factor in the drag from lower soybean oil prices; resultantly nudging down our forward earnings estimates for SDPL. However there is little change to our view of flattish near-term earnings for the group, led by similar flattish expectations for its volume growth across its regional plantations. The downstream division lends some promise via its push into a greater weightage of differentiated or specialty products. Its valuations remain lofty relative to peers, which we think is justified by the group's industry-leading size and sustainability standards. Maintain HOLD.

Where we differ. More conservative expectations. Our CPO price forecasts of RM2,340/2,560/2,560 per MT for CY2018/19/20F are within consensus' range, though our earnings estimates are below on the back of more conservative margin assumptions.

Potential catalyst. Swings in CPO prices. SDPL's earnings are meaningfully influenced by movements in CPO prices. Every 10% deviation, ceteris paribus, from our spot forward CPO price assumptions will result in an 18% change to FY19F profit forecast.

Valuation:

Our TP of RM5.15 is derived using the DCF methodology (WACC: 8.7%, TG: 4%).

Key Risks to Our View:

Sharp changes in commodity prices would cause SDP's earnings to come in above or below our estimates. As Sime is a KLCI component, changes in its weightings would also make it vulnerable to significant price swings.

At A Glance

Issued Capital (m shrs)	6,801
Mkt. Cap (RMm/US\$m)	35,636 / 8,572
Major Shareholders (%)	
Skim Amanah Saham Bumiputera	42.6
Employees Provident Fund	13.9
Permodalan Nasional Berhad	5.0
Free Float (%)	38.5
3m Avg. Daily Val (US\$m)	4.0
ICB Industry : Consumer Goods / Plantation	

WHAT'S NEW

Reducing CPO price expectations

Lower CPO prices forecasts. We are cutting our average CPO price forecasts for CY18/19/20F to RM2,340/2,560/2,560 per MT, from RM2,620/2,600/2,630 previously. This factors in the weak YTD price performance dragged by soybean oil prices, which had corrected sharply in response to trade tensions between the US and China. Our US dollar estimates for CPO had been trimmed to USD575/610/611 per MT from USD616/608/616 previously to reflect this; coupled with imputing relatively stronger USDMYR assumptions of 4.1/4.2/4.2. All said, we maintain our medium-term view that CPO prices will be well supported near current levels given its maintained price discount to soybean oil, plus a demand recovery that is assisted by rising discretionary biodiesel blending from higher crude oil prices.

Minimal near-term growth drivers. SDPL's near-term volume growth is expected to be muted particularly from its Malaysian plantations, given a yield resting period which had set in since 4QFY18. The moderation of replanting activity at its Indonesian estate (to c.5% from c.7% of mature area in previous years) will help support moderate growth thereafter, together with the eventual rebound from Malaysia plus the newly acquired land in PNG. That said, Upstream earnings will likely see near-term declines given mild CPO prices plus rising minimum wages in Malaysia. SDPL is strategically expanding its exposure to more differentiated (vs bulk) products at its Downstream division to lift segment and group margins; though we anticipate progress to be more gradual after the large jump in proportion (to 48% from 42%) in FY18. After imputing our revised CPO price forecasts, **our FY19/20F earnings are reduced by 10%/4%**, and we introduce our FY21F projections. **Our DCF-based TP is reduced to RM5.15**, maintain HOLD.

CRITICAL DATA POINTS TO WATCH

Critical Factors

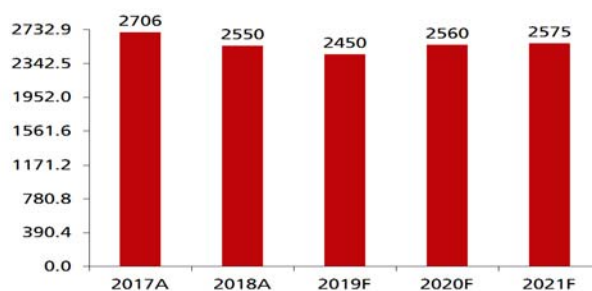
CPO prices. SDP is a vertically integrated oil palm plantation group with over 95% of external revenues derived from the sale of palm products and its derivatives, including crude palm oil (CPO), palm kernel (PK) and refined, bleached & deodorised (RBD) products. The prices of these products will be directly influenced by the movement of spot CPO prices, which we forecast to average RM2,400/2,560/2,560 per MT for CY18/19/20F. The average selling prices (ASP) commanded will differ, depending on the timing of sale. With strong adherence to sustainability best practices, c.85% of SDP's CPO output is classified as certified sustainable palm oil (CSPO) which may also facilitate a pricing premium.

Production volumes. SDP's key assets include 600k ha of oil palm planted land, of which 493k ha is classified as mature or above three years of age. Its hectareage is geographically diversified with the planted area being split 50%/34%/14%/2% across Malaysia, Indonesia, Papua New Guinea (PNG) and Liberia. Excluding immature area, we estimate its average mature tree age to be c.15 years, which will be on a downwards trend given a replanting target of c.5% per year. From its own trees, SDP produced 10.2m MT of fresh fruit bunches (FFB) in FY18; and we expect this to grow c.1% p.a. in FY19/20F from yield expansion. The group also purchases FFB from external sources (c.23% of own output in FY18), contributing to a total CPO output of 2.65m MT across its 72 palm oil mills with an oil extraction rate (OER) of 21%. We forecast its CPO output to chart a 2% CAGR over the coming years assuming a gradual improvement in OER – which is targeted to reach 25% by FY2025.

Downstream margins. Over 60% of SDP's upstream plantation sales are made internally to its downstream unit, primarily consisting of 12 refineries with a total capacity of 3.97m MT per year. While value-add in topline accretion is significant, margins are typically thin given the steep competition among processors. The group aims to gradually increase its downstream contribution to earnings, which can be achieved by further expansion and development of further processed products.

Ringgit movement and impact on pricing and costs. CPO ASP is affected by the USDMYR exchange rate, as trade is typically conducted in USD terms. Thus core plantation earnings are typically positively/negatively impacted by USD strength/weakness against the ringgit, as only a portion of costs (largely related to fertiliser) are USD-based. However as the majority (>80%) of SDP's borrowings are denominated in USD, headline profits will instead see a reverse impact from translation losses or gains.

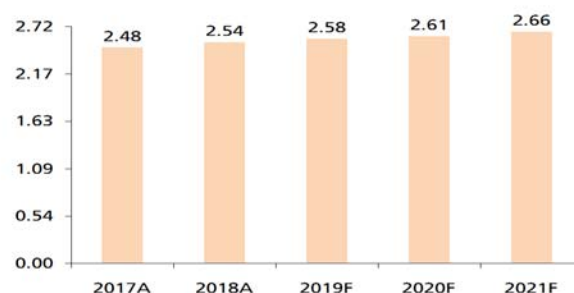
CPO spot prices (RM/MT)



Mature palm oil hectareage



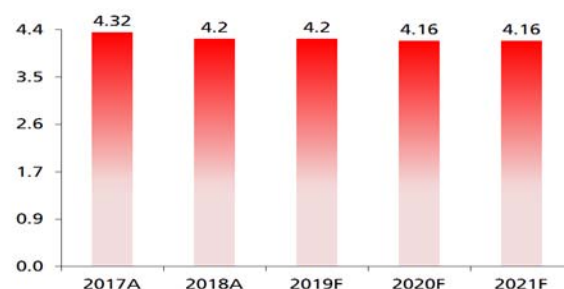
CPO produced (m MT)



Core downstream margin (%)



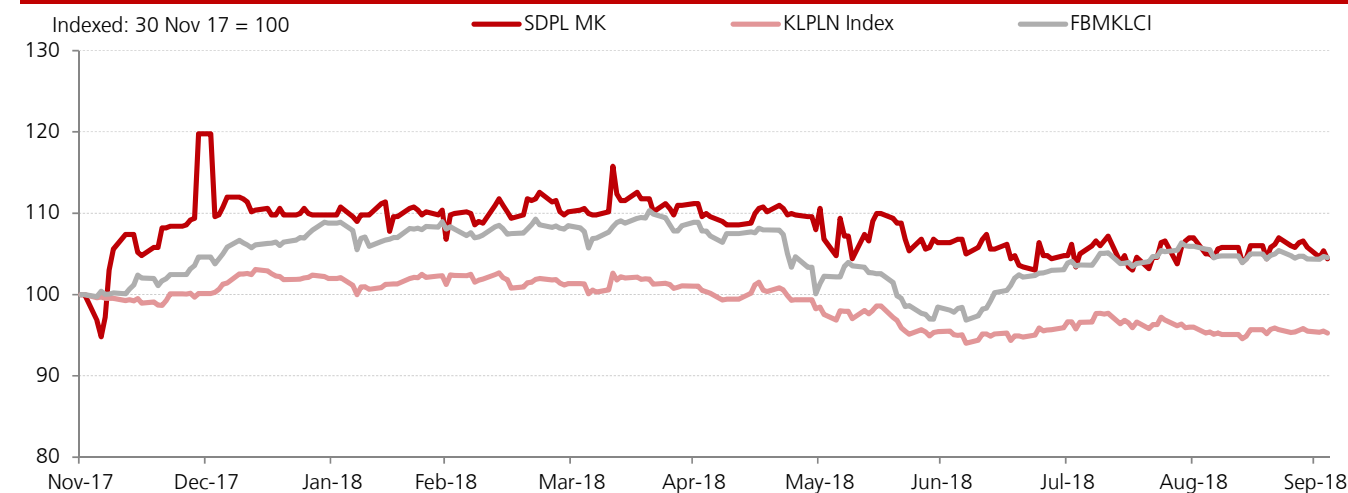
Average USDMYR



Source: Company, AllianceDBS

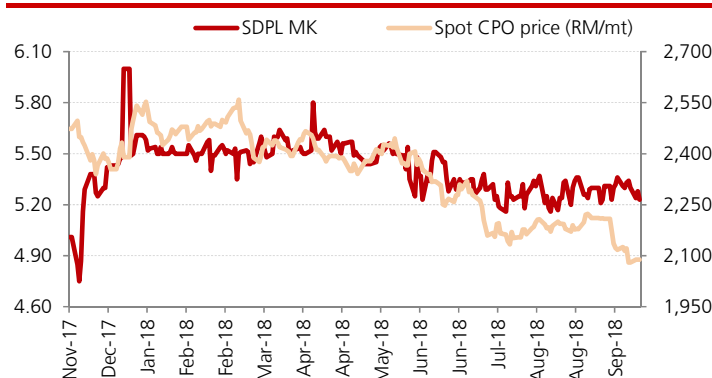
Appendix 1: SDPL price correlation with critical factors

Graph 1: Share price vs key indices



Source: Company, Bloomberg L.P., AllianceDBS, DBS Bank

SDPL share price vs CPO prices

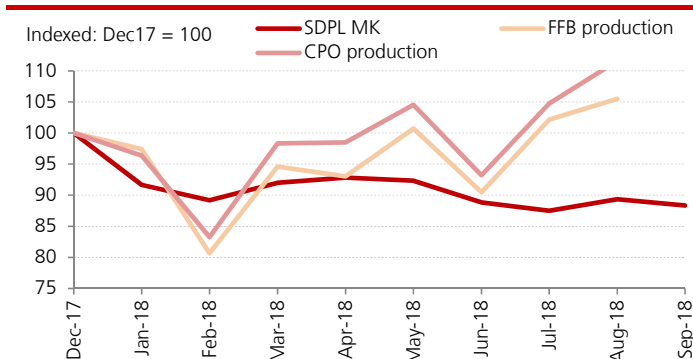


Source: Company, Bloomberg L.P., AllianceDBS

Remarks

Post-demerger, SDPL's share price has demonstrated relatively mild sensitivity to daily movements in CPO pricing, despite the strong influence on group earnings and profitability.

SDPL share price vs production statistics



Source: Company, MPOB, Bloomberg L.P., AllianceDBS

Remarks

SDPL's share price has shown a mildly positive relationship to its monthly production statistics, as tracked from Dec 2017 disclosures onwards. As its estates are on aggregate relatively mature, substantial changes in productivity will be reflected in output, thus impacting profitability.

Sime Darby Plantation

Balance Sheet:

Gearing to ease from strong free cashflow. SDP had net gearing of 0.38x at end-FY18, pared down from 0.47x at end-FY17. We expect this to ease towards the 0.3x level by FY21F, given its positive free cashflow, coupled with a moderate capex directed mostly towards replanting activities.

Share Price Drivers:

CPO price exposure. With earnings sensitivity to spot CPO prices, we expect SDP's share price to be driven by CPO price movements, as its geographic diversity provides more cushion from production-related volatility.

Key Risks:

Volatility in commodity prices and USD exchange rate.

Prolonged weakness in CPO prices may lead to lower-than-expected earnings, while lower energy prices from the expansion of US shale gas would have an adverse impact on the demand for vegetable oils as a biofuel.

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

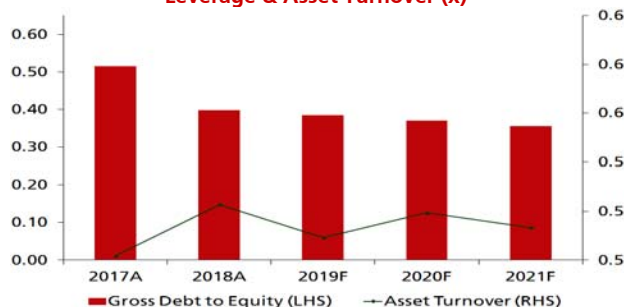
Market sentiment. Changes in fund flows towards or out of emerging markets would affect the valuations of plantation counters.

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

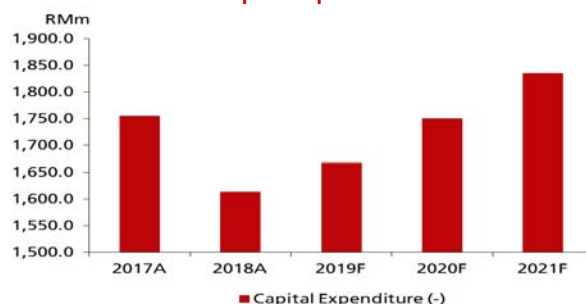
Company Background

Sime Darby Plantations is the world's largest palm oil plantation firm by measure of hectareage as well as the largest supplier of certified sustainable palm oil (CSPO). Following a long corporate history as part of the Sime Darby Group, it had demerged into a separate listed entity in Nov 2017.

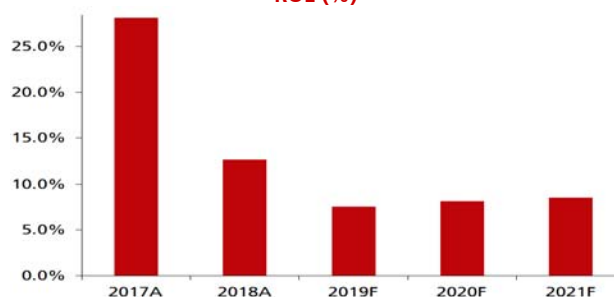
Leverage & Asset Turnover (x)



Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, AllianceDBS

Key Assumptions

FY Jun	2017A	2018A	2019F	2020F	2021F
CPO spot prices (RM/MT)	2,706	2,550	2,450	2,560	2,575
Mature palm oil hectarage	502,095	493,077	492,869	494,546	496,861
CPO produced (m MT)	2.48	2.54	2.58	2.61	2.66
Core downstream margin	2.09	2.84	3.16	3.11	3.17
Average USDMYR	4.32	4.20	4.20	4.16	4.16

Segmental Breakdown

FY Jun	2017A	2018A	2019F	2020F	2021F
Revenues (RMm)					
Upstream	3,640	3,591	3,543	3,647	3,627
Downstream	11,079	10,560	10,670	11,219	11,429
Others	60.0	218	122	125	129
Total	14,779	14,369	14,335	14,992	15,185
EBIT (RMm)					
Upstream	1,528	1,309	1,096	1,229	1,328
Downstream	233	305	342	353	367
Others	27.6	50.8	36.2	45.6	58.7
Total	2,271	2,018	1,875	2,040	2,179
EBIT Margins (%)					
Upstream	42.0	36.4	30.9	33.7	36.6
Downstream	2.1	2.9	3.2	3.1	3.2
Others	45.9	23.3	29.8	36.5	45.5
Total	15.4	14.0	13.1	13.6	14.3

Income Statement (RMm)

FY Jun	2017A	2018A	2019F	2020F	2021F
Revenue	14,779	14,369	14,335	14,992	15,185
Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0
Gross Profit	0.0	0.0	0.0	0.0	0.0
Other Opng (Exp)/Inc	(12,509)	(12,351)	(12,461)	(12,952)	(13,006)
Operating Profit	2,271	2,018	1,875	2,040	2,179
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(43.5)	(37.0)	(25.0)	(24.8)	(24.5)
Net Interest (Exp)/Inc	(424)	(159)	(178)	(164)	(154)
Exceptional Gain/(Loss)	2,228	555	0.0	0.0	0.0
Pre-tax Profit	4,031	2,377	1,672	1,851	2,001
Tax	(479)	(492)	(435)	(477)	(510)
Minority Interest	(42.1)	(34.0)	(37.9)	(42.0)	(45.5)
Preference Dividend	(2.7)	(124)	(124)	(124)	(124)
Net Profit	3,507	1,727	1,075	1,208	1,321
Net Profit before Except.	1,279	1,172	1,075	1,208	1,321
EBITDA	3,499	3,235	3,177	3,443	3,686
Growth					
Revenue Gth (%)	23.7	(2.8)	(0.2)	4.6	1.3
EBITDA Gth (%)	61.3	(7.5)	(1.8)	8.4	7.1
Opg Profit Gth (%)	123.2	(11.1)	(7.1)	8.8	6.8
Net Profit Gth (Pre-ex) (%)	78.5	(8.4)	(8.2)	12.4	9.3
Margins & Ratio					
Opg Profit Margin (%)	15.4	14.0	13.1	13.6	14.3
Net Profit Margin (%)	23.7	12.0	7.5	8.1	8.7
ROAE (%)	28.2	12.6	7.6	8.2	8.5
ROA (%)	11.9	6.3	3.8	4.2	4.5
ROCE (%)	7.8	6.2	5.3	5.6	5.9
Div Payout Ratio (%)	25.7	68.9	50.0	50.0	50.0
Net Interest Cover (x)	5.4	12.7	10.6	12.4	14.2

Source: Company, AllianceDBS

Sime Darby Plantation

Quarterly / Interim Income Statement (RMm)

FY Jun	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018
Revenue	3,686	3,541	4,085	3,659	3,084
Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0
Gross Profit	0.0	0.0	0.0	0.0	0.0
Other Oper. (Exp)/Inc	(3,056)	(3,031)	(3,433)	(3,286)	(2,601)
Operating Profit	630	510	652	373	483
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(24.0)	3.00	(18.0)	(11.0)	(11.0)
Net Interest (Exp)/Inc	(112)	(45.0)	(36.0)	(38.0)	(40.0)
Exceptional Gain/(Loss)	2,228	771	39.0	28.0	(283)
Pre-tax Profit	2,722	1,239	637	352	149
Tax	(95.0)	(180)	(160)	(67.0)	(85.0)
Minority Interest	4.00	(8.0)	(17.0)	(6.0)	(3.0)
Net Profit	2,628	1,019	429	249	30.0
Net profit bef Except.	400	248	390	221	313
EBITDA	941	781	914	634	805

Growth

Revenue Gth (%)	(15.2)	(3.9)	15.4	(10.4)	(15.7)
EBITDA Gth (%)	(10.6)	(17.0)	17.0	(30.6)	27.0
Opg Profit Gth (%)	(11.8)	(19.0)	27.8	(42.8)	29.5
Net Profit Gth (Pre-ex) (%)	(2.4)	(38.0)	57.3	(43.3)	41.6

Margins

Opg Profit Margins (%)	17.1	14.4	16.0	10.2	15.7
Net Profit Margins (%)	71.3	28.8	10.5	6.8	1.0

Balance Sheet (RMm)

FY Jun	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	18,340	17,742	18,111	18,471	18,813
Invt in Associates & JVs	609	476	455	430	406
Other LT Assets	5,030	4,300	4,191	4,107	4,021
Cash & ST Invt	713	363	755	1,049	1,492
Inventory	1,522	1,571	1,513	1,572	1,580
Debtors	2,558	2,301	2,389	2,499	2,531
Other Current Assets	683	738	738	738	738
Total Assets	29,455	27,491	28,152	28,866	29,581
ST Debt	1,328	1,094	1,094	1,094	1,094
Creditor	1,773	1,588	1,715	1,782	1,791
Other Current Liab	1,909	270	216	216	216
LT Debt	6,463	5,395	5,395	5,395	5,395
Other LT Liabilities	2,859	2,830	2,843	2,843	2,843
Shareholder's Equity	14,689	15,906	16,444	17,048	17,709
Minority Interests	434	408	446	488	533
Total Cap. & Liab.	29,455	27,491	28,152	28,866	29,581
Non-Cash Wkg. Capital	1,082	2,752	2,710	2,811	2,842
Net Cash/(Debt)	(7,078)	(6,126)	(5,734)	(5,440)	(4,997)
Debtors Turn (avg days)	63.2	58.4	60.8	60.8	60.8
Creditors Turn (avg days)	(509.0)	(462.4)	(471.5)	(455.7)	(426.7)
Inventory Turn (avg days)	(436.9)	(457.4)	(416.0)	(402.0)	(376.5)
Asset Turnover (x)	0.5	0.5	0.5	0.5	0.5
Current Ratio (x)	1.1	1.7	1.8	1.9	2.0
Quick Ratio (x)	0.7	0.9	1.0	1.1	1.3
Net Debt/Equity (X)	0.5	0.4	0.3	0.3	0.3
Net Debt/Equity ex MI (X)	0.5	0.4	0.3	0.3	0.3
Capex to Debt (%)	22.5	24.9	25.7	27.0	28.3
Z-Score (X)	NA	NA	NA	NA	NA

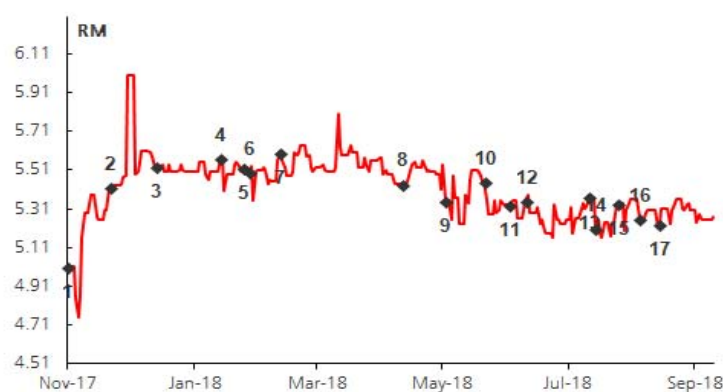
Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Jun	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	4,031	2,377	1,672	1,851	2,001
Dep. & Amort.	1,271	1,254	1,328	1,427	1,532
Tax Paid	(479)	(492)	(435)	(477)	(510)
Assoc. & JV Inc/(loss)	43.5	37.0	25.0	24.8	24.5
Chg in Wkg.Cap.	(349)	(138)	96.5	(102)	(31.2)
Other Operating CF	(1,225)	(363)	50.0	50.0	50.0
Net Operating CF	3,292	2,675	2,736	2,775	3,066
Capital Exp.(net)	(1,755)	(1,614)	(1,667)	(1,750)	(1,835)
Other Invt.(net)	7.16	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	(4.0)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	170	734	25.3	(2.8)	(2.9)
Net Investing CF	(1,578)	(884)	(1,642)	(1,753)	(1,838)
Div Paid	(900)	(1,190)	(538)	(604)	(661)
Chg in Gross Debt	2,140	(1,302)	(54.0)	0.0	0.0
Capital Issues	2,486	680	0.0	0.0	0.0
Other Financing CF	(5,400)	(279)	(111)	(124)	(124)
Net Financing CF	(1,673)	(2,091)	(703)	(729)	(785)
Currency Adjustments	36.1	(50.4)	0.0	0.0	0.0
Chg in Cash	77.1	(350)	392	294	443
Opg CFPS (sen)	53.5	41.4	38.8	42.3	45.5
Free CFPS (sen)	22.6	15.6	15.7	15.1	18.1

Source: Company, AllianceDBS

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:	30 Nov 17	5.01	5.40	HOLD
2:	21 Dec 17	5.42	5.40	HOLD
3:	12 Jan 18	5.53	5.40	HOLD
4:	12 Feb 18	5.57	5.40	HOLD
5:	23 Feb 18	5.52	5.40	HOLD
6:	26 Feb 18	5.50	5.40	HOLD
7:	13 Mar 18	5.60	5.40	HOLD
8:	11 May 18	5.44	5.40	HOLD
9:	01 Jun 18	5.35	5.40	HOLD
10:	20 Jun 18	5.45	5.40	HOLD
11:	02 Jul 18	5.33	5.40	HOLD
12:	10 Jul 18	5.35	5.40	HOLD
13:	10 Aug 18	5.37	5.40	HOLD
14:	13 Aug 18	5.21	5.40	HOLD
15:	24 Aug 18	5.34	5.40	HOLD
16:	03 Sep 18	5.26	5.30	HOLD
17:	13 Sep 18	5.23	5.30	HOLD

Source: AllianceDBS

Analyst: Marvin KHOR

Malaysia Company Guide

KL Kepong

Version 12 | Bloomberg: KLK MK | Reuters: KLKK.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Oct 2018

HOLD

Last Traded Price (10 Oct 2018): RM24.94 (KLCI : 1,735.18)
Price Target 12-mth: RM23.30 (-7% downside) (Prev RM23.80)

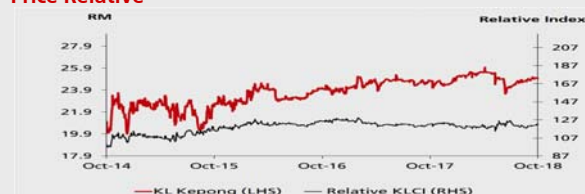
Analyst

Marvin KHOR +60 32604 3911 marvinkhor@alliancedbs.com

What's New

- Trim CY18/19/20F average CPO price forecasts to RM2,340/RM2,560/RM2,560 per MT
- Mild volume growth in FY18F with brief resting period but expect yields to pick up in FY19F
- Cut FY18/19/20F earnings forecasts by 11%/3%/3%, and TP to RM23.30 – maintain HOLD

Price Relative



Forecasts and Valuation

FY Sep (RMm)	2017A	2018F	2019F	2020F
Revenue	21,004	19,677	22,205	23,543
EBITDA	2,170	1,872	2,173	2,348
Pre-tax Profit	1,450	1,282	1,548	1,700
Net Profit	1,005	925	1,116	1,226
Net Pft (Pre Ex.)	1,147	925	1,116	1,226
Net Pft Gth (Pre-ex) (%)	(3.3)	(19.4)	20.7	9.9
EPS (sen)	94.2	86.6	105	115
EPS Pre Ex. (sen)	107	86.6	105	115
EPS Gth Pre Ex (%)	(3)	(19)	21	10
Diluted EPS (sen)	94.2	86.6	105	115
Net DPS (sen)	50.0	50.0	52.3	57.4
BV Per Share (sen)	1,084	1,120	1,174	1,235
PE (X)	26.5	28.8	23.8	21.7
PE Pre Ex. (X)	23.2	28.8	23.8	21.7
P/Cash Flow (X)	19.0	20.1	19.9	16.0
EV/EBITDA (X)	13.8	16.1	13.7	12.5
Net Div Yield (%)	2.0	2.0	2.1	2.3
P/Book Value (X)	2.3	2.2	2.1	2.0
Net Debt/Equity (X)	0.2	0.2	0.2	0.1
ROAE (%)	9.1	7.9	9.1	9.5
Earnings Rev (%):		(11)	(3)	(3)
Consensus EPS (sen):		93.5	106	111
Other Broker Recs:		B: 3	S: 2	H: 17

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Holding firm, despite brief pause

Softer near-term but forward prospects still steady. We revise down our near-term CPO price expectations to factor in the drag from lower soybean oil prices; and thus now expect a sharper decline in FY18F earnings before a recovery from FY19F onwards. Softer FFB production in the Jun/Jul months also point to mild FY18F growth, as 11MFY18 output is up a mere 1% y-o-y. We factor in this blip in output, though expect yields to recover and pick up in FY19F, to drive growth of c.5%. Alongside mild improvements in CPO prices and a steady downstream segment, earnings are thus expected to likewise normalise from there. Maintain HOLD.

Where we differ. More conservative on margins. Our core earnings forecasts are slightly below consensus, despite CPO price forecasts being in-line, as we impute lower manufacturing and refining margins.

Potential catalyst. Inorganic kicker. Given its mild organic earnings prospects, KLK could look for inorganic paths of growth, which is facilitated by its relatively low gearing.

Valuation:

Our DCF-based TP of RM23.30 takes into account our CY18/19/20F CPO price forecasts of RM2,340/2,560/2,560 per MT. Maintain HOLD.

Key Risks to Our View:

A strong change in CPO prices or productivity will affect KLK's profitability and thus its share price performance. As KLK is a KLCI Index component, changes in its weightings would also make it vulnerable to significant price swings.

At A Glance

Issued Capital (m shrs)	1,065
Mkt. Cap (RMm/US\$m)	26,560 / 6,389
Major Shareholders (%)	
Batu Kawan Bhd	47.0
Employees Provident Fund	12.9
Skim Amanah Saham	5.3
Free Float (%)	34.8
3m Avg. Daily Val (US\$m)	3.9

ICB Industry : Consumer Goods / Plantation

WHAT'S NEW**Reducing CPO price expectations**

Lower CPO prices forecasts. We are cutting our average CPO price forecasts for CY18/19/20F to RM2,340/2,560/2,560 per MT, from RM2,620/2,600/2,630 previously. This factors in the weak YTD price performance dragged by soybean oil prices, which had corrected sharply in response to trade tensions between the US and China. Our US dollar estimates for CPO had been trimmed to USD575/610/611 per MT from USD616/608/616 previously to reflect this; coupled with imputing relatively stronger USDMYR assumptions of 4.1/4.2/4.2. All said, we maintain our medium-term view that CPO prices will be well supported near current levels given its maintained price discount to soybean oil, plus a demand recovery that is assisted by rising discretionary biodiesel blending from higher crude oil prices.

Softer year as expected, though volumes now likely weaker than projected. KLK's monthly production volume disclosures have revealed declines in Jun/Jul FFB and CPO output, likely due to a resting period. As such, 11MFY18 FFB growth has slowed to 1% y-o-y, likely to miss our earlier 4% expectation. Accordingly, we now trim our FY18F FFB growth assumption to 1.4% (leading to FY18 FFB of 3.93m MT) – but maintain a 4.8% growth assumption for FY19F, factoring in a delay in yield recovery. This will help drive earnings in FY19F onwards, alongside stabilised downstream margins for the group. Together with CPO ASP changes, **our FY18/19/20F forecasts are reduced by 11%/3%/3%**. As a result, our DCF-based TP is **reduced to RM23.30**. There is no change to our HOLD recommendation – we continue to view KLK as a relatively stable exposure to the plantations sector, though we believe a sustained pick-up in CPO prices is a pre-requisite for the counter to re-rate.

CRITICAL DATA POINTS TO WATCH

Critical Factors

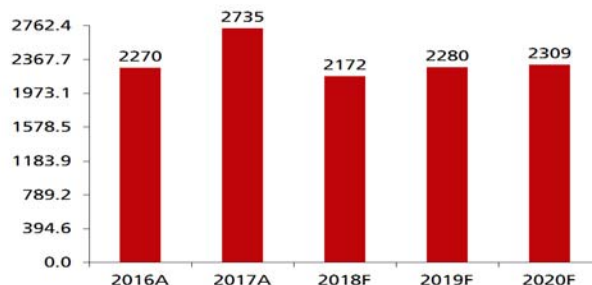
CPO price. KLK is a vertically integrated producer, processor and merchandiser of palm oil products. More than two-thirds of its EBIT come from sales of CPO, PK and CPO trading, while less than a quarter comes from downstream products. Given its plantations segment's dominant contribution, movements in CPO prices would broadly affect the group's profitability.

Volume output. KLK's oil palm tree age profile is considered prime. Through consistent replanting in Malaysia and past expansions in Indonesia, KLK should see c.9k ha of additional maturities by FY19F – representing an increase of c.5%. With an estimated average tree age of between 12 and 13 years within this period, we project FFB growth to post CAGR of 3% over that period. Our assumptions are primarily for replanting in Malaysia (with 6-9k ha p.a.), but no new planting in Indonesia.

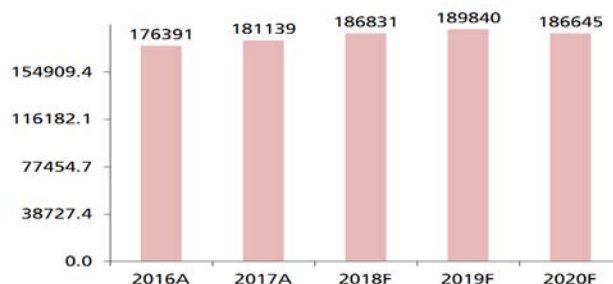
Downstream margins. A significant share of KLK's manufacturing segment's products deal with industrialised oleochemicals, which compete with the now cheaper petrochemicals, given the drop in crude oil prices. This, together with slower Chinese economic growth and prospective oversupply in glycerine (due to Indonesia's B20 programme), may lead to thin margins for KLK's oleochemicals unit. At the same time, Indonesia's export tax levy would result in lower CPO ASP relative to Malaysian counterparts. This means less contribution from the group's Indonesian estates. The levy also works to give Indonesian refiners higher margins, due to the differentiated levies between CPO and its downstream products.

Geographic diversity. KLK's consolidated revenue is globally distributed, with Malaysia contributing only 13% in FY17. Europe accounted for 22%, while the rest of Asia contributed a sizeable 60% of revenue. This means demand for KLK's products is driven predominantly by economic growth in the Asian markets, while economic recovery in developed markets such as the US would have a small impact, in our view. We should also note that competing processors such as Wilmar, IOI and Emery are also vying for the same Asian markets – which we believe would make competition more challenging, given aggressive capacity expansions in various sectors of oleochemicals.

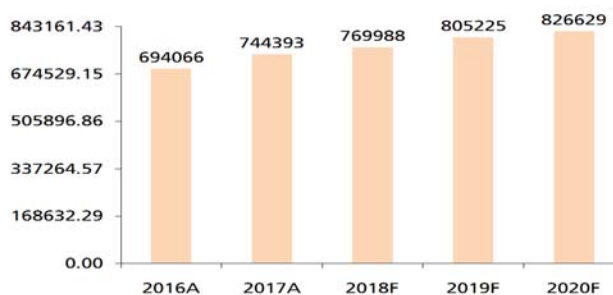
CPO price



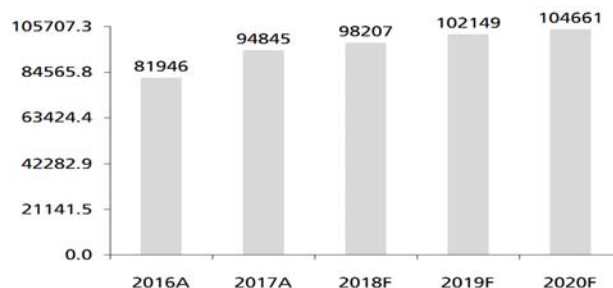
Mature palm oil hectareage



CPO sales volume



PKO sales volume



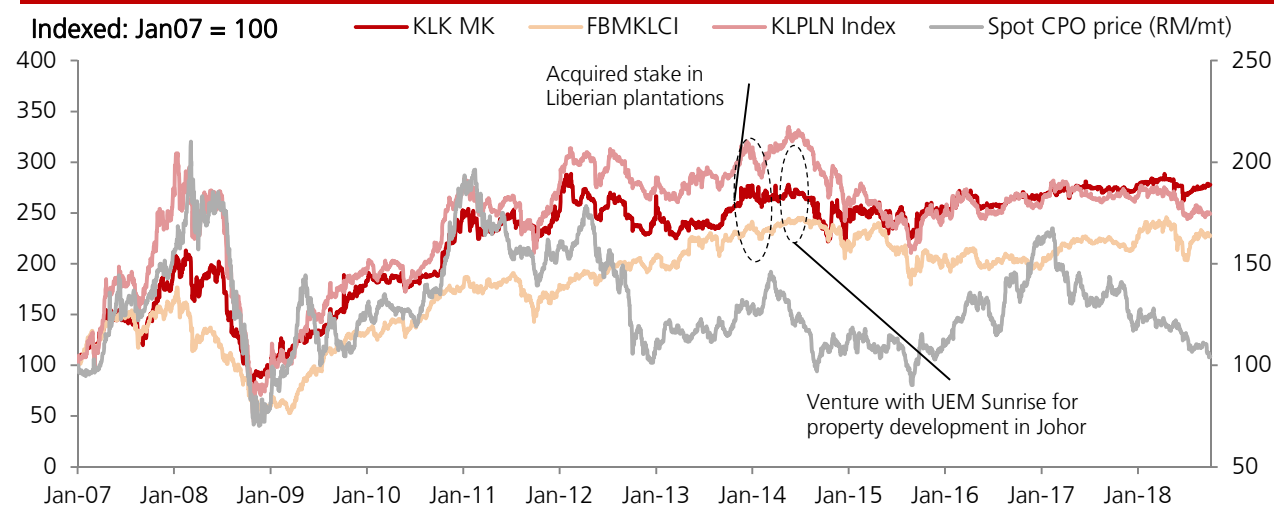
Average MYR/USD



Source: Company, AllianceDBS

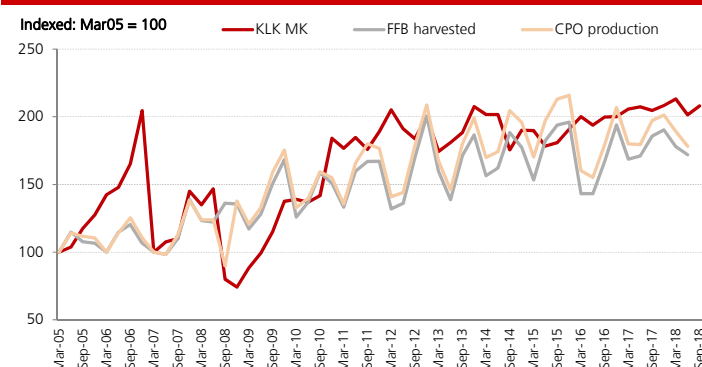
Appendix 1: KLK price correlation with critical factors

Graph 1: Share price vs key benchmarks



Source: Company, Bloomberg L.P., AllianceDBS, DBS Bank

KLK share price vs production volume

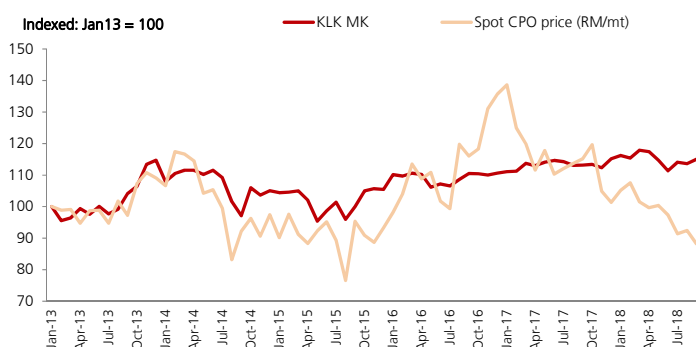


Source: Company, MPOB, Bloomberg L.P., AllianceDBS

Remarks

KLK's longer-run share price movement is chiefly influenced by the group's production levels, particularly of CPO; which has a correlation coefficient of 0.8.

KLK share price vs CPO prices



Source: Company, Bloomberg L.P., AllianceDBS

Remarks

KLK's share price maintains a positive correlation of 0.6 to CPO price movements, albeit with lower volatility when tracked on a monthly basis. Large, sustained changes in CPO price levels will have material impact on group profitability.

Balance Sheet:

Relatively low gearing. At the end of FY17, KLK's net debt-to-total equity settled at 0.21x, maintaining below the 0.3x level which the group has sustained in recent history. We expect this to further ease to the c.0.1x level by FY19/20F, if no major capital outlays are made.

Strong free cashflow generation. Group capex outlay is expected to be below RM700m p.a. over the coming years, slower than previous years which were generally over RM800m. As such, KLK expects to see stronger free cashflow generation over the coming years which will work to organically pare down its leverage levels.

Share Price Drivers:

Inorganic growth opportunities. The group may pursue external growth catalysts, given the difficulty of sizeable new planting on its existing landbank. This is facilitated by its relatively low gearing levels.

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 expansion of US shale gas would have an adverse impact on demand for vegetable oils for biofuels. Likewise, volatility in USD would affect the profitability of planters in general.

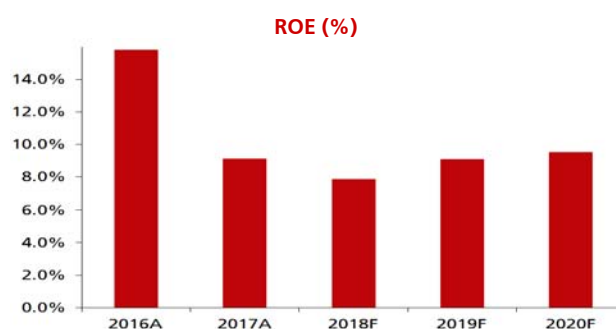
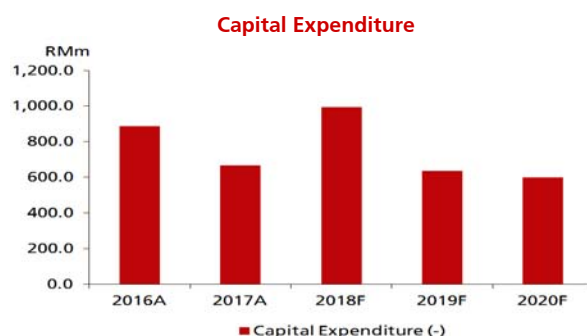
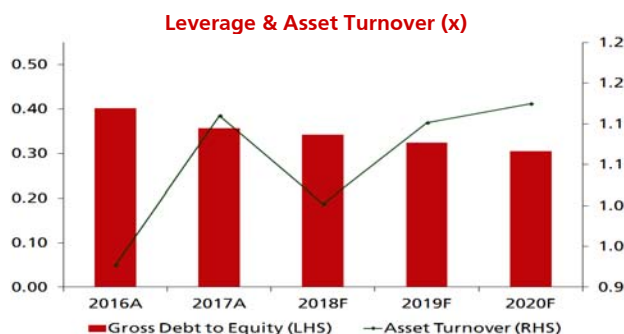
Setback in expansion plans. Our forecasts are based on assumed hectareage for new planting and replanting. Any setback on these plans would negatively affect our valuation due to slower volume growth.

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

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

Company Background

KL Kepong (KLK)'s core business is in plantations, with c.270k ha of landbank comprising palm oil and rubber plantations in Malaysia, Indonesia, and Liberia. Its other businesses are manufacturing (mainly oleochemicals) and property development.



Source: Company, AllianceDBS

Key Assumptions

FY Sep	2016A	2017A	2018F	2019F	2020F
CPO price	2,270	2,735	2,172	2,280	2,309
Mature palm oil hectareage	176,391	181,139	186,831	189,840	186,645
CPO sales volume	694,066	744,393	769,988	805,225	826,629
PKO sales volume	81,946	94,845	98,207	102,149	104,661
Average MYR/USD	4.10	4.24	4.13	4.16	4.19

Segmental Breakdown

FY Sep	2016A	2017A	2018F	2019F	2020F
Revenues (RMm)					
Plantation	8,455	10,669	8,429	9,493	9,989
Manufacturing	7,739	9,924	10,850	12,303	13,139
Retailing	0.0	0.0	0.0	0.0	0.0
Property	111	142	149	156	161
Others	201	270	250	253	255
Total	16,506	21,004	19,677	22,205	23,543
EBIT (RMm)					
Plantation	827	1,308	760	970	1,063
Manufacturing	371	193	401	452	507
Retailing	0.0	0.0	0.0	0.0	0.0
Property	25.2	39.1	37.2	39.0	40.2
Others	236	226	233	235	237
Total	1,459	1,766	1,431	1,696	1,847
EBIT Margins (%)					
Plantation	9.8	12.3	9.0	10.2	10.6
Manufacturing	4.8	1.9	3.7	3.7	3.9
Retailing	N/A	N/A	N/A	N/A	N/A
Property	22.8	27.6	25.0	25.0	25.0
Others	117.3	83.6	93.0	93.0	93.0
Total	8.8	8.4	7.3	7.6	7.8

Income Statement (RMm)

FY Sep	2016A	2017A	2018F	2019F	2020F
Revenue	16,506	21,004	19,677	22,205	23,543
Cost of Goods Sold	(14,391)	(18,291)	(17,365)	(19,449)	(20,518)
Gross Profit	2,114	2,713	2,312	2,756	3,025
Other Opng (Exp)/Inc	(712)	(1,021)	(947)	(1,122)	(1,247)
Operating Profit	1,403	1,692	1,365	1,634	1,778
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	5.00	(4.3)	5.00	5.10	5.20
Net Interest (Exp)/Inc	(101)	(95.4)	(88.0)	(91.4)	(82.9)
Exceptional Gain/(Loss)	406	(142)	0.0	0.0	0.0
Pre-tax Profit	1,712	1,450	1,282	1,548	1,700
Tax	(29.1)	(383)	(308)	(371)	(408)
Minority Interest	(91.0)	(61.8)	(49.7)	(60.0)	(66.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	1,592	1,005	925	1,116	1,226
Net Profit before Except.	1,186	1,147	925	1,116	1,226
EBITDA	1,855	2,170	1,872	2,173	2,348
Growth					
Revenue Gth (%)	20.9	27.3	(6.3)	12.8	6.0
EBITDA Gth (%)	16.3	17.0	(13.7)	16.0	8.1
Opg Profit Gth (%)	17.1	20.6	(19.3)	19.7	8.8
Net Profit Gth (Pre-ex) (%)	36.4	(3.3)	(19.4)	20.7	9.9
Margins & Ratio					
Gross Margins (%)	12.8	12.9	11.8	12.4	12.8
Opg Profit Margin (%)	8.5	8.1	6.9	7.4	7.6
Net Profit Margin (%)	9.6	4.8	4.7	5.0	5.2
ROAE (%)	15.8	9.1	7.9	9.1	9.5
ROA (%)	8.9	5.3	4.7	5.5	5.9
ROCE (%)	8.6	7.2	5.8	6.7	7.1
Div Payout Ratio (%)	33.5	53.1	57.7	50.0	50.0
Net Interest Cover (x)	13.8	17.7	15.5	17.9	21.5

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Sep	3Q2017	4Q2017	1Q2018	2Q2018	3Q2018
Revenue	4,873	5,164	5,193	4,685	4,332
Cost of Goods Sold	(4,529)	(4,737)	(4,756)	(4,359)	(4,032)
Gross Profit	344	427	436	326	300
Other Oper. (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Operating Profit	344	427	436	326	300
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(2.2)	(0.8)	0.42	0.48	(4.2)
Net Interest (Exp)/Inc	(23.4)	(20.5)	(21.2)	(23.1)	(24.9)
Exceptional Gain/(Loss)	(117)	(24.6)	25.9	(14.4)	(53.7)
Pre-tax Profit	201	381	442	289	217
Tax	(79.6)	(115)	(99.0)	(80.6)	(67.2)
Minority Interest	(9.1)	(23.7)	(21.9)	(19.1)	(7.7)
Net Profit	113	242	321	189	142
Net profit bef Except.	230	267	295	204	196
EBITDA	342	426	437	326	295

Growth

Revenue Gth (%)	(10.9)	6.0	0.6	(9.8)	(7.5)
EBITDA Gth (%)	(12.1)	24.4	2.6	(25.3)	(9.5)
Opg Profit Gth (%)	(11.9)	23.8	2.3	(25.3)	(8.1)
Net Profit Gth (Pre-ex) (%)	(11.5)	15.9	10.5	(30.9)	(3.9)

Margins

Gross Margins (%)	7.1	8.3	8.4	7.0	6.9
Opg Profit Margins (%)	7.1	8.3	8.4	7.0	6.9
Net Profit Margins (%)	2.3	4.7	6.2	4.0	3.3

Balance Sheet (RMm)

FY Sep	2016A	2017A	2018F	2019F	2020F
Net Fixed Assets	7,615	7,845	8,339	8,442	8,478
Invt in Associates & JVs	312	303	308	314	319
Other LT Assets	4,041	4,661	4,557	4,455	4,356
Cash & ST Invt	2,000	2,041	1,899	2,126	2,675
Inventory	1,898	1,797	1,903	2,131	2,249
Debtors	2,166	2,514	2,426	2,738	2,903
Other Current Assets	305	342	342	342	342
Total Assets	18,337	19,504	19,775	20,548	21,321
ST Debt	1,572	1,376	1,341	1,308	1,275
Creditor	1,342	1,563	1,427	1,599	1,686
Other Current Liab	297	203	203	203	203
LT Debt	2,968	3,067	3,067	3,067	3,067
Other LT Liabilities	870	856	856	856	856
Shareholder's Equity	10,445	11,568	11,959	12,535	13,186
Minority Interests	843	872	921	981	1,047
Total Cap. & Liab.	18,337	19,504	19,775	20,548	21,321
Non-Cash Wkg. Capital	2,729	2,887	3,041	3,409	3,604
Net Cash/(Debt)	(2,540)	(2,402)	(2,509)	(2,249)	(1,667)
Debtors Turn (avg days)	53.3	40.7	45.8	42.4	43.7
Creditors Turn (avg days)	36.1	29.8	32.4	29.2	30.1
Inventory Turn (avg days)	46.0	37.9	40.1	38.9	40.1
Asset Turnover (x)	0.9	1.1	1.0	1.1	1.1
Current Ratio (x)	2.0	2.1	2.2	2.4	2.6
Quick Ratio (x)	1.3	1.5	1.5	1.6	1.8
Net Debt/Equity (X)	0.2	0.2	0.2	0.2	0.1
Net Debt/Equity ex MI (X)	0.2	0.2	0.2	0.2	0.1
Capex to Debt (%)	19.5	15.0	22.6	14.5	13.8
Z-Score (X)	4.3	4.5	4.5	4.5	4.6

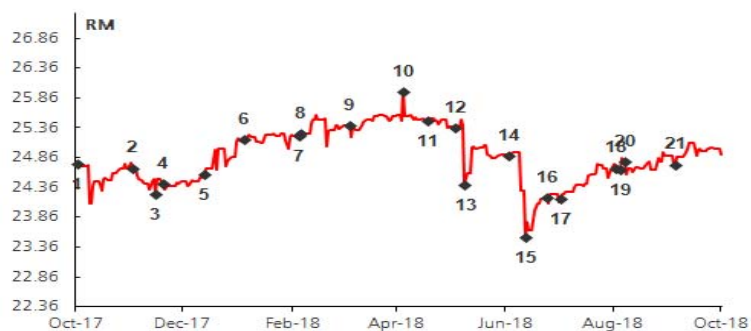
Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Sep	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	1,712	1,450	1,282	1,548	1,700
Dep. & Amort.	453	478	507	539	570
Tax Paid	(29.1)	(383)	(308)	(371)	(408)
Assoc. & JV Inc/(loss)	(5.0)	4.34	(5.0)	(5.1)	(5.2)
Chg in Wkg.Cap.	126	(26.9)	(153)	(369)	(194)
Other Operating CF	(959)	(119)	0.0	0.0	0.0
Net Operating CF	1,297	1,404	1,323	1,341	1,663
Capital Exp.(net)	(887)	(667)	(994)	(635)	(598)
Other Invt.(net)	119	(670)	69.8	68.0	66.3
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(445)	1,124	27.3	26.6	25.9
Net Investing CF	(1,213)	(213)	(897)	(540)	(506)
Div Paid	(479)	(532)	(534)	(541)	(575)
Chg in Gross Debt	(54.0)	(97.3)	(34.4)	(33.5)	(32.7)
Capital Issues	(262)	651	0.0	0.0	0.0
Other Financing CF	615	(14.0)	0.0	0.0	0.0
Net Financing CF	(180)	7.53	(568)	(575)	(607)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(96.6)	1,198	(142)	227	550
Opg CFPS (sen)	110	134	138	160	174
Free CFPS (sen)	38.3	69.0	30.8	66.2	99.7

Source: Company, AllianceDBS

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 Oct 17	24.78	24.75	HOLD
2:	10 Nov 17	24.70	24.75	HOLD
3:	23 Nov 17	24.26	24.75	HOLD
4:	27 Nov 17	24.44	24.75	HOLD
5:	21 Dec 17	24.60	24.75	HOLD
6:	12 Jan 18	25.18	24.75	HOLD
7:	12 Feb 18	25.24	24.75	HOLD
8:	13 Feb 18	25.28	24.75	HOLD
9:	13 Mar 18	25.42	24.75	HOLD
10:	12 Apr 18	25.98	24.75	HOLD
11:	26 Apr 18	25.50	24.75	HOLD
12:	11 May 18	25.38	24.75	HOLD
13:	17 May 18	24.42	24.75	HOLD
14:	11 Jun 18	24.90	23.80	HOLD
15:	20 Jun 18	23.54	23.80	HOLD
16:	02 Jul 18	24.20	23.80	HOLD
17:	10 Jul 18	24.18	23.80	HOLD
18:	10 Aug 18	24.70	23.80	HOLD
19:	13 Aug 18	24.68	23.80	HOLD
20:	15 Aug 18	24.80	23.80	HOLD
21:	13 Sep 18	24.76	23.80	HOLD

Source: AllianceDBS

Analyst: Marvin KHOR

Malaysia Company Guide

FGV Holdings

Version 18 | Bloomberg: FGV MK | Reuters: FGVH.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Oct 2018

FULLY VALUED

Last Traded Price (10 Oct 2018): RM1.43 (KLCI : 1,735.18)
Price Target 12-mth: RM1.20 (-16% downside) (Prev RM1.30)

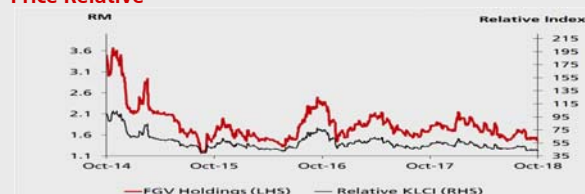
Analyst

Marvin KHOR +60 32604 3911 marvinkhor@alliancedbs.com

What's New

- Trim CY18/19/20F average CPO price forecasts to RM2,340/RM2,560/RM2,560 per MT
- Near-term financial performance remains at high risk, while group addresses adverse findings of investigations
- Expect FY18F losses; cut FY19-20F earnings and TP to RM1.20 – maintain FULLY VALUED

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Revenue	16,975	15,408	16,927	17,297
EBITDA	1,510	698	1,131	1,328
Pre-tax Profit	417	(115)	276	431
Net Profit	144	(86.8)	111	214
Net Pft (Pre Ex.)	167	(86.8)	111	214
Net Pft Gth (Pre-ex) (%)	nm	nm	nm	93.4
EPS (sen)	3.94	(2.4)	3.03	5.86
EPS Pre Ex. (sen)	4.56	(2.4)	3.03	5.86
EPS Gth Pre Ex (%)	nm	nm	nm	93
Diluted EPS (sen)	3.94	(2.4)	3.03	5.86
Net DPS (sen)	5.00	5.00	4.47	3.81
BV Per Share (sen)	154	146	144	147
PE (X)	36.3	nm	47.2	24.4
PE Pre Ex. (X)	31.3	nm	47.2	24.4
P/Cash Flow (X)	2.9	5.5	7.2	4.9
EV/EBITDA (X)	7.3	16.5	10.9	9.5
Net Div Yield (%)	3.5	3.5	3.1	2.7
P/Book Value (X)	0.9	1.0	1.0	1.0
Net Debt/Equity (X)	0.6	0.8	0.9	0.9
ROAE (%)	2.5	(1.6)	2.1	4.0
Earnings Rev (%):		(382)	(25)	(11)
Consensus EPS (sen):		1.60	4.20	6.20
Other Broker Recs:		B: 1	S: 2	H: 9

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Not yet in the clear

Signs of turnaround plan traction required. We revise down our near-term CPO price expectations to factor in the drag from lower soybean oil prices; leading to revised expectations of FY18F core losses for FGV and weaker earnings thereafter. The group is in the midst of a Board-led clean up as it deals with the adverse findings of investigations into past dealings, while reviews and reorganisation of ongoing operations are in the pipeline. While we view these developments positively in fixing FGV's longstanding structural issues, the timeline to rationalisation remains a key uncertainty. We foresee continued weak financial performance before corrective measures take effect – maintain FULLY VALUED.

Where we differ. Bare earnings expectations. Consensus views are quite diverged on FGV. Our forward year (FY18 onwards) forecasts are lower than the street's post our earnings revisions.

Potential catalyst. Bottomline improvement. The key barrier to FGV's re-rating is the threat of continued losses or weak profitability. Any improvements on this front via effective reorganisation measures will help buoy its share price.

Valuation:

Our DCF-based TP stands at RM1.20, which takes into account CY18/19F CPO spot price forecasts of RM2,340/2,560 per MT.

Key Risks to Our View:

A consistent delivery of profitability above our forecasted levels may enhance the stock's fundamentals, which will bode well for its share price performance.

At A Glance

Issued Capital (m shrs)	3,648
Mkt. Cap (RMm/US\$m)	5,217 / 1,255
Major Shareholders (%)	
Lembaga Kemajuan Tanah Persekutuan	33.7
Kumpulan Wang Persaraan	7.9
Lembaga Tabung Haji	7.8
Free Float (%)	50.6
3m Avg. Daily Val (US\$m)	1.9
ICB Industry : Consumer Goods / Plantation	

WHAT'S NEW**Reducing CPO price expectations**

Lower CPO prices forecasts. We are cutting our average CPO price forecasts for CY18/19/20F to RM2,340/2,560/2,560 per MT, from RM2,620/2,600/2,630 previously. This factors in the weak YTD price performance dragged by soybean oil prices, which had corrected sharply in response to trade tensions between the US and China. Our US dollar estimates for CPO had been trimmed to USD575/610/611 per MT from USD616/608/616 previously to reflect this; coupled with imputing relatively stronger USDMYR assumptions of 4.1/4.2/4.2. All said, we maintain our medium-term view that CPO prices will be well supported near current levels given its maintained price discount to soybean oil, plus a demand recovery that is assisted by rising discretionary biodiesel blending from higher crude oil prices.

Expect losses this year before staggered normalisation.

Besides lower spot prices, we also adjust our estimates by raising FY19F FFB growth to 5% (from 2%) for FGV – estimating a c.4% rebound in yields after the resting period observed in 2018 for Peninsular Malaysia-based estates. However this remains below the group's stated target of 20% growth, which we view as optimistic. As a result, our **FY18F core estimates are slashed to losses**, and FY19/20F earnings forecasts reduced by 25%/11% respectively. This also **reduces our DCF-based TP to RM1.20**, from RM1.30 before.

Turnaround plan still has much to show. FGV is at present being steered by the 'Special Board Committee 2' (SBC 2), comprising chairman Datuk Wira Azhar Abdul Hamid and three other directors (all of whom joined no earlier than late-2017); given the resignation of prior CEO Dato' Zakaria Arshad. With help from a three-member SBC and a newly-set-up Transformation Office, the group is working on finalising, reviewing and seeking corrective measures for the adverse findings from internal and external investigations. Stringent reviews and reorganisation of existing functions and processes will also be carried out throughout the group.

We are generally positive on the active involvement of the Chairman and the Board, which will improve the group's chances of structurally addressing key weaknesses and improving its long-run prospects. However, we caution that this is likely already baked into the street's longer-term expectations, as rationalisation initiatives had already been touted as a key focus when Dato Zakaria was appointed CEO in early-2016. As its near-term financial performance is likely to remain poor while corrective measures are carried out, amid no major improvements in CPO prices, we continue to find valuations stretched and thus **retain our FULLY VALUED recommendation**.

CRITICAL DATA POINTS TO WATCH

Critical Factors

Vast, but relatively old hectareage. FGV has c.338k ha of oil palm planted land in Peninsular Malaysia, the bulk of which (c.300k ha) is held under the Land Lease Agreement (LLA) it has with the Federal Land Development Authority (FELDA). It also has c.13k ha of plantations in Sabah from its acquisition of Pontian United Plantations in 2013, 13.5k ha in Sarawak from Asian Plantations Ltd in 2014, and 8.5k ha from Golden Land in 2015. Its overall age profile is old/mature as 40% of trees are 20 years or older. To remedy the age issue, FGV had earlier committed to a replanting scheme of up to 15k ha per year. We otherwise do not expect much new planting to commence as replanting is a higher priority.

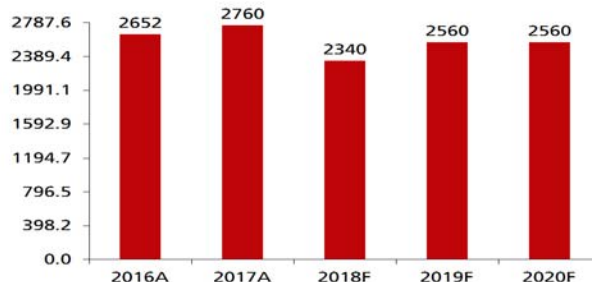
Expect gradual production improvement. FGV processed c.15m MT of FFB in FY17 from its own plantations, FELDA settlers and third parties. FY17 CPO production reached 2.99m MT (+12% y-o-y) from production recovery, following a 14% decline in FY16. We expect FFB growth to achieve 7%/5% in FY18/19F as yield improvements continue, leading to a 5%/2% rise in CPO output.

CPO prices. Over 50% FGV's top-line comes from the sale of CPO and RBD (refined, bleached & deodorised) products. Growth in the ASP of CPO and the RBD products will be reflected in its revenue. Our projections are for spot prices to average RM2,400/2,560/MT in FY18/19F.

Sugar arm contributions. FGV has a 51% stake in listed sugar manufacturer MSM Malaysia. While previously the more profitable division of the group, its PBT contribution had shrunk over FY16-17 as high raw sugar costs had resulted in periods of losses. However, there had been a hike in the retail sugar price in Mar 2017, followed by some easing in raw sugar prices, leading to a recovery towards end-FY17. We expect the division to contribute positively from FY18/19F onwards.

Rubber plantation exposure. FGV derives c.5% of revenue from the sale of rubber products, comprising latex concentrate, Standard Malaysian Rubber (SMR), Standard Indonesian Rubber (SIR) and Cambodian Standard Rubber (CSR). Over 110k MT of rubber products are processed per year at its seven assets across the region, though management estimates its total capacity at around 258k MT. FGV also owns 12.4k ha of planted rubber land in Malaysia, with 3.5k ha unplanted.

CPO price (RM/MT)



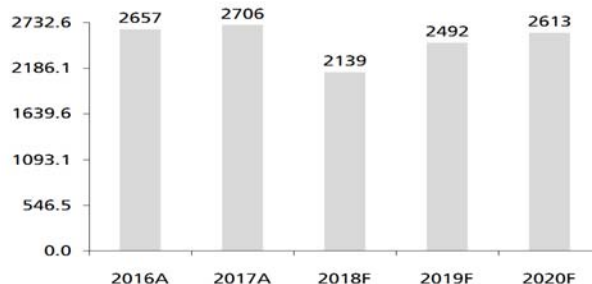
Mature palm oil hectareage



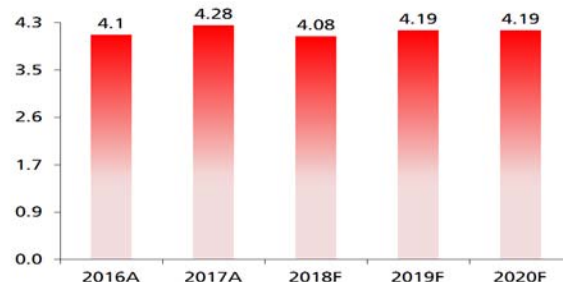
CPO produced (k MT)



Sugar revenue (RM m)



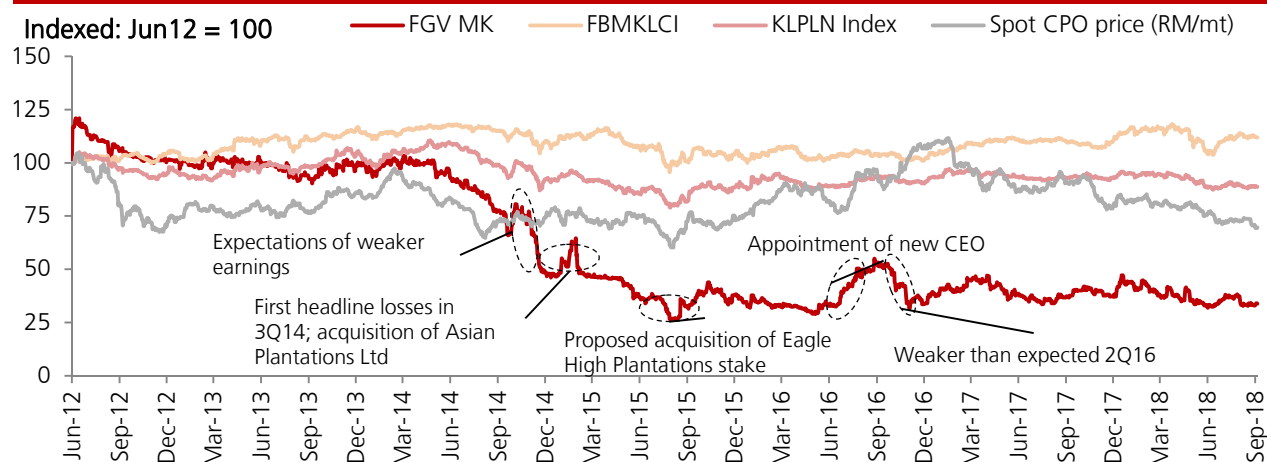
Average USD/MYR



Source: Company, AllianceDBS

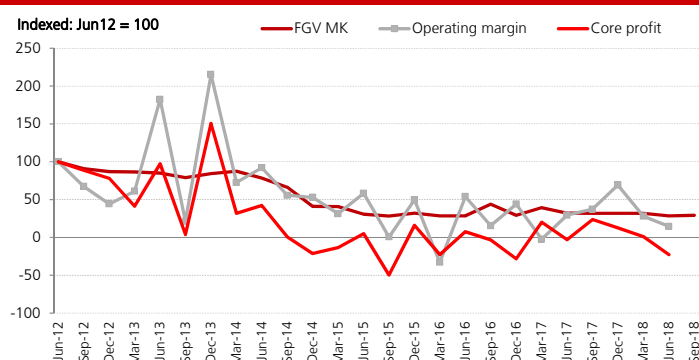
Appendix 1: FGV price correlation with critical factors

Graph 1: Share price vs key benchmarks



Source: Company, Bloomberg Finance L.P., AllianceDBS

FGV share price vs operating margins and core profit

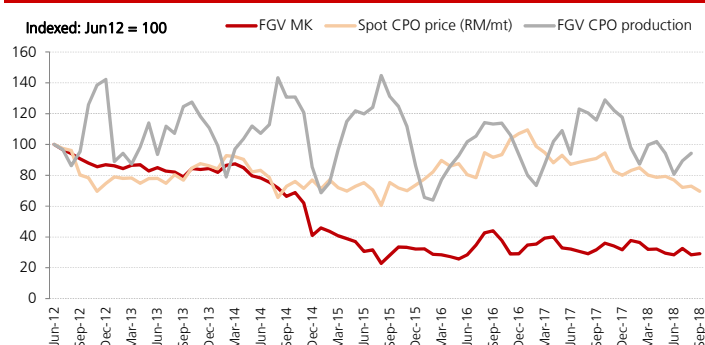


Source: Company, Bloomberg Finance L.P., AllianceDBS

Remarks

FGV's share price tracks the performance of its operating margins and core earnings. Negative share price movements were seen as FGV sunk into core losses since 4Q14.

FGV share price vs CPO prices



Source: Company, MPOB, Bloomberg Finance L.P., AllianceDBS

Remarks

Over a prolonged timeframe, FGV's share price appears to be not heavily influenced by CPO prices. The relationship only held from its listing to end-2014 (correlation coefficient of >0.7), following which FGV's valuation became more impacted by its profitability (or lack thereof).

Balance Sheet:**Leverage manageable for now but cash flows are pressured.**

FGV had a net debt-to-equity of about 0.6x with a cash pile of c.RM1.7bn at end-FY17. However, due to a thin free cash flow base, we forecast negative net cash flow which will cut into its liquidity. Thus, any deterioration in performance may require more debt to be taken on.

Share Price Drivers:

Sustainably improving profitability. FGV's fundamental performance is limited by its low margins relative to its peers despite its sizeable turnover. Management intends to look at various initiatives to manage its cost base, including staff-related measures. If these efforts are successful, FGV may re-rate.

Key Risks:

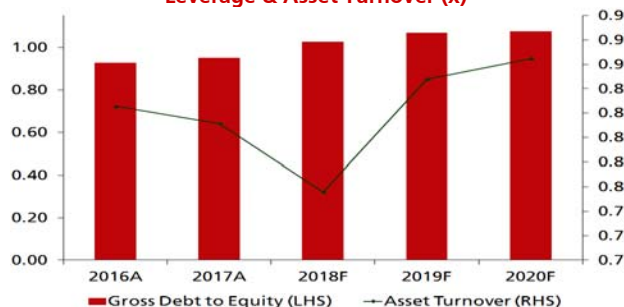
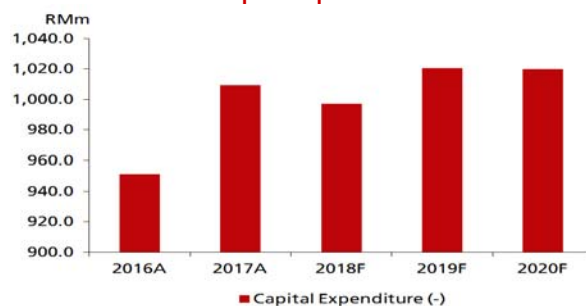
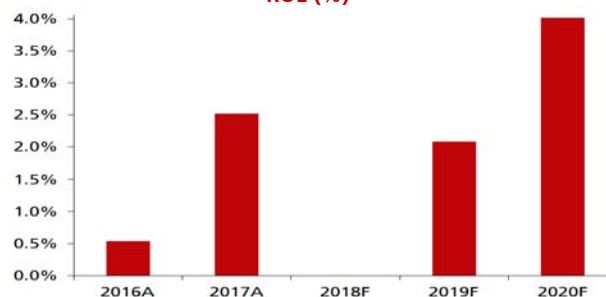
Volatility in commodity prices and exchange rates. Persistently depressed CPO prices would hurt earnings, especially for primarily upstream planters. Additionally, low crude oil prices may affect CPO demand for biofuel. Finally, CPO prices in ringgit terms are also directly affected by the currency's strength relative to the US dollar.

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

Extreme changes in the weather. Sudden and significant changes in rainfall and humidity can affect FFB yields in the later quarters.

Company Background

FGV is an integrated agri-business player with significant palm oil hectareage in Peninsular Malaysia, involved in upstream and downstream palm oil operations, including harvesting, milling, processing, refining and distribution. It also has rubber plantations, and a 49% stake in major sugar manufacturer MSM Malaysia.

Leverage & Asset Turnover (x)**Capital Expenditure****ROE (%)****PB Band (x)**

Source: Company, AllianceDBS

Key Assumptions

FY Dec	2016A	2017A	2018F	2019F	2020F
CPO price (RM/MT)	2,652	2,760	2,340	2,560	2,560
Mature palm oil hectarage	282,553	289,839	289,248	284,318	285,638
CPO produced (k MT)	2,664	2,993	3,145	3,218	3,268
Sugar revenue (RM m)	2,657	2,706	2,139	2,492	2,613
Average USD/MYR	4.10	4.28	4.08	4.19	4.19

Segmental Breakdown

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenues (RMm)					
Plantations	7,771	7,231	5,849	6,484	6,631
Sugar	2,664	2,706	2,139	2,492	2,613
Downstream	6,625	5,707	5,844	6,328	6,393
Others	181	1,331	1,575	1,623	1,661
Total	17,241	16,975	15,408	16,927	17,297

Income Statement (RMm)

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenue	17,241	16,975	15,408	16,927	17,297
Cost of Goods Sold	(15,671)	(15,016)	(13,912)	(15,037)	(15,221)
Gross Profit	1,570	1,958	1,495	1,889	2,075
Other Opng (Exp)/Inc	(1,380)	(1,427)	(1,521)	(1,519)	(1,545)
Operating Profit	190	531	(25.7)	371	530
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	10.3	27.5	22.0	22.6	23.2
Net Interest (Exp)/Inc	(127)	(119)	(111)	(117)	(122)
Exceptional Gain/(Loss)	187	(22.8)	0.0	0.0	0.0
Pre-tax Profit	260	417	(115)	276	431
Tax	(194)	(209)	20.1	(76.2)	(116)
Minority Interest	(35.0)	(64.3)	7.85	(89.1)	(101)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	31.5	144	(86.8)	111	214
Net Profit before Except.	(156)	167	(86.8)	111	214
EBITDA	987	1,510	698	1,131	1,328
Growth					
Revenue Gth (%)	10.8	(1.5)	(9.2)	9.9	2.2
EBITDA Gth (%)	(18.4)	52.9	(53.8)	62.0	17.4
Opg Profit Gth (%)	(36.8)	179.1	(104.8)	(1,545.6)	43.0
Net Profit Gth (Pre-ex) (%)	(38.0)	nm	nm	nm	93.4
Margins & Ratio					
Gross Margins (%)	9.1	11.5	9.7	11.2	12.0
Opg Profit Margin (%)	1.1	3.1	(0.2)	2.2	3.1
Net Profit Margin (%)	0.2	0.8	(0.6)	0.7	1.2
ROAE (%)	0.5	2.5	(1.6)	2.1	4.0
ROA (%)	0.2	0.7	(0.4)	0.6	1.1
ROCE (%)	0.3	1.4	(0.1)	1.5	2.2
Div Payout Ratio (%)	231.9	126.9	N/A	147.3	64.9
Net Interest Cover (x)	1.5	4.5	(0.2)	3.2	4.3

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Dec	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018
Revenue	4,213	4,149	4,279	3,603	3,437
Cost of Goods Sold	(3,827)	(3,552)	(3,692)	(3,187)	(3,085)
Gross Profit	386	597	587	416	353
Other Oper. (Exp)/Inc	(212)	(497)	(287)	(327)	(256)
Operating Profit	174	99.8	300	88.6	96.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	9.54	5.35	2.42	(15.6)	(16.4)
Net Interest (Exp)/Inc	(33.8)	(30.2)	(21.9)	(49.0)	(27.1)
Exceptional Gain/(Loss)	(47.2)	39.4	(34.6)	2.17	(51.9)
Pre-tax Profit	102	114	246	26.2	1.25
Tax	(62.1)	(60.3)	(85.0)	(16.6)	13.5
Minority Interest	(2.9)	(15.3)	(84.7)	(8.3)	(37.9)
Net Profit	37.5	38.8	76.6	1.33	(23.2)
Net profit bef Except.	(9.7)	78.2	42.0	3.50	(75.2)
EBITDA	183	105	303	73.0	80.2

Growth

Revenue Gth (%)	(2.4)	(1.5)	3.1	(15.8)	(4.6)
EBITDA Gth (%)	nm	(42.6)	187.9	(75.9)	9.9
Opg Profit Gth (%)	(334.0)	(42.6)	200.9	(70.5)	9.0
Net Profit Gth (Pre-ex) (%)	(114.5)	(907.2)	(46.2)	(91.7)	(2,245.1)

Margins

Gross Margins (%)	9.2	14.4	13.7	11.5	10.3
Opg Profit Margins (%)	4.1	2.4	7.0	2.5	2.8
Net Profit Margins (%)	0.9	0.9	1.8	0.0	(0.7)

Balance Sheet (RMm)

FY Dec	2016A	2017A	2018F	2019F	2020F
Net Fixed Assets	10,074	10,523	10,475	10,651	10,786
Invt in Associates & JVs	889	864	864	864	864
Other LT Assets	2,925	2,809	2,809	2,809	2,809
Cash & ST Invt	1,854	1,741	1,426	882	754
Inventory	2,189	2,127	1,873	2,024	2,049
Debtors	1,755	1,597	1,482	1,628	1,663
Other Current Assets	1,341	1,155	1,032	1,105	1,123
Total Assets	21,027	20,815	19,960	19,963	20,048
ST Debt	3,692	3,377	3,377	3,377	3,377
Creditor	1,460	1,647	1,472	1,590	1,610
Other Current Liab	940	1,029	1,001	1,012	1,020
LT Debt	1,675	1,956	2,106	2,256	2,406
Other LT Liabilities	5,062	4,944	4,419	4,124	3,824
Shareholder's Equity	5,794	5,609	5,339	5,268	5,375
Minority Interests	2,403	2,254	2,246	2,335	2,437
Total Cap. & Liab.	21,027	20,815	19,960	19,963	20,048
Non-Cash Wkg. Capital	2,885	2,203	1,913	2,154	2,205
Net Cash/(Debt)	(3,513)	(3,592)	(4,057)	(4,750)	(5,028)
Debtors Turn (avg days)	38.6	36.0	36.5	33.5	34.7
Creditors Turn (avg days)	33.5	39.6	43.1	39.1	40.5
Inventory Turn (avg days)	52.1	55.0	55.3	49.8	51.5
Asset Turnover (x)	0.8	0.8	0.8	0.8	0.9
Current Ratio (x)	1.2	1.1	1.0	0.9	0.9
Quick Ratio (x)	0.6	0.6	0.5	0.4	0.4
Net Debt/Equity (X)	0.6	0.6	0.8	0.9	0.9
Net Debt/Equity ex MI (X)	0.6	0.6	0.8	0.9	0.9
Capex to Debt (%)	17.7	18.9	18.2	18.1	17.6
Z-Score (X)	1.4	1.5	1.4	1.4	1.5

Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	260	417	(115)	276	431
Dep. & Amort.	678	717	756	793	832
Tax Paid	(176)	(203)	40.1	(55.2)	(93.6)
Assoc. & JV Inc/(loss)	(10.3)	(27.5)	(22.0)	(22.6)	(23.2)
Chg in Wkg.Cap.	143	589	304	(249)	(58.0)
Other Operating CF	223	310	(20.0)	(21.0)	(22.1)
Net Operating CF	1,118	1,801	943	722	1,066
Capital Exp.(net)	(951)	(1,009)	(997)	(1,021)	(1,020)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	13.8	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	206	59.0	71.3	73.7	76.0
Net Investing CF	(731)	(950)	(926)	(947)	(944)
Div Paid	(73.0)	(219)	(182)	(182)	(107)
Chg in Gross Debt	341	219	150	150	150
Capital Issues	(5.7)	(10.7)	0.0	0.0	0.0
Other Financing CF	(820)	(923)	(299)	(286)	(293)
Net Financing CF	(558)	(934)	(331)	(319)	(250)
Currency Adjustments	17.7	(31.5)	0.0	0.0	0.0
Chg in Cash	(154)	(114)	(315)	(544)	(128)
Opg CFPS (sen)	26.7	33.2	17.5	26.6	30.8
Free CFPS (sen)	4.56	21.7	(1.5)	(8.2)	1.27

Source: Company, AllianceDBS

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 Oct 17	1.76	1.50	HOLD
2:	10 Nov 17	1.86	1.50	HOLD
3:	24 Nov 17	1.80	1.85	HOLD
4:	27 Nov 17	1.82	1.85	HOLD
5:	21 Dec 17	1.70	1.85	HOLD
6:	12 Jan 18	2.15	1.85	HOLD
7:	12 Feb 18	1.83	1.85	HOLD
8:	26 Feb 18	2.01	1.85	HOLD
9:	13 Mar 18	1.84	1.85	HOLD
10:	12 Apr 18	1.84	1.85	HOLD
11:	11 May 18	1.61	1.85	HOLD
12:	30 May 18	1.57	1.60	HOLD
13:	20 Jun 18	1.53	1.60	HOLD
14:	02 Jul 18	1.49	1.60	HOLD
15:	10 Jul 18	1.52	1.60	HOLD
16:	10 Aug 18	1.68	1.60	HOLD
17:	13 Aug 18	1.67	1.60	HOLD
18:	29 Aug 18	1.55	1.30	FULLY VALUED
19:	13 Sep 18	1.54	1.30	FULLY VALUED

Source: AllianceDBS

Analyst: Marvin KHOR

Malaysia Company Guide

IOI Corporation

Version 11 | Bloomberg: IOI MK | Reuters: IOIB.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Oct 2018

HOLD

Last Traded Price (10 Oct 2018): RM4.52 (KLCI : 1,735.18)

Price Target 12-mth: RM4.70 (4% upside) (Prev RM4.90)

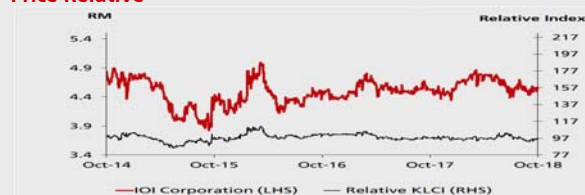
Analyst

Marvin KHOR +60 32604 3911 marvinkhor@alliancedbs.com

What's New

- Trim CY18/19/20F average CPO price forecasts to RM2,340/RM2,560/RM2,560 per MT
- FY19F to see impact of full-year reduction in disposed Lodgers contribution, as Plantations segment ramps up pace of replanting
- Reduce earnings forecasts by 3-5% and TP to RM4.70; maintain HOLD

Price Relative



Forecasts and Valuation

FY Jun (RMm)	2018A	2019F	2020F	2021F
Revenue	12,111	8,907	9,129	9,489
EBITDA	2,004	1,790	1,892	1,978
Pre-tax Profit	3,430	1,288	1,398	1,452
Net Profit	3,061	960	1,050	1,090
Net Pft (Pre Ex.)	1,081	968	1,044	1,084
Net Pft Gth (Pre-ex) (%)	(0.8)	(10.4)	7.8	3.8
EPS (sen)	49.0	15.4	16.8	17.5
EPS Pre Ex. (sen)	17.3	15.5	16.7	17.4
EPS Gth Pre Ex (%)	1	(10)	8	4
Diluted EPS (sen)	17.0	15.3	16.5	17.1
Net DPS (sen)	20.5	11.5	12.5	13.0
BV Per Share (sen)	146	151	156	161
PE (X)	9.2	29.4	26.9	25.9
PE Pre Ex. (X)	26.1	29.1	27.0	26.0
P/Cash Flow (X)	20.6	76.8	22.6	22.3
EV/EBITDA (X)	15.4	17.6	16.5	15.7
Net Div Yield (%)	4.5	2.5	2.8	2.9
P/Book Value (X)	3.1	3.0	2.9	2.8
Net Debt/Equity (X)	0.3	0.3	0.3	0.2
ROAE (%)	36.8	10.3	10.9	10.9
Earnings Rev (%):		(5)	(3)	N/A
Consensus EPS (sen):		17.6	18.7	18.7
Other Broker Recs:		B: 3	S: 7	H: 12

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Awaiting catalysts

Mild outlook before war chest deployment. We revise down our near-term CPO price expectations to factor in the drag from lower soybean oil prices; and thus now expect sharper earnings decline in FY19F which will also see reduced contributions from its disposed Lodgers manufacturing units. Besides the direct impact of lower CPO prices, Plantation segment earnings will also see reduced volume potential as the group ramps up the pace of replanting of older palms. A catalyst for the group will have to come from an upswing in CPO prices; or a successful deployment of RM946m proceeds carved out from its disposal for investment purposes. Maintain HOLD.

Where we differ: More conservative margin assumptions. Our forecasts are generally below the street's due to thinner margin assumptions, especially for the Manufacturing division.

Potential catalysts: CPO price movements and potential M&A.

IOI's earnings have greater sensitivity to direct CPO price movements following the majority stake divestment in key downstream units. Additionally, with lower gearing levels now, the group may embark on M&A activities to potentially expand its plantation assets.

Valuation:

Our DCF-based TP stands at RM4.70, given our CY18/19/20F CPO average price forecasts of RM2,340/2,560/2,560 per MT.

Key Risks to Our View:

A strong recovery in CPO prices (either data, weather or regulatory-driven) may boost the share price higher than our fair value. As IOI is an FBMKLCI component, any changes in its weightings would also make it vulnerable to price swings.

At A Glance

Issued Capital (m shrs)	6,106
Mkt. Cap (RMm/US\$m)	27,601 / 6,639
Major Shareholders (%)	
Vertical Capacity Sdn Bhd	47.1
Employees Provident Fund	12.5
First State Investments	0.0
Free Float (%)	40.4
3m Avg. Daily Val (US\$m)	2.9
ICB Industry : Consumer Goods / Plantation	

WHAT'S NEW

Reducing CPO price expectations

Lower CPO prices forecasts. We are cutting our average CPO price forecasts for CY18/19/20F to RM2,340/2,560/2,560 per MT, from RM2,620/2,600/2,630 previously. This factors in the weak YTD price performance dragged by soybean oil prices, which had corrected sharply in response to trade tensions between the US and China. Our US dollar estimates for CPO had been trimmed to USD575/610/611 per MT from USD616/608/616 previously to reflect this; coupled with imputing relatively stronger USDMYR assumptions of 4.1/4.2/4.2. All said, we maintain our medium-term view that CPO prices will be well supported near current levels given its maintained price discount to soybean oil, plus a demand reconvert that is assisted by rising discretionary biodiesel blending from higher crude oil prices.

Low earnings year ahead, keep eyes on deployment of excess cash. We expect IOI to see reduced Manufacturing segment earnings in FY19F given that FY19F marks its first full FY post-divestment of 70% in the Lodders operations, though this will be partially mitigated by margin improvements. The Plantation segment will be impacted by milder CPO prices (especially in 1HFY19), with minimal offset from volume increments as the group plans to ramp up its replanting efforts to 7.5k-9k ha, from c.6k ha previously. This will minimise harvesting area and thus keep a lid on volume growth. A key event to look out for is the potential deployment of RM946m in disposal proceeds the group had earmarked for future investments, as a strategic purchase may expand the group's plantation landbank. Imputing updated CPO price forecasts, our FY19/20F estimates are trimmed by 5%/3%, respectively, as we introduce our FY21F forecasts. Our DCF-based TP is reduced to RM4.70. Pending catalysts from an accretive acquisition or CPO price upswings, we maintain our neutral view and HOLD call on IOI.

CRITICAL DATA POINTS TO WATCH

Critical Factors

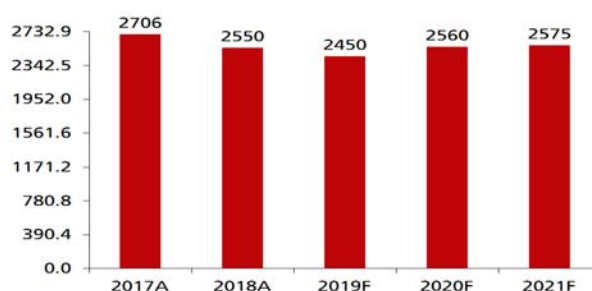
CPO price movements. IOI is a vertically integrated producer, processor and merchandiser of palm oil products. More than 60-70% of EBIT is derived from its Plantations segment, primarily dealing with the sales of CPO and PK. This proportion is set to increase from 2HFY18 onwards, as a notable proportion of its downstream operations are hived off. CPO prices can influence both the ASP and margins of the segment, and we project mild prices of RM2,340/2,560/2,560 per MT for CY18/19/20F. Additionally, CPO prices also affect the earnings performance of its 32% associate, SGX-listed Bumitama Agri (BAL).

Volume output. IOI has 174k ha of oil palm planted area as at end-FY18, of which 154.6k ha (89%) were deemed mature. The group is targeting to replant 7.5k-9k ha of older palms per year going forward, accelerating from c.6k p.a. previously, which will keep its planted area relatively flattish over the period. FFB volume growth will thus primarily come from improvements in yields and age profile, and we project output expansion 2-3% p.a. in FY19-21F to reach c.3.7m MT from 3.5m in FY18. In line with this, CPO output is expected to grow at a CAGR of 3%.

Manufacturing segment margins. IOI had in FY18 divested 70% of its 100% stake in Lodders Crocklaan Group B.V. which was primarily involved in the production of specialty fats from palm oil derivatives. However, it retains direct exposure to the downstream business via refining and oleochemical operations. Margins are determined by the price of feedstock materials such as CPO and PK, import/export tax regimes in producing and purchasing countries, plus competition among refiners. We expect EBIT contribution to be <30% going forward.

Currency translation. IOI's earnings have been significantly impacted by translation effects on its USD-denominated debt of c.US\$1bn, which made up c.80% of group borrowings. A sharp depreciation of the ringgit against the dollar may result in notable translation losses.

CPO price (RM/MT)



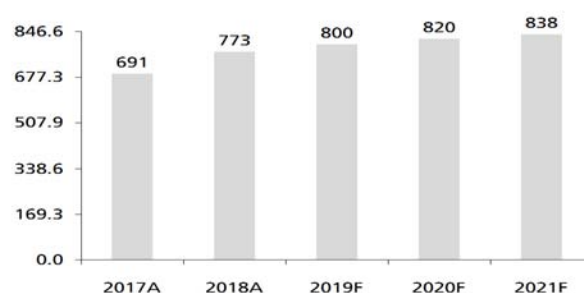
Mature palm oil hectareage



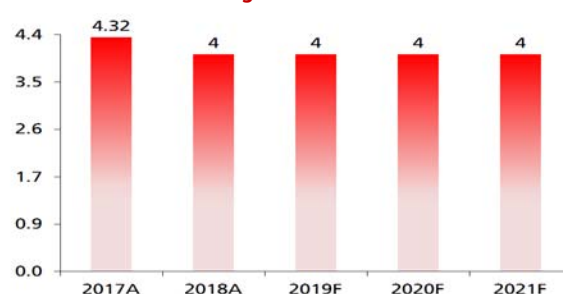
FFB harvested (k MT)



CPO sales volume (k MT)



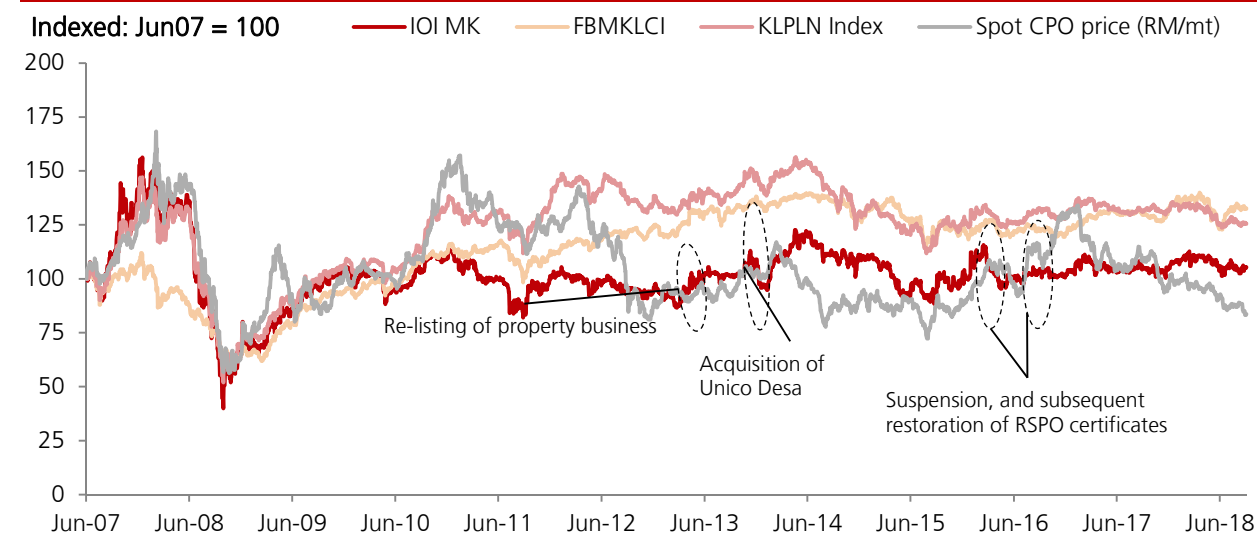
Average MYR/USD



Source: Company, AllianceDBS

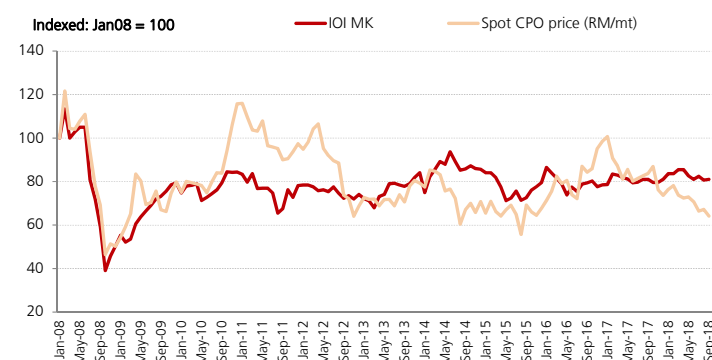
Appendix 1: IOI price correlation with critical factors

Graph 1: Share price vs key benchmarks



Source: Company, Bloomberg L.P., AllianceDBS, DBS Bank

IOI share price vs CPO prices

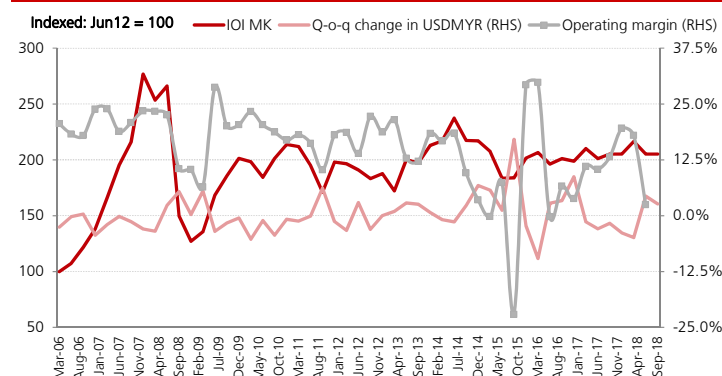


Source: Company, Bloomberg L.P., AllianceDBS

Remarks

IOI's share price is principally influenced by the movement of CPO prices, with a long-run correlation coefficient of 0.8.

IOI share price vs margins & currency movements



Source: Company, MPOB, Bloomberg L.P., AllianceDBS

Remarks

IOI's share price is influenced by its profitability or operating margins, which can be moved by price and production levels. However, due to its large proportion of USD-denominated debt, earnings have also been swayed by the movement of the ringgit. Following the disposal of 70% in downstream operations Loders Croklaan in 3QFY18, we expect a structural uplift in margins going forward.

Balance Sheet:

Low gearing profile. Post the disposal of Loders Croklaan in FY18, net gearing eased significantly to <0.3x, compared to 0.75x at end-FY17. This is its lowest level since FY11 and presents an opportunity for inorganic expansion via acquisitions, as the group has revealed no other major near-term capex plans besides replanting and some new planting activities.

Share Price Drivers:

CPO pricing. Stronger pricing of CPO and its derivatives are beneficial to IOI's Plantation division by directly improving ASP and margins for its products.

Inorganic growth. With a newly lowered gearing profile, IOI is in a strong position to pursue acquisition opportunities. We believe the likelihood of a value-accretive purchase is also increased by the group's own valuation, which has been at the higher-end among peers.

Key Risks:

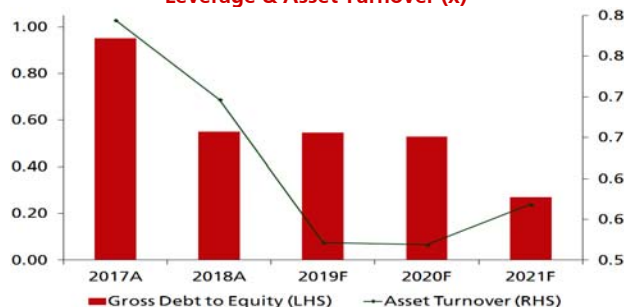
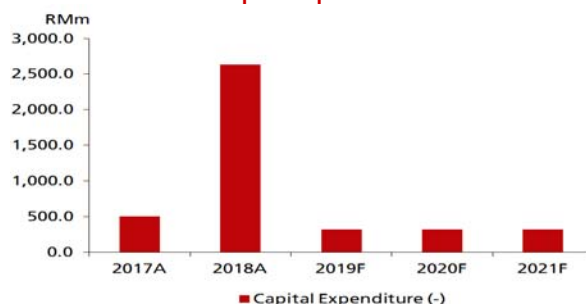
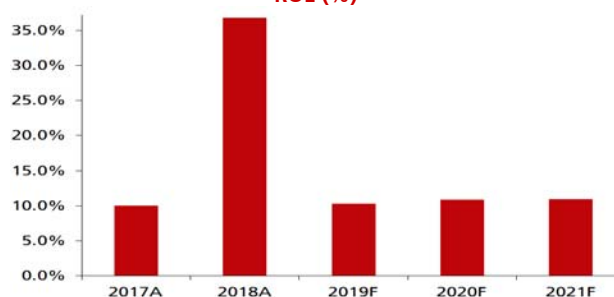
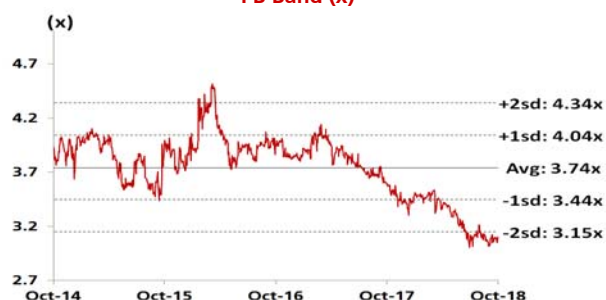
Volatility in CPO prices and USD exchange rates. Continued strength in CPO prices may lead to better-than-expected earnings, while lower energy prices from expansion of US shale gas would have an adverse impact on demand for vegetable oils for biofuels. Likewise, volatility in USD would affect the profitability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

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

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

Company Background

IOI Corporation (IOI) is an integrated plantation company, with one of the highest yields in Malaysia and one of the largest oleochemical manufacturing capacities in the world.

Leverage & Asset Turnover (x)**Capital Expenditure****ROE (%)****Forward PE Band (x)****PB Band (x)**

Source: Company, AllianceDBS

Key Assumptions

FY Jun	2017A	2018A	2019F	2020F	2021F
CPO price (RM/MT)	2,706	2,550	2,450	2,560	2,575
Mature palm oil hectarage	149,714	154,613	158,615	158,081	151,273
FFB harvested (k MT)	3,156	3,515	3,620	3,695	3,758
CPO sales volume (k MT)	691	773	800	820	838
Average MYR/USD	4.32	4.00	4.00	4.00	4.00

Segmental Breakdown

FY Jun	2017A	2018A	2019F	2020F	2021F
Revenues (RMm)					
Plantation	234	258	316	342	345
Property	0.0	0.0	0.0	0.0	0.0
Resource-based	13,880	11,840	8,578	8,774	9,131
Others	13.3	13.0	13.3	13.5	13.8
Total	14,127	12,111	8,907	9,129	9,489
EBIT (RMm)					
Plantation	1,108	927	911	986	1,037
Property	0.0	0.0	0.0	0.0	0.0
Resource-based	362	522	346	352	367
Others	11.2	7.10	7.17	7.24	7.32
Total	1,481	1,456	1,264	1,345	1,411
EBIT Margins (%)					
Plantation	47.3	39.4	40.7	41.6	42.7
Property	N/A	N/A	N/A	N/A	N/A
Resource-based	2.6	4.4	4.0	4.0	4.0
Others	N/A	N/A	N/A	N/A	N/A
Total	10.5	12.0	14.2	14.7	14.9

Income Statement (RMm)

FY Jun	2017A	2018A	2019F	2020F	2021F
Revenue	14,127	12,111	8,907	9,129	9,489
Cost of Goods Sold	(11,633)	(9,802)	(7,016)	(7,142)	(7,411)
Gross Profit	2,494	2,308	1,891	1,987	2,079
Other Opng (Exp)/Inc	(1,013)	(852)	(627)	(642)	(667)
Operating Profit	1,481	1,456	1,264	1,345	1,411
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	137	138	152	157	161
Net Interest (Exp)/Inc	(174)	(144)	(120)	(110)	(127)
Exceptional Gain/(Loss)	(357)	1,980	(8.6)	5.99	6.34
Pre-tax Profit	1,087	3,430	1,288	1,398	1,452
Tax	(332)	(362)	(313)	(333)	(345)
Minority Interest	(22.9)	(7.8)	(14.9)	(15.8)	(16.4)
Preference Dividend	1.00	2.00	0.0	0.0	0.0
Net Profit	733	3,061	960	1,050	1,090
Net Profit before Except.	1,090	1,081	968	1,044	1,084
EBITDA	2,094	2,004	1,790	1,892	1,978
Growth					
Revenue Gth (%)	20.3	(14.3)	(26.5)	2.5	3.9
EBITDA Gth (%)	16.9	(4.3)	(10.7)	5.7	4.5
Opg Profit Gth (%)	19.6	(1.7)	(13.2)	6.4	4.9
Net Profit Gth (Pre-ex) (%)	31.0	(0.8)	(10.4)	7.8	3.8
Margins & Ratio					
Gross Margins (%)	17.7	19.1	21.2	21.8	21.9
Opg Profit Margin (%)	10.5	12.0	14.2	14.7	14.9
Net Profit Margin (%)	5.2	25.3	10.8	11.5	11.5
ROAE (%)	10.0	36.8	10.3	10.9	10.9
ROA (%)	4.1	17.6	5.6	6.0	6.5
ROCE (%)	6.3	8.1	5.9	6.2	6.9
Div Payout Ratio (%)	81.5	42.0	75.0	75.0	75.0
Net Interest Cover (x)	8.5	10.1	10.6	12.2	11.1

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Jun	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018
Revenue	3,698	3,731	3,720	2,723	1,936
Other Oper. (Exp)/Inc	(3,397)	(3,314)	(3,255)	(2,413)	(1,672)
Operating Profit	301	417	464	310	264
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	30.7	31.3	30.3	34.5	42.2
Net Interest (Exp)/Inc	(37.1)	(45.9)	(36.3)	(39.3)	(22.9)
Exceptional Gain/(Loss)	72.1	73.6	264	1,840	(198)
Pre-tax Profit	366	476	722	2,146	85.7
Tax	(54.7)	(114)	(119)	(74.9)	(54.2)
Minority Interest	(4.6)	(2.8)	(7.2)	(2.1)	4.30
Net Profit	307	360	596	2,069	35.8
Net profit bef Except.	235	286	332	229	234
EBITDA	450	571	593	442	397

Growth

Revenue Gth (%)	6.5	0.9	(0.3)	(26.8)	(28.9)
EBITDA Gth (%)	7.1	26.7	3.9	(25.5)	(10.1)
Opg Profit Gth (%)	24.2	38.8	11.3	(33.2)	(14.9)
Net Profit Gth (Pre-ex) (%)	43.4	21.9	16.0	(31.2)	2.1

Margins

Opg Profit Margins (%)	8.1	11.2	12.5	11.4	13.6
Net Profit Margins (%)	8.3	9.6	16.0	76.0	1.8

Balance Sheet (RMm)

FY Jun	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	10,087	8,411	8,355	8,281	8,198
Invts in Associates & JVs	1,121	2,491	2,643	2,801	2,962
Other LT Assets	782	617	618	619	620
Cash & ST Invts	1,522	2,765	2,393	2,600	254
Inventory	2,708	949	1,730	1,761	1,827
Debtors	1,561	816	976	1,000	1,040
Other Current Assets	245	694	701	708	715
Total Assets	18,025	16,743	17,415	17,769	15,615
ST Debt	2,076	895	895	895	895
Creditor	1,389	650	769	783	812
Other Current Liab	175	274	274	274	274
LT Debt	5,268	4,285	4,443	4,443	1,929
Other LT Liabilities	1,399	1,224	1,248	1,273	1,299
Shareholder's Equity	7,457	9,156	9,512	9,812	10,101
Minority Interests	261	259	274	290	306
Total Cap. & Liab.	18,025	16,743	17,415	17,769	15,615
Non-Cash Wkg. Capital	2,949	1,536	2,365	2,413	2,496
Net Cash/(Debt)	(5,822)	(2,415)	(2,945)	(2,738)	(2,570)
Debtors Turn (avg days)	35.5	35.8	36.7	39.5	39.2
Creditors Turn (avg days)	41.2	39.6	39.0	41.9	41.6
Inventory Turn (avg days)	81.7	71.0	73.6	94.4	93.5
Asset Turnover (x)	0.8	0.7	0.5	0.5	0.6
Current Ratio (x)	1.7	2.9	3.0	3.1	1.9
Quick Ratio (x)	0.8	2.0	1.7	1.8	0.7
Net Debt/Equity (X)	0.8	0.3	0.3	0.3	0.2
Net Debt/Equity ex MI (X)	0.8	0.3	0.3	0.3	0.3
Capex to Debt (%)	6.8	(50.9)	5.9	5.9	11.4
Z-Score (X)	3.3	4.1	3.8	3.8	NA

Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Jun	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	1,444	1,450	1,297	1,392	1,445
Dep. & Amort.	475	407	374	390	406
Tax Paid	(332)	(362)	(313)	(333)	(345)
Assoc. & JV Inc/(loss)	(137)	(138)	(152)	(157)	(161)
Chg in Wkg.Cap.	(533)	1,764	(822)	(41.5)	(76.3)
Other Operating CF	371	(1,751)	(15.5)	(1.0)	(0.7)
Net Operating CF	1,288	1,371	368	1,249	1,268
Capital Exp.(net)	(500)	2,637	(317)	(316)	(323)
Other Invt.(net)	6.90	3,449	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	(1,619)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	82.8	(1,358)	(1.0)	(1.1)	(1.1)
Net Investing CF	(411)	3,108	(318)	(318)	(324)
Div Paid	(566)	(1,320)	(604)	(750)	(801)
Chg in Gross Debt	(37.4)	(2,164)	158	0.0	(2,514)
Capital Issues	(688)	(50.2)	0.0	0.0	0.0
Other Financing CF	(17.3)	(76.1)	24.5	25.0	25.5
Net Financing CF	(1,308)	(3,610)	(421)	(725)	(3,289)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(431)	869	(372)	207	(2,346)
Opg CFPS (sen)	28.8	(6.3)	19.1	20.7	21.5
Free CFPS (sen)	12.4	64.2	0.81	14.9	15.1

Source: Company, AllianceDBS

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 Oct 17	4.52	4.70	HOLD
2:	10 Nov 17	4.50	4.70	HOLD
3:	20 Nov 17	4.44	4.70	HOLD
4:	27 Nov 17	4.45	4.70	HOLD
5:	21 Dec 17	4.46	4.70	HOLD
6:	12 Jan 18	4.64	4.70	HOLD
7:	12 Feb 18	4.68	4.70	HOLD
8:	26 Feb 18	4.79	4.70	HOLD
9:	13 Mar 18	4.87	4.70	HOLD
10:	12 Apr 18	4.77	4.70	HOLD
11:	11 May 18	4.67	4.70	HOLD
12:	17 May 18	4.75	4.90	HOLD
13:	20 Jun 18	4.57	4.90	HOLD
14:	02 Jul 18	4.58	4.90	HOLD
15:	10 Jul 18	4.55	4.90	HOLD
16:	10 Aug 18	4.64	4.90	HOLD
17:	13 Aug 18	4.56	4.90	HOLD
18:	20 Aug 18	4.51	4.90	HOLD
19:	13 Sep 18	4.47	4.90	HOLD

Source: AllianceDBS

Analyst: Marvin KHOR

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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: 10 Oct 2018 14:27 (WIB)

Dissemination Date: 10 Oct 2018 14:08 (WIB)

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

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