

DBS Group Research . Equity

9 Dec 2019

## Better days ahead for palm oil

- Plateauing output to support average CPO prices of US\$596 per MT in 2020
- Demand to remain steady, although export levies could be reintroduced in early 2020
- Indonesia's biodiesel programme a major wild card
- A mixed bag: FR, BAL, WIL, FGV, TSH our top BUY

**On a positive footing for 2020.** The worst is probably over for palm oil players with average crude palm oil (CPO) prices expected to rebound by 19% to US\$596 per MT in 2020 on plateauing global palm oil supply, coupled with reasonable headroom for soybean price due to positive developments in the US-China trade war and African swine fever (ASF). Demand has been steady and will persist in 2020 driven by China followed by India.

**Seasonal low output in 1Q20, but beware of short term CPO price headwinds.** Despite tight supply and demand, it is unlikely that CPO prices will break the US\$625 per MT level. Strong demand currently could be due to export levies being reintroduced at the beginning of the year. Higher CPO prices may pressure demand with narrowing spread to soybean oil (SBO) currently.

**Indonesia B30 to limit downside in 2020.** Indonesia's B30 biodiesel program (B30) will limit CPO downside next year. However, B30 is pricier now due to the recovery of CPO prices. Execution of the B30 is the key upside risk to our CPO price forecast for 2020.

**Stay selective on stock pick.** The plantation universe is currently a mixed bag. Some companies have rallied ahead of their fundamentals. It is good to be selective despite the hype on the CPO price rally. We continue to like Singapore-listed Bumitama Agri (BAL), First Resources (FR) and Wilmar International (WIL). Among Indonesia-listed stocks, we place a FULLY VALUED call on London Sumatra Indonesia (LSIP) due to its strong share price performance recently. In Malaysia, FGV Holdings (FGV) and TSH Resources (TSH) are our top BUY calls. Earnings growth in 2020 is expected to be high at 35%-40% y-o-y due to higher CPO prices and lower fertiliser application for the year.

JCI : 6,187.00

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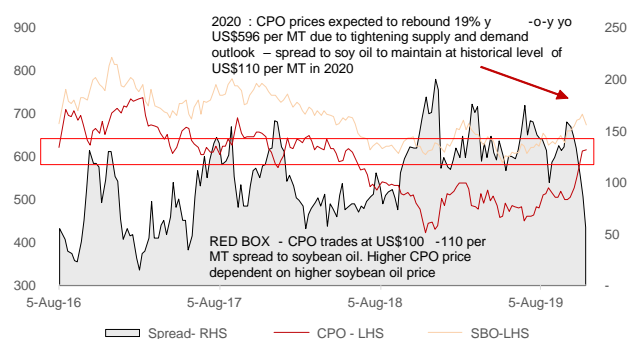
## STOCKS

	Price	Mkt Cap US\$m	12-mth Target Price	Performance (%)		Rating
				3 mth	12 mth	
<b>Indonesia (IDR)</b>						
Astra Agro Lestari	13,575	1,864	12,500	30.5	16.5	HOLD
London Sumatra	1,430	696	1,180	22.8	15.3	FULLY VALUED
<b>Singapore (\$S)</b>						
Bumitama Agri	0.73	932	0.81	28.1	15.0	BUY
First Resources	1.79	2,084	2.10	21.0	10.5	BUY
Wilmar International	4.14	19,279	4.60	7.3	31.9	BUY
Indofood Agri	0.33	339	0.29	1.5	61.0	HOLD
<b>Malaysia (RM)</b>						
KL Kepong	24.16	6,186	26.25	2.5	(1.0)	BUY
IOI Corporation	4.48	6,770	4.65	1.8	2.3	HOLD
TSH Resources	1.33	441	1.60	52.0	33.0	BUY
FGV Holdings	1.32	1,158	1.80	39.0	70.3	BUY
Sime Darby Plantation	5.28	8,740	5.45	8.4	10.0	HOLD
Genting Plantations	10.40	2,244	9.60	6.7	7.0	HOLD

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

Closing price as of 6 Dec 2019

## Palm oil price vs soybean oil price trend



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



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## Strategy and stock picks

### Our key messages

1. **Be selective on stock pick.** The plantation universe is currently a mixed bag. Some companies have rallied ahead of their fundamentals. It is good to be selective despite the hype on CPO price rally. We prefer Singapore-listed Bumitama Agri (BAL), First Resources (FR) and Wilmar International (WIL) over Indonesia-listed stocks. In Malaysia, FGV and TSH are our top BUY.
2. **Earnings recovery to sustain momentum in 2020.** Plantation companies' earnings are expected to rebound in 1H20 from a low base the previous year due to expectations of higher CPO prices. 1H19 CPO prices hit only US\$460 per MT. Coupled with weak output, earnings last year was underwhelming.
3. **Upside for CPO prices.** Our new CPO price forecast of is US\$596 per MT (RM 2,450 per MT), a 19% upside y-o-y in 2020 mainly driven by prospects of tightening inventory due to plateauing output growth and strong CPO absorption from China, followed by India and Indonesia's biodiesel programme. Current soybean prices also allow CPO prices to trend higher due to the gradual demand recovery in China.
4. **Supply slowdown to trigger structural issues?** We maintain our long term CPO price forecast of US\$600 per MT due to structural issues. There is limited room for supply expansion and demand is still growing. A supply slowdown could be nearing due to lower-than-expected fertiliser application in the past two years on low CPO prices.

### Our recommendations

We still favour planters with younger tree age profiles for their higher volume growth. We also like planters with strong balance sheets, which would allow them to take advantage of any opportunistic brownfield acquisitions, expand their value chains downstream and/or diversify their businesses to other crops.

We employ a new earnings forecast mainly on new assumptions for CPO prices. Our new target prices (TPs) for our selected BUY counters still offer 11-15% upside potential, excluding a dividend yield potential of 2-4%.

Among the Singapore-listed stocks, our picks are **BAL** (BUY, TP: S\$0.81) and **FR** (BUY, TP: S\$2.10) mainly on their undemanding valuations and strong yield performance to capitalise on the recovery of CPO prices. We also like **WIL** (BUY, TP: S\$4.50) for its integrated platform which provides a cushion on profitability during volatile commodity prices. A special dividend and 1Q20 listing of its China business Yihai Kerry Arawana Holdings (YKA) are further positive catalysts for share price. In Malaysia, we like **FGV** (BUY, TP: RM1.80) due to its turnaround prospects, and **TSH** (BUY, TP: RM 1.60) on its organic growth outlook.

We upgrade **KLK** (TP: RM26.25) from HOLD to BUY, meanwhile we upgrade **GENP** (TP: RM9.60), and **Sime Darby Plantation** (SDPL, TP: RM1.75) from **FULLY VALUED** to **HOLD**. These companies have more than 80% of their revenues from upstream divisions and also set to benefit from the palm oil price recovery however, we believe the valuation for these stocks are demanding among our plantation universe.

In Indonesia, we maintain our **FULLY VALUED** rating for **LSIP** (TP: Rp1,180) from since share price performed well ahead the CPO price in 4Q19 (rebounded 40% from its 2019 low vs. 20%-30% on average for its regional peers (excluding corporate action and special cases)). We need a US\$650 per MT plus CPO price scenario to justify any rating upgrade since it is currently trading at 30x FY20 PE vs. regional peers 14x-15x range on average.

We maintain our **HOLD** call on **Astra Agro Lestari** (AALI, TP: Rp12,500) and **Indofood Agri Resources** (IFAR, HOLD, TP: S\$0.29). Despite its share price correction, we believe AALI's organic growth prospects are limited at the moment. We have a **HOLD** rating on IFAR due to limited share price upside catalysts apart from its privatisation prospects.

### Changes to our key assumptions

We revise upward our CY20F/21F CPO price estimates (US\$/MT, FOB) by 10%/5% to US\$596/MT / US\$617/MT. In Ringgit (MYR) terms, we also increase CPO price estimates to RM2,450/MT/RM2,540/MT. The key driver of higher CPO prices is strengthening global supply and demand for edible oils.

We impute higher CY20F/21F SBO prices, mainly to account for gradual China demand recovery from ASF and improving import appetite despite the ongoing trade wars. Our CPO and SBO price forecasts imply a spread of US\$110 per MT in CY20/21, relatively in line with its five-year average spread. We maintain our sugar, cocoa and coffee price forecasts, based on The World Bank Commodity Markets Outlook

### Summary: CPO, soybean and soybean oil price revisions

	15	16	17	18	19F	20F	21F
CPO price (RM/MT FOB P.Gudang)	2,168	2,652	2,760	2,340	2,090	2,450	2,540
CPO price (US\$/MT FOB P.Gudang)	560	640	645	575	500	596	617
Prev. CPO price (RM/MT FOB P.Gudang)	2,168	2,652	2,760	2,340	2,090	2,230	2,410
Prev. CPO price (US\$/MT FOB P.Gudang)	560	640	645	575	500	543	586
Soybean price (US\$/MT FOB Chicago)	346	360	352	340	290	330	340
Soybean oil price (US\$/MT FOB Chicago)	667	696	753	727	620	706	727
Previous SB price (US\$/MT FOB Chicago)	346	360	352	340	290	310	330
Previous SBO price (US\$/MT FOB Chicago)	667	696	753	727	620	663	706
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: Bloomberg Finance L.P., Datastream, DBS Bank estimates

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. The Indonesian government imposes

zero export levies to stimulate exports, but we are conservatively keeping our US\$50 per MT long-term forecast as we believe export levies will be reintroduced if the CPO prices breach US\$500 per MT.

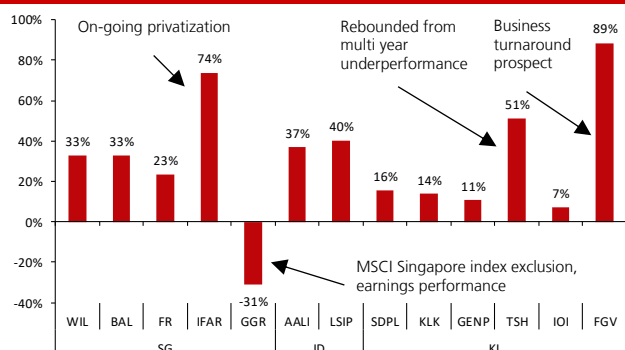
### Stock picks: We like companies with strong organic growth

After weak share prices in 9M19, CPO stocks rebounded in 4Q19 due to the recovery of CPO price and this led to stronger y-o-y earnings on higher average selling price (ASP). Note that 4Q18 CPO ASP only hit US\$470 per MT. Singapore-listed WIL performed well due to strong 3Q19 earnings and positive progress on the listing of its China operations (YKA).

### Indonesia plantation stocks already rising from 2019 low

Despite positive share price performance lately, 2020 CPO prices and developments in the global edible oil market, especially the lingering trade war, remain influential factors on sentiment in the sector and share price movements. Issues such as India's import tax and European Union (EU) countries' attempts to curb CPO-based biodiesel would also impact CPO prices and inventory levels.

### Share price performance from 2019 low (high)



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

Further upside for CPO prices beyond US\$625 per MT is limited. External influences, mainly soybean price dynamics, are crucial. However, some of the CPO planters' share prices and their earnings performance are still attractive. We still see some upside for CPO stocks. We believe that the market has not fully priced in the potential for earnings recovery next year with the tightening of palm oil supply and good demand prospects.

### Despite more bullish outlook on edible oils, we remain selective

Our BUY rating for several counters in the region reflects our view that some companies are better than others in capitalising on the CPO price recovery. The potential for yield expansion means that these companies are able to keep operational costs low in anticipation of price fluctuations.

Dynamic on CPO prices may affect sentiment on share prices but we feel that the market is prepared for this. Weaker-than-expected earnings in the past two years have also reset market

expectations on CPO stocks, as they return to their early levels. The stocks are now trading at FY20 PE of 14.0-17.0x, which we believe reflects the expectation of only modest CPO price recovery next year despite the strong rally recently.

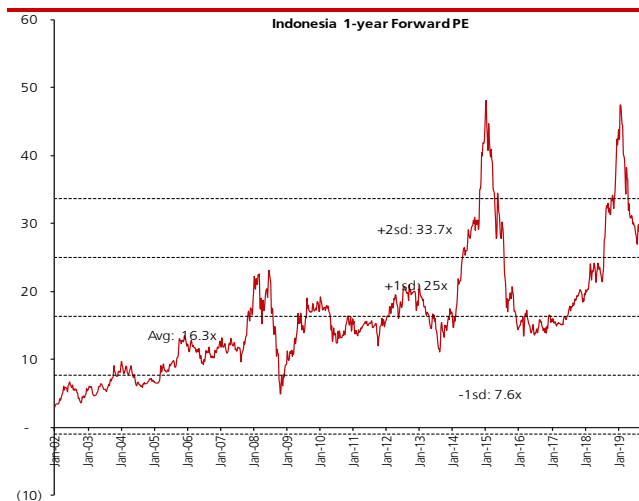
The market is underestimating the resilience of our picks. A CPO yield of above 4 MT per hectare allows planters to withstand low CPO prices and still remain in business, especially those with strong balance sheet as seen in 2018-2019. During the brighter day, companies with strong assets are set to reap the most benefits during an improved palm oil price cycle that is expected in 2020.

### Malaysia's forward PE band



Source: Company, DBS Bank, AllianceDBS, DBSVI

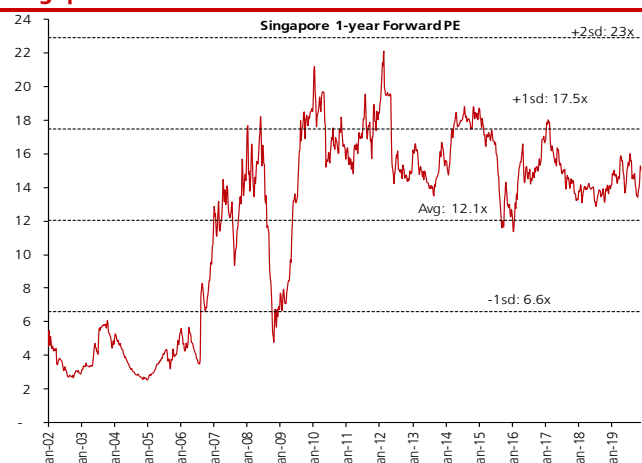
### Indonesia's forward PE band



Source: Company, DBS Bank, AllianceDBS, DBSVI

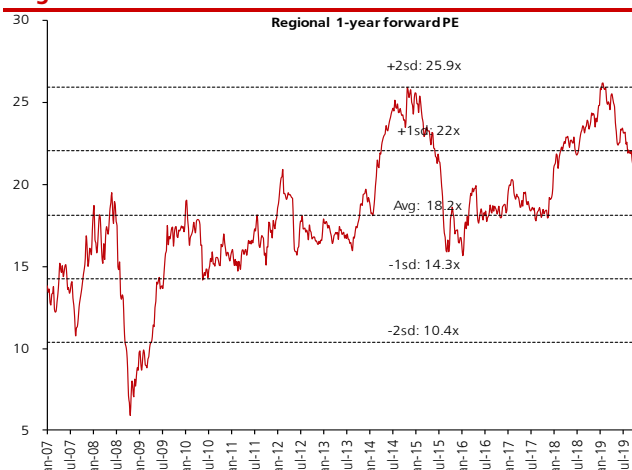


## Singapore's forward PE band



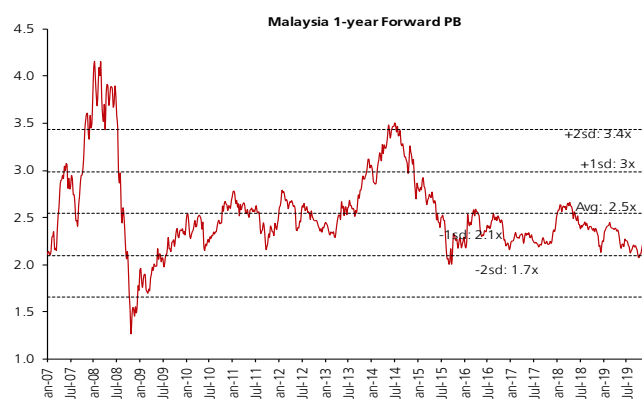
Source: Company, DBS Bank, AllianceDBS, DBSVI

## Regional forward PE band



Source: Company, DBS Bank, AllianceDBS, DBSVI

## Malaysia's forward P/B band



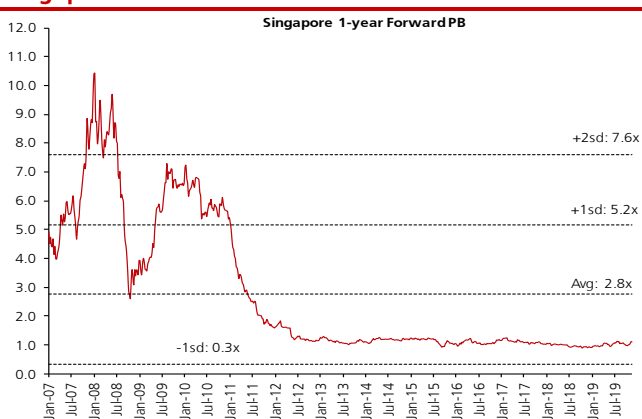
Source: Company, DBS Bank, AllianceDBS, DBSVI

## Indonesia's forward P/B band



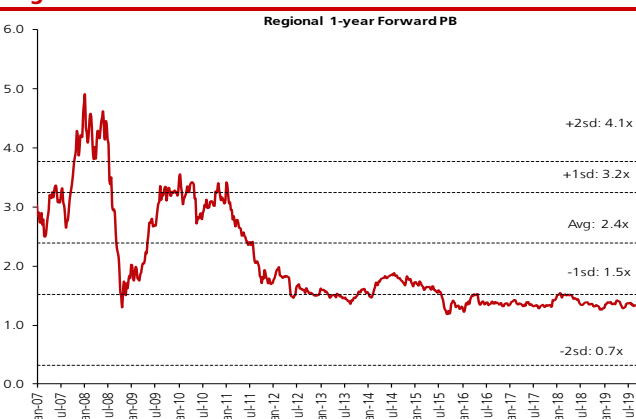
Source: Company, DBS Bank, AllianceDBS, DBSVI

## Singapore's forward PB band



Source: Company, DBS Bank, AllianceDBS, DBSVI

## Regional forward P/B band



Source: Company, DBS Bank, AllianceDBS, DBSVI

### Earnings revision – tailwinds from higher CPO prices

We raise our CY20/21 earnings forecast by 2%-46% accounting for prospects of higher CPO prices. Our average earnings growth forecast is 40% y-o-y in CY20 partially due to a low base last year. Earnings growth will also be boosted by improved efficiencies by palm oil planters in the past two years. We expect output to remain modest at single-digit y-o-y expansion, in line with the industry's trend.

Companies with stronger yields and higher output are less susceptible to severe earnings drop due to their yield cushion and better operational flexibility mainly due to fertiliser application. More mature and older estates such as AALI may face dilemmas on cost-cutting at the expense of output. Exposure to external fruits could also affect margins.

For a conglomerate such as WIL, the new lower edible oil price assumption does not translate into lower earnings due to its integrated upstream-downstream business model. We assume that WIL can maintain good profitability amid low edible oil prices, despite the prolonged trade war.

Following the revision, our planters earnings set to recover in 2020 due to CPO ASP improvement and steady output performance. On a seasonal basis, we see earnings regaining traction in 4Q19 the earliest, mainly due to higher palm oil price trend in the period. Among the CPO planters, our 2020 earnings forecast jump around 30%-72% from low base in 2019, or slightly higher 2018 earnings level, where the CPO price averaged US\$575 per MT back then.

In the long run, planters with a younger tree profile will continue to perform well at our average long-term CPO price forecast of US\$600 (RM2,600). Our upbeat long-term view on CPO prices also supports these planters' earnings and free cash flow outlook, supporting our target prices.

This prompts us to reiterate our stock-picking strategy. We only choose companies with potential for yield expansion and volume growth, as well as those that are able to keep their costs low for significant earnings growth leverage.

### Summary of EPS and TP revisions

	Rec.	Prev. CY20F EPS	Prev. CY21F EPS	New CY20F EPS	New CY21F EPS	CY20F EPS rev.	CY21F EPS rev.	Prev. TP	New TP	TP rev.
<b>Indonesia (EPS/TP)</b>										
Astra Agro Lestari (Rp)	H	363	764	416	632	15%	-17%	10,400	12,500	20%
London Sumatra (Rp)	FV	32	55	47	57	46%	3%	1,010	1,180	17%
<b>Malaysia (EPS/TP)</b>										
Felda Global V. (sen/RM)	B	6	14	8	16	31%	21%	1.60	1.80	13%
Genting Plant. (sen/RM)	H	27	41	33	44	22%	7%	8.65	9.60	11%
IOI Corporation (sen/RM)	H	7	8	7	8	9%	6%	4.05	4.65	15%
KL Kepong (sen/RM)	B	56	63	67	78	20%	24%	20.00	27.00	35%
Sime Darby (sen/RM)	H	4	7	5	8	23%	21%	4.05	5.45	35%
TSH Resources (sen/RM)	B	5	7	6	9	18%	31%	1.05	1.60	52%
<b>Singapore (EPS/TP)</b>										
Bumitama Agri (Rp/\$)	B	405.2	430.8	455	488	12%	13%	0.72	0.81	13%
First Resources (US\$/S\$)	B	8.7	9.2	9.4	9.6	8%	4%	1.95	2.10	8%
Indofood Agri (Rp/\$)	H	118.5	226.8	118	227	0%	0%	0.29	0.29	0%
Wilmar Int'l (US\$/S\$)	B	19.2	18.3	19	20	0%	7%	4.35	4.60	6%

Source: DBS Bank, AllianceDBS, DBSVI estimates

### **CPO: Plateauing output and steady demand driving price recovery**

Output has slowed down recently. Data from the Malaysian Palm Oil Board (MPOB) showed that output dropped m-o-m in October. The output slowdown is likely to sustain in 2020. Similarly, Indonesia's fertiliser consumption is dropping by 35% y-o-y in 2019 which will have significant long term implications on palm oil output and prices.

We have adjusted our CY20F and CY21F palm oil supply forecast slightly downward. This mainly reflects yield performance which has been affected by thin fertiliser application in CY18-19 and flat yield per hectare. We expect global palm oil supply to be flat y-o-y at 69m MT in CY20F, before growing only by 1% to 70m MT in CY21F.

### **Weather: Lagging effects of dry weather in 2019**

Our assumption of plateauing supply for next year is also in line with weather patterns. We take into account the lagging effects of seasonal dryness or a moderate El Nino seen in 2019, which may affect palm trees' pollination and fruition in 2020.

Periodic atmospheric disruptions in the Tropical Pacific, known as El Nino and La Nina, have a profound impact on palm oil output. The El Nino cycle brings drought while the La Nina cycle brings heavy rainfall.

Drought can severely impact palm yields. Severe droughts reduce output by 2% for the ensuing three years. Historically, while El Nino may lead to low palm oil output, heavier rainfall under La Nina may not always lead to higher palm oil harvests due to the probable incidence of floods, which hinders harvesting activities.

### **Inventory to trend lower in 2020**

By the end of 2020, we expect palm oil inventory to settle at 17.2m MT (-3% y-o-y) or 24% of global annual demand. Our new palm oil inventory forecast reflects steady demand, coupled with flat y-o-y output. We expect stock usage to continue tightening in CY21 onwards, in line with our view of gradual price recovery.

### **CY20F/21F CPO prices tweaked by 10%/5%**

Palm oil demand is expected to reach 70m MT in 2019. The bulk of this growth (or c.1m MT) should come from the food sector. Biodiesel demand is forecast to expand by 0.7m MT, of which 0.6m MT would come from Indonesia's B30 mandate.

We maintain our overall Indonesia and Malaysia biodiesel production and consumption related forecasts, despite the effects of the B30 mandate. Indonesia is forecast to produce c.6.6m MT of biodiesel this year. Likewise, including 74,000 MT of exports, we expect Malaysia to produce c.952,000 MT of biodiesel. We believe the revised biodiesel production target for Indonesia is achievable, based on an estimated export levy collection of US\$865m.

Having imputed our revised supply estimates and considering our new soybean price forecast, CY20F/21F CPO prices (US\$/MT, FOB basis) are adjusted 10%/5% to US\$596/US\$617 per MT. In MYR terms, they were also revised up by 10%/15% to RM2,450/RM2,540 per MT. The y-o-y improvement reflects softer output growth in CY20 and an expected rebound in soybean prices.

### **Trade war poses uncertainty on further recovery beyond US\$650 per MT**

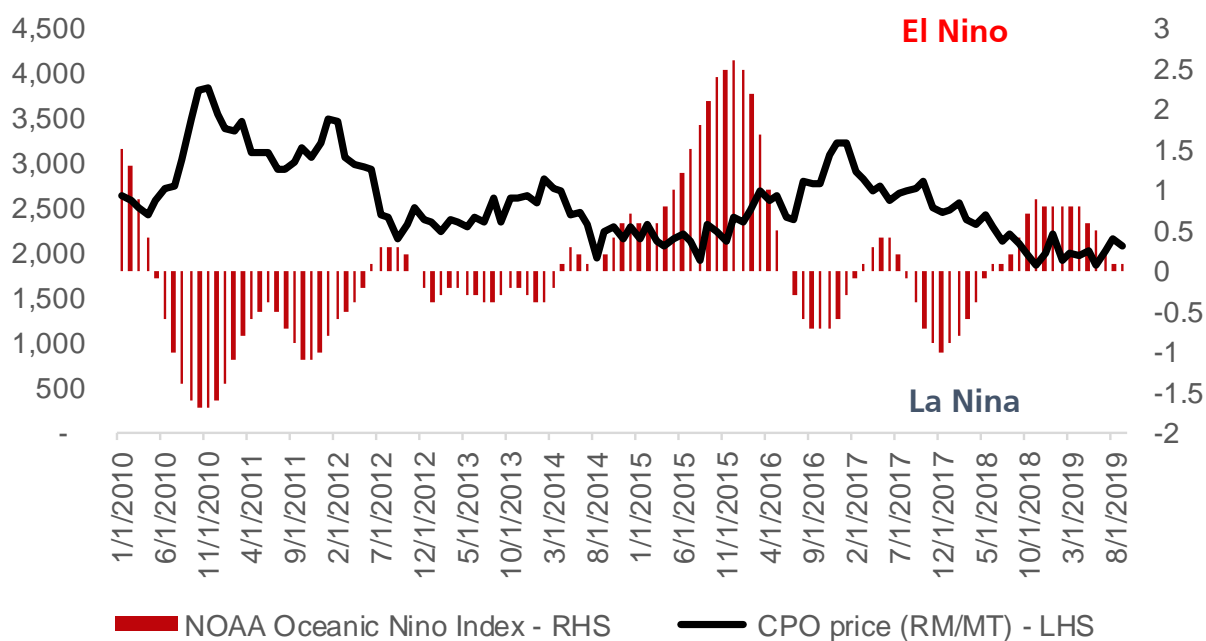
Considering the current global edible oil market, it will take some time for CPO prices to rise above US\$650 per MT. However, CPO prices are less likely to drop below US\$550 per MT with strong imports from China to make up for edible oil shortages arising from lower soybean crushing activities due to the trade war and ASF epidemic.

## Palm oil supply and demand forecasts

	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	14,232	63,599	67,941	22.4%	753
2018F	575	18,098	65,160	69,026	27.8%	706	2018F	575	18,098	65,160	69,026	27.8%	706
2019F	500	17,776	69,950	69,628	25.4%	630	2019F	500	17,776	69,950	69,628	25.4%	630
2020F	596	17,219	70,046	69,489	24.6%	706	2020F	543	19,464	69,950	71,638	27.8%	665
2021F	617	14,915	72,380	70,076	20.6%	727	2021F	586	19,426	72,282	72,243	26.9%	706
2022F	622	14,430	72,380	71,895	19.9%	742	2022F	622	20,506	72,282	73,362	28.4%	742
2023F	624	12,282	73,265	71,117	16.8%	744	2023F	624	19,910	73,165	72,568	27.2%	744
2024F	687	12,737	74,595	75,051	17.1%	807	2024F	687	20,467	74,494	75,051	27.5%	807
2025F	701	13,957	77,601	78,821	18.0%	821	2025F	701	21,793	77,495	78,821	28.1%	821
2026F	701	16,081	79,374	81,498	20.3%	821	2026F	701	24,026	79,265	81,498	30.3%	821
2027F	701	16,716	82,833	83,467	20.2%	821	2027F	701	24,774	82,719	83,467	29.9%	821
2028F	687	16,490	85,176	84,949	19.4%	821	2028F	687	24,664	85,059	84,949	29.0%	821
2029F	687	15,836	87,041	86,387	18.2%	821	2029F	687	24,130	86,922	86,387	27.8%	821
2030F	687	15,820	87,398	87,381	18.1%	821	2030F	687	24,233	87,278	87,381	27.8%	821

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

## Palm oil price vs ENSO NOAA Index



Source: Bloomberg Finance L.P., DBS Bank

### Palm oil hectareage forecasts

Oil palm planted area ('000 hectares)														
	2017A	2018A	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

CPO production (m MT)														
	2017A	2018A	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Malaysia	19.919	19.748	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	-0.2	2.6	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	-0.9	13.0	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	41.023	39.229	39.549	38.787	37.787	35.771	33.950	31.872	30.318	28.443	26.611	24.895	23.101
vol. growth	3.9	5.0	-1.8	0.3	-0.8	-1.0	-2.0	-1.8	-2.1	-1.6	-1.9	-1.8	-1.7	-1.8
% growth	12.2	13.9	-4.4	0.8	-1.9	-2.6	-5.3	-5.1	-6.1	-4.9	-6.2	-6.4	-6.4	-7.2
Others	8.959	8.255	7.716	6.617	7.147	9.213	9.798	14.520	19.337	22.562	25.461	28.144	30.713	32.949
vol. growth	-0.5	-0.7	-0.5	-1.1	0.5	2.1	0.6	4.7	4.8	3.2	2.9	2.7	2.6	2.2
% growth	-5.3	-7.9	-6.5	-14.2	8.0	28.9	6.3	48.2	33.2	16.7	12.8	10.5	9.1	7.3
Total	64.883	69.026	69.268	69.489	70.076	71.895	71.117	75.051	78.821	81.498	83.467	84.949	86.387	87.381
vol. growth	6.0	4.1	0.2	0.2	0.6	1.8	-0.8	3.9	3.8	2.7	2.0	1.5	1.4	1.0
% growth	10.2	6.4	0.4	0.3	0.8	2.6	-1.1	5.5	5.0	3.4	2.4	1.8	1.7	1.2

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

### B30 in 2020: Accelerating Indonesia's domestic palm oil consumption

At least six million MT of CPO was secured for Indonesia's B20 programme in 2019 and helped maintain domestic palm oil stockpile. Beyond B20, the government is planning to raise the blending of biodiesel to B30 or even B100. This is to prepare for potential demand shortfall from EU due to the revised Renewable Energy Directive (RED II) and to combat the national current account deficit (CAD).

With the availability of installed capacity and subsidy via the CPO fund, execution and government support via enforcement remain key. The key thing to watch in 2020 is the government's commitment in this programme. CPO prices have rebounded to above US\$550 per MT and its premium vs crude oil is already widening.

Based on Indonesia's CY20 forecast palm oil export volume of 25.9m MT (i.e. c. 76% of which is RBD Olein), we estimate a collection of US\$904m in export levies by the Indonesian Oil Palm Estate Fund Administrator (BPDP or CPO fund). The proceeds are available to subsidise the difference between the prices of biodiesel (based on a fixed formula of domestic CPO price + US\$125) and imported diesel. Based on our revised forecasts, this difference should only average US\$65/MT this year (the higher the crude oil price, the lower the subsidy and vice versa), mainly on higher CPO prices. Crude oil price forecast is maintained.

Including non-subsidised biodiesel output, we forecast Indonesia to produce 6.7m KL of biodiesel with an estimated CPO absorption of 6.5m MT, flat y-o-y. We conservatively anticipate that Indonesia exports its palm oil to overseas markets to satisfy demand. With palm oil consumption for

biodiesel at above 7.0m MT, Indonesia needs to cut its export market. In conclusion, we believe the biodiesel programme protects against downside on CPO prices.

A breakdown of our estimates is presented below:

### Estimated CPO fund proceeds, subsidised diesel spread and biodiesel production

Indonesia biodiesel mandate estimates	2014	2015	2016	2017	2018	2019F	2020F	2021F	2022F	2023F	2024F	2025F
CPO price forecast (US\$/MT, FOB)	738.3	560	640	645	575	500	596	617	622	624	666	682
Domestic CPO price (net of export levy) (US\$/MT)		510	590	595	525	450	546	567	572	574	616	632
Biodiesel price (dom. CPO px + US\$125) (US\$/MT)		635	715	720	650	575	671	692	697	699	741	757
Crude oil price - Brent (US\$/bbl)		52	43	52	53	60	65	64	69	73	78	83
Gas oil price (US\$/MT)		450	392	452	464	513	550	545	576	609	644	679
Biodiesel & diesel fuel px-spread (subsidy needed) (US\$/MT)		185	323	268	186	62	121	147	121	90	97	78
CPO export vol. subject to levy (m MT)		3.4	5.6	6.3	6.6	6.6	6.3	5.8	5.1	4.2	3.3	2.2
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	329	316	289	256	210	164	112
Olein export vol. subject to levy (m MT)		9.8	17.2	19.7	20.5	20.4	19.6	17.9	15.9	13.0	10.1	6.9
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	611	588	536	477	390	304	208
Export levies collected (US\$ m)		464	794	907	944	940	904	825	733	600	468	320
How much biodiesel can be produced (m MT)		0.600	2.454	3.383	5.075	15.098	7.452	5.626	6.052	6.646	4.831	4.106
How much biodiesel can be produced (m kl)		0.620	2.535	3.494	4.151	15.594	7.697	5.810	6.250	6.864	4.990	4.241
% effective blend		2%	10%	13%	15%	57%	28%	21%	23%	25%	18%	15%

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	2018	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	3,494	4,151	7,017	6,542	6,391	6,250	6,864	4,990	4,241
implied blend	6%	3%	9%	13%	15%	26%	24%	23%	23%	25%	18%	15%
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	4,296	7,162	6,687	6,537	6,396	7,011	5,137	4,389
growth	7%	-61%	149%	7%	37%	67%	-7%	-2%	-2%	10%	-27%	-15%
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%	40%	41%	56%	94%	88%	86%	84%	92%	67%	58%
Indonesia palm oil production (MT)	31,400,000	33,400,000	31,800,000	36,004,151	41,023,000	39,228,663	39,549,011	38,786,980	37,787,360	35,770,717	33,950,342	31,872,288
growth	9%	6%	-5%	13%	14%	-4%	1%	-2%	-3%	-5%	-5%	-6%
Palm oil required for biodiesel production (MT)	2,904,725	1,142,525	2,843,600	3,030,596	4,159,109	6,934,648	6,475,082	6,329,473	6,193,341	6,788,422	4,973,733	4,249,427
% 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	10,869,604	14,014,220	13,944,031	14,209,214	14,506,467	15,558,770	14,226,450	14,011,044
growth	6%	-18%	29%	4%	16%	29%	-1%	2%	2%	7%	-9%	-2%
Indonesia palm oil available for exports (MT)	22,807,000	26,373,000	22,750,000	26,612,896	30,153,396	25,214,442	25,604,981	24,577,766	23,280,892	20,211,947	19,723,892	17,861,245
growth	11%	16%	-14%	17%	13%	-16%	2%	-4%	-5%	-13%	-2%	-9%

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



## Malaysia's biodiesel demand projections

Malaysia	2014	2015	2016	2017	2018	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
<b>Total biodiesel produced (m litres)</b>	<b>451</b>	<b>550</b>	<b>697</b>	<b>784</b>	<b>878</b>	<b>914</b>	<b>952</b>	<b>992</b>	<b>1,033</b>	<b>1,076</b>	<b>1,121</b>	<b>1,169</b>
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%
<b>Total domestic palm oil consumption (MT)</b>	<b>2,818,000</b>	<b>2,917,000</b>	<b>2,732,893</b>	<b>2,920,054</b>	<b>3,119,767</b>	<b>3,268,299</b>	<b>3,424,083</b>	<b>3,587,472</b>	<b>3,758,839</b>	<b>3,938,575</b>	<b>4,127,089</b>	<b>4,324,809</b>
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

## Soybean oil prices allow CPO prices to increase

## Improved demand

The longer-than-expected effects of the trade war, order cancellations and uncertainties have impacted soybean prices in 2019. We expect demand to gradually recover in 2020. Since 2018, there have been cargo-related chaos resulting from the trade war but this has settled down.

Soybean prices gained traction in October-November with positive demand. We revise upward our soybean price forecast this year on demand recovery in 2020, due to higher-than-expected soybean crop yield this year.

## Weak soybean planting appetite to continue

We retain our forecast global soybean production growth of 2% y-o-y to 363m MT in 2020. We believe that new appetite for planting will be affected by low prices and the trade war. Our Argentina and Brazil soybean output forecasts are 59m MT and 110m MT respectively, to account for the higher-than-expected output from producers in the southern

hemisphere post trade war in 2018, due to expected demand growth for ex. US soybean.

## Demand capped by China, but expected to hold steady

We forecast global soybean demand to reach 365 MT, which is still largely in line with Oil World's forecast, albeit lower than the previous forecast of 362m MT. World soybean crushing is expected to expand 4% y-o-y driven by diversified global demand and positive developments over the ASF epidemic.

Based on adjusted supply and demand, we have adjusted upward our CY20F/21F soybean prices (USD/MT, FOB basis) by 6%/3% to US\$330/ US\$340 per MT. This is mainly driven by a c.2% y-o-y expansion in global soybean output, coupled with 4% y-o-y demand acceleration in CY20. Likewise, we revised CY19F/20F soybean oil prices (USD/MT, FOB basis) by 6%/3% to US\$706/US\$727 per MT, premised on higher soybean prices forecast on tightening soy oil market led by China's demand recovery.

### Soybean supply and demand forecasts

	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	328,360	337,380	26.9%	51.6	2017F	352	88,280	328,360	337,380	26.9%	51.6
2018F	330	96,420	343,030	350,437	28.1%	56.7	2018F	330	96,420	343,030	350,437	28.1%	56.7
2019F	294	102,507	350,186	356,274	29.3%	60.4	2019F	294	102,507	350,186	356,274	29.3%	60.4
2020F	330	102,534	363,530	363,556	28.2%	65.0	2020F	311	103,528	362,535	363,556	28.6%	73.0
2021F	340	104,925	375,614	378,005	27.9%	65.0	2021F	330	106,948	374,586	378,005	28.6%	78.0
2025F	384	118,219	419,603	424,101	28.2%	65.0	2025F	384	124,661	418,455	424,101	29.8%	83.0
2026F	384	119,463	426,879	428,123	28.0%	65.0	2026F	384	127,073	425,711	428,123	29.8%	65.0
2027F	384	117,797	434,180	432,515	27.1%	65.0	2027F	384	126,596	432,992	432,515	29.2%	65.0
2028F	384	113,857	441,234	437,293	25.8%	65.0	2028F	384	123,863	440,026	437,293	28.1%	65.0
2029F	384	106,914	448,946	442,004	23.8%	65.0	2029F	384	118,149	447,718	442,004	26.4%	65.0
2030F	384	96,853	456,794	446,732	21.2%	65.0	2030F	384	109,338	455,544	446,732	24.0%	65.0

Source: USDA, Oil World, DBS Bank estimates

### Tightening supply and demand on the horizon

Amid a positive export trend, palm oil output is entering its low production period in the first semester of 2020. This has prompted us to raise our CPO price forecast with prices likely to stay strong in 1Q20. Considering current soybean prices, we expect CPO prices to stay above US\$540 per MT. This leads to a 10% upward revision in our average benchmark price for CY20, in tandem with soybean prices.

In our view, palm oil's downside risks at this range appear minimal, as output expansion opportunities from CY20 onwards are limited. On the demand side, India, China and the EU will provide demand support, thanks to a positive import outlook on palm oil affordability vs other edible oils. Indonesia should provide a strong cushion in case overseas demand dissipates.

### Long-term view: Structurally tight supply/demand in 2020

#### Limited land for output expansion

Despite the short-term hiccup of soft commodity prices, we see long-term upside for our CPO price forecasts. This is given the tighter-than-expected inventory from 2020 onwards on the back of growing demand but limited potential for structural output expansion. 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 see diminishing palm oil output in the long term unless serious efforts are taken to mitigate this risk in the face of rising demand.

### Diminishing feasibility for new planting/greenfield projects

New planting programmes are not feasible at CPO prices of US\$500 per MT. Amid rising land cost and plant cultivation standards to comply with strict sustainability requirements, new planting has become less attractive for both existing players and new entrants.

### Consolidation underway

The challenges of growing and staying profitable may lead to industry consolidation. Bigger planters have started to consider acquiring smaller and struggling palm oil estates to unlock value. Indonesian estates are also searching for land. Plantations with strong balance sheets and cash flows may emerge as winners in the industry over the next several years.

### Upside risk to long-term CPO prices; demand to sustain; affordability is key

Replacing demand for CPO in consumer products would be a huge challenge, given CPO's affordability and availability. It has special characteristics with regards to a balanced fat composition, carotenoid and Vitamin E. Despite some of the negative perceptions on CPO, it remains a viable option. Further upside may come when the biodiesel project kicks in. At current crude oil price levels, we see no additional incentives required to boost biodiesel production.

The supply and demand for other edible oils will also 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 sustainability 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.

### Key risks

**Weather.** Weather is the key short-term upside risk to our forecasts. The weather will impact soybean planting and harvesting in the US and South America and may also affect productivity of oil palm trees.

**Trade war.** The trade war has sparked fears about prospects of China's soybean imports and affected sentiment on soybean prices. Unless China can import soybeans from elsewhere, negative sentiment which affects US soybean futures contracts

will also affect soybean spot prices across the globe. Low soybean prices will pressure CPO prices.

**Government policies.** Shifting of government policies such as import band or quota may affect future palm oil demand. Current palm oil demand and prices have already accounted for the EU RED II, although its material impact on demand will only be seen in the next decade.

**Indonesia's biodiesel programme.** Delivery of the B30 programme is an upside risk to our price forecast. We assume only 6.2m MT of palm oil absorption in 2020, while full implementation of the programme could absorb up to 8m MT.

### Regional peers' comparison

	Est. land bank (ha.)	19F own mat. (ha.)	20F own planted (ha.)	Share price 9-December-2019	Market cap (m)	Adjusted plantation EV (m)	Adjusted 19F EV/planted (own)	Adjusted 20F EV/mature (own)	CY PER, x 19F 20F	FY Div. yield, % 19F 20F	EPS growth (inc. BA gains), % 19F 20F	FY Net gearing, % 19F 20F	FY EV/ EBITDA, x 19F 20F	18-20F own FFB vol CAGR %	18-20F EPS CAGR %	12-month target price	Basis
Indonesia																	
Astra Agro L.	n/a	220,768	236,311	Rp	13,575 US\$	1,864 US\$	2,275 US\$	9,627 US\$	10,305	41.1 32.6	2.5 1.1	-56 26	11 6	8.2 9.7	2.3	(25.4)	H Rp 12,500 DCF
London Sum.*	215,917	87,480	97,032	Rp	1,430 US\$	696 US\$	610 US\$	6,289 US\$	6,976	89.7 30.2	1.4 0.5	-67 197	NC NC	23.4 20.7	2.7	(1.3)	FV Rp 1,180 DCF
Simple avg					US\$ 2,560		US\$ 7,958	US\$ 8,640	65.4 31.4				15.8 15.2				
Malaysia																	
Felda Global V.	355,864	284,318	338,161	RM	1.32 US\$	1,158 US\$	2,802 US\$	8,286 US\$	9,855 #####	15.8 0.8 0.8	NM NM	115 118	85.5 9.5	8.6	9.5	B RM 1.80 DCF	
Genting Plant.	150,912	115,922	151,052	RM	10.40 US\$	2,244 US\$	2,440 US\$	16,152 US\$	21,046 70.8	31.6 0.7 0.5	-27 124	38 38	26.1 19.1	7.7	(36.6)	H RM 9.60 SOP	
IOI Corp**	220,593	158,615	178,162	RM	4.48 US\$	6,770 US\$	5,838 US\$	32,770 US\$	36,808 35.8	60.0 4.6 1.7	-79 48	24 29	15.3 17.9	2.7	10.6	H RM 4.65 DCF	
KL Kepong	245,905	189,840	224,712	RM	24.16 US\$	6,186 US\$	5,244 US\$	23,338 US\$	27,626 39.1	38.0 2.1 1.1	-23 56	25 24	16.1 15.5	7.4	(14.6)	B RM 27.00 DCF	
SD Plant.	647,373	492,869	599,992	RM	5.28 US\$	8,740 US\$	10,040 US\$	16,734 US\$	20,371 72.3	103.3 3.3 0.4	-83 133	36 35	13.8 16.3	1.2	11.3	H RM 5.45 SOP	
TSH Res.	82,841	34,465	44,193	RM	1.33 US\$	441 US\$	666 US\$	15,070 US\$	19,324 63.4	22.9 0.9 0.4	-56 177	93 87	15.9 12.3	9.1	17.8	B RM 1.60 DCF	
Simple avg					US\$ 25,539		US\$ 18,725	US\$ 22,505	21.2 45.3				28.8 15.1				
Singapore																	
Bumitama A.	191,561	116,040	134,531	S\$	0.73 US\$	932 US\$	1,409 US\$	10,476 US\$	12,145 20.4	15.2 4.3 3.7	-46 34	54 47	8.5 9.7	7.5	(14.6)	B S\$ 0.81 DCF	
First Resources	312,488	168,927	184,072	S\$	1.79 US\$	2,084 US\$	2,352 US\$	12,779 US\$	13,925 23.4	13.6 3.9 1.5	-28 72	15 5	9.1 7.2	7.5	11.3	B S\$ 2.10 DCF	
Indofood Agri*	541,224	208,836	249,267	S\$	0.33 US\$	339 US\$	683 US\$	2,740 US\$	3,270 85.6	26.4 0.0 0.0	NM NM	45 48	11.1 9.3	1.9	n.a	H S\$ 0.29 DCF	
Wilmar Int'l	573,401	218,707	249,935	S\$	4.14 US\$	19,279 US\$	1,915 US\$	7,661 US\$	8,755 17.4	15.4 2.3 2.2	-4 13	88 89	13.1 12.7	1.6	4.3	B S\$ 4.60 DCF	
Simple avg					US\$ 24,693		US\$ 9,348	US\$ 10,192	31.8 15.9				9.6 8.8				

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

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

## Company Guides

# Indonesia Company Guide

## Astra Agro Lestari

Version 16 | Bloomberg: AALI JJ | Reuters: AALI.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Dec 2019

### HOLD

Last Traded Price ( 9 Dec 2019): Rp13,700 (JCI : 6,194.00)  
Price Target 12-mth: Rp12,500 (-9% downside) (Prev Rp10,400)

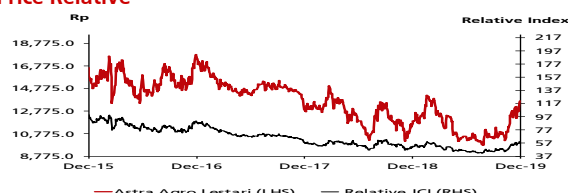
#### Analyst

William Simadiputra +62 2130034939 williamsima@db.com

#### What's New

- Higher CPO prices to drive earnings in 2020
- Rp500bn more needed to achieve our FY19 earnings forecast
- External fruit prices remain the key swing factor for AALI's future earnings
- Maintain HOLD with higher TP of Rp12,500

#### Price Relative



#### Forecasts and Valuation

FY Dec (Rpbn)	2018A	2019F	2020F	2021F
Revenue	19,084	15,982	18,034	19,946
EBITDA	3,659	2,474	2,873	3,187
Pre-tax Profit	2,207	946	1,194	1,812
Net Profit	1,439	635	801	1,217
Net Pft (Pre Ex.)	1,439	635	801	1,217
Net Pft Gth (Pre-ex) (%)	(28.4)	(55.8)	26.2	51.8
EPS (Rp)	747	330	416	632
EPS Pre Ex. (Rp)	747	330	416	632
EPS Gth Pre Ex (%)	(28)	(56)	26	52
Diluted EPS (Rp)	913	403	509	773
Net DPS (Rp)	477	341	151	190
BV Per Share (Rp)	9,866	9,855	10,121	10,563
PE (X)	18.3	41.5	32.9	21.7
PE Pre Ex. (X)	18.3	41.5	32.9	21.7
P/Cash Flow (X)	15.5	8.2	12.8	11.3
EV/EBITDA (X)	8.3	11.7	9.8	8.5
Net Div Yield (%)	3.5	2.5	1.1	1.4
P/Book Value (X)	1.4	1.4	1.4	1.3
Net Debt/Equity (X)	0.2	0.1	0.1	0.0
ROAE (%)	7.8	3.3	4.2	6.1
Earnings Rev (%)		0	15	(17)
Consensus EPS (Rp):		453	701	892
Other Broker Recs:		B: 12	S: 0	H: 4

Source of all data on this page: Company, DBSVI, Bloomberg

Finance L.P

### Swinging on external fruit prices

**Revised 2020 earnings forecast on higher CPO prices.** We revise our earnings forecast upward 15% for 2020 mainly on higher crude palm oil (CPO) price. We expect earnings to jump by 26.2% y-o-y to Rp801bn, before increasing further by 52% y-o-y to Rp1.2tr in 2021. Our new 2021 earnings forecast is 17% lower than the previous one. This is due to expectation of an increase in external fruit price which accounts for more than 50% of Astra Agro Lestari's (AALI) total processed fruits.

**Where we differ: Valuation still unattractive.** We prefer to wait for AALI's earnings to rebound more convincingly, likely driven by higher CPO and soybean prices in 4Q19 and 2020, before revisiting our rating and TP. Its current valuation of 30.0x FY20 price-to-earnings (PE) is at a premium to its Singapore-listed peers by 40%. 9M19 net profit after tax & minority interest (NPATMI) reached only Rp110bn. It needs another Rp500bn to achieve our 2019 earnings forecast.

**Yield recovery, steady profitability are positives for share price.** We believe that AALI's share price will react positively to its improving profitability on the back of its strong operational performance, coupled with CPO yield expansion.

#### Valuation:

We employed discounted cash flow (DCF) methodology (FY20F base year) to arrive at a target price (TP) of Rp12,500/share (weighted average cost of capital (WACC) 12.0%, terminal growth (TG) 3%). Our DCF-based TP, which assumes a performance recovery beyond 2019, implies an FY20 PE of 30x.

#### 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)	26,368 / 1,883
Major Shareholders (%)	
PT Astra International Tbk	79.7
Free Float (%)	20.3
3m Avg. Daily Val (US\$m)	0.78

**GIC Industry :** Consumer Staples / Agricultural Products

Bloomberg ESG disclosure score (2017)^	26.9
- Environmental / Social / Governance	14.7 / 28.1 / 53.6

[^ refer to back page for more information](#)



## 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 (free on board (FOB) Pasir Gudang) to average US\$596/MT (+19% y-o-y) in CY19 and US\$617/MT in CY20 (+3.5% y-o-y). CPO price movements are also key drivers for the share price (see next page, Appendix section).

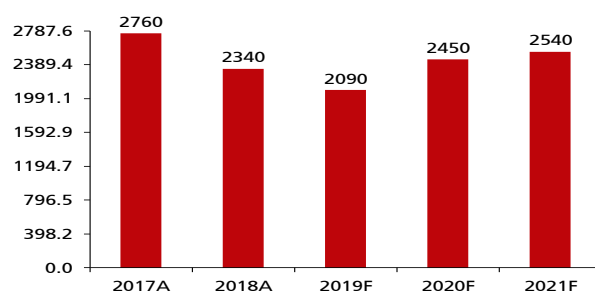
**Trees profile, yield enhancement programme.** As at end-December 2018, AALI's trees were estimated to have an average age of 19 years. AALI will continue to implement its yield-enhancement programme to maximise yields of relatively older trees.

**CPO volume growth.** Despite the lack of aggressive expansion since 2012, AALI'S fresh fruit bunches (FFB) expanded at a compound annual growth rate (CAGR) of 2% in FY19-22F on the back of recovering yields. We imputed 2% y-o-y nucleus FFB output growth in FY20F, mainly from a high base last year in the wake of a 2016 output recovery from El Nino. To maximise its CPO processing mill, AALI purchases up to 40%-50% of its processed fruits from third-party planters.

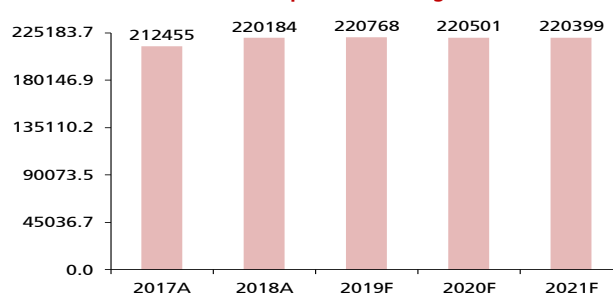
**CPO yield expansion, mechanisation programme.** We are expecting CPO yield to expand steadily from 4.3MT/ha in 2017 to 4.6MT/ha in 2019 on maturing estates and AALI's yield-enhancement programme. Relative to other oil crops, palm oil has the highest productivity per hectare at 5 MT/ha, while soybean 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.

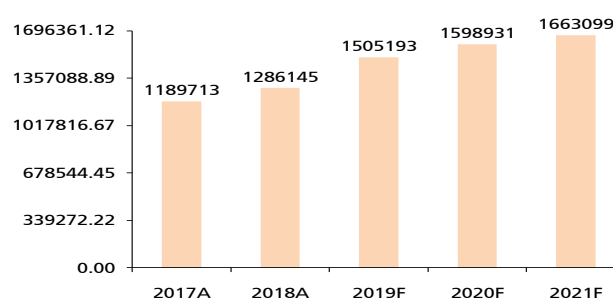
CPO price (RM/MT)



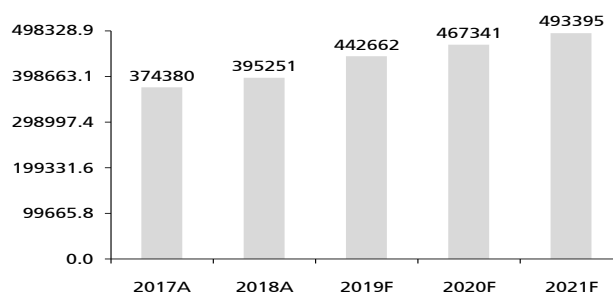
Mature oil palm hectareage



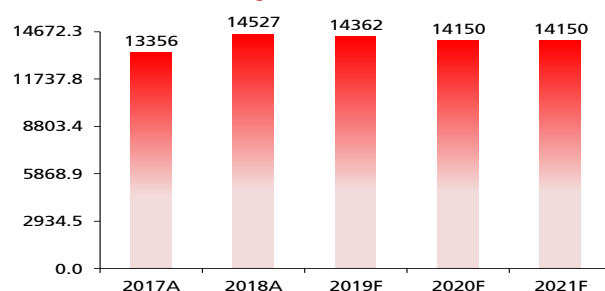
CPO sales volume (MT)



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 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:

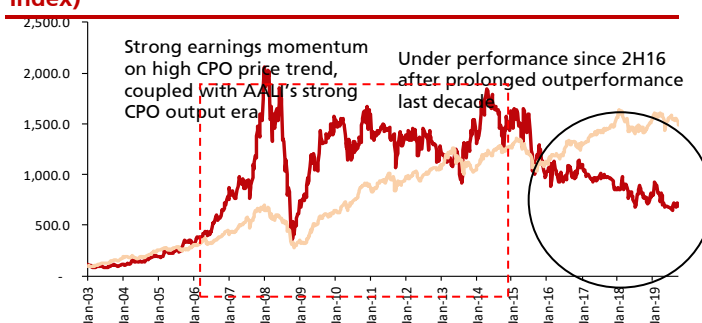
1. Outperformance during August 2009-April 2010, due to better-than-expected CPO yields.
2. Conversely, underperformance from September 2015 to now as yields have not fully recovered from the El Nino climate change in 2015.

Indonesia-listed CPO planters AALI and London Sumatra Indonesia (LSIP) saw their share prices 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 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 to JCI (Jakarta Composite Index)



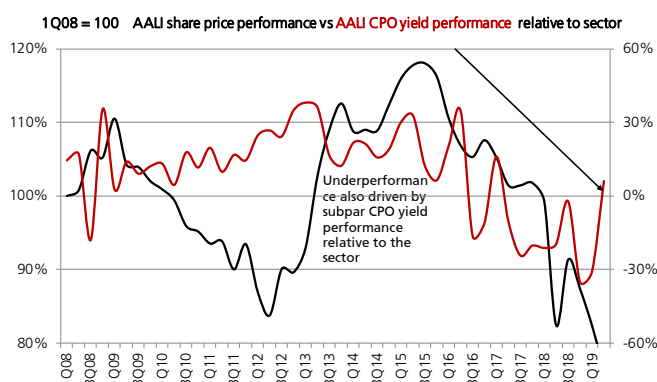
Source: Bloomberg Finance L.P., DBSVI

### Stock performance vs CPO price



Source: Bloomberg Finance L.P., DBSVI

### Stock performance relative to yield outperformance



**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, as well as to build its downstream business. As at end-September 2019, the group's net debt-to-total equity ratio was 29% (vs 24% at end-September 2018).

**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) prices, as well as AALI's internal efficiency programme which will keep AALI's operational costs low.

**Key Risks:**

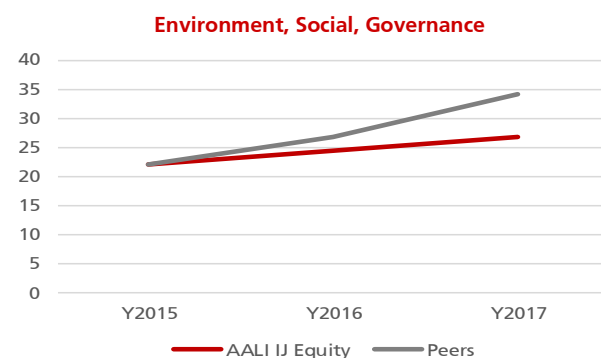
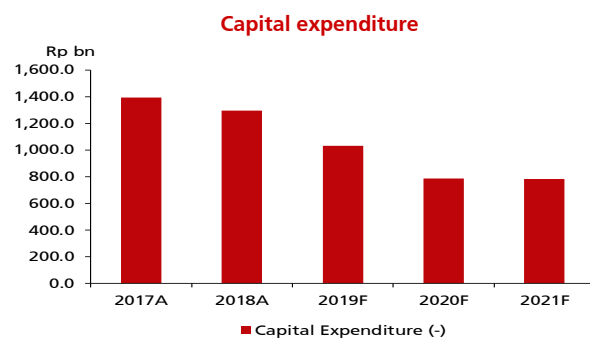
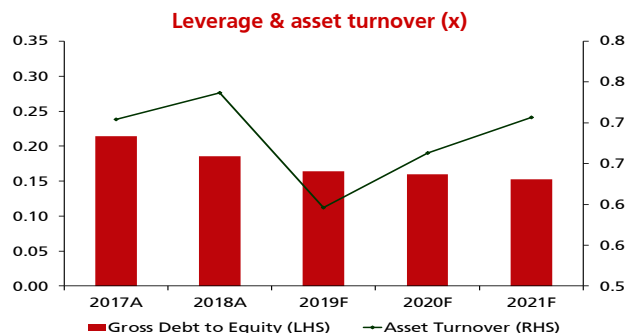
**Volatility in CPO prices, USD exchange rates.** Continued strength of CPO prices may lead to better-than-expected earnings, while lower energy prices from the expansion of US shale gas production would have an adverse impact on demand for vegetable oils for biofuels. Likewise, volatility in the US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

**Environmental, Social, Governance (ESG):**

AALI made great strides in 2017 in improving its ESG scores vis-à-vis 2015 and 2016. It has made good progress in rolling out sustainability initiatives such as having a zero-burning policy in conducting plantation activities, ensuring good and fair labour relationships, and embracing forest conservation. In comparison, AALI's peers seem to have achieved greater ESG progress, as evidenced by their slightly higher ESG scores.

**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	2017A	2018A	2019F	2020F	2021F
CPO price (RM/MT)	2,760	2,340	2,090	2,450	2,540
Mature oil palm	212,455	220,184	220,768	220,501	220,399
CPO sales volume (MT)	1,189,713	1,286,145	1,505,193	1,598,931	1,663,099
Palm kernel sales vol. (MT)	374,380	395,251	442,662	467,341	493,395
Avg. USD/IDR rate	13,356	14,527	14,362	14,150	14,150

**Income Statement (Rpbn)**

FY Dec	2017A	2018A	2019F	2020F	2021F
Revenue	17,306	19,084	15,982	18,034	19,946
Cost of Goods Sold	(13,160)	(15,545)	(13,637)	(15,109)	(16,478)
<b>Gross Profit</b>	<b>4,145</b>	<b>3,540</b>	<b>2,346</b>	<b>2,926</b>	<b>3,468</b>
Other Opng (Exp)/Inc	(1,094)	(1,214)	(1,377)	(1,434)	(1,475)
<b>Operating Profit</b>	<b>3,051</b>	<b>2,326</b>	<b>969</b>	<b>1,492</b>	<b>1,994</b>
Other Non Opg (Exp)/Inc	(4.0)	80.0	161	0.0	(1.0)
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(108)	(199)	(184)	(298)	(180)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>2,939</b>	<b>2,207</b>	<b>946</b>	<b>1,194</b>	<b>1,812</b>
Tax	(825)	(686)	(265)	(334)	(507)
Minority Interest	(103)	(82.0)	(46.0)	(58.0)	(88.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>2,010</b>	<b>1,439</b>	<b>635</b>	<b>801</b>	<b>1,217</b>
Net Profit before Except.	2,010	1,439	635	801	1,217
EBITDA	4,245	3,659	2,474	2,873	3,187
<b>Growth</b>					
Revenue Gth (%)	22.5	10.3	(16.3)	12.8	10.6
EBITDA Gth (%)	24.9	(13.8)	(32.4)	16.2	10.9
Opg Profit Gth (%)	14.8	(23.8)	(58.3)	54.0	33.7
Net Profit Gth (Pre-ex) (%)	0.2	(28.4)	(55.8)	26.2	51.8
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	24.0	18.5	14.7	16.2	17.4
Opg Profit Margin (%)	17.6	12.2	6.1	8.3	10.0
Net Profit Margin (%)	11.6	7.5	4.0	4.4	6.1
ROAE (%)	11.4	7.8	3.3	4.2	6.1
ROA (%)	8.2	5.6	2.4	2.9	4.3
ROCE (%)	9.6	6.8	3.0	4.5	5.9
Div Payout Ratio (%)	52.0	63.8	103.4	36.2	30.1
Net Interest Cover (x)	28.1	11.7	5.3	5.0	11.1

Source: Company, DBSVI

## Quarterly / Interim Income Statement (Rpbn)

FY Dec	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019
Revenue	4,740	5,323	4,233	4,294	3,860
Cost of Goods Sold	(3,748)	(4,427)	(3,900)	(3,898)	(3,374)
<b>Gross Profit</b>	<b>992</b>	<b>896</b>	<b>333</b>	<b>396</b>	<b>486</b>
Other Oper. (Exp)/Inc	(309)	(340)	(299)	(287)	(279)
<b>Operating Profit</b>	<b>684</b>	<b>556</b>	<b>34.0</b>	<b>109</b>	<b>208</b>
Other Non Opg (Exp)/Inc	(55.0)	15.0	108	28.0	28.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(57.0)	(50.0)	(69.0)	(75.0)	(86.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>571</b>	<b>520</b>	<b>73.0</b>	<b>62.0</b>	<b>150</b>
Tax	(205)	(181)	(33.0)	(48.0)	(74.0)
Minority Interest	(27.0)	(24.0)	(2.0)	(7.0)	(8.0)
<b>Net Profit</b>	<b>340</b>	<b>315</b>	<b>37.0</b>	<b>6.00</b>	<b>67.0</b>
Net profit bef Except.	340	315	37.0	6.00	67.0
EBITDA	854	804	372	365	467

## Growth

Revenue Gth (%)	3.6	12.3	(20.5)	1.4	(10.1)
EBITDA Gth (%)	(3.1)	(5.8)	(53.7)	(1.8)	27.7
Opg Profit Gth (%)	10.2	(18.7)	(93.9)	223.6	90.1
Net Profit Gth (Pre-ex) (%)	(20.7)	(7.5)	(88.1)	(83.2)	970.6

## Margins

Gross Margins (%)	20.9	16.8	7.9	9.2	12.6
Opg Profit Margins (%)	14.4	10.4	0.8	2.5	5.4
Net Profit Margins (%)	7.2	5.9	0.9	0.1	1.7

## Balance Sheet (Rpbn)

FY Dec	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	10,152	10,216	10,011	9,536	9,260
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	10,537	12,140	12,185	12,248	12,295
Cash & ST Invts	262	49.0	1,092	1,975	3,059
Inventory	2,018	2,368	2,473	2,740	2,988
Debtors	548	617	48.0	54.0	60.0
Other Current Assets	1,418	1,467	950	1,071	1,185
<b>Total Assets</b>	<b>24,935</b>	<b>26,857</b>	<b>26,759</b>	<b>27,626</b>	<b>28,847</b>
ST Debt	600	0.0	200	200	200
Creditor	833	1,089	1,092	1,210	1,320
Other Current Liab	877	1,988	2,237	2,382	2,520
LT Debt	3,369	3,606	3,000	3,000	3,000
Other LT Liabilities	720	700	731	765	800
Shareholder's Equity	18,066	18,990	18,968	19,479	20,330
Minority Interests	470	485	531	589	677
<b>Total Cap. &amp; Liab.</b>	<b>24,935</b>	<b>26,857</b>	<b>26,759</b>	<b>27,626</b>	<b>28,847</b>
Non-Cash Wkg. Capital	2,274	1,375	141	273	394
Net Cash/(Debt)	(3,707)	(3,557)	(2,108)	(1,225)	(141)
Debtors Turn (avg days)	11.3	11.1	7.6	1.0	1.0
Creditors Turn (avg days)	27.0	24.5	32.4	30.6	30.2
Inventory Turn (avg days)	62.8	56.0	71.9	69.3	68.4
Asset Turnover (x)	0.7	0.7	0.6	0.7	0.7
Current Ratio (x)	1.8	1.5	1.3	1.5	1.8
Quick Ratio (x)	0.4	0.2	0.3	0.5	0.8
Net Debt/Equity (X)	0.2	0.2	0.1	0.1	0.0
Net Debt/Equity ex MI (X)	0.2	0.2	0.1	0.1	0.0
Capex to Debt (%)	35.1	35.9	32.3	24.6	24.4
Z-Score (X)	3.7	3.9	3.6	3.7	3.8

Source: Company, DBSVI

## Cash Flow Statement (Rpbn)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	2,939	2,207	946	1,194	1,812
Dep. & Amort.	1,198	1,253	1,344	1,382	1,195
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.	(869)	(1,265)	1,188	(178)	(167)
Other Operating CF	(774)	(496)	(265)	(334)	(507)
<b>Net Operating CF</b>	<b>2,494</b>	<b>1,699</b>	<b>3,213</b>	<b>2,063</b>	<b>2,332</b>
Capital Exp.(net)	(1,394)	(1,294)	(1,033)	(786)	(781)
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	(205)	(697)	(81.0)	(88.0)	(93.0)
<b>Net Investing CF</b>	<b>(1,599)</b>	<b>(1,991)</b>	<b>(1,114)</b>	<b>(874)</b>	<b>(874)</b>
Div Paid	(1,046)	(515)	(657)	(290)	(366)
Chg in Gross Debt	(123)	809	(381)	25.0	26.0
Capital Issues	(33.0)	0.0	0.0	0.0	0.0
Other Financing CF	39.0	(216)	(18.0)	(42.0)	(35.0)
<b>Net Financing CF</b>	<b>(1,164)</b>	<b>78.0</b>	<b>(1,057)</b>	<b>(306)</b>	<b>(375)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(269)	(213)	1,043	883	1,084
Opg CFPS (Rp)	1,747	1,540	1,052	1,164	1,299
Free CFPS (Rp)	572	210	1,133	664	806

Source: Company, DBSVI

## Target Price &amp; 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:	26 Dec 18	11850	14150	BUY
2:	11 Jan 19	12425	14150	BUY
3:	11 Feb 19	13550	14150	BUY
4:	18 Feb 19	13750	14150	HOLD
5:	28 Feb 19	12400	14150	HOLD
6:	11 Mar 19	12450	14150	HOLD
7:	10 Apr 19	12275	14150	HOLD
8:	24 Apr 19	11200	10650	HOLD
9:	10 May 19	10500	10650	HOLD
10:	12 Jun 19	10325	10650	HOLD
11:	10 Jul 19	10500	10400	HOLD
12:	15 Jul 19	10175	10400	HOLD
13:	30 Jul 19	10025	10400	HOLD
14:	14 Aug 19	11175	10400	HOLD
15:	20 Aug 19	10400	10400	HOLD
16:	31 Oct 19	11425	10400	HOLD
17:	11 Nov 19	12775	10400	HOLD

Source: DBSVI

Analyst: William Simadiputra

# Indonesia Company Guide

## London Sumatra Indonesia

Version 21 | Bloomberg: LSIP IJ | Reuters: LSIP.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Dec 2019

### FULLY VALUED

Last Traded Price ( 6 Dec 2019): Rp1,430 (JCI : 6,186.90)  
Price Target 12-mth: Rp1,180 (-17% downside) (Prev Rp1,010)

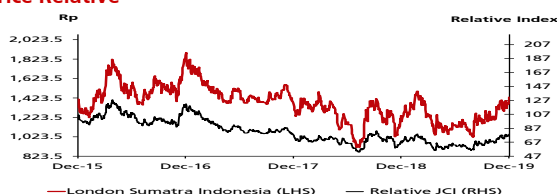
#### Analyst

William Simadiputra +62 2130034939 williamsima@db.com

### What's New

- Market priced in US\$650 per MT CPO price in 2020
- Consensus earnings forecast of above Rp400bn in 2020, double our estimates
- Bull case on expected price recovery
- Maintain FULLY VALUED with higher TP of Rp1,180

#### Price Relative



#### Forecasts and Valuation

FY Dec (Rpbn)	2018A	2019F	2020F	2021F
Revenue	4,020	3,867	4,335	4,548
EBITDA	346	73.3	341	407
Pre-tax Profit	417	145	430	515
Net Profit	331	109	323	387
Net Pft (Pre Ex.)	331	109	323	387
Net Pft Gth (Pre-ex) (%)	(56.6)	(67.2)	196.9	19.7
EPS (Rp)	48.6	15.9	47.3	56.7
EPS Pre Ex. (Rp)	48.6	15.9	47.3	56.7
EPS Gth Pre Ex (%)	(57)	(67)	197	20
Diluted EPS (Rp)	48.6	15.9	47.3	56.7
Net DPS (Rp)	18.0	19.7	6.46	19.2
BV Per Share (Rp)	1,221	1,215	1,256	1,294
PE (X)	29.4	89.7	30.2	25.2
PE Pre Ex. (X)	29.4	89.7	30.2	25.2
P/Cash Flow (X)	16.6	11.7	12.0	11.3
EV/EBITDA (X)	23.4	102.2	20.7	16.3
Net Div Yield (%)	1.3	1.4	0.5	1.3
P/Book Value (X)	1.2	1.2	1.1	1.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	4.0	1.3	3.8	4.4
Earnings Rev (%):		0	46	3
Consensus EPS (Rp):		48.3	72.2	79.3
Other Broker Recs:		B: 11	S: 1	H: 2

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

### Already ahead of the curve

**Strong stock price performance prompted us to keep our Fully Valued rating.** London Sumatra Indonesia's (LSIP) share price is highly correlated to crude palm oil (CPO) prices which are currently at spot market price of US\$650 per MT. Higher share prices will only be possible if CPO prices continue to rally in 2020. On the other hand, we believe that consensus earnings forecast is still too high considering LSIP's 2019 performance and industry's low output expansion next year. LSIP is trading at FY20 PE of 30x, which is premium vs. its regional peers 14x-18x, meanwhile share price already jumped 40% from 2019 low.

**Where we differ: Hard for CPO prices to hit US\$650 per MT; will be hard for LSIP's share price to breach Rp1,500.** The outlook for higher CPO prices has been well priced into LSIP's share price. Further price upside beyond US\$650 per MT in 2020 is likely limited due to; 1) reintroduction of export levies, 2) more expensive B30 demand 3) narrowing spread over soybean oil price. We believe that there are limited catalysts for LSIP's share price in 2020.

**Potential catalysts: Steady CPO price to drive earnings and dividend payment.** LSIP is a pure play on CPO prices. A 1% change in CPO prices will translate into a 4% earnings movement.

#### Valuation:

We have employed discounted cash flow (DCF) methodology to arrive at a fair value of Rp1,180/share (weighted average cost of capital (WACC) 12.9%; terminal growth (TG) 3%). Our target price (TP) implies an FY20 price-to-earnings (PE) of 25x.

#### Key Risks to Our View:

**CPO prices.** Stronger-than-expected average CPO prices of above US\$596 per MT (RM2,450 per MT) may lift LSIP's earnings above our 2020 earnings forecast of Rp323bn (+196% y-o-y)

#### At A Glance

Issued Capital (m shrs)	6,823
Mkt. Cap (Rpbn/US\$m)	9,757 / 696
Major Shareholders (%)	
Salim Ivomas Pratama (%)	59.5
Free Float (%)	40.5
3m Avg. Daily Val (US\$m)	1.1
<b>GIC Industry</b> : Consumer Staples / Agricultural Products	

Bloomberg ESG disclosure score (2017) <sup>^</sup>	33.9
- Environmental / Social / Governance	19.4 / 43.9 / 57.1

[^ refer to back page for more information](#)



Live more, Bank less



## CRITICAL DATA POINTS TO WATCH

## 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 a direct impact on the group's profitability. We currently expect CPO prices (free on board (FOB) Pasir Gudang) to average US\$596/MT (+19% y-o-y) in CY20 and US\$617/MT in CY21 (+4% y-o-y). CPO price movements are also key drivers for share price.

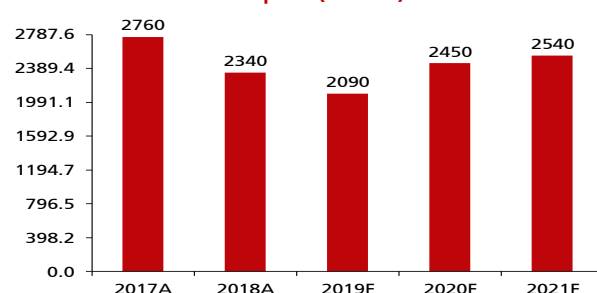
**Trees profile: Prime age.** As at end-December 2018, LSIP's trees were estimated to have an average age of 16 years. Approximately 1,100ha will mature in FY18F through FY19F – representing 2% of its own mature hectares at the end of FY16 – but not enough to keep its trees' average age from rising towards 17 years by end- FY19F.

**CPO volume growth driven by nucleus estates.** Due to the lack of aggressive expansion since 2009, we expect LSIP's fresh fruit bunches (FFB) to expand at a compound annual growth rate (CAGR) of 2% in FY19-22F. We previously imputed 4% y-o-y higher FY19F nucleus FFB output, mainly on yield expansion from its newly maturing trees.

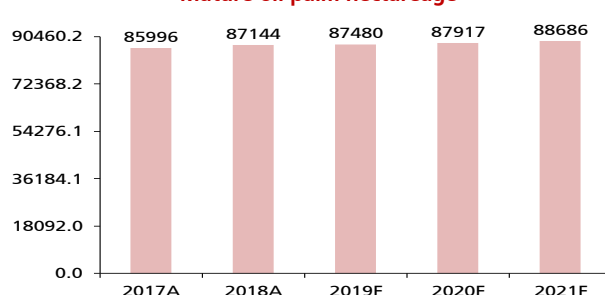
**CPO yield expansion supports profitability.** We are expecting LSIP's CPO yield to expand steadily from 4.0MT/ha in 2019 to 4.2MT/ha in 2022 on maturing estates. Relative to other oil crops, palm oil has the highest productivity per hectare at 5 MT/ha while soybean oil is typically at 0.5 MT/ha. CPO yield also reflects 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 remainder is sold locally. LSIP sells its CPO under the spot-pricing mechanism. While the group is not subject to biodiesel export levies on all of its CPO sales volume, local average selling price (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.

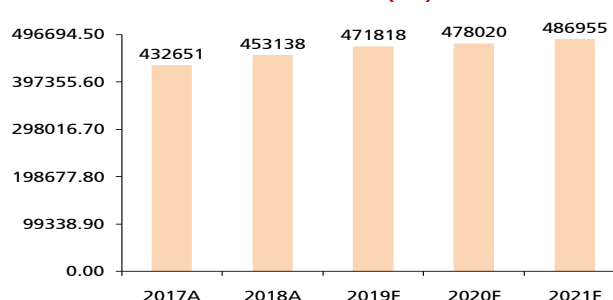
CPO price (RM/MT)



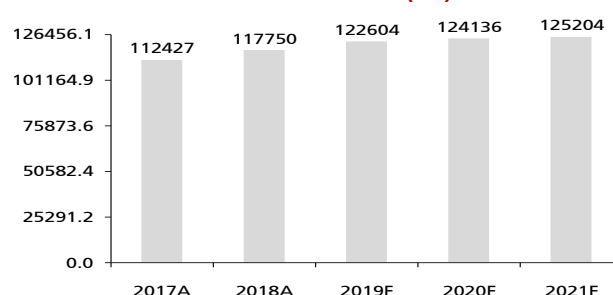
Mature oil palm hectareage



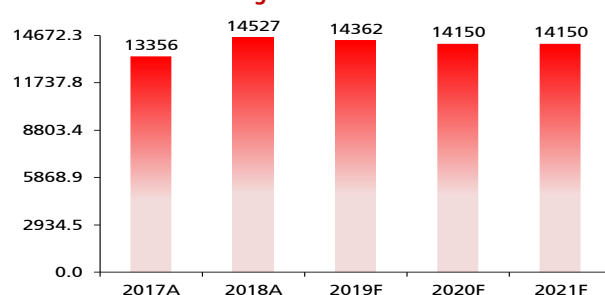
CPO sales volume (MT)



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:

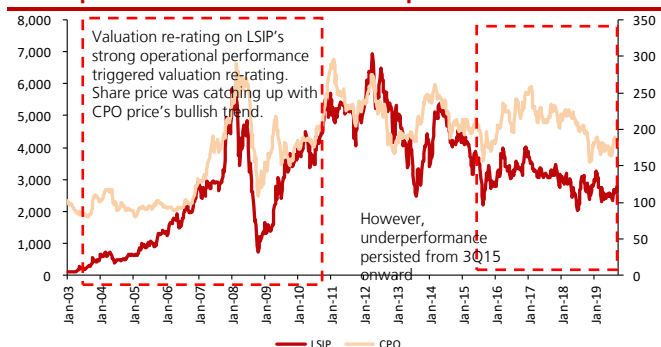
1. Outperformance during August 2009-April 2010, due to better-than-expected CPO yields.
2. Conversely, underperformance from September 2015 to present time as yields have not fully recovered from since El Nino hit in 2015.

Indonesia-listed CPO planters AALI and LSIP saw their share prices mirror 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 stock's outperformance vs sector will only happen if LSIP implements better estate management that results 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 margin and better earnings.

#### Stock performance relative to CPO price



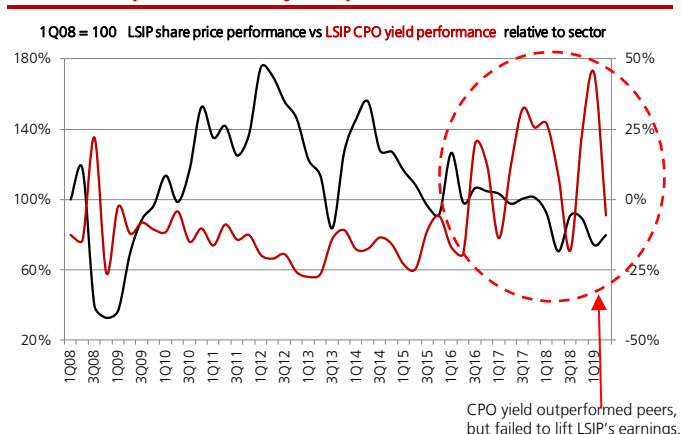
Source: Bloomberg Finance L.P., DBSVI

#### Stock performance relative to JCI index



Source: Bloomberg Finance L.P., DBSVI

#### LSIP share price vs. CPO yield performance



## London Sumatra Indonesia

### Balance Sheet:

**Strong net cash.** As at end-September 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-September 2018, the group's 4-quarter rolling cash conversion cycle stood at 54 days, up from 52 days in June 2018 on higher inventory days.

**Headroom for leverage.** 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 return on equity (ROE).

### Share Price Drivers:

**Due for re-rating.** The stock is currently trading around -1SD (standard deviation) of its 5-year average PE, rebounding from its 4-year low in 3Q18. Although no massive expansion is expected, we believe the market has yet to fully appreciate its strong production outlook, balance sheet and free cash flow 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 the US Dollar (USD) would affect the profitability of planters in general.

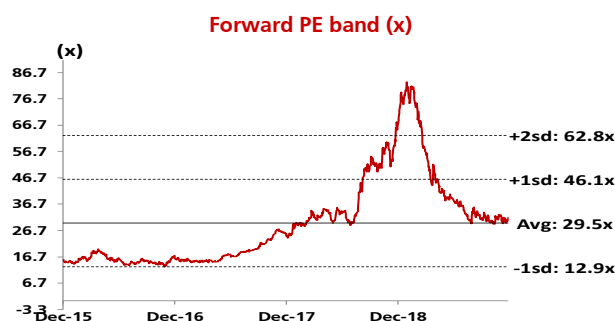
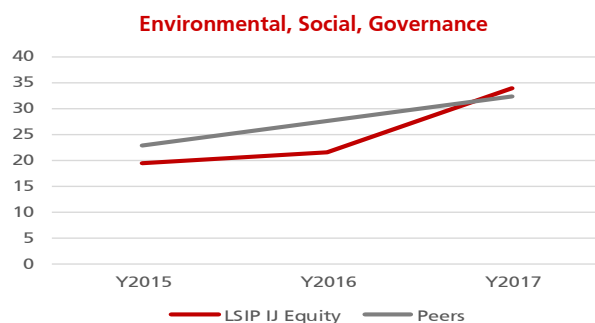
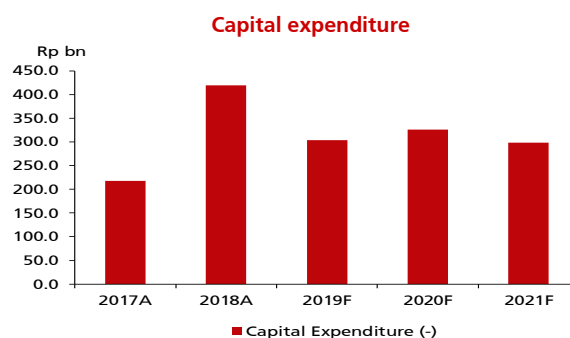
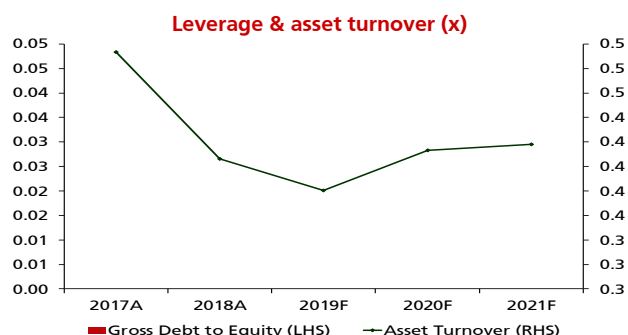
**Setback in expansion plans.** Our forecasts are based on assumptions of new hectareage for planting/replanting. Any setbacks on these plans would negatively affect our valuation due to slower volume growth.

### Environmental, Social, Governance:

LSIP's environmental, social, and governance (ESG) scores have improved since 2015, from below its peers' levels to slightly above its peers in 2017. This improvement was attributed to LSIP's commitment to implementing the best planting practices and improving its corporate governance standards.

### 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	2017A	2018A	2019F	2020F	2021F
CPO price (RM/MT)	2,760	2,340	2,090	2,450	2,540
Mature oil palm	85,996	87,145	87,480	87,917	88,687
CPO sales volume (MT)	432,652	453,138	471,818	478,020	486,955
Palm kernel sales vol. (MT)	112,427	117,750	122,605	124,136	125,204
Avg. USD/IDR rate	13,356	14,527	14,362	14,150	14,150

**Income Statement (Rpbn)**

FY Dec	2017A	2018A	2019F	2020F	2021F
Revenue	4,738	4,020	3,867	4,335	4,548
Cost of Goods Sold	(3,395)	(3,337)	(3,491)	(3,668)	(3,811)
<b>Gross Profit</b>	<b>1,343</b>	<b>683</b>	<b>376</b>	<b>667</b>	<b>737</b>
Other Opng (Exp)/Inc	(384)	(328)	(294)	(318)	(324)
<b>Operating Profit</b>	<b>958</b>	<b>355</b>	<b>81.3</b>	<b>348</b>	<b>413</b>
Other Non Opg (Exp)/Inc	(8.9)	(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	56.7	70.7	71.5	89.0	108
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>1,006</b>	<b>417</b>	<b>145</b>	<b>430</b>	<b>515</b>
Tax	(243)	(87.6)	(36.2)	(108)	(129)
Minority Interest	(0.1)	1.90	0.20	0.60	0.70
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>763</b>	<b>331</b>	<b>109</b>	<b>323</b>	<b>387</b>
Net Profit before Except.	763	331	109	323	387
EBITDA	950	346	73.3	341	407
<b>Growth</b>					
Revenue Gth (%)	23.1	(15.2)	(3.8)	12.1	4.9
EBITDA Gth (%)	26.4	(63.5)	(78.8)	364.9	19.3
Opg Profit Gth (%)	18.2	(62.9)	(77.1)	328.1	18.7
Net Profit Gth (Pre-ex) (%)	28.5	(56.6)	(67.2)	196.9	19.7
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	28.3	17.0	9.7	15.4	16.2
Opg Profit Margin (%)	20.2	8.8	2.1	8.0	9.1
Net Profit Margin (%)	16.1	8.2	2.8	7.5	8.5
ROAE (%)	9.7	4.0	1.3	3.8	4.4
ROA (%)	8.0	3.4	1.1	3.1	3.6
ROCE (%)	8.1	3.0	0.6	2.7	3.1
Div Payout Ratio (%)	39.4	37.0	123.3	13.6	33.8
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBSVI

## Quarterly / Interim Income Statement (Rpbn)

FY Dec	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019
Revenue	1,111	1,146	928	668	990
Cost of Goods Sold	(916)	(1,054)	(792)	(628)	(872)
<b>Gross Profit</b>	<b>195</b>	<b>92.1</b>	<b>136</b>	<b>40.0</b>	<b>118</b>
Other Oper. (Exp)/Inc	(58.5)	(173)	(105)	(89.4)	(64.1)
<b>Operating Profit</b>	<b>137</b>	<b>(80.6)</b>	<b>30.9</b>	<b>(49.4)</b>	<b>53.9</b>
Other Non Opg (Exp)/Inc	1.30	34.4	0.30	(0.4)	(3.6)
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	14.9	19.7	19.0	17.5	14.6
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>153</b>	<b>(26.4)</b>	<b>50.2</b>	<b>(32.3)</b>	<b>64.9</b>
Tax	(33.3)	12.4	(12.1)	3.70	(23.0)
Minority Interest	2.10	0.70	0.50	0.30	0.20
<b>Net Profit</b>	<b>122</b>	<b>(13.3)</b>	<b>38.6</b>	<b>(28.2)</b>	<b>42.1</b>
Net profit bef Except.	122	(13.3)	38.6	(28.2)	42.1
EBITDA	236	84.8	131	47.3	146

## Growth

Revenue Gth (%)	24.1	3.2	(19.0)	(28.0)	48.3
EBITDA Gth (%)	3.0	(64.1)	54.9	(64.0)	207.9
Opg Profit Gth (%)	3.5	(159.0)	(138.4)	(259.9)	(209.1)
Net Profit Gth (Pre-ex) (%)	12.7	(111.0)	(390.0)	(173.1)	(249.3)

## Margins

Gross Margins (%)	17.6	8.0	14.6	6.0	11.9
Opg Profit Margins (%)	12.3	(7.0)	3.3	(7.4)	5.4
Net Profit Margins (%)	10.9	(1.2)	4.2	(4.2)	4.3

## Balance Sheet (Rpbn)

FY Dec	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	3,234	3,167	3,028	2,876	2,719
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	4,342	4,426	4,209	4,268	4,317
Cash & ST Invts	1,634	1,664	2,266	2,704	3,138
Inventory	308	489	617	648	674
Debtors	176	152	158	177	186
Other Current Assets	51.4	140	17.1	18.1	18.9
<b>Total Assets</b>	<b>9,744</b>	<b>10,037</b>	<b>10,296</b>	<b>10,692</b>	<b>11,052</b>
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	213	312	351	369	383
Other Current Liab	203	213	408	440	457
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	1,206	1,180	1,242	1,310	1,382
Shareholder's Equity	8,116	8,328	8,291	8,570	8,826
Minority Interests	5.80	3.90	3.90	3.90	3.90
<b>Total Cap. &amp; Liab.</b>	<b>9,744</b>	<b>10,037</b>	<b>10,296</b>	<b>10,692</b>	<b>11,052</b>
Non-Cash Wkg. Capital	119	256	33.2	35.6	38.4
Net Cash/(Debt)	1,634	1,664	2,266	2,704	3,138
Debtors Turn (avg days)	14.6	14.9	14.6	14.1	14.6
Creditors Turn (avg days)	24.4	28.7	34.6	35.8	36.0
Inventory Turn (avg days)	47.2	43.6	57.8	63.0	63.3
Asset Turnover (x)	0.5	0.4	0.4	0.4	0.4
Current Ratio (x)	5.2	4.7	4.0	4.4	4.8
Quick Ratio (x)	4.3	3.5	3.2	3.6	4.0
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)	4.4	5.0	4.4	4.4	4.3

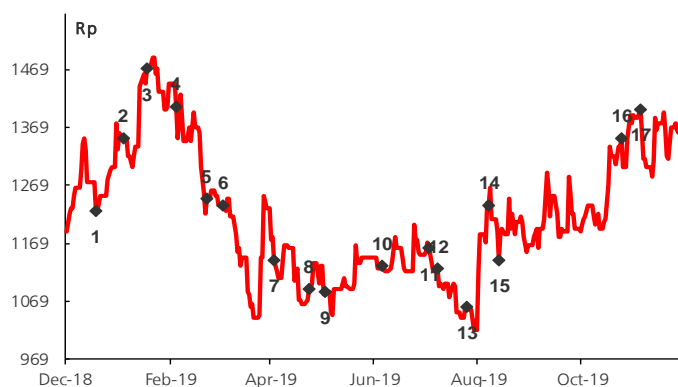
Source: Company, DBSVI

## Cash Flow Statement (Rpbn)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	1,006	417	145	430	515
Dep. & Amort.	390	419	445	424	408
Tax Paid	(243)	(87.6)	(36.2)	(108)	(129)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(67.2)	(171)	221	(4.3)	(4.7)
Other Operating CF	(15.9)	35.5	2.00	2.40	2.60
<b>Net Operating CF</b>	<b>1,244</b>	<b>588</b>	<b>837</b>	<b>813</b>	<b>863</b>
Capital Exp.(net)	(218)	(420)	(304)	(326)	(298)
Other Invt.(net)	(249)	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	3.20	(16.8)	216	(5.6)	(0.7)
<b>Net Investing CF</b>	<b>(464)</b>	<b>(436)</b>	<b>(88.4)</b>	<b>(332)</b>	<b>(299)</b>
Div Paid	(301)	(123)	(134)	(44.1)	(131)
Chg in Gross Debt	0.0	0.0	0.0	0.0	0.0
Capital Issues	13.5	3.10	(12.1)	0.0	0.0
Other Financing CF	(0.1)	(1.9)	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>(287)</b>	<b>(121)</b>	<b>(146)</b>	<b>(44.1)</b>	<b>(131)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	493	30.0	603	438	434
Opg CFPS (Rp)	192	111	90.4	120	127
Free CFPS (Rp)	150	24.6	78.2	71.4	82.9

Source: Company, DBSVI

## Target Price &amp; 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:	26 Dec 18	1225	1400	BUY
2:	11 Jan 19	1350	1400	BUY
3:	25 Jan 19	1470	1700	BUY
4:	11 Feb 19	1405	1700	BUY
5:	01 Mar 19	1245	1400	BUY
6:	11 Mar 19	1235	1400	BUY
7:	10 Apr 19	1140	1400	BUY
8:	30 Apr 19	1090	1400	BUY
9:	10 May 19	1085	1400	BUY
10:	12 Jun 19	1130	1400	BUY
11:	10 Jul 19	1160	1300	BUY
12:	15 Jul 19	1125	1200	HOLD
13:	01 Aug 19	1060	1010	HOLD
14:	14 Aug 19	1235	1010	HOLD
15:	20 Aug 19	1140	1010	HOLD
16:	31 Oct 19	1350	1010	FULLY VALUED
17:	11 Nov 19	1400	1010	FULLY VALUED

Source: DBSVI

Analyst: William Simadiputra



# Singapore Company Guide

## Bumitama Agri

Version 20 | Bloomberg: BAL SP | Reuters: BUMI.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Dec 2019

### BUY

Last Traded Price ( 6 Dec 2019): S\$0.73 (STI : 3,194.71)  
Price Target 12-mth: S\$0.81 (11% upside) (Prev S\$0.72)

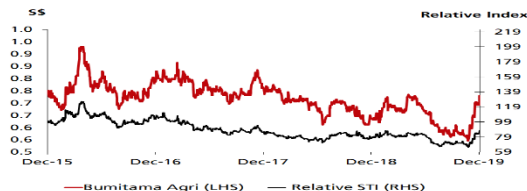
#### Analyst

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Rui Wen LIM +65 66823720 ruiwenlim@db.com

### What's New

- FY20F earnings to rise 34% y-o-y, driven by higher CPO prices
- Earnings upside capped by pricier external fruits assumption
- Value stock in our plantation universe
- Maintain BUY with TP of S\$0.81

#### Price Relative



#### Forecasts and Valuation

FY Dec (Rpbn)	2018A	2019F	2020F	2021F
Revenue	8,381	7,184	9,586	9,715
EBITDA	2,290	1,595	1,975	2,074
Pre-tax Profit	1,705	879	1,210	1,294
Net Profit	1,097	595	800	857
Net Pft (ex. BA gains)	1,133	595	800	857
Net Pft (Pre Ex.)	1,097	595	800	857
Net Pft Gth (Pre-ex) (%)	(8.1)	(45.7)	34.4	7.2
EPS (S cts)	6.06	3.29	4.42	4.73
EPS Pre Ex. (S cts)	6.06	3.29	4.42	4.73
EPS Gth Pre Ex (%)	(8)	(46)	34	7
Diluted EPS (S cts)	6.06	3.29	4.42	4.73
Net DPS (S cts)	3.15	2.67	2.67	2.67
BV Per Share (S cts)	42.9	43.2	44.9	47.0
PE (X)	12.1	22.2	16.5	15.4
PE Pre Ex. (X)	12.1	22.2	16.5	15.4
P/Cash Flow (X)	8.7	10.2	7.7	11.9
EV/EBITDA (X)	8.5	12.2	9.8	8.7
Net Div Yield (%)	4.3	3.7	3.7	3.7
P/Book Value (X)	1.7	1.7	1.6	1.6
Net Debt/Equity (X)	0.5	0.5	0.5	0.3
ROAE (%)	14.4	7.6	10.0	10.3
Earnings Rev (%):	-	12	13	
Consensus EPS (S cts):		3.70	4.80	5.70
Other Broker Recs:		B: 4	S: 0	H: 0

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

### Recovery mode

**Earnings set to improve y-o-y in 2020.** We forecast 2020 earnings to grow by 34% y-o-y to Rp800bn due to higher CPO price outlook. We raised our FY20F/21F earnings by 12%/13% to account for better profitability from higher palm oil prices in the year, and more conservative fertiliser application next year. We forecast palm oil price to rebound by 19% y-o-y to US\$596 per MT in 2020 before further rebound by 3.5% y-o-y to US\$617 per MT in 2021.

**Where we differ: CPO price and volume expansion will underpin earnings growth.** Higher milling capacity outlook is positive for BAL's profitability. Moreover, we believe the aggressive expansion in FY05-13 has kept BAL's tree-age profile younger relative to peers, with positive nucleus FFB output of 4.2% CAGR (including smallholder estates) between FY19 and FY22F.

**Potential catalyst: Re-rating on performance delivery.** We believe the liquidity discount placed on the counter is excessive. Stronger output in the second half of the year should help to support earnings this year.

#### Valuation:

We maintain our BUY rating with DCF-based TP of S\$0.81/share (WACC: 10.4%, Rf: 8.4%, Rm: 13.3%,  $\beta$ : 0.8, TG: 3%), offering c.15% potential upside from the current level.

#### Key Risks to Our View:

**CPO price.** Downside risk to CPO price from stronger-than-expected pressure from soybean price, or higher-than-expected CPO output both in Indonesia and Malaysia.

#### At A Glance

Issued Capital (m shrs)	1,737
Mkt. Cap (S\$bn/US\$m)	1.27 / 933
Major Shareholders (%)	
Fortune Holdings Pte Ltd	52.0
IOI Corp Bhd	32.0
Free Float (%)	16.0
3m Avg. Daily Val (US\$m)	0.34
GIC Industry : Consumer Staples / Agricultural Products	



**DBS**  
Live more, Bank less

## CRITICAL DATA POINTS TO WATCH

### Critical Factors

**CPO price is the key earnings driver.** As a commodity producer, BAL is a price-taker. Movements in international CPO prices would directly impact BAL's profitability. We currently expect CPO prices (FOB Pasir Gudang) to average US\$596/MT (+19% y-o-y) in CY19 and US\$617/MT in CY20 (+4% y-o-y). CPO price movements is also the key driver to plantation companies' share prices (see appendix).

**Tree profile: Prime age.** As at March 2019, BAL's trees were estimated to have an average age of 9.8 years. We expect the mature area to be relatively flat at c.110,000 ha. BAL has one of the youngest trees among listed plantation peers.

### CPO volume growth: CPO output continues to grow in 2019.

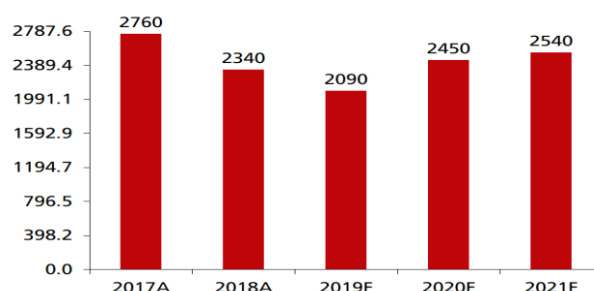
We believe aggressive expansion in FY05-13 has kept BAL's tree-age profile younger relative to peers, with double-digit fruit output outlook. We forecast 4.2% CAGR for FFB output (including smallholder estates) between FY19 and FY22F, mainly on yield expansion from its relatively young trees. To maximise 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 4.3% CAGR in FY19-22F.

### Sustaining high CPO yield means strong profitability outlook.

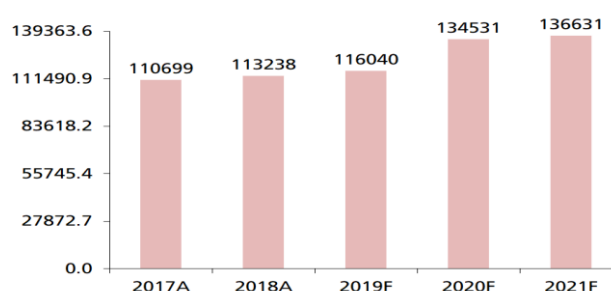
We are expecting CPO yield to expand from 4.7MT/ha in 2019 to 5.0MT/ha in 2022 on maturing estates. Relative to other oil crops, palm oil has the highest productivity per hectare at 5MT, while soybean oil's productivity is typically 0.5MT. Besides, CPO yield also reflects planters' management strength, which ultimately affects the return on invested capital (ROIC) and profitability.

**Revenue exposure to domestic market.** BAL sells its CPO output to third parties locally at spot prices. While it 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 due to the export levies. We have already imputed this into our forecast.

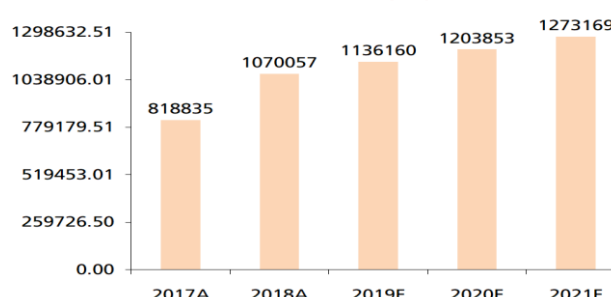
CPO price (RM/MT)



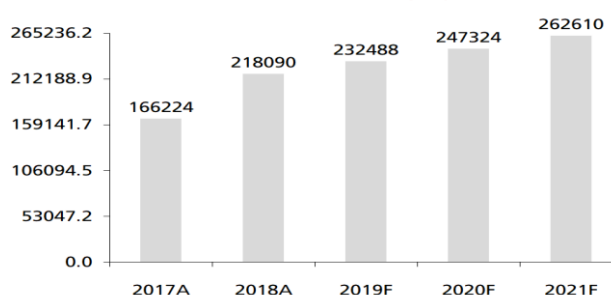
Own mature oil palm hectareage



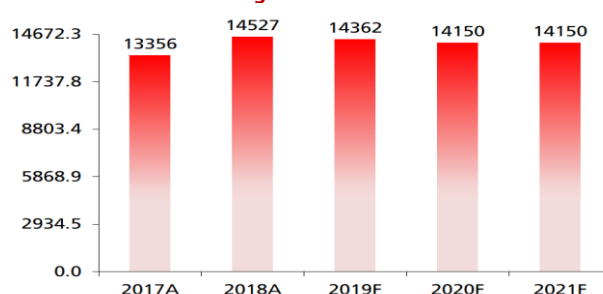
CPO sales volume (MT)



Palm kernel sales vol. (MT)



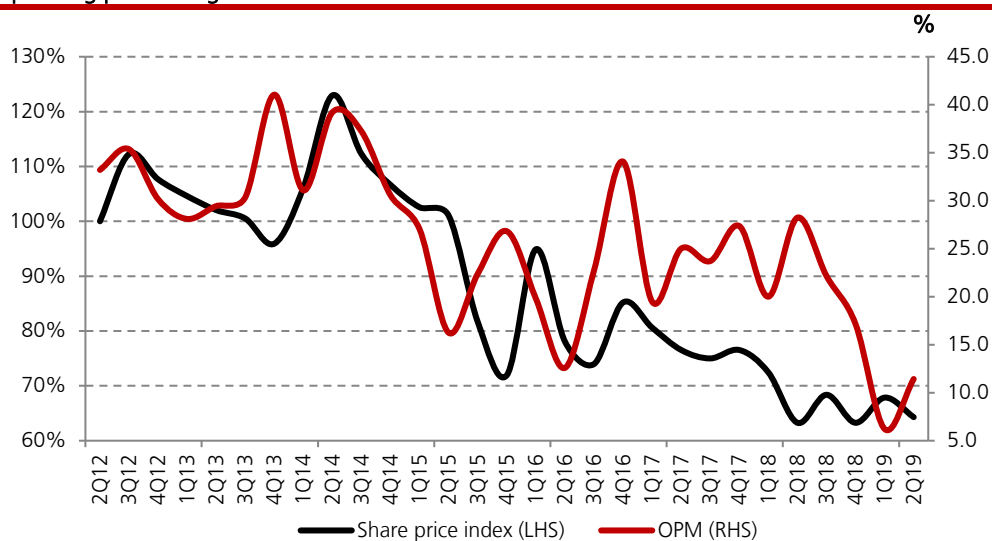
Avg. USD/IDR rate



Source: Company, DBSVI, DBS Bank

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

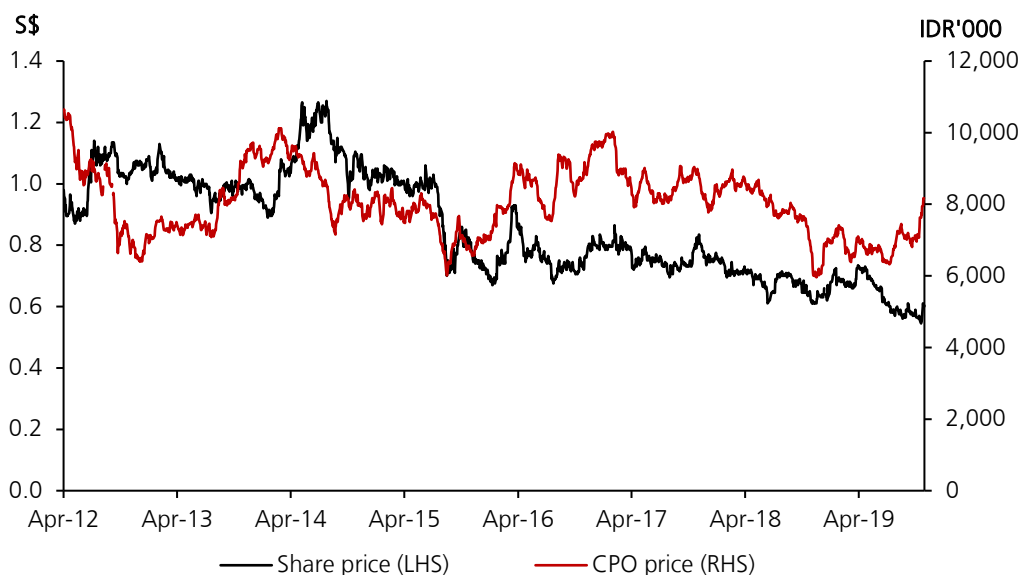
**Operating profit margin as a critical factor**



**Remarks**

BAL's operating profit margin (OPM) is generally an influence on share price direction in general, 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 generally tracks palm oil spot prices. However, the outperformance and underperformance of plantation stocks to CPO price is dictated by the productivity factor, where stronger- or weaker-than-expected yields will impact share price sensitivity to palm oil price.

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

**Balance Sheet:**

BAL's balance sheet should be able to withstand any downcycle. BAL's net gearing ratio is forecast to settle at 50% at end-FY19. The company is expected to incur capex in FY19 to build bulk storage facilities with its growing FFB output trend. Barring any large capex plans, management intends to continuously pay down debt over the next five years.

**Share Price Drivers:**

**No urgency to expand downstream.** 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 a 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.

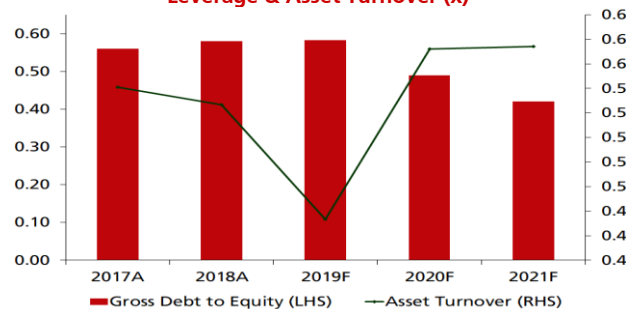
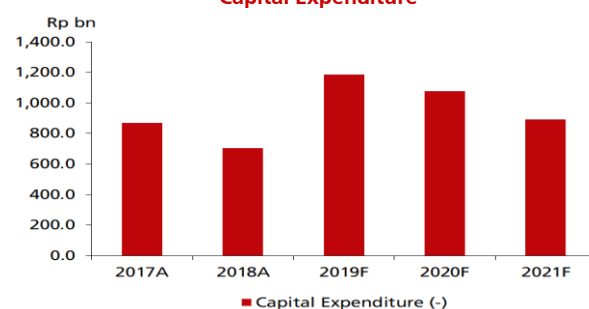
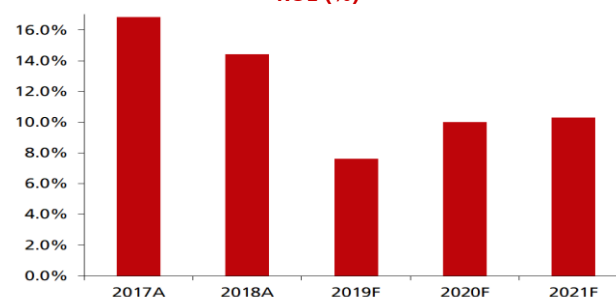
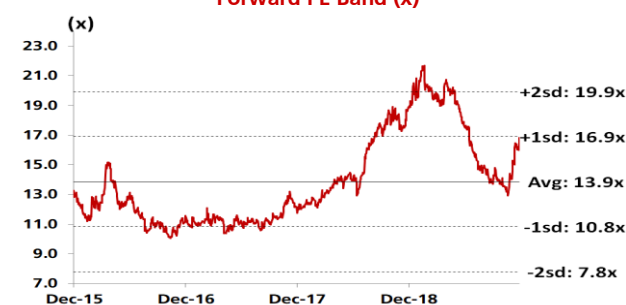
**Steady expansion ahead.** Having committed itself to a sustainable development programme, BAL has slowed its expansion since FY14, and intends to undertake a more sustainable 2,000-ha p.a. expansion pace (including smallholder estates) from FY19F onwards.

**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.220,000 ha of land as at end-2018 (including land under the smallholder schemes), of which 185,194 ha were planted as at end-March 2019. BAL was listed on the Singapore Exchange in April 2012.

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

Source: Company, DBSVI, DBS Bank

**Key Assumptions**

FY Dec	2017A	2018A	2019F	2020F	2021F
CPO price (RM/MT)	2,760	2,340	2,090	2,450	2,540
Own mature oil palm	110,699	113,238	116,040	134,531	136,631
CPO sales volume (MT)	818,835	1,070,057	1,136,160	1,203,853	1,273,169
Palm kernel sales vol. (MT)	166,224	218,090	232,488	247,324	262,610
Avg. USD/IDR rate	13,356	14,527	14,362	14,150	14,150

**Income Statement (Rpbn)**

FY Dec	2017A	2018A	2019F	2020F	2021F
Revenue	8,131	8,381	7,184	9,586	9,715
Cost of Goods Sold	(5,742)	(5,990)	(5,758)	(7,718)	(7,743)
<b>Gross Profit</b>	<b>2,389</b>	<b>2,391</b>	<b>1,427</b>	<b>1,868</b>	<b>1,972</b>
Other Opng (Exp)/Inc	(449)	(543)	(567)	(601)	(643)
<b>Operating Profit</b>	<b>1,940</b>	<b>1,848</b>	<b>860</b>	<b>1,266</b>	<b>1,330</b>
Other Non Opg (Exp)/Inc	(25.0)	(108)	68.8	5.59	(4.7)
Associates & JV Inc	(2.3)	0.0	2.18	4.36	6.54
Net Interest (Exp)/Inc	(18.1)	(35.0)	(51.7)	(65.9)	(37.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>1,894</b>	<b>1,705</b>	<b>879</b>	<b>1,210</b>	<b>1,294</b>
Tax	(470)	(410)	(177)	(266)	(282)
Minority Interest	(231)	(198)	(108)	(145)	(155)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>1,193</b>	<b>1,097</b>	<b>595</b>	<b>800</b>	<b>857</b>
Net Profit before Except.	1,193	1,097	595	800	857
Net Pft (ex. BA gains)	1,166	1,133	595	800	857
EBITDA	2,431	2,290	1,595	1,975	2,074
EBITDA (ex. BA gains)	2,395	2,338	1,595	1,975	2,074
<b>Growth</b>					
Revenue Gth (%)	22.6	3.1	(14.3)	33.4	1.4
EBITDA Gth (%)	25.8	(5.8)	(30.4)	23.9	5.0
Opg Profit Gth (%)	22.7	(4.7)	(53.5)	47.2	5.0
Net Profit Gth (Pre-ex) (%)	18.7	(8.1)	(45.7)	34.4	7.2
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	29.4	28.5	19.9	19.5	20.3
Opg Profit Margin (%)	23.9	22.1	12.0	13.2	13.7
Net Profit Margin (%)	14.7	13.1	8.3	8.3	8.8
ROAE (%)	16.8	14.4	7.6	10.0	10.3
ROA (%)	7.9	6.9	3.6	4.8	5.1
ROCE (%)	10.3	9.8	4.7	6.7	7.1
Div Payout Ratio (%)	32.0	52.0	81.2	60.4	56.4
Net Interest Cover (x)	107.1	52.9	16.6	19.2	35.6

Source: Company, DBSVI, DBS Bank

## Quarterly / Interim Income Statement (Rpbn)

FY Dec	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019
Revenue	1,919	2,205	1,677	1,779	1,944
Cost of Goods Sold	(1,332)	(1,681)	(1,385)	(1,427)	(1,434)
<b>Gross Profit</b>	<b>587</b>	<b>524</b>	<b>292</b>	<b>352</b>	<b>510</b>
Other Oper. (Exp)/Inc	(162)	(146)	(188)	(148)	(154)
<b>Operating Profit</b>	<b>425</b>	<b>378</b>	<b>104</b>	<b>203</b>	<b>356</b>
Other Non Opg (Exp)/Inc	(28.3)	(41.5)	83.6	10.6	(16.4)
Associates & JV Inc	3.96	5.21	2.35	1.69	5.41
Net Interest (Exp)/Inc	2.42	(8.9)	(14.7)	(13.0)	(16.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>403</b>	<b>333</b>	<b>175</b>	<b>202</b>	<b>328</b>
Tax	(87.7)	(79.1)	(39.8)	(52.7)	(99.1)
Minority Interest	(45.5)	(46.3)	(25.0)	(25.1)	(39.4)
<b>Net Profit</b>	<b>270</b>	<b>207</b>	<b>111</b>	<b>125</b>	<b>190</b>
Net profit bef Except.	270	207	111	125	190
EBITDA	401	342	190	215	345

## Growth

Revenue Gth (%)	(18.4)	14.9	(23.9)	6.1	9.3
EBITDA Gth (%)	(36.6)	(14.7)	(44.3)	13.3	60.0
Opg Profit Gth (%)	(36.0)	(11.1)	(72.4)	94.9	75.0
Net Profit Gth (Pre-ex) (%)	(30.5)	(23.2)	(46.7)	12.7	52.1

## Margins

Gross Margins (%)	30.6	23.8	17.4	19.8	26.2
Opg Profit Margins (%)	22.2	17.1	6.2	11.4	18.3
Net Profit Margins (%)	14.1	9.4	6.6	7.0	9.8

## Balance Sheet (Rpbn)

FY Dec	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	3,443	3,459	4,095	4,674	5,070
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	9,940	10,670	9,982	9,460	7,393
Cash & ST Invts	217	299	423	154	1,162
Inventory	444	592	587	787	1,191
Debtors	287	480	373	498	747
Other Current Assets	960	1,039	1,173	1,294	1,415
<b>Total Assets</b>	<b>15,290</b>	<b>16,539</b>	<b>16,633</b>	<b>16,866</b>	<b>16,979</b>
ST Debt	339	4,289	939	339	339
Creditor	500	775	537	720	723
Other Current Liab	440	1,363	1,418	1,478	1,481
LT Debt	4,410	935	4,399	4,364	3,932
Other LT Liabilities	1,130	177	186	350	360
Shareholder's Equity	7,449	7,771	7,818	8,135	8,509
Minority Interests	1,022	1,229	1,336	1,481	1,636
<b>Total Cap. &amp; Liab.</b>	<b>15,290</b>	<b>16,539</b>	<b>16,633</b>	<b>16,866</b>	<b>16,979</b>
Non-Cash Wkg. Capital	751	(27.2)	178	380	1,149
Net Cash/(Debt)	(4,532)	(4,925)	(4,914)	(4,549)	(3,109)
Debtors Turn (avg days)	12.7	16.7	21.7	16.6	23.4
Creditors Turn (avg days)	37.4	42.8	47.0	32.7	37.6
Inventory Turn (avg days)	36.9	34.8	42.2	35.7	51.6
Asset Turnover (x)	0.5	0.5	0.4	0.6	0.6
Current Ratio (x)	1.5	0.4	0.9	1.1	1.8
Quick Ratio (x)	0.4	0.1	0.3	0.3	0.8
Net Debt/Equity (X)	0.5	0.5	0.5	0.5	0.3
Net Debt/Equity ex MI (X)	0.6	0.6	0.6	0.6	0.4
Capex to Debt (%)	18.3	13.5	22.2	22.9	20.9
Z-Score (X)	2.5	2.2	2.3	2.5	2.7

Source: Company, DBSVI, DBS Bank

## Cash Flow Statement (Rpbn)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	1,894	1,705	879	1,210	1,294
Dep. & Amort.	518	550	664	699	742
Tax Paid	(361)	(457)	(177)	(266)	(282)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(253)	(430)	(70.5)	(81.5)	(649)
Other Operating CF	84.9	149	6.41	162	7.07
<b>Net Operating CF</b>	<b>1,883</b>	<b>1,517</b>	<b>1,302</b>	<b>1,723</b>	<b>1,113</b>
Capital Exp.(net)	(871)	(706)	(1,185)	(1,078)	(892)
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	(159)	(223)	375	201	1,699
<b>Net Investing CF</b>	<b>(1,030)</b>	<b>(929)</b>	<b>(811)</b>	<b>(877)</b>	<b>807</b>
Div Paid	(382)	(570)	(483)	(483)	(483)
Chg in Gross Debt	(469)	217	113	(635)	(432)
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(300)	(159)	2.44	2.56	2.69
<b>Net Financing CF</b>	<b>(1,151)</b>	<b>(511)</b>	<b>(368)</b>	<b>(1,116)</b>	<b>(912)</b>
Currency Adjustments	(3.0)	5.26	0.0	0.0	0.0
Chg in Cash	(300)	82.3	124	(269)	1,008
Opg CFPS (S cts)	11.8	10.8	7.58	9.97	9.73
Free CFPS (S cts)	5.59	4.48	0.65	3.57	1.22

Source: Company, DBSVI, DBS Bank

## Target Price &amp; 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:	26 Dec 18	0.64	0.85	BUY
2:	11 Jan 19	0.68	0.85	BUY
3:	11 Feb 19	0.69	0.85	BUY
4:	28 Feb 19	0.67	0.85	BUY
5:	11 Mar 19	0.68	0.85	BUY
6:	10 Apr 19	0.73	0.85	BUY
7:	10 May 19	0.70	0.85	BUY
8:	15 May 19	0.70	0.80	BUY
9:	12 Jun 19	0.66	0.80	BUY
10:	10 Jul 19	0.61	0.75	BUY
11:	15 Jul 19	0.61	0.75	BUY
12:	14 Aug 19	0.59	0.70	BUY
13:	20 Aug 19	0.58	0.69	BUY
14:	11 Nov 19	0.60	0.69	BUY
15:	12 Nov 19	0.62	0.72	BUY

Source: DBSVI, DBS Bank

Analyst: William Simadiputra

Rui Wen LIM



# Singapore Company Guide

## First Resources

Version 19 | Bloomberg: FR SP | Reuters: FRLD.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Dec 2019

### BUY

Last Traded Price ( 6 Dec 2019): S\$1.79 (STI : 3,194.71)

Price Target 12-mth: S\$2.10 (17% upside) (Prev S\$1.95)

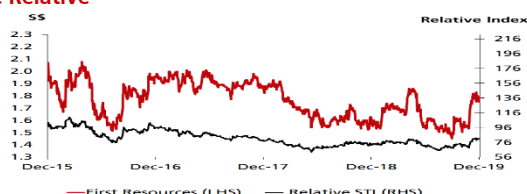
#### Analyst

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### What's New

- Aiming for 72% y-o-y earnings recovery in 2020
- FY20/21F earnings raised by 8%/4% on higher CPO price
- Top pick in our plantation universe
- Maintain BUY with higher TP of S\$2.10

#### Price Relative



#### Forecasts and Valuation

FY Dec (US\$m)	2018A	2019F	2020F	2021F
Turnover	633	555	675	760
EBITDA	265	213	307	302
Pre-tax Profit	181	129	223	227
Net Profit	120	86	149	151
Net Pft (Pre Ex.)	120	86	149	151
Net Pft (ex. BA gains)	123	86	149	151
Net Pft Gth (Pre-ex) (%)	(12.9)	(28.2)	72.5	1.9
EPS (S cts)	10.3	7.40	12.8	13.0
EPS Pre Ex. (S cts)	10.3	7.40	12.8	13.0
EPS Gth Pre Ex (%)	(13)	(28)	72	2
Diluted EPS (S cts)	10.3	7.40	12.8	13.0
Net DPS (S cts)	6.9	2.7	2.7	3.8
BV Per Share (S cts)	80.0	81.2	91.2	100.4
PE (X)	17.4	24.2	14.0	13.8
PE Pre Ex. (X)	17.4	24.2	14.0	13.8
P/Cash Flow (X)	18.5	8.9	10.2	9.6
EV/EBITDA (X)	9.1	10.8	7.2	7.0
Net Div Yield (%)	3.9	1.5	1.5	2.1
P/Book Value (X)	2.2	2.2	2.0	1.8
Net Debt/Equity (X)	0.3	0.1	0.1	CASH
ROAE (%)	12.6	9.2	14.8	13.6
Earnings Rev (%):			8	4
Consensus EPS (S cts):		8.3	12.1	14.4
Other Broker Recs:		B: 10	S: 0	H: 2

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

### On a positive footing

**Earnings to rebound in 2020.** We expect FR earnings to rebound by 72% y-o-y to US\$148m in 2020, driven by higher CPO price of US\$596 per MT (+19% y-o-y). CPO prices are forecast to head higher led by tightening supply and demand dynamics. FR is set to capitalise on the CPO price recovery supported by decent yields from its palm oil estates and higher fruit volume. FR remains our pick in the plantation sector given its strong asset base to capitalise on the edible oil market recovery in 2020.

**Where we differ: We like FR's organic growth prospects.** FR's aggressive planting in East and West Kalimantan between FY12 and FY14 should contribute to the group's strong CPO volume and yield. Higher CPO yields on maturing trees would improve FR's ROIC and profitability metrics on the back of an expanded operating scale, which would result in stronger earnings growth momentum ahead.

**Potential catalyst: Earnings recovery in 4Q19 and 2020.** Higher palm oil price trend since October to date is the key catalyst for 4Q19 earnings performance besides potential volume expansion.

#### Valuation:

We employed DCF methodology (FY20F as base year; WACC 11.8%; TG 3%) to arrive at a fair value of S\$2.1/share. Maintain BUY.

#### Key Risks to Our View:

**CPO output may affect CPO price trend.** Stronger-than-expected yields in Indonesia and Malaysia may pressurise CPO prices next year.

#### At A Glance

Issued Capital (m shrs)	1,584
Mkt. Cap (S\$m/US\$m)	2,835 / 2,084
Major Shareholders (%)	
Eight Capital Inc	64.7
International Value Advisers LLC	5.7
King Fortune International Inc	5.6
Free Float (%)	23.9
3m Avg. Daily Val (US\$m)	1.5

**GIC Industry :** Consumer Staples / Agricultural Products

Bloomberg ESG disclosure score (2017)^	32.6
- Environmental / Social / Governance	20.9 / 38.6 / 53.6

[^ refer to back page for more information](#)



Live more, Bank less

## 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 expect CPO prices (FOB Pasir Gudang) to average US\$596/MT (+19% y-o-y) in CY20 and US\$617/MT in CY20 (+3.5% y-o-y). CPO price movements are the key driver to plantation companies' share price (see appendix).

**Trees profile: Young tree age.** As at end-September 2019, the average age of FR's trees was estimated to be 12 years. Approximately 5,600 ha will mature in FY19F and FY20F – representing 3% 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.

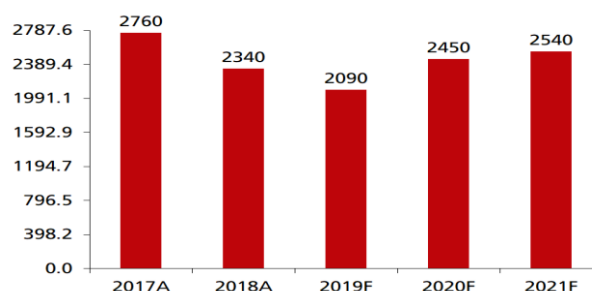
**CPO volume growth: CPO output was strong in 2018, and will continue to increase moderately in 2019 and 2020.** FR's aggressive planting in East and West Kalimantan between FY12 and FY14 will contribute to the group's strong volume and earnings growth through to FY19F. FR's FFB expanded at a CAGR of 8% in FY18-20F on the back of recovering yields. We imputed 11% y-o-y higher FY19F nucleus FFB output on yield expansion.

### Sustained high CPO yield means strong profitability outlook.

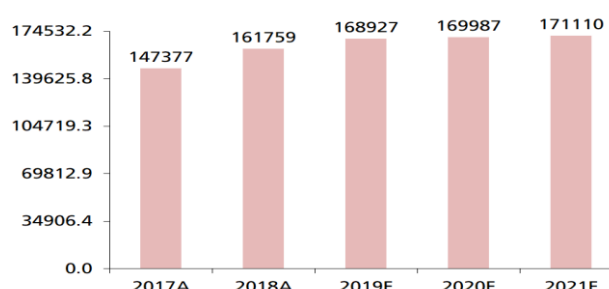
We are expecting CPO yields to sustain at 4.0MT/ha in 2019-2020 from its maturing estates. Relative to other oil crops, palm oil has the highest productivity per hectare of 5.0MT/ha, while soybean oil's productivity is typically 0.5MT/ha. Besides, CPO yield also reflects the strength of the planter's management, 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 forecasts.

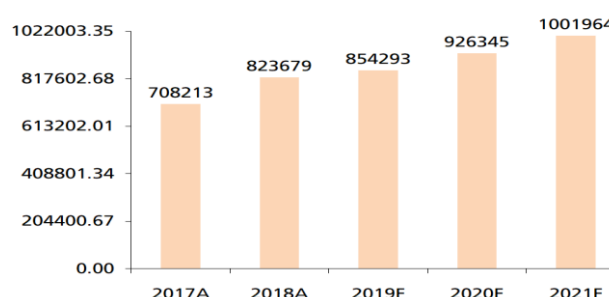
CPO price (RM/MT)



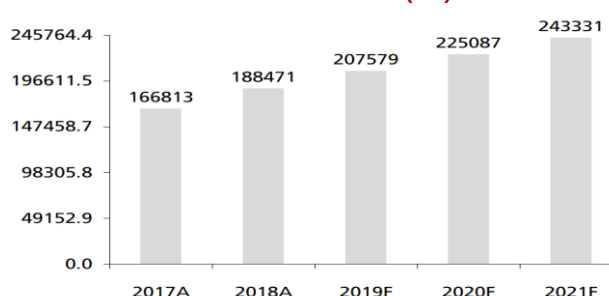
Mature oil palm hectareage



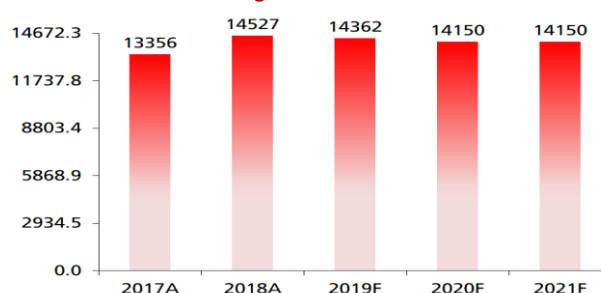
CPO sales volume (MT)



Palm kernel sales vol. (MT)

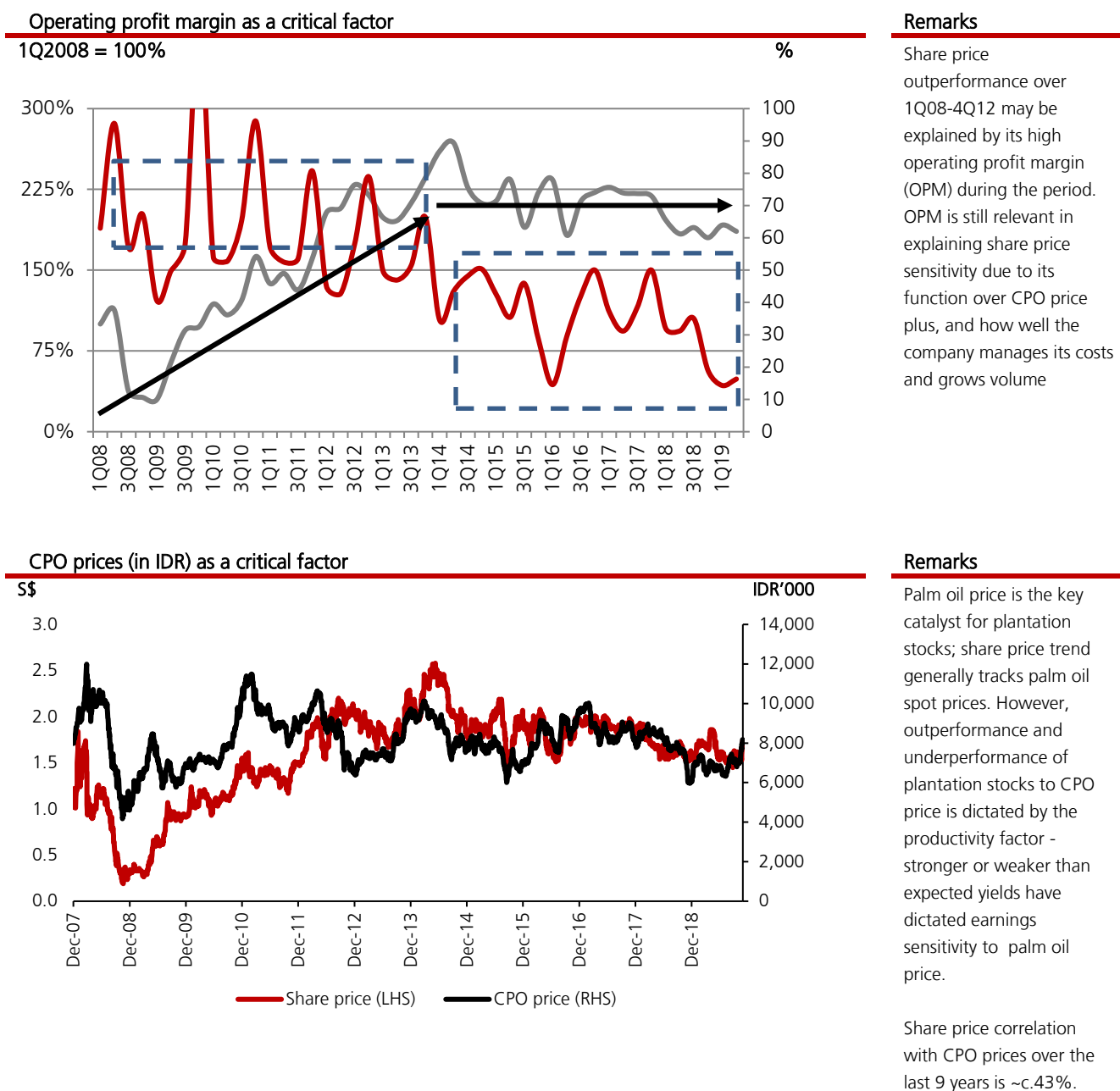


Avg. USD/IDR rate



Source: Company, DBSVI, DBS Bank

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



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

**Balance Sheet:**

**Balance sheet deleveraging potential.** Based on our estimates, FR's cost of debt is low at 3.9% p.a. This comes primarily from Sukuk issuances between 2012 and 2014 – which were subsequently swapped into USD. While the group has 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 2019 vs. 29% at end-December 2018.

**Strong free cash flow generation.** We expect the group to spend US\$83m and US\$64m in capex in FY19F and FY20F respectively. Free cash flow generation is projected to be US\$173m in FY19F and US\$165m in FY20F.

**Share Price Drivers:**

**Trading at a discount.** The stock is currently trading at -0.55D from its average historical PE. We believe consistent earnings delivery in FY19 and improvement in FY20F should push 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 as 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.

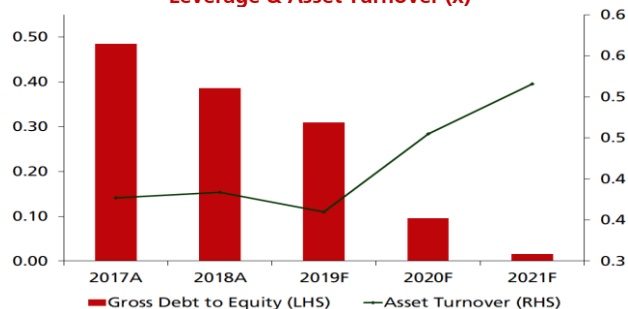
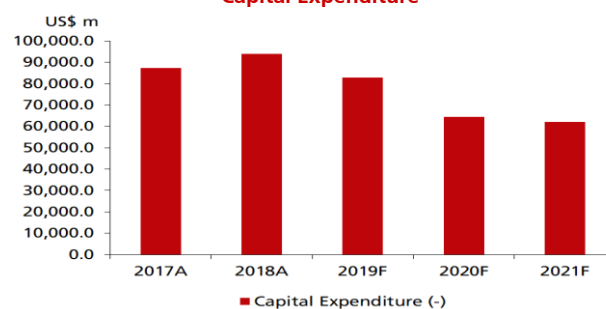
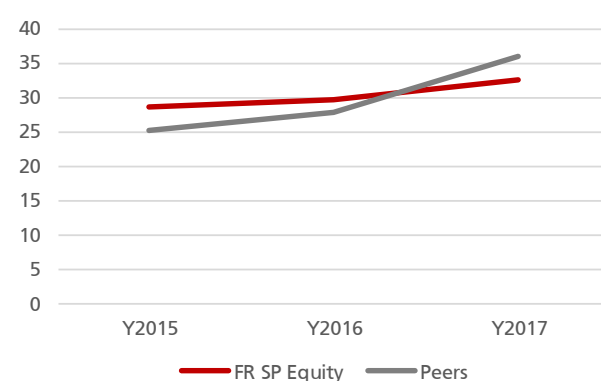
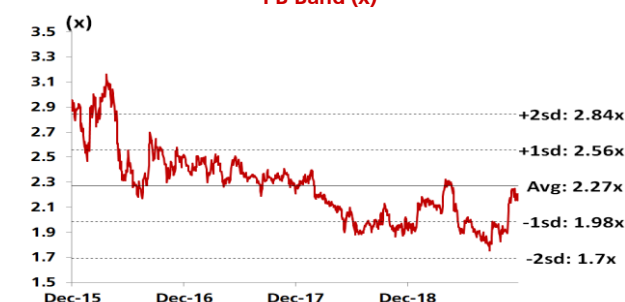
**Market sentiment.** Changes in fund flows towards or out of emerging markets would affect valuations for plantation counters.

**Environment, Social, Governance:**

FR's Bloomberg ESG scores trended higher from 2015-2017 and were largely on track with its peers. FR's intention to maintain its GCG qualities and awareness on the sustainability aspect of the plantation business was the key driver of its historical ESG scores.

**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.

**Leverage & Asset Turnover (x)****Capital Expenditure****Environment, Social, Governance****Forward PE Band (x)****PB Band (x)**

Source: Company, DBSVI, DBS Bank

**Key Assumptions**

FY Dec	2017A	2018A	2019F	2020F	2021F
CPO price (RM/MT)	2,760	2,340	2,090	2,450	2,540
Mature oil palm	147,377	161,759	168,927	169,987	171,110
CPO sales volume (MT)	708,213	823,679	854,293	926,345	1,001,964
Palm kernel sales vol. (MT)	166,813	188,471	207,579	225,087	243,331
Avg. USD/IDR rate	13,356	14,527	14,362	14,150	14,150

**Income Statement (US\$m)**

FY Dec	2017A	2018A	2019F	2020F	2021F
Revenue	647	633	555	675	760
Cost of Goods Sold	(340)	(355)	(339)	(365)	(452)
<b>Gross Profit</b>	<b>307</b>	<b>279</b>	<b>216</b>	<b>310</b>	<b>307</b>
Other Opng (Exp)/Inc	(80)	(92)	(77)	(82)	(86)
<b>Operating Profit</b>	<b>227</b>	<b>187</b>	<b>139</b>	<b>228</b>	<b>221</b>
Other Non Opng (Exp)/Inc	3	11	2	2	2
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(21)	(17)	(13)	(7)	3
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>209</b>	<b>181</b>	<b>129</b>	<b>223</b>	<b>227</b>
Tax	(64)	(53)	(38)	(66)	(67)
Minority Interest	(8)	(8)	(5)	(8)	(8)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>138</b>	<b>120</b>	<b>86</b>	<b>149</b>	<b>151</b>
Net Profit before Except.	138	120	86	149	151
EBITDA	292	265	213	307	302
<b>Growth</b>					
Revenue Gth (%)	12.5	(2.1)	(12.3)	21.5	12.6
EBITDA Gth (%)	10.7	(9.3)	(19.6)	44.0	(1.5)
Opg Profit Gth (%)	9.3	(17.5)	(25.8)	64.0	(2.9)
Net Profit Gth (%)	9.8	(12.9)	(28.2)	72.5	1.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	47.4	44.0	38.9	45.9	40.5
Opg Profit Margin (%)	35.1	29.5	25.0	33.7	29.1
Net Profit Margin (%)	21.3	18.9	15.5	22.0	19.9
ROAE (%)	14.9	12.6	9.2	14.8	13.6
ROA (%)	8.0	7.3	5.6	10.0	10.3
ROCE (%)	10.0	8.4	6.7	11.4	11.3
Div Payout Ratio (%)	31.2	67.4	36.9	21.4	29.0
Net Interest Cover (x)	11.0	11.3	11.1	33.1	NM

Source: Company, DBSVI, DBS Bank

## Quarterly / Interim Income Statement (US\$m)

FY Dec	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019
Revenue	171	145	150	143	138
Cost of Goods Sold	(88)	(92)	(111)	(97)	(74)
<b>Gross Profit</b>	<b>83</b>	<b>53</b>	<b>38</b>	<b>46</b>	<b>64</b>
Other Oper. (Exp)/Inc	(24)	(26)	(17)	(20)	(20)
<b>Operating Profit</b>	<b>60</b>	<b>27</b>	<b>21</b>	<b>26</b>	<b>43</b>
Other Non Opg (Exp)/Inc	2	2	0	1	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(4)	(4)	(4)	(4)	(4)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>58</b>	<b>25</b>	<b>17</b>	<b>24</b>	<b>39</b>
Tax	(17)	(7)	(4)	(6)	(10)
Minority Interest	(2)	(1)	(1)	0	(1)
<b>Net Profit</b>	<b>39</b>	<b>17</b>	<b>12</b>	<b>17</b>	<b>28</b>
Net profit bef Except.	39	17	12	17	28
EBITDA	62	29	21	27	43

## Growth

Revenue Gth (%)	(5.3)	(15.1)	2.8	(4.1)	(4.1)
EBITDA Gth (%)	1.5	(52.8)	(28.3)	30.0	58.5
Opg Profit Gth (%)	6.1	(54.2)	(22.0)	21.7	66.4
Net Profit Gth (%)	8.5	(55.5)	(29.1)	38.0	64.3

## Margins

Gross Margins (%)	48.7	36.7	25.6	32.4	46.2
Opg Margins (%)	34.9	18.9	14.3	18.2	31.5
Net Profit Margins (%)	22.7	11.9	8.2	11.8	20.3

## Balance Sheet (US\$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	337	327	334	328	320
Invts in Associates & JVs	0	0	0	0	0
Other LT Assets	955	914	839	874	863
Cash & ST Invts	279	100	162	49	74
Inventory	67	98	76	81	101
Debtors	35	41	33	40	45
Other Current Assets	58	91	71	77	95
<b>Total Assets</b>	<b>1,731</b>	<b>1,571</b>	<b>1,516</b>	<b>1,449</b>	<b>1,498</b>
ST Debt	21	30	30	30	0
Creditor	65	64	62	66	82
Other Current Liab	21	21	19	23	26
LT Debt	475	351	280	78	20
Other LT Liabilities	126	119	121	123	125
Shareholder's Equity	972	932	945	1,062	1,170
Minority Interests	50	54	59	67	75
Put Equity Reserve	N/A	N/A	N/A	N/A	N/A
<b>Total Cap. &amp; Liab.</b>	<b>1,731</b>	<b>1,571</b>	<b>1,516</b>	<b>1,449</b>	<b>1,498</b>
Non-Cash Wkg. Capital	73	145	100	109	133
Net Cash/(Debt)	(217)	(281)	(148)	(59)	54
Debtors Turn (avg days)	19.9	21.8	24.3	19.9	20.6
Creditors Turn (avg days)	147.4	81.8	85.5	81.0	72.5
Inventory Turn (avg days)	95.4	104.4	118.1	99.2	88.9
Asset Turnover (x)	0.4	0.4	0.4	0.5	0.5
Current Ratio (x)	4.1	2.9	3.1	2.1	2.9
Quick Ratio (x)	2.9	1.2	1.8	0.8	1.1
Net Debt/Equity (X)	0.2	0.3	0.1	0.1	CASH
Net Debt/Equity ex MI (X)	0.2	0.3	0.2	0.1	CASH
Capex to Debt (%)	17.6	24.6	26.7	59.7	310.7
Z-Score (X)	6.5	4.3	4.6	6.5	7.7

Source: Company, DBSVI, DBS Bank

## Cash Flow Statement (US\$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	209	181	129	223	227
Dep. & Amort.	63	67	72	77	79
Tax Paid	(65)	(76)	(38)	(66)	(67)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	21	(64)	45	(9)	(24)
Other Operating CF	5	5	25	(19)	3
<b>Net Operating CF</b>	<b>232</b>	<b>112</b>	<b>233</b>	<b>205</b>	<b>217</b>
Capital Exp.(net)	(87)	(94)	(83)	(64)	(62)
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	(6)	0	14	(21)	1
<b>Net Investing CF</b>	<b>(93)</b>	<b>(94)</b>	<b>(69)</b>	<b>(85)</b>	<b>(61)</b>
Div Paid	(43)	(81)	(32)	(32)	(44)
Chg in Gross Debt	(75)	(116)	(71)	(202)	(88)
Capital Issues	0	0	0	0	0
Other Financing CF	0	(1)	1	1	1
<b>Net Financing CF</b>	<b>(118)</b>	<b>(198)</b>	<b>(101)</b>	<b>(233)</b>	<b>(131)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	21	(179)	62	(113)	25
Opg CFPS (\$ cts)	13	11	12	14	15
Free CFPS (\$ cts)	9	1	9	9	10

Source: Company, DBSVI, DBS Bank

## Target Price &amp; 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:	26 Dec 18	1.56	1.97	BUY
2:	11 Jan 19	1.70	1.97	BUY
3:	11 Feb 19	1.72	1.97	BUY
4:	04 Mar 19	1.70	1.97	BUY
5:	11 Mar 19	1.69	1.97	BUY
6:	10 Apr 19	1.80	1.97	BUY
7:	10 May 19	1.71	1.97	BUY
8:	15 May 19	1.70	1.95	BUY
9:	12 Jun 19	1.59	1.95	BUY
10:	10 Jul 19	1.56	1.82	BUY
11:	15 Jul 19	1.55	1.82	BUY
12:	14 Aug 19	1.57	1.80	BUY
13:	20 Aug 19	1.50	1.80	BUY
14:	11 Nov 19	1.73	1.80	BUY
15:	12 Nov 19	1.78	1.95	BUY

Source: DBSVI, DBS Bank

Analyst: William Simadiputra  
Rui Wen LIM



# Singapore Company Guide

# Wilmar International

Version 23 | Bloomberg: WIL SP | Reuters: WLIL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Dec 2019

## BUY

Last Traded Price ( 6 Dec 2019): S\$4.14 (STI : 3,194.71)

Price Target 12-mth: S\$4.60 (11% upside) (Prev S\$4.35)

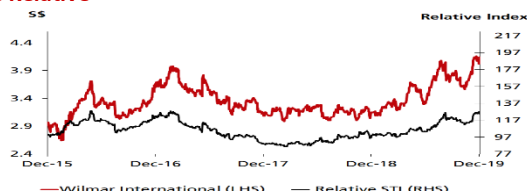
### Analyst

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### What's New

- Higher edible oil price outlook has minimal impact on Wilmar's earnings
- Special dividend and YKA listing are catalysts
- Imputed higher multiple for tropical oil business
- Maintain BUY with a higher TP of S\$4.60

### Price Relative



### Forecasts and Valuation

FY Dec (US\$ m)	2018A	2019F	2020F	2021F
Revenue	44,498	37,375	40,473	42,709
EBITDA	2,937	2,571	2,855	2,947
Pre-tax Profit	1,574	1,465	1,660	1,699
Net Profit	1,128	1,084	1,228	1,252
Net Pft (Pre Ex.)	1,308	1,084	1,228	1,252
Net Pft (ex. BA gains)	1,150	1,084	1,228	1,252
Net Pft Gth (Pre-ex) (%)	30.5	(17.1)	13.3	1.9
EPS (S cts)	24.0	23.0	26.1	26.6
EPS Pre Ex. (S cts)	27.8	23.0	26.1	26.6
EPS Gth Pre Ex (%)	31	(17)	13	2
Diluted EPS (S cts)	24.0	23.0	26.1	26.6
Net DPS (S cts)	9.4	9.0	10.2	10.4
BV Per Share (S cts)	341.0	349.9	364.0	380.3
PE (X)	17.3	18.0	15.9	15.6
PE Pre Ex. (X)	14.9	18.0	15.9	15.6
P/Cash Flow (X)	13.0	4.0	25.8	17.6
EV/EBITDA (X)	13.1	13.8	12.7	12.4
Net Div Yield (%)	2.3	2.2	2.5	2.5
P/Book Value (X)	1.2	1.2	1.1	1.1
Net Debt/Equity (X)	1.1	0.9	0.9	0.9
ROAE (%)	7.0	6.7	7.3	7.1
Earnings Rev (%):	-	-	-	7
Consensus EPS (S cts):	24.9	28.4	30.3	
Other Broker Recs:	B: 9	S: 2	H: 6	

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

## Bigger, stronger in 2020

**Steady performance in 2020.** We made minimal changes to our earnings forecast but raised the valuation multiple for the tropical oils business. Wilmar's business model works on the assumption that trading margin management and market share expansion are more crucial factors on earnings performance rather than commodity prices. We derived a higher target price for Wilmar as we attached a higher multiple of 15.5x FY20 PE for its tropical oil business from 12.5x previously, due to better palm oil price outlook.

**Where we differ: Wilmar's potential is far greater than market expectations.** As we gather more information on Wilmar's China operations, we are increasingly convinced that Wilmar's potential is far greater than market expectations. As the market leader in each segment, Wilmar's presence makes it difficult for competitors to operate meaningfully in each region. This gives Wilmar a solid footing to further grow its market share and earnings. Wilmar is also heading towards a more stable business model and earnings profile with higher contribution from consumer branded products.

**Catalyst from listing of China operations.** Potential IPO (A-share listing) of its China operations in 1Q20 at a higher PE multiple vs Wilmar's existing PE multiple of 14.0x-15.0x could be a further share price catalyst.

### Valuation:

We used the sum-of-the-parts (SOTP) valuation methodology to arrive at a target price of S\$4.60, which implies 17.6x FY20F PE.

### 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)	6,336
Mkt. Cap (S\$m/US\$m)	26,232 / 19,279
Major Shareholders (%)	
Archer-Daniels-Midland Co	24.9
Kuok Brothers Sdn Bhd	18.5
Kerry Group	5.8
Free Float (%)	45.5
3m Avg. Daily Val (US\$m)	14.8

**GIC Industry :** Consumer Staples / Agricultural Products

Bloomberg ESG disclosure score (2017)<sup>^</sup> 31.0  
- Environmental / Social / Governance 17.1 / 31.6 / 62.5

[^ refer to back page for more information](#)



Live more, Bank less

## WHAT'S NEW

### Bigger and stronger in 2020

#### TP and rating: Maintain BUY with higher TP of S\$4.6

We maintain our BUY rating for Wilmar, and we believe the market is discounting its China operations and expansion into consumer branded products. YKA listing in 1Q20 and potential special dividend following the listing will be a short-term catalyst in 2020.

We derived our higher target price of S\$4.60 as we assumed a higher multiple of 15.5x for its tropical oil business in 2020. We believe our multiple assumption is fair given that we expect palm oil prices to recover by 19% y-o-y which would lift the value of palm oil related business. We believe Wilmar's integrated upstream-downstream business model in this segment will allow the company to deliver a steady earnings performance during various edible oil price cycles.

Meanwhile we are keeping our multiple for the rest of the other divisions unchanged for now – we assume 18x PE for its oilseeds and grains business which is fair, in our view, as it has the largest crushing capacity in the industry and is the

market leader in the consumer branded products segment. We are also keeping our 11.0x PE multiple assumption for the sugar business, as supply and demand fundamentals are keeping a cap on sugar prices; segment's contribution to Wilmar's profit before tax remains small.

#### Earnings revision: Neutral impact on higher edible oil assumption

We are keeping our forecast unchanged as we believe commodity prices have a minimal impact on Wilmar's earnings since Wilmar's profitability also depends on management execution on the trading activities such as timing of feedstock purchases.

We expect earnings to rebound by 13% y-o-y to US\$1.2bn in 2020, as we expect 1H20's performance to recover from the low in 2019. 1H19's earnings were affected by the African Swine Flu and US-China trade war.

#### Sum of Parts (SOTP) valuation summary

Divisions	NPAT FY20F Estimates (US\$m)	EPS (US\$)	FY20 PE (X)	Value (US\$)	Value (\$)
Tropical oils	411.6	0.1	15.5	1.0	1.4
Oilseeds & grains	655.6	0.1	18.0	1.9	2.6
Sugar/others	243.1	0.0	11.0	0.4	0.6
Minority interest	82				
<b>Total</b>	<b>1,228.3</b>			<b>3.3</b>	<b>4.6</b>

Source : DBS Bank

## CRITICAL DATA POINTS TO WATCH

### Critical Factors

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

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

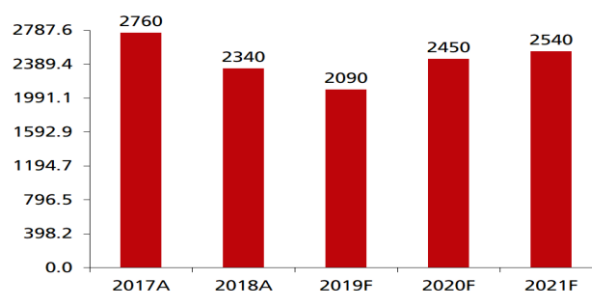
**Weather and supply-chain congestion.** A worse-than-expected drop in FFB yield would adversely impact our forecast for this year, due to the continued dry weather in some parts of Malaysia and Indonesia. Wilmar constantly monitors its supply chain to avoid delays in deliveries to customers.

**Changes in export tax policy.** A prospective increase in biodiesel production in Indonesia may lead to 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.

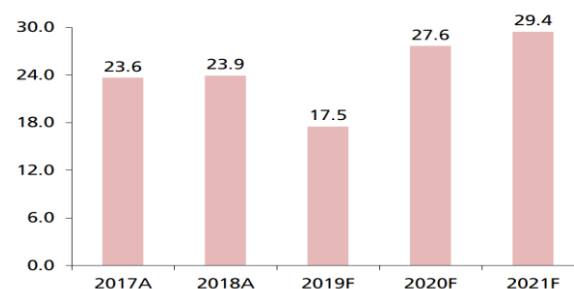
**Movement in crude oil prices.** Global demand for both ethanol and biodiesel is subject to certain crude oil price thresholds. Below this level, demand for both products would be adversely affected, and would influence sugarcane, corn and palm oil prices. Wilmar's sugar milling segment is exposed to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

**Geographic exposure.** Wilmar's consolidated revenue is globally distributed, with China contributing over 50% in FY18. Southeast Asia accounted for 17%, while Europe and Africa contributing c.6% of revenue each. 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.

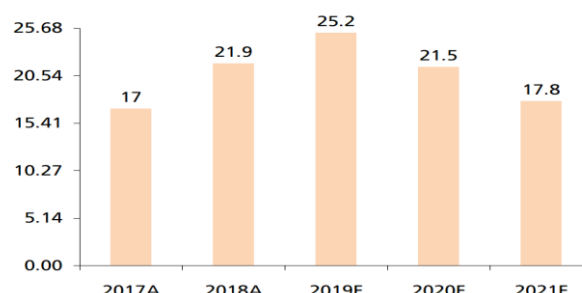
CPO price (RM/MT)



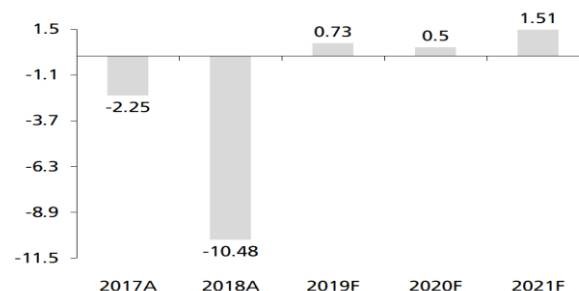
Oilseeds & grains pretax (US\$/MT)



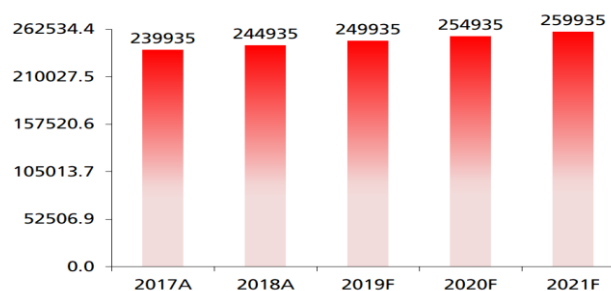
Tropical oils pretax (US\$/MT)



Sugar pretax (US\$/MT)



Oil palm planted area (Ha)

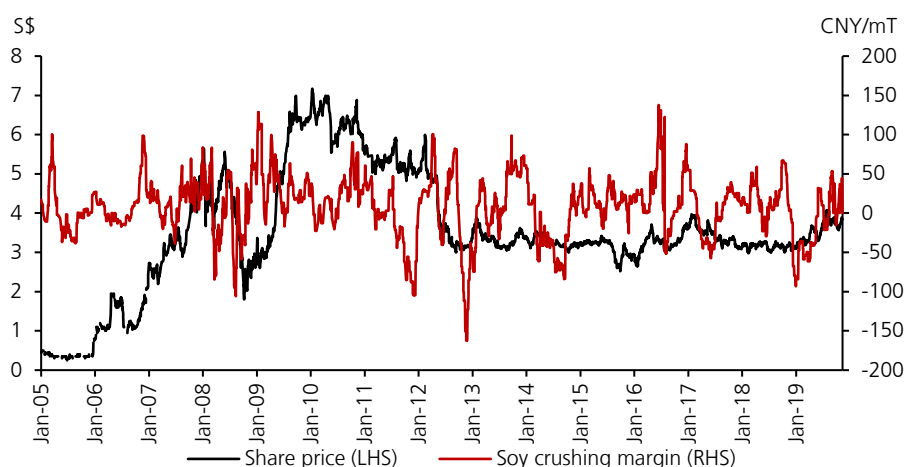


Source: Company, DBSVI, DBS Bank

**Appendix 1: A look at Company'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; the share price trend generally tracks palm oil spot prices. However, the outperformance and underperformance of plantation stocks to CPO prices are dictated by the productivity factor i.e. stronger- or weaker-than-expected yields will determine its share price sensitivity to palm oil price.

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

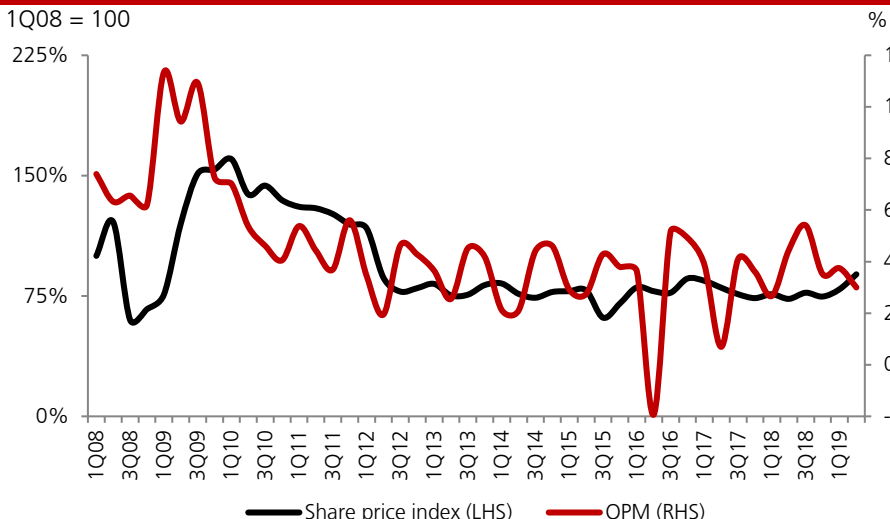
**Soy crushing margin vs. Share price performance****Remarks**

While historically spot margin calculations have 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 performance, with only 1Q16 reporting consolidated pre-tax losses since 2008.

**Operating profit margin as a critical factor**

1Q08 = 100

**Remarks**

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

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

**Balance Sheet:**

**Decent balance sheet.** Adjusting for liquid working capital, the group's net debt-to-total equity ratio was 73% as at end-September 2019. We forecast FY19 EBITDA/interest ratio at 8.9x, while FY19 current ratio is forecast at 1.2x.

**Value creation in progress.** We expect the group to have a ROE-WACC spread of 1.0% in FY19F/20F versus a negative spread in the last two years. With capex outlay of c.US\$1.0-1.4bn p.a. in FY19F-20F, we expect Wilmar to continue to generate positive free cash flows.

**Share Price Drivers:**

**Rising contribution from Consumer and JV may address concerns over exposure to commodity prices.** We believe the market has already priced in the group's earnings volatility in the last two years. Any visible improvements in its Consumer division (i.e. rice & flour milling) and/or JV contribution from Goodman Fielder would boost its share price.

**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.

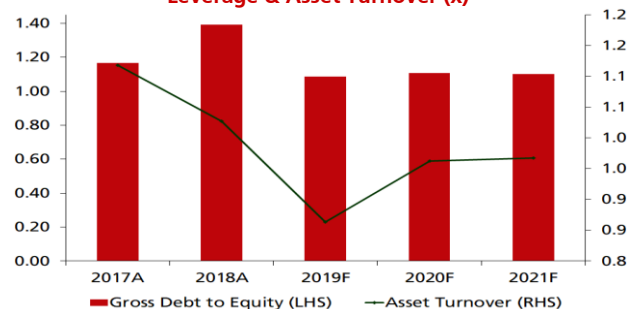
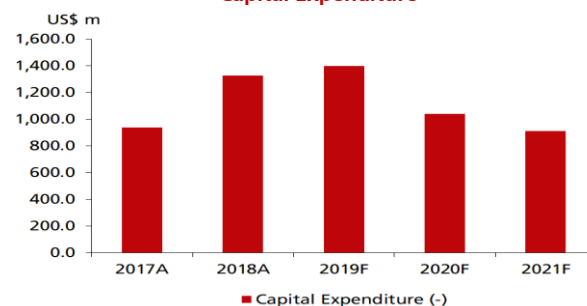
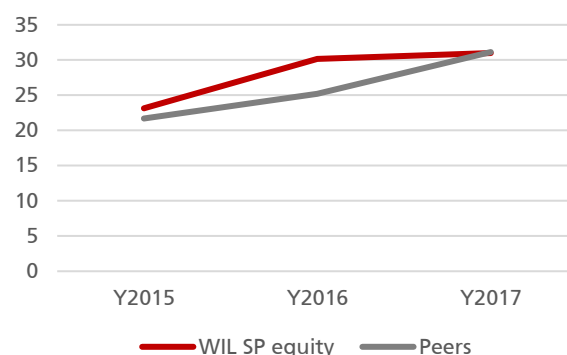
**Regulatory changes.** Any further increases in Indian import duty of refined oils or changes in the structure of Indonesian/Malaysian export taxes would impact demand for CPO/refined oils.

**Environment, Social, Governance:**

Wilmar's recorded good ESG scores in 2015-2017 which were largely in line with its peers. This resulted from the management's awareness on the quality of governance and sustainability of the business.

**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.

**Leverage & Asset Turnover (x)****Capital Expenditure****Bloomberg ESG Scores 2015-2017****Forward PE Band (x)****PB Band (x)**

Source: Company, DBSVI, DBS Bank

## Key Assumptions

FY Dec	2017A	2018A	2019F	2020F	2021F
CPO price (RM/MT)	2,760	2,340	2,090	2,450	2,540
Oilseeds & grains pretax	23.6	23.9	17.5	27.6	29.4
Tropical oils pretax	17.0	21.9	25.2	21.5	17.8
Sugar pretax (US\$/MT)	(2.25)	(10.48)	0.73	0.50	1.51
Oil palm planted area	239,935	244,935	249,935	254,935	259,935

## Segmental Breakdown

FY Dec	2017A	2018A	2019F	2020F	2021F
<b>Revenues (US\$ m)</b>					
Tropical oils	18,067	16,766	15,350	17,157	17,658
Oilseeds & grains	19,806	23,035	18,386	19,467	20,739
Sugar	4,818	3,585	4,033	4,240	4,731
Others	2,120	2,297	2,155	2,260	2,371
Others	(1,238)	(1,185)	(2,549)	(2,652)	(2,789)
Elimination	(1,238)	(1,185)	(2,549)	(2,652)	(2,789)
<b>Total</b>	<b>43,574</b>	<b>44,498</b>	<b>37,375</b>	<b>40,473</b>	<b>42,709</b>
<b>Pretax (US\$ m)</b>					
Tropical oils	426	547	623	529	435
Oilseeds & grains	735	875	528	842	969
Sugar	(25)	(123)	9	6	20
Others	242	20	14	13	14
Others	184	255	291	269	261
Unallocated costs	184	255	291	269	261
<b>Total</b>	<b>1,563</b>	<b>1,574</b>	<b>1,465</b>	<b>1,660</b>	<b>1,699</b>
<b>Pretax Margins (%)</b>					
Tropical oils	2.4	3.3	4.1	3.1	2.5
Oilseeds & grains	3.7	3.8	2.9	4.3	4.7
Sugar	(0.5)	(3.4)	0.2	0.2	0.4
Others	11.4	0.9	0.6	0.6	0.6
Others	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>3.6</b>	<b>3.5</b>	<b>3.9</b>	<b>4.1</b>	<b>4.0</b>

## Income Statement (US\$ m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Revenue	43,574	44,498	37,375	40,473	42,709
Cost of Goods Sold	(39,807)	(40,103)	(33,827)	(36,475)	(38,529)
<b>Gross Profit</b>	<b>3,767</b>	<b>4,395</b>	<b>3,549</b>	<b>3,999</b>	<b>4,179</b>
Other Opng (Exp)/Inc	(2,374)	(2,599)	(2,128)	(2,311)	(2,440)
<b>Operating Profit</b>	<b>1,393</b>	<b>1,795</b>	<b>1,421</b>	<b>1,687</b>	<b>1,739</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	228	310	323	305	297
Net Interest (Exp)/Inc	(253)	(352)	(279)	(333)	(337)
Exceptional Gain/(Loss)	194	(180)	0	0	0
<b>Pre-tax Profit</b>	<b>1,563</b>	<b>1,574</b>	<b>1,465</b>	<b>1,660</b>	<b>1,699</b>
Tax	(282)	(350)	(310)	(351)	(359)
Minority Interest	(85)	(96)	(71)	(81)	(88)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,196</b>	<b>1,128</b>	<b>1,084</b>	<b>1,228</b>	<b>1,252</b>
Net Profit before Except.	1,002	1,308	1,084	1,228	1,252
Net Pft (ex. BA gains)	1,203	1,150	1,084	1,228	1,252
EBITDA	2,397	2,937	2,571	2,855	2,947
<b>Growth</b>					
Revenue Gth (%)	5.2	2.1	(16.0)	8.3	5.5
EBITDA Gth (%)	10.8	22.6	(12.5)	11.1	3.2
Opg Profit Gth (%)	6.7	28.9	(20.9)	18.8	3.1
Net Profit Gth (%)	23.0	(5.7)	(3.9)	13.3	1.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	8.6	9.9	9.5	9.9	9.8
Opg Profit Margin (%)	3.2	4.0	3.8	4.2	4.1
Net Profit Margin (%)	2.7	2.5	2.9	3.0	2.9
ROAE (%)	7.9	7.0	6.7	7.3	7.1
ROA (%)	3.1	2.6	2.5	2.9	2.8
ROCE (%)	3.2	3.6	2.9	3.5	3.5
Div Payout Ratio (%)	39.2	39.2	39.2	39.2	39.2
Net Interest Cover (x)	5.5	5.1	5.1	5.1	5.2

Source: Company, DBSVI, DBS Bank

## Quarterly / Interim Income Statement (US\$ m)

FY Dec	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019
Revenue	11,419	11,100	10,444	9,782	11,164
Cost of Goods Sold	(10,102)	(10,125)	(9,433)	(8,872)	(9,852)
<b>Gross Profit</b>	<b>1,317</b>	<b>975</b>	<b>1,011</b>	<b>910</b>	<b>1,312</b>
Other Oper. (Exp)/Inc	(692)	(585)	(620)	(610)	(635)
<b>Operating Profit</b>	<b>625</b>	<b>390</b>	<b>391</b>	<b>300</b>	<b>677</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	66	153	21	22	25
Net Interest (Exp)/Inc	(114)	(110)	(108)	(121)	(106)
Exceptional Gain/(Loss)	(41)	(126)	1	(40)	81
<b>Pre-tax Profit</b>	<b>536</b>	<b>307</b>	<b>305</b>	<b>160</b>	<b>677</b>
Tax	(134)	(67)	(42)	(20)	(168)
Minority Interest	3	(39)	(5)	(12)	(32)
<b>Net Profit</b>	<b>405</b>	<b>201</b>	<b>257</b>	<b>128</b>	<b>477</b>
Net profit bef Except.	447	328	257	168	396
EBITDA	892	787	614	563	919

## Growth

Revenue Gth (%)	5.8	(2.8)	(5.9)	(6.3)	14.1
EBITDA Gth (%)	22.9	(11.8)	(21.9)	(8.4)	63.2
Opg Profit Gth (%)	30.2	(37.6)	0.3	(23.4)	125.8
Net Profit Gth (%)	27.9	(50.4)	27.9	(50.3)	273.3

## Margins

Gross Margins (%)	11.5	8.8	9.7	9.3	11.8
Opg Profit Margins (%)	5.5	3.5	3.7	3.1	6.1
Net Profit Margins (%)	3.5	1.8	2.5	1.3	4.3

## Balance Sheet (US\$ m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	8,756	9,310	9,851	9,956	9,889
Invts in Associates & JVs	3,428	3,715	4,038	4,343	4,640
Other LT Assets	6,169	6,375	6,415	6,497	6,581
Cash & ST Invts	4,532	5,163	3,490	3,919	4,580
Inventory	8,224	7,911	6,805	7,338	7,751
Debtors	9,456	11,867	8,955	9,697	10,233
Other Current Assets	368	1,339	1,380	1,422	1,467
<b>Total Assets</b>	<b>40,933</b>	<b>45,680</b>	<b>40,933</b>	<b>43,173</b>	<b>45,141</b>
ST Debt	16,130	17,821	14,259	15,440	16,293
Creditor	2,893	3,346	2,631	2,837	2,997
Other Current Liab	663	1,648	1,703	1,783	1,853
LT Debt	3,696	5,523	4,480	4,480	4,480
Other LT Liabilities	564	574	603	633	665
Shareholder's Equity	15,964	16,049	16,468	17,129	17,897
Minority Interests	1,022	718	789	869	957
Put Equity Reserve	N/A	N/A	N/A	N/A	N/A
<b>Total Cap. &amp; Liab.</b>	<b>40,933</b>	<b>45,680</b>	<b>40,933</b>	<b>43,173</b>	<b>45,141</b>
Non-Cash Wkg. Capital	14,491	16,123	12,805	13,836	14,601
Net Cash/(Debt)	(15,295)	(18,182)	(15,249)	(16,001)	(16,193)
Debtors Turn (avg days)	66.6	87.5	101.7	84.1	85.2
Creditors Turn (avg days)	29.5	29.0	33.1	28.0	28.3
Inventory Turn (avg days)	71.3	75.0	81.4	72.5	73.2
Asset Turnover (x)	1.1	1.0	0.9	1.0	1.0
Current Ratio (x)	1.1	1.2	1.1	1.1	1.1
Quick Ratio (x)	0.7	0.7	0.7	0.7	0.7
Net Debt/Equity (X)	0.9	1.1	0.9	0.9	0.9
Net Debt/Equity ex MI (X)	1.0	1.1	0.9	0.9	0.9
Capex to Debt (%)	4.7	5.7	7.5	5.2	4.4
Z-Score (X)	2.0	1.9	2.0	2.0	2.0

Source: Company, DBSVI, DBS Bank

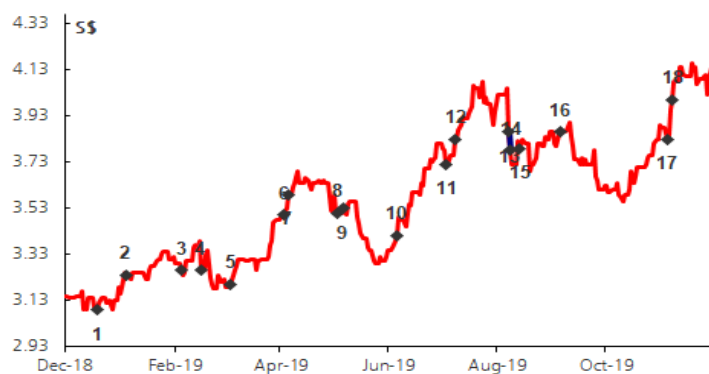


## Cash Flow Statement (US\$ m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	1,563	1,574	1,465	1,660	1,699
Dep. & Amort.	775	831	827	863	911
Tax Paid	(286)	(388)	(310)	(351)	(359)
Assoc. & JV Inc/(loss)	(228)	(310)	(323)	(305)	(297)
Chg in Wkg.Cap.	(1,728)	145	3,304	(1,069)	(789)
Other Operating CF	208	(351)	(62)	(42)	(60)
<b>Net Operating CF</b>	<b>303</b>	<b>1,501</b>	<b>4,901</b>	<b>755</b>	<b>1,105</b>
Capital Exp.(net)	(938)	(1,325)	(1,399)	(1,038)	(910)
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	84	(44)	(83)	(89)	(99)
<b>Net Investing CF</b>	<b>(854)</b>	<b>(1,370)</b>	<b>(1,482)</b>	<b>(1,127)</b>	<b>(1,009)</b>
Div Paid	(320)	(495)	(664)	(568)	(484)
Chg in Gross Debt	3,167	819	(4,606)	1,182	853
Capital Issues	22	3	0	0	0
Other Financing CF	(3,268)	(46)	88	92	97
<b>Net Financing CF</b>	<b>(399)</b>	<b>281</b>	<b>(5,182)</b>	<b>707</b>	<b>466</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	(949)	412	(1,763)	335	562
Opg CFPS (\$ cts)	31.7	21.2	24.9	28.5	29.6
Free CFPS (\$ cts)	(9.9)	2.7	54.7	(4.4)	3.1

Source: Company, DBS Bank

## Target Price &amp; 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:	26 Dec 18	3.09	3.59	BUY
2:	11 Jan 19	3.24	3.59	BUY
3:	11 Feb 19	3.26	3.59	BUY
4:	22 Feb 19	3.26	3.60	BUY
5:	11 Mar 19	3.20	3.60	BUY
6:	10 Apr 19	3.50	3.60	BUY
7:	12 Apr 19	3.59	3.60	BUY
8:	10 May 19	3.51	3.60	BUY
9:	13 May 19	3.53	3.86	BUY
10:	12 Jun 19	3.41	3.86	BUY
11:	10 Jul 19	3.72	4.30	BUY
12:	15 Jul 19	3.83	4.30	BUY
13:	14 Aug 19	3.86	4.30	BUY
14:	15 Aug 19	3.78	4.25	BUY
15:	20 Aug 19	3.79	4.25	BUY
16:	12 Sep 19	3.86	4.25	BUY
17:	11 Nov 19	3.83	4.25	BUY
18:	14 Nov 19	4.00	4.35	BUY

Source: DBSVI, DBS Bank

Analyst: William Simadiputra

Rui Wen LIM

# Malaysia Company Guide

## KL Kepong

Version 13 | Bloomberg: KLK MK | Reuters: KLKK.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Dec 2019

### BUY (Upgrade from Fully Valued)

Last Traded Price ( 6 Dec 2019): RM24.16 (KLCI : 1,568.44)

Price Target 12-mth: RM27.00 (12% upside) (Prev RM20.00)

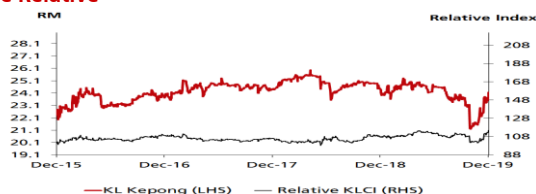
#### Analyst

Jin Wu LOW +60 326043968 lowjinwu@alliancedbs.com

### What's New

- Imputing new CPO price assumptions of RM2,450/2,540/2,560 for FY20-22F
- Exponential growth in profits expected due to high upstream exposure
- Oleochemicals division could offer some buffer if CPO prices trend lower
- Upgrade to BUY from FULLY VALUED at TP of RM27.00

#### Price Relative



#### Forecasts and Valuation

FY Sep (RMm)	2019A	2020F	2021F	2022F
Revenue	15,534	18,319	20,114	21,045
EBITDA	1,378	1,991	2,234	2,296
Pre-tax Profit	785	1,329	1,540	1,590
Net Profit	578	957	1,108	1,144
Net Pft (Pre Ex.)	618	957	1,108	1,144
Net Pft Gth (Pre-ex) (%)	(26.8)	54.9	15.9	3.3
EPS (sen)	54.2	89.6	104	107
EPS Pre Ex. (sen)	57.8	89.6	104	107
EPS Gth Pre Ex (%)	(27)	55	16	3
Diluted EPS (sen)	54.2	89.6	104	107
Net DPS (sen)	27.1	44.8	51.9	53.6
BV Per Share (sen)	971	1,028	1,085	1,139
PE (X)	44.6	27.0	23.3	22.5
PE Pre Ex. (X)	41.8	27.0	23.3	22.5
P/Cash Flow (X)	21.3	17.4	17.7	15.5
EV/EBITDA (X)	21.4	14.9	13.1	12.5
Net Div Yield (%)	1.1	1.9	2.1	2.2
P/Book Value (X)	2.5	2.4	2.2	2.1
Net Debt/Equity (X)	0.2	0.2	0.2	0.1
ROAE (%)	5.2	9.0	9.8	9.6
Earnings Rev (%):		20	24	13
Consensus EPS (sen):		77.8	85.7	83.0
Other Broker Recs:		B: 2	S: 5	H: 13

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

### Time to ride on CPO rally

**Set to benefit from CPO price surge.** We upgrade our crude palm oil (CPO) prices forecast to factor in the recent CPO price rally amidst plateauing palm oil supply due to dissipation of yields and El-Nino and recovery in soybean prices. Taking into account KL Kepong's (KLK) inherently high upstream exposure, which currently stands at more than 75% of earnings, we upgrade our earnings forecast by 20/24/13% for FY20-22F. We believe that KLK has remained one of the most efficient palm oil players in the industry and is expected to enjoy higher profits by way of higher CPO prices due to its operating leverage. We upgrade KLK from FULLY VALUED to BUY with a discounted cash flow (DCF)-derived target price (TP) of RM27.00.

**Where we differ: More bullish than consensus.** We believe that KLK could take full advantage high CPO prices due to its efficacy in its estate management and high upstream exposure.

**Potential catalyst.** We expect higher CPO prices to move the stock closer to our target price (TP).

#### Valuation:

Our discounted cash flow (DCF)-based TP of RM26.05 takes into account our CY20/21/22F CPO price assumption of RM2,450/2,540/2,560 per MT with a weighted average cost of capital (WACC) of 6.7%. Upgrade to BUY.

#### Key Risks to Our View:

Higher CPO prices are expected to negatively affect KLK's downstream division which has been supporting profits so far. Higher CPO and palm kernel (PK) prices would lead to higher feedstock costs for its oleochemicals segment and dampen its downstream earnings segment. However, we believe that the uplift coming from its upstream division will outweigh drag from its downstream division when CPO increases.

#### At A Glance

Issued Capital (m shrs)	1,065
Mkt. Cap (RMm/US\$m)	25,730 / 6,186
Major Shareholders (%)	
Batu Kawan Bhd	47.0
Employees Provident Fund	12.9
Skim Amanah Saham	5.3
Free Float (%)	53
3m Avg. Daily Val (US\$m)	6.5
GIC Industry : Consumer Staples / Agricultural Products	
Bloomberg ESG disclosure score (2018) <sup>^</sup>	39.7
- Environmental / Social / Governance	34.9 / 33.3 / 57.1

[^ refer to back page for more information](#)



Live more, Bank less

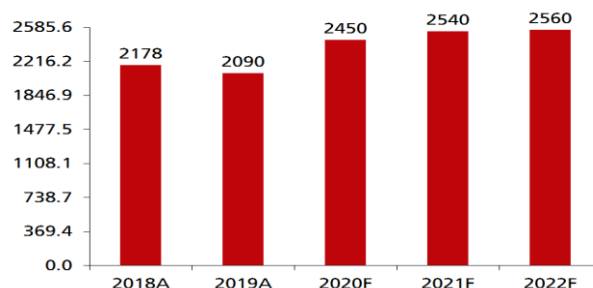
### CRITICAL DATA POINTS TO WATCH

**CPO prices the main determinant of earnings.** KLK is a vertically integrated producer, processor and merchandiser of palm oil products. More than two-thirds of its earnings before interest and taxes (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. We believe CPO prices will trend higher in FY20-21F due to better demand and supply dynamics for CPO due to plateauing palm oil supply and recovery in soybean prices.

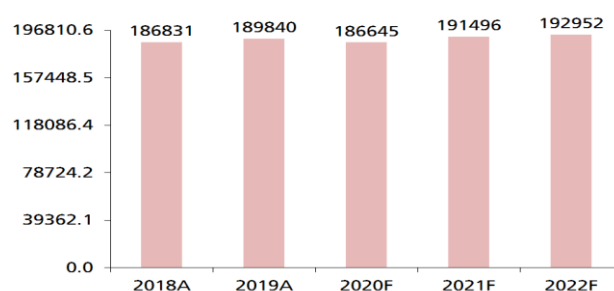
**Volume output, maturing trees expected to improve yields.** KLK's oil palm tree age profile is considered prime. Through consistent replanting in Malaysia and past expansions in Indonesia, KLK should see c.9k ha of additional maturities by FY19F – representing an increase of c.5% y-o-y. With an estimated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

**Downstream margins an important factor in earnings.** A significant share of KLK's manufacturing segment's products deal with industrialised oleochemicals, which compete with cheaper petrochemicals recently due to 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 average selling price (ASP) relative to its Malaysian counterparts. This means less contribution from the group's Indonesian estates. The levy also gives Indonesian refiners higher margins, due to the differentiated levies between CPO and its downstream products

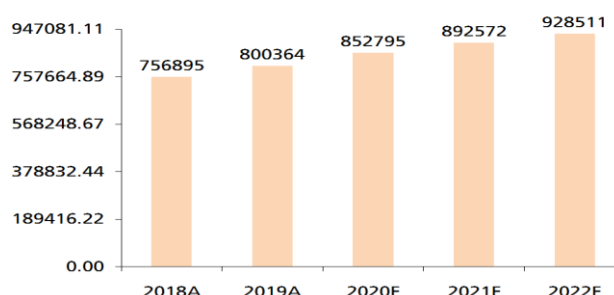
#### CPO price



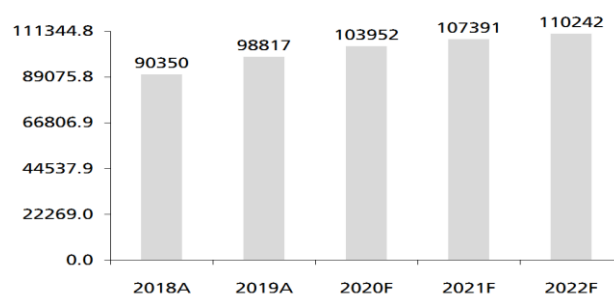
#### Mature palm oil hectareage



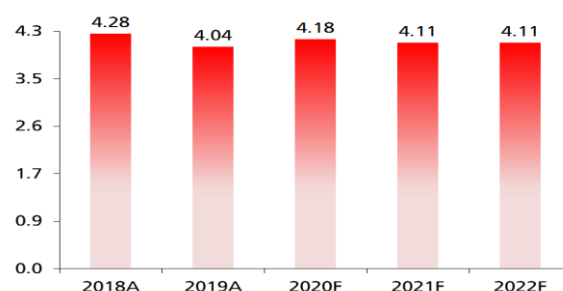
#### CPO sales volume



#### PKO sales volume



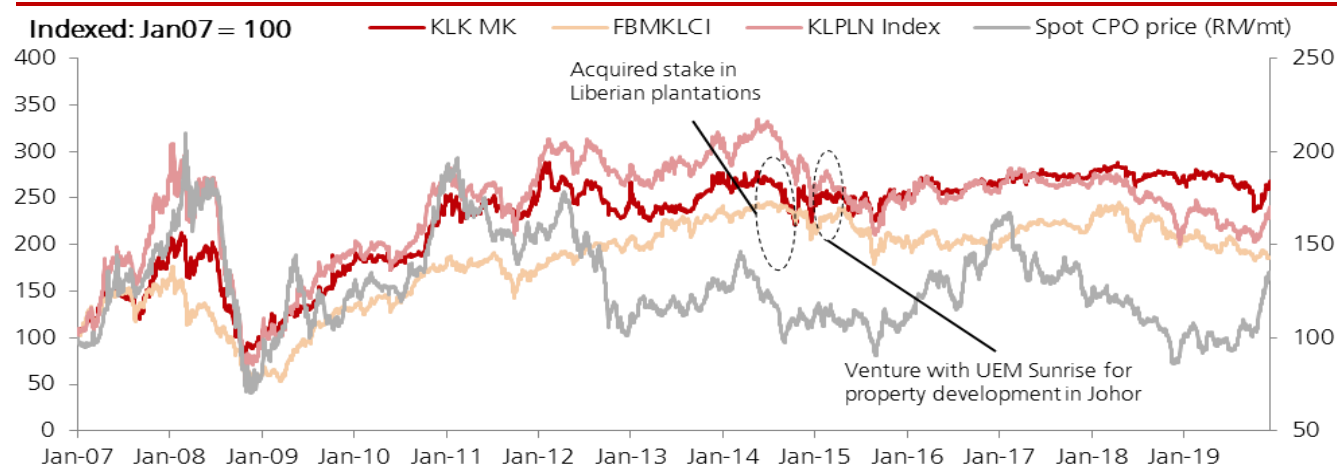
#### Average MYR/USD



Source: Company, AllianceDBS

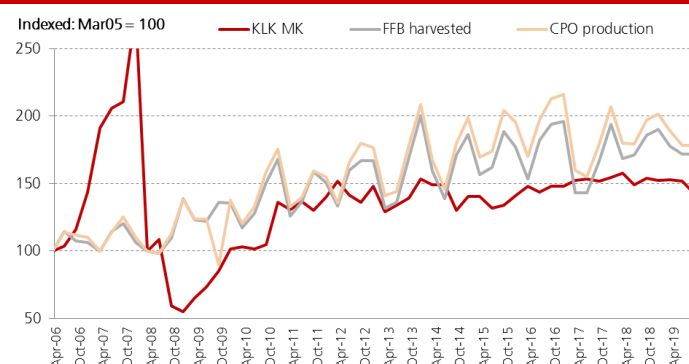
## Appendix 1: KLK price correlation with critical factors

Graph 1: Share price vs key benchmarks



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

## KLK share price vs production volume

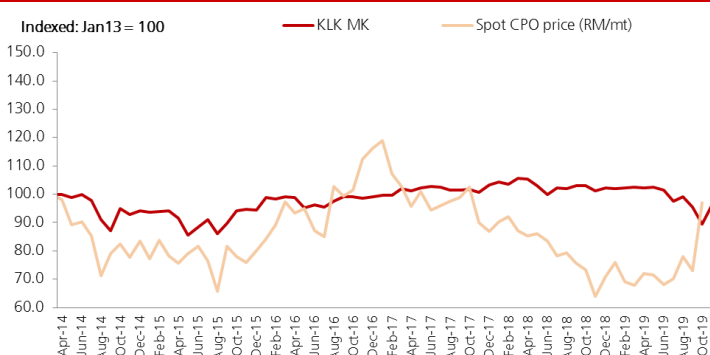


Source: Company, MPOB, Bloomberg Finance L.P., AllianceDBS

## Remarks

KLK's long-term share price movement has been influenced by the group's production levels, particularly CPO; and has a correlation coefficient of 0.8.

## KLK share price vs CPO prices



Source: Company, Bloomberg Finance 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.

## KL Kepong

### Balance Sheet:

**Relatively low gearing.** At the end of FY19, KLK's net debt-to-total equity settled at 0.2x, which was better than the 0.3x level in recent times. We expect this to further ease to c.0.1x by FY22F, if no major capital outlays are required.

**Strong free cash flow generation.** Group capital expenditure (capex) outlay is expected to be below RM700m p.a. in the coming years, slower than previous years which were generally more than RM800m. As such, KLK expects to see stronger free cash flow generation ahead, which would pare down its leverage.

### Share Price Drivers:

**Inorganic growth opportunities.** The group may pursue external growth catalysts, given the difficulty of sizeable new planting on its existing land bank. 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 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 the US Dollar (USD) would affect the profitability of planters in general.

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

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

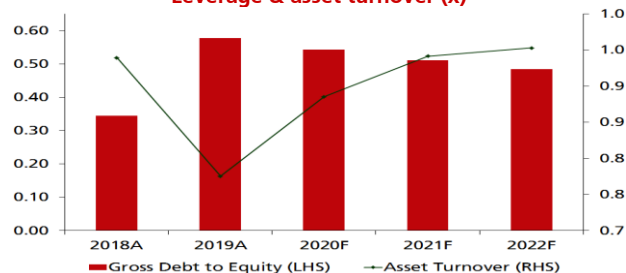
### Environmental, Social, Governance (ESG):

KLK applies the integrated and High Conservation Value (HCV) and High Carbon Stock (HCSA) assessments for all new areas of its oil palm development. KLK has also pledged not to have any new development on peatlands, regardless of depth and will apply best management practices for all existing peatlands currently cultivated with oil palm. KLK will also remain fully committed to upholding the rights of workers.

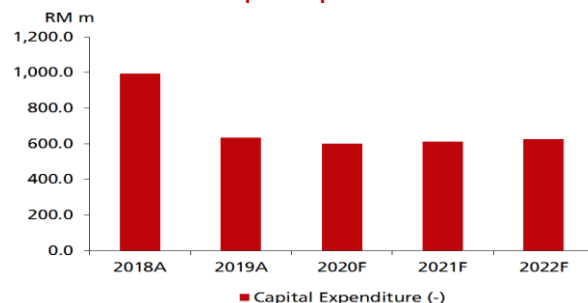
### Company Background

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

### Leverage & asset turnover (x)

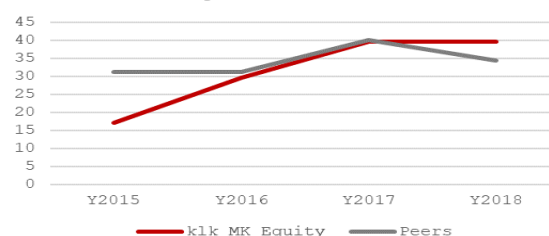


### Capital expenditure

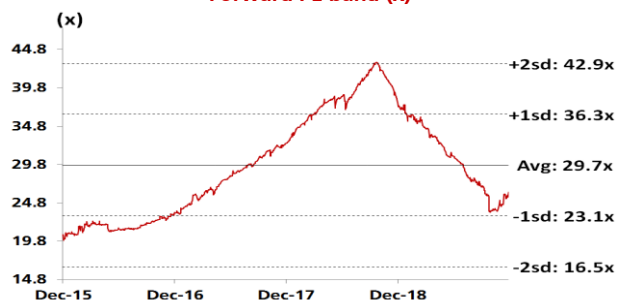


### Environmental, Social, Governance

Bloomberg ESG Disclosure Score



### Forward PE band (x)



### PB band (x)



Source: Company, AllianceDBS

## KL Kepong

## Key Assumptions

FY Sep	2018A	2019A	2020F	2021F	2022F
CPO price (RM/MT)	2,178	2,090	2,450	2,540	2,560
Mature palm oil hectareage	186,831	189,840	186,645	191,496	192,952
CPO sales volume	756,895	800,364	852,795	892,572	928,511
PKO sales volume	90,350	98,817	103,952	107,391	110,242
Average MYR/USD	4.28	4.04	4.18	4.11	4.11

## Income Statement (RMm)

FY Sep	2018A	2019A	2020F	2021F	2022F
Revenue	18,401	15,534	18,319	20,114	21,045
Cost of Goods Sold	(17,095)	(13,990)	(15,990)	(17,466)	(18,333)
<b>Gross Profit</b>	<b>1,306</b>	<b>1,544</b>	<b>2,329</b>	<b>2,648</b>	<b>2,712</b>
Other Opng (Exp)/Inc	0.0	(705)	(908)	(1,017)	(1,053)
<b>Operating Profit</b>	<b>1,306</b>	<b>839</b>	<b>1,421</b>	<b>1,631</b>	<b>1,659</b>
Other Non Opg (Exp)/Inc	0.0	137	0.0	0.0	0.0
Associates & JV Inc	(3.5)	14.8	15.1	15.4	15.7
Net Interest (Exp)/Inc	(94.7)	(167)	(107)	(107)	(84.1)
Exceptional Gain/(Loss)	(90.2)	(39.0)	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>1,117</b>	<b>785</b>	<b>1,329</b>	<b>1,540</b>	<b>1,590</b>
Tax	(313)	(173)	(319)	(370)	(382)
Minority Interest	(50.8)	(33.2)	(53.6)	(62.1)	(64.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>753</b>	<b>578</b>	<b>957</b>	<b>1,108</b>	<b>1,144</b>
Net Profit before Except.	844	618	957	1,108	1,144
EBITDA	1,813	1,378	1,991	2,234	2,296
<b>Growth</b>					
Revenue Gth (%)	(12.4)	(15.6)	17.9	9.8	4.6
EBITDA Gth (%)	(16.4)	(24.0)	44.5	12.2	2.8
Opg Profit Gth (%)	(22.8)	(35.7)	69.3	14.8	1.7
Net Profit Gth (Pre-ex) (%)	(26.4)	(26.8)	54.9	15.9	3.3
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	7.1	9.9	12.7	13.2	12.9
Opg Profit Margin (%)	7.1	5.4	7.8	8.1	7.9
Net Profit Margin (%)	4.1	3.7	5.2	5.5	5.4
ROAE (%)	6.4	5.2	9.0	9.8	9.6
ROA (%)	3.8	2.9	4.6	5.2	5.2
ROCE (%)	5.2	3.5	5.6	6.3	6.2
Div Payout Ratio (%)	70.9	50.0	50.0	50.0	50.0
Net Interest Cover (x)	13.8	5.0	13.3	15.3	19.7

Source: Company, AllianceDBS

## KL Kepong

## Quarterly / Interim Income Statement (RMm)

FY Sep	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Revenue	4,191	4,085	3,942	3,704	3,802
Cost of Goods Sold	(3,947)	(3,828)	(3,758)	(3,507)	(3,618)
<b>Gross Profit</b>	<b>244</b>	<b>257</b>	<b>184</b>	<b>198</b>	<b>185</b>
Other Oper. (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
<b>Operating Profit</b>	<b>244</b>	<b>257</b>	<b>184</b>	<b>198</b>	<b>185</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.2)	9.88	(6.2)	0.46	(4.2)
Net Interest (Exp)/Inc	(25.6)	(25.9)	(24.1)	(18.2)	68.2
Exceptional Gain/(Loss)	(48.0)	95.2	42.2	(135)	(2.1)
<b>Pre-tax Profit</b>	<b>170</b>	<b>336</b>	<b>196</b>	<b>44.8</b>	<b>247</b>
Tax	(66.6)	(64.8)	(42.6)	(14.0)	(51.9)
Minority Interest	(2.1)	(20.7)	(10.5)	17.8	(19.9)
<b>Net Profit</b>	<b>102</b>	<b>251</b>	<b>143</b>	<b>48.6</b>	<b>175</b>
Net profit bef Except.	150	156	101	184	177
EBITDA	244	267	178	198	181

## Growth

Revenue Gth (%)	(3.2)	(2.5)	(3.5)	(6.0)	2.6
EBITDA Gth (%)	(17.4)	9.5	(33.4)	11.4	(8.8)
Opg Profit Gth (%)	(18.6)	5.4	(28.4)	7.4	(6.5)
Net Profit Gth (Pre-ex) (%)	(23.6)	4.1	(35.3)	82.5	(3.7)

## Margins

Gross Margins (%)	5.8	6.3	4.7	5.3	4.9
Opg Profit Margins (%)	5.8	6.3	4.7	5.3	4.9
Net Profit Margins (%)	2.4	6.1	3.6	1.3	4.6

## Balance Sheet (RMm)

FY Sep	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	8,339	7,847	8,480	8,497	8,495
Invt in Associates & JVs	308	1,646	1,661	1,676	1,692
Other LT Assets	4,557	2,772	2,707	2,643	2,581
Cash & ST Invt	1,876	3,700	3,668	4,034	4,537
Inventory	1,873	2,124	2,186	2,388	2,507
Debtors	2,377	2,286	2,258	2,480	2,595
Other Current Assets	342	23.4	23.4	23.4	23.4
<b>Total Assets</b>	<b>19,672</b>	<b>20,399</b>	<b>20,985</b>	<b>21,742</b>	<b>22,431</b>
ST Debt	1,341	1,349	1,315	1,282	1,250
Creditor	1,405	1,360	1,314	1,436	1,507
Other Current Liab	203	161	161	161	161
LT Debt	3,067	5,170	5,170	5,170	5,170
Other LT Liabilities	856	1,073	1,073	1,073	1,073
Shareholder's Equity	11,884	10,360	10,971	11,578	12,163
Minority Interests	917	926	980	1,042	1,106
<b>Total Cap. &amp; Liab.</b>	<b>19,672</b>	<b>20,399</b>	<b>20,985</b>	<b>21,742</b>	<b>22,431</b>
Non-Cash Wkg. Capital	2,984	2,914	2,993	3,295	3,457
Net Cash/(Debt)	(2,532)	(2,819)	(2,817)	(2,419)	(1,883)
Debtors Turn (avg days)	48.5	54.8	45.3	43.0	44.0
Creditors Turn (avg days)	32.7	37.5	31.6	29.8	30.3
Inventory Turn (avg days)	40.4	54.2	51.0	49.5	50.5
Asset Turnover (x)	0.9	0.8	0.9	0.9	1.0
Current Ratio (x)	2.2	2.8	2.9	3.1	3.3
Quick Ratio (x)	1.4	2.1	2.1	2.3	2.4
Net Debt/Equity (X)	0.2	0.2	0.2	0.2	0.1
Net Debt/Equity ex MI (X)	0.2	0.3	0.3	0.2	0.2
Capex to Debt (%)	22.6	9.7	9.3	9.5	9.8
Z-Score (X)	4.2	3.5	3.7	3.8	3.8

Source: Company, AllianceDBS



## KL Kepong

## Cash Flow Statement (RMm)

FY Sep	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	1,177	785	1,329	1,540	1,590
Dep. & Amort.	507	539	570	603	637
Tax Paid	(282)	(173)	(319)	(370)	(382)
Assoc. & JV Inc/(loss)	(5.0)	(14.8)	(15.1)	(15.4)	(15.7)
Chg in Wkg.Cap.	(96.5)	(206)	(79.7)	(302)	(162)
Other Operating CF	0.0	279	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>1,300</b>	<b>1,209</b>	<b>1,486</b>	<b>1,456</b>	<b>1,668</b>
Capital Exp.(net)	(994)	(635)	(600)	(613)	(627)
Other Invt.(net)	69.8	1,516	30.1	29.4	28.6
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	27.3	(44.1)	27.7	27.0	26.3
<b>Net Investing CF</b>	<b>(897)</b>	<b>837</b>	<b>(542)</b>	<b>(557)</b>	<b>(572)</b>
Div Paid	(534)	(460)	(346)	(501)	(560)
Chg in Gross Debt	(34.4)	2,110	(33.7)	(32.9)	(32.1)
Capital Issues	0.0	(1,192)	0.0	0.0	0.0
Other Financing CF	0.0	218	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>(568)</b>	<b>676</b>	<b>(380)</b>	<b>(534)</b>	<b>(592)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(165)	2,721	564	365	504
Opg CFPS (sen)	131	133	147	165	171
Free CFPS (sen)	28.7	53.8	82.9	78.9	97.5

Source: Company, AllianceDBS

## Target Price &amp; 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:	26 Dec 18	24.20	23.30	HOLD
2:	11 Jan 19	24.10	23.30	HOLD
3:	11 Feb 19	24.40	23.30	HOLD
4:	19 Feb 19	25.00	22.45	HOLD
5:	08 Mar 19	24.78	22.45	HOLD
6:	11 Mar 19	24.78	22.45	HOLD
7:	10 Apr 19	24.90	22.45	HOLD
8:	10 May 19	24.50	22.45	HOLD
9:	16 May 19	24.12	22.35	HOLD
10:	12 Jun 19	24.60	22.35	HOLD
11:	10 Jul 19	24.56	21.10	HOLD
12:	15 Jul 19	24.20	21.10	FULLY VALUED
13:	14 Aug 19	23.62	21.10	FULLY VALUED
14:	20 Aug 19	23.82	21.10	FULLY VALUED
15:	21 Aug 19	23.62	19.75	FULLY VALUED
16:	11 Nov 19	22.20	19.75	FULLY VALUED
17:	20 Nov 19	23.60	20.00	FULLY VALUED

Source: AllianceDBS

Analyst: Jin Wu LOW

# Malaysia Company Guide

# IOI Corporation

Version 12 | Bloomberg: IOI MK | Reuters: IOIB.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Dec 2019

## HOLD

Last Traded Price ( 6 Dec 2019): RM4.48 (KLCI : 1,568.44)

Price Target 12-mth: RM4.65 (4% upside) (Prev RM4.15)

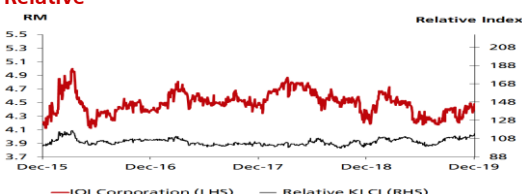
### Analyst

Jin Wu LOW +60 326043968 lowjinwu@alliancedbs.com

### What's New

- Imputing new CPO price assumptions of RM2,450/2,540/2,560 per MT for 2020-22F
- Rise in upstream earnings would be partially offset by decrease in downstream earnings
- Fairly valued, trading at almost 3x P/BV and 30x FY20 PE
- Maintain HOLD call with DCF-derived TP of RM4.65

### Price Relative



### Forecasts and Valuation

FY Jun (RMm)	2019A	2020F	2021F	2022F
Revenue	7,386	8,507	9,035	9,386
EBITDA	1,399	1,735	1,898	1,986
Pre-tax Profit	873	1,241	1,357	1,583
Net Profit	632	932	1,019	1,247
Net Pft (Pre Ex.)	683	926	1,013	1,119
Net Pft Gth (Pre-ex) (%)	(36.9)	35.7	9.4	10.4
EPS (sen)	10.1	14.9	16.3	20.0
EPS Pre Ex. (sen)	10.9	14.8	16.2	17.9
EPS Gth Pre Ex (%)	(37)	36	9	10
Diluted EPS (sen)	10.8	14.6	16.0	17.6
Net DPS (sen)	7.54	11.1	12.2	14.9
BV Per Share (sen)	148	152	157	163
PE (X)	44.3	30.0	27.4	22.4
PE Pre Ex. (X)	41.0	30.2	27.6	25.0
P/Cash Flow (X)	23.0	103.5	24.0	19.5
EV/EBITDA (X)	21.7	17.9	16.3	15.4
Net Div Yield (%)	1.7	2.5	2.7	3.3
P/Book Value (X)	3.0	2.9	2.9	2.7
Net Debt/Equity (X)	0.2	0.3	0.3	0.2
ROAE (%)	6.8	9.9	10.5	12.4
Earnings Rev (%):		7	5	3
Consensus EPS (sen):		14.1	15.2	15.8
Other Broker Recs:		B: 1	S: 4	H: 13

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

## Lift from higher CPO prices

Rise in upstream earnings is expected to be partially offset by lower downstream earnings. We anticipate higher CPO prices going into FY20 as we expect plateauing palm oil supply due to dissipation in production yields, supply disruption coming from El Nino and stronger soybean prices. Hence, we raise our earnings assumptions by 7/5/3% for FY20-22F and upgrade our target price from RM4.15 to RM4.65. Despite our assumptions of higher CPO prices, we believe that IOI is currently fairly valued as it has been trading at 30x FY20 PE and 3x P/BV, which is higher than its peers. IOI has the largest downstream exposure in our Malaysian coverage and is the least sensitive to changes in CPO prices due to its downstream exposure. Higher CPO prices would mean higher feedstock costs for its downstream division, partially offsetting its gains from our higher CPO price assumptions.

Where we differ: Higher CPO price assumptions. Our forecasts are above consensus due to our higher CPO price assumption.

Potential catalysts: CPO price and M&A. Despite having the highest downstream exposure in our Malaysia coverage, IOI's earnings are still considered sensitive to CPO prices. The group also has the potential for M&A activities due to its low gearing.

### Valuation:

Our DCF-based TP stands at RM4.65 (WACC of 6.6%), and reflects CY20/21/22F CPO average price forecast of RM2,450/2,540/2,560 per MT.

### Key Risks to Our View:

A decline in CPO prices may weigh on IOI's earnings and share price. As IOI is an FBK KLCI component, any changes in its weighting would also make it vulnerable to price swings.

### At A Glance

Issued Capital (m shrs)	6,285
Mkt. Cap (RMm/US\$m)	28,155 / 6,770
Major Shareholders (%)	
Vertical Capacity Sdn Bhd	47.1
Employees Provident Fund	12.5
Free Float (%)	53
3m Avg. Daily Val (US\$m)	2.4

GIC Industry : Consumer Staples / Agricultural Products

Bloomberg ESG disclosure score (2018)^	47.5
- Environmental / Social / Governance	45.0 / 43.9 / 57.1

[^ refer to back page for more information](#)



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## CRITICAL DATA POINTS TO WATCH

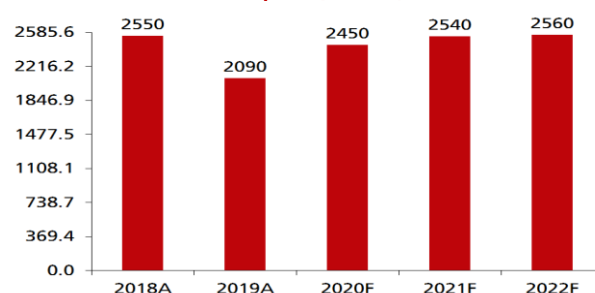
**CPO price movements, an important factor to earnings.** IOI is a vertically integrated producer, processor and merchandiser of palm oil products. More than 60-70% of EBIT is derived from its Plantations segment, primarily dealing with sales of CPO and PK. This proportion is set to increase from FY20 onwards, as a sizeable proportion of its downstream operations has been hived off. CPO prices can influence both ASP and margins of the segment, and we project modest prices of RM2,450/2,540/2,560 per MT for CY20/21/22F. Additionally, CPO prices also have an impact on the earnings of its 32% associate, SGX-listed Bumitama Agri (BAL).

**Volume output expected to be modest going forward.** IOI has 174,000 ha of oil palm planted area as at end-FY19, of which 154,600 ha (89%) is deemed mature. The group is targeting to replant 7,500-9,000 ha of older palms per year going forward, accelerating from c.6,000 p.a. previously, which will keep its planted area relatively flattish over the period. FFB volume growth will thus primarily come from improvements in yield and age profile, and we project output to expand by 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%.

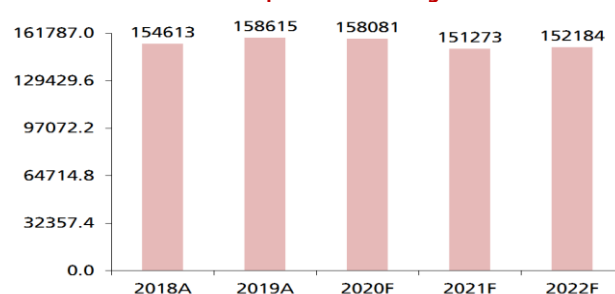
**Manufacturing segment margins to remain healthy despite the sale of Loders Croklaan.** In FY18, IOI had divested 70% of its 100% stake in Loders Croklaan Group B.V., which was primarily involved in the production of specialty fats from palm oil derivatives. However, it retains direct exposure to the 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.

**High exposure to USD-denominated debt.** 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 substantial translation losses.

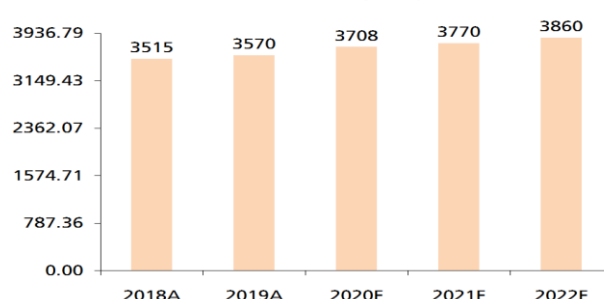
CPO price (RM/MT)



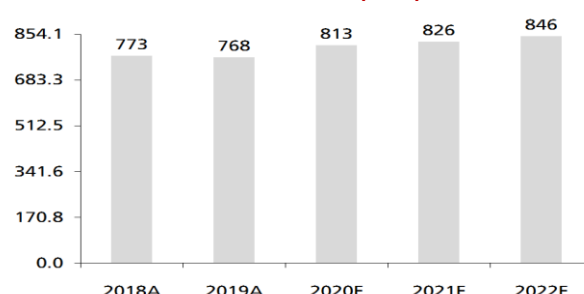
Mature palm oil hectareage



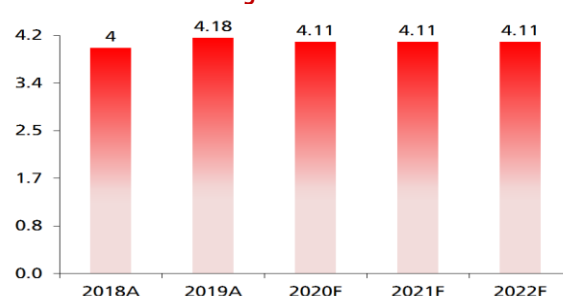
FFB harvested (k MT)



CPO sales volume (k MT)



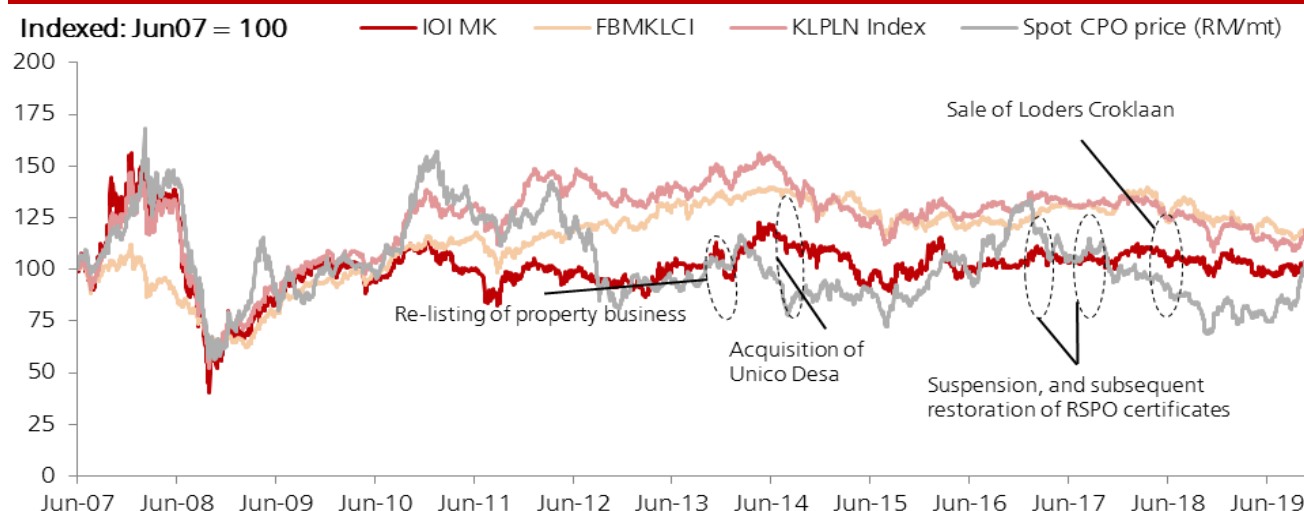
Average MYR/USD



Source: Company, AllianceDBS

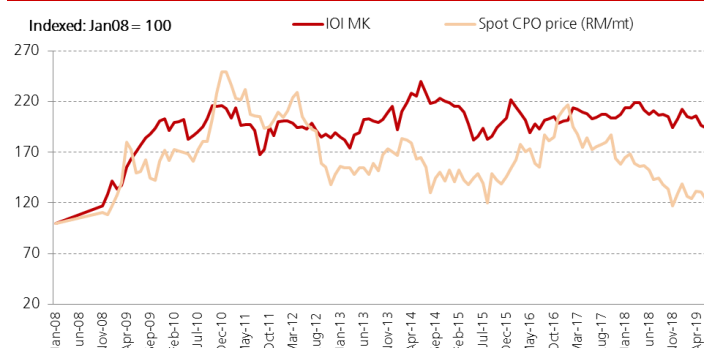
## Appendix 1: IOI price correlation with critical factors

Graph 1: Share price vs key benchmarks



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

## IOI's share price vs CPO prices

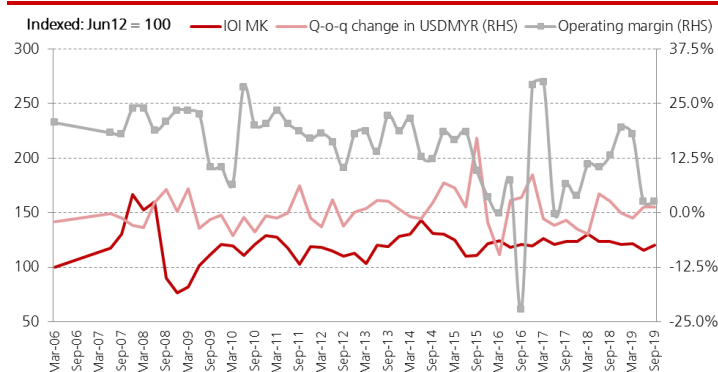


Source: Company, Bloomberg Finance L.P., AllianceDBS

## Remarks

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

## IOI's share price vs margins &amp; currency movements



Source: Company, MPOB, Bloomberg Finance 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% out of its 100% stake in downstream operations Loders Croklaan in 3QFY18, we expect a structural uplift in margins going forward.

## IOI Corporation

### 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, the main driver of revenue.** 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 could boost current valuations further.** With low gearing, IOI is in a strong position to pursue acquisition opportunities. We believe the likelihood of a value-accretive purchase has also been 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 demand for CPO/refined oils.

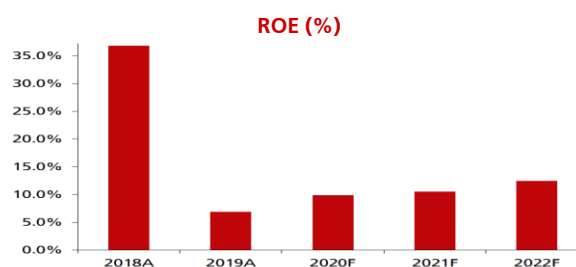
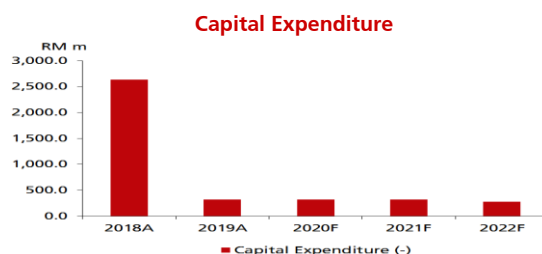
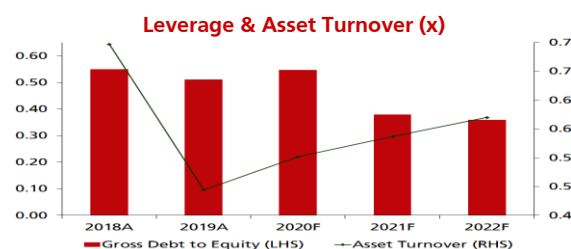
**Weather.** Changes in rainfall patterns (caused by either El Nino or La Nina) would affect FFB yields with some time lag.

### Environment, Social, Governance:

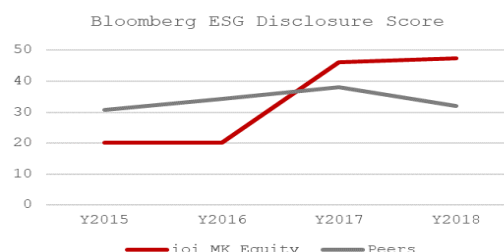
IOI is committed to projecting, rehabilitating and preserving the environment where it lives in, ensuring that the economic and social well-being of its employees and families as well as the wider communities are protected. The company leads and innovates, as well as embeds corporate sustainability as part of doing business.

### 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.



### Environment, Social, Governance



Source: Company, AllianceDBS

**Key Assumptions**

FY Jun	2018A	2019A	2020F	2021F	2022F
CPO price (RM/MT)	2,550	2,090	2,450	2,540	2,560
Mature palm oil hectareage	154,613	158,615	158,081	151,273	152,184
FFB harvested (k MT)	3,515	3,570	3,708	3,770	3,860
CPO sales volume (k MT)	773	768	813	826	846
Average MYR/USD	4.00	4.18	4.11	4.11	4.11

**Income Statement (RMm)**

FY Jun	2018A	2019A	2020F	2021F	2022F
Revenue	12,111	7,386	8,507	9,035	9,386
Cost of Goods Sold	(9,802)	(5,957)	(6,721)	(7,069)	(7,331)
<b>Gross Profit</b>	<b>2,308</b>	<b>1,428</b>	<b>1,786</b>	<b>1,966</b>	<b>2,056</b>
Other Opg (Exp)/Inc	(852)	(520)	(598)	(636)	(660)
<b>Operating Profit</b>	<b>1,456</b>	<b>909</b>	<b>1,188</b>	<b>1,330</b>	<b>1,396</b>
Other Non Opg (Exp)/Inc	0.0	(51.3)	0.0	0.0	0.0
Associates & JV Inc	138	168	157	161	168
Net Interest (Exp)/Inc	(144)	(102)	(110)	(141)	(109)
Exceptional Gain/(Loss)	1,980	(50.8)	5.99	6.34	128
<b>Pre-tax Profit</b>	<b>3,430</b>	<b>873</b>	<b>1,241</b>	<b>1,357</b>	<b>1,583</b>
Tax	(362)	(255)	(295)	(323)	(318)
Minority Interest	(7.8)	14.1	(14.0)	(15.3)	(17.6)
Preference Dividend	2.00	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>3,061</b>	<b>632</b>	<b>932</b>	<b>1,019</b>	<b>1,247</b>
Net Profit before Except.	1,081	683	926	1,013	1,119
EBITDA	2,004	1,399	1,735	1,898	1,986
<b>Growth</b>					
Revenue Gth (%)	(14.3)	(39.0)	15.2	6.2	3.9
EBITDA Gth (%)	(4.3)	(30.2)	24.0	9.4	4.6
Opg Profit Gth (%)	(1.7)	(37.6)	30.7	12.0	4.9
Net Profit Gth (Pre-ex) (%)	(0.8)	(36.9)	35.7	9.4	10.4
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	19.1	19.3	21.0	21.8	21.9
Opg Profit Margin (%)	12.0	12.3	14.0	14.7	14.9
Net Profit Margin (%)	25.3	8.6	11.0	11.3	13.3
ROAE (%)	36.8	6.8	9.9	10.5	12.4
ROA (%)	17.6	3.8	5.5	6.1	7.6
ROCE (%)	8.1	4.1	5.6	6.4	7.2
Div Payout Ratio (%)	42.0	75.0	75.0	75.0	75.0
Net Interest Cover (x)	10.1	8.9	10.8	9.5	12.8

Source: Company, AllianceDBS

**Quarterly / Interim Income Statement (RMm)**

FY Jun	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Revenue	1,876	1,881	1,891	1,738	1,776
Other Oper. (Exp)/Inc	(1,649)	(1,653)	(1,641)	(1,567)	(1,577)
<b>Operating Profit</b>	<b>227</b>	<b>227</b>	<b>250</b>	<b>171</b>	<b>199</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	51.7	44.0	50.1	22.1	42.0
Net Interest (Exp)/Inc	(30.9)	(19.9)	(28.7)	(22.6)	(25.2)
Exceptional Gain/(Loss)	(52.5)	10.3	87.1	(95.7)	(17.0)
<b>Pre-tax Profit</b>	<b>195</b>	<b>262</b>	<b>358</b>	<b>74.8</b>	<b>199</b>
Tax	(54.0)	(43.4)	(125)	(32.2)	(50.9)
Minority Interest	2.60	(0.1)	5.80	5.80	1.30
<b>Net Profit</b>	<b>144</b>	<b>218</b>	<b>239</b>	<b>48.4</b>	<b>149</b>
Net profit bef Except.	196	208	152	144	166
EBITDA	372	369	392	286	333

**Growth**

Revenue Gth (%)	(3.1)	0.3	0.6	(8.1)	2.1
EBITDA Gth (%)	(85.6)	(0.8)	6.4	(27.2)	16.7
Opg Profit Gth (%)	(90.7)	0.2	9.8	(31.6)	16.3
Net Profit Gth (Pre-ex) (%)	(91.7)	6.0	(27.1)	(5.0)	15.2

**Margins**

Opg Profit Margins (%)	12.1	12.1	13.2	9.8	11.2
Net Profit Margins (%)	7.7	11.6	12.6	2.8	8.4

**Balance Sheet (RMm)**

FY Jun	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	8,411	8,459	8,281	8,198	8,051
Invts in Associates & JVs	2,491	2,610	2,767	2,929	3,097
Other LT Assets	617	636	636	636	636
Cash & ST Invts	2,765	2,599	2,475	1,104	1,404
Inventory	949	778	1,657	1,743	1,808
Debtors	816	774	932	990	1,029
Other Current Assets	694	645	651	658	664
<b>Total Assets</b>	<b>16,743</b>	<b>16,500</b>	<b>17,401</b>	<b>16,258</b>	<b>16,689</b>
ST Debt	895	409	895	1,895	1,895
Creditor	650	600	737	775	803
Other Current Liab	274	214	214	214	214
LT Debt	4,285	4,452	4,443	1,929	1,881
Other LT Liabilities	1,224	1,315	1,341	1,368	1,395
Shareholder's Equity	9,156	9,300	9,546	9,837	10,243
Minority Interests	259	211	225	240	258
<b>Total Cap. &amp; Liab.</b>	<b>16,743</b>	<b>16,500</b>	<b>17,401</b>	<b>16,258</b>	<b>16,689</b>
Non-Cash Wkg. Capital	1,536	1,382	2,291	2,403	2,484
Net Cash/(Debt)	(2,415)	(2,262)	(2,863)	(2,720)	(2,372)
Debtors Turn (avg days)	35.8	39.3	36.6	38.8	39.3
Creditors Turn (avg days)	39.6	40.9	38.5	41.4	41.7
Inventory Turn (avg days)	71.0	56.5	70.2	93.1	93.8
Asset Turnover (x)	0.7	0.4	0.5	0.5	0.6
Current Ratio (x)	2.9	3.9	3.1	1.6	1.7
Quick Ratio (x)	2.0	2.8	1.8	0.7	0.8
Net Debt/Equity (X)	0.3	0.2	0.3	0.3	0.2
Net Debt/Equity ex MI (X)	0.3	0.2	0.3	0.3	0.2
Capex to Debt (%)	(50.9)	6.5	5.9	8.4	7.3
Z-Score (X)	4.2	3.9	3.8	4.4	4.4

Source: Company, AllianceDBS



## Cash Flow Statement (RMm)

FY Jun	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	1,450	873	1,235	1,351	1,455
Dep. & Amort.	407	374	390	406	422
Tax Paid	(362)	(255)	(295)	(323)	(318)
Assoc. & JV Inc/(loss)	(138)	(168)	(157)	(161)	(168)
Chg in Wkg.Cap.	1,764	164	(902)	(105)	(74.4)
Other Operating CF	(1,751)	226	(0.5)	(0.2)	122
<b>Net Operating CF</b>	<b>1,371</b>	<b>1,214</b>	<b>270</b>	<b>1,167</b>	<b>1,437</b>
Capital Exp.(net)	2,637	(317)	(316)	(323)	(275)
Other Invt.(net)	3,449	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(1,619)	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	(1,358)	110	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>3,108</b>	<b>(207)</b>	<b>(316)</b>	<b>(323)</b>	<b>(275)</b>
Div Paid	(1,320)	(493)	(575)	(728)	(841)
Chg in Gross Debt	(2,164)	(319)	477	(1,514)	(48.0)
Capital Issues	(50.2)	52.9	0.0	0.0	0.0
Other Financing CF	(76.1)	31.3	26.3	26.8	27.4
<b>Net Financing CF</b>	<b>(3,610)</b>	<b>(728)</b>	<b>(71.6)</b>	<b>(2,216)</b>	<b>(862)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	869	278	(118)	(1,371)	300
Opg CFPS (sen)	(6.3)	16.8	18.8	20.4	24.2
Free CFPS (sen)	64.2	14.4	(0.7)	13.5	18.6

Source: Company, AllianceDBS

## Target Price &amp; 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:	26 Dec 18	4.39	4.70	HOLD
2:	11 Jan 19	4.52	4.70	HOLD
3:	11 Feb 19	4.53	4.70	HOLD
4:	21 Feb 19	4.58	4.35	HOLD
5:	08 Mar 19	4.51	4.35	HOLD
6:	11 Mar 19	4.51	4.35	HOLD
7:	10 Apr 19	4.52	4.35	HOLD
8:	10 May 19	4.24	4.35	HOLD
9:	23 May 19	4.19	4.20	HOLD
10:	12 Jun 19	4.30	4.20	HOLD
11:	10 Jul 19	4.27	4.05	HOLD
12:	15 Jul 19	4.22	4.05	HOLD
13:	14 Aug 19	4.20	4.05	HOLD
14:	16 Aug 19	4.23	4.05	HOLD
15:	20 Aug 19	4.28	4.05	HOLD
16:	11 Nov 19	4.40	4.05	HOLD
17:	27 Nov 19	4.43	4.15	HOLD

Source: AllianceDBS

Analyst: Jin Wu LOW

# Malaysia Company Guide

## TSH Resources

Version 15 | Bloomberg: TSH MK | Reuters: TSHR.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Dec 2019

### BUY

Last Traded Price ( 6 Dec 2019): RM1.33 (KLCI : 1,568.44)  
Price Target 12-mth: RM1.60 (20% upside) (Prev RM1.30)

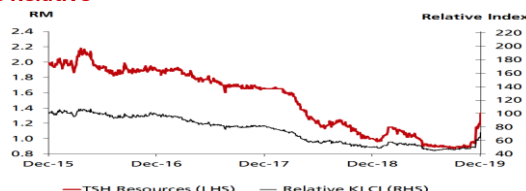
#### Analyst

Jin Wu LOW +60 326043968 lowjinwu@alliancedbs.com

### What's New

- Imputing higher CPO prices of RM2,450/2,540/2,560 for FY20-22F
- Expected to realise full benefits of higher CPO prices through its pure upstream exposure
- Raise earnings forecasts by 18/31% for FY20-21F
- Maintain BUY with higher DCF derived TP of RM1.60

#### Price Relative



#### Forecasts and Valuation

FY Dec (RMm)	2018A	2019F	2020F	2021F
Revenue	906	969	1,112	1,204
EBITDA	209	209	277	339
Pre-tax Profit	106	48.3	130	194
Net Profit	65.6	29.0	80.3	120
Net Pft Gth (Pre Ex.)	50.6	29.0	80.3	120
Net Pft Gth (Pre-ex) (%)	(35.7)	(42.8)	177.2	49.9
EPS (sen)	4.75	2.10	5.81	8.71
EPS Pre Ex. (sen)	3.66	2.10	5.81	8.71
EPS Gth Pre Ex (%)	(36)	(43)	177	50
Diluted EPS (sen)	4.75	2.10	5.81	8.71
Net DPS (sen)	1.19	0.52	1.45	2.18
BV Per Share (sen)	99.1	100	105	113
PE (X)	28.0	63.4	22.9	15.3
PE Pre Ex. (X)	36.3	63.4	22.9	15.3
P/Cash Flow (X)	12.8	43.8	13.7	9.6
EV/EBITDA (X)	15.9	16.3	12.3	9.9
Net Div Yield (%)	0.9	0.4	1.1	1.6
P/Book Value (X)	1.3	1.3	1.3	1.2
Net Debt/Equity (X)	0.9	0.9	0.9	0.8
ROAE (%)	4.8	2.1	5.7	8.0
Earnings Rev (%):		0	18	31
Consensus EPS (sen):		2.90	3.90	4.80
Other Broker Recs:		B: 2	S: 3	H: 7

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

### All set for exponential profit growth

**Exponential profit growth on higher CPO prices.** We believe that the recent trend in crude palm oil (CPO) prices should continue into FY20 due to the plateauing of palm oil supply with dissipation in production yields, supply disruption from El-Nino and stronger soybean prices. We upgrade our CPO price assumptions for FY20-22F from RM2,230/2,410 to RM2,450/2,540. TSH Resources (TSH) is a pure upstream planter and is expected to realise the full benefits of higher CPO prices.

The company is not affected by higher feedstock cost for refining as it has negligible downstream exposure. TSH is also expected to experience commendable fresh fruit bunches (FFB) growth despite our expectation of lower supply from the industry next year. TSH's trees are still young and can still manage to record higher yields. We believe that with higher CPO prices, its efficient operational practices and pure upstream exposure, TSH will experience stronger growth in earnings for FY20-21F. We upgrade our target price (TP) from RM1.30 to RM1.60.

**Where we differ. Efficiency is key.** We expect a strong upswing in TSH's earnings when CPO prices recover. It has been profitable in 9MFY19 despite low CPO prices.

**Potential catalyst. Higher FFB yields.** We believe higher FFB yields would boost TSH's profit and provide support for share price.

#### Valuation:

Our discounted cash flow (DCF)-based TP stands at RM1.60, imputing FY20-21F CPO spot price forecasts of RM2,450/2,540 per MT with WACC assumption of 5.8%.

#### Key Risks to Our View:

Sustained low CPO prices caused by increases in Indonesia's production levels, Europe's ban on palm oil products and continued weakness in soybean oil price pose major risks.

#### At A Glance

Issued Capital (m shrs)	1,380
Mkt. Cap (RMm/US\$m)	1,836 / 441
Major Shareholders (%)	
Aik Pen Tan	12.2
Employees Provident Fund	6.8
Tunas Lestari Sdn Bhd	6.2
Free Float (%)	75
3m Avg. Daily Val (US\$m)	0.11

**GIC Industry :** Consumer Staples / Agricultural Products

[^ refer to back page for more information](#)



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### CRITICAL DATA POINTS TO WATCH

**CPO prices the main earnings driver.** As a commodity producer, TSH is a price-taker. Movements in international CPO prices would directly impact the group's profitability. We have assumed average CPO prices of RM2,450/2,540 per MT for FY20-21F. We expect better performance with regards to revenues and margins going forward as we expect CPO prices to improve from FY19 due to more favourable supply and demand dynamics.

### Improving age profile expected to boost yields going forward.

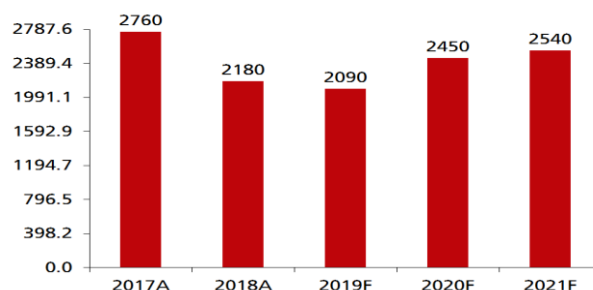
Due to its aggressive planting over the past few years, TSH is expected to see a steady climb in mature hectareage, which currently makes up 69% of 42k ha of total planted area. We expect mature planted area to grow by 19% to c.34.6k ha from 2017-2020, and total planted area to grow by 11% to 46.9k ha. All these will support its internal FFB output, which we project to grow by 6%/7%/11% from FY19-21F – or at a compound annual growth rate (CAGR) of 9% over FY19-21F.

**Production volume to increase on higher yields.** 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. Its overall CPO production trend also depends on FFB production at nearby plantations. TSH's oil extraction rate (OER) 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.

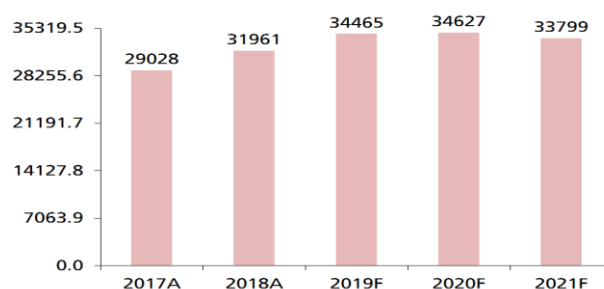
**Regulatory effects.** Tariff and non-tariff regulations are common in the agricultural commodity sector and palm oil is no exception. Any changes in export/import tariffs, as well as various taxes and levies, would affect trade flows and prices. The USD50/MT export levy for domestic CPO prices exceeding USD619/MT and USD25/MY levy for CPO prices ranging between USD570 and USD619 implemented by Indonesia in December 2018 are expected to impact 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.

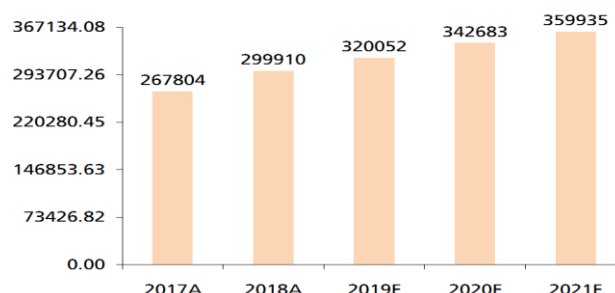
#### CPO price



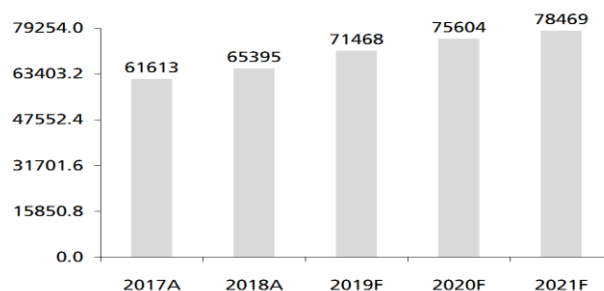
#### Mature palm oil hectareage



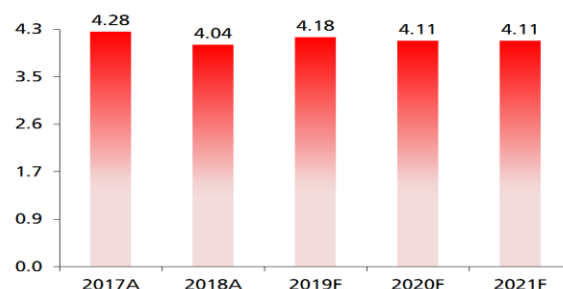
#### CPO sales volume



#### PK sales volume



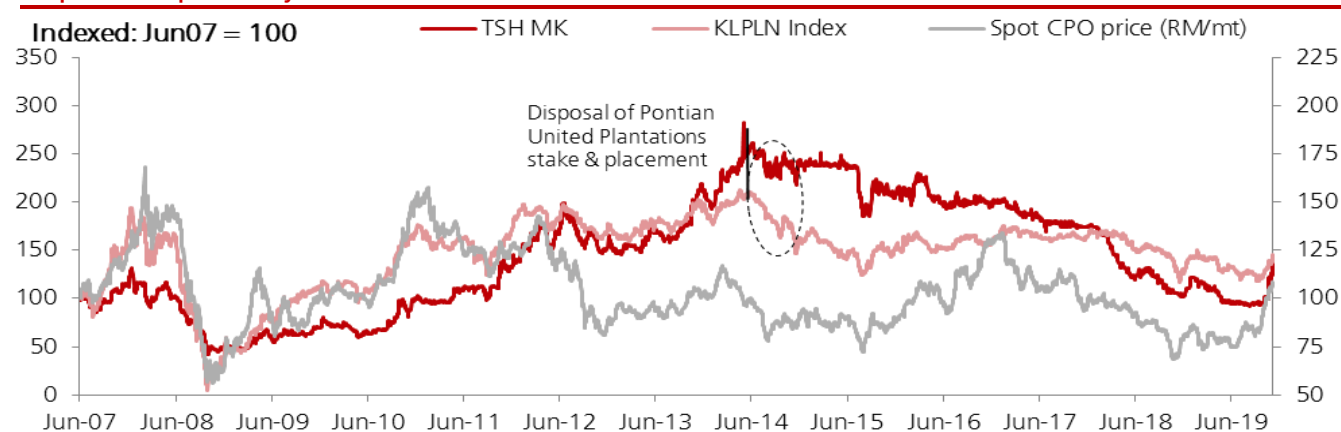
#### Average MYR/USD



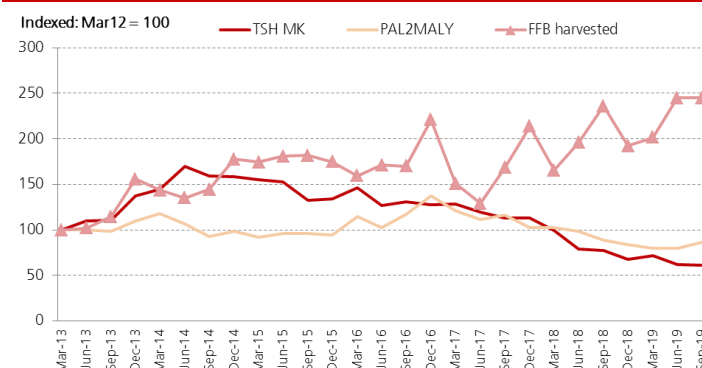
Source: Company, AllianceDBS

## Appendix 1: TSH price correlation with critical factors

Graph 1: Share price vs key benchmarks



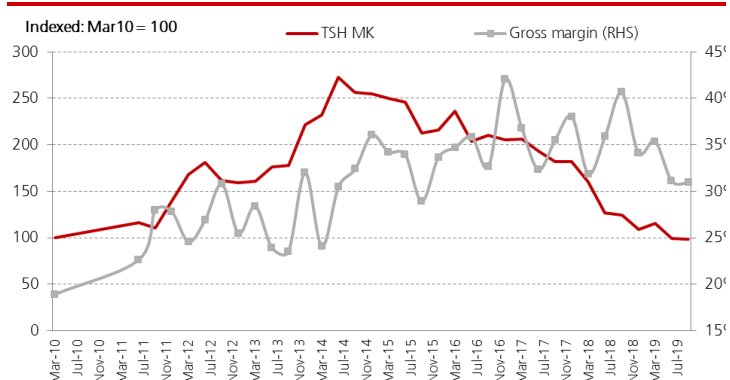
TSH share price vs production and CPO prices



## Remarks

Previously, TSH's share price was more heavily influenced by its production volume rather than CPO prices. However, this relationship has diverged 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.

## TSH Resources

### Balance Sheet:

**Elevated gearing, though on a downward trajectory.** TSH's net gearing stood at 0.9x at end-FY18. Of its total debt, 26% is denominated in US dollars (USD) as at end-FY18. Management aims to reduce gearing to close to 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 in 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 share price may re-rate when macro issues (such as weather impact) dissipate and TSH manages to deliver solid 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 the Ringgit (MYR) would also be directly affected by the currency's strength relative to the USD. This can also be caused by higher-than-required CPO production levels, regulatory challenges in the European Union (EU) and continued weakness in soybean oil price.

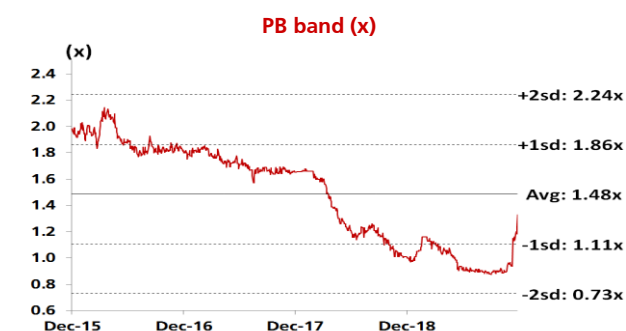
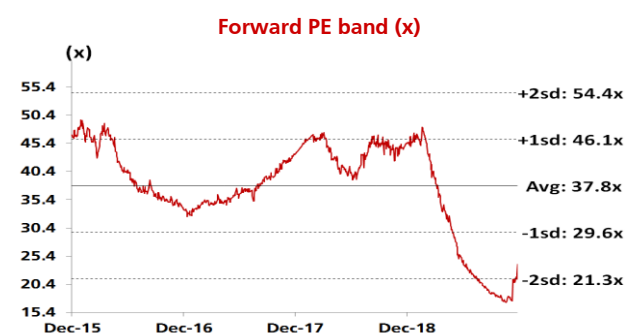
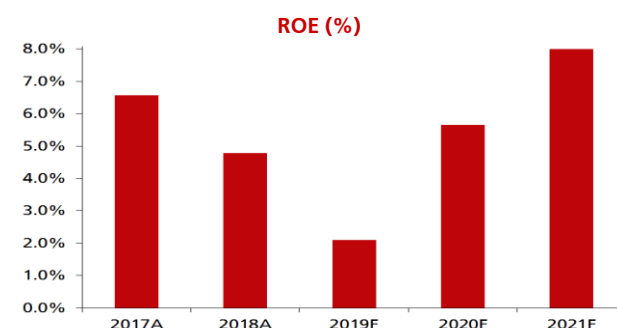
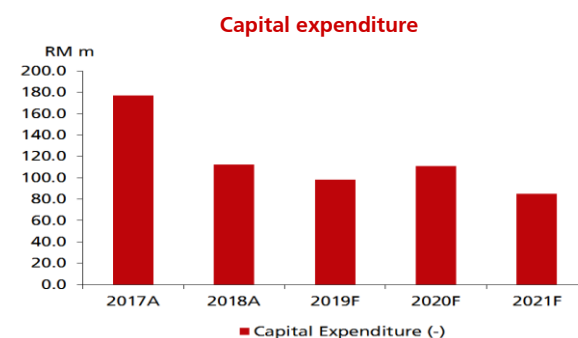
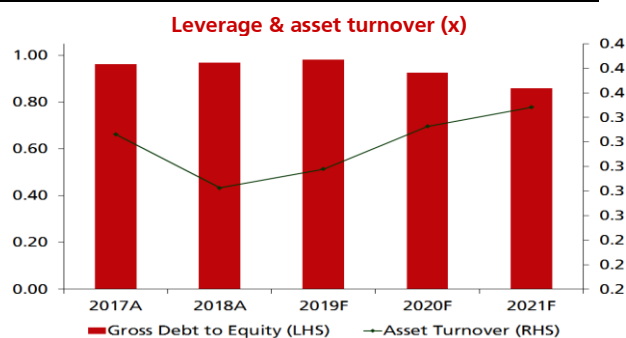
**Setback in expansion plans.** Our forecasts are based on assumed hectareage for new planting and replanting. A setback to these plans could hurt our valuation through slower volume growth.

**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 (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. 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

## TSH Resources

## Key Assumptions

FY Dec	2017A	2018A	2019F	2020F	2021F
CPO price (RM/MT)	2,760	2,180	2,090	2,450	2,540
Mature palm oil hectareage	29,028	31,961	34,465	34,627	33,799
CPO sales volume	267,804	299,910	320,052	342,683	359,935
PK sales volume	61,613	65,395	71,468	75,604	78,469
Average MYR/USD	4.28	4.04	4.18	4.11	4.11

## Income Statement (RMm)

FY Dec	2017A	2018A	2019F	2020F	2021F
Revenue	1,074	906	969	1,112	1,204
Cost of Goods Sold	(693)	(619)	(656)	(724)	(750)
<b>Gross Profit</b>	<b>381</b>	<b>288</b>	<b>313</b>	<b>387</b>	<b>454</b>
Other Opg (Exp)/Inc	(206)	(160)	(213)	(222)	(227)
<b>Operating Profit</b>	<b>175</b>	<b>128</b>	<b>100</b>	<b>166</b>	<b>227</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	16.8	7.13	(7.7)	8.57	11.6
Net Interest (Exp)/Inc	(41.8)	(43.6)	(44.3)	(44.9)	(44.9)
Exceptional Gain/(Loss)	12.6	15.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>162</b>	<b>106</b>	<b>48.3</b>	<b>130</b>	<b>194</b>
Tax	(42.4)	(29.8)	(12.1)	(31.1)	(46.5)
Minority Interest	(28.6)	(10.7)	(7.3)	(18.2)	(26.7)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>91.4</b>	<b>65.6</b>	<b>29.0</b>	<b>80.3</b>	<b>120</b>
Net Profit before Except.	78.8	50.6	29.0	80.3	120
EBITDA	273	209	209	277	339
<b>Growth</b>					
Revenue Gth (%)	23.1	(15.6)	6.9	14.7	8.3
EBITDA Gth (%)	36.9	(23.4)	(0.2)	32.5	22.5
Opg Profit Gth (%)	63.3	(27.0)	(21.4)	65.4	36.7
Net Profit Gth (Pre-ex) (%)	43.1	(35.7)	(42.8)	177.2	49.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	35.5	31.7	32.3	34.8	37.7
Opg Profit Margin (%)	16.3	14.1	10.3	14.9	18.8
Net Profit Margin (%)	8.5	7.2	3.0	7.2	10.0
ROAE (%)	6.6	4.8	2.1	5.7	8.0
ROA (%)	2.8	2.0	0.9	2.4	3.5
ROCE (%)	4.1	3.0	2.4	3.9	5.2
Div Payout Ratio (%)	30.2	25.0	25.0	25.0	25.0
Net Interest Cover (x)	4.2	2.9	2.3	3.7	5.1

Source: Company, AllianceDBS

**Quarterly / Interim Income Statement (RMm)**

FY Dec	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019
Revenue	226	221	208	186	204
Cost of Goods Sold	(142)	(170)	(148)	(128)	(140)
<b>Gross Profit</b>	<b>83.6</b>	<b>51.7</b>	<b>59.4</b>	<b>58.2</b>	<b>64.2</b>
Other Oper. (Exp)/Inc	(40.4)	(37.1)	(36.6)	(38.4)	(38.4)
<b>Operating Profit</b>	<b>43.2</b>	<b>16.9</b>	<b>15.3</b>	<b>17.2</b>	<b>19.6</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	1.31	2.47	3.31	7.26	7.82
Net Interest (Exp)/Inc	(11.6)	(10.7)	(13.5)	(13.5)	(13.2)
Exceptional Gain/(Loss)	(8.8)	2.76	11.5	(0.8)	0.87
<b>Pre-tax Profit</b>	<b>24.1</b>	<b>11.5</b>	<b>16.5</b>	<b>10.2</b>	<b>15.0</b>
Tax	(11.1)	(0.1)	(2.8)	(4.6)	(7.3)
Minority Interest	(4.9)	(1.4)	(0.2)	0.50	(1.7)
<b>Net Profit</b>	<b>8.12</b>	<b>10.1</b>	<b>13.5</b>	<b>6.05</b>	<b>6.03</b>
Net profit bef Except.	16.9	7.29	2.08	6.79	5.17
EBITDA	44.5	16.9	15.3	17.2	19.6

**Growth**

Revenue Gth (%)	(3.1)	(1.9)	(6.3)	(10.4)	9.5
EBITDA Gth (%)	3.7	(61.9)	(9.9)	12.5	14.1
Opg Profit Gth (%)	3.5	(60.8)	(9.9)	12.5	14.1
Net Profit Gth (Pre-ex) (%)	(9.4)	(56.9)	(71.5)	227.4	(24.0)

**Margins**

Gross Margins (%)	37.0	23.4	28.6	31.3	31.5
Opg Profit Margins (%)	19.1	7.6	7.3	9.2	9.6
Net Profit Margins (%)	3.6	4.5	6.5	3.3	3.0

**Balance Sheet (RMm)**

FY Dec	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	2,234	2,338	2,318	2,365	2,387
Invt in Associates & JVs	159	149	141	150	161
Other LT Assets	337	333	379	371	363
Cash & ST Invt	139	108	74.6	90.0	176
Inventory	212	200	227	251	260
Debtors	103	49.5	112	128	139
Other Current Assets	17.9	37.6	37.6	37.6	37.6
<b>Total Assets</b>	<b>3,201</b>	<b>3,214</b>	<b>3,289</b>	<b>3,392</b>	<b>3,523</b>
ST Debt	649	663	663	663	663
Creditor	107	98.2	114	125	130
Other Current Liab	13.9	2.81	2.81	2.81	2.81
LT Debt	793	793	832	832	832
Other LT Liabilities	138	156	156	156	156
Shareholder's Equity	1,375	1,370	1,382	1,455	1,556
Minority Interests	124	131	139	157	184
<b>Total Cap. &amp; Liab.</b>	<b>3,201</b>	<b>3,214</b>	<b>3,289</b>	<b>3,392</b>	<b>3,523</b>
Non-Cash Wkg. Capital	211	186	260	288	303
Net Cash/(Debt)	(1,303)	(1,348)	(1,421)	(1,405)	(1,319)
Debtors Turn (avg days)	40.0	30.7	30.4	39.4	40.5
Creditors Turn (avg days)	70.6	69.8	70.6	71.1	73.0
Inventory Turn (avg days)	137.8	139.8	142.3	142.1	146.0
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.3
Current Ratio (x)	0.6	0.5	0.6	0.6	0.8
Quick Ratio (x)	0.3	0.2	0.2	0.3	0.4
Net Debt/Equity (X)	0.9	0.9	0.9	0.9	0.8
Net Debt/Equity ex MI (X)	0.9	1.0	1.0	1.0	0.8
Capex to Debt (%)	12.3	7.7	6.6	7.4	5.7
Z-Score (X)	1.2	1.1	1.1	1.2	1.3

Source: Company, AllianceDBS



## TSH Resources

## Cash Flow Statement (RMm)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	162	91.1	48.3	130	194
Dep. & Amort.	68.4	47.7	72.2	72.2	71.1
Tax Paid	(42.4)	(29.8)	(12.1)	(31.1)	(46.5)
Assoc. & JV Inc/(loss)	(16.8)	(7.1)	7.70	(8.6)	(11.6)
Chg in Wkg.Cap.	40.3	55.9	(74.2)	(28.3)	(15.1)
Other Operating CF	(2.3)	(14.6)	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>210</b>	<b>143</b>	<b>42.0</b>	<b>134</b>	<b>191</b>
Capital Exp.(net)	(177)	(112)	(98.4)	(111)	(85.0)
Other Invt.(net)	5.01	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	46.3	(30.0)	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(126)</b>	<b>(142)</b>	<b>(98.4)</b>	<b>(111)</b>	<b>(85.0)</b>
Div Paid	(27.1)	(27.6)	(16.4)	(7.2)	(20.1)
Chg in Gross Debt	(69.0)	5.56	39.3	0.0	0.0
Capital Issues	41.2	0.0	0.0	0.0	0.0
Other Financing CF	(15.4)	(1.0)	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>(70.3)</b>	<b>(23.1)</b>	<b>22.9</b>	<b>(7.2)</b>	<b>(20.1)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	13.4	(22.1)	(33.5)	15.4	86.4
Opg CFPS (sen)	12.2	6.31	8.40	11.7	14.9
Free CFPS (sen)	2.35	2.24	(4.1)	1.64	7.71

Source: Company, AllianceDBS

## Target Price &amp; 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:	26 Dec 18	0.97	1.35	BUY
2:	11 Jan 19	1.04	1.35	BUY
3:	11 Feb 19	1.15	1.40	BUY
4:	13 Feb 19	1.14	1.40	BUY
5:	28 Feb 19	1.06	1.40	BUY
6:	08 Mar 19	1.10	1.40	BUY
7:	11 Mar 19	1.10	1.40	BUY
8:	10 Apr 19	1.05	1.40	BUY
9:	10 May 19	1.01	1.40	BUY
10:	28 May 19	0.90	1.15	BUY
11:	12 Jun 19	0.93	1.15	BUY
12:	10 Jul 19	0.91	1.00	BUY
13:	15 Jul 19	0.90	1.05	BUY
14:	14 Aug 19	0.89	1.05	BUY
15:	20 Aug 19	0.88	1.05	BUY
16:	23 Aug 19	0.90	1.05	BUY
17:	11 Nov 19	0.95	1.05	BUY
18:	26 Nov 19	1.13	1.30	BUY

Source: AllianceDBS

Analyst: Jin Wu LOW

# Malaysia Company Guide

## FGV Holdings

Version 22 | Bloomberg: FGV MK | Reuters: FGVH.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Dec 2019

### BUY

Last Traded Price ( 6 Dec 2019): RM1.32 (KLCI : 1,568.44)  
Price Target 12-mth: RM1.80 (36% upside) (Prev RM1.60)

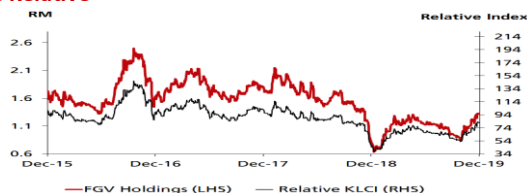
#### Analyst

Jin Wu LOW +60 326043968 lowjinwu@alliancedbs.com

### What's New

- Imputing higher CPO prices of RM2,450/2,540/2,560 for FY20-22F
- Transformation plan on track
- Upgrade earnings by 31/21% for FY20-21F; expect 4QFY19 to be positive
- Maintain BUY at higher DCF-derived TP of RM1.80

#### Price Relative



#### Forecasts and Valuation

FY Dec (RMm)	2018A	2019F	2020F	2021F
Revenue	13,467	14,380	15,678	16,444
EBITDA	130	808	1,304	1,724
Pre-tax Profit	(2,043)	(66.7)	404	796
Net Profit	(1,204)	(31.2)	304	597
Net Pft (Pre Ex.)	(185)	(31.2)	304	597
Net Pft Gth (Pre-ex) (%)	nm	83.1	nm	96.1
EPS (sen)	(33.0)	(0.9)	8.35	16.4
EPS Pre Ex. (sen)	(5.1)	(0.9)	8.35	16.4
EPS Gth Pre Ex (%)	nm	83	nm	96
Diluted EPS (sen)	(33.0)	(0.9)	8.35	16.4
Net DPS (sen)	1.00	1.00	3.09	5.09
BV Per Share (sen)	122	121	126	137
PE (X)	nm	nm	15.8	8.1
PE Pre Ex. (X)	nm	nm	15.8	8.1
P/Cash Flow (X)	6.5	36.5	6.1	4.0
EV/EBITDA (X)	85.5	14.9	9.5	7.2
Net Div Yield (%)	0.8	0.8	2.3	3.9
P/Book Value (X)	1.1	1.1	1.0	1.0
Net Debt/Equity (X)	0.9	1.2	1.2	1.1
ROAE (%)	(23.9)	(0.7)	6.8	12.4
Earnings Rev (%):		0	31	21
Consensus EPS (sen):		(1.2)	1.40	3.50
Other Broker Recs:		B: 3	S: 3	H: 6

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

### Profiting from restructuring and CPO upswing

**Remain bullish; reiterate BUY.** We remain positive on FGV Holdings' (FGV) transformation plan. FGV has achieved most of its targets set out in its transformation plan so far, with its target of lowering its ex-mill crude palm oil (CPO) production cost being the biggest attribute to our buy call. We believe that the recent trend in CPO prices should continue into FY20 due to the plateauing of palm oil supply due to dissipation in production yields, supply disruption from El-Nino and stronger soybean prices. We upgrade our CPO price assumptions for FY20-21F from RM2,230/2,410 to RM2,450/2,540. FGV is the largest producer of CPO in the world and has a high operating leverage. We raise our FY20-21F earnings forecast by 31/21% and lift our TP from RM1.60 to RM1.80 based on higher CPO price expectations.

**Where we differ: More optimistic than consensus.** We expect higher CPO prices to translate into higher profits due to its high operating leverage.

**Potential catalysts: Further progress in goals set out in transformation plan.** Continued operational improvements and cost optimisation would boost FGV's earnings and re-rate the stock further.

#### Valuation:

Our discounted cash flow (DCF)-based TP stands at RM1.80 assuming a weighted average cost of capital (WACC) of 7.4%.

#### Key Risks to Our View:

Extended losses from its sugar business in MSM Malaysia Holdings and a sharp reversal of CPO prices are risks to our assumptions.

#### At A Glance

Issued Capital (m shrs)	3,648
Mkt. Cap (RMm/US\$m)	4,816 / 1,158
Major Shareholders (%)	
Lembaga Kemajuan Tanah Persekutuan	33.7
Kumpulan Wang Persaraan	7.9
Lembaga Tabung Haji	7.8
Free Float (%)	66
3m Avg. Daily Val (US\$m)	2.8

**GIC Industry :** Consumer Staples / Agricultural Products

Bloomberg ESG disclosure score (2017)<sup>^</sup> 28.1  
- Environmental / Social / Governance 15.5 / 33.3 / 51.8

[^ refer to back page for more information](#)



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### CRITICAL DATA POINTS TO WATCH

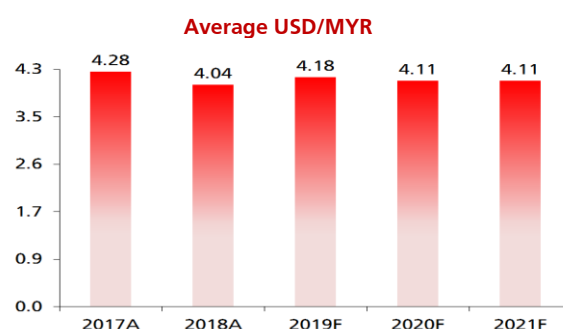
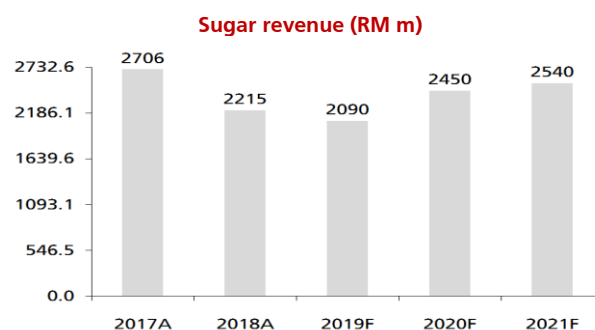
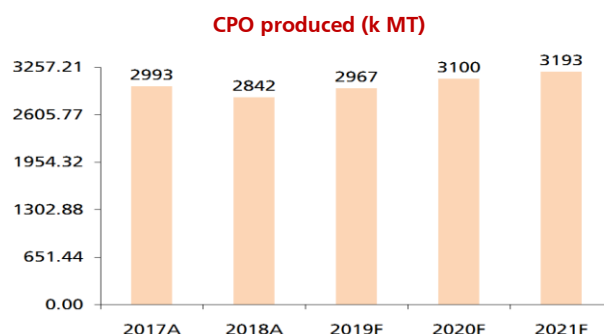
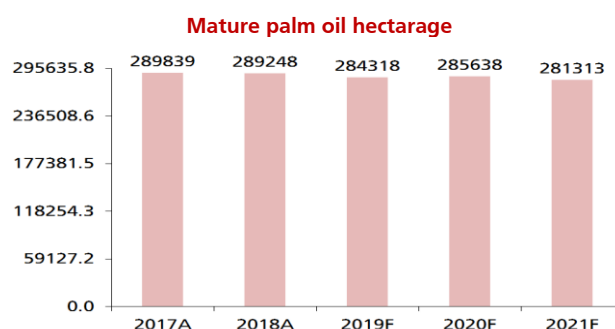
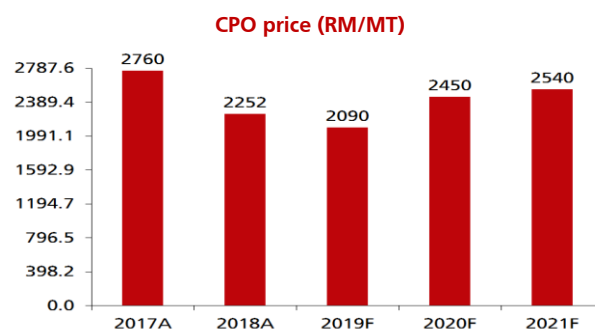
**Vast but relatively old hectareage.** FGV has c.338,000 ha of oil palm planted land in Peninsular Malaysia, the bulk of which (c.300,000 ha) is held under the Land Lease Agreement (LLA) it has with its major shareholders Federal Land Development Authority (FELDA). It also has c.13,000 ha of plantations in Sabah from its acquisition of Pontian United Plantations in 2013, 13,500 ha in Sarawak from Asian Plantations Ltd in 2014, and 8,500 ha from Golden Land in 2015. Its overall age profile is old/mature as 40% of the trees are 20 years or older. To remedy the age issue, FGV intends to replant up to 15,000 ha per year. We do not expect much new planting to commence as replanting is a higher priority.

**Expect gradual production improvement.** FGV processed c.14m MT of fresh fruit bunches (FFB) in FY18 from its own plantations, FELDA settlers and third parties. FY18 CPO production reached 4.21m MT (-1% y-o-y), following a 9% recovery in FY17. FFB growth has been on a very healthy trend due to the management's transformation plan, recording a YTD y-o-y growth of 12%.

**Higher CPO price to result in higher revenue.** Over 50% of FGV's top line comes from the sale of CPO and refined, bleached & deodorised (RBD) products. Growth in the average selling prices (ASPs) of CPO and RBD products will be reflected as revenue. Our projections assume CPO average selling prices (ASPs) of RM2,450/2,540/2,560 per MT in FY20/21/22F.

**Challenging for sugar arm.** FGV has a 51% stake in listed sugar manufacturer MSM which was previously one of the most profitable divisions in the group. However, it is currently incurring losses due to high raw sugar costs and price ceiling of RM2.85 per kg that is expected to continue to impact MSM's profitability going forward. We expect conditions to remain challenging for FGV's sugar division in FY19-20F.

**Rubber plantation exposure.** FGV derives c.5% of its revenue from the sale of rubber products, comprising latex concentrate, Standard Malaysian Rubber (SMR), Standard Indonesian Rubber (SIR) and Cambodian Standard Rubber (CSR). Over 110,000 MT of rubber products are processed per year at its seven assets across the region. FGV also owns 12,400 ha of planted rubber land in Malaysia, with 3,500 ha unplanted.

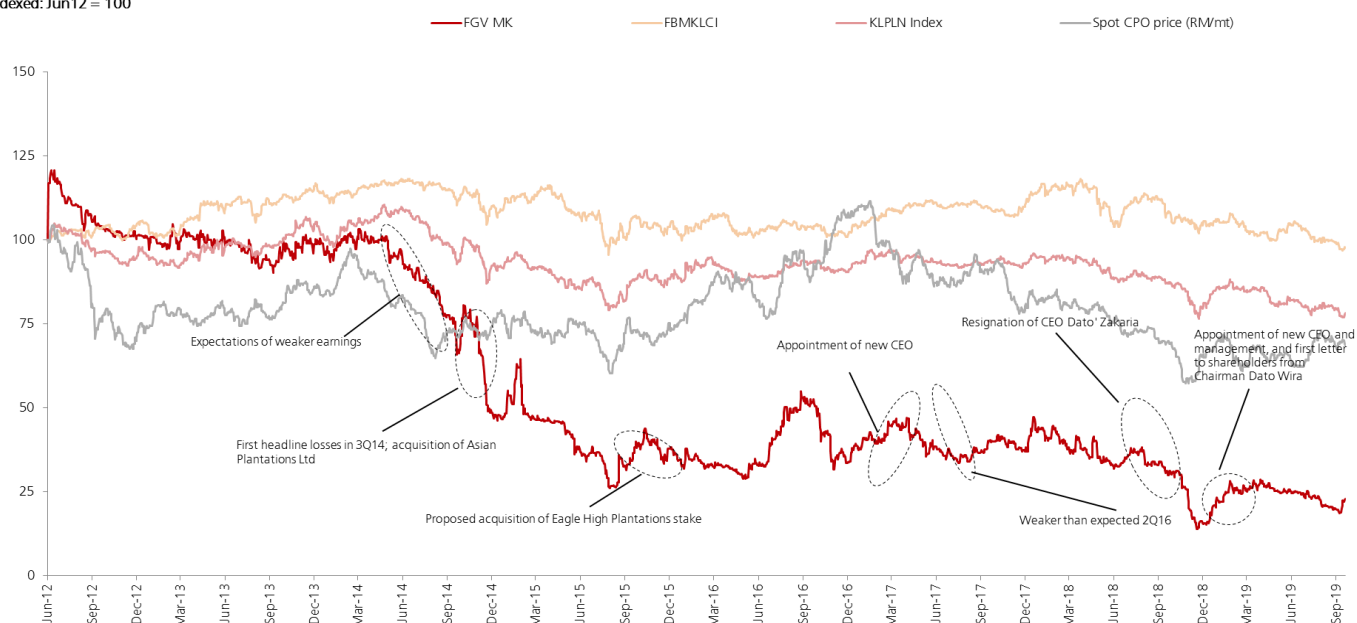


Source: Company, AllianceDBS

## Appendix 1: FGV price correlation with critical factors

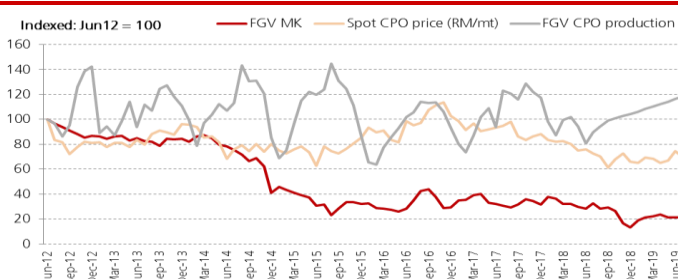
Graph 1: Share price vs key benchmarks

Indexed: Jun12 = 100



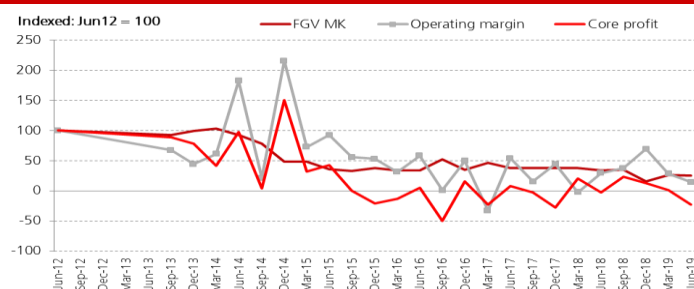
Source: Company, Bloomberg Finance L.P., AllianceDBS

## FGV share price vs operating margins and core profit



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

## FGV share price vs CPO prices



Source: Company, MPOB, 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.

## Remarks

Over a prolonged period, FGV's share price appears not to be 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).

## FGV Holdings

### Balance Sheet:

**Leverage ratio expected to improve.** FGV had a net debt-to-equity of about 0.9x with a cash pile of c.RM1.2bn at end-FY18. Cash flow generation should improve going forward due to improved efficiencies and disposal of non-core/non-performing assets.

### Share Price Drivers:

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

### Key Risks:

**Volatile commodity prices and exchange rates.** Persistently depressed CPO prices would hurt earnings, especially for upstream planters. Low crude oil prices may affect CPO demand for biofuel. CPO prices (in Ringgit (MYR) terms) are also directly affected by the currency's strength relative to the US Dollar (USD).

**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 weather changes.** Sudden and significant changes in rainfall and humidity could affect FFB yields in the subsequent quarters.

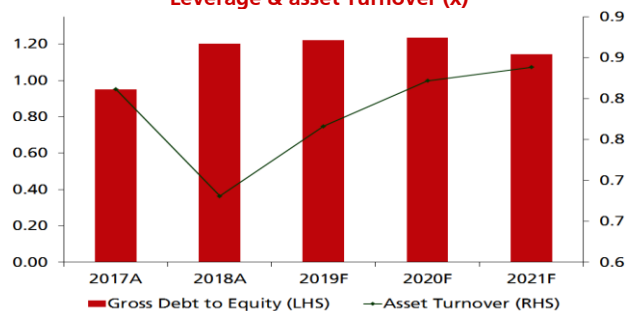
### Environmental, Social, Governance (ESG):

As one of the world's largest CPO producers and the third largest oil palm plantation operator, FGV has a responsibility towards its shareholders, business partners, employees, society and the environment. This covers all its business areas and regions around the world. It is committed to technologies and products with customer value and sustainable development. FGV is also a member of the Round Table of Sustainable Palm Oil (RSPO) with 173,348 ha of its estates certified under the RSPO P&C.

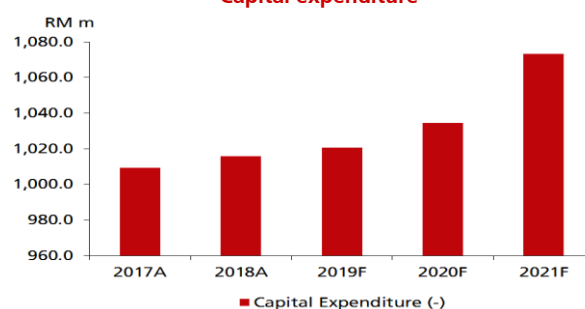
### Company Background

FGV is an integrated agri-business player with significant palm oil hectare in Peninsular Malaysia. It is involved in upstream and downstream palm oil operations including harvesting, milling, processing, refining and distribution. It also has rubber plantations and a 51% stake in a major sugar manufacturer MSM Malaysia (MSM).

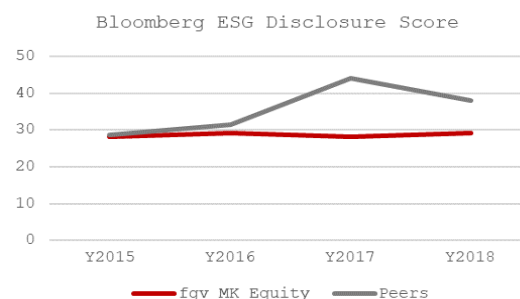
### Leverage & asset Turnover (x)



### Capital expenditure



### Environment, Social, Governance



### PB Band (x)



Source: Company, AllianceDBS

**Key Assumptions**

FY Dec	2017A	2018A	2019F	2020F	2021F
CPO price (RM/MT)	2,760	2,252	2,090	2,450	2,540
Mature palm oil hectareage	289,839	289,248	284,318	285,638	281,313
CPO produced (k MT)	2,993	2,842	2,967	3,100	3,193
Sugar revenue (RM m)	2,706	2,215	2,090	2,450	2,540
Average USD/MYR	4.28	4.04	4.18	4.11	4.11

**Income Statement (RMm)**

FY Dec	2017A	2018A	2019F	2020F	2021F
Revenue	16,975	13,467	14,380	15,678	16,444
Cost of Goods Sold	(15,016)	(12,191)	(13,218)	(14,080)	(14,465)
<b>Gross Profit</b>	<b>1,958</b>	<b>1,276</b>	<b>1,163</b>	<b>1,598</b>	<b>1,979</b>
Other Opng (Exp)/Inc	(1,427)	(2,104)	(1,076)	(1,036)	(1,017)
<b>Operating Profit</b>	<b>531</b>	<b>(827)</b>	<b>86.6</b>	<b>562</b>	<b>962</b>
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	27.5	(41.1)	(7.6)	(7.8)	(7.9)
Net Interest (Exp)/Inc	(119)	(155)	(146)	(151)	(158)
Exceptional Gain/(Loss)	(22.8)	(1,020)	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>417</b>	<b>(2,043)</b>	<b>(66.7)</b>	<b>404</b>	<b>796</b>
Tax	(209)	(119)	7.47	(108)	(205)
Minority Interest	(64.3)	(62.2)	28.0	8.34	5.55
Preference Dividend	0.0	1,020	0.0	0.0	0.0
<b>Net Profit</b>	<b>144</b>	<b>(1,204)</b>	<b>(31.2)</b>	<b>304</b>	<b>597</b>
Net Profit before Except.	167	(185)	(31.2)	304	597
EBITDA	1,510	130	808	1,304	1,724
<b>Growth</b>					
Revenue Gth (%)	(1.5)	(20.7)	6.8	9.0	4.9
EBITDA Gth (%)	52.9	(91.4)	521.9	61.4	32.2
Opg Profit Gth (%)	179.1	(255.8)	(110.5)	549.3	71.1
Net Profit Gth (Pre-ex) (%)	nm	nm	83.1	nm	96.1
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	11.5	9.5	8.1	10.2	12.0
Opg Profit Margin (%)	3.1	(6.1)	0.6	3.6	5.9
Net Profit Margin (%)	0.8	(8.9)	(0.2)	1.9	3.6
ROAE (%)	2.5	(23.9)	(0.7)	6.8	12.4
ROA (%)	0.7	(6.1)	(0.2)	1.6	3.0
ROCE (%)	1.4	(4.7)	0.5	2.4	4.1
Div Payout Ratio (%)	126.9	N/A	N/A	37.0	31.1
Net Interest Cover (x)	4.5	(5.3)	0.6	3.7	6.1

Source: Company, AllianceDBS

**Quarterly / Interim Income Statement (RMm)**

FY Dec	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019
Revenue	3,193	3,234	3,276	3,279	3,549
Cost of Goods Sold	(2,861)	(3,059)	(2,888)	(2,989)	(3,242)
<b>Gross Profit</b>	<b>333</b>	<b>175</b>	<b>388</b>	<b>290</b>	<b>307</b>
Other Oper. (Exp)/Inc	(1,968)	(516)	(328)	(273)	(867)
<b>Operating Profit</b>	<b>(1,635)</b>	<b>(341)</b>	<b>60.4</b>	<b>16.4</b>	<b>(560)</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(60.3)	51.3	(20.5)	(10.8)	24.4
Net Interest (Exp)/Inc	(36.0)	(42.7)	(34.6)	(69.4)	(39.8)
Exceptional Gain/(Loss)	821	193	18.1	6.96	213
<b>Pre-tax Profit</b>	<b>(911)</b>	<b>(139)</b>	<b>23.4</b>	<b>(56.8)</b>	<b>(363)</b>
Tax	(1.1)	(95.5)	(13.9)	(8.5)	(1.5)
Minority Interest	(65.3)	26.0	(13.3)	13.0	102
<b>Net Profit</b>	<b>(978)</b>	<b>(209)</b>	<b>(3.7)</b>	<b>(52.2)</b>	<b>(262)</b>
Net profit bef Except.	(157)	(16.0)	14.4	(45.2)	(49.5)
EBITDA	(1,696)	(289)	189	174	(343)

**Growth**

Revenue Gth (%)	(7.1)	1.3	1.3	0.1	8.2
EBITDA Gth (%)	nm	82.9	nm	(7.9)	nm
Opg Profit Gth (%)	(1,791.9)	(79.2)	(117.7)	(72.8)	nm
Net Profit Gth (Pre-ex) (%)	108.7	(89.8)	(189.9)	(414.9)	9.5

**Margins**

Gross Margins (%)	10.4	5.4	11.8	8.8	8.6
Opg Profit Margins (%)	(51.2)	(10.5)	1.8	0.5	(15.8)
Net Profit Margins (%)	(30.6)	(6.5)	(0.1)	(1.6)	(7.4)

**Balance Sheet (RMm)**

FY Dec	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	10,523	10,460	10,759	11,051	11,362
Invt in Associates & JVs	864	589	582	574	566
Other LT Assets	2,809	2,317	2,317	2,317	2,317
Cash & ST Invt	1,741	1,220	295	233	240
Inventory	2,127	2,124	2,305	2,455	2,522
Debtors	1,597	1,363	1,580	1,723	1,807
Other Current Assets	1,155	666	956	1,015	1,050
<b>Total Assets</b>	<b>20,815</b>	<b>18,739</b>	<b>18,793</b>	<b>19,368</b>	<b>19,864</b>
ST Debt	3,377	3,304	3,304	3,604	3,504
Creditor	1,647	1,249	1,398	1,489	1,530
Other Current Liab	1,029	608	608	608	608
LT Debt	1,956	2,066	2,066	2,066	2,216
Other LT Liabilities	4,944	4,903	4,903	4,903	4,903
Shareholder's Equity	5,609	4,468	4,400	4,592	5,004
Minority Interests	2,254	2,142	2,114	2,105	2,100
<b>Total Cap. &amp; Liab.</b>	<b>20,815</b>	<b>18,739</b>	<b>18,793</b>	<b>19,368</b>	<b>19,864</b>
Non-Cash Wkg. Capital	2,203	2,297	2,835	3,096	3,241
Net Cash/(Debt)	(3,592)	(4,149)	(5,075)	(5,437)	(5,479)
Debtors Turn (avg days)	36.0	40.1	37.4	38.5	39.2
Creditors Turn (avg days)	39.6	46.1	38.7	39.5	40.2
Inventory Turn (avg days)	55.0	67.7	64.7	65.1	66.3
Asset Turnover (x)	0.8	0.7	0.8	0.8	0.8
Current Ratio (x)	1.1	1.0	1.0	1.0	1.0
Quick Ratio (x)	0.6	0.5	0.4	0.3	0.4
Net Debt/Equity (X)	0.6	0.9	1.2	1.2	1.1
Net Debt/Equity ex MI (X)	0.6	0.9	1.2	1.2	1.1
Capex to Debt (%)	18.9	18.9	19.0	18.2	18.8
Z-Score (X)	1.2	1.2	1.1	1.2	1.3

Source: Company, AllianceDBS



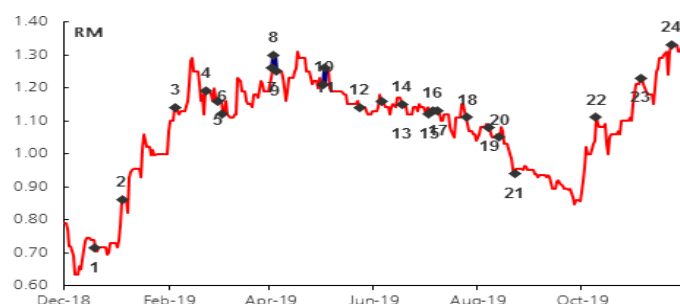
## FGV Holdings

### Cash Flow Statement (RMm)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	417	(1,023)	(66.7)	404	796
Dep. & Amort.	717	756	722	742	762
Tax Paid	(203)	(101)	27.0	(87.1)	(183)
Assoc. & JV Inc/(loss)	(27.5)	41.1	7.57	7.75	7.93
Chg in Wkg.Cap.	589	795	(538)	(261)	(146)
Other Operating CF	310	269	(19.5)	(20.5)	(21.5)
<b>Net Operating CF</b>	<b>1,801</b>	<b>737</b>	<b>132</b>	<b>785</b>	<b>1,216</b>
Capital Exp.(net)	(1,009)	(1,016)	(1,021)	(1,034)	(1,073)
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	59.0	330	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(950)</b>	<b>(686)</b>	<b>(1,021)</b>	<b>(1,034)</b>	<b>(1,073)</b>
Div Paid	(219)	(73.0)	(36.5)	(113)	(186)
Chg in Gross Debt	219	186	0.0	300	(100.0)
Capital Issues	(10.7)	3,067	0.0	0.0	0.0
Other Financing CF	(923)	(3,834)	0.0	0.0	150
<b>Net Financing CF</b>	<b>(934)</b>	<b>(655)</b>	<b>(36.5)</b>	<b>187</b>	<b>(136)</b>
Currency Adjustments	(31.5)	83.2	0.0	0.0	0.0
Chg in Cash	(114)	(520)	(925)	(62.0)	7.16
Opg CFPS (sen)	33.2	(1.6)	18.4	28.7	37.3
Free CFPS (sen)	21.7	(7.6)	(24.4)	(6.8)	3.92

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:	26 Dec 18	0.72	1.20	FULLY VALUED
2:	11 Jan 19	0.86	1.20	FULLY VALUED
3:	11 Feb 19	1.14	1.20	FULLY VALUED
4:	01 Mar 19	1.19	1.20	FULLY VALUED
5:	08 Mar 19	1.16	1.20	FULLY VALUED
6:	11 Mar 19	1.12	1.20	FULLY VALUED
7:	09 Apr 19	1.26	1.75	BUY
8:	10 Apr 19	1.30	1.75	BUY
9:	11 Apr 19	1.25	1.75	BUY
10:	09 May 19	1.21	1.75	BUY
11:	10 May 19	1.26	1.75	BUY
12:	30 May 19	1.14	1.75	BUY
13:	12 Jun 19	1.16	1.75	BUY
14:	24 Jun 19	1.15	1.75	BUY
15:	10 Jul 19	1.12	1.75	BUY
16:	12 Jul 19	1.13	1.70	BUY
17:	15 Jul 19	1.13	1.70	BUY
18:	01 Aug 19	1.11	1.70	BUY
19:	14 Aug 19	1.08	1.70	BUY
20:	20 Aug 19	1.05	1.70	BUY
21:	29 Aug 19	0.94	1.60	BUY
22:	16 Oct 19	1.11	1.60	BUY
23:	11 Nov 19	1.23	1.60	BUY
24:	29 Nov 19	1.33	1.60	BUY

Source: AllianceDBS

Analyst: Jin Wu LOW

# 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

9 Dec 2019

**HOLD** (Upgrade from Fully Valued)

Last Traded Price ( 6 Dec 2019): RM5.28 (KLCI : 1,568.44)

Price Target 12-mth: RM5.45 (3% upside) (Prev RM4.05)

### Analyst

Jin Wu LOW +60 326043968 lowjinwu@alliancedbs.com

### What's New

- Imputing new CPO price assumptions of RM2,450/2,540 for FY20-21F
- Improved profits expected on higher CPO prices but PNG assets remain a drag
- Fairly valued, trading at 50x FY20F EPS
- Upgrade to HOLD with DCF-derived TP of RM5.45

### Price Relative



### Forecasts and Valuation

FY Dec (RMm)	2018A*	2019F	2020F	2021F
Revenue	14,369	13,271	13,646	14,780
EBITDA	3,235	2,095	2,738	3,457
Pre-tax Profit	2,377	590	1,139	1,755
Net Profit	1,727	298	695	1,143
Net Pft (Pre Ex.)	1,172	298	695	1,143
Net Pft Gth (Pre-ex) (%)	(8.4)	(74.5)	132.9	64.5
EPS (sen)	25.4	4.39	10.2	16.8
EPS Pre Ex. (sen)	17.2	4.39	10.2	16.8
EPS Gth Pre Ex (%)	(8)	(75)	133	65
Diluted EPS (sen)	17.2	4.39	10.2	16.8
Net DPS (sen)	17.5	2.19	5.11	8.41
BV Per Share (sen)	201	203	208	217
PE (X)	20.8	120.3	51.7	31.4
PE Pre Ex. (X)	30.6	120.3	51.7	31.4
P/Cash Flow (X)	13.4	17.0	15.7	13.1
EV/EBITDA (X)	13.8	21.3	16.3	12.8
Net Div Yield (%)	3.3	0.4	1.0	1.6
P/Book Value (X)	2.6	2.6	2.5	2.4
Net Debt/Equity (X)	0.4	0.4	0.4	0.3
ROAE (%)	12.6	2.2	4.9	7.8
Earnings Rev (%):		0	23	21
Consensus EPS (sen):		4.80	11.3	14.1
Other Broker Recs:		B: 5	S: 8	H: 5

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

### Expect stronger earnings

**Higher CPO prices partially offset by loss-making business.** We upgrade Sime Darby Plantation (SDPL) from FULLY VALUED to HOLD as we anticipate higher crude palm oil (CPO) prices going into FY20 on plateauing palm oil supply due to dissipation in production yields, supply disruption from El-Nino and stronger soybean prices. Despite our assumptions of higher CPO prices, we believe SDPL is currently fairly valued as it is currently trading at almost 50x FY20 earnings per share (EPS). It still has to resolve its issues with regards to its Liberia and Papua New Guinea & Solomon Islands (PNGSI) assets, which have been a drag to earnings. We upgrade our earnings assumptions by 23/21% for FY20-21F and our target price (TP) from RM4.05 to RM5.45 in view of our higher CPO price assumptions.

**Where we differ. Factoring in higher CPO prices.** Our CPO price forecasts of RM2,450/RM2,540/RM2,560 per MT for CY20/21/22F are above consensus.

**Potential catalysts. Successful sale of Liberia assets.** We believe that the successful sale of its Liberia assets would support SDPL's earnings and drive its share price closer to our TP assuming CPO prices fall within our expectations.

### Valuation:

Our TP of RM5.45 is derived using the discounted cash flow (DCF) methodology with weighted average cost of capital (WACC) of 7.6% and terminal growth (TG) of 3%.

### Key Risks to Our View:

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.

### At A Glance

Issued Capital (m shrs)	6,885
Mkt. Cap (RMm/US\$m)	36,351 / 8,740
Major Shareholders (%)	
Skim Amanah Saham Bumiputera	42.6
Employees Provident Fund	13.9
Permodalan Nasional Berhad	5.0
Free Float (%)	57
3m Avg. Daily Val (US\$m)	4.4
GIC Industry : Consumer Staples / Agricultural Products	

Bloomberg ESG disclosure score (2018)<sup>^</sup> 26.9  
- Environmental / Social / Governance 13.2 / 28.1 / 57.1



Live more, Bank less

## Sime Darby Plantation

### CRITICAL DATA POINTS TO WATCH

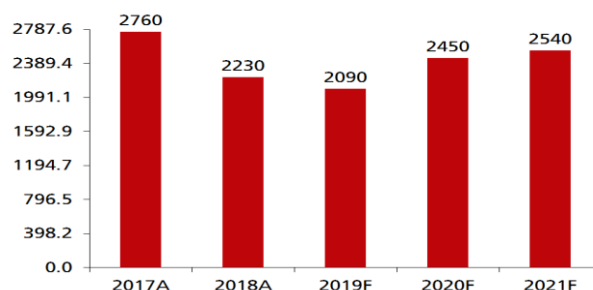
**CPO prices.** SDPL is a vertically integrated oil palm plantation group with over 95% of external revenues derived from the sale of palm products and its derivatives, including CPO, palm kernel (PK) and refined, bleached & deodorised (RBD) products. The prices of these products will be directly influenced by the movement of spot CPO prices, which we forecast to average RM2,450/2,540/2,560 per MT for CY20/21/22F. The average selling prices (ASP) 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.** SDPL'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 planted area split 50%/34%/14%/2% across Malaysia, Indonesia, PNG and Liberia. Excluding immature areas, we estimate its average mature tree age to be c.15 years, which will be on a downward 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; 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%.

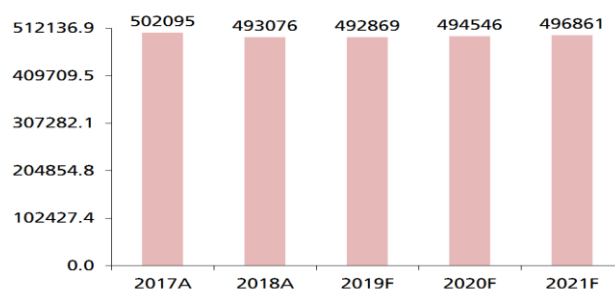
**Downstream margins.** Over 60% of SDPL's upstream plantation sales are made internally to its downstream unit, primarily consisting of 12 refineries with a total capacity of 3.97m MT per year. While value-add in top line accretion is significant, margins are typically thin given the steep competition 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 US Dollar/Malaysian Ringgit (USD/MYR) exchange rate, as trade is typically conducted in USD terms. Core plantation earnings are typically positively/negatively impacted by USD strength/ weakness against MYR. 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.

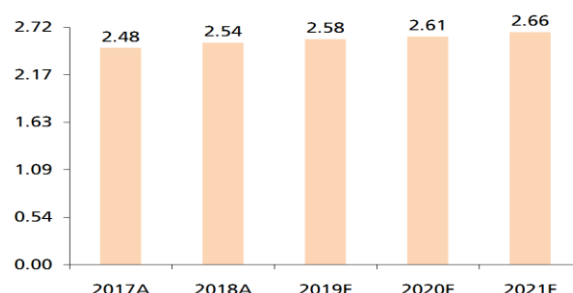
CPO spot prices (RM/MT)



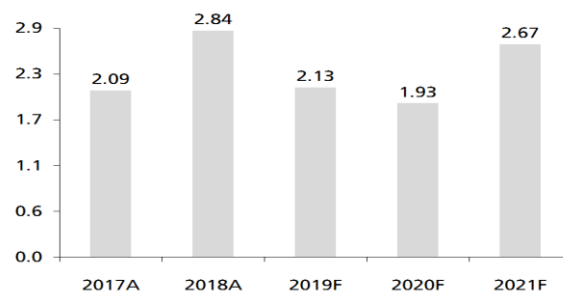
Mature palm oil hectareage



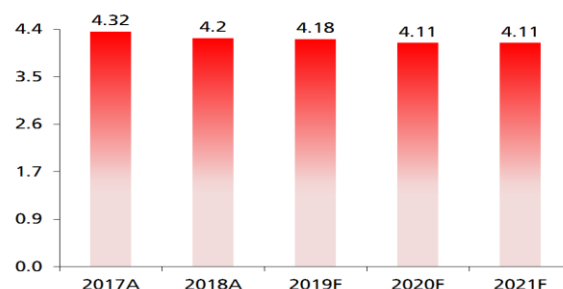
CPO produced (m MT)



Core downstream margin (%)



Average USD/MYR

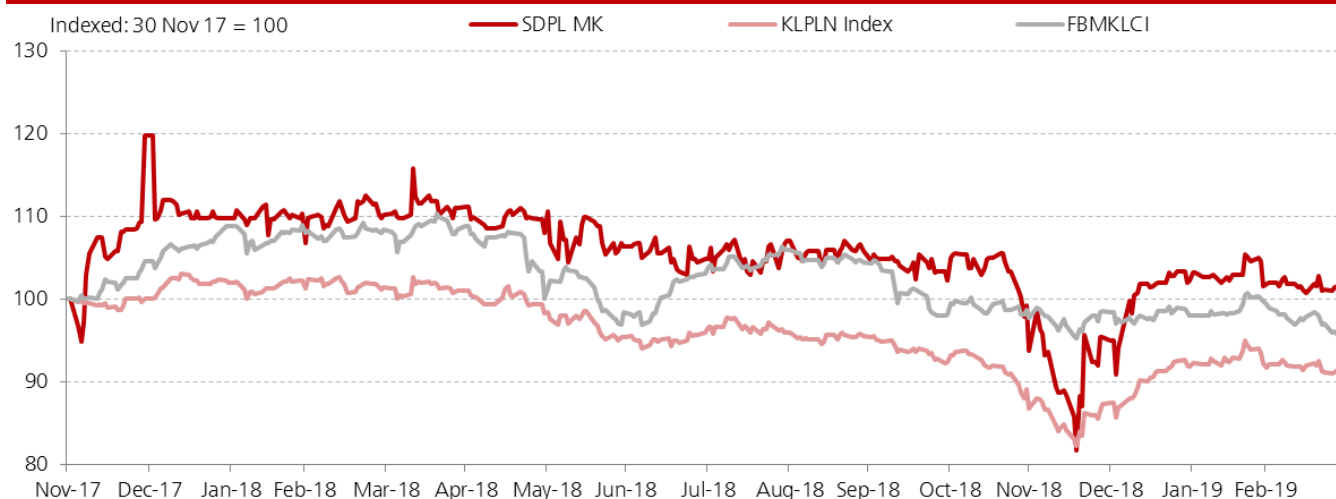


Source: Company, AllianceDBS

## Sime Darby Plantation

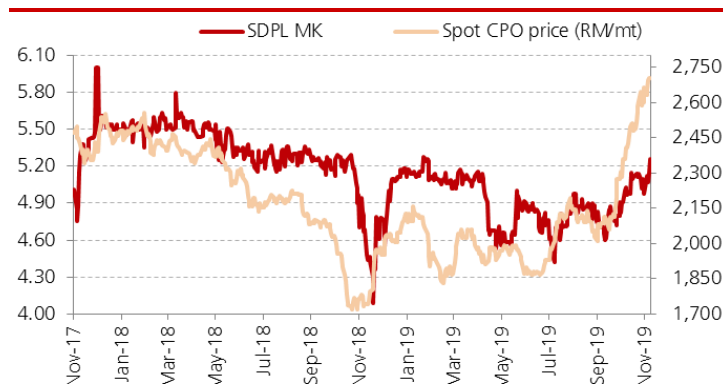
### Appendix 1: SDPL price correlation with critical factors

Graph 1: Share price vs key indices



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

### SDPL share price vs CPO prices

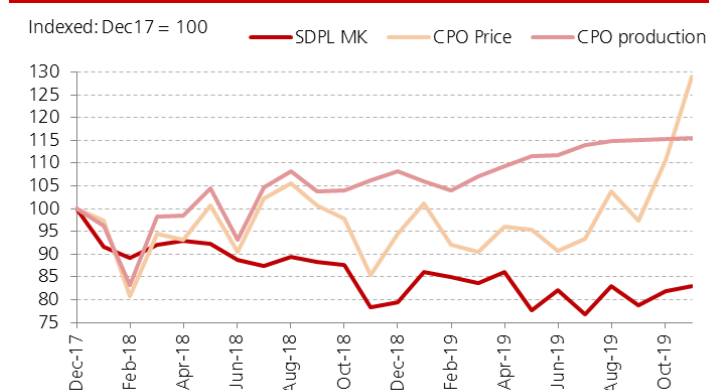


Source: Company, Bloomberg Finance L.P., AllianceDBS

### Remarks

SDPL's share price is broadly correlated to CPO pricing, given its influence on group profitability.

### SDPL share price vs production statistics



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

### Remarks

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

## Sime Darby Plantation

### Balance Sheet:

**Gearing to ease from strong free cashflow.** SDPL 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 cash flow, coupled with a moderate capital expenditure (capex) directed mostly towards replanting activities.

### Share Price Drivers:

**CPO price exposure.** With earnings sensitivity to spot CPO prices, we expect SDPL'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 India's 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.

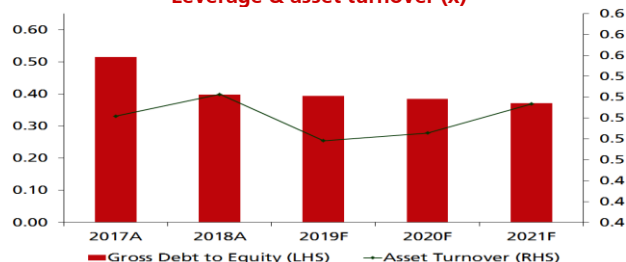
### Environmental, Social, Governance (ESG):

SDPL is committed to protecting the environment and conserving biodiversity through sustainable development. It is also committed to the well-being of its employees, providing a safe and healthy working environment. SDPL is one of the biggest sustainable palm oil producer in the world as its 124 estates and 33 mills throughout the country are Malaysia Sustainable Palm Oil (MSPO) certified.

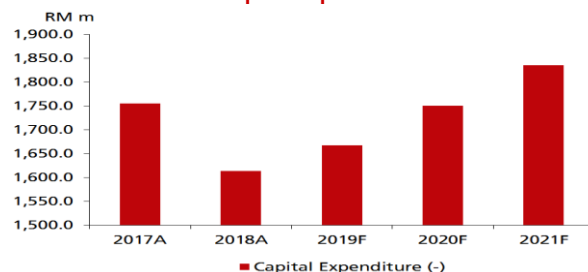
### Company Background

Sime Darby Plantation 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 de-merged into a separate listed entity in November 2017.

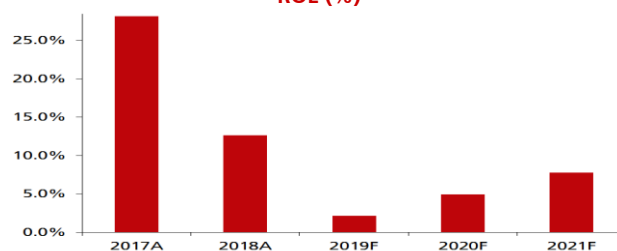
### Leverage & asset turnover (x)



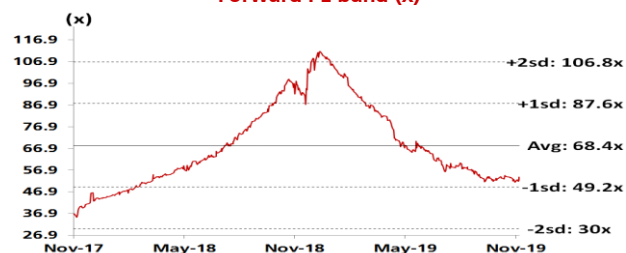
### Capital expenditure



### ROE (%)



### Forward PE band (x)

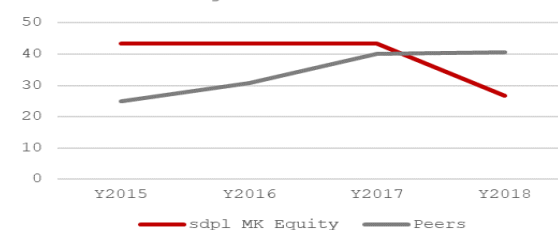


### PB band (x)



### Environmental, Social, Governance

Bloomberg ESG Disclosure Score



Source: Company, AllianceDBS

## Sime Darby Plantation

## Key Assumptions

FY Jun	2017A	2018A	2019F	2020F	2021F
CPO spot prices (RM/MT)	2,760	2,230	2,090	2,450	2,540
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	2.13	1.93	2.67
Average USDMYR	4.32	4.20	4.18	4.11	4.11

## Income Statement (RMm)

FY Jun	2017A	2018A	2019F	2020F	2021F
Revenue	14,779	14,369	13,271	13,646	14,780
Other Opng (Exp)/Inc	(12,509)	(12,351)	(12,478)	(12,311)	(12,830)
<b>Operating Profit</b>	<b>2,271</b>	<b>2,018</b>	<b>793</b>	<b>1,335</b>	<b>1,950</b>
Other Non Opg (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)	(172)	(170)
Exceptional Gain/(Loss)	2,228	555	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>4,031</b>	<b>2,377</b>	<b>590</b>	<b>1,139</b>	<b>1,755</b>
Tax	(479)	(492)	(153)	(293)	(447)
Minority Interest	(42.1)	(34.0)	(13.9)	(26.1)	(40.0)
Preference Dividend	(2.7)	(124)	(124)	(124)	(124)
<b>Net Profit</b>	<b>3,507</b>	<b>1,727</b>	<b>298</b>	<b>695</b>	<b>1,143</b>
Net Profit before Except.	1,279	1,172	298	695	1,143
EBITDA	3,499	3,235	2,095	2,738	3,457
<b>Growth</b>					
Revenue Gth (%)	23.7	(2.8)	(7.6)	2.8	8.3
EBITDA Gth (%)	61.3	(7.5)	(35.2)	30.7	26.2
Opg Profit Gth (%)	123.2	(11.1)	(60.7)	68.5	46.0
Net Profit Gth (Pre-ex) (%)	78.5	(8.4)	(74.5)	132.9	64.5
<b>Margins &amp; Ratio</b>					
Opg Profit Margin (%)	15.4	14.0	6.0	9.8	13.2
Net Profit Margin (%)	23.7	12.0	2.2	5.1	7.7
ROAE (%)	28.2	12.6	2.2	4.9	7.8
ROA (%)	11.9	6.3	1.1	2.5	4.0
ROCE (%)	7.8	6.2	2.3	3.8	5.4
Div Payout Ratio (%)	25.7	68.9	50.0	50.0	50.0
Net Interest Cover (x)	5.4	12.7	4.5	7.8	11.5

Source: Company, AllianceDBS

## Sime Darby Plantation

## Quarterly / Interim Income Statement (RMm)

FY Jun	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Revenue	3,039	3,504	3,006	2,875	2,821
Other Oper. (Exp)/Inc	(2,787)	(3,201)	(2,828)	(2,872)	(2,711)
<b>Operating Profit</b>	<b>252</b>	<b>303</b>	<b>178</b>	<b>3.00</b>	<b>110</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	7.00	(3.0)	2.00	(2.0)	8.00
Net Interest (Exp)/Inc	(47.0)	(55.0)	(55.0)	(25.0)	(34.0)
<b>Pre-tax Profit</b>	<b>212</b>	<b>245</b>	<b>125</b>	<b>(24.0)</b>	<b>84.0</b>
Tax	(59.0)	(86.0)	(14.0)	83.0	(11.0)
Minority Interest	(6.0)	0.0	(6.0)	(1.0)	(10.0)
<b>Net Profit</b>	<b>115</b>	<b>129</b>	<b>74.0</b>	<b>27.0</b>	<b>32.0</b>
Net profit bef Except.	113	89.0	47.0	57.0	39.0
EBITDA	526	649	506	285	118

## Growth

Revenue Gth (%)	(1.5)	15.3	(14.2)	(4.4)	(1.9)
EBITDA Gth (%)	(34.7)	23.4	(22.0)	(43.7)	(58.6)
Opg Profit Gth (%)	(47.8)	20.2	(41.3)	(98.3)	3,566.7
Net Profit Gth (Pre-ex) (%)	276.7	(21.2)	(47.2)	21.3	(31.6)

## Margins

Opg Profit Margins (%)	8.3	8.6	5.9	0.1	3.9
Net Profit Margins (%)	3.8	3.7	2.5	0.9	1.1

Pre-tax losses due to Papua New Guinea and Solomon Islands' estate problems

## Balance Sheet (RMm)

FY Jun	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	18,340	17,742	18,111	18,471	18,813
Invts in Associates & JVs	609	476	455	430	406
Other LT Assets	5,030	4,300	4,191	4,107	4,021
Cash & ST Invts	713	363	520	578	777
Inventory	1,522	1,571	1,515	1,497	1,559
Debtors	2,558	2,301	2,212	2,274	2,463
Other Current Assets	683	738	738	738	738
<b>Total Assets</b>	<b>29,455</b>	<b>27,491</b>	<b>27,742</b>	<b>28,095</b>	<b>28,778</b>

ST Debt	1,328	1,094	1,094	1,094	1,094
Creditor	1,773	1,588	1,717	1,696	1,767
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	16,056	16,403	16,975
Minority Interests	434	408	422	448	488
<b>Total Cap. &amp; Liab.</b>	<b>29,455</b>	<b>27,491</b>	<b>27,742</b>	<b>28,095</b>	<b>28,778</b>

Non-Cash Wkg. Capital	1,082	2,752	2,532	2,597	2,778
Net Cash/(Debt)	(7,078)	(6,126)	(5,969)	(5,911)	(5,712)
Debtors Turn (avg days)	63.2	58.4	60.8	60.8	60.8
Creditors Turn (avg days)	(509.0)	(462.4)	(472.1)	(433.8)	(421.1)
Inventory Turn (avg days)	(436.9)	(457.4)	(416.6)	(382.8)	(371.6)
Asset Turnover (x)	0.5	0.5	0.5	0.5	0.5
Current Ratio (x)	1.1	1.7	1.6	1.7	1.8
Quick Ratio (x)	0.7	0.9	0.9	0.9	1.1
Net Debt/Equity (X)	0.5	0.4	0.4	0.4	0.3
Net Debt/Equity ex MI (X)	0.5	0.4	0.4	0.4	0.3
Capex to Debt (%)	22.5	24.9	25.7	27.0	28.3
Z-Score (X)	3.1	3.3	3.1	3.2	3.3

Source: Company, AllianceDBS



## Sime Darby Plantation

## Cash Flow Statement (RMm)

FY Jun	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	4,031	2,377	590	1,139	1,755
Dep. & Amort.	1,271	1,254	1,328	1,427	1,532
Tax Paid	(479)	(492)	(153)	(293)	(447)
Assoc. & JV Inc/(loss)	43.5	37.0	25.0	24.8	24.5
Chg in Wkg.Cap.	(349)	(138)	274	(65.0)	(181)
Other Operating CF	(1,225)	(363)	50.0	50.0	50.0
<b>Net Operating CF</b>	<b>3,292</b>	<b>2,675</b>	<b>2,113</b>	<b>2,283</b>	<b>2,733</b>
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)
<b>Net Investing CF</b>	<b>(1,578)</b>	<b>(884)</b>	<b>(1,642)</b>	<b>(1,753)</b>	<b>(1,838)</b>
Div Paid	(900)	(1,190)	(149)	(348)	(572)
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)
<b>Net Financing CF</b>	<b>(1,673)</b>	<b>(2,091)</b>	<b>(315)</b>	<b>(472)</b>	<b>(696)</b>
Currency Adjustments	36.1	(50.4)	0.0	0.0	0.0
Chg in Cash	77.1	(350)	157	57.9	199
Opg CFPS (sen)	53.5	41.4	27.0	34.5	42.8
Free CFPS (sen)	22.6	15.6	6.57	7.83	13.2

Source: Company, AllianceDBS

## Target Price &amp; 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:	26 Dec 18	4.61	5.15	HOLD
2:	11 Jan 19	5.10	5.15	HOLD
3:	11 Feb 19	5.11	5.15	HOLD
4:	08 Mar 19	5.10	5.15	HOLD
5:	11 Mar 19	5.10	5.15	HOLD
6:	10 Apr 19	5.14	5.15	HOLD
7:	10 May 19	4.95	5.15	HOLD
8:	12 Jun 19	4.55	5.15	HOLD
9:	03 Jul 19	4.87	4.15	FULLY VALUED
10:	10 Jul 19	4.88	4.15	FULLY VALUED
11:	15 Jul 19	4.85	4.15	FULLY VALUED
12:	14 Aug 19	4.67	4.15	FULLY VALUED
13:	20 Aug 19	4.72	4.15	FULLY VALUED
14:	03 Sep 19	4.78	4.05	FULLY VALUED
15:	11 Nov 19	4.98	4.05	FULLY VALUED
16:	02 Dec 19	5.12	4.05	FULLY VALUED

Source: AllianceDBS

Analyst: Jin Wu LOW

# 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

9 Dec 2019

## HOLD (Upgrade from Fully Valued)

Last Traded Price ( 6 Dec 2019): RM10.40 (KLCI : 1,568.44)

Price Target 12-mth: RM9.60 (-8% downside) (Prev RM8.65)

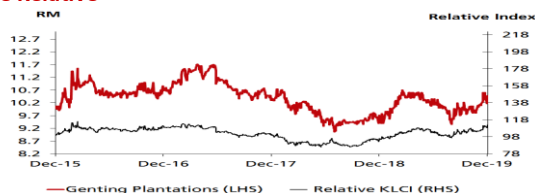
### Analyst

Jin Wu LOW +60 326043968 lowjinwu@alliancedbs.com

### What's New

- Imputing new CPO price assumptions of RM2,450/2,540 for FY20-21F
- Expect profitability improvements through high upstream exposure
- Fairly valued despite expectation of earnings improvement
- Upgrade to HOLD with SOP-derived TP of RM9.60

### Price Relative



### Forecasts and Valuation

FY Dec (RMm)	2018A	2019F	2020F	2021F
Revenue	1,903	2,068	2,508	2,802
EBITDA	403	368	604	749
Pre-tax Profit	208	181	411	548
Net Profit	165	132	296	399
Net Pft (Pre Ex.)	152	132	296	399
Net Pft Gth (Pre-ex) (%)	(53.5)	(13.0)	124.1	34.9
EPS (sen)	20.2	14.7	32.9	44.4
EPS Pre Ex. (sen)	18.6	14.7	32.9	44.4
EPS Gth Pre Ex (%)	(54)	(21)	124	35
Diluted EPS (sen)	18.4	14.7	32.9	44.4
Net DPS (sen)	7.08	5.14	11.5	15.5
BV Per Share (sen)	505	535	561	593
PE (X)	51.4	70.8	31.6	23.4
PE Pre Ex. (X)	56.0	70.8	31.6	23.4
P/Cash Flow (X)	33.1	27.5	26.2	18.5
EV/EBITDA (X)	26.1	31.0	19.1	15.4
Net Div Yield (%)	0.7	0.5	1.1	1.5
P/Book Value (X)	2.1	1.9	1.9	1.8
Net Debt/Equity (X)	0.4	0.4	0.4	0.4
ROAE (%)	3.9	3.0	6.0	7.7
Earnings Rev (%):		0	22	7
Consensus EPS (sen):		21.7	30.8	37.7
Other Broker Recs:		B: 5	S: 8	H: 4

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

### CRITICAL DATA POINTS TO WATCH

## Strong earnings growth offset by steep valuations

**Fairly valued despite expectations of exponential earnings growth.** We upgrade Genting Plantations (GENP) from FULLY VALUED to HOLD. We anticipate higher CPO prices going into FY20 on plateauing palm oil supply due to the dissipation in production yields, supply disruption from El-Nino and stronger soybean prices. While GENP has one of the highest upstream exposures in our coverage, we believe that its exponential growth would only happen in more than 3 years when its Indonesian plantation starts to hit peak production growth. GENP has traded at almost 2x book in 9MFY19 despite record low CPO prices, signifying that its price has not adjusted to the lower than expected CPO prices. We upgrade our earnings forecast by 22/7% for FY20-21F and our call from FULLY VALUED to HOLD with a target price (TP) of RM9.60.

**Where we differ. Factoring in higher CPO prices.** Our CPO price forecasts of RM2,450/RM2,540/RM2,560 per MT for 2020/21/22F are above consensus.

**Potential catalyst. Higher than expected FFB yields.** Higher than expected fresh fruit bunches (FFB) yields would drive the company's share price up on the back of higher CPO prices.

### Valuation:

Our sum-of-parts (SOP)-based TP (plantations segment valued with discounted cash flow (DCF) and weighted average cost of capital (WACC) of 7.0%) is revised to RM9.60 based on our CPO assumptions.

### Key Risks to Our View:

Lower than expected CPO prices would be negative for GENP's share price and future earnings.

### At A Glance

Issued Capital (m shrs)	897
Mkt. Cap (RMm/US\$m)	9,331 / 2,244
Major Shareholders (%)	
Genting Berhad	51.2
Employees Provident Fund	13.1
Kumpulan Wang Persaraan	5.1
Free Float (%)	49
3m Avg. Daily Val (US\$m)	1.4

**GIC Industry :** Consumer Staples / Agricultural Products

Bloomberg ESG disclosure score (2017)^	46.3
- Environmental / Social / Governance	40.3 / 49.1 / 57.1



Live more, Bank less

## Genting Plantations

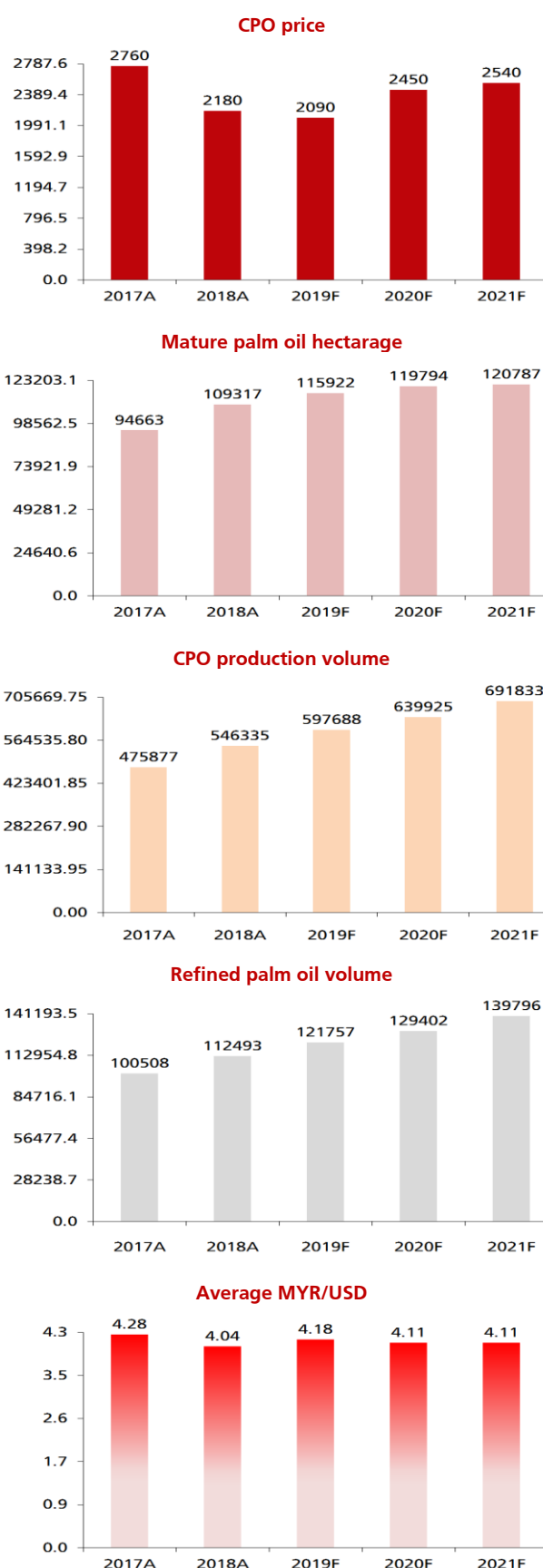
**CPO price the main driver of earnings.** Movements in international CPO prices would directly impact the group's profitability. We currently expect CPO prices (free-on-board (FOB) Pasir Gudang) to average US\$500/MT (-7% y-o-y) in CY19, translating to RM2,090/MT (-4%). The declining CPO prices may negatively impact near-term selling prices of both CPO and its derivatives. We expect a strong CPO price recovery to US\$596/MT in CY20F (RM2,450/MT) which will boost revenues and plantation margins. We expect the low soybean oil prices to cap the upside of CPO prices as soybean oil is seen as a substitute for CPO.

**Volume output to be boosted by Indonesian estates.** GENP has c.150k ha of planted area in Malaysia and Indonesia with its recent purchase of additional hectareage in Indonesia. From 2019-2021F, we expect GENP's internal FFB output to chart a compound annual growth rate (CAGR) of 4% 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 to 50%/55%/60% in FY19/20/21F, initially processing its own CPO feedstock prior to sourcing external volumes. Contribution will rise with higher volumes and more favourable palm oil product spreads. However, margins will be thinner than its upstream operations. The group also has a biodiesel plant in the same area in 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.

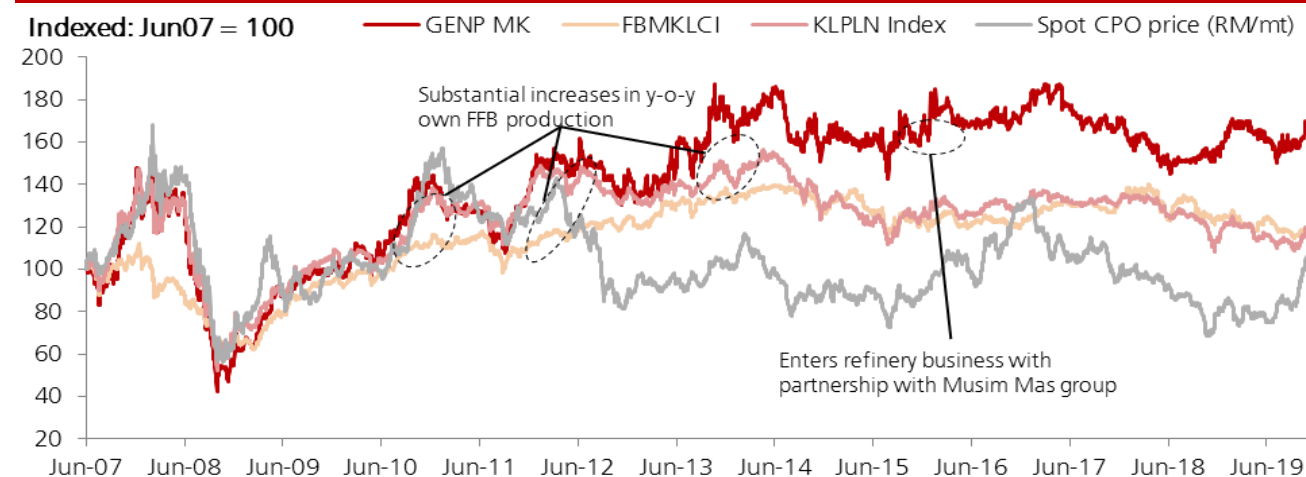
### Appendix 1: GENP price correlation with critical factors



Source: Company, AllianceDBS

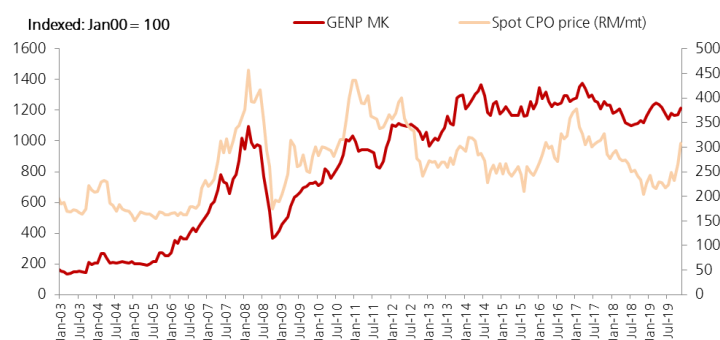
## Genting Plantations

Graph 1: Share price vs key benchmarks



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

## GENP share price vs CPO prices

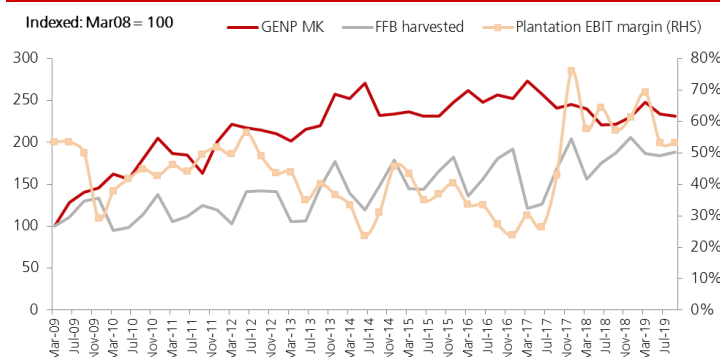


Source: Company, Bloomberg L.P., AllianceDBS

## Remarks

GENP's share price is largely influenced by CPO price movements, with a long-term correlation coefficient of 0.8.

## GENP share price vs production and margins



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

## Remarks

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

## Genting Plantations

### Balance Sheet:

**Manageable leverage level.** As at end-FY18, GENP had a net gearing ratio of c.0.4x, including US Dollar (USD) debts amounting to US\$302m, which represented debts incurred by its Indonesian subsidiaries to fund its ongoing capital expenditure (capex) programme (interest expense and foreign exchange (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 delivered improved performances, which can accelerate 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.

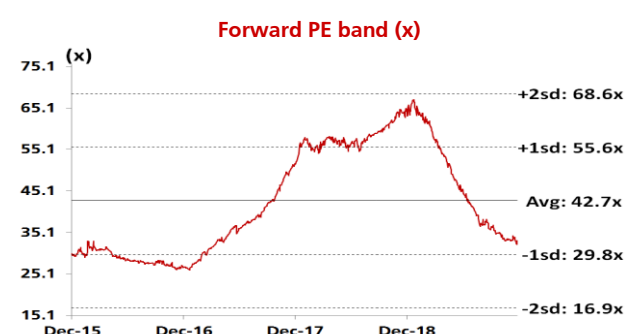
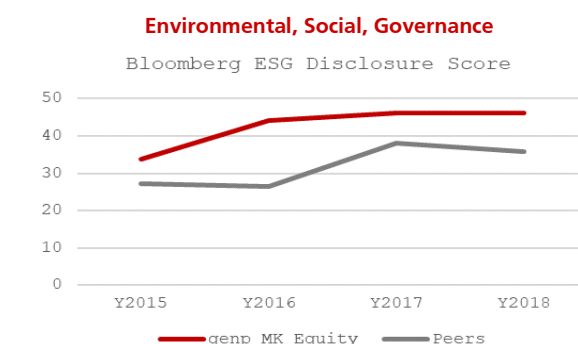
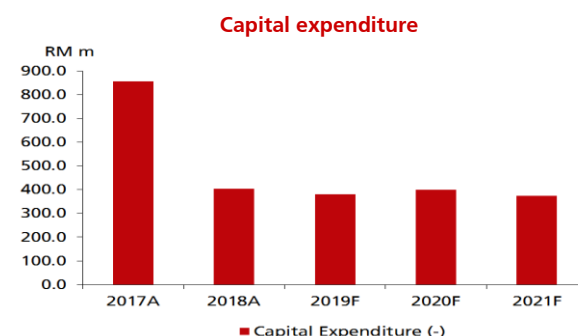
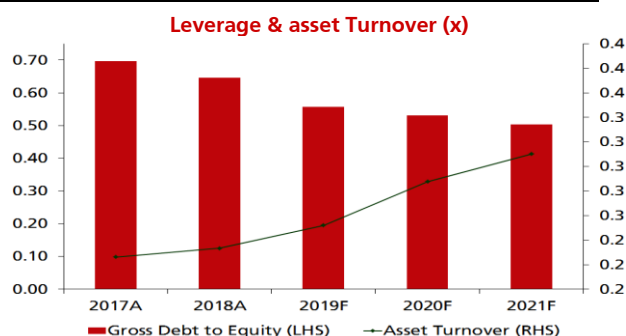
**Weather.** Changes in rainfall pattern (caused by either El Nino or La Nina) would affect FFB yields with some time lag.

### Environmental, Social, Governance (ESG):

GENP is guided by global trends like the UN Sustainable Development Goals (UN SDGs), Roundtable on Sustainable Palm Oil (RSPO). At the same time, it is attentive to increasing demand for accountability by various stakeholders for all aspects of the palm oil supply chain locally and globally. Genting Plantation is also working towards national certification in Malaysia and Indonesia - Malaysian Sustainable Palm Oil (MSPO) certification and Indonesian Sustainable Palm Oil (ISPO) certification. Emphasis is constantly placed on the well-being of the local communities where Genting Plantation operates.

### 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

## Genting Plantations

## Key Assumptions

FY Dec	2017A	2018A	2019F	2020F	2021F
CPO price	2,760	2,180	2,090	2,450	2,540
Mature palm oil hectare	94,663	109,317	115,922	119,794	120,787
CPO production volume	475,877	546,335	597,688	639,925	691,833
Refined palm oil volume	100,508	112,493	121,757	129,402	139,796
Average MYR/USD	4.28	4.04	4.18	4.11	4.11

## Income Statement (RMm)

FY Dec	2017A	2018A	2019F	2020F	2021F
Revenue	1,804	1,903	2,068	2,508	2,802
Cost of Goods Sold	(1,182)	(1,495)	(1,689)	(1,867)	(2,014)
<b>Gross Profit</b>	<b>623</b>	<b>408</b>	<b>380</b>	<b>641</b>	<b>789</b>
Other Opng (Exp)/Inc	(162)	(174)	(190)	(225)	(237)
<b>Operating Profit</b>	<b>460</b>	<b>234</b>	<b>190</b>	<b>417</b>	<b>552</b>
Other Non Opng (Exp)/Inc	(12.1)	(13.4)	0.0	0.0	0.0
Associates & JV Inc	34.7	43.0	42.8	46.7	50.9
Net Interest (Exp)/Inc	(33.8)	(69.7)	(51.4)	(52.7)	(55.0)
Exceptional Gain/(Loss)	12.1	13.4	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>461</b>	<b>208</b>	<b>181</b>	<b>411</b>	<b>548</b>
Tax	(116)	(60.8)	(47.2)	(107)	(137)
Minority Interest	(7.1)	18.0	(2.3)	(8.3)	(12.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>338</b>	<b>165</b>	<b>132</b>	<b>296</b>	<b>399</b>
Net Profit before Except.	326	152	132	296	399
EBITDA	618	403	368	604	749
<b>Growth</b>					
Revenue Gth (%)	21.9	5.5	8.7	21.3	11.7
EBITDA Gth (%)	3.1	(34.8)	(8.6)	64.1	24.0
Opg Profit Gth (%)	3.7	(49.1)	(19.0)	119.3	32.5
Net Profit Gth (Pre-ex) (%)	20.0	(53.5)	(13.0)	124.1	34.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	34.5	21.5	18.4	25.6	28.1
Opg Profit Margin (%)	25.5	12.3	9.2	16.6	19.7
Net Profit Margin (%)	18.7	8.7	6.4	11.8	14.2
ROAE (%)	7.8	3.9	3.0	6.0	7.7
ROA (%)	4.2	2.0	1.6	3.4	4.4
ROCE (%)	4.5	2.1	1.8	3.7	4.8
Div Payout Ratio (%)	61.9	35.0	35.0	35.0	35.0
Net Interest Cover (x)	13.6	3.4	3.7	7.9	10.0

Source: Company, AllianceDBS

## Genting Plantations

## Quarterly / Interim Income Statement (RMm)

FY Dec	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019
Revenue	489	482	622	526	475
Cost of Goods Sold	(408)	(401)	(499)	(452)	(405)
<b>Gross Profit</b>	<b>80.5</b>	<b>81.7</b>	<b>122</b>	<b>74.2</b>	<b>70.2</b>
Other Oper. (Exp)/Inc	(39.3)	(50.4)	(46.7)	(34.0)	(38.0)
<b>Operating Profit</b>	<b>41.1</b>	<b>31.4</b>	<b>75.6</b>	<b>40.2</b>	<b>32.2</b>
Other Non Opg (Exp)/Inc	(13.3)	3.41	5.47	(3.3)	(3.3)
Associates & JV Inc	9.89	12.8	10.7	11.9	12.1
Net Interest (Exp)/Inc	(26.0)	(29.3)	(26.4)	(26.1)	(25.7)
Exceptional Gain/(Loss)	13.3	(3.4)	(5.5)	3.32	3.26
<b>Pre-tax Profit</b>	<b>25.1</b>	<b>14.8</b>	<b>59.9</b>	<b>25.9</b>	<b>18.5</b>
Tax	(7.6)	(4.6)	(17.9)	(7.6)	(5.5)
Minority Interest	6.00	4.01	(0.4)	2.43	4.89
<b>Net Profit</b>	<b>23.5</b>	<b>14.3</b>	<b>41.7</b>	<b>20.7</b>	<b>18.0</b>
Net profit bef Except.	10.2	17.7	47.2	17.4	14.7
EBITDA	96.5	31.4	75.6	95.6	91.1

## Growth

Revenue Gth (%)	21.4	(1.3)	28.9	(15.4)	(9.6)
EBITDA Gth (%)	75.8	(67.5)	141.2	26.4	(4.7)
Opg Profit Gth (%)	(25.1)	(23.8)	141.2	(46.9)	(19.8)
Net Profit Gth (Pre-ex) (%)	(79.7)	73.3	166.7	(63.1)	(15.6)

## Margins

Gross Margins (%)	16.5	16.9	19.7	14.1	14.8
Opg Profit Margins (%)	8.4	6.5	12.2	7.6	6.8
Net Profit Margins (%)	4.8	3.0	6.7	3.9	3.8

## Balance Sheet (RMm)

FY Dec	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	4,393	4,419	5,183	5,395	5,572
Invt in Associates & JVs	121	149	192	238	289
Other LT Assets	1,200	1,130	1,114	1,121	1,126
Cash & ST Invt	1,722	950	897	796	815
Inventory	233	291	294	324	348
Debtors	397	474	471	568	632
Other Current Assets	403	421	421	422	423
<b>Total Assets</b>	<b>8,469</b>	<b>7,834</b>	<b>8,571</b>	<b>8,865</b>	<b>9,205</b>
ST Debt	625	507	507	507	507
Creditor	367	370	419	465	504
Other Current Liab	16.7	5.91	12.8	14.1	15.2
LT Debt	2,559	2,279	2,279	2,279	2,279
Other LT Liabilities	332	359	359	359	359
Shareholder's Equity	4,334	4,121	4,801	5,038	5,326
Minority Interests	235	192	194	203	215
<b>Total Cap. &amp; Liab.</b>	<b>8,469</b>	<b>7,834</b>	<b>8,572</b>	<b>8,865</b>	<b>9,205</b>
Non-Cash Wkg. Capital	650	810	755	835	883
Net Cash/(Debt)	(1,463)	(1,836)	(1,890)	(1,990)	(1,972)
Debtors Turn (avg days)	91.2	83.6	83.4	75.6	78.2
Creditors Turn (avg days)	138.9	101.5	95.3	96.0	97.4
Inventory Turn (avg days)	72.5	72.1	70.7	67.2	67.5
Asset Turnover (x)	0.2	0.2	0.3	0.3	0.3
Current Ratio (x)	2.7	2.4	2.2	2.1	2.2
Quick Ratio (x)	2.1	1.6	1.5	1.4	1.4
Net Debt/Equity (X)	0.3	0.4	0.4	0.4	0.4
Net Debt/Equity ex MI (X)	0.3	0.4	0.4	0.4	0.4
Capex to Debt (%)	26.9	14.5	13.6	14.3	13.4
Z-Score (X)	2.7	2.7	2.7	2.7	2.8

Source: Company, AllianceDBS



## Genting Plantations

## Cash Flow Statement (RMm)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	461	208	181	411	548
Dep. & Amort.	158	168	178	187	197
Tax Paid	(116)	(60.8)	(47.2)	(107)	(137)
Assoc. & JV Inc/(loss)	(34.7)	(43.0)	(42.8)	(46.7)	(50.9)
Chg in Wkg.Cap.	3.57	(131)	47.7	(80.3)	(48.2)
Other Operating CF	125	115	23.0	(7.2)	(4.6)
<b>Net Operating CF</b>	<b>596</b>	<b>256</b>	<b>340</b>	<b>357</b>	<b>504</b>
Capital Exp.(net)	(855)	(403)	(380)	(399)	(375)
Other Invt.(net)	0.0	500	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	41.6	(214)	(0.1)	0.0	0.0
<b>Net Investing CF</b>	<b>(814)</b>	<b>(117)</b>	<b>(380)</b>	<b>(399)</b>	<b>(375)</b>
Div Paid	(196)	(177)	(55.3)	(58.3)	(111)
Chg in Gross Debt	243	(280)	0.0	0.0	0.0
Capital Issues	(88.9)	(203)	41.3	0.0	0.0
Other Financing CF	221	249	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>179</b>	<b>(411)</b>	<b>(14.0)</b>	<b>(58.3)</b>	<b>(111)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(38.6)	(272)	(53.3)	(101)	18.6
Opg CFPS (sen)	73.7	47.5	32.6	48.7	61.5
Free CFPS (sen)	(32.3)	(18.1)	(4.4)	(4.7)	14.4

Source: Company, AllianceDBS

## Target Price &amp; 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:	26 Dec 18	9.75	9.45	HOLD
2:	11 Jan 19	9.99	9.45	HOLD
3:	11 Feb 19	10.36	9.45	HOLD
4:	27 Feb 19	10.52	9.45	HOLD
5:	08 Mar 19	10.40	9.45	HOLD
6:	11 Mar 19	10.44	9.45	HOLD
7:	10 Apr 19	10.56	9.45	HOLD
8:	10 May 19	10.28	9.45	HOLD
9:	24 May 19	10.20	9.25	HOLD
10:	12 Jun 19	10.18	9.25	HOLD
11:	10 Jul 19	10.04	8.90	FULLY VALUED
12:	15 Jul 19	10.00	8.90	FULLY VALUED
13:	14 Aug 19	9.56	8.90	FULLY VALUED
14:	20 Aug 19	9.70	8.90	FULLY VALUED
15:	29 Aug 19	10.02	8.65	FULLY VALUED
16:	11 Nov 19	10.14	8.65	FULLY VALUED
17:	28 Nov 19	10.44	8.65	FULLY VALUED

Source: AllianceDBS

Analyst: Jin Wu LOW

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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 share price catalysts within this time frame)

*\*Share price appreciation + dividends*

Completed Date: 9 Dec 2019 08:35:50 (WIB)

Dissemination Date: 9 Dec 2019 17:40:14 (WIB)

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

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