

24 March 2020

Agriculture | Plantation

Golden Agri (GGR SP)

Sell (from Buy)

Lowering CPO Prices; Downgrade To SELL

Target Price (Return): SGD0.125 (-10%)
 Price: SGD0.139
 Market Cap: USD1,211m
 Avg Daily Turnover (SGD/USD) 8.46m/6.17m

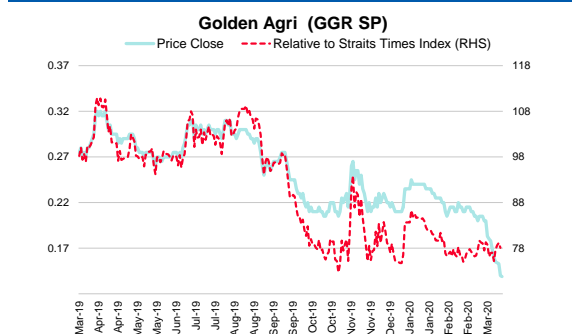
- **Downgrade to SELL from Buy with a lower SOP-derived TP of SGD0.125 from SGD0.25, 10% downside.** After imputing our revised CPO prices assumptions, we cut our FY20F earnings by 55% and FY21F-22F by 15-16%. While the weakened CPO prices are partly buffered by Golden Agri's downstream segment, valuation seems expensive vs peers – it is currently trading at a hefty 28x, even after its recent price retracement.
- **Our worst case scenario for demand is still a possibility** if COVID-19 is not arrested by end 2020 and crude oil prices do not recover in 2H20 as projected by our in-house crude oil forecasts. Please refer to our 11 Mar report [COVID-19 + Crude Oil = Correction](#) for more details. Currently, at a palm oil and gasoil futures or POGO price gap of USD37.00/bbl, it would mean Indonesian biodiesel demand could be short 2.1m tonnes – instead of the 1.4m tonnes we originally projected. This could mean that the worst case scenario is for CPO stock/usage ratios to rise to 24.4% from 2019's 18.6%. Based on historical guidelines, this implies CPO prices falling to between MYR2,000 and 2,200/tonne.
- **Nevertheless, our current in-house assumption is for COVID-19 to be under control within 1H20**, which would mean our second scenario (Scenario 2) is a more reasonable assumption to make. This assumes a 10% decline in demand from the EU, US, and China, as well as a 2.1m tonnes decline in biodiesel demand in Indonesia – a 3.8m tonnes decline in total CPO demand. With this, we estimate an increase in CPO stock/usage ratios to 20.1% from 18.6%. Based on historical data, CPO prices ranged between MYR2,200 and MYR2,400/tonne when stock/usage ratios were at these levels in 2011 and 2018.
- **We are therefore cutting our CPO price forecasts to MYR2,400/tonne for 2020** from MYR2,600, while leaving our MYR2,500/tonne forecast for 2021 and 2022 intact. We have also adjusted our FX assumptions to be in line with our latest in-house assumptions. With this reduction in prices, we have cut the earnings forecast for FY20F-21F by 6-17%.
- **We downgrade our call with a lower SOP-based TP of SGD0.125**, with a decreased EV/ha of USD2,500 from USD5,000 for GGR's upstream division and an unchanged 15x 2020F P/E for its downstream business. This is lower than its peers, which are trading at USD5,000-12,000/ha, which we believe can be justified, given its older age profile. We highlight that GGR is highly sensitive to CPO price movements, where every MYR100.00/tonne impacts its earnings by 8-10%.

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(40.9)	(35.4)	(33.8)	(43.3)	(48.5)
Relative	(12.6)	(7.6)	(5.7)	(16.4)	(20.5)
52-wk Price low/high (SGD)	0.14 – 0.32				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (USDm)	7,167	6,432	7,493	8,076	8,265
Recurring net profit (USDm)	(92)	(64)	45	80	96
Recurring net profit growth (%)	(164.1)	(30.3)	-	78.7	19.8
Recurring P/E (x)	na	na	27.10	15.17	12.65
P/B (x)	0.3	0.3	0.3	0.3	0.3
P/CF (x)	4.29	3.26	7.08	3.64	2.81
Dividend Yield (%)	4.5	4.4	1.8	3.3	4.0
EV/EBITDA (x)	7.50	7.07	5.93	5.34	4.84
Return on average equity (%)	(0.0)	4.5	1.0	1.8	2.2
Net debt to equity (%)	51.8	49.0	50.5	49.1	45.8

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (USD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	(0.01)	(0.01)	0.00	0.01	0.01
Agriculture	DPS	0.00	0.00	0.00	0.00	0.00
Golden Agri	BVPS	0.33	0.34	0.34	0.35	0.35
GGR SP	Return on average equity (%)	(0.0)	4.5	1.0	1.8	2.2
Sell						
Valuation basis	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
We use SOP to value GGR. We apply an EV/ha valuation of USD2,500/ha for its plantation assets and a target P/E of 15x FY20F for its downstream division. This is below its peers' range of USD5,000-15,000/ha, which we believe is justified given its older age profile. The downstream target P/E is in line with its peers' 12-15x.	Recurring P/E (x)	na	na	27.10	15.17	12.65
	P/B (x)	0.3	0.3	0.3	0.3	0.3
	FCF Yield (%)	1.4	7.5	(5.6)	6.2	13.8
	Dividend Yield (%)	4.5	4.4	1.8	3.3	4.0
	EV/EBITDA (x)	7.50	7.07	5.93	5.34	4.84
	EV/EBIT (x)	21.89	23.33	12.84	11.25	10.31
Key drivers	Income statement (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. CPO price movement and FFB production output;	Total turnover	7,167	6,432	7,493	8,076	8,265
ii. Competitiveness of its downstream processing division vs its peers.	Gross profit	1,007	831	768	842	855
	EBITDA	432	448	553	612	655
	Depreciation and amortisation	(284)	(312)	(298)	(322)	(347)
	Operating profit	148	136	255	290	308
	Net interest	(126)	(148)	(155)	(156)	(151)
	Pre-tax profit	86	260	91	140	162
	Taxation	(84)	(47)	(26)	(40)	(46)
	Reported net profit	(2)	194	45	80	96
	Recurring net profit	(92)	(64)	45	80	96
Key risks	Cash flow (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Weather;	Change in working capital	40	19	(191)	(88)	(31)
ii. Exchange rates;	Cash flow from operations	283	373	172	333	432
iii. Global supply and demand dynamics of edible oils.	Capex	(266)	(282)	(240)	(258)	(264)
	Cash flow from investing activities	(340)	(355)	(240)	(258)	(264)
	Dividends paid	(12)	(66)	(22)	(40)	(48)
	Cash flow from financing activities	89	31	78	(140)	(148)
	Cash at beginning of period	159	193	210	219	154
	Net change in cash	32	48	9	(65)	20
	Ending balance cash	191	241	219	154	174
Company Profile	Balance sheet (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
GGR is Indonesia's largest oil palm plantation company. It is also the biggest local player in the cooking oil market.	Total cash and equivalents	545	784	794	729	749
	Tangible fixed assets	3,716	3,720	3,662	3,598	3,516
	Total investments	1,184	1,451	1,451	1,451	1,451
	Total assets	8,546	8,787	9,071	9,084	9,072
	Short-term debt	1,376	1,852	1,852	1,852	1,852
	Total long-term debt	1,399	1,141	1,241	1,141	1,041
	Total liabilities	4,236	4,274	4,516	4,469	4,389
	Total equity	4,310	4,513	4,555	4,615	4,683
	Total liabilities & equity	8,546	8,787	9,071	9,084	9,072
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	(4.5)	(10.3)	16.5	7.8	2.3
	Recurrent EPS growth (%)	(164.6)	(30.3)	0.0	78.7	19.8
	Gross margin (%)	14.0	12.9	10.3	10.4	10.3
	Operating EBITDA margin (%)	6.0	7.0	7.4	7.6	7.9
	Net profit margin (%)	(0.0)	3.0	0.6	1.0	1.2
	Dividend payout ratio (%)	(3087.6)	27.4	50.0	50.0	50.0
	Capex/sales (%)	3.7	4.4	3.2	3.2	3.2
	Interest cover (x)	0.90	0.81	1.45	1.65	1.80

Source: Company data, RHB

Figure 1: Key assumptions

	FY17	FY18	FY19	FY20F	FY21F	FY22F
Nucleus FFB production, tonnes	7,498,000	8,111,000	7,616,000	7,464,660	7,688,600	7,919,258
% change	8.6%	8.2%	-6.1%	-2.0%	3.0%	3.0%
CPO price assumption, USD/tonne	682	565	559	561	595	595
% change	2.9%	-17.2%	-1.1%	0.4%	6.0%	0.0%

Source: Company data, RHB

Figure 2: SOP valuation

	Valuation method	Target	USDm
Plantation	EV/ha (USD)	2,500	987.29
Downstream	2020F P/E (x)	15	154.42
			1141.71
Share base			12,735
TP per share (USD)			0.09
TP per share (SGD)			0.125

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-03-01	Buy	0.25	0.20
2020-01-20	Buy	0.27	0.24
2019-11-14	Neutral	0.25	0.25
2019-09-30	Neutral	0.25	0.23
2019-08-15	Sell	0.22	0.30
2019-05-14	Sell	0.23	0.28
2019-02-27	Sell	0.23	0.28
2019-01-28	Sell	0.23	0.27

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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