27 July 2020

Agriculture | Plantation

Bumitama Agri (BAL SP)

Buy (from Neutral)

Valuation Attractive, Look To FY21F; U/G To BUY

Target Price (Return):	SGD0.60 (+20%)
Price:	SGD0.50
Market Cap:	USD621m
Avg Daily Turnover (SGD/USD)	0.19m/0.14m

- **Upgrade to BUY from Neutral, higher SGD0.60 TP from SGD0.48, 20% upside and c.3% yield.** With the markets in a liquidity-driven rally, we believe cyclical sectors like plantations could be the next play, providing investors with a relatively safe haven, in terms of earnings. Nevertheless, we caution of a possible pullback in CPO prices in 4Q20 and continue to advocate buying stocks which are still trading at decent valuations. We believe Bumitama Agri, being a pure planter, would benefit from the recent price rise, while valuation remains attractive.
- **CPO prices have rallied of late** to current levels of MYR2,739/tonne. While we do not see any significant catalyst that could have caused this rerating other than the recently released Malaysian plantation statistics – which were a positive surprise – we believe much of the rally could have been caused by the current liquidity in the market. This liquidity has cut across all asset classes – not just for equities, but also for fixed income and commodities. That said, we believe CPO prices are likely to hold relatively steady in 3Q20, given that CPO production only started ramping up in June, while pent-up demand is likely to continue until at least August or September, in light of the *Deepavali* festival in November.
- **Post-3Q20, we continue to hold our view that 4Q20 should see a pullback of prices** on the back of the impact of the seasonal peak production which will end in 4Q20 and lower post-festive demand.
- **On the whole, however, CPO prices in 2020 are expected to be 13% higher** than that of 2019, while production for most planters, particularly those in Indonesia, will be higher. This means earnings will be stronger YoY in 2020, as well as in 2021, given our assumption of a higher MYR2,500/tonne CPO price. This security of earnings, we believe, will give investors a reason to invest in the sector – provided that valuations make sense, of course.
- **Extending our investment horizon in line with market expectations,** we roll forward our valuation period to Dec 2021F from Jun 2021F for all the stocks under our coverage, while mostly keeping our valuation targets intact.
- **Upgrade to BUY.** Post rolling forward our valuation period to Dec 2021F, our TP rises to SGD0.60. Our P/E target of 13x (from 12x) is at a slight discount to its peers of 14-16x, given its weaker liquidity. We believe at current price levels, BAL's valuation is still attractive, trading below its historical mean, while its pure planter model would enable it to benefit more from the recent price rise.

Analyst

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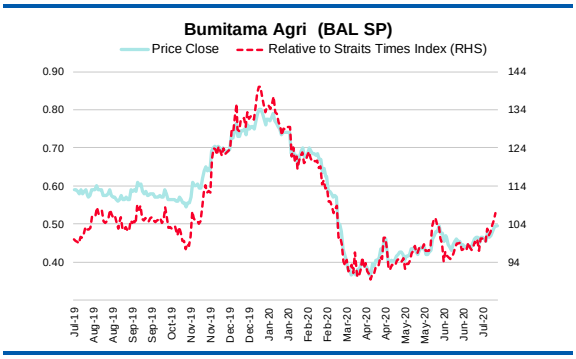
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(38.1)	11.2	22.2	(33.1)	(14.7)
Relative	(18.6)	12.7	20.1	(13.3)	8.4
52-wk Price low/high (SGD)					0.37 – 0.80



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (IDRb)	8,381	7,691	10,299	10,569	10,839
Recurring net profit (IDRb)	1,202	507	703	819	858
Recurring net profit growth (%)	1.2	(57.8)	38.8	16.4	4.8
Recurring P/E (x)	7.88	18.70	13.47	11.57	11.04
P/B (x)	1.2	1.2	1.1	1.0	1.0
P/CF (x)	6.24	7.86	6.77	5.05	4.98
Dividend Yield (%)	5.5	1.9	2.6	3.0	3.5
EV/EBITDA (x)	6.48	10.13	8.87	7.83	7.29
Return on average equity (%)	14.4	8.7	8.5	9.3	9.2
Net debt to equity (%)	54.7	65.9	56.3	45.2	35.0

Source: Company data, RHB

Note:
Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia
Singapore
Agriculture
Bumitama Agri
BAL SP
Buy

Valuation basis

We use 13x Dec 2021F P/E to value BAL. This implies an EV/ha of USD10,000, which is at the mid end of its peers' range of USD5,000-15,000

Key drivers

CPO price movement and FFB production output

Key risks

i. CPO price movements;
ii. Weather risks;
iii. Demand and supply dynamics of the global vegetable oil industry.

Company Profile

Bumitama Agri is a pure upstream plantation company in Indonesia, with landbank mostly in Kalimantan.

Financial summary (IDR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	665.11	280.40	389.18	453.12	474.93
DPS	289.26	101.17	134.48	155.36	181.25
BVPS	4,300.45	4,472.52	4,727.23	5,024.98	5,318.66
Return on average equity (%)	14.4	8.7	8.5	9.3	9.2

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	7.88	18.70	13.47	11.57	11.04
P/B (x)	1.2	1.2	1.1	1.0	1.0
FCF Yield (%)	9.3	5.7	9.7	14.9	15.3
Dividend Yield (%)	5.5	1.9	2.6	3.0	3.5
EV/EBITDA (x)	6.48	10.13	8.87	7.83	7.29
EV/EBIT (x)	8.40	15.70	13.71	11.91	11.19

Income statement (IDRb)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	8,381	7,691	10,299	10,569	10,839
Gross profit	2,391	1,733	2,064	2,212	2,256
EBITDA	2,398	1,683	1,869	2,031	2,082
Depreciation and amortisation	(550)	(597)	(660)	(696)	(726)
Operating profit	1,848	1,086	1,209	1,335	1,356
Net interest	(35)	(53)	(118)	(65)	(25)
Pre-tax profit	1,705	1,193	1,090	1,269	1,331
Taxation	(410)	(353)	(273)	(317)	(333)
Reported net profit	1,097	686	703	819	858
Recurring net profit	1,202	507	703	819	858

Cash flow (IDRb)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	126	508	463	858	877
Cash flow from operations	1,517	1,206	1,399	1,876	1,901
Capex	(633)	(670)	(482)	(468)	(454)
Cash flow from investing activities	(929)	(930)	(449)	(393)	(350)
Dividends paid	(570)	(442)	(243)	(281)	(328)
Cash flow from financing activities	(511)	(55)	(774)	(801)	(837)
Cash at beginning of period	217	299	504	790	1,298
Net change in cash	77	221	176	682	713
Ending balance cash	299	517	679	1,471	2,011

Balance sheet (IDRb)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	299	504	790	1,298	1,852
Tangible fixed assets	13,637	14,459	14,360	14,211	14,019
Total investments	83	0	0	0	0
Total assets	16,539	17,444	18,027	18,414	18,814
Short-term debt	4,289	626	626	626	626
Total long-term debt	935	6,097	5,797	5,497	5,197
Total liabilities	7,539	8,013	8,021	7,737	7,466
Total equity	9,000	9,431	10,006	10,677	11,348
Total liabilities & equity	16,539	17,444	18,027	18,414	18,814

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	3.1	(8.2)	33.9	2.6	2.6
Recurrent EPS growth (%)	1.2	(57.8)	38.8	16.4	4.8
Gross margin (%)	28.5	22.5	20.0	20.9	20.8
Operating EBITDA margin (%)	28.6	21.9	18.1	19.2	19.2
Net profit margin (%)	13.1	8.9	6.8	7.7	7.9
Dividend payout ratio (%)	47.6	26.6	34.6	34.3	38.2
Capex/sales (%)	7.5	8.7	4.7	4.4	4.2
Interest cover (x)	9.25	4.52	5.23	6.06	6.47

Source: Company data, RHB

Figure 1: Key assumptions for Bumitama

	FY17	FY18	FY19	FY20F	FY21F	FY22F
Nucleus FFB production, tonnes	1,784,729	2,276,866	2,231,353	2,326,495	2,530,095	2,737,734
% change	17.9%	27.6%	-2.0%	4.3%	8.8%	8.2%
CPO price assumption, IDR/kg	8,099	7,029	6,696	8,618	8,631	8,631
% change	9.8%	-13.2%	-4.7%	28.7%	0.2%	0.0%
PK price assumption, IDR/kg	6,033	5,287	3,416	5,386	5,351	5,351
% change	7.9%	-22.9%	-35.4%	57.7%	-0.6%	0.0%

Source: Company data, RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-06-25	Neutral	0.48	0.44
2020-05-12	Neutral	0.43	0.44
2020-03-23	Neutral	0.38	0.37
2020-02-18	Buy	0.85	0.68
2020-01-20	Buy	0.95	0.74
2019-12-09	Buy	0.80	0.73
2019-11-12	Buy	0.69	0.62
2019-09-30	Neutral	0.60	0.58
2019-08-14	Neutral	0.54	0.59
2019-05-14	Neutral	0.62	0.69
2019-02-27	Neutral	0.67	0.67
2018-12-10	Neutral	0.60	0.64
2018-11-12	Buy	0.80	0.61
2018-08-15	Buy	na	0.70

Source: RHB, Bloomberg

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