

26 February 2019

Agriculture | Plantation

Bumitama Agri (BAL SP)

Neutral (Maintained)

Decent Ending To The Year

Target Price (Return)	SGD0.67 (+0%)
Price:	SGD0.67
Market Cap:	USD897m
Avg Daily Turnover (SGD/USD)	0.15m/0.04m

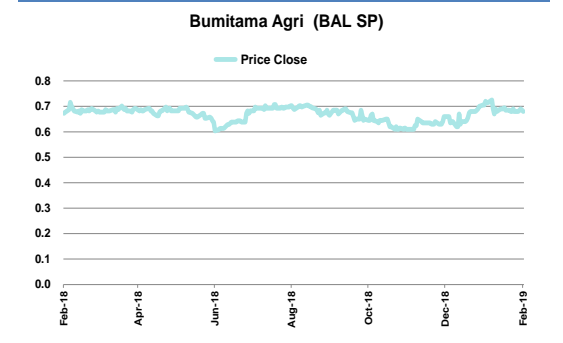
- **We maintain our NEUTRAL recommendation on Bumitama Agri** with higher TP of SGD0.67 from SGD0.60, 0% upside. FY18 core earnings were in line, coming in at 101-103% of our and consensus' 2018 forecasts. We believe valuations are fair at the current juncture, at 11x 2019 P/E, which is in line with its historical average of 11-12x. CPO prices will remain the key catalyst for this pure upstream player, although Bumitama Agri is somewhat better off than its peers, given its strong double-digit FFB growth.
- **4Q18 FFB output grew 29.5% YoY** on 2,539ha of newly-matured land. In FY18, FFB growth was at 27% YoY – this is within management's 2018 growth guidance of 25-30%, but above our projection of 21%. Its average CPO price fell 13.2% YoY to IDR7,029/kg.
- **Briefing highlights:**
 - Bumitama Agri expects FFB output** to grow at 10-15% in 2019, on 8,000ha of new area coming into maturity. This is in line with our projections of 12% FFB growth for FY19. The weather continues to be conducive at its estates, with no major dryness experienced anywhere. In terms of production split, management expects 1H:2H production to come in at 45%:55% vs 48%:52% in 2018.
 - Shortage of barges in Kalimantan** has been resolved, with the Government fixing biodiesel collecting and blending stations at 20 locations around the country. Bumitama Agri managed to sell off all the extra inventory it was holding in 4Q18, resulting in CPO sales volume rising 57% YoY vs the production volume rise of 23% in 4Q18.
 - FY18 unit cost of IDR3,796/kg was 10% lower YoY.** This was due to less fertiliser being applied during the period (90% of 2018's provision) and higher FFB yield. Going into 2019, management expects unit costs to remain flattish, despite higher fertiliser prices (+10% YoY) and higher minimum wages (+8% YoY), due to continued improvement in age profile and yields.
- **We tweak our forecasts up slightly by 5-9%** for FY19-20, post the update of 2018's results and we introduce our FY21 forecasts.
- **Still NEUTRAL.** Our TP is raised slightly to SGD0.67 from SGD0.60, based on target 2019 P/E of 11x – in line with its peers and within its historical average P/E band of 10-13x. This implies EV/ha of USD11,000 – at the low end of its peers' USD10,000-15,000/ha range.
- **Key risks** include the weather, as well as supply and demand dynamics of edible oils.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	9.7	(3.5)	11.5	(4.2)	(2.9)
Relative	7.6	(4.9)	9.7	(0.2)	4.1
52-wk Price low/high (MYR)	0.59 - 0.745				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (IDRb)	8,131.4	8,381.2	8,393.5	9,892.9	10,168.0
Recurring net profit (IDRb)	1,188.2	1,201.9	1,228.4	1,390.5	1,477.2
Recurring net profit growth	23.5	1.2	2.2	13.2	6.2
Recurring P/E (x)	10.8	10.6	11.0	9.7	9.1
P/BV (x)	1.7	1.6	1.6	1.5	1.3
P/CF (x)	6.8	8.4	6.9	6.6	6.2
Dividend Yield (%)	4.1	4.1	3.7	4.5	4.5
EV/EBITDA (x)	5.0	5.1	5.2	4.7	4.4
ROE (%)	16.0	14.1	14.5	15.0	14.5
Net debt to equity (%)	60.8	63.4	58.1	49.1	45.9
Interest coverage (x)	11.7	9.3	9.8	13.3	14.2

Source: Company data, RHB

Results At A Glance

Figure 1: Review of Bumitama Agri's 4Q18 results

FYE Dec (IDRbn)	4Q17	3Q18	4Q18	QoQ (%)	YoY (%)	FY17	FY18	YoY (%)	Comments
Revenue	2,065.8	1,918.5	2,204.7	14.9	6.7	8,131.4	8,381.2	3.1	Higher FFB production offset by lower CPO and PK prices.
EBITDA	730.8	564.0	508.4	(9.9)	(30.4)	2,429.2	2,384.5	(1.8)	Lower due to lower prices
<i>EBITDA margin (%)</i>	35.4	29.4	23.1			29.9	28.5		
Depreciation	(138.3)	(135.9)	(138.4)	1.9	0.1	(518.0)	(549.6)	6.1	
EBIT	592.5	428.2	370.0	(13.6)	(37.5)	1,911.2	1,834.9	(4.0)	
<i>EBIT margin (%)</i>	28.7	22.3	16.8			23.5	21.9		
Interest expense	(47.1)	(51.2)	(53.8)	5.0	14.2	(166.0)	(192.3)	15.8	
Interest income	46.6	53.6	44.9	(16.4)	(3.6)	147.9	167.5	13.2	
Associates	0.0	0.0	0.0	n.m.	n.m.	(2.3)	0.0	(100.0)	
El/others	(0.5)	(27.5)	(28.3)	3.0	5,433.4	3.7	(104.8)	n.m.	Relates to FX gains/losses on USD-denominated debt and fair value changes for its biological assets.
Pretax profit	591.5	403.1	332.8	(17.4)	(43.7)	1,894.5	1,705.3	(10.0)	
Core PBT	592.0	430.6	361.1	(16.1)	(39.0)	1,890.8	1,810.1	(4.3)	
<i>Pretax margin (%)</i>	28.6	21.0	15.1			23.3	20.3		
Tax	(136.3)	(87.7)	(79.1)	(9.8)	(42.0)	(470.3)	(410.0)	(12.8)	
<i>Effective tax rate (%)</i>	(23.0)	(21.8)	(23.8)			(24.8)	(24.0)		
Minority interest	(91.5)	(45.5)	(46.3)	1.7	(49.4)	(230.9)	(198.3)	(14.1)	
Net profit	363.6	269.9	207.4	(23.2)	(43.0)	1,193.3	1,097.1	(8.1)	
Core profit	364.1	297.4	235.7	(20.7)	(35.3)	1,189.6	1,201.9	1.0	Made up 101-103% of our and consensus' full-year forecasts.
<i>Net margin (%)</i>	17.6	15.5	10.7			14.6	14.3		
Net DPS	2.0	0.0	2.0	n.m.	0.0	2.8	2.8	-	
Op. stats ('000 tonne)	4Q17	3Q18	4Q18	QoQ (%)	YoY (%)	FY17	FY18	YoY (%)	Comments
FFB production (nucleus)	426.2	632.0	551.8	(12.7)	29.5	1,784.7	2,276.9	27.6	Production increases were higher than our 21% projection for 2018.
CPO production	205.7	292.3	253.1	(13.4)	23.1	818.9	1,043.0	27.4	
PK production	44.9	58.0	48.0	(17.2)	7.1	166.2	208.3	25.3	
FFB yield (tonnes/ha)	4.0	5.8	4.9	(15.5)	22.5	16.4	20.4	24.4	Dilution by an additional 2,539ha coming into maturity, but this was offset by improvements post-El Nino.
OER	22.6%	21.7%	22.2%	2.3	(1.8)	22.7%	22.1%	(2.6)	
KER	4.9%	4.3%	4.2%	(2.3)	(14.3)	4.6%	4.4%	(4.3)	
CPO yield (tonnes/ha)	0.9	1.2	1.1	(8.3)	22.2	3.8	4.5	18.4	
Sales volume									
CPO	207.6	240.4	325.4	35.3	56.7	832.7	1,038.5	24.7	
PK	41.6	57.1	53.2	(6.8)	27.6	163.1	204.6	25.5	
ASP (IDR/kg)									
CPO	8,140	6,807	6,064	(10.9)	(25.5)	8,099	7,029	(13.2)	Slightly below our average price assumption of IDR7,747 per kg.
PK	7,461	4,943	4,353	(11.9)	(41.7)	6,861	5,287	(22.9)	

Source: Company data, RHB

Figure 2: Key assumptions for Bumitama Agri

	FY16	FY17	FY18	FY19F	FY20F	FY21F
Nucleus FFB production, tonnes	1,513,422	1,784,729	2,276,866	2,551,507	2,901,124	3,229,900
% change	-4.1%	17.9%	27.6%	12.1%	13.7%	11.3%
CPO price assumption, IDR/kg	7,378	8,099	7,029	7,554	8,607	8,607
% change	6.4%	9.8%	-13.2%	7.5%	13.9%	0.0%
PK price assumption, IDR/kg	6,359	6,033	5,287	5,100	6,076	6,076
% change	50.6%	7.9%	-22.9%	-3.5%	19.1%	0.0%

Source: Company data, RHB

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