

2 March 2020

Agriculture | Plantation

Golden Agri (GGR SP)

Buy (Maintained)

Turnaround To The Black; Keep BUY

Target Price (Return): SGD0.25 (+25%)
 Price: SGD0.20
 Market Cap: USD1,871m
 Avg Daily Turnover (SGD/USD) 10.4m/7.66m

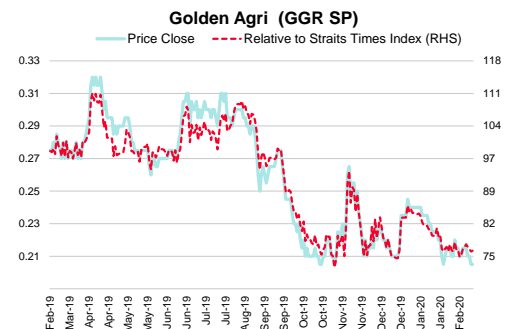
- **Maintain BUY, new SOP-based TP of SGD0.25 from SGD0.27, 25% upside.** Golden Agri's core earnings turned around to profitability in 4Q19, coming in better than our expectations, but below the Street estimate. We expect GGR to remain in the black from hereon, on better CPO prices.
- **4Q19 turned around to profitability** after six quarters of losses, recording a core net profit of USD21.6m, and bringing the FY19 core net loss to USD64m. This was better than our FY19 core net loss projection of USD107m, but significantly above the Street's USD17m estimate. FFB production declined 6% YoY in FY19, while CPO prices were down 8%.
- **GGR declared a net DPS of 0.58 SG cents**, which is a 20% net payout and implies a 2.8% dividend yield.
- **For FY20, GGR has revised its FFB output forecast to flat** (from -3% previously), coming from a lower base in 2019. In Jan-Feb so far, management noted that FFB output was also flattish YoY. We cut our FFB growth to -2% (from +3%) for FY20F, but maintain 3% growth for FY21F.
- **It also replanted 17,200ha in 2019**, over and above its 15,000ha target for 2019. For 2020, it is targeting 15-20k ha of replanting.
- **The company booked a unit cost of USD304/tonne in FY19 (+6.3% YoY)**, on higher fertiliser prices and lower yields. For 2020, it expects unit costs to remain flattish at current levels.
- **Spike in downstream margins in 4Q19.** In FY19, the downstream division recorded an EBITDA margin of 3.6% (vs 1.2% in FY18). GGR's 600k-tonne capacity biodiesel plant was running at above 100% in 4Q19, with 85-90% of this going to the local market. For FY20, it has an allocation of 780k kilolitres (+41% from FY19's 554k). GGR's new 600k-tonne biodiesel plant in Kalimantan is targeted to be ready by mid-2021, and will cater to the Indonesian Government's aggressive biodiesel rollout. GGR believes B40 is achievable on the back of the successful test-runs so far. On the adequacy of the Indonesian biodiesel fund, GGR believes there is a possibility that the Government may also use the export duty (which was at USD18.00/tonne in Feb) to also subsidise biodiesel, if need be.
- **Management expects FY20's downstream EBITDA margins to decline** from 4Q19, back to normal levels of 2-3%, due to higher feedstock costs.
- **We pare down our FY20-21 forecasts by 3-7%** after updating for the lower FFB output growth. We also introduce FY22 forecasts in this report.
- **Maintain BUY**, with a lower SOP-based TP of SGD0.25. We apply an EV/ha of USD5,000/ha for its plantation assets and target P/E of 15x FY20F for its downstream division. This is at the lower end of its peer range of USD6,000-14,000/ha, which we believe is justified – given its older age profile. The downstream target P/E of 15x is in line with peers' 12-15x.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(12.8)	(8.9)	(6.8)	(21.2)	(26.8)
Relative	(9.3)	(5.1)	(3.6)	(22.6)	(22.5)
52-wk Price low/high (SGD)				0.21	– 0.32



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (USDm)	7,167	6,432	8,349	8,251	8,444
Recurring net profit (USDm)	(92)	(64)	98	95	113
Recurring net profit growth (%)	(164.1)	(30.3)	-	(3.1)	18.8
Recurring P/E (x)	na	na	19.06	19.66	16.55
P/B (x)	0.4	0.4	0.4	0.4	0.4
P/CF (x)	6.61	5.02	17.92	4.16	4.13
Dividend Yield (%)	2.9	2.8	2.6	2.5	3.0
EV/EBITDA (x)	8.59	8.06	6.10	5.85	5.32
Return on average equity (%)	(0.0)	4.5	2.2	2.1	2.5
Net debt to equity (%)	51.8	49.0	52.8	49.1	45.6

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (USD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Regional	Recurring EPS	(0.01)	(0.01)	0.01	0.01	0.01
Agriculture	DPS	0.00	0.00	0.00	0.00	0.00
Golden Agri	BVPS	0.33	0.34	0.35	0.35	0.35
GGR SP	Return on average equity (%)	(0.0)	4.5	2.2	2.1	2.5
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	na	na	19.06	19.66	16.55
We use SOP to value Golden Agri. We apply an EV/ha valuation of USD5,000/ha for its plantation assets and a target P/E of 15x to FY20F for its downstream division. This is at the lower end of its peers' range of USD6,000-14,000/ha, which we believe is justified given its older age profile. The downstream target P/E is in line with its peers' 12-15x.	P/B (x)	0.4	0.4	0.4	0.4	0.4
	FCF Yield (%)	0.9	4.8	(8.7)	9.9	9.8
	Dividend Yield (%)	2.9	2.8	2.6	2.5	3.0
	EV/EBITDA (x)	8.59	8.06	6.10	5.85	5.32
	EV/EBIT (x)	25.08	26.58	11.60	11.92	10.95
	Income statement (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key drivers	Total turnover	7,167	6,432	8,349	8,251	8,444
i. CPO price movement and FFB production output;	Gross profit	1,007	831	935	880	894
ii. Competitiveness of its downstream processing division vs peers	EBITDA	432	448	631	639	684
	Depreciation and amortisation	(284)	(312)	(299)	(325)	(352)
	Operating profit	148	136	331	313	332
	Net interest	(126)	(148)	(157)	(158)	(151)
Key risks	Pre-tax profit	86	260	165	161	186
i. Weather;	Taxation	(84)	(47)	(47)	(46)	(53)
ii. Exchange rates;	Reported net profit	(2)	194	98	95	113
iii. Global supply and demand dynamics of edible oils.	Recurring net profit	(92)	(64)	98	95	113
	Cash flow (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Company Profile	Change in working capital	40	19	(313)	9	(32)
Golden Agri is Indonesia's largest oil palm plantation company and the biggest local player in the cooking oil market.	Cash flow from operations	283	373	104	450	453
	Capex	(266)	(282)	(267)	(264)	(270)
	Cash flow from investing activities	(340)	(355)	(267)	(264)	(270)
	Dividends paid	(12)	(66)	(49)	(48)	(57)
	Cash flow from financing activities	89	31	51	(148)	(157)
	Cash at beginning of period	159	193	210	98	136
	Net change in cash	32	48	(112)	38	26
	Ending balance cash	191	241	98	136	162
	Balance sheet (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	545	784	672	710	737
	Tangible fixed assets	3,716	3,720	3,687	3,626	3,544
	Total investments	1,184	1,451	1,451	1,451	1,451
	Total assets	8,546	8,787	9,166	9,132	9,129
	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	4,584	4,483	4,403
	Total equity	4,310	4,513	4,582	4,649	4,726
	Total liabilities & equity	8,546	8,787	9,166	9,132	9,129
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	(4.5)	(10.3)	29.8	(1.2)	2.3
	Recurrent EPS growth (%)	(164.6)	(30.3)	0.0	(3.1)	18.8
	Gross margin (%)	14.0	12.9	11.2	10.7	10.6
	Operating EBITDA margin (%)	6.0	7.0	7.6	7.7	8.1
	Net profit margin (%)	(0.0)	3.0	1.2	1.2	1.3
	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	1.88	1.78	1.94

Source: Company data, RHB

Results At a Glance

Figure 1: Golden Agri's 4Q19 and FY19 results

FYE Dec (USDm)	4Q18	3Q19	4Q19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)	Comments
Revenue	1,652.5	1,563.1	1,702.2	9	3	7,167.4	6,431.8	(10)	See segmental breakdown below
EBITDA	95.1	107.3	404.5	277	325	445.3	700.3	57	See segmental breakdown below
<i>EBITDA margin (%)</i>	5.8	6.9	23.8			6.2	10.9		
Depreciation	(71.1)	(76.0)	(311.8)	310	339	-284.0	-541.2	91	
EBIT	24.1	31.3	92.7	196	285	161.2	159.1	(1)	
<i>EBIT margin (%)</i>	1.5	2.0	5.4			2.2	2.5		
Interest expense	(42.5)	(41.5)	(42.4)	2	(0)	(163.1)	(165.8)	2	
Interest income	9.4	4.1	3.3	(20)	(65)	37.5	18.2	(52)	
Associates	(33.2)	(4.6)	0.0	(100)	(100)	-39.5	-9.1	n.m.	
EI/Others	152.2	24.3	218.0	798	43	89.6	257.9	188	FX gains/losses, fair value gains/losses on biological and financial assets, gain on disposal of subsidiary and impairment of PPE
Pretax profit	109.9	13.5	271.5	1908	147	85.6	260.2	204	Flow-down from EBIT and EI gain
Core PBT	(42.3)	(10.8)	53.5	(598)	(227)	(3.9)	2.3	(158)	
<i>Pretax margin (%)</i>	6.7	0.9	16.0			1.2	4.0		
Tax	(30.8)	(7.5)	(29.1)	286	(6)	(83.8)	(47.2)	(44)	
<i>Effective tax rate (%)</i>	(28.1)	(55.7)	(10.7)		(62)	(97.8)	(18.1)		
Minority interest	0.2	(5.2)	(2.8)	(45)	(1253)	(3.7)	(19.1)	423	
Net profit	79.3	0.8	239.6	29808	202	(1.8)	194.0	(11047)	
Core profit	(72.8)	(23.5)	21.6	(192)	(130)	(91.3)	(64.0)	n.m.	Above our forecasts, at 60% of FY19 projections, but below the Street estimate
<i>Net margin (%)</i>	(4.4)	(1.5)	1,702.2	9	3	7,167.4	6,431.8	(10)	
Segmental breakdown	4Q18	3Q19	4Q19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)	
Revenue									
Plantation upstream	350.9	355.7	394.2	11	12	1,451.3	1,323.7	(9)	Lower CPO prices (-8%) and lower FFB output (-6%)
Palm & laurics	2,141.3	1,547.0	1,693.2	9	(21)	7,101.5	6,391.7	(10)	Lower selling prices were offset by the higher sales volume (+6%)
Oilseeds				n.m.	n.m.	508.7		n.m.	No longer separately disclosed
EBITDA									
Plantation upstream	54.0	70.1	132.1	88	145	359.0	299.0	(17)	Due to lower prices and lower output
Palm & laurics	19.3	38.0	259.5	584	1247	84.2	397.9	372	Due to contributions from biodiesel and removal of the export levy in Indonesia
Oilseeds				n.m.	n.m.	(0.2)	0.0	n.m.	No longer separately disclosed

Source: Company data, RHB

Figure 2: Golden Agri's operational statistics

Operating stats '000 tonnes	4Q18	3Q19	4Q19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
FFB Production (nucleus)	2,090	2,160	2,012	(7)	(4)	8,111.0	7,616.0	(6)
CPO Production	650	656	624	(5)	(4)	2,434.0	2,305.0	(5)
PK Production	163	176	163	(7)	0	614.0	607.0	(1)
FFB Yield (tonne/ha)	5.9	5.9	5.8	(2)	(2)	22.5	21.5	(4)
OER	21.7%	21.7%	21.5%	(1)	(1)	21.9%	21.5%	(2)
KER	5.4%	5.8%	5.6%	(3)	4	5.5%	5.7%	3
CPO Yield (tonne/ha)	1.6	1.6	1.6	0	0	6.2	5.8	(6)
Avg CPO sales price (USD)	468	537	592	10	26	607	560	(8)
Cost of production	280	295	300	2	7	288	304	5.7

Source: Company data, RHB

Figure 3: 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	634	610	610
% change	2.9%	-17.2%	-1.1%	13.4%	-3.8%	0.0%

Source: Company data, RHB

Figure 4: SOP valuation

	Valuation method	Target	USDm
Plantation	EV/ha (USD)	5,000	1974.58
Downstream	2020F P/E (x)	15	321.03
			2295.61
Share base			12,735
TP per share (USD)			0.18
TP per share (SGD)			0.25

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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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