15 August 2019

Agriculture | Plantations

Golden Agri-Resources (GGR SP)

Sell (Maintained)

Likely To Remain In The Red In FY19

Target Price (Return)	SGD0.22 (-25%)
Price:	SGD0.295
Market Cap:	USD2,732m
Avg Daily Turnover (SGD/USD)	4.49m/1.07m

- **Reiterate SELL with SOP-based TP of SGD0.22, 25% downside.** Golden Agri's core earnings remained in the red in 2Q19, coming from weaker FFB output, lower prices and higher costs. We now expect FY19 to remain in the red, with earnings only returning to the black in FY20. Valuations too, remain expensive at the current juncture.
- **2QFY19 core losses widened, with USD49.7m of losses.** This was significantly below our previous FY19 profit expectation of USD28m and consensus' projection of USD79m. The main reason was lower-than-expected FFB output (-5% in 1H19 vs our projected +3% for FY19) caused by dry weather in parts of Kalimantan, as well as losses from its joint ventures.
- **Management has lowered its 2019 FFB growth guidance** to flat (from 4% previously), as it expects higher output in 2H19 coming from the seasonal peak. Given the continued dry weather (dry for two months already) it is seeing in Kalimantan currently, we are not as optimistic and lower our FFB growth target to -2% for FY19 (from +3%), while keeping our FY20-21 growth projections intact at 3% pa. Our unit cost assumptions have been raised accordingly.
- **Golden Agri has replanted 3,300ha in 1H19**, behind its 15,000ha target for 2019. Given the current CPO price environment, management is reducing its replanting target to 10-15k ha, in order to conserve some cash.
- **Golden Agri achieved unit costs of USD311/tonne in 1H19 (+3% YoY),** on higher fertiliser prices and lower yield. For 2019, it is maintaining its USD300/tonne cost guidance (+5% YoY), on the back of higher yield in 2H19.
- **Should not be affected by EU biodiesel tax.** For the downstream division, management expects downstream margins to remain at around 3-4%, with higher biodiesel contributions from increased mandates in Indonesia. In 1H19, the downstream division recorded EBITDA margins of 3.2% (up from 1.4% in 1H18). Golden Agri's 600,000 tonne capacity biodiesel plants are running at almost full capacity now, with 85% of this going to the local market. It does not expect to be affected significantly by the EU tax on Indonesian biodiesel, as the bulk of its biodiesel exports go to China currently.
- **2019 forecast now a loss, while FY20-21 forecasts are cut by 30-40%,** after adjusting for our latest in-house FX assumptions, lowered FFB output and higher unit cost assumptions.
- **Maintain SELL with relatively unchanged SOP-based TP of SGD0.22**. We apply an EV/ha valuation of USD5,000/ha for Golden Agri's plantation assets and target P/E of 10x 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 of 10x is in line with its peers' 10-12x.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (USDm)	7,507.6	7,167.4	6,912.9	7,747.3	8,225.5
Recurring net profit (USDm)	74.0	(1.8)	(107.1)	33.8	52.8
Recurring net profit growth (%)	192.5	(71.9)	(366.3)	(131.5)	56.5
Recurring P/E (x)	20.4	69.8	(26.4)	84.4	53.9
P/BV (x)	0.7	0.7	0.7	0.7	0.7
P/CF (x)	5.5	9.9	8.6	5.8	6.5
Dividend Yield (%)	2.7	2.0	-	0.6	0.9
EV/EBITDA (x)	9.9	13.0	24.9	13.4	11.6
ROE (%)	1.8	(0.0)	(2.6)	0.8	1.3
Net debt to equity (%)	70.7	67.6	66.7	59.6	53.8
Interest coverage (x)	2.1	1.7	0.3	1.5	1.6

Source: Company data, RHB

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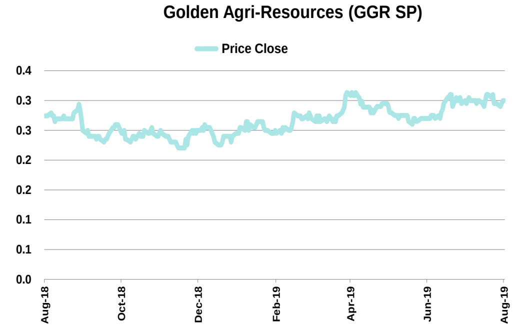
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	22.4	1.7	7.1	20.0	7.1
Relative	27.0	5.8	7.4	24.3	17.7
52-wk Price low/high (MYR)					0.225 - 0.32



Source: Bloomberg

Financial Exhibits

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Valuation basis

We use SOP to value GGR. We apply an EV/ha valuation of USD5,000/ha for Golden Agri's plantation assets and a target P/E of 10x 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 of 10x is in line with its peers' 10-12x.

Key drivers

CPO price, FFB production, refinery and biodiesel margins.

Key risks

CPO price movement, weather risks, demand and supply dynamics of the global vegetable oil industry.

Company Profile

Golden Agri is Indonesia's largest oil palm plantation company and also the biggest local player in the cooking oil market.

Financial summary	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Recurring EPS (SGD)	0.01	0.00	(0.01)	0.00	0.01
DPS (SGD)	0.01	0.00	-	0.00	0.00
BVPS (SGD)	0.41	0.44	0.43	0.43	0.43
ROE (%)	1.85	(0.04)	(2.62)	0.82	1.27

Valuation metrics	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Recurring P/E (x)	20.4	69.8	(26.4)	84.4	53.9
P/B (x)	0.73	0.67	0.69	0.69	0.69
FCF Yield (%)	2.58	1.96	1.87	2.42	2.25
Dividend yield (%)	2.1	1.5	-	0.4	0.7
EV/EBITDA (x)	9.9	13.0	24.9	13.4	11.6
EV/EBIT (x)	12.1	19.0	(42.6)	29.1	21.6

Income statement (USDm)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Total turnover	7508	7167	6913	7747	8225
Gross profit	1,097	1,007	487	730	830
EBITDA (adj.)	582	432	223	395	437
Depreciation & amortisation	(341)	(284)	(289)	(297)	(305)
Operating profit	241	148	(66)	98	132
Net interest	(106)	(126)	(117)	(119)	(131)
Pre-tax profit	114	86	(149)	54	81
Taxation	(35)	(84)	45	(16)	(24)
Net profit	74	(2)	(107)	34	53
Recurring net profit	143	40	(107)	34	53

Cash flow (USDm)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Change in working capital	24	40	164	146	69
Cash flow from operations	533	283	329	490	441
Capex	(218)	(266)	(200)	(200)	(200)
Cash flow from investing activities	(315)	(340)	(200)	(200)	(200)
Dividends paid	(122)	(12)	-	(17)	(26)
Cash flow from financing activities	(213)	89	(92)	(317)	(226)
Cash at beginning of period	123	127	159	197	170
Net change in cash	5	32	38	(27)	15
Ending balance cash	127	159	197	170	185

Balance sheet (USDM)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Total cash and equivalents	159	193	197	170	185
Tangible fixed assets	3,692	3,716	3,627	3,530	3,425
Total investments	839	1,184	1,265	1,268	1,272
Total assets	8,138	8,546	8,403	8,494	8,519
Short-term debt	1,742	1,501	1,501	1,501	1,501
Total long-term debt	1,250	1,509	1,409	1,109	909
Total liabilities	4,131	4,377	4,320	4,384	4,367
Total equity	4,007	4,169	4,083	4,110	4,152
Total liabilities & equity	8,138	8,546	8,403	8,494	8,519

Key metrics	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Revenue growth (%)	4.1	(4.5)	(3.6)	12.1	6.2
Recurrent EPS growth (%)	192.5	(71.9)	(366.3)	(131.5)	56.5
Gross margin (%)	14.6	14.0	7.1	9.4	10.1
Operating EBITDA margin (%)	7.8	6.0	3.2	5.1	5.3
Net profit margin (%)	1.9	0.6	(1.5)	0.4	0.6
Capex/sales (%)	2.9	3.7	2.9	2.6	2.4
Interest cover (x)	2.1	1.7	0.3	1.5	1.6

Source: Company data, RHB

Results At a Glance

Figure 1: Golden Agri's 2Q19 and 1H19 results

FYE Dec (USDm)	2Q18	1Q19	2Q19	QoQ (%)	YoY (%)	1H18	1H19	YoY (%)	Comments
Revenue	**1,860.1**	**1,617.3**	**1,549.2**	**(4)**	**(17)**	**3,676.2**	**3,166.5**	**(14)**	See segmental breakdown below
EBITDA	**112.9**	**115.4**	**73.1**	**(37)**	**(35)**	**228.6**	**188.4**	**(18)**	See segmental breakdown below
EBITDA margin (%)	6.1	7.1	4.7			6.2	6.0		
Depreciation	(71.1)	(76.3)	(77.0)	1	8	(142.5)	(153.3)	8	
EBIT	**41.8**	**39.1**	**(4.0)**	**(110)**	**(110)**	**86.0**	**35.1**	**(59)**	
EBIT margin (%)	2.2	2.4	(0.3)			2.3	1.1		
Interest expense	(39.6)	(41.8)	(40.0)	(4)	1	(76.8)	(81.9)	7	
Interest income	9.5	5.8	5.0	(14)	(47)	18.8	10.8	(42)	
Associates	(5.6)	0.0	(4.6)	n.m.	(18)	(8.7)	(4.6)	n.m.	
EI/Others	(37.3)	30.7	(15.0)	(149)	(60)	(33.1)	15.7	(147)	FX gains/losses, fair value gains/losses on biological assets and gain on disposal of subsidiary
Pretax profit	**(31.2)**	**33.7**	**(58.6)**	**(274)**	**88**	**(13.7)**	**(24.8)**	**81**	Flow-down from EBIT and EI gain
Core PBT	**6.2**	**3.1**	**(43.6)**	**(1520)**	**(807)**	**19.3**	**(40.5)**	**(310)**	
Pretax margin (%)	(1.7)	2.1	(3.8)			(0.4)	(0.8)		
Tax	(6.6)	(7.6)	(2.9)	**(62)**	**(56)**	(10.6)	(10.5)	(1)	Due to deferred taxes
Effective tax rate (%)	21.1	(22.6)	4.9			77.0	42.3		
Minority interest	(1.3)	(7.8)	(3.3)	**(58)**	**157**	-2.8	-11.1	289	
Net profit	**(39.0)**	**18.3**	**(64.7)**	**(453)**	**66**	**(27.2)**	**(46.4)**	**71**	
Core profit	**(1.7)**	**(12.4)**	**(49.7)**	**302**	**2845**	**5.9**	**(62.1)**	**n.m.**	
Net margin (%)	(0.1)	(0.8)	(3.2)			0.2	(2.0)		
Segmental breakdown	**2Q18**	**1Q19**	**2Q19**	**QoQ (%)**	**YoY (%)**	**1H18**	**1H19**	**YoY (%)**	
Revenue									
Plantation upstream	341.4	307.8	266.1	(12)	(10)	684.2	573.9	(16)	Lower CPO prices (-16%) and lower FFB output (-5%)
Palm & laurics	1,697.2	1,609.7	1,541.8	(25)	(0)	3,307.2	3,151.4	(5)	Lower selling prices and sales volume in China
Oilseeds	147.3	-	-	n.m.	n.m.	342.0	-	n.m.	No longer separately disclosed
EBITDA									
Plantation upstream	102.4	60.8	35.9	13	(36)	197.2	96.7	(51)	Due to lower prices and lower output
Palm & laurics	20.0	59.3	41.1	208	134	45.3	100.4	122	Due to contribution from biodiesel and removal of export levy in Indonesia
Oilseeds	-7.1			n.m.	n.m.	-4.3	0.0	n.m.	No longer separately disclosed

Source: Company data, RHB

Figure 2: Golden Agri's operational statistics

Operating stats '000 tonnes	2Q18	1Q19	2Q19	QoQ (%)	YoY (%)	1H18	1H19	YoY (%)
FFB Production (nucleus)	1,946	1,683	1,761	(19)	(0)	3,637	3,444	(5)
CPO Production	564	501	524	(23)	2	1,055	1,025	(3)
PK Production	142	128	140	(21)	6	263	268	2
FFB Yield (tonne/ha)	5.1	4.6	4.8	(22)	5	9.5	9.4	(1)
OER	21.7%	21.8%	20.9%	0	(3)	22.1%	21.3%	(4)
KER	5.5%	5.6%	5.6%	4	2	5.5%	5.6%	2
CPO Yield (tonne/ha)	1.4	1.3	1.3	(19)	8	2.6	2.6	0
Avg CPO sales price (USD)	665	549	561	17	(20)	674	565	(16)
Cost of production	301	309	313	10	2	303	311	2.6

Source: Company data, RHB

Figure 3: Key assumptions

	FY16	FY17	FY18	FY19F	FY20F	FY21F
Nucleus FFB production, tonnes	6,905,000	7,498,000	8,111,000	7,948,780	8,187,243	8,432,861
% change	-6.4%	8.6%	8.2%	-2.0%	3.0%	3.0%
CPO price assumption, USD/tonne	663	719	565	530	585	610
% change	7.3%	8.4%	-21.4%	-6.2%	10.4%	4.2%

Source: Company data, RHB

Figure 4: SOP valuation

	Valuation method	Target	USDm
Plantation	EV/ha (USD)	5,000	2,037.93
Downstream	2020 P/E (x)	10	73.30
			2,111.23
Share base			12,838
TP per share (USD)			**0.16**
TP per share (SGD)			**0.22**

Source: Company data, RHB

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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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