

16 May 2024

Agriculture | Plantation

Golden Agri (GGR SP)

Neutral (Maintained)

El Nino Impact To Continue In 2Q24

Target Price (Return): SGD0.26 (-2%)
 Price (Market Cap): SGD0.27 (USD2,480m)
 ESG score: 2.7 (out of 4)
 Avg Daily Turnover (SGD/USD) 4.54m/3.23m

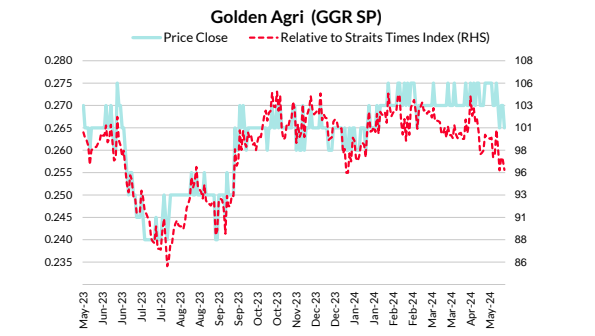
- **Maintain NEUTRAL, with new SOP-based SGD0.26 TP from SGD0.29, 2% downside.** Golden Agri's 1Q24 earnings disappointed mainly due to *El Nino*-affected output. Productivity should improve more significantly in 2H24F, as the weather has since normalised. We believe its valuation remains fair, as the stock is trading at 9.2x 2024F P/E, which is at the mid-end of its peer range of 7-11x.
- **GGR recorded US\$55m (-35% YoY) core net profit in 1Q24.** This was below expectations, making up 18% and 13% of our and Street FY24F – mainly due to lower-than-expected FFB output. Our core net profit has stripped out a USD22m forex loss and USD4m deferred tax income.
- **1Q24 nucleus FFB fell 20% QoQ and 28% YoY** – significantly lower than management's original guidance of flattish YoY growth and our projection of 0% YoY. This is due to the lingering effects of *El Nino* as well as higher replanting activities (6,000 ha done in 1Q24). Management expects to continue seeing the *El Nino* impact in 2Q24 although output should recover QoQ before improving more significantly in 2H24F. It is now guiding for a -1 to -3% growth in production for FY24F. As such, we lower our FFB growth to -7% (from 0%) for FY24F, while keeping our 2% growth intact for FY25F-26F.
- **Inventory build-up cleared in 1Q24.** Its CPO inventory level has normalised at end-1Q24 to 530k tonnes (vs 650k in 4Q23). This, together with a 10% YoY rise in external FFB purchases in 1Q24, led to a smaller 5% YoY decline in CPO output.
- **Unit costs rose 5% QoQ but fell 7% YoY in 1Q24 to USD322/tonne.** GGR applied 20% of its annual fertiliser requirements in 1Q24, slightly below expectations. It continues to guide for FY24 unit costs to moderate slightly by 4-5% YoY to c.USD310/tonne, lower fertiliser tender prices of 30% for 1H24 due to higher maintenance costs. To be conservative, we raise our unit cost assumptions by 5% pa in accordance with the lower output.
- **Downstream sales volume rose 1% QoQ and 10% YoY.** Management guided that EBITDA margin for this division remained stable at around 5% in 1Q24 (5.3% in FY23). It continues to expect to be able to sustain its margin at 5% for 2024, on the back of sustainability premiums. Given the 100% utilisation rate for its downstream capacities, GGR is expanding its refinery capacity by 450k tonnes (9%) in 2026 by focusing on differentiated consumer products.
- **We lower FY24F-26F earnings by 8-14% after lowering FFB output and raising unit costs.** Our TP includes an 8% ESG discount. We believe its valuation is fair, as GGR is trading at 9.2x 2024F P/E, which is at the mid-end of its peer range of 7-11x.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.9	(1.9)	(1.9)	(1.9)	(1.9)
Relative	0.4	(5.2)	(5.4)	(6.9)	(4.2)
52-wk Price low/high (SGD)	0.24 – 0.28				



Source: Bloomberg

Overall ESG Score: 2.7 (out of 4)

E: GOOD

GGR has managed to map out its GHG Scope 3 emissions in 2022. GGR has continuously rolled-out conservation planning programs and in 2019, they set aside over 7,700 ha of HCS forests for conservation. Additionally, GGR has partnered with other major palm oil producers and buyers in the development of a new radar-based forest monitoring system which allows it easier for stakeholders to monitor deforestation happenings in near real-time.

S: GOOD

GGR has been mapping its villages to ensure FPIC is implemented and to enable them to gain access to government development funds for the first time. Additionally, GGR has been working with a range of partners to provide education, scholarship, medical access to improve the quality of life of local communities.

G: GOOD

63% of GGR's board members are independent with full disclosure on director remuneration, which includes salaries and bonuses and on named basis. GGR has an in-house investor relations team and holds investor briefings regularly, embodying good transparency and disclosure practices.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (USDm)	11,439	9,756	9,162	9,467	9,626
Recurring net profit (USDm)	1,008	284	270	313	311
Recurring net profit growth (%)	147.5	(71.8)	(5.1)	16.1	(0.7)
Recurring P/E (x)	2.46	8.72	9.19	7.92	7.98
P/B (x)	0.5	0.5	0.5	0.5	0.4
P/CF (x)	2.35	4.44	3.44	3.84	3.78
Dividend Yield (%)	6.5	2.3	2.2	2.5	2.5
EV/EBITDA (x)	1.43	2.74	1.94	1.75	1.63
Return on average equity (%)	24.4	11.5	19.9	19.7	18.6
Net debt to equity (%)	23.8	27.0	19.0	13.2	7.8

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (USD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	0.08	0.02	0.02	0.02	0.02
Agriculture	DPS	0.01	0.00	0.00	0.00	0.00
Golden Agri	BVPS	0.39	0.39	0.41	0.43	0.44
GGR SP	Return on average equity (%)	24.4	11.5	19.9	19.7	18.6
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	2.46	8.72	9.19	7.92	7.98
	P/B (x)	0.5	0.5	0.5	0.5	0.4
	FCF Yield (%)	34.5	9.8	17.1	13.7	13.9
	Dividend Yield (%)	6.5	2.3	2.2	2.5	2.5
	EV/EBITDA (x)	1.43	2.74	1.94	1.75	1.63
	EV/EBIT (x)	1.73	3.95	2.54	2.26	2.11
	Income statement (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	11,439	9,756	9,162	9,467	9,626
	Gross profit	3,423	2,224	2,120	2,213	2,217
	EBITDA	2,251	1,221	1,560	1,605	1,576
	Depreciation and amortisation	(398)	(373)	(365)	(363)	(358)
	Operating profit	1,853	849	1,194	1,242	1,218
	Net interest	(153)	(153)	(128)	(117)	(106)
	Pre-tax profit	1,633	752	1,127	1,186	1,172
	Taxation	(388)	(167)	(111)	(129)	(128)
	Reported net profit	1,180	570	1,001	1,039	1,027
	Recurring net profit	1,008	284	270	313	311
	Cash flow (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(415)	181	69	(48)	(30)
	Cash flow from operations	1,053	558	720	646	657
	Capex	(197)	(315)	(296)	(306)	(311)
	Cash flow from investing activities	(706)	(605)	(296)	(306)	(311)
	Dividends paid	(196)	(108)	(54)	(63)	(62)
	Cash flow from financing activities	(293)	(176)	(154)	(163)	(162)
	Cash at beginning of period	499	691	545	815	992
	Net change in cash	55	(222)	270	178	183
	Ending balance cash	705	696	1,042	1,219	1,403
	Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	1,145	1,135	1,405	1,583	1,766
	Tangible fixed assets	3,820	3,817	3,747	3,690	3,643
	Total investments	1,520	1,521	1,521	1,521	1,521
	Total assets	9,902	9,716	9,816	9,998	10,174
	Short-term debt	1,738	1,520	1,520	1,520	1,520
	Total long-term debt	656	1,013	913	813	713
	Total liabilities	4,648	4,537	4,404	4,318	4,228
	Total equity	5,254	5,180	5,411	5,680	5,946
	Total liabilities & equity	9,902	9,716	9,816	9,998	10,174
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	12.3	(14.7)	(6.1)	3.3	1.7
	Recurrent EPS growth (%)	147.7	(71.8)	(5.1)	16.1	(0.7)
	Gross margin (%)	29.9	22.8	23.1	23.4	23.0
	Operating EBITDA margin (%)	19.7	12.5	17.0	17.0	16.4
	Net profit margin (%)	10.3	5.8	10.9	11.0	10.7
	Dividend payout ratio (%)	13.6	10.1	5.4	6.0	6.1
	Capex/sales (%)	1.7	3.2	3.2	3.2	3.2
	Interest cover (x)	9.94	3.79	7.41	7.99	8.13

Source: Company data, RHB

Results At a Glance

Figure 1: GGR's 1Q24 results

FYE Dec (USDm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments
Revenue	2,539.0	2,432.8	2,562.0	5.3	0.9	Attributable to higher sales volume, partly offset by lower prices
EBITDA	247.0	247.0	231.0	(6.5)	(6.5)	
EBITDA margin (%)	9.7	10.2	9.0			
EI/Others	8.0	(19.7)	(18.0)	(8.8)	(325.0)	FX gain loss and deferred tax income
Net profit	92.0	(52.7)	37.0	(170.2)	(59.8)	
Core profit	84.0	47.0	55.0	17.0	(34.5)	Below our and consensus forecasts, at 18-13% of estimates
Net margin (%)	3.3	1.9	2.1			

Source: Company data, RHB

Figure 2: GGR's operating statistics

Operating stats '000 tonnes	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)
FFB Production (nucleus)	2,089.0	1,884.0	1,508.0	(20.0)	(27.8)
CPO Production	490.0	610.0	467.0	(23.4)	(4.7)
PK Production	127.0	161.0	123.0	(23.6)	(3.1)
FFB Yield (tonne/ha)	4.2	5.1	3.9	(23.7)	(6.5)
OER	20.9%	21.4%	20.9%	(2.3)	-
KER	5.4%	5.6%	5.5%	(1.8)	1.9
CPO Yield (tonne/ha)	0.9	1.7	0.8	(52.8)	(6.5)
Avg CPO sales price (USD)	940.0	788.0	886.0	12.4	(5.7)
Cost of production	346.0	306.0	322.0	5.2	(6.9)

Figure 3: Key assumptions

	FY21	FY22	FY23	FY24F	FY25F	FY26F
Nucleus FFB production, tonnes	7,503,000	7,812,000	7,464,000	6,977,790	7,117,346	7,259,693
% change	2.8%	4.1%	-4.5%	-7.0%	2.0%	2.0%
CPO price assumption, USD/tonne	1,168	1,200	876	825	844	844
% change	86.6%	2.7%	-27.0%	-5.8%	2.3%	0.0%

Source: Company data, RHB

Figure 4: SOP valuation

	Valuation method	Target	USDm
Plantation	EV/ha (USD)	4,000	1676.05
Downstream	P/BV(x)	1.0	1007.57
			2683.62
Share base			12,682
TP (USD)			0.21
ESG premium/(discount)			-8.0%
TP (USD) - post ESG discount			0.19
TP (SGD)			0.26

Source: Company data, RHB

Emissions And ESG

Trend analysis

The huge increase of 217% YoY in total emissions in 2022 was driven by two factors, starting with the change in approach used to measure Scope 1 and Scope 2 emissions. For 2022 calculations, GGR adopted equity share, where they included all companies in which GGR holds more than 50% equity. The second factor was the recognition of Scope 3 emissions. Scope 1 emissions include biogenic emissions.

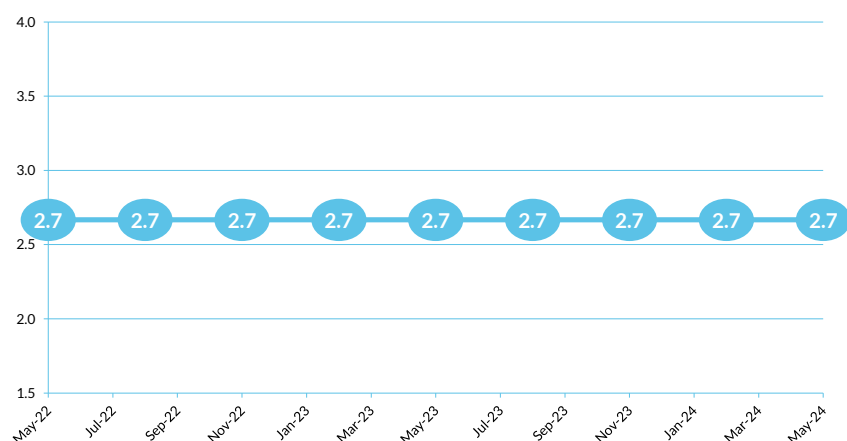
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	5,402,415	8,207,950	na
Scope 2	324,565	342,979	na
Scope 3	na	9,648,715	na
Total emissions	5,726,980	18,199,644	na

Source: Company data, RHB

Latest ESG-Related Developments

- **Sustainable development:** GGR signed the Agriculture Sector Roadmap at COP27, committing to a 1.5-degree Celsius pathway.
- **Biodiversity research:** GGR collaborated with Tanjungpura University to monitor jungle cats and the diversity of pitcher plants to preserve and improve the quality of biodiversity.
- **Helping the community:** GGR held two workshops for 37 MSMEs from villages in Riau, West Kalimantan, Jambi, Bangka and Central Kalimantan to provide them with skills and the know-how to plan and run a business.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-29	Neutral	0.29	0.27
2023-11-14	Buy	0.30	0.27
2023-08-14	Buy	0.28	0.25
2023-07-23	Buy	0.29	0.24
2023-05-14	Buy	0.31	0.27
2023-02-28	Buy	0.34	0.26
2022-11-15	Buy	0.33	0.29
2022-08-14	Neutral	0.30	0.28
2022-08-10	Neutral	0.29	0.28
2022-05-12	Neutral	0.30	0.28
2022-03-01	Neutral	0.31	0.29
2021-12-12	Neutral	0.26	0.25
2021-11-12	Neutral	0.28	0.27
2021-08-15	Neutral	0.24	0.24
2021-07-29	Neutral	0.22	0.24

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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