

14 May 2024

Agriculture | Plantation

Bumitama Agri (BAL SP)

Neutral (from Buy)

Dragged By Weak Output; D/G To NEUTRAL

Target Price (Return): SGD0.70 (3.7%)
 Price (Market Cap): SGD0.68 (USD865m)
 ESG score: 2.6 (out of 4)
 Avg Daily Turnover (SGD/USD) 0.47m/0.35m

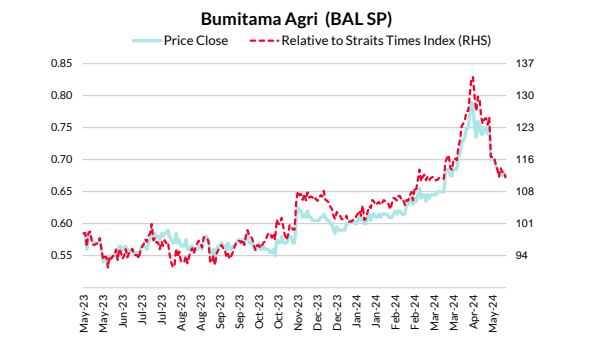
- **Downgrade to NEUTRAL from Buy, unchanged SGD0.70 TP, 4% upside.** 1Q24 results disappointed slightly on weaker-than-expected output. Given the share price performance of +18% over the last six months, we believe valuations are now fair. Bumitama Agri is trading at 8x FY24F P/E, ie within its peer range of 7-9x P/E. However, we do expect the strong FY24F dividend yield of 6.9% to provide share price support.
- **1Q24's results were slightly below expectations**, at 17-19% of our and Street estimates. The disappointment came mainly from lower-than-expected FFB output of -3.8% YoY (-24% QoQ) during this period vs our 3.2% growth assumption and management's guidance of 3-5% for FY24.
- **Despite the lower YoY FFB output**, BAL managed to record a stronger 9.2% YoY growth in CPO output, coming from higher plasma (+16.6% YoY) and external FFB purchases (+20% YoY). This resulted in CPO sales volume rising 7% YoY in 1Q24. BAL is making no changes to its internal FFB growth target of 3-5% for FY24, expecting 2H output to recover strongly, while external FFB purchases should remain robust. To be conservative, we trim our nucleus FFB output growth assumption to 2.5% from 3.2% for FY24, but raise external FFB output to reflect 8-10% growth for FY24-26 from the prior 5%.
- **CPO ASP stronger QoQ in 1Q24.** BAL saw a 7% QoQ rise in CPO ASP in 1Q24 (-1% YoY) to IDR11,600/kg while PK prices rose 10% QoQ (+0.5% YoY). Management continues to sell mainly on spot.
- **Unit costs rose 6% YoY in 1Q24** to IDR7,100/kg due to lower output during the quarter and higher fertilisation activities. BAL managed to apply about 25% of its fertiliser requirements in 1Q24. For FY24, it expects to apply about 20-25% more fertiliser, leading to a projected 10% YoY rise in unit cost guidance to c.IDR5,400/kg. BAL has purchased about 50% of its fertiliser requirements for FY24 so far, at prices 15% lower YoY. We raise our unit cost assumptions slightly to be in line with guidance.
- **All in**, we tweak our FY24F-26F earnings down by 5-10% after increasing external FFB output and raising unit cost assumptions.
- **Downgrade to NEUTRAL with an unchanged TP of SGD0.70** based on a higher 9x 2024F P/E from 8x as we update the historical peer range. This includes an ESG discount of 10%, given our in-house ESG score of 2.6 vs the 3.1 country median. Given the 18.4% gain in share price over the last six months, we believe valuations are now fair, with BAL trading at 8x 2024F P/E – which is at the mid-end of its peer range of 7-9x. Its dividend yield of 6.5% for FY24F should provide share price support, however.

Analyst

Singapore Research
sg.research@rhbgroup.com

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.6	(14.6)	9.8	18.4	13.4
Relative	9.6	(17.3)	4.7	12.1	10.4
52-wk Price low/high (SGD)	0.54 – 0.79				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (IDRb)	15,829	15,443	15,077	15,953	16,847
Recurring net profit (IDRb)	3,210	2,417	1,763	1,818	1,644
Recurring net profit growth (%)	91.4	(24.7)	(27.1)	3.1	(9.6)
Recurring P/E (x)	4.33	5.76	7.89	7.65	8.46
P/B (x)	1.1	1.0	1.0	0.9	0.9
P/CF (x)	3.96	4.25	5.29	4.57	4.98
Dividend Yield (%)	10.3	9.7	6.5	6.7	6.1
EV/EBITDA (x)	3.23	3.97	5.03	4.80	5.12
Return on average equity (%)	24.8	19.0	12.8	12.4	10.6
Net debt to equity (%)	17.5	14.5	12.9	9.4	7.2

Source: Company data, RHB

Overall ESG Score: 2.6 (out of 4)

E: GOOD

BAL has reported a reduction in greenhouse gas emissions intensity since 2017, and has set a target to reduce tCO₂e/tonne CPO produced by 30% by 2030 against a 2016 baseline. To achieve the target, it aims to reduce methane emissions in mills through methane capture facilities, composting, and belt press.

S: MODERATE

BAL has embarked on an initiative to engage with its partners to assist communities in a social forestry programme – by providing administrative guidance, training and equipment to develop sustainable forest management practices. Additionally, the company has also established dedicated programmes to assist smallholders with ISPO and RSPO certification.

G: GOOD

57% of the board are independent members, and there is full disclosure on director remuneration, including salaries and bonuses on a named basis. BAL has an in-house investor relations team and holds investor briefings regularly, embodying good transparency and disclosure practices.

Financial Exhibits

Asia	Financial summary (IDR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	1,851.17	1,393.81	1,016.53	1,048.52	947.96
Agriculture	DPS	828.68	777.78	517.95	540.09	492.08
Bumitama Agri	BVPS	7,204.52	7,672.85	8,171.44	8,679.86	9,135.73
BAL SP	Return on average equity (%)	24.8	19.0	12.8	12.4	10.6
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	4.33	5.76	7.89	7.65	8.46
	P/B (x)	1.1	1.0	1.0	0.9	0.9
	FCF Yield (%)	16.3	11.9	7.3	10.3	8.5
	Dividend Yield (%)	10.3	9.7	6.5	6.7	6.1
	EV/EBITDA (x)	3.23	3.97	5.03	4.80	5.12
	EV/EBIT (x)	3.73	4.86	6.76	6.51	7.28
	Income statement (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	15,829	15,443	15,077	15,953	16,847
	Gross profit	5,733	4,719	3,636	3,780	3,537
	EBITDA	5,697	4,608	3,689	3,847	3,612
	Depreciation and amortisation	(768)	(844)	(943)	(1,010)	(1,070)
	Operating profit	4,929	3,764	2,746	2,838	2,541
	Net interest	37	46	18	13	36
	Pre-tax profit	4,571	3,862	2,764	2,850	2,577
	Taxation	(1,172)	(931)	(636)	(656)	(593)
	Reported net profit	2,826	2,449	1,763	1,818	1,644
	Recurring net profit	3,210	2,417	1,763	1,818	1,644
	Cash flow (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(678)	704	1,877	1,066	1,194
	Cash flow from operations	3,513	3,277	2,629	3,045	2,796
	Capex	(1,246)	(1,627)	(1,610)	(1,610)	(1,610)
	Cash flow from investing activities	(494)	(1,178)	(1,504)	(1,488)	(1,444)
	Dividends paid	(1,170)	(1,794)	(898)	(937)	(853)
	Cash flow from financing activities	(2,378)	(2,539)	(570)	(630)	(567)
	Cash at beginning of period	176	826	374	929	1,855
	Net change in cash	642	(441)	555	927	785
	Ending balance cash	826	374	929	1,855	2,640
	Balance sheet (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	826	374	929	1,855	2,640
	Tangible fixed assets	14,989	15,218	15,937	16,589	17,181
	Total assets	19,898	19,233	21,273	23,031	24,680
	Short-term debt	79	1,270	2,037	2,803	3,569
	Total long-term debt	3,277	1,336	1,036	736	436
	Total liabilities	5,442	3,795	4,606	5,106	5,624
	Total equity	14,456	15,437	16,667	17,925	19,056
	Total liabilities & equity	19,898	19,233	21,273	23,031	24,680
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	29.2	(2.4)	(2.4)	5.8	5.6
	Recurrent EPS growth (%)	91.4	(24.7)	(27.1)	3.1	(9.6)
	Gross margin (%)	36.2	30.6	24.1	23.7	21.0
	Operating EBITDA margin (%)	36.0	29.8	24.5	24.1	21.4
	Net profit margin (%)	17.9	15.9	11.7	11.4	9.8
	Dividend payout ratio (%)	50.8	55.1	51.0	51.5	51.9
	Capex/sales (%)	7.9	10.5	10.7	10.1	9.6
	Interest cover (x)	37.8	29.2	19.9	17.8	14.1

Source: Company data, RHB

Results At a Glance

Figure 1: Results review

FYE Dec (IDRbn)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments
Revenue	3,595.2	3,639.9	3,873.7	6.4	7.7	Largely driven by higher CPO sales.
EBITDA	687.4	950.3	743.2	(21.8)	8.1	
EBITDA margin (%)	19.1	26.1	19.2			
Net profit	429.1	386.7	328.4	(15.1)	(23.5)	
Core profit	304.2	366.4	373.7	2.0	22.8	Excluding FX loss in 1Q24 and FX gain in 1Q23.
Net margin (%)	8.5	10.6	9.6			

Source: Company data, RHB

Figure 2: Operating statistics

Op. stats ('000 tonne)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments
FFB production (nucleus)	518.4	656.0	498.6	(24.0)	(3.8)	Lower than our 3.2% growth projection and management's guidance of 3-5%.
CPO production	234.9	320.9	256.5	(20.1)	9.2	Higher than our expectation of 5% growth.
PK production	47.7	68.3	53.5	(21.7)	12.1	
FFB yield (tonnes/ha)	4.1	5.2	4.2	(19.2)	2.4	
OER	22.1%	22.9%	22.5%	(1.7)	1.8	
KER	4.5%	5.0%	4.7%	(6.0)	4.4	
CPO yield (tonnes/ha)	0.9	1.2	0.9	(20.7)	4.3	
Sales volume						
CPO	284.0	300.6	305.0	1.5	7.4	
PK	50.0	65.3	59.0	(9.6)	18.0	
ASP (IDR/kg)						
CPO	11,700	10,892	11,600	6.5	(0.9)	
PK	5,600	5,114	5,630	10.1	0.5	

Source: Company data, RHB

Figure 3: Key assumptions for BAL

	FY21	FY22	FY23	FY24F	FY25F	FY26F
Nucleus FFB production (tonnes)	2,336,178	2,676,926	2,597,097	2,661,550	2,766,735	2,900,696
% change	2.9%	14.6%	-3.0%	2.5%	4.0%	4.8%
CPO price assumptions (IDR/kg)	9,852	12,519	11,283	10,146	10,118	10,118
% change	18.2%	27.1%	-9.9%	-10.1%	-0.3%	0.0%
PK price assumptions (IDR/kg)	7,063	8,285	5,332	6,313	5,943	6,333
% change	61.8%	17.3%	-35.6%	18.4%	-5.9%	6.6%

Source: Company data, RHB

Emissions And ESG

Trend analysis

In FY22, Scope 1 emissions increased to 1.2m tonnes of CO₂e (FY21: 1.1m tonnes of CO₂e) while Scope 3 emissions increased to 455k tonnes of CO₂e (FY21: 394k tonnes of CO₂e)

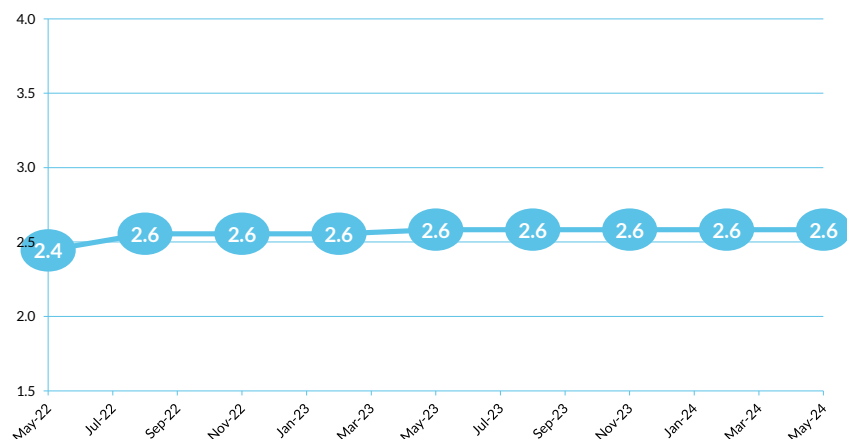
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	1,070,244	1,244,129	na
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	1,070,244	1,244,129	na

Source: Company data, RHB

Latest ESG-Related Developments

- **Sustainability certification:** As of end 2022, 48% of BAL's certifiable plantation area is RSPO certified.
- **Traceability:** In FY22, BAL managed to achieve 99.6% traceability to plantation.
- **Reducing greenhouse gas emissions:** BAL plans to install methane capture facilities at the 15 existing mills by the end of 2029, to reach its 30% emissions reduction target by 2030.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-27	Buy	0.70	0.65
2023-11-14	Buy	0.70	0.61
2023-08-13	Neutral	0.61	0.56
2023-07-23	Neutral	0.61	0.58
2023-05-14	Neutral	0.60	0.60
2023-03-02	Neutral	0.66	0.61
2022-11-15	Buy	0.80	0.64
2022-08-15	Buy	0.80	0.64
2022-08-10	Buy	0.71	0.63
2022-05-12	Buy	0.95	0.70
2022-03-01	Buy	0.90	0.76
2021-12-12	Neutral	0.56	0.56
2021-11-14	Neutral	0.57	0.56
2021-08-15	Neutral	0.47	0.47
2021-07-29	Neutral	0.45	0.46

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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Take Profit:	Target price has been attained. Look to accumulate at lower levels
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Not Rated:	Stock is not within regular research coverage

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**KUALA LUMPUR**

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel: +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470