

12 August 2024

Agriculture | Plantation

Golden Agri (GGR SP)

Neutral (Maintained)

ESG Score Decreases

Target Price (Return): SGD0.26 (-2%)
 Price (Market Cap): SGD0.27 (USD2,532m)
 ESG score: 2.6 (out of 4)
 Avg Daily Turnover (SGD/USD) 3.95m/2.93m

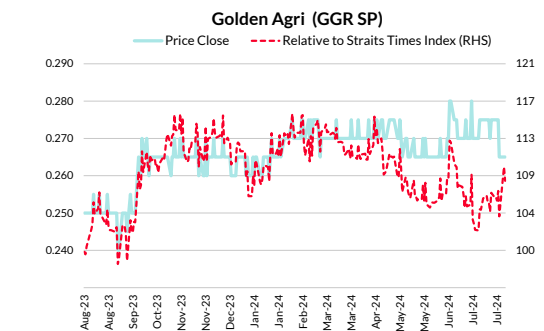
- **Maintain NEUTRAL and SGD0.26 TP, 2% downside and c.2% yield.** The plantation industry is at a crossroads. With rising costs, falling yields, little chance for landbank expansion, where can growth come from? Planters now have to do much more to grow earnings – so is diversification the key? Golden Agri may not be able to diversify its earnings much, but more can be done to improve its profit per ha as well as ESG rating, which has been reduced to 2.6 (from 2.7) in our annual review. Its valuation is fair, at 8.1x 2025F P/E (vs the peer range of 6-11x).
- **Face the hard facts, and adapt.** With headwinds like lower yields, older trees, environmental pressures, higher costs, labour issues and lower profitability, the sector has to find ways to circumvent these. CPO prices have risen to highs unseen in the last 10 years, but there is always a risk that extenuating circumstances can push prices down to below breakeven cost levels. We expect long-term CPO prices per tonne to be at the higher end of MYR3,000-3,500 and above (historical average: MYR1,800-2,000), but prices are likely to stay volatile. As this is not within the planters' control, they need to focus more on revenue growth, cost control and potential diversification efforts.
- **Diversification may be the name of the game, going forward.** Some planters have already diversified into other industries like property, fruit farming, glove manufacturing and dairy farming. In recent times, we have seen more ESG-friendly diversification like producing wood and fertiliser, etc and using palm oil waste. However, other than ventures that take advantage of their landbank like land sales and property development, none of these have moved the needle in terms of earnings contributions. With landbank monetisation like data centres or renewable energy ventures like solar farms now being a feasible diversification, this may change going forward if more planters opt to engage. We estimate profitability/ha/year for solar is 26x more than oil palm.
- **Other than diversifying earnings,** planters will need to increase mechanisation to raise efficiency and reduce their reliance on labour, spend more on R&D to produce better seedlings with higher yields and lower maintenance costs, and put more emphasis on ESG to attain ESG premiums.
- **We believe the sector is moving in the right direction in terms of ESG standards,** with more disclosure and more targets being set. Our overall average sector ESG score has improved this year to 2.6 (from 2.5).
- **We cut GGR's ESG score to 2.6 (from 2.7)** as we have seen increases in its GHG emissions, as well as water and energy intensity, which has led us to reduce its "Environment" pillar score. We retain our NEUTRAL call and TP, after imputing our lower ESG score and rolling forward our valuations to FY25 (from FY24). Our TP now includes an ESG discount of 10% (from 8%). We make no changes to our earnings forecasts.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.9	(1.9)	(1.9)	(1.9)	6.0
Relative	1.6	2.8	(0.4)	(4.9)	7.8
52-wk Price low/high (SGD)	0.24 –0.28				



Source: Bloomberg

Overall ESG Score: 2.6 (out of 4)

E: MODERATE

GGR has managed to map out its GHG Scope 3 emissions in 2022. It has continuously rolled out conservation planning programmes and, in 2019, it set aside over 7,700 ha of HCS forests for conservation. Additionally, GGR has partnered with other major palm oil producers and buyers to develop a new radar-based forest monitoring system that makes it easier for stakeholders to monitor deforestation happening 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, it has been working with a range of partners to provide education, scholarship, medical access to improve the quality of life for local communities.

G: EXCELLENT

63% of Board members are independent with full disclosure on director remuneration which includes salaries and bonuses and on named basis. GAR 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)	2.51	8.91	9.39	8.09	8.14
P/B (x)	0.5	0.5	0.5	0.5	0.4
P/CF (x)	2.40	4.53	3.52	3.92	3.86
Dividend Yield (%)	6.3	2.3	2.1	2.5	2.5
EV/EBITDA (x)	1.45	2.78	1.97	1.78	1.66
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)	2.51	8.91	9.39	8.09	8.14
	P/B (x)	0.5	0.5	0.5	0.5	0.4
	FCF Yield (%)	33.8	9.6	16.7	13.4	13.6
	Dividend Yield (%)	6.3	2.3	2.1	2.5	2.5
	EV/EBITDA (x)	1.45	2.78	1.97	1.78	1.66
	EV/EBIT (x)	1.76	4.01	2.58	2.30	2.15
	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

Figure 1: GGR's progress on ESG factors

		2021	2022	2023
ENVIRONMENT				
GHG emissions	Emissions (tCO ₂ e)	5,726,980	29,515,754	32,707,337
GHG emissions	Intensity (tCO ₂ e per tonne of palm product)	0.67	2.72	2.69
Waste treatment	Recycling/ Repurposing of waste	Yes	Yes	Yes
Energy efficiency (water)	Water usage (m ³) and intensity (m ³ /tonne of palm product)	18,065,459	18,115,865	21,617,252
Energy efficiency	Energy consumption and intensity	Not disclosed	44,020,000	44,130,000
Certifications	RSPO/ MSPO/ISPO certified (%)	RSPO: 28% MSPO: N/A ISPO: 50%	RSPO: 30% MSPO: N/A ISPO: 56%	RSPO: 45% MSPO: N/A ISPO: 71%
Use of peat land	Peat land (%)	6.2%	6.1%	5.8%
Fire accidents	Number of accidents	0.003%	0.030%	Not disclosed
Usage of renewable energy	% of renewable energy used	Not disclosed	55.4%	52.7%
Traceability	Traceable to mills (%)	100.00%	100.00%	100.00%
Traceability	Traceable to plantation (%)	95.00%	98.00%	99.00%
SOCIAL				
Channels for workers to raise concerns	Existence of grievance channels to raise concerns	Yes	Yes	Yes
Whistleblowing policy	Policies to protect whistleblowers	Yes	Yes	Yes
Employees' professional/personal development	Provision of training and education	Yes	Yes	Yes
Policy for smallholders	Policy in place for training, yield improvement and RSPO certification	Yes	Yes	Yes
Employees' welfare	Accommodation and amenities provided	Yes	Yes	Yes
GOVERNANCE				
Board composition	At least half of the board being independent directors	5/8 are independent	5/8 are independent	5/8 are independent
Limiting to nine years (for independent directors)	Limitation of tenure to nine years (for independent directors)	Not applicable	Not applicable	Not applicable
Gender inclusivity	Female representation in the board	12.5%	12.5%	25.0%
Emphasis of sustainability at board level	Formation of a sustainability group	Yes	Yes	Yes
Remuneration transparency	Full disclosure of fees and benefits on named basis	Yes	Yes	Yes

Source: Company data, RHB

Figure 2: Key assumptions for GGR

	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 3: SOP valuation

	Valuation method	Target	USDm
Plantation	EV/ha (USD)	4,600	1676.05
Downstream	P/BV(x)	1.0	1007.57
			2683.62
Share base			12,682
TP (USD)			0.21
ESG premium/(discount)			-10.0%
TP (USD) – post ESG discount			0.19
TP (SGD)			0.256

Source: Company data, RHB

Emissions And ESG

Trend analysis

For FY23, GGR's Scope 1 emissions decreased by 7% to 7.3m tonnes of CO2e (FY22: 7.8m tonnes of CO2e). For both Scope 2 and Scope 3 emissions, the numbers increased to 0.34m tonnes of CO2e (FY22: 0.33m tonnes of CO2e) and 25.1m tonnes of CO2e (FY22:21.4m tonnes of CO2e).

Emissions (tCO2e)

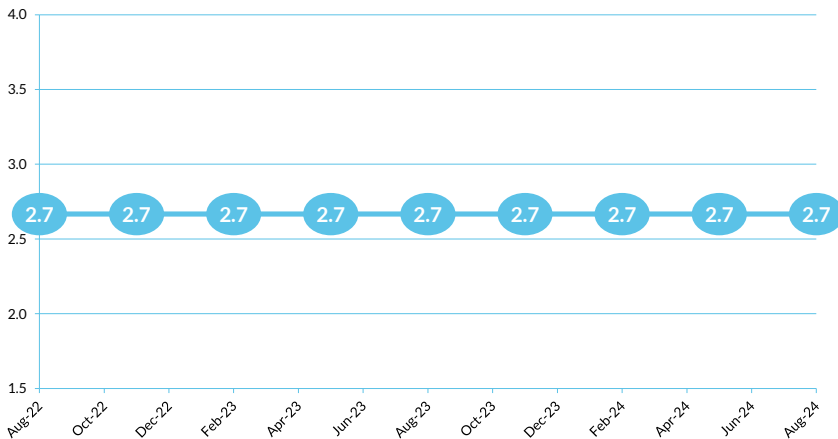
	Dec-21	Dec-22	Dec-23
Scope 1	na	7,812,543	7,270,140
Scope 2	na	333,725	335,173
Scope 3	na	21,369,486	25,102,024
Total emissions	na	29,515,754	32,707,337

Source: Company data, RHB

Latest ESG-Related Developments

- **Sustainable Development:** In 2023, GGR commissioned Accenture to develop a decarbonisation strategy and roadmap for it. It aims to complete the roadmap by mid-2024.
- GGR is also converting one coal power plant at the Tarjun refinery to use PKM biomass – this is expected to be completed by 2024. Additionally, the group is installing methane capture facilities at three more mills (by 2025).
- **Helping the community:** GGR has been developing more strategic partnerships with local communities. Currently, there are over 160 Bright Future Initiative (BFI) projects in 103 villages across its operations.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-05-15	Neutral	0.26	0.27
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

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
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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