

12 August 2024

Agriculture | Plantation

PP London Sumatra Indonesia (LSIP IJ)

Buy (Maintained)

Mediocre ESG Credentials, But Inexpensive Valuation

- **Maintain BUY and IDR1,130 TP, 34% upside and c.6% yield.** A pure planter like PP London Sumatra Indonesia may not be able to do much against rising costs and falling yields, but more can be done to improve profit per ha as well as ESG ratings. We favour LSIP for its undemanding valuation – it is trading at a cheap 6.3x FY25F P/E, at the low end of its peers' 6-11x range.
- **Face the hard facts and adapt.** With all the headwinds facing the industry – eg lower yields, older trees, environmental pressures, higher costs, labour issues and lower profitability – the plantation industry needs to find ways to circumvent this. Although CPO prices have risen to highs unseen in the last 10 years, there is always a risk that extenuating circumstances can push prices down to below breakeven cost levels. Going forward, we expect long term CPO prices to trade at higher levels of MYR3,000-3,500/tonne and above, but prices are likely to continue to be volatile. As prices are not within the planters' control, planters will need to pay much closer attention to revenue growth, cost control and potential diversification efforts.
- **Diversification may be the name of the game going forward.** Historically, some planters have already diversified into other industries like property, fruit farming, gloves and dairy farming, amongst others. In recent times, we have seen more ESG-friendly diversifications like producing wood, fertiliser, etc 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 – should more planters opt to engage. We estimate profitability/ha/year for solar is 26x more than oil palm.
- **Other than diversification of earnings,** planters will need to ramp up mechanisation to raise efficiency and reduce reliance on labour, spend more on R&D to produce better breeds of 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). For LSIP, we make no changes to its ESG score of 2.3.
- **Maintain BUY and IDR1,130 TP.** Our TP is based on a rolled-forward 10x 2025F P/E target with a 14% discount applied, to account for its ESG rating of 2.3 (vs the country median of 3.0). We make no changes to our earnings projections. Despite its relatively weak ESG credentials, LSIP is trading at a still-inexpensive 6.3x 2025F P/E, which is at the low end of its peer range of 6-11x.

Target Price (Return): IDR1,130 (+34%)
Price (Market Cap): IDR845 (USD362m)
ESG score: 2.3 (out of 4)
Avg Daily Turnover (IDR/USD) 8,980m/0.55m

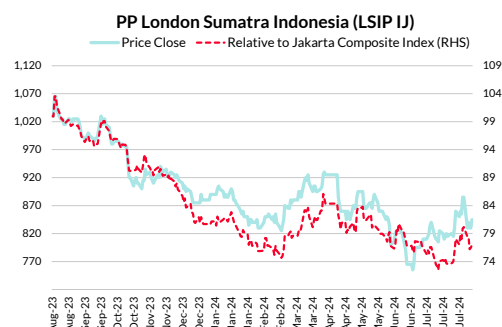
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.1)	4.3	(2.3)	1.8	(16.8)
Relative	(4.9)	4.5	(4.7)	1.5	(22.4)
52-wk Price low/high (IDR)				755	1,065



Source: Bloomberg

Overall ESG Score: 2.3 (out of 4)

E: GOOD

LSIP recorded a slight increase in GHG emissions per tonne of palm product from 1.59 in 2022 to 1.62 in 2023. Water intensity however, showed a slight improvement from 1.20 in 2022 to 1.12 in 2023. Progress on Indonesian Sustainable Palm Oil (ISPO) certification has been stagnant at 94% of estates since 2017.

S: GOOD

LSIP conducts capacity building and training programmes on HCV management and better farming techniques to oil palm smallholders. Human rights assessments are also put in place, which are based on its Sustainable Agriculture Policy, the ISPO certification, and the Indonesian Government regulations and their ratified ILO conventions

G: MODERATE

Only two out of five of its commissioners are independent and all of their directors and commissioners are males. LSIP has an in-house investor relations division to communicate financial performance and any relevant information to analysts and investors.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (IDRm)	4,585,348	4,189,896	3,962,645	3,903,913	3,940,206
Recurring net profit (IDRm)	1,095,856	909,065	905,036	897,210	892,140
Recurring net profit growth (%)	(19.7)	(17.0)	(0.4)	(0.9)	(0.6)
Recurring P/E (x)	5.26	6.34	6.37	6.42	6.46
P/B (x)	0.5	0.5	0.4	0.4	0.4
P/CF (x)	5.22	4.08	4.28	4.42	4.43
Dividend Yield (%)	6.0	4.6	5.5	5.4	5.4
EV/EBITDA (x)	0.41	(0.01)	(1.83)	(2.38)	(2.86)
Return on average equity (%)	9.9	6.9	7.3	6.5	6.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (IDR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Indonesia	Recurring EPS	160.68	133.29	132.70	131.56	130.81
Agriculture	DPS	51.00	38.97	46.28	45.88	45.62
PP London Sumatra Indonesia	BVPS	1,587.79	1,647.62	1,989.74	2,057.03	2,124.72
LSIP IJ	Return on average equity (%)	9.9	6.9	7.3	6.5	6.3
Buy						
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
10x FY25F P/E	Recurring P/E (x)	5.26	6.34	6.37	6.42	6.46
	P/B (x)	0.5	0.5	0.4	0.4	0.4
	FCF Yield (%)	13.6	18.1	18.2	17.4	17.4
	Dividend Yield (%)	6.0	4.6	5.5	5.4	5.4
Key drivers	EV/EBITDA (x)	0.41	(0.01)	(1.83)	(2.38)	(2.86)
i. Increase in palm product prices;	EV/EBIT (x)	0.54	(0.01)	(2.60)	(3.50)	(4.29)
ii. Increase in palm product sales volume;						
iii. A drop in Indonesia's and Malaysia's inventories.						
Key risks	Income statement (IDRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Higher inventory;	Total turnover	4,585,348	4,189,896	3,962,645	3,903,913	3,940,206
ii. Decrease in palm product prices;	Gross profit	1,491,444	1,150,868	1,358,549	1,266,330	1,244,005
iii. Decrease in competing vegetable oil prices.	EBITDA	1,577,016	1,152,337	1,359,063	1,281,982	1,266,570
	Depreciation and amortisation	(371,160)	(392,912)	(403,029)	(412,201)	(422,801)
	Operating profit	1,205,856	759,425	956,034	869,781	843,769
	Net interest	79,674	155,000	167,359	243,950	263,703
	Pre-tax profit	1,283,525	911,426	1,117,328	1,107,666	1,101,408
	Taxation	(248,240)	(150,753)	(212,292)	(210,457)	(209,267)
	Reported net profit	1,034,122	759,351	905,036	897,210	892,140
	Recurring net profit	1,095,856	909,065	905,036	897,210	892,140
Company Profile	Cash flow (IDRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
London Sumatra Indonesia cultivates, harvests, and processes palm oil, rubber, coconut, cocoa, coffee and tea.	Cash flow from operations	1,104,231	1,411,390	1,346,505	1,302,709	1,300,820
	Capex	(320,748)	(368,845)	(300,000)	(300,000)	(300,000)
	Cash flow from investing activities	(350,824)	(364,167)	(300,000)	(300,000)	(300,000)
	Dividends paid	(347,726)	(361,363)	0	0	0
	Cash flow from financing activities	(352,438)	(366,654)	1,428,212	(438,324)	(430,525)
	Cash at beginning of period	3,367,867	3,847,390	4,511,450	6,986,167	7,550,552
	Net change in cash	400,969	680,569	2,474,717	564,385	570,294
	Ending balance cash	3,847,390	4,511,450	6,986,167	7,550,552	8,120,846
	Balance sheet (IDRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	3,847,390	4,511,450	6,986,167	7,550,552	8,120,846
	Tangible fixed assets	5,665,815	5,493,363	5,398,361	5,293,242	5,178,006
	Total investments	1,262,334	1,259,335	1,259,335	1,259,335	1,259,335
	Total assets	12,417,013	12,514,203	14,804,216	15,265,936	15,733,414
	Total liabilities	1,481,306	1,166,762	1,123,527	1,126,361	1,132,225
	Total equity	10,935,707	11,347,441	13,680,689	14,139,574	14,601,189
	Total liabilities & equity	12,417,013	12,514,203	14,804,216	15,265,936	15,733,414
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	1.3	(8.6)	(5.4)	(1.5)	0.9
	Recurrent EPS growth (%)	(19.7)	(17.0)	(0.4)	(0.9)	(0.6)
	Gross margin (%)	32.5	27.5	34.3	32.4	31.6
	Operating EBITDA margin (%)	34.4	27.5	34.3	32.8	32.1
	Net profit margin (%)	22.6	18.1	22.8	23.0	22.6
	Dividend payout ratio (%)	33.6	35.0	34.9	34.9	34.9
	Capex/sales (%)	7.0	8.8	7.6	7.7	7.6
	Interest cover (x)	1,784	1,342	1,689	1,537	1,491

Source: Company data, RHB

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Figure 1: LSIP's progress on ESG factors

		2021	2022	2023
ENVIRONMENT				
GHG emissions	Emissions (tCO ₂ e)	1,235,000	1,204,000	1,197,000
GHG emissions	Intensity (tCO ₂ e per tonne of palm product)	1.85	1.59	1.62
Waste treatment	Recycling/Repurposing of waste	Yes	Yes	Yes
Energy efficiency (water)	Water usage (m3) and intensity (m3/tonne of palm product)	1,480,000	1,566,000	1,484,000
Energy efficiency	Energy consumption and intensity	7,156,000	7,645,000	7,362,000
Certifications	RSPO/MSPO/ISPO certified (%)	RSPO: N/A MSPO: N/A ISPO: 94% of estates	RSPO: N/A MSPO: N/A ISPO: 94% of estates	RSPO: N/A MSPO: N/A ISPO: 94% of estates
Use of peat land	Peat land (%)	Not disclosed	Not disclosed	Not disclosed
Fire accidents	Number of accidents	Not disclosed	Not disclosed	0
Usage of renewable energy	% of renewable energy used	98.3%	98.4%	98.6%
Traceability	Traceable to mills (%)	100.00%	100.00%	100.00%
Traceability	Traceable to plantation (%)	100.00%	100.00%	100.00%
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 commissioners	2/5 are independent	2/5 are independent	2/5 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	0.0%	0.0%	0.0%
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	No	No	No

Source: Company data, RHB

Figure 2: Key assumptions

	2021	2022	2023	2024F	2025F	2026F
CPO production	306,000	306,000	294,000	289,233	298,680	307,641
PK production	86,000	88,000	87,000	85,731	88,531	91,187
FFB production	1,204,000	1,174,000	1,177,000	1,177,000	1,212,310	1,248,679
CPO price (IDR/kg)	11,233	12,285	11,017	11,717	11,333	11,333
PK price (IDR/kg)	6,733	8,208	5,360	6,300	6,300	6,300

Source: Company data, RHB

Emissions And ESG

Trend analysis

In FY23, Scope 1 emissions slightly reduced to 1.16m tonnes of CO2 equivalents (FY22: 1.17m tonnes of CO2 equivalents) while Scope 2 3 emissions marginally increased to 37k tonnes of CO2 equivalents (FY22: 34k tonnes of CO2 equivalents).

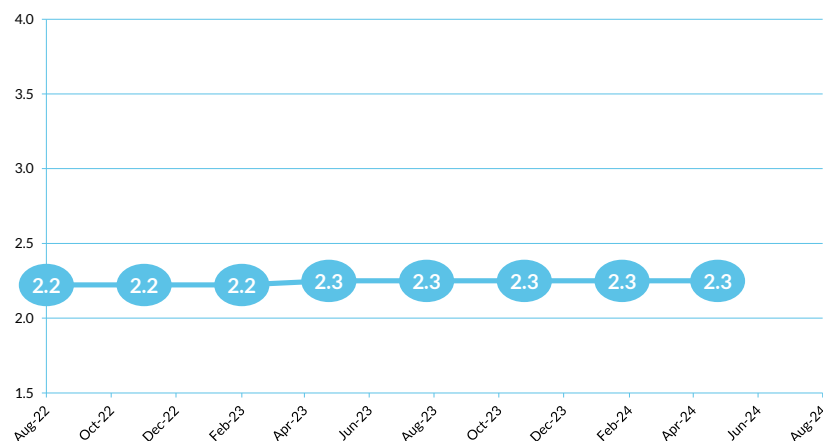
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	1,199,000	1,169,000	1,162,000
Scope 2	2,000	1,000	2,000
Scope 3	34,000	33,000	35,000
Total emissions	1,235,000	1,203,000	1,199,000

Source: Company data, RHB

Latest ESG-Related Developments

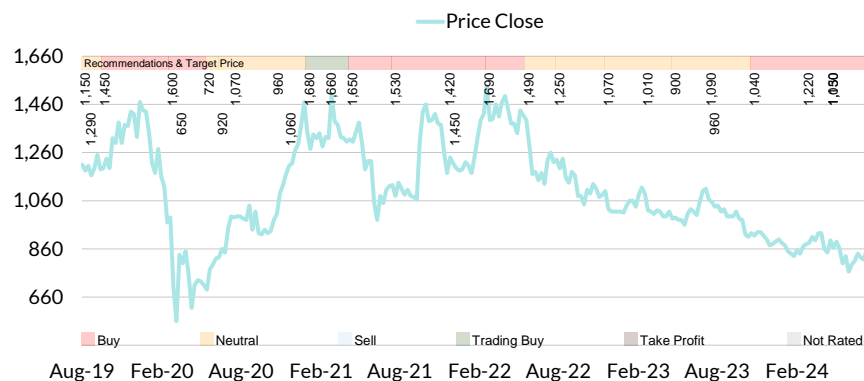
- **Sustainability certification:** in FY23, 94% of LSIP's estates' hectareage is ISPO certifies while nine out of its 12 mills are ISPO certified.
- **Traceability:** In FY23, all FFB and PK processed in LSIP's mills are traceable to their source estate, and 100% of CPO processed can be traced to the respective mills.
- **Energy management:** The energy consumption per tonne of FFB processed at LSIP's mills remained at 2.16GJ/tonne.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-11	Buy	1,130	na
2024-08-01	Buy	1,130	885
2024-05-01	Buy	1,050	865
2024-03-04	Buy	1,220	865
2023-11-01	Buy	1,040	915
2023-08-01	Neutral	960	1,015
2023-07-23	Neutral	1,090	1,110
2023-05-03	Neutral	900	985
2023-03-01	Neutral	1,010	1,070
2022-11-30	Neutral	1,070	1,085
2022-08-14	Neutral	1,250	1,230
2022-08-10	Neutral	1,250	1,210
2022-05-31	Neutral	1,490	1,425
2022-03-02	Buy	1,690	1,515
2021-12-12	Buy	1,450	1,240

Source: RHB, Bloomberg

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