

14 August 2024

Agriculture | Plantation

Golden Agri (GGR SP)

Neutral (Maintained)

No More El Nino Impact In 2H24F

Target Price (Return): SGD0.25 (-5.76%)
 Price (Market Cap): SGD0.2765 (USD2,544m)
 ESG score: 2.6 (out of 4)
 Avg Daily Turnover (SGD/USD) 3.87m/2.87m

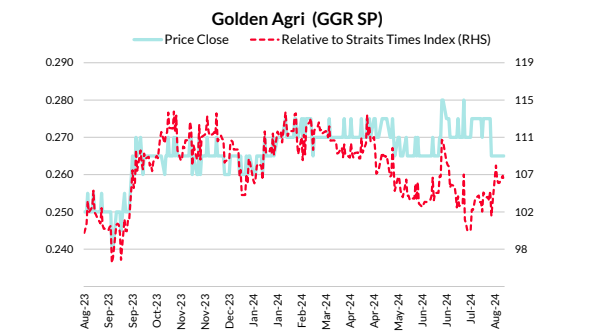
- **Maintain NEUTRAL, with new SOP-based SGD0.25 TP from SGD0.26, 6% downside.** Golden Agri's 2Q24 earnings disappointed mainly due to *El Nino*-affected output. While productivity should improve in 2H24F as the weather has since normalised, GGR will still end the year with a weaker YoY output in 2024F. We believe its valuation remains fair, as the stock is trading at 9x 2025F P/E, which is at the mid-end of its peer range of 6-11x.
- **GGR recorded USD53m (-3% QoQ and -25% YoY) core net profit in 2Q24.** This was below expectations, making up 40% and 27% of our and Street FY24F – mainly due to lower-than-expected FFB output and external purchases. Our core net profit has stripped out a USD48m forex loss and USD32m gain on disposal of a JV.
- **2Q24 nucleus FFB rose 7% QoQ and 20% YoY, bringing 1H24 nucleus FFB growth to -9% YoY** – lower than management's original guidance of -1 to -3% for FY24F and our projection of -7% YoY. This is due to the lingering effects of *El Nino* and higher replanting activities (10,800 ha done in 1H24, +60% YoY). The weather also impacted plasma output which fell by a larger 15% YoY in 1H24. Management believes there should be no more *El Nino* impact in 2H, with expectation of a QoQ output recovery and an output peak in 4Q. It is, however, lowering its guidance to -5% growth in production for FY24F. We keep our FFB growth at -7% for FY24F and 2% for FY25F-26F, but lower our FY24F external FFB purchases growth to -12% (from -7%).
- **Unit costs fell 2% QoQ and 7% YoY in 2Q24 to USD314/tonne.** GGR applied 45% of its annual fertiliser requirements in 1H24, slightly below expectations. It continues to guide for FY24F unit costs to moderate further by 5-10% YoY to c.USD300/tonne, on lower fertiliser costs (-15% YoY). To be conservative, we raise our unit cost assumptions by 5% pa in accordance with the lower output.
- **Downstream sales volume fell 2% QoQ but rose 12% YoY in 2Q24, bringing 1H volume to +11% YoY.** EBITDA margin for this division remained stable at 5.5% in 1H24 (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 5-13% after lowering external FFB output and raising unit costs.**
- **Maintain NEUTRAL with a slightly lower SGD0.25 TP,** which includes an unchanged 10% ESG discount. We believe GGR's valuation is fair - trading at 9x 2025F P/E, which is at the mid-end of its peer range of 6-11x.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.9	(1.9)	(1.9)	(3.6)	6.0
Relative	1.3	4.9	(0.5)	(7.3)	7.1
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. 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 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, GAR has been working with a range of partners to provide education, scholarship, medical access to improve the quality of life of local communities.

G: EXCELLENT

63% of GAR's 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	9,145	9,460	9,618
Recurring net profit (USDm)	1,008	284	234	282	295
Recurring net profit growth (%)	147.5	(71.8)	(17.8)	20.6	4.6
Recurring P/E (x)	2.52	8.95	10.88	9.02	8.62
P/B (x)	0.5	0.5	0.5	0.5	0.5
P/CF (x)	2.42	4.56	3.75	4.15	3.96
Dividend Yield (%)	6.3	2.3	1.8	2.2	2.3
EV/EBITDA (x)	1.45	2.79	2.07	1.87	1.73
Return on average equity (%)	24.4	11.5	19.2	19.3	18.5
Net debt to equity (%)	23.8	27.0	19.7	14.4	9.1

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	0.40	0.42	0.44
GGR SP	Return on average equity (%)	24.4	11.5	19.2	19.3	18.5
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	2.52	8.95	10.88	9.02	8.62
	P/B (x)	0.5	0.5	0.5	0.5	0.5
	FCF Yield (%)	33.7	9.6	15.0	12.1	13.0
	Dividend Yield (%)	6.3	2.3	1.8	2.2	2.3
	EV/EBITDA (x)	1.45	2.79	2.07	1.87	1.73
	EV/EBIT (x)	1.77	4.02	2.73	2.43	2.25
	Income statement (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	11,439	9,756	9,145	9,460	9,618
	Gross profit	3,423	2,224	2,066	2,168	2,194
	EBITDA	2,251	1,221	1,508	1,560	1,554
	Depreciation and amortisation	(398)	(373)	(365)	(363)	(358)
	Operating profit	1,853	849	1,142	1,197	1,196
	Net interest	(153)	(153)	(128)	(118)	(108)
	Pre-tax profit	1,633	752	1,074	1,140	1,149
	Taxation	(388)	(167)	(96)	(116)	(121)
	Reported net profit	1,180	570	965	1,008	1,011
	Recurring net profit	1,008	284	234	282	295
	Cash flow (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(415)	181	66	(48)	(27)
	Cash flow from operations	1,053	558	678	613	643
	Capex	(197)	(315)	(296)	(306)	(311)
	Cash flow from investing activities	(706)	(605)	(296)	(306)	(311)
	Dividends paid	(196)	(108)	(47)	(56)	(59)
	Cash flow from financing activities	(293)	(176)	(147)	(156)	(159)
	Cash at beginning of period	499	691	545	781	931
	Net change in cash	55	(222)	236	151	173
	Ending balance cash	705	696	1,008	1,158	1,331
	Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	1,145	1,135	1,371	1,522	1,695
	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	9,787	9,943	10,104
	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	4,407	4,320	4,229
	Total equity	5,254	5,180	5,380	5,622	5,875
	Total liabilities & equity	9,902	9,716	9,787	9,943	10,104
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	12.3	(14.7)	(6.3)	3.4	1.7
	Recurrent EPS growth (%)	147.7	(71.8)	(17.8)	20.6	4.6
	Gross margin (%)	29.9	22.8	22.6	22.9	22.8
	Operating EBITDA margin (%)	19.7	12.5	16.5	16.5	16.2
	Net profit margin (%)	10.3	5.8	10.5	10.7	10.5
	Dividend payout ratio (%)	13.6	10.1	4.8	5.6	5.8
	Capex/sales (%)	1.7	3.2	3.2	3.2	3.2
	Interest cover (x)	9.94	3.79	7.09	7.70	7.98

Source: Company data, RHB

Figure 1: GGR's 1H24 results

FYE Dec (USDm)	1H23	1H24	YoY (%)	Comments
Revenue	4,876.4	5,141.9	5.4	See segmental breakdown below
EBITDA	477.6	494.6	3.6	See segmental breakdown below
<i>EBITDA margin (%)</i>	9.8	9.6		
Depreciation	(193.1)	(177.8)	(7.9)	
EBIT	284.5	316.8	11.3	
<i>EBIT margin (%)</i>	5.8	6.2		
Interest expense	(103.0)	(122.1)	18.6	
Interest income	32.7	36.1	10.7	
Associates	14.5	10.7	(26.7)	
EI/Others	27.0	(5.8)	(121.4)	FX gains/losses, fair value gains/losses on biological assets and financial asset, gains/losses on disposal of PPE, gain on disposal on JV (50% shareholding in Stena Bulk)
Pre-tax profit	206.4	156.6	(24.1)	Flow-down from EBIT and EI loss
Core PBT	179.3	162.4	(9.4)	
<i>Pre-tax margin (%)</i>	4.2	3.0		
Tax	(23.4)	(35.4)	51.4	
<i>Effective tax rate (%)</i>	(13.0)	(21.8)		
Minority interest	(0.7)	(18.8)	2,731.8	
Net profit	182.3	102.4	(43.8)	
Core profit	155.3	108.2	(30.3)	Below both our and consensus forecasts, at 27-40% of estimates
<i>Net margin (%)</i>	3.2	2.1		
Segmental breakdown	1H23	1H24	YoY (%)	
Revenue				
Plantation upstream	916.6	907.8	(1.0)	Lower CPO prices – net of taxes (-5%) and FFB output (-9%)
Palm & laurics	4,834.0	5,093.4	5.4	On the back of higher sales volume (+11%)
EBITDA				
Plantation upstream	218.7	213.0	(2.6)	Due to lower selling prices
Palm & laurics	258.5	282.0	9.1	Driven by higher sales volume

Source: Company data, RHB

Figure 2: GGR's operational statistics

FYE Dec ('000 tonnes)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY (%)
FFB Production (nucleus)	1,347.0	1,508.0	1,614.0	7.0	19.8	3,436.0	3,122.0	(9.1)
CPO Production	565.0	467.0	488.0	4.5	(13.6)	1,055.0	955.0	(9.5)
PK Production	147.0	123.0	129.0	4.9	(12.2)	274.0	252.0	(8.0)
FFB Yield (tonne/ha)	4.7	3.9	4.2	8.2	(11.2)	8.9	8.1	(9.0)
OER	20.9%	20.9%	20.1%	(3.8)	(3.8)	20.9%	20.5%	(1.9)
KER	5.4%	5.5%	5.3%	(3.6)	(1.9)	5.4%	5.4%	-
CPO Yield (tonne/ha)	1.4	0.8	1.3	58.3	(10.0)	2.3	2.1	(8.7)
Avg CPO sales price (USD)*	922.0	886.0	874.0	(1.4)	(5.2)	931.0	881.0	(5.4)
Cost of production	338.0	322.0	314.0	(2.5)	(7.1)	342.0	318.0	(7.0)

Note: * Estimated net of tax ASP

Source: Company data, RHB

Figure 3: 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 4: SOP valuation

	Valuation method	Target	USDm
Plantation	EV/ha (USD)	4,000	1675.71
Downstream	P/BV(x)	0.5	992.54
			2668.25
Share base			12,682
TP (USD)			0.21
ESG premium/(discount)			(10.0%)
TP (USD) – post ESG discount			0.19
TP (SGD)			0.25

Source: Company data, RHB

Emissions And ESG

Trend analysis

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

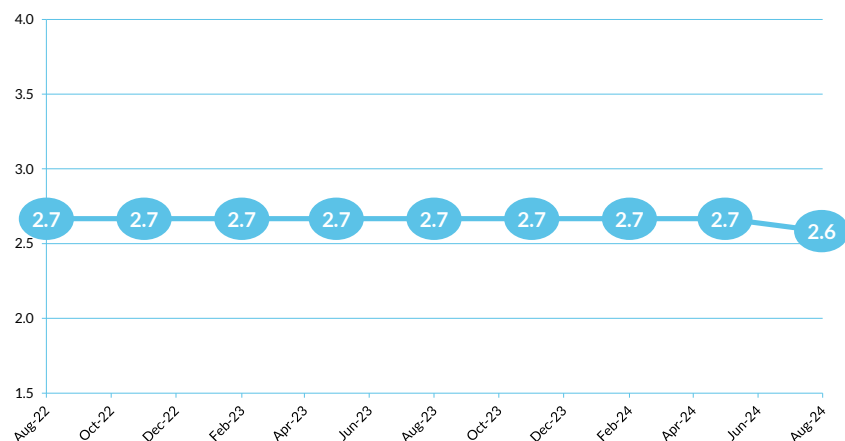
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	5,402,415	8,207,950	na
Scope 2	324,565	342,979	na
Scope 3	na	9,648,715	na
Total emissions	5,726,980	18,199,644	na

Source: Company data, RHB

Latest ESG-Related Developments

- **Sustainable Development:** GGR signed the Agriculture Sector Roadmap at COP27, committing to 1.5C 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
2024-08-13	Neutral	0.25	0.27
2024-08-12	Neutral	0.26	0.27
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

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
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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