

12 August 2024

Agriculture | Plantation

Bumitama Agri (BAL SP)

Neutral (Maintained)

Moderate ESG Score And Valuation

Target Price (Return):	SGD0.70 (-2%)
Price (Market Cap):	SGD0.72 (USD934m)
ESG score:	2.6 (out of 4)
Avg Daily Turnover (SGD/USD)	0.37m/0.27m

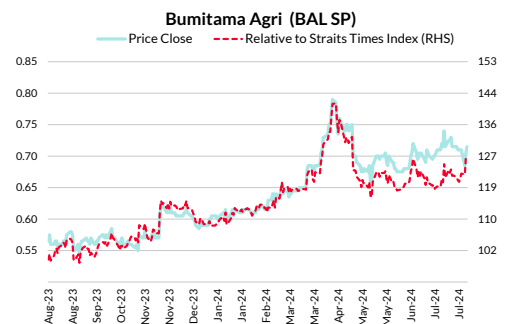
- Maintain NEUTRAL and SGD0.70 TP, 2% downside.** The plantation industry is at the crossroads – with rising costs, falling yields, little chance for landbank expansion, where can growth come from? Planters now have to do much more to grow earnings – so is diversification the key? Bumitama Agri may not be able to diversify its earnings much via downstream ventures, but more can be done to improve its profit per ha. Our ESG score of 2.6 is unchanged, as there was a lack of notable ESG progress for FY23. Its valuation is fair, at 8.2x 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 (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).
- Maintain NEUTRAL.** We make no changes to our earnings forecasts as we roll forward our valuations to FY25F (from FY24F), keeping our 9x target P/E – in line with its historical valuation averages. Our TP also includes an 8% ESG discount, given its unchanged ESG score of 2.6.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	18.2	2.1	5.9	15.3	26.5
Relative	17.9	6.8	7.4	12.3	28.3
52-wk Price low/high (SGD)				0.55	-0.79



Source: Bloomberg

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 tCO₂-e/mt 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, BAL has also established dedicated programmes to assist smallholders with ISPO and RSPO certification.

G: GOOD

33% 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.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (IDRm)	15,829,281	15,442,893	15,076,889	15,952,555	16,846,544
Recurring net profit (IDRm)	3,210,187	2,417,065	1,762,814	1,818,284	1,643,893
Recurring net profit growth (%)	91.4	(24.7)	(27.1)	3.1	(9.6)
Recurring P/E (x)	4.67	6.20	8.50	8.24	9.11
P/B (x)	1.2	1.1	1.1	1.0	0.9
P/CF (x)	4.26	4.57	5.70	4.92	5.36
Dividend Yield (%)	9.6	9.0	6.2	6.3	5.8
EV/EBITDA (x)	3.42	4.20	5.33	5.09	5.43
Return on average equity (%)	24.8	19.0	12.8	12.5	10.7
Net debt to equity (%)	17.5	14.5	13.1	9.7	7.5

Source: Company data, RHB

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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	538.16	546.13	497.59
Bumitama Agri	BVPS	7,204.52	7,672.85	8,151.23	8,653.61	9,103.98
BAL SP	Return on average equity (%)	24.8	19.0	12.8	12.5	10.7
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	4.67	6.20	8.50	8.24	9.11
	P/B (x)	1.2	1.1	1.1	1.0	0.9
	FCF Yield (%)	15.1	11.0	6.8	9.6	7.9
	Dividend Yield (%)	9.6	9.0	6.2	6.3	5.8
	EV/EBITDA (x)	3.42	4.20	5.33	5.09	5.43
	EV/EBIT (x)	3.95	5.14	7.16	6.90	7.72
	Income statement (IDRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	15,829,281	15,442,893	15,076,889	15,952,555	16,846,544
	Gross profit	5,732,855	4,718,652	3,636,300	3,779,996	3,536,539
	EBITDA	5,696,882	4,607,639	3,688,613	3,847,493	3,611,517
	Depreciation and amortisation	(768,199)	(843,901)	(943,026)	(1,009,944)	(1,070,239)
	Operating profit	4,928,683	3,763,738	2,745,586	2,837,550	2,541,278
	Net interest	36,766	46,333	17,932	12,927	35,811
	Pre-tax profit	4,570,577	3,861,896	2,763,518	2,850,477	2,577,089
	Taxation	(1,171,708)	(930,728)	(635,609)	(655,610)	(592,730)
	Reported net profit	2,826,110	2,449,160	1,762,814	1,818,284	1,643,893
	Recurring net profit	3,210,187	2,417,065	1,762,814	1,818,284	1,643,893
	Cash flow (IDRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(678,446)	703,642	1,876,770	1,065,967	1,193,542
	Cash flow from operations	3,513,374	3,276,802	2,628,773	3,044,592	2,796,238
	Capex	(1,245,681)	(1,626,833)	(1,610,258)	(1,610,258)	(1,610,258)
	Cash flow from investing activities	(493,958)	(1,178,125)	(1,504,038)	(1,488,061)	(1,444,196)
	Dividends paid	(1,169,889)	(1,794,498)	(933,241)	(947,075)	(862,891)
	Cash flow from financing activities	(2,377,777)	(2,539,428)	(605,273)	(640,088)	(576,885)
	Cash at beginning of period	175,964	826,210	374,050	893,513	1,809,955
	Net change in cash	641,639	(440,751)	519,463	916,442	775,156
	Ending balance cash	826,210	374,050	893,513	1,809,955	2,585,111
	Balance sheet (IDRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	826,210	374,050	893,513	1,809,955	2,585,111
	Tangible fixed assets	14,988,938	15,217,570	15,936,810	16,589,197	17,181,353
	Total assets	19,898,166	19,232,753	21,238,335	22,985,695	24,625,183
	Short-term debt	78,655	1,270,326	2,036,582	2,802,838	3,569,094
	Total long-term debt	3,276,826	1,336,482	1,036,482	736,482	436,482
	Total liabilities	5,442,038	3,795,486	4,606,400	5,105,967	5,623,987
	Total equity	14,456,128	15,437,267	16,631,936	17,879,728	19,001,196
	Total liabilities & equity	19,898,166	19,232,753	21,238,335	22,985,695	24,625,183
	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	52.9	52.1	52.5
	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

Figure 1: BAL's progress on ESG factors

		2021	2022	2023
ENVIRONMENT				
GHG emissions	Emissions (tCO ₂ e)	1,458,657	1,676,840	1,514,628
GHG emissions	Intensity (tCO ₂ e per tonne of palm product)	1.38	1.41	1.24
Waste treatment	Recycling/ Repurposing of waste	Yes	Yes	Yes
Energy efficiency (water)	Water usage (m ³) and intensity (m ³ /tonne of palm product)	5,595,233 Intensity: 1.21 m ³ /MT FFB	6,520,282 Intensity: 1.22 m ³ /MT FFB	6,938,493 Intensity: 1.29 m ³ /MT FFB
Energy efficiency	Energy consumption and intensity	14,624,186	13,804,807	12,002,696
Certifications	RSPO / MSPO / ISPO certified (%)	RSPO: 30% MSPO: N/A ISPO: 4 certificates	RSPO: 48% MSPO: N/A ISPO: 4 certificates	RSPO: 57% MSPO: N/A ISPO: 4 certificates
Use of peat land	Peat land (%)	4.3%	4.3%	4.3%
Fire accidents	Number of accidents	97	35	151
Usage of renewable energy	% of renewable energy used	Not disclosed / none	95.2%	93.0%
Traceability	Traceable to mills (%)	Not disclosed	Not disclosed	Not disclosed
Traceability	Traceable to plantation (%)	99.80%	99.60%	99.40%
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	4/7 are independent	4/7 are independent	3/9 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	14.3%	14.3%	22.2%
Emphasis of sustainability at board level	Formation of a sustainability group	No	No	No
Remuneration transparency	Full disclosure of fees and benefits on named basis	Yes	Yes	Yes

Source: Company data, RHB

Figure 2: 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 FY23, Scope 1 emissions increased to 1.9m tonnes of CO2 equivalents (FY21: 1.2m tonnes of CO2 equivalents) while Scope 3 emissions increased to 455k tonnes of CO2 equivalents (FY21: 394k tonnes of CO2 equivalents)

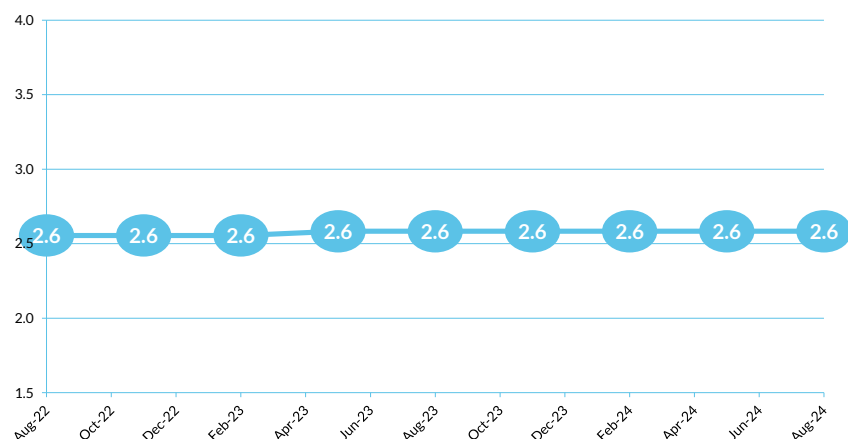
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	1,070,244	1,244,129	1,915,784
Scope 2	na	na	5,325
Scope 3	na	454,650	285,009
Total emissions	1,070,244	1,698,779	2,206,118

Source: Company data, RHB

Latest ESG-Related Developments

- **Sustainability certification:** As of end 2023, 57% of BAL's certifiable plantation area is RSPO certified.
- **Traceability:** In FY23, BAL managed to achieve 99.4% traceability to plantation.
- **Reducing GHG emissions:** BAL plans to install methane capture facilities at its 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
2024-05-14	Neutral	0.70	0.69
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

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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