

24 July 2023

Agriculture | Plantation

## Bumitama Agri (BAL SP)

**Neutral** (Maintained)

### Valuations Remain Fair

Target Price (Return):	SGD0.61 (5.8%)
Price (Market Cap):	SGD0.58 (USD762m)
ESG score:	2.6 (out of 4)
Avg Daily Turnover (SGD/USD)	0.28m/0.21m

- **Keep NEUTRAL, with new SGD0.61 TP (from SGD0.60), 6% upside and 6% FY23F yield.** Post upward CPO price assumptions revision, Bumitama Agri's valuations remain fair, trading at 7x FY24F P/E vs its peers' 5-10x range.
- **We see more upside risk for the sector now,** with the looming *El Nino* and potentially escalating geopolitical risks relating to the Russia-Ukraine war and grains corridor. However, notwithstanding a strong *El Nino* and an inability to export any crops from the Black Sea, the fundamental outlook remains relatively unexciting. Supply is expected to come in strongly in 2024, while demand remains somewhat lacklustre. Stock/usage ratios are still comfortably above historical averages in 2024F.
- **2023 price assumptions unchanged, 2024 assumptions raised.** While there is a high chance *El Nino* will be confirmed soon, we expect the impact on palm oil (PO) output to only be seen in 2024. As such, we make no changes to our 2023 CPO price assumption of MYR3,900/tonne. For 2024, if the *El Nino* is a moderate one, there would be an impact on supply – although not very significant – while prices could continue to be held back by lacklustre demand. We believe prices could be higher in 2H24 vs 1H24, as the impact of *El Nino* would only be seen from May/June onwards. We are therefore raising our 2024 and 2025 price assumptions to MYR3,900/tonne and MYR3,800/tonne respectively. If the *El Nino* turns out to be a strong one, we will review our price assumptions.
- **We maintain our NEUTRAL sector weighting,** with a tactically positive trading strategy. We believe higher CPO prices in 2024 would mean purer players would be looked upon more positively than integrated players. However, integrated players would provide a more stable earnings base and consistent dividend returns. Also, not all pure players would benefit equally, given the Indonesian tax structure and deteriorated exchange rate. Pure Indonesian planters would not benefit as much as pure Malaysian planters.
- **We revise FY23-25F earnings by -5% to +3%** post CPO price assumption revisions and after updating our latest in-house FX assumptions.
- **Valuation targets rolled forward.** Given our tactical view for the sector, we roll forward our valuation targets to 2024 and raise our target P/E for the regional players to 8-12x 2024F (from 7-10x 2023F) to be in line with current historical valuation averages.
- **Our new SGD0.61 TP has a higher target P/E of 8x 2024** (from 7x 2023F). Our TP includes an 8% ESG discount, based on an ESG score of 2.6.

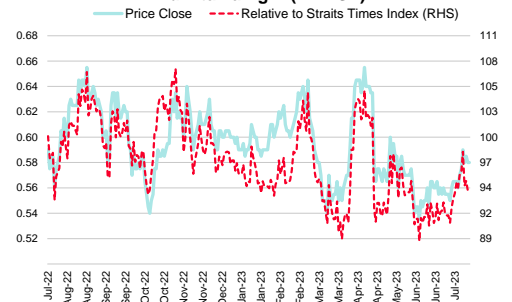
### Analyst

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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.7)	3.6	(11.5)	(0.9)	(1.7)
Relative	(1.8)	3.8	(9.8)	0.2	(5.9)
52-wk Price low/high (SGD)				0.54 – 0.66	

### Bumitama Agri (BAL SP)



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (IDRb)	12,249	15,829	14,534	12,937	13,313
Recurring net profit (IDRb)	1,677	3,210	1,823	1,619	1,739
Recurring net profit growth (%)	45.9	91.4	(43.2)	(11.2)	7.4
Recurring P/E (x)	6.81	3.56	6.27	7.05	6.57
P/B (x)	1.1	0.9	0.8	0.8	0.7
P/CF (x)	4.31	3.25	3.89	3.89	4.05
Dividend Yield (%)	6.1	12.6	6.6	6.1	6.3
EV/EBITDA (x)	4.91	2.79	4.17	4.48	4.11
Return on average equity (%)	17.8	24.8	14.0	11.5	11.6
Net debt to equity (%)	33.1	17.5	11.6	5.7	1.0

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 tCO<sub>2</sub>-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, 112 villages directly adjacent to BAL's operations received an average IDM score of 3.6 in 2021 (109% higher than in 2016), owing to the company's efforts made to help such communities.

#### 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.

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## Financial Exhibits

Asia	Financial summary (IDR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	Recurring EPS	967.19	1,851.17	1,051.10	933.71	1,002.81
Agriculture	DPS	400.09	828.68	434.64	403.20	414.40
<b>Bumitama Agri</b>	BVPS	5,939.79	7,204.52	7,820.98	8,351.49	8,939.90
BAL SP	Return on average equity (%)	17.8	24.8	14.0	11.5	11.6
Neutral						
	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Valuation basis</b>	Recurring P/E (x)	6.81	3.56	6.27	7.05	6.57
We use 8x Dec-2024F P/E to value BAL. This implies an EV/ha of USD10,000, which is at the mid-range of its peers' range of USD8,000-15,000	P/B (x)	1.1	0.9	0.8	0.8	0.7
	FCF Yield (%)	13.9	19.9	12.6	12.9	12.1
	Dividend Yield (%)	6.1	12.6	6.6	6.1	6.3
	EV/EBITDA (x)	4.91	2.79	4.17	4.48	4.11
	EV/EBIT (x)	6.19	3.23	5.39	6.10	5.57
<b>Key drivers</b>						
CPO price movement and FFB production output						
	<b>Income statement (IDRb)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Key risks</b>	Total turnover	12,249	15,829	14,534	12,937	13,313
CPO price movements, weather risks, and the demand and supply dynamics of the global vegetable oil industry	Gross profit	3,457	5,733	3,918	3,384	3,567
	EBITDA	3,481	5,697	3,749	3,373	3,567
	Depreciation and amortisation	(721)	(768)	(848)	(895)	(933)
	Operating profit	2,760	4,929	2,901	2,478	2,635
	Net interest	42	37	49	142	180
	Pre-tax profit	2,864	4,571	2,950	2,621	2,814
	Taxation	(774)	(1,172)	(737)	(655)	(704)
	Reported net profit	1,721	2,826	1,823	1,619	1,739
	Recurring net profit	1,677	3,210	1,823	1,619	1,739
	<b>Cash flow (IDRb)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Change in working capital	362	(678)	1,131	731	963
	Cash flow from operations	2,649	3,513	2,933	2,936	2,823
	Capex	(1,056)	(1,246)	(1,498)	(1,466)	(1,435)
	Cash flow from investing activities	(598)	(494)	(1,370)	(1,250)	(1,195)
	Dividends paid	(679)	(1,170)	(754)	(699)	(719)
	Cash flow from financing activities	(2,669)	(2,378)	(1,182)	(1,123)	(1,129)
	Cash at beginning of period	792	176	826	1,207	1,770
	Net change in cash	(619)	642	381	564	499
	Ending balance cash	176	826	1,207	1,770	2,269
	<b>Balance sheet (IDRb)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total cash and equivalents	176	826	1,207	1,770	2,269
	Tangible fixed assets	15,183	14,989	15,690	16,314	16,868
	Total assets	17,686	19,898	21,081	21,998	23,099
	Short-term debt	0	79	79	79	79
	Total long-term debt	4,143	3,277	2,977	2,677	2,377
	Total liabilities	5,687	5,442	5,166	4,817	4,526
	Total equity	11,999	14,456	15,915	17,181	18,573
	Total liabilities & equity	17,686	19,898	21,081	21,998	23,099
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	34.6	29.2	(8.2)	(11.0)	2.9
	Recurrent EPS growth (%)	46.0	91.4	(43.2)	(11.2)	7.4
	Gross margin (%)	28.2	36.2	27.0	26.2	26.8
	Operating EBITDA margin (%)	28.4	36.0	25.8	26.1	26.8
	Net profit margin (%)	14.1	17.9	12.5	12.5	13.1
	Dividend payout ratio (%)	40.3	50.8	41.4	43.2	41.3
	Capex/sales (%)	8.6	7.9	10.3	11.3	10.8
	Interest cover (x)	18.0	37.8	22.6	20.0	23.8

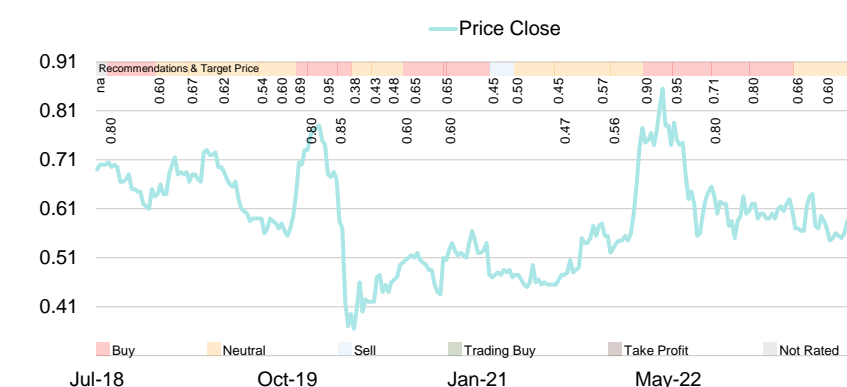
Source: Company data, RHB

Figure 1: Key assumptions for BAL

	FY20	FY21	FY22	FY23F	FY24F	FY25F
Nucleus FFB production (tonnes)	2,270,745	2,336,178	2,676,926	2,735,290	2,867,732	2,972,568
% change	1.8%	2.9%	14.6%	2.2%	4.8%	3.7%
CPO price assumptions (IDR/kg)	8,334	9,852	12,519	10,610	8,943	8,904
% change	24.5%	18.2%	27.1%	-15.2%	-15.7%	-0.4%
PK price assumptions (IDR/kg)	4,366	7,063	8,285	6,163	5,607	5,296
% change	27.8%	61.8%	17.3%	-25.6%	-9.0%	-5.6%

Source: Company data, RHB

## Recommendation Chart

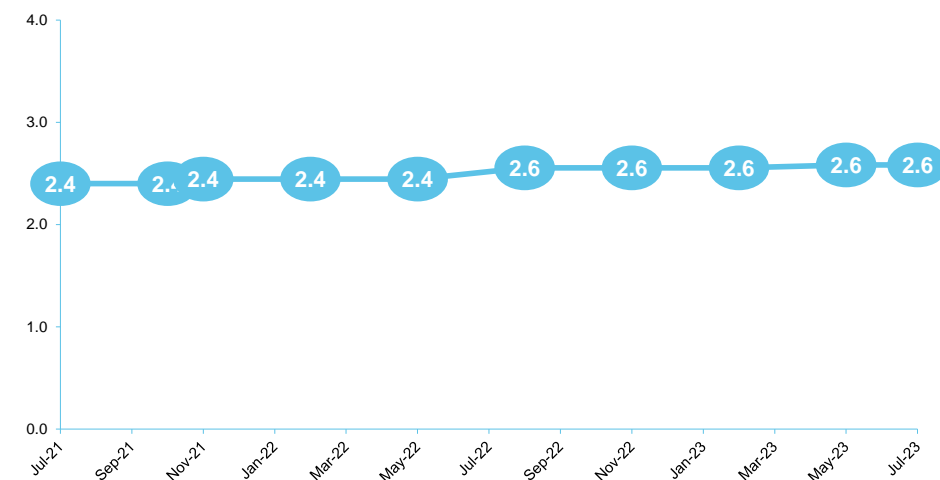


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-04-21	Neutral	0.50	0.47
2021-02-22	Sell	0.45	0.54
2020-11-10	Buy	0.60	0.50
2020-11-01	Buy	0.65	0.44

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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