

2 March 2023

Agriculture | Plantation

Bumitama Agri (BAL SP)

Neutral (from Buy)

Disappointing End To The Year; D/G To NEUTRAL

Target Price (Return):	SGD0.66 (+8%)
Price (Market Cap):	SGD0.62 (USD796m)
ESG score:	2.56 (out of 4)
Avg Daily Turnover (SGD/USD)	0.39m/0.29m

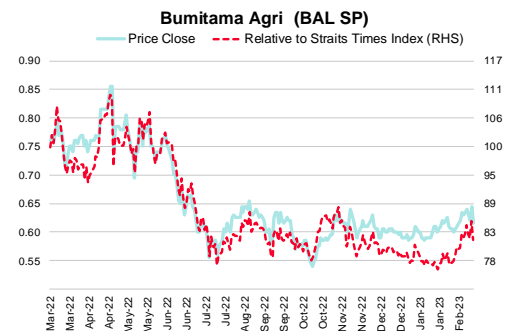
- **D/G NEUTRAL from Buy, new SGD0.66 TP from SGD0.80, 8% upside.** FY22 results disappointed. Although earnings going forward will be boosted by inventory drawdowns in 1Q23, higher unit costs and lower ASP could offset this. Bumitama Agri's current valuation of 6x CY23F P/E is fair, within its peers' range of 6-10x. Nevertheless, dividend yield at a 40% payout should lend support, implying 6.6% FY23F yield.
- **BAL booked a 61% HoH decline in 2H22 core net profit**, bringing FY22 earnings to just 84-90% of our and consensus' FY22F earnings. The disappointment came from lower-than-expected FFB output, higher-than-expected unit costs, higher-than-expected inventory levels, and higher-than-expected effective tax rate.
- **Yet to declare final DPS for FY22.** Assuming it pays out 40% of its earnings, BAL could pay out an additional 4.75 SG cents, bringing total DPS to 6 SG cents, implying a 9.8% yield for FY22.
- **BAL recorded an 18.4% QoQ decline in FFB output (+17.5% YoY)**, bringing FY22 FFB growth to 14.6% YoY, below management's guidance of +16-18%. For FY23, management is guiding FFB growth of 3-7%, in line with our growth assumptions of 3-5% for FY23-24.
- **Still higher inventory levels in Dec 2022.** BAL saw a 6.5% QoQ rise in CPO ASPs in 4Q, bringing FY22 ASPs to IDR12,519/kg (+27 YoY). We highlight that, despite FY22 CPO output rising 13% YoY, CPO sales volume was only at +1.9% YoY. This was due to logistics issues related to weather-damaged roads. As such, BAL's inventory levels rose to 4x its normal levels at end-2022 (from 2x in 3Q22). It has seen more than half of this excess inventory cleared in Jan 2023 and hopes to normalise this by end-1Q23.
- **Unit costs rose 88% QoQ in 4Q22 to IDR7,900/kg** due to higher fertiliser costs and lower output during the quarter. This brought FY22 costs up to IDR5,500/kg (+22% YoY), higher than management's original guidance of +10-15%. BAL managed to apply 100% of its fertiliser requirements for FY22. Going forward, BAL is guiding for unit costs in 2023F to increase further due to higher fertiliser costs (+35-45% YoY – BAL tendered for most of its 2023 fertiliser requirements during the first nine months of 2022) as well as higher labour costs due to the annual minimum wage hike of 7-9%. We estimate unit costs would rise 15-20% in 2023F. We have therefore imputed this into our forecasts.
- **We lower FY23F-24F by 7-8%** after imputing higher unit costs and the latest taxes and duties applicable in Indonesia, as well as our latest in-house FX assumptions.
- **NEUTRAL from Buy**, with a lower SGD0.66 TP based on unchanged 7x 2023F P/E. This includes an ESG discount of 8%, given our in-house ESG score of 2.6. The stock is now trading at 6x 2023F, in line with its peers' 6-10x. Its dividend yield should provide support at 6.1-6.6% for FY23F-24F.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.2	0.8	0.0	(0.8)	(19.1)
Relative	4.1	4.4	1.2	(1.8)	(18.4)
52-wk Price low/high (SGD)	0.54 – 0.86				



Source: Bloomberg

Overall ESG Score: 2.56 (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, 112 villages directly adjacent to BAL's operations received an average IDM score of 3.60 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.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (IDRb)	12,249	15,829	15,246	14,907	15,632
Recurring net profit (IDRb)	1,677	3,210	2,065	1,829	1,711
Recurring net profit growth (%)	45.9	91.4	(35.7)	(11.4)	(6.5)
Recurring P/E (x)	7.23	3.78	5.87	6.63	7.09
P/B (x)	1.2	1.0	0.9	0.8	0.8
P/CF (x)	4.58	3.45	3.83	4.11	4.57
Dividend Yield (%)	5.7	9.1	6.6	6.1	6.1
EV/EBITDA (x)	5.11	2.92	3.91	4.24	4.41
Return on average equity (%)	17.8	24.8	15.7	12.8	11.2
Net debt to equity (%)	33.1	17.5	10.3	4.7	1.2

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (IDR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	Recurring EPS	967.19	1,851.17	1,190.73	1,054.79	986.44
Agriculture	DPS	400.09	637.45	462.39	429.53	429.53
Bumitama Agri	BVPS	5,939.79	7,204.52	7,932.86	8,558.12	9,115.03
BAL SP	Return on average equity (%)	17.8	24.8	15.7	12.8	11.2
Neutral						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Recurring P/E (x)	7.23	3.78	5.87	6.63	7.09
	P/B (x)	1.2	1.0	0.9	0.8	0.8
	FCF Yield (%)	13.1	18.7	13.8	12.2	10.0
	Dividend Yield (%)	5.7	9.1	6.6	6.1	6.1
	EV/EBITDA (x)	5.11	2.92	3.91	4.24	4.41
	EV/EBIT (x)	6.45	3.37	4.92	5.59	6.00
Valuation basis						
We use 7x 2023F 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						
Key drivers						
CPO price movement and FFB production output						
Key risks						
<ul style="list-style-type: none"> i. CPO price movements; ii. Weather; iii. The demand and supply dynamics of the global vegetable oil industry. 						
Company Profile						
Bumitama Agri is a pure upstream plantation company in Indonesia, with landbank mostly in Kalimantan.						
	Income statement (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total turnover	12,249	15,829	15,246	14,907	15,632
	Gross profit	3,457	5,733	4,360	3,862	3,683
	EBITDA	3,481	5,697	4,141	3,713	3,521
	Depreciation and amortisation	(721)	(768)	(848)	(895)	(933)
	Operating profit	2,760	4,929	3,293	2,818	2,589
	Net interest	42	37	49	142	180
	Pre-tax profit	2,864	4,571	3,342	2,960	2,769
	Taxation	(774)	(1,172)	(835)	(740)	(692)
	Reported net profit	1,721	2,826	2,065	1,829	1,711
	Recurring net profit	1,677	3,210	2,065	1,829	1,711
	Cash flow (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	362	(678)	1,221	1,078	1,252
	Cash flow from operations	2,649	3,513	3,167	2,948	2,652
	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)	(802)	(745)	(745)
	Cash flow from financing activities	(2,669)	(2,378)	(1,230)	(1,169)	(1,155)
	Cash at beginning of period	792	176	826	1,393	1,922
	Net change in cash	(619)	642	567	529	302
	Ending balance cash	176	826	1,393	1,922	2,225
	Balance sheet (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	176	826	1,393	1,922	2,225
	Tangible fixed assets	15,183	14,989	15,690	16,314	16,868
	Total assets	17,686	19,898	21,339	22,521	23,594
	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	5,178	4,885	4,626
	Total equity	11,999	14,456	16,161	17,636	18,968
	Total liabilities & equity	17,686	19,898	21,339	22,521	23,594
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	34.6	29.2	(3.7)	(2.2)	4.9
	Recurrent EPS growth (%)	46.0	91.4	(35.7)	(11.4)	(6.5)
	Gross margin (%)	28.2	36.2	28.6	25.9	23.6
	Operating EBITDA margin (%)	28.4	36.0	27.2	24.9	22.5
	Net profit margin (%)	14.1	17.9	13.5	12.3	10.9
	Dividend payout ratio (%)	40.3	39.1	38.8	40.7	43.5
	Capex/sales (%)	8.6	7.9	9.8	9.8	9.2
	Interest cover (x)	18.0	37.8	25.7	22.7	23.4

Source: Company data, RHB

Results At a Glance

Figure 1: Results review

FYE Dec (IDRbn)	FY21	FY22	YoY (%)	Comments
Revenue	12,248.6	15,829.3	29.2	Higher CPO ASP and slightly higher FFB production
EBITDA	3,498.0	5,686.1	62.6	Higher due to higher ASP
<i>EBITDA margin (%)</i>	28.6	35.9		
Depreciation	(720.9)	(768.2)	(6.6)	
EBIT	2,777.1	4,917.9	77.1	
<i>EBIT margin (%)</i>	22.7	31.1		
Interest expense	(153.3)	(130.4)	14.9	
Interest income	195.7	167.2	(14.5)	
Associates	0.0	0.0	-	
El/others	44.1	(384.1)	(970.6)	Relates to FX gains/losses on USD-denominated debt and gains/losses on biological assets
Pre-tax profit	2,863.6	4,570.6	59.6	
Core PBT	2,819.5	4,954.7	75.7	
<i>Pre-tax margin (%)</i>	23.4	28.9	23.5	
Tax	(774.2)	(1,171.7)	(51.3)	
<i>Effective tax rate (%)</i>	27.0	25.6		
Minority interest	(368.0)	(572.8)	(55.6)	
Net profit	1,721.4	2,826.1	64.2	
Core profit	1,677.3	3,210.2	91.4	Made up 84-90% of our and consensus full-year forecasts
<i>Net margin (%)</i>	13.7	20.3		
Net DPS	3.8	1.3	(66.7)	Final DPS not declared yet

Source: Company data, RHB

Figure 2: Operating statistics

Op. stats ('000 tonne)	4Q21	3Q22	4Q22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)	Comments
FFB production (nucleus)	501.4	722.0	589.3	(18.4)	17.5	2,336.2	2,676.9	14.6	In line with our +14% growth assumption but lower than management's guidance of +16-18%.
CPO production	231.4	320.5	264.6	(17.4)	14.3	1,051.6	1,188.2	13.0	
PK production	51.3	66.4	56.6	(14.7)	10.3	223.0	250.9	12.5	
FFB yield (tonnes/ha)	4.0	5.8	4.8	(17.2)	20.0	18.6	21.4	15.1	
OER	22.6%	22.3%	22.1%	(0.9)	(2.2)	22.6%	22.3%	(1.3)	
KER	5.0%	4.7%	5.0%	6.4	0.0	4.8%	4.8%	0.0	
CPO yield (tonnes/ha)	0.9	1.3	1.0	(21.7)	12.5	4.2	4.8	13.6	
Sales volume									
CPO	245.9	311.0	259.7	(16.5)	5.6	1,081.0	1,101.7	1.9	
PK	51.9	68.0	57.9	(14.9)	11.5	226.3	245.9	8.7	
ASP (IDR/kg)									
CPO	13,500.0	10,400.0	11,076.0	6.5	(18.0)	9,852.0	12,519.0	27.1	Below our average price assumption of IDR13,234 per kg
PK	8,500.0	5,100.0	5,440.0	6.7	(36.0)	7,063.0	8,285.0	17.3	

Source: Company data, RHB

Figure 3: Key assumptions for BAL

	FY20	FY21	FY22	FY23F	FY24F	FY25F
Nucleus FFB production (tonnes)	2,270,745	2,336,178	2,676,926	2,791,425	2,926,957	3,034,368
% change	1.8%	2.9%	14.6%	4.3%	4.9%	3.7%
CPO price assumptions (IDR/kg)	8,334	9,852	12,519	11,220	10,986	10,986
% change	24.5%	18.2%	27.1%	-10.4%	-2.1%	0.0%
PK price assumptions (IDR/kg)	4,366	7,063	8,285	8,860	8,428	8,828
% change	27.8%	61.8%	17.3%	6.9%	-4.9%	4.7%

Source: Company data, RHB

Recommendation Chart

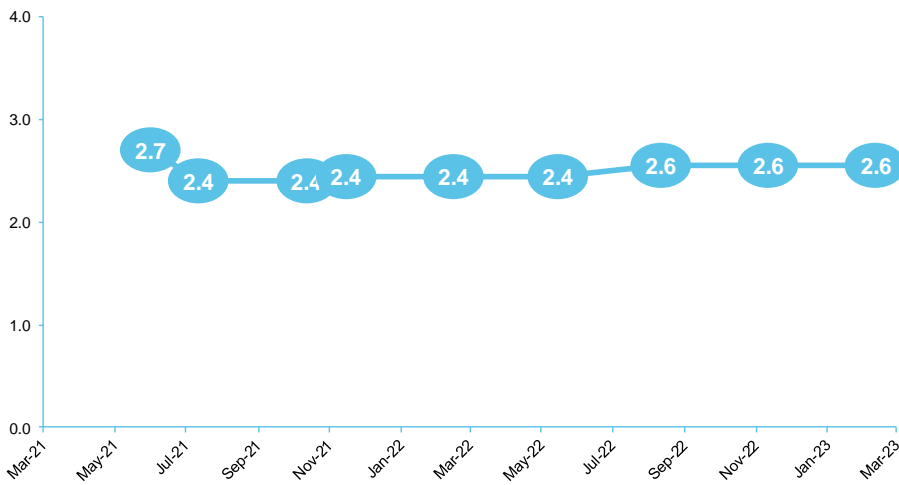


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-08-17	Buy	0.65	0.52
2020-07-26	Buy	0.60	0.50

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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