

15 August 2022

Agriculture | Plantation

Bumitama Agri (BAL SP)

Buy (Maintained)

Strong Quarter Despite Export Ban Impact; BUY

Target Price (Return): SGD0.80 (23.1%)
 Price (Market Cap): SGD0.65 (USD816m)
 ESG score: 2.56 (out of 4)
 Avg Daily Turnover (SGD/USD) 1.07m/0.77m

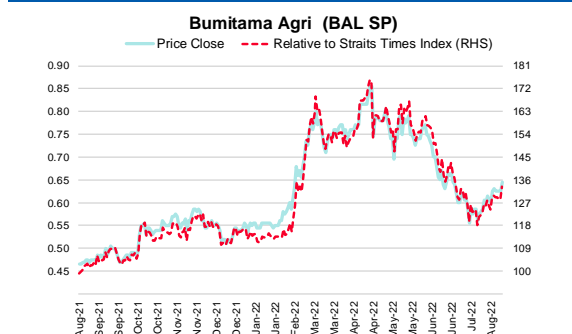
- **Keep BUY, new SGD0.80 TP from SGD0.71, 23% upside.** Bumitama Agri's 1H22 results came in significantly above our and Street estimates. Although CPO prices have moderated so far in 2H22, FFB growth is expected to remain robust, hence keeping earnings strong. BAL's valuation of 5.3x CY23F P/E is unwarranted, even below -1SD of its historical mean and below its peers' range of 6-11x. Assuming it pays out 40% of earnings, its FY22F dividend yield is also attractive, at c.13%.
- **BAL booked a >280% YoY rise in 1H22 earnings** on higher ASPs and FFB output, which was above both our and Street's expectations at 86-98% of full-year estimates. This was on higher-than-expected FFB growth in 2Q22 (+29% QoQ, +19% YoY) and stronger-than-expected ASPs despite the export ban impact – this led to lower-than-expected unit costs in 1H22.
- **BAL recorded FFB growth** of 8.7% YoY in 1H22, above our projection of +3% but in line with management's guidance of 5-10% growth. It had raised its FY22 FFB growth guidance to +16-18%, as BAL continues to see strong growth at its estates while weather has been conducive too. Management also expects 1H:2H output to be in the 50%:50% range. As such, we raise our FFB growth assumption to 14% from 3% while keeping our FY23F-24F growth at 5-6%.
- **Strong CPO prices despite export ban impact.** Unlike most of its peers, BAL managed to achieve a higher ASP of IDR14,300/kg in 1H (+83% YoY), with 2Q ASP of IDR15,000/kg being 10% and 83% above 1Q22 and 2Q21's prices. This was achieved despite the export ban impact, which resulted in domestic prices collapsing – likely due to BAL's long-term relationships with its clients. Nevertheless, 1H22 CPO sales volumes fell 35% YoY as refiners cut back on purchases. Consequently, BAL's inventory levels rose to c.2 months' supply, approximately one month more than normal. BAL believes it will be able to normalise this by 3Q.
- **Unit costs rose 14% YoY in 1H22, to rise further to 20-25% for FY22F.** For 2Q22, BAL recorded a unit cost of IDR5,700/kg (+27% QoQ, +7.5% YoY), bringing 1H22 costs to IDR5,200/kg (+14% YoY). It has applied 50% of its fertiliser requirements for FY22 so far. For 2H22, costs should rise due to higher-priced fertiliser recognised, leading to overall FY22 unit costs to rise by 20-25% YoY, given the higher fertiliser prices (+60-80% YoY).
- **We raise FY22F earnings** by 45% and FY23F-24F by 10-12% after imputing higher FFB growth and slightly lower unit costs.
- **Maintain BUY**, with a higher TP of SGD0.80 based on unchanged 7x 2023F P/E. Our TP has already taken into account an ESG discount of 8%, given our in-house ESG score of 2.6. The stock is now trading at 5x 2023F, even below -1SD from its 5-year mean – we believe this is unwarranted. Assuming the dividend payout is at the maximum 40%, the FY22F dividend yield is also attractive, at c.13%.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	19.4	6.6	(7.2)	7.5	40.2
Relative	14.7	2.7	(10.5)	12.2	37.5
52-wk Price low/high (SGD)				0.47 – 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-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (IDRb)	9,102	12,249	18,008	14,642	14,927
Recurring net profit (IDRb)	1,150	1,677	3,960	2,283	2,050
Recurring net profit growth (%)	126.9	45.9	136.1	(42.4)	(10.2)
Recurring P/E (x)	10.42	7.13	3.02	5.24	5.84
P/B (x)	1.3	1.2	0.9	0.9	0.8
P/CF (x)	4.90	4.52	2.36	3.76	4.76
Dividend Yield (%)	3.7	5.8	13.1	7.7	6.9
EV/EBITDA (x)	7.30	5.07	2.37	3.75	4.28
Return on average equity (%)	13.2	17.8	34.5	17.1	14.0
Net debt to equity (%)	49.5	33.1	11.6	2.6	net cash

Source: Company data, RHB

See important disclosures at the end of this report

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Financial Exhibits

Asia	Financial summary (IDR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS	662.36	967.19	2,283.51	1,316.36	1,181.91
Agriculture	DPS	253.23	400.09	907.18	531.14	478.02
Bumitama Agri	BVPS	5,199.50	5,939.79	7,316.12	8,101.34	8,805.23
BAL SP	Return on average equity (%)	13.2	17.8	34.5	17.1	14.0
Buy						
Valuation basis	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
We use 7x Dec-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	Recurring P/E (x)	10.42	7.13	3.02	5.24	5.84
	P/B (x)	1.3	1.2	0.9	0.9	0.8
	FCF Yield (%)	12.2	13.3	30.8	15.3	10.0
	Dividend Yield (%)	3.7	5.8	13.1	7.7	6.9
	EV/EBITDA (x)	7.30	5.07	2.37	3.75	4.28
	EV/EBIT (x)	9.76	6.39	2.69	4.75	5.82
Key drivers	Income statement (IDRb)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
CPO price movement and FFB production output	Total turnover	9,102	12,249	18,008	14,642	14,927
	Gross profit	2,526	3,457	7,207	4,215	3,527
	EBITDA	2,563	3,481	6,749	4,038	3,377
	Depreciation and amortisation	(645)	(721)	(803)	(848)	(895)
	Operating profit	1,918	2,760	5,946	3,190	2,482
	Net interest	23	42	158	445	781
	Pre-tax profit	1,931	2,864	6,104	3,635	3,263
	Taxation	(568)	(774)	(1,526)	(909)	(816)
	Reported net profit	1,126	1,721	3,960	2,283	2,050
	Recurring net profit	1,150	1,677	3,960	2,283	2,050
Key risks	Cash flow (IDRb)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
CPO price movements, weather risks, and the demand and supply dynamics of the global vegetable oil industry.	Change in working capital	691	362	1,298	1,040	1,088
	Cash flow from operations	2,446	2,649	5,073	3,180	2,513
	Capex	(987)	(1,056)	(1,382)	(1,348)	(1,316)
	Cash flow from investing activities	(931)	(598)	(1,159)	(847)	(487)
	Dividends paid	(255)	(679)	(1,573)	(921)	(829)
	Cash flow from financing activities	(1,248)	(2,669)	(1,988)	(1,327)	(1,226)
	Cash at beginning of period	504	792	176	2,102	3,107
	Net change in cash	267	(619)	1,926	1,006	799
	Ending balance cash	792	176	2,102	3,107	3,907
Company Profile	Balance sheet (IDRb)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Bumitama Agri is a pure upstream plantation company in Indonesia, with landbank mostly in Kalimantan.	Total cash and equivalents	792	176	2,102	3,107	3,907
	Tangible fixed assets	15,150	15,183	15,814	16,365	16,838
	Total assets	18,233	17,686	20,484	21,972	23,336
	Short-term debt	282	0	0	0	0
	Total long-term debt	5,726	4,143	3,843	3,543	3,243
	Total liabilities	7,699	5,687	5,481	5,164	4,909
	Total equity	10,534	11,999	15,003	16,808	18,427
	Total liabilities & equity	18,233	17,686	20,484	21,972	23,336
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	18.3	34.6	47.0	(18.7)	1.9
	Recurrent EPS growth (%)	128.4	46.0	136.1	(42.4)	(10.2)
	Gross margin (%)	27.8	28.2	40.0	28.8	23.6
	Operating EBITDA margin (%)	28.2	28.4	37.5	27.6	22.6
	Net profit margin (%)	12.4	14.1	22.0	15.6	13.7
	Dividend payout ratio (%)	39.0	40.3	39.7	40.3	40.4
	Capex/sales (%)	10.8	8.6	7.7	9.2	8.8
	Interest cover (x)	10.7	18.0	51.6	30.0	25.5

Source: Company data, RHB

Results At a Glance

Figure 1: Review of BAL's 1H22 results

FYE Dec (IDRbn)	1H21	1H22	YoY (%)	Comments
Revenue	5,438.2	8,968.3	64.9	Higher CPO ASP (+74.4%) supplemented by higher FFB production (+8.7%).
EBITDA	1,205.5	3,798.7	215.1	Higher due to higher revenue.
<i>EBITDA margin (%)</i>	22.2	42.4		
Depreciation	(354.8)	(384.3)	(8.3)	
EBIT	850.7	3,414.4	301.4	
<i>EBIT margin (%)</i>	15.6	38.1		
Interest expense	(79.4)	(68.6)	13.6	
Interest income	97.9	84.1	(14.2)	
Associates	0.0	0.0	-	
El/others	(124.5)	(150.9)	(21.2)	Consists of unrealised FX losses (IDR150.9m).
Pre-tax profit	744.7	3,278.9	340.3	
Core PBT	869.2	3,429.8	294.6	
<i>Pre-tax margin (%)</i>	13.7	36.6	167.0	
Tax	(165.5)	(683.5)	(313.1)	
<i>Effective tax rate (%)</i>	22.2	20.8		
Minority interest	(95.2)	(416.7)	(337.9)	
Net profit	484.0	2,178.7	350.1	
Core profit	608.6	2,329.6	282.8	Made up 86% and 98% of our and consensus' full-year forecasts.
<i>Net margin (%)</i>	11.2	26.0		
Net DPS (SGD cents)	0.5	1.3	177.8	

Source: Company data, RHB

Figure 2: Operating statistics

Op. stats ('000 tonne)	2Q21	1Q22	2Q22	QoQ (%)	YoY (%)	1H21	1H22	YoY (%)	Comments
FFB production (nucleus)	644.8	596.3	769.3	29.0	19.3	1,256.2	1,365.6	8.7	Production growth higher than our 3% YoY but in line with management's 5-10% YoY estimate.
CPO production	291.8	261.7	341.3	30.4	17.0	563.6	603.0	7.0	
PK production	61.0	56.0	71.9	28.4	18.0	116.6	128.0	9.8	
FFB yield (tonnes/ha)	5.1	4.7	6.1	29.8	19.6	10.0	10.8	8.0	
OER	22.7%	22.5%	22.4%	(0.4)	(1.3)	22.7%	22.4%	(1.3)	
KER	4.7%	4.8%	4.7%	(2.1)	0.0	4.7%	4.7%	0.0	
CPO yield (tonnes/ha)	1.2	1.1	1.3	19.9	9.9	2.3	2.4	5.2	
Sales volume									
CPO	568.1	238.0	293.0	23.1	(48.4)	568.4	531.0	(6.6)	
PK	114.4	56.0	64.0	14.3	(44.1)	114.4	120.0	4.9	
ASP (IDR/kg)									
CPO	8,201.0	13,600.0	15,000.0	10.3	82.9	8,201.0	14,300.0	74.4	Above our average price assumption.
PK	6,791.0	11,900.0	10,700.0	(10.1)	57.6	6,791.0	11,300.0	66.4	

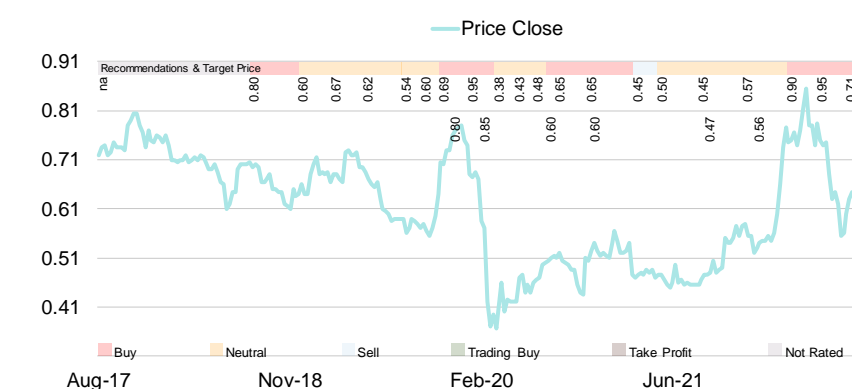
Source: Company data, RHB

Figure 3: Key assumptions for BAL

	FY19	FY20	FY21	FY22F	FY23F	FY24F
Nucleus FFB production (tonnes)	2,231,353	2,270,745	2,336,178	2,663,170	2,817,034	2,990,587
% change	-2.0%	1.8%	2.9%	14.0%	5.8%	6.2%
CPO price assumptions (IDR/kg)	6,696	8,334	9,852	13,378	10,440	10,164
% change	-4.7%	24.5%	18.2%	35.8%	-22.0%	-2.6%
PK price assumptions (IDR/kg)	3,416	4,366	7,063	10,821	8,405	7,731
% change	-35.4%	27.8%	61.8%	53.2%	-22.3%	-8.0%

Source: Company data, RHB

Recommendation Chart

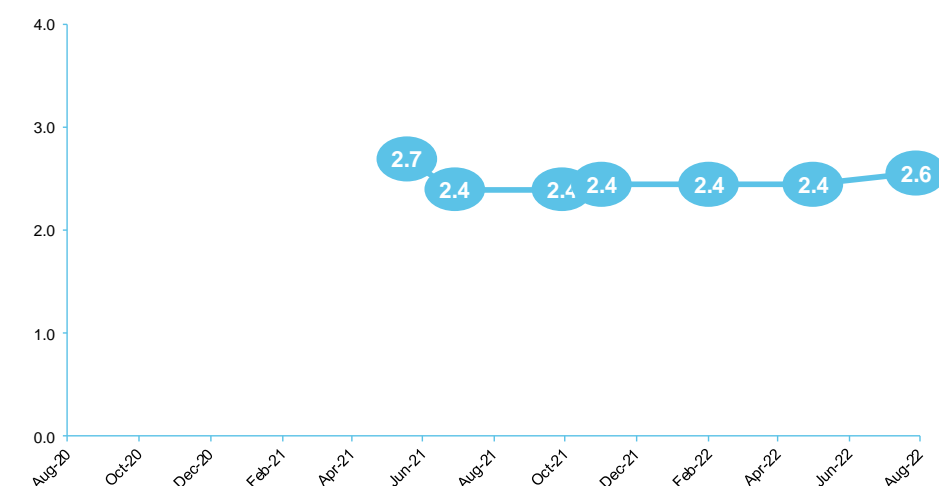


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-06-25	Neutral	0.48	0.44
2020-05-12	Neutral	0.43	0.44

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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