

15 November 2022

Agriculture | Plantation

Bumitama Agri (BAL SP)

Buy (Maintained)

Closing In On a Record Year; Maintain BUY

Target Price (Return): SGD0.80 (29.9%)
 Price (Market Cap): SGD0.62 (USD776m)
 ESG score: 2.56 (out of 4)
 Avg Daily Turnover (SGD/USD) 0.39m/0.28m

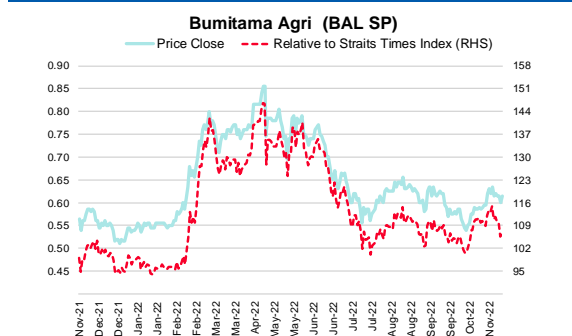
- **Maintain BUY and SGD0.80 TP, 30% upside.** 9M22's results were in line with our but significantly above Street's estimates. 4Q earnings will be boosted by inventory drawdowns in 4Q22, in our view, while FFB growth should remain robust. Bumitama Agri's valuation of 5.4x CY23F P/E is unwarranted, even below -1SD of its historical mean and at the low end of its peers' range of 5-9x. Assuming it pays out 40% of earnings, BAL's FY22F dividend yield of c.13% is also attractive.
- **BAL booked a >160% YoY rise** in 9M22 earnings on higher ASPs and FFB output. This was in line with our (75%) but above Street's (97%) full-year estimates.
- **BAL recorded 9M22 FFB growth** of 13.8% YoY, largely in line with our projection of +14% but below management's guidance of +16-18%. The company maintains its FY22 FFB growth guidance at +16-18%, as flooding has subsided at its estates and rainfall is easing somewhat. Management continues to expect 1H:2H output to be in the 50%:50% range. We keep our FY22 and FY23-24 FFB growth assumptions at 14% and 5-6%.
- **Higher inventory levels in 9M22.** BAL saw a 31% QoQ decline in CPO ASPs in 3Q, bringing 9M22 ASPs to IDR12,900/kg (+46.6 YoY). We highlight that, despite 9M22 CPO output rising 12.6% YoY, CPO sales volumes were flattish at +0.8% YoY. This was due to logistics issues related to weather-damaged roads. As such, BAL's inventory levels rose to slightly above two months' supply from two months at end 1H22, approximately one month more than normal. Assuming the weather conditions improve, the company hopes to be able to normalise this by 4Q.
- **Unit costs moderated 26% QoQ in 3Q22** to IDR4,200/kg on lower upkeep costs during the quarter due to the wet weather. This brought 9M22 costs down to IDR4,800/kg (+7% YoY) vs IDR5,200/kg in 1H22. BAL has applied 80% of its fertiliser requirements for FY22 so far. For 4Q22, costs should rise due to higher-priced fertiliser recognised, leading to overall FY22 unit costs rising by 10-15% YoY, given the higher fertiliser prices (+60-80% YoY).
- **We tweak forecasts down** for FY22-24 by 2-3%. This is after imputing the latest taxes and duties applicable in Indonesia, as well as our latest in-house FX assumptions.
- **Maintain BUY**, with a relatively unchanged SGD0.80 TP based on 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 5.4x 2023F, even below -1SD from its 5-year mean. We believe this is unwarranted. Assuming the dividend payout is at the maximum 40%, FY22F's dividend yield is also attractive, at c.13%.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	13.9	11.8	(4.7)	(16.9)	10.8
Relative	9.5	4.5	(4.4)	(19.1)	9.8
52-wk Price low/high (SGD)				0.51 – 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	17,791	14,825	14,848
Recurring net profit (IDRb)	1,150	1,677	3,850	2,240	1,988
Recurring net profit growth (%)	126.9	45.9	129.5	(41.8)	(11.2)
Recurring P/E (x)	10.48	7.18	3.13	5.37	6.05
P/B (x)	1.3	1.2	1.0	0.9	0.8
P/CF (x)	4.93	4.54	2.43	3.87	4.91
Dividend Yield (%)	3.6	5.8	13.0	7.9	6.7
EV/EBITDA (x)	7.33	5.09	2.46	3.88	4.50
Return on average equity (%)	13.2	17.8	33.6	16.9	13.7
Net debt to equity (%)	49.5	33.1	12.5	3.9	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (IDR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS	662.36	967.19	2,220.04	1,291.57	1,146.65
Agriculture	DPS	253.23	400.09	903.05	546.50	465.52
Bumitama Agri	BVPS	5,199.50	5,939.79	7,256.78	8,001.85	8,682.98
BAL SP	Return on average equity (%)	13.2	17.8	33.6	16.9	13.7
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)	10.48	7.18	3.13	5.37	6.05
	P/B (x)	1.3	1.2	1.0	0.9	0.8
	FCF Yield (%)	12.1	13.2	29.6	14.7	9.4
	Dividend Yield (%)	3.6	5.8	13.0	7.9	6.7
	EV/EBITDA (x)	7.33	5.09	2.46	3.88	4.50
	EV/EBIT (x)	9.80	6.41	2.80	4.94	6.18
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	17,791	14,825	14,848
	Gross profit	2,526	3,457	7,022	4,159	3,424
	EBITDA	2,563	3,481	6,580	3,970	3,280
	Depreciation and amortisation	(645)	(721)	(803)	(848)	(895)
	Operating profit	1,918	2,760	5,777	3,122	2,385
	Net interest	23	42	158	445	781
	Pre-tax profit	1,931	2,864	5,934	3,566	3,166
	Taxation	(568)	(774)	(1,484)	(892)	(792)
	Reported net profit	1,126	1,721	3,850	2,240	1,988
	Recurring net profit	1,150	1,677	3,850	2,240	1,988
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	1,283	1,062	1,075
	Cash flow from operations	2,446	2,649	4,949	3,112	2,452
	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)	(1,566)	(948)	(807)
	Cash flow from financing activities	(1,248)	(2,669)	(1,981)	(1,354)	(1,205)
	Cash at beginning of period	504	792	176	1,985	2,896
	Net change in cash	267	(619)	1,809	911	761
	Ending balance cash	792	176	1,985	2,896	3,657
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	1,985	2,896	3,657
	Tangible fixed assets	15,150	15,183	15,814	16,365	16,838
	Total assets	18,233	17,686	20,363	21,785	23,088
	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	5,480	5,175	4,910
	Total equity	10,534	11,999	14,883	16,610	18,178
	Total liabilities & equity	18,233	17,686	20,363	21,785	23,088
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	18.3	34.6	45.2	(16.7)	0.2
	Recurrent EPS growth (%)	128.4	46.0	129.5	(41.8)	(11.2)
	Gross margin (%)	27.8	28.2	39.5	28.1	23.1
	Operating EBITDA margin (%)	28.2	28.4	37.0	26.8	22.1
	Net profit margin (%)	12.4	14.1	21.6	15.1	13.4
	Dividend payout ratio (%)	39.0	40.3	40.7	42.3	40.6
	Capex/sales (%)	10.8	8.6	7.8	9.1	8.9
	Interest cover (x)	10.7	18.0	50.1	29.4	24.5

Source: Company data, RHB

Results At a Glance

Figure 1: Review of BAL's 3Q22 results

FYE Dec (IDRbn)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)	Comments
Revenue	3,058.6	5,068.8	3,590.6	(29.2)	17.4	8,496.8	12,559.0	47.8	Increase in FFB production as well as high CPO ASPs.
EBITDA	1,028.7	2,323.9	1,259.7	(45.8)	22.5	2,234.2	5,058.4	126.4	Due to higher CPO price YoY.
EBITDA margin (%)	33.6	45.8	35.1			26.3	40.3		
Net profit	588.7	1,305.7	654.9	(49.8)	11.2	1,072.8	2,833.7	164.1	There is limited disclosure, so we are unable to calculate core net profit. Net profit made up 75% and 97% of our and consensus' full-year forecasts.
Net margin (%)	19.2	25.8	18.2			14.1	23.8		
Net DPS	-	1.3	-	(100.0)	N/a	0.5	1.3	177.8	

Source: Company data, RHB

Figure 2: Operating statistics

Op. stats ('000 tonne)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)	Comments
FFB production (nucleus)	578.6	769.3	722.0	(6.2)	24.8	1,834.7	2,087.6	13.8	The production increase was largely in line with our 14% YoY growth projection for 2022.
CPO production	256.6	341.3	320.5	(6.1)	24.9	820.2	923.6	12.6	
PK production	55.1	71.9	66.4	(7.7)	20.4	171.7	194.3	13.2	
FFB yield (tonnes/ha)	4.6	6.1	5.8	(4.9)	26.1	14.6	16.6	13.7	
OER	22.6%	22.4%	22.3%	(0.4)	(1.3)	22.7%	22.3%	(1.8)	
KER	4.7%	4.7%	4.7%	0.0	0.0	4.7%	4.7%	0.0	
CPO yield (tonnes/ha)	1.0	1.4	1.3	(5.3)	29.3	3.3	3.7	12.5	
Sales volume									
CPO	267.0	293.0	311.0	6.1	16.5	835.4	842.0	0.8	Higher FFB output and external purchases.
PK	60.0	64.0	68.0	6.3	13.3	174.4	188.0	7.8	
ASP (IDR/kg)									
CPO	10,000.0	15,000.0	10,400.0	(30.7)	4.0	8,800.0	12,900.0	46.6	
PK	6,300.0	10,700.0	5,100.0	(52.3)	(19.0)	6,600.0	9,100.0	37.9	

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	13,234	10,922	10,272
% change	-4.7%	24.5%	18.2%	34.3%	-17.5%	-6.0%
PK price assumptions (IDR/kg)	3,416	4,366	7,063	10,608	8,100	7,625
% change	-35.4%	27.8%	61.8%	50.2%	-23.6%	-5.9%

Source: Company data, RHB

Recommendation Chart

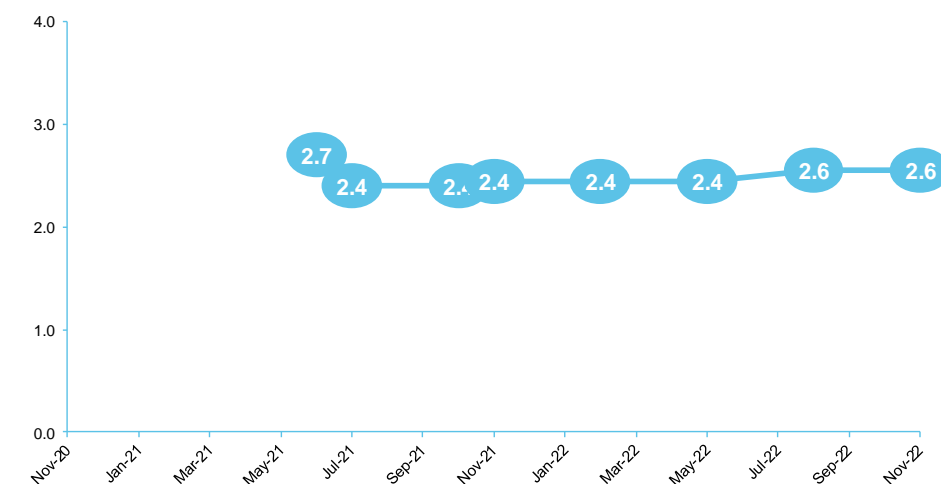


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-06-25	Neutral	0.48	0.44

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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