

15 August 2022

Agriculture | Plantation

Golden Agri (GGR SP)

Neutral (Maintained)

More Value-Added Products Sold In 1H22

Target Price (Return):	SGD0.30 (7.1%)
Price (Market Cap):	SGD0.28 (USD2,543m)
ESG score:	2.67 (out of 4)
Avg Daily Turnover (SGD/USD)	5.94m/4.28m

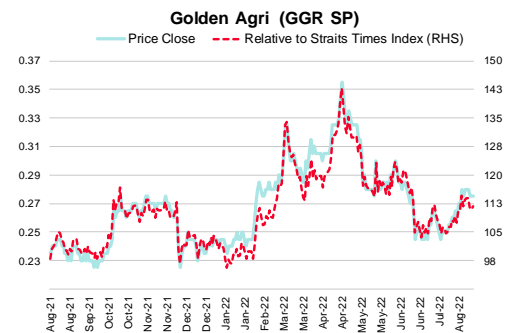
- **Maintain NEUTRAL and SOP-derived TP of SGD0.30, 7% upside with c.8% FY22F yield.** Golden Agri's (GGR) 1H22 earnings came in above our and Street's full-year estimates, as the export ban only affected 36% of its products during the period. Earnings should be boosted by inventory drawdown in 2H22, although this could be offset somewhat by lower downstream margins. We believe valuation is fair at the current juncture, as it is trading within its peer's range of 6-11x 2023F P/E.
- **GGR recorded USD362m in core net profit for 1H22 (+110.3% YoY),** due to higher ASPs. Its results exceeded expectations, at 78% of our FY22 forecasts, and 61% of Street's estimates. This was mainly due to lower-than-expected unit costs as well as stronger-than-expected contributions from its oleochemical joint venture (+292% YoY), offset by lower-than-expected FFB output.
- **1H22 nucleus FFB dropped 6.5% YoY despite a 9% YoY rise in 2Q22 FFB output.** For FY22, GGR is now guiding for a slightly lower FFB growth of 4% (from 5%), expecting 3Q to be the peak quarter. To be conservative, we keep our FFB growth projections at 0-3% for FY22-24F.
- **Only 36% of products affected by the export ban.** GGR achieved a nett of tax CPO ASP of USD1,135/tonne in 1H22 (+57% YoY). The company managed to circumvent some of the export ban impact by selling more value-added products like oleochemicals and biodiesel which were unaffected by the ban, resulting in only 36% of its 1H22 sales volume being affected by the ban. Downstream margins rose to 5.3% in 1H22 (from 3.6% in 1H21) on the back of the wide tax differential between CPO and PPO. This margin is likely to narrow in 3Q, given the 2-month tax levy holiday.
- **Inventory build-up in 1H22.** GGR's CPO inventory level at the end of June was 742k tonnes (from 449k in 1Q22), which is about close to double its normal inventory levels of 300-400k. GGR expects to clear the excess inventory by end-3Q.
- **Unit cost was USD312.00/tonne in 1H22 (+7.2% YoY).** GGR has applied 44% of its fertiliser requirements in 1H22 thus far. Going forward, unit costs could rise in 2H22, as GGR catches up on its fertiliser application while the bulk of the higher priced fertiliser (+60% YoY) would be recognised. However, it expects higher output to help offset the higher fertiliser costs. All in, for FY22, GGR expects costs to rise 10-15% YoY (from USD300/tonne in 2021). We bring down our unit cost assumptions slightly for FY22, as we had previously assumed an increase of 20-25% YoY.
- **We raise FY22F earnings by 43% and FY23-24F earnings by 7-10%** after adjusting for lower unit costs for FY22 and higher contributions from its downstream operations and JV for FY22-24.
- **Still NEUTRAL.** Our SOP-based TP is raised to SGD0.30 (from SGD0.29), which includes an ESG discount of 6%, based on our ESG score of 2.7. Valuations are fair, as it is trading within its peer range of 6-11x 2023F P/E.

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	12.2	5.8	(1.8)	0.0	17.0
Relative	7.5	1.9	(5.1)	4.7	14.3
52-wk Price low/high (SGD)	0.23 – 0.36				



Source: Bloomberg

Overall ESG Score: 2.67 (out of 4)

E: GOOD

GGR has managed to reduce its GHG emissions intensity from 0.84 tCO₂e/ CPO tonne in 2018 to 0.67 tCO₂e/ CPO tonne in 2021, ie a 25% reduction. GGR has continuously rolled-out conservation planning programs and in 2019, they set aside over 7,700 ha of HCS forests for conservation. Additionally, GGR has partnered with other major palm oil producers and buyers in the development of a new radar-based forest monitoring system which allows it easier for stakeholders monitor deforestation happening in near-real-time.

S: GOOD

GGR has been mapping its villages to ensure FPIC is implemented and to enable them to gain access to government development funds for the first time. Additionally, GAR has been working with a range of partners to provide education, scholarship, medical access to improve the quality of life of local communities.

G: GOOD

63% of GAR's board members are independent with full disclosure on director remuneration, which includes salaries and bonuses and on 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 (USDm)	7,078	10,183	11,439	10,276	10,165
Recurring net profit (USDm)	62	407	666	406	375
Recurring net profit growth (%)	-	554.3	63.5	(39.0)	(7.7)
Recurring P/E (x)	41.03	6.25	3.82	6.26	6.79
P/B (x)	0.6	0.5	0.5	0.5	0.4
P/CF (x)	3.44	4.51	2.09	2.64	3.14
Dividend Yield (%)	1.7	5.9	7.8	4.8	4.4
EV/EBITDA (x)	4.00	2.53	1.45	1.54	1.43
Return on average equity (%)	8.3	18.9	29.5	22.3	20.4
Net debt to equity (%)	39.2	37.9	22.2	12.0	5.3

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (USD)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS	0.00	0.03	0.05	0.03	0.03
Agriculture	DPS	0.00	0.01	0.02	0.01	0.01
Golden Agri	BVPS	0.33	0.37	0.41	0.43	0.45
GGR SP	Return on average equity (%)	8.3	18.9	29.5	22.3	20.4
Neutral						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Recurring P/E (x)	41.03	6.25	3.82	6.26	6.79
	P/B (x)	0.6	0.5	0.5	0.5	0.4
	FCF Yield (%)	21.8	14.2	33.3	24.9	19.0
	Dividend Yield (%)	1.7	5.9	7.8	4.8	4.4
	EV/EBITDA (x)	4.00	2.53	1.45	1.54	1.43
	EV/EBIT (x)	6.09	3.38	1.76	1.96	1.82
	Income statement (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total turnover	7,078	10,183	11,439	10,276	10,165
	Gross profit	1,476	2,720	3,259	2,678	2,613
	EBITDA	961	1,458	2,216	1,808	1,750
	Depreciation and amortisation	(329)	(365)	(392)	(385)	(380)
	Operating profit	631	1,094	1,824	1,423	1,370
	Net interest	(126)	(142)	(135)	(117)	(103)
	Pre-tax profit	504	1,090	1,810	1,397	1,339
	Taxation	(117)	(199)	(281)	(172)	(158)
	Reported net profit	357	841	1,450	1,177	1,136
	Recurring net profit	62	407	666	406	375
	Cash flow (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	153	(416)	82	126	12
	Cash flow from operations	743	565	1,218	965	811
	Capex	(186)	(204)	(370)	(332)	(328)
	Cash flow from investing activities	(321)	(196)	(370)	(332)	(328)
	Dividends paid	(52)	(115)	(200)	(122)	(113)
	Cash flow from financing activities	(230)	(283)	(300)	(222)	(213)
	Cash at beginning of period	210	403	499	1,048	1,459
	Net change in cash	192	86	549	411	270
	Ending balance cash	402	489	1,048	1,459	1,730
	Balance sheet (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	1,097	666	1,215	1,626	1,897
	Tangible fixed assets	4,127	3,999	3,977	3,923	3,871
	Total investments	1,049	1,690	1,690	1,690	1,690
	Total assets	9,126	9,608	10,118	10,299	10,502
	Short-term debt	1,792	1,546	1,546	1,546	1,546
	Total long-term debt	1,043	974	874	774	674
	Total liabilities	4,695	4,716	4,681	4,530	4,425
	Total equity	4,432	4,892	5,437	5,770	6,077
	Total liabilities & equity	9,126	9,608	10,118	10,299	10,502
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	10.0	43.9	12.3	(10.2)	(1.1)
	Recurrent EPS growth (%)	0.0	556.5	63.5	(39.0)	(7.7)
	Gross margin (%)	20.8	26.7	28.5	26.1	25.7
	Operating EBITDA margin (%)	13.6	14.3	19.4	17.6	17.2
	Net profit margin (%)	5.0	8.3	12.7	11.5	11.2
	Dividend payout ratio (%)	12.4	18.0	13.8	10.4	9.9
	Capex/sales (%)	2.6	2.0	3.2	3.2	3.2
	Interest cover (x)	4.47	6.63	11.42	9.23	9.22

Source: Company data, RHB

Results At a Glance

Figure 1: Golden Agri's 1H22 results review

FYE Dec (USDm)	1H21	1H22	YoY (%)	Comments
Revenue	4,454.3	5,490.3	23.3	See segmental breakdown below.
EBITDA	522.7	807.4	54.5	See segmental breakdown below.
<i>EBITDA margin (%)</i>	11.7	14.7		
Depreciation	(176.9)	(191.4)	8.2	
EBIT	345.8	616.0	78.1	
<i>EBIT margin (%)</i>	7.8	11.2		
Interest expense	(82.5)	(84.2)	2.1	
Interest income	11.2	7.3	(35.0)	
Associates	15.5	45.3	193.1	
EI/Others	(19.1)	27.4	n.m.	FX gains/losses, fair value gains/losses on biological assets and financial assets.
Pretax profit	258.8	567.6	119.3	Flow-down from EBIT and EI gain
Core PBT	277.9	540.2	94.4	
<i>Pretax margin (%)</i>	5.8	10.3		
Tax	(85.1)	(146.6)	72.2	
<i>Effective tax rate (%)</i>	(30.6)	(27.1)		
Minority interest	(20.5)	(31.3)	53.0	
Net profit	153.2	389.7	154.3	
Core profit	172.3	362.2	110.3	Above expectations, at 61-78% of our and Street's estimates.
<i>Net margin (%)</i>	3.9	6.6		
Segmental breakdown	1H21	1H22	YoY (%)	
Revenue				
Plantation upstream	624.9	1,043.1	66.9	Higher CPO prices (+57.4%) offset by lower FFB output (-6.5%).
Palm & laurics	3,382.5	4,433.2	31.1	Higher selling prices, offset by lower sales volume.
EBITDA				
Plantation upstream	131.7	365.0	177.2	Due to higher selling prices.
Palm & laurics	58.2	158.4	172.3	Due to higher selling prices.

Source: Company data, RHB

Figure 2: Golden Agri's operational statistics

Operating stats	2Q21	1Q22	2Q22	QoQ (%)	YoY (%)	1H21	1H22	YoY (%)
'000 tonnes								
FFB production (nucleus)	1,971.0	1,650.3	2,145.7	30.0	8.9	4,060.0	3,796.0	(6.5)
CPO production	626.0	531.0	623.0	17.3	(0.5)	1,273.0	1,154.0	(9.3)
PK production	160.0	137.0	161.0	17.5	0.6	325.0	298.0	(8.3)
FFB yield (tonne/ha)	5.1	4.2	5.2	23.8	2.0	10.4	9.4	(9.6)
Avg CPO sales price (USD net of taxes and levies)	717.0	1,077.0	1,069.0	(0.7)	49.1	721.0	1,135.0	57.4
Cost of production	219.0	304.0	319.0	4.9	45.7	291.0	312.0	7.2

Source: Company data, RHB

Figure 3: Key assumptions

	FY19	FY20	FY21	FY22F	FY23F	FY24F
Nucleus FFB production, tonnes	7,616,000	7,302,000	7,503,000	7,503,000	7,728,090	7,959,933
% change	-6.1%	-4.1%	2.8%	0.0%	3.0%	3.0%
CPO price assumption, USD/tonne	523	716	1,168	1,175	907	814
% change	-7.4%	36.9%	69.0%	0.6%	-22.8%	-10.3%

Source: Company data, RHB

Figure 4: SOP valuation

	Valuation method	Target	USDm
Plantation	EV/ha (USD)	4,500	1,912.65
Downstream	P/Book (x)	1.0	985.52
			2,898.16
Share base			12,692
TP (USD)			0.23
ESG Premium/(discount)			-6.0%
TP (USD) - post ESG discount			0.21
TP (SGD)			0.30

Source: Company data, RHB

Recommendation Chart

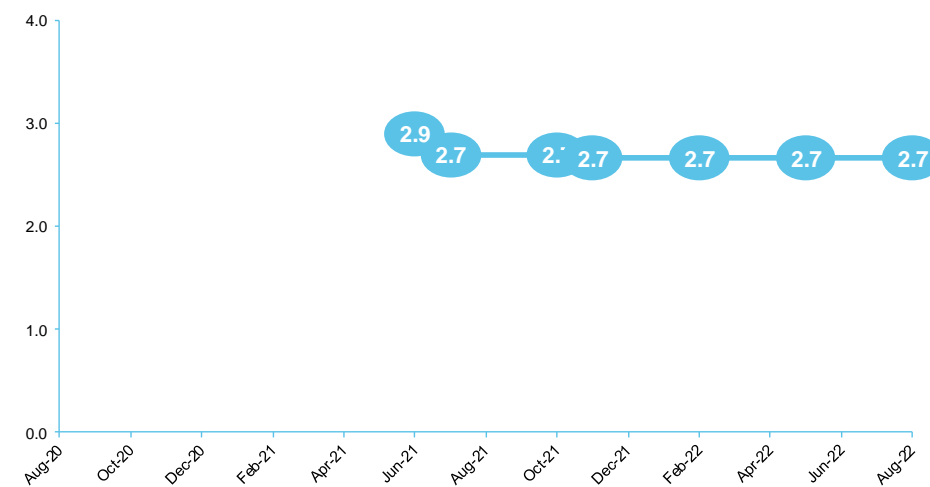


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-08-10	Neutral	0.29	0.28
2022-05-12	Neutral	0.30	0.28
2022-03-01	Neutral	0.31	0.29
2021-12-12	Neutral	0.26	0.25
2021-11-12	Neutral	0.28	0.27
2021-08-15	Neutral	0.24	0.24
2021-07-29	Neutral	0.22	0.24
2021-05-12	Trading Buy	0.30	0.28
2021-05-03	Trading Buy	0.30	0.25
2021-04-21	Trading Buy	0.25	0.21
2021-02-25	Trading Buy	0.25	0.19
2020-11-13	Sell	0.13	0.14
2020-11-01	Sell	0.13	0.14
2020-08-17	Sell	0.13	0.15
2020-06-25	Sell	0.13	0.15

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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