

13 May 2022

Agriculture | Plantation

## Golden Agri (GGR SP)

## Neutral (Maintained)

### Weak FFB Output To Start The Year

Target Price (Return):	SGD0.30 (7.1%)
Price (Market Cap):	SGD0.28 (USD2,561m)
ESG score:	2.67 (out of 4)
Avg Daily Turnover (SGD/USD)	11.4m/8.33m

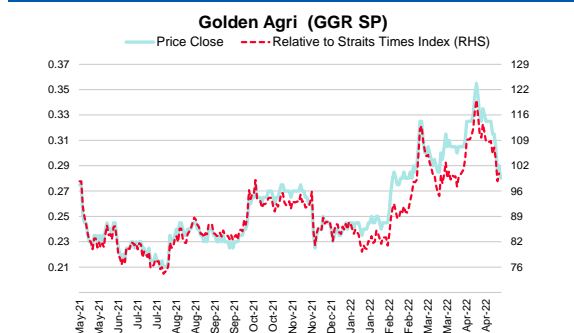
- **Maintain NEUTRAL and SOP-derived TP of SGD0.30, 7.1% upside with c.6% yield.** Golden Agri's (GGR) 1Q22 earnings came in above our but in line with Street's full-year estimates. While the current export ban will be negative for all Indonesian players, we do not expect this ban to be in place for long. While earnings should remain relatively healthy in 2022F due to elevated CPO prices, we believe valuation is fair at the current juncture, as it is trading within its peer's range of 5-9x 2023F P/E.
- **GGR recorded USD139m in core net profit for 1Q22 (+98.6% YoY),** due to higher ASPs. Its results exceeded our expectations at 30% of FY22F forecasts, but were in line with Street estimates, at 25%.
- **1Q22 nucleus FFB dropped 21% YoY, but was flattish QoQ (+0.4%).** For FY22, GGR continues to guide for a FFB growth of 5%, with cropping patterns expected to normalise to 45% and 55% in 1H and 2H. We reduce our FFB growth projections slightly to 0-3% (from 3-5%) for FY22-23.
- **Impact of export ban not seen yet.** GGR achieved a CPO ASP of USD1,303/tonne in 1Q22 (-16% QoQ, +42% YoY). Nett of tax, the effective price was USD1,177/tonne. GGR has yet to see the impact of the export ban on its ASPs. Of the total sales volume, 30% is affected by this ban, c.20% is sold domestically, 25% is exported as value added products (ie are not banned), and the remaining 25% involves sales made at its overseas operations. While GGR continues to commit to its domestic sales volumes, it is reducing its external FFB and CPO purchases during this period. In terms of storage, GGR is able to store about three months of inventory, while its inventory at end-March is below one month of supply.
- **Unit cost was USD304.00/tonne in 1Q22 (+6.7% YoY),** on the back of higher fertiliser prices. GGR has applied 20% of its annual fertiliser requirements in 1Q22 thus far. For 1H22, its fertiliser costs are expected to rise by less than 10% YoY due to its usage of leftover fertiliser from FY21. However, in 2H22, this is expected to rise by >60% YoY, although GGR has yet to secure its full year requirements. With this, GGR expects costs to rise 15% YoY in 2022, in line with our estimates.
- **We raise FY22-23F earnings by 4-22%** after adjusting for higher CPO prices of MYR5,300/tonne for FY22F (from MYR4,300) and MYR4,300/tonne for FY23F (from MYR3,600). As our CPO price assumptions are already lower than prevailing prices, we have not imputed any significant impact from the export ban on GGR's earnings, as we expect this ban to be short-lived.
- **Still NEUTRAL.** Our SOP-based TP remains relatively unchanged at SGD0.30, as we have rolled forward our valuation period to 2023. Our TP includes an ESG discount of 6%, based on our ESG score for GGR of 2.7. We believe valuations are fair, as the counter is trading within its peer range of 5-9x 2023F P/E.

### Analyst

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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.3	(9.7)	1.8	3.7	1.8
Relative	11.0	(6.6)	7.7	3.8	(1.5)
52-wk Price low/high (SGD)				0.21	– 0.36



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (USDm)	7,078	10,183	11,453	10,633	10,335
Recurring net profit (USDm)	62	407	545	447	383
Recurring net profit growth (%)	-	554.3	33.8	(18.0)	(14.2)
Recurring P/E (x)	41.32	6.29	4.70	5.74	6.69
P/B (x)	0.6	0.5	0.5	0.5	0.5
P/CF (x)	3.46	4.54	2.38	2.61	3.05
Dividend Yield (%)	1.7	5.9	6.4	5.2	4.5
EV/EBITDA (x)	4.02	2.54	1.56	1.50	1.44
Return on average equity (%)	8.3	18.9	27.3	23.4	20.8
Net debt to equity (%)	39.2	37.9	24.6	14.2	6.9

Source: Company data, RHB

### Overall ESG Score: 2.67 (out of 4)

#### E: GOOD

Since 2015, 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

62% 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.

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (USD)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Singapore	Recurring EPS	0.00	0.03	0.04	0.04	0.03
Agriculture	DPS	0.00	0.01	0.01	0.01	0.01
<b>Golden Agri</b>	BVPS	0.33	0.37	0.40	0.42	0.44
GGR SP	Return on average equity (%)	8.3	18.9	27.3	23.4	20.8
Neutral						
	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Recurring P/E (x)	41.32	6.29	4.70	5.74	6.69
	P/B (x)	0.6	0.5	0.5	0.5	0.5
	FCF Yield (%)	21.7	14.1	27.5	24.8	19.8
	Dividend Yield (%)	1.7	5.9	6.4	5.2	4.5
	EV/EBITDA (x)	4.02	2.54	1.56	1.50	1.44
	EV/EBIT (x)	6.11	3.39	1.91	1.88	1.82
<b>Valuation basis</b>						
We use SOP to value Golden Agri. We apply an EV/ha valuation of USD4,800/ha for its plantation assets and a P/BV of 1x for its downstream division. This is slightly below its peers' range of USD5,000-15,000/ha, which we believe is justified given its older age profile.						
<b>Key drivers</b>						
CPO price movement and FFB production output, competitiveness of its downstream processing division versus its peers						
<b>Key risks</b>						
Weather, exchange rates, global supply and demand dynamics of edible oils						
<b>Company Profile</b>						
Golden Agri is Indonesia's largest oil palm plantation company and also the biggest local player in cooking oil market						
	<b>Income statement (USDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total turnover	7,078	10,183	11,453	10,633	10,335
	Gross profit	1,476	2,720	3,161	2,856	2,691
	EBITDA	961	1,458	2,116	1,929	1,804
	Depreciation and amortisation	(329)	(365)	(392)	(386)	(382)
	Operating profit	631	1,094	1,724	1,544	1,422
	Net interest	(126)	(142)	(137)	(120)	(105)
	Pre-tax profit	504	1,090	1,624	1,460	1,354
	Taxation	(117)	(199)	(230)	(189)	(162)
	Reported net profit	357	841	1,329	1,219	1,146
	Recurring net profit	62	407	545	447	383
	<b>Cash flow (USDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Change in working capital	153	(416)	74	95	31
	Cash flow from operations	743	565	1,075	981	841
	Capex	(186)	(204)	(370)	(344)	(334)
	Cash flow from investing activities	(321)	(196)	(370)	(344)	(334)
	Dividends paid	(52)	(115)	(164)	(134)	(115)
	Cash flow from financing activities	(230)	(283)	(264)	(234)	(215)
	Cash at beginning of period	210	403	499	940	1,343
	Net change in cash	192	86	442	403	292
	Ending balance cash	402	489	940	1,343	1,636
	<b>Balance sheet (USDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	1,097	666	1,108	1,511	1,803
	Tangible fixed assets	4,127	3,999	3,977	3,935	3,887
	Total investments	1,049	1,690	1,690	1,690	1,690
	Total assets	9,126	9,608	10,029	10,249	10,451
	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	4,690	4,545	4,433
	Total equity	4,432	4,892	5,338	5,704	6,017
	Total liabilities & equity	9,126	9,608	10,029	10,249	10,451
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	10.0	43.9	12.5	(7.2)	(2.8)
	Recurrent EPS growth (%)	0.0	556.5	33.8	(18.0)	(14.2)
	Gross margin (%)	20.8	26.7	27.6	26.9	26.0
	Operating EBITDA margin (%)	13.6	14.3	18.5	18.1	17.5
	Net profit margin (%)	5.0	8.3	11.6	11.5	11.1
	Dividend payout ratio (%)	12.4	18.0	12.3	11.0	10.0
	Capex/sales (%)	2.6	2.0	3.2	3.2	3.2
	Interest cover (x)	4.47	6.63	10.80	10.02	9.58

Source: Company data, RHB

## Results At a Glance

Figure 1: Golden Agri's 1Q22 results

FYE Dec (USDm)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)	Comments
Revenue	2,048.0	2,900.2	2,700.0	(6.9)	31.8	Contributed by a higher CPO price (+41.8%YoY) but offset by lower FFB production (-21.0%YoY)
EBITDA	232.0	386.3	372.0	(3.7)	60.3	Improved EBITDA margin due to higher CPO price.
EBITDA margin (%)	11.3	13.3	13.8			
El/Others	(29.0)	105.0	49.0	(53.3)	(269.0)	Includes USD20m biological asset gain, USD26m in FX gains, and USD3m in deferred tax income.
Net profit	41.0	208.0	188.0	(9.6)	358.5	
Core profit	70.0	103.0	139.0	35.0	98.6	Slightly higher than ours but in line with Street projections for FY22.
Net margin (%)	3.4	3.6	5.1			

Source: Company data, RHB

Figure 2: Golden Agri's operational statistics

Operating stats '000 tonnes	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)
FFB Production (nucleus)	2,089.0	1,643.0	1,650.3	0.4	(21.0)
CPO Production	647.0	527.0	531.0	0.8	(17.9)
PK Production	165.0	140.0	137.0	(2.1)	(17.0)
FFB Yield (tonne/ha)	5.3	4.5	4.2	(6.7)	(20.8)
Avg CPO sales price (USD)	919.0	1,543.0	1,303.0	(15.6)	41.8
Cost of production	285.0	403.0	304.0	(24.6)	6.7

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	1,273	1,062	864
% change	-7.4%	36.9%	69.0%	9.0%	-16.6%	-18.6%

Source: Company data, RHB

Figure 4: SOP valuation

	Valuation method	Target	USDm
Plantation	EV/ha (USD)	5,000	2125.17
Downstream	P/Book (x)	1.0	985.52
			<b>3110.68</b>
Share base			12,735
TP (USD)			<b>0.24</b>
ESG Premium/(discount)			-6.0%
TP (USD) - post ESG discount			0.23
TP (SGD)			<b>0.311</b>

Source: Company data, RHB

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## Recommendation Chart

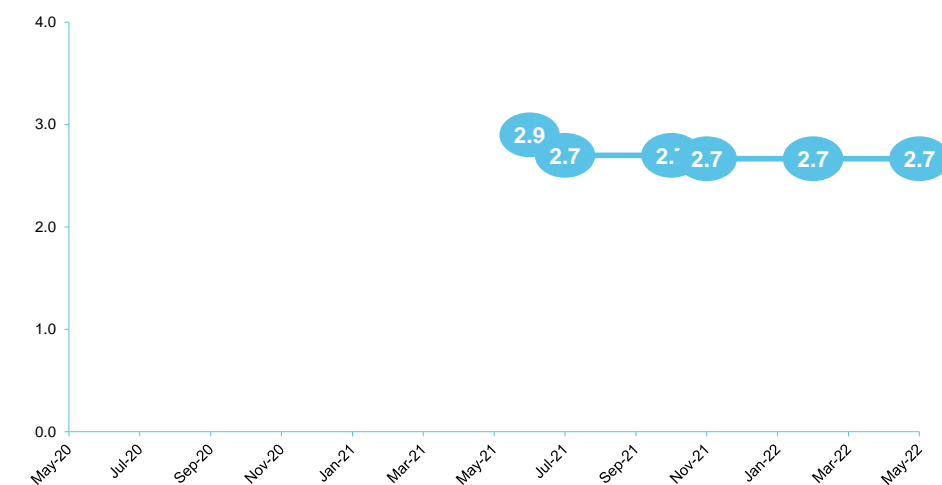


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-05-03	Trading Buy	0.30	0.25
2021-02-25	Trading Buy	0.25	0.19
2020-06-25	Sell	0.13	0.15
2020-03-23	Sell	0.12	0.13

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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