

13 May 2022

Agriculture | Plantation

Bumitama Agri (BAL SP)

Buy (Maintained)

1Q22 Earnings Skyrocket 400% YoY; Reiterate BUY

Target Price (Return): SGD0.95 (+36%)
 Price (Market Cap): SGD0.70 (USD869m)
 ESG score: 2.44 (out of 4)
 Avg Daily Turnover (SGD/USD) 1.91m/1.39m

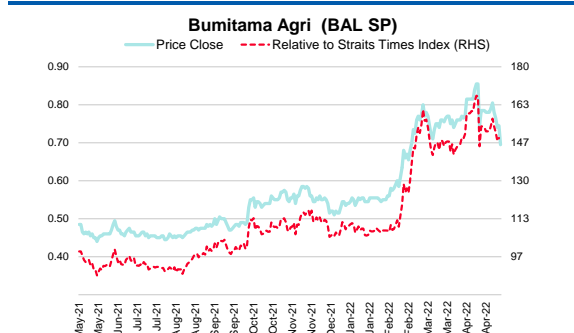
- **Maintain BUY, new SGD0.95 TP from SGD0.90, 36% upside.** Bumitama Agri's 1Q22 results are above our and Street estimates. While the current export ban will be negative for all Indonesian players, we do not expect this to be in place for the long term. We expect earnings to remain robust in FY22, while its market valuation of 5.3x CY23F P/E is unwarranted. Assuming it pays out 40% of earnings, its dividend yield is also attractive at c.10% in FY22F.
- **BAL booked a >400% YoY rise in 1QFY22 earnings** on higher ASP's. This was above both our and Street expectations, at 38-43% of full-year estimates.
- **BAL recorded a FFB decline of 2.5% YoY in 1Q22**, below our projection of +3% and management's guidance of 5-10% growth. Management is keeping to its 5-10% growth guidance as it has started to see improvements in productivity already, with 1Q22 output rising 19% QoQ vs the 4Q21 figure. BAL expects 1H:2H output to be in the 47%:53% range.
- **Export ban impact not seen yet.** BAL managed to achieve a higher ASP of IDR13,600/kg in 1Q (+0.7% QoQ and 77% YoY). As the export ban was only applicable from end-April prior to the *Lebaran* holidays in Indonesia, BAL has not seen the impact of this on its ASPs yet, as there have not been any deliveries scheduled yet in May. While BAL does expect prices to come off once deliveries commence, it is also able to hold off on selling significant volumes, given its capacity to store one more month of supply in its existing storage facilities.
- **Unit cost to rise 20-25% in FY22F.** For 1Q22, BAL recorded a unit cost of IDR4,500/kg (flatish QoQ but up 14% YoY). It has applied approximately 25% of its fertiliser requirements for FY21 so far. For FY22, the company expects costs to rise by 20-25% YoY, given the higher fertiliser prices (by 60-80% YoY). The company has already tendered for its entire FY22 fertiliser requirements, of which 70-80% has been received.
- **We raise FY22-23F earnings by 13-35%** 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 BAL's earnings, as we expect this to be short-lived.
- **Maintain BUY, with a higher TP of SGD0.95 (from SGD0.90)**, after rolling forward our valuation to 8x 2023F P/E. Our TP has already taken into account an ESG discount of 12%, given our in-house ESG score of 2.4. The stock is now trading below -2SD from its 5-year mean (of 9x P/E), which we believe is unwarranted. Assuming the dividend payout is at the maximum 40%, the FY22F dividend yield is also attractive, at c.10%.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	28.7	(9.8)	15.8	25.2	43.3
Relative	25.4	(6.7)	21.7	25.3	40.0
52-wk Price low/high (SGD)	0.44 – 0.86				



Source: Bloomberg

Overall ESG Score: 2.44 (out of 4)

E: GOOD

BAL has reported a reduction in greenhouse gas emissions intensity since 2016, 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 2.94 in 2020 (compared to 2016), owing to the company's efforts made to help such communities.

G: GOOD

50% 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	16,242	14,509	14,069
Recurring net profit (IDRb)	1,150	1,677	3,105	2,407	1,992
Recurring net profit growth (%)	126.9	45.9	85.1	(22.5)	(17.2)
Recurring P/E (x)	11.02	7.54	4.07	5.26	6.35
P/B (x)	1.4	1.2	1.0	0.9	0.9
P/CF (x)	5.18	4.78	3.07	3.82	5.12
Dividend Yield (%)	3.5	5.5	10.1	7.9	6.4
EV/EBITDA (x)	7.57	5.26	3.17	3.86	4.77
Return on average equity (%)	13.2	17.8	27.7	18.8	14.1
Net debt to equity (%)	49.5	33.1	16.8	6.4	net cash

Source: Company data, RHB

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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	1,790.56	1,388.03	1,148.77
Agriculture	DPS	253.23	400.09	736.98	574.26	469.85
Bumitama Agri	BVPS	5,199.50	5,939.79	6,993.38	7,807.14	8,486.06
BAL SP	Return on average equity (%)	13.2	17.8	27.7	18.8	14.1
Buy						
Valuation basis	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
We use 8x Dec-2023F P/E to value BAL. This implies an EV/ha of USD10,000, which is near the midpoint of its peer range of USD8,000-15,000.	Recurring P/E (x)	11.02	7.54	4.07	5.26	6.35
	P/B (x)	1.4	1.2	1.0	0.9	0.9
	FCF Yield (%)	11.5	12.6	21.6	15.5	9.1
	Dividend Yield (%)	3.5	5.5	10.1	7.9	6.4
	EV/EBITDA (x)	7.57	5.26	3.17	3.86	4.77
	EV/EBIT (x)	10.12	6.64	3.72	4.82	6.55
Key drivers	Income statement (IDRb)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. CPO price increase;	Total turnover	9,102	12,249	16,242	14,509	14,069
ii. FFB production output picking up.	Gross profit	2,526	3,457	5,766	4,404	3,376
	EBITDA	2,563	3,481	5,432	4,236	3,286
	Depreciation and amortisation	(645)	(721)	(803)	(848)	(895)
	Operating profit	1,918	2,760	4,629	3,388	2,391
	Net interest	23	42	158	445	781
	Pre-tax profit	1,931	2,864	4,786	3,833	3,172
	Taxation	(568)	(774)	(1,197)	(958)	(793)
	Reported net profit	1,126	1,721	3,105	2,407	1,992
	Recurring net profit	1,150	1,677	3,105	2,407	1,992
Key risks	Cash flow (IDRb)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. CPO price trending downwards;	Change in working capital	691	362	1,176	1,015	1,017
ii. Weather risks;	Cash flow from operations	2,446	2,649	4,117	3,312	2,469
iii. Negative effects of any change in the demand and supply dynamics of the global vegetable oil industry.	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)	(1,278)	(996)	(815)
	Cash flow from financing activities	(1,248)	(2,669)	(1,693)	(1,402)	(1,212)
	Cash at beginning of period	504	792	176	1,441	2,504
	Net change in cash	267	(619)	1,265	1,063	770
	Ending balance cash	792	176	1,441	2,504	3,274
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	1,441	2,504	3,274
	Tangible fixed assets	15,150	15,183	15,814	16,365	16,838
	Total assets	18,233	17,686	19,776	21,337	22,629
	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	5,466	5,149	4,876
	Total equity	10,534	11,999	14,310	16,189	17,753
	Total liabilities & equity	18,233	17,686	19,776	21,337	22,629
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	18.3	34.6	32.6	(10.7)	(3.0)
	Recurrent EPS growth (%)	128.4	46.0	85.1	(22.5)	(17.2)
	Gross margin (%)	27.8	28.2	35.5	30.4	24.0
	Operating EBITDA margin (%)	28.2	28.4	33.4	29.2	23.4
	Net profit margin (%)	12.4	14.1	19.1	16.6	14.2
	Dividend payout ratio (%)	39.0	40.3	41.2	41.4	40.9
	Capex/sales (%)	10.8	8.6	8.5	9.3	9.4
	Interest cover (x)	10.7	18.0	40.1	31.9	24.6

Source: Company data, RHB

Figure 1: Review of BAL's 1Q22 results

FYE Dec (IDRbn)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)	Comments
Revenue	2,306.9	3,751.9	3,899.6	3.9	69.0	Increase in ASPs, slightly offset by FFB decline (-2.5% YoY)
EBITDA	510.3	1,263.8	1,474.8	16.7	189.0	Higher, due to higher ASPs for both CPO (+76.6% YoY) and PK (+80.3% YoY)
<i>EBITDA margin (%)</i>	22.1	33.7	37.8			
Minority interest	(25.3)	(272.8)	n/a	n/a	n/a	
Net profit	166.7	648.6	873.0	34.6	423.6	As there is limited disclosure, we are unable to calculate core net profit. Net profit made up 38-43% of our and consensus full-year forecasts
<i>Net margin (%)</i>	7.2	17.3	22.4			
Net DPS	0.0	0.0	0.0	n.m	n.m	
Op. stats ('000 tonne)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)	Comments
FFB production (nucleus)	611.4	501.4	596.3	18.9	(2.5)	Weaker than our 3.0% YoY growth projection for 2022, and management's guidance of 5-10% YoY growth.
CPO production	271.8	231.8	261.7	12.9	(3.7)	
PK production	55.6	51.3	56.0	9.2	0.7	
FFB yield (tonnes/ha)	4.9	4.0	4.7	17.5	(4.1)	
OER	22.8%	22.6%	22.5%	(0.4)	(1.3)	
KER	4.7%	5.0%	4.8%	(4.0)	2.1	
CPO yield (tonnes/ha)	1.1	0.9	1.1	22.2	0.0	
Sales volume						
CPO	251.0	245.9	238.0	(3.2)	(5.2)	
PK	55.0	51.9	56.0	7.9	1.8	
ASP (IDR/kg)						
CPO	7,700.0	13,500.0	13,600.0	0.7	76.6	
PK	6,600.0	8,500.0	11,900.0	40.0	80.3	

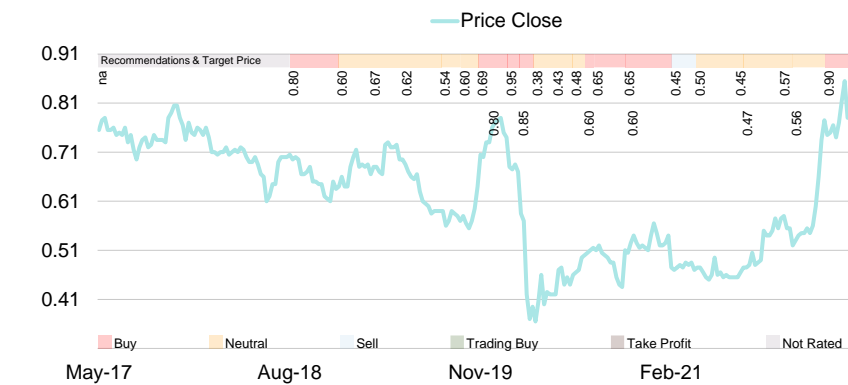
Source: Company data, RHB

Figure 2: Key assumptions for BAL

	FY19	FY20	FY21	FY22F	FY23F	FY24F
Nucleus FFB production (tonnes)	2,231,353	2,270,745	2,336,178	2,407,096	2,560,940	2,672,439
% change	-2.0%	1.8%	2.9%	3.0%	6.4%	4.4%
CPO price assumptions (IDR/kg)	6,696	8,334	9,852	11,722	10,585	10,098
% change	-4.7%	24.5%	18.2%	19.0%	-9.7%	-4.6%
PK price assumptions (IDR/kg)	3,416	4,366	7,063	14,354	10,092	8,003
% change	-35.4%	27.8%	61.8%	103.2%	-29.7%	-20.7%

Source: Company data, RHB

Recommendation Chart

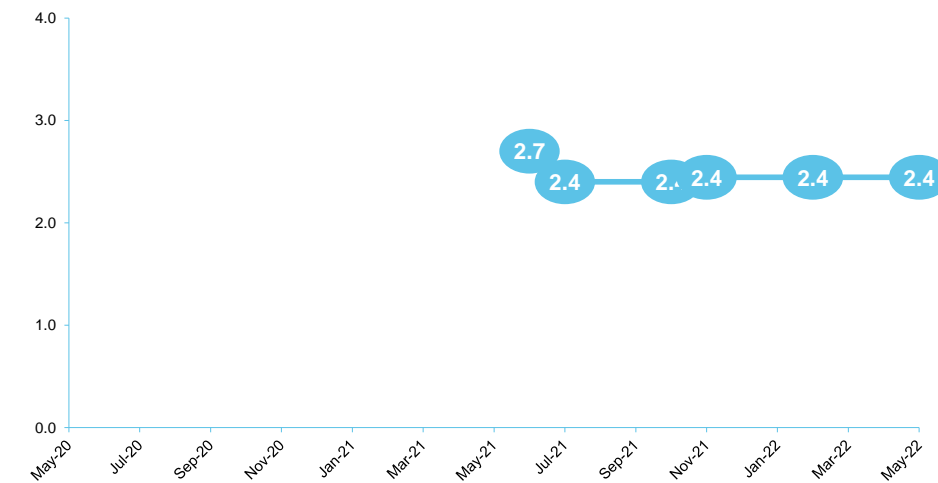


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-08-17	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
2020-03-23	Neutral	0.38	0.37
2020-02-18	Buy	0.85	0.68

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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