

Singapore Company Focus

Bumitama Agri

Bloomberg: BAL SP | Reuters: BUMI.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

12 Nov 2015

HOLD (Downgraded from BUY)

Last Traded Price: S\$0.81 (STI : 2,959.01)

Price Target: S\$0.86 (7% upside)

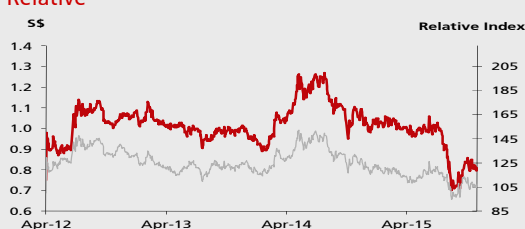
Reason for Report: 3Q15 results

Where we differ: Lower FY15F/16F EPS due to lower CPO price forecasts and lower FFB yield assumptions.

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (Rpbn)	2014A	2015F	2016F	2017F
Turnover	5,757	5,765	5,977	6,466
EBITDA	1,987	1,617	1,862	2,046
Pre-tax Profit	1,805	1,299	1,304	1,407
Net Profit	1,153	851	853	915
Net Pft (Pre Ex.)	1,153	851	853	915
Net Pft (ex. BA gains)	1,182	851	853	915
EPS (S cts)	6.8	5.0	5.1	5.4
EPS Pre Ex. (S cts)	6.8	5.0	5.1	5.4
EPS Gth (%)	35	(26)	0	7
EPS Gth Pre Ex (%)	35	(26)	0	7
Diluted EPS (S cts)	6.8	5.0	5.1	5.4
Net DPS (S cts)	1.3	1.3	0.9	0.9
BV Per Share (S cts)	38.4	42.2	35.8	40.2
PE (X)	11.9	16.1	16.0	14.9
PE Pre Ex. (X)	11.9	16.1	16.0	14.9
P/Cash Flow (X)	6.6	10.5	8.8	8.1
EV/EBITDA (X)	9.2	11.9	10.2	9.2
Net Div Yield (%)	1.5	1.5	1.1	1.1
P/Book Value (X)	2.1	1.9	2.3	2.0
Net Debt/Equity (X)	0.6	0.6	0.6	0.5
ROAE (%)	19.0	12.5	13.0	14.3

Earnings Rev (%)		39	(11)	(19)
Consensus EPS (S cts):		5.9	7.2	7.1
Other Broker Recs:		B: 8	S: 1	H: 1

ICB Industry : Consumer Goods

ICB Sector: Food Producers

Principal Business: A fast-growing Indonesian oil palm planter with estates in Riau, Central & West Kalimantan. The group sells Crude Palm Oil (CPO) and Palm Kernel (PK).

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

Imputing lower yields

- **3Q15 earnings of Rp200bn were ahead of expectations on annualised basis; as translation FX losses were capitalised**
- **But underlying earnings ex translation FX losses were weaker than expected on lower OER, higher outside FFB purchases**
- **FY15F/16F earnings adjusted +39%/-11%; TP lowered to S\$0.86/share (based on DCF)**
- **Rating cut to HOLD on expectations of flattish earnings outlook due to anticipated impact of this year's dry weather on FY16F FFB yields**

Lower-than-expected 3Q15 GPM. Bumitama Agri (BAL) reported 3Q15 net profit of Rp200bn (-30% y-o-y; -8% q-o-q). This brought 9M15 earnings to Rp598bn – representing 98% of our initial expectations – as the group had capitalised Rp455bn of translation FX losses, leaving Rp52bn expensed vs. our full-year FX loss expectation of Rp647bn. FX losses aside, the group's 9M15 GPM of 31.2% was below our initial expectations of 37.6%, as 9M15 oil extraction ratio of 22.9% was below 23.4% we targeted for the year – thus necessitating higher outside FFB. However, this did not prevent CPO output from dropping 17% q-o-q. Moreover, losses in Associates' contribution continued to expand due to translation FX losses in USD borrowings and low yields.

FFB output growth guided lower. BAL produced 383k MT of own FFB (+15% y-o-y; +8% q-o-q) and 157k MT of CPO in 3Q15 (+3% y-o-y; -17% q-o-q); while smallholders' FFB purchases rose 29% y-o-y (-10% q-o-q) to 170k MT. BAL booked FFB yield of 4.4 MT/ha for the quarter (vs. 4.0 MT/ha in 2Q15 and 4.3 MT/ha in 3Q14); while OER averaged 22.9% (improving slightly from 22.8% in 2Q15 – but dropping from 23.2% in 3Q14). BAL lowered its FY15 (own + smallholders) FFB growth guidance to 15% from 20% y-o-y, implying a 30% sequential jump in 4Q15.

FY15F/16F earnings adjusted by +39%/-11%. Total debts eased 1% q-o-q to Rp5,772bn at the end of Sep-15 (from Rp5,809bn at the end of Jun-15) on debt repayment. This translated into debt-to-total equity ratio of 75.6% - up from 74.1% at the end of last quarter. We adjusted our forecasts to account for capitalisation of FX losses, lower OER, reduced selling expenses, higher outside FFB and 1% lower FY15F/16F/17F FFB yields. This reduced our TP slightly to S\$0.86/share.

Rating cut to HOLD. Based on our revised TP, the counter offers 9% upside. We recommend investors to HOLD the stock for more than 12-month earnings outlook, given the flat near-term prospects.

At A Glance

Issued Capital (m shrs)	1,756
Mkt. Cap (S\$m/US\$m)	1,416 / 998
Major Shareholders	
Fortune Holdings Ltd (%)	51.0
IOI Corp Bhd (%)	31.4
Free Float (%)	17.6
3m Avg. Daily Val (US\$m)	0.21

INVESTMENT THESIS

Profile	Rationale
<p>Fast-growing palm oil producer. BAL was established in 1996 by Harita Group through the acquisition of 17,500 ha of land bank in Central Kalimantan. After aggressive new plantings and a string of subsequent acquisitions, BAL controlled an aggregate of c.199k ha of land as at end-2014 (including land under the smallholder schemes) of which 154,504 ha was planted as at 30-Jun-15. BAL was listed on the Singapore Exchange in April 2012.</p>	<p>Drop in planting not impacting volume growth. Aggressive expansion in FY05-FY13 has kept BAL's tree-age profile younger (5.5 years) relative to peers. This is forecast to deliver a 15% CAGR in FFB output (including smallholder estates) over the next three years. We expect BAL's FFB output to expand by an 11% CAGR between FY15F and FY18F. This is slightly slower than our previous expectations of 12% due to lower expected FFB yields as a result of dry weather this year. We now expect BAL to maintain its planting pace of 4,000 ha p.a. (own) and 1,000 (smallholders) p.a. from FY15F onwards.</p> <p>Balance sheet can withstand downcycle. Net gearing ratio is forecast to settle at 60% by the end of this year and 65% the next, on the back of lower equity due to amendments in IAS41. The weaker Rupiah should swell BAL's Sukuk balance (swapped to USD), but this would be offset by rising output, higher ASP and lower fertiliser costs, while borrowing costs should continue to remain lower than peers.</p>
Valuation	Risks
<p>We peg BAL's TP at S\$0.86/share, based on DCF valuation (WACC: 12.2%, TG: 3%). This implies FY16F PE of 18x.</p> <p>The group is due to restate its biological assets starting from 1 Jan16. The current practice (based on IAS 41) employs fair value of biological assets.</p> <p>From 1 Jan16 Bumitama will restate the bearer biological assets at historical cost and take a depreciation charge from thereon. A FY14 proforma adjustment on the amendments of IAS41 was provided in 3Q15 results. Based on this, Bumitama should see Rp1,627bn charge to equity and additional Rp110bn depreciation charge p.a. These are more or less in line with our estimates.</p>	<p>Volatility in CPO prices and USD exchange rates. Continued strength in CPO prices may deliver better-than-expected earnings, while lower energy prices from expansion of US shale gas would have an adverse impact on demand for vegetable oils for biofuels. Likewise, volatility in USD would affect profitability of planters in general.</p> <p>Setback in expansion plans. Our forecasts are based on assumed hectareage for new planting and replanting. Any setback on these plans would negatively affect our valuation due to slower volume growth.</p> <p>Regulatory changes. Any further increase in Indian import duty of refined oils or changes in the structure of Indonesian/Malaysian export taxes would impact demand for CPO/refined oils.</p> <p>Market sentiment. Changes in fund flows towards or out of emerging markets would affect valuations of plantation counters.</p>

Source: DBS Bank

Key Assumptions

FY Dec	2013A	2014A	2015F	2016F	2017F
CPO price (RM/MT)	2,377	2,413	2,200	2,340	2,450
Own mature oil palm	63,677	77,177	91,731	105,332	115,944
CPO sales volume (MT)	522,582	624,025	713,390	727,055	787,197
Palm kernel sales vol.	98,354	114,162	133,105	135,655	146,876
Avg. USD/IDR rate	10,849	11,879	13,921	15,083	14,490

Segmental Breakdown

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenues (Rpbn)					
CPO	3,747	5,199	5,200	5,396	5,831
PK	316	559	565	581	635
Total	4,063	5,757	5,765	5,977	6,466

Income Statement (Rpbn)

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenue	4,063	5,757	5,765	5,977	6,466
Cost of Goods Sold	(2,463)	(3,416)	(3,883)	(4,139)	(4,490)
Gross Profit	1,600	2,342	1,881	1,838	1,975
Other Opng (Exp)/Inc	(256)	(357)	(392)	(418)	(445)
Operating Profit	1,344	1,984	1,489	1,420	1,530
Other Non Opg (Exp)/Inc	(25)	(164)	(107)	(12)	(17)
Associates & JV Inc	(16)	(17)	9	9	9
Net Interest (Exp)/Inc	(34)	1	(92)	(114)	(115)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	1,268	1,805	1,299	1,304	1,407
Tax	(286)	(433)	(303)	(305)	(335)
Minority Interest	(126)	(219)	(145)	(146)	(157)
Preference Dividend	0	0	0	0	0
Net Profit	855	1,153	851	853	915
Net Profit before Except.	855	1,153	851	853	915
EBITDA	1,448	1,987	1,617	1,862	2,046

Growth

Revenue Gth (%)	15.2	41.7	0.1	3.7	8.2
EBITDA Gth (%)	5.7	37.2	(18.6)	15.1	9.9
Opg Profit Gth (%)	12.7	47.7	(25.0)	(4.6)	7.7
Net Profit Pre-Ex Gth (%)	8.6	34.8	(26.2)	0.2	7.3

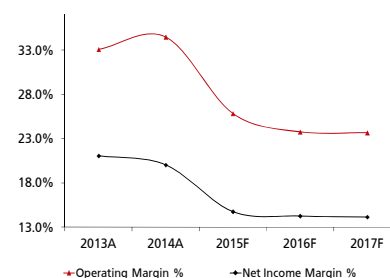
Margins & Ratio

Gross Margins (%)	39.4	40.7	32.6	30.8	30.6
Opg Profit Margin (%)	33.1	34.5	25.8	23.8	23.7
Net Profit Margin (%)	21.1	20.0	14.8	14.3	14.2
ROAE (%)	16.3	19.0	12.5	13.0	14.3
ROA (%)	8.2	9.0	5.9	5.9	6.6
ROCE (%)	10.8	12.9	8.6	8.2	9.3
Div Payout Ratio (%)	19.4	18.3	24.8	18.3	17.1
Net Interest Cover (x)	39.0	NM	16.2	12.5	13.3

Source: Company, DBS Bank

Sensitivity Analysis

2016	
CPO price +/- 1%	Net Profit +/- 3%

Margins Trend

Quarterly / Interim Income Statement (Rpbn)

FY Dec	3Q2014	4Q2014	1Q2015	2Q2015	3Q2015
Revenue	1,366	1,570	1,334	1,581	1,179
Cost of Goods Sold	(756)	(1,014)	(869)	(1,178)	(770)
Gross Profit	610	555	465	404	409
Other Oper. (Exp)/Inc	(102)	(76)	(105)	(93)	(92)
Operating Profit	508	480	360	310	318
Other Non Opg (Exp)/Inc	(37)	(69)	(78)	(3)	(34)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(16)	43	(9)	(1)	3
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	455	454	274	306	287
Tax	(116)	(120)	(62)	(65)	(66)
Minority Interest	(54)	(67)	(30)	(24)	(22)
Net Profit	285	266	182	217	200
Net Profit before Except	285,406	266,429	181,574	217,088	199,768
EBITDA	514	472	317	365	335

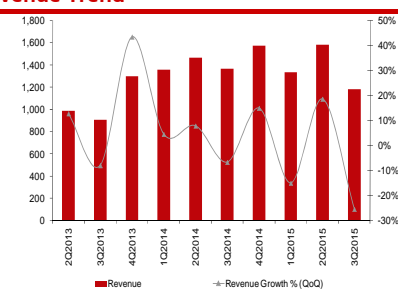
Growth

Revenue Gth (%)	(6.7)	14.9	(15.0)	18.5	(25.4)
EBITDA Gth (%)	2.4	(8.2)	(32.9)	15.4	(8.4)
Opg Profit Gth (%)	(11.5)	(5.6)	(24.9)	(13.9)	2.3
Net Profit Pre-Ex Gth (%)	(2.7)	(6.6)	(31.8)	19.6	(8.0)

Margins

Gross Margins (%)	44.7	35.4	34.9	25.5	34.7
Opg Margins (%)	37.2	30.6	27.0	19.6	26.9
Net Profit Margins (%)	20.9	17.0	13.6	13.7	16.9

Revenue Trend

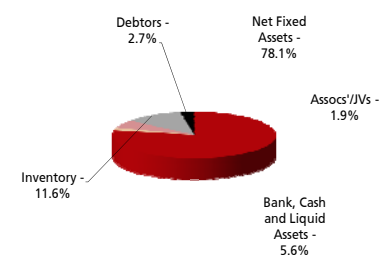


Balance Sheet (Rpbn)

FY Dec	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	2,093	2,866	3,438	3,961	4,400
Invt in Associates & JVs	108	84	84	84	84
Other LT Assets	8,341	9,509	10,390	8,144	8,231
Cash & ST Invt	482	311	248	526	216
Inventory	379	527	510	538	577
Debtors	102	140	120	123	132
Other Current Assets	340	367	367	367	367
Total Assets	11,844	13,803	15,156	13,743	14,007
ST Debt	559	589	12	12	12
Creditor	604	773	790	851	932
Other Current Liab	321	561	358	374	409
LT Debt	3,585	3,691	4,968	5,014	4,219
Other LT Liabilities	635	1,081	1,135	541	568
Shareholder's Equity	5,630	6,483	7,123	6,035	6,794
Minority Interests	511	625	771	917	1,073
Total Cap. & Liab.	11,844	13,803	15,156	13,743	14,007
Non-Cash Wkg. Capital	(104)	(300)	(152)	(198)	(265)
Net Cash/(Debt)	(3,662)	(3,969)	(4,732)	(4,499)	(4,015)
Debtors Turn (avg days)	6.7	7.7	8.2	7.4	7.2
Creditors Turn (avg days)	90.2	77.7	78.0	81.1	82.0
Inventory Turn (avg days)	55.3	51.1	51.7	51.7	51.3
Asset Turnover (x)	0.4	0.4	0.4	0.4	0.5
Current Ratio (x)	0.9	0.7	1.1	1.3	1.0
Quick Ratio (x)	0.4	0.2	0.3	0.5	0.3
Net Debt/Equity (X)	0.6	0.6	0.6	0.6	0.5
Net Debt/Equity ex MI (X)	0.7	0.6	0.7	0.7	0.6
Capex to Debt (%)	56.6	41.5	38.9	23.6	27.7
Z-Score (X)	2.6	2.5	2.3	2.8	3.1

Source: Company, DBS Bank

Asset Breakdown (2015)

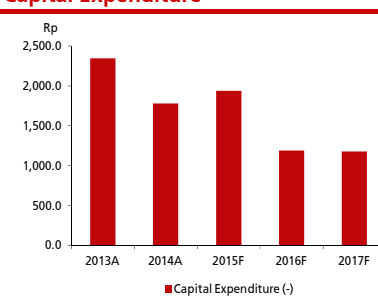


Cash Flow Statement (Rpbn)

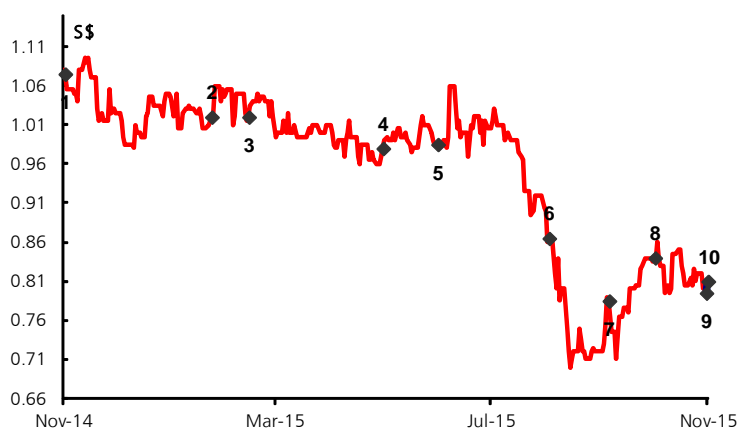
FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	1,268	1,805	1,299	1,304	1,407
Dep. & Amort.	146	186	227	444	524
Tax Paid	(286)	(433)	(303)	(305)	(335)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	113	49	26	46	68
Other Operating CF	7	453	53	56	26
Net Operating CF	1,465	2,060	1,302	1,546	1,690
Capital Exp.(net)	(2,345)	(1,778)	(1,936)	(1,184)	(1,172)
Other Invt.(net)	(196)	(53)	0	0	0
Invt in Assoc. & JV	(14)	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(737)	(344)	257	26	123
Net Investing CF	(3,291)	(2,175)	(1,680)	(1,157)	(1,050)
Div Paid	(166)	(211)	(211)	(156)	(156)
Chg in Gross Debt	1,561	136	700	45	(795)
Capital Issues	0	(55)	0	0	0
Other Financing CF	(22)	98	(174)	1	1
Net Financing CF	1,374	(32)	314	(110)	(951)
Currency Adjustments	49	(24)	0	0	0
Chg in Cash	(405)	(171)	(63)	278	(311)
Opg CFPS (Rp)	769	1,144	726	853	923
Free CFPS (Rp)	(501)	160	(361)	206	294

Source: Company, DBS Bank

Capital Expenditure



Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	13 Nov 14	1.08	1.19	BUY
2:	04 Feb 15	1.02	1.32	BUY
3:	25 Feb 15	1.02	1.30	BUY
4:	12 May 15	0.98	1.30	BUY
5:	12 Jun 15	0.99	1.26	BUY
6:	14 Aug 15	0.87	1.17	BUY
7:	17 Sep 15	0.79	0.88	BUY
8:	13 Oct 15	0.84	0.88	BUY
9:	11 Nov 15	0.80	0.88	BUY
10:	12 Nov 15	0.81	0.86	HOLD

Source: DBS Bank

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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