



OLAM | HOLD

MARKET CAP: USD 3.7B

AVG DAILY TURNOVER: USD 3M

 13 Nov 2015
Company Update

MAINTAIN HOLD WITH LOWER \$1.86 FV

- **3Q below expectation**
- **Near-term outlook remains muted**
- **Pare FV from \$1.88 to \$1.86**

Weaker 3Q15 showing

Olam's 3Q15 revenue was up 4% YoY at S\$4471.5m, with all segments registering growth except its Food Staples & Packaged Foods segment, which faced lower volumes, prices and continued underperformance of its upstream Dairy operations. And because of this, EBITDA slipped 18% to S\$184.0m, while reported net profit tumbled 30% to S\$31.0m; operational NPAT rose 6% to S\$34.2m. 9M15 revenue though dipped 9% to S\$13,604.2m, meeting 65% of our full-year forecast, while reported net profit tumbled 67% to S\$157.0m. However, Olam noted that operational NPAT jumped 41% to S\$258.0m, meeting about 65% of our FY15 estimate.

Dairy operations continued to underperform

One of the biggest drags came from the Food Staples & Packaged Foods segment, where EBITDA margin nearly halved to 2.3% from 4.9% in 3Q14 (4.6% in 2Q15), due to reduced trading volumes and as Dairy operations continued to underperform. But Olam is restructuring the dairy farming business in Uruguay and it expects to book a one-time restructuring cost in 4Q15. Meanwhile, the Industrial Raw Materials segment continued to see lower volumes, mainly due to lower Fertilizer trading, cotton and wood Products volumes; while the SEZ business continues to be a drag on EBITDA.

Remains upbeat about Mitsubishi JV

Outlook for commodities is likely to remain a mixed bag, and while prices are mostly lower, management notes that it is due to higher supply, and not because of lower demand, especially for food-related commodities. In any case, Olam will continue to optimize the shape of its portfolio and reduce complexity, thus bringing a sharper focus to the business and reduce operating costs. Separately, management remains upbeat about its JV with Mitsubishi to import and market an agreed list of products (e.g. coffee, sesame, edible nuts etc) into Japan. Olam also sees opportunities for both of them to collaborate in mutually beneficial business opportunities.

Maintain HOLD with \$1.86 fair value

While we think that the collaboration is a medium-term positive, the near-term bearish commodities outlook is likely to weigh on sentiment. Note that we are also paring our earnings estimates for FY15 by 19% and FY16 by 12%. This in turn drops our fair value from S\$1.88 to S\$1.86 even as we push our 10x valuation peg from blended FY15/FY16 to FY16F EPS. Maintain **HOLD**.

Key financial highlights

Year Ended 31 Dec (S\$m)	FY13	FY14	FY15F	FY16F
Revenue	20,040.0	19,772.0	19,092.9	21,005.4
EBITDA	1,199.9	1,106.6	1,279.5	1,507.3
Operating Profit	836.8	734.7	845.8	1,038.4
Net Profit	345.8	591.0	325.1	456.3
EPS (S cents)	14.5	24.7	13.3	18.6
Cons. EPS (S cents)	na	na	13.4	18.1
Price/NTA (x)	1.6	1.4	1.3	1.2
EV/EBITDA (x)	10.6	11.6	9.7	8.1
Net Gearing (%)	209.5	191.8	169.7	155.6
ROIC (%)	2.7	4.2	2.3	3.2

HOLD (maintain)

Fair value	S\$1.86
add: 12m dividend forecast	S\$0.040
versus: Current price	S\$1.985
12m total return forecast	-4%

Analysts

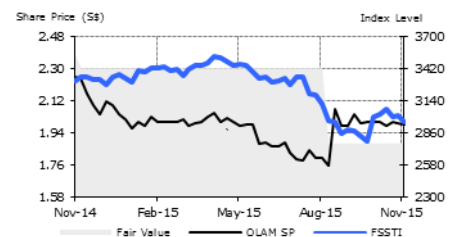
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Key information

Market cap. (m)	S\$5,325 / USD3,746
Avg daily turnover (m)	S\$4 / USD3
Avg daily vol. (m)	1.9
52-wk range (S\$)	1.68 - 2.5
Free float (%)	19.3
Shares o/s. (m)	2,773.4
Exchange	SGX
BBRG ticker	OLAM SP
Reuters ticker	OLAM.SI
SGX code	032
GICS Sector	Consumer Staples
GICS Industry	Food & Staples Retailing
Top shareholder	Temasek Capital- 51.4%

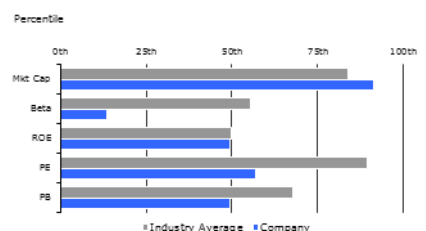
Relative total return	1m	3m	12m
Company (%)	-1	16	-11
STI-adjusted (%)	2	19	-4

Price performance chart



Sources: Bloomberg, OIR estimates

Industry-relative metrics

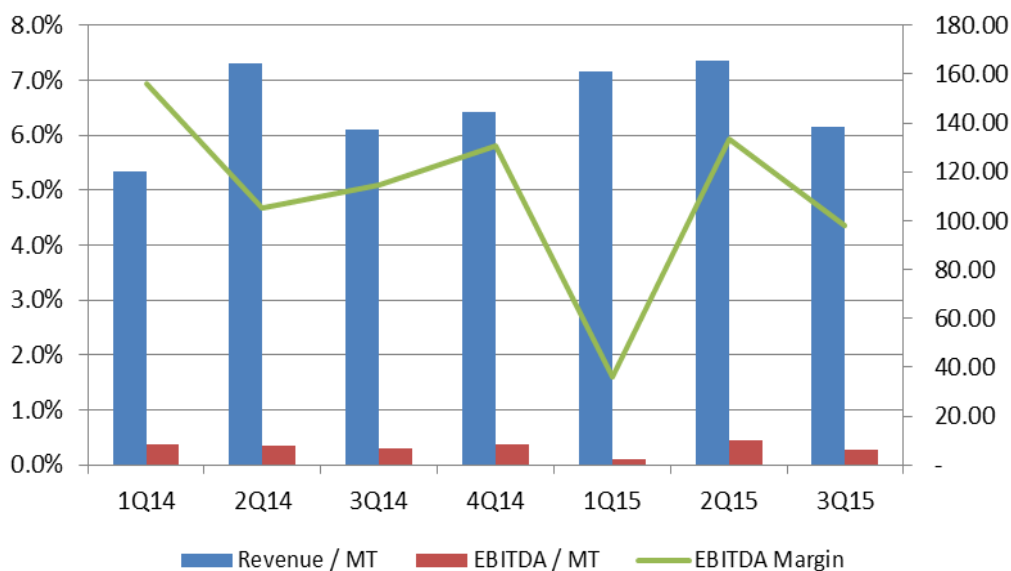


Note: Industry universe defined as companies under identical GICS classification listed on the same exchange.
Sources: Bloomberg, OIR estimates

Exhibit 1:Olam International's Key Financial Data

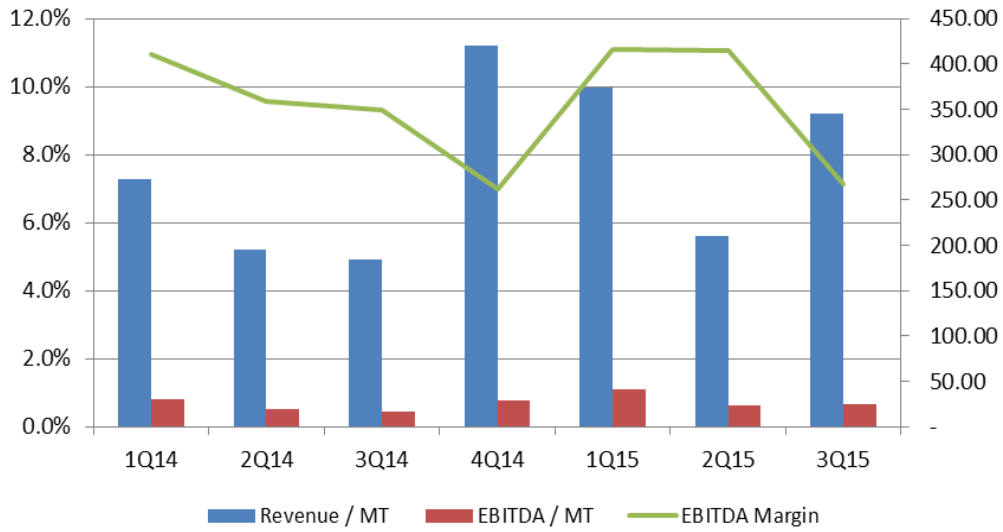
Interim Results					
Year to 31 Dec (In S\$ m)	3Q14	3Q15	% YoY	2Q15	% QoQ
Revenue	4298.6	4471.5	4.0%	4811.6	-7.1%
Gross profit	435.0	511.9	17.7%	483.1	6.0%
Gross margin	10.1%	11.4%		10.0%	
EBITDA	223.4	184.0	-17.6%	283.9	-35.2%
Depreciation & amortisation	-59.7	-50.6	-15.1%	-57.4	-11.8%
Operating profit	163.8	133.4	-18.6%	226.5	-41.1%
Biological fair value gain	-15.9	2.4	nm	-19.2	nm
Other operating revenue	14.8	13.1	-11.4%	16.5	-20.5%
Net interest	-124.1	-106.6	-14.1%	-101.7	4.8%
Forex	0.0	0.0	nm	0.0	nm
Associates	2.0	-4.8	nm	3.9	nm
Exceptionals	8.5	0.0	-100.0%	0.0	nm
Pre-tax profit	49.0	37.5	-23.4%	126.1	-70.2%
Tax	-7.1	-13.0	83.7%	-35.3	-63.0%
Minority interests	2.4	6.5	175.3%	3.9	65.2%
Net profit	44.3	31.0	-30.0%	94.7	-67.3%
Net margin	1.0%	0.7%		2.0%	
Operational NPAT	32.2	34.2	6.2%	95.2	-64.1%
Net margin	0.7%	0.8%		2.0%	

Exhibit 2: Overall Group Profitability



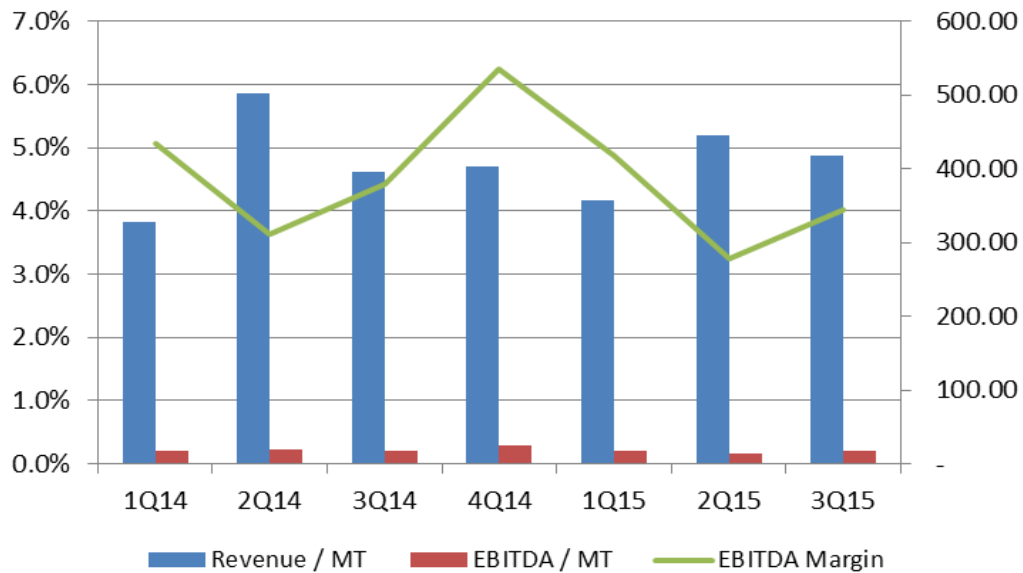
Source: Company, OIR

Exhibit 3: Profitability of Edible Nuts Division



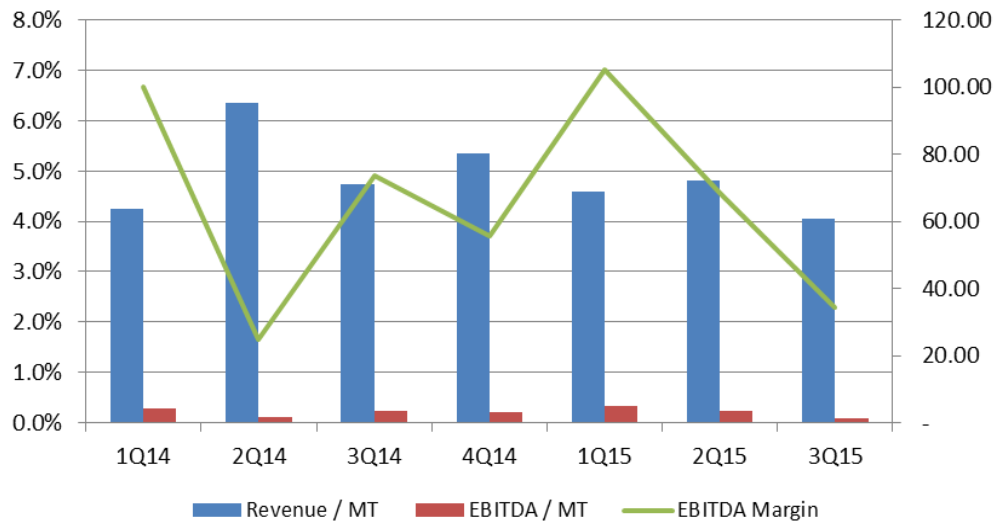
Source: Company, OIR

Exhibit 4: Profitability of Confectionary Division



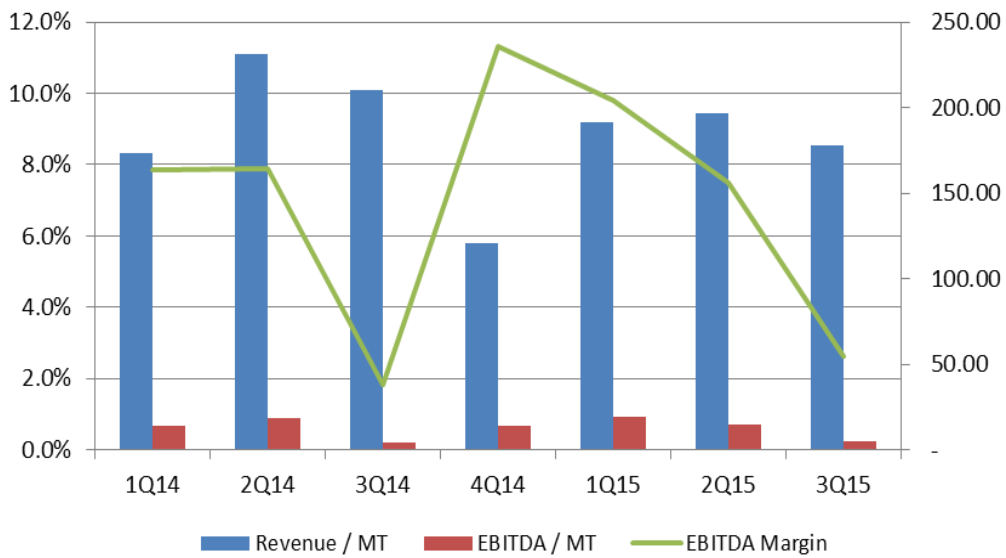
Source: Company, OIR

Exhibit 5: Food Staples Division



Source: Company, OIR

Exhibit 6: Industrial Raw Materials Division



Source: Company, OIR

Company financial highlights

Income statement

Year Ended 31 Dec (S\$m)	FY13	FY14	FY15F	FY16F
Revenue	20,040.0	19,772.0	19,092.9	21,005.4
EBITDA	1,199.9	1,106.6	1,279.5	1,507.3
Depreciation & amortisation	-226.0	-209.8	-229.4	-246.9
Operating Profit	836.8	734.7	845.8	1,038.4
Net interest	-502.1	-474.5	-462.9	-462.0
Associates	20.2	-5.9	10.0	10.0
Exceptionals	0.0	0.0	0.0	0.0
Pre-tax profit	476.7	744.9	417.8	586.4
Tax	-104.8	-114.7	-75.2	-105.6
Net Profit	345.8	591.0	325.1	456.3

Balance sheet

As of 31 Dec (S\$m)	FY13	FY14	FY15F	FY16F
Cash	1,236.0	1,845.8	2,117.5	2,223.9
Other Current Assets	8,502.3	8,649.7	8,528.3	9,159.4
Fixed Assets	3,597.8	3,014.8	2,914.5	2,667.6
Other long term assets	2,186.7	3,132.2	3,046.1	3,046.1
Total Assets	15,522.8	16,642.4	16,606.4	17,097.0
Current Liabilities less Debt	2,269.2	2,247.9	2,227.2	2,361.1
Debt	9,113.3	9,840.7	9,639.9	9,639.9
Other Long Term Liabilities	238.7	260.2	266.0	266.0
Shareholders Equity	3,759.7	4,167.4	4,433.6	4,765.8
Total Equity and Liabilities	15,522.8	16,642.4	16,606.4	17,097.0

Cash flow statement

Year Ended 31 Dec (S\$m)	FY13	FY14	FY15F	FY16F
Op Cashflow before WC	1,133.9	1,181.2	846.9	1,033.1
Working Capital Changes	-339.5	-944.5	-944.5	-944.5
Net Cash from Operations	310.3	-292.9	-627.2	-441.0
Capex	-940.3	-567.5	-567.5	-567.5
Investing Cash flow	-1,050.6	-206.0	-206.0	-206.0
Net Debt Change	1,192.3	1,139.0	1,171.5	820.1
Financing Cash Flow	1,679.2	1,106.3	1,138.8	787.4
Net Cash flow	930.6	573.5	271.7	106.4
Ending Cash Balance	930.6	1,504.0	1,775.7	1,882.1
Overdraft	305.5	341.8	341.8	341.8

Key rates & ratios

	FY13	FY14	FY15F	FY16F
EPS (S cents)	14.5	24.7	13.3	18.6
Fully Diluted EPS (S cents)	14.4	24.2	12.7	17.8
PER (x)	13.7	8.0	15.0	10.7
Price/NTA (x)	1.6	1.4	1.3	1.2
EV/EBITDA (x)	10.6	11.6	9.7	8.1
Dividend Yield (%)	2.0	3.8	1.9	2.6
ROIC (%)	2.7	4.2	2.3	3.2
ROE (%)	9.2	14.2	7.3	9.6
Net Gearing (%)	209.5	191.8	169.7	155.6
PE to Growth (x)	0.2	-0.4	-0.3	0.3

Sources: Company, OIR forecasts

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