

## Bumitama Agri (BAL SP)

# A seasonal slow start to 2018

### Good time to accumulate

1Q18 core net profit (-10% YoY, -29% QoQ) was within expectations as lower CPO ASP (-8% YoY) was mitigated by higher sales volume (+3% YoY) and lower fertiliser application. Expect better quarterly earnings ahead. We make no changes to our earnings forecasts. Trading at an EV of -USD9,200/ha and just 10x FY18 PER, more than 1SD below its historical mean, BAL remains a BUY with an unchanged TP of SGD0.99 on 14x 2018 PER (5-year historical mean).

### 1Q18 results within expectations

1Q18 headline net profit of IDR231.8b (-17% YoY, -36% QoQ) was marginally dragged by FX losses of IDR15.9b. Adjusted, 1Q18 core net profit of IDR243.7b (-10% YoY, -29% QoQ) met 19% of our / consensus full-year forecasts. The lower YoY results were due to (i) lower CPO ASP (-8% YoY, -4% QoQ) and lower PK ASP (-22% YoY, -11% QoQ), and (ii) a build-up in inventories (MKE estimate: +13,348 MT, vs 1Q17's drawdown of 11,956 MT) as 1Q18 CPO sales volume growth (+3% YoY) was lower than production growth (+17% YoY).

### 15-20% FFB output growth guidance unchanged

Operationally, 1Q18 FFB nucleus output of 472,852 MT (+20% YoY, +11% QoQ) met 23% of our full-year forecasts, and within BAL's unchanged 15-20% FFB growth guidance for 2018. However, it remains unclear if 2018's quarterly output trend will revert to the usual distinct Q4 peak (see Fig 3) after last year's anomaly. As for YTD rainfall, it has been good.

### Maintain earnings forecasts and BUY

1Q18 CPO cash cost was estimated at IDR4,487/kg (-16% YoY), in part due to lower fertiliser administered in 1Q18 whereby only 32% of full-year's requirement was completed compared to 56% in 1Q17 (last year's high fertilizing application rate was an anomaly). BAL expects to complete the remaining fertilizer applications in 2Q-3Q18. It maintains overall guidance for higher cash cost (per tonne) by 5-10% YoY for 2018 on increased fertilizer usage and higher labour costs.

FYE Dec (IDR b)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	6,630	8,131	7,895	8,367	8,871
EBITDA	1,947	2,403	2,513	2,819	2,998
Core net profit	919	1,171	1,289	1,486	1,722
Core EPS (IDR)	523	666	733	845	980
Core EPS growth (%)	11.9	27.4	10.1	15.3	15.9
Net DPS (IDR)	216	200	220	254	294
Core P/E (x)	13.8	10.8	9.9	8.5	7.4
P/BV (x)	1.9	1.7	1.5	1.4	1.2
Net dividend yield (%)	3.0	2.8	3.0	3.5	4.1
ROAE (%)	16.2	16.8	16.3	16.7	17.2
ROAA (%)	6.3	7.8	8.1	8.9	9.7
EV/EBITDA (x)	9.7	7.8	7.0	6.0	5.4
Net gearing (%) (incl perps)	57.8	53.5	38.5	25.3	14.1
Consensus net profit	-	-	1,251	1,377	1,571
MKE vs. Consensus (%)	-	-	3.0	7.9	9.6

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# BUY

Share Price	SGD 0.69
12m Price Target	SGD 0.99 (+43%)
Previous Price Target	SGD 0.99

### Company Description

*Bumitama Agri Ltd. is an investment holding company, which engages in the operation of oil palm plantations and mills in Indonesia.*

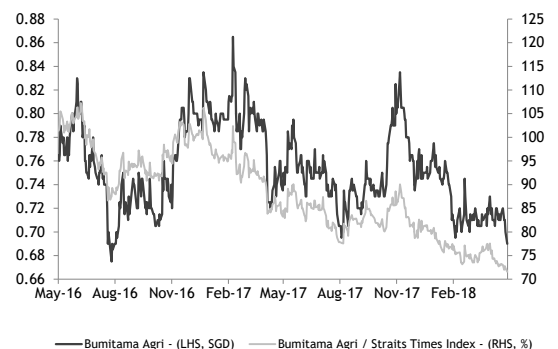
### Statistics

52w high/low (SGD)	0.84/0.69
3m avg turnover (USDm)	0.2
Free float (%)	25.5
Issued shares (m)	1,758
Market capitalisation	SGD1.2B USD907M

### Major shareholders:

Fortune Corp. Ltd. /SG/	42.6%
IOI Corp. Bhd.	31.7%
Fullerton Fund Management Co. Ltd.	0.7%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(3)	(7)
Relative to index (%)	(6)	(8)	(15)

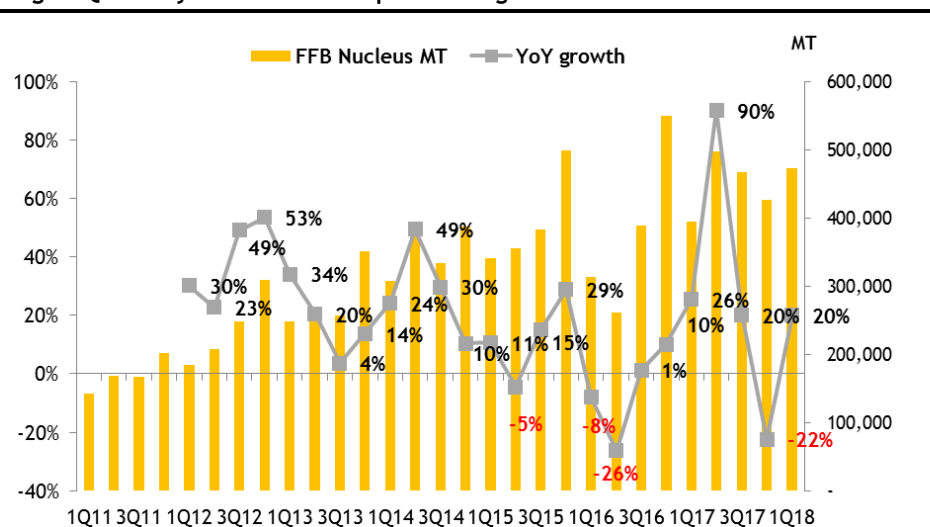
Source: FactSet

Fig 1: 1Q18 results summary

FYE Dec (IDR b)	Quarterly				
	1Q18	1Q17	% YoY	4Q17	% QoQ
Revenue	1,908.2	2,100.4	(9.1)	2,065.8	(7.6)
Core EBITDA	519.6	542.0	(4.1)	705.9	(26.4)
Deprn & amortisation	(137.5)	(127.5)	7.8	(138.3)	(0.6)
<b>Core EBIT</b>	<b>382.1</b>	<b>414.5</b>	<b>(7.8)</b>	<b>567.6</b>	<b>(32.7)</b>
FV on biological assets	-	-	na	35.8	na
EBIT	382.1	414.5	(7.8)	603.4	(36.7)
Net interest	(9.0)	(1.8)	387.4	(0.5)	1,721.3
Forex & other expenses	(15.9)	11.3	(241.2)	(11.5)	39.1
Share of associates	-	(2.3)	(100.0)	-	na
<b>PBT</b>	<b>357.2</b>	<b>421.6</b>	<b>(15.3)</b>	<b>591.5</b>	<b>(39.6)</b>
Tax	(83.5)	(99.5)	(16.0)	(136.3)	(38.7)
Minority interests	(41.9)	(43.7)	(4.3)	(91.5)	(54.3)
<b>PATMI</b>	<b>231.8</b>	<b>278.4</b>	<b>(16.8)</b>	<b>363.6</b>	<b>(36.3)</b>
<b>Core PATMI</b>	<b>243.7</b>	<b>270.0</b>	<b>(9.7)</b>	<b>345.3</b>	<b>(29.4)</b>
	<b>1Q18</b>	<b>1Q17</b>	<b>+/- ppts</b>	<b>4Q17</b>	<b>+/- ppts</b>
Core EBITDA margin (%)	27.2	25.8	1.4	34.2	(6.9)
Core EBIT margin (%)	20.0	19.7	0.3	27.5	(7.5)
Effective tax rate (%)	23.4	23.6	(0.2)	23.0	0.3
<b>Operational</b>					
<b>Production</b>					
FFB nucleus (mt)	472,852	393,967	20.0	426,218	10.9
CPO (t)	219,207	187,488	16.9	205,699	6.6
<b>Sales</b>					
CPO (t)	205,859	199,444	3.2	207,617	(0.8)
CPO ASP (IDR/kg)	7,832	8,480	(7.6)	8,140	(3.8)
PK ASP (IDR/kg)	6,620	8,431	(21.5)	7,461	(11.3)

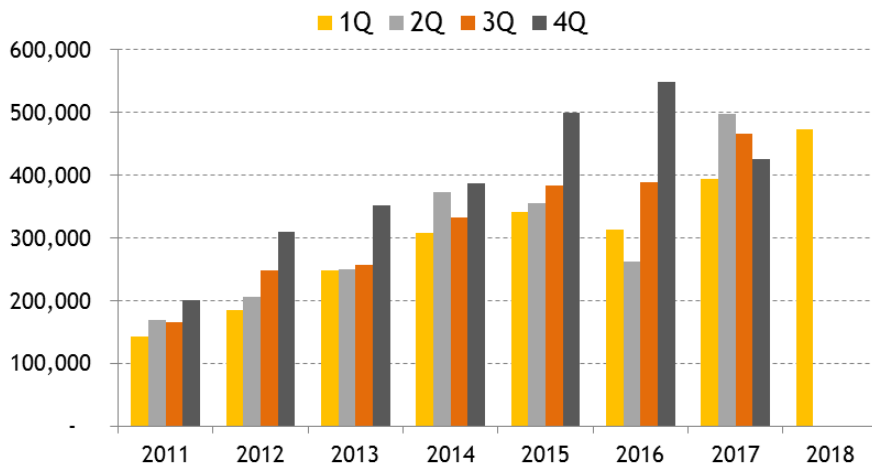
Source: Company, Maybank KE

Fig 2: Quarterly FFB nucleus output &amp; YoY growth



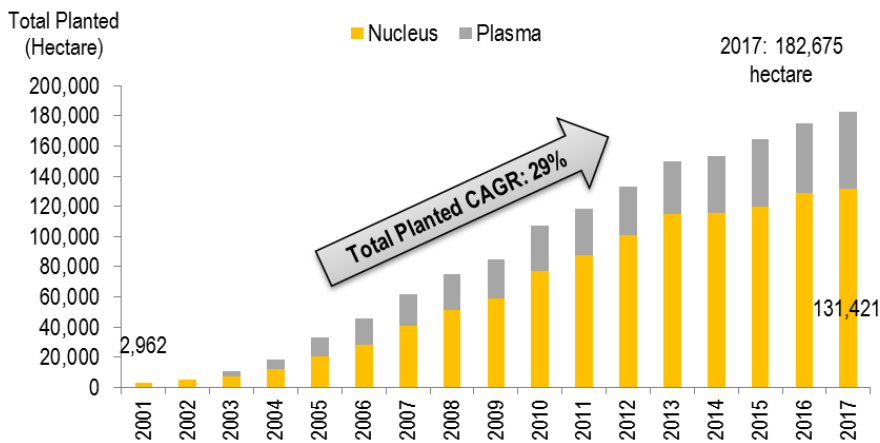
Sources: Company, Maybank KE

Fig 3: Quarterly FFB nucleus output trend since 2011



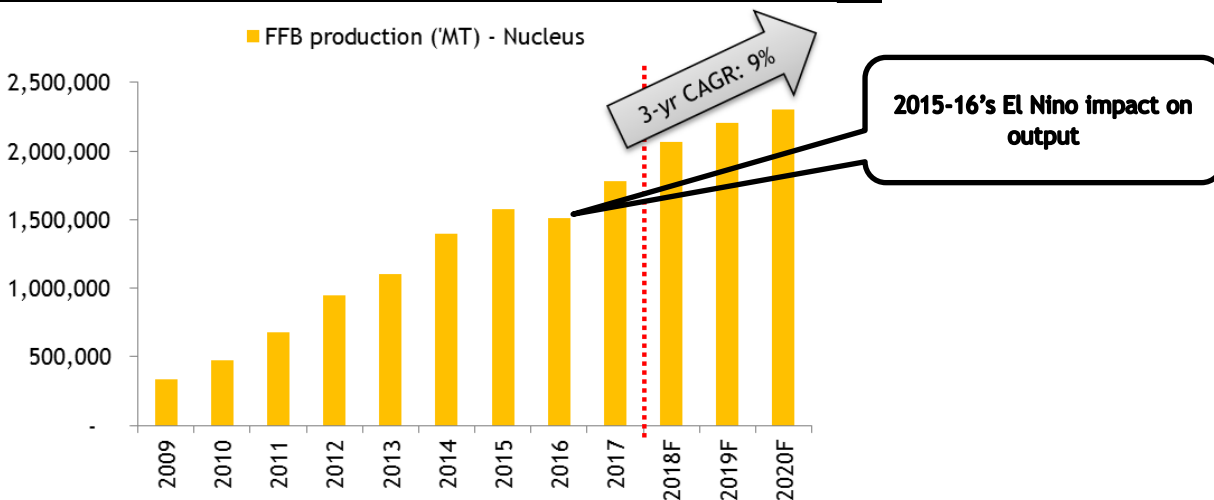
Sources: Company, Maybank KE

Fig 4: Total planted area has grown by 29% CAGR between 2000-2017



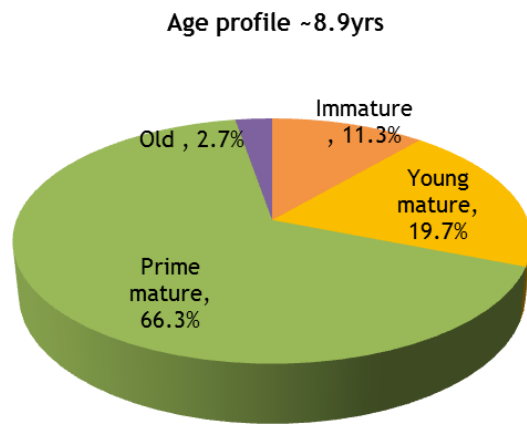
Sources: Company, Maybank KE

Fig 5: FFB nucleus output trend and forward year projections



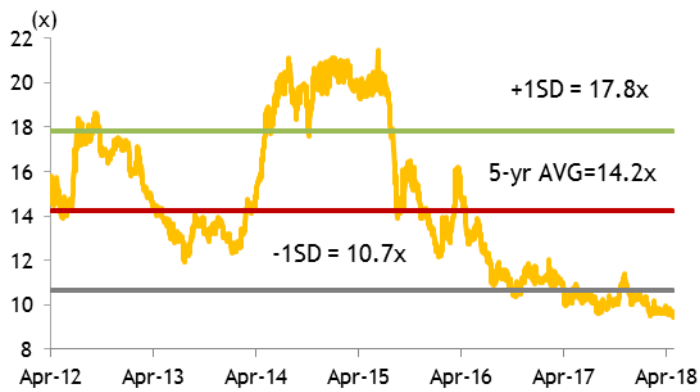
Sources: Company, Maybank KE

**Fig 6: Total oil palm planted area (183,445ha) and age profile as at 31 Mar 2018**



Sources: Company, Maybank KE

**Fig 7: BAL forward PER chart**



Sources: Bloomberg, Maybank KE

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Metrics</b>					
P/E (reported) (x)	12.9	10.9	9.9	8.5	7.4
Core P/E (x)	13.8	10.8	9.9	8.5	7.4
P/BV (x)	1.9	1.7	1.5	1.4	1.2
P/NTA (x)	1.9	1.7	1.6	1.4	1.2
Net dividend yield (%)	3.0	2.8	3.0	3.5	4.1
FCF yield (%)	5.1	8.6	10.2	11.1	12.1
EV/EBITDA (x)	9.7	7.8	7.0	6.0	5.4
EV/EBIT (x)	12.5	10.0	8.8	7.4	6.6
<b>INCOME STATEMENT (IDR b)</b>					
Revenue	6,629.8	8,131.4	7,894.6	8,367.0	8,870.8
Gross profit	1,975.6	2,389.2	2,498.6	2,814.5	2,993.3
EBITDA	1,947.2	2,402.9	2,513.4	2,818.7	2,998.0
Depreciation	(435.9)	(518.0)	(516.5)	(537.1)	(554.7)
EBIT	1,511.3	1,884.8	1,996.9	2,281.6	2,443.3
Net interest income /(exp)	18.9	(18.1)	(14.0)	18.1	64.3
Associates & JV	(21.8)	(2.3)	0.0	0.0	10.0
Exceptionals	26.9	35.8	0.0	0.0	0.0
Other pretax income	15.9	(5.8)	0.0	0.0	0.0
Pretax profit	1,551.2	1,894.5	1,982.9	2,299.7	2,517.6
Income tax	(363.1)	(470.3)	(475.9)	(551.9)	(604.2)
Minorities	(183.1)	(230.9)	(218.5)	(262.2)	(191.3)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,005.1	1,193.3	1,288.5	1,485.6	1,722.1
Core net profit	919.0	1,170.8	1,288.5	1,485.6	1,722.1
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
<b>BALANCE SHEET (IDR b)</b>					
Cash & Short Term Investments	517.1	216.7	460.7	789.9	1,412.6
Accounts receivable	277.8	286.5	281.2	298.0	315.9
Inventory	611.6	443.6	887.0	912.7	966.2
Property, Plant & Equip (net)	10,332.1	10,736.5	11,106.6	11,456.1	11,788.0
Intangible assets	176.0	174.2	174.2	174.2	174.2
Investment in Associates & JVs	2.3	0.0	0.0	0.0	10.0
Other assets	2,850.1	3,432.1	3,482.1	3,532.1	3,582.1
<b>Total assets</b>	<b>14,767.0</b>	<b>15,289.5</b>	<b>16,391.8</b>	<b>17,163.0</b>	<b>18,249.0</b>
ST interest bearing debt	1,007.7	338.7	238.7	38.7	38.7
Accounts payable	573.4	499.6	1,034.9	1,064.9	1,127.2
LT interest bearing debt	3,860.5	4,410.3	3,910.3	3,510.3	3,110.3
Other liabilities	1,804.0	1,569.0	1,616.0	1,655.0	1,682.0
<b>Total Liabilities</b>	<b>7,245.3</b>	<b>6,817.8</b>	<b>6,799.6</b>	<b>6,268.7</b>	<b>5,957.9</b>
Shareholders Equity	6,718.1	7,449.4	8,351.4	9,391.3	10,596.8
Minority Interest	803.6	1,022.3	1,240.8	1,503.0	1,694.3
<b>Total shareholder equity</b>	<b>7,521.7</b>	<b>8,471.7</b>	<b>9,592.2</b>	<b>10,894.3</b>	<b>12,291.1</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>14,767.0</b>	<b>15,289.5</b>	<b>16,391.8</b>	<b>17,163.0</b>	<b>18,249.0</b>
<b>CASH FLOW (IDR b)</b>					
Pretax profit	1,551.2	1,894.5	1,982.9	2,299.7	2,517.6
Depreciation & amortisation	435.9	518.0	516.5	537.1	554.7
Adj net interest (income)/exp	(18.9)	18.1	14.0	(18.1)	(64.3)
Change in working capital	(364.8)	(186.7)	143.6	26.6	17.9
Cash taxes paid	(231.2)	(361.2)	(475.9)	(551.9)	(604.2)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	1,372.2	1,882.8	2,181.1	2,293.4	2,421.6
Capex	(721.3)	(796.2)	(886.6)	(886.6)	(886.6)
Free cash flow	650.9	1,086.6	1,294.5	1,406.7	1,535.0
Dividends paid	(112.1)	(381.9)	(386.6)	(445.7)	(516.6)
Equity raised / (purchased)	0.0	(113.1)	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	(465.0)	(468.5)	(600.0)	(600.0)	(400.0)
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(154.7)	(420.6)	(64.0)	(31.9)	4.3
Effect of exch rate changes	(0.8)	(3.0)	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(81.7)</b>	<b>(300.4)</b>	<b>244.0</b>	<b>329.2</b>	<b>622.7</b>

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	19.6	22.6	(2.9)	6.0	6.0
EBITDA growth	23.3	23.4	4.6	12.1	6.4
EBIT growth	23.6	24.7	5.9	14.3	7.1
Pretax growth	54.8	22.1	4.7	16.0	9.5
Reported net profit growth	40.8	18.7	8.0	15.3	15.9
Core net profit growth	11.9	27.4	10.1	15.3	15.9
<b>Profitability ratios (%)</b>					
EBITDA margin	29.4	29.6	31.8	33.7	33.8
EBIT margin	22.8	23.2	25.3	27.3	27.5
Pretax profit margin	23.4	23.3	25.1	27.5	28.4
Payout ratio	37.7	29.4	30.0	30.0	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	15.2	14.7	16.3	17.8	19.4
Revenue/Assets (x)	0.4	0.5	0.5	0.5	0.5
Assets/Equity (x)	2.2	2.1	2.0	1.8	1.7
ROAE (%)	16.2	16.8	16.3	16.7	17.2
ROAA (%)	6.3	7.8	8.1	8.9	9.7
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	12.6	11.9	6.1	2.7	2.9
Days receivable outstanding	23.8	12.5	12.9	12.5	12.5
Days inventory outstanding	48.8	33.1	44.4	58.3	57.5
Days payables outstanding	60.0	33.6	51.2	68.1	67.1
Dividend cover (x)	2.7	3.4	3.3	3.3	3.3
Current ratio (x)	1.2	1.5	1.5	1.8	2.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.0	2.2	2.4	2.7	3.1
Net gearing (%) (incl perps)	57.8	53.5	38.5	25.3	14.1
Net gearing (%) (excl. perps)	57.8	53.5	38.5	25.3	14.1
Net interest cover (x)	na	104.1	142.6	na	na
Debt/EBITDA (x)	2.5	2.0	1.7	1.3	1.1
Capex/revenue (%)	10.9	9.8	11.2	10.6	10.0
Net debt/ (net cash)	4,351.1	4,532.2	3,688.3	2,759.1	1,736.4

Source: Company; Maybank

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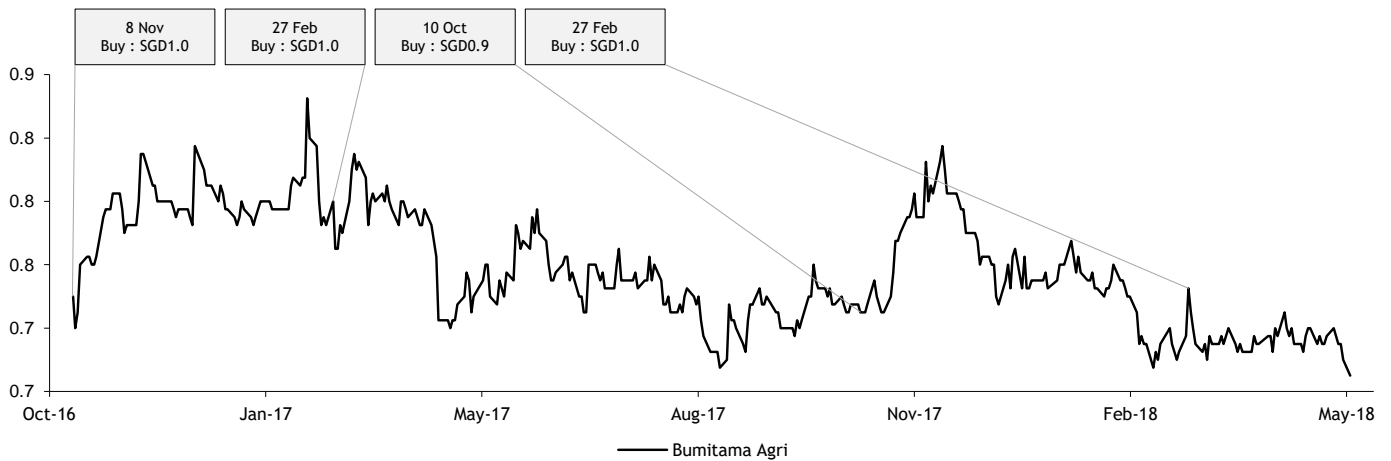
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