

Bumitama Agri (BAL SP)

Delay in sales and profit recognition

Hiccup in logistics in Kalimantan in 3Q18

Despite posting a strong 35% YoY output growth in 3Q18, BAL has failed to sell as much produce due to industry-wide logistics issues in Kalimantan. The large net inventory build-up by end-Sept 2018 will nonetheless benefit 4Q18 results. BAL guides for another good crop in 4Q18. BUY with unchanged TP of SGD0.98 on 14x FY18 PER, its 5-year historical mean.

3Q18: Huge net inventory build-up is beyond norm

BAL reported a 3Q18 core PATMI of IDR291b (+7% YoY, -30% QoQ), bringing 9M18 core PATMI to IDR947b (+15% YoY), which met 74%/74% of our/consensus full-year estimates - within expectations. 3Q18 results would have been stronger had it not been for logistics issues that plagued Kalimantan whereby there was a shortage of barges, in part due to re-channelling of barges to deliver palm biodiesel to meet Indonesia's B20 blend requirements. As such, this led to a huge net inventory build-up by end-Sept for BAL, said to be 5x the norm, exacerbated by exceptionally strong output. Inventories as at 30 Sept 2018 jumped 164% YoY to Rp1,034b. The moderate YoY earnings growth in 3Q18 was underpinned by delayed fertilising application (due to delay in shipment by supplier) and lower taxes despite lower revenue (-7% YoY, -18% QoQ) on deferred sales and lower CPO ASP achieved at IDR6,807/kg (-13% YoY, -13% QoQ).

Expect another strong quarterly output in 4Q18

Underpinned by its young tree profile and in part due to the low base of last year, 3Q18's FFB output growth enjoyed another good quarter (+35% YoY, +2% QoQ) - see Fig 2. Its 9M18 output (+27% YoY) exceeded expectation as it met 84% of our full-year forecast. BAL has revised up its growth guidance to >25% YoY (previously 15%-20%) expecting still strong 4Q18 output growth (vs our full-year growth forecast of +16% YoY).

Make no changes to our forecasts

We are keeping our earnings forecasts for now pending a review of our industry-wide CPO price forecasts. Still, we continue to like BAL for its medium term growth story, anticipating a 9% CAGR in its 2017-20F FFB output as well as its relatively low cost of production.

FYE Dec (IDR b)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	6,630	8,131	8,118	8,872	9,617
EBITDA	1,947	2,403	2,508	2,748	3,059
Core net profit	919	1,171	1,284	1,438	1,761
Core EPS (IDR)	523	666	730	819	1,002
Core EPS growth (%)	11.9	27.4	9.6	12.1	22.4
Net DPS (IDR)	216	200	219	246	301
Core P/E (x)	14.9	11.4	8.9	7.9	6.5
P/BV (x)	2.0	1.8	1.4	1.2	1.1
Net dividend yield (%)	2.8	2.6	3.4	3.8	4.6
ROAE (%)	16.2	16.8	16.2	16.2	17.7
ROAA (%)	6.3	7.8	8.1	8.6	9.9
EV/EBITDA (x)	9.7	7.8	6.5	5.7	4.9
Net gearing (%) (incl perps)	57.8	53.5	38.6	26.0	14.3
Consensus net profit	-	-	1,283	1,405	1,501
MKE vs. Consensus (%)	-	-	0.0	2.4	17.3

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BUY

Share Price	SGD 0.61
12m Price Target	SGD 0.98 (+61%)
Previous Price Target	SGD 0.98

Company Description

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

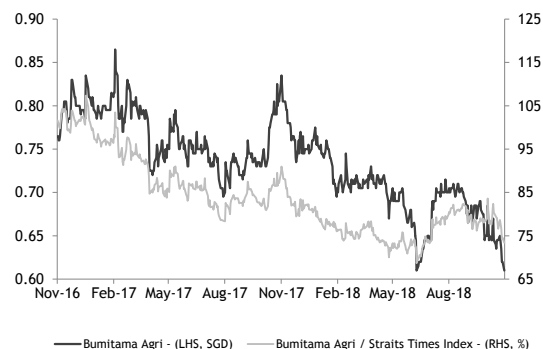
Statistics

52w high/low (SGD)	0.84/0.61
3m avg turnover (USDm)	0.1
Free float (%)	15.9
Issued shares (m)	1,758
Market capitalisation	SGD1.1B
	USD778M

Major shareholders:

Fortune Corp. Ltd. /SG/	51.4%
IOI Corp. Bhd.	31.7%
Bumitama Agri Ltd.	1.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(13)	(24)
Relative to index (%)	(6)	(7)	(16)

Source: FactSet

Fig 1: 3Q18 results summary

FYE Dec (IDR b)	Quarterly					Cumulative		
	3Q18	3Q17	% YoY	2Q18	% QoQ	9M18	9M17	% YoY
Revenue	1,918.5	2,050.9	(6.5)	2,349.8	(18.4)	6,176.5	6,071.6	1.7
Core EBITDA	564.0	563.8	0.0	802.6	(29.7)	1,886.2	1,706.0	10.6
Depn & amortisation	(135.9)	(127.0)	7.0	(137.8)	(1.4)	(411.2)	(379.7)	8.3
Core EBIT	428.2	436.9	(2.0)	664.8	(35.6)	1,475.0	1,326.2	11.2
FV on biological assets	-	-	na	-	na	-	-	na
EBIT	428.2	436.9	(2.0)	664.8	(35.6)	1,475.0	1,326.2	11.2
Net interest	2.4	(6.5)	(137.6)	(19.5)	(112.4)	(26.1)	(17.6)	48.0
Forex & other expenses	(27.5)	(6.4)	327.9	(33.0)	(16.7)	(76.5)	5.6	(1,454.2)
Share of associates	-	-	-	-	-	-	(2.3)	(100.0)
PBT	403.1	424.0	(4.9)	612.2	(34.2)	1,372.5	1,312.0	4.6
Tax	(87.7)	(114.2)	(23.2)	(159.6)	(45.1)	(330.8)	(342.9)	(3.5)
Minority interests	(45.5)	(43.5)	4.6	(64.6)	(29.5)	(152.0)	(139.3)	9.1
PATMI	269.9	266.3	1.4	388.1	(30.5)	889.7	829.7	7.2
Core PATMI	290.5	271.1	7.2	412.8	(29.6)	947.1	825.5	14.7

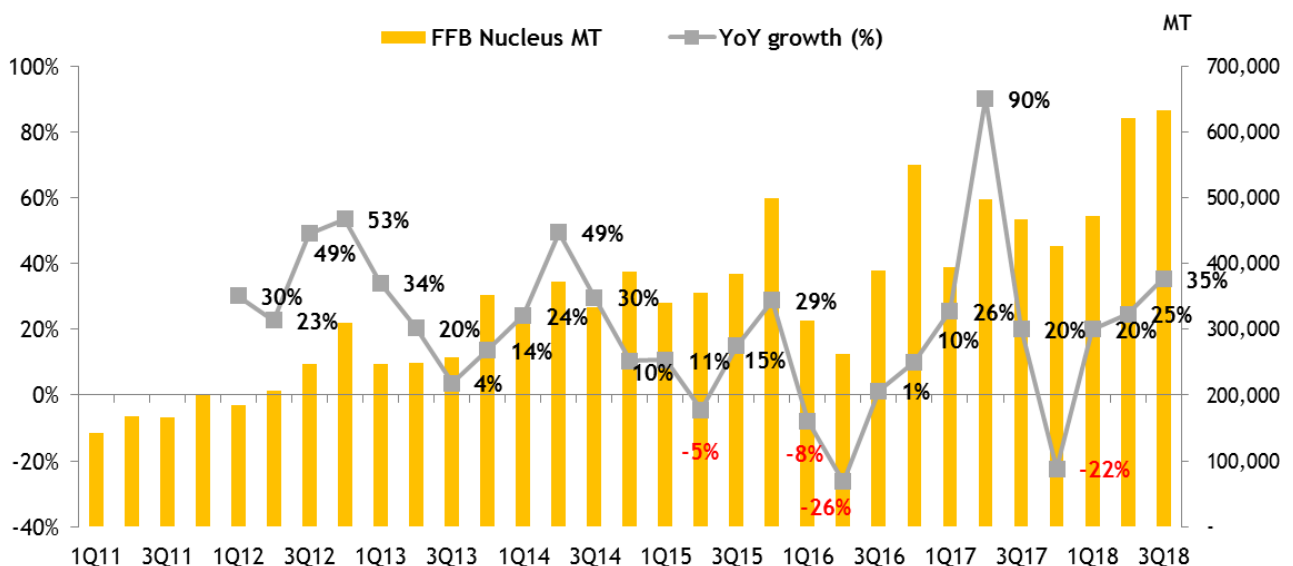
	3Q18	3Q17	+/- ppts	2Q18	+/- ppts	9M18	9M17	+/- ppts
Core EBITDA margin (%)	29.4	27.5	1.9	34.2	(4.8)	30.5	28.1	2.4
Core EBIT margin (%)	22.3	21.3	1.0	28.3	(6.0)	23.9	21.8	2.0
Effective tax rate (%)	21.8	26.9	(5.2)	26.1	(4.3)	24.1	26.1	(2.0)

Operational								
Production								
FFB nucleus (mt)	631,966	466,818	35.4	620,271	1.9	1,725,089	1,358,511	27.0
CPO (t)	292,256	208,262	40.3	278,438	5.0	789,901	613,136	28.8

Sales								
CPO (t)	240,421	217,367	10.6	266,802	(9.9)	713,082	625,106	14.1
CPO ASP (IDR/kg)	6,807	7,778	(12.5)	7,786	(12.6)	7,469	8,085	(7.6)
PK ASP (IDR/kg)	4,943	6,015	(17.8)	5,482	(9.8)	5,615	6,655	(15.6)

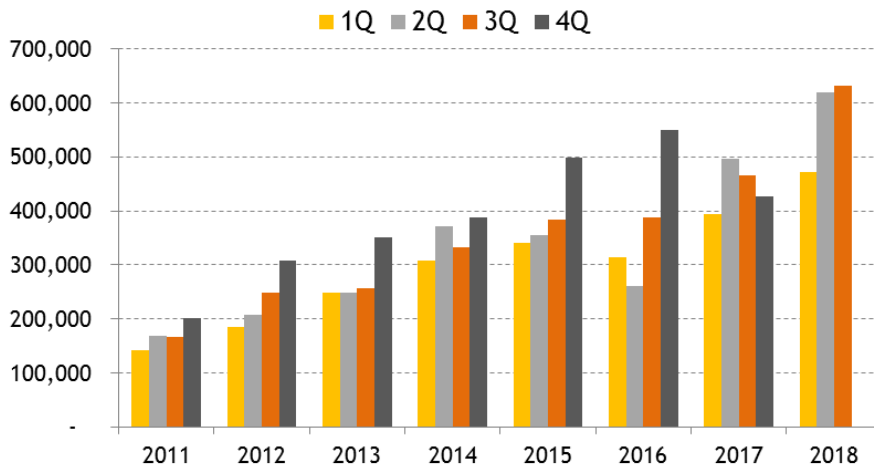
Source: Company, Maybank KE

Fig 2: Quarterly FFB nucleus output & YoY growth



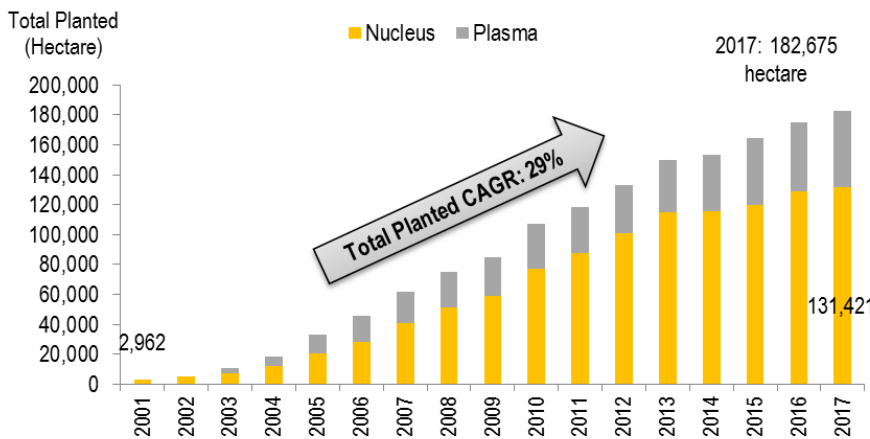
Sources: Company, Maybank KE

Fig 3: Quarterly FFB nucleus output trend (2011-18)



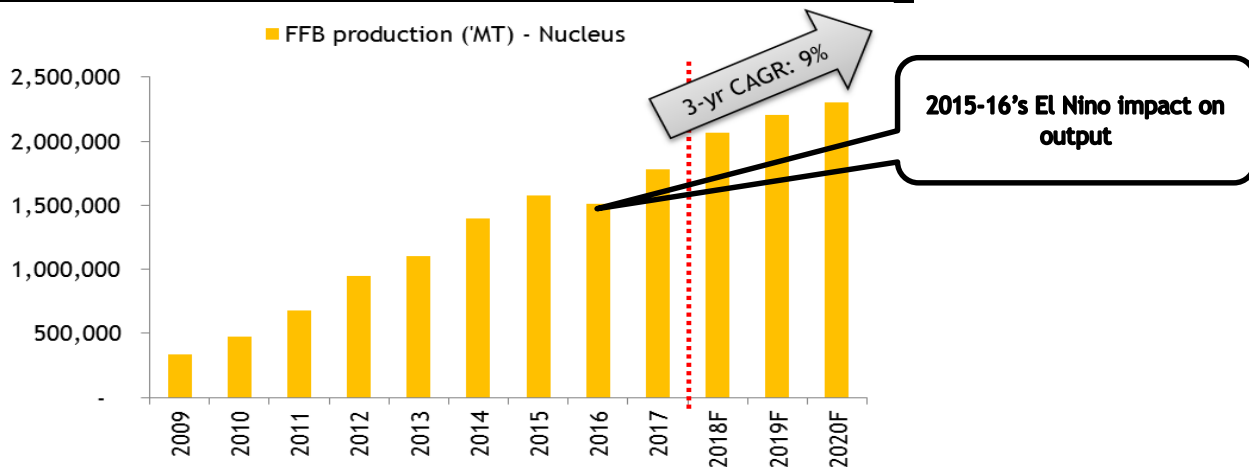
Sources: Company, Maybank KE

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



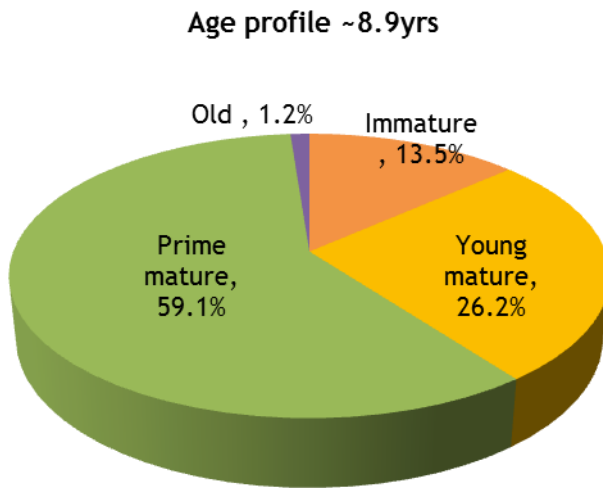
Sources: Company, Maybank KE

Fig 5: FFB nucleus output trend and forward year projections



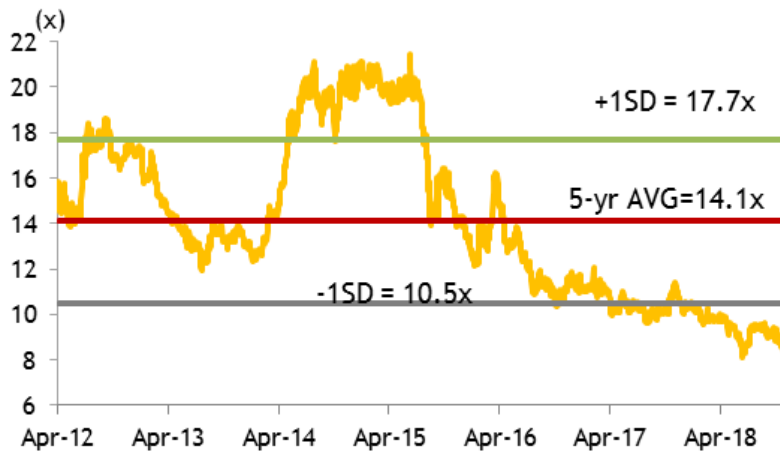
Sources: Company, Maybank KE

Fig 6: Total oil palm planted area (182,675ha) and age profile as at 31 Dec 2017



Sources: Company, Maybank KE

Fig 7: BAL forward PER chart



Sources: Bloomberg, Maybank KE

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for Bumitama Agri (BAL). Key risks to the palm oil sector and BAL are: (i) weather anomalies resulting in poorer-than-expected output growth, (ii) lower-than-expected CPO price achieved, (iii) negative policies imposed by import countries, (iv) unfriendly policies imposed by the Indonesian government on upstream planters, (v) sharply lower crude oil prices which makes palm biodiesel demand not viable, and (vi) weaker competing oil prices (like soybean and rapeseed).

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	12.9	10.9	8.9	7.9	6.5
Core P/E (x)	14.9	11.4	8.9	7.9	6.5
P/BV (x)	2.0	1.8	1.4	1.2	1.1
P/NTA (x)	2.1	1.8	1.4	1.2	1.1
Net dividend yield (%)	2.8	2.6	3.4	3.8	4.6
FCF yield (%)	4.8	8.2	11.3	11.8	13.9
EV/EBITDA (x)	9.7	7.8	6.5	5.7	4.9
EV/EBIT (x)	12.5	10.0	8.2	7.1	5.9
INCOME STATEMENT (IDR b)					
Revenue	6,629.8	8,131.4	8,117.8	8,871.7	9,616.6
Gross profit	1,975.6	2,389.2	2,530.7	2,786.5	3,099.1
EBITDA	1,947.2	2,402.9	2,507.6	2,747.7	3,059.1
Depreciation	(435.9)	(518.0)	(516.5)	(537.1)	(554.7)
EBIT	1,511.3	1,884.8	1,991.1	2,210.5	2,504.4
Net interest income / (exp)	18.9	(18.1)	(15.8)	15.9	59.8
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	1,975.2	2,226.4	2,574.2
Income tax	(363.1)	(470.3)	(474.1)	(534.3)	(617.8)
Minorities	(183.1)	(230.9)	(217.7)	(253.8)	(195.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,005.1	1,193.3	1,283.5	1,438.3	1,760.7
Core net profit	919.0	1,170.8	1,283.5	1,438.3	1,760.7
BALANCE SHEET (IDR b)					
Cash & Short Term Investments	517.1	216.7	452.7	731.6	1,396.0
Accounts receivable	277.8	286.5	289.1	316.0	342.5
Inventory	611.6	443.6	918.4	1,000.3	1,071.4
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
Total assets	14,767.0	15,289.5	16,423.1	17,210.2	18,364.2
ST interest bearing debt	1,007.7	338.7	238.7	38.7	38.7
Accounts payable	573.4	499.6	1,071.5	1,167.0	1,249.9
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	1,615.0	1,646.0	1,689.0
Total Liabilities	7,245.3	6,817.8	6,835.2	6,361.8	6,087.6
Shareholders Equity	6,718.1	7,449.4	8,347.9	9,354.6	10,587.2
Minority Interest	803.6	1,022.3	1,240.0	1,493.8	1,689.4
Total shareholder equity	7,521.7	8,471.7	9,587.8	10,848.4	12,276.6
Total liabilities and equity	14,767.0	15,289.5	16,423.1	17,210.2	18,364.2
CASH FLOW (IDR b)					
Pretax profit	1,551.2	1,894.5	1,975.2	2,226.4	2,574.2
Depreciation & amortisation	435.9	518.0	516.5	537.1	554.7
Adj net interest (income)/exp	(18.9)	18.1	15.8	(15.9)	(59.8)
Change in working capital	(364.8)	(186.7)	139.9	17.8	28.3
Cash taxes paid	(231.2)	(361.2)	(474.1)	(534.3)	(617.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	1,372.2	1,882.8	2,173.5	2,231.1	2,479.5
Capex	(721.3)	(796.2)	(886.6)	(886.6)	(886.6)
Free cash flow	650.9	1,086.6	1,286.8	1,344.5	1,592.9
Dividends paid	(112.1)	(381.9)	(385.1)	(431.5)	(528.2)
Equity raised / (purchased)	0.0	(113.1)	0.0	0.0	0.0
Change in Debt	(465.0)	(468.5)	(600.0)	(600.0)	(400.0)
Other invest/financing cash flow	(154.7)	(420.6)	(65.8)	(34.1)	(0.2)
Effect of exch rate changes	(0.8)	(3.0)	0.0	0.0	0.0
Net cash flow	(81.7)	(300.4)	236.0	278.9	664.5

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	19.6	22.6	(0.2)	9.3	8.4
EBITDA growth	23.3	23.4	4.4	9.6	11.3
EBIT growth	23.6	24.7	5.6	11.0	13.3
Pretax growth	54.8	22.1	4.3	12.7	15.6
Reported net profit growth	40.8	18.7	7.6	12.1	22.4
Core net profit growth	11.9	27.4	9.6	12.1	22.4
Profitability ratios (%)					
EBITDA margin	29.4	29.6	30.9	31.0	31.8
EBIT margin	22.8	23.2	24.5	24.9	26.0
Pretax profit margin	23.4	23.3	24.3	25.1	26.8
Payout ratio	37.7	29.4	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	15.2	14.7	15.8	16.2	18.3
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	16.2	16.2	17.7
ROAA (%)	6.3	7.8	8.1	8.6	9.9
Liquidity & Efficiency					
Cash conversion cycle	12.6	11.9	6.0	2.8	2.8
Days receivable outstanding	23.8	12.5	12.8	12.3	12.3
Days inventory outstanding	48.8	33.1	43.9	56.8	57.2
Days payables outstanding	60.0	33.6	50.6	66.2	66.8
Dividend cover (x)	2.7	3.4	3.3	3.3	3.3
Current ratio (x)	1.2	1.5	1.5	1.7	2.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	2.2	2.4	2.7	3.0
Net gearing (%) (incl perps)	57.8	53.5	38.6	26.0	14.3
Net gearing (%) (excl. perps)	57.8	53.5	38.6	26.0	14.3
Net interest cover (x)	na	104.1	125.7	na	na
Debt/EBITDA (x)	2.5	2.0	1.7	1.3	1.0
Capex/revenue (%)	10.9	9.8	10.9	10.0	9.2
Net debt/ (net cash)	4,351.1	4,532.2	3,696.3	2,817.4	1,752.9

Source: Company; Maybank

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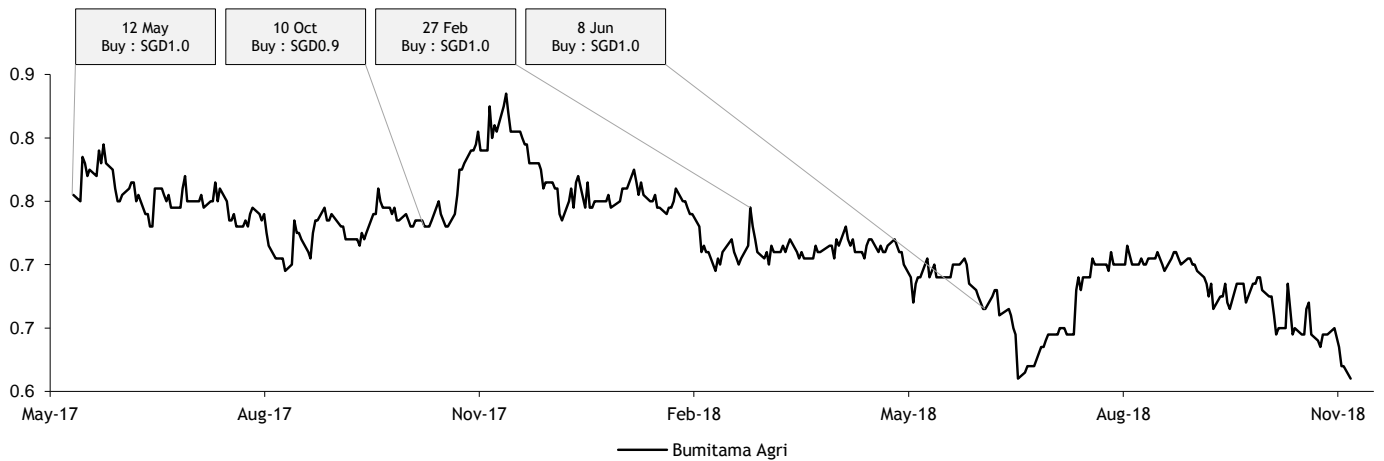
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