

Bumitama Agri (BAL SP)

Too cheap to ignore

A growth stock trading at just 10x 2018 PER

No surprises to 2017 earnings. For 2018, we expect a 10% core PATMI growth as output continues its growth trajectory. Trading at just 10x FY18 PER, more than 1SD below its historical mean, BAL remains a BUY with a revised TP of SGD0.99 on 14x 2018 PER (5-year historical mean) as we roll forward our valuation year (previously SGD0.95 on 14x 2017 PER).

2017 results within expectations

2017 headline PATMI grew 19% YoY to IDR1,193b. Adjusted for FV gain on biological assets (IDR36b) and FX losses (IDR6b), 2017 core PATMI grew 27% YoY to IDR1,171b, and met 99%/105% of our/consensus forecasts - within expectations. This was achieved despite unexpected slowdown in FFB growth momentum in 4Q17 (-22% YoY) albeit temporarily, and a IDR25b impairment on its biodiesel plant (which it intends to dispose).

Growth underpinned by output recovery

The strong 2017 core earnings growth was underpinned by higher FFB output (+18% YoY) and higher CPO ASP achieved (+10% YoY). Operationally, FFB yield rebounded to 16.4t/ha (+12% YoY) post El Nino coupled with more areas that entered maturity (+5%). The key surprise was its higher-than-expected 2017 all-in cost of production which we estimate at IDR3,491/kg (+19% YoY). The higher cost was due to higher wages and unbudgeted water management works. For 2018, BAL expects overall cost to increase by 5-10% on higher fertiliser application and higher minimum wage.

2018: Another year of strong output growth

BAL guides for 15-20% YoY FFB output growth for 2018 (MKE: +16% YoY) driven by its young tree profile of 8.9 years average and +4% of new area coming into maturity. Following the higher cost guidance, we tweaked our financial parameters which led to -14% cut in our 2018 PATMI forecasts (unchanged for 2019). We also introduce our 2020 forecast.

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)	14.8	11.6	10.5	9.1	7.9
P/BV (x)	2.0	1.8	1.6	1.4	1.3
Net dividend yield (%)	2.8	2.6	2.8	3.3	3.8
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	7.4	6.3	5.7
Net gearing (%) (incl perps)	57.8	53.5	38.5	25.3	14.1
Consensus net profit	-	-	1,248	1,377	na
MKE vs. Consensus (%)	-	-	3.3	7.9	na

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BUY

Share Price	SGD 0.75
12m Price Target	SGD 0.99 (+33%)
Previous Price Target	SGD 0.95

Company Description

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

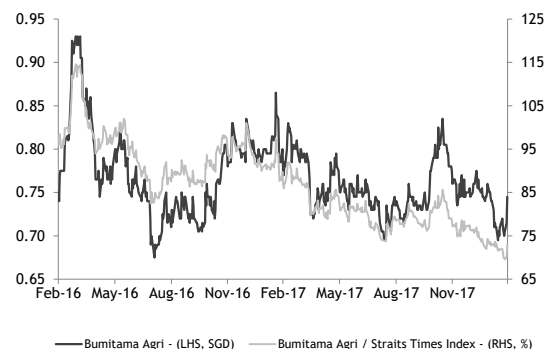
Statistics

52w high/low (SGD)	0.84/0.70
3m avg turnover (USDm)	0.4
Free float (%)	25.5
Issued shares (m)	1,758
Market capitalisation	SGD1.3B
	USD994M

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 (%)	(2)	(4)	(7)
Relative to index (%)	(2)	(8)	(19)

Source: FactSet

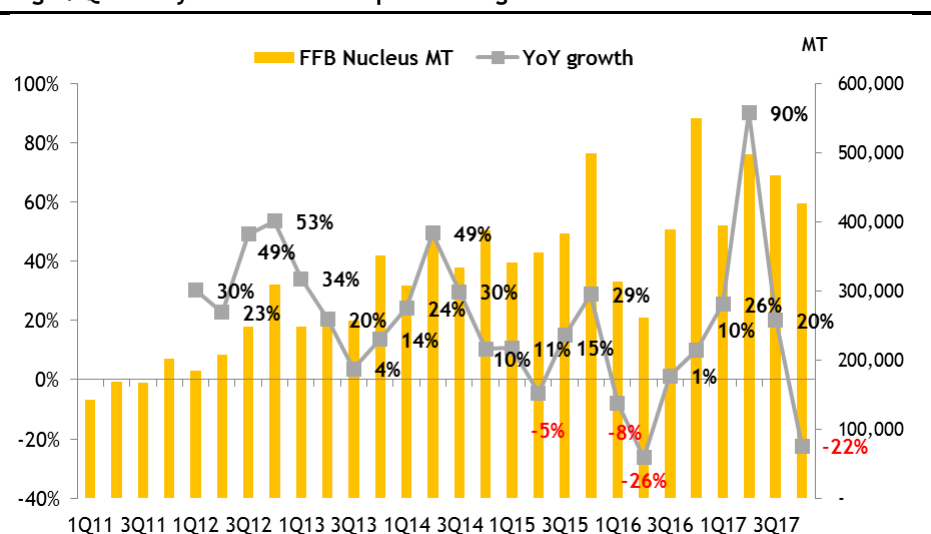
Fig 1: 4Q17 results summary

FYE Dec (IDR b)	Quarterly					Cumulative		
	4Q17	4Q16	% YoY	3Q17	% QoQ	12M17	12M16	% YoY
Revenue	2,065.8	2,270.2	(9.0)	2,050.9	0.7	8,131.4	6,629.8	22.6
Core EBITDA	705.9	839.1	(15.9)	563.8	25.2	2,402.9	1,947.2	23.4
Deprn & amortisation	(138.3)	(83.7)	65.2	(127.0)	8.9	(518.0)	(435.9)	18.8
Core EBIT	567.6	755.4	(24.9)	436.9	29.9	1,884.8	1,511.3	24.7
FV on biological assets	35.8	26.9	na	-	na	35.8	26.9	na
EBIT	603.4	782.3	(22.9)	436.9	38.1	1,920.7	1,538.2	24.9
Net interest	(0.5)	23.2	NM	(6.5)	(92.3)	(18.1)	18.9	NM
Forex & other expenses	(11.5)	(55.4)	(79.3)	(6.4)	78.3	(5.8)	15.9	NM
Share of associates	-	(6.9)	(100.0)	-	NM	(2.3)	(21.8)	(89.5)
PBT	591.5	743.2	(20.4)	424.0	39.5	1,894.5	1,551.2	22.1
Tax	(136.3)	(179.8)	(24.2)	(114.2)	19.3	(470.3)	(363.1)	29.5
Minority interests	(91.5)	(101.8)	(10.1)	(43.5)	110.3	(230.9)	(183.1)	26.1
PATMI	363.6	461.6	(21.2)	266.3	36.6	1,193.3	1,005.1	18.7
Core PATMI	345.3	428.9	(19.5)	271.1	27.4	1,170.8	919.0	27.4
	4Q17	4Q16	+/- ppts	3Q17	+/- ppts	12M17	12M16	+/- ppts
Core EBITDA margin (%)	34.2	37.0	(2.8)	27.5	6.7	29.6	29.4	0.2
Core EBIT margin (%)	27.5	33.3	(5.8)	21.3	6.2	23.2	22.8	0.4
Effective tax rate (%)	23.0	24.2	(1.1)	26.9	(3.9)	24.8	23.4	1.4

Operational								
Production								
FFB nucleus (mt)	426,218	549,198	(22.4)	466,818	(8.7)	1,784,729	1,513,422	17.9
CPO (t)	205,699	246,864	(16.7)	208,262	(1.2)	818,835	701,304	16.8
Sales								
CPO (t)	207,617	235,131	(11.7)	217,367	(4.5)	832,723	734,219	13.4
CPO ASP (IDR/kg)	8,140	7,770	4.8	7,778	4.7	8,099	7,378	9.8
PK ASP (IDR/kg)	7,461	7,353	1.5	6,015	24.0	6,861	6,359	7.9

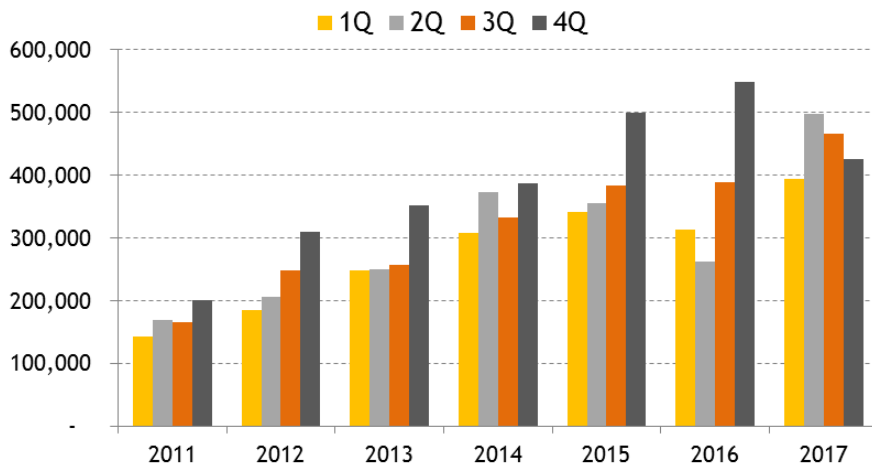
Source: Company, Maybank KE

Fig 2: Quarterly FFB nucleus output & YoY growth



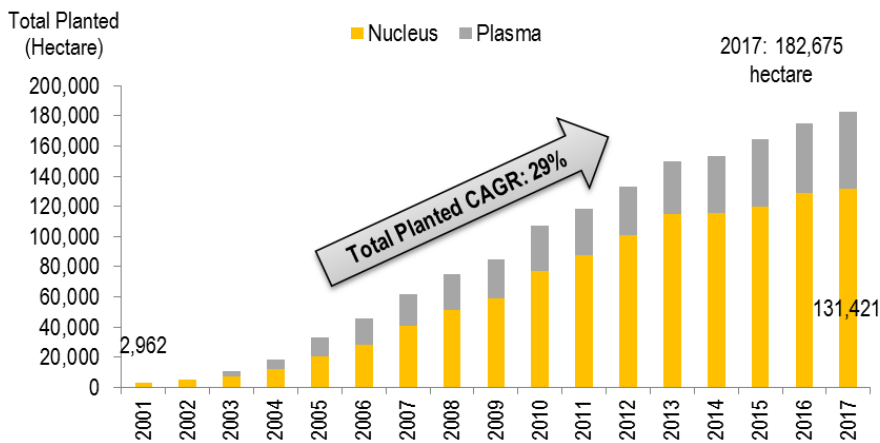
Sources: Company, Maybank KE

Fig 3: Quarterly FFB nucleus output trend (2011-16); distinct peak in 4Q



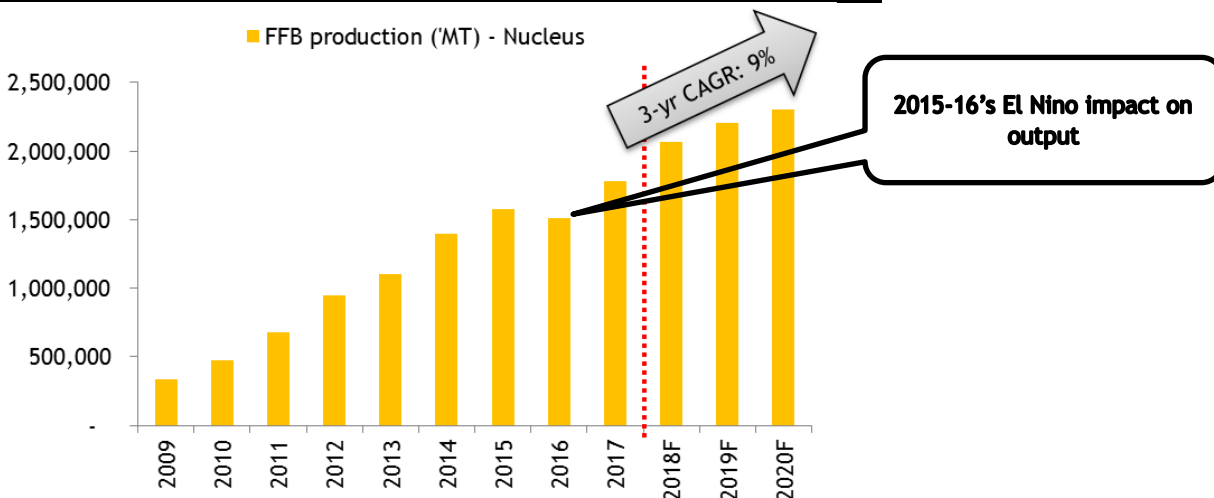
Sources: Company, Maybank KE

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



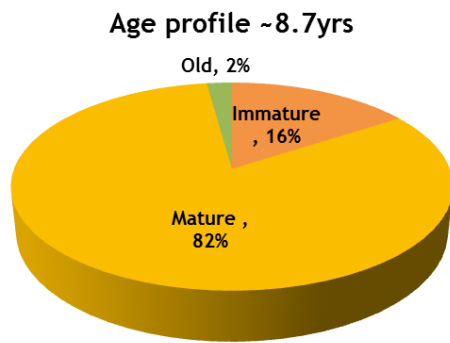
Sources: Company, Maybank KE

Fig 5: FFB nucleus output trend and forward year projections



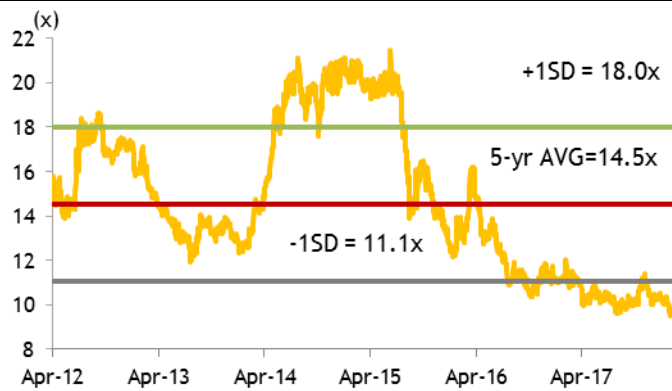
Sources: Company, Maybank KE

Fig 6: Total oil palm planted area (175,243ha) and age profile as at 31 Dec 2016



Sources: Company, Maybank KE

Fig 7: BAL forward PER chart



Sources: Bloomberg, Maybank KE

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	12.9	10.9	10.5	9.1	7.9
Core P/E (x)	14.8	11.6	10.5	9.1	7.9
P/BV (x)	2.0	1.8	1.6	1.4	1.3
P/NTA (x)	2.1	1.9	1.7	1.5	1.3
Net dividend yield (%)	2.8	2.6	2.8	3.3	3.8
FCF yield (%)	4.8	8.0	9.5	10.4	11.3
EV/EBITDA (x)	9.7	7.8	7.4	6.3	5.7
EV/EBIT (x)	12.5	10.0	9.3	7.8	7.0

INCOME STATEMENT (IDR 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

BALANCE SHEET (IDR 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
Total assets	14,767.0	15,289.5	16,391.8	17,163.0	18,249.0
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
Total Liabilities	7,245.3	6,817.8	6,799.6	6,268.7	5,957.9
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
Total shareholder equity	7,521.7	8,471.7	9,592.2	10,894.3	12,291.1
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	14,767.0	15,289.5	16,391.8	17,163.0	18,249.0

CASH FLOW (IDR 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
Net cash flow	(81.7)	(300.4)	244.0	329.2	622.7

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
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
Profitability ratios (%)					
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
DuPont analysis					
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
Liquidity & Efficiency					
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
Leverage & Expense Analysis					
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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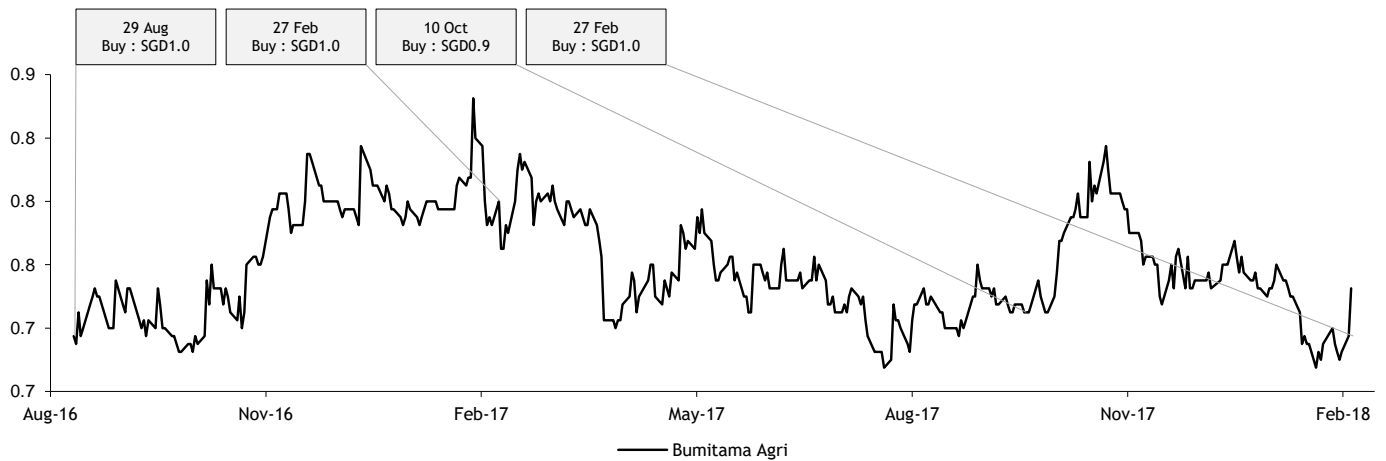
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