

Regional Industry Focus

Plantation companies

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Jul 2017

Yield- and volume-driven growth

- **CY17/18 crude palm oil (CPO) price (US\$/MT FOB) slightly lowered by 2%/4%**
- **Less negative on CPO price on steady demand outlook**
- **Share price upside is still attractive this point**
- **Top picks: AALI, LSIP, FR, BAL, and TSH**

Lower CPO price on persistently strong palm oil output.

We lower CY17F/18F palm oil prices (US\$/MT, FOB) by 2%/4% to US\$645/US\$616 per ton, mainly to take into account the higher palm oil output in 2HCY17/CY18 on the back of normalising tree yield, and a weaker soybean price outlook due to the strong harvest season. We believe the palm oil price downside risk will be minimal in light of strong demand from India and recovering China imports going forward.

Upside risk from Indonesia's biodiesel program. Further upside risk could emerge if Indonesia could deliver better-than-expected biodiesel production this year. Meanwhile, we reiterate our overall forecast that Indonesia will produce 3.2m kl (or 3.1m MT) of subsidised biodiesel. Coupled with non-subsidised volume, we expect Indonesia's biodiesel output to expand 0.5m MT y-o-y to 3.3m MT (5% of global palm oil demand). In Malaysia, biodiesel mandate is also expected to grow 12% y-o-y to 0.8m MT (based on USDA projection).

Where we differ: we believe market overly bearish on CPO price. We believe the market has priced in CPO price downtrend in 2HCY17 and a weaker earnings outlook among the counters in 2H1CY17 and FY18, as reflected in the planters' YTD share price performance. Moreover, even after imputing revised ASP, resulting average FY17F earnings drop by 12%. Target prices are cut by 2% – mainly reflecting lower medium-term free cash flow, planters' FY18F PE multiple (roll forward) is still at the low end of the 5-year average multiple.

Our top picks. We reiterate our picks of AALI, LSIP, TSH, BAL and FR for the next 12 months. Based on our revised forecasts, these counters still have 11-22% upside potential from current levels. Even as we anticipate 2HCY17F/CY18F palm oil prices to moderate and a high base effect from a 2017 production recovery, these counters should register 5-9% earnings growth – premised on continued volume expansion on the back of estates yield expansion and better efficiencies.

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STOCKS

	Price Rp	Mkt Cap US\$m	12-mth Target Price Rp	Performance (%)		Rating
				3 mth	12 mth	
Indonesia (Rp)						
Astra Agro Lestari	15,20	2,198	17,700	3.4	(1.1)	BUY
London Sumatra	1,420	728	1,630	2.2	(6.0)	BUY
Singapore (\$S)						
Wilmar	3.32	15,364	3.52	(4.1)	(0.9)	HOLD
First Resources	1.89	2,185	2.13	2.2	20.8	BUY
Bumitama Agri	0.74	942	0.94	1.4	(3.9)	BUY
Indofood Agri	0.47	480	0.49	2.2	(1.1)	HOLD
Malaysia (RM)						
KL Kepong	24.72	6,142	24.75	2.3	6.6	HOLD
Sime Darby	9.55	15,152	9.05	3.2	24.8	HOLD
Genting	10.84	2,031	11.05	(3.4)	3.0	HOLD
TSH Resources	1.70	538	2.05	(4.5)	(9.1)	BUY
Felda Global	1.68	1,430	1.60	(17.2)	0.6	HOLD
IOI Corporation	4.49	6,582	4.70	(0.2)	3.9	HOLD

Source: DBSVI, DBS Bank, Bloomberg Finance L.P.

Closing price as of 19 Jul 2017

CPO, soybean, soybean oil price forecast revisions

	15	16	17F	18F	19F	20F	21F
CPO price (RM/MT FOB P.Gudang)	2,168	2,652	2,760	2,620	2,600	2,630	2,640
CPO price (US\$/MT FOB P.Gudang)	560	640	645	616	608	616	618
Prev. CPO price (RM/MT FOB P.Gudang)	2,168	2,652	3,040	3,030	2,970	2,990	3,050
Prev. CPO price (US\$/MT FOB P.Gudang)	560	640	659	644	635	640	651
Soybean price (US\$/MT FOB Chicago)	346	360	352	340	340	345	351
Soybean oil price (US\$/MT FOB Chicago)	667	696	753	727	727	737	750
Previous SB price (US\$/MT FOB Chicago)	346	360	353	345	345	350	358
Previous SBO price (US\$/MT FOB Chicago)	667	696	772	754	753	765	783
STR20 price (US\$/MT)	1,337	1,392	1,497	1,516	1,555	1,595	1,638
Prev. STR20 px (US\$/MT)	1,337	1,392	1,497	1,516	1,555	1,595	1,638
Sugar price (US\$/MT)	300	400	400	400	400	400	398
Prev. sugar px (US\$/MT)	300	400	400	400	400	400	398

Source: DBSVI estimates, DBS Bank estimates

Strategy and stock picks

Our key message

1. **We prefer high-yield planters.** We continue to prefer Indonesia- and Singapore-listed planters for their stronger prospective rebound in output, earnings deliveries and undemanding valuations. We believe selected counters remain undervalued. In spite of our lowered expectations, we believe buoyant CPO prices will continue to support the profitability of planters.
2. **Expecting steady CPO price performance in 2H17; despite seasonally high fruit output period.** As we look at the anticipated recovery in China's palm oil imports, the higher B20 blend in Indonesia, and the low levels of palm oil inventories in Malaysia, China and India; we believe palm oil demand should continue to balance supply this year – even with a prospective 10% output rebound.
3. **Further CPO downside pressure is low, Indonesia biodiesel development is key upside risk.** We expect fresh fruit bunch (FFB) yields to recover 8% in Malaysia and 6% in Indonesia this year. Yet, following a steep 14% and 15% declines in CY16, such production recovery is not expected to excessively pressurise CPO price given the upside potential from biodiesel demand from Indonesia, besides the India steady palm oil import trend and China's recovering imports on bottoming soybean crushing margin.
4. **Low cost structure and minor expansion, means strong cash flow generation among planters.** As planters wind down their aggressive expansions due to the dwindling supply of suitable land, strict sustainability standards and potentially more regulatory restrictions; we expect more operating cash flow to be set aside as higher dividends – in the absence of any opportunistic acquisition.

Our recommendations

We favour planters with younger age profile for their higher volume growth. We also like planters with strong balance sheets, which would allow them to take advantage of any opportunistic brown field acquisitions, to expand value chain downstream, and/or to diversify their businesses into other crops. We employ new earnings forecast mainly on the new assumption in CPO price and foreign exchange assumptions. Our new TP still provide 11%-15% share price upside potential, excluding the dividend yield potential of 2%-4%.

As we continue to see value emerging from our picks (even with our more conservative edible oil assumption), we continue to advise investors to increase exposure to **Astra Agro Lestari** (AALI: BUY, TP: Rp17,700), **London Sumatra** (LSIP: HOLD, TP: Rp1,630); **TSH Resources** (TSH: BUY, TP: RM2.05), **Bumitama Agri** (BAL: BUY, TP: S\$0.94) and **First Resources** (FR: BUY, TP: S\$2.13).

We also maintain our HOLD ratings on **Indofood Agri** (IFAR: HOLD, TP: S\$0.49) and **Genting Plantations** (GENP: HOLD, TP: RM11.05) given the limited upside potential. We also reiterate our HOLD calls on **IOI Corporation** (IOI: HOLD, TP: RM4.70), **KL Kepong** (KLK: HOLD, TP: RM24.75), **Sime Darby** (SIME: HOLD, TP: RM9.05) and **Wilmar International** (WIL: HOLD, TP: S\$3.52).

Changes to our key assumptions

We lower our CY17F/18F CPO prices (US\$/MT, FOB) by 2%/4% to US\$645/US\$616. In MYR terms, they were lowered by 9%/14% to account for ringgit appreciation. We have also imputed lower CY17F soybean oil prices, in the wake of lower CPO price forecasts. Our CPO and SBO price forecasts imply a spread of US\$110 per ton in CY17/18, or relatively in line with the 5-year average spread level. We maintain our sugar, cocoa and coffee price forecasts, which are based on the World Bank Commodity Outlook report (January 2017).

Summary of CPO, soybean, and soybean oil price revisions

	15	16	17F	18F	19F	20F	21F
CPO price (RM/MT FOB P.Gudang)	2,168	2,652	2,760	2,620	2,600	2,630	2,640
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Source: Bloomberg Finance L.P., Datastream, DBS Bank estimates

We maintain CY17F and CY18F Brent prices at US\$51.7/bbl and US\$53.3/bbl, based on forecasts published by US EIA (Energy Information Administration) Short-Term Energy Outlook (December 2016). CY17F and CY18F rubber (STR20, FOB) prices were also revised up (based on the actual CY16 actual average) to US\$1,497/MT and US\$1,516/MT from US\$1,342/MT and US\$1,360/MT respectively.

Incorporating the latest (June 2017) in-house currency forecasts, we anticipate an appreciation trend in USD/MYR and USD/IDR exchange rates in the near term – but a flattish

trend is expected in the long term. Hence, while we had lowered USD palm oil price forecasts by 2-4%, the free cash flow impact from CY19F onwards is less significant, thus resulting in slightly lower TPs.

We assume no change in the prevailing export tax/levy structure – although this may change via possible policy synchronisation recommended by the Council of Palm Oil Producing Countries (CPOPC) going forward.

Revisions to our currency exchange rates

FX rates (YE)	15	16	17F	18F	19F	20F	21F
USD/MYR	4.29	4.49	4.22	4.26	4.29	4.29	4.29
USD/IDR	13,795	13,436	13,411	13,483	13,556	13,556	13,556
USD/SGD	1.42	1.38	1.39	1.41	1.41	1.41	1.41
USD/THB	36.0	35.8	34.5	34.8	34.8	34.8	34.8
Previous FX rates (YE)	15	16	17F	18F	19F	20F	21F
USD/MYR	4.29	4.49	4.78	4.70	4.68	4.68	4.68
USD/IDR	13,795	13,436	13,876	13,742	13,719	13,719	13,719
USD/SGD	1.42	1.38	1.48	1.47	1.46	1.46	1.46
USD/THB	36.0	35.8	36.8	36.7	36.6	36.6	36.6
% strengthen (weaken)	15	16F	17F	18F	19F	20F	21F
USD/MYR	0%	0%	13%	10%	9%	9%	9%
USD/IDR	0%	0%	3%	2%	1%	1%	1%
USD/SGD	0%	0%	6%	4%	4%	4%	4%
USD/THB	0%	0%	7%	5%	5%	5%	5%

Source: Bloomberg Finance L.P., DBS Bank estimates

Summary of EPS and TP revisions

	R	Prev. CY17F EPS	Prev. CY18F EPS	New CY17F EPS	New CY18F EPS	CY17F EPS rev.	CY18F EPS rev.	Prev. TP	New TP	TP rev.
Indonesia (EPS/TP)										
Astra Agro Lestari (Rp)	B	1,205	1,330	1,115	1,155	-7%	-13%	18,100	17,700	-2%
London Sumatra (Rp)	B	124	140	105	115	-15%	-18%	1,690	1,630	-4%
Malaysia (EPS/TP)										
Felda Global V. (sen/RM)	H	6	8	5	7	NM	-8%	1.65	1.60	-3%
Genting Plant. (sen/RM)	H	57	64	49	50	-14%	-22%	12.20	11.05	-9%
IOI Corporation (sen/RM)	H	15	18	16	18	8%	2%	4.70	4.70	0%
KL Kepong (sen/RM)	H	125	135	114	119	-9%	-12%	22.75	24.75	9%
Sime Darby (sen/RM)	H	43	47	38	40	-12%	-15%	8.70	9.05	4%
TSH Resources (sen/RM)	B	10	13	9	11	-14%	-19%	2.25	2.05	-9%
Singapore (EPS/TP)										
Bumitama Agri (Rp/\$)	B	701	696	578	677	-18%	-3%	0.99	0.94	-4%
First Resources (US¢/\$)	B	11	13	10	11	-9%	-12%	2.15	2.13	-1%
Golden Agri R. (US¢/\$)	NR	1	1	1	1	-3%	-3%	0.41	0.39	-4%
Indofood Agri (Rp/\$)	H	613	656	473	412	-23%	-37%	0.56	0.49	-13%
Wilmar Int'l (US¢/\$)	H	19	19	18	18	-5%	-4%	3.90	3.52	-10%

Source: DBS Bank, DBSVI estimates

CPO price upside risk from Indonesia biodiesel demand

Based on forecast CY17 palm oil export volume of 24.8m MT (i.e. c.76% of which is RBD Olein), we estimate the Indonesian Oil Palm Estate Fund Administrator (BPD or CPO Fund) to collect US\$865m of export levies. The proceeds are available to subsidise the difference between biodiesel price (based on fixed formula of domestic CPO price + US\$125) and imported diesel price. Based on our revised forecasts, this difference should average US\$282/MT this year (the higher the crude oil price, the lower the subsidy and vice versa).

Hence, including non-subsidised biodiesel output, we anticipate Indonesia to produce 3.3m MT or 3.4m kl of

biodiesel – representing an increase of 0.5m MT y-o-y. According to USDA, Indonesia currently has a nameplate capacity of 7.3m MT p.a. – and this is expected to expand to 7.6m MT in CY17 – implying a low c.45% utilisation rate.

Execution remains the key issue to keep an eye on. We believe biodiesel absorption also depends on the underlying demand for the blended diesel itself, besides government efforts to roll out the B20 programme.

A breakdown of our estimates is presented below:

Estimated CPO Fund proceeds, and diesel spread to be subsidised, and estimated biodiesel produced

Indonesia palm oil volumes	2014	2015	2016	2017F	2018F	2019F	2020F	2021F
Indonesia's palm oil output (m MT)	31.4	33.4	31.8	34.8	36.7	38.5	39.6	40.5
Indonesia's dom. consumption (m MT)	8.6	7.0	9.1	10.0	11.1	12.3	13.6	15.1
<i>growth</i>	<i>6.3%</i>	<i>-18.2%</i>	<i>28.8%</i>	<i>10.6%</i>	<i>10.9%</i>	<i>10.8%</i>	<i>11.0%</i>	<i>10.9%</i>
<i>GDP growth</i>	<i>5.0%</i>	<i>4.8%</i>	<i>5.1%</i>	<i>5.3%</i>	<i>5.5%</i>	<i>5.5%</i>	<i>5.7%</i>	<i>5.7%</i>
<i>ratio to GDP growth</i>	<i>1.3</i>	<i>-3.8</i>	<i>5.6</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>1.9</i>	<i>1.9</i>
Indonesia's palm oil exports (m MT)	22.8	26.4	22.8	24.8	25.6	26.2	25.9	25.4
<i>growth</i>	<i>10.5%</i>	<i>15.6%</i>	<i>-13.7%</i>	<i>9.0%</i>	<i>3.3%</i>	<i>2.3%</i>	<i>-1.0%</i>	<i>-2.1%</i>
9%								
Indonesia biodiesel mandate estimates	2014	2015	2016	2017F	2018F	2019F	2020F	2021F
CPO price forecast (US\$/MT, FOB)	738.3	560	640	645	616	635	640	651
Domestic CPO price (net of export levy) (US\$/MT)		510	590	595	566	585	590	601
Biodiesel price (dom. CPO px + US\$125) (US\$/MT)		635	715	720	691	710	715	726
Crude oil price - Brent (US\$/bbl)		52	43	52	53	57	60	64
Gas oil price (US\$/MT)		450	392	452	464	489	516	545
Biodiesel & diesel fuel px-spread (subsidy needed) (US\$/MT)		185	323	268	227	222	199	181
CPO export vol. subject to levy (m MT)		3.4	5.6	6.0	6.2	6.4	6.3	6.2
<i>share of export vol.</i>		<i>26%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>
CPO export levies - US\$50/MT (US\$ m)		170	278	302	312	320	316	310
Olein export vol. subject to levy (m MT)		9.8	17.2	18.7	19.4	19.8	19.6	19.2
<i>share of export vol.</i>		<i>74%</i>	<i>76%</i>	<i>76%</i>	<i>76%</i>	<i>76%</i>	<i>76%</i>	<i>76%</i>
Olein export levies - US\$30/MT (US\$ m)		294	516	562	581	594	588	576
Export levies collected (US\$ m)		464	794	865	893	914	905	885
How much biodiesel can be produced (m MT)		0.600	2.454	3.226	3.933	4.124	4.554	4.892
How much biodiesel can be produced (m kl)		0.620	2.535	3.332	4.062	4.259	4.703	5.052

Sources: USDA, Handbook of Energy & Economic Statistics of Indonesia, Oil World, Pertamina, Kontan newspaper, DBS Bank estimates
Biodiesel pricing formula: CPO price + US\$125/MT

Indonesia's biodiesel demand projections

Indonesia	2014	2015	2016	2017F	2018F	2019F	2020F	2021F
Transport diesel consumption (m litres)	26,437	26,142	26,220	26,966	27,053	27,152	27,253	27,353
in m MT	23.265	23.005	23.074	23.730	23.806	23.894	23.982	24.071
growth	-5%	-1%	0%	3%	0%	0%	0%	0%
GDP growth	5.0%	4.7%	5.1%	5.4%	5.5%	6.3%	6.3%	6.3%
correlation	-108%	-24%	6%	6%	6%	6%	6%	6%
Biodiesel exports (m litres)	1,350	343	200	100	-	-	-	-
Domestic biodiesel PSO (m litres)	1,520	817	2,490	3,332	4,062	4,259	4,703	5,052
implied blend	6%	3%	9%	12%	15%	16%	17%	18%
Domestic biodiesel non subsidised (m litres)	80	43	247	144	144	145	146	146
implied blend	0%	0%	1%	1%	1%	1%	1%	1%
Chg. in inventory (m litres)	50	-23	0	0	0	0	0	0
Total biodiesel produced (m litres)	3,000	1,180	2,937	3,576	4,207	4,404	4,848	5,199
growth	7%	-61%	149%	22%	18%	5%	10%	7%
Nameplate capacity (m litres)	5,670	6,750	7,280	7,628	7,628	7,628	7,628	7,628
utilisation rate	53%	17%	40%	47%	55%	58%	64%	68%
Indonesia palm oil production (MT)	31,400,000	33,400,000	31,800,000	34,992,452	36,990,451	38,793,219	39,994,589	41,040,570
growth	9%	6%	-5%	10%	6%	5%	3%	3%
Palm oil required for biodiesel production (MT)	2,904,725	1,142,525	2,843,600	3,462,469	4,073,348	4,264,508	4,694,510	5,033,467
% energy recovery rate	91%	91%	91%	91%	91%	91%	91%	91%
Non biodiesel palm oil consumption (MT)	5,688,275	5,884,475	6,206,400	5,928,786	6,254,869	6,648,926	7,067,808	7,513,080
growth	6%	3%	5%	-4%	6%	6%	6%	6%
correlation to GDP	118%	73%	107%	-83%	100%	100%	100%	100%
Total domestic palm oil consumption (MT)	8,593,000	7,027,000	9,050,000	9,391,255	10,328,217	10,913,434	11,762,318	12,546,548
growth	6%	-18%	29%	4%	10%	6%	8%	7%
Indonesia palm oil available for exports (MT)	22,807,000	26,373,000	22,750,000	25,601,197	26,662,233	27,879,785	28,232,271	28,494,022
growth	11%	16%	-14%	13%	4%	5%	1%	1%

Sources: USDA, Handbook of Energy & Economic Statistics of Indonesia, Oil World, Pertamina, Kontan newspaper, DBS Bank estimates
 Biodiesel pricing formula: CPO price + US\$125/MT

Malaysia's biodiesel demand projections

Malaysia	2014	2015	2016	2017F	2018F	2019F	2020F	2021F
Diesel consumption (m litres)	5,286	5,416	5,544	5,793	6,054	6,326	6,611	6,908
in m MT	4.652	4.766	4.878	5.098	5.327	5.567	5.818	6.079
growth	2%	2%	2%	5%	5%	5%	5%	5%
GDP growth	6%	5%	5%	5%	5%	5%	5%	5%
correlation	41%	50%	47%	90%	90%	90%	90%	90%
Biodiesel exports (m litres)	95	195	74	74	74	74	74	74
Domestic on-road biodiesel (m litres)	370	525	530	770	805	841	879	918
implied blend	7%	10%	10%	13%	13%	13%	13%	13%
Domestic biodiesel non subsidised (m litres)	-	-	-	-	-	-	-	-
implied blend	0%	0%	0%	0%	0%	0%	0%	0%
Chg. in inventory (m litres)	-14	-170	93	-60	0	0	0	0
Total biodiesel produced (m litres)	451	550	697	784	878	914	952	992
growth	-12%	22%	27%	12%	12%	4%	4%	4%
Nameplate capacity (m litres)	2,880	2,880	2,880	2,880	2,880	2,880	2,880	2,880
utilisation rate	16%	19%	24%	27%	30%	32%	33%	34%
Malaysia palm oil production (MT)	19,666,993	19,961,581	18,428,981	19,461,990	20,071,662	21,075,633	22,039,556	22,906,013
growth	2%	1%	-8%	6%	3%	5%	5%	4%
Palm oil required for biodiesel production (MT)	436,633	532,533	674,430	758,667	850,311	885,370	922,007	960,293
% energy recovery rate	91%	91%	91%	91%	91%	91%	91%	91%
Non biodiesel domestic palm oil consumption (MT)	2,381,367	2,384,467	2,058,464	2,161,387	2,269,456	2,382,929	2,502,075	2,627,179
growth	31%	0%	-14%	5%	5%	5%	5%	5%
correlation to GDP	516%	3%	-273%	100%	100%	100%	100%	100%
Total domestic palm oil consumption (MT)	2,818,000	2,917,000	2,732,893	2,920,054	3,119,767	3,268,299	3,424,083	3,587,472
growth	22%	4%	-6%	7%	7%	5%	5%	5%
Malaysia palm oil available for exports (MT)	16,848,993	17,044,581	15,696,088	16,541,936	16,951,895	17,807,334	18,615,473	19,318,541
growth	0%	1%	-8%	5%	2%	5%	5%	4%

Source: USDA, MPOB, DBS Bank estimates
 Biodiesel pricing formula: RBD Palm Oil price + RM515/MT

Regional peers comparison

	Est. land bank (ha.)	17F own mat. (ha.)	17F own planted (ha.)	Share price 4-07-2017	Market cap (m)	Adjusted 17F EV/planted (own)	Adjusted 17F EV/mature (own)	CY PER, x		FY Div. yield, %		EPS growth (inc. BA gains), %		FY Net gearing, %		FY EV/ EBITDA, x		16-19F own FFB vol CAGR %	16-19F EPS CAGR %	Rec	12-month target price	Basis		
Indonesia																								
Astra Agro L.	n/a	212,455	236,311	Rp 14,650	US\$ 2,117	US\$ 8,674	US\$ 9,648	13.1	12.7	3.4	3.5	7	4	10	1	6.9	6.4	5.5	7.5	B	Rp17,700	DCF		
London Sum.*	215,917	85,996	95,432	Rp 1,435	US\$ 735	US\$ 6,635	US\$ 7,363	13.7	12.4	2.5	3.0	21	10	NC	NC	8.9	7.7	5.8	10.1	B	Rp 1,630	DCF		
Simple avg					US\$ 2,852	US\$ 7,654	US\$ 8,505	13.4	12.6							7.9	7.0							
Malaysia																								
Felda Global V.	355,864	285,514	338,161	RM 2.04	US\$ 1,678	US\$ 7,121	US\$ 8,434	38.8	27.3	1.0	2.5	510	42	66	69	11.1	9.7	2.3	125.1	H	RM 1.60	DCF		
Genting Plant.	150,912	95,163	131,659	RM 11.50	US\$ 2,082	US\$ 8,360	US\$ 11,566	23.4	22.8	1.8	0.9	6	3	10	8	16.6	15.9	9.4	1.2	H	RM 11.05	SOP		
IOI Corp**	220,593	150,616	180,963	RM 4.63	US\$ 6,558	US\$ 19,293	US\$ 23,180	29.2	25.8	1.7	2.1	38	28	72	65	15.0	15.5	3.6	21.7	H	RM 4.70	DCF		
KL Kepong	245,905	175,967	211,512	RM 24.68	US\$ 5,924	US\$ 11,230	US\$ 13,498	21.6	20.8	2.0	2.3	-24	5	26	19	13.8	12.8	5.5	(6.8)	H	RM 24.75	DCF		
Sime Darby	647,373	507,156	605,046	RM 9.32	US\$ 14,287	US\$ 10,814	US\$ 12,901	24.7	23.1	2.9	3.1	-5	10	30	33	14.1	13.5	2.3	2.8	H	RM 9.05	SOP		
TSH Res.	82,841	29,253	42,579	RM 1.83	US\$ 559	US\$ 10,389	US\$ 15,122	20.9	17.1	1.1	1.2	104	23	76	70	16.5	13.8	12.5	40.0	B	RM 2.05	DCF		
Simple avg					US\$31,088	US\$11,201	US\$14,117	26.4	22.8							14.5	13.5							
Singapore																								
Bumitama A.	191,561	114,582	131,466	S\$ 0.80	US\$ 990	US\$ 10,184	US\$ 11,685	13.0	11.1	0.8	0.9	1	17	34	17	8.0	6.5	10.1	7.5	B	S\$ 0.94	DCF		
First Resources	312,488	151,086	180,998	S\$ 1.92	US\$ 2,158	US\$ 13,500	US\$ 16,172	13.4	12.4	1.1	2.0	29	8	9	NC	7.6	6.9	10.9	15.1	B	S\$ 2.13	DCF		
Golden Agri R.	558,000	373,302	385,997	S\$ 0.37	US\$ 3,307	US\$ 15,495	US\$ 16,021	20.1	18.1	1.5	4.0	-61	11	58	55	8.0	7.5	4.9	(20.6)	NR	S\$ 0.39	DCF		
Indofood Agri*	541,224	210,833	248,280	S\$ 0.51	US\$ 506	US\$ 2,790	US\$ 3,286	10.2	11.7	0.0	0.0	33	-13	28	25	6.4	6.9	6.2	6.1	H	S\$ 0.49	DCF		
Wilmar Int'l	573,401	207,854	246,892	S\$ 3.54	US\$ 15,925	US\$ 6,342	US\$ 7,533	14.3	13.6	1.8	2.4	16	5	76	67	11.6	11.0	4.9	7.4	H	S\$ 3.52	DCF		

Source: Companies, DBSVI, DBS Bank, Bloomberg Finance L.P.

Valuations is sensitive to CPO price; YTD sector underperformance vs. indices

Plantation stocks' valuation generally follows the CPO price trend, which is one of the most important key drivers of planters' earnings outlook, despite the fact that share price outperformance vs. peers may be affected by other factors – mainly CPO yield and operating profit margin, which we will discuss later on in the critical factor section.

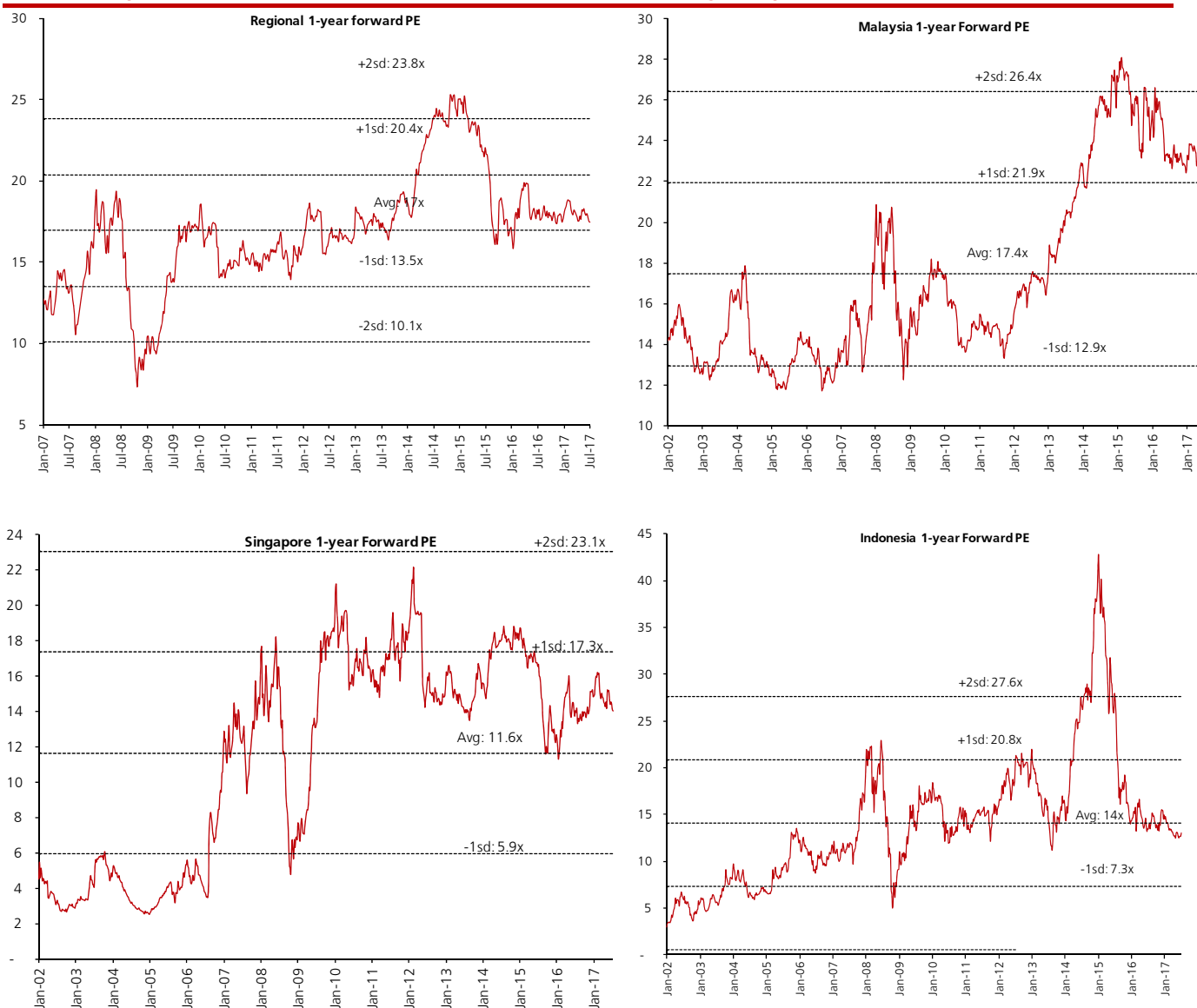
The share price of plantation companies has underperformed the indices of the respective countries, despite the strong earnings performance in 1QCY17. This reflects the fact that the market has priced the weaker earnings momentum potential for the rest of 2017, and next year on the back of normalising CPO and PK prices despite the higher palm oil product output on the back of recovering yields after the onset of El-Nino in 2016.

From our updated forecasts, Bursa-listed planters are trading at an average forward PE of 23x, keeping its premium to SGX-listed planters' 12x and IDX-listed planters' 13x. However all have eased relative to earlier multiples, implying that the plantation companies had been trading at an undemanding valuation despite our lower earnings expectations, mainly on lower CPO price assumptions in CY18.

We saw across-the-board sector underperformance due to the lacklustre performance of CPO price in 1HCY17. The YTD share price performance was generally more positive for Bursa-listed planters given the recovery trend in 1Q17 earnings performance, thanks to a weaker ringgit trend which helped boost domestic ASP, on top of Bursa-listed planters' lagged performance vs. SGX and IDX-listed companies in 2016. Bursa-listed planters tend to behave as low beta stocks, being the least responsive to short-term CPO price fluctuations, in our view.

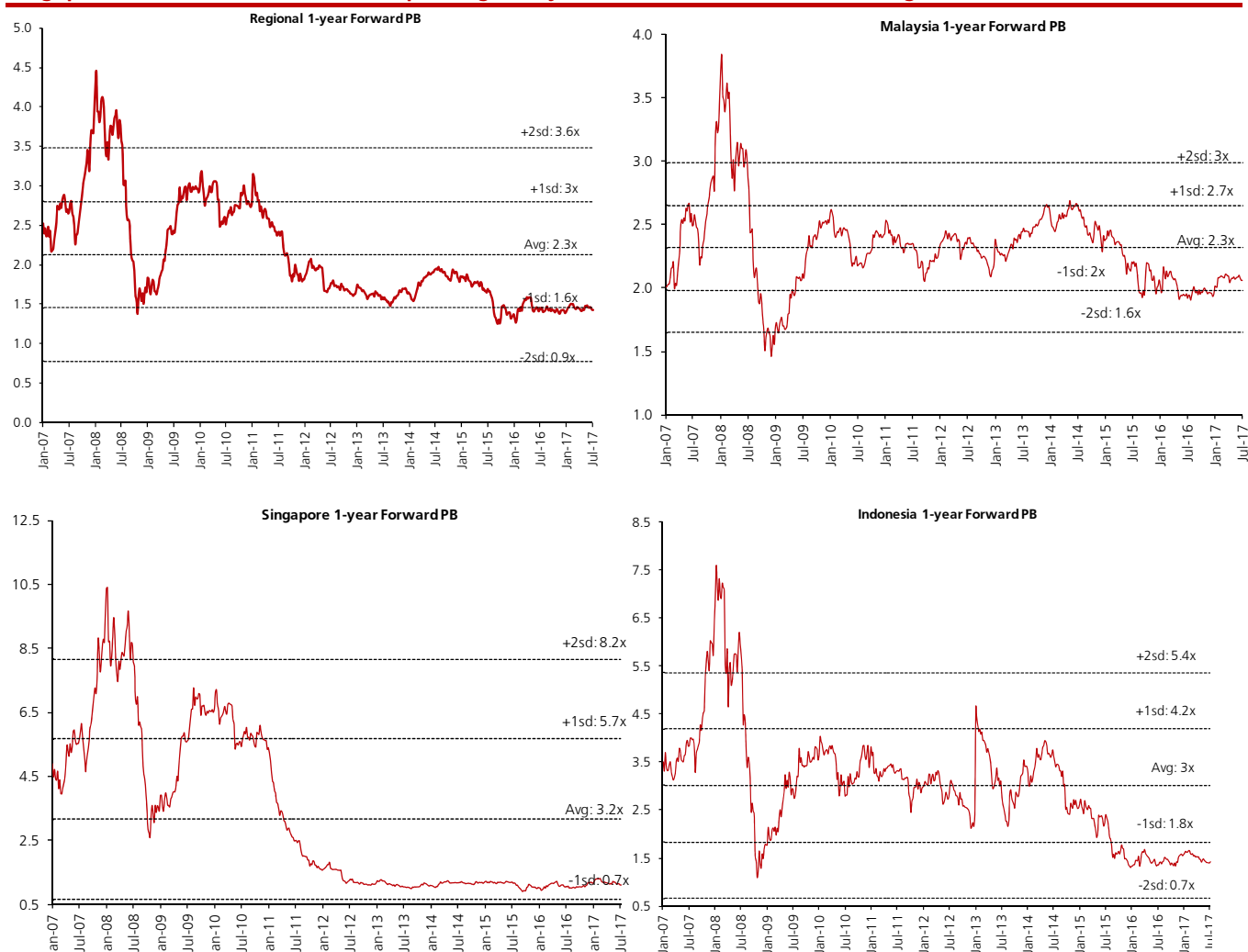
On the other hand, IDX-listed plantation counters have underperformed YTD, and a milder underperformance for SGX-listed planters. The underperformance of IDX-listed planters, despite the strong earnings performance in 1Q17, was due to the correction in CPO price – hence, the market has priced in a dimmer earnings outlook for the remaining quarters. We found out that the Indonesian planters' stock price moves in tandem with the CPO price trend. The milder underperformance of SGX-listed planters was due to the expectation of strong volume growth, with their earnings being more defensive to cope with a weaker CPO price outlook.

Bursa-listed planters' valuations have come down, but still remain at regional premium



Source: Bloomberg Finance L.P., DBS Bank, DBSVI estimates

Singapore's P/BV valuation is the cheapest regionally, as GGR, IFAR and WIL are trading below book



Source: Bloomberg Finance L.P., DBS Bank, DBSVI estimates

Y-o-y earnings recovery trend will continue in 2QCY17, but lower q-o-q on lower CPO and PK price trend

Despite 1QCY17 earnings being on track to meet our full-year forecast on the back of both higher fruit output and higher CPO and palm oil ASP on a y-o-y basis, we expect earnings in 2QCY17 to contract q-o-q on the back of lower CPO and PK ASP. The negatives would outweigh the positives – the lower cash cost per ton outlook on softer fertilising activities and overall stable operational costs including wages.

Based on our survey involving some planters in Indonesia and Malaysia, the 2QCY17 palm oil output uptrend still persisted on yield recovery. We will continue to see a palm oil output

recovery trend on higher palm oil yield y-o-y and normalising weather conditions in the wake of El-Nino last year.

In our estimation, earnings should drop by 9% to > 17% q-o-q; as we impute the average spot palm oil price of US\$645/MT (FOB Pasir Gudang) and up to 10% q-o-q rebound in FFB output.

Normalising palm oil refining and soybean crushing seen in late 2QCY17

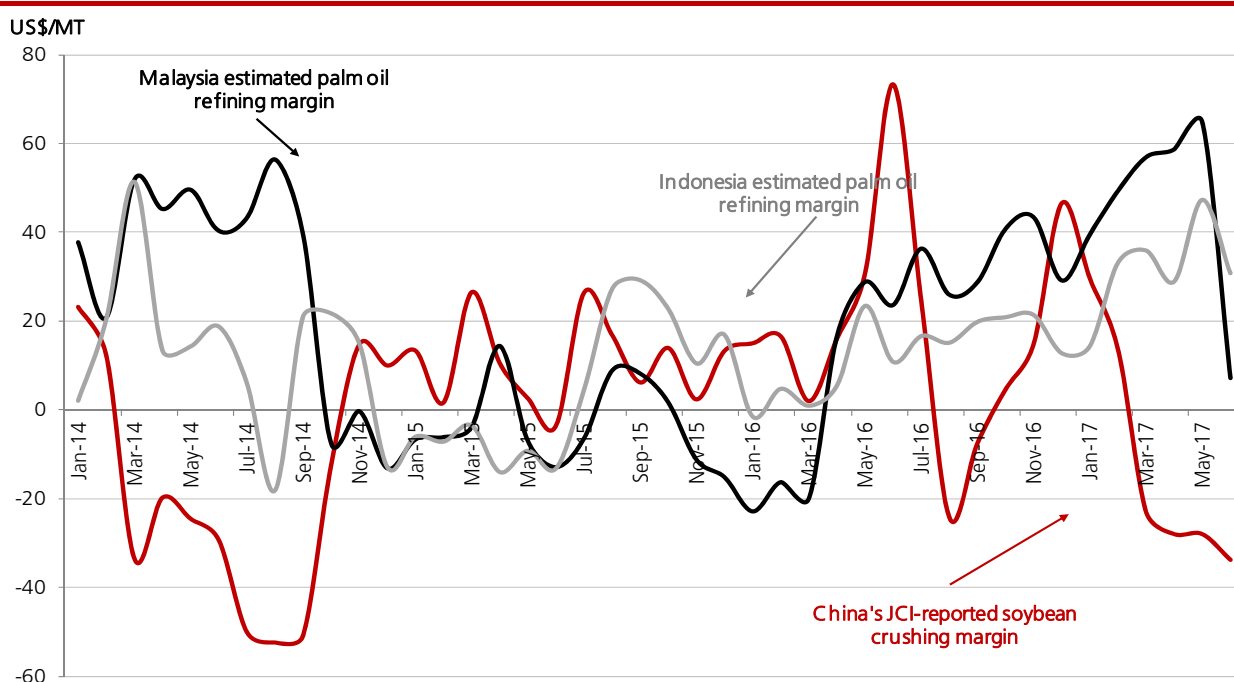
Spot palm oil refining margins normalised in May-June 2017 in both Malaysia and Indonesia – on the back of the lagged effect of YTD price declines for RBD Olein, RBD Stearin and PFAD (Palm Fatty Acid Distillate) which have performed well since November 2016, following the weaker CPO price trend in 2QCY17.

On the other hand, China soybean crush margin will remain in negative territory for three consecutive months on the back of

the soy oil price downtrend. However, we also believe the crushing margin downtrend is nearing the bottom as we reckon the current margin level will hamper soybean imports and help normalise prices, to be followed by a healthier level of crushing margin.

The normalising margin for both CPO and soybean is a sign that the supply and demand for CPO has adjusted to the latest developments in the China soybean market, and any improvement in the soybean price could help lift CPO price at this point.

2QCY17 spot palm oil refining margins and spot soybean crush margins in China



Source: Bloomberg finance L.P., SEA of India, MPOB, DBS Bank, DBSVI estimates

Quarterly palm oil refining margin (in US\$/MT — calculated based on spot CPO, RBD Olein, RBD Stearin, PFAD prices)

	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Indonesia	42.0	23.0	40.7	24.7	15.6	3.1	8.1	-5.4	-12	20.5	16.8	1.5	13.3	17.3	18.5	28	36
gross refining margin	5%	3%	5%	3%	2%	0%	1%	-1%	-2%	4%	3%	0%	2%	3%	3%	4%	5%
Malaysia	32.1	35.6	30.9	36.8	45	46.4	-6.9	-5.5	-1.8	3.6	-8.2	-19.6	23	30.3	37.7	49	43
gross refining margin	4%	5%	4%	4%	5%	6%	-1%	-1%	0%	1%	-2%	-3%	3%	5%	5%	7%	8%

Source: Bloomberg Finance L.P., SEA of India, MPOB, DBS Bank, DBSVI estimates

Where we can go wrong

Risks to our view are summarised below:

- 1. Energy price volatility and biodiesel volumes.** We assumed certain biodiesel volume as a key palm oil demand driver – which ultimately is dependent on actual allocation as a percentage of overall diesel consumption. Should this fail to materialise, our CPO price forecast would be negatively affected. Yet, given the rundown in global palm oil and soybean inventories in 2016, we believe chances for a collapse in CPO prices should be limited. On the other hand, any strength in crude oil price above our forecasts (i.e. lower subsidy/MT) should also increase the chances of more blending. In our forecasts, we employed long-term Brent crude oil prices based on EIA and World Bank forecasts. Energy price volatility would impact the demand for palm and soybean oil for energy use, subject to biodiesel subsidies.
- 2. Release of China's rapeseed oil state reserves.** China still has c.4.1m MT of rapeseed oil reserves (as at end-August 2016). Recent Oil World report highlighted the Chinese government's decision to release 2m MT of rapeseed oil from state reserves starting mid-October. This could have bearish pressures on soybean/palm oil prices as it did in 1HCY16.
- 3. Exchange rates.** In our forecasts, we assume a strong USD. A reversal of this trend would have an adverse impact on soybean and crude oil prices in USD terms as well as CPO prices in ringgit and rupiah terms. A strong USD would also make planting soybeans in South America more profitable in local currencies.
- 4. Weather anomalies.** Dry weather (such as strong El Nino events) typically disrupts supply in the affected estates with some time lag (typically two years thereafter) and influence palm oil prices. Dryness/flooding in soybean growing regions would likewise influence the price of soybean oil. CPO price upside is also possible if a strong La Nina (a weather phenomenon, that causes drought in North/South Americas which typically ensues a strong El Nino), occurs. In CY07-08, a moderate La Nina caused Brazil and Argentine soybean harvests to drop 17% y-o-y, thus boosting both soybean and CPO prices. The last severe La Nina impact on South American soybean crop occurred in 2009.
- 5. China's economic growth.** We imputed demand growth for both soybean and palm oil based on October 2016 IMF global GDP growth forecasts. Weaker-than-expected economic growth forecasts globally would have adverse consequences on our price forecasts. In this sector, Chinese economic growth is an important demand proxy. China occupies 14% and 47% shares of global palm oil and soybean oil (implied) imports respectively. Any steep depreciation in CNY could also work to reduce processors' margins.
- 6. Change in export/import tax structure.** Changes in Indian soybean and palm oil import taxes would have implications on Indian demand. According to Oil World, India accounts for 20% and 31% of global palm oil and soybean oil imports respectively.
- 7. The pace of South American soybean sales** may also have some bearing on palm oil price direction. USD strength may lead to an increase in soybean exports that would result in further price pressures. We still expect expanded planting of Argentine soybean this year, on the back of reduced export tax and favourable exchange rate.
- 8. Shift in seasonal planting patterns.** The price divergence in soybean and corn prices may shift farmers' planting to corn for the 2016/17 marketing year.
- 9. Changes in import/export taxes.** Any move by the Indian Government to raise/lower refined edible oil import taxes would have consequences on Malaysian refiners' margins. Likewise, changes in Indonesian/Malaysian export taxes in response would have consequences on planters' net ASP and margins.
- 10. Faster-than-expected rise in production cost.** The unit cost of producing one MT of CPO in Indonesia is rising faster than inflation. Recent increases in workers' wages have all taken a toll on cost and may further erode margins. Likewise, labour shortages in Malaysia would continue to affect productivity and palm oil unit cost over the long term.

Palm oil output recovery will sustain in 2HCY17

Palm oil price rebounded from 1Q17 selloff; stable palm oil demand will keep inventory in check

Palm oil price dropped steeply in 1Q17 due to normalising fruit output, while demand trend from China and India was relatively soft. CPO price has rebounded in response to the relatively steady palm oil export data from Malaysia in May and June, which saw inventories maintained at the 1.5m MT level. Despite the strong output outlook, we expect the tight inventory trend to cause CPO price to trade sideways in 2HCY17.

CPO price rebounded in May, as seasonal demand picked up ahead of the Ramadan month following a downtrend in 1Q17 due to seasonally low demand in January-April 2017 – mainly due to India's inventory demonetisation since November 2016. This was further exacerbated by sequential m-o-m palm oil production gains in March and April.

Global palm oil consumption is due for a rebound, following a contraction last year (after stripping out biodiesel demand expansion in Indonesian and Malaysia) on inventory restocking from major importing countries. Despite the forecast of a 10% jump in global output, we expect global palm oil inventory to inch up this year. In addition to a recovery in food demand, biodiesel blending in Indonesia is poised to expand 0.5m MT y-o-y.

Indonesia B20 biodiesel allocation after October 2017, on top of seasonal Ramadan demand in May-June 2017

The demand pick-up will keep inventory levels at a healthy level despite the m-o-m output uptrend in May and June. In the near term, we believe there are two key demand drivers – which we believe should maintain the near-term momentum for palm oil prices:

1. Seasonal Ramadan demand from end-April 2017 which we have imputed into our forecast
2. Indonesia's next batch of B20 biodiesel allocation (May–October 2017), which we expect to increase to 1.64m kl vs. November 2016 to April 2017's allocation of 1.53m kl. This is based on our revised FY forecast of 3.2m kl (subsidised portion)

Production rebound, but yield still weighed down by last year's El-Nino

Malaysian output did not recover as strongly as we had previously anticipated. Indonesian palm oil output (based on

data reported by Bumitama and First Resources) had recovered more robustly. However, the increased supply was more than compensated by strong demand recovery over the same period on restocking activities.

Following declines of 15% in Indonesia and 14% in Malaysia last year, we expect this year's FFB yields to rebound 6% and 8% respectively. FFB yields are not expected to fully normalise back to the CY15 level; given lingering impacts from reduced fertiliser application in 2015 as well as typical second-year impact following a severe El Nino.

We adjusted our CY17F and CY18F palm oil supply forecasts slightly. This mainly reflects higher forecast output from producers outside Indonesia and Malaysia. We now expect global palm oil supply to expand 10% y-o-y to 64.8m MT this year; though decelerating to 4% to 67.6m MT in CY18F.

Out of the expected 6.0m MT of output growth this year, Malaysia will contribute 40%; while Indonesia will contribute 55% (partly powered by its strong pipeline of maturing trees). Approximately 526k ha of oil palm estates are due to mature in Indonesia this year – while 620k ha that matured last year will continue to pick up additional yields. New maturities are comparatively lower in Malaysia (i.e. at 251k ha this year and 204k ha last year).

Palm oil inventory remains in check despite higher output

By end of this year, we expect palm oil inventory to settle at 11.1m MT or 17.6% of global annual demand. Our new palm oil inventory forecast reflects the brighter FFB output outlook this year amid a relatively steady demand outlook, which can also lead to limit the downside risk of CPO prices in CY17/CY18. Previously, global palm oil inventory had shrunk to 10.3m MT at the end of CY16, based on the Oil World December 2016 report. This represents c.16.6% of the annual global demand (down from 21.3% in the previous year).

CY17F/18F palm oil prices lowered by 2%/4%

This year, global palm oil demand is expected to expand at a moderate rate of 2.0% or 1.7m MT to 63.6m MT. A majority of this growth (or c.1m MT) should come from food demand; biodiesel demand is forecast to expand by 0.5m MT (of which 0.4m MT would come from Indonesia's B20 mandate). We nudge down our demand forecast from 63.6 MT for lower biodiesel absorption YTD (mainly from Indonesia). We also lower Indonesia's biodiesel mandate after trimming our forecast for export volumes.

We maintain our overall Indonesia and Malaysia biodiesel production- and consumption-related forecasts. Indonesia is forecast to produce c.3.1m MT this year. Likewise, including 74k MT of exports, we now expect Malaysia to produce c.784k MT of biodiesel (lowered from 960k MT in our previous forecast). We believe the revised biodiesel production target for Indonesia is achievable; based on an estimated export levy collection of US\$865m.

Having imputed the revisions to our volume forecasts, we trim our CY17F/18F CPO price assumption (US\$/MT, FOB basis) by 2%/4% to US\$645/US\$616. In MYR terms, CPO price was cut by -9%/-14% to RM2,760/RM2,620 – reflecting a slight appreciation of the ringgit vis-à-vis previous expectations.

Strong output to cap CPO price upside potential in 2H17

On the prospects of a recovery in global palm oil inventory, palm oil price may trade sideways in the short term, but on the back of normalising CPO demand, we believe the current palm oil price trend is on track to meet our average CPO price forecast this year. However, we assume no disruptions in supply throughout the year and next year, normalising trees yield and upcoming maturities resulting in lower CPO price in CY18.

Palm oil supply and demand forecast

New forecasts - Palm Oil							Prev. forecasts - Palm Oil						
	CPO price (US\$/MT) FOB	Ending Stocks (k MT)	Global demand (k MT)	Global supply (k MT)	Stock/ usage ratio (%)	Soybean oil price (US\$/MT) FOB		CPO price (US\$/MT) FOB	Ending Stocks (k MT)	Global demand (k MT)	Global supply (k MT)	Stock/ usage ratio (%)	Soybean oil price (US\$/MT) FOB
2016	640	9,890	62,341	58,875	15.9%	696	2016	640	10,297	61,979	58,306	16.6%	696
2017F	645	11,174	63,599	64,883	17.6%	753	2017F	659	10,472	63,673	63,847	16.4%	772
2018F	616	12,007	66,773	67,605	18.0%	727	2018F	644	11,061	66,304	66,893	16.7%	754
2019F	608	13,056	69,906	70,955	18.7%	727	2019F	635	12,197	69,026	70,162	17.7%	753
2020F	616	13,978	72,659	73,581	19.2%	737	2020F	645	13,388	71,534	72,725	18.7%	765
2021F	618	14,519	75,168	75,710	19.3%	750	2021F	651	14,426	73,940	74,978	19.5%	783

Source: USDA, Oil World, EIA short-term outlook (Jan 15), Bloomberg Finance L.P., DBS Bank, DBSVI estimates

Lowering CY17F/18F soybean oil prices

Due to the higher-than-expected soybean crop yield in 2017 (with high output potential in 2H17), we anticipate making downward revisions to our soybean price forecast for 2017. We forecast soybean prices to average US\$350/MT this year, lower than the previous forecast of US\$353/MT.

We expect global soybean production to increase 12% y-o-y to 348.2m MT in the current marketing year – relatively higher than the previous forecast of 334.4m MT. Our new soybean supply forecast is in line with the Oil World latest forecast in May 2017. We raise Argentina's and Brazil soybean output forecasts to 56m tons and 113m tons, respectively, to account for higher-than-expected output from the Southern Hemisphere producers.

We maintain our 2017 global soybean demand forecast at 329m tons, which is largely in line with the Oil World forecast. World crushing is expected to expand 5% y-o-y on demand recovery from China after soy meal demand hit a one-year low, offset by lower crushing activities in Argentina due to

weaker-than-expected demand for soybean meal as well as slow stock release by farmers. We continue to expect spill-over effects from soybean oil demand on the back of a palm oil supply deficit in 1HCY17 and higher US biodiesel blending.

Due to the change in supply and demand conditions, revisions to our soybean and soybean oil price expectations, as well as changes in our FX rate forecasts, we trim our CY17F/18F soybean price assumptions (USD/MT, FOB basis) by 1%/2% to US\$352/ US\$340. Likewise, we also nudge down our CY17F/18F soybean oil price assumption (USD/MT, FOB basis) by 2%/4% to US\$753/US\$727 – premised on lower soybean prices and the latest developments in China's soy meal market. We expect soybean meal prices to average US\$352/MT this year and US\$336/MT next year – adjusted from US\$352/MT and US\$340/MT previously. This is mainly driven by c.12% y-o-y expansion in global soybean output and steady demand this year – accelerating from 5.0% supply growth in CY17F.

Soybean supply and demand forecast

New forecasts - Soybeans							Prev. forecasts - Soybeans						
	Price of soybeans (US\$/MT) (FOB)	Ending Stocks (k MT)	Global demand (k MT)	Global supply (k MT)	Stock/usage ratio (%)	Crude oil price (US\$/bbl)		Price of soybeans (US\$/MT) (FOB)	Ending Stocks (k MT)	Global demand (k MT)	Global supply (k MT)	Stock/usage ratio (%)	Crude oil price (US\$/bbl)
2016	360	80,480	315,180	311,680	25.5%	42.5	2016	360	80,500	315,050	311,573	25.6%	42.5
2017F	352	88,280	329,580	337,380	26.8%	51.6	2017F	353	84,800	330,010	334,310	25.7%	51.6
2018F	340	89,853	342,297	343,870	26.3%	53.3	2018F	345	80,082	342,743	338,025	23.4%	53.3
2019F	340	88,730	355,091	353,968	25.0%	56.7	2019F	345	78,398	355,555	353,871	22.0%	56.7
2020F	345	85,954	367,613	364,838	23.4%	60.4	2020F	350	74,263	368,093	363,958	20.2%	60.4
2021F	351	85,782	379,833	379,661	22.6%	64.4	2021F	358	71,641	380,328	377,706	18.8%	64.4

Source: USDA, Oil World, DBS Bank, DBSVI estimates

India palm oil imports offset China's weaker import trend

As palm oil output recovers seasonally, we expect palm oil prices to move in tandem with soybean oil prices – thus resulting in only small tweaks to our average benchmark price in CY17/CY18, in tandem with the average benchmark soybean price.

The downside risk for palm oil at this point seems limited, in our view, even as an output recovery trend is apparent for the planters. India will provide the support for demand – thanks to its positive import trend on the back of palm oil's affordability vs. other edible oil – beyond the seasonal factors that were reflected in the May 2017 import data.

On the other hand, given the latest developments in China's soybean market, we believe that China cannot be relied on solely to drive a palm oil import recovery this year. Based on both Oil World and USDA data, China is expected to import c.5.2m MT of palm oil this year – up 16% from last year's reported volume of 4.5m MT.

Palm oil hectareage forecasts

Oil palm planted area ('000 hectares)												
	2014	2015	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
Mature	4,689.3	4,859.4	4,964.9	5,113.4	5,308.2	5,486.1	5,575.2	5,616.7	5,634.1	5,640.4	5,641.3	5,639.0
Immature	702.9	783.5	815.9	743.3	590.1	435.3	358.7	324.2	310.6	306.4	306.7	309.6
New planting	162.5	250.7	137.9	75.8	41.7	22.9	12.6	6.9	3.8	2.1	1.2	0.6
Malaysia	5,392.2	5,642.9	5,780.8	5,856.7	5,898.4	5,921.3	5,933.9	5,940.9	5,944.7	5,946.8	5,948.0	5,948.6
Mature	8,129.6	8,503.8	8,985.5	9,326.0	9,536.7	9,747.4	9,778.7	9,749.6	9,681.7	9,614.2	9,557.1	9,494.3
Immature	2,625.2	2,796.6	2,614.9	2,439.4	2,319.5	2,158.8	2,154.9	2,199.1	2,275.3	2,347.3	2,407.0	2,471.2
New planting	289.8	545.6	300.1	165.0	90.8	49.9	27.5	15.1	8.3	4.6	2.5	1.4
Indonesia	10,754.8	11,300.4	11,600.4	11,765.5	11,856.2	11,906.2	11,933.6	11,948.7	11,957.0	11,961.6	11,964.1	11,965.5
Mature	12,818.9	13,363.2	13,950.4	14,439.4	14,845.0	15,233.5	15,353.9	15,366.3	15,315.8	15,254.7	15,198.3	15,133.3
Immature	3,328.1	3,580.1	3,430.9	3,182.7	2,909.6	2,594.0	2,513.6	2,523.3	2,585.9	2,653.7	2,713.7	2,780.8
New planting	452.3	796.3	438.0	240.9	132.5	72.9	40.1	22.0	12.1	6.7	3.7	2.0
Total	16,147.0	16,943.3	17,381.3	17,622.1	17,754.6	17,827.5	17,867.6	17,889.6	17,901.7	17,908.4	17,912.1	17,914.1
% growth	2.9	4.9	2.6	1.4	0.8	0.4	0.2	0.1	0.1	0.0	0.0	0.0

Source: Oil World, MPOB, Ministry of Agriculture of Indonesia, DBS Bank, DBSVI estimates

Palm oil supply forecasts

CPO production (m MT)												
	2014	2015	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
Malaysia	19.667	19.962	17.319	19.379	20.287	21.293	22.294	23.185	23.975	24.647	25.166	25.650
vol. growth	0.5	0.3	-2.6	2.1	0.9	1.0	1.0	0.9	0.8	0.7	0.5	0.5
% growth	2.3	1.5	-13.2	11.9	4.7	5.0	4.7	4.0	3.4	2.8	2.1	1.9
Indonesia	31.400	33.400	31.800	34.747	36.640	38.426	39.616	40.652	41.441	41.912	42.501	42.630
vol. growth	2.7	2.0	-1.6	2.9	1.9	1.8	1.2	1.0	0.8	0.5	0.6	0.1
% growth	9.3	6.4	-4.8	9.3	5.4	4.9	3.1	2.6	1.9	1.1	1.4	0.3
Others	8.864	9.194	9.187	9.722	9.966	10.444	10.816	11.141	11.406	11.593	11.774	11.869
vol. growth	0.5	0.3	0.0	0.5	0.2	0.5	0.4	0.3	0.3	0.2	0.2	0.1
% growth	5.8	3.7	-0.1	5.8	2.5	4.8	3.6	3.0	2.4	1.6	1.6	0.8
Total	59.931	62.556	58.306	63.847	66.893	70.162	72.725	74.978	76.821	78.152	79.442	80.149
vol. growth	3.6	2.6	-4.3	5.5	3.0	3.3	2.6	2.3	1.8	1.3	1.3	0.7
% growth	6.4	4.4	-6.8	9.5	4.8	4.9	3.7	3.1	2.5	1.7	1.7	0.9

Source: Oil World, MPOB, Ministry of Agriculture of Indonesia, DBS Bank, DBSVI estimates

Yield and profitability are share price performance critical factors

CPO price is a key catalyst for plantation stocks, as the share price generally tracks spot CPO prices. However, the outperformance/underperformance of plantation stocks in relation to CPO prices is dictated by the productivity factor, where stronger/weaker-than-expected yields have led to higher/lower share price sensitivity to CPO prices.

Looking at Indonesia's plantation sector index since 2003, this correlation is still relevant today. We have identified two notable periods of divergence for share price and CPO price:

1. Outperformance during the August 2009-April 2010 period, due to better-than-expected CPO yields
2. Conversely, underperformance from September 2015 to now, as yields have not been fully recovered from the episode of El Nino that took place in 2015.

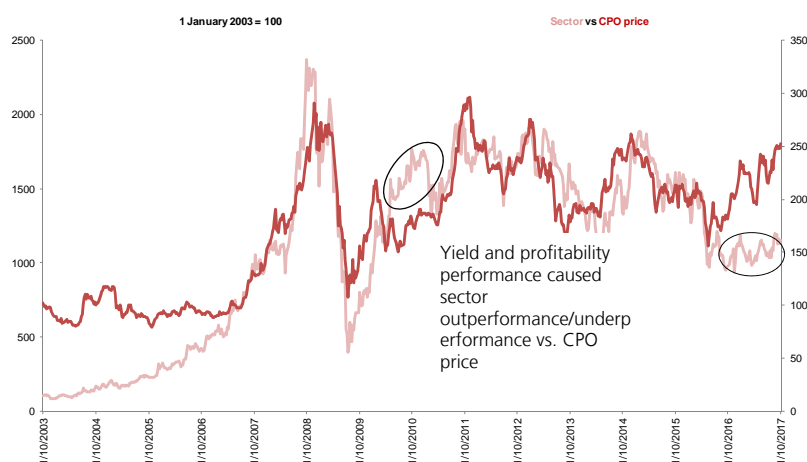
The Malaysian plantation index displays a largely similar pattern over time. However, a divergence was seen in late 2011, in line with the valuation re-rating and premium being ascribed to

Malaysia-listed plantation companies (see our Valuation section). Nonetheless, between September 2015 and currently – where planters' output was hit by a severe El Nino – the plantation index has unsurprisingly lagged behind CPO prices.

A similar trend is also seen for Singapore-listed (SGX) CPO planters. We understand that most of the Singapore planters' estates are domiciled in Indonesia. However, we noticed that the share price of more integrated upstream-downstream planters has a higher correlation to profitability – mainly operating profit margin, which is a good measure of a company's ability to execute its refining activities.

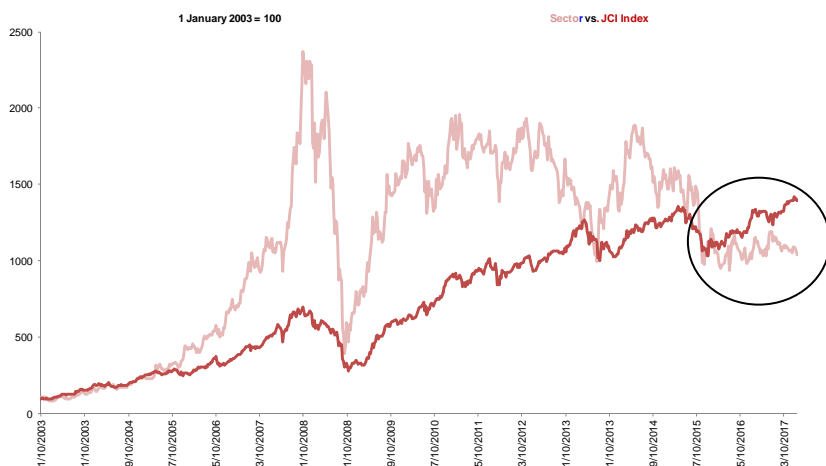
CPO yield seems to be a common driver for CPO planters' share price movement, as planters are subject to the same weather vagaries and CPO price movements. Besides, CPO yield also reflects planters' management strength, which ultimately affects return on invested capital (ROIC).

Indonesia: Sector performance relative to CPO price and JCI Index



Looking at Indonesia's plantation sector index since 2003, this correlation is still relevant today. We have identified two notable periods of divergence for share price and CPO price:

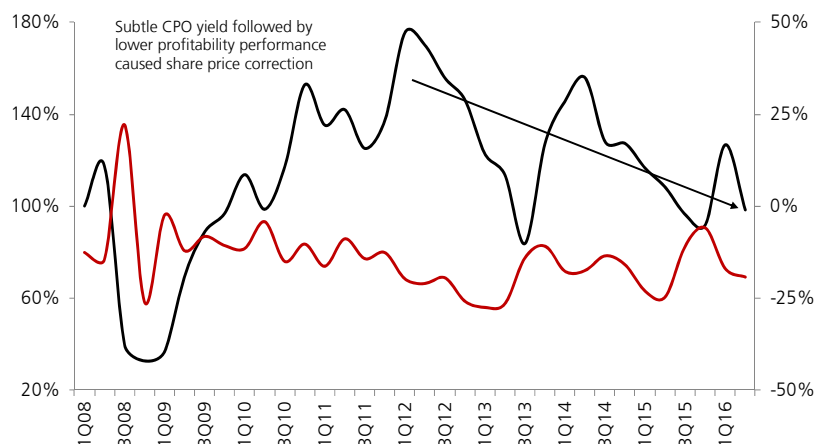
1. Outperformance during the August 2009-April 2010 period, due to better-than-expected CPO yields
2. Conversely, underperformance from September 2015 to now, as yields have not been fully recovered from the episode of El Nino that took place in 2015.



Since 2003, Planters' share price has outperformed vs. the JCI index due to the long-term uptrend in CPO prices due to demand from emerging economies such as China and India. Strong CPO prices have prompted investors to pick up Indonesia-listed CPO stocks. However, the CPO sector has underperformed the index from 2016 till now as the market prices in concerns over a sideways CPO price trend and slower earnings growth in the absence of a CPO price rally.

Indonesia: Stock performance relative to yield outperformance

1 Q08 = 100 LSIP share price performance vs LSIP CPO yield performance relative to sector

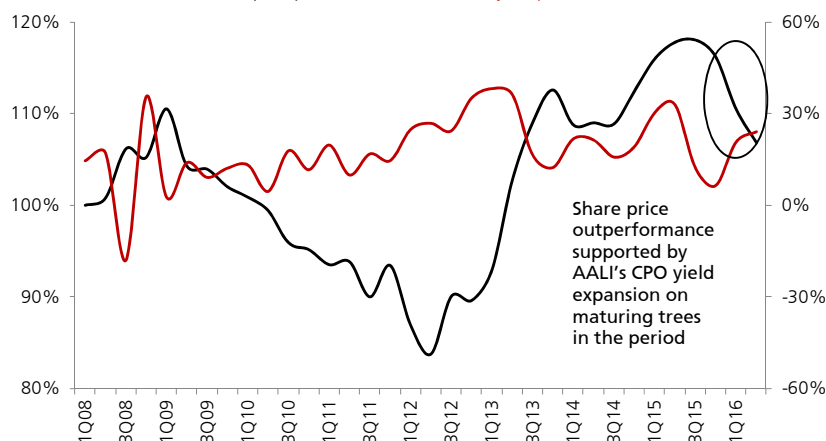


LSIP

We reckon that the sector's outperformance was driven by better estate management that resulted in a higher yield than regional peers – regardless of the stage of the cycle. A higher yield ensures better economies of scale, thus enabling the company to attain a higher operating margin and better earnings performance.

For example, Indonesia-listed CPO planters AALI and LSIP in Indonesia saw share price performances mirror their CPO yield differentials, particularly from 2012 onwards.

1 Q08 = 100 AALI share price performance vs AALI CPO yield performance relative to sector



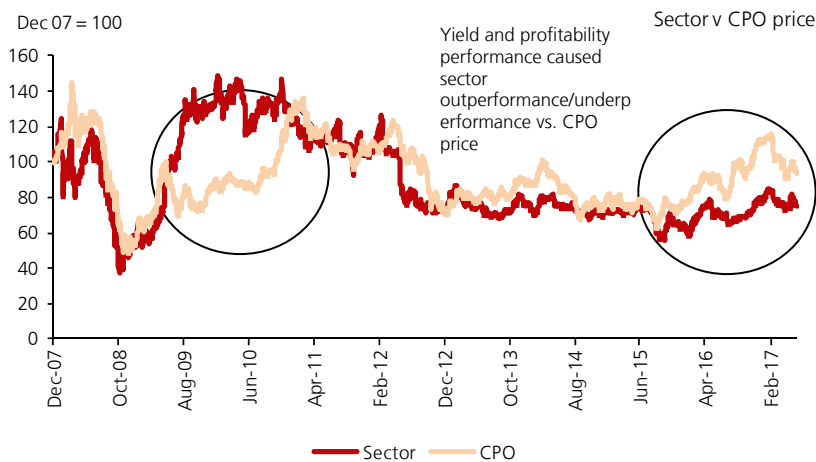
AALI

AALI had consistently achieved higher CPO yield/ha relative to LSIP since 4Q08, and this had ultimately led to AALI's share price outperformance vs LSIP over 1Q12-2Q16.

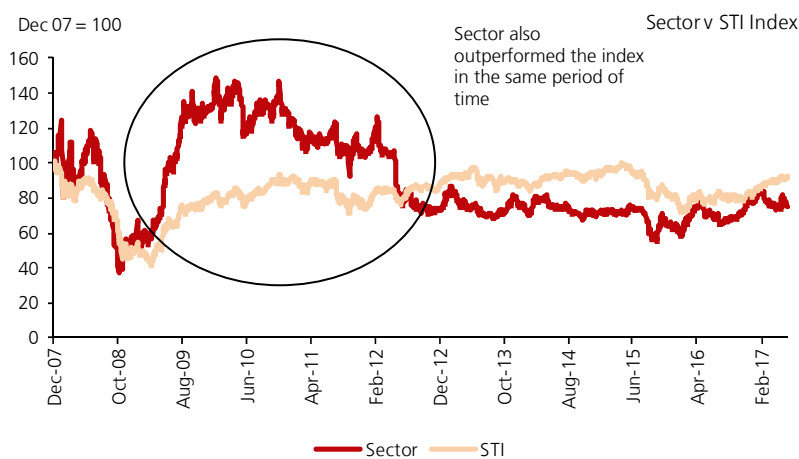
However, AALI's share price had underperformed LSIP's from October-May 2016, due to the former's rights issue.

Source: Bloomberg Finance L.P., DBS Bank, DBSVI estimates

Singapore: Historical sector performance relative to CPO price and STI Index



We analysed SGX-listed CPO planters from 2007 onwards. Singaporean plantation companies' share price has largely tracked CPO prices, except 2009 and 2016 due to CPO yield performance issues. The better-than-expected CPO yield helped to accelerate planters' earnings recovery in 2009, resulting in sector-wide outperformance vs. CPO price. The same issue also emerged last year, with El Nino dragging down planters' CPO yield. However, rising CPO prices enabled planters to deliver good earnings performances.

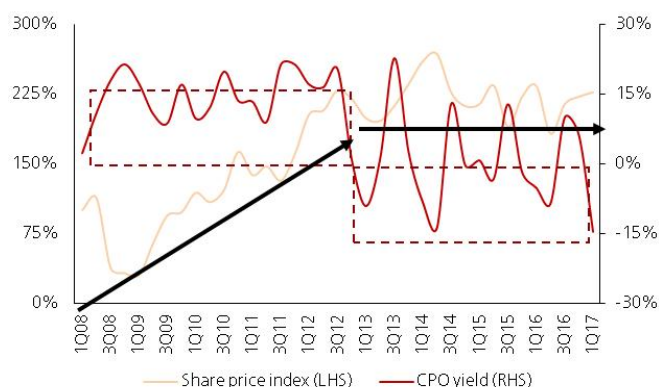


An earnings recovery took place in 2009 on CPO price rebound and strong yield performance among the planters. The outperformance persisted until Feb 2012, followed by a prolonged underperformance on the back of mild earnings performance in 2012, with CPO price mostly trading sideways.

Source: Bloomberg Finance L.P., DBS Bank estimate

Source: Bloomberg Finance L.P., DBS Bank, DBSVI

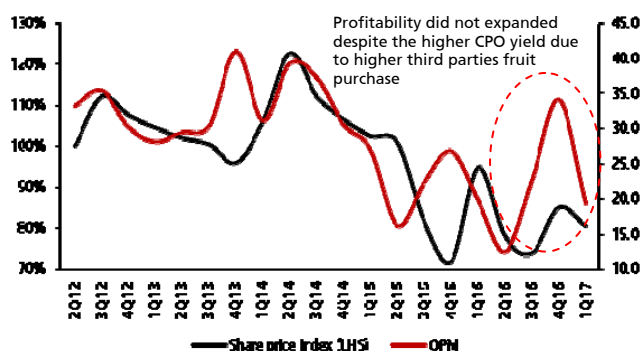
Singapore: Stock performance relative to yield and operating profit performance



First Resources

FR accurately demonstrates the yield performance sensitivity. The share price has consistently outperformed its index (GGR, FR, BAL), with returns averaging 14% p.a. in 1Q08-4Q12.

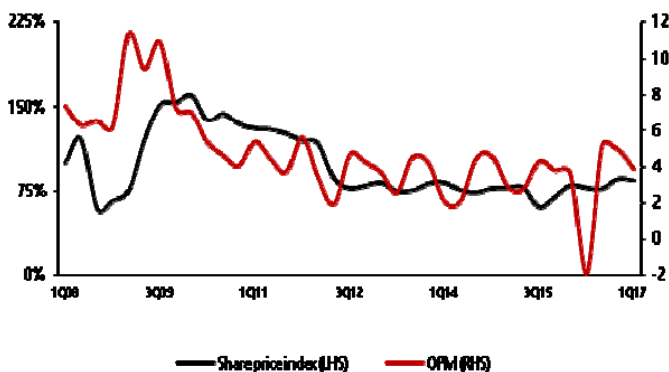
Its share price outperformance over 1Q08-4Q12 may be explained by its high operating profit margin (OPM) over the period. OPM is still relevant in explaining share price sensitivity.



Bumitama

Bumitama's share price has tracked CPO prices since 2Q12. However, its share price diverged in 2Q16 as yield expansion was not followed by margin expansion.

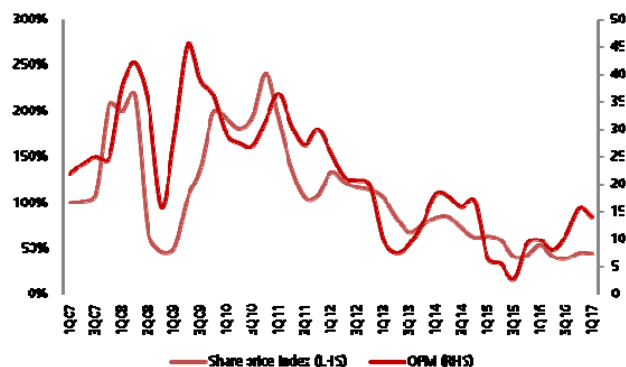
Bumitama's operating profit margin (OPM) is generally able to explain its share price direction in general, with exceptions noted in 2H13 and 2H15.



Wilmar

Wilmar's share price direction generally tracks that of its operating profit margin (OPM), with the exception of 2Q16 where Wilmar saw a one-time significant realised mark-to-market losses in its short positions used for hedging.

While historically, spot margin calculations had no direct correlation with Wilmar's Oilseeds & Grains pretax margins, soy crushing margin has a somewhat correlation of ~67% with Wilmar's share price.



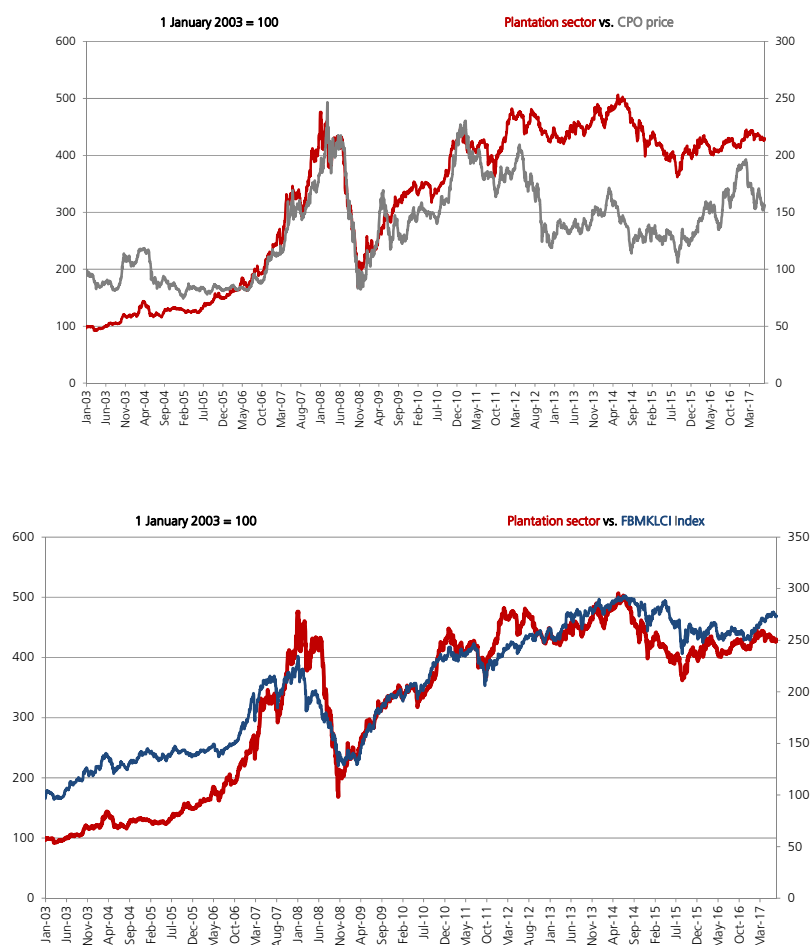
IFAR

IFAR's operating profit margin (OPM) correlates well with share price movements in general. IFAR's multiple business segments spanning upstream and downstream units implies that CPO yield may not play a significant role in determining profitability relative to its peers.

Source: Bloomberg Finance L.P., DBS Bank estimates

Source: Bloomberg Finance L.P., DBS Bank, DBSVI

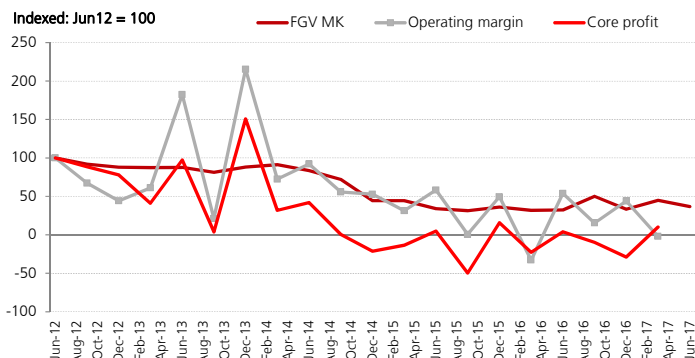
Malaysia : Historical sector performance relative to CPO price and FBMKLCI Index



The Malaysian plantation index displays a largely similar pattern over time. However, a divergence was seen in late 2011, in line with the valuation re-rating and premium being ascribed to Malaysia-listed plantation companies (see our Valuation section). Nonetheless, between September 2015 and currently – where planters' output was hit by a severe El Nino – the plantation index has unsurprisingly lagged behind CPO prices.

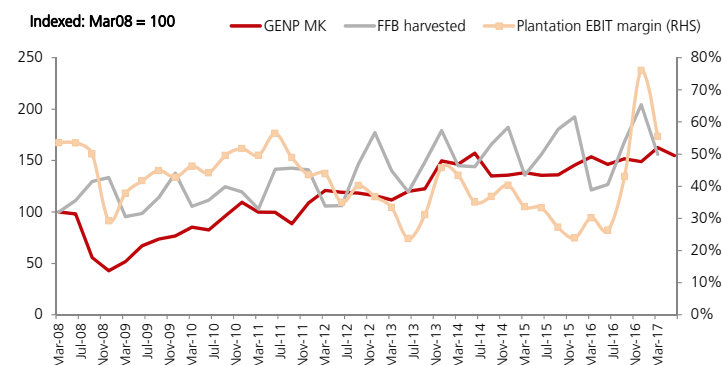
Source: Bloomberg Finance L.P., DBS Bank estimates

Malaysia: Stock performance relative to yield outperformance



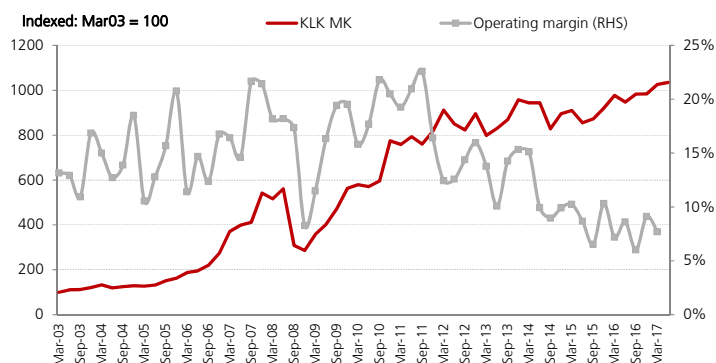
FGV

FGV's share price tracks the performance of its operating margins and core earnings. Negative share price movements were seen in the wake of its dramatic descend to core losses since 4Q14.



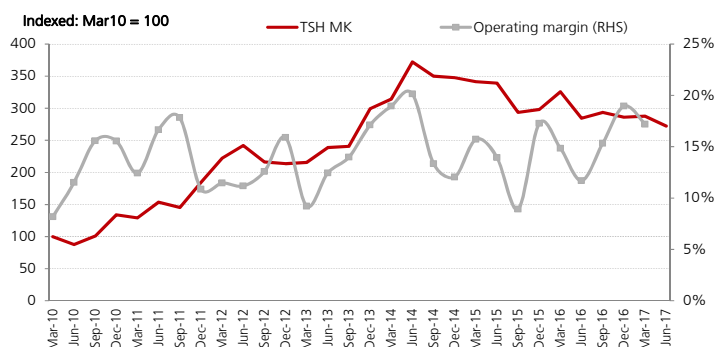
GENP

GENP's share price is moved by the growth in its internal production, which can also be beneficial to its operating margins and thus profitability.



KLK

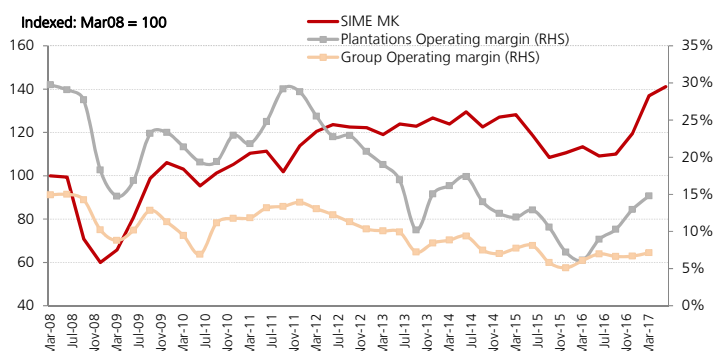
KLK's share price is influenced by its profitability which can track operating margins. While margins generally eased from 2011 onwards, this was due to Manufacturing making up a larger proportion of group revenues (at near 50% vs 40% before) which also brought about steadier earnings.



TSH

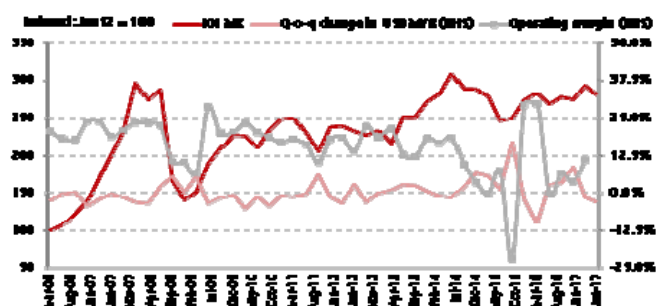
TSH's share price has been more heavily influenced by its production volume rather than CPO prices over recent years due to a strong growth phase, especially during 2013-14.

Source: Bloomberg Finance L.P., DBS Bank estimates



SIME

SIME's share price has a weaker relationship with CPO prices relative to other plantation peers due to its conglomerate structure; and is more influenced by the overall group earnings. However it is swayed by large movements in CPO as Plantations is its largest contributing segment.



IOI

IOI's share price is influenced by its profitability or operating margins, which can be moved by CPO price and production levels. However, due to its large proportion of USD-denominated debt, earnings have also been swayed by the movement of the ringgit.

Source: Bloomberg Finance L.P., DBS Bank estimates

Company Guides

Indonesia Company Guide

Astra Agro Lestari

Version 11 | Bloomberg: AALI JJ | Reuters: AALI.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Jul 2017

BUY

Last Traded Price (19 Jul 2017): Rp15,200 (JCI : 5,806.69)
Price Target 12-mth: Rp17,700 (16% upside) (Prev Rp17,550)

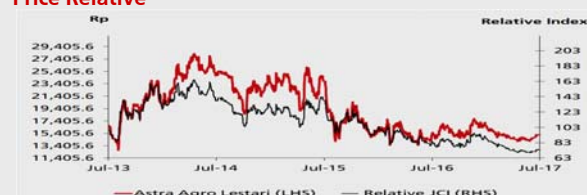
Analyst

William SIMADIPUTRA +62 2130034939
william.simadiputra@id.dbsvickers.com

What's New

- New TP of Rp17,700, maintain BUY rating
- Revise earnings for lower CPO price forecast
- Efficiencies will drive earnings growth
- Modest downstream expansion plans as well as replanting efforts could boost long-term growth

Price Relative



Forecasts and Valuation

FY Dec (Rp m)	2016A	2017F	2018F	2019F
Revenue	14,121	15,731	16,146	17,977
EBITDA	3,398	4,459	4,575	4,945
Pre-tax Profit	2,209	3,195	3,312	3,718
Net Profit	2,007	2,145	2,224	2,496
Net Pft (Pre Ex.)	2,007	2,145	2,224	2,496
Net Pft Gth (Pre-ex) (%)	224.2	6.9	3.7	12.3
EPS (Rp)	1,043	1,115	1,155	1,297
EPS Pre Ex. (Rp)	1,043	1,115	1,155	1,297
EPS Gth Pre Ex (%)	165	7	4	12
Diluted EPS (Rp)	1,274	1,362	1,412	1,585
Net DPS (Rp)	99.0	491	509	528
BV Per Share (Rp)	8,903	9,541	10,187	10,956
PE (X)	14.6	13.6	13.2	11.7
PE Pre Ex. (X)	14.6	13.6	13.2	11.7
P/Cash Flow (X)	16.0	7.5	8.2	7.7
EV/EBITDA (X)	9.8	7.1	6.6	5.8
Net Div Yield (%)	0.7	3.2	3.3	3.5
P/Book Value (X)	1.7	1.6	1.5	1.4
Net Debt/Equity (X)	0.2	0.1	0.0	CASH
ROAE (%)	14.1	12.1	11.7	12.3
Earnings Rev (%):		0	0	0
Consensus EPS (Rp):		1,047	1,126	1,228
Other Broker Recs:		B: 20	S: 2	H: 1

Source of all data on this page: Company, DBSVI, Bloomberg Finance L.P.

Efficiencies and yield will drive earnings growth

Maintain BUY with new TP of Rp17,700. We reiterate our BUY rating for AALI in view of its 15% potential upside and c.3% dividend yield. We believe the market has already priced in lower palm oil prices next year, with AALI now trading at 13.4x FY18 P/E vs. its historical average P/E multiple of 20.0x. We cut our earnings forecasts mainly for lower CPO and PK price assumptions in CY17/18, though we still believe AALI's efficiency-driven and higher estates productivity outlook earnings delivery can act as a share price re-rating catalyst.

Where we differ: we like AALI efficiencies strategy and yield enhancement program. As we pencil in the efficiencies and better yield outlook, our earnings forecast is now ahead of consensus for FY17. We expect continued growth in EBITDA for FY17F, premised on a recovery in FFB yields, resilient ASP, and expanded downstream operations. Moreover, AALI's estate management mechanisation will continue to optimise operational efficiency and yield enhancement program, resulting in a steady long-term profitability outlook.

Yield recovery and steady profitability are positive stock price performance. We believe AALI will outperform its regional peers given its sound profitability outlook on the back of its strong operational performance, coupled with CPO yield expansion. As we impute AALI's improving estate management efficiency, its already bright profitability outlook improves even further. We maintain our overall operational forecasts such as tree productivity, mill utilisation rate and fertiliser application in its estates.

Valuation:

We employed DCF methodology (FY18F base year) to arrive at a fair value of Rp17,700/share (WACC 12.0%, TG 3%). This translates to 16% potential upside from the current level. Our TP implies an FY18 PE of 15.8x, which is lower than its 5-year average multiple of 20x.

Key Risks to Our View:

CPO price. There would be downside risk to our CPO price forecasts if Pertamina's biodiesel off-take fails to live up to our expectations (3.1m MT) this year.

At A Glance

Issued Capital (m shrs)	1,925
Mkt. Cap (Rpbn/US\$m)	29,255 / 2,198
Major Shareholders (%)	
PT Astra International Tbk	79.7
Free Float (%)	20.3
3m Avg. Daily Val (US\$m)	1.3
ICB Industry : Consumer Goods / Food Producers	

CRITICAL DATA POINTS TO WATCH

Critical Factors

CPO price is key driver of earnings and share price. As a commodity producer, AALI is a price-taker. Movement in international CPO prices, would directly impact the group's profitability. We currently expect CPO prices (FOB Pasir Gudang) to average US\$645/MT (+0.1% y-o-y) in CY17 and US\$616/MT in CY18 (-4.5% y-o-y). CPO price movements are also key driver to share price (See next page Appendix section).

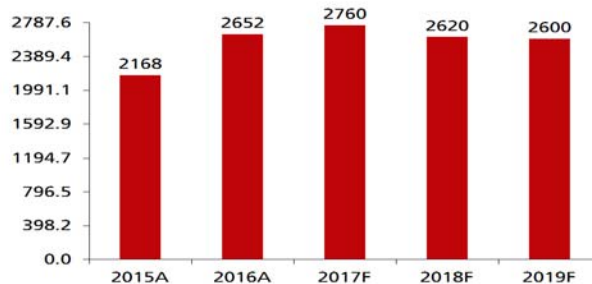
Trees profile : Yield enhancement program should keep the trees productive. As at end-December 2016, AALI's trees were estimated to have an average age of 19 years. AALI will continuously implement its yield enhancement program to maximize its relatively older trees' yield such as.

CPO volume growth : Steady volume output. Despite its lack of aggressive expansion since 2012, AALI'S FFB expanded at a CAGR of 6% in FY16-18F on the back of recovering yields. We imputed a 10.3% y-o-y higher FY17F nucleus FFB output, albeit from a low base, principally on account of the dissipating effect of the 2015 El Nino. In order maximizing its CPO processing mill, AALI purchases 30% of its processed fruits from third parties planters.

CPO yield expansion and estate mechanization program will support AALI's profitability. We are expecting CPO yield to expand steadily from 4.3MT/ha in 2017 to 4.6MT/ha in 2019 on maturing estates and AALI's yield enhancement program. Relative to other oil crops, palm oil has the highest productivity per hectare at 5 MT/ha, while soybean oil's productivity is typically 0.5 MT/ha. Besides, CPO yield also reflects planters' management strength, which ultimately affects return on invested capital (ROIC) and profitability.

Revenue exposure to domestic market. AALI sells its CPO output to the third parties locally under spot pricing mechanism. While the group is not subject to biodiesel export levies (US\$50/MT on CPO) on all of its CPO sales volume, local ASP would nevertheless roughly reflect the same discount, given the increasing domestic supply as a result of the export levies. We have already imputed this into our forecast.

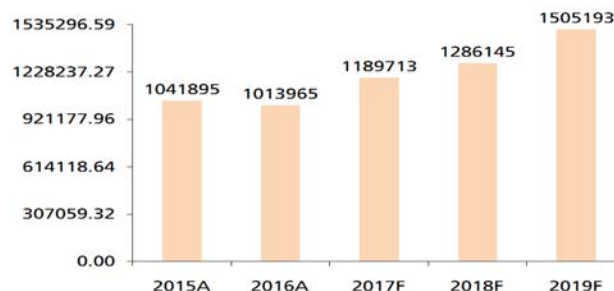
CPO price (RM/MT)



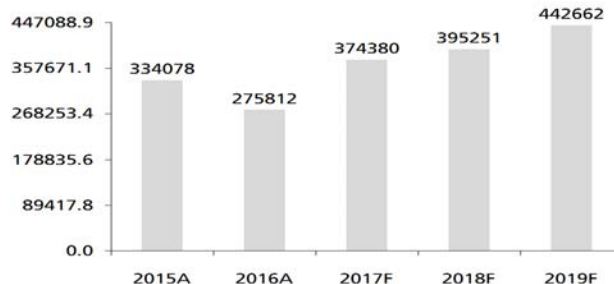
Mature oil palm hectareage



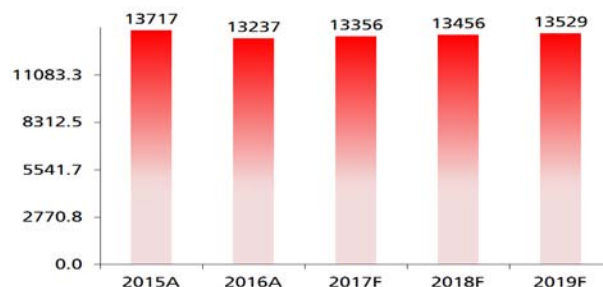
CPO sales volume (MT)



Palm kernel sales vol. (MT)



Avg. USD/IDR rate



Source: Company, DBSVI

Appendix 1: A look at Company's listed history – what drives its share price?

Yield as upstream planters' critical success factor

Historically, CPO price is a key catalyst for plantation stocks, as the share price generally tracks spot CPO prices. However, the outperformance/underperformance of plantation stocks in relation to CPO prices is dictated by the productivity factor, where stronger/weaker-than-expected yields have led to higher/lower share price sensitivity to CPO prices.

Looking at Indonesia's plantation sector index since 2003, this correlation is still relevant today. We have identified two notable periods of divergence for share price and CPO price:

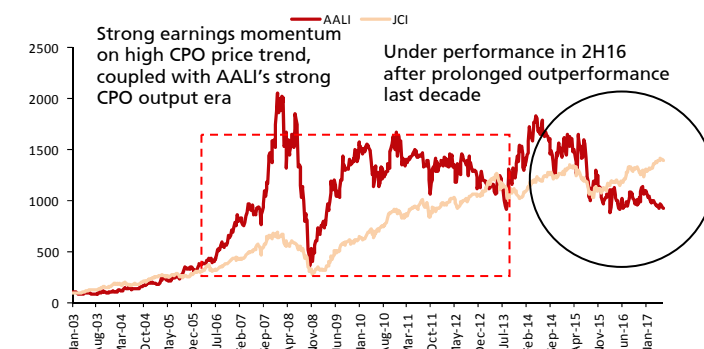
1. Outperformance during the August 2009-April 2010 period, due to better-than-expected CPO yields
2. Conversely, underperformance from September 2015 to now, as yields have not been fully recovered from the episode of El Nino that took place in 2015.

Indonesia-listed CPO planters AALI and LSIP in Indonesia saw share price performances mirror their CPO yield differentials, particularly from 2012 onwards.

CPO yield seems to be a common driver for CPO planters' share price movement, as planters are subject to the same weather vagaries and CPO price movements. Besides, CPO yield also reflects planters' management strength, which ultimately affects return on invested capital (ROIC) and profitability.

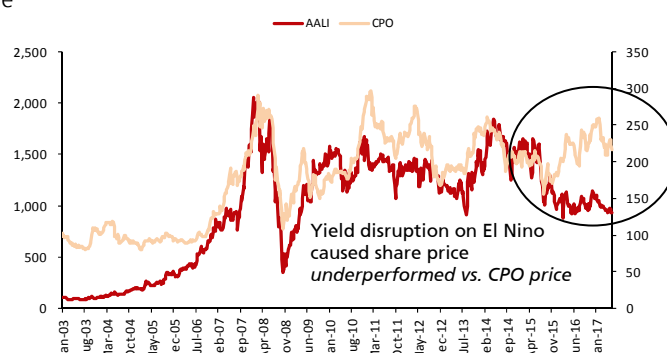
We reckon that the sector's outperformance was driven by better estate management that resulted in a higher yield than regional peers – regardless of the stage of the cycle. A higher yield ensures better economies of scale, thus enabling the company to attain a higher operating margin and better earnings performance.

Stock performance relative JCI (Jakarta Composite Index)



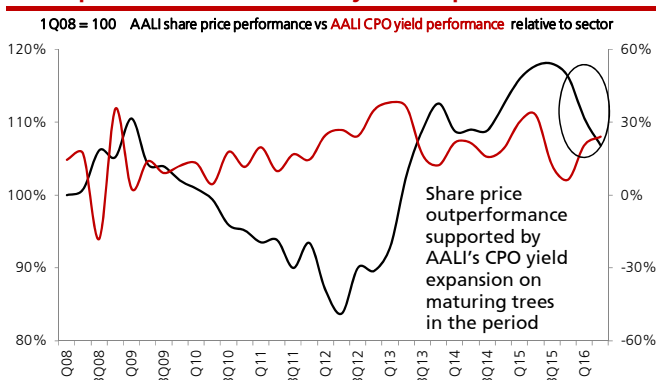
Source: Bloomberg Finance L.P., DBSVI

Stock performance vs. CPO price



Source: Bloomberg Finance L.P., DBSVI

Stock performance relative to yield outperformance



Source: Bloomberg Finance L.P., DBSVI

Balance Sheet:

Conservative balance sheet. AALI has mostly taken a conservative approach to borrowings. However, the group took on additional leverage over the past three years as it embarked on high capex outlays to fund immature estates, additional mills, as well as to build its downstream business. As at end-December 2016, the group's net debt-to-total equity ratio was 20% (vs. 19% at end-September 2016); as output surged.

Capex trend to moderate. At end-December 2016, AALI's 4-quarter rolling cash conversion cycle stood at 54 days (vs. 41 days at end-September 2016) – mainly representing higher receivable and inventory days. This year, we expect the group to spend c.Rp1.2tr (assuming no new planting) on new mills, as well as on immature estates – from Rp2.5tr in FY16.

Share Price Drivers:

Strong earnings as near-term catalyst. We believe AALI could achieve our FY17 earnings forecast this year on the back of resilient CPO and PK price performance, as well as AALI's internal efficiency programme, which will keep AALI's operational cost at a low level.

Key Risks:

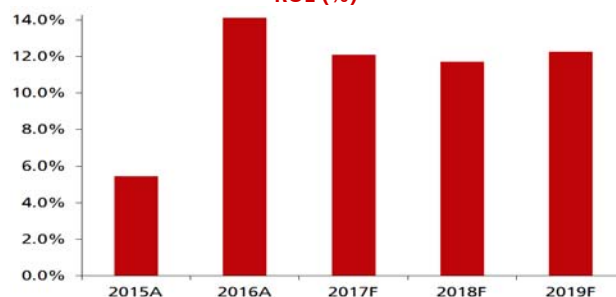
Volatility in CPO prices and USD exchange rates. Continued strength in CPO prices may lead to better-than-expected earnings, while lower energy prices from expansion of US shale gas would have an adverse impact on demand for vegetable oils for biofuels. Likewise, volatility in USD would affect the profitability of planters in general.

Setback in expansion plans. Our forecasts are based on assumed hectareage for new planting/replanting. Any setback on these plans would negatively affect our valuation due to slower volume growth.

Regulatory changes. Any further increase in Indian import duty of refined oils or changes in the structure of Indonesian/Malaysian export taxes would impact the demand for CPO/refined oils.

Company Background

AALI is the largest listed plantation company in Indonesia with c.230k ha of planted oil palm estates. Approximately 72% of its revenues are from sales of CPO and PK, while the remaining 27% is from its 600k MT p.a. refining operations. The group also has a 300k MT p.a. refinery under a JV with Kuala Lumpur Kepong. AALI is majority-owned (c.80%) by Astra International, a prominent conglomerate in Indonesia known for its good corporate governance.

Leverage & Asset Turnover (x)**Capital Expenditure****ROE (%)****Forward PE Band (x)****PB Band (x)**

Source: Company, DBSVI

Key Assumptions

FY Dec	2015A	2016A	2017F	2018F	2019F
CPO price (RM/MT)	2,168	2,652	2,760	2,620	2,600
Mature oil palm	196,177	205,488	212,455	220,184	220,768
CPO sales volume (MT)	1,041,895	1,013,965	1,189,713	1,286,145	1,505,193
Palm kernel sales vol. (MT)	334,078	275,812	374,380	395,251	442,662
Avg. USD/IDR rate	13,717	13,237	13,356	13,456	13,529

Segmental Breakdown

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenues (Rpbn)					
CPO	7,263	7,876	9,454	9,800	11,361
PK	1,468	1,751	2,286	2,418	2,707
PKO	0.0	0.0	0.0	0.0	0.0
Refined products	3,806	2,934	3,991	3,928	3,909
Others	522	1,559	0.0	0.0	0.0
Total	13,059	14,121	15,731	16,146	17,977

(Rpbn)

Income Statement (Rpbn)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenue	13,059	14,121	15,731	16,146	17,977
Cost of Goods Sold	(9,977)	(10,445)	(11,420)	(11,669)	(13,064)
Gross Profit	3,082	3,676	4,311	4,478	4,913
Other Opng (Exp)/Inc	(1,229)	(1,017)	(1,168)	(1,241)	(1,336)
Operating Profit	1,853	2,659	3,144	3,237	3,577
Other Non Opg (Exp)/Inc	(580)	(331)	136	96.7	100
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(97.7)	(119)	(84.4)	(21.6)	41.2
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	1,176	2,209	3,195	3,312	3,718
Tax	(480)	(94.5)	(895)	(927)	(1,041)
Minority Interest	(76.6)	(107)	(155)	(161)	(181)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	619	2,007	2,145	2,224	2,496
Net Profit before Except.	619	2,007	2,145	2,224	2,496
EBITDA	2,197	3,398	4,459	4,575	4,945
Growth					
Revenue Gth (%)	(19.9)	8.1	11.4	2.6	11.3
EBITDA Gth (%)	(51.6)	54.7	31.2	2.6	8.1
Opg Profit Gth (%)	(50.2)	43.5	18.2	3.0	10.5
Net Profit Gth (Pre-ex) (%)	(75.3)	224.2	6.9	3.7	12.3
Margins & Ratio					
Gross Margins (%)	23.6	26.0	27.4	27.7	27.3
Opg Profit Margin (%)	14.2	18.8	20.0	20.0	19.9
Net Profit Margin (%)	4.7	14.2	13.6	13.8	13.9
ROAE (%)	5.5	14.1	12.1	11.7	12.3
ROA (%)	3.1	8.8	8.9	9.0	9.8
ROCE (%)	6.0	12.0	10.2	10.2	11.0
Div Payout Ratio (%)	120.1	9.5	44.1	44.1	40.7
Net Interest Cover (x)	19.0	22.3	37.2	149.7	NM

Source: Company, DBSVI

Quarterly / Interim Income Statement (Rpbn)

FY Dec	1Q2016	2Q2016	3Q2016	4Q2016	1Q2017
Revenue	3,018	3,327	3,243	4,534	4,491
Cost of Goods Sold	(2,417)	(2,594)	(2,464)	(2,971)	(3,094)
Gross Profit	601	733	779	1,563	1,397
Other Oper. (Exp)/Inc	(262)	(253)	(241)	(261)	(277)
Operating Profit	339	480	537	1,302	1,119
Other Non Opg (Exp)/Inc	281	70.4	16.7	(699)	22.4
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(49.7)	(42.2)	(9.6)	(17.8)	(18.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	571	509	545	585	1,124
Tax	(145)	(119)	(167)	337	(288)
Minority Interest	(8.2)	(14.6)	(24.3)	(60.3)	(35.1)
Net Profit	418	375	353	862	801
Net profit bef Except.	418	375	353	862	801
EBITDA	807	738	747	817	1,345

Growth

Revenue Gth (%)	11.3	10.2	(2.5)	39.8	(1.0)
EBITDA Gth (%)	(17.3)	(8.5)	1.2	9.4	64.6
Opg Profit Gth (%)	(31.3)	41.6	11.9	142.2	(14.0)
Net Profit Gth (Pre-ex) (%)	(11.9)	(10.3)	(5.7)	143.9	(7.0)

Margins

Gross Margins (%)	19.9	22.0	24.0	34.5	31.1
Opg Profit Margins (%)	11.2	14.4	16.6	28.7	24.9
Net Profit Margins (%)	13.8	11.3	10.9	19.0	17.8

Balance Sheet (Rpbn)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	9,362	10,028	10,049	9,778	9,626
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	9,337	10,147	10,340	10,366	10,421
Cash & ST Invt	294	532	515	2,181	1,756
Inventory	1,692	2,097	2,071	2,116	2,369
Debtors	45.6	527	47.5	48.7	54.3
Other Current Assets	782	895	935	959	1,068
Total Assets	21,512	24,226	23,957	25,449	25,295
ST Debt	2,025	1,985	400	2,468	400
Creditor	734	940	915	935	1,047
Other Current Liab	764	1,018	990	1,015	1,124
LT Debt	5,708	2,116	2,057	0.0	0.0
Other LT Liabilities	583	574	619	650	682
Shareholder's Equity	11,285	17,135	18,363	19,607	21,087
Minority Interests	414	458	613	774	955
Total Cap. & Liab.	21,512	24,226	23,957	25,449	25,295
Non-Cash Wkg. Capital	1,022	1,562	1,149	1,175	1,321
Net Cash/(Debt)	(7,438)	(3,569)	(1,942)	(287)	1,356
Debtors Turn (avg days)	1.1	7.4	6.7	1.1	1.0
Creditors Turn (avg days)	33.4	32.6	33.1	32.4	30.7
Inventory Turn (avg days)	59.9	73.7	74.3	73.3	69.4
Asset Turnover (x)	0.7	0.6	0.7	0.7	0.7
Current Ratio (x)	0.8	1.0	1.5	1.2	2.0
Quick Ratio (x)	0.1	0.3	0.2	0.5	0.7
Net Debt/Equity (X)	0.6	0.2	0.1	0.0	CASH
Net Debt/Equity ex MI (X)	0.7	0.2	0.1	0.0	CASH
Capex to Debt (%)	35.2	61.7	49.3	37.2	259.4
Z-Score (X)	2.9	4.2	5.3	5.3	7.3

Source: Company, DBSVI

Cash Flow Statement (Rpbn)

FY Dec	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	1,176	2,209	3,195	3,312	3,718
Dep. & Amort.	924	1,070	1,179	1,241	1,268
Tax Paid	0.0	0.0	0.0	0.0	0.0
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(1,340)	(623)	404	(36.5)	(157)
Other Operating CF	(568)	(825)	(895)	(927)	(1,041)
Net Operating CF	191	1,830	3,883	3,589	3,788
Capital Exp.(net)	(2,722)	(2,529)	(1,210)	(918)	(1,038)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	134	702	(49.5)	(53.7)	(57.4)
Net Investing CF	(2,588)	(1,827)	(1,260)	(971)	(1,095)
Div Paid	(743)	(191)	(946)	(980)	(1,016)
Chg in Gross Debt	3,307	(3,619)	(1,643)	12.4	(2,067)
Capital Issues	0.13	3,970	27.6	0.0	0.0
Other Financing CF	(483)	73.2	(79.9)	15.5	(35.6)
Net Financing CF	2,080	234	(2,641)	(952)	(3,118)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(317)	237	(16.9)	1,666	(425)
Opg CFPS (Rp)	972	1,275	1,808	1,884	2,050
Free CFPS (Rp)	(1,607)	(363)	1,389	1,388	1,429

Source: Company, DBSVI

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Jul 16	14700	13900	HOLD
2:	19 Aug 16	16600	14000	FULLY VALUED
3:	22 Aug 16	17000	14000	FULLY VALUED
4:	14 Sep 16	15450	14000	FULLY VALUED
5:	10 Oct 16	15200	14000	FULLY VALUED
6:	10 Nov 16	15425	18500	BUY
7:	09 Dec 16	17450	18500	BUY
8:	14 Dec 16	16900	18500	BUY
9:	10 Jan 17	16875	18500	BUY
10:	12 Jan 17	17175	18500	BUY
11:	10 Feb 17	15800	18500	BUY
12:	17 Feb 17	15225	18100	BUY
13:	20 Feb 17	15225	18100	BUY
14:	28 Feb 17	14950	18100	BUY
15:	10 Mar 17	15200	18100	BUY
16:	05 Apr 17	14850	18100	BUY
17:	10 Apr 17	14575	18100	BUY
18:	17 Apr 17	14575	18100	BUY
19:	20 Apr 17	14800	18100	BUY
20:	24 Apr 17	14500	18100	BUY
21:	08 May 17	14525	18100	BUY
22:	11 May 17	14200	18100	BUY
23:	14 Jun 17	14325	18100	BUY
24:	10 Jul 17	15100	17550	BUY

Source: DBSVI

Analyst: William SIMADIPUTRA

Indonesia Company Guide

London Sumatra Indonesia

Version 12 | Bloomberg: LSIP IJ | Reuters: LSIP.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Jul 2017

BUY

Last Traded Price (19 Jul 2017): Rp1,420 (JCI : 5,806.70)
Price Target 12-mth: Rp1,630 (15% upside) (Prev Rp1,610)

Analyst

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What's New

- Maintain BUY with lower TP of Rp1,610
- Decent dividend yield will support share price
- Tree yield expansion support volume growth
- LSIP's share price is highly correlated to CPO prices

Price Relative



Forecasts and Valuation

FY Dec (Rp m)	2016A	2017F	2018F	2019F
Revenue	3,848	4,327	4,489	4,568
EBITDA	751	889	954	934
Pre-tax Profit	779	953	1,047	1,054
Net Profit	594	716	787	792
Net Pft (Pre Ex.)	594	716	787	792
Net Pft Gth (Pre-ex) (%)	(4.7)	20.6	9.9	0.7
EPS (Rp)	87.0	105	115	116
EPS Pre Ex. (Rp)	87.0	105	115	116
EPS Gth Pre Ex (%)	(5)	21	10	1
Diluted EPS (Rp)	87.0	105	115	116
Net DPS (Rp)	37.0	35.2	42.5	46.7
BV Per Share (Rp)	1,120	1,189	1,262	1,331
PE (X)	16.3	13.5	12.3	12.2
PE Pre Ex. (X)	16.3	13.5	12.3	12.2
P/Cash Flow (X)	9.9	8.1	7.7	7.4
EV/EBITDA (X)	11.4	8.8	7.6	7.0
Net Div Yield (%)	2.6	2.5	3.0	3.3
P/Book Value (X)	1.3	1.2	1.1	1.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	7.9	9.1	9.4	9.0
Earnings Rev (%):		0	0	0
Consensus EPS (Rp):		119	133	142
Other Broker Recs:		B: 19	S: 2	H: 2

Source of all data on this page: Company, DBSVI, Bloomberg Finance L.P.

Weaker ASP outlook priced in

Maintain BUY with new TP of Rp1,630. At the current share price level, the market is pricing in a weaker CPO price outlook in 2H17. This explains why London Sumatra's (LSIP) share price has underperformed YTD despite its strong 1Q17 results. We reiterate our BUY rating with a new target price of Rp1,630 in light of its 15% potential upside and c.3% dividend yield. Despite the dimmer earnings growth outlook, LSIP is still trading at 12.3x FY18 PE (-1SD of its 5-year average PE). Its low capital expenditure and net cash balance sheet bode well for its ability to generate strong FCF going forward, thus enabling it to re-rate closer to our target price.

Where we differ: Steady yield and margin will drive earnings.

We believe LSIP's share price could outperform its peers, thanks to the company's solid estate yield and profitability outlook – which will remain robust in light of stable overall operating costs. On the other hand, consensus is concerning its flat volume growth outlook; LSIP's earnings should broadly reflect ASP movements for crude palm oil (CPO), palm kernel (PK) and rubber. We also believe the concern is well priced at current share price level.

Potential catalyst: Decent dividend yield. We expect LSIP's earnings to expand at a CAGR of 8% between FY16 and FY19F (due to low-base effect). This will be primarily driven by FFB yield recovery and resilient ASP in 2016. The solid earnings growth will also come with decent dividend yields of 3%-4% going forward.

Valuation:

We employed DCF methodology (FY17F base year) to arrive at a slightly lower fair value of Rp1,630/share (WACC 12.9%; TG 3%) vs Rp1,690 previously. Our TP implies an FY18 PE of 14.1x, lower vs. its Indonesia peers AALI's 16.5x.

Key Risks to Our View:

CPO price. There would be downside risk to our CPO price forecasts if Pertamina's biodiesel off-take fails to live up to our expectations (3.1m MT) next year. CPO prices could also move ahead of our forecast if there is significant yield deterioration in South American soybean crops in 2HCY17.

At A Glance

Issued Capital (m shrs)	6,823
Mkt. Cap (Rpbn/US\$m)	9,689 / 728
Major Shareholders (%)	
Salim Invomas	59.5
Free Float (%)	40.5
3m Avg. Daily Val (US\$m)	1.5
ICB Industry : Consumer Goods / Food Producers	

CRITICAL DATA POINTS TO WATCH

Critical Factors

CPO price is key driver of earnings and share price. As a commodity producer, LSIP is a price-taker. Movement in international CPO prices, would directly impact the group's profitability. We currently expect CPO prices (FOB Pasir Gudang) to average US\$645/MT (+0.1% y-o-y) in CY17 and US\$616/MT in CY18 (-4.5% y-o-y). CPO price movements are also key driver to share price too.

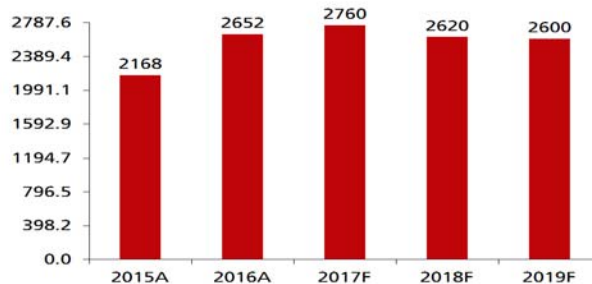
Trees profile : Prime age trees. As at end-December 2016, LSIP's trees were estimated to have an average age of 13 years. Approximately 5,600ha will mature in FY17F through FY18F – representing 7% of its own mature hectare at the end of FY16 – but not enough to keep its average age from rising towards 15 years by end- FY19F.

CPO volume growth : Steady volume output. Despite its lack of aggressive expansion since 2009, LSIP'S FFB expanded at a CAGR of 8% in FY16-18F on the back of recovering yields. We imputed a 12.9% y-o-y higher FY17F nucleus FFB output, albeit from a low base, principally on account of the dissipating effect of the 2015 El Nino.

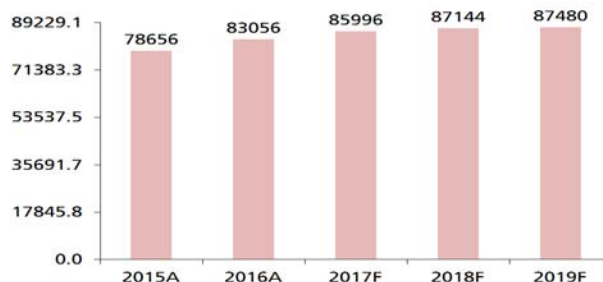
CPO yield expansion will support LSIP's profitability. We are expecting CPO yield to expand steadily from 3.6MT/ha in 2017 to 3.9MT/ha in 2019 on maturing estates. Relative to other oil crops, palm oil has the highest productivity per hectare at 5 MT/ha, while soybean oil's productivity is typically 0.5 MT/ha. Besides, CPO yield also reflects planters' management strength, which ultimately affects return on invested capital (ROIC) and profitability.

Revenue exposure to domestic market. LSIP sells more than half of its CPO output to its parent company, Salim Ivomas Pratama (SIMP II, Not Rated), while the remaining CPO is sold locally. LSIP sells its CPO under spot pricing mechanism. While the group is not subject to biodiesel export levies (US\$50/MT on CPO) on all of its CPO sales volume, local ASP would nevertheless roughly reflect the same discount, given the increasing domestic supply as a result of the export levies. We have already imputed this into our forecast.

CPO price (RM/MT)



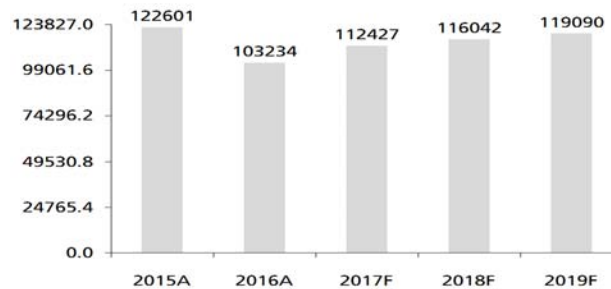
Mature oil palm hectareage



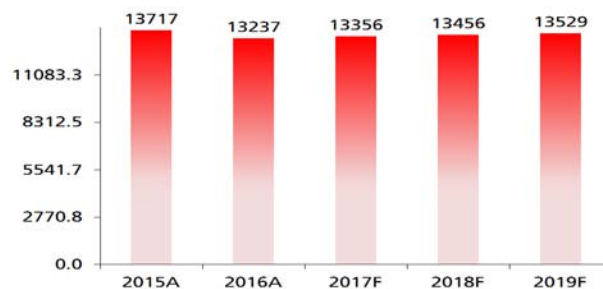
CPO sales volume (MT)



Palm kernel sales vol. (MT)



Avg. USD/IDR rate



Source: Company, DBSVI

Appendix 1: A look at the company's listed history – what drives its share price?

Yield as upstream planters' critical success factor

Historically, CPO price is a key catalyst for plantation stocks, as the share price generally tracks spot CPO prices. However, the outperformance/underperformance of plantation stocks in relation to CPO prices is dictated by the productivity factor, where stronger/weaker-than-expected yields have led to higher/lower share price sensitivity to CPO prices.

Looking at Indonesia's plantation sector index since 2003, this correlation is still relevant today. We have identified two notable periods of divergence for share price and CPO price:

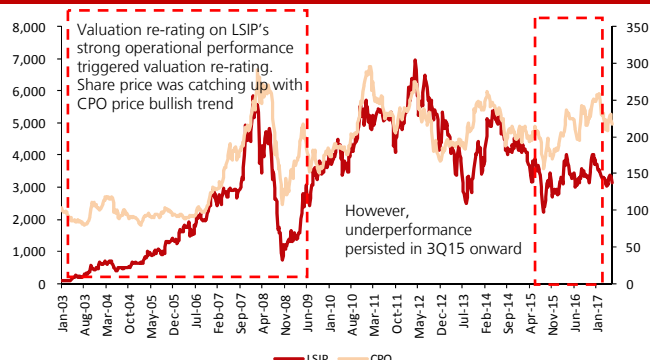
1. Outperformance during the August 2009-April 2010 period, due to better-than-expected CPO yields
2. Conversely, underperformance from September 2015 to now, as yields have not been fully recovered from the episode of El Nino that took place in 2015.

Indonesia-listed CPO planters AALI and LSIP in Indonesia saw share price performances mirror their CPO yield differentials, particularly from 2012 onwards.

CPO yield seems to be a common driver for CPO planters' share price movement, as planters are subject to the same weather vagaries and CPO price movements. Besides, CPO yield also reflects planters' management strength, which ultimately affects return on invested capital (ROIC) and profitability.

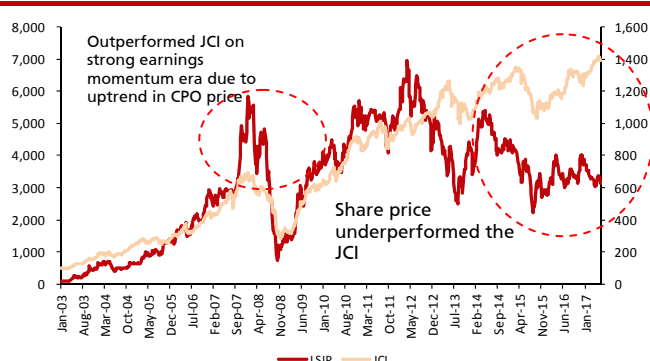
We reckon that the sector's outperformance was driven by better estate management that resulted in a higher yield than regional peers – regardless of the stage of the cycle. A higher yield ensures better economies of scale, thus enabling the company to attain a higher operating margin and better earnings performance.

Stock performance relative to CPO price



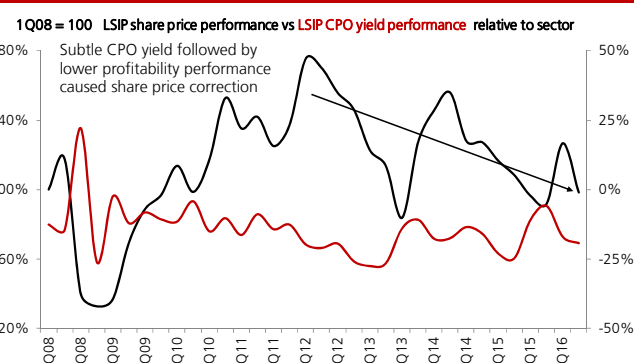
Source: Bloomberg Finance L.P., DBSVI

Stock performance relative to JCI index



Source: Bloomberg Finance L.P., DBSVI

LSIP share price vs. CPO yield performance



Source: Bloomberg Finance L.P., DBSVI

Balance Sheet:

Net cash balance sheet. As at end-December 2016, LSIP remained debt-free. This reflects the group's lack of major expansion projects on both its biological assets and its processing capacity. As at end-December 2016, the group's 4-quarter rolling cash conversion cycle stood at 68 days – up from 51 days in September 2016 on higher inventory days.

Headroom for leverage. Amid strict sustainability standards, we expect more private estates to be on offer. Given its net cash position, we believe LSIP is in a strong position to acquire more brownfields to boost its flattish output growth outlook. Failing this, we believe the group should be able to increase its dividend payout to enhance ROE.

Share Price Drivers:

Due for re-rating. The stock is currently trading slightly below -1SD of its 5-year average PE, having plummeted from its December 2016 high. Although no massive expansion is expected, we believe the market has yet to fully appreciate its strong recovery in production and free cash flow position

Key Risks:

Volatility in CPO prices and USD exchange rates. Continued strength in CPO prices may deliver better-than-expected earnings, while lower energy prices from the expansion of US shale gas would have an adverse impact on demand for vegetable oils for biofuels. Likewise, volatility in USD would affect the profitability of planters in general.

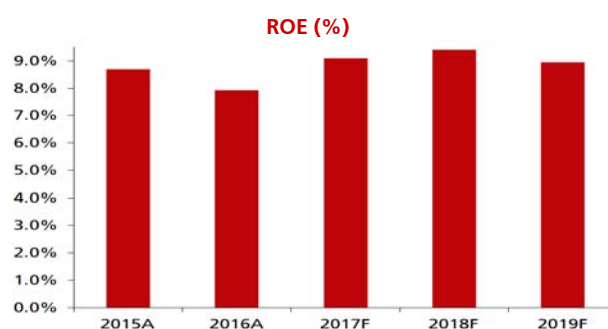
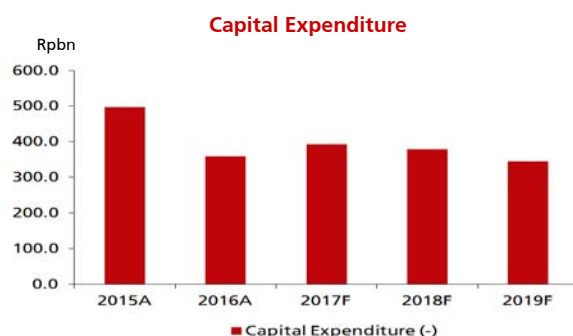
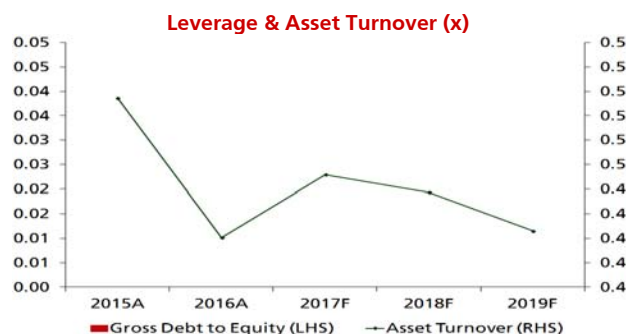
Setback in expansion plans. Our forecasts are based on assumed hectareage for new planting and replanting. Any setback on these plans would negatively affect our valuation due to slower volume growth.

Regulatory changes. Any further increase in Indian import duty of refined oils or changes in the structure of Indonesian/Malaysian export taxes would impact the demand for CPO/refined oils.

Weather. Changes in rainfall pattern (caused by either El Nino or La Nina) would affect FFB yields with some time lag.

Company Background

London Sumatra Indonesia (LSIP) is the second largest listed upstream player in Indonesia and is a subsidiary of Indofood Agri Resources (IFAR SP). Besides palm oil, LSIP has rubber, cocoa and seed businesses.



Source: Company, DBSVI

Key Assumptions

FY Dec	2015A	2016A	2017F	2018F	2019F
CPO price (RM/MT)	2,168	2,652	2,760	2,620	2,600
Mature oil palm	78,656	83,056	85,996	87,145	87,480
CPO sales volume (MT)	471,827	384,535	432,652	446,565	458,293
Palm kernel sales vol. (MT)	122,601	103,234	112,427	116,042	119,090
Avg. USD/IDR rate	13,717	13,237	13,356	13,456	13,529

Segmental Breakdown

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenues (Rpbn)					
Crude palm oil	3,223	2,839	3,266	3,403	3,459
Palm kernel	562	666	686	710	728
Rubber	247	200	249	248	251
Seeds	96.2	74.4	75.3	77.4	77.8
Others	60.9	69.1	49.6	51.0	52.2
Total	4,190	3,848	4,327	4,489	4,568

Income Statement (Rpbn)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenue	4,190	3,848	4,327	4,489	4,568
Cost of Goods Sold	(3,074)	(2,737)	(3,097)	(3,197)	(3,300)
Gross Profit	1,116	1,111	1,229	1,293	1,268
Other Opg (Exp)/Inc	(280)	(300)	(287)	(290)	(291)
Operating Profit	836	811	942	1,002	977
Other Non Opg (Exp)/Inc	(60.9)	(59.7)	(53.7)	(48.4)	(43.5)
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	52.9	27.5	64.3	93.1	121
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	828	779	953	1,047	1,054
Tax	(205)	(186)	(238)	(262)	(264)
Minority Interest	0.0	1.10	1.30	1.40	1.40
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	623	594	716	787	792
Net Profit before Except.	623	594	716	787	792
EBITDA	775	751	889	954	934
Growth					
Revenue Gth (%)	(11.4)	(8.2)	12.4	3.8	1.8
EBITDA Gth (%)	(32.1)	(3.1)	18.3	7.3	(2.1)
Opg Profit Gth (%)	(33.5)	(3.0)	16.2	6.3	(2.5)
Net Profit Gth (Pre-ex) (%)	(32.9)	(4.7)	20.6	9.9	0.7
Margins & Ratio					
Gross Margins (%)	26.6	28.9	28.4	28.8	27.8
Opg Profit Margin (%)	20.0	21.1	21.8	22.3	21.4
Net Profit Margin (%)	14.9	15.4	16.5	17.5	17.3
ROAE (%)	8.7	7.9	9.1	9.4	9.0
ROA (%)	7.1	6.5	7.4	7.7	7.3
ROCE (%)	7.7	7.3	7.9	7.9	7.3
Div Payout Ratio (%)	58.0	42.5	33.6	36.8	40.2
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBSVI

Quarterly / Interim Income Statement (Rpbn)

FY Dec	1Q2016	2Q2016	3Q2016	4Q2016	1Q2017
Revenue	804	849	965	1,230	1,464
Cost of Goods Sold	(643)	(669)	(658)	(767)	(916)
Gross Profit	161	179	307	463	548
Other Oper. (Exp)/Inc	(85.7)	(84.5)	(77.0)	(52.8)	(84.4)
Operating Profit	75.6	94.6	230	410	463
Other Non Opg (Exp)/Inc	(15.4)	(21.4)	(16.6)	(6.3)	(1.6)
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	7.40	6.60	6.00	7.50	12.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	67.6	79.8	220	412	474
Tax	(17.2)	(17.6)	(60.0)	(89.9)	(98.7)
Minority Interest	0.0	0.10	0.10	(1.3)	(0.5)
Net Profit	50.5	62.2	160	320	374
Net profit bef Except.	50.5	62.2	160	320	374
EBITDA	159	155	226	465	553

Growth

Revenue Gth (%)	(27.8)	5.5	13.7	27.5	19.0
EBITDA Gth (%)	(26.9)	(2.2)	45.6	105.7	18.7
Opg Profit Gth (%)	(65.4)	25.2	143.4	78.2	12.9
Net Profit Gth (Pre-ex) (%)	(67.2)	23.3	156.8	100.7	16.8

Margins

Gross Margins (%)	20.1	21.1	31.8	37.6	37.4
Opg Profit Margins (%)	9.4	11.1	23.9	33.4	31.6
Net Profit Margins (%)	6.3	7.3	16.5	26.0	25.6

Balance Sheet (Rpbn)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	3,428	3,436	3,464	3,390	3,243
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	4,152	4,103	3,865	3,882	3,915
Cash & ST Invt	737	1,141	1,877	2,485	3,129
Inventory	398	569	547	565	583
Debtors	112	203	177	184	187
Other Current Assets	20.7	7.20	15.8	16.3	16.8
Total Assets	8,849	9,459	9,947	10,522	11,075
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	309	241	311	321	332
Other Current Liab	262	540	437	450	460
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	940	1,033	1,080	1,134	1,193
Shareholder's Equity	7,331	7,640	8,113	8,610	9,084
Minority Interests	6.90	5.90	5.90	5.90	5.90
Total Cap. & Liab.	8,849	9,459	9,947	10,522	11,075
Non-Cash Wkg. Capital	(39.7)	(1.6)	(7.7)	(6.7)	(5.0)
Net Cash/(Debt)	737	1,141	1,877	2,485	3,129
Debtors Turn (avg days)	8.6	14.9	16.0	14.7	14.8
Creditors Turn (avg days)	44.7	36.7	32.6	36.1	36.1
Inventory Turn (avg days)	46.2	64.5	65.8	63.5	63.5
Asset Turnover (x)	0.5	0.4	0.4	0.4	0.4
Current Ratio (x)	2.2	2.5	3.5	4.2	4.9
Quick Ratio (x)	1.5	1.7	2.7	3.5	4.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A
Z-Score (X)	5.8	5.1	5.3	5.2	5.1

Source: Company, DBSVI

Cash Flow Statement (Rpbn)

FY Dec	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	828	779	953	1,047	1,054
Dep. & Amort.	342	387	390	427	452
Tax Paid	(205)	(186)	(238)	(262)	(264)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(197)	(32.5)	3.90	(3.2)	(4.0)
Other Operating CF	86.1	(65.0)	40.7	3.70	3.70
Net Operating CF	831	975	1,197	1,266	1,301
Capital Exp.(net)	(497)	(359)	(393)	(379)	(345)
Other Invt.(net)	(577)	179	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(29.3)	(99.3)	175	9.70	6.60
Net Investing CF	(1,103)	(279)	(217)	(369)	(338)
Div Paid	(362)	(252)	(240)	(290)	(318)
Chg in Gross Debt	0.0	0.0	0.0	0.0	0.0
Capital Issues	14.3	(40.3)	(2.3)	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	(347)	(293)	(243)	(290)	(318)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(619)	404	737	607	645
Opg CFPS (Rp)	151	148	175	186	191
Free CFPS (Rp)	48.9	90.4	118	130	140

Source: Company, DBSVI

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	12 Aug 16	1465	1340	HOLD
2:	22 Aug 16	1650	1340	FULLY VALUED
3:	31 Oct 16	1525	1580	HOLD
4:	10 Nov 16	1465	1580	HOLD
5:	14 Dec 16	1720	1580	HOLD
6:	10 Jan 17	1720	1580	HOLD
7:	10 Feb 17	1590	1580	HOLD
8:	17 Feb 17	1555	1650	HOLD
9:	20 Feb 17	1525	1650	HOLD
10:	02 Mar 17	1525	1690	BUY
11:	10 Mar 17	1470	1690	BUY
12:	05 Apr 17	1460	1690	BUY
13:	10 Apr 17	1400	1690	BUY
14:	17 Apr 17	1395	1690	BUY
15:	24 Apr 17	1370	1690	BUY
16:	02 May 17	1395	1690	BUY
17:	11 May 17	1415	1690	BUY
18:	14 Jun 17	1425	1690	BUY
19:	10 Jul 17	1440	1610	BUY

Source: DBSVI

Analyst: William SIMADIPUTRA

Singapore Company Guide

Wilmar International

Version 10 | Bloomberg: WIL SP | Reuters: WLIL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Jul 2017

HOLD

Last Traded Price (19 Jul 2017): S\$3.32 (STI : 3,325.07)

Price Target 12-mth: S\$3.52 (6% upside)

Analyst

Singapore Research Team equityresearch@db.s.com

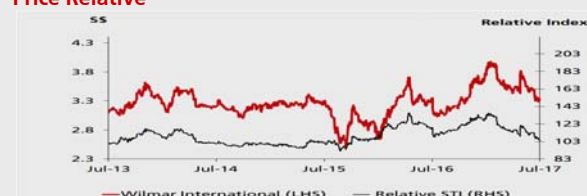
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What's New

- Lower earnings outlook on revised CPO and soy oil prices
- Limited profitability upside in the short term
- Possible listing of China operations positive for Wilmar's share price in medium term
- Maintain HOLD rating with lower TP of S\$3.52

Price Relative



Forecasts and Valuation

FY Dec (US\$ m)	2016F	2017F	2018F	2019F
Revenue	41,402	42,526	43,165	43,877
EBITDA	2,162	2,539	2,625	2,639
Pre-tax Profit	1,300	1,608	1,689	1,720
Net Profit	972	1,127	1,183	1,204
Net Pft (Pre Ex.)	962	1,127	1,183	1,204
Net Pft (ex. BA gains)	983	1,127	1,183	1,204
Net Pft Gth (Pre-ex) (%)	(13.9)	17.1	5.0	1.7
EPS (S cts)	20.8	24.1	25.3	25.7
EPS Pre Ex. (S cts)	20.6	24.1	25.3	25.7
EPS Gth Pre Ex (%)	(14)	17	5	2
Diluted EPS (S cts)	20.8	24.1	25.3	25.7
Net DPS (S cts)	6.3	8.4	8.8	9.0
BV Per Share (S cts)	308.5	325.4	342.1	358.9
PE (X)	16.0	13.8	13.1	12.9
PE Pre Ex. (X)	16.2	13.8	13.1	12.9
P/Cash Flow (X)	13.8	64.0	9.0	8.9
EV/EBITDA (X)	13.0	11.4	10.8	10.5
Net Div Yield (%)	1.9	2.5	2.7	2.7
P/Book Value (X)	1.1	1.0	1.0	0.9
Net Debt/Equity (X)	0.8	0.8	0.7	0.6
ROAE (%)	6.7	7.6	7.6	7.3

Earnings Rev (%):	(5)	(4)	(5)
Consensus EPS (S cts):	27.0	28.6	30.2
Other Broker Recs:	B: 6	S: 1	H: 12

Source of all data on this page: Company, DBS Bank, DBSVI, Bloomberg Finance L.P.

Lacking near-term catalyst

Maintaining HOLD with lower TP of S\$3.52. Limited upside potential for CPO and soybean oil prices in the short term means limited strong short-term share price catalyst, despite Wilmar's focus on expanding margins within its product portfolio. Over the long term, we expect Wilmar to gradually extend penetration of its well-established brands via its vast distribution networks in Asia's growing markets, which will provide another earnings upside potential.

Where we differ. Our new CPO and soybean oil revisions result in lower profitability outlook (operating profit margin), which we believe is a critical factor for Wilmar's share price. New ASP assumption results in earnings revision of -5%/-4% for FY17/18, lower than consensus'. We revise our CPO prices expectations by ~10% to US\$645/mT for CY17 and US\$616/mT for CY18 from US\$659/mT and US\$644/mT respectively. We also revise down our soybean oil price by ~2% to US\$753/ton in CY17 and US\$727/ton in CY18 on strong harvest outlook.

Lacking catalysts in the short term. We do not anticipate any catalysts that would move the stock significantly higher in the near term. We believe the sequential earnings recovery in the past three quarters has already been priced in. In the longer term, with a greater presence in India (through Adani-Wilmar's proposed JV with Ruchi), and gradual penetration of well-established brands – including Goodman Fielder – in China, Wilmar's FY16-19F earnings are expected to expand at a c.8% CAGR (low-base effect). Possible IPO plans (A-share listing) for its China operations, which will take at least ~18 months, may drive its share price closer to its potential listing date. We note that in 1Q17, the group's China pretax contribution amounted to c.50%.

Valuation:

We employed DCF methodology (FY18F base year) to arrive at our TP of S\$3.52 (WACC 7%, TG 3%). Our TP offers 6% upside from current level and 2.7% dividend yield.

Key Risks to Our View:

CPO and soybean prices. Wilmar's share price is influenced by palm oil refining/soybean crushing margins on top of crude palm oil (CPO)/sugar price expectations.

At A Glance

Issued Capital (m shrs)	6,324
Mkt. Cap (S\$m/US\$m)	20,995 / 15,364
Major Shareholders (%)	
Archer-Daniels-Midland Co	20.0
Longlin Asia Limited	5.3
Kerry Group Ltd	4.6
Free Float (%)	31.4
3m Avg. Daily Val (US\$m)	19.7

ICB Industry : Consumer Goods / Food Producers

CRITICAL DATA POINTS TO WATCH

Critical Factors

CPO and soybean prices. Approximately 20% of its EBIT comes from sales of CPO and Palm Kernel. Movements in CPO price hence directly affect the group's Plantation segment profit. As one of the largest processors of both CPO and soybeans globally, the group holds varying amount of inventories, if any. Generally, changes in commodity prices would also affect the group's Consumer segment with some lag.

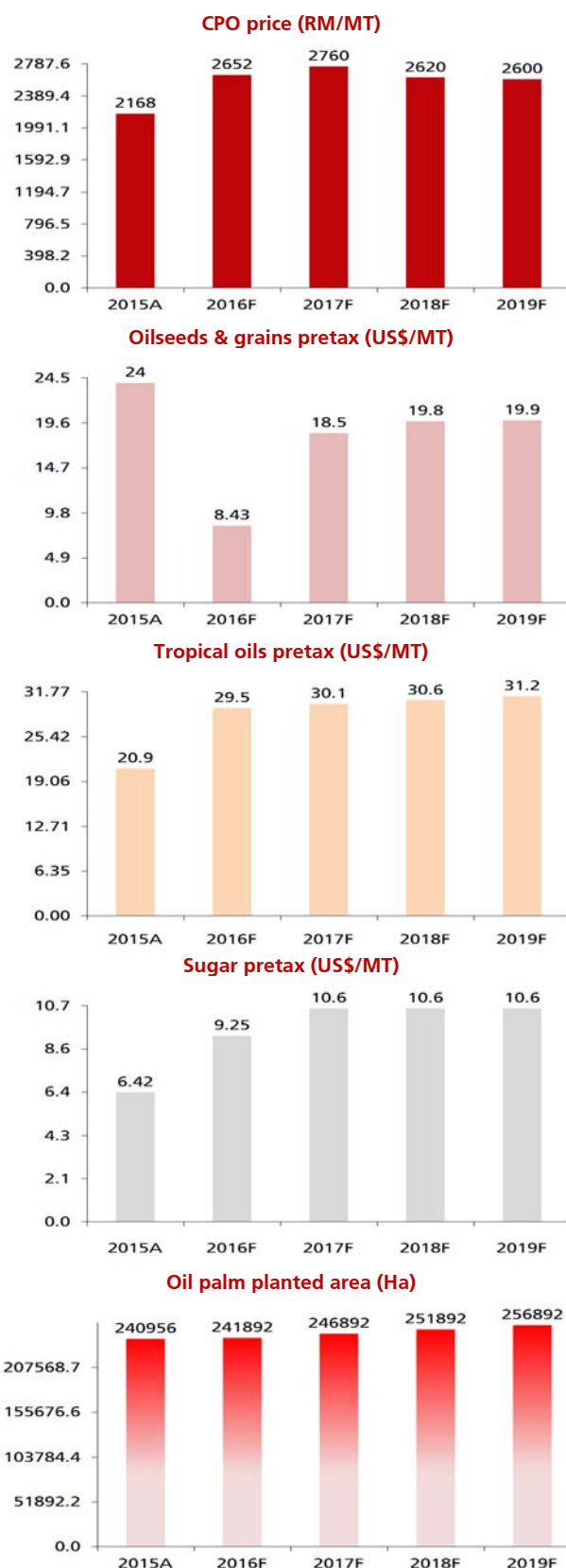
Capacity utilization and volume output. Wilmar continually assesses its capacity utilization. Changes in soybean imports by competitors into China and in soybean prices may prompt Wilmar to adjust its crushing volumes as well as margins.

Weather and supply chain congestion. A worse-than-expected drop in FFB yield would still adversely impact our forecast this year, in view of continued dry weather in some parts of Malaysia and Indonesia. Wilmar continually assesses its originations supply chain to avoid delay in deliveries to customers.

Changes in export tax policy. Prospective increase in biodiesel production in Indonesia may cause an oversupply and lower prices of glycerin (by-product of biodiesel output) in Wilmar's Oleo chemical unit – although it may make up only a small share of the group's downstream operations. Zero export taxes instituted for much of CY15 in both Malaysia and Indonesia had an adverse impact on palm oil refining margins. Changes in tax policy should therefore have a direct impact on Wilmar's refining profits.

Movement in crude oil prices. Global demand for both ethanol and biodiesel are subject to certain crude oil price threshold. Below this level, demand for both products would be adversely affected, and would influence sugarcane, corn and palm oil prices. Wilmar's sugar milling segment is exposed to volatility in sugar price if unhedged.

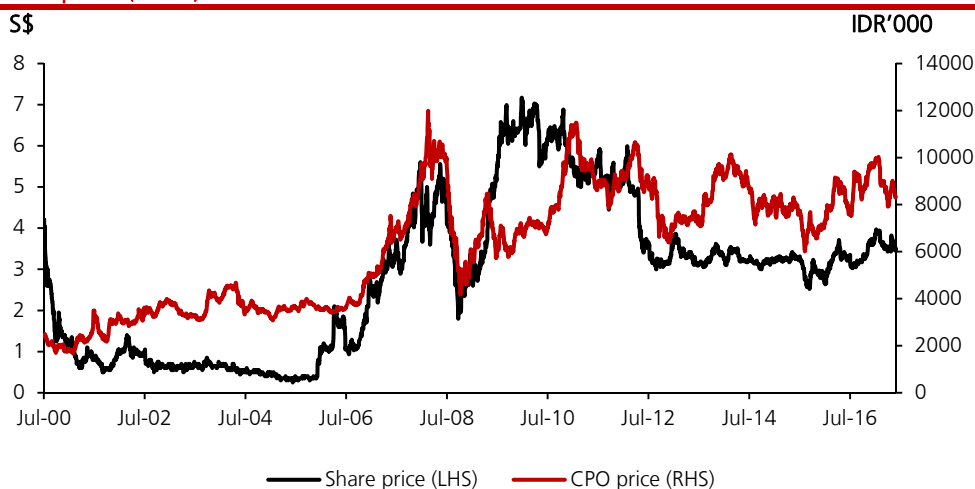
Geographic exposure. Wilmar's consolidated revenue is globally distributed, with China contributing over 50% in FY16. Southeast Asia accounted for 20%, while Europe contributed 6% of revenue. This means that currency movements in China and Southeast Asia would affect Wilmar's earnings. Prospective economic recoveries in these markets should also improve Wilmar's earnings outlook. Yet, we should also note that competing processors are also vying for the same markets - which would make recoveries not unique to Wilmar. The group also requires a significant amount of working capital, which would affect its borrowing cost.



Source: Company, DBSVI, DBS Bank

Appendix 1: A look at Wilmar's listed history – what drives its share price?

CPO prices (in IDR) as a critical factor

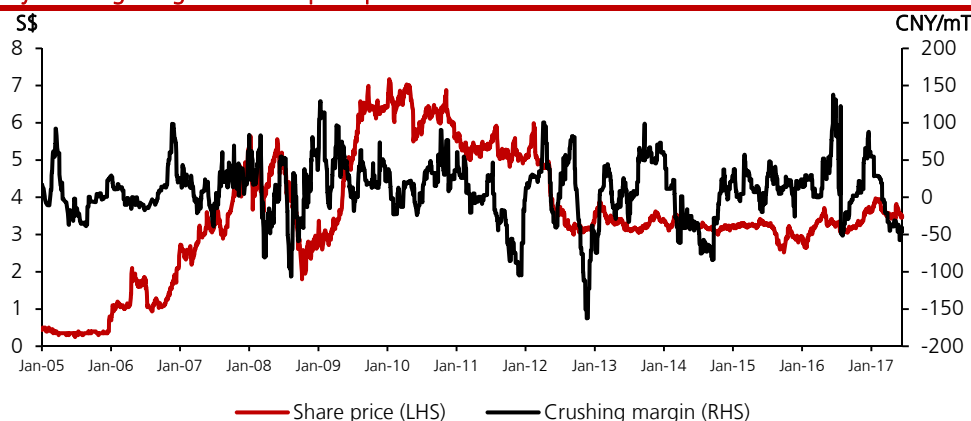


Remarks

Palm oil price is the key catalyst for plantation stocks; the share price movement trend generally tracks the palm oil spot price. However, the outperformance and underperformance of plantation stocks to CPO price are dictated by the productivity factor, where the stronger- or weaker-than-expected yields have led its share price sensitivity to palm oil price.

Share price correlation with CPO prices over the last 16 years is ~78%, the highest among SGX-listed plantation stocks.

Soy crushing margin vs. Share price performance

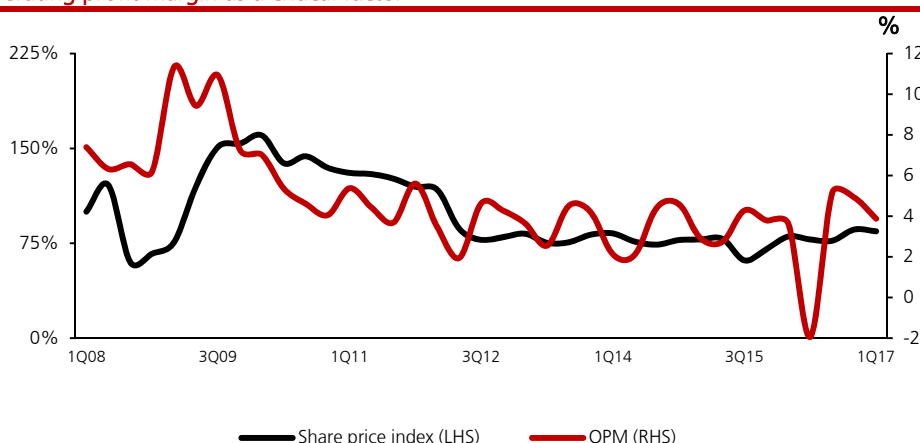


Remarks

While historically, spot margin calculations had no direct correlation with Wilmar's Oilseeds & Grains pretax margins, soy crushing margin has a somewhat correlation of ~67% with Wilmar's share price.

Wilmar hedging strategy offers some protection to its consolidated profitability (see chart below), with only 1Q16 consolidated pre-tax losses since 2008.

Operating profit margin as a critical factor



Remarks

Wilmar's share price generally tracks that of its operating profit margin (OPM), with the exception of 2Q16 where Wilmar saw a one-time significant realised mark-to-market loss in its short positions.

Source : Bloomberg Finance L.P, Company, DBS Bank, DBSVI

Balance Sheet:

Decent balance sheet. Adjusted for liquid working capital, the group's net debt-to-total equity ratio was 35% as at end of December 2016. We forecast FY17 EBITDA/interest ratio at 6.8x, while FY17 current ratio is forecast at 1.2x.

But slightly negative ROE-WACC. We expect the group to earn a ROE-WACC spread of 1.0%/0.9% in FY17F/18F. With forecast capex outlay of c.US\$715-732m p.a. in FY17F-18F, we expect Wilmar to incur negative free cash flow in FY17F before rebounding to positive in FY18F, yielding 7.7% of intrinsic value.

Share Price Drivers:

Rising contribution from Consumer/JV. Wilmar currently trades close to -1SD forward PE (traded at +1SD in 2016), principally reflecting the concerns on the latest development in China soybean crush margins. We believe the market has already priced in the group's improved performance. Any visible improvements from Consumer contribution (i.e. rice & flour milling) and/or JV contribution from Goodman Fielder, as well as potential inclusion of Soya Ruchi would drive Wilmar's share price higher, in our view.

Key Risks:

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.

Reputation

Emergence of food safety scandals is one of the risks for food producers. Lapses in the supply chain could heighten this risk.

Regulatory changes

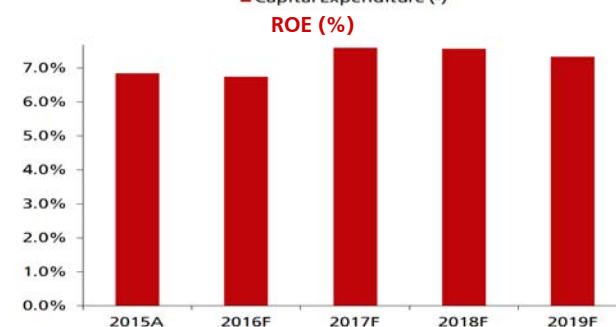
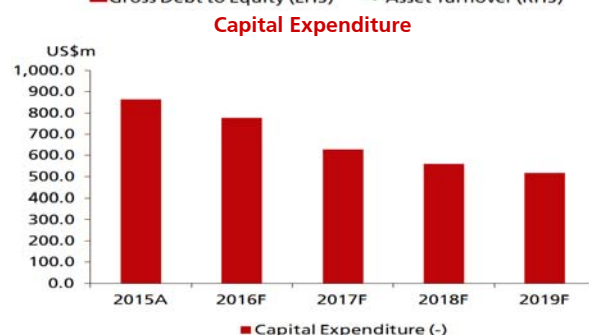
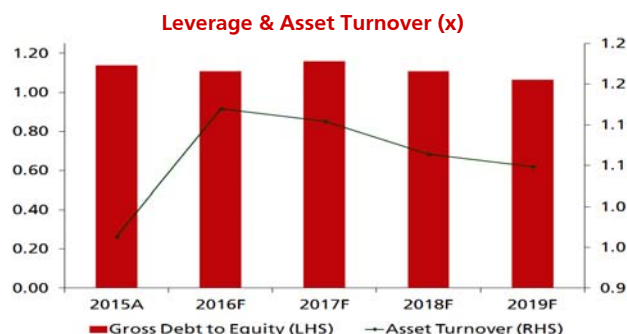
Any further increase in Indian import duty of refined oils or changes in the structure of Indonesian/Malaysian export taxes would impact demand for CPO/refined oils.

Market sentiment

Changes in fund flows towards or out of emerging markets would affect valuations of plantation counters.

Company Background

Wilmar International (Wilmar) is an integrated agribusiness company. It is involved in oil palm cultivation, edible oil refining, oilseed crushing, consumer pack edible oil processing and refining, oilseed crushing, specialty fats, oleochemical and biodiesel manufacturing, and grain processing and merchandising. Wilmar also manufactures and distributes fertilisers and owns a fleet of vessels.



Source: Company, DBSVI, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017F	2018F	2019F
CPO price (RM/MT)	2,168	2,652	2,760	2,620	2,600
Oilseeds & grains pretax	24.0	8.43	18.5	19.8	19.9
Tropical oils pretax	20.9	29.5	30.1	30.6	31.2
Sugar pretax (US\$/MT)	6.42	9.25	10.6	10.6	10.6
Oil palm planted area	240,956	241,892	246,892	251,892	256,892

Segmental Breakdown

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenues (US\$ m)					
Tropical oils	15,607	16,855	16,357	15,584	15,365
Oilseeds & grains	17,623	18,577	20,284	21,334	21,879
Sugar	4,404	5,862	6,422	6,809	7,192
Others	2,252	1,868	1,959	2,055	2,155
Others	(1,110)	(1,760)	(2,496)	(2,616)	(2,714)
Elimination	(1,110)	(1,760)	(2,496)	(2,616)	(2,714)
Total	38,777	41,402	42,526	43,165	43,877
Pretax (US\$ m)					
Tropical oils	969	491	685	677	670
Oilseeds & grains	348	690	251	584	659
Sugar	134	84	125	157	166
Others	20	17	101	24	15
Others	(93)	17	446	246	210
Unallocated costs	(93)	17	446	246	210
Total	1,379	1,300	1,608	1,689	1,720
Pretax Margins (%)					
Tropical oils	6.2	2.9	4.2	4.3	4.4
Oilseeds & grains	2.0	3.7	1.2	2.7	3.0
Sugar	3.1	1.4	2.0	2.3	2.3
Others	0.9	0.9	5.1	1.2	0.7
Others	N/A	N/A	N/A	N/A	N/A
Total	3.6	3.1	3.8	3.9	3.9

Income Statement (US\$ m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenue	38,777	41,402	42,526	43,165	43,877
Cost of Goods Sold	(34,867)	(37,391)	(38,184)	(38,735)	(39,419)
Gross Profit	3,909	4,011	4,343	4,430	4,458
Other Opg (Exp)/Inc	(2,566)	(2,704)	(2,758)	(2,793)	(2,834)
Operating Profit	1,343	1,306	1,585	1,636	1,624
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	105	141	201	203	203
Net Interest (Exp)/Inc	26	(157)	(178)	(151)	(107)
Exceptional Gain/(Loss)	(95)	10	0	0	0
Pre-tax Profit	1,379	1,300	1,608	1,689	1,720
Tax	(282)	(206)	(340)	(357)	(364)
Minority Interest	(74)	(121)	(141)	(148)	(153)
Preference Dividend	0	0	0	0	0
Net Profit	1,023	972	1,127	1,183	1,204
Net Profit before Except.	1,118	962	1,127	1,183	1,204
Net Pft (ex. BA gains)	1,034	983	1,127	1,183	1,204
EBITDA	2,122	2,162	2,539	2,625	2,639
Growth					
Revenue Gth (%)	(10.0)	6.8	2.7	1.5	1.6
EBITDA Gth (%)	(2.9)	1.9	17.5	3.4	0.5
Opg Profit Gth (%)	(7.0)	(2.8)	21.3	3.3	(0.7)
Net Profit Gth (%)	(11.5)	(5.0)	15.9	5.0	1.7
Margins & Ratio					
Gross Margins (%)	10.1	9.7	10.2	10.3	10.2
Opg Profit Margin (%)	3.5	3.2	3.7	3.8	3.7
Net Profit Margin (%)	2.6	2.3	2.7	2.7	2.7
ROAE (%)	6.8	6.7	7.6	7.6	7.3
ROA (%)	2.5	2.6	2.9	2.9	2.9
ROCE (%)	2.9	3.3	3.6	3.5	3.4
Div Payout Ratio (%)	36.2	30.5	35.0	35.0	35.0
Net Interest Cover (x)	NM	8.3	8.9	10.9	15.2

Source: Company, DBSVI, DBS Bank

Quarterly / Interim Income Statement (US\$ m)

FY Dec	1Q2016	2Q2016	3Q2016	4Q2016	1Q2017
Revenue	9,003	9,367	11,084	11,947	10,570
Cost of Goods Sold	(8,040)	(8,885)	(9,943)	(10,523)	(9,621)
Gross Profit	963	482	1,141	1,424	949
Other Oper. (Exp)/Inc	(636)	(664)	(569)	(836)	(538)
Operating Profit	327	(181)	572	588	410
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	13	32	29	68	42
Net Interest (Exp)/Inc	(38)	(38)	(41)	(39)	(38)
Exceptional Gain/(Loss)	20	1	7	(19)	53
Pre-tax Profit	321	(186)	567	598	467
Tax	(59)	(21)	(150)	23	(84)
Minority Interest	(23)	(13)	(25)	(60)	(21)
Net Profit	239	(220)	392	561	362
Net profit bef Except.	220	(221)	385	579	308
EBITDA	534	34	785	858	631

Growth

Revenue Gth (%)	(4.5)	4.1	18.3	7.8	(11.5)
EBITDA Gth (%)	(12.0)	(93.6)	2,199.9	9.3	(26.5)
Opg Profit Gth (%)	(8.6)	(155.5)	(415.9)	2.8	(30.3)
Net Profit Gth (%)	(27.5)	(191.9)	(278.2)	43.0	(35.5)

Margins

Gross Margins (%)	10.7	5.1	10.3	11.9	9.0
Opg Profit Margins (%)	3.6	(1.9)	5.2	4.9	3.9
Net Profit Margins (%)	2.7	(2.3)	3.5	4.7	3.4

Balance Sheet (US\$ m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	8,983	8,297	8,065	7,777	7,417
Invt in Associates & JVs	2,731	2,903	3,104	3,307	3,510
Other LT Assets	6,345	6,396	6,526	6,601	6,691
Cash & ST Invt	5,265	5,375	6,549	7,568	8,650
Inventory	6,318	7,022	7,063	7,165	7,291
Debtors	6,652	6,442	8,056	8,177	8,312
Other Current Assets	633	596	599	601	604
Total Assets	36,926	37,032	39,961	41,196	42,476
ST Debt	11,076	12,689	14,411	14,627	14,869
Creditor	3,034	3,420	3,486	3,536	3,599
Other Current Liab	580	614	644	651	654
LT Debt	6,348	4,331	4,480	4,480	4,480
Other LT Liabilities	587	599	629	660	694
Shareholder's Equity	14,394	14,435	15,227	16,008	16,795
Minority Interests	907	944	1,085	1,233	1,386
Put Equity Reserve	N/A	N/A	N/A	N/A	N/A
Total Cap. & Liab.	36,926	37,032	39,961	41,196	42,476
Non-Cash Wkg. Capital	9,987	10,026	11,588	11,756	11,955
Net Cash/(Debt)	(12,159)	(11,645)	(12,341)	(11,539)	(10,698)
Debtors Turn (avg days)	69.1	57.7	62.2	68.6	68.6
Creditors Turn (avg days)	34.0	32.1	33.7	33.8	33.7
Inventory Turn (avg days)	68.8	66.4	68.7	68.4	68.3
Asset Turnover (x)	1.0	1.1	1.1	1.1	1.0
Current Ratio (x)	1.3	1.2	1.2	1.2	1.3
Quick Ratio (x)	0.8	0.7	0.8	0.8	0.9
Net Debt/Equity (X)	0.8	0.8	0.8	0.7	0.6
Net Debt/Equity ex MI (X)	0.8	0.8	0.8	0.7	0.6
Capex to Debt (%)	5.0	4.6	3.3	2.9	2.7
Z-Score (X)	2.1	2.1	2.1	2.1	2.1

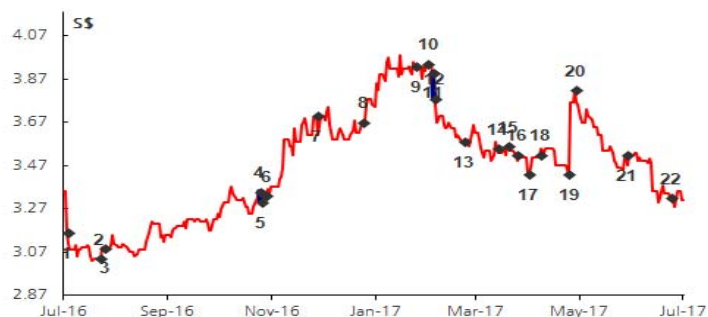
Source: Company, DBSVI, DBS Bank

Cash Flow Statement (US\$ m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	1,379	1,300	1,608	1,689	1,720
Dep. & Amort.	725	764	754	786	811
Tax Paid	(320)	(307)	(340)	(357)	(364)
Assoc. & JV Inc/(loss)	(105)	(141)	(201)	(203)	(203)
Chg in Wkg.Cap.	398	(523)	(1,589)	(173)	(199)
Other Operating CF	154	30	12	(12)	(17)
Net Operating CF	2,232	1,124	243	1,730	1,749
Capital Exp.(net)	(865)	(777)	(628)	(558)	(517)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(448)	(33)	(21)	(76)	(88)
Net Investing CF	(1,313)	(811)	(649)	(634)	(605)
Div Paid	(381)	(371)	(335)	(402)	(417)
Chg in Gross Debt	(7,989)	(2,157)	1,870	217	241
Capital Issues	(149)	(7)	0	0	0
Other Financing CF	3,907	2,423	(29)	31	33
Net Financing CF	(4,612)	(113)	1,506	(154)	(143)
Currency Adjustments	0	0	0	0	0
Chg in Cash	(3,693)	200	1,100	942	1,001
Opg CFPS (\$ cts)	28.6	25.7	28.6	29.7	30.4
Free CFPS (\$ cts)	21.4	5.4	(6.0)	18.3	19.2

Source: Company, DBS Bank, DBSVI

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	20 Jul 16	3.16	3.76	BUY
2:	08 Aug 16	3.04		UNDER REVIEW
3:	11 Aug 16	3.09	3.13	HOLD
4:	10 Nov 16	3.35	3.39	HOLD
5:	11 Nov 16	3.30	3.39	HOLD
6:	14 Nov 16	3.33	3.39	HOLD
7:	14 Dec 16	3.70	3.39	HOLD
8:	10 Jan 17	3.67	3.39	HOLD
9:	10 Feb 17	3.93	3.39	HOLD
10:	17 Feb 17	3.94	3.90	HOLD
11:	20 Feb 17	3.90	3.90	HOLD
12:	21 Feb 17	3.78	3.90	HOLD
13:	10 Mar 17	3.58	3.90	HOLD
14:	30 Mar 17	3.55	3.90	HOLD
15:	05 Apr 17	3.56	3.90	HOLD
16:	10 Apr 17	3.52	3.90	HOLD
17:	17 Apr 17	3.43	3.90	HOLD
18:	24 Apr 17	3.52	3.90	HOLD
19:	11 May 17	3.43	3.90	HOLD
20:	15 May 17	3.82	3.90	HOLD
21:	14 Jun 17	3.52	3.90	HOLD
22:	10 Jul 17	3.32	3.52	HOLD

Source: DBSVI, DBS Bank

Analyst: Singapore Research Team

William SIMADIPUTRA

Singapore Company Guide

First Resources

Version 9 | Bloomberg: FR SP | Reuters: FRLD.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Jul 2017

BUY

Last Traded Price (19 Jul 2017): S\$1.89 (STI : 3,325.07)

Price Target 12-mth: S\$2.13 (13% upside) (Prev S\$2.15)

Analyst

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What's New

- **Consistent delivery and strong 26% earnings growth expected in FY17**
- **FY17/18 earnings revised by -9%/-12% on lower CPO prices**
- **Undemanding valuation; trading at 12.5x FY18 P/E**
- **Reiterate BUY, TP adjusted to S\$2.12**

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2016A	2017F	2018F	2019F
Turnover	575	624	647	687
EBITDA	264	303	317	339
Pre-tax Profit	183	229	244	265
Net Profit	125	161	174	191
Net Pft (Pre Ex.)	125	161	174	191
Net Pft (ex. BA gains)	115	161	174	191
Net Pft Gth (Pre-ex) (%)	31.1	28.5	8.3	9.7
EPS (S cts)	10.8	13.9	15.1	16.5
EPS Pre Ex. (S cts)	10.8	13.9	15.1	16.5
EPS Gth Pre Ex (%)	31	29	8	10
Diluted EPS (S cts)	10.8	13.9	15.1	16.5
Net DPS (S cts)	2.0	3.7	4.1	4.5
BV Per Share (S cts)	76.1	86.4	97.3	109.3
PE (X)	17.4	13.6	12.5	11.4
PE Pre Ex. (X)	17.4	13.6	12.5	11.4
P/Cash Flow (X)	11.7	10.1	8.7	8.1
EV/EBITDA (X)	9.2	7.7	7.0	6.1
Net Div Yield (%)	1.0	1.9	2.2	2.4
P/Book Value (X)	2.5	2.2	1.9	1.7
Net Debt/Equity (X)	0.2	0.1	CASH	CASH
ROAE (%)	15.5	17.1	16.4	16.0
Earnings Rev (%):		(9)	(12)	(11)
Consensus EPS (S cts):		14.2	17.0	20.0
Other Broker Recs:		B: 13	S: 0	H: 5

Source of all data on this page: Company, DBSVI, DBS Bank, Bloomberg Finance L.P.

Appealing organic growth

Sound earnings growth. We expect First Resources (FR) to book a strong 26% earnings growth this year – premised on volume recovery. In this report, we reiterate our BUY rating with new TP of S\$2.12, on new earnings forecast. We also rolled forward our valuation year to FY18. Earnings were revised by -9%/-12% for FY17/18 as we revised our CPO price expectations by -2%/-4% to US\$645/mT for CY17 and US\$616/mT from CY18 from US\$659/mT and US\$644/mT respectively and slightly increased cost of sales on higher expected labor unit costs and feedstock.

Where we differ: We like FR organic growth prospect. We believe FR young trees age will continue to boost FR CPO yield and drive company CPO volume growth. Higher CPO yield on upcoming maturing trees will improve company ROIC and profitability on the back of better operational of scale, result a sustaining strong earnings growth momentum. FR's aggressive planting in East and West Kalimantan between FY12 and FY14 will contribute to the group's strong volume and earnings growth through FY18F.

Potential Catalyst: consistent earnings delivery. We believe consistent earnings delivery in 2HCY17 should move the stock price higher. Moreover, stabilizing CPO price outlook will mean that FR's earnings growth will be driven by volume expansion and CPO yield expansion.

Valuation:

We employed DCF methodology (rolled forward to FY18F base year) to arrive at FR's fair value of S\$2.12/share (WACC 11.8%; TG 3%) – adjusted from S\$2.15 previously. We believe the counter's strong expected earnings growth has not been priced in.

Key Risks to Our View:

There would be downside risk to our CPO price forecasts if Pertamina's biodiesel off-take fails to live up to our expectations (3.1m MT) this year. CPO price could also move higher than forecast if there is significant yield deterioration in South American 2QCY17 soybean crop. Changes in fund flows towards or out of emerging markets/commodities would also affect valuations of plantation counters.

At A Glance

Issued Capital (m shrs)	1,584
Mkt. Cap (S\$m/US\$m)	2,986 / 2,185
Major Shareholders (%)	
Eight Capital Inc	64.1
King Fortune International Inc	5.6
Free Float (%)	30.4
3m Avg. Daily Val (US\$m)	1.9
ICB Industry : Consumer Goods / Food Producers	

CRITICAL DATA POINTS TO WATCH**Critical Factors:****Earnings driver**

CPO price is key driver of earnings and share price. As a commodity producer, LSIP is a price-taker. Movement in international CPO prices, would directly impact the group's profitability. We currently expect CPO prices (FOB Pasir Gudang) to average US\$645/MT (+0.1% y-o-y) in CY17 and US\$616/MT in CY18 (-4.5% y-o-y). CPO price movements is key driver to plantation companies share price (see appendix).

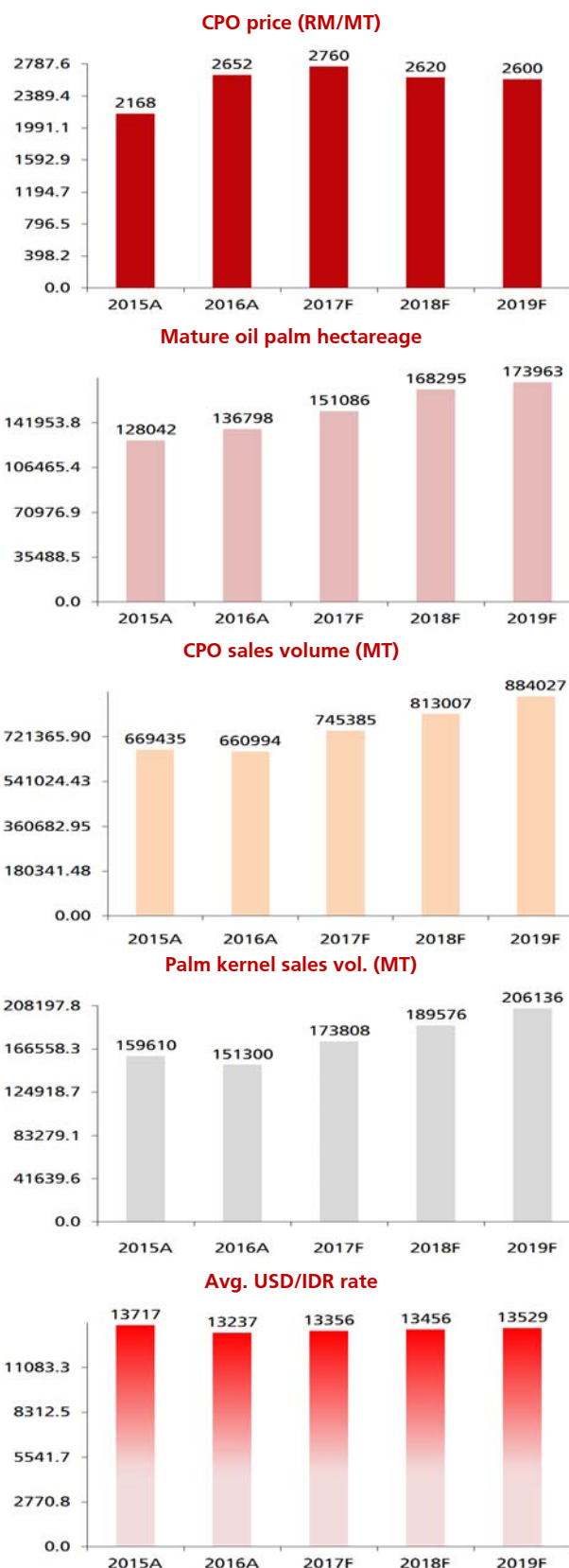
Trees profile : Young trees age. As at end-December 2016, FR's trees were estimated to have an average age of 11 years. Approximately 15,000ha per annum will mature in FY17F through FY18F – representing 20% of its own mature hectare at the end of FY19 – which is enough to keep its average age from rising towards 12 years by end- FY19F.

CPO volume growth : CPO output recovery in 2017. FR's aggressive planting in East and West Kalimantan between FY12 and FY14 will contribute to the group's strong volume and earnings growth through FY18F. FR's FFB expanded at a CAGR of 8.3% in FY16-18F on the back of recovering yields. We imputed a 15.2% y-o-y higher FY17F nucleus FFB output, albeit from a low base, principally on account of the dissipating effect of the 2016 El Nino.

Sustaining high CPO yield means strong profitability outlook.

We are expecting CPO yield to sustain at 4.0MT/ha in 2017-2019 on maturing estates. Relative to other oil crops, palm oil has the highest productivity per hectare at 5 MT/ha, while soybean oil's productivity is typically 0.5 MT/ha. Besides, CPO yield also reflects planters' management strength, which ultimately affects return on invested capital (ROIC) and profitability.

Revenue exposure to domestic market. FR sells its CPO output to the third parties locally at spot pricing mechanism. While the group is not subject to biodiesel export levies (US\$50/MT on CPO) on all of its CPO sales volume, local ASP would nevertheless roughly reflect the same discount, given the increasing domestic supply as a result of the export levies. We have already imputed this into our forecast.

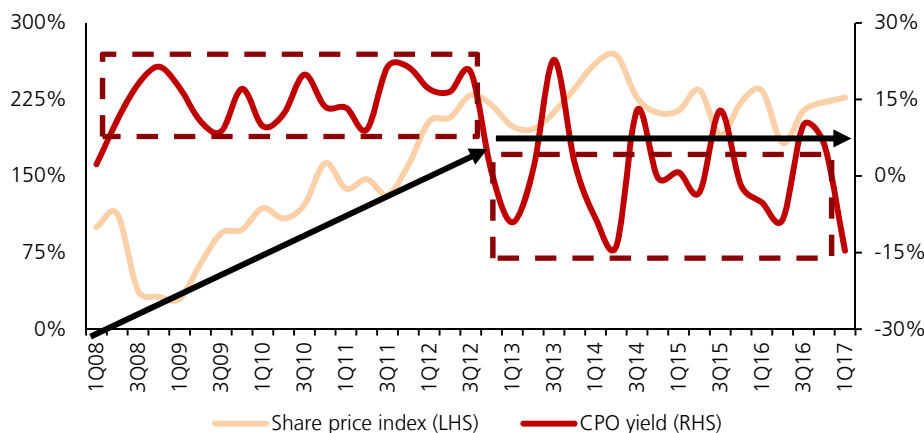


Source: Company, DBSVI, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?

First Resources' share price performance vs CPO yield performance relative to sector

1Q2008 = 100%



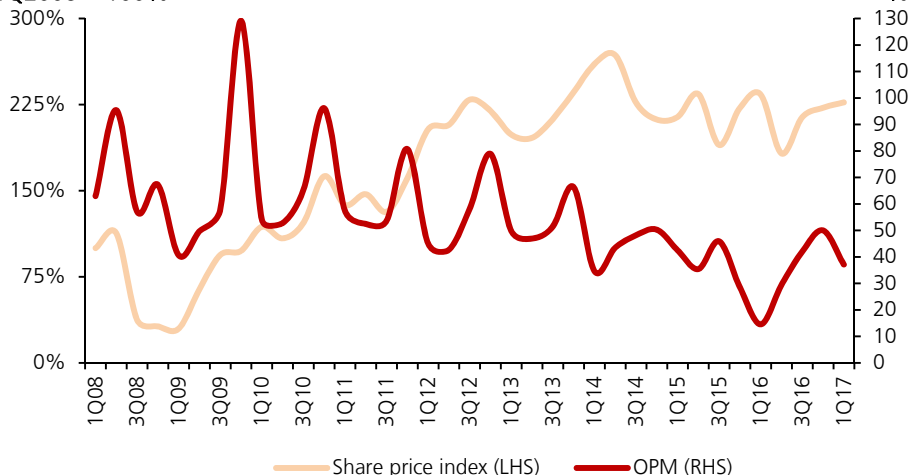
Remarks

FR accurately demonstrates the yield performance sensitivity.

The share price consistently outperformed its index (GGR, FR, BAL), averaging 14% p.a in 1Q08-4Q12.

Operating profit margin as a critical factor

1Q2008 = 100%

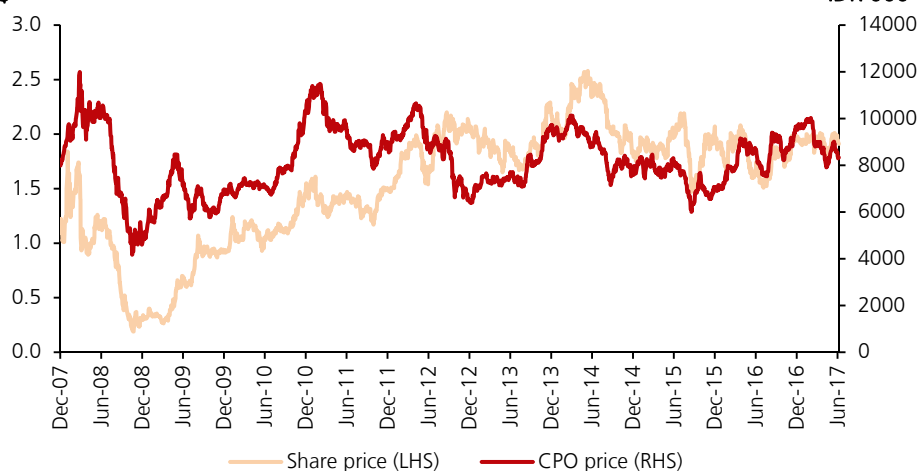


Remarks

Share price outperformance over 1Q08-4Q12 may be explained by its high operating profit margin (OPM) over the period. OPM is still relevant in explaining share price sensitivity.

CPO prices (in IDR) as a critical factor

S\$



Remarks

Palm oil price is the key catalyst for plantation stocks; the share price movement trend generally tracks the palm oil spot price. However, the outperformance and underperformance of plantation stocks to CPO price are dictated by the productivity factor, where the stronger- or weaker-than expected yields have led their share price sensitivity to palm oil price.

Share price correlation with CPO prices over the last nine years is ~43%.

Source : Bloomberg Finance L.P., Company, DBS Bank, DBSVI

Balance Sheet:

Net cash position next year. On our estimates, FR's debts cost a paltry 3.9% p.a. The low cost comes primarily from Sukuk issuances between 2012 and 2014 – which were subsequently swapped into USD. While the group had indicated its intention to refinance maturing Sukuk this year, we are maintaining our debt profile forecast unchanged for now. The group's net debt-to-total equity ratio stood at 15% at end-March 2017 vs. 20% at end-December 2016.

Strong free cash flow generation. We expect the group to spend c.US\$2.8m on biological assets (c.2k ha on new planting and c.29k ha immature) in FY17 and US\$2.2m in FY18 (c.2k ha on new planting and 15k ha immature). This would translate into free cash flow generation of US\$196m in FY17F and US\$208m in FY18F – translating into free cash flow yield of ~9% relative to its intrinsic value.

Share Price Drivers:

Trading at a discount. The stock is currently trading close to -1SD from average historical PE. We believe consistent earnings delivery in 1Q17 and 2Q17 should move the stock price higher.

Key Risks:

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 adverse impact on demand for vegetable oils for biofuels. Likewise, volatility in USD would affect profitability of planters in general.

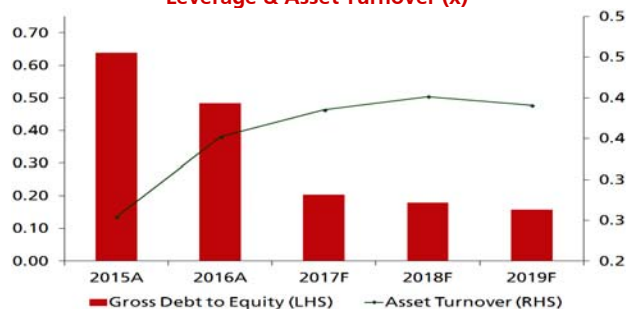
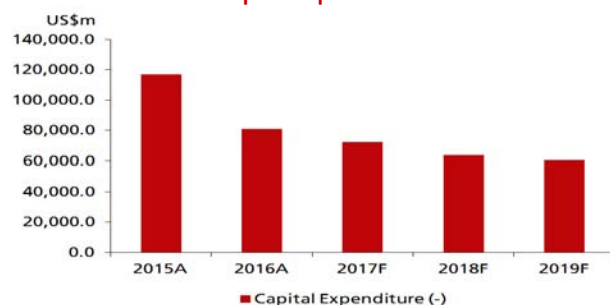
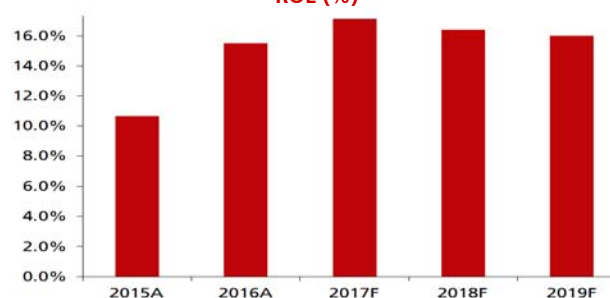
Setback in expansion plans Our forecasts are based on assumed hectareage for new planting and replanting. Any setback on these plans would negatively affect our valuation due to slower volume growth.

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.

Market sentiment. Changes in fund flows towards or out of emerging markets would affect valuations for plantation counters.

Company Background

First Resources (FR) is a mid-sized planter with a strong balance sheet and decent growth outlook. FR has been aggressively planting since 2004, and is one of the few upstream planters that have successfully expanded downstream – albeit on a small scale.

Leverage & Asset Turnover (x)**Capital Expenditure****ROE (%)****Forward PE Band (x)****PB Band (x)**

Source: Company, DBSVI, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017F	2018F	2019F
CPO price (RM/MT)	2,168	2,652	2,760	2,620	2,600
Mature oil palm	128,042	136,798	151,086	168,295	173,963
CPO sales volume (MT)	669,435	660,994	745,385	813,007	884,027
Palm kernel sales vol. (MT)	159,610	151,300	173,808	189,576	206,136
Avg. USD/IDR rate	13,717	13,237	13,356	13,456	13,529

Segmental Breakdown

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenues (US\$m)					
CPO	362	388	449	466	500
Palm kernel	53	75	79	86	93
Olein, RBDPO, biodiesel	209	363	280	269	267
PKO	29	55	45	45	45
Others	(200)	(306)	(230)	(221)	(218)
Total	454	575	624	647	687

(US\$m)

Income Statement (US\$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenue	454	575	624	647	687
Cost of Goods Sold	(222)	(308)	(310)	(319)	(336)
Gross Profit	232	267	314	328	351
Other Opng (Exp)/Inc	(62)	(60)	(74)	(78)	(82)
Operating Profit	170	208	240	250	268
Other Non Opng (Exp)/Inc	(3)	(1)	(1)	(1)	(1)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(22)	(24)	(11)	(5)	(3)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	145	183	229	244	265
Tax	(45)	(51)	(59)	(61)	(63)
Minority Interest	(4)	(6)	(8)	(9)	(10)
Preference Dividend	0	0	0	0	0
Net Profit	96	125	161	174	191
Net Profit before Except.	96	125	161	174	191
EBITDA	216	264	303	317	339
Growth					
Revenue Gth (%)	(26.3)	26.8	8.5	3.6	6.3
EBITDA Gth (%)	(28.3)	22.0	14.7	4.6	7.0
Opg Profit Gth (%)	(37.3)	22.3	15.7	4.0	7.3
Net Profit Gth (%)	(44.8)	31.1	28.5	8.3	9.7
Margins & Ratio					
Gross Margins (%)	51.1	46.5	50.4	50.7	51.0
Opg Profit Margin (%)	37.4	36.1	38.5	38.7	39.0
Net Profit Margin (%)	21.1	21.8	25.8	27.0	27.8
ROAE (%)	10.6	15.5	17.1	16.4	16.0
ROA (%)	5.4	7.7	9.9	10.8	10.9
ROCE (%)	6.8	9.9	12.1	12.6	12.5
Div Payout Ratio (%)	44.5	18.1	26.3	27.4	27.2
Net Interest Cover (x)	7.9	8.6	22.1	51.8	93.4

Source: Company, DBSVI, DBS Bank

Quarterly / Interim Income Statement (US\$m)

FY Dec	1Q2016	2Q2016	3Q2016	4Q2016	1Q2017
Revenue	113	135	152	175	194
Cost of Goods Sold	(78)	(79)	(71)	(80)	(102)
Gross Profit	35	56	80	96	92
Other Oper. (Exp)/Inc	(18)	(17)	(17)	(8)	(20)
Operating Profit	16	40	64	88	72
Other Non Opg (Exp)/Inc	(1)	1	0	0	2
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(6)	(6)	(7)	(6)	(6)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	10	35	57	81	68
Tax	(4)	(8)	(19)	(21)	(17)
Minority Interest	0	(1)	(2)	(3)	(2)
Net Profit	6	26	36	58	48
Net profit bef Except.	6	26	36	58	48
EBITDA	16	41	64	87	74

Growth

Revenue Gth (%)	(13.6)	19.7	11.9	15.6	10.8
EBITDA Gth (%)	(60.9)	159.2	54.5	37.2	(15.1)
Opg Profit Gth (%)	(55.9)	142.1	59.9	37.5	(17.7)
Net Profit Gth (%)	(67.8)	353.2	37.2	61.8	(16.5)

Margins

Gross Margins (%)	30.8	41.7	53.1	54.5	47.4
Opg Margins (%)	14.6	29.5	42.1	50.0	37.1
Net Profit Margins (%)	5.1	19.3	23.7	33.1	25.0

Balance Sheet (US\$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	325	329	336	339	339
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	872	936	911	905	897
Cash & ST Invt	205	258	119	254	409
Inventory	68	78	73	76	80
Debtors	40	36	41	42	45
Other Current Assets	58	63	61	63	66
Total Assets	1,568	1,700	1,540	1,680	1,836
ST Debt	29	224	0	0	156
Creditor	51	159	106	109	115
Other Current Liab	12	18	16	17	18
LT Debt	466	224	215	213	55
Other LT Liabilities	236	148	150	152	155
Shareholder's Equity	736	881	1,000	1,127	1,266
Minority Interests	38	45	53	62	72
Put Equity Reserve	N/A	N/A	N/A	N/A	N/A
Total Cap. & Liab.	1,568	1,700	1,540	1,680	1,836
Non-Cash Wkg. Capital	103	0	54	55	59
Net Cash/(Debt)	(290)	(190)	(96)	41	197
Debtors Turn (avg days)	31.7	23.9	22.4	23.5	23.2
Creditors Turn (avg days)	116.7	152.5	195.9	155.7	153.7
Inventory Turn (avg days)	123.6	106.2	112.3	108.4	107.0
Asset Turnover (x)	0.3	0.4	0.4	0.4	0.4
Current Ratio (x)	4.1	1.1	2.4	3.5	2.1
Quick Ratio (x)	2.7	0.7	1.3	2.4	1.6
Net Debt/Equity (X)	0.4	0.2	0.1	CASH	CASH
Net Debt/Equity ex MI (X)	0.4	0.2	0.1	CASH	CASH
Capex to Debt (%)	23.6	18.1	33.6	29.9	28.6
Z-Score (X)	3.6	3.5	5.3	5.3	5.2

Source: Company, DBSVI, DBS Bank

Cash Flow Statement (US\$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	145	183	229	244	265
Dep. & Amort.	50	57	63	68	71
Tax Paid	(75)	(49)	(59)	(61)	(63)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	(49)	12	(54)	(2)	(3)
Other Operating CF	0	(16)	37	1	1
Net Operating CF	71	187	216	250	270
Capital Exp.(net)	(117)	(81)	(72)	(64)	(61)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	(72)	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	0	(9)	(2)	(3)
Net Investing CF	(189)	(81)	(81)	(66)	(63)
Div Paid	(43)	(23)	(42)	(48)	(52)
Chg in Gross Debt	17	(25)	(233)	(2)	(1)
Capital Issues	0	0	0	0	0
Other Financing CF	59	(5)	1	1	1
Net Financing CF	34	(53)	(274)	(49)	(53)
Currency Adjustments	(62)	0	0	0	0
Chg in Cash	(146)	53	(139)	136	155
Opg CFPS (\$ cts)	8	11	17	16	17
Free CFPS (\$ cts)	(3)	7	9	12	13

Source: Company, DBSVI, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	13 Aug 16	1.63	1.80	BUY
2:	24 Oct 16	1.77	1.90	HOLD
3:	10 Nov 16	1.85	1.90	HOLD
4:	14 Dec 16	1.95	1.90	HOLD
5:	10 Jan 17	1.92	1.90	HOLD
6:	10 Feb 17	1.97	1.90	HOLD
7:	17 Feb 17	1.96	2.19	BUY
8:	20 Feb 17	1.92	2.19	BUY
9:	28 Feb 17	1.89	2.15	BUY
10:	06 Mar 17	1.93	2.15	BUY
11:	10 Mar 17	1.95	2.15	BUY
12:	05 Apr 17	1.96	2.15	BUY
13:	10 Apr 17	1.92	2.15	BUY
14:	17 Apr 17	1.81	2.15	BUY
15:	24 Apr 17	1.83	2.15	BUY
16:	11 May 17	1.96	2.15	BUY
17:	15 May 17	2.00	2.15	BUY
18:	14 Jun 17	1.97	2.15	BUY
19:	10 Jul 17	1.89	2.12	BUY

Source: DBSVI, DBS Bank

Analyst: Singapore Research Team

William SIMADIPUTRA

Singapore Company Guide

Bumitama Agri

Version 10 | Bloomberg: BAL SP | Reuters: BUMI.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Jul 2017

BUY

Last Traded Price (19 Jul 2017): S\$0.74 (STI : 3,325.07)

Price Target 12-mth: S\$0.94 (28% upside) (Prev S\$0.99)

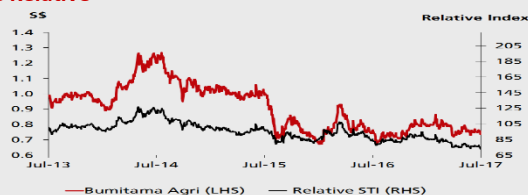
Analyst

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What's New

- Upcoming maturing estates boost volume
- Higher yield supports earnings growth
- Liquidity discount on share price is excessive, in our view
- Maintain BUY with revised TP of S\$0.94, representing c.28% potential upside

Price Relative



Forecasts and Valuation

FY Dec (Rpbn)	2016A	2017F	2018F	2019F
Revenue	6,630	7,200	8,128	8,546
EBITDA	1,933	2,134	2,469	2,574
Pre-tax Profit	1,516	1,552	1,831	1,924
Net Profit	1,005	1,016	1,189	1,249
Net Pft (ex. BA gains)	985	1,016	1,189	1,249
Net Pft (Pre Ex.)	1,005	1,016	1,189	1,249
Net Pft Gth (Pre-ex) (%)	40.8	1.1	17.1	5.0
EPS (S cts)	5.88	5.94	6.96	7.31
EPS Pre Ex. (S cts)	5.88	5.94	6.96	7.31
EPS Gth Pre Ex (%)	41	1	17	5
Diluted EPS (S cts)	5.88	5.94	6.96	7.31
Net DPS (S cts)	0.66	0.69	1.20	1.40
BV Per Share (S cts)	39.3	44.6	50.3	56.2
PE (X)	12.5	12.4	10.6	10.1
PE Pre Ex. (X)	12.5	12.4	10.6	10.1
P/Cash Flow (X)	9.2	6.7	6.3	6.0
EV/EBITDA (X)	9.2	7.7	6.3	5.6
Net Div Yield (%)	0.9	0.9	1.6	1.9
P/Book Value (X)	1.9	1.7	1.5	1.3
Net Debt/Equity (X)	0.6	0.3	0.2	0.0
ROAE (%)	16.2	14.2	14.7	13.7

Earnings Rev (%):	(20)	0	(3)
Consensus EPS (S cts):	7.19	8.42	8.25
Other Broker Recs:	B: 7	S: 1	H: 0

Source of all data on this page: Company, DBSVI, DBS Bank, Bloomberg Finance L.P.

Maturing estates boost volume, keep margins strong

Volume will drive earnings growth. We expect the group's earnings to expand at a 6% CAGR between FY16 and FY19F, driven by an 8% CAGR expansion in revenue on CPO production increase over the same period. We reiterate our BUY call with c.26% potential upside to our new TP of S\$0.94 (roll forward valuation year to FY18). We revise our CPO price expectations by 2%/4% to US\$645/MT for CY17 and US\$616/MT for CY18 from US\$659/MT and US\$644/MT. We believe that the strong CPO output outlook for the rest of the year may limit the upside potential for palm oil prices this year. Earnings were revised accordingly, but still on positive growth of 6% CAGR in FY16-19F due to BAL's efficiency initiatives and crop yield expansion.

Where we differ: Higher mills utilization rate is positive for margins.

Higher milling capacity outlook is positive for BAL's profitability. We forecast BAL will increase its third-party FFB purchase to achieve milling capacity utilisation rate of 68%. Moreover, we believe aggressive expansion in FY05-13 has kept BAL's tree-age profile younger relative to peers, with double digits fruits output outlook. We forecast 11% CAGR in FFB (Fresh Fruit Bunch) output (including smallholder estates) between FY16F and FY19F.

Potential Catalyst: Re-rating on performance delivery. We believe there is currently excessive liquidity discount on the counter. Moreover, higher CPO yield on upcoming maturing trees will improve company ROIC and profitability, resulting a consistent earnings delivery.

Valuation:

We roll forward our DCF valuation to FY18, to arrive at BAL's fair value of S\$0.94/share (WACC: 10.4%, Rf: 8.4%, Rm: 13.3%, β : 0.8, TG: 3%) offering c.22% potential upside from the current level. Our TP implies FY18F PE of 13.7x.

Key Risks to Our View:

CPO price. There would be downside risk to our CPO (Crude Palm Oil) price forecasts if Pertamina's biodiesel off-take fails to live up to our expectations (3.1m MT) next year. CPO price could also move higher than forecast if there is significant yield deterioration in South American 1QCY17 soybean crop in the event of a strong La Nina.

At A Glance

Issued Capital (m shrs)	1,751
Mkt. Cap (S\$bn/US\$m)	1.29 / 942
Major Shareholders (%)	
Fortune Holdings Ltd	51.5
IOI Corp Bhd	31.7
Free Float (%)	17.3
3m Avg. Daily Val (US\$m)	0.27
ICB Industry : Consumer Goods / Food Producers	

CRITICAL DATA POINTS TO WATCH**Critical Factors****Earnings driver**

CPO price is key driver of earnings and share price. As a commodity producer, BAL is a price-taker. Movement in international CPO prices, would directly impact the group's profitability. We currently expect CPO prices (FOB Pasir Gudang) to average US\$645/MT (+0.1% y-o-y) in CY17 and US\$616/MT in CY18 (-4.5% y-o-y). CPO price movements are also key driver to plantation companies share price (see appendix).

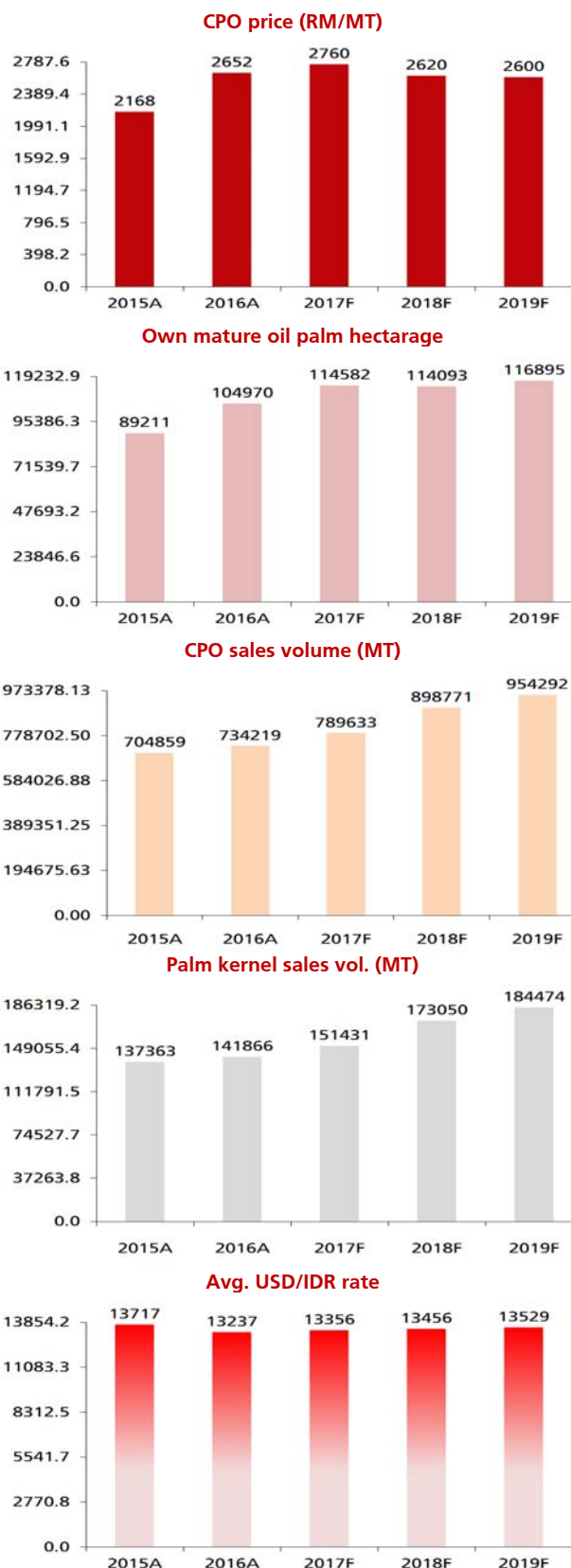
Trees profile : Primage age. As at end-December 2016, BAL's trees were estimated to have an average age of 15 years. A sizable estate of 11,000ha will mature in FY17F– representing 10% of its own mature hectare at the end of FY17 – which is enough to keep its average age from rising towards 16 years by end- FY19F.

CPO volume growth : CPO output recovery in 2017. We believe aggressive expansion in FY05-13 has kept BAL's tree-age profile younger relative to peers, with double digits fruits output outlook. We forecast 11% CAGR in FFB (Fresh Fruit Bunch) output (including smallholder estates) between FY16F and FY19F, albeit from a low base, principally on account of the dissipating effect of the 2016 El Nino. To maximize its CPO processing mills capacity, BAL will continue to purchase fruits from third parties farmers. We forecast CPO sales volume to grow by 9% CAGR in FY16-19.

Sustaining high CPO yield means strong profitability outlook.

We are expecting CPO yield to expand from 3.4MT/ha in 2017- to 3.8MT/ha in 2019 on maturing estates. Relative to other oil crops, palm oil has the highest productivity per hectare at 5 MT/ha, while soybean oil's productivity is typically 0.5 MT/ha. . Besides, CPO yield also reflects planters' management strength, which ultimately affects return on invested capital (ROIC) and profitability.

Revenue exposure to domestic market. FR sells its CPO output to the third parties locally at spot pricing mechanism. While the group is not subject to biodiesel export levies (US\$50/MT on CPO) on all of its CPO sales volume, local ASP would nevertheless roughly reflect the same discount, given the increasing domestic supply as a result of the export levies. We have already imputed this into our forecast.

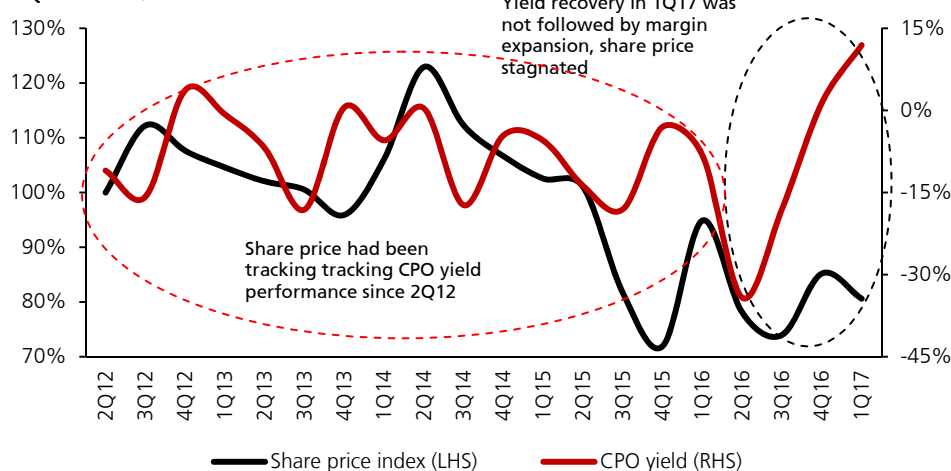


Source: Company, DBSVI, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?

Bumitama's share price performance vs CPO yield performance relative to sector

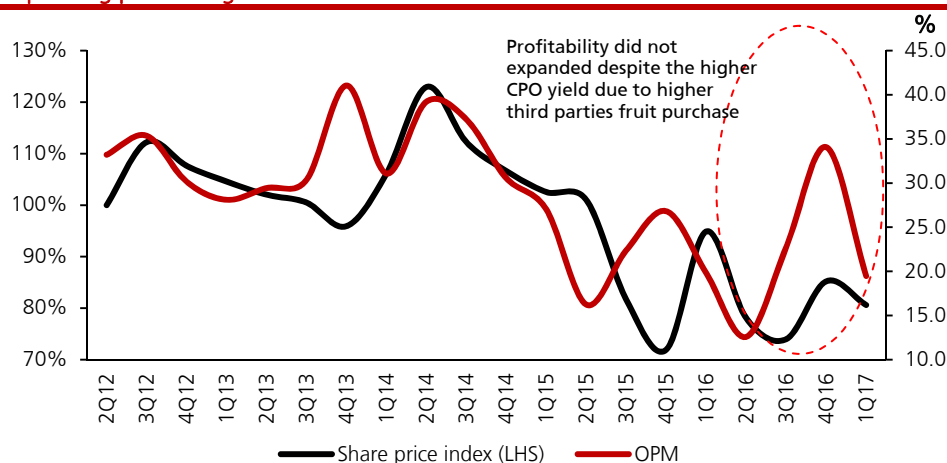
2Q12 = 100%



Remarks

Bumitama's share price had been tracking the CPO yield performance since 2Q12. However, the share price diverged in 2Q16 as yield expansion was not followed by margin expansion.

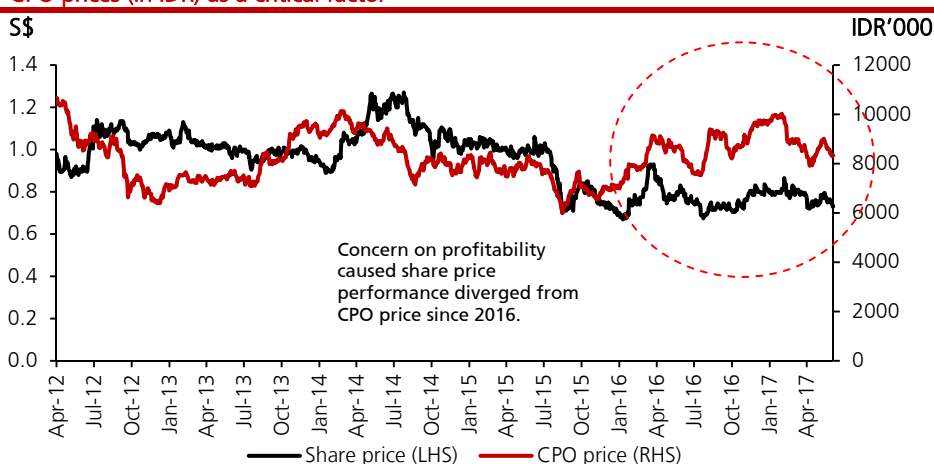
Operating profit margin as a critical factor



Remarks

Bumitama's operating profit margin (OPM) is generally able to explain its share price direction in general, with exceptions noted in 2H13 and 2H15.

CPO prices (in IDR) as a critical factor



Remarks

Palm oil price is the key catalyst for plantation stocks; the share price movement trend generally tracks the palm oil spot price. However, the outperformance and underperformance of plantation stocks to CPO price are dictated by the productivity factor, where the stronger- or weaker-than-expected yields have led its share price sensitivity to palm oil price.

Source : Bloomberg Finance L.P, Company, DBS Bank, DBSVI

Balance Sheet:

Balance sheet can withstand downcycle. BAL's net gearing ratio is forecast to settle at 30% by the end of FY17 and 20% at end-FY18. In our estimation, BAL's borrowing costs should continue to remain lower than peers'. BAL's interest coverage is forecast to average 9.1x in FY17 and 13.8x in FY18.

Share Price Drivers:

No urgency to expand downstream. In our estimation, BAL's mature estates are due to expand by 12,400 ha in FY17F, followed by 3,600 ha in FY18F (reflecting the lack of new expansion in FY14 – as the group had worked towards ensuring sustainable development). BAL's milling capacity should nevertheless expand through FY21F, and we should see expansion of its workforce to process the exponential growth in harvested FFB. Until its CPO output reaches critical mass of 1m MT or more, we do not anticipate BAL to expand downstream. BAL's relatively higher margins (even with export tax policies) – vis-à-vis integrated players – should maximise its shareholders' return on equity, in our view.

Steady expansion ahead. Having committed itself to a sustainable development programme, the group has slowed its expansion pace since FY14, and intends to undertake a more sustainable 3,000-ha p.a. expansion (including smallholder estates) from FY17F onwards.

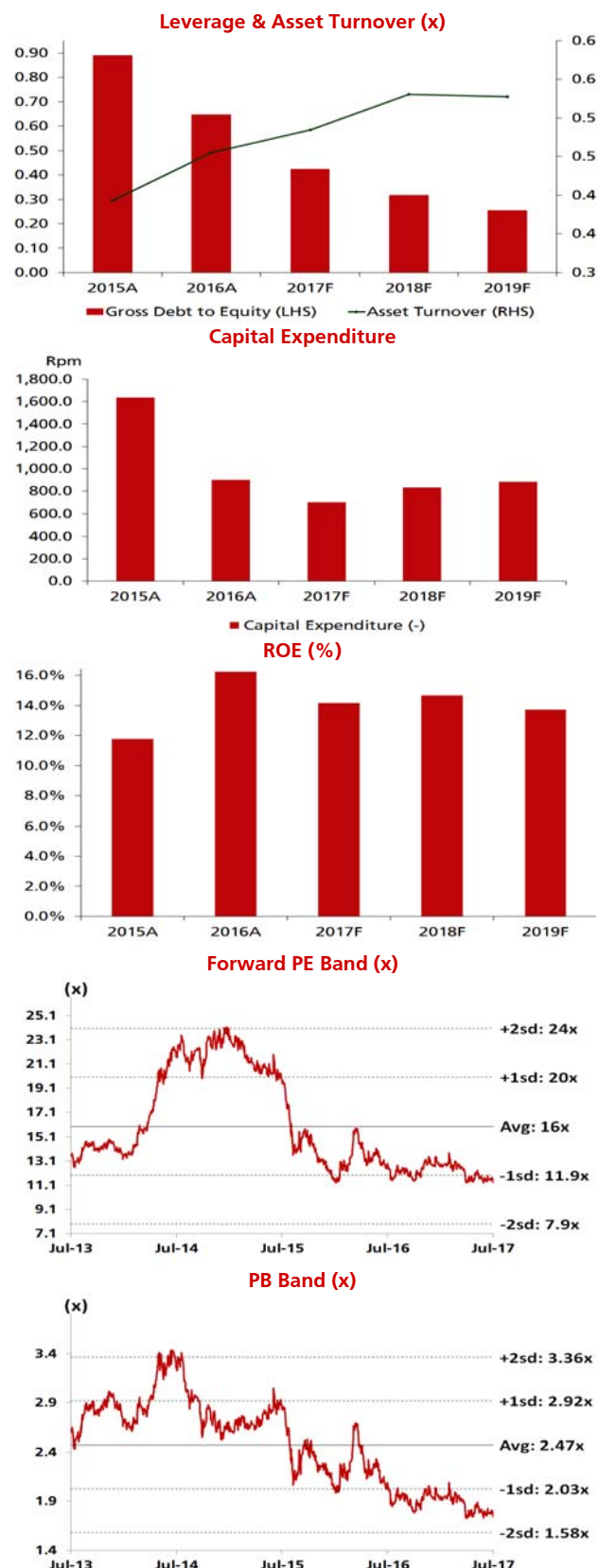
Key Risks:**Where we may go wrong**

Our earnings expectations and valuation are based on several key assumptions. Any setback in FFB yields (due to severe weather) or expansion (i.e. lower than 3,000 ha p.a.) would adversely impact our long-term forecast and valuation.

BAL's share price is also linearly driven by CPO price expectations and partly by rupiah movements. A drop in CPO prices may drag the share price lower than our fair value, and vice versa.

Company Background

Fast-growing palm oil producer Bumitama Agri (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.207,778 ha of land as at end-2015 (including land under the smallholder schemes), of which 167,954 ha were planted as at end-June 2016. BAL was listed on the Singapore Exchange in April 2012.



Source: Company, DBSVI, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017F	2018F	2019F
CPO price (RM/MT)	2,168	2,652	2,760	2,620	2,600
Own mature oil palm	89,211	104,970	114,582	114,093	116,895
CPO sales volume (MT)	704,859	734,219	789,633	898,771	954,292
Palm kernel sales vol. (MT)	137,363	141,866	151,431	173,050	184,474
Avg. USD/IDR rate	13,717	13,237	13,356	13,456	13,529

Segmental Breakdown

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenues (Rpbn)					
CPO	4,889	5,417	5,930	6,711	7,059
PK	580	902	960	1,116	1,189
Biodiesel	72.8	310	309	299	297
Glycerin	0.67	0.89	0.89	0.86	0.86
Total	5,542	6,630	7,200	8,128	8,546

Income Statement (Rpbn)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenue	5,542	6,630	7,200	8,128	8,546
Cost of Goods Sold	(3,888)	(4,654)	(5,153)	(5,772)	(6,077)
Gross Profit	1,655	1,976	2,047	2,355	2,469
Other Opg (Exp)/Inc	(399)	(394)	(423)	(466)	(496)
Operating Profit	1,256	1,581	1,623	1,889	1,974
Other Non Opg (Exp)/Inc	(177)	(62.8)	(27.9)	(36.8)	(45.3)
Associates & JV Inc	(67.4)	(21.8)	(19.6)	(17.4)	(15.2)
Net Interest (Exp)/Inc	(9.9)	18.9	(24.1)	(3.6)	10.8
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.00
Pre-tax Profit	1,002	1,516	1,552	1,831	1,924
Tax	(196)	(328)	(351)	(425)	(448)
Minority Interest	(91.8)	(183)	(185)	(217)	(227)
Preference Dividend	0.0	0.0	0.0	0.0	0.00
Net Profit	714	1,005	1,016	1,189	1,249
Net Profit before Except.	714	1,005	1,016	1,189	1,249
Net Pft (ex. BA gains)	784	985	1,016	1,189	1,249
EBITDA	1,369	1,933	2,134	2,469	2,574
EBITDA (ex. BA gains)	1,460	1,906	2,134	2,469	2,574
Growth					
Revenue Gth (%)	(3.7)	19.6	8.6	12.9	5.1
EBITDA Gth (%)	(31.1)	41.2	10.4	15.7	4.2
Opg Profit Gth (%)	(36.7)	25.9	2.7	16.4	4.5
Net Profit Gth (Pre-ex) (%)	(38.1)	40.8	1.1	17.1	5.0
Margins & Ratio					
Gross Margins (%)	29.9	29.8	28.4	29.0	28.9
Opg Profit Margin (%)	22.7	23.9	22.5	23.2	23.1
Net Profit Margin (%)	12.9	15.2	14.1	14.6	14.6
ROAE (%)	11.8	16.2	14.2	14.7	13.7
ROA (%)	5.1	6.9	6.8	7.8	7.7
ROCE (%)	7.9	9.2	9.1	10.3	10.2
Div Payout Ratio (%)	41.8	11.2	11.6	17.2	19.2
Net Interest Cover (x)	126.7	NM	67.3	531.7	NM

Source: Company, DBSVI, DBS Bank

Quarterly / Interim Income Statement (Rpbn)

FY Dec	1Q2016	2Q2016	3Q2016	4Q2016	1Q2017
Revenue	1,488	1,377	1,495	2,270	2,094
Cost of Goods Sold	(1,075)	(1,133)	(1,070)	(1,376)	(1,558)
Gross Profit	413	244	425	894	537
Other Oper. (Exp)/Inc	(118)	(70.7)	(85.0)	(120)	(129)
Operating Profit	295	173	340	774	408
Other Non Opg (Exp)/Inc	41.9	(8.0)	(25.9)	(86.9)	2.34
Associates & JV Inc	(10.0)	2.63	3.82	(2.1)	4.26
Net Interest (Exp)/Inc	9.38	(9.2)	(4.5)	23.2	(1.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	336	159	313	708	413
Tax	(73.7)	(34.0)	(75.6)	(144)	(90.5)
Minority Interest	(32.9)	(17.0)	(31.3)	(102)	(43.7)
Net Profit	229	108	206	462	278
Net profit bef Except.	229	108	206	462	278
EBITDA	327	168	318	685	415

Growth

Revenue Gth (%)	2.8	(7.5)	8.6	51.9	(7.7)
EBITDA Gth (%)	25.9	(48.6)	89.3	115.4	(39.4)
Opg Profit Gth (%)	(24.1)	(41.2)	96.2	127.6	(47.3)
Net Profit Gth (Pre-ex) (%)	24.2	(53.1)	91.8	123.6	(39.7)

Margins

Gross Margins (%)	27.7	17.7	28.4	39.4	25.6
Opg Profit Margins (%)	19.8	12.6	22.7	34.1	19.5
Net Profit Margins (%)	15.4	7.8	13.8	20.3	13.3

Balance Sheet (Rpbn)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	3,244	3,307	3,398	3,540	3,726
Invts in Associates & JVs	24.0	2.29	2.29	2.29	2.29
Other LT Assets	8,048	9,163	8,829	8,551	8,304
Cash & ST Invts	599	517	714	1,435	2,385
Inventory	651	612	699	783	824
Debtors	599	278	476	537	565
Other Current Assets	1,208	888	816	856	876
Total Assets	14,372	14,767	14,934	15,705	16,682
ST Debt	1,984	1,008	552	3,014	11.6
Creditor	935	572	835	935	984
Other Current Liab	357	336	353	376	386
LT Debt	3,547	3,860	3,100	102	2,802
Other LT Liabilities	1,342	1,469	1,489	1,472	1,455
Shareholder's Equity	5,661	6,718	7,617	8,601	9,611
Minority Interests	546	804	989	1,205	1,433
Total Cap. & Liab.	14,372	14,767	14,934	15,705	16,682
Non-Cash Wkg. Capital	1,165	870	804	866	895
Net Cash/(Debt)	(4,932)	(4,351)	(2,939)	(1,681)	(429)
Debtors Turn (avg days)	24.3	24.1	19.1	22.7	23.5
Creditors Turn (avg days)	88.3	65.2	55.9	62.8	64.7
Inventory Turn (avg days)	60.9	54.6	52.0	52.6	54.2
Asset Turnover (x)	0.4	0.5	0.5	0.5	0.5
Current Ratio (x)	0.9	1.2	1.6	0.8	3.4
Quick Ratio (x)	0.4	0.4	0.7	0.5	2.1
Net Debt/Equity (X)	0.8	0.6	0.3	0.2	0.0
Net Debt/Equity ex MI (X)	0.9	0.6	0.4	0.2	0.0
Capex to Debt (%)	29.6	18.5	19.3	26.7	31.4
Z-Score (X)	2.1	2.5	2.9	2.9	3.2

Source: Company, DBSVI, DBS Bank

Cash Flow Statement (Rpbn)

FY Dec	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	1,002	1,516	1,552	1,831	1,924
Dep. & Amort.	357	436	558	634	661
Tax Paid	(356)	(231)	(351)	(425)	(448)
Assoc. & JV Inc/(loss)	67.4	21.8	0.0	0.0	0.00
Chg in Wkg.Cap.	(1,782)	(253)	(6.0)	(21.8)	(9.2)
Other Operating CF	2,047	(116)	120	(19.2)	(19.2)
Net Operating CF	1,334	1,372	1,873	1,999	2,109
Capital Exp.(net)	(1,639)	(901)	(704)	(832)	(883)
Other Invt.(net)	(2.8)	(96.2)	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.00
Other Investing CF	(295)	292	358	293	265
Net Investing CF	(1,937)	(705)	(345)	(539)	(619)
Div Paid	(299)	(112)	(117)	(205)	(240)
Chg in Gross Debt	1,399	(499)	(1,216)	(536)	(303)
Capital Issues	(17.9)	0.0	0.0	0.0	0.0
Other Financing CF	(207)	(137)	1.95	2.05	2.15
Net Financing CF	875	(748)	(1,331)	(739)	(540)
Currency Adjustments	14.9	(0.8)	0.0	0.0	0.0
Chg in Cash	288	(81.7)	197	721	950
Opg CFPS (\$ cts)	18.2	9.51	11.0	11.8	12.4
Free CFPS (\$ cts)	(1.8)	2.76	6.84	6.83	7.17

Source: Company, DBSVI, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	05 Aug 16	0.69	0.81	BUY
2:	24 Oct 16	0.72	0.99	BUY
3:	10 Nov 16	0.73	0.99	BUY
4:	15 Nov 16	0.77	0.95	BUY
5:	17 Nov 16	0.76	0.95	BUY
6:	14 Dec 16	0.80	0.95	BUY
7:	10 Jan 17	0.81	0.95	BUY
8:	10 Feb 17	0.82	0.95	BUY
9:	17 Feb 17	0.84	0.99	BUY
10:	20 Feb 17	0.84	0.99	BUY
11:	24 Feb 17	0.79	0.99	BUY
12:	06 Mar 17	0.80	0.99	BUY
13:	10 Mar 17	0.83	0.99	BUY
14:	05 Apr 17	0.79	0.99	BUY
15:	10 Apr 17	0.79	0.99	BUY
16:	17 Apr 17	0.73	0.99	BUY
17:	24 Apr 17	0.74	0.99	BUY
18:	11 May 17	0.74	0.99	BUY
19:	16 May 17	0.79	0.99	BUY
20:	14 Jun 17	0.73	0.99	BUY
21:	10 Jul 17	0.75	0.94	BUY

Source: DBSVI, DBS Bank

Analyst: William SIMADIPUTRA
Singapore Research Team

Singapore Company Guide

Indofood Agri Resources

Version 11 | Bloomberg: IFAR SP | Reuters: IFAR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Jul 2017

HOLD

Last Traded Price (19 Jul 2017): S\$0.47 (STI : 3,325.07)

Price Target 12-mth: S\$0.49 (4% upside)

Analyst

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What's New

- Maintain HOLD with new TP of S\$0.47
- Earnings lowered by 23%/37% on new ASP
- Improving earnings outlook this year priced in
- Earnings appear to be peaking in FY17

Price Relative



Forecasts and Valuation

FY Dec (Rpbn)	2016A	2017F	2018F	2019F
Revenue	14,531	16,610	16,861	17,596
EBITDA	3,665	3,558	3,301	3,378
Pre-tax Profit	1,690	1,660	1,414	1,474
Net Profit	507	674	587	606
Net Pft (ex. BA gains)	441	674	587	606
Net Pft (Pre Ex.)	507	674	587	606
Net Pft Gth (Pre-ex) (%)	nm	33.0	(12.9)	3.3
EPS (S cts)	3.66	4.86	4.23	4.37
EPS Pre Ex. (S cts)	3.66	4.86	4.23	4.37
EPS Gth Pre Ex (%)	(1,152)	33	(13)	3
Diluted EPS (S cts)	3.66	4.86	4.23	4.37
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	85.4	90.3	94.5	98.9
PE (X)	12.9	9.7	11.1	10.8
PE Pre Ex. (X)	12.9	9.7	11.1	10.8
P/Cash Flow (X)	3.2	2.0	2.6	2.5
EV/EBITDA (X)	6.3	6.3	6.8	6.6
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.6	0.5	0.5	0.5
Net Debt/Equity (X)	0.4	0.3	0.3	0.2
ROAE (%)	4.4	5.5	4.6	4.5
Earnings Rev (%):		(23)	(37)	0
Consensus EPS (S cts):		4.81	5.31	5.46
Other Broker Recs:		B: 3	S: 2	H: 4

Source of all data on this page: Company, DBSVI, DBS Bank, Bloomberg Finance L.P.

Improving earnings in FY17 priced in

Improving earnings outlook this year priced in. We expect the group's FY17 earnings to recover meaningfully – thanks to anticipated recovery in FFB yields, maturing estates and relatively stable palm oil prices. However, the earnings seem to be peaking this year and the market appears to have priced in the strong earnings performance in 1HCY17. In this report, we reiterate our HOLD rating on the stock with a new TP of S\$0.49.

Where we differ: Insignificant margin expansion ahead.

New ASP and stable operating cost outlook result in earnings revision by -23%/-37% for FY17/18, our FY18 earnings onwards are lower than the consensus. We revise our CPO prices expectations by ~10% to US\$645/mT for CY17 and US\$616/mT for CY18 from US\$659/mT and US\$644/mT respectively and increased cost of sales on higher expected labour unit costs and feedstock. We believe that the strong CPO output outlook for the rest of the year and uncertainties over exports to China in 2H17 (in light of the latest developments in the soybean market) may limit the upside potential for palm oil prices this year.

Potential Catalyst. Biodiesel absorption and improving soybean supply and demand situation will support palm oil price going forward. Moreover, higher CPO yield on upcoming maturing trees will improve company ROIC and profitability.

Valuation:

Having imputed the above changes and roll forward our DCF-based TP to FY18F base year, our TP is adjusted to S\$0.49/share (WACC 11.6%; TG 3%) from S\$0.56 previously.

Key Risks to Our View:

IndoAgri's share price is driven by CPO price expectations and to a certain extent by refining margins and sugar prices. There would be downside risk to our CPO price forecasts if Pertamina's biodiesel off-take fails to live up to our expectations (3.1m MT) next year. CPO price could also move higher than forecast if there is significant yield deterioration in South American 1QCY17 soybean crop.

At A Glance

Issued Capital (m shrs)	1,396
Mkt. Cap (\$bn/US\$m)	0.66 / 480
Major Shareholders (%)	
PT Indofood Sukses Makmur (direct/indirect)	62.8
Free Float (%)	37.2
3m Avg. Daily Val (US\$m)	0.18
ICB Industry : Consumer Goods / Food Producers	

CRITICAL DATA POINTS TO WATCH

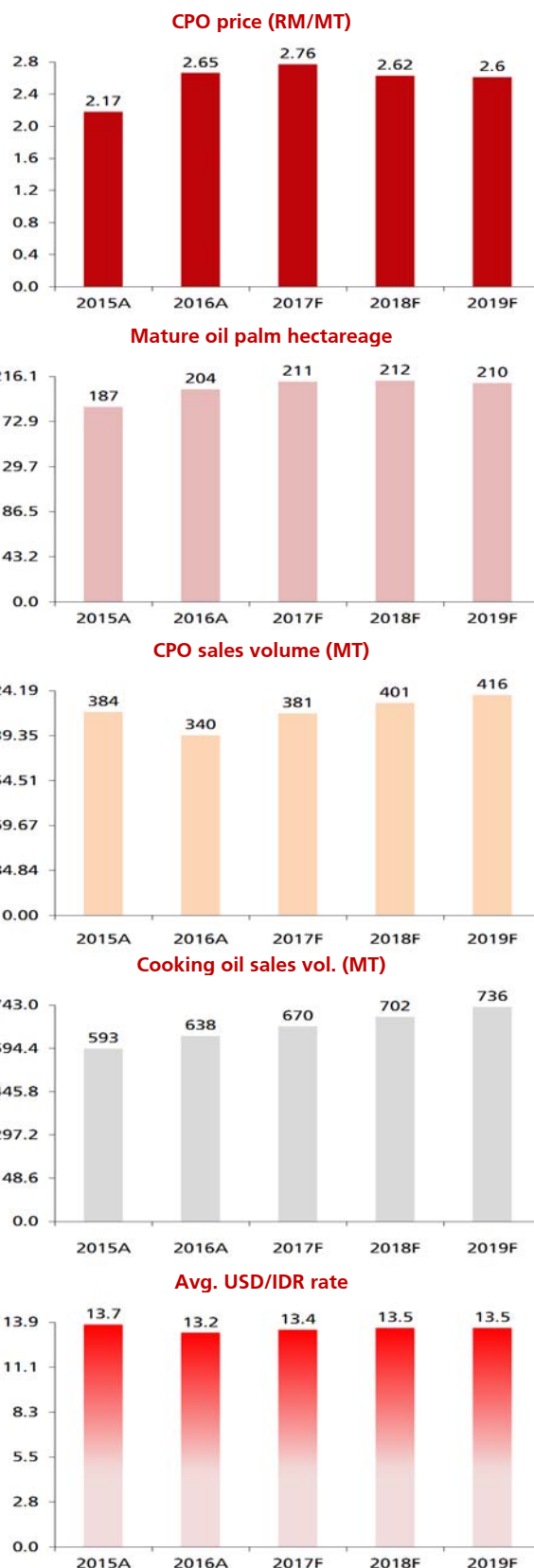
Critical Factors

CPO price. As a commodity producer, IndoAgri is a price-taker. Movements in international CPO prices would directly impact the group's profitability. We currently expect CPO prices (FOB Pasir Gudang) to average US\$645/MT (+0.1% y-o-y) in CY17 and US\$616 in CY18 (-4% y-o-y).

Palm trees profile supports CPO output. As at the end of FY15, IndoAgri's oil palm trees (excluding the smallholders estates) had an estimated average age of 12 years. Based on its age profile, approximately 29,000 ha will mature between FY17-18F- representing c.16% of its own mature hectare at the end of FY18F. This should keep the average age of its trees at 13 years by end of FY18F. Geographically, the group's North, Central and South Sumatra estates, as well as Kalimantan estates saw yield recovery ex. El Nino strike last year. We expect FY17 FFB yields to grow by 12.4% y-o-y to 3.35m MT.

Refining facility provide margin buffer. IndoAgri does not have a biodiesel production facility – hence, it is not a direct beneficiary of the government's biodiesel programme. However, the group has 1.425m MT of refining capacity – which benefits from lower feedstock (CPO) cost as a result of biodiesel. Export levies. Under the programme, Indonesian refiners have differentiated export levies between CPO (US\$ 50/MT) and RBD Olein (US\$30/MT). This spread should more than cover the refining cost. However, on a consolidated basis, the group would also suffer from lower domestic CPO ASP next year.

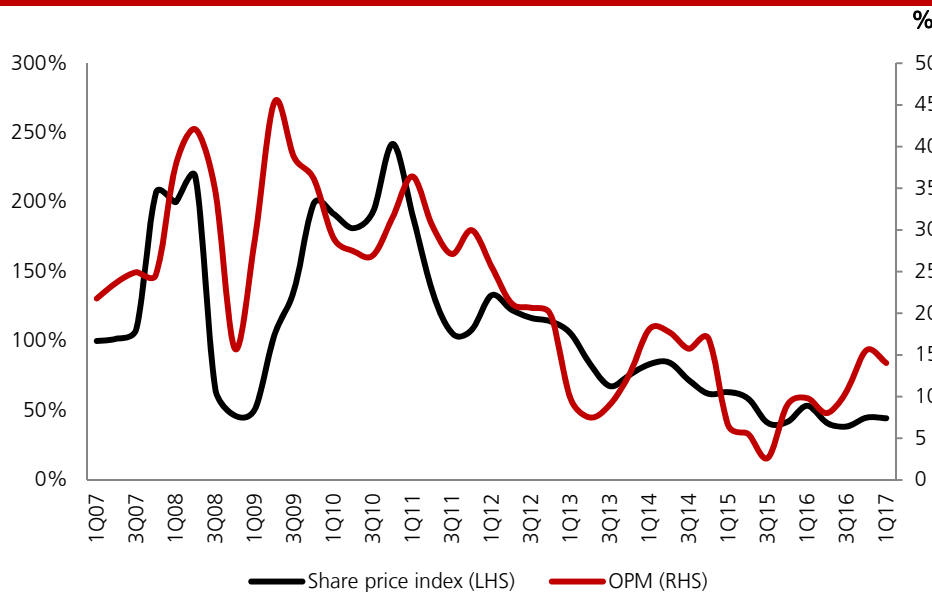
Demand seasonality. As a major vegetable oil with 38% market share globally, palm oil is an important food staple. The other major vegetable oils are soybean oil with 29% market share, followed by rapeseed/canola oil and sunflower oil (high price elasticity of demand), although certain vegetable oils are more suitable than others in certain applications. Relative to other oil crops, palm oil has the highest productivity per hectare (c.5 MT/ha), while only 0.5 MT/ha for soybean oil. Demand for palm oil is dominant in Asia, where local festivities (i.e. Ramadan) typically drive up demand in certain months of the year.



Source: Company, DBSVI, DBS Bank

Appendix 1: A look at IFAR's listed history – what drives its share price?

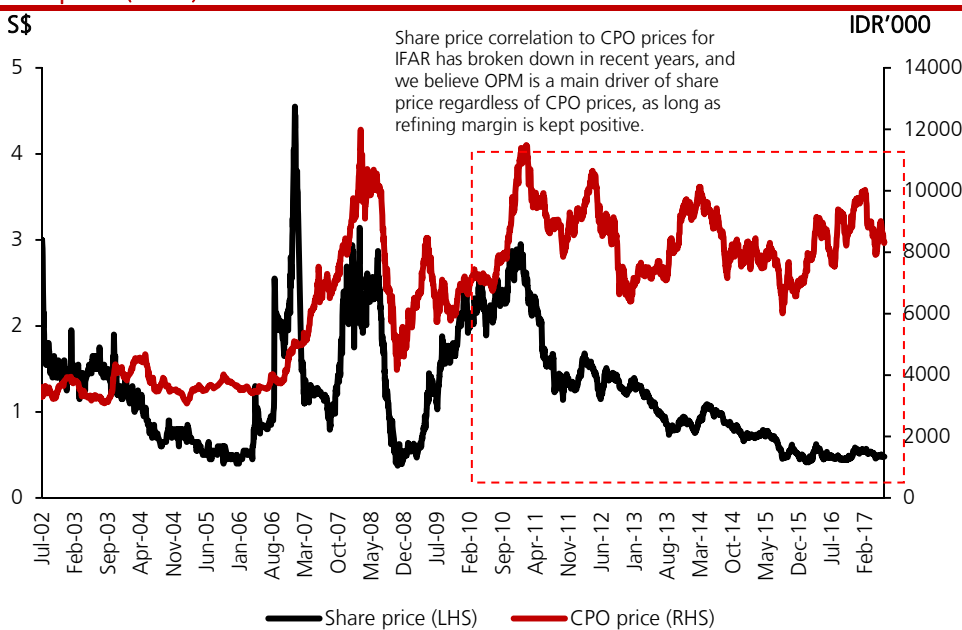
Operating profit margin as a critical factor



Remarks

IFAR's operating profit margin (OPM) performance correlates well with share price movements in general.

CPO prices (in IDR) as a critical factor



Remarks

Palm oil price is the key catalyst for plantation stocks; the share price movement trend generally tracks the palm oil spot price. However, the outperformance and underperformance of plantation stocks to CPO price are dictated by the productivity factor, where the stronger- or weaker-than-expected yields have led its share price sensitivity to palm oil price.

Share price correlation to CPO prices for IFAR has broken down in recent years, and we believe OPM is a main driver of share price regardless of CPO prices, as long as refining margin is kept positive.

Source: Bloomberg Finance L.P., DBS Bank, DBSVI

Indofood Agri Resources

Balance Sheet:

High capex. We expect IndoAgri to incur capex outlay of Rp1.9-2.0tr p.a. over the next three years – principally to maintain its immature estates and to expand its palm oil milling capacity – as maturity rates ramp up. Based on our forecast, total interest-bearing debt will reach Rp8,903bn by end-FY17F – of which 30% is USD-denominated. This translates into a net debt-to-total equity ratio of 24%. FY17F blended borrowing cost is estimated at 7.6% and interest cover should be 4.1x. At end-December 2016, IndoAgri's 4-quarter rolling cash conversion cycle stood at 54 days (vs. 39 days at end-September 2016) – representing higher receivable days and lower payable days.

Stable free cash flow. We expect IndoAgri to still generate positive free cash flow of Rp1tn in FY17F and FY18F – thanks to anticipated FFB yield recovery and rising output from maturing estates, despite the lower CPO and PK ASP outlook.

Share Price Drivers:

Execution is key. Historically, IndoAgri's quarterly results have, more often than not, underperformed consensus forecasts since 2013 (based on Bloomberg data). The counter's P/BV ratio has likewise been below 1.0x since 2013 – thus underperforming its own subsidiary, Lonsum. For this reason, we believe execution is key to its share price performance.

Key Risks:

Volatility in CPO prices and USD exchange rates. Continued strength in CPO prices may deliver better-than-expected earnings, while lower energy prices from the 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.

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.

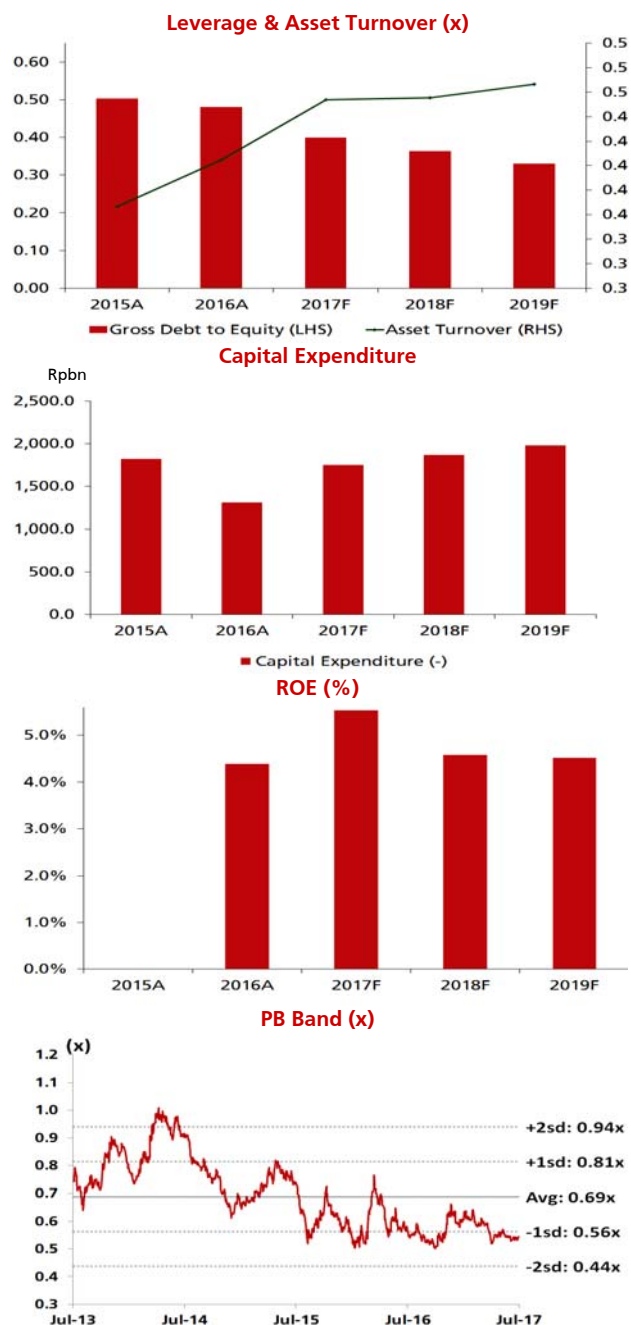
Regulatory changes. Any further increase in Indian import duty of refined oils or changes in the structure of Indonesian/Malaysian export taxes would impact demand for CPO/refined oils.

Market sentiment. Changes in fund flows in or out of emerging markets would affect valuations of plantation counters.

Weather. Changes in rainfall patterns (caused by either El Nino or La Nina) would affect FFB yields with some lag time.

Company Background

Indofood Agri Resources (IndoAgri) is an integrated agribusiness company. The company and its subsidiaries are involved in sugarcane and oil palm cultivation and milling, research and development, and seed breeding. IndoAgri also refines, brands and markets its cooking oil, margarine, shortening and other palm oil products. As at end-December 2016, its own oil palm planted area stood at 247,430 ha; while sugarcane estates stood at 13,249 ha.



Key Assumptions

FY Dec	2015A	2016A	2017F	2018F	2019F
CPO price (RM/MT)	2.17	2.65	2.76	2.62	2.60
Mature oil palm	187	204	211	212	210
CPO sales volume (MT)	384	340	381	401	416
Cooking oil sales vol. (MT)	593	638	670	702	736
Avg. USD/IDR rate	13.7	13.2	13.4	13.5	13.5

Segmental Breakdown

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenues (Rpbn)					
Plantations	4,829	5,068	5,656	5,676	5,834
Edible Oil & Fats	9,006	9,463	10,954	11,185	11,762
Total	13,835	14,531	16,610	16,861	17,596
(Rpbn)					

Income Statement (Rpbn)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenue	13,835	14,531	16,610	16,861	17,596
Cost of Goods Sold	(10,867)	(11,042)	(12,782)	(13,317)	(13,944)
Gross Profit	2,969	3,489	3,828	3,544	3,652
Other Opng (Exp)/Inc	(1,835)	(1,125)	(1,634)	(1,720)	(1,805)
Operating Profit	1,134	2,364	2,194	1,824	1,847
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(232)	(101)	2.88	30.1	(3.0)
Net Interest (Exp)/Inc	(573)	(573)	(537)	(440)	(371)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	329	1,690	1,660	1,414	1,474
Tax	(292)	(897)	(480)	(388)	(414)
Minority Interest	(84.7)	(286)	(506)	(440)	(455)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	(48.1)	507	674	587	606
Net Profit before Except.	(48.1)	507	674	587	606
Net Pft (ex. BA gains)	(46.8)	441	674	587	606
EBITDA	2,217	3,665	3,558	3,301	3,378
EBITDA (ex. BA gains)	2,440	3,547	3,144	2,859	2,970
Growth					
Revenue Gth (%)	(7.5)	5.0	14.3	1.5	4.4
EBITDA Gth (%)	(33.4)	65.3	(2.9)	(7.2)	2.4
Opg Profit Gth (%)	(57.3)	108.5	(7.2)	(16.9)	1.3
Net Profit Gth (Pre-ex) (%)	nm	nm	33.0	(12.9)	3.3
Margins & Ratio					
Gross Margins (%)	21.5	24.0	23.0	21.0	20.8
Opg Profit Margin (%)	8.2	16.3	13.2	10.8	10.5
Net Profit Margin (%)	(0.3)	3.5	4.1	3.5	3.4
ROAE (%)	(0.4)	4.4	5.5	4.6	4.5
ROA (%)	(0.1)	1.4	1.8	1.6	1.6
ROCE (%)	0.4	3.3	4.5	3.8	3.8
Div Payout Ratio (%)	N/A	0.0	0.0	0.0	0.0
Net Interest Cover (x)	2.0	4.1	4.1	4.1	5.0

Source: Company, DBSVI, DBS Bank

Quarterly / Interim Income Statement (Rpbn)

FY Dec	1Q2016	2Q2016	3Q2016	4Q2016	1Q2017
Revenue	3,147	3,568	3,552	4,263	4,401
Cost of Goods Sold	(2,613)	(2,849)	(2,725)	(2,855)	(3,344)
Gross Profit	534	720	827	1,408	1,057
Other Oper. (Exp)/Inc	(225)	(489)	(269)	(243)	(439)
Operating Profit	309	230	558	1,166	618
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(142)	(146)	(151)	(134)	(135)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	167	83.9	407	1,032	483
Tax	(70.9)	(61.3)	(225)	(540)	(154)
Minority Interest	(0.9)	7.26	(22.6)	(270)	(158)
Net Profit	95.0	29.9	159	223	171
Net profit bef Except.	95.0	29.9	159	223	171
EBITDA	612	618	1,055	1,381	935

Growth

Revenue Gth (%)	(16.6)	13.4	(0.5)	20.0	3.2
EBITDA Gth (%)	(26.9)	1.0	70.8	30.9	(32.3)
Opg Profit Gth (%)	(56.0)	(25.4)	142.4	108.9	(47.0)
Net Profit Gth (Pre-ex) (%)	(0.7)	(68.6)	433.0	39.8	(23.3)

Margins

Gross Margins (%)	17.0	20.2	23.3	33.0	24.0
Opg Profit Margins (%)	9.8	6.5	15.7	27.3	14.0
Net Profit Margins (%)	3.0	0.8	4.5	5.2	3.9

Balance Sheet (Rpbn)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	21,402	21,397	21,779	22,187	22,619
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	8,318	8,352	8,441	8,560	8,648
Cash & ST Invts	1,969	2,405	2,532	2,564	2,604
Inventory	1,937	2,271	2,139	2,206	2,286
Debtors	1,109	1,123	1,274	1,280	1,322
Other Current Assets	552	956	553	563	583
Total Assets	35,287	36,504	36,717	37,360	38,063
ST Debt	4,399	2,481	4,559	4,571	4,583
Creditor	1,803	1,500	2,151	2,241	2,346
Other Current Liab	249	669	358	377	399
LT Debt	5,742	7,546	4,249	3,822	3,396
Other LT Liabilities	2,914	3,429	3,343	3,264	3,195
Shareholder's Equity	11,281	11,835	12,508	13,095	13,701
Minority Interests	8,899	9,043	9,549	9,989	10,444
Total Cap. & Liab.	35,287	36,504	36,717	37,360	38,063
Non-Cash Wkg. Capital	1,546	2,181	1,456	1,431	1,447
Net Cash/(Debt)	(8,172)	(7,623)	(6,276)	(5,829)	(5,375)
Debtors Turn (avg days)	28.6	28.0	26.3	27.6	27.0
Creditors Turn (avg days)	69.9	62.5	58.3	67.5	67.5
Inventory Turn (avg days)	70.9	79.7	70.5	66.8	66.1
Asset Turnover (x)	0.4	0.4	0.5	0.5	0.5
Current Ratio (x)	0.9	1.5	0.9	0.9	0.9
Quick Ratio (x)	0.5	0.8	0.5	0.5	0.5
Net Debt/Equity (X)	0.4	0.4	0.3	0.3	0.2
Net Debt/Equity ex MI (X)	0.7	0.6	0.5	0.4	0.4
Capex to Debt (%)	17.9	13.1	19.9	22.2	24.8
Z-Score (X)	1.2	1.4	1.5	1.5	1.5

Source: Company, DBSVI, DBS Bank

Cash Flow Statement (Rpbn)

FY Dec	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	329	1,690	1,660	1,414	1,474
Dep. & Amort.	1,316	1,402	1,361	1,446	1,534
Tax Paid	(654)	(504)	(480)	(388)	(414)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(452)	(935)	725	24.9	(15.7)
Other Operating CF	774	306	11.4	12.7	14.2
Net Operating CF	1,546	2,069	3,276	2,511	2,593
Capital Exp.(net)	(1,818)	(1,309)	(1,753)	(1,866)	(1,978)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(958)	(24.0)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(405)	(291)	(47.4)	(75.7)	(43.7)
Net Investing CF	(3,181)	(1,624)	(1,800)	(1,942)	(2,022)
Div Paid	(71.9)	(68.3)	0.0	0.0	0.0
Chg in Gross Debt	(8.9)	(13.5)	(1,219)	(415)	(414)
Capital Issues	236	7.00	0.0	0.0	0.0
Other Financing CF	(183)	77.2	(129)	(123)	(116)
Net Financing CF	(27.9)	2.44	(1,348)	(537)	(531)
Currency Adjustments	47.1	(11.3)	0.0	0.0	0.0
Chg in Cash	(1,617)	436	127	31.9	40.3
Opg CFPS (\$ cts)	14.4	21.7	18.4	17.9	18.8
Free CFPS (\$ cts)	(2.0)	5.48	11.0	4.66	4.44

Source: Company, DBSVI, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	12 Aug 16	0.47	0.48	HOLD
2:	28 Oct 16	0.49	0.58	BUY
3:	10 Nov 16	0.48	0.58	BUY
4:	14 Dec 16	0.56	0.58	BUY
5:	10 Jan 17	0.55	0.58	BUY
6:	10 Feb 17	0.54	0.58	BUY
7:	17 Feb 17	0.57	0.57	HOLD
8:	20 Feb 17	0.56	0.57	HOLD
9:	02 Mar 17	0.52	0.56	HOLD
10:	10 Mar 17	0.52	0.56	HOLD
11:	05 Apr 17	0.53	0.56	HOLD
12:	10 Apr 17	0.51	0.56	HOLD
13:	17 Apr 17	0.48	0.56	HOLD
14:	24 Apr 17	0.47	0.56	HOLD
15:	02 May 17	0.49	0.56	HOLD
16:	11 May 17	0.49	0.56	HOLD
17:	14 Jun 17	0.48	0.56	HOLD
18:	10 Jul 17	0.48	0.49	HOLD

Source: DBSVI, DBS Bank

Analyst: Singapore Research Team
William SIMADIPUTRA

Malaysia Company Guide

KL Kepong

Version 9 | Bloomberg: KLK MK | Reuters: KLKK.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Jul 2017

HOLD

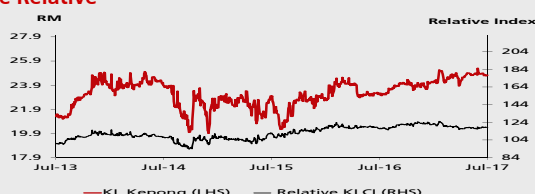
Last Traded Price (19 Jul 2017): RM24.72 (KLCI : 1,757.27)

Price Target 12-mth: RM24.75 (0%) (Prev RM22.75)

Analyst

Regional Research Team

Price Relative



Forecasts and Valuation

FY Sep (RM m)	2016A	2017F	2018F	2019F
Revenue	16,506	21,483	21,616	22,160
EBITDA	1,775	2,205	2,322	2,372
Pre-tax Profit	1,712	1,610	1,696	1,738
Net Profit	1,592	1,203	1,263	1,290
Net Pft (Pre Ex.)	1,106	1,203	1,263	1,290
Net Pft Gth (Pre-ex) (%)	27.2	8.7	5.0	2.2
EPS (sen)	149	113	118	121
EPS Pre Ex. (sen)	104	113	118	121
EPS Gth Pre Ex (%)	27	9	5	2
Diluted EPS (sen)	149	113	118	121
Net DPS (sen)	50.0	56.3	59.1	60.4
BV Per Share (sen)	978	1,039	1,100	1,161
PE (X)	16.6	21.9	20.9	20.5
PE Pre Ex. (X)	23.8	21.9	20.9	20.5
P/Cash Flow (X)	20.4	48.3	14.6	14.7
EV/EBITDA (X)	16.8	13.8	12.8	12.3
Net Div Yield (%)	2.0	2.3	2.4	2.4
P/Book Value (X)	2.5	2.4	2.2	2.1
Net Debt/Equity (X)	0.2	0.3	0.2	0.1
ROAE (%)	15.8	11.2	11.1	10.7
Earnings Rev (%):		(7)	(12)	(11)
Consensus EPS (sen):		116	119	127
Other Broker Recs:		B: 6	S: 3	H: 15

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

Holding firm

Steady, though mild growth. KLK's core earnings are set for a bump-up in FY17F on the back of volume recovery and improved CPO prices. We expect a more moderate clip of growth thereafter given mild internal FFB growth and tepid CPO pricing. The group may pursue inorganic growth, besides its ongoing replanting scheme. We impute new CY17/18/19F CPO price forecasts of RM2,760/2,620/2,600 (from RM3,040/3,030/2,970); which lowered our FY17-19F earnings by 7-12%. However, our TP is raised to RM24.75 after rolling forward to FY18F base, maintain HOLD.

Where we differ. Divergence in price assumptions. Our core earnings forecasts are close to consensus, though based on CPO price forecasts which are slightly above. As such, our volume growth and implied cost estimates are more conservative than street expectations.

Potential catalyst. Inorganic kicker. Given the mild organic prospects, KLK could look for inorganic paths of growth, which is facilitated by its relatively low gearing. The group has demonstrated the willingness to undertake acquisitions given its attempt to purchase MP Evans in 2016.

Valuation:

Our DCF-based TP of RM24.75 takes into account our CY17/18/19F CPO price forecasts of RM2,760/2,620/2,600 per MT. Maintain HOLD.

Key Risks to Our View:

A strong change in CPO prices or productivity will affect KLK's profitability and thus its share price performance. As KLK is a KLCI Index component, changes in its weightings would also make it vulnerable to significant price swings.

At A Glance

Issued Capital (m shrs)	1,065
Mkt. Cap (RMm/US\$m)	26,326 / 6,142
Major Shareholders (%)	
Batu Kawan Bhd	46.6
Employees Provident Fund	11.3
Skim Amanah Saham	6.7
Free Float (%)	33.3
3m Avg. Daily Val (US\$m)	7.7
ICB Industry :	Consumer Goods / Food Producers

CRITICAL DATA POINTS TO WATCH

Critical Factors

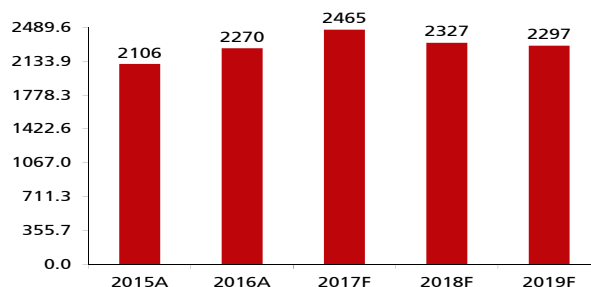
CPO price. KLK is a vertically integrated producer, processor and merchandiser of palm oil products. More than two-thirds of its EBIT comes from sales of CPO, PK and CPO trading, while around 20% comes from downstream products. Given its plantations segment's dominant contribution, movements in CPO prices would generally affect the group's profits more so than other integrated players.

Volume output. KLK's oil palm tree age profile is considered prime. Through consistent replanting in Malaysia and past expansions in Indonesia, KLK should see c.15k ha maturing in FY16 through FY19F – representing a c.8% increase. As such we estimate the group's average tree age to be between 13 and 14 years within this period. FFB growth is expected to see CAGR of 5.5% over that period, with a larger increase in FY17F before tapering off. Our assumptions are primarily for replanting in Malaysia (assumed at over 3k ha p.a.), but no new planting in Indonesia given the indications of moratorium.

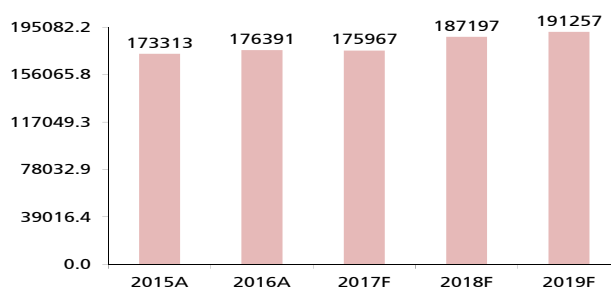
Downstream margins. A significant share of KLK's manufacturing segment's products deal with industrialised oleochemicals, which competes with the now cheaper petrochemicals, given the drop in crude oil prices. This, together with slower Chinese economic growth and prospective oversupply in glycerine (due to Indonesia's B20 programme), may lead to thin margins for KLK's oleochemicals unit. At the same time, Indonesia's export tax levy would result in lower CPO ASP relative to Malaysian counterparts. This means less contribution from the group's Indonesian estates. The levy also works to give Indonesian refiners higher margins, due to the differentiated levies between CPO and its downstream products.

Geographic diversity. KLK's consolidated revenue is globally distributed, with Malaysia contributing only 14% in FY16. Europe accounted for 23%, while the rest of Asia contributed a sizeable 56% of revenue. This means demand for KLK's products is driven predominantly by economic growth in the Asian markets, while economic recovery in developed markets such as the US would have a small impact, in our view. We should also note that competing processors such as Wilmar, IOI and Emery are also vying for the same Asian markets – which we believe would make competition more challenging, given aggressive capacity expansions in various sectors of oleochemicals.

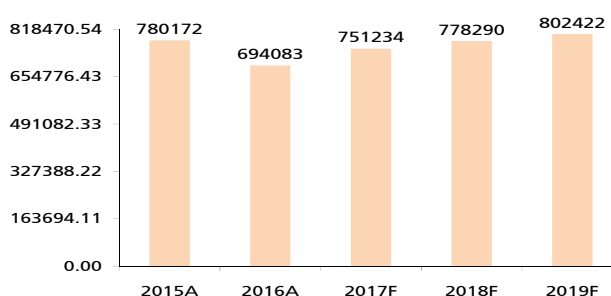
CPO price



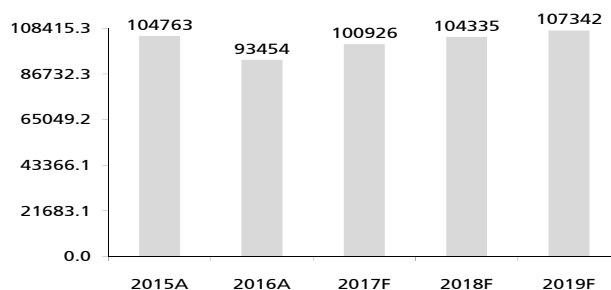
Mature palm oil hectareage



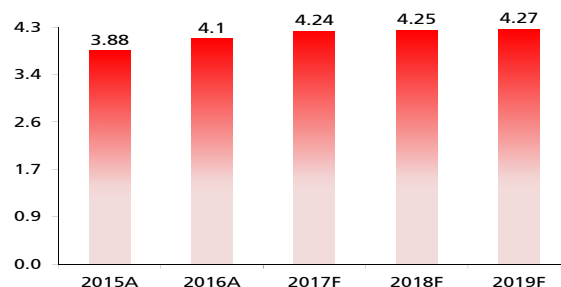
CPO sales volume



PKO sales volume



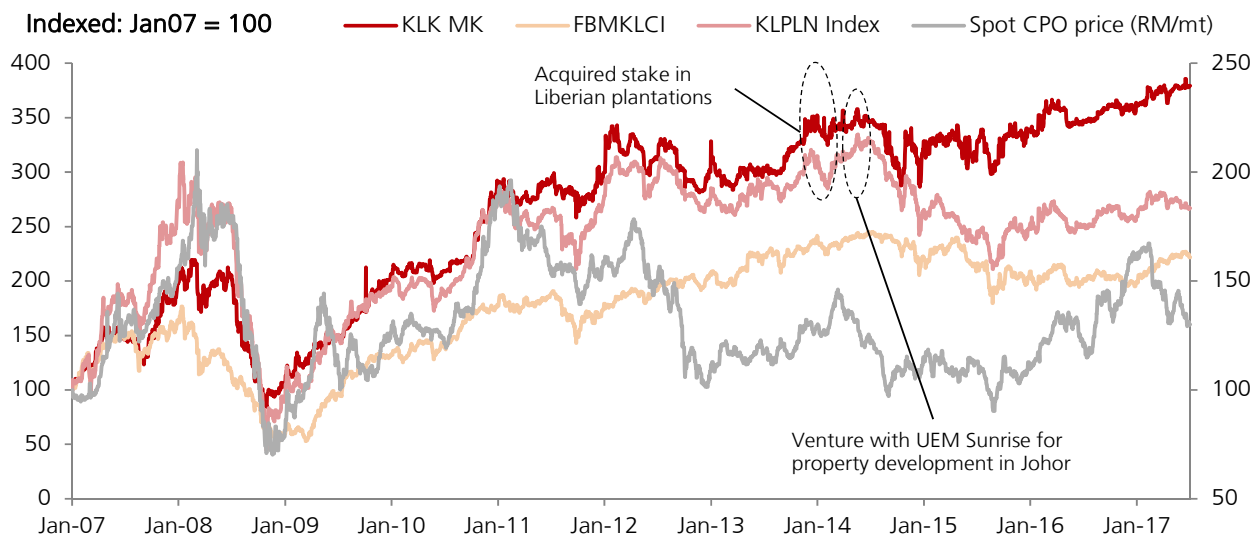
Average MYR/USD



Source: Company, DBS Bank

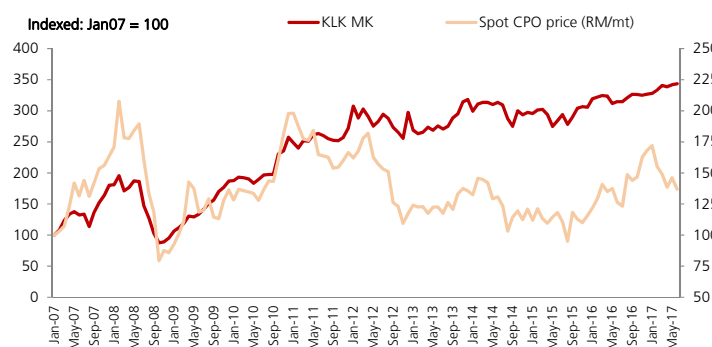
Appendix 1: KLK price correlation with critical factors

Graph 1: Share price vs key benchmarks



Source: Company, Bloomberg L.P., DBS Bank

KLK share price vs CPO prices

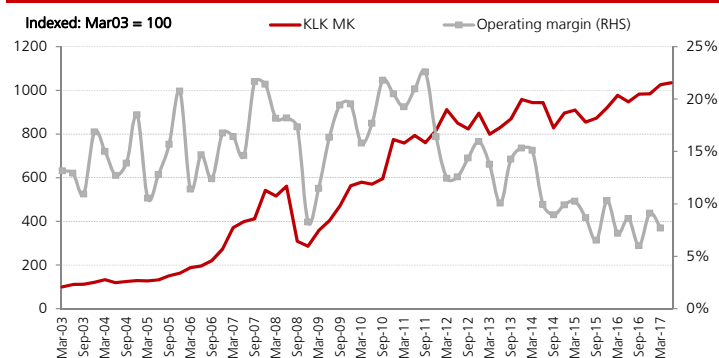


Source: Company, Bloomberg L.P., DBS Bank

Remarks

KLK's share price is principally influenced by the movement of CPO prices, with a long-run correlation coefficient of 0.8.

KLK share price vs operating margins



Source: Company, MPOB, Bloomberg Finance L.P., DBS Bank

Remarks

KLK's share price is influenced by its profitability which can be tracked operating margins. While margins generally eased starting 2011, this was due to Manufacturing becoming a larger proportion of group revenues (near 50% from 40% before) which also brought about steadier earnings.

Balance Sheet:

Relatively low gearing. At the end of March 2017, KLK's net debt-to-total equity settled at 25% – maintaining below the 30% level which the group has sustained in recent history.

Strong free-cash-flow generation. Group capex outlay is expected to be below RM700m p.a. over the coming years, slower than previous years which were generally over RM800m. As such, KLK expects to see strong free cash flow generation over the coming years which will work to organically pare down its leverage levels.

Share Price Drivers:

Inorganic growth opportunities. The group may pursue external growth catalysts, given the difficulty of sizeable new planting on its existing landbank. This is facilitated by its relatively low gearing levels.

Key Risks:

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 the profitability of planters in general.

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.

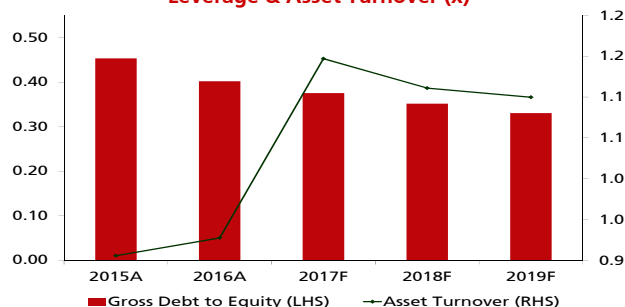
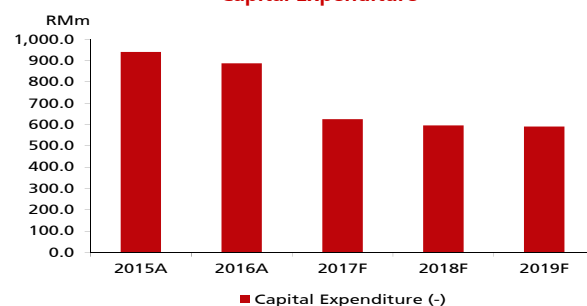
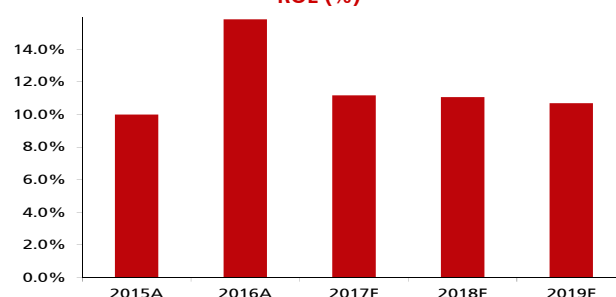
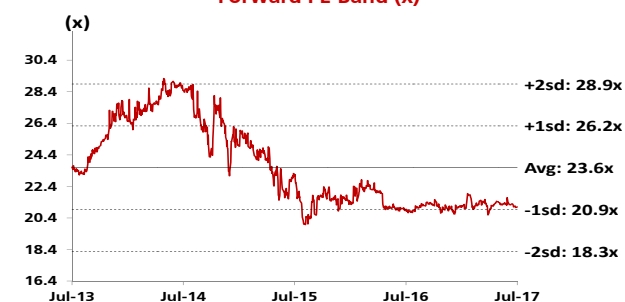
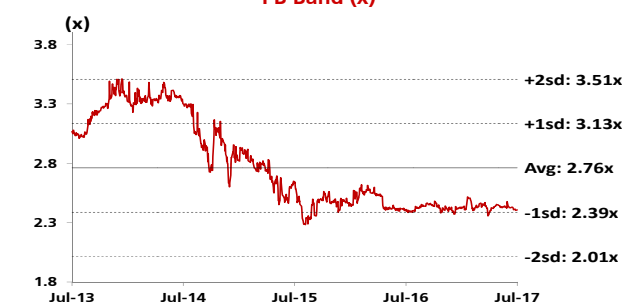
Regulatory changes. Any further increase in Indian import duty of palm oil or changes in the structure of Indonesian/Malaysian export taxes would impact the demand for CPO/refined oils.

Market sentiment. Changes in fund flows towards or out of emerging markets would affect the valuations of plantation counters.

Weather Changes in rainfall pattern (caused by either El Nino or La Nina) would affect FFB yields with some time lag.

Company Background

KL Kepong (KLK)'s core business is in plantations, with c.270k ha of landbank comprising palm oil and rubber plantations in Malaysia, Indonesia, and Liberia. Its other businesses are manufacturing (mainly oleochemicals) and property development.

Leverage & Asset Turnover (x)**Capital Expenditure****ROE (%)****Forward PE Band (x)****PB Band (x)**

Source: Company, DBS Bank

Key Assumptions

FY Sep	2015A	2016A	2017F	2018F	2019F
CPO price	2,106	2,270	2,465	2,327	2,297
Mature palm oil hectarage	173,313	176,391	175,967	187,197	191,257
CPO sales volume	780,172	694,083	751,234	778,290	802,422
PKO sales volume	104,763	93,454	100,926	104,335	107,342
Average MYR/USD	3.88	4.10	4.24	4.25	4.27

Segmental Breakdown

FY Sep	2015A	2016A	2017F	2018F	2019F
Revenues (RMm)					
Plantation	7,086	8,455	9,743	9,688	9,915
Manufacturing	6,241	7,739	11,420	11,601	11,909
Retailing	0.0	0.0	0.0	0.0	0.0
Property	123	111	116	122	128
Others	199	201	203	205	207
Total	13,650	16,506	21,483	21,616	22,160
EBIT (RMm)					
Plantation	780	827	1,314	1,247	1,253
Manufacturing	219	371	286	406	438
Retailing	0.0	0.0	0.0	0.0	0.0
Property	49.5	25.2	32.2	33.8	35.5
Others	193	156	158	159	161
Total	1,241	1,379	1,790	1,847	1,887
EBIT Margins (%)					
Plantation	11.0	9.8	13.5	12.9	12.6
Manufacturing	3.5	4.8	2.5	3.5	3.7
Retailing	N/A	N/A	N/A	N/A	N/A
Property	40.1	22.8	27.7	27.7	27.7
Others	96.8	77.7	77.7	77.7	77.7
Total	9.1	8.4	8.3	8.5	8.5

Income Statement (RMm)

FY Sep	2015A	2016A	2017F	2018F	2019F
Revenue	13,650	16,506	21,483	21,616	22,160
Cost of Goods Sold	(11,684)	(14,397)	(18,473)	(18,521)	(19,023)
Gross Profit	1,966	2,109	3,010	3,096	3,137
Other Opng (Exp)/Inc	(768)	(786)	(1,297)	(1,295)	(1,316)
Operating Profit	1,198	1,323	1,713	1,801	1,821
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(2.4)	5.00	5.10	5.20	5.31
Net Interest (Exp)/Inc	(61.2)	(101)	(108)	(110)	(88.3)
Exceptional Gain/(Loss)	0.0	486	0.0	0.0	0.0
Pre-tax Profit	1,135	1,712	1,610	1,696	1,738
Tax	(251)	(29.1)	(359)	(382)	(395)
Minority Interest	(14.1)	(91.0)	(48.3)	(50.9)	(52.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	870	1,592	1,203	1,263	1,290
Net Profit before Except.	870	1,106	1,203	1,263	1,290
EBITDA	1,595	1,775	2,205	2,322	2,372
Growth					
Revenue Gth (%)	22.6	20.9	30.2	0.6	2.5
EBITDA Gth (%)	(5.7)	11.3	24.2	5.3	2.1
Opg Profit Gth (%)	(11.7)	10.4	29.5	5.1	1.1
Net Profit Gth (Pre-ex) (%)	(11.8)	27.2	8.7	5.0	2.2
Margins & Ratio					
Gross Margins (%)	14.4	12.8	14.0	14.3	14.2
Opg Profit Margin (%)	8.8	8.0	8.0	8.3	8.2
Net Profit Margin (%)	6.4	9.6	5.6	5.8	5.8
ROAE (%)	10.0	15.8	11.2	11.1	10.7
ROA (%)	5.8	8.9	6.4	6.5	6.4
ROCE (%)	6.9	8.1	7.8	7.9	7.7
Div Payout Ratio (%)	55.2	33.5	50.0	50.0	50.0
Net Interest Cover (x)	19.6	13.1	15.9	16.3	20.6

Source: Company, DBS Bank

Quarterly / Interim Income Statement (RMm)

FY Sep	2Q2016	3Q2016	4Q2016	1Q2017	2Q2017
Revenue	3,703	3,922	4,543	5,496	5,471
Cost of Goods Sold	(3,437)	(3,585)	(4,270)	(4,996)	(5,051)
Gross Profit	266	337	273	501	420
Other Oper. (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Operating Profit	266	337	273	501	420
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	1.45	3.74	(1.0)	0.0	(1.4)
Net Interest (Exp)/Inc	(24.6)	(26.8)	(27.9)	(28.2)	(23.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	243	314	244	472	396
Tax	(55.5)	(50.6)	158	(96.3)	(92.5)
Minority Interest	(18.8)	(10.3)	(26.8)	(15.4)	(13.5)
Net Profit	169	253	375	361	290
Net profit bef Except.	169	253	375	361	290
EBITDA	267	341	272	501	419

Growth

Revenue Gth (%)	(14.6)	5.9	15.8	21.0	(0.5)
EBITDA Gth (%)	(40.2)	27.6	(20.3)	84.2	(16.3)
Opg Profit Gth (%)	(40.5)	26.8	(19.2)	83.5	(16.0)
Net Profit Gth (Pre-ex) (%)	(45.5)	50.4	48.0	(3.8)	(19.7)

Margins

Gross Margins (%)	7.2	8.6	6.0	9.1	7.7
Opg Profit Margins (%)	7.2	8.6	6.0	9.1	7.7
Net Profit Margins (%)	4.6	6.5	8.3	6.6	5.3

Balance Sheet (RMm)

FY Sep	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	7,210	7,615	7,755	7,837	7,884
Invt in Associates & JVs	299	312	317	322	328
Other LT Assets	2,958	4,041	3,953	3,866	3,782
Cash & ST Invt	2,083	2,000	1,407	2,049	2,658
Inventory	1,614	1,898	2,253	2,259	2,320
Debtors	2,651	2,166	3,135	3,154	3,233
Other Current Assets	444	305	305	305	305
Total Assets	17,260	18,337	19,124	19,792	20,510
ST Debt	1,913	1,572	1,533	1,495	1,457
Creditor	1,418	1,342	1,771	1,775	1,823
Other Current Liab	392	297	0.0	0.0	0.0
LT Debt	2,681	2,968	2,968	2,968	2,968
Other LT Liabilities	728	870	870	870	870
Shareholder's Equity	9,666	10,445	11,091	11,742	12,397
Minority Interests	462	843	892	943	995
Total Cap. & Liab.	17,260	18,337	19,124	19,792	20,510
Non-Cash Wkg. Capital	2,899	2,729	3,922	3,942	4,035
Net Cash/(Debt)	(2,511)	(2,540)	(3,094)	(2,413)	(1,767)
Debtors Turn (avg days)	56.7	53.3	45.0	53.1	52.6
Creditors Turn (avg days)	39.1	36.1	31.6	36.0	35.6
Inventory Turn (avg days)	49.4	46.0	42.1	45.7	45.2
Asset Turnover (x)	0.9	0.9	1.1	1.1	1.1
Current Ratio (x)	1.8	2.0	2.1	2.4	2.6
Quick Ratio (x)	1.3	1.3	1.4	1.6	1.8
Net Debt/Equity (X)	0.2	0.2	0.3	0.2	0.1
Net Debt/Equity ex MI (X)	0.3	0.2	0.3	0.2	0.1
Capex to Debt (%)	20.5	19.5	13.9	13.4	13.3
Z-Score (X)	4.1	4.2	4.6	4.7	4.7

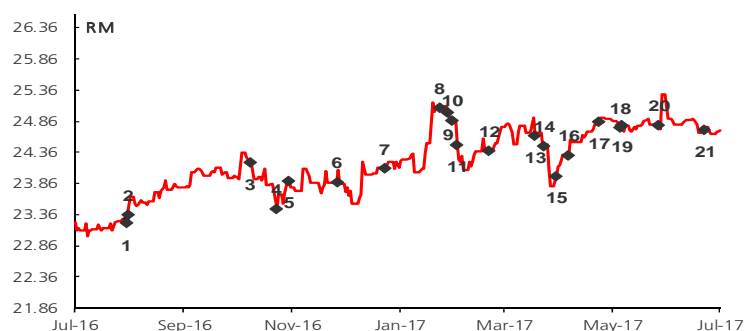
Source: Company, DBS Bank

Cash Flow Statement (RMm)

FY Sep	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	1,135	1,712	1,610	1,696	1,738
Dep. & Amort.	396	453	492	521	551
Tax Paid	(251)	(29.1)	(359)	(382)	(395)
Assoc. & JV Inc/(loss)	2.37	(5.0)	(5.1)	(5.2)	(5.3)
Chg in Wkg.Cap.	(813)	126	(895)	(20.7)	(92.4)
Other Operating CF	(3.2)	(959)	(297)	0.0	0.0
Net Operating CF	466	1,297	546	1,809	1,796
Capital Exp.(net)	(940)	(887)	(625)	(596)	(591)
Other Invt.(net)	(984)	119	53.0	51.7	50.4
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	1,186	(445)	28.3	27.6	26.9
Net Investing CF	(738)	(1,213)	(544)	(517)	(513)
Div Paid	(586)	(479)	(556)	(611)	(636)
Chg in Gross Debt	1,684	(54.0)	(39.3)	(38.3)	(37.4)
Capital Issues	1,539	(262)	0.0	0.0	0.0
Other Financing CF	(1,574)	615	0.0	0.0	0.0
Net Financing CF	1,063	(180)	(596)	(650)	(673)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	791	(96.6)	(593)	643	609
Opg CFPS (sen)	120	110	135	171	177
Free CFPS (sen)	(44.4)	38.3	(7.4)	114	113

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	17 Aug 16	23.22	20.35	HOLD
2:	18 Aug 16	23.36	20.35	HOLD
3:	26 Oct 16	24.20	22.40	HOLD
4:	10 Nov 16	23.46	22.40	HOLD
5:	17 Nov 16	23.90	22.50	HOLD
6:	14 Dec 16	23.88	22.50	HOLD
7:	10 Jan 17	24.10	22.50	HOLD
8:	10 Feb 17	25.08	22.50	HOLD
9:	15 Feb 17	25.00	22.50	HOLD
10:	17 Feb 17	24.88	22.75	HOLD
11:	20 Feb 17	24.48	22.75	HOLD
12:	10 Mar 17	24.38	22.75	HOLD
13:	05 Apr 17	24.62	22.75	HOLD
14:	10 Apr 17	24.46	22.75	HOLD
15:	17 Apr 17	23.98	22.75	HOLD
16:	24 Apr 17	24.32	22.75	HOLD
17:	11 May 17	24.86	22.75	HOLD
18:	23 May 17	24.76	22.75	HOLD
19:	24 May 17	24.80	22.75	HOLD
20:	14 Jun 17	24.80	22.75	HOLD
21:	10 Jul 17	24.72	22.75	HOLD

Source: DBS Bank

Analyst: Regional Research Team

Malaysia Company Guide

Sime Darby

Version 10 | Bloomberg: SIME MK | Reuters: SIME.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Jul 2017

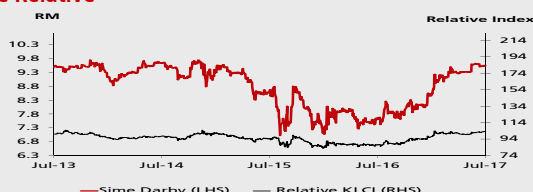
HOLD

Last Traded Price (19 Jul 2017): RM9.55 (KLCI : 1,757.27)
Price Target 12-mth: RM9.05 (-5% downside) (Prev RM8.70)

Analyst

Regional Research Team

Price Relative



Forecasts and Valuation

FY Jun (RM m)	2016A	2017F	2018F	2019F
Revenue	43,963	48,761	51,005	52,986
EBITDA	4,783	5,471	5,834	6,110
Pre-tax Profit	2,798	3,316	3,641	3,776
Net Profit	2,391	2,382	2,628	2,730
Net Pft (Pre Ex.)	2,391	2,382	2,628	2,730
Net Pft Gth (Pre-ex) (%)	(1.6)	(0.4)	10.3	3.9
EPS (sen)	37.8	35.9	39.6	41.1
EPS Pre Ex. (sen)	37.8	35.9	39.6	41.1
EPS Gth Pre Ex (%)	(3)	(5)	10	4
Diluted EPS (sen)	37.8	35.9	39.6	41.1
Net DPS (sen)	27.0	28.7	31.0	32.0
BV Per Share (sen)	514	535	546	556
PE (X)	25.3	26.6	24.1	23.2
PE Pre Ex. (X)	25.3	26.6	24.1	23.2
P/Cash Flow (X)	16.5	20.5	17.1	16.8
EV/EBITDA (X)	15.9	14.4	13.7	13.4
Net Div Yield (%)	2.8	3.0	3.2	3.4
P/Book Value (X)	1.9	1.8	1.7	1.7
Net Debt/Equity (X)	0.3	0.3	0.3	0.4
ROAE (%)	7.4	6.7	7.2	7.4
Earnings Rev (%):		(8)	(16)	(15)
Consensus EPS (sen):		35.3	38.6	42.3
Other Broker Recs:		B: 11	S: 1	H: 9

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

Transformation in progress

Closing in on demerger. SIME is on track for an end-2017 demerger and separate listing of its major business units. The underlying fundamentals are varied: Plantations is seeing an ongoing rebound in prices and volume; Property faces weaker domestic sentiment; and Industrial, Motors & Others are showing signs of stabilising. Overall, we think the units' aggregated performance is well priced in at current levels, factoring in execution risks post-demerger. Updating our CY17/18/19F forecasts for spot CPO prices of RM2,760/2,620/2,600 (from RM3,040/3,030/2,970) and other housekeeping adjustments, our core earnings forecasts are lowered by 6-18%. However, as we lift the PE valuations for its non-Plantation segments, our TP rises to RM9.05. Maintain HOLD.

Where we differ. More conservative near-term view. We are more conservative on the immediate upside from the potential conversion of its plantation land for developments. Our earnings estimates are close to the streets', though premised on CPO price forecasts that are lower than peers.

Potential catalyst. Value unlocking of landbank. The group currently has oil palm planted land that could see its value being unlocked by key development projects, notably that of the Malaysia Vision Valley in Negeri Sembilan and Pulau Carey. That said, the materialisation and earnings contribution of these projects is likely take place in the medium to long term.

Valuation:

Sime's SOP-based TP is RM9.05 (raised from RM7.40), after factoring in our earnings revision as well as raising Property's valuation to 15x PE (from 11x) and Motors' to 13x from 10x, to match the higher-end of listed peers, given the more favourable long-term development pipeline.

Key Risks to Our View:

Sharp changes in commodity prices would cause Sime's earnings to come in above or below our estimates. As Sime is a KLCI component, changes in its weightings would also make it vulnerable to significant price swings.

At A Glance

Issued Capital (m shrs)	6,801
Mkt. Cap (RMm/US\$m)	64,948 / 15,152
Major Shareholders (%)	
Skim Amanah Saham Bumiputera	42.5
Employees Provident Fund	11.8
Yayasan Pelaburan	6.2
Free Float (%)	39.5
3m Avg. Daily Val (US\$m)	18.6
ICB Industry : Industrials / General Industrials	

CRITICAL DATA POINTS TO WATCH

Critical Factors

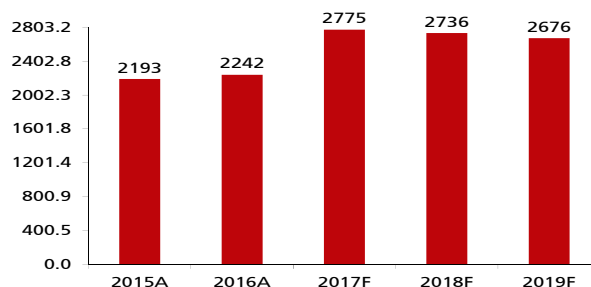
Plantation contribution. Movements in CPO prices would directly impact the group's profitability. Sime has sizeable planted land areas of over 600k ha, chiefly in Malaysia and Indonesia though also with exposure to Papua New Guinea and Liberia. While its hectareage average age was weighed towards the end of the prime age bracket, the acquisition of New Britain Palm Oil (NBPOL) had help bring this down and we estimate its average age to be 15.5 by end-FY18F. With its milling and refinery capability, Sime is also the world's largest producer of Certified Sustainable Palm Oil (CSPO). Factoring in replanting efforts on its vast land area, Sime's FFB output is forecast to expand by 2.3% CAGR between FY16 and FY19F.

Property contribution. We expect the group's Property segment to contribute c.17% of its operating profit in FY17F. The group has sizeable landbank in Peninsular Malaysia, including possible conversion of current oil palm planted area. Besides ongoing projects, it has earmarked c.11k acres for development going forward. The group also owns significant land area within the Malaysia Vision Valley, a government-driven mega-metropolis project in Negeri Sembilan, in which Sime will likely have involvement as a developer. While property sales are seeing headwinds from dampened sentiment domestically, the group still stands to see disposal gains as it will be sizing down its landbank before its separate listing. We believe disclosure of its gross development value per project and ongoing asset monetisation would help to unlock value in this segment.

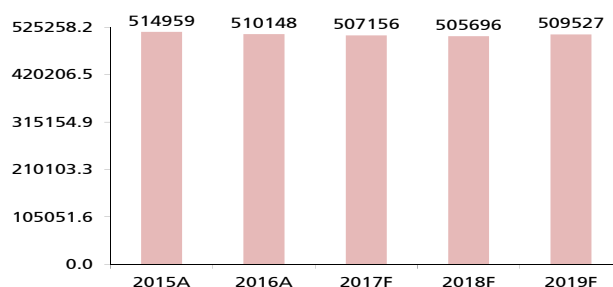
Industrial contribution. The group's Industrial segment is engaged in sales and rental of heavy equipment (mainly Caterpillar and Bucyrus brands), as well as after-sales servicing and maintenance. Profit for this segment is driven by capex-spend principally undertaken by coal/iron ore miners, in addition to construction companies. Volatility in the underlying commodity prices and bank lending, as well as construction activities would influence the demand for Sime's heavy equipment products. While underlying commodity prices have recovered, this is mainly driven by output scale-back from some of the smaller miners – which may not yet necessarily translate into positive impact on Sime's Industrial segment.

Motor contribution. To a large extent, Sime's Motor segment depends on banks' lending policies, government regulations on taxes and consumer purchasing power. With roughly half of its profit contribution coming from Malaysia and the other half from China/HK, the group will continue to face challenges in FY17F, in our view. Tighter lending has pushed back appetite for new cars in Malaysia, while the crackdown on corruption and intense competition in China has also dampened its sales contribution in China/HK over the past few years. We believe an eventual listing of this segment could offer some cashflow reprieve for the group.

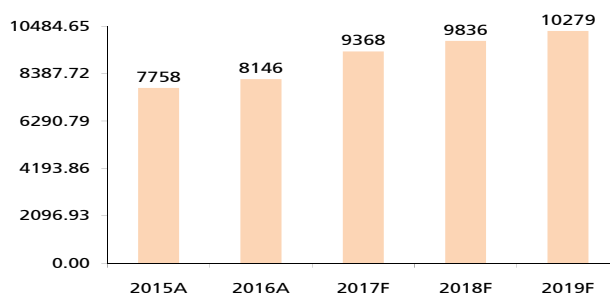
CPO price (RM/MT)



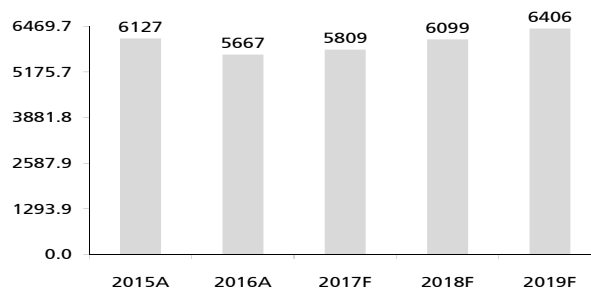
Mature palm oil hectareage



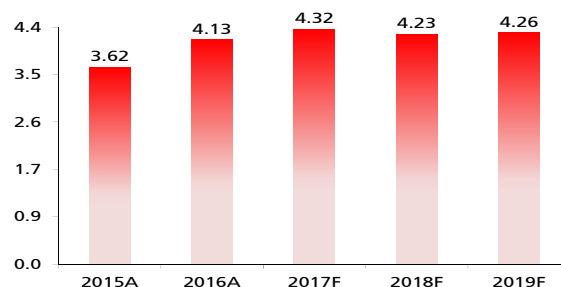
HK & PRC Motor rev.(RMm)



Australasia Industrial rev. (RMm)



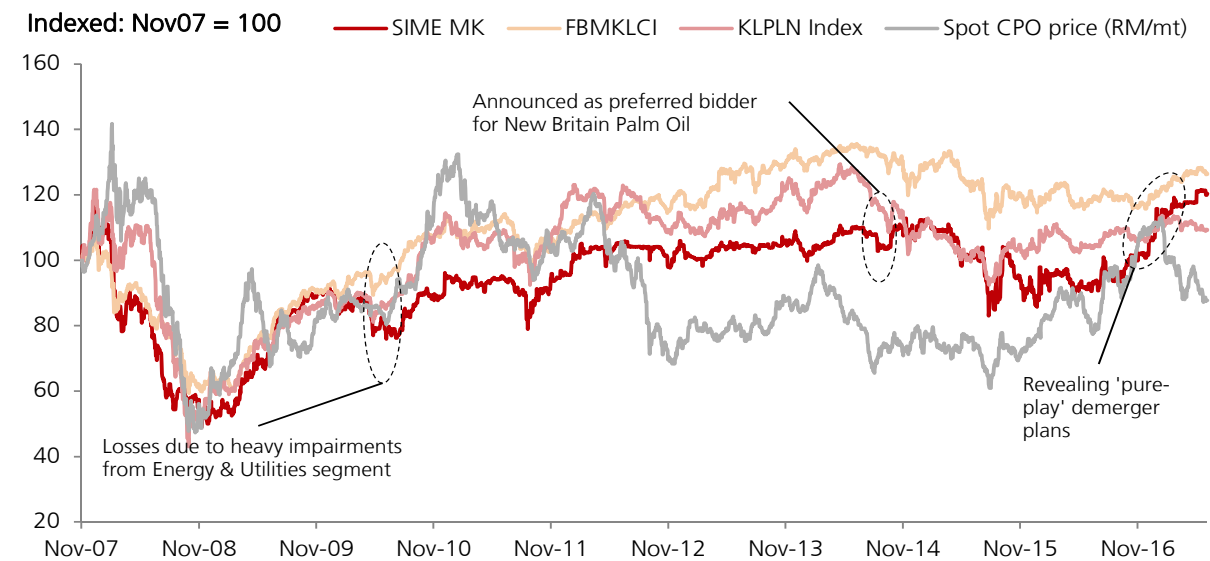
Average MYR/USD



Source: Company, DBS Bank

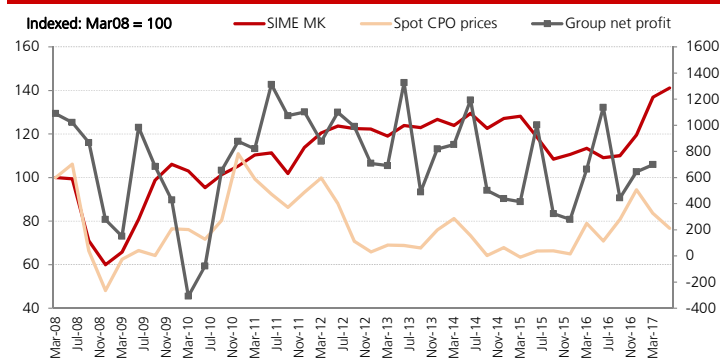
Appendix 1: SIME price correlation with critical factors

Graph 1: Share price vs key benchmarks



Source: Company, Bloomberg L.P., DBS Bank

SIME share price vs CPO prices and earnings

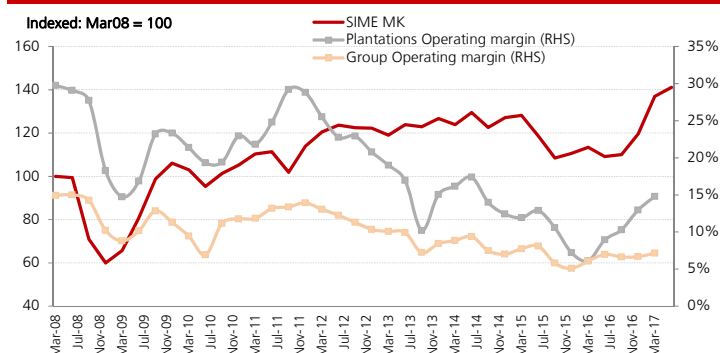


Source: Company, Bloomberg L.P., DBS Bank

Remarks

SIME's share price has a weaker relationship to CPO prices relative to other plantation peers due to its conglomerate structure; and is more influenced by the overall group earnings. However, it is swayed by large movements in CPO as Plantations is its largest contributing segment.

SIME share price vs operating margins



Source: Company, MPOB, Bloomberg Finance L.P., DBS Bank

Remarks

SIME's share price is influenced by its profitability which can be tracked using operating margins. Margins can be enhanced by stronger CPO selling prices, or stronger growth from internal FFB output.

Balance Sheet:

Managing its gearing ratio. The group's net debt-to-equity had eased below 28% in early-2017 as it asset monetisation and debt restructuring plans initiated. However, we expect this level to reach above the 30% level again as it refinances some debt. As Sime's segments demerge, the debt will be apportioned according to the unit's requirements and repayment capability.

Share Price Drivers:

Corporate actions could unlock further value from assets. We do not expect significant organic catalysts in the near term, especially from its Plantations division. However as the group reviews its asset pending the demerger of units, there could be some value unlocked as non-core assets are monetised.

SOP Valuation

	CY18F NP	Valuation	Value	Value
	RM m	basis	RM m	RM/share
Plantation		DCF	34,719.8	5.23
Properties	809.5	15.0x PE	12,143.0	1.83
Industrial	248.8	14.0x PE	3,483.3	0.52
Motor vehicle distribution	487.3	13.0x PE	6,335.2	0.95
Logistics & Others	108.4	10.0x PE	1,083.5	0.16
40% share in BPSDC			1,673.8	0.25
50% share in Ramsay SD Healthcare			810.4	0.12
SOP valuation			60,249.0	9.05
Number of shares (m)			6,643.6	

Key Risks:**Volatility in commodity prices and USD exchange rates**

Continued weakness in CPO prices may lead to lower-than-expected earnings, while lower energy prices from the expansion of US shale gas would have an adverse impact on the demand for vegetable oils for biofuels. Likewise, volatility in USD would affect the profitability of planters in general. The group's Industrial division has significant exposure to demand for coal.

Regulatory changes

Any further increase in Indian import duty of refined oils or changes in the structure of Indonesian/Malaysian export taxes would impact the demand for CPO/refined oils.

Market sentiment

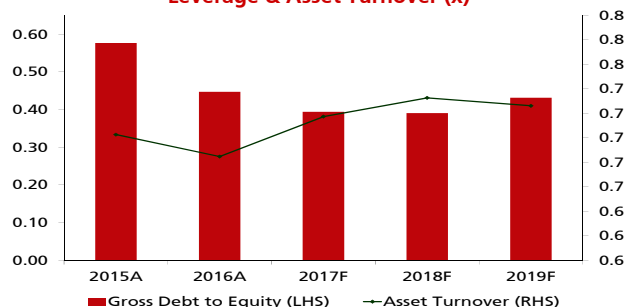
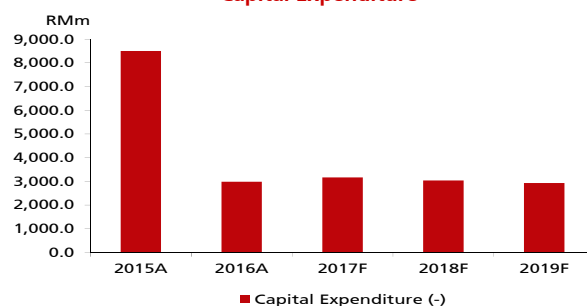
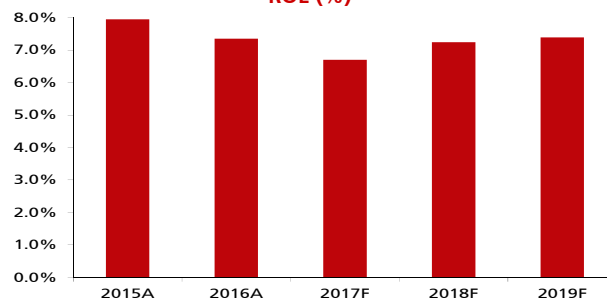
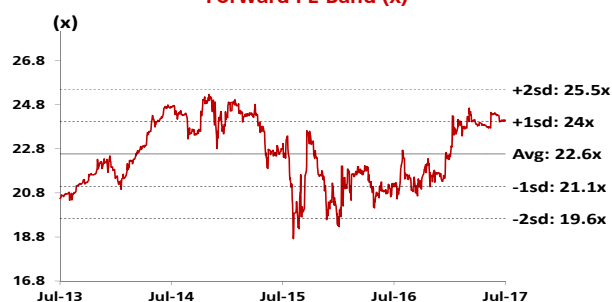
Changes in fund flows towards or out of emerging markets would affect the valuations of plantation counters.

Weather

Changes in rainfall pattern (caused by either El Nino or La Nina) would affect FFB yields with some time lag.

Company Background

Sime Darby (Sime) is a GLC conglomerate. The group's principal activities include plantations, property development, heavy equipment and motor vehicle distribution, as well as logistics.

Leverage & Asset Turnover (x)**Capital Expenditure****ROE (%)****Forward PE Band (x)****PB Band (x)**

Source: Company, DBS Bank

Key Assumptions

FY Jun	2015A	2016A	2017F	2018F	2019F
CPO price (RM/MT)	2,193	2,242	2,775	2,736	2,676
Mature palm oil hectareage	514,959	510,148	507,156	505,696	509,527
HK & PRC Motor rev.(RMm)	7,758	8,146	9,368	9,836	10,279
Australasia Industrial rev. (RMm)	6,127	5,667	5,809	6,099	6,406
Average MYR/USD	3.62	4.13	4.32	4.23	4.26

Segmental Breakdown

FY Jun	2015A	2016A	2017F	2018F	2019F
Revenues (RMm)					
Plantations	10,269	11,877	13,880	14,262	14,269
Property	3,455	2,865	3,137	3,420	3,713
Industrial	10,558	9,766	10,010	10,511	11,039
Motor	18,646	19,708	21,021	22,064	23,183
Others	801	(253)	713	748	782
Total	43,729	43,963	48,761	51,005	52,986
EBIT (RMm)					
Plantations	1,181	1,040	2,019	2,036	1,953
Property	929	1,041	648	692	739
Industrial	512	326	244	298	357
Motor	467	493	535	597	666
Others	454	167	109	116	122
Total	3,542	3,067	3,554	3,739	3,836
EBIT Margins (%)					
Plantations	11.5	8.8	14.5	14.3	13.7
Property	26.9	36.3	20.6	20.2	19.9
Industrial	4.9	3.3	2.4	2.8	3.2
Motor	2.5	2.5	2.5	2.7	2.9
Others	56.7	(66.0)	15.3	15.5	15.6
Total	8.1	7.0	7.3	7.3	7.2

Income Statement (RMm)

FY Jun	2015A	2016A	2017F	2018F	2019F
Revenue	43,729	43,963	48,761	51,005	52,986
Cost of Goods Sold	(41,465)	(42,400)	(46,652)	(48,747)	(50,668)
Gross Profit	2,264	1,563	2,110	2,259	2,318
Other Opng (Exp)/Inc	1,278	1,504	1,444	1,481	1,518
Operating Profit	3,542	3,067	3,554	3,739	3,836
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(122)	48.4	208	342	478
Net Interest (Exp)/Inc	(274)	(317)	(445)	(440)	(538)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	3,145	2,798	3,316	3,641	3,776
Tax	(597)	(216)	(678)	(744)	(772)
Minority Interest	(119)	(158)	(132)	(145)	(150)
Preference Dividend	0.0	(33.7)	(124)	(124)	(124)
Net Profit	2,430	2,391	2,382	2,628	2,730
Net Profit before Except.	2,430	2,391	2,382	2,628	2,730
EBITDA	4,555	4,783	5,471	5,834	6,110
Growth					
Revenue Gth (%)	(0.4)	0.5	10.9	4.6	3.9
EBITDA Gth (%)	(15.3)	5.0	14.4	6.6	4.7
Opg Profit Gth (%)	(14.0)	(13.4)	15.9	5.2	2.6
Net Profit Gth (Pre-ex) (%)	(21.3)	(1.6)	(0.4)	10.3	3.9
Margins & Ratio					
Gross Margins (%)	5.2	3.6	4.3	4.4	4.4
Opg Profit Margin (%)	8.1	7.0	7.3	7.3	7.2
Net Profit Margin (%)	5.6	5.4	4.9	5.2	5.2
ROAE (%)	7.9	7.4	6.7	7.2	7.4
ROA (%)	3.9	3.7	3.5	3.8	3.7
ROCE (%)	5.4	5.1	4.9	5.0	4.9
Div Payout Ratio (%)	63.9	71.4	80.0	78.4	77.9
Net Interest Cover (x)	12.9	9.7	8.0	8.5	7.1

Source: Company, DBS Bank

Quarterly / Interim Income Statement (RMm)

FY Jun	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
Revenue	10,233	11,728	10,099	12,339	12,446
Cost of Goods Sold	(9,986)	(11,179)	(9,818)	(11,669)	(11,893)
Gross Profit	246	549	281	670	553
Other Oper. (Exp)/Inc	603	526	329	198	297
Operating Profit	836	1,109	670	828	994
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	20.4	(7.9)	3.00	99.0	28.0
Net Interest (Exp)/Inc	(64.4)	(12.0)	(44.0)	(6.0)	(15.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	792	1,089	629	921	1,007
Tax	(99.2)	128	(131)	(217)	(234)
Minority Interest	(26.3)	(49.1)	(24.0)	(28.0)	(44.0)
Net Profit	664	1,137	443	644	699
Net profit bef Except.	664	1,137	443	644	699
EBITDA	1,491	1,494	1,092	1,362	1,478

Growth

Revenue Gth (%)	(13.5)	14.6	(13.9)	22.2	0.9
EBITDA Gth (%)	84.5	0.2	(26.9)	24.7	8.5
Opg Profit Gth (%)	57.1	32.7	(39.6)	23.6	20.0
Net Profit Gth (Pre-ex) (%)	138.1	71.4	(61.0)	45.4	8.5

Margins

Gross Margins (%)	2.4	4.7	2.8	5.4	4.4
Opg Profit Margins (%)	8.2	9.5	6.6	6.7	8.0
Net Profit Margins (%)	6.5	9.7	4.4	5.2	5.6

Balance Sheet (RMm)

FY Jun	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	23,027	24,457	25,909	27,196	28,329
Invt in Associates & JVs	3,820	4,214	4,421	4,764	5,241
Other LT Assets	9,589	11,154	11,009	11,175	11,344
Cash & ST Invt	4,201	3,521	3,704	2,617	3,320
Inventory	9,702	9,397	10,367	10,833	11,260
Debtors	7,273	6,523	7,502	7,847	8,152
Other Current Assets	4,626	4,944	5,068	5,194	5,324
Total Assets	62,238	64,209	67,979	69,625	72,970
ST Debt	6,324	4,428	6,339	4,606	4,631
Creditor	8,519	8,224	9,330	9,749	10,134
Other Current Liab	658	718	725	733	740
LT Debt	11,885	11,541	9,029	11,017	13,029
Other LT Liabilities	3,281	3,591	3,564	3,538	3,512
Shareholder's Equity	30,568	34,743	37,895	38,741	39,534
Minority Interests	1,003	964	1,096	1,241	1,391
Total Cap. & Liab.	62,238	64,209	67,979	69,625	72,970
Non-Cash Wkg. Capital	12,424	11,921	12,881	13,392	13,862
Net Cash/(Debt)	(14,008)	(12,448)	(11,664)	(13,006)	(14,340)
Debtors Turn (avg days)	60.7	54.2	56.2	56.2	56.2
Creditors Turn (avg days)	77.1	73.7	75.8	75.7	75.7
Inventory Turn (avg days)	87.8	84.2	84.2	84.1	84.1
Asset Turnover (x)	0.7	0.7	0.7	0.7	0.7
Current Ratio (x)	1.7	1.8	1.6	1.8	1.8
Quick Ratio (x)	0.7	0.8	0.7	0.7	0.7
Net Debt/Equity (X)	0.4	0.3	0.3	0.3	0.4
Net Debt/Equity ex MI (X)	0.5	0.4	0.3	0.3	0.4
Capex to Debt (%)	46.7	18.7	20.6	19.5	16.6
Z-Score (X)	2.8	2.9	3.0	3.2	3.2

Source: Company, DBS Bank

Cash Flow Statement (RMm)

FY Jun	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	3,145	2,798	3,316	3,641	3,776
Dep. & Amort.	1,135	1,667	1,709	1,752	1,797
Tax Paid	(597)	(216)	(678)	(744)	(772)
Assoc. & JV Inc/(loss)	122	(48.4)	(208)	(342)	(478)
Chg in Wkg.Cap.	(1,411)	503	(959)	(511)	(470)
Other Operating CF	971	(1,045)	(80.2)	(81.2)	(82.3)
Net Operating CF	3,367	3,659	3,101	3,714	3,771
Capital Exp.(net)	(8,501)	(2,981)	(3,161)	(3,040)	(2,930)
Other Invt.(net)	(23.5)	(41.2)	(27.6)	(28.3)	(29.0)
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	910	928	227	(82.5)	(84.5)
Net Investing CF	(7,614)	(2,094)	(2,962)	(3,150)	(3,043)
Div Paid	(2,192)	(1,560)	(1,727)	(1,906)	(2,061)
Chg in Gross Debt	6,882	(2,240)	(601)	255	2,037
Capital Issues	1,897	3,335	2,373	0.0	0.0
Other Financing CF	(2,775)	(1,850)	0.0	0.0	0.0
Net Financing CF	3,811	(2,316)	44.2	(1,651)	(24.3)
Currency Adjustments	255	91.4	0.0	0.0	0.0
Chg in Cash	(181)	(659)	183	(1,087)	703
Opg CFPS (sen)	76.9	49.9	61.1	63.6	63.8
Free CFPS (sen)	(82.7)	10.7	(0.9)	10.2	12.7

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	24 Aug 16	7.81	6.30	FULLY VALUED
2:	10 Nov 16	8.24	7.40	HOLD
3:	28 Nov 16	8.16	7.40	HOLD
4:	14 Dec 16	8.15	7.40	HOLD
5:	10 Jan 17	8.45	7.40	HOLD
6:	27 Jan 17	9.23	7.40	HOLD
7:	10 Feb 17	8.99	7.40	HOLD
8:	17 Feb 17	9.15	8.05	HOLD
9:	20 Feb 17	9.20	8.05	HOLD
10:	28 Feb 17	8.96	8.05	HOLD
11:	10 Mar 17	9.14	8.05	HOLD
12:	04 Apr 17	9.31	8.05	HOLD
13:	05 Apr 17	9.32	8.05	HOLD
14:	10 Apr 17	9.34	8.05	HOLD
15:	17 Apr 17	9.28	8.05	HOLD
16:	24 Apr 17	9.27	8.05	HOLD
17:	11 May 17	9.33	8.05	HOLD
18:	01 Jun 17	9.32	8.70	HOLD
19:	14 Jun 17	9.62	8.70	HOLD
20:	10 Jul 17	9.54	8.70	HOLD

Source: DBS Bank

Analyst: Regional Research Team

Malaysia Company Guide

Genting Plantations

Version 10 | Bloomberg: GENP MK | Reuters: GENP.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Jul 2017

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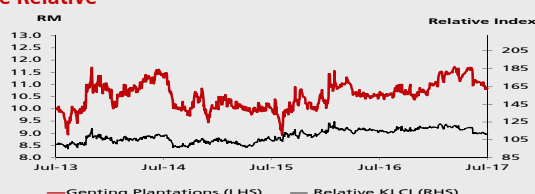
Last Traded Price (19 Jul 2017): RM10.84 (KLCI : 1,757.27)

Price Target 12-mth: RM11.05 (2% upside) (Prev RM12.20)

Analyst

Regional Research Team

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2016A	2017F	2018F	2019F
Revenue	1,480	1,824	2,261	2,430
EBITDA	577	608	639	665
Pre-tax Profit	501	526	557	584
Net Profit	367	396	412	430
Net Pft (Pre Ex.)	301	396	412	430
Net Pft Gth (Pre-ex) (%)	53.8	31.7	4.1	4.4
EPS (sen)	46.3	49.1	50.4	47.9
EPS Pre Ex. (sen)	37.9	49.1	50.4	47.9
EPS Gth Pre Ex (%)	52	30	3	(5)
Diluted EPS (sen)	40.9	44.1	45.9	47.9
Net DPS (sen)	21.0	10.8	11.1	10.5
BV Per Share (sen)	589	607	639	624
PE (X)	23.4	22.1	21.5	22.6
PE Pre Ex. (X)	28.6	22.1	21.5	22.6
P/Cash Flow (X)	24.5	17.1	18.3	19.3
EV/EBITDA (X)	16.4	15.7	15.0	15.5
Net Div Yield (%)	1.9	1.0	1.0	1.0
P/Book Value (X)	1.8	1.8	1.7	1.7
Net Debt/Equity (X)	0.1	0.1	0.1	0.0
ROAE (%)	8.3	8.3	8.1	7.9
Earnings Rev (%):		(13)	(19)	(15)
Consensus EPS (sen):		47.1	51.2	57.4
Other Broker Recs:		B: 4	S: 3	H: 14

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

Good prospects, fairly priced

Pricing remains key. GENP is on course for a strong FY17F profit rebound as volume from its young Indonesian hectareage kicks in. However, strong CPO prices are necessary to sustain momentum, as faster replanting will dampen output from its Malaysian plantations. Group turnover will significantly outpace bottomline growth in the medium term as its refining operations ramp up. After updating our CY17/18/19F forecasts for 1) spot CPO prices of RM2,760/2,620/2,600 (from RM3,040/3,030/2,970), and 2) refinery operations with 30%/55%/60% utilisation; our core earnings forecasts drop by 13-19%. Rolling forward to FY18F base, our TP is adjusted to RM11.05, maintain HOLD.

Where we differ. Divergence in price assumptions. Our fully diluted EPS forecasts for FY18-19F are below consensus primarily due to more conservative margin and growth assumptions. We have also imputed its new refinery operations, resulting in higher topline assumptions – however due to the thinner margins, there is less bottomline accretion.

Potential catalyst. Faster-than-expected ramp-up of refinery. GENP aims to reach 50% utilisation by the end of first year operations (end-2017) at its 600k MT p.a. refinery in Lahad Datu, Sabah, a collaboration with the Musim Mas Group. Faster or further ramp-up of utilisation will allow for bottom-line accretion as breakeven is reached and more external CPO is processed.

Valuation:

Our SOP-based TP (FY18F base year; Plantations segment valued using DCF) is RM11.05.

Key Risks to Our View:

A strong recovery in CPO prices (either data, weather or regulatory-driven) would lift the share price above our fair value, and vice versa.

At A Glance

Issued Capital (m shrs)	803
Mkt. Cap (RMm/US\$m)	8,706 / 2,031
Major Shareholders (%)	
Genting Berhad	51.2
Employees Provident Fund	13.1
Kumpulan Wang Persaraan	5.1
Free Float (%)	35.7
3m Avg. Daily Val (US\$m)	1.4
ICB Industry : Consumer Goods / Food Producers	

CRITICAL DATA POINTS TO WATCH

Critical Factors

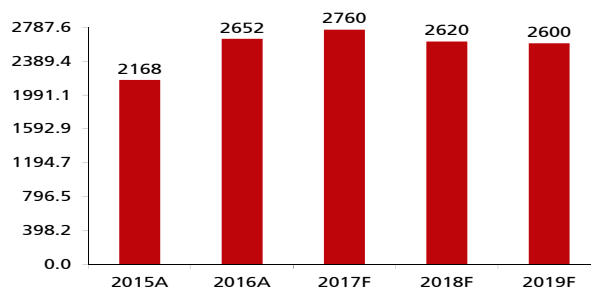
CPO price. As a commodity producer, GENP is a price-taker. Movements in international CPO prices would directly impact the group's profitability. We currently expect CPO prices (FOB Pasir Gudang) to average US\$645/MT (+0.8% y-o-y) in CY17, translating to RM2,760/MT (+4.1%); before a decline to US\$616/MT in CY18 (-4.5% y-o-y) or RM2,620/MT (-5.1%).

Volume output. GENP has 59.2k ha of planted area in Malaysia and 71.9k ha in Indonesia, as at end-2016. The bulk of the mature palms are in Malaysia (54.4k ha) compared to Indonesia (38.3k ha); though we expect the situation to reverse by 2019 as the latter has a young average tree age forming a steady maturity pipeline. From 2016-2019F, we expect GENP's internal FFB output to chart a CAGR of 9.4% as rising Indonesian volumes are slightly offset by reduced Malaysian hectareage, given its replanting programme. GENP has 10 palm oil mills which primarily processes its own FFB. The group's Malaysian hectareage is primarily in Sabah, while its Indonesian plantations are in West and Central Kalimantan.

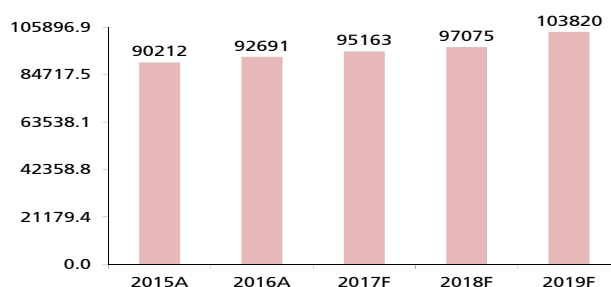
Growing downstream presence. GENP has a 72% stake in a palm oil refinery in Lahad Datu, Sabah, collaborating with the Musim Mas group. The plant has capacity of 600k MT p.a. which began operations in 2017. We expect utilisation to gradually ramp up to 30%/55%/60% in FY17/18/19F, initially processing its own CPO feedstock before sourcing external volumes. Contribution will rise with higher volumes and more favourable palm oil product spreads; though margins will be thinner than its upstream operations. The group also has a biodiesel plant in the same area of Sabah, though volumes and contribution remains immaterial for now.

Demand seasonality. As a major vegetable oil with 38% market share globally, palm oil is an important food staple. The other major vegetable oils are soybean oil with 29% market share, followed by rapeseed/canola oil and sunflower oil with 16% and 10% market shares respectively. There is generally demand substitutability between vegetable oils (high price elasticity of demand), although certain vegetable oils are more suitable than others for certain applications. Relative to other oil crops, palm oil has the highest productivity per hectare (i.e. c.5 MT/ha), while soybean oil's productivity is typically 0.5 MT/ha. Demand for palm oil is dominant in Asia where local festivities drive higher demand in certain months of the year, for example, Ramadan month, Chinese New Year, and Divali are typically high-demand periods in Asia.

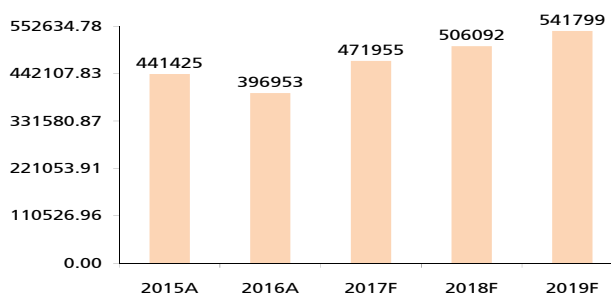
CPO price



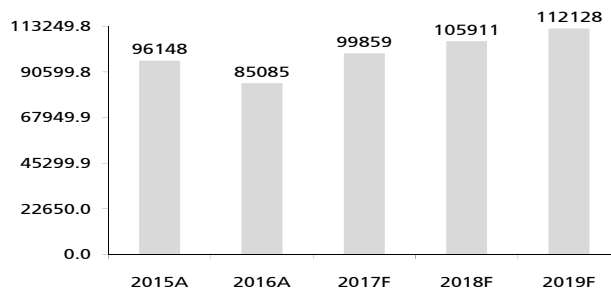
Mature palm oil hectareage



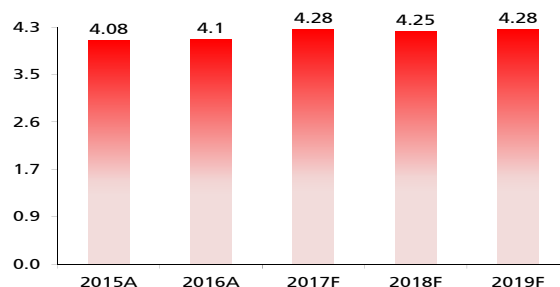
CPO production volume



Refined palm oil volume



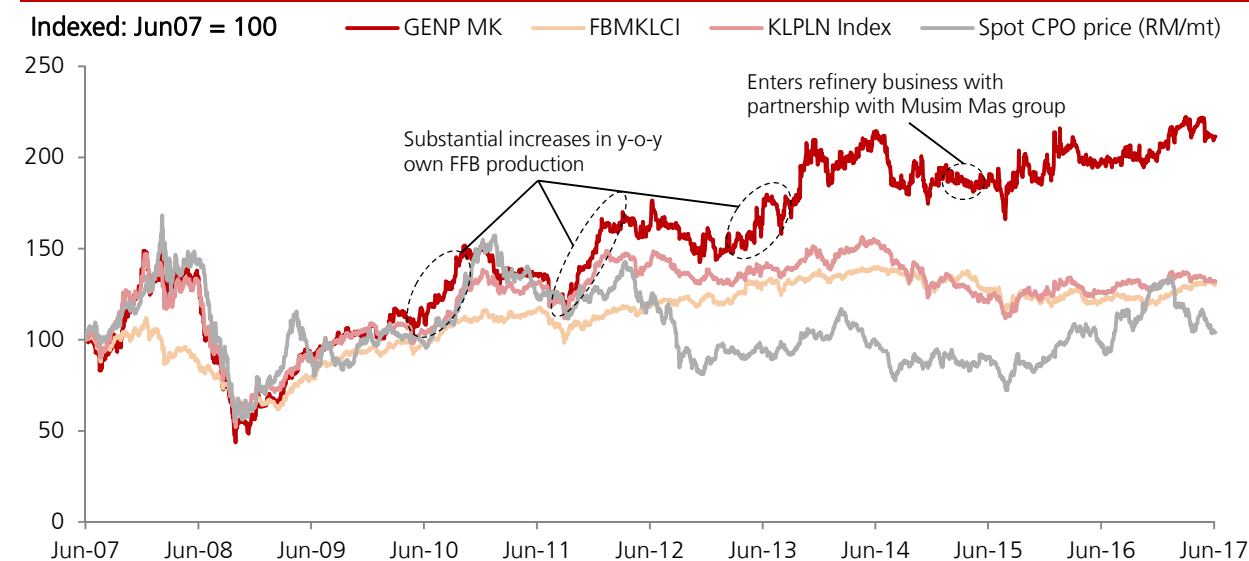
Average MYR/USD



Source: Company, DBS Bank

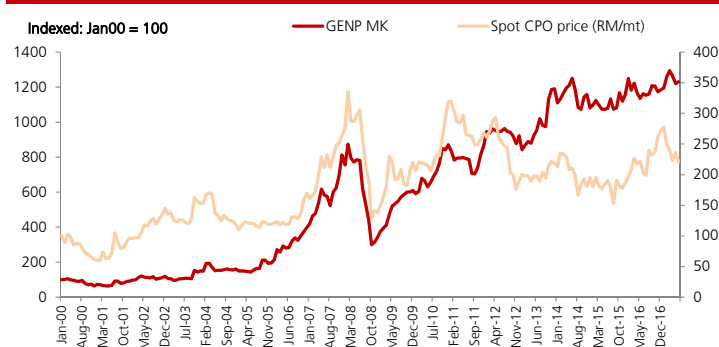
Appendix 1: GEP price correlation with critical factors

Graph 1: Share price vs key benchmarks



Source: Company, Bloomberg L.P., DBS Bank

GENP share price vs CPO prices

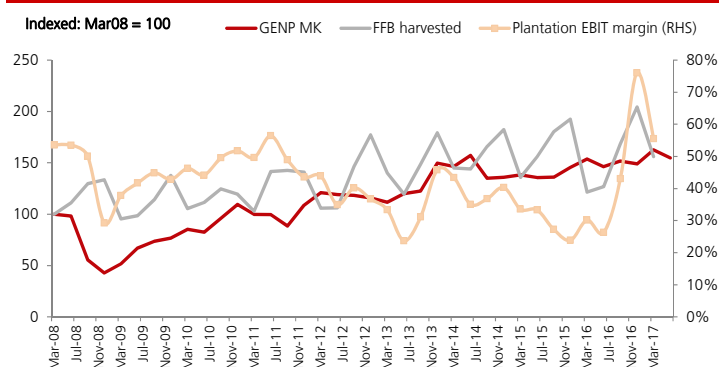


Source: Company, Bloomberg L.P., DBS Bank

Remarks

GENP's share price is principally influenced by the movement of CPO prices, with a long-run correlation coefficient of 0.8.

GENP share price vs production and margins



Source: Company, MPOB, Bloomberg Finance L.P., DBS Bank

Remarks

GENP's share price is moved by the growth in its internal production, which can also be beneficial to its operating margins and thus profitability.

Genting Plantations

Balance Sheet:

Net cash position. As at end-December 2016, GENP had a net gearing ratio of 22%, including USD debts amounting to US\$293m, which represented debts incurred by its Indonesian subsidiaries to fund its ongoing capex programme there (interest expense and FX losses are partly capitalised).

Positive free cash flow in FY17F. GENP free cash flow is forecast to reverse into positive territory in FY17F, reflecting recovery in CPO and PK ASP. FY17F EBITDA/interest expense is forecast to remain strong at 12.8x

Share Price Drivers:

Offering growth, despite higher multiple. Among its upstream peers, GENP is trading at a relatively higher forward PE. We believe the market has incorporated the valuation of the group's property land bank – in addition to its plantation segment's 11% earnings CAGR (CY16-19F) potential from favourable maturity pipeline in Indonesia and stable CPO prices.

SOP Valuation

	Valuation basis	Value RM m	Value RM/share
Plantation	DCF	9,006.5	10.03
Property (own)	RNAV@50% disc.	522.7	0.58
Property (Premium Outlet JVs)	DCF	212.8	0.24
Net Cash		(430.9)	-0.48
Outstanding warrant proceeds		620.1	0.69
SOP valuation		9,931.2	11.05
Enlarged share base (m)		898.0	
Number of shares (m)		818.0	
Warrant conversion (m)		80.0	

Key Risks:

Volatility in CPO prices and USD exchange rate. Large changes in CPO prices would materially affect earnings, while volatility in USD affects both CPO prices and USD debt

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.

Regulatory changes. Any further increase in Indian import duty of refined oils or changes in the structure of Indonesian/Malaysian export taxes would impact the demand for CPO/refined oils.

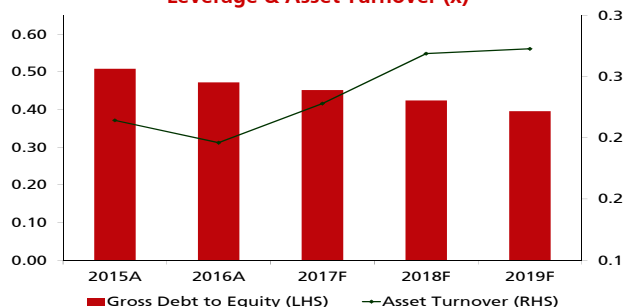
Market sentiment. Changes in fund flows towards or out of emerging markets would affect the valuations of plantation counters.

Weather. Changes in rainfall pattern (caused by either El Nino or La Nina) would affect FFB yields with some time lag.

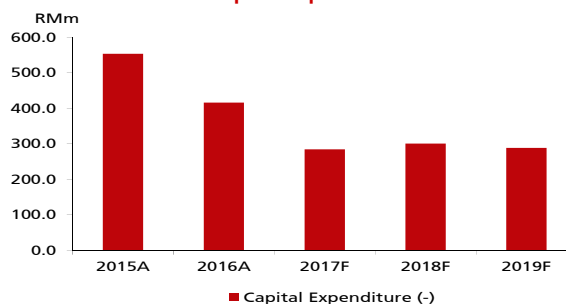
Company Background

GENP is in the palm oil plantation business with over 220k ha of plantations in Malaysia and Indonesia, and nine palm oil mills currently. Its other/non-core businesses are biotechnology and property development.

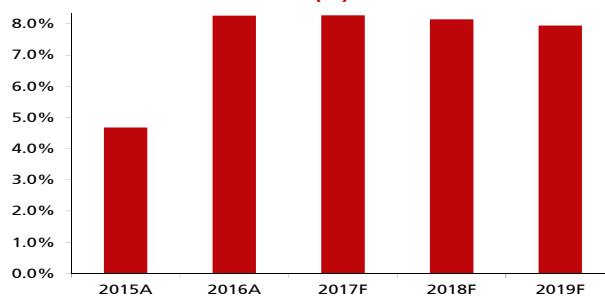
Leverage & Asset Turnover (x)



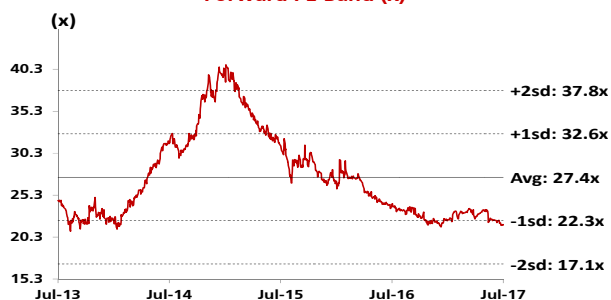
Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017F	2018F	2019F
CPO price	2,168	2,652	2,760	2,620	2,600
Mature palm oil hectarage	90,212	92,691	95,163	97,075	103,820
CPO production volume	441,425	396,953	471,955	506,092	541,799
Refined palm oil volume	96,148	85,085	99,859	105,911	112,128
Average MYR/USD	4.08	4.10	4.28	4.25	4.28

Segmental Breakdown

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenues (RMm)					
Plantation	1,093	1,258	1,067	1,108	1,194
Property	189	126	132	136	140
Others	93.1	96.1	625	1,017	1,096
Total	1,375	1,480	1,824	2,261	2,430
EBIT (RMm)					
Plantation	137	511	539	538	551
Property	61.1	42.2	44.4	45.7	47.1
Others	78.7	2.10	2.74	30.1	36.4
Total	277	556	586	613	634
EBIT Margins (%)					
Plantation	12.6	40.6	50.5	48.5	46.1
Property	32.3	33.6	33.7	33.7	33.7
Others	84.5	2.2	0.4	3.0	3.3
Total	20.2	37.5	32.1	27.1	26.1

Income Statement (RMm)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenue	1,375	1,480	1,824	2,261	2,430
Cost of Goods Sold	(924)	(849)	(1,039)	(1,445)	(1,585)
Gross Profit	451	631	785	816	845
Other Opg (Exp)/Inc	(224)	(135)	(261)	(264)	(272)
Operating Profit	227	496	524	552	573
Other Non Opg (Exp)/Inc	5.76	(66.9)	0.0	0.0	0.0
Associates & JV Inc	22.0	25.0	27.6	30.4	33.7
Net Interest (Exp)/Inc	(1.5)	(20.2)	(25.8)	(24.7)	(22.6)
Exceptional Gain/(Loss)	(5.8)	66.9	0.0	0.0	0.0
Pre-tax Profit	247	501	526	557	584
Tax	(70.8)	(131)	(126)	(134)	(140)
Minority Interest	13.2	(2.5)	(3.7)	(11.4)	(13.3)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	190	367	396	412	430
Net Profit before Except.	196	301	396	412	430
EBITDA	316	577	608	639	665
Growth					
Revenue Gth (%)	(16.3)	7.6	23.2	24.0	7.5
EBITDA Gth (%)	(42.0)	82.5	5.3	5.2	4.0
Opg Profit Gth (%)	(52.9)	118.6	5.6	5.2	3.8
Net Profit Gth (Pre-ex) (%)	(48.2)	53.8	31.7	4.1	4.4
Margins & Ratio					
Gross Margins (%)	32.8	42.6	43.0	36.1	34.8
Opg Profit Margin (%)	16.5	33.5	28.7	24.4	23.6
Net Profit Margin (%)	13.8	24.8	21.7	18.2	17.7
ROAE (%)	4.7	8.3	8.3	8.1	7.9
ROA (%)	3.0	4.9	4.9	4.9	4.8
ROCE (%)	2.7	5.1	5.3	5.4	5.3
Div Payout Ratio (%)	22.8	45.4	22.0	22.0	22.0
Net Interest Cover (x)	150.5	24.6	20.3	22.3	25.3

Source: Company, DBS Bank

Genting Plantations

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2016	2Q2016	3Q2016	4Q2016	1Q2017
Revenue	261	309	397	513	400
Cost of Goods Sold	(170)	(212)	(213)	(253)	(236)
Gross Profit	90.7	97.1	183	260	164
Other Oper. (Exp)/Inc	(41.5)	(33.8)	(40.7)	20.4	(32.5)
Operating Profit	49.2	63.3	143	280	132
Other Non Opg (Exp)/Inc	9.14	(3.8)	(3.1)	(69.1)	3.74
Associates & JV Inc	6.18	5.36	5.78	7.67	6.04
Net Interest (Exp)/Inc	(16.9)	(16.5)	(12.7)	(13.5)	(15.3)
Exceptional Gain/(Loss)	(9.1)	3.80	3.08	69.1	(3.7)
Pre-tax Profit	38.5	52.2	136	275	122
Tax	(10.4)	(14.7)	(39.2)	(66.7)	(33.8)
Minority Interest	(1.1)	3.29	1.26	(6.0)	(8.6)
Net Profit	27.0	40.8	97.8	202	80.1
Net profit bef Except.	36.1	37.0	94.7	133	83.8
EBITDA	49.2	63.3	143	280	1,382

Growth

Revenue Gth (%)	(38.5)	18.5	28.3	29.4	(22.0)
EBITDA Gth (%)	(45.5)	28.7	125.3	96.6	392.7
Opg Profit Gth (%)	(45.5)	28.7	125.3	96.6	(53.0)
Net Profit Gth (Pre-ex) (%)	(53.4)	2.5	155.8	40.2	(36.9)

Margins

Gross Margins (%)	34.8	31.4	46.2	50.7	41.0
Opg Profit Margins (%)	18.9	20.5	36.0	54.6	32.9
Net Profit Margins (%)	10.3	13.2	24.6	39.3	20.0

Balance Sheet (RMm)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	1,562	1,728	1,877	2,045	2,183
Invt in Associates & JVs	70.2	90.4	118	148	182
Other LT Assets	3,131	3,527	3,583	3,633	3,693
Cash & ST Invt	1,925	1,760	1,811	1,914	2,078
Inventory	98.1	174	166	229	251
Debtors	334	505	514	634	678
Other Current Assets	125	73.7	74.4	75.6	76.0
Total Assets	7,246	7,858	8,144	8,679	9,141
ST Debt	56.9	29.1	29.1	29.1	29.1
Creditor	361	412	476	665	733
Other Current Liab	6.33	15.7	13.5	18.7	20.5
LT Debt	2,233	2,316	2,316	2,316	2,316
Other LT Liabilities	84.0	120	120	120	120
Shareholder's Equity	4,219	4,676	4,896	5,226	5,604
Minority Interests	285	290	293	305	318
Total Cap. & Liab.	7,246	7,858	8,144	8,679	9,141
Non-Cash Wkg. Capital	190	325	265	256	251
Net Cash/(Debt)	(365)	(585)	(534)	(431)	(267)
Debtors Turn (avg days)	79.6	103.4	102.0	92.7	98.6
Creditors Turn (avg days)	149.8	183.8	169.6	153.4	170.9
Inventory Turn (avg days)	44.4	64.7	64.9	53.1	58.7
Asset Turnover (x)	0.2	0.2	0.2	0.3	0.3
Current Ratio (x)	5.8	5.5	4.9	4.0	3.9
Quick Ratio (x)	5.3	5.0	4.5	3.6	3.5
Net Debt/Equity (X)	0.1	0.1	0.1	0.1	0.0
Net Debt/Equity ex MI (X)	0.1	0.1	0.1	0.1	0.0
Capex to Debt (%)	24.2	17.7	12.1	12.8	12.3
Z-Score (X)	3.3	3.3	3.4	3.4	3.4

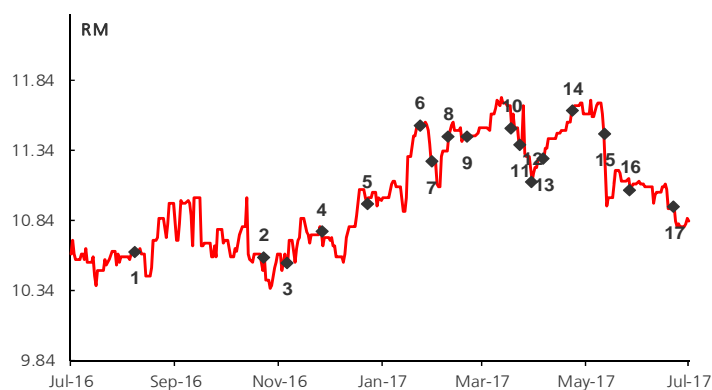
Source: Company, DBS Bank

Cash Flow Statement (RMm)

FY Dec	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	247	501	526	557	584
Dep. & Amort.	89.3	80.9	83.3	87.3	92.1
Tax Paid	(70.8)	(131)	(126)	(134)	(140)
Assoc. & JV Inc/(loss)	(22.0)	(25.0)	(27.6)	(30.4)	(33.7)
Chg in Wkg.Cap.	(24.3)	(196)	62.4	5.51	3.20
Other Operating CF	(72.0)	122	(7.1)	(0.3)	(0.4)
Net Operating CF	148	352	511	486	505
Capital Exp.(net)	(554)	(416)	(284)	(301)	(288)
Other Invt.(net)	(400)	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	170	(90.0)	0.0	0.0	0.0
Net Investing CF	(784)	(506)	(284)	(301)	(288)
Div Paid	(73.5)	(39.6)	(181)	(88.4)	(92.1)
Chg in Gross Debt	1,233	83.2	0.0	0.0	0.0
Capital Issues	198	125	6.00	6.00	40.0
Other Financing CF	(373)	(179)	0.0	0.0	0.0
Net Financing CF	984	(10.6)	(175)	(82.4)	(52.1)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	348	(165)	51.0	103	164
Opg CFPS (sen)	22.0	69.0	55.6	58.7	55.9
Free CFPS (sen)	(51.9)	(8.1)	28.1	22.6	24.1

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	26 Aug 16	10.62	9.35	FULLY VALUED
2:	10 Nov 16	10.58	11.60	HOLD
3:	24 Nov 16	10.54	12.40	BUY
4:	14 Dec 16	10.76	12.40	BUY
5:	10 Jan 17	10.96	12.40	BUY
6:	10 Feb 17	11.52	12.40	BUY
7:	17 Feb 17	11.26	12.35	HOLD
8:	27 Feb 17	11.44	12.20	HOLD
9:	10 Mar 17	11.44	12.20	HOLD
10:	05 Apr 17	11.50	12.20	HOLD
11:	10 Apr 17	11.38	12.20	HOLD
12:	17 Apr 17	11.12	12.20	HOLD
13:	24 Apr 17	11.28	12.20	HOLD
14:	11 May 17	11.62	12.20	HOLD
15:	30 May 17	11.46	12.20	HOLD
16:	14 Jun 17	11.06	12.20	HOLD
17:	10 Jul 17	10.94	12.20	HOLD

Source: DBS Bank

Analyst: Regional Research Team

Malaysia Company Guide

TSH Resources

Version 10 | Bloomberg: TSH MK | Reuters: TSHR.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Jul 2017

BUY

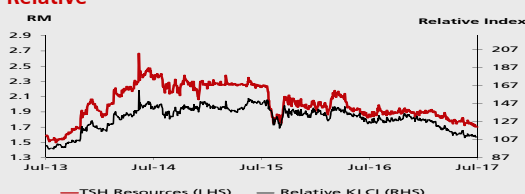
Last Traded Price (19 Jul 2017): RM1.70 (KLCI : 1,757.27)

Price Target 12-mth: RM2.05 (21% upside) (Prev RM2.25)

Analyst

Regional Research Team

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2016A	2017F	2018F	2019F
Revenue	872	978	1,060	1,119
EBITDA	199	246	292	313
Pre-tax Profit	114	172	210	231
Net Profit	57.9	121	148	163
Net Pft (Pre Ex.)	76.0	121	148	163
Net Pft Gth (Pre-ex) (%)	(14.3)	59.1	22.5	10.1
EPS (sen)	4.30	8.75	10.7	11.8
EPS Pre Ex. (sen)	5.65	8.75	10.7	11.8
EPS Gth Pre Ex (%)	(14)	55	23	10
Diluted EPS (sen)	4.30	8.75	10.7	11.8
Net DPS (sen)	2.00	2.19	2.68	2.95
BV Per Share (sen)	112	117	126	135
PE (X)	39.5	19.4	15.9	14.4
PE Pre Ex. (X)	30.1	19.4	15.9	14.4
P/Cash Flow (X)	17.4	14.4	11.9	10.8
EV/EBITDA (X)	19.3	15.7	13.2	12.4
Net Div Yield (%)	1.2	1.3	1.6	1.7
P/Book Value (X)	1.5	1.5	1.4	1.3
Net Debt/Equity (X)	0.8	0.8	0.7	0.6
ROAE (%)	4.0	7.7	8.8	9.1
Earnings Rev (%):		(12)	(17)	(16)
Consensus EPS (sen):		9.00	10.4	10.8
Other Broker Recs:		B: 4	S: 0	H: 8

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

Counting on volume

Turnaround is playing out. TSH's core earnings are set to reverse its two-year slide in FY17F, thanks to solid volume recovery and improved CPO pricing. Thereafter, internal production will continue on a positive trajectory as new maturities drive up average yields. We impute new CY17/18/19F CPO price forecasts of RM2,760/2,620/2,600 (from RM3,040/3,030/2,970); which lowered our FY17-19F earnings by 12-17%. Our TP is rolled forward to RM2.05, maintain BUY.

Where we differ. Higher volume growth assumptions. Our FY18-19F earnings are higher than consensus, premised on stronger internal FFB growth assumptions of 13% CAGR over FY16-19F. This will come from rising mature planted area (to rise at 9% CAGR) in addition to recovering yields after bottoming out in FY16.

Potential catalyst. Improved earnings delivery. TSH's profits over the past few years have been dragged by low CPO prices, adverse currency effects and the writing-off of non-core businesses. The resumption of normalised profits and growth will help re-rate the stock.

Valuation:

Our DCF-based TP is RM2.05, taking into account our CY17/18/19F CPO price forecasts of RM2,760/2,620/2,600 per MT. Maintain BUY.

Key Risks to Our View:

A strong change in CPO prices (either data or regulatory-driven) could raise or lower share prices above our fair value. A severe El Nino could also affect TSH's productivity, cash generation, and ultimately its share price performance.

At A Glance

Issued Capital (m shrs)	1,356
Mkt. Cap (RMm/US\$m)	2,305 / 538
Major Shareholders (%)	
Aik Pen Tan	12.4
Tunas Lestari Sdn Bhd	6.3
Embun Yakin Sdn Bhd	5.6
Free Float (%)	75.8
3m Avg. Daily Val (US\$m)	0.11
ICB Industry : Consumer Goods / Food Producers	

CRITICAL DATA POINTS TO WATCH

Critical Factors

CPO prices. As a commodity producer, TSH is a price-taker. Movements in international CPO prices would directly impact the group's profitability. We are expecting spot CPO prices (FOB Pasir Gudang) to average US\$645/MT (RM2,760/MT) in CY17 – representing an increase of 4% y-o-y in ringgit terms from 2016, primarily from the effects of a weaker ringgit against the US dollar, plus lower stockpiles following the weaker supply in 2016.

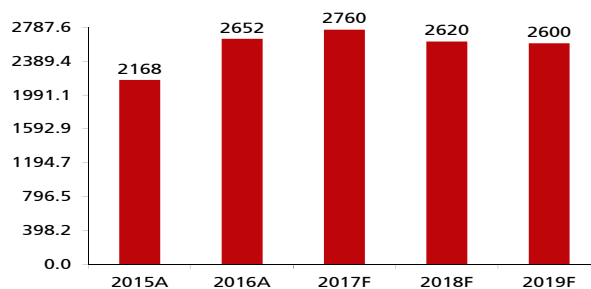
Size of mature plantations. Due to its aggressive planting over the past few years, TSH is expected to see a steady climb in mature hectareage, which currently makes up 63% of 42.1k ha of total planted area. We expect the mature planted area to grow by 31% over the next three years to c.34.7k ha in 2019, and total planted area to grow by 12% to 47.2k ha. All these will support its internal FFB output, which we expect to register a CAGR of 12.9%.

Production volume. TSH has six palm oil mills: three in Sabah, one in Sumatra, and two in Kalimantan. The Sabah mills currently process the bulk of FFB from external sources, and so its overall CPO production trend also depends on FFB production at nearby plantations. TSH's oil extraction rate has been decent, averaging 20.7% in Sabah and 21.3% in Indonesia. Currently, >50% of its overall CPO production comes from Sabah, but that ratio will drop as FFB production at its Indonesian plantations picks up.

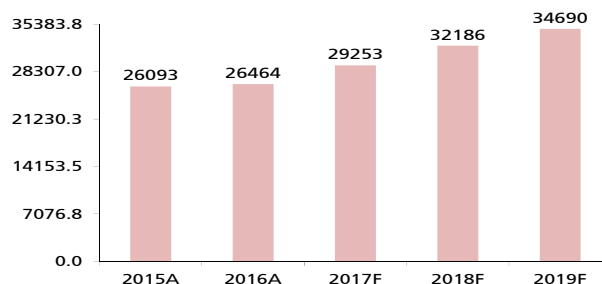
Regulations. Tariff and non-tariff regulations are common in the agricultural commodity sector, and palm oil is no exception. Any changes in export/import tariffs, as well as various taxes and levies, would affect trade flows and prices. The USD50/MT export levy implemented by Indonesia since August 2015 impacts the CPO sales from Indonesia-based operations.

Seasonal demand. As a major vegetable oil with 36% global market share, palm oil is an important food staple. The next largest is soybean oil, with 27% market share. These two vegetable oils are direct substitutes (suggesting high price elasticity of demand), although certain vegetable oils are more suitable than others for certain applications. Demand for palm oil is dominant in Asia, where local festivities result in seasonal demand during different months of the year. The Ramadan month, Chinese New Year, and Divali are typically high-demand periods in Asia.

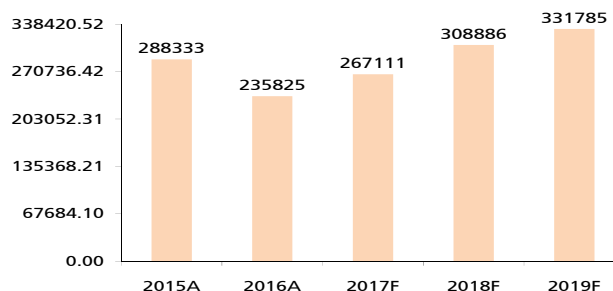
CPO price



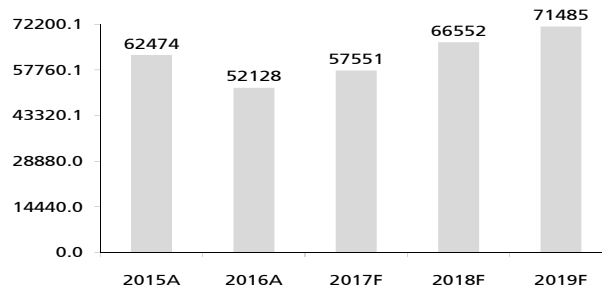
Mature palm oil hectareage



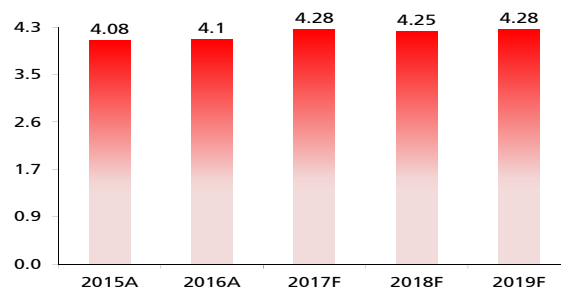
CPO sales volume



PK sales volume



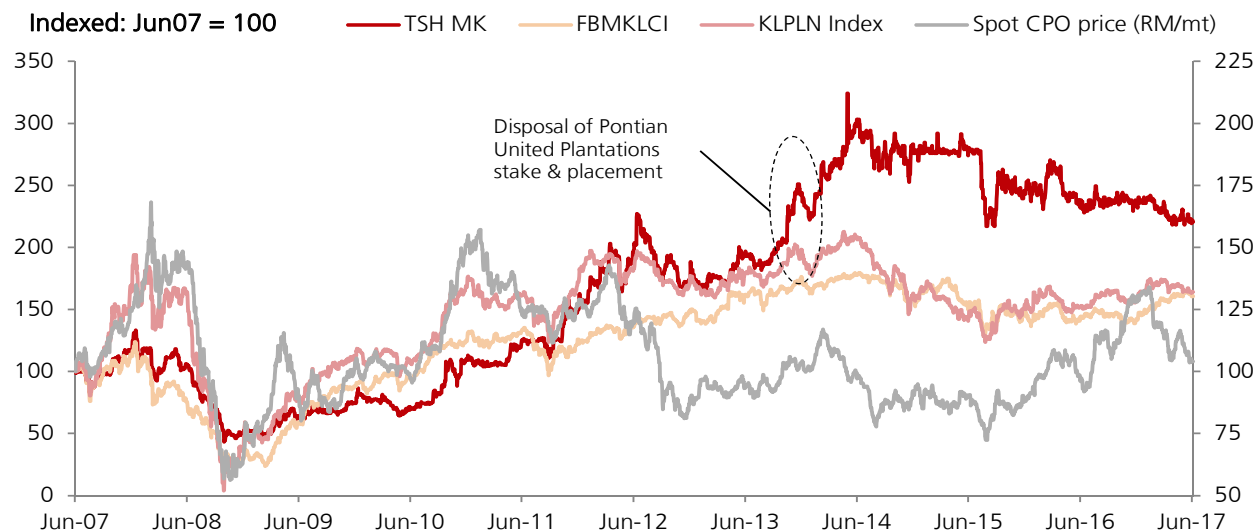
Average MYR/USD



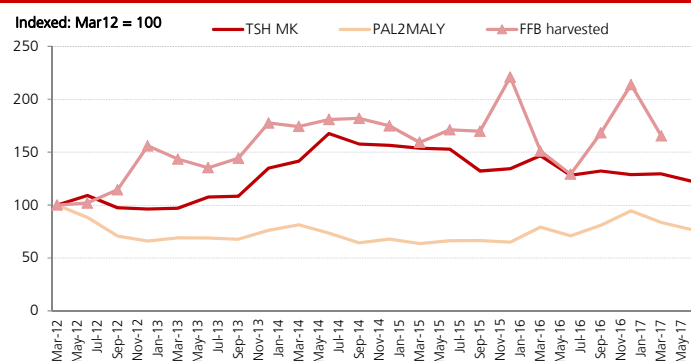
Source: Company, DBS Bank

Appendix 1: TSH price correlation with critical factors

Graph 1: Share price vs key benchmarks



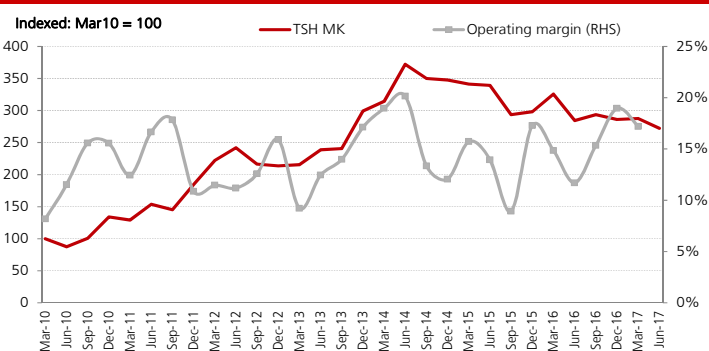
TSH share price vs production and CPO prices



Remarks

TSH's share price has been more heavily influenced by its production volume rather than CPO prices over recent years due to a strong growth phase, especially during 2013-14.

TSH share price vs operating margins



Remarks

TSH's share price is influenced by its profitability which can be tracked operating margins. Margins can be improved by stronger CPO selling prices, or stronger growth from internal FFB output.

Balance Sheet:

Gearing elevated from previous aggressive planting. TSH's net gearing is 0.9x at end-FY16 primarily due to aggressive planting in previous years, particularly at its Indonesian estates. Of its overall debt, 29% is denominated in US dollar terms as at end-FY16. Management aims to reduce gearing to near the 0.8x level. We think its leverage will ease naturally from improving earnings, though this may be accelerated by other means such as divestments.

Share Price Drivers:

Look for signs of output and earnings recovery. We expect TSH to see steady production growth over the coming years from the young age profile of its estates and rising maturities, which should translate into earnings growth given favourable CPO prices. The stock may be re-rated once macro issues (such as weather impact) dissipate and it delivers earnings growth.

Key Risks:

Volatility in CPO prices and USD exchange rate. Continued depressed CPO prices would hurt earnings, especially for upstream planters. Additionally, low crude oil prices may affect CPO demand for biofuel. Finally, CPO prices in ringgit would also be directly affected by the currency's strength relative to the US dollar.

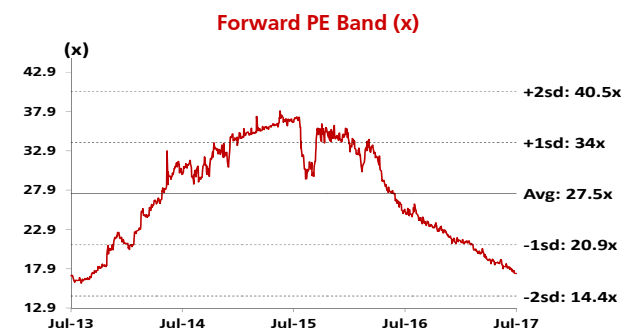
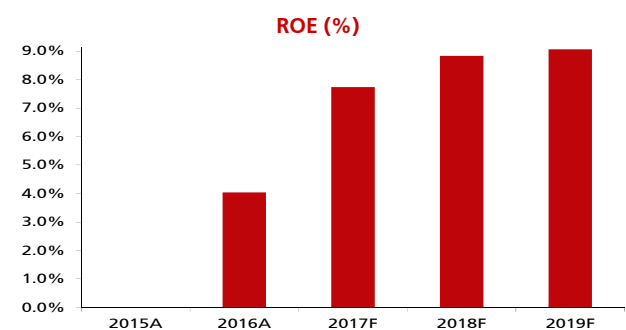
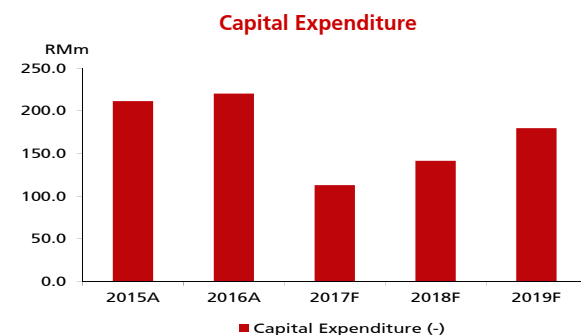
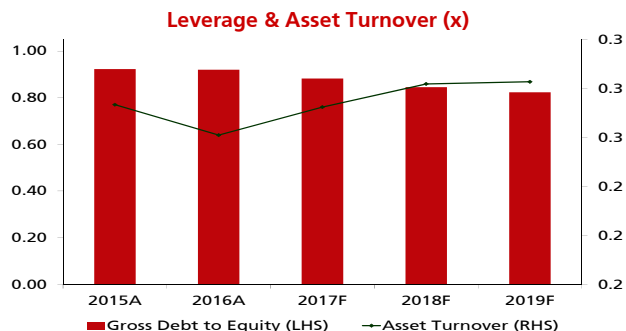
Setback in expansion plans. Our forecasts are based on assumed hectareage for new planting and replanting. A setback to these plans could hurt our valuation through slower volume growth.

Market sentiment. Changes in fund flows towards or out of emerging markets would affect the valuation of plantation counters.

Extreme changes in the weather. Sudden and significant changes in rainfall and humidity, such as in the case of a strong El Nino event (prolonged dryness), can affect FFB yields.

Company Background

TSH Resources (TSH) is an upstream planter, owning over 100k ha of plantation land in Sabah and Kalimantan and six palm oil mills, of which around 43k ha is planted. It also has a 50:50 JV refinery with Wilmar International. Non-core businesses include wood flooring, cocoa processing, and palm waste integration.



Source: Company, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017F	2018F	2019F
CPO price	2,168	2,652	2,760	2,620	2,600
Mature palm oil hectarage	26,093	26,464	29,253	32,186	34,690
CPO sales volume	288,333	235,825	267,111	308,886	331,785
PK sales volume	62,474	52,128	57,551	66,552	71,485
Average MYR/USD	4.08	4.10	4.28	4.25	4.28

Segmental Breakdown

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenues (RMm)					
Oil Palm Plantation	723	778	883	963	1,021
Wood Products	42.9	52.2	52.7	53.2	53.7
Cocoa	33.8	41.8	42.7	43.5	44.3
Total	800	872	978	1,060	1,119
EBIT (RMm)					
Oil Palm Plantation	125	150	194	233	256
Wood Products	(2.1)	(0.7)	(2.9)	(2.9)	(3.0)
Cocoa	1.69	3.34	3.41	3.48	3.54
Total	125	153	195	234	256
EBIT Margins (%)					
Oil Palm Plantation	17.3	19.3	22.0	24.2	25.0
Wood Products	(4.9)	(1.3)	(5.5)	(5.5)	(5.5)
Cocoa	5.0	8.0	8.0	8.0	8.0
Total	15.6	17.6	19.9	22.1	22.9

Income Statement (RMm)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenue	800	872	978	1,060	1,119
Cost of Goods Sold	(531)	(560)	(602)	(639)	(673)
Gross Profit	269	312	375	421	445
Other Opng (Exp)/Inc	(155)	(177)	(195)	(197)	(200)
Operating Profit	113	135	181	224	245
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	11.4	18.1	14.1	9.82	10.9
Net Interest (Exp)/Inc	(16.3)	(21.4)	(23.3)	(24.0)	(24.8)
Exceptional Gain/(Loss)	(194)	(18.2)	0.0	0.0	0.0
Pre-tax Profit	(85.8)	114	172	210	231
Tax	(19.5)	(46.5)	(41.2)	(50.4)	(55.5)
Minority Interest	(0.3)	(9.2)	(9.4)	(11.5)	(12.6)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	(106)	57.9	121	148	163
Net Profit before Except.	88.7	76.0	121	148	163
EBITDA	174	199	246	292	313
Growth					
Revenue Gth (%)	(25.4)	9.1	12.1	8.4	5.6
EBITDA Gth (%)	(25.1)	14.8	23.5	18.6	7.1
Opg Profit Gth (%)	(37.0)	19.0	33.9	24.1	9.4
Net Profit Gth (Pre-ex) (%)	(28.1)	(14.3)	59.1	22.5	10.1
Margins & Ratio					
Gross Margins (%)	33.6	35.8	38.4	39.7	39.8
Opg Profit Margin (%)	14.2	15.5	18.5	21.2	21.9
Net Profit Margin (%)	(13.2)	6.6	12.4	14.0	14.6
ROAE (%)	(8.1)	4.0	7.7	8.8	9.1
ROA (%)	(3.6)	1.7	3.4	3.9	4.1
ROCE (%)	4.1	2.5	4.0	4.7	4.9
Div Payout Ratio (%)	N/A	46.5	25.0	25.0	25.0
Net Interest Cover (x)	6.9	6.3	7.8	9.4	9.9

Source: Company, DBS Bank

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2016	2Q2016	3Q2016	4Q2016	1Q2017
Revenue	202	212	213	245	289
Cost of Goods Sold	(128)	(144)	(138)	(138)	(197)
Gross Profit	74.5	68.7	75.8	107	91.7
Other Oper. (Exp)/Inc	(44.5)	(43.9)	(43.1)	(60.6)	(42.1)
Operating Profit	30.0	24.9	32.7	46.4	49.6
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	1.21	6.22	7.19	4.04	2.38
Net Interest (Exp)/Inc	(4.9)	(5.8)	(7.4)	(3.3)	(9.7)
Exceptional Gain/(Loss)	38.0	(8.5)	(10.1)	(37.6)	6.63
Pre-tax Profit	64.4	16.7	22.4	9.54	48.9
Tax	(7.3)	(1.4)	(8.5)	(29.2)	(10.1)
Minority Interest	(2.4)	(1.5)	(2.8)	(3.5)	(4.9)
Net Profit	54.7	13.8	11.1	(23.1)	34.0
Net profit bef Except.	16.7	22.4	21.2	14.4	27.3
EBITDA	31.2	31.1	39.9	50.4	52.0

Growth

Revenue Gth (%)	(1.5)	5.0	0.4	14.6	18.0
EBITDA Gth (%)	(25.0)	(0.6)	28.4	26.4	3.1
Opg Profit Gth (%)	(15.3)	(17.3)	31.6	41.9	6.9
Net Profit Gth (Pre-ex) (%)	(36.6)	34.1	(5.3)	(31.9)	89.3

Margins

Gross Margins (%)	36.8	32.3	35.5	43.7	31.8
Opg Profit Margins (%)	14.9	11.7	15.3	19.0	17.2
Net Profit Margins (%)	27.1	6.5	5.2	(9.5)	11.8

Balance Sheet (RMm)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	2,211	2,451	2,505	2,587	2,706
Invts in Associates & JVs	144	157	171	181	191
Other LT Assets	391	357	350	343	335
Cash & ST Invts	57.5	131	218	287	358
Inventory	217	238	232	246	259
Debtors	122	133	150	163	172
Other Current Assets	35.4	44.2	44.2	44.2	44.2
Total Assets	3,177	3,511	3,670	3,849	4,067
ST Debt	910	663	663	663	663
Creditor	125	123	116	123	130
Other Current Liab	2.48	22.1	22.1	22.1	22.1
LT Debt	475	867	912	954	1,026
Other LT Liabilities	162	172	172	172	172
Shareholder's Equity	1,357	1,507	1,619	1,737	1,863
Minority Interests	145	156	166	177	190
Total Cap. & Liab.	3,177	3,511	3,670	3,849	4,067
Non-Cash Wkg. Capital	246	270	288	308	324
Net Cash/(Debt)	(1,328)	(1,399)	(1,357)	(1,331)	(1,331)
Debtors Turn (avg days)	61.0	53.2	52.9	54.0	54.7
Creditors Turn (avg days)	95.6	91.3	81.1	76.3	76.0
Inventory Turn (avg days)	158.2	167.2	159.5	152.6	152.0
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.3
Current Ratio (x)	0.4	0.7	0.8	0.9	1.0
Quick Ratio (x)	0.2	0.3	0.5	0.6	0.7
Net Debt/Equity (X)	0.9	0.8	0.8	0.7	0.6
Net Debt/Equity ex MI (X)	1.0	0.9	0.8	0.8	0.7
Capex to Debt (%)	15.3	14.4	7.2	8.7	10.6
Z-Score (X)	1.3	1.3	1.4	1.5	1.6

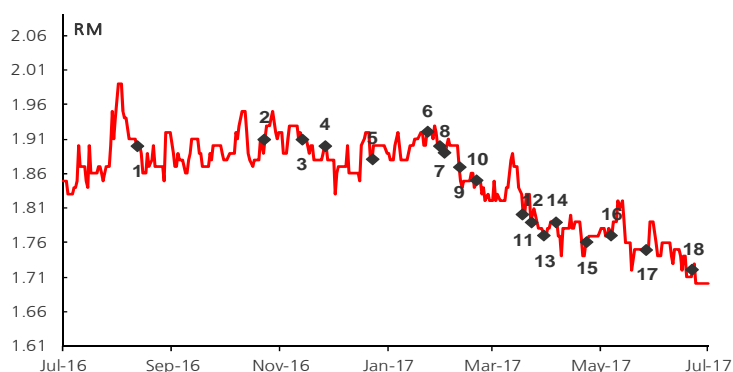
Source: Company, DBS Bank

Cash Flow Statement (RMm)

FY Dec	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	(85.8)	114	172	210	231
Dep. & Amort.	60.3	64.3	65.4	67.7	67.4
Tax Paid	(19.5)	(46.5)	(41.2)	(50.4)	(55.5)
Assoc. & JV Inc/(loss)	(11.4)	(18.1)	(14.1)	(9.8)	(10.9)
Chg in Wkg.Cap.	2.68	(34.7)	(18.5)	(19.6)	(15.8)
Other Operating CF	30.9	53.0	0.0	0.0	0.0
Net Operating CF	(22.8)	132	163	198	217
Capital Exp.(net)	(211)	(220)	(113)	(141)	(180)
Other Invt.(net)	0.27	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(31.2)	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	32.2	46.6	0.0	0.0	0.0
Net Investing CF	(210)	(174)	(113)	(141)	(180)
Div Paid	(33.6)	(26.9)	(26.9)	(30.2)	(37.1)
Chg in Gross Debt	269	88.1	45.1	42.5	71.9
Capital Issues	0.0	116	18.2	0.0	0.0
Other Financing CF	(1.8)	(70.9)	0.0	0.0	0.0
Net Financing CF	233	106	36.4	12.2	34.8
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	0.10	64.2	86.7	68.7	71.7
Opg CFPS (sen)	(1.9)	12.4	13.1	15.7	16.8
Free CFPS (sen)	(17.4)	(6.6)	3.64	4.09	2.67

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	30 Aug 16	1.90	2.00	HOLD
2:	10 Nov 16	1.91	2.20	BUY
3:	01 Dec 16	1.91	2.20	BUY
4:	14 Dec 16	1.90	2.20	BUY
5:	10 Jan 17	1.88	2.20	BUY
6:	10 Feb 17	1.92	2.20	BUY
7:	17 Feb 17	1.90	2.25	BUY
8:	20 Feb 17	1.89	2.25	BUY
9:	28 Feb 17	1.87	2.25	BUY
10:	10 Mar 17	1.85	2.25	BUY
11:	05 Apr 17	1.80	2.25	BUY
12:	10 Apr 17	1.79	2.25	BUY
13:	17 Apr 17	1.77	2.25	BUY
14:	24 Apr 17	1.79	2.25	BUY
15:	11 May 17	1.76	2.25	BUY
16:	25 May 17	1.77	2.25	BUY
17:	14 Jun 17	1.75	2.25	BUY
18:	10 Jul 17	1.72	2.25	BUY

Source: DBS Bank

Analyst: Regional Research Team

Malaysia Company Guide

Felda Global Ventures

Version 12 | Bloomberg: FGV MK | Reuters: FGVH.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Jul 2017

HOLD

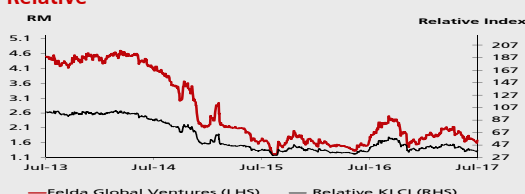
Last Traded Price (19 Jul 2017): RM1.68 (KLCI : 1,757.27)

Price Target 12-mth: RM1.60 (-5% downside) (Prev RM1.65)

Analyst

Regional Research Team

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2016A	2017F	2018F	2019F
Revenue	17,241	17,952	18,100	19,074
EBITDA	985	1,246	1,451	1,616
Pre-tax Profit	260	363	514	628
Net Profit	31.5	192	273	359
Net Pft (Pre Ex.)	(156)	192	273	359
Net Pft Gth (Pre-ex) (%)	(38.0)	nm	42.0	31.7
EPS (sen)	0.86	5.26	7.47	9.84
EPS Pre Ex. (sen)	(4.3)	5.26	7.47	9.84
EPS Gth Pre Ex (%)	38	(223)	42	32
Diluted EPS (sen)	0.86	5.26	7.47	9.84
Net DPS (sen)	2.00	5.00	5.46	5.90
BV Per Share (sen)	159	159	162	166
PE (X)	194.8	31.9	22.5	17.1
PE Pre Ex. (X)	nm	31.9	22.5	17.1
P/Cash Flow (X)	5.5	6.5	5.7	5.9
EV/EBITDA (X)	12.2	10.0	8.8	8.1
Net Div Yield (%)	1.2	3.0	3.3	3.5
P/Book Value (X)	1.1	1.1	1.0	1.0
Net Debt/Equity (X)	0.6	0.7	0.7	0.7
ROAE (%)	0.5	3.3	4.7	6.0
Earnings Rev (%):		(13)	(8)	(10)
Consensus EPS (sen):		3.50	4.90	6.30
Other Broker Recs:		B: 0	S: 6	H: 8

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

No respite from uncertainty

Risks remain at forefront. As CPO prices ease from their peak, FGV's return to sustainability still hinges on stronger Sugar segment earnings and further cost-cutting initiatives. Thus execution risks remain high, which are compounded by the group's management issues, wherein its CEO and CFO have been under suspension since Jun 2017 pending internal enquiry. We impute new CY17/18/19F CPO price forecasts of RM2,760/2,620/2,600 (from RM3,040/3,030/2,970); which lowered our FY17-19F earnings by 8-13%. Our TP is rolled forward to RM1.60 on FY18F base, maintain HOLD.

Where we differ. Plantations segment has room to improve.

Consensus views are quite diverged on FGV. Our forecasts are higher than the street average as we impute regularisation of margins, vs some forecasts of loss-making or minimal profits.

Potential catalyst. Bottomline improvement. FGV's key barrier to re-rating is the persistence of weak profitability and/or losses. Improvements on this front in the near term via stronger Sugar segment earnings or effect cost measures will help its share price.

Valuation:

Our DCF-based TP is RM1.60, which takes into account our revised CY17/18/19F CPO price forecasts of RM2,760/2,620/2,600 per MT. Maintain HOLD.

Key Risks to Our View:

A consistent showing of profitability above our forecasted levels may provide the fundamentals to support its share price.

At A Glance

Issued Capital (m shrs)	3,648
Mkt. Cap (RMm/US\$m)	6,129 / 1,430
Major Shareholders (%)	
Lembaga Kemajuan Tanah Persekutuan	20.0
Federal Land Development Authority	12.4
Lembaga Tabung Haji	7.9
Free Float (%)	42.1
3m Avg. Daily Val (US\$m)	6.7
ICB Industry : Consumer Goods / Food Producers	

CRITICAL DATA POINTS TO WATCH

Critical Factors

Vast, but relatively old hectareage. FGV has c.338k ha of oil palm planted land in Peninsular Malaysia, the bulk of which (c.300k ha) is held under the Land Lease Agreement (LLA) it has with the Federal Land Development Authority (FELDA). It also has c.13k ha of plantations in Sabah from its acquisition of Pontian United Plantations in 2013, 13.5k ha in Sarawak from Asian Plantations Ltd in 2014, and 8.5k ha from Golden Land in 2015. Its overall age profile is old/mature as >40% of trees are 20 years or older. To remedy the age issue, FGV had earlier committed to a replanting scheme of 15k ha per year. We otherwise do not expect much new planting to commence as replanting is a higher priority.

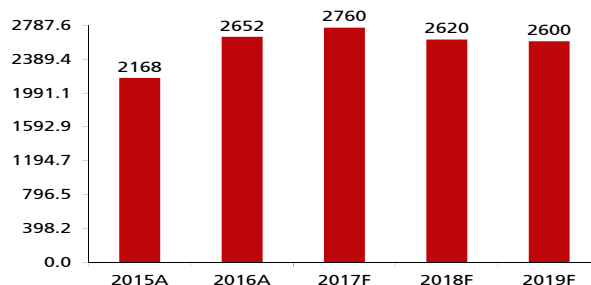
Expect a dip in production. We expect FGV to process c.13.7m MT of FFB in FY17 from its own plantations, FELDA settlers and third parties. FY17F CPO production expectation of c.2.9m MT (+8% y-o-y) relies on the sustainability of FFB yields from these sources. We view this as an indicator to focus on, as production in 2016 had been severely impacted by the lack of rainfall in 2015.

CPO prices. Over 50% FGV's top-line comes from the sale of CPO and RBD (refined, bleached & deodorised) products. Growth in the ASP of CPO and the RBD products will be reflected in its revenue.

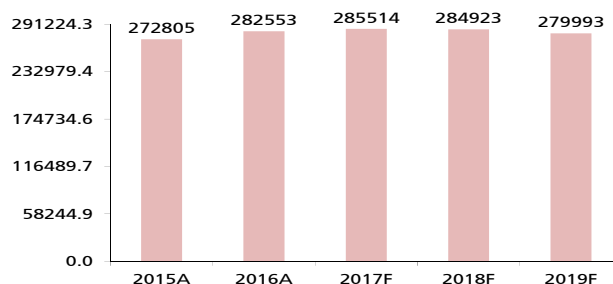
Sugar arm contributions. FGV has a 51% stake in listed sugar manufacturer MSM Malaysia. It is the most profitable division as pretax contribution has been larger than group PBT, despite making up c.15% of revenues. However, PBT had come down 59% in 2016 due to higher raw sugar costs, which resulted in the group falling into the red. A hike in the retail sugar price had come starting March 2017, implying better earnings from 2Q17 onwards; though the group is negotiating with the government for further increases.

Rubber plantation exposure. FGV derives c.5% of revenue from the sale of rubber products, comprising latex concentrate, Standard Malaysian Rubber (SMR), Standard Indonesian Rubber (SIR) and Cambodian Standard Rubber (CSR). Over 110k MT of rubber products are processed per year at its seven assets across the region, though management estimates its total capacity at around 258k MT. FGV also owns 12.4k ha of planted rubber land in Malaysia, with 3.5k ha unplanted.

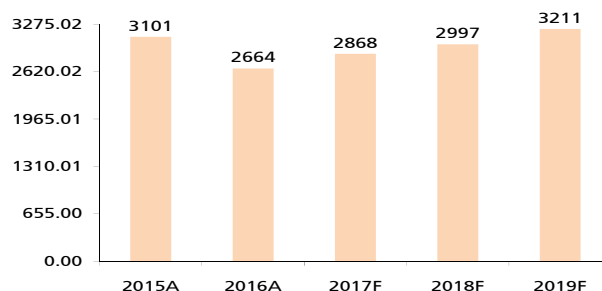
CPO price (RM/MT)



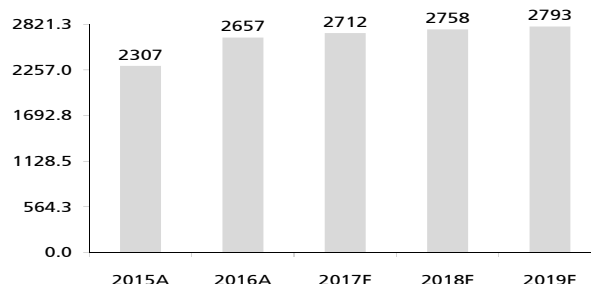
Mature palm oil hectareage



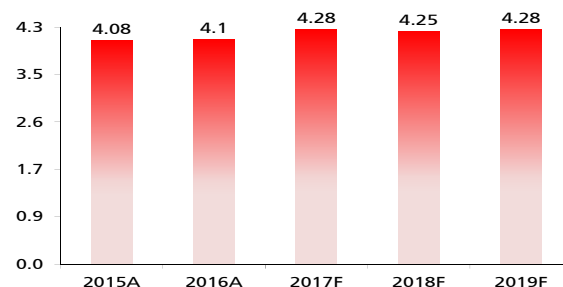
CPO produced (k MT)



Sugar revenue (RM m)



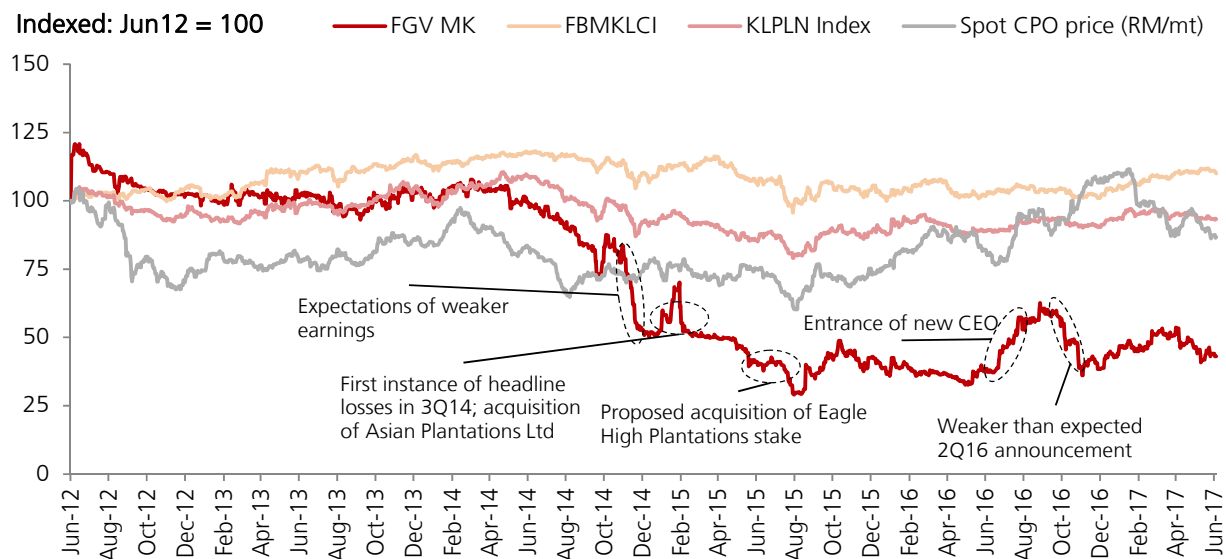
Average USD/MYR



Source: Company, DBS Bank

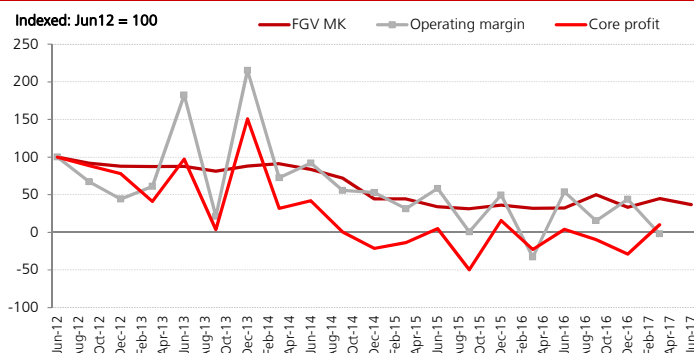
Appendix 1: FGV price correlation with critical factors

Graph 1: Share price vs key benchmarks



Source: Company, Bloomberg Finance L.P., DBS Bank

FGV share price vs operating margins and core profit

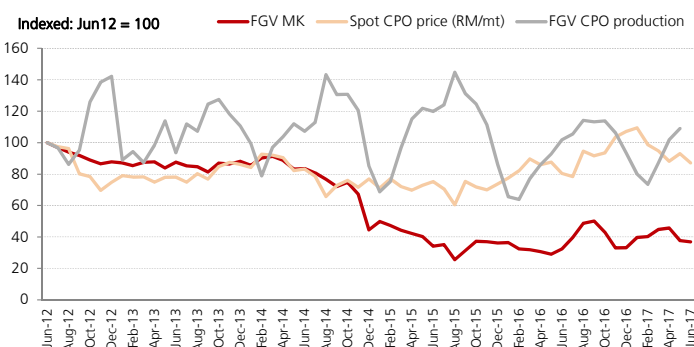


Source: Company, Bloomberg L.P., DBS Bank

Remarks

FGV's share price tracks the performance of its operating margins and core earnings. Negative movement had followed its fall to core losses since 4Q14.

FGV share price vs CPO prices



Source: Company, MPOB, Bloomberg L.P., DBS Bank

Remarks

Over a prolonged period of time, FGV's share price is not heavily influenced by CPO prices. The relationship only held from its listing to end-2014 (correlation coefficient >0.7), following which FGV's valuation became more impacted by its profitability (or lack thereof).

Balance Sheet:

Borrowings manageable for now but cash flows are pressured.

FGV has is maintaining a net debt-to-equity of about 0.6x due to a cash pile of c.RM2.5bn at end-Dec 2016. However, due to a thin free cash flow base, we forecast negative net cash flow which will cut into its liquidity. Thus, any deterioration in performance may require more debt to be taken on.

Share Price Drivers:

Sustainably improving profitability. FGV's fundamental performance is limited by its low margins relative to its peers despite its sizeable turnover. Management intends to look at various initiatives to manage its cost base, including staff-related measures. If these efforts are successful, FGV may re-rate.

Key Risks:

Volatility in commodity prices and exchange rates. Continued depressed CPO prices would hurt earnings, especially for primarily upstream planters. Additionally, low crude oil prices may affect CPO demand for biofuel. Finally, CPO prices in ringgit terms are also directly affected by the currency's strength relative to the US dollar.

Regulatory changes. Any further increase in Indian import duty of refined oils or changes in the structure of Indonesian/Malaysian export taxes would impact the demand for CPO/refined oils.

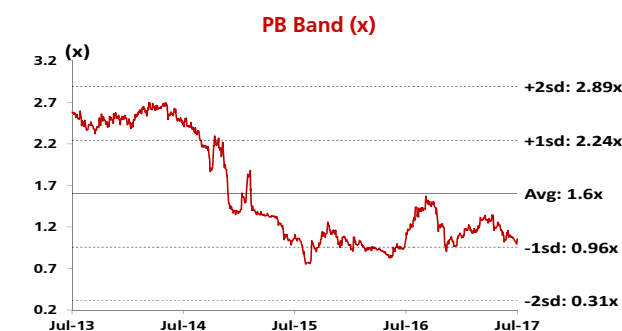
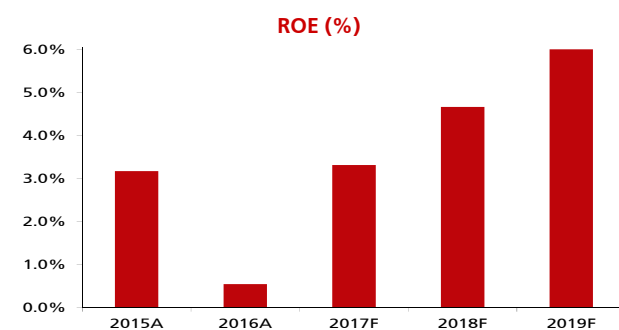
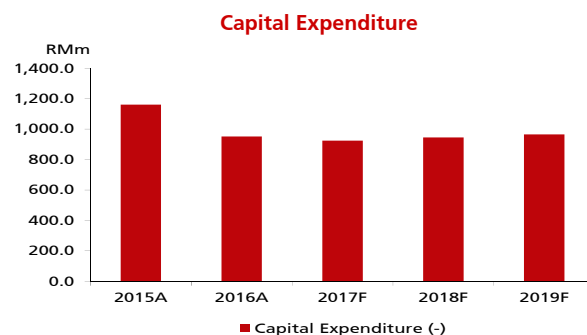
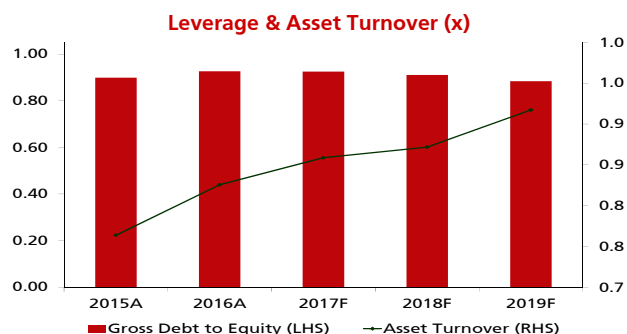
Extreme changes in the weather. Sudden and significant changes in rainfall and humidity can affect FFB yields in the later quarters.

Market sentiment. Changes in fund flows towards or out of emerging markets would affect the valuation of plantation counters.

Weather. Changes in rainfall patterns (caused by either El Nino or La Nina) will affect FFB yields with some time lag.

Company Background

FGV is an integrated agri-business player with significant palm oil hectareage in Peninsular Malaysia, involved in upstream and downstream palm oil operations, including harvesting, milling, processing, refining and distribution. It also has rubber plantations, and a 49% stake in major sugar manufacturer MSM Malaysia.



Source: Company, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017F	2018F	2019F
CPO price (RM/MT)	2,168	2,652	2,760	2,620	2,600
Mature palm oil hectarage	272,805	282,553	285,514	284,923	279,993
CPO produced (k MT)	3,101	2,664	2,868	2,997	3,211
Sugar revenue (RM m)	2,307	2,657	2,712	2,758	2,793
Average USD/MYR	4.08	4.10	4.28	4.25	4.28

Segmental Breakdown

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenues (RMm)					
Plantations	5,983	7,771	6,589	6,625	7,070
Sugar	2,307	2,664	2,712	2,758	2,793
Downstream	5,499	6,625	7,122	7,142	7,588
Others	1,770	181	1,530	1,575	1,623
Total	15,559	17,241	17,952	18,100	19,074

Income Statement (RMm)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenue	15,559	17,241	17,952	18,100	19,074
Cost of Goods Sold	(13,613)	(15,671)	(16,105)	(16,076)	(16,897)
Gross Profit	1,946	1,570	1,847	2,024	2,176
Other Opng (Exp)/Inc	(1,645)	(1,382)	(1,382)	(1,402)	(1,438)
Operating Profit	301	188	465	622	738
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	59.1	10.3	55.4	57.1	58.8
Net Interest (Exp)/Inc	(128)	(125)	(158)	(165)	(169)
Exceptional Gain/(Loss)	295	187	0.0	0.0	0.0
Pre-tax Profit	527	260	363	514	628
Tax	(160)	(194)	(99.2)	(137)	(167)
Minority Interest	(185)	(35.0)	(71.5)	(104)	(102)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	182	31.5	192	273	359
Net Profit before Except.	(113)	(156)	192	273	359
EBITDA	1,211	985	1,246	1,451	1,616
Growth					
Revenue Gth (%)	2.0	10.8	4.1	0.8	5.4
EBITDA Gth (%)	(0.3)	(18.6)	26.5	16.4	11.3
Opg Profit Gth (%)	(53.7)	(37.5)	147.3	33.8	18.6
Net Profit Gth (Pre-ex) (%)	nm	(38.0)	nm	42.0	31.7
Margins & Ratio					
Gross Margins (%)	12.5	9.1	10.3	11.2	11.4
Opg Profit Margin (%)	1.9	1.1	2.6	3.4	3.9
Net Profit Margin (%)	1.2	0.2	1.1	1.5	1.9
ROAE (%)	3.2	0.5	3.3	4.7	6.0
ROA (%)	0.9	0.2	0.9	1.3	1.7
ROCE (%)	1.2	0.3	1.8	2.5	2.9
Div Payout Ratio (%)	80.0	231.9	95.1	73.1	59.9
Net Interest Cover (x)	2.4	1.5	2.9	3.8	4.4

Source: Company, DBS Bank

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2016	2Q2016	3Q2016	4Q2016	1Q2017
Revenue	3,755	4,140	4,192	5,196	4,323
Cost of Goods Sold	(3,488)	(3,708)	(3,759)	(4,704)	(3,947)
Gross Profit	267	432	433	491	376
Other Oper. (Exp)/Inc	(384)	(182)	(437)	(80.2)	(415)
Operating Profit	(116)	250	(4.1)	411	(39.0)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	75.5	(37.4)	(58.5)	30.8	10.2
Net Interest (Exp)/Inc	(46.3)	(54.6)	(22.5)	(16.1)	(33.3)
Exceptional Gain/(Loss)	5.50	(49.9)	62.2	(206)	30.8
Pre-tax Profit	(81.8)	108	(22.9)	220	(31.3)
Tax	4.14	(42.2)	(16.0)	(114)	0.23
Minority Interest	(3.4)	(2.9)	(55.1)	5.22	33.5
Net Profit	(81.1)	62.2	(94.9)	111	2.47
Net profit bef Except.	(75.6)	13.2	(31.9)	(95.4)	33.3
EBITDA	(41.0)	213	(62.6)	442	(28.7)

Growth

Revenue Gth (%)	(9.5)	10.2	1.3	23.9	(16.8)
EBITDA Gth (%)	nm	nm	nm	nm	nm
Opg Profit Gth (%)	(145.1)	(314.7)	(101.6)	(10,124.3)	(109.5)
Net Profit Gth (Pre-ex) (%)	(243.4)	(117.5)	(341.3)	199.4	(134.9)

Margins

Gross Margins (%)	7.1	10.4	10.3	9.5	8.7
Opg Profit Margins (%)	(3.1)	6.0	(0.1)	7.9	(0.9)
Net Profit Margins (%)	(2.2)	1.5	(2.3)	2.1	0.1

Balance Sheet (RMm)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	9,238	10,074	10,223	10,346	10,441
Invts in Associates & JVs	901	889	914	940	966
Other LT Assets	3,442	2,925	2,925	2,925	2,925
Cash & ST Invts	2,503	1,854	1,509	1,293	1,030
Inventory	2,078	2,189	2,168	2,164	2,275
Debtors	1,894	1,755	1,899	1,914	2,017
Other Current Assets	685	1,341	1,152	1,157	1,195
Total Assets	20,741	21,027	20,789	20,739	20,849
ST Debt	3,143	3,692	3,692	3,692	3,692
Creditor	1,282	1,460	1,394	1,391	1,462
Other Current Liab	770	940	928	931	934
LT Debt	2,092	1,675	1,675	1,675	1,675
Other LT Liabilities	5,115	5,062	4,822	4,577	4,331
Shareholder's Equity	5,827	5,794	5,804	5,894	6,074
Minority Interests	2,512	2,403	2,475	2,579	2,681
Total Cap. & Liab.	20,741	21,027	20,789	20,739	20,849
Non-Cash Wkg. Capital	2,606	2,885	2,897	2,913	3,090
Net Cash/(Debt)	(2,732)	(3,513)	(3,858)	(4,074)	(4,337)
Debtors Turn (avg days)	35.0	38.6	37.1	38.4	37.6
Creditors Turn (avg days)	38.1	33.5	34.0	33.3	32.5
Inventory Turn (avg days)	54.2	52.1	51.9	51.9	50.6
Asset Turnover (x)	0.8	0.8	0.9	0.9	0.9
Current Ratio (x)	1.4	1.2	1.1	1.1	1.1
Quick Ratio (x)	0.8	0.6	0.6	0.5	0.5
Net Debt/Equity (X)	0.5	0.6	0.7	0.7	0.7
Net Debt/Equity ex MI (X)	0.5	0.6	0.7	0.7	0.7
Capex to Debt (%)	22.2	17.7	17.2	17.6	18.0
Z-Score (X)	1.5	1.5	1.5	1.6	1.7

Source: Company, DBS Bank

Cash Flow Statement (RMm)

FY Dec	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	453	263	363	514	628
Dep. & Amort.	620	678	729	774	821
Tax Paid	(136)	(176)	(75.3)	(113)	(142)
Assoc. & JV Inc/(loss)	(59.1)	(10.3)	(55.4)	(57.1)	(58.8)
Chg in Wkg.Cap.	(1,313)	140	2.13	(19.6)	(178)
Other Operating CF	182	223	(23.9)	(23.9)	(25.1)
Net Operating CF	(253)	1,118	939	1,075	1,046
Capital Exp.(net)	(1,161)	(951)	(924)	(945)	(966)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	92.4	13.8	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(430)	206	76.7	79.2	81.7
Net Investing CF	(1,499)	(731)	(848)	(866)	(884)
Div Paid	(219)	(73.0)	(182)	(182)	(180)
Chg in Gross Debt	1,050	341	0.0	0.0	0.0
Capital Issues	(23.6)	(5.7)	0.0	0.0	0.0
Other Financing CF	(625)	(820)	(254)	(242)	(245)
Net Financing CF	183	(558)	(437)	(424)	(424)
Currency Adjustments	16.0	17.7	0.0	0.0	0.0
Chg in Cash	(1,553)	(154)	(345)	(216)	(263)
Opg CFPS (sen)	29.0	26.8	25.7	30.0	33.5
Free CFPS (sen)	(38.8)	4.56	0.40	3.54	2.19

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	30 Aug 16	2.27	1.25	FULLY VALUED
2:	10 Nov 16	1.93	1.55	FULLY VALUED
3:	23 Nov 16	1.55	1.50	FULLY VALUED
4:	14 Dec 16	1.71	1.50	FULLY VALUED
5:	10 Jan 17	1.76	1.50	FULLY VALUED
6:	10 Feb 17	1.95	1.50	FULLY VALUED
7:	17 Feb 17	1.85	1.65	FULLY VALUED
8:	01 Mar 17	1.87	1.65	FULLY VALUED
9:	10 Mar 17	1.83	1.65	FULLY VALUED
10:	05 Apr 17	2.13	1.65	FULLY VALUED
11:	10 Apr 17	2.03	1.65	FULLY VALUED
12:	17 Apr 17	2.02	1.65	FULLY VALUED
13:	24 Apr 17	2.02	1.65	FULLY VALUED
14:	11 May 17	1.90	1.65	FULLY VALUED
15:	01 Jun 17	1.77	1.65	HOLD
16:	14 Jun 17	1.74	1.65	HOLD
17:	10 Jul 17	1.65	1.65	HOLD

Source: DBS Bank

Analyst: Regional Research Team

Malaysia Company Guide

IOI Corporation

Version 8 | Bloomberg: IOI MK | Reuters: IOIB.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Jul 2017

HOLD

Last Traded Price (19 Jul 2017): RM4.49 (KLCI : 1,757.27)

Price Target 12-mth: RM4.70 (5% upside) (Prev RM4.70)

Analyst

Regional Research Team

Price Relative



Forecasts and Valuation

FY Jun (RM m)	2016A	2017F	2018F	2019F
Revenue	11,739	13,778	14,500	14,840
EBITDA	1,787	2,322	2,234	2,368
Pre-tax Profit	966	1,309	1,468	1,523
Net Profit	630	868	1,112	1,130
Net Pft (Pre Ex.)	828	1,104	1,097	1,162
Net Pft Gth (Pre-ex) (%)	(7.7)	33.3	(0.6)	5.9
EPS (sen)	10.0	13.9	17.8	18.1
EPS Pre Ex. (sen)	13.2	17.6	17.5	18.6
EPS Gth Pre Ex (%)	(7)	34	(1)	6
Diluted EPS (sen)	13.0	17.4	17.3	18.3
Net DPS (sen)	7.97	9.65	12.4	12.6
BV Per Share (sen)	113	118	125	130
PE (X)	44.8	32.3	25.3	24.9
PE Pre Ex. (X)	34.1	25.4	25.6	24.2
P/Cash Flow (X)	17.3	35.2	20.8	18.5
EV/EBITDA (X)	19.0	14.6	15.1	14.1
Net Div Yield (%)	1.8	2.1	2.8	2.8
P/Book Value (X)	4.0	3.8	3.6	3.4
Net Debt/Equity (X)	0.7	0.7	0.7	0.6
ROAE (%)	8.9	11.9	14.5	14.0
Earnings Rev (%):		9	7	(3)
Consensus EPS (sen):		18.1	19.3	20.4
Other Broker Recs:		B: 2	S: 11	H: 12

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

On even footing

Stabilising outlook. IOI is on track for an FY17F (YE Jun) earnings rebound with a stronger 2H that is led by volume and CPO price recovery, plus a stronger ringgit. Going into FY18F, we expect tepid prices and mild volume growth – however, reduced currency fluctuations will help lift headline profits. Updating our forecasts for 1) spot CY17/18/19F CPO prices of RM2,760/2,620/2,600 (from RM3,040/3,030/2,970), and 2) stronger USDMYR of 4.28 from 4.62; our FY17/18/19F headline earnings forecasts change by +9%/+7%/-3%; and core earnings by +4%/-2%/+3%. Our DCF-based TP remains at RM4.70, maintain HOLD.

Where we differ. More conservative margin expansion assumptions. Our earnings are slightly below consensus on more conservative margins for its Manufacturing segment.

Potential catalyst. Better demand for downstream products. Stronger pricing and margins for IOI's oleochemicals and specialty oils & fats products will lead to stronger margins for its Manufacturing segment, which will have a substantial impact on group bottomline given that this segment is the primary external revenue contributor.

Valuation:

Our DCF-based TP is RM4.70, which takes into account our revised CY17/18/19F CPO price forecasts of RM2,760/2,620/2,600 per MT. Maintain HOLD.

Key Risks to Our View:

A strong recovery in CPO prices (either data, weather or regulatory-driven) would boost the share price beyond our fair value. As IOI is an FBMKLCI component, any changes in its weightings would also make it vulnerable to price swings, resulting in its share price coming in significantly above or below our target price.

At A Glance

Issued Capital (m shrs)	6,284
Mkt. Cap (RMm/US\$m)	28,215 / 6,582
Major Shareholders (%)	
Vertical Capacity Sdn Bhd	47.1
Employees Provident Fund	6.8
First State Investments	0.0
Free Float (%)	46.1
3m Avg. Daily Val (US\$m)	3.2
ICB Industry : Consumer Goods / Food Producers	

CRITICAL DATA POINTS TO WATCH

Critical Factors

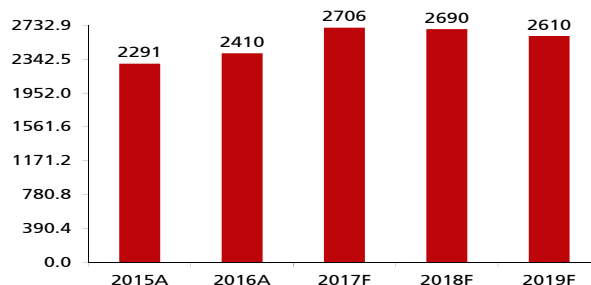
CPO price. IOI is a vertically integrated producer, processor and merchandiser of palm oil products. More than half of its EBIT comes from sales of CPO and PK, while a third comes from downstream products. Movements in CPO prices will affect the group's Plantations segment profits more so than its Manufacturing segment. With rising contribution from its 31% associate Bumitama Agri (BAL), IOI's earnings are therefore increasingly influenced by CPO price movements.

Volume output. We estimate IOI's trees to have a weighted age of 13 years as at end-FY18F. This categorises the group's age profile as prime. Through earlier replanting in Malaysia and new planting in Indonesia, IOI should see c.12k ha increase in its mature planted area between FY16 and FY19F – representing a CAGR of 3%. We expect its FFB volume to grow at a similar pace of 3.6% CAGR, and CPO 3.3%.

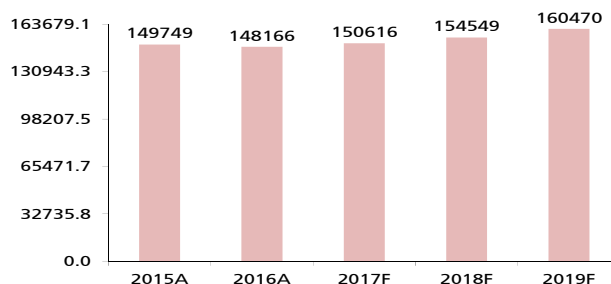
Manufacturing segment margins. Indonesia's B15 export tax levy would result in lower CPO ASP relative to its Malaysian counterparts. This means rising contribution from its Indonesian estates would offer less compensation to lower output from replanting in Malaysia. The levy also works to give Indonesian refiners higher margins, due to the differentiated levies between CPO and its downstream products. Malaysian CPO export taxes also play a similar role in support margins, and it scales alongside the calculated average CPO spot price which is adjusted monthly. Higher export taxes would help Malaysian refiners such as IOI in terms of feedstock costs. Prospective increase in biodiesel production in Indonesia may also cause oversupply in glycerine (by-product of biodiesel output) and thinner margins in IOI's Oleochemicals unit. For this reason, IOI's earnings should be driven by specialty fats units, higher contribution from BAL, as well as cost containment.

Exposure to developed markets. IOI's consolidated revenue is globally distributed, with external sales in Malaysia contributing only 20% in FY16. Europe accounted for a sizeable 35%, while North America contributed 17% of revenue and the rest of Asia accounted for 24%. While the largest palm oil consumers are in Asia, IOI's downstream products are less associated with Asia's demand seasonality compared to other planters. This means economic recoveries in the developed markets should also improve IOI's earnings outlook. Hence, sustainability is important for IOI.

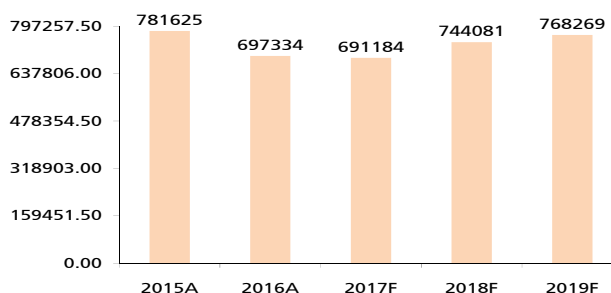
CPO price (RM/MT)



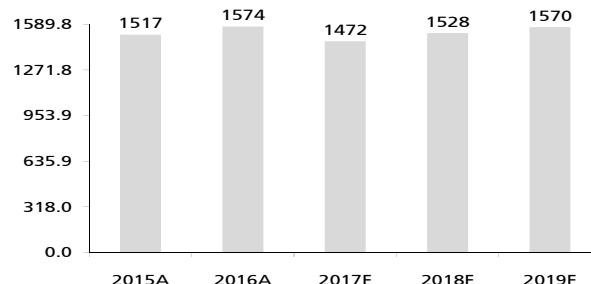
Mature palm oil hectareage



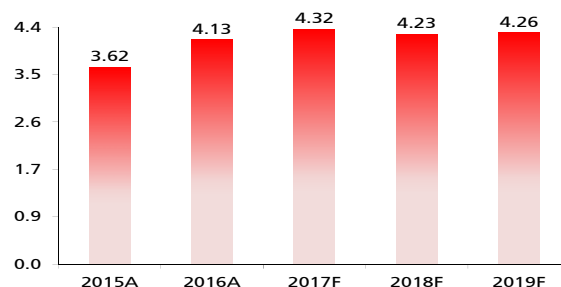
CPO sales volume (MT)



Oleochem revenue (RMm)



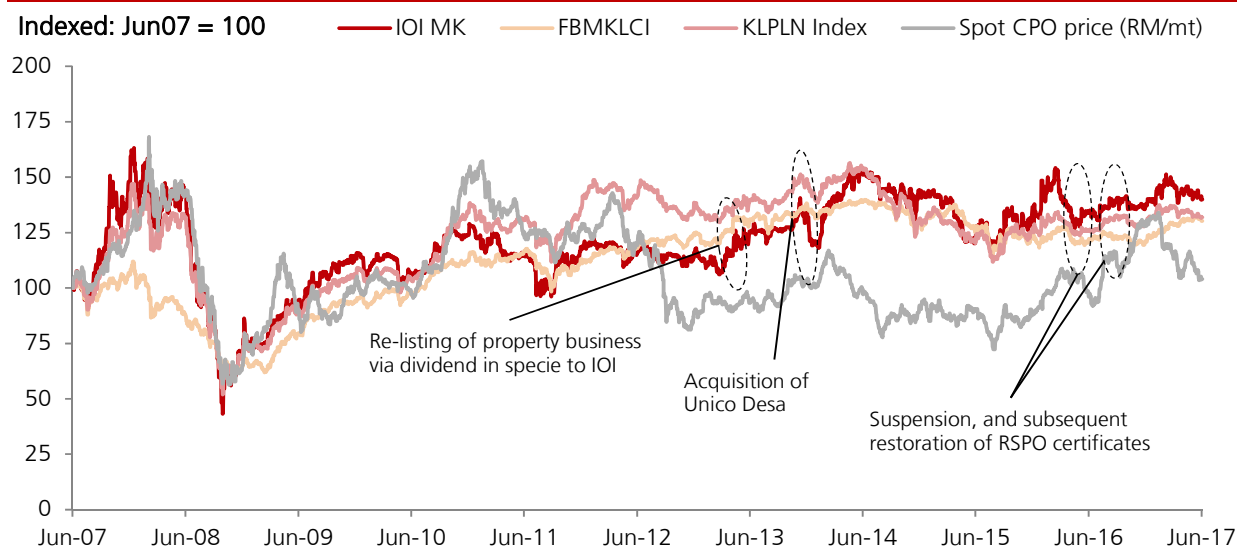
Average MYR/USD



Source: Company, DBS Bank

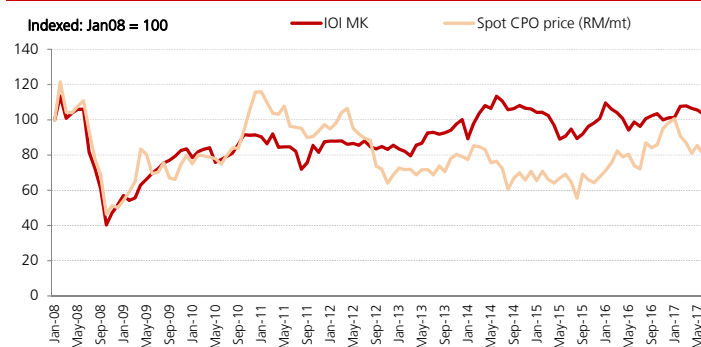
Appendix 1: IOI price correlation with critical factors

Graph 1: Share price vs key benchmarks



Source: Company, Bloomberg Finance L.P., DBS Bank

IOI share price vs CPO prices

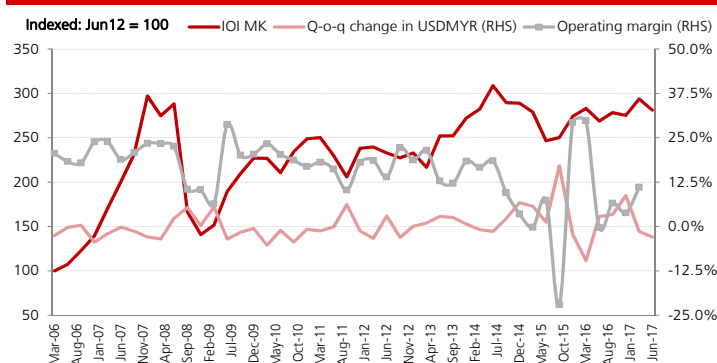


Source: Company, Bloomberg L.P., DBS Bank

Remarks

IOI's share price is principally influenced by the movement of CPO prices, with a long-run correlation coefficient of 0.8.

IOI share price vs margins & currency movements



Source: Company, MPOB, Bloomberg L.P., DBS Bank

Remarks

IOI's share price is influenced by its profitability or operating margins, which can be moved by price and production levels. However, due to its large proportion of USD-denominated debt, earnings have also been swayed by the movement of the ringgit.

Balance Sheet:

High USD debt exposure. As at end-Mar 2017, the group had exposure of US\$1.3bn in USD-denominated debts, which poses risks via adverse forex translation movements. With the restatements following the adoption of MFRS, the group's net gearing was lowered to 0.7x from 1.0x before. We expect the group to slowly reduce this gearing level, assuming no major capex outlays in the coming financial years.

Share Price Drivers:

Pricing and profitability. Stronger pricing of CPO and its derivatives are beneficial IOI in addition to the upliftment of sustainability-related risks on its sales. However, strong currency fluctuations also have a significant impact on headline earnings.

Key Risks:

Volatility in CPO prices and USD exchange rates. Continued strength in CPO prices may lead to 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 the profitability of planters in general.

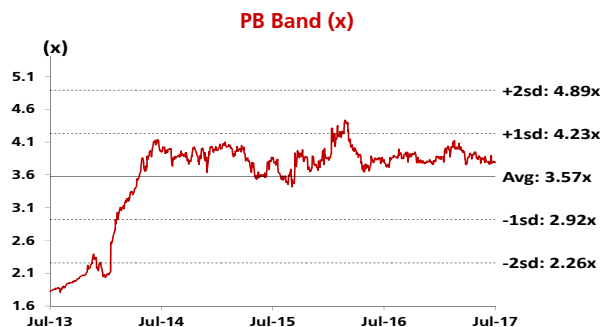
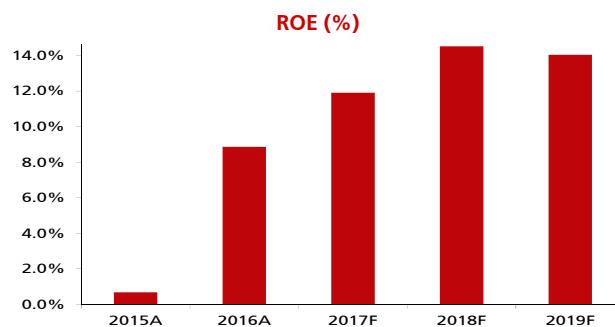
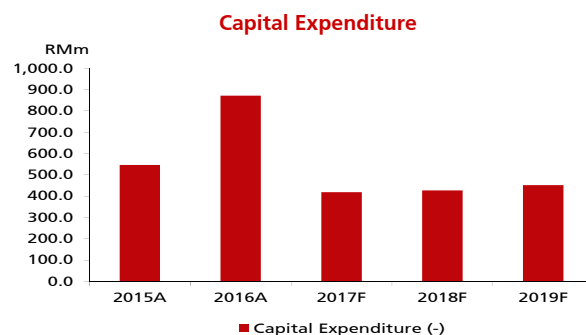
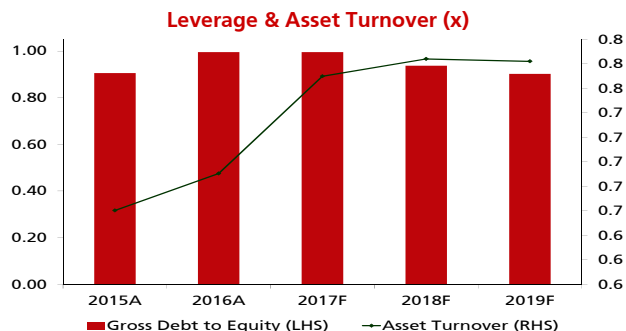
Setback to expansion plans. Our forecasts are based on assumed hectareage for new planting and replanting. Any setback to these plans would negatively affect our valuation due to slower volume growth.

Regulatory changes. Any further increase in Indian import duty of refined oils or changes in the structure of Indonesian/Malaysian export taxes would impact the demand for CPO/refined oils.

Weather. Changes in rainfall pattern (caused by either El Nino or La Nina) would affect FFB yields with some time lag.

Company Background

IOI Corporation (IOI) is an integrated plantation company, with one of the highest yields in Malaysia and one of the largest oleochemical manufacturing capacities in the world.



Source: Company, DBS Bank

Key Assumptions

FY Jun	2015A	2016A	2017F	2018F	2019F
CPO price (RM/MT)	2,291	2,410	2,706	2,690	2,610
Mature palm oil hectarage	149,749	148,166	150,616	154,549	160,470
CPO sales volume (MT)	781,625	697,334	691,184	744,081	768,269
Oleochem revenue (RMm)	1,517	1,574	1,472	1,528	1,570
Average MYR/USD	3.62	4.13	4.32	4.23	4.26

Segmental Breakdown

FY Jun	2015A	2016A	2017F	2018F	2019F
Revenues (RMm)					
Plantation	186	167	207	199	274
Resource-based	11,338	11,551	13,551	14,281	14,546
Others	17.9	20.9	20.0	20.4	20.8
Total	11,542	11,739	13,778	14,500	14,840
EBIT (RMm)					
Plantation	789	764	1,080	919	947
Resource-based	508	469	405	429	494
Others	(45.3)	1.00	199	201	203
Total	1,251	1,235	1,684	1,549	1,644
EBIT Margins (%)					
Plantation	39.0	39.3	46.6	41.9	41.5
Resource-based	4.5	4.1	3.0	3.0	3.4
Others	N/A	N/A	N/A	N/A	N/A
Total	10.8	10.5	12.2	10.7	11.1

Income Statement (RMm)

FY Jun	2015A	2016A	2017F	2018F	2019F
Revenue	11,542	11,739	13,778	14,500	14,840
Cost of Goods Sold	(9,321)	(9,468)	(11,465)	(12,288)	(12,517)
Gross Profit	2,220	2,272	2,314	2,212	2,323
Other Opg (Exp)/Inc	(969)	(1,037)	(630)	(663)	(679)
Operating Profit	1,251	1,235	1,684	1,549	1,644
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	98.8	94.5	125	137	140
Net Interest (Exp)/Inc	(189)	(165)	(264)	(233)	(229)
Exceptional Gain/(Loss)	(845)	(198)	(235)	14.9	(32.2)
Pre-tax Profit	316	966	1,309	1,468	1,523
Tax	(262)	(320)	(427)	(345)	(381)
Minority Interest	(2.9)	(16.6)	(13.5)	(10.9)	(12.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	51.9	630	868	1,112	1,130
Net Profit before Except.	897	828	1,104	1,097	1,162
EBITDA	1,790	1,787	2,322	2,234	2,368
Growth					
Revenue Gth (%)	(3.1)	1.7	17.4	5.2	2.3
EBITDA Gth (%)	(28.6)	(0.2)	29.9	(3.8)	6.0
Opg Profit Gth (%)	(41.0)	(1.3)	36.4	(8.0)	6.1
Net Profit Gth (Pre-ex) (%)	(39.9)	(7.7)	33.3	(0.6)	5.9
Margins & Ratio					
Gross Margins (%)	19.2	19.4	16.8	15.3	15.7
Opg Profit Margin (%)	10.8	10.5	12.2	10.7	11.1
Net Profit Margin (%)	0.4	5.4	6.3	7.7	7.6
ROAE (%)	0.7	8.9	11.9	14.5	14.0
ROA (%)	0.3	3.7	4.9	6.0	6.0
ROCE (%)	1.3	5.2	6.9	6.9	7.0
Div Payout Ratio (%)	1,098.1	79.7	70.0	70.0	70.0
Net Interest Cover (x)	6.6	7.5	6.4	6.6	7.2

Source: Company, DBS Bank

Quarterly / Interim Income Statement (RMm)

FY Jun	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
Revenue	2,866	2,818	3,291	3,666	3,473
Other Oper. (Exp)/Inc	(2,629)	(2,578)	(2,846)	(3,170)	(3,238)
Operating Profit	237	240	446	496	235
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	21.6	21.7	16.2	35.0	55.4
Net Interest (Exp)/Inc	(40.0)	(39.0)	(44.3)	(45.8)	(47.0)
Exceptional Gain/(Loss)	618	(247)	(229)	(357)	149
Pre-tax Profit	837	(24.5)	189	129	392
Tax	(105)	(35.1)	(87.6)	(102)	(86.6)
Minority Interest	(2.6)	0.60	(7.2)	(11.0)	(0.1)
Net Profit	729	(59.0)	94.4	15.6	305
Net profit bef Except.	112	188	323	372	157
EBITDA	368	384	581	650	414

Growth

Revenue Gth (%)	(3.5)	(1.7)	16.8	11.4	(5.3)
EBITDA Gth (%)	(30.5)	4.4	51.4	11.8	(36.4)
Opg Profit Gth (%)	(38.0)	1.1	86.0	11.3	(52.6)
Net Profit Gth (Pre-ex) (%)	(48.4)	68.5	71.8	15.3	(57.9)

Margins

Opg Profit Margins (%)	8.3	8.5	13.5	13.5	6.8
Net Profit Margins (%)	25.5	(2.1)	2.9	0.4	8.8

Balance Sheet (RMm)

FY Jun	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	9,766	9,985	9,890	9,769	9,637
Invt in Associates & JVs	848	969	1,095	1,234	1,376
Other LT Assets	664	736	736	737	737
Cash & ST Invt	1,789	1,938	2,096	2,330	2,677
Inventory	2,083	2,284	2,644	2,834	2,887
Debtors	1,106	1,191	1,318	1,387	1,419
Other Current Assets	194	452	456	461	465
Total Assets	16,449	17,556	18,237	18,751	19,198
ST Debt	813	2,478	2,478	2,478	2,478
Creditor	925	1,130	1,147	1,229	1,252
Other Current Liab	128	217	217	217	217
LT Debt	5,836	4,903	5,221	5,184	5,221
Other LT Liabilities	1,404	1,412	1,440	1,469	1,498
Shareholder's Equity	7,069	7,138	7,441	7,871	8,216
Minority Interests	274	279	292	303	315
Total Cap. & Liab.	16,449	17,556	18,237	18,751	19,198
Non-Cash Wkg. Capital	2,330	2,582	3,055	3,236	3,303
Net Cash/(Debt)	(4,860)	(5,443)	(5,603)	(5,333)	(5,023)
Debtors Turn (avg days)	34.9	35.7	33.2	34.0	34.5
Creditors Turn (avg days)	38.3	41.6	37.9	36.9	37.9
Inventory Turn (avg days)	87.1	88.5	82.1	85.2	87.5
Asset Turnover (x)	0.7	0.7	0.8	0.8	0.8
Current Ratio (x)	2.8	1.5	1.7	1.8	1.9
Quick Ratio (x)	1.6	0.8	0.9	0.9	1.0
Net Debt/Equity (X)	0.7	0.7	0.7	0.7	0.6
Net Debt/Equity ex MI (X)	0.7	0.8	0.8	0.7	0.6
Capex to Debt (%)	8.2	11.8	5.4	5.6	5.9
Z-Score (X)	3.4	3.1	3.2	3.3	3.3

Source: Company, DBS Bank

Cash Flow Statement (RMm)

FY Jun	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	1,161	1,164	1,544	1,453	1,555
Dep. & Amort.	440	458	514	548	583
Tax Paid	(262)	(320)	(427)	(345)	(381)
Assoc. & JV Inc/(loss)	(98.8)	(94.5)	(125)	(137)	(140)
Chg in Wkg.Cap.	50.9	(81.3)	(469)	(177)	(62.5)
Other Operating CF	156	506	(240)	10.5	(36.7)
Net Operating CF	1,447	1,632	797	1,353	1,518
Capital Exp.(net)	(546)	(871)	(419)	(427)	(451)
Other Invt.(net)	1.30	0.10	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	152	67.7	(2.0)	(2.1)	(2.2)
Net Investing CF	(393)	(803)	(421)	(429)	(453)
Div Paid	(1,049)	(473)	(548)	(683)	(784)
Chg in Gross Debt	(875)	733	318	(36.7)	36.7
Capital Issues	(106)	(85.7)	(16.5)	0.0	0.0
Other Financing CF	(1,226)	(853)	28.2	28.8	29.4
Net Financing CF	(3,256)	(679)	(219)	(691)	(718)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(2,202)	150	158	233	347
Opg CFPS (sen)	22.0	27.3	20.2	24.5	25.3
Free CFPS (sen)	14.2	12.1	6.05	14.8	17.1

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	03 Aug 16	4.24	3.60	FULLY VALUED
2:	24 Aug 16	4.42	3.60	FULLY VALUED
3:	10 Nov 16	4.39	4.30	HOLD
4:	21 Nov 16	4.36	4.30	HOLD
5:	14 Dec 16	4.40	4.30	HOLD
6:	10 Jan 17	4.50	4.30	HOLD
7:	10 Feb 17	4.64	4.30	HOLD
8:	17 Feb 17	4.63	4.70	HOLD
9:	20 Feb 17	4.63	4.70	HOLD
10:	21 Feb 17	4.51	4.70	HOLD
11:	10 Mar 17	4.66	4.70	HOLD
12:	05 Apr 17	4.65	4.70	HOLD
13:	10 Apr 17	4.59	4.70	HOLD
14:	17 Apr 17	4.42	4.70	HOLD
15:	24 Apr 17	4.54	4.70	HOLD
16:	11 May 17	4.62	4.70	HOLD
17:	17 May 17	4.60	4.70	HOLD
18:	14 Jun 17	4.49	4.70	HOLD
19:	10 Jul 17	4.49	4.70	HOLD

Source: DBS Bank

Analyst: Regional Research Team

DBS Bank, DBSVI 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

Completed Date: 20 Jul 2017 15:10:03 (WIB)

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