

Singapore Company Update

Bumitama Agri

Bloomberg: BAL SP | Reuters: BUMI.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 Jul 2023

BUY

Last Traded Price (10 Jul 2023): S\$0.570 (STI : 3,149.32)

Price Target 12-mth: S\$0.90 (58% upside) (Prev S\$1.00)

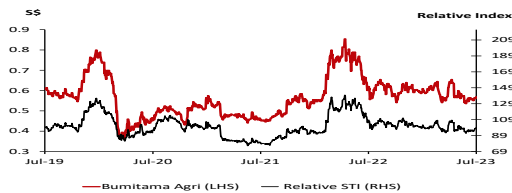
Analyst

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What's New

- BAL good estate management capability is unappreciated as the stock trades at discount vs. upstream peers
- BAL should be able to sustain its double-digit ROE performance with recovering earnings in 2H23 and 2024
- Lower fertilizers cost also will help BAL to maximize the selling price recovery momentum
- Maintain BUY with lower TP of S\$0.90

Price Relative



Forecasts and Valuation

FY Dec (Rpbn)	2021A	2022A	2023F	2024F
Revenue	12,249	15,829	11,739	12,064
EBITDA	3,542	5,272	2,837	3,493
Pre-tax Profit	2,864	4,571	2,406	3,124
Net Profit	1,721	2,826	1,603	2,049
Net Pft (ex. BA gains)	1,660	2,876	1,603	2,049
Net Pft (Pre Ex.)	1,721	2,826	1,603	2,049
Net Pft Gth (Pre-ex) (%)	52.8	64.2	(43.3)	27.8
EPS (S cts)	8.71	14.3	8.11	10.4
EPS Pre Ex. (S cts)	8.71	14.3	8.11	10.4
EPS Gth Pre Ex (%)	53	64	(43)	28
Diluted EPS (S cts)	8.71	14.3	8.11	10.4
Net DPS (S cts)	3.44	3.44	3.44	3.44
BV Per Share (S cts)	52.1	63.2	70.7	78.7
PE (X)	6.5	4.0	7.0	5.5
PE Pre Ex. (X)	6.5	4.0	7.0	5.5
P/Cash Flow (X)	4.3	7.0	1.8	3.2
EV/EBITDA (X)	4.8	3.0	3.7	2.4
Net Div Yield (%)	6.0	6.0	6.0	6.0
P/Book Value (X)	1.1	0.9	0.8	0.7
Net Debt/Equity (X)	0.3	0.2	CASH	CASH
ROAE (%)	17.8	24.8	12.1	13.9
Earnings Rev (%):			(22)	18
Consensus EPS (S cts):			9.8	9.7
Other Broker Recs:		B: 2	S: 0	H: 2

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

Recovering earnings outlook amid the El Nino threats

Investment Thesis:

Capitalizing on recovering palm oil price. Bumitama (BAL) is one of the few palm oil companies that enjoy tight CPO supply outlook from limited palm oil estates expansion and rejuvenation in Indonesia. BAL has exposure to Indonesia's domestic CPO price trend, which is poised to recover in 2H23 on recovering demand and 2024 on limited supply outlook driven by El Nino. Its well-run palm oil estates will be minimally impacted by the weather event.

Improving selling price will drive earnings in 2H23 and 2024. We forecast average selling price (ASP) of Rp9,700/kg and earnings of Rp1.6tr (-43% y-o-y) in 2023 and Rp2tr (+28% y-o-y) in 2024. Despite earnings retreating from the record high in 2022, we see BAL's return on average equity (ROAE) remaining in the double-digit rate. We believe BAL will perform well despite El Nino phenomenon potentially hindering significant production volume growth in 2023 and 2024.

Palm oil price to drive BAL's share price amid flat production volume in 2023-2024. BAL's earnings and share price needs to see improving palm oil price to raise its NPAT/kg. We think BAL will churn NPAT/kg of Rp1,400/kg in 2023, improving to Rp1,800/kg in 2024. We believe BAL's capability to manage its operational cost and high productivity estates will enable it to capitalize on the improving CPO selling price as well as lower operating cost.

Maintain BUY and TP of S\$0.9 on higher earnings prospects in 2024.

We maintain our BUY rating with a lower TP of S\$0.90. BAL is trading at a 40% discount vs. its upstream peers despite its superior operational and financial metrics, which we believe it is unjustified. Our target price implies FY24F PE of 9x, +1 standard deviation of its five-year average PE multiple. A re-rating catalyst is earnings recovery from the 1H23 low.

Key Risks

Lower than expected palm oil price in 2H23 and 2024. If CPO price fails to recover from the 2Q23 low, BAL earnings will miss our estimate on the absence of sequential earnings recovery trend in 2H23 and 2024.

At A Glance

Issued Capital (m shrs)	1,734
Mkt. Cap (S\$bn/US\$m)	0.99 / 734
Major Shareholders (%)	
FORTUNE HOLDINGS LTD	52.2
IOI Corp Bhd	32.1
Free Float (%)	15.7
3m Avg. Daily Val (US\$m)	0.25
GIC Industry: Consumer Staples / Agricultural Products	

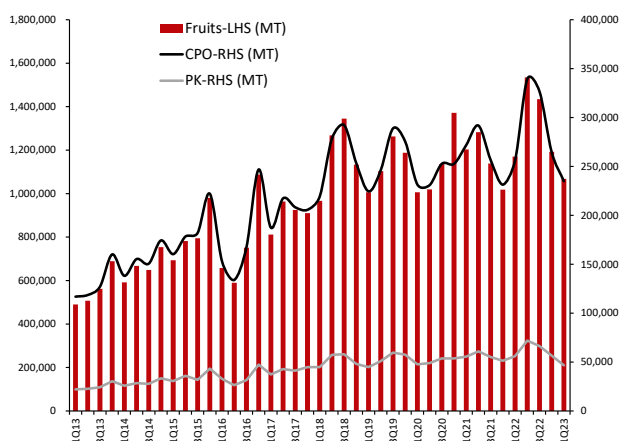
WHAT'S NEW

Positive performance amid El Nino threats

BAL is a well-run upstream CPO company

We think BAL is a well-run palm oil company since it has consistently delivered strong CPO yield, profitability, and ROE performance even during the palm oil price downcycle, thanks to its good estate management. Going forward, we believe it will reap the benefits of higher palm oil price trend ahead with double digit earnings recovery outlook in 2024.

BAL consistently grow its production volumes



Source: Company, DBSVI

Following the improving earnings trend in 2024, we believe BAL's share price can perform even better going forward, coupled with current undemanding valuation at FY24F PE of 5.4x, which is 30%-40% discount vs. its older plantation companies' peers. Beyond 2024, given its prime age palm oil trees production cycle that will keep the overall cash cost low and CPO yield per hectare high, this should thus sustain its strong financial and return on equity performance.

Global palm oil price recovery in 2H23 and 2024 will be supported by decent soybean oil price outlook which we believe will remain in good balance due to stable supply and demand outlook of soybean and improving soymeal demand on China reopening. Meanwhile we believe the palm oil price downside risk from current level is limited on improving crude oil price trend, as well as recovering demand from China.

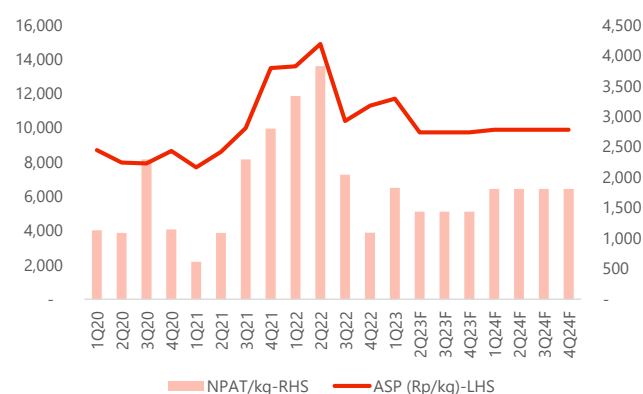
Looking at longer term horizon, we estimate BAL could generate steady annual dividend at least S\$0.02/share in the long run, assuming a CPO price benchmark of at least at US\$900 per MT (Rp10,100/kg for domestic selling price). We think Indonesia's CPO price benchmark can sustain around Rp10,000/kg (US\$689 per MT) ahead, driven by Indonesia biodiesel consumption that will

help to offset any weakness from overseas CPO demand. We believe our selling price assumption is conservative since it is at discount to our palm oil benchmark price assumption of US\$976 per MT (Rp14,600/kg) since BAL exposes to Indonesia domestic CPO prices, which the pricing mechanism is net of export levies and taxes.

Earnings revision summary

We revised down our FY23F earnings by -22% to Rp1.6tr (-43% y-o-y) and we revise up FY24F earnings by 18% to Rp2tr (+18% y-o-y) mainly to account our new CPO price assumption. We assume Rp9,737/kg CPO price in 2023 (US\$671/MT), before improving to Rp9,889/kg in 2024 (US\$682/mt) on higher CPO price benchmark trend. Our CPO selling price is at a discount to domestic CPO price assumption of Rp10,500/kg since BAL CPO sales volume concentrated to three large palm oil refiners.

CPO ASP and NPAT/kg outlook



Source: Company, DBSVI

We assume CPO production volume to reach 1.1m MT in 2023 and 2024 in anticipation of an El Nino impact on BAL's production. BAL had previously outperformed its peers in 2022 by booking 17% y-o-y production volume growth on maturing young trees and good estate management. After record high earnings and production trend, we conservatively assume mild production improvement in 2023 and 2024 anticipating any drier than expected weather that may impact its yield performance.

Bumitama Agri

Maintain BUY with TP of S\$0.90

We maintain our BUY rating with lower Discounted Cash Flow (DCF) TP of S\$0.9 (WACC: 10.4%, Rf: 8.4%, Rm: 13.3%, β : 0.8, terminal growth (TG): 3%) on lower earnings estimate in FY23, offset by higher earnings in FY24. Our target price implies FY24F PE of 9x, which is +1 standard deviation of its five-year average PE multiple. We think BAL has the capability to deliver earnings and dividend on better selling price, which will re-rate the share price. Furthermore, we think BAL's earnings recovery isn't priced in yet as investors have been focused on short term earnings weakness in 1H23.

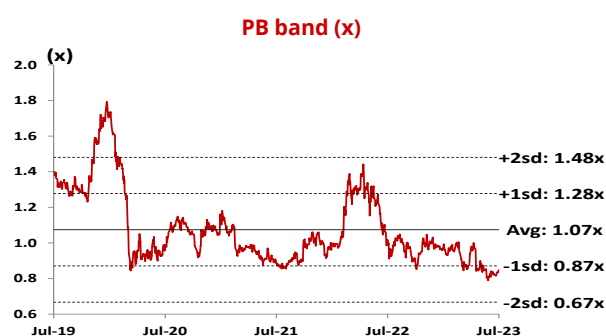
Company Background

Fast-growing palm oil producer Bumitama Agri (BAL) was established in 1996 by the Harita Group through the acquisition of a 17,500ha land bank in Central Kalimantan. After aggressive new plantings and a string of subsequent acquisitions, BAL controlled an aggregate of c.132,643ha of land as at end-2019 (nucleus only), of which 117,590ha were mature as at end-December 2019. BAL was listed on the Singapore Exchange in April 2012.

Historical PE and PB band



Source: Bloomberg Finance L.P., DBSVI estimates



Source: Bloomberg Finance L.P., DBSVI estimates

Bumitama Agri

Key Assumptions

FY Dec	2020A	2021A	2022A	2023F	2024F
CPO price (Rp/kg)	8,334	9,900	12,500	9,737	9,889
Own mature oil palm	120,643	124,498	126,654	129,056	130,056
CPO sales volume (MT)	982,578	1,051,273	1,188,156	1,116,378	1,131,463
Palm kernel sales vol.	209,084	223,000	255,174	233,391	236,308
Avg. USD/IDR rate	14,150	14,150	14,150	14,150	14,150

Segmental Breakdown

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenues (Rpbn)					
CPO	8,189	10,650	13,792	10,871	11,189
PK	913	1,599	2,037	869	874
Total	9,102	12,249	15,829	11,739	12,064

Income Statement (Rpbn)

FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	9,102	12,249	15,829	11,739	12,064
Cost of Goods Sold	(6,576)	(8,792)	(10,096)	(8,866)	(8,467)
Gross Profit	2,526	3,457	5,733	2,873	3,597
Other Opng (Exp)/Inc	(608)	(697)	(804)	(831)	(873)
Operating Profit	1,918	2,760	4,929	2,042	2,723
Other Non Opg (Exp)/Inc	(10.6)	61.4	(395)	17.3	(19.9)
Associates & JV Inc	0.0	0.0	0.0	2.18	4.36
Net Interest (Exp)/Inc	23.3	42.3	36.8	344	417
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	1,931	2,864	4,571	2,406	3,124
Tax	(568)	(774)	(1,172)	(467)	(646)
Minority Interest	(236)	(368)	(573)	(336)	(429)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	1,126	1,721	2,826	1,603	2,049
Net Profit before Except.	1,126	1,721	2,826	1,603	2,049
Net Pft (ex. BA gains)	1,107	1,660	2,876	1,603	2,049
EBITDA	2,552	3,542	5,272	2,837	3,493
EBITDA (ex. BA gains)	2,526	3,460	5,359	2,837	3,493
Growth					
Revenue Gth (%)	18.3	34.6	29.2	(25.8)	2.8
EBITDA Gth (%)	38.4	38.8	48.8	(46.2)	23.1
Opg Profit Gth (%)	76.7	43.9	78.6	(58.6)	33.3
Net Profit Gth (Pre-ex) (%)	64.1	52.8	64.2	(43.3)	27.8
Margins & Ratio					
Gross Margins (%)	27.8	28.2	36.2	24.5	29.8
Opg Profit Margin (%)	21.1	22.5	31.1	17.4	22.6
Net Profit Margin (%)	12.4	14.1	17.9	13.7	17.0
ROAE (%)	13.2	17.8	24.8	12.1	13.9
ROA (%)	6.3	9.6	15.0	8.0	9.8
ROCE (%)	8.2	12.1	21.2	8.8	10.9
Div Payout Ratio (%)	22.6	39.5	24.0	42.4	33.2
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBSVI

Balance Sheet (Rpbn)

FY Dec	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	3,813	4,147	4,569	3,356	3,089
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	11,802	11,359	10,791	9,284	8,916
Cash & ST Invt	792	176	826	5,803	7,494
Inventory	852	822	2,327	844	806
Debtors	70.6	120	215	91.3	93.9
Other Current Assets	903	1,061	1,170	1,011	1,005
Total Assets	18,233	17,686	19,898	20,390	21,404
ST Debt	282	0.0	78.7	339	339
Creditor	599	412	459	510	487
Other Current Liab	841	806	1,320	571	579
LT Debt	5,726	4,143	3,277	2,377	1,377
Other LT Liabilities	251	326	307	322	338
Shareholder's Equity	9,017	10,300	12,494	13,973	15,557
Minority Interests	1,517	1,698	1,962	2,298	2,728
Total Cap. & Liab.	18,233	17,686	19,898	20,390	21,404
Non-Cash Wkg. Capital	386	786	1,933	866	840
Net Cash/(Debt)	(5,216)	(3,967)	(2,529)	3,087	5,778
Debtors Turn (avg days)	8.4	2.8	3.9	4.8	2.8
Creditors Turn (avg days)	41.7	22.9	17.0	21.9	23.7
Inventory Turn (avg days)	46.5	37.9	61.4	71.5	39.2
Asset Turnover (x)	0.5	0.7	0.8	0.6	0.6
Current Ratio (x)	1.5	1.8	2.4	5.5	6.7
Quick Ratio (x)	0.5	0.2	0.6	4.2	5.4
Net Debt/Equity (X)	0.5	0.3	0.2	CASH	CASH
Net Debt/Equity ex MI (X)	0.6	0.4	0.2	CASH	CASH
Capex to Debt (%)	16.9	26.1	6.9	6.0	8.6
Z-Score (X)	2.1	2.4	2.4	2.4	2.4

Source: Company, DBSVI

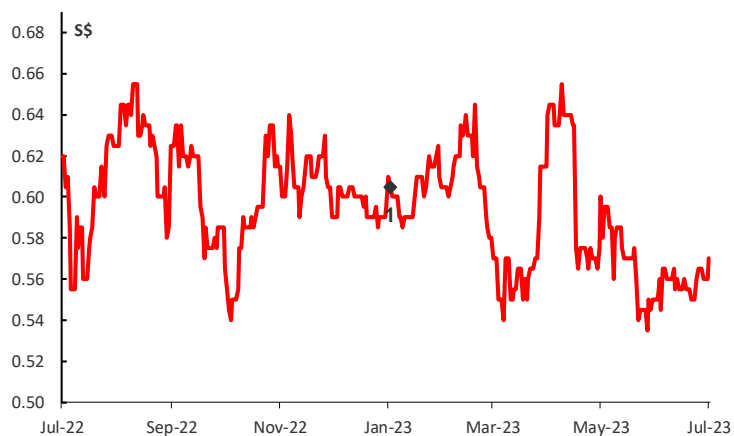
Bumitama Agri

Cash Flow Statement (Rpbn)

FY Dec	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	1,931	2,864	4,571	2,406	3,124
Dep. & Amort.	645	721	738	775	785
Tax Paid	(163)	(473)	(1,172)	(467)	(646)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(22.8)	(431)	(3,893)	3,356	20.7
Other Operating CF	56.2	(31.6)	1,367	223	223
Net Operating CF	2,446	2,649	1,611	6,293	3,507
Capital Exp.(net)	(1,014)	(1,083)	(231)	(163)	(148)
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	83.4	485	565	160	5.57
Net Investing CF	(931)	(598)	334	(2.7)	(142)
Div Paid	(255)	(679)	(679)	(679)	(679)
Chg in Gross Debt	(863)	(1,854)	(788)	(640)	(1,000)
Capital Issues	0.0	(7.5)	173	0.0	0.0
Other Financing CF	(130)	(128)	(1.9)	5.70	5.99
Net Financing CF	(1,248)	(2,669)	(1,296)	(1,314)	(1,673)
Currency Adjustments	21.1	2.80	0.96	0.0	0.0
Chg in Cash	288	(616)	650	4,976	1,691
Opg CFPS (S cts)	12.5	15.6	27.9	14.9	17.6
Free CFPS (S cts)	7.24	7.93	6.98	31.0	17.0

Source: Company, DBSVI

Target Price & Ratings 12-mth 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:	11 Jan 23	0.61	1.00	BUY

Source: DBSVI

Analyst: William Simadiputra

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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 share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 11 Jul 2023 17:30:14 (SGT)

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