

Astra Agro Lestari Tbk (AALI IJ)

Begins to Show Improving Performance

Company Update | Dec 11, 2019

AALI's performance in 3Q19 improved quarterly despite revenues falling by 10.1% QoQ, but its strategy to improve efficiency in several costs resulted in net profit soaring to 970.6% QoQ. To succeed in closing 2019 with a positive performance, AALI counts on the preconditioned circumstances: rising prices of CPO and strong domestic consumption.

Improvement in Quarterly Performance

Weak prices of CPO in 1H19 is a hiccup in matching up its 2018 performance, but its quarterly basis performance has improved. In 3Q19, AALI posted revenues of IDR3.8 trillion (-10.1% QoQ) as it successfully cut several costs, i.e., costs of revenues of IDR3.3 trillion (-13.4% QoQ) along with operating expenses of IDR278 billion (-2.8% QoQ). The cost reduction resulted in rising net profits of IDR67.5 billion (+970.6% QoQ). For 2019F, we estimate that AALI will be able to record revenues of IDR16 trillion, supported by rising prices of CPO prices. Meanwhile, net profits are likely to decline by 86% YoY, much lower than those of above 100% YoY declines posted by its peers.

Efficiency to Increase Margins

AALI successfully improved margins in 3Q19 and recorded GPM of 13% (vs. 9% in 2Q19), OPM of 6% (vs. 3% in 2Q19), and NPM of 2% (vs. 0.2% in 2Q19). The increase was possible to achieve because of efficiency in production costs to stand at IDR3.3 trillion (-13.4% YoY).

Strong Domestic Consumption

Rising domestic production to reach 36 million tons (+13% YoY), and strong domestic consumption of 13.1 million tons (+38% YoY) in 9M19. We predict that domestic consumption at the end of the year will fall short in the range of 14.9-15.4 million tons, assuming that the portion of biodiesel absorption is in the range of 23.5%-24.7%, an increase from last year.

BUY Rating with the Price Target of IDR15,600

By the end of 2019, we estimate prices of CPO to be potential for strengthening at the range of RM2,830/ton-RM2,910/ton; thus, the rebound in prices of CPO accompanied with efficient production are factors to contribute to AALI's improving performance, be better off its peers. In the long term, the biodiesel program is more likely to have positive impacts on the Indonesian CPO industry, which in turn benefits AALI by means of strong domestic consumption. Taking that circumstance into account, we recommend BUY with the price target of IDR15,600 or a 15.6% potential upside based on a 26.5x (+0.65 SD above the historical average of the last 3 years) forward P/E. AALI is currently traded at the 2019F P/E of 118.7x.

Astra Agro Lestari Tbk | Summary

	2018A	2019F	2020F	2021F
Sales	19,084	16,056	17,065	18,314
Growth (%)	10.3%	-15.9%	6.3%	7.3%
EBITDA	3,586	1,816	2,248	2,614
Net Profit	1,439	201	377	519
EPS (IDR)	747	105	196	270
Growth (%)	-28.4%	-86.0%	87.3%	37.7%
P/E	15.8x	118.7x	66.6x	50.8x
P/BV	1.2x	1.3x	1.3x	1.4x
EV/EBITDA	17.0x	34.4x	28.7x	24.8x
ROE (%)	7.6%	1.0%	2.0%	2.7%
DER (%)	24.3%	31.7%	32.4%	35.3%
Net Debt	4,682	5,268	5,362	5,947

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Buy

Dec 2020 TP (IDR)	15,600
Consensus Price (IDR)	13,743
TP to Consensus Price	+18.4%
vs. Last Price	+15.6%

Shares data

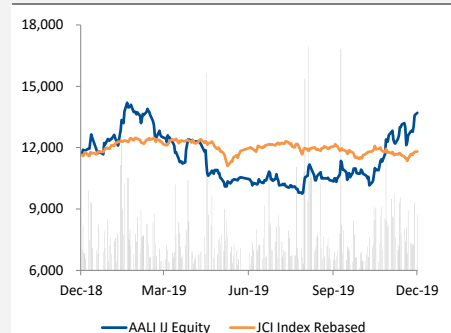
Last Price (IDR)	13,500
Price Date as of	Dec 10, 2019
52 wk Range (Hi/Lo)	14,400 / 9,500
Free Float (%)	20.3
Outstanding sh.(mn)	1,925
Market Cap (IDR bn)	23,240
Market Cap (USD mn)	1,656
Avg. Trd Vol - 3M (mn)	0.9
Avg. Trd Val - 3M (bn)	10.6
Foreign Ownership	5.2%

Agriculture

Crude Palm Oil

Bloomberg	AALI IJ
Reuters	AALIJK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	15.6%	3.8%	23.6%	15.9%
Rel. Ret.	15.6%	3.5%	24.3%	14.7%

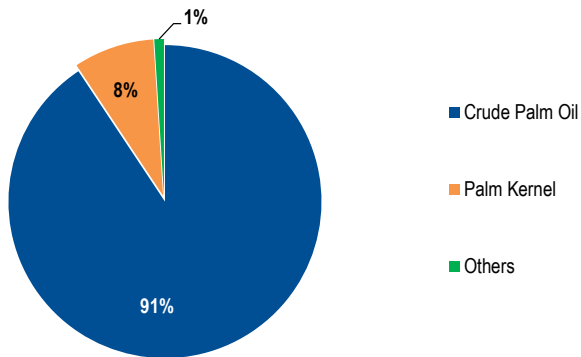
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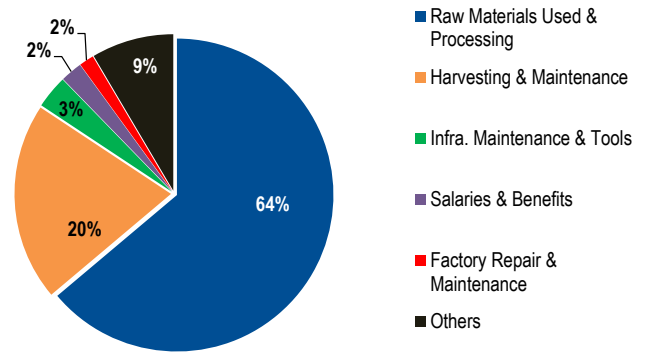
Performance Highlights in Charts

9M19 Revenue Breakdown



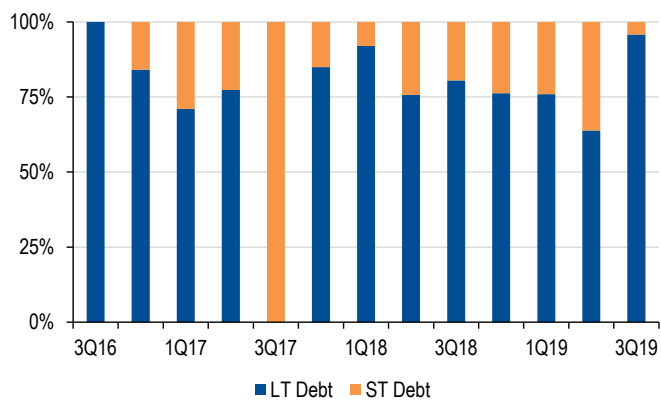
Source: Company Data, NHKS Research

9M19 Production Cost Composition



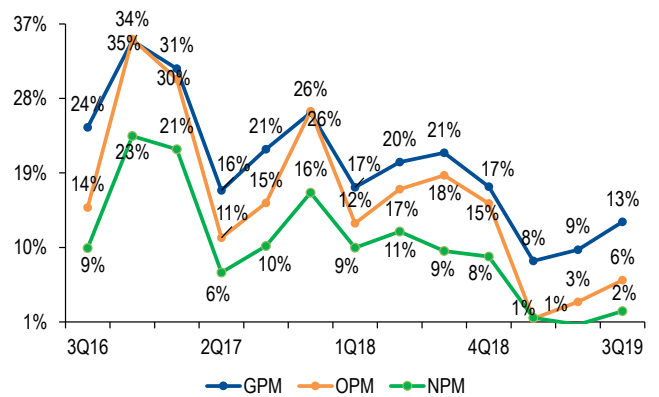
Source: Company Data, NHKS Research

Debt Portion



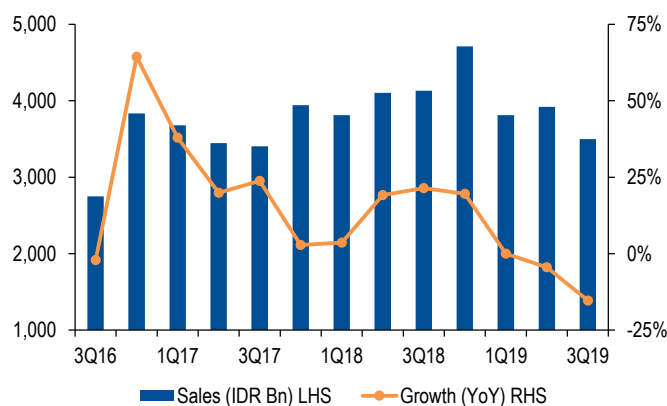
Source: Company Data, NHKS Research

Margin Ratios



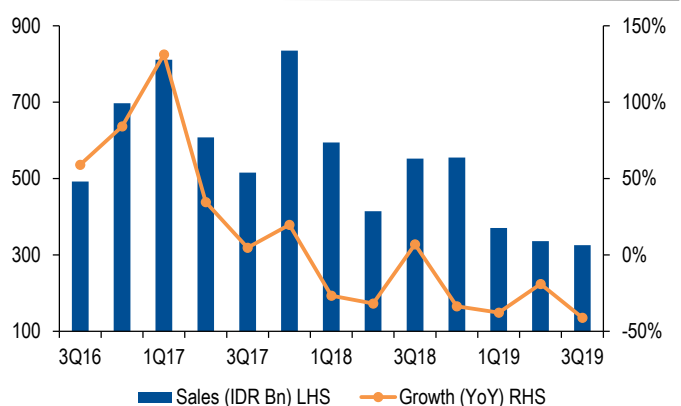
Source: Company Data, NHKS Research

CPO Sales & Growth



Source: Company Data, NHKS Research

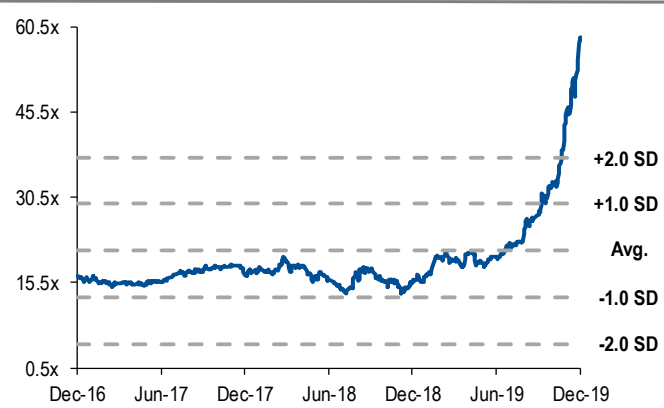
Palm Kernel Sales & Growth



Source: Company Data, NHKS Research

Valuation Highlights in Charts

3-Year Forward P/E Band



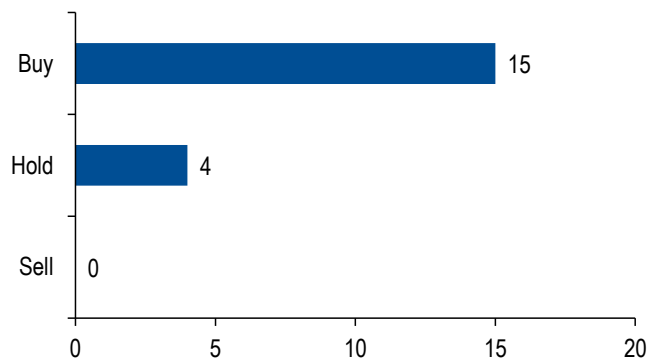
Source: Bloomberg, NHKS Research

3-Year Dynamic Forward P/E Band



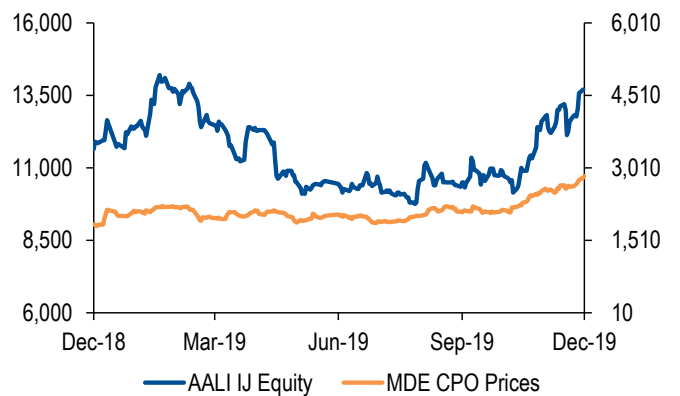
Source: Bloomberg, NHKS Research

Recommendations by Analysts



Source: Bloomberg, NHKS Research

Stock and CPO Prices Correlated Positively



Source: Bloomberg, NHKS Research

Quarterly Review

	3Q18	4Q18	1Q19	2Q19	3Q19			4Q19E	
					Actual	Estimate	Y-Y		Q-Q
Income statement									
Sales	4,740	5,323	4,233	4,294	3,860		-18.6%	-10.1%	3,670
Gross Profit	992	896	333	396	486		-51.0%	22.9%	394
EBIT	684	556	34	109	208		-69.6%	90.1%	160
EBITDA	998	884	447	518	361		-63.8%	-30.3%	490
Net Profit	340	315	37	6	67		-80.2%	970.6%	90
Margin									
Gross Margin	20.9%	16.8%	7.9%	9.2%	12.6%		-8.3%	3.4%	10.7%
EBIT Margin	14.4%	10.4%	0.8%	2.5%	5.4%		-9.0%	2.8%	4.4%
EBITDA Margin	21.0%	16.6%	10.6%	12.1%	9.4%		-11.7%	-2.7%	13.4%
Net Profit Margin	7.2%	5.9%	0.9%	0.1%	1.7%		-5.4%	1.6%	2.5%

Unit: IDR bn, %

Source: Company Data, NHKS Research

Earnings Revision

		2019F	2020F	2021F
Income Statement				
Sales	-Revised	16,056	17,065	18,314
	-Previous	20,594		
	-Change	-22.0%		
Gross Profit	-Revised	1,610	2,005	2,389
	-Previous	5,140		
	-Change	-68.7%		
EBIT	-Revised	511	837	1,135
	-Previous	3,851		
	-Change	-86.7%		
EBITDA	-Revised	1,816	2,248	2,614
	-Previous	5,192		
	-Change	-65.0%		
Net Profit	-Revised	201	377	519
	-Previous	2,462		
	-Change	-91.8%		
Margin				
Gross Margin	-Revised	10.0%	11.7%	13.0%
	-Previous	25.0%		
EBIT Margin	-Revised	3.2%	4.9%	6.2%
	-Previous	18.7%		
EBITDA Margin	-Revised	11.3%	13.2%	14.3%
	-Previous	25.2%		
Net Profit Margin	-Revised	1.3%	2.2%	2.8%
	-Previous	12.0%		

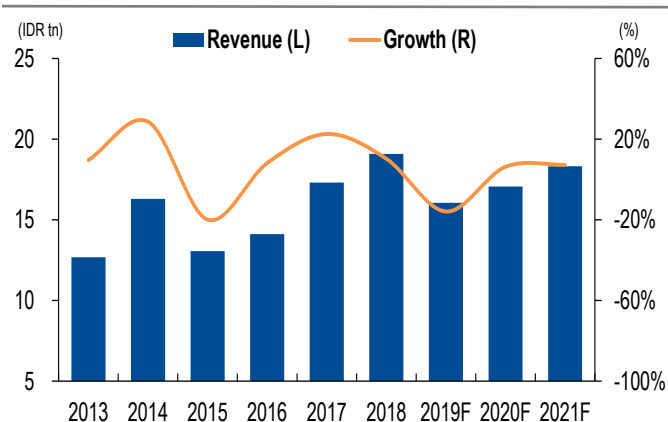
Unit: IDR bn, %

Source: Company Data, NHKS Research

Company Overview

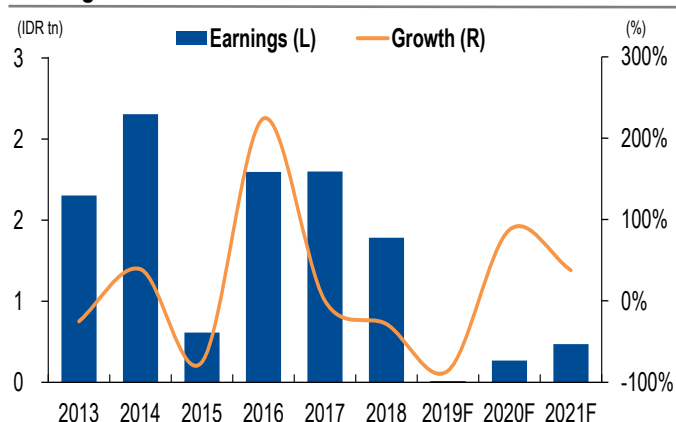
- AALI was incorporated from the merger of several companies and started to develop a plantation industry since 1988. Today, it is one of the largest oil palm plantation companies in Indonesia.
- Until 2017, AALI has 285,025 hectares of plantation areas spread across Sumatra, Kalimantan, and Sulawesi.
- AALI builds core-plasma partnerships and Income Generating Activity (IGA) models to manage productive and eco-friendly cultivation of oil palm and non-oil palm plantation.
- To maintain its sustainable business operation, AALI continues to develop its downstream businesses as to date it has operated refinery plants in North Mamuju, West Sulawesi, Dumai, and Riau.

Revenue and Growth Movements



Source: Company Data, NHKS Research

Earnings and Growth Movements



Source: Company Data, NHKS Research

Asia Pacific Companies Peers Analysis

	Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Profit Margin	ROE LTM	P/E LTM	P/BV
Indonesia									
ASTRA AGRO LESTARI TBK	1,857	1,862	1,237	30	-75.2%	2.4%	2.3%	61.1x	1.4x
SAMPOERNA AGRO TBK	333	625	224	-4	N/A	-1.6%	-1.3%	N/A	1.2x
PP LONDON SUMATRA TBK	694	696	261	3	-92.2%	1.1%	0.5%	234.2x	1.2x
SAWIT SUMBERMAS SARANA TBK	598	783	229	-19	N/A	-8.7%	-6.6%	N/A	2.1x
SALIM IVOMAS PRATAMA TBK	445	2,403	973	-31	N/A	-3.2%	-3.0%	N/A	0.4x
Malaysia									
KUALA LUMPUR KEPONG BHD	6,268	4,870	3,749	149	5.9%	4.0%	5.7%	42.2x	2.5x
GENTING PLANTATIONS BHD	2,285	1,895	508	23	-64.4%	4.5%	2.1%	92.3x	2.0x
SIME DARBY PLANTATION BHD	8,733	6,924	2,946	27	-88.4%	0.9%	-0.1%	135.4x	2.7x
IOI CORP BHD	6,885	3,988	1,758	154	-77.6%	8.7%	6.9%	45.0x	3.0x
Singapore									
FIRST RESOURCES LTD	2,144	1,571	576	74	-45.6%	12.9%	8.0%	24.7x	2.2x
GOLDEN AGRI-RESOURCES LTD	2,154	8,546	6,382	34	N/A	0.5%	0.8%	65.1x	0.5x

Unit: USD mn, %, X

Source: Bloomberg, NHKS Research

Summary of Financials

INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F		2018/12A	2019/12F	2020/12F	2021/12F
Sales	19,084	16,056	17,065	18,314	ROE	7.6%	1.0%	2.0%	2.7%
<i>Growth</i>	<i>10.3%</i>	<i>-15.9%</i>	<i>6.3%</i>	<i>7.3%</i>	ROA	5.6%	0.7%	1.4%	1.8%
COGS	(15,545)	(14,446)	(15,060)	(15,926)	ROIC	14.6%	1.9%	3.0%	3.7%
Gross Profit	3,540	1,610	2,005	2,389	Cash Dividend (IDR bn)	835	431	197	185
<i>Gross Margin</i>	<i>18.5%</i>	<i>10.0%</i>	<i>11.7%</i>	<i>13.0%</i>	Dividend Yield	3.7%	1.8%	0.8%	0.7%
Operating Expenses	(1,214)	(1,099)	(1,168)	(1,254)	Payout Ratio	58.1%	214.2%	52.3%	35.6%
EBIT	2,326	511	837	1,135	DER	24.3%	31.7%	32.4%	35.3%
<i>EBIT Margin</i>	<i>12.2%</i>	<i>3.2%</i>	<i>4.9%</i>	<i>6.2%</i>	Net Gearing	4.6%	5.1%	4.9%	4.8%
Depreciation	1,260	1,306	1,411	1,479	LT Debt to Equity	18.5%	29.7%	29.8%	32.2%
EBITDA	3,586	1,816	2,248	2,614	Capitalization Ratio	18.7%	25.6%	25.6%	26.8%
<i>EBITDA Margin</i>	<i>18.8%</i>	<i>11.3%</i>	<i>13.2%</i>	<i>14.3%</i>	Equity Ratio	72.5%	68.8%	68.5%	67.1%
Interest Expenses	95	192	204	218	Debt Ratio	16.6%	23.6%	23.5%	24.6%
EBT	2,207	434	813	1,119	Financial Leverage	136.3%	139.8%	143.6%	144.0%
Income Tax	(686)	(208)	(389)	(535)	Current Ratio	146.3%	221.2%	211.8%	216.7%
Minority Interest	(82)	(25)	(47)	(65)	Par Value (IDR)	500	500	500	500
Net Profit	1,439	201	377	519	Total Shares (mn)	1,925	1,925	1,925	1,925
<i>Growth</i>	<i>-28.4%</i>	<i>-86.0%</i>	<i>87.3%</i>	<i>37.7%</i>	Share Price (IDR)	11,825	12,416	13,037	13,689
<i>Net Profit Margin</i>	<i>7.5%</i>	<i>1.3%</i>	<i>2.2%</i>	<i>2.8%</i>	Market Cap (IDR tn)	22.8	23.9	25.1	26.3

BALANCE SHEET					VALUATION INDEX				
(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F		2018/12A	2019/12F	2020/12F	2021/12F
Cash	49	750	837	922	Price/Earnings	15.8x	118.7x	66.6x	50.8x
Receivables	617	440	468	502	Price/Book Value	1.2x	1.3x	1.3x	1.4x
Inventories	2,543	2,177	2,367	2,452	Price/Sales	1.2x	1.5x	1.5x	1.4x
Total Current Assets	4,501	4,880	5,072	5,506	PE/EPS Growth	-0.1x	-0.1x	0.1x	0.1x
Net Fixed Assets	20,438	19,912	19,935	19,980	EV/EBITDA	17.0x	34.4x	28.7x	24.8x
Other Non Current Assets	5,089	5,782	5,979	6,587	EV/EBIT	26.1x	122.4x	77.0x	57.2x
Total Assets	26,857	27,566	27,950	29,021	EV (IDR bn)	60,809	62,475	64,403	64,878
Payables	1,089	958	1,027	1,071	Sales CAGR (3-Yr)	-5.1%	-0.2%	2.8%	2.0%
Other Liabilities	863	873	868	870	EPS CAGR (3-Yr)	-32.6%	-27.0%	-4.3%	14.8%
LT Debt	3,606	5,643	5,699	6,269	Basic EPS (IDR)	747	105	196	270
Total Liabilities	7,382	8,590	8,814	9,541	Diluted EPS (IDR)	747	105	196	270
Capital Stock	962	962	962	962	BVPS (IDR)	10,118	9,859	9,942	10,121
Retained Earnings	14,182	13,643	13,823	14,157	Sales PS (IDR)	9,916	8,342	8,867	9,515
Shareholders' Equity	19,475	18,976	19,136	19,480	DPS (IDR)	434.0	224.0	102.5	96.0

CASH FLOW STATEMENT					TOP OWNERSHIP			
(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F	By Geography	% Shareholders	%	
Operating Cash Flow	1,821	1,334	1,747	1,695	Indonesia	94.9	Astra International Tbk	79.7
Investing Cash Flow	(1,679)	(1,617)	(1,623)	(2,106)	United States	4.4	Sun Life Financial	1.4
Financing Cash Flow	(355)	977	(36)	495	Luxembourg	0.2	Dimensional Fund	1.0
Net Changes in Cash	(213)	694	88	85	Ireland	0.2	Schroder Investment	0.7

Source: Company Data, NHKS Research

Closing and target price update



Source: Bloomberg, NHKS Research

Rating and target price update

Date	Rating	Target price	Consensus
2017.03.06	Buy	IDR18,150	IDR18,596
2017.07.28	Buy	IDR18,425	IDR17,659
2018.01.03	Hold	IDR14,425	IDR16,932
2018.03.09	Buy	IDR18,375	IDR15,955
2018.05.17	Buy	IDR14,800	IDR15,438
2018.08.30	Buy	IDR16,925	IDR13,320
2019.12.11	Buy	IDR15,600	IDR13,743

Source: NHKS Research

NHKS stock ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
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