

# Sawit Sumbermas Sarana (SSMS)

## Favorable debt refinancing

### Recent bond rating downgrade was NOT due to cash-flow risk

On 28Jun22, SSMS secured an 8-yr syndicated bank loan of IDR3.6tn with a 9% p.a. interest rate. Subsequently, SSMS announced a tender offer to buyback its USD300mn notes maturing in 23Jan2023 at USD900 for each USD1,000 in principal amount of notes; and able to redeem ~86.58% (or equivalent to USD259.7mn) from bondholders as of 7Jul2022. Following the conclusion of the notes' tender offer, both Moody's and S&P downgraded SSMS debt ratings to Caa2 (one notch below) and "Selective Default" (from CC), respectively. The downgrades were NOT due to potentially insufficient cash flows to settle the remaining USD40.3mn but due to description technicality. Quoting Moody's comment "*the buyback of the notes at a discount to par value and the diminished creditor rights of the residual noteholders (as noteholders will have to contend with secured bank debt, which has priority claim and ranks ahead of the notes) highlight the company's very high credit exposure*". In addition, Moody's "*expects SSMS to generate sufficient internal cash to redeem the residual USD40.3mn notes when they mature in Jan2023*".

### Refinancing reduced SSMS debt risk profile

Considering the refinancing into bank loans, SSMS managed to 1) reduce its forex risk and 2) get away from the costly USD bond withholding tax structure. With their attractive plantation profile and overall higher CPO price to sustain in FY22F and FY23F as explained in our initiation report ([SSMS Initiation – Stepping into its prime](#)), we expect SSMS to generate hefty earnings of IDR2.7tn and IDR2.3tn respectively. The strong cash flow generation and moderate capex spending for routine maintenance should allow SSMS to generate sufficient cash for deleveraging, and redeem the residual USD40.3mn bonds (including the last coupon payment) when it matures in Jan2023. Historically, SSMS's global bond has been munching on their earnings, especially on 2018 and 2019. The refinanced debt also saves SSMS IDR35bn interest expenses in FY23.

### Maintain BUY recommendation offering ~37% upside

We maintain our BUY call with TP at IDR2,040/sh, implying 7.2x FY22F PE and USD21.7k/Ha or at a premium as compared to other established Indonesian CPO companies). We have yet to analyze the earnings impact from revised export duty. Our sensitivity analysis shows that every IDR1,000/kg change in CPO ASP should impact SSMS's earnings by 15%, and every 5% change in CPO production should impact SSMS's earnings by 9%. Currently SSMS is trading at 5.2x FY22F PE, 1.7x FY22F EV/EBITDA, and a massive 38% ROE.

	2020A	2021A	2022F	2023F	2024F
Sales (IDR bn)	4,011	5,203	7,293	6,149	6,250
GP (IDR bn)	1,797	2,205	4,102	3,361	3,504
OP (IDR bn)	1,109	1,552	3,326	2,611	2,755
NP (IDR bn)	577	1,516	2,685	2,247	2,517
EBITDA (IDR bn)	1,429	1,858	3,633	2,920	3,062
Net debt/(cash) (IDR bn)	4,411	4,374	1,765	(83)	(1,616)
OP margin (%)	27.7	29.8	45.6	42.5	44.1
ROE (%)	13.0	27.7	37.6	25.5	25.0
Dividend yield (%)	-	3.1	4.1	7.2	6.0
EPS (IDR)	60.5	159.1	281.9	235.9	264.3
chg. (% YoY)	NA	155.6	111.7	(18.4)	5.3
BPS (IDR)	511.4	641.2	885.5	1,052.7	1,260.0
DPS (IDR)	-	30.5	39.8	70.5	59.0
PE (x)	14.0	6.1	5.2	6.3	5.6
PB (x)	8.8	7.4	4.6	5.1	4.2
EV/EBITDA (x)	1.7	1.5	1.7	1.4	1.2

## Company Update

### Plantation

Aug 11, 2022

12M rating **BUY (Maintain)**  
12M TP **IDR 2,040**  
Upside **37%**

#### Stock Data

JCI (Aug 10)	7086.2
Stock price (Aug 10, IDR)	1490
Market cap (IDR bn)	14,192.3
Shares outstanding (mn)	9525
52-week high/low (IDR)	1,555/790
6M avg. daily turnover (IDR bn)	11.4
Free float (%)	32.40

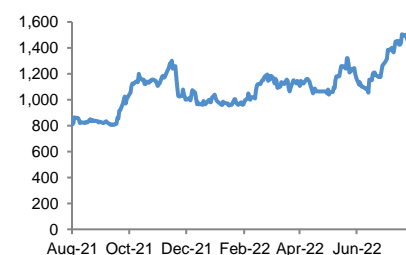
#### Major shareholders (%)

PT Citra Borneo Indah	53.8
PT Putra Borneo Agro Lestari	11.3

#### Performance

	1M	6M	12M
Absolute (%)	17.8	65.5	91.4
Relative to JCI (%p)	12.0	47.9	58.0

#### SSMS stock price



Source: Bloomberg

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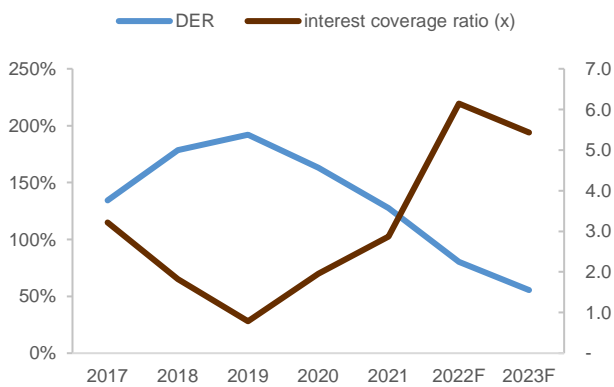
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Table 1. Sensitivity analysis

CPO Production (MT)		CPO ASP (IDR/kg)				
		9,100	10,100	11,100	12,100	13,100
-15%	445,202	970	1,304	1,638	1,972	2,306
-10%	471,391	1,149	1,503	1,856	2,210	2,564
-5%	497,579	1,328	1,701	2,075	2,448	2,821
Base	523,767	1,507	1,900	2,293	2,685	3,078
5%	549,956	1,686	2,098	2,511	2,923	3,336
10%	576,144	1,864	2,297	2,729	3,161	3,593
15%	602,332	2,043	2,495	2,947	3,399	3,850

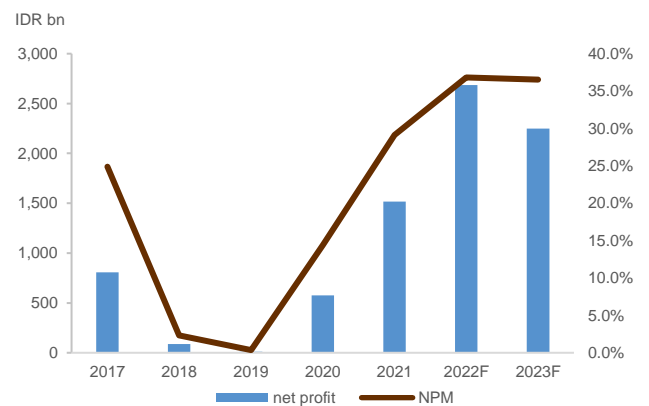
Source: Company, KISI

Fig 1. Leverage ratio



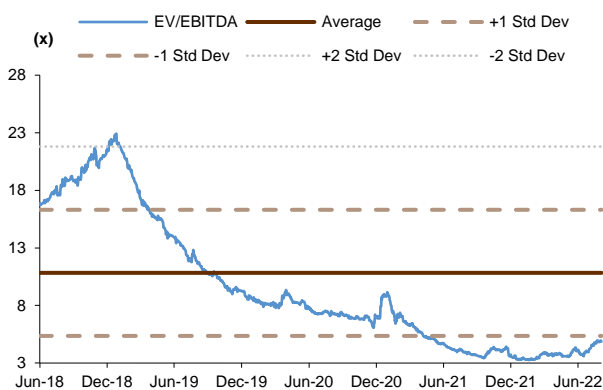
Source: Company, KISI

Fig 2. Net profit and NPM



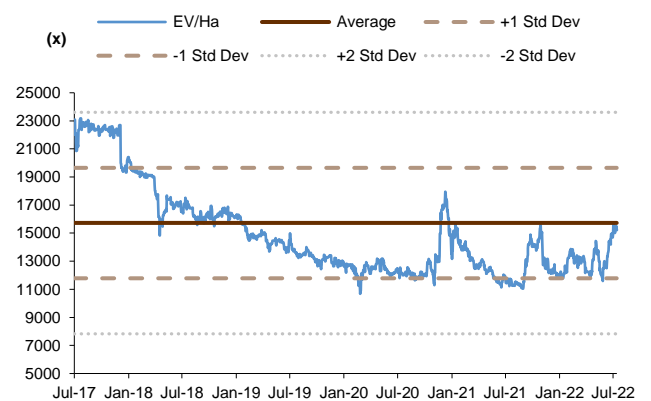
Source: Company, KISI

Fig 2. SSMS EV/EBITDA



Source: Company, KISI

Fig 3. SSMS EV/Ha

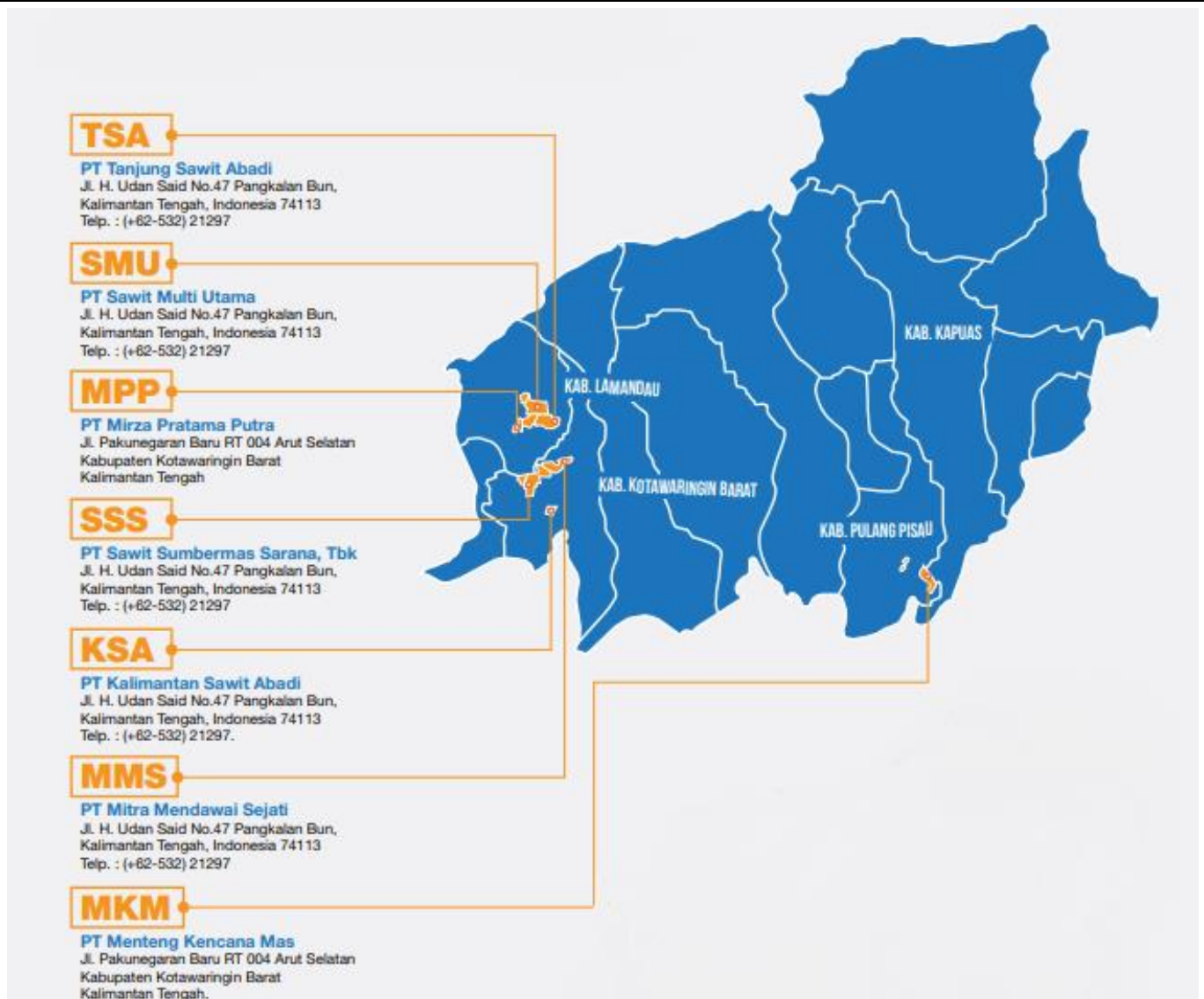


Source: Company, KISI

## Company overview

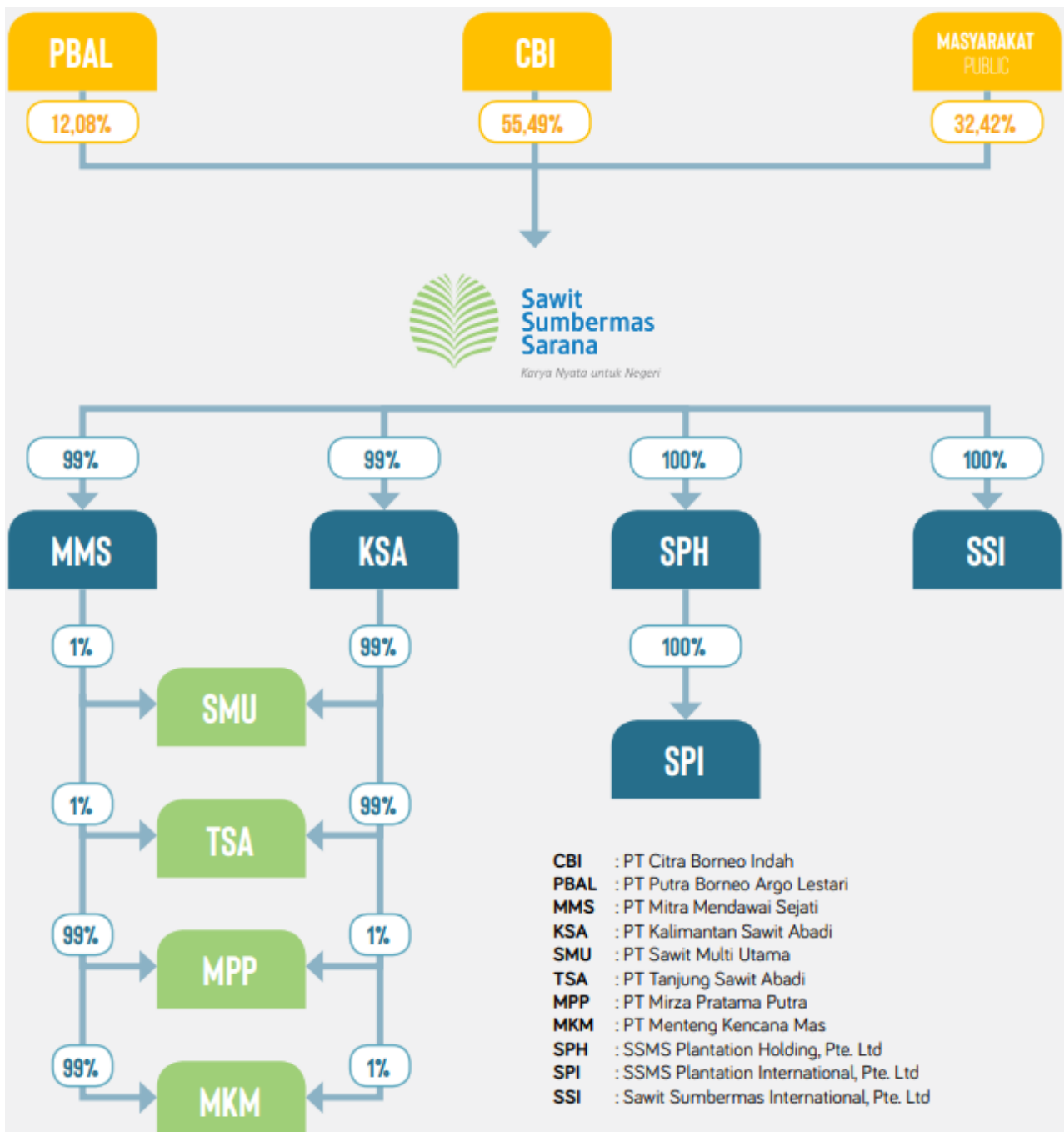
PT Sawit Sumbermas Sarana Tbk is an Indonesia-based palm oil company. The Company manages an integrated business across over 23 oil palm estates, eight oil palm mills (PKS), and one palm kernel mill out of Pangkalan Bun, Central Kalimantan, Indonesia. The Company manages a total of approximately 116,029 hectares (ha) of land bank, of which about 81,237 ha was already planted with mature plants, consisting of approximately 68,880 ha of the planted nucleus and over 12,357 ha of planted plasma area. The Company's subsidiaries include PT Mitra Mendawai Sejati, PT Kalimantan Sawit Abadi, PT Mirza Pratama Putra, PT Sawit Mandiri Uatama, PT Tanjung Sawit Abadi, PT Menteng Kencana Mas, Sawit Plantation Holding (SPH), Sawit Plantation International (SPI) and Sawit Sumbermas International (SSI).

Fig 4. SSMS operational map photo



Source: Company, KISI

Fig 5. SSMS company structure



Source: Company, KISI

### Balance sheet (IDR bn)

FY-ending Dec. (IDR bn)	2020A	2021A	2022F	2023F	2024F
<b>Current assets</b>					
Cash & cash equivalent	1,908	1,833	2,739	3,522	4,919
Accounts & other receivables	611	668	871	636	657
Inventories	315	353	350	306	301
Others	581	647	647	647	647
<b>Non-current assets</b>					
Fixed assets	4,531	4,401	4,602	4,479	4,350
Intangible assets	9	11	12	14	15
Total investment	1,880	1,951	1,951	1,951	1,951
Other non-current assets	2,940	3,987	3,992	3,997	4,003
<b>Total assets</b>	<b>12,776</b>	<b>13,851</b>	<b>15,164</b>	<b>15,551</b>	<b>16,843</b>
<b>Current liabilities</b>					
Accounts & other payables	748	653	485	461	424
ST debt & bond	-	-	-	-	-
Current portion of LT debt	185	257	224	195	170
Others	507	554	554	554	554
<b>Non-current liabilities</b>					
LT debt & financial liabilities	6,159	6,002	5,190	4,036	3,415
Other non-current liabilities	308	277	277	277	277
<b>Total liabilities</b>	<b>7,905</b>	<b>7,743</b>	<b>6,730</b>	<b>5,524</b>	<b>4,841</b>
<b>Controlling interest</b>					
Capital stock	953	953	953	953	953
Additional paid-in capital	541	541	541	541	541
Retained earnings	2,999	4,225	6,531	8,107	10,063
Others	355	357	357	357	357
Minority interest	23	33	53	69	88
<b>Total equity</b>	<b>4,871</b>	<b>6,108</b>	<b>8,434</b>	<b>10,027</b>	<b>12,001</b>

### Cash flow (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
<b>C/F from operating</b>	<b>(290)</b>	<b>465</b>	<b>2,618</b>	<b>2,806</b>	<b>2,764</b>
Net profit	577	1,516	2,685	2,247	2,517
Depreciation	320	306	307	309	307
Net incr. in W/C	(1,186)	(1,357)	(375)	249	(61)
Others	-	-	-	-	-
<b>C/F from investing</b>	<b>(209)</b>	<b>(176)</b>	<b>(508)</b>	<b>(186)</b>	<b>(179)</b>
CAPEX	(209)	(176)	(508)	(186)	(179)
Others	-	-	-	-	-
<b>C/F from financing</b>	<b>204</b>	<b>(363)</b>	<b>(1,203)</b>	<b>(1,838)</b>	<b>(1,188)</b>
Incr. in equity	-	-	-	-	-
Incr. in debts	(22)	(84)	(844)	(1,183)	(645)
Dividends	-	(290)	(379)	(671)	(562)
Others	226	12	20	17	19
<b>Increase in cash</b>	<b>-295</b>	<b>-74</b>	<b>906</b>	<b>783</b>	<b>1,397</b>

### Income statement (IDR bn)

FY-ending Dec. (IDR bn)	2020A	2021A	2022F	2023F	2024F
Sales	4,011	5,203	7,293	6,149	6,250
COGS	-2,214	-2,998	-3,191	-2,788	-2,747
Gross profit	1,797	2,205	4,102	3,361	3,504
SG&A expense	-688	-654	-775	-750	-749
Operating profit	1,109	1,552	3,326	2,611	2,755
<b>Financial income</b>					
Interest income	64	509	240	359	461
<b>Financial expense</b>					
Interest expense	(541)	(541)	(481)	(379)	-
Other non-operating profit	53	163	163	163	163
Gains (Losses) in associates, subsidiaries and JV	(65)	70	160	128	128
Earnings before tax	900	1,874	3,469	2,903	3,251
Income taxes	(319)	(347)	(763)	(639)	(715)
Non-controlling interest	4	11	20	17	19
Net profit	577	1,516	2,685	2,247	2,517
EBITDA	1,429	1,858	3,633	2,920	3,062

### Key financial data (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
<b>per share data (IDR)</b>					
EPS	60.5	159.1	281.9	235.9	264.3
BPS	511.4	641.2	885.5	1,052.7	1,260.0
DPS	-	30.5	39.8	70.5	59.0
<b>Growth (%)</b>					
Sales growth	22.4	29.7	40.2	(15.7)	1.7
OP growth	174.7	39.9	114.4	(21.5)	5.5
NP growth	4,845.6	162.8	77.2	(16.3)	12.0
EBITDA growth	103.7	30.0	95.6	(19.6)	4.9
<b>Profitability (%)</b>					
OP margin	27.7	29.8	45.6	42.5	44.1
NP margin	14.4	29.1	36.8	36.6	40.3
EBITDA margin	35.6	35.7	49.8	47.5	49.0
ROA	4.7	11.4	18.5	14.6	15.5
ROE	13.0	27.8	37.2	24.5	23.0
Dividend yield	-	3.1	4.1	7.2	6.0
Dividend payout ratio	-	50.4	25.0	25.0	25.0
<b>Stability</b>					
Net debt (IDR bn)	4,435	4,426	2,197	372	-1,031
Int.-bearing debt/equity (%)	142.6	114.6	85.1	17.4	13.3
<b>Valuation (X)</b>					
PE	14.0	6.1	5.2	6.3	5.6
PB	8.8	7.4	4.6	5.1	4.2
EV/EBITDA	1.7	1.5	1.7	1.4	1.2

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