

Plantation

Better price outlook to resume

CPO prices continue surging

Entering 2022, CPO prices continue their uptrend and as of YTD, CPO price stood at USD1,322.7/MT (+39.3% YoY, +6.8% YTD) due to (i) soft production of CPO in both Indonesia and Malaysia estates, (ii) expectation of higher CPO shipments into India as it has just reduced the CPO import tax to 5% (from 7.5% previously), (iii) new DMO policy in Indonesia (planters must allocate 20% of their export to domestic market), and (iv) upward trends of other vegetable oils prices. We believe that the recent strong CPO ASP will continue at least until 1H22 before a gradual downtrend from a better production of CPO.

New regulation: DMO and DPO impacts to upstream players

Recently, Indonesia Government imposes Domestic Market Obligation or DMO (which necessitates CPO upstream players to allocate a minimum of 20% of export volume for domestic usage) and Domestic Price Obligation or DPO (ceiling price of being kept at IDR9,300/kg for CPO and IDR10,300/kg for Olein) in order to reduce the cooking oil retail price. Most of the companies under our coverage have met the DMO regulation; as most of the companies sold their production locally (65% to 100% sold domestically). **We foresee a limited impact from DPO regulation to the CPO upstream players' revenue growth in 2022;** as the CPO spot price remained high at IDR14,000/kg to IDR15,000/kg. Sustained high spot price should be able to offset ASP impact on the volume which is regulated at IDR9,300/kg.

4Q21 result preview – softer production

Most of the CPO players under our coverage would see lower revenue and earnings performance in 4Q21 on the back of (i) softer production on QoQ and YoY basis, and (ii) higher fertilizer cost. We view that the higher ASP in 4Q21 could not offset the lower production during that time. We estimate 4Q21F production decline by an average of 5-10% on QoQ basis due to (i) heavy rainfall during the period, and (ii) persisting low fertilizer impact. Meanwhile, we are expecting a better CPO ASP in 4Q21 at IDR11k to IDR12k per kg.

Maintain OW call on the sector

LSIP is our top pick in Indonesia plantation space as LSIP is a pure-play on CPO price, as a 1% change in CPO price will translate into a 6% earnings movement. Meanwhile, we continue to like DSNG and TAPG on the back of their younger trees in its portfolio, as it would provide a faster volume growth (adding leverage in a current high price). For TAPG specifically, we foresee a strong earnings growth in FY22F due to their expectation of (i) strong CPO production, and (ii) better ASP vs 2021 ASP.

Plantation valuation

Company	Bloomberg Ticker	PE (x)		PB (x)		EV/EBITDA (x)	
		FY21F	FY22F	FY21F	FY22F	FY21F	FY22F
Indonesia							
Astra Agro L	AALI IJ	9.6	9.3	1.0	1.0	7.2	6.5
London Sum	LSIP IJ	8.7	9.0	0.6	0.6	8.0	7.4
Dharma Satya N	DSNG IJ	7.6	6.3	1.3	1.2	8.3	7.1
Triputra Agro P	TAPG IJ	10.6	7.4	1.9	1.6	7.8	6.1

Source: Bloomberg, KISI

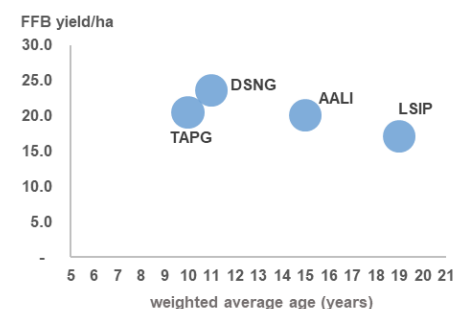
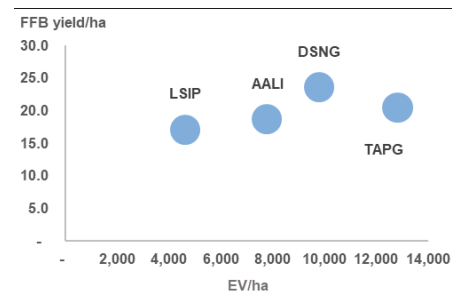
Sector Update

Plantation

February 22, 2022

OVERWEIGHT (Maintain)

Company	Rating	TP
AALI	BUY	IDR13,100
DSNG	BUY	IDR1,000
LSIP	BUY	IDR1,900
TAPG	BUY	IDR1,200



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I. 4Q21 result preview

AALI 4Q21 preview. We estimate AALI production of 339k MT (-11.3% QoQ; -14.2% YoY) in 4Q21 or in-line with our CPO FY21F production of 1.47mn MT. In our view, the softer production in 4Q is due to (i) heavy rainfall, and (ii) impact from low fertilizer in 2019. The revenue growth in 4Q21 would be driven by a better ASP; as CPO price continued to rise to USD1,242/MT from an average of USD1,063.6/MT in 3Q21. Furthermore, we expect gross margin to fall in 4Q21 on the back of an increase in fertilizer cost. After factoring in the assumption, based on our calculation, AALI should report 4Q21 earnings of IDR260bn to bring FY21 earnings of IDR1.74tn – 110% from our estimate.

Table 1. AALI 4Q21F operational preview

	4Q20	1Q21	2Q21	3Q21	4Q21F
CPO ASP (USD/MT)	828.7	968.5	1,024.3	1,063.5	1,242.0
	36.3%	50.4%	93.1%	59.9%	49.9%
Market CPO price (IDR/kg)	12,016	14,043	14,852	15,422	18,009
AALI CPO ASP (IDR/kg)	9,378	9,764	10,598	10,734	11,000
	4Q20	1Q21	2Q21	3Q21	4Q21F
CPO production (MT)	395,000	352,000	406,100	382,300	339,000
Sales volume (MT)					
CPO	397,947	299,298	322,597	410,090	339,000
Olein	92,026	109,345	108,934	118,183	118,183
Stearin	19,500	27,500	29,299	27,000	27,000
PFAD	5,500	8,000	6,499	6,000	6,000
RBDPO	11,999	10,000	12,000	9,500	9,500
Total volume	526,972	454,143	479,329	570,773	499,683
CPO sales (IDRbn)	3,732	2,922	3,419	4,402	3,729
Other derivatives sales (IDRbn)	1,333	1,581	1,796	2,117	1,000
Total CPO and derivatives sales	5,026	4,504	5,215	6,519	4,729
PK sales (IDRbn)	429	495	518	565	500
Others	28	36	35	12	20
Total	5,483	5,035	5,797	7,182	5,249

Source: KISI

Table 2. AALI 4Q21F financial preview

<i>in IDR bn</i>	4Q20	1Q21	2Q21	3Q21	4Q21F	QoQ	YoY
Revenue	5,483.3	5,035.2	5,796.9	7,182.4	5,249.0	-26.9%	-4.3%
Gross profit	1,046.0	932.2	1,281.8	1,397.2	944.8	-32.4%	-9.7%
EBIT	497.0	354.8	756.2	1,113.4	524.9	-52.9%	5.6%
Net Income	250.5	162.4	486.9	819.8	262.5	-68.0%	4.8%
GPM	19.1%	18.5%	22.1%	19.5%	18.0%		
EBIT margin	9.1%	7.0%	13.0%	15.5%	10.0%		
NPM	4.6%	3.2%	8.4%	11.4%	5.0%		

Source: KISI

LSIP 4Q21 preview. We estimate LSIP production of 70k MT (-9.1% QoQ) in 4Q21, bringing FY21F CPO production of 311k MT or below with our estimate of 349k MT. In our view, the soft production in 4Q21 is due to (i) heavy rainfall, and (ii) impact from low fertilizer in 2019. The revenue growth in 4Q21F would be driven by a better ASP; as CPO price continues to rise to USD1,242/MT from an average of USD1,063.6/MT. Furthermore, we expect gross margin to fall in 4Q21 on the back of an increase in fertilizer cost. After factoring in the assumption, based on our calculation, LSIP should report earnings of IDR187bn in 4Q21, to bring FY21 results to be in line with our estimates.

Table 3. LSIP 4Q21 financial preview

<i>in IDR bn</i>	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21F	QoQ	YoY
Revenue	712	1,259	1,196	981	1,162	936	-19.5%	-25.7%
Gross profit	211	589	426	329	407	299	-26.4%	-49.1%
EBIT	221	518	367	243	333	215	-35.4%	-58.5%
Net Income	185	419	297	204	251	187	-25.5%	-55.3%
GPM	29.6%	46.8%	35.6%	33.6%	35.0%	32.0%		
EBIT margin	31.0%	41.2%	30.7%	24.7%	28.7%	23.0%		
NPM	26.0%	33.3%	24.9%	20.8%	21.6%	20.0%		

	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21F
CPO production ('000 MT)	69	104	86	78	77	70
CPO ASP (IDR/kg)	8,398	9,495	9,626	10,476	11,679	12,000

Source: KISI

TAPG 4Q21 preview. We forecast a decline in revenue of -16% YoY and around -11% QoQ on the back of soft production in 4Q21F. In our view, the soft production in 4Q is due to (i) heavy rainfall, and (ii) impact from low fertilizer in 2019. The revenue growth in 4Q21 would be driven by a better ASP; as CPO price continues to rise to USD1,242/MT from an average of USD1,063.6/MT as of 3Q21. Based on our conversation with TAPG management, 4Q21 ASP stands at IDR11k/kg. Margin should fall in 4Q21, as fertilizer cost has increased.

Table 4. TAPG 4Q21 financial preview

<i>in IDR bn</i>	4Q20	1Q21	2Q21	3Q21	4Q21F	QoQ	YoY
Revenue	1,700.7	1,351.2	1,505.2	1,596.3	1,428.6	-10.5%	-16.0%
Gross profit	651.5	292.9	373.0	379.3	285.7	-24.7%	-56.1%
Operating profit	516.0	187.7	246.0	283.0	228.6	-19.2%	-55.7%
Net Income	662.0	142.7	263.2	307.3	214.3	-30.3%	-67.6%
OPM	30.3%	13.9%	16.3%	17.7%	16.0%		
GPM	38.3%	21.7%	24.8%	23.8%	20.0%		
NPM	38.9%	10.6%	17.5%	19.2%	15.0%		

Source: KISI

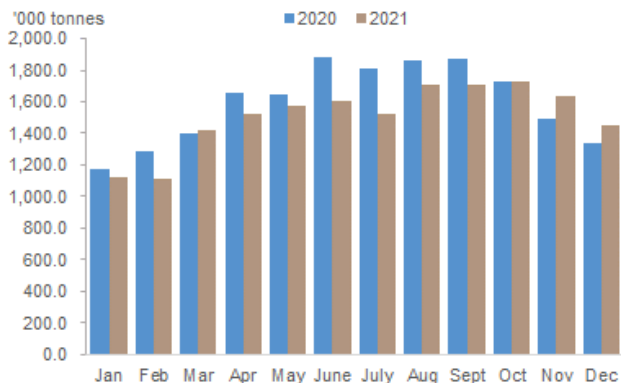
DSNG 4Q21 preview. As of 2021, DSNG FFB production turned out to be lower than last year's production of 2mn MT. This is because the phasing out of 2019 El Nino's lagged impact did not happen as expected. Moreover, several floods in 2Q21 and 4Q21 had contributed to some disruptions in the harvesting process, OER, FFA, and, ultimately, CPO production. As a result, DSNG recorded CPO production of 544k MT in 2021 (-15% YoY), followed by a lower CPO sales volume of 545k MT (-15% YoY), below our FY21 estimates. Based on the assumption, we view that DSNG 4Q21 revenue will decline at -7.8% QoQ and estimate a lower GPM in 4Q21 at 19% on the back of potential higher fertilizer cost.

Table 5. DSNG 4Q21 results preview

<i>in IDR bn</i>	4Q20	1Q21	2Q21	3Q21	4Q21	QoQ	YoY
Revenue	2,317.7	1,636.6	1,660.6	1,755.4	1,617.9	-7.8%	-30.2%
Gross profit	767.5	394.1	401.3	511.7	404.5	-21.0%	-47.3%
Operating profit	536.8	311.4	235.2	353.5	307.4	-13.0%	-42.7%
Net Income	312.9	99.8	107.7	208.4	145.6	-30.1%	-53.5%
OPM	23.2%	19.0%	14.2%	20.1%	19.0%		
GPM	33.1%	24.1%	24.2%	29.2%	25.0%		
NPM	13.5%	6.1%	6.5%	11.9%	9.0%		
	4Q20	1Q21	2Q21	3Q21	4Q21		
FFB production (MT)	871,890	485,268	514,912	479,865	473,553		
CPO production (MT)	194,493	143,701	144,204	131,966	124,409		
PK production (MT)	35,763	25,402	25,215	23,554	22,561		
PKO production (MT)	10,842	7,109	8,513	7,358	7,124		
CPO sales (MT)	206,962	135,201	143,555	133,779	132,280		
CPO ASP (IDRmn/MT)	9.06	8.70	8.18	9.17	10.96		

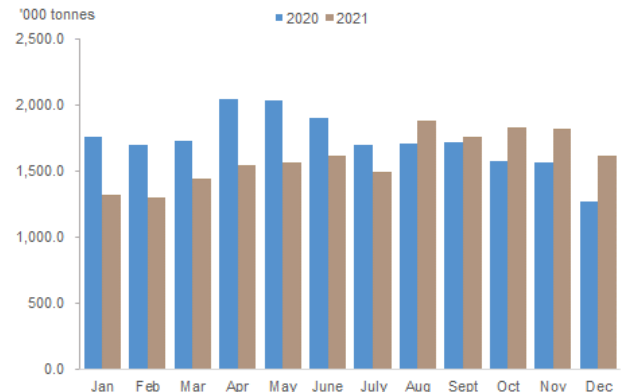
Source: KISI

Fig 1. Malaysia CPO production ('000 MT)



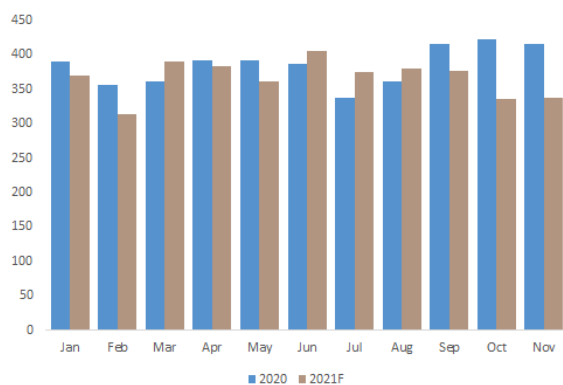
Source: MPOB, KISI

Fig 2. Malaysia CPO inventory ('000 MT)



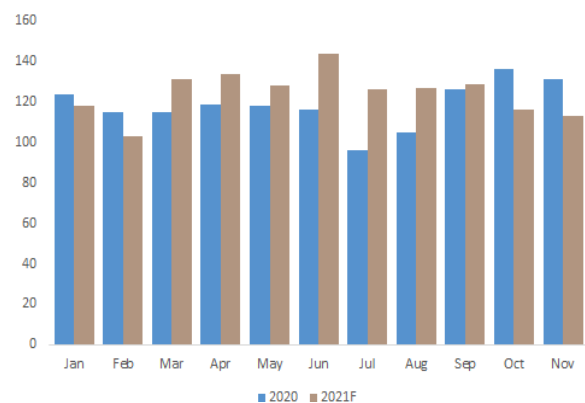
Source: MPOB, KISI

Fig 3. AALI FFB production ('000 MT)



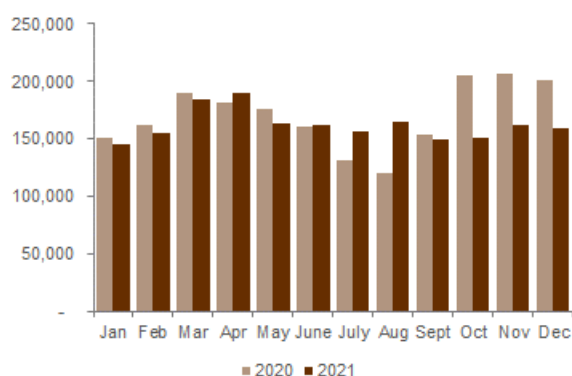
Source: Company, KISI

Fig 4. AALI CPO production ('000 MT)



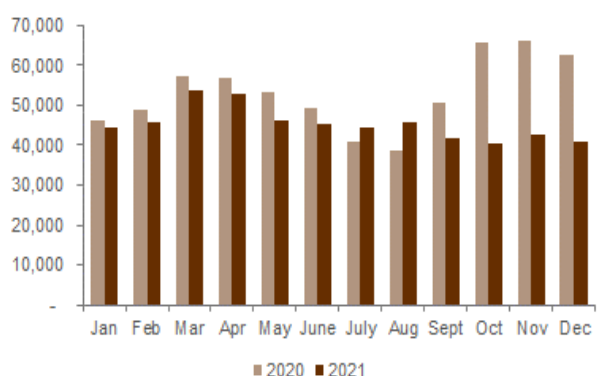
Source: Company, KISI

Fig 5. DSNG FFB production ('000 MT)



Source: Company, KISI

Fig 6. DSNG CPO production ('000 MT)



Source: Company, KISI

Fig 7. CPO price (MYR/MT)



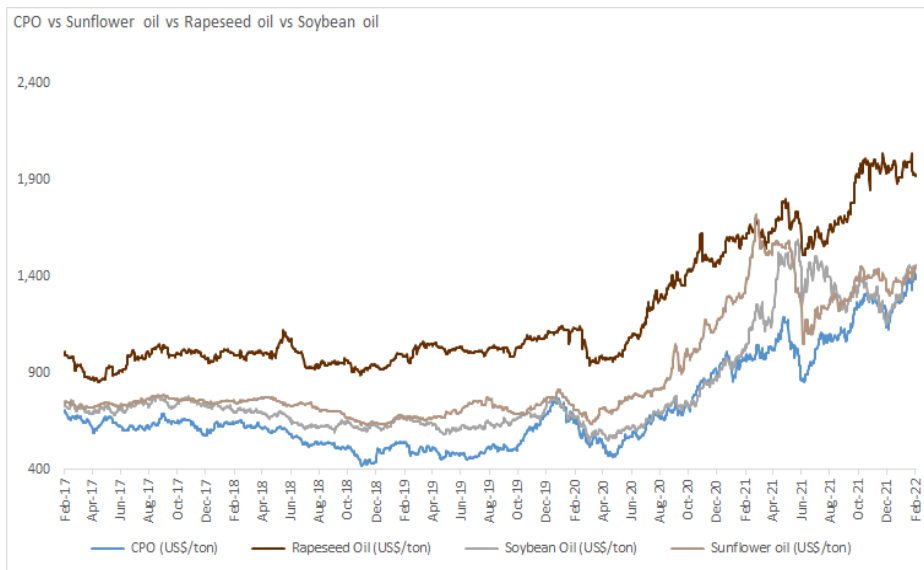
Source: Bloomberg, KISI

Fig 8. Soybean, wheat, corn price (USD/bu)



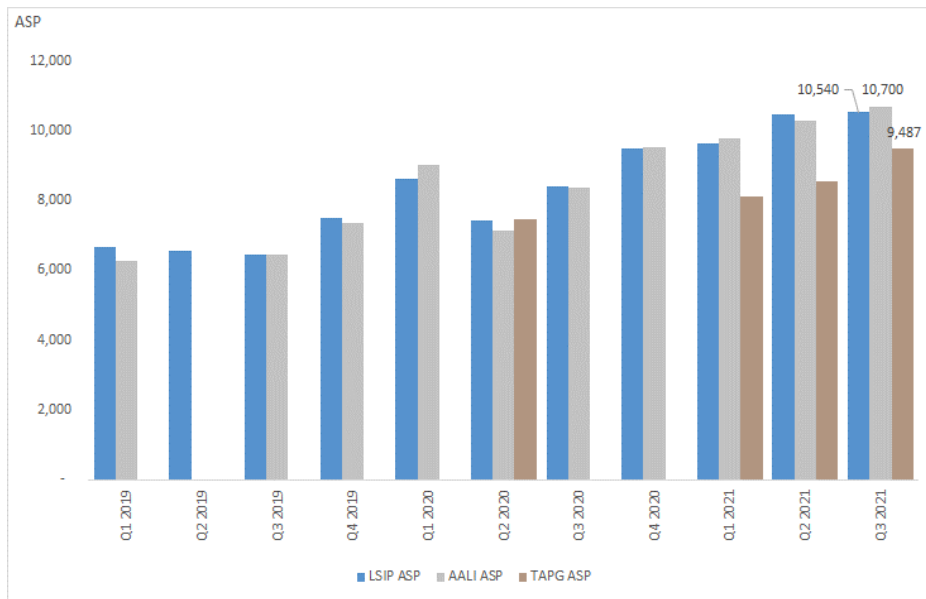
Source: Bloomberg, KISI

Fig 9. CPO vs sunflower oil vs rapeseed oil vs soybean oil (USD)



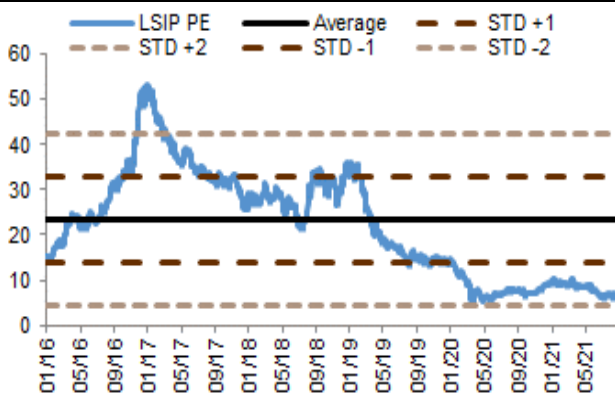
Source: Bloomberg, KISI

Fig 10. LSIP, AALI, TAPG ASP as of 3Q21



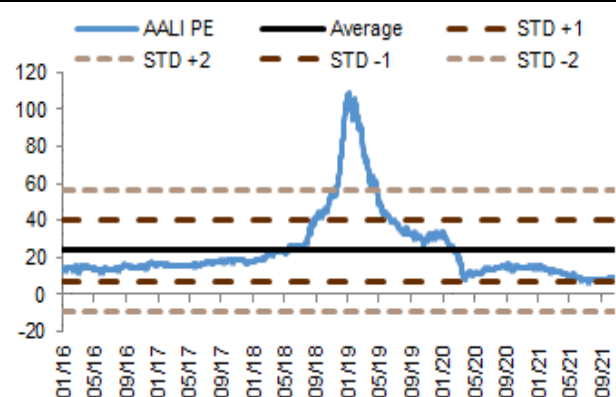
Source: Companies, KISI

Fig 11. LSIP PE Band (x)



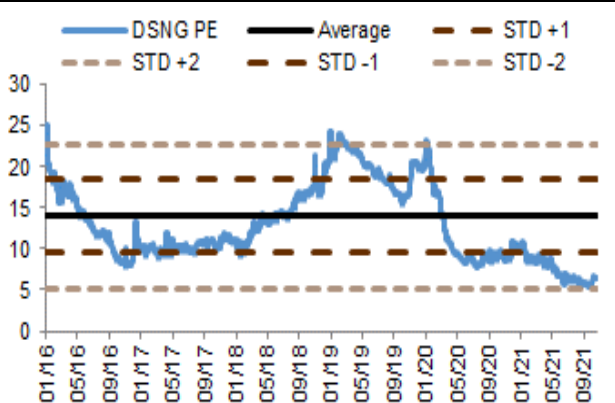
Source: Bloomberg, KISI

Fig 12. AALI PE Band (x)



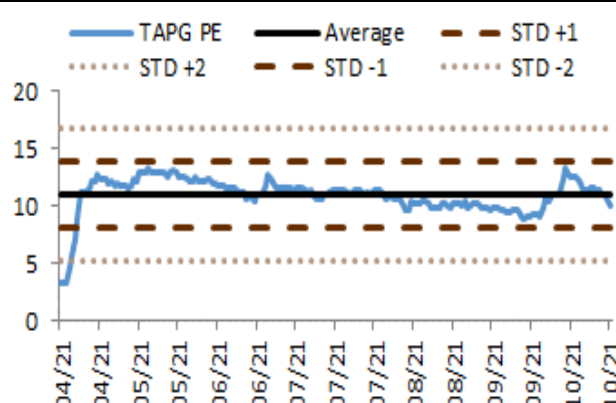
Source: Bloomberg, KISI

Fig 13. DSNB PE Band (x)



Source: Bloomberg, KISI

Fig 14. TAPG PE Band (x)



Source: Bloomberg, KISI

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