

Singapore Company Guide

Indofood Agri Resources

Edition 1 Version 1 | Bloomberg: IFAR SP | Reuters: IFAR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

27 Oct 2015

HOLD

Last Traded Price: S\$0.60 (STI : 3,052.53)

Price Target : S\$0.47 (22% downside)

Potential Catalyst: Weaker-than-expected 3Q15 and 4Q15 results
Where we differ: We have the lowest FY15F and FY16F EPS as we employ a conservative CPO ASP and impute significant FX losses

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (Rp bn)	2014A	2015F	2016F	2017F
Turnover	14,963	13,785	15,344	16,144
EBITDA	3,329	1,679	2,975	3,319
Pre-tax Profit	2,007	158	890	1,165
Net Profit	759	53	379	465
Net Pft (Pre Ex.)	759	53	379	465
EPS (S cts)	5.46	0.38	2.73	3.35
EPS Pre Ex. (S cts)	5.46	0.38	2.73	3.35
EPS Gth (%)	45	(93)	621	23
EPS Gth Pre Ex (%)	45	(93)	621	23
Diluted EPS (S cts)	5.46	0.38	2.73	3.35
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	105	106	69	72
PE (X)	11.0	158.5	22.0	17.9
PE Pre Ex. (X)	11.0	158.5	22.0	17.9
P/Cash Flow (X)	4.1	9.5	4.2	3.7
EV/EBITDA (X)	7.1	14.7	8.5	7.7
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.6	0.6	0.9	0.8
Net Debt/Equity (X)	0.3	0.3	0.4	0.4
ROAE (%)	5.3	0.4	3.1	4.8

Earnings Rev (%):	-	-	-
Consensus EPS (S cts):	4.1	5.7	7.4
Other Broker Recs:	B: 3	S: 3	H: 6

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

SEQUENTIAL RECOVERY PRICED IN

Sequentially higher 3Q15 earnings. Based on 3Q15 CPO ASP of Rp6,763/kg (or c.US\$488/MT - US\$23 below spot), a 5% q-o-q higher CPO sales volume, and a 45% y-o-y jump in sugar sales volume, IndoAgri is projected to report 3Q15 earnings of c.Rp38bn. However excluding unrealised FX loss of Rp237bn (arising from US\$250m debt exposure less US\$70m cash as at end-Dec-14), the group's underlying net profit is estimated to arrive at Rp215bn (i.e. 5-fold jump q-o-q). While this would bring IndoAgri's 9M15 reported earnings to c.Rp75bn (vs. our FY15 forecast of Rp53bn), we are leaving our forecasts unchanged for now.

Refining margins to recover in 4Q15 Following the introduction of B15 export levies in Jul-15, local CPO and RBD Olein prices have traded below those in international spot markets. This divergence has adversely affected IndoAgri's upstream segment, although the group's edible oils should benefit from lower feedstock costs.

Lower projected new planting. IndoAgri currently has c.56k ha of immature oil palm estates, which together with additional milling capacities to process additional output from maturing estates, would continue to require significant capital expenditure. In view of the weak CPO price environment (after imputing export levies) and stringent sustainability criteria, we expect the group to undertake a more manageable new planting of 5k ha this year and 7.5k ha next year.

Valuation:

We value IndoAgri at S\$0.47/share based on DCF methodology (Rf 8.8%, Rm 15.7%, β 1.15x, WACC 12.5%, TG 3%). At its current price level, the counter has 22% downside potential..

Key Risks to Our View:

IndoAgri's share price is driven by CPO price expectations and to a certain extent by refining margin and sugar prices. A strong recovery in CPO prices (either data, weather or regulatory-driven) would boost its share price higher than our fair value, and vice versa.

At A Glance

Issued Capital (m shrs)	1,396
Mkt. Cap (S\$m/US\$m)	838 / 602
Major Shareholders	
PT Indofood Sukses Makmur (direct/indirect) (%)	62.8
Free Float (%)	37.2
3m Avg. Daily Val (US\$m)	0.3

ICB Industry : Consumer Goods / Food Producers

CRITICAL DATA POINTS TO WATCH

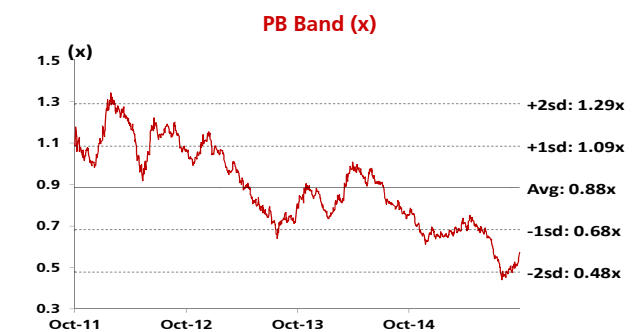
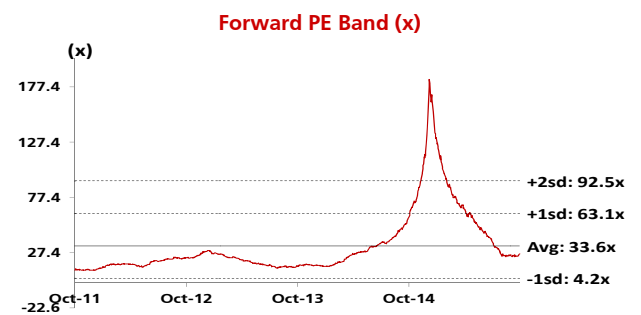
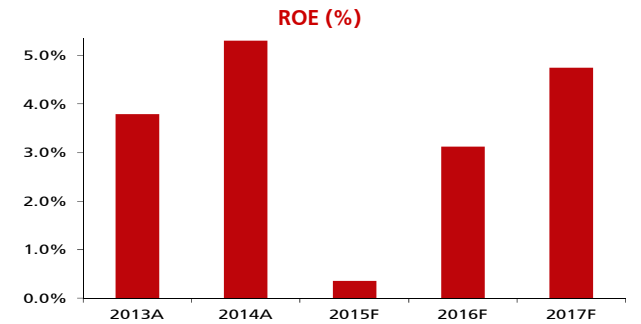
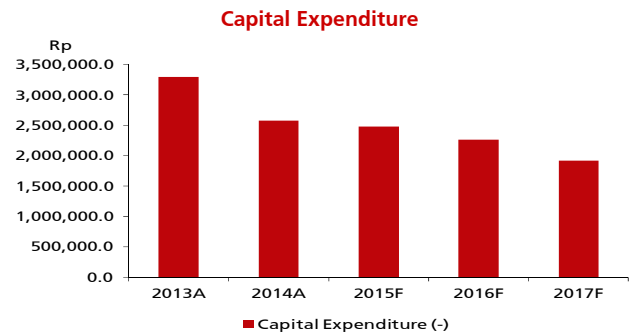
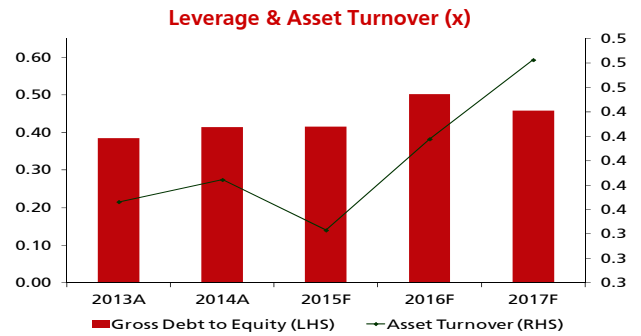
Earnings Drivers:

CPO price. As a commodity producer, IndoAgri is a price-taker. Movements in international CPO prices would directly impact the group’s profitability. The group does not subscribe to any hedging policy for its sales. We recently adjusted our CPO price forecasts lower to account for: (1) record soybean harvests (soybean oil is a substitute); and (2) the disappearance in discretionary biodiesel demand following the drop in crude oil prices since end-2014. We now expect CPO prices (FOB Pasir Gudang) to average US\$546 this year and US\$537 next year – representing drops of 26% and 2% y-o-y respectively.

Flat FFB yields this year. As at end of FY14, IndoAgri’s oil palm trees (excluding smallholder estates) had an estimated average age of 11 years. Based on its age profile, approximately 40k ha will mature between FY14 and FY17F – representing c.22% of its own mature hectareage at end of FY14. This should keep its tree average age at 12.9 years by end-FY17F. Likewise, IndoAgri’s own FFB output is forecast to expand by a 7% CAGR over the next three years. Geographically, the group’s Central and North Sumatra estates saw lagged adverse impact on FFB yield from dry weather in 1Q14 and again in 1Q15, while estates in Kalimantan and South Sumatra saw yield declines in 1H15. On expectations of a pick-up in 4Q15 peak harvesting rounds, FFB yields should therefore average slightly lower this year, in our view, given the dilutive impact of maturing estates.

Minimal impact from Indonesia’s biodiesel policy. IndoAgri has 1.425m MT of refining capacity – which will benefit from the Indonesian government’s B15 programme – against FY15F internal CPO output of 992k MT. Under the programme, Indonesian refiners will have differentiated export levies between CPO (US\$50/MT) and RBD Olein (US\$30/MT). This spread will more than cover the refining cost. However, on a consolidated basis, the group would also suffer from lower domestic CPO selling prices. Because of the larger refining volumes, we estimate that IndoAgri would incur insignificant negative impact from the proposed policy – unlike other pure upstream planters. Yet, persistent weakness in crude oil prices would continue to have negative short-term impact on its sugar and rubber ASP.

Demand seasonality. As a major vegetable oil with 36% global market share, palm oil is an important food staple. The other major vegetable oils are soybean oil, with 27% 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.



Source: Company, DBS Bank

Balance Sheet:

High capex. We expect IndoAgri to incur capex outlay of Rp1.9-2.5tn p.a. over the next three years – principally to maintain its vast 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 Rp9,883bn by end-FY15F – of which 30% is USD-denominated. This translates into a net debt-to-total equity ratio of 31%. Blended borrowing cost is estimated at 8.4% and in FY15F the group should have 1.2x interest cover. At the end of 2Q15, IndoAgri's 4-quarter rolling cash conversion cycle stood at 41 days (vs. 28 days at end-Mar-15) – representing higher receivable days. This is not a major concern, as we believe the increase was due to collection timing issue.

Negative free cash flow this year. Given drops in CPO, sugar and rubber prices and slightly lower FFB yields, we expect IndoAgri to incur a negative FY15F free cash flow of Rp906bn. This would be followed by a recovery into positive free cash flow of Rp54bn next year – driven by higher sugarcane output and slightly higher CPO prices (in Rupiah terms) and sales volumes.

Share Price Drivers:

Execution is key. Historically, IndoAgri's quarterly results have, more often than not, been underperforming consensus forecasts since 2013 (based on Bloomberg data). The counter's P/BV ratio has likewise been trading 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.

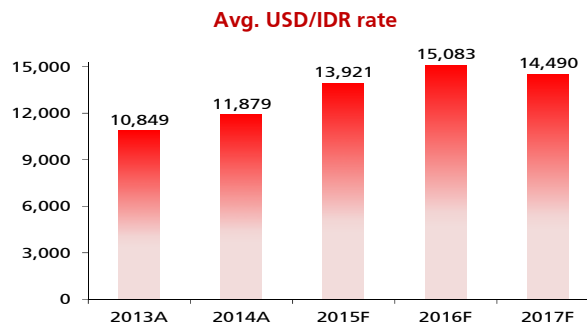
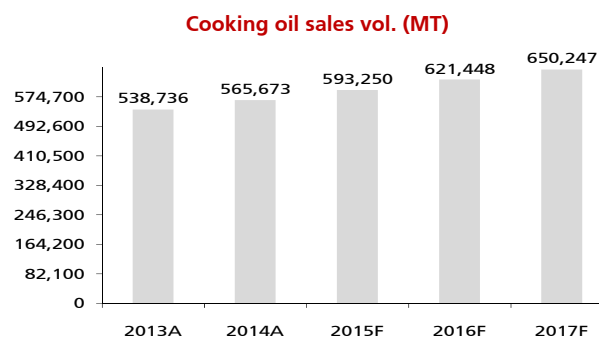
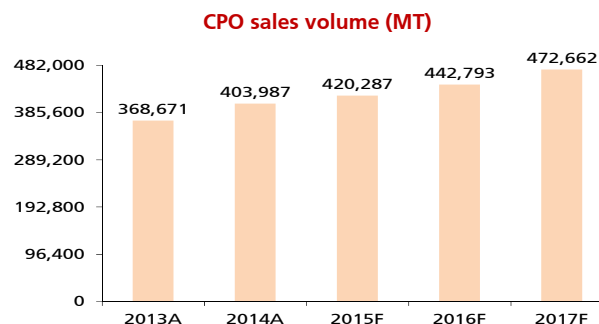
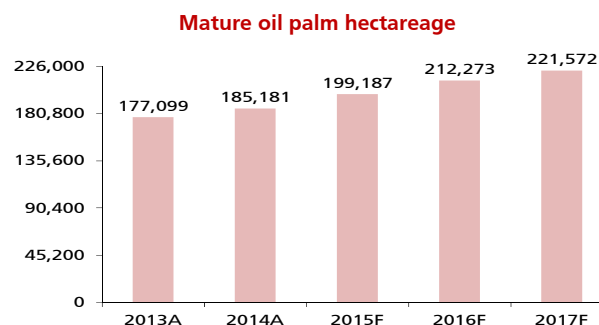
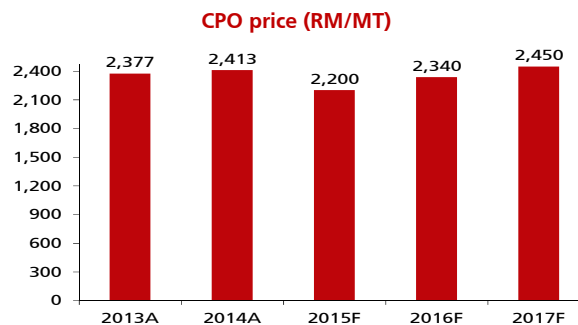
Regulatory changes. Any further increase in Indian import duty of refined oils or changes in the structure of Indonesian/Malaysian export taxes would impact demand for CPO/refined oils.

Market sentiments. 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 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. Indofood Agri Resources also refines, brands and markets its cooking oil, margarine, shortening and other palm oil products. As at 31-Mar-15, its planted area in Indonesia stood at 299,597 ha – of which 13,296 ha were sugarcane estates.



Source: Company, DBS Bank

Key Assumptions

FY Dec	2013A	2014A	2015F	2016F	2017F
CPO price (RM/MT)	2,377	2,413	2,200	2,340	2,450
Mature oil palm	177,099	185,181	199,187	212,273	221,572
CPO sales volume (MT)	368,671	403,987	420,287	442,793	472,662
Cooking oil sales vol. (MT)	538,736	565,673	593,250	621,448	650,247
Avg. USD/IDR rate	10,849	11,879	13,921	15,083	14,490

Segmental Breakdown

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenues (Rp bn)					
Plantations	4,855	5,868	5,297	5,793	6,106
Edible Oil & Fats	8,425	9,095	8,488	9,551	10,037
Total	13,280	14,963	13,785	15,344	16,144

Income Statement (Rp bn)

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenue	13,280	14,963	13,785	15,344	16,144
Cost of Goods Sold	(10,076)	(10,595)	(10,654)	(11,774)	(12,309)
Gross Profit	3,204	4,368	3,131	3,570	3,835
Other Opng (Exp)/Inc	(1,506)	(1,711)	(2,193)	(1,856)	(1,880)
Operating Profit	1,698	2,657	938	1,714	1,955
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(6)	(121)	(103)	(89)	(87)
Net Interest (Exp)/Inc	(354)	(529)	(678)	(735)	(703)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	1,338	2,007	158	890	1,165
Tax	(417)	(679)	(78)	(274)	(351)
Minority Interest	(398)	(569)	(27)	(237)	(349)
Preference Dividend	0	0	0	0	0
Net Profit	523	759	53	379	465
Net Profit before Except.	523	759	53	379	465
EBITDA	2,423	3,329	1,679	2,975	3,319
Growth					
Revenue Gth (%)	(4.1)	12.7	(7.9)	11.3	5.2
EBITDA Gth (%)	(26.9)	37.4	(49.6)	77.2	11.6
Opg Profit Gth (%)	(38.6)	56.5	(64.7)	82.6	14.1
Net Profit Gth (%)	(51.6)	45.0	(93.1)	620.7	22.8
Margins & Ratio					
Gross Margins (%)	24.1	29.2	22.7	23.3	23.8
Opg Profit Margin (%)	12.8	17.8	6.8	11.2	12.1
Net Profit Margin (%)	3.9	5.1	0.4	2.5	2.9
ROAE (%)	3.8	5.3	0.4	3.1	4.8
ROA (%)	1.4	1.9	0.1	1.0	1.4
ROCE (%)	3.4	4.8	1.2	3.4	4.4
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	4.8	5.0	1.4	2.3	2.8

Source: Company, DBS Bank

Quarterly / Interim Income Statement (Rp bn)

FY Dec	2Q2014	3Q2014	4Q2014	1Q2015	2Q2015
Revenue	3,998	3,602	4,192	2,659	4,133
Cost of Goods Sold	(2,761)	(2,685)	(2,865)	(1,920)	(3,233)
Gross Profit	1,237	916	1,327	739	899
Other Oper. (Exp)/Inc	(539)	(493)	(487)	(486)	(608)
Operating Profit	698	424	840	253	292
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(131)	(145)	(144)	(127)	(157)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	567	279	697	126	135
Tax	(192)	(72)	(292)	(58)	(76)
Minority Interest	(151)	(79)	(179)	(33)	(57)
Net Profit	224	127	225	35	2
Net profit bef Except.	224	127	225	35	2
EBITDA	910	682	1,018	436	550

Growth

Revenue Gth (%)	26.1	(9.9)	16.4	(36.6)	55.4
EBITDA Gth (%)	23.1	(25.1)	49.2	(57.2)	26.1
Opg Profit Gth (%)	21.6	(39.3)	98.3	(69.9)	15.5
Net Profit Gth (%)	23.1	(43.1)	77.0	(84.5)	(94.1)

Margins

Gross Margins (%)	30.9	25.4	31.7	27.8	21.8
Opg Margins (%)	17.5	11.8	20.0	9.5	7.1
Net Profit Margins (%)	5.6	3.5	5.4	1.3	0.0

Balance Sheet (Rp bn)

FY Dec	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	9,781	11,027	12,226	13,157	13,778
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	20,986	22,316	22,111	14,673	14,505
Cash & ST Invt	3,803	3,586	2,597	1,843	1,642
Inventory	1,568	1,773	1,792	1,960	2,029
Debtors	1,140	1,056	1,110	1,223	1,274
Other Current Assets	427	397	377	413	428
Total Assets	37,705	40,155	40,213	33,269	33,656
ST Debt	4,490	4,749	4,733	4,761	4,731
Creditor	1,717	1,854	1,792	2,000	2,112
Other Current Liab	298	348	344	383	405
LT Debt	4,305	5,068	5,150	4,728	4,291
Other LT Liabilities	4,062	4,418	4,397	2,483	2,389
Shareholder's Equity	13,996	14,629	14,681	9,561	10,027
Minority Interests	8,837	9,088	9,116	9,352	9,701
Total Cap. & Liab.	37,705	40,155	40,213	33,269	33,656
Non-Cash Wkg. Capital	1,121	1,024	1,143	1,213	1,214
Net Cash/(Debt)	(4,992)	(6,232)	(7,286)	(7,646)	(7,380)
Debtors Turn (avg days)	30.0	26.8	28.7	27.8	28.2
Creditors Turn (avg days)	64.9	66.5	67.8	66.4	69.1
Inventory Turn (avg days)	67.5	62.2	66.3	65.7	67.0
Asset Turnover (x)	0.4	0.4	0.3	0.4	0.5
Current Ratio (x)	1.1	1.0	0.9	0.8	0.7
Quick Ratio (x)	0.8	0.7	0.5	0.4	0.4
Net Debt/Equity (X)	0.2	0.3	0.3	0.4	0.4
Net Debt/Equity ex MI (X)	0.4	0.4	0.5	0.8	0.7
Capex to Debt (%)	37.5	26.3	25.0	23.9	21.3
Z-Score (X)	1.3	1.3	1.3	1.4	1.5

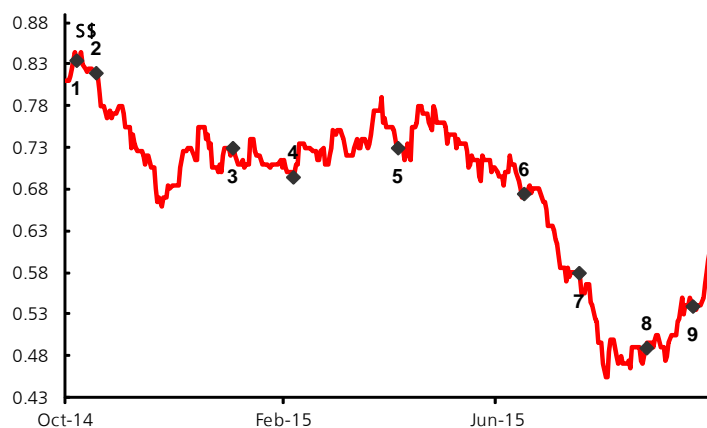
Source: Company, DBS Bank

Cash Flow Statement (Rp bn)

FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	1,338	2,007	158	890	1,165
Dep. & Amort.	731	792	843	1,350	1,451
Tax Paid	(417)	(679)	(78)	(274)	(351)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	170	97	(118)	(70)	(2)
Other Operating CF	(252)	(143)	71	75	(15)
Net Operating CF	1,508	2,014	875	1,971	2,248
Capital Exp.(net)	(3,298)	(2,577)	(2,474)	(2,263)	(1,917)
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	(1,382)	(667)	666	47	44
Net Investing CF	(4,680)	(3,245)	(1,809)	(2,216)	(1,874)
Div Paid	0	0	0	0	0
Chg in Gross Debt	2,015	1,023	66	(395)	(466)
Capital Issues	(148)	0	0	0	0
Other Financing CF	26	(10)	(121)	(115)	(109)
Net Financing CF	1,892	1,013	(55)	(509)	(575)
Currency Adjustments	0	0	0	0	0
Chg in Cash	(1,279)	(217)	(989)	(754)	(201)
Opg CFPS (Rp)	939	1,347	698	1,433	1,580
Free CFPS (Rp)	(1,257)	(395)	(1,123)	(205)	232

Source: Company, DBS Bank

Target Price & Ratings History



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

Source: DBS Bank

DBS Bank 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

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