

Singapore Company Focus

Indofood Agri Resources

Bloomberg: IFAR SP | Reuters: IFAR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

30 Oct 2015

HOLD

Last Traded Price: S\$0.58 (STI : 3,001.51)

Price Target : S\$0.52 (10% downside) (Prev S\$0.47)

Reason for Report : 3Q15 Results

Potential Catalyst: Lower-than-expected 4Q15 results

Where we differ: We have the lowest FY15F and FY16F EPS; as we employ 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
Revenue	14,963	13,666	15,283	16,103
EBITDA	3,329	1,762	3,014	3,366
Pre-tax Profit	2,007	335	1,029	1,311
Net Profit	759	135	446	530
Net Pft (Pre Ex.)	759	135	446	530
Net Pft (ex. BA gains)	734	135	446	530
EPS (S cts)	5.5	1.0	3.2	3.8
EPS Pre Ex. (S cts)	5.5	1.0	3.2	3.8
EPS Gth (%)	45	(82)	231	19
EPS Gth Pre Ex (%)	45	(82)	231	19
Diluted EPS (S cts)	5.5	1.0	3.2	3.8
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	105.1	106.1	69.8	73.6
PE (X)	10.6	60.0	18.1	15.2
PE Pre Ex. (X)	10.6	60.0	18.1	15.2
P/Cash Flow (X)	4.0	8.0	3.9	3.4
EV/EBITDA (X)	7.0	13.8	8.2	7.4
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.6	0.5	0.8	0.8
Net Debt/Equity (X)	0.3	0.3	0.4	0.3
ROAE (%)	5.3	0.9	3.6	5.3
Earnings Rev (%)		156	18	14
Consensus EPS (S cts):		4.3	5.6	7.2
No. of brokers following:		B: 4	S: 2	H: 5

ICB Industry : Consumer Goods

ICB Sector : Food Producers

Principal Business: IndoAgri is a vertically integrated Indonesian palm oil producer with significant plantation land bank. IndoAgri's products range from crude palm oil, palm kernel to branded cooking oil and margarine and fats with deep presence and significant market.

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

Expect sequential recovery

- Indofood Agri's (IndoAgri) 3Q15 underlying net profit of Rp129bn (ex translation FX losses) was below Rp215bn expected
- Timing of sales recognition caused weaker top line; partly offset by lower-than-expected costs
- FY15F/16F earnings adjusted 156%/18% higher on lower costs; TP raised to S\$0.52
- No near-term catalysts; despite forecast earnings jump (from low base). HOLD rating is maintained

Another disappointing quarter. IndoAgri reported a 3Q15 net loss of Rp154bn – below Rp38bn expected. Sugar sales volume was half of our forecast due to timing issues (as at end of Sep-15 the group still had c.27k MT of undelivered inventory). Earnings were also weighed down by 4% y-o-y drop in CPO sales volume, 16% y-o-y lower CPO ASP; Rp322bn in FX losses, and losses from CMAA JV. This brought 9M15 earnings to a Rp17bn net loss. Excluding translation FX losses, IndoAgri booked 3Q15 underlying earnings of Rp129bn (-49% y-o-y) – below Rp215bn expected. But costs were notably lower than expected, helping to raise 3Q15 GPM to 25.1% from 21.8% in 2Q15.

Expect sequential earnings recovery. Imputing recent CPO price recovery, lower-than-expected costs, more sugar sales, and reversal in FX losses, we expect IndoAgri to book sequential 4Q15 earnings recovery. Upkeep and harvesting costs are likewise lowered by 6%, offset by slightly higher selling expenses to cover for new downstream product launches. All in, we adjusted FY15F/16F earnings by 156%/18% higher. In keeping with USD/IDR year-end exchange rate of Rp14,470 (based on DBS Bank's in-house forecast), we expect muted FX gains in 4Q15 relative to current level.

Dry weather impact in 1H16. The group lowered CY15 FFB output guidance to 3.3m MT from 3.4m MT – on severe dry weather YTD. Within its geographic presence, North Sumatra (20% of output) had significantly reduced rainfall throughout the year. Riau and South Sumatra estates have also been under stress since May/Jun-15; and Kalimantan estates since Jul-15. We understand yields may drop by c.20% y-o-y in 1Q16, although CY16 output may be less affected – depending on 2H16 recovery. Lower yield is also expected in CY17 due to the lagged impact of this year's rainfall deficit. IndoAgri's South Sumatra sugar estates may also see 10-15MT/ha of yield losses – subject to rainfall in 1H16.

No near-term catalysts. We raised our DCF estimate by 13% to S\$0.52 and maintain our HOLD rating. We believe prospective drop in output, export levies, and export taxes would continue to weigh on earnings – despite potential recovery in 1Q16 CPO prices on reduced global inventory.

At A Glance

Issued Capital (m shrs)	1,396
Mkt. Cap (S\$bn/US\$m)	0.81 / 577
Major Shareholders	
PT Indofood Sukses Makmur	62.8
Free Float (%)	37.2
3m Avg. Daily Val (US\$m)	0.32

INVESTMENT THESIS

Profile	Rationale
<p>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 30-Sep-15, its total planted area in Indonesia stood at 299,418 ha – of which 12,761 ha were sugarcane estates.</p> <p>A diversified and vertically integrated business model. Since its acquisition of London Sumatra (Lonsum) in Nov-07, Indofood Agri (IndoAgri) has been self-sufficient in its CPO requirements, benefitting from higher upstream margin, while still enjoying major downstream market share (c.40-45% in branded cooking oil) in Indonesia. IndoAgri ventured into sugarcane estates in 2008 by acquiring Laju Perdana Indah and in 2013, 50% stake in CMAA (Brazil) and 10% stake in RHI (Philippines). While this model allows the group to diversify volatility in each commodity, it also requires significant capex outlay to develop capacities and markets over the next several years, in our view.</p>	<p>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 2k ha this year (lowered from 5k ha previously guided due to dry weather) and 7.5k ha next year.</p> <p>More sugar investments? IndoAgri aims to expand its oil palm estates by 5-10k ha p.a. (dropping from 14-16k ha p.a. in 2010-2013), given strict sustainability goals. With c.25k ha unplanted reserves remaining for oil palm (net of unplanted land bank), we now expect IndoAgri to focus on expanding its sugarcane estates and refinery capacity in Indonesia instead.</p>
Valuation	Risks
<p>We value IndoAgri at S\$0.52/share (revised from S\$0.47 previously) 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.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>Market sentiments. Changes in fund flows in or out of emerging markets would affect valuations of plantation counters.</p> <p>Weather. Changes in rainfall patterns (caused by either El Nino or La Nina) would affect FFB yields with some lag time.</p>

Source: 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	407,876	426,373	454,973
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	5,179	5,732	6,065
Edible Oil & Fats	8,425	9,095	8,488	9,551	10,037
Total	13,280	14,963	13,666	15,283	16,103

Income Statement (Rp bn)

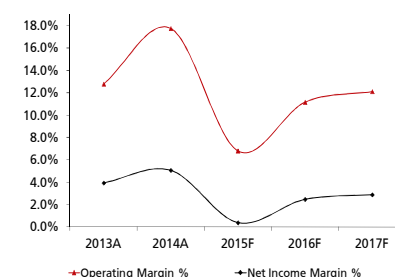
FY Dec	2013A	2014A	2015F	2016F	2017F
Revenue	13,280	14,963	13,666	15,283	16,103
Cost of Goods Sold	(10,076)	(10,595)	(10,442)	(11,693)	(12,237)
Gross Profit	3,204	4,368	3,225	3,590	3,866
Other Opng (Exp)/Inc	(1,506)	(1,711)	(2,203)	(1,868)	(1,894)
Operating Profit	1,698	2,657	1,022	1,722	1,972
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(6)	(121)	(103)	(58)	(56)
Net Interest (Exp)/Inc	(354)	(529)	(584)	(635)	(605)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	1,338	2,007	335	1,029	1,311
Tax	(417)	(679)	(131)	(304)	(383)
Minority Interest	(398)	(569)	(69)	(279)	(398)
Preference Dividend	0	0	0	0	0
Net Profit	523	759	135	446	530
Net Profit before Except.	523	759	135	446	530
Net Pft (ex. BA gains)	503	734	135	446	530
EBITDA	2,423	3,329	1,762	3,014	3,366
Growth					
Revenue Gth (%)	9.8	(4.1)	12.7	(8.7)	11.8
EBITDA Gth (%)	(22.1)	(26.9)	37.4	(47.1)	71.0
Opg Profit Gth (%)	(26.7)	(38.6)	56.5	(61.5)	68.5
Net Profit Pre-Ex Gth (%)	(27.4)	(51.6)	45.0	(82.3)	231.3
Margins & Ratio					
Gross Margins (%)	24.1	29.2	23.6	23.5	24.0
Opg Profit Margin (%)	12.8	17.8	7.5	11.3	12.2
Net Profit Margin (%)	3.9	5.1	1.0	2.9	3.3
ROAE (%)	3.8	5.3	0.9	3.6	5.3
ROA (%)	1.4	1.9	0.3	1.2	1.6
ROCE (%)	3.4	4.8	1.6	3.5	4.5
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	4.8	5.0	1.7	2.7	3.3

Source: Company, DBS Bank

Sensitivity Analysis

2016	
CPO price +/- 1.0%	Net Profit +/- 8.4%

Margins Trend



Indofood Agri Resources

Quarterly / Interim Income Statement (Rpbn)

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 before Except.	224	127	225	35	2
EBITDA	910	682	1,018	436	550

Growth

Revenue Gth (%)	(15.4)	26.1	(9.9)	16.4	(36.6)
EBITDA Gth (%)	(25.6)	23.1	(25.1)	49.2	(57.2)
Opg Profit Gth (%)	(30.8)	21.6	(39.3)	98.3	(69.9)
Net Profit Pre-Ex Gth (%)	(28.6)	23.1	(43.1)	77.0	(84.5)

Margins

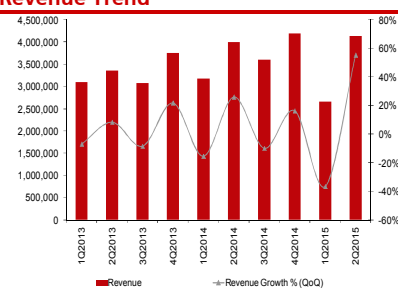
Gross Margins (%)	30.9	25.4	31.7	27.8	21.8
Opg Margins (%)	17.5	11.8	20.0	9.5	7.1
Net Profit Margins (%)	5.6	3.5	5.4	1.3	0.0

Balance Sheet (Rp bn)

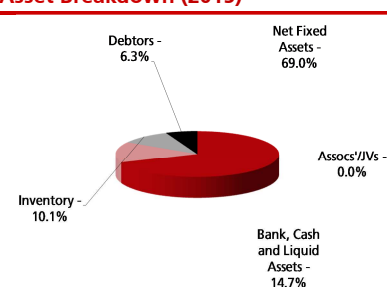
FY Dec	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	9,781	11,027	12,226	13,157	13,778
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	20,986	22,316	22,059	14,604	14,427
Cash & ST Invt	3,803	3,586	2,782	2,149	2,070
Inventory	1,568	1,773	1,756	1,947	2,017
Debtors	1,140	1,056	1,100	1,218	1,271
Other Current Assets	427	397	371	411	426
Total Assets	37,705	40,155	40,294	33,486	33,989
ST Debt	4,490	4,749	4,733	4,761	4,731
Creditor	1,717	1,854	1,756	1,986	2,100
Other Current Liab	298	348	337	381	403
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	14,763	9,711	10,241
Minority Interests	8,837	9,088	9,158	9,436	9,834
Total Cap. & Liab.	37,705	40,155	40,294	33,486	33,989
Non-Cash Wkg. Capital	1,121	1,024	1,134	1,208	1,212
Net Cash/(Debt)	(4,992)	(6,232)	(7,101)	(7,339)	(6,953)
Debtors Turn (avg days)	30.0	26.8	28.8	27.7	28.2
Creditors Turn (avg days)	64.9	66.5	68.6	66.0	69.1
Inventory Turn (avg days)	67.5	62.2	67.1	65.3	67.1
Asset Turnover (x)	0.4	0.4	0.3	0.4	0.5
Current Ratio (x)	1.1	1.0	0.9	0.8	0.8
Quick Ratio (x)	0.8	0.7	0.6	0.5	0.5
Net Debt/Equity (X)	0.2	0.3	0.3	0.4	0.3
Net Debt/Equity ex MI (X)	0.4	0.4	0.5	0.8	0.7
Capex to Debt (%)	37.5	26.3	24.5	23.3	20.8
Z-Score (X)	1.3	1.3	1.3	1.4	1.5

Source: Company, DBS Bank

Revenue Trend



Asset Breakdown (2015)

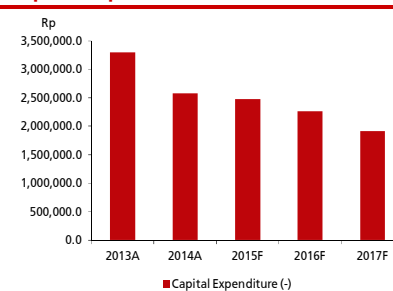


Cash Flow Statement (Rp bn)

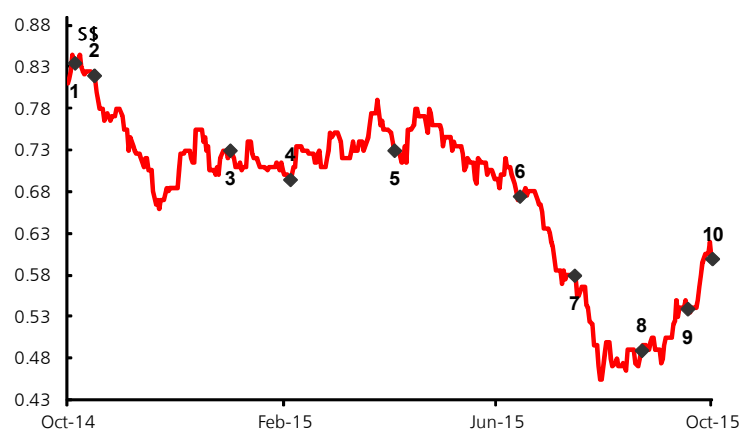
FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	1,338	2,007	335	1,029	1,311
Dep. & Amort.	731	792	843	1,350	1,451
Tax Paid	(417)	(679)	(131)	(304)	(383)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	170	97	(110)	(74)	(4)
Other Operating CF	(252)	(143)	71	75	(15)
Net Operating CF	1,508	2,014	1,008	2,076	2,360
Capital Exp.(net)	(3,298)	(2,577)	(2,422)	(2,215)	(1,877)
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	16	13
Net Investing CF	(4,680)	(3,245)	(1,757)	(2,199)	(1,864)
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)	(803)	(633)	(80)
Opg CFPS (Rp)	939	1,347	785	1,510	1,659
Free CFPS (Rp)	(1,257)	(395)	(993)	(98)	339

Source: Company, DBS Bank

Capital Expenditure



Target Price & Ratings History



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

S.No.	Date	Closing Price	Target Price	Rating
1:	31 Oct 14	0.84	0.98	BUY
2:	11 Nov 14	0.82	0.98	BUY
3:	27 Jan 15	0.73	0.80	HOLD
4:	02 Mar 15	0.70	0.77	HOLD
5:	30 Apr 15	0.73	0.77	HOLD
6:	10 Jul 15	0.68	0.69	HOLD
7:	10 Aug 15	0.58	0.56	HOLD
8:	17 Sep 15	0.49	0.47	HOLD
9:	13 Oct 15	0.54	0.47	HOLD
10:	27 Oct 15	0.60	0.47	HOLD

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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