

Golden Agri (GGR SP)

Agriculture - Plantation

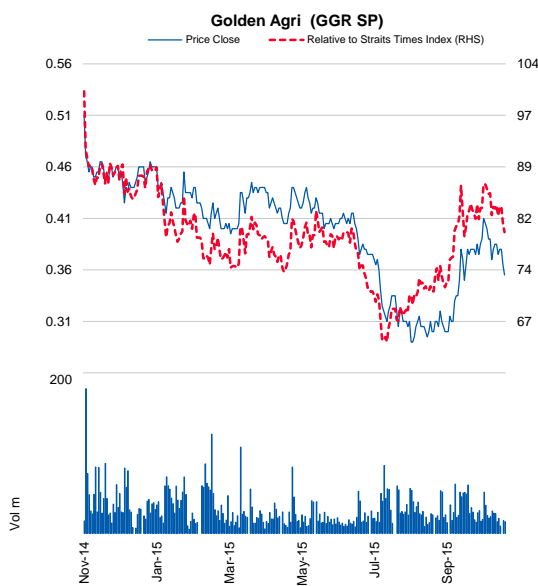
Market Cap: USD3,184m

Buy (Maintained)

 Target Price: **SGD0.42**

 Price: **SGD0.36**

9M Earnings In Line

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	9.73m/6.93m
Cons. Upside (%)	0.0
Upside (%)	16.9
52-wk Price low/high (SGD)	0.29 - 0.47
Free float (%)	50
Share outstanding (m)	12,735
Shareholders (%)	
Widjaja family	50.0

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(22.8)	(6.6)	16.4	(19.3)	(30.4)
Relative	(10.7)	(4.2)	19.8	(5.2)	(20.5)

Shariah compliant

Golden Agri's 9M earnings were largely in line as lower production was offset by weather-driven lower fertiliser application. Although well-diversified geographically across Indonesia, its 2016 production could drop by as much as 10% as about 70% of its plantations are experiencing dryness. Maintain BUY with a new SGD0.42 TP (17% upside), as the company is a proxy to the plantation sector and its stock price tends to rise in tandem with palm oil prices.

- ◆ **Earnings in line.** Golden Agri's 9M15 core earnings were largely in line with expectations. Core PBT made up 76% of our full-year forecast. The plantation upstream business suffered from lower ASP and yield while downstream continued to do well on the back of Indonesia's export levy due to the differential between crude and refined palm oil export levies.
- ◆ **Upstream volume recovery.** After three straight quarters of YoY decline in its nucleus FFB production, Golden Agri's 3Q production rose by 4.9% driven by an increase in mature hectareage while yield stayed flat at 5.9 tonnes/ha. YTD production continued to trail 2014 levels, down 1.6%. We have lowered our FY15 production growth expectation to 2.1% from 5.1% earlier. We also tone down FY16 production by 4.9% to 7.8m tonnes, representing a 1% growth. Management indicated that production could drop up to 10% next year due to the current drought.
- ◆ **Accelerating biodiesel plant development.** Management is accelerating its 300,000 tonnes/year biodiesel plant development, which will be ready by 1Q next year. This is to take advantage of Indonesia's biodiesel mandate which has just restarted. We have factored in contribution from 70% utilisation for FY16 and 90% for FY17. Capex for FY15 could balloon to USD450m due to carry forward of plant development but reduce to USD250m for FY16.
- ◆ **Earnings revision.** We maintain FY15 earnings forecast as the lower production was offset by the lower fertiliser usage. We revise down FY16 and FY17 earnings forecasts by 10.2% and 8.7% on lower production offset by biodiesel contribution. Our TP is cut to SGD0.42 (from SGD0.46), which is based on unchanged 19x FY16 earnings.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (USDm)	6,585	7,619	7,109	8,373	8,784
Reported net profit (USDm)	311	213	178	203	240
Recurring net profit (USDm)	317	213	178	203	240
Recurring net profit growth (%)	(21.7)	(32.7)	(16.5)	14.1	18.1
Recurring EPS (USD)	0.02	0.02	0.01	0.02	0.02
DPS (USD)	0.005	0.005	0.005	0.005	0.006
Recurring P/E (x)	10.1	15.0	18.0	15.8	13.4
P/B (x)	0.37	0.37	0.36	0.35	0.34
P/CF (x)	175	21	6	7	4
Dividend Yield (%)	2.2	2.2	1.8	2.1	2.5
EV/EBITDA (x)	7.7	10.4	12.8	10.5	9.9
Return on average equity (%)	3.6	2.4	2.0	2.3	2.6
Net debt to equity (%)	22.7	28.1	30.6	32.8	35.3
Our vs consensus EPS (adjusted) (%)			(0.9)	(16.7)	(15.0)

Source: Company data, RHB

Figure 1: Golden Agri's 9M15 results review

FYE Dec (USDm)	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	9M14	9MFY15	YoY (%)	Comments
Revenue	1,844.1	1,831.1	1,574.0	(14.0)	(14.6)	5,797.1	4,958.3	(14.5)	Lower volume and ASP for upstream
EBITDA	94.6	134.8	117.4	(12.9)	24.1	268.9	248.8	(7.5)	
<i>EBITDA Margin (%)</i>	5.1	7.4	7.5			4.6	5.0		
Depreciation	(37.7)	(41.5)	(41.5)	0.0	10.1	(110.1)		(100.0)	
EBIT	56.9	93.3	75.9	(18.7)	33.3	158.8	248.8	56.6	
<i>EBIT Margin (%)</i>	3.1	5.1	4.8			2.7	5.0		
Interest expense	(31.8)	(32.6)	(35.6)	8.9	11.8	(91.4)	(100.2)	9.6	
Interest income	7.0	8.5	7.8	(7.8)	12.7	18.1	24.4	35.1	
Associates	(0.3)	2.5	1.3	(49.3)	(536.1)	(0.8)	5.5	(792.7)	
El/Others	(21.8)	(18.5)	(45.4)	145.0	108.9	(40.3)	(98.9)	145.7	
Pretax profit	10.0	53.1	4.0	(92.5)	(60.2)	191.9	79.6	(58.5)	
Core PBT	31.8	71.7	49.4	(31.0)	55.5	232.1	178.5	(23.1)	In line. Made up 76% of our full-year forecast of USD234m.
<i>Pretax Margin (%)</i>	0.5	2.9	0.3			3.3	1.6		
Tax	(5.9)	(14.3)	12.8	(189.9)	(318.8)	(54.4)	(6.7)	(87.6)	Lower than our forecast of USD58m
<i>Effective tax rate (%)</i>	(58.5)	(26.9)	321.7			(28.3)	(8.5)		
Minority Interest	0.2	(0.1)	(1.1)	1,048.4	(642.1)	(2.0)	(1.2)	(41.7)	
Net Profit	4.4	38.8	15.7	(59.4)	260.9	135.5	71.7	(47.1)	
Core Profit	26.1	52.5	49.4	(5.9)	89.2	175.7	145.0	(17.5)	Slightly better than expected due to lower-than-expected tax
<i>Net Margin (%)</i>	1.4	2.9	3.1			3.0	2.9		
Segmental breakdown Revenue	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	9M14	9M15	YoY (%)	Comments
Plantation upstream	450.7	432.0	358.9	(16.9)	(20.4)	1,469.3	1,131.8	(23.0)	Price and volume both lower
Palm & laurics	1,522.7	1,636.6	1,407.5	(14.0)	(7.6)	4,902.4	4,444.7	(9.3)	Volume up 9% for 9M. Lower price in tandem with CPO.
Oilseeds	245.1	184.1	149.7	(18.7)	(38.9)	669.6	468.2	(30.1)	
EBITDA									
Plantation upstream	110.2	110.3	96.6	(12.5)	(12.4)	441.6	307.5	(30.4)	Lower price and yield
Palm & laurics	6.8	33.8	27.4	(18.7)	300.9	46.9	82.8	76.6	Imposition of tax levy helped downstream margin
Oilseeds	(18.0)	2.9	3.1	5.9	(117.0)	(61.4)	8.3	(113.5)	
Operating stats '000 tonnes	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	9M14	9M15	YoY (%)	Comments
FFB Production (nucleus)	1,968	1,863	2,064	10.8	4.9	5,683.0	5,592.0	(1.6)	Worse than expected. Made up 70% of our forecast.
CPO Production	627.0	577	643	11.4	2.6	1,805.0	1,730.0	(4.2)	
PK Production	152.0	140	156	11.4	2.6	425.0	419.0	(1.4)	
FFB Yield (tonne/ha)	5.9	5.3	5.9	10.6	(0.7)	16.6	15.8	(4.8)	Drought impact from 2014 lowered yield
OER	22.7%	22.3%	22.8%	2.2	0.4	22.8%	22.7%	(0.4)	
KER	5.5%	5.4%	5.5%	1.9	0.0	5.4%	5.5%	1.9	
CPO Yield (tonne/ha)	1.3	1.2	1.3	13.0	(0.2)	3.8	3.6	(5.2)	
Avg CPO sales price (USD)	828	650	594	(8.6)	(28.3)	842	641	(23.8)	
Cost of production	337	308	248	(19.5)	(26.4)	309	289	(6.5)	Lower cost this year on missing fertiliser application. Weather too dry for manuring.

Source: Company data

Figure 2: Key assumptions

	FY13	FY14	FY15F	FY16F	FY17F
Nucleus FFB production, tonnes	6,997,213	7,570,000	7,725,423	7,802,677	8,192,811
% change	-5.3%	8.2%	2.1%	1.0%	5.0%
CPO price assumption, USD/tonne	809	804	624	703	715
% change	-17.0%	-0.6%	-22.4%	12.6%	1.7%
Cash cost assumption, USD/tonne	333	314	300	300	300
% change	11.7%	-5.7%	-4.5%	0.0%	0.0%

Source: RHB

Financial Exhibits

Profit & Loss (USDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	6,585	7,619	7,109	8,373	8,784
Cost of sales	(5,222)	(6,308)	(5,802)	(6,748)	(7,040)
Gross profit	1,363	1,311	1,307	1,625	1,744
Gen & admin expenses	(301)	(308)	(327)	(347)	(367)
Selling expenses	(570)	(648)	(714)	(893)	(934)
Other operating costs	24	30	30	30	30
Operating profit	516	385	297	416	473
Operating EBITDA	650	525	445	572	637
Depreciation of fixed assets	(134)	(141)	(148)	(155)	(163)
Amortisation of intangible assets	-	-	(1)	(1)	(1)
Operating EBIT	516	385	297	416	473
Net income from investments	(1)	-	-	-	-
Provisions				(77)	(77)
Other recurring income		46	40	40	40
Interest income	17	12	32	32	32
Interest expense	(106)	(123)	(130)	(136)	(143)
Exchange gains	(33)				
Other non-recurring income	37				
Pre-tax profit	430	319	239	275	325
Taxation	(114)	(102)	(60)	(69)	(81)
Minority interests	(5)	(3)	(1)	(3)	(4)
Profit after tax & minorities	311	213	178	203	240
Reported net profit	311	213	178	203	240
Recurring net profit	317	213	178	203	240

Source: Company data, RHB

Cash flow (USDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	516	385	297	416	473
Depreciation & amortisation	134	141	149	156	164
Change in working capital	(286)	(207)	(129)	(257)	(80)
Other operating cash flow	(22)		202	202	202
Operating cash flow	341	318	518	517	759
Interest received	12	17	32	32	32
Interest paid	(81)	(97)	(130)	(136)	(143)
Tax paid	(254)	(84)	144	48	112
Cash flow from operations	18	154	565	461	760
Capex	(519)	(255)	(683)	(683)	(683)
Other new investments	(291)				
Other investing cash flow	(42)	-	-	-	-
Cash flow from investing activities	(852)	(255)	(683)	(683)	(683)
Dividends paid	(131)	(70)	(70)	(59)	(67)
Proceeds from issue of shares	-	(135)	-	-	-
Increase in debt	744	1,073	292	292	292
Other financing cash flow	(1)	(0)	-	-	-
Cash flow from financing activities	612	868	222	233	225
Cash at beginning of period	560	327	330	360	360
Total cash generated	(222)	767	103	11	302
Implied cash at end of period	338	1,094	433	371	662

Source: Company data, RHB

Financial Exhibits

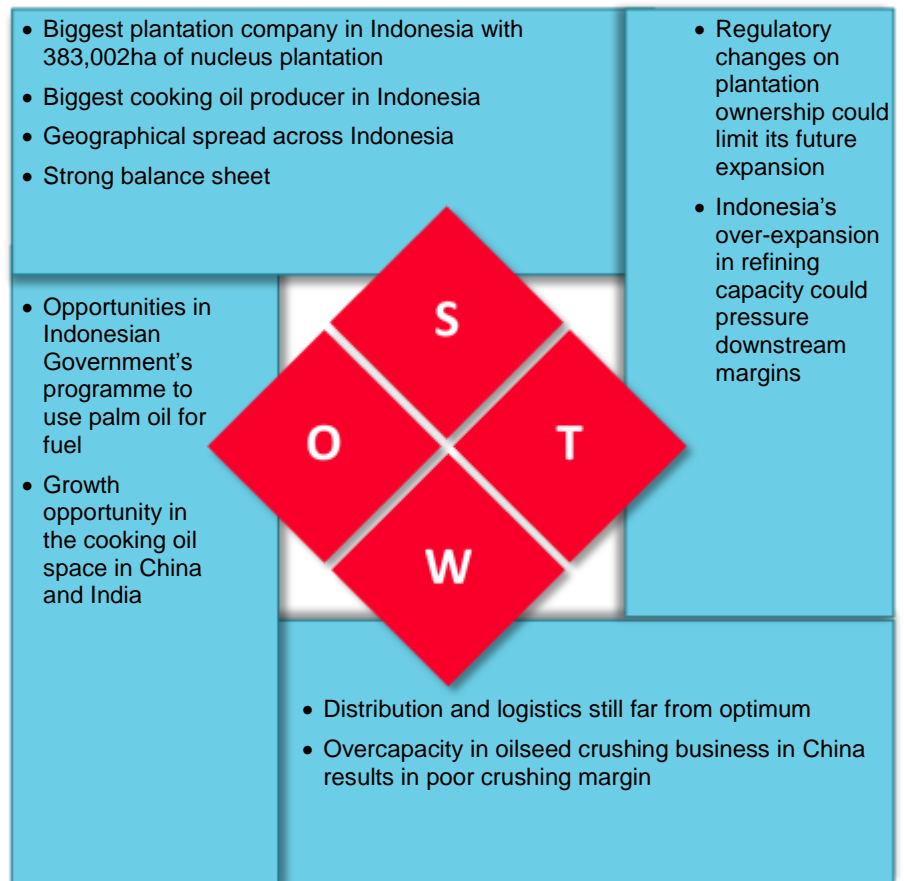
Balance Sheet (USDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	587	591	620	620	620
Inventories	772	851	1,451	1,687	1,760
Accounts receivable	474	526	292	343	361
Other current assets	706	827	711	837	878
Total current assets	2,539	2,794	3,074	3,487	3,619
Total investments	693	870	910	953	997
Tangible fixed assets	10,339	10,453	10,988	11,516	12,036
Intangible assets	128	161	163	162	161
Total other assets	450	388	324	295	295
Total non-current assets	11,609	11,872	12,386	12,926	13,490
Total assets	14,148	14,666	15,460	16,414	17,109
Short-term debt	1,060	1,641	1,441	1,241	1,041
Accounts payable	556	543	684	793	829
Other current liabilities	268	316	292	343	364
Total current liabilities	1,884	2,501	2,417	2,377	2,234
Total long-term debt	1,521	1,427	1,919	2,411	2,903
Other liabilities	1,940	1,920	2,170	2,375	2,563
Total non-current liabilities	3,461	3,348	4,090	4,786	5,466
Total liabilities	5,345	5,848	6,506	7,163	7,700
Share capital	321	321	321	321	321
Retained earnings reserve	6,943	6,962	7,082	7,218	7,379
Other reserves	1,457	1,446	1,466	1,613	1,606
Shareholders' equity	8,721	8,729	8,869	9,152	9,306
Minority interests	83	90	91	94	98
Other equity	(0)	(1)	(6)	5	5
Total equity	8,803	8,818	8,954	9,251	9,409
Total liabilities & equity	14,148	14,666	15,460	16,414	17,109

Source: Company data, RHB

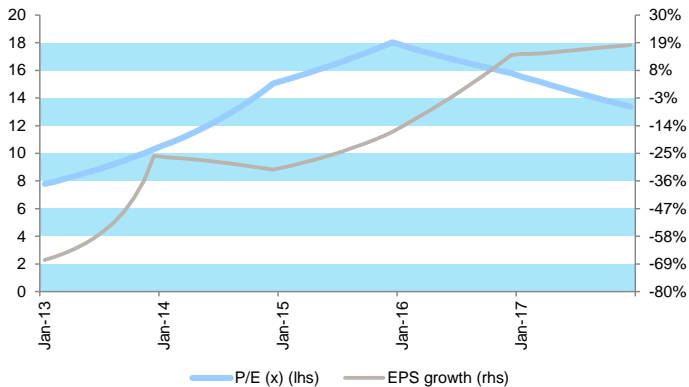
Key Ratios (USD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	8.8	15.7	(6.7)	17.8	4.9
Operating profit growth (%)	(21.9)	(25.4)	(22.9)	40.3	13.6
Net profit growth (%)	(24.0)	(31.5)	(16.5)	14.1	18.1
EPS growth (%)	(26.1)	(31.5)	(16.5)	14.1	18.1
BVPS growth (%)	2.3	0.1	1.6	3.2	1.7
Operating margin (%)	7.8	5.0	4.2	5.0	5.4
Net profit margin (%)	4.7	2.8	2.5	2.4	2.7
Return on average assets (%)	2.3	1.5	1.2	1.3	1.4
Return on average equity (%)	3.6	2.4	2.0	2.3	2.6
Net debt to equity (%)	22.7	28.1	30.6	32.8	35.3
DPS	0.005	0.005	0.005	0.005	0.006
Recurrent cash flow per share	0.00	0.01	0.04	0.04	0.06

Source: Company data, RHB

SWOT Analysis

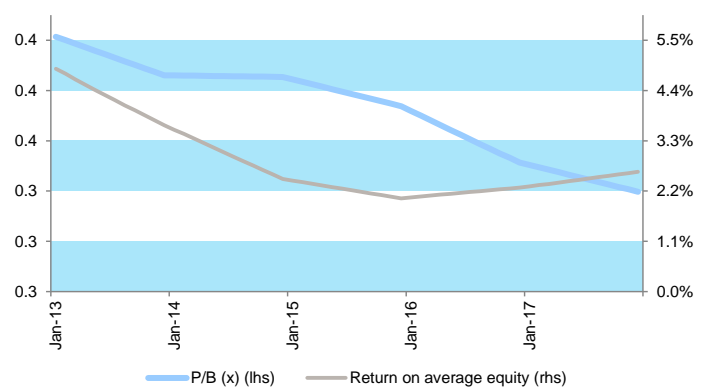


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Golden Agri is Indonesia's largest oil palm plantation company and also the biggest local player in cooking oil market.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-10-21	Buy	0.46	0.38
2015-08-14	Buy	0.48	0.32
2015-05-13	Buy	0.53	0.44
2015-04-23	Buy	0.53	0.43
2015-03-02	Buy	0.53	0.40
2014-11-13	Neutral	0.50	0.47
2014-09-09	Buy	0.57	0.51
2014-08-15	Buy	0.64	0.54
2014-03-03	Buy	0.66	0.59
2013-12-12	Buy	0.66	0.57

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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