

# Astra Agro Lestari Tbk (AALI) Is FFB Production Capable of Top- ping 5.6 Million Tons?

Company Report | Mar 09, 2018

## Buy

<b>Dec 2018 TP (IDR)</b>	<b>18,375</b>
Consensus Price (IDR)	15,955
TP to Consensus Price	+15.17%
vs. Last Price	+24.58%

### Shares data

Last Price (IDR)	14,750
Price date as of	Mar 06, 2018
52 wk range (Hi/Lo)	15,500/12,650
Free float (%)	20.3
Outstanding sh.(mn)	1,925
Market Cap (IDR bn)	27,571
Market Cap (USD mn)	2,004
Avg. Trd Vol - 3M (mn)	2.00
Avg. Trd Val - 3M (bn)	26.80
Foreign Ownership	5.2%

### Agriculture

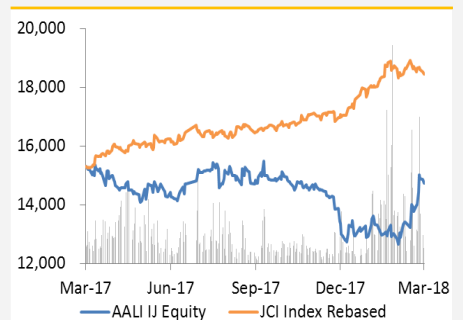
#### Crude Palm Oil

Bloomberg	<b>AALI.IJ</b>
Reuters	<b>AALI.JK</b>

### Joni Wintarja

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### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	12.2%	16.6%	10.5%	-3.6%
Rel. Ret.	9.5%	15.9%	2.4%	-24.2%

### Consistent Growth in Sales Performance

AALI posted the growth of 23% in sales from IDR14.1 trillion in 2016 into IDR17.3 trillion in 2017. The growth was underpinned by **the hike of 7% in the production of fresh fruit bunch (FFB)** from 4.8 million tons in 2016 into 5.2 million tons in 2017. Another to the increment in FFB production, **the incline of 2% in CPO's average price** from IDR8,524/kg in 2016 into IDR8,655/kg in 2017 were the potent drivers for the growth in sales.

### Growth of 33% in EBITDA

Although AALI posted the growth of 23% in sales, it only posted the net profit of 0.2% from IDR2 trillion in 2016 into IDR2.01 trillion in 2017. It was mainly just attributable to the gain in 4Q16's tax benefit. Furthermore, it also posted the growth of 33% in EBITDA from IDR2.2 trillion in 2016 into IDR2.93 trillion in 2017. The growth in EBITDA was underpinned by **the efficiency in the harvest and maintenance cost of 2.9%**.

### Potential for Picking up Production

**Recovery in oil palm production requires two-year length of time** after El Nino ended in the late of 2015. We estimate that in 2018, AALI still has ample chance of producing TBS amounting to 5.6 million hiking by 7% similar to the growth level in 2014-2015.

### Target Price of Rp18,375

We use an estimate of forward P/E of 13.9x (the last 2-year average) to obtain the target price of December 2018. The target price implies a 2018E P/E of 15.8x. Now, AALI is traded at a 2018E P/E of 12.7x.

### Astra Agro Lestari, Tbk | Summary (IDR bn)

	2016/12A	2017/12E	2018/12E	2019/12E
Sales	14,121	17,306	19,778	22,483
<i>Sales growth</i>	8.1%	22.5%	14.3%	13.7%
EBITDA	3,728	4,240	4,732	5,312
Net profit	2,007	2,010	2,237	2,548
EPS (IDR)	1,043	1,044	1,162	1,324
<i>EPS growth</i>	224.2%	0.2%	11.3%	13.9%
BVPS (IDR)	9,141	9,631	10,237	11,036
EBITDA margin	26.4%	24.5%	23.9%	23.6%
NPM	14.2%	11.6%	11.3%	11.3%
ROE	13.7%	11.1%	11.7%	12.4%
ROA	8.8%	8.2%	8.7%	9.4%
ROIC	9.3%	8.9%	9.4%	10.2%
P/E	16.1x	12.6x	12.7x	11.1x
P/BV	1.8x	1.4x	1.4x	1.3x
EV/EBITDA	9.7x	6.9x	6.8x	6.0x
DPS (IDR)	469	448	523	596
<i>Dividend yield</i>	2.8%	3.4%	3.5%	4.0%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

### AALI at A Glance

AALI a merger among companies in the initial stage started to develop agriculture industry in Indonesia since 1988. Having best management practice, AALI becomes one of the biggest oil palm agriculture company in Indonesia. In the late of 2016, it manages the oil palm plantations with the total areas of 297,011 hectares situated in Sumatra, Kalimantan, and Sulawesi Islands.

It not only manages oil palm agriculture but also develops downstream industry with a view to maintaining its business sustainability. Its attempts to maintain business sustainability are embodied in the operation of oil refiners in North Mamuju Regency of West Sulawesi Province, and Dumai in Riau Province. In 2016, it operates a fertilizer mixing plant in Donggala Regency of Central Sulawesi Province, and develops the integrated business of oil palm-and cow farm in West Kotawaringin Regency of Center Kalimantan Province.

### CPO Industry in ASEAN

Having oil palm production capacity of 38.5 million ton, Indonesia is the first-biggest global oil palm producer. Malaysia is the second-biggest global oil palm producer with the production capacity of 20.5 million ton. The two countries virtually dominate 84% of the total global oil palm production. Meanwhile, Thailand is the third-biggest global oil palm producer with the production capacity of 2.7 million tons.

AALI has the highest dividend yield of 3.5% amongst its peers in ASEAN. The fundamental factors it has such as ROE topping 19%, and lowest valuation of 12.7% make it as the top pick stock in ASEAN.

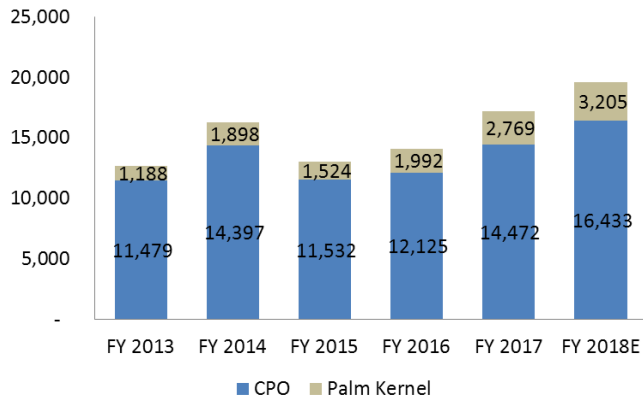
### ASEAN CPO Plantation Company

Company	Market Cap (USD mn)	Total Asset (USD mn)	Net Profit Growth	Net Profit Margin	ROE	P/E	P/BV	Dividend Yield
AALI	2,004	1,835	11.3%	11.3%	11.7%	12.7x	1.4x	3.5%
LSIP	685	717	28.6%	16.1%	9.7%	12.3x	1.2x	2.5%
<b>Malaysia</b>								
Genting Plantations Bhd	2,066	2,085	-3.3%	18.7%	7.7%	23.1x	1.9x	1.3%
Kuala Lumpur Kepong Bhd	6,914	4,619	-16.6%	4.8%	8.5%	28.0x	2.3x	2.0%
IOI Corp Bhd	7,711	4,193	99.6%	5.3%	20.8%	20.3x	4.7x	2.0%
<b>Singapore</b>								
Wilmar International Ltd	15,308	40,933	25.4%	2.8%	8.0%	12.5x	1.0x	2.2%
Golden Agri-Resources Ltd	3,489	8,138	-81.5%	1.0%	1.8%	48.1x	0.9x	3.9%
First Resources Ltd	2,085	1,731	9.8%	21.3%	14.9%	15.1x	2.1x	2.1%

Source: Bloomberg, NHKS research

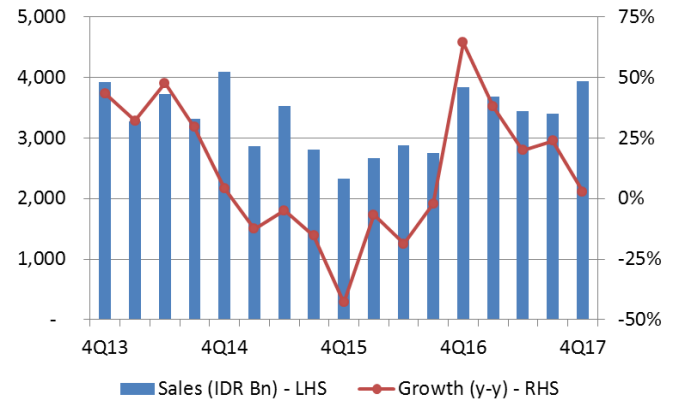
## Performance Highlights

Sales Breakdown (IDR bn) | FY 2013 - FY 2018E



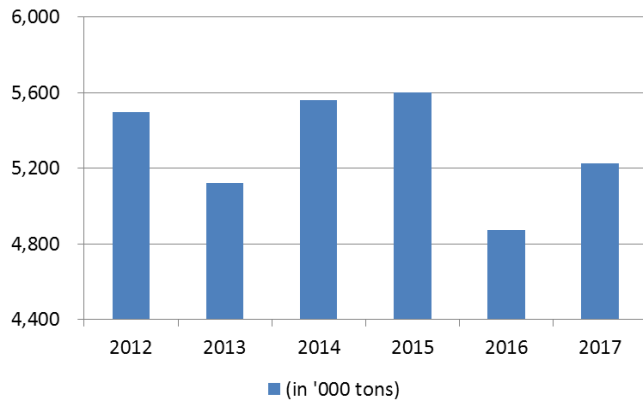
Source: Company, NHKS research

CPO Sales Trend | 2013 - 2017



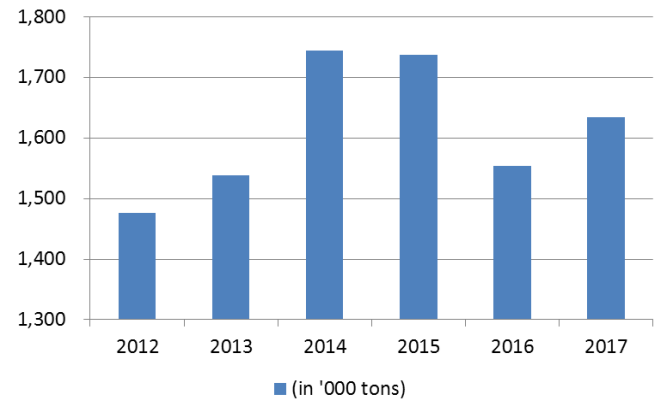
Source: Company, NHKS research

Fresh Fruit Bunches Production | 2012-2017



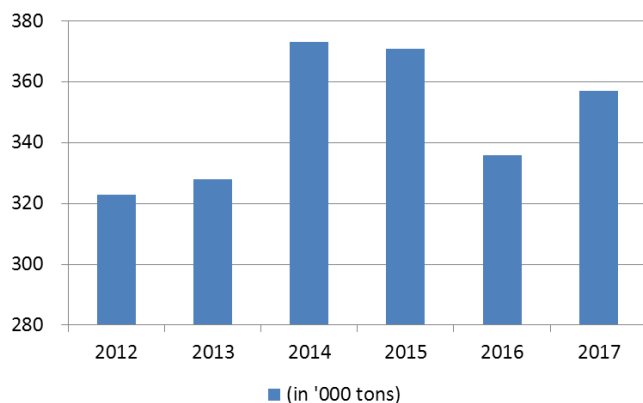
Source: Company, NHKS research

CPO Production | 2012-2017



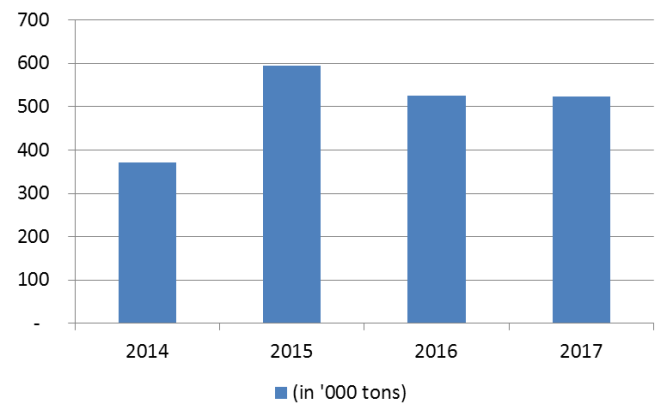
Source: Company, NHKS research

Palm Kernel Production | 2012-2017



Source: Company, NHKS research

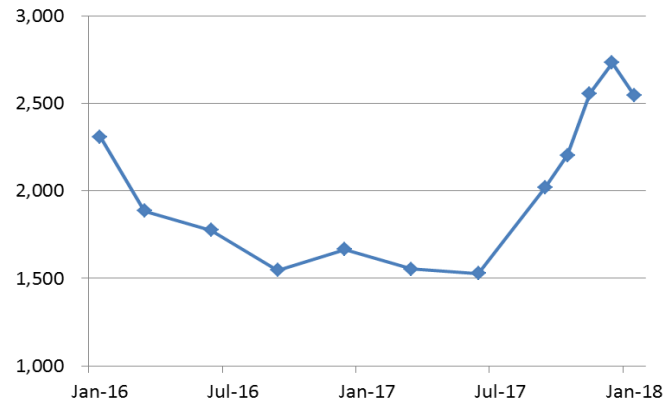
Refinery Products Production | 2014-2017



Source: Company, NHKS research

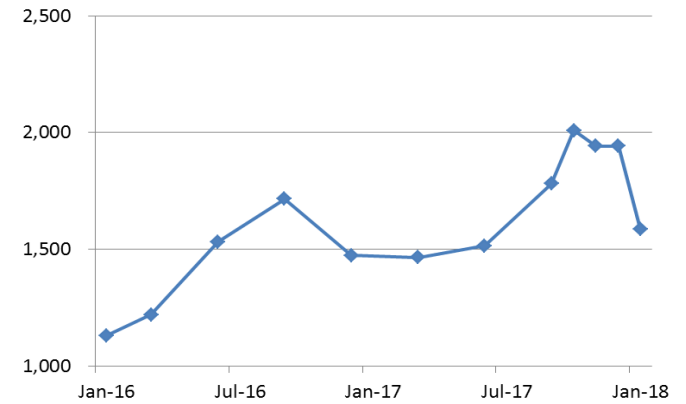
## Performance Highlights

Malaysia Palm Oil Inventory (000' tons) | 2016-2018



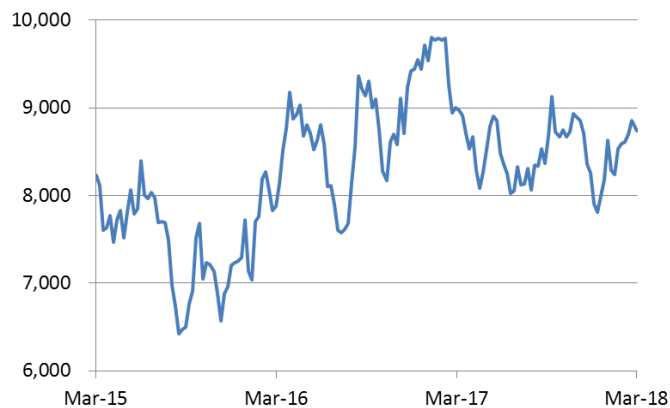
Source: MPOB, Bloomberg, NHKS research

Malaysia Palm Oil Production Data (000' tons) | 2016-2018



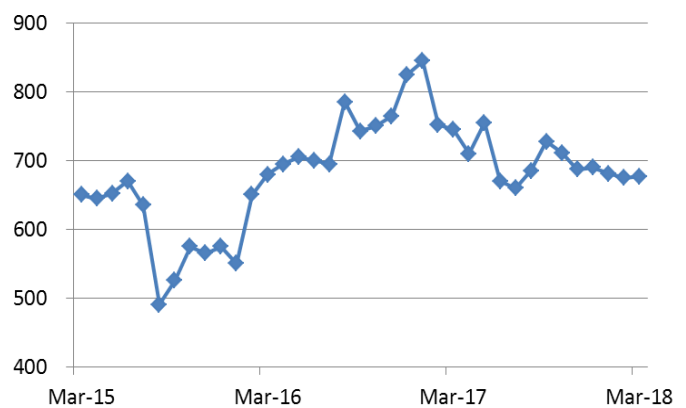
Source: MPOB, Bloomberg, NHKS research

CPO Price (IDR/Kg) | 2015 - 2017



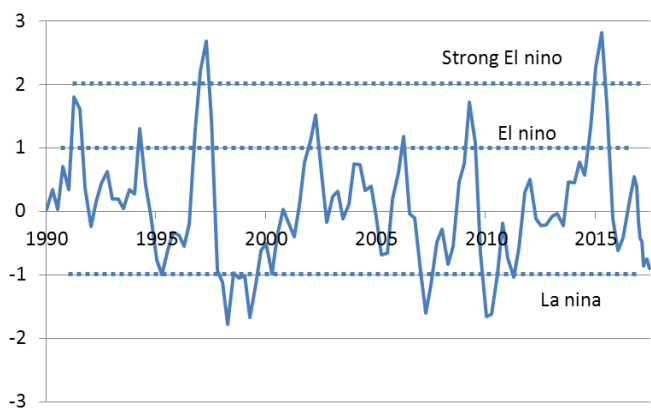
Source: Bloomberg, NHKS research

CPO CIF Rotterdam Price (USD/MT) | 2015 - 2017



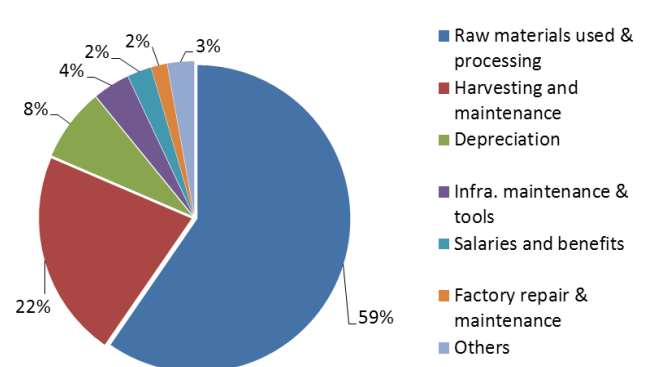
Source: Bloomberg, NHKS research

Sea Surf Temperature Departure from Mean



Source: NOAA Climate Center, Bloomberg, NHKS research

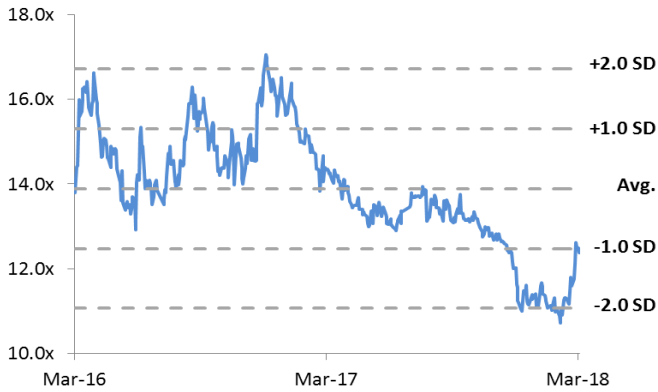
COGS Composition | FY2017



Source: Company, NHKS research

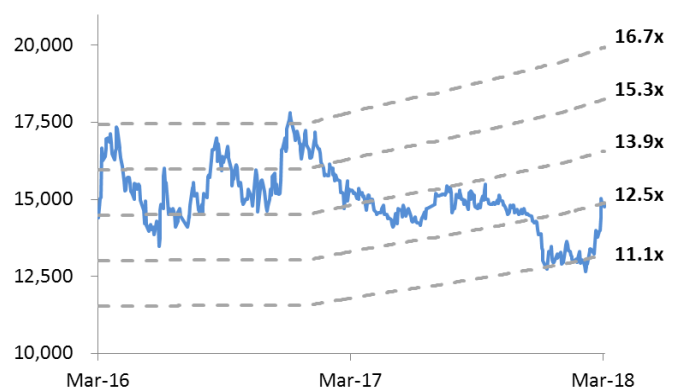
## Multiple Valuation

Forward P/E band | Last 2 years



Source: NHKS research

Dynamic Forward P/E band | Last 2 years



Source: NHKS research

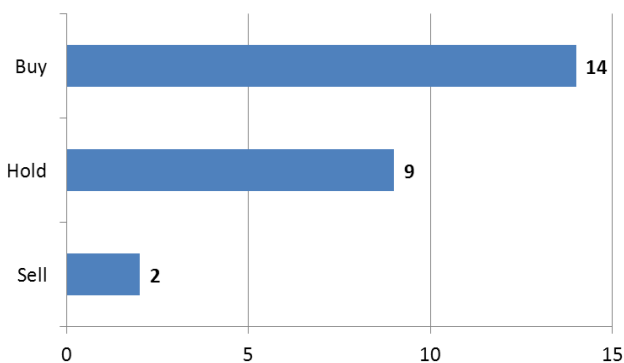
## Rating and target price update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
01/03/2018	Hold	14,425 (Dec 2018)	13,275	16,932	+8.7%	-14.8%
03/09/2018	Buy	18,375 (Dec 2018)	14,750	15,955	+24.6%	+15.2%

Source: NHKS research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKS research

### NH Korindo Sekuritas Indonesia (NHKS) stock ratings

Period: End of year target price

Rating system based on a stock's absolute return from the date of publication

- Buy : Greater than +15%
- Hold : -15% to +15%
- Sell : Less than -15%

## Summary of Financials

AAII Summary			
Last Price (IDR)	March 6, 2018		14,750
Target Price (IDR)	Dec 2018		18,375
Analyst: Joni Wintarja	Rating:		Buy

### INCOME STATEMENT

In IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
<b>Sales</b>	<b>14,121</b>	<b>17,306</b>	<b>19,778</b>	<b>22,483</b>
Growth (% y/y)	8.1%	22.5%	14.3%	13.7%
COGS	(10,445)	(13,160)	(15,087)	(17,150)
<b>Gross Profit</b>	<b>3,676</b>	<b>4,145</b>	<b>4,691</b>	<b>5,332</b>
Gross Margin	26.0%	24.0%	23.7%	23.7%
Operating Expenses	(1,017)	(1,094)	(1,252)	(1,423)
<b>EBIT</b>	<b>2,659</b>	<b>3,051</b>	<b>3,439</b>	<b>3,909</b>
EBIT Margin	18.8%	17.6%	17.4%	17.4%
Depreciation	1,070	1,189	1,293	1,403
<b>EBITDA</b>	<b>3,728</b>	<b>4,240</b>	<b>4,732</b>	<b>5,312</b>
EBITDA Margin	26.4%	24.5%	23.9%	23.6%
Interest Expense	(145)	(94)	(138)	(150)
<b>EBT</b>	<b>2,209</b>	<b>2,939</b>	<b>3,277</b>	<b>3,732</b>
Income Tax	(94)	(825)	(924)	(1,052)
Minority Interest	(107)	(103)	(116)	(132)
<b>Net Profit</b>	<b>2,007</b>	<b>2,010</b>	<b>2,237</b>	<b>2,548</b>
Growth (% y/y)	224.2%	0.2%	11.3%	13.9%
Net Profit Margin	14.2%	11.6%	11.3%	11.3%

### BALANCE SHEET

In IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Cash	532	262	575	495
Receivables	527	548	643	721
Inventories	2,097	2,018	2,295	2,620
<b>Total Current Assets</b>	<b>4,052</b>	<b>4,246</b>	<b>5,234</b>	<b>5,735</b>
Plantations	6,675	6,747	7,162	7,627
Fixed Assets	10,028	10,152	10,381	10,715
Other Non Current Assets	3,472	3,790	3,705	3,748
<b>Total Assets</b>	<b>24,226</b>	<b>24,935</b>	<b>26,482</b>	<b>27,825</b>
Payables	940	833	996	1,109
ST Bank Loan	400	600	600	400
Curr Maturities of LT Debt	1,585	-	-	-
LT Debt	2,116	3,369	3,369	3,369
Other Non Current Liab.	574	720	696	708
<b>Total Liabilities</b>	<b>6,633</b>	<b>6,399</b>	<b>6,780</b>	<b>6,584</b>
<b>Shareholders' Equity</b>	<b>17,593</b>	<b>18,536</b>	<b>19,702</b>	<b>21,241</b>

### CASH FLOW STATEMENT

In IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Net Income	2,007	2,010	2,237	2,548
Deprec & Amortization	1,070	1,189	1,293	1,403
Chg. In Working Capital	(713)	(442)	(269)	(589)
<b>CFO</b>	<b>2,364</b>	<b>2,757</b>	<b>3,261</b>	<b>3,361</b>
Capex	(2,285)	(1,663)	(1,937)	(2,202)
<b>CFI</b>	<b>(2,395)</b>	<b>(1,754)</b>	<b>(1,877)</b>	<b>(2,232)</b>
Dividends Paid	(191)	(997)	(1,075)	(1,007)
Net Borrowing (PMT)	(3,450)	(607)	-	(200)
<b>CCF</b>	<b>269</b>	<b>(1,273)</b>	<b>(1,071)</b>	<b>(1,209)</b>
<b>Net Changes in Cash</b>	<b>237</b>	<b>(269)</b>	<b>313</b>	<b>(80)</b>

### OWNERSHIP

By Geography	% Shareholders		%
Indonesia	94.77	Astra International, Tbk	79.7
United States	4.11	Sun Life Financial	1.4
Luxembourg	0.31	Vanguard Group	0.7
Finland	0.21	Dimensional Fund	0.6

### PROFITABILITY & STABILITY

	2016/12A	2017/12A	2018/12E	2019/12E
ROE	13.7%	11.1%	11.7%	12.4%
ROA	8.8%	8.2%	8.7%	9.4%
ROIC	9.3%	8.9%	9.4%	10.2%
EBITDA/Equity	25.5%	23.5%	24.7%	25.9%
EBITDA/Assets	16.3%	17.2%	18.4%	19.6%
Cash Dividend (IDR bn)	903	863	1,007	1,146
Dividend Yield (%)	2.8%	3.4%	3.5%	4.0%
Payout Ratio (%)	45.0%	42.9%	45.0%	45.0%
DER	23.3%	21.4%	20.1%	17.7%
Net Gearing	30.9%	27.9%	25.8%	22.3%
LT Debt to Equity	21.0%	18.2%	17.1%	15.9%
Capitalization Ratio	18.9%	17.6%	16.8%	15.1%
Equity Ratio	72.6%	74.3%	74.4%	76.3%
Debt Ratio	16.9%	15.9%	15.0%	13.5%
Financial Leverage	156.1%	136.1%	134.5%	132.6%
Current Ratio	102.8%	183.8%	192.7%	228.8%
Quick Ratio	26.9%	35.1%	44.8%	48.5%
Cash Ratio	13.5%	11.4%	21.2%	19.8%
Cash Conversion Cycle	54.1	44.4	43.3	43.9
Par Value (IDR)	500	500	500	500
Total Shares (mn)	1,925	1,925	1,925	1,925
Share Price (IDR)	16,775	13,150	14,750	14,750
Market Cap (IDR tn)	32.3	25.3	28.4	28.4

### VALUATION INDEX

	2016/12A	2017/12A	2018/12E	2019/12E
Price /Earnings	16.1x	12.6x	12.7x	11.1x
Price /Book Value	1.8x	1.4x	1.4x	1.3x
Price/Sales	2.3x	1.5x	1.4x	1.3x
PE/EPS Growth	0.1x	75.2x	1.1x	0.8x
EV/EBITDA	9.7x	6.9x	6.8x	6.0x
EV/EBIT	13.7x	9.7x	9.4x	8.2x
EV (IDR bn)	36,314	29,454	32,225	32,102
Sales CAGR (3-Yr)	3.7%	2.0%	14.8%	16.8%
EPS CAGR (3-Yr)	3.7%	-7.1%	53.4%	8.3%
Basic EPS (IDR)	1,043	1,044	1,162	1,324
Diluted EPS (IDR)	1,043	1,044	1,162	1,324
BVPS (IDR)	9,141	9,631	10,237	11,036
Sales PS (IDR)	7,337	8,991	10,276	11,681
DPS (IDR)	469	448	523	596

### DCF, RIM & EVA

	2016/12A	2017/12A	2018/12E	2019/12E
<b>DCF (IDR bn)</b>				
NOPAT	2,545	2,194	2,469	2,807
+Depr./Amor.	1,070	1,189	1,293	1,403
-CAPEX	(2,285)	(1,663)	(1,937)	(2,202)
-Incr. (Decr.) in Working Cap. (Unlevered) FCF	(713)	(442)	(269)	(589)
<b>WACC</b>				
Cost of Debt (Tax Adj.)	7.0%	7.0%	6.7%	6.7%
Cost of Equity (COE)	9.8%	9.8%	9.0%	9.0%
WACC (%)	9.3%	9.3%	8.6%	8.7%
<b>RIM</b>				
Spread (FROE-COE) (%)	7.3%	1.6%	3.0%	3.9%
Residual Income (IDR)	857	281	561	766
Equity Charge	1,150	1,729	1,676	1,781
<b>EVA</b>				
Invested Capital (IDR bn)	21,695	22,506	23,672	25,010
ROIC-WACC (%)	0.0%	-0.4%	0.8%	1.5%
EVA (IDR bn)	(10)	(90)	190	375

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