

Indonesia Plantations

CPO Will Fluctuate Until the Third Quarter

The spread of COVID-19 will reduce supply and demand for CPO, the slow replanting program, and the potential of weather with low rainfall in 2020. We estimate the prices of CPO to hover at MYR2,050/tonne-MYR2,120/tonne, lower than 2019 by considering the China's sluggish consumption until 3Q20. But, B30 program is still the main catalyst for CPO in Indonesia, and we recommend BUY on AALI and LSIP with 2020F EV/ha of USD9,865/ha and USD7,340/ha.

Projection of CPO Prices

COVID-19 pandemic curbs CPO production and consumption until 3Q20. We estimate 2020 CPO benchmark prices of Malaysia Derivatives Exchange to fall at the range of MYR2,050/tonne-MYR2,120/tonne or declining by 2.1%-5.3% from 2019 average prices of MYR2,165/tonne. The estimate considers China's sluggish consumption (9.6% contribution for global CPO consumption) until 3Q20 and then for 4Q20 there will be a recovery in Indonesia and Malaysia production as well as global consumption.

Catalysts to Determine Palm Oil

Indonesia's oil palm plantations in 2020 will be navigated by factors such as: 1) declining global demands for CPO due to COVID-19 spread to cause importers cutting demand for consumption; 2) downbeat production along with slow replanting program in Indonesia and Malaysia as the two biggest CPO producers; 3) domestic CPO consumption to be backed by B30 program; 4) 2020's drought season alike in 2019; 5) trend in prices of Crude Oil and Soybean Oil.

OVERWEIGHT for Sector, BUY Recommendation for AALI and LSIP

We give OVERWEIGHT for the plantation sector by considering Indonesia's consumption prospect from B30 program, replace export consumption from China, India, and the European Union amid the possibility of downbeat demands when there is a potential decline in Indonesia's production. We recommend AALI and LSIP by considering: 1) AALI is one of Indonesian CPO listed-companies, with the biggest balance sheet and the largest plantation areas of 285 thousand ha (LSIP: 116 thousand ha, SGRO: 102 thousand ha, SSMS: 95 thousand ha) in Indonesia; 2) LSIP becomes one of CPO listed-companies with the most liquid equity and net cash to give fundamental resilience amid the rupiah depreciation in 2020; 3) AALI and LSIP's EV/ha 2020F of USD9,865 and USD7,340 are more attractive than their peers.

Risks to Our Recommendation

There are several risks that can affect our recommendation for the plantation sector condition, revenue estimate, target price, and stock ratings. The risks are: 1) CPO prices lower than our estimate; 2) the negative policy applied to importers relating to the economic slowdown due to COVID-19; 3) crude oil prices have fallen below USD10/barrel and making biodiesel unpopular; 4) extreme weather will have an impact on industry growth that is lower than expected.

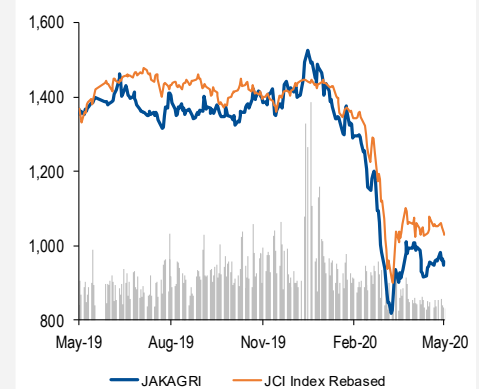
Overweight

Top Picks

AALI	Buy	IDR10,000
LSIP	Buy	IDR900
	P/E (x)	P/B (x)
JCI	11.6	1.3
JAKAGRI	27.9	0.7

SECTOR MARKET CAP IDR60.5 Trillion

Sector Index

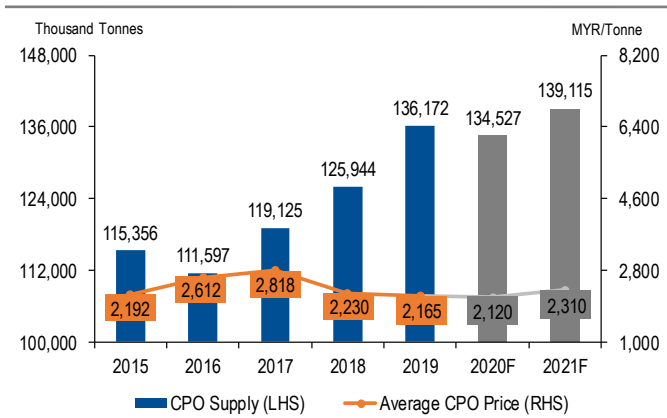


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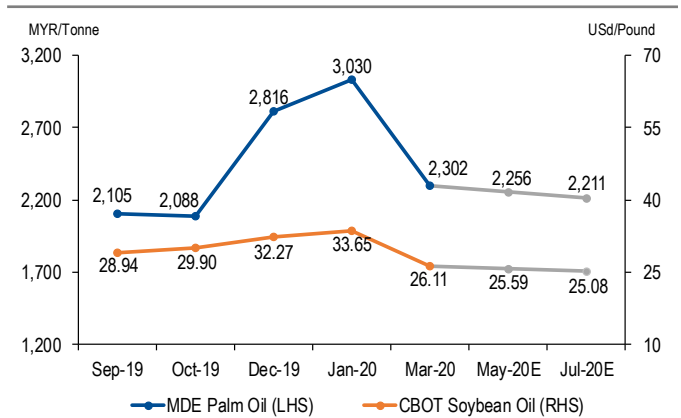
Key Charts & Tables

Figure 1: CPO Supply & Average Price



Source: USDA, Bloomberg, NHKSI Research

Figure 2: CPO Price vs Soybean Oil Price



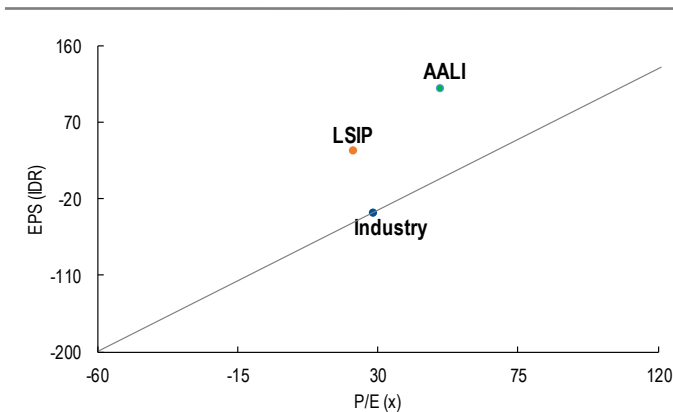
Source: Bloomberg, NHKSI Research

Table 1: Global CPO Price Forecast

NHKSI Forecast Price			2011	2012	2013	2014	2015	2016	2017	2018	2019	2020F	2021F
MDE Palm Oil	New	MYR/t	3,296	2,871	2,391	2,411	2,192	2,612	2,818	2,230	2,165	2,120	2,310

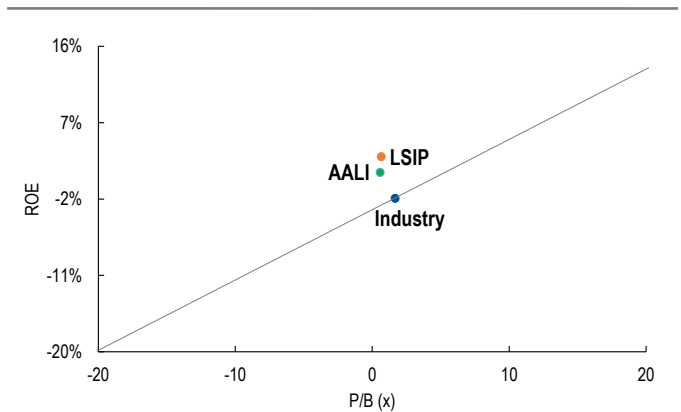
Source: Bloomberg, NHKSI Research

Figure 3: EPS Growth vs P/E Comparison



Source: Bloomberg, NHKSI Research

Figure 4: P/B vs ROE Comparison



Source: Bloomberg, NHKSI Research

Table 2: Recommendation & Target Prices

Companies	Ticker	Rating	Last Price	TP	Upside	Method
Astra Agro Lestari	AALI IJ	Buy	IDR6,200	IDR10,000	61.3%	Forward EV/ha (3-Year Historical Mean)
London Sumatra Indonesia	LSIP IJ	Buy	IDR725	IDR900	24.2%	Forward EV/ha (3-Year Historical Mean)

Source: Bloomberg, NHKSI Research

Fundamental Ranking

Table 3: Piotroski F-Score

Rank	Ticker	Company Name	F-Score
1	AALI IJ	Astra Agro Lestari	4
1	LSIP IJ	London Sumatra Indonesia	4
1	SSMS IJ	Sawit Sumbermas Sarana	4
1	SIMP IJ	Salim Ivomas Pratama	4
2	SGRO IJ	Sampoerna Agro	3

Source: Company Data, Bloomberg, NHKSI Research

Table 4: Grantham Quality Indicator

Rank	Ticker	Company Name	Grantham Point
1	AALI IJ	Astra Agro Lestari	4.0
2	LSIP IJ	London Sumatra Indonesia	3.7
2	SSMS IJ	Sawit Sumbermas Sarana	3.7
3	SIMP IJ	Salim Ivomas Pratama	3.3
3	SGRO IJ	Sampoerna Agro	3.3

Source: Company Data, Bloomberg, NHKSI Research

South East Asia Comparison

Table 5: Valuation, EPS Growth & Dividend Yield Comparison

Company	Mkt Cap (USD mn)	P/E (x)		P/B (x)		EV/EBITDA (x)		EPS Growth (%)		Dividend Yield (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Astra Agro Lestari	638	8.2	7.3	0.5	0.4	4.6	4.4	546.3	14.1	2.9	5.1
Sawit Sumbermas Sarana	540	42.8	17.1	2.1	2.3	316.5	14.3	74.9	142.2	0.6	0.2
London Sumatra Indonesia	352	10.8	9.8	0.6	0.5	4.2	4.3	169.1	10.1	1.6	4.3
Sampoerna Agro	287	18.2	15.9	1.0	0.9	9.3	8.2	313.6	106.8	0.5	0.6
Salim Ivomas Pratama	204	15.8	15.8	0.2	0.2	5.5	5.4	-132.3	-0.4	1.0	0.8
Indonesia Plantation - Average		19.2	13.2	0.9	0.9	68.0	7.3	194.3	54.6	1.3	2.2
Sime Darby Plantations	7,880	38.5	34.1	2.2	2.1	16.3	15.3	-525.0	13.2	1.7	1.9
IOI Corporation	5,830	27.9	24.1	2.6	2.5	17.8	15.9	41.0	13.8	2.2	2.5
Kuala Lumpur Kepong	5,210	24.5	21.7	2.0	1.9	13.4	12.2	44.0	12.8	2.5	2.6
Genting Plantations	1,980	29.0	24.4	1.6	1.6	16.4	14.8	6.6	18.7	1.7	1.9
FGV Holdings	722	15.6	11.7	0.7	0.7	6.7	6.1	-181.8	33.2	2.7	3.4
Sarawak Oil Palms	317	13.1	10.2	0.5	0.6	5.6	4.9	11.5	28.6	2.5	2.8
IJM Plantations	294	21.6	15.2	0.7	0.7	9.6	7.3	-243.5	42.5	2.8	3.1
TSH Resources	210	13.4	10.6	0.5	0.5	9.7	8.7	42.3	27.8	2.4	3.0
Malaysia Plantation - Average		23.0	19.0	1.4	1.3	11.9	10.7	-100.6	23.8	2.3	2.7
Wilmar International	14,410	11.1	10.2	0.8	0.7	13.2	12.4	-2.6	8.7	3.7	4.0
First Resources	1,350	8.7	7.6	1.1	1.0	5.9	5.5	69.0	19.6	3.3	3.7
Golden Agri Resources	1,260	12.2	10.8	0.2	0.2	6.2	6.1	-64.5	15.8	4.1	4.1
Bumitama Agri	475	8.9	8.1	0.9	0.9	7.1	6.6	29.7	10.1	5.4	5.9
Singapore Plantation - Average		10.2	9.2	0.8	0.7	8.1	7.7	7.9	13.6	4.1	4.4
Total Average		18.8	15.0	1.1	1.0	27.5	9.0	11.7	30.4	2.4	2.9

Source: Bloomberg

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Global Supply & Demand Will Fall

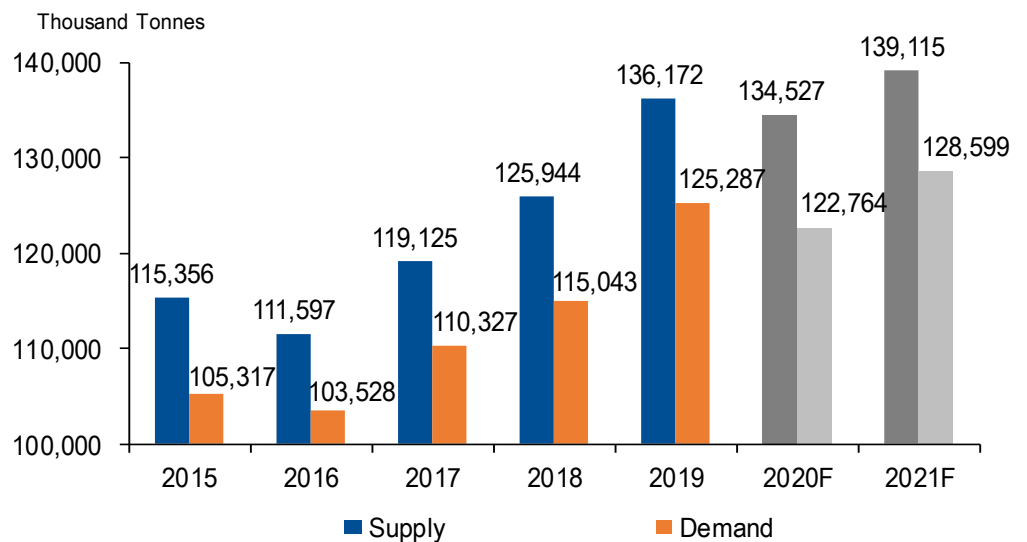
The total production of Indonesia and Malaysia in 2020 will drop by 1.3% YoY

Virus Outbreaks as a Primary Factor

We estimate the impact of the COVID-19 pandemic will reduce CPO supply to 134.5 million tonnes (-1.3% YoY) due to the decline in plantation activity in Indonesia and Malaysia. The assumption of the total production of the two largest CPO producing countries, namely Indonesia and Malaysia, will fall to 61.4 million tonnes (-1.3% YoY) because since March already restrictions on the activities of oil palm farmers.

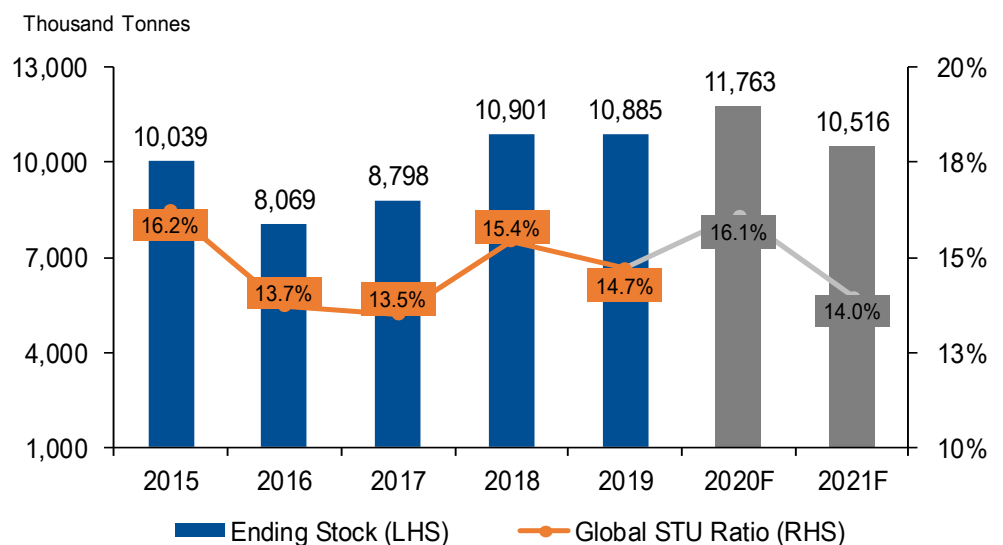
For CPO demand contributions from Indonesia and Malaysia, we do not expect a decline because biodiesel programs in both countries will increase domestic consumption. However, we believe that China's consumption (9.6% contribution to global CPO consumption) will decrease to 6.9 million tonnes (-1.3% YoY) in 2020 due to restrictions on import activities by closing logistic points. As for these situations, we expect to start improving after 3Q20 taking into account the decline in COVID-19 cases.

Figure 5: Global CPO Supply and Demand



Source: USDA, NHKSI Research

Figure 6: Global CPO Inventory



Source: USDA, NHKSI Research

We predict STU in 2020 will increase to 16.1%. Although supply and demand will decline throughout 2020, we see an imbalance in decline. Total supply in 2020 will drop by 1.3%, coupled with total demand that will fall 2%. Total demand has decreased more than the total supply will result in ending stock from 2020 of 11.7 million tonnes (+8.1%). We estimate that conditions will return to normal in 2021, with an increase in total demand that is greater than the total supply.

Table 6: CPO Supply and Demand Forecast

Thousand Tonnes	2015	2016	2017	2018	2019	2020F	2021F
Opening Stock	9,105	10,039	8,069	8,798	10,901	10,885	11,763
Production	61,780	58,856	65,182	70,625	73,898	72,937	75,125
Indonesia	33,000	32,000	36,000	39,500	41,500	40,961	42,189
Malaysia	19,879	17,700	18,585	19,683	20,800	20,530	21,145
Others	8,901	9,156	10,597	11,442	11,598	11,447	11,791
Import	44,471	42,702	45,874	46,521	51,373	50,705	52,226
Total Supply	115,356	111,597	119,125	125,944	136,172	134,527	139,115
% Change	4.0%	-4.7%	10.7%	8.4%	4.6%	-1.3%	3.0%
Consumption	57,903	59,692	61,523	66,419	72,692	71,747	76,052
Rest of the World	25,987	26,922	28,876	30,319	32,386	28,530	28,668
Indonesia	7,220	9,270	9,160	11,000	12,625	15,150	18,180
India	9,150	9,100	9,350	9,270	9,805	9,678	9,968
Europe Union	6,900	6,600	6,800	6,900	7,360	7,264	7,482
China	5,700	4,800	4,750	5,100	7,012	6,921	7,128
Malaysia	2,946	3,000	2,587	3,233	3,504	4,205	4,625
Export	47,414	43,836	48,804	48,624	52,595	51,017	52,548
Total Demand	105,317	103,528	110,327	115,043	125,287	122,764	128,599
% Change	N/A	-1.7%	6.6%	4.3%	8.9%	-2.0%	4.8%
Ending Stock	10,039	8,069	8,798	10,901	10,885	11,763	10,516
Stock-Usage Ratio	16.2%	13.7%	13.5%	15.4%	14.7%	16.1%	14.0%

Source: USDA, NHKSI Research

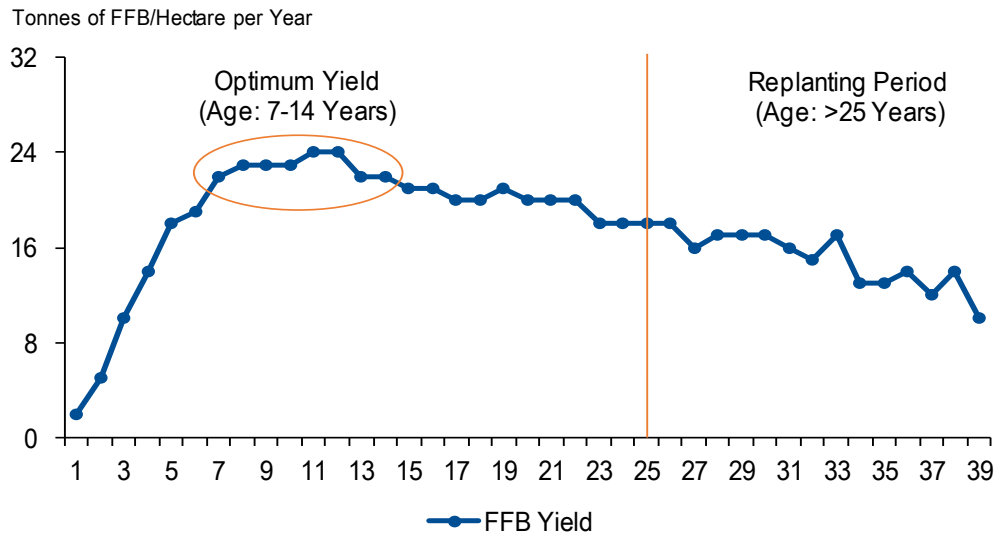
Replanting and Weather as a Secondary Factor

The long-term productivity of oil palm trees needs to be regenerated every year to ensure adequate supply. Lack of regeneration activities, such as replanting programs, has the potential to reduce the global's CPO supply. We estimate oil palm plantations will slow down the production in 2020. Oil palm trees with the age of 7-14 years will produce FFB with optimum yields, but when entering the age of 23-25 years, the trees will produce FFB with lower yields. Replanting program should carry out when the trees already the age above 25 years.

The average ages of Indonesian and Malaysian oil palm trees is 16 years and 20 years, respectively. The condition of Indonesia and Malaysia in 2020 has begun to approach the lower production phase of FFB. According to our analysis, this condition will be beneficial for soybean oil as the main competitor if the number of replanting realization does not increase until the end of the year.

The average ages of Indonesian and Malaysian oil palm trees are 16 years and 20 years, respectively

Figure 7: Yield Pattern of Oil Palm Trees

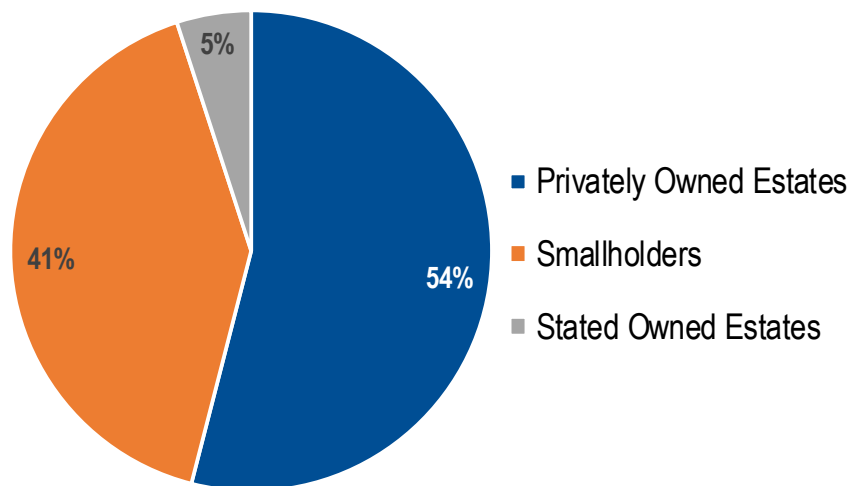


Source: Frost & Sullivan, NHKSI Research

Until now, the replanting program in Indonesia does not have clear procedures and incentives

Indonesia as the largest CPO producer (30% contribution to global supply) faced with the condition of plantations, which are mostly owned by smallholders and plasma farmers, with limited capital to do replanting. The replanting program by smallholders and state-owned plantations through PT Perusahaan Perkebunan Negara (PTPN) is also currently unclear regarding the realization data, plus the lack of implementation procedures and incentives for the program. The current condition of plasma trees in Indonesia will enter a phase of weakening production in the next two to four years.

Figure 8: Almost Half of Indonesia’s Estates are Facing an Ageing Crisis

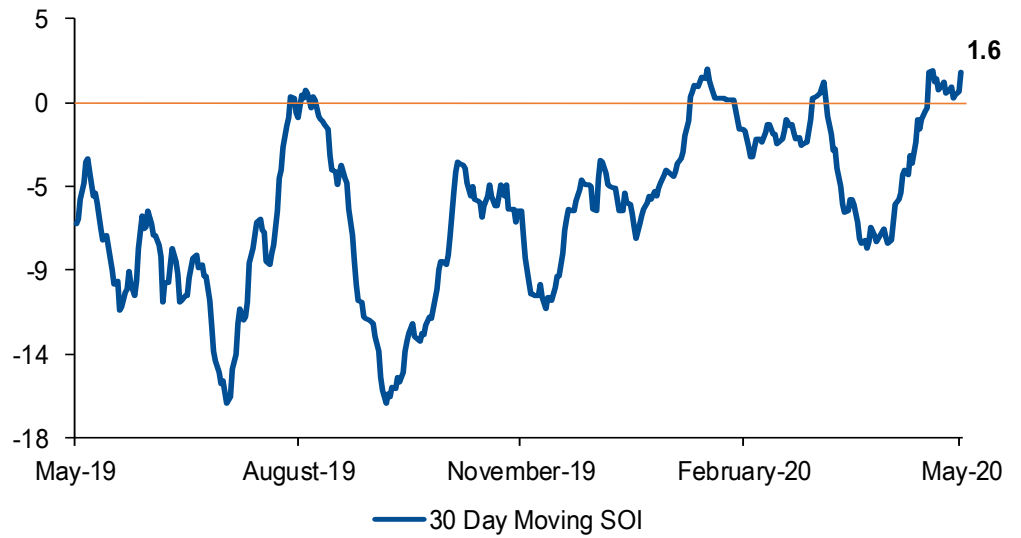


Source: Indonesia Directorate General of Agriculture, NHKSI Research

El Nino conditions will not occur in 2020

For weather conditions throughout 2020, we predict that the period will be the same as the cycle in 2019 so that it will not have a significant impact on global CPO production. Our prediction for this condition will not change CPO supply and demand so that the volatility of global CPO prices will not be in the extreme range. The Southern Oscillation Index (SOI) data until May 2020 are still above -7, which means that there will be no El Niño soon because sea surface temperatures remain warmer than the average historical data.

Figure 9: Southern Oscillation Index at El Nino Conditions Above -7

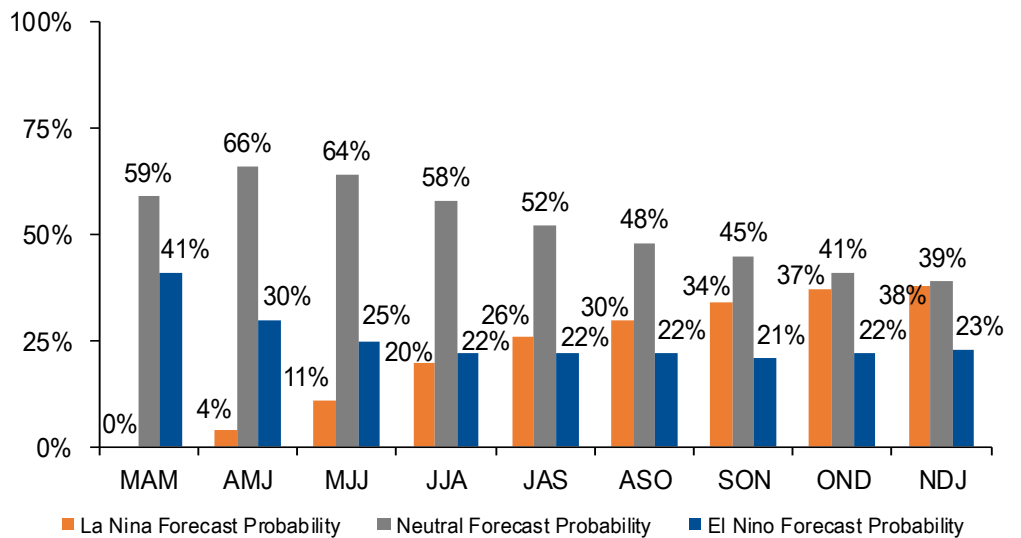


Source: Australian Government Bureau of Meteorology, NHKSI Research

Kalimantan has the potential for drought in the June-August period

However, the potential for drought can still occur in the Kalimantan region for the period June-August if the cycle in 2020 is the same as 2019. We predict that for the June-August 2020 period, there will be a higher decline in CPO production compared to other months throughout 2020. Overall, we estimate that 2020 is not a year with extreme weather so that although CPO production will fall, it has not reached the supply crisis.

Figure 10: Probability of El Nino is Low



Source: International Research Institute for Climate & Society, NHKSI Research

The area of oil palm plantations remain dominated by the private sector by 55%

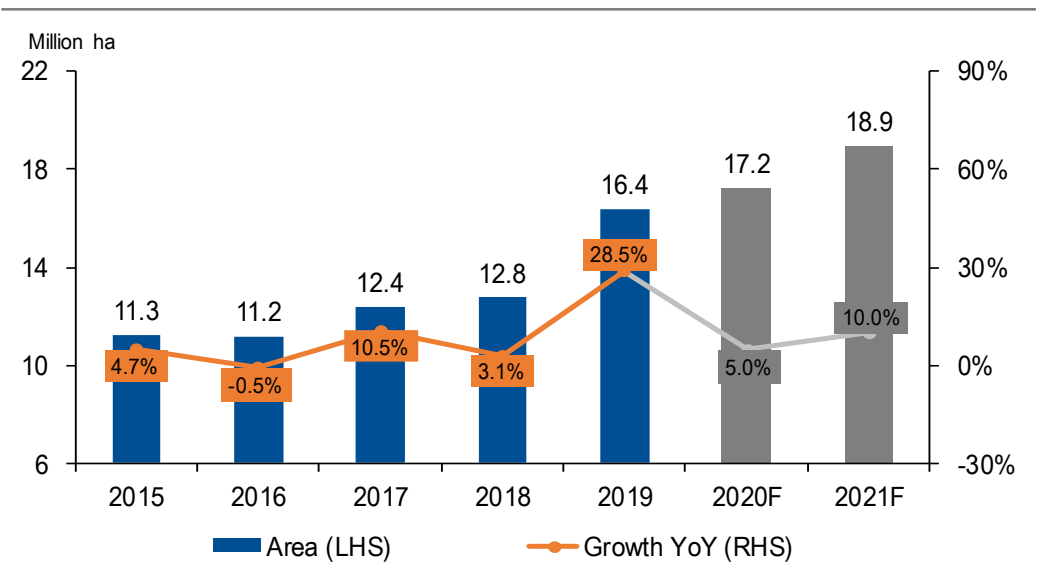
Indonesia's CPO Condition

Development of Plantation Area

The total area of oil palm plantations in the period 2015-2019 continued to increase, although in 2016 there was a decline. Plantation areas are scattered in 25 provinces, namely all provinces in Sumatra, Kalimantan, West Java, Banten, Central Sulawesi, South Sulawesi, Southeast Sulawesi, West Sulawesi, Gorontalo, Maluku, Papua, and West Papua. In 2019, total area of oil palm plantations is 16.4 million ha (+28.5% YoY) with a share of private-plantations at 54%, community-plantations at 41%, and state-plantations at 5%.

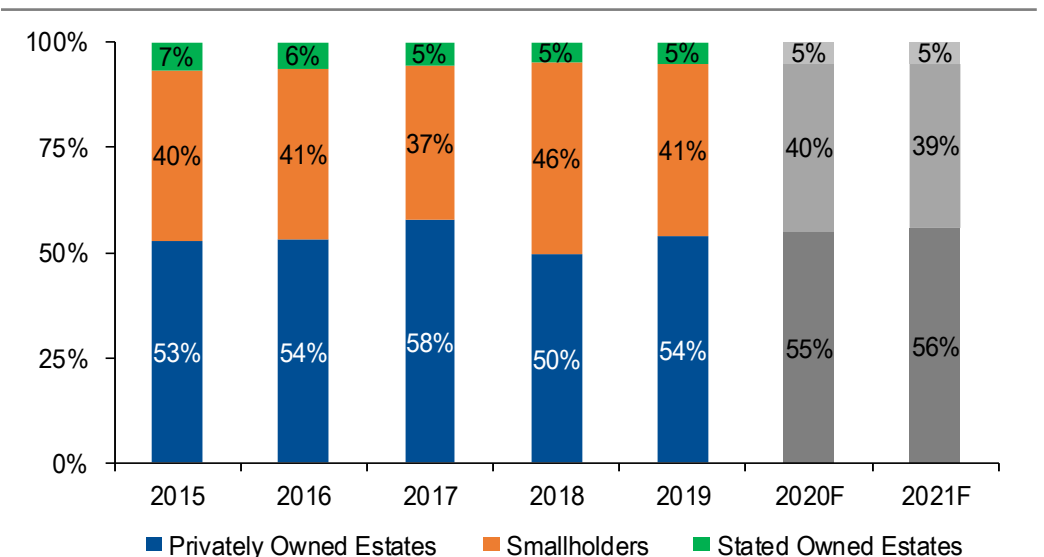
Although there is Presidential Instruction No. 8 of 2018 regarding a moratorium on new land clearing, plantation areas continue to increase, and we see the positive side can improve the community's economy and increase the productivity of Indonesian CPO. For 2020F, we predict that the area of oil palm plantations can increase to 17.2 million ha.

Figure 11: Indonesia's Oil Palm Plantation Area



Source: Indonesia Directorate General of Agriculture, BPS, NHKSI Research

Figure 12: Indonesia's Oil Palm Plantation Area according to the Status of Exploitation



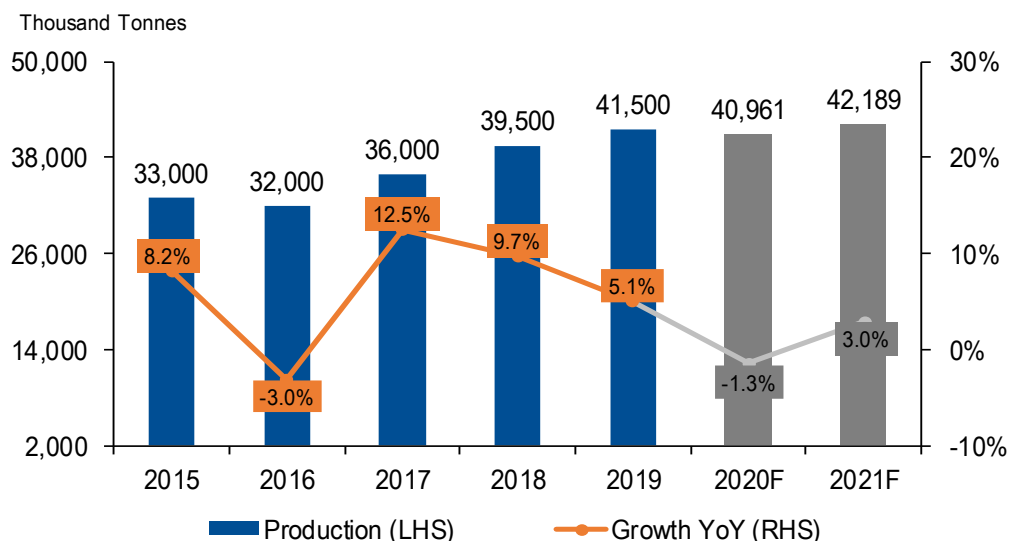
Source: Indonesia Directorate General of Agriculture, BPS, NHKSI Research

Domestic consumption will continue to increase in 2020 to 15.1 million tonnes

Production Declines But Domestic Consumption Increases

We estimate in 2020F with a lower volume of FFB's growth, which affects the production of CPO and its derivative products. Specifically for CPO production for 2020F, we predict that Indonesia will produce 40.9 million tons (-1.3% YoY), with assumptions such as operational activities that will drop to 3Q19 due to the spread of COVID-19, replanting program has not maximized, and drought conditions in the June-August period in Kalimantan.

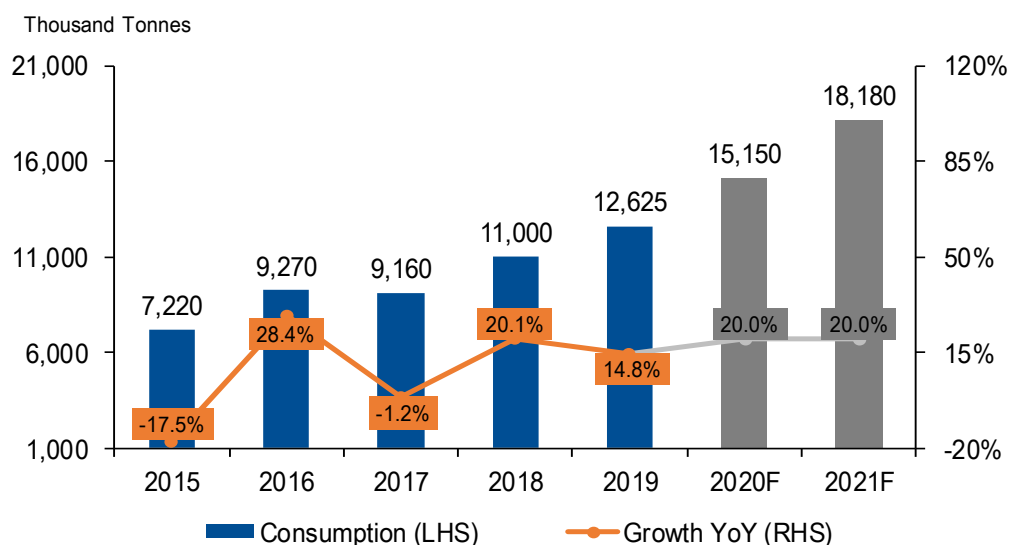
Figure 13: Indonesia's CPO Production



Source: USDA, NHKSI Research

For domestic consumption, we are optimistic that in 2020F will continue to increase with a value of 15.1 million tonnes (+20% YoY). Assuming the implementation of the B30 program will encourage CPO demand even though consumption will slow down slightly until 3Q20 due to decreased industrial operating intensity cause of COVID-19 pandemic.

Figure 14: Indonesia's CPO Consumption



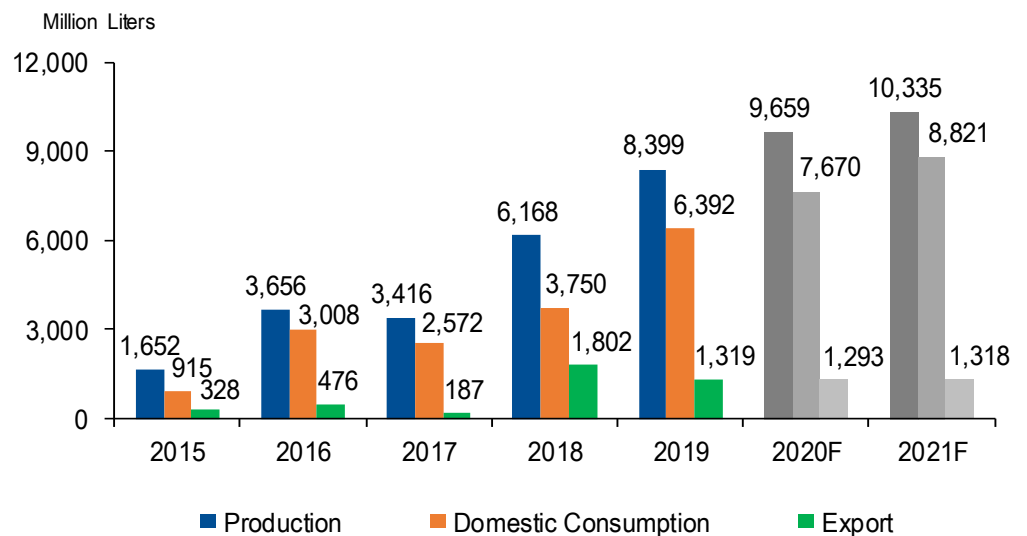
Source: USDA, NHKSI Research

The estimated blend rate for biodiesel in 2020 is 28.5%

B30 Program Become a Mainstay

The potential reduction in consumption from the European Union related to policies for reducing the use of CPO, plus the condition of India and China began to reduce the level of imports due to the COVID-19 pandemic. Making world CPO demand will depend on domestic consumption in Indonesia and Malaysia to balance the prices in the open market. In Indonesia, the biodiesel program is the cornerstone of domestic CPO consumption through the B30 implementation in 2020. We estimate for 2020F, domestic biodiesel consumption can reach 7.6 billion liters (+20% YoY) with a blended rate of 28.5% in diesel.

Figure 15: Indonesia's Biodiesel Statistics



Source: APROBI, NHKSI Research

Table 7: Biodiesel Demand Forecast

Indonesia Biodiesel	2015	2016	2017	2018	2019	2020F	2021F
Supply-Demand							
Production (Mn Liters)	1,652	3,656	3,416	6,168	8,399	9,659	10,335
Domestic Consumption (Mn Liters)	915	3,008	2,572	3,752	6,392	7,670	8,821
Export Market (Mn Liters)	328	476	187	1,802	1,319	1,293	1,318
Excess Production (Mn Liters)	409	172	657	616	688	696	196
Conversion Rate (K Tonne/Liter)	0.92	0.92	0.92	0.92	0.92	0.92	0.92
CPO Used For Biodiesel (Mn Liters)	1,520	3,364	3,143	5,675	7,727	8,886	9,508
Market Penetration							
Diesel – Total Used (Mn Liters)	30,912	30,039	31,441	32,196	29,621	30,213	33,235
Blend Rate – Actual (%)	2.6	10.3	8.2	12.7	19.9	28.5	29.5
Blend Rate – Target (%)	15.0	15.0	15.0	15.0	20.0	30.0	30.0
Discount To Target (%)	-12.4	-4.7	-6.8	-2.3	-0.1	-1.5	-0.5

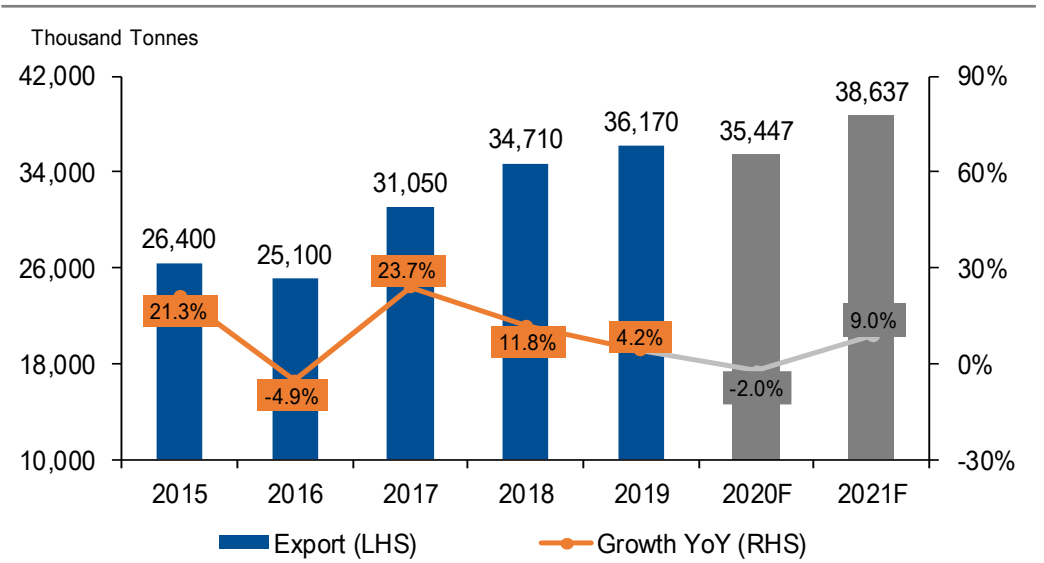
Source: APROBI, MEMR, GTA (Trade Data), NHKSI Research

The weakening of the global economy caused China and India to reduce CPO imports in 2020

Lower CPO Export

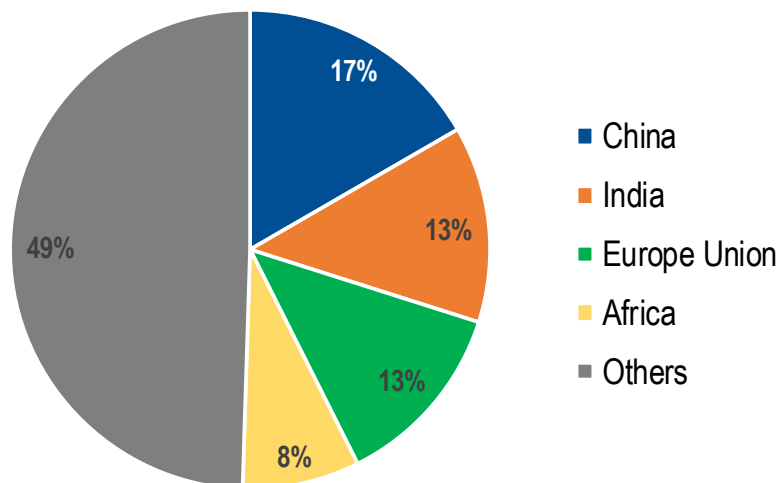
The potential slowing of the global economy until 3Q20 makes us pessimistic that there will be an increase in exports because the European Union, China, and India have confirmed that they will reduce the consumption of imported products. For 2020F, we estimate for Indonesia's CPO exports will drop to 35.4 million tonnes (-2% YoY). Assumptions that China contributed 17% of total exports will fall to 5.9 million tonnes (-1.7% YoY) and India with a contribution of 13% of total exports also fell to 4.7 million tonnes (-2.1% YoY). However, we estimate that the decline in exports will not be extreme and will improve in 4Q20, so we believe it will only keep the global CPO price in a consolidation trend throughout 2020.

Figure 16: Indonesia's CPO Export



Source: GAPKI, NHKSI Research

Figure 17: Destination of Export Forecast



Source: GAPKI, NHKSI Research

CPO prices in the last two years have been able to hold at the lowest level of MYR1,900/tonne

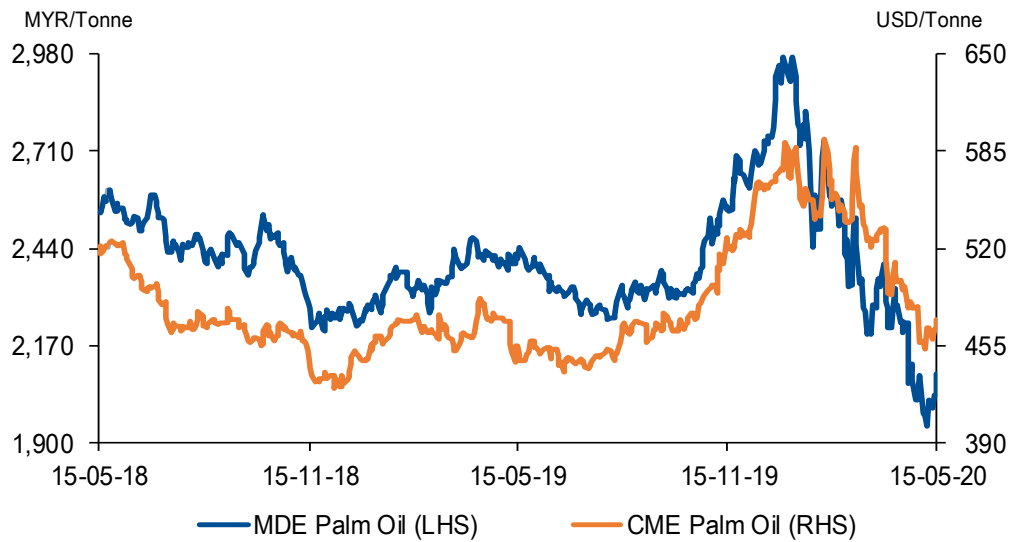
The Direction of Global CPO Prices

CPO Prices in a Consolidation Trend

In January 2020, before the COVID-19 outbreak, CPO prices moved up to the level of MYR2,900/tonne, which is the highest price in the last two years. The spread of COVID-19, which reduced global CPO consumption, put CPO prices in a downtrend since February 2020. Based on the history of the last two years, the price of CPO has been able to hold above MYR1,900/tonne. We assume that these prices reflect reasonable supply and demand for CPO commodities and have the potential to move consolidated up until 3Q19 with a lower limit of MYR1,900/tonne.

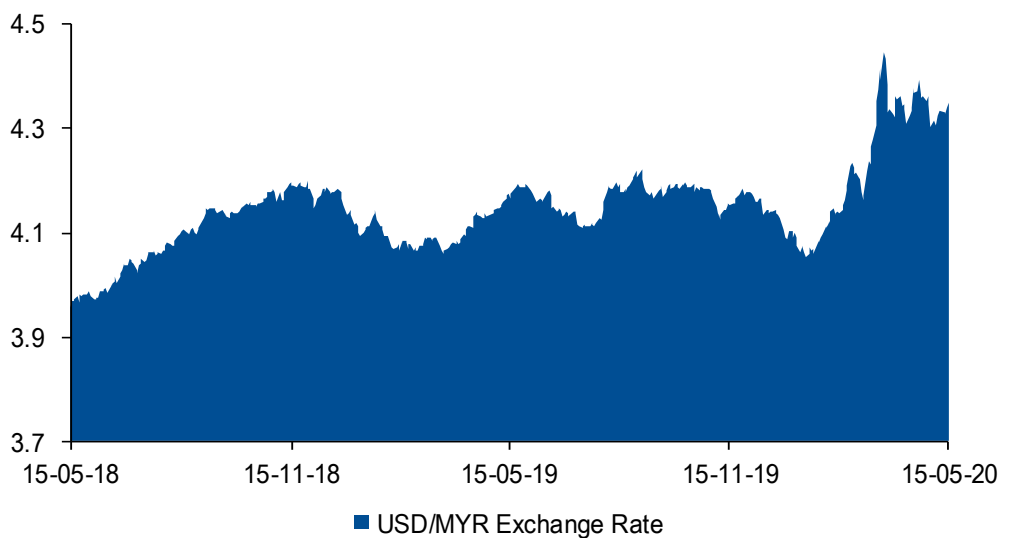
We expect a potential increase in demand from China and India in 4Q19 with the assumption that the number of COVID-19 cases will begin to decline so that the estimated average global CPO prices in 2020 will be at the level of MYR2,120/tonne.

Figure 18: CPO Price Movement in the Last Two Years



Source: Bloomberg, NHKSI Research

Figure 19: USD/MYR Movement in the Last Two Years



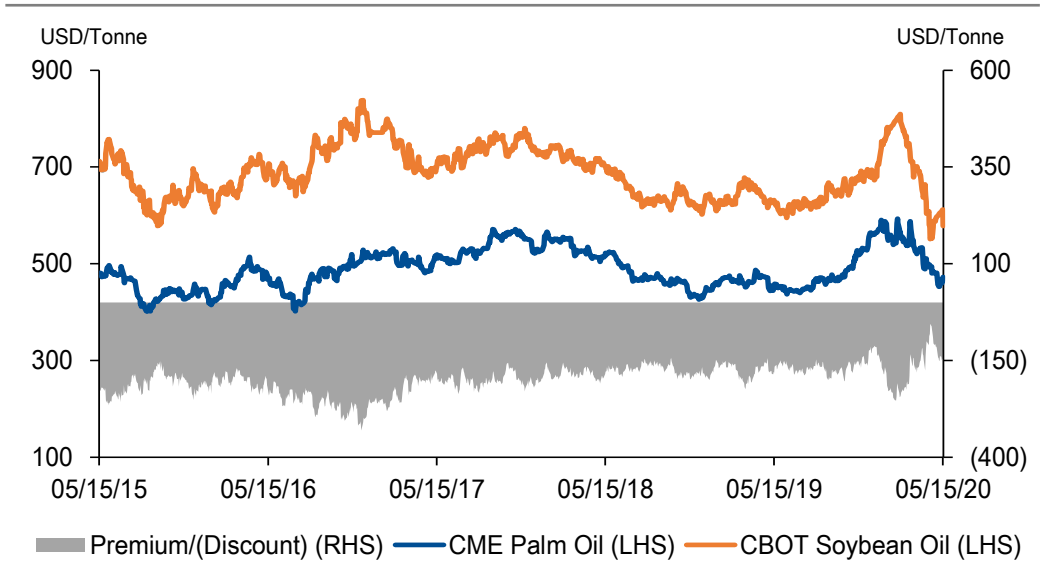
Source: Bloomberg, NHKSI Research

Throughout 2020 the difference in CPO prices with soybean oil has the potential to be even lower

Factors of Soybean Oil & Gas Oil

In May 2020, CPO price difference with soybean oil narrowed to USD105/tonne after touching the level of USD275/ton in December 2019. So, the soybean oil prices are getting closer to CPO prices. These conditions have the potential to reduce the CPO consumption and increase the soybean oil consumption in China and India. We predict the difference will continue to run low until 3Q19, but until the end of the year, CPO prices still discounted from soybean oil prices, assuming CPO prices strengthen throughout 4Q19.

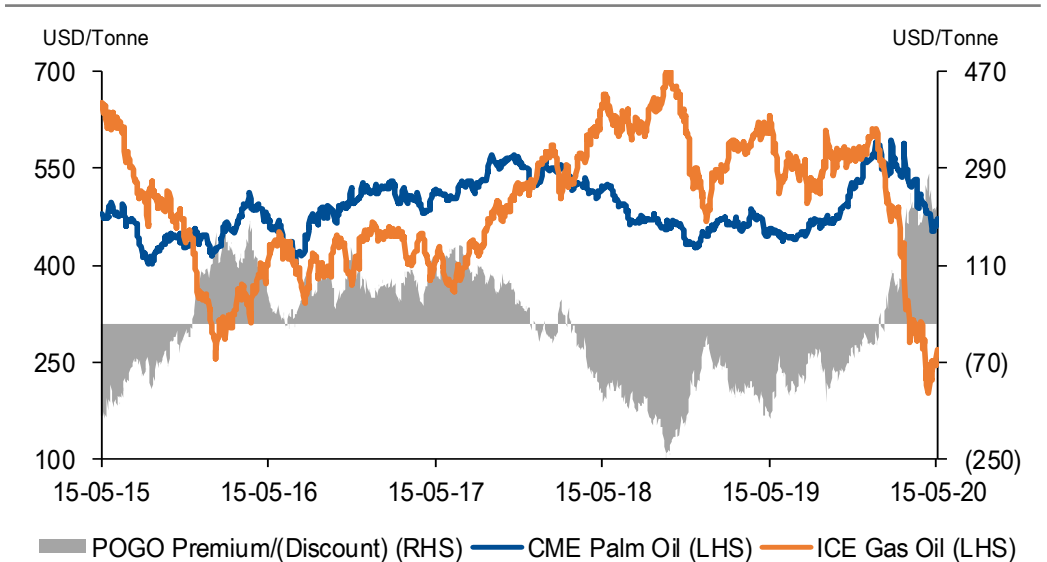
Figure 20: Palm Oil Price Discount To Soybean Oil Price at USD105/Tonne



Source: Bloomberg, NHKSI Research

The price difference also applies between the price of CPO and gas oil, with the spread in May 2020 rising to +USD202/tonne. The impact of the decline in fossil commodity prices throughout the year-to-date. So, CPO prices are becoming expensive for biofuel products. We estimate the price difference with gas oil will increase above +USD200/tonne and become one of the burden factors for CPO consumption. However, adequate domestic funding makes the realization of biodiesel in Indonesia, such as the B30 program will be effective.

Figure 21: Palm Oil-Gas Oil (POGO) Spread at +USD202/Tonne



Source: Bloomberg, NHKSI Research

Our Top-Pick Stocks

AALI and LSIP

We chose AALI because based on the EV/ha valuation, it has traded below -2 SD for the past month. AALI as the public company with the highest FFB yield among other competitors at 18.71 tonne/ha, our assumption for a more attractive move compared to other plantation public company. Regarding the replanting program, the AALI's replanting program in FY19 reached 6,724 ha, rise from FY18 of 5,150 ha, the achievement is higher than its competitors. The replanting program will provide fundamental stability for AALI in the future.

Just like AALI, LSIP is our top-pick because based on the EV/ha valuation, it is still trading below -2 SD in the past month. We predict LSIP in 2020 will have higher production than the previous year because it has a relatively productive plantation. Compared to AALI, LSIP's FFB production is 1.5 million tonnes, which is smaller than the AALI's FFB production of 3.9 million tonnes. LSIP also has fundamental strength thanks to the maintained clean balance sheet condition.

Table 8: Share Price Performance

Company	Ticker	Absolute (%)			Relative (%)		
		1M	3M	12M	1M	3M	12M
Astra Agro Lestari	AALI IJ	18.4	-48.8	-43.9	11.6	-26.7	-17.0
London Sumatra Indonesia	LSIP IJ	-13.3	-42.8	-39.3	-13.3	-20.2	19.2
Average		2.7	-45.8	-41.6	-0.8	-23.5	-18.1

Source: Bloomberg, NHKSI Research

The average ages of AALI and LSIP oil palm trees are 15 and 16 years, respectively

At present, AALI and LSIP have nucleus estates of 217,328 ha and 115,904 respectively, placing AALI as a public company with the largest plantation area in Indonesia. The average ages of AALI and LSIP oil palm trees is still classified as the age of trees with optimum yield even though there must be a replanting program in the next five years to increase productivity.

Table 9: Nucleus Planted Area & Age of Tree Comparison

	AALI	LSIP
Nucleus Planted Area (ha)	217,328	115,904
Average Age of Tree (year)	15	16
Young/Old Tree Ratio (x)	0.98	1.28
Production Target for 2020	N/A	N/A
Enterprise Value to Planted Ha (USD)	6,388	4,508

Source: Company Data, NHKSI Research

Table 10: Ratings

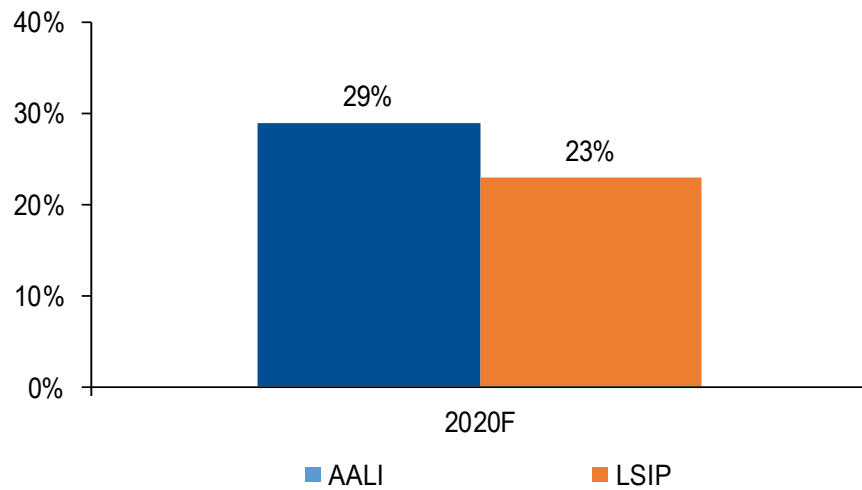
Company	Ticker	Rating	Target Price
Astra Agro Lestari	AALI IJ	Buy	IDR10,000
London Sumatra Indonesia	LSIP IJ	Buy	IDR900

Source: NHKSI Research

Sensitivity Analysis

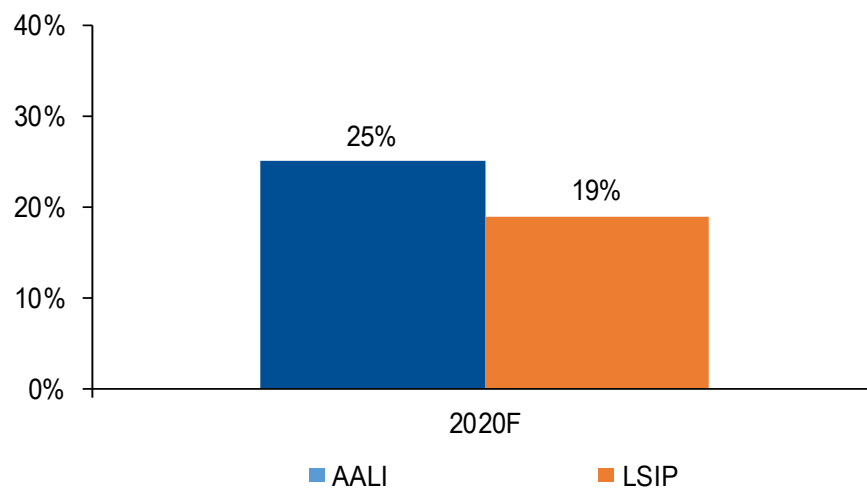
We conduct a sensitivity analysis for both of our selected stocks. Overall, every change in CPO price of +/- 10% will provide a 2020F EPS change of +/- 29% / 23% for AALI and LSIP respectively, and every change in FFB Production of +/- 5% will provide an EPS 2020F change of +/- 25% / 19% for AALI and LSIP respectively.

Figure 21: 2020F EPS Sensitivity to Every 10% Rise in CPO Price



Source: NHKSI Research

Figure 22: 2020F EPS Sensitivity to Every 5% Rise in FFB Production



Source: NHKSI Research

Astra Agro Lestari Tbk (AALI IJ)

Strong Fundamental to Face a Pandemic

Throughout 3M20, AALI posted a revenue increase of 13.3% YoY and skyrocketing net profit of 891.8% YoY plus GPM and NPM which rose respectively to 19% and 13%. We estimate the performance of AALI for 2020F/2021F as follows: 1) FFB production of 5.25 million tonnes for 2020F and 5.42 million tonnes for 2021F; 2) CPO production 1.84 million tonnes for 2020F and 1.91 million tonnes for 2021F; 3) CPO sales volume of 2.2 million tonnes for 2020F and 2.4 million tonnes for 2021F; 4) ASP of IDR8,250/kg for 2020F and IDR8,845/kg for 2021F. We still recommend BUY with TP of IDR10,000 or potential upside of 61.3%.

Operating Performance Declines, Selling Prices Rise

Throughout 3M20, AALI produced a lower operational performance with FFB production to 1.12 million tonnes (-8.5% YoY) and CPO production of 354,100 tonnes (-14.7% YoY). However, ASP increased to IDR9,030/kg, AALI posted revenue of 4.7 trillion (+13.3% YoY) and net profit of IDR371 billion (+891.8% YoY). AALI's NPM rise to level of 13% (vs 3M19 NPM of 1%) and 3M20 revenue has reached 26.5% of our FY20 target of IDR18 trillion.

Estimates of the AALI's Performance Still Optimistic

We estimate FFB production of 5.25 million tonnes for 2020F and 5.42 million tonnes for 2021F with CPO production of 1.84 million tonnes for 2020F and 1.91 million tonnes for 2021F. Consumption will go down in 2Q20 due to the condition of the COVID-19 pandemic, this will affect AALI's sales volume, and we estimate sales volume of 2.2 million tonnes for 2020F and sales volume of 2.4 million tonnes for 2021F. ASP in 2020 will potentially be higher than 2019, so we estimate an ASP of IDR8,250/kg for 2020F and ASP of IDR8,845/kg for 2021F.

Worst-Case Scenario

We conduct a stress test analysis to anticipate AALI performance if the COVID-19 pandemic continues until the end of 2020 (take a close look at page 20). Worst-case scenario still produces TP above the last price of IDR8,600 or a potential upside of 38.7%.

Maintain BUY Rating with the Lower TP of IDR10,000

We lowered TP to IDR10,000 (previously IDR15,600) based on the EV/ha at USD9,865/ha in a three-year historical mean, considering the resilience of AALI's fundamentals amid the COVID-19 pandemic conditions.

Astra Agro Lestari Tbk | Summary

	2019A	2020F	2021F	2022F
Revenue (IDR bn)	17,453	18,065	19,654	20,873
Growth (%)	-8.5	3.5	8.8	6.2
EBITDA (IDR bn)	2,264	2,563	3,547	3,779
Net Profit (IDR bn)	211	536	926	1,029
EPS (IDR)	110	278	481	535
Growth (%)	-85.3	153.9	72.8	11.1
P/E (x)	113.2	35.9	20.8	18.7
P/BV (x)	1.3	1.0	1.0	0.9
EV/EBITDA (x)	27.6	25.1	18.3	17.2
ROE (%)	1.2	2.8	4.7	4.9
DER (%)	1.1	38.1	33.4	35.3
Net Debt (IDR bn)	5,302	6,839	5,744	6,045

Source: Company Data, Bloomberg, NHKSI Research

Buy

Dec 2020 TP (IDR)	10,000
Consensus Price (IDR)	9,382
TP to Consensus Price (%)	+6.6
vs. Last Price (%)	+61.3

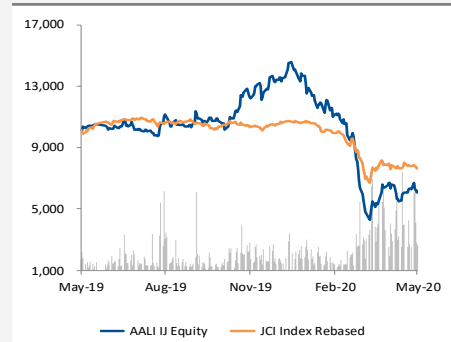
Shares Data

Last Price (IDR)	6,200
Price Date as of	May 15, 2020
52 wk Range (Hi/Lo)	14,675/4,140
Free Float (%)	20.3
Outstanding Shares (mn)	1,925
Market Cap (IDR bn)	11,740
Market Cap (USD mn)	778
Avg. Trd Vol - 3M (mn)	2.07
Avg. Trd Val - 3M (bn)	13.66
Foreign Ownership (%)	4.1

Agriculture Plantation

Bloomberg	AALI IJ
Reuters	AALIJK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-47.8%	18.4%	-48.8%	-43.9%
Rel. Ret.	-24.0%	11.6%	-26.7%	-17.0%

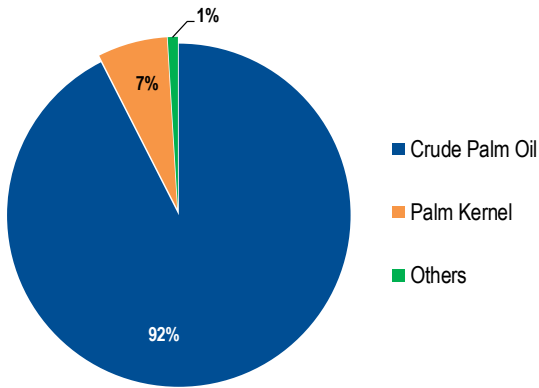


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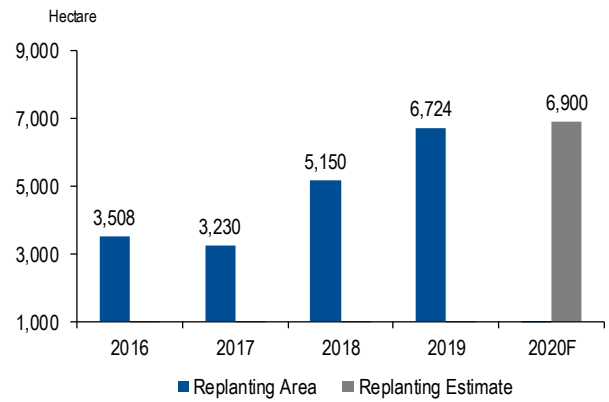
Performance Highlights in Charts

3M20 Revenue Breakdown



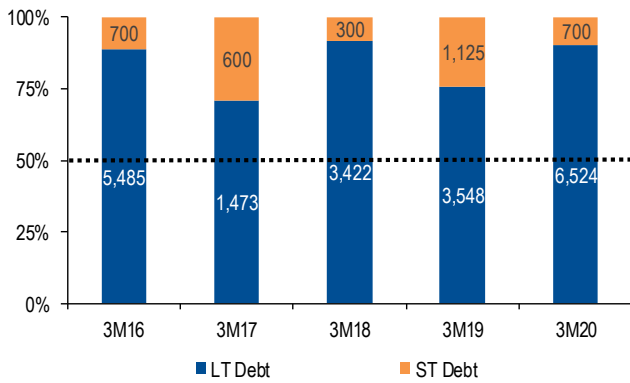
Source: Company Data, NHKSI Research

Replanting Program



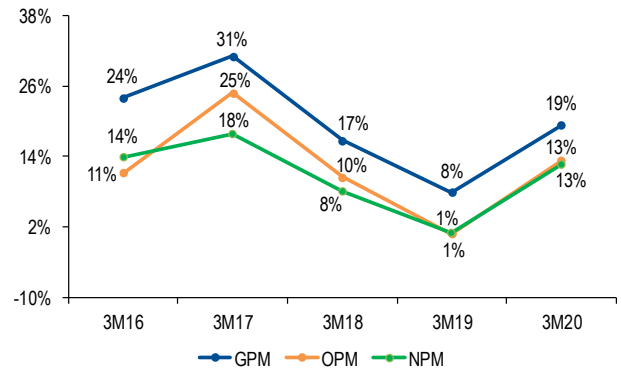
Source: Company Data, NHKSI Research

Debt Portion in IDR Billion



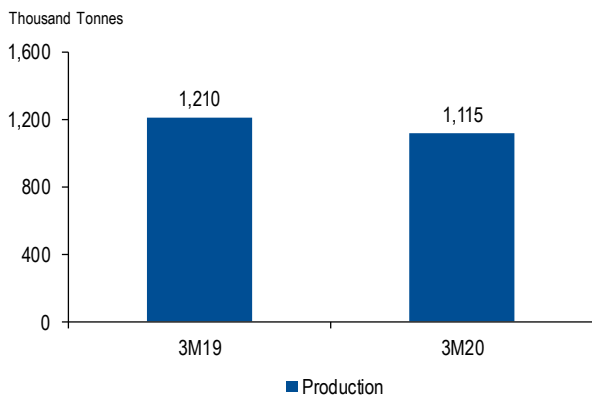
Source: Company Data, NHKSI Research

Margin Ratios



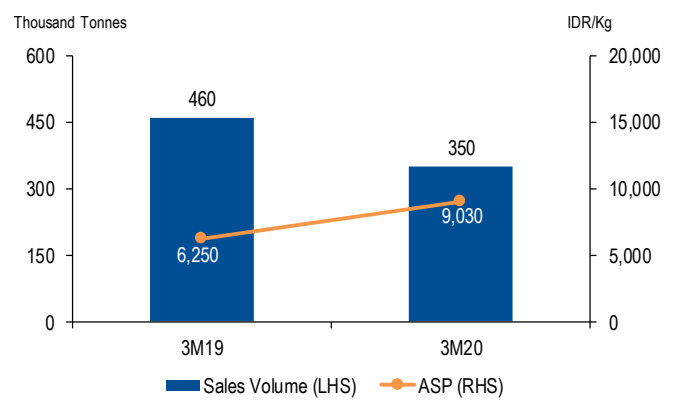
Source: Company Data, NHKSI Research

FFB Production



Source: Company Data, NHKSI Research

CPO Sales Volume & ASP



Source: Company Data, NHKSI Research

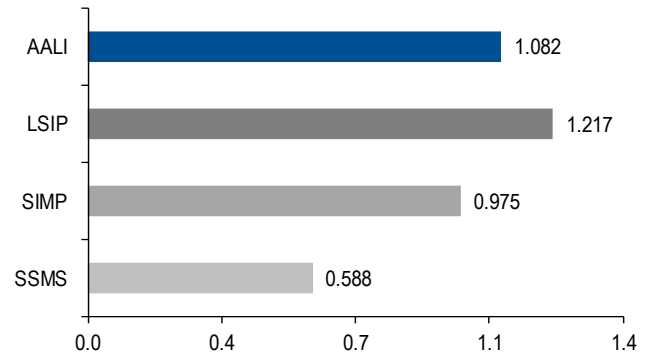
Valuation & Other Highlights in Charts

3-Year Forward EV/ha Band



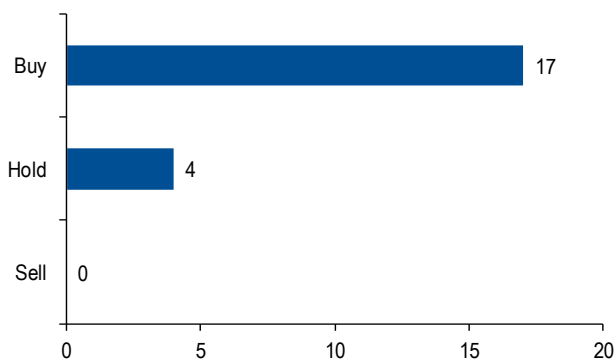
Source: Bloomberg, NHKSI Research

3-Year Beta Comparison



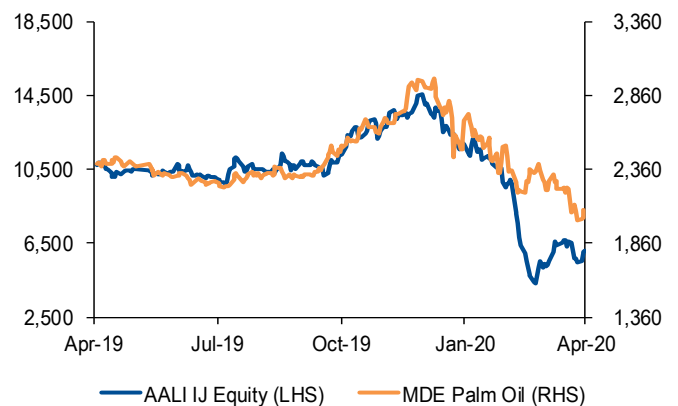
Source: Bloomberg, NHKSI Research

Recommendation by Analysts



Source: Bloomberg, NHKSI Research

Stock & CPO Prices Movement



Source: Bloomberg, NHKSI Research

Stress Test Analysis

	NHKSI Estimates		Actual		Stress Test Using Worse of 2015 and 2018	Description
	2019A	2020F	2015	2018		
CPO Production ('000 Tonne)	1,653	1,890	1,736	1,936	1,736	In Stress Test, we use the lowest of production in 2015 and 2018
CPO Sales Volume (000 Tonne)	2,345	2,235	1,625	2,266	1,625	In Stress Test, we use the lowest of sales volume in 2015 and 2018
ASP (IDR/Kg)	6,689	8,250	6,971	7,395	6,971	In Stress Test, we use the lowest of ASP in 2015 and 2018
Operating Profit (IDR bn)	960	1,302	1,853	2,326	1,853	Rise from IDR960 billion to IDR1,142 billion in 2020
Net Profit (IDR bn)	211	535	619	1,439	619	Rise from IDR211 billion to IDR457 billion in 2020
EPS (IDR)	110	278	393	747	393	Rise from IDR110 to IDR237 in 2020
EV/ha (USD)		6,388	6,388	6,388	6,388	
Fair Price (IDR)		10,000	15,127	11,825	8,600	Worse Case TP, which might be realistic.
Last Price (IDR)		6,200			6,200	
Upside/Downside (%)		+61.3			+38.7	

Source: Bloomberg, NHKSI Research

Financial Review

Quarterly Review

	1Q19	2Q19	3Q19	4Q19	1Q20			2Q20E	
					Actual	Estimate	YoY %		QoQ %
Income Statement									
Revenue	4,233	4,294	3,860	5,066	4,796		13.3	-5.3	4,351
Gross Profit	333	396	486	929	927		178.1	-0.2	522
EBIT	34	109	208	610	640		1794.8	4.9	261
EBITDA	447	518	361	938	961		115.0	2.4	574
Net Profit	37	6	67	100	371		891.8	271.3	55
Margin									
Gross Margin	7.9	9.2	12.6	18.3	19.3		11.5	1.0	12.0
EBIT Margin	0.8	2.5	5.4	12.0	13.3		12.5	1.3	6.0
EBITDA Margin	10.6	12.1	9.4	18.5	20.0		9.5	1.5	13.2
Net Profit Margin	0.9	0.1	1.7	2.0	7.7		6.9	5.8	1.3

Unit: IDR bn, %

Source: Company Data, NHKSI Research

Earnings Revisions

		2020F	2021F	2022F
Income Statement				
Revenue	-Revised	18,065	19,654	20,873
	-Previous	17,065	18,314	
	-Change %	5.9	7.3	
	-Consensus	19,784	20,497	21,658
Gross Profit	-Revised	2,519	3,184	3,381
	-Previous	2,005	2,389	
	-Change %	25.6	33.3	
	-Consensus	3,379	3,636	3,725
EBIT	-Revised	1,302	1,860	1,975
	-Previous	837	1,135	
	-Change %	55.6	63.9	
	-Consensus	1,670	2,074	2,453
EBITDA	-Revised	2,563	3,547	3,779
	-Previous	2,248	2,614	
	-Change %	14.0	35.7	
	-Consensus	3,087	3,455	3,788
Net Profit	-Revised	536	926	1,029
	-Previous	377	519	
	-Change %	42.2	78.5	
	-Consensus	947	1,122	1,090
Margin				
Gross Margin	-Revised	13.9	16.2	16.2
	-Previous	11.7	13.0	
EBIT Margin	-Revised	7.2	9.5	9.5
	-Previous	4.9	6.2	
EBITDA Margin	-Revised	14.2	18.0	18.1
	-Previous	13.2	14.3	
Net Profit Margin	-Revised	3.0	4.7	4.9
	-Previous	2.2	2.8	

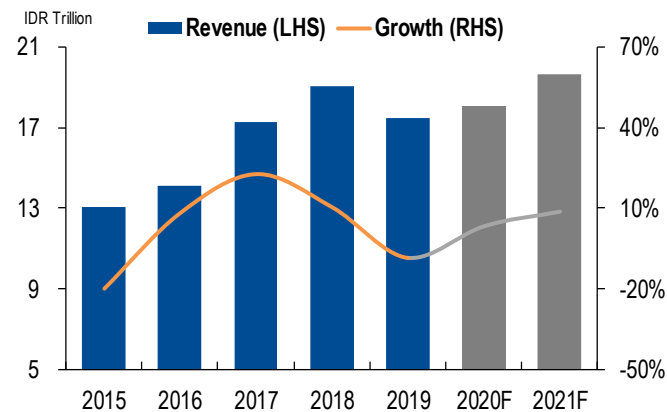
Unit: IDR bn, %

Source: Company Data, Bloomberg, NHKSI Research

Company Overview

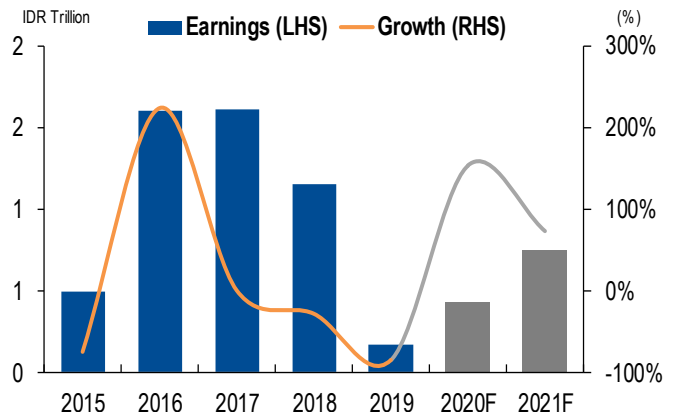
PT Astra Agro Lestari Tbk (AALI) was incorporated from the merger of several companies and started to develop a plantation industry since 1988. Today, it is one of the largest oil palm plantation companies in Indonesia. Until 2019, AALI has 285,025 hectares of plantation areas spread across Sumatra, Kalimantan, and Sulawesi. AALI builds core-plasma partnerships and Income Generating Activity (IGA) models to manage productive and eco-friendly cultivation of oil palm and non-oil palm plantation. To maintain its sustainable business operation, AALI continues to develop its downstream businesses as to date it has operated refinery plants in North Mamuju, West Sulawesi, Dumai, and Riau.

Revenue & Growth Movement



Source: Company Data, NHKSI Research

Earnings & Growth Movement



Source: Company Data, NHKSI Research

Southeast Asia Peers Comparison

	Market Cap	Total Asset	Sales LTM	Net Profit LTM	Net Profit Growth	Net Profit Margin	ROE LTM	P/E LTM	P/BV
	(USD mn)	(USD mn)	(USD mn)	(USD mn)	LTM (%)	(%)	(%)	(x)	(x)
Indonesia									
ASTRA AGRO LESTARI TBK	729	1,948	1,234	15	-85.3	1.2	1.1	53.3	0.6
SAMPOERNA AGRO TBK	307	684	231	2	-40.3	1.0	0.8	144.1	1.2
LONDON SUMATRA INDONESIA TBK	283	738	262	18	-23.4	6.9	3.0	17.0	0.5
SAWIT SUMBERMAS SARANA TBK	549	783	232	1	-90.1	0.4	-6.6	723.5	2.1
SALIM IVOMAS PRATAMA TBK	222	252	965	-38	-6.1	-0.1	-0.1	N/A	0.2
Malaysia									
KUALA LUMPUR KEPONG BHD	4,993	4,870	3,749	129	-14.6	3.4	5.1	40.4	2.1
GENTING PLANTATIONS BHD	1,902	2,068	547	34	-13.8	6.3	3.2	55.8	1.7
SIME DARBY PLANTATION BHD	7,487	6,969	2,916	-18	N/A	-0.6	-1.3	365.4	2.5
IOI CORP BHD	5,452	3,988	1,777	158	-73.2	8.9	7.1	36.5	2.6
Singapore									
FIRST RESOURCES LTD	1,382	1,709	615	89	-25.7	14.5	9.0	13.6	1.3
GOLDEN AGRI-RESOURCES LTD	1,349	8,779	6,432	194	N/A	3.0	4.6	7.0	0.3

Source: Bloomberg, NHKSI Research

Management Background

Board of Commissioner



Chiew Sin Cheok
President
Commissioner

Education

Graduated from the London School of Economics and Political Science with a Bachelor of Science (Economics) in 1984 and then obtained a Master of Management Science from the Imperial College of Science and Technology, London in 1985.

Experience

Appointed as President Commissioner of the Company since 2018 based on Decree No. 18 dated 10 April 2018. He also serves as Director of PT Astra International Tbk since April 2016, Vice President Commissioner of PT Toyota Astra Financial Service since 2017, and Commissioner of PT Astra Otoparts Tbk since 2007. He is also sits as the Board of Governors of the Keswick Foundation, a charity in Hong Kong. Since joining Jardine Matheson in 1993, he has held various senior positions in finance, previously he worked at Schrodgers and PriceWaterhouseCoopers both are located in London. He is not being affiliated with members of the Board of Commissioners, members of the Board of Directors or main shareholders of the Company.



Djony Tjondro
Commissioner

Education

Graduated from the Department of Mechanical Engineering of the Faculty of Engineering of Trisakti University in 1989 merupakan lulusan Fakultas Teknik (Jurusan Teknik Mesin) Universitas Trisakti pada tahun 1989.

Experience

Appointed as Commissioner of the Company since 2017 based on Decree No. 13 dated 11 April 2017. He also serves as Vice President Director of PT Astra International Tbk, President Commissioner of PT Toyota Astra Motor and PT Pamapersada Nusantara, also serves as Commissioner of PT United Tractor Tbk, PT Astra Honda Motor and PT Astra Sedaya Finance. Previously, He is also served as Vice President Commissioner of PT Astra Daihatsu Motor and PT Isuzu Astra Motor Indonesia (2016-2018), President Commissioner of PT Astra Otopart Tbk (2015-2018), Director of PT Astra International Tbk (2015-2018), Chief Executive of PT Astra International Tbk – Daihatsu Sales Operation (2013-2018), and President Director of PT Astra Sedaya Finance (2009-2013).



Sidharta Utama
Independent
Commissioner

Education

Graduated from the Department of Accounting of the Faculty of Economics of Universitas Indonesia in 1987, Master of Business Administration from the Indiana University in 1990, and Doctor of Philosophy from the Texas A&M University in 1996.

Experience

Appointed as Independent Commissioner of the Company since 2018 based on Decree No. 18 dated 10 April 2018. He also serves as Independent Commissioner and Chairman of the Audit Committee of PT Saratoga Investama Sedaya Tbk, as a member of the Audit Committee of PT Indo Tambangraya Megah Tbk, PT Vale Indonesia Tbk and PT Holcim Indonesia Tbk. In academia, he also serves as Professor at the Faculty of Economics of Universitas Indonesia (FEUI). Previously, He also served as Vice Dean on Academics at FEUI (2005-2009) and Department Head of the Academics at FEUI (2001-2005). Outside of the academic world, He also held positions of Member of the Tax Supervisory Committee of the Indonesia Ministry of Finance (2010-2013), Member of the Audit Committee of PT Hero Supermarket Tbk (2009-2013).



Angky Utarya
Independent
Commissioner

Education

Graduated from the Faculty of Economics of Universitas Indonesia in 1984.

Experience

Appointed as Independent Commissioner of the Company since 2017 based on Decree No. 13 dated 11 April 2017. He also serves as a member of the Audit Committee of PT Astra International Tbk since 2017 and serves as Independent Commissioner of PT Astra Otoparts Tbk since 2015. Previously, he served as Commissioner of PT PAM Lyonnaise Jaya and PT Asuransi Astra Buana (2013-2015), President Commissioner of PT Intertel Nusaperdana (2011-2013), President Commissioner of PT Surya Artha Nusantara Finance and PT Astratel Nusantara (2010- 2013), President Commissioner of PT Toyofuji Logistik Indonesia (2009- 2013), Director of PT Astra International Tbk (2008-2013), Commissioner of PT Astra Sedaya Finance (2008-2013), President Commissioner of PT Asuransi Astra Buana (2008-2013), President Commissioner of PT Astra Graphia Tbk (2008-2013).

Management Background

Board of Director



Santosa
President Director

Education

He graduated from Gadjah Mada University, Yogyakarta.

Experience

Appointed as President Director of the Company based on Annual General Meeting of Shareholders ("AGMS") decision of PT Astra Agro Lestari Tbk in 2019. He serves as President Commissioner for all the Company's subsidiaries. He is also serves as Director of PT Astra International Tbk since 2018. Previously, served as President Director of PT Asuransi Astra Buana (2014-2017), Director of the Company (2007- 2013), Director of PT Asuransi Astra Buana (2005-2007), Director of PT Astra Graphia Tbk (2003-2005), Director of PT Astra CMG Life (2001-2003), and has held various Staff and Managerial Positions at various companies in Astra Group business (1990-2001). He joined Astra Group in 1989 as IT Specialist at PT Astra Graphia Tbk.



Joko Supriyono
Vice President Director

Education

He graduated from Gadjah Mada University, Yogyakarta.

Experience

Appointed as Vice President Director of the Company since April 2017 based on AGMS decision of PT Astra Agro Lestari Tbk in 2019. He serves as Commissioner for the Company's subsidiaries. Previously, he served as Director of the Company (2007-2017), Deputy Director of Plantations and Mills Operations of the Company (2005-2007), Area Director of the Company (2002-2005), Human Resources Division Head of the Company (2000-2002), Personnel Department Head of the Company (1999-2000), and Training & Recruitment Department Head of the Company (1996-1997). He joined the Company in 1995 as a Training Department Staff. Previously, he served as Instructor of Quality Management Consultant of PT Wahana Kendali Mutu (1994-1995).



Rujito Purnomo
Director

Education

He graduated from INSTIPER, Yogyakarta.

Experience

Appointed as Director of the Company since April 2017 based on AGMS decision of PT Astra Agro Lestari Tbk in 2019. He serves as President Director for the Company's subsidiaries on Kalimantan and Company's subsidiaries rubber. Previously, he served as Deputy Director of Human Capital of the Company and FFB Production & Water Management System of the Company (2016-2017), President Director of the Company's subsidiaries on East Kalimantan and South Kalimantan area (2015-2017), Director of the Company's subsidiaries on East Kalimantan and South Kalimantan area (2014-2015), Director of the Company's subsidiaries on Development Area (2010-2014), Director of the Company's subsidiaries in Sulawesi Area (2007-2010), Director of the Company's subsidiaries on Jambi & Aceh (2002-2007).



Said Fakhruzzai
Director

Education

He graduated from Padjajaran University, Bandung.

Experience

Appointed as Director of the Company since April 2019 based on AGMS decision of PT Astra Agro Lestari Tbk in 2019. He serves as President Director of the Company's in Sulawesi Area. Previously, he served as Vice President of Engineering Development of the Company in 2016, Division Head of Engineering Development of the Company (2012-2015), Project Manager of Palm Oil Mill Construction of the Company (2005-2011), Department Head of Processing Factory of Rubber, Cocoa & Tea of the Company (1998-2004). Previously, he served as Rubber Factory Manager and Rubber Factory Assistant of PT Huma Indah Mekar (1994-1997) also served as Field Assistant of PT Gunung Huma Group (1991).



Hadi Sugeng
Director

Education

Graduated from Universitas Negeri Jember, East Java.

Experience

Appointed as Director of the Company since April 2017 based on AGMS decision of PT Astra Agro Lestari Tbk in 2019. He serves as President Director of the Company's Subsidiaries on Sumatra Area. Previously, he served as Deputy Director of Sustainability & Public Relations of the Company and President Director of the Company's subsidiaries on Aceh & Jambi Area (2016-2017), President Director of the Company's subsidiaries on East Kalimantan Area (2015), Director of the Company's subsidiaries on East Kalimantan Area (2014), Director of the Company's subsidiaries on Riau Area (2011-2013), Director of the Company's subsidiaries on Central Kalimantan Area (2009-2010), Plantation Operation & Refinery of the Company (2008), Administrator of Company's subsidiaries (2001-2008), and served as Plantation Operation Staff (1994-2001).



Nico Tahir
Director

Education

He graduated from Tarumanagara University, Jakarta.

Experience

Appointed as Director of the Company since April 2019 based on AGMS decision of PT Astra Agro Lestari Tbk in 2019. He serves as Commissioner of PT Kreasijaya Adhikarya also President Director of PT Tanjung Sarana Lestari and PT Tanjung Bina Lestari which is a subsidiaries of the Company. He is also serves as Director of PT Indeks Komoditas Indonesia. Previously, he served as President Director of PT Suprabari Mapanindo Mineral (2017-2019), Director of PT Coalindo Energy (2016-2019), President Director of PT Telen Orbit Prima; PT Prima Multi Mineral and PT Tuah Turangga Agung (2015-2019), Director of PT Pamapersada Nusantara (2012-2016), Director of PT Astratel Nusantara (2009-2012), and Director of PT Serasi Autoraya (2006-2012). He joined Astra Groups in 1990 as Sales Executive before moving to PT Astra International Tbk (1991-2006) with the latest position as General Manager Treasury Division.



Mario Gultom
Director

Education

He graduated from Sekolah Tinggi Ilmu Ekonomi Indonesia, Jakarta.

Experience

Appointed as Director of the Company and also served as Corporate Secretary based on AGMS decision of PT Astra Agro Lestari Tbk in 2019. He serves as Commissioner of all the Company's subsidiaries. Previously, he served as Deputy Director of Research and Development of the Company (2016-2017), President Director of the Company's subsidiaries on Central Kalimantan Area (2015-2017), Director of the Company's subsidiaries on Kalimantan Area (2007-2014), Procurement Division Head of the Company (2001-2007), Divisional Head of Corporate Internal Audit of the Company (1995-2001), and became Assistant Manager of Auditors at Public Accountant BDO Tanubrata (1987-1995)

Operational Area

The Map



Source: Company Data, NHKSI Research

Financial Summary

INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F		2019/12A	2020/12F	2021/12F	2022/12F
Revenue	17,453	18,065	19,654	20,873	ROE	1.1%	2.8%	4.7%	5.1%
<i>Growth</i>	-8.5%	3.5%	8.8%	6.2%	ROA	0.8%	1.9%	3.2%	3.5%
COGS	(15,308)	(15,546)	(16,470)	(17,492)	ROIC	2.6%	5.4%	7.7%	7.5%
Gross Profit	2,145	2,519	3,184	3,381	Cash Dividend (IDR bn)	431	90	263	454
<i>Gross Margin</i>	12.3%	13.9%	16.2%	16.2%	Dividend Yield	1.8%	0.5%	1.4%	2.4%
Operating Expenses	(1,184)	(1,217)	(1,324)	(1,406)	Payout Ratio	204.2%	16.8%	28.4%	44.1%
EBIT	960	1,302	1,860	1,975	DER	30.0%	38.1%	33.4%	35.3%
<i>EBIT Margin</i>	5.5%	7.2%	9.5%	9.5%	Net Gearing	6.0%	5.7%	5.6%	5.3%
Depreciation	1,304	1,261	1,687	1,804	LT Debt to Equity	29.2%	28.4%	30.4%	32.4%
EBITDA	2,264	2,563	3,547	3,779	Capitalization Ratio	24.4%	23.4%	24.8%	25.7%
<i>EBITDA Margin</i>	13.0%	14.2%	18.0%	18.1%	Equity Ratio	70.4%	67.0%	69.0%	68.3%
Interest Expenses	39	34	37	39	Debt Ratio	22.7%	20.4%	22.7%	23.6%
EBT	661	917	1,585	1,762	Financial Leverage	139.8%	140.8%	143.6%	137.6%
Income Tax	(417)	(348)	(601)	(668)	Current Ratio	285.4%	162.5%	280.1%	310.1%
Minority Interest	(33)	(34)	(58)	(65)	Par Value (IDR)	500	500	500	500
Net Profit	211	536	926	1,029	Total Shares (mn)	1,925	1,925	1,925	1,925
<i>Growth</i>	-85.3%	153.9%	72.8%	11.1%	Share Price (IDR)	12,416	10,000	10,000	10,000
<i>Net Profit Margin</i>	1.2%	3.0%	4.7%	4.9%	Market Cap (IDR tn)	23.9	19.2	19.2	19.2

BALANCE SHEET					VALUATION INDEX				
(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F		2019/12A	2020/12F	2021/12F	2022/12F
Cash	383	586	945	1,253	Price/Earnings	113.2x	35.9x	20.8x	18.7x
Receivables	369	419	456	484	Price/Book Value	1.3x	1.0x	1.0x	0.9x
Inventories	1,974	2,268	2,263	2,478	Price/Sales	1.4x	1.1x	1.0x	0.9x
Total Current Assets	4,472	5,162	5,630	6,302	PE/EPS Growth	-0.1x	0.0x	0.0x	0.2x
Net Fixed Assets	19,683	18,785	19,844	18,478	EV/EBITDA	27.6x	25.1x	18.3x	17.2x
Other Non Current Assets	5,670	7,576	7,417	8,396	EV/EBIT	65.1x	49.5x	34.9x	32.8x
Total Assets	26,974	29,039	28,988	30,246	EV (IDR bn)	62,475	64,403	64,878	64,879
Payables	827	887	915	985	Sales CAGR (3-Yr)	-0.2%	2.8%	2.0%	2.0%
Other Liabilities	590	400	495	447	EPS CAGR (3-Yr)	-27.0%	-4.3%	14.8%	14.8%
LT Debt	5,535	5,535	6,089	6,698	Basic EPS (IDR)	110	278	481	535
Total Liabilities	7,996	9,569	8,974	9,596	Diluted EPS (IDR)	110	278	481	535
Capital Stock	962	962	962	962	BVPS (IDR)	9,861	10,116	10,399	10,729
Retained Earnings	13,844	14,097	14,761	15,337	Sales PS (IDR)	9,068	9,386	10,212	10,845
Shareholders' Equity	18,979	19,470	20,014	20,650	DPS (IDR)	224.0	46.8	136.4	235.8

CASH FLOW STATEMENT					TOP OWNERSHIP		
(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F	By Geography	% Shareholders	%
Operating Cash Flow	957	1,076	2,628	2,491	Indonesia	95.9	Astra International Tbk 79.7
Investing Cash Flow	(1,307)	(1,933)	(1,151)	(2,398)	United States	3.6	Sun Life Financial 0.9
Financing Cash Flow	670	885	(1,118)	215	Luxembourg	0.1	Dimensional Fund 0.8
Net Changes in Cash	319	29	359	308	Ireland	0.1	Vanguard Group 0.7

Source: Company Data, NHKSI Research

Closing & Target Price Update



Source: Bloomberg, NHKSI Research

Rating & Target Price Update

Date	Rating	Target Price	Consensus
2017.03.06	Buy	IDR18,150	IDR18,596
2017.07.28	Buy	IDR18,425	IDR17,659
2018.01.03	Hold	IDR14,425	IDR16,932
2018.03.09	Buy	IDR18,375	IDR15,955
2018.05.17	Buy	IDR14,800	IDR15,438
2018.08.30	Buy	IDR16,925	IDR13,320
2019.12.11	Buy	IDR15,600	IDR13,743
2020.05.20	Buy	IDR10,000	IDR9,382

Source: NHKSI Research

London Sumatra Indonesia Tbk (LSIP IJ)

Attractive Valuation Amid Pandemic

The performance of FY19 LSIP was unsatisfactory, with a decrease in revenue of 8% YoY due to ASP decline to IDR6,285/kg, which resulted in lower margins and net profit. However, we remain optimistic and estimate the performance of LSIP for 2020F/2021F as follows: 1) FFB production of 1.47 million tonnes for 2020F and 1.51 million tonnes for 2021F; 2) CPO production of 401 thousand tonnes for 2020F and 449 thousand tonnes for 2021F; 3) CPO sales volume of 394 thousand tonnes for 2020F and 432 thousand tonnes for 2021F; 4) ASP of IDR7,320/kg for 2020F and IDR8,050/kg for 2021F. We recommend BUY with TP of IDR900.

Performance Has Declined

In FY19, LSIP posted revenue of IDR3.6 trillion (-8% YoY) due to the declining CPO price throughout 2019 along with the ASP fell to IDR6,285/kg (-6.5% YoY), and LSIP only posted a net profit of IDR254 billion (-23.3% YoY). LSIP's margin decreased in FY19, posted a GPM of 15.2% (vs FY18 GPM of 17%) and NPM of 6.9% (vs FY18 NPM of 8.2%).

Optimism for Estimates of the LSIP's Performance

We predict that LSIP can record a better performance this year, even amid COVID-19 conditions with the assumption that CPO consumption in 1Q20 and 4Q20 will increase. We estimate LSIP's FFB production of 1.47 million tonnes for 2020F and 1.51 million tonnes for 2021F. The estimate CPO production of 401 thousand tonnes for 2020F and 449 thousand tonnes for 2021F. Consumption from April to September has the potential to weaken, so we estimate CPO sales volume of 394 thousand tonnes for 2020F and 432 thousand tonnes for 2021F. The domestic CPO selling price is still potentially stable, so we estimate ASP of IDR7,320/kg for 2020F and IDR8,050/kg for 2021F.

Sensitivity Analysis

We conduct a sensitivity test for FY20 performance (take a close look at page 36) assuming every +/- 10% on CPO prices will have an impact of +/- 7% on revenue, +/- 23% on EBIT, and +/- 22% on EPS.

BUY Rating with TP of IDR900

We recommend BUY with TP of IDR900 or potential upside of 24.2% based on EV/ha of USD7,340/ha in three-year historical mean, considering domestic consumption of the B30 program will drive LSIP's performance.

London Sumatra Indonesia Tbk | Summary

	2019A	2020F	2021F	2022F
Revenue (IDR bn)	3,699	3,892	4,105	4,333
Growth (%)	-8.0	5.2	5.5	5.6
EBITDA (IDR bn)	687	783	871	999
Net Profit (IDR bn)	254	296	343	423
EPS (IDR)	37	43	50	62
Growth (%)	-23.4	16.7	15.6	23.3
P/E (x)	40.2	20.7	17.9	14.5
P/BV (x)	1.2	0.7	0.7	0.7
EV/EBITDA (x)	15.7	8.3	7.3	6.2
ROE (%)	3.0	3.5	4.0	4.9
DER (%)	20.3	22.7	24.3	28.1
Net Debt (IDR bn)	-1,132	-1,353	-1,461	-1,616

Source: Company Data, Bloomberg, NHKSI Research

Buy

Dec 2020 TP (IDR)	900
Consensus Price (IDR)	1,157
TP to Consensus Price (%)	-22.2
vs. Last Price (%)	+24.2

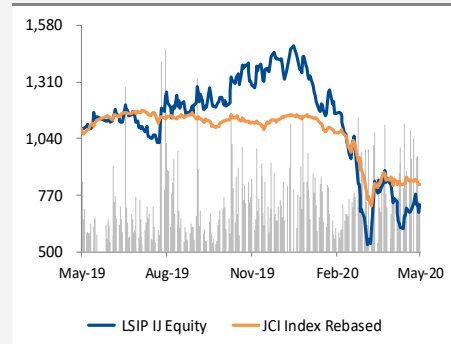
Shares Data

Last Price (IDR)	725
Price Date as of	May 15, 2020
52 wk Range (Hi/Lo)	1,490/498
Free Float (%)	40.4
Outstanding Shares (mn)	6,823
Market Cap (IDR bn)	4,810
Market Cap (USD mn)	319
Avg. Trd Vol - 3M (mn)	15.49
Avg. Trd Val - 3M (bn)	12.58
Foreign Ownership (%)	8.1

Agriculture Plantation

Bloomberg	LSIP IJ
Reuters	LSIP.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-52.1%	-13.3%	-42.8%	-39.3%
Rel. Ret.	-25.8%	-13.3%	-20.2%	-19.2%



Meilki Darmawan

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Company Background

Short History

London Sumatra Indonesia Tbk (LSIP) was founded in 1906. It was taken over by Harrison & Crossfield in 1994, putting it in the same group as New Britain Palm Oil in Papua New Guinea and Golden Hope in Malaysia (now part of Sime Darby). LSIP was listed in July 1996. In 2007, PT Salim Ivomas Pratama Tbk (SIMP) and Indofood Agri Resources acquired a 64.4% stake in LSIP.

Fourth-Largest of Plantation Public Company

LSIP is the fourth-largest plantation public company with a market cap of IDR4.8 trillion with Astra Agro Lestari Tbk (AALI) ranked first. At present, the total area of LSIP's oil palm nucleus plantations is 95,637 hectares or equivalent to 44% of the AALI's plantation area as a public company with the largest oil palm nucleus area in Indonesia.

Table 1: Market Cap of Indonesian Plantation Public Company (IDR Billion)

1	Astra Agro Lestari	12,125
2	Sawit Sumbermas Sarana	8,620
3	Sinar Mas Agro	8,415
4	London Sumatra Indonesia	4,810
5	Sampoerna Agro	4,706
6	Dharma Satya Nusantara	3,379
7	Salim Ivomas Pratama	3,321
8	Eagle High Plantations	2,490
9	Mahkota Group	2,399
10	Austindo Nusantara Jaya	1,643
11	Provident Agro	1,281
12	Andira Agro	467

Source: Bloomberg, NHKSI Research

Table 2: Oil Palm Nucleus Planted Size Comparison (Hectare)

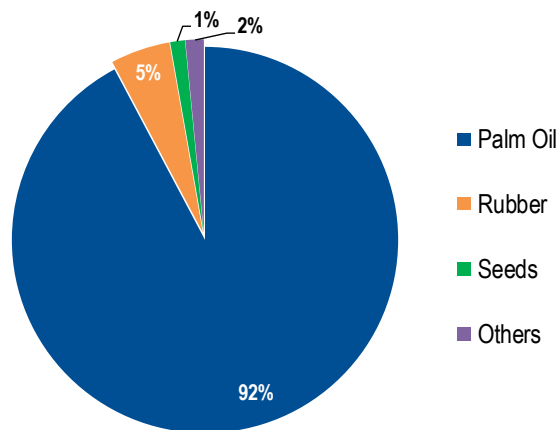
		Total Planted	Mature	Immature
1	Astra Agro Lestari	217,328	198,715	18,613
2	Sinar Mas Agro	106,215	87,096	19,119
3	London Sumatra Indonesia	95,637	85,737	9,900
4	Sampoerna Agro	84,300	73,709	10,591
5	Sawit Sumbermas Sarana	69,236	67,851	1,384

Source: Company Data, NHKSI Research

Palm Oil Becomes Main Product

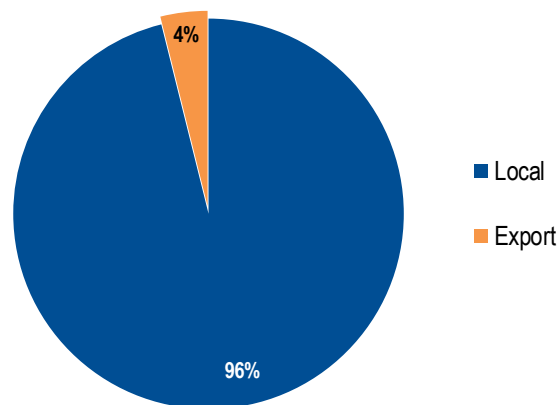
Palm oil is still the main driver of LSIP's business, which has 83% of LSIP's total land. In FY19, palm oil contributes 92% to LSIP's total revenue in the amount of IDR3.4 trillion (-7.5% YoY), followed by rubber with a contribution of 5% in the amount of IDR184 billion (-4.3% YoY), and oil palm seeds with a contribution of 1% which is IDR45 billion (-49.3% YoY). LSIP has successfully expanded its new market share through exports that were carried out in 3Q19, and LSIP's total sales comprise 96% of domestic sales and 4% of export sales.

Figure 1: LSIP's Revenue Breakdown



Source: Company Data, NHKSI Research

Figure 2: LSIP's Product Distribution



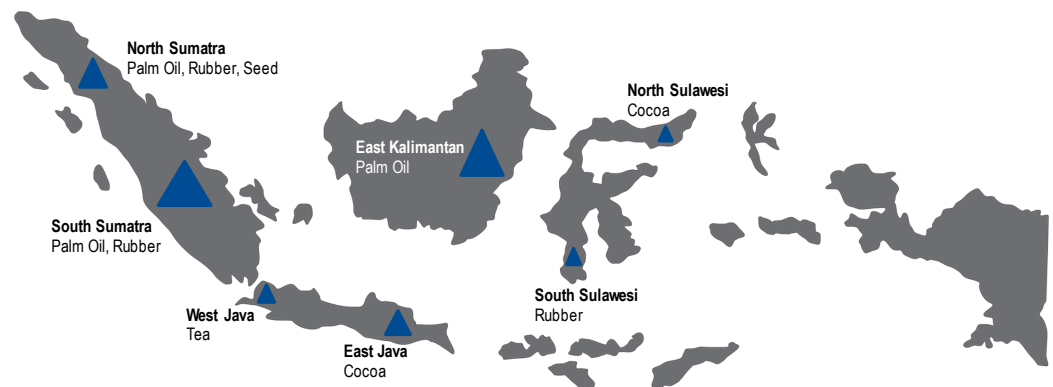
Source: Company Data, NHKSI Research

Palm Oil Segment

Majority of Production in Sumatra

LSIP is a palm oil company with the majority of production in Sumatra. In 2018, the total area of LSIP's oil palm plantations in Sumatra reached 76%, and Kalimantan reached 17%. FFB production is still dominated through plantations in Sumatra with a 90% contribution and Kalimantan around 5% contribution. Until 2018, LSIP continues to increase the area of nucleus estates in South Sumatra with a growth of 0.2% YoY.

Figure 3: LSIP's Operation Area



Source: Company Data, NHKSI Research

Table 3: LSIP's Distribution of Nucleus Planted Area

		2014	2015	2016	2017	2018
1	South Sumatra	47,063	48,104	48,582	49,025	49,103
2	North Sumatra	39,321	39,327	38,754	39,181	38,985
3	East Kalimantan	18,174	18,757	18,917	18,965	19,369
4	South Sulawesi	4,924	4,902	4,905	4,720	4,438
5	Java	2,865	2,926	2,928	3,214	3,260
6	North Sulawesi	143	141	375	590	749

Source: Company Data, NHKSI Research

Trees with a Productive Age

The average age of an oil palm tree owned by LSIP is an old age tree. LSIP has 7-20 years old oil palm trees (trees with optimum yield category) of 52.6% from the total LSIP's trees of 87,277. However, LSIP has oil palm trees over the age of 20 years (trees in the category must be replanting) by 43% of the total LSIP's trees.

Table 4: LSIP's Oil Palm Age Profile

	2014	2015	2016	2017	2018
4 - 6 Years	7,553	4,995	7,498	7,262	4,148
7 - 20 Years	58,561	59,778	51,980	43,059	45,877
> 20 Years	10,538	13,883	23,578	35,396	37,252

Source: Company Data, NHKSI Research

Production Continuously Driven

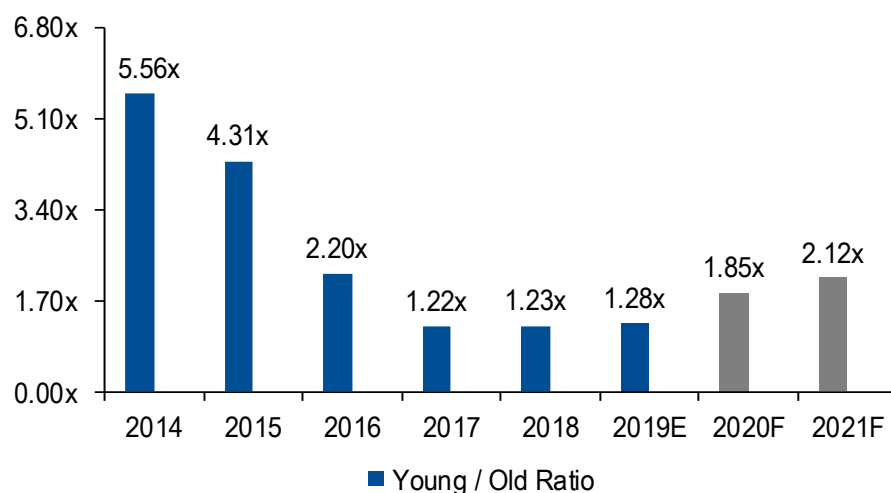
In the 2014-2019 period, LSIP continued to increase FFB production from 1,341,239 tonnes to 1,466,288 tonnes with an average growth of 3%. Looking at the age of the oil palm trees owned by LSIP with the majority of trees with optimum yield, we believe FFB production will continue to grow above 2% every year. We estimate FFB production of 1,470,687 tonnes for 2020F and 1,514,807 tonnes for 2021F. The rate of increase in FFB production will be in line with CPO production, we estimate CPO production of 471,533 tonnes for 2020F and 454,533 tonnes for 2021F.

Replanting Risk

LSIP is currently facing a replanting program that must be carried out in the next few years because LSIP has 43% of oil palm trees aged over 20 years. The replanting program already run by LSIP, but we believe that there will be risks if the program missed the target. A potential decline in yields due to the increasing difficulties in the harvest process because oil palm trees with the age of over 20 years have higher in size. We estimate that there will be a decrease in crop area production of around 2-3% in trees over 20 years old, this decline is still at a level that can be tolerated by the production of plant areas in trees with optimum yield.

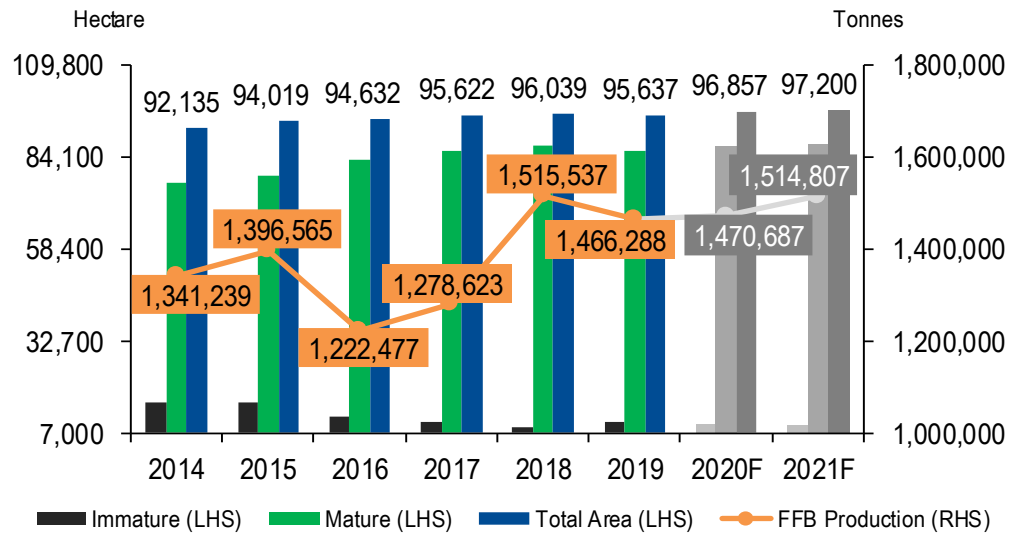
Tree Comparison Ratio will Rise

In the last four years, the comparison of the number of young trees between old trees owned by LSIP shows a decreasing ratio. It indicates the number of old trees every year has a more significant addition than young trees. In 2018, The ratio has begun to increase along with the replanting program run by LSIP, and we believe the potential will continue to increase.

Figure 4: Young Trees / Old Trees Coverage Ratio

Source: Company Data, NHKSI Research

Figure 5: LSIP's Oil Palm Area & Production



Source: Company Data, NHKSI Research

Certified Palm Oil

Currently, LSIP has a certification of Indonesian Sustainable Palm Oil (ISPO), which has already achieved since 2013. In 2018, there are 268,000 tonnes of CPO certified by ISPO or equal to 77% of total CPO in 2018. After a disagreement with the European Union regarding the Roundtable on Sustainable Palm Oil (RSPO) certification, LSIP withdrew from the certification in 2019. However, the CPO yield produced by LSIP is still guaranteed its quality and processing for a sustainable industry.

Rubber Segment

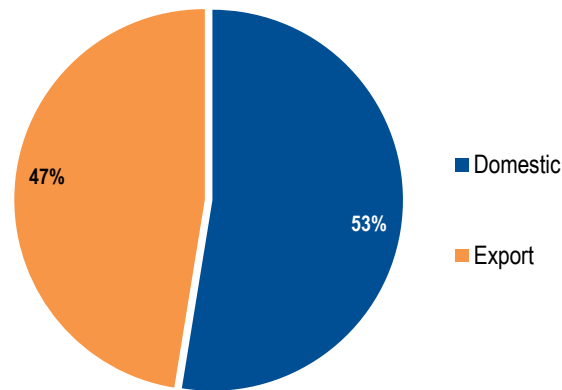
Area of Rubber Plantation

In 2018, LSIP has a plantation area of 15,827 ha with 85% mature and 15% immature. LSIP currently does not want to increase the area of rubber plantations by considering a less favorable price compared to Crude Palm Oil.

Production and Profitability

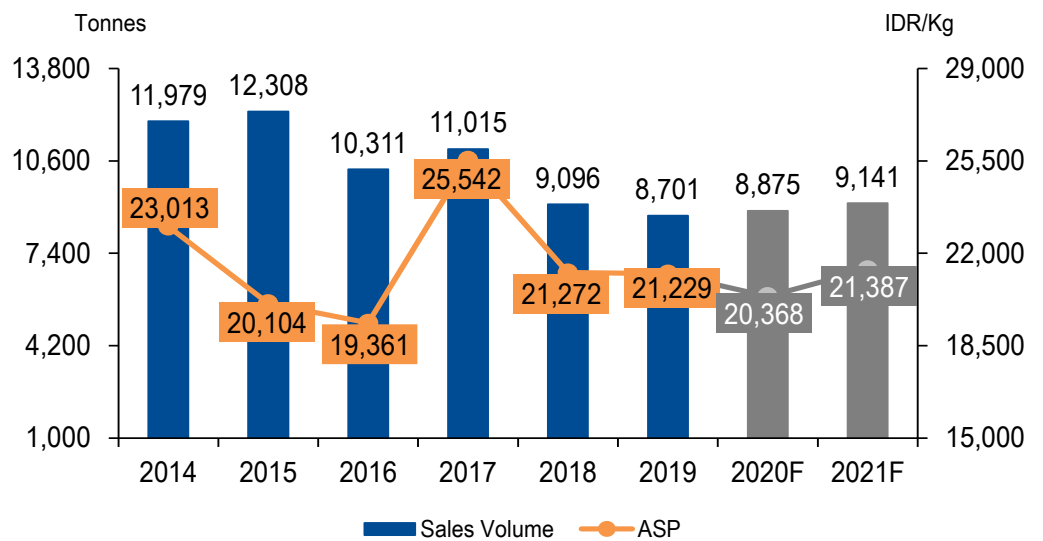
Rubber production in the last five years continues to decline, in 2018 produced 9,262 tonnes (-4.2% YoY). In line with the declining production, rubber profitability also continues to decline and has not recovered when the price of rubber continues to weaken in the last five years. The sales volume of rubber in 2019 was 8,701 tonnes (-4.3% YoY) with an ASP of IDR21,229/kg. We believe in the absence of additional land and the potential for better ASP this year, the profitability of rubber can increase.

Figure 6: Rubber Distribution



Source: Company Data, NHKSI Research

Figure 7: Rubber Sales Volume & ASP



Source: Company Data, NHKSI Research

Oil Palm Seeds Segment

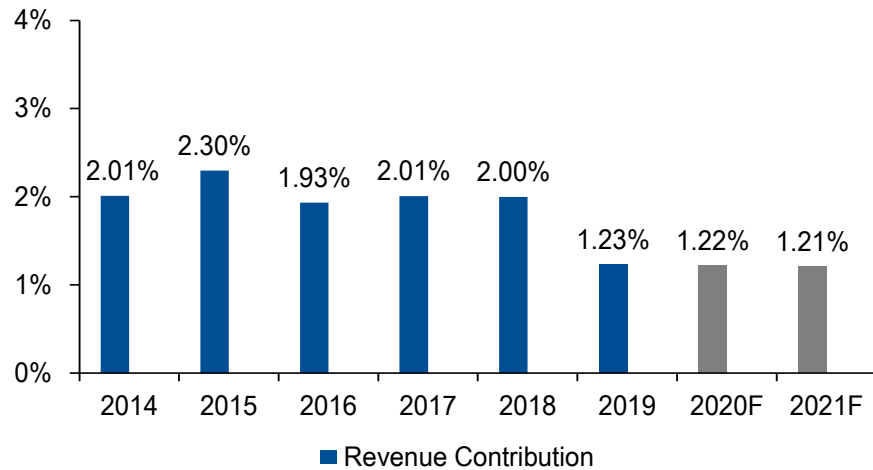
Production Capacity

In 2018, Production of LSIP oil palm seeds reached 12,838 tons (-13.9% YoY) with the highest production capacity in the last five years could reach around 15,000 tonnes, but with a slight reduction in purchases of oil palm seeds from plasma farmers, LSIP's production often goes up and down each year. The development, production, and sale of LSIP's oil palm seeds are operating by a subsidiary named Sumatra Bioscience (SumBio).

Profitability

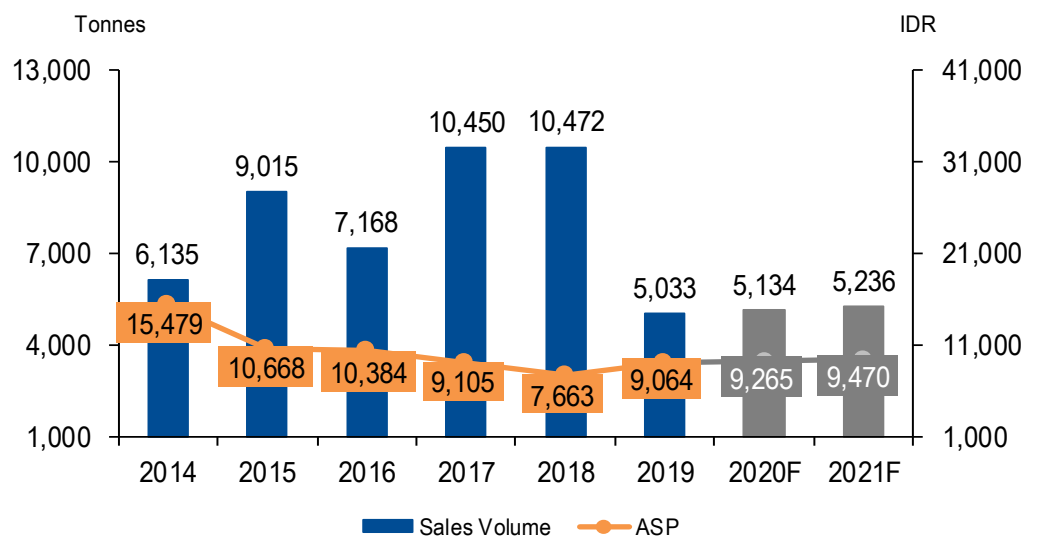
LSIP's oil palm seeds only sold by SumBio as the sole seller. The sales volume of LSIP's oil palm seeds already made the highest in 2018, which reached 10,472 tonnes but fell to 5,033 tonnes (-51,9% YoY) in 2019, but ASP in 2019 managed to rise to IDR9,064 (+18.3% YoY). LSIP has the potential within the next five years to expand and increase the volume of palm oil seed sales.

Figure 8: Oil Palm Seeds Revenue Contribution



Source: Company Data, NHKSI Research

Figure 9: Oil Palm Seeds Sales Volume & ASP



Source: Company Data, NHKSI Research

Financial Highlight

Low Net Gearing

LSIP posted a net gearing of 6.3% in FY19, a smaller figure than FY18 of 7.2%. We estimate there will be an increase of net gearing in FY20 to 8.6% with the assumption of LSIP's 2020 capex is bigger than 2019, but for FY21 and FY22, it will decrease by 7.4% and 7.5%, respectively. That level is still in prudent condition for plantation companies, especially palm oil.

Revenue Growth

We use the assumption that the average CPO price for 2020F is MYR2,120/tonne, so we estimate revenue growth to grow to 5.2% in FY20. The single-digit growth potential for FY21 and FY22 was 5.5% and 5.6%, respectively. Our estimated growth will still be dominated by CPO sales and export sales potential, which can increase by 1% -2% every year.

Table 5: EBIT Breakdown (IDR Billion)

	2017	2018	2019	2020F	2021F
Palm Oil	1,032.4	483.4	384.4	422.8	465.1
Rubber	-74.4	-127.7	-133.4	-93.4	-65.4
Oil Palm Seeds	25.4	-6.1	-14.3	-10.0	-9.5
Others	-44.8	-39.7	-35.7	-25.0	-23.7

Source: Company Data, NHKSI Research

Performance Estimation

We are sure that LSIP can record better performance in 2020 compared to 2019, despite the COVID-19 conditions. We estimate for the performance of LSIP as follows: 1) FFB production of 1.47 million tonnes for 2020F and 1.51 million tonnes for 2021F; 2) CPO production of 401 thousand tonnes for 2020F and 449 thousand tonnes for 2021F; 3) CPO sales volume of 394 thousand tonnes for 2020F and 432 thousand tonnes for 2021F; 4) ASP of IDR7.320/kg for 2020F and IDR8.050 for 2021F.

Earnings Sensitivity to CPO Prices

We conduct a sensitivity test for FY20 performance assuming every +/- 10% on CPO prices will impact +/- 7% on revenue, +/- 23% on EBIT, and +/- 22% on EPS.

Table 6: Sensitivity Anaysis (IDR Billion)

CPO Price	-10%	Base	+10%
Revenue	3,607	3,892	4,178
EBIT	289	378	466
EPS	34	43	53

Source: Company Data, NHKSI Research

Recommendation

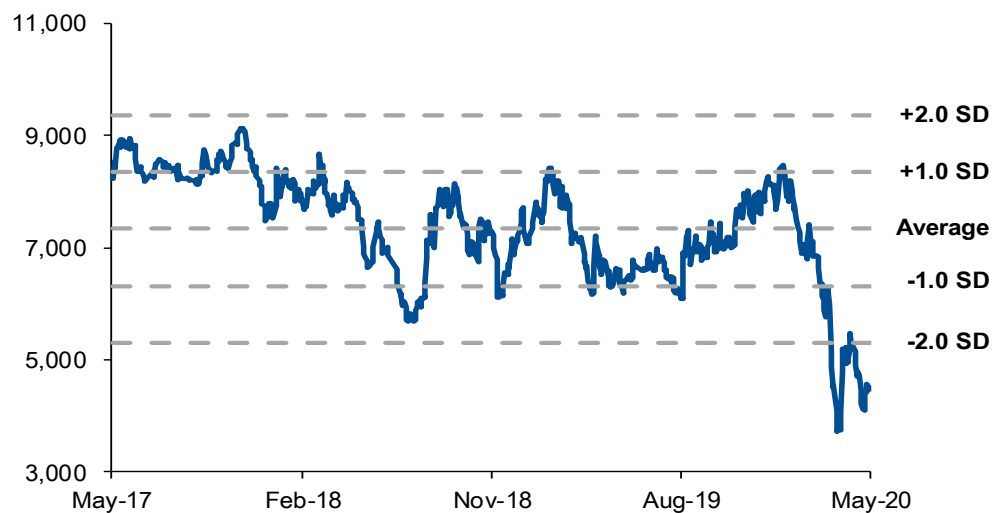
Valuation Benchmarks

We recommend BUY for LSIP using the EV / ha valuation method, which illustrates the implications of valuation on the number of plantation areas per hectare with its main competitor, AALI.

Target Price of IDR900

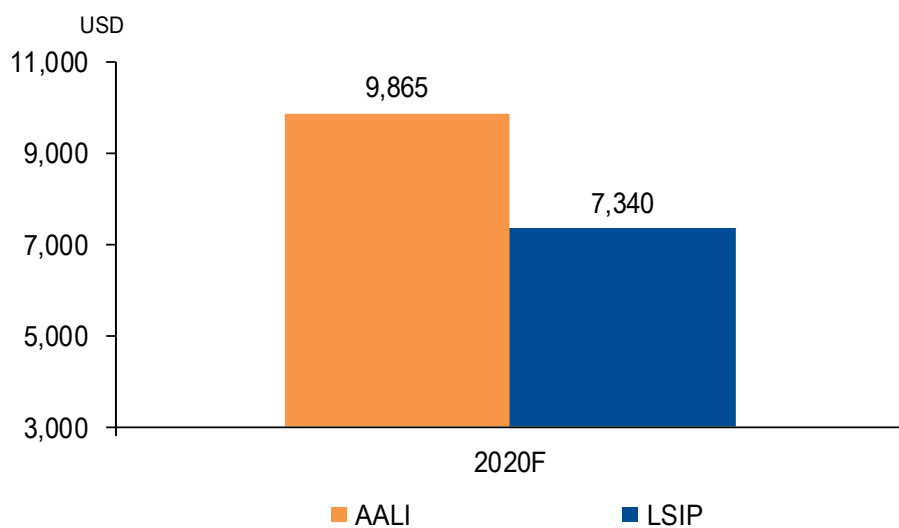
We recommend BUY with TP of IDR900 or potential upside of 24.2% based on EV/ha of USD7.340/ha in three-year historical mean. Same as its biggest competitor, AALI, the LSIP valuation is currently traded at a discount price or below -2 SD.

Figure 10: Forward EV/ha Band



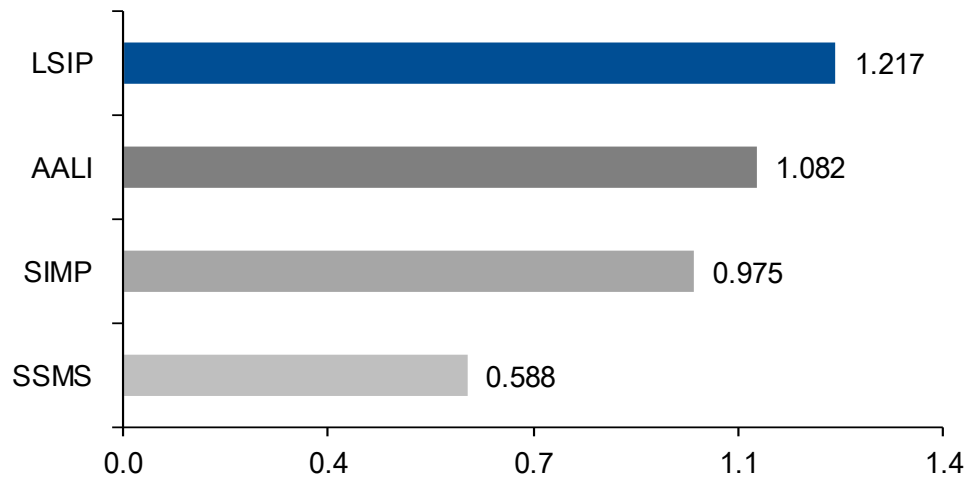
Source: Company Data, NHKSI Research

Figure 11: EV/ha Comparison



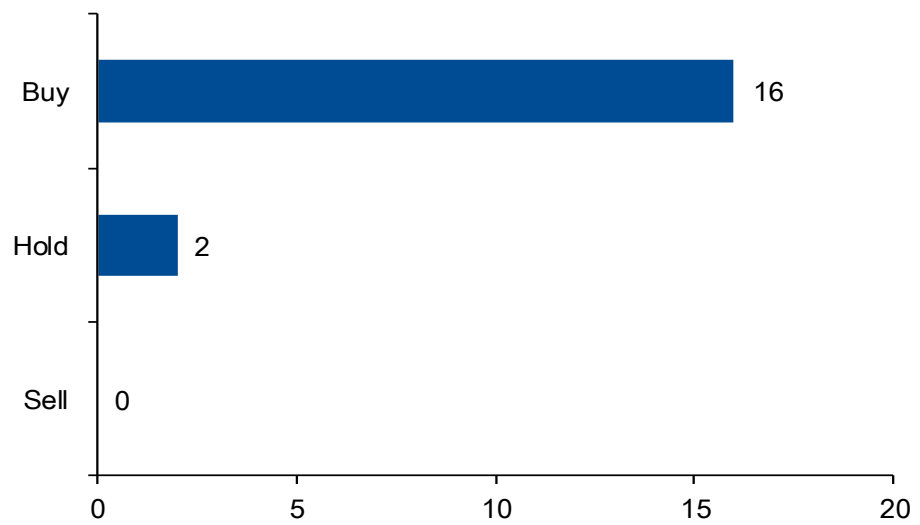
Source: Company Data, NHKSI Research

Figure 12: Beta Comparison



Source: Company Data, NHKSI Research

Figure 13: Recommendation by Analysts



Source: Company Data, NHKSI Research

Financial Review

Quarterly Review

	4Q18	1Q19	2Q19	3Q19	4Q19			1Q20E	
					Actual	Estimate	YoY %		QoQ %
Income Statement									
Revenue	1,146	928	668	990	1,113		-2.9	12.4	996
Gross Profit	92	136	40	118	268		190.5	126.7	145
EBIT	-51	31	-49	54	265		-622.3	391.7	72
EBITDA	42	129	44	151	363		772.1	139.9	174
Net Profit	-13	39	-28	42	201		-1610.6	378.8	57
Margin									
Gross Margin	8.0	14.6	6.0	11.9	24.0		16.0	12.1	14.6
EBIT Margin	-4.4	3.3	-7.4	5.4	23.8		28.2	18.4	7.2
EBITDA Margin	3.6	13.9	6.6	15.3	32.6		29.0	17.3	17.5
Net Profit Margin	-1.2	4.2	-4.2	4.2	18.1		19.3	13.8	5.7

Unit: IDR bn, %

Source: Company Data, NHKSI Research

Earnings Revisions

		2020F	2021F	2022F
Income Statement				
Revenue	-Revised	3,892	4,105	4,333
	-Previous	4,728		
	-Change %	-17.7		
	-Consensus	4,271	4,490	4,718
Gross Profit	-Revised	665	741	863
	-Previous	1,342		
	-Change %	-50.2		
	-Consensus	939	935	1,061
EBIT	-Revised	378	438	544
	-Previous	991		
	-Change %	-61.9		
	-Consensus	521	618	736
EBITDA	-Revised	783	871	999
	-Previous	1,425		
	-Change %	-45.0		
	-Consensus	998	985	1,046
Net Profit	-Revised	296	343	423
	-Previous	831		
	-Change %	-64.3		
	-Consensus	489	535	654
Margin				
Gross Margin	-Revised	17.1	18.1	19.9
	-Previous	28.4		
EBIT Margin	-Revised	9.7	10.7	12.5
	-Previous	21.0		
EBITDA Margin	-Revised	20.1	21.2	23.1
	-Previous	30.1		
Net Profit Margin	-Revised	7.6	8.3	9.8
	-Previous	17.6		

Unit: IDR bn, %

Source: Company Data, Bloomberg, NHKSI Research

Management Background

Board of Commissioner



Moleonoto
Presiden
Komisaris

Education

Bachelor of Accountancy degree from the University of Tarumanagara, Jakarta, in 1987, and a Bachelor's degree in Management, and a Master of Science degree in Administration and Business Policy from the University of Indonesia in 1990 and 2001 respectively.

Experience

Director of PT Indofood Sukses Makmur Tbk ("Indofood") (2009-present), Commissioner of PT Indofood CBP Sukses Makmur Tbk ("ICBP") (2009-present), Executive Director and Head of Finance & Corporate Services of Indofood Agri Resources Ltd ("IndoAgri") (2006-present) and Vice President Director of PT Salim Ivomas Pratama Tbk ("SIMP") (2004-present). Before joining the Plantations Divisions of the Indofood Group as Chief Financial Officer, he held various management positions in the Salim Plantations Group (1990-2004).



Axton Salim
Komisaris

Education

Bachelor of Science in Business Administration from the University of Colorado, USA in 2002.

Experience

Director of PT Indofood Sukses Makmur Tbk ("Indofood") (2009 – present), Director of PT Indofood CBP Sukses Makmur Tbk ("ICBP") (2009 – present), Non-Executive Director of Indofood Agri Resources Ltd ("IndoAgri") (2007 – present) and Gallant Venture Ltd. (2014 – present), and Commissioner of SIMP (2007 – present). He also serves as Global Co-Chair of Scaling Up Nutrition (SUN) Business Advisory Group (2014 – present) and Director of Art Photography Centre Ltd. (2016 – present). Previously, he was appointed as an Assistant CEO of Indofood (2007 – 2009).



Hendra Widjaja
Komisaris

Education

Bachelor's degree in Management and Finance from the Atma Jaya Catholic University in Jakarta in 1986.

Experience

Corporate Controller Division of the PT Indofood Sukses Makmur Tbk ("Indofood") (2012-present) and as Director of Indofood (2018-present). He concurrently serves as Director of PT Indofood CBP Sukses Makmur Tbk ("ICBP") (2009-present), Commissioner of PT Salim Ivomas Pratama Tbk ("SIMP") (2013-present).



Alamsyah
Komisaris

Education

Bachelor of Arts degree in Accounting from Parahyangan Catholic University in Bandung.

Experience

Commissioner of PT Indofood CBP Sukses Makmur Tbk ("ICBP") (2009-present), PT Cyberindo Aditama, and as Director of PT Lajuperdana Indah (2005-present). Prior to his appointment at ICBP, he was Senior Corporate Finance Manager of PT Net Sekuritas, Corporate Finance Manager of PT Indocement Tunggal Prakarsa Tbk ("Indocement") (1996-2002) and Senior Auditor of PT Inti Salim Corpora (1992-1996).



Edy Sugito
Komisaris
Independen

Education

Bachelor of Accountancy degree from Trisakti University, Jakarta.

Experience

Independent Commissioner in several companies among other PT Wisnilak Inti Makmur Tbk, PT Dharma Satya Nusantara Tbk and PT Soechi Lines Tbk. He started his career with Arthur Andersen & Co as Senior Auditor (1989-1991) and began his career in capital market as Operations Manager of PT ABN Amro Asia Securities (1994-1997) and Associate Director - Head of Operations of PT Bahana Securities (1997-1998). Mr. Edy Sugito was a Director of PT Kustodian Sentral Efek Indonesia ("KSEI") (1998-2000), Director of PT Kliring Penjaminan Efek Indonesia ("KPEI") (2000-2005).



Timotius
Komisaris
Independen

Education

Bachelor's degree economics in management and accounting from the University of Indonesia respectively in 1984 and 1992, has a Master of Management from the University of Indonesia in 1990 and a Doctorate degree in agricultural economics from the Bogor Agricultural Institute in 2000.

Experience

Chairman of Audit Committee of the Company (2018-present), member of Audit Committee of PT Bank Bumi Arta Tbk (2013-present). Prior to appointment as Independent Commissioner of the Company, He was Director of PT Moritas Agrobi (1990-1996), Director of PT Suprawira Finance (1996-1998), Commissioner of PT Kharisma Valas Indonesia (1998-2008), and Audit Committee's Member of PT HM Sampoerna Tbk. (2001-2011).

Management Background

Board of Director



Benny Tjoeng
Presiden Direktur

Education

Diploma Degree in Accountancy from Jayabaya Accounting Academy and a Bachelor Degree from the University of Indonesia, majoring in Financial Management.

Experience

President Director of several Company's subsidiaries. He started his career with SGV Prasetyo Utomo Co as a Senior Auditor (1984-1989) prior to joining PT United Tractors Tbk as the Head of Accounting Department (1990-1993) and Head of Accounting & Budgeting Division of PT Astra International Tbk (1993-1996). He subsequently became Director of PT Astra Grafi a Tbk (1996-1997), Director of PT Astro Agro Lestari Tbk and held various Commissioner positions in several subsidiaries of PT Astra Agro Lestari Tbk (1996-2000).



Tan Agustinus
Wakil Presiden
Direktur I

Education

Bachelor's degree in Accounting from the University of Tarumanegara in Jakarta in 1988.

Experience

Director of PT Salim Ivomas Pratama Tbk ("SIMP") (2004-present) and at certain subsidiaries' of the Company. He previously worked as a Senior Auditor at the Accounting Firm of Drs. Hans Kartikahadi & Co. - Registered Public Accountant (1984-1989), Funding Supervisor at Sadang Mas Group (1989-1991), Funding Manager (1991-1992) and Assistant Vice President of Funding (1992-1996) and Vice President of Accounting (1996-2013) at Salim Plantations Group.



Johnny Ponto
Wakil Presiden
Direktur II

Education

Bachelor's degree in Accounting from the University of Tarumanegara in Jakarta in 1990.

Experience

Director at PT Salim Ivomas Pratama Tbk ("SIMP") (2009-present) and certain subsidiaries of the SIMP. He was previously appointed as Accounting Manager at PT Borsumij Wehry Indonesia (Retail Division) (1989-1990), General & Administration Manager at PT Indomiwon Citra Inti (1991-2000), Financial Consolidation Manager at PT Intiboga Sejahtera (2001-2004), Director of PT Bitung Manado Oil Industry and PT Sawitra Oil Grains (2004-2006).



Mark Wakeford
Direktur

Education

Chartered Accountant in London, England and attended the Senior Executive Program at the London Business School in 1998.

Experience

Executive Director and CEO of Indofood Agri Resources Ltd ("IndoAgri"), President Director of PT Salim Ivomas Pratama Tbk ("SIMP") (2007-present) and President Director of PT Lajuperdana Indah (2010-present). He started his career at Kingston Smith & Co. in London, England. He has worked in the plantation industry since 1993, working in plantation companies in Indonesia, Papua New Guinea and Thailand. He began his plantation career as the Finance Director of PT PP London Sumatra Indonesia Tbk ("Lonsum") before moving to Pacific Rim Plantations Limited ("PRPOL") as Chief Financial Officer.



Joefty Bahroeny
Direktur

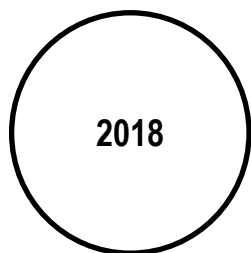
Education

Graduated from the University of New South Wales, Sydney, and has a Magister Management in Agrobusiness from University of North Sumatera, Medan.

Experience

Director of PT PP London Sumatra Indonesia Tbk ("Lonsum") based on the resolution of the EGM in 2007 and was re-elected as Director of Lonsum based on the resolution of the AGM in 2010, 2013 and the latest reappointment in 2016, previously served as a Commissioner of Lonsum based on the resolution of the EGM in 2004. Mr. Joefty Bahroeny overseas Corporate Human Resources and General Services of Lonsum. He is also the Chairman of the Advisory Board of Indonesian Palm Oil Association (IPOA) (2015-present).

Company Milestones



2018

Achieved total ISPO-certified CPO to around 268,000 tonnes

2017

Achieved total ISPO-certified CPO to around 233,000 tonnes

2011

Stock Split from the original nominal value of IDR500 per share to IDR100 per share

2007

Lonsum was acquired by SIMP and IndoAgri as part of Agribusiness Group of Indofood Group

1996

Listed on the Indonesia Stock Exchange

Financial Summary

INCOME STATEMENT

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Revenue	3,699	3,892	4,105	4,333
<i>Growth</i>	-8.0%	5.2%	5.5%	5.6%
COGS	(3,138)	(3,227)	(3,364)	(3,470)
Gross Profit	562	665	741	863
<i>Gross Margin</i>	15.2%	17.1%	18.1%	19.9%
Operating Expenses	(361)	(365)	(385)	(406)
EBIT	301	378	438	544
<i>EBIT Margin</i>	8.1%	9.7%	10.7%	12.5%
Depreciation	387	406	433	455
EBITDA	687	783	871	999
<i>EBITDA Margin</i>	18.6%	20.1%	21.2%	23.1%
Interest Expenses	(1)	(0)	(0)	(0)
EBT	353	394	456	562
Income Tax	(100)	(99)	(114)	(141)
Minority Interest	1	1	1	1
Net Profit	254	296	343	423
<i>Growth</i>	-23.4%	16.7%	15.6%	23.3%
<i>Net Profit Margin</i>	6.9%	7.6%	8.3%	9.8%

PROFITABILITY & STABILITY

	2019/12A	2020/12F	2021/12F	2022/12F
ROE	3.0%	3.5%	4.0%	4.9%
ROA	2.5%	2.9%	3.2%	3.8%
ROIC	3.0%	3.5%	4.0%	4.9%
Cash Dividend (IDR bn)	389	350	308	411
Dividend Yield	3.8%	5.7%	5.0%	6.7%
Payout Ratio	117.3%	137.8%	104.0%	119.9%
DER	20.3%	22.7%	24.3%	28.1%
Net Gearing	6.3%	8.6%	7.4%	7.5%
LT Debt to Equity	0.0%	0.0%	0.0%	0.0%
Capitalization Ratio	0.0%	0.0%	0.0%	0.0%
Equity Ratio	83.1%	81.5%	80.5%	78.1%
Debt Ratio	0.0%	0.0%	0.0%	0.0%
Financial Leverage	120.3%	122.7%	124.3%	128.1%
Current Ratio	469.7%	375.5%	459.2%	474.9%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	6,823	6,823	6,823	6,823
Share Price (IDR)	1,495	900	900	900
Market Cap (IDR tn)	10.2	6.1	6.1	6.1

BALANCE SHEET

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Cash	1,132	1,353	1,461	1,616
Receivables	367	320	405	360
Inventories	342	352	361	373
Total Current Assets	2,192	2,388	2,584	2,709
Net Fixed Assets	6,328	6,273	6,590	6,732
Other Non Current Asset	432	426	429	432
Total Assets	10,225	10,360	10,767	11,110
Payables	235	242	255	257
ST Bank Loan	-	-	-	-
LT Debt	-	-	-	-
Total Liabilities	1,727	1,915	2,103	2,434
Capital Stock	1,713	1,713	1,713	1,713
Retained Earnings	6,772	6,718	6,938	6,949
Total Equity	8,499	8,445	8,664	8,676

VALUATION INDEX

	2019/12A	2020/12F	2021/12F	2022/12F
Price/Earnings	40.2x	20.7x	17.9x	14.5x
Price/Book Value	1.2x	0.7x	0.7x	0.7x
Price/Sales	2.8x	1.6x	1.5x	1.4x
PE/EPS Growth	-1.7x	1.2x	1.1x	0.6x
EV/EBITDA	15.7x	8.3x	7.3x	6.2x
EV/EBIT	35.9x	17.2x	14.6x	11.5x
EV (IDR bn)	10,781	6,502	6,394	6,239
Sales CAGR (3-Yr)	-1.3%	-6.3%	0.7%	5.4%
EPS CAGR (3-Yr)	-24.6%	-27.1%	1.1%	18.5%
Basic EPS (IDR)	37	43	50	62
Diluted EPS (IDR)	37	43	50	62
BVPS (IDR)	1,246	1,238	1,270	1,272
Sales PS (IDR)	542	570	602	635
DPS (IDR)	57	51	45	60

CASH FLOW STATEMENT

(IDR bn)	2019/12A	2020/12F	2021/12F	2022/12F
Operating Cash Flow	480	897	613	916
Investing Cash Flow	(861)	(510)	(198)	(350)
Financing Cash Flow	(151)	(350)	(308)	(411)
Net Changes in Cash	(532)	37	107	155

TOP OWNERSHIP

By Geography	% Shareholders	%
Indonesia	91.9 Salim Ivomas Pratama	59.5
United States	7.2 Dimensional Fund	1.7
Ireland	0.4 Vanguard Group	1.4
Singapore	0.2 Blackrock	0.9

Source: Company Data, NHKSI Research

Closing & Target Price Update



Source: Bloomberg, NHKSI Research

Rating & Target Price Update

Date	Rating	Target Price	Consensus
2017.03.13	Buy	IDR2,000	IDR1,816
2017.07.10	Buy	IDR1,970	IDR1,705
2017.10.12	Buy	IDR1,970	IDR1,700
2018.01.05	Buy	IDR1,540	IDR1,750
2018.05.16	Buy	IDR1,380	IDR1,100
2018.08.30	Buy	IDR1,680	IDR1,364
2018.10.05	Buy	IDR1,380	IDR1,170
2020.05.20	Buy	IDR900	IDR1,157

Source: NHKSI Research

NHKS Stock Ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
 - Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
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