

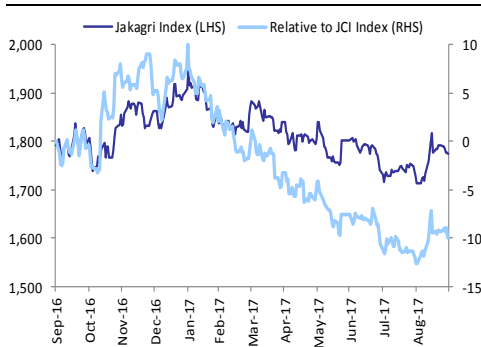
Monday, 02 October 2017

NEUTRAL

Plantation Sector

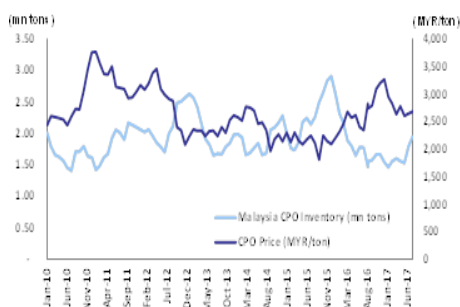
2018: The Year of Indifference

JAKAGRI relative to JCI Index



Source : Bloomberg

Malaysia inventory vs. CPO price



Source : Bloomberg

Soyoil-CPO price spread



Source : Bloomberg

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We initiate coverage on the plantation sector with a neutral call. We forecast a higher stock-to-use ratio of 18.5% (vs. 16.6% in FY17) despite stronger consumption with higher expected imports by India and China. However, higher production from continued yield recovery could counter the positive impact of stronger demand. We assume CPO prices of MYR2,800/ton and MYR2,700/ton in FY17 and FY18 respectively.

A better picture on supply and demand. We are neutral on the plantation sector as we think the impact of higher consumption will be offset by higher production in FY18. Based on Oilworld estimates, global palm oil consumption is expected to reach 66.9mn tons (+4.3% YoY), while global palm oil production is predicted to grow to 68.8mn tons (+5.0% YoY), putting the global palm oil stock-to-use ratio at 18.5% or up from 16.6% in FY17. As the yield has yet to fully normalize, we expect further yield recovery in FY18 following the impact of El Nino.

Potentially higher imports by China and India. We expect India and China to be key drivers of palm oil demand in FY18. India may import more palm oil on the poor oilseeds production outlook and the lower acreage in the FY17 planting season. Based on the latest oilseed crop sowing data as of 22-Sep-17, India's oilseed planted area reached 17.3mn Ha, or 9% lower on a YoY comparison. Moreover, China may also increase its palm oil imports given the tight global rapeseed supply and below average palm oil inventory level at 0.36mn tons (vs. 0.72mn tons average).

Indonesia's biodiesel absorption is likely to stay flat in FY18. We estimate that Indonesia's biodiesel absorption will remain at the same level as in FY17 or between the range of 3.0-3.5mn KL, translating into CPO demand of 2.6-3.0mn tons. While compliance in the PSO sector has matured, we think non-compliance in the non-PSO sector is likely to persist into FY18. We are skeptical that the matter regarding the subsidy disbursement scheme for non-PSO will be resolved anytime soon. Further downside may arise if the government turns to the Indonesia Estate Crop Fund to seek a source of funding for infrastructure projects.

Earnings expectations mostly reflected in the share prices. We expect plantation companies under our coverage to book slightly higher earnings in FY18 as increasing volumes will offset the slight price declines. The cost of production is also expected to remain stable. We think the current share prices have mostly priced in the CPO price of MYR2,700-2,800/ton.

Initiate coverage with a neutral call. We initiate coverage on the sector with a neutral call, with LSIP as our top pick given its undemanding valuation, strong balance sheet and good stock liquidity. Due to the cyclical nature of the sector, we think LSIP will be the best play to monetize short-term volatility in CPO prices. We assume a CPO price of MYR2,800/ton and MYR2,700/ton in FY17 and FY18, respectively. Overall, we have a slightly better earnings outlook for plantation companies as we expect higher volumes to offset the slight price declines.

Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x) 2017F	P/E (x) 2018F	P/BV (x) 2017F	P/BV (x) 2018F	ROE (%) 2016A
Astra Agro Lestari	AALI IJ	HOLD	16,300	28,677.9	14.2	14.0	1.5	1.4	14.1
London Sumatra	LSIP IJ	BUY	1,830	9,582.0	11.7	11.5	1.2	1.1	7.9
Sampoerna Agro	SGRO IJ	HOLD	2,320	4,237.4	15.3	14.4	1.2	1.1	13.5

The Year of Indifference

Initiate coverage with a neutral recommendation. We initiate coverage on the palm oil plantation sector with a neutral call. We forecast a slight increase in the global palm oil stock-to-use ratio to 18.5% in FY18 from 16.6% in FY17 on the back of higher global palm oil inventory despite stronger consumption. Demand may strengthen due to higher palm oil imports by India in anticipation of lower domestic oilseeds production as a result of lower acreage reserved for oilseeds and higher Chinese palm oil imports owing to reduced rapeseed oil availability. However, we expect higher palm oil production from continued yield recovery to neutralize the positive impact of stronger consumption. These factors underpin our neutral recommendation on the plantations sector.

Exhibit 1. CPO price trend



Source: Bloomberg

We expect the FY17 CPO price to average MYR2,800/ton, given the year-to-date CPO average price of MYR2,860/ton, assuming year-ending Malaysia palm oil inventory of 2.0mn tons, an exchange rate of MYR4.30/USD, a soyoil price of USD35.00/lb, and a crude oil price of USD50/bbl. However, we lower our FY18 CPO price assumption to MYR2,700/ton, assuming higher year-ending Malaysia palm oil inventory of 2.3mn tons (+15%), flat soyoil and crude oil prices and a stronger ringgit at MYR4.20/USD.

Exhibit 2. CPO price assumptions

	2017F	2018F	2019F
CPO Price (MYR/ton)	2,800	2,700	2,700
MYR/USD Assumption	4.30	4.20	4.20
IDR/USD Assumption	13,350	13,300	13,300
CPO Price (USD/ton)	652	643	643
CPO Price After Levy (USD/ton)	602	593	593

Source: Danareksa Sekuritas

Slightly higher earnings forecast for FY18. We forecast slightly higher earnings for Indonesian plantation companies in FY18, primarily due to higher volumes as production is still normalizing following El Nino, despite the lower average CPO price. We assume FFB growth to normalize at FY15's level in FY18. We estimate the FY18 net profits of AALI, LSIP and SGRO to rise by 1.5%, 1.7% and 6.4%, respectively. Our earnings estimates are 1.8%-6.2% below the consensus. We

think the consensus numbers are a little too optimistic since they are still pricing in an average CPO price of USD655/ton in FY18 (vs our estimate of USD643/ton). Due to the lack of a strong catalyst to counter the impact of higher production, we believe it is unlikely that the FY18 average CPO price will surpass that in FY17.

The cost of production remains manageable. We expect the overall cost of production per kg for Indonesian CPO producers to remain stable in FY18. We expect the minimum wage to increase by 8.25% in FY18 (like in FY17) with inflation of 3%. Looking at the prices of fertilizer, potash and urea, they have been relatively stable year-to-date. Hence, we assume that the fertilizer costs will remain flat in FY18.

Earnings sensitivity. We have undertaken sensitivity analysis on AALI, LSIP and SGRO's FY18 earnings against a range of CPO prices and FFB volume growth figures. For every MYR100/ton change in the CPO price, AALI, LSIP and SGRO's FY18 earnings would change by 11.9%, 12.1% and 19.2%, respectively. At the same time, for every 5% change in FFB volume growth, AALI, LSIP and SGRO's FY18 earnings would change by 6.4%, 14.0% and 21.0%, respectively.

Exhibit 3. AALI sensitivity analysis (29-Sep-17 closing price)

AALI FY18 Net Profit Sensitivity (IDRbn)						
FFB Growth Assumption (%)	CPO Price Assumption (MYR/ton)					
		2,500	2,600	2,700	2,800	2,900
	15.0%	1,796	2,049	2,303	2,556	2,810
	10.0%	1,676	1,925	2,173	2,421	2,670
	5.0%	1,557	1,800	2,043	2,286	2,530
	0.0%	1,438	1,675	1,913	2,151	2,389
	-5.0%	1,318	1,551	1,784	2,016	2,249

AALI FY18 P/E Sensitivity						
FFB Growth Assumption (%)	CPO Price Assumption (MYR/ton)					
		2,500	2,600	2,700	2,800	2,900
	15.0%	15.9	14.0	12.4	11.2	10.2
	10.0%	17.1	14.9	13.2	11.8	10.7
	5.0%	18.4	15.9	14.0	12.5	11.3
	0.0%	19.9	17.1	15.0	13.3	12.0
	-5.0%	21.7	18.5	16.1	14.2	12.7

Source: Danareksa Sekuritas

Exhibit 4. LSIP sensitivity analysis (29-Sep-17 closing price)

LSIP FY18 Net Profit Sensitivity (IDRbn)						
FFB Growth Assumption (%)	CPO Price Assumption (MYR/ton)					
		2,500	2,600	2,700	2,800	2,900
	15.0%	846	956	1,066	1,177	1,287
	10.0%	738	844	950	1,055	1,161
	5.0%	631	732	833	934	1,035
	0.0%	523	620	716	812	909
	-5.0%	416	508	599	691	782

LSIP FY18 P/E Sensitivity						
FFB Growth Assumption (%)	CPO Price Assumptions (MYR/ton)					
		2,500	2,600	2,700	2,800	2,900
	15.0%	11.4	10.1	9.0	8.2	7.5
	10.0%	13.0	11.4	10.1	9.1	8.3
	5.0%	15.2	13.1	11.5	10.3	9.3
	0.0%	18.4	15.5	13.4	11.8	10.6
	-5.0%	23.1	18.9	16.0	13.9	12.3

Source: Danareksa Sekuritas

Exhibit 5. SGRO sensitivity analysis (29-Sep-17 closing price)

SGRO FY18 Net Profit Sensitivity (IDRbn)						
FFB Growth Assumption (%)	CPO Price Assumption (MYR/ton)					
		2,500	2,600	2,700	2,800	2,900
	21.0%	302	365	428	491	554
	16.0%	244	304	365	425	486
	11.0%	186	244	301	359	417
	6.0%	127	183	238	293	349
	1.0%	69	122	175	227	280

SGRO FY18 P/E Sensitivity						
FFB Growth Assumption (%)	CPO Price Assumptions (MYR/ton)					
		2,500	2,600	2,700	2,800	2,900
	21.0%	14.3	11.8	10.1	8.8	7.8
	16.0%	17.7	14.2	11.9	10.2	8.9
	11.0%	23.3	17.8	14.4	12.0	10.4
	6.0%	34.0	23.7	18.2	14.8	12.4
	1.0%	62.7	35.5	24.8	19.0	15.4

Source: Danareksa Sekuritas

LSIP: most attractively valued. Among its peers, LSIP is the most attractively valued. Looking at the historical rolling forward PE, LSIP is trading at 11.6x PE (-1.5SD) vs. AALI and SGRO which are trading at 14.0x and 14.4x PE respectively. In terms of EV/Ha, LSIP is currently trading at EV/Ha of USD6,321, below the cost of new planting of USD7,000-8,000/Ha. SGRO is also trading at a similar EV/Ha of USD6,366. Nonetheless, we prefer LSIP given its strong balance sheet and better liquidity.

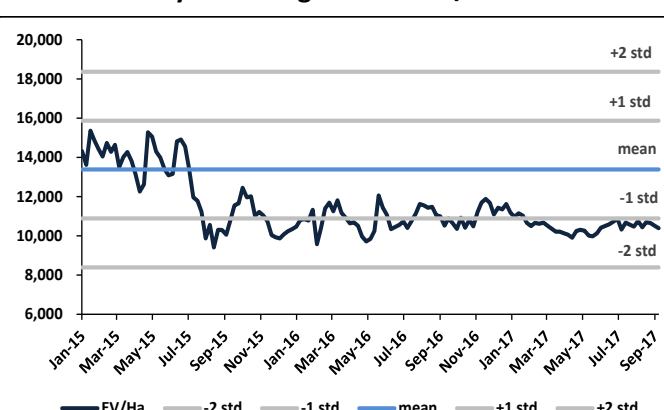
Meanwhile, the plantation sector is currently trading at 13.2x PE (-1SD) and EV/Ha of USD9,054 (-1SD). We use market capitalization weight of AALI, LSIP and SGRO in our calculation of the sector valuation. Due to lack of strong catalyst, we believe sector re-rating is unlikely in FY18. Therefore, we use 15.0x P/E, median between the mean and -1SD, as a benchmark to derive the valuation of each companies.

Exhibit 6. AALI 5-year rolling forward PE



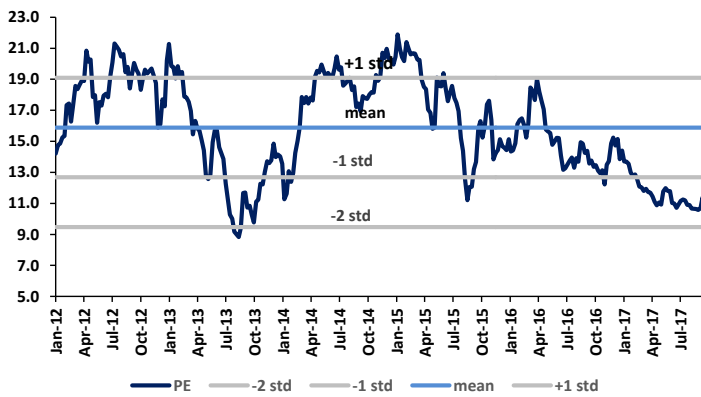
Source: Danareksa Sekuritas, Bloomberg

Exhibit 7. AALI 5-year rolling forward EV/Ha



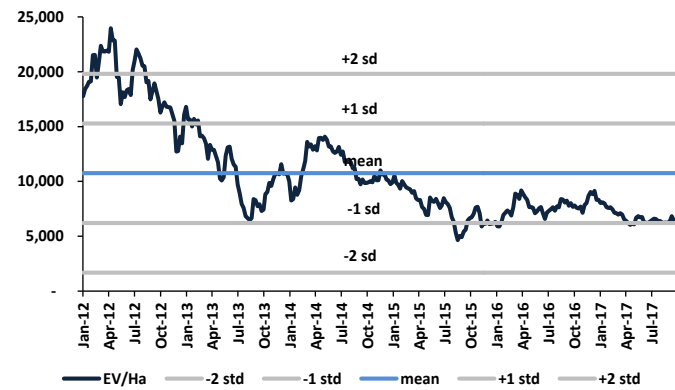
Source: Danareksa Sekuritas, Bloomberg

Exhibit 8. LSIP 5-year rolling forward PE



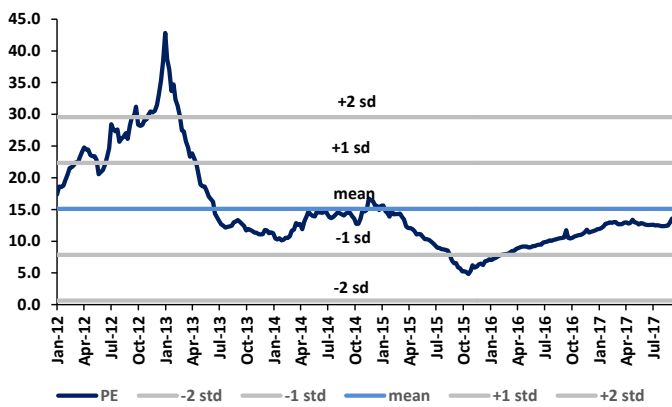
Source: Danareksa Sekuritas, Bloomberg

Exhibit 9. LSIP 5-year rolling forward EV/Ha



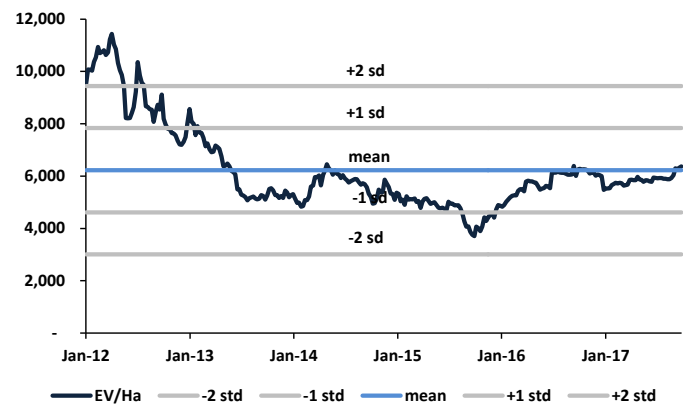
Source: Danareksa Sekuritas, Bloomberg

Exhibit 10. SGRO 5-year rolling forward PE



Source: Danareksa Sekuritas, Bloomberg

Exhibit 11. SGRO 5-year rolling forward EV/Ha



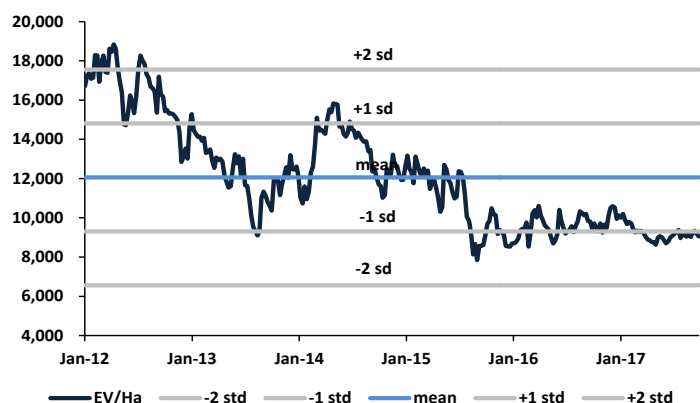
Source: Danareksa Sekuritas, Bloomberg

Exhibit 12. Plantation 5-year rolling forward PE



Source: Danareksa Sekuritas, Bloomberg

Exhibit 13. Plantation 5-year rolling forward EV/Ha



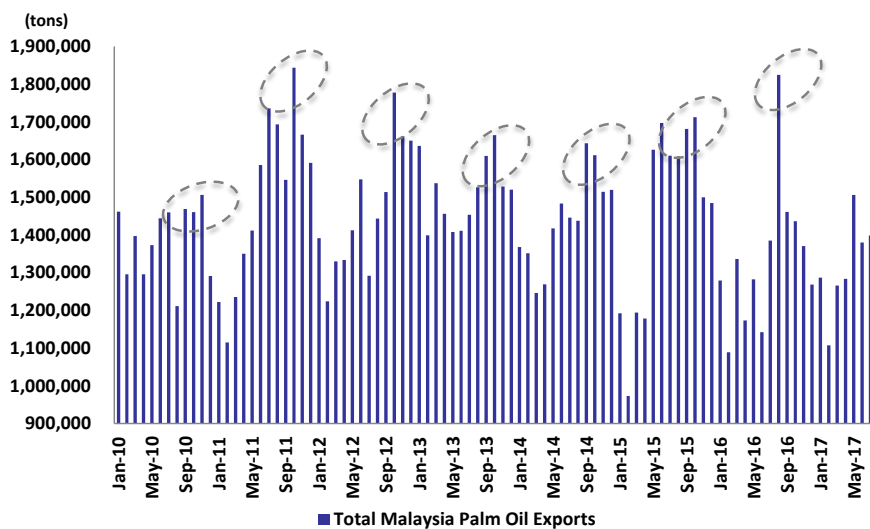
Source: Danareksa Sekuritas, Bloomberg

2H17 Palm Oil Outlook: Still Hopeful

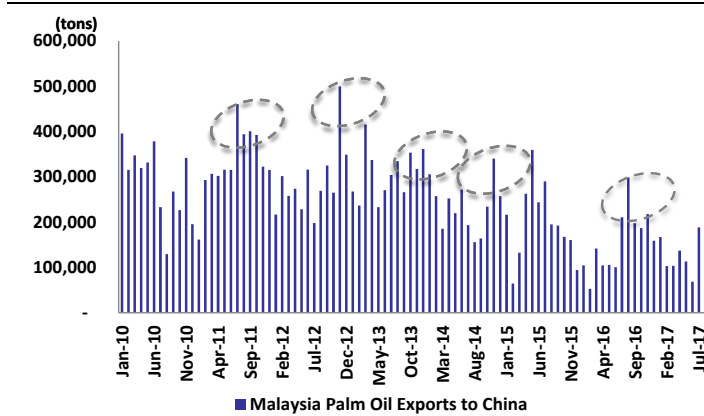
Supportive CPO prices expected in 2H17. We expect the CPO price to remain firm in 2H17 despite pricing pressures arising from expectations of higher production. With our FY17 CPO price assumption of MYR2,800/ton, we estimate that the 2H17 CPO price will average MYR2,655/ton (vs. the 1H17 CPO price average of MYR2,945/ton). We expect the CPO price to trade within the range of MYR2,500-2,800/ton in 2H17, from a year-to-date low of MYR2,570/ton in Jul-17. The catalysts for a price rebound are higher CPO purchases from importing countries, followed by the start of the low crop season typically from Nov to Feb. The current CPO price is MYR2,714/ton.

Higher palm oil exports to support the CPO price between Aug-Oct. We expect stronger palm oil exports performance over the next few months to outweigh the impact of higher production in 3Q17. This should help to support the CPO price. We believe that the recent CPO price correction has mostly accounted for the negative impact of production recovery. Looking at the historical Malaysian palm oil export trend, exports tend to peak between Aug-Oct. A similar trend is observable for the palm oil imports of China and India, which, we believe, reflects the timing of seasonal festivities (the Diwali and Mooncake festivals occurring in Sep/Oct). In 2H17, we expect palm oil purchases from both China and India to increase in Aug and Sep ahead of the seasonal festivities in Oct-17. Downside risk to palm oil export performance comes from recent hikes in India's import duty on edible oils, which may temporarily reduce Indian palm oil imports.

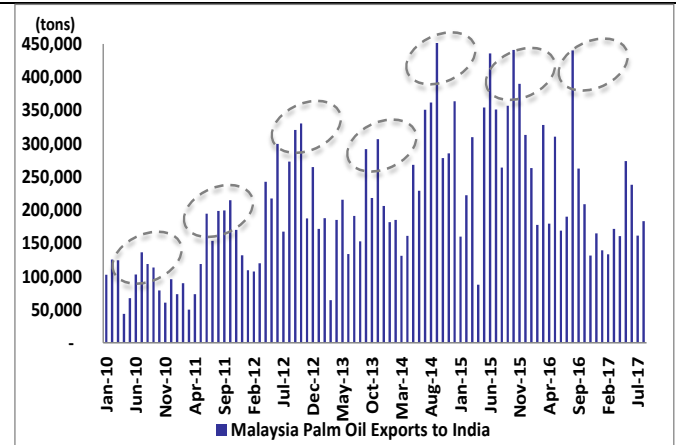
Exhibit 14. Palm oil exports typically peak in Aug-Oct



Source: Malaysia Palm Oil Board (MPOB)

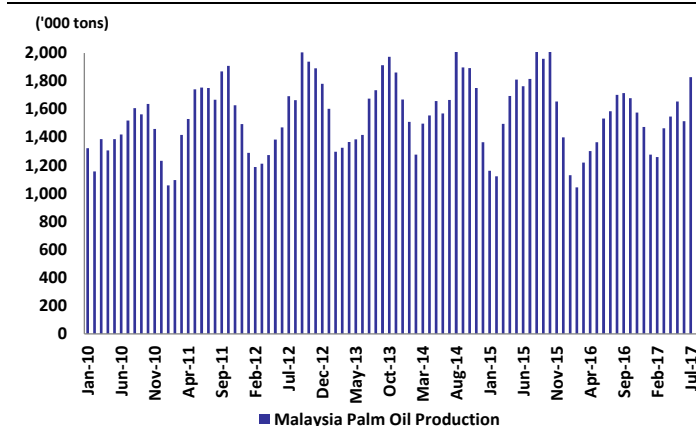
Exhibit 15. Historical Malaysia palm oil exports to China


Source: Malaysia Palm Oil Board (MPOB)

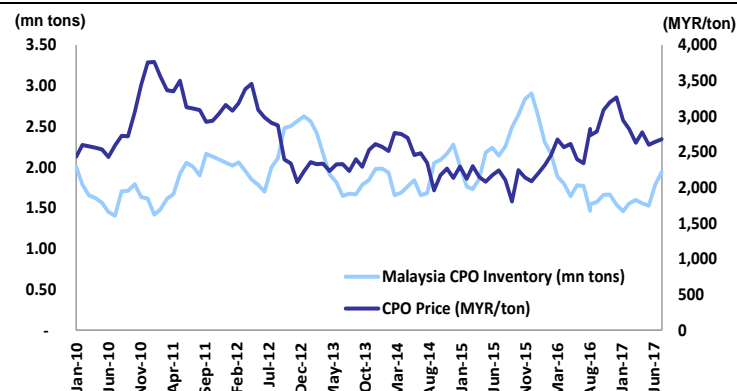
Exhibit 16. Historical Malaysia palm oil exports to India


Source: Malaysia Palm Oil Board (MPOB)

Upcoming low crop season to continue supporting the CPO price. Following support from the peak export months, we expect the start of the low crop season to continue providing support to the CPO price. Normally, CPO production peaks in Sep/Oct and then begins showing MoM output declines until Feb, putting downward pressure on palm oil stockpiles - a positive for the CPO price.

Exhibit 17. Palm oil production seasonality


Source: Malaysia Palm Oil Board (MPOB)

Exhibit 18. Malaysia inventory balance vs. CPO price


Source: Bloomberg and MPOB

CPO price movements are still affected by seasonality. Based on our analysis of the 10-year historical pattern of the CPO price, palm oil production seasonality still partially dictates the price directionality. The Bloomberg seasonality chart indicates that CPO price returns tend to be the strongest between Oct-Feb, displaying positive returns (green) more than 50% of the time, in tandem with the palm oil low crop cycle. Conversely, the CPO price returns tend to be the weakest in Jun-Sep, showing negative returns (red) less than 50% of the time, possibly associated with rising production and weaker exports post Ramadan. Taking into account the seasonality, we do not rule out the possibility of a CPO price rally in 2H17, specifically in 4Q17, as well as in early FY18.

Exhibit 19. CPO price seasonality chart

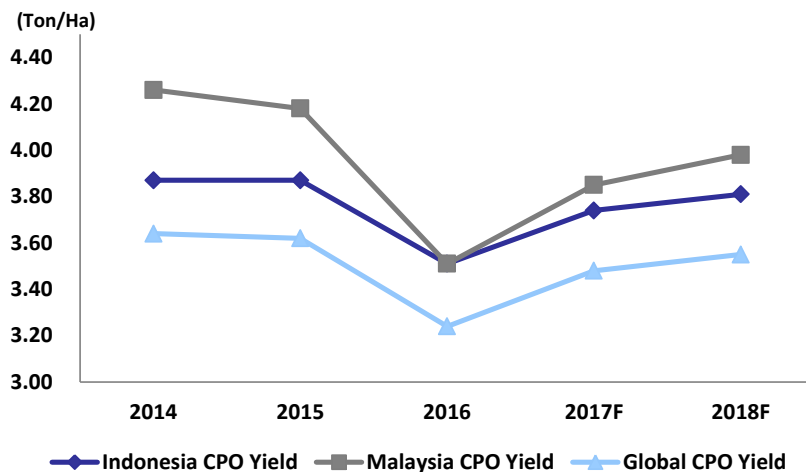


Source: Bloomberg

FY18 Palm Oil Outlook: On Neutral Ground

Brighter supply and demand outlook. We take a neutral stance on the CPO price as we expect higher consumption to be accompanied by higher production in FY18. We believe the yield has yet to fully recover from the impact of the 2015-16 El Nino in FY17 and that yield recovery should continue towards FY18. Oilworld projected the global CPO yield to reach 3.48 tons/ha (+7.4% YoY) in FY17 and 3.55 tons/ha (+2.0% YoY) in FY18, still below 3.62 tons/ha in FY15.

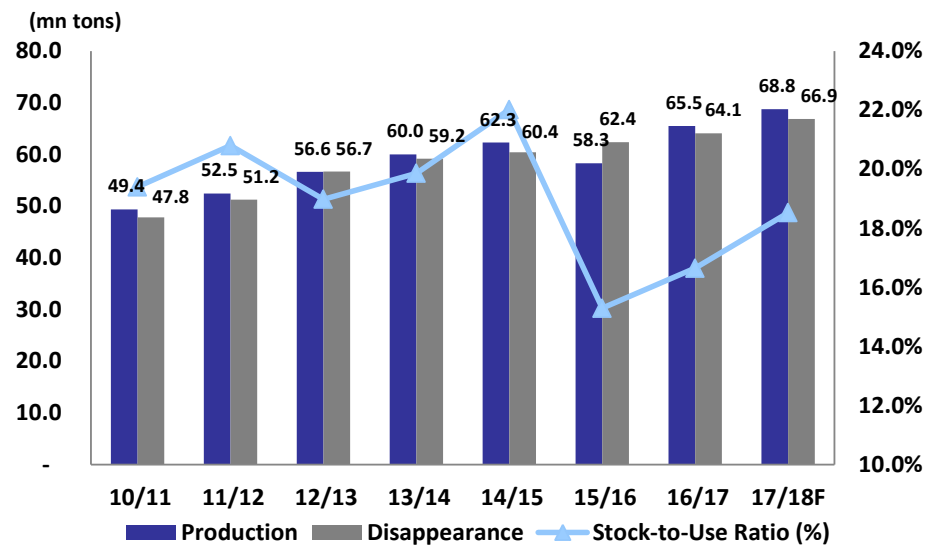
Exhibit 20. Global CPO yield trend and projection



Source: Oilworld

Based on Oilworld projections, global palm oil output is predicted to grow to 68.8mn tons (+5.0% YoY), supported by Malaysia and Indonesia. Meanwhile, global palm oil consumption is expected to reach 66.9mn tons (+4.3% YoY). Despite strong consumption growth, the stock-to-use ratio is estimated to increase to 18.5% in FY18 from 16.6% in FY17 as a result of the bigger increase in global palm oil inventory. As such, we remain neutral on the CPO price outlook for FY18.

Exhibit 21. FY18 global palm oil supply & demand projection



Source: Oilworld

Higher Indian oilseeds imports in FY18 may be positive for palm oil demand.

We expect the weak Indian oilseed production outlook for the FY17 planting season to boost Indian edible oil imports, including palm oil, in FY18. Based on the latest oilseed crop sowing data as of 22-Sep-17, India oilseed planted area reached 17.3mn Ha, down by 9% YoY compared to the corresponding period in 2016. Low domestic oilseed prices due to abundant domestic oilseeds supply from previous harvests have induced farmers to shift acreage from oilseeds to more profitable crops. Based on Oilworld estimates, India's FY18 edible oil imports are forecast to reach 16.0mn tons (+6.5% YoY), with Indian palm oil imports reaching 9.7mn tons (+7.8% YoY).

Exhibit 22. India oilseed planting progress (FY17)

India Kharif Oilseed Planting Progress					
	Area Sown (mn Ha)			% Change	
	2017	2016	2015	2016	2015
Groundnut	4.2	4.7	3.7	-11%	27%
Soybean	10.6	11.5	11.6	-8%	-1%
Sunflower	0.1	0.2	0.1	-14%	8%
Sesamum	1.4	1.6	1.7	-13%	-5%
Niger	0.2	0.2	0.2	6%	6%
Castor	0.8	0.8	1.1	-3%	-23%
Total	17.3	18.9	18.4	-9%	3%

*Sowing progress is stated as per weekend ending 22-Sep-17 and corresponding period in previous years

Source: Solvent Extractors' Association of India

Exhibit 23. India edible oil imports forecast

India Edible Oils (mn tons)	Oct/Sep 13/14	Oct/Sep 14/15	Oct/Sep 15/16	Oct/Sep 16/17	Oct/Sep 17/18F
Imports	11.6	14.2	15.2	15.0	16.0
Soya Oil	1.8	2.8	4.4	3.5	3.6
Sunflower Oil	1.6	1.5	1.5	2.2	2.3
Rapeseed Oil	0.2	0.4	0.4	0.3	0.3
Palm Oil	7.8	9.2	8.8	9.0	9.7
Others	0.2	0.3	0.1	0.1	0.1
Exports	0.0	0.1	0.0	0.0	0.0
Domestic Disappearance	17.5	18.8	20.0	20.6	21.7

Source: Oilworld

Higher Indian import duties on edible oils may be a little too late. On 11-Aug-17, the Indian government decided to raise import duties on selected edible oils (palm oil, soya oil and sunflower oil) in an attempt to boost local oilseed prices and support domestic farmers. However, we think this may have come a little too late as most kharif oilseeds plantings are almost complete. With higher

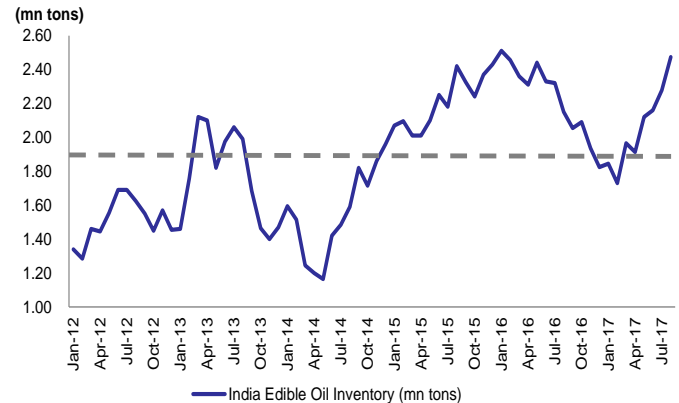
import duties and India's edible oil inventory above the average level, we expect India's edible oil imports to slow down. As such, we expect inventory de-stocking to occur over the next few months.

Exhibit 24. Change in India's edible oil import duties

India's Vegetable Oil Import Duty Structure		
	30-Sep-16	11-Aug-17
Crude Palm Oil & Crude Olein	7.5%	15.0%
Crude Sunflower Oil	12.5%	17.5%
Degummed Soybean Oil	12.5%	17.5%
Refined Palm Oil & RBD Palmolein	15.0%	25.0%
Refined Rapeseed Oil	20%	20%
Refined Sunflower Oil & Other Oils	20%	20%
Refined Soybean Oil	20%	20%

Source: Solvent Extractors' Association of India, Various Sources

Exhibit 25. India's edible oil inventory above the average level



Source: Solvent Extractors' Association of India

Source: Solvent Extractors' Association of India

Tight rapeseed supply may support palm oil consumption. According to OilWorld analysis, the global supply of rapeseed is predicted to remain tight in FY18, mainly on expectations of lower crops in Australia due to unfavorable weather and also in China and India. This is likely to reduce rapeseed oil availability, and thus increase global dependency on palm oil and soya oil, which are also rival oils to rapeseed oil. However, downside risk could arise from the European Union's recent decision to cut anti-dumping duties on soy-based biodiesel from Argentina (from 22%-25.7% to 4.5%-8.1%), which could reduce EU rapeseed consumption for biodiesel and may also adversely impact the EU's palm oil imports.

Exhibit 26. FY18 rapeseed global supply & demand projection

Rapeseed (mn tons)	Oct/Sep 10/11	Oct/Sep 11/12	Oct/Sep 12/13	Oct/Sep 13/14	Oct/Sep 14/15	Oct/Sep 15/16	Oct/Sep 16/17	Oct/Sep 17/18F
Opening Stock	7.9	7.2	5.9	5.2	7.5	6.1	6.2	6.6
Production	61.3	61.6	64.1	69.6	67.0	64.2	63.5	63.5
EU	20.6	19.3	19.8	21.2	24.3	22.3	20.4	21.8
Canada	13.1	14.6	14.0	18.6	16.4	18.4	19.7	19.7
China	12.3	12.8	12.7	11.6	10.0	8.0	5.7	5.0
India	7.1	5.8	7.0	6.7	5.0	5.7	7.0	6.4
Australia	2.5	3.4	4.3	3.8	3.5	2.9	4.4	2.9
Others	5.7	5.7	6.3	7.7	7.8	6.8	6.2	7.6
Crushings	59.1	59.9	61.8	64.4	65.9	61.6	60.8	61.4
Other usage	2.9	3.0	3.0	2.8	2.5	2.4	2.4	2.4
Ending stocks	7.2	5.9	5.2	7.5	6.1	6.2	6.6	6.3
Stock-to-Use Ratio (%)	11.6%	9.3%	8.0%	11.2%	8.9%	9.7%	10.5%	9.9%

Source: Oilworld

Reduced Chinese rapeseed availability may increase dependency on palm oil. With the expectation of lower domestic rapeseed production and tighter supply of imported rapeseed, we believe that China's dependency on other edible oils (such as palm oil) may increase to fulfill its domestic edible oil needs in FY18. Based on the latest information by Shanghai Pansun, China's current rapeseed oil state reserves inventory stands at a low level of 300k tons (below the strategic level of 500k tons) after the auction of 2.1mn tons of rapeseed oil from

Oct-16 to Mar-17. As such, we think another major rapeseed oil auction is unlikely in the near-term, until the stockpile has been replenished.

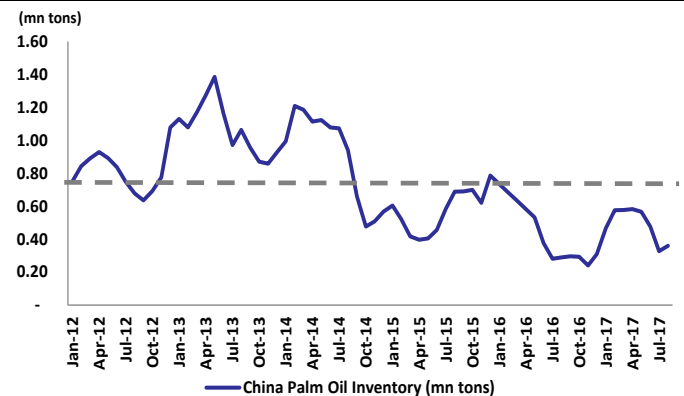
In addition, China's palm oil inventory stood at 0.36mn tons as of the end of Aug-17, or still below the 5-year average level of 0.72mn tons. There could therefore be more palm oil purchases in the future to increase the inventory. Nonetheless, downside risk arises from the continued Chinese preference for soyoil if the price differential becomes attractive or if there is abundant domestic soybeans availability for crushing.

Exhibit 27. History of China's rapeseed oil auctions

Auction Period	Year of Stock Purchased					Total
	2009	2010	2011	2012	2013	
2015/1/21-2015/6/17	6,829	144,321				151,150
2015/12/11-2016/6/1	5,539	213,862	1,278,699	785,990		2,284,090
2016/10/12-2017/3/8			600	637,484	1,440,603	2,078,687
					Total	4,513,927

Source: Shanghai Pansun

Exhibit 28. China's palm oil inventory below the average level



Source: Cofeed

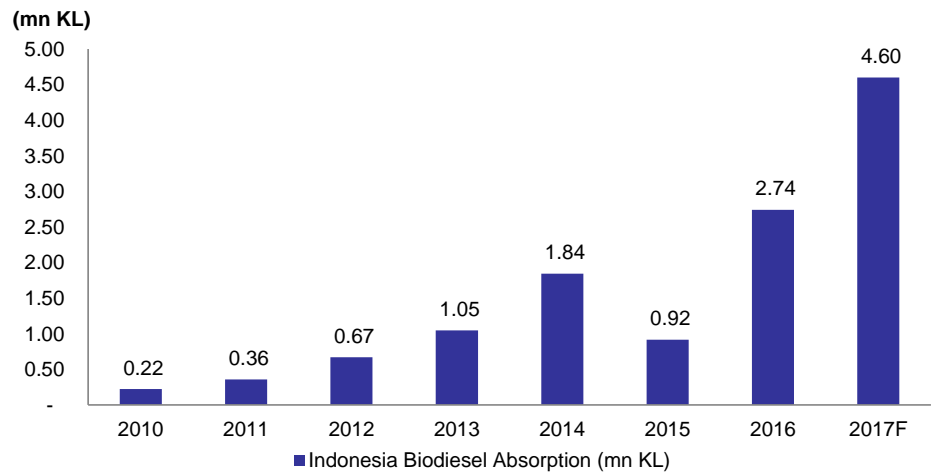
Indonesia B20: First Sign of Headwinds

Biodiesel absorption likely to remain flat in FY18. Assuming funds availability of Rp16.0tn with 85% allocation for biodiesel (similar to FY17), we estimate biodiesel absorption to remain at the same level as in FY17 at 3.0-3.5mn KL. As such, we forecast CPO consumption of 2.6-3.0mn tons for biodiesel, as we think that non-compliance in the non-PSO sector is likely to persist next year. At this point, we are still skeptical that the matter regarding the subsidy disbursement scheme for non-PSO will be resolved anytime soon. Downside risks to our biodiesel absorption estimate are lower-than-expected crude oil prices and subsidy fund collection.

Additional downside could arise if funds are channeled for infrastructure spending. Given the urgent need for capital to fund infrastructure projects, the government has been looking at ways to boost tax revenues. As such, we do not rule out the possibility of the government obtaining financing from the Indonesia Estate Crop Fund.

Higher biodiesel absorption in FY17. We expect an overall improvement in biodiesel absorption in FY17, despite the high risk of underachievement in the non-PSO sectors. The Indonesian government has set a biodiesel absorption target of 4.6mn KL (+68% YoY), for the PSO and non-PSO sectors combined. However, we only estimate biodiesel absorption of 3.0-3.5mn KL (+9.5% to +27.7% YoY), translating into demand for 2.6-3.0mn tons of CPO after taking into consideration the underachievement in the non-PSO sectors. In 1H17, Indonesia's biodiesel consumption reached 1.67mn KL.

Exhibit 29. Indonesia's biodiesel absorption trend



Source: Indonesia Estate Crop Fund, Bisnis Indonesia

FY17 biodiesel realization estimated at between 3.0-3.5mn KL. Based on our calculations, we expect the Indonesia Estate Crop Fund to pool approximately Rp16.0tn in FY17 (Rp5.7tn from leftover funds from FY16 and Rp10.3tn from the FY17 targeted collection). Assuming a CPO price of MYR2,800/ton, crude oil price at USD50/bbl, and 85% allocation for biodiesel subsidies, we estimate that biodiesel volume will reach 3.9mn KL, implying CPO consumption of 3.4mn tons. However, we expect biodiesel absorption to be lower at 3.0-3.5mn KL (2.6-3.0mn tons of CPO) due to slower-than-expected realization from the non-PSO sectors. Based on Ministry of Energy and Mineral Resources regulation No. 26/2016, non-PSO sectors are now eligible to receive biodiesel subsidies from the Indonesia Estate Crop Fund. Despite this change, we think that underachievement in the non-PSO sector is likely as the subsidy disbursement mechanism for non-PSO has yet to be regulated.

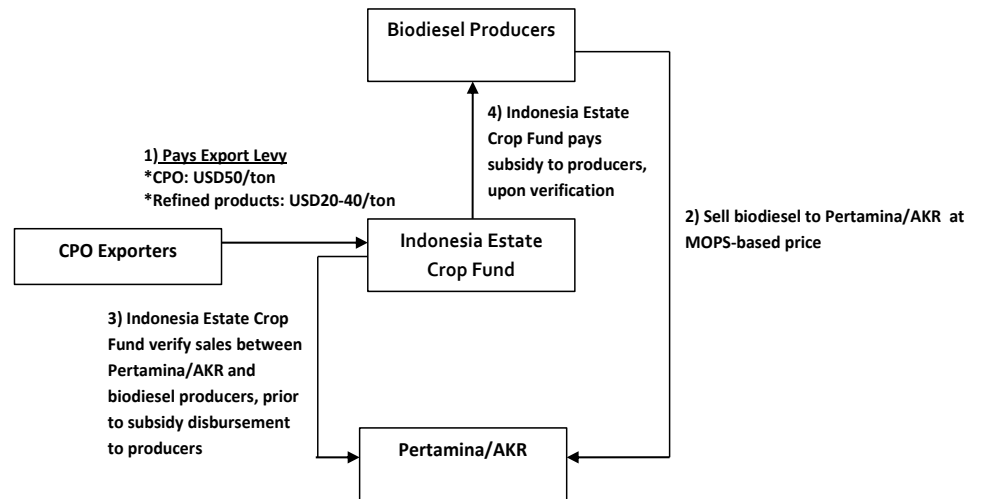
Exhibit 30. Biodiesel subsidies' sensitivity analysis

Assumptions:					
Total Funds Collected by CPO Fund (IDRbn)	16,000				
% Funds Allocated for Biodiesel Subsidy	85%				
Funds Allocated for Biodiesel Subsidy (IDRbn)	13,600				
Funds Allocated for Biodiesel Subsidy (USDmn)	1,015				
Sensitivity Analysis with Brent Crude Oil Price					
Brent Oil Price (USD/bbl)	30	40	50	60	70
MOPS Crude Oil Equivalent (USD/bbl)	34	45	55	66	76
MOPS Crude Oil (USD/ton)	291	379	468	556	645
MOPS + Alpha (USD/ton)	301	393	484	576	667
CPO Benchmark Price (MYR/ton)	2,800	2,800	2,800	2,800	2,800
CPO Benchmark Price (USD/ton)	651	651	651	651	651
Conversion cost of CPO to FAME (USD/ton)	100	100	100	100	100
Transportation Cost (USD/ton)	25	25	25	25	25
CPO-based price (USD/ton)	777	777	777	777	777
Biodiesel Subsidy (USD/ton)	476	384	292	201	109
Biodiesel Subsidy (IDR/Liter)	5,608	4,528	3,447	2,367	1,287
Volume of Subsidized Biodiesel (mnKL)	2.4	3.0	3.9	5.7	10.6
Domestic CPO Consumed (mn tons)	2.1	2.6	3.4	5.0	9.2

Source: Danareksa Sekuritas Estimate

How does the biodiesel subsidy mechanism work? The biodiesel subsidy disbursed by the Indonesia Estate Crop Fund to biodiesel producers is simply based on the pricing difference between the CPO-based price and the MOPS-based price. The CPO-based price represents the actual biodiesel selling price charged by biodiesel producers, which takes into account raw material costs, the conversion cost from CPO to FAME (Fatty Acid Methyl Ester), transportation costs borne by biodiesel producers and a fixed margin. Based on our channel check with experts, the production cost of an average biodiesel producer is approximately USD100/ton. However, the amount varies among different biodiesel producers, depending on their efficiency, technology, the vertical integration of their value chain and so forth. Therefore, a more efficiently-run biodiesel plant would be able to enjoy a margin. On the other hand, the MOPS-based price, which is based on the crude oil price, represents the purchase price of biodiesel paid by Pertamina and AKR to producers. The source of funds will be collected from export levies and/or tax charged to CPO exporters.

Exhibit 31. Indonesia biodiesel program flowchart



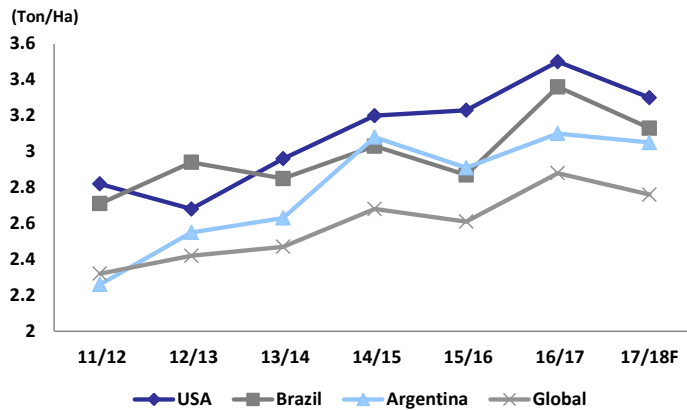
- The above mechanism has only been regulated for biodiesel subsidy for PSO sectors
- Non-PSO sector is now eligible to receive biodiesel subsidy from Indonesia Estate Crop Fund under Ministry of Energy and Mineral Resources No.26/2016. However, the disbursement mechanism of biodiesel subsidy for Non-PSO sector is still pending.

Source: Danareksa Sekuritas

FY18 Soybean Outlook: Lingering Uncertainty

Declining soybean production in FY18? Based on initial analysis, global soybean production is expected to decline to 346.2mn tons (-0.7% YoY) mainly on the prospect of global yield declines in major soybean producing countries (Argentina and Brazil). Aside from potentially reduced plantings in South America, extreme wetness in Argentina and dryness in Brazil could very well affect the timeliness of the soybean sowing and yields respectively; hence the forecast of lower yields in FY18. Meanwhile, there is still lingering uncertainty over the US soybean production outlook for FY18. Nonetheless, it is believed that the expected high crop yield in FY17 is unlikely to be repeated in FY18; hence the lower yield. At the moment, Oilworld estimates slight increase in FY18 US soybean production. Overall, soybean crushing is estimated to reach 297.5mn tons (+4.3% YoY), putting the forecast stock-to-use ratio at 28.2% (compared to 29.2% in FY17).

Downside risk to the bullish soybean outlook is a change in weather. The favorable weather outlook in both North and South America could result in better-than-expected yields. There could also be downside risks to demand if China's soybean imports stagnate or come in lower in FY18 due to the expectation of better domestic production and record high imports in FY17.

Exhibit 32. Soybean yield declines in FY18


Source: Oilworld

Exhibit 33. Soybean planting cycles

	Planting	Harvesting
USA	Late Apr - Jun	Late Sep - Nov
Argentina	Oct - Dec	Apr - Early Jun
Brazil	Mid Aug - Dec	Feb - May

Source: Danareksa Sekuritas

Exhibit 34. FY18 soybean global supply & demand projection

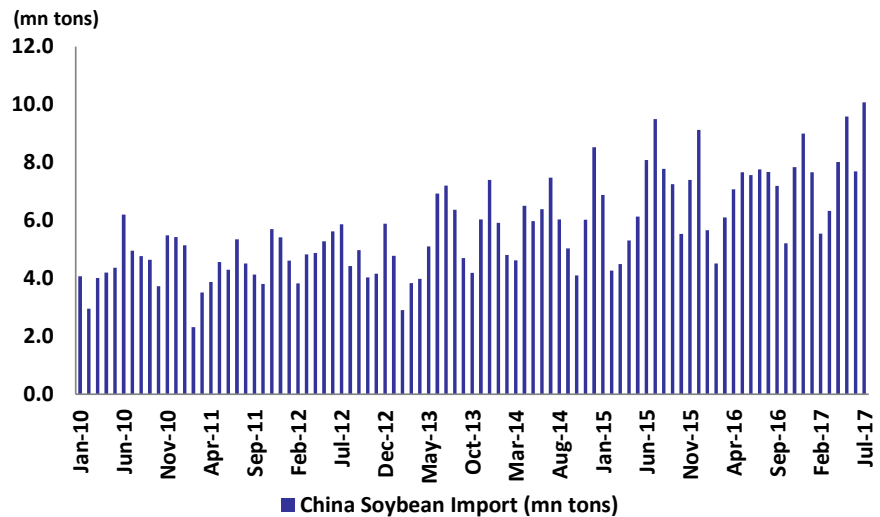
Soybeans (mn tons)	Oct/Sep 10/11	Oct/Sep 11/12	Oct/Sep 12/13	Oct/Sep 13/14	Oct/Sep 14/15	Oct/Sep 15/16	Oct/Sep 16/17	Oct/Sep 17/18F
Opening Stock	64.8	75.6	54.7	59.2	62.6	83.4	78.6	96.5
Production	265.0	241.2	266.2	280.8	320.0	311.2	348.8	346.2
US	90.6	84.2	82.8	91.4	106.9	106.9	117.2	118.4
Brazil	75.3	67.9	81.5	86.4	97.2	95.4	114.0	107.5
Argentina	49.2	39.7	47.5	50.0	60.0	54.7	55.5	54.0
China	15.1	14.1	12.8	12.0	12.2	10.7	11.6	16.0
India	9.6	10.6	11.0	8.8	8.5	7.1	10.5	8.8
Others	25.2	24.7	30.6	32.2	35.3	36.4	40.0	41.5
Crushings	221.5	227.8	224.6	238.6	258.4	272.8	285.2	297.5
Other usage	32.7	34.3	37.1	38.8	40.9	43.2	45.7	48.0
Ending stocks	75.6	54.7	59.2	62.6	83.4	78.6	96.5	97.3
Stock-to-Use Ratio (%)	29.7%	20.9%	22.6%	22.6%	27.9%	24.9%	29.2%	28.2%

Source: Oilworld

Ample soybean supplies by the end of FY17... We expect plentiful supplies of soybeans by the end of FY17 fueled by good harvests in South America during 1H17 and the positive outlook on potential soybean harvests in the US. US soybean production is estimated to reach 117.2mn tons (+9.7% YoY), according to Oilworld, lifted by higher acreage in FY17 (+7.0% YoY). The stock-to-use ratio is calculated to increase to 29.2% in FY17 from 24.9% in FY16 given expectations of higher global soybean inventory.

... absorbed by strong demand for soy-based products. Nonetheless, we believe the negative impact from higher supplies should be negated by the correspondingly stronger demand for soy-based products. China, the largest importer of soybeans (62%), is anticipated to import 92.0mn tons of soybeans in FY17 (+10.5% YoY). In 8M17, China imported 63.4mn tons of soybeans (+17.4% YoY). Stronger demand for soy-based products was also boosted by tight palm oil supplies in 1H17 as production was still recovering from the impact of El Nino and expectation of higher US soybean consumption after the US imposed preliminary anti-dumping duties on biodiesel imports from Argentina and Indonesia.

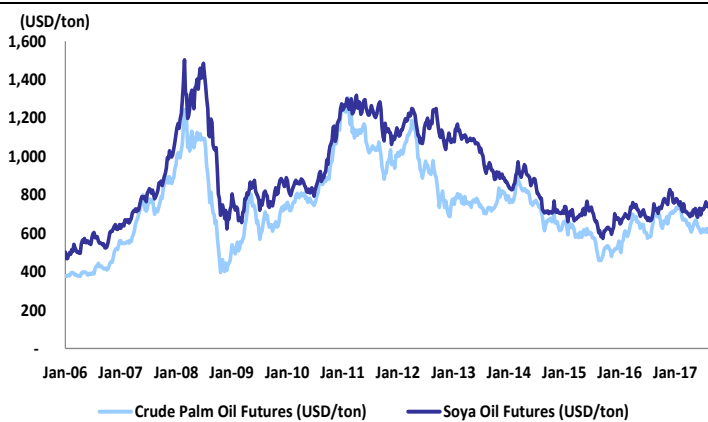
Exhibit 35. China soybean import trend



Source: Bloomberg

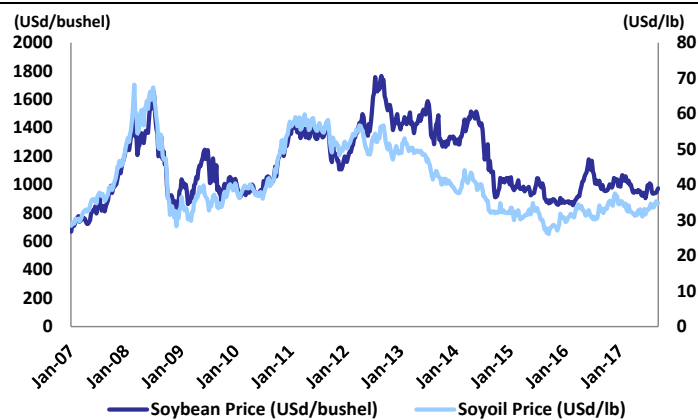
The Soyoil-CPO price spread narrowed to USD72/ton as of 29-Sep-17 due to the recent CPO price rally on expectations of weaker production and stronger exports in the coming weeks. The USD72/ton price spread is below the 10-year average spread of USD140/ton; hence making CPO relatively more expensive.

Exhibit 36. Soyoil-CPO price spread at USD72/ton



Source: Bloomberg

Exhibit 37. Soybean & soyoil prices have +0.67 correlation



Source: Danareksa Sekuritas, Bloomberg

Monday, 02 October 2017

BUY INITIATION

Last price (IDR)	1,410
Target Price (IDR)	1,830
Upside/Downside	+29.8%
Previous Target Price (IDR)	N/A

Stock Statistics

Sector	Plantation
Bloomberg Ticker	LSIP JJ
No of Shrs (mn)	6,820
Mkt. Cap (IDR bn/USDmn)	9,616/717
Avg. daily T/O (IDR bn/USDmn)	19.4/1.4

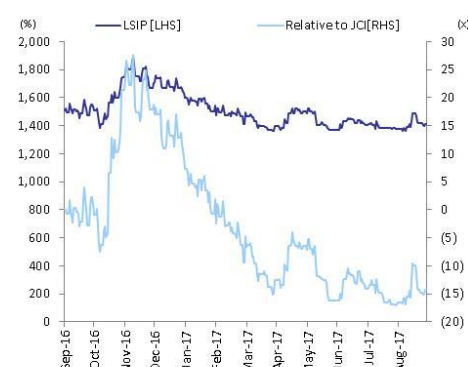
Major shareholders

Salim Ivomas Pratama	59.5%
Public	40.5%
Estimated free float (%)	40.4

EPS Consensus(IDR)

	2017F	2018F	2019F
Danareksa	120.0	122.1	127.7
Consensus	115.5	124.3	135.5
Danareksa/Cons	3.9	(1.8)	(5.8)

LSIP relative to JCI Index



Source : Bloomberg

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London Sumatra(LSIP JJ)

The Diamond in the Rough

We initiate coverage on LSIP with a BUY call and a TP of Rp1,830, based on 15.0x rolling forward P/E. We expect slight growth in LSIP's FY18 earnings driven by higher volumes and believe that it will offer the best play to monetize short-term volatility in CPO prices due to its: 1) cheap valuation, 2) clean balance sheet, 3) higher earnings sensitivity to the CPO price, and 4) good stock liquidity.

Slightly higher FY18 earnings expected. We expect LSIP's earnings to grow by 1.7% to Rp832.8bn in FY18, mostly driven by higher volumes, despite slightly lower CPO prices. We expect LSIP's FY18 CPO price to average Rp7,846/kg (-1.9% YoY). On the cost side, we expect production costs to remain stable at Rp5,560/kg in FY18 (-0.3% YoY). We assume a minimum wage hike of 8.25% (the same as in FY17), an inflation rate of 3% and flat fertilizer costs, after observing stability in potash and urea prices.

Production normalization continues. We expect LSIP's FFB production to normalize further and reach its FY15 level in FY18. Thus, we assume FFB growth of 5% in FY18, following estimated FY17 FFB growth of 10%, in-line with the company's latest guidance. We expect LSIP's CPO production to reach 467.3k tons in FY18 (+5.3% YoY).

Slow and steady expansion ahead. In terms of planting intentions, we have new planting and replating targets of 700Ha and 500Ha in FY18 respectively (similar to FY17), vs the company's annual new planting and replating targets of 1,000Ha and 750Ha. We believe planting may fall short of the target due to escalating issues related to sustainability and land compensation.

Best play to monetize short-term volatility in CPO prices, we initiate coverage with a BUY and a TP of Rp1,830, based on 15.0x 5-year average sector rolling forward P/E (-0.5SD). Due to the cyclical nature of the sector, we believe LSIP is the best play to monetize short-term volatility in CPO prices given its 1) undemanding valuation, 2) debt-free balance sheet, 3) higher earnings sensitivity to CPO prices, and 4) good stock liquidity. The counter is currently trading at an attractive valuation of 11.5x FY18 P/E and EV/Ha of USD6,321, below the cost of new planting at USD7,000-8,000/Ha.

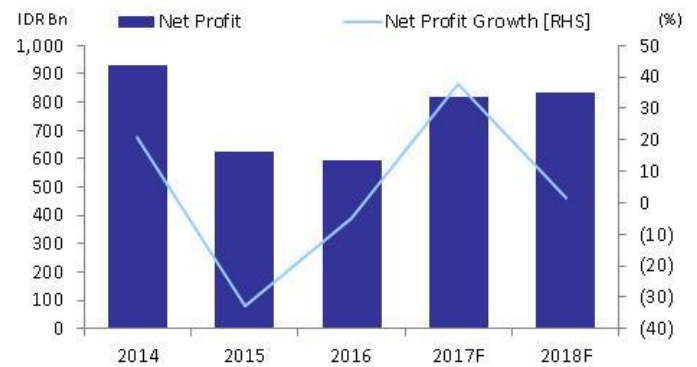
Key Financials

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue, (IDRbn)	4,190	3,848	4,517	4,661	4,773
EBITDA, (IDRbn)	1,091	1,159	1,371	1,407	1,473
EBITDA Growth, (%)	(26.8)	6.2	18.2	2.7	4.7
Net profit (IDRbn)	623	594	819	833	871
EPS (IDR)	91.4	87.1	120.0	122.1	127.7
EPS growth (%)	(32.9)	(4.7)	37.9	1.7	4.6
BVPS, (IDR)	1,074.9	1,120.3	1,205.5	1,279.6	1,358.4
DPS, (IDR)	53.0	37.0	34.8	48.0	48.8
PER (x)	15.4	16.1	11.7	11.5	11.0
PBV (x)	1.3	1.3	1.2	1.1	1.0
Dividend yield (%)	3.8	2.6	2.5	3.4	3.5
EV/EBITDA (x)	8.1	7.3	5.6	5.3	4.8

Source : LSIP, Danareksa Estimates

Exhibit 1. REVENUES AND GROWTH

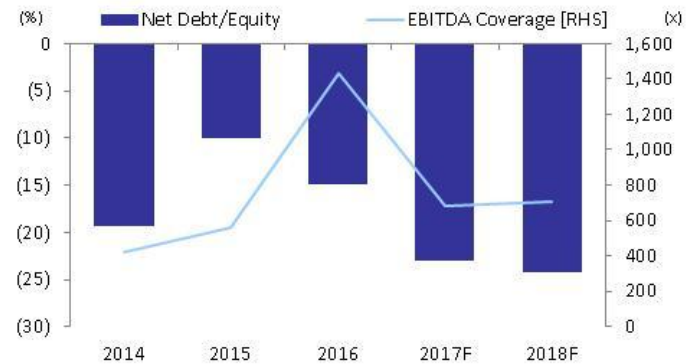

Source: Company, Danareksa Sekuritas estimates

Exhibit 2. NET PROFITS AND GROWTH


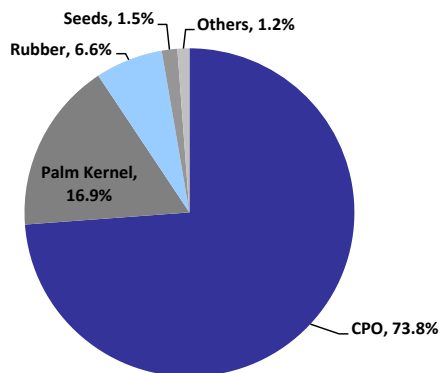
Source: Company, Danareksa Sekuritas estimates

Exhibit 3. MARGINS

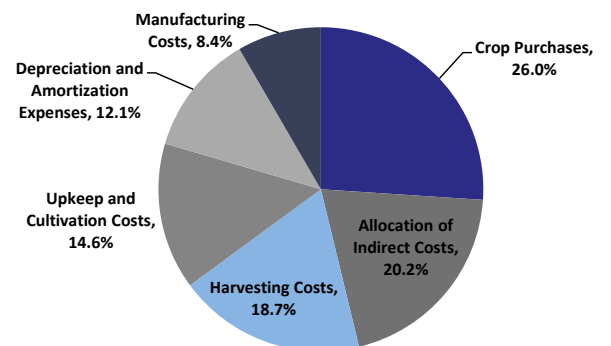

Source: Company, Danareksa Sekuritas estimates

Exhibit 4. GEARING


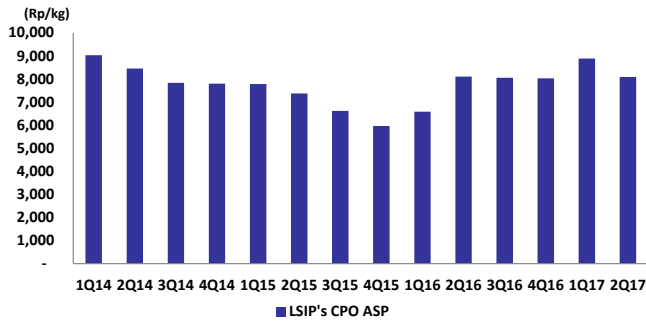
Source: Company, Danareksa Sekuritas estimates

Exhibit 5. REVENUES BREAKDOWN (6M17)


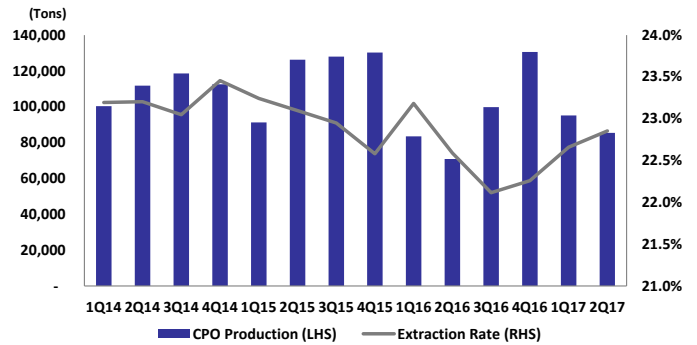
Source: Company, Danareksa Sekuritas estimates

Exhibit 6. PRODUCTION COSTS BREAKDOWN (6M17)


Source: Company, Danareksa Sekuritas estimates

Exhibit 7. LSIP Quarterly CPO ASP


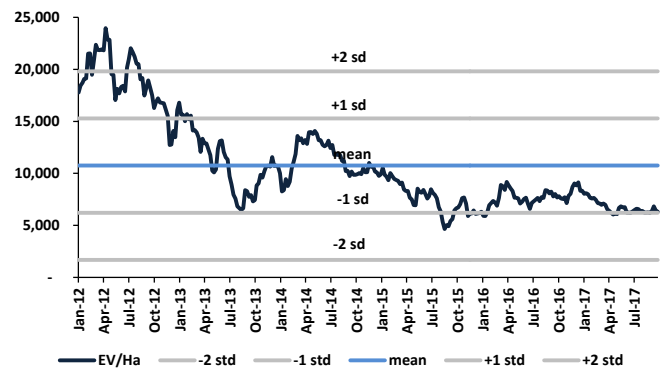
Source: Company, Danareksa Sekuritas estimates

Exhibit 8. LSIP Quarterly Production & OER


Source: Company, Danareksa Sekuritas estimates

Exhibit 9. ROLLING PE BAND CHART


Source: Company, Danareksa Sekuritas estimates

Exhibit 10. ROLLING EV/HA BAND CHART


Source: Company, Danareksa Sekuritas estimates

Exhibit 11. Key variables

In Rpbn	2017F	2018F	2019F
Profit & Loss			
Revenue	4,517	4,661	4,773
COGS	(3,202)	(3,338)	(3,406)
Gross profit	1,315	1,323	1,367
Operating profit	975	972	1,007
Net profit	819	833	871
Gross margin	29.1%	28.4%	28.6%
Operating margin	21.6%	20.9%	21.1%
Net margin	18.1%	17.9%	18.2%
CPO Price (MYR/ton)	2,800	2,700	2,700
LSIP's CPO Price (Rp/kg)	7,995	7,846	7,846
LSIP's Rubber Price (Rp/kg)	23,007	23,274	23,509
FFB Production (k tons)	1,345	1,412	1,468
FFB Processed (k tons)	1,929	2,032	2,091
CPO Production (k tons)	444	467	481
CPO Sales Volume (k tons)	442	465	476
Kernel Sales Volume (k tons)	115	121	125
Rubber Sales Volume (k tons)	11	11	11
USD MYR Assumptions	4.30	4.20	4.20
USD IDR Assumptions	13,350	13,300	13,300

Source: Danareksa Sekuritas Estimate

Exhibit 12. Income Statement

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Revenue	4,190	3,848	4,517	4,661	4,773
COGS	(3,074)	(2,737)	(3,202)	(3,338)	(3,406)
Gross profit	1,116	1,111	1,315	1,323	1,367
EBITDA	1,091	1,159	1,371	1,407	1,473
Oper. profit	764	790	975	972	1,007
Interest income	55	28	76	100	114
Interest expense	(2)	(1)	(2)	(2)	(2)
Forex Gain/(Loss)	57	(7)	(5)	0	0
Income From Assoc. Co's	(61)	(60)	2	2	2
Other Income (Expenses)	14	28	30	22	23
Pre-tax profit	828	779	1,075	1,094	1,144
Income tax	(205)	(186)	(257)	(261)	(273)
Minority interest	0	1	0	0	0
Net profit	623	594	819	833	871
Core Net Profit	566	601	823	833	871

Exhibit 13. Balance Sheet

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Cash & cash equivalent	737	1,141	1,897	2,121	2,456
Receivables	112	203	129	145	160
Inventory	398	569	395	412	420
Other Curr. Asset	21	7	8	9	9
Fixed assets - Net	4,623	4,392	4,394	4,570	4,824
Other non-curr.asset	2,957	3,147	3,368	3,461	3,404
Total asset	8,849	9,459	10,191	10,716	11,273
ST Debt	0	0	0	0	0
Payables	309	241	369	376	373
Other Curr. Liabilities	262	539	563	575	597
Long Term Debt	0	0	0	0	0
Other LT. Liabilities	940	1,032	1,032	1,032	1,032
Total Liabilities	1,511	1,813	1,964	1,984	2,002
Shareholder's Funds	7,331	7,640	8,221	8,727	9,264
Minority interests	7	6	6	6	6
Total Equity & Liabilities	8,849	9,459	10,191	10,716	11,273

Exhibit 14. Cash Flow

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Net income	623	594	819	833	871
Depreciation and Amort.	327	370	396	435	466
Change in Working Capital	(110)	(206)	347	(23)	(17)
Other Oper. Cash Flow	(165)	217	(22)	(84)	(104)
Operating Cash Flow	675	975	1,540	1,161	1,216
Capex	(680)	(419)	(593)	(698)	(649)
Others Inv. Cash Flow	(325)	134	50	90	103
Investing Cash Flow	(1,005)	(284)	(544)	(608)	(546)
Net change in debt	0	0	0	0	0
New Capital	0	0	0	0	0
Dividend payment	(361)	(252)	(238)	(327)	(333)
Other Fin. Cash Flow	71	(34)	(2)	(2)	(2)
Financing Cash Flow	(290)	(287)	(240)	(329)	(335)
Net Change in Cash	(619)	404	756	224	335
Cash - begin of the year	1,357	737	1,141	1,897	2,121
Cash - end of the year	737	1,141	1,897	2,121	2,456

Exhibit 15. Key Ratios

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
Growth (%)					
Sales	(11.4)	(8.2)	17.4	3.2	2.4
EBITDA	(26.8)	6.2	18.2	2.7	4.7
Operating profit	(36.8)	3.3	23.5	(0.3)	3.6
Net profit	(32.9)	(4.7)	37.9	1.7	4.6
Profitability (%)					
Gross margin	26.6	28.9	29.1	28.4	28.6
EBITDA margin	26.0	30.1	30.3	30.2	30.9
Operating margin	18.2	20.5	21.6	20.9	21.1
Net margin	14.9	15.4	18.1	17.9	18.2
ROAA	7.1	6.5	8.3	8.0	7.9
ROAE	8.7	7.9	10.3	9.8	9.7
Leverage					
Net Gearing (x)	(0.1)	(0.1)	(0.2)	(0.2)	(0.3)
Interest Coverage (x)	393.2	973.6	487.4	486.0	503.4

Source : LSIP, Danareksa Estimates

Monday, 02 October 2017

HOLD INITIATION

Last price (IDR)	14,875
Target Price (IDR)	16,300
Upside/Downside	+9.6%
Previous Target Price (IDR)	N/A

Stock Statistics

Sector	Plantation
Bloomberg Ticker	AALI JJ
No of Shrs (mn)	1,925
Mkt. Cap (IDR bn/USDmn)	28,630/2,134
Avg. daily T/O (IDR bn/USDmn)	17.1/1.3

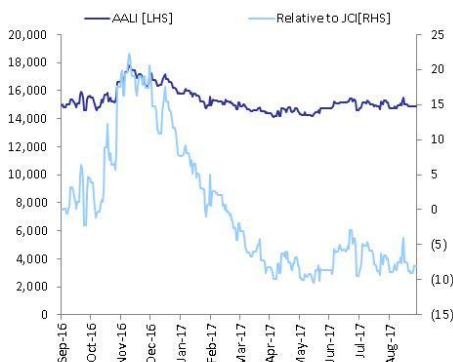
Major shareholders

Astra International	79.7%
Public	20.3%
Estimated free float (%)	20.3

EPS Consensus(IDR)

	2017F	2018F	2019F
Danareksa	1,045.7	1,061.6	1,075.3
Consensus	1,108.5	1,132.0	1,237.4
Danareksa/Cons	(5.7)	(6.2)	(13.1)

AALI relative to JCI Index



Source : Bloomberg

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Astra Agro Lestari(AALI JJ)

Staying Prudent

We initiate coverage on AALI with a HOLD rating and a TP of Rp16,300, based on 15.5x rolling forward P/E. We expect modest earnings growth in FY18 as volume growth will offset lower expected CPO prices. We continue to like AALI for its good corporate governance and conservative expansion strategy.

Slightly better earnings. We expect AALI's earnings to rise by 1.5% to Rp2.04tn in FY18, mainly volume-driven, despite lower expected CPO prices. We assume that AALI's FY18 CPO price will average Rp7,885/kg (-1.9% YoY). On the cost front, we expect production costs to remain under control in FY18 at Rp5,542/kg (+0.5% YoY). We assume a minimum wage hike of 8.25% (vs. 9.4% in FY17), an inflation rate of 3% and flat fertilizer costs, after observing stability in potash and urea prices.

Normalizing production. As we believe FFB production has yet to fully recover, we expect AALI's FFB production to revert back to FY15's level in FY18. Hence, we assume FFB growth of 5% in FY18, following estimated FY17 FFB growth of 10%. We expect AALI's CPO production to reach 1.79mn tons in FY18 (+5.0% YoY).

Prudent expansion strategy. We have always liked AALI for its good corporate governance and prudent expansion strategy amid increased scrutiny on sustainability issues. AALI commenced implementation of its "no new planting" policy since FY16. With its conservative approach, we believe AALI is less exposed to environmental and regulatory risk, although at the expense of organic growth. Going forward, the company will focus on replanting at the rate of 3,500Ha/annum and on downstream business expansion - in particular the construction of another PKO refinery plant. In 8M17, AALI replanted 1,314Ha.

Initiate coverage on AALI with a HOLD call and a TP of Rp16,300, based on 15.5x 5-year average sector rolling forward P/E, vs. the 15.0x P/E benchmark. We assign a slight premium P/E target for AALI to account for its good corporate governance. The counter is currently trading at 14.0x FY18 P/E and EV/Ha of USD10,393. AALI's share price has not fluctuated too much year-to-date, despite the volatility in CPO prices, keeping its valuation at a premium.

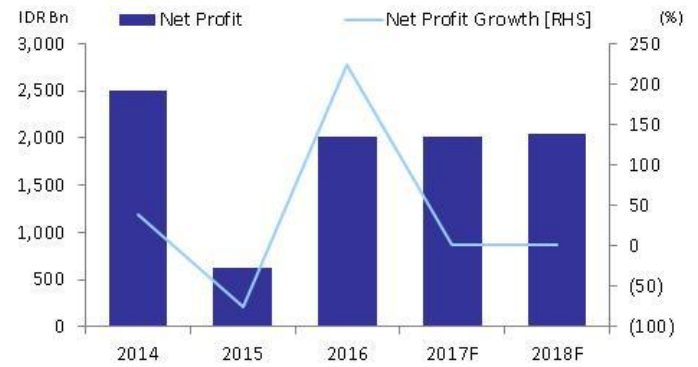
Key Financials

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue, (IDRbn)	13,059	14,121	15,505	16,175	16,583
EBITDA, (IDRbn)	2,721	3,662	3,943	4,078	4,138
EBITDA Growth, (%)	(38.7)	34.6	7.7	3.4	1.4
Net profit (IDRbn)	619	2,007	2,013	2,043	2,070
EPS (IDR)	393.1	1,042.8	1,045.7	1,061.6	1,075.3
EPS growth (%)	(75.3)	165.2	0.3	1.5	1.3
BVPS, (IDR)	7,166.1	8,902.9	9,635.8	10,383.7	11,140.5
DPS, (IDR)	472.0	99.0	312.8	313.7	318.5
PER (x)	37.9	14.3	14.2	14.0	13.9
PBV (x)	2.1	1.7	1.5	1.4	1.3
Dividend yield (%)	3.2	0.7	2.1	2.1	2.1
EV/EBITDA (x)	11.4	8.8	7.9	7.3	6.8

Source : AALI, Danareksa Estimates See important disclosure at the back of this report

Exhibit 1. REVENUES AND GROWTH

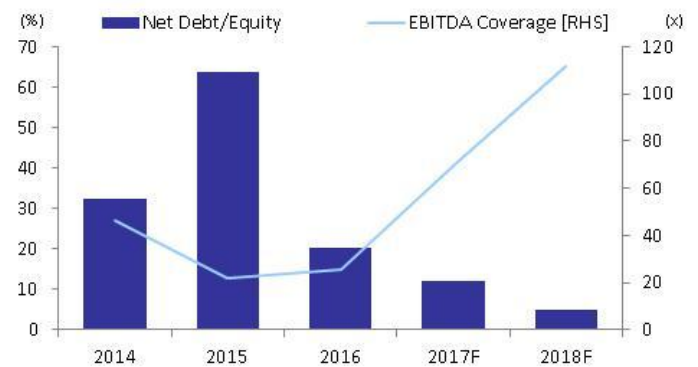

Source: Company, Danareksa Sekuritas estimates

Exhibit 2. NET PROFITS AND GROWTH


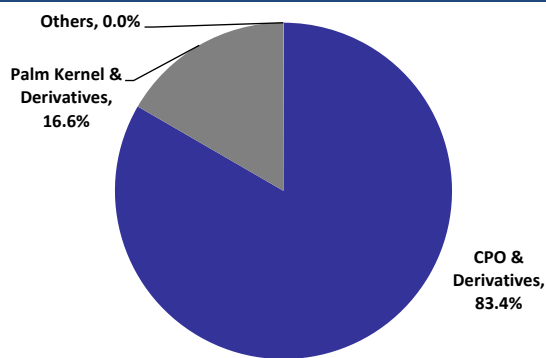
Source: Company, Danareksa Sekuritas estimates

Exhibit 3. MARGINS

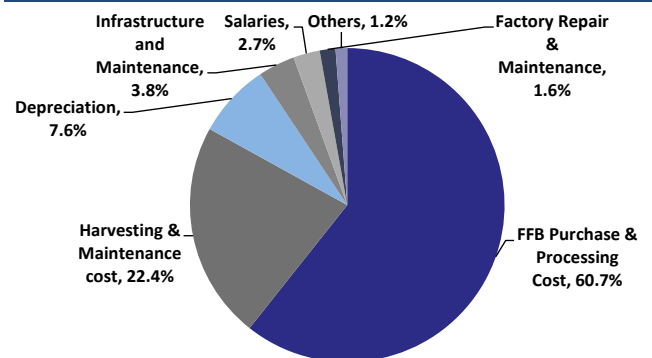

Source: Company, Danareksa Sekuritas estimates

Exhibit 4. GEARING


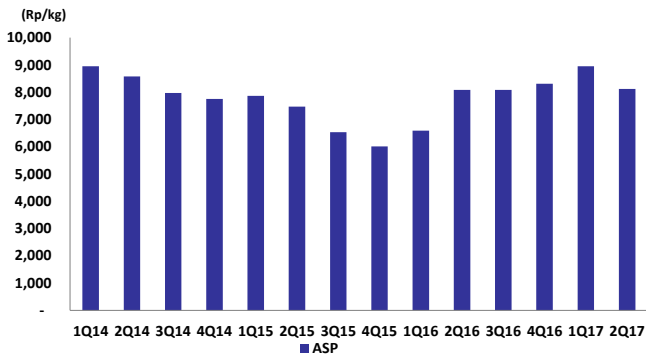
Source: Company, Danareksa Sekuritas estimates

Exhibit 5. REVENUES BREAKDOWN (6M17)


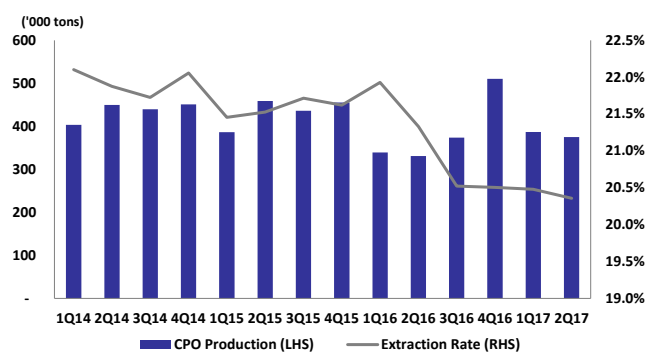
Source: Company, Danareksa Sekuritas estimates

Exhibit 6. PRODUCTION COSTS BREAKDOWN (6M17)


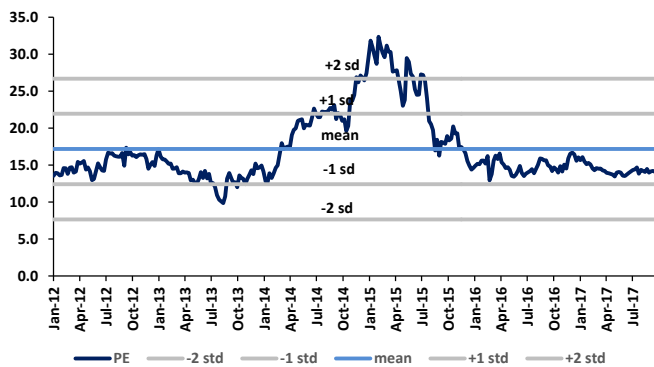
Source: Company, Danareksa Sekuritas estimates

Exhibit 7. AALI Quarterly CPO ASP


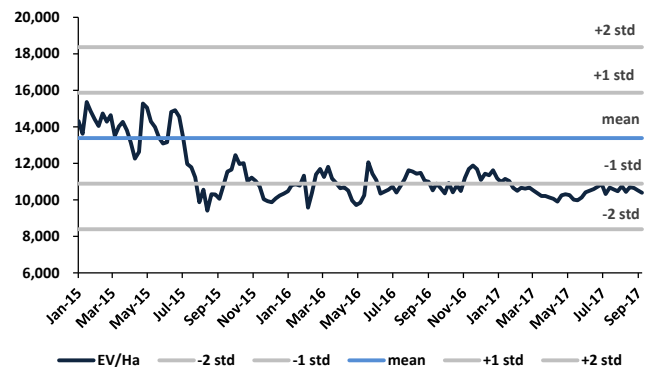
Source: Company, Danareksa Sekuritas estimates

Exhibit 8. AALI Quarterly Production & OER


Source: Company, Danareksa Sekuritas estimates

Exhibit 9. ROLLING PE BAND CHART


Source: Company, Danareksa Sekuritas estimates

Exhibit 10. ROLLING EV/HA CHART


Source: Company, Danareksa Sekuritas estimates

Exhibit 11. Key variables

In Rpbm	2017F	2018F	2019F
Profit & Loss			
Revenue	15,505	16,175	16,583
COGS	(11,373)	(11,967)	(12,337)
Gross profit	4,132	4,208	4,246
Operating profit	2,890	2,918	2,919
Net profit	2,013	2,043	2,070
Core Profit	1,998	2,037	2,070
EPS	1,046	1,062	1,075
Gross margin	26.6%	26.0%	25.6%
Operating margin	18.6%	18.0%	17.6%
Net margin	13.0%	12.6%	12.5%
CPO Price (MYR/ton)	2,800	2,700	2,700
AALI's CPO Price (Rp/kg)	8,036	7,885	7,885
FFB Production (k tons)	5,361	5,629	5,769
FFB Processed (k tons)	7,837	8,229	8,435
CPO Production (k tons)	1,701	1,786	1,830
CPO Sales Volume (k tons)	1,071	1,143	1,190
Kernel Sales Volume (k tons)	325	352	361
Olein Sales Volume (k tons)	620	650	650
USD MYR Assumptions	4.30	4.20	4.20
USD IDR Assumption	13,350	13,300	13,300

Source: Danareksa Sekuritas Estimate

Exhibit 12. Income Statement

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Revenue	13,059	14,121	15,505	16,175	16,583
COGS	(9,977)	(10,445)	(11,373)	(11,967)	(12,337)
Gross profit	3,082	3,676	4,132	4,208	4,246
EBITDA	2,721	3,662	3,943	4,078	4,138
Oper. profit	1,853	2,659	2,890	2,918	2,919
Interest income	28	26	17	20	36
Interest expense	(126)	(145)	(57)	(37)	(11)
Forex Gain/(Loss)	(580)	201	14	6	0
Income From Assoc. Co's	5	(13)	44	47	49
Other Income (Expenses)	(5)	(519)	77	77	77
Pre-tax profit	1,176	2,209	2,986	3,032	3,071
Income tax	(480)	(94)	(866)	(879)	(891)
Minority interest	(77)	(107)	(108)	(109)	(111)
Net profit	619	2,007	2,013	2,043	2,070
Core Net Profit	1,199	1,806	1,998	2,037	2,070

Exhibit 13. Balance Sheet

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Cash & cash equivalent	294	532	325	675	1,149
Receivables	88	579	107	112	115
Inventory	1,692	2,097	1,625	1,710	1,762
Other Curr. Asset	740	844	919	967	996
Fixed assets - Net	11,950	12,057	12,597	12,252	12,322
Other non-curr.asset	6,749	8,117	8,574	9,151	8,951
Total asset	21,512	24,226	24,147	24,866	25,295
ST Debt	2,025	1,985	0	0	0
Payables	834	1,071	949	993	1,013
Other Curr. Liabilities	663	887	862	917	946
Long Term Debt	5,708	2,116	2,647	1,703	501
Other LT. Liabilities	583	574	578	592	607
Total Liabilities	9,814	6,633	5,035	4,205	3,067
Shareholder's Funds	11,285	17,135	18,546	19,985	21,442
Minority interests	414	458	566	675	786
Total Equity & Liabilities	21,512	24,226	24,147	24,866	25,295

Exhibit 14. Cash Flow

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Net income	619	2,007	2,013	2,043	2,070
Depreciation and Amort.	885	1,001	1,117	1,231	1,292
Change in Working Capital	(882)	(779)	876	(82)	(64)
Other Oper. Cash Flow	34	349	(110)	75	16
Operating Cash Flow	657	2,578	3,896	3,268	3,314
Capex	(2,542)	(1,827)	(2,144)	(1,513)	(1,208)
Others Inv. Cash Flow	(857)	(562)	47	70	83
Investing Cash Flow	(3,400)	(2,388)	(2,097)	(1,443)	(1,125)
Net change in debt	3,306	(3,632)	(1,454)	(944)	(1,201)
New Capital	0	3,970	0	0	0
Dividend payment	(750)	(191)	(602)	(604)	(613)
Other Fin. Cash Flow	(130)	(101)	51	73	100
Financing Cash Flow	2,426	47	(2,005)	(1,476)	(1,715)
Net Change in Cash	(317)	237	(206)	349	474
Cash - begin of the year	611	294	532	325	675
Cash - end of the year	294	532	325	675	1,149

Exhibit 15. Key Ratios

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
Growth (%)					
Sales	(19.9)	8.1	9.8	4.3	2.5
EBITDA	(38.7)	34.6	7.7	3.4	1.4
Operating profit	(50.2)	43.5	8.7	0.9	0.0
Net profit	(75.3)	224.2	0.3	1.5	1.3
Profitability (%)					
Gross margin	23.6	26.0	26.6	26.0	25.6
EBITDA margin	20.8	25.9	25.4	25.2	24.9
Operating margin	14.2	18.8	18.6	18.0	17.6
Net margin	4.7	14.2	13.0	12.6	12.5
ROAA	3.1	8.8	8.3	8.3	8.3
ROAE	5.5	14.1	11.3	10.6	10.0
Leverage					
Net Gearing (x)	0.6	0.2	0.1	0.0	0.0
Interest Coverage (x)	14.8	18.4	50.8	79.7	270.9

Source : AALI, Danareksa Estimates

Monday, 02 October 2017

HOLD INITIATION

Last price (IDR)	2,380
Target Price (IDR)	2,320
Upside/Downside	2.6%
Previous Target Price (IDR)	N/A

Stock Statistics

Sector	Plantation
Bloomberg Ticker	SGRO JJ
No of Shrs (mn)	1,819
Mkt. Cap (IDR bn/USDmn)	4,329/321
Avg. daily T/O (IDR bn/USDmn)	0.2/0.0

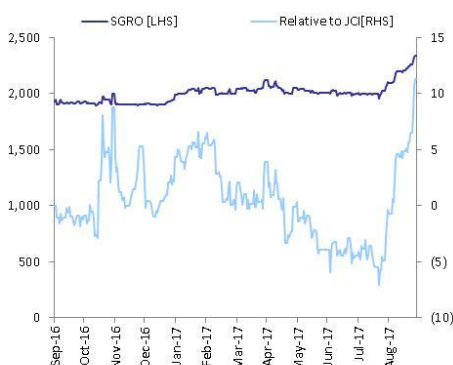
Major shareholders

Sampoerna Agri Resources	67.1%
Public	33.0%
Estimated free float (%)	27.2

EPS Consensus(IDR)

	2017F	2018F	2019F
Danareksa	155.8	165.8	170.9
Consensus	153.3	170.6	215.0
Danareksa/Cons	1.6	(2.8)	(20.5)

SGRO relative to JCI Index



Source : Bloomberg

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Sampoerna Agro(SGRO JJ)

Improving for the Better

We initiate coverage on SGRO with a **HOLD** call and a **TP of Rp2,320**, based on **14.0x** rolling forward P/E. We expect SGRO to post stronger earnings and production growth in FY18 as the company will benefit from its favorable age profile. We also like its improving operations as the result of a higher nucleus contribution.

Better expected earnings in FY18. We forecast SGRO's earnings to grow by 6.4% to Rp301.5bn in FY18 on higher volumes despite lower CPO prices. We assume that SGRO's FY18 CPO price will average Rp7,806/kg (-1.9% YoY), while production costs are predicted to reach Rp5,784/kg (-1.5% YoY). We assume a minimum wage hike of 8.25%, an inflation rate of 3% and flat fertilizer costs, given stable potash and urea prices.

Stronger production ahead. We expect SGRO's FFB production to normalize at FY15's level. As such, we assume FFB growth of 11.0%, following estimated FY17 FFB growth of 14%, within the company's guidance of 10-15%. We estimate higher volume growth for SGRO, and hence higher earnings, as its plantations are at the prime age of 12 years old (vs 14 years for AALI and LSIP). In FY18, SGRO's CPO production is predicted to reach 395.3k tons (+11.0% YoY).

Higher proportion of nucleus = better control over operations. Besides its favorable age profile, SGRO's operations will also benefit from an increasing nucleus contribution. A higher nucleus proportion ensures better control over estates operations and less volatility in production. In 1H17, the ratio of FFB output from nucleus to plasma stood at 59:41. This compares to 42:58 in FY12. For its expansion, SGRO targets new planting of 4,000-6,000Ha/annum, while it aims to commence its replanting program in FY18. We assume new planting and replanting of 4,000Ha and 1,500Ha in FY18, respectively.

Initiate coverage on SGRO with a HOLD call and TP of Rp2,320, based on **14.0x** 5-year average sector rolling forward P/E. We assign a discount to the P/E target due to SGRO's poor stock liquidity. The counter is currently trading at 14.4x FY18 P/E and EV/Ha of USD6,366. Despite its favorable age profile and improving operations, we believe that our earnings expectation is fully reflected in SGRO's current share price; hence our **HOLD** rating.

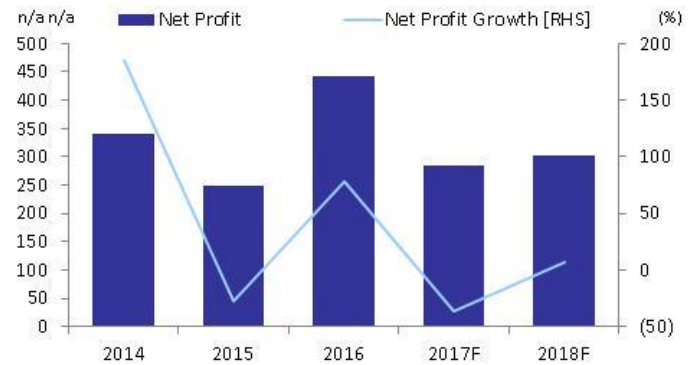
Key Financials

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue, (IDRbn)	2,999	2,915	3,439	3,732	3,898
EBITDA, (IDRbn)	702	577	810	885	952
EBITDA Growth, (%)	(9.3)	(17.9)	40.5	9.2	7.6
Net profit (IDRbn)	248	442	283	301	311
EPS (IDR)	131.5	242.7	155.8	165.8	170.9
EPS growth (%)	(27.0)	84.5	(35.8)	6.4	3.1
BVPS, (IDR)	1,656.0	1,893.9	2,003.6	2,138.2	2,276.0
DPS, (IDR)	36.1	25.0	48.6	31.2	33.2
PER (x)	18.1	9.8	15.3	14.4	13.9
PBV (x)	1.4	1.3	1.2	1.1	1.0
Dividend yield (%)	1.5	1.0	2.0	1.3	1.4
EV/EBITDA (x)	9.3	11.6	8.5	8.2	7.9

Source : SGRO, Danareksa Estimates

Exhibit 1. REVENUES AND GROWTH

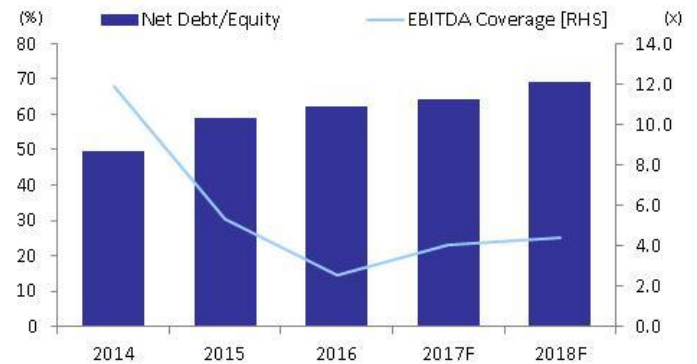

Source: Company, Danareksa Sekuritas estimates

Exhibit 2. NET PROFITS AND GROWTH


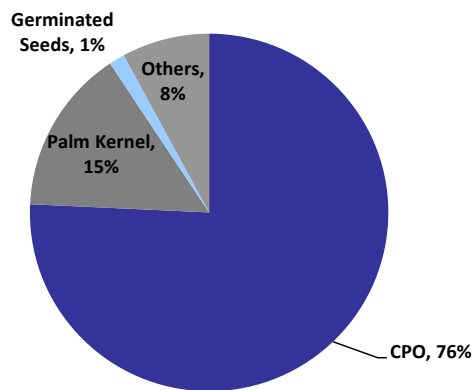
Source: Company, Danareksa Sekuritas estimates

Exhibit 3. MARGINS

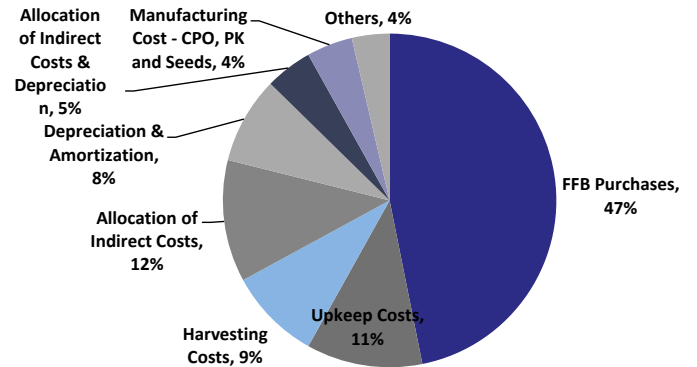

Source: Company, Danareksa Sekuritas estimates

Exhibit 4. GEARING


Source: Company, Danareksa Sekuritas estimates

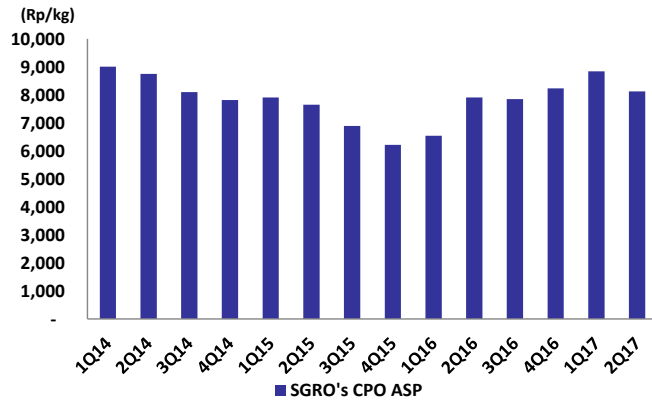
Exhibit 5. REVENUES BREAKDOWN (6M17)


Source: Company, Danareksa Sekuritas estimates

Exhibit 6. PRODUCTION COSTS BREAKDOWN (6M17)


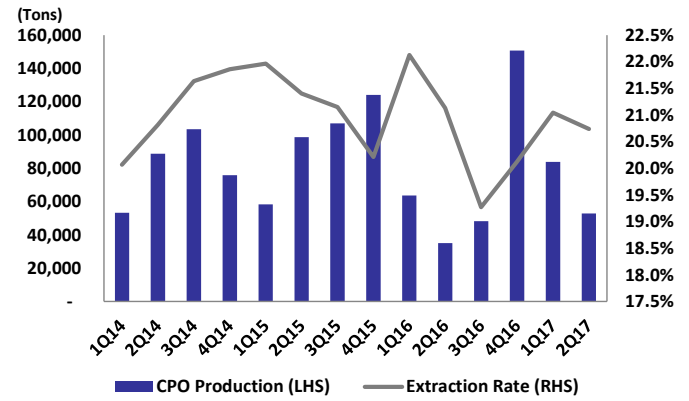
Source: Company, Danareksa Sekuritas estimates

Exhibit 7. SGRO QUARTERLY CPO ASP



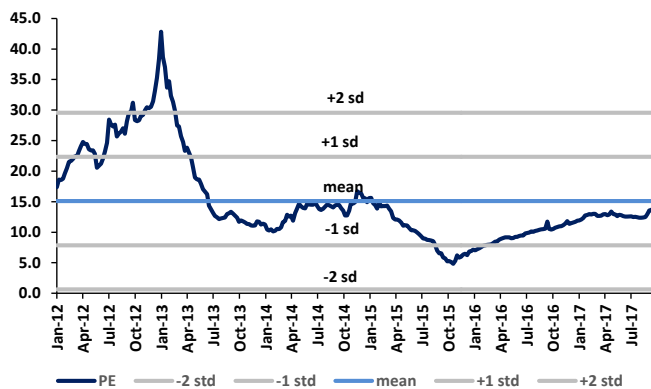
Source: Company, Danareksa Sekuritas estimates

Exhibit 8. SGRO QUARTERLY PRODUCTION & OER



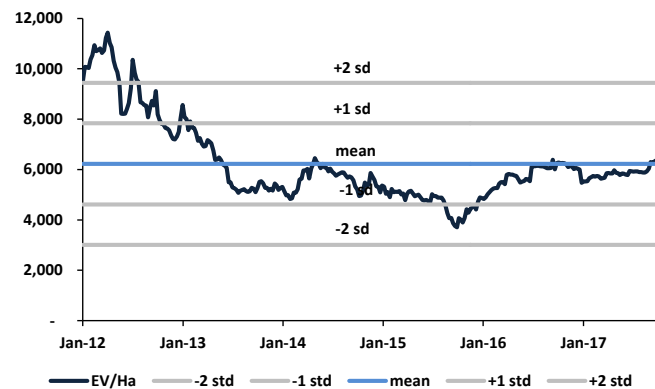
Source: Company, Danareksa Sekuritas estimates

Exhibit 9. ROLLING PE BAND CHART



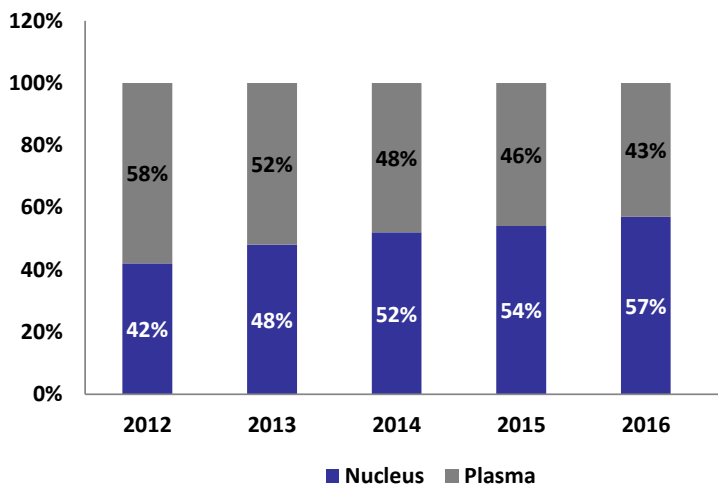
Source: Company, Danareksa Sekuritas estimate

Exhibit 10. ROLLING EV/HA BAND CHART



Source: Company, Danareksa Sekuritas estimates

Exhibit 11. FFB Output (Nucleus vs Plasma)



Source: Company

Exhibit 12. Key variables

In Rpbm	2017F	2018F	2019F
Profit & Loss			
Revenue	3,439	3,732	3,898
COGS	(2,562)	(2,797)	(2,912)
Gross profit	877	935	987
Operating profit	507	549	589
Net profit	283	301	311
EPS	156	166	171
Gross margin	25.5%	25.1%	25.3%
Operating margin	14.7%	14.7%	15.1%
Net margin	8.2%	8.1%	8.0%
CPO Price (MYR/ton)	2,800	2,700	2,700
SGRO's CPO Price (Rp/kg)	7,955	7,806	7,806
FFB Production (k tons)	1,656	1,838	1,921
FFB Processed (k tons)	1,656	1,838	1,921
CPO Production (k tons)	356	395	413
CPO Sales Volume (k tons)	349	387	405
Kernel Sales Volume (k tons)	78	87	90
G. Seeds Sales Volume ('000)	6,470	6,470	6,470
USD MYR Assumptions	2,800	2,700	2,700
USD IDR Assumption	13,350	13,300	13,300

Source: Danareksa Sekuritas Estimate

Exhibit 13. Income Statement

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Revenue	2,999	2,915	3,439	3,732	3,898
COGS	(2,166)	(2,275)	(2,562)	(2,797)	(2,912)
Gross profit	834	641	877	935	987
EBITDA	702	577	810	885	952
Oper. profit	467	280	507	549	589
Interest income	20	47	62	38	25
Interest expense	(132)	(227)	(200)	(200)	(218)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	41	167	58	66	73
Pre-tax profit	396	267	427	454	468
Income tax	(140)	193	(132)	(141)	(145)
Minority interest	(8)	(17)	(11)	(12)	(12)
Net profit	248	442	283	301	311
Core Net Profit	248	442	283	301	311

Exhibit 14. Balance Sheet

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Cash & cash equivalent	760	897	667	299	336
Receivables	315	341	305	358	386
Inventory	469	517	439	527	559
Other Curr. Asset	62	77	87	95	99
Fixed assets - Net	4,037	4,145	4,546	4,684	4,847
Other non-curr.asset	1,652	2,352	2,344	2,781	3,135
Total asset	7,295	8,328	8,388	8,744	9,361
ST Debt	650	662	824	824	854
Payables	425	563	449	532	566
Other Curr. Liabilities	189	209	224	239	254
Long Term Debt	2,123	2,577	2,389	2,389	2,656
Other LT. Liabilities	491	558	538	540	547
Total Liabilities	3,878	4,570	4,423	4,522	4,877
Shareholder's Funds	3,118	3,449	3,644	3,889	4,139
Minority interests	299	310	321	333	345
Total Equity & Liabilities	7,295	8,328	8,388	8,744	9,361

Exhibit 15. Cash Flow

Year to 31 Dec (IDRbn)	2015A	2016A	2017F	2018F	2019F
Net income	248	442	283	301	311
Depreciation and Amort.	235	297	303	336	363
Change in Working Capital	(131)	76	(37)	(32)	(15)
Other Oper. Cash Flow	281	(124)	444	113	172
Operating Cash Flow	631	690	994	719	832
Capex	(1,084)	(605)	(873)	(812)	(704)
Others Inv. Cash Flow	(92)	(87)	(46)	(30)	(123)
Investing Cash Flow	(1,176)	(692)	(920)	(842)	(827)
Net change in debt	1,083	466	(27)	0	298
New Capital	(56)	(56)	0	0	0
Dividend payment	(68)	(45)	(88)	(57)	(60)
Other Fin. Cash Flow	151	(226)	(188)	(188)	(206)
Financing Cash Flow	1,109	139	(304)	(244)	32
Net Change in Cash	565	137	(230)	(368)	37
Cash - begin of the year	195	760	897	667	299
Cash - end of the year	760	897	667	299	336

Exhibit 16. Key Ratios

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
Growth (%)					
Sales	(7.5)	(2.8)	18.0	8.5	4.5
EBITDA	(9.3)	(17.9)	40.5	9.2	7.6
Operating profit	(13.8)	(40.1)	81.1	8.3	7.2
Net profit	(27.2)	78.5	(35.9)	6.4	3.1
Profitability (%)					
Gross margin	27.8	22.0	25.5	25.1	25.3
EBITDA margin	23.4	19.8	23.6	23.7	24.4
Operating margin	15.6	9.6	14.7	14.7	15.1
Net margin	8.3	15.2	8.2	8.1	8.0
ROAA	3.9	5.7	3.4	3.5	3.4
ROAE	8.1	13.5	8.0	8.0	7.7
Leverage					
Net Gearing (x)	0.6	0.6	0.6	0.7	0.7
Interest Coverage (x)	3.5	1.2	2.5	2.8	2.7

Source : SGRO, Danareksa Estimates

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