

Friday, 26 November 2021

BUY
Maintain

Last price (IDR)	585
Target Price (IDR)	1,000
Upside/Downside	+70.9%
Previous Target Price (IDR)	1,000

Stock Statistics

Sector	Plantations
Bloomberg Ticker	DSNG IJ
No of Shrs (mn)	10,600
Mkt. Cap (IDRbn/USDmn)	6,201/436
Avg. daily T/O (IDRbn/USDmn)	18.7/1.3

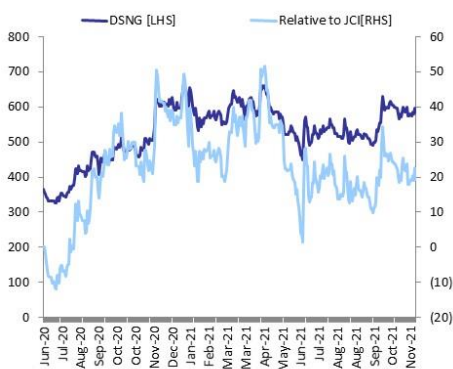
Major shareholders (%)

Triputra Investindo Arya	27.6
Krishna Kapital Investama	14.6
Public and other shareholders	29.4

EPS Consensus (IDR)

	2021F	2022F	2023F
Danareksa	94.8	108.4	134.2
Consensus	82.0	91.8	111.7
Danareksa/Cons	15.7	18.2	20.1

DSNG relative to JCI Index



Source : Bloomberg



Andreas Kenny

(62-21) 5091 4100 ext.3509

andreas.kenny@danareksa.co.id

Dharma Satya Nusantara(DSNG IJ)

Advantage is Structurally Built-in

DSNG 22F production will naturally go back up as the adverse weather effect we forecast a conservative 8.7% yoy, and leading into an IDR1.0tn net income, a new record for the company. Our view on the structural limited CPO supply will result in sustainably high price and also percolate into better reception from EU and other developed country, potentially to reach to equity fund flow. DSNG as the in CPO ESG will be the main beneficiary in terms of flows. While the sustainably high price will also enlarge its FCF to rapidly deleverage, and enhance the equity holder will also benefit.

Slow 9M21, sturdy 4Q21 on the horizon. This reflects CPO ASP of IDR9.2k/kg in 3Q21 (+23.1% yoy, -12.1% qoq) coupled with +1.2% yoy CPO sales of 132k tons plus strength in wood product volume, leading to in-line 9M21 sales of IDR5.1tn (+15.3% yoy). ASP still lag by 1-1.5 months, poised to jump again in 4Q21 beyond the IDR10,000/kg level lifted by the jump in local KPB price tailing surging international prices. GPM of 29.2% in 9M21 was also helped by strength in the wood segment, leading to +267.8% yoy EBIT. Net income of IDR208.4bn in 3Q and IDR415.9bn in 9M21 (+154.2%) is below ours and the consensus.

4Q21: price-driven earnings jump expected. As production will be dampened by El-Nino which has been most severe in East Kalimantan, production will not bloom as initially expected. The CPO price, as we previously mentioned, has reached MYR5,000/ton since early Oct21. We expect the current price environment to stay in place till 1Q22 with the KPB Medan CPO reference price reaching IDR14.9mn/ton. This price surge will be reflected in DSNG's 4Q21 numbers; thus our implied of IDR589bn net income is achievable.

2022 normalizing CPO price, share price may move the opposite. We view MYR3,800/ton is the average for 22F. Share price performance potentially move in opposite direction driven by shortage in vegetable oil, as CPO production growth will be limited due to old plantation age. This will drive a more receptive stance from developed countries on RSPO and ESG compliant oils, potentially reaching to the equity flow too thus enhancing appetite, and DSNG is the main beneficiary, as the ESG is internationally acknowledged, culminating in green loan. Its Well-maintained and young plantation age of 13.8 years, while production will be normal thus growing 8.7% next year, and percolating into 22F IDR1tn net income. High FCF from aforementioned factors will also be utilized for debt pay-down, and enlarging dividend afterwards.

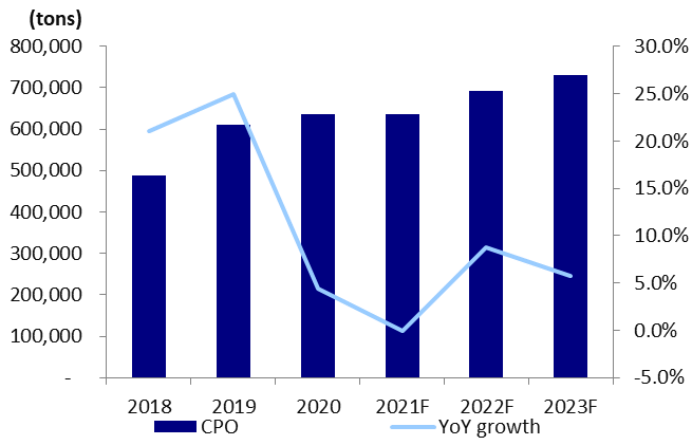
Maintain BUY with a TP of IDR1,000. DSNG is the leader in ESG which we believe will be the key beneficiary on ESG compliant fund flow to CPO. Production will naturally still on upward trajectory due its young age and a bounce in its biggest Kalimantan asset as the weather impact normalize. DSNG is hovering near its historical average EV/ha and PBV level, i.e. really cheap

Key Financials

Year to 31 Dec	2019A	2020A	2021F	2022F	2023F
Revenue (IDRbn)	5,737	6,699	8,748	9,126	9,706
EBITDA (IDRbn)	1,362	1,609	2,597	2,781	2,953
EBITDA Growth (%)	(3.6)	18.1	61.4	7.1	6.2
Net profit (IDRbn)	272	477	1,005	1,149	1,422
EPS (IDR)	25.7	45.0	94.8	108.4	134.2
EPS growth (%)	(48.6)	75.3	110.8	14.4	23.7
BVPS (IDR)	344.0	577.6	658.9	738.9	840.6
DPS (IDR)	9.9	4.9	13.5	28.4	32.5
PER (x)	23.4	13.3	6.3	5.5	4.5
PBV (x)	1.7	1.0	0.9	0.8	0.7
Dividend yield (%)	1.6	0.8	2.2	4.7	5.4
EV/EBITDA (x)	9.2	7.2	4.1	3.5	2.8

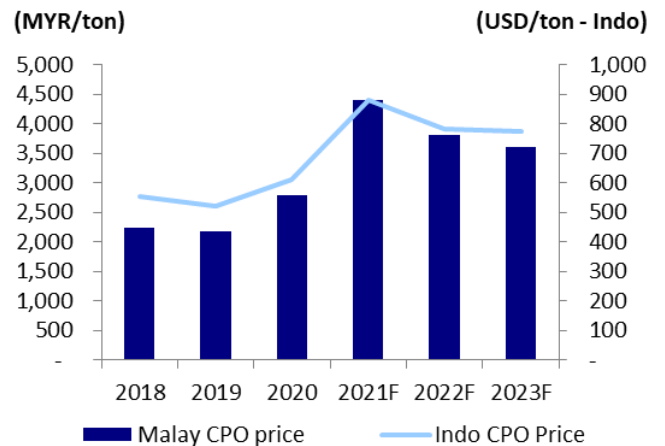
Source : DSNG, Danareksa Estimates

Exhibit 1. CPO production to still grow at a rate of 4.7% CAGR 20-23F



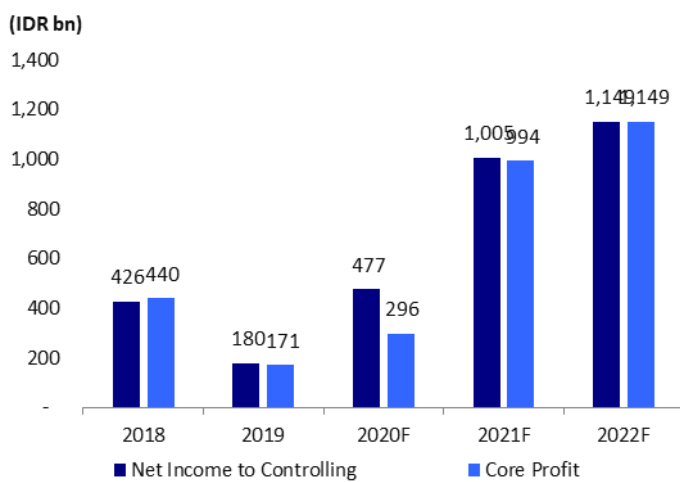
Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Indonesian price to remain above USD750/ton



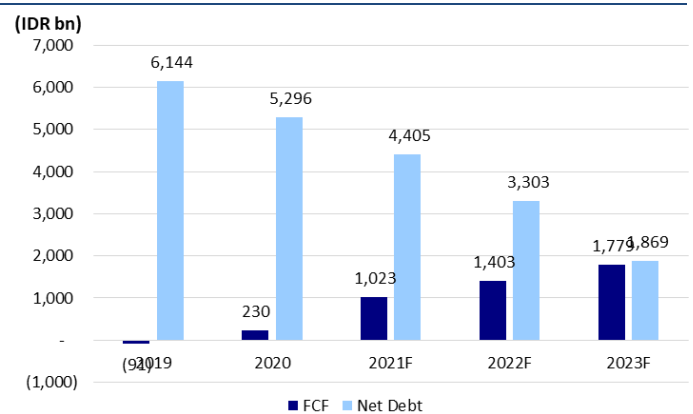
Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Profit will still grow despite a normalizing price



Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Net Debt level to rapidly go down, driven by robust FCF generation



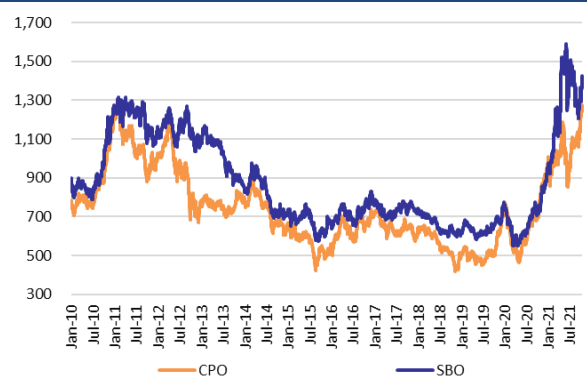
Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Low Malaysian inventory means CPO prices stayed firm



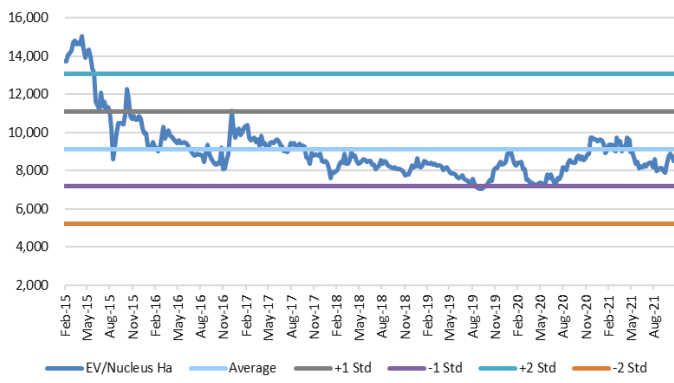
Source: Bloomberg, Danareksa Sekuritas estimates

Exhibit 5. CPO price is still at a discount to SBO despite the surge



Source: Bloomberg, Danareksa Sekuritas estimates

Exhibit 6. EV/ha is still below average



Source: Company, Bloomberg, Danareksa Sekuritas estimates

Exhibit 7. The PBV just above -1STD



Source: Company, Bloomberg, Danareksa Sekuritas estimates

Exhibit 8. Income Statement

Year to 31 Dec (IDRbn)	2019A	2020A	2021F	2022F	2023F
Revenue	5,737	6,699	8,748	9,126	9,706
COGS	(4,276)	(4,947)	(6,099)	(6,326)	(6,730)
Gross profit	1,461	1,752	2,649	2,800	2,975
EBITDA	1,362	1,609	2,597	2,781	2,953
Oper. profit	800	1,033	1,857	1,989	2,117
Interest income	28	19	20	20	20
Interest expense	(538)	(500)	(423)	(369)	(306)
Forex Gain/(Loss)	9	181	11	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	73	(38)	(5)	10	0
Pre-tax profit	372	695	1,460	1,650	1,831
Income tax	(102)	(217)	(449)	(495)	(403)
Minority interest	2	(2)	(6)	(6)	(6)
Net profit	272	477	1,005	1,149	1,422
Core Net Profit	263	296	994	1,149	1,422

Exhibit 9. Balance Sheet

Year to 31 Dec (IDRbn)	2019A	2020A	2021F	2022F	2023F
Cash & cash equivalent	270	648	1,070	1,290	1,984
Receivables	383	398	457	527	554
Inventory	711	670	835	867	922
Other Curr. Asset	569	897	700	610	611
Fixed assets - Net	3,151	5,452	5,633	5,685	5,615
Other non-curr.asset	6,537	6,086	5,857	5,623	5,301
Total asset	11,621	14,151	14,553	14,602	14,987
ST Debt	1,399	1,189	881	740	681
Payables	798	799	849	907	934
Other Curr. Liabilities	165	305	245	249	253
Long Term Debt	5,016	4,755	4,594	3,854	3,173
Other LT. Liabilities	512	873	886	899	910
Total Liabilities	7,889	7,921	7,454	6,649	5,951
Shareholder's Funds	3,646	6,122	6,984	7,831	8,909
Minority interests	85	109	115	121	127
Total Equity & Liabilities	11,621	14,151	14,553	14,602	14,987

Exhibit 10. Cash Flow

Year to 31 Dec (IDRbn)	2019A	2020A	2021F	2022F	2023F
Net income	272	477	1,005	1,149	1,422
Depreciation and Amort.	562	576	741	792	836
Change in Working Capital	234	(133)	227	103	(236)
Other Oper. Cash Flow	(309)	1,808	3,440	4,454	5,532
Operating Cash Flow	759	2,727	5,412	6,498	7,554
Capex	(523)	(576)	(751)	(696)	(599)
Others Inv. Cash Flow	(428)	(62)	307	206	175
Investing Cash Flow	(951)	(639)	(444)	(490)	(425)
Net change in debt	(99)	(471)	(469)	(881)	(740)
New Capital	0	45	0	0	0
Dividend payment	(105)	(52)	(143)	(301)	(345)
Other Fin. Cash Flow	(537)	(499)	(423)	(347)	(306)
Financing Cash Flow	(741)	(977)	(1,036)	(1,529)	(1,391)
Net Change in Cash	(933)	1,112	3,933	4,479	5,738
Cash - begin of the year	594	270	648	1,070	1,290
Cash - end of the year	270	648	1,070	1,290	1,984

Exhibit 11. Key Ratios

Year to 31 Dec	2019A	2020A	2021F	2022F	2023F
Growth (%)					
Sales	20.5	16.8	30.6	4.3	6.3
EBITDA	(3.6)	18.1	61.4	7.1	6.2
Operating profit	(22.1)	29.1	79.8	7.2	6.4
Net profit	(48.6)	75.3	110.8	14.4	23.7
Profitability (%)					
Gross margin	25.5	26.1	30.3	30.7	30.7
EBITDA margin	23.7	24.0	29.7	30.5	30.4
Operating margin	13.9	15.4	21.2	21.8	21.8
Net margin	4.7	7.1	11.5	12.6	14.7
ROAA	2.3	3.7	7.0	7.9	9.6
ROAE	7.5	9.8	15.3	15.5	17.0
Leverage					
Net Gearing (x)	1.6	0.8	0.6	0.4	0.2
Interest Coverage (x)	1.5	2.1	4.4	5.4	6.9

Source : DSNG, Danareksa Estimates

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