

**Wilbert**

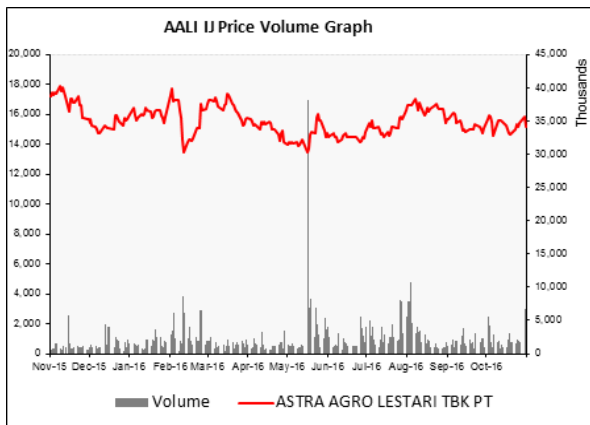
Equity Analyst

wilbert@sinarmassekuritas.co.id

(021) 392 5550 ext: 611



PT Astra Agro Lestari Tbk operates palm oil plantations in both upstream and downstream businesses. Its upstream business manufactures palm oil and kernel. Besides, it also operates rubber plantations.

**Current Price: IDR 15,200**
**52-Week Target Price: IDR 17,800**
*Previous Target Price: IDR 16,500*

**Company Update**
**PT Astra Agro Lestari Tbk (AALI)**
**9M16 Earnings Review**
**BUY**

AALI's 9M16 earnings were below our expectations, with its top and bottom-line accomplished 70.9%/72.8% of our FY16E. 9M16 top-line declined by 7.3% YoY to IDR 9.6tn, pressured by weak output. Meanwhile 9M16 bottom-line up by 690% YoY to IDR 1.15tn, boosted by IDR 292bn forex gains compared to IDR 957bn losses in 9M15. Better cost efficiencies also resulted in EBIT margin expansion, accounted for 110bps rise to 14.2% in 9M16. **We upgrade our recommendation to BUY as we see better industry outlook in 2017, mainly driven by production recovery. Our TP is at IDR 17,800 based on FY17F P/E and EV/ha at 17.9x (3-yr average historical P/E) and USD 8,000 (lower than USD 10,553, represents its 3-yr average EV/ha).**

**3Q16 earnings, supported by stable IDR.** Revenue was posted at IDR 3.24tn, increased by 4% YoY, which we believe lower sales volume was offset by higher ASP. Net income reached IDR 353bn vs IDR 299bn losses back in 3Q15. The significant increases were mostly on the back of stable IDR YTD, which translated into IDR 32.3bn forex gains than IDR 597bn losses last year. Looking at its operations, AALI managed to book better performance as its gross and EBIT margin increased to 24%/16.6% (vs 22%/14.5% in 2Q16).

**Production recovered in 3Q16.** Production remained weak compared to last year, though a recovery was seen in 3Q16 confirming that CPO planters reached its peak production cycle in second semester of the year. AALI's FFB and CPO production increased by 19.7% and 12.8% QoQ, although still down by 18.7% and 14.3% YoY as of 9M16. Lower production led to lower FFB yield at 12.3 tons/ha (vs 16.2 tons/ha in 9M16), and CPO extraction rate (OER) was slightly weakened to 21.2% (vs 21.6% in 9M15).

**Better outlook in 2017.** To incorporate 9M16 production data, we have lowered our FY16E FFB and CPO production to -15%/-12% YoY and maintained ASP forecast at IDR 7,700/kg. In 2017, we are more positive on the industry as 2015 drought effect should be fully felt this year. Therefore, we expect to see recovery in AALI FY17F FFB and CPO production at 12%/7.7% YoY respectively, representing FFB yield at 18.6 ha/tons and OER at 21.6%.

**Share Price Performance**

Price (IDR)	15,200
52-Week High (02/18/16)	18,628
52-Week Low (06/01/16)	13,126
52-Week Beta	0.76
YTD Change/%	215 / 1.58%

**Stock Information**

Market Cap (IDR)	29,255.4B
Shares Out/Float (M)	1,924.7 / 391.0 M

**Financial Highlights (IDR bn)**

	2014	2015	2016E	2017F	2018F
Revenue	16,306	13,059	13,522	15,481	17,023
Gross Profit	4,953	3,082	3,169	3,974	4,759
EBITDA	4,451	2,738	2,837	3,584	4,337
Net Income	2,504	619	1,573	1,906	2,361
EPS (IDR)	1,515	375	817	990	1,227
Gross Profit Margin (%)	30.4	23.6	23.4	25.7	28.0
EBITDA Margin (%)	27.3	21.0	21.0	23.2	25.5
Net Income Margin (%)	15.4	4.7	11.6	12.3	13.9
P/E (x)	15.3	40.3	18.6	15.4	12.4
PBV (x)	3.4	2.2	1.7	1.6	1.4

*Source: Company, Sinarmas Investment Research*

**9M16 AALI's earnings review**

in IDR bn	3Q15	2Q16	3Q16	QoQ (%)	YoY (%)	9M15	9M16	YoY (%)	FY16	% to FY16E
<b>Financial Performance</b>										
Revenue	3,117.9	3,326.7	3,242.5	-2.5%	4.0%	10,347.1	9,587.1	-7.3%	13,522	70.9%
Gross profit	647.0	733.1	778.8	6.2%	20.4%	2,287.5	2,113.1	-7.6%		
EBIT	353.1	480.9	537.5	11.8%	52.2%	1,360.0	1,357.6	-0.2%		
Net income	(299.4)	374.6	353.2	-5.7%	NA	145.0	1,145.3	690.0%	1,573	72.8%
Gross profit margin	20.8%	22.0%	24.0%			22.1%	22.0%			
EBIT margin	11.3%	14.5%	16.6%			13.1%	14.2%			
Net income margin	-9.6%	11.3%	10.9%			1.4%	11.9%			
<b>Production Performance</b>										
FFB Production	1,478.5	1,003.5	1,201.3	19.7%	-18.7%	4148.6	3205.6	-22.7%		
<i>FFB Yield</i>						16.2	12.3			
CPO Production	436.1	331.1	373.6	12.8%	-14.3%	1281.6	1043.9	-18.5%		
<i>CPO Extraction Rate</i>						21.6%	21.2%			

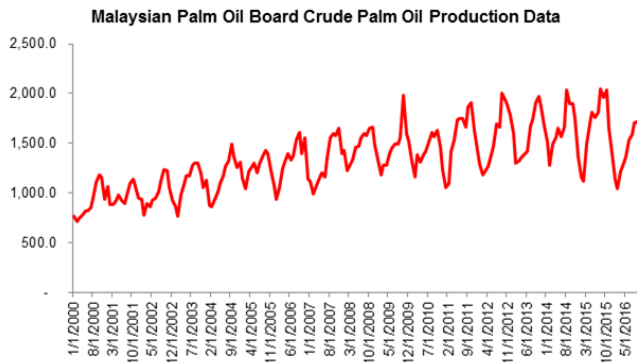
Source: Company data, Sinarmas Investment Research

**Production estimates**

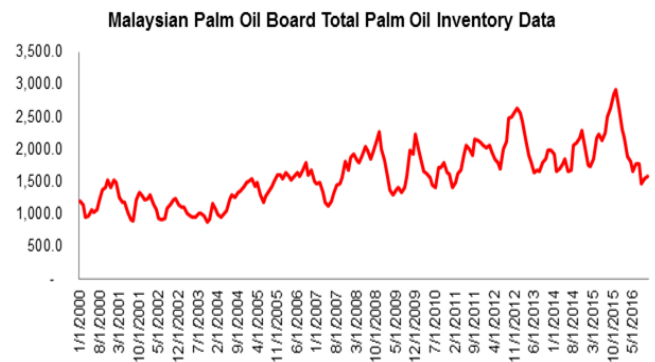
	Old		New		Estimates Changes		YoY Changes	
	2016E	2017F	2016E	2017F	2016E	2017F	2016E	2017F
FFB Production (in tons)	5,027.0	5,538.0	4,778.3	5,492.0	-4.9%	-0.8%	-14.7%	14.9%
<i>FFB Yield</i>	18.3	19.2	17.4	19.1				
CPO Production (in tons)	1,553.0	1,709.0	1,533.8	1,694.7	-1.2%	-0.8%	-11.7%	10.5%
<i>CPO Extraction Rate (OER)</i>	21.6%	21.6%	21.4%	21.6%				
CPO Sales (in tons)	1,010.0	1,068.0	997.0	1,101.5	-1.3%	3.1%	-4.3%	10.5%
CPO ASP (IDR/kg)	7,739	8,316	7,739	8,078	0.0%	-2.9%		

Source: Sinarmas Investment Research

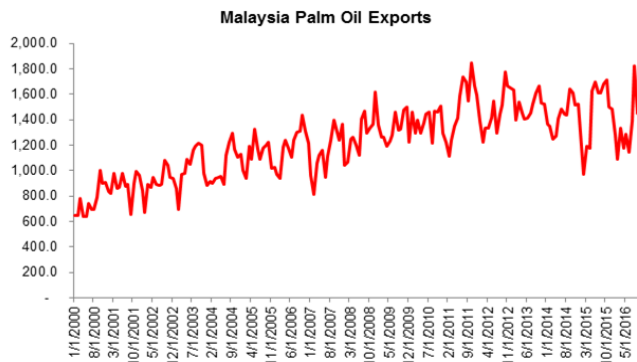
**Malaysia Palm Oil Board (MPOB) October performance data**



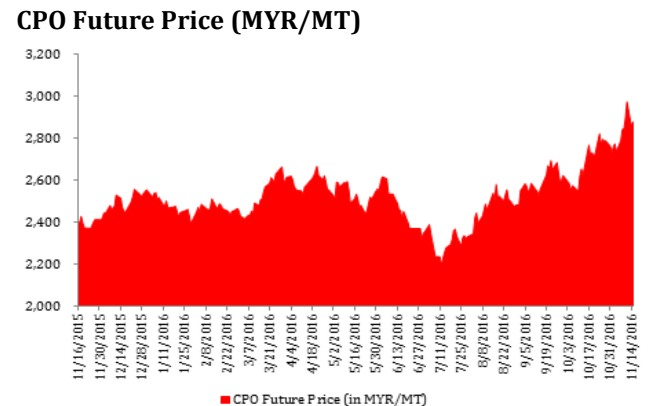
Source: Bloomberg, Sinarmas Investment Research



Source: Bloomberg, Sinarmas Investment Research



Source: Bloomberg, Sinarmas Investment Research



Source: Bloomberg, Sinarmas Investment Research

MPOB record decreasing production in October. CPO production accounted at 1.68 million tons (-2.0% MoM and -17.5% YoY). YTD October 2016, production weakened by 15.6% YoY. The decrease was unexpected as historically we still see peak production cycle in October.

MPOB exports data showed slightly decrease in October performance. CPO exports down by 1.5% MoM to 1.43 million tons as we see weak CPO global demand. China was expected to continue consuming their other edible oils.

With low production and exports level, MPOB's Inventory level was seen slightly increased to 1.57 million tons (+1.5% MoM) though still decreased by 44.6% YoY. YTD October 2016, inventory level decreased by 19% YoY.

In the upcoming months, we view production should be seen at lower level as its peak production cycle have passed. Lower production level could result in CPO prices remain stable at current level, expected to range bound at MYR 2,600-2900/ton.

**Appendix I: Financial Statements**
**Balance Sheet**

in IDR bn	2014	2015	2016E	2017F	2018F
Cash	611	294	280	349	614
Trade Receivables	47	88	150	172	189
Inventories	1,278	1,692	1,537	1,760	1,936
Other Current Assets	467	740	406	458	569
Plantations	6,007	6,686	7,209	7,264	7,369
Fixed Assets	8,335	9,362	10,406	11,362	12,214
Other Non Current Assets	1,814	2,650	1,757	1,991	2,209
<b>Total Assets</b>	<b>18,559</b>	<b>21,512</b>	<b>21,745</b>	<b>23,355</b>	<b>25,100</b>
Trade Payables	923	734	700	777	829
ST Debts	1,667	700	-	-	-
Other Current Liabilities	1,521	2,089	696	902	996
LT Debts	2,128	5,708	2,410	2,410	2,410
Other Non Current Liabilities	487	583	465	549	591
<b>Total Liabilities</b>	<b>6,726</b>	<b>9,814</b>	<b>4,270</b>	<b>4,639</b>	<b>4,825</b>
<b>Total Equity</b>	<b>11,834</b>	<b>11,699</b>	<b>17,475</b>	<b>18,716</b>	<b>20,275</b>

Source: Company Data, Sinarmas Investment Research

**Income Statement**

in IDR bn	2014	2015	2016E	2017F	2018F
<b>Revenue</b>	<b>16,306</b>	<b>13,059</b>	<b>13,522</b>	<b>15,481</b>	<b>17,023</b>
CoGS	(11,353)	(9,977)	(10,353)	(11,507)	(12,264)
<b>Gross Profit</b>	<b>4,953</b>	<b>3,082</b>	<b>3,169</b>	<b>3,974</b>	<b>4,759</b>
Operating Expenses	(1,229)	(1,229)	(1,087)	(1,235)	(1,369)
<b>Operating Income</b>	<b>3,723</b>	<b>1,853</b>	<b>2,082</b>	<b>2,740</b>	<b>3,390</b>
Net Financing	(42)	(678)	198	(7)	(5)
EBITDA	4,451	2,738	2,837	3,584	4,337
<b>EBT</b>	<b>3,682</b>	<b>1,176</b>	<b>2,280</b>	<b>2,732</b>	<b>3,385</b>
Tax	(1,060)	(480)	(570)	(683)	(846)
<b>Net Income (exc. Minority Interest)</b>	<b>2,504</b>	<b>619</b>	<b>1,573</b>	<b>1,906</b>	<b>2,361</b>
EPS	1,515	375	817	990	1,227

Source: Company Data, Sinarmas Investment Research

**Appendix I: Financial Statements (Con't)**
**Cash Flow**

in IDR bn	2014	2015	2016E	2017F	2018F
<b>Net Income</b>	<b>2,504</b>	<b>619</b>	<b>1,573</b>	<b>1,906</b>	<b>2,361</b>
Depreciation	727	885	756	844	948
Working Capital	(606)	(1,042)	325	(12)	(160)
Others	118	77	137	143	178
<b>Operating CF</b>	<b>2,744</b>	<b>539</b>	<b>2,790</b>	<b>2,881</b>	<b>3,326</b>
Capital Expenditure	(3,698)	(2,584)	(2,371)	(1,856)	(1,906)
Others	15	(924)	1,010	(334)	(340)
<b>Investing CF</b>	<b>(3,683)</b>	<b>(3,508)</b>	<b>(1,361)</b>	<b>(2,189)</b>	<b>(2,246)</b>
Debts	1,704	3,306	(5,323)	-	-
Dividends	(943)	(743)	-	(708)	(858)
Others	116	97	3,879	84	42
<b>Financing CF</b>	<b>877</b>	<b>2,659</b>	<b>(1,444)</b>	<b>(624)</b>	<b>(816)</b>
Net - Cash Flow	(98)	(317)	(15)	69	265
Beginning Cash	709	611	294	280	349
<b>Ending Cash</b>	<b>611</b>	<b>294</b>	<b>280</b>	<b>349</b>	<b>614</b>

Source: Company Data, Sinarmas Investment Research

**Key Ratios**

	2014	2015	2016E	2017F	2018F
Revenue Growth	28.6%	-19.9%	3.5%	14.5%	10.0%
Gross Profit Growth	21.3%	-37.8%	2.8%	25.4%	19.8%
EBITDA Growth	24.5%	-38.5%	3.6%	26.3%	21.0%
Net Income Growth	39.0%	-75.3%	154.1%	21.1%	23.9%
ROE	22.7%	5.3%	10.8%	10.5%	12.1%
ROA	14.9%	3.1%	7.3%	8.5%	9.7%
Debt to Equity	37.4%	66.1%	13.8%	12.9%	11.9%

Source: Company Data, Sinarmas Investment Research

---

**DISCLAIMER**

This report has been prepared by PT Sinarmas Sekuritas, an affiliate of Sinarmas Group.

This material is: (i) created based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such; (ii) for your private information, and we are not soliciting any action based upon it; (iii) not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions expressed are current opinions as of original publication date appearing on this material and the information, including the opinions contained herein, is subjected to change without notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this publication may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, integrating and interpreting market information. Research will initiate, update and cease coverage solely at the discretion of Sinarmas Research department. If and as applicable, Sinarmas Sekuritas' investment banking relationships, investment banking and non-investment banking compensation and securities ownership, if any, are specified in disclaimers and related disclosures in this report. In addition, other members of Sinarmas Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from companies under our research coverage. Further, the Sinarmas Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by Sinarmas Group), or derivatives (including options) thereof, of companies under our coverage, or related securities or derivatives. In addition, the Sinarmas Group, including Sinarmas Sekuritas, may act as market maker and principal, willing to buy and sell certain of the securities of companies under our coverage. Further, the Sinarmas Group may buy and sell certain of the securities of companies under our coverage, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Recipients should not regard this report as substitute for exercise of their own judgment. Past performance is not necessarily a guide to future performance. The value of any investments may go down as well as up and you may not get back the full amount invested.

Sinarmas Sekuritas specifically prohibits the redistribution of this material in whole or in part without the written permission of Sinarmas Sekuritas and Sinarmas Sekuritas accepts no liability whatsoever for the actions of third parties in this respect. If publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

**Additional information is available upon request.**

Images may depict objects or elements which are protected by third party copyright, trademarks and other intellectual properties.

**©Sinarmas Sekuritas(2016). All rights reserved.**