

2Q20 Results: soft performance driven by low CPO price and operating deleverage.

In 2Q20, AALI posted revenue of IDR 4.2tn (-10.7% QoQ/-0.2% YoY). During that period, CPO sales volume increased by 15.3% QoQ/-3% YoY, while CPO ASP was at -19.2% QoQ/+9.9% YoY. Hence, GPM dropped to 8.8% (-43bps YoY), mainly due to higher cost of production (+5.2% YoY) as utilization rate dropped to 70% (vs. 85% in 1H19). Opex to sales recorded lower at 6.1% (-61bps YoY), derived from lower G&A expenses (-13.2% YoY), which brought operating profit to IDR 117bn (+6.7% YoY) with OPM at 2.7%. As a result, AALI booked a net profit of IDR 21bn (-94.4% QoQ/+230.7% YoY) with NPM at 0.5%. In all, AALI 1H20's revenue/net profit were IDR 9tn/392bn (+6.5% YoY/796.5% YoY), reaching 47%/38% of FY20E our estimate.

Lower FFB/CPO production.

In 1H20, AALI's FFB/CPO production dropped significantly by 8.1%/15.2% YoY, mainly dragged down by bad weather in 1Q20, low mobility during Covid-19 outbreaks and lower FFB plasma performance, which were below our estimate. Going forward, we believe that FFB/CPO production should be flat in 2H20, given low FFB plasma's yield plasma and excessive replanting was at 4,633 Ha (+14.7% YoY). As a result, we revise our FFB production to 4.6mn/4.8mn tons (-8.5% YoY/+5.2% YoY) and CPO production to 1.45mn/1.55mn tons (-12.3% YoY/+6.8% YoY) in FY20E/FY21F, respectively.

Better CPO price.

CPO price has rallied from MYR 2,000/ton in Apr-20 to MYR 2,700/ton in Jun-20, mainly due to CPO demand recovery driven by stimulus from both Indonesia and Malaysia government (levy tax, B30 fund) that will continue to persist in 2H20 and higher demand from China and India. As a result, we believe that CPO price may sustain at range of MYR 2,600-2,700/ton in 2H20. Therefore, we revise up our CPO price assumption from MYR 2,300/2,450/ton to **MYR 2,500/2,550/ton in FY20/FY21**, as well as upgrading our FY20E/FY21F EPS forecasts by 29.6%/56.5%. Our sensitivity analysis shows that **every 1% change in CPO price/CPO sales volume will change our earnings forecast by 10.6%/2.2%**, respectively.

We maintain our BUY call on PT Astra Agro Lestari Tbk (AALI), with a higher FY21F TP of IDR 12,000.

Our target price is derived from USD 7,400 EV/Ha (its 3yr-avg). Despite lower CPO production, we forecast higher 2H20 earnings as ASP is more sensitive than sales volume. As of now, AALI is traded at USD6,400 EV/Ha (-0.7SD from its 3yr-avg), which provides attractive risk and rewards combined with better CPO outlook conditions. Downside risks for our call are: lower than expected CPO price, heightened US-China tension, and prolonged economic recovery.

Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	19,084	17,453	19,322	20,762	22,194
% growth	10.3%	-8.5%	10.7%	7.5%	6.9%
Gross Profit	3,540	2,145	3,107	4,500	5,145
Net Profit	1,439	211	1,056	1,906	2,264
% growth	-26.9%	-85.3%	400.0%	80.6%	18.8%
Gross Margin (%)	18.5%	12.3%	16.1%	21.7%	23.2%
Net Margin (%)	7.5%	1.2%	5.5%	9.2%	10.2%
Return on Equity (%)	7.5%	1.1%	5.4%	9.2%	10.2%
Return on Assets (%)	5.5%	0.8%	3.8%	6.4%	7.2%
EPS (IDR)	747	110	548	990	1,176

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Stock Information

Sector	Plantation
Bloomberg Ticker	AALI IJ
Market Cap. (IDR tn)	19.48
Share Out./Float (mn)	1,924.7/391
Current Price (IDR)	10,125
FY21F Target Price	12,000
Upside	18.5%

Share Price Performance

52W High (30/12/19)	14,675
52W Low (24/03/20)	4,140
52W Beta	1.6
YTD Change	-30.5%

Relative Valuations

EV/Ha	6,400
Trailing P/E	34.8x
Forward P/E	10.2x
P/BV	1.0x

AALI 2Q20 Earnings Summary

(IDR Bn)	2Q19	1Q20	2Q20	QoQ	YoY	6M19	6M20	YoY	DH%	Cons%
Revenue	4,294	4,796	4,285	-10.7%	-0.2%	8,526	9,081	6.5%	47%	50%
Gross Profit	396	927	377	-59.4%	-4.8%	729	1,304	78.8%		
Operating Profit	109	640	117	-81.8%	6.7%	143	756	428.8%		
Net Profit	6	371	21	-94.4%	230.7%	44	392	796.5%	38%	52%
GPM	9.2%	19.3%	8.8%			8.6%	14.4%			
OPM	2.5%	13.3%	2.7%			1.7%	8.3%			
NPM	0.1%	7.7%	0.5%			0.5%	4.3%			

Source: Annual Report, Sinarmas Investment Research

Earnings Changes

(IDR Bn)	Old		New		Changes	
	FY20	FY21	FY20	FY21	FY20	FY21
Revenue	17,643	18,589	19,322	20,762	9.5%	11.7%
Gross Profit	2,641	3,322	3,107	4,500	17.6%	35.5%
Operating Profit	1,414	2,043	1,763	3,071	24.7%	50.3%
Net Profit	815	1,219	1,056	1,906	29.6%	56.5%
EPS (IDR)	423	633	548	990	29.6%	56.5%
Gross Margin	15.0%	17.9%	16.1%	21.7%		
Operating Margin	8.0%	11.0%	9.1%	14.8%		
Net Margin	4.6%	6.6%	5.5%	9.2%		

Source: Sinarmas Investment Research

Key Assumption Changes

	Old		New		Changes	
	FY20	FY21	FY20	FY21	FY20	FY21
FFB Nuc. (Ths Tons)	3,833	3,737	3,793	3,907	-1.0%	4.5%
FFB Yield (Ha/Ton)	19.7	19.2	19.5	20.1	-1.2%	4.5%
CPO Prod. (Ths Tons)	1,523	1,489	1,450	1,548	-4.8%	4.0%
CPO ER	20.2%	20.2%	20.2%	20.2%	0.0%	0.0%
CPO Sales (Ths Tons)	1,485	1,466	1,538	1,579	3.6%	7.7%
ASP (IDR/Kg)	7,257	7,685	8,032	8,467	10.7%	10.2%

Source: Sinarmas Investment Research

Earnings sensitivity to CPO price

(IDR bn)	FY20E earnings forecast	Change
CPO Price +1%	1,131	10.7%
Base case	1,022	
CPO Price -1%	912	-10.7%

Source: Sinarmas Investment Research

Earnings sensitivity to CPO Sales Volume

(IDR bn)	FY20E earnings forecast	Change
CPO Sales Volume +1%	1,045	-2.2%
Base case	1,022	
CPO Sales Volume -1%	998	-2.3%

Source: Sinarmas Investment Research

Income Statement (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	19,084	17,453	19,322	20,762	22,194
Cost of Good Sold	(15,545)	(15,308)	(16,215)	(16,262)	(17,049)
Gross Profit	3,540	2,145	3,107	4,500	5,145
Operating Expenses	(1,214)	(1,184)	(1,344)	(1,429)	(1,525)
Other Income (Expenses)	29	61	193	208	222
EBIT	2,355	1,022	1,956	3,279	3,842
EBITDA	3,203	1,869	2,777	4,172	4,803
Net Financing Income (Expenses)	(148)	(361)	(341)	(359)	(377)
EBT	2,207	661	1,615	2,919	3,465
Tax Expenses	(686)	(417)	(502)	(908)	(1,078)
Net Income	1,439	211	1,056	1,906	2,264
EPS (IDR)	747	110	548	990	1,176

Balance Sheet (IDR Bn)	2018	2019	2020E	2021F	2022F
Cash & Equivalents	49	388	791	1,187	1,737
Trade Receivables	663	753	698	754	804
Inventories	2,368	1,974	2,226	2,402	2,563
Other Current Assets	1,420	1,356	1,486	1,462	1,504
Total Current Assets	4,501	4,472	5,202	5,805	6,607
Fixed Assets	10,219	9,842	10,454	10,854	11,171
Plantations	7,917	8,189	9,544	10,011	10,853
Other Non Current Assets	4,221	4,471	3,499	3,840	4,084
Total Assets	26,857	26,974	28,699	30,510	32,714
Short Term Debt	1,125	150	150	150	150
Other Current Liabilities	1,952	1,417	1,862	1,974	2,092
Total Current Liabilities	3,077	1,567	2,012	2,124	2,242
Long Term Debt	3,606	5,535	5,835	6,135	6,435
Other Non Current Liabilities	700	893	779	819	867
Total Liabilities	7,382	7,996	8,627	9,079	9,545
Share & APIC	4,808	4,677	4,677	4,677	4,677
Retained Earnings	14,182	13,844	14,685	15,996	17,671
Others	485	457	710	758	820
Total Equity	19,475	18,979	20,072	21,431	23,169
Total Liabilities & Equity	26,857	26,974	28,699	30,510	32,714

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2018	2019	2020E	2021F	2022F
Net Income	1,439	211	1,056	1,906	2,264
Dep. & Amortization	959	942	1,071	1,206	1,306
Chg. In NWC	9	(167)	117	(95)	(134)
CF from Operating	2,407	986	2,244	3,017	3,436
Capital Expenditure	(1,441)	(891)	(2,981)	(1,967)	(2,342)
Chg. in LT Assets	(1,315)	(251)	972	(342)	(243)
Others	87	26	196	(57)	(62)
CF from Investing	(2,668)	(1,115)	(1,813)	(2,366)	(2,647)
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	762	954	300	300	300
Dividends Paid	(835)	(473)	(215)	(595)	(588)
Others	122	118	-114	40	48
CF from Financing	49	599	(29)	(255)	(240)
Chg. in Cash	(213)	470	403	396	550
Beginning Cash	262	49	388	791	1,187
Ending Cash	49	519	791	1,187	1,737

Financial Ratio	2018	2019	2020E	2021F	2022F
Profitability					
Gross Margin	18.5%	12.3%	16.1%	21.7%	23.2%
Operating Margin	12.3%	5.9%	10.1%	15.8%	17.3%
EBITDA Margin	16.8%	10.7%	14.4%	20.1%	21.6%
Net Margin	7.5%	1.2%	5.5%	9.2%	10.2%
Liquidity					
Current Ratio (x)	1.5	2.9	2.6	2.7	2.9
Solvency					
Debt to Equity (x)	0.2	0.3	0.3	0.3	0.3
Debt to Assets (x)	0.2	0.2	0.2	0.2	0.2
Valuation					
Price to Earnings (x)	12.8	87.5	17.5	9.7	8.2
Price to Book (x)	0.95	0.97	0.92	0.86	0.80

Key assumptions	2018	2019	2020E	2021F	2022F
FFB Nuc. (Ths Tons)	4,418	3,991	3,793	3,907	3,895
FFB Yield (Ha/Ton)	21.8	20.1	19.5	20.1	20.2
CPO Prod. (Ths Tons)	1,937	1,654	1,450	1,548	1,601
CPO ER	20.2%	20.2%	20.2%	20.2%	20.2%
CPO Sales (Ths Tons)	1,634	1,740	1,538	1,579	1,649
ASP (IDR/Kg)	7,275	6,689	8,032	8,467	8,775

Source: Company data, Sinarmas Investment Research

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ADD: Share price may range between 10% to 15% over the next 12 months.

NEUTRAL: Share price may range between -10% to +10% over the next 12 months.

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SELL: Share price may fall by more than 15% over the next 12 months.

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