

3Q20: weak CPO sales volume. In 3Q20, AALI posted revenue of IDR 4.2tn (-1.0% QoQ), mainly due to higher CPO ASP at IDR 8,376/kg (+14.6% QoQ), while CPO sales volume tumbled to 346.9ktons (-13.9% QoQ). Despite higher cost/ton (+10.2% QoQ), AALI posted GPM at 14.5% (+567bps QoQ) as higher ASP managed to offset higher cost/ton. To note, that mill's utilization rate dropped to 68% in 9M20 (vs. 82% in 9M19). Opex to sales was at 6.4% (+34bps QoQ), bringing EBIT to IDR 341bn (+192.8% QoQ). On bottom line, AALI booked NPAT of IDR 190bn (+814.9% QoQ), with NPM at 5%. In all, AALI recorded 9M20 revenue/net profit were at IDR 13.3tn/582bn (+7.6% YoY/+424% YoY), reaching 70%/57% of FY20E our estimate.

Limitation on FFB purchase. In 3Q20, AALI's FFB/CPO production dropped to 1.1/0.3mn tons (-14.0% YoY/-21.7% YoY), bringing 9M20's FFB/CPO production at 3.4/1.0mn tons (-10.1% YoY/-17.4% YoY). Lower FFB/CPO production in 3Q20 is mainly driven by prolonged dry weather, lower FFB purchased (-25.9% YoY in 9M20), and lack of fertilizing in FY18-19. Given lower FFB production overall, we think that AALI's FFB purchased from third parties may continue to drop until 1H21 as other competitors compete to purchase more FFB from third parties to maximize its mill's utilization rate. Thus, we lower our FFB purchased assumption from 2.6/2.8mn tons to 2.4/2.6mn tons in FY20E/FY21F, bringing down our mill's utilization rate from 70.6%/75.4% to 69.5%/72.9% in FY20E/FY21F.

The rally in CPO price continues. We expect a strong global demand recovery will continue as India continues to purchase more CPO than usual (+6.3% YoY in 9M20), and B30 implementation should give positive catalysts on demand side. Meanwhile, we also noticed that labor shortage in Malaysia, new SOPs for palm industry in Sabah, and unusually heavy rains (La Nina) in Sumatra and Kalimantan might restrict CPO supply. Hence, we believe high CPO price will continue to remain through 1H21. We slightly tweak our CPO price assumption from MYR 2,500/2,550/ton to MYR 2,550/2,500/ton in FY20E/FY21F, which translates AALI's CPO ASP to IDR 8,060/8,075/kg (+0.3%/-4.6%) in FY20E/FY21F. Thus, we slightly lower our FY20E/FY21F EPS forecast by -3.8%/-41.6%. Our sensitivity analysis shows that every 1% change in CPO price/CPO sales volume will change our earnings forecast by 11.4%/2.4%.

We maintain our BUY call on AALI, with a higher FY21F TP of IDR 13,000, derived from USD 8,000 EV/Ha (+0.5SD from its 3yr-avg). We continue to like AALI driven by better CPO outlook and attractive valuation (currently trading at USD 6,800 EV/Ha, -0.4SD). Downside risks for our call are lower than expected CPO price and prolonged economic recovery.

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Sector	Plantation
Bloomberg Ticker	AALI IJ
Market Cap. (IDR tn)	19.48
Share Out./Float (mn)	1,924.7/391
Current Price (IDR)	10,875
FY21F Target Price	13,000
Upside	19.5%

Share Price Performance

52W High (30/12/19)	14,675
52W Low (24/03/20)	4,140
52W Beta	1.7
YTD Change	-25.4%

Relative Valuations

EV/Ha	6,800
Trailing P/E	23.2x
Forward P/E	10.2x
P/BV	1.1x

Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	19,084	17,453	19,058	19,342	20,013
% growth	10.3%	-8.5%	9.2%	1.5%	3.5%
Gross Profit	3,540	2,145	3,031	3,203	3,516
Net Profit	1,439	211	1,016	1,112	1,281
% growth	-26.9%	-85.3%	381.3%	9.5%	15.2%
Gross Margin (%)	18.5%	12.3%	15.9%	16.6%	17.6%
Net Margin (%)	7.5%	1.2%	5.3%	5.8%	6.4%
Return on Equity (%)	7.5%	1.1%	5.2%	5.5%	6.0%
Return on Assets (%)	5.5%	0.8%	3.7%	3.8%	4.2%
EPS (IDR)	747	110	528	578	666

AALI 3Q20 Earnings Summary

(IDR Bn)	3Q19	2Q20	3Q20	QoQ	YoY	9M19	9M20	YoY	DH%	Cons%
Revenue	3,860	4,285	4,243	-1.0%	9.9%	12,386	13,324	7.6%	70%	71%
Gross Profit	486	377	613	62.8%	26.1%	1,216	1,917	57.7%		
Operating Profit	208	117	341	192.9%	64.4%	351	1,098	213.0%		
Net Profit	67	21	191	814.9%	182.6%	111	583	424.0%	57%	71%
GPM	12.6%	8.8%	14.5%			9.8%	14.4%			
OPM	5.4%	2.7%	8.0%			2.8%	8.2%			
NPM	1.7%	0.5%	4.5%			0.9%	4.4%			

Source: Annual Report, Sinarmas Investment Research

Earnings Changes

(IDR Bn)	Old		New		Changes	
	FY20	FY21	FY20	FY21	FY20	FY21
Revenue	19,322	20,762	19,058	19,342	-1.4%	-6.8%
Gross Profit	3,107	4,500	3,031	3,203	-2.4%	-28.8%
Operating Profit	1,763	3,071	1,706	1,872	-3.3%	-39.1%
Net Profit	1,056	1,906	1,016	1,112	-3.8%	-41.6%
EPS (IDR)	549	990	528	578	-3.8%	-41.6%
Gross Margin	16.1%	21.7%	15.9%	16.6%		
Operating Margin	9.1%	14.8%	8.9%	9.7%		
Net Margin	5.5%	9.2%	5.3%	5.8%		

Source: Sinarmas Investment Research

Key Assumption Changes

	Old		New		Changes	
	FY20	FY21	FY20	FY21	FY20	FY21
FFB Nuc. (Ths Tons)	3,793	3,907	3,793	3,907	0.0%	0.0%
FFB Yield (Ha/Ton)	19.5	20.1	19.5	20.1	0.0%	-0.2%
CPO Prod. (Ths Tons)	1,450	1,548	1,428	1,496	-1.5%	-3.4%
CPO ER	20.2%	20.2%	20.2%	20.2%	0.0%	0.0%
CPO Sales (Ths Tons)	1,538	1,579	1,499	1,526	-2.5%	-3.4%
ASP (IDR/Kg)	8,032	8,467	8,060	8,075	0.3%	-4.6%

Source: Sinarmas Investment Research

Income Statement (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	19,084	17,453	19,058	19,342	20,013
Cost of Good Sold	(15,545)	(15,308)	(16,027)	(16,139)	(16,497)
Gross Profit	3,540	2,145	3,031	3,203	3,516
Operating Expenses	(1,214)	(1,184)	(1,326)	(1,331)	(1,375)
Other Income (Expenses)	29	61	191	193	200
EBIT	2,355	1,022	1,896	2,065	2,341
EBITDA	3,203	1,869	2,719	2,972	3,324
Net Financing Income (Expenses)	(148)	(361)	(342)	(362)	(380)
EBT	2,207	661	1,555	1,704	1,961
Tax Expenses	(686)	(417)	(483)	(530)	(610)
Net Income	1,439	211	1,016	1,112	1,281
EPS (IDR)	747	110	528	578	666

Balance Sheet (IDR Bn)	2018	2019	2020E	2021F	2022F
Cash & Equivalents	49	388	822	869	845
Trade Receivables	663	753	689	702	725
Inventories	2,368	1,974	2,196	2,238	2,311
Other Current Assets	1,420	1,356	1,469	1,375	1,375
Total Current Assets	4,501	4,472	5,176	5,184	5,256
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	3,456	3,605	3,721
Total Assets	26,857	26,974	28,630	29,653	31,001
Short Term Debt	1,125	150	150	150	150
Other Current Liabilities	1,952	1,417	1,839	1,902	1,958
Total Current Liabilities	3,077	1,567	1,989	2,052	2,108
Long Term Debt	3,606	5,535	5,835	6,135	6,435
Other Non Current Liabilities	700	893	769	763	782
Total Liabilities	7,382	7,996	8,593	8,951	9,326
Share & APIC	4,808	4,677	4,677	4,677	4,677
Retained Earnings	14,182	13,844	14,651	15,292	16,231
Others	485	457	709	733	767
Total Equity	19,475	18,979	20,037	20,702	21,675
Total Liabilities & Equity	26,857	26,974	28,630	29,653	31,001

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2018	2019	2020E	2021F	2022F
Net Income	1,439	211	1,016	1,112	1,281
Dep. & Amortization	959	942	1,069	1,162	1,253
Chg. In NWC	9	(167)	152	102	(40)
CF from Operating	2,407	986	2,236	2,376	2,494
Capital Expenditure	(1,441)	(891)	(2,981)	(1,967)	(2,342)
Chg. in LT Assets	(1,315)	(251)	1,015	(148)	(116)
Others	87	26	197	(38)	(35)
CF from Investing	(2,668)	(1,115)	(1,769)	(2,153)	(2,493)
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	762	954	300	300	300
Dividends Paid	(835)	(473)	(209)	(471)	(343)
Others	122	118	-125	-5	19
CF from Financing	49	599	(34)	(176)	(24)
Chg. in Cash	(213)	470	434	47	(23)
Beginning Cash	262	49	388	822	869
Ending Cash	49	519	822	869	845

Financial Ratio	2018	2019	2020E	2021F	2022F
Profitability					
Gross Margin	18.5%	12.3%	15.9%	16.6%	17.6%
Operating Margin	12.3%	5.9%	9.9%	10.7%	11.7%
EBITDA Margin	16.8%	10.7%	14.3%	15.4%	16.6%
Net Margin	7.5%	1.2%	5.3%	5.8%	6.4%
Liquidity					
Current Ratio (x)	1.5	2.9	2.6	2.5	2.5
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	18.2	16.6	14.4
Price to Book (x)	0.95	0.97	0.92	0.89	0.85

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	1,428	1,496	1,521
CPO ER	20.2%	20.2%	20.2%	20.2%	20.2%
CPO Sales (Ths Tons)	1,634	1,740	1,499	1,526	1,551
ASP (IDR/Kg)	7,275	6,689	8,060	8,075	8,255

Source: Company data, Sinarmas Investment Research

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