

PT Tunas Baru Lampung Tbk (TBLA): the real beneficiary of B20 regulation. TBLA is an agribusiness company that engages in CPO and sugar along with both products' derivatives. As of 1H18, 72% and 28% of its revenue originate from CPO and sugar respectively, along with the derivatives from each product category. Additionally, 48% of its revenue is linked to USD while the remaining 52% is in rupiah. TBLA is the true beneficiary of the B20 regulation as it is one of two publicly traded companies that produces biodiesel.

Fueled by B20 regulation and biodiesel export to China. TBLA is the beneficiary of the recently updated B20 regulation, which obligates both non-PSO and PSO to integrate biodiesel in the form of fatty acid methyl esters (FAME) with diesel in a 20:80 ratio in an effort to reduce CAD from fossil fuel imports. As stated in the 1936K/10/MEM/2018 decree issued by Ministry of Energy and Mineral Resources (ESDM), TBLA is allocated 32,314 kiloliters of biodiesel sales to PT Pertamina, PT AKR Corporindo Tbk, and PT Exxonmobil Lubricants Indonesia in September - December 2018. This translates to 28,436 tons (9% of their total biodiesel production capacity) based on our estimation. Note that currently management claims their biodiesel production is at 40% utilization rate (126,000 tons). Moreover, management claims they acquired a 20,000 tons biodiesel export contract from China. Both of these translate to additional biodiesel sales of IDR 430 bn (4.7% of FY18E revenue), which brings total FY18 biodiesel sales up to IDR 1,550 bn (17.1% of FY18E revenue) versus IDR 876 bn (9.8% of FY17 revenue) in FY17.

Reaping sugarcane harvest. TBLA has been expanding its sugarcane plantation to 12,105 ha in FY17 (+14% YoY), while expressing intentions to increase sugarcane plantation area even further by 3,000 ha in FY18E (+25% YoY) by shifting plantation from palm to sugarcane. This strategy is backed with the company's sugar mill plant that has 8,000 TCD (ton cane per day) capacity. The factory started operation in 1Q17, which is why sugarcane sales stopped since FY17. We view the sugarcane integration as a margin booster for TBLA as sugar and its downstream products' margin jumped to 25.8% in FY17 (vs 22.7% in FY16) and 27.1% in 1H18.

We see the stock is currently trading at an attractive valuation of 7.3x P/E (-0.83 SD of its 5 years mean P/E) as it faces tailwinds from B20 regulation expansion and sugar business development.

Highlights (IDR Mn)	2013	2014	2015	2016	2017
Revenue	3,705	6,334	5,331	6,514	8,975
% growth	-2.6%	70.9%	-15.8%	22.2%	37.8%
Gross Profit	950	1,292	1,172	1,625	2,266
Net Profit	87	437	201	621	954
% growth	-65.1%	413.6%	-54.5%	212.4%	54.2%
Gross Margin (%)	25.6%	20.4%	22.0%	25.0%	25.2%
Net Margin (%)	2.3%	6.9%	3.8%	9.5%	10.6%
Return on Equity (%)	4.9%	17.8%	7.0%	18.3%	23.9%
Return on Assets (%)	1.4%	6.0%	2.2%	4.9%	6.8%
EPS (IDR)	17	87	38	118	178

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Stock Information

Sector	Plantation
Bloomberg Ticker	TBLA IJ
Market Cap. (IDR tn)	5,850
Share Out./Float (mn)	2,415
Current Price	1,095
End-of-FY19 TP	-
Upside (%)	-

Share Price Performance

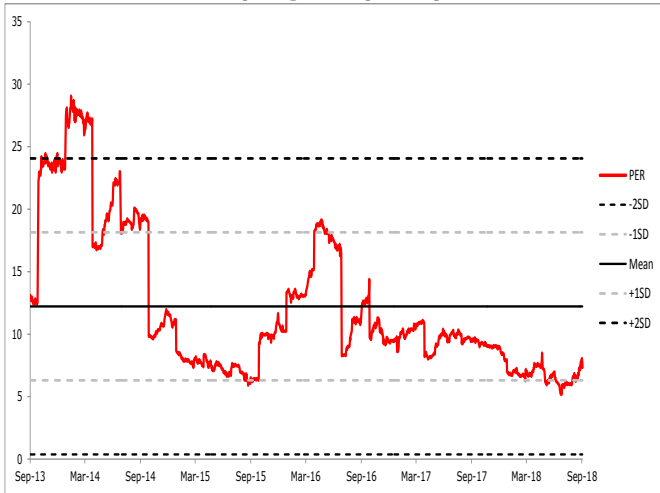
52W High (09/15/17)	1,460
52W Low (06/26/18)	820
52W Beta	0.8
YTD Change (%)	(10.6%)

Relative Valuations

Trailing P/E	7.3
Forward P/E	-
P/BV	1.4
EV/EBITDA	5.2

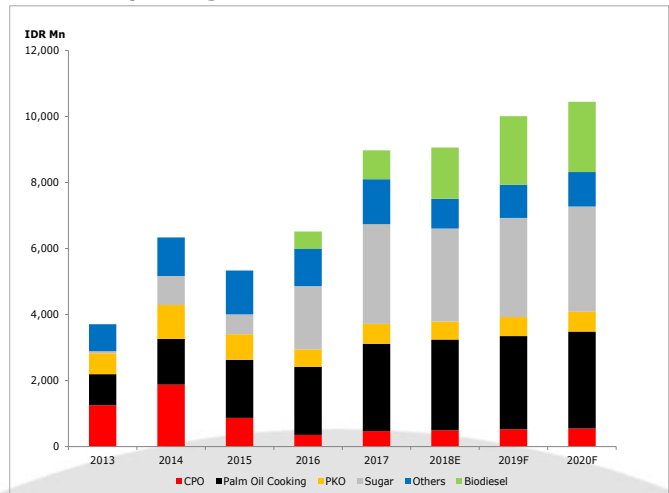
Main downside risk comes from high leverage with a high proportion in USD bonds. The company's interest bearing debt jumped to IDR 7.2 tn (+25% YoY), with 37% originating from USD 200,000 bonds issued in 1M18, due in 2023 with 7% coupon rate; and IDR 1 tn rupiah denominated bonds issued in 3M18, due in 2023 with 9.5% coupon rate. This raises their DER to 1.76x in 1H18 (vs 1.45x in 1H17). Hence, interest expense jumped to IDR 297 bn in 1H18 (+88% YoY). However, interest coverage ratio remains robust at 2.6x in 1H18, which we view as a safe level for TBLA.

PT Tunas Baru Lampung Tbk (TBLA) - P/E Band



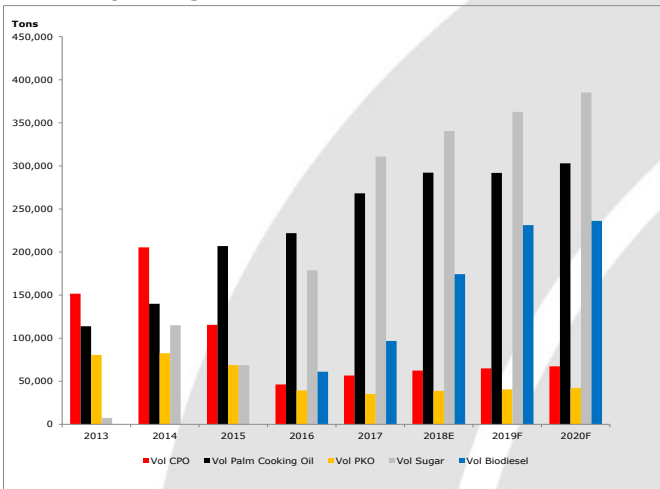
Source: Bloomberg, Sinarmas Investment Research

Revenue per Segment



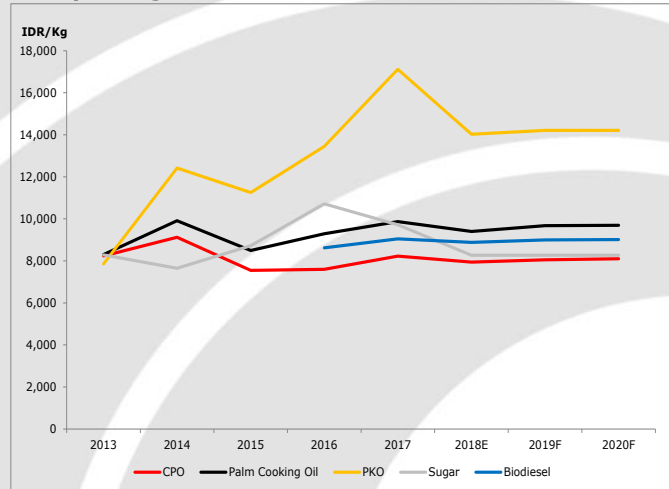
Source: Company data, Sinarmas Investment Research

Volume per Segment



Source: Company data, Sinarmas Investment Research

ASP per Segment



Source: Company data, Sinarmas Investment Research

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