

2Q20 Results: unfavorable conditions. In 2Q20, LSIP posted lower revenue of IDR 756bn (-6.7% QoQ), driven by lower ASP (-13.7% QoQ) despite higher sales volume (+6.0% QoQ). As a result, GPM decreased to 16.5% (-2.25% QoQ) as lower cost of production (-1.8% QoQ) could not offset lower ASP. LSIP booked operating loss at IDR 8.6bn, mainly due to forex gain reversal from IDR 86.2bn in 1Q20 to IDR 13.6bn in 2Q20. As a result, LSIP's net profit was recorded at IDR 9.9bn, while core profit came in at IDR 79.8bn. In all, LSIP posted 1H20's revenue/net profit at IDR 1.6tn/92bn (-1.9% YoY/+777.9% YoY), reaching 43%/28% of FY20E our estimate.

Soft FFB/CPO production. In 1H20, LSIP posted FFB/CPO production at 693.3k/158k tons (-12.9% YoY/-13.7% YoY), mainly dragged down by bad weather in 1Q20 and lower than expected FFB plasma production at 83.6ktons (-39.9% YoY). However, we believe that FFB/CPO production should improve in 2H20, given better seasonality for production in second half of the year. Hence, we revise our FY20E/FY21F FFB production to 1.56mn/1.58mn tons (-9.8% YoY/+1.3% YoY) and CPO production to 360k/364k tons (-9.5% YoY/+1.0% YoY).

Better CPO outlook. We believe recent CPO rally (from MYR 2,000/ton in Apr-20 to MYR 2,700/ton in June-20) was driven by stimulus from both Indonesia and Malaysia government (B30 fund, levy tax) that will continue to persist in 2H20 and CPO demand recovery from China and India. Therefore, we believe that CPO price should sustain within range of MYR 2,600-2,700/ton in 2H20. Hence, we revise up our **CPO price assumption from MYR 2,300/2,450/ton to MYR 2,500/2,550/ton in FY20E/FY21F**, respectively. However, given lower CPO sales volume expectation, we cut our FY20E/FY21F earnings forecast by -15.0%/-4.1%. Our sensitivity analysis shows that every 1% change in CPO price/CPO sales volume will change our earnings forecast by 9.2%/7.6%, respectively.

We downgrade our call on PT PP London Sumatra Indonesia Tbk (LSIP) to ADD call with a higher FY21F TP of IDR 1,120. Our TP implies USD 3,650 EV/Ha (-0.5SD from its-3y avg.). Given improvement in CPO outlook paired with undemanding valuation at USD 3,100 EV/Ha (-0.95SD from its-3y avg.), we see attractive risk/reward for the stock. In addition, LSIP has strong balance sheet with net cash position of IDR 1.6tn. Downside risks to our call are: prolonged economic recovery, lower than expected CPO price & FFB production and heightened US-China tension.

Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	4,020	3,699	3,669	3,932	4,091
% growth	-15.2%	-8.0%	-0.8%	7.2%	4.1%
Gross Profit	683	562	697	846	892
Net Profit	331	254	332	432	460
% growth	-54.8%	-23.4%	30.8%	30.1%	6.6%
Gross Margin (%)	17.0%	15.2%	19.0%	21.5%	21.8%
Net Margin (%)	8.2%	6.9%	9.1%	11.0%	11.3%
Return on Equity (%)	4.0%	3.0%	3.9%	4.9%	5.0%
Return on Assets (%)	3.3%	2.5%	3.3%	4.2%	4.3%
EPS (IDR)	49	37	49	63	67

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Sector	Plantation
Bloomberg Ticker	LSIP IJ
Market Cap. (IDR tn)	6.75
Share Out./Float (mn)	6,822/2,761
Current Price	990
FY21F Target Price	1,120
Upside	13%

Share Price Performance

52W High (27/12/19)	1,490
52W Low (20/03/20)	498
52W Beta	1.97x
YTD Change	-33.3%

Relative Valuations

EV/Ha	3,100
Trailing P/E	20.1x
Forward P/E	15.7x
P/BV	0.8x

LSIP 2Q20 Earnings Summary

(IDR Bn)	2Q19	1Q20	2Q20	QoQ	YoY	6M19	6M20	YoY	DH%	Cons%
Revenue	668	810	756	-6.7%	13.2%	1,596	1,566	-1.9%	43%	45%
Gross Profit	40	152	124	-17.9%	211.5%	176	276	57.0%		
Operating Profit	(49)	86	(9)	na	na	(19)	77	na		
Net Profit	(28)	82	10	-87.9%	na	10	92	777.9%	28%	28%
Gross Margin	6.0%	18.7%	16.5%			11.0%	17.6%			
Operating Margin	-7.4%	10.6%	-1.1%			-1.2%	4.9%			
Net Margin	-4.2%	10.1%	1.3%			0.7%	5.9%			

Source: Sinarmas Investment Research

Earnings Changes

(IDR Bn)	Old		New		Changes	
	FY20	FY21	FY20	FY21	FY20	FY21
Revenue	3,758	3,945	3,669	3,932	-2.4%	-0.3%
Gross Profit	811	894	697	846	-14.1%	-5.4%
Operating Profit	449	510	352	476	-21.6%	-6.7%
Net Profit	391	450	332	432	-15.0%	-4.1%
EPS (IDR)	57	66	49	63	-15.0%	-4.1%
Gross Margin	21.6%	22.6%	19.0%	21.5%		
Operating Margin	11.9%	12.9%	9.6%	12.1%		
Net Margin	10.4%	11.4%	9.1%	11.0%		

Source: Sinarmas Investment Research

Key Assumption Changes

	Old		New		Changes	
	FY20	FY21	FY20	FY21	FY20	FY21
FFB Nuc. (Ths Tons)	1,430	1,409	1,417	1,411	-0.9%	0.1%
FFB Yield (Ha/Ton)	16.8	16.6	16.5	16.4	-1.8%	-1.1%
CPO Prod. (Ths Tons)	383	376	360	364	-5.9%	-3.2%
CPO ER	23.0%	23.0%	23.0%	22.9%	0.0%	-0.3%
CPO Sales (Ths Tons)	395	391	371	379	-6.0%	-3.2%
ASP (IDR/Kg)	7,543	7,987	7,828	8,219	3.8%	2.9%

Source: Sinarmas Investment Research

Earnings sensitivity to CPO price

(IDR bn)	FY20E earnings forecast	Change
CPO Price +1%	363	9.2%
Base case	332	
CPO Price -1%	302	-9.2%

Source: Sinarmas Investment Research

Earnings sensitivity to CPO Sales Volume

(IDR bn)	FY20E earnings forecast	Change
CPO Sales Volume +1%	357	7.6%
Base case	332	
CPO Sales Volume -1%	307	-7.6%

Source: Sinarmas Investment Research

Income Statement (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	4,020	3,699	3,669	3,932	4,091
Cost of Good Sold	(3,337)	(3,138)	(2,972)	(3,086)	(3,200)
Gross Profit	683	562	697	846	892
Operating Expenses	(373)	(361)	(381)	(408)	(430)
Other Income (Expenses)	30	100	36	38	40
EBIT	340	301	352	476	501
EBITDA	738	566	2,179	780	801
Net Financing Income (Expenses)	77	52	52	62	73
EBT	417	353	404	538	574
Tax Expenses	(88)	(100)	(73)	(108)	(115)
Net Income	331	254	332	432	460
EPS (IDR)	49	37	49	63	67

Balance Sheet (IDR Bn)	2018	2019	2020E	2021F	2022F
Cash & Equivalents	1,663	1,132	1,402	1,655	1,905
Trade Receivables	152	469	181	206	192
Inventories	489	342	357	373	357
Other Current Assets	140	250	138	148	166
Total Current Assets	2,444	2,192	2,078	2,381	2,620
Fixed Assets	3,141	6,311	6,421	6,520	6,610
Plantations	3,094	0	0	0	0
Other Non Current Assets	1,359	1,722	1,648	1,687	1,700
Total Assets	10,037	10,225	10,147	10,588	10,930
Trade Payables	312	319	215	233	240
Other Current Liabilities	213	147	200	229	254
Total Current Liabilities	525	467	415	462	494
Debt	-	-	-	-	-
Other Non Current Liabilities	1,180	1,260	1,003	1,100	1,126
Total Liabilities	1,705	1,727	1,418	1,562	1,620
Share & APIC	1,713	1,713	1,713	1,713	1,713
Retained Earnings	6,607	6,775	7,005	7,303	7,590
Others	13	11	11	11	11
Total Equity	8,332	8,499	8,729	9,027	9,313
Total Liabilities & Equity	10,037	10,225	10,147	10,589	10,933

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2018	2019	2020E	2021F	2022F
Net Income	331	254	332	431	459
Dep. & Amortization	397	383	390	402	410
Chg. In NWC	(7)	(338)	333	(3)	43
CF from Operating	721	299	1,055	829	912
Capital Expenditure	(334)	(461)	(500)	(500)	(500)
Chg. in LT Assets	(104)	(363)	74	(39)	(13)
Others	(26)	80	(257)	97	26
CF from Investing	(464)	(744)	(683)	(443)	(488)
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	-	-	-	-	-
Dividends Paid	(307)	(130)	(102)	(134)	(174)
Others	79	43	-	-	-
CF from Financing	(228)	(86)	(102)	(134)	(174)
Chg. in Cash	30	(532)	271	252	250
Beginning Cash	1,633	1,663	1,132	1,402	1,655
Ending Cash	1,663	1,132	1,402	1,655	1,905

Financial Ratio	2018	2019	2020E	2021F	2022F
Profitability					
Gross Margin	17.0%	15.2%	19.0%	21.5%	21.8%
Operating Margin	8.5%	8.1%	9.6%	12.1%	12.2%
EBITDA Margin	18.4%	15.3%	59.4%	19.8%	19.6%
Net Margin	8.2%	6.9%	9.1%	11.0%	11.3%
Liquidity					
Current Ratio (x)	4.7	4.7	5.0	5.2	5.3
Solvency					
Debt to Equity (x)	0.0	0.0	0.0	0.0	0.0
Debt to Assets (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
Price to Earnings (x)	20.7	27.0	20.6	15.9	14.9
Price to Book (x)	0.82	0.81	0.79	0.76	0.74

Key assumptions	2018	2019	2020E	2021F	2022F
FFB Nuc. (Ths Tons)	1,516	1,466	1,417	1,411	1,391
FFB Yield (Ha/Ton)	17.4	17.1	16.5	16.4	16.2
CPO Prod. (Ths Tons)	453	398	360	364	363
CPO ER	23.0%	23.0%	23.0%	22.9%	22.9%
CPO Sales (Ths Tons)	436	418	371	379	388
ASP (IDR/Kg)	6,964	6,810	7,828	8,219	8,506

Source: Company data, Sinarmas Investment Research

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