

Lower production but higher ASP. In 3Q20, LSIP posted revenue of IDR 712bn (-5.8% QoQ), driven by lower blended sales volume (-17.1% QoQ), but with higher blended ASP (+14.8% QoQ). On margin side, due to higher CPO price (+12.8% QoQ), GPM increased to 29.6% (Vs. 16.5% in 2Q20). Lower selling expenses (-16.1% QoQ) and reversal of loss from FV of biological assets (IDR 45bn) brought operating income to IDR 220bn with OPM of 31.0%. Thus, LSIP booked net profit of IDR 185bn (+1,758% QoQ) with NPM of 26.0%. In all, LSIP recorded 9M20's revenue/net profit at IDR 2.2tn/277bn (-11.9% YoY/+427.4% YoY), which are above our estimate and achieving 62%/65% and 83%/90% of our and consensus estimate.

Soft FFB/CPO production. In 3Q20, LSIP posted lower FFB/CPO production of 316kt/69kt (-31.2% YoY/-32.8% YoY), bringing 9M20's FFB/CPO production at 1,009kt/227kt (-19.6% YoY/-20.6% YoY). Lower FFB/CPO production in 3Q20 was driven by prolonged dry weather. Going forward, we think the recovery on FFB production should be slower than our expectation, given the small planters (Plasma) may not fully fertilize its palm oil in 2Q20 (due to lower CPO price) and the La Nina event that may disrupt harvesting process. It is worth noting that The Indonesian Agency Weather (BMKG) predicted that the La Nina will end by Mar-Apr-21. As a result, we revised down our FFB production from 1.57/1.59mn tons to 1.46/1.49mn tons in FY20E/FY21F.

More Positive on CPO outlook. We view that the strong global CPO demand will continue as China should purchase more CPO onwards due to soybean's supply shortage and B30 implementation. In addition, we expect the labor shortage in Malaysia, new SOPs for the palm industry in Sabah, and unusually heavy rains (La Nina) may restrain CPO supply. All these factors should give positive catalyst on CPO price, thus, we revise up our **CPO price assumption from MYR 2,300/2,450/ton to MYR 2,700/3,050/ton in FY20E/FY21F.** As a result, we upgrade our FY20E/FY21F earnings forecast by 43.5%/78.2%. Our sensitivity analysis shows that every 1% change in CPO price/CPO sales volume will change our earnings forecast by 6.2%/5.2%, respectively.

We upgrade our call on LSIP to BUY call with a higher FY21F TP of IDR 1,470, derived from USD 5,000 EV/Ha (+1SD from its-3y avg.). We continue to like LSIP driven by better CPO outlook and attractive valuation (currently trading at USD 4,000 EV/Ha, its 3y-avg). Downside risks for our call are lower than expected CPO price and prolonged economic recovery.

Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	4,020	3,699	3,491	3,946	3,616
% growth	-15.2%	-8.0%	-5.6%	13.0%	-8.4%
Gross Profit	683	562	856	1,114	781
Net Profit	331	254	457	652	388
% growth	-54.8%	-23.4%	79.9%	42.8%	-40.6%
Gross Margin (%)	17.0%	15.2%	24.5%	28.2%	21.6%
Net Margin (%)	8.2%	6.9%	13.1%	16.5%	10.7%
Return on Equity (%)	4.0%	3.0%	5.3%	7.2%	4.1%
Return on Assets (%)	3.3%	2.5%	4.5%	6.2%	3.6%
EPS (IDR)	49	37	67	96	57

Andrianto Saputra

Equity Analyst

+62 21 392 5550 ext. 159

andrianto.saputra@sinarmassekuritas.co.id**Stock Information**

Sector	Plantation
Bloomberg Ticker	LSIP IJ
Market Cap. (IDR tn)	8.1
Share Out./Float (mn)	6,822/2,761
Current Price	1,190
FY21F Target Price	1,470
Upside	23.5%

Share Price Performance

52W High (27/12/19)	1,490
52W Low (20/03/20)	498
52W Beta	2.0x
YTD Change	-19.9%

Relative Valuations

EV/Ha	4,000
Trailing P/E	16.9x
Forward P/E	12.4x
P/BV	0.9x

LSIP 3Q20 Earnings Summary

(IDR Bn)	3Q19	2Q20	3Q20	QoQ	YoY	9M19	9M20	YoY	DH%	Cons%
Revenue	990	756	712	-5.8%	-28.1%	2,586	2,278	-11.9%	62%	65%
Gross Profit	118	124	211	69.4%	78.7%	294	487	65.7%		
Operating Profit	54	(9)	221	na	309.6%	35	298	741.5%		
Net Profit	42	10	185	1758.1%	340.1%	53	277	427.4%	83%	90%
Gross Margin	11.9%	16.5%	29.6%			11.4%	21.4%			
Operating Margin	5.4%	-1.1%	31.0%			1.4%	13.1%			
Net Margin	4.2%	1.3%	26.0%			2.0%	12.2%			
Revenue Breakdown										
Blended	985	753	707	-6.1%	-28.2%	2,575	2,266	-12.0%		
CPO	748	599	549	-8.4%	-26.6%	1,979	1,804	-8.8%		
PK and PK related products	147	109	94	-13.3%	-36.0%	376	298	-20.8%		
Others	91	45	64	40.7%	-29.4%	220	164	-25.7%		
Operational										
FFB Production (kt)	459	343	316	-7.9%	-31.2%	1,255	1,009	-19.6%		
CPO Production (kt)	103	78	69	-10.6%	-32.8%	286	227	-20.6%		
Cost/ton* (IDR/kg)	5,793	6,035	6,947	15.1%	19.9%	5,845	7,135	22.1%		
Sales Volume										
Blended* (kt)	151	105	87	-17.1%	-42.4%	392	289	-26.4%		
CPO (kt)	116	81	65	-18.8%	-43.7%	302	222	-26.5%		
PK and PK related products (ton)	147	109	94	-13.3%	-36.0%	376	298	-20.8%		
ASP										
Blended (IDR/kg)	6,779	7,445	8,550	14.8%	26.1%	6,999	8,133	16.2%		
CPO (IDR/kg)	6,436	7,442	8,399	12.8%	30.5%	6,553	8,130	24.1%		
PK and PK related products (IDR/kg)	4,653	4,800	4,913	2.3%	5.6%	4,489	4,838	7.8%		

Source: Sinarmas Investment Research. *Exclude OP Seeds

Earnings Changes

(IDR Bn)	Old		New		Changes	
	FY20	FY21	FY20	FY21	FY20	FY21
Revenue	3,669	3,932	3,491	3,946	-4.9%	0.3%
Gross Profit	697	846	856	1,114	22.8%	31.7%
Operating Profit	352	476	516	743	46.6%	56.2%
Net Profit	332	432	457	652	37.5%	51.0%
EPS (IDR)	49	63	67	96	37.5%	51.0%
Gross Margin	19.0%	21.5%	24.5%	28.2%		
Operating Margin	9.6%	12.1%	14.8%	18.8%		
Net Margin	9.1%	11.0%	13.1%	16.5%		

Source: Sinarmas Investment Research

Key Assumption Changes

	Old		New		Changes	
	FY20	FY21	FY20	FY21	FY20	FY21
FFB Prod. (Ths Tons)	1,574	1,594	1,463	1,490	-7.1%	-6.5%
FFB Yield (Ha/Ton)	16.5	16.4	15.7	15.6	-5.0%	-5.0%
CPO Prod. (Ths Tons)	360	364	332	340	-7.9%	-6.7%
CPO ER	23.0%	22.9%	22.7%	22.8%	-1.3%	-0.6%
CPO Sales (Ths Tons)	371	379	348	356	-6.2%	-5.9%
CPO ASP (IDR/Kg)	7,828	8,219	8,115	9,151	3.7%	11.3%

Source: Sinarmas Investment Research

Income Statement (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	4,020	3,699	3,491	3,946	3,616
Cost of Good Sold	(3,337)	(3,138)	(2,635)	(2,832)	(2,835)
Gross Profit	683	562	856	1,114	781
Operating Expenses	(373)	(361)	(374)	(408)	(413)
Other Income (Expenses)	30	100	34	38	35
EBIT	340	301	516	743	403
EBITDA	738	566	2,341	1,045	697
Net Financing Income (Expenses)	77	52	54	70	80
EBT	417	353	569	814	483
Tax Expenses	(88)	(100)	(114)	(163)	(97)
Net Income	331	254	457	652	388
EPS (IDR)	49	37	67	96	57

Balance Sheet (IDR Bn)	2018	2019	2020E	2021F	2022F
Cash & Equivalents	1,663	1,132	1,495	1,940	1,958
Trade Receivables	152	469	172	207	170
Inventories	489	342	340	374	316
Other Current Assets	140	250	137	148	164
Total Current Assets	2,444	2,192	2,144	2,669	2,607
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	1,632	1,688	1,658
Total Assets	10,037	10,225	10,197	10,876	10,875
Trade Payables	312	319	191	214	213
Other Current Liabilities	213	147	199	239	223
Total Current Liabilities	525	467	389	453	436
Debt	-	-	-	-	-
Other Non Current Liabilities	1,180	1,260	954	1,104	995
Total Liabilities	1,705	1,727	1,344	1,556	1,431
Share & APIC	1,713	1,713	1,713	1,713	1,713
Retained Earnings	6,607	6,775	7,130	7,598	7,723
Others	13	11	11	11	11
Total Equity	8,332	8,499	8,853	9,321	9,446
Total Liabilities & Equity	10,037	10,225	10,197	10,878	10,877

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2018	2019	2020E	2021F	2022F
Net Income	331	254	457	651	386
Dep. & Amortization	397	383	390	402	410
Chg. In NWC	(7)	(338)	335	(16)	63
CF from Operating	721	299	1,181	1,036	859
Capital Expenditure	(334)	(461)	(500)	(500)	(500)
Chg. in LT Assets	(104)	(363)	89	(56)	31
Others	(26)	80	(306)	149	(109)
CF from Investing	(464)	(744)	(716)	(407)	(578)
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	-	-	-	-	-
Dividends Paid	(307)	(130)	(102)	(184)	(263)
Others	79	43	-	-	-
CF from Financing	(228)	(86)	(102)	(184)	(263)
Chg. in Cash	30	(532)	363	446	18
Beginning Cash	1,633	1,663	1,132	1,495	1,940
Ending Cash	1,663	1,132	1,495	1,940	1,958

Financial Ratio	2018	2019	2020E	2021F	2022F
Profitability					
Gross Margin	17.0%	15.2%	24.5%	28.2%	21.6%
Operating Margin	8.5%	8.1%	14.8%	18.8%	11.2%
EBITDA Margin	18.4%	15.3%	67.1%	26.5%	19.3%
Net Margin	8.2%	6.9%	13.1%	16.5%	10.7%
Liquidity					
Current Ratio (x)	4.7	4.7	5.5	5.9	6.0
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)	24.5	32.0	17.8	12.4	20.9
Price to Book (x)	0.97	0.95	0.92	0.87	0.86

Key assumptions	2018	2019	2020E	2021F	2022F
FFB Prod. (Ths Tons)	1,981	1,752	1,463	1,490	1,510
FFB Yield (Ha/Ton)	17.4	17.1	15.7	15.6	15.5
CPO Prod. (Ths Tons)	453	398	332	340	344
CPO ER	23.0%	23.0%	22.7%	22.8%	22.8%
CPO Sales (Ths Tons)	436	418	348	356	361
CPO ASP (IDR/Kg)	6,964	6,810	8,115	9,151	8,235

Source: Company data, Sinarmas Investment Research

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

BUY: Share price may rise by more than 15% over the next 12 months.

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.

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

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

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(2020). All rights reserved.