

COMPANY UPDATE

Tunas Baru Lampung (TBLA IJ)

New Raw Sugar Import Quota To Ensure Steady Performance In 2018

TBLA was just allotted a 75,000-tonne raw sugar import quota. This should ensure steady inventory that can cover eight months of sales. To recap, 4Q17 earnings were strong on the back of higher sales volumes and ASP. We expect 1Q18 earnings to drop yoy on lower CPO ASP and higher interest expense. Net profit is expected to hit Rp1t for the first time. Maintain BUY and target price of Rp1,700, based on 9x 2018F PE. Potential dividend payout translates into 6% yield.

WHAT'S NEW

- **Raw sugar import quota finally announced.** Tunas Baru Lampung (TBLA) has been allotted a 75,000-tonne raw sugar import quota. This is the first raw sugar import quota announcement for the year. Note that TBLA received a 250,000-tonne raw sugar import quota last year (divided into four quota allocations). Management shared that they still had raw sugar inventory of about 110,000 tonnes as at end-17; hence with the additional quota of 75,000 tonnes it has received recently, the company will have enough inventory to satisfy roughly 8 months of sales, assuming 70,000 tonnes in sugar sales per quarter.
- **Robust 4Q17 and 2017 earnings...** 4Q17 net profit came in at Rp245b, up 83% yoy and 20.9% qoq mainly on higher sales volume and ASP. Gross margin improved to 26.5% in 4Q17, up from 25.2% in 3Q17. Full-year 2017 earnings beat our estimate (110%) and was slightly above consensus forecast (106%) with net profit jumping 54.2% yoy to Rp949b. Revenue was up 37.8% yoy to Rp8.98t while operating profit grew 51.2% yoy to Rp1.67t, thanks to manageable operating expenses.
- **...supported by strong sales volume and favourable ASP.** The strong 2017 earnings growth was mainly attributed to higher sales volumes from both palm products (+28% yoy) and sugar (+73.9% yoy). Palm products' ASP was on the uptrend with CPO prices rising to Rp8,223/kg in 2017 (+8.2% yoy). Meanwhile, its sugar selling price declined to Rp9,719/kg (-9.3% yoy) following the price ceiling regulation by the government that caps retail sugar prices at Rp12,500/kg.
- **1Q18 earnings likely to be lower yoy.** Management indicated that CPO production is likely to come in higher on a yoy basis. However, pricing of palm products would be lower, in line with the decline in CPO prices. Sugar sales volume is expected to be stable at 70,000 tonnes/quarter (no contribution from milled sugar in 1Q as the sugarcane harvesting season is likely to start in end-April). Hence, we expect stable operating profit growth in 1Q18, but bottom line earnings are likely to decline on higher interest expenses (interest will be booked following the completion of the sugar mill in 3Q17).

KEY FINANCIALS

Year to 31 Dec (Rpb)	2016	2017	2018F	2019F	2020F
Net turnover	6,514	8,975	8,658	8,859	9,322
EBITDA	1,523	2,184	2,305	2,363	2,557
Operating profit	1,104	1,670	1,836	1,814	1,975
Net profit (rep./act.)	615	949	1,004	1,095	1,274
Net profit (adj.)	615	949	1,004	1,095	1,274
EPS (Rp)	118.0	177.6	187.9	205.0	238.4
PE (x)	10.6	7.1	6.7	6.1	5.3
P/B (x)	1.9	1.7	1.5	1.3	1.1
EV/EBITDA (x)	7.9	5.5	5.2	5.1	4.7
Dividend yield (%)	2.0	4.8	5.7	6.0	6.5
Net margin (%)	9.4	10.6	11.6	12.4	13.7
Net debt/(cash) to equity (%)	166.5	141.6	115.6	88.5	68.3
Interest cover (x)	5.1	5.2	4.3	6.1	8.0
ROE (%)	19.7	25.7	23.3	22.1	22.3
Consensus net profit	-	-	1,037	1,037	-
UOBKH/Consensus (x)	-	-	0.97	1.06	-

Source: TBLA, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Rp1,255
Target Price	Rp1,700
Upside	+35.5%

COMPANY DESCRIPTION

Manages over 60,000 ha of planted area mostly in South Sumatra, TBLA recently ventured into sugarcane plantation and the sugar business has since become the main growth driver for TBLA.

STOCK DATA

GICS sector	Plantation
Bloomberg ticker:	TBLA IJ
Shares issued (m):	5,342.1
Market cap (Rpb):	6,704.3
Market cap (US\$m):	487.2
3-mth avg daily t'over (US\$m):	0.2

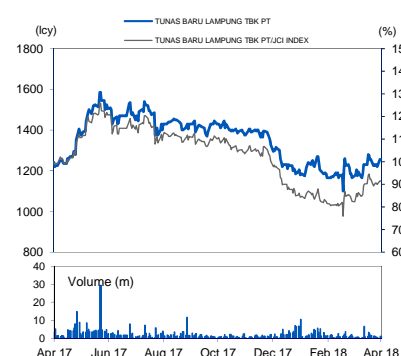
Price Performance (%)

52-week high/low	Rp1,585/Rp1,100				
1mth	3mth	6mth	1yr	YTD	
7.7	4.1	(12.2)	(1.2)	2.4	

Major Shareholders

PT. Budi Delta Swakarya	26.2
PT. Sungai Budi	25.0
FY17 NAV/Share (Rp)	863
FY17 Net Debt/Share (Rp)	998

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

2017 OPERATIONAL HIGHLIGHTS

	2017	2016	yoy %	4Q17	4Q16	yoy %	3Q16	qoq %
Production (tonnes)								
FFB Nucleus	646,000	366,985	76.0	248,434	141,191	76.0	238,068	4.4
CPO	281,638	240,081	17.3	81,565	102,146	(20.1)	80,603	1.2
Sales (tonnes)								
CPO	56,717	46,340	22.4	17,385	8,403	106.9	12,537	38.7
Palm Cooking Oil	268,225	221,923	20.9	82,266	77,532	6.1	72,519	13.4
Biodiesel	96,791	61,145	58.3	20,194	22,308	(9.5)	14,928	35.3
Sugar	310,811	178,756	73.9	72,149	62,533	15.4	94,708	(23.8)
Selling price (Rp/kg)								
CPO	8,223	7,597	8.2					
Palm Cooking Oil	9,872	9,294	6.2					
Biodiesel	9,052	8,624	5.0					
Sugar	9,719	10,715	(9.3)					

Source: TBLA, UOB Kay Hian

- **Aims to add 3,000ha in sugarcane plantation areas in 2018.** TBLA managed to grow its sugarcane plantation area to 12,097ha last year, up from 10,640ha in 2016. Management aims to convert another 3,000ha of palm oil estates into sugarcane plantation areas this year, which should boost its total planted sugarcane area to 15,000ha by the end of this year. The company also plans to add 3,000ha of new palm oil areas this year. TBLA's average palm tree age profile is at 13 years.

EARNINGS REVISION/RISK

- **2018 net profit to hit Rp1t.** We made a slight adjustment to our earnings forecasts to factor in the 2017 results. We expect 2018 net profit to surge to >Rp1t for the first time (+5.8% yoy), driven by margin expansion from the sugar business thanks to higher contribution from its sugar mill. TBLA expects to sell up to 70,000 tonnes of milled sugar this year vs roughly 40,000 tonnes in 2017.

FORECAST CHANGES

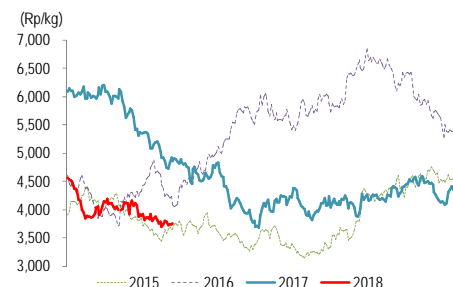
(Rp)	New		Original		Diff (%)		Street		Var (%)	
	2018F	2019F	2018F	2019F	2018F	2019F	2018F	2019F	2018F	2019F
Revenue	8,658	8,859	8,868	9,402	-2	-6	9,005	9,565	-4	-7
Gross profit	2,425	2,447	2,334	2,544	4	-4	2,467	2,453	-2	0
Operating profit	1,836	1,814	1,740	1,899	5	-4	1,690	1,660	9%	9
Net income	1,004	1,095	1,011	1,153	-1	-5	1,037	1,037	-3	6
EPS (Rp)	187.9	205.0	189.2	215.9	-1	-5	194.0	194.2	-3	6
Gross margin (%)	28	28	26	27			27	26		
Op. Margin (%)	21	20	20	20			19	17		
Net margin (%)	12	12	11	12			12	11		

Source: Bloomberg, UOB Kay Hian

VALUATION/RECOMMENDATION

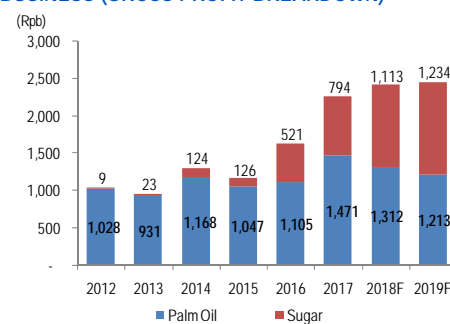
- **Maintain BUY and target price of Rp1,700**, based on 9x 2018F PE. The company has delivered outstanding earnings performance but share price has not reacted and still trades at an undemanding 6.8x 2018F PE. TBLA is also an excellent dividend-paying stock with a payout ratio of 40% and potential dividend of Rp75/share, implying nearly 6% dividend yield on current price.

LOWER INTERNATIONAL RAW SUGAR PRICES MEAN LOWER INPUT COSTS



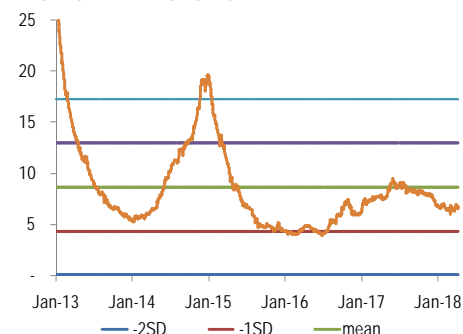
Source: Bloomberg, UOB Kay Hian

INCREASING CONTRIBUTION FROM SUGAR BUSINESS (GROSS PROFIT BREAKDOWN)



Source: TLBA, UOB Kay Hian

TRADES AT UNDEMANDING 6.8X FORWARD PE, BELOW 5-YEAR HISTORICAL MEAN



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rpb)	2017	2018F	2019F	2020F
Net turnover	8,975	8,658	8,859	9,322
EBITDA	2,184	2,305	2,363	2,557
Deprec. & amort.	515	469	549	582
EBIT	1,670	1,836	1,814	1,975
Total other non-operating income	(1.0)	17	10	13
Net interest income/(expense)	(424)	(537)	(390)	(319)
Pre-tax profit	1,245	1,316	1,434	1,669
Tax	(290)	(306)	(331)	(387)
Minorities	(5.4)	(7.1)	(7.9)	(8.5)
Net profit	949	1,004	1,095	1,274
Net profit (adj.)	949	1,004	1,095	1,274

CASH FLOW

Year to 31 Dec (Rpb)	2017	2018F	2019F	2020F
Operating	1,661	1,510	1,895	1,777
Pre-tax profit	1,245	1,316	1,434	1,669
Tax	(290)	(306)	(331)	(387)
Deprec. & amort.	515	469	549	582
Working capital changes	(4.0)	(81)	113	(278)
Other operating cashflows	196	111	130	191
Investing	(1,835)	(830)	(860)	(840)
Capex (growth)	(1,845)	(830)	(860)	(840)
Investments	10	0.0	0.0	0.0
Financing	173	(450)	(899)	(1,046)
Dividend payments	(321)	(380)	(401)	(438)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(7.7)	(86)	(499)	(609)
Others/interest paid	501	16	1.8	0.6
Net cash inflow (outflow)	(0.8)	230	136	(109)
Beginning cash & cash equivalent	127	126	356	492
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	126	356	492	383

BALANCE SHEET

Year to 31 Dec (Rpb)	2017	2018F	2019F	2020F
Fixed assets	8,647	9,008	9,319	9,578
Other LT assets	233	233	233	233
Cash/ST investment	126	356	492	383
Other current assets	5,018	5,070	5,182	5,432
Total assets	14,024	14,667	15,227	15,626
ST debt	1,855	396	317	310
Other current liabilities	2,783	2,754	2,979	2,952
LT debt	3,917	5,290	4,871	4,269
Other LT liabilities	1,469	1,588	1,725	1,925
Shareholders' equity	3,987	4,611	5,305	6,141
Minority interest	13	28	30	31
Total liabilities & equity	14,024	14,667	15,227	15,626

KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
Profitability				
EBITDA margin	24.3	26.6	26.7	27.4
Pre-tax margin	13.9	15.2	16.2	17.9
Net margin	10.6	11.6	12.4	13.7
ROA	7.1	7.0	7.3	8.3
ROE	25.7	23.3	22.1	22.3
Growth				
Turnover	37.8	(3.5)	2.3	5.2
EBITDA	43.4	5.5	2.5	8.2
Pre-tax profit	55.0	5.8	8.9	16.4
Net profit	54.2	5.8	9.1	16.3
Net profit (adj.)	54.2	5.8	9.1	16.3
EPS	50.5	5.8	9.1	16.3
Leverage				
Debt to total capital	59.1	55.1	49.3	42.6
Debt to equity	144.8	123.3	97.8	74.6
Net debt/(cash) to equity	141.6	115.6	88.5	68.3
Interest cover (x)	5.2	4.3	6.1	8.0

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