

COMPANY UPDATE

Tunas Baru Lampung (TBLA IJ)

Higher Biodiesel Sales Volume And Lower Interest Costs To Drive Earnings

We expect TBLA's biodiesel sales volume to nearly double this year, given the new biodiesel allocation for 2019. TBLA's de-leveraging efforts would also help drive earnings growth this year. We are conservative towards its sugar sales volumes for 2019 as the government is likely to reduce its import quota. Despite that, we still expect earnings to grow by at least 20% yoy in 2019. Maintain BUY and target price of Rp1,300, based on 6.2x 2019F PE. TBLA is trading at only 4.0x 2019F PE.

WHAT'S NEW

- Biodiesel sales volume to nearly double in 2019.** We expect Tunas Baru Lampung (TBLA) to book up to 250,000kL (+92.3% yoy) in biodiesel sales volumes this year, thanks to higher biodiesel consumption at the industry level (full implementation of extended B20 programme to non-PSO segment). Note that TBLA has been awarded with a 216,875kL biodiesel sales contract for 2019 delivery to Pertamina. The awarded volume more than doubles last year's awarded contract of 90,261kL. We expect TBLA to record around 130,000kL of biodiesel sales volume in 2018, including 45,000kL of biodiesel exports to China.
- Deleveraging to further boost earnings growth.** Following a series of new debt issuances, mainly used for refinancing purposes in 2018, we expect TBLA's total net debt to decrease to Rp6t by end-19, down from around Rp7.3t in 9M18. As result, we should also see a modest reduction in the interest expenses for 2019 by around 12% yoy to Rp597b, down from an estimated Rp678b for full-year 2018. This could further drive earnings growth in 2019 by around 21.3% yoy to Rp1.12t, up from Rp924b estimated for 2018.
- Conservative towards sugar sales volume.** In view of our expectation of a lower sugar import quota, we have cut our sugar sales volume estimate for 2019 to 270,000 tonnes (previously 355,000 tonnes). We believe our sales volume estimates are conservative as TBLA should still have around 130,000 tonnes of sugar inventory as of end-18. Meanwhile, we have also tuned down our sales volume estimate to 265,000 tonnes for 2018 from 340,000 tonnes previously, given the lackluster sugar sales performance in 9M18.
- Trading at 4.0x 2019F PE, maintain BUY.** The company consistently delivered strong earnings in 2017-18 and will likely continue to do so going forward; meanwhile, we have not seen a strong re-rating for the stock. TBLA is still trading at 4.0x 2019F PE which is undemanding, given its stable earnings outlook and improving balance sheet.

KEY FINANCIALS

Year to 31 Dec (Rpb)	2016	2017	2018F	2019F	2020F
Net turnover	6,514	8,975	8,834	9,336	9,808
EBITDA	1,523	2,184	2,373	2,610	2,592
Operating profit	1,104	1,670	1,886	2,042	1,991
Net profit (rep./fact.)	615	949	924	1,120	1,174
Net profit (adj.)	615	949	924	1,120	1,174
EPS (Rp)	118.0	177.6	172.9	209.7	219.7
PE (x)	7.5	5.0	5.1	4.2	4.0
P/B (x)	1.4	1.2	1.0	0.9	0.8
EV/EBITDA (x)	7.0	4.9	4.5	4.1	4.1
Dividend yield (%)	2.8	6.8	8.1	7.9	9.5
Net margin (%)	9.4	10.6	10.5	12.0	12.0
Net debt/(cash) to equity (%)	166.5	141.6	143.5	113.7	86.7
Interest cover (x)	5.1	5.2	3.5	4.5	5.7
ROE (%)	19.7	25.7	21.7	22.8	20.8
Consensus net profit	-	-	920	1,045	1,195
UOBKH/Consensus (x)	-	-	1.00	1.07	0.98

Source: TBLA, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Rp880
Target Price	Rp1,300
Upside	47.7%

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):	4,701.0
Market cap (US\$m):	326.1
3-mth avg daily t'over (US\$m):	0.2

Price Performance (%)

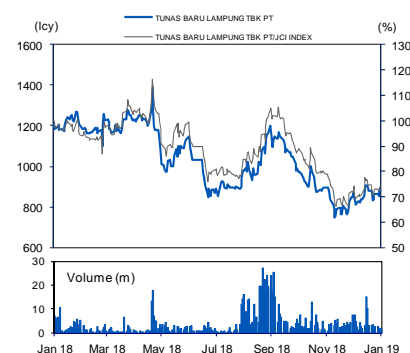
52-week high/low	Rp1,390/Rp750				
1mth	3mth	6mth	1yr	YTD	
4.1	(11.1)	1.1	(27.3)	1.7	

Major Shareholders

PT. Budi Delta Swakarya	26.2
PT. Sungai Budi	25.0

FY19 NAV/Share (Rp)	989
FY19 Net Debt/Share (Rp)	1,124

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Lower sugar import quota likely for this year.** The government would likely to announce a lower sugar import quota of 2.7m-2.8m tonnes for 2019, down from an approximate realised import volume of 3.15m tonnes in 2018 and 3.25m in 2017, in light of higher domestic supply. The industry is currently waiting for approvals from the Trade Ministry and the official import quota announcement would likely be in the first two months of this year.
- Leverage ratio should soon normalise after spike in 9M18.** We learned that TBLA's net DER stood at 1.66x in 9M18 as the company took in new debt, mainly for refinancing and working capital purposes. We expect gearing level to have improved in 2018 as the debt refinancing programme progresses and with support from lower capex requirements. We expect TBLA's net DER to have declined to 1.4x in 2018 and to decline to 1.1x by end-19.
- 9M18 sugar sales volume below expectation.** TBLA sold only 190,606 tonnes (-20.1% yoy) of sugar in 9M18, which made up 56.1% of our initial estimate of 340,000 tonnes of sugar sales for 2018. The decline was mainly due to the delay in import quota allotment in 1H18 which led to slower sugar sales volume in 2Q18. 3Q18 sales volume also declined by 24.2% qoq to 71,744 tonnes but managed to increase on a yoy basis by 32.9%, mainly attributed to higher contribution from sugar mills.

9M18 OPERATIONAL HIGHLIGHTS

Production (tonnes)	9M18	9M17	yoy % chg	3Q18	3Q17	yoy % chg	2Q18	qoq % chg
Nucleus FFB	491,800	397,566	23.7	140,507	238,068	(41.0)	250,182	(43.8)
Plasma and external FFB	1,030,412	543,685	89.5	482,621	91,817	425.6	250,148	92.9
CPO	277,880	200,073	38.9	114,988	80,603	42.7	91,495	25.7
Sales volume (tonnes)								
CPO	55,878	39,332	42.1	29,682	12,537	136.8	11,186	165.3
Palm Cooking Oil	223,369	185,959	20.1	74,418	72,519	2.6	65,096	14.3
Biodiesel	86,926	76,597	13.5	46,541	14,928	211.8	17,194	170.7
Sugar	190,606	238,662	(20.1)	71,744	94,708	(24.2)	54,003	32.9

Source: UOB Kay Hian

EARNINGS REVISION/RISK

REVISED FORECASTS

(Rp)	----- New -----		---- Original ----		---- Diff (%) ----		----- Street -----		---- Var (%) ----	
	2018F	2019F	2018F	2019F	2018F	2019F	2018F	2019F	2018F	2019F
Revenue	8,834	9,336	8,688	8,948	1.7	4.3	8,675	9,064	1.8	3.0
Gross Profit	2,487	2,649	2,546	2,563	-2.3	3.3	2,391	2,565	4.0	3.3
Operating Profit	1,886	2,042	1,956	1,924	-3.6	6.1	1,805	1,899	4.5	7.5
Net Income	924	1,120	1,041	1,135	-11.3	-1.3	920	1,045	0.4	7.2
EPS (Rp)	172.9	209.7	195.0	212.4	-11.3	-1.3	168.8	192.3	2.4	9.1

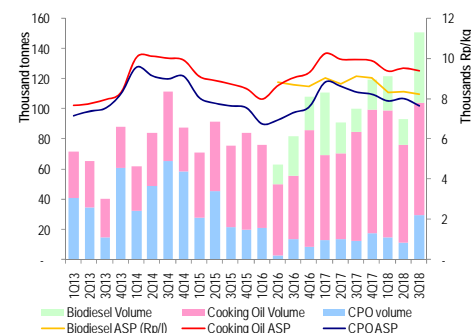
Source: UOB Kay Hian, Bloomberg

- We cut our 2018 net profit estimate by 11.3% to Rp924b to factor in lower sugar sales volumes and to reflect 9M18 weak earnings performance.** We expect net profit to improve to Rp1.12t (+21.3% yoy) next year, mainly on higher biodiesel sales volume contribution and a reduction in interest expenses by 12% yoy.

VALUATION/RECOMMENDATION

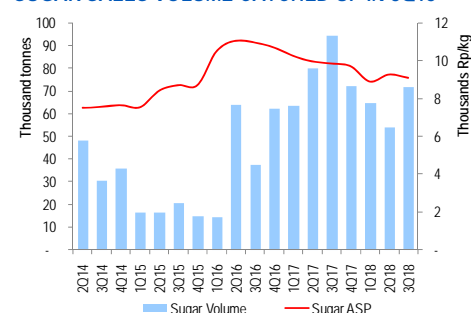
- Maintain BUY and target price of Rp1,300**, based on 6.2x 2019F PE (3-year mean PE). TBLA's earnings performance has improved significantly since the commencement of its sugar refinery operations in 2014 and we believe the stock deserves a modest re-rating as it is currently trading at only 4.0x 2019F PE, close to -2SD of its 3-year mean.

INCREASING CONTRIBUTION FROM BIODIESEL SALES



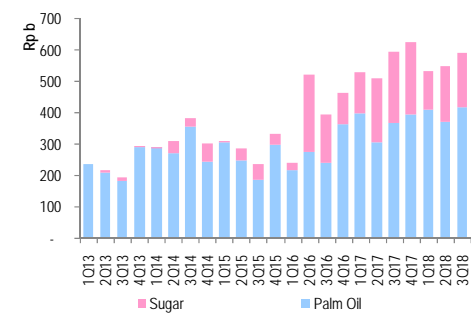
Source: TBLA, UOB Kay Hian

SUGAR SALES VOLUME CATCHED UP IN 3Q18



Source: TBLA, UOB Kay Hian

PALM OIL VS SUGAR GROSS PROFIT BREAKDOWN



Source: TBLA, UOB Kay Hian

TRADING AT ONLY 4.0X 2019F PE



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rpb)	2017	2018F	2019F	2020F
Net turnover	8,975	8,834	9,336	9,808
EBITDA	2,184	2,373	2,610	2,592
Deprec. & amort.	515	486	568	601
EBIT	1,670	1,886	2,042	1,991
Total other non-operating income	(1.0)	0.0	0.0	0.0
Net interest income/(expense)	(424)	(675)	(575)	(452)
Pre-tax profit	1,245	1,211	1,467	1,538
Tax	(290)	(281)	(338)	(357)
Minorities	(5.4)	(6.5)	(8.1)	(7.8)
Net profit	949	924	1,120	1,174
Net profit (adj.)	949	924	1,120	1,174

CASH FLOW

Year to 31 Dec (Rpb)	2017	2018F	2019F	2020F
Operating	1,269	1,071	2,174	1,488
Pre-tax profit	1,245	1,211	1,467	1,538
Tax	(290)	(281)	(338)	(357)
Deprec. & amort.	515	486	568	601
Working capital changes	(4.0)	(690)	(79)	27
Other operating cashflows	196	11	91	274
Investing	(1,835)	(1,230)	(840)	(840)
Capex (growth)	(1,845)	(1,230)	(840)	(840)
Investments	10	0.0	0.0	0.0
Financing	173	977	(704)	(1,595)
Dividend payments	(321)	(380)	(369)	(448)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(7.7)	1,342	(337)	(1,146)
Others/interest paid	501	15	2.2	0.0
Net cash inflow (outflow)	(0.8)	484	164	(351)
Beginning cash & cash equivalent	127	126	610	774
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	126	610	774	423

BALANCE SHEET

Year to 31 Dec (Rpb)	2017	2018F	2019F	2020F
Fixed assets	8,647	9,391	9,663	9,902
Other LT assets	233	233	233	233
Cash/ST investment	126	610	774	423
Other current assets	5,018	5,540	5,541	5,813
Total assets	14,024	15,774	16,211	16,371
ST debt	1,855	352	338	288
Other current liabilities	2,783	2,614	2,536	2,835
LT debt	3,917	6,762	6,440	5,344
Other LT liabilities	1,469	1,486	1,585	1,867
Shareholders' equity	3,987	4,531	5,282	6,008
Minority interest	13	28	30	30
Total liabilities & equity	14,024	15,774	16,211	16,371

KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
Profitability				
EBITDA margin	24.3	26.9	28.0	26.4
Pre-tax margin	13.9	13.7	15.7	15.7
Net margin	10.6	10.5	12.0	12.0
ROA	7.1	6.2	7.0	7.2
ROE	25.7	21.7	22.8	20.8
Growth				
Turnover	37.8	(1.6)	5.7	5.1
EBITDA	43.4	8.6	10.0	(0.7)
Pre-tax profit	55.0	(2.7)	21.1	4.9
Net profit	54.2	(2.7)	21.3	4.7
Net profit (adj.)	54.2	(2.7)	21.3	4.7
EPS	50.5	(2.7)	21.3	4.7
Leverage				
Debt to total capital	59.1	60.9	56.1	48.3
Debt to equity	144.8	157.0	128.3	93.7
Net debt/(cash) to equity	141.6	143.5	113.7	86.7
Interest cover (x)	5.2	3.5	4.5	5.7

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