

BNIS Short Notes

TBLA (PT Tunas Baru Lampung Tbk)

BNIS
Sekuritas

Analyst:

Firman Hidayat

firman.hidayat@bnisekuritas.co.id

EQUITY

RESEARCH

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Dividend play in the making

What's New?

- We reiterate BUY on TBLA and retain our target price of IDR1,185 based on the blended forward P/E and DCF-based valuation

Key Highlights:

- We expect stronger biodiesel sales volume in the near-term on the relaxation of the PSBB
- The distribution of 2020 sugar import quota brings much relief and certainty for TBLA

Strong 2Q20 bottom line

In 1H20, amidst pandemic TBLA enjoyed the net profit of IDR321bn, slightly lower than 1H19 when TBLA booked a net profit of IDR359bn, due to forex loss of IDR54bn (vs. forex gain of Rp21bn in 1H19) mainly as a result of USD denominated monetary assets and loans. Additionally, forex gain/loss has been fluctuating owing to 48% of its revenue is linked to USD while the remaining 52% is in rupiah.

Meanwhile, above the operating line, TBLA actually performed well with top-line came in above our and consensus estimates posted at IDR5.68tr grew by 38.0% YoY while operating profit grew 10.5% YoY to IDR905bn. Meanwhile, 1H20 net profit came in-line with our and consensus estimates. Net profit represented 43.0% of our full-year forecast and 48.0% of the full-year consensus estimates. However, on quarterly basis, net profit in 2Q20 was 116.6% higher QoQ to IDR220bn - higher than net profit in 1Q20 of IDR101bn, mainly due to the combination of higher revenue and gain in foreign exchange.

Further boost from reaffirmation on biodiesel mandate...

Recently, the Indonesian government sent clear signals to the market by introducing several initiatives that it intends to keep its B30 mandate, namely: 1) Raising the export levy across all palm oil products to boost CPO fund coffers; 2) Government has reduced the cost assumption of converting crude palm oil (CPO) into FAME in biodiesel pricing formula; 3) Government is allocating additional funds from the state budget for B30 mandatory. We think TBLA is a beneficiary of the recently updated biodiesel regulation in terms of anticipation of improvement in fuel demand post the pandemic. TBLA is poised to fulfill this demand with second biodiesel plant of 450,000tons/year capacity is expected to complete in 4Q20 and ready to operate in 1st half of 2021F. Hence, TBLA's total biodiesel production capacity would rise to 750,000tons/year.

BUY

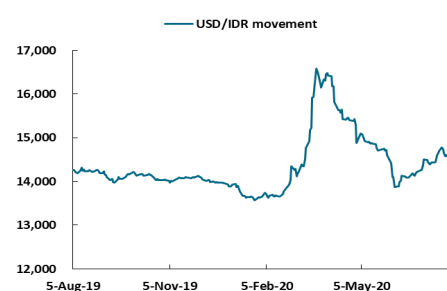
TP: IDR 1,185

Stock Data (as of August 4, 2020)

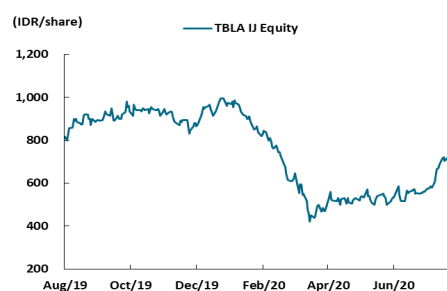
Last Price	IDR 745
52wk Range	IDR 394-1,010
YTD % Change	-25.1%
1 Year Total Return	-6.8%
Share Outstanding	5,342.1 mn
Market Capitalization	IDR 3,988.2 bn
Floating Rate	43.7%
Previous Recommendation	BUY / IDR1,185

Shareholders

PT Sungai Budi	28.08%
PT Budi Delta Swakarya	27.18%
Public	43.70%



Source: Bloomberg, BNIS Research



Source: Bloomberg, BNIS Research

...but, TBLA is likely to see lower biodiesel margins in 2H20

Recently, the government has reduced the cost assumption of converting crude palm oil (CPO) into FAME in biodiesel pricing formula to USD80/ton from USD100/ton starting from June 2020. It is unclear how long this change in pricing would be in effect. Our channel checking found some parties saying it will be adjusted every month, while others expected it to last for three months. Nevertheless, we expect TBLA to still be able to make a comfortable margin amidst this price reduction, owing to methanol prices as main raw material of biodiesel have come down in line with low global crude oil prices.

Sugar import quota is the key sugar business to improve

Lowering a reliance risk on global CPO price fluctuation and sustainability of the biodiesel program, TBLA benefits from its presence in the downstream segment as well as diversification from its sugar business. At the end May 2020, the government finally allocated the third sugar import quota for 2020 of around 1.1mn tons as sugar deficit worsened amidst Covid-19 due to sub-optimal sugar distribution, coupled with people's panic buying for basic food needs resulted in sugar price soaring to IDR17,500/Kg vs. ceiling price (HET) at IDR12,500/Kg. TBLA received 80,000 tons of the allocation, prior to this TBLA has received two import quotas totaling 90,000 tons.

On the other hand, we expect sugar cane yields to improve to around 60ton/ha in 2H20 and further rise to around 85ton/ha as the acreage matures, translating to sugar production of around 7.1 ton/ha. Higher sugarcane yields should enable TBLA to reduce purchases of sugarcane from third party and improve its sugar mill's utilization rate.

Maintain BUY at decent valuation

With markets in a liquidity-driven rally and improved economic activities from the relaxation of the PSBB, we believe fuel demand would increase and TBLA could be the next play to provide investors with a limited risk in terms of earnings. We believe TBLA is already trading at a relatively fair value at forward P/E of 4.7x and its historical mean in last 5-years of 6.5x. Last but not least, capex has surged in the last few years as TBLA expanded its processing capacity for palm oil and sugar, biodiesel capacity expansion, and also spent on re-planting palm tree. However, management expects capex to decline in 2021F onwards, improving the chance for TBLA to become a dividend play. Hence, based on the thesis discussed above, we retain our BUY call for TBLA with TP of IDR1,185 based on blended forward P/E at 8.3x—1 std above the 5-year mean (60% weight) and DCF-based valuation method (WACC of 11.4%, a risk free rate of 7.5%, market risk premium of 5.0%, beta of 0.8)(40% weight). Key risks are mainly forex volatility and leverage related, which is higher than its peers' average.

APPENDIX

Exhibit 1. TBLA's 1H20 financial result

PT Tunas Baru Lampung Tbk (TBLA) - Quarterly review										Actual/		Actual/	
(in IDR bn)	2Q19	2Q20	YoY (%)	1Q20	QoQ(%)	1H19	1H20	YoY (%)	FY20F BNIS (%)	Cons.	cons. (%)		
Net sales	1,949	2,922	49.9%	2,765	5.7%	4,122	5,687	38.0%	10,394	54.7%	10,350	54.9%	
COGS	(1,382)	(2,317)	67.7%	(2,114)	9.6%	(3,035)	(4,431)	46.0%					
Gross Profit	567	604	6.5%	651	-7.2%	1,087	1,256	15.5%					
Opex	(143)	(195)	36.8%	(155)	25.9%	(268)	(351)	30.7%					
Operating profit/loss	425	409	-3.7%	496	-17.6%	819	905	10.5%					
Finance cost	(137)	(220)	60.8%	(175)	25.7%	(329)	(395)	20.1%					
Other income (expenses)	(57)	85	-250.1%	(183)	-146.8%	11	(97)	-962.7%					
Pretax profit	231	274	18.9%	138	98.4%	501	413	-17.6%					
Tax expense	(74)	(55)	-26.6%	(37)	48.4%	(141)	(91)	-35.1%					
Non-controlling interest	(0)	(0)	-71.8%	(0)	25.9%	(1)	(0)	-81.3%					
Net profit	156	220	40.9%	101	116.6%	359	321	-10.6%	746	43.0%	669	48.0%	
(in %)													
Gross margin	29.1%	20.7%		23.6%		26.4%	22.1%						
Operating margin	21.8%	14.0%		17.9%		19.9%	15.9%						
Pre-tax margin	11.8%	9.4%		5.0%		12.2%	7.3%						
Net margin	8.0%	7.5%		3.7%		8.7%	5.6%						

Source: Company Data, BNIS Research

Exhibit 2. Indonesia's 2020F biodiesel usage to be 30% below the target of 9.6mn kiloliters

(in mn kilo litres)	Mandatory	Domestic Consumption	Export Market	Production Capacity	Target	
2016	n.a		3.0	0.4	3.7	1.8
2017	n.a		2.6	0.2	3.4	2.0
2018	B10		3.8	1.8	6.2	3.2
2019	B20		6.9	1.5	9.6	6.3
2020F (before Covid-19)	B30		9.7	1.8	12.2	9.6
2020F (amidst Covid-19)	B30		6.7	1.2	8.6	6.7

Source: APROBI, BNIS Research

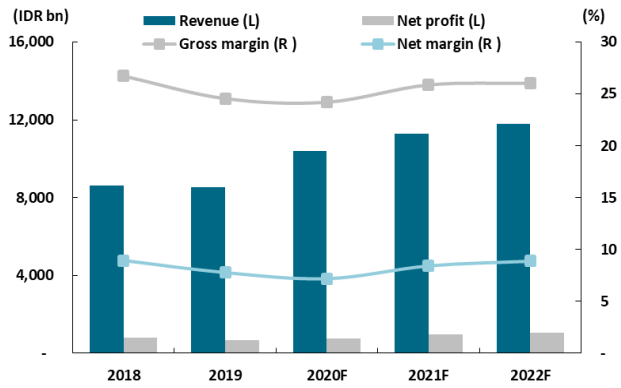
Exhibit 3. Amendments export levy across palm oil products, effective per June 1, 2020

Product	Old policy			New policy
	CPO price < USD570/ton	CPO price USD570-USD619/ton	CPO price > USD619/ton	
CPO	USD0/ton	USD25/ton	USD50/ton	USD55/ton
PKO	USD0/ton	USD25/ton	USD50/ton	USD55/ton
Biodiesel	USD0/ton	USD10/ton	USD20/ton	USD25/ton
Palm olein	USD0/ton	USD15/ton	USD30/ton	USD35/ton
Palm stearin	USD0/ton	USD10/ton	USD20/ton	USD25/ton

Source: MEMR No 152/PMK 05/2018 & No 57/PMK 05/2020, BNIS Research

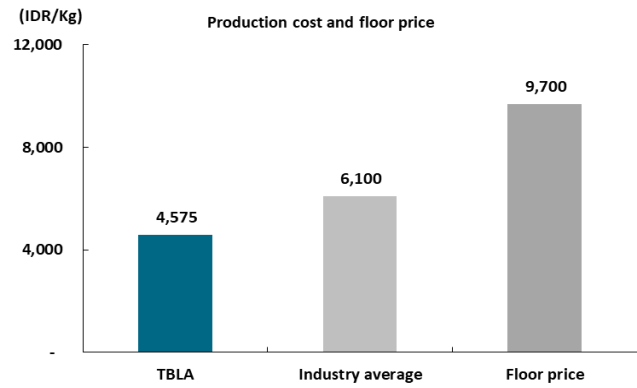
APPENDIX

Exhibit 4. Expected TBLA would maintain booked solid margin



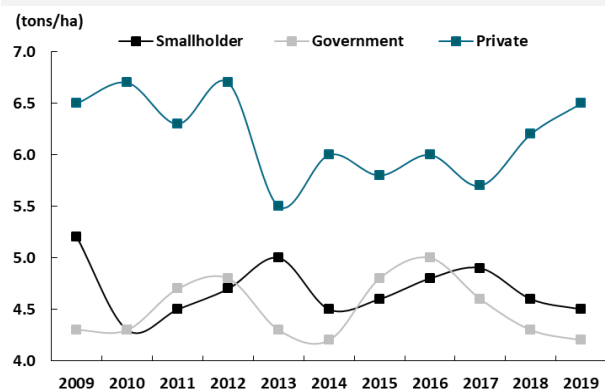
Source: Company Data, BNIS Research

Exhibit 5. TBLA's sugar production cost vs. avg. cost of industry and floor price



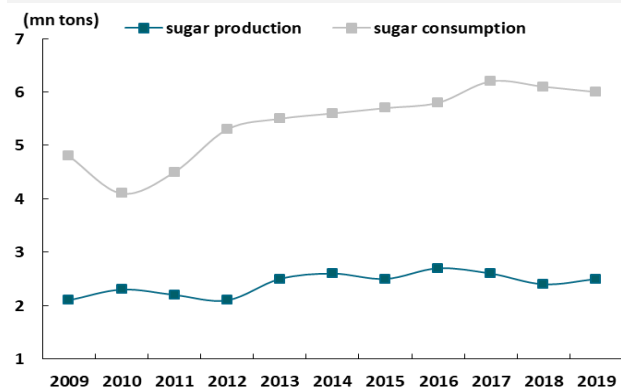
Source: Indonesia Statistic Agency, BNIS Research

Exhibit 6. Sugar productivity yield by ownership movement



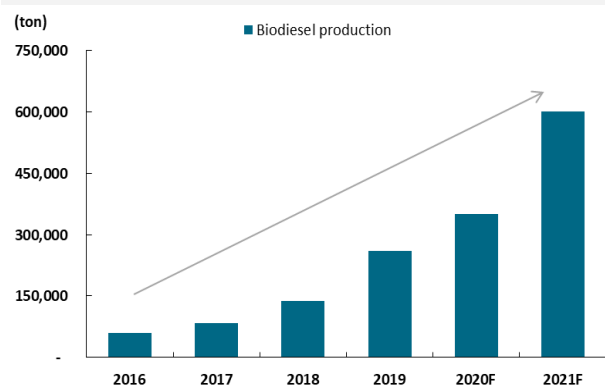
Source: Indonesia Statistic Agency, BNIS Research

Exhibit 7. Indonesia's sugar production and consumption movement



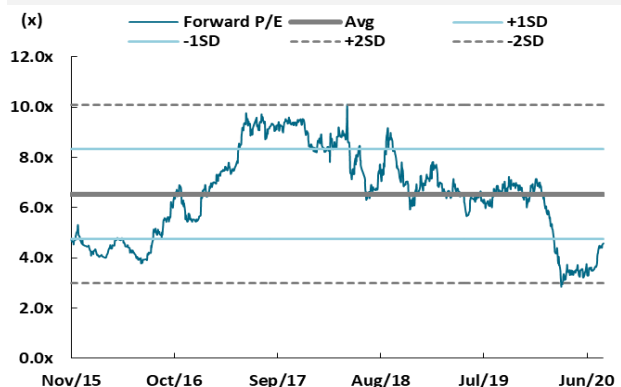
Source: Indonesia Statistic Agency, BNIS Research

Exhibit 8. Biodiesel' production volume to nearly doubled in 2021F underpinned by new biodiesel plant



Sources: Company data, BNIS Research

Exhibit 9. 5-years forward P/E band movement



Sources: Bloomberg, BNIS Research

APPENDIX

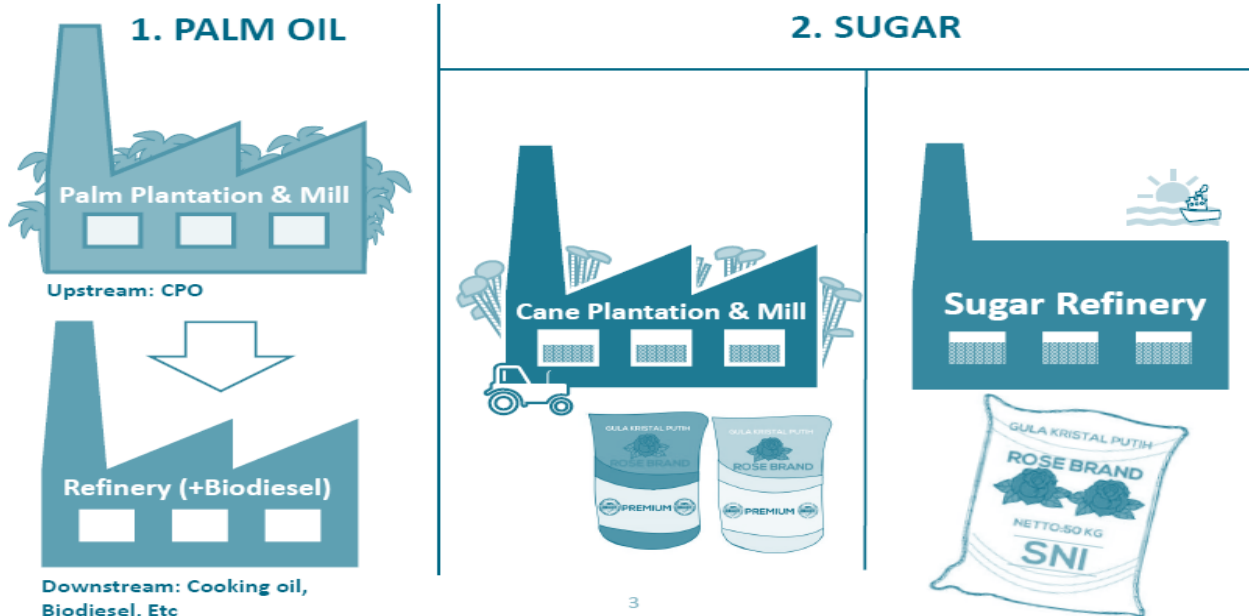
Exhibit 10. Comparison of global sugar consumption per capita



Source: USDA, BNIS Research

Exhibit 11. TBLA's business model and revenue driver

Revenue Drivers



Source: Company data, BNIS Research

FINANCIAL HIGHLIGHTS

Income statement

Year end Dec 31 (IDR bn)	2019	2020F	2021F	2022F
Revenue	8,533	10,394	11,271	11,779
COGS	(6,438)	(7,879)	(8,355)	(8,714)
Gross profit	2,095	2,516	2,916	3,065
Operating expense	(670)	(811)	(902)	(942)
EBIT	1,425	1,705	2,014	2,123
Depreciation	699	814	976	1,099
EBITDA	2,124	2,519	2,990	3,222
Interest expense	(694)	(707)	(793)	(792)
EBT	905	995	1,267	1,403
Income tax	(244)	(245)	(315)	(355)
Minority interest	2	(4)	(4)	(4)
Net Profit	663	746	948	1,044

Margin & Growth

(%)	2019	2020F	2021F	2022F
Gross margin	24.5	24.2	25.9	26.0
EBIT margin	16.7	16.4	17.9	18.0
EBITDA margin	24.9	24.2	26.5	27.3
Net profit margin	7.8	7.2	8.4	8.9
Revenue growth	-0.9	21.8	8.4	4.5
Net profit growth	-13.9	12.6	27.1	10.1

Cash Flow

Year end Dec 31 (IDR bn)	2019	2020F	2021F	2022F
Operating Cash Flow	663	2,820	1,236	2,932
Net Income	727	746	948	1,044
Depreciation	699	814	976	1,099
Other Non-Cash Adj	(763)	1,260	(688)	789
Investing Cash Flow	(2,268)	(1,947)	(1,843)	(1,858)
Capex	(1,373)	(2,498)	(1,915)	(1,885)
Other Investing Activity	(895)	551	71	27
Financing Cash Flow	1,529	(806)	667	(738)
Dividends Paid	(134)	(257)	(427)	(522)
Change in Debt	1,928	(579)	1,084	(259)
Other Financing Activity	(266)	30	10	44
Net Changes in Cash	(76)	67	60	336

Balance Sheet

Year end Dec 31 (IDR bn)	2019	2020F	2021F	2022F
Cash	401	468	527	864
Receivables	1,857	1,817	2,326	2,172
Inventories	2,184	2,781	3,440	2,506
Total Current Assets	6,552	6,430	7,815	7,169
Net Fixed Assets	10,508	12,193	13,131	13,917
Other Non Current Assets	304	231	244	248
Total Assets	17,363	18,854	21,190	21,335
Payables	1,541	2,344	1,776	2,282
ST Bank Loan	2,237	2,373	2,467	2,316
LT Debt	7,177	6,462	7,452	7,343
Total Liabilities	12,000	12,971	14,775	14,354
Capital Stock + APIC	1,182	1,182	1,181	1,180
Retained Earnings	3,796	4,286	4,808	5,331
Total Equities	5,363	5,883	6,415	6,981

Profitability & Stability

(%)	2019	2020F	2021F	2022F
ROE	12.4	12.7	14.8	15.0
ROA	3.8	4.0	4.5	4.9
ROIC	7.0	8.7	9.3	9.5
Dividend Yield	3.4	5.1	6.7	8.2
Dividend Payout Ratio	20.1	34.5	45.0	50.0
Debt Equity Ratio	175.5	150.2	154.6	138.4
Net Gearing	210.9	178.4	181.1	161.0
LT Debt to Equity	133.8	109.8	116.2	105.2
Capitalization Ratio	63.7	60.0	60.7	58.0
Equity Ratio	30.9	31.2	30.3	32.7
Debt Asset Ratio	54.2	46.9	46.8	45.3
Financial Leverage	332.2	322.0	325.6	317.4
Current Ratio	268.4	237.4	224.2	252.0

Valuation

(X)	2019	2020F	2021F	2022F
Price /Earnings	6.0	6.8	6.7	6.1
Price /Book Value	0.8	0.9	1.0	0.9
Price/Sales	0.5	0.5	0.6	0.5
PE/EPS Growth	0.4	0.5	0.2	0.6
EV/EBITDA	6.1	5.3	5.3	4.7
EV/EBIT	9.1	7.9	7.8	7.1

Sources: Company Data, BNIS Estimates

MAIN OFFICE - JAKARTA PT BNI SEKURITAS

Sudirman Plaza, Indofood Tower 16th Floor, Jl. Jend. Sudirman Kav. 76-78
Jakarta 12910, Indonesia
Phone: (62-21) 25543946 (Hunting)
Fax: (62-21) 57935831
e-mail: bnisec@bnisekuritas.co.id (General)

JAKARTA - Mangga Dua

Pertokoan Mangga Dua Blok E4 No. 7
Jl. Mangga Dua Raya, Jakarta Utara
Phone: (62-21) 6123804-5, 62203890
Fax: (62-21) 6123806
e-mail: manggadua@bnisekuritas.co.id

JAKARTA - Puri Indah

Gedung Bank BNI Ruko Grand Puri Niaga
Puri Kencana Blok K 6 no.2J 2K
Puri Kembangan, Jakarta Barat
Phone: (62-21) 58357464
Fax: (62-21) 58357465
e-mail: bnispuri@bnisekuritas.co.id

JAKARTA - Central Park

Central Park, APL Tower Podomoro City
Jl. Letjen S. Parman Kav 28, Tanjung Duren Selatan, Petamburan
Phone: (62-21) 29034215
Fax: (62-21) 29034216
email: centralpark@bnisekuritas.co.id

JAKARTA - Wisma Bumiputera

Wisma Bumiputera Lt. 18
Jl. Jend. Sudirman Kav. 75 Jakarta 12910
Phone: (62-21) 2523349
Fax: (62-21) 2523350
e-mail: wisma46@bnisekuritas.co.id

BANDUNG

Jl. Perintis Kemerdekaan 3
Bandung - 40117
Phone: (62-22) 4213375
Fax: (62-22) 4220604
e-mail: bnisbpbk@bnisekuritas.co.id

YOGYAKARTA

Jl. Laksda Adisucipto 137, Yogyakarta - 55282
Phone: (62-274) 581001-584032
Fax: (62-274) 584023
e-mail: jogja@bnisekuritas.co.id

SOLO

Jl. Honggo Wongso No. 24, Surakarta
Phone: (62-271) 729667, 730525
Fax: (62-271) 729668
e-mail: solo@bnisekuritas.co.id

SURABAYA

Jl. Gubernur Suryo No. 36, Surabaya
Phone: (62-31) 5320912
Fax: (62-31) 5318425
e-mail: surabaya@bnisekuritas.co.id

MALANG

Jl. Buring No. 58, Malang
Phone: (62-341) 321214, 321213, 321430
Fax: (62-341) 356876
e-mail: malang@bnisekuritas.co.id

DENPASAR

Komplek Pertokoan Diponegoro Megah Blok A5-6 Lantai 2
Jl. Diponegoro No. 100, Denpasar - Bali
Phone: (62-361) 264376, 2753389
Fax: (62-361) 229170
e-mail: denpasar@bnisekuritas.co.id

MEDAN

Jl. Pemuda No. 12, Medan - 20151
Phone: (62-61) 4579616
Fax: (62-61) 4579656
e-mail: medan@bnisekuritas.co.id

PALEMBANG

Jl. Jend. Sudirman 132, Palembang - 30126
Phone: (62-711) 361969
Fax: (62-711) 319663
e-mail: plb@bnisekuritas.co.id

PEKANBARU

Jl. Riau, No. 124, Bank BNI Lt. 2, Pekanbaru
Phone: (62-761) 46757, 839698
Fax: (62-761) 856279
e-mail: pekanbaru@bnisekuritas.co.id

MANADO

BNI KLN Megamas, Lt. 3, Kawasan Mega Mas Blok I C1
Jl. Piere Tendean, No. 20, Manado
Phone: (62-431) 847256
Fax: (62-24) 847256
e-mail: manado@bnisekuritas.co.id

ACEH

Kantor Cabang BNI Banda Aceh Lt.2
Jl. KH. Ahmad Dahlan No. 111, Banda Aceh
Phone: (62-651) 31109
Fax: (62-651) 31107

BANJARMASIN

Gd. Bank BNI Antasari Lt. 2
Jl. Pangeran Antasari No. 44 RT 008, Banjarmasin
Phone: (62-511) 3253735
Fax: (62-651) 3253754
e-mail: banjarmasin@bnisekuritas.co.id

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