

COMPANY RESULTS

Tunas Baru Lampung (TBLA IJ)

3Q20: Results Within Our Expectations where Demand Normalised

3Q20 results came in within our expectations as demand has started to normalise. The lower profits in 3Q20 were attributed to lower sales volume and higher external FFB purchases due to limited internal FFB production. We expect operating margin for the cooking oil segment to remain low in 4Q20. Under the B30 biodiesel programme, we expect the biodiesel allocation for TBLA to remain flat in 2021. Maintain BUY and target price of Rp960.

3Q20 RESULTS

Year to 31 Dec (Rpb)	3Q20	qoq % chg	yoy % chg	9M20	yoy % chg	Remarks
Revenue	2,379	(18.6)	7.0	8,066	27.1	
Gross Profit	548	(9.4)	(6.1)	1,803	8.0	
Operating Income	370	(9.6)	(11.5)	1,275	3.1	
Net Profit	84	(61.8)	(41.1)	405	(19.3)	
Core Net Profit	101	(15.8)	(29.0)	476	(0.6)	Within expectation.
Margins (%)						
Gross Margin						
Operating Margin	23.02	2.3	(3.2)	22.4	(4.0)	
Net Margin	15.54	1.5	(3.3)	15.8	(3.7)	

Source: TBLA, UOB Kay Hian

WHAT'S NEW

- **Results within our expectations.** Tunas Lampung Baru (TBLA) reported net profit of Rp101b in 3Q20. 9M20 net profit of Rp476b is within our expectations, accounting for 70% of our full-year assumption; in the past three years, 9M net profit contributed to an average of 72.5% of full-year profit.
- **Lower earnings in 3Q20.** This weaker qoq and yoy performances were mainly due:
 - Lower sales volume.** The weaker cooking oil and sugar sales volumes were mainly attributed to a slowdown in household demand and a more stringent lockdown in Indonesia on the back of a worsening COVID-19 pandemic. The lower qoq sales volume was also affected by the absence of the institutional demand from the government and private organisations' nationwide programmes (ie relief packages).
 - Higher external FFB purchases.** TBLA had increased external FFB purchases in 3Q20 by 7% qoq to mitigate the significant 26% qoq drop in its own FFB production which was affected by the drought last year. Due to the tight FFB and CPO supply in the market, this would translate into a narrower margin for its cooking oil segment.

KEY FINANCIALS

Year to 31 Dec (Rpb)	2018	2019	2020F	2021F	2022F
Net turnover	8,615	8,533	10,017	10,889	11,947
EBITDA	2,195	1,909	2,233	2,320	2,356
Operating profit	1,694	1,425	1,755	1,856	1,904
Net profit (rep./act.)	758	659	706	785	814
Net profit (adj.)	758	659	706	785	814
EPS (Rp)	141.8	123.4	132.1	147.0	152.4
PE (x)	5.5	6.3	5.9	5.3	5.1
P/B (x)	8.7	7.8	7.4	6.8	6.5
EV/EBITDA (x)	5.5	6.4	5.5	5.2	5.2
Dividend yield (%)	3.2	0.0	4.2	4.7	4.9
Net margin (%)	8.8	7.7	7.0	7.2	6.8
Net debt/(cash) to equity (%)	152.4	135.1	142.6	126.2	119.8
Interest cover (x)	3.3	2.8	2.9	2.8	2.9
ROE (%)	n.a.	13.0	12.9	13.4	13.0
Consensus net profit	-	-	699	924	1,056
UOBKH/Consensus (x)	-	-	1.01	0.85	0.77

Source: TBLA, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Rp780
Target Price	Rp960
Upside	+23.1%

COMPANY DESCRIPTION

Fully integrated palm oil producer and sugar producer. TBLA manufactures palm cooking oil and biodiesel.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	TBLA IJ
Shares issued (m):	5,342.1
Market cap (Rpb):	4,220.3
Market cap (US\$m):	298.3
3-mth avg daily t'over (US\$m):	0.2

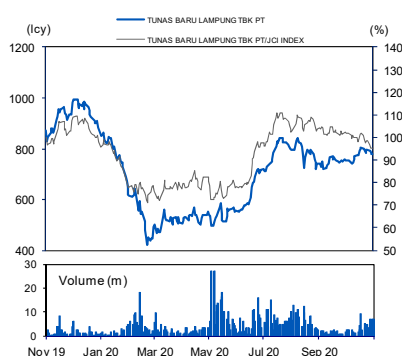
Price Performance (%)

52-week high/low	Rp995/Rp422			
1mth	3mth	6mth	1yr	YTD
5.3	(4.2)	46.3	(11.7)	(20.6)

Major Shareholders

	%
Sungai Budi PT	28.1
Budi Delta Swakarya PT	27.2
FY20 NAV/Share (Rp)	106
FY20 Net Debt/Share (Rp)	1,488

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Basic staples: Demand and pricing have started to normalise after the initial pandemic shock.** Selling prices for cooking oil and sugar have normalised. Cooking oil ASP increased 4.5% qoq, led by higher CPO prices. But sugar ASP dropped 15.5% qoq as demand was subdued with the supply from the domestic harvest and sufficient imports. On the biodiesel segment, the biodiesel selling prices was slightly lower qoq, where the Indonesian government had revised the biodiesel conversion cost twice this year from US\$100/tonne to US\$80/tonne (May-Aug 20) then US\$85/tonne since Sep 20.
- Cooking oil: Expect margins to remain low in 4Q20.** With the high CPO prices and lower sales volume in 4Q20, we expect the segment's operating margin to remain low. However, this would be partially mitigated by higher internal FFB production which we expect to see a double-digit qoq increase.
- Biodiesel: Stable earnings in 2021.** The Indonesia government had announced that the B30 biodiesel programme would remain in 2021. Hence, we expect TBLA's biodiesel earnings to remain stable in 2021. TBLA is building its second biodiesel plant (450,000-tonne capacity) in anticipation of improved energy demand post-pandemic. This plant is expected to be completed by 1H21. Once completed, TBLA's annual production capacity will rise to 750,000 tonnes.

EARNINGS REVISION/RISK

- Revised earnings.** We raise our 2020 net profit forecast by 6%, factoring in higher external FFB purchases. Our net profit forecasts for 2020-23 are at Rp707b, Rp785b and Rp814b respectively.
- Lower biodiesel sales volume in 2021.** We had factored in a lower biodiesel sales volume for 2021 as the Indonesia government is maintaining its B30 biodiesel programme.
- Uncertainty in sugar import quota.** The sugar import quota is allocated by the Indonesia government, which can vary. For example, TBLA did not get any allocation from the government in 2015.
- Net CPO buyer.** TBLA is a net CPO buyer as its own CPO production (about 300,000 tonnes p.a.) is not enough for its production of cooking oil and biodiesel. Thus, higher CPO prices may translate into narrower margins for its cooking oil segment. On the other hand, biodiesel margins are more secure with the fixed biodiesel conversion price, as CPO prices are covered under a biodiesel conversion formula.

VALUATION/RECOMMENDATION

- Maintain BUY and target price of Rp960,** based on SOTP valuation. We value the plantation segment at 7x 2021F PE and the sugar segment at 5x 2021F PE.

SHARE PRICE CATALYST

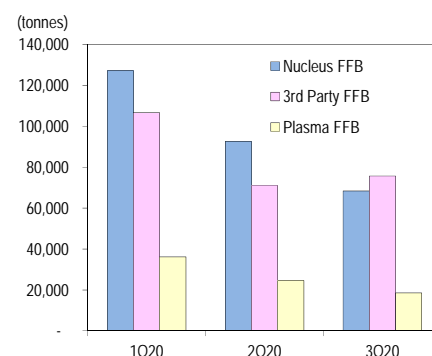
- Higher-than-expected selling prices.
- Better-than-expected CPO and sugar production.

OPERATIONAL HIGHLIGHTS

Production (tonne)	3Q20	qoq % chg	yoy % chg	9M20	yoy % chg
Nucleus FFB	68,358	(26.2)	(56.1)	288,099	(40.7)
Plasma FFB	18,514	(24.6)	(64.6)	79,265	(36.7)
Third party FFB	75,719	6.7	(68.6)	253,381	(51.0)
CPO	31,493	(24.2)	(61.8)	128,271	(41.8)
PK	2,947	(29.4)	(46.3)	15,501	(5.2)
Sales volume (tonne)					
PKO	6,250	49.6	(51.4)	21,350	(33.6)
Cooking Oil	67,097	(10.5)	39.0	215,961	39.7
Biodiesel	71,352	(25.1)	(15.2)	243,691	11.6
Sugar	67,099	(14.6)	(6.1)	207,310	2.4

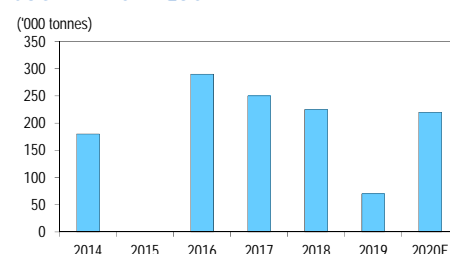
Source: TBLA, UOB Kay Hian

INCREASING IN EXTERNAL FFB PURCHASE



Source: TBLA

SUGAR IMPORT QUOTA



Source: TBLA

PROFIT & LOSS

Year to 31 Dec (Rpb)	2019	2020F	2021F	2022F
Net turnover	8,533	10,017	10,889	11,947
EBITDA	1,909	2,233	2,320	2,356
Deprec. & amort.	484	478	463	452
EBIT	1,425	1,755	1,856	1,904
Total other non-operating income	(19)	(50)	(20)	(20)
Net interest income/(expense)	(692)	(762)	(814)	(825)
Pre-tax profit	905	943	1,022	1,060
Tax	(244)	(236)	(235)	(244)
Minorities	(2)	(2)	(2)	(2)
Net profit	659	706	785	814
Net profit (adj.)	659	706	785	814

CASH FLOW

Year to 31 Dec (Rpb)	2019	2020F	2021F	2022F
Operating	1,125	379	1,657	1,557
Pre-tax profit	905	943	1,022	1,060
Tax	(244)	(236)	(235)	(244)
Deprec. & amort.	484	478	463	452
Working capital changes	357	(1,804)	(643)	(779)
Other operating cashflows	(377)	998	1,049	1,069
Investing	(1,365)	(894)	(1,094)	(1,244)
Capex (growth)	(640)	(500)	(600)	(600)
Capex (maintenance)	(731)	(400)	(500)	(650)
Others	6	6	6	6
Financing	417	454	230	221
Dividend payments	(134)	(212)	(236)	(244)
Issue of shares	0	0	0	0
Proceeds from borrowings	1,227	1,500	1,500	1,500
Loan repayment	(642)	(800)	(1,000)	(1,000)
Others/interest paid	(35)	(35)	(35)	(35)
Net cash inflow (outflow)	177	(61)	793	534
Beginning cash & cash equivalent	224	401	339	1,132
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	401	339	1,132	1,666

BALANCE SHEET

Year to 31 Dec (Rpb)	2019	2020F	2021F	2022F
Fixed assets	10,508	10,280	10,116	9,965
Other LT assets	304	319	336	355
Cash/ST investment	401	339	1,132	1,666
Other current assets	6,151	7,644	8,153	8,739
Total assets	17,363	18,582	19,738	20,725
ST debt	1,116	1,816	2,316	2,816
Other current liabilities	2,911	3,179	3,337	3,528
LT debt	6,517	6,517	6,517	6,517
Other LT liabilities	1,456	1,456	1,456	1,456
Shareholders' equity	5,353	5,604	6,103	6,399
Minority interest	10	10	10	10
Total liabilities & equity	17,363	18,582	19,738	20,725

KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	22.4	22.3	21.3	19.7
Pre-tax margin	10.6	9.4	9.4	8.9
Net margin	7.7	7.0	7.2	6.8
ROA	3.9	3.9	4.1	4.0
ROE	13.0	12.9	13.4	13.0
Growth				
Turnover	(0.9)	17.4	8.7	9.7
EBITDA	(13.0)	17.0	3.9	1.6
Pre-tax profit	(13.2)	4.2	8.4	3.6
Net profit	(13.0)	7.0	11.3	3.6
Net profit (adj.)	(13.0)	7.0	11.3	3.6
EPS	(13.0)	7.0	11.3	3.6
Leverage				
Debt to total capital	58.7	59.7	59.1	59.3
Debt to equity	142.6	148.7	144.7	145.9
Net debt/(cash) to equity	135.1	142.6	126.2	119.8
Interest cover (x)	2.8	2.9	2.8	2.9

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