

BUY

TP: Rp1,290 (+25.9%)

Tunas Baru Lampung

Sugary performance

9M16 earnings in-line with our expectation

Tunas Baru Lampung (TBLA)'s 9M16 earnings surged to Rp468 bn (+209% YoY), fulfilling 76% of our new full-year estimates, although slightly below consensus (69% from target). Overall revenue managed to increase to Rp4.5 tn (+12.2% YoY) with revenue from sugar business increased substantially to Rp1.4 tn (+232.7% YoY), mostly supported by much higher sales volume and ASP as compared to same period last year. TBLA's sugar sales contribution also increased subsequently to 31.1% of total sales (vs.15% in 9M15). On the other hand, its CPO revenue registered a decline of 9.1% YoY to Rp3.1 tn due to relatively lower sales volume on the back of weak harvest. We note that TBLA's 9M16 CPO production dropped to merely 138k tons (-36.7% YoY) as FFB output from nucleus and plasma estates declined by 38.1% and 55.5%, respectively. However, given the stronger sugar performance, both gross and operating profits seen higher to Rp1.16 tn (+38.6% YoY) and Rp759 bn (+65% YoY), translating into 25.8% gross margin and 16.8% operating margin for the period (higher compared to 20.8% and 11.5% in 9M15).

Ample unsold import quota to boost 4Q16 earnings

Upon receiving another 30,000 tons of import quota last month, TBLA's total raw sugar import quota has increased to 294k tons this year. However from sales volume wise, up to 9M16 they only managed to sell less than 40% of the allowed quota. This leaves the company with more than 177k tons of sugar inventory to be sold in the 4Q16 and 1Q17 period before they receive another import quota in 2Q17. We also believe that sugar ASP would remain favorable for the medium term as weak domestic sugarcane harvest coupled with low import quota last year has soaked up the national inventory. We believe such high sugar inventory and favorable price will provide a boost to the company's bottom line earnings for the rest of this year.

Palm oil conversion continues

TBLA continued to convert another 2,000 ha of palm oil estates in Lampung into sugarcane plantation, thus increasing its total sugarcane estates to more than 10,000 ha currently. The management also reaffirmed that they remain committed to increase their total planted sugar estate to 15,000ha by the end of this year to ensure adequate supply when new sugar mill commences operation in 2Q17.

Reiterate Buy rating with new TP of Rp1,290 /sh

We reiterate our Buy recommendation with new DCF-based TP of Rp1,290 /sh on change in analyst coverage. We continue to expect TBLA's sugar business to remain as the company's key backbone going forward, given its relatively higher margins as compared to palm oil. We also like the company's diverse downstream palm products such as biodiesel and cooking oil, to protect its margins during low commodity price environment. We believe that the company can start to accelerate its deleveraging program soon given the strong earnings and relatively low capex for the mean time following to the completion of its new sugar mills. On top of that, we also expect TBLA to announce higher dividend payout ratio of 40% from 30% previously, which translates into a sweet 4.5% dividend yield next year.

Exhibit 1: Financial Highlights

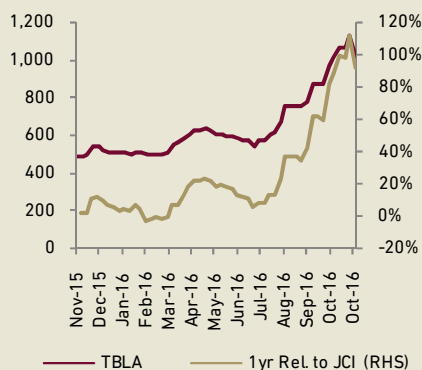
Year to 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (Rpbn)	6,338	5,331	6,251	7,308	7,874
Operating profit (Rpbn)	795	604	1,032	1,403	1,442
Net profit (Rpbn)	433	197	616	839	873
EPS (Rp)	87.3	38.2	115.4	157.1	163.3
EPS growth (%)	411.0	-56.2	202.0	36.1	4.0
EV/EBITDA (x)	6.2	10.0	6.2	4.7	4.4
PER (x)	11.7	26.8	8.9	6.5	6.3
PBV (x)	2.1	1.8	1.6	1.4	1.2
Dividend yield (%)	1.2	2.3	1.1	4.5	6.1
ROE (%)	17.8	6.9	18.1	20.9	19.2

Source : TBLA, Ciptadana Estimates

Sector Plantation
Bloomberg Ticker TBLA IJ

Share Price Performance

Last price (Rp)	1,025		
Avg. daily T/O (Rpbn/USDmn)	4.0/0.3		
	3m	6m	12m
Absolute (%)	34.0	69.4	109.6
Relative to JCI (%)	35.0	56.8	89.7
52w High/Low price (Rp)	1,150/461		



Outstanding shrs (mn)	5,342
Mkt. Cap (Rpbn/USDmn)	5,476/418
Estimated free float (%)	45.6

Major shareholders

Budi Delta Swakarya	27.8%
Sungai Budi	26.5%

EPS Consensus

	Ciptadana	Cons.	% Diff
2016F	115.4	127.0	-9.1
2017F	157.1	168.0	-6.5
2018F	163.3	177.0	-7.7

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Exhibit 2: TBLA's 9M16 earnings

Rp bn	9M16	9M15	YoY	3Q16	2Q16	QoQ	2016F	9M/16F
Financial performance								
Revenue	4,504	4,016	12.2%	1,592	1,885	-16%	6,251	72%
COGS	-3,344	-3,179	5%	-1,197	-1,362	-12%		
Gross profit	1,160	837	38.6%	395	524	-25%	1,595	73%
<i>Gross margin (%)</i>	<i>25.8</i>	<i>20.8</i>	<i>4.9</i>	<i>24.8</i>	<i>27.8</i>	<i>-3.0</i>		
Operating expense	-401	-376	7%	-138	-133	4%		
Operating income	759	461	65%	257	391	-34%	1,032	74%
<i>Operating margin (%)</i>	<i>16.8</i>	<i>11.5</i>	<i>5.4</i>	<i>16.1</i>	<i>20.7</i>	<i>-4.6</i>		
Forex gain (loss)	60	-197	-131%	26	8	241%		
Interest income	6	4	82%	3	3	5%		
Interest expense	-203	-138	47%	-73	-73	0%		
Others	19	30	-36%	7	27	-75%		
Profit before tax	641	160	302%	220	356	-38%		
<i>PBT margin (%)</i>	<i>14.2</i>	<i>4.0</i>	<i>10.3</i>	<i>13.8</i>	<i>18.9</i>	<i>-5.1</i>		
Income Tax	-172	-6	2884%	-59	-91	-35%		
Net Income	468	151	209%	158	245	-35%	616	76%
<i>Net margin (%)</i>	<i>10.4</i>	<i>3.8</i>	<i>6.6</i>	<i>9.9</i>	<i>13.0</i>	<i>-3.0</i>		
Production performance								
FFB harvested (k ton)	226	364	-38.1%	50	78	-36.3%		
External FFB (k ton)	480	711	-32.4%	187	146	27.9%		
CPO (thou ton)	138	218	-36.7%	39	49	-20.1%		
Palm kernel (k ton)	26	51	-47.9%	-5	16	-132.6%		
Oil extraction rate (%)	21.7	21.9	-0.20	21.7	22.6			
Sales performance								
CPO (k ton)	38	95	-60.2%	14	3	356.7%		
Cooking oil (k ton)	144	51	184.2%	42	47	-10.4%		
Biodiesel (k ton)	39	0	#DIV/0!	26	13	98.8%		
Sugar (k ton)	116	54	115.8%	38	64	-41.0%		
Average selling price								
CPO (Rp/kg)	7,321	7,643	-4.2%					
Cooking oil (Rp/kg)	9,040	8,724	3.6%					
Sugar (Rp/kg)	10,969	8,716	25.8%					

Source : TBLA, Ciptadana Estimates

Exhibit 3 - Income Statement

Year to 31 Dec (Rpbn)	2014A	2015A	2016F	2017F	2018F
Revenue	6,338	5,331	6,251	7,308	7,874
COGS	-5,045	-4,161	-4,656	-5,247	-5,724
Gross profit	1,293	1,170	1,595	2,061	2,150
Oper. expenses	-497	-567	-563	-658	-709
Oper. profit	795	604	1,032	1,403	1,442
EBITDA	1,065	843	1,457	1,871	1,933
Interest income	6	4	16	0	0
Interest expense	-207	-223	-306	-299	-281
Other income (exp.)	73	43	20	20	0
Pre-tax profit	562	263	823	1,124	1,161
Income tax	-126	-62	-195	-273	-273
Minority interest	-3	-4	-11	-12	-15
Net profit	433	197	616	839	873

Exhibit 4 - Balance Sheet

Year to 31 Dec (Rpbn)	2014A	2015A	2016F	2017F	2018F
Cash & cash equivalent	529	306	889	74	131
Acct, receivables	711	797	779	801	928
Inventory	956	1,146	1,205	1,361	1,559
Other curr, asset	664	880	917	944	1,087
Total current asset	2,861	3,129	3,790	3,179	3,705
Fixed assets - net	4,245	5,984	6,849	7,065	7,086
Other non-curr.asset	222	171	181	193	200
Total asset	7,328	9,284	10,820	10,438	10,990
ST debt + curr. maturity	1,440	1,606	2,343	1,923	1,723
Acct, payable	292	330	316	359	411
Advances received	0	0	0	0	0
Other curr. liab	857	772	753	781	810
Long term debt	648	1,810	2,040	1,410	1,410
Other non-curr, liab,	1,636	1,887	1,917	1,909	2,042
Total liabilities	4,875	6,405	7,368	6,381	6,395
Shareholder equity	2,436	2,857	3,414	4,007	4,544
Minority interest	18	21	37	50	51
Total liab + SHE	7,328	9,284	10,820	10,438	10,990

Exhibit 5 - Per Share Data

(Rp)	2014A	2015A	2016F	2017F	2018F
EPS	87.3	38.2	115.4	157.1	163.3
BVPS	490.4	554.2	639.1	750.0	850.6
DPS	11.9	23.8	11.1	46.2	62.8
FCF per share	-175.5	-318.4	-63.5	87.8	110.6

Source : TBLA, Ciptadana Estimates

Exhibit 6 - Cash Flow

Year to 31 Dec (Rpbn)	2014A	2015A	2016F	2017F	2018F
Net income	433	197	616	839	873
Depreciation	270	239	425	468	491
Chg in working cap.	-568	-107	-92	-153	-261
Other	-8	8	0	0	0
CF-Oper activities	126	338	950	1,153	1,103
Capital expenditure	-999	-1,979	-1,289	-684	-512
Others	1	0	0	0	0
CF-Investing activities	-998	-1,979	-1,289	-684	-512
Net change in debt	309	1,292	966	-1,050	-200
Net change in equity	289	-8	0	0	0
Dividend payment	-59	-123	-59	-247	-336
Other financing	204	257	15	13	1
CF-Financing activities	744	1,418	922	-1,283	-534
Net cash flow	-128	-224	583	-814	57
Cash - begin of the year	648	520	296	879	64
Cash - end of the year	520	296	879	64	121

Exhibit 7 - Key Ratios

Year to 31 Dec	2014A	2015A	2016F	2017F	2018F
Growth					
Revenue (%)	71.0	-15.9	17.2	16.9	7.7
Operating profit (%)	60.8	-24.1	71.0	35.9	2.7
Net profit (%)	413.6	-54.5	212.9	36.1	4.0
Profitability Ratios					
Gross margin (%)	20.4	22.0	25.5	28.2	27.3
Operating margin (%)	12.5	11.3	16.5	19.2	18.3
EBITDA margin (%)	16.8	15.8	23.3	25.6	24.5
Net margin (%)	6.8	3.7	9.9	11.5	11.1
ROA (%)	5.9	2.1	5.7	8.0	7.9
ROE (%)	17.8	6.9	18.1	20.9	19.2
Liquidity Ratios					
Current ratio (x)	1.1	1.2	1.1	1.0	1.3
Quick ratio (x)	0.7	0.7	0.8	0.6	0.7
Cash conversion cycle (days)	88.0	130.9	121.6	117.3	121.6
Activity Ratio					
Inventory turnover (days)	69.2	100.5	94.4	94.6	99.4
Receivable turnover (days)	32.5	51.6	46.0	39.5	40.1
Payable turnover (days)	13.7	21.3	18.8	16.8	17.8
Solvency Ratio					
Interest cover (x)	5.2	3.8	4.8	6.3	6.9
Debt to equity ratio (x)	0.9	1.2	1.3	0.8	0.7
Net debt to equity (x)	0.6	1.1	1.0	0.8	0.7

Source : TBLA, Ciptadana Estimates

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