

# Tunas Baru Lampung

Sector: Plantations (Neutral)

**BUY**

(unchanged)  
Rating momentum\*: ↓

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PX: IDR760–TP: IDR1,180 (From IDR850)  
TP/consensus: 139%; TP momentum\*: ↑  
JCI: 5,335

**Sugar rush**

▪ **Fully integrated business by 2017F to allow sugar revenue to triple:**

On the back of a major sugar expansion, TBLA is set to triple its 1H16 sugar-related revenue of IDR1tn to nearly IDR3tn by end-2017 by setting-up a sugar mill. The company's foray into the sugar business in Lampung started back in 2012 via conversion of plantation from existing palm to sugarcane due to greater soil suitability. Additionally, Lampung is strategically located between Java and Sumatra, the biggest sugar markets in Indonesia. As a major initiative to integrate its sugar business, TBLA started developing its own sugar mill with a total capacity of 120k tons per annum, and is expected to be operational by end-2016. Once complete, TBLA's sugar mill would allow the processing of its own harvested sugarcane into white sugar, creating higher value add. In 2017F, we expect white sugar production of 99.6k tons from a total sugarcane planted area of 14.4k ha (exhibit 8) with an average yield of 100tons/ha.

▪ **CPO price recovery to drive 2017F earnings:** Apart from the sugar business, we expect positive performance from TBLA's CPO segment, particularly on our expectations of continued price uptrend. In 2016F, we expect CPO price of USD625/mt, before increasing to USD750/mt in 2017F, as current recovery in CPO demand from major global customers (i.e. China and India) outpaces the slower global CPO production and inventory level. This should result in higher earnings for TBLA as we expect its CPO ASP to reach IDR8,923/kg coupled with higher production of 261k tons.

▪ **Shareholder bonus from refinery business:** On another positive note, TBLA has obtained a 262k tons sugar import quota from the government this year to produce refined sugar for the local market. We expect this to be fruitful for TBLA, translating into IDR2.2tn in additional 2016F revenue with a high gross margin of 40.5%. Note that historical data shows worsening sugar deficit in the past 5 years (exhibit 6), implying limited development of Indonesia's sugar industry with production badly outstripped by rapidly-growing domestic demand. Therefore, we believe that the government will continue to allow sugar imports and further raise import quota to fulfil the existing sugar deficit in the next few years. This is despite the government's plan to make Indonesia self-sufficient in sugar. Looking ahead, although we expect the sugar refinery business to provide continued additional earnings to shareholders, we have conservatively priced this business segment at only 1.0x PE, contributing only IDR40/share to our TP.

**Rating: BUY with higher TP of IDR1,180 or 55% upside potential**

In line with our 40% earnings upgrade for 2017F on the strong performance of TBLA's sugar mill and CPO business, we have raised our TP by 39% to IDR1,180 (SOTP-based, exhibit 11), from IDR850. As such, we expect the stock to sustain its market outperformance (exhibit 4) and reiterate our BUY recommendation. Risks to our call are IDR appreciation, lower-than-expected CPO prices, possible lower sugar import quota, potential cap on cooking oil prices and further delay in sugar mill project completion.

**Exhibit 1. Company information**

Market cap (IDRb/USDm)	: 4,060.0/306.0
3M avg.daily t.o.(IDRb/USDm)	: 2,296.4/173.1
Bloomberg code	: TBLA IJ

Source: Bloomberg

**Exhibit 2. Shareholders information**

Budi Delta Swakarya (%)	: 27.80
Sungai Budi (%)	: 26.49
Others (%)	: 1.47
Free float (%)	: 45.62

Source: Bloomberg

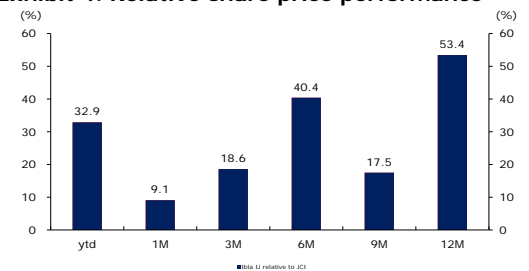
**Exhibit 3. Key forecasts and valuations**

Year to 31 Dec	2015	2016F	2017F	2018F
Revenue (IDRbn)	5,331	6,609	8,181	9,465
EBIT (IDRtn)	604	782	1,334	1,427
Net profit (IDRbn)	197	500	891	947
Bahana/cns. (%)	-	na	na	na
EPS (IDR)	37	94	167	177
EPS growth (%)	(58)	154	78	6
EV/EBITDA (x)	11.8	9.4	6.3	6.2
PER (x)	20.6	8.1	4.6	4.3
FCFPS (IDR)	(0)	0	(0)	(0)
FCF yield (%)	(0.0)	0.0	(0.0)	(0.0)
BVPS (IDR)	536	603	699	751
PBV (x)	1.4	1.3	1.1	1.0
DPS (IDR)	23	28	70	125
Yield (%)	3.0	3.7	9.3	16.6
ROAA (%)	2.4	5.1	8.0	7.5
ROAE (%)	7.4	16.4	25.6	24.4
EBIT margin (%)	11.3	11.8	16.3	15.1
Net gearing (%)	153.3	127.0	134.5	145.2

Source: Bloomberg, Bahana estimates

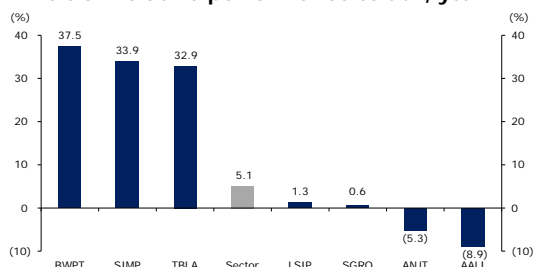
Note: Pricing as of close on 1 September 2016

**Exhibit 4. Relative share price performance**



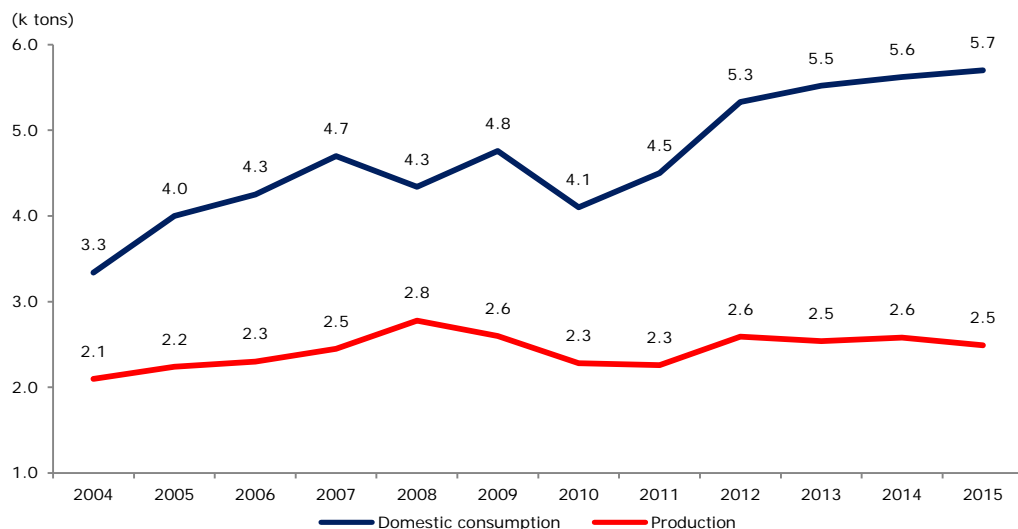
Source: Bloomberg, Bahana

**Exhibit 5. Relative performance to JCI, ytd**



Source: Bloomberg, Bahana

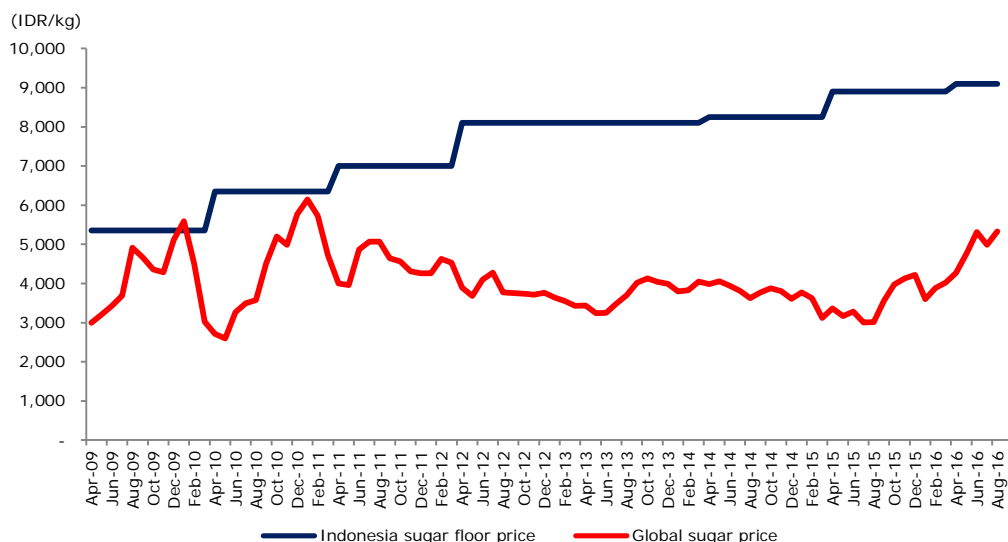
**Exhibit 6. Indonesia sugar domestic consumption & production, 2004-2015**



*Indonesia's sugar deficit continued to worsen in the past 5 years, ...*

Source: Company

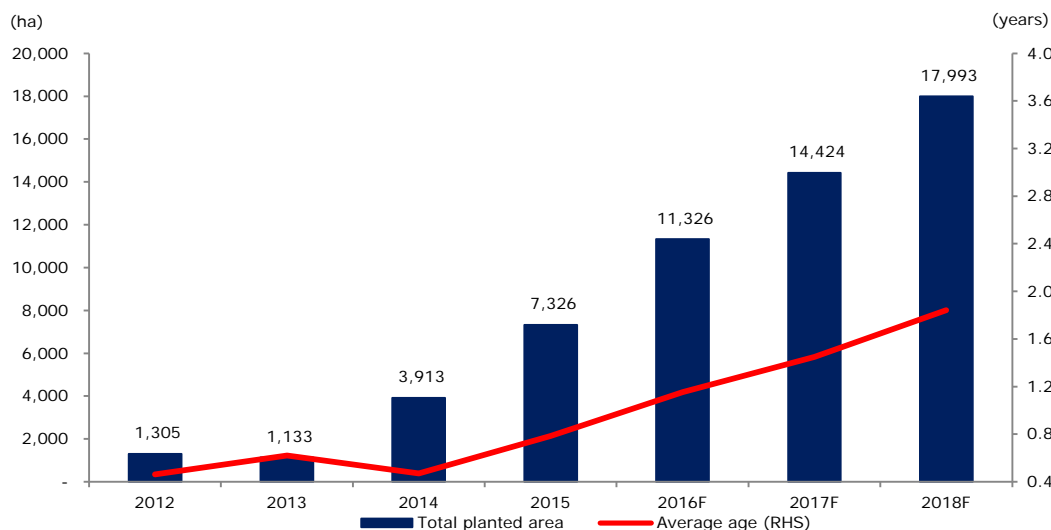
**Exhibit 7. Sugar price, April 2009 – August 2016**



*... lifting domestic sugar prices far above global sugar prices*

Source: Company, Bloomberg, Bahana

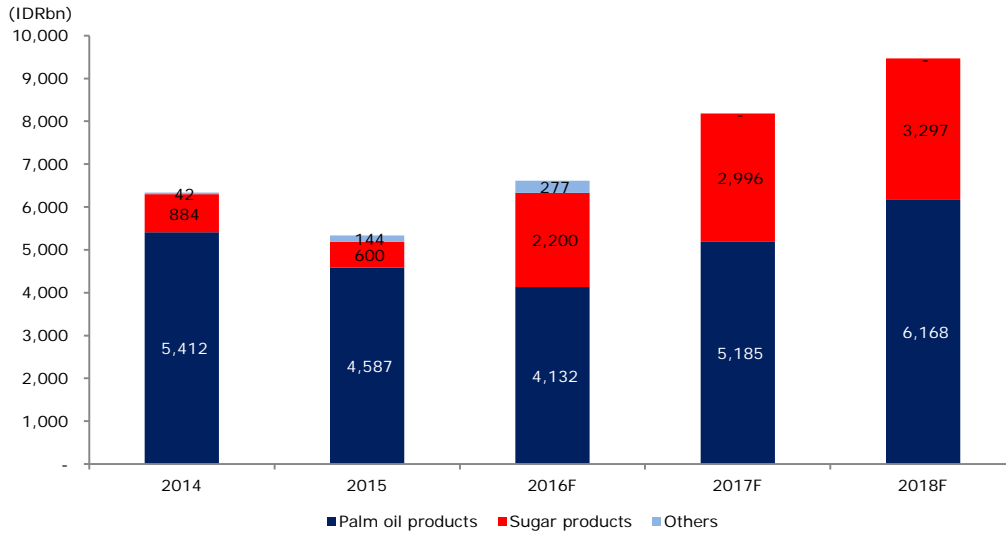
**Exhibit 8. Sugarcane plantation planted area & average age, 2012-2018F**



*TBLA's total sugarcane planted area to reach 17.9k ha by 2018F*

Source: Company, Bahana

**Exhibit 9. Revenue contribution per segment, 2014-2018F**



*Sugar mill and sugar refinery products should together contribute 37% of 2017F revenue*

Source: Company, Bahana

**Exhibit 10. Sugarcane plantation, mill & refinery location, 2016**



*The 120k tons sugar mill is strategically located within the company's sugarcane plantation area*

Source: Company

**Exhibit 11. TBLA's sum-of-the-parts valuation**

	Method	Value
<b>Division</b>		
Palm and sugar mill business	2017F PE of 9.0x	6,095
Sugar refinery business	2017F PE of 1.0x	214
Total value (IDRbn)		6,309
Shares outstanding (mn)		5,342
<b>Value/Share (IDR)</b>		<b>1,180</b>

*SOTP valuation results in a 2017F TP of IDR1,180*

Source: Bahana forecasts

**Exhibit 12. TBLA 2Q16 results summary**

(IDRbn)	2Q15	1Q16	2Q16	q-q (%)	y-y (%)	2Q16/ 2Q16F	1H16	y-y (%)	1H16/ 2016F	1H16/ Cons
<b>Sales</b>	<b>1,375.8</b>	<b>1,026.9</b>	<b>1,885.3</b>	<b>83.6</b>	<b>37.0</b>	<b>118</b>	<b>2,912.2</b>	<b>7.0</b>	<b>51</b>	<b>na</b>
<b>Gross profit</b>	<b>289.1</b>	<b>241.6</b>	<b>523.7</b>	<b>116.8</b>	<b>81.1</b>		<b>765.3</b>	<b>27.5</b>		
Operating expenses	(113.1)	(130.3)	(132.7)	1.8	17.3		(263.0)	17.4		
<b>Operating profit</b>	<b>376.0</b>	<b>111.3</b>	<b>502.3</b>	<b>351.4</b>	<b>33.6</b>	<b>274</b>	<b>502.3</b>	<b>33.6</b>	<b>74</b>	<b>na</b>
Net interest income/(expenses)	(55.4)	(56.9)	(70.0)	23.1	26.3		(126.8)	24.8		
FX gain (loss)	(48.1)	26.1	7.7	(70.4)	(116.1)		33.8	(135.8)		
Other income (expense)	(189.1)	6.5	(104.5)	na	(44.7)		13.3	(25.5)		
<b>Pretax profit</b>	<b>83.4</b>	<b>87.1</b>	<b>335.5</b>	<b>285.3</b>	<b>302.4</b>		<b>422.6</b>	<b>113.7</b>		
Taxation	(26.8)	(21.9)	(90.6)	314.6	238.1		(112.4)	125.5		
Minority Interest	(0.7)	(0.1)	(0.3)	405.9	(64.4)		(0.3)	(72.3)		
<b>Net profit</b>	<b>55.9</b>	<b>65.2</b>	<b>244.6</b>	<b>275.4</b>	<b>338.0</b>	<b>284</b>	<b>309.8</b>	<b>111.1</b>	<b>123</b>	<b>na</b>
<b>BS &amp; Ratio analysis</b>	<b>2Q15</b>	<b>1Q16</b>	<b>2Q16</b>				<b>1H16</b>	<b>2015A</b>	<b>2016F*</b>	<b>2017F*</b>
Gross margin (%)	21.0	23.5	27.8				26.3	22.0	22.5	23.2
Operating margin (%)	27.3	10.8	26.6				17.2	11.3	11.9	12.5
Pretax margin (%)	6.1	8.5	17.8				14.5	4.9	6.1	7.8
Net margin (%)	4.1	6.3	13.0				10.6	3.7	4.4	5.6
Inventory Days	82	144	76				96	99	78	72
Receivable Days	44	81	40				52	54	46.31	42.46
Payable Days	27	61	50				64	29	15	14
Total cash	389	226	326				326	296	228	425
Total debt	3,708	5,077	5,198				5,198	4,690	4,028	4,163
Net gearing (%)	132.0	165.8	153.7				153.7	153.8	123.8	111.0

Source: Company, Bloomberg \*using old forecast numbers

**Exhibit 13. Earnings revisions**

(IDRbn)	Old			New			Change (%)		
	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F
<b>Revenue</b>	<b>6,022</b>	<b>6,718</b>	<b>7,176</b>	<b>6,609</b>	<b>8,181</b>	<b>9,465</b>	9.8	21.8	31.9
<b>Gross profit</b>	<b>1,357</b>	<b>1,876</b>	<b>2,193</b>	<b>1,452</b>	<b>2,187</b>	<b>2,411</b>	7.0	16.6	9.9
Gross profit margin (%)	22.5	27.9	30.6	22.0	26.7	25.5			
<b>Operating profit</b>	<b>717</b>	<b>1,162</b>	<b>1,378</b>	<b>782</b>	<b>1,334</b>	<b>1,427</b>	9.1	14.8	3.5
Operating margin (%)	11.9	17.3	12.4	11.8	16.3	15.1			
<b>Net profit</b>	<b>437</b>	<b>636</b>	<b>891</b>	<b>500</b>	<b>891</b>	<b>947</b>	14.5	40.1	6.3
Net margin (%)	7.3	9.5	12.4	7.6	10.9	10.0			
<b>EPS (IDR)</b>	<b>82</b>	<b>119</b>	<b>167</b>	<b>94</b>	<b>167</b>	<b>177</b>	14.2	40.2	6.1

Source: Bahana

**Exhibit 14. Peers comparison, 2016F-2017F**

	Market cap (USDbn)	PER (x)		PBV (x)		EV/EBITDA (x)		Div. yield (%)		ROE (%)	
		2016F	2017F	2016F	2017F	2016F	2017F	2016F	2017F	2016F	2017F
<b>Indonesia</b>	<b>5.2</b>	<b>16.5</b>	<b>13.0</b>	<b>1.4</b>	<b>1.3</b>	<b>9.0</b>	<b>7.3</b>	<b>1.6</b>	<b>2.4</b>	<b>8.6</b>	<b>10.2</b>
ASTRA AGRO LESTARI TBK PT	2.3	19.8	16.3	1.9	1.8	10.8	8.9	1.6	2.4	10.7	11.6
SALIM IVOMAS PRATAMA TBK PT	0.6	18.0	13.4	0.6	0.6	6.6	5.8	1.7	2.0	3.0	4.1
AUSTINDO NUSANTARA JAYA PT	0.5	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
DHARMA SATYA NUSANTARA PT	0.4	14.4	11.1	1.9	1.6	10.3	8.6	1.4	1.6	12.5	14.6
SAMPOERNA AGRO TBK PT	0.3	15.0	11.8	1.1	1.0	8.5	6.8	1.1	1.9	7.8	9.5
TUNAS BARU LAMPUNG TBK PT	0.3	8.1	4.6	1.3	1.1	9.4	6.3	3.7	9.3	16.4	25.6
PP LONDON SUMATRA INDONESIA PT	0.8	19.8	14.7	1.4	1.3	9.9	7.7	2.0	2.2	7.0	9.0
<b>Malaysia</b>	<b>27.3</b>	<b>28.5</b>	<b>23.2</b>	<b>2.7</b>	<b>2.4</b>	<b>16.8</b>	<b>14.8</b>	<b>2.4</b>	<b>2.6</b>	<b>10.0</b>	<b>10.6</b>
SIME DARBY BERHAD	12.3	31.2	22.7	1.6	1.5	15.9	13.9	2.6	3.1	5.3	6.7
IOI CORP BHD	6.8	26.2	24.7	5.3	4.2	19.2	16.8	2.2	2.4	18.9	17.4
KUALA LUMPUR KEPONG BHD	6.2	23.9	21.9	2.5	2.4	14.8	14.0	2.7	2.6	11.0	12.0
GENTING PLANTATIONS BHD	2.1	33.9	25.0	1.9	1.8	20.8	16.5	0.7	0.9	5.5	7.1
<b>Weighted Average</b>	<b>32.5</b>	<b>26.6</b>	<b>21.6</b>	<b>2.5</b>	<b>2.2</b>	<b>15.6</b>	<b>13.6</b>	<b>2.2</b>	<b>2.6</b>	<b>9.8</b>	<b>10.5</b>

Source: Bloomberg, Bahana

**Tunas Baru Lampung**

Year to 31 December	2014	2015	2016F	2017F	2018F
<b>PROFIT &amp; LOSS (IDRbn)</b>					
Sales	6,338	5,331	6,609	8,181	9,465
Gross profit	1,293	1,170	1,452	2,187	2,411
EBITDA	1,065	598	999	1,619	1,765
Depreciation	270	(6)	217	285	339
EBIT	795	604	782	1,334	1,427
Net interest inc./ (expense)	(201)	(219)	(236)	(278)	(310)
Forex gain/ (losses)	(105)	(165)	34	-	-
Other income/ (expense)	73	43	50	62	72
<b>Pre-tax profit</b>	<b>562</b>	<b>263</b>	<b>630</b>	<b>1,119</b>	<b>1,188</b>
Taxes	(126)	(62)	(126)	(224)	(238)
Minority interest	(3)	(4)	(4)	(4)	(4)
<b>Net profit</b>	<b>433</b>	<b>197</b>	<b>500</b>	<b>891</b>	<b>947</b>

*We expect 2017F revenue at IDR8,181bn, +23.8% y-y, on accelerated contribution from sugar segment*

**BALANCE SHEET (IDRbn)**

Cash and equivalents	520	296	799	662	460
Trade receivables	711	797	575	858	981
Inventories	956	1,146	937	1,264	1,418
Fixed assets	2,843	4,442	5,337	6,144	6,765
Other assets	2,288	2,601	2,551	3,074	3,640
<b>Total assets</b>	<b>7,328</b>	<b>9,293</b>	<b>10,208</b>	<b>12,012</b>	<b>13,275</b>
Interest bearing liabilities	3,194	4,690	4,887	5,687	6,287
Trade payables	292	330	297	371	415
Other liabilities	1,388	1,386	1,778	2,186	2,521
<b>Total liabilities</b>	<b>4,875</b>	<b>6,406</b>	<b>6,962</b>	<b>8,244</b>	<b>9,222</b>
Minority interest	18	21	26	33	38
<b>Shareholders' equity</b>	<b>2,436</b>	<b>2,866</b>	<b>3,219</b>	<b>3,736</b>	<b>4,014</b>

*Increasing debt levels ...*

**CASH FLOW (IDRbn)**

EBIT	795	604	782	1,334	1,427
Depreciation	270	(6)	217	285	339
Working capital	(308)	(0)	629	(619)	(305)
Other operating items	(214)	(517)	166	(150)	(231)
<b>Operating cash flow</b>	<b>543</b>	<b>80</b>	<b>1,794</b>	<b>850</b>	<b>1,230</b>
Net capital expenditure	(999)	(713)	(1,345)	(1,420)	(1,370)
<b>Free cash flow</b>	<b>(455)</b>	<b>(632)</b>	<b>450</b>	<b>(569)</b>	<b>(140)</b>
Equity raised/ (bought)	289	(5)	-	-	-
Net borrowings	105	360	195	801	600
Other financing	(67)	161	(142)	(369)	(663)
<b>Net cash flow</b>	<b>(128)</b>	<b>(116)</b>	<b>503</b>	<b>(136)</b>	<b>(203)</b>
Cash flow at beginning	648	520	296	799	662
<b>Cash flow at end</b>	<b>520</b>	<b>296</b>	<b>799</b>	<b>662</b>	<b>460</b>

*... to finance expansion of its palm and sugarcane plantations*

**RATIOS**

ROAE (%)	20.5	7.4	16.4	25.6	24.4
ROAA (%)	6.4	2.4	5.1	8.0	7.5
Gross margin (%)	20.4	22.0	22.0	26.7	25.5
EBITDA margin (%)	16.0	15.4	15.1	20.2	19.1
EBIT margin (%)	12.5	11.3	11.8	16.3	15.1
Net margin (%)	6.8	3.7	7.6	10.9	10.0
Payout ratio (%)	70.3	28.3	75.0	75.0	75.0
Current ratio (x)	1.1	1.1	0.7	0.8	0.8
Interest coverage (x)	2.6	3.8	2.7	3.2	4.7
Net gearing (%)	109.8	153.3	127.0	134.5	145.2
Debts to assets (%)	43.6	50.5	47.9	47.3	47.4
Debtor turnover (days)	32	58	32	38	38
Creditor turnover (days)	17	27	21	23	21
Inventory turnover (days)	63	94	66	77	73

*Improved margins as a result of recovery in CPO prices*

**MAJOR ASSUMPTIONS**

FFB production (k tons)	719	542	462	527	577
Growth (%)	(3)	(25)	(15)	14	9
CPO production (k tons)	214	296	213	261	299
Growth (%)	1	38	(28)	22	14
ASP CPO (USD/ton)	9,000	7,500	8,000	8,923	9,538
Sugar plantation (ha)	1,133	3,913	7,326	11,326	14,424
Avg. exchg. rate (IDR/USD)	11,875	13,393	13,400	13,000	13,000

*FFB production to recover in 2017-18F post La Nina*

Source: Company, Bahana estimates

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