

Bahana Miners & Planters

Sector: O&G, Coal, Metals & Soft Commodities

NEUTRAL

(unchanged)

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Weekly commodities report: TBLA, CPO and US Oil updates

TBLA obtains another 50k-ton import quota; Raise TP to IDR1,720:

TBLA announced positive news earlier today (2 Mar) in the form of its second allocation of the 2017 raw sugar import quota from the government amounting to 50k tons. Combined with its current raw sugar inventory level of c.120k tons and its first 2017 sugar import quota of 100k tons, we believe TBLA this year should have a substantially higher ability to produce refined sugar of 270k tons, 59% higher than last year's refined sugar production at 170k tons. Higher sugar production capacity will provide more access for TBLA to benefit on price seasonality due to the sugar demand hike during Lebaran season. Thus, we reiterate our BUY rating on the stock and increase our 2017F earnings to factor in higher refined sugar production capacity, resulting in higher 12M TP at IDR1,720, based on a 2017F PE of 10x, providing a 39% potential upside to our new TP. Risks to our BUY call may include a lower-than-expected raw sugar import realization, lower-than-expected sugar mill production yield, as well as lower CPO prices.

Malaysian palm oil exports at 1mn tons in February, -14% m-m:

According to Intertek Testing Services, Malaysian palm oil exports in February were 1mn tons, -14.2% m-m but +6.9% y-y on lower exports to the EU, India and Asia Oceania as Malaysia's major palm oil export countries (exhibit 5). Exports to China were 152k tons, flat m-m but up 152% y-y.

US crude oil field production increases 0.3% w-w: Based on EIA's latest report, US crude oil production averaged about 9.032 Mbopd for the week ending February 24. This was 0.3% more than the previous week's average at 9.001 Mbopd but +1.0% ytd and -0.5% compared to the same period last year. The 4-week average US crude oil production reached 8.997 Mbopd, up 0.3% from the previous 4-week average. Total inventories reached 520mn barrels, up 0.3% from the previous week but +6.9% compared to the same period last year. Current oil inventories are above the upper limit of the average range in 2017. US crude oil refinery inputs averaged about 15.7 Mbopd, 393,000 barrels per day more than the previous week's average. Refineries operated at 86.0% of their operable capacity last week. Gasoline production increased last week, averaging about 9.5 Mbopd. This is in line with our view that the US is expected to increase crude oil production, dragging down the potential uprise in oil prices as a result of OPEC's oil cut agreement by 1.14 Mbopd. Hence, we stay with our view that oil price will stay at the USD55/barrel level in 2017.

Accelerating increase in supply might be offset by stronger demand:

On the demand side in the US, after experiencing slow demand growth of only 60,000 bopd, due to a decline in distillate as a result of a mild winter in 2016, we are of the view that demand for oil in the US will rebound, driven by the rising US petrochemical industry due to an increase in ethane demand. The ethanol industry contributes 11.4% of US oil output. For the week ending February 24, plants producing Ethanol have increased by 4.8% compared to the same period last year to 1.034 Mbopd.

Exhibit 1. Forecasted commodities prices

	Spot	Forward	ytd	Bahana	
				2017F	LT
Coal (USD/ton)	82.6	81.1	83.2	62.5	62.5
Oil (USD/bbl)	55.9	56.6	55.9	55.0	62.0
Gold (USD/toz)	1,240	1,250	1,212	1,100	1,325
Nickel (USD/ton)	10,975	10,950	10,300	12,500	12,500
Tin (USD/ton)	19,375	19,578	20,140	21,179	21,062
CPO (USD/ton)	654.6	639.2	707.2	700.0	700.0

Source: Bloomberg, Bahana forecasts

Exhibit 2. Other commodities prices

	Spot	Forward	ytd
Wheat (USD/bu)	4.6	4.7	4.3
Sugar (USD/lb)	0.2	0.2	0.2
Cocoa (USD/ton)	1,896	1,956	2,095
Coffee (USD/lb)	1.5	1.5	1.5
Palm olein (USD/ton)	754.5	na	750.6
Skim milk (USD/ton)	1,954	na	2,186
Soy bean (USD/bu)	10.5	10.5	10.4
Corn (USD/bu)	3.8	3.9	3.7
Polyethylene(USD/ton)	1,442	na	1,468

Source: Bloomberg

Exhibit 3. Target-price sensitivity analysis

	2017F TP (IDR) based on			
	Spot	Forward	ytd avg.	Bahana
Coal				
ADRO	1,952	1,949	1,951	2,010
PTBA	13,662	13,653	13,662	14,130
ITMG	20,158	19,790	21,350	19,460
Metals				
INCO	2,914	2,924	2,439	4,230
Plantations				
AALI	14,840	14,200	20,960	20,250
LSIP	1,530	1,465	2,155	2,085
BWPT	525	510	645	630
TBLA	1,655	1,645	1,730	1,720

Source: Bahana forecasts

Exhibit 4. Key information

	CP (IDR)	Mkt. cap. (IDRbn)	Rating	EPS growth (%)	2017 F PE (x)	Yield (%)	ROE (%)
ADRO	1,685	53,896	BUY	87.1	14.2	3.6	8.1
PTBA	11,200	25,805	BUY	17.2	11.6	3.4	23.8
ITMG	17,950	20,284	BUY	89.0	8.0	8.7	20.8
INCO	2,560	25,436	BUY	na	12.9	na	7.7
AALI	15,325	24,133	BUY	15.7	13.4	1.9	10.0
LSIP	1,525	10,400	BUY	35.2	13.0	3.1	9.8
BWPT	380	11,980	BUY	na	51.6	-	3.3
TBLA	1,235	6,597	BUY	43.8	7.2	2.9	22.4

Source: Bloomberg, Bahana forecasts
Pricing as of close on 2 March

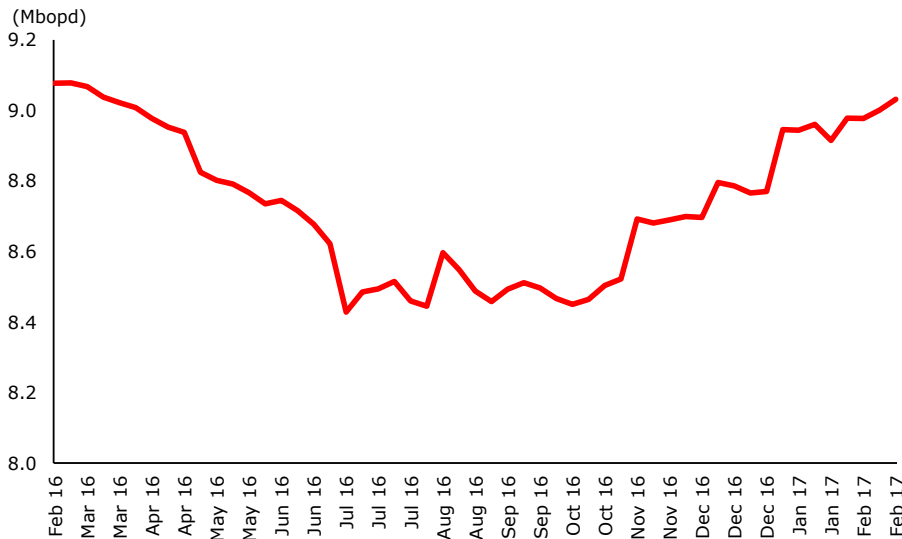
Exhibit 5. Malaysia palm oil export data

(k tons)	Feb-17	Jan-17	Feb-16	(%)	
				m-m	y-y
Total exports	1,008	1,175	943	(14.2)	6.9
Destination countries:					
Africa	91	50	95	80.9	(4.0)
Asia Oceania	213	253	202	(15.7)	5.6
China	152	152	60	(0.0)	151.8
EU	212	287	198	(26.3)	6.7
India	182	222	189	(18.1)	(3.8)
Middle East	71	131	101	(46.0)	(30.0)
The Americas	88	80	98	10.3	(10.2)

Source: Bloomberg, Bahana

Malaysian total exports in February fell 14% m-m but were 6.9% higher y-y

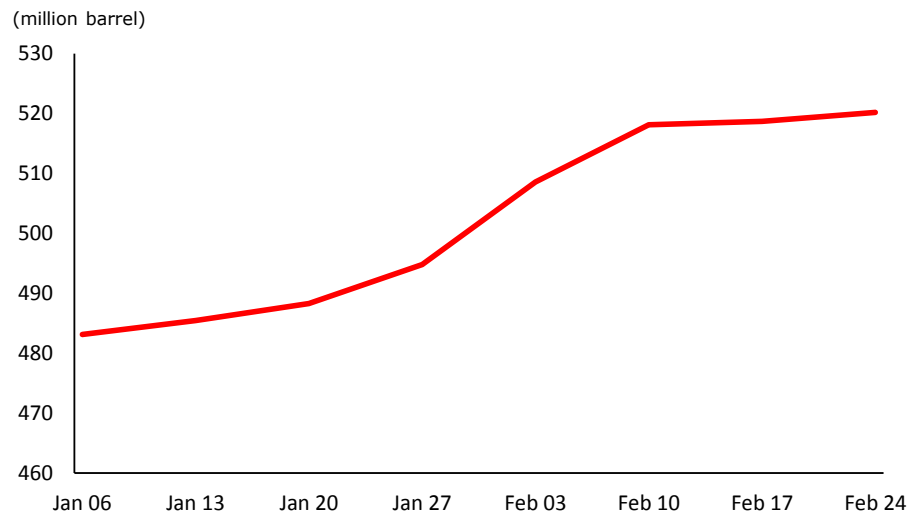
Exhibit 6. US crude oil production, 2016-Feb17



Source: eia

The US has been increasing output...

Exhibit 7. US crude oil inventory, ytd



Source: eia

... Leading to higher oil inventory

Tunas Baru Lampung

Year to 31 December	2014	2015	2016F	2017F	2018F
PROFIT & LOSS (IDRbn)					
Sales	6,338	5,331	6,080	8,444	9,336
Gross profit	1,293	1,170	1,559	2,195	2,510
EBITDA	986	823	1,344	1,930	2,173
Depreciation	233	281	423	494	457
EBIT	753	542	920	1,436	1,716
Net interest inc./ (expense)	(201)	(219)	(267)	(319)	(316)
Forex gain/ (losses)	(105)	(165)	80	-	-
Other income/ (expense)	115	105	121	112	103
Pre-tax profit	562	263	854	1,229	1,502
Taxes	(126)	(62)	(214)	(307)	(376)
Minority interest	(3)	(4)	(1)	(1)	(2)
Net profit	433	197	640	920	1,125

2017 net profit expected to reach IDR920bn on the commencement of white sugar production

BALANCE SHEET (IDRbn)

Cash and equivalents	520	296	207	477	973
Trade receivables	711	797	935	1,299	1,436
Inventories	956	1,146	1,507	2,083	2,275
Fixed assets	4,468	6,192	7,220	7,324	7,530
Other assets	674	862	1,037	954	968
Total assets	7,328	9,293	10,907	12,138	13,183
Interest bearing liabilities	3,194	4,690	5,388	5,488	5,538
Trade payables	292	330	696	961	1,050
Other liabilities	1,388	1,386	1,428	1,563	1,619
Total liabilities	4,875	6,406	7,512	8,013	8,208
Minority interest	18	21	22	24	25
Shareholders' equity	2,436	2,866	3,373	4,101	4,950

Stable debt levels at around IDR5.4-5.5tn in 2017-18F ...

CASH FLOW (IDRbn)

EBIT	753	542	920	1,436	1,716
Depreciation	233	281	423	494	457
Working capital	(355)	(238)	(133)	(674)	(241)
Other operating items	(31)	(597)	(414)	(301)	(552)
Operating cash flow	600	(13)	797	955	1,380
Net capital expenditure	(1,055)	(1,943)	(1,451)	(595)	(660)
Free cash flow	(455)	(1,956)	(654)	361	720
Equity raised/ (bought)	289	(8)	-	-	-
Net borrowings	105	1,496	698	100	50
Other financing	(67)	244	(133)	(191)	(275)
Net cash flow	(128)	(223)	(89)	270	496
Cash flow at beginning	648	519	296	207	477
Cash flow at end	519	296	207	477	973

... to fund maintenance capex at around IDR595-660bn in 2017-18F

RATIOS

ROAE (%)	17.8	6.9	19.0	22.4	22.7
ROAA (%)	5.9	2.1	5.9	7.6	8.5
Gross margin (%)	20.4	22.0	25.6	26.0	26.9
EBITDA margin (%)	15.6	15.4	22.1	22.9	23.3
EBIT margin (%)	11.9	10.2	15.1	17.0	18.4
Net margin (%)	6.8	3.7	10.5	10.9	12.1
Payout ratio (%)	0.7	0.3	0.6	0.3	0.3
Current ratio (x)	1.1	1.1	1.2	1.3	1.5
Interest coverage (x)	3.7	2.5	3.4	4.5	5.4
Net gearing (%)	109.8	153.3	153.6	122.2	92.2
Debts to assets (%)	43.6	50.5	49.4	45.2	42.0
Debtor turnover (days)	32	52	56	56	56
Creditor turnover (days)	17	27	56	56	56
Inventory turnover (days)	69	101	122	122	122

Margin improvements in 2017F on higher price trends

MAJOR ASSUMPTIONS

FFB prod. nucleus (k tons)	871	722	406	640	790
Growth (%)	1.7	(17.2)	(43.8)	57.7	23.4
CPO production (k tons)	214	296	184	248	309
Growth (%)	0.5	38.2	(37.8)	35.0	24.4
ASP CPO (USD/ton)	738	568	640	700	700
Sugar plantation (ha)	1,133	3,913	7,326	11,326	14,424
ASP Sugar (IDR/kg)	-	-	11,000	10,000	10,000
Avg. exchg. rate (IDR/USD)	11,875	13,393	13,500	13,500	13,500

We expect 2017 CPO production to increase 35% y-y



















Source: Company, Bahana forecasts

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