

# Bumitama Agri (BAL SP)

## ESG: Prosper thy neighbour

### Targets to be carbon neutral by 2030

BAL can pride itself as a sustainability champion. It pledged to make its operations carbon neutral by 2030. BAL has also initiated many community projects to help improve the income and livelihoods of surrounding communities. Overall, its ESG credentials appear to be relatively good but its wide geographical land concession of 234,000 ha with over 30,000 workers exposes BAL to multiple ESG risks. We maintain our BUY and TP of SGD0.65 on 12x FY21E PER peg, its 5-yr mean. BAL trades at single-digit PER with attractive net dividend yields of above 4%.

### 43% of total certifiable area RSPO certified

BAL has 56,433 ha or 43% of its total certifiable area RSPO certified. In FY20, its annual production of RSPO CSPO was 236,962t. Due to pandemic-related travel restrictions, it has deferred its time-bound plan to complete certification of all its mills by 2022 (previously 2020) or one year after obtaining HGUs, and for all plasma smallholders by 2024.

### Set aside 39,310 ha or 17% of area for conservation

BAL has adopted a Sustainability policy of No Deforestation, No Peat, No Exploitation in 2015. It has resolved all past land disputes, deforestation and forest fire allegations amicably. Nonetheless, there is still an ongoing land dispute via RSPO complaints system pending resolution which relates to a 2012 case that was reopened in 2017 (after being closed in 2015). BAL has also stepped up its environmental conservation efforts by setting aside 39,310 ha (or 17% of landbank) as conservation area. And it targets a 30% reduction in GHG intensity by 2030 using 2016 as baseline.

### Community welfare at its heart

Poverty and lack of awareness among rural community are common reasons in Indonesia for incidences of illegal deforestation and fires in the past. Cognisant of these, BAL has initiated many community projects aimed to reduce deforestation and minimise any fire use for community land clearing (as allowed by provincial regulations). Its CSR expenditure has averaged 2.3% of past 3 year's profits. Despite its environmental conservation and community development efforts, BAL remains one of the lowest cost producers in the region.

FYE Dec (IDR b)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	7,691	9,102	9,026	10,475	10,732
EBITDA	1,664	2,575	2,134	2,805	2,884
Core net profit	552	1,145	993	1,379	1,434
Core EPS (IDR)	317	660	573	795	827
Core EPS growth (%)	(53.0)	107.9	(13.2)	38.9	4.0
Net DPS (IDR)	91	264	229	318	331
Core P/E (x)	26.0	8.2	8.7	6.2	6.0
P/BV (x)	1.8	1.0	0.9	0.8	0.8
Net dividend yield (%)	1.1	4.9	4.6	6.4	6.7
ROAE (%)	8.7	13.2	10.7	13.8	13.2
ROAA (%)	3.2	6.4	5.4	7.2	7.2
EV/EBITDA (x)	13.2	6.3	7.3	5.4	5.1
Net gearing (%) (incl perps)	65.9	49.5	45.8	36.8	28.0
Consensus net profit	-	-	967	1,266	1,334
MKE vs. Consensus (%)	-	-	2.7	9.0	7.5

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# BUY

Share Price	SGD 0.46
12m Price Target	SGD 0.65 (+43%)
Previous Price Target	SGD 0.65

### Company Description

*Bumitama Agri Ltd. is an investment holding company, which engages in the operation of oil palm plantations and mills in Indonesia.*

### Statistics

52w high/low (SGD)	0.58/0.43
3m avg turnover (USDm)	0.4
Free float (%)	15.4
Issued shares (m)	1,758
Market capitalisation	SGD808.5M
	USD611M

### Major shareholders:

Fortune Corp. Ltd. /SG/	51.6%
IOI Corp. Bhd.	31.7%
Bumitama Agri Ltd.	1.3%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	0	(7)
Relative to index (%)	(1)	(5)	(21)

Source: FactSet

# ESG@MKE

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Risk Rating & Score <sup>1</sup>	48.9 (Severe)
Score Momentum <sup>2</sup>	-0.5
Last Updated	14 Apr 2021
Controversy Score <sup>3</sup> (Updated: 11 Sept 2020)	3 - Ops (land use & bio-diversity) incidents & Business ethics

## Business Model & Industry Issues

- BAL is a pure upstream oil palm player with 234,000 ha of land concession (about ~3.2x the size of Singapore) in Indonesia of which 187,917 ha are planted with oil palm. Of these, 132,816 ha are nucleus planted area (ie. owned by BAL). The remaining 55,101 ha are plasma planted area or 29.3% of its total planted area (which is 10% over the government’s mandatory level). The plasma area helps provide income for local communities, including local contractors, suppliers and other spill over businesses.
- Its geographical spread across Central Kalimantan, West Kalimantan and Riau with over 30,000 workers naturally exposes BAL to multiple ESG risks. Key risks include natural disasters, deforestation, labour practises, supply chain monitoring, and governance and corruption.
- BAL is one of the leaders in oil palm sustainability in Indonesia. Besides having 43% of its total certifiable area RSPO certified, it has also initiated many community projects surrounding its concession areas, providing community groups with alternative income and livelihoods.

## Material E issues

- BAL has adopted a Sustainability policy of No Deforestation, No Peat, No Exploitation (NDPE) in 2015.
- 8 of its 14 mills and 56,433 ha or 43% of total certifiable area are RSPO certified in FY20 (which included two groups of plasma smallholders area measuring 1,889 ha in total).
- In FY20, it achieved a 42% increase in RSPO certified volume (of 236,962t) compared to FY18.
- 98.8% of all FFB is traceable to plantation.
- BAL has set aside 39,310 ha (or 16.8% of its total landbank of 234,000 ha) as conservation area comprising HCV (25,885 ha), HCS (11,517 ha), Peat (1,540 ha) and Others (368 ha).
- BAL has pledged to make its operations carbon neutral by 2030. It targets a 30% reduction in GHG intensity by 2030 using 2016 as a baseline. In 2020, its GHG emissions intensity was 1.56MT CO<sub>2</sub>e/MT CPO, 4% lower than 2016.
- It has set Triple Zero Target Programme by 2025, with annual stepwise reduction targets towards zero fatalities, zero environmental incidents and zero fires. Most of the fires recorded at the concession areas were caused by extreme weather events despite proactive fire prevention measures.

## Material S issues

- FY20’s total CSR expenditure of IDR24.14b approximates 2.1% of its headline profits (3-yr avg: 2.3%), of which 79% was spent on schools and childcare, 9% on social & cultural activities, 4% on local business development, and 4% on health.
- Bumitama Foundation provides quality education to 5,300 children through 38 internal schools. It also runs 124 childcare centres caring for over 2,000 children. About 60% of students are children of BAL employees and the rest from nearby communities.
- It has invested heavily in fire prevention and educating smallholders.
- BAL began two 35-year social forestry programmes with communities in West Kalimantan designed to bring long-term benefits to the area it operates.
- Since 2018, two RSPO complaints cases have been closed, and one is still ongoing (which relates to a case reopened in 2017 after initially being closed in 2015).

## Key G metrics and issues

- The Board comprises six members: three independent directors (ID; 50%), one non-executive director (NED) and two executive directors (ED). It comprises three Singaporeans, two Indonesians, and one Malaysian member, and reflects the diverse professional and educational backgrounds.
- The Lim family, being the major shareholder which collectively owns 52.3%-equity stake in BAL, is represented by two EDs. One of them, Mr Lim Gunawan Hariyanto, is the CEO and Chairman of the Board. Besides the 2 EDs, there are two other immediate family members whose remuneration exceeded SGD100,000 during FY20.
- To ensure sufficient oversight, BAL has appointed an independent lead director. And the Board committees of the Audit Committee, Remuneration Committee, Nominating Committee, and Conflicts Resolution Committees are each chaired by an ID and all members are IDs. None of the IDs has served more than 5 years on the Board.
- The Lee family, being the 2nd major shareholder with a 32.1%-equity stake, is represented by one NED on the Board.
- The Board provides management oversight and leads the development of corporate strategies while being responsible for ensuring that BAL’s corporate governance practices are aligned with the Singapore Code of Corporate Governance.
- The Board oversees the Sustainability Policy strategy, and the CEO champions its sustainability principles. BAL’s senior management team handles oversight and the implementation of its Sustainability Policy and oversees all stakeholder consultation on sustainability matters.
- The Chairman/ CEO’s total remuneration package for FY20 was 2.1% of core net profits (3-yr avg: 2.8%).
- There is currently one female board member (or 17% of Board composition).
- BAL has a zero tolerance policy on gender discrimination and sexual harassment. Women make up 28% of its workforce.
- Ernst & Young (EY) has been its external auditor since listing in 2012. As the present engagement partner has been the same the past 5 years, we expect a new EY audit partner for FY21.
- There have been no questionable related-party transactions for the recent past five years.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

## Risk statement

There are several risk factors for our earnings estimates, price target, and rating for Bumitama Agri (BAL). Key risks to the palm oil sector and BAL are: (i) weather anomalies resulting in poorer-than-expected output growth, (ii) lower-than-expected CPO price achieved, (iii) negative policies imposed by import countries, (iv) unfriendly policies imposed by the Indonesian government on upstream planters, (v) sharply lower crude oil prices which makes palm biodiesel demand not viable, and (vi) weaker competing oil prices (like soybean and rapeseed).

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Metrics</b>					
P/E (reported) (x)	17.1	8.3	8.7	6.2	6.0
Core P/E (x)	26.0	8.2	8.7	6.2	6.0
P/BV (x)	1.8	1.0	0.9	0.8	0.8
P/NTA (x)	1.8	1.1	0.9	0.8	0.8
Net dividend yield (%)	1.1	4.9	4.6	6.4	6.7
FCF yield (%)	3.8	15.6	6.4	14.7	15.1
EV/EBITDA (x)	13.2	6.3	7.3	5.4	5.1
EV/EBIT (x)	20.5	8.4	10.4	7.1	6.7
<b>INCOME STATEMENT (IDR b)</b>					
Revenue	7,691.3	9,101.7	9,026.2	10,474.9	10,731.7
EBITDA	1,664.3	2,575.5	2,133.9	2,805.0	2,883.6
Depreciation	(597.3)	(644.9)	(648.2)	(682.5)	(711.0)
EBIT	1,067.0	1,930.6	1,485.6	2,122.5	2,172.6
Net interest income / (exp)	(53.5)	23.3	81.6	54.1	90.5
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	19.9	25.7	0.0	0.0	0.0
Other pretax income	159.7	(49.0)	0.0	0.0	0.0
Pretax profit	1,193.2	1,930.5	1,567.2	2,176.6	2,263.1
Income tax	(352.8)	(568.1)	(391.8)	(544.1)	(565.8)
Minorities	(154.0)	(236.0)	(182.2)	(253.0)	(263.1)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	686.3	1,126.4	993.2	1,379.4	1,434.2
Core net profit	551.6	1,144.6	993.2	1,379.4	1,434.2
<b>BALANCE SHEET (IDR b)</b>					
Cash & Short Term Investments	503.8	792.0	431.5	648.0	1,019.4
Accounts receivable	350.0	70.6	321.5	373.1	382.2
Inventory	658.8	852.4	850.1	949.2	973.6
Property, Plant & Equip (net)	11,063.1	11,538.7	11,902.9	12,232.8	12,534.2
Intangible assets	177.9	182.6	182.6	182.6	182.6
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	4,690.6	4,796.5	4,996.5	5,146.5	5,196.5
<b>Total assets</b>	<b>17,444.2</b>	<b>18,232.8</b>	<b>18,685.1</b>	<b>19,532.2</b>	<b>20,288.7</b>
ST interest bearing debt	625.5	282.1	282.1	282.1	282.1
Accounts payable	757.1	598.8	755.7	843.7	865.4
LT interest bearing debt	6,096.8	5,725.7	5,325.7	4,925.7	4,525.7
Other liabilities	534.0	1,092.0	1,010.0	1,088.0	1,099.0
<b>Total Liabilities</b>	<b>8,013.0</b>	<b>7,699.0</b>	<b>7,373.1</b>	<b>7,139.6</b>	<b>6,772.4</b>
Shareholders Equity	8,082.0	9,016.7	9,612.6	10,440.3	11,300.8
Minority Interest	1,349.1	1,517.2	1,699.4	1,952.4	2,215.5
<b>Total shareholder equity</b>	<b>9,431.2</b>	<b>10,533.8</b>	<b>11,312.0</b>	<b>12,392.6</b>	<b>13,516.2</b>
<b>Total liabilities and equity</b>	<b>17,444.2</b>	<b>18,232.8</b>	<b>18,685.1</b>	<b>19,532.2</b>	<b>20,288.7</b>
<b>CASH FLOW (IDR b)</b>					
Pretax profit	1,193.2	1,930.5	1,567.2	2,176.6	2,263.1
Depreciation & amortisation	597.3	644.9	648.2	682.5	711.0
Adj net interest (income)/exp	53.5	(23.3)	(81.6)	(54.1)	(90.5)
Change in working capital	(250.0)	56.6	(174.4)	15.8	(0.7)
Cash taxes paid	(388.0)	(163.0)	(391.8)	(544.1)	(565.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	1,205.9	2,445.8	1,567.7	2,276.6	2,317.1
Capex	(666.3)	(979.1)	(1,012.5)	(1,012.5)	(1,012.5)
Free cash flow	539.6	1,466.7	555.2	1,264.2	1,304.6
Dividends paid	(442.1)	(254.7)	(397.3)	(551.8)	(573.7)
Equity raised / (purchased)	(13.7)	40.6	0.0	0.0	0.0
Change in Debt	674.3	(863.3)	(400.0)	(400.0)	(400.0)
Other invest/financing cash flow	(550.8)	(122.1)	(118.4)	(95.9)	40.5
Effect of exch rate changes	(2.6)	21.1	0.0	0.0	0.0
Net cash flow	204.7	288.2	(360.5)	216.5	371.4

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(8.2)	18.3	(0.8)	16.1	2.5
EBITDA growth	(30.5)	54.7	(17.1)	31.5	2.8
EBIT growth	(42.2)	80.9	(23.1)	42.9	2.4
Pretax growth	(30.0)	61.8	(18.8)	38.9	4.0
Reported net profit growth	(37.4)	64.1	(11.8)	38.9	4.0
Core net profit growth	(53.1)	107.5	(13.2)	38.9	4.0
<b>Profitability ratios (%)</b>					
EBITDA margin	21.6	28.3	23.6	26.8	26.9
EBIT margin	13.9	21.2	16.5	20.3	20.2
Pretax profit margin	15.5	21.2	17.4	20.8	21.1
Payout ratio	23.0	40.6	40.0	40.0	40.0
<b>DuPont analysis</b>					
Net profit margin (%)	8.9	12.4	11.0	13.2	13.4
Revenue/Assets (x)	0.4	0.5	0.5	0.5	0.5
Assets/Equity (x)	2.2	2.0	1.9	1.9	1.8
ROAE (%)	8.7	13.2	10.7	13.8	13.2
ROAA (%)	3.2	6.4	5.4	7.2	7.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	10.9	12.6	16.9	16.6	17.5
Days receivable outstanding	19.4	8.3	7.8	11.9	12.7
Days inventory outstanding	37.8	41.4	44.4	42.1	43.8
Days payables outstanding	46.3	37.1	35.4	37.4	39.0
Dividend cover (x)	4.3	2.5	2.5	2.5	2.5
Current ratio (x)	1.5	1.5	1.4	1.5	1.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.2	2.4	2.5	2.7	3.0
Net gearing (%) (incl perps)	65.9	49.5	45.8	36.8	28.0
Net gearing (%) (excl. perps)	65.9	49.5	45.8	36.8	28.0
Net interest cover (x)	20.0	na	na	na	na
Debt/EBITDA (x)	4.0	2.3	2.6	1.9	1.7
Capex/revenue (%)	8.7	10.8	11.2	9.7	9.4
Net debt/ (net cash)	6,218.6	5,215.8	5,176.3	4,559.8	3,788.4

Source: Company; Maybank

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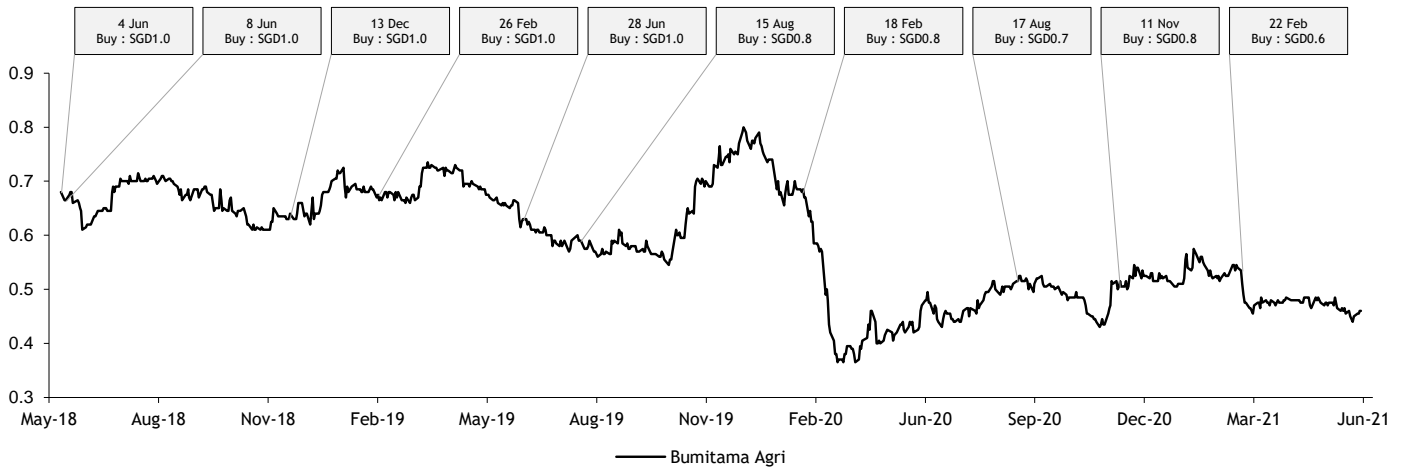
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