

Golden Agri-Resources Ltd

Weak 3Q13 results on low CPO price

Bloomberg | Reuters | POEMS
GGR.SP | GAGR.SI | GARSA.SG
Industry: Plantation

Phillip Securities Research Pte Ltd

13 November 2013

Report type: 3Q13 Results

Company Overview

Golden Agri-Resources Ltd (GAR) is the world's second largest palm oil plantation company with plantations located in Indonesia. It has integrated operations focused on the production of palm-based edible oil and fat.

- 9M13 results below expectations
- 0.585 SG cents interim dividend declared
- Maintain Neutral

What is the news?

Golden Agri reported 3Q13 net profit (excluding exceptional items) of US\$36mn (-38.5% QoQ, -59.8% YoY). This brings 9M13 core net profit to US\$203mn (-44.7% YoY), accounting for 54%/58% of PSR/consensus full-year forecast. The group also declared an interim dividend of 0.585 SG cents (vs. 0.6 SG cents last year), given its strong cash position and limited M&A investment opportunities at this point in time.

Figure 1. Results summary

Income statement (Extract)	3Q13	3Q12	y-y	2Q13	q-q
(US\$m)					
Revenue	1,571	1,672	-6.1%	1,682	-6.6%
EBITDA	111	190	-41.8%	140	-21.1%
Net profit	30	86	-64.8%	45	-33.2%
Core net profit	36	91	-59.8%	59	-38.5%

Source: Company, Phillip Securities Research

How do we view this?

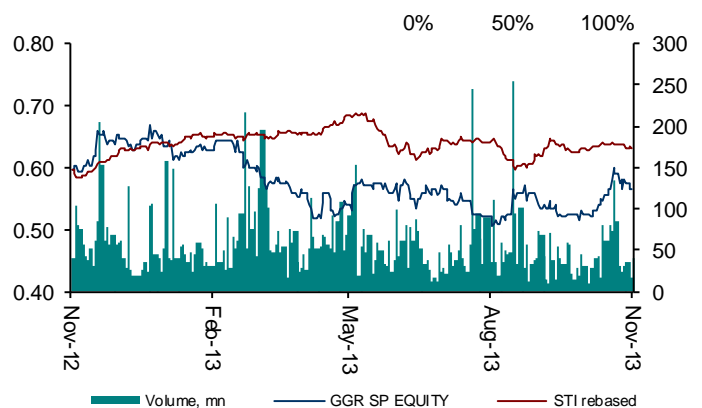
The weak performance was due to lower CPO prices, which fell by ~23% YoY during the period, higher operating costs and higher inventory levels. China operation has a slight net loss of US\$2mn in 3Q13, after two quarters of positive trend, indicating that the operating environment in China remains unstable for the group.

Investment Actions?

We trim our FY13E earnings estimates by 19% mainly on the higher operating cost assumptions to reflect weaker 3Q13, but leave our FY14E/15E estimates intact. Our target price remains at S\$0.50, still based on a blend of PE (12.0x FY14E) and DCF valuations. Maintain Neutral.

Golden Agri-Resources Ltd

Rating	3	Neutral
- Previous Rating	3	Neutral
Target Price (SGD)	0.500	
- Previous Target Price (SGD)	0.500	
Closing Price (SGD)	0.565	
Expected Capital Gains (%)	-11.5%	
Expected Dividend Yield (%)	2.4%	
Expected Total Return (%)	-9.1%	
Raw Beta (Past 2yrs weekly data)	0.80	
Market Cap. (USD mn / SGD mn)	5798 / 7253	
Enterprise Value (USD mn / SGD mn)	7400 / 9285	
3M Average Daily T/O (mn)	46.6	
52 week range (SGD)	0.5 - 0.69	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. Flambo International	50.0
2. Silchester International	5.0
3. Allianz Asset Management	1.4

Key Financial Summary

FYE	12/12	12/13F	12/14F	12/15F
Revenue (USD mn)	6,052	5,595	6,529	7,529
Net Profit, adj. (USD mn)	404	307	455	534
EPS, adj. (USD)	0.03	0.02	0.04	0.04
P/E (X), adj.	13.6	17.9	12.1	10.3
BVPS (USD)	0.66	0.68	0.71	0.73
P/B (X)	0.7	0.6	0.6	0.6
DPS (SGD)	0.01	0.01	0.01	0.02
Div. Yield (%)	2.1%	1.6%	2.4%	2.8%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

50:50 blend of PE-based (12.0X 2014e PE), and DCF valuations

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Weak 3Q13 results

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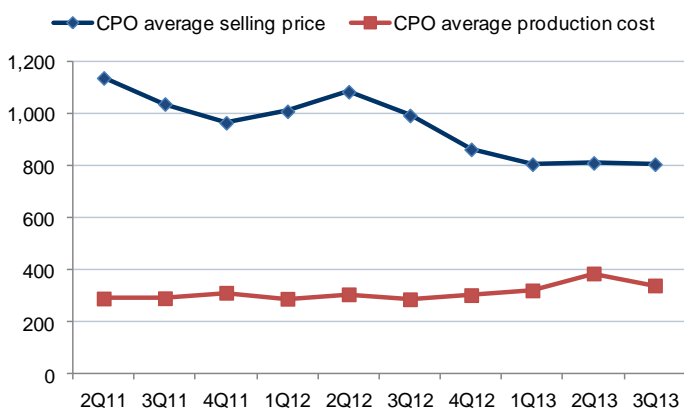
The group also declared an interim dividend of 0.585 SG cents (vs. 0.6 SG cents last year), given its strong cash position and limited M&A investment opportunities at this point in time.

Fig 2: Results comparison

Financials (US\$m)	3Q13	3Q12	YoY	2Q13	QoQ
Revenue	1,571	1,672	-6.1%	1,682	-6.6%
- Indonesia	1,221	1,270	-3.8%	1,385	-11.8%
- China	349	403	-13.2%	297	17.6%
EBITDA	111	190	-41.8%	140	-21.1%
- Indonesia	106	210	-49.5%	129	-17.7%
- China	4	-20	-121.7%	11	-60.7%
Profit before tax	42	135	-68.6%	69	-38.6%
Net profit	30	86	-64.8%	45	-33.2%
Core net profit	36	91	-59.8%	59	-38.5%

Source: Company, Phillip Securities Research

Fig 3: Quarterly average selling prices and costs of production (US\$/MT)



Source: Company, Phillip Securities Research

Production growth impacted by biological cycle

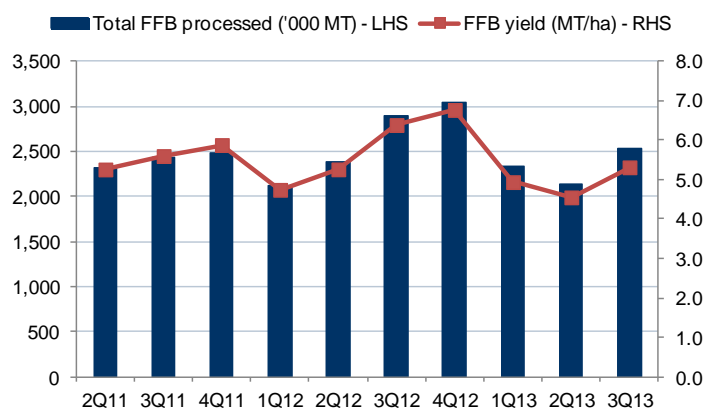
3Q13 CPO production rose 16% QoQ (-13% YoY) to 0.56mn tons, as it entered the seasonally higher production period. However, production is still down 13% YoY due to the biological trend following the bumper crop last year. This brings 9M13 production to 1.6mn tons (-5% YoY). That said, management is confident that production volume will return to the 5-10% range in FY14.

Fig 4: Plantation statistics

Key drivers	3Q13	3Q12	YoY	2Q13	QoQ
FFB output ('000 T)	2,293	2,670	-14.1%	1,967	16.6%
Palm output ('000 T)	694	798	-13.0%	593	17.0%
- CPO	560	647	-13.4%	481	16.4%
- PK	134	151	-11.3%	112	19.6%
FFB yield (T/ha)	5	6	-16.8%	5	16.8%
CPO extraction rate	0	0	-0.1 ppt	0	-0.3 ppt
PK extraction rate	0	0	0.1 ppt	0	0.1 ppt
CPO ASP (US\$/T)	806	993	-18.8%	811	-0.6%
CPO APC (US\$/T)	341	288	18.4%	387	-11.9%

Source: Company, Phillip Securities Research

Fig 5: FFB processed and yield quarterly trend



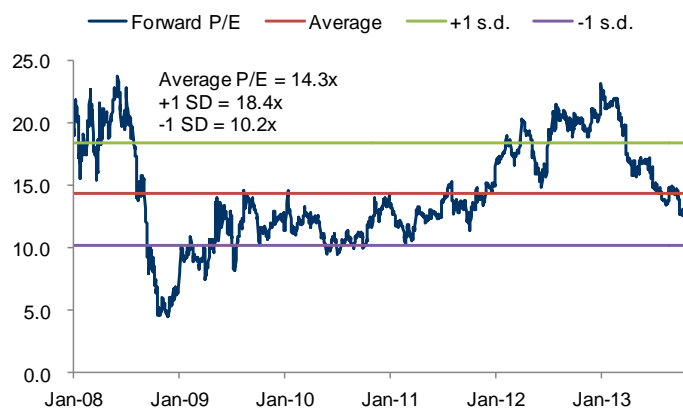
Source: Company, Phillip Securities Research

Maintain Neutral

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Key upside/downside risks: (1) stronger/weaker-than-expected CPO demand; (2) poor/good weather condition affecting/boosting oilseeds supply; (3) sharp rise/fall in oil prices.

Fig 6: GAR 12-month forward P/E



Source: Company, Phillip Securities Research

FYE Dec	FY11	FY12	FY13F	FY14F	FY15F
Valuation Ratios					
P/E (X), adj.	9.4	13.6	17.9	12.1	10.3
P/B (X)	0.7	0.7	0.6	0.6	0.6
EV/EBITDA (X), adj.	8.3	10.0	12.0	8.9	7.8
Dividend Yield (%)	3.3%	2.1%	1.6%	2.4%	2.8%
Per share data					
EPS, reported (USD)	0.10	0.03	0.02	0.04	0.04
EPS, adj.(USD)	0.05	0.03	0.02	0.04	0.04
DPS (SGcts)	1.84	1.19	0.93	1.37	1.61
BVPS (USD)	0.66	0.66	0.68	0.71	0.73
Growth & Margins (%)					
Growth					
Revenue	69.9%	1.7%	-7.6%	16.7%	15.3%
EBITDA	42.5%	-16.6%	-16.8%	34.2%	15.0%
EBIT	46.7%	-21.3%	-22.5%	38.7%	16.0%
Net Income, adj.	47.6%	-30.9%	-24.0%	48.0%	17.3%
Margins					
EBITDA margin	14.9%	12.3%	11.0%	12.7%	12.6%
EBIT margin	13.3%	10.3%	8.7%	10.3%	10.4%
Net Profit Margin	21.6%	6.9%	5.6%	7.1%	7.2%
Key Ratios					
ROE (%)	7.7%	4.9%	3.6%	5.1%	5.8%
ROA (%)	7.2%	5.0%	3.6%	4.9%	5.5%
Net Debt/(Cash)	809	335	587	668	594
Net Gearing (X)	10.0%	3.9%	6.6%	7.3%	6.2%
Income Statement (USD mn)					
Revenue	5,953	6,052	5,595	6,529	7,529
EBITDA, adj.	889	742	617	828	951
Depreciation & Amortisation	(95)	(116)	(132)	(156)	(172)
EBIT	795	626	485	672	780
Changes in fair value of bio assets	903	49	0	0	0
Finance (Expense)/Income	(53)	(67)	(87)	(93)	(95)
Other items	67	3	35	36	37
Associates & JVs	1	0	0	0	0
Profit Before Tax	1,712	612	433	616	722
Taxation	(428)	(196)	(121)	(154)	(181)
Profit After Tax	1,284	415	312	462	542
Non-controlling Interest	16	6	4	7	8
Net Income, reported	1,268	410	307	455	534
Net Income, adj.	571	404	307	455	534

Source: PSR

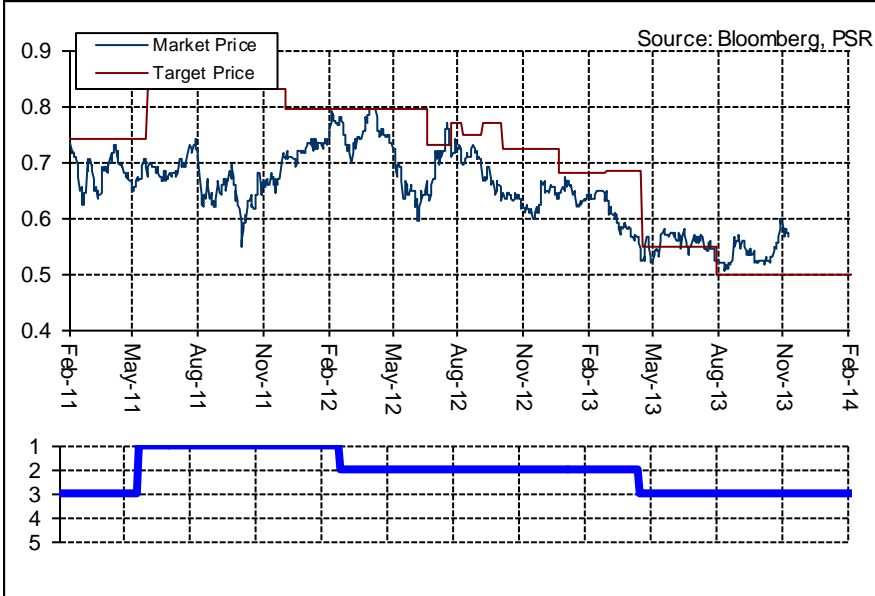
FYE Dec	FY11	FY12	FY13F	FY14F	FY15F
Balance Sheet (USD mn)					
PPE	1,759	2,007	2,371	2,621	2,765
Intangibles	117	117	116	116	116
Biological assets	7,804	7,899	7,955	8,011	8,067
Investments	91	531	531	531	531
Others	185	310	309	308	307
Total non-current assets	9,956	10,864	11,282	11,587	11,786
Inventories	751	840	777	906	1,045
Trade Receivables	234	400	504	588	678
Investments	93	126	126	126	126
Cash	277	560	308	227	300
Others	527	496	496	496	496
Total current assets	1,882	2,422	2,210	2,343	2,645
Total Assets	11,837	13,286	13,492	13,930	14,431
Short term loans	422	433	433	433	433
Trade Payables	491	685	671	783	904
Others	231	184	184	184	184
Total current liabilities	1,143	1,302	1,289	1,401	1,521
Long term loans	664	461	461	461	461
Deferred income tax	1,876	1,892	1,892	1,892	1,892
Others	41	1,012	1,012	1,012	1,012
Total non-current liabilities	2,582	3,366	3,366	3,366	3,366
Non-controlling interest	87	92	96	103	110
Shareholder Equity	8,025	8,527	8,742	9,061	9,434

Cashflow Statements (USD mn)

CFO					
PBT	1,712	612	433	616	722
Adjustments	(759)	155	219	248	266
Cash from ops before WC changes	954	766	652	864	988
WC changes	(115)	(50)	(54)	(102)	(109)
Cash generated from ops	838	717	598	762	879
Taxes paid, net	(142)	(257)	(121)	(154)	(181)
Interest paid, net	(46)	(52)	(87)	(93)	(95)
Cashflow from ops	651	409	390	516	604
CFI					
CAPEX, net	(440)	(390)	(550)	(460)	(370)
Purchase/sale of investments	(85)	(496)	0	0	0
Investments in subs & associates	(2)	0	0	0	0
Others	(35)	(90)	0	0	0
Cashflow from investments	(561)	(976)	(550)	(460)	(370)
CFF					
Share issuance	0	0	0	0	0
Loans, net of repayments	105	(193)	0	0	0
Payment of dividends	(79)	(244)	(92)	(137)	(160)
Others	(44)	1,316	0	0	0
Cashflow from financing	(19)	879	(92)	(137)	(160)
Net change in cash	70	311	(252)	(81)	74
CCE, end	277	560	308	227	300

Source: PSR

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation.

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