

Golden Agri-Resources Ltd

Phillip Securities Research Pte Ltd
5 December 2011

Market Singapore Stock Exchange
Sector Plantation
Reuters GAGR.SI
Bloomberg GGR.SP
POEMS GARSA.SG

Buy
(Maintained)

Closing Price
S\$0.705
Target Price
S\$0.795 (+12.8%)

Price
Last Price **0.705**
52w k High (1/4/2011) 0.83
52w k Low (10/4/2011) 0.55
Shares Outstanding (mil) 12138.68
Market Cap (S\$ mil) 8557.77
Avg. Daily Turnover (mil) 48.00
Free float (%) 50.00
PE (X) 3.85
PB (X) 0.92

- Expect to benefit from change in CPO tax structure.
- Production growth may slow but should be supported by favorable age profile.
- Maintain Buy recommendation with a revised fair value of \$0.795.

Beneficiary of change in Indonesian CPO tax rate

The Indonesian government announced a change in export tax rates for CPO products to be made effective on 15 September 2011 in a bid to encourage the development of downstream industries in Indonesia. Under this new tax regime, taxes on refined CPO products (RBD Palm Olein, RBD Palm Oil) were slashed in all price categories while taxes on crude palm oil (CPO) rose on average. (See Figure 1 below)

Price performance %

	1M	3M	6M
Absolute	7.6%	10.2%	2.2%
Relative	10.5%	10.4%	14.2%

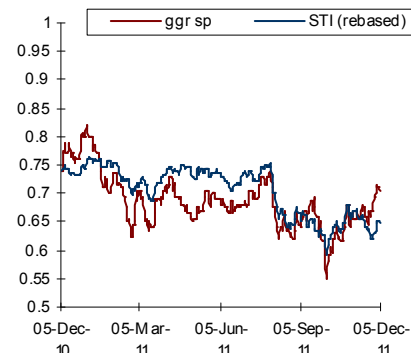


Fig 1. Indonesia Export Tax (%)													
After Changes	Price Range (US\$/MT)												
	Up to 750	> 750	> 800	> 850	> 900	> 950	> 1000	> 1050	> 1100	> 1150	> 1200	> 1250	
Product													
Crude Palm Oil (CPO)	0	7.5	9	10.5	12	13.5	15	16.5	18	19.5	21	22.5	
RBD Palm Olein	0	2	3	4	5	6	7	8	9	10	11.5	13	
RBD Palm Oil	0	0	0	2	3	4	5	6	7	8	9	10	
Before Changes	Price Range (US\$/MT)												
	Up to 700	>700	> 750	> 800	> 850	> 900	> 950	> 1000	> 1050	> 1100	> 1150	> 1200	> 1250
Product													
Crude Palm Oil (CPO)	0	1.5	3	4.5	6	7.5	10	12.5	15	17.5	20	22.5	25
RBD Palm Olein	0	1.5	3	4.5	6	7.5	10	12.5	15	17.5	20	22.5	25
RBD Palm Oil	0	0	1.5	3	4.5	6	8.5	11	13.5	16	18.5	21	23

Source: Indonesia Ministry of Finance, PSR

The change in tax rates benefits Indonesian refiners as it lowers export tax paid on their refined products, resulting in a significant price advantage over their Malaysian counterparts. Upstream producers also stand to benefit, as downstream players will be willing to pay higher domestic CPO prices to secure their CPO feedstock. Being both a refiner as well as producer of crude palm oil, we expect Golden Agri to benefit from the change in export tax structure. Indeed, management believes that it would benefit from this change and expect the full impact to be realized in 1Q12. However, we note that Indonesia may review the new CPO export tax structure due to pressure from Malaysia and India, both of whom are anxious to protect their domestic refineries.

Major Shareholders	%
1 Flambo International	50.00
2 Van Eck Associates Co	2.21
3 Carmignac Gestion	1.15

Source: Bloomberg

Analyst

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Conso' Ending	PATMI USD(mill)	EPS SG (¢)	DPS SG (¢)	BV SGD (¢)	ROE (%)	P/E (X)	Yield (%)	P/BV (X)
12/08A	1,383	17.7	0.65	66.1	34.9	4.0	0.9	1.1
12/09A	607	7.6	0.50	63.2	12.1	9.2	0.7	1.1
12/10A	1,423	16.0	0.77	71.9	23.2	4.4	1.1	1.0
12/11E	683	7.0	1.22	77.0	9.6	10.0	1.7	0.9
12/12E	667	6.9	1.24	82.7	8.7	10.3	1.8	0.9

Production growth expected to slow but should be supported by favorable age profile

After 9MFY11 FFB production grew strongly by 20% and 9MFY11 palm products grew 24% Y-Y, management expects production growth to slow to 5% in 2012. We believe this is due to the high base in 2011 (from extremely poor weather in 2010) and concerns about the possible effects from La Nina.

Golden Agri possesses a rather favorable age profile with a weighted average age of 12 years. Furthermore, it does not have a very bipolarized age distribution with a good concentration (20% as of 3Q11) of its palm plantation between the ages of 4 to 6 yrs. We think that when this age group "migrates" into the prime age group (7 to 18 years old) over the next two to three years, it should more than offset the proportion of total plantation "migrating out" of the prime age group. The proportion of total planted area in the prime age group should then increase, thereby supporting overall yields.

There was a surge in new plantings in 2006 and 2007. As these new plantings mature, they move up (follow arrows) the age groups and should reach the prime age group of 7-18 yrs in 2012 /2013, lifting the percentage of total planted area in the prime age group.

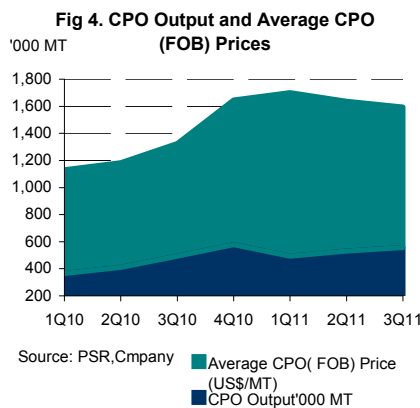
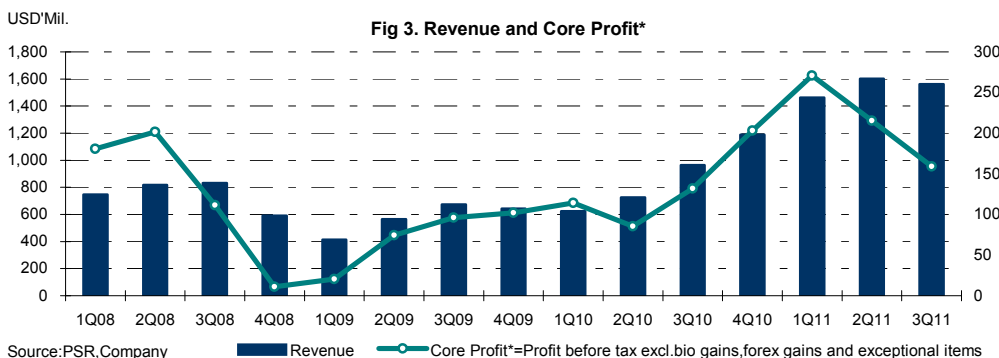
Fig 2. Plantation age profile in percentage terms

Year	Immature (<4 yrs)	Young (4-6 yrs)	Prime (7-18 yrs)	Old 1 (19-25 yrs)	Old 2 (>25 yrs)
2013e	14%	11%	48%	25%	3%
2012e	13%	15%	46%	23%	3%
2011e	13%	20%	44%	20%	2%
2010	18%	17%	50%	15%	1%
2009	22%	11%	56%	11%	1%
2008	21%	6%	62%		11%*
2007	19%	3%	69%		10%*
2006	12%	4%	74%		10%*
2005	4%	10%	77%		9%*
2004	3%	15%	77%		6%*
2003	5%	21%	71%		4%*

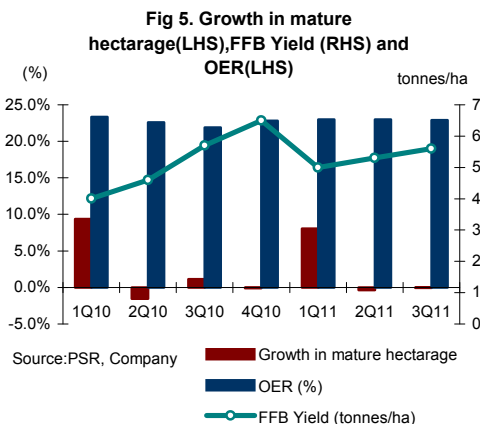
Source: Company, PSR estimates *Company data does not distinguish between "Old 1" and "Old 2" age groups during these time periods

3Q11 Results Review

Golden Agri reported 3Q11 turnover at US\$1.56bil. (+62% y-y) and 3Q11 PATMI at US\$110 mil. (+10.5% y-y). Y-Y, operating margin fell from 13.8% to 10.7% mainly due to higher export taxes (due to higher CPO prices as Indonesia has a progressive tax structure). On a q-q basis, turnover fell 2.4% and PATMI fell 61%. The steep fall in PATMI was mainly due to 1) higher CPO inventory of 34k tonnes 2) lower CPO selling prices (approx. 5.6% lower) 3) higher salary expenses for Idul Fitri of 1 month and 4) forex losses of US\$7.9mil in 3Q11 vs forex gain of US\$22.7mil in 2Q11.



CPO output increased 4.8% on a q-q basis mainly due to a 5.7% increase in FFB yield.



Scoring well in various operational matrixes among its peers

Golden Agri has achieved better CPO yield, FFB yield and palm oil extraction rate (OER) than the industry average over the past five years. We think that this is due to superior plantation management.

Fig 6. Plantation statistics-Peer Comparison						
Total Planted Area (Nucleus and Plasma)	2006	2007	2008	2009	2010	2011 ytd*
Sime Darby	n.m	522,363	531,299	530,987	522,203	521,924
Golden Agri	306,850	359,732	391,642	427,253	442,470	448,924
Wilmar	n.m	203,683	223,258	235,799	244,965	248,110
Astro Agro	215,999	235,210	250,883	264,036	263,281	266,055
Indofood Agri	n.m	222,804	259,613	270,464	282,565	289,158
KL Kepong	123,387	135,086	143,184	154,498	180,551	n.a
IOI Corp	144,055	148,871	149,445	150,931	154,709	157,045
First Resources	n.a	86,354	95,241	108,917	120,830	129,498
CPO Production ('000 MT)	2006	2007	2008	2009	2010	2011 ytd*
Sime Darby	n.m	2,110	2,413	2,313	2,361	2,447
Golden Agri	1,553	1,608	1,690	1,914	1,850	1,584
Wilmar	n.m	1,351	1,505	1,576	1,598	1,292
Astro Agro	918	921	982	1,083	1,113	931
Indofood Agri	n.m	384	714	763	740	606
IOI Corp	806	793	848	777	732	687
First Resources	n.a	278	323	369	377	319
CPO Yield (tonnes/ha)	2006	2007	2008	2009	2010	2011 ytd*
Golden Agri	n.a	5.3	5.2	5.4	4.7	n.a
Astro Agro	4.6	4.6	4.7	5.1	4.7	n.a
Indofood Agri	n.a	2.9	4.6	4.5	3.7	2.9
KL Kepong	5.0	n.a	5.1	4.8	4.7	n.a
IOI Corp	5.8	5.7	6.1	5.6	5.3	5.0
First Resources	n.a	4.9	5.1	5.1	4.7	3.7
Average	5.1	4.7	5.1	5.1	4.6	n.m
FFB Yield (tonnes/ha)	2006	2007	2008	2009	2010	2011 ytd*
Sime Darby	n.m	19.3	21.8	20.6	20.7	21.5
Golden Agri	22.1	23.1	22.4	23.1	20.8	15.9
Wilmar	n.m	21.9	20.9	20.2	17.9	14.3
Astro Agro	19.8	20.1	20.9	21.8	20.4	n.a
Indofood Agri	n.m	12.8	20.1	19.7	16.5	12.8
KL Kepong	24.2	22.3	24.7	22.9	22.4	n.a
IOI Corp	26.9	26.7	28.5	26.0	24.4	23.7
First Resources	n.a	21.8	22.4	21.5	20.2	15.7
Average	23.2	21.0	22.7	22.0	20.4	n.m
OER (%)	2006	2007	2008	2009	2010	2011 ytd*
Sime Darby	n.m	21.4	21.2	21.5	21.9	21.4
Golden Agri	23.2	23.0	23.1	23.2	22.6	23.0
Wilmar	n.m	20.9	21.0	20.9	20.7	20.6
Astro Agro	23.1	22.8	22.6	23.1	22.9	22.6
Indofood Agri	n.m	22.5	22.6	22.8	22.3	22.3
KL Kepong	20.5	20.6	20.5	21.1	21.1	n.a
IOI Corp	21.4	21.3	21.4	21.4	21.5	20.9
First Resources	n.a	22.2	22.8	23.7	23.6	23.5
Average	22.0	21.8	21.9	22.2	22.1	22.0
Weighted average age (Yrs)	As of 3Q11					
Golden Agri	12					
Wilmar	10					
Astro Agro	14.2					
Indofood Agri	12					
First Resources	8					

Source: Various company reports,PSR

*Refers to financial year ending June 2011 for IOI and Sime Darby and 9M11 for the others (Golden Agri,Wilmar,Indofood Agri & First Res.), hence figures are not directly comparable for 2011ytd.

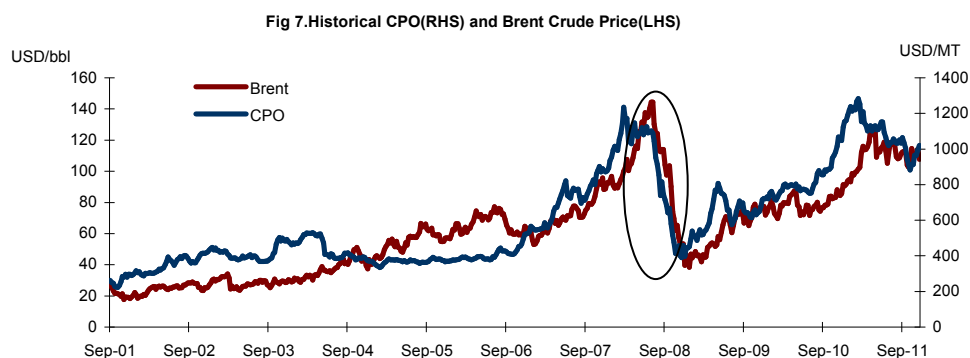
Palm oil prices to remain firm but watch out for further macroeconomic weakness

We expect palm oil prices to remain firm in the near term due to lower expected production across the industry (La Nina, coming off peak production) and the still resilient oil price, however it must be noted that a sharp deterioration in the current economic climate can still push palm prices lower. The financial times recently cited a China Grain Information Center report saying that Chinese traders have cancelled orders for more than 300,000 tonnes of palm oil scheduled for delivery over the next five months and a further 400,000 tonnes delayed from October to December. The order cancellations were mainly due to slower than

Golden Agri scores well in various operational matrixes among its peers.

expected growth in demand, which has depressed domestic prices for the oil.

Not so defensive: CPO prices are well correlated with crude oil prices. CPO prices plunged from USD\$1,100/MT to a low of USD\$400/MT during the last GFC in just four months (July 2008-Nov 2008).



Source: Bloomberg, PSR

Fig 8. Imports by Country

	2007/08	% of world's total	2008/09	% of world's total	2009/10	% of world's total	2010/11	% of world's total	Oct 2011/12	Nov 2011/12
India	5013	17%	6867	20%	6603	19%	6661	19%	7250	7250
China	5223	17%	6118	18%	5760	17%	5711	16%	6650	6300
EU-27	4963	16%	5504	16%	5435	16%	5000	14%	5300	5300
Pakistan	1958	6%	1957	6%	2041	6%	2100	6%	2200	2200
Other	13130	43%	13218	39%	14925	43%	15877	45%	16609	16784
Total	30287	100%	33664	100%	34764	100%	35349	100%	38009	37834

Source: USDA, PSR

The European Union makes up the third largest importer and fourth largest consumer of palm oil. A sharp slowdown/recession in Europe will affect palm oil demand significantly

Fig 9. Domestic Consumption by Country

	2007/08	% of world's total	2008/09	% of world's total	2009/10	% of world's total	2010/11	% of world's total	Oct 2011/12	Nov 2011/12
India	5075	13%	6230	15%	6440	14%	7135	15%	7700	7700
Indonesia	4704	12%	4855	12%	5424	12%	6265	13%	6290	6395
China	5222	13%	5618	13%	5930	13%	5797	12%	6599	6190
EU-27	4717	12%	5220	12%	5210	12%	5150	11%	5180	5180
Other	19600	50%	20185	48%	21489	48%	22723	48%	24021	24006
Total	39318	100%	42108	100%	44493	100%	47070	100%	49790	49471

Source: USDA, PSR

Valuation

We value Golden Agri based on a two-stage DCF model with a WACC of 13.4% and terminal g of 9% to arrive at our target price of \$0.795. Our target price implies 10.6x eFY12 P/E which is slightly above its mean historical forward P/E of 10.4x and represents a potential upside of 13% from previous closing price. We are keeping our buy recommendation on Golden Agri despite its potential upside falling short of the required 15% to justify a buy as 1) we favor integrated Indonesian upstream and downstream producers like Golden Agri, 2) we remain optimistic on the long term fundamentals of CPO and 3) we believe Golden Agri possesses superior plantation management skills in the industry. Key downside risk to our target price includes 1) falling CPO demand due to a weak economic environment 2) weaker crude oil prices from falling geopolitical risks and 3) a reversal in Indonesian export tax rates changes. BUY.

Fig 10. Key Parameters for DCF Model

WACC%	13.4%
Growth rate (g)%	9%
Stage 1-PV of FCFF from 2011 to 2020 (US\$'Mil)	2,404
Stage 2-PV of Terminal value (US\$'Mil)	6,187
Enterprise value (US\$'Mil)	7,607
Value per share (US\$)	0.62
Value per share (SG\$)	0.795

Source: PSR

Fig 11. Valuation-Peer Comparison							
Country of Exchange	Counter	Last Price	Mkt Cap	Trailing P/E	Forward P/E	Trailing P/B	Forward P/B
Indonesia	Astra Agro Lestari	22,000	118,044	13.5	13.3	4.7	3.7
	PP London Sumatra	2325	54,051	9.3	10.0	3.2	2.3
	Average	12163	86,047	11.4	11.6	3.9	3.0
Malaysia	IOI Corporation Bhd	5.18	326,876	16.8	15.5	2.9	2.6
	Kuala Lumpur Kepong Bhd	21.98	230,556	14.9	16.1	3.3	3.1
	Genting Plantations Bhd	8.15	60,770	13.7	14.1	2.0	1.7
	Hap Seng Plantations Holdings	2.72	21,381	8.5	10.1	1.2	1.1
	Sime Darby Berhad	8.98	530,262	13.2	14.1	2.2	2.1
	Average	9.40	233,969	13.4	14.0	2.3	2.1
Singapore	Golden Agri-Resources	0.705	205,260	3.8	10.3	0.9	0.9
	Wilmar International	5.12	786,111	18.1	12.9	2.0	1.7
	First Resources	1.505	53,029	9.0	9.9	2.0	1.7
	Indofood-Agri Resources	1.35	46,588	8.3	8.6	1.1	0.9
	Average	2.17	272,747	9.8	10.4	1.5	1.3

Source: Bloomberg,PSR

Financials

Income Statement USD'millions, yr end Dec						Balance Sheet USD'millions, yr end Dec					
	2008A	2009A	2010A	2011E	2012E		2008A	2009A	2010A	2011E	2012E
Revenues	2,986	2,294	3,505	6,220	5,552	Cash and cash equivalents	133	288	218	460	779
Cost of sales	(2,110)	(1,784)	(2,550)	(4,333)	(4,067)	Inventories	248	420	616	772	724
Gross profit	876	509	955	1,888	1,485	Trade receivables	141	103	210	373	332
Net gain from changes in fair value of bio assets	1,457	303	1,371	0	0	Others	185	295	448	777	702
SGA expenses	(347)	(195)	(411)	(977)	(522)	Current assets	707	1,106	1,492	2,381	2,538
Operating profit	1,986	618	1,915	911	963	PPE	971	1,103	1,459	1,802	2,219
Other income(expenses)	(59)	(24)	20	6	(58)	Biological assets	4,795	5,358	6,809	6,871	6,933
Exceptional items	20	(1)	(6)	10	0	Goodwill	116	116	116	116	116
PBT	1,947	592	1,929	926	904	Other long-term assets	237	219	238	238	238
Taxation	(528)	21	(482)	(232)	(226)	Total Assets	6,826	7,900	10,114	11,407	12,043
Net income	1,419	613	1,447	695	678	Trade payables	151	268	328	558	524
Core net profit*	377	203	387	653	667	Short-term borrowings	310	314	541	600	618
Profit attributable to shareholders	1,383	607	1,423	683	667	Other current liabilities	87	142	192	230	220
Minority interests	36	6	24	12	11	Total current liabilities	548	724	1,061	1,388	1,361
Growth and margins (%)	2008A	2009A	2010A	2011E	2012E	Long-term borrowings	244	369	444	700	721
Revenue growth	59	(23)	53	77	(11)	Deferred income tax	1,311	1,250	1,632	1,723	1,805
Gross profit growth	33	(42)	87	98	(21)	Other long term liabilities	16	23	33	33	33
EBITDA growth	12	(33)	65	61	6	Total liabilities	2,119	2,367	3,169	3,844	3,921
Net Profit growth	19	(56)	134	(52)	(2)	Shareholders' equity	4,614	5,438	6,826	7,433	7,983
Core Net Profit growth	32	(46)	91	69	2	Minority interests	93	96	119	130	140
						Total liabilities and equity	4,707	5,534	6,945	7,563	8,123
Gross Profit Margin	29	22	27	30	27	Per share data (SG cts)	2008A	2009A	2010A	2011E	2012E
EBITDA Margin	20	17	19	17	20	EPS	17.7	7.6	16.0	7.0	6.9
Net Profit margin	46	26	41	11	12	Core EPS	4.8	2.5	4.3	6.7	6.9
Core Net Profit Margin	13	9	11	11	12	DPS	0.65	0.50	0.77	1.22	1.24
Cash flow in USD'millions	2008A	2009A	2010A	2011E	2012E	BVPS	66	63	72	77	83
Profit before tax	1,947	592	1,929	926	904						
Net gain from changes in fair value of bio assets	(1,457)	(303)	(1,371)	0	0	Key ratios	2008A	2009A	2010A	2011E	2012E
Depreciation and amortisation	58	68	82	109	134	ROE (%)	35%	12%	23%	10%	9%
Other non-cash items	2	65	48	57	78	ROA (%)	23%	8%	16%	6%	6%
WC changes	68	(36)	(371)	(353)	117	Adj. Payout ratio (%)	15%	22%	18%	18%	18%
Income tax paid	(158)	(90)	(114)	(163)	(167)	Effective tax rate (%)	27%	-3%	25%	25%	25%
Net Interest	(32)	(40)	(36)	(58)	(79)						
Net Operating CF	427	256	167	518	988	Net Debt/Equity(%)	9%	6%	10%	10%	6%
Capex	(244)	(256)	(324)	(450)	(550)	Net Debt/Equity(%) ex MI	9%	6%	10%	10%	6%
Acquisition of subsidiaries, net of cash acquired	(104)	(79)	(124)	(46)	(46)	Current ratio (x)	1.3	1.5	1.4	1.7	1.9
Others	6	(52)	(22)	(20)	6	Quick ratio (x)	0.8	0.9	0.8	1.2	1.3
Net Investing CF	(342)	(388)	(470)	(516)	(590)						
Equity raised/(repaid)	0	216	0	0	0	Days Sales Outstanding (DSO)	16	19	16	17	23
Debt raised/(repaid)	17	78	274	316	39	Days Payable Outstanding (DPO)	26	43	43	37	49
Dividends paid	(92)	(3)	(45)	(77)	(119)	Days Inventory Outstanding (DIO)	48	68	74	58	67
Others	(2)	(9)	(45)	0	0	Valuation	2008A	2009A	2010A	2011E	2012E
Net Financing CF	(78)	283	184	239	(80)	P/E (x)	4.0	9.2	4.4	10.0	10.3
Beginning cash	121	129	280	162	403	Core P/E (x)	14.6	27.7	16.2	10.5	10.3
Net change in cash	8	151	(118)	241	319	Price/Book (x)	1.1	1.1	1.0	0.9	0.9
Ending cash	133	288	218	460	779	Dividend Yield (%)	0.9	0.7	1.1	1.7	1.8

*Core net profit=Net profit attributable to owners of the company excluding gain from changes in fair value of biological assets, foreign exchange gain or loss and exceptional items (net of tax and non-controlling interests)

Source: Company data, Phillip Securities Research

Ratings History

Golden Agri-Resources Ltd

Rating	Date	Previous Closing price (\$)	Fair value (\$)	Remarks
BUY	5 December 2011	0.705	0.795	Update (Change of analyst)
BUY	24 May 2011	0.68	0.83	Update
HOLD	1 March 2011	0.65	0.74	FY10 Results
HOLD	20 January 2011	0.76	0.74	Update
HOLD	15 November 2010	0.73	0.72	3Q10 Results
HOLD	6 October 2010	0.58	0.61	Update
HOLD	12 August 2010	0.57	0.61	2Q10 Results
BUY	12 May 2010	0.55	0.66	1Q10 Results
HOLD	2 March 2010	0.54	0.46	FY09 Results
BUY	4 January 2010	0.51	0.62	Update
HOLD	3 December 2009	0.475	0.53	Update
BUY	12 November 2009	0.46	0.53	3Q09 Results
BUY	8 September 2009	0.465	0.53	Initiating Coverage

Phillip Research Stock Selection Systems	TRADING BUY	Share price may exceed 10% on the upside over the next 3 months, however longer-term outlook remains uncertain
	BUY	>15% upside from the current price
	HOLD	-10% to 15% from the current price
	SELL	>10% downside from the current price
	TRADING SELL	Share price may exceed 10% on the downside over the next 3 months, however longer-term outlook remains uncertain
<p>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</p>		

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