

PT Dharma Satya Nusantara Tbk (DSNG)

Company rating

Pefindo idA-/Stable

Shareholders (%) – as per Dec 2019

Oetomo Family	28.90
T.P. Rachmat Family	31.03
Subianto Family	9.76
Liana Salim Lim Family	6.32
Public and others (<5%)	23.99

Bond offering

Dharma Satya Nusantara Shelf Registered Bonds I Phase I 2020

Rating	Pefindo	idA-/Stable
Principal amount		max Rp500 Billion
Tenor		
Series A		3 years
Series B		5 years

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Favorable Business Profile

- Expanding business.** Established in 1980, PT Dharma Satya Nusantara Tbk (DSNG or the Company) is engaged in palm oil plantation and wood product business segments. Since 2000, DSNG has expanded its business aggressively by acquiring other palm oil plantations in Kalimantan. The Company will continue to expand its business in the future, as reflected from its capex program, such as increasing CPO mills' capacity, gradual replanting program starting in 2023, development of second Bio-CNG plant, and routine maintenance. Going forward, DSNG will also continue to acquire selectively, focusing on nearby plantations that can be integrated into current operations.
- Favorable plantation profile.** The Company has a favorable palm oil plantation profile. The Company's palm oil plantations are located in Kalimantan. As of December 2019, the Company has a total planted area of 112,450 ha in 15 palm oil estates, which consist of 84,566 ha of palm oil nucleus plantation and 27,884 ha of palm oil plasma plantation. The plantation age profile is also dominated by prime mature palm oil trees with average age of 9.9 years (combined nucleus and plasma). DSNG's palm oil plantation business is supported with 10 palm oil mills and a total combined CPO mill capacity of 570 tons of fresh fruit bunch (FFB) per hour.
- Excellent operating management.** With prime mature palm oil tree profile and strong plantation operating management, DSNG has excellent productivity. It is reflected from the favorable operating metrics that are above regional peers. FFB production is at 23.6 tons FFB per ha, above its peer average of 19.8 tons FFB per ha. The Company's oil extraction rate (OER) is at 23.5%, also above peer average of 21.9%, and its CPO production is at 5.5 tons CPO per ha, higher than peer average of 4.4 tons CPO per ha. The Company also continues to produce sustainable high quality palm oil products (Super CPO with <3% FFA). The Company has strong commitment in implementing a sustainable palm oil business. Its strategic focus on sustainable palm oil business practices is reflected from (i) various certifications (8 ISPO, 5 RSPO, and 2 ISCC); (ii) commitment to zero burning in land clearing and not opening up protected areas; (iii) waste management with the reduce, reuse, and recycle principle; and (iv) Bio-CNG plant development to enhance production efficiency through fuel consumption saving of 2mn liters per year.
- Sound credit metric.** In 2019, the Company's total debt outstanding was at Rp6.41tn. However, its solvency ratio level was still at a sound level. Its debt to equity ratio (DER) was at a favorable level of 1.76x in December 2019 and its EBITDA to interest expense was maintained strong at 2.6x. In 1Q2020, DSNG's debt to equity ratio was at 1.72x and EBITDA to interest expense was at 2.29x. Going forward, under the bond covenant, the Company should maintain net-DER <2.0x, while EBITDA to interest expense should be maintained >1.5x.
- Key risks:** adverse economic condition, oil price and palm oil price fluctuations, weather, and competition in the industry.

INVESTMENT PARAMETERS

December (Rp mn)	2015A	2016A	2017A	2018A	2019A
Revenue	4,425,060	3,878,808	5,159,911	4,761,805	5,736,684
EBITDA	1,038,931	761,925	1,541,300	1,334,671	1,312,656
Net Profit	302,519	252,040	578,418	427,245	178,164
Total debt	4,320,873	4,396,384	4,060,778	6,513,798	6,414,639
Total asset	7,853,275	8,183,318	8,452,115	11,738,892	11,620,821
Int. coverage ratio (x)	3.2	2.6	5.7	3.7	2.6
DER (%)	1.8	1.7	1.3	1.8	1.8

Source: Company and Mandiri Sekuritas calculation

COMPANY PROFILE

Historical background. The Company has a long track record in wood processing and palm oil plantation. PT Dharma Satya Nusantara Tbk (DSNG or the Company) was established on 29 September 1980, and started its commercial operation in 1983 in the timber and wood product business. The Company diversified its business in the late 1997 to a palm oil business by establishing subsidiaries (PT Dharma Agrotama Nusantara, PT Dharma Intisawit Nugraha, and PT Dharma Intisawit Lestari) and starting its first planting of oil palms in East Kalimantan. Since then, the Company's main business focus has been heavier on developing and managing palm oil plantations; processing FFB into crude palm oil (CPO), palm kernel, and palm kernel oil; trading such products; and also maintaining its wood processing business (panel and engineered floor).

In 2001, the Company acquired 92.5% shares of PT Swakarsa Sinarsentosa in East Kalimantan and commenced its first palm oil mill with a capacity of 45 tons FFB per hour in 2002. Then DSNG continues to expand its palm oil business by acquiring 15,153 ha of land for palm oil plantation in Central Kalimantan through the acquisition of PT Pilar Wanapersada in 2004 and started its first oil palm planting in Central Kalimantan. During 2007–2017, the company continued to acquire other palm oil companies and managed seven CPO mills. The latest acquisition was in 2018, when it acquired 100% shares of PT Bima Palma Nugraha and PT Bima Agri Sawit, two plantation companies located in East Kalimantan with a total planted area of 17,015 ha and two CPO mills. As of December 2019, the Company has a total planted area of 112,450 ha and 10 CPO mills.

To strengthen its capital structure and support its expansion strategy, the Company went public on 14 June 2013, and listed its shares on the Indonesia Stock Exchange with the code of DSNG. The Company issued 275,000,000 shares (12.97%) with nominal value of Rp100 and offering price of Rp1,850 per share.

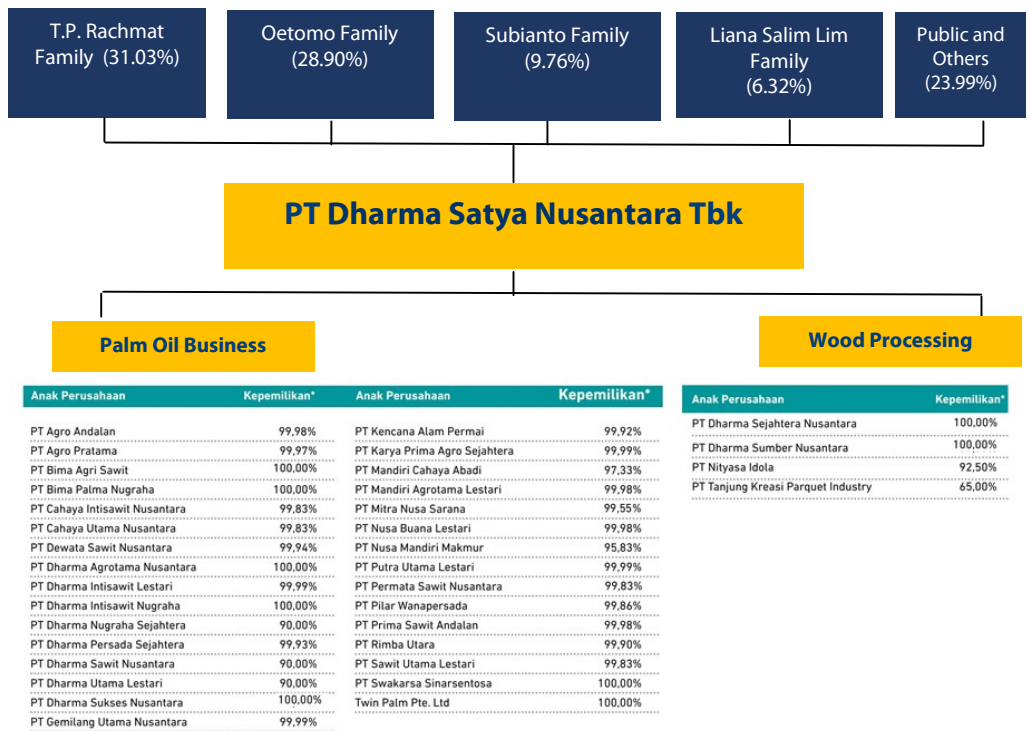
As of December 2019, 31.03% of the company shares were owned by the T.P. Rachmat Family, 28.90% by the Oetomo Family, 9.76% by the Subianto family, 6.32% by the Liana Salim Lim Family, and 23.99% by public and others. We believe the shareholders' support to the Company is very strong, as reflected from T.P. Rachmat Family's shares having been increased from 25.32% as of December 2016 to 30.98% as of December 2017, and from Mr. Arif Patrick Rahmat being a member of commissioners the Company. Meanwhile, the Board of Directors is led directly by Mr. Andrianto Oetomo.

FIGURE 1. THE COMPANY'S MILESTONES

1983	Started wood product business, focusing on sawn timber production.
1991	Completed wood manufacturing plant in Surabaya and relocated the Company's operation from Samarinda to Surabaya.
1992	Started wood product business utilizing raw material from sengon tree (<i>Albizia Falcataria</i>).
1997	Established subsidiaries, i.e. PT Dharma Agrotama Nusantara, PT Dharma Intisawit Nugraha, and PT Dharma Intisawit Lestari.
2002	Commenced the first palm oil mill with capacity of 45 tons FFB per hour.
2001	Acquired 92.5% shares of PT Swakarsa Sinarsentosa, a palm oil plantation company in East Kalimantan.
2004	Acquired a 15,153 ha land for palm oil plantation in Central Kalimantan through the acquisition of the PT Pilar Wanapersada (PWP). Total mill capacity increased to 90 tons FFB per hour.
2005	Completed the construction of wood manufacturing factory in Kranggan, Temanggung, Central Java, and started the operation. Completed the wood manufacturing satellite facilities in Lumajang, East Java, and Banyumas, Central Java, and started the sawn timber and veneer production.
2008	Established PT Kencana Alam Permai (KAP), a subsidiary located in West Kalimantan.
2009	Constructed its second palm oil mill in East Kalimantan with capacity of 60 tons FFB per hour, and established PT Dharma Persada Sejahtera (DPS). Total planted area: 44,800 ha.
2010	Constructed its third palm oil mill with FFB processing capacity of 60 tons FFB per hour in East Kalimantan. Acquired additional 11,600 ha of land for palm oil plantation in West Kalimantan through the acquisition of the majority shares of PT Prima Sawit Andalan (PSA).
2011	The Company took over 65.0% share of PT Tanjung Kreasi Parquet Industry (TKPI) (wood flooring business), located in Pingit, Temanggung, Central Java; and acquired 99.95% shares of PT Karya Prima Agro Sejahtera (KPAS) in East Kalimantan. Total planted area became 57,600 ha. Constructed its fourth and fifth palm oil mills, each with a capacity of 60 tons FFB per hour in East Kalimantan and Central Kalimantan, respectively.
2012	Established PT Gemilang Utama Nusantara (GUN). The Company acquired 99.2% shares of PT Rimba Utara (RU) in January and acquired 100% shares of Twin Palm, Pte. Ltd (TP) in December.
2013	<ul style="list-style-type: none"> ▪ The Company inaugurated its fifth palm oil mill with a capacity of 60 tons FFB per hour in Central Kalimantan and a kernel crusher plant with a capacity of 200 tons per day in East Kalimantan. Total planted area increased to 70,500 ha. ▪ The Company listed initial shares at the Indonesia Stock Exchange on 14 June 2013.
2015	The Company acquired PT Agro Pratama, parent company of PT Agro Andalan, a palm oil plantation located in West Kalimantan. The Company inaugurated its sixth palm oil mill with a capacity of 60 tons FFB per hour in East Kalimantan.
2016	<ul style="list-style-type: none"> • The inauguration of a new wood product plant (for engineered door manufacturing) named PT Daiken Dharma Indonesia, a joint venture company between the Company and Daiken Corporation, Japan. • Strategic investment of 15% @REA Kaltim. • Total planted area increased to 90,300 ha.
2017	Seventh palm oil mill with a capacity of 60 tons per hour started commercial operation, located in Muara Wahau East Kalimantan.
2018	<ul style="list-style-type: none"> • The Company acquired 100% shares of PT Bima Palma Nugraha and PT Bima Agri Sawit, two plantation companies located in East Kalimantan with total planted area 17,015 ha & 2 mills. • Groundbreaking of Bio-CNG plant. • Total planted area increased to 108,400 ha.
2019	<ul style="list-style-type: none"> • New CPO mill @30tph in West Kalimantan & 1 extension line @30 ton per hour in East Kalimantan initialized their commercial operations. • Construction of Bio-CNG plant is in progress. • Total planted area increased to 112,450 ha. • Capacity of total 10 mills: 570 tons per hour.

Source: Company

FIGURE 2. THE COMPANY'S SHAREHOLDERS AND CORPORATE STRUCTURE AS OF DEC-19



*) indirect/direct ownership
Source: Company

FIGURE 3. THE COMPANY'S MANAGEMENT TEAM

Board of Commissioners		
President Commissioner	:	Adi Resanata Somadi Halim
Commissioner	:	Aron Yongky
Commissioner	:	Djojo Boentoro
Commissioner	:	Arini Saraswaty Subianto
Commissioner	:	Arif Rachmat
Commissioner	:	Toddy Mizaabianto Sugoto
Independent Commissioner	:	Stephen Zacharia Satyahadi
Independent Commissioner	:	Edy Sugito
Independent Commissioner	:	Danny Wala
Board of Directors		
President Director	:	Andrianto Oetomo
Director	:	Ir. Timotheus Arifin C
Director	:	Efendi Sulisetyo
Director	:	Agung Pramudji
Director	:	Mochamad Koeswono
Director	:	Lucy Sycilia
Director	:	Jenti

Source: Company

INDUSTRY PROSPECT

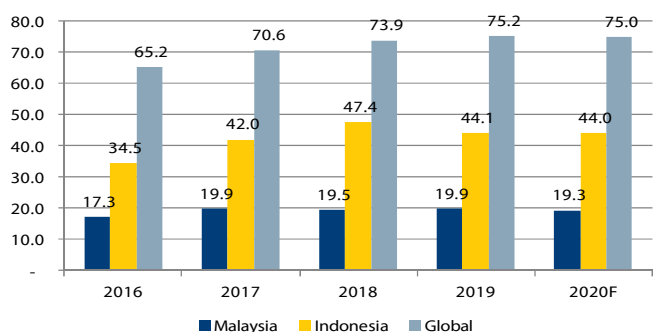
Unfavorable business environment due to COVID-19 Pandemic. Palm oil plantation is a very strategic industry for Indonesia’s economy. It is one of the main contributors for Indonesia’s export and provides livelihood for 16mn Indonesians. However, in 2018-2019, the palm oil industry faced dire challenges due to less-favorable global condition. The US-China trade war, lower oil price, lower other edible oil price, and CPO oversupply condition have suppressed CPO price and led to lower revenue generation for the Company.

2020 is a more challenging year for Indonesia’s palm industry due to oversupply condition and unfavorable global macroeconomic condition as a result of the COVID-19 pandemic. After a positive view from the fourth quarter of 2019 until the end of January 2020, as reflected from the high increase in palm oil price, the price trend turned dramatically due to the COVID-19 pandemic, the oil price drop, and the global economic recession. Since global economic activities have been muted since March 2020, we see that global CPO trading has also dropped. Global palm oil consumption has dropped as economic activities in the largest CPO importers, such as China, India, and Euro zone, fell sharply due to lockdown and their economic growth having been revised down.

CPO price dropped by 16% since the beginning of 2020, from MYR 2,822 per metric ton on 10 January 2020 to MYR 2,362 per metric ton on 14 April 2020. For 2020, CPO price is projected to be around MYR 2,100-2,300 per metric ton due to high global uncertainty. CPO production is expected to be flat or even slightly weaker due to drier weather and low fertilizer application. Soft production outlook in Indonesia and Malaysia, and CPO demand that will be lower due to unfavorable global economic condition have become the mixed factors that influence CPO price direction in 2020. During the COVID-19 pandemic, some Malaysian palm oil companies are reportedly conducting temporary closedowns on their palm oil plantations and CPO mill operations. The closedown policy on CPO plantations’ and CPO mills’ operations in Malaysia will certainly have significant impact on reducing production level and lowering CPO stocks. The CPO price is projected to increase to around MYR 2,500–2,900 per metric ton once the COVID-19 pandemic is over.

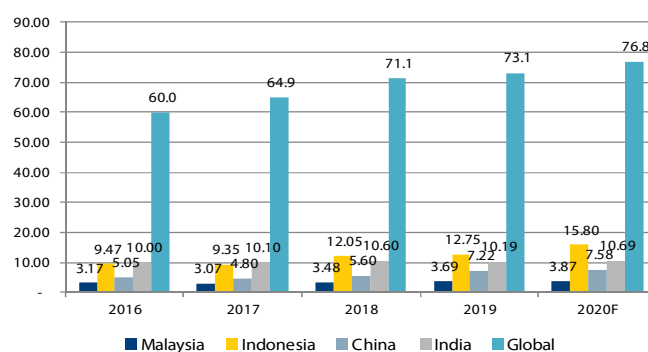
Focus on domestic market is the key. While the global palm oil market is unfavorable, CPO export dropped by 30%; we see that demand from Indonesia’s domestic market is projected to be relatively stable. If there is a demand correction, it would be limited, since the domestic palm oil demand is huge, particularly for soap and cooking oil. Meanwhile, Indonesia’s target to use biodiesel with 30% bio-content, known as the B30 biofuel mandate, is a good business opportunity for palm oil companies in the country. It will help increase demand by around 9mn tons and decrease CPO supply in the domestic market. Based on GAPKI data, the CPO production has reached 39.6mn tons as of Oct-19. B30 implementation will absorb 3.0mn tons of CPO production. The government has allocated 9.59mn kiloliters (kl) of FAME for the B30 mandate in 2020, up from 6.63mn kl in 2019.

FIGURE 4. CPO PRODUCTION (IN MILLION TON)



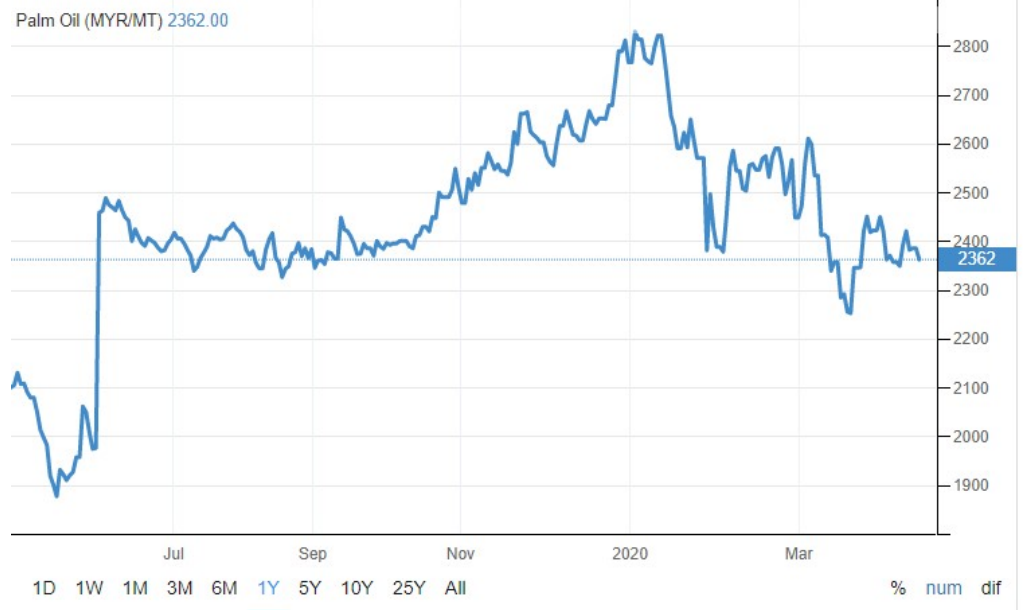
Source: Bloomberg, Mandiri Sekuritas

FIGURE 5. CPO CONSUMPTION



Source: Bloomberg, Mandiri Sekuritas

FIGURE 6. CPO PRICE TREND APRIL 2019 – 20 APRIL 2020



Source: trading economics

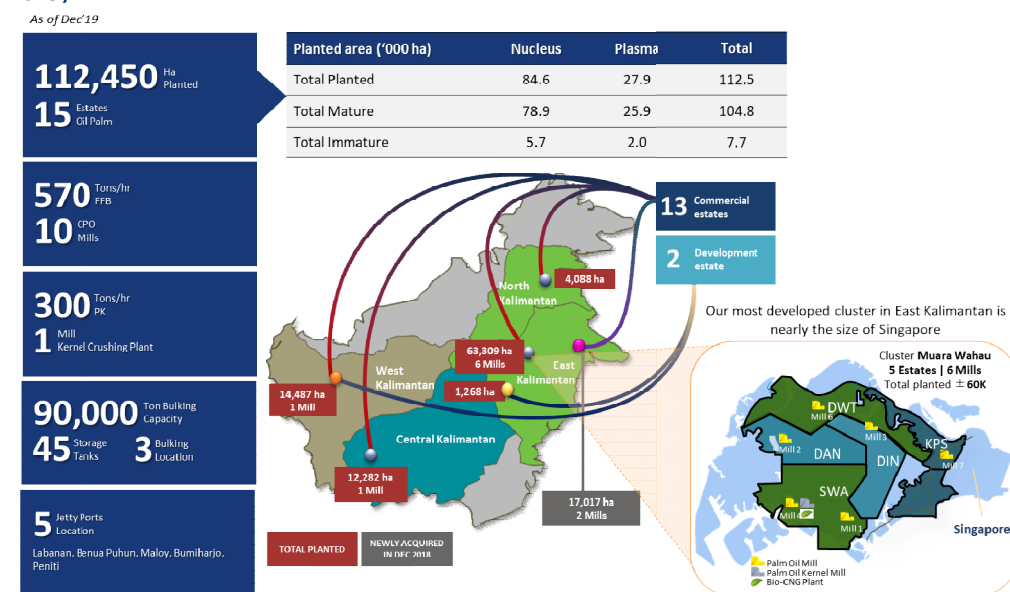
BUSINESS PROFILE

Favorable palm oil plantation profile. Palm oil has been the main business focus of PT Dharma Satya Nusantara Tbk since late 1997. In developing this business, the Company has expanded it aggressively by acquiring new land and other palm oil plantation companies. The Company's palm oil plantations are located in Kalimantan. As of December 2019, the Company's total landbank has reached 120,000 ha in Kalimantan with a total planted area of 112,450 ha in 15 palm oil estates, which consist of 84,566 ha of palm oil nucleus plantation and 27,884 ha of palm oil plasma plantation.

The Company has a favorable palm oil plantation profile, reflected from the plantation age profile that is dominated by prime mature palm oil trees with average age of 9.9 years (combined nucleus and plasma).

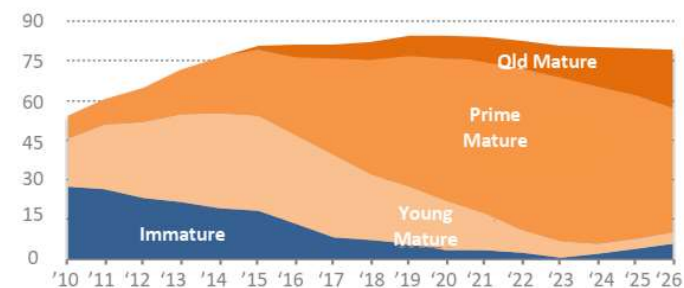
DSNG's palm oil plantation business is supported with 10 palm oil mills and a total combined CPO mill capacity of 570 tons FFB per hour. The Company also has 1 kernel crushing plant with a capacity of 300 tons of palm kernel per day, 45 storage tanks, and 3 bulking locations with a total capacity of 90,000 tons, as well as 5 jetty ports in Labanan, Benua Puhun, Maloy, Bumiharjo, and Peniti.

FIGURE 7. ATTRACTIVE PLANTATION PROFILE: SIZABLE PLANTED AREA (AS OF DECEMBER 2019)



Source: Company Corporate Presentation

FIGURE 8. PALM OIL PLANTATION PROFILE 2010–2026F



Source: Company Corporate Presentation

FIGURE 9. NUCLEUS AND PLASMA PLANTATION PROFILE

	2018	2019
Planted Area - Nucleus (ha)	84,393	84,566
Mature plantation - Nucleus (ha)	77,899	78,878
Planted Area - Plasma (ha)	24,018	27,884
Mature plantation - Plasma (ha)	18,219	22,921
Average age of trees - Nucleus (years)	10.0	10.7
Average age of trees - Plasma (years)	6.7	7.2

Source: Company

FIGURE 10. MILL PROFILES

	Location	Capacity (ton/hour)
PKS 1	East Kalimantan	90
PKS 2	East Kalimantan	60
PKS 3	East Kalimantan	60
PKS 4	East Kalimantan	60
PKS 5	Central Kalimantan	60
PKS 6	East Kalimantan	60
PKS 7	East Kalimantan	60
PKS 8	West Kalimantan	30
PKS 9	East Kalimantan	60
PKS 10	East Kalimantan	30
Total Capacity		570

Source: Company

FIGURE 11. FAVORABLE OPERATING METRICS

	2016	2017	2018	2019	1Q2020
Tons FFB/ha	17.4	22.8	25.2	23.6	
CPO - OER (%)	23.9	23	23.6	23.5	24.2
Tons CPO /ha	4.3	5.6	6.3	5.47	
Free Fatty Acid (%)	2.6	2.96	2.77	2.67	2.54
FFB production (tons)	1,092,937	1,547,686	1,849,528	2,204,345	503,005
FFB processed (tons)	1,306,365	1,753,986	2,070,609	2,597,096	630,842
CPO Production (tons)	311,952	403,638	488,449	610,050	152,653
PK Production (tons)	51,127	65,092	82,061	105,808	26,993
PKO Production (tons)	17,259	24,284	29,370	31,462	7,790
CPO Sales (tons)	348,391	457,973	454,889	665,993	142,947
PK Sales (tons)	11,067	10,067	16,373	31,172	9,018
PKO Sales (tons)	17,451	27,003	28,004	32,011	8,003
CPO ASP (Rp '000/tons)	7,537	8,140	7,178	6,476	8,292
Total Planted area (ha)	90,288	90,288	108,411	112,450	112,450
Planted area nucleus (ha)	69,369	69,369	84,393	84,566	84,566
Planted area plasma (ha)	20,919	20,919	24,018	27,884	27,884

Source: Company

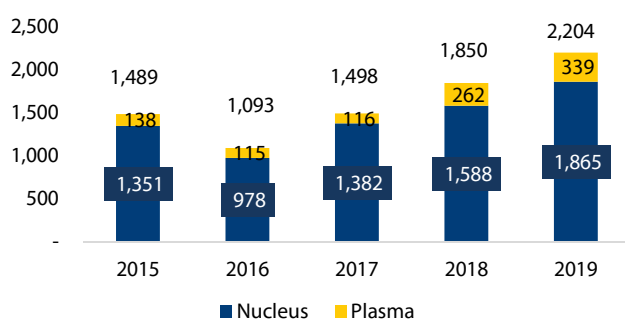
Excellent operating management. With prime mature palm oil tree profile and strong plantation operating management, DSNG has excellent productivity. It is reflected from the favorable operating metrics that are above regional peers. FFB production is at 23.6 tons FFB per ha, above peer average of 19.8 tons FFB per ha. Its OER is at 23.5%, also above peer average of 21.9%, and its CPO production is at 5.5 tons CPO per ha, higher than its peers average of 4.4 tons CPO per ha. The Company also continues to produce sustainable high quality palm oil products (Super CPO with < 3% FFA).

As a result of the favorable plantation profile and excellent agricultural practices for palm oil, the Company's FFB production during 2015–2019 increased with CAGR 10%. The Company's total FFB harvested (nucleus and plasma) was at 2.2mn tons in 2019, an increase from 1.85mn tons in 2018 and 1.50mn tons in 2017.

Meanwhile, CPO production also increased by CAGR 11% during 2015-2019. The Company's total CPO harvested (nucleus and plasma) was at 610,000 tons in 2019, an increase from 488,000 tons in 2018 and 404,000 tons in 2017. Palm kernel and palm kernel oil production levels also increased by CAGR 15% and 12%, respectively. As of December 2019, the palm kernel production reached 106,000 tons, increasing by 29% from 2018's level of 82,000 tons; while the palm kernel oil production has reached 31,000 tons, increasing by 7% from 2018's level of 29,000 tons. In the first quarter of 2020, DSNG's CPO production was at 153,000 tons, following higher OER of 24.20%. The free fatty acids (FFA) aggregate level also improved to 2.54%.

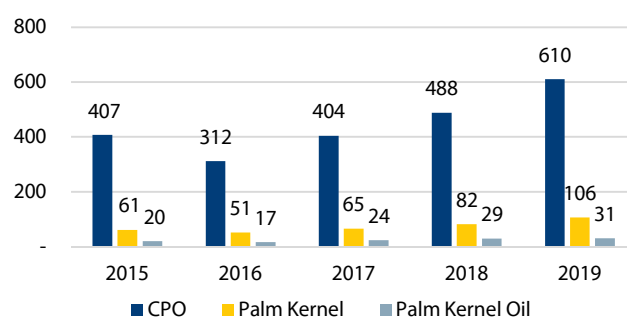
We believe the Company has a great opportunity to achieve higher production growth and productivity in the future, thanks to the improvement of the tree aging profiles.

FIGURE 12. FRESH FRUIT BUNCH PRODUCTION (THOUSAND TON)



Source: Company

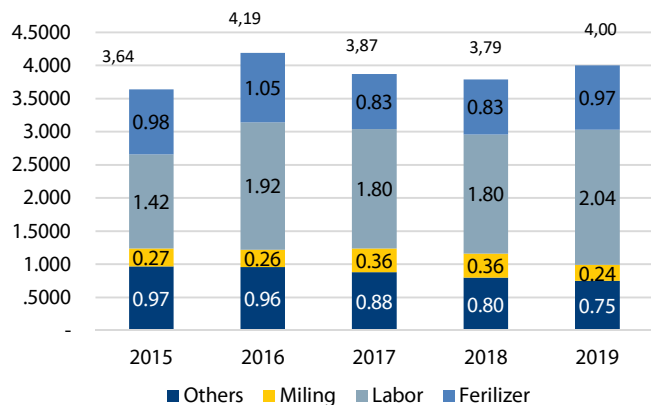
FIGURE 13. CPO, PALM KERNEL, AND PALM KERNEL OIL PRODUCTIONS (THOUSAND TON)



Source: Company

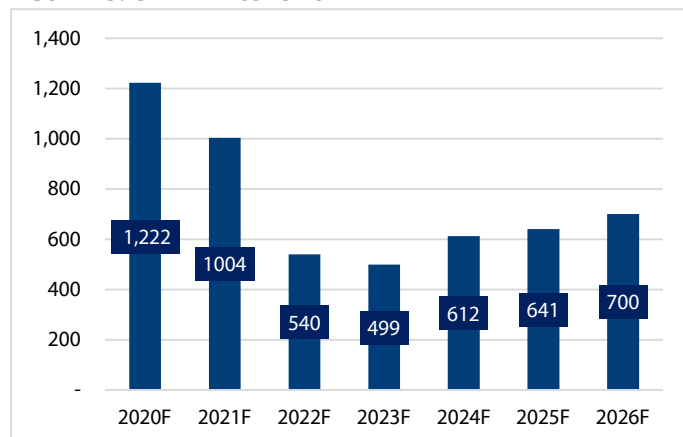
DSNG also continues to implement effective cost management. Cash cost per ton CPO was at a manageable level of Rp4.00mn. Labor cost and fertilizer cost became the two largest posts in the company's cash cost.

FIGURE 14. CASH COST PER TON CPO - NUCLEUS (RP MN TON)



Source: Company

FIGURE 15. CAPEX PROJECTION



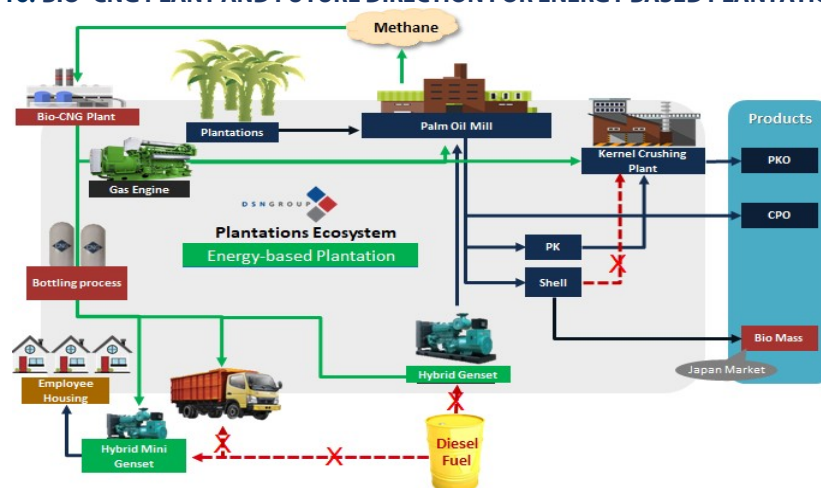
Source: Company

Expanding business. The Company will continue to expand its business in the future, as reflected from its capex programs, such as increasing CPO mills' capacity, gradual replanting program starting in 2023, development of second Bio-CNG plant, and routine maintenance. In 2020, the Company's capital expenditure budget for business expansion is at Rp1,222bn and will be used for the construction of 4 CPO mills with a total capacity of 165 tons FFB per hour, for the completion of its first Bio-CNG plant, as well as for routine infrastructure maintenance and estate management, such as fertilizer provision and crop maintenance. Going forward, DSNG will also continue to acquire selectively, focusing on nearby plantations that can be integrated into current operations.

Strong implementation in sustainable palm oil business practices. The Company has strong commitment in implementing a sustainable palm oil business. The Company's strategic focus on sustainable palm oil business practices is reflected from (i) various certifications (8 ISPO, 5 RSPO, and 2 ISCC); (ii) commitment to zero burning in land clearing and not opening up protected areas; and (iii) very good waste management with the reduce, reuse, and recycle principle.

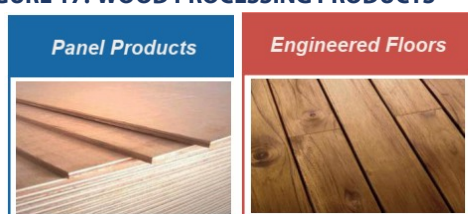
In 2020, the Company is also in the completion process of a bio-gas power plant (Bio-CNG plant) construction in Muara Wahau East Kutai, East Kalimantan. This Bio-CNG plant will process palm oil liquid waste into renewable energy which can produce electricity of 1.2 Mw (2 x 600 KW) and compress biomethane gas in cylinders with a capacity of 280 m³/hour to replace diesel fuel usage in palm oil mills and employee houses. This project is expected to be complete by the third quarter of 2020. With the first Bio-CNG plant, DSNG expects it will enhance production efficiency through fuel consumption saving of 2mn liters per year. Going forward, DSNG will continue to develop its second Bio-CNG plant in 2021, with a capacity of 4 x 600 KW. The second Bio-CNG Plant is expected to save fuel consumption of 4mn liters per year.

FIGURE 16. BIO-CNG PLANT AND FUTURE DIRECTION FOR ENERGY BASED PLANTATION



Source: Company Corporate Presentation

FIGURE 17. WOOD PROCESSING PRODUCTS



Source: Company

FIGURE 18. WOOD PROCESSING BUSINESS PROFILE

	2017	2018	2019	1Q2020
Sales Volume				
Panel (m3)	70,679	83,751	96,622	25,858
Engineered Flooring (m2)	1,249,734	1,093,848	931,668	238,988
Engineered Doors (Pcs)	65,877	-	-	-
Average Selling price				
Panel (Rp mn / m3)	5.27	6.06	5.92	5.75
Engineered Flooring (Rp mn / m2)	0.39	0.42	0.39	0.38
Engineered Doors (Rp mn / Pcs)	0.99	-	-	-

Source: Company

Maintaining its wood processing business. The Company continues to maintain, even enlarge, its wood product business segment. The wood product business segment was developed when the Company was first established from the timber business sector, and the Company continued to develop this segment into an integrated wood processing company that produces quality wood products for exports. The Company's wood processing plants are in Pingit (Central Java) and Temanggung (Central Java). The Company's raw material for wood production is sengon wood from renewable community plantations, not concession industrial forests. The Company's wood products are well known in several countries and have received certificates, including CE, FSC-CoC, PEFC/CoC, SLK (SVLK), CARB, and JAS.

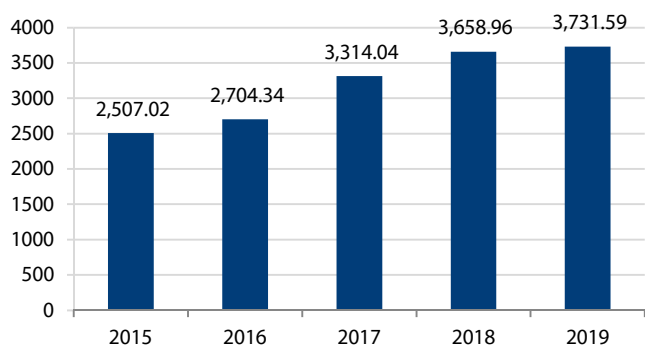
The Company's products from its wood industry are panels and engineered flooring. Panels are mostly intended for markets in Japan, Asia, and the Middle East. In the panel business, DSNG has long term trading partners, such as Asahi, Daiken Corp, Sumitomo Forestry, and Panasonic Housing. As for engineered flooring, DSNG holds a patent technology for extreme weather. Therefore, this flooring product is intended for Europe, North America, Canada, and Asia. For this product, DSNG bears the Teka brand. To expand in the domestic market, the Company has programs of leasing wood flooring and developing the wood flooring market for the upper-middle segment with its new Vorkraft brand.

In the wood product business segment, the sales volume of panel products rose from 83,751 m³ to 96,622 m³, with an average selling price of Rp5.92mn per m³ in 2019. Meanwhile, the sales volume of engineered flooring was at 931,668 m², at an average selling price of Rp390,000 per m² in 2019.

FINANCIAL PERFORMANCE OVERVIEW

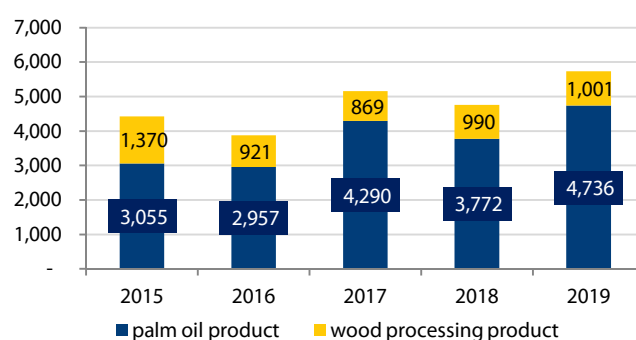
Capital increased moderately to support business expansion in the future. The Company's total capital increased at CAGR (2015-2019) 10%. Its total capital increase was supported by increasing retained capital. As of December 2019, DSNG's total capital was at Rp3.73tn, an increase from Rp3.66tn in 2018. With the current total equity, we view the Company has adequate room to expand its business in the future.

FIGURE 19. INCREASING TOTAL EQUITY (RP BN)



Source: Company financial report

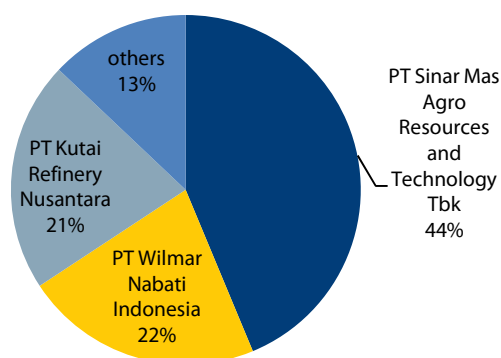
FIGURE 20. REVENUE MIX (%)



Source: Company annual report

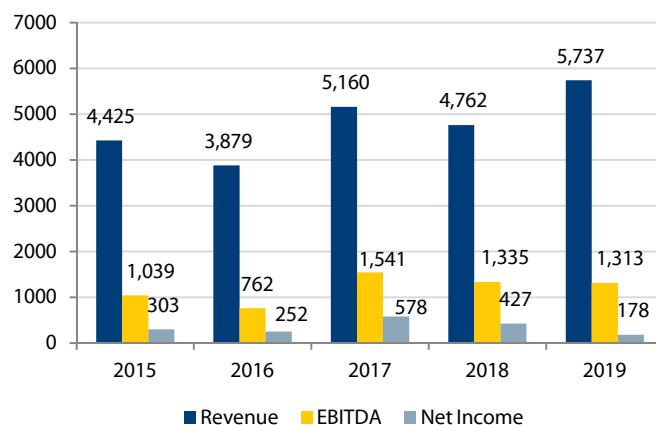
Revenue and customer mix. CPO is the Company's main product, with revenue contribution of 83% of total revenues, while the wood processing product contributes only 17%. All of the Company's palm products are sold to the domestic market, while wood processing products are mostly exported. As of December 2019, the Company's top 3 customers (with >10% of total consolidated sales) are PT Sinar Mas Agro Resources and Technology Tbk, PT Wilmar Nabati Indonesia, and PT Kutai Refinery Nusantara. These 3 customers contributed 72% of the Company's total sales. The Company has maintained strong and very long-term relationships with these top customers.

FIGURE 21. CUSTOMER MIX



Source: Company financial report

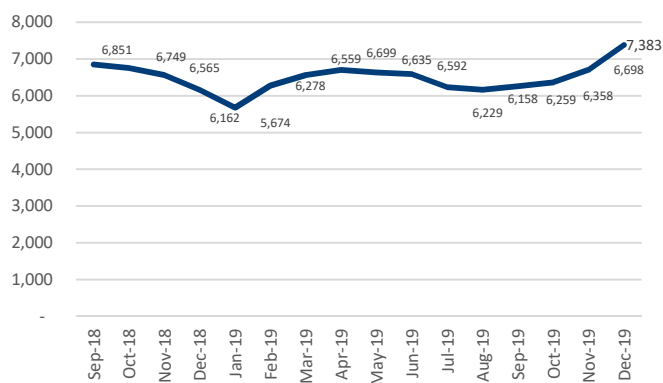
FIGURE 22. REVENUE, EBITDA, AND NET PROFIT TRENDS



Source: Company financial report

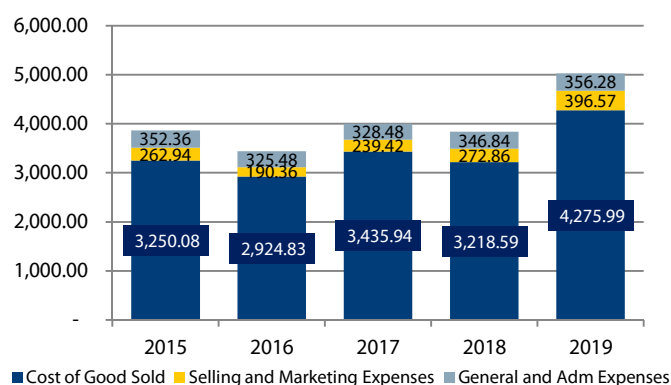
Strong revenue growth in 2019 due to plantation acquisition and improving CPO Price in 4Q2019. Per the end of 2019, the Company booked strong revenues of Rp5.7tn, an increase by 20% from Rp4.76tn in 2018. Although CPO price was weak during January–September 2019 due to oversupply condition in the CPO market and challenging economic condition, the Company still managed its sales performance thanks to the premium price of its high-quality CPO product that has <3% FFA. Additionally, the increasing planted area (due to two plantation acquisitions in 2018) and the CPO price increase in 4Q2019 also became supporting factors that raised revenues in 2019.

FIGURE 23. DSNG'S CPO AVERAGE SELLING PRICE



Source: Company – investor newsletter

FIGURE 24. COST STRUCTURE (RP BN)



Source: Company financial report

The Company's operating profit decreased by 19% to Rp756.55bn in 2019 from Rp931.86bn in 2018, since the cost of revenue increased by 33% as a result of increasing costs for materials used, direct labor, and overhead. At the same time, operating expenses also increased by 15% due to increasing selling and marketing expenses, loss from changes in fair value of biological assets, and other expenses.

The Company booked EBITDA of Rp1,313bn in 2019, slightly decreasing from Rp1,335bn in 2018, since its net profit from continued operation in 2019 dropped by -59%, while finance cost increased by 40%, depreciation increased by 37%, and amortization increased by 73%.

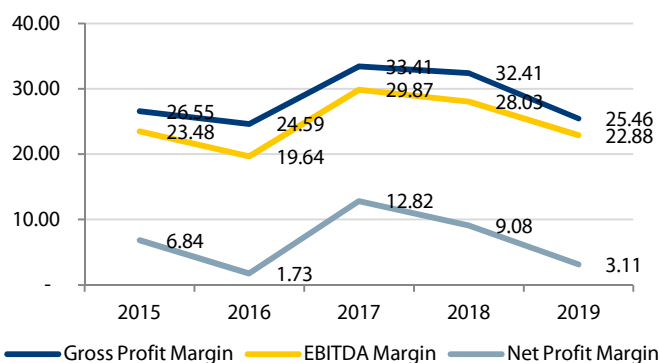
At the bottom line, the Company booked net income of Rp178.16bn in 2019, which dropped by 58% from 2018's figure of Rp427.25bn due to increasing cost of revenue, selling and marketing expenses, as well as interest expense. The Company's expenses increased since it continued to improve its palm oil plantation productivity—not reducing fertilizer application—while interest expense increased due to plantation acquisition in 2018 using bank financing.

In 1Q2020, DSNG generated revenues of Rp1.59tn, supported by higher CPO price of Rp8.3mn per ton (vs. 1Q2019's revenue of Rp1.71tn and CPO selling price of Rp6.1mn in 1Q2019). Operating profit was at Rp 294.7bn (increasing by 43% compared to 1Q2019 figure of Rp206.1bn) and EBITDA was at Rp 436bn (increasing by 37% compared to 1Q2019 EBITDA figure of Rp318.1bn). The company booked net income of Rp82.3bn, increasing by 25% compared to 1Q2019's net income of Rp65.9bn. Based on assumptions and a scenario that was set before the COVID-19 epidemic, the Company projected that revenue and EBITDA in 2020 will be at Rp7.16tn and Rp2.40tn, respectively, while in 2021, they will be at Rp8.15tn and Rp2.91tn.

Due to the coronavirus pandemic and unfavorable global economic condition, we view that the Company's profitability will be under pressure in FY2020. This condition will affect the performance of palm oil product sales in general, since the CPO market price is declining and buyers are also affected by the outbreak. We expect the Company's revenue will recover in 2021, in-line with more positive prospect on CPO price.

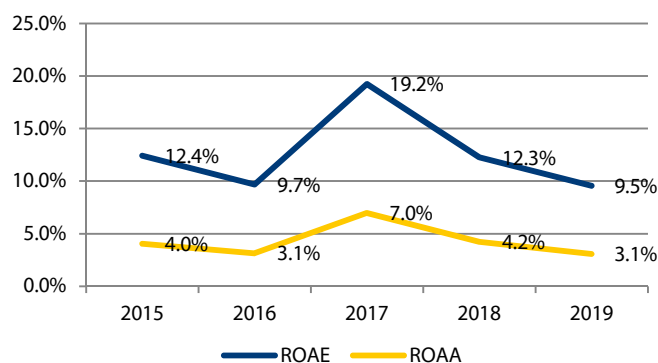
However, in the longer term, we view DSNG's revenues will be largely driven by increased production (organic growth expansion) from the young maturing plantation profile with healthy yields and favorable operating metrics, including production efficiency through the operational of 2 Bio-CNG plants (as mentioned above) that are projected to save fuel consumption totaling 6mn liters per year.

FIGURE 25. PROFITABILITY MARGIN TREND (%)



Source: Company audit report

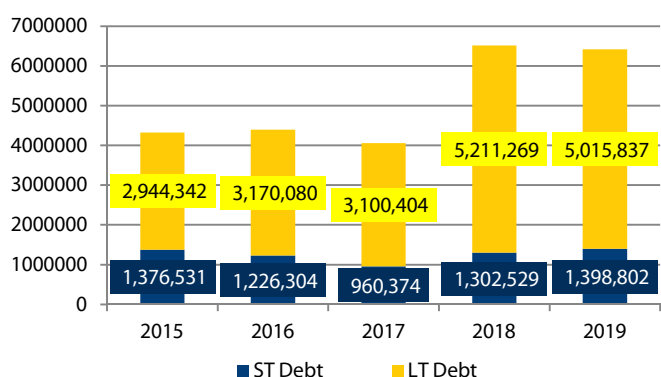
FIGURE 26. ROAA AND ROAE (%)



Source: Company audit report, Mandiri Sekuritas calculation

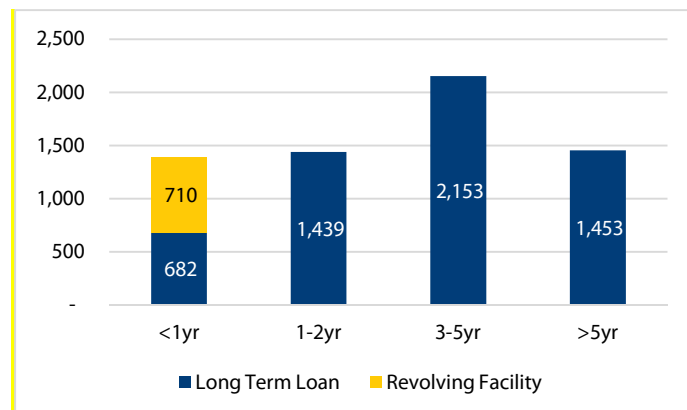
Weakened profitability margin. The Company's profitability margin has weakened as a result of weakening revenue, EBITDA, and net income due to increasing expenses. In 2019, gross margin and EBITDA margin weakened to 25.46% and 22.88%, respectively. Net profit margin also dropped from 9.08% in 2018 to 3.11% in 2019. In 1Q2020, DSNG's gross margin, EBITDA margin, and net margin were at 25.90%, 27.41%, and 5.17%, respectively, in-line with improved revenues in 1Q2020. We project the Company's profitability margin will decrease due to unfavorable business condition in 2020 related to the COVID-19 epidemic, but we expect its profitability margin will recover in 2021, along with revenue and EBITDA recovery.

FIGURE 27. TOTAL DEBT TREND



Source: Company audit report, Mandiri Sekuritas calculation

FIGURE 28. BANK LOAN MATURITY PROFILE

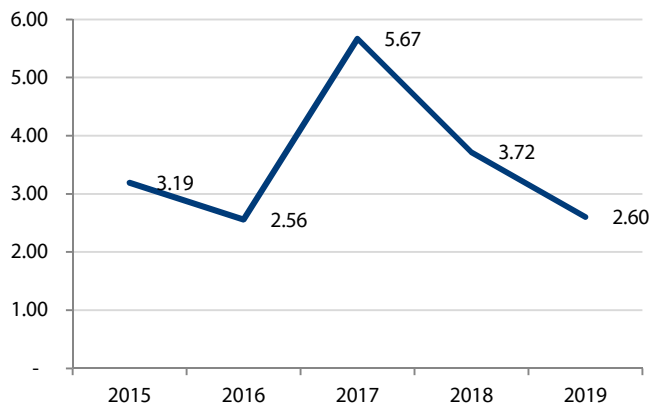


Source: Company corporate presentation

Sound solvency and interest coverage ratio. To finance business expansion, the Company relies on internal cash and bank loans. In 2018, its total interest-bearing debt increased significantly by 60% due to having acquired 2 plantations, developing its first Bio-CNG plant, new planting, routine capex, and plantation maintenance. In December 2018, the Company's total interest-bearing debt increased to Rp6.51tn from Rp4.06tn in 2017. In 2019, its total debt outstanding was at Rp6.41tn. In terms of currency, it has exposure in forex loan of USD 50.0mn as of December 2019, however it was naturally hedged by the Company's export sales from wood processing products. In 2019, the Company's total interest expense was at Rp504.64bn, an increase by 40.5% from Rp359.22bn in 2018.

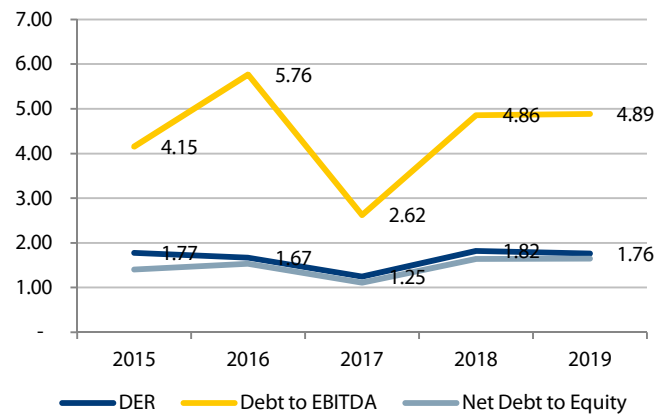
The Company's solvency ratio level was at a sound level. Its debt to equity ratio (DER) was at a favorable level of 1.76x in December 2019, and its EBITDA to interest expense was maintained strong at 2.6x. In 1Q2020, DSNG's debt to equity ratio was at 1.72x and EBITDA to interest expense was at 2.29x. Going forward, under the bond covenant, the Company should maintain net-DER <2.0x, while EBITDA to interest expense should be maintained >1.5x.

FIGURE 29. SOUND INTEREST COVERAGE



Source: Company, and Mandiri Sekuritas calculation

FIGURE 30. LEVERAGE RATIOS



Source: Company, and Mandiri Sekuritas calculation

Balance Sheet

YE Dec (Rp mn)	2015	2016	2017	2018	2019
Cash and Cash Equivalents	798,488	251,218	381,055	523,895	270,331
Restricted Cash in Bank	223,000	150,000	23,000	70,000	-
Trade Receivables	230,740	275,273	325,340	399,128	355,062
Other Receivables	118,617	51,893	29,217	28,659	27,610
Inventories	717,875	675,393	587,887	870,563	710,537
Prepaid taxes	42,874	104,026	114,223	125,810	109,881
Prepaid expenses, advances and others	183,682	245,245	221,961	235,525	188,290
Loan to third parties	-	-	56,701	70,714	167,783
Biological assets	-	-	98,182	73,626	103,037
Total Current Assets	2,315,276	1,753,048	1,837,566	2,397,920	1,932,531
Advances to cooperatives	509,081	655,091	728,611	909,927	1,168,527
Intangible Assets	187,537	187,537	181,832	242,877	236,987
Loan to third parties	-	197,697	346,338	272,993	188,209
Claims for Tax Refund and Tax Assessment	103,693	84,572	28,157	42,657	21,764
Prepaid income tax	91,569	119,166	82,332	63,263	155,752
Deferred Tax Assets	86,759	97,180	69,699	85,380	126,412
Available for sale financial assets	-	199,974	241,105	241,105	261,735
Net Fixed Assets	1,948,490	2,084,892	2,050,834	2,998,657	3,151,121
Biological Assets	-	-	108,807	111,785	112,638
Net Mature Plantation	2,484,416	2,688,246	2,767,860	4,273,691	4,088,227
Other Non-Current Assets	126,454	115,915	8,974	98,637	176,918
Total Non-Current Assets	5,537,999	6,430,270	6,614,549	9,340,972	9,688,290
Total Asset	7,853,275	8,183,318	8,452,115	11,738,892	11,620,821
Trade Payables	343,824	418,728	412,389	570,359	529,912
Short term Employee benefit Liability	-	-	-	-	-
Short Term Debt	1,372,989	1,223,093	952,686	1,288,528	1,386,295
Other Current Liabilities	378,419	316,586	352,132	448,140	433,014
Long Term Debt	2,942,685	3,168,202	3,087,001	5,197,683	5,014,716
Bonds	-	-	-	-	-
Leasing	5,199	5,089	21,091	27,587	13,628
Total Other Long-Term Liabilities	303,138	347,279	312,774	547,633	511,664
Total Liabilities	5,346,254	5,478,977	5,138,073	8,079,930	7,889,229
Capital Stock	211,970	211,997	211,997	211,997	211,997
Additional Paid in Capital	675,392	676,932	677,102	677,092	677,092
Retained Earnings	1,707,875	1,906,367	2,512,259	2,849,290	2,913,493
Other Equity Component	(163,697)	(167,082)	(167,218)	(167,190)	(156,338)
Shareholder's equity (excl. Minority Interest)	2,431,540	2,628,214	3,234,140	3,571,189	3,646,244
Minority Interest	75,481	76,127	79,902	87,773	85,348
Liabilities and Shareholder's equity	7,853,275	8,183,318	8,452,115	11,738,892	11,620,821

Profit and Loss

YE Dec (Rp mn)	2015	2016	2017	2018	2019
Revenue	4,425,060	3,878,808	5,159,911	4,761,805	5,736,684
Cost of Goods Sold	(3,250,076)	(2,924,831)	(3,435,940)	(3,218,587)	(4,275,989)
Gross Profit	1,174,984	953,977	1,723,971	1,543,218	1,460,695
Operating Expenses	(444,658)	(517,791)	(545,411)	(611,355)	(704,141)
Operating Profit	730,326	436,186	1,178,560	931,863	756,554
EBITDA	1,038,931	761,925	1,541,300	1,334,671	1,312,656
Interest Expense	(325,337)	(297,950)	(271,890)	(359,218)	(504,644)
Interest Income	21,698	14,336	28,610	38,619	28,174
Other Income (Expenses)	-	-	-	-	-
Profit Before Tax	426,687	152,572	935,280	611,264	280,084
Income Tax	(124,168)	(85,410)	(273,804)	(178,847)	(101,920)
Net Profit	302,519	67,162	661,476	432,417	178,164
Extraordinary Item	-	184,878	(83,058)	(5,172)	
Minority Interest	-	-	-	-	-
Net Income (After extraordinary items and Minority Interest)	302,519	252,040	578,418	427,245	178,164

Source: Company, and Mandiri Sekuritas Calculation

Key Ratios

YE Dec (Rpbn)	2015A	2016A	2017A	2018A	2019A
Profitability (%)					
Gross Profit Margin	26.55	24.59	33.41	32.41	25.46
EBITDA Margin	23.48	19.64	29.87	28.03	22.88
Net Margin	6.84	1.73	12.82	9.08	3.11
ROAA	4.03	3.14	6.95	4.23	3.07
ROAE	12.42	9.67	19.22	12.25	9.55
Leverage (x)					
Total Debt to EBITDA	4.16	5.77	2.63	4.88	4.89
Debt to Equity Ratio	1.78	1.67	1.26	1.82	1.76
Net Debt to EBITDA	3.39	5.44	2.39	4.49	4.68
Net Debt to Equity Ratio	1.41	1.53	1.11	1.64	1.65
Credit protection (x)					
EBITDA / Interest Expense	3.19	2.56	5.67	3.72	2.60
EBITDA / Total Debt	0.24	0.17	0.38	0.20	0.20
Liquidity					
Current ratio (x)	1.10	0.89	1.07	1.03	0.82

Source: Mandiri Sekuritas Calculation

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