

# Dharma Satya Nusantara

DSNG IJ/DSNG.JK

Report Initiation | BCAS Virtue | Plantation Sector

**BUY**

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## Power of the Young

### Long-term catalyst: favorable age profile

DSNG plantation profile currently consists of prime-aged trees, at an average of 11 years of age (vs. AALI and LSIP at 15 and 17 years old, respectively). Company also produces superior FFB yield as compared to peers, at 25.4MT/ha last year (vs. AALI at 19.5MT/ha and LSIP at 17.1MT/ha); we therefore project DSNG FFB production to grow at 7.4% CAGR between FY19-22F (vs. AALI and LSIP at 3.6% and 3.0%, respectively). Given better productivity, Company will have a stronger opportunity to monetize structurally favorable CPO price level, over the long run. Separately, Management predicts a potential replanting program of 500-1,000 ha, possibly to start in 2022-2023, while maintaining its average age of maximum 15 years and FFB yield of ~26.3 MT/ha, up until 2026. Another value proposition lies in its ESG plantation concept, in which it invested 5 years back: DSNG is in fact the first palm oil plantation to receive a "Green Loan".

### Performance in 4Q20 and FY21

We estimate 4Q20 will be the biggest earnings contributor for FY20. Similar to other CPO players, CPO price inevitably exerts a lagging effect on DSNG earnings, on account of a 1-2-month shipment time to destination, meaning that high CPO price level in 3Q will only be partially recorded in 4Q. Not to mention CPO price uptrend is likely to continue in 4Q20. In our view, this trend will endure into 1Q21; thus, earnings performance should be ample during that period. We estimate overall FY21 financial performance will be underpinned by increasing sales volume, thanks to production recovery. GPM should improve as well, on the back of lower external FFB purchase. Note that DSNG GPM would perform higher than peers, on the back of better yield productivity per hectare.

### We initiate coverage with **BUY** call recommendation

We like DSNG, mainly due to its remarkably better production outlook, compared to its peers. This will help the Company enjoy faster volume growth, coupled with lucrative CPO price trend, not to mention lower production costs. We initiate DSNG with a **BUY** call with TP of IDR660, using target PE of 18.2x (+1std 5-year) and Ev/Ha of USD 7,056. Interestingly, Company currently is traded at PE of 13.5x FY21, much lower compared to AALI and LSIP. The main pushback derives from its low liquidity situation.

### Exhibit 51. Financial Summary

YE to Dec 31 IDRbn	2018	2019	2020F	2021F	2022F
Revenue	4,762	5,737	6,316	7,106	8,100
EBIT	924	708	781	1,022	1,249
EV/EBITDA (x)	9.8	12.0	11.2	9.1	7.7
Net profit	426	180	259	405	572
BCAS/Consensus (%)			75.1	75.8	90.9
EPS (IDR)	40	17	24	38	54
EPS growth (%)	(28.1)	(57.2)	44.0	56.4	41.0
DPS (IDR)	10	4	6	10	13
PE (x)	13.0	30.3	21.1	13.5	9.5
Dividend yield (%)	1.9	0.8	1.2	1.9	2.6
P/B (x)	1.5	1.5	1.4	1.3	1.2
ROE (%)	12.4	5.0	6.9	10.1	12.9
Net Gearing (%)	175.3	169.9	168.0	157.1	144.8

Sources: Company, BCA Sekuritas

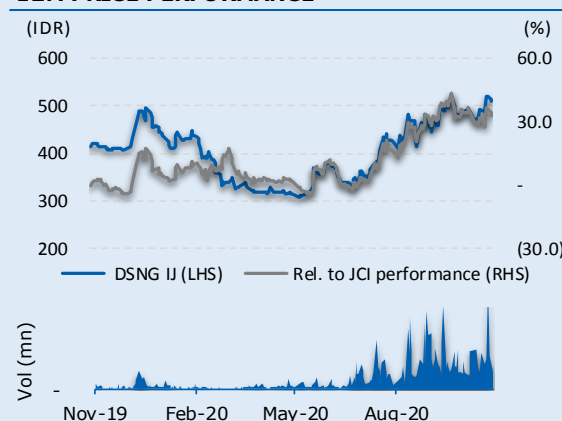
Current Price: IDR515

Target Price: IDR660

(Unchanged)

Upside potential: 28.2%

### 12M PRICE PERFORMANCE



Source: Bloomberg

### STOCK PERFORMANCE

	YTD	1M	3M	12M
Absolute	12.0%	6.4%	21.5%	23.8%
JCI Return	-11.6%	9.3%	5.7%	-9.5%
Relative	23.5%	-2.8%	15.8%	33.3%

Source: Bloomberg

### MARKET DATA

12M price range (IDR)	:	310 - 525
Outstanding shares (mn)	:	10,600
Market cap (IDRbn)/(USDmn)	:	5,459 / 385
Avg daily turn. (IDRbn/USDmn)	:	35.4 / 2.5

Source: Bloomberg

### SHAREHOLDERS

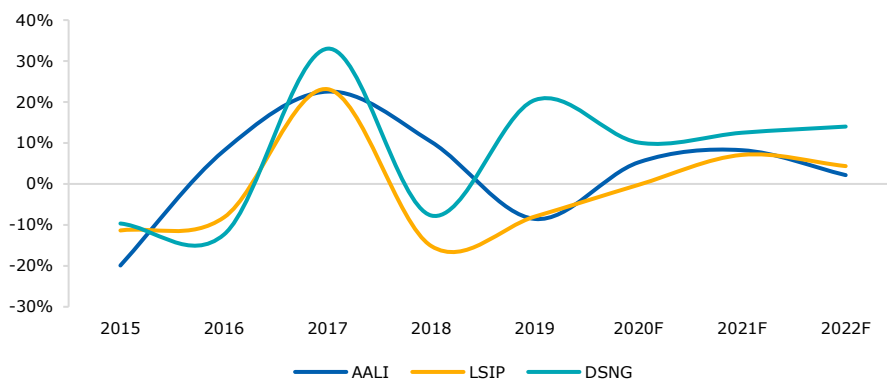
Triputra Investindo Arya	:	27.6%
Krishna Kapital Investama	:	14.6%
Others	:	57.8%

Source: Bloomberg

## DSNG competitive advantage

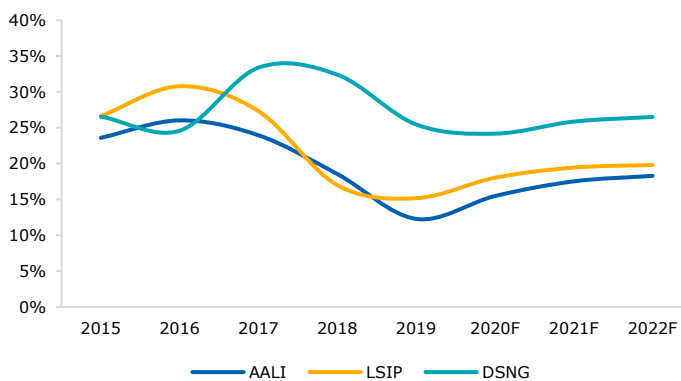
1. We project Company to perform better sales growth trajectory than peers, backed by more superior volume growth, given higher productivity. Note that DSNG plantation profile currently consists of prime-aged trees, at an average of 11 years of age (vs. AALI and LSIP at 15 and 17 years old, respectively). Company also produces superior FFB yield as compared to peers, at 25.4MT/ha last year (vs. AALI at 19.5MT/ha and LSIP at 17.1MT/ha).
2. Company also has higher gross margin than peers, mainly because of their lower cost per unit, driven by better yield productivity per hectare. Thus, earnings growth outlook should outperform industry, in our view. The greatest pushbacks may come from its low liquidity (average daily turnover only IDR2.0bn) as well as higher net gearing ratio compare to peers.

### Exhibit 52. Sales growth comparison



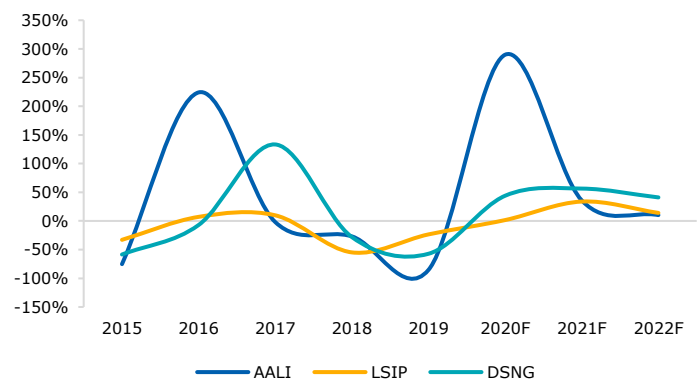
Sources: Companies, BCA Sekuritas

### Exhibit 53. Gross margin comparison



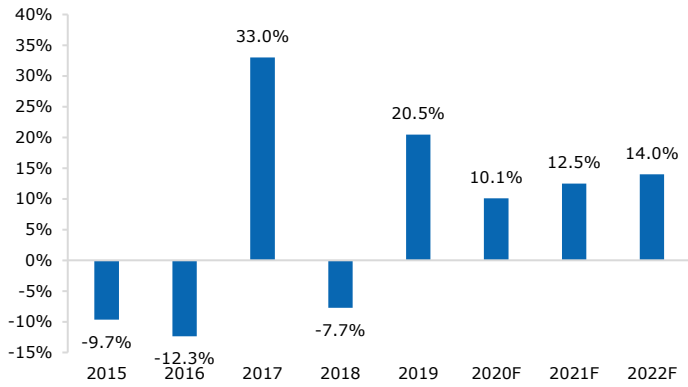
Sources: Company, BCA Sekuritas

### Exhibit 54. Net profit comparison



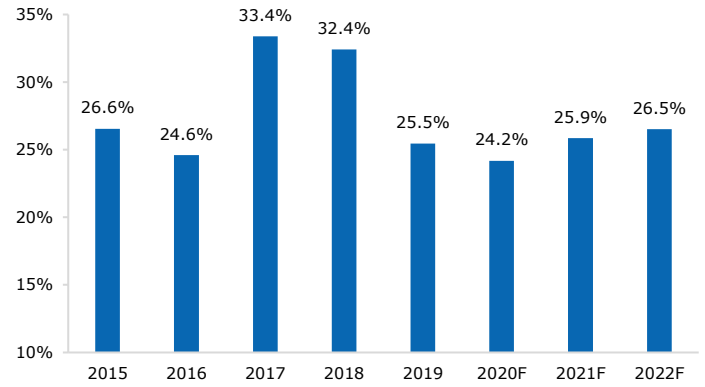
Source: Company, BCA Sekuritas

**Exhibit 55. DSNG sales forecast**



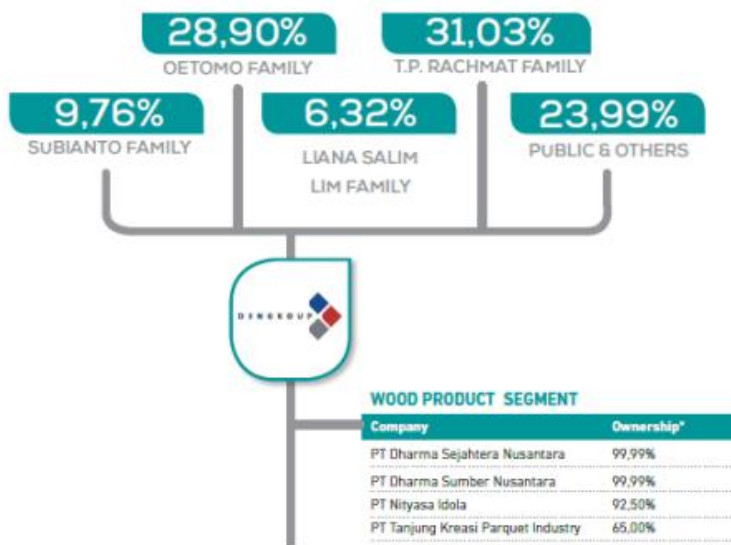
Sources: Company, BCA Sekuritas

**Exhibit 56. DSNG gross margin forecast**



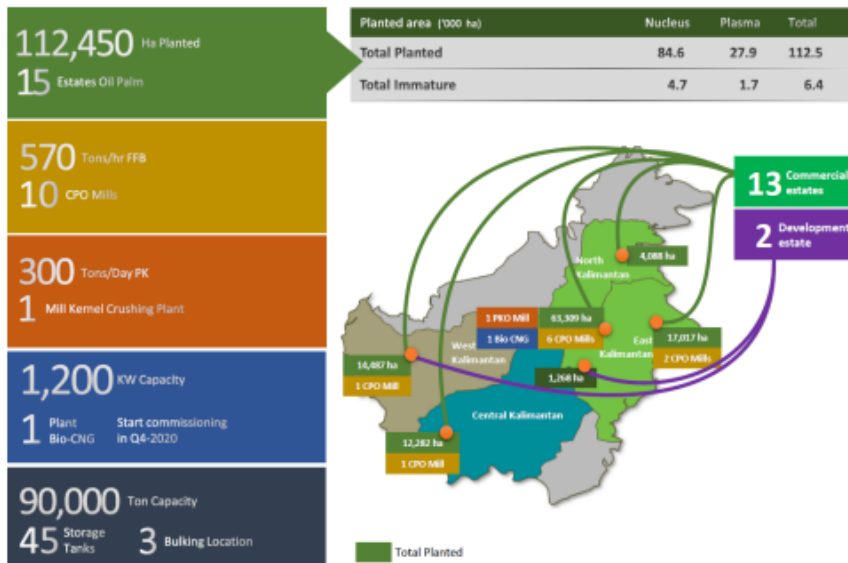
Source: Company, BCA Sekuritas

**Exhibit 57. Company structure**



Sources: Company, BCA Sekuritas

**Exhibit 58. Company plantation profile**



Sources: Company, BCA Sekuritas

**Exhibit 59. DSNB financial summary**

<b>Income Statement</b>					
<b>Year-end 31 Dec (IDRbn)</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
<b>Revenue</b>	<b>4,762</b>	<b>5,737</b>	<b>6,316</b>	<b>7,106</b>	<b>8,100</b>
Cost of revenue	3,219	4,276	4,789	5,268	5,953
Gross Profit	1,543	1,461	1,527	1,838	2,148
<b>EBIT</b>	<b>924</b>	<b>708</b>	<b>781</b>	<b>1,022</b>	<b>1,249</b>
<b>EBITDA</b>	<b>1,180</b>	<b>974</b>	<b>1,058</b>	<b>1,307</b>	<b>1,560</b>
Interest income	39	28	33	33	33
Interest expense	(359)	(505)	(500)	(500)	(500)
Other income (expense)	8	49	45	2	2
<b>Pre-tax profit</b>	<b>611</b>	<b>280</b>	<b>359</b>	<b>557</b>	<b>784</b>
Minority interests	7	(2)	6	7	8
<b>Net income</b>	<b>426</b>	<b>180</b>	<b>259</b>	<b>405</b>	<b>572</b>
<b>EPS (IDR)</b>	<b>40</b>	<b>17</b>	<b>24</b>	<b>38</b>	<b>54</b>
<b>DPS (IDR)</b>	<b>10</b>	<b>4</b>	<b>6</b>	<b>10</b>	<b>13</b>

<b>Balance sheet</b>					
<b>Year-end 31 Dec (IDRbn)</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Cash and equivalents	524	270	393	373	292
Account receivables	399	355	421	474	540
Inventories	871	711	798	878	992
L-T Invest & receivables	112	113	116	110	105
Fixed assets	2,999	3,151	3,466	3,539	3,606
Other assets	6,835	7,021	7,036	7,250	7,633
<b>Total assets</b>	<b>11,739</b>	<b>11,621</b>	<b>12,231</b>	<b>12,624</b>	<b>13,167</b>
S-T liabilities	1,289	1,386	1,633	1,640	1,647
Other S-T liabilities	1,033	975	1,054	1,079	1,122
L-T liabilities	5,211	5,016	5,067	5,067	5,067
Other L-T liabilities	548	512	525	539	554
<b>Total liabilities</b>	<b>8,080</b>	<b>7,889</b>	<b>8,279</b>	<b>8,324</b>	<b>8,389</b>
Minority interest	88	85	92	99	107
<b>Equity</b>	<b>3,571</b>	<b>3,646</b>	<b>3,861</b>	<b>4,201</b>	<b>4,672</b>
<b>Total liabilities &amp; equity</b>	<b>11,739</b>	<b>11,621</b>	<b>12,231</b>	<b>12,624</b>	<b>13,167</b>

<b>Cash Flows Statement</b>					
<b>Year-end 31 Dec (IDRbn)</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Net Income	421	180	259	405	572
Depreciation	256	266	278	284	311
Change in working capital	(328)	171	(127)	(122)	(169)
<b>Operating cash flow</b>	<b>349</b>	<b>617</b>	<b>410</b>	<b>568</b>	<b>714</b>
Capital expenditure	(2,740)	(494)	(598)	(531)	(719)
Others	(175)	(380)	(13)	(17)	(19)
<b>Investing cash flow</b>	<b>(2,914)</b>	<b>(875)</b>	<b>(611)</b>	<b>(548)</b>	<b>(738)</b>
Net change in debt	2,447	76	297	7	27
Dividend paid	(105)	(105)	(45)	(65)	(121)
Others	366	32	73	18	37
<b>Financing cash flow</b>	<b>2,708</b>	<b>3</b>	<b>325</b>	<b>(40)</b>	<b>(58)</b>
Change in cash	143	(254)	123	(20)	(81)
Beginning cash flow	381	524	270	393	373
<b>Ending cash flow</b>	<b>524</b>	<b>270</b>	<b>393</b>	<b>373</b>	<b>292</b>

<b>Key Ratios</b>					
	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Gross margin (%)	32.4	25.5	24.2	25.9	26.5
EBITDA margin (%)	24.8	17.0	16.8	18.4	19.3
EBIT margin (%)	19.4	12.3	12.4	14.4	15.4
Pretax margin (%)	12.8	4.9	5.7	7.8	9.7
Net margin (%)	8.8	3.1	4.1	5.7	7.1
ROAE (%)	12.4	5.0	6.9	10.1	12.9
ROAA (%)	4.2	1.5	2.2	3.3	4.4
Current ratio (x)	1.0	0.8	0.8	0.9	0.9
Acid ratio (x)	0.4	0.3	0.3	0.3	0.3
Gearing (%)	191.0	177.4	178.5	166.4	151.3
Net gearing (%)	175.3	169.9	168.0	157.1	144.8
AR turnover (days)	30	26	24	24	24
Inventory turnover (days)	83	67	61	61	61
AP turnover (days)	56	47	41	40	37

Sources: Company, BCA Sekuritas



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