

Indonesia

ADD (previously NOT RATED)

Consensus ratings*: Buy 5 Hold 0 Sell 0

Current price:	Rp580.0
Target price:	Rp790.0
Previous target:	Rp
Up/downside:	36.2%
CGS-CIMB / Consensus:	6.8%
Reuters:	DSNG.JK
Bloomberg:	DSNG IJ
Market cap:	US\$439.0m
	Rp6,147,909m
Average daily turnover:	US\$0.85m
	Rp11,891m
Current shares o/s:	10,600m
Free float:	31.9%

*Source: Bloomberg

Key changes in this note

N/A



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-9.4	23.9	40.1
Relative (%)	-9.4	4.3	37

Major shareholders	% held
PT Triputra Investindo Arya	27.6
PT Krishna Kapital Investama	14.6
PT Tri Nur Cakrawala	7.4

Analyst(s)

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Dharma Satya Nusantara

A compelling play on high CPO prices

- DSNG's estates grew by c.25% over the past five years to 112k ha. Mature trees comprise 91%, have an average age of 9.9 years, and superior yield.
- We project 7% FFB CAGR and 9% CPO production CAGR in FY20-22F, i.e. faster than its larger peers. It also benefits from cost advantage.
- We project 7% sales and 44% net profit CAGR in FY20-22F, assuming CPO price of RM2,680 in FY20 and RM2,500 in FY21-22F per tonne.
- With its appealing profile, we think DSNG is a strong play if CPO price stays high. Our TP of Rp790 is based on +1 s.d. from 7-year mean P/E.

Plenty of room to grow

Dharma Satya Nusantara (DSNG) has grown its plantations organically and through acquisitions, adding some 22k ha over the past five years, with total oil palm planted area of 112,450 ha, 91% of which is mature. The average age of its estates is one of the lowest compared to peers at 9.9 years. It has higher FFB yield of 23.6 tonnes/ha and OER of 23.5% which result in CPO yield of 6 tonnes/ha. We believe DSNG's plantation average age should remain below 12 years until FY22F (6.5% CAGR FY20-22F) and project FFB output at a 7% CAGR in FY20-22F, 20% above peers. CPO output may be higher due to third-party purchases.

Focus on sustainable plantations

Besides RSPO and ISPO certifications, DSNG has high ratings from SPOTT. As a result, its CPO is highly sought after by local buyers which are its main customer base. It is committed to sustainable development and has invested in turning oil palm waste into renewable energy. In Sep 2020, DSNG commissioned its first Bio-CNG plant, which utilises liquid waste from the palm oil mill to generate electricity. The Bio-CNG plant has 1.2MW capacity, enough to power a kernel crushing plant as well as the Bio-CNG plant.

Potential earnings rebound in the near-term

In 9M20, DSNG's FFB production decreased by 20% qoq, but rose by 6% yoy. The yoy rise in FFB production was due to CPO OER improving from 23.5% to 23.9%. It also purchased more FFB from a third-party as DSNG has spare capacity at its new mill with capacity of 60 tonnes/hour. We estimate its nucleus FFB production could be lower in FY20F (-4.7% yoy) due to the mild El Nino in FY19. We estimate CPO output rose 5% yoy 2.7m tonnes in FY20F, which likely led to revenue rising 8% yoy to Rp6.2bn.

The fastest growth among peers

We initiate coverage on DSNG with an Add rating. We project 7% sales CAGR in FY20-22F, outperforming peers. If CPO price stays high, its higher production growth, lower cost and higher yield should help boost net profit in coming years. We also like its superior ESG rating and commitment to sustainability. Our TP of Rp790 implies 22.2x FY21F P/E, or +1 s.d. from its 7-year mean. Potential re-rating catalysts: higher CPO price and rebounding yield; downside risks include unfavourable weather.

Financial Summary

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue (Rpb)	4,762	5,737	6,211	6,567	7,093
Operating EBITDA (Rpb)	1,299	1,256	1,382	1,539	1,798
Net Profit (Rpb)	439.2	176.4	271.5	377.0	565.0
Core EPS (Rp)	41.43	16.64	25.61	35.56	53.31
Core EPS Growth	(34.0%)	(59.8%)	53.9%	38.9%	49.9%
FD Core P/E (x)	14.00	34.85	22.64	16.31	10.88
DPS (Rp)	9.87	9.87	6.10	8.47	12.69
Dividend Yield	1.70%	1.70%	1.05%	1.46%	2.19%
EV/EBITDA (x)	9.34	9.85	8.79	7.60	6.33
P/FCFE (x)	27.34	NA	27.98	9.91	11.56
Net Gearing	161%	164%	150%	129%	110%
P/BV (x)	1.72	1.69	1.59	1.48	1.34
ROE	12.9%	4.9%	7.2%	9.4%	13.0%
% Change In Core EPS Estimates					
CGS-CIMB/Consensus EPS (x)			1.14	0.89	1.01

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

A compelling play on high CPO prices

Background - Dharma Satya Nusantara

PT Dharma Satya Nusantara Tbk was established on 29 Sep 1980 and produces palm oil and wood products. As of Dec 19, DSNG had a planted area of 112,450ha and a total of 10 palm oil mills that process FFB into CPO with total capacity of 570 tonnes per hour. DSNG also sells wood products and has two wood processing plants in Central Java that produce panels and engineered floorings. On 14 Jun 2013, the company conducted its initial public offering on Indonesia's stock exchange, and became a publicly listed company with the ticker code DSNG.

Figure 1: Management Profile

Name	Title	Start	Experience
Board of Commissioner			
Adi Resanata Somadi Halim	President Commissioner	2017	He has served as the President Commissioner since 2017, and previously served as Commissioner (2011-2017). Prior to that, he was the Director of the company from 1982 to 1991.
Aron Yongky	Commissioner	2016	He has served as Commissioner since 1996, but was re-appointed as Commissioner in 2016. Previously, he has served as the Director of the Company from 1991 to 1996.
Djojo Boentoro	Commissioner	2016	He was appointed as the commissioner since 2016, and currently also serves as Commissioner in the company's subsidiaries.
Arini Saraswati Subianto	Commissioner	2017	She was appointed as the Commissioner of the company since 2017. Currently, she also serves as a Commissioner of PT Adaro Energy Tbk (2017-now) and also served as President Director of several companies.
Arif Rachmat	Commissioner	2017	He was appointed as Commissioner of the company in 2017. He also serves as Executive Chairman of PT Triputra Agro Persana since 2018, Commissioner of PT Kirana Megatara Tbk since 2010, and Director of several companies
Tody Mizaabianto Sugoto	Commissioner	2017	He serves as the Commissioner of the company since 2017, as well as President Commissioner of PT Kirana Megatara Tbk since 2016, Commissioner of PT Triputra Agro Persada since 2008, the Board of Trustees of GAPKI, and he also served as director and commissioner in other companies.
Stephen Zacharia Satyahadi	Independent Commissioner	2013	He was appointed as an Independent Commissioner of the company since 2013, and currently also serves as President Director of PT Promitra Finance (since 2007).
Edy Sugito	Independent Commissioner	2013	He was appointed as Independent Commissioner of the company since 2013. Currently, he also serves as President Commissioner of PT Gayatri Kapital Indonesia and Independent Commissioner to several Companies.
Danny Walla	Independent Commissioner	2016	He was appointed as Independent Commissioner since 2016. Currently, he also serves as a Commissioner of PT Mitra Pinasthika Mustika Tbk since 2010.
Board of Directors			
Andrianto Oetomo	President Director	2016	Has served as the President Director of the Company since 2016. In addition, he also served as the Commissioner in the Company's subsidiaries and Commissioner of PT Krishna Kapital Investama since 2011.
Efendi Sulisetyo	Director	2001	He has served as the Director of the Company since 2001. In addition, he also serves as Director of PT Tanjung kreasi Parquet Industry PT Dharma Sejahtera Nusantara and PT Dharma Sumber Nusantara.
Timotheus Arifin C.	Director	2011	He has served as the director of the company since 2011. He also serves as Commissioner in the company's subsidiaries.
Agung Pramudji	Director	2015	He served as the Director of the Company since 2015. In addition to that, he also served as Director of PT Swakarsa Sinarsentosa, PT Dewata Sawit Nusantara, PT Dharma Agrotama Nusantara, and others.
Mochamad Koeswono	Director	2016	He was appointed as the Director of the company since 2016. He also serves as Commissioner in several of the company's subsidiaries
Lucy Sycilia	Director	2015	She has served as the Director of the company since 2015. She joined the group in 2012 as Corporate Human Capital Head. Previously, she was a Director of Human Resources and general affairs from 2009 to 2011
Jenti	Director	2018	She has served as Director and Independent Director since 2016. Previously, she served as CFO of PT HPI Agro, from August 2016 to June 2018. She also held various important positions at PT Austindo Nusantara Jaya Tbk from 2010-2015, with her last position as Group Head of Business Development and Corporate Finance.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

The palm oil business contributed 82% of DSNG's total FY19 revenue. DSNG has implemented a modern plantation system as it strives to run an environmentally-friendly operation that meets international and national standards. DSNG has both RSPO and ISPO certificates which shows its commitment to sustainability.

DSNG's first plantation was located in Muara Wahau, East Kalimantan. Currently, it has 15 plantations, most of which are located in East Kalimantan and the others in Central Kalimantan and West Kalimantan. DSNG has more than 60,000ha of planted oil palm estates in one contiguous block which is a big advantage in terms of operational efficiency (Fig 2).

Figure 2: Brief company milestones

Year	1983	1997	2004	2009	2011	2013
	1. Starting wood processing business	1. First planting of oil palms in East Kalimantan	1. First planting of oil palms in Central Kalimantan	1. First planting of oil palms in West Kalimantan	1. Acquired 65% of PT TKPI (Wood flooring business) in central Java 2. First acquisition of palm oil plantation	1. IPO at Jakarta Stock exchange
Plantation in Ha	-	4,100	15,200	44,800	57,600	70,500
Palm oil Mills capacity in tph	-	-	90	150	210	330

Year	2016	2017	2018	2019	2020	
	1. Strategic Investment of 15% @ REA Kaltim	1. POM # 7 started commercial operation	1. Acquired 2 plantations in East Kalimantan with total planted area 17k ha & 2 mills	1. New CPO mill @30tph in West Kalimantan & 1 extension line @30tph in East Kalimantan have been commercially running	1. Commissioning of Bio-CNG Plant on 17 Sept' 2020	3. Obtained a new ST facility of IDR 75bn from Bank Mandiri
	2. JV with Daiken Corp, Japan for engineered door manufacturing		2. Groundbreaking of Bio-CNG Plant	2. Construction of Bio-CNG Plant is in Progress	2. In July 2020, DSNG raised Rp 451 Bn from its first bond issuance	4. Successfully refinanced channeing loan to plasma of IDR 202bn in Sept 2020
Plantation in Ha	90,300	90,300	108,400	112,500	112,500	
Palm oil Mills capacity in tph	390	450	510	570	570	

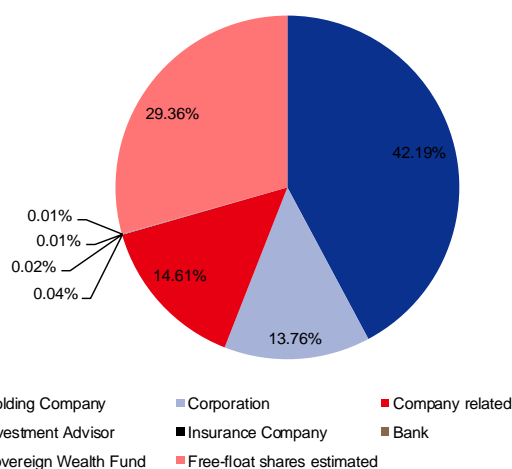
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Shareholders as at Nov 20

Triputra Investindo Arya PT	27.56%	Holding Company
Krishna Kapital Investama PT	14.63%	Holding Company
Tri Nur Cakrawala PT	7.44%	Corporation
Mitra Aneka Guna PT	6.32%	Corporation
Oetomo Arianto	5.43%	Company related
Oetomo Andrianto	5.43%	Company related
Boentoro Djojo	1.79%	Company related
Sulisetyo Efendi	1.12%	Company related
Arifin C Timotheus	0.84%	Company related
Dimensional Fund Advisors LP	0.04%	Investment Advisor
NN Group NV	0.02%	Insurance Company
Mitsubishi UFJ Financial Group Inc	0.01%	Bank
Alaska Permanent Fund Corp	0.01%	Sovereign Wealth Fund
Free-float shares estimated	29.36%	
Total	100.00%	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

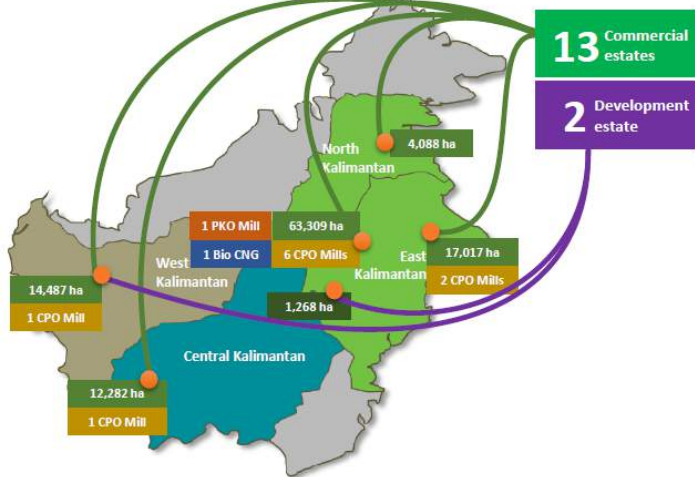
Figure 4: Shareholders by type as of Nov 20



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

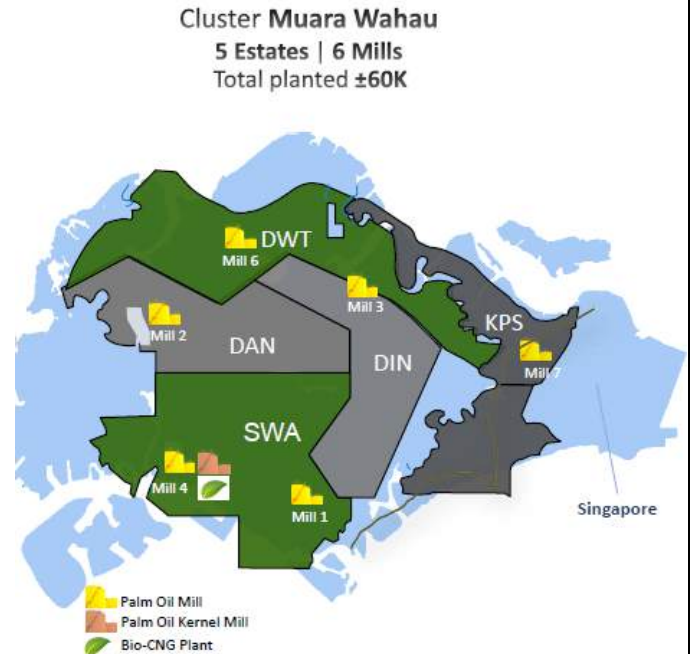
DSNG’s estates are spread across Kalimantan, and the largest is in East Kalimantan. The planted area in East Kalimantan continued to expand with total area of approximately 60,000 hectares, which is currently the company’s biggest asset (Figs 5 and 6).

Figure 5: Total planted area and mills



SOURCES: COMPANY REPORTS

Figure 6: DSNG’s most developed cluster in East Kalimantan is nearly the size of Singapore



SOURCES: COMPANY REPORTS

The wood product business has been around since the beginning, and is DSNG group’s legacy business, producing panels and engineered floorings. Panels are mostly exported to Japan, Asia, and the Middle East, while engineered flooring is exported to Europe, Central America, Canada and Asia as well as local markets.

Figure 7: Varieties of wood products



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 8: International markets for wood products



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Sustainable oil palm plantation

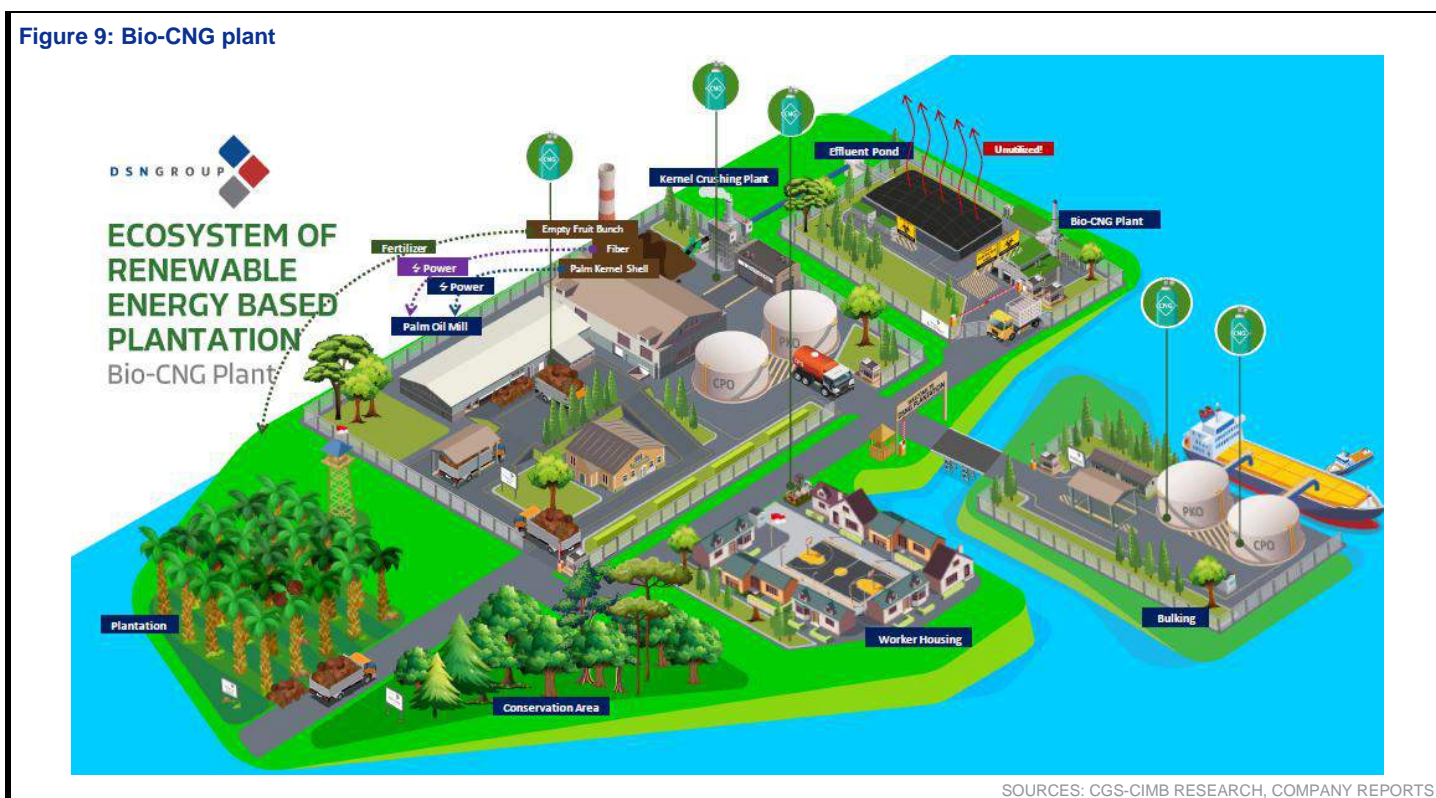
Bio-Compressed Natural Gas (Bio-CNG) plant. In Sep 20, DSNG commissioned its first Bio-CNG plant in Muara Wahau, East Kalimantan. This projects shows the commitment of DSNG to implementing a circular economy

concept by minimising palm oil mill waste and pollution, and utilising sustainable resources and regeneration of natural systems. The Bio-CNG plant was built to reduce greenhouse gas emission while also creating economic benefits through lower diesel fuel consumption. Management explained that the Bio-CNG plant is able to reduce more than 50,000 tonnes of CO₂, which is equivalent to:

- 1). Planting more than 800,000 trees
- 2). Removing around 11,000 cars off the road
- 3). Recycling about 17,000 tonnes of landfill waste

Furthermore, the plant will generate electricity with capacity of 1.2MW which will be utilised to power the Kernel Crushing Plant as well as the Bio-CNG plant. By utilising the renewable energy from this plant, management believes that it can save on the consumption of diesel fuel by at least 2m litres per year. We believe that this could help DSNG lower operating expenses such as freight cost.

Figure 9: Bio-CNG plant



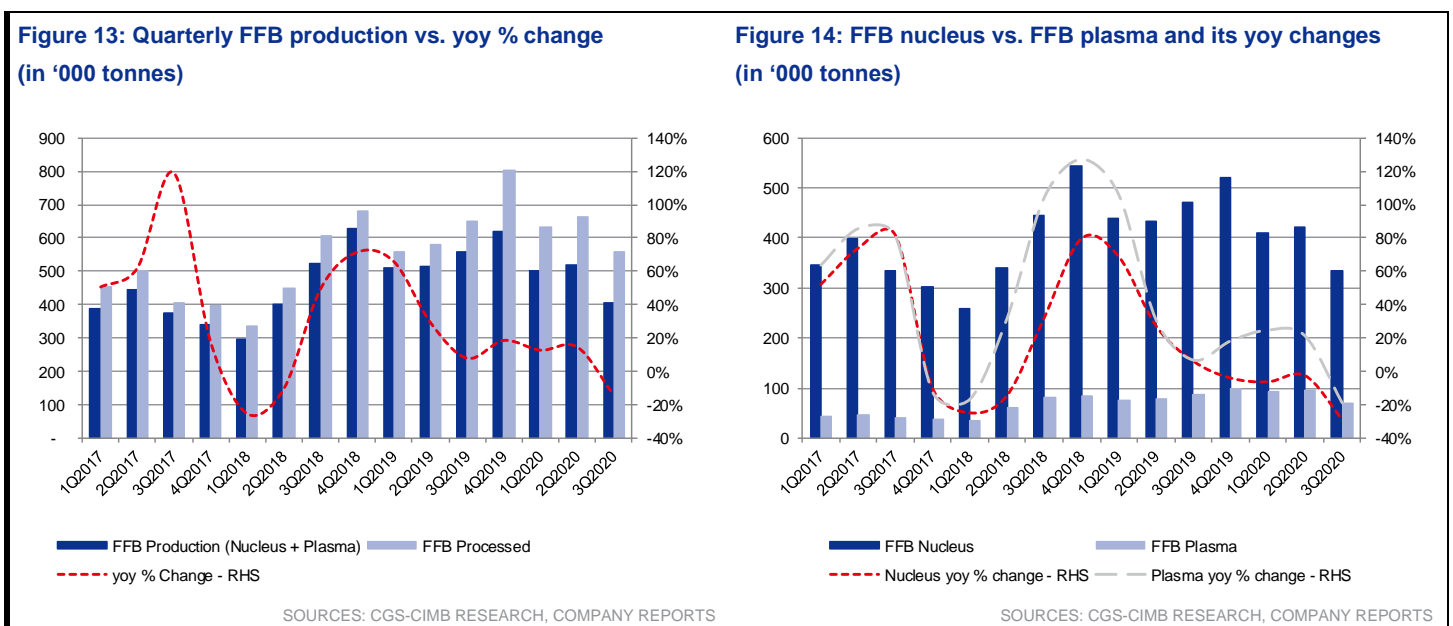
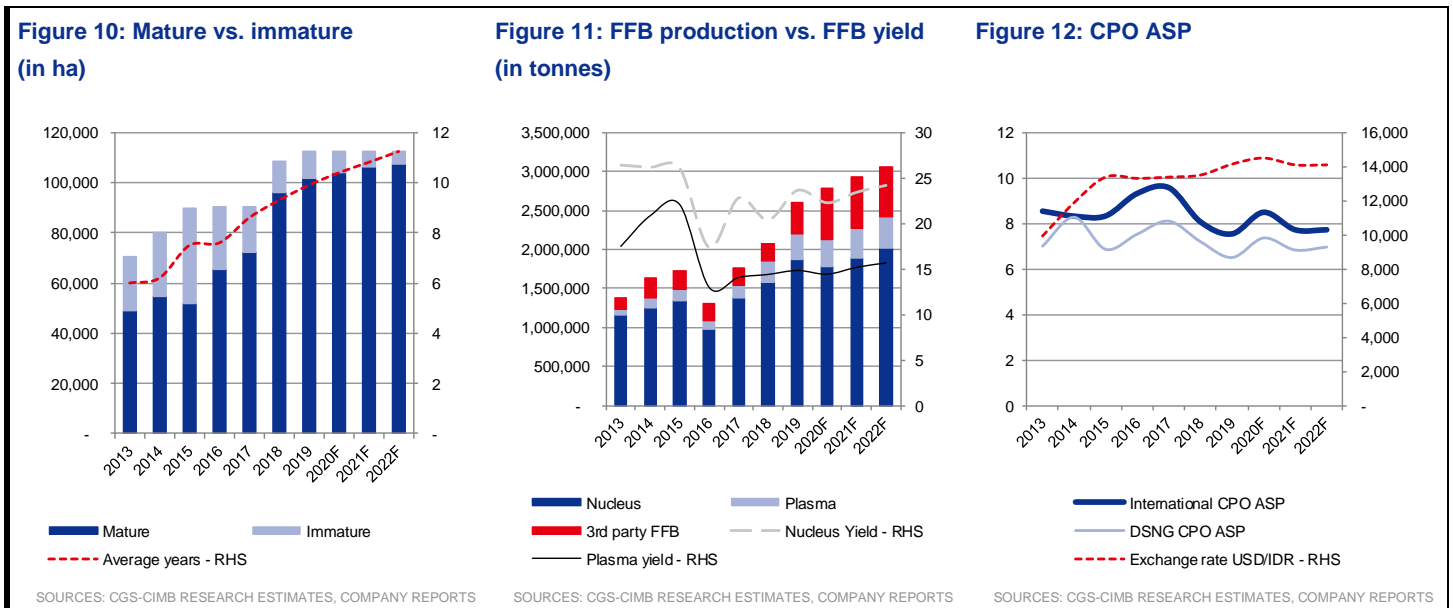
Sustainability Policy Transparency Toolkit (SPOTT) ESG ranking increased significantly. The SPOTT ranking is a systematic online assessment of the disclosure of the Environmental, Social & Governance (ESG) programmes of some 100 global companies in the palm oil industry. Last year, DSNG was ranked 46th, but increased its ranking in FY20 to 16th. For 2020, DSNG was the highest-ranking Indonesia-based publicly listed palm oil company. This achievement also demonstrates DSNG’s commitment to disclosing and managing its ESG practices. Furthermore, DSNG is also committed to improving its ESG standards by using the SPOTT platform to monitor its progress compared to other players.

DSNG’s oil palm estate and production

As of Sep 2020, DSNG’s FFB production was lower 10% yoy and 20% qoq due to the impact of the mild El Nino that occurred in 2019, and the East Kalimantan plantation experienced the worst drop. For FY20F, we project that FFB production was lower by 4% yoy.

In Fig 9, we see that DSNG's plantation is mostly mature with a low average age. As of Dec 19, 90.5% of the oil palm plantation was mature, while the rest was immature. We estimate that until FY22F (Fig 10), DSNG's average plantation age should remain below 12 years (6.5% FY20-22F CAGR) with a maturity of 96% which should lead to a 7% FY20-22F FFB output CAGR.

Fig 11 shows that the nucleus yield is starting to increase slightly but still not to the 2013-2015 level. This was due to the low performance from two estates following the acquisition in 2018 which dragged down the group's existing average. On the other hand, we see a significant drop in FFB processed in 2016, which was due to the extreme and long drought from the El Nino and resulted in below-standard yield in 2015.



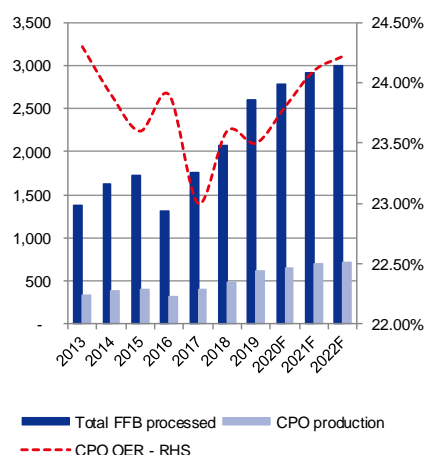
Crude Palm Oil (CPO), Palm Kernel (PK), and Palm Kernel Oil (PKO) production

The 20% qoq decrease in FFB production resulted in lower CPO production in 9M20. YTD, CPO production still increased by 6% due to the improving OER from 23.4% in FY19 vs. 23.9% in FY20. The company buys more FFB from a third-party to balance the production volume as its newly-added mill with

capacity of 60 tonnes/hour is fully operational. DSNG also maintained Free Fatty Acid (FFA) above 2.5%, which is considered a premium oil that has a better selling price compared to normal oils.

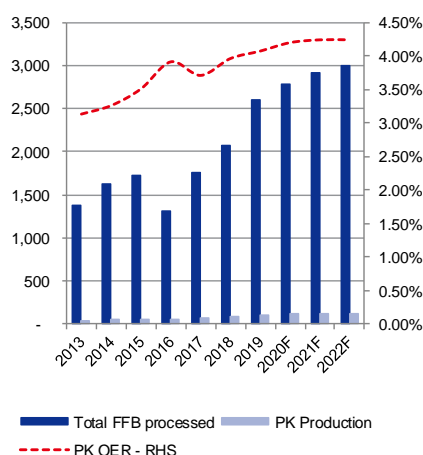
For FY20F CPO production, we project that DSNG was able to reach its target of c.640,000 tonnes (+5% yoy) due to the increasing OER (+1.5% yoy) compared to the previous year. In Figures 15-17, we project that with the slightly higher FFB output (+5.5% yoy), DSNG was able to maintain its extraction rate which resulted in better CPO, PK, and PKO output for FY20F. We estimate that DSNG's CPO production will achieve an FY20-22F CAGR of 9% due to a stable CPO OER and better yield from the plantation that was acquired two years ago and is currently being restored.

Figure 15: FFB processed vs. CPO
(in '000 tonnes)



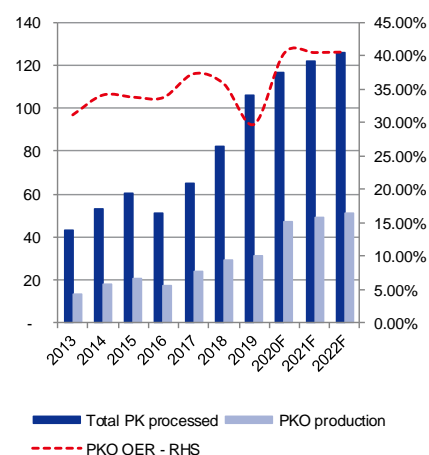
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 16: FFB processed vs. PK
(in '000 tonnes)



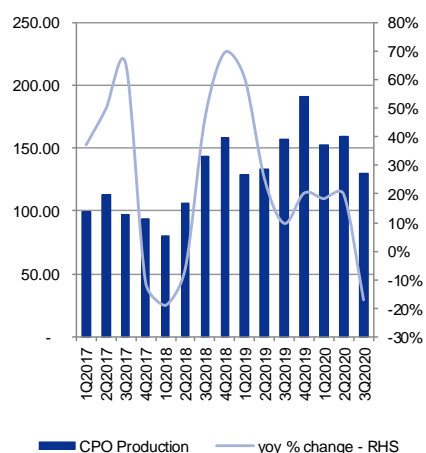
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 17: PK processed vs. PKO
(in '000 tonnes)



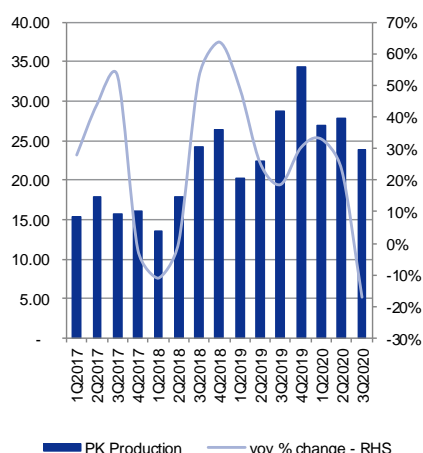
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 18: CPO production vs. yoy change
(in '000 tonnes)



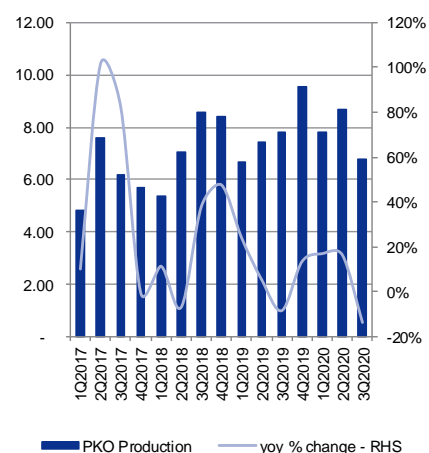
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 19: PK production vs. yoy change
(in '000 tonnes)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 20: PKO production vs. yoy change
(in '000 tonnes)



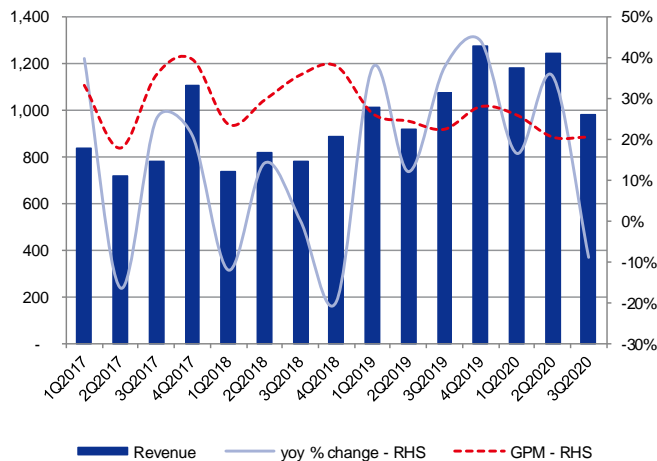
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Revenues

The palm oil business. As at Dec 19, DSNG's palm oil business formed 82% of total revenue. Out of the palm oil business sales, 92% is from CPO and the rest from PK and PKO. Given our outlook of higher CPO production and CPO price, we project that in FY20F, DSNG's palm oil business was able to generate 11% higher revenue. For FY21F, we project that revenue will increase slightly (5% yoy) due to the lower CPO price outlook and also lower exchange rate, but helped by higher FFB yield and CPO extraction rate in FY21F and FY22F. Therefore, we forecast an FY20-22F revenue CAGR of 8%.

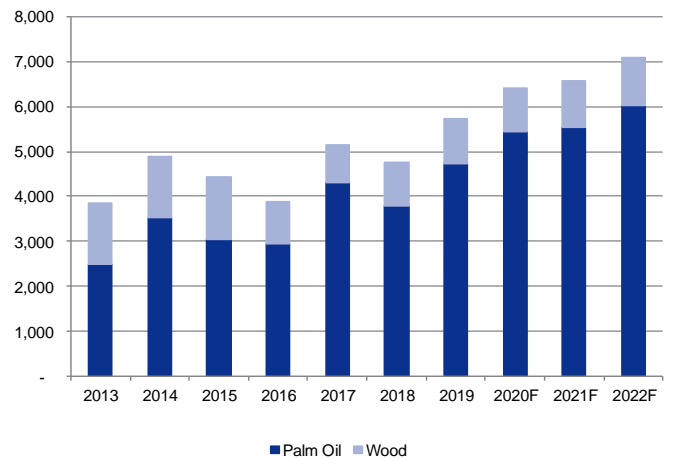
The wood product business. In FY19, 77% of wood product sales came from wood panels, while the other 23% was from engineered flooring. As of 9M20, wood products revenue decreased by about 3% yoy due to weaker sales volume and lower selling price for both products. Management mentioned that the weaker sales were due to the economies of the export destination countries such as Japan and the US. The decline was mainly due to 26% lower demand from Japan. We estimate a 2% FY20-22F revenue CAGR for wood products.

Figure 21: Quarterly revenue vs. GPM (IDR bn)



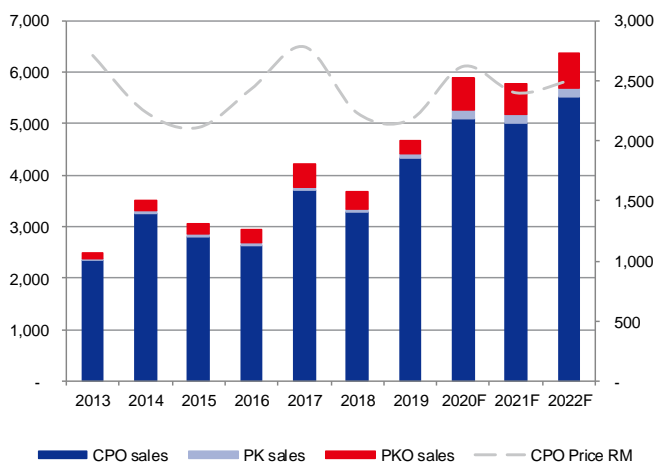
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 22: Revenue breakdown (IDR bn)



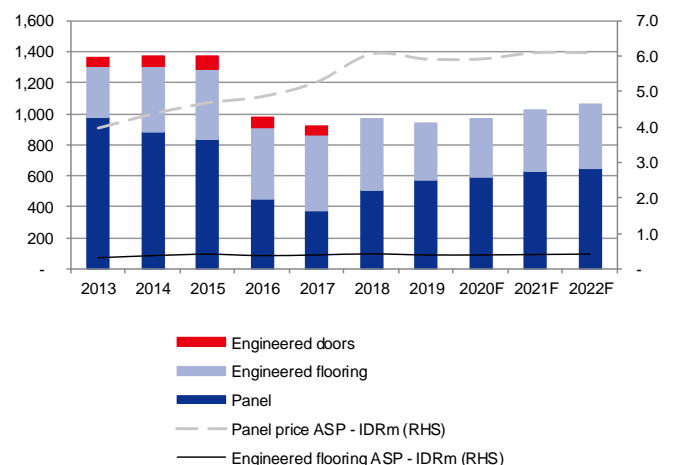
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 23: Palm oil business vs. CPO ASP (IDR bn)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 24: Wood business vs. ASP (IDR bn)



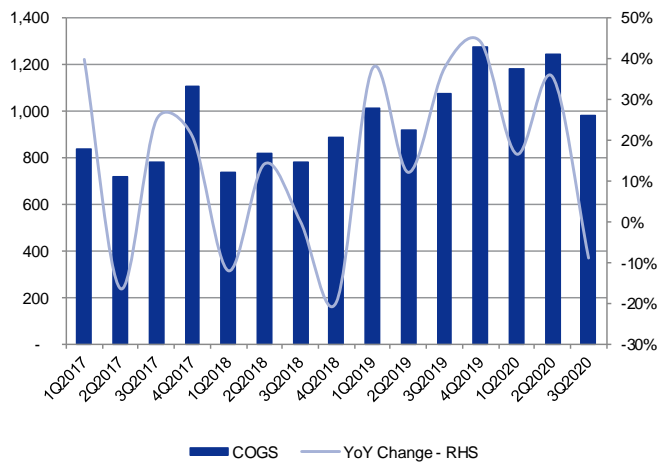
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Cost of production and cash cost

DSNG's cash cost over 2017-2019 mostly comprised FFB purchased (32%), labour (28%), and fertiliser (14%) (Fig 27). In FY20F, it saw a significant increase in FFB purchased (+50% yoy) due to DSNG buying FFB from a third-party to balance FFB processed with its mill capacity while there was also a significant increase in FFB prices in the second half of 2020. Due to the high FFB purchase cost, DSNG's total COGS in FY20F increased by 6% yoy.

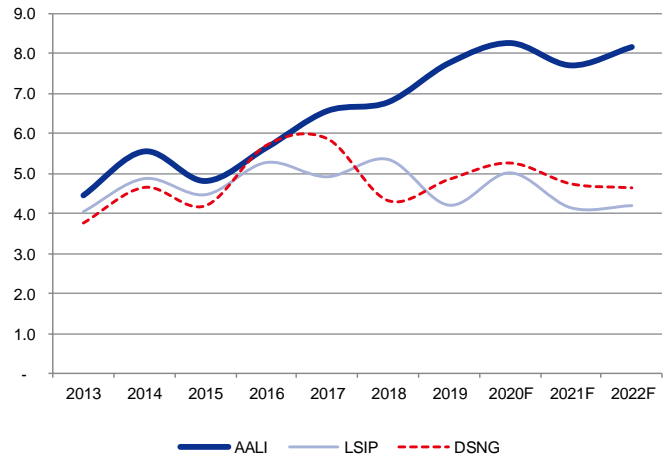
Through these commitments, we believe that DSNG is able to maintain its production level, though buying more FFB would impact COGS. We project gross profit margin of 27% in FY20F, or increased 16% yoy, which shows that DSNG is able to deliver positive growth despite an increase in COGS (higher FFB prices). This was helped by the higher output from plantation and increase in CPO prices. We estimate gross profit CAGR of 8% in FY20-22F.

Figure 25: Quarterly COGS movement (IDR bn)



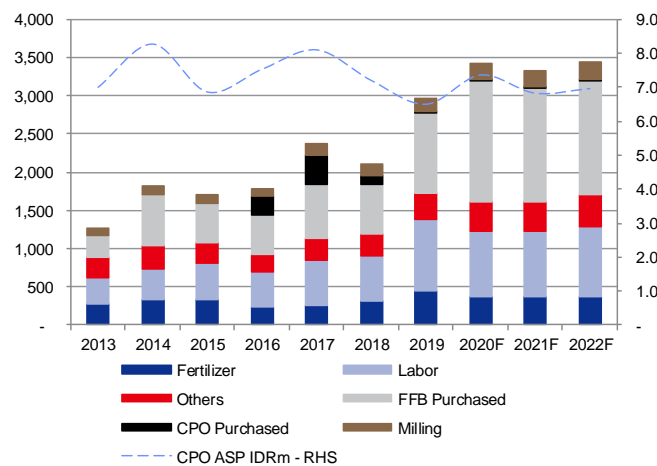
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 26: Cash cost vs. peers (IDR m)



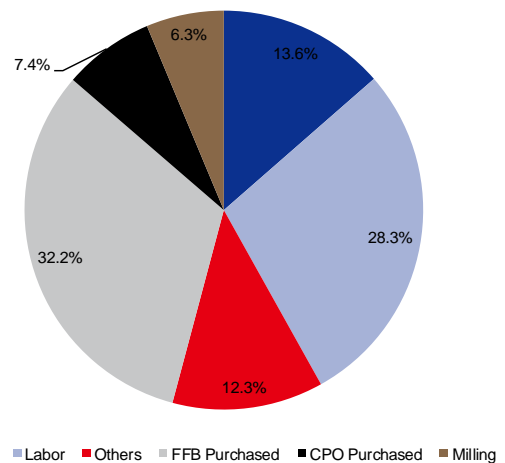
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 27: Cash cost (IDR bn)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 28: Dec 2019 cash cost



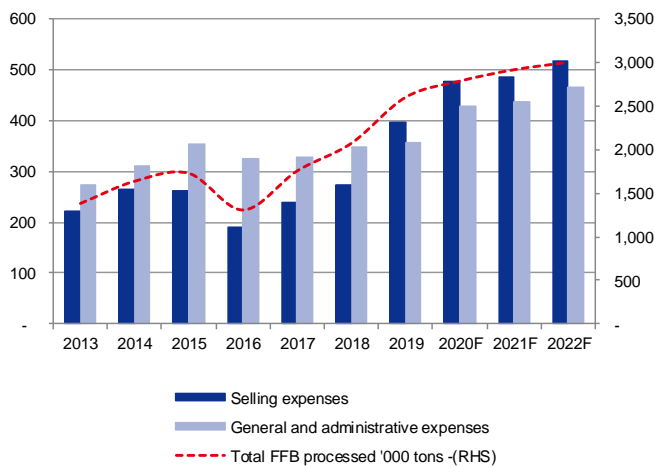
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Financials: opex, dividend policy, leverage and ROE

OPEX. In Figure 29, historically we see that operating expenses were in line with the movement of total FFB processed. In FY19, there was an increase in warehouse and freight expenses which led to higher selling expenses compared to G&A expenses. If we look at DSNG's commitments with the Bio-CNG plant and other cutting-cost programmes, we believe that it will be able to reduce opex

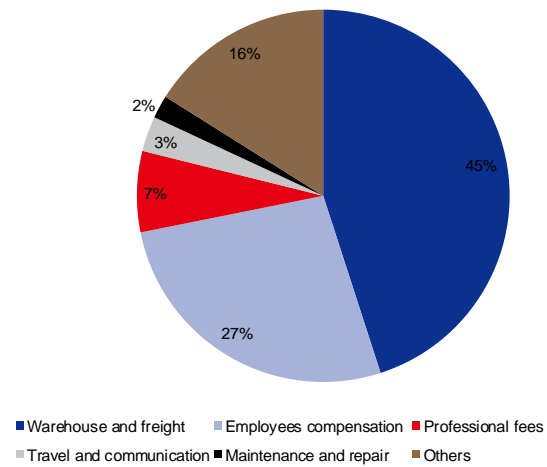
since the plant will produce electricity. We estimate FY20-22F opex CAGR of 9.2%.

Figure 29: Opex vs. FFB processed (IDR bn)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

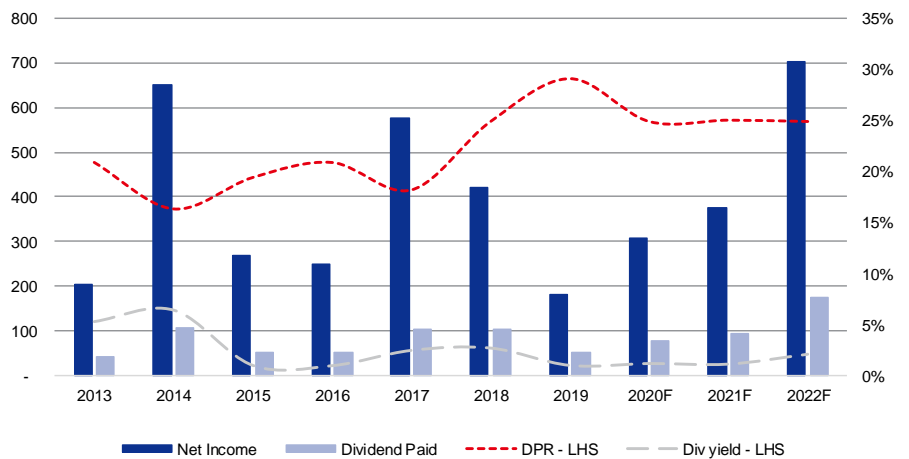
Figure 30: Opex breakdown in 2019



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Dividend policy. During the past three years, DSNG’s Dividend Payout Ratio (DPR) and dividend yield averaged 23% and 1.6%, respectively. We assume a DPR of 25% from FY20F onwards, which indicates FY21F-22F dividend yield at 1.1%-1.9%, respectively. Compared to peers, DSNG has a 3-year average DPR of 24% while peers – LSIP’s and AALI’s DPR were 40% and 45%, respectively. With a higher FY20-22F net profit CAGR of 44%, we see potential upside to dividends.

Figure 31: Historical dividend payment (IDR bn)

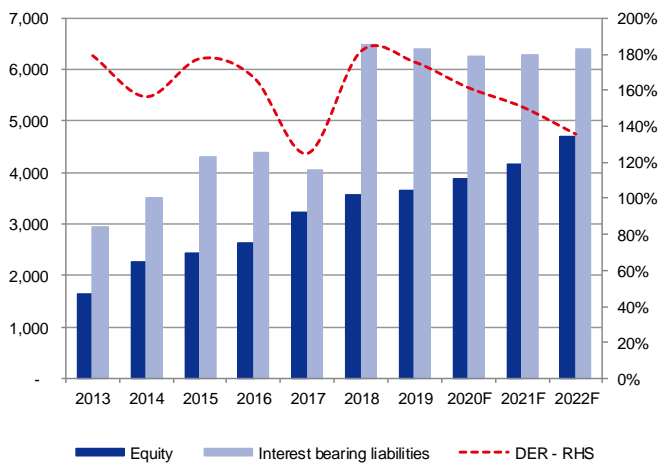


SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Leverage. For the past three years, DSNG’s debt to equity ratio was about 156%, and we project that it can achieve FY20-22F net profit CAGR of 44%. Thus, we believe that its debt to equity ratio will be lower since it would be able to increase retained earnings (RE) which would help boost equity. We project DSNG’s Debt to Equity Ratio (DER) to be 151% and 136% in FY21-22F, respectively, vs. 161% in FY18-FY20F.

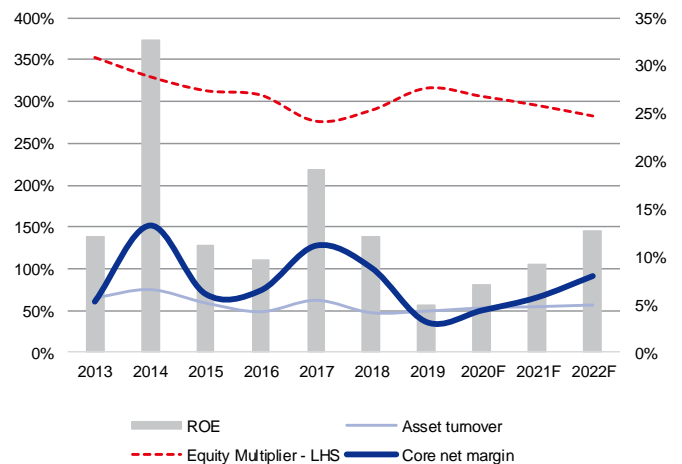
ROE. DSNG’s core net margin has averaged about 7.1% for the last five years. On the other hand, DSNG’s asset turnover and equity multiplier were stable at 53% and 301%, respectively. Moving forward, we believe that as net profit increase, DSNG’s ROE will move in line and lead to ROE of 9% and 14% for FY21-22F vs. 11% over the past five years.

Figure 32: Debt to equity ratio (IDR bn)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 33: DuPont Analysis

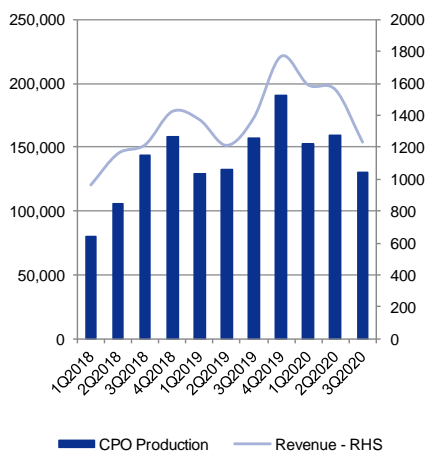


SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Quarterly numbers

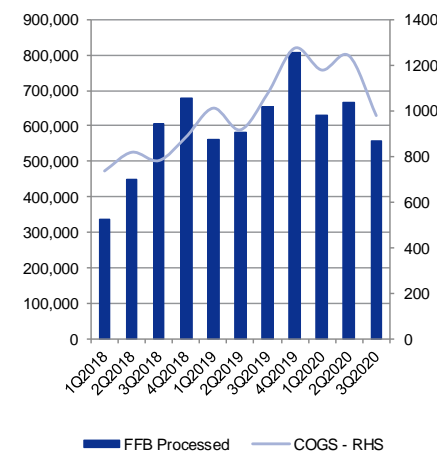
In FY18-19, DSNG increased CPO production and FFB processed, following the acquisition of a 17k ha plantation which helped boost DSNG's overall production (Fig 34-35). In 3Q20, FFB processed dropped slightly due to the lower yield caused by the El Nino that happened in FY19; therefore, DSNG's CPO production also fell by 18% qoq. Furthermore, we see a gap in nucleus FFB output vs. CPO production in FY19 due to the company buying more FFB from a third-party when production is low to fill up mill capacity (Fig 36).

Figure 34: Qoq CPO production (in tonnes) vs. revenue (IDR bn)



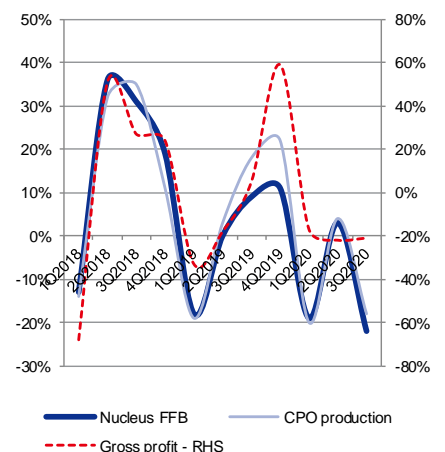
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 35: Qoq FFB processed (in tonnes) vs. COGS (IDR bn)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 36: Qoq growth in nucleus FFB production, CPO production, and gross profit



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 37: Qoq financial position (in Rp bn)

	1M18	1H18	9M18	FY18	1M19	1H19	9M19	FY19	1M20	1H20	9M20
Current assets	1,538	2,276	2,229	2,398	2,116	1,906	1,783	1,933	2,199	2,154	2,383
Non-current assets	6,788	6,755	6,821	9,341	9,369	9,389	9,532	9,688	9,807	9,556	9,292
Total Assets	8,326	9,030	9,050	11,739	11,485	11,296	11,315	11,621	12,007	11,710	11,674
QoQ Growth%	-	8%	0%	30%	-2%	-2%	0%	3%	3%	-2%	0%
Current liabilities	1,766	2,017	1,953	2,321	2,171	2,210	2,390	2,362	2,629	2,506	2,599
Non-current liabilities	3,259	3,535	3,470	5,759	5,588	5,463	5,309	5,528	5,566	5,347	5,237
Total liabilities	5,025	5,552	5,423	8,080	7,760	7,673	7,699	7,889	8,196	7,854	7,836
QoQ Growth%	-	10%	-2%	49%	-4%	-1%	0%	2%	4%	-4%	0%
Total Equity	3,301	3,478	3,627	3,659	3,725	3,623	3,616	3,732	3,811	3,856	3,838
QoQ Growth%	-	5%	4%	1%	2%	-3%	0%	3%	2%	1%	0%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 38: Qoq earnings (in Rp bn)

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20
Revenue	963	1,160	1,215	1,424	1,372	1,211	1,385	1,769	1,590	1,560	1,231
QoQ Growth%		20%	5%	17%	-4%	-12%	14%	28%	-10%	-2%	-21%
Gross profit	228	343	434	539	360	295	310	494	412	320	253
QoQ Growth%	-	51%	27%	24%	-33%	-18%	5%	59%	-17%	-22%	-21%
Operating profit	131	211	260	330	206	124	130	297	295	59	176
QoQ Growth%	-	62%	23%	27%	-38%	-40%	5%	129%	-1%	-80%	198%
PBIT	59	115	164	273	91	3	(6)	192	109	143	(13)
Net Income	42	82	105	203	66	2	(6)	116	82	97	(18)
GPM	24%	30%	36%	38%	26%	24%	22%	28%	26%	20%	21%
OPM	14%	18%	21%	23%	15%	10%	9%	17%	19%	4%	14%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Key drivers

We believe that the most important variables for a CPO producer are maturity of the estate, FFB yield, OER and CPO price. For the past five years, DSNG has maintained its nucleus FFB yield with an average of 22.05 tonnes/ha which is the highest compared to its peers. This year, it will be slightly lower due to the El Nino event in FY19, and we project its FY20F yield to be 22.5 tonnes/ha vs. 23.6 tonnes/ha in FY19. In FY18, we note that overall yield dropped to around 20 tonnes/ha, dragged down by the newly acquired plantation which has low yield, and is currently undergoing a revamping.

Figure 39: Assumptions

	2015	2016	2017	2018	2019	2020F	2021F	2022F
Planted Estates (ha)	69,291	69,368	69,369	84,300	84,566	84,566	84,566	84,566
Mature Estates (ha)	51,800	56,300	60,600	77,900	78,900	79,800	80,992	81,885
FFB Yield (tonnes/ha)	26	17	23	20	24	23	24	25
CPO OER (%)	24%	24%	23%	24%	23%	24%	24%	24%
CPO Price (MYR/tonne)	2,112	2,433	2,783	2,232	2,176	2,680	2,500	2,500
USD/IDR ex. Rate	13,388	13,308	13,382	13,500	14,141	14,500	14,100	14,100
DPR	19%	21%	18%	25%	29%	25%	25%	25%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Earnings sensitivity

Based on our analysis, there are several key drivers that could have a significant impact on the financial performance of DSNG. We ran a sensitivity analysis on the changes in nucleus FFB yield and CPO price (Figs 40 and 41) which have a significant impact on DSNG's earnings. We believe that if DSNG is able to improve FFB yield, on the back of a strong CPO price, we see robust growth ahead for DSNG, and we believe there is still upside to net profit.

Figure 40: FY21F EPS sensitivity to CPO price and nucleus FFB yield **Figure 41: % change to EPS**

Yield	CPO Price in MYR/ton							
	2,300	2,400	2,500	2,600	2,700	2,800	2,900	3,000
22.5	10	17	23	30	36	41	43	46
23.0	14	20	27	33	40	45	48	50
23.5	17	24	30	37	44	49	52	54
24.2	22	29	36	43	49	55	58	60
24.5	24	31	38	45	52	57	60	63
25.0	27	34	41	49	56	62	64	67

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Yield	CPO Price in MYR/ton							
	2,300	2,400	2,500	2,600	2,700	2,800	2,900	3,000
22.5	-71%	-53%	-35%	-17%	1%	15%	22%	29%
23.0	-61%	-43%	-25%	-6%	12%	27%	34%	41%
23.5	-52%	-33%	-14%	5%	23%	38%	46%	53%
24.2	-39%	-20%	0%	20%	39%	55%	62%	69%
24.5	-34%	-14%	6%	26%	46%	62%	69%	77%
25.0	-24%	-4%	16%	37%	57%	73%	81%	88%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

SWOT Analysis

Figure 42: DSNG's SWOT analysis

Strength	DSNG has a low average age of plantation, which could lead to higher FFB yield and higher CPO output
	DSNG has a commitment to sustainable oil palm plantations, and is currently commissioning the Bio-CNG plant which will help reduce costs
	The Bio-CNG plant is able to generate electricity with capacity of 1.2MW and will be utilised to power the Kernel Crushing Plant as well as the Bio-CNG plant
	Currently, DSNG is undergoing some rejuvenation works on its newly-acquired plantation. We believe this would significantly increase FFB yield.
Weaknesses	Lower CPO price may affect revenue
	Bad weather conditions could impact FFB output, which would lead to lower CPO production
	Increase in export tax levy from the Indonesian government
Opportunities	If the biodiesel programmes are not successful, this would greatly impact CPO demand
	With the high yield, and the current yield that will recover from the newly acquired plantation, DSNG has the highest FFB and CPO output growth compared to peers
	If the Bio-CNG plant is effective, this would help DSNG to reduce its operating costs
	Increasing domestic demand for CPO due to the successful biodiesel programmes
	Once the pandemic is brought under control, demand for CPO should improve as cooking oil consumption increases
Threats	Higher CPO price will boost DSNG's revenue significantly given the productive age of its plantations
	The Bio-CNG plant may require higher maintenance which would lead to higher cost
	Weather conditions, such as the drought in 2019, impact FFB production
	People are concerned about climate change and blaming palm oil companies for deforestation

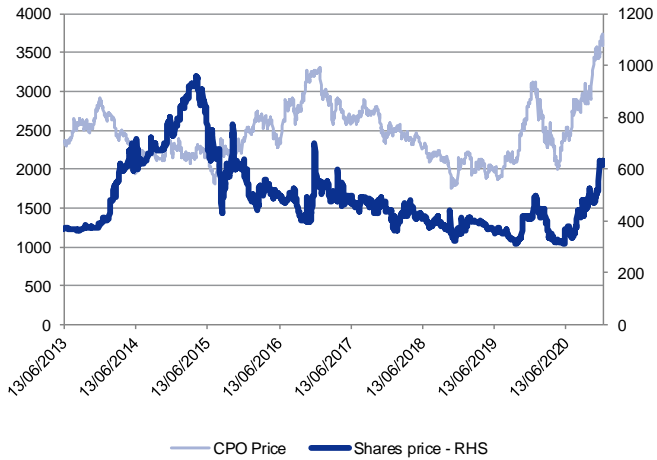
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Valuation and recommendation

SHARE PRICE PERFORMANCE AND OWNERSHIP BY INVESTORS

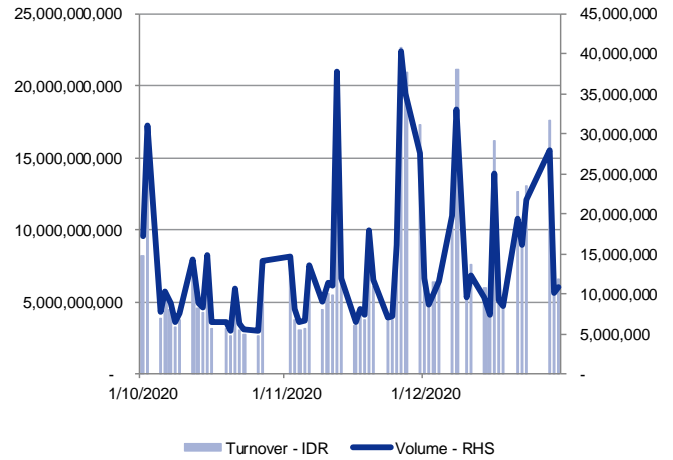
Share price performance. During the lockdown in 1H20 due to Covid-19, DSNG's share price fell to Rp306 which was half of its Jan 2020 price. Compared to peers, AALI and LSIP's share prices traded at only 34% and 32% of the Jan 2020 price, respectively. Currently, DSNG's share price is up 112% compared to its lowest level in May 2020. Furthermore, over the past three months, daily volume and average daily turnover have increased, mostly in Dec when CPO prices started to climb significantly.

Figure 43: Share price vs. CPO price (in RM/tonne)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 44: Daily volume over the past three months and ADT

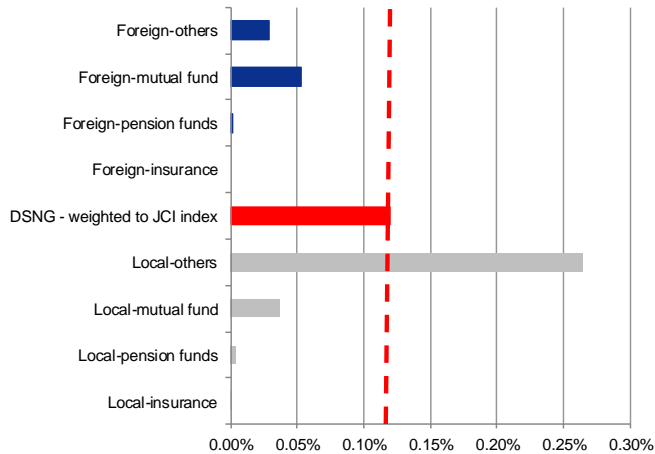


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Ownership by investors

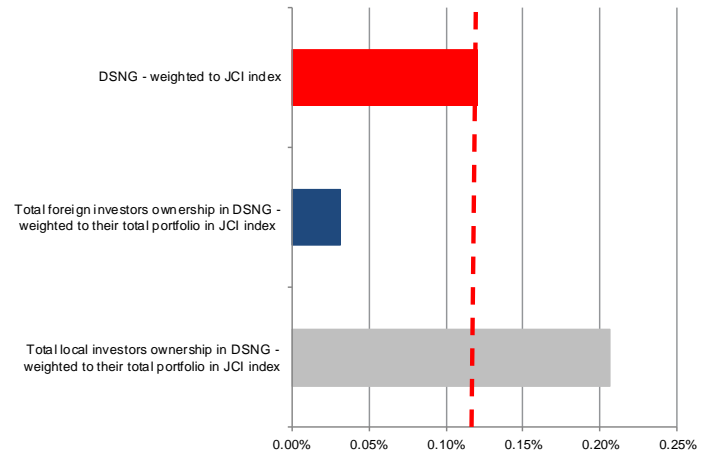
As of Dec 2020, DSNG's stock has become more attractive to local investors. Fig 45 shows that local-others and mutual funds combined owned about 0.3% of DSNG shares, while foreign-others and mutual funds combined owned about 0.1%. Fig 46 shows that total local investor ownership in DSNG weighted to the total portfolio in the JCI Index was about 0.22% vs. foreign investors' 0.04%.

Figure 45: DSNG's local-foreign ownerships as at end-Dec 2020



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 46: DSNG's local-foreign ownerships as at end-Dec 2020



SOURCES: CGS-CIMB RESEARCH, KSEI

Valuation

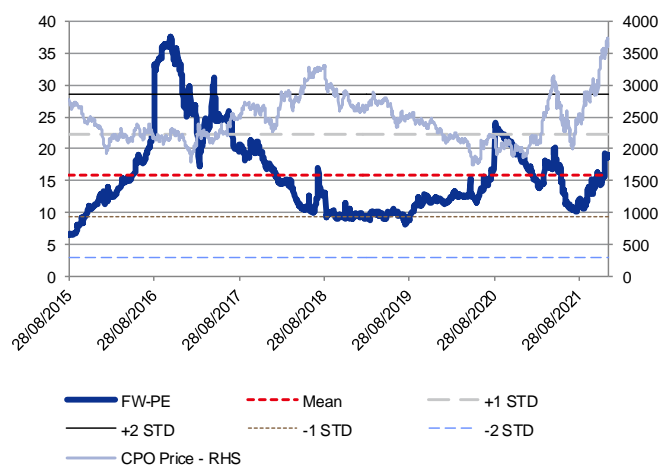
Currently, DSNG is trading at a premium valuation (Rp555/share, 21.7x FY20F P/E), but we think that this is fair due to the low average age of its plantation which results in high productivity compared to peers. Other than that, we also see the commitment that DSNG has to the sustainability of its plantation and mill, which we believe will help lower production costs in the future. Furthermore, the current inclusion in the SRI-Kehati index is another positive catalyst for DSNG. Thus, we use +1 s.d. of its 7 year-mean P/E of 22.2x and apply it to FY21F EPS which results in Rp790/share. Comparing its P/E vs. CPO price, DSNG has a moderate negative correlation of -0.3. Aside from that, we believe that DSNG is undervalued if using our FY20F EPS. Potential upside catalysts include higher CPO ASP and improving yield.

Downside risks include:

- Unpredictable weather changes will hurt FFB output and result in lower than expected CPO production.
- The rejuvenation of the newly acquired plantation was lagging, which may affect the company's overall FFB yield.
- Lower-than-expected CPO prices, which then will negatively impact the company's sales.
- An unfavourable tax regime can affect the company's average selling price.
- The Bio-CNG plant may require higher-than-expected cost to run, which could inflate the company's total expenses.

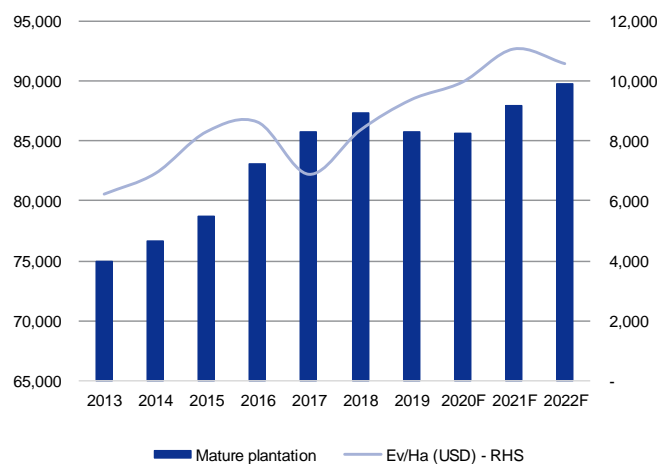
In terms of Ev/ha, using our TP of Rp790, we get an EV of Rp13.7bn which we divide by DSNG's mature nucleus plantation of 88k ha, which results in FY21F Ev/Ha of US\$11k/Ha (FY21F Rp/US\$ of Rp14,100). DSNG's plantation is currently valued slightly higher compared to its peers, and we think this is fair due to the low average age of its estates and high yields.

Figure 47: 10 years FW P/E vs. CPO price (in RM/tonne)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 48: Historical Ev/Ha (mature plantation in ha)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 49: DSNG Fw Ev/EBITDA with 5 year-mean

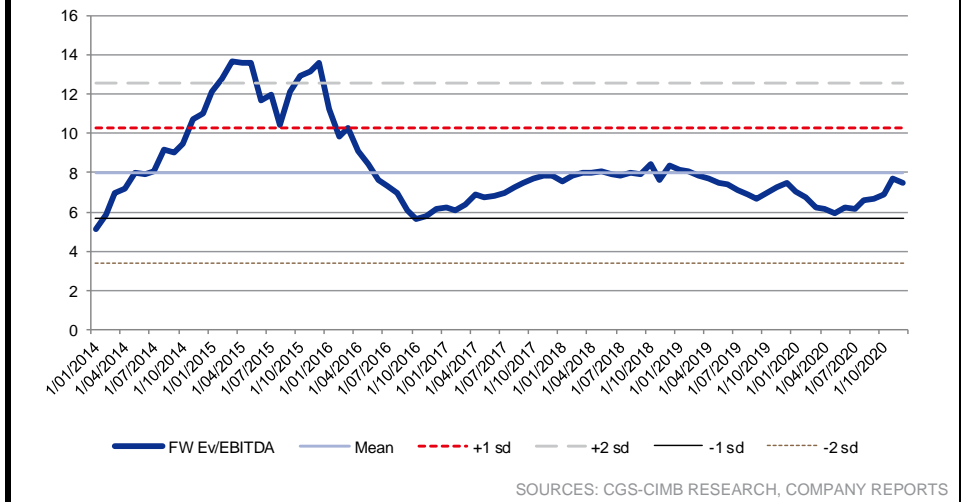


Figure 50: FW P/E vs. peers

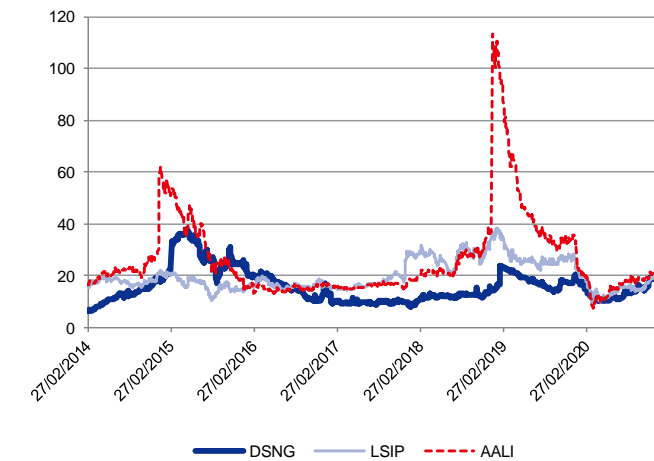


Figure 51: Ev/ha vs. peers (in US\$)

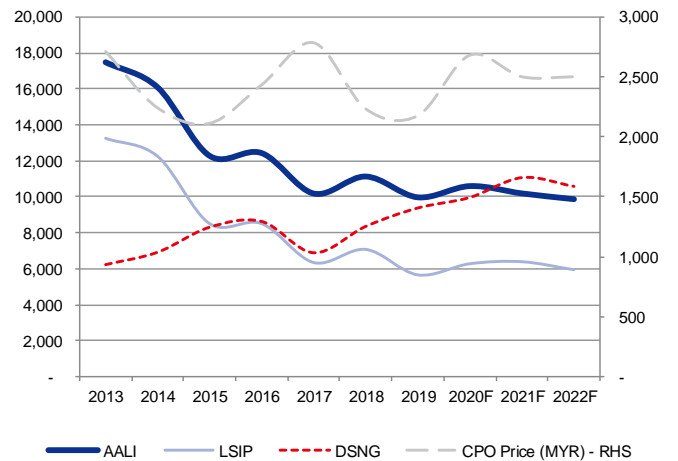
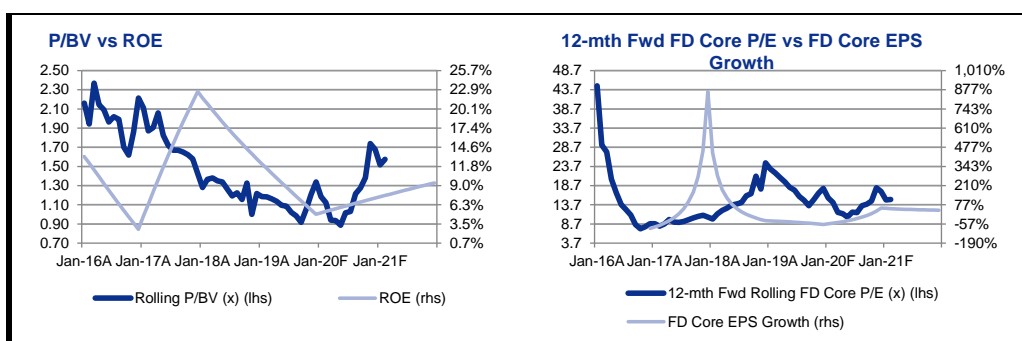


Figure 51: Sector comparison – Agribusiness as of 3rd February 2021

Company	Bberg. Ticker	Recom.	Price	Target Price	Market Cap	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		Dividend Yield (%)	
			(local curr)	(local curr)	(US\$ m)	CY2020F	CY2021F		CY2020F	CY2021F	CY2020F	CY2021F	CY2020F	CY2021F
Astra Agro lestari	AALI IJ	ADD	11,000	12,750	1,512	24.3	18.9	12.0%	1.28	1.22	5.3%	6.6%	1.8%	2.3%
Dharma Satya Nusantara	DSNG IJ	ADD	580.0	790.0	439	24.8	17.9	44.5%	1.75	1.62	7.2%	9.4%	1.0%	1.3%
London Sumatra	LSIP IJ	ADD	1,305	1,520	636	24.4	21.9	8.0%	1.13	1.09	4.7%	5.1%	1.6%	1.8%
Indonesia Average						24.5	19.6	21.5%	1.39	1.31	5.7%	7.0%	1.5%	1.8%
IOI corporation	IOI MK	HOLD	4.22	4.68	6,535	31.4	27.4	1.5%	2.87	2.73	9.3%	9.5%	2.0%	2.1%
Kuala Lumpur Kepong	KLK MK	HOLD	23.76	24.80	6,333	31.5	28.2	-6.8%	2.34	2.31	7.4%	8.1%	3.0%	3.2%
FGV Holdings Bhd	FGV MK	HOLD	1.31	1.30	1,181	63.5	60.6	na	1.14	1.11	1.7%	1.9%	0.0%	0.0%
Genting Plantations	GENP MK	ADD	9.60	10.90	2,129	36.0	34.2	17.8%	1.71	1.67	4.8%	4.9%	1.0%	1.4%
Hap Seng Plantations	HAPL MK	ADD	1.76	2.30	348	22.7	41.5	1.5%	0.84	0.83	3.7%	2.0%	4.0%	1.7%
Ta Ann	TAH MK	ADD	2.80	3.39	305	15.8	16.7	10.6%	0.82	0.81	5.3%	4.9%	3.6%	3.6%
Malaysia Average						33.8	31.0	0.6%	2.3	2.3	7.3%	7.6%	2.2%	2.3%
Wilmar International	WIL SP	ADD	5.37	5.45	25,462	16.3	16.5	5.7%	1.46	1.39	9.2%	8.6%	3.6%	2.7%
Golden Agri-Resources	GGR SP	Reduce	0.19	0.12	1,762	na	na	na	0.41	0.41	-1.7%	-0.1%	0.0%	0.0%
First Resources	FR SP	ADD	1.57	1.64	1,860	16.0	16.7	0.0%	1.65	1.51	10.7%	9.5%	1.9%	1.8%
Singapore Average						15.3	15.5	5.0%	1.4	1.3	8.6%	8.2%	3.3%	2.5%
Sector Average						24.5	22.0	9.0%	1.7	1.6	7.2%	7.6%	2.3%	2.2%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS

Profit & Loss

(Rpb)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Net Revenues	4,762	5,737	6,211	6,567	7,093
Gross Profit	1,543	1,461	1,694	1,861	2,140
Operating EBITDA	1,299	1,256	1,382	1,539	1,798
Depreciation And Amortisation	(375)	(548)	(562)	(583)	(613)
Operating EBIT	924	708	821	956	1,186
Financial Income/(Expense)	(312)	(428)	(470)	(469)	(474)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	611	280	351	487	712
Exceptional Items					
Pre-tax Profit	611	280	351	487	712
Taxation	(179)	(102)	(77)	(107)	(142)
Exceptional Income - post-tax					
Profit After Tax	432	178	274	380	570
Minority Interests	7	(2)	(2)	(3)	(5)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	439	176	271	377	565
Recurring Net Profit	439	176	271	377	565
Fully Diluted Recurring Net Profit	439	176	271	377	565

Cash Flow

(Rpb)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
EBITDA	1,299	1,256	1,382	1,539	1,798
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(198)	164	(192)	(38)	(68)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(317)	(427)	(463)	(461)	(465)
Other Operating Cashflow	(38)	(452)	(8)	(77)	(113)
Net Interest (Paid)/Received	0	0	0	0	0
Tax Paid	(179)	(102)	(77)	(107)	(142)
Cashflow From Operations	568	438	642	855	1,009
Capex	(2,877)	(736)	(252)	(250)	(500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	81	(43)	(109)	(39)	(58)
Cash Flow From Investing	(2,796)	(779)	(361)	(289)	(558)
Debt Raised/(repaid)	2,453	(99)	(61)	54	80
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(105)	(105)	(65)	(90)	(135)
Preferred Dividends					
Other Financing Cashflow	70	220	0	0	0
Cash Flow From Financing	2,418	17	(126)	(36)	(55)
Total Cash Generated	190	(324)	155	531	397
Free Cashflow To Equity	225	(439)	220	620	532
Free Cashflow To Firm	(2,228)	(340)	281	566	452

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(Rpb)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Cash And Equivalents	594	270	418	941	1,330
Total Debtors	428	383	413	435	467
Inventories	871	711	912	956	1,049
Total Other Current Assets	506	569	586	613	653
Total Current Assets	2,398	1,933	2,329	2,945	3,500
Fixed Assets	7,274	7,242	6,930	6,598	6,485
Total Investments	0	0	0	0	0
Intangible Assets	243	237	237	237	237
Total Other Non-Current Assets	1,826	2,212	2,372	2,489	2,662
Total Non-current Assets	9,343	9,691	9,539	9,324	9,384
Short-term Debt	612	710	944	998	1,078
Current Portion of Long-Term Debt					
Total Creditors	570	530	570	597	655
Other Current Liabilities	448	433	492	521	562
Total Current Liabilities	1,631	1,673	2,006	2,116	2,296
Total Long-term Debt	5,874	5,691	5,396	5,396	5,396
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	575	525	525	525	525
Total Non-current Liabilities	6,449	6,217	5,921	5,921	5,921
Total Provisions	0	0	0	0	0
Total Liabilities	8,080	7,889	7,928	8,037	8,217
Shareholders' Equity	3,571	3,646	3,855	4,146	4,581
Minority Interests	88	85	85	85	85
Total Equity	3,659	3,732	3,941	4,231	4,666

Key Ratios

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue Growth	(7.7%)	20.5%	8.3%	5.7%	8.0%
Operating EBITDA Growth	(7.0%)	(3.3%)	10.1%	11.3%	16.9%
Operating EBITDA Margin	27.3%	21.9%	22.3%	23.4%	25.3%
Net Cash Per Share (Rp)	(555.9)	(578.4)	(558.7)	(514.4)	(485.3)
BVPS (Rp)	336.9	344.0	363.7	391.1	432.1
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	29.3%	36.4%	22.0%	22.0%	20.0%
Net Dividend Payout Ratio	23.8%	59.3%	23.8%	23.8%	23.8%
Accounts Receivables Days	27.77	23.99	21.81	22.02	21.80
Inventory Days	82.72	67.48	65.75	72.45	73.87
Accounts Payables Days	55.72	46.96	44.55	45.25	46.14
ROIC (%)	8.96%	4.45%	6.16%	7.18%	9.29%
ROCE (%)	10.7%	7.5%	8.3%	9.5%	11.2%
Return On Average Assets	6.47%	3.85%	5.45%	6.18%	7.54%