

**BUY**

TP: Rp750(+31.6%)

# Dharma Satya Nusantara

## Solid 4Q20 boosts FY20 earnings

### Strong 4Q20 profits, accounted for 66% of total FY20

Dharma Satya Nusantara (DSNG) booked an excellent FY20 net profit of Rp477 bn (+164.9% YoY), formed 181% of our estimate, on the back of strong performance in 4Q20. In 4Q20, revenues jumped 88.3% QoQ to Rp2.32 tn mainly supported by 68.2% QoQ higher CPO sales volume as global CPO ASP improved by 21.5% QoQ. Meanwhile COGS only increased by 58.4% QoQ which brought gross profit rose 203.8% QoQ to Rp768 bn. Opex ratio also contracted therefore operating profit in the quarter soared to Rp537 bn or 468.6% QoQ. On the bottom line, the 4Q20 net profit recorded at Rp313 bn which is a turnaround from Rp18 bn net loss in previous quarter.

### Margins expand across the board

The cumulative FY20 revenues increased by 16.8% YoY to Rp6.70 tn which is 7% higher than our expectation. Stronger CPO ASP which was up by 25.7% YoY in 2020 offset the drop in sales volume. COGS grew slower at 15.7% YoY hence gross profit expanded 19.9% YoY to Rp1.75 tn with GPM improved to 26.1% (vs. 25.5% in FY19). Smaller Opex ratio boosted an increase of 45.9% YoY in operating profit to Rp.1.03 tn which exceeded our estimate by 40% with operating margin improved by 310 bps to 15.4%. Below operating line, a -36.8% YoY drop in interest expense and lower tax ratio brought company's net profit grew 164.9% YoY to Rp477 bn in FY20, surpasses our expectation.

### Higher CPO price offset slower production in 2020

Palm oil/wood division generated Rp5.70tn/Rp996 bn or 85.1%/14.9% of revenues in FY20. The percentage of palm oil climbed from 82.5% in previous year as CPO sales rose 20.4% YoY. DSNG CPO ASP rose 25.7% YoY while sales volume down by -3.8% YoY following a soft harvest. FFB production declined -7.4% YoY to 2.04 mn tons amidst lower FFB yield (19.8 ton/ha vs. 21.6 ton/ha in 2019) due to prolonged draught in 2019. To balance the lower production, the company increased its take on third party FFB and processed 2.88 mn tons FFB in FY20 which up by 4.4% YoY. Oil Extraction Rate (OER) remained stable at 23.5% therefore CPO production grew in line at 4.4% YoY amounted to 637k tons. Unfortunately, wood segment declined -0.5% YoY as sales volume of wood panel dipped -10.7% YoY.

### Maintain BUY with higher TP Rp750/sh

We maintain our FY21-22 global CPO price at RM3,000/ton while revised up our sales volume assumption and arrived at 2021F/2022F revenues of Rp7.60tn/Rp7.61 tn or up by 8.8%/1.0% from previous estimate, respectively. We incorporated lower interest expense in the period hence our net profits increased by 36.7%/23.1% to Rp571 bn/Rp631 bn. We applied last 5-year mean of PE 13.6x as multiplier to our 2021 EPS and arrived at higher TP of Rp750/sh (from previously Rp700/sh). Our new TP offers more than 30% upside from last market price therefore we maintain BUY rating. Risks to our call are changes in CPO export tax regulation that has adverse effect on demand, extreme weather and abundant supply from other vegetable oil substitute which could hurt prices.

### Exhibit 1 : Financial Highlights

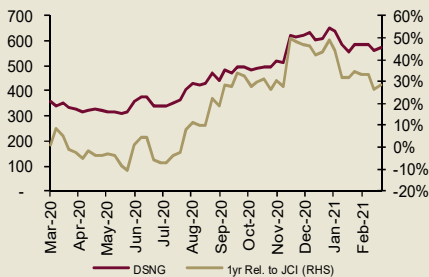
Year to 31 Dec	2019A	2020A	2021F	2022F	2023F
Revenue (Rpbn)	5,737	6,699	7,605	7,609	7,618
Operating profit (Rpbn)	708	1,033	1,156	1,223	1,184
Net profit (Rpbn)	180	477	571	631	640
EPS (Rp)	17.0	45.0	53.9	59.5	60.4
EPS growth (%)	-57.2	164.9	19.9	10.5	1.5
EV/EBITDA (x)	9.9	6.7	5.7	5.0	4.8
PER (x)	33.6	12.7	10.6	9.6	9.4
PBV (x)	1.7	1.0	0.9	0.9	0.8
Dividend yield (%)	1.7	0.9	2.3	2.7	3.0
ROE (%)	4.9	7.8	8.7	9.0	8.6

Source : DSNG, Ciptadana Estimates

Sector Plantation  
Bloomberg Ticker DSNG IJ

### Share Price Performance

Last price(Rp)	570		
Avg. daily T/O(Rpbn/USDmn)	10.3/0.7		
	<b>3m</b>	<b>6m</b>	<b>12m</b>
Absolute (%)	-8.8	21.3	58.3
Relative to JCI (%)	-14.3	1.9	30.5
52w High/Low price(Rp)	720/306		



Outstanding shrs (mn)	10,600
Mkt. Cap (Rpbn/USDmn)	6,042/423
Estimated free float (%)	33.2

### Major shareholders

TriputraInvestindo Arya PT	27.6%
Krishna Kapital Investama PT	14.6%
Tri Nur Cakrawala PT	7.4%

### EPS Consensus

	Ciptadana	Cons.	% Diff
2021F	53.9	39.4	36.7
2022F	59.5	54.5	9.2
2023F	60.4	71.2	-15.2

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**Exhibit 2 : DSNG FY20 Result**

Rp bn	FY20	FY19	YoY	4Q20	3Q20	QoQ	FY20F	FY/20F
Revenues	6,699	5,737	16.8%	2,318	1,231	88.3%	6,250	107%
Cost of revenue	-4,947	-4,276	15.7%	-1,550	-978	58.4%		
Gross profit	1,752	1,461	19.9%	768	253	203.8%	1,554	113%
<i>Gross margin (%)</i>	<i>26.1</i>	<i>25.5</i>	<i>0.7</i>	<i>33.1</i>	<i>27.9</i>	<i>5.2</i>		
G&A expenses	-384	-356	7.8%	-122	-92	32.3%		
Marketing expenses	-335	-397	-15.6%	-109	-66	64.7%		
Operating expenses	-719	-753	-4.5%	-231	-158	45.8%		
Operating profit	1,033	708	45.9%	537	94	468.6%	740	140%
<i>Operating margin (%)</i>	<i>15.4</i>	<i>12.3</i>	<i>3.1</i>	<i>23.2</i>	<i>7.7</i>	<i>15.5</i>		
Forex gain (loss)	-30	-24	22.7%	-54	72	n/m		
Interest income	19	28	-31.3%	-18	9	-296.4%		
Interest expense	-319	-505	-36.8%	3	5	-29.9%		
Other income (exp)	-8	73	n/m	-13	-193	-93.3%		
Total other inc (exp)	-338	-428	-21.1%	-81	-107	-24.1%		
Pre-tax profit	695	280	148.2%	456	-13	n/m		
Tax	-217	-102	113.0%	-139	-5	2584%		
PBMI	478	178	168.4%	316	-18	n/m		
MI	-2	2	n/m	-3	-0	1509%		
Net profit	477	180	164.9%	313	-18	n/m	264	181%
<i>Net margin (%)</i>	<i>7.1</i>	<i>3.1</i>	<i>4.0</i>	<i>13.5</i>	<i>-1.5</i>	<i>15.0</i>		
<b>Revenue breakdown</b>								
Palm oil	5,703	4,736	20.4%	2,031	1,016	100.0%		
Wood product	996	1,001	-0.5%	287	216	33.1%		
<b>Gross margin breakdown</b>								
Palm oil	27.9%	27.2%	0.8%	35.4%	22.6%	12.7%		
Wood product	15.9%	17.3%	-1.5%	17.3%	10.7%	6.6%		

Source : DSNG, Ciptadana Estimates

**Exhibit 3 : Forecast Changes**

	New		Original		Diff (%)	
	2021F	2022F	2021F	2022F	2021F	2022F
<b>Financials (Rp bn)</b>						
Revenue	7,605	7,609	6,987	7,535	8.8	1.0
Gross profit	2,098	2,171	1,973	2,142	6.3	1.4
Operating profit	1,156	1,223	1,040	1,135	11.2	7.7
Net profit	571	631	418	513	36.7	23.1
<b>Margins (%)</b>						
Gross profit	27.6	28.5	28.2	28.4		
Operating profit	15.2	16.1	14.9	15.1		
Net profit	7.5	8.3	6.0	6.8		

Source : DSNG, Ciptadana Estimates

**Exhibit 4 : ESG Assessment**

Company description	Producer of palm oil and wood product
<p><b>ESG-related opportunity or risk assessment</b></p>	<p><b>Environmental</b></p> <ol style="list-style-type: none"> <li>1. Palm oil plantation and wood processing industry have significant impact to surrounding land value.</li> <li>2. The process of extracting oil from palm trees as well as making wood products are labor-intensive and involving machinery that could severely impact the existing ecosystem.</li> <li>3. Comply to the practice of sustainable industry adds great value to the Company.</li> </ol> <p><b>Social</b></p> <ol style="list-style-type: none"> <li>1. The Company absorbs large number of labors to maintain and harvest palm oil plantations hence provide large employment for surrounding community.</li> <li>2. Plasma plantation offers new opportunity for smallholder plantation owner.</li> <li>3. The Company commits and supports inclusion of smallholders into the palm oil supply chain.</li> </ol> <p><b>Governance</b></p> <ol style="list-style-type: none"> <li>1. The Company implements good corporate governance based on reference of good governance practices, including transparency, accountability, responsibility, independency and fairness.</li> <li>2. The Company had appointed Independent Commissioner, Audit Committee, Corporate Secretary, and an Internal Audit Unit capable of working in harmony with the Company's Vision, Mission and Core Values.</li> </ol>

**Exhibit 5 : Income Statement**

Year to 31 Dec (Rpbn)	2019A	2020A	2021F	2022F	2023F
<b>Revenue</b>	<b>5,737</b>	<b>6,699</b>	<b>7,605</b>	<b>7,609</b>	<b>7,618</b>
COGS	-4,276	-4,947	-5,507	-5,438	-5,485
<b>Gross profit</b>	<b>1,461</b>	<b>1,752</b>	<b>2,098</b>	<b>2,171</b>	<b>2,133</b>
Oper. expenses	-753	-719	-942	-948	-949
<b>Oper. profit</b>	<b>708</b>	<b>1,033</b>	<b>1,156</b>	<b>1,223</b>	<b>1,184</b>
<b>EBITDA</b>	<b>1,235</b>	<b>1,607</b>	<b>1,815</b>	<b>1,924</b>	<b>1,891</b>
Interest income	28	19	53	72	82
Interest expense	-505	-319	-378	-364	-340
Other income (exp.)	73	-8	27	31	35
<b>Pre-tax profit</b>	<b>280</b>	<b>695</b>	<b>858</b>	<b>963</b>	<b>962</b>
Income tax	-102	-217	-285	-333	-321
Minority interest	2	-2	-2	1	-1
<b>Net profit</b>	<b>180</b>	<b>477</b>	<b>571</b>	<b>631</b>	<b>640</b>

**Exhibit 6 : Balance Sheet**

Year to 31 Dec (Rpbn)	2019A	2020A	2021F	2022F	2023F
Cash & cash equivalent	270	742	1,011	1,259	1,337
Acct, receivables	355	382	481	478	487
Inventory	711	670	1,034	979	984
Other curr, asset	597	819	393	374	381
<b>Total current asset</b>	<b>1,933</b>	<b>2,613</b>	<b>2,918</b>	<b>3,091</b>	<b>3,189</b>
Fixed assets - net	7,239	9,258	9,127	8,999	8,944
Other non-curr.asset	2,449	2,281	1,270	1,300	1,324
<b>Total asset</b>	<b>11,621</b>	<b>14,151</b>	<b>13,315</b>	<b>13,389</b>	<b>13,457</b>
ST debt + curr. maturity	1,399	1,213	1,123	1,040	916
Acct, payable	530	416	707	704	706
Advances received	0	0	0	0	0
Other curr. liab	433	664	230	226	228
Long term debt	5,016	4,299	4,106	3,746	3,457
Other non-curr, liab,	512	1,328	414	460	469
<b>Total liabilities</b>	<b>7,889</b>	<b>7,921</b>	<b>6,579</b>	<b>6,177</b>	<b>5,776</b>
Shareholder equity	3,646	6,122	6,555	7,020	7,477
Minority interest	85	109	181	192	205
<b>Total liab + SHE</b>	<b>11,621</b>	<b>14,151</b>	<b>13,315</b>	<b>13,389</b>	<b>13,457</b>

**Exhibit 7 : Per Share Data**

(Rp)	2019A	2020A	2021F	2022F	2023F
EPS	17.0	45.0	53.9	59.5	60.4
BVPS	344.0	577.5	618.4	662.2	705.3
DPS	9.9	4.9	13.1	15.7	17.3
FCF per share	-2.1	40.5	141.3	79.7	62.5

Source : DSNG, Ciptadana Estimates

**Exhibit 8 : Cash Flow**

Year to 31 Dec (Rpbn)	2019A	2020A	2021F	2022F	2023F
Net income	180	477	571	631	640
Depreciation	527	574	658	701	707
Chg in working cap.	-58	-48	-238	103	-32
Other	0	0	0	0	0
<b>CF-Oper activities</b>	<b>649</b>	<b>1,003</b>	<b>991</b>	<b>1,435</b>	<b>1,315</b>
Capital expenditure	-494	-565	-525	-572	-653
Others	-177	-8	1,031	-18	0
<b>CF-Investing activities</b>	<b>-671</b>	<b>-573</b>	<b>506</b>	<b>-590</b>	<b>-653</b>
Net change in debt	-99	-902	-284	-442	-413
Net change in equity	0	0	0	0	0
Dividend payment	-105	-52	-139	-166	-183
Other financing	-28	902	-806	11	12
<b>CF-Financing activities</b>	<b>-232</b>	<b>-52</b>	<b>-1,229</b>	<b>-596</b>	<b>-584</b>
<b>Net cash flow</b>	<b>-254</b>	<b>377</b>	<b>269</b>	<b>248</b>	<b>78</b>
Cash - begin of the year	524	270	648	916	1,164
Cash - end of the year	270	648	916	1,164	1,243

**Exhibit 9 : Key Ratios**

Year to 31 Dec	2019A	2020A	2021F	2022F	2023F
<b>Growth</b>					
Revenue (%)	20.5	16.8	13.5	0.1	0.1
Operating profit (%)	-23.4	45.9	11.9	5.8	-3.2
Net profit (%)	-57.2	164.9	19.9	10.5	1.5
<b>Profitability Ratios</b>					
Gross margin (%)	25.5	26.1	27.6	28.5	28.0
Operating margin (%)	12.3	15.4	15.2	16.1	15.5
EBITDA margin (%)	21.5	24.0	23.9	25.3	24.8
Net margin (%)	3.1	7.1	7.5	8.3	8.4
ROA (%)	1.5	3.4	4.3	4.7	4.8
ROE (%)	4.9	7.8	8.7	9.0	8.6
<b>Liquidity Ratios</b>					
Current ratio (x)	0.8	1.1	1.4	1.6	1.7
Quick ratio (x)	0.5	0.8	0.9	1.1	1.2
Cash conversion cycle (days)	49.6	43.8	62.3	54.9	54.8
<b>Activity Ratio</b>					
Inventory turnover (days)	60.7	49.5	68.5	65.7	65.5
Receivable turnover (days)	24.0	20.1	20.7	23.0	23.1
Payable turnover (days)	35.0	25.8	27.0	33.8	33.8
<b>Solvency Ratio</b>					
Interest cover (x)	2.4	5.0	4.8	5.3	5.6
Debt to equity ratio (x)	1.8	0.9	0.8	0.7	0.6
Net debt to equity (x)	1.7	0.8	0.6	0.5	0.4

Source : DSNG, Ciptadana Estimates

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