

Monday, 01 November 2021

BUY
Maintain

Last price (IDR) 580
Target Price (IDR) 1,000
Upside/Downside +72.4%
Previous Target Price (IDR) 900

Stock Statistics

Sector Plantations
Bloomberg Ticker DSNG IJ
No of Shrs (mn) 10,600
Mkt. Cap (IDRbn/USDmn) 6,148/434
Avg. daily T/O (IDRbn/USDmn) 18.3/1.3

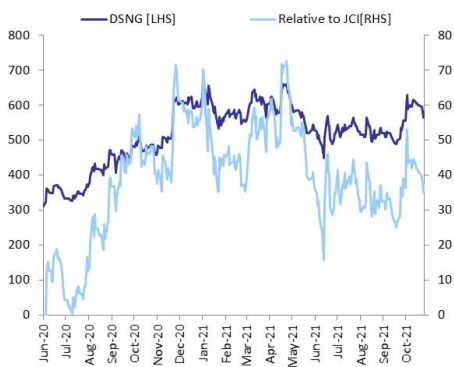
Major shareholders (%)

Triputra Investindo Arya 27.6
Krishna Kapital Investama 14.6
Estimated free float 29.4

EPS Consensus (IDR)

| | 2021F | 2022F | 2023F |
|----------------|-------|-------|-------|
| Danareksa | 94.8 | 108.4 | 134.2 |
| Consensus | 91.0 | 96.5 | 88.3 |
| Danareksa/Cons | 4.2 | 12.4 | 51.9 |

DSNG relative to JCI Index



Source : Bloomberg



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Dharma Satya Nusantara(DSNG IJ)

Saving The Surprise for 4Q21

DSNG posted rather weaker-than-expected 9M21 profits of IDR415.9bn, +154.2 yoy, lifted by wood product sales volume growing 20% yoy but dragged down by -5.1% yoy CPO sales volume. Nucleus FFB production of 1.2mn ton FFB (+1.4%yoy) was disrupted by El-Nino from 3Q19 to 1Q21, and production in 4Q21 will also be disrupted. DSNG's CPO price of IDR8,670/kg (+12.6% yoy) in 9M21 reflects a lag in pricing of 1-1.5 months, depicting the record high international price with the local price above IDR13,000/kg. We raise our CPO price assumption to MYR4,400/ton from MYR3,600/ton for 21F and +MYR600 for 22F lifting earnings by 4.2% in 21F and 12.9% in 22F. This leads to a higher cash balance, thus an IDR100 increase in the TP to IDR1,000.

Below expected 9M21, sturdy 4Q21 on the horizon. This reflects CPO ASP of IDR9.2k/kg in 3Q21 (+23.1% yoy, -12.1% qoq) coupled with +1.2% yoy CPO sales of 132k tons plus strength in wood product volume, leading to in-line 9M21 sales of IDR5.1tn (+15.3% yoy). ASP still lag by 1-1.5 months, poised to jump again in 4Q21 beyond the IDR11,000/kg level lifted by the flying high local KPB price which tails surging international prices. The GPM of 29.2% in 9M21 was also helped by strength in the wood segment, leading to +267.8% yoy EBIT. Net income of IDR208.4bn in 3Q and IDR415.9bn in 9M21 (+154.2%) is below our estimate and the consensus. However, like last year, a stellar 4Q21 could mean that DSNG catches up with our estimates and the consensus.

4Q21: price-driven earnings jump expected. As production will be dampened by El-Nino which has been most severe in East Kalimantan, production will not bloom as initially expected. The CPO price, as we previously mentioned, has reached MYR5,000/ton since early Oct21. As we draw towards Diwali, production failing to recover for Kalimantan based plantation production means the Indonesian production growth estimates of 3mn tons by Gapki and Oil World is difficult to be achieved. We expect the current price environment to stay in place till 1Q21 with the KPB Medan CPO reference price reaching IDR14.8mn/ton. This price surge will be reflected in DSNG's 4Q21 numbers; thus our implied of IDR589bn 4Q21 net income is achievable.

Earnings estimates revised up by +4.2% and +12.9% in 21F and 22F. As we raise our CPO price assumption to MYR4,400/ton in 2021 (prev: MYR3,600/ton), MYR3,800/ton in 2022 (prev: MYR3,200/ton) leading to ASP of IDR10.2k/kg (+5.8% yoy, +32.5% vs prev) in 22F. We also tweak our production and sales volume in-light of the 3Q21 development. All the revisions translate into IDR1.1tn of net income, implying 14.4% growth, and again more bullish than the consensus.

Maintain BUY with a TP of IDR1,000 (IDR100/share). DSNG is lagging far behind the commodity, as the closing price is now above IDR14,000/kg, a record high, tailing the international CPO price. DSNG is hovering near its historical average EV/ha and PBV level. i.e. the stock is really cheap.

Key Financials

| Year to 31 Dec | 2019A | 2020A | 2021F | 2022F | 2023F |
|--------------------|--------|-------|-------|-------|-------|
| Revenue (IDRbn) | 5,737 | 6,699 | 8,748 | 9,126 | 9,706 |
| EBITDA (IDRbn) | 1,362 | 1,609 | 2,597 | 2,781 | 2,953 |
| EBITDA Growth (%) | (3.6) | 18.1 | 61.4 | 7.1 | 6.2 |
| Net profit (IDRbn) | 272 | 477 | 1,005 | 1,149 | 1,422 |
| EPS (IDR) | 25.7 | 45.0 | 94.8 | 108.4 | 134.2 |
| EPS growth (%) | (48.6) | 75.3 | 110.8 | 14.4 | 23.7 |
| BVPS (IDR) | 344.0 | 577.6 | 658.9 | 738.9 | 840.6 |
| DPS (IDR) | 9.9 | 4.9 | 13.5 | 28.4 | 32.5 |
| PER (x) | 22.6 | 12.9 | 6.1 | 5.3 | 4.3 |
| PBV (x) | 1.7 | 1.0 | 0.9 | 0.8 | 0.7 |
| Dividend yield (%) | 1.7 | 0.9 | 2.3 | 4.9 | 5.6 |
| EV/EBITDA (x) | 9.0 | 7.1 | 4.1 | 3.4 | 2.7 |

Source : DSNG, Danareksa Estimates

Exhibit 1. Below ours and the consensus due to price lag and volume, but partially compensated by strong wood segment performance. Expect skyrocketing profits in 4Q21.

| DSNG 9M21 | Unit | 9M20 | 9M21 | y-y | 3Q20 | 2Q21 | 3Q21 | y-y | q-q | Cons | % Cons | DS | % DS |
|-------------------|---------------|--------------|--------------|---------------|--------------|----------------|----------------|-----------------|--------------|--------------|-------------|--------------|-------------|
| Sales | IDR bn | 4,381 | 5,053 | 15.3% | 1,231 | 1,660.6 | 1,755.4 | 42.6% | 5.7% | 7,719 | 65.5 | 8,748 | 57.8 |
| Gross Profit | IDR bn | 984 | 1,307 | 32.8% | 253 | 401.3 | 511.7 | 102.6% | 27.5% | 2,278 | 57.4 | 2,624 | 49.8 |
| EBIT | IDR bn | 496 | 816 | 64.6% | 94 | 217.7 | 346.9 | 267.8% | 59.3% | 1,442 | 56.6 | 1,857 | 44.0 |
| EBT | IDR bn | 239 | 573 | 139.2% | (13) | 141.0 | 288.3 | -2378.9% | 104.6% | 1,106 | 51.8 | 1,460 | 39.2 |
| Net Profit | IDR bn | 164 | 415.9 | 154.2% | (18) | 107.7 | 208.4 | -1254.0% | 93.4% | 768 | 54.1 | 1,005 | 41.4 |
| Margins | | | | | | | | | | | | | |
| Gross Profit | (%) | 22.5 | 25.9 | | 20.5 | 24.2 | 29.2 | | | 29.5 | | 30.0 | |
| EBIT Margin | (%) | 11.3 | 16.2 | | 7.7 | 13.1 | 19.8 | | | 18.7 | | 21.2 | |
| Net Profit | (%) | 3.7 | 8.2 | | (1.5) | 6.5 | 11.9 | | | 10.0 | | 11.5 | |

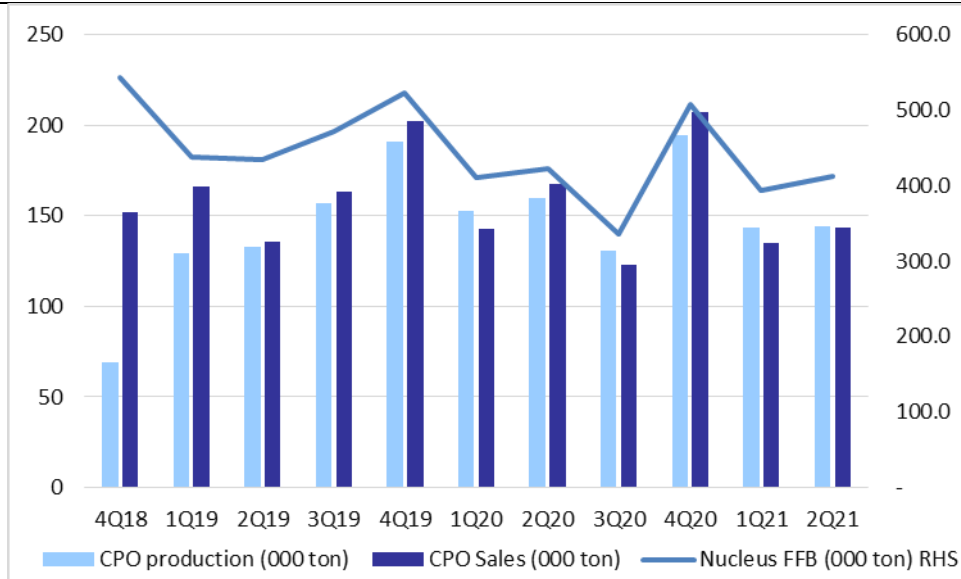
Source: Company, Danareksa Sekuritas

Exhibit 2. The higher ASP, tailed by some adjustment in FFB costs, and higher FX assumptions lead to +4.2% in 2021F and +12.3% in 2022F as we assume higher CPO prices, despite trimming our production and sales volume assumptions

| DSNG In Rpbn | 2021F | | | 2022F | | | 2021F | 2022F |
|--|--------------|--------------|-------------|--------------|--------------|--------------|------------|--------|
| | New | Old | %change | New | Old | %change | YoY Change | |
| Profit & Loss | | | | | | | | |
| Sales | 8,748 | 8,466 | 3.3% | 9,126 | 8,881 | 2.8% | 30.6% | 4.3% |
| COGS | (6,099) | (5,843) | 4.4% | (6,326) | (6,266) | 1.0% | 23.3% | 3.7% |
| Gross profit | 2,649 | 2,624 | 1.0% | 2,800 | 2,615 | 7.1% | 51.2% | 5.7% |
| Operating profit | 1,857 | 1,819 | 2.1% | 1,989 | 1,748 | 13.8% | 79.8% | 7.2% |
| Net profit | 1,005 | 964 | 4.2% | 1,149 | 1,023 | 12.3% | 110.8% | 14.4% |
| Gross margin | 30.3% | 30.4% | -0.3% | 30.7% | 29.4% | 4.5% | | |
| Operating margin | 21.2% | 20.3% | 4.3% | 21.8% | 19.5% | 12.0% | | |
| Net margin | 11.5% | 10.5% | 9.9% | 12.6% | 11.3% | 11.4% | | |
| CPO Price (MYR/ton) | 4,400 | 3,600 | 22.2% | 3,800 | 3,200 | 18.8% | 57.5% | -13.6% |
| DSNG's CPO Price (Rp/kg) | 10,787 | 9,023 | 19.6% | 10,164 | 9,145 | 11.1% | 32.5% | -5.8% |
| FFB Production (k tons) | 1,733 | 1,983 | -12.6% | 1,909 | 2,083 | -8.3% | 3.4% | 10.2% |
| Implied FFB purchased (k tons) | 977 | 1,056 | -7.5% | 1,037 | 1,178 | -12.0% | -5.6% | 6.1% |
| FFB Processed (k tons) | 2,710 | 3,039 | -10.8% | 2,946 | 3,261 | -9.7% | -0.1% | 8.7% |
| CPO Production (k tons) | 637 | 714 | -10.8% | 692 | 766 | -9.6% | -0.1% | 8.7% |
| CPO Sales Volume (k tons) | 637 | 707 | -9.9% | 692 | 766 | -9.6% | -0.6% | 8.7% |
| Kernel Sales Volume (k tons) | 33 | 36 | -9.9% | 35 | 39 | -9.6% | 5.3% | 8.7% |
| Refined Products Sales Volume (k tons) | 32 | 35 | -9.9% | 35 | 38 | -9.6% | -3.3% | 8.7% |
| USD MYR Assumptions | 4.15 | 4.0 | | 4.15 | 4.0 | | | |
| USD IDR Assumption | 14,000 | 14,000 | | 14,000 | 14,000 | | | |
| Total Debt | 5,475 | 5,475 | | 4,594 | 4,594 | | | |
| Cash and Equivalents | 994 | 827 | | 1,149 | 990 | | | |
| Net Borrowing | 4,481 | 4,647 | | 3,444 | 3,603 | | | |

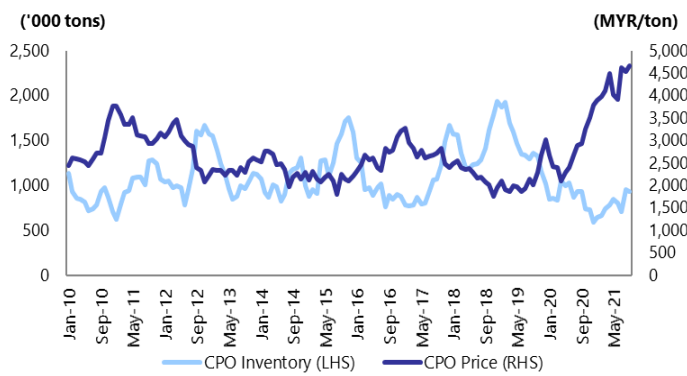
Source: Company, Danareksa Sekuritas

Exhibit 3. 3Q21 nucleus production slipped -8.1% qoq, +12.8%yoy, yet still below our target driven by a more pronounced 2019-1Q20 El-Nino



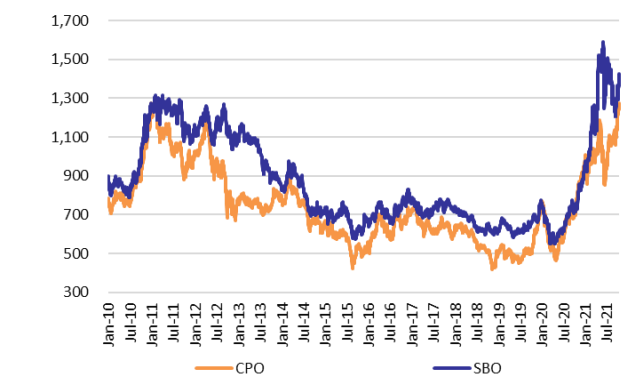
Source: Company, Danareksa Sekuritas

Exhibit 4. Low Malaysian inventory means CPO prices stayed firm



Source: Bloomberg, Danareksa Sekuritas estimates

Exhibit 5. The PBV just above -1STD



Source: Bloomberg, Danareksa Sekuritas estimates

Exhibit 6. EV/ha is still below average



Source: Company, Bloomberg, Danareksa Sekuritas estimates

Exhibit 7. The PBV just above -1STD



Source: Company, Bloomberg, Danareksa Sekuritas estimates

Exhibit 8. Income Statement

| Year to 31 Dec (IDRbn) | 2019A | 2020A | 2021F | 2022F | 2023F |
|-------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 5,737 | 6,699 | 8,748 | 9,126 | 9,706 |
| COGS | (4,276) | (4,947) | (6,099) | (6,326) | (6,730) |
| Gross profit | 1,461 | 1,752 | 2,649 | 2,800 | 2,975 |
| EBITDA | 1,362 | 1,609 | 2,597 | 2,781 | 2,953 |
| Oper. profit | 800 | 1,033 | 1,857 | 1,989 | 2,117 |
| Interest income | 28 | 19 | 20 | 20 | 20 |
| Interest expense | (538) | (500) | (423) | (369) | (306) |
| Forex Gain/(Loss) | 9 | 181 | 11 | 0 | 0 |
| Income From Assoc. Co's | 0 | 0 | 0 | 0 | 0 |
| Other Income (Expenses) | 73 | (38) | (5) | 10 | 0 |
| Pre-tax profit | 372 | 695 | 1,460 | 1,650 | 1,831 |
| Income tax | (102) | (217) | (449) | (495) | (403) |
| Minority interest | 2 | (2) | (6) | (6) | (6) |
| Net profit | 272 | 477 | 1,005 | 1,149 | 1,422 |
| Core Net Profit | 263 | 296 | 994 | 1,149 | 1,422 |

Exhibit 9. Balance Sheet

| Year to 31 Dec (IDRbn) | 2019A | 2020A | 2021F | 2022F | 2023F |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash & cash equivalent | 270 | 648 | 1,070 | 1,290 | 1,984 |
| Receivables | 383 | 398 | 457 | 527 | 554 |
| Inventory | 711 | 670 | 835 | 867 | 922 |
| Other Curr. Asset | 569 | 897 | 700 | 610 | 611 |
| Fixed assets - Net | 3,151 | 5,452 | 5,633 | 5,685 | 5,615 |
| Other non-curr.asset | 6,537 | 6,086 | 5,857 | 5,623 | 5,301 |
| Total asset | 11,621 | 14,151 | 14,553 | 14,602 | 14,987 |
| ST Debt | 1,399 | 1,189 | 881 | 740 | 681 |
| Payables | 798 | 799 | 849 | 907 | 934 |
| Other Curr. Liabilities | 165 | 305 | 245 | 249 | 253 |
| Long Term Debt | 5,016 | 4,755 | 4,594 | 3,854 | 3,173 |
| Other LT. Liabilities | 512 | 873 | 886 | 899 | 910 |
| Total Liabilities | 7,889 | 7,921 | 7,454 | 6,649 | 5,951 |
| Shareholder's Funds | 3,646 | 6,122 | 6,984 | 7,831 | 8,909 |
| Minority interests | 85 | 109 | 115 | 121 | 127 |
| Total Equity & Liabilities | 11,621 | 14,151 | 14,553 | 14,602 | 14,987 |

Exhibit 10. Cash Flow

| Year to 31 Dec (IDRbn) | 2019A | 2020A | 2021F | 2022F | 2023F |
|----------------------------|--------------|--------------|----------------|----------------|----------------|
| Net income | 272 | 477 | 1,005 | 1,149 | 1,422 |
| Depreciation and Amort. | 562 | 576 | 741 | 792 | 836 |
| Change in Working Capital | 234 | (133) | 227 | 103 | (236) |
| Other Oper. Cash Flow | (309) | 1,808 | 3,440 | 3,051 | 3,753 |
| Operating Cash Flow | 759 | 2,727 | 5,412 | 5,095 | 5,775 |
| Capex | (523) | (576) | (751) | (696) | (599) |
| Others Inv. Cash Flow | (428) | (62) | 307 | 206 | 175 |
| Investing Cash Flow | (951) | (639) | (444) | (490) | (425) |
| Net change in debt | (99) | (471) | (469) | (881) | (740) |
| New Capital | 0 | 45 | 0 | 0 | 0 |
| Dividend payment | (105) | (52) | (143) | (301) | (345) |
| Other Fin. Cash Flow | (537) | (499) | (423) | (347) | (306) |
| Financing Cash Flow | (741) | (977) | (1,036) | (1,529) | (1,391) |
| Net Change in Cash | (933) | 1,112 | 3,933 | 3,076 | 3,960 |
| Cash - begin of the year | 594 | 270 | 648 | 1,070 | 1,290 |
| Cash - end of the year | 270 | 648 | 1,070 | 1,290 | 1,984 |

Exhibit 11. Key Ratios

| Year to 31 Dec | 2019A | 2020A | 2021F | 2022F | 2023F |
|--------------------------|--------|-------|-------|-------|-------|
| Growth (%) | | | | | |
| Sales | 20.5 | 16.8 | 30.6 | 4.3 | 6.3 |
| EBITDA | (3.6) | 18.1 | 61.4 | 7.1 | 6.2 |
| Operating profit | (22.1) | 29.1 | 79.8 | 7.2 | 6.4 |
| Net profit | (48.6) | 75.3 | 110.8 | 14.4 | 23.7 |
| Profitability (%) | | | | | |
| Gross margin | 25.5 | 26.1 | 30.3 | 30.7 | 30.7 |
| EBITDA margin | 23.7 | 24.0 | 29.7 | 30.5 | 30.4 |
| Operating margin | 13.9 | 15.4 | 21.2 | 21.8 | 21.8 |
| Net margin | 4.7 | 7.1 | 11.5 | 12.6 | 14.7 |
| ROAA | 2.3 | 3.7 | 7.0 | 7.9 | 9.6 |
| ROAE | 7.5 | 9.8 | 15.3 | 15.5 | 17.0 |
| Leverage | | | | | |
| Net Gearing (x) | 1.6 | 0.8 | 0.6 | 0.4 | 0.2 |
| Interest Coverage (x) | 1.5 | 2.1 | 4.4 | 5.4 | 6.9 |

Source : DSNG, Danareksa Estimates

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