

PT Dharma Satya Nusantara Tbk (DSNG IJ)
Site Visit Notes: Streamlined Operations Showcased
BUY | TP : IDR710
DSNG Stock Price Data

Last Price	:	IDR605
52wk High	:	IDR474
52wk Low	:	IDR730
Share Out	:	10.60bn
Market Cap	:	IDR6.36tn

DSNG Stock Price Performance

1-Day	:	+3.31%
1-Week	:	+6.84%
1-Month	:	+1.63%
3-Month	:	+13.64%
Year-to-Date	:	+5.00%

Shareholders

T.P. Rachmat Family	:	31.71%
Oetomo Family	:	28.90%
Soebianto Family	:	9.92%
Liana Salim Lim Family	:	6.32%
Public (>5%)	:	23.15%

Trip to DSN Plantation Area in Muara Wahau, East Kalimantan

- We recently had the opportunity to visit DSN largest plantation area in Muara Wahau, East Kalimantan. The company's overall planted area, including nucleus and plasma, was 112.5k ha as of Jun-23, with mature areas of 106k ha and an average age of 13.8 years. We began by inspecting the nursery site, where we observed two distinct phases: pre and main nursery. Following that, we visited the plantation area and keep track of the fertilizing procedure. Our trip continued with a visit to a palm oil mills and a Bio CNG plant. It is worth noting that we also had the unique opportunity to explore a conservation area and an owl breeding, which serves as a crucial component of pest control measures. Finally, the trip ended with a quick visit to the Labanan bulking storage area, the last stop before the CPO gets shipped-off to buyers.
- The Muara Wahau plantation region has 60k ha in one place and has become the most developed cluster (56% of total planted area), nearly the size of Singapore. Muara Wahau cluster plantation consists of 5 estates, 7 palm oil mills producing 440 tons per hour, and 1 kernel crushing plant with a capacity of 400 tons per day (see exhibit 01). The cluster was also finished with one unit of Bio CNG plant that produces 1.2MW power, and the second plant, double the size of the first, would be operational in 3Q23-4Q23. DSN also has bulking storage in Labanan Berau, with 14 CPO tanks and 2 CPKO tanks totaling 44k tons.

Replanting Strategy using High Quality Seed Suggests Continuing Yield Growth

DSN initiated its first replanting endeavor covering 383 ha in FY22, with a more ambitious plant to replant between 1,000-1,500 ha in FY23E and 2,400 ha in FY24E. These replanting initiatives will involve the utilization of enhanced seed varieties, including those developed by Verdant Bioscience Pte Ltd in Singapore, in which DSNG has held a strategic stake since FY20. The nursery site has two phases: the pre-nursery (0.6 ha; capacity 220k seeds) and the main nursery (40 ha; capacity 400k seeds). In addition, DSN also sources seeds from PPKS and Topaz GT. These three combinations help to diversify risk and reduce overall discarded seeds, which now vary from 9% to 20%. Due to DSN's strategic approach of replanting within its owned areas, the replanting cost per ha is fairly low at IDR34mn/ha (vs IDR70mn/ha if a new planting area is built from the beginning).

Mechanization and Technology Application to Improve Productivity

DSN holds a strong belief in the pivotal role of technology in shaping the future of the palm oil industry in order to meet the challenges including: 1) the need to address labor shortage; 2) enhancing CPO quality; 3) and improving cost efficiency. Managing a vast 112k ha, DSN is steadfastly dedicated to advancing mechanization and application of cutting-edge technology in its plantation management. Mechanical picking of FFB during harvest can be more efficient than manual picking, increasing utilization from 1.7 tons/day of work to 2.2 tons/day of work while decreasing cost per ton by roughly 2%.

Sustainability Initiatives: Bio-CNG

- DSN initiated a Bio-CNG plant in East Kalimantan with a capacity of 1.2 MW by utilizing POME (Palm Oil Mill Effluent). The first plant, which has been operational since Sep-2020, can process POME from a CPO mill with a capacity of 60 tons FFB per hour. The generated electrical energy is used in both at the Kernel Crushing Plant (KCP) and the Bio-CNG Plant production process.
- Meanwhile, the extra biogas will be improved and compressed into Biomethane Compressed Natural Gas with a capacity of 280 m3 per hour before being stored and packaged in tubes. Bio-CNG packaged in these tubes will be distributed as a fuel for electricity generation to all emplacements (employee housing) and other PKS in the DSNG operational region in Muara Wahau utilizing Bio-CNG fueled trucks as a replacement for diesel fuel.
- This bio-CNG plant is expected to generate 8 mn litre saving of diesel fuel consumption a year and demonstrated DSN's commitment to a green environment to enhance a sustainable palm oil practice.

El-Nino' anticipated rain sparsity have yet to actualize in 3Q23

Upon arriving in the Muara Wahau plantation area, we found the soils had been run with rainwater, with precipitation clouds visible throughout our visiting route. The Regional Head himself confirmed that rainfall patterns have continued to provide adequate irrigation to the plantation areas throughout Aug and Sep-23. This bodes well for the company's performance in 2H23, with El Nino risks on productivity postponed to materialize in 1Q24. The rainfall intensity itself was not too intense that productivity became compromised, streamlining the logistical end of the business, successfully yielding CPO with an FFA of <3.0% on average.

Recommendation: BUY with TP IDR710

We recommend **BUY** for DSNG with a maintained (TP) of IDR710 (19% upside), implying a PE of 6.1x/0.8x and a PBV of 5.8x/0.7x for FY23E/FY24F (see our DSNG company update report at: <https://tinyurl.com/MNCS-DSNG-21Aug23>). Several key risks to our call include: 1) fertilizer and CPO prices volatility, 2) weather surprises, and 3) labor turnovers.

Key Financial Highlights

	FY20	FY21	FY22	FY23E	FY24F
Revenue (IDR bn)	6,698.92	7,124.50	9,633.67	10,196.17	10,604.01
EBIT (IDR bn)	995.06	1,392.62	2,172.48	2,044.94	2,013.24
Net Income (IDR bn)	476.64	727.15	1,206.84	1,240.73	1,302.60
ROA (%)	3.37%	5.30%	7.86%	7.85%	8.25%
ROE (%)	7.65%	10.35%	14.79%	13.56%	12.78%
PE (x)	13.01	8.53	5.14	4.96	4.72
PBV (x)	1.00	0.88	0.76	0.67	0.60
EPS (IDR)	44.97	68.60	113.85	117.05	122.89

Sources : Bloomberg, MNCS Research


Research Analyst

Alif Ihsanario

alif.ihsanario@mncgroup.com

Exhibit 1. DSNG’s clusters/subsidiaries in Muara Wahau

Company	Nucleus (ha)	Plasma (ha)
PT Swakarsa Sinarsentosa (SWA)	15,282	3,675
PT Dharma Agrotama Nusantara (DAN)	9,000	1,743
PT Dharma Intisawit Nugraha (DIN)	8,749	1,683
PT Dewata Sawit Nusantara (DWT)	10,199	1,665
PT Karya Prima Agro Sejahtera (KPS)	2,197	5,431
Total	45,427	14,197
Palm Oil Mills (PKS)	7 units - 440 ton/hr	
Kernel Crushing Plant (KCP)	1 unit - 400 ton/day	
Bio CNG	2 units	

Sources : Company, MNCS Research

Exhibit 2. DSNG’s Nursery to include a mix of genetically modified breeds
1st visiting site: Nursery

The replanting scheme to reach up to 1,500 ha in FY23E and 2,400 ha in FY24F is to include a mix of genetically modified breeds from Verdant Bioscience Ltd. with aims to cut short the growth cycle and accelerate FFB yield growth.



Sources : Company, MNCS Research

2nd visiting site: the first replanting site commenced in 2022

Exhibit 3. The pilot replanting project field, encompassing 383 ha



Sources : Company, MNCS Research

3rd visiting site: PT Swakarsa Sinarsentosa Plantation Areas

DSNG expedited their fertilizer-spreading through mechanization. A custom-built hydraulic arm was used to assist the specialist in unloading the fertilizer bags.

Exhibit 4. Fertilizer-spreading



Sources : Company, MNCS Research

Through a c. 50% mechanized workflow, PT SWA is able to ramp up their harvesting capacity to 2.2 tons/day ha (from previously 1.7 tons/day ha) and save the operational costs down to IDR140k/ton to IDR143k/ton.

Exhibit 5. Harvesting, through manual labor (LHS) and mechanization (RHS)



Sources : Company, MNCS Research

DSNG also adopts more mechanization in the harvesting process, in the form of a tractor equipped with a grabber-crane to grab the fresh fruit bunches (FFBs), which then gets stacked on the tractor's barrow before it gets passed over to the back of the transporting Bio-CNG truck.

Exhibit 6. More mechanizations to yield more efficiency in harvesting



Sources : Company, MNCS Research

The loaded Bio-CNG transport truck will then drop off the freshly harvested FFBs at the CPO mills.

The usage of Bio-CNG cuts the cost per unit of travel by 69%, costing only IDR132k per trip as opposed to IDR432k per trip using diesel fuel.

Exhibit 7. ESG practices: DSNG steadily adopts more Bio-CNG trucks into their fleet



Sources : Company, MNCS Research

4th visiting site: Kernel Crushing Plant (KCP)

The kernel crushing plant is next site that we visited where palm kernels that have been separated from its fruit mesocarp and exocarps are delivered to then be crushed and processed into a Crude Palm Kernel Oil.

The mill contains two main production lines, consisting of 27 kernel-pressing units each.

Exhibit 8. KCP: Entrance



Sources : Company, MNCS Research

Exhibit 9. KCP: Kernel unloading-site (LHS) and the kernel pressing units (RHS)



Sources : Company, MNCS Research

5th visiting site: Palm Oil Mill

Exhibit 10. Palm Oil Mill Entrance



Sources : Company, MNCS Research

Exhibit 11. Palm Oil Mill Processing Flow



Sources : Company, MNCS Research

The Palm Oil Mill is where the Bio-CNG trucks drop off the harvested FFBs on to the collection bay. Briefly, the FFBs are 1) passed on to boiler/sterilizer for thawing. 2) The fruits will then be passed on to the thresher to separate the mesocarp from the kernel. 3) The separated mesocarps will then be screw pressed to produce the crude oil that will then be processed further in the 4) clarification tanks to be transferred to and stored in the storage tank.

Sludge centrifuge produced from the process are emitted from the Mill as POME (Palm Oil Mill Effluent).

6th visiting site: Bio-CNG plant

Palm Oil Mill Effluents (POME) emitted from the Palm Oil Mills are pumped and transferred onto and accumulated within the Bio-CNG pool dome (exhibit 12).

These effluents are high in methane (CH₄), and thus inflates the dome. They are processed into the CNG form and deposited into CNG tanks to be distributed across the DSN estates for power/fuel.

Exhibit 12. Bio-CNG Plant



Sources : Company, MNCS Research

Exhibit 13. Bio-CNG plant dome



Sources : Company, MNCS Research

Exhibit 14. Bio-CNG dispenser (LHS) and deployable Bio-CNG tanks ready to distributed (RHS)



Sources : Company, MNCS Research

7th visiting site: Labanan Bulking Site

On the last day, we visited the bulking storage in Labanan, Berau, harboring 14 CPO tanks and 2 CPKO tanks totaling 44k tons. The CPO transported by the truck are immediately sample-tested at the lab. The CPO we witnessed had an FFA of 2.6%. The storage tanks maintains the CPO temperature at 50°C before discharging onto the buyer’s ship.

Exhibit 15. Bio-CNG Plant



Sources : Company, MNCS Research

Exhibit 16. A truck discharging CPO



Sources : Company, MNCS Research

Exhibit 17. Sample analysis laboratory



Sources : Company, MNCS Research

Exhibit 18. Product samples



Sources : Company, MNCS Research

Exhibit 19. The jetty for loading on to the buyer’s vessel



Sources : Company, MNCS Research

Exhibit 20. Financial projections

Income Statement						Balance Sheet					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F	in Billion IDR	FY20	FY21	FY22	FY23E	FY24F
Revenue	6,698.92	7,124.50	9,633.67	10,196.17	10,604.01	Cash & Equivalents	647.71	422.38	359.35	576.99	434.58
COGS	(4,947.24)	(5,099.97)	(6,516.10)	(7,131.04)	(7,529.79)	Trade Receivables	381.76	249.66	460.43	558.69	486.48
Gross Profit	1,751.68	2,024.53	3,117.58	3,065.12	3,074.23	Inventory	670.40	773.07	1,291.00	1,465.28	1,393.48
G&A Expense	(334.67)	(356.98)	(451.67)	(478.04)	(497.16)	Others Current Assets	913.24	876.53	1,118.81	982.10	982.12
Final Tax	(383.07)	(374.34)	(431.37)	(456.56)	(474.82)	Total Current Assets	2,613.11	2,321.64	3,229.58	3,583.06	3,296.66
Other Income (Expense)	(38.88)	99.41	(62.06)	(85.58)	(89.01)	Fixed Assets - net	5,452.52	5,921.80	6,678.72	6,916.26	7,146.38
Op. Profit	995.06	1,392.62	2,172.48	2,044.94	2,013.24	Other Non-Current Assets	6,085.75	5,468.73	5,448.92	5,313.46	5,353.65
Finance Income (Expense)	19.36	14.93	15.28	-	-	Total Non-Current Assets	11,538.27	11,390.53	12,127.65	12,229.71	12,500.02
Other Income (Expense)	(319.12)	(441.66)	(577.53)	(355.21)	(275.96)	TOTAL ASSETS	14,151.38	13,712.16	15,357.23	15,812.77	15,796.68
PBT	695.30	965.88	1,610.23	1,689.73	1,737.28	Trade Payables	416.09	361.17	508.49	553.75	568.52
Tax Income (expenses)	(217.13)	(226.24)	(403.64)	(449.00)	(434.68)	ST Debt	1,213.07	911.59	1,737.73	1,544.65	1,197.03
Minority Interest	1.53	12.50	(0.25)	-	-	Other Current Liabilities	663.85	583.40	775.94	796.69	811.74
Net Income	476.64	727.15	1,206.84	1,240.73	1,302.60	Total Current Liabilities	2,293.01	1,856.16	3,022.16	2,895.09	2,577.30
EPS (IDR)	151.84	231.65	384.47	395.26	414.98	LT Debt	5,177.88	4,397.36	3,708.83	3,296.73	2,554.82
						Other LT Liabilities	449.75	433.18	466.10	468.23	469.77
						Total LT-Liabilities	5,627.62	4,830.53	4,174.93	3,764.96	3,024.59
						Total Equity	6,230.75	7,025.46	8,160.14	9,152.72	10,194.80
						TOTAL LIABILITY & EQUITY	14,151.38	13,712.16	15,357.23	15,812.77	15,796.68
Cash Flow						Ratios					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F	FY20	FY21	FY22	FY23E	FY24F	
Net Income	476.64	727.15	1,206.84	1,240.73	1,302.60	Revenue Growth (%)	16.77%	6.35%	35.22%	5.84%	4.00%
D&A	344.10	365.82	478.68	631.29	671.22	Operating Profit Growth (%)	31.52%	39.95%	56.00%	-5.87%	-1.55%
Changes in WC	(100.38)	(25.49)	(581.37)	(227.29)	158.79	Net Profit Growth (%)	164.89%	52.56%	65.97%	2.81%	4.99%
Others	(46.63)	(54.44)	(87.69)	155.32	15.03	Current Ratio (%)	113.96%	125.08%	106.86%	123.76%	127.91%
Operating CF	673.72	1,013.03	1,016.46	1,800.04	2,147.64	Quick Ratio (%)	84.72%	83.43%	64.15%	73.15%	73.84%
Capex	(625.96)	(742.31)	(1,132.30)	(866.67)	(901.34)	Receivable Days (x)	20.80	12.79	17.44	20.00	16.75
Others	(1,562.75)	530.91	(9.15)	135.47	(40.19)	Inventory Days (x)	49.46	55.33	72.32	75.00	67.55
Investing CF	(2,188.71)	(211.40)	(1,141.45)	(731.21)	(941.53)	Payable Days (x)	30.70	25.85	28.48	28.34	27.56
Dividend Paid	(52.29)	(130.73)	(212.00)	(248.15)	(260.52)	DER (x)	1.03	0.76	0.67	0.53	0.37
Net Change in Debt	(23.70)	(1,082.00)	137.62	(605.18)	(1,089.53)	DAR (x)	0.45	0.39	0.35	0.31	0.24
Equity Fund Raised	-	87.13	-	-	-	Gross Profit Margin (%)	26.15%	28.42%	32.36%	30.06%	28.99%
Others	1,968.36	98.63	136.35	2.13	1.54	Operating Profit Margin (%)	14.85%	19.55%	22.55%	20.06%	18.99%
Financing CF	1,892.37	(1,026.96)	61.97	(851.20)	(1,348.51)	EBITDA (IDR Bn)	650.96	1,026.80	1,693.79	1,413.65	1,342.02
Cash at Beginning	270.33	647.71	422.38	359.35	576.99	EBITDA Margin (%)	9.72%	14.41%	17.58%	13.86%	12.66%
Cash at Ending	647.71	422.38	359.35	576.99	434.58	Net Income Margin (%)	7.12%	10.21%	12.53%	12.17%	12.28%
						BVPS (IDR)	587.81	662.78	769.82	863.46	961.77

Sources : Company, MNCS Research

MNC Research Industry Ratings Guidance

- **OVERWEIGHT** : Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months
- **NEUTRAL** : Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months
- **UNDERWEIGHT** : Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

- **BUY** : Share price may exceed 10% over the next 12 months
- **HOLD** : Share price may fall within the range of +/- 10% of the next 12 months
 - **SELL** : Share price may fall by more than 10% over the next 12 months
 - **Not Rated** : Stock is not within regular research coverage

PT MNC SEKURITAS

MNC Financial Center Lt. 14 – 16
Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340
Telp : (021) 2980 3111
Fax : (021) 3983 6899
Call Center : 1500 899

Disclaimer

This research report has been issued by PT MNC Sekuritas, It may not be reproduced or further distributed or published, in whole or in part, for any purpose. PT MNC Sekuritas has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; PT MNC Sekuritas makes no guarantee, representation or warranty and accepts no responsibility to liability as to its accuracy or completeness. Expression of opinion herein are those of the research department only and are subject to change without notice. This document is not and should not be construed as an offer or the solicitation of an offer to purchase or subscribe or sell any investment. PT MNC Sekuritas and its affiliates and/or their offices, director and employees may own or have positions in any investment mentioned herein or any investment related thereto and may from time to time add to or dispose of any such investment. PT MNC Sekuritas and its affiliates may act as market maker or have assumed an underwriting position in the securities of companies discusses herein (or investment related thereto) and may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.