

**BUY | TP : IDR690**
**DSNG Stock Price Data**

Last Price	:	IDR535
52wk High	:	IDR730
52wk Low	:	IDR505
Share Out	:	10.60bn
Market Cap	:	IDR5.46tn

**DSNG Stock Price Performance**

1-Day	:	-1.87%
1-Week	:	+2.94%
1-Month	:	-0.94%
3-Month	:	-5.41%
Year-to-Date	:	-5.41%

**Shareholders**

PT. Triputra Investindo Arya	:	27.63%
PT. Krishna Kapital Investama	:	14.63%
PT. Tri Nur Cakrawala	:	7.44%
PT. Mitra Aneka Guna	:	6.32%
Arianto Oetomo	:	5.43%
Andrianto Oetomo	:	5.43%
Public	:	33.12%


**Research Analyst**

Alif Ihsanario

alif.ihsanario@mncgroup.com

**PT Dharma Satya Nusantara Tbk (DSNG IJ)**
**Defying El-Nino: Productivity Growth Achieved**
**FY23 operational synopsis**

- DSNG's plantation productivity gained in spite of El Nino concerns that we have anticipated throughout FY23. The precipitation levels recorded during the 2H23 period turned out to be more accommodative for operations than was initially expected. This bore fruit to a solid total FFB production growth by 2.6% YoY, reaching 2.27mn ton, largely in-line with our 3Q23 estimate (reflecting 100.5%). The CPO production also came in at an impressive 661.9k tons, growing 3.5% YoY, and reflected 101.5% of MNCS estimates (credits due to higher OER at 23.2% vs. FY22's 22.9%), accompanied by a slightly higher ASP of IDR11.4mn/ton. As a result, the realized CPO sales came in slightly above our projections at 665k tons (vs. 642.4k tons). We view the higher ASP to also be attributed by the impeccable FFA metric achieved (average of 2.97% in FY23 vs. 3.79% in FY22), which is valued at premium by the market.
- The outperformance in the CPO segment is however dulled by the notable downturn in the wood segment. Albeit accounting for roughly 11% of DSNG's revenue, the panel sales and flooring sales performance have declined significantly by -14%/-33.9% YoY, respectively. This was due to the high interest rate conditions that subdued wood demands from the property sector of export destination countries such as Japan, US, Canada and countries from Europe.

**De-aging endeavors should support yields performance**

- The company has followed through its plan of rejuvenation programs in their plantations to restore the old and unproductive plants. The company has cleared off 673 ha of unproductive land and replanted with superior seeds a total area of 500 ha. This brought the company's total planted area to 112.7k ha (FY22: 112.5k ha) total mature area to 105.7k ha, and slowed down their average planted tree age growth to 2.9% YoY at 14.0 years (FY22: 7.1% YoY at 13.6 years).
- We note that DSNG's overall plantation yield in FY23 successfully reached 20.16 ton/ha (21.19 ton/ha in nucleus and 17.04 ton/ha in plasma), an improvement from FY22's 19.68 ton/ha (20.88 ton/ha in nucleus and 16.09 ton/ha in plasma). We foresee DSNG's FFB yield performance to continue improving in FY24E, given the proximate tree height as reflected from the average tree age which should provide ease of harvesting. Moreover, the accommodative climate going forward, with the ENSO cycle predicted to reach its neutral phase into 2H24 without significant drawback carryover from the current El Nino phase as the precipitation has been unexpectedly adequate, should bolster plantation productivity.

**Second Bio-CNG breakthrough**

DSNG has completed their second Bio-CNG plant in their Muara Wahau plantations, bearing a production capacity of 570m<sup>3</sup>/hour of Bio-CNG which would then be able to generate 1.7MW of electricity. We view this would greatly leverage the company's energy independence hedging them against risks of diesel price fluctuations and at the same time broaden their margin potential. It is to be noted that through this avenue DSNG have been able to save 3.7mn liters of diesel consumption in FY22. With the total capacity now having reached 850 m<sup>3</sup>/hour of Bio-CNG, we estimate the diesel-saving capacity to reach 9.06mn – 11.38mn liters; further expanding their earnings margin potential. This would also require the company, however, to expand their Bio-CNG truck fleet, which will incur substantial capital at the beginning.

**Recommendation: BUY with TP IDR690**

We recommend **BUY** for DSNG with a maintained (TP) of IDR690 (28.97% upside), implying a PE of 7.1x/7.0x, a PBV of 0.8x/0.7x for FY24E/FY25F, as well as a EV/ha of IDR94.0mn/ha for FY24E. We view this particular stock price currently heavily discounted against its impeccable operational performance and sustainability endeavors. Several key risks to our call include: 1) fertilizer and CPO prices volatility, 2) weather surprises, and 3) labor turnovers.

Key Financial Highlights	FY21	FY22	FY23E	FY24E	FY25F
Revenue (IDR bn)	7,124.50	9,633.67	8,916.70	9,261.54	9,015.76
EBIT (IDR bn)	1,392.62	2,172.48	1,587.89	1,727.51	1,726.58
Net Income (IDR bn)	727.15	1,206.84	890.69	1,031.99	1,038.09
ROA (%)	5.30%	7.86%	5.73%	6.37%	6.17%
ROE (%)	10.35%	14.79%	10.04%	10.64%	9.86%
PE (x)	7.80	4.70	6.37	5.50	5.46
PBV (x)	0.81	0.69	0.64	0.58	0.54
EPS (IDR)	68.60	113.85	84.03	97.36	97.93

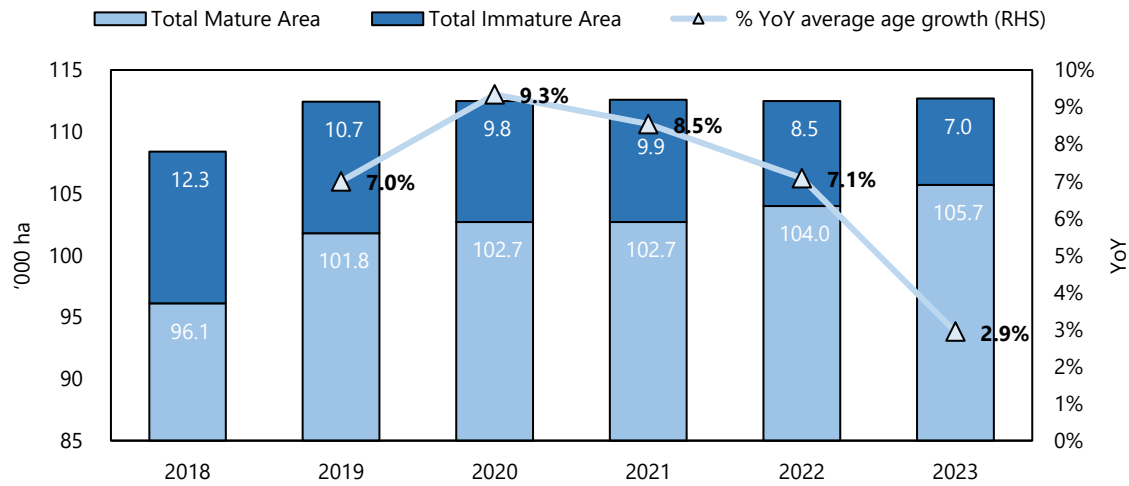
Sources : Bloomberg, MNCS Research

**Exhibit 1. DSNG's FY23 operational summary against MNCS estimates**

	FY23 Realized	YoY (%)	MNCS Estimate	Run Rate (%)
<b>CPO Segment</b>				
FFB production ('000 tons)	2,271.8	2.6	2,260.9	100.5%
FFB yield (ton/ha)	22.0	0.4	21.4	102.8%
OER (%)	23.2	1.9	22.9	101.3%
CPO production ('000 tons)	661.9	3.5	651.9	101.5%
CPO sales ('000 tons)	665.0	4.0	642.4	103.5%
CPO ASP (IDR mn/ton)	11.4	1.9	11.1	102.4%
<b>Wood Segment</b>				
Panel sales ('000 m3)	99.5	-14.0	94.1	105.8%
Flooring sales ('000 m2)	738.5	-33.9	666.3	110.8%
Panel ASP (USD/m3)	401.0	-17.5	402.9	99.5%
Flooring ASP (USD/m2)	30.0	1.3	39.0	76.9%

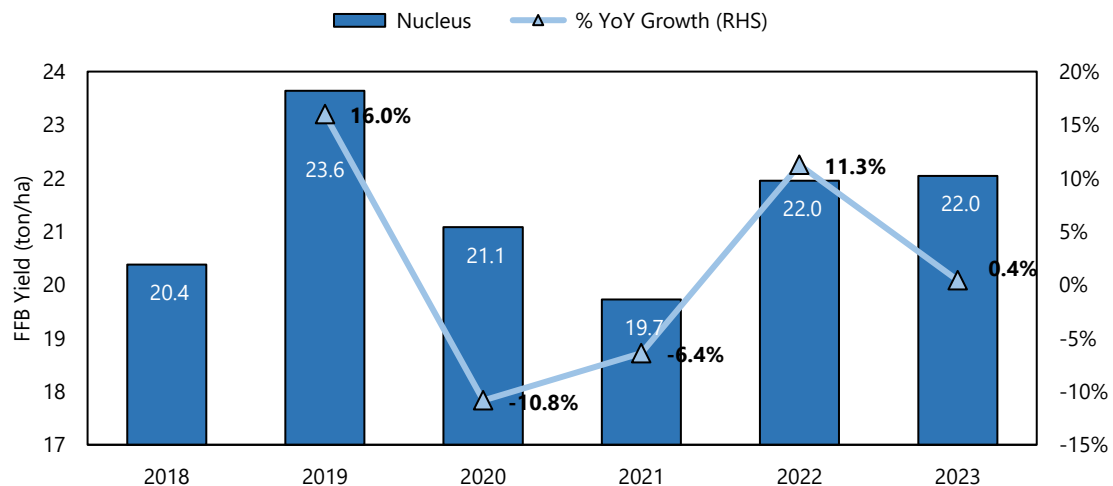
Sources : Company, MNCS Research

**Exhibit 2. Replanting to improve plantation age profile..**



Sources : Company, MNCS Research

**Exhibit 3. ...boding well for yield performance**



Sources : Company, MNCS Research

**Exhibit 4. Financial projections**

Income Statement						Balance Sheet					
in Billion IDR	FY21	FY22	FY23E	FY24E	FY25F	in Billion IDR	FY21	FY22	FY23E	FY24E	FY25F
<b>Revenue</b>	<b>7,124.50</b>	<b>9,633.67</b>	<b>8,916.70</b>	<b>9,261.54</b>	<b>9,015.76</b>	Cash & Equivalents	422.38	359.35	534.42	666.72	886.08
COGS	(5,099.97)	(6,516.10)	(6,411.36)	(6,598.30)	(6,364.43)	Trade Receivables	249.66	460.43	488.59	538.08	511.39
<b>Gross Profit</b>	<b>2,024.53</b>	<b>3,117.58</b>	<b>2,505.34</b>	<b>2,663.24</b>	<b>2,651.32</b>	Inventory	773.07	1,291.00	1,141.75	1,160.84	1,171.34
G&A Expense	(356.98)	(451.67)	(436.77)	(453.66)	(441.62)	Others Current Assets	876.53	1,118.81	982.03	982.05	982.04
Final Tax	(374.34)	(431.37)	(405.84)	(404.33)	(407.45)	<b>Total Current Assets</b>	<b>2,321.64</b>	<b>3,229.58</b>	<b>3,146.79</b>	<b>3,347.68</b>	<b>3,550.86</b>
Other Income (Expense)	99.41	(62.06)	(74.84)	(77.74)	(75.67)	Fixed Assets - net	5,921.80	6,678.72	7,087.05	7,502.16	7,928.01
<b>Op. Profit</b>	<b>1,392.62</b>	<b>2,172.48</b>	<b>1,587.89</b>	<b>1,727.51</b>	<b>1,726.58</b>	Other Non-Current Assets	5,468.73	5,448.92	5,310.52	5,350.56	5,349.35
-	-	-	-	-	-	<b>Total Non-Current Assets</b>	<b>11,390.53</b>	<b>12,127.65</b>	<b>12,397.57</b>	<b>12,852.72</b>	<b>13,277.36</b>
Finance Income (Expense)	14.93	15.28	-	-	-	<b>TOTAL ASSETS</b>	<b>13,712.16</b>	<b>15,357.23</b>	<b>15,544.35</b>	<b>16,200.40</b>	<b>16,828.22</b>
Other Income (Expense)	(441.66)	(577.53)	(374.87)	(351.14)	(332.17)	Trade Payables	361.17	508.49	497.87	498.19	490.47
<b>PBT</b>	<b>965.88</b>	<b>1,610.23</b>	<b>1,213.02</b>	<b>1,376.37</b>	<b>1,394.41</b>	ST Debt	911.59	1,737.73	1,009.92	1,155.79	990.15
Tax Income (expenses)	(226.24)	(403.64)	(322.33)	(344.38)	(356.32)	Other Current Liabilities	583.40	775.94	749.48	762.20	753.13
Minority Interest	12.50	(0.25)	-	-	-	<b>Total Current Liabilities</b>	<b>1,856.16</b>	<b>3,022.16</b>	<b>2,257.26</b>	<b>2,416.18</b>	<b>2,233.76</b>
<b>Net Income</b>	<b>727.15</b>	<b>1,206.84</b>	<b>890.69</b>	<b>1,031.99</b>	<b>1,038.09</b>	LT Debt	4,397.36	3,708.83	3,951.01	3,621.25	3,601.95
EPS (IDR)	231.65	384.47	283.75	328.77	330.71	Other LT Liabilities	433.18	466.10	463.38	464.69	463.76
						<b>Total LT-Liabilities</b>	<b>4,830.53</b>	<b>4,174.93</b>	<b>4,414.40</b>	<b>4,085.94</b>	<b>4,065.71</b>
						<b>Total Equity</b>	<b>7,025.46</b>	<b>8,160.14</b>	<b>8,872.69</b>	<b>9,698.28</b>	<b>10,528.76</b>
						<b>TOTAL LIABILITY &amp; EQUITY</b>	<b>13,712.16</b>	<b>15,357.23</b>	<b>15,544.35</b>	<b>16,200.40</b>	<b>16,828.22</b>
Cash Flow						Ratios					
in Billion IDR	FY21	FY22	FY23E	FY24E	FY25F		FY21	FY22	FY23E	FY24E	FY25F
Net Income	727.15	1,206.84	890.69	1,031.99	1,038.09	Revenue Growth (%)	6.35%	35.22%	-7.44%	3.87%	-2.65%
D&A	365.82	478.68	574.66	603.66	656.03	Operating Profit Growth (%)	39.95%	56.00%	-26.91%	8.79%	-0.05%
Changes in WC	(25.49)	(581.37)	110.46	(68.26)	8.46	Net Profit Growth (%)	52.56%	65.97%	-26.20%	15.86%	0.59%
Others	(54.44)	(87.69)	108.17	12.71	(9.06)	Current Ratio (%)	125.08%	106.86%	139.41%	138.55%	158.96%
<b>Operating CF</b>	<b>1,013.03</b>	<b>1,016.46</b>	<b>1,683.98</b>	<b>1,580.11</b>	<b>1,693.53</b>	Quick Ratio (%)	83.43%	64.15%	88.83%	90.51%	106.53%
Capex	(742.31)	(1,132.30)	(980.84)	(1,018.77)	(1,081.89)	Receivable Days (x)	12.79	17.44	20.00	21.21	20.70
Others	530.91	(9.15)	138.41	(40.05)	1.21	Inventory Days (x)	55.33	72.32	65.00	64.21	67.18
<b>Investing CF</b>	<b>(211.40)</b>	<b>(1,141.45)</b>	<b>(842.43)</b>	<b>(1,058.82)</b>	<b>(1,080.68)</b>	Payable Days (x)	25.85	28.48	28.34	27.56	28.13
Dividend Paid	(130.73)	(212.00)	(178.14)	(206.40)	(207.62)	DER (x)	0.76	0.67	0.56	0.41	0.30
Net Change in Debt	(1,082.00)	137.62	(485.63)	(183.90)	(184.94)	DAR (x)	0.39	0.35	0.32	0.24	0.19
Equity Fund Raised	87.13	-	-	-	-	Gross Profit Margin (%)	28.42%	32.36%	28.10%	28.76%	29.41%
Others	98.63	136.35	(2.71)	1.31	(0.93)	Operating Profit Margin (%)	19.55%	22.55%	17.81%	18.65%	19.15%
<b>Financing CF</b>	<b>(1,026.96)</b>	<b>61.97</b>	<b>(666.48)</b>	<b>(388.99)</b>	<b>(393.49)</b>	EBITDA (IDR Bn)	1,758.43	2,651.16	2,162.55	2,331.17	2,382.61
Cash at Beginning	647.71	422.38	359.35	534.42	666.72	EBITDA Margin (%)	24.68%	27.52%	24.25%	25.17%	26.43%
<b>Cash at Ending</b>	<b>422.38</b>	<b>359.35</b>	<b>534.42</b>	<b>666.72</b>	<b>886.08</b>	Net Income Margin (%)	10.21%	12.53%	9.99%	11.14%	11.51%
						BVPS (IDR)	662.78	769.82	837.05	914.93	993.28

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 Bank Tower Lt. 15 – 16  
Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340  
Telp : (021) 2980 3111  
Fax : (021) 3983 6899  
Call Center : 1500 899

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