

June 12, 2013

**Company Update**

# Plantation

# BW Plantation

**HOLD**

**Harvesting In The Hard Times**

**Current Price** **Rp980**  
**Target** **Rp1,070**  
**Upside potential (%)** **9.2**

**Stock Data**

Bloomberg Ticker **BWPT IJ**  
 Outstanding share (bn) **4.1**  
 Market Cap (Rp tn) **3.7**  
 52 week range (Rp) **850 - 1,610**  
 6-M Avg Value(Rp bn) **20.0**  
 YTD Returns (%) **-34.1**  
 Beta (x) **0.9**

**Major Shareholders (%)**

BW Investindo **47**  
 Fedalton Investment **23**  
 Public **30**

**1-year Share Price Performance**



**Share Performance (%)**

Month	Absolute	Relative
3m	-31.8	-26.8
6m	-31.8	-37.9
12m	-34.2	-44.5

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▪ **Falling FFB Yield on Increasing Mature Plants**

BW Plantation's increasing mature plantations has come in line with our expectation. As of Mar-13, mature plants reached 41,448 ha, which almost met FYE13 target of 42,000 ha. Despite feeling comfortable with on time maturing plants schedule, but we are a bit worry about falling FFB yield trend. We noticed that FY12 FFB yield has fallen below 20 ton/ha, compared to 23 ton per ha in FY11. This year, we expect FFB yield to fall further to 16 ton/ha, as new mature plants was already close 15,000 ha as of Mar-13, compared to 9,000 ha during FY12. Taking into accounts our revisions on FFB yield assumption, we also revised down our FY13-14F CPO production target by 2-7%.

▪ **Downward Revisions on Earnings**

Beside cutting production forecast, we also revised down our ASP for FY13F and FY14F by 22% and 24% to Rp6,002 per kg and Rp6,180 per kg as we have trimmed our FY13F and FY14F CPO price assumption by 16% and 23% to US\$826 per ton and US\$850 per ton. This has led us cut our FY13-14F by 21-27%, and we also trimmed total revenue projection for FY13-14F by 23-28%. Besides cutting our revenue projections, we also cut our gross profit projection for FY13-14F by 28-32%. Higher downward revision on gross profit mainly owns to our assumption that BWPT is unlikely avoids cost increase amidst the maturing plants leap phase. On the other hand we also trimmed FY13-14F EPS by 36-44%, as we have incorporated recent drawdown of bank loans from BRI and BNI amounted Rp2 tn in to our model. We estimate that the new loan drawdown would lead to annual interest expense increase to circa Rp120 bn in FY13F, from Rp70 bn in FY11-12. Thus, deteriorating operating results coupled with higher interest has led us to trimm our FY13-14F EPS significantly.

▪ **Valuation: Downgrade to Hold, TP at Rp1,070**

Taking into account our downward revisions on earnings, we lower our DCF based TP to Rp1,070, pegged the stock at 2013-14 PER of 21.4 – 13.4x. With only 9.2% upside potential from current price level, we downgrade our call to HOLD. The key catalysts to our HOLD call is: 1) The failure of maintaining FFB yield has led to slower CPO production forecast, 2) Lower CPO price would minimize the effect of increasing mature plants 3) Higher interest expense would be charged to company's earnings in the coming years.

**Key investment metrics**

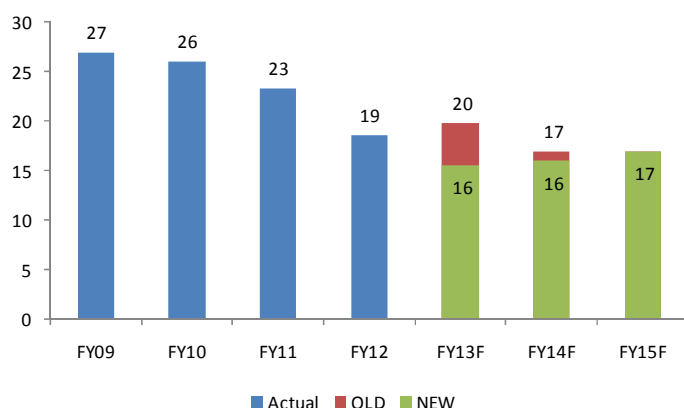
FYE Dec (Rpbn)	FY11	FY12	FY13F	FY14F	FY15F
Revenue	888	944	1,056	1,340	1,659
Net Income	320	262	204	327	569
NPM	36.1%	27.8%	19.4%	24.4%	34.3%
ROE	22.5%	15.7%	11.2%	15.4%	21.5%
Dividend Yield	1.0%	1.3%	1.1%	0.8%	1.3%
PE (x)	11.6	14.2	18.2	11.4	6.5
PBV (x)	2.6	2.2	2.0	1.7	1.4

Source : Bloomberg, Company

**Falling FFB Yield on Increasing Mature Plants**

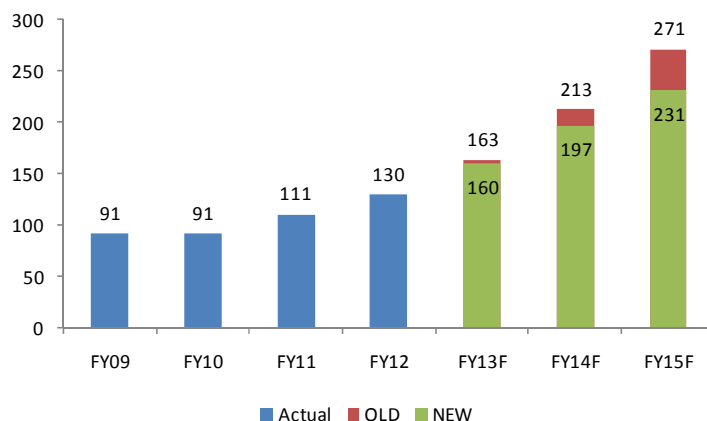
BW Plantation’s increasing mature plants has come in line with our expectation. As of Mar-13, mature plants reached 41,448 ha, which almost met FYE13 target of 42,000 ha. This means that most of maturing plants has of 15,000 ha target has matured in 1Q13. Despite feeling comfortable with on time maturing plants schedule, but we are a bit worry about falling FFB yield trend. We noticed that FY12 FFB yield has fallen below 20 ton/ha, compared to 23 ton per ha in FY11. During FY12, BWPT’ mature plants increased by 9,000 ha. Meanwhile, this year the company new mature plants as of Mar-13 was close to 15,000 ha, we think that there is possibilities for FFB yield to fall further. Thus, we revised down our FY13F FFB yield assumption to 16 ton/ha from 20 ton/ha previously (see exhibit 1). We expect FFB yield to start recover by FY15F and reach 18 ton/ha level by FY16F. Taking into accounts our revisions on FFB yield assumption, we also revised down our FY13-14F CPO production target by 2-7%. In accordance, we also revised down our CAGR target for BWPT’ CPO production for the next four years to 20% (from 28% previously).

**Exhibit 1: Revision on FFB Yield (ton/ha)**



Source: Company, Sucorinvest

**Exhibit 2: Revision on CPO Productions (k tons)**



Source: Company, Sucorinvest

**Downward Revision on Revenue Projection**

Besides revised our CPO production target for BWPT, we also adjust our ASP assumption following our revision on CPO price. We have trimmed our FY13F and FY14F CPO price assumption by 16% and 23% to US\$826 per ton and US\$850 per ton. After incorporating our new CPO price assumption, we revised down our ASP for FY13F and FY14F by 22% and 24% to Rp6,002 per kg and Rp6,180 per kg. This has led us cut our FY13-14F by 21-27%, and we also trimmed total revenue projection for FY13-14F by 23-28%.

**Exhibit 3: Earnings Revision**

	FY13F			FY14F		
	Old	New	Change	Old	New	Change
Revenue	1,367	1,056	-22.8%	1,871	1,340	-28.4%
Cost of Goods Sold	580	522	-10.1%	825	593	-28.1%
Upkeep & Cultivation	132	138	4.2%	199	148	-25.6%
Crop Purchases	110	64	-42.1%	157	79	-50.0%
Indirect Cost	122	79	-34.8%	167	101	-39.5%
Harvesting Cost	122	78	-35.8%	167	94	-43.5%
D&A	165	83	-49.7%	234	89	-62.1%
Gross profit	787	534	-32.1%	1,046	747	-28.6%
EBIT	585	385	-34.2%	770	558	-27.5%
Net Income	365	204	-44.0%	510	327	-35.9%

Source: Company, Sucorinvest

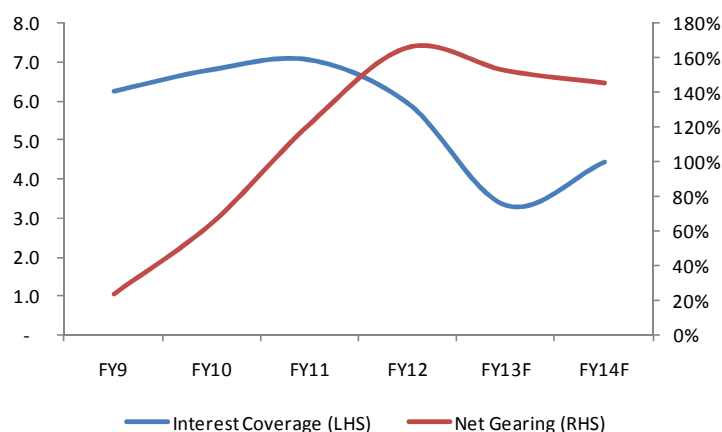
**Double-Barrel Cost Pressure, FY13-14F EPS Cut by 36-44%**

Besides cutting our revenue projections, we also cut our gross profit projection for FY13-14F by 28-32%. Higher downward revision on gross profit is mainly to our assumption that BWPT is unlikely avoids cost increase amidst the maturing plants leap phase, especially in upkeep and cultivation cost segment. Upkeep & Cultivation cost is the major contributor to BWPT' cost of goods sold as historically it made up 20-25% of total cost of goods sold. On the other hand we also trimmed FY13-14F EPS by 36-44%, as we have incorporate recent drawdown of bank loans from BRI and BNI amounted Rp2 tn in to our model. We estimate that the new drawdown would lead to annual interest expense increase to circa Rp120 bn in FY13F, from Rp70 bn in FY11-12. Thus, deteriorating operating results coupled with higher interest has led us to trimmed our FY13-14F EPS significantly.

**Valuation: Downgrade to Hold, TP at Rp1,070**

Taking into account our downward revisions on earnings, we lower our DCF based Tp to Rp1,070, pegged the stock at 2013-14 PER of 21.4 – 13.4x. With only 9.2% upside potential from current price level, we downgrade our call to HOLD. The key catalysts to our HOLD call is: 1) The failure of maintaining FFB yield has led to slower CPO production forecast, 2) Lower CPO price would minimize the effect of increasing mature plants 3) Higher Interest Expense would be charged to company's earnings in the coming years.

**Exhibit 4: BWPT Interest Coverage and Net Gearing**



Source: Company, Sucorinvest

## FINANCIALS

### Balance Sheet

<b>FYE Dec (Rpbn)</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13F</b>	<b>FY14F</b>	<b>FY15F</b>
Cash & Near Cash Items	58	51	92	40	93
Short-Term Investments	0	0	0	0	0
Accounts & Notes Receivable	3	13	14	18	22
Inventories	169	216	158	201	249
Total Current Assets	441	335	327	338	462
Net Fixed Assets	2,568	3,874	4,081	4,531	4,833
Total Long-Term Assets	3,148	4,578	4,867	5,529	6,069
Total Asset	3,589	4,913	5,194	5,868	6,531
Accounts Payable	209	212	237	301	372
Short-Term Borrowings	174	138	138	138	138
Total Current Liabilities	134	165	184	234	289
Long-Term Borrowings	1,627	2,684	2,750	3,000	3,000
Total Long-Term Liabilities	517	515	559	672	800
Total Liabilities	2,163	3,247	3,363	3,741	3,885
Total Equity	1,426	1,666	1,831	2,127	2,646
Total Debt	1,800	2,822	2,888	3,138	3,138
Net Debt	1,742	2,771	2,797	3,098	3,045

### Income Statement

<b>FYE Dec (Rpbn)</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13F</b>	<b>FY14F</b>	<b>FY15F</b>
Revenue	888	944	1,056	1,340	1,659
Cost of Revenue	274	373	522	593	544
Gross Profit	614	571	534	747	1,115
Sales & Marketing Expenses	8	12	13	17	21
G&A Expenses	124	142	135	172	213
Others	1	2	3	4	5
Operating Income	484	418	385	558	882
Interest Expense	68	70	116	126	126
Foreign Exchange Losses (Gains)	-15	-4	-4	-5	-7
Net Non-Operating Losses (Gains)	430	351	274	438	763
EBT	110	89	70	111	194
Income Tax Expense	0	0	0	0	0
Net Income	320	262	204	327	569

**Cash Flow**

<b>FYE Dec</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13F</b>	<b>FY14F</b>	<b>FY15F</b>
Net Income	320	262	204	327	569
Depreciation	49	98	93	100	48
Change in WC	197	(96)	(94)	(50)	(56)
Change in Other Op. Items	-	-	-	-	-
Cash From Operating Activities	173	456	392	477	674
Capital Expenditures	(1,130)	(1,404)	(300)	(550)	(350)
Other Investing Activities	(192)	(124)	(83)	(212)	(238)
Cash From Investing Activities	(1,322)	(1,528)	(383)	(762)	(588)
- Dividend Paid	(36)	(49)	(40)	(31)	(50)
- Change in LT Liabilities	732	1,086	72	265	16
- Change in Equity	13	27	(0)	-	-
Cash from Financing Activities	708	1,064	32	234	(33)
Net Changes in Cash	(441)	(8)	41	(51)	53
Beginning Balance	499	58	51	92	40
Ending Balance	58	51	92	40	93

**Key Ratios**

<b>FYE Dec (Rpbm)</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13F</b>	<b>FY14F</b>	<b>FY15F</b>
<b>Profitability</b>					
ROA	8.9%	5.3%	3.9%	5.6%	8.7%
ROE	22.5%	15.7%	11.2%	15.4%	21.5%
Gross Margin	69.1%	60.5%	50.6%	55.7%	67.2%
Operating Margin	54.4%	44.3%	36.5%	41.7%	53.1%
Net Margin	36.1%	27.8%	19.4%	24.4%	34.3%
<b>Leverage</b>					
Current Ratio (x)	3.3	2.0	1.8	1.4	1.6
Quick Ratio (x)	2.0	0.7	0.9	0.6	0.7
Net Gearing (x)	1.2	1.7	1.5	1.5	1.2
Interest Coverage (x)	7.1	5.9	3.3	4.4	7.0
<b>Activity &amp; Growth</b>					
Receivable Turnover (days)	8.8	3.1	4.7	4.4	4.5
Payable Turnover (days)	81.7	81.4	77.6	73.2	74.0
Inventory Turnover (days)	48.7	74.3	64.7	48.9	49.5
Sales Growth	24.7%	6.3%	11.8%	26.9%	23.9%
Operating Income Growth	30.2%	-13.6%	-7.8%	44.9%	58.0%
Net Income Growth	31.5%	-18.2%	-22.0%	59.9%	74.2%
<b>Valuation</b>					
EV/EBITDA (x)	11.3	15.5	16.9	12.2	7.7
PE (x)	11.6	14.2	18.2	11.4	6.5
PBV (x)	2.6	2.2	2.0	1.7	1.4
Payout ratio	13%	15%	15%	15%	15%
Dividend Yield	1.0%	1.3%	1.1%	0.8%	1.3%

**Sucorinvest rating definition, analysts certification, and important disclosure****Ratings for Sectors**

- Overweight : We expect the industry to perform better than the primary market index (JCI) over the next 12 months.  
Neutral : We expect the industry to perform in line with the primary market index (JCI) over the next 12 months.  
Underweight : We expect the industry to underperform the primary market index (JCI) over the next 12 months.

**Ratings for Stocks**

- Buy : We expect this stock to give return (excluding dividend) of above 10% over the next 12 months.  
Hold : We expect this stock to give return of between -10% and 10% over the next 12 months.  
Sell : We expect this stock to give return of -10% or lower over the next 12 months.

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