Company Initiation

Bumitama Agri Ltd

Singapore | Consumer Staples

Ada Lim
Equity Research

Rating	BUY (as at 20 October 2023)
Last Close	SGD 0.56
Fair Value	SGD 0.67

Green shoots

- **Superior productivity is a key competitive advantage, supported by high quality plantations and best management / agricultural practices**
- **Supply constraints and growing domestic demand from biodiesel mandates support long-term industry fundamentals**
- **Attractive dividend yield amidst undemanding valuations**

Investment thesis

Bumitama Agri Ltd. (BAL) is a leading upstream producer of crude palm oil (CPO) and palm kernel (PK) in Indonesia. It operates a total planted area of 187k hectares (ha) across Central and West Kalimantan, as well as Riau – areas with good precipitation and temperatures well suited for oil palm cultivation – with an average plantation age of 13 years as at 30 Jun 2023. BAL's superior productivity, high quality plantations, and continued focus on maximising its current plantations position it well to deliver on above industry average yields and to capitalise on supportive long-term industry fundamentals, where the dynamics of constrained supply and growing demand should provide some resilience to CPO prices. We initiate coverage on the stock with a fair value (FV) estimate of SGD0.67. BAL's current valuations are undemanding on a forward price-to-earnings (P/E) basis, in our view, and may present an attractive entry point for long-term investors looking to lock in a higher-than-average dividend yield.

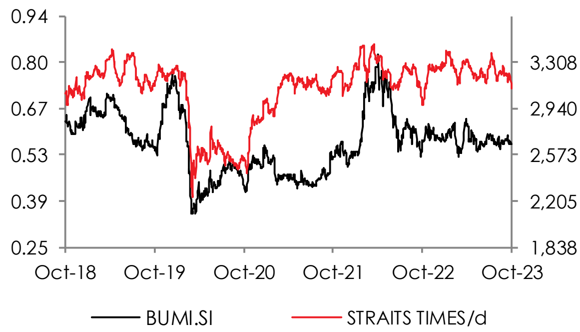
Investment summary

- **Looking forward to the end of the current downtrend** – BAL's key performance metrics saw significant quarter-on-quarter (QoQ) improvement in 2Q23, with revenue/net profit/EBITDA growing by 9%/77%/99% to reach IDR3,901b/IDR760b/IDR1,369b respectively. This was largely driven by a 34% QoQ increase in CPO production to 314,759 tonnes, which was in turn underpinned by a 29% rise in fresh fruit bunch (FFB) yield and 0.5 percentage point (ppt) increase in oil extraction rates to 22.6%. The average selling price of

Security information

Ticker	BUMI.SI
Market Cap (SGD b)	1.0
Daily turnover (SGD m)	0.7
Free Float	47%
Shares Outstanding (m)	1,734
Top Shareholder	Fortune Holdings Limited 51.6%

Price performance chart



Financial summary

IDR b	FY22	FY23E	FY24E
Revenue	15,829	14,344	14,272
EBITDA	5,686	3,831	3,842
PATMI	2,826	1,826	1,886
EPS (S cents)	14.1	9.1	9.4
DPS (S cents)	7.80	3.86	3.98

Key ratios

%	FY22	FY23E	FY24E
Revenue growth	29.2	-9.4	-0.5
EBITDA margin	35.9	26.7	26.9
Net income margin	21.5	15.4	15.9
Dividend yield	13.9	6.9	7.1

Source: Refinitiv, Internal estimates

CPO also strengthened by 1% QoQ to reach IDR11,756 per kg. Notwithstanding a stronger showing in 2Q23, overall 1H23 results were weighed down by a weak 1Q23, which was hamstrung by normalising commodity prices, lower production amidst a low-cycle season, and higher fertiliser costs. Consequently, 1H23 revenue/net profit/EBITDA was down 16%/45%/45% at IDR7,496b/IDR1,189b/ IDR2,057b respectively.

- **BAL is well positioned to capitalise on supportive long-term industry fundamentals** – Despite the current softness in CPO prices, long-term fundamentals of the palm oil industry remain intact, in our view. Global CPO production is expected to enter an era of deceleration hereon, constrained by a slowdown in palm oil plantation expansion, ageing plantations, and unfavourable weather conditions like El Niño. Meanwhile, demand is expected to shift towards more domestic consumption, supported by the growing traction of biodiesel mandates. Given the strategic importance of the palm oil industry to the Indonesian economy, government regulations have thus far been supportive, and we also note the greater emphasis on sustainability over the years. BAL's superior productivity, high quality plantations, and continued focus on intensification rather than expansion position it well to maintain above industry average yields and to capture greater market share. As such, we look favourably upon the specialised upstream player's growth profile going forward.
- **Initiate coverage on BAL with SGD0.67 FV estimate** – We apply a FY24E target P/E multiple of 5.7x and a slight ESG premium to value BAL, obtaining a FV estimate of SGD0.67. BAL's current valuations are undemanding, as it is trading at a forward 12M P/E ratio of 5.5x, representing more than one standard deviation (s.d.) below its five-year historical average of 8.3x. Meanwhile, Bloomberg consensus estimates are pricing in a forward dividend yield of 7.7%, representing more than one s.d. above the company's five-year historical average of 5.2%. Taken together, this could present an attractive entry point for long-term investors looking to lock in a higher-than-average dividend yield. That being said, we caution that investors may need to remain patient with the stock in the near term, as the industry tides through the current period of normalisation and softness in CPO prices.

ESG Updates

- BAL's ESG rating was upgraded in Jul 2023. Oil palm cultivation is considered environmentally intensive, and the company has adopted a No Deforestation, No Peat and No Exploitation policy – backed by satellite monitoring – to mitigate biodiversity-related risks. As of 2022, BAL disclosed that it had achieved 99.6% farm-level traceability of its fresh fruit bunches (FFB), including those sourced externally. Research notes that BAL has created formal grievance channels for community engagement. In terms of governance, BAL has a whistleblower protection policy and compliance mechanisms to mitigate corruption-related risks, as well as a business ethics framework that leads global peers.

Potential catalysts

- Favourable weather conditions improving production volumes
- Supportive policies by the Indonesian government
- Accretive acquisitions

Investment risks

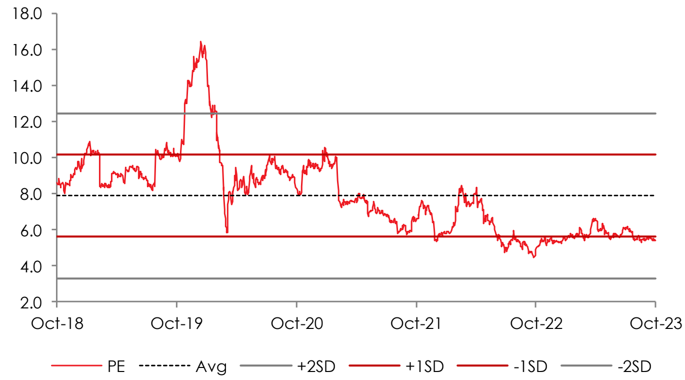
- Unfavourable CPO price movements
- Execution risks resulting in cost overruns, placing pressure on margins
- Regulatory risks affecting the palm oil industry

Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
BUMITAMA AGRI LTD (BUMI.SI)	5.4	5.4	0.8	0.8	4.3	4.3	6.9	6.7	14.8	14.1
FIRST RESOURCES LTD (FRLD.SI)	9.8	8.6	1.3	1.2	5.3	4.8	5.7	6.1	12.8	13.7
GOLDEN AGRI-RESOURCES LTD (GAGR.SI)	5.7	5.4	0.5	0.4	3.4	3.3	4.9	5.2	15.8	14.8
WILMAR INTERNATIONAL LTD (WLIL.SI)	11.2	9.0	0.8	0.8	11.4	9.8	4.0	4.6	7.2	8.7

Source: Refinitiv

Price/Earnings chart



Source: Refinitiv

Price/Book chart

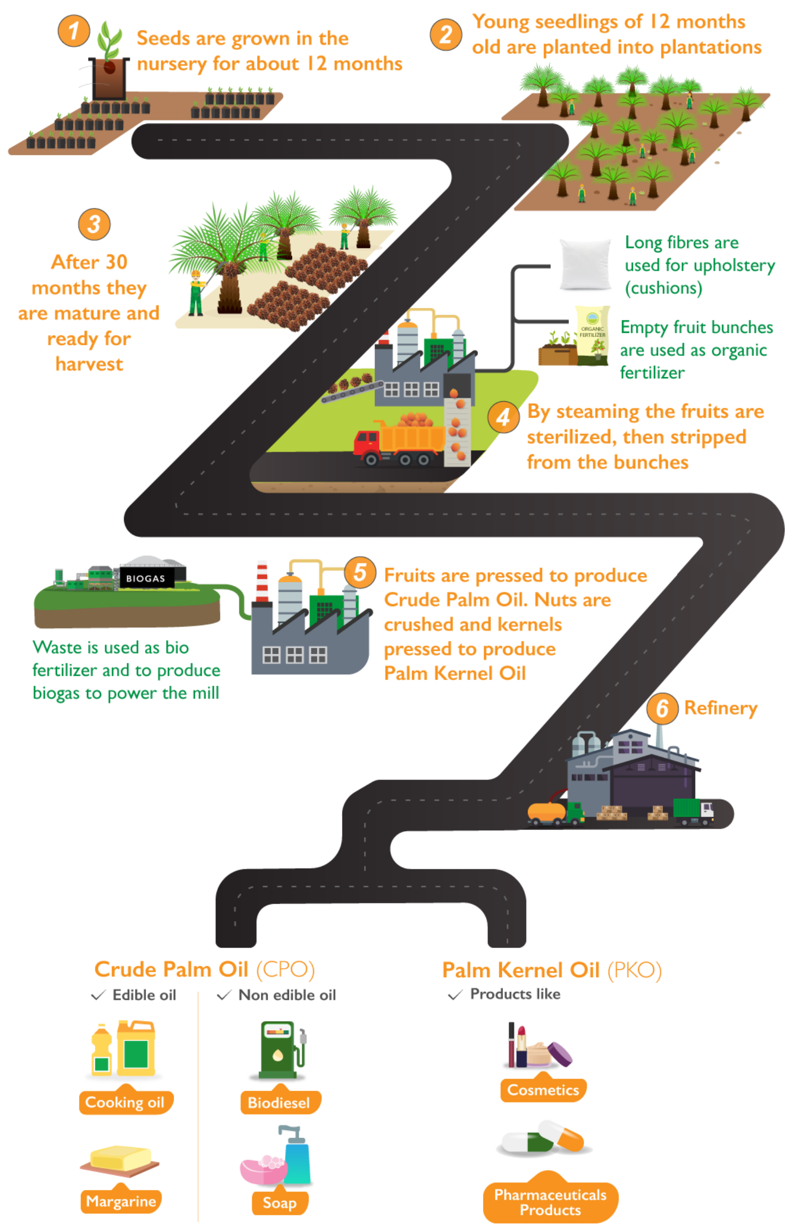
Source: Refinitiv

Overview of palm oil industry

Indonesia is currently the world's largest producer of palm oil and palm kernels, and, together with Malaysia, dominates around 90% of global palm oil production. If properly cultivated, oil palm produces higher yields per hectare than any other oil seed crop, and enjoys an exceptionally long, commercially productive lifespan (~25 years).

In palm oil production, FFBs are commonly harvested from plantations, and then transported to mills to be extracted as CPO. CPO is then transported to refineries to undergo a refining process, before being transported to downstream manufacturers as raw material for food products, detergent, and cosmetics, amongst other end products. BAL belongs to the upstream segment of the palm oil industry, where it not only manages its own palm oil plantations, but also processes FFBs harvested into CPO for sale to downstream entities.

Exhibit 1: The palm oil production process

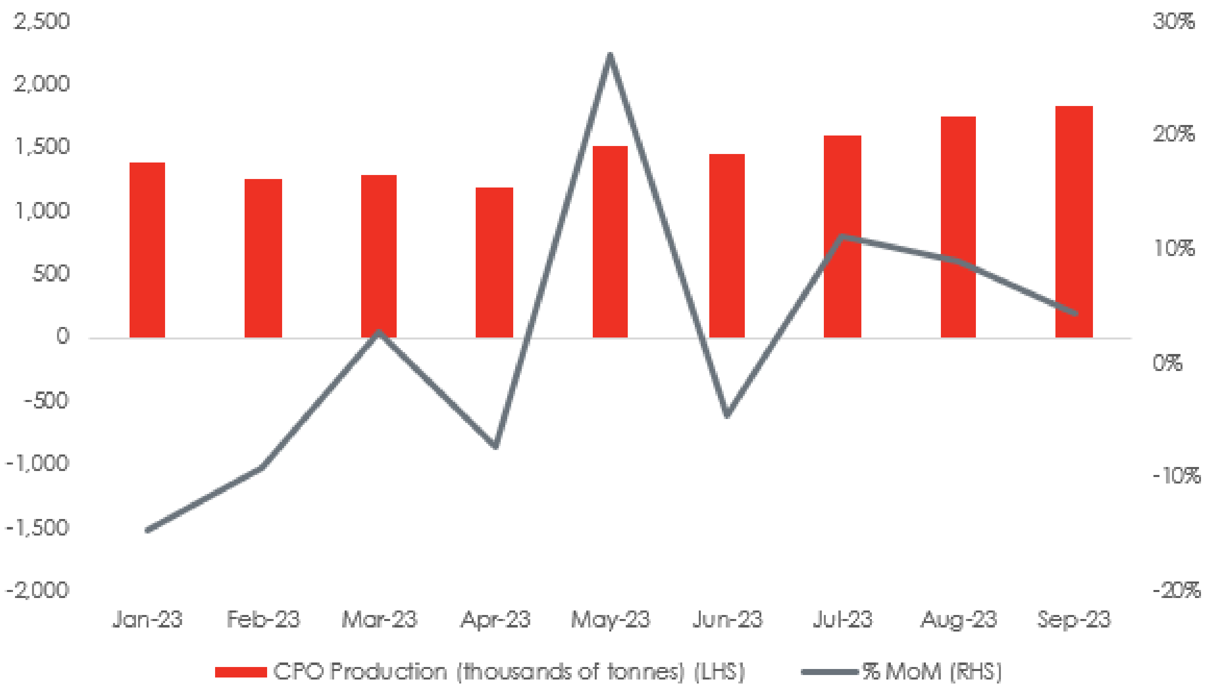


Source: Asian Agri

In early 2022, the war between Russia and Ukraine, both long-standing major commodity exporters, gave rise to a supply crunch. This coincided with a resurgence in global demand, on the back of the reopening of economies and pandemic stimulus measures. Consequently, prices soared, and the commodity boom cycle in 1H22 partly contributed to rising inflation. This was a boon for the palm oil industry, as global CPO prices ascended to a record high as early as March 2022. Though CPO prices subsequently underwent a steep correction, average CPO prices in 2022 still hovered significantly above their 2021 levels. Major CPO players enjoyed a windfall during the period of elevated prices, notwithstanding higher fertiliser prices which posed a notable challenge for much of the year.

CPO prices started 2023 rangebound before coming under some pressure. Prices have trended lower at the start of 4Q23, hamstrung by: (i) higher production in the current high output season, with CPO production in Malaysia rising 4.3% month-on-month (MoM) in Sep to 1.83m tonnes, making this the highest monthly production in three years; and (ii) relatively lower demand from India, a key importer, due to an increase in inventories as India had imported more than usual in Jul and Aug.

Exhibit 2: Malaysia CPO Production



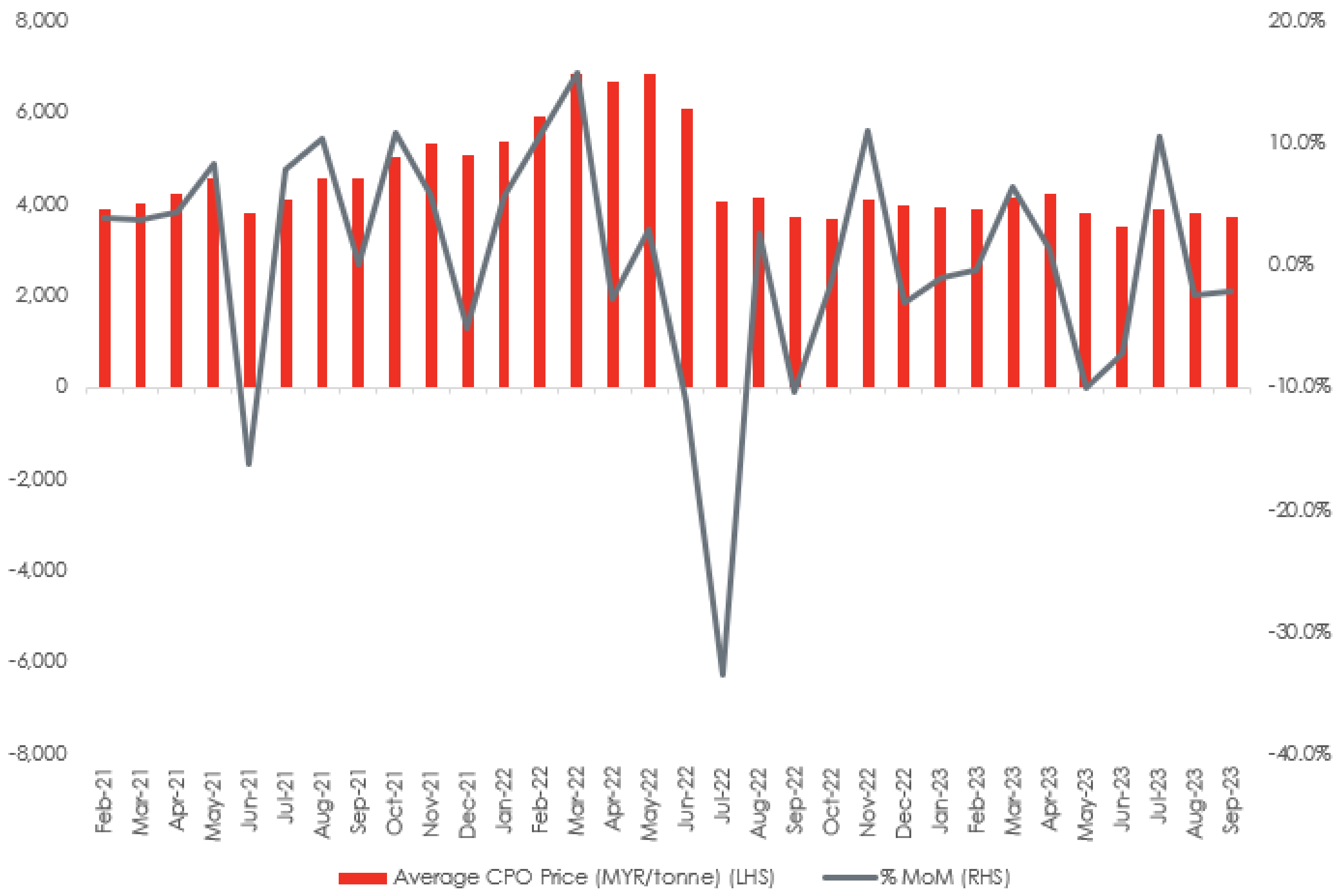
Source: Malaysian Palm Oil Board; Internal estimates

At the time of writing, we see downside risk to CPO prices in the near term. Despite higher demand outlook into the year-end on the back of the upcoming festive seasons, high stockpiles in key producer countries and sufficient reserves in key importing nations could continue to place pressure on CPO prices.

In the longer run, however, supply-demand fundamentals in the industry remain healthy, in our view. Palm oil demand in Indonesia is expected to shift towards more domestic consumption, in line with the government's announcement of the B35 biodiesel mandate[1]. Production, on the other hand, will likely face challenges from: (i) the return of El Niño in 2H23, which could stress oil palms and result in lower FFB yields eight to 22 months later; (ii) an ageing plantation profile in both Indonesia and Malaysia resulting in lower yields; and (iii) the lack of industry new plantings since 2015. According to BAL, the supply crunch may also be aggravated by years of under-manuring, particularly by smallholders in 2022 due to elevated fertiliser prices.

[1] The Indonesian government first implemented the B30 program in 2020, which mandates fossil gasoil to be blended with 30% palm oil-based fuel. In Feb 2023, the biodiesel blending mandate was lifted from 30% to 35%. This is expected to further stimulate the demand for palm oil domestically, while at the same time offsetting some of the reduced demand from Europe, where edible oil is facing some opposition due to ESG-related concerns.

Exhibit 3: Average CPO Price in Malaysia



Source: Malaysian Palm Oil Board; Internal estimates

Bumitama Agri: Productivity is key

Company Overview

Founded in 1996, BAL is a leading producer of CPO and PK in Indonesia. As a specialised upstream player, BAL is principally engaged in the cultivation of oil palm trees, as well as the harvesting and processing of FFB into CPO and PK.

Exhibit 4: Excellence through discipline

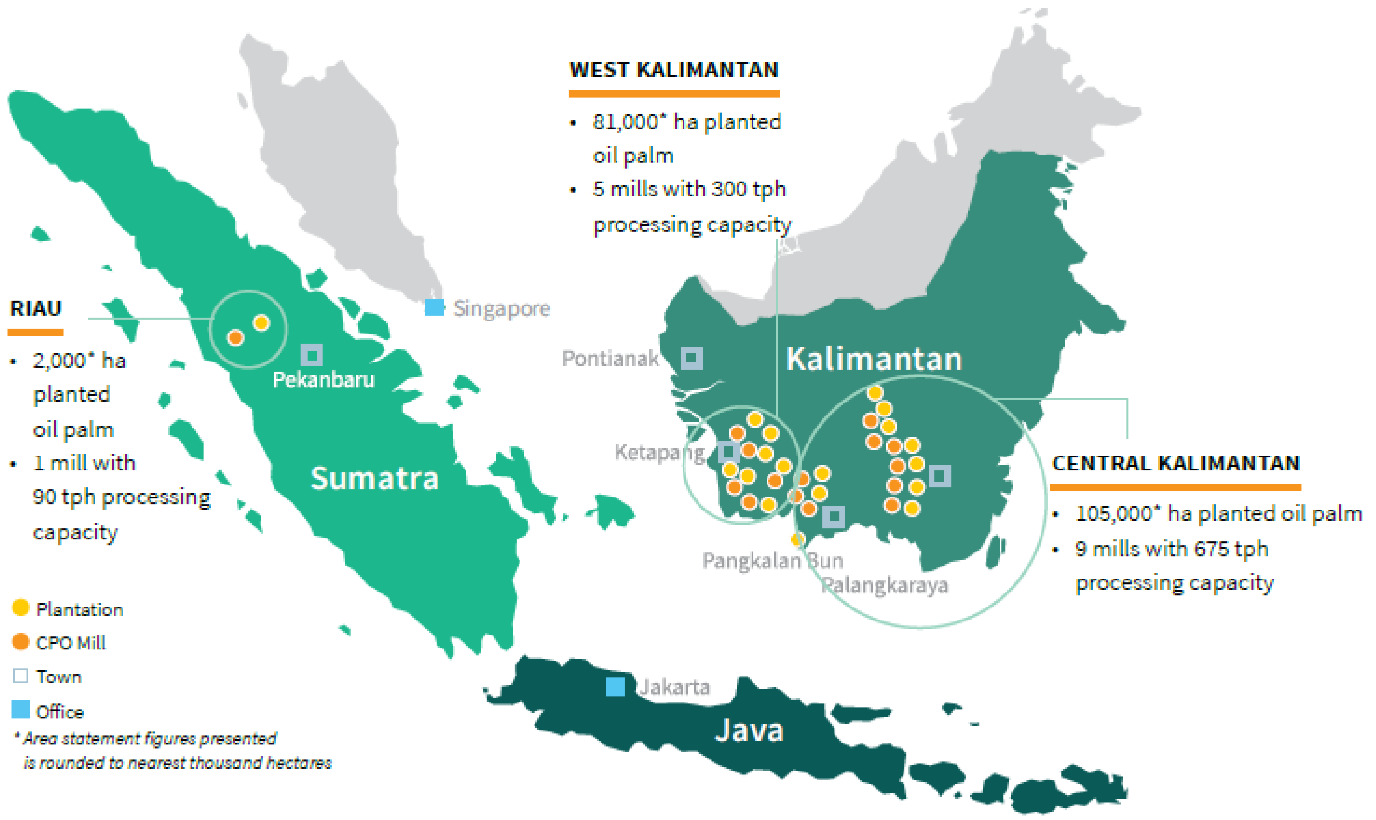
Mission	To enhance shareholder's value; to improve the benefits and quality of life of our employees; to improve the welfare of the local communities and the environment.
Vision	To be the leading CPO producer through continuous improvement; focus on productivity, cost efficiency, sustainability and growth.

Source: Company; Internal estimates

As of 30 Jun 2023, BAL operates a total planted area of 187k ha, consisting of 131k ha of nucleus estates and 56k ha of plasma estates across Central and West Kalimantan, as well as Riau. These are areas with good precipitation and temperatures that are well suited for oil palm cultivation.

BAL's plasma estates – which constitute 29.6% of its total planted area – alongside significant contribution from plasma smallholders, yielded 22.2% of total FFB in 2022. The company's ability to source from local communities and independent smallholders allows it to better manage environmental risk, to ensure supply continuity during low cycle periods, and to secure steady margins even during periods of volatile CPO prices.

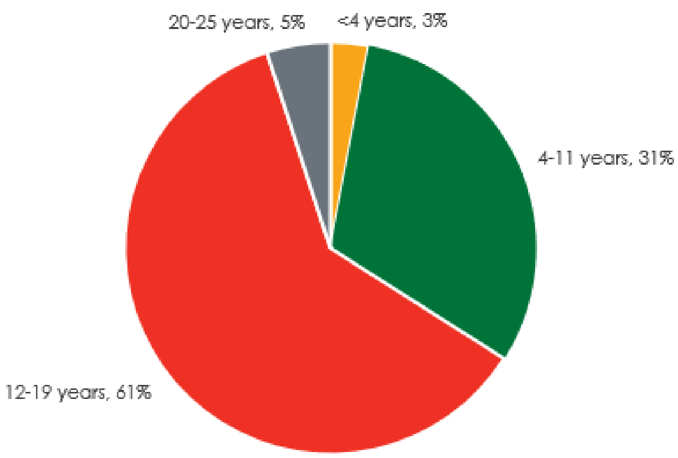
Exhibit 5: Area of operations



Source: Company's FY22 Annual Report

Palm oil yield is typically maximised at 15 years of age, before declining gradually until 25 years of age. BAL's plantations have a relatively young average age profile of 13 years as of 30 Jun 2023, with ~97% of its planted area either maturing or in peak productivity. Hence, BAL's production volume is expected to remain resilient in the coming years.

Exhibit 6: Favourable age profile of plantations expected to drive yields in coming years



Source: Company; Internal estimates

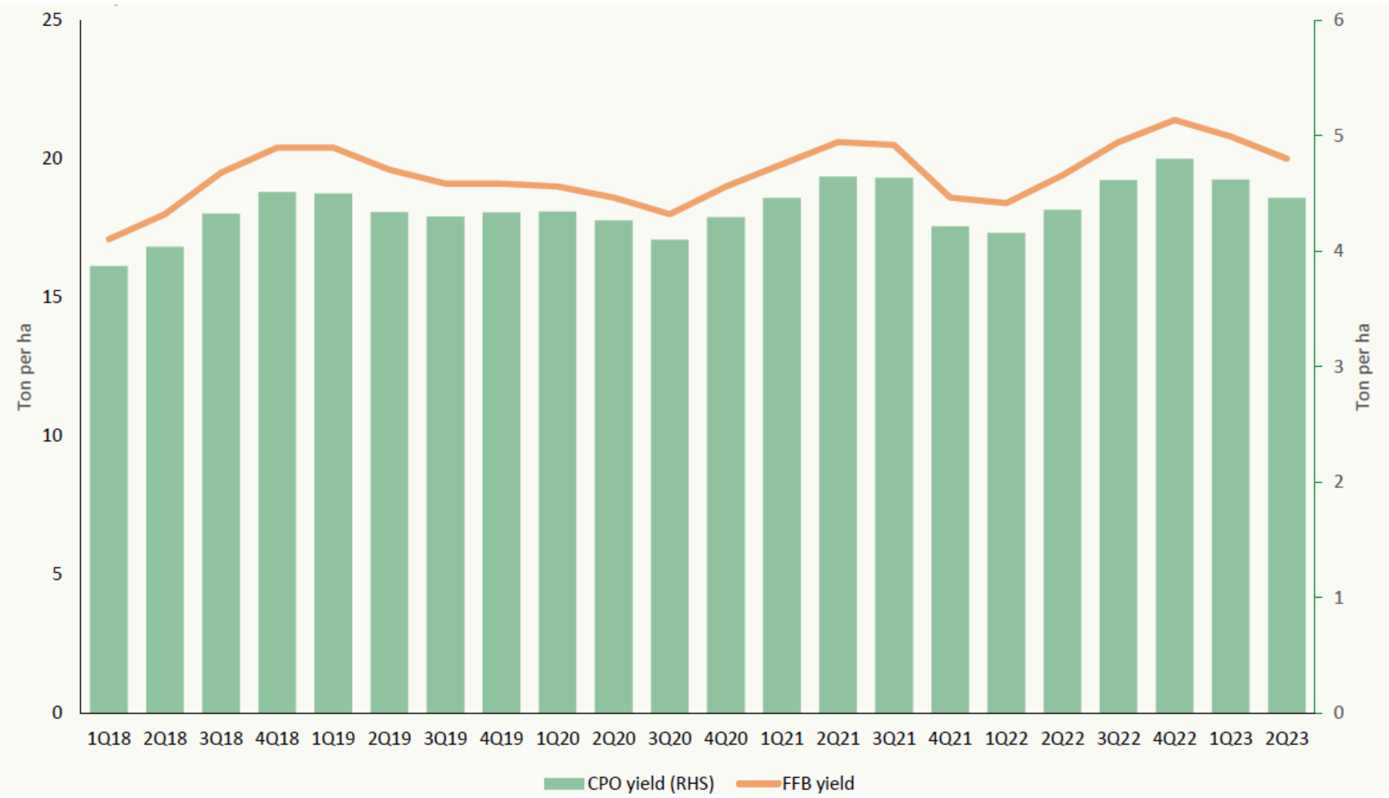
BAL also operates 15 palm oil mills with a total processing capacity of 6.39m tonnes per annum. These mills are strategically located in close proximity to BAL's plantations, so that FFB can be promptly transported and processed to optimise productivity while reducing transportation-related costs and BAL's carbon footprint.

Company Strategy

Given that downstream products tend to command a narrower margin, BAL has chosen to remain as a pure upstream player. Consistent with its sustainability efforts, BAL's strategy within its segment is **intensification rather than expansion**: how can BAL do more with its existing plantations?

Consequently, BAL has committed to continuous improvement in production processes, including investing in research and development (R&D), and technology, as well as adopting best agricultural practices in oil palm cultivation such as manuring and irrigation. Together with previous expansion efforts, this has allowed BAL's FFB and CPO production volumes to grow at a cumulative average growth rate (CAGR) of 9.9% over the past decade. A key competitive advantage for BAL is therefore its productivity, as evidenced by its highly competitive operational metrics and peer-leading yields.

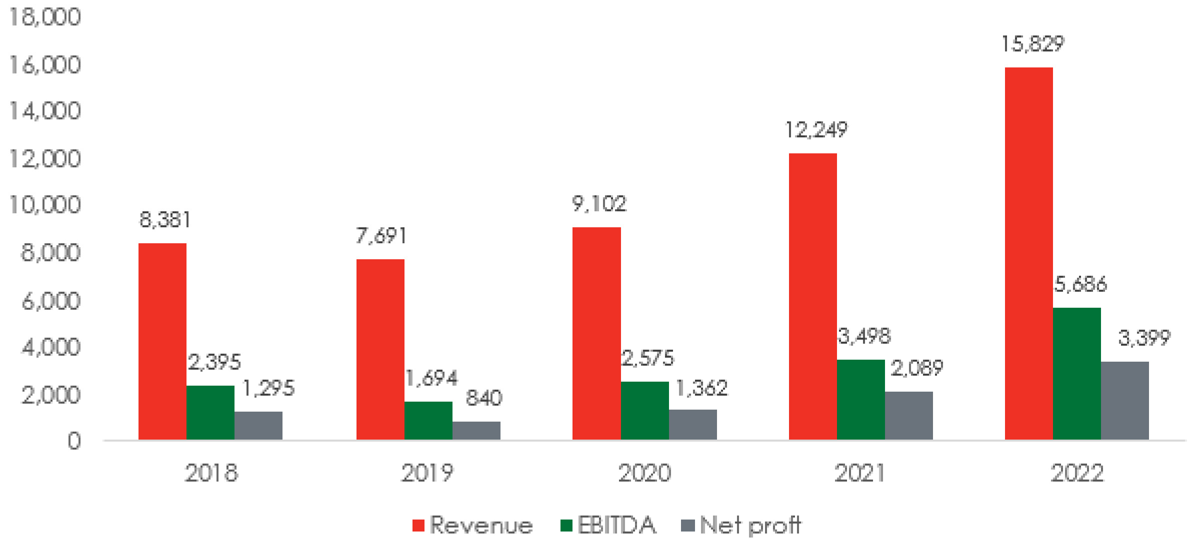
Exhibit 7: BAL has been slowly but steadily improving its productivity over the years



Notes: (1) Productivity calculation is based on 12-month rolling formula. (2) CPO yield is calculated using consolidated oil extraction rates.
Source: Company

BAL's commitment to "excellence through discipline" has paid off in a set of robust performance measures in the past few years, despite its exposure to ever-fluctuating global CPO prices. According to the company, annual revenue and net profit grew at a CAGR of 17% and 12.7% respectively from 2011 to 2022. Together with a competitive dividend policy of up to 40% dividend payout ratio, BAL's dividend payments have grown at a CAGR of 23% since 2013.

Exhibit 8: BAL's robust and resilient financial performance (IDR b)



Source: Company; Internal estimates

Operational Highlights

Exhibit 9: Internal FFB production (thousand metric tonnes)

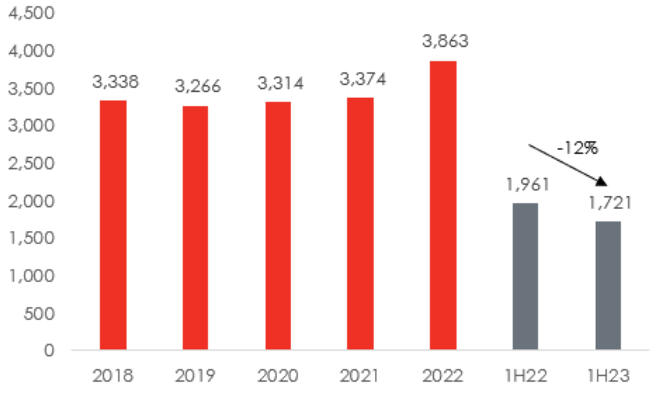


Exhibit 10: FFB yield (metric tonnes per matured hectare)

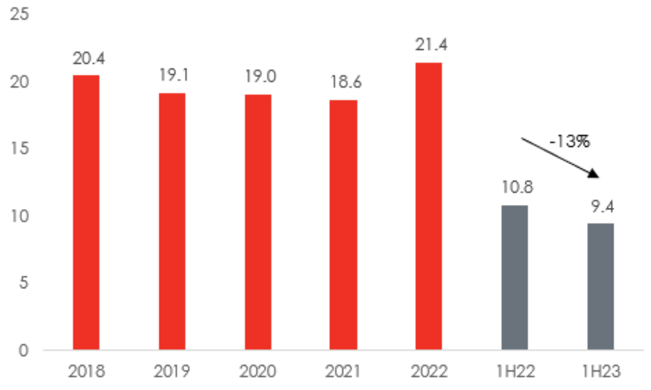


Exhibit 11: CPO production (thousand metric tonnes)

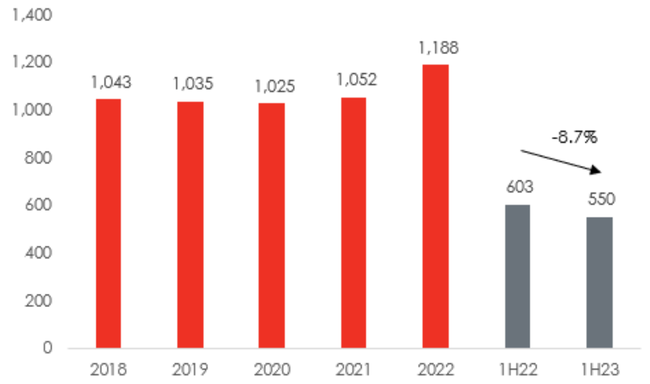


Exhibit 12: CPO yield (metric tonnes per matured hectare)

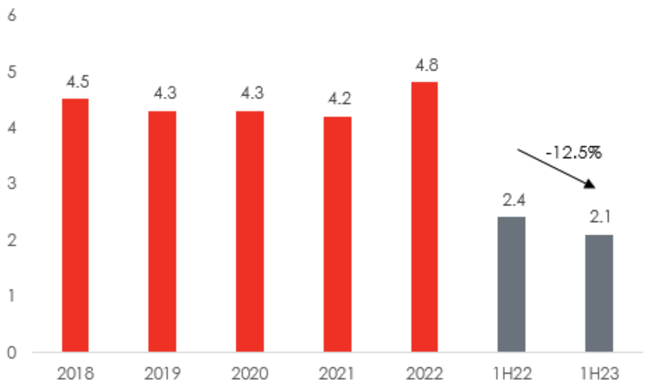


Exhibit 13: PK production (thousand metric tonnes)

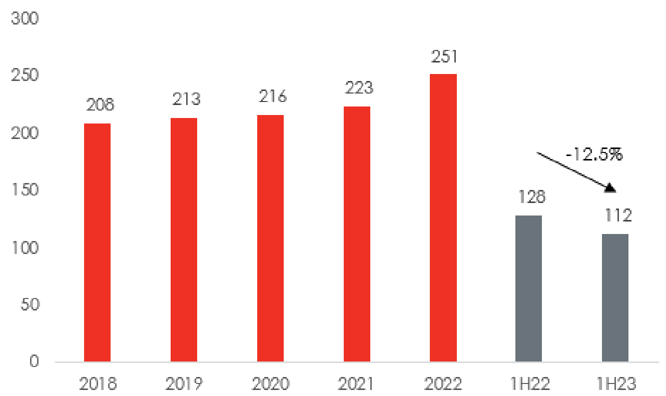
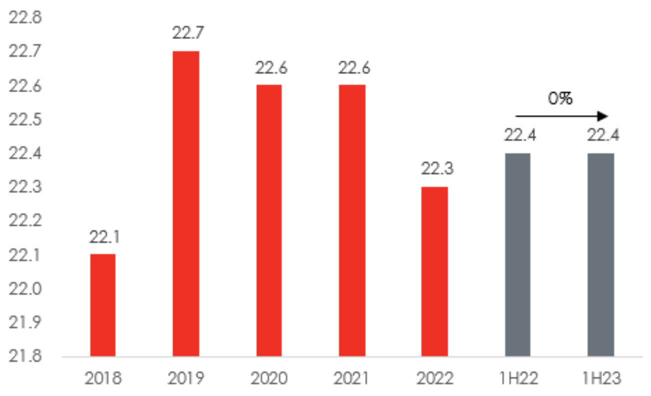


Exhibit 14: Oil extraction rate (%)



Source: Company; Internal estimates

Management Team

BAL adheres to prevailing SGX corporate governance standards, global financial market best practices, the Ministry of Agriculture's Indonesian Sustainable Palm Oil (ISPO) certification schemes' requirements, and voluntary certification schemes' requirements. The company's commitment to excellence in corporate governance has earned it the Asiamoney's Best Overall for Corporate Governance, Best for Disclosure & Transparency, and Best for Responsibilities of Management and the Board of Directors awards.

Exhibit 15: BAL's key management personnel

Name (Role)	Biography
Mr Lim Gunawan Hariyanto (Chairman & CEO)	Mr Lim was one of the founders of BAL, and has a distinguished career in the palm oil and mining industry. He was first appointed to BAL's Board on 23 Mar 2012 and re-elected on 22 Apr 2022, and is responsible for the strategic direction of the group. Mr Lim graduated in 1981 with a Bachelor of Business Administration degree from the University of Southern California, USA.
Mr Roebianto (Chief Operating Officer)	Mr Roebianto joined the group in 2003 as General Manager in the Engineering Division of Bumitama Gunajaya Agro, a subsidiary. Since 1 Jan 2004, he has been serving as Chief Operating Officer of the group, and is in charge of leading and coordinating BAL's operational activities, including plantation management, engineering, and human capital. Mr Roebianto graduated with a Bachelor of Civil Engineering degree from the Christian University of Indonesia in 1982.
Mr Sie Eddy Kurniawan (Chief Financial Officer)	Mr Sie joined BAL as Chief Financial Officer on 7 Jan 2013. He is responsible for supervising and coordinating all activities of the group's finance, accounting, and ICT departments. He also oversees the group's strategic and commercial activities. For his sound financial strategy, in addition to being a well-rounded and versatile leader, he was awarded Top 10 Chief Financial Officer in Singapore 2023 by CEO Insights ASIA Magazine. He obtained his Bachelor of Economics degree from Parahyangan Catholic University, Indonesia, in 1994.
Ms Lim Sian Choo (Chief Sustainability Officer)	Ms Lim joined BAL in 2011 as the Group Head of Corporate Secretarial Services and Corporate Social Responsibility, and has served as Chief Sustainability Officer since 27 May 2020. Since 2013, she has been working collectively with various stakeholders, including the Roundtable on Sustainable Palm Oil (RSPO), on various initiatives. Ms Lim obtained a Bachelor of Commerce and Administration degree from Victoria University, Wellington, New Zealand, in 1981. She is a member of the Malaysian Institute of Accountants.

Source: Company; Internal estimates

Corporate History

Exhibit 16: A timeline of key events and milestones

Year	Milestone
1996	Acquired first concession covering 17,500 ha in Central Kalimantan
1998	Commenced planting of first palm oil estate
2003	Commissioned first CPO mill in Central Kalimantan with 45 tonnes per hour (tph) processing capacity
2012	Listed on the Mainboard of the Singapore Exchange in Apr
2013	Listed as Forbes Asia's 200 Best Under a Billion
2014	• Winner of Frost & Sullivan Indonesia's Excellence Award • Awarded first two RSPO certificates and one ISPO certificate • Piloted assessment of peat and forest, pioneering High Carbon Stock Approach (HCSA) methodology in concession areas of over 55,000 ha
2015	Cemented results of 2014 pilot assessment of peat and forest into a No Deforestation, Peat & Exploitation (NDPE)-based sustainability policy, reported through BAL's inaugural sustainability report
2019	• Winner of Most Outstanding Company in Singapore for the Decade (2010-2019) from Asiamoney • Completed over 98% traceability of all FFB to plantation level
2021	• Grossed over IDR10t in revenue for the first time in the company's history • Completed the first methane capture facility attached to the largest capacity mill as part of efforts to reduce greenhouse gas emissions
2022	Conferred with triple Most Outstanding Company in Singapore awards (in the Overall, Small/Mid-Cap, and Consumer Staples categories) by Asiamoney

Source: Company; Internal estimates

SWOT Analysis

We conducted a SWOT analysis to better understand BAL's internal capabilities and external operating environment.

Exhibit 17: BAL's SWOT Analysis

Strengths	Weaknesses
1. **Good asset quality** as majority of BAL's estates are at prime production age 2. **Superior productivity** vis-à-vis peers 3. Strong corporate governance and **best management practices**	1. **Not vertically integrated and well-diversified** 2. **Concentration risk** with two major customers contributing to 78.8% of BAL's FY22 revenue 3. **Constrained by lower planted area** as compared to its SGX-listed peers
Opportunities	**Threats**
1. **Developments in agri-tech** which could result in more productive oil palms, plantation management tools, and/or sustainable solutions 2. **Supportive government policies** that protect the local palm oil sector, which generates ~4.5% of Indonesia's GDP and provides employment to 3m people	1. Weather changes affecting **crop productivity**, such as El Niño and La Niña, as well as pests and diseases 2. **Increasing ESG awareness** could result in a smaller customer base and higher regulatory costs (e.g. to comply with supply chain traceability)

Source: United Nations; Internal estimates

Peer Comparison

We summarised some of the key characteristics of BAL and selected SGX-listed peers with palm oil operations in Indonesia in the table below for ease of comparison. We note that although BAL has the smallest planted area, its plantations are relatively young, and it outshines peers in terms of productivity as measured by processing capacity, FFB yield, CPO yield, and CPO extraction rate.

Exhibit 18: Peer comparison

	Bumitama Agri (BAL)	First Resources (FR)	Wilmar International (WIL)	Golden Agri-Resources (GAR)
Total planted area (k ha)	187 (Nucleus: 131 Plasma: 56)	211 (Nucleus: 176 Plasma: 36)	230	538 (Nucleus: 422 Plasma: 166)
Location of plantations	• West Kalimantan • Central Kalimantan • Riau	• West Kalimantan • East Kalimantan • Riau	• Indonesia • Malaysia • Africa	• Kalimantan • Papua • Sumatra
Average age of plantations (as at 30 Jun 2023)	13	14	13	16
Processing capacity (m tonnes per annum)	6.39	0.4-0.8[1]	2.31	14.4
FY22 FFB yield (mt per matured hectare)	21.4	18.2	21.0	20.3
FY22 CPO yield (mt per matured hectare)	4.8	4.1	N.A.	N.A.
FY22 CPO extraction rate (%)	22.3	22.3	19.5	21.0
Vertically integrated?	No	No	Yes	Yes

Note: (1) Reported by company as 45 to 90 FFB tonnes per hour. Computations assume mills operate 24 hours a day for 365 days a year.
Source: Various companies; Internal estimates

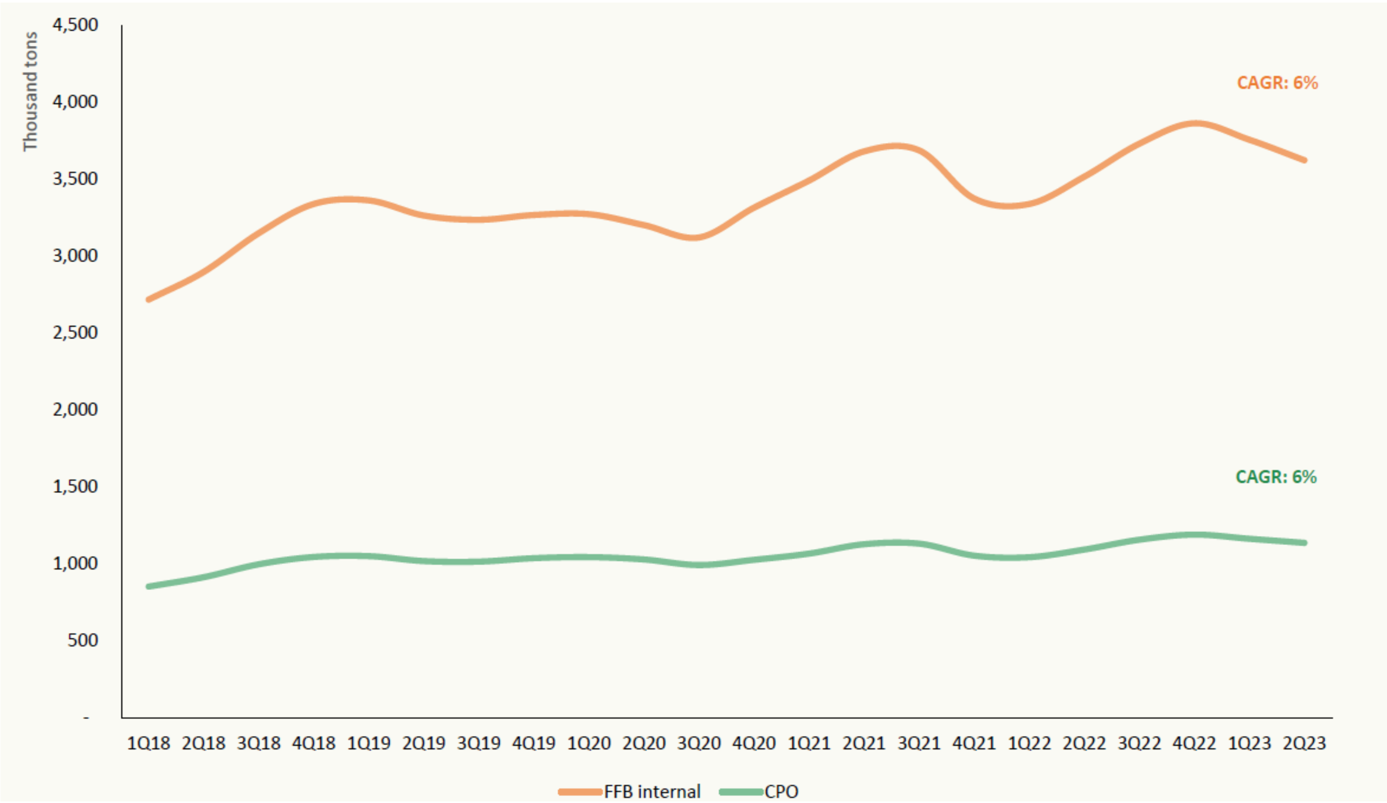
Some reasons for BAL's outperformance in terms of CPO yield vis-à-vis its competitors could be: (i) superior seeds; (ii) higher quality crops as most of the plantations owned by BAL were planted by the company itself (as opposed to acquired from third parties); and (iii) best management practices such as consistent manuring and management of local communities.

Investment Highlights

1) High productivity and well-run estates

BAL's plantations are located in Central and West Kalimantan, as well as Riau – areas with good precipitation and temperatures that are well suited for oil palm cultivation. Majority of BAL's own plantations were planted by the company itself as opposed to acquired from third parties, providing greater assurance about the quality of seeds used and hence the quality of the resultant crops. As at 30 Jun 2023, BAL's plantations had an average age profile of 13 years, with ~97% of its planted area either maturing or in peak productivity, positioning it well to deliver healthy yields in the coming years.

Exhibit 19: BAL's CPO and internal FFB output have been on a steady uptrend



Source: Company

BAL's corporate strategy to focus on maximising its existing plantations has translated to investments in R&D and technology, as well as the adoption of best management practices and best agricultural practices in oil palm cultivation. In turn, this has translated into a set of highly competitive operational metrics, as well as a robust set of financial results. Barring any changes in management's strategy, we expect BAL to continue along this trajectory to maintain above industry average yields.

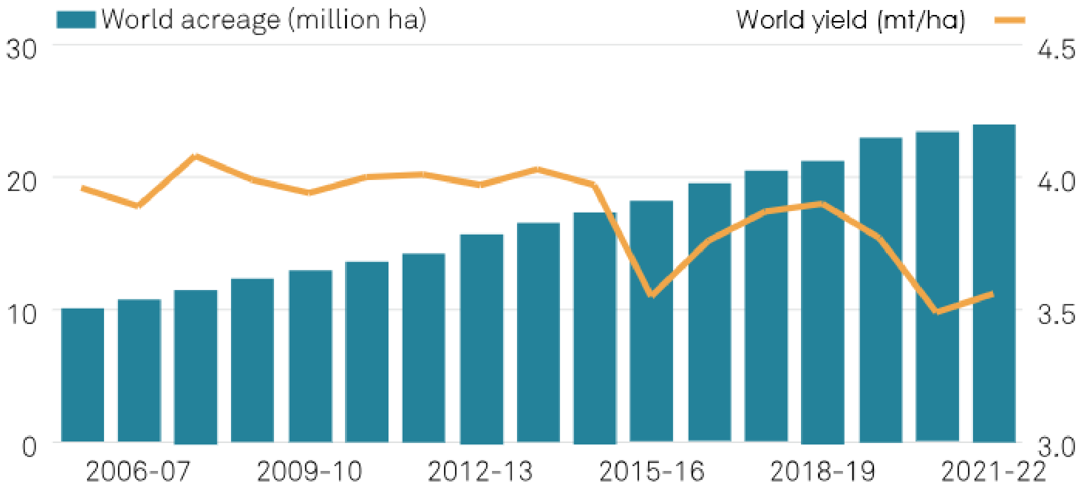
2) Supportive long-term fundamentals of the palm oil industry

We look favourably upon BAL's growth profile as its commitment to increasing productivity should, in our view, allow it to capitalise on supportive long-term fundamentals of the palm oil industry. Despite current CPO price weakness, constrained supply and supported demand should lend some resilience to CPO prices in the longer run as existing inventories are drawn down, benefiting upstream players who are able to maintain healthy yields and capture greater market share.

<u>Constrained supply</u>

Global CPO production is expected to decelerate going forward, as a significant slowdown in palm oil plantation area expansion and insufficient replanting to replace matured oil palms are expected to weigh on yields. According to the Malaysian Palm Oil Board, Malaysia has capped its palm oil plantation area to 6.5m ha, with the actual planted area shrinking to 5.67m ha as at the end of 2022, as urbanisation reclaimed some areas of agricultural land. Uplifting yields will be a challenge as higher input costs and growing ESG awareness discourage new investments and land expansion in the sector.

Exhibit 20: Global palm oil yields are currently down 12% from its peak in 2008



Source: US FAS; Oilworld; Lipsa; S&P Global

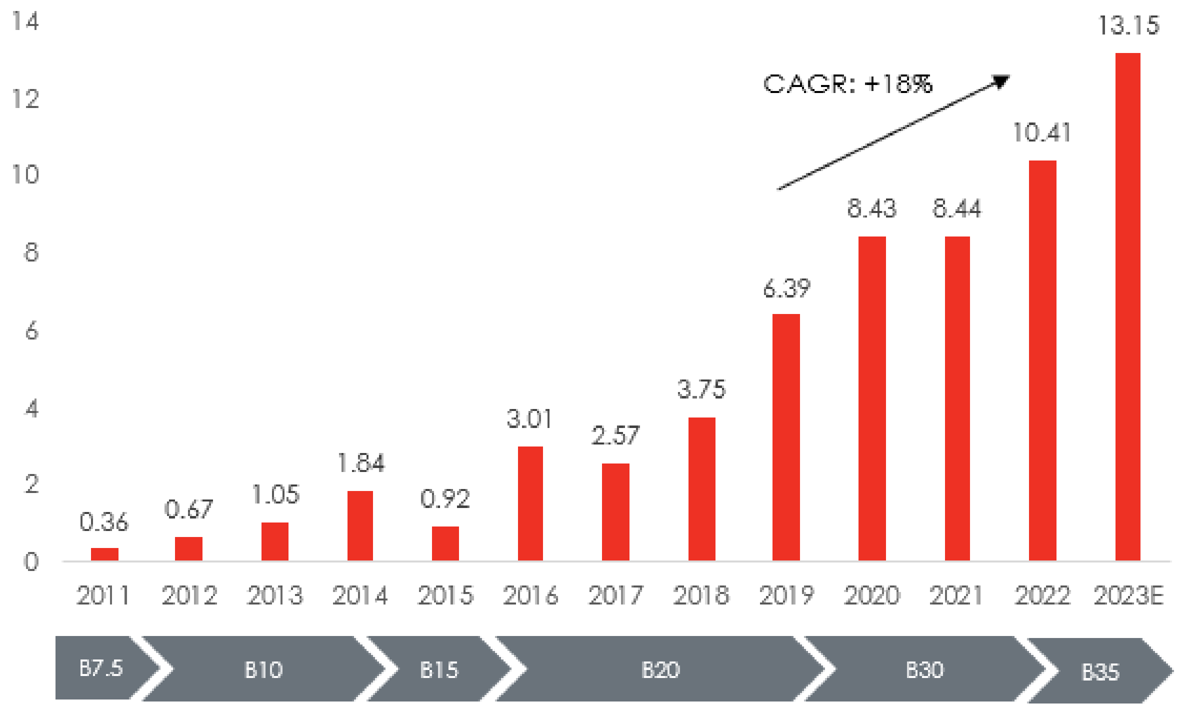
The ongoing El Niño phenomenon could also pose further downside risk to supply. High temperatures and reduced rainfall could stress oil palm and reduce FFB yields eight to 22 months later. That being said, the intensity and impact of this year's El Niño episode remains under debate. The Indonesian Palm Oil Association expects the decline in palm oil production to be less severe as in 2015 and 2019. The Malaysian Palm Oil Board does not expect El Niño to have an impact on production this year, though it might reduce CPO production by 1-3m tonnes in 2024.

<u>Demand supported by biodiesel mandates</u>

Meanwhile, demand for palm oil is expected to remain robust and to shift towards more domestic consumption. There are two sources of demand: (i) regular consumption (e.g. edible oils), which is expected to grow in tandem with the global population and to remain fairly stable given the ubiquitous nature of palm oil; as well as more fast-growing (ii) biodiesel mandates, which not only protect the market for farmers but also allow countries to reduce their greenhouse gas emission intensity by reducing reliance on crude oil.

According to S&P Global, Indonesia's B35 mandate is expected to divert an additional 2m metric tonnes (mt) of palm oil from food products to biodiesel this year. Indonesia is also currently conducting road trials for B40, with wider adoption possibly being implemented in 2025.

Exhibit 21: Indonesia's biodiesel mandate is expected to continue to provide support for CPO consumption

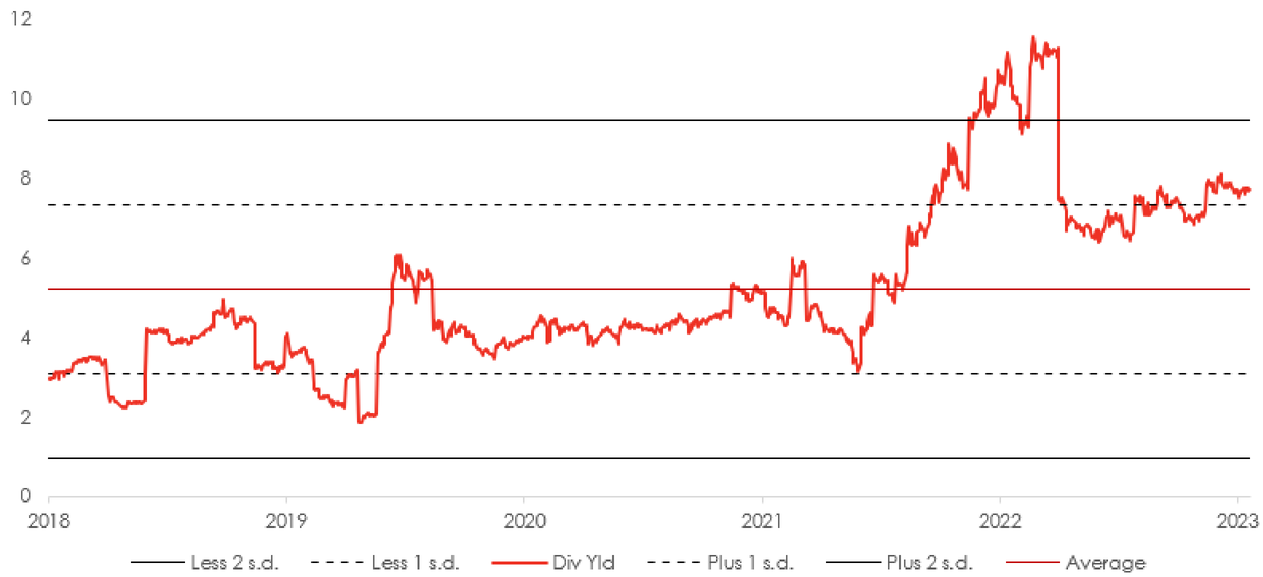


Source: Ministry of Energy & Mineral Resources; Company; Internal estimates

3) Attractive dividend yield

In the current higher-for-longer interest rate environment, BAL offers a relatively attractive forward dividend yield of 7.7% based on consensus estimates on Bloomberg. This represents more than one s.d. above its five-year historical average of 5.2%.

Exhibit 22: Dividend yield chart



Source: Bloomberg; Internal estimates; Data as of 19 Oct 2023

We note that BAL's dividend yield was exceptionally high in FY22 as the company had paid out a special anniversary dividend (representing a 15% payout ratio) during the year. This brought the overall dividend payout ratio for FY22 to 55%, although the company has a dividend payout policy of up to 40% payout ratio. If we were to disregard data from 2022, BAL's current forward dividend yield of 7.7% would represent more than two s.d. above its four-year (2018-2021, 2023) historical average of 4.6%.

Based on our forecasts and the last close price of SGD0.56 as at 18 Oct 2023, we are projecting a dividend yield of 7.1% and 7.3% in FY24 and FY25, respectively, representing a conservative payout ratio of 35%.

Investment Concerns/Risks

1) Regulatory risks

According to the United Nations (UN), palm oil contributes to ~4.5% of Indonesia's gross domestic product (GDP) and provides employment to a sizeable 3 million people. Given its strategic importance, much of the regulations that the Indonesian government has imposed on the sector have been supportive in nature. For example, we discussed Indonesia's biodiesel fuel mandate earlier in this report, which will help to prop up demand and provide a certain level of resilience to CPO prices amidst current market softness.

Last year, Indonesia banned all palm oil exports out of the country for three weeks in order to curb soaring cooking oil prices domestically. More recently in May 2023, the government tweaked its Domestic Market Obligation (DMO) policy to tighten the ratio of palm oil exports from six to four times the volume that producers have sold domestically, which would weigh on the performance of palm oil exporters. BAL was relatively unaffected given that its customers are based in Indonesia. That being said, we are not ruling out the possibility of any future regulations which could negatively impact BAL's operations and financial performance, especially as Indonesia goes into election season in 2024.

2) Cost of compliance with sustainability-related regulations

Separately, the green wave continues to place pressure on the Indonesian government to enact regulations that force the local palm oil industry to adopt sustainable production practices. In 2020, President Widodo signed into law an enhanced Indonesian Sustainable Palm Oil (ISPO) certification system. This means that certification is mandatory for all palm oil companies, including palm oil smallholders, and that the industry will have a grace period of five years until 2025 to achieve ISPO certification. There will also be stronger enforcement, as those who fail to achieve ISPO certification will be sanctioned, including temporary business suspension.

The implementation of programs and technologies for reporting and surveillance purposes (for example, to increase traceability of FFBs to the plantation level) will come at an additional cost to companies. On the other side of the coin, failure to comply with sustainability-related regulations or accusations of greenwashing could hurt the company's reputation and result in boycotts of BAL's products, especially since CPO can be easily substituted through another supplier – thereby having long-term implications on its financial performance.

3) Execution risks

Fertiliser and labour costs make up a substantial proportion of BAL's cost structure, contributing to 25-35% and 30-40% of nucleus plantation costs, respectively. Any execution risks or cost overruns could thus potentially weigh significantly on profitability and margins.

Fertiliser costs have peaked in early 2022 due to scarcity at the onset of the Russia-Ukraine war, though BAL has advised that there is typically a one-year lag in terms of cost impact as the company tenders for its fertiliser stock in advance. Despite management's best plans, fertiliser application may not always be timed perfectly for optimum results. For example, the application of fertiliser prior to a rainy spell would result in runoff loss that is costly to the company in terms of both direct fertiliser expenses and the subsequent reduced impact on FFB yields.

Meanwhile, regulatory reforms could result in higher, unexpected labour costs (such as the 44% jump in Jakarta's minimum wage back in 2013).

Valuation

We apply a FY24E target P/E multiple of 5.7x to value BAL, which represents one s.d. below its average five-year historical forward 12M P/E ratio of 8.3x. After incorporating a slight ESG premium, we obtain a fair value estimate of SGD0.67.

Considering that BAL is currently trading at a forward 12M P/E ratio of 5.5x, which represents more than one s.d. below its five-year historical average, we think current valuations could present an attractive entry point for long-term investors looking to lock in a higher-than-average dividend yield. However, we caution that investors will need to remain patient with the stock in the near term, as the industry tides through the current period of softness in CPO prices.

A note on ESG

The palm oil industry has long attracted much scrutiny and controversy, due to its links with deforestation, forced labour, and conflict with local communities. Oil palm grows optimally in humid, tropical regions, often competing with biodiverse and carbon-rich ecosystems like rainforest for land. There have also been social concerns such as intimidation of smallholder farmers, forced evictions, forced / child labour, and violations of workers' rights.

From a food security and conservation perspective, however, a complete boycott of CPO will not be practical. Palm oil is the most efficient crop for producing vegetable oil, with a yield of 3-4 times that of alternatives such as soybean, rapeseed, and canola oil. Consequently, a ban on CPO may lead to more land being devoted to vegetable oil production, thereby threatening other natural ecosystems and communities. This would also negatively affect the livelihoods of millions of workers and their families.

Instead, companies, governments, and consumers can push for palm oil to be produced more sustainably. The RSPO was formed in 2004 for this purpose, to set best practices for producing and sourcing palm oil, and to encourage companies to set robust policies to remove deforestations, conversion of other natural ecosystems, and human right abuses from their supply chains.

To that end, BAL has made considerable, steady progress in its sustainability journey over the past decade. This includes developing a satellite monitoring system to assess land cover changes in the company's and suppliers' areas to prevent non-compliant deforestation or land conversion, expanding its independent smallholder and outgrower productivity support program, and supporting smallholders towards RSPO certification, amongst other initiatives. As at the end of 2022, 9 out of 15 of BAL's mills and more than a third (66,671 ha) of plantation area were RSPO-certified.

According to the company, BAL remains on track to achieve a 30% reduction in greenhouse gas emissions intensity by 2030. In 2022, BAL's mills released 1.41 tonnes of carbon dioxide equivalent per tonne of CPO produced (MT CO_2e/MT CPO), representing a 13.5% decrease from its 2016 baseline of 1.63 MT CO_2e/MT CPO. While there is always more that palm oil producers can do, BAL is taking steps in the right direction, in our view.

Exhibit 23: BAL's key sustainability achievements and goals

Topic	Status as of December 2022	Target
Forest conservation	Forest coverage percentage increased by 3% (or 1,434 hectares) from the 2020 baseline	Increase percentage of forest cover by 10% (or 3,761 hectares) from 2020 baseline by 2025
Biodiversity management	Partnership with PONGO Alliance and key stakeholders to develop new approach to managing orangutan populations	Ongoing protection and increase of orangutan populations in Kalimantan especially in Ketapang, West Kalimantan
GHG reduction and climate adaptation	GHG emissions intensity reduced by 13.5% from 2016 baseline First methane capture facility commissioned in Riau 13 composting facilities installed	Reduce GHG emissions intensity by 30% from 2016 baseline by 2030 Install methane capture and biogas facilities at 15 palm oil mills by 2029
Health and safety	36% lower lost time accident rates and severity rates than in 2020 Need improvement, with 3 work-related fatal accidents in 2022	Reduce accident rates by 75% from 2020 baseline by 2025 Continually achieve zero fatalities
Gender and equal opportunities	19 breastfeeding facilities set up	Make breastfeeding facilities available in all operational areas
Capacity development	Each employee received 17 hours of training on average	Maintain annual training duration per employee at 13 hours
Community development	Partnered with 6 villages covering 14,715 ha through social forestry partnerships	Support communities via social forestry partnerships covering more than 15,000 ha
Traceability and supply chain monitoring	99.6% products traceable to plantation	100% traceability for FFB from smallholders and external suppliers by 2023
Regulatory compliance	Zero cases of legal non-compliance	Maintain compliance with regulations and timely reporting
Transparency and accountability	Conducted preliminary assessment on TCFD recommendations	Implementation of climate related initiatives and reporting on targets and progress in accordance with the TCFD by 2024

Source: Company's FY22 Annual Report

Company overview (as of 18 October 2023)

Company description

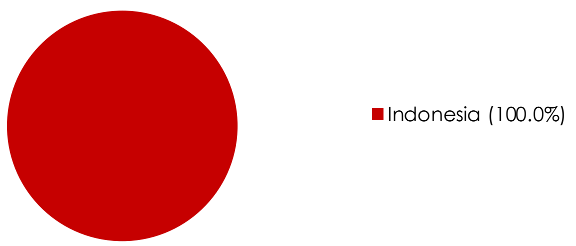
Founded by the Harita Group in 1996, Bumitama Agri Ltd. (BAL) is a leading producer of crude palm oil (CPO) and palm kernel (PK) in Indonesia. The company is principally engaged in the cultivation of oil palm trees, and also harvests and processes fresh palm fruit bunches (FFB) into CPO and PK.

As at the end of 2022, BAL had oil palm plantations covering a total planted area of approximately 187,628 hectares spread across the Indonesian provinces of Central Kalimantan, West Kalimantan, and Riau. It also operates 15 mills, comprising nine mills in Central Kalimantan, five mills in West Kalimantan, and one in Riau.

BAL listed on the Singapore Exchange in 2012. It has won numerous accolades including Forbes Asia's 200 Best Under a Billion in 2013, Frost & Sullivan Indonesia's Experience Award in 2014, Most Outstanding Company in Singapore for the Decade (2010-2019) in 2019 from Asiamoney, and triple Most Outstanding Company in Singapore awards (in the Overall, Small/Mid-Cap, and Consumer Staple categories) by Asiamoney in 2022.

FY22 Revenue breakdown

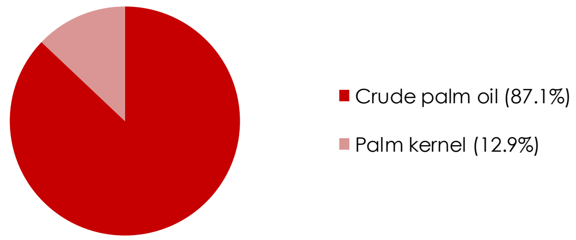
By geography



Source: Company, Internal estimates

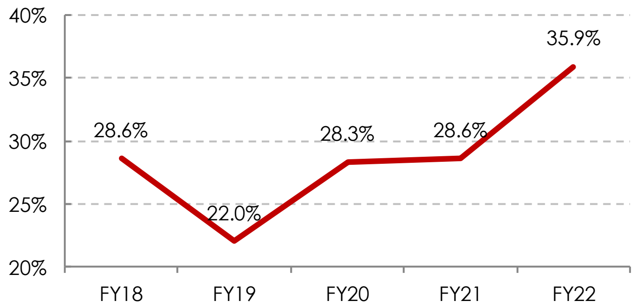
FY22 Revenue breakdown

By segment



Source: Company, Internal estimates

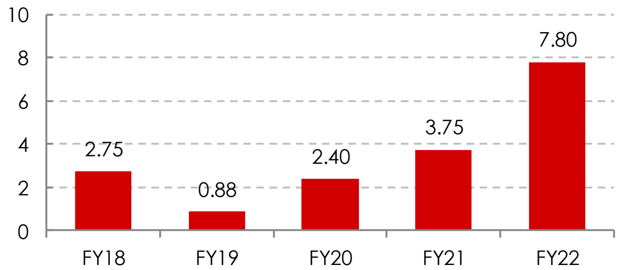
EBITDA margin trend



Source: Company, Internal estimates

Dividends per share

S cents



Source: Company, Internal estimates

Company financials

Income Statement

In Millions of IDR except Per Share 12 Months Ending	FY2018 31/12/2018	FY2019 31/12/2019	FY2020 31/12/2020	FY2021 31/12/2021	FY2022 31/12/2022
Revenue	**8,377,370.0**	**7,691,341.0**	**9,101,746.0**	**12,248,630.0**	**15,829,281.0**
- Cost of Revenue	5,990,133.0	5,958,249.0	6,575,599.0	8,791,975.0	10,096,426.0
Gross Profit	**2,387,237.0**	**1,733,092.0**	**2,526,147.0**	**3,456,655.0**	**5,732,855.0**
+ Other Operating Income	--	--	--	--	--
- Operating Expenses	589,844.0	646,169.0	569,829.0	597,465.0	902,425.0
Operating Income or Losses	**1,797,393.0**	**1,086,923.0**	**1,956,318.0**	**2,859,190.0**	**4,830,430.0**
- Interest Expense	199,804.0	240,140.0	178,955.0	153,309.0	130,443.0
- Foreign Exchange Losses (Gains)	--	--	--	--	--
- Net Non-Operating Losses (Gains)	-107,699.0	-346,383.0	-153,177.0	-157,706.0	129,410.0
Pretax Income	**1,705,288.0**	**1,193,166.0**	**1,930,540.0**	**2,863,587.0**	**4,570,577.0**
- Income Tax Expense (Benefit)	409,950.0	352,825.0	568,135.0	774,210.0	1,171,708.0
Income Before XO Items	**1,295,338.0**	**840,341.0**	**1,362,405.0**	**2,089,377.0**	**3,398,869.0**
- Extraordinary Loss Net of Tax	--	--	--	--	--
- Minority/Non Controlling Interests (Credits)	198,258.0	154,028.0	236,012.0	368,010.0	572,759.0
Net Income/Net Profit (Losses)	**1,097,080.0**	**686,313.0**	**1,126,393.0**	**1,721,367.0**	**2,826,110.0**
Net Inc Avail to Common Shareholders	**1,097,080.0**	**686,313.0**	**1,126,393.0**	**1,721,367.0**	**2,826,110.0**
Abnormal Losses (Gains)	--	--	--	--	--
Tax Effect on Abnormal Items	--	--	--	--	--
Normalized Income	**1,331,538.3**	**826,321.3**	**1,344,275.3**	**2,029,498.7**	**3,463,906.4**
Basic Earnings per Share	**626.6**	**392.4**	**644.9**	**985.5**	**1,618.0**
Basic Weighted Avg Shares	1,750.9	1,749.2	1,746.6	1,746.6	1,746.7
Diluted EPS Before Abnormal Items	**626.6**	**392.4**	**644.9**	**985.5**	**1,618.0**
Diluted EPS Before XO Items	**626.6**	**392.4**	**644.9**	**985.5**	**1,618.0**
Diluted EPS	**626.6**	**392.4**	**644.9**	**985.5**	**1,618.0**
Diluted Weighted Avg Shares	1,750.9	1,749.2	1,746.6	1,746.6	1,746.7

Profitability Ratios

FY2018 12 Months Ending	FY2018 31/12/2018	FY2019 31/12/2019	FY2020 31/12/2020	FY2021 31/12/2021	FY2022 31/12/2022
Returns					
Return on Common Equity	14.42	8.66	13.18	17.82	24.80
Return on Assets	8.14	4.95	7.64	11.63	18.09
Return on Capital	23.90	22.38	20.79	20.80	20.02
Return on Invested Capital	38.07	27.67	22.44	22.42	21.83
Margins					
Operating Margin	21.46	14.13	21.49	23.34	30.52
Incremental Operating Margin	1.00	0.66	1.52	1.09	1.31
Pretax Margin	20.36	15.51	21.21	23.38	28.87
Income before XO Margin	13.10	8.92	12.38	14.05	17.85
Net Income Margin	13.10	8.92	12.38	14.05	17.85
Net Income to Common Margin	13.10	8.92	12.38	14.05	17.85
Additional					
Effective Tax Rate	24.04	29.57	29.43	27.04	25.64
Dvd Payout Ratio	46.30	23.16	39.56	40.19	40.71
Sustainable Growth Rate	14.35	8.64	13.12	17.75	24.70

Credit Ratios

12 Months Ending	FY2018 31/12/2018	FY2019 31/12/2019	FY2020 31/12/2020	FY2021 31/12/2021	FY2022 31/12/2022
Total Debt/EBIT	2.83	6.30	3.11	1.49	0.68
Net Debt/EBIT	2.67	5.83	2.70	1.43	0.51
EBIT to Interest Expense	9.23	4.44	10.79	18.11	37.70
Long-Term Debt/Total Assets	5.65	34.95	31.40	23.43	16.47
Net Debt/Equity	0.79	0.94	0.75	0.55	0.36

Source: Refinitiv

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