

September 15, 2022



Research Center

Morning KISI/

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Plantation

Expecting a slide

Softer price entering the last 4 months of FY22

The global palm oil price rally has slowed down after reaching a record high in the 1H22. We believe that this is mainly driven by Indonesia's initiative to reduce its high inventory level by rising the DMO multiplication to 1:9 (previously at 1:7) and to boost export by giving incentives for palm oil exporters in the form of export levy exemption. **We are sticking to our FY22F CPO price assumption at MYR5,000/MT**, meaning that CPO prices for the last 4 months in FY22 will stay at approximately MYR3,800/MT considering 1) **the ample production of overall vegetable oil** from seasonality peak harvest coupled with overall good weather in 2020 and 2021 due to gradual absence of La Nina's impact, 2) downward price pressure from **high CPO inventory level in Indonesia and Malaysia**, and 3) **impaired palm oil import demand from China** as the country is facing a prolonged lockdown.

Lower export duty threshold to impact 8-13% FY23F earnings

Ministry of Finance adjusted the floor and ceiling price of export tax duty to <USD680/MT (from <USD750/MT) and >USD1,430/MT (from >USD1,500/MT), respectively. This regulation was effective from 9Aug2022 and we would see lower revenue and earnings performance for CPO players under our coverage starting 2023. Assuming that the government does not change the export levy rate in 2023 and using our price before tax assumption of MYR3,500/MT in FY23, **we would see 8-13% lower earnings performance for CPO players** under our coverage starting FY23F given the new tax regulations. Subsequently, we projected a **~11% lower ASP (net of tax) for FY23F at MYR3,100/MT (-18% YoY)**.

Sufficient biodiesel fund amid export levy exemption extension

We calculate that biodiesel fund collected from the export levy amounted to ~IDR37tn in 1H22 and fund needed to cover the price spread between domestic CPO price and oil price stood around ~IDR26tn in the same period. On July22, we finally see that the price spread has flattened to only IDR124/lt due to the normalizing domestic CPO price and we estimate the fund needed on 2H22F will decrease to around IDR5-9tn. There should be **no problem to run the biodiesel B35 program should the government decide to extend the export levy exemption until end of 2022**.

Downgrade to Neutral call on the sector

We downgraded our sector call to **Neutral** with preference to CPO players with 1) younger plantation portfolio as it would provide a strong volume growth entering prime age to offset the lower CPO prices in FY23F and going forward, 2) awareness towards ESG, and 3) strong ROE generation. We have a buy call on TAPG, SSMS, and DSNG and hold call on LSIP and AALI.

Company	Bloomberg Ticker	PE (x)		PBV (x)		ROE		EV/EBITDA (x)	
		FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Astra Agro	AALI IJ	10.5	17.0	0.7	0.7	15.9	4.2	3.5	7.8
London Sumatra	LSIP IJ	8.1	10.2	0.9	0.8	9.4	7.1	3.2	3.1
Dharma Satya N	DSNG IJ	5.4	6.3	0.7	0.6	13.0	10.0	4.9	5.1
Triputra Agro P	TAPG IJ	4.8	7.5	1.5	1.3	31.0	17.8	3.0	4.8
Sawit Sumbermas	TAPG IJ	4.5	6.2	1.5	1.4	38.0	22.9	4.2	5.4

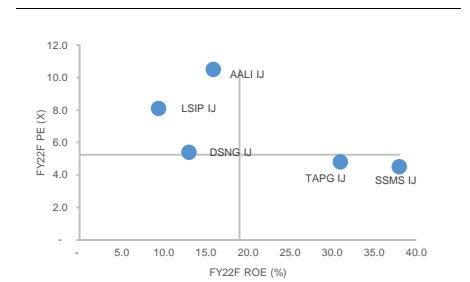
Sector Update

Plantation

9 September 2022

Neutral (Downgrade)

Company	Rating	TP (IDR)
AALI	HOLD	8310
DSNG	BUY	650
LSIP	HOLD	1300
SSMS	BUY	1780
TAPG	BUY	1100



Source: KISI, Company

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Market Commentary

Market Commentary

- JCI snapped its upbeat to end 40 points lower on Wednesday, as the carnage sparked by hotter-than-expected US inflation prompted investors to reassess the outlook for interest rates and economic growth.
- JCI start with a sharp fall as tech and big cap stocks dragged the index lower, while commodity stocks were relatively resilient as a steady commodity price build investors' confidence.
- RUPIAH +0.37% at 14.908 against USD.
- The index was weighed down by Basic Materials, Industrials, Financials, and Tech stocks. While Energy and some Consumer stocks remain elevated.
- GOTO IJ -1.45% led other tech stocks lower and join the global tech' stocks rout amid fears of aggressive rate hikes. BUKA IJ -2.07%, WIRG IJ -5.41%, EMTK IJ -0.55%.
- Big cap stocks were mixed and mostly edged lower after sharp losses in the opening as investors reassess the outlook for interest rates and economic growth amid persistent price pressure. TLKM IJ -0.88%, BBKA IJ -0.29%, ASII IJ -0.69%, BBRI IJ 0.00%.
- Some energy and metal stocks extended their gains amid a relatively steady commodity price and a stronger dollar helped to convince investors. ADMR IJ +10.11%, HRUM IJ +4.17%, MEDC IJ +3.72%, AKRA IJ +9.56%.
- Top value were: BUMI IJ -3.92%, BBKA IJ -0.29% IJ, BBRI IJ 0.00
- Tpo Gainers: ADMR (+10.11%), AKRA (+9.56%), AMRT (+1.35%)
- Top Losers: BMRI (-1.59%), GOTO (-1.45%), TLKM (-0.88%)

News

Macroeconomic, Sector and Corporate News

- Electric vehicles – President released Presidential Instruction (Inpres) no.7/2022, which ordered both central & regional government to switch to EVs as official vehicles. (Kontan)
- TINS – Targets to complete construction of TSL Ausmelt Furnace smelter with 40k crude tin p.a. capacity on Nov2022. (Kontan)
- BBTN – Recorded 1H22 net profit of IDR1.47tn, +60% YoY, 50%/52% of our/cons FY22 ests; received approval for IDR2.48tn capital injection from gov't (PMN). (Bisnis)
- JSMR – 1H22 toll road traffics were at 94-96% of pre-pandemic level and estimates traffic increase by 12-14% by end of 2022. (Kontan)
- DMMX – Enters into F&B business with collaboration with PT Trans F&B in the form of cloud content management system solution. (Bisnis)
- BBRI – Indicates more than 70% dividend payout ratio for the next 4 years. (Investor daily)

Outliers

Outlier Stocks

- Sharp Movers (Up) : OBMD (+24.7%), WAPO (+21.9%), OPMS (+18.8%)
- Sharp Movers (Down) : BEBS (-6.8%), ASHA (-6.6%), KREN (-6.6%)

Mon	Tue	Wed	Thu	Fri
			1	2
			Korea> 2Q22 GDP (P) August exports and imports US> New jobless claims August ISM manufacturing PMI China> August Caixin manufacturing PMI	Korea> August CPI US> August non-farm payrolls August jobless rate July durable goods orders (F)
5	6	7	8	9
US> Market closed (Labor day) China> August Caixin services PMI	US> August ISM services PMI	US> Fed Beige Book release MBA mortgage applications July trade balance Europe> 2Q22 GDP (F) China> August exports and imports August trade balance August FX reserves	US> New jobless claims Europe> ECB MPC meeting Japan> 2Q22 GDP (F)	Korea> Market closed (Chuseok) China> August PPI August CPI
12	13	14	15	16
OECD leading economic index Korea> Market closed (Chuseok) China> Market closed (Mid-autumn festival)	The OPEC Monthly Oil Market Report US> August CPI	US> MBA mortgage applications August PPI Japan> July mining and manufacturing production (F)	US> New jobless claims September manufacturing index (New York) August retail sales August mining and manufacturing production August facility utilization	Korea> August unemployment rate US> September Michigan Consumer Confidence (P) Europe> August CPI (F) China> August mining and manufacturing production August fixed asset investment August retail sales
19	20	21	22	23
Japan> Market closed (Respect for the Aged Day)	US> August housing starts Japan> August CPI	US> FOMC meeting MBA mortgage applications August existing home sales	US> New jobless claims	Japan> Market closed (Autumnal Equinox Day)
26	27	28	29	30
	US> August durable goods orders (P) September Conference Board Consumer Expectations Index August new home sales	US> MBA mortgage applications	US> New jobless claims 2Q22 GDP	Korea> August mining and manufacturing production US> September Michigan Consumer Confidence (F) August PCE Europe> September CPI (P) China> September manufacturing PMI September services PMI Japan> August mining and manufacturing production (P)

Note: 1) Figures in parentheses represent the latest reported figures, Bloomberg estimates and previous reported figures in that order. For example: Data (actual reported figures, Bloomberg estimate, previous reported figures). Bloomberg estimates are subject to change 2) Earnings release date is from Bloomberg or company announcement