

# PP London Sumatra Plantation (LSIP)

Banking on recovery

25 August 2022



<b>LSIP IJ</b>	<b>BUY</b>
Sector	CPO
Price at 24 Aug 2022 (Rp)	1,190
Price target (Rp)	1,610
Upside/Downside (%)	35.3

## Stock Information

PP London Sumatra Plantation is an Indonesian plantation company whose primary activities are plant breeding, planting, harvesting, processing and the selling of palm products, rubber, oil palm seeds, cocoa and tea.

Market cap (Rp bn)	8,814
Shares outstanding (mn)	6,820
52-week range (Rp)	1,065-1,535
3M average daily vol. ('000)	13,003
3M average daily val. (Rp mn)	16,092

## Shareholders (%)

SIMP	59.5
Public	40.4

## Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(2.4)	(10.8)	6.2

- LSIP's 1H22 net profit grew 9.5% YoY to Rp548.8bn (-19.9% QoQ in 2Q22)
- We expect LSIP to book revenue and net profit of Rp4.2tn and Rp958bn in 2022, respectively
- We reiterate our "BUY" call with 35% upside potential on a 12-month view on strong ASP

## Strong YoY performance despite below expected QoQ result

LSIP booked a net profit of Rp548.8bn in 1H22, growing 9.5% YoY (-19.9% QoQ). This accounts 57.3% of our FY estimate. Meanwhile, its revenue came in at Rp2,05tn in 1H22 or dropped 6.0% YoY (+67.6% QoQ), represents 48.4% of our forecast. Gross margin expanded from 34.7% in 1H21 to 41.0% in 1H22 as COGS tumbled 15.1% YoY. LSIP's operating expenses increased 29.7% YoY in 1H22 as a result from loss on impairment of bearer plants, that was partly offset by incomes of royalty from land usages. This brought LSIP's operating margin to increase from 28.0% in 1H21 to 31.8% in 1H22. On the other side, finance income edged up 30.8% YoY to Rp34.9bn in 1H22 thanks to higher cash balance. On balance sheet front, LSIP maintained its net cash position in 1H22.

## Dragged by the impact of challenging weather

The company's lower revenue in 1H22 was mainly caused by soft sales volume that shrunk 36.1% YoY in to 108,000 MT due to unsupportive weather at the beginning of 2022 amid replanting efforts that hampered CPO production, declining 23% YoY to 127,000 MT. This was also in line with lower FFB production by 21% YoY to 587,000 MT in 1H22. However, on quarterly basis, CPO sales volume was up 127.3% in 2Q22 in line with increased production. In contrast, CPO ASP soared 45.9% YoY to MYR4,413.2/MT, although it was relatively stable QoQ. Furthermore, PK ASP also increased 34.8% YoY to MYR3,081/MT (-27.0% QoQ). Nevertheless, PK sales volume plunged 34.0% YoY to 31,000 MT, in line with lower production volume by 21.0% YoY in 1H22.

## Counting on strong demands

We expect LSIP's revenue and net profit of Rp4.2tn and Rp958bn in 2022, respectively. However, we assume CPO sales volume to lower to 230,000 MT in line with reduced production as the impact of challenging weather in 1Q22 still looms. Meanwhile, we expect CPO ASP to be higher YoY at MYR 4,100/MT as demands are expected to remain strong in the wake of Diwali festival and anticipated dry season in rapeseed producing countries in 3Q-4Q. In addition, government also plans to upgrade biodiesel policy to B35 or B40 in near future. However, we note that supply of sunflower oil from Ukraine is likely to increase as Russia eases sea blockade that may limit CPO price hikes. Furthermore, we are bullish that government's policy to revert DMO-DPO CPO policy and possibility to extend BPDKS levy free will generally benefit producers.

## Reiterate BUY on the back of strong ASP and robust balance sheet

We maintain our BUY call with a lower DCF-based price target of Rp1,610/share. The stock is currently traded at a 2022F PER of 11.5x and EV/EBITDA of 3.8x. We highlight several paramount catalysts, namely 1) continued replanting program that will increase productivity in the long run; 2) higher ASP YoY in line with strong global demand and tight supply amid recovery; and 3) robust balance sheet and 4) high energy prices. Meanwhile, we note several downside risks to our recommendation, including 1) higher supplies of edible oil that may help bring down CPO price; 2) challenging weather; and 3) aggressive monetary tightening.

## Key Statistics

Year end Dec	2020A	2021A	2022F	2023F	2024F
Revenue (Rp bn)	3,537	4,525	4,227	3,877	3,864
Gross profit (Rp bn)	1,076	1,808	1,761	1,535	1,567
Operating profit (Rp bn)	816	1,191	1,218	957	971
EBITDA (Rp bn)	1,190	1,882	1,778	1,547	1,572
EBITDA margin	41.6%	42.1%	39.9%	40.7%	48.2%
Net profit (Rp bn)	696	991	958	760	770
Net profit margin	19.7%	21.9%	22.7%	19.6%	19.9%
EPS (Rp)	102.1	145.3	140.5	111.4	113.0
ROAA	6.6%	8.7%	7.8%	5.8%	5.6%
ROAE	7.8%	10.2%	9.1%	6.7%	6.4%
EV/EBITDA (x)	5.7	3.6	3.8	4.4	4.3
PER (x)	15.8	11.1	11.5	14.5	14.3
PBV (x)	1.2	1.1	1.0	0.9	0.9

## Analyst

Devi Harjoto

# PP London Sumatra Plantation (LSIP)

## LSIP's Financial Overview

Consolidated Statements of Profit or Loss (Rp bn)	1H21	1H22	YoY Change	1Q22	2Q22	QoQ Change
Revenue	2,177	2,047	(6.0%)	765	1,282	67.6%
Cost of revenue	(1,422)	(1,208)	(15.1%)	(325)	(882)	171.5%
Gross profit	755	840	11.2%	440	400	(9.1%)
Gross profit margin (%)	34.7%	41.0%		57.5%	31.2%	
Operating expenses	(145)	(188)	29.7%	(78)	(110)	41.2%
Operating profit	610	651	6.8%	362	290	(19.9%)
Operating profit margin	28.0%	31.8%		47.3%	22.6%	
EBITDA	911	948	4.1%	526	422	(19.8%)
EBITDA margin	41.8%	46.3%		68.8%	32.9%	
Other income/ expenses	21	36	74.9%	18	18	(0.5%)
Profit before tax	630	687	9.1%	380	308	(19.0%)
Income tax expenses	(129)	(139)	7.5%	(75)	(64)	(15.5%)
Net profit	501	549	9.5%	304	244	(19.8%)
Net profit margin	23.0%	26.8%		39.8%	19.0%	

Source: Company, KB Valbury Sekuritas

## LSIP's operational overview

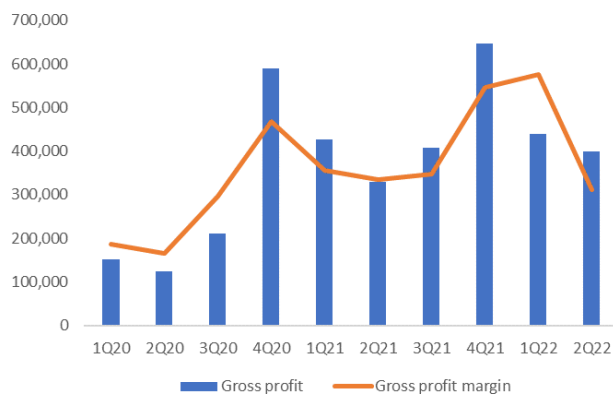


Exhibit 1. LSIP's historical gross profit and GPM

Source: Companies, KB Valbury Securities

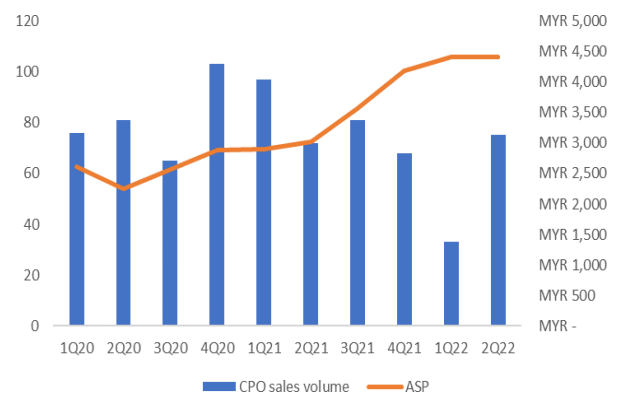


Exhibit 2. CPO sales and ASP

Source: Companies, KB Valbury Securities

## LSIP's productions

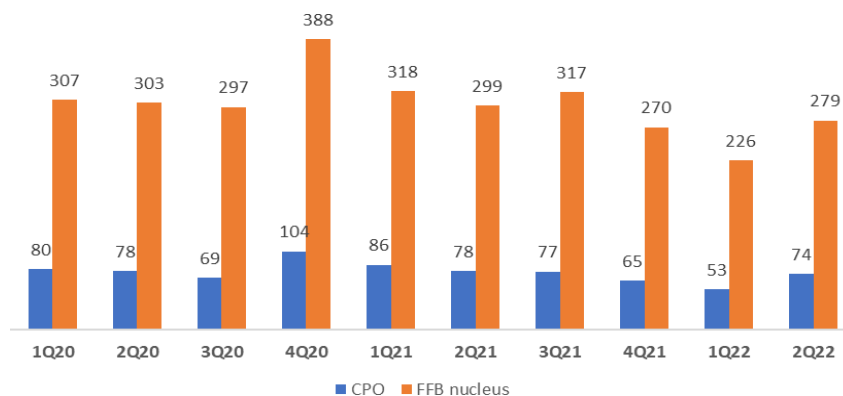


Exhibit 3. CPO and FFB nucleus productions QoQ

Source: Companies, KB Valbury Securities

# PP London Sumatra Plantation (LSIP)

## FINANCIAL TABLES

### CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
<b>Revenue</b>	<b>3,537</b>	<b>4,525</b>	<b>4,227</b>	<b>3,877</b>	<b>3,864</b>
Cost of revenue	(2,461)	(2,717)	(2,467)	(2,341)	(2,297)
<b>Gross profit</b>	<b>1,076</b>	<b>1,808</b>	<b>1,761</b>	<b>1,535</b>	<b>1,567</b>
<b>Gross profit margin</b>	<b>30.4%</b>	<b>40.0%</b>	<b>41.6%</b>	<b>39.6%</b>	<b>40.5%</b>
Operating expenses	(260)	(617)	(543)	(579)	(595)
<b>Operating profit</b>	<b>816</b>	<b>1,191</b>	<b>1,218</b>	<b>957</b>	<b>971</b>
<b>Operating profit margin</b>	<b>23.1%</b>	<b>26.3%</b>	<b>28.8%</b>	<b>24.7%</b>	<b>25.1%</b>
<b>EBITDA</b>	<b>1,190</b>	<b>1,882</b>	<b>1,778</b>	<b>1,547</b>	<b>1,572</b>
<b>EBITDA margin</b>	<b>33.6%</b>	<b>41.6%</b>	<b>42.1%</b>	<b>39.9%</b>	<b>40.7%</b>
Net. other income/ expenses	44	56	61	58	57
Pretax profit	860	1,247	1,279	1,014	1,028
Income tax	(165)	(256)	(320)	(254)	(257)
<b>After tax profit</b>	<b>696</b>	<b>991</b>	<b>958</b>	<b>760</b>	<b>770</b>
<b>Net profit margin</b>	<b>19.7%</b>	<b>21.9%</b>	<b>22.7%</b>	<b>19.6%</b>	<b>19.9%</b>

Source: Company, KB Valbury Sekuritas

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
<b>Current assets</b>					
Cash and cash equivalents	1,959	3,368	4,214	4,771	5,442
Trade receivables	214	172	195	213	194
Inventories	364	368	327	332	315
Other current assets	383	400	403	413	421
<b>Total current assets</b>	<b>2,920</b>	<b>4,308</b>	<b>5,139</b>	<b>5,730</b>	<b>6,371</b>
<b>Non-current assets</b>					
Fixed assets	6,313	5,827	5,885	5,944	5,944
Other non-current assets	1,689	1,717	1,732	1,757	1,782
<b>Total non-current assets</b>	<b>8,003</b>	<b>7,543</b>	<b>7,617</b>	<b>7,701</b>	<b>7,726</b>
<b>Total assets</b>	<b>10,923</b>	<b>11,851</b>	<b>12,756</b>	<b>13,431</b>	<b>14,098</b>
<b>Current liabilities</b>					
Trade payables	164	212	289	295	284
Taxes payables	121	143	146	149	152
Accrued expenses	35	13	11	12	12
Short term finance liability	3	5	5	5	5
Other current liabilities	274	323	318	326	333
<b>Total current liabilities</b>	<b>597</b>	<b>697</b>	<b>770</b>	<b>787</b>	<b>787</b>
<b>Non-current liabilities</b>					
Lease liabilities	0	4	4	4	4
Other non-current liabilities	1,636	1,675	1,765	1,794	1,806
<b>Total non-current liabilities</b>	<b>1,636</b>	<b>1,679</b>	<b>1,769</b>	<b>1,798</b>	<b>1,810</b>
<b>Shareholders' equity</b>	<b>9,286</b>	<b>10,173</b>	<b>10,987</b>	<b>11,633</b>	<b>12,288</b>
<b>Total liabilities and equity</b>	<b>10,923</b>	<b>11,851</b>	<b>12,756</b>	<b>13,431</b>	<b>14,098</b>

Source: Company, KB Valbury Sekuritas

# PP London Sumatra Plantation (LSIP)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net profit	696	991	958	760	770
Depreciation & amortization	380	373	351	355	357
Changes in working capital	226	120	88	(16)	29
<b>CF from operating activities</b>	<b>1,302</b>	<b>1,484</b>	<b>1,397</b>	<b>1,098</b>	<b>1,156</b>
Investment in fixed assets	(382)	114	(410)	(414)	(357)
Others					
<b>CF from investing activities</b>	<b>(349)</b>	<b>87</b>	<b>(425)</b>	<b>(439)</b>	<b>(382)</b>
Dividends paid	(102)	(136)	(144)	(114)	(116)
Debts raised/repaid	3,360	1,356	236	(148)	96
Others	(23)	(30)	17	13	12
<b>CF from financing activities</b>	<b>(122)</b>	<b>(161)</b>	<b>(127)</b>	<b>(102)</b>	<b>(104)</b>
<b>Free cash flows</b>	<b>831</b>	<b>1,409</b>	<b>846</b>	<b>558</b>	<b>671</b>
<b>Cash and cash equivalents, beginning</b>	<b>1,128</b>	<b>1,959</b>	<b>3,368</b>	<b>4,214</b>	<b>4,771</b>
<b>Cash and cash equivalents, ending</b>	<b>1,959</b>	<b>3,368</b>	<b>4,214</b>	<b>4,771</b>	<b>5,442</b>

Source: Company, KB Valbury Sekuritas

## RATIO ANALYSIS

Year End Dec	2020A	2021A	2022F	2023F	2024F
Gross profit margin	30.4%	40.0%	41.6%	39.6%	40.5%
Operating profit margin	23.1%	26.3%	28.8%	24.7%	25.1%
EBITDA margin	33.6%	41.6%	42.1%	39.9%	40.7%
Net profit margin	19.7%	21.9%	22.7%	19.6%	19.9%
Receivables turnover (x)	12.17	23.41	23.00	19.00	19.00
Inventory turnover (x)	7.0	7.4	7.1	7.1	7.1
ROAA	6.58%	8.71%	7.79%	5.80%	5.60%
ROAE	7.83%	10.19%	9.06%	6.72%	6.44%
ROIC	9.49%	14.55%	14.13%	11.06%	11.24%
Debt/ Equity	0.0%	0.1%	0.1%	0.1%	0.1%
Net debt/Equity (x)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Net debt/ EBITDA (x)	(1.6)	(1.8)	(2.4)	(3.1)	(3.5)
Sales/asset turnover (x)	0.33	0.40	0.34	0.30	0.28
Dividend per share (Rp)	1.9%	1.5%	2.0%	2.1%	1.7%
EPS (Rp)	37.2	102.1	145.3	140.5	111.4

Source: Company, KB Valbury Sekuritas

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