

# Tunas Baru Lampung

Sector: Plantation (Neutral)

**BUY**  
(Unchanged)

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Rating momentum\*: na  
Price: IDR735 - TP: IDR1,000 (from IDR870)  
TP/consensus: na  
TP momentum\*: na  
JCI: 5,094

### Solid growth; reaffirm BUY

- Solid revenue expected from sugar:** We expect a higher contribution from TBLA's sugar business in 2015-16, in line with the government's move to continue its import policy to fulfill national needs (exhibit 7). TBLA also plans to start operating a new sugar mill in 2016, with annual capacity of 1.2mn. On the plantation side, we expect sugar cane planted area to rise to 7.5k ha in 2015 and 12k ha in 2016 from 3.1k ha currently, with an unchanged extraction rate of 90 tons of sugarcane/ha. TBLA currently operates a sugar-refinery business with 216 tpa of sugar production from raw-sugar imports.
- CPO mill expansions in Lampung and Surabaya:** We expect TBLA to start operating its 45 tons-per-hour (tph) FFB mill in Lampung in 4Q14, bringing total FFB mill capacity to 1.2mn-1.5mn tpa. The company is building another 45 tph FFB mill in Surabaya with an operational target of 3Q15. We expect CPO production to increase as a result.
- Strong production expected on increased mature area:** Due to additional mature area of 4.8k ha, we expect TBLA's 2015 FFB production to grow 8.5% y-y to 1.6mn tons. Along with strong growth in purchased FFB due to the CPO mill expansions, we expect 2015 CPO production to reach 327k tons, up 8.6% y-y. This should also support the CPO refinery business, as TBLA still buys third-party CPO derivatives to fulfill export demand.

### Outlook: Solid earnings growth on CPO and sugar business

With additional sales from sugar (refinery and sugar cane) and higher CPO mill capacity, we forecast TBLA's 2015 revenue to reach IDR7tn, up 16% y-y, before growing to IDR7.8tn, up 11% y-y, in 2016. Long-term growth prospects look attractive due to the increase in the mature CPO plantation area, followed by higher earnings from sugar refinery and sugar cane sales.

### Recommendation & valuation: Reaffirm BUY; raise TP to IDR1,000

While TBLA is up 39% ytd, we continue to like the stock as we expect strong long-term earnings growth on solid new plantings, an attractive sugar business and mill construction (CPO and sugar). We thus raise our 2014-16F EPS by 2-45% (exhibit 5). TBLA trades at a 2015F PE of 6.4x, a 65% discount to Malaysian CPO peers (historically around 15-20x). We reaffirm our BUY call and raise our 12-month TP to IDR1,000 (from IDR870), on an unchanged 2015F PE of 9x, still at a 50% peer discount. Risks include worse-than-expected CPO prices, sugar production and weaker USD.

### Exhibit 5. Earnings revisions

	Old			New			Change (%)		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Revenue (IDRb)	4,495	4,922	5,263	6,043	6,983	7,770	34.5	41.9	47.6
Gross Profit (IDRb)	1,226	1,334	1,354	1,307	1,513	1,686	6.5	13.4	24.5
Gross margin (%)	27.3	27.1	25.7	21.6	21.7	21.7			
Opt profit (IDRb)	757	820	804	791	912	1,021	4.5	11.2	27.0
Opt margin (%)	16.8	16.7	15.3	13.1	13.1	13.1			
Net profit (IDRb)	439	463	451	446	563	654	1.5	21.6	44.9
Net margin (%)	9.8	9.4	8.6	7.4	8.1	8.4			
EPS (IDR)	89	94	91	90	114	132	1.5	21.6	44.9

Source: Company, Bloomberg, Bahana estimates

### Exhibit 1. Company information

Market cap (IDRb/USDm)	: 3.6/294.8
3M avg.daily t.o.(IDRb/USDm)	: 1.9/0.2
Bloomberg code	: TBLA IJ

### Exhibit 2. Shareholders information

Budi Delta Swakarya (%)	: 30.1
Sungai Budi (%)	: 28.6
Free Float (%)	: 41.3

Source: Company

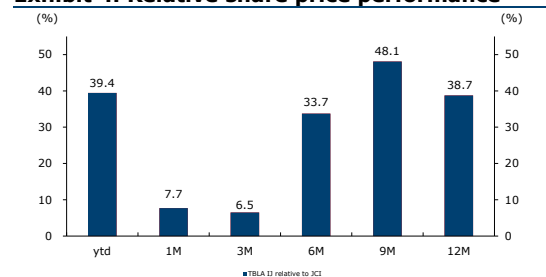
### Exhibit 3. Key forecasts and valuations

Year to 31 Dec	2013	2014F	2015F	2016F
Revenue (IDRbn)	3,705	6,043	6,983	7,770
EBIT (IDRbn)	494	791	912	1,021
Net profit (IDRbn)	84	446	563	654
Bahana/cons. (%)	-	-	-	-
EPS (IDR)	17	90	114	132
EPS growth (%)	(65.1)	427.9	26.4	16.1
EPS momentum	-	↑	↑	↑
EV/EBITDA (x)	8.6	5.5	4.7	4.1
PER (x)	43.0	8.2	6.4	5.6
FCFPS (IDR)	(169)	(2)	30	47
FCF yield (%)	(23.0)	(0.2)	4.1	6.4
BVPS (IDR)	361	506	602	711
PBV (x)	2.0	1.5	1.2	1.0
DPS (IDR)	3	18	23	26
Yield (%)	0.5	2.5	3.1	3.6
ROAA (%)	1.5	6.8	7.8	8.3
ROAE (%)	4.8	20.8	20.6	20.2
EBIT margin (%)	13.3	13.1	13.1	13.1
Net gearing (%)	136.8	87.2	71.3	56.9

Source: Company, Bahana estimates

Share prices as of 20 Nov 2014

### Exhibit 4. Relative share price performance



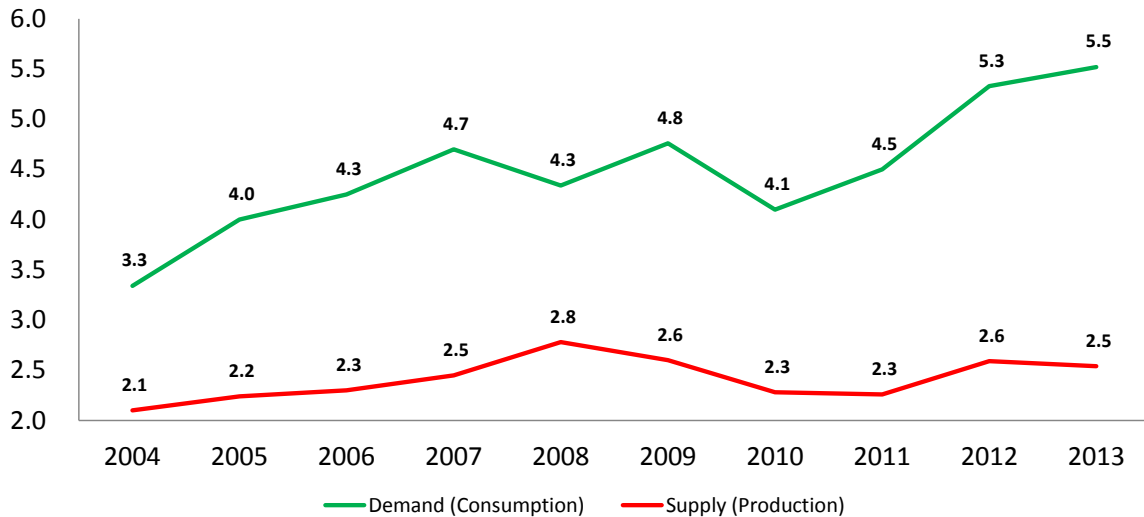
Source: Bloomberg

**Exhibit 6. TBLA IJ 3Q14 results summary**

(IDRbn)	3Q13	2Q14	3Q14	q-q (%)	y-y (%)	3Q14/ 3Q14F	9M14	y-y (%)	9M14/ 2014F	9M14/ Cons.
<b>Sales</b>	<b>734</b>	<b>1,575</b>	<b>1,759</b>	<b>11.7</b>	<b>139.7</b>	<b>106.3</b>	<b>4,492</b>	<b>86.1</b>	<b>74.3</b>	na
<b>Gross profit</b>	<b>197</b>	<b>312</b>	<b>385</b>	<b>23.3</b>	<b>95.1</b>		<b>989</b>	<b>50.9</b>	<b>75.7</b>	
Operating expense	(96)	(116)	(134)	15.4	39.3		(374)	23.7	72.5	
<b>Operating profit</b>	<b>101</b>	<b>196</b>	<b>251</b>	<b>28.0</b>	<b>148.0</b>	<b>103.9</b>	<b>615</b>	<b>74.2</b>	<b>77.7</b>	na
Net interest inc./(exp.)	(57)	(56)	(38)	(31.7)	(33.0)		(141)	2.4	75.2	
Forex gain (exp.)	(121)	(61)	(55)	(8.7)	(54.4)		(76)	(51.3)	361.0	
Other income/(exp.)	13	25	(11)	(142.2)	(183.4)		23	(20.0)	234.9	
<b>Pretax profit</b>	<b>(64)</b>	<b>105</b>	<b>147</b>	<b>39.8</b>	<b>na</b>		<b>422</b>	<b>373.4</b>	<b>71.1</b>	na
Taxation	16	(24)	(34)	39.4	na		(95)	538.2	65.4	
<b>Net profit</b>	<b>(48)</b>	<b>80</b>	<b>113</b>	<b>40.7</b>	<b>na</b>	<b>102.7</b>	<b>325</b>	<b>344.5</b>	<b>72.9</b>	na
<b>BS &amp; ratio analysis</b>	<b>3Q13</b>	<b>2Q14</b>	<b>3Q14</b>			<b>9M13</b>	<b>9M14</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
Gross margin (%)	26.9	19.8	21.9			27.1	22.0	21.6	21.7	21.7
Operating margin (%)	13.8	12.5	14.3			14.6	13.7	13.1	13.1	13.1
Pretax margin (%)	(8.7)	6.7	8.4			3.7	9.4	9.8	10.7	11.2
Net margin (%)	(6.6)	5.1	6.4			3.0	7.2	7.4	8.1	8.4
Inventories days	121	53	57			111	67	81	73	66
Receivable days	46	21	35			42	32	43	41	38
Payable days	40	15	31			36	36	37	33	30
Total cash	737	392	272			737	272	885	851	946
Total debt	2,842	3,032	2,905			2,842	2,905	3,220	3,400	3,750
Net gearing (%)	115.8	131.3	127.2			115.8	127.2	102.4	96.0	93.0

Source: Company, Bloomberg, Bahana estimate

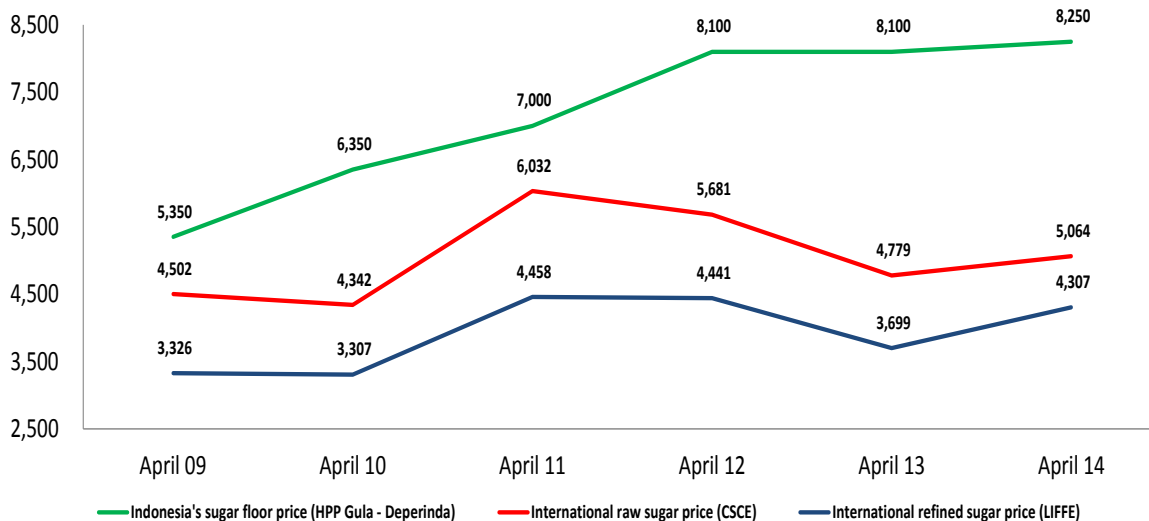
**Exhibit 7. Indonesia sugar demand vs supply (mn ton)**



**Rising Indonesia sugar demand is not being followed by increased sugar production with a total gap of 3mn tons in 2013**

Source: Kontan, Company

**Exhibit 8. Sugar price comparison (IDR/kg)**



**The Indonesia sugar price has risen 18%, while the international price has been on a declining trend, down 16% from 2011 level**

Source: Kontan, Company

**Tunas Baru Lampung**

Year to 31 December	2012	2013	2014F	2015F	2016F
<b>PROFIT &amp; LOSS (IDRbn)</b>					
<b>Sales</b>	<b>3,806</b>	<b>3,705</b>	<b>6,043</b>	<b>6,983</b>	<b>7,770</b>
<b>Gross profit</b>	<b>1,028</b>	<b>950</b>	<b>1,307</b>	<b>1,513</b>	<b>1,686</b>
<b>EBITDA</b>	<b>686</b>	<b>706</b>	<b>1,059</b>	<b>1,230</b>	<b>1,380</b>
Depreciation	188	211	268	318	359
<b>EBIT</b>	<b>498</b>	<b>494</b>	<b>791</b>	<b>912</b>	<b>1,021</b>
Net interest inc./ (expense)	(120)	(171)	(187)	(195)	(183)
Forex gain/(losses)	(91)	(250)	(21)	22	21
Other income/(expense)	25	45	10	10	10
<b>Pre-tax profit</b>	<b>311</b>	<b>119</b>	<b>593</b>	<b>749</b>	<b>869</b>
Taxes	67	33	145	183	213
Minority interest	(2)	(2)	(2)	(2)	(2)
Extraordinary gain/(losses)	-	-	-	-	-
<b>Net profit</b>	<b>242</b>	<b>84</b>	<b>446</b>	<b>563</b>	<b>654</b>

**2015 net profit expected to grow 26% y-y on improved CPO production capacity**

**BALANCE SHEET (IDRbn)**

Cash and equivalents	549	649	360	419	540
S-T investments	11	10	10	10	10
Trade receivables	385	416	711	776	818
Inventories	649	795	1,053	1,094	1,106
Fixed assets	2,792	3,516	3,897	4,387	4,851
Other assets	812	827	847	829	865
<b>Total assets</b>	<b>5,198</b>	<b>6,213</b>	<b>6,877</b>	<b>7,516</b>	<b>8,190</b>
Interest bearing liabilities	2,109	3,089	2,539	2,539	2,539
Trade payables	250	183	604	635	647
Other liabilities	1,079	1,143	1,220	1,354	1,474
<b>Total liabilities</b>	<b>3,438</b>	<b>4,414</b>	<b>4,363</b>	<b>4,528</b>	<b>4,660</b>
Minority interest	10	15	15	15	15
<b>Shareholders' equity</b>	<b>1,750</b>	<b>1,784</b>	<b>2,500</b>	<b>2,974</b>	<b>3,515</b>

**Debt likely to increase in 2014-16F ...**

**CASH FLOW (IDRbn)**

EBIT	498	494	791	912	1,021
Depreciation	188	211	268	318	359
Working capital	(361)	(189)	(171)	49	20
Other operating items	(261)	(417)	(248)	(322)	(345)
<b>Operating cash flow</b>	<b>64</b>	<b>100</b>	<b>640</b>	<b>957</b>	<b>1,056</b>
Net capital expenditure	(668)	(935)	(649)	(808)	(823)
<b>Free cash flow</b>	<b>(604)</b>	<b>(835)</b>	<b>(9)</b>	<b>149</b>	<b>233</b>
Equity raised/(bought)	-	-	285	-	-
Net borrowings	706	981	(550)	-	-
Other financing	(98)	(46)	(15)	(89)	(113)
<b>Net cash flow</b>	<b>4</b>	<b>99</b>	<b>(289)</b>	<b>60</b>	<b>121</b>
Cash flow at beginning	545	549	649	360	419
<b>Ending cash flow</b>	<b>549</b>	<b>649</b>	<b>360</b>	<b>419</b>	<b>540</b>

**... to fund capex allocation, mostly for sugar mill construction**

**RATIOS**

ROAE (%)	14.4	4.8	20.8	20.6	20.2
ROAA (%)	5.1	1.5	6.8	7.8	8.3
EBITDA margin (%)	18.0	19.0	17.5	17.6	17.8
EBIT margin (%)	13.1	13.3	13.1	13.1	13.1
Net margin (%)	6.3	2.3	7.4	8.1	8.4
Payout ratio (%)	20.4	20.0	20.0	20.0	20.0
Current ratio (x)	6.3	10.2	3.5	3.6	3.8
Interest coverage (x)	4.1	2.9	4.2	4.7	5.6
Net gearing (%)	89.1	136.8	87.2	71.3	56.9
Debts to assets (%)	40.6	49.7	36.9	33.8	31.0
Debtor turnover (days)	30	40	43	41	38
Creditor turnover (days)	21	21	37	33	30
Inventory turnover (days)	75	96	81	73	66

**We expect ROE level to be at 20% in 2014F-2016F**

**MAJOR ASSUMPTIONS**

FFB nucleus prod. (k tons)	1,178	1,029	1,468	1,593	1,691
Growth (%)	4.0	(12.7)	42.8	8.5	6.1
CPO production (k tons)	229	213	301	327	347
Growth (%)	(0.8)	(7.1)	41.4	8.5	6.1
ASP CPO (USD/ton)	941	789	746	767	790
Sugar plantation (ha)	1,305	1,736	3,100	7,500	12,000

**CPO production expected to grow 9% y-y in 2015 and 6% y-y in 2016, to fulfill its new CPO mills**

Source: Company, Bahana estimates

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