

Astra Agro Lestari Tbk (AALI)

Still Facing Challenges

AALI's sales in 6M23 experienced a decline of 14.4% YoY with all segments contracting, leading AALI's bottom line to contract 54.6% YoY. On the production side, Fresh Fruit Bunch (FFB) production in 2Q23 was recorded at 1.16 million tons (vs. 2Q22: 1.11 million tons), which grew both quarter-on-quarter (22.5%) and year-on-year (4.8%). CPO production in 2Q23 was recorded at 351 thousand tons, up from 268 thousand tons in the previous quarter.

All Segments Decline Simultaneously

- AALI posted 2Q23 revenue of IDR 4.6 trillion (-2.8% QoQ; +5.6% YoY), with accumulative 6M23 sales down 14.4% YoY to IDR 9.4 trillion, in which all segments experienced a decline.
- Palm Kernel sales led the decline in 6M23 by 50.3% YoY, followed by CPO (-9.1% YoY) and others (-1.7% YoY). Only Sulawesi experienced an increase in sales during 6M23 by 12.4% YoY, while Sumatra and Kalimantan contracted by 27.9% YoY and 6.4% YoY, respectively.
- The 21.2% YoY decrease in production cost during 6M23 caused COGS to decrease by 8.5% YoY to IDR 8.4 trillion. However, this was not able to bring 6M23 gross profit to grow, which actually decreased by 43.6% YoY to IDR 1.0 trillion while in 2Q23 gross profit was recorded at IDR 517.6 billion (+1.5% QoQ; -37.4% YoY), with 2Q23 GPM recorded lower at 11.2% (vs. 2Q22: 18.8%).
- The 48.2% YoY increase in selling expenses during 6M23 caused operating profit to contract 71.9% YoY to IDR 331.1 billion. As noted, AALI's selling expenses mainly came from freight and delivery charges. On a quarterly basis, 2Q23 operating profit was recorded at IDR 172.3 billion (+8.5% QoQ; -65.5% YoY), with OPM declining to 3.7% (vs. 2Q22: 11.4%).
- AALI's bottom line throughout 6M23 also contracted 54.6% YoY to IDR 367.6 billion, followed by the quarterly performance, where 2Q23 net profit recorded a decline by 36.4% QoQ and 56.2% YoY to IDR 142.9 billion. This contributed to the lower 2Q23 NPM of 3.1% (vs. 2Q22: 7.4%).

B35 Implementation in Indonesia

- In terms of production, Fresh Fruit Bunch (FFB) production in 2Q23 was recorded at 1.16 million tons (vs. 2Q22: 1.11 million tons), with a growth in both QoQ (22.5%) and YoY (4.8%). CPO production in 2Q23 was recorded at 351 thousand tons, higher than the previous quarter's 286 thousand tons.
- Accumulatively, in 6M23, Fresh Fruit Bunch (FFB) production was recorded at 2.11 million tons or grew by 7.9% YoY. Meanwhile, due to lower average product utilization, CPO production in 6M23 fell 3.1% YoY to 619 thousand tons.
- Amid sluggish demand for crude palm oil, positive sentiment came from within the country regarding the B35 Program. The government has officially implemented the massive use of 35% palm oil blend in fuel or biodiesel 35% (B35) starting August 1, 2023. The existence of this program can certainly boost demand for domestic palm oil and can help maintain CPO prices.
- In terms of weather, the end of La Nina is expected to bring operational recovery. Moreover, the possibility of El Nino in the second semester of 2023, which is known for extreme weather, is also expected to have a positive impact in terms of price strengthening.

HOLD Recommendation with a TP at IDR 8.000

- We recommend HOLD for AALI, with a target price of IDR 8,000/share, which implies a PE of 13.9x and a potential upside of 4.2%. The risks of our recommendation are commodity price volatility, production decline, and government policies.

Astra Agro Lestari Tbk | Summary (IDR bn)

	2022A	2023F	2024F	2025F
Sales	21,829	20,436	21,046	21,681
Growth	-10.3%	-6.4%	3.0%	3.0%
Net Profit	1,727	802	1,117	1,901
Growth	-12.4%	-53.5%	39.2%	70.2%
EPS (IDR)	897	417	580	988
P/E	8.9x	19.2x	13.8x	8.1x
P/BV	0.7x	0.7x	0.6x	0.6x
EV/EBITDA	17.7x	31.2x	22.7x	18.2x
ROE	8.5%	3.7%	4.9%	7.9%
ROA	5.9%	2.7%	3.8%	6.2%
Dividend Yield	5.5%	4.9%	3.1%	3.3%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

HOLD

Target Price (IDR)	8,000
Consensus Price (IDR)	8,043
TP to Consensus Price	-0.5%
Potential Upside	4.2%

Shares data

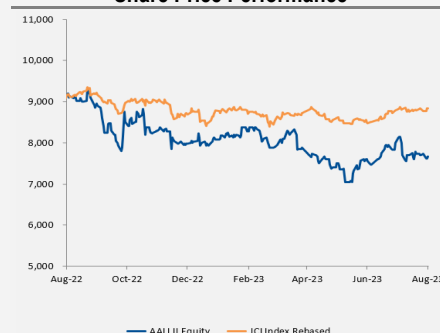
Last Price (IDR)	7,675
Price date as of	August 23, 2023
52 wk range (Hi/Lo)	9,375 / 7,050
Free float (%)	20.3
Outstanding sh.(mn)	1,925
Market Cap (IDR bn)	14,772
Market Cap (USD mn)	966
Avg. Trd Vol - 3M (mn)	0.9
Avg. Trd Val - 3M (bn)	7.2
Foreign Ownership	3.1%

Agriculture

Plantation

Bloomberg	AALI.IJ
Reuters	AALI.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-4.7%	-5.5%	2.3%	-16.1%
Rel. Ret.	-5.7%	-5.9%	-0.4%	-12.7%

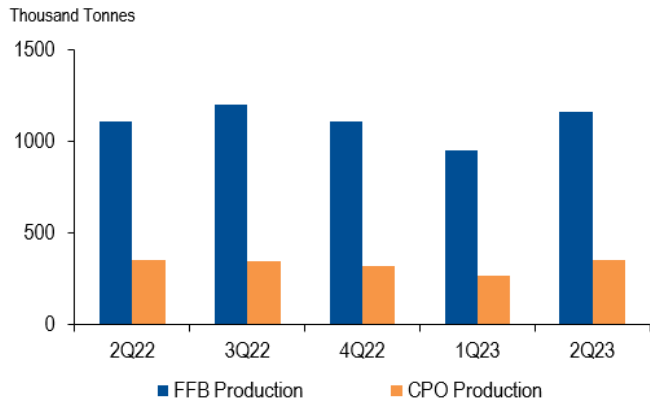
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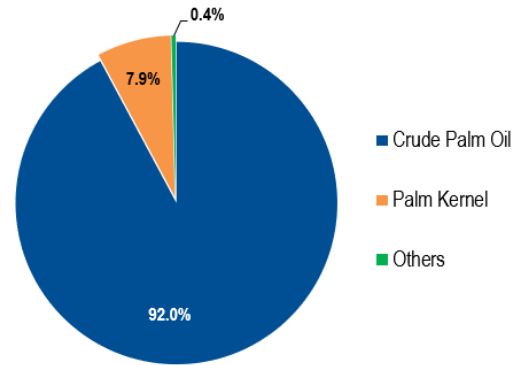
Performance Highlights

Production | 2Q22-2Q23



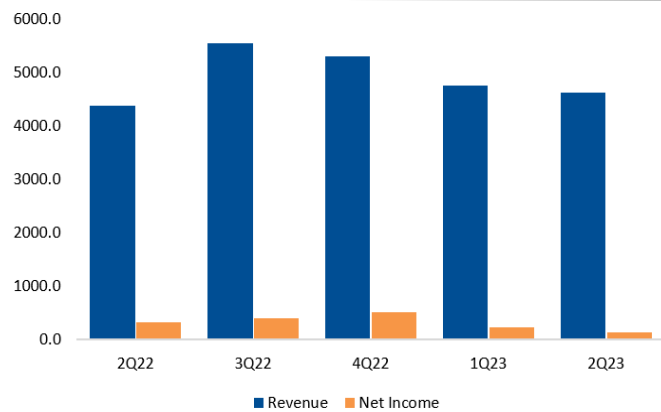
Source: Company, NHKSI Research

Revenue Breakdown | 6M23



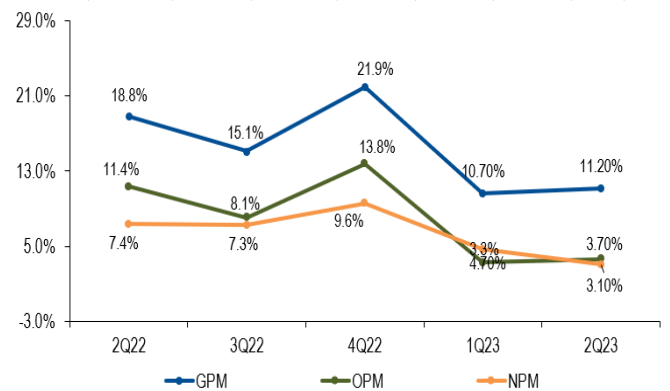
Source: Company, NHKSI Research

Revenue vs Net Income (IDR Bn) | 2Q22-2Q23



Source: Company, NHKSI Research

Margin Ratio | 2Q22-2Q23



Source: Company, NHKSI Research

Forward P/E Band



Source: Company, NHKSI Research

Dynamic Forward P/E Band



Source: Company, NHKSI Research

Summary of Financials

INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2022/12A	2023/12F	2024/12F	2025/12F		2022/12A	2023/12F	2024/12F	2025/12F
Revenue	21,829	20,436	21,046	21,681	ROE	8.5%	3.7%	4.9%	7.9%
<i>Growth</i>	-10.3%	-6.4%	3.0%	3.0%	ROA	5.9%	2.7%	3.8%	6.2%
COGS	(18,006)	(18,180)	(18,100)	(17,996)	Inventory Turnover	5.3x	5.0x	4.9x	4.6x
Gross Profit	3,822	2,257	2,946	3,686	Receivable Turnover	25.7x	24.3x	22.8x	21.5x
<i>Gross Margin</i>	17.5%	11.0%	14.0%	17.0%	Payables Turnover	14.7x	20.3x	19.2x	18.3x
EBIT	2,360	737	1,551	2,248	Dividend Yield	5.5%	4.9%	3.1%	3.3%
<i>EBIT Margin</i>	10.8%	3.6%	7.4%	10.4%	Payout Ratio	49.5%	93.3%	31.1%	25.5%
Depreciation	1,296	1,346	1,308	1,317	DER	31.5%	28.8%	27.2%	26.1%
EBITDA	3,657	2,082	2,859	3,565	Net Gearing	5.1%	5.3%	4.7%	4.6%
<i>EBITDA Margin</i>	16.8%	10.2%	13.6%	16.4%	Equity Ratio	76.0%	77.6%	78.6%	79.3%
Interest Expenses	417	630	526	605	Debt Ratio	16.7%	16.0%	15.3%	14.6%
EBT	2,429	1,113	1,751	2,544	Financial Leverage	132.2%	128.0%	119.8%	117.9%
Income Tax	(637)	(289)	(591)	(586)	Current Ratio	360.0%	539.4%	613.8%	708.0%
Minority Interest	(65)	(22)	(44)	(57)	Par Value (IDR)	500	500	501	502
Net Profit	1,727	802	1,117	1,901	Total Shares (mn)	1,925	1,925	1,925	1,925
<i>Growth</i>	-12.4%	-53.5%	39.2%	70.2%	Share Price (IDR)	8,025	8,000	8,000	8,000
<i>Net Profit Margin</i>	7.9%	3.9%	5.3%	8.8%	Market Cap (IDR tn)	15.4	15.4	15.4	15.4

BALANCE SHEET					VALUATION INDEX				
(IDR bn)	2022/12A	2023/12F	2024/12F	2025/12F		2022/12A	2023/12F	2024/12F	2025/12F
Cash	1,620	2,766	3,628	3,646	Price/Earnings	8.9x	19.2x	13.8x	8.1x
Receivables	849	840	923	1,010	Price/Book Value	0.7x	0.7x	0.6x	0.6x
Inventories	3,395	3,636	3,670	3,944	PE/EPS Growth	-0.1x	0.0x	0.0x	0.0x
Total Current Assets	7,391	9,081	10,325	11,852	EV/EBITDA	17.7x	31.2x	22.7x	18.2x
Net Fixed Assets	16,474	16,086	15,783	15,519	EV/EBIT	27.5x	88.1x	41.8x	28.9x
Other Non Current Assets	5,385	5,018	5,201	5,109	EV (IDR bn)	64,878	64,879	64,880	64,881
Total Non Current Assets	21,859	21,104	20,984	20,628	Sales CAGR (3-Yr)	101.5%	-1.2%	-17.3%	3.3%
Total Assets	29,249	30,185	31,309	32,481	Net Income CAGR (3-Yr)	21.2%	-8.7%	-15.2%	-1.2%
Payables	1,224	897	942	986	Basic EPS (IDR)	897	417	580	988
Other Liabilities	829	787	740	688	BVPS (IDR)	11,557	12,174	12,789	13,387
LT Debt	4,049	4,049	4,049	4,049	DPS (IDR)	444	389	252	267
Total Liabilities	7,006	6,753	6,693	6,714					
Capital Stock	962	962	962	962					
Additional Paid-in Capital	3,879	3,879	3,879	3,879					
Retained Earnings	16,920	18,186	19,331	20,501					
Shareholders' Equity	22,243	23,432	24,615	25,766					

CASH FLOW STATEMENT					TOP OWNERSHIP				
(IDR bn)	2022/12A	2023/12F	2024/12F	2025/12F					
Operating Cash Flow	1,418	1,234	2,042	1,700	Shareholders				%
Investing Cash Flow	(1,142)	(232)	(1,072)	(732)	Astra International Tbk				79.7
Financing Cash Flow	(2,589)	144	(108)	(950)	Vanguard Group				0.8
Net Changes in Cash	(2,313)	1,147	862	18	Dimensional Fund Advisors LP				0.6
					Macquarie Group Ltd				0.5
					By Geography				%
					Indonesia				96.9
					United States				2.5
					Luxembourg				0.2
					Ireland				0.1

Source: Bloomberg, NHKSI research

NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings

1. Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
2. Rating system based on a stock's potential upside from the date of publication
 - Buy : Greater than +15%
 - Overweight : +5% to 15%
 - Hold : -5% to +5%
 - Underweight : -5% to -15%
 - Sell : Less than -15%

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