

30 May 2017
Plantation, Equity

Price **IDR. 262**
Target Price **IDR. 495**
JKSE Index **5712.331**



Investment Consideration Increasing production

BUY

Going forward, BWPT's strategy is to continue to improve the productivity of its planted areas as they heads towards peak yields and temporarily halt new planting starting 2016 to focus on plantation maintenance and fruit harvesting. Starting 2017, BWPT's planted area will enter into the prime age of above 8 years average age. In Palm oil plantations within the age range of 8-18 years is the period to optimize yields and revenue. In terms of maturity profile this year, from a total planted area of 153,250 hectares, the mature area, which means the area producing fruit, will increase to 94%. By 2021, 64,000 ha or almost half of its fully mature planted area will reach 12 years of age which is when the trees produce their maximum yield. Post the recent El-nino, production started to increase in 4Q16, and although there was a decrease in 1Q17 QoQ, we believe production will resume growing starting in the 2H17 as weather has improved. We estimate FFB production to reach 1.7 mn tons and 1.9 mn tons respectively for 2017-2018F. In addition, with a better outlook for CPO prices, we are targeting revenue within next 2 years to grow 22% CAGR.

Crossing over to profitability

In line with the temporary halt in new planting since 2016, BWPT has lower investment costs. As new planting incurs debt, this lower investment spending will help to stabilize the balance sheet. We can already see short term liabilities begin to shift to longer term liabilities and total debt of BWPT starting to reduce. We estimate the debt to equity ratio in the next 2 years 2017-2018 declining to an average of 1.11x from 1.35x in 2016FY. As new mature areas mean expensing of previously capitalized costs, less increase in the maturing area in 2017 will also mean lower interest expense this year. As production goes up into the prime years, we estimate yield per hectare (yield/ha) will begin to increase to 13.9 tons in 2017F and 15.1 tons in 2018F compared to the 11.8 yield/ha in 2016FY. In terms of financial results, we believe the above factors will mean BWPT's bottom line slowly crosses over to profitability and progress towards this has already been shown in the 1Q17 result. We are forecasting BWPT's annual loss will improve to IDR. (45.4)bn in 2017F and IDR.(4.03)bn in 2018F.

Valuation: Expect higher potential upside

With improvements in production, CPO prices, and the benefits of the maturing planted area entering prime age, we believe BWPT will move towards generating profit in the foreseeable future. Based on our DCF (WACC 7.05%), We have a target price within one year of IDR. 495, reflecting a valuation of 13.67x EV/EBITDA and a potential upside of 89%. BUY.

Profit and Loss (IDR.bn)	2014 A	2015 A	2016 A	2017 F	2018 F
net sales	2,264.40	2,674.27	2,541.76	3,304.29	3,799.94
Cost of Sales	(1,635.26)	(2,100.50)	(1,948.27)	(2,559.32)	(3,034.06)
Gross Profit	629.13	573.77	593.49	744.97	765.88
Operating expense	(274.78)	(339.79)	(348.69)	(371.57)	(405.01)
Operating Profit	354.36	233.98	244.80	373.40	360.87
Other income	(79.88)	(437.60)	(580.97)	(411.42)	(365.91)
Pretax income(PBT)	274.47	(203.62)	(336.17)	(38.02)	(5.05)
taxes	(79.84)	22.22	(55.20)	(9.51)	(1.26)
Minority interest	(5.17)	1.66	1.62	1.98	2.28
EPS	6.01	(5.70)	(12.36)	(1.44)	(0.13)
Net Profit	189.47	(179.74)	(389.75)	(45.54)	(4.03)
EBITDA	670.35	731.82	833.87	1,255.85	1,508.32

Stock Code **BWPT IJ**
Bloomberg code **9079.3**
Market cap (IDR.bn) **398**
52-Week High (IDR) **181**
52-Week Low (IDR) **308**
6-m Avg Daily. Val (IDR) **25.94**
Free Float (%) **25.94**

Major Shareholders (%)
PT Rajawali Capital International **37.06%**
FICP **37%**
Public **25.94%**

USD/IDR-YE
2016A **13,436**
2017F (6M Avg) **13,357**

Key Indicators **2018F**
DER (x) **1.07**
Int. coverage (x) **-0.01**
Debt ratio (x) **0.61**
EBITDA Margin (%) **39.7**

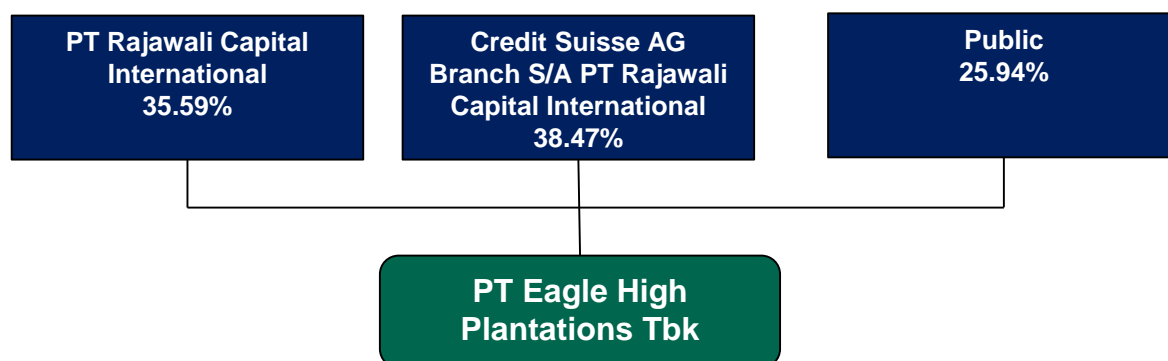
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Company Profile

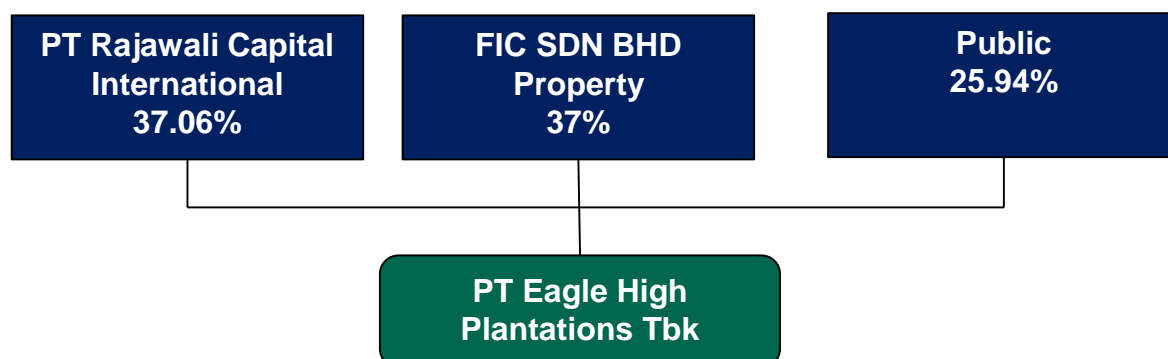
PT Eagle High Plantations Tbk, formerly known as BW Plantation, is an Indonesia-based company engaged in the palm oil sector. The company’s primary business activities are developing, cultivating, and harvesting fresh fruit bunches (FFB), extracting crude palm oil (CPO, and palm kernel (PK). The company was first established on November 6, 2000 and listed on the IDX on Oct 27, 2009. As of the end of 2016, the company manages a total planted area of 153,250 hectares stretching across Indonesia from Sumatera to Papua, with an average tree age of 7.4 years and 85% percent of the trees fruit-bearing. The company has a current mill capacity of 430 tons per hour or about 2.5 millions tons of FFB per year after completing the construction of a new mill in West Kalimantan. The company is also working on the construction of another new mill with 45 tons per hour capacity in Papua. In terms of ownership, FIC SDN BHD property (FICP), a wholly owned subsidiary of Federal land Development Authority (Felda), officially owns 37% of BWPT. The acquisition of 37% of BWPT shares from Rajawali Group was completed on April 18, 2017 through a crossing transaction of 11.67 billion shares worth Rp. 6.7 trillion. After the transaction, Rajawali Group ownership in BWPT shrank to 37.06%. Based on the monthly report of BWPT shareholders per 30 April 2017, BWPT top shareholders are PT Rajawali Capital International 37.06%, FIC SDN BHD Property 37%, and the Public 25.94%.

Company Structure

I. Before FICP transaction completed, 1Q17



II. After FICP transaction completed, April 2017



CPO outlook 2017

According to the Indonesian Palm Oil Association GAPKI, the recovery of CPO price this year is not expected to be significant but they still see the CPO price rising slightly in 2017 supported by higher crude oil prices and rising domestic CPO consumption due to Indonesia's B20 biodiesel program. Meanwhile MPOB (Malaysia Palm Oil Board), downgraded the plantation sector outlook from "overweight" to "neutral" as they see more pressure coming from rising production as palm oil trees are going to enter the high production cycle from the 2H17. With the improvement of production in 2017 as weather conditions have returned back to normal, MPOB believes current palm oil prices are relatively high and will fall after the May-June period when production will rise. CPO prices stood at between \$685 - \$750 per ton through March, dropping from around \$725 - \$820 per ton in February. Palm oil prices have been on a rapid downtrend during the past two months in anticipation of sharply increasing production in Malaysia and Indonesia in 2017. Currently, markets are focusing on prospects of a large year on year growth in world palm oil production in April-June and July-Sept 2017. Higher South American soybean production also contributed to weak CPO market sentiment. Based on Bloomberg, we highlight the recent movement of CPO prices and soybean oil prices as follows:

Chart: CPO prices vs Soybean prices YoY

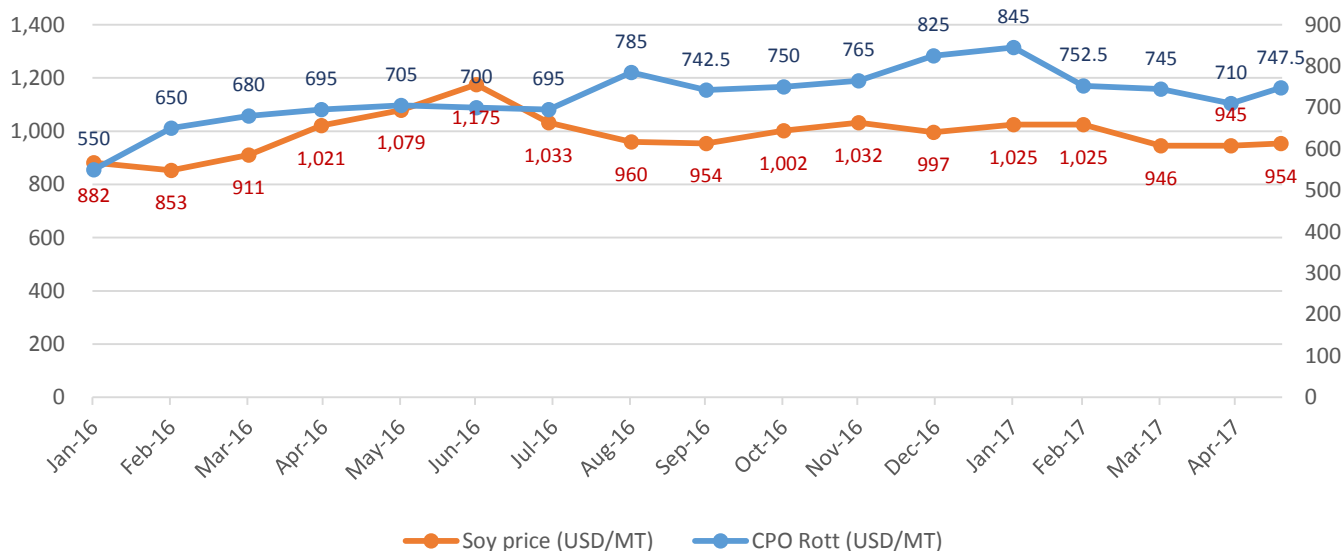


Table: Palm oil production in Indonesia and Malaysia YoY

Palm oil production (Mn tons)	2012	2013	2014	2015	2016
Indonesia	26.50	30.00	31.50	32.50	35.58
Malaysia	18.79	19.22	19.67	19.96	18.89

Source: Bloomberg, GAPKI and MPOB

Chart: FFB vs CPO production yoy (in mn tons)

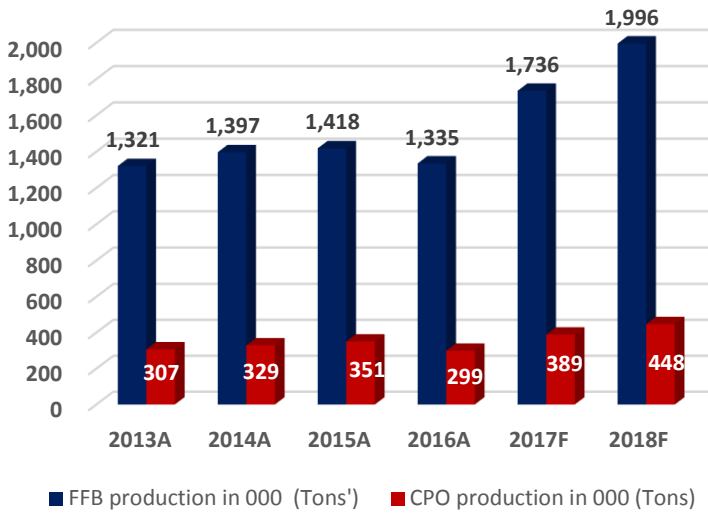


Chart: cash cost/ha yoy

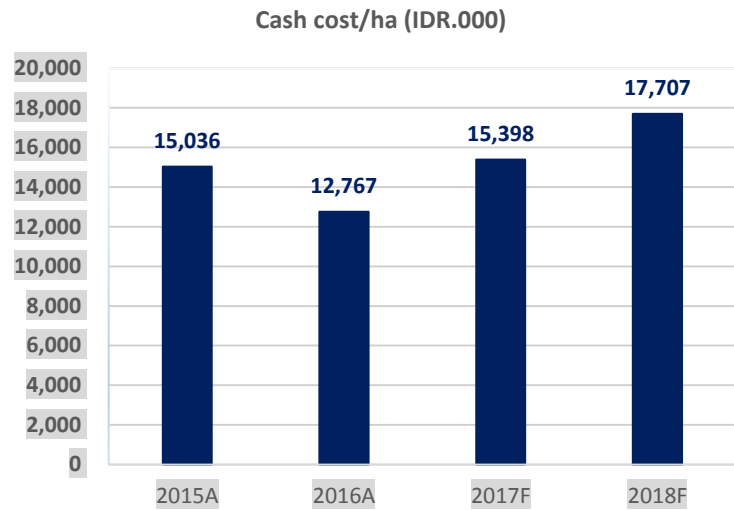


Chart: BWPT's planted area (ha) yoy

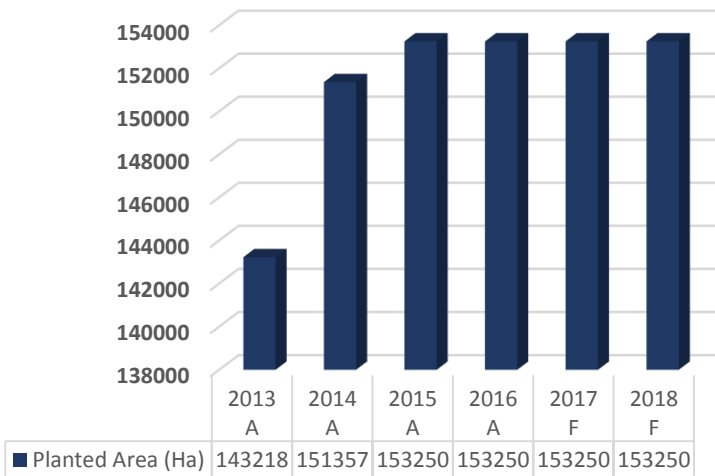


Chart: FFB yield/ha yoy

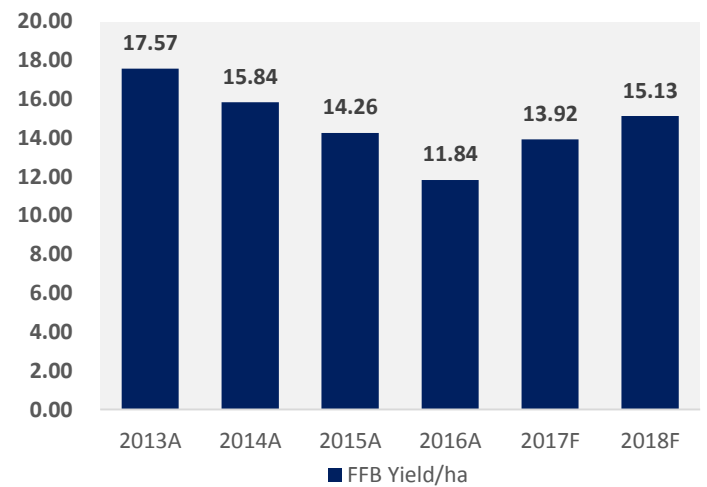


Chart: Percentage composition of mature vs immature area of BWPT's planted area yoy

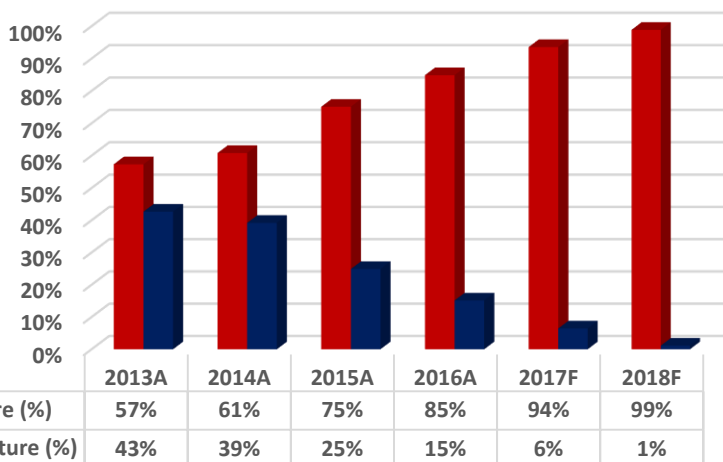
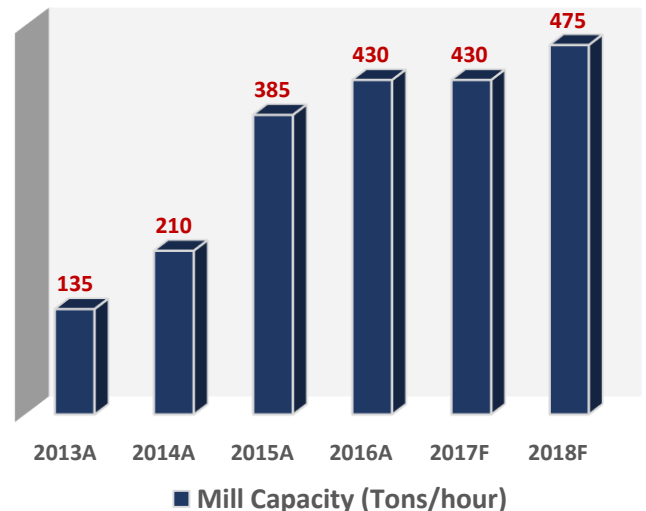


Chart: BWPT's mill capacity yoy



Profit and Loss (IDR.bn)

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net sales	1,730.53	2,264.40	2,674.27	2,541.76	3,304.29	3,799.94
Cost of Sales	(1,302.44)	(1,635.26)	(2,100.50)	(1,948.27)	(2,559.32)	(3,034.06)
Gross Profit	428.10	629.13	573.77	593.49	744.97	765.88
Operating expense	(271.77)	(274.78)	(339.79)	(348.69)	(371.57)	(405.01)
Operating Profit	156.33	354.36	233.98	244.80	373.40	360.87
Other income	(173.16)	(79.88)	(437.60)	(580.97)	(411.42)	(365.91)
Pretax income(PBT)	(16.84)	274.47	(203.62)	(336.17)	(38.02)	(5.05)
taxes	(11.37)	(79.84)	22.22	(55.20)	(9.51)	(1.26)
Minority interest	11.15	(5.17)	1.66	1.62	1.98	2.28
EPS	(3.82)	6.01	(5.70)	(12.36)	(1.44)	(0.13)
Net Profit	(17.06)	189.47	(179.74)	(389.75)	(45.54)	(4.03)
EBITDA	309.90	670.35	731.82	833.87	1,255.85	1,508.32

Ratio Highlights

	2013A	2014A	2015A	2016A	2017F	2018F
Growth (% YoY)						
Sales	83%	31%	18%	-5%	30%	15%
OP	-63%	127%	-34%	5%	53%	-3%
EBITDA	-40%	116%	9%	14%	51%	20%
NP	-107%	-1210%	-195%	117%	-88%	-91%
EPS	-106%	-257%	-195%	117%	-88%	-91%
Profitability						
Operating Margin(%)	9.0%	15.6%	8.7%	9.6%	11.3%	9.5%
EBITDA margin(%)	17.9%	29.6%	27.4%	32.8%	38.0%	39.7%
NET Profit margin(%)	-1.0%	8.4%	-6.7%	-15.3%	-1.4%	-0.1%
Stability						
Total debt/ total equity (x)	1.21	1.05	1.36	1.35	1.15	1.07
Int. Coverage (x)	-0.16	1.98	-0.44	-0.52	-0.09	-0.01
int. & ST debt coverage (x)	0.58	0.08	0.17	0.40	0.23	0.25
Debt Ratio (x)	0.68	0.58	0.62	0.61	0.62	0.61
Per Share data (Rp)						
EPS	-3.8	6.0	-5.7	-12.4	-1.4	-0.1
EV/EBITDA	35.9	23.7	22.6	20.5	12.6	10.1
EV/EBIT	71.24	44.83	70.71	69.90	42.52	42.41

Stock Ratings:

Buy: a recommendation to purchase the security with upside potential of 20% or greater

Hold: a recommendation to neither buy nor sell a security with upside potential of 0-20%.

Sell: a recommendation to close out a long position in a security with upside potential below 0% or negative.

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