BW Plantation

Company Update

The harvesting time

- Structural change when BWPT is entering its fruition stage
- Double-digit CPO production volume growth for the next 3 years
- Net debt ratio will peak in FY13 on the back of lower future capex of Rp500bn-Rp600bn in FY14-15
- Reiterate BUY with target price of Rp1,200/share

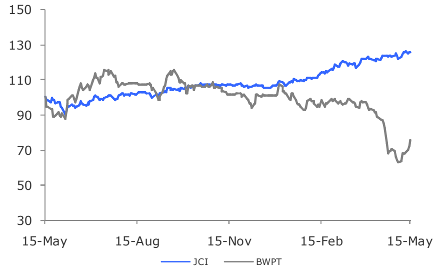
BWPT **BUY**

Target Price	**Rp 1,200**
Current Price	Rp 1,040
Upside (downside)	12%

Share Performance

	3 M	6 M	12 M
Absolute (%)	-23.0	-25.2	-24.1
Relative to JCI (%)	-33.4	-42.2	-49.9
52-WK range (Rp)	850 – 1,610		

Price Chart



Source: Xxx

Share Data

Out' shares (b)	4,052
Market Cap (US$ m)	432.3
6 M avg.daily (US$ m)	2,080,110

Shareholder information

PT BW Investindo	38.8%
Fendalton Investment	23.2%
Free float	38.0%

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In our recent company visit, we notice that BWPT will finally enter its fruition stage after six years of intensive new planting and estate development. Furthermore, we understand that the current stock price drop was mainly caused by the disappointing 1Q13 results relative to the consensus expecting aggressive earnings growth in FY13 and FY14. We believe that the consensus estimates have not considered the impact of the maturing trees outside the strong volume growth, which will result in lower operating margin performance outlook, but it will offset by the lower capex requirement and financial expenses.

50% increase of its maturing trees. We estimate that the incoming maturing trees of 13k hectares (+50% yoy) in FY13 is due to the strong planting in FY09 on 13.8k ha. Therefore, we assume that the mature trees will account for 53% of BWPT total estates. We expect FY13 and FY14 CPO production will grow at 19.2% yoy and 21.6% yoy to 149.2k tons and 181.5k tons respectively. We believe that BWPT CPO production will grow at 24.9% of FY12-17 CAGR, the highest among its Indonesia`s peers.

Softer profitability outlook. On the other hand, its margin should be lower than its historical level due to higher amortization of the maturing trees. We estimate that BWPT`s gross profit will reach 50-51%, lower than its historical gross margin of 65%-70%. The higher historical profitability performance relative to its peers was caused by its cost capitalization during trees immature period, which later, will be regarded as expenses if the trees are reclassified as mature estates.

Net debt ratio on its peak. Strong maturing trees and softer expansion target means that the current debt level is reaching its peak. BWPT targets 4,000ha of new planting, lower than its previous target of 5,000ha. On the back of lower expansion target, we estimate that BWPT`s FY14-15 capex will reach Rp500-600bn. Therefore, we presume that BWPT`s net debt to equity ratio will peak at 1.4x in FY13, before gradually dropping to 1.3x and 1.1x in FY14 and FY15.

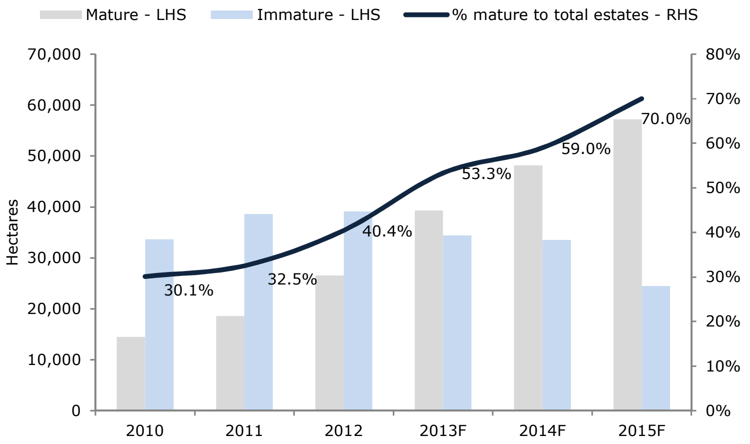
Reiterate our BUY. We believe that the current street disappointment for BWPT results should be an attractive entry point to the others, due to its above average volume growth potential. Therefore, we retain our positive view on BWPT growth outlook, amid current weak CPO price environment. Hence, we reiterate our BUY recommendation with target price of Rp1,200/sh which reflects FY13 PE of 18x.

Key Financials	2011	2012	2013F	2014F	2015F
Sales	888	944	1,112	1,350	1,707
EBITDA	532	515	617	760	968
Net Profit	320	262	276	322	440
EPS	79	65	68	80	109
Dividend Yield	1.0%	1.7%	2.3%	3.4%	0.0%
EBIT Margin	54%	44%	41%	40%	42%
ROIC	9%	5%	5%	6%	7%
EV/EBITDA	10.4	12.7	10.6	8.7	6.7
P/E	12.0	14.6	13.9	11.9	8.7

Source: The company, IndoPremier

Entering the fruition stage
We estimate that BWPT`s mature plantation percentage to the total estate will gradually increase, thanks to the maturing trees. Historically, BWPT mature trees only accounted for 25%-30% of its total estate. Starting FY13, the mature estates will contribute 53% to the total estates, before reaching 70% in FY15.

Immature and mature estates

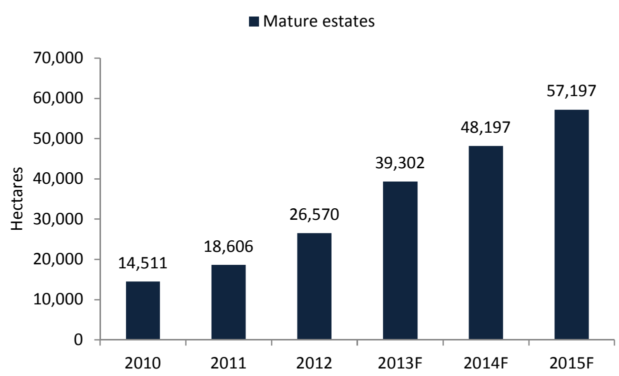


Source : The company ,IndoPremier

Higher volume but lower profitability
The incoming mature trees means than BWPT will has a very strong CPO production volume in the next five years. We estimate that CPO production volume will grow at 19.2% yoy and 21.6% yoy to 149.2k tons and 181.5k tons in FY13 and FY14 respectively. With current trees age of 9 years old, BWPT has huge upside potential of its CPO organic growth potential. To remember, palm trees have the best production at its 9-18 years old. Therefore, BWPT obtains the CPO production volume growth of 24.9% FY13-17 CAGR, the highest among its peers.

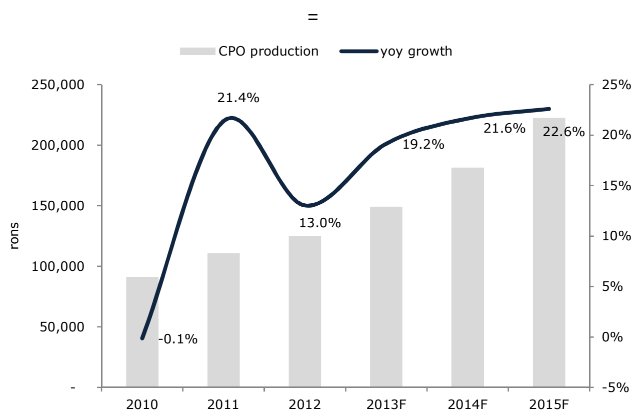
However, incoming maturing trees also means that BWPT profitability could not reach its historical level high. Historically, as most of the trees were immature, the accounting treatment allowed the company to capitalize its nursery, planting, and other early stage development expenses as immature plantation, before being amortized if the trees were entering its production age. Hence, with 50% increase of the mature area, the amortization expense will increase to Rp78.3bn (+65.5% yoy). Therefore, at the same time, we believe that the gross margin should contract and be back to normal at 53.8% and 40.6% in FY13, and stay at current range until FY15. Please note that we also see the minimum impact on the labor wages escalation risk, since BWPT has been implementing the mechanized estate management, which required less labor; therefore, the current labor should enjoy above average pay relative to other companies.

Total maturing estates



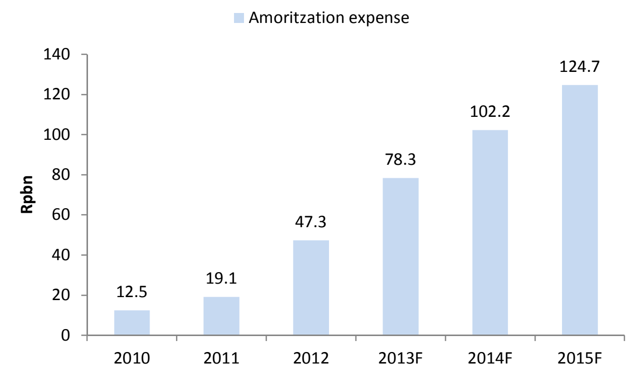
Source: The company, IndoPremier

FY10-15 CPO production volume



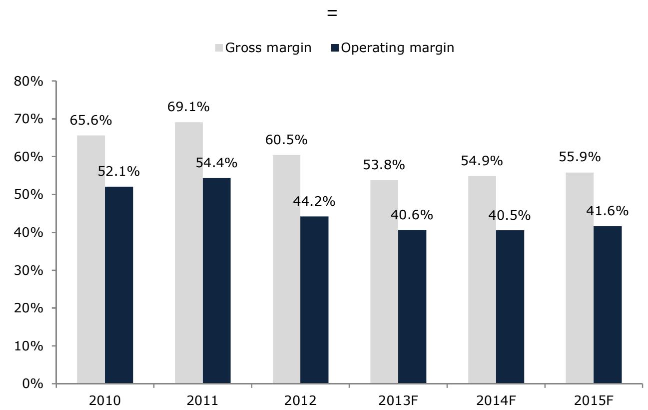
Source: The company, IndoPremier

Amortization expense



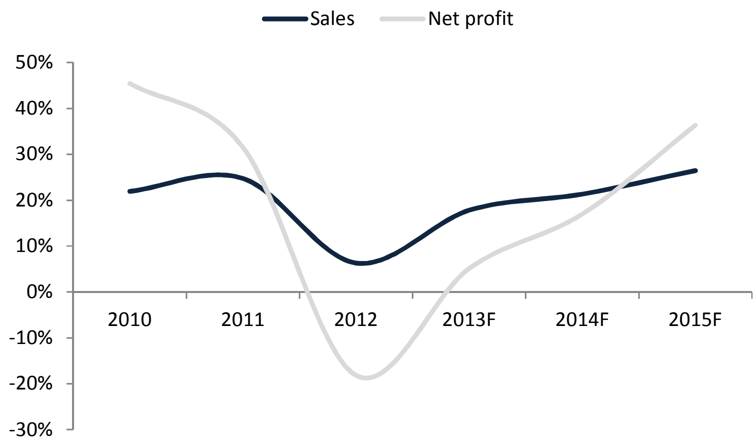
Source: The company, IndoPremier

FY10-15 gross and operating margin performance



Source: The company, IndoPremier

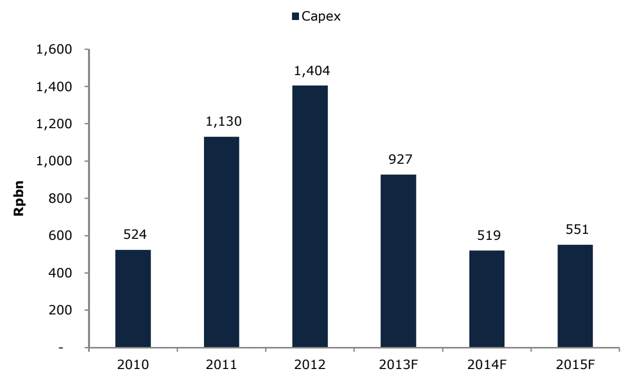
Sales and net profit yoy growth



Source : The company, IndoPremier

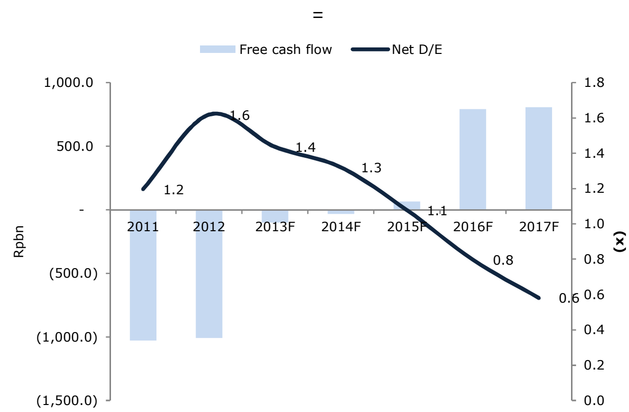
Softer expansion + maturing trees = less debt financing requirement
We estimate that its net debt to equity ratio will gradually drop to 0.6x in FY15. Strong nucleus estates production should translate into strong operating cash flow. Furthermore, we also notice the softer capex in FY14-15 of Rp519bn and Rp551bn respectively on lesser land banks acquisition and lower new planting target of 4,000 hectares, lower than its previous target of 5,000 hectares. We estimate that the free cash flow should turn into positive in FY15 at Rp64.7bn.

FY10-15 capex



Source: The company, IndoPremier

Free cash flow and net debt to equity ratio



Source: The company, IndoPremier

Financial Summary

Income Statement

31 Dec (Rpbn)	2012A	2013F	2014F	2015F
Sales	944	1,112	1,350	1,707
COGS	373	514	609	754
Gross profit	571	599	741	953
Operating expense	(154)	(147)	(194)	(243)
EBIT	417	452	547	710
EBITDA	515	617	760	968
Other income (charges)	(65)	(84)	(123)	(130)
Profit before tax	351	367	430	586
Tax	(89)	(92)	(107)	(147)
Net profit	262	276	322	440

Balance Sheet

31 Dec (Rpbn)	2012A	2013F	2014F	2015F
Cash	51	55	88	230
Inventories	216	285	338	419
Other current asset	69	57	61	73
Fixed asset	691	858	1,006	1,164
Plantations	3,184	3,778	3,936	4,071
Other non-current asset	704	355	419	514
Total Asset	4,913	5,390	5,848	6,472
Short term bank loans	177	332	1,174	1,361
Creditors	212	265	314	389
Other current liabilities	125	167	185	212
Long term bank loans	2,684	2,687	2,007	2,007
Other non-current liabilities	49	52	55	60
Capital shares	405	405	405	405
Additional paid in capital	388	388	388	388
Retained earnings	873	1,094	1,319	1,649
Total Liabilities & Equity	4,913	5,390	5,848	6,472

Cash Flow

31Dec(Rpbn)	2012A	2013F	2014F	2015F
Net Income	262	276	322	440
Depreciation	98	165	213	258
Net Changes in Working Capital	38	365	(49)	(82)
Others	(1)	23	-	-
Total CFO	397	829	487	615
Capex - Plantation	(1,132)	(673)	(260)	(260)
Capex - Non Plantation	(273)	(254)	(259)	(291)
Total CFI	(1,404)	(927)	(519)	(551)
New Borrowing Activities	1,061	158	162	187
Net Proceed from Equity	(22)	(55)	(97)	(110)
Others	-	-	-	-
Total CFF	1,039	103	65	77
CF	32	5	33	142
Beginning Cash Balance	19	51	55	88
Ending Cash Balance	51	55	88	230

Key Ratio

31Dec (Rpbn)	2012A	2013F	2014F	2015F
Growth				
Revenue	6.3%	17.8%	21.3%	26.5%
EBITDA profit	-3.2%	19.7%	23.2%	27.4%
Net profit	-18.2%	5.1%	17.0%	36.4%
Profitability				
Gross margin	60.5%	53.8%	54.9%	55.9%
Operating margin	44.2%	40.6%	40.5%	41.6%
EBITDA margin	54.6%	55.5%	56.3%	56.7%
Net profit margin	27.8%	24.8%	23.9%	25.8%
Net debt/equity	1.6	1.4	1.3	1.1
Interest cover	6.4	5.4	4.5	5.5
ROA	5.3%	5.1%	5.5%	6.8%
ROE	22.5%	15.7%	14.6%	15.3%
Valuation				
P/E	14.6	13.9	11.9	8.7
P/BV	2.3	2.0	1.8	1.6
EV/EBITDA	12.7	10.6	8.7	6.7

Source: The company,IndoPremier

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INVESTMENT RATINGS
Buy : Expected total return of 10% or more within a 12-month period
Hold: Expected total return between -10% and 10% within a 12-month period
Sell : Expected total return of -10% or worse within a 12-month period