



PLANTATION SECTOR UPDATE

Still on the High Tide

Higher ASP Boosted the FY20 Performance

- AALI and LSIP's overall performance in FY20 are stellar and in line with MNCS estimates which reflected 98.44% of average top and bottom line.
- The increase of more than 26% YoY in CPO ASP (average selling price) contributed to the growth of top line with AALI's revenue reaching IDR18.81 tn (+7.76% YoY). While LSIP revenue slightly drop to IDR3.54 tn (-4.40% YoY) in FY20 as higher ASP was still unable to offset the deep fell on LSIP's production volume caused by La Nina that took effect in late FY20.
- On the other hand, LSIP managed to improve efficiency with lower COGS (-16.50% YoY) causing the net profit to surged by +174.13% YoY to IDR696.01 bn. AALI also posted a more remarkable growth on bottom line by +294.61% YoY to IDR833.09 bn.
- We believe both AALI and LSIP performance will continue to soar this year with the on going La Nina, while we estimate ASP to rise by at least 10% with a stable production volume in FY21E.

Weighing on the Productivity and the Profitability

- As we compared several CPO players as seen on exhibit 02, AALI managed to stay on the top ranks on profitability and productivity frontier with CPO yield at 4.98 ton/ha and IDR92.64 mn.
- However, DSNG has proven to be the most productive and profitable despite having a lower planted area than AALI and LSIP. This is supported by DSNG's largely young and prime mature plantation.
- LSIP is on the lower spot, a tad below the peer's average, as their productivity decrease due to an older plantation compared to peers. Replanting is still carried out, but it will take years to wait for the plants to mature.
- SIMP came out as the lowest in comparison. While having the most extensive planted area, it couldn't keep up the productivity due to older plants, hence being the least profitable.

CPO Price still Flashing Green

- CPO price has broken another all-time high record in 10 years reaching RM4,060/ton (+74.10 YoY/+12.78% YTD) which signals that the price is on the rise again.
- The decline earlier this year was probably seasonal, as seen on the seasonality chart (exhibit 04), but CPO already went out of the pattern in February 2021.
- Since La Nina is predicted to last until May/June this year, means there are three month of potential strengthening on CPO price. But do watchout for April as the seasonality chart is showing a decline for five years in a row.
- Nonetheless, soybean oil also got hit by the La Nina, surging up by +67.06% since October 2020 to around USD54/lbs which would encourage a switch to other oils, preferably CPO.
- If the incline persists supported by supply shortage, CPO might hit it's highest price at RM4,330/ton which happened on La Nina in FY08.

Maintain OVERWEIGHT Recommendation with top Picks: AALI and LSIP

Our outlook remains **OVERWEIGHT** for the plantation sector along with the abolishment of CPO import duty in Switzerland which gave positive signal for the CPO outlook in Europe. We estimate the CPO price will still stand at RM3,900 to RM4,000 per ton in FY21E. We also maintain our **BUY** recommendations for **AALI (TP: IDR14,350)** and **LSIP (TP: IDR1,920)**. Fundamentally, AALI's performance, productivity and profitability is better but the stock movement was slower due to a bigger market cap. On the other hand, LSIP still booked a great performance though not as great as AALI, yet the stock price is more reflecting the growth of CPO price, therefore we believe there is a bigger upside for LSIP. DSNG is also a lucrative investment choice, being the leader in ESG as well as in production and profit while the TP is still under review. Currently, LSIP is trading close to -0.5STD with 0.99x PBV, while AALI is trading close to -1STD with 1.15x PBV.



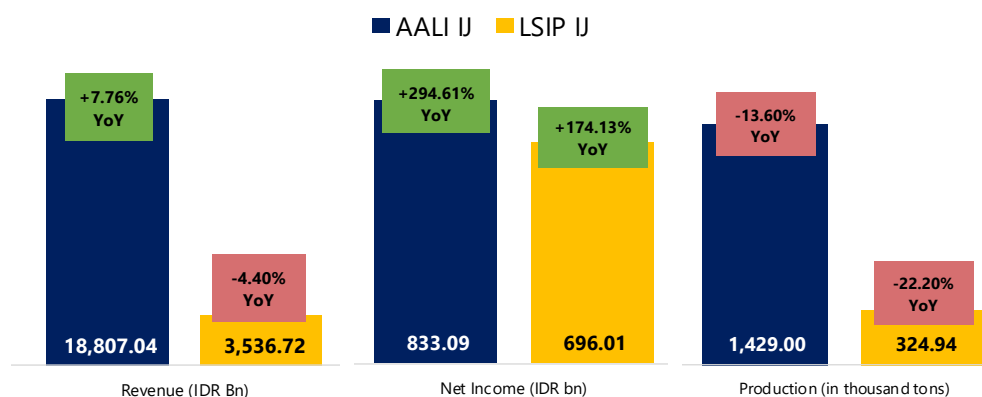
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| Ticker | Market Cap (IDR bn) | PER (x) | | PBV (x) | | Rec. | Target Price (IDR) |
|---------|---------------------|---------|-------|---------|-------|------|--------------------|
| | | FY21E | FY22F | FY21E | FY22F | | |
| AALI IJ | 21,172 | 18.56 | 21.75 | 1.05 | 1.00 | BUY | 14,350 |
| LSIP IJ | 9,347 | 13.10 | 9.68 | 1.00 | 0.94 | BUY | 1,920 |

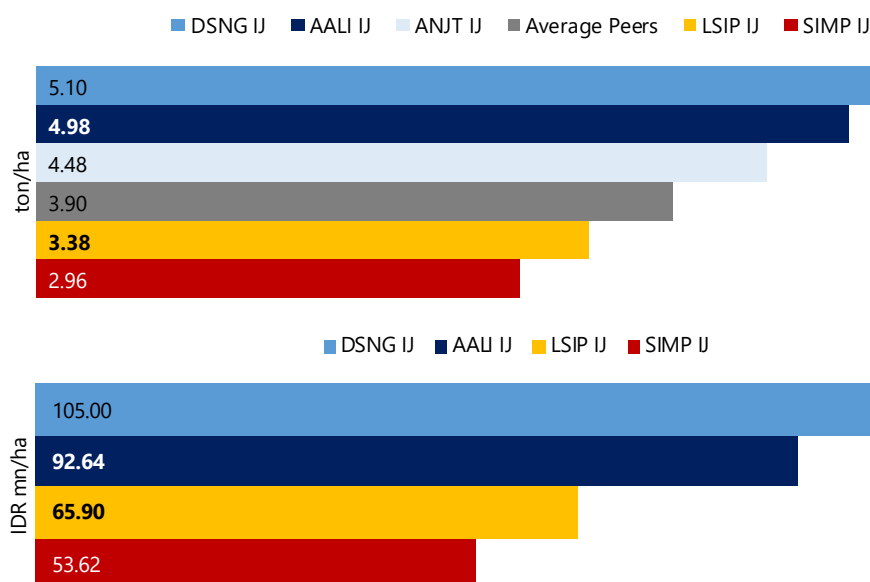
Sources: Bloomberg, MNCS

Exhibit 01. AALI and LSIP FY20 Performance Highlights



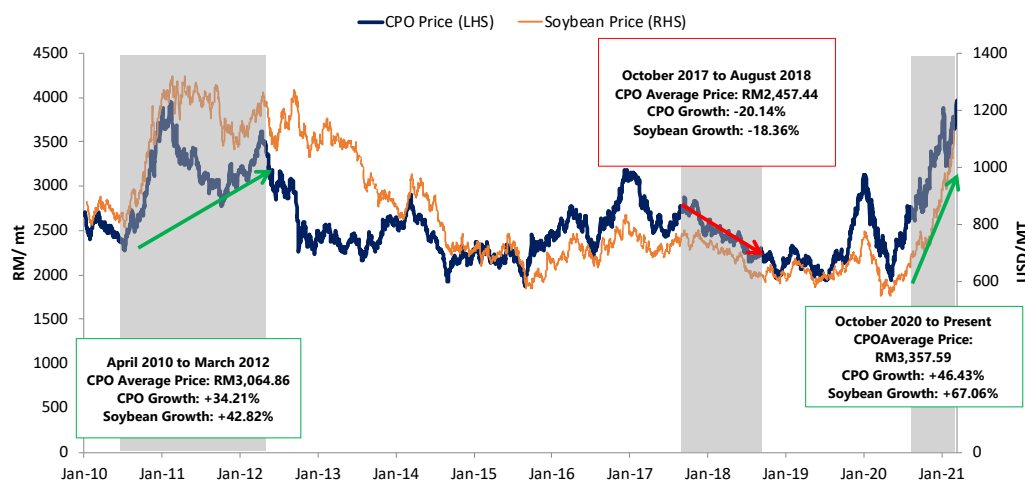
Sources : Company, MNCS

Exhibit 02. CPO Yield (Ton/ha) and Valuation (EV/ha) Peers comparison in FY20



Sources : Bloomberg, MNCS

Exhibit 03. Soybean price has increased significantly compared to CPO price (grey shades indicate La Nina)



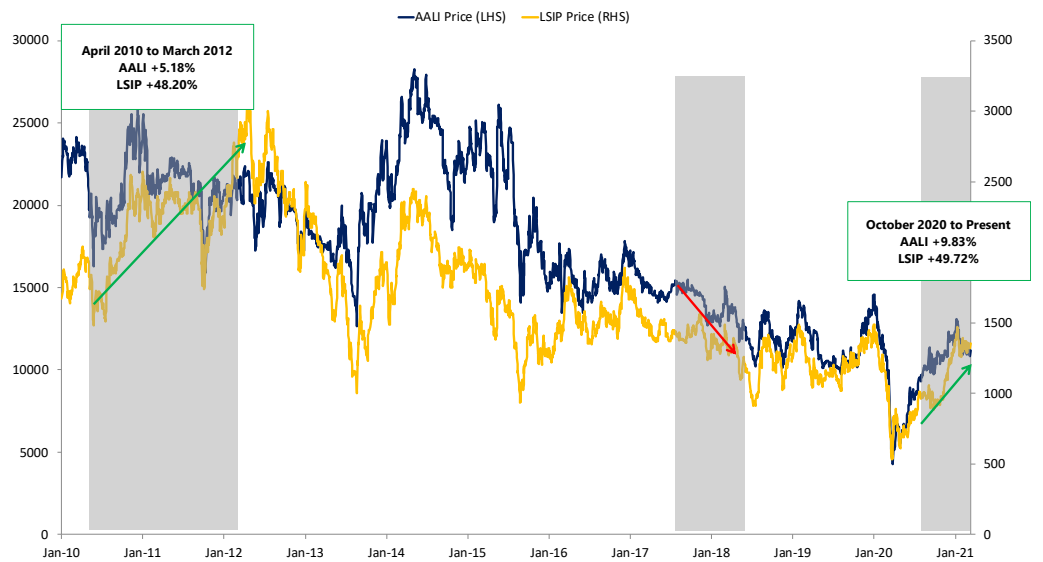
Sources : Bloomberg, MNCS

Exhibit 04. CPO Monthly Price Pattern



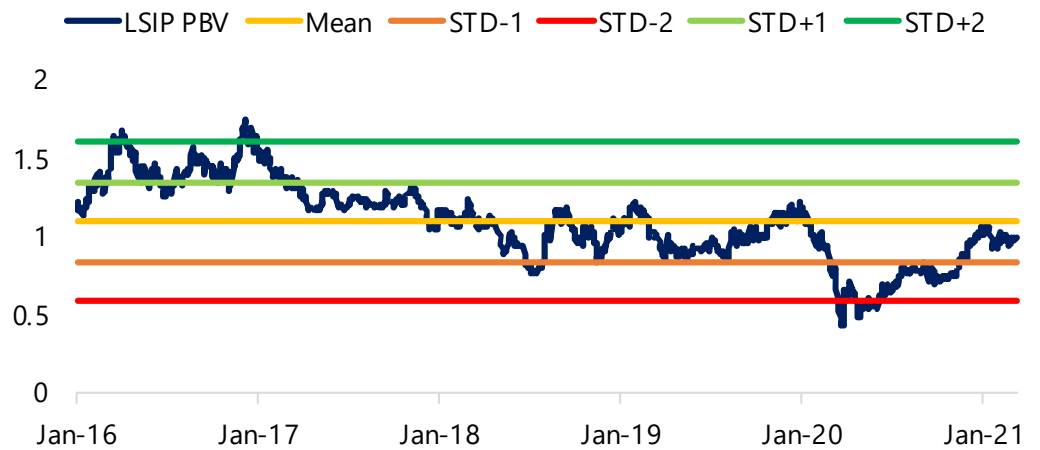
Sources : Bloomberg

Exhibit 05. LSIP is still more sensitive to CPO Price



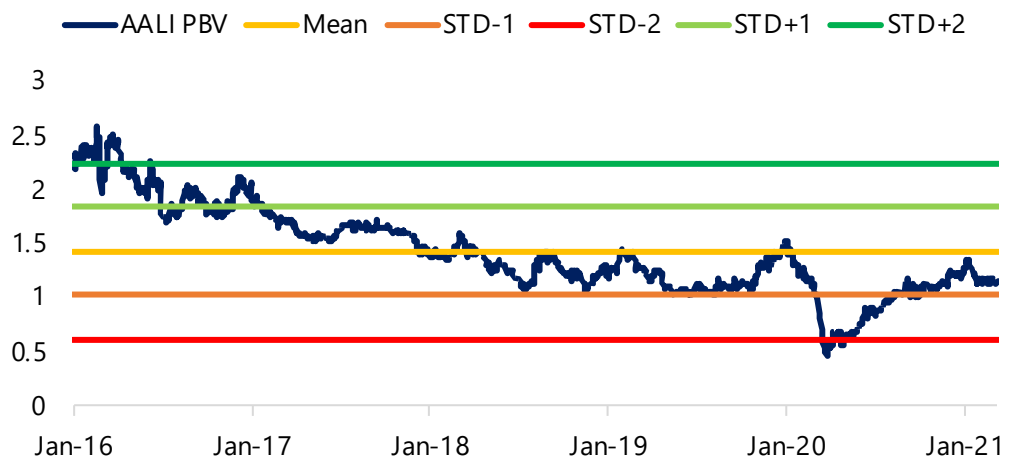
Sources : Bloomberg, MNCS

Exhibit 06. LSIP is currently traded close to -0.5STD with 0.99x PBV



Sources : Bloomberg, MNCS

Exhibit 07. AALI is currently traded close to -1STD with 1.15x PBV



Sources : Bloomberg, MNCS

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BUY : Share price may exceed 10% over the next 12 months

HOLD : Share price may fall within the range of +/- 10% of the next 12 months

SELL : Share price may fall by more than 10% over the next 12 months

Not Rated : Stock is not within regular research coverage

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