



**BUY**

**Target Price : IDR860**

## Stock Data

Current Price (IDR)	: 705
52wk Range L-H (IDR)	: 466 – 715
Share Outstanding	: 31.99 Bn
Free Float	: 21.9%
Mkt Capitalization (IDR)	: 7.31 Tn

## Major Shareholders

PT Triputra Investindo Arya	: 27.63%
PT Krishna Kapital Investama	: 14.63%
PT Tri Nur Cakrawala	: 7.44%
PT Mitra Aneka Guna	: 6.32%
Arianto Oetomo	: 5.43%
Andrianto Oetomo	: 5.43%
Public	: 33.12%



**Research Analyst**

Alif Ihsanario

[alif.ihsanario@mncgroup.com](mailto:alif.ihsanario@mncgroup.com)

## PT Dharma Satya Nusantara Tbk (DSNG IJ)

Plantation

### The Dark Horse with Opportunities Laid Ahead in 2023

#### FY22 Earnings performance outstripped our estimates

- DSNG recorded copious earnings in FY22, as they reported to have raked in IDR9.6tn in revenue (+35% YoY vs IDR7.2tn in FY21), exceeding our moderate estimate of IDR7.4tn (129%).
- Gross profit reached an all-time high of IDR3.12tn (+54% YoY vs IDR2.02tn in FY21), accompanied by an improvement in the GPM that reached 32.4% (vs 28.4% in FY21) on the back of manageable cost output.
- As a result, the bottom-line achieved in FY22 amounted to IDR1.21tn (+65.9% YoY vs IDR727bn in FY21), with the OPM and NPM having reached 22.6% and 12.5%, respectively, or 62% above our estimate.
- Mounting global CPO prices that reached an all time-high of MYR7,268/ton in March-22 caused by the notorious Indonesian export ban which coincided with the supply cut-off of other vegetable oils imposed by the Russia-Ukraine turmoil delivered windfalls for CPO prices in FY22.

#### All product segments thrived; top breed replanting commenced to maintain momentum

The palm oil segment remained the top revenue contributor, comprising 84% of the total sales or amounted to IDR8.12tn (+40% YoY vs IDR5.79tn in FY21). FFB production jumped 19% YoY, pushed by the irrigation boost provided by the moderate La Nina that spanned from 2H20 and is to subside by 2Q23. The total mature planted area as of FY22 stood at 104k ha, with the average age profile of the tree recorded was 12.8 years, or still left with 5.2 years of prime productive age. Since it usually take saplings 7 years to become fully productive, DSNG has initiated a new wave of replanting by clearing out 383 ha of unproductive plants and have added Verdant Bioscience's, DSNG's JV partner, premium breed into their mix of new generation saplings. This breed cuts off 2 years to reach prime production age and guarantees higher average yield than other breeds for the first 6 years of its cultivation. On the other hand, DSNG's wood product also booked a solid 14% YoY growth, reaching IDR1.52tn (vs IDR1.33tn in FY21) on the back of lavish demand from Japan.

#### On the forefront of the plantation industry's greening

DSNG ensures every product and by-product from the production line realizes their optimal value, well reflected from their consistent 100% production to sales ratio since 2016. The by-products are either: 1) sold back into the economy at a profit, for example the dried shells and sold to their established 15-years JV contract from Japan (Erex), or 2) converted into an energy source to be utilized by DSNG themselves, for example the Bio-CNG derived from the fermentation of FFB wastes. In doing so they managed to cut their fuel costs by IDR24bn in FY22, assuming the spread between Bio-CNG and diesel costs stood at IDR12,000. Another Bio-CNG reactor in the pipeline is planned to commence operations by 2Q23 with twice the capacity as the first, withholding an additional c. IDR48bn efficiency in costs. Their dedication in advancing the green revolution is reflected from their formation of Sustainability Advisory Board & Programs (SAB), with advisory members ranging from ex-CEO of RSPO to Sail Ventures' Director. They also pioneer in integrating a digitalized system for the product lines' traceability and accountability from upstream down to the end-consumer. This form of transparency is becoming more essential in the wake of ESG issues in the CPO industry and is a crucial criteria under investors' watch.

#### Opportunities in FY23E supported by strong fundamentals

Our best-fitted ARIMA (2,2,1) model forecast favors an inclining trend for CPO prices in the coming 12 months, averaging from MYR3,751/ton to MYR4,546/ton. This model is, however, prone to bias due to exclusion of exogenous factors. As a comparator, market forecasts of CPO price this year averages from MYR3,800 to MYR3,895. This would not, however, prod DSNG's performance by too much because if we closely observe DSNG's clientele there is little direct exposure to the export market, which buffers the ASP from fully pricing in from the global volatility. This issue might be bypassed by the impending government's plan to enact Indonesia's own CPO futures exchange by 2H23, whereby higher ASPs are expected to pass-through to domestic players. Moreover, Malaysian CPO production is feared to waiver amid high old trees composition (36% of all planted areas) and sub-optimal peat soil in Sarawak that comprises a huge chunk of prime and young trees, setting up potential for supply-side upsides. The ongoing drought in Argentina (top producer of soybean oil) holds soybean oil's prices up high, giving palm oil further potential to close the spread and rise up. We also hold the view that the intensification of the domestic and global B35 biodiesel initiative to be a driver as it will further tighten supply beyond 1H23. Thus, DSNG is at an advantage with its projected uptick in production by 5% YoY in FY23E.

#### Recommendation BUY for DSNG with TP: IDR860

We maintain our recommendation for DSNG with a **BUY** call and a target price of **IDR860** (22% upside), implying EV/ha of IDR80.5mn and 7.9x/1.0x PE/PBV in FY23E. We expect DSNG to thrive again in FY23E once the CPO fundamentals have priced in, further aided by the launch of domestic CPO futures exchange. We project the revenue to normalize by 7% in FY23E after last year's lucrative commodity boom on the back of 5% production boost and moderate prices projection. Downside risks to our call include: 1) persisting elusiveness in the US economy, 2) unstable ENSO transition, and 3) delayed Indonesian CPO future exchange implementation.

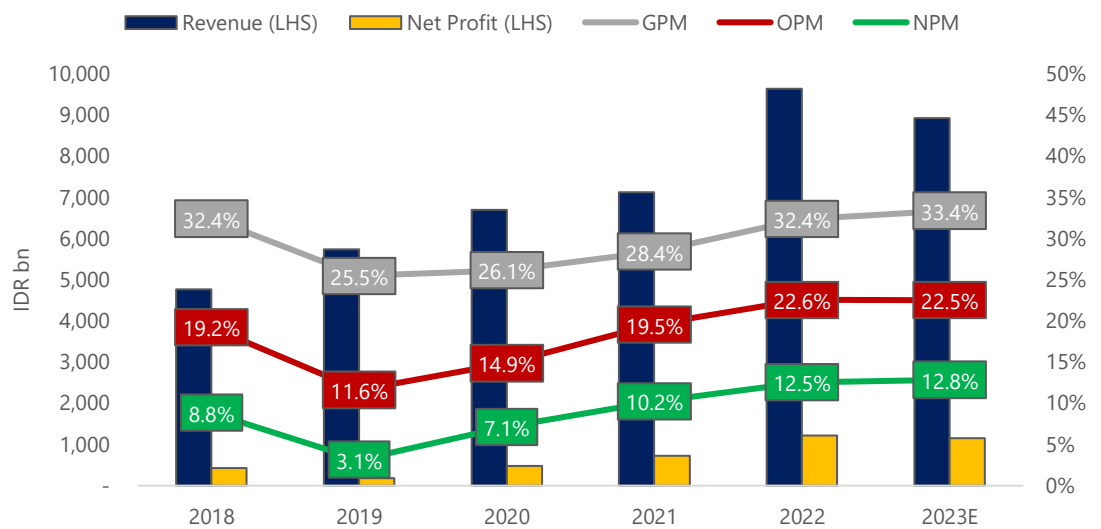
	Key Financial Highlights					
	IDR bn	FY20	FY21	FY22	FY23E	FY24F
Revenue		6,698.9	7,124.5	9,633.7	8,925.7	8,978.3
Net Income		476.6	727.2	1,206.8	1,146.4	1,113.7
EPS (IDR)		45.0	68.6	113.9	108.2	105.1
PE (x)		14.7	9.6	5.8	6.7	6.9
BVS (IDR)		587.8	662.8	769.8	845.4	931.5
PBV (x)		1.1	1.0	0.9	0.9	0.8
ROA (%)		3.4	5.3	7.9	7.0	6.4
ROE (%)		7.6	10.4	14.8	12.8	11.3

**Exhibit 1. FY22 results vs estimates summary**

IDR bn	3Q22	4Q22	% QoQ	FY21	FY22	% YoY	% MNCS	% Consensus
<b>Revenue</b>	<b>2,799</b>	<b>3,048</b>	<b>-8.17%</b>	<b>7,124</b>	<b>9,634</b>	<b>35.23%</b>	<b>129.96%</b>	<b>111.00%</b>
COGS	1,844	2,072	-10.99%	5,099	6,516	27.79%		
<b>Gross Profit</b>	<b>955</b>	<b>976</b>	<b>-2.16%</b>	<b>2,025</b>	<b>3,118</b>	<b>53.95%</b>		
Gross Margin	34.12%	32.03%		28.43%	32.36%			
<b>Operating Profit</b>	<b>681</b>	<b>615</b>	<b>10.78%</b>	<b>1,393</b>	<b>2,172</b>	<b>55.96%</b>	<b>154.02%</b>	<b>114.00%</b>
Operating Margin	24.33%	20.17%		19.55%	22.55%			
Pre-Tax Profit	593	418	41.95%	1,072	1,610	50.21%		
<b>Net Profit</b>	<b>431</b>	<b>309</b>	<b>39.50%</b>	<b>740</b>	<b>1,207</b>	<b>63.09%</b>	<b>162.24%</b>	<b>109.00%</b>
Net Margin	15.40%	10.14%		10.39%	12.53%			

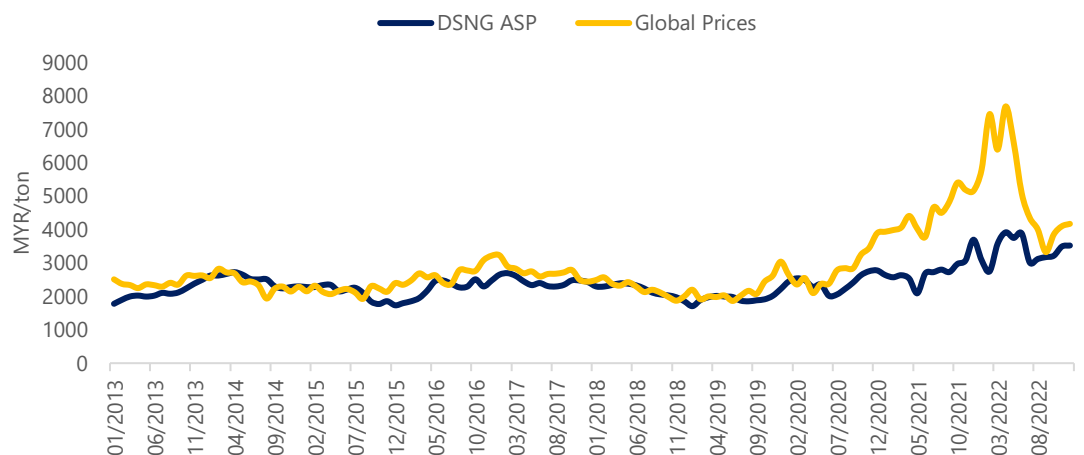
Source: Company, MNCS Research

**Exhibit 2. DSNG's performance has always been on the steady incline**



Source: Company, MNCS Research

**Exhibit 3. Historically, DSNG's ASP tends to lag against global prices**



Source: Bloomberg, Company, MNCS Research

**DSNG is set towards cost-cutting efficiencies and premium yield upsides amid looming opportunities for CPO in FY23E and FY24F.**

**DSNG's ASP and Global CPO prices generally have a spread which is particularly noticeable during the disruption of La Nina, Covid-19 and war-imposed supply chain disruptions that spanned in 2020-2022. Regression analysis shows weak sensitivity ( $R^2 = 0.61$ ) in ASP's response towards global price volatilities.**

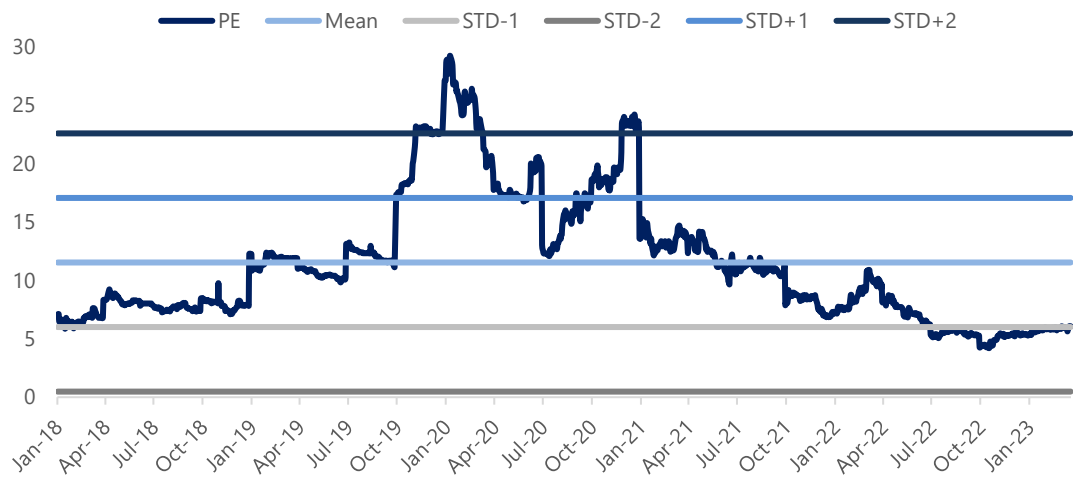
**Exhibit 5. ARIMA-based, 12-month CPO price trend projection**



Source: Bloomberg, MNCS Research

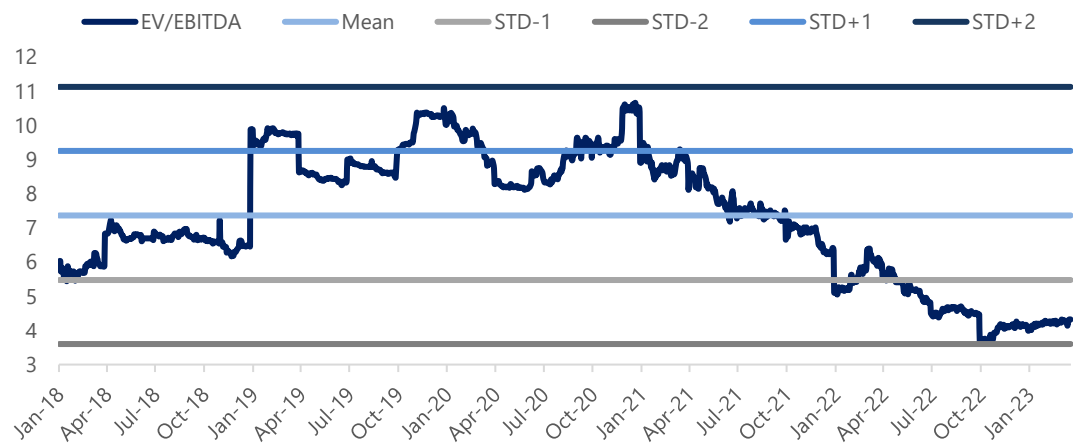
We plotted a 12-month rolling forecast for CPO prices using the best-fitted ARIMA (2,2,1) model order based on its monthly historical timeseries dataset. We obtained a steadily climbing trend for CPO prices towards FY24F, averaging at MYR4,169/ton for the base case, MYR4,546/ton for the bull case and MYR3,751/ton for the bear case.

**Exhibit 6. DSNG is currently traded close to its 5-year STD-1 PE band**



Source: Bloomberg, MNCS Research

**Exhibit 7. DSNG is currently traded below its 5-year STD-1 EV/EBITDA band**



Source: Bloomberg, MNCS Research

**Exhibit 8. DSNG financial highlights**

Income Statement						Balance Sheet					
IDR bn	2020	2021	2022	2023F	2024F	IDR bn	2020	2021	2022	2023F	2024F
<b>Revenue</b>	<b>6,698.9</b>	<b>7,124.5</b>	<b>9,633.7</b>	<b>8,925.7</b>	<b>8,978.3</b>	Cash and cash equivalents	604.5	419.9	311.1	628.3	934.1
Cost Of Revenue	4,947.2	5,100.0	6,516.1	5,945.5	5,912.0	Trade Receivables	381.8	249.7	460.4	266.7	337.3
<b>Gross Profit</b>	<b>1,751.7</b>	<b>2,024.5</b>	<b>3,117.6</b>	<b>2,980.2</b>	<b>3,066.2</b>	Inventory	670.4	773.1	1,291.0	763.3	942.2
Operating Expenses	(756.6)	(631.9)	(945.1)	(970.8)	(1,100.4)	Other Current Assets	956.4	879.0	1,188.6	1,101.3	1,107.7
<b>Operating Profit</b>	<b>995.1</b>	<b>1,392.6</b>	<b>2,172.5</b>	<b>2,009.4</b>	<b>1,965.8</b>	<b>Total Current Assets</b>	<b>2,613.1</b>	<b>2,321.6</b>	<b>3,229.6</b>	<b>2,759.6</b>	<b>3,321.3</b>
Finance Cost	(319.1)	(441.7)	(577.5)	(505.7)	(510.2)	Fixed Assets - net	5,452.5	5,921.8	6,678.7	6,837.8	6,936.0
Finance Income	19.4	14.9	15.3	25.9	30.2	Other Non-Current Assets	6,085.8	5,468.7	7,394.8	6,851.3	7,056.9
<b>Profit Before Income Tax</b>	<b>695.3</b>	<b>965.9</b>	<b>1,610.2</b>	<b>1,529.6</b>	<b>1,485.9</b>	<b>Total Non-Current Assets</b>	<b>11,538.3</b>	<b>11,390.5</b>	<b>12,127.6</b>	<b>13,689.2</b>	<b>13,992.9</b>
Income Tax Expenses	(217.1)	(226.2)	(403.6)	(383.4)	(372.5)	<b>TOTAL ASSETS</b>	<b>14,151.4</b>	<b>13,712.2</b>	<b>15,357.2</b>	<b>16,448.8</b>	<b>17,314.2</b>
<b>Profit of the Year</b>	<b>476.6</b>	<b>727.2</b>	<b>1,206.8</b>	<b>1,146.4</b>	<b>1,113.7</b>	Trade Payables	416.1	361.2	508.5	696.0	934.2
Minority Interest	(1.5)	(12.5)	0.2	0.2	0.2	Short-term Debt	1,189.1	891.4	1,428.0	1,461.4	1,356.2
<b>Net Profit</b>	<b>476.6</b>	<b>727.2</b>	<b>1,206.8</b>	<b>1,146.4</b>	<b>1,113.7</b>	Other current liabilities	687.8	603.6	1,085.6	1,005.9	1,011.8
EPS	<b>45.0</b>	<b>68.6</b>	<b>113.9</b>	<b>108.2</b>	<b>105.1</b>	<b>Total Current Liabilities</b>	<b>2,293.0</b>	<b>1,856.2</b>	<b>3,022.2</b>	<b>3,163.2</b>	<b>3,302.2</b>
BVS	587.8	662.8	769.8	845.4	931.5	Long-term Debt	4,749.2	3,960.2	3,216.6	3,234.5	3,041.1
						Other Long-term liabilities	878.4	870.3	1,176.9	1,090.4	1,096.8
						<b>Total Long-term Liabilities</b>	<b>5,627.6</b>	<b>4,830.5</b>	<b>4,174.9</b>	<b>4,324.9</b>	<b>4,137.9</b>
						<b>Total Equity</b>	<b>6,230.7</b>	<b>7,025.5</b>	<b>8,160.1</b>	<b>8,960.6</b>	<b>9,874.1</b>
						<b>TOTAL LIABILITY AND EQUITY</b>	<b>14,151.4</b>	<b>13,712.2</b>	<b>15,357.2</b>	<b>16,448.8</b>	<b>17,314.2</b>

Cash Flow						Ratios					
IDR bn	2020	2021	2022	2023F	2024F	IDR bn	2020	2021	2022	2023F	2024F
Net Income	476.6	727.2	1,206.8	1,146.4	1,113.7	Revenue Growth	16.8%	6.4%	35.2%	-7.3%	0.6%
Depreciation	338.7	359.2	404.3	743.0	807.1	Gross Profit Growth	19.9%	15.6%	54.0%	-4.4%	2.9%
Change in Working Capital	292.4	(25.5)	(581.4)	908.8	(11.2)	Operating Profit Growth	49.4%	40.0%	56.0%	-7.5%	-2.2%
Change in others	(13.4)	(5.3)	479.0	(560.1)	5.9	Net Income Growth	164.9%	52.6%	66.0%	-5.0%	-2.9%
<b>CFO</b>	<b>1,094.4</b>	<b>1,055.5</b>	<b>1,538.0</b>	<b>2,238.2</b>	<b>1,915.5</b>	Current Ratio (x)	1.1	1.3	1.1	0.9	1.0
Capital Expenditure	(626.0)	(742.3)	(1,132.3)	(900.0)	(905.3)	Quick Ratio (x)	0.8	0.8	0.6	0.6	0.7
Others	(16.5)	565.3	(1,926.0)	(866.2)	(205.5)	Receivable Days	20.8	12.8	17.4	10.9	13.7
<b>CFI</b>	<b>(642.5)</b>	<b>(177.0)</b>	<b>(1,297.2)</b>	<b>(1,766.2)</b>	<b>(1,110.8)</b>	Inventory Days	36.5	39.6	48.9	31.2	38.3
Dividend Paid	(52.3)	(130.7)	(212.0)	(206.1)	(200.2)	Payable Days	22.7	18.5	19.3	28.5	38.0
Net Change in Debt	(462.7)	(1,086.7)	(207.0)	51.3	(298.6)	DER (x)	1.3	1.0	0.9	0.8	0.8
Equity Fund Raised	-	-	-	-	-	GPM	26.1%	28.4%	32.4%	33.4%	34.2%
Others	565.1	154.3	69.4	-	-	OPM	14.9%	19.5%	22.6%	22.5%	21.9%
<b>CFE</b>	<b>50.1</b>	<b>(1,063.1)</b>	<b>(349.6)</b>	<b>(154.8)</b>	<b>(498.9)</b>	EBITDA Margin	20.0%	24.7%	27.5%	30.8%	30.9%
<b>Net Cash Increase</b>	<b>502.1</b>	<b>(184.7)</b>	<b>(108.8)</b>	<b>317.2</b>	<b>305.7</b>	NPM	7.1%	10.2%	12.5%	12.8%	12.4%
<b>Closing Balance</b>	<b>604.5</b>	<b>419.9</b>	<b>311.1</b>	<b>628.3</b>	<b>934.1</b>	ROA	3.4%	5.3%	7.9%	7.0%	6.4%
						ROE	7.6%	10.4%	14.8%	12.8%	11.3%

Sources: Company, MNCS Research

### MNC Research Industry Ratings Guidance

**OVERWEIGHT:** Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

**NEUTRAL:** Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

**UNDERWEIGHT:** Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

### MNC Research Investment Ratings Guidance

**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

### PT MNC SEKURITAS

MNC Financial Center Lt. 14 – 16

Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340

Telp : (021) 2980 3111

Fax : (021) 3983 6899

Call Center : 1500 899

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