

BUY | TP : IDR710
DSNG Stock Price Data

Last Price	:	IDR600
52wk High	:	IDR474
52wk Low	:	IDR730
Share Out	:	10.06bn
Market Cap	:	IDR6.36tn

DSNG Stock Price Performance

1-Day	:	+2.56%
1-Week	:	+0.84%
1-Month	:	-4.00%
3-Month	:	+2.56%
Year-to-Date	:	+0.00%

Shareholders

T.P. Rachmat Family	:	31.71%
Oetomo Family	:	28.90%
Soebianto Family	:	9.92%
Liana Salim Lim Family	:	6.32%
Public (>5%)	:	23.15%


Research Analyst

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PT Dharma Satya Nusantara Tbk (DSNG IJ)
Tough 1H23 with Potential Resurgence in 2H23
Bottom line was hurt in the wake of peak fertilizer costs...

- DSNG booked a revenue of IDR4.4tn (+15.1% YoY), which predominantly came from the palm oil segment as the company's biggest revenue contributor (88.4%) with a growth of +28.2% YoY. Despite the downtrend in CPO ASP, DSNG is capable of boosting its revenue by intensifying its CPO production. The total/nucleus FFB production rose by 2.5%/3.2% YoY in 2Q23, bearing fruit to an upsurge of 42.2%/7.8% YoY CPO production growth, simultaneously bolstered by the company's increased FFB purchases from third parties including their plasma farmers.
- On the contrary, the wood products segment suffered a sales drop of -35.5% YoY due to weak demand in the market. In the bottom line, DSNG's net profit was dragged down to IDR361.7bn (-21.8% YoY) due to the peak fertilizer price at the time the company purchased in advance, compressing the company's margins and rendered the 1H23 NPM at 8.3%.

...but history shows that a production grows stronger in 2H23...

- We expect the lagged effect of the recent La Nina cycle to carry over in 2H23. We found that on average the FFB production rate has been shown to pick up in 3Q, with an even faster pace in 4Q. Historically, the most similar weather pattern in regards to the ONI Index (Nino 3.4 region) that we are facing in 2H23 would be the one that happened in FY18, whereby both 2H18 and 2H23 was and is to be preceded by a La Nina period, followed by an El Nino shortly thereafter (Exhibit 2). Total FFB production growth in 3Q18 and 4Q18 was noticeably stronger than the 5-year mean: a growth of 31% QoQ was recorded in 3Q18 (vs 5-year mean of 8% QoQ) and 19.4% in 4Q18 (vs 19% QoQ on a 5-year mean; Exhibit 3).
- Based on our projection, we anticipate DSNG's FFB production to likely ramp up by c. 6% QoQ/5.9% YoY in 3Q23 to c. 673k tons, and c. 14% QoQ/3.8% YoY in 4Q23 to c. 720k tons. With the assumption of a IDR11.8mn/ton CPO ASP in FY23E and the continued company's initiative of purchasing additional FFB from plasma farmers to add to their CPO production volume in 3Q23 and 4Q23, we project a 14.3% YoY growth in DSNG's palm oil segment, though accompanied with a -39% YoY decline from the wood product sales if the current demand climate is to persist.

...henceforth, the base case is looking good for this year

We also anticipate further finance cost efficiency as more loan repayments are on the way. So far we have seen reduced finance costs in 1Q23/2Q23 by -53%/-33% YoY which helped alleviate pressure off the company's net margin. Additionally, in the company's efforts to minimize costs down the road, price renegotiations are in the works to adjust the remaining c. 20% of the purchased fertilizer in the company's inventory. We also assume the base case for fertilizer prices to remain below the 10-year mean despite recent geopolitical tensions reigniting from the Black Sea to pose supply-side price risks. With the above considerations, we amend our projection for the company's top line this year to reach IDR10.2tn (5.8% YoY), and the bottom line to grow 2.8% YoY to IDR1.24tn.

Recommendation: BUY with TP IDR710

We recommend **BUY** for DSNG after fine-tuning FY23E and onward production projections along with the potential costs incurred, with an adjusted target price (TP) of IDR710 (19% upside), implying a PE of 6.1x/0.8x and a PBV of 5.8x/0.7x for FY23E/FY24F. Several key risks to our call include: 1) Black Sea dispute escalation to spike fertilizer prices, 2) weather surprises, and 3) labor turnovers.

Key Financial Highlights

	FY20	FY21	FY22	FY23E	FY24F
Revenue (IDR bn)	6,698.92	7,124.50	9,633.67	10,196.17	10,604.01
EBIT (IDR bn)	995.06	1,392.62	2,172.48	2,044.94	2,013.24
Net Income (IDR bn)	476.64	727.15	1,206.84	1,240.73	1,302.60
ROA (%)	3.37%	5.30%	7.86%	7.85%	8.25%
ROE (%)	7.65%	10.35%	14.79%	13.56%	12.78%
PE (x)	13.01	8.53	5.14	4.96	4.72
PBV (x)	1.00	0.88	0.76	0.67	0.60
EPS (IDR)	44.97	68.60	113.85	117.05	122.89

Sources : Bloomberg, MNCS Research

Exhibit 1. DSNG's 1H23 performance against previous MNCS and consensus estimates

in Billion IDR	2Q23	1Q23	% QoQ	1H23	1H22	% YoY	FY23E	Cons.	% FY23E	% Cons.
Revenue	2,291.18	2,066.37	10.9%	4,357.55	3,787.17	15.1%	8,925.72	9,087.02	48.8%	48.0%
COGS	(1,758.48)	(1,543.16)	14.0%	(3,301.64)	(2,600.50)					
Gross Profit	532.70	523.22	1.8%	1,055.92	1,186.67	-11.0%	2,980.19	2,427.63	35.4%	43.5%
Gross Margin	23.2%	25.3%		24.2%	31.3%					
EBIT	302.98	329.73	-8.1%	632.71	876.53	-27.8%	2,009.41	1,555.97	31.5%	40.7%
EBIT Margin	13.2%	16.0%		14.5%	23.1%					
Pre-Tax Profit	192.74	287.11	-32.9%	479.85	638.16	-24.8%	1,529.64	1,125.92	31.4%	42.6%
Net Profit	147.89	213.77	-30.8%	361.66	462.74	-21.8%	1,146.45	845.32	31.5%	42.8%
Net Margin	6.5%	10.3%		8.3%	12.2%					

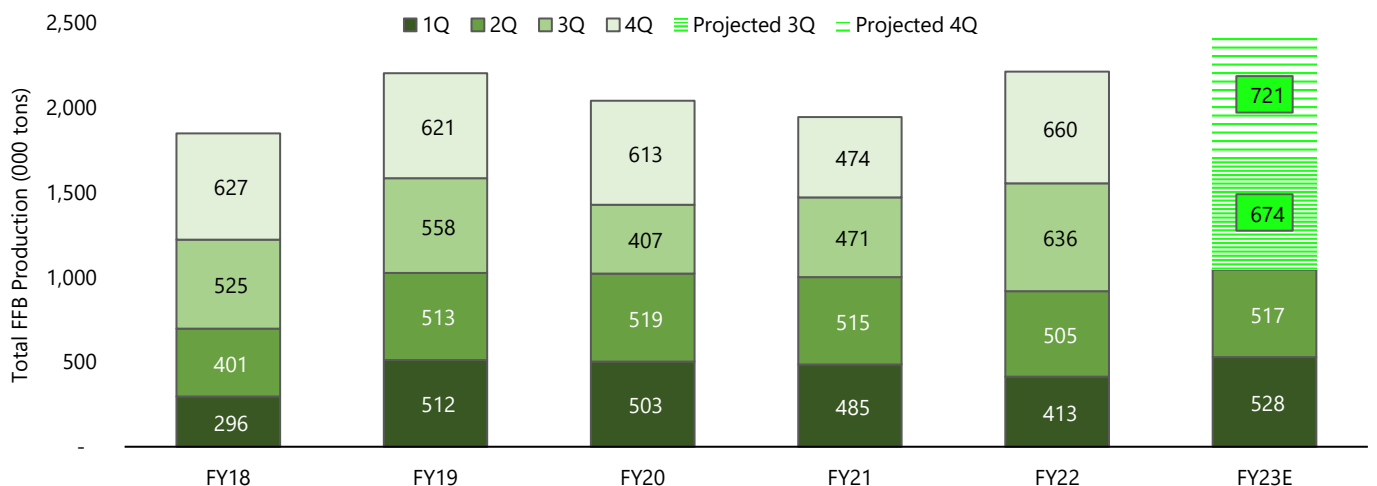
Sources : Company, MNCS Research

Exhibit 2. Similar ONI Index (Nino 3.4 region) patterns observed in 2018 and 2023 with El Nino to commence in Jul-23

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2017	-0.3	-0.2	0.1	0.2	0.3	0.3	0.1	-0.1	-0.4	-0.7	-0.8	-1.0
2018	-0.9	-0.9	-0.7	-0.5	-0.2	0.0	0.1	0.2	0.5	0.8	0.9	0.8
2019	0.7	0.7	0.7	0.7	0.5	0.5	0.3	0.1	0.2	0.3	0.5	0.5
2020	0.5	0.5	0.4	0.2	-0.1	-0.3	-0.4	-0.6	-0.9	-1.2	-1.3	-1.2
2021	-1.0	-0.9	-0.8	-0.7	-0.5	-0.4	-0.4	-0.5	-0.7	-0.8	-1.0	-1.0
2022	-1.0	-0.9	-1.0	-1.1	-1.0	-0.9	-0.8	-0.9	-1.0	-1.0	-0.9	-0.8
2023	-0.7	-0.4	-0.1	0.2	0.5	0.8	← Predicted El-Nino period →					

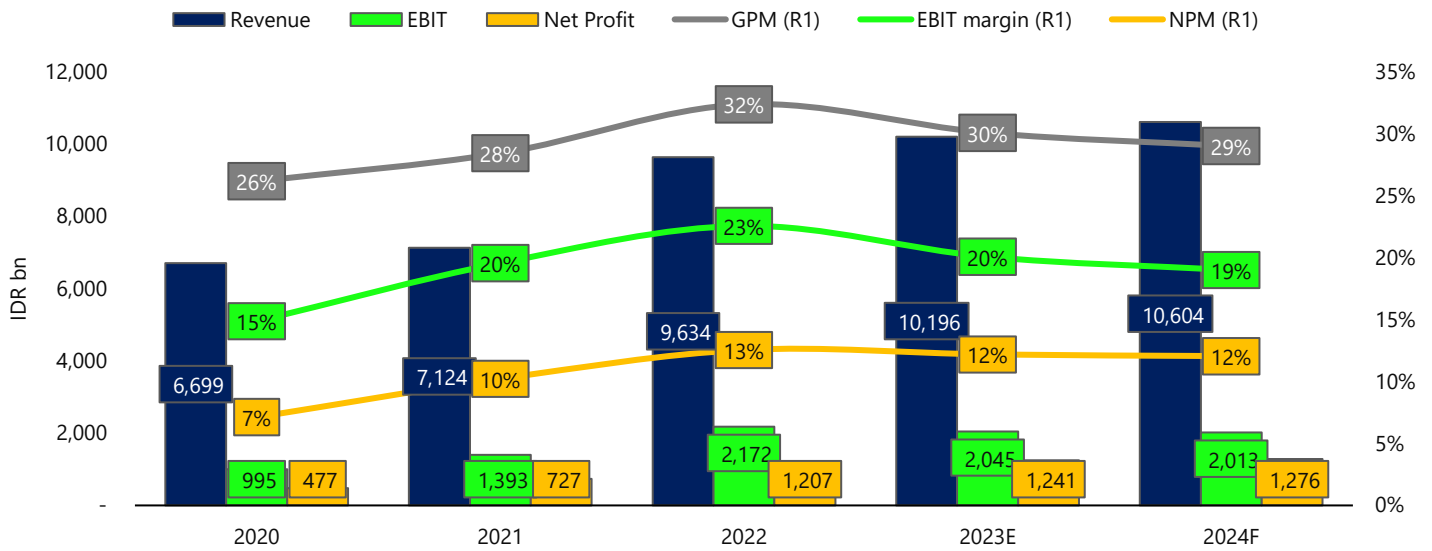
Sources : Bloomberg, MNCS Research

Exhibit 3. FFB production is set to reach peak levels in FY23E



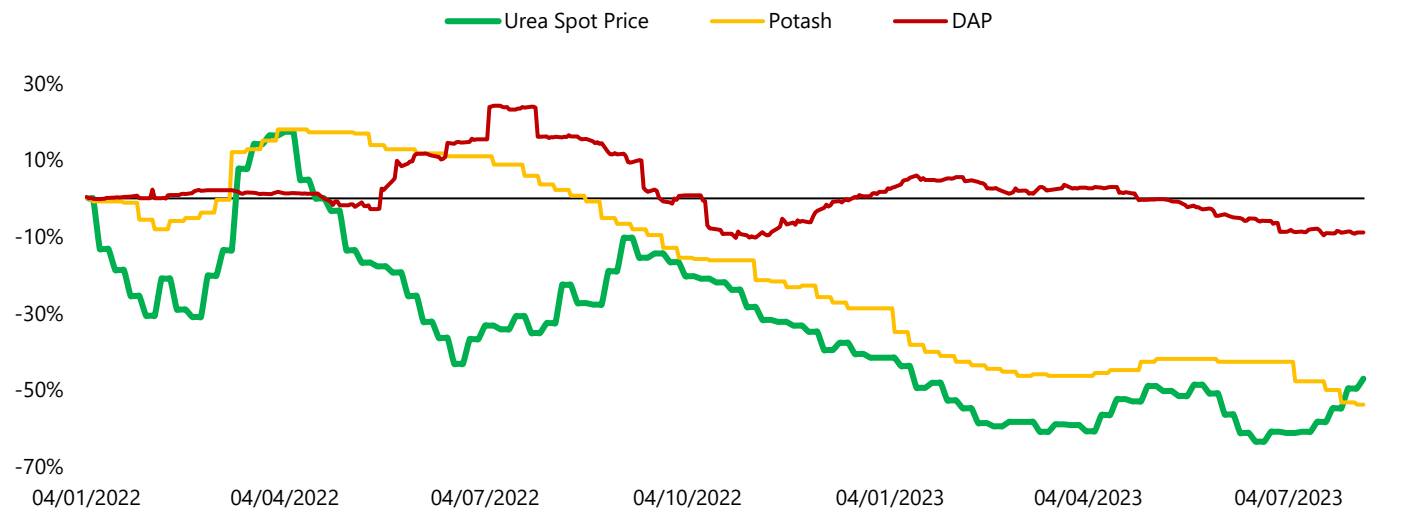
Sources : Company, MNCS Research

Exhibit 4. DSNG is still looking at solid room for growth ahead



Sources : Company, MNCS Research

Exhibit 5. Fertilizer prices have normalized below 10-year mean, with urea at risk from Black Sea escalations



Sources : Bloomberg, MNCS Research

Exhibit 6. CPO prices forecasted to move sideways for the rest of FY23E



Sources : Bloomberg, MNCS Research

Exhibit 7. Financial projections

Income Statement						Balance Sheet					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F	in Billion IDR	FY20	FY21	FY22	FY23E	FY24F
Revenue	6,698.92	7,124.50	9,633.67	10,196.17	10,604.01	Cash & Equivalents	647.71	422.38	359.35	576.99	434.58
COGS	(4,947.24)	(5,099.97)	(6,516.10)	(7,131.04)	(7,529.79)	Trade Receivables	381.76	249.66	460.43	558.69	486.48
Gross Profit	1,751.68	2,024.53	3,117.58	3,065.12	3,074.23	Inventory	670.40	773.07	1,291.00	1,465.28	1,393.48
G&A Expense	(334.67)	(356.98)	(451.67)	(478.04)	(497.16)	Others Current Assets	913.24	876.53	1,118.81	982.10	982.12
Final Tax	(383.07)	(374.34)	(431.37)	(456.56)	(474.82)	Total Current Assets	2,613.11	2,321.64	3,229.58	3,583.06	3,296.66
Other Income (Expense)	(38.88)	99.41	(62.06)	(85.58)	(89.01)	Fixed Assets - net	5,452.52	5,921.80	6,678.72	6,916.26	7,146.38
Op. Profit	995.06	1,392.62	2,172.48	2,044.94	2,013.24	Other Non-Current Assets	6,085.75	5,468.73	5,448.92	5,313.46	5,353.65
Finance Income (Expense)	19.36	14.93	15.28	-	-	Total Non-Current Assets	11,538.27	11,390.53	12,127.65	12,229.71	12,500.02
Other Income (Expense)	(319.12)	(441.66)	(577.53)	(355.21)	(275.96)	TOTAL ASSETS	14,151.38	13,712.16	15,357.23	15,812.77	15,796.68
PBT	695.30	965.88	1,610.23	1,689.73	1,737.28	Trade Payables	416.09	361.17	508.49	553.75	568.52
Tax Income (expenses)	(217.13)	(226.24)	(403.64)	(449.00)	(434.68)	ST Debt	1,213.07	911.59	1,737.73	1,544.65	1,197.03
Minority Interest	1.53	12.50	(0.25)	-	-	Other Current Liabilities	663.85	583.40	775.94	796.69	811.74
Net Income	476.64	727.15	1,206.84	1,240.73	1,302.60	Total Current Liabilities	2,293.01	1,856.16	3,022.16	2,895.09	2,577.30
EPS (IDR)	151.84	231.65	384.47	395.26	414.98	LT Debt	5,177.88	4,397.36	3,708.83	3,296.73	2,554.82
						Other LT Liabilities	449.75	433.18	466.10	468.23	469.77
						Total LT-Liabilities	5,627.62	4,830.53	4,174.93	3,764.96	3,024.59
						Total Equity	6,230.75	7,025.46	8,160.14	9,152.72	10,194.80
						TOTAL LIABILITY & EQUITY	14,151.38	13,712.16	15,357.23	15,812.77	15,796.68
Cash Flow						Ratios					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F		FY20	FY21	FY22	FY23E	FY24F
Net Income	476.64	727.15	1,206.84	1,240.73	1,302.60	Revenue Growth (%)	16.77%	6.35%	35.22%	5.84%	4.00%
D&A	344.10	365.82	478.68	631.29	671.22	Operating Profit Growth (%)	31.52%	39.95%	56.00%	-5.87%	-1.55%
Changes in WC	(100.38)	(25.49)	(581.37)	(227.29)	158.79	Net Profit Growth (%)	164.89%	52.56%	65.97%	2.81%	4.99%
Others	(46.63)	(54.44)	(87.69)	155.32	15.03	Current Ratio (%)	113.96%	125.08%	106.86%	123.76%	127.91%
Operating CF	673.72	1,013.03	1,016.46	1,800.04	2,147.64	Quick Ratio (%)	84.72%	83.43%	64.15%	73.15%	73.84%
Capex	(625.96)	(742.31)	(1,132.30)	(866.67)	(901.34)	Receivable Days (x)	20.80	12.79	17.44	20.00	16.75
Others	(1,562.75)	530.91	(9.15)	135.47	(40.19)	Inventory Days (x)	49.46	55.33	72.32	75.00	67.55
Investing CF	(2,188.71)	(211.40)	(1,141.45)	(731.21)	(941.53)	Payable Days (x)	30.70	25.85	28.48	28.34	27.56
Dividend Paid	(52.29)	(130.73)	(212.00)	(248.15)	(260.52)	DER (x)	1.03	0.76	0.67	0.53	0.37
Net Change in Debt	(23.70)	(1,082.00)	137.62	(605.18)	(1,089.53)	DAR (x)	0.45	0.39	0.35	0.31	0.24
Equity Fund Raised	-	87.13	-	-	-	Gross Profit Margin (%)	26.15%	28.42%	32.36%	30.06%	28.99%
Others	1,968.36	98.63	136.35	2.13	1.54	Operating Profit Margin (%)	14.85%	19.55%	22.55%	20.06%	18.99%
Financing CF	1,892.37	(1,026.96)	61.97	(851.20)	(1,348.51)	EBITDA (IDR Bn)	650.96	1,026.80	1,693.79	1,413.65	1,342.02
Cash at Beginning	270.33	647.71	422.38	359.35	576.99	EBITDA Margin (%)	9.72%	14.41%	17.58%	13.86%	12.66%
Cash at Ending	647.71	422.38	359.35	576.99	434.58	Net Income Margin (%)	7.12%	10.21%	12.53%	12.17%	12.28%
						BVPS (IDR)	587.81	662.78	769.82	863.46	961.77

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

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