NEUTRAL

Return (%)	-1D	-1W	-1M
JCI	-0.5	+0.4	+4.1
LQ45	-1.0	+0.1	+4.4
AALI IJ	-0.4	-1.1	+0.7
DSNG IJ	-0.9	+0.9	-1.8
LSIP IJ	+0.0	-1.1	-2.7

EPS Growth (%)	FY23E	FY24F
AALI IJ	-38.6	+16.2
DSNG IJ	-20.6	+12.8
LSIP IJ	-56.2	+4.5

Plantation Sector
Anticipating an El Nino-Fueled Rally

Output mostly rose; FY24F unlikely to play out the same

- Throughout 9M23, CPO players' output from our universe mostly gained, with DSNG leading the FFB production and CPO production growth by 5.5%/7.5% YoY, AALI trailing with 4.8%/-0.7% YoY, while LSIP's slipped -2.2%/-4.0% YoY. DSNG's and AALI's production growth trend was expected as the triple-dip La-Nina had prepared the planation's water reserves going into El Nino, though missed our projection (see here) for DSNG. LSIP's lackluster production could be attributed by their higher older average tree age (19 years; vs AALI's 15.1 years and DSNG's 13.8 years) as of FY22 and the more volatile precipitation rate (risks of getting less rainfall in more severe El Nino conditions) in LSIP's main operational area in the Sumatera region (particulary South Sumatera which accounts for 44% of LSIP's planted area; see exhibit 03).
- Based on NOAA's latest prediction (Nov-23), sea-surface temperature (SST) trends in the Nino-3.4 region portends a >55% chance for a strong El Nino to persist in Jan-24 to March-24, increasing the likelihood of disruptive precipitation rate and intense heat in Indonesia, from what was initially expected to be just a moderate El Nino. The lagged effects from El Nino's climate anomaly typically catches on after c. 6 months – a year. In concordance with the belated replanting cycle and aging trees, we expect Indonesian CPO output to further slide upon entering 2H24, possibly up to 1Q25.

Fertilizer burdens no more: FY24F performance should see an EPS growth

The 9M23 top lines of our CPO players unanimously declined; DSNG being the most resilient (-0.3% YoY) bolstered by a 7.4% YoY jump in CPO sales accompanied by a steady ASP (-0.4% YoY), while AALI's and LSIP's slipped -5.1%/-4.0% YoY on plummeting CPO ASP by -23.2%/-11.9% YoY. DSNG's advantage was offset, however, as its net profit fell the deepest by -43.7% YoY (vs AALI's/LSIP's -34.2%/-40.1% YoY), due to inflated COGS (10.8% YoY), selling and G&A expenses (13.1% YoY). Cost burdens came from fertilizers and raw materials (8.9% YoY), also seen in LSIP (8.2% YoY) but not in AALI (-4.2% YoY), as well as rising labor-related costs (20.2% YoY; contrary to AALI that slipped -7.5% YoY) due employee retention efforts to offset waning interest of labor participation in the palm oil industry and maintain output. Going into FY24F, however, we expect fertilizer costs to ease and allow margin expansions. Fertilizer prices have slid down from its 2022 highs and are set to tread around its 10-yr mean of c. USD327-395/ton in FY24F (-16.5% YoY) on subdued energy prices. We therefore readjusted the DSNG bottom line growth projection to 12.8% YoY, AALI to 16.2% YoY and LSIP to 4.5% YoY.

A biodiesel conundrum

Indonesia and Malaysia are expected to drive the non-food demand of palm oil through the newly enacted 35% and 20% blending mandates in both countries, respectively. Through biodiesel production growth (base case is a FY22-FY25F 15.6% CAGR) and higher blends on the way, as well as the newly launched CPO exchange, a price floor for domestic CPO can be secured. Assuming a lackluster crude oil demand in FY24F and no geopolitical escalations, a low-treading WTI price (c. <USD70/bbl) could render the palm oil gas oil (POGO) spread at positive levels in 1H24 and incentivize discretionary CPO blending for biodiesel production. Going into 2H24, however, the diminishing palm oil supply could reverse the POGO back into negative and lead to impositions of higher palm oil levies to exporters. We view DSNG to be hedged from this unfavorable tweak due to its pure domestic offtake.

Implied demand and price expectations in FY24F

We view that the threat of dwindling CPO output in FY24F has a great chance of driving prices higher on the back of solid demand. The upcoming election year may bolster the Indian consumption and instigate the need to maintain or even raise imports; the nation's economy is projected to steadfastly advance by 6.3% YoY in FY24F. Volatility in CPO price might be seen as soon as 1H24 despite high Malaysian stockpiles at 2.5mn tons as of 10M23 (higher than the 7-yr mean of 2.0mn tons), as Indonesian stockpiles are sliding on strong demand both domestically and internationally. At the same time, El Nino is expected to boost soybean output in the West (already expected to see an output jump of 9% YoY in FY23E) as had happened during 2015-2016's El Nino, capping CPO's potential upside. Overall, we view a base case of CPO prices trending higher in FY24F within the range of MYR3,900-4,150/ton.

NEUTRAL Recommendation for the Plantation Sector

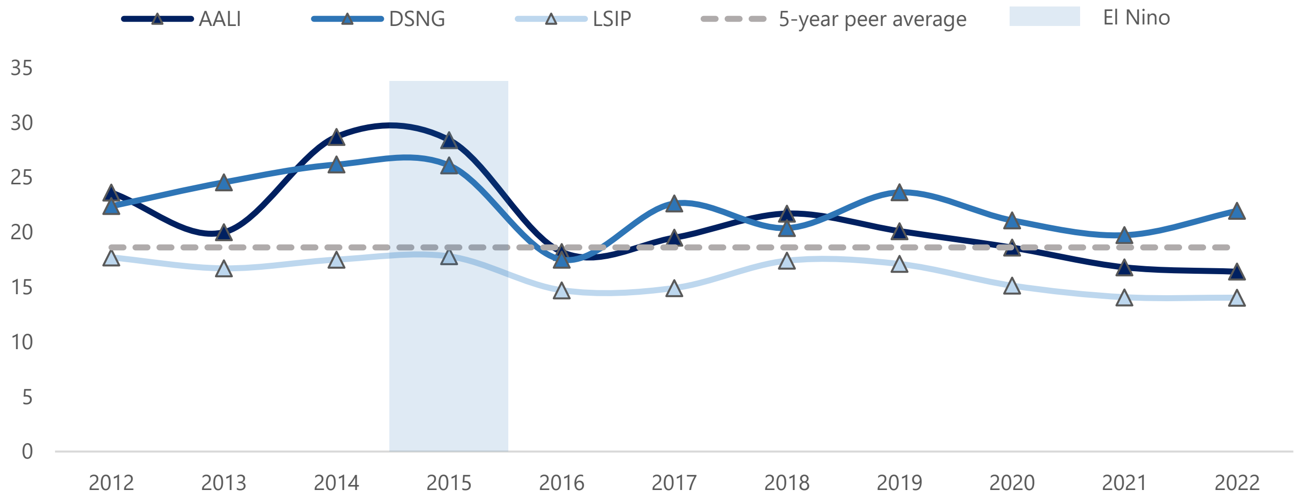
We call an **NEUTRAL** stance for the plantation sector; we believe there are convincing catalysts to bolster CPO prices in FY24F, but is also poised to be offset by coinciding factors. The expected slowdown in output from El Nino, a dragged-out replanting intensity and aging trees, in tandem with solid demand from resilient Indian consumption and rising biodiesel blends bodes higher CPO approaching 2H24. At the same time, El Nino is likely to boost soybean productivity, dragging edible oil prices. DSNG's strong output growth through its relatively young prime tree age and their frontrunning ESG initiatives – notably their Bio-CNG system integration – to cut costs and boost ESG scores is underrepresented in its current trading value (c. IDR540/share) as we believe it to be fairly valued at IDR690/share. AALI, albeit older tree age provides a more stable and resilient earnings base against volatility due to its integrated palm oil business lines and less exposure to regions of volatile precipitation. LSIP's even older tree age might compromise future outputs if the replanting pace is not picked up by the company. Risks to our call include: 1) lower than expected output to cap firms' revenue potential, 2) preference towards alternative edible oils on portended ample supply, 3) escalation of geopolitical disruptions on the agricultural supply chain.

Ticker	Mkt Cap (IDR tn)	P/E (x)		P/B (x)		Rec	TP (IDR/Sh)
		FY23E	FY24F	FY23E	FY24F		
AALI IJ	13.5	12.8	11.0	0.7	0.7	HOLD	6,500
DSNG IJ	5.7	5.8	5.1	0.6	0.6	BUY	690
LSIP IJ	6.1	10.7	10.2	0.6	0.6	HOLD	860

Sources : Bloomberg, MNCS Research

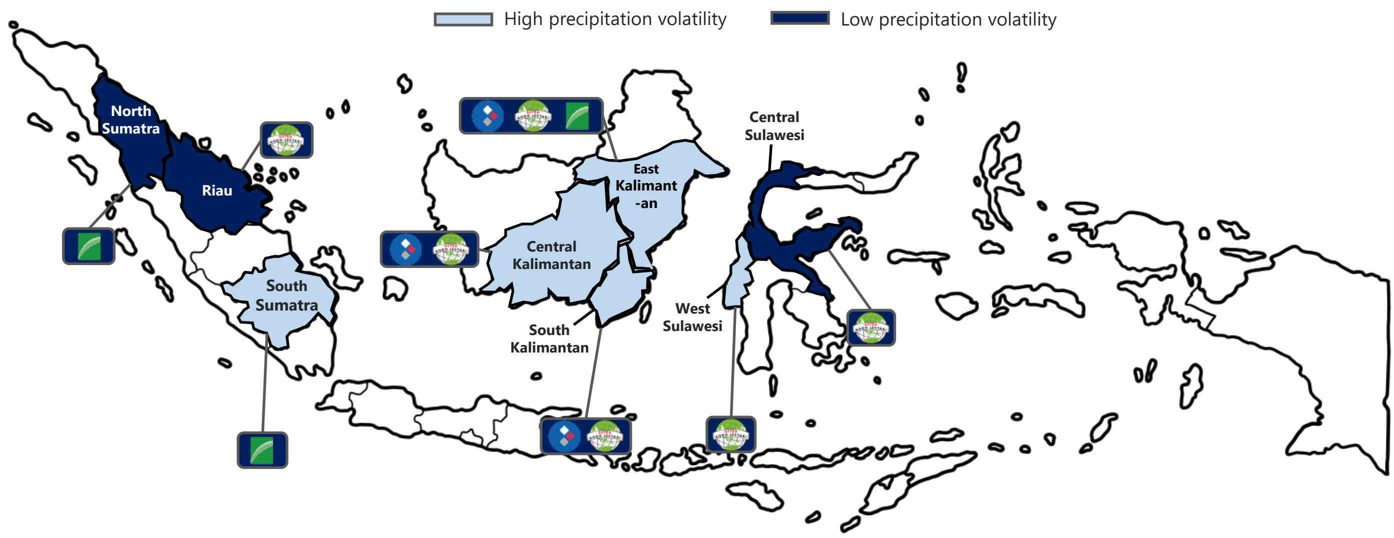
Research Analyst
Alif Ihsanario
alif.ihsanario@mncgroup.com

Exhibit 01. The slack in FFB yields seen during the last (strong; >2.0°C in Nino-3.4) El Nino in FY15 caught on c. 1 year ahead of the event



Sources : Companies, MNCS Research

Exhibit 02. Plantation area profiling based on locations of high rainfall volatilities during strong El Nino (2015)



Sources : GCCCA, Company, MNCS Research

FFB yields have seen a steep decline of -15.4%/-34.0%/-17.1% in AALI/DSNG/LSIP's production records during FY16 as an onset of FY15's El Nino.

As can be seen, DSNG's yield was the most affected due to its plantation regions' precipitation patterns being the most volatile during El Nino conditions.

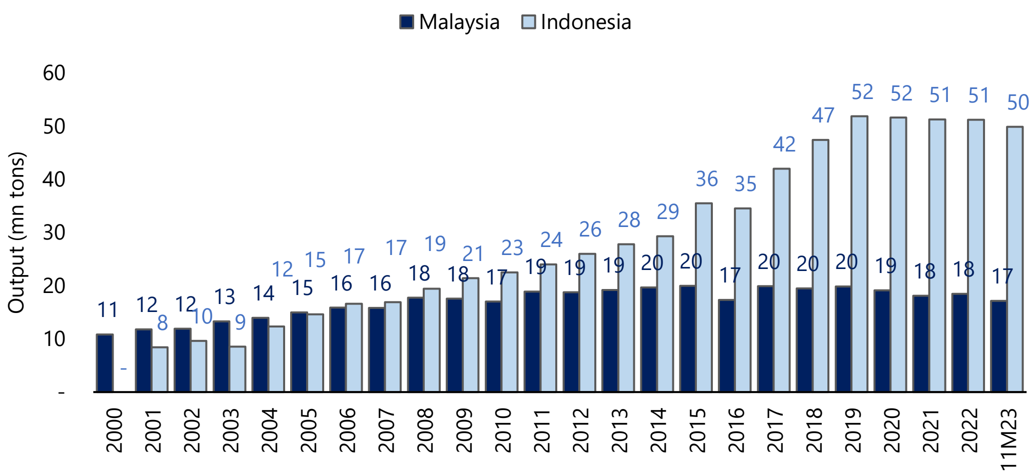
Exhibit 03. 88.7% of DSNG's plantation area is under a volatile precipitation

Company	Central Kalimantan	East Kalimantan	North Sumatra	South Sumatra	South Kalimantan	Central Sulawesi	West Sulawesi	Others	Total Nucleus Area (000 ha)	Volatile Area (%)
AALI	**23.40%**	**19.60%**	-	-	11.80%	7.80%	**10.6%**	26.8%	214.8	53.6%
DSNG	**14.20%**	**74.50%**	-	-	-	-	-	11.3%	111.2	88.7%
LSIP	-	**15.40%**	32.80%	**44.00%**	-	-	-	7.8%	84.6	59.4%

Sources : GCCCA, Company, MNCS Research

The 2015-2016, categorically strong El Nino has subdued CPO production of the two largest players in the world. Factoring in more potentially volatile weather patterns, declining tree age with suboptimal replanting and an increasing possibility of more than a moderate El Nino in Jan-Mar, 2024, we are likely to see production decline in FY24F.

Exhibit 04. Output took a -13.2%/-2.7% YoY beating in Malaysia/Indonesia during the 2015-2016 El Nino

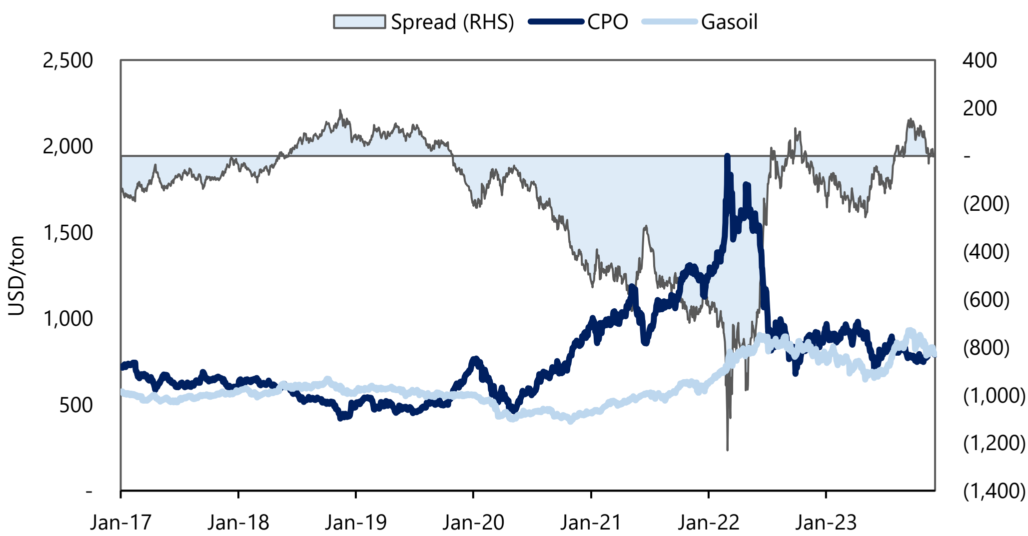


Source : GAPKI, MPOB, MNCS

POGO spread has been at accommodative levels since Aug-23 for the production of palm-oil based biodiesel. The spread looks set to narrow even more as sluggish crude demand outlook dragged prices down.

POGO spread could remain positive in 1H24, but if CPO picks up in 2H24 we might see a POGO reversal and more intensive levy regulations put in place to subsidize domestic biodiesel production.

Exhibit 05. Palm oil – Gas oil spread likely to stay positive on dwindling crude demand



Source : Bloomberg, MNCS

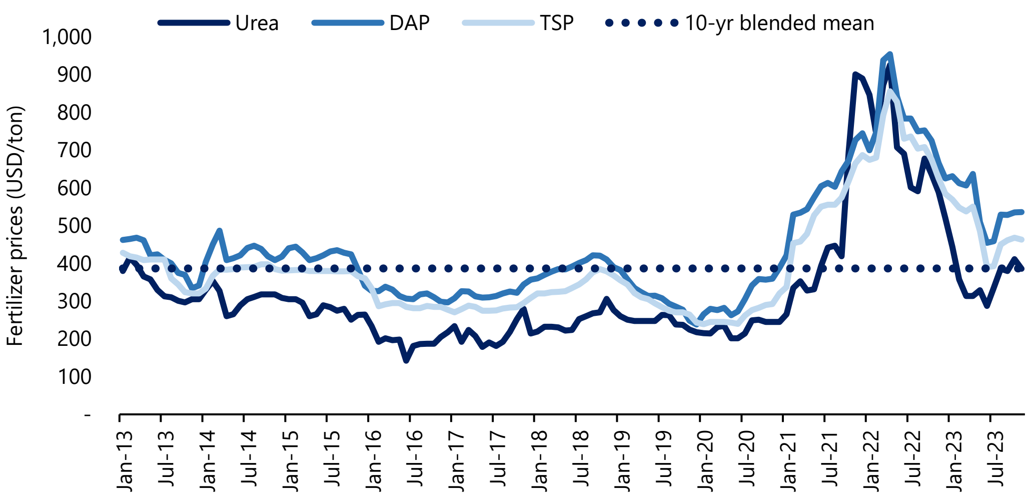
Biodiesel will be a strong demand driver for CPO in FY24F and beyond. It has grown at a CAGR of 74.7%% throughout FY12 – FY22, and is expected to grow at a CAGR of 15.6% throughout FY22 – FY25F.

Exhibit 06. Biodiesel production will be a significant driver of CPO demand going ahead

Source : MoEMR, USDA, MNCS

We view DSNG to be most positively impacted from the shift in fertilizer's price, as the company had stocked up most of their FY23E's inventory at high FY22 prices.

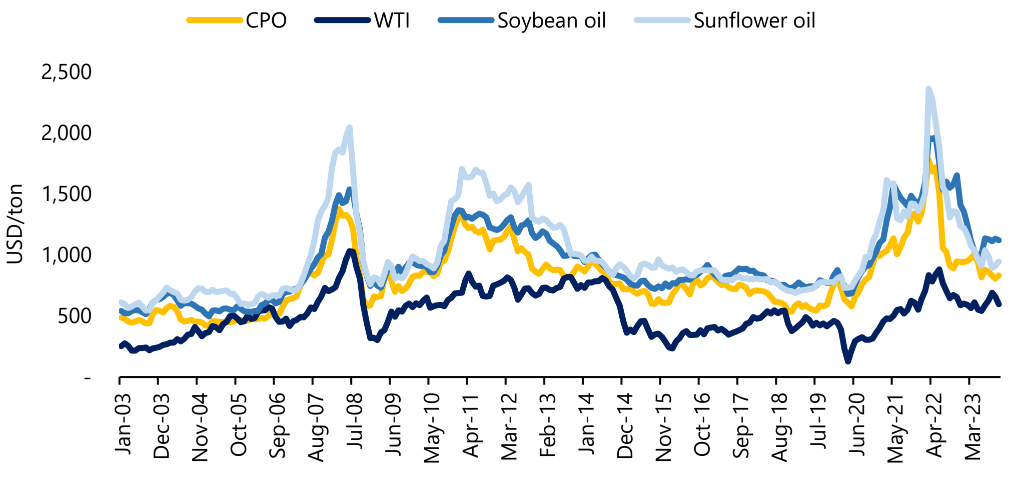
Exhibit 07. Fertilizer prices have declined from its FY22 highs approaching its 10-yr mean levels, leaving room for margin expansions



Source : WB, MNCS

CPO is still trading at an attractive discount compared to alternative edible oils. The spread is poised to narrow, however, as CPO output declines and soy output climbs. The upside to CPO prices could also be cancelled if WTI remainds subdued or experiences a stronger decline.

Exhibit 08. Strong correlations between crude and edible oils over the years



Source : Bloomberg, WB, MNCS

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