

MITA No. 010/06/2008

3 April 2009

Golden Agri-Resources Ltd

Upgrade to

BUY

Previous Rating: HOLD

S\$0.29

Fair Value: S\$0.40

Stock Code: GAGR.SI
 Reuters: C6K
 ISIN code: C6K
 Bloomberg: GGR SP

Event: Update

General Data

Issued Capital (m)	10,375
Mkt Cap (S\$m/US\$m)	3,009/2,004
Major Shareholder	The Widjaja Family (48.5%)
Free Float (%)	51.5
NTA per share (US\$)	0.45
Daily Vol 3-mth ('000)	85,233
52Wk High (S\$)	1.058
52Wk Low (S\$)	0.149

Most negatives reflected

Most negative news reflected. Golden Agri-Resources (GAR), after the recent correction from a high of S\$0.34 in early Feb, has been languishing around S\$0.29-0.30, where we believe that the current share price should have captured most, if not all, of the negative news. In fact, we are starting to see some signs of stability in both crude oil prices as well as CPO prices. (See Exhibit 1 for recent price trends), although industry experts at the recently concluded 20th Palm and Lauric Oils Conference/Exhibition 2009 in Kuala Lumpur expect CPO to trade within a narrow range of MYR1500-2100/ton in 2H09. However, even at the bottom of this range, which is around US\$416/ton, we still expect GAR to remain profitable as its cost of production is less than US\$250/ton.

Worst may be over. Although there is still some uncertainty about the global economy, we believe that the worst may be over. For one, we continue to see pretty inelastic demand for CPO as cooking oil - a basic necessity. And should there be a prolonged economic slump, we may even see an increase in demand for CPO as a cheaper substitute by both consumers and even companies. Meanwhile, we also expect GAR to benefit from the easing fertiliser prices, which we understand have fallen by some 30% from the peak in 2H08, although we expect the bulk of the impact to come in 2Q09. And even if CPO prices stagnate around here (our assumption is US\$500/ton), GAR's revenue should still get a boost from the expected 7-10% increase in production. Finally, GAR has also put in measures - both operationally and fiscally - to prepare for what it sees as a challenging year. Key among these will be more prudent spending - GAR expects to cap its capex to US\$200m, down from US\$244m in FY08.

Re-rating of plantation stocks. In the recent run-up in the market, most plantation stocks have also been re-rated, as investors cautiously shift towards early-cycle recovery plays such as commodities. Based on yesterday's closing prices, we note that the sector average (see Exhibit 2) is now hovering around 8.9x FY09F EPS. As such, we will also raise our valuation multiple from a very conservative 6x to 8x FY09F EPS, which in turn bumps up our fair value estimate from S\$0.29 (adjusted for the recent bonus issue) to S\$0.40. Given the 40% upside potential, we also raise our rating from Hold to **BUY**.

Carey Wong

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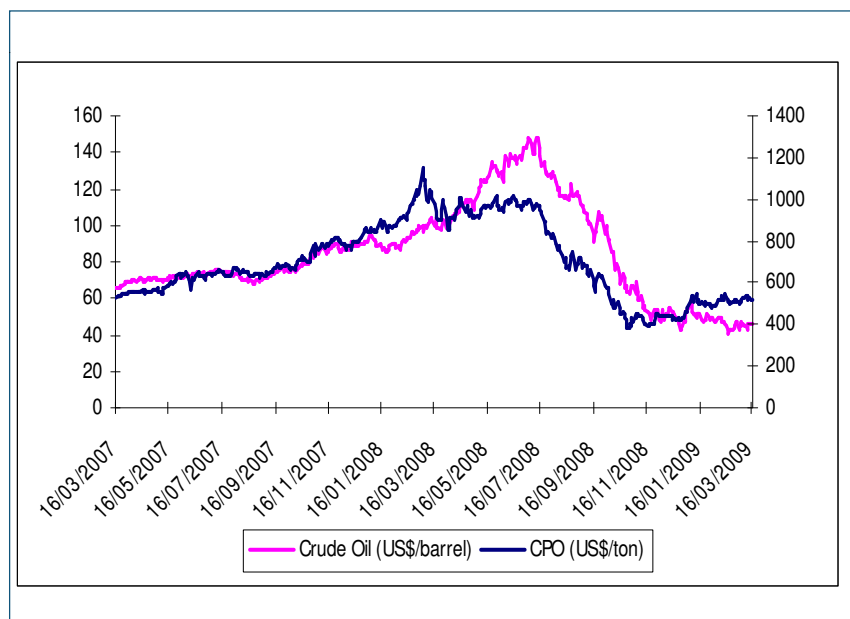
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Year to 31 Dec	Turnover (US\$m)	EBITDA (US\$m)	Net Profit (US\$m)	EPS (US cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	1,873.4	524.2	1,164.8	12.2	12.5	1.5	2.1
FY 08	2,985.9	587.3	1,382.5	13.9	13.5	1.3	1.7
FY 09F*	2,336.3	616.4	334.5	3.2	-76.7	5.7	1.7
FY 10F*	2,502.7	638.3	363.0	3.5	8.5	5.3	1.7

*Excludes bio-asset revaluation gains

Please refer to the important disclosures at the back of this document.

Exhibit 1: Crude and CPO Price Trends



Source: Bloomberg

Exhibit 2: Peer Comparison

Peer Comparison	Price (S\$)	Mkt Cap (S\$m)	FY08 PER (x)	FY09F PER (x)	P/Bk (x)	Gross Margin	ROA	ROE
First Resources	0.33	477.25	3.31	7.06	0.86	66.85%	15.50%	29.60%
Indofood Agri	0.64	926.58	8.84	8.07	0.88	34.87%	4.00%	10.60%
Kencana Resources	0.14	134.74	6.70	8.71	0.79	27.59%	6.30%	10.90%
Wilmar	3.26	20817.32	8.76	11.82	1.40	12.21%	9.20%	17.60%
Simple Average			6.90	8.91	0.98	35.38%	8.80%	17.20%
Golden Agri	0.30	3060.61	4.88	5.72	0.41	29.34%	23.40%	30.00%

Note - Golden Agri's PER excludes bio-asset revaluation gains

Source: Bloomberg, OIR

Golden Agri's Key Financial Data

EARNINGS FORECAST

Year Ended 31 Dec (US\$ m)	FY07	FY08	FY09F	FY10F
Revenue	1,873.4	2,985.9	2,336.3	2,502.7
EBITDA	524.2	587.3	616.4	638.3
Depreciation & amortisation	-50.7	-58.2	-79.1	-87.7
Bio-asset revaluation	1,284.5	1,457.2	0.0	0.0
Operating Profit	1,758.0	1,986.3	537.3	550.6
Net interest	-28.2	-35.4	-35.6	-35.8
Forex	-3.5	-34.7	0.0	0.0
Associates	2.6	5.4	3.0	3.2
Exceptionals	70.4	20.1	0.0	0.0
Pre-tax profit	1,802.9	1,947.1	509.7	523.1
Tax	-528.6	-528.4	-142.7	-141.2
Minority interests	-109.6	-36.1	-32.5	-18.8
Net profit	1,164.8	1,382.5	334.5	363.0
Earnings per share (cents)	12.2	13.9	3.2	3.5
Fully diluted earnings per share (cents)	12.2	13.9	3.2	3.5
Core net profit	285.5	376.8	334.5	363.0

BALANCE SHEET

As at 31 Dec (US\$ m)	FY07	FY08	FY09F	FY10F
Cash	124.5	133.2	132.1	173.9
Other current assets	639.3	574.3	535.8	560.8
Fixed assets	819.9	971.0	1,091.9	1,204.2
Other long term assets	3,429.1	5,147.0	5,139.0	5,139.0
Total assets	5,012.8	6,825.5	6,898.8	7,077.9
Current liabilities less debt	255.3	238.4	275.1	286.2
Debt	491.0	553.9	544.3	512.1
Other long term liabilities	885.3	1,326.3	1,045.6	915.6
Total liabilities	1,631.6	2,118.7	1,865.1	1,713.9
Shareholders equity	3,302.6	4,613.7	4,908.1	5,219.6
Minority interests	78.6	93.1	125.6	144.4
Total equity and liabilities	5,012.8	6,825.5	6,898.8	7,077.9
NTA per share (cents)	30.7	43.4	46.2	49.2

CASH FLOW

Year Ended 31 Dec (US\$ m)	FY07	FY08	FY09F	FY10F
Operating profit before working cap. changes	521.1	550.0	584.4	643.3
Working capital changes	-229.6	67.9	1.0	-13.3
Interest and tax	-123.9	-190.6	-285.6	-307.6
Net cash from operations	167.6	427.4	299.8	322.4
Capex	-155.7	-244.1	-200.0	-200.0
Other investing flows	-378.1	-97.0	-11.6	-8.2
Investing cash flow	-533.8	-341.0	-211.6	-208.2
Change in equity	508.0	0.0	0.0	0.0
Net change in debt	-72.9	16.7	-9.5	-32.2
Dividends paid	-70.9	-92.4	-79.8	-40.1
Others	-9.7	-1.8	0.0	0.0
Financing cash flow	354.6	-77.6	-89.4	-72.4
Forex adjustments	0.0	0.0	0.0	0.0
Net cash flow	-5.9	8.7	-1.1	41.8
Cash at beginning of year	130.4	124.5	133.2	132.1
Fixed Deposit/Overdraft	0.0	0.0	0.0	0.0
Cash at end of year	124.5	133.2	132.1	173.9

Key Ratios

PER (x)	1.5	1.3	5.7	5.3
Price/NTA (x)	0.6	0.4	0.4	0.4
EV/EBITDA (x)	4.3	4.0	3.8	3.5
Dividend yield (%)	2.1	1.7	1.7	1.7
ROIC (%)	30.7	26.8	6.1	6.3
ROE (%)	35.3	30.0	6.8	7.0
Net gearing (%)	11.1	9.1	8.4	6.5
PE to growth (x)	0.1	0.1	-0.1	0.6

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds NIL shares in the above security.

RATINGS AND RECOMMENDATIONS:

OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.

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- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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