

MITA No. 010/06/2008

18 May 2009

# Golden Agri-Resources Ltd

## Downgrade to HOLD

 Downgrade to  
**HOLD**

Previous Rating: BUY

**S\$0.38**
**Fair Value: S\$0.40**

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

Event: Results

### General Data

Issued Capital (m)	10,375
Mkt Cap (S\$m/US\$m)	3,942/2,678
Major Shareholder	The Widjaja Family (48.5%)
Free Float (%)	51.5
NTA per share (US\$)	0.45
Daily Vol 3-mth ('000)	99,660
52Wk High (S\$)	1.058
52Wk Low (S\$)	0.149

**Dismal 1Q09 results.** Golden Agri Resources (GAR) posted a dismal set of 1Q09 results on Friday. Revenue slipped 44.8% YoY (-30.3% QoQ) to US\$412.2m, meeting about 17.6% of our full-year estimate; net profit (excluding fair value adjustments of its bio-assets) plunged 93.7% YoY (-78.3% QoQ) to just US\$8.6m (2.6% of FY09 estimate). There are three reasons for the shortfall. First, the plunge in CPO (crude palm oil) prices from US\$1077/ton in 1Q08 to US\$511/ton in 1Q09, and we understand that GAR's achieved sales price was even lower at US\$482/ton. Secondly, the drop in CPO production (down 17% YoY and 12% QoQ) due to tree stress and heavy rainfall in certain locales. Thirdly, higher fertilizer costs, which raised the cost of production by 10% to US\$275/ton, and continued to weigh on margins.

**Has CPO production bottomed in 1Q09?** Despite the volatile commodity prices outlook, management believes that the demand for CPO, being the cheapest edible oil, is supported by core demand from the edible oil and oleo-chemical markets. Hence, it is keen to both expand its high-margin upstream business and select downstream capabilities and distribution. It expects to spend US\$225m in capex this year. Management is also confident that GAR has seen the bottom of its CPO production, as the worst of the tree stress (due to the drought in 2006) has passed and its yields should start to normalize. Nevertheless, it has retained a tinge of caution as it has scaled down its new planting target from 50k hectares to 30k.

**Possible rights issue overhang.** Separately, on report that GAR has appointed BNP Paribas and Credit Suisse to raise US\$200m via a rights issue, it clarified that it has not given the mandate yet. Management admits it is in talks with several investment banks on the possibility as it feels that trying to raise funds via debt is still difficult and expensive. Management adds any additional funds would come in handy when "opportunities arise". Assuming that GAR is looking to raise that amount, the potential dilution is at least 7%.

**Downgrade to HOLD.** Due to the dismal 1Q09 results, we have pared our FY09 earnings by 20.8%, but our fair value remains at S\$0.40 based on 10x FY09F PER (vs. 8x previously - in line with the general re-rating of the overall market). But given the potential overhang from the rights issue as well as the limited upside, we downgrade our rating to **HOLD**.

### Carey Wong

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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	2.0	1.7
FY 08	2,985.9	587.3	1,382.5	13.9	13.5	1.8	1.4
FY 09F*	2,334.8	500.6	265.1	2.6	-81.6	9.6	1.4
FY 10F*	2,476.6	585.9	331.4	3.2	25.0	7.7	1.4

\* Excludes fair value adjustments

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

## Golden Agri's Key Financial Data

Golden Agri Results Year Ended 31 Dec (US\$ m)	1Q08 (US\$m)	1Q09 (US\$m)	% Chg (YoY)	4Q08 (US\$m)	% Chg (QoQ)
Revenue	747.4	412.2	-44.9%	591.1	-30.3%
Cost of Sales	-482.8	-348.8	-27.8%	-501.5	-30.4%
Gross profit	264.6	63.4	-76.0%	89.6	-29.2%
<b>Gross margin</b>	<b>35.4%</b>	<b>15.4%</b>		<b>15.2%</b>	
Revaluation of bio assets	0.0	0.0	nm	0.0	nm
EBITDA	201.5	45.3	-77.5%	38.5	17.7%
Depreciation & amortisation	-13.4	-15.8	17.4%	-15.6	1.2%
Operating profit	188.1	29.5	-84.3%	22.9	28.9%
Net interest	-9.3	-10.8	16.3%	-13.0	-16.7%
Forex	4.8	-3.3	nm	1.7	nm
Associates	1.8	1.6	-9.0%	0.5	211.1%
Exceptionals	0.0	0.0	nm	0.0	nm
Pre-tax profit	185.4	17.0	-90.8%	11.0	54.3%
Tax	-47.8	-8.7	-81.8%	29.9	nm
Minority interests	-1.9	0.3	nm	-1.3	nm
Net profit	135.7	8.6	-93.7%	39.6	-78.3%
<b>Net Margin</b>	<b>18.2%</b>	<b>2.1%</b>		<b>6.7%</b>	

\*4Q08 numbers have been adjusted to strip out previously included FV gains.

## EARNINGS FORECAST

Year Ended 31 Dec (US\$ m)	FY07	FY08	FY09F	FY10F
Revenue	1,873.4	2,985.9	2,334.8	2,476.6
EBITDA	524.2	587.3	500.6	585.9
Depreciation & amortisation	-50.7	-58.2	-80.3	-90.6
Bio-asset revaluation	1,284.5	1,457.2	0.0	0.0
Operating Profit	1,758.0	1,986.3	420.3	495.3
Net interest	-28.2	-35.4	-32.3	-33.7
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	395.9	469.8
Tax	-528.6	-528.4	-110.9	-126.9
Minority interests	-109.6	-36.1	-20.0	-11.6
Net profit	1,164.8	1,382.5	265.1	331.4
Earnings per share (cents)	12.2	13.9	2.6	3.2
Fully diluted earnings per share (cents)	12.2	13.9	2.6	3.2
Core net profit	285.5	376.8	265.1	331.4

**BALANCE SHEET**

<b>As at 31 Dec (US\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Cash	124.5	133.2	154.7	178.0
Other current assets	639.3	574.3	528.9	549.9
Fixed assets	819.9	971.0	1,115.7	1,250.1
Other long term assets	3,429.1	5,147.0	5,147.0	5,147.0
Total assets	5,012.8	6,825.5	6,946.3	7,124.9
Current liabilities less debt	255.3	238.4	251.2	265.9
Debt	491.0	553.9	520.0	488.0
Other long term liabilities	885.3	1,326.3	1,215.0	1,115.0
Total liabilities	1,631.6	2,118.7	1,986.2	1,868.9
Shareholders equity	3,302.6	4,613.7	4,847.0	5,131.3
Minority interests	78.6	93.1	113.1	124.7
Total equity and liabilities	5,012.8	6,825.5	6,946.3	7,124.9
NTA per share (cents)	30.7	43.4	45.6	48.3

**CASH FLOW**

<b>Year Ended 31 Dec (US\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Operating profit before working cap. changes	521.1	550.0	558.6	579.1
Working capital changes	-229.6	67.9	83.9	-11.0
Interest and tax	-123.9	-190.6	-282.3	-255.8
Net cash from operations	167.6	427.4	360.1	312.4
Capex	-155.7	-244.1	-225.0	-225.0
Other investing flows	-378.1	-97.0	0.0	-0.3
Investing cash flow	-533.8	-341.0	-225.0	-225.3
Change in equity	508.0	0.0	0.0	0.0
Net change in debt	-72.9	16.7	-33.9	-32.0
Dividends paid	-70.9	-92.4	-79.8	-31.8
Others	-9.7	-1.8	0.0	0.0
Financing cash flow	354.6	-77.6	-113.7	-63.8
Forex adjustments	0.0	0.0	0.0	0.0
Net cash flow	-5.9	8.7	21.4	23.3
Cash at beginning of year	130.4	124.5	133.2	154.7
Fixed Deposit/Overdraft	0.0	0.0	0.0	0.0
Cash at end of year	124.5	133.2	154.7	178.0

**Key Ratios**

PER (x)	2.0	1.8	9.6	7.7
Price/NTA (x)	0.8	0.6	0.5	0.5
EV/EBITDA (x)	5.6	5.0	5.8	4.9
Dividend yield (%)	1.7	1.4	1.4	1.4
ROIC (%)	30.7	26.8	4.9	5.9
ROE (%)	35.3	30.0	5.5	6.5
Net gearing (%)	11.1	9.1	7.5	6.0
PE to growth (x)	0.2	0.1	-0.1	0.3

Source: Company data, OIR estimates

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

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