

MITA No. 010/06/2008

15 May 2009

Olam International Ltd

Upgrade to

BUY

Previous Rating: HOLD

\$S1.85

Fair Value: \$S2.06

Stock Code: OLAM.SI
 Reuters: O32
 ISIN Code: O32
 Bloomberg: OLAM SP

Event: Results

General Data

Issued Capital (m)	1,713
Mkt Cap (\$m/US\$m)	3,170/2,165
Major Shareholder	
Kewalram Singapore Ltd	(24.28%)
Free Float (%)	69.5%
NAV per share (S cents)	55.5
Daily Vol 3-mth ('000)	11,560
52Wk High (\$)	3.190
52Wk Low (\$)	0.835

Steady growth

3Q09 results in line with expectations. Olam International Ltd's (Olam) 3Q09 results were in line with expectations. Revenue slipped 4.8% YoY to S\$2.3b on lower commodity prices, but this was partially offset by volume growth. Reported net profit surged 56.1% to S\$87.0m, mainly due to non-recurring gains from the buy-back of its convertible bonds. Stripping off these gains, core net profit would still have risen by a credible 12.0% to S\$62.4m. Olam's 9M09 core earnings have met 67% of our full year estimate. We are leaving our projections intact since 4Q is a seasonally strong quarter.

Steady growth in volume. Olam registered a 6% YoY increase in overall volume in 3Q09. Edible products, which made up 79% of the group's revenue, formed the backbone of this growth, while industrial raw materials succumbed to weak demand. This is not surprising, given the relative inelasticity of demand for food. Olam's various food segments registered volume growth in the range of 8% to 16% in 3Q09. Its Fibre & Wood segment, on the other hand, languished with a 16% YoY decline in volume handled.

Healthier cash flow. Commodity price disinflation eased working capital requirements and boosted Olam's cash flows. 9M009 operating cash inflow improved significantly to S\$108.1m from an outflow of S\$192.0m a year ago. 3Q09 saw a YoY decline in operating cash flow, but this was due to a later procurement season coupled with the late arrival of crops, which delayed payment to its suppliers to the current quarter.

Light at the end of the tunnel? There have been signals suggesting that commodities markets could be bottoming out. According to management, prices and trading volumes of commodities such as cotton, wood and dairy rebounded sharply in April and May, providing a glimmer of hope that recovery could be in sight. For now, however, it remains premature to conclude if the rebound is due to genuine improvements in fundamentals, or whether it is purely a case of inventory restocking, in which case the rally could be short-lived.

Upgrade to BUY. Having delivered a 16.6% growth in 9M09 volume, Olam is on track to meet its target of 16% growth in FY09 volume. Olam has been a laggard in the recent rally, and is now trailing at 13.5x FY10F PER vs. the STI's 15x. We believe that Olam will continue deliver consistent growth, and are raising our valuation parameter to 15x (from 11x), and fair value estimate to S\$2.06 (from S\$1.51). Upgrade to **BUY**.

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Year to 30 Jun	Turnover (\$m)	Gross Profit (\$m)	Net Profit (\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	5,455.5	1,201.7	109.0	6.7	20.8	27.4	1.9
FY 08	8,111.9	1,633.2	167.7	10.1	49.6	18.4	1.4
FY 09F	9,186.0	1,993.3	286.7	10.8	7.5	17.1	2.3
FY 10F	9,942.3	2,048.1	235.1	13.7	26.6	13.5	1.9

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

Olam's Key Financial Data

Olam Results	3Q08	3Q09	% Chg	2Q09	% Chg
Year Ended 30 Jun (S\$ m)	(S\$m)	(S\$m)	(YoY)	(S\$m)	(QoQ)
Sale of goods	2,404.7	2,289.4	-4.8%	2,146.9	6.6%
Other income (including buy-back of CB)	4.4	33.0	644.9%	64.9	-49.2%
Cost of goods sold	1,922.1	1,845.3	-4.0%	1,761.2	4.8%
Gross Profit	487.0	477.1	-2.0%	450.7	5.9%
Shipping and logistics	259.2	229.1	-11.6%	164.5	39.3%
Commission and claims	16.6	24.3	46.3%	24.7	-1.7%
Employee benefit / share based expense	32.8	41.1	25.3%	41.8	-1.5%
Depreciation	8.6	9.3	8.3%	9.5	-1.7%
Net measurement of derivative instruments	10.1	-18.1	N.M.	-11.9	51.4%
Forex gains	1.0	6.4	548.3%	4.8	34.6%
Other operating expenses	42.5	34.8	-18.1%	42.9	-18.8%
EBIT	116.2	150.0	29.1%	174.5	-14.0%
Share of JV/associates profit	-0.4	-10.1	2450.6%	-4.2	141.8%
Finance costs	50.8	67.4	32.6%	66.4	1.5%
Profit before tax	65.8	92.7	40.9%	112.3	-17.4%
Tax	-9.9	-5.7	-42.6%	-8.9	-36.0%
Profit for the year	55.9	87.0	55.8%	103.4	-15.8%
Minority interests	0.1	0.0	-100.0%	0.0	N.M.
Reported net profit	55.7	87.0	56.1%	103.4	-15.8%
Core net profit	55.7	62.4	12.0%	47.5	31.6%

EARNINGS FORECAST

Year Ended 30 Jun (S\$ m)	FY07	FY08	FY09F	FY10F
Sale of goods	5,455.5	8,111.9	9,186.0	9,942.3
Other income (including buy-back of CB)	22.1	40.5	101.0	0.0
Cost of goods sold	4,275.9	6,519.2	7,293.7	7,894.2
Gross Profit	1,201.7	1,633.2	1,993.3	2,048.1
Shipping and logistics	661.9	879.5	918.6	994.2
Commission and claims	68.2	61.0	73.5	79.5
Employee benefit expense	95.5	169.2	192.9	208.8
Depreciation	17.2	33.8	39.3	41.2
Net measurement of derivative instruments	0.2	-11.0	0.0	0.0
Forex gains	-43.7	-21.5	0.0	0.0
Other operating expenses	128.7	155.7	202.1	218.7
EBIT	273.6	366.5	566.9	505.7
Share of JV/associates profit	0.4	0.2	0.0	0.0
Finance costs	147.1	201.4	233.6	232.3
Profit before tax	126.2	165.0	333.3	273.3
Tax	-17.2	2.7	-46.7	-38.3
Profit for the year	109.0	167.7	286.7	235.1
Minority interests	0.0	0.0	0.0	0.0
Reported net profit	109.0	167.7	286.7	235.1
Core net profit	109.0	150.8	185.7	235.1
Core EPS (S cents)	6.7	10.1	10.8	13.7
Profitability Ratios				
Gross margin (%)	21.9%	20.0%	21.5%	20.6%
PBT margin (%)	2.3%	2.0%	3.6%	2.7%
Net profit margin (%)	2.0%	2.1%	3.1%	2.4%

BALANCE SHEET

As at 30 Jun (S\$ m)	FY07	FY08	FY09F	FY10F
Cash and cash equivalents	237.6	339.1	641.6	789.3
Inventories	1,163.2	1,790.2	1,653.5	1,590.8
Trade receivables	508.2	724.4	643.0	696.0
Other current assets	942.8	2,759.9	2,736.8	2,790.2
Property, plant, and equipment	129.3	403.4	424.1	442.9
Other non-current assets	196.5	213.3	525.2	525.2
Total assets	3,177.6	6,230.3	6,624.1	6,834.4
Debt	1,919.9	2,984.6	3,114.6	3,097.5
Current liabilities excluding debt	825.0	2,607.3	2,656.1	2,707.2
Non-current liabilities excluding debt	0.0	0.0	0.0	0.0
Total liabilities	2,744.8	5,591.9	5,770.7	5,804.7
Shareholders equity	432.7	638.4	853.4	1,029.7
Minority interests	0.0	0.0	0.0	0.0
Total equity	432.7	638.4	853.4	1,029.7
Total equity and liabilities	3,177.6	6,230.3	6,624.1	6,834.4
NAV per share (S cents)	27.8	37.3	49.8	60.1
NTA per share (S cents)	21.6	29.7	42.2	52.5

CASH FLOW

Year Ended 30 Jun (S\$ m)	FY07	FY08	FY09F	FY10F
Operating profit before working cap. changes	284.6	371.5	606.2	546.8
Working capital changes, taxes and interests	-445.2	-1,083.0	9.8	-263.2
Net cash from operations	-160.6	-711.5	616.0	283.6
Purchase of property, plant and equipment	-45.8	-74.2	-60.0	-60.0
Other investing flows	-215.5	-141.3	-311.9	0.0
Investing cash flow	-261.4	-215.5	-371.9	-60.0
Financing cash flow	362.8	952.2	58.3	-75.9
Forex	-20.6	-48.6	0.0	0.0
Net cash flow	-79.8	-23.4	302.4	147.7
Cash at beginning of year	267.4	187.6	164.3	466.7
Cash at end of year	187.6	164.3	466.7	614.4
Bank overdrafts	50.0	174.9	174.9	174.9
Cash and cash equivalents at end of year	237.6	339.1	641.6	789.3

Key Ratios

PER (x)	27.4	18.4	17.1	13.5
Price/NAV (x)	6.6	5.0	3.7	3.1
EV/EBITDA (x)	16.7	14.5	9.3	10.0
Dividend yield (%)	1.9	1.4	2.3	1.9
ROE (%)	25.2	23.6	21.8	22.8
Net gearing (%)	388.8	414.4	289.8	224.2

Source: Company data, OIR estimates

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