



gar

agribusiness and food

GOLDEN AGRI-RESOURCES LIMITED (GAR)

Luo Yuxian

BRIEF DESCRIPTION

- world's second largest oil palm plantation
- Business operations mainly in Indonesia and China
- Primary activities in Indonesia - cultivation and processing of the full spectrum of oil palm products
- Primary activities in China - an integrated deep sea port, storage, oil-seed crushing facilities and several refinery facilities



WHY LOOK AT OIL PALM?

SUPPLY

Potential El Nino effect + tight Palm inventory → reduction in supply of Palm oil

El Nino

- El Nino expected to occur in 2nd Half 09.
- During previous “El Nino”s in 1997-98 and 2002-03, CPO prices surged 45% and 28% respectively around a 10 months period



Tight CPO inventories

- Inventories at their lowest levels in past 1.5 years and is expected to remain tight

Monthly Palm oil Stocks	2008	2009	% change YOY
Jan	1,872,780	1,832,907	-2.13%
Feb	1,927,549	1,565,592	-18.78%
Mar	1,824,453	1,365,615	-25.15%
Apr	1,789,799	1,292,692	-27.77%
May	1,913,360	1,371,238	-28.33%
Jun	2,033,914	1,405,500	-30.90%
Jul	1,977,397	1,328,440	-32.82%
Aug	1,848,788	1,415,109	-23.46%

http://econ.mpob.gov.my/stat/web_report1.php?val=200911

WHY LOOK AT OIL PALM?

DEMAND

- Burgeoning economy in countries with huge consumption capacity (China, India) → Higher demand for palm oil as cooking oil and components in other food

CPO Supply & Demand

	2004	2005	2006	2007	2008
Production					
Malaysia	13.4	15.2	15.5	15.3	17.6
Indonesia	12	13.5	15.5	16.7	18.9
Others	4.5	4.7	5	5.6	5.9
Total	29.9	33.4	36	37.6	42.4
Consumption					
EU	3.7	4.2	4.4	4.5	4.8
China	3.4	4.3	5.2	5.5	5.7
India	3.6	3.4	2.9	3.7	4.9
Indonesia	3.3	3.5	3.7	3.9	4.3
Malaysia	1.6	1.9	2.2	2.1	2.4
Others	13.7	15.4	17.1	17.7	19.1
Total	29.3	32.7	35.4	37.4	41.2

- Greater demand for Biofuel (Not a significant factor though)

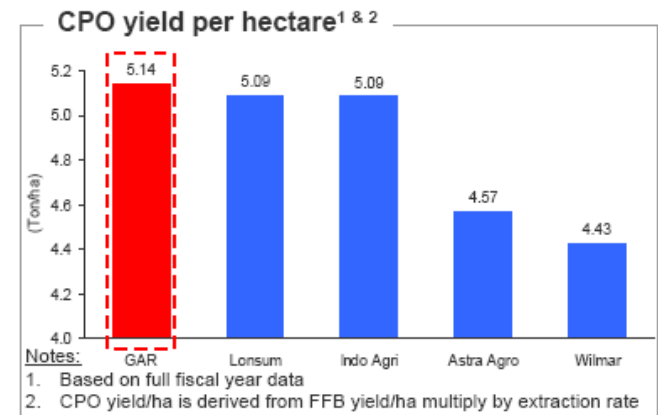
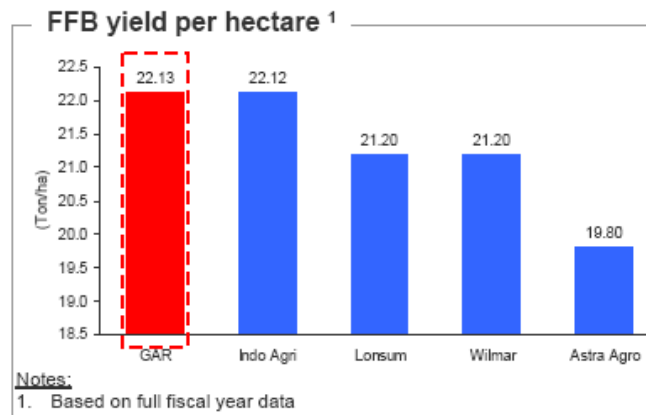
WHY GAR?

- **Focused on Oil Palm operations :**

World's second largest oil palm plantation + approx 77% of its revenue and 98% of profit comes from its Oil Palm operations in Indonesia → In the best position to profit significantly from increase in CPO prices

- **Efficient:**

Maintain an above industry average Fresh fruit bunch(FFB) per Hectare.



WHY GAR?

- **Pro-active management:**

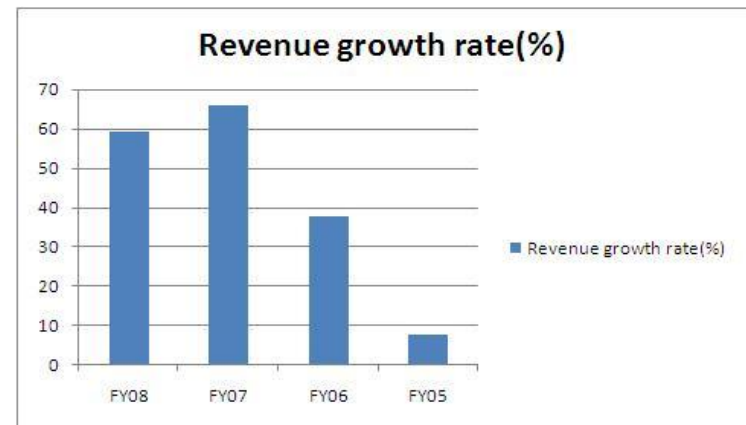
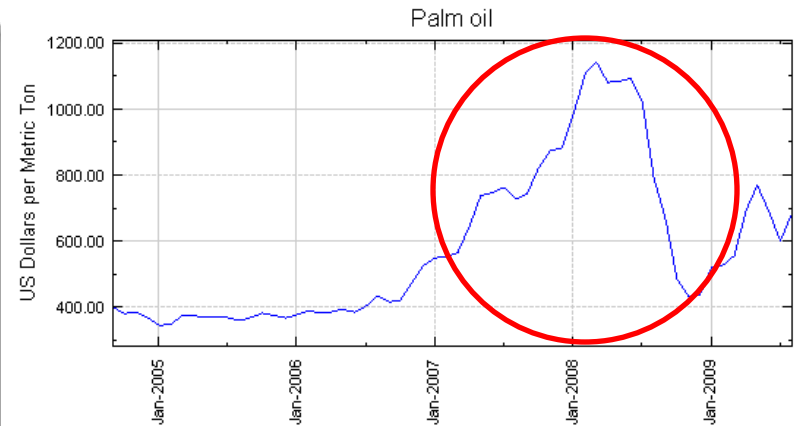
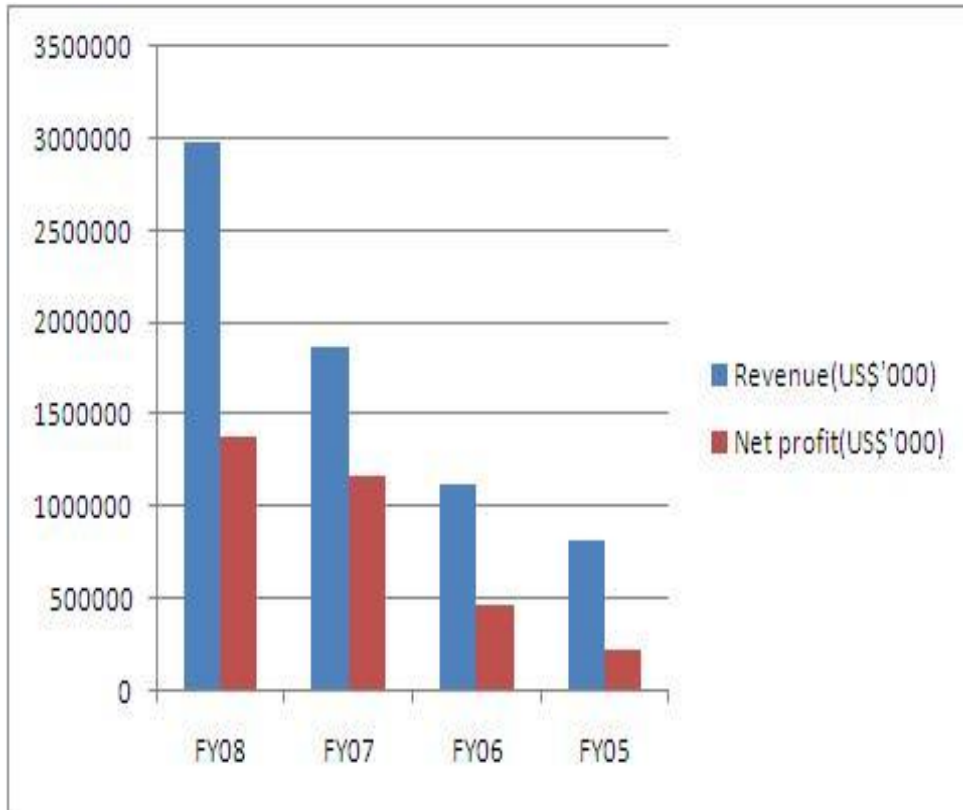
Numerous expansion and enhancement of downstream production in progress. (refer to notes below for more info)

- **Massive land bank:**

1.3 Million Ha land bank readily available to be utilized in the above-mentioned expansion schemes.

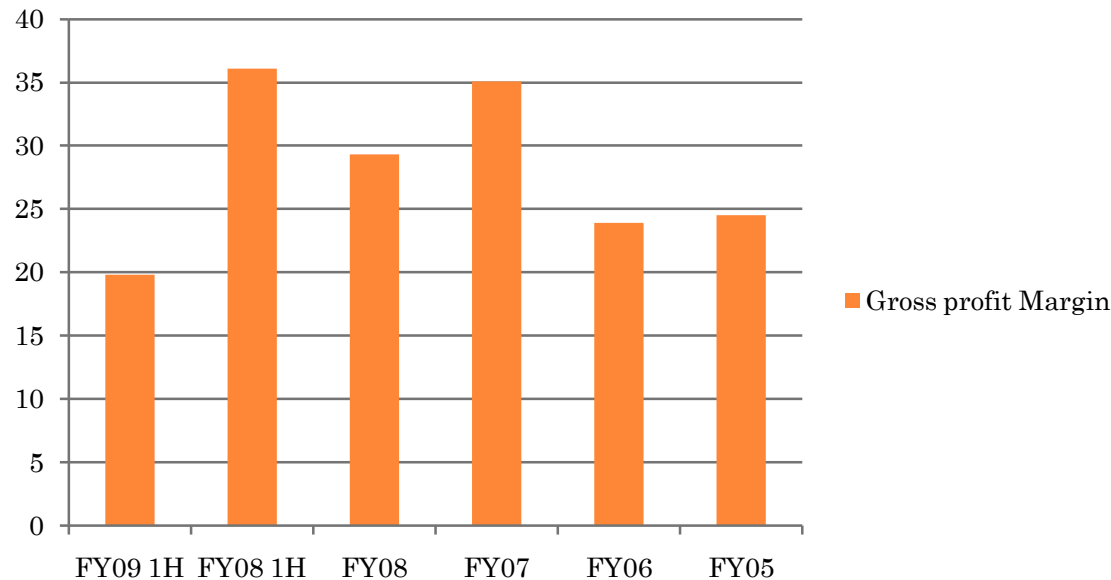


FINANCIALS:



- Revenue growth rate seems relatively stable, even during the turmoil times of the recent crisis. However, it has to be taken with a pinch of salt as it is very much affected by the extreme fluctuations in CPO prices between Jan 07 to Dec 08.

Gross profit Margin



-
- Decrease in FY09 1H GP margin as compared to FY08 1H due to higher fertilizer cost and decrease in ave. CPO selling price(US\$604 in 1H09 vs US\$1097 in 1H08)
- Decrease in GP Margin can be a concern, especially if fertilizer and purchased CPO & FFB(purchased for processing) remain high while CPO prices remain as it is.

	2008	2007	2006	2005
Consolidated Income Statement				
(US\$'000)				
Net revenue	2,985,948	1,873,352	1,129,587	819,286
Gross profit	876,117	658,348	269,814	200,378
Profit from operations	1,986,316	1,757,968	777,556	341,737
Profit before income tax	1,947,060	1,802,945	740,583	337,665
EBITDA (1)	597,230	534,663	215,029	162,565
Net profit attributable to equity holders	1,382,526	1,164,792	470,533	233,130
Weighted average number of shares (million shares)*	9,976	9,542	8,674	8,674
Earnings per share (US\$ cents)*	13.86	12.21	5.42	2.69
Profit from operations per share (US\$ cents)*	19.91	18.42	8.96	3.94
Total assets	6,825,507	5,012,814	2,985,362	2,142,783
Total current assets	707,481	763,817	424,000	361,936
Total current liabilities	547,989	517,790	347,916	342,931
Total long-term liabilities	1,570,688	1,113,814	716,150	425,941
Minority interests	93,104	78,644	216,424	126,237
Equity attributable to equity holders	4,613,726	3,302,566	1,704,872	1,247,674
Ratios				
Sales growth	59.4%	65.8%	37.9%	7.8%
Gross profit growth	33.1%	144.0%	34.7%	-1.0%
Operating profit growth	13.0%	126.1%	127.5%	178.2%
Pre-tax profit growth	8.0%	143.4%	119.3%	270.8%
EBITDA growth	11.7%	148.6%	32.3%	-10.2%
Net profit growth (2)	18.7%	147.5%	101.8%	256.1%
Gross profit margin	29.3%	35.1%	23.9%	24.5%
Operating profit margin	66.5%	93.8%	68.8%	41.7%
EBITDA margin	20.0%	28.5%	19.0%	19.8%
Net profit margin (2)	46.3%	62.2%	41.7%	28.5%
Return on equity	30.0%	35.3%	27.6%	18.7%
Return on assets	20.3%	23.2%	15.8%	10.9%
Current ratio	1.29	1.48	1.22	1.06
Net debt to equity (3)	0.09	0.10	0.20	0.21
Receivable turnover (days) (4)	17	23	15	22
Inventory turnover (days) (5)	43	94	61	85



(in US\$ million)	31-Dec-08	31-Dec-07	% Change
Total Assets	6,826	5,013	36%
Cash and Short-Term Investments	138	147	-6%
Total Liabilities	2,119	1,632	30%
Interest Bearing Debts	554	492	13%
Total Equity Attributable to Equity Holders	4,614	3,303	40%
Net Debt/Equity Ratio	0.09x	0.10x	
Net Debt/Total Assets	0.06x	0.07x	

	FY08	FY07	FY06
Current Ratio	1.29	1.48	1.22

- GAR is in good financial health with consistently low net debt/equity ratio and high current ratio.



DIVIDEND?

The Company's dividend policy is to distribute up to 30% of underlying profit as dividends

Cash Dividend	2005	2006	2007	2008 Interim
Dividend per share (in S\$ cents)	0.25 ¹	0.54 ^{1,2}	1.00 ¹	0.80
Total Dividend (in S\$ 'million)	21.69	53.42 ²	99.76	79.81

- No interim dividend has been declared for the quarter ended 30 June 2009.



POTENTIAL RISKS

○ **Potential tax obligations.**

- Indonesia might raise export tax for CPO if CPO prices shoots up drastically
- India might re-impose the import duty that it abolishes in April last year on crude palm oil

○ **Unexpected natural conditions**

- El Nino somehow just don't come
- epidemics that causes massive loss of population (eg. Black death, spanish flu , smallpox, or more possibly, mutated H1N1)

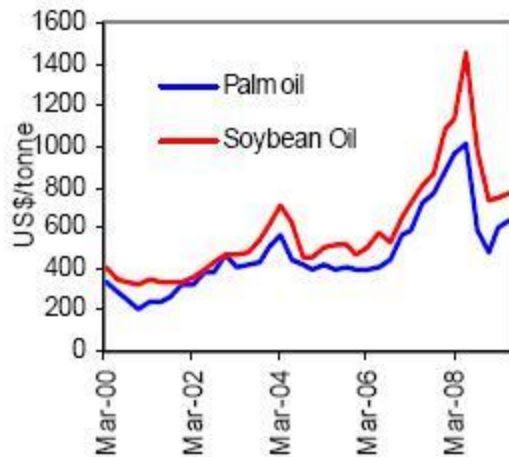


POTENTIAL RISKS

○ Adverse movement in Soybean prices

- Usually, Soybean prices are correlated to that of Palm oil prices

Exhibit 5: Soybean oil vs Palm oil



Source: Bloomberg

- any adverse movement in soy prices will affect GAR's operations in China and affect GAR's overall profitability.

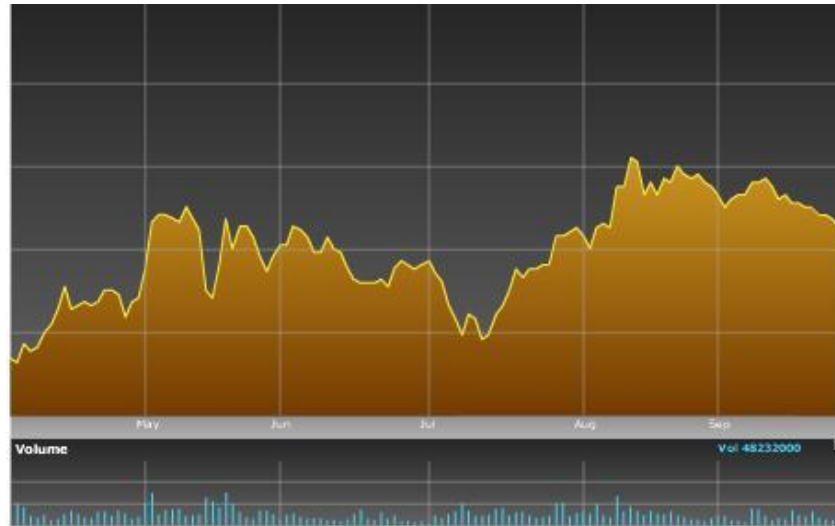


CONCLUSION

- Supply for palm oil most prob will decline as El Nino seems unavoidable and palm inventories remain tight
- Demand should continue to rise as consumption rise
- Both forces should act to push CPO prices higher within the next 1 to 1.5 years as El Nino hits, resulting in decline in supply as demand rise
- CPO price rise → GAR in an excellent position to take profit



RECOMMENDATIONS



Price as of 28-Sept-09 : S\$0.425

Recommendation: Buy

Holding period: 12 – 18 months

Tgt price: \$0.480 (Discounted Dividend Model-
growth=5%, $r_s = 6.75\%$)

Expected return: 12.94%



DISCLAIMER

The information, statistical data and opinions contained herein are of the author's own, and have been obtained from sources which he/she believes to be reliable, but it does not represent that they are accurate or complete, and they should not be relied upon as such. All opinions expressed and data provided herein are subject to change without notice. The securities mentioned in this report may not be suitable for all types of investors. ALL investments involve different degrees of risk. You should be aware of your risk tolerance level and financial situations at all times. Read any and all prospectuses carefully before making any investment decisions. As you know, a recommendation, which you are free to accept or reject, is not a guarantee for the successful performance of an investment and we are expressly prohibited from guaranteeing accounts against losses arising from market conditions. NTU-IIC, SMIF and its members will not be held liable in any manner for any losses arising directly or indirectly from investment decisions undertaken based on the information/statistical data/opinions expressed.

