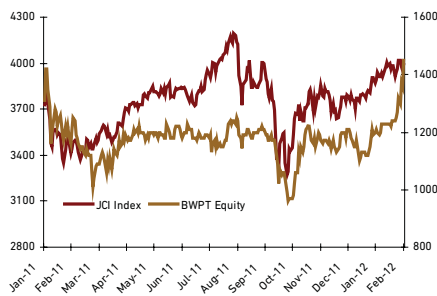




Ciptadana
Research Report
February 08, 2012

PT BW Plantations Tbk
Sparkling Little Star

JCI vs BWPT



Source : Bloomberg

Target Price : 1,630/sh
 Recommendation : BUY
 Current price (02/08/2012) : 1,450
 52 Wk high (02/08/2011) : 1,450
 52 Wk low (10/05/2011) : 950
 Shares outstanding (mn) : 4,041.50
 Market cap (Rp bn) : 5,860.18
 Bloomberg code : BWPT IJ

source : Bloomberg

PT BW PLANTATIONS - TP 1,630/sh

Sparkling Little Star

We reinitiate our coverage on PT BW Plantations Tbk (BWPT) with a buy recommendation and a 12-month target price of Rp1,630 based on DCF calculation. We like BWPT for its strong production growth, outstanding yield and spectacular margins among all other listed plantation companies.

The Rising Star. CPO has been the "rising star" commodities, offering the highest consumption and production growth of any edible oil in the world. The success factor behind it is superior yield. Palm oil offers the highest oil-per-hectare-yield of any other edible oil in the world which makes palm oil a very efficient raw-material for processing food.

Developing countries as center of demand. Developing countries like India, China and Indonesia will be the center of edible oil demand. Population and rising income per capita is the key driver of the edible oil demand in developing countries.

Price catalyst. We expect CPO prices to remain firm above US\$ 1,050/ton in the following years and maintain a "Neutral" rating for plantation sector. Our assumption are based on following factors: 1) Tight stock usage ratio as an indication of robust demand, 2) Widening discount to soybean-oil, and 3) Normalize production.

Remarkable production growth. BWPT has been the champion in Indonesia's plantation sector with its outstanding production growth among any listed plantation companies. The key factors behind the robust production growth is aggressive new planting and improvement in FFB yield as management implied best estates practices

Favorable estate structure. Going forward we expect BWPT continue to record strong production growth. Our expectation is derived from several factors such as 1.) Inverse estate structure 2.) Higher portion of land bank.

Juvenile player which offers the highest yield. BWPT by far, is the youngest plantation company in the industry with an average age of 8.5 years as of December 2011. Despite being the youngest plantation company, BWPT offers the highest yield among its peers. The success factor behind the outstanding yield, which according to us is driven by several factors such as 1.) Least plasma estates portion, 2.) Utilization of management's best practice.

Lucrative acquisition. BWPT is on the edge of finalizing a deal to acquire 11,000 ha estate. Using Accretion/Dilution Analysis, we reckon that the acquisition is accretive for BWPT as the proposed acquisition deal creates shareholder value.

Valuation. We initiate coverage on BW Plantations (BWPT) with a BUY recommendation and a target price of IDR 1,630/shares based on Discounted Cash Flow Method (DCF). Our target price suggest a 12.4% upside potential from the current price of IDR 1,450/shares.

Forecast and Valuation

	2011 F	2012 F	2013 F	2014 F	2015 F
Revenue	875	1,083	1,491	1,973	2,434
EBITDA	511	601	785	1,080	1,374
Net Profit	313	355	464	656	855
EPS	77.50	87.88	114.95	162.55	211.90
ROE	24.9%	23.4%	25.2%	28.5%	29.3%

Source : Company and Ciptadana estimates

Research Report by:
 Suraj Khiani
 T +62 21 2557 4892
 E khianisuraj@ciptadana.com

CPO – The Rising Star

Over the years, Crude Palm Oil (CPO) has been the “rising star” commodities, offering the highest consumption and production growth of any edible oil in the world with 7.1% and 6.9% CAGR over the past 7 years versus an average of 5.0% and 5.2% CAGR for the other edible oils namely Soybean, Sunflower, Rapeseed and Palm Kernel. Over the years, the share of palm oil to world’s edible oil production has grown from 29% in 2004 to 32% in 2011. Palm oil consumption is also gaining its market share to 32% in 2011 from 28% in 2004. This situation is in contrast with other edible oils which are slowly losing their market share.

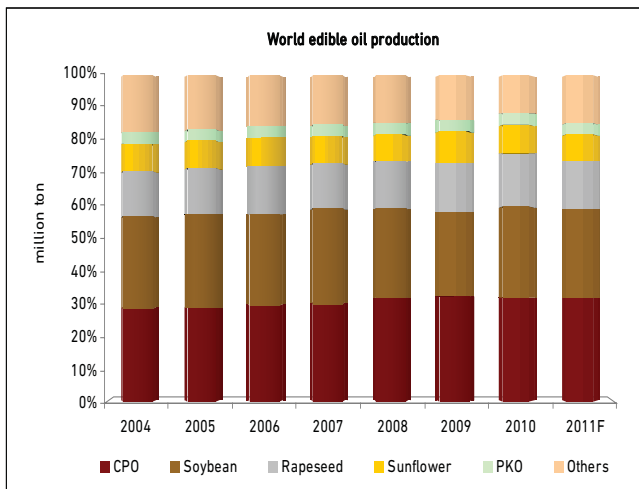
Fig1. World edible oil production and consumption

Edible oil	FY'2004 ('000 ton)	FY'2011 ('000 ton)	7 years CAGR (%)
CPO	31.2	50	6.9%
Soybean	30.7	42	4.6%
Rapeseed	15.1	23	6.4%
Sunflower	9.4	13	4.2%
PKO	3.6	6	6.5%
Others	19.2	23	2.6%
Simple average	109	156	5.2%

Fig2. World edible oil consumption growth

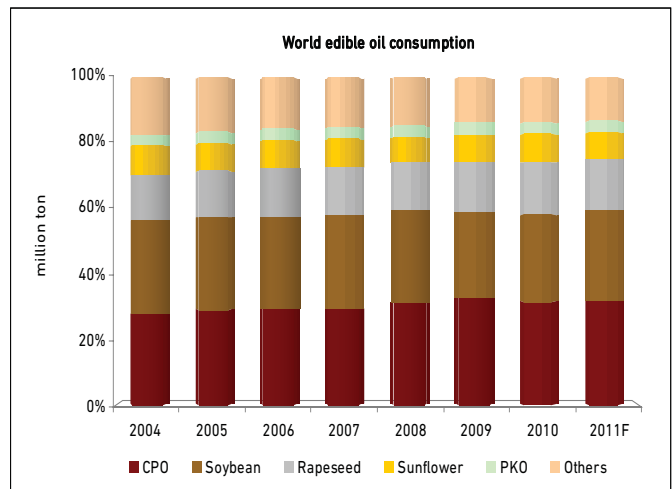
Edible oil	FY'2004 ('000 ton)	FY'2011 ('000 ton)	7 years CAGR (%)
CPO	30.2	49	7.1%
Soybean	31.1	42	4.4%
Rapeseed	15.0	24	6.7%
Sunflower	9.6	13	3.9%
PKO	3.6	5	6.0%
Others	19.0	20	0.9%
Simple average	108	153	5.0%

Fig3. World edible oil production and consumption



Source : USDA, Bloomberg, Oil World

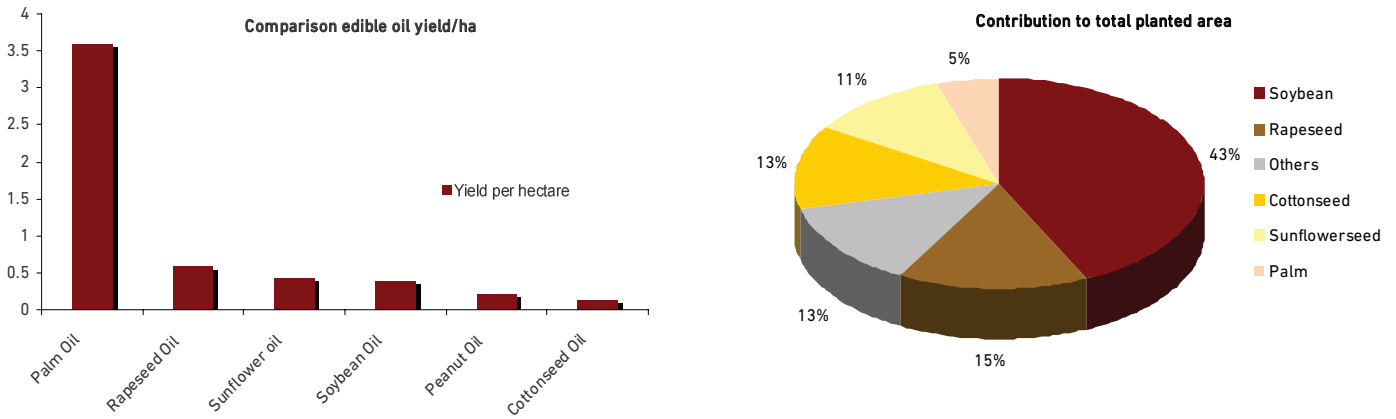
Fig4. World edible oil production and consumption



Highest yield per ha

The success factor behind palm oil outstanding growth is superior yield. Palm oil offers the highest oil-per-hectare-yield of any other edible oil in the world. The combine yield for palm oil and palm kernel is 3.6ton/ha, more than five folds relative to the second highest yield, rapeseed oil. This makes palm oil a very efficient raw-material for processing food. Palm oil contributes the largest market share of total world edible oil production of about 32% in 2011 (see figure 3), though surprisingly in terms of total planted area palm tree only accounts for 5% of the world vegetables planted area.

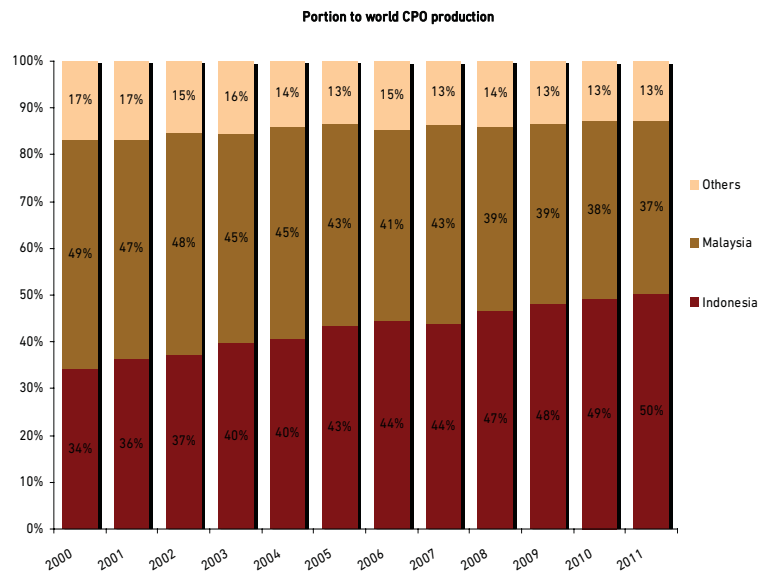
Fig5. Edible Oil Yield comparison & total planted area contribution



Source : Company & Ciptadana Estimates

Indonesia and Malaysia are the world's largest and second largest CPO producers and exporters respectively. Prior to 2004, the development of palm oil in Indonesia was lagged behind Malaysia, but thanks to massive expansion in Indonesia's cultivation in 2002, Indonesia overtook Malaysia as the world's largest palm oil producer in 2006. Currently, Indonesia and Malaysia account for 87% of the global palm oil production.

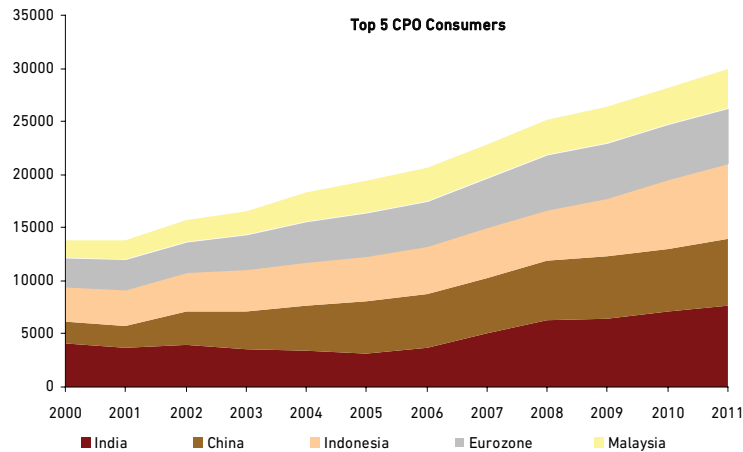
Fig6. Portion to world CPO production



Source : Bloomberg & USDA

India along with China remains as the world's largest CPO importer and consumer. Indonesia's CPO domestic consumption outstripped china in 2010, and at the moment Indonesia is the second largest CPO consumer in the world. India along with other region namely Indonesia, China, Europe and Malaysia contributes about 16%, 15%, 13%, 11% and 8% respectively to the global CPO consumption.

Fig7. Top 5 CPO Consumers



Source : Bloomberg & USDA

Developing countries as center of demand

Four out of five world's largest CPO consumers are developing countries. India, Indonesia and China are the top three palm oil consumers in the world, which accounts for 43% of the total global CPO consumption. Going forward we expect these three countries will be the center of edible oil demand. The reasons behind strong CPO consumption are: 1) Population 2.) Rising GDP per capita.

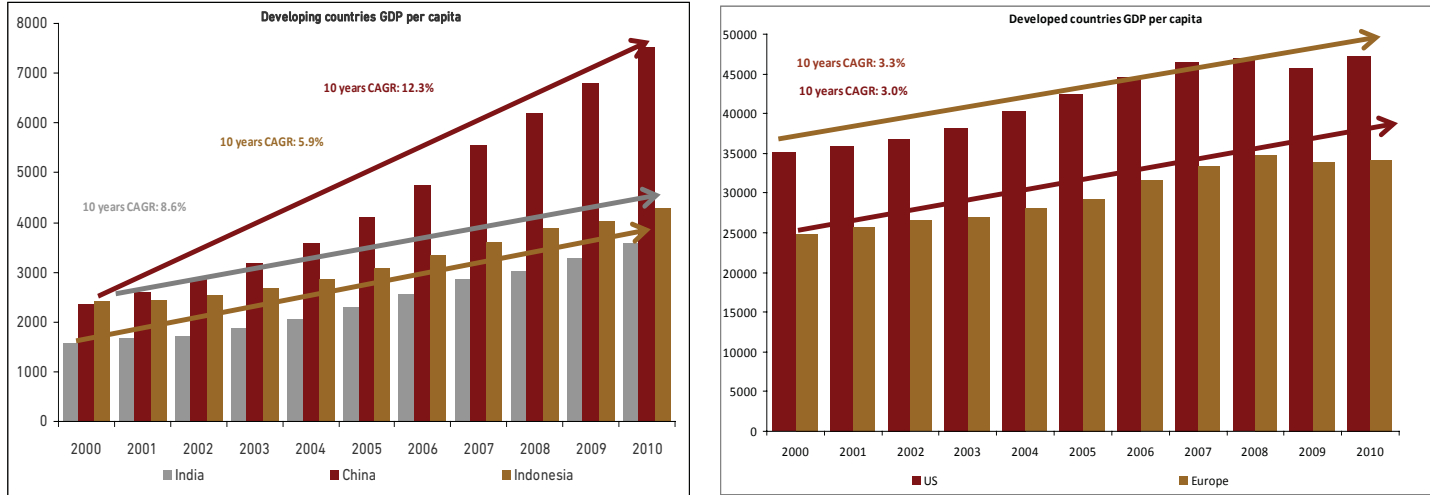
Population

China is the world's most populous country with 1.3 billion people, followed by India with 1.2 billion, while Indonesia is known as the world's fourth most populous country with 232 million people. With a global population of around 6.8 billion, the combine population of India, China and Indonesia accounts for 41% of the total global population. Being the cheapest edible oil, CPO plays a fundamentally important role in feeding the earth. Not to mention that there will be more mouths to be fed with regard to global population growth. Going forward we see that the growth will be driven by developing countries.

Rising GDP per capita

GDP per capita in developing countries has been rising steadily over the past decade. Rising income will boost up consumption and eventually will increase oil and fat consumption. GDP per capita in developing countries has grown faster relative to developed countries. China had the fastest average rate of GDP growth over the past ten years with 12.3%, followed by India and Indonesia with 8.6% and 5.9%, respectively. This is contrast with developed countries, as their growth is expected to slowdown. US and Europe only reported GDP growth of 3.0% and 3.3%, respectively, over the past ten-years.

Fig8. GDP comparison between developed and developing countries



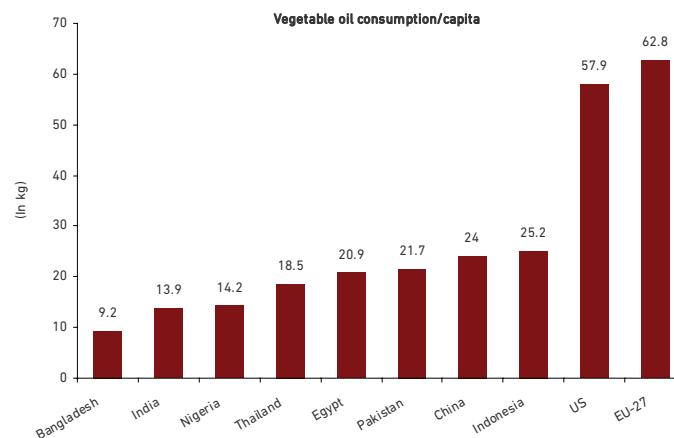
Source : Source: Bloomberg & USDA

Rising income per capita will also change consumer spending behavior. We acknowledge that people will want to spend more in discretionary rather than staple products, but we abide by “Maslow Theory” which stated that the basic needs should be met first before individual satisfy higher needs. As such we expect that people will spend a higher portion of their income on food, which will increase edible oil consumption. Having no doubt, we believe that palm oil will benefited the most, as it’s the cheapest edible oil.

Edible oil consumption per capita

There is a huge gap in edible oil consumption per capita between developing and developed countries. We believe that the gap is driven by higher per capita income and there is a strong correlation between household expenditure and income per capita. Developing countries has average edible oil consumption per capita of 20 kg/year, which is three-folds the consumption in developed countries of 60kg / year. With spectacular economy growth in developing countries, we expect the gap to narrow down as rising edible oil consumption in developing countries. As such we remain positive with global edible oil demand.

Fig9. Edible oil consumption per capita



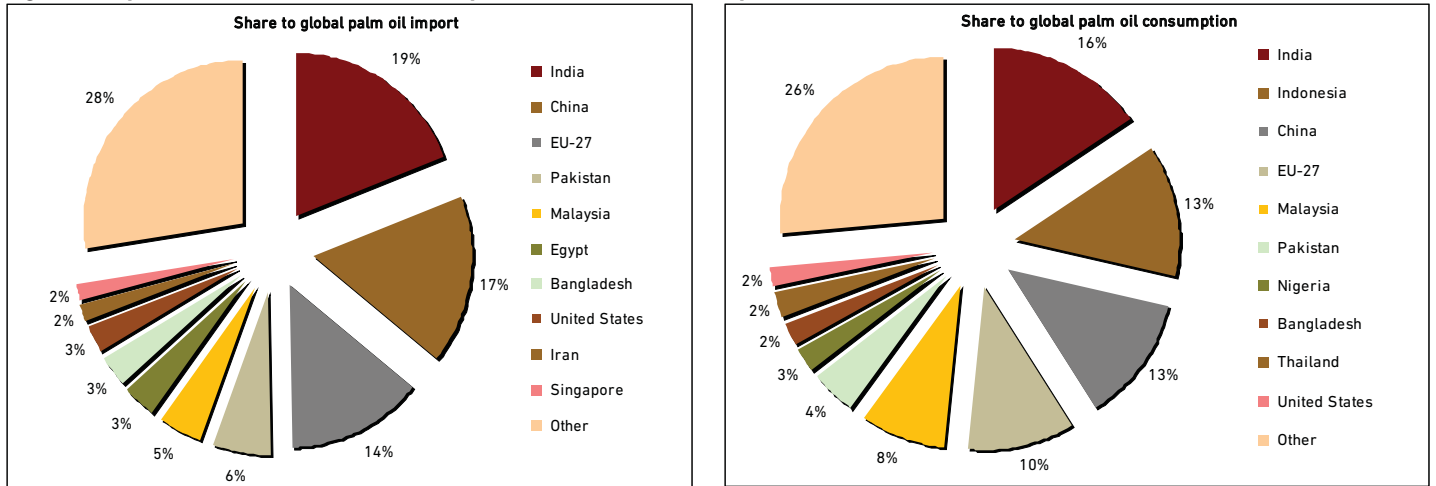
Source : UNSP palm oil conference report, Oil world, CEIC

We highlight the profile of the world largest palm oil importers & consumers that will drive CPO demand for the next decade.

India edible oil market

India plays a very important role in the edible oil market as it is known for the world's largest importer and third largest consumer of edible oil. India also occupy an important position for the global palm oil demand, as it accounts for about 16% and 19% share of the global palm oil consumption and imports in 2011.

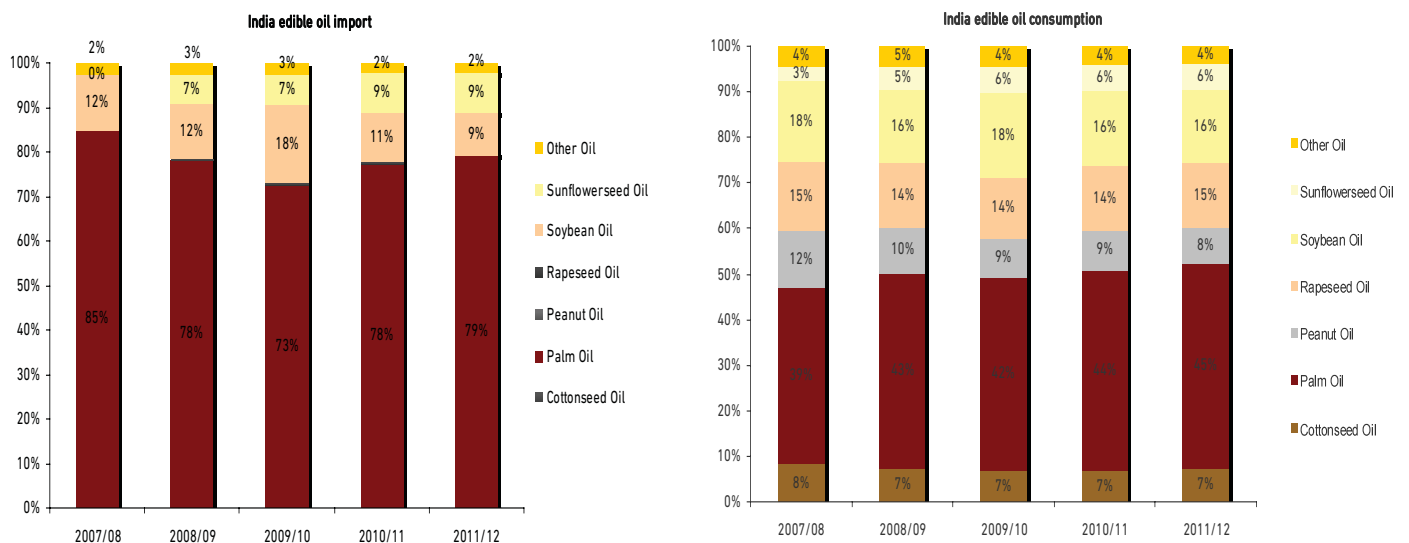
Fig10. Composition of India's edible oil Import & domestic consumption



Source :Bloomberg, USDA, Oil world

India population grew by 1.5% CAGR over the past decade. US Census Bureau predicts that India will become the world's most populous country within the next decade surpassing China, driven by higher fertile rate. We believe that edible oil imports will remains an important source to meet the demand for edible oil as it imports half of the edible oil requirements (see figure 13). Being the largest market share of edible oil in the world, we believe that palm oil will be benefitted from the current state of affairs as palm oil accounts about 79% and 45% of total edible oil import and consumed in India.

Fig11. India edible oil Import & domestic consumption

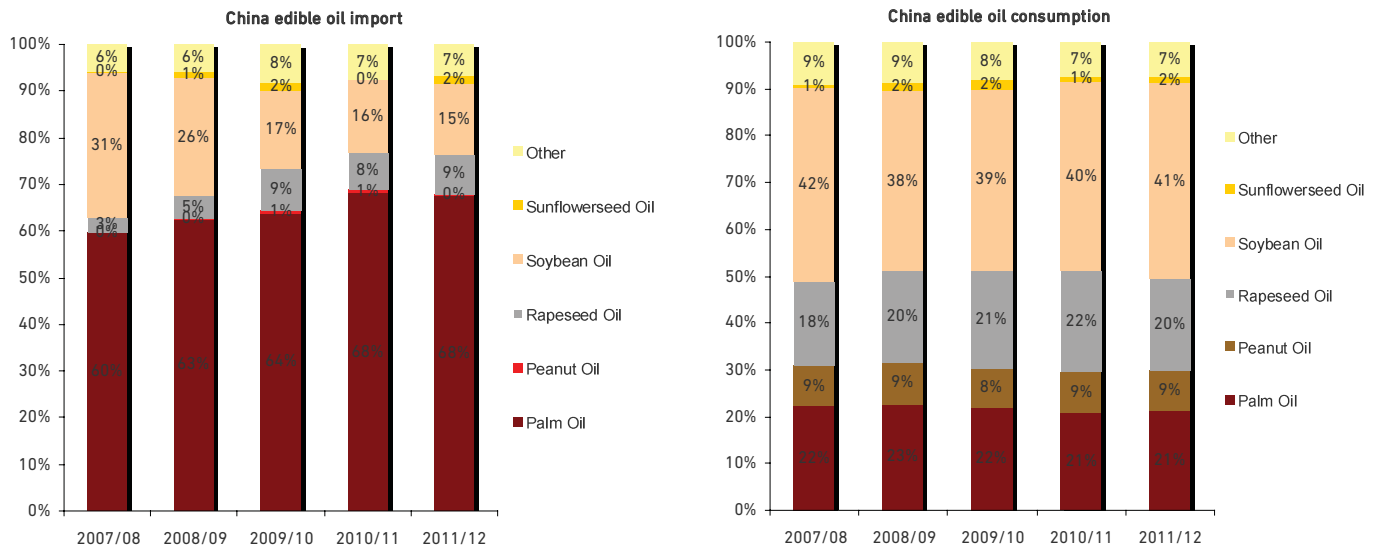


Source :Bloomberg & USDA

China edible oil market

China is the fourth largest soybean producers in world with 13.5Mt. Soybean oil is one of the most widely consumed edible oil in China as it accounts for 41% of the total edible oil consumed. Palm oil is second most consumed oil in China, followed by Rapeseed and peanut oil with composition of 21%, 20% and 9% respectively as of FY'2011.

Fig12. China edible oil Import & domestic consumption

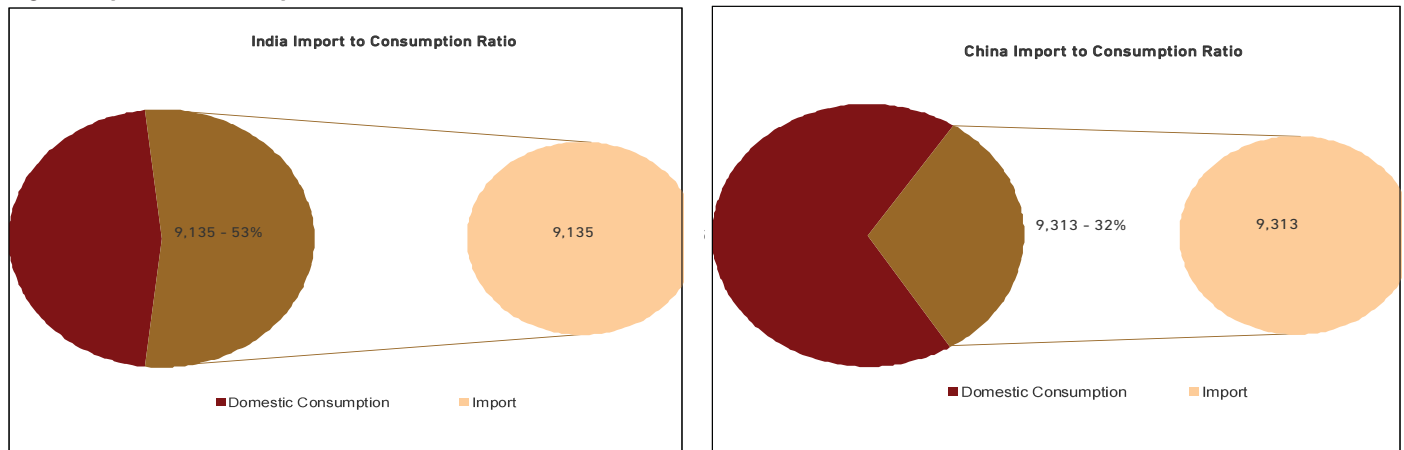


Source :Bloomberg & USDA

China doesn't produce palm oil therefore imports hold an important source to meet the demand. China accounts for about 13% of the global palm oil consumption in 2011. Palm oil import in China has gained its market share from 60% in 2007 to 68% in 2011 (see figure 12). Soybean and Rapeseed oil is the second and third largest edible oil imports in China accounting for 15% and 9% respectively. We foresee that palm oil imports in China will show steady growth in the foreseeable future driven by strong and growing demand, coupled with falling soybean production given limited arable land and farmer's preference to grain crops for better returns which will limit the production growth.

Edible oil imports-to-consumption ratio in China is relatively lower compared to India. China imports one-third of its edible oil consumption to meet its growing demand, while imports play a major role in India (accounts for half of the domestic consumption). The reason behind that is China has enough resources, namely Soybean to secure their enormous consumption.

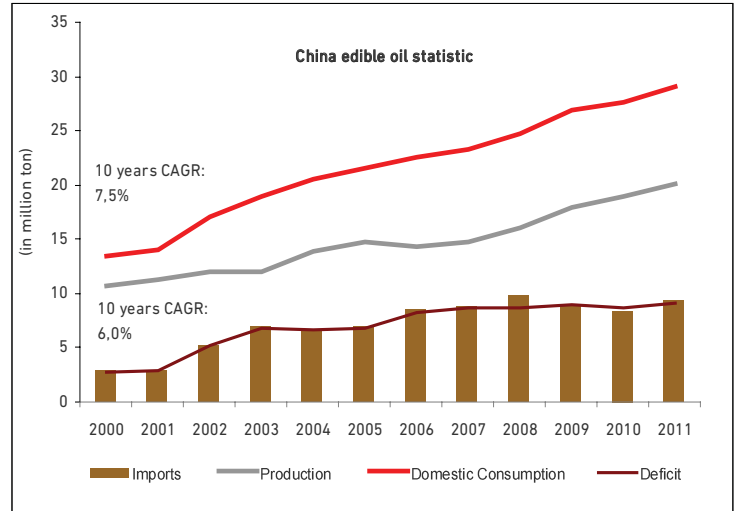
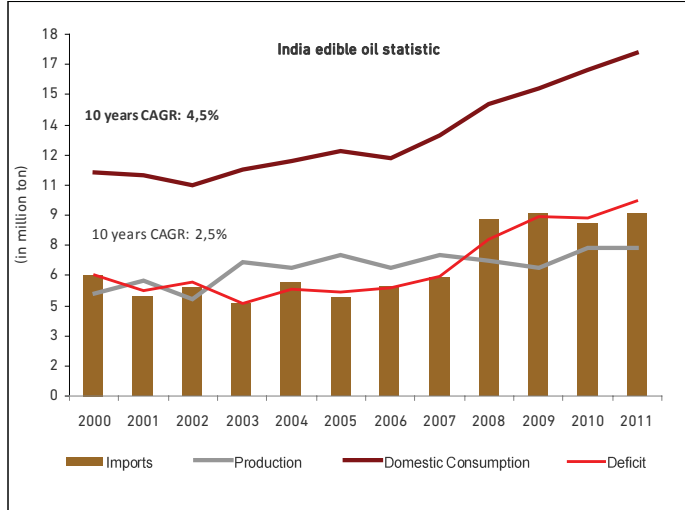
Fig13. Import to Consumption ratio – India & China



Source :Bloomberg & USDA

Historically over the past decade, India and China reported a strong consumption growth of 4.5% and 7.5% CAGR respectively. Edible oil production growth was lagged behind with an average of 2.5% and 6.0% CAGR respectively. This higher consumption-to-production ratio leads to trade deficit and in order to encounter it, both countries depend on edible oil imports to fulfill the growing demand. Going forward we believe that the trade deficit in both countries will widen on the back of rapid economic growth. India and China will be forced to increase their edible oil imports to fulfill the trade gap.

Fig14. India & China edible oil statistic



Source : USDA

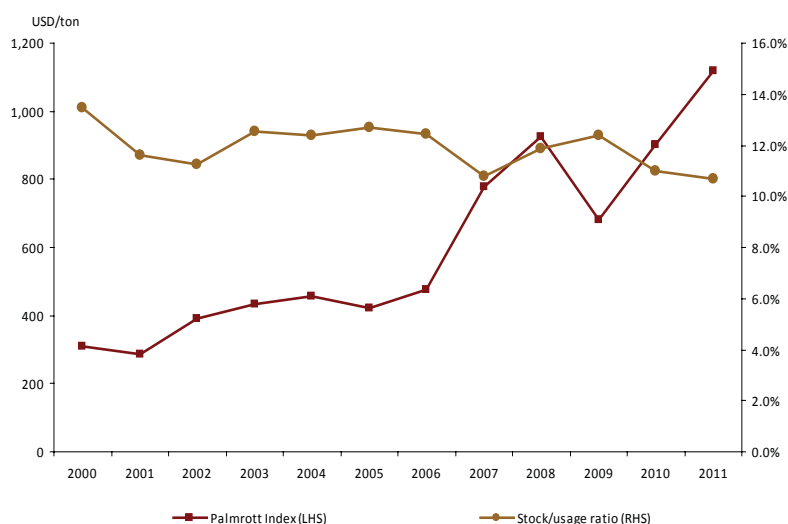
Price catalyst

Crude Palm Oil (CPO) price has been falling off decently since beginning of last year when it touched US\$1,330/ton back in Feb'11. The downturn in CPO prices was not driven by drop in demand but more towards the restoration of supply. We expect CPO prices to remain firm above US\$ 1,050/ton in the following years and maintain a "Neutral" rating for plantation sector. Our assumption are based on following factors: 1) Tight stock usage ratio as an indication of robust demand, 2) Widening discount to soybean-oil, and 3) Normalize production.

Tight stock usage ratio

We highlight the relationship between stock-to-use ratio and CPO prices. Stock-to-use ratio has an inverse relationship with CPO price. Stock-to-use ratio points out the correlation between residue inventory and total consumption. United States Department of Agriculture (USDA) expects that stock-to-use ratio for 2012/2013 will continue to decline and booked a record low. Declining stock-to-use ratio indicates that consumption can match up with production, no matter how strong the production growth is. Going forward we expect that stock-to-use ratio to remain at low level.

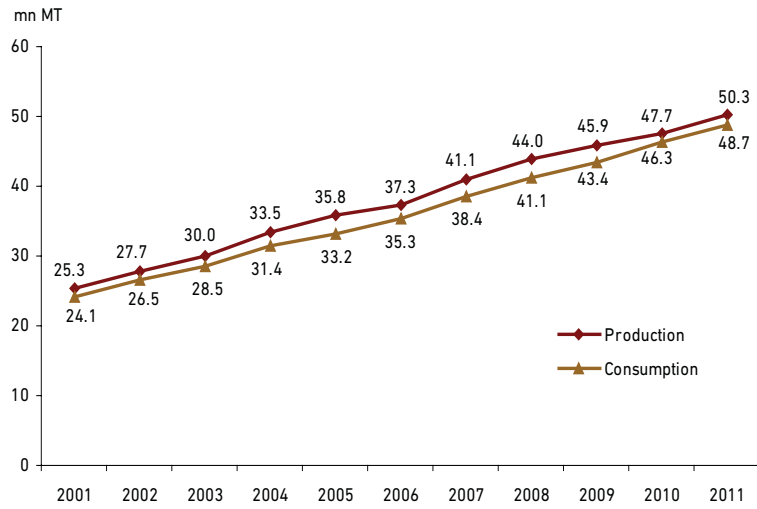
Fig15. Stock Usage vs CPO Prices



Source: Bloomberg & USDA

On 5 years CAGR basis, the total demand of crude palm oil (CPO) outpaced the total supply by 0.6% (6.7% vs 6.1%). The demand for edible oils had grown quite strong in the recent years and we believe that it will continue to outpace supply in the long run. Oil world predicts that the incremental demand for world edible oil of 6mn tons will outstrip supply growth of 4.3mn tons, which translate to 2mn tons shortfall in 2012. Over the long term we believe that the incremental of edible oils supply cannot match up with demand given scarcity of resources versus unlimited demand.

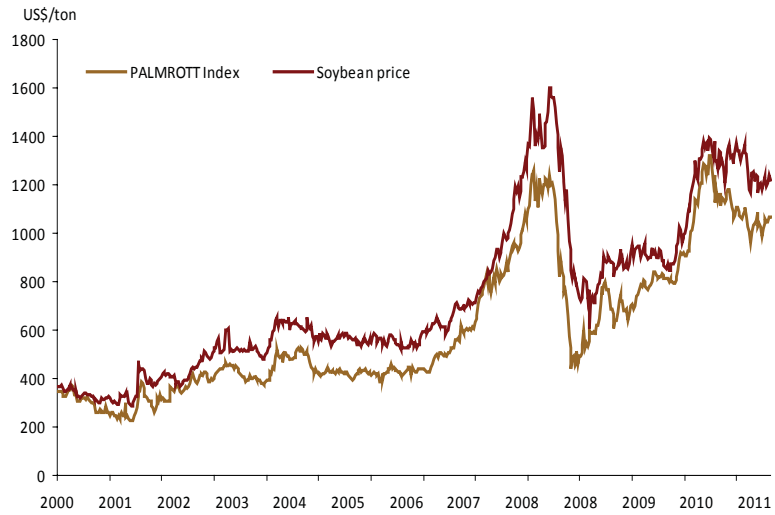
Fig16. World CPO Production vs Consumption



Source: Bloomberg & USDA

Soybean is the second-largest most produced oil in the world after palm oil, which account about 31% of the global edible oil production in 2011. We underline the correlation between CPO price and soybean oil given its strong correlation of 97% over the past decade.

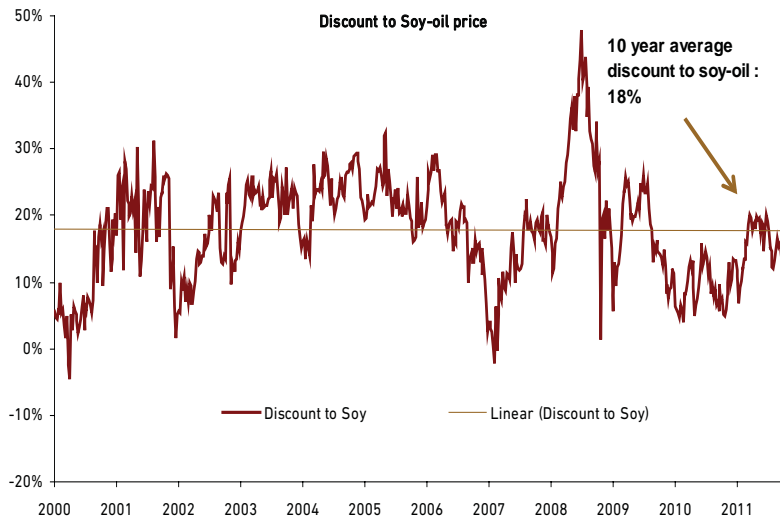
Fig17. Correlation CPO & Soybean



Source: Bloomberg

Currently palm oil is still trading at a discount to soybean-oil price of US\$ 150 per ton (12% discount to soybean oil), though the discount to soybean-oil price has narrowed from its broadest gap of US\$ 250 per ton (20% discount). Going forward we expect the discount-to-soybean-oil continues to narrow and will drive up CPO price towards its 10 year average discount to soybean-oil at US\$ 130 per ton (18% discount).

Fig18. Discount to Soy-oil price



Source: Bloomberg & USDA

Normalize production

2011 is one of the best years for CPO industry as CPO production soar to record high of 50mn tons, grew by 5.5% over the same period last year. One of the factors that affected the higher-than-expected CPO production was severe rainfall season which occurred throughout 2010. Our channel check reveals that rainfall will give a positive effect on the next year production as fruits (FFB) absorbed enough water. Hence, we expect a slowdown in next year production as trees are entering tree-stress cycle after a very strong production in 2011. On a long term perspective, the sector remains attractive to us.

Investment Thesis

Company in Brief

PT BW Plantations Tbk (BWPT) is the only upstream palm-oil company which possesses plantation estates concentrated in Kalimantan. BW's initial comes from the founder, Budiono Widodo who founded the company in 1979 and now his youngest son; Tjipto Widodo leads the company as President Commissioner. The family first started their business in shipping, which later stretched out to other areas such as timber, forestry, property, mining granite, marble and coal.

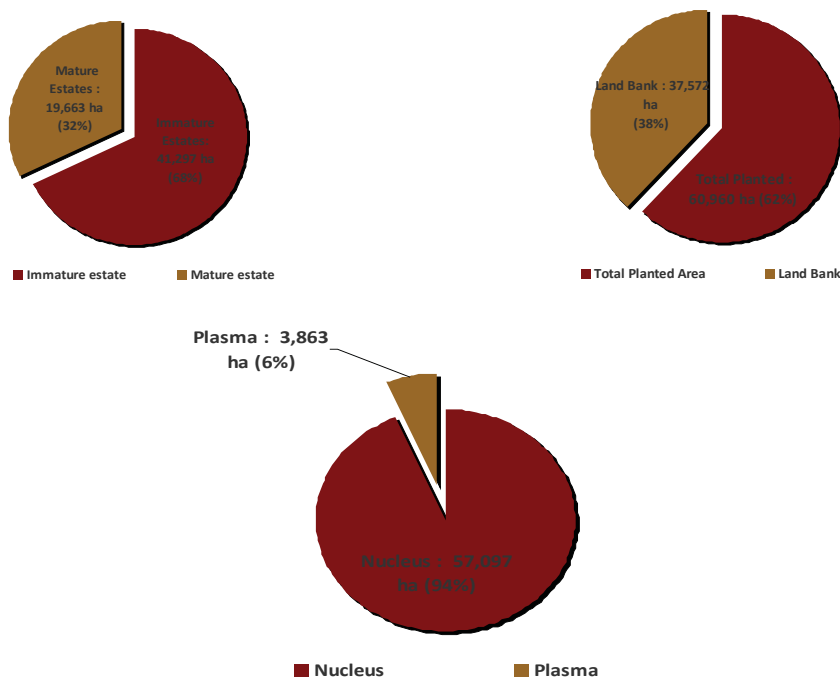
Later on the founder captured an opportunity that palm oil was spreading across Malaysia and noticed that Indonesia was lagging behind. After spotting out that Kalimantan had quite a lot of land bank coupled with fertile soil and good rainfall, he then decided to start their new planting with just 722 hectares in 1997. Currently plantation has become the family's biggest business.

Listed its shares just over three years ago at Indonesia Stock Exchange (IDX) on October 27, 2009, BWPT has gained a lot of interest from investors as a growth company with outstanding margins and productivity. Post the IPO, Widodo family remains as the majority shareholder of BWPT with 38.85% ownership through PT BW Investindo, followed by Fendalton Investment PTE, with 23.31% ownership.

BWPT owned seven oil-palm plantations with a total planted area of 60,960 ha, as of December 2011. Immature estate contributed 68%; or 41,297 ha of the total planted area, while about 32% (or 19,663 ha) of the total planted area was contributed by mature estate. Plasma accounted only about 6.3% of the total planted area, whereas nucleus estate dominates 94%. As of December 2011, BWPT had about 37,572ha on-hand land bank to support their expansion.

As of December 2011, BWPT owned two palm-oil mills with total processing capacity of 105 tons per hour (TPH) and one under construction palm-oil mills with a capacity of 60 tph in East Kalimantan which is targeted to commence its operation in mid 2012. BWPT emphasizes in the preservation of nature, quality and high-tech application in handling their plantation estates.

Fig19. Plantation Profile



Source: Company and Ciptadana estimates

Remarkable production growth

We like BWPT for its strong production growth profile. BWPT offers the highest FFB production growth profile of any listed plantation companies with 15.8% CAGR over the past three years versus an average of 8.5% for other four listed plantation companies.

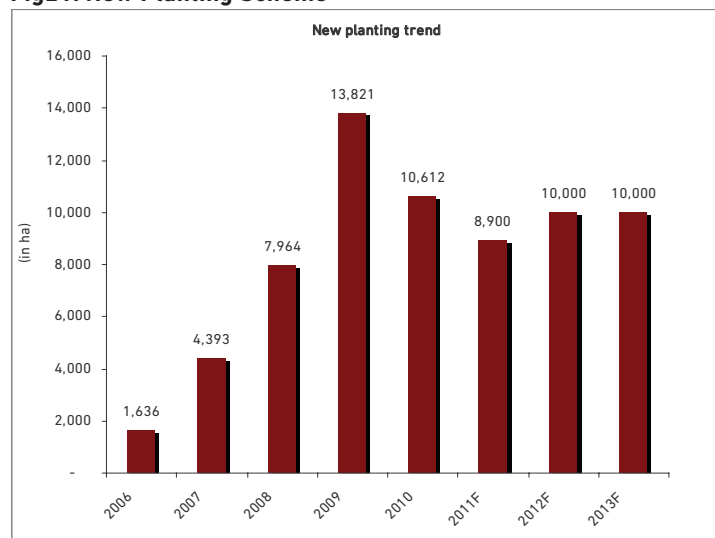
Fig20. FFB Production Growth Comparison

	FY'2008 (‘000 ton)	FY'2011 (‘000 ton)	3 years CAGR (%)
AAI	3,937,806	4,798,470	6.8%
BWPT	295,329	458,251	15.8%
GZCO	127,129	189,198	14.2%
LSIP	1,454,995	1,877,375	8.9%
SGRO	1,229,820	1,669,350	10.7%
Simple average	7,045,079	8,992,643	8.5%

Aggressive New Planting Scheme

One of the key factors behind the robust production growth is aggressive new planting and improvement in FFB yield as management implied best estates practices. In terms of new planting, BWPT is the most aggressive plantation company under our coverage with 10,000 ha per year until 2014. The target seems visible for us given historical four years of satisfactory track record. Last year BWPT achieved 89% of their target new planting. We foresee that BWPT must acquire more estates in the midterm (within two until three years) in order to support their new planting target and maintain sufficient land bank.

Fig21. New Planting Scheme

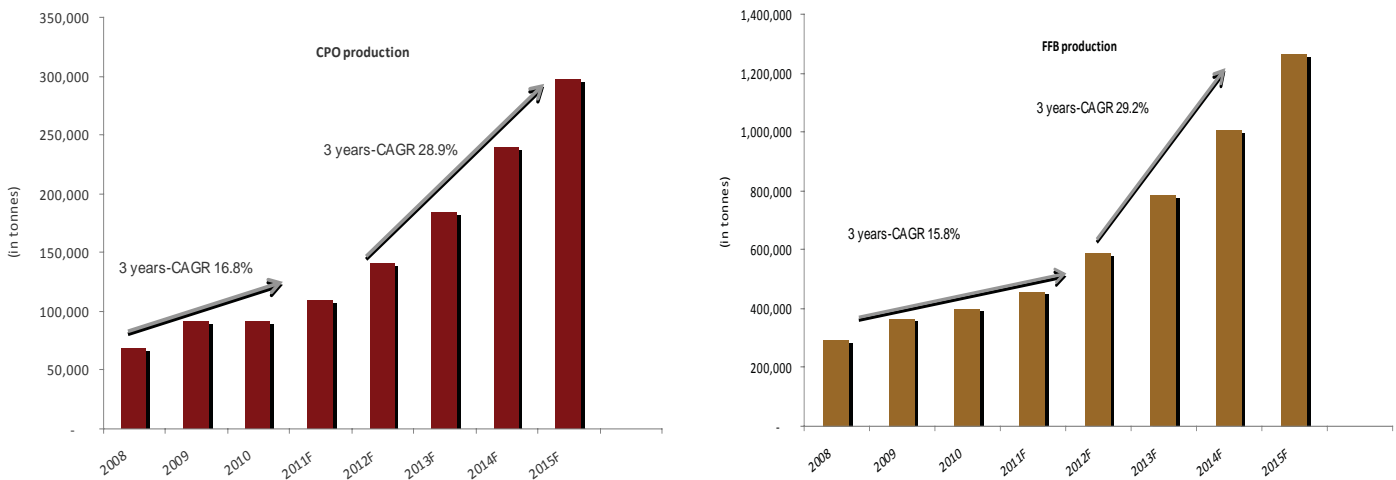


Source: Ciptadana Estimates, Company

Historical and Forecast Production growth

Since 2008, BWPT has been the champion in Indonesia's plantation sector with its outstanding production growth (see figure 20). FFB and CPO production grew by 15.8% and 16.8% CAGR over the past three years, and is also expected to outperform its peers in the upcoming 3-5 years. Last year BWPT achieved 89% of their target new planting. We reckon that BWPT will experience a significant FFB and CPO production growth of 27% CAGR within 2012-2015, respectively, as more estate enters their prime age.

Fig22. Historical and forecast BWPT's production growth



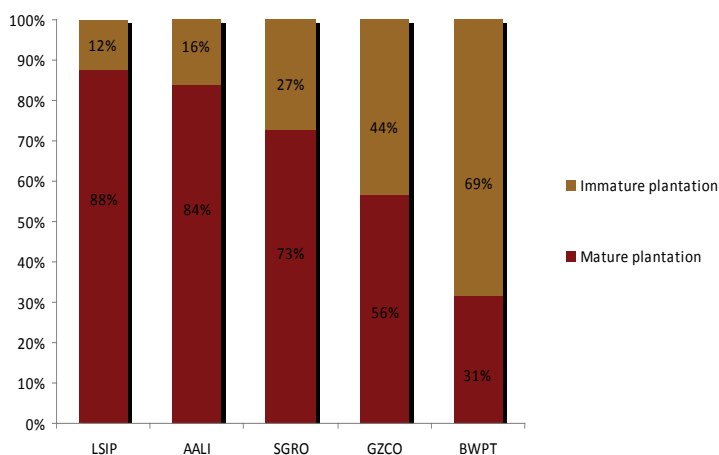
Source: Ciptadana Estimates, Company

Our expectation on future production growth is derived from several factors such as **1.) Inverse estate structure 2.) Higher portion of land bank.**

Inverse estate structure

In contrast with other plantation companies namely Sampoerna Agro (SGRO), Astra Agro Lestari (AALI) and London Sumatra (LSIP) which are dominated by mature plantation of around 70%, mature plantation in BWPT's estate only enrich 32% to the total planted area. With relatively higher proportion of immature plantation, BWPT should be able to enjoy higher production growth in the future. This inverse estate structure will also be a competitive advantage for BWPT as the company might book lower cash cost per ton due to efficiency. We reckon that BWPT is way ahead other plantation companies in terms of upcoming production growth.

Fig23. Favorable plantation structure versus peers as of FY'2011

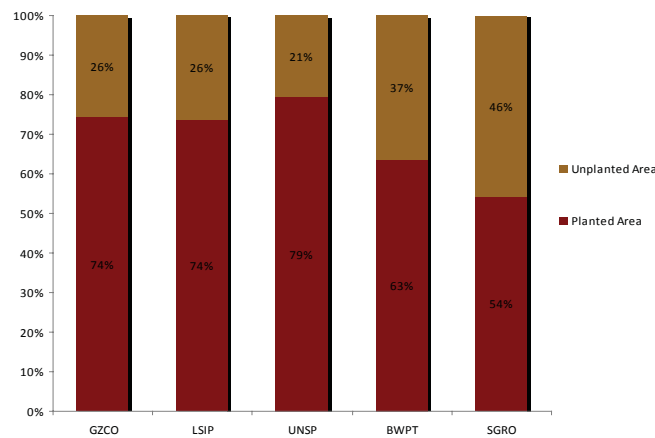


Source: Ciptadana Estimates, Company

Higher portion of land bank

As of December 2011, BWPT's proportion of planted-unplanted area was 62%-38%, respectively. Other palm-oil company like Gozco Plantations (GZCO), LSIP and Bakrie Sumatra Plantations (UNSP) are being dominated by planted area of about 25%. Only Sampoerna Agro Tbk (SGRO) which has a similar composition. This higher-than-average land bank proportion will favor the company within the next three to four years. As mentioned earlier, we expect BWPT to acquire more land bank to support their aggressive new planting.

Fig24. BWPT's estate structure versus peers

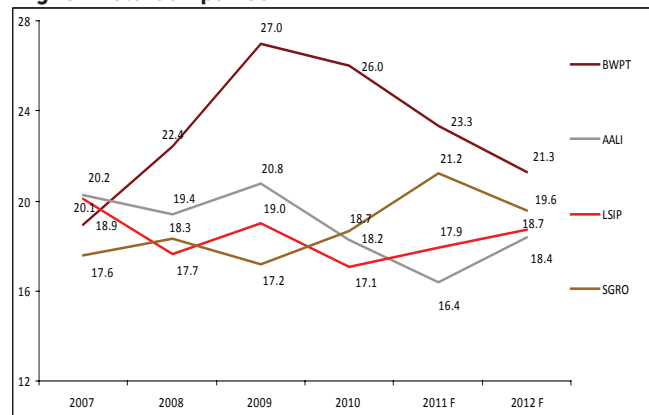


Source: Company & Ciptadana Estimates

Juvenile player which offers the highest yield

BWPT by far, is the youngest plantation company in the industry with an average age of 8.5 years as of December 2011. We foresee that there is plenty of room for the company to grow in the future as most of their mature estate is at the productive age. Despite being the youngest plantation company, BWPT offers the highest yield among its peers. As of FY'2010, BWPT was bestowed with the highest yield of 26.03 ton / ha compared to 18.1 ton / ha of average industry

Fig25. Yield Comparison



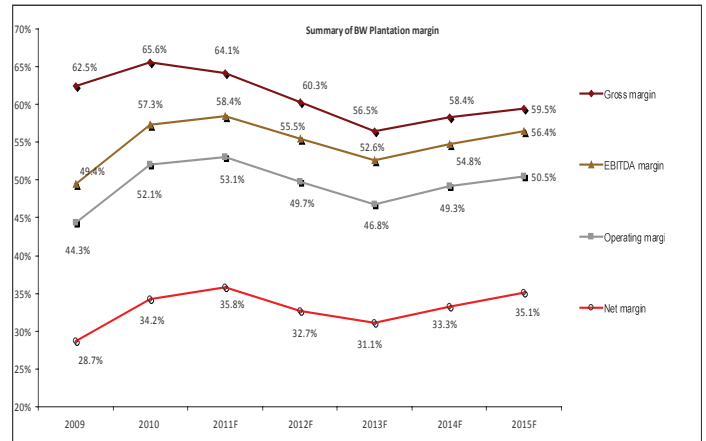
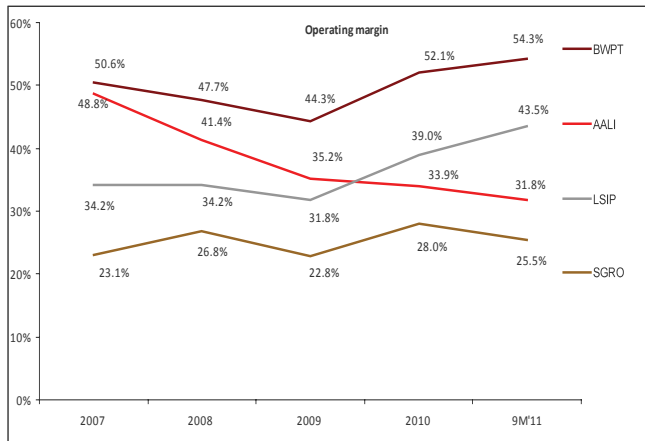
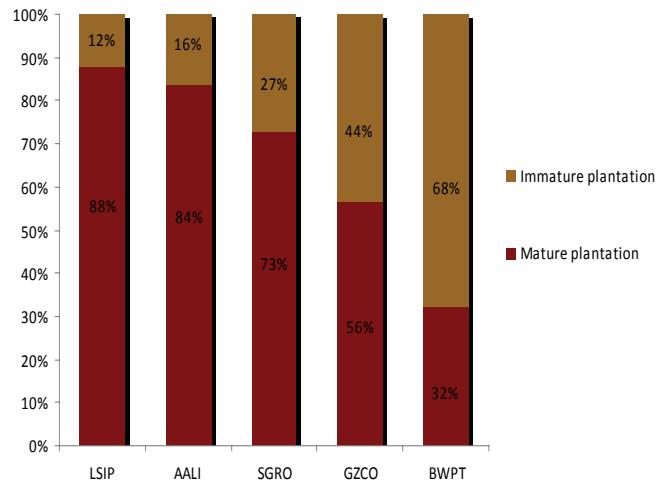
Source: Company & Ciptadana Estimates

We acknowledge that it is not “an apple to apple” comparison if we compare BWPT with other big players such as AALI, LSIP and SGRO as estates size does matter in comparing yield. However we want to dig up the success factor behind the outstanding yield, which according to us is driven by several factors such as 1.) Least plasma estates portion, 2.) Utilization of management’s best practice.

Least plasma estates portion

BWPT possesses the least plasma estates in the industry with a proportion of 6.3% in 2011, meanwhile other plantation companies are surrounded by an average plasma portion of 25%. This situation benefits the company as low portion of plasma estates will lead to lower COGS as the company has to buy the least FFB produce from plasma farmers. Moreover, if plasma estate is not well managed, it will deteriorate the total FFB yield. BWPT has the highest margin among all plantation companies. Over the years, BWPT not only record a strong production growth but also an improvement in their margins. BWPT's net margin expanded from 50.6% in 2007 into 54.3% in 9M'11. We expect the margins to decline and bottoming in 2013 before it recovers again thereafter, as more significant portion enters the early stage of mature.

Fig26. Plantation profile, Operating margin comparison



Source: Company & Ciptadana Estimates

Utilization of management best practice

The key factors of BWPT’s dazzling yield are the implementation of several best practices such as:

1. Skillful environmental estates handling
2. Enhancement in harvesting - lighten the load, margin rose.

Skillful environmental estates handling

Emphasizing on environmental sustainability, BWPT implements several friendly environmental practices which enrich the soil quality such as the use of barn owls to eradicate rats, instead of pesticides. The overuse of pesticides will slash the FFB yield. BWPT also applies natural pests control method by cultivating legume cover crop (beneficial plant) to prevent from growing weeds and pests which will damage the estates.

Enhancement in harvesting - lighten the load, margin rose

Prior to 2007, BWPT used manual technique in cutting and accumulating FFB bunches and loose fruits. This was a backbreaking job for the harvester as they have to transport FFB bunches to the collection point manually using a wheel barrow. This leads to higher cost and time inefficiency. Therefore starting 2007, management invented a mechanized way of harvesting called the Bin System which was first implemented in BLP estate. With this system, harvesting is a much easier task for the harvester as FFB is being carried away by using mini tractor with installed grabber. As such this creates an efficiency number of trucks for transporting FFB from 45 trucks to 4 trucks (with additional 8-10 bins).

Fig27. Application of Mechanization using Bin System



Source: Company

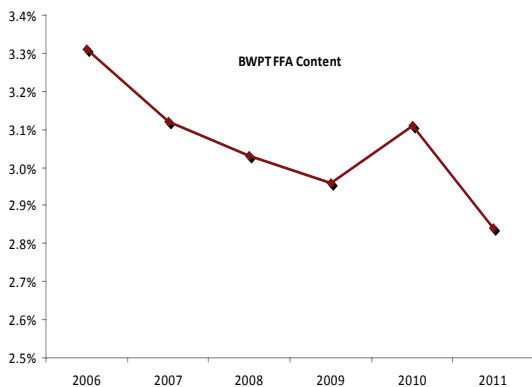
Higher FFA quality leads to better ASP

BWPT continues to innovate new techniques in handling their estates from planting, harvesting and processing of the FFB at the optimum time. With the Bin system installed in their estates, BWPT can shorten the timeline between collection and processing FFB which translates to lower free fatty acid (FFA) content in CPO. As of FY'2011, BWPT's FFA content is 2.84% vs 5% average industry FFA content. This better-off quality creates a value-added for the company which will translate to higher Average Selling Price (ASP). Historically BWPT's ASP traded at 2-4% discount to AALI but now being in a more advantageous position with better-off quality and infrastructure, we expect BWPT's ASP to trades at premium to AALI's.

BWPT sell their end-product mostly to downstream companies which own premium cooking oil and margarine products. We recall that as of 9M'11, Wilmar group (combine all three Wilmar's subsidiaries in Indonesia : PT Wilmar Nabati Indonesia, PT Sinar Alam Permai and PT Multimas Nabati Asaham) along with PT Sinarmas Agro Resource Tbk (SMART) are the biggest buyer representing 59% and 29% of the total sales volume, respectively.

Wilmar possess two premium cooking oil namely Sania and Fortune, while SMART hold two premium branded cooking oils under Filma and Kuncimas (see figure 29). Our channel check reveals that SMART have set aside IDR 170bn to increase their branded cooking oil refineries to 1.980.000 Mtpa from currently 1.380.000 Mtpa. The mills will commence its first production in mid 2013. We expect that this will generate another 5-10% from current sales volume.

Fig28. FFA content, ASP comparison



Source: Company & Ciptadana Estimates

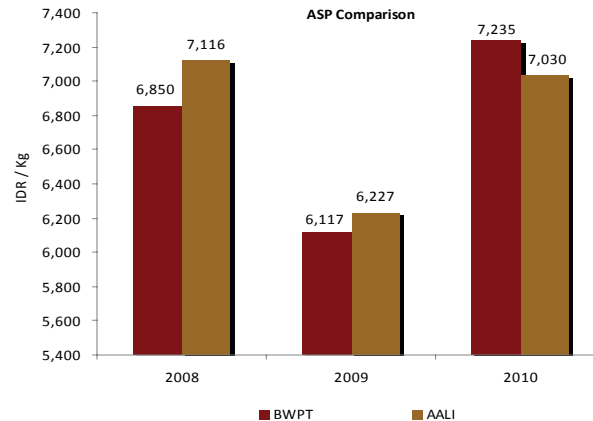


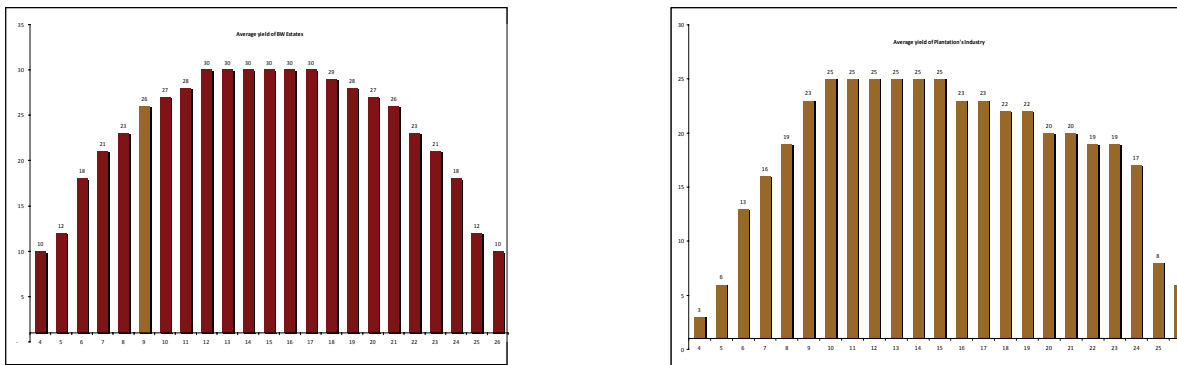
Fig29. Supplier's product (Wilmar & Sinarmas Agro Resources)



Source: Company

As such, with management's impressive effort for quality improvement, we aren't surprised if the company's yield outstrips its peers. Hereby is the comparison of company and Industry average's yield.

Fig30. Comparison between company and industry's average yield

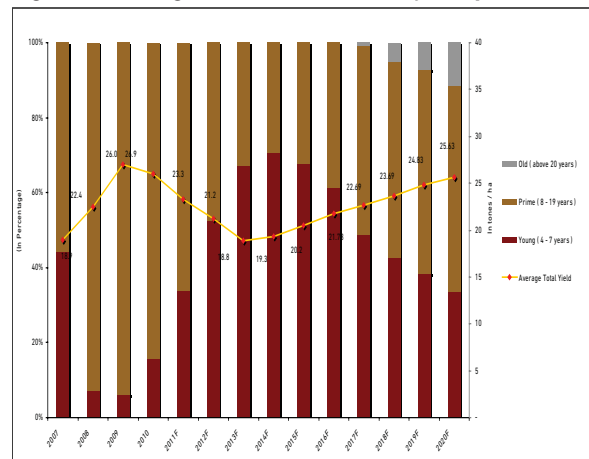


Source: Company

Tweak down in yield as rising plasma & young estates

Going forward we foresee that BWPT's average yield will not be as high as that-in 2010. Though the yield is declining, our calculation shows that BWPT's yields will remain above its peers. We foresee the FFB yield to decline given high proportion of immature plantation that shift into early mature stage and tweak down the overall company yield. We reckon that there is an additional 7,964 ha turned-to-mature this year, which in our view it is quite substantial as it accounts for 30% of the total mature planted area. However, we consider it as part of a normal cycle in palm-oil industry. We expect FFB yield to bottom in 2013 before it bounce back thereafter.

Fig31. Hectare distribution & FFB yield pattern



Source: Company & Ciptadana Estimates

Lucrative acquisition

BWPT is on the edge of finalizing a deal to acquire 11,000 ha estate next to their current estate in East Kalimantan, PT Sawit Sukses Sejahtera (SSS) adding up their land bank to 30,000 ha. Out of 11,000 ha, about 3,000 ha is planted with average age of two to three years old. The acquisition cost is around Rp 2.5mn/ha and Rp 53.4mn/ha (or US\$ 6000) for the planted and unplanted area, respectively.

Accretion/Dilution Analysis

Using Accretion/Dilution Analysis, we reckon that the acquisition is accretive for BWPT as the proposed acquisition deal creates shareholder value. We reckon that the acquisition deal will pay-off over the next five years and increase company's EPS by Rp 4.08 / share after taking into account 10%/annum cost of capital that BWPT obtained from Bank Rakyat Indonesia (BRI) to acquire the 11,000 ha estate.

Tab1. Accretion / Dilution Analysis & Key Assumptions

	Acquisition price (in Rp)	Hectarage	Total Acquisition cost
Planted area cost	53,400,000	3000 ha	IDR 160,200,000,000
Land bank cost	2,500,000	8000 ha	IDR 20,000,000,000
Total acquisition cost			IDR 180,200,000,000
Key assumptions:	Acquisition cost (in USD)	6,000	
	Exchange rate (Rp/USD)	8,900	

Source: Company & Ciptadana Estimates

Tab2. Accretion / Dilution Analysis & Key Assumptions

Before Acquisition	2011 F	2012 F	2013 F	2014 F	2015 F	2016 F	2017 F
Sales	875	1,083	1,452	1,903	2,338	2,875	3,438
Cost of Goods Sold	314	430	622	782	947	1,135	1,326
Gross Profit	561	653	830	1,121	1,391	1,740	2,111
Operating Expenses	97	115	143	176	214	250	294
Operating Income	464	538	687	945	1,177	1,490	1,818
Net Income	313	358	464	644	824	1,068	1,325
EPS	77	89	115	160	204	265	328
After Acquisition	2011 F	2012 F	2013 F	2014 F	2015 F	2016 F	2017 F
Sales	875	1,083	1,491	1,973	2,434	2,998	3,577
Cost of Goods Sold	314	430	648	821	987	1,178	1,371
Gross Profit	561	653	843	1,152	1,448	1,820	2,206
Operating Expenses	97	115	145	180	219	256	301
Operating Income	464	539	698	972	1,229	1,564	1,904
Net Income	313	355	464	656	855	1,117	1,385
EPS	77	88	115	163	212	277	343
Incremental Income	0	(4)	(0)	12	31	49	60
NPV' 2012-2017	82.34						
Incremental Earnings per share	20.40						
Incremental Earnings per share / year	4.08						

Source: Company & Ciptadana Estimates

Source: Company & Ciptadana Estimates

Investment Risk

Risk related to specific company

We highlight several risk factors related to the company in which will affect our valuation.

- Scarcity of Land bank**
 BWPT need to acquire more land bank in order to match their aggressive new planting scheme of 10,000 ha / year. BWPT's total land bank as of December 2011 was 36,287ha, which according to our calculation will only last for three to four years. BWPT would only be able to meet its new planting objective if they acquired more estates. Moreover, with recent Indonesian decree imposing a two-year moratorium on new permits to halt natural forest land clearing will increase land price, which will translate to higher acquisition cost.
- Plasma Programme**
 With regard to Minister of Agriculture's decree 26/2007 which stated that at least 20% of the total planted area should be allocated for plasma plantation scheme, we expect BWPT will keep aside their land bank for plasma planting. Furthermore, Commission IV of the House of Representatives recently requested to revise the plasma land regulation, with new proposed plan that plasma portion should be increased up between 35% - 40%, which would definitely worsen company's performance. If this article is implemented, we believe that it will impact BWPT the most as plasma only accounted for 6.7% of the total planted area as of December 2011.
- Threat from Buyers (Buyers Power)**
 Both Wilmar and Sinarmas Agro Resources (SMART) contribute almost 88% of the company sales volume. We consider this as an Inherent risk as there is no sales volume contract. While strong bargaining power is one of the key issues in accessing this risk, we acknowledge that the characteristic of this industry is still a price taker, not a price setter.

Fig32. Porter Five Forces



Source: Internet

Relative Valuation

Valuation across Indonesian's plantation companies looks more attractive relative to Singaporean and Malaysian plantation companies. Indonesian CPO producers are trading at 12.53x PE FY'2012 vs an average of 14.17x and 14.78x PE FY'2012 of Singaporean and Malaysian CPO producers.

BWPT is trading at 16.56x PE 2012, above its average Indonesian plantation of 12.53x PE 2012. We think it is justified for the company to trade at a premium to its peers given superior margins within the industry, outstanding production growth and superior FFB yield. With higher than average production growth, and better off margin we believe that BWPT deserve to be valued higher.

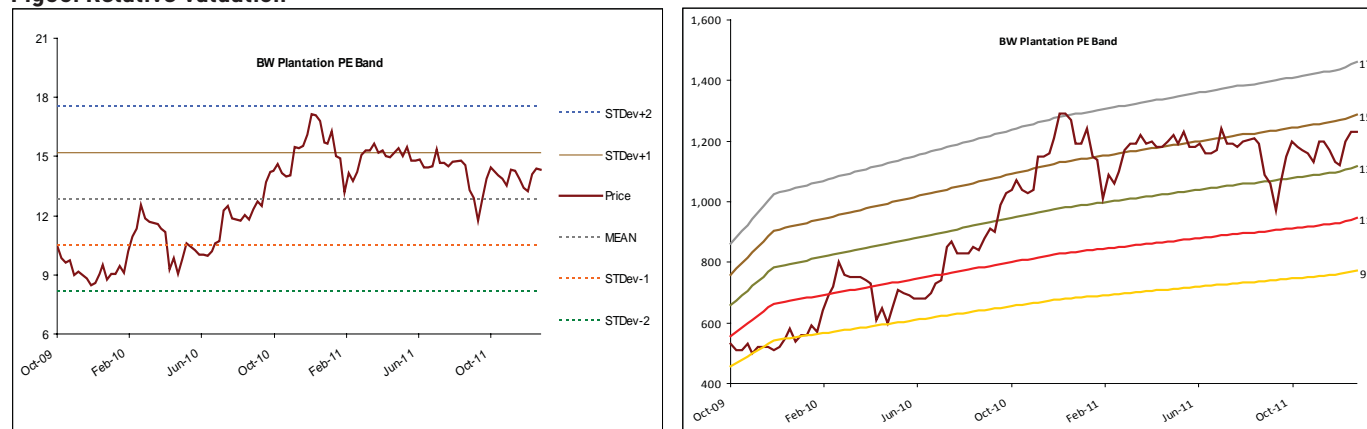
Tab3. Relative Valuation

Stocks	Last Price	Adjst. MarketCap (USD million)	Adjst. EV (USD million)	PE Ratio		Weighting EV	EV / Ebitda	
				2012	2013		2012	2013
BWPT IJ Equity	1450	652.9	793.7	16.56	12.66	8%	11.89	9.10
AALI IJ Equity	22400	3,930.3	3,780.9	14.38	13.68	37%	9.21	8.91
SIMP IJ Equity	1390	2,449.5	2,986.5	11.49	10.73	29%	6.15	5.79
LSIP IJ Equity	2625	1,995.5	1,784.4	10.09	10.02	17%	6.37	6.08
GZCO IJ Equity	285	158.8	249.3	7.76	7.53	2%	9.40	8.02
SGRO IJ EQUITY	3300	694.9	691.1	9.94	9.16	7%	5.88	5.36
Weighted Indonesian plantations				12.53	11.72		7.82	7.27
WIL SP Equity	5.71	29,354.9	50,177.1	14.99	13.53	82%	16.73	15.36
GGR SP Equity	0.79	7,701.2	8,425.6	11.97	10.94	14%	8.17	7.54
IFAR SP Equity	1.605	1,854.5	2,891.0	10.35	9.84	5%	5.72	5.32
Weighted Singaporean plantations				14.17	12.84		15.04	13.82
IOI MK Equity	5.47	11,682.6	12,480.9	15.59	15.03	36%	11.55	11.25
GENP MK Equity	9.4	2,371.8	2,179.4	15.97	14.72	6%	10.76	10.15
SIME MK Equity	9.68	19,342.2	20,446.0	14.14	13.63	58%	8.88	8.54
Weighted Malaysian plantations				14.78	14.20		9.94	9.60

Source: Bloomberg and Ciptadana estimates

PE band shows that the stock is trading at lofty valuation, trading just above three years average mean of 12.86x. While it is expensive, we believe that it is compensated with strong production growth profile coupled with superior margin and high yield. Looking back at the previous peak in 2010 during the commodities rallies BWPT was ever valued close 17x PE. It does not rule out the possibility that in the future BWPT might trade at that level again.

Fig33. Relative Valuation



Source: Bloomberg and Ciptadana estimates

Valuation

We initiate coverage on BW Plantations (BWPT) with a BUY recommendation and a target price of **IDR 1,630/shares** based on Discounted Cash Flow Method (DCF). Our target price suggest a 12.4% upside potential from the current price of IDR 1,450/shares.

DCF Method

In our DCF calculation we use a five years time-span, with 2012 as our base year. Our WACC assumption of 10.58% is derived from our estimates on risk free rate (Rf) of 6%, market risk premium (MRP) of 5%, after tax cost of debt of 7.85%, terminal growth rate of 2% and equity beta of 0.94x. Our assessment of risk free rate (Rf) is based on 10-year Indonesian government bond yield which has already taken into account the recent sovereign upgrade by rating agencies. Our MRP assumption is derived from the spread between Indonesia's 10 years government bond yield and US treasury-bill which is considered a safety haven.

Tab4. BWPT's Valuation

VALUATION - DCF METHOD							
Discounted Cash Flow	2011 F	2012 F	2013 F	2014 F	2015 F	2016 F	2017 F
EBIT	464.5	538.6	698.3	972.0	1,228.6	1,563.9	1,904.3
marginal tax rate	25%	25%	25%	25%	25%	25%	25%
EBIT (1-TAX)	348.3	404.0	523.7	729.0	921.5	1,173.0	1,428.2
+ Depreciation	46.9	62.1	86.3	108.2	145.2	186.8	230.2
- CAPEX	522.4	878.0	833.8	622.3	731.3	665.5	855.0
+/- WORKING CAPITAL	121.5	15.2	50.5	46.5	54.6	68.2	90.4
Free Cash Flow	(5.6)	(396.8)	(173.3)	261.4	390.1	762.5	893.9
cost of equity	10.70%						
risk free rate	6.0%						
beta	0.94						
market premium	5%						
cost of debt	10.47%						
tax	25%						
after tax	7.85%						
share price							
share outstanding	4.0						
EQUITY	1,380.7						
INTEREST BEARING LIABILITIES	1,391.3						
Equity Portion (debt / value)	49.8%						
Debt Portion (debt / value)	50.2%						
g	2%						
WACC	10.58%						
Year	0	0	1	2	3	4	5
Discount Factor	1.00	1.00	0.90	0.82	0.74	0.67	0.60
PV of FCF	(5.6)	(396.8)	(156.7)	213.8	288.4	509.9	540.5
Total PV of FCF (2012-2017)	999.2						
PV of TV	6,423.3						
Total PV of FCF and TV	7,422.6						
Cash 2012	559.5						
Debt 2012	1,391.3						
equity value	6,590.8						
Target Price	1,632.6						

Sensitivity analysis

Being a pure upstream palm-oil company, BWPT is more sensitive to the change of CPO price relative to its peers. For every 10% change in our CPO price assumption, we could see a 10% swing in sales and 21% swing in earnings. Volume also plays an important role in our calculation in which our sensitivity analysis suggest that for every 10% change in our sales volume assumption will lead to 9% swing in FY'2012 sales and 20% swing in FY'2012 net profit. Meanwhile, for any 2.5% change in exchange rate, our FY'2012 top and bottom line will change by about 3% and 5%, respectively.

Tab5. Sensitivity analysis for every 10% change in CPO Price

CPO price Assumptions	Sales FY'12 (Rp bn)	Changes	Net Profit FY'12 (Rp bn)	Changes
+20% (USD 1260)	1,300.0	20%	506.0	43%
+10% (USD 1155)	1,191.7	10%	430.5	21%
Base case price (USD 1050)	1,083.3		354.9	
-10% (USD 945)	975.0	-10%	279.4	-21%
-20% (USD 840)	866.7	-20%	203.9	-43%

Tab6. Sensitivity analysis for every 10% change in CPO Sales volume

Volume Assumptions	Sales FY'12 (Rp bn)	Changes	Net Profit FY'12 (Rp bn)	Changes
+20% (165.03 k)	1,280.3	18%	495.2	40%
+10% (151.28 k)	1,181.8	9%	425.1	20%
Base case vol. (137.52 k)	1,083.3		354.8	
-10% (123.77 K)	984.8	-9%	284.8	-20%
-20% (110.02 k)	886.3	-18%	214.6	-39%

Tab7. Sensitivity analysis for every 2.5% change in exchange rate

Exchange rate Assumptions	Sales FY'12 (Rp bn)	Changes	Net Profit FY'12 (Rp bn)	Changes
+5% (IDR 9240 / US\$)	1,137.50	5%	392.70	11%
+2.5% (IDR 9020 / US\$)	1,110.42	2%	373.82	5%
Base case price (IDR 8800 / US\$)	1,083.34		354.76	
-2.5% (IDR 8580 / US\$)	1,056.25	-3%	336.07	-5%
-5% (IDR 8360 / US\$)	1,029.17	-5%	317.19	-11%

Source : Company and Ciptadana estimates

Tab8. Basic Assumptions

	2011 F	2012 F	2013 F	2014 F	2015 F
CPO Price - Palmrott (US\$ / ton)	1,119	1,050	1,050	1,050	1,050
Average USD-IDR Currency	8,700	8,800	8,800	8,800	8,800
Inflation	3.78%	5.50%	5.50%	5.50%	5.50%
New Planting target per year	8900	10000	10000	10000	8000
CPO sales volume growth	19.1%	26.4%	35.5%	31.6%	25.0%
CPO production volume growth	20.0%	28.1%	35.0%	30.9%	24.9%
FFB production volume growth	15.3%	28.1%	36.8%	29.7%	25.1%

Tab9. Income Statement

(IDR bn)	2011 F	2012 F	2013 F	2014 F	2015 F
Net Sales	875	1,083	1,491	1,973	2,434
COGS	314	430	648	821	987
Gross Profit	561	653	843	1,152	1,448
Operating Expenses	97	115	145	180	219
Operating Profit	464	539	698	972	1,229
Other Income (Other expense)	(47)	(66)	(80)	(97)	(88)
Net Profit before Tax	417	473	619	875	1,141
Income Taxes	104	118	155	219	285
Net Profit before minority interest	313	355	464	656	855
Minority Interest	-	-	-	-	-
Net Profit	313	355	464	656	855

Tab10. Balance Sheet

(IDR bn)	2011 F	2012 F	2013 F	2014 F	2015 F
Cash and cash equivalent	559	288	341	494	649
Account Receivables	60	74	101	134	166
Inventory	58	80	120	152	183
Other Current Asset	9	10	11	12	13
Total Current Asset	687	451	573	793	1,010
Plantations	1,719	2,239	2,696	3,159	3,567
Fixed Assets	394	690	980	1,031	1,209
Other Non Current Asset	258	282	313	353	386
Total Non Current Asset	2,370	3,211	3,989	4,543	5,162
Total Asset	3,057	3,662	4,562	5,336	6,172
Loan	1,391	1,644	2,019	2,101	2,095
Account Payable	148	203	306	387	466
Advances Received	33	41	57	75	93
Other Current Liabilities	91	104	135	187	242
Other Non Current Liabilities	13	13	13	14	14
Total Liabilities	1,676	2,004	2,530	2,764	2,909
Minority Interest	-	-	-	-	-
Equity	1,381	1,657	2,031	2,572	3,263
Total Liabilities & Equity	3,057	3,662	4,562	5,336	6,172

Source : Company and Ciptadana estimates

Tab11. Cash Flow Analysis

(IDR bn)	2010	2011 F	2012 F	2013 F	2014 F	2015 F
Cash Flow from Operating Activities						
Net Income	244	313	355	456	636	816
Depreciation	37	47	62	87	109	146
Other	-	-	-	1	2	3
Chg in Working Cap	(104)	120	15	44	42	52
CF's from oprs	176	480	432	587	787	1,014
Cash Flow from Investing Activities						
Capex	(524)	(648)	(853)	(827)	(625)	(734)
Others	(150)	150	-	-	-	-
CF's from investing	(674)	(498)	(853)	(827)	(625)	(734)
Cash Flow from Financing Activities						
Net change in debt	698	162	272	374	80	(7)
Net change in Equity	(20)	(61)	(78)	(90)	(114)	(159)
CF's from financing	678	102	194	284	(34)	(166)
Net cash flow	181	84	(227)	44	127	113
Cash at the beginning of the Year	318	499	583	356	400	527
Cash at the Ending of the Year	499	583	356	400	527	640

Source : Company and Ciptadana estimates

Tab12. Key Ratio Analysis

(IDR bn)	2010	2011 F	2012 F	2013 F	2014 F	2015 F
Profitability Ratio						
Gross margin	65.6%	64.1%	60.3%	57.1%	58.8%	59.4%
Operating margin	52.1%	53.1%	49.7%	47.2%	49.6%	50.3%
EBITDA margin	57.3%	58.4%	55.4%	53.2%	55.3%	56.5%
Numbers of shares (in mn)	4,083	4,083	4,083	4,083	4,083	4,083
Numbers of shares (fully diluted)	4,083	4,083	4,083	4,083	4,083	4,083
EPS	60.34	77.49	87.92	112.93	157.52	202.08
ROA	11.4%	11.0%	10.5%	11.1%	12.9%	14.3%
ROE	23.9%	24.9%	23.4%	24.8%	27.8%	28.4%
Decomposition ROE (Dupont Analysis)						
Net margin	34%	36%	33%	31%	33%	35%
Total Asset Turnover	0.33	0.31	0.32	0.35	0.39	0.41
Financial leverage	2.10	2.28	2.22	2.24	2.16	1.98
Liquidity Ratio						
Current Ratio	1.27	1.66	0.95	0.95	0.92	1.07
Quick Ratio	1.16	1.53	0.80	0.77	0.75	0.88
Cash Ratio	1.06	1.37	0.65	0.60	0.59	0.69
Activity Ratio						
Inventory Turnover	4.87	5.39	5.39	5.39	5.39	5.39
Trade Receivable Turnover	19.34	19.34	19.34	19.34	19.34	19.34
Other Receivable Turnover	98.55	61.19	61.19	61.19	61.19	61.19
Payable Turnover	1.82	2.12	2.12	2.12	2.12	2.12
Fixed Asset Turnover	0.57	0.49	0.44	0.45	0.49	0.53
Solvency Ratio						
Debt to Asset Ratio	0.46	0.46	0.45	0.45	0.40	0.35
Debt to Equity Ratio	1.09	1.01	1.00	1.01	0.83	0.66
Debt to capital Ratio	0.32	0.31	0.31	0.31	0.29	0.26
Interest Coverage ratio	6.81	6.87	6.75	8.24	9.09	11.74

Source : Company and Ciptadana estimates

EQUITY RESEARCH

ANALYST

Syaiful Adrian
Strategy, Banking
 T +62 21 2557 4919
 E adriansyaiful@ciptadana.com

ANALYST

Suraj Khiani
Coal, Plantations
 T +62 21 2557 4892
 E khianisuraj@ciptadana.com

RESEARCH ASSISTANT

Sumarni
 T +62 21 2557 4920
 E sumarni@ciptadana.com

ANALYST

Triwira Tjandra
Telecommunication, Infrastructure, Property
 T +62 21 2557 4800 ext 739
 E tjandratriwira@ciptadana.com

ANALYST

Mitchel Jauwanto
Consumer, Automotive
 T +62 21 2557 4820
 E jauwantomitchel@ciptadana.com

RESEARCH ASSISTANT

Silviana Sumardjono
 T +62 21 2557 4800 ext 740
 E sumardjonosilviana@ciptadana.com

ANALYST

Wilim Hadiwijaya
Heavy Equipment, Metal Mining, Oil and Gas
 T +62 21 2557 4799
 E hadiwijawawilim@ciptadana.com

TECHNICAL ANALYST

Trevor Gasman
 T +62 21 2557 4934
 E gasmantrevor@ciptadana.com

HEAD OFFICE - JAKARTA

PT CIPTADANA SECURITIES
 Plaza ASIA Office Park unit 2
 Jl. Jend. Sudirman kav. 59
 Jakarta 12190
 T +62 21 2557 4800
 F +62 21 2557 4900
 E research@ciptadana.com
 www.ciptadana.com

EQUITY SALES

HEAD OF SALES

John Herry Teja
 Plaza ASIA Office Park unit 2
 Jl. Jend. Sudirman kav. 59
 Jakarta 12190
 T +62 21 2557 4808
 F +62 21 2557 4900
 E tejajohn@ciptadana.com

PURI - KENCANA

Chandra Herotionjaya
 Perkantoran Puri Niaga III
 Jl. Puri Kencana Blok M8 No.1H-I, Kembangan
 Jakarta 11610
 T +62 21 5835 6025
 F +62 21 5835 6026
 E herotionjayachandra@ciptadana.com

MANGGA DUA

Gavin Ishak
 Harco Mangga Dua
 Blok C/10
 Jakarta 11180
 T +62 21 600 2850
 F +62 21 612 1049
 E ishakgavin@ciptadana.com

PLUIT

Ferry Ishak
 Jl. Pluit Putra Raya No. 7
 Jakarta 14450
 T +62 21 6669 6688
 F +62 21 6669 0770
 E ishakferry@ciptadana.com

BOGOR

Daud Dirgahayu
 Jl. Raya Padjajaran
 Ruko 70 No.70J
 Bogor 16151
 T +62 251 836 2255
 F +62 251 837 0054
 E dirgahayudaud@ciptadana.com

BANDUNG

Maykel Yonathan
 Wisma CIMB NIAGA 3rd Floor - Suite 301
 Jl. Jend. Gatot Subroto No.2
 Bandung 40262
 T +62 22 732 2288
 F +62 22 732 2287
 E yonathanmaykel@ciptadana.com

SURABAYA

Imelda Soetikno
 Intiland Tower Ground Floor Suite 5 & 6
 Jl. Panglima Sudirman 101-103
 Surabaya 60271
 T +62 31 534 3938
 F +62 31 534 3886
 E soetiknoimelda@ciptadana.com

SEMARANG

Lusiana Permatasari
 Jl. Gajah Mada No. 107
 Semarang 50136
 T +62 24 354 8989
 F +62 24 356 5599
 E permatasarihusiana@ciptadana.com

MEDAN

Juliawaty
 Jl. Cut Nyak Diem No.14
 Medan 20152
 T +62 61 455 5600
 F +62 61 457 2269
 E juliawaty@ciptadana.com

Analyst Certification

Each contributor to this report hereby certifies that all the views expressed accurately reflect his or her personal views about the companies, securities and all pertinent variables. It is also certified that the views and recommendations contained in this report are not and will not be influenced by any part or all of his or her compensation

Disclaimer

This report does not constitute an offer to buy or sell any security/instrument, invitation to offer or recommendation to enter into any transaction. Nor are we acting in any other capacity as a fiduciary to you. When making and investment decision, you should determine, without reliance upon us or our affiliates, the economic risks and merits (and independently determine that you are able to assume these risks) as well as the legal, tax and accounting characterizations and consequences of any such transaction. In this regard, by accepting this presentation, you acknowledge that (a) we are not in the business of providing (and you are not relying on us for) legal, tax or accounting advice, (b) there may be legal, tax or accounting risks associated with any transaction, (c) you should receive (and rely on) separate and qualified legal, tax and accounting advice and (d) you should apprise senior management in your organization as to such legal, tax and accounting advice (and any risks associated with any transaction and our disclaimer as to these matters.

The information contained in this report is based on material we believe to be reliable; however, we do not represent that it is accurate, current, complete, or error free. Assumptions, estimates and opinions contained in this report constitute our judgment as of the date of the document and are subject to change without notice. Any projections are based on a number of assumptions as to market conditions and there can be no guarantee that any projected results will be achieved. Past performance is not a guarantee of future results. CIPTADANA SPECIFICALLY DISCLAIMS ALL LIABILITY FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL OR OTHER LOSSES OR DAMAGES INCLUDING LOSS OF PROFITS INCURRED BY YOU OR ANY THIRD PARTY THAT MAY ARISE FROM ANY RELIANCE ON THIS REPORT OR FOR THE RELIABILITY, ACCURACY, COMPLETENESS OR TIMELINESS THEREOF.