Palm Oil | ASIA

CONSUMER-RELATED/AGRI-RELATED

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BULLISH

Action

Poor soft commodity production, strengthening crude oil prices, and a weak US dollar continue the perfect storm for the sector. We upgrade our CPO price assumption and reiterate our Bullish sector view. Our Top Picks are Sime Darby for its better leverage to CPO price and reasonable valuations, London Sumatra as the laggard, and IndoAgri, which has been punished by poor sector sentiment.

Catalysts

Continued strong prices from global agri-commodities should sustain higher prices for CPO and lead to a further re-rating for plantation companies.

Anchor themes

Continued tight global vegetable oils outlook, a stronger crude oil price, weaker US dollar (relative to Asian currencies), and bullish outlook for global agri-commodities (including non-oil crops) should sustain higher CPO prices and drive earnings.

Stocks for action

We currently prefer laggards or players which are less impacted by export taxes in Indonesia, namely – Sime Darby, IndoAgri and London Sumatra.

Stock	Rating	Local price	Price target
Sime Darby (SIME MK)	BUY	9.33	12.15*
IOI (IOI MK)	BUY↑	5.78	7.00*
KLK (KLK MK)	BUY↑	22.70	27.00*
Indofood (IFAR SP)	BUY	2.60	3.40*
Golden Agri (GGR SP)	BUY	0.72	0.90*
Astra Agro (AALI IJ)	BUY↑	22,750	28,400*
London Sumatra (LSIP IJ)	BUY	11,400	15,200*

↑ Upgrading from Neutral; * price target raised

Note: Pricing as of 7 Feb 2011; local currency

This (CPO) party is far from over

① Upgrade CPO price; BUY planters that lag or have good leverage

We remain Bullish on the sector given continuing high agri-commodity prices from poor production (which is supportive for palm oil), strengthening crude oil prices, and the weak US dollar. We raise our CPO price assumption (for both Malaysian and Indonesian planters) by 13-18% (2011: RM3,400/tonne) and impute higher export taxes on Indonesian planters, which raises our Malaysian planters' FY11-13F earnings by 6.8-19.6%, but changes Indonesian planters' FY11-13F earnings by -10.3% to+6.6%. We also raise our target P/E multiple for AALI, IFAR and GGR to 16x on our more bullish CPO view. We prefer the Malaysian planters for their better leverage to CPO prices (without the export tax), and our top pick is Sime Darby. We also recommend BUYing London Sumatra (laggard), and IndoAgri, which in our view has been unfairly punished by recent poor sentiment (concerns of strong 2H11 production).

② Indonesian export tax worries investors – but priced in

In our recent marketing rounds, the key concern amongst investors was the impact of the Indonesian export tax – which at 25% is quite punitive. Indeed, we were also conservative in building in export taxes on our previous RM3,000/tonne assumption. We have now imputed high export taxes of 17.5-22.5% for FY11-13F to reflect our higher CPO price average. Even with these export tax assumptions, the upstream planters (in Indonesia) still offer very compelling potential upside (London Sumatra and Astra Agro with 25-33% upside), especially given that they were beaten down in the recent macro sell-down. We prefer Malaysian planters for better leverage to CPO price strength, although we note that the current export tax of 25% in Indonesia is already at the maximum bracket, and as such Indo planters should regain their leverage at prices above US$1,250/tonne of CPO.

③ Poor sentiment overdone; Remain BULLISH on upstream

Most planters have either lagged CPO prices (by an average of 26%) or have corrected up to 16% from their recent peaks. Concerns on 2H11 production and a possible China interest rate hike are overdone, in our opinion. We argue that strong prices for global-agri make vegetable oils competitive even at current high spot prices, and CPO prices should not see a sharp correction so long as crude oil prices and the exchange rate remain supportive. Further, CPO strength was sustained in the last upcycle, even when China had also raised interest rates.

Analysts

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Also see our Anchor Report: Asia Palm Oil - Just heating up (19 October, 2010)

Revising CPO prices upwards – BULLISH on the Upstream

Questioning the subdued sentiment

We remain Bullish on the Palm Oil Upstream space, as we think that plantation companies still offer good upside. Though planters have outperformed the indices by ~13.5% on average since October 2010, they have lagged CPO price performance by 25.9%. We think that this lag in performance is unjustified. Recently, there have been concerns on the impact of excise duties on earnings for Indonesian companies, but even after factoring in high excise duties in 2011-13F, we still view the companies as having good potential upside. We do, however, prefer to play this CPO strength via laggard companies such as London Sumatra, and recently beaten-down IndoAgri. At the same time, Sime Darby remains our Top Pick for its laggard performance and good leverage to palm oil (not as affected by export taxes in Indonesia)

Planters have lagged the recent CPO price increase by 26% – unjustified, in our view

We raise our CPO price assumption on continued strength in prices. We raise our CPO price assumption by 5-18% on the back of current strong spot prices (currently at c. RM3,800/tonne— which are more than 12% above our new RM3,400/tonne forecast for 2011). We think that the strength of most agri-commodities (including corn, wheat and cotton, which compete with oilseeds for acreage) currently will support high vegetable oil and CPO prices throughout the year. We also believe the street's current consensus assumption for 2011 of c. RM3,000/tonne is too conservative, given that many planters would have likely locked in some of the current CPO price strength in forward sales.

Raising CPO price assumption by 13-18% for FY11-12F; external factors including crude oil price, other agri-crops and US$ weakness will play a very important role this year

Exhibit 1. Revised CPO price assumptions

Year	2010F	2011F	2012F	2013F
New (RM/mT)	2,760	3,400	3,550	3,450
Old (RM/mT)	2,625	3,000	3,000	N/A
% change	5	13	18	N/A

Source: Nomura estimates

We believe that the street is generally too conservative with regards to its CPO price assumption of c. RM3,000/tonne and that positive earnings surprises and sustained high spot prices will lead to another leg-up for earnings estimates and share prices.

Sentiment weak on fears of strong 2H11 production. We think there are still risks to production this year and find the poor sentiment overdone. During our recent marketing trips, we have noted weaker sentiment on the sector, given expectations of 2H production being strong in 2011.

We think recent weak sentiment in the sector on fears of strong 2H11 CPO production (hampering prices) and the export duties in Indonesia are overdone

We think that current poor sentiment based on 2H11 production strength fears and the impact of export tax is overdone. So long as strong agri-commodity prices, strong crude oil prices and a weak US dollar continue, we believe palm oil prices should be well supported, even if production starts to pick up in 2H11.

Our Top Picks in the space are: Sime Darby in Malaysia, which has good leverage to CPO price strength; IndoAgri, which has been punished by poor sentiment; and London Sumatra in Indonesia, for its cheap valuations and laggard performance.

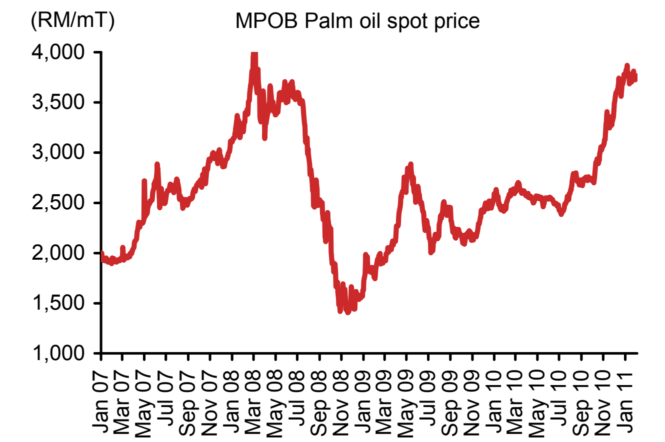
Globally the ASEAN plantations space remains relatively under-owned, in our view, and would benefit strongly if sentiment turns even stronger. On the back of our revised CPO price assumptions, we have revised Malaysian plantation companies' earnings up by 6.8-19.6%, and Indonesian plantations earnings by -10.3% to +6.6% (where there were some cuts to earnings after imputing higher CPO export taxes). We also increase our P/E multiples to 16x (from 15x) for Astra Agro, Golden Agri, and IndoAgri to factor in our further more Bullish view on CPO prices — closer to its +1SD above its mean valuations for these companies. P/E multiples have historically tended to expand with CPO price rises (see our company pages for valuation methodologies). With that, we have raised our ratings and price targets as follows:

Exhibit 2. Rating summary – Now all BUYs

	Previous rating	Revised rating	Old PT (local)	New PT (local)	Potential upside (%)
Sime Darby	BUY	BUY	11.10	12.15	30.2
IOI	NEUTRAL	BUY	6.20	7.00	21.1
KLK	NEUTRAL	BUY	21.70	27.00	18.9
Golden Agri	BUY	BUY	0.85	0.90	24.0
Indofood Agri	BUY	BUY	3.20	3.40	30.8
London Sumatra	BUY	BUY	14,650	15,200	33.3
Astra Agro	NEUTRAL	BUY	26,900	28,400	24.8

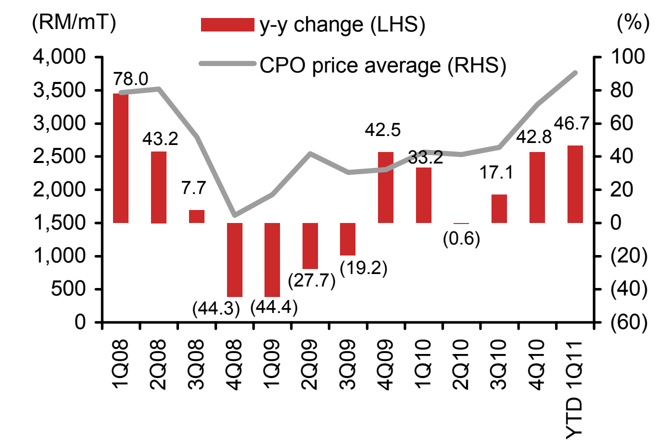
Source: Nomura research. Potential upside based on closing prices as at 7 February 2011.

Exhibit 3. CPO price could sustain its strength



Source: Bloomberg

Exhibit 4. YTD 1Q11 CPO prices average +46.7% y-y



Source: Nomura, Bloomberg

Planters have outperformed their relative indices, but still far below CPO price strength. On average, the upstream planters have outperformed their relative local indices by 13.5% since 1 October 2010, but on the other hand have lagged CPO price performance by an average of 26%. KLK and Golden Agri stand out as the key outperformers, having outperformed by 28.6% and 24.4%, respectively. We still believe that potential upside prevails for these stocks, (especially for those that offer stronger leverage to CPO prices) given their relative underperformance vs CPO. Key picks here include Sime Darby, IOI, IndoAgri and Astra Agro Lestari.

Exhibit 5. Upstream plantations have outperformed the index but still far below CPO price strength

	% change since 1/Oct/10	Outperformance vs index	Outperformance vs CPO	Drop from Highs since Oct
Sime Darby	9.8	5.0	(31.7)	(1.3)
IOI	5.7	0.9	(35.8)	(3.6)
KLK	33.4	28.6	(8.1)	(0.7)
KLCI	**4.7**		**(36.8)**	
Malaysia Plantations	14.5		(26.9)	
Golden Agri	26.3	24.4	(15.2)	(12.8)
Indofood Agri	12.1	10.1	(29.4)	(11.2)
STI	**2.0**		**(39.5)**	
Singapore Plantations	25.2		(16.3)	
Astra Agro	7.3	9.0	(34.2)	(15.9)
Lonsum	14.6	16.2	(26.9)	(10.5)
JCI	**(1.7)**		**(43.2)**	
Indonesia Plantations	9.0		(32.5)	
Average – all planters	15.6	13.5	(25.9)	(8.0)
CPO	41.5			

Source: Nomura, Bloomberg. Note: Priced as at 7 February 2011.

Raising CPO price assumptions by 5-18% for 2010-12F

We raise our CPO price assumption by 5-18% on the back of current strong spot prices (currently at c. RM3,800, which are more than 12% above our new RM3,400/tonne forecast for 2011). We think that the strength of most agri-commodities (including corn, wheat and cotton, which compete with oilseeds for acreage) currently will support high vegetable oil and CPO prices throughout the year. We also think concern on 2H production coming in strongly could be overdone, and that the street's current consensus assumption for 2011 of c. RM3,000/tonne is too conservative.

Exhibit 6. Revised CPO price assumptions

Year	2010F	2011F	2012F	2013F
New (RM/mT)	2,760	3,400	3,550	3,450
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% change	5	13	18	N/A

Source: Nomura estimates

The key themes we identified in our last upgrade are still valid – and supports the continuation of the 'perfect storm'

Further, we had raised our CPO assumptions in October 2010, on the following key points, which we believe are still valid (see our report, *Just heating up*, dated 19 October 2010, for further details):

- Tighter supply/demand scenario in 2011F, following weak palm oil production in 2010;
- Possible risks of poor production of soybean and palm oil if a strong La Niña develops or poor weather patterns continue;
- US dollar depreciation supporting higher commodity prices overall;
- Stronger crude oil price assumptions for next year supporting CPO prices.

We now forecast our CPO prices based on a multi-variate regression model

Introducing a multi-variate regression model for our palm oil price forecasts. We now introduce a multi-variate regression model for our palm oil price forecasts, regressing the one-year monthly CPO price against:

1) Malaysian CPO stock/usage ratio;

2) USDA one-year forward forecast for soybeans stock usage ratio (ie next planting season);

3) Crude oil price; and

4) MYR/USD exchange rate.

Interestingly, this has yielded strong coefficients for crude oil and the exchange rate, which intuitively is true and may indeed be as big, if not a bigger factor for palm oil prices than supply and demand.

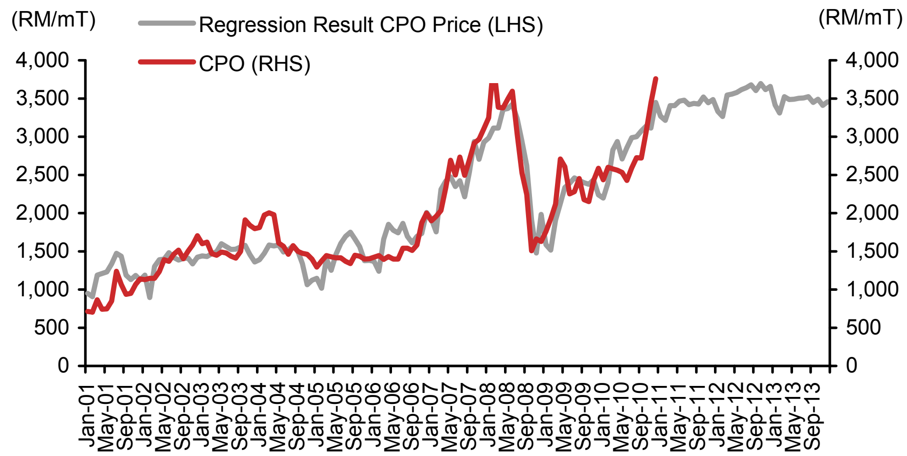
Exhibit 7. CPO forecasts — Multi-variate regression model assumptions

Metric	2011F	2012F	2013F
Crude Oil (US$/Bbl)	95.00	110.00	100.00
CPO Stock/Usage Ratio	10% Below LTA in 1H11F and 5% above in 2H11F	10% above LTA	10% above LTA
Soybean Stock/Usage Ratio (USDA 1Yr Fw)	At the same levels for the months through 2010	At the same levels for the months through 2010	At the same levels for the months through 2010
MYR/USD Exchange Rate	RM3.00-RM3.05	RM2.95-RM3.00	RM2.95-RM3.00

Note: Note: LTA = Long Term Average since year 2000

Source: Nomura Securities

Exhibit 8. CPO forecasts — Multi-variate regression results



Source: Nomura research, Bloomberg

Downside protection — planters should be able to lock in forward sales at strong prices

Planters would have been able to lock in some forward sales at current strong spot CPO prices, which provides some buffer to earnings in case a quick reversal in CPO prices happens

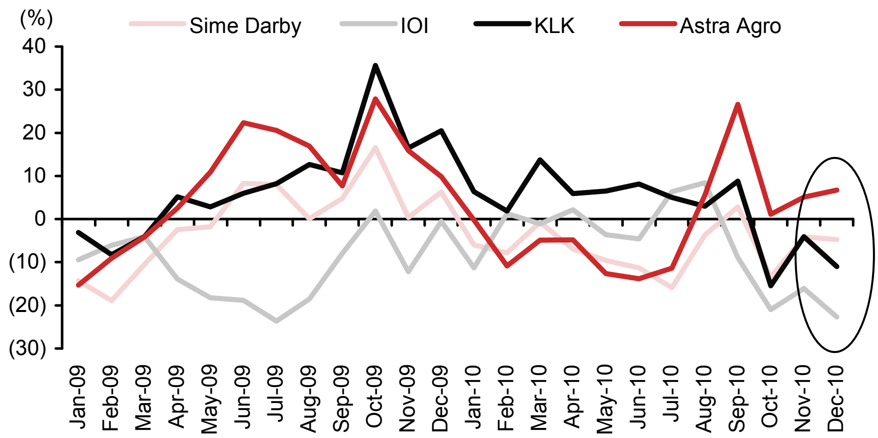
CPO prices have remained above RM3,000/tonne (higher than our previous assumption) since October 2010. Though it is difficult to find out how much and at what price plantation companies have sold forward (usually kept confidential due to competitive reasons), we do believe that most planters would have attempted to lock in current high prices of RM3,800 and above. During the last upcycle, IOI had managed to stretch out its forward sales by up to a year, recording far higher ASPs (more than 40%) versus the actual spot price (which had collapsed by mid-2008) during that period, and we think that this upcycle should be no different.

2011 recovery in production may be weaker than expected, contrary to popular belief

We are quite surprised at how weak CPO production was in December 2010 and even January 2011 for some companies – which really highlights the risk that 2H11 may not be as good as most expect

Though most of the street is expecting very strong 2H production in 2011, we flag that the road to recovery has not been smooth, and there still remain downside risks to 2011 production. December production for most planters showed poor fresh fruit bunch (FFB) production, down 8-20% y-y. We think that a steady and prompt reversal of production in 2011 will be challenging, given the surprisingly poor weather conditions currently, including extreme flooding in Johor (which accounted for 17% of Malaysian CPO production in 2010). In fact names such as IJM Plantations (not rated) saw a drop of 38% y-y in FFB output for the month of January, signalling indeed that 2011 is off to a very weak start.

Exhibit 9. Malaysian plantations continue to show extremely weak FFB production with y-y% contractions in 4Q10



Source: Company data

CPO price can survive Chinese rate hikes based on the past

We gather that a key concern amongst investors is the fear that China's looming rate hikes could be a downside risk to CPO prices. Based on the last upcycle, in which China hiked interest rates up to eight times and CPO price continued its strength, we expect that current strength in crude oil prices and tight supply/demand scenarios for vegetable oils and related agri-commodities should be key supporting factors for CPO prices in the current upcycle.

Investors have begun to be concerned on the impact of any Chinese rate hike on commodity prices, but history shows that CPO prices can continue to rise even when China interest rates rise

Exhibit 10. CPO prices not significantly impacted by Chinese rate hikes

Source: Nomura, Bloomberg

Indonesian export duty – punitive for Indonesian planters; Malaysian planters offer better leverage

The Indonesian export duty is a point that cannot be ignored, as it has significantly decreased the Indonesian planters' earnings leverage to CPO price upside. If there is a plus side, it is that at the maximum tax bracket of 25%, any further upside from CPO price levels of US$1,250/tonne should not see an increase in export taxes. We have since imputed export taxes in all our forecasts based on the assumptions below, which has brought down some earnings forecasts (and cancelled out the effects of our CPO price increase for some). For example, increasing the palm oil price assumption by 10% from (RM3,000 to RM3,300) would increase the export tax by 7.5% (ie from 10% to 17.5%).

The Indonesian export tax is now a hot topic in the sector, given how punitive it is on Indonesian planters' earnings

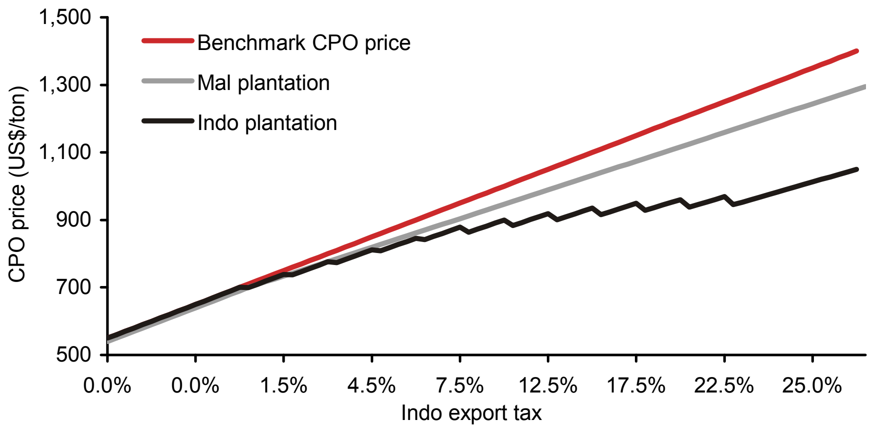
Things you need to know about the export tax:

- **It is based on a prescribed progressive tax table**, whereby the tax rate is for the next month as based on the average reference price for palm oil (CIF Rotterdam US$ price) – see below.
- **It is not a marginal tax rate**, the tax rate applies across the whole amount of the price (i.e. not 0% for the first US$700/mt, etc.).
- **Producers are indifferent as to whether they should export or sell locally**. If they export, the producer will have to pay the export tax (which usually will form part of its SG&A costs (selling, general and administrative costs). If they choose to sell locally, the local price that they will receive (usually on a tender basis as in AALI's case), will generally be the international price less the export tax (i.e. lower revenues).

The export tax is based on a prescribed progressive tax table, is not a marginal tax, and makes Indonesian producers indifferent on whether to export or sell locally

Exhibit 11. Export duty and windfall tax impact on plantation companies

Indonesian planters will show poorer leverage to Palm Oil prices up till the US$1,250 levels, where the export tax will reach its maximum



Source: Nomura estimates

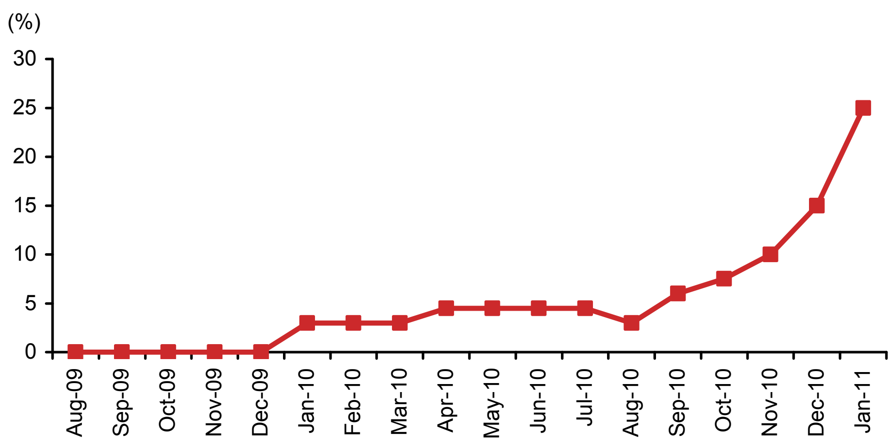
Exhibit 12. Export tax assumptions for our coverage

	2010F	2011F	2012F	2013F
Export Tax Assumption (%)	9.1	17.5	22.5	20.0

Source: Nomura estimates

Exhibit 13. Indonesian CPO export taxes now at maximum 25% tax bracket

Indonesian export tax has recently hit the maximum tax bracket of 25%, which means that Indonesian planters should now regain leverage to CPO prices above the current spot price



Source: Menteri Keuangan Republik Indonesia

Exhibit 14. Indonesian export tax structure – now at maximum bracket

Price (US$/mT)	Tariff (%)
P < 700	0.0
701 < P < 750	1.5
751 < P < 800	3.0
801 < P < 850	4.5
851 < P < 900	6.0
901 < P < 950	7.5
951 < P < 1000	10.0
1001 < P < 1050	12.5
1051 < P < 1100	15.0
1101 < P < 1150	17.5
1151 < P < 1200	20.0
1201 < P < 1250	22.5
P > 1251	25.0

Source: Menteri Keuangan Republik Indonesia Note: Current CIF CPO price at Rotterdam is US$1,315/mT

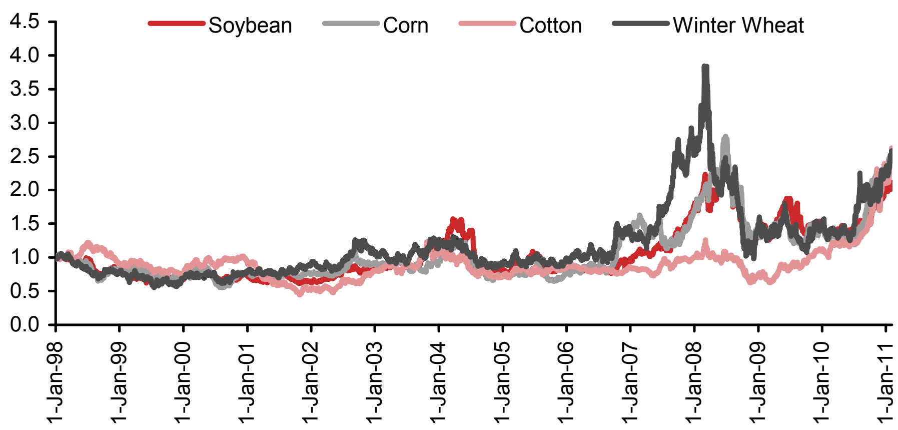
Prices for all other crops that compete for acreage with soybean have gone through the roof – supportive of soy/palm

Soybean appears expensive relative to history, but with all other crops (which compete with soybean for acreage) showing strength, we think current prices may indeed be justified

Though soybeans appear expensive (soybean prices are now double their average price since 1996) they are not expensive relative to other crops. In fact, for the crops that soy will compete with in regard to acreage (such as corn, cotton and wheat), prices in many cases are close to all-time highs (see price index below).

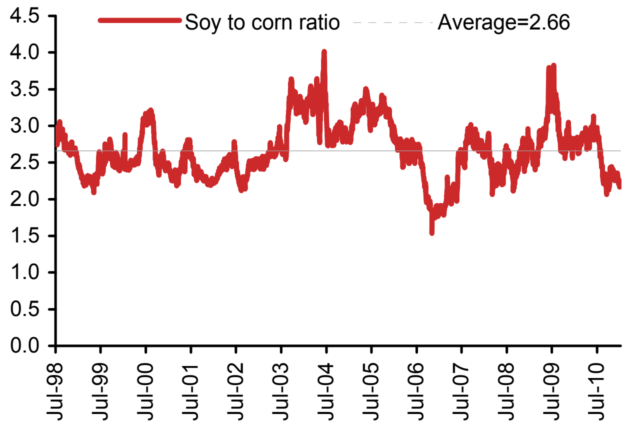
This, we think, is an important fact that cannot be ignored. Though the other crops do not form part of the vegetable oil complex, they are invariably linked given that soy plantings will compete with these other crops for acreage. As such, soy will need to maintain its price relative to other crops in order to induce farmers to plants sufficient soybean for the next season (US plantings will begin in May onward). On this front, comparing the soy price relative to other crops (see below), we find that soy is cheaper or on par with its competing crops (corn, wheat and cotton) versus its long term average ratio, supporting our expectations that stronger prices within the vegetable oil complex (ie soy and therefore palm oil) may last longer than many may expect.

Exhibit 15. Soft commodity price index (Base=1998)



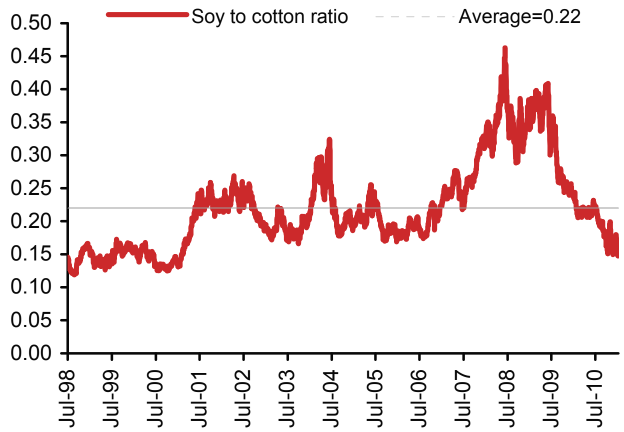
Source: Bloomberg

Exhibit 16. Soy-corn ratio (below average)



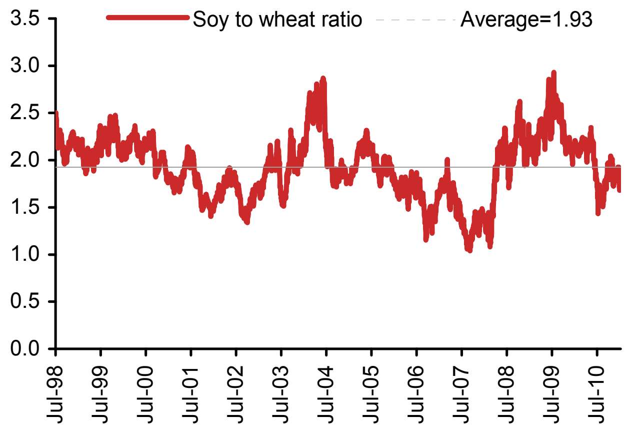
Source: Nomura, Bloomberg

Exhibit 17. Soy-cotton ratio (below average)



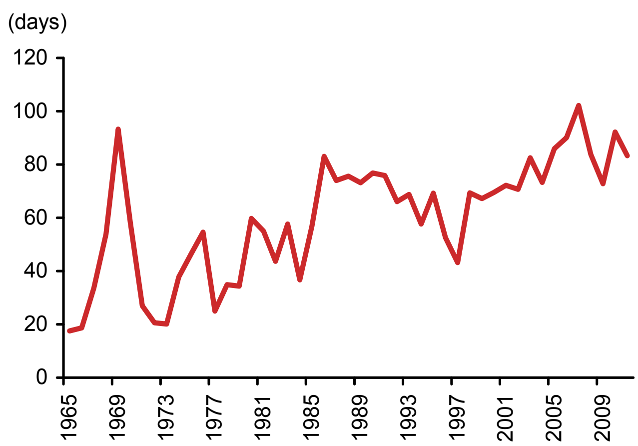
Source: Nomura, Bloomberg

Exhibit 18. Soy-wheat ratio (average)



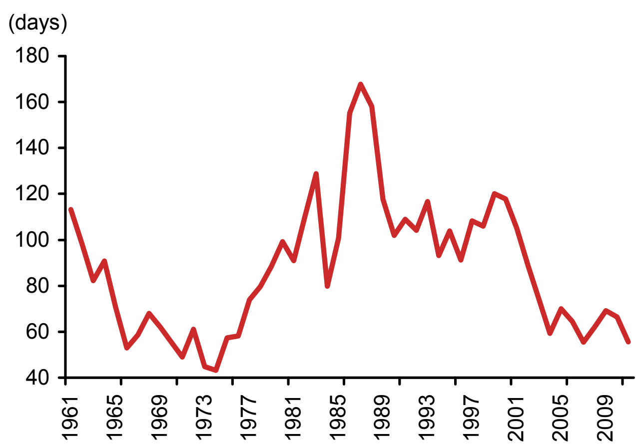
Source: Nomura, Bloomberg

Exhibit 19. Soybean — global inventory coverage



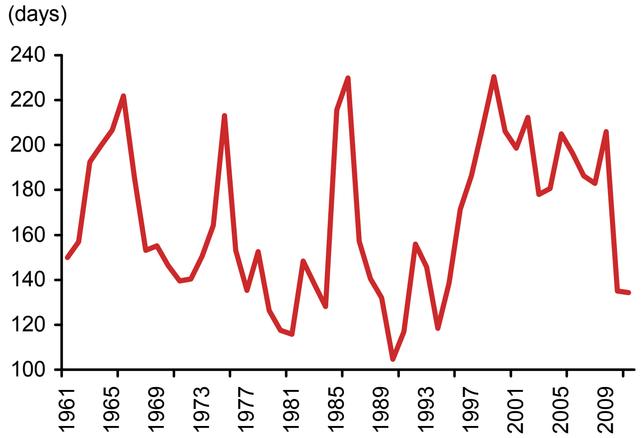
Source: USDA FAS, Nomura research

Exhibit 20. Corn — global inventory coverage



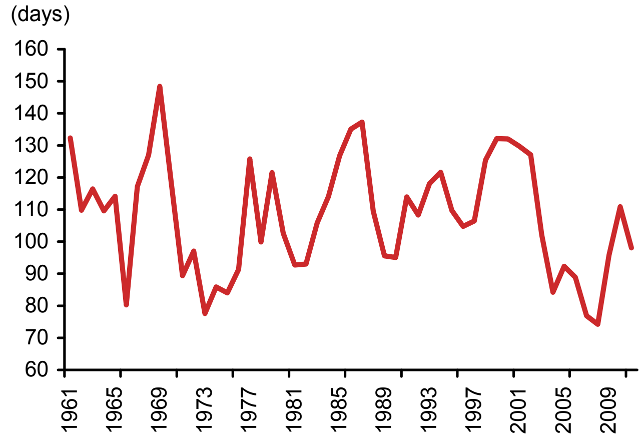
Source: USDA FAS, Nomura research

Exhibit 21. Cotton — global inventory coverage



Source: USDA FAS, Nomura research

Exhibit 22. Wheat — global inventory coverage



Source: USDA FAS, Nomura research

Exhibit 23. Vegetable oils stock usage ratios all lower than long-term average

Global vegetable oils	2011F (%)	Average (2000-2009)	2011 as % of average
Oil, Coconut	11.8	11.5	2.0
Oil, Cottonseed	3.3	3.9	(15.6)
Oil, Olive	14.9	35.7	(58.3)
Oil, Palm	8.7	12.3	(28.8)
Oil, Palm Kernel	9.0	13.3	(32.5)
Oil, Peanut	2.2	4.2	(47.1)
Oil, Rapeseed	3.3	4.2	(22.7)
Oil, Soybean	6.7	10.1	(33.6)
Oil, Sunflower seed	7.4	9.2	(19.6)
Total vegetable oils	7.0	10.1	(30.5)

Source: US Department of Agriculture

Weather: We could be in for another rough year

We were expecting 2011 to herald a far better year with regards to weather (especially after an extremely wet 2010), but the weather year-to-date has been surprisingly poor — a negative risk to CPO production for the year

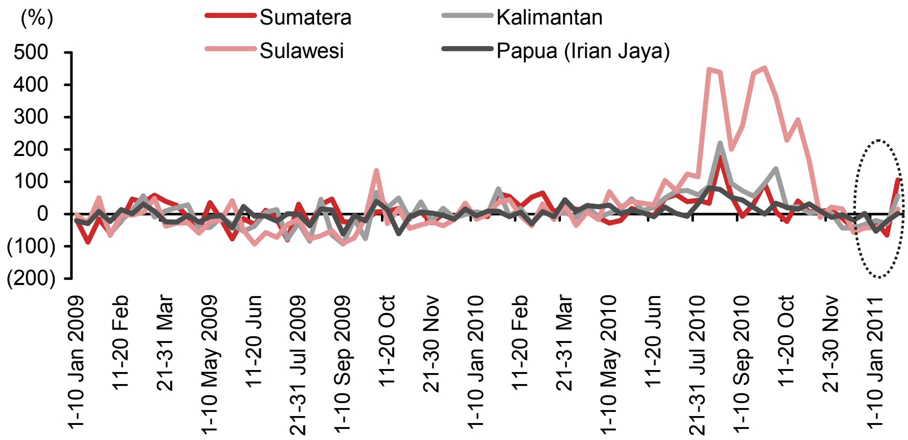
Though rainfall subsided in Indonesia closer to the end of 2010, recent indications show that rainfall has since picked up (i.e. higher than the longer-term average) going into the late January period. 2010 was already the wettest year globally in history.

Some examples of recent poor weather conditions globally include:

- Extreme snowfall in Europe (December 2010)
- Flooding and hurricanes in Queensland, Australia (January/February 2011)
- Flooding in Malaysia's southern peninsular (January 2011)
- Drought in North China hitting winter wheat (continuing since October 2010)

US top climatologist, Dr James Hansen, head of NASA's Goddard Institute of Space Studies, said: "**Given the association of extreme weather and climate events with rising global temperature, expectation of new record high temperatures in 2012 also suggests that frequency and magnitude of extreme events could reach a high level in 2012.** Extreme events include not only high temperatures, but also indirect effects of a warming atmosphere including impact of higher temperature on extreme rainfall and droughts. Greater water vapour content of a warmer atmosphere allows larger rainfall anomalies and provides fuel for stronger storms driven by latent heat."

Exhibit 24. Rainfall in Indonesia appears to have picked up again



Source: Estimates from the Center for Climate Prediction (IRI); Nomura. Note: Axis shows rainfall percentage above long-term average, where 0% is read as normal rainfall.

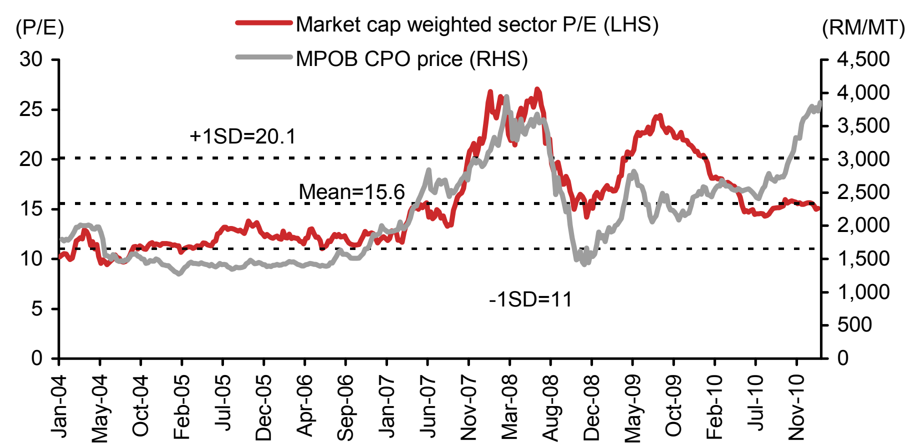
Running the numbers

Valuations close to mean — very compelling

In our view, sector valuations are very reasonable, with planters listed in Malaysia, Singapore and Indonesia all still trading at close to their one-year forward mean P/E valuations, even with CPO prices now close to all-time highs. Barring unforeseen circumstances, (such as a global financial crisis, which killed CPO prices in the last upcycle), we think the current strong CPO prices (ie above RM3,000/tonne) are sustainable for the year, and that the current compelling valuations are supportive of our Bullish view of the sector.

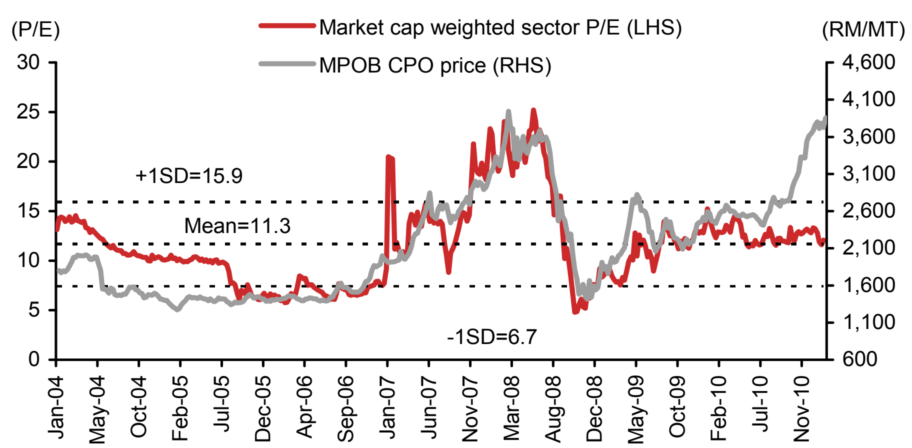
P/E multiples raised slightly for Indonesian planters, which usually move in line with CPO prices (see the following P/E charts for both Malaysia- and Singapore-listed planters). We believe this happens as margins of upstream companies expand when CPO prices move upward (especially when fixed input costs for plantation companies are quite high, e.g., labour costs, fertiliser costs and transportation costs). When CPO prices moved above the RM3,000/mT mark, we find that P/E multiples for both Malaysian and non-Malaysian large-cap planters have tended to move above 20x P/E, which is higher than our 15-18x assumptions. With CPO prices now, however, near all-time highs, we believe that it is just a matter of time before the street and the market become increasingly confident in the current price strength.

Exhibit 25. Malaysian plantations sector P/E



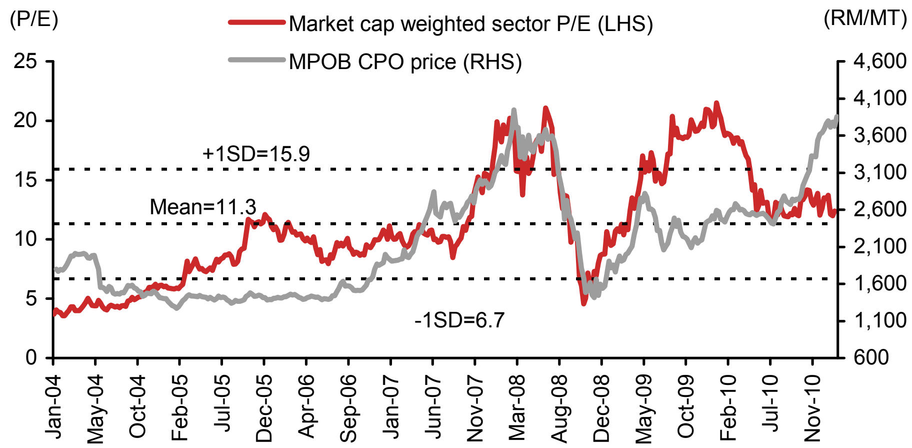
Source: Bloomberg, Nomura research

Exhibit 26. Singapore plantations sector P/E



Source: Bloomberg, Nomura research

Exhibit 27. Indonesia plantations sector P/E



Source: Bloomberg, Nomura research

Exhibit 28. Plantations stocks: Valuation summary

Name	Country	Nomura rating	Market cap (US$mn)	Closing price	P/E CY10F	P/E CY11F	P/E CY12F	P/B CY10F	P/B CY11F	P/B CY12F	EV/EBITDA CY10F	EV/EBITDA CY11F	EV/EBITDA CY12F	PEG (CY11 P/E vs CY10-12F CAGR)	Div yld (%) CY10F	Div yld (%) CY11F	Div yld (%) CY12F
UPSTREAM																	
Palm Oil																	
- Malaysia																	
Sime Darby (SIME MK)	Malaysia	BUY	18,494	9.33	26.5	14.9	13.4	2.6	2.4	2.2	13.7	8.6	7.8	0.4	1.9	3.5	4.1
IOI (IOI MK)	Malaysia	BUY	12,784	5.78	19.7	16.3	14.4	3.3	3.0	2.7	13.0	11.6	10.3	1.0	2.1	2.3	2.7
KLK (KLK MK)	Malaysia	BUY	7,993	22.70	21.2	15.4	14.2	3.9	3.6	3.2	13.2	9.9	9.1	0.7	2.9	3.9	4.2
Genting Plantations (GENP MK)	Malaysia	N.R.	2,140	8.55	19.5	16.5	15.2	2.3	2.1	1.9	13.5	11.6	10.5	1.2	1.1	1.2	1.3
Boustead Holdings (BOUS MK)	Malaysia	N.R.	1,814	5.85	13.8	9.7	9.3	1.4	1.3	1.3	12.4	8.9	8.0	0.4	5.6	6.4	6.6
Hap Seng Plantations (HAPL MK)	Malaysia	N.R.	858	3.25	16.0	12.2	11.7	1.5	1.4	1.3	11.1	8.6	8.3	0.7	4.2	4.7	4.8
Kulim (KUL MK)	Malaysia	N.R.	1,396	13.28	14.7	11.9	11.4	1.4	1.3	1.0	7.0	6.2	5.8	0.9	1.2	1.3	1.4
IJM Plantations (IJMP MK)	Malaysia	N.R.	798	3.02	18.5	15.5	14.7	1.9	1.8	1.7	12.0	10.3	9.6	1.3	2.2	2.4	2.6
Malaysia palm oil average					**18.8**	**14.1**	**13.0**	**2.3**	**2.1**	**1.9**	**12.0**	**9.4**	**8.7**	**0.8**	**2.7**	**3.2**	**3.5**
- Singapore																	
Golden Agri (GGR SP)	Singapore	BUY	6,859	0.72	18.2	12.3	11.1	1.1	1.0	0.9	11.5	8.2	7.3	0.4	1.1	1.6	1.8
Indofood Agri (IFAR SP)	Singapore	BUY	2,954	2.60	16.0	9.7	8.9	2.5	2.2	1.9	9.9	6.4	5.6	0.3	0.0	0.0	0.0
First Resources (FR SP)	Singapore	N.R.	1,625	1.41	14.4	11.8	10.6	2.4	2.1	1.8	9.2	7.6	6.7	0.7	1.4	1.7	2.2
Kencana Agri (KAGR SP)	Indonesia	N.R.	401	0.45	49.9	23.3	14.5	1.7	1.7	1.5	23.6	14.9	10.7	0.3	0.6	0.9	1.1
Singapore palm oil average					**24.6**	**14.3**	**11.3**	**1.9**	**1.7**	**1.5**	**13.5**	**9.3**	**7.6**	**0.4**	**0.8**	**1.1**	**1.3**
- Indonesia																	
Astra Agro (AALI IJ)	Indonesia	BUY	4,019	22,750	20.0	12.8	11.3	5.2	4.5	4.0	12.4	8.3	7.2	0.4	3.0	5.1	5.8
London Sumatra (LSIP IJ)	Indonesia	BUY	1,745	11,400	17.3	11.5	10.7	3.6	3.1	2.7	10.6	7.6	7.0	0.4	2.3	3.9	4.7
Sampoerna Agro (SGRO IJ)	Indonesia	N.R.	631	2,975	14.9	12.6	11.2	2.7	2.4	2.1	8.9	7.7	7.1	0.8	1.6	2.2	2.4
Bakrie Sumatera (UNSP IJ)	Indonesia	N.R.	525	345	17.6	9.6	7.6	0.5	0.6	0.5	10.5	6.7	6.0	0.2	0.8	1.8	2.4
Indonesia palm oil average					**17.4**	**11.6**	**10.2**	**3.0**	**2.6**	**2.3**	**10.6**	**7.6**	**6.8**	**0.5**	**1.9**	**3.2**	**3.8**
- Thailand																	
Univanich Palm Oil (UVAN TB)	Thailand	BUY	257	84.00	13.0	8.9	7.8	3.6	3.0	2.6	8.6	5.9	5.2	0.3	5.6	8.2	9.3
Palm Oil Average					**19.5**	**13.2**	**11.7**	**2.5**	**2.2**	**2.0**	**11.8**	**8.8**	**7.8**	**0.6**	**2.2**	**3.0**	**3.4**

Note: Pricing as on 7 February 2011

Source: Nomura estimates for companies under coverage, Bloomberg consensus for unrated stocks, UVAN estimates by CNS

Exhibit 29. Plantations stocks: Estimate summary

Name	Country	Nomura rating	Market cap (US$mn)	Closing price	Revenue growth (%) CY10F	CY11F	CY12F	EPS growth (%) CY10F	CY11F	CY12F	EPS CAGR (CY10-12F)	RoE (%) CY10F	CY11F	CY12F	Net margin (%) CY10F	CY11F	CY12F	Net debt to equity (%) CY10F	CY11F	CY12F
UPSTREAM																				
Palm Oil																				
- Malaysia																				
Sime Darby (SIME MK)	Malaysia	BUY	18,494	9.33	10.0	12.7	11.9	40.8	77.3	11.5	40.6	14.9	16.9	17.4	8.9	9.5	9.4	14.1	16.3	17.0
IOI (IOI MK)	Malaysia	BUY	12,784	5.78	(3.7)	6.3	2.7	19.9	21.4	12.6	17.0	20.0	19.3	19.8	15.9	16.4	18.0	7.3	5.3	2.7
KLK (KLK MK)	Malaysia	BUY	7,993	22.70	12.9	12.6	7.9	60.5	37.4	8.5	22.1	19.1	24.3	23.9	14.6	18.0	18.1	6.9	5.5	na
Genting Plantations (GENP MK)	Malaysia	N.R.	2,140	8.55	23.8	11.4	8.7	40.7	18.0	8.9	13.4	12.1	13.0	12.7	35.0	37.3	37.7	n.cash	n.cash	n.cash
Boustead Holdings (BOUS MK)	Malaysia	N.R.	1,814	5.85	9.7	28.4	9.7	(10.0)	42.3	5.0	22.2	9.9	13.2	13.3	6.5	7.2	7.1	58.5	59.7	58.4
Hap Seng Plantations (HAPL MK)	Malaysia	N.R.	858	3.25	20.2	18.5	3.9	62.3	31.5	3.7	16.8	9.9	11.9	11.5	36.0	40.4	40.1	n.cash	n.cash	n.cash
Kulim (KUL MK)	Malaysia	N.R.	1,396	13.28	(2.4)	(2.7)	(2.0)	91.0	23.5	5.0	13.9	8.3	8.6	8.2	5.6	6.3	6.7	14.4	6.1	n.cash
IJM Plantations (IJMP MK)	Malaysia	N.R.	798	3.02	22.4	12.0	5.3	42.5	19.3	5.4	12.1	9.9	10.8	11.1	24.2	25.5	26.3	na	na	na
Malaysia palm oil average					**11.6**	**12.4**	**6.0**	**43.5**	**33.8**	**7.6**	**19.8**	**13.0**	**14.7**	**14.7**	**18.3**	**20.1**	**20.4**	**20.2**	**18.6**	**26.0**
- Singapore																				
Golden Agri (GGR SP)	Singapore	BUY	6,859	0.72	27.3	27.8	7.6	76.7	48.0	10.9	28.1	6.3	8.4	8.4	12.3	14.2	14.6	6.3	5.1	2.4
Indofood Agri (IFAR SP)	Singapore	BUY	2,954	2.60	7.0	19.2	10.3	34.4	64.8	9.4	34.3	16.4	23.8	22.8	17.0	23.5	23.3	43.0	27.0	12.0
First Resources (FR SP)	Singapore	N.R.	1,625	1.41	45.7	21.5	15.2	(1.3)	22.1	10.6	16.2	16.9	17.5	17.3	34.6	33.4	33.7	12.1	n.cash	n.cash
Kencana Agri (KAGR SP)	Indonesia	N.R.	401	0.45	18.9	79.3	24.4	(58.8)	114.3	60.0	85.2	4.8	7.9	11.9	5.3	5.3	7.9	34.6	73.4	87.3
Singapore palm oil average					**24.8**	**36.9**	**14.4**	**12.8**	**62.3**	**22.7**	**40.9**	**11.1**	**14.4**	**15.1**	**17.3**	**19.1**	**19.9**	**24.0**	**35.2**	**33.9**
- Indonesia																				
Astra Agro (AALI IJ)	Indonesia	BUY	4,019	22,750	6.0	20.3	8.2	8.0	55.9	13.4	33.0	27.2	37.6	na	22.8	29.5	30.9	n.cash	n.cash	n.cash
London Sumatra (LSIP IJ)	Indonesia	BUY	1,745	11,400	9.3	23.0	6.0	27.2	50.6	6.8	26.8	22.0	28.7	26.5	25.7	31.5	31.8	n.cash	n.cash	n.cash
Sampoerna Agro (SGRO IJ)	Indonesia	N.R.	631	2,975	16.3	13.3	9.1	32.6	17.5	12.7	15.1	19.6	19.7	19.1	18.4	18.7	19.0	n.cash	n.cash	n.cash
Bakrie Sumatera (UNSP IJ)	Indonesia	N.R.	525	345	31.7	55.2	15.6	(70.0)	83.6	25.7	51.9	5.4	5.9	7.1	10.1	10.4	10.8	45.6	45.3	16.4
Indonesia palm oil average					**15.8**	**28.0**	**9.7**	**(0.5)**	**51.9**	**14.6**	**31.7**	**18.6**	**23.0**	**17.6**	**19.3**	**22.5**	**23.1**	**45.6**	**45.3**	**16.4**
- Thailand																				
Univanich Palm Oil (UVAN TB)	Thailand	BUY	257	84.00	9.1	26.0	15.9	4.4	46.7	13.3	28.9	28.6	36.5	35.5	14.0	16.3	15.9	n.cash	n.cash	n.cash
Palm Oil Average					**15.5**	**22.6**	**9.4**	**23.6**	**45.5**	**13.1**	**28.1**	**14.8**	**17.9**	**16.7**	**18.1**	**20.2**	**20.7**	**24.3**	**27.1**	**28.0**

Note: Pricing as on 7 February 2011

Source: Nomura estimates for companies under coverage, Bloomberg consensus for unrated stocks, UVAN estimates by CNS

Exhibit 30. Plantations stocks: Performance summary

Name	Country	Nomura rating	Market cap (US$mn)	Closing price	3m ADTV (US$mn)	EV/mature hectare (US$000)	Abs Performance (%) 1M	3M	6M	12M	YTD
UPSTREAM											
Palm Oil											
- Malaysia											
Sime Darby (SIME MK)	Malaysia	BUY	18,494	9.33	25.9	41.4	(0.4)	3.3	22.8	11.6	6.0
IOI (IOI MK)	Malaysia	BUY	12,784	5.78	16.7	94.9	(3.8)	(2.7)	12.9	13.3	(0.5)
KLK (KLK MK)	Malaysia	BUY	7,993	22.70	7.1	65.9	1.4	11.4	33.7	38.8	2.7
Genting Plantations (GENP MK)	Malaysia	N.R.	2,140	8.55	1.8	36.9	(5.0)	(4.5)	17.1	40.4	(2.8)
Boustead Holdings (BOUS MK)	Malaysia	N.R.	1,814	5.85	1.6	41.4	5.6	0.3	37.6	73.1	8.7
Hap Seng Plantations (HAPL MK)	Malaysia	N.R.	858	3.25	1.5	27.6	(6.9)	15.2	39.5	38.3	(3.0)
Kulim (KUL MK)	Malaysia	N.R.	1,396	13.28	3.2	40.9	(2.2)	7.5	68.1	89.1	6.9
IJM Plantations (IJMP MK)	Malaysia	N.R.	798	3.02	0.8	32.0	(4.4)	2.4	19.4	25.8	1.3
Malaysia palm oil average						**47.6**	**(2.0)**	**4.1**	**31.4**	**41.3**	**2.4**
- Singapore											
Golden Agri (GGR SP)	Singapore	BUY	6,859	0.72	42.2	30.1	(10.0)	(6.5)	26.3	42.6	(10.0)
Indofood Agri (IFAR SP)	Singapore	BUY	2,954	2.60	14.1	30.5	(7.1)	(9.1)	6.1	32.0	(7.1)
First Resources (FR SP)	Singapore	N.R.	1,625	1.41	7.0	28.1	(5.4)	(2.1)	23.7	38.2	(9.6)
Kencana Agri (KAGR SP)	Indonesia	N.R.	401	0.45	0.9	38.5	(1.1)	2.3	27.1	61.8	(2.2)
Singapore palm oil average						**31.8**	**(5.9)**	**(3.8)**	**20.8**	**43.7**	**(7.2)**
- Indonesia											
Astra Agro (AALI IJ)	Indonesia	BUY	4,019	22,750	4.6	28.4	(9.0)	(12.5)	10.7	(3.0)	(13.2)
London Sumatra (LSIP IJ)	Indonesia	BUY	1,745	11,400	3.4	29.0	(5.0)	(8.8)	23.9	36.5	(11.3)
Sampoerna Agro (SGRO IJ)	Indonesia	N.R.	631	2,975	1.2	20.2	(7.8)	(6.3)	16.7	10.2	(6.3)
Bakrie Sumatera (UNSP IJ)	Indonesia	N.R.	525	345	5.2	23.4	(12.7)	(6.8)	15.0	(34.8)	(11.5)
Indonesia palm oil average						**25.2**	**(8.6)**	**(8.6)**	**16.6**	**2.2**	**(10.6)**
- Thailand											
Univanich Palm Oil (UVAN TB)	Thailand	BUY	257	84.00	0.2	42.2	(3.4)	(7.7)	9.1	5.3	(6.7)
Palm Oil Average						**38.3**	**(4.5)**	**(1.4)**	**24.1**	**30.5**	**(3.4)**

Note: Pricing as on 7 February 2011

Source: Nomura estimates for companies under coverage, Bloomberg consensus for unrated stocks, UVAN estimates by CNS

Investment risks and sensitivities

On the upside, CPO prices could surge past our assumptions if there is a severe weather impact such as extreme dry or wet season that could bring CPO production down in both Malaysia and Indonesia. Further, any weakness in global vegetable oils or competing grains, or higher-than-expected crude oil prices could present upside to our CPO price assumptions.

Downside risks to CPO prices would include:

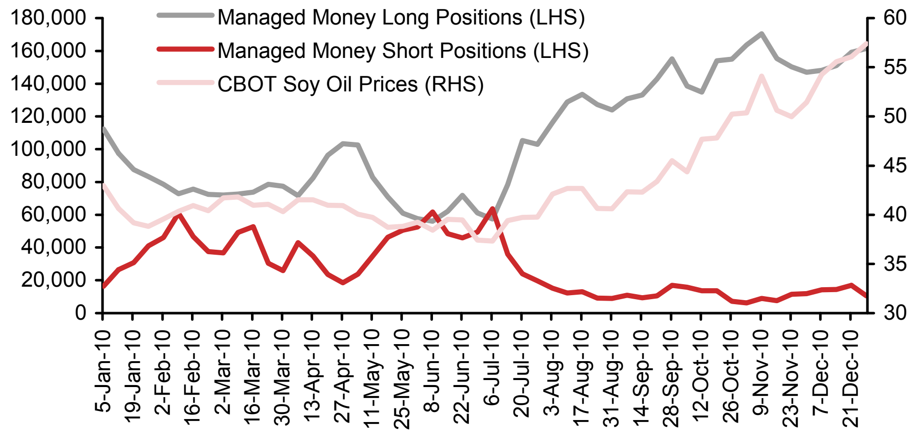
- If CPO production (together with other vegetable oils globally) comes in stronger than expected, or if extremely strong soybean crushings increase overall supply of vegetable oils and lower realised CPO prices.
- Slower-than-expected demand from the main CPO consuming markets of China, India and the Eurozone due to demand destruction from current high CPO prices.
- Lower-than-expected biofuel demand, which could in turn reduce demand for vegetable oils (including palm oil) globally.
- Possible restrictive regulations if CPO prices (and other food commodities) continue its strength/posing a threat on Consumer price inflation.
- A quick withdrawal of 'managed money' or portfolio funds (which has been a buyer of agri-commodity futures) could see a rapid softening of soft commodity prices (see chart below).

Exhibit 31. FY11F earnings sensitivity to CPO price movements (% change in earnings from 10% change in CPO price assumptions)

Company	AALI	IFAR	GGR	KLK	Sime	IOI	LSIP
Earnings sensitivity for every 10% change in CPO price assumptions	6.2	7.3	3.1	8.3	3.7	8.4	4.3

Source: Nomura estimates. Our sensitivity is based on raising our FY11F CPO price assumption by 10% to RM3,740/tonne; while raising the corresponding Indonesian export tax rate by 5% (from 17.5% to 22.5%).

Exhibit 32. Negative risk: Increasing managed money positions in soy-oil futures could reverse, bringing down vegetable oil prices



Source: Commodity Futures Trading Commission (CFTC)

Appendix

Exhibit 33. Key plantations statistics and forecasts

		FY09	FY10F	FY11F	FY12F
AALI	FFB yield (mT/ha)	22.3	21.0	21.3	21.5
	Mature (ha)	192,368	210,859	226,785	244,905
	% growth	4.4	9.6	7.6	8.0
	CPO production (MT)	1,082,953	1,107,777	1,162,666	1,271,121
	OER (%)	23.1	22.8	22.8	22.8
GAR	FFB yield (mT/ha)	22.63	20.10	21.00	21.30
	Mature (ha)	252,586	277,020	299,405	327,012
	% growth	10.7	9.7	8.1	9.2
	CPO production (MT)	1,913,654	1,729,603	1,916,046	2,072,105
	OER (%)	23.0	23.0	23.0	23.0
Indofood	FFB yield (mT/ha)	19.70	15.50	17.30	18.40
	Mature (ha)	132,560	147,823	160,521	172,544
	% growth	6.8	11.5	8.6	7.5
	CPO production (MT)	763,000	668,174	790,825	880,329
	OER (%)	22.00	22.40	22.50	22.50
IOI	FFB yield (mT/ha)	26.0	24.4	24.4	25.0
	Mature (ha)	139,597	138,675	142,675	147,675
	% growth	0.4	(0.7)	2.9	3.5
	CPO production (MT)	777,310	732,275	744,296	793,599
	OER (%)	21.4	21.5	21.4	21.4
KLK	FFB yield (mT/ha)	22.9	22.4	22.5	22.7
	Mature (ha)	137,327	144,977	154,977	164,977
	% growth	20.8	5.6	6.9	6.5
	CPO production (MT)	765,248	785,784	849,195	901,758
	OER (%)	20.8	20.5	20.5	20.5
Lonsum	FFB yield (mT/ha)	19.0	16.8	17.6	18.4
	Mature (ha)	61,839	68,583	71,547	74,512
	% growth	8.0	10.9	4.3	4.1
	CPO production (MT)	377,505	356,478	384,980	411,506
	OER (%)	23.6	23.2	23.4	23.4
SIME	FFB yield (mT/ha)	22.9	22.3	22.7	23.4
(Malaysia)	Mature (ha)	297,471	300,471	310,415	320,174
	% growth	(0.6)	1.0	3.3	3.1
	CPO production (MT)	1,531,216	1,473,000	1,500,886	1,595,813
	OER (%)	21.1	21.3	21.3	21.3
SIME	FFB yield (mT/ha)	16.6	18.0	18.5	19.3
(Indonesia)	Mature (ha)	178,840	184,840	190,840	196,840
	% growth	0.7	3.4	3.2	3.1
	CPO production (MT)	782,219	871,000	869,925	936,077
	OER (%)	22.4	23.0	22.4	22.4

Note: Nucleus only

Source: Company data, Nomura estimates

Sime Darby SIME MK

CONSUMER RELATED/AGRI-RELATED | MALAYSIA

NOMURA

NOMURA SECURITIES MALAYSIA SDN BHD

Maintained

BUY

Ken Arieff Wong +60 3 2027 6895 kenarieff.wong@nomura.com
Tushar Mohata (Associate)

Action

We raise our PT for Sime Darby to RM12.15 based on our revised CPO price assumptions (up 13-18%) and higher earnings estimates (up 7.4-6.8%) for FY11-12F. We like Sime Darby as it offers both leverage to strong CPO prices and a proxy to improving sentiment on Malaysia. We think that the FFB production weakness experienced in 2Q FY11 will be more than offset by higher CPO prices and strong industrial division sales.

Catalysts

Continued strong prices from global agri-commodities should sustain higher prices for CPO and lead to a further re-rating for plantation companies.

Anchor themes

Continued tight global vegetable oils outlook, stronger crude oil price, weaker US dollar (relative to Asian currencies), and bullish outlook for global agri-commodities (including non-oil crops) should sustain higher CPO prices and drive earnings.

Closing price on 7 Feb	RM9.33
Price target	**RM12.15**
	(from RM11.10)
Upside/downside	30.2%
Difference from consensus	19.7%
FY12F net profit (RMmn)	4,000
Difference from consensus	12.8%

Source: Nomura

Nomura vs consensus

We are more bullish on our FY11-12 forecasts for CPO prices, which translates into higher earnings forecasts for plantation companies under our coverage.

The proxy to Malaysia

① Raising CPO price assumption

We raise our blended CPO price assumption by 7.4-9.4% for FY11-13F (Sime Darby has a June FY-end) on our sector CPO price upgrade. This also factors in our expectation of higher CPO export taxes for Indonesia (Indonesia accounts for c. 37% of Sime Darby's CPO production). We value the company using SOTP methodology (details on the next page). We like Sime Darby as it offers both leverage to strong CPO prices and a proxy to improving sentiment on Malaysia. Downside risks include lower-than-expected FFB yields and slower-than-expected turnaround of its energy division.

② 2Q FY11 FFB production remains weak

2Q FY11 (ended Dec 2010) production has shown relatively weak FFB production figures (down 8% y-y), which we understand is likely due to the flooding in Indonesia over the same period. Sime Darby has been guiding for flat to 5% growth in production for FY11. We currently assume a growth rate of 1.1% y-y, with recovery likely in FY12F (6.8% growth y-y). This weakness in production, which is shared by other planters, underscores the continued weakness in global CPO production and supports our view of stronger CPO price averages for 2011.

③ Strong outlook for heavy industries division

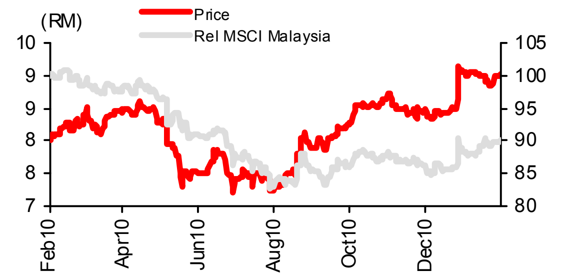
Caterpillar Inc recently released a strong set of FY10 results, beating Street estimates. The company also shared a robust outlook for machinery sales in 2011. We believe Sime Darby's (one of the largest Caterpillar dealers in Asia) heavy industries division (second-largest division after plantations) should see a strong 2011. We also believe the floods in Queensland, Australia, could prove beneficial to the division due to a likely increase in demand for repairs and new machinery.

Key financials & valuations

30 Jun (RMmn)	FY10	FY11F	FY12F	FY13F
Revenue	32,952	37,379	41,915	46,809
Reported net profit	2,775	3,508	4,000	4,372
Normalised net profit	727	3,508	4,000	4,372
Normalised EPS (RM)	0.12	0.58	0.67	0.73
Norm. EPS growth (%)	(68.1)	382.7	14.0	9.3
Norm. P/E (x)	77.1	16.0	14.0	12.8
EV/EBITDA (x)	20.4	9.1	8.2	7.5
Price/book (x)	2.7	2.5	2.3	2.2
Dividend yield (%)	0.6	3.1	3.9	4.3
ROE (%)	13.3	16.4	17.3	17.5
Net debt/equity (%)	12.5	15.6	17.1	17.0
Earnings revisions				
Previous norm. net profit		3,266	3,744	4,011
Change from previous (%)		7.4	6.8	9.0
Previous norm. EPS (RM)		0.54	0.62	0.67

Source: Company, Nomura estimates

Share price relative to MSCI Malaysia



	1m	3m	6m
Absolute (RM)	(0.4)	4.5	24.1
Absolute (US$)	0.8	6.3	28.8
Relative to Index	2.0	3.0	10.5
Market cap (US$mn)			18,483
Estimated free float (%)			28.6
52-week range (RM)			9.46/7.50
3-mth avg daily turnover (US$mn)			25.87
Stock borrowability			Hard
Major shareholders (%)			
Permodalan Nasional Bhd			56.1
Employees Provident Fund			15.3

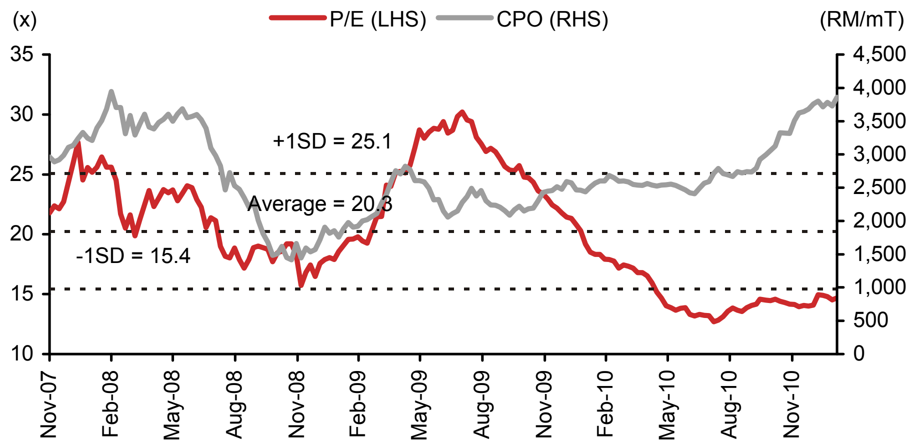
Source: Company, Nomura estimates

Exhibit 34. Sime Darby: SOTP valuation

	Net profit (time weighted) (RMmn)	Multiple (x)	(RMmn)	Comments
Plantations	2928.1	18	52,706.2	P/E (FY11/12F)
Property	7,853.6		7,853.6	RNAV of property development landbank in Malaysia
Heavy equipment	662.4	14	9,273.1	P/E (FY11/12F)
Automotive	302.8	15	4,542.6	P/E (FY11/12F)
Energy & Utilities	92.9	10.0	929.3	On only Utilities earnings (without Oil & Gas)
Others	34.0	8	272.0	P/E (FY11F)
Total SOP			**75,576.7**	
Net cash			(2,556.3)	FY10A Net Debt
SOP/share (RM)			**12.15**	
Shares (m) (fully diluted FY11F)			6,009	

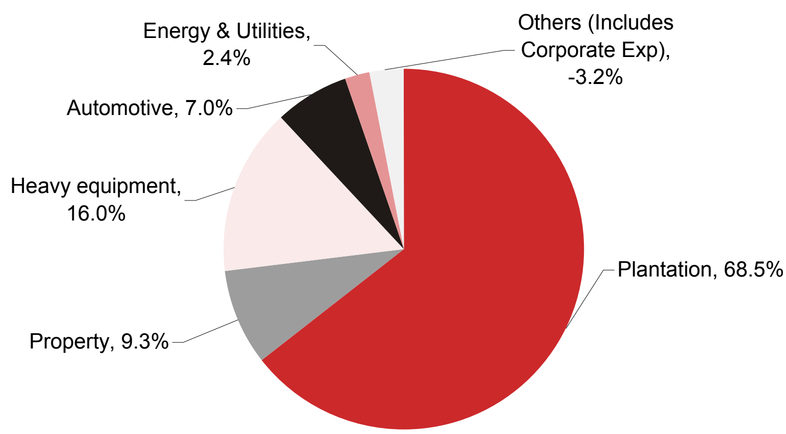
Source: Nomura estimates

Exhibit 35. Forward P/E



Source: Bloomberg, Nomura estimates, Bloomberg

Exhibit 36. FY11F EBIT breakdown



Source: Company data, Nomura estimates

Financial statements

Income statement (RMmn)					
Year-end 30 Jun	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Revenue	31,014	32,952	37,379	41,915	46,809
Cost of goods sold	(27,045)	(29,709)	(30,970)	(34,676)	(38,915)
Gross profit	**3,969**	**3,243**	**6,409**	**7,239**	**7,893**
SG&A	(818)	(967)	(1,256)	(1,386)	(1,516)
Employee share expense					
Operating profit	**3,151**	**2,276**	**5,152**	**5,852**	**6,377**
EBITDA	**3,969**	**3,243**	**6,409**	**7,239**	**7,893**
Depreciation	(818)	(967)	(1,256)	(1,386)	(1,516)
Amortisation					
EBIT	**3,151**	**2,276**	**5,152**	**5,852**	**6,377**
Net interest expense	(94)	(170)	(194)	(193)	(191)
Associates & JCEs	15	(364)	106	113	121
Other income					
Earnings before tax	**3,072**	**1,742**	**5,064**	**5,772**	**6,307**
Income tax	(731)	(887)	(1,266)	(1,443)	(1,577)
Net profit after tax	**2,341**	**855**	**3,798**	**4,329**	**4,730**
Minority interests	(61)	(128)	(290)	(329)	(359)
Other items	-	-	-	-	-
Preferred dividends					
Normalised NPAT	**2,280**	**727**	**3,508**	**4,000**	**4,372**
Extraordinary items		2,048			
Reported NPAT	**2,280**	**2,775**	**3,508**	**4,000**	**4,372**
Dividends	(1,145)	(363)	(1,754)	(2,200)	(2,404)
Transfer to reserves	**1,135**	**2,411**	**1,754**	**1,800**	**1,967**
Valuation and ratio analysis					
FD normalised P/E (x)	24.6	77.1	16.0	14.0	12.8
FD normalised P/E at price target (x)	32.0	100.5	20.8	18.3	16.7
Reported P/E (x)	24.6	20.2	16.0	14.0	12.8
Dividend yield (%)	2.0	0.6	3.1	3.9	4.3
Price/cashflow (x)	59.3	15.4	18.9	12.0	10.0
Price/book (x)	2.6	2.7	2.5	2.3	2.2
EV/EBITDA (x)	14.6	20.4	9.1	8.2	7.5
EV/EBIT (x)	18.3	30.7	11.3	10.1	9.3
Gross margin (%)	12.8	9.8	17.1	17.3	16.9
EBITDA margin (%)	12.8	9.8	17.1	17.3	16.9
EBIT margin (%)	10.2	6.9	13.8	14.0	13.6
Net margin (%)	7.4	8.4	9.4	9.5	9.3
Effective tax rate (%)	23.8	50.9	25.0	25.0	25.0
Dividend payout (%)	50.2	13.1	50.0	55.0	55.0
Capex to sales (%)	6.8	9.1	8.0	7.2	6.4
Capex to depreciation (x)	2.6	3.1	2.4	2.2	2.0
ROE (%)	10.6	13.3	16.4	17.3	17.5
ROA (pretax %)	10.3	5.9	15.0	15.3	15.2
Growth (%)					
Revenue	(8.9)	6.2	13.4	12.1	11.7
EBITDA	(32.9)	(18.3)	97.7	12.9	9.0
EBIT	(38.3)	(27.8)	126.4	13.6	9.0
Normalised EPS	(35.1)	(68.1)	382.7	14.0	9.3
Normalised FDEPS	(35.1)	(68.1)	382.7	14.0	9.3
Per share					
Reported EPS (RM)	0.38	0.46	0.58	0.67	0.73
Norm EPS (RM)	0.38	0.12	0.58	0.67	0.73
Fully diluted norm EPS (RM)	0.38	0.12	0.58	0.67	0.73
Book value per share (RM)	3.56	3.40	3.69	3.99	4.32
DPS (RM)	0.19	0.06	0.29	0.37	0.40

Source: Nomura estimates

We do not expect a repeat of the write-downs last year at its energy and utilities division

Cashflow (RMmn)					
Year-end 30 Jun	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
EBITDA	3,969	3,243	6,409	7,239	7,893
Change in working capital	(1,735)	1,786	(802)	(899)	(705)
Other operating cashflow	(1,288)	(1,398)	(2,635)	(1,665)	(1,602)
Cashflow from operations	**946**	**3,631**	**2,971**	**4,674**	**5,586**
Capital expenditure	(2,123)	(2,993)	(3,000)	(3,000)	(3,000)
Free cashflow	**(1,178)**	**637**	**(29)**	**1,674**	**2,586**
Reduction in investments	(201)	124	(138)	(142)	(146)
Net acquisitions	87	162	(101)	(101)	(101)
Reduction in other LT assets	125	(273)	(359)	(395)	(435)
Addition in other LT liabilities	(457)	5	62	(20)	(54)
Adjustments	645	603	714	808	732
Cashflow after investing acts	**(979)**	**1,258**	**149**	**1,825**	**2,581**
Cash dividends	(2,366)	(1,145)	(363)	(1,754)	(2,200)
Equity issue	-	-	1	2	3
Debt issue	778	1,983	251	261	271
Convertible debt issue					
Others	(270)	(700)	(700)	(700)	(699)
Cashflow from financial acts	**(1,858)**	**138**	**(812)**	**(2,191)**	**(2,625)**
Net cashflow	**(2,836)**	**1,396**	**(662)**	**(366)**	**(43)**
Beginning cash	6,474	3,638	5,033	4,371	4,005
Ending cash	3,638	5,033	4,371	4,005	3,961
Ending net debt	1,970	2,556	3,470	4,097	4,411

Source: Nomura estimates

Balance sheet (RMmn)					
As at 30 Jun	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Cash & equivalents	3,638	5,033	4,371	4,005	3,961
Marketable securities	-	-	-	-	-
Accounts receivable	5,875	5,263	5,970	6,695	7,476
Inventories	5,627	5,217	5,917	6,635	7,410
Other current assets	2,665	3,275	3,750	4,325	4,683
Total current assets	**17,804**	**18,787**	**20,008**	**21,659**	**23,530**
LT investments	4,718	4,595	4,732	4,874	5,021
Fixed assets	9,470	10,844	12,564	13,864	15,164
Goodwill	129	109	109	109	109
Other intangible assets	-	-	-	-	-
Other LT assets	3,318	3,591	3,950	4,345	4,780
Total assets	**35,440**	**37,926**	**41,364**	**44,852**	**48,603**
Short-term debt	3,594	3,302	3,467	3,641	3,823
Accounts payable	6,421	7,056	8,004	8,975	10,023
Other current liabilities	593	1,331	1,464	1,610	1,771
Total current liabilities	**10,607**	**11,689**	**12,935**	**14,226**	**15,617**
Long-term debt	2,013	4,287	4,373	4,461	4,550
Convertible debt	-	-	-	-	-
Other LT liabilities	814	819	881	861	807
Total liabilities	**13,434**	**16,795**	**18,189**	**19,548**	**20,974**
Minority interest	621	681	971	1,300	1,658
Preferred stock	-	-	-	-	-
Common stock	3,005	3,005	3,005	3,005	3,005
Retained earnings	10,683	10,060	11,814	13,614	15,581
Proposed dividends	-	-	-	-	-
Other equity and reserves	7,698	7,385	7,385	7,385	7,385
Total shareholders' equity	**21,385**	**20,450**	**22,204**	**24,004**	**25,971**
Total equity & liabilities	**35,440**	**37,926**	**41,364**	**44,852**	**48,603**
Liquidity (x)					
Current ratio	1.68	1.61	1.55	1.52	1.51
Interest cover	33.6	13.4	26.5	30.3	33.4
Leverage					
Net debt/EBITDA (x)	0.50	0.79	0.54	0.57	0.56
Net debt/equity (%)	9.2	12.5	15.6	17.1	17.0
Activity (days)					
Days receivable	68.9	61.7	54.8	55.3	55.2
Days inventory	72.2	66.6	65.6	66.2	65.9
Days payable	90.8	82.8	88.7	89.6	89.1
Cash cycle	50.2	45.5	31.7	31.9	32.0

Source: Nomura estimates

The company could afford to gear up to improve capital management

PP London Sumatra LSIP IJ

CONSUMER RELATED | INDONESIA

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BUY

Action

Following the revision to our CPO price assumptions (up 13-18% for FY11/12F), we are raising our price target for London Sumatra (Lonsum) to Rp15,200. However, we believe Indonesian CPO export taxes (2011F: 17.5%; 2012F 22.5%) are likely to cap Lonsum's earnings upside. We like Lonsum because of its strong balance sheet and cash flow, sustainable production, and exposure to other commodities such as rubber, which is also experiencing a bull run.

Catalysts

Continued strong prices from global agri-commodities should sustain higher prices for CPO and lead to a further re-rating for plantation companies.

Anchor themes

Continued tight global vegetable oils outlook, a stronger crude oil price, weaker US dollar (relative to Asian currencies), and bullish outlook for global agri-commodities (including non-oil crops) should sustain higher CPO prices and drive earnings.

Closing price on 7 Feb	Rp11,400
Price target	**Rp15,200**
	(from Rp14,650)
Upside/downside	33.3%
Difference from consensus	6.2%
FY11F net profit (Rpmn)	1,356,035
Difference from consensus	6.1%

Source: Nomura

Nomura vs consensus

We are more bullish on our FY11-12F forecasts for CPO prices, which translates into higher earnings forecasts for plantation companies under our coverage

Our top pick in Indonesia

① Upgrading CPO prices and increasing export taxes

We have raised our sector forecast for palm oil to RM3,400/tonne in 2011 (up 13%) on the back of support from other agri-commodities. However, we also increase our export tax assumptions for Indonesian planters (2011F: 17.5%; 2012F 22.5%) which has tempered the impact of our CPO price upgrade. We tweak our target price up to Rp15,200 (+3.7%) to reflect these changes. We value Lonsum on a P/E multiple of 15.3x FY11F (+0.9SD above its mean – fair, we believe, in the current upcycle). Downside risks include lower-than-our expected CPO prices, weaker production and slower-than-our expected plantings.

② Pure upstream exposure at reasonable valuations

Lonsum is one of the few mid- / large-cap planters with pure upstream exposure (albeit with rubber and seeds). Our bullish view on palm oil prices in 2011 (+11.8% y-y) coupled with better CPO production (+8% y-y) leads to our forecast of strong EPS growth of 50.6% in FY11F. Strong rubber prices (+67% y-y) and better seed sales (+360% 9M10), which both contribute more than 20% of FY11F EBIT, also supports our positive outlook. The current valuation of 11.5x FY11F P/E is the cheapest under our coverage, and we think Lonsum could be in for another round of re-rating on our expectations that CPO prices will remain strong in 2011 (average of RM3,400/tonne).

③ Our preferred pick in Indonesia; long heritage and best sustainable practices

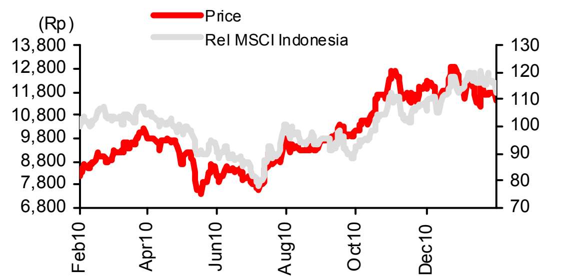
Lonsum is one of the oldest Agri-companies in the region, with a history spanning over 100 years. It is well respected as a planter, and with its net cash balance sheet and strong cash flows remains one of the stronger companies in this space. It is also the largest producer of certified sustainable palm oil among listed Indonesian planters — a positive, in our view.

Key financials & valuations

31 Dec (Rpmn)	FY09	FY10F	FY11F	FY12F
Revenue	3,199,68	3,495,81	4,301,52	4,557,91
Reported net profit	707,487	900,164	1,356,03	1,447,97
Normalised net profit	707,487	900,164	1,356,03	1,447,97
Normalised EPS (Rp)	518	660	994	1,061
Norm. EPS growth (%)	(23.7)	27.2	50.6	6.8
Norm. P/E (x)	22.0	17.3	11.5	10.7
EV/EBITDA (x)	12.9	10.6	7.6	7.0
Price/book (x)	4.1	3.6	3.1	2.7
Dividend yield (%)	1.8	2.3	3.9	4.7
ROE (%)	20.2	22.0	28.7	26.5
Net debt/equity (%)	net cash	net cash	net cash	net cash
Earnings revisions				
Previous norm. net profit		923,687	1,305,31	1,456,86
Change from previous (%)		(2.5)	3.9	(0.6)
Previous norm. EPS (Rp)		677	957	1,068

Source: Company, Nomura estimates

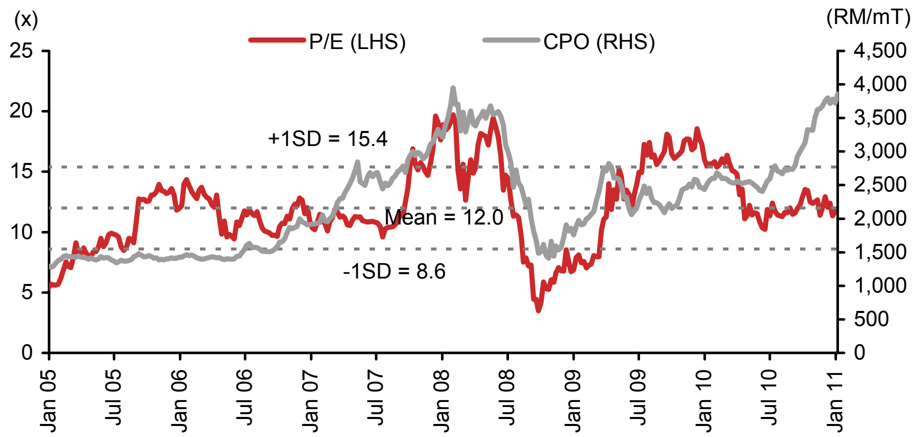
Share price relative to MSCI Indonesia



	1m	3m	6m
Absolute (Rp)	(5.0)	(8.1)	16.3
Absolute (US$)	(4.2)	(8.7)	16.4
Relative to Index	(1.4)	1.1	11.7
Market cap (US$mn)			1,738
Estimated free float (%)			40.5
52-week range (Rp)			12,850/7,400
3-mth avg daily turnover (US$mn)			3.31
Stock borrowability			Hard
Major shareholders (%)			
Indofood Agri Resources			59.5

Source: Company, Nomura estimates

Exhibit 37. LSIP IJ: P/E Band Chart



Source: Nomura research

Financial statements

Income statement (Rpmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Revenue	3,846,154	3,199,687	3,495,812	4,301,523	4,557,911
Cost of goods sold	(1,985,379)	(1,809,194)	(1,875,653)	(2,238,974)	(2,381,440)
Gross profit	**1,860,775**	**1,390,493**	**1,620,159**	**2,062,549**	**2,176,471**
SG&A	(546,359)	(371,842)	(411,673)	(382,194)	(398,338)
Employee share expense					
Operating profit	**1,314,416**	**1,018,651**	**1,208,485**	**1,680,354**	**1,778,133**
EBITDA	**1,436,530**	**1,171,436**	**1,388,497**	**1,886,026**	**2,007,390**
Depreciation	(122,114)	(152,785)	(180,012)	(205,672)	(229,257)
Amortisation					
EBIT	**1,314,416**	**1,018,651**	**1,208,485**	**1,680,354**	**1,778,133**
Net interest expense	(22,158)	(34,292)	11,734	34,690	51,835
Associates & JCEs					
Other income	34,458	23,780	(20,000)	(20,000)	(20,000)
Earnings before tax	**1,326,716**	**1,008,139**	**1,200,219**	**1,695,044**	**1,809,968**
Income tax	(399,161)	(300,652)	(300,055)	(339,009)	(361,994)
Net profit after tax	**927,555**	**707,487**	**900,164**	**1,356,035**	**1,447,974**
Minority interests					
Other items					
Preferred dividends					
Normalised NPAT	**927,555**	**707,487**	**900,164**	**1,356,035**	**1,447,974**
Extraordinary items	-	-	-	-	-
Reported NPAT	**927,555**	**707,487**	**900,164**	**1,356,035**	**1,447,974**
Dividends	(283,831)	(285,196)	(360,066)	(610,216)	(723,987)
Transfer to reserves	**643,724**	**422,291**	**540,099**	**745,819**	**723,987**
Valuation and ratio analysis					
FD normalised P/E (x)	16.8	22.0	17.3	11.5	10.7
FD normalised P/E at price target (x)	22.4	29.3	23.0	15.3	14.3
Reported P/E (x)	16.8	22.0	17.3	11.5	10.7
Dividend yield (%)	1.8	1.8	2.3	3.9	4.7
Price/cashflow (x)	10.6	20.7	11.1	8.5	8.6
Price/book (x)	4.9	4.1	3.6	3.1	2.7
EV/EBITDA (x)	10.8	12.9	10.6	7.6	7.0
EV/EBIT (x)	11.8	14.8	12.2	8.5	7.9
Gross margin (%)	48.4	43.5	46.3	47.9	47.8
EBITDA margin (%)	37.3	36.6	39.7	43.8	44.0
EBIT margin (%)	34.2	31.8	34.6	39.1	39.0
Net margin (%)	24.1	22.1	25.7	31.5	31.8
Effective tax rate (%)	30.1	29.8	25.0	20.0	20.0
Dividend payout (%)	30.6	40.3	40.0	45.0	50.0
Capex to sales (%)	15.0	14.7	11.4	15.1	14.3
Capex to depreciation (x)	4.7	3.1	2.2	3.2	2.8
ROE (%)	33.7	20.2	22.0	28.7	26.5
ROA (pretax %)	36.1	25.3	28.3	36.4	35.0
Growth (%)					
Revenue	32.6	(16.8)	9.3	23.0	6.0
EBITDA	31.4	(18.5)	18.5	35.8	6.4
EBIT	32.6	(22.5)	18.6	39.0	5.8
Normalised EPS	32.0	(23.7)	27.2	50.6	6.8
Normalised FDEPS	32.0	(23.7)	27.2	50.6	6.8
Per share					
Reported EPS (Rp)	680	518	660	994	1,061
Norm EPS (Rp)	680	518	660	994	1,061
Fully diluted norm EPS (Rp)	680	518	660	994	1,061
Book value per share (Rp)	2,343	2,795	3,190	3,737	4,268
DPS (Rp)	208	209	264	447	531

Source: Nomura estimates

Earnings growth to come from higher upstream commodity prices

Cashflow (Rpmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	1,436,530	1,171,436	1,388,497	1,886,026	2,007,390
Change in working capital	31,067	42,906	(31,693)	93,475	(35,374)
Other operating cashflow	(3,599)	(463,326)	40,565	(144,380)	(165,124)
Cashflow from operations	**1,463,998**	**751,016**	**1,397,369**	**1,835,121**	**1,806,892**
Capital expenditure	(578,177)	(469,746)	(400,000)	(650,000)	(650,000)
Free cashflow	**885,821**	**281,270**	**997,369**	**1,185,121**	**1,156,892**
Reduction in investments	-	-	-	-	-
Net acquisitions	95,764	(12,200)	(311,729)	(122,261)	(122,261)
Reduction in other LT assets	(196,013)	29,587	2,827	516	490
Addition in other LT liabilities	13,951	57,508	16,104	16,909	17,754
Adjustments	-	-	7,841	(12,680)	2,222
Cashflow after investing acts	**799,523**	**356,165**	**712,412**	**1,067,605**	**1,055,097**
Cash dividends	(283,831)	(285,196)	(360,066)	(610,216)	(723,987)
Equity issue	-	-	-	-	-
Debt issue	6,345	(712,718)	13,278	(157,644)	6,380
Convertible debt issue					
Others	(46,052)	289,654	(29,999)	(29,998)	(29,997)
Cashflow from financial acts	**(323,538)**	**(708,260)**	**(376,787)**	**(797,858)**	**(747,604)**
Net cashflow	**475,985**	**(352,095)**	**335,625**	**269,747**	**307,493**
Beginning cash	558,359	1,034,344	682,249	1,017,874	1,287,621
Ending cash	1,034,344	682,249	1,017,874	1,287,621	1,595,114
Ending net debt	(86,626)	(447,249)	(769,597)	(1,196,987)	(1,498,100)

Source: Nomura estimates

Balance sheet (Rpmn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	1,034,344	682,249	1,017,874	1,287,621	1,595,114
Marketable securities	-	-	-	-	-
Accounts receivable	99,207	65,018	71,035	87,407	92,617
Inventories	213,719	192,133	199,191	237,775	252,904
Other current assets	52,540	24,962	13,534	16,654	17,647
Total current assets	**1,399,810**	**964,362**	**1,301,635**	**1,629,457**	**1,958,282**
LT investments					
Fixed assets	3,173,454	3,559,238	3,764,227	4,193,555	4,599,301
Goodwill					
Other intangible assets					
Other LT assets	358,264	328,677	325,850	325,334	324,844
Total assets	**4,931,528**	**4,852,277**	**5,391,712**	**6,148,346**	**6,882,427**
Short-term debt	330,919	204,450	214,673	53,668	56,352
Accounts payable	103,743	59,717	61,861	73,812	78,498
Other current liabilities	418,443	422,022	389,832	529,432	510,704
Total current liabilities	**853,105**	**686,189**	**666,366**	**656,912**	**645,554**
Long-term debt	616,799	30,550	33,605	36,966	40,662
Convertible debt					
Other LT liabilities	264,565	322,073	338,177	355,085	372,840
Total liabilities	**1,734,469**	**1,038,812**	**1,038,148**	**1,048,963**	**1,059,055**
Minority interest	-	-	-	-	-
Preferred stock					
Common stock	682,286	682,286	682,286	682,286	682,286
Retained earnings	1,612,185	2,070,867	2,610,966	3,356,785	4,080,772
Proposed dividends					
Other equity and reserves	902,588	1,060,312	1,060,312	1,060,312	1,060,313
Total shareholders' equity	**3,197,059**	**3,813,465**	**4,353,564**	**5,099,383**	**5,823,371**
Total equity & liabilities	**4,931,528**	**4,852,277**	**5,391,712**	**6,148,346**	**6,882,427**
Liquidity (x)					
Current ratio	1.64	1.41	1.95	2.48	3.03
Interest cover	59.3	29.7	na	na	na
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	7.7	9.4	7.1	6.7	7.2
Days inventory	40.5	40.9	38.1	35.6	37.7
Days payable	15.4	16.5	11.8	11.1	11.7
Cash cycle	32.8	33.8	33.3	31.3	33.2

Source: Nomura estimates

Strong balance sheet and good cash flow could translate into higher dividend payouts.

Indofood Agri Resources IFAR SP

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Maintained
BUY

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Action

We are raising our price target for IndoAgri to S$3.40 based on our revised CPO price assumptions (up 13-18%) for FY11-12F and higher earnings in FY11F (up 4.6%, but down 6.6% for FY12F, due to the impact of Indonesian CPO export taxes). We think IndoAgri is poised to benefit from its sugar business, which should contribute meaningfully in FY11F, and should see a production recovery in Indonesia, given read-through from other Indonesian planters.

Catalysts

Continued strong prices from global agri-commodities should sustain higher prices for CPO and lead to a further re-rating for plantation companies.

Anchor themes

Continued tight global vegetable oils outlook, a stronger crude oil price, weaker US dollar (relative to Asian currencies), and bullish outlook for global agri-commodities (including non-oil crops) should sustain higher CPO prices and drive earnings.

Closing price on 7 Feb	S$2.60
Price target	**S$3.40**
	(from S$3.20)
Upside/downside	30.8%
Difference from consensus	7.6%
FY11F net profit (Rpmn)	2,109,256
Difference from consensus	13.1%

Source: Nomura

Nomura vs consensus

We are more bullish on our FY11-12F forecasts for CPO prices, which translates into higher earnings forecasts for plantation companies under our coverage.

Increasingly diversified Agri-play

① Raising our CPO price and export tax assumptions

We raise our CPO price assumptions by 13-18% for FY11-12F, but at the same time increase our export tax assumptions (2011F: 17.5%, 2012F: 22.5%). This overall has led to an increase of 4.6-6.5% in FY10-11F earnings, though we tweak our production numbers lower in 2012F (on lower mature hectarage growth), leading to 6.6% lower earnings. We maintain our BUY call and upgrade our target price by 6.2% on the back of a higher P/E multiple. We now value the company at 16x FY11F P/E (rolling-forward) (from 15x earlier), a valuation of +1x SD above its mean, which we think is reasonable on our bullish CPO view. Downside risks include lower-than-expected FFB production, a sharp fall in CPO prices, or low sugar contribution.

② Strategically poised to benefit from other commodities

We view IndoAgri's position in the sugar business positively. Having started planting in 3Q09 with an initial target of 15,000ha by 2010, the group as of 1H10 had planted 10,537 hectares of Sugar Cane. We expect the group's sugar business to contribute (conservatively) 4-5% of group operating profit by 2011-12F. The commissioning of the sugar factory (8,000 tonnes of cane per day), however, has been delayed beyond the initial target of 3Q10. Furthermore, IndoAgri (through its subsidiary London Sumatra) owns more than 17,000 hectares of mature rubber plantations, which should benefit from currently strong rubber prices.

③ Green shoots of production recovery in Indonesia?

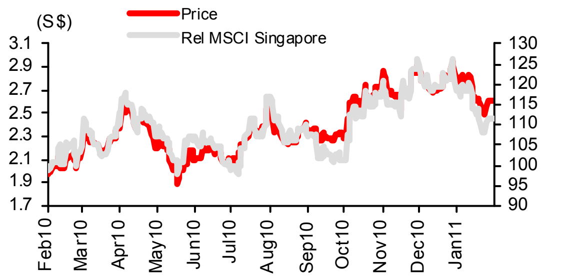
Based on a read-through of Astra Agro Lestari's (AALI) production statistics, Indonesian planters may be in for a production recovery. AALI recorded FFB production growth of 4% y-y. Malaysian planters, however, fared poorly in the last quarter of CY10, with FFB production still down 8-20% y-y (based on IOI, KLK and Sime Darby).

Key financials & valuations

31 Dec (Rpmn)	FY09	FY10F	FY11F	FY12F
Revenue	9,040,32	13,384,3	15,821,3	17,401,9
Reported net profit	1,586,33	1,209,93	2,109,25	2,260,82
Normalised net profit	1,223,47	1,209,93	2,109,25	2,260,82
Normalised EPS (Rp)	850	841	1,466	1,571
Norm. EPS growth (%)	(17.7)	(1.1)	74.3	7.2
Norm. P/E (x)	21.5	21.8	12.5	11.7
EV/EBITDA (x)	10.6	10.0	6.5	5.6
Price/book (x)	2.8	2.3	1.9	1.6
Dividend yield (%)	0.0	0.0	0.0	0.0
ROE (%)	18.3	11.6	16.6	14.8
Net debt/equity (%)	54.6	42.3	25.4	11.4
Earnings revisions				
Previous norm. net profit		1,135,78	2,016,59	2,421,00
Change from previous (%)		6.5	4.6	(6.6)
Previous norm. EPS (Rp)		789	1,402	1,683

Source: Company, Nomura estimates

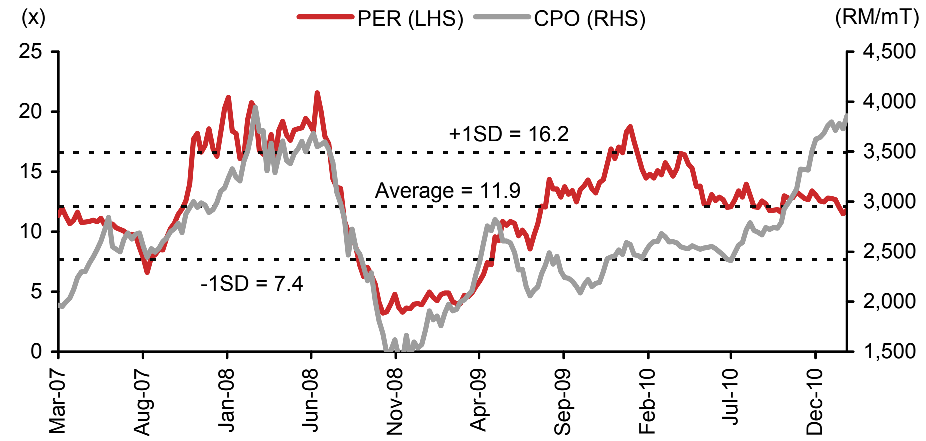
Share price relative to MSCI Singapore



	1m	3m	6m
Absolute (S$)	(7.1)	(4.8)	2.4
Absolute (US$)	(5.6)	(4.1)	8.3
Relative to Index	(5.6)	(4.4)	(5.2)
Market cap (US$mn)			2,948
Estimated free float (%)			24.1
52-week range (S$)			2.95/1.89
3-mth avg daily turnover (US$mn)			13.72
Stock borrowability			Easy
Major shareholders (%)			
PT Indofood Sukses			69.0
Bank of New York Mellon			6.9

Source: Company, Nomura estimates

Exhibit 38. Forward P/E



Source: Company data, Nomura estimates

Financial statements

Income statement (Rpmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Revenue	11,840,499	9,040,325	13,384,323	15,821,312	17,401,904
Cost of goods sold	(7,711,395)	(5,814,962)	(9,369,026)	(11,074,918)	(12,181,333)
Gross profit	**4,129,104**	**3,225,363**	**4,015,297**	**4,746,394**	**5,220,571**
SG&A	(1,318,169)	(583,732)	(1,379,036)	(712,800)	(833,481)
Employee share expense					
Operating profit	**2,810,935**	**2,641,631**	**2,636,261**	**4,033,593**	**4,387,090**
EBITDA	**3,042,902**	**2,984,636**	**3,136,179**	**4,613,511**	**5,047,008**
Depreciation	(231,967)	(343,005)	(499,918)	(579,918)	(659,918)
Amortisation					
EBIT	**2,810,935**	**2,641,631**	**2,636,261**	**4,033,593**	**4,387,090**
Net interest expense	(339,801)	(376,641)	(444,083)	(421,926)	(436,718)
Associates & JCEs	-	-	-	-	-
Other income	(4,833)	-	-	-	1,000
Earnings before tax	**2,466,301**	**2,264,990**	**2,192,178**	**3,611,668**	**3,951,372**
Income tax	(734,428)	(654,420)	(548,044)	(902,917)	(987,843)
Net profit after tax	**1,731,873**	**1,610,570**	**1,644,133**	**2,708,751**	**2,963,529**
Minority interests	(491,873)	(387,091)	(434,204)	(599,495)	(702,703)
Other items	247,000				
Preferred dividends					
Normalised NPAT	**1,487,000**	**1,223,479**	**1,209,930**	**2,109,256**	**2,260,826**
Extraordinary items	(247,000)	362,856			
Reported NPAT	**1,240,000**	**1,586,335**	**1,209,930**	**2,109,256**	**2,260,826**
Dividends	-	-	-	-	-
Transfer to reserves	**1,240,000**	**1,586,335**	**1,209,930**	**2,109,256**	**2,260,826**
Valuation and ratio analysis					
FD normalised P/E (x)	17.7	21.5	21.8	12.5	11.7
FD normalised P/E at price target (x)	23.2	28.2	28.5	16.3	15.2
Reported P/E (x)	21.2	16.6	21.8	12.5	11.7
Dividend yield (%)	-	-	-	-	-
Price/cashflow (x)	10.0	33.6	9.2	8.9	9.5
Price/book (x)	3.3	2.8	2.3	1.9	1.6
EV/EBITDA (x)	10.0	10.6	10.0	6.5	5.6
EV/EBIT (x)	10.8	12.0	11.9	7.4	6.5
Gross margin (%)	34.9	35.7	30.0	30.0	30.0
EBITDA margin (%)	25.7	33.0	23.4	29.2	29.0
EBIT margin (%)	23.7	29.2	19.7	25.5	25.2
Net margin (%)	10.5	17.5	9.0	13.3	13.0
Effective tax rate (%)	29.8	28.9	25.0	25.0	25.0
Dividend payout (%)	-	-	-	-	-
Capex to sales (%)	13.5	17.3	13.0	12.0	11.5
Capex to depreciation (x)	6.9	4.6	3.5	3.3	3.0
ROE (%)	16.4	18.3	11.6	16.6	14.8
ROA (pretax %)	15.8	13.1	11.4	15.9	15.9
Growth (%)					
Revenue	82.0	(23.6)	48.1	18.2	10.0
EBITDA	101.3	(1.9)	5.1	47.1	9.4
EBIT	104.0	(6.0)	(0.2)	53.0	8.8
Normalised EPS	54.0	(17.7)	(1.1)	74.3	7.2
Normalised FDEPS	54.0	(17.7)	(1.1)	74.3	7.2
Per share					
Reported EPS (Rp)	862	1,103	841	1,466	1,571
Norm EPS (Rp)	1,034	850	841	1,466	1,571
Fully diluted norm EPS (Rp)	1,034	850	841	1,466	1,571
Book value per share (Rp)	5,506	6,567	7,953	9,675	11,616
DPS (Rp)	-	-	-	-	-

Source: Nomura estimates

Looking forward to strong EPS growth after a relatively weak FY10F

Cashflow (Rpmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	3,042,902	2,984,636	3,136,179	4,613,511	5,047,008
Change in working capital	362,632	(373,804)	(371,594)	(76,129)	(344,749)
Other operating cashflow	(773,460)	(1,825,990)	112,558	(1,569,594)	(1,915,929)
Cashflow from operations	**2,632,074**	**784,842**	**2,877,144**	**2,967,788**	**2,786,330**
Capital expenditure	(1,600,911)	(1,561,539)	(1,745,208)	(1,905,342)	(2,004,429)
Free cashflow	**1,031,163**	**(776,697)**	**1,131,936**	**1,062,446**	**781,901**
Reduction in investments	(173,511)	(51,064)	30,347	-	(1,000)
Net acquisitions	227,456	(424,984)			
Reduction in other LT assets	(398,215)	(401,875)	(575,027)	155,750	117,851
Addition in other LT liabilities	(203,557)	345,805	(302,059)	22,158	338,947
Adjustments	(0)	0	35,052	57,332	388,364
Cashflow after investing acts	**483,336**	**(1,308,815)**	**320,249**	**1,297,686**	**1,626,064**
Cash dividends					
Equity issue	(74,806)	-	-	-	-
Debt issue	298,224	702,894	161,631	192,111	211,322
Convertible debt issue					
Others					
Cashflow from financial acts	**223,418**	**702,894**	**161,631**	**192,111**	**211,322**
Net cashflow	**706,754**	**(605,921)**	**481,881**	**1,489,797**	**1,837,386**
Beginning cash	1,701,512	2,408,266	1,802,345	2,284,226	3,774,023
Ending cash	2,408,266	1,802,345	2,284,226	3,774,023	5,611,408
Ending net debt	3,848,319	5,157,134	4,836,885	3,539,199	1,913,135

Source: Nomura estimates

Balance sheet (Rpmn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	2,408,266	1,802,345	2,284,226	3,774,023	5,611,408
Marketable securities	-	-	-	-	-
Accounts receivable	860,405	752,702	1,114,385	1,317,290	1,448,891
Inventories	910,542	1,082,557	1,442,466	1,534,597	1,519,116
Other current assets	231,379	273,535	542,358	632,819	1,071,983
Total current assets	**4,410,592**	**3,911,139**	**5,383,435**	**7,258,729**	**9,651,399**
LT investments	1,379,283	1,430,347	1,400,000	1,400,000	1,401,000
Fixed assets	11,116,548	13,709,553	14,643,189	16,525,002	18,504,992
Goodwill	2,972,134	3,155,786	3,155,786	3,155,786	3,155,786
Other intangible assets	239,314	294,327	250,000	250,000	250,000
Other LT assets	744,780	1,146,655	1,721,682	1,565,931	1,448,080
Total assets	**20,862,651**	**23,647,807**	**26,554,092**	**30,155,448**	**34,411,257**
Short-term debt	2,379,649	1,746,464	1,921,110	2,113,221	2,324,544
Accounts payable	962,911	979,911	1,578,826	1,866,295	2,052,743
Other current liabilities	483,409	199,073	218,980	240,878	264,966
Total current liabilities	**3,825,969**	**2,925,448**	**3,718,916**	**4,220,395**	**4,642,253**
Long-term debt	3,876,936	5,213,015	5,200,000	5,200,000	5,200,000
Convertible debt	-	-	-	-	-
Other LT liabilities	2,184,244	2,530,049	2,227,990	2,250,148	2,589,095
Total liabilities	**9,887,149**	**10,668,512**	**11,146,906**	**11,670,542**	**12,431,347**
Minority interest	3,053,817	3,530,781	3,964,985	4,564,480	5,267,182
Preferred stock	-	-	-	-	-
Common stock	3,554,996	3,554,996	3,554,996	3,554,996	3,554,996
Retained earnings	4,366,689	5,893,518	7,887,205	10,365,430	13,157,731
Proposed dividends	-	-	-	-	-
Other equity and reserves	-	-	-	-	-
Total shareholders' equity	**7,921,685**	**9,448,514**	**11,442,201**	**13,920,426**	**16,712,727**
Total equity & liabilities	**20,862,651**	**23,647,807**	**26,554,092**	**30,155,448**	**34,411,257**
Liquidity (x)					
Current ratio	1.15	1.34	1.45	1.72	2.08
Interest cover	8.3	7.0	5.9	9.6	10.0
Leverage					
Net debt/EBITDA (x)	1.26	1.73	1.54	0.77	0.38
Net debt/equity (%)	48.6	54.6	42.3	25.4	11.4
Activity (days)					
Days receivable	26.5	32.6	25.5	28.0	29.1
Days inventory	49.5	62.6	49.2	49.1	45.9
Days payable	44.4	61.0	49.8	56.8	58.9
Cash cycle	31.6	34.1	24.8	20.3	16.1

Source: Nomura estimates

Quick build-up in cash flows could lead to dividend payments in the future

Golden Agri-Resources GGR SP

CONSUMER RELATED/AGRI-RELATED | SINGAPORE

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Tushar Mohata (Associate)

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Maintained

BUY

Action

We are raising our PT for GoldenAgri to S$0.90 based on our revised CPO price assumptions (up 13-18%) and higher earnings forecasts (up 6.6%-2.1%) for FY11-12F. Golden Agri is the most liquid proxy to CPO prices in the region and is one of the key stocks to ride this upcycle, in our view. GGR has been proactive in its sustainability plans, with provisional RSPO membership and targets for certification by December 2015 — positive for sentiment, in our view.

Catalysts

Continued strong prices from global agri-commodities should sustain higher prices for CPO and lead to a further re-rating for plantation companies.

Anchor themes

Continued tight global vegetable oils outlook, a stronger crude oil price, weaker US dollar (relative to Asian currencies), and bullish outlook for global agri-commodities (including non-oil crops) should sustain higher CPO prices and drive earnings.

Closing price on 7 Feb	S$0.72
Price target	S$0.90
	(from S$0.85)
Upside/downside	24.3%
Difference from consensus	9.2%
FY11F net profit (US$mn)	530
Difference from consensus	9.2%

Source: Nomura

Nomura vs consensus

We are more bullish in our FY11-12F forecasts for CPO prices, which translates into higher earnings forecasts for plantation companies under our coverage.

The liquid proxy to CPO

① Raising CPO price and export tax assumptions

We raise our CPO price assumptions by 13-18% for FY11-12F, but at the same time increase our export tax assumptions (2011F: 17.5%, 2012F: 22.5%). This overall leads to a 2.1-6.6% increase in our forecasts for Golden Agri's net profit for FY10-12F. Golden Agri remains the most liquid stock in the sector regionally and as such, remains a key pick to ride CPO price upside, in our view. We reaffirm our BUY call and upgrade our PT by 5.9% on the back of these changes. We now value the company at 16x FY11F P/E (rolling-forward) (previously 15x P/E), a valuation of +0.8x SD above its mean, which we think is reasonable on our bullish CPO view. Downside risks include lower-than-expected production, a sharp fall in CPO prices, or any further environmental pushbacks against the group.

② More proactive in managing sustainability issues

2010 was a difficult year for GGR with regard to its public relations, given the battles waged against the group by environmentalists. We think 2011 will be very different, however, since we believe GGR's clashes with environmentalists may have peaked with the RSPO's public reprimand late last year. In our view, GGR has been more proactive in its sustainability plans, with provisional RSPO membership and targets for certification by December 2015, and even jointly sharing plans for forest conservation and sustainable palm oil with the Forest Trust this month, which we see as positive for sentiment.

③ Green shoots of production recovery in Indonesia?

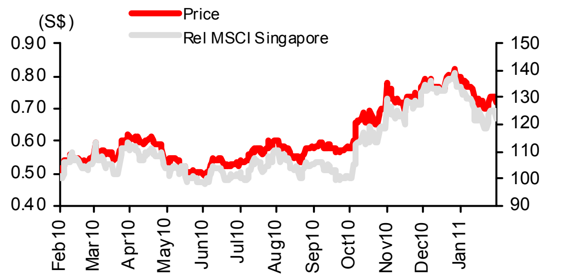
From a read-through of Astra Agro Lestari's (AALI) production statistics, we think Indonesian planters may be in for a production recovery. AALI recorded good FFB production growth of 4% y-y in 4Q10. Malaysian planters, however, fared poorly in the last quarter of CY2010, with FFB production down 8-20% y-y (based on IOI, KLK and Sime Darby).

Key financials & valuations

31 Dec (US$mn)	FY09	FY10F	FY11F	FY12F
Revenue	2,294	2,920	3,733	4,018
Reported net profit	203	358	530	588
Normalised net profit	203	358	530	588
Normalised EPS (US$)	0.018	0.031	0.046	0.051
Norm. EPS growth (%)	(43.5)	76.7	48.0	10.9
Norm. P/E (x)	32.2	18.2	12.3	11.1
EV/EBITDA (x)	18.6	11.5	8.2	7.3
Price/book (x)	1.2	1.1	1.0	0.9
Dividend yield (%)	0.9	1.1	1.6	1.8
ROE (%)	4.0	6.3	8.4	8.4
Net debt/equity (%)	7.3	6.3	5.1	2.4
Earnings revisions				
Previous norm. net profit		348	497	576
Change from previous (%)		2.8	6.6	2.1
Previous norm. EPS (US$)		0.030	0.043	0.050

Source: Company, Nomura estimates

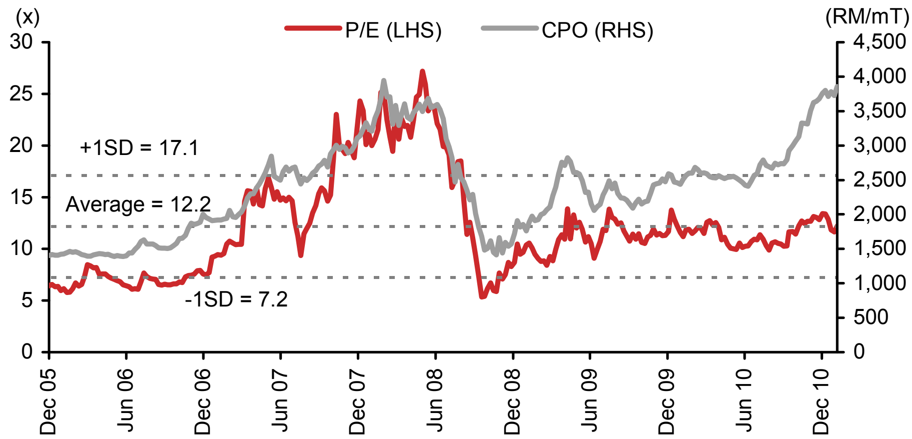
Share price relative to MSCI Singapore



	1m	3m	6m
Absolute (S$)	(10.0)	2.9	19.0
Absolute (US$)	(8.5)	3.6	25.9
Relative to Index	(8.5)	3.3	12.4
Market cap (US$mn)			6,844
Estimated free float (%)			51.4
52-week range (S$)			0.82/0.48
3-mth avg daily turnover (US$mn)			40.25
Stock borrowability			Easy
Major shareholders (%)			
Flambo International			48.6

Source: Company, Nomura estimates

Exhibit 39. Golden Agri-Resources: forward P/E



Source: Company data, Nomura estimates

Financial statements

Income statement (US$mn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Revenue	2,986	2,294	2,920	3,733	4,018
Cost of goods sold	(2,110)	(1,784)	(2,073)	(2,613)	(2,812)
Gross profit	**876**	**509**	**847**	**1,120**	**1,205**
SG&A	(347)	(195)	(307)	(346)	(355)
Employee share expense					
Operating profit	**529**	**315**	**540**	**774**	**850**
EBITDA	**587**	**383**	**625**	**869**	**954**
Depreciation	(58)	(68)	(85)	(95)	(104)
Amortisation					
EBIT	**529**	**315**	**540**	**774**	**850**
Net interest expense	(35)	(41)	(60)	(63)	(62)
Associates & JCEs	5	7	5	5	6
Other income	5	13	-	-	-
Earnings before tax	**504**	**293**	**486**	**716**	**794**
Income tax	(120)	(88)	(121)	(179)	(199)
Net profit after tax	**384**	**205**	**364**	**537**	**596**
Minority interests	(7)	(3)	(6)	(7)	(7)
Other items					
Preferred dividends					
Normalised NPAT	**377**	**203**	**358**	**530**	**588**
Extraordinary items					
Reported NPAT	**377**	**203**	**358**	**530**	**588**
Dividends	(97)	(57)	(72)	(106)	(118)
Transfer to reserves	**280**	**145**	**286**	**424**	**470**
Valuation and ratio analysis					
FD normalised P/E (x)	18.2	32.2	18.2	12.3	11.1
FD normalised P/E at price target (x)	22.6	40.1	22.7	15.3	13.8
Reported P/E (x)	18.2	32.2	18.2	12.3	11.1
Dividend yield (%)	1.4	0.9	1.1	1.6	1.8
Price/cashflow (x)	16.1	18.8	13.0	11.6	10.0
Price/book (x)	1.5	1.2	1.1	1.0	0.9
EV/EBITDA (x)	12.3	18.6	11.5	8.2	7.3
EV/EBIT (x)	13.6	22.6	13.3	9.2	8.2
Gross margin (%)	29.3	22.2	29.0	30.0	30.0
EBITDA margin (%)	19.7	16.7	21.4	23.3	23.8
EBIT margin (%)	17.7	13.7	18.5	20.7	21.2
Net margin (%)	12.6	8.8	12.3	14.2	14.6
Effective tax rate (%)	23.9	29.9	25.0	25.0	25.0
Dividend payout (%)	25.8	28.2	20.0	20.0	20.0
Capex to sales (%)	8.2	11.2	10.9	8.5	7.9
Capex to depreciation (x)	4.2	3.8	3.7	3.3	3.0
ROE (%)	9.5	4.0	6.3	8.4	8.4
ROA (pretax %)	9.2	4.5	6.9	9.2	9.4
Growth (%)					
Revenue	59.4	(23.2)	27.3	27.8	7.6
EBITDA	12.3	(34.8)	63.3	38.9	9.8
EBIT	11.7	(40.5)	71.6	43.3	9.8
Normalised EPS	31.9	(43.5)	76.7	48.0	10.9
Normalised FDEPS	31.9	(43.5)	76.7	48.0	10.9
Per share					
Reported EPS (US$)	0.03	0.02	0.03	0.05	0.05
Norm EPS (US$)	0.03	0.02	0.03	0.05	0.05
Fully diluted norm EPS (US$)	0.03	0.02	0.03	0.05	0.05
Book value per share (US$)	0.38	0.47	0.52	0.57	0.64
DPS (US$)	0.01	0.00	0.01	0.01	0.01

Source: Nomura estimates

Low ROEs mainly due to mandatory asset revaluations pushing up book value

Cashflow (US$mn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	587	383	625	869	954
Change in working capital	31	(11)	23	(97)	(34)
Other operating cashflow	(191)	(25)	(146)	(207)	(269)
Cashflow from operations	**427**	**347**	**503**	**565**	**651**
Capital expenditure	(244)	(256)	(317)	(317)	(317)
Free cashflow	**183**	**91**	**186**	**248**	**334**
Reduction in investments	(36)	(36)	77	-	(1)
Net acquisitions	(502)	(135)	(129)	(151)	(151)
Reduction in other LT assets					
Addition in other LT liabilities	441	(53)	(136)	(69)	(53)
Adjustments	-	-	91	119	148
Cashflow after investing acts	**86**	**(133)**	**89**	**147**	**277**
Cash dividends	(92)	(57)	(72)	(106)	(118)
Equity issue	-	215	-	-	-
Debt issue	17	129	217	50	-
Convertible debt issue					
Others	(2)	-	-	-	-
Cashflow from financial acts	**(78)**	**287**	**145**	**(56)**	**(118)**
Net cashflow	**9**	**154**	**235**	**91**	**160**
Beginning cash	124	133	288	522	613
Ending cash	133	288	522	613	773
Ending net debt	421	396	378	337	177

Source: Nomura estimates

Balance sheet (US$mn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	133	288	522	613	773
Marketable securities	5	66	30	30	31
Accounts receivable	322	332	423	541	582
Inventories	248	420	399	510	549
Other current assets	-	-	-	-	-
Total current assets	**707**	**1,106**	**1,374**	**1,694**	**1,935**
LT investments	216	191	150	150	150
Fixed assets	5,766	6,460	6,966	7,481	8,008
Goodwill	116	116	110	105	99
Other intangible assets	20	28	28	28	28
Other LT assets	-	-	-	-	-
Total assets	**6,825**	**7,900**	**8,628**	**9,458**	**10,220**
Short-term debt	310	314	500	500	500
Accounts payable	205	372	473	605	651
Other current liabilities	33	38	30	30	30
Total current liabilities	**548**	**724**	**1,003**	**1,135**	**1,181**
Long-term debt	244	369	400	450	450
Convertible debt	-	-	-	-	-
Other LT liabilities	1,326	1,273	1,138	1,069	1,016
Total liabilities	**2,119**	**2,367**	**2,541**	**2,654**	**2,647**
Minority interest	93	96	132	181	229
Preferred stock	-	-	-	-	-
Common stock	249	303	303	303	303
Retained earnings	3,409	4,014	4,531	5,199	5,921
Proposed dividends	-	-	-	-	-
Other equity and reserves	955	1,120	1,120	1,120	1,120
Total shareholders' equity	**4,614**	**5,438**	**5,954**	**6,623**	**7,344**
Total equity & liabilities	**6,825**	**7,900**	**8,628**	**9,458**	**10,220**
Liquidity (x)					
Current ratio	1.29	1.53	1.37	1.49	1.64
Interest cover	14.9	7.6	9.1	12.2	13.7
Leverage					
Net debt/EBITDA (x)	0.72	1.03	0.60	0.39	0.19
Net debt/equity (%)	9.1	7.3	6.3	5.1	2.4
Activity (days)					
Days receivable	38.9	52.0	47.2	47.1	51.1
Days inventory	48.5	68.3	72.1	63.5	68.9
Days payable	37.5	59.0	74.4	75.3	81.8
Cash cycle	50.0	61.3	44.9	35.3	38.3

Source: Nomura estimates

Growing cash balances could mean higher dividend payout ratio if the group is not able to make sizeable capex additions

IOI Corporation IOI MK

CONSUMER RELATED/AGRI-RELATED | MALAYSIA

NOMURA SECURITIES MALAYSIA SDN BHD

From Neutral

BUY

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Action

We are upgrading IOI to BUY on the back of our revised CPO price assumptions (up 13-18% for FY11-12F), with a new price target of RM7.00, which implies upside of 21%. Although IOI's mature hectarage growth is the lowest among our coverage, the company's relative immunity to Indonesian CPO export tax makes it our preferred pick to ride CPO price upside from current levels.

Catalysts

Continued strong prices from global agri-commodities should sustain higher prices for CPO and lead to a further re-rating for plantation companies.

Anchor themes

Continued tight global vegetable oils outlook, a stronger crude oil price, weaker US dollar (relative to Asian currencies), and bullish outlook for global agri-commodities (including non-oil crops) should sustain higher CPO prices and drive stronger earnings.

Closing price on 7 Feb	RM5.78
Price target	**RM7.00**
	(from RM6.20)
Upside/downside	21.1%
Difference from consensus	9.7%
FY12F net profit (RMmn)	2,491
Difference from consensus	7.3%

Source: Nomura

Nomura vs consensus

We are more bullish in our FY11-12F forecasts for CPO prices, which translates into higher earnings forecasts for plantation companies under our coverage.

Least export tax exposure

① Raising CPO price assumptions; upgrading to BUY

We raise our CPO price assumptions by 13-18% for FY11-12F, which has led to us upgrading forecast net profits by 4.5-5%. We believe IOI offers the best leverage to palm oil price upside, since it is not impacted by the punitive Indonesian export tax. We upgrade IOI to a BUY. In our view, valuations are reasonable, at FY12F P/E of 14.9x. We value IOI at an FY12F P/E target multiple of 18x, being +0.6SD above the stock's mean. Downside risks include lower FFB yields than we expect, a collapse in agri-commodity prices, and poor property sales. Also, we do flag that 2Q FY11 production fell sharply (-20% y-y) relative to other planters – a possible near-term dampener on sentiment.

② Least Indonesian export tax impact

For now, practically all of IOI's production comes from Malaysia (with the group's Indonesian plantations still immature). As such, we believe the punitive Indonesian export taxes should have the least impact on IOI. We do not favour IOI from a fundamental growth perspective (seeing that its mature hectarage growth is the lowest within our coverage universe); however, we find IOI offers the most leverage to palm oil price upside, being Malaysia-based (vis-à-vis KLK and Sime Darby, which have 30-40% of their production from Indonesia).

③ Weak Sentosa property sales ahead

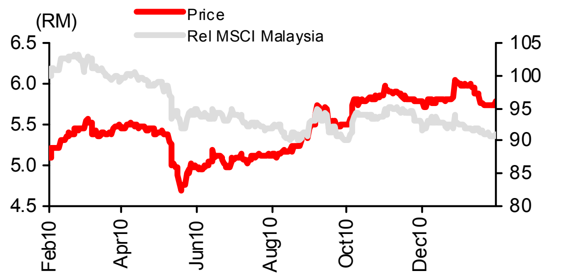
The Sentosa Seascape project was supposed to be a positive buffer for earnings, but recent real estate restrictions (including the increase in stamp duty) have thrown a wet blanket on this, in our view. Based on figures disclosed by Ho Bee (at its 3Q earnings announcement), IOI's 50% JV partner for the Sentosa Cove project, The Sentosa Cove's percentage sold was relatively unchanged at 22% (+1% from end-June 2010), and we think the new, more punitive restrictions will further dampen sales here.

Key financials & valuations

30 Jun (RMmn)	FY10	FY11F	FY12F	FY13F
Revenue	12,543	13,588	14,197	14,327
Reported net profit	2,036	2,166	2,491	2,747
Normalised net profit	1,640	2,166	2,491	2,747
Normalised EPS (RM)	0.26	0.34	0.39	0.43
Norm. EPS growth (%)	9.5	32.1	15.0	10.3
Norm. P/E (x)	22.7	17.2	14.9	13.5
EV/EBITDA (x)	13.4	12.1	10.6	9.6
Price/book (x)	3.4	3.1	2.9	2.6
Dividend yield (%)	2.1	2.1	2.7	2.9
ROE (%)	21.3	19.1	20.1	20.2
Net debt/equity (%)	8.1	6.2	3.7	0.7
Earnings revisions				
Previous norm. net profit		2,073	2,373	2,603
Change from previous (%)		4.5	5.0	5.5
Previous norm. EPS (RM)		0.32	0.37	0.40

Source: Company, Nomura estimates

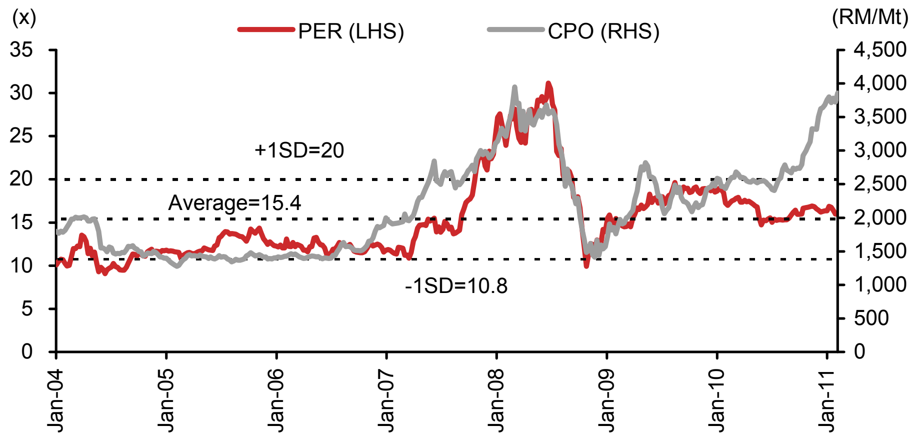
Share price relative to MSCI Malaysia



	1m	3m	6m
Absolute (RM)	(3.8)	(1.4)	12.9
Absolute (US$)	(2.7)	0.3	17.2
Relative to Index	(1.4)	(2.9)	(1.2)
Market cap (US$mn)			12,777
Estimated free float (%)			47.5
52-week range (RM)			6.05/4.69
3-mth avg daily turnover (US$mn)			16.59
Stock borrowability			Hard
Major shareholders (%)			
Tan Sri Dato' Lee Shin Cheng			39.8
Employees Provident Fund			12.7

Source: Company, Nomura estimates

Exhibit 40. IOI Corp: forward P/E



Source: Company Data, Nomura estimates

Financial statements

Income statement (RMmn)					
Year-end 30 Jun	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Revenue	14,600	12,543	13,588	14,197	14,327
Cost of goods sold	(12,631)	(9,907)	(10,749)	(10,986)	(10,826)
Gross profit	**1,969**	**2,636**	**2,839**	**3,211**	**3,501**
SG&A					
Employee share expense					
Operating profit	**1,969**	**2,636**	**2,839**	**3,211**	**3,501**
EBITDA	**2,200**	**2,868**	**3,089**	**3,478**	**3,785**
Depreciation	(231)	(232)	(250)	(267)	(283)
Amortisation					
EBIT	**1,969**	**2,636**	**2,839**	**3,211**	**3,501**
Net interest expense	(171)	(174)	(96)	(82)	(62)
Associates & JCEs	(248)	88	175	224	256
Other income					
Earnings before tax	**1,550**	**2,551**	**2,919**	**3,353**	**3,696**
Income tax	(487)	(486)	(730)	(838)	(924)
Net profit after tax	**1,063**	**2,065**	**2,189**	**2,515**	**2,772**
Minority interests	(80)	(29)	(23)	(24)	(25)
Other items	462	(396)			
Preferred dividends					
Normalised NPAT	**1,446**	**1,640**	**2,166**	**2,491**	**2,747**
Extraordinary items	(462)	396			
Reported NPAT	**984**	**2,036**	**2,166**	**2,491**	**2,747**
Dividends	(346)	(785)	(780)	(986)	(1,088)
Transfer to reserves	**638**	**1,251**	**1,386**	**1,505**	**1,659**
Valuation and ratio analysis					
FD normalised P/E (x)	24.8	22.7	17.2	14.9	13.5
FD normalised P/E at price target (x)	30.0	27.4	20.8	18.1	16.4
Reported P/E (x)	36.5	18.3	17.2	14.9	13.5
Dividend yield (%)	1.0	2.1	2.1	2.7	2.9
Price/cashflow (x)	12.6	19.3	14.3	11.9	10.9
Price/book (x)	4.3	3.4	3.1	2.9	2.6
EV/EBITDA (x)	21.4	13.4	12.1	10.6	9.6
EV/EBIT (x)	24.3	14.5	13.1	11.4	10.3
Gross margin (%)	13.5	21.0	20.9	22.6	24.4
EBITDA margin (%)	15.1	22.9	22.7	24.5	26.4
EBIT margin (%)	13.5	21.0	20.9	22.6	24.4
Net margin (%)	6.7	16.2	15.9	17.5	19.2
Effective tax rate (%)	31.4	19.0	25.0	25.0	25.0
Dividend payout (%)	35.2	38.5	36.0	39.6	39.6
Capex to sales (%)	2.9	3.4	3.7	3.5	3.5
Capex to depreciation (x)	1.8	1.8	2.0	1.9	1.8
ROE (%)	11.8	21.3	19.1	20.1	20.2
ROA (pretax %)	12.3	20.2	21.3	22.4	22.8
Growth (%)					
Revenue	(0.4)	(14.1)	8.3	4.5	0.9
EBITDA	(35.2)	30.4	7.7	12.6	8.8
EBIT	(37.9)	33.9	7.7	13.1	9.0
Normalised EPS	(36.5)	9.5	32.1	15.0	10.3
Normalised FDEPS	(36.5)	9.5	32.1	15.0	10.3
Per share					
Reported EPS (RM)	0.16	0.32	0.34	0.39	0.43
Norm EPS (RM)	0.23	0.26	0.34	0.39	0.43
Fully diluted norm EPS (RM)	0.23	0.26	0.34	0.39	0.43
Book value per share (RM)	1.35	1.68	1.85	2.02	2.21
DPS (RM)	0.06	0.12	0.12	0.15	0.17

Source: Nomura estimates

Good leverage to CPO prices given that it is not exposed to Indonesian export taxes

Cashflow (RMmn)					
Year-end 30 Jun	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
EBITDA	2,200	2,868	3,089	3,478	3,785
Change in working capital	817	210	110	97	108
Other operating cashflow	(164)	(1,153)	(593)	(453)	(477)
Cashflow from operations	**2,852**	**1,926**	**2,606**	**3,122**	**3,416**
Capital expenditure	(422)	(427)	(500)	(500)	(500)
Free cashflow	**2,430**	**1,498**	**2,106**	**2,622**	**2,916**
Reduction in investments	(178)	(164)	(631)	(768)	(817)
Net acquisitions	(196)	(88)	(79)	(102)	(102)
Reduction in other LT assets	5	24	-	-	-
Addition in other LT liabilities	(51)	(84)	(71)	15	44
Adjustments	(18)	(16)	(55)	(91)	(102)
Cashflow after investing acts	**1,991**	**1,171**	**1,271**	**1,676**	**1,939**
Cash dividends	(1,002)	(589)	(1,083)	(1,370)	(1,511)
Equity issue	(611)	(11)	-	-	-
Debt issue	(401)	(797)	471	(82)	(628)
Convertible debt issue					
Others	(409)	1,644	(50)	(50)	(49)
Cashflow from financial acts	**(2,423)**	**247**	**(662)**	**(1,502)**	**(2,188)**
Net cashflow	**(432)**	**1,418**	**608**	**173**	**(248)**
Beginning cash	2,896	2,464	3,882	4,490	4,664
Ending cash	2,464	3,882	4,490	4,664	4,415
Ending net debt	3,090	876	738	482	103

Source: Nomura estimates

Balance sheet (RMmn)					
As at 30 Jun	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Cash & equivalents	2,464	3,882	4,490	4,664	4,415
Marketable securities					
Accounts receivable	1,431	1,346	1,458	1,523	1,537
Inventories	1,647	1,575	1,707	1,783	1,799
Other current assets	465	357	450	450	450
Total current assets	**6,007**	**7,160**	**8,105**	**8,420**	**8,202**
LT investments	3,101	3,265	3,895	4,664	5,480
Fixed assets	6,309	6,378	6,755	6,988	7,205
Goodwill	514	514	504	493	484
Other intangible assets					
Other LT assets	51	27	27	27	27
Total assets	**15,982**	**17,343**	**19,285**	**20,592**	**21,398**
Short-term debt	199	409	450	495	544
Accounts payable	958	941	1,019	1,065	1,075
Other current liabilities	120	83	450	643	771
Total current liabilities	**1,277**	**1,433**	**1,919**	**2,203**	**2,391**
Long-term debt	5,355	4,348	4,778	4,651	3,974
Convertible debt					
Other LT liabilities	577	493	422	437	481
Total liabilities	**7,210**	**6,274**	**7,119**	**7,291**	**6,845**
Minority interest	426	289	303	318	332
Preferred stock					
Common stock	625	668	668	668	668
Retained earnings	6,858	8,415	9,498	10,619	11,855
Proposed dividends					
Other equity and reserves	864	1,697	1,697	1,697	1,697
Total shareholders' equity	**8,346**	**10,780**	**11,863**	**12,984**	**14,220**
Total equity & liabilities	**15,982**	**17,343**	**19,285**	**20,592**	**21,398**
Liquidity (x)					
Current ratio	4.70	5.00	4.22	3.82	3.43
Interest cover	11.5	15.2	29.7	39.4	56.9
Leverage					
Net debt/EBITDA (x)	1.40	0.31	0.24	0.14	0.03
Net debt/equity (%)	37.0	8.1	6.2	3.7	0.7
Activity (days)					
Days receivable	39.7	40.4	37.7	38.4	39.0
Days inventory	59.2	59.4	55.7	58.1	60.4
Days payable	30.6	35.0	33.3	34.7	36.1
Cash cycle	68.2	64.8	60.1	61.8	63.3

Source: Nomura estimates

We would not be surprised if the group increases gearing to fund any future acquisitions

Kuala Lumpur Kepong KLK MK

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Tushar Mohata (Associate)

From Neutral

BUY

Action

We are upgrading KLK to BUY on our revised CPO price assumptions (up 13-18%), and higher earnings forecasts (up 20-16%) for FY11-12F, with a new price target of RM27.00, which represents upside of 19%. KLK's CPO production growth is the highest among Malaysian large caps, but it is exposed to Indonesian CPO export tax (c 40% of mature hectarage is in Indonesia).

Catalysts

Continued strong prices from global agri-commodities should sustain higher prices for CPO and lead to a further re-rating for plantation companies.

Anchor themes

Continued tight global vegetable oils outlook, a stronger crude oil price, weaker US dollar (relative to Asian currencies), and bullish outlook for global agri-commodities (including non-oil crops) should sustain higher CPO prices and drive earnings.

Closing price on 7 Feb	RM22.70
Price target	RM27.00
	(from RM21.70)
Upside/downside	18.9%
Difference from consensus	16.9%
FY12F net profit (RMmn)	1,667
Difference from consensus	21.9%

Source: Nomura

Nomura vs consensus

We are more bullish in our FY11-12F forecasts for CPO prices, which translates into higher earnings forecasts for plantation companies under our coverage.

Not cheap, but cream of the crop

① Raising CPO assumptions; upgrading to BUY

We raise our CPO price assumption by 13-18% for FY11-12F, but also impute a higher CPO export tax for KLK's Indonesian operations (which forms c. 40% of mature hectarage). Our increase in CPO prices and rubber price assumption for the group (to RM10/kg for 2011-13F from RM7.50/kg) leads us to an increase of 16-19.6% of net profit in FY11-12F. While the stock's FY11F P/E of 15.8x is arguably not cheap, we believe the company has class-leading fundamentals (hectarage and yield growth) that make it a standout among large-cap Malaysian planters. We value KLK on a P/E multiple of 18x, around +1SD above its five-year historical average valuations, which we think is justified for the Malaysian large-cap with the best fundamentals. The key downside risks here would be a sharp drop in agri-commodity prices, weaker-than-expected production, lower margins at its downstream division, or weak sales at its retail arm.

② High CPO production growth on newly maturing area

We expect strong CPO production growth of 8.1-6.2% over FY11-12F, given our expectations of 10,000ha maturing each year and contributing meaningfully to volumes, and a relatively young tree age profile ramping up yields as the trees reach peak production age. This is the highest production growth among the Malaysian large-caps, on our forecasts.

③ Weak start to 2011 FFB production

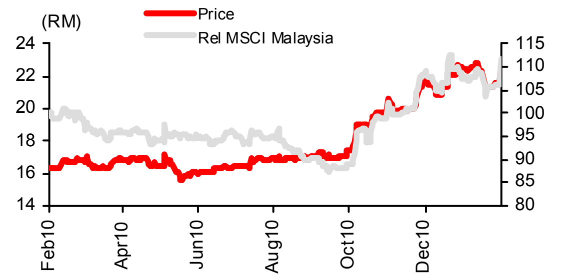
KLK reported weak 4Q FY10 production (released prior to its 1Q FY11 results, due end-February), with FFB production down 10% y-y. We think the group should be able to recover production as we move further into 2011. This weak production in the October-December 2010 period appears to have been shared by both IOI and Sime Darby, and recent flooding in Johor may have impacted production in 2Q FY11 as well. We are conservative and expect FFB yields to remain around the 22.5mT/ha level in 2011F (flat y-y), given the weak start to 2011F.

Key financials & valuations

30 Sep (RMmn)	FY10	FY11F	FY12F	FY13F
Revenue	7,491	8,530	9,322	9,691
Reported net profit	1,012	1,540	1,667	1,818
Normalised net profit	1,012	1,540	1,667	1,818
Normalised EPS (RM)	0.95	1.44	1.56	1.70
Norm. EPS growth (%)	65.1	52.1	8.3	9.1
Norm. P/E (x)	24.0	15.8	14.6	13.3
EV/EBITDA (x)	14.7	10.1	9.3	8.5
Price/book (x)	4.0	3.7	3.3	3.0
Dividend yield (%)	2.6	3.8	4.1	4.5
ROE (%)	17.4	24.4	24.0	23.8
Net debt/equity (%)	7.2	6.1	3.5	net cash
Earnings revisions				
Previous norm. net profit		1,287	1,438	na
Change from previous (%)		19.6	16.0	na
Previous norm. EPS (RM)		1.20	1.35	na

Source: Company, Nomura estimates

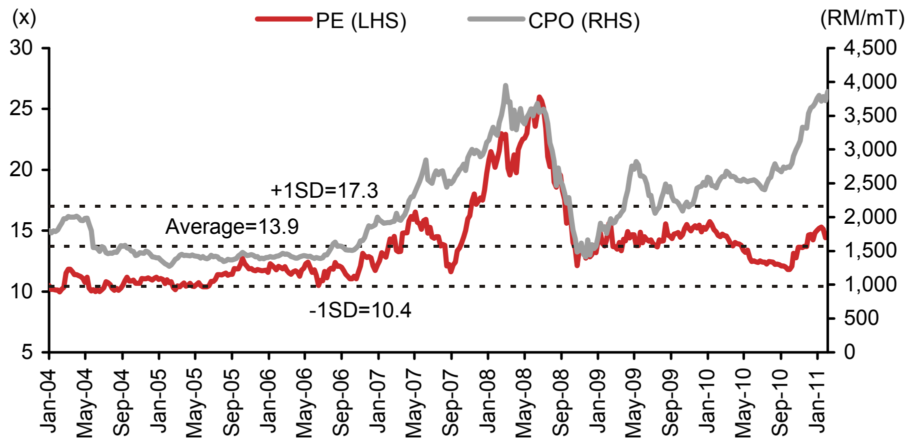
Share price relative to MSCI Malaysia



	1m	3m	6m
Absolute (RM)	1.4	14.6	34.0
Absolute (US$)	2.6	16.6	39.1
Relative to Index	4.0	13.6	21.0
Market cap (US$mn)			7,988
Estimated free float (%)			53.6
52-week range (RM)			22.86/15.56
3-mth avg daily turnover (US$mn)			7.11
Stock borrowability			Hard
Major shareholders (%)			
Batu Kawan			46.5
Employees Provident Fund			15.8

Source: Company, Nomura estimates

Exhibit 41. KLK: forward P/E



Source: Company data, Nomura estimates, Bloomberg

Financial statements

Income statement (RMmn)					
Year-end 30 Sep	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Revenue	6,658	7,491	8,530	9,322	9,691
Cost of goods sold	(5,546)	(5,855)	(6,143)	(6,738)	(6,879)
Gross profit	**1,113**	**1,635**	**2,388**	**2,584**	**2,812**
SG&A	(191)	(232)	(224)	(244)	(264)
Employee share expense					
Operating profit	**922**	**1,404**	**2,164**	**2,340**	**2,547**
EBITDA	**1,113**	**1,635**	**2,388**	**2,584**	**2,812**
Depreciation	(191)	(232)	(224)	(244)	(264)
Amortisation					
EBIT	**922**	**1,404**	**2,164**	**2,340**	**2,547**
Net interest expense	(69)	(58)	(75)	(79)	(84)
Associates & JCEs	35	37	40	40	41
Other income					
Earnings before tax	**887**	**1,383**	**2,129**	**2,301**	**2,504**
Income tax	(245)	(316)	(532)	(575)	(626)
Net profit after tax	**643**	**1,067**	**1,597**	**1,725**	**1,878**
Minority interests	(30)	(55)	(57)	(58)	(60)
Other items					
Preferred dividends					
Normalised NPAT	**613**	**1,012**	**1,540**	**1,667**	**1,818**
Extraordinary items	-	-	-	-	-
Reported NPAT	**613**	**1,012**	**1,540**	**1,667**	**1,818**
Dividends	(427)	(641)	(924)	(1,000)	(1,091)
Transfer to reserves	**185**	**371**	**616**	**667**	**727**
Valuation and ratio analysis					
FD normalised P/E (x)	39.6	24.0	15.8	14.6	13.3
FD normalised P/E at price target (x)	47.1	28.5	18.7	17.3	15.9
Reported P/E (x)	39.6	24.0	15.8	14.6	13.3
Dividend yield (%)	1.8	2.6	3.8	4.1	4.5
Price/cashflow (x)	20.8	23.7	14.6	13.2	11.3
Price/book (x)	4.3	4.0	3.7	3.3	3.0
EV/EBITDA (x)	21.5	14.7	10.1	9.3	8.5
EV/EBIT (x)	25.8	17.1	11.2	10.3	9.3
Gross margin (%)	16.7	21.8	28.0	27.7	29.0
EBITDA margin (%)	16.7	21.8	28.0	27.7	29.0
EBIT margin (%)	13.8	18.7	25.4	25.1	26.3
Net margin (%)	9.2	13.5	18.1	17.9	18.8
Effective tax rate (%)	27.6	22.8	25.0	25.0	25.0
Dividend payout (%)	69.7	63.3	60.0	60.0	60.0
Capex to sales (%)	6.7	5.6	4.9	4.5	4.3
Capex to depreciation (x)	2.3	1.8	1.9	1.7	1.6
ROE (%)	11.0	17.4	24.4	24.0	23.8
ROA (pretax %)	13.0	18.9	27.0	27.2	27.8
Growth (%)					
Revenue	(15.2)	12.5	13.9	9.3	4.0
EBITDA	(33.1)	47.0	46.0	8.2	8.8
EBIT	(37.2)	52.3	54.1	8.1	8.9
Normalised EPS	(41.1)	65.1	52.1	8.3	9.1
Normalised FDEPS	(41.1)	65.1	52.1	8.3	9.1
Per share					
Reported EPS (RM)	0.57	0.95	1.44	1.56	1.70
Norm EPS (RM)	0.57	0.95	1.44	1.56	1.70
Fully diluted norm EPS (RM)	0.57	0.95	1.44	1.56	1.70
Book value per share (RM)	5.28	5.62	6.20	6.82	7.50
DPS (RM)	0.40	0.60	0.86	0.94	1.02

Source: Nomura estimates

Not the cheapest planter but quality comes at a price, in our opinion

Cashflow (RMmn)					
Year-end 30 Sep	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
EBITDA	1,113	1,635	2,388	2,584	2,812
Change in working capital	133	(169)	(194)	(156)	(72)
Other operating cashflow	(80)	(442)	(536)	(595)	(595)
Cashflow from operations	**1,166**	**1,025**	**1,657**	**1,833**	**2,145**
Capital expenditure	(448)	(419)	(419)	(419)	(419)
Free cashflow	**718**	**606**	**1,238**	**1,414**	**1,726**
Reduction in investments	92	(127)	180	(62)	(57)
Net acquisitions	(161)	(169)	(165)	(165)	(165)
Reduction in other LT assets	(10)	(44)	1	(1)	(1)
Addition in other LT liabilities	48	166	(209)	1	1
Adjustments	61	89	(95)	(34)	(89)
Cashflow after investing acts	**748**	**521**	**950**	**1,153**	**1,415**
Cash dividends	(591)	(507)	(924)	(1,000)	(1,091)
Equity issue	15	-	-	-	-
Debt issue	(30)	(63)	93	105	118
Convertible debt issue					
Others	(9)	12	-	-	-
Cashflow from financial acts	**(615)**	**(559)**	**(831)**	**(895)**	**(973)**
Net cashflow	**133**	**(37)**	**119**	**258**	**442**
Beginning cash	1,160	1,292	1,255	1,374	1,632
Ending cash	1,292	1,255	1,374	1,632	2,074
Ending net debt	458	432	406	252	(72)

Source: Nomura estimates

Balance sheet (RMmn)					
As at 30 Sep	**FY09**	**FY10**	**FY11F**	**FY12F**	**FY13F**
Cash & equivalents	1,292	1,255	1,374	1,632	2,074
Marketable securities					
Accounts receivable	929	812	924	1,010	1,050
Inventories	882	1,288	1,467	1,603	1,666
Other current assets	85	40	30	31	32
Total current assets	**3,189**	**3,395**	**3,796**	**4,277**	**4,823**
LT investments	656	783	603	664	721
Fixed assets	4,064	4,242	4,684	5,056	5,407
Goodwill					
Other intangible assets	338	343	326	310	294
Other LT assets	357	401	400	401	402
Total assets	**8,604**	**9,164**	**9,809**	**10,708**	**11,646**
Short-term debt	627	580	562	545	529
Accounts payable	574	620	706	771	802
Other current liabilities	43	70	72	73	75
Total current liabilities	**1,244**	**1,270**	**1,340**	**1,390**	**1,405**
Long-term debt	1,123	1,107	1,218	1,340	1,474
Convertible debt					
Other LT liabilities	295	461	252	253	254
Total liabilities	**2,662**	**2,838**	**2,810**	**2,982**	**3,133**
Minority interest	309	320	377	435	495
Preferred stock					
Common stock	1,068	1,068	1,069	1,070	1,071
Retained earnings					
Proposed dividends					
Other equity and reserves	4,567	4,938	5,554	6,221	6,948
Total shareholders' equity	**5,634**	**6,005**	**6,622**	**7,290**	**8,018**
Total equity & liabilities	**8,604**	**9,164**	**9,809**	**10,708**	**11,646**
Liquidity (x)					
Current ratio	2.56	2.67	2.83	3.08	3.43
Interest cover	13.4	24.1	28.9	29.6	30.3
Leverage					
Net debt/EBITDA (x)	0.41	0.26	0.17	0.10	net cash
Net debt/equity (%)	8.1	7.2	6.1	3.5	net cash
Activity (days)					
Days receivable	50.2	42.4	37.1	38.0	38.8
Days inventory	69.2	67.6	81.8	83.4	86.7
Days payable	40.5	37.2	39.4	40.1	41.7
Cash cycle	78.9	72.9	79.6	81.2	83.8

Source: Nomura estimates

We think the company could increase its dividend payout given the quick cash build-up

Astra Agro Lestari AALI IJ

CONSUMER RELATED/AGRI-RELATED | INDONESIA

From Neutral

BUY

NOMURA

NOMURA SECURITIES MALAYSIA SDN BHD

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Tushar Mohata (Associate)

Action

We are raising our price target for Astra Agro to Rp28,400 and upgrading it to BUY based on our revised CPO price assumptions (up 13-18%), which should be positive for multiples, in our view. However, our earnings forecasts will be impacted (down 8.1-10.3% in FY11-12F) by the impact of Indonesian CPO export taxes. AALI's production statistics suggest a good recovery in 4Q although we are conservative on CPO production growth (assuming a 5% increase in FY11).

Catalysts

Continued strong prices from global agri-commodities should sustain higher prices for CPO and lead to a further re-rating for plantation companies.

Anchor themes

Continued tight global vegetable oils outlook, a stronger crude oil price, weaker US dollar (relative to Asian currencies), and bullish outlook for global agri-commodities (including non-oil crops) should sustain higher CPO prices and drive earnings.

Closing price on 7 Feb	Rp22,750
Price target	**Rp28,400**
	(from Rp26,900)
Upside/downside	24.8%
Difference from consensus	**-0.9%**
FY11F net profit (Rpmn)	2,796,469
Difference from consensus	**6.5%**

Source: Nomura

Nomura vs consensus

We are more bullish on our FY11-12 forecasts for CPO prices, which translates into higher earnings forecasts for plantation companies under our coverage.

Valuations compelling

① Raising CPO price assumptions, but lowering earnings for FY11-12F after tweaking costs and hectarage

We raise our CPO price assumption by 13-18% for FY11-12F and at the same time increase our export tax assumptions (2011F: 17.5%, 2012F: 22.5%). We take this opportunity to lower our input cost (mainly third party/plasma costs) and mature hectarage growth assumptions. This, along with the higher export tax, has lowered our net profit estimates by 8-10% for FY11-12.

② Upgrade AALI to BUY on recent price weakness

We upgrade AALI to BUY given its weak performance (having fallen 14% in the past month, underperforming the index by 6%). We think such a harsh price reaction is unwarranted given AALI's position as the largest and most liquid Indonesian-listed planter. We now value the company at 16x FY11F P/E (rolling-forward) (from 15x earlier), a valuation of +1x SD above its mean, which raises our price target to Rp28,400 (+5.6%). The stock is trading at 12.8x FY11F P/E, which we think is compelling for an Indonesian blue-chip. Downside risks include lower-than-expected FFB production, a sharp fall in CPO prices and lower-than-expected plasma yields.

③ In for a strong 4Q10, marks the start of a recovery

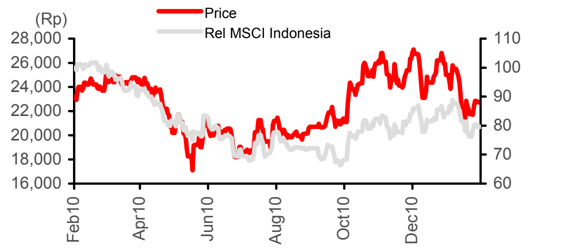
AALI's production statistics suggest a good recovery in 4Q (4Q results have not yet been released). FFB production rose by 4% y-y in 4Q10, while CPO production rose by 13.2% y-y. AALI ended 2010 with a 1.4% drop in FFB production, far better than the 8.8% drop seen in 7M10. Given we are conservative on CPO production growth (assuming a 5% increase in production in FY11F), maintaining current production could pose an upside risk to our earnings forecasts.

Key financials & valuations

31 Dec (Rpmn)	FY09	FY10F	FY11F	FY12F
Revenue	7,424,283	7,872,478	9,472,721	10,252,661
Reported net profit	1,660,649	1,793,527	2,796,469	3,170,563
Normalised net profit	1,660,649	1,793,527	2,796,469	3,170,563
Normalised EPS (Rp)	1,055	1,139	1,776	2,013
Norm. EPS growth (%)	(36.9)	8.0	55.9	13.4
Norm. P/E (x)	21.6	20.0	12.8	11.3
EV/EBITDA (x)	12.4	12.4	8.3	7.2
Price/book (x)	5.8	5.2	4.5	4.0
Dividend yield (%)	2.5	3.0	5.1	5.8
ROE (%)	29.2	27.2	37.6	37.4
Net debt/equity (%)	net cash	net cash	net cash	net cash
Earnings revisions				
Previous norm. net profit		1,720,219	3,042,954	3,536,482
Change from previous (%)		4.3	(8.1)	(10.3)
Previous norm. EPS (Rp)		1,092	1,932	2,246

Source: Company, Nomura estimates

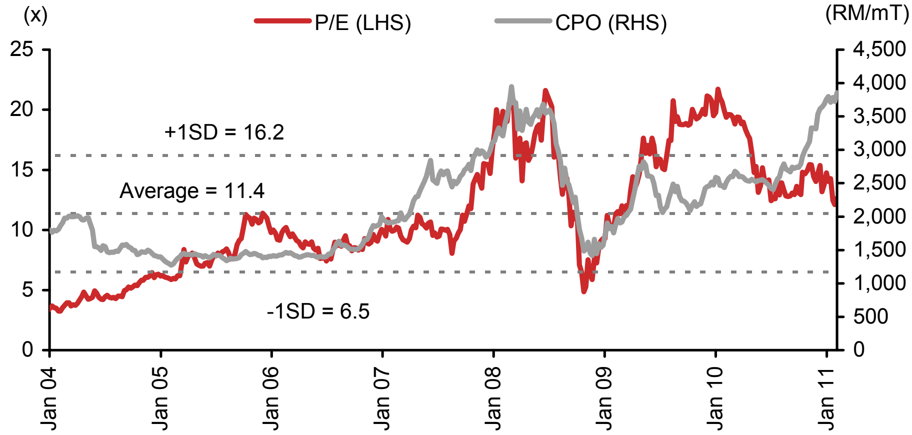
Share price relative to MSCI Indonesia



	1m	3m	6m
Absolute (Rp)	(9.0)	(12.3)	7.3
Absolute (US$)	(8.1)	(12.8)	7.5
Relative to Index	(5.5)	(3.1)	2.6
Market cap (US$mn)			4,008
Estimated free float (%)			20.3
52-week range (Rp)			27,100/17,100
3-mth avg daily turnover (US$mn)			4.63
Stock borrowability			Hard
Major shareholders (%)			
PT Astra International			79.7

Source: Company, Nomura estimates

Exhibit 42. Forward P/E



Source: Company data, Nomura estimates, Bloomberg

Financial statements

Income statement (Rpmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Revenue	8,161,217	7,424,283	7,872,478	9,472,721	10,252,661
Cost of goods sold	(4,357,818)	(4,322,498)	(4,784,337)	(5,065,550)	(5,295,555)
Gross profit	**3,803,399**	**3,101,785**	**3,088,141**	**4,407,171**	**4,957,106**
SG&A	(426,055)	(491,567)	(532,058)	(558,661)	(586,594)
Employee share expense					
Operating profit	**3,377,344**	**2,610,218**	**2,556,082**	**3,848,510**	**4,370,511**
EBITDA	**3,559,066**	**2,819,705**	**2,807,467**	**4,127,406**	**4,679,633**
Depreciation	(181,722)	(209,487)	(251,384)	(278,897)	(309,122)
Amortisation					
EBIT	**3,377,344**	**2,610,218**	**2,556,082**	**3,848,510**	**4,370,511**
Net interest expense	129,245	27,407	42,222	42,744	48,018
Associates & JCEs					
Other income	442,846	(137,199)	(27,994)	(30,151)	(32,138)
Earnings before tax	**3,949,435**	**2,500,426**	**2,570,310**	**3,861,103**	**4,386,391**
Income tax	(1,233,917)	(770,778)	(693,984)	(965,276)	(1,096,598)
Net profit after tax	**2,715,518**	**1,729,648**	**1,876,326**	**2,895,827**	**3,289,794**
Minority interests	(84,499)	(68,999)	(82,799)	(99,359)	(119,230)
Other items					
Preferred dividends					
Normalised NPAT	**2,631,019**	**1,660,649**	**1,793,527**	**2,796,469**	**3,170,563**
Extraordinary items					
Reported NPAT	**2,631,019**	**1,660,649**	**1,793,527**	**2,796,469**	**3,170,563**
Dividends	(1,346,407)	(913,357)	(1,076,116)	(1,817,705)	(2,060,866)
Transfer to reserves	**1,284,612**	**747,292**	**717,411**	**978,764**	**1,109,697**
Valuation and ratio analysis					
FD normalised P/E (x)	13.6	21.6	20.0	12.8	11.3
FD normalised P/E at price target (x)	17.0	26.9	24.9	16.0	14.1
Reported P/E (x)	13.6	21.6	20.0	12.8	11.3
Dividend yield (%)	3.8	2.5	3.0	5.1	5.8
Price/cashflow (x)	17.2	15.1	14.7	11.2	9.3
Price/book (x)	6.9	5.8	5.2	4.5	4.0
EV/EBITDA (x)	9.8	12.4	12.4	8.3	7.2
EV/EBIT (x)	10.4	13.4	13.6	8.9	7.7
Gross margin (%)	46.6	41.8	39.2	46.5	48.3
EBITDA margin (%)	43.6	38.0	35.7	43.6	45.6
EBIT margin (%)	41.4	35.2	32.5	40.6	42.6
Net margin (%)	32.2	22.4	22.8	29.5	30.9
Effective tax rate (%)	31.2	30.8	27.0	25.0	25.0
Dividend payout (%)	51.2	55.0	60.0	65.0	65.0
Capex to sales (%)	15.7	18.6	11.9	11.2	9.6
Capex to depreciation (x)	7.0	6.6	3.7	3.8	3.2
ROE (%)	57.1	29.2	27.2	37.6	37.4
ROA (pretax %)	67.6	42.0	36.4	50.8	52.8
Growth (%)					
Revenue	36.9	(9.0)	6.0	20.3	8.2
EBITDA	15.6	(20.8)	(0.4)	47.0	13.4
EBIT	16.2	(22.7)	(2.1)	50.6	13.6
Normalised EPS	33.3	(36.9)	8.0	55.9	13.4
Normalised FDEPS	33.3	(36.9)	8.0	55.9	13.4
Per share					
Reported EPS (Rp)	1,671	1,055	1,139	1,776	2,013
Norm EPS (Rp)	1,671	1,055	1,139	1,776	2,013
Fully diluted norm EPS (Rp)	1,671	1,055	1,139	1,776	2,013
Book value per share (Rp)	3,274	3,954	4,409	5,031	5,736
DPS (Rp)	855	580	683	1,154	1,309

Source: Nomura estimates

We cut our earnings forecast by 8-10% after imputing an increase in export taxes, while also increasing input costs for the company

Cashflow (Rpmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	3,559,066	2,819,705	2,807,467	4,127,406	4,679,633
Change in working capital	(483,774)	108,997	43,061	(165,509)	145,160
Other operating cashflow	(987,863)	(559,134)	(410,847)	(757,564)	(985,281)
Cashflow from operations	**2,087,429**	**2,369,568**	**2,439,682**	**3,204,334**	**3,839,512**
Capital expenditure	(1,279,408)	(1,382,564)	(935,000)	(1,060,000)	(980,001)
Free cashflow	**808,021**	**987,004**	**1,504,682**	**2,144,334**	**2,859,511**
Reduction in investments	-	-	-	-	-
Net acquisitions	570,468	67,857	142	(724)	(724)
Reduction in other LT assets	8,945	(205,305)	17,447	83,418	(247,081)
Addition in other LT liabilities	44,431	38,759	(5,807)	-	-
Adjustments	-	(0)	(66,886)	2,378	121,984
Cashflow after investing acts	**1,431,865**	**888,315**	**1,449,578**	**2,229,405**	**2,733,689**
Cash dividends	(1,535,297)	(913,357)	(1,076,116)	(1,817,705)	(2,060,866)
Equity issue	-	-	-	-	-
Debt issue	(5,200)	(4,085)	10,000	-	-
Convertible debt issue					
Others	(36,464)	(50,000)	(50,000)	(50,000)	(49,999)
Cashflow from financial acts	**(1,576,961)**	**(967,442)**	**(1,116,116)**	**(1,867,705)**	**(2,110,865)**
Net cashflow	**(145,096)**	**(79,127)**	**333,461**	**361,700**	**622,824**
Beginning cash	1,012,772	867,676	788,549	1,122,010	1,483,711
Ending cash	867,676	788,549	1,122,010	1,483,711	2,106,535
Ending net debt	(863,591)	(788,549)	(1,112,010)	(1,473,711)	(2,096,535)

Source: Nomura estimates

Balance sheet (Rpmn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	867,676	788,549	1,122,010	1,483,711	2,106,535
Marketable securities	-	-	-	-	-
Accounts receivable	16,346	150,091	159,152	191,503	207,270
Inventories	781,363	610,031	579,529	613,593	641,454
Other current assets	310,271	165,755	181,999	199,851	219,470
Total current assets	**1,975,656**	**1,714,426**	**2,042,690**	**2,488,657**	**3,174,729**
LT investments					
Fixed assets	3,939,048	5,058,977	5,568,667	6,176,116	6,683,077
Goodwill	73,953	61,557	58,479	55,555	52,777
Other intangible assets					
Other LT assets	531,134	736,439	718,992	635,574	882,656
Total assets	**6,519,791**	**7,571,399**	**8,388,829**	**9,355,902**	**10,793,239**
Short-term debt	4,085	-	10,000	10,000	10,000
Accounts payable	265,869	231,693	256,448	271,522	283,850
Other current liabilities	746,213	707,283	720,392	624,076	820,154
Total current liabilities	**1,016,167**	**938,976**	**986,841**	**905,598**	**1,114,005**
Long-term debt	-	-	-	-	-
Convertible debt					
Other LT liabilities	167,048	205,807	200,000	200,000	200,000
Total liabilities	**1,183,215**	**1,144,783**	**1,186,841**	**1,105,598**	**1,314,005**
Minority interest	180,331	200,251	258,210	327,761	446,991
Preferred stock					
Common stock	787,373	787,373	787,373	787,373	787,374
Retained earnings	4,285,269	5,355,389	6,072,800	7,051,564	8,161,261
Proposed dividends					
Other equity and reserves	83,603	83,603	83,605	83,606	83,607
Total shareholders' equity	**5,156,245**	**6,226,365**	**6,943,778**	**7,922,543**	**9,032,242**
Total equity & liabilities	**6,519,791**	**7,571,399**	**8,388,829**	**9,355,902**	**10,793,239**
Liquidity (x)					
Current ratio	1.94	1.83	2.07	2.75	2.85
Interest cover	na	na	na	na	na
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	2.9	4.1	7.2	6.8	7.1
Days inventory	50.2	58.7	45.4	43.0	43.4
Days payable	17.5	21.0	18.6	19.0	19.2
Cash cycle	35.5	41.8	33.9	30.7	31.3

Source: Nomura estimates

We believe the company should be more aggressive in utilising its balance sheet, which is currently unleveraged

Other Team Members:

Tushar Mohata (Associate) — All enquiries arising from this note should be directed to Ken Wong.

Analyst Certification

I, Ken Wong, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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As at 31 December 2010.
**The Nomura Group as defined in the Disclaimer section at the end of this report.*

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The rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock. Analysts may also indicate absolute upside to target price defined as (fair value - current price)/current price, subject to limited management discretion. In most cases, the fair value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as discounted cash flow or multiple analysis, etc.

STOCKS

A rating of '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months.
A rating of '**Neutral**', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months.
A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months.
A rating of '**Suspended**', indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.
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SECTORS

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A '**Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months.
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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

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A '**Buy'** recommendation indicates that potential upside is 15% or more.
A '**Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%.
A '**Reduce'** recommendation indicates that potential downside is 5% or more.
A rating of '**Suspended'** indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.
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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008)

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A rating of '2' or '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark by 5% or more but less than 15% over the next six months.
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A '**Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.
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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price)/Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.
A '**Strong buy'** recommendation indicates that upside is more than 20%.
A '**Buy'** recommendation indicates that upside is between 10% and 20%.
A '**Neutral'** recommendation indicates that upside or downside is less than 10%.
A '**Reduce'** recommendation indicates that downside is between 10% and 20%.
A '**Sell'** recommendation indicates that downside is more than 20%.

SECTORS

A '**Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.
A '**Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.
A '**Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Explanation of CNS rating system for Thailand companies under coverage published from 2 March 2009:
Stocks:
Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price) / Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value.

Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

A "Buy" recommendation indicates that potential upside is 15% or more.
A "Neutral" recommendation indicates that potential upside is less than 15% or downside is less than 5%.
A "Reduce" recommendation indicates that potential downside is 5% or more.

Explanation of CNS rating system for Thailand companies under coverage published prior to 28 February 2009:
Stocks:
Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price) / Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value.

Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

A "Strong Buy" recommendation indicates that upside is more than 20%.
A "Buy" recommendation indicates that upside is between 10% and 20%.
A "Neutral" recommendation indicates that upside or downside is less than 10%.
A "Reduce" recommendation indicates that downside is between 10% and 20%.
A "Sell" recommendation indicates that downside is more than 20%.

Sectors: (No change)
A "Bullish" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.
A "Neutral" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.
A "Bearish" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

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