Asia Credit Research

Earnings Review: Golden Agri-Resources Ltd ("GGR")

Recommendation

- GGR's 4Q2018 results were sustained by strong production growth, which helped offset the 29% y/y decline in crude palm oil ("CPO") prices. Interest coverage has declined due to a combination of lower EBITDA generation and higher interest expense though encouragingly, market based net gearing has improved to 0.77x (0.91x as at 30 September 2018).
- Net-net, factoring in capex and other possible cash outflow, we expect 2019 to be a more challenging year for GGR in terms of generating surplus internal liquidity. While GGR's interest cost looks to be rising, we see no issues with accessing refinancing in the next 12 months and are maintaining GGR's issuer profile at Neutral (5).
- Notwithstanding its high yield nature which constricts investor pool, we think the GGRSP 4.75% '21s is trading at overly punitive levels at 579 bps spread. While not in the same industry sector, the Aspial Corp Ltd (Issuer profile: Negative (6)) ASPSP 5.25% '20s is trading at 539bps (matures 5 months earlier than the GGRSP 4.75% '21s). A switch into the GGRSP 4.75% '21s would allow a spread pick up of 40bps.

Issuer Profile: Neutral (5)

Ticker: **GGRSP**

Background

Golden Agri-Resources Ltd ("GGR") is a major palm oil company managing 498,395 ha of palm oil plantations in Indonesia. The company's integrated operations include palm oil cultivation, crude palm oil ("CPO") and palm kernel processing and downstream refining to produce consumer products such as cooking oil, margarine and shortening. The company is ~50.4% owned by the Widjaja family and is listed on the SGX.

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Relative Value:

Bond	Maturity/Call date	Net gearing	Ask Yield to Maturity	Spread
GGRSP 4.75% '21s	25/01/2021	0.77x	7.77%	579bps
ASPSP 5.25% '20s	28/08/2020	2.90x	7.39%	539bps

Indicative prices as at 28 February 2019 Source: Bloomberg
Net debt-to-market value of equity

Key Considerations

- **Strong production growth partly offset the fall in CPO prices:** Revenue for 4Q2018 declined 14.1% y/y to USD1.7bn driven by declines in Plantations and Palm Oil mills as well as Palm and Laurics & Others. In 4Q2018, CPO prices based on Free on Board ("FOB") Price per metric ton ("MT") had declined 29% y/y to USD468 per MT although this was partly offset by the increase in palm product output, which risen 25% y/y to 813,000 MT. In 4Q2018, Fresh Fruit Bunch ("FFB") production yield was 5.9 tonnes/ha, higher versus the 4.9 tonnes/ha in 4Q2017. Palm product yield was 1.6 tonnes/ha, higher than the 1.3 tonnes/ha in the same time last year.

- **Adjusting EBITDA margins of Palm and Laurics & Others downwards:** 4Q2018 revenue for Palm and Laurics & Others was SGD1.6bn, down by 4% y/y versus our proforma number for 4Q2017. From 4Q2018 onwards, GGR no longer splits out the results of Oilseeds and Others (but has lumped this together with Palm and Laurics). GGR reported a large EBITDA at USD120mn for 4Q2018 (representing 65% of full year segmental EBITDA), with EBITDA margin at 7.4% in 4Q2018 (4Q2017: estimated at 2%). In 2018, USD131.5mn in fair value gains for financial assets was recorded and per company ~USD100mn of it was attributable to the Palm and Laurics & Others segment. In our view, the timing of returns (if any) from such financial assets are highly uncertain and we think it is more conservative to take out the fair value gains in assessing profitability at the Palm and Laurics & Others segment. We find adjusted EBITDA margin at 1.2%, in line with 3Q2018's 1.3%. EBITDA was also boosted by contribution from biodiesel and destination sales and removal from export levy as CPO reference price was below USD570 per tonne.

- **Lower interest coverage ratio:** Based on our EBITDA calculation which does not take into account of other income and other expenses, we find EBITDA at

USD107.8mn (down 16.4% y/y) in 4Q2018 while finance expense had increased by 17.2% to USD42.8mn, we think mainly due to higher borrowing costs at GGR as average debt outstanding was relatively flat. Interest coverage as measured by EBITDA/Interest was thus lower at 2.5x in 4Q2018 versus 3.5x in 4Q2017. Apart from the large fair value gains in financial assets (per company larger due to first time recognition under IFRS 9), GGR also took a significantly smaller impairment of USD1.3mn versus USD45.6mn in 4Q2017. In 4Q2017, GGR took impairment on certain of its Chinese assets. This helped boost reported profit before tax to USD109.9mn (4Q2017: USD32.5mn).

- **Market based net gearing manageable:** As at 31 December 2018, optically net gearing was lower at 0.66x (0.76x as at 30 September 2018). This was driven by a 3.4% q/q reduction in gross debt as well as a 9% increase in book value equity. In 4Q2018, GGR raised USD83.4mn in equity at its partly-owned subsidiary Gemini Edibles and Fats India Private Limited ("Gemini"). Nonetheless, we do not factor in credit uplift from this equity infusion as the private equity investor has an option to sell back all shares to Gemini as one of its exit options. The remaining equity boost largely came from comprehensive income (via other fair value and actuarial gains). Taking net debt-to-market value of equity, we find net gearing at 0.77x (30 September 2018: 0.91x).

- **Continues to be reliant on refinancing:** While cash flow from operations (before interest, after tax ("CFO")) figure for 4Q2018 was not provided directly, we infer this to be USD152.9mn with investing outflow at USD61.0mn. There were no further investments into financial assets during the quarter. For full year 2018, despite the 17% y/y lower CPO prices, GGR reported CFO of USD403.3mn. For 2019, the company is expecting single-digit production growth. OCBC Global Treasury Research & Strategy is projecting CPO to face demand pressure in the short term, with prices projected at MYR2,250/MT for 1Q2019 and this to go lower to MYR2,200/MT for 2Q2019. For 2019, GGR is projecting capex of USD250mn for both upstream (eg: replanting purposes) and developing the downstream. Net-net, factoring in capex and other possible cash outflow, we expect 2019 to be a more challenging year for GGR in terms of generating surplus internal liquidity. As at 31 December 2018, short term debt at GGR was USD1.5bn (below levels seen in the past two years). Excluding pledged cash, GGR's cash balance was USD158.7mn as at 31 December 2018. Short term debt includes a MYR375mn (~USD92mn) in bonds due in August 2019 which the company would seek to refinance at a later stage. GGR continues to be reliant on refinancing markets being opened. We think GGR is still able to access the MYR bond market, albeit cost could be a consideration.

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Explanation of Issuer Profile Rating ("IPR") / Issuer Profile Score ("IPS")

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings ("IPR") into a 7 point Issuer Profile Score ("IPS") scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold financial interests in the above-mentioned issuer or company as at the time of the publication of this report.

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