Issuer Profile:

Neutral (5)

Negative (6)

Ticker:

GGRSP

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Golden Agri-Resources Ltd ("GGR")

Recommendation

- **In our view, GGR's SGD-bond represents a more permanent part of its capital structure and as such rather than being paid down, it is likelier that GGR would try and refinance the bond.**
- **GGR is able to generate operating cash flow and in our view able to cover its current fixed payments. However, as the company faces significant capex needs including replanting requirements, this may limit the amount of additional amortising term loan it can raise.**
- **Despite a challenged 1Q2020, reported revenue and EBITDA improved q/q in 2Q2020 by 5% and 24% respectively. 1H2020 EBITDA (based on our calculation which does not include other income and other expenses) was USD178.6mn, leading to an EBITDA/Interest coverage of 2.5x (1H2019: 2.1x).**
- **Unadjusted net gearing was somewhat higher at 0.68x as at 30 June 2020, though GGR also has other significant "debt-like" items. Adding these "debt-like" items as debt, we find adjusted net gearing at 0.84x based of book value equity, 2.7x based off market value of equity and gross debt-to-EBITDA at 10.8x, higher than its agribusiness peers.**
- **We are lowering GGRSP's issuer profile to Negative (6) from Neutral (5) in view of a tighter financing condition for trade financing reliant companies, and no longer fits our criteria of a Neutral (5) issuer profile.**
- **Bond Recommendation: While market liquidity of the GGRSP 4.75% '21s is low, the bond's indicative cash price is at 96.8 with only 4.5 months to maturity. We are Overweight the bond, which could be attractive for investors with a large diversified portfolio. GGR is reliant on returning to the high yield bond market for the refinancing of the bond. The company remains able to cover its interest expense sufficiently and is a significant palm oil company in a rising palm oil price environment which suggest market access is available.**

Relative Value:

Bond	Maturity / Call date	Unadjusted net gearing	Ask YTM/YTC	Spread	Recommen-dation
GGRSP 4.75% '21s	25/01/2021	0.68x	13.89%	1,369bps	OW
OHLSP 5.7% '22s	31/01/2022	2.48x	8.84%	858bps	N

Indicative prices as at 11 September 2020 Source: Bloomberg
Unadjusted net gearing based on latest available financials

Background

- Golden Agri-Resources Ltd ("GGR") is a major palm oil company, managing 499,563 ha of palm oil plantations in Indonesia as at 30 June 2020. The company's integrated operations include palm oil cultivation, crude palm oil ("CPO") and palm kernel processing and downstream refining to produce consumer products and biodiesel. GGR owns ~92%-stake in PT Sinar Mas Agro Resources and Technology Tbk, which contributed ~52% of GGR's total revenue in 1H2020.
- GGR is ~50.5%-owned by the Widjaja family and is listed on the SGX with a market cap of SGD1.8bn as at 11 September 2020.
- While palm oil as a sector continues to face sustainability challenges (e.g.: Europe biofuel ban), it is a high yielding oilseed that is unlikely to lose its usage in the long term. GGR is part of the FTSE4Good index (inclusion since 2018), an index that takes into account of environmental, social and governance factors. GGR is a member of the Roundtable on Sustainable Palm Oil ("RSPO").
- GGR is incorporated in Mauritius while the bonds are issued by Golden Assets International Investment Pte Ltd, unconditionally and irrevocably guaranteed by GGR.

Key Considerations

- **1H2020 results dragged by foreign exchange losses:** In 1H2020, revenue was up by 7.1% y/y in 1H2020 to USD3.4bn while reported EBITDA was down 4.4% y/y to USD189.2mn. Reported

EBITDA was down on account of declines at the Palm and laurics and others segment (down 42.1% y/y) to USD58.2mn, with sales volume negatively affected by COVID-19 related lockdowns. The upstream Plantations and Palm Oil Mills segment saw EBITDA increase 36.2% y/y to USD131.7mn, mainly from higher CPO prices with CPO Free on Board ("FOB") prices increasing 24% y/y to USD616/MT despite lower plantation output. While the full set of 1Q2020 financials was not provided, GGR shared that 2Q2020 revenue was 5.0% higher q/q while reported EBITDA was 24% higher q/q. However, factoring in depreciation and amortisation expense (albeit non-cash), 1H2020 reported operating profit was thin at USD11.7mn (1H2019: USD21.1mn) while GGR reported a large foreign exchange loss of USD48.3mn (per company driven by unrealised translation loss and fair value loss on forward foreign currency contracts), resulting in loss to owners of USD156.9mn in 1H2020 (1H2019: loss to owners of USD46.4mn).

- **Support for biodiesel still strong though export levy may increase:** Biodiesel continues to be a growth driver for GGR revenues. In 1H2020, the sustainability of the B30 biodiesel program was being questioned, despite broad policy directive towards the use of biodiesel being unchanged. This was driven by the sharp fall in crude oil prices, which made regular diesel much cheaper versus biodiesel, without government subsidizing the cost of biodiesel. An export levy of USD55 per tonne was imposed in end-May 2020 although changes could be made on the palm oil export levy rules to allow higher collection when palm oil prices increase. In August 2020, state-owned oil and gas corporation Pertamina has been asked to restart its B40 biodiesel plan (fuel blend with 40% of bio-content).

- **EBITDA/Interest coverage ratio in line with previous year:** 1H2020 EBITDA (based on our calculation which does not include other income and other expenses) was USD178.6mn, leading to an EBITDA/Interest coverage of 2.5x (1H2019: 2.1x) while the company's reported EBITDA for 1H2020 was USD189.2mn. Although the full set of results was not provided for 1Q2020, it was shared that 1Q2020 reported EBITDA was USD84mn, implying a higher 2Q2020 reported EBITDA of USD105.2mn. Assuming interest expense was distributed equally across both quarters, we find 2Q2020 reported EBITDA/Interest of 3.0x. We estimate GGR's effective interest rates to be at ~4.5% in 1H2020.

- **Capex though may rise from replanting:** Despite the relatively steady EBITDA generation, GGR's capex needs are relatively heavy, especially as the company is likely to intensify replanting. In 1H2020, GGR replanted ~9,900 ha. Assuming the same level of replanting in 2H2020 and a cost of replanting of IDR50-60mn per ha (~USD3,374-USD4,049 per ha), this means a replanting cost of USD40mn in 2H2020 if we take the higher end. As at 30 June 2020, 73,744 ha have come due for replanting (~USD298.6mn) while another 144,274 ha would also successively need to be replanted (~USD584.2mn) over time. In 1H2020, the company spent USD122.2mn of investing outflows, including USD25.8mn on financial assets (interests in a private equity fund that owns plantation in Liberia in West Africa, tech investments and other financial assets including convertible debt and equity securities). Investing outflows towards these competing cash outflow items had narrowed from USD81.7mn in 1H2019.

- **Highly geared though in line with historical levels:** GGR's gearing level is high in our view although in line with its own historical levels. As at 30 June 2020, unadjusted net gearing (taking only unpledged cash and including lease liabilities) at GGR was 0.68x, somewhat higher than the 0.65x as at 31 December 2019. Additionally, there are items at GGR which are debt-like in our view including long term payables (post-employment benefits liability and a liability on a put option in relation to Gemini Edibles & Fats India Private Limited) and corporate guarantees to financial intuitions on borrowings of its joint ventures (and entities owned by investees and joint ventures) amounting to USD692.1mn using end-2019 numbers. Assuming these items as debt, we find the market implied net gearing at 2.7x. We think this is a better reflection of GGR's equity buffer with GGR's market equity value staying stable since April 2020. Gross debt (including lease liabilities but not including other "debt-like" items)-to-EBITDA was 8.8x. This however increases upwards to 10.8x if we include the other "debt-like" items into gross debt. While there are other agribusinesses which are also highly geared, the inclusion of other "debt-like" items would firmly place GGR as one of the highest geared issuers within its industry sector.

- **Preliminary asset coverage analysis:** Assets that are pledged to banks include time deposits, trade receivables, inventories, property, plant and equipment, biological assets and bearer plants. In end-2019, USD1.6bn of these assets which we take as more marketable, has been pledged. We assume the pledged amount had stayed constant at USD1.6bn through 30 June 2020. These more marketable assets have a book value of USD5.0bn as at 30 June 2020. Secured debt as a percentage of these assets is 41%. We also find gross debt (including lease liabilities and other "debt-like" items) as a percentage of such assets high at 76% (31 December 2019: 71%), which suggest that while there exist unpledged assets that can be pledged to raise secured debt, there may be a limitation as to how much additional absolute debt levels GGR can take on based on the strength of its assets. We do not take in to account the financial assets given the high level of uncertainty with valuation.

- **Refinancing looming:** In our view, GGR's SGD-bond represents a more permanent part of its capital structure and as such rather than being paid down, it is likelier that GGR would try and refinance the bond. Since our last credit update on the company dated 8 June 2020, the financing market for commodity traders have become tighter, with banks who historically lend to this sector exiting the business. However, GGR is an integrated player rather than a pure play commodity trading company which should put it in a better stead in our view. As at 30 June 2020, GGR faced USD2.0bn in short term debt, representing 63% of its gross debt (with lease liabilities but not including other "debt-like" items). This is higher than the 59% as at end-2019. In June 2020 we had estimated working capital-related debt at USD905mn-USD1bn, however that number only took into account standard working capital items. Per company, their actual working capital related debt is closer to ~USD1.6bn when factoring in items contained in other current assets (eg: deposits and advances to suppliers, prepaid expenses) and other current liabilities. As working capital related debt tends to get rolled-over, this means GGR may be facing ~USD400mn that still needs to be refinanced. As at 30 June 2020, its unpledged cash balance was USD278.2mn. Short term investments were USD532.5mn, though this is unlikely to be as liquid given they are predominantly in the form of equity, debt and convertible debt securities.

- **Highly dependent on high yield bond markets opening:** Per GGR, the company has unutilized facilities available. However, as a working capital heavy business, we expect the unutilized facilities to be trade in nature and in our view these may not be all fungible into covering all of its short term debt due, including the SGD-denominated GGRSP 4.75% '21s. In the past two years, EBITDA was stronger at USD447.5mn in 2019 and USD432.0mn in 2018 respectively though in 1H2020 GGR only generated USD178.6mn in EBITDA. While 1H2020 was negatively affected by COVID-19, GGR had some periods where half-yearly EBITDA was lower than USD200mn, as such we take the conservative number of USD178.6mn for this assessment. Additionally, in 1H2020, GGR's interest expense was USD70.3mn while income tax expense was USD38.5mn. This means that GGR has ~USD70mn leftover for capex and other purposes. Out of the USD400mn that still needs to be refinanced in the short term, ~USD115mn is in the form of a bullet bond and we assume that the remaining ~USD285mn are in the form of term loans provided by banks. Assuming a five-year term loan structure with equal amortisation, this would mean a pre-existing debt repayment amount of USD29mn every half year. Ceteris paribus, we think that the remaining cash flow left after debt repayment suggest that it will be challenging for GGR to assume a new five year amortizing term loan while simultaneously fund its replanting at the current run rate in our view. Net-net, we think GGR would need the high yield market to be opened for refinancing.

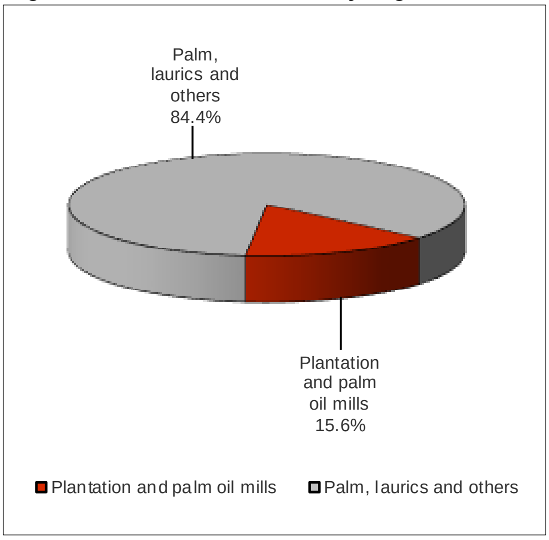
Golden Agri-Resources Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2018	FY2019	1H2020
Income Statement (USD'mn)	**USD'mn**	**USD'mn**	**USD'mn**
Revenue	7,167.4	6,431.8	3,390.6
EBITDA	432.0	447.5	178.6
EBIT	148.0	135.7	11.7
Gross interest expense	163.9	166.5	70.3
Profit Before Tax	85.6	260.2	-107.9
Net profit	1.9	213.1	-146.5
Balance Sheet (USD'mn)			
Cash and bank deposits	192.8	209.6	299.9
Total assets	8,545.6	8,779.3	8,481.9
Short term debt	1,500.9	1,870.8	1,995.5
Gross debt	3,010.1	3,143.8	3,157.2
Net debt	2,817.3	2,934.2	2,857.2
Shareholders' equity	4,310.1	4,505.4	4,233.9
Cash Flow (USD'mn)			
CFO	403.3	511.9	354.1
Capex	263.9	284.1	81.7
Acquisitions	6.1	0.0	0.0
Disposals	77.1	13.1	3.3
Dividend	11.5	65.7	51.9
Free Cash Flow (FCF)	139.4	227.8	272.4
Key Ratios			
EBITDA margin (%)	6.03	6.96	5.27
Net margin (%)	0.03	3.31	-4.32
Gross debt to EBITDA (x)	6.97	7.02	8.84
Net debt to EBITDA (x)	6.52	6.56	8.00
Gross Debt to Equity (x)	0.70	0.70	0.75
Net Debt to Equity (x)	0.65	0.65	0.67
Gross debt/total assets (x)	0.35	0.36	0.37
Net debt/total assets (x)	0.33	0.33	0.34
Cash/current borrowings (x)	0.13	0.11	0.15
EBITDA/Total Interest (x)	2.64	2.69	2.54

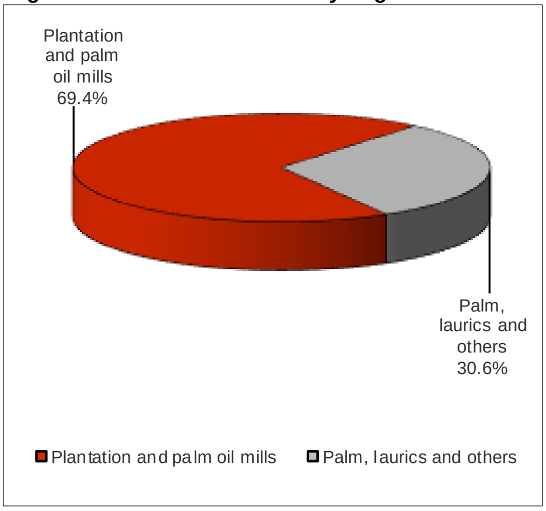
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - 1H2020



*Source: Company | *by origin of sale*

Figure 2: EBITDA breakdown by Segment - 1H2020



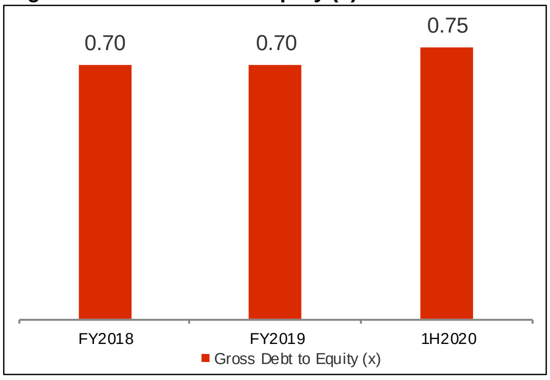
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (USD'mn)	As at 30/06/2020	% of debt
Amount repayable in one year or less, or on demand		
Secured	1,207.8	38.3%
Unsecured	787.8	25.0%
	1,995.5	**63.2%**
Amount repayable after a year		
Secured	866.8	27.5%
Unsecured	294.9	9.3%
	1,161.7	**36.8%**
Total	**3,157.2**	**100.0%**

Source: Company, OCBC estimates | Excludes lease liabilities

Figure 4: Gross Debt to Equity (x)



Source: Company

Explanation of Issuer Profile Rating / Issuer Profile Score

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 into a 7 point Issuer Profile Score scale.

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

Please note that Bond Recommendations are dependent on a bond's price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer's credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

Explanation of Bond Recommendation

Overweight ("OW") – The bond represents **better relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Neutral ("N") – The bond represents **fair relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Underweight ("UW") – The bond represents **weaker relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

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.

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