

# DSN Group

Target Price: IDR 950 | BUY

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Current Price: IDR580 Upside potential: 63.8%																					
<b>12M PRICE PERFORMANCE</b>																					
	(IDR) (%) 800 50.0 700 40.0 600 30.0 500 20.0 400 10.0 300 - 200 (10.0) 100 (20.0)																				
Source: Bloomberg																					
<b>STOCK PERFORMANCE</b>																					
	<table border="1"> <thead> <tr> <th></th> <th>YTD</th> <th>1M</th> <th>3M</th> <th>12M</th> </tr> </thead> <tbody> <tr> <td>Absolute</td> <td>-3.3%</td> <td>-4.1%</td> <td>0.0%</td> <td>9.4%</td> </tr> <tr> <td>JCI Return</td> <td>0.5%</td> <td>0.2%</td> <td>3.1%</td> <td>-3.5%</td> </tr> <tr> <td>Relative</td> <td>-3.8%</td> <td>-4.3%</td> <td>-3.1%</td> <td>13.0%</td> </tr> </tbody> </table>		YTD	1M	3M	12M	Absolute	-3.3%	-4.1%	0.0%	9.4%	JCI Return	0.5%	0.2%	3.1%	-3.5%	Relative	-3.8%	-4.3%	-3.1%	13.0%
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Relative	-3.8%	-4.3%	-3.1%	13.0%																	
Source: Bloomberg																					
<b>MARKET DATA</b>																					
12M price range (IDR)	: 476 - 725																				
12M PE range (x)	: 6.1 - 8.2																				
Outstanding shares (mn)	: 10,600																				
Market cap (IDRbn)/(USDmn)	: 6,148 / 402																				
Avg daily turn. (IDRbn/USDmn)	: 35.4 / 2.3																				
Source: Bloomberg																					
<b>SHAREHOLDERS</b>																					
PT Triputra Investindo Arya	: 27.6%																				
PT Krishna Kapital Investama	: 14.6%																				
PT Tri Nur Cakrawala	: 7.4%																				
PT Mitra Aneka Guna	: 6.3%																				
Andrianto Oetomo	: 5.4%																				
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Public	: 33.1%																				
Source: Bloomberg, BCA Sekuritas																					

## BioCNG and Replanting initiatives upgrade operations

**Bio-CNG pilot projects has already been a proven successful story; they will roll out 2nd BioCNG plant; improving ESG**

During a recent visit to the DNSG plantation in Muara Wahau, East Kalimantan, several compelling developments caught our attention. Of particular significance is DNSG's steadfast commitment to bolstering its ESG performance. The Company's key endeavors in this regard encompass the following:

1. **Establishment of On-site Worker Facilities:** DNSG is taking measures to construct on-site bathroom facilities, for its workforce within the plantation premises. The ambitious plan aims to provide a conducive and secure work environment, especially for female employees, by ensuring the availability of proper sanitation facilities, spaced at regular intervals (approximately 3 kilometers apart).
2. **BioCNG for Sustainability:** Our focus during the visit centered on DNSG's BioCNG project, using Palm Oil Mill Effluent (POME), a byproduct of palm oil processing. This pioneering effort, the first of its type in Indonesia, began operating in September 2020 which estimated cost of IDR60 billion which generates 1.2 MW of electricity and produces 280 cubic meters of BioCNG. Claiming to significantly reduce CO<sub>2</sub> emissions, down by 50,000 tons, equivalent to planting 800,000 trees, removing 11,000 cars from roads, or recycling 17,000 tons of waste. Benefits include waste reduction, carbon footprint reduction, renewable energy use, circular economy promotion, environmental compliance, and cost savings. This initiative, replacing conventional diesel with BioCNG, promises to save 2 million liters of diesel annually, totaling IDR 42 billion in cost savings, assuming an industrial biodiesel price of IDR 21,000 per liter.
3. **Expanding with a Second BioCNG Plant:** Building on the success of the first BioCNG project, DNSG is constructing a second plant, set to be operational by 3Q23. This facility will generate 1.7 MW of electricity and yield 570 cubic meters of BioCNG, as well reducing diesel consumption and leading to cost savings of IDR 85.5 million and a 1.3% decrease in Cost of Goods Sold (COGS). Impressively, this expansion only requires a modest capital investment of some IDR100 billion. Buoyed by these accomplishments, DNSG is preparing for further ventures, aiming to establish 4 more BioCNG plants in the near future.

**Replanting is now a key Company focus, to maintain average plantation age below 15 years**

A pivotal aspect of our visit was to observe DNSG's approach to replanting within its operations. Following discussions with management, it was evident to us that the company is resolute in sustaining an average plantation age below 15 years. Consider that the average age of DNSG's plantations currently stands at 13.8 years. To adhere to its age management strategy, DNSG is embarking on an annual replanting initiative covering 1,000-1,500 hectares. This approach will require a capital investment of approximately IDR 60-70 million per hectare over a four-year period. Consequently, the yearly capex allocated for replanting ranges from IDR 15 billion to IDR 25 billion. This is a very important effort to maintain Company CPO quality, for it to be classified as "Superior CPO Grade".

**We tweak our 2023F volume and ASP forecast**

We are adjusting our net profit forecast by +2.1%/-3.3%/27.8%, and our revenue forecast by -3.2%/-6.5%/-3.7% for 2023-2025F, respectively. The greater part of the revision derives from COGS, as it turns out that our previous COGS forecast was too high; next year the fertilizer cost should decline as well as operating efficiency from BioCNG, adding to a full impact. Moreover, we tweaked production volumes: FFB production by -8.3%/-12.5%/12.5%, CPO sales volume +8.3%/-12.5%/-12.5%, as 1H volume recovery starts to decelerate and Company commences replanting, from this year onwards. Meanwhile, we expect better CPO and PKO ASP going forward, since we are now in the middle of 3Q23 and CPO price remains stronger than our expectation. The next 2 quarters will see a lower production, season which should support a higher CPO price, as PKO price starts to recover. Thus, we revise up our forecast for DSNG CPO ASP by 4.2%/5%/8.6%, and PKO ASP by 13.5%/14.3%/18.2% for 2023-2025F, respectively. Our benchmark CPO price forecast is now upgraded by 4.2%/5%/8.6% to MYR3,804/4,200/3,800 per ton for 2023-2025F, respectively.

**Reiterate BUY rating with higher TP of IDR950/sh (prev. IDR650/sh)**

We reaffirm our **BUY** rating for DSNG, with higher TP of IDR950/sh (was IDR650/sh) which implies a 63.8% upside. We use PE method and we peg our PE at 7.6X (previously 9X), and roll over our EPS target to 2024F at IDR124/sh. Rationale for lower PE peg is our expectation of multiple naturally derating (normally commodity stock will have lower PE at the peak of a cycle) when earnings jump next year, driven by relatively high CPO price and lower COGS.

Financial highlights	2021A	2022A	2023F	2024F	2025F
Revenue (IDR mn)	7,124	9,634	9,075	8,947	9,167
Operating profit (IDR mn)	1,293	2,235	1,640	2,315	2,174
EBITDA (IDR mn)	1,900	2,715	2,208	2,973	2,921
Net profit (IDR mn)	727	1,207	793	1,313	1,233
P/E (x)	8.7	5.2	8.0	4.8	5.1
P/B (x)	0.9	0.8	0.7	0.7	0.6
EV/EBITDA (x)	5.9	4.2	5.2	3.5	3.4
Div Yield (%)	2.1	3.4	5.6	3.7	6.1
ROE (%)	10.4	14.8	9.2	13.6	11.7

**Financial summary**

PT DHARMA SATYA NUSANTARA					
Income Statement					
Year-end 31 Dec (IDRbn)	2021A	2022A	2023F	2024F	2025F
<b>Revenue</b>	<b>7,124</b>	<b>9,634</b>	<b>9,075</b>	<b>8,947</b>	<b>9,167</b>
Cost of revenue	5,100	6,516	6,636	5,723	5,994
<b>Gross profit</b>	<b>2,025</b>	<b>3,118</b>	<b>2,440</b>	<b>3,224</b>	<b>3,173</b>
<b>EBIT</b>	<b>1,293</b>	<b>2,235</b>	<b>1,640</b>	<b>2,315</b>	<b>2,174</b>
<b>EBITDA</b>	<b>1,900</b>	<b>2,715</b>	<b>2,208</b>	<b>2,973</b>	<b>2,921</b>
Net interest income	(427)	(562)	(579)	(557)	(516)
Forex gain (loss)	-	-	-	-	-
Other incomes/ (expenses)	99	(62)	-	-	-
<b>Income before Tax</b>	<b>966</b>	<b>1,610</b>	<b>1,061</b>	<b>1,758</b>	<b>1,659</b>
Tax Expenses	(226)	(404)	(268)	(445)	(426)
Minority Interests	12	(0)	(0)	(0)	(0)
<b>Net income</b>	<b>727</b>	<b>1,207</b>	<b>793</b>	<b>1,313</b>	<b>1,233</b>
<b>EPS (Rp)</b>	<b>69</b>	<b>114</b>	<b>75</b>	<b>124</b>	<b>116</b>
<b>DPS (Rp)</b>	<b>12</b>	<b>20</b>	<b>33</b>	<b>22</b>	<b>36</b>
DPR, %	27.4%	29.2%	29.2%	29.2%	29.2%
Balance Sheets					
Year-end 31 Dec (IDRbn)	2021A	2022A	2023F	2024F	2025F
Cash and cash equivalents	422	359	641	1,151	1,766
Account receivables	250	460	434	428	438
Inventories	773	1,291	1,315	1,134	1,188
LT Investments & LT Receivables	5,498	5,333	5,237	5,139	5,046
Fixed assets	5,922	6,679	7,178	7,571	7,902
Other assets	847	1,235	1,243	1,226	1,256
<b>Total assets</b>	<b>13,712</b>	<b>15,357</b>	<b>16,047</b>	<b>16,648</b>	<b>17,594</b>
Short term Liabilities	591	689	688	614	640
Other short term liabilities	354	595	561	553	567
Long term liabilities	5,309	5,447	5,714	5,322	5,368
Other long term liabilities	433	466	439	433	444
<b>Total liabilities</b>	<b>6,687</b>	<b>7,197</b>	<b>7,402</b>	<b>6,922</b>	<b>7,018</b>
Equity	6,900	8,034	8,475	9,557	10,407
Minority Interests	125	126	126	125	125
<b>Total liabilities &amp; equity</b>	<b>13,712</b>	<b>15,357</b>	<b>16,003</b>	<b>16,604</b>	<b>17,550</b>
Cash Flows Statement					
Year-end 31 Dec (IDRbn)	2021A	2022A	2023F	2024F	2025F
Net income	727	1,207	793	1,313	1,233
Depreciations and Amortization	606	479	568	658	747
Change in working capital	(194)	(716)	(71)	116	(44)
<b>Cash flows from operating activities</b>	<b>1,140</b>	<b>969</b>	<b>1,289</b>	<b>2,087</b>	<b>1,935</b>
Capex	(835)	(1,236)	(1,067)	(1,052)	(1,077)
Others	484	138	99	98	93
<b>Cash flows from investing activities</b>	<b>(351)</b>	<b>(1,098)</b>	<b>(967)</b>	<b>(954)</b>	<b>(985)</b>
Dividend Paid	(131)	(212)	(352)	(231)	(383)
Net change in debt	(1,082)	138	268	(393)	47
Others	198	140	(0)	(0)	(0)
<b>Cash flows from financing activities</b>	<b>(1,014)</b>	<b>65</b>	<b>(84)</b>	<b>(624)</b>	<b>(336)</b>
Net increase/(decrease) in cash and cash equivalents	(225)	(63)	238	510	615
Cash and cash equi. at the begin. of the year	692	467	404	641	1,151
<b>Cash and cash equi. at the end of the year</b>	<b>467</b>	<b>404</b>	<b>641</b>	<b>1,151</b>	<b>1,766</b>
Key Ratios					
	2021A	2022A	2023F	2024F	2025F
Gross Margin (%)	28.4	32.4	26.9	36.0	34.6
EBITDA Margin (%)	26.7	28.2	24.3	33.2	31.9
EBIT Margin (%)	18.2	23.2	18.1	25.9	23.7
Pretax margin (%)	13.6	16.7	11.7	19.7	18.1
Net Margin (%)	10.2	12.5	8.7	14.7	13.4
ROAE (%)	10.7	15.2	9.2	14.4	12.2
ROAA (%)	5.3	8.0	9.9	8.0	7.2
Current ratio (x)	2.0	2.3	2.5	3.0	3.4
Acid ratio (x)	1.2	1.3	1.5	2.0	2.5
Gearing (%)	0.8	0.7	0.7	0.5	0.5
Net Gearing (%)	0.7	0.6	0.6	0.4	0.3
AR turnover (days)	13	17	17	17	17
Inventory turnover (days)	55	72	72	72	72
AP turnover (days)	26	28	28	28	28

**Exhibit 1. Forecast Revision**

DSNG IJ Profit and loss statement (IDR bn)	Old			New			Revision		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
<b>Revenue</b>	<b>9,379</b>	<b>9,567</b>	<b>9,516</b>	<b>9,075</b>	<b>8,947</b>	<b>9,167</b>	-3.2	-6.5	-3.7
COGS	6,936	6,223	6,630	6,636	5,723	5,994	-4.3	-8.0	-9.6
<b>Gross profit</b>	<b>2,442</b>	<b>3,343</b>	<b>2,886</b>	<b>2,440</b>	<b>3,224</b>	<b>3,173</b>	-0.1	-3.6	9.9
<b>EBIT</b>	<b>1,621</b>	<b>2,379</b>	<b>1,832</b>	<b>1,640</b>	<b>2,315</b>	<b>2,174</b>	1.2	-2.7	18.7
Other income/(expenses)									
Net interest income/(expense)	582	562	532	579	557	516	-0.4	-1.0	-3.1
Net forex gain/(losses)	-	-	-	-	-	-	0.0	0.0	0.0
Others	-	-	-	-	-	-	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>1,039</b>	<b>1,816</b>	<b>1,300</b>	<b>1,061</b>	<b>1,758</b>	<b>1,659</b>	2.1	-3.2	27.6
<b>Net profit</b>	<b>776</b>	<b>1,357</b>	<b>964</b>	<b>793</b>	<b>1,313</b>	<b>1,233</b>	2.1	-3.3	27.8
<b>Productions Volume :</b>									
Total FFB Processed (ton)	3,073,032	2,835,371	3,157,716	2,818,502	2,479,753	2,762,046	-8.3	-12.5	-12.5
Own FFB Productions (ton)	2,389,678	2,204,866	2,455,531	2,191,748	1,928,327	2,147,847	-8.3	-12.5	-12.5
Other 3rd parties FFB (ton)	683,354	630,505	702,185	626,754	551,426	614,200	-8.3	-12.5	-12.5
CPO (ton)	708,099	653,336	727,612	649,449	571,393	636,440	-8.3	-12.5	-12.5
CPO OER (%)	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	0.0%	0.0%	0.0%
Palm kernel and its derivatives (ton)	165,010	152,249	169,557	151,343	133,153	148,311	-8.3	-12.5	-12.5
<b>Sales Volume :</b>									
CPO (ton)	708,099	653,336	727,612	649,449	571,393	636,440	-8.3	-12.5	-12.5
%CPO Sales realizations	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	0.0%	0.0%	0.0%
Palm kernel and its derivatives (ton)	69,298	63,939	71,208	63,558	55,919	62,285	-8.3	-12.5	-12.5
%Palm kernel and its derivatives Sales realizations	42.0%	42.0%	42.0%	42.0%	42.0%	42.0%	0.0%	0.0%	0.0%
Panel ("000 m3)	93	97	104	93	97	104	0.0	0.0	0.0
Engineered flooring ("000 m2)	726	777	893	726	777	893	0.0	0.0	0.0
MYR -IDR	3,376	3,376	3,376	3,376	3,376	3,376	0.0	0.0	0.0
CPO - Malaysia (MYR/ton)	3,650	4,000	3,500	3,804	4,200	3,800	4.2	5.0	8.6
DSNG CPO ASP (MYR/mn)	3,137	3,438	3,008	3,270	3,610	3,266	4.2	5.0	8.6
DSNG CPO ASP - Realizations(%)	86.0%	86.0%	86.0%	86.0%	86.0%	86.0%			
DSNG PK&PKO Blended ASP (MYR/tn)	2,879	3,155	2,761	3,268	3,608	3,264	13.5	14.3	18.2
ASP Panel (IDR mn/m3)	7.73	8.12	8.52	7.73	8.12	8.52	0.0	0.0	0.0
ASP Engineered flooring (IDR mn/m2)	0.47	0.50	0.53	0.47	0.50	0.53	0.0	0.0	0.0

Sources: Company, BCA Sekuritas

**Exhibit 2. Regional Peer Valuations**

Ticker	Company Name	Price	Mkt Cap (USDmn)	P/E (x)			P/B (x)		
				2022	2023F	2024F	2022	2023F	2024F
<b>Indonesia</b>									
DSNG IJ	Dharma Satya Nusantara Tbk PT	585.0	405	5.0	7.8	4.7	0.7	0.7	0.6
AALI IJ	Astra Agro Lestari Tbk PT	7,700.0	968	8.3	14.2	6.7	0.6	0.7	0.6
LSIP IJ	Perusahaan Perkebunan London Sumatra Indonesia Tbk PT	1,035.0	461	6.6	15.6	9.9	0.6	0.6	0.6
TAPG IJ	Triputra Agro Persada PT	570.0	739	4.2	7.2	9.0	3.6	1.0	0.9
<b>Weighted avg. country</b>			<b>2,573</b>	<b>6.3</b>	<b>11.4</b>	<b>7.6</b>	<b>1.5</b>	<b>0.8</b>	<b>0.7</b>
<b>Singapore</b>									
WIL SP	Wilmar International Ltd	3.6	16,588	8.1	10.8	9.0	0.9	0.8	0.8
GGR SP	Golden Agri-Resources Ltd	0.3	2,380	3.0	5.9	6.3	0.5	0.5	0.4
FR SP	First Resources Ltd	1.5	1,741	5.4	9.0	8.2	1.3	1.3	1.2
BAL SP	Bumitama Agri Ltd	0.6	721	4.2	5.2	5.4	0.9	0.8	0.8
<b>Weighted avg. country</b>			<b>21,430</b>	<b>7.2</b>	<b>9.9</b>	<b>8.5</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>
<b>Malaysia</b>									
IOI MK	IOI Corp Bhd	4.0	5,334	13.8	17.0	17.7	6.9	2.1	2.0
KLK MK	Kuala Lumpur Kepong Bhd	22.7	5,271	10.3	16.3	16.8	5.8	1.7	1.7
FGV MK	FGV Holdings Bhd	1.4	1,101	3.6	12.7	10.4	2.2	0.8	0.8
GENP MK	Genting Plantations Bhd	5.8	1,121	12.2	17.3	16.9	3.2	0.9	0.9
HAPL MK	Hap Seng Plantations Holdings Bhd	2.0	341	7.4	14.0	13.3	1.9	0.8	0.8
SPLB MK	Sarawak Plantation Bhd	2.2	130	6.1	10.3	10.4	3.8	0.8	0.8
TAH MK	Ta Ann Holdings Bhd	3.7	346	5.2	9.0	8.5	6.4	0.9	0.8
UMR MK	United Malacca Bhd	5.2	236	11.0	12.7	19.0	(2.5)	n.a	n.a
<b>Weighted avg. country</b>			<b>13,880</b>	<b>11.1</b>	<b>16.0</b>	<b>16.4</b>	<b>5.5</b>	<b>1.7</b>	<b>1.6</b>
<b>London</b>									
MPE LN	MP Evans Group PLC	712.0	485	7.3	8.8	8.0	1.5	1.0	0.9
<b>Weighted avg. country</b>			<b>485</b>	<b>7.3</b>	<b>8.8</b>	<b>8.0</b>	<b>1.5</b>	<b>1.0</b>	<b>0.9</b>
<b>Belgium</b>									
SIP BB	Sipef NV	53.8	621	6.1	9.1	9.6	(1.4)	0.7	0.7
<b>Weighted avg. country</b>			<b>621</b>	<b>6.1</b>	<b>9.1</b>	<b>9.6</b>	<b>(1.4)</b>	<b>0.7</b>	<b>0.7</b>
<b>Weighted avg. sector</b>			<b>38,990</b>	<b>8.5</b>	<b>12.1</b>	<b>11.3</b>	<b>2.5</b>	<b>1.1</b>	<b>1.1</b>

Sources: Bloomberg, BCA Sekuritas

Exhibit 5. DSNG Replanting in progress; the old palm trees are razed; Mukuna is planted, and new seeds are in nursery



Sources: Bloomberg, BCA Sekuritas

Exhibit 5. DSNG toilets inside the estate, outside employee housing



Sources: Bloomberg, BCA Sekuritas

**A Brief Explanation of POME BioCNG;**

the POME BioCNG process typically involves the following steps:

**Step 1:** Biogas generation; Pome is a mixture of water, Oil, and organic solids from waste of palm oil mills. These are collected and processed in anaerobic digesters, which introduces microorganisms to break down the organic matter into POME. During this process, biogas is produced as a byproduct, primarily composed of methane (CH<sub>4</sub>), and Carbon Dioxide (CO<sub>2</sub>), along with other gases.

**Step 2:** Biogas Upgrading; as the raw Biogas produced from Pome still contains impurities, it is not yet suitable for direct use. Thus, the Biogas upgrading process involves removing CO<sub>2</sub>, Moisture, and other impurities to increase methane content, thereby yielding a gas with quality similar to that of natural gas.

**Step 3:** Compression; the upgraded biogas is now in the form of enriched methane and ready to be compressed under very high pressure to increase the energy density of the gas; it is then bottled as BioCNG into designated tubes for use.

**Exhibit 3. Methane Capture Dome for POME BioCNG**



Sources: Company, BCA Sekuritas

**Exhibit 4. End product of BioCNG**



Sources: Company, BCA Sekuritas

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