BUY | TP : IDR910

Stock Price Data

Last Price	:	IDR725
52wk High	:	IDR920
52wk Low	:	IDR700
Share Out	:	10.9bn
Market Cap	:	IDR7.9tn

Stock Price Performance

1-Day	:	+0.7%
1-Week	:	+1.4%
1-Month	:	-1.4%
3-Month	:	-8.2%
Year-to-Date	:	-20.3%

Shareholders

PT Malibu Indah Lestari (P)	:	36.7%
PT Kedaton Perkasa	:	28.9%
Gani	:	6.3%
Managements	:	11.4%
Public	:	16.7%
Treasury	:	0.0%

Research Analyst
Raka Junico W.
raka.widyaman@mncgroup.com

PT Sumber Tani Agung Resources Tbk (STAA IJ)

Opening New Milestones to Fuel Growth

What makes STAA different from other palm oil companies?

Founded in 1970 by Suwandi Widjaja and headquartered in Medan, North Sumatra, STAA currently has 49.3k ha of planted oil palm area (72% in its prime) with an average plant age of 12.5 years in FY23. This is complemented by 9 oil mills, 1 kernel crushing plant, and 1 solvent extraction plant powered by a biogas power plant (2 MW capacity). STAA stands out among its peers in the palm oil industry due to its unique strategy of maintaining a larger mill capacity than its total planted area. To supplement its own FFB processed, STAA strategically purchases FFB from local farmers. This approach ensures a steady supply of raw material to meet the demands of its mills and maintain production levels.

Back in the driver's seat

In mid-July, NOAA updated the ENSO alert system status to La Nina Watch, indicating ENSO-neutral to continue for the next several months. Furthermore, La Nina is projected to develop in Aug-Oct'24 (70% chance) and continue into Nov'24-Jan'25 (79% chance). This is certainly favorable for higher productivity yields going forward. It is important to note that we anticipate the negative impact of El Nino on FFB yield in FY23 to continue into 2H24 and 1Q25 due to the 1Y lagged effect. With El Nino likely to persist until at least the 1Q25, we anticipate that companies with a younger crop age profile (<14 years) will experience minimal impact, benefiting from greater resilience in yield productivity.

A strategic advantage for sustainable growth

STAA is currently focused on three organic expansion agendas: 1) increasing the capacity of the kernel crushing plant (KCP) plant; 2) adding oil mills in Central Kalimantan; and 3) establishing a midstream refinery and fractionation plant. STAA's strategic diversification of its plantation areas across Sumatra and Kalimantan is expected to mitigate yield volatility for FFB amidst the disruptions caused by El Nino and La Nina. Notably, STAA's age profile is younger than that of its peers in our universe (exhibit 34). As a result, STAA has consistently managed to produce higher FFB yield nucleus compared to its peers, reaching 23.5x in FY23 (exhibit 33). STAA's cash conversion cycle (CCC) is superior compared to its peers at 16.4 days (vs avg. peers of 46.2 days). This efficiency ensures greater liquidity to support the company's operations, particularly in the procurement of external FFB. Additionally, we expect the refinery plant operations to maintain an inventory cycle of less than one week.

FY24E net profit to rise +6.3% YoY, lifted by higher EBIT and lower finance cost

STAA's profitability extended its positive momentum into 1Q24, with net profit experiencing a significant increase of +37.6% YoY to IDR197.6 bn. We project the net profit in FY24E to reach IDR725.1bn or grow by +6.3% YoY. This solid growth is expected to be driven by a combination of factors, including EBIT growth of +3.4% YoY, a significant decline in finance costs (-10.0% YoY), and relatively stable tax rate. Despite the robust increase in net profit for 1Q24, we still project a moderate growth trajectory with the assumption that the ASP for CPO will remain unchanged.

Valuation and Recommendation: BUY with a TP of IDR910/share

We used a blended approach incorporating DCF (70%) and EV/ton (30%). We assigned a greater weight to DCF to account for the company's future performance potential, while EV/ton reflects industry performance. Our DCF assumptions include: 1) risk-free rate of 7.1%; 2) risk premium of 5.3%; 3) WACC of 10.2%; and 4) terminal growth rate of 3.0%. Additionally, we utilized EV/ton to align with the FFB processed predominantly by external sources. We arrive at a **BUY recommendation for STAA with a TP of IDR910/share (indicating a potential upside of 26%),** implying a PE of 13.7x/11.2x and PBV of 1.9x/1.7x for FY24E/FY25F. Albeit STAA trading at a premium compared to peers, this is justified by the company's relatively young plant age profile and its ability to generate high liquidity levels. Downside risks to our call includes: 1) Lower-than-anticipated FFB yield; 2) Reduced absorption of external FFB leading to lower mill utilization; 3) Unfavorable government policies; and 4) Delays in planned new plant expansions.

Key Financial Highlight	FY21	FY22	FY23	FY24E	FY25F
Revenue (IDR Bn)	5,883.9	6,045.4	5,285.2	5,426.5	6,209.3
EBITDA (IDR Bn)	1,983.4	2,029.4	1,369.7	1,431.9	1,704.8
Net Profit (IDR Bn)	1,077.2	1,112.6	681.9	725.1	885.4
ROE (%)	34.8	24.0	14.2	13.9	15.3
PE (x)	7.3	7.1	11.5	10.8	8.9
PBV (x)	2.5	1.7	1.6	1.5	1.4
DER (x)	0.7	0.4	0.3	0.2	0.2
FFB Yield (x)	22.8	23.0	23.1	23.1	23.9

Sources : Company, MNCS

Table of Content

COMPANY PROFILE

STAA at a glance

Sumber Tani Agung Resources Tbk (STAA) is a palm oil company dedicated to cultivating sustainable growth in the industry through a compelling forward-looking story. Founded in 1970 by Suwandi Widjaja and headquartered in Medan, North Sumatra, STAA currently has 49.3k ha of planted oil palm area (72% in its prime) with an average plant age of 12.5 years in FY23. This is complemented by 9 oil mills, 1 kernel crushing plant, and 1 solvent extraction plant powered by a biogas power plant (2 MW capacity) and solar panels. STAA's business operations are spread across 4 provinces, including North Sumatra, South Sumatra, West Kalimantan, and Central Kalimantan. Currently, the company's production output by sales includes crude palm oil (CPO), palm kernel (PK), fresh fruit bunches (FFB), crude palm kernel oil (CPKO), palm kernel expeller (PKE), palm kernel meal (PKM), and pellets. Building on its strong upstream foundation powered by renewable energy from biogas, STAA is embarking on new milestones in the midstream process by establishing Sumber Tani Agung Oils and Fats (STAOF) located in Dumai, Riau.

Exhibit 01. STAA's milestones throughout the years

1970	Establishment of STAA Group in North Sumatra
1975	Establishment of Sumber Tani Agung (STA)
1996	First mill in STA
2003	Acquisition of Sumber Tani Agung Resources (STAR)
2004	Establishment of Karya Agung Sawita (KAS)
2007	Acquisition of Madina Agrolestari (MAL) and new mill in KAS
2009	Expansion to West Kalimantan with acquisition of Putra Makmur Lestari (PML) & Karyasukses Utamaprima (KSUP)
2010	New mill in STAA
2011	Expansion to Central Kalimantan with acquisition of Tantahan Panduhup Asi (TPA)
2013	Acquisition of Paten Alam Lestari (PAL) and Karya Serasi Jaya Abadi (KSJA)
2014	Acquisition of Dipta Agro Lestari (DAL) & new mill in KSJA
2015	Acquisition of Flora Nusa Perdana
2016	New mill in TPA
2017	Additional plantation area in KAS
2018	Expansion to South Sumatera with acquisiton of Transpacific Agro Industry (TPAI) & Sumatera Candi Kencana (SCK) and new mill in KAS
2019	New mill in MAL
2020	Kernel crushing plant in KSJA & Establishment of STA62 Trading Pte. Ltd. (STA62), international trading house in Singapore
2021	Solvent extraction plant in KSJA and new mill in KSUP
2022	IPO & Successfully acquired 2 plantations in South Sumatera
2023	Construction of new mill in FNP and refinery & fractination in Lubuk Gaung

Sources : Company, MNCS

Exhibit 02. STAA's product portfolio

FFB	PK	CPO	CPKO	PKE	PKM
Fresh fruit bunches	Palm kernel	Crude palm oil	Crude palm kernel oil	Palm kernel expeller	Palm kernel meal

Source : Company

Exhibit 03. STAA's board of commissioners

Suwandi Widjaja

President Commissioner

Mr. Suwandi Widjaja is the founder of STAA. He holds a Diploma in Business Management & Administration from Stamford College in Singapore. He served as the President Director from 1994 and became the Chief Commissioner in 2021. He is currently also the President Director of PT Malibu Indah Lestari, a position he has held since 2003. Additionally, he has had a career as a subcontractor for Pertamina and PPTN.

Riswan Wijaya

VP Commissioner

Mr. Riswan Wijaya obtained a Diploma from the Academy of Business in Singapore. He has been with STAA since 1979 and is currently the Vice Chief Commissioner. He has over 40 years of experience in the palm oil industry. Since 2003, he has also served as the President Director of PT Kedaton Perkasa.

Lele Tanjung

Commissioner

Mr. Lele Tanjung has over 40 years of experience in the palm oil and tapioca flour industries. He joined STAA in 2005 and has been serving as a Commissioner.

Tan Keng Tong

Commissioner

Mr. Tan Keng Tong holds a Diploma in Mechanical Engineering from Technical College in Malaysia and a Bachelor of Engineering from the Council of Engineering Institutions in the UK. He joined STAA in 2014 as a plantation advisor and became a Commissioner in 2021. He also has experience with the Citra Borneo Indah Group and Asian Agri.

Rudi Ngadiman

Commissioner

Mr. Rudi Ngadiman holds a Bachelor's degree in Civil Engineering from Tarumanagara University. He has been serving as an Independent Commissioner since 2021. He has experience with Salim Plantation, Sinar Mas, and the Sinar Jaya Agro Investama Group.

Robby Sumargo

Commissioner

Mr. Robby Sumargo earned a Bachelor's degree from the University of Fullerton in the USA and a Master's degree from Woodbury University in the USA. He has served as an Independent Commissioner since 2021. He also has experience as a Manager at KPMG, a Partner at Grant Thornton, and a Managing Partner at Kreston. He holds certifications including Brevet C, IAI, IAPI, and ACPACC.

Sources : Company, MNCS

Exhibit 04. STAA's board of directors

Mosfly Ang

CEO

Mr. Mosfly Ang holds a Diploma in Computer Science from the Sumatera Utara Business Institute and a Bachelor's degree in Accounting from the Universitas Sumatera Utara. He joined STAA as a Finance Controller in 1999 and became the CEO in 2021. He also has experience as a Senior Auditor at Prasetio, Utomo & Co. Public Accounting Firm.

Lim Chi Yin

CFO

Mr. Lim Chi Yin earned a Bachelor's degree in Economics and Accounting from the University of Hull, UK. He joined STAA as a CFO in 2021. He also has experience as an Auditor at Ernst & Young London-Singapore and prominent plantation companies such as Eagle High Plantations Tbk and Asian Agri Group.

Go Kok Siang

COO

Mr. Go Kok Siang holds a Bachelor's degree in Industrial Engineering Management from ISTP Sumatera Utara. He joined STAA in 2003 as an Assistant of Traction. He also served as the VP of Engineering at STAA since 2018. In 2021, he was appointed as a COO.

Nharong Somchit

COO

Mr. Nharong Somchit holds a Bachelor of Agriculture Science from the University of Malaysia and a Bachelor of Science in Agronomy and Crop Science from Victoria Institution, Kuala Lumpur. He joined STAA in 2023 as a COO. He previously had a career at Wilmar International and Cargill.

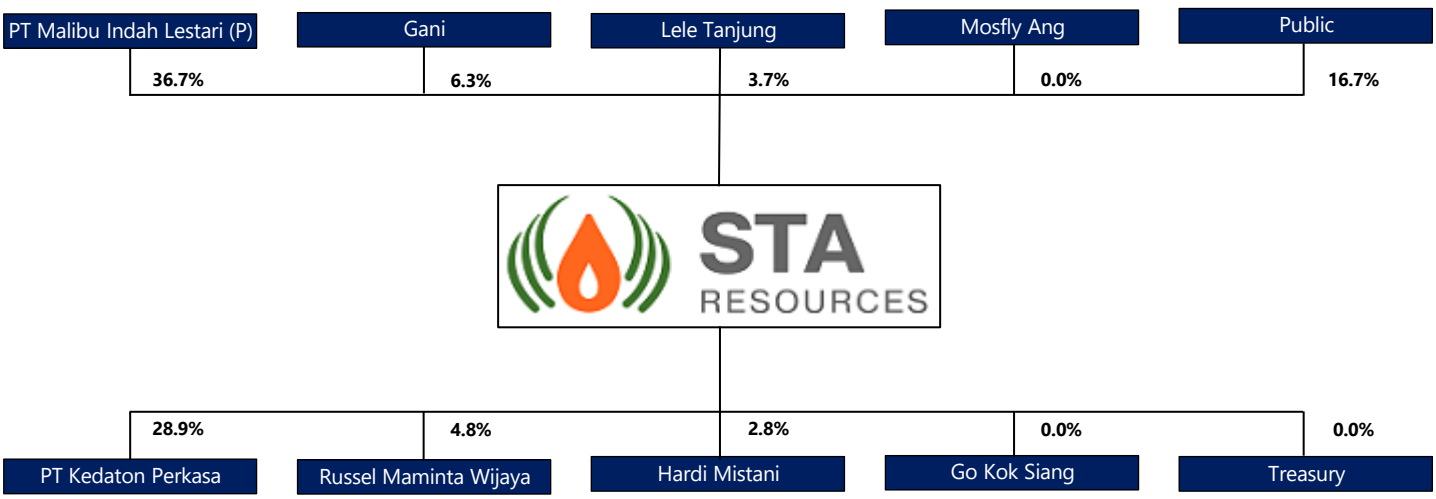
Bie Jan Jusri

CCO

Mrs. Bie Jan Jusri holds a Bachelor's degree in English Literature from Universitas Methodist, Sumatera Utara. She joined STAA in 1994 as the Secretary to the President Director. She also served as the VP of Procurement and Marketing at STAA since 2009. In 2021, she was appointed as a CCO.

Sources : Company, MNCS

Exhibit 05. STAA's shareholder composition



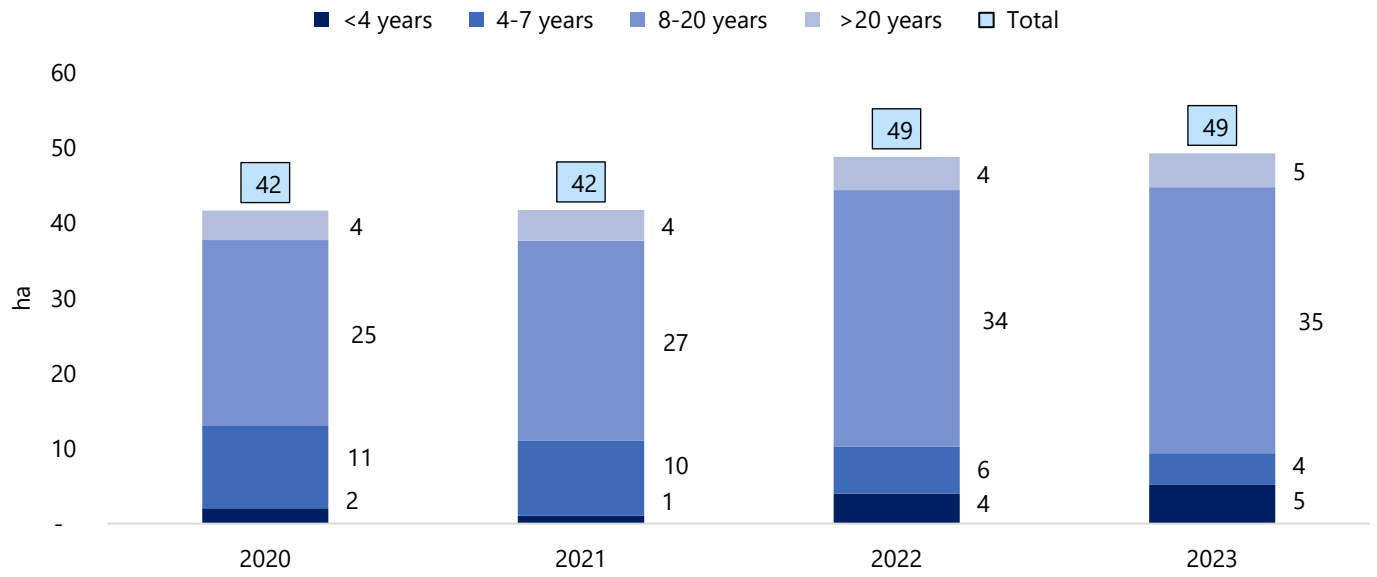
Sources : Company, MNCS

BUSINESS MODEL

Relatively Young Crop Age Profile...

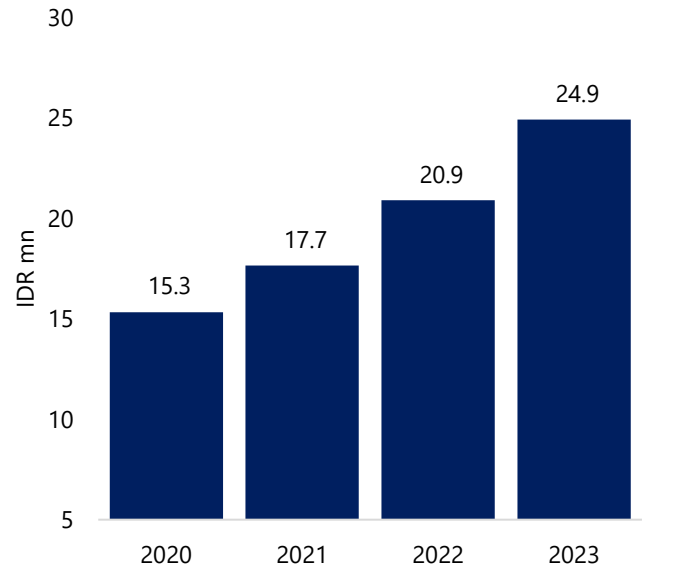
STAA had a total of 44.1k ha of mature area and 5.2k ha of immature in FY23, translating into a total planted area of 49.3k ha. Nucleus plantations cover an area of 44.1k ha, while plasma area is 5.2k ha. About 68% of the land area is located in Sumatra, while the remaining 32% is in Kalimantan. We believe that the dominance of plantation land in Sumatra can reduce exposure to fertilizer needs. In terms of age profile, nucleus plantations have an average plant age of 12.8 years, while plasma at 10.1 years, resulting in an average total plant age of 12.5 years in FY23. Cash cost in FY23 accumulated to IDR24.9 mn/ha, or went up +19.2% YoY. This in line with the acquisition of 6k ha of land in FY22. Going forward, we expect cash cost per ha to stabilize as fertilizer prices moderate (-60% from its peak in FY22 to USD490-570/ton) driven by subdued energy prices.

Exhibit 06. 72% of the plantations are in their prime age



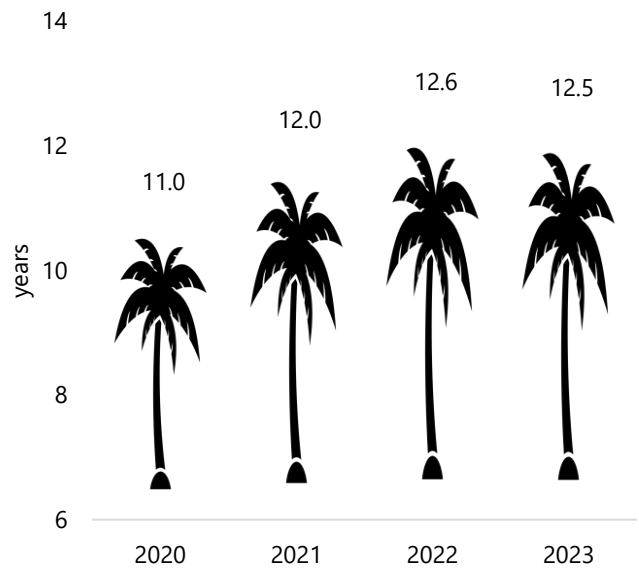
Sources : Company, MNCS

Exhibit 07. Cash cost per ha went up by +19.2% YoY in FY23



Sources : Company, MNCS

Exhibit 08. The avg. age of the planted area was 12.5 years in FY23

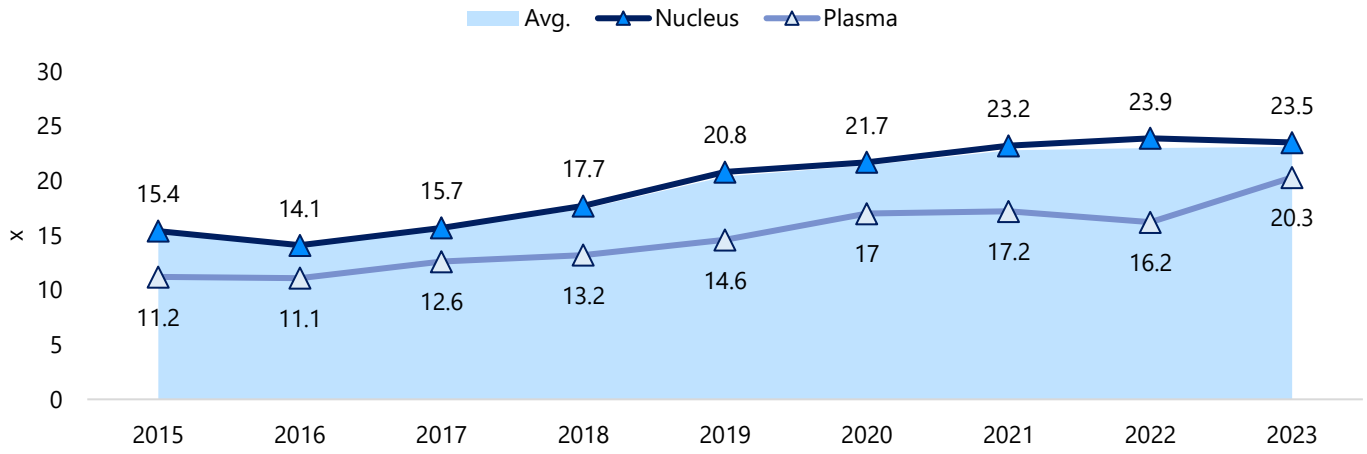


Sources : Company, MNCS

...Translates into Higher FFB Yield

In FY23, FFB yield for nucleus was 23.5 ton/ha, while plasma reached 20.3 ton/ha, resulting in a total average FFB yield of 23.1 ton/ha. We note that this figure represented an improvement compared to FY19 of 20.4 ton/ha, in line with the growth of prime land area (8-20 years) at a CAGR FY18-23 +10%. Over the past 10 years, the average addition of nucleus land has reached 1.2k ha/year, while plasma land has reached 250 ha/year. Management has stated that it continues to monitor opportunities for selective inorganic land expansion to maintain cash cost levels and reflect synergy value with existing upstream facilities.

Exhibit 09. The avg. FFB yield continued to rise, reaching 23.5x in FY23

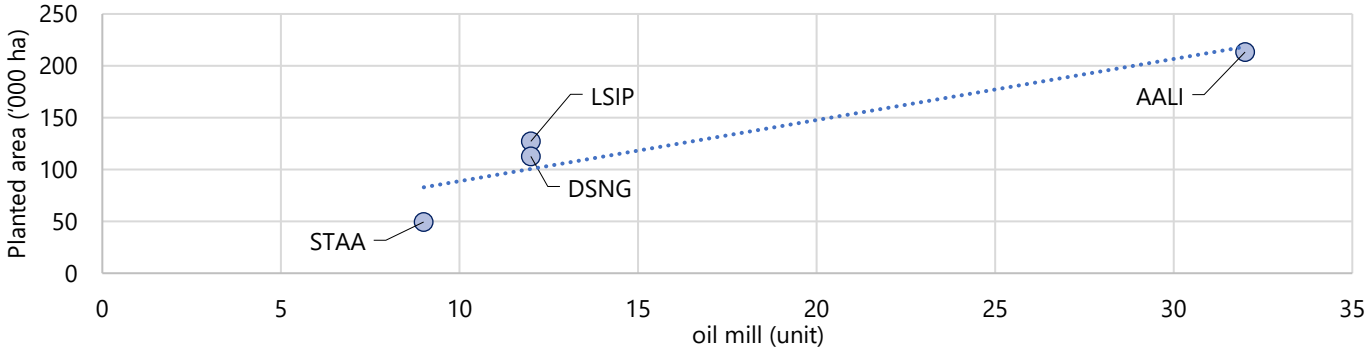


Sources : Company, MNCS

A larger mill vs planted area

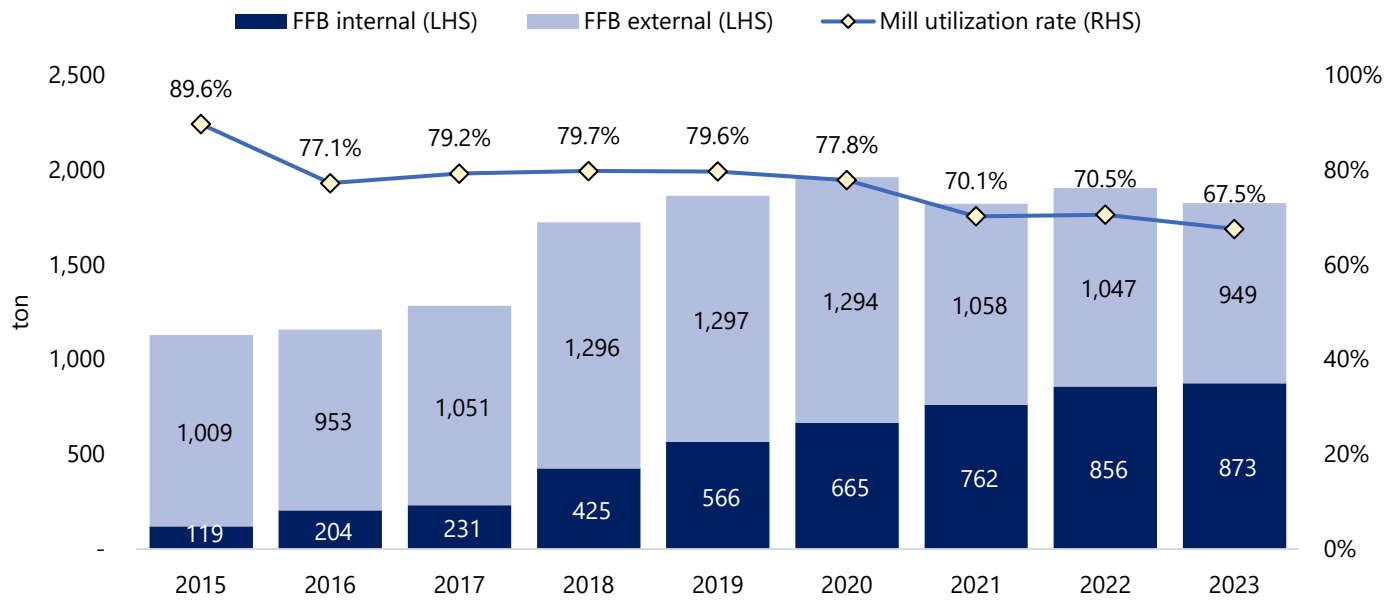
What makes STAA different from other palm oil companies is due to its unique strategy of maintaining a larger mill capacity than its total planted area. STAA has a total planted area of 49.3k ha, with 9 oil mills (450 MT/hour). In comparison, other plantation companies in our universe, such as DSNG, have a total planted area of 112.7k ha with 12 oil mills (675 MT/hour); AALI has a total planted area of 213.2k ha with 32 oil mills (1,570 MT/hour); and LSIP has a total planted area of 127.2k ha with 12 oil mills. To supplement its own FFB processed, STAA strategically purchases FFB from local farmers. This approach secures a steady supply of raw material to meet the demands of its mills and maintain production levels. Despite relying on external FFB, STAA maintains strict quality control standards to ensure that the purchased FFB meets its requirements and contributes to optimal extraction rates.

Exhibit 10. STAA's oil mills and planted area vs its peers



Sources : Companies, MNCS

Exhibit 11. Internal FFB absorption continues to increase in line with the expanding planted area

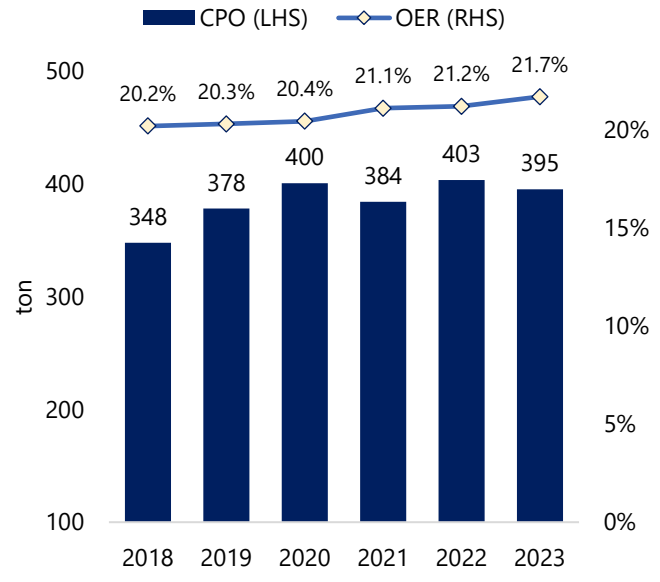


Sources : Company, MNCS

A Sufficient Extraction Rate, with OER at 21.7% and KER 4.8%

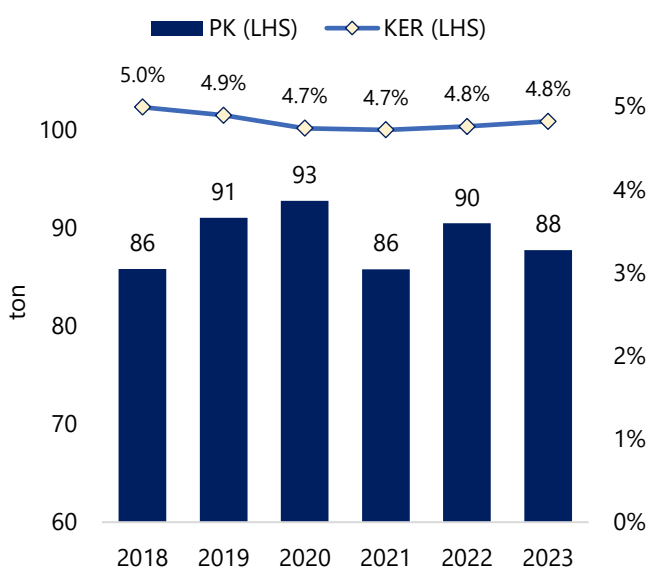
In FY23, FFB processed was recorded at 1.8 mn tons, with 48% of FFB needs met internally and 52% from external sources. Notably, internal FFB fulfillment has continued to increase from 30% at FY19. Furthermore, STAA's exclusivity in sourcing external FFB gives it an advantage in balancing CPO price volatility. Additionally, management has stated that freight costs for external FFB are borne by the supplier. On the flip side, the average mill utilization rate in FY23 was 67%, down from 70% in FY22, mainly due to lower yields in Sumatra given El-Nino. Going forward, we anticipate a recovery in the utilization rate bolster by La-Nina, which is favorable for yields. STAA has a competitive and efficient extraction rate, in line with the advantage of its plant age profile (12.5 years). OER for FY23 was recorded at 21.7%, while KER was 4.8%. For further downstream products, the extraction rate for CPKO reached 41%, PKE 55%, and PKM 88%.

Exhibit 12. CPO production was recorded at 395k tons, with an OER hovering at 21.7% in FY23



Sources : Company, MNCS

Exhibit 13. PK production accumulated to 88k tons in FY23, with a stable KER of 4.8%



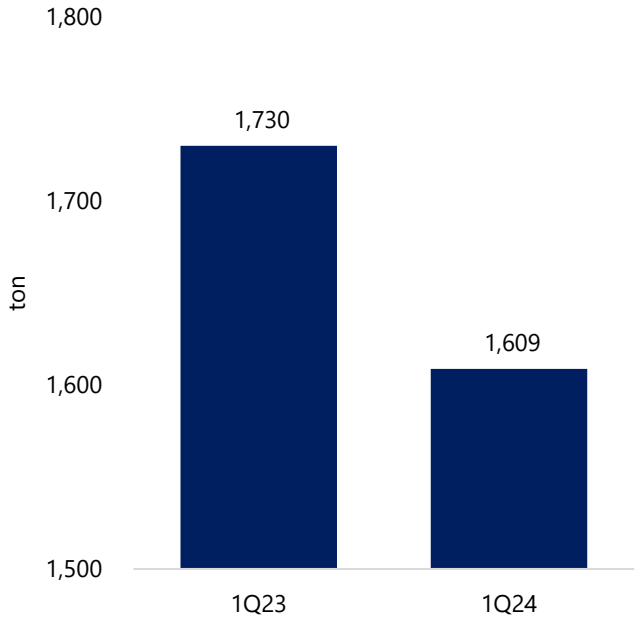
Sources : Company, MNCS

INDUSTRY OVERVIEW

El Nino Fades, La Nina Develops; Anticipating Higher Productivity

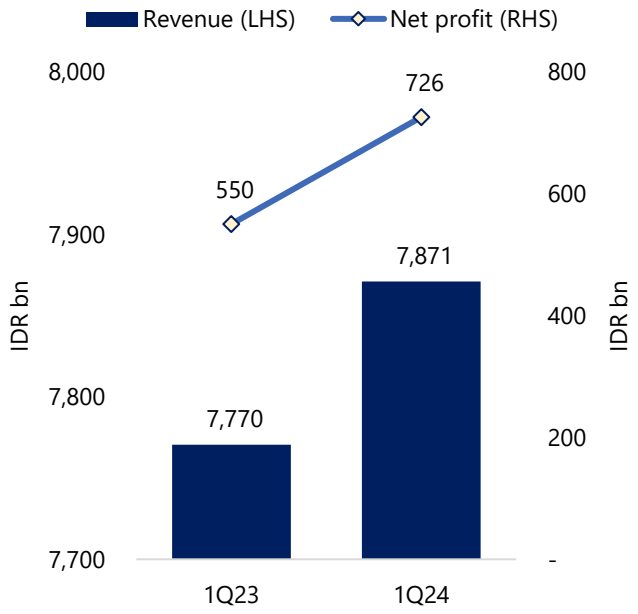
In mid-July, NOAA updated the ENSO alert system status to La Nina Watch, indicating ENSO-neutral to continue for the next several months. Furthermore, La Nina is projected to develop in Aug-Oct'24 (70% chance) and continue into Nov'24-Jan'25 (79% chance). This is certainly favorable for higher productivity yields going forward. It is important to note that we anticipate the negative impact of El Nino on FFB yield in FY23 to continue into 2H24 and 1Q25 due to the 1Y lagged effect. We noted that the aggregate FFB production in our plantation universe (AALI, LSIP, and DSNG) slipped by -7.0% YoY in 1Q24. However, the aggregate 1Q24 revenue remained relatively flat at +1.3% YoY, while net profit increased by +31.9% YoY. This positive performance was offset by higher ASPs and lower raw material costs, including fertilizer.

Exhibit 14. Total FFB production of plantation companies within our universe decreased by -7.0% YoY in 1Q24



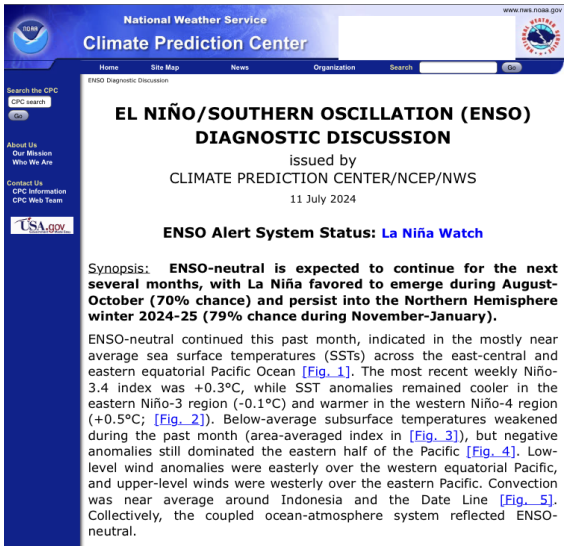
Sources : Companies, MNCS

Exhibit 15. Interestingly, aggregate revenue and net profit increased in 1Q24, mainly driven by higher ASP and lower fertilizer prices



Sources : Companies, MNCS

Exhibit 16. NOAA estimates that La Nina will begin to develop in July



National Weather Service
Climate Prediction Center

EL NIÑO/SOUTHERN OSCILLATION (ENSO) DIAGNOSTIC DISCUSSION

issued by
CLIMATE PREDICTION CENTER/NCEP/NWS
11 July 2024

ENSO Alert System Status: La Niña Watch

Synopsis: **ENSO-neutral is expected to continue for the next several months, with La Niña favored to emerge during August-October (70% chance) and persist into the Northern Hemisphere winter 2024-25 (79% chance during November-January).**

ENSO-neutral continued this past month, indicated in the mostly near average sea surface temperatures (SSTs) across the east-central and eastern equatorial Pacific Ocean [Fig. 1]. The most recent weekly Niño-3.4 index was +0.3°C, while SST anomalies remained cooler in the eastern Niño-3 region (-0.1°C) and warmer in the western Niño-4 region (+0.5°C; [Fig. 2]). Below-average subsurface temperatures weakened during the past month (area-averaged index in [Fig. 3]), but negative anomalies still dominated the eastern half of the Pacific [Fig. 4]. Low-level wind anomalies were easterly over the western equatorial Pacific, and upper-level winds were westerly over the eastern Pacific. Convection was near average around Indonesia and the Date Line [Fig. 5]. Collectively, the coupled ocean-atmosphere system reflected ENSO-neutral.

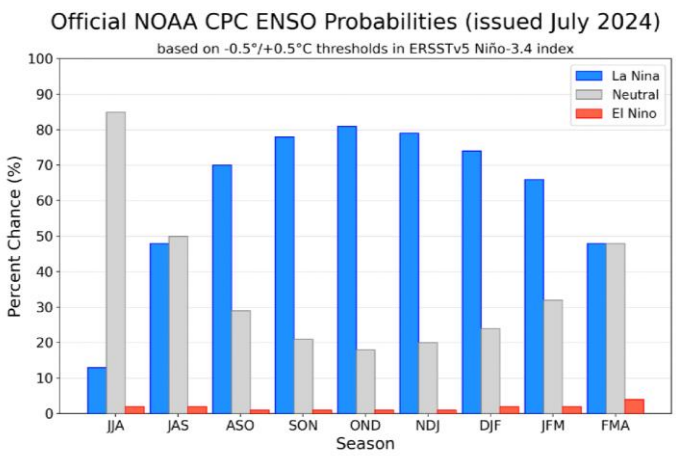


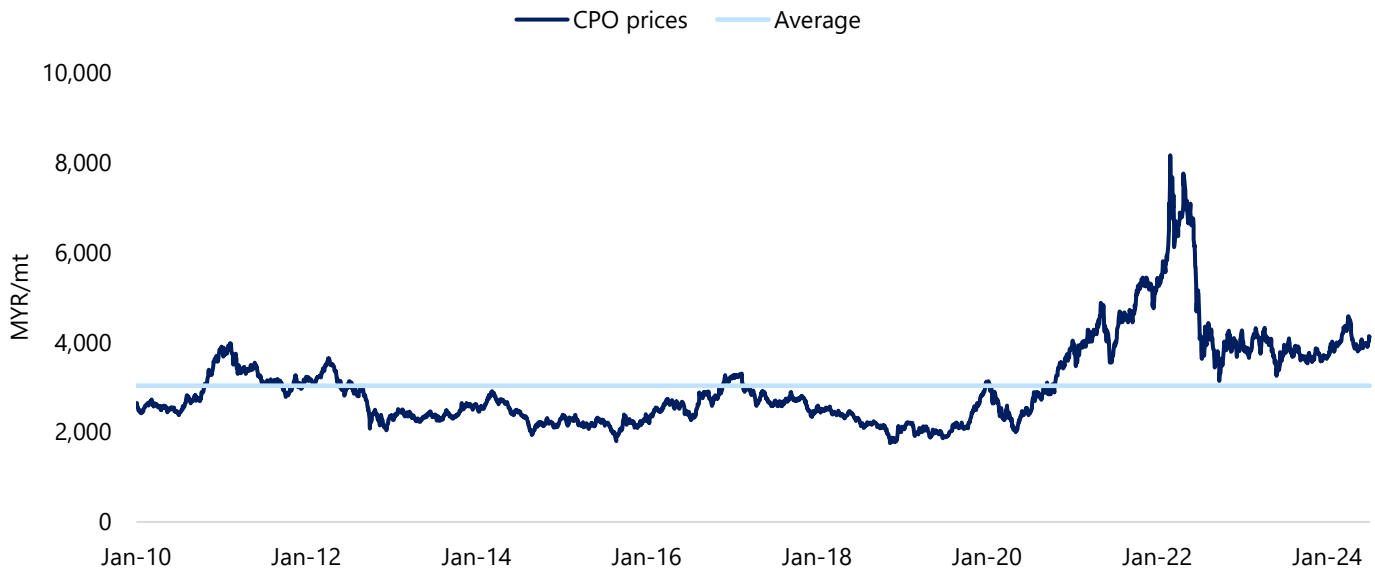
Figure 7. Official ENSO probabilities for the Niño 3.4 sea surface temperature index (5°N-5°S, 120°W-170°W). Figure updated 11 July 2024.

Source : NOAA

Expect Solid CPO Prices Supported by Food and Non-Food Demand

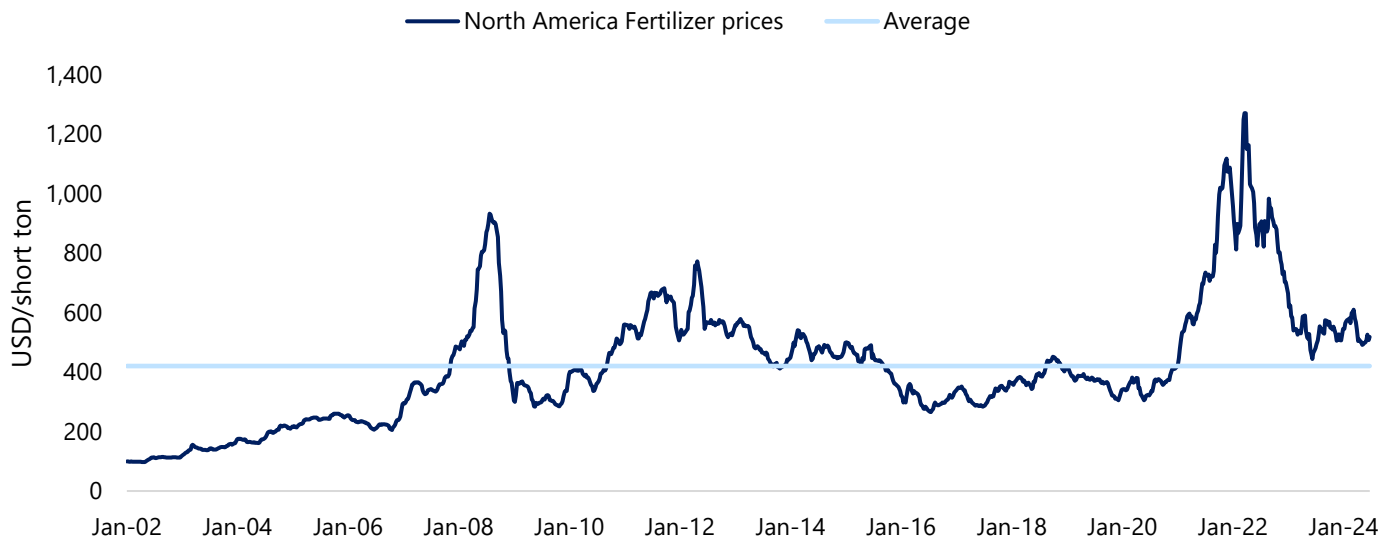
With El Nino likely to persist until at least the 1Q25, we anticipate that companies with a younger crop age profile (<14 years) will experience minimal impact, benefiting from greater resilience in yield productivity. We expect a bounce back in yield productivity in 2Q25, primarily driven by the La Nina effect. On the other hand, CPO prices have remained at MYR3,900-4,150/ton after the windfall in FY21, higher than the MYR2,150-3,050/ton average for FY10-20. We believe that price levels will remain high and are reluctant to fall below MYR2,250/ton due to strong demand, especially for food and non-food related needs (B20 and B30).

Exhibit 17. We assess that CPO prices will remain stable within the range of MYR3,900-4,150/ton in the coming years



Sources : Bloomberg, MNCS

Exhibit 18. We expect fertilizer prices to continue moderating in the future



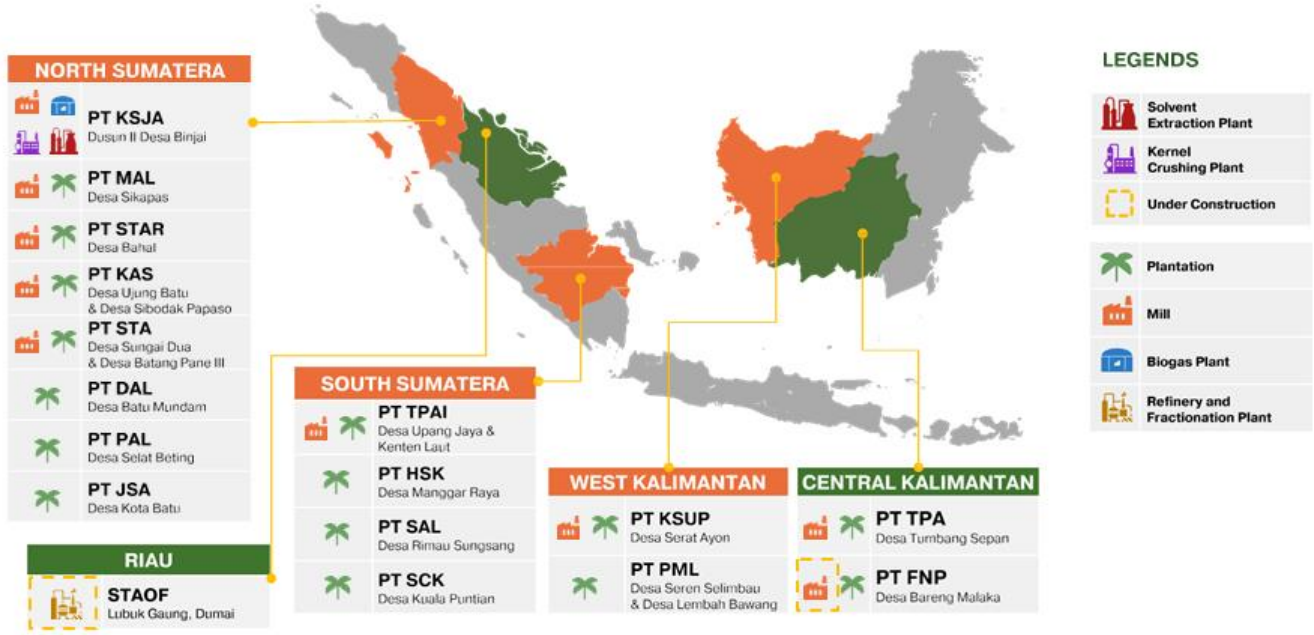
Sources : Bloomberg, MNCS

SITE VISIT NOTES

KSJA, an Integrated Palm Oil Mill

We had the opportunity to visit the Karya Serasi Jaya Abadi (KSJA) plant, a subsidiary of STAA Group, in Serdang Berdagai, North Sumatra. The KSJA plant has an area of 5k ha with integrated upstream facilities including oil mills, a kernel crushing plant, a solvent extraction plant, and supported by renewable energy in the form of biogas and solar panels. As we approached the site, the plant was surrounded by a vast expanse of palm oil plantations (internal and external) sufficient to supply FFB needs. North Sumatra and Riau, which are located close to each other, account for 27.5% of the total national palm oil plantation area. Trucks loaded with FFB are weighed before being processed at the mills/loading ramp. The weighbridge at KSJA automates the entire process by reading barcodes on the trucks. This is to prevent fraud and make the measurement process more seamless and fairer. The maximum weighbridge load is 50 tons, with a minimum maintenance requirement of 1x/year. Each day, there are 1-30 trucks supplying FFB and other derivative products to the plant. We calculated the weighing time to be around 3-6 minutes per truck.

Exhibit 19. STAA's operational areas and ongoing construction projects

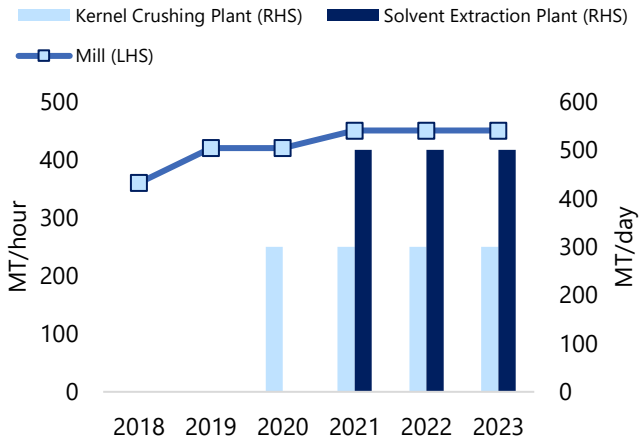


Source : Company

Exhibit 20. KSJA's weighbridge

Source : MNCS

Exhibit 21. STAA's total processing plant capacity



Sources : Company, MNCS

Oil mills

KSJA operates 1 of 9 oil mills owned by STAA, which has a capacity of 30MT/hour. STAA has achieved 75% ISPO (Indonesia Sustainable Oil Palm) certification by FY23 and is working towards becoming an RSPO member. After passing through the weighbridge, the trucks proceed to the loading ramp for sorting. The selected FFB is then processed to produce CPO and PK, which involves the following processes: sterilizing > threshing > digesting > pressing > clarifying > kernel recovering. The KSJA sterilizer uses a horizontal model to minimize losses. To accommodate the CPO production, there is a storage tank with a capacity of 2,000 MT. In addition, the oil mills also produce fiber and nut-shell, which can be used as fuel for boilers or sold.

Exhibit 22. The oil mill at KSJA uses horizontal sterilizers, which can minimize losses

Source : MNCS

Kernel crushing plant (KCP)

Following the kernel recovery process at the mills, the PK are transferred to a bunker with a capacity of up to 5,300 MT. The KCP factory processes them into CPKO and PKE. KSJA has a KCP capacity of 300 MT/day. Conveyors transport the PK from the bunker into the hammer mill. The process includes: hammering > first stage pressing > second stage pressing > filtering. The first stage process starts producing CPKO and PKE. The PKE still contains CPKO, so it goes through a second stage process to maximize extraction, leaving about ~12% CPKO. The obtained CPKO then goes through a filtering process using a vibrating screen to separate other impurities. Finally, the CPKO is stored in storage with a capacity of 8,400 MT, and the PKE is stored in a bunker with a capacity of 3,000 MT.

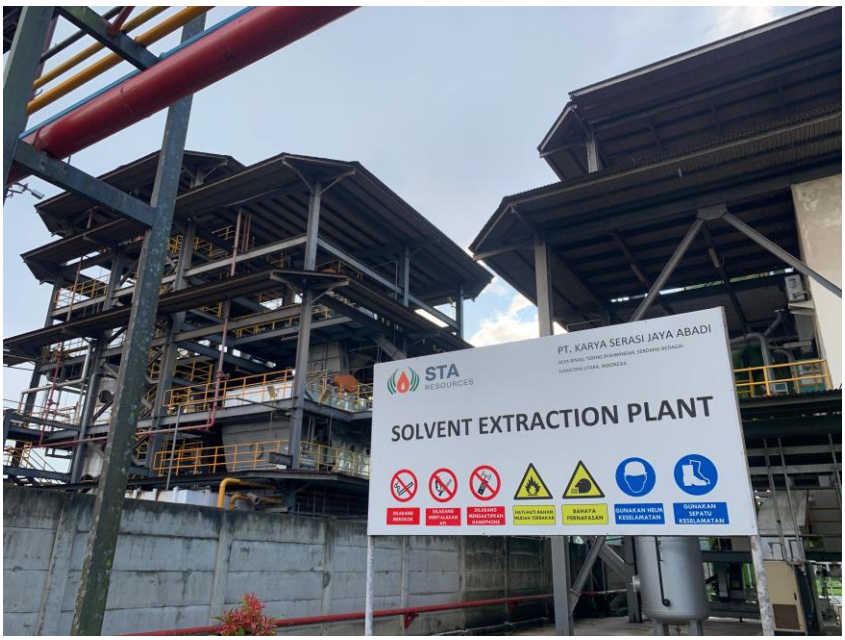
Exhibit 23. KSJA's KCP, featuring a bunker for PKM and storage for CPKO

Source : MNCS

Solvent extraction plant

To produce PKM, KSJA has a solvent extraction plant with a capacity of 500 MT/day. Some of the PKE produced and stored in silos thereafter moves by conveyor to the extraction process to remove the remaining CPKO and PKE. The next steps are evaporating, stripping, and drying to ensure the PKM is ready. Notably, the produced PKM usually still contains some CPKO (1%-4%). The PKM can be further developed into other value-added products, such as pellets.

Exhibit 24. KSJA's Solvent Extraction Plant



Source : MNCS

Renewable Energy: Biogas and Solar Panel

KSJA also has biogas and solar panel facilities to support the electricity supply to the plants. Currently, the biogas facility produces 1 MW of electricity (with a maximum output of 2 MW). The process includes: cooling pond > continuous stirred tank reactor > scrubber and dehumidifier. The biogas system works by utilizing palm oil mill effluent to generate biogas fuel. The utilization of renewable energy not only adds ESG value to the company but also enhances efficiency.

Exhibit 25. Renewable energy operational initiatives can enhance STAA's ESG value

Sources : Company, MNCS

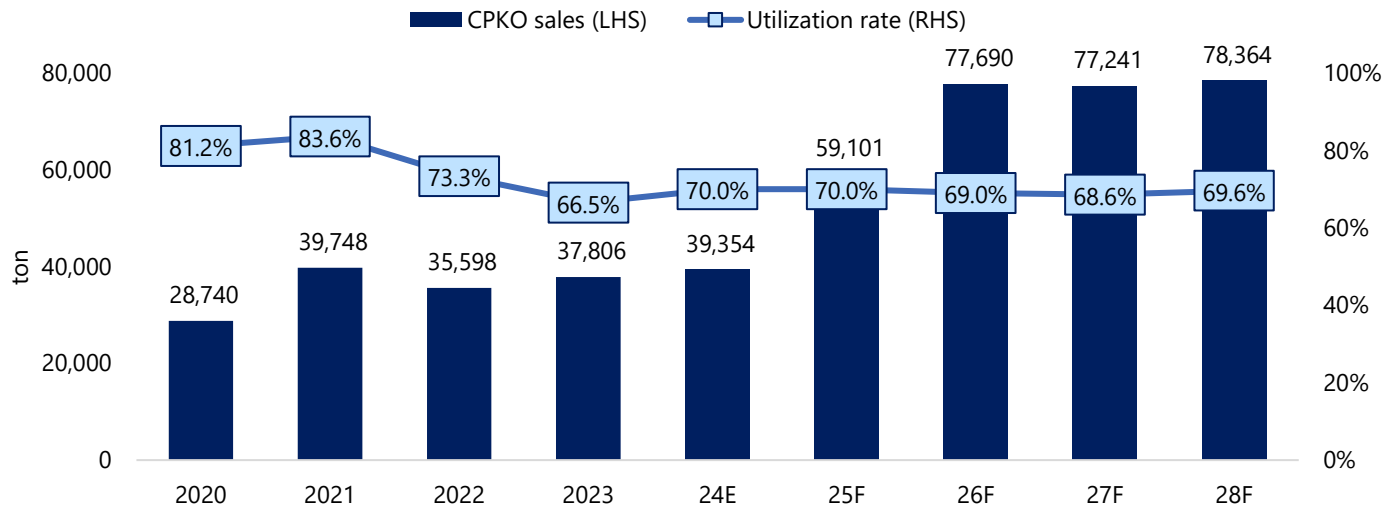
INVESTMENT THESIS

Rapid Expansion to Double Derivative Products; New Milestones Achieved

STAA is currently focused on three organic expansion agendas: 1) increasing the capacity of the kernel crushing plant (KCP) plant; 2) adding oil mills in Central Kalimantan; and 3) establishing a midstream refinery and fractionation plant. These expansions are expected to provide growth opportunities for the company by enhancing its revenue streams.

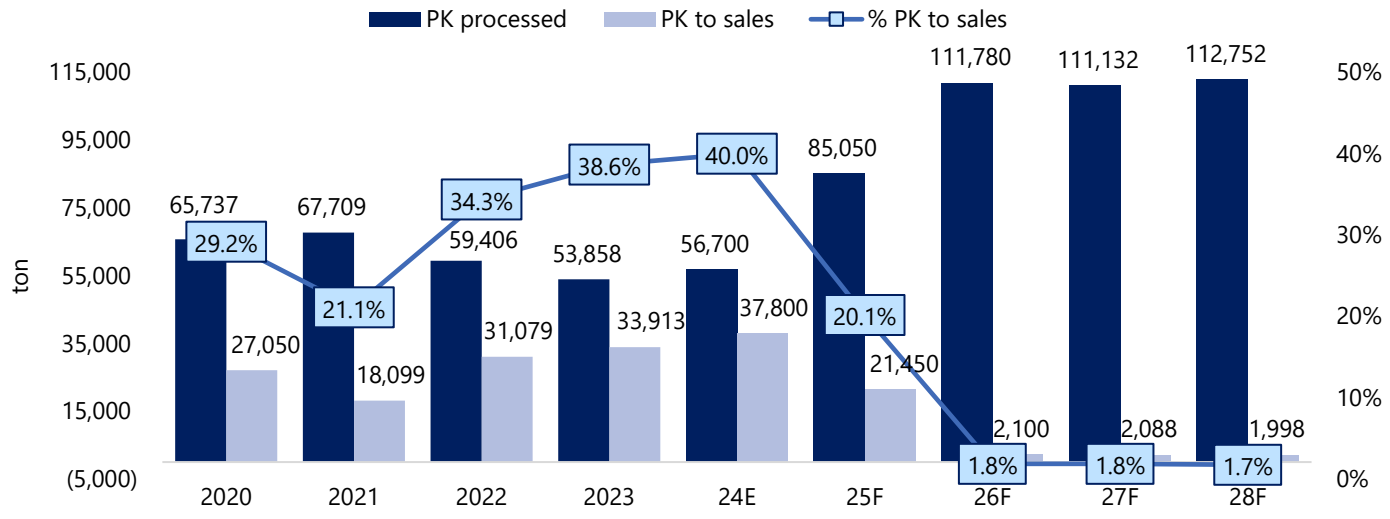
- **Increasing Kernel Crushing Plant (KCP) Capacity**
  STAA currently produces 86k-93k tons of PK annually (KER ~5%). Approximately 21%-39% of this output is sold, while the remainder is processed into higher value-added derivative products. With the current utilization rate at ~66%, STAA plans to double the KCP capacity from 300 MT/day (81k MT/year; assuming 270 working days) to 600 MT/day (162k MT/year). This increase will significantly boost the production of derivative products like CPKO, PKE, and PKM. Typically, the ASP for CPKO is 10%-20% higher than for CPO, which is expected to drive higher revenue streams in the future.

Exhibit 26. We project a +15.6% CAGR of CPKO sales in FY23-28F



Sources : Company, MNCS

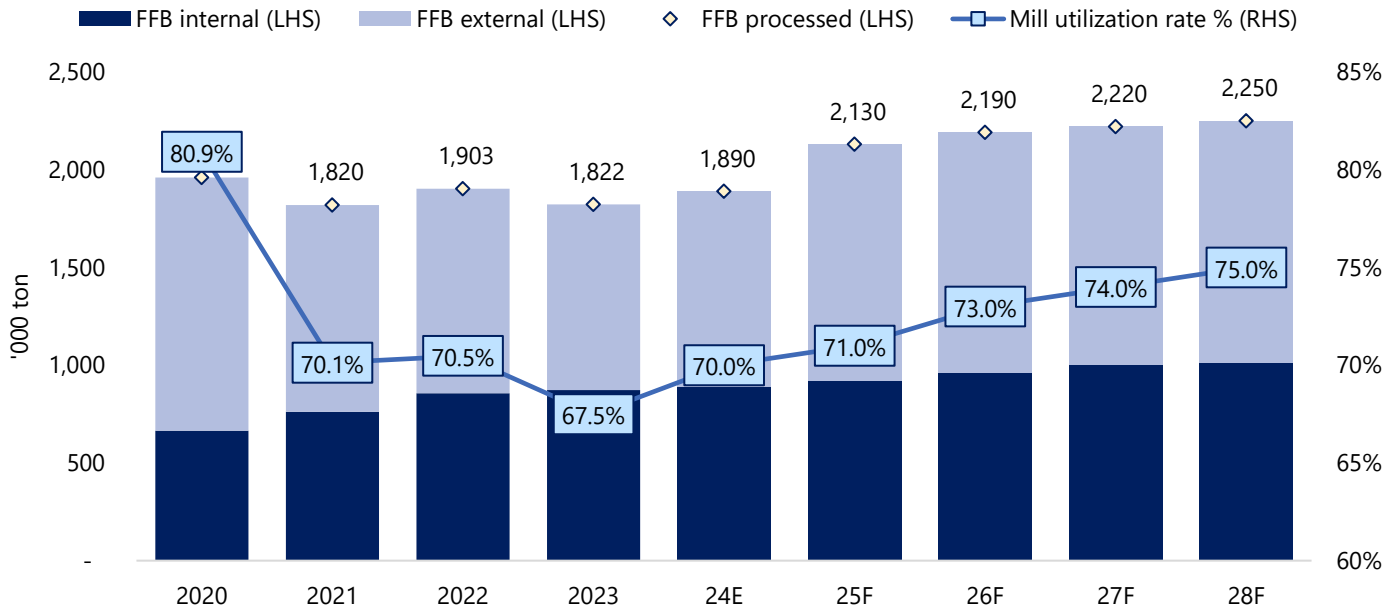
Exhibit 27. Increased capacity at the KCP could drive PK processing up



Sources : Company, MNCS

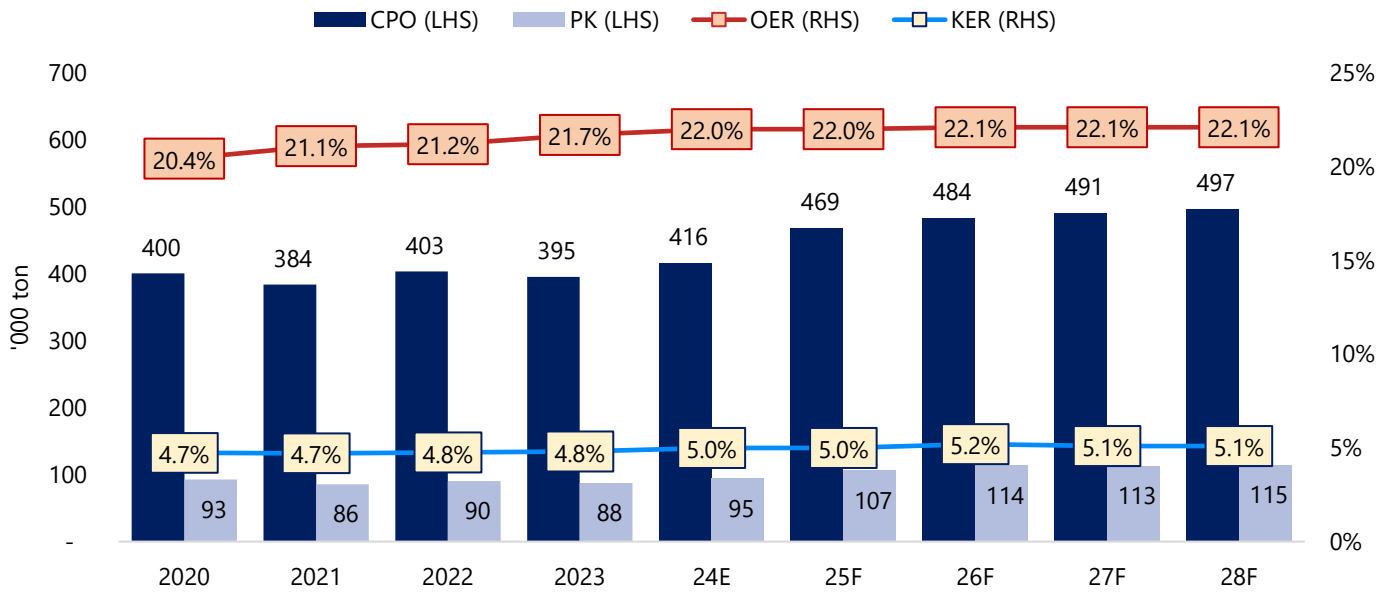
- **STAA Plans 10th Oil Mill to Boost Capacity and Increase FFB Processing by +4.3% CAGR FY23-28F**
  Alongside the increased PK capacity, STAA targets adding its 10th oil mill, which is expected to be completed by 4Q24. This will increase the total capacity from 450 MT/hour (2.7 mn MT/year) to 495 MT/hour (3.0 mn MT/year). Assuming a normal utilization rate of 75%, we expect the processed FFB to grow at a CAGR FY23-28F of +4.3%, reaching 2.3 mn tons/year (vs 1.8 mn tons in FY23). This volume increase is anticipated to raise the OER to 22.1%, with KER hovering at 5.1%, supported by the relatively young age profile of the plants. Consequently, we project the CPO production volume to grow at a CAGR FY23-28F of +4.7% to 497.3k tons, and PK by +5.5% to reach 114.8k tons.

Exhibit 28. We foresee total oil mills utilization to reach 75% in FY29F



Sources : Company, MNCS

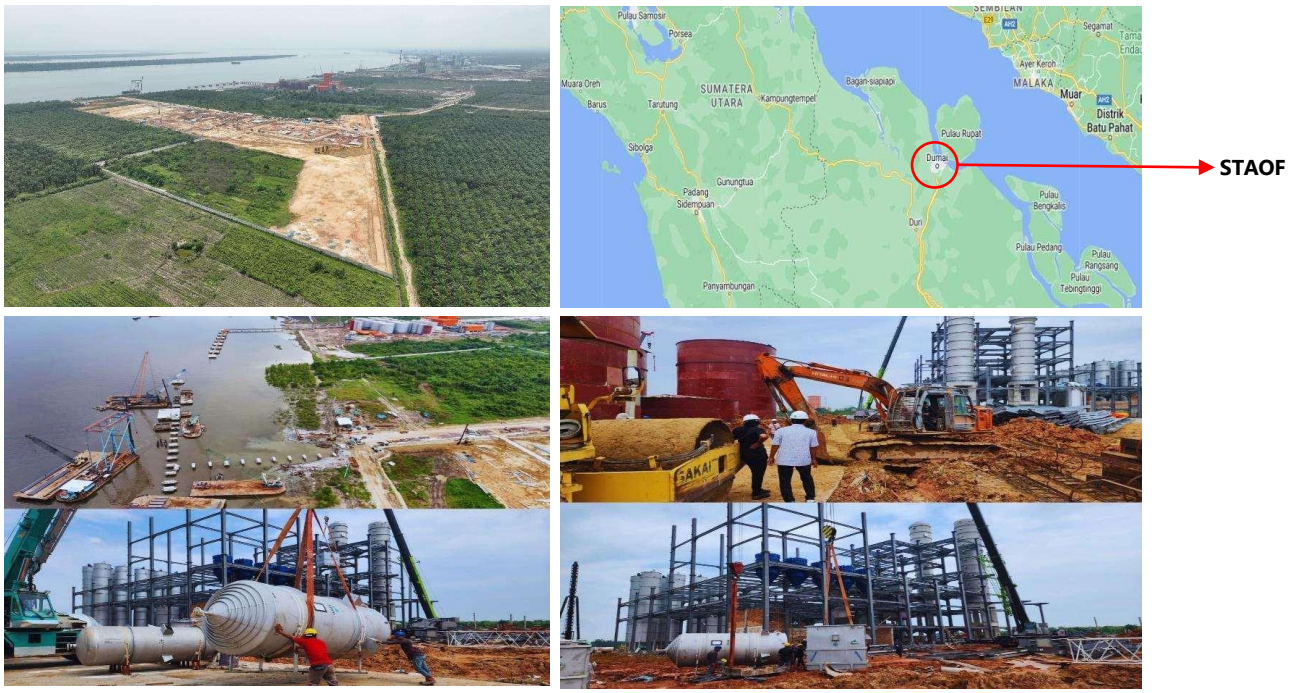
Exhibit 29. We expect improvements in OER and KER, mainly driven by the young crop age profile and La Nina effects



Sources : Company, MNCS

- **Establishing a Midstream Refinery and Fractionation Plant**
  STAA is embarking on a new milestone by entering the midstream plant with a refinery and fractionation plant in Dumai, Riau. This facility is expected to be completed by FY25 with a capacity of 1.5k-2.0k MT/day. To support export sales, the plant will integrate with a jetty port capable of handling 50k DWT ships and 64k MT storage. The strategic location in Dumai facilitates export traffic to India and China. This initiative is expected to enhance value-added products and reduce export tariffs. The plant can extract 1 ton of CPO into 95% RBD olein, 5% PFAD, and RBD stearin. Management anticipates a potential PATMI increase of 1.5% from turnover through midstream processing.

Exhibit 30. STAOF is strategically positioned to receive upstream products (CPO) from Kalimantan and Sumatra



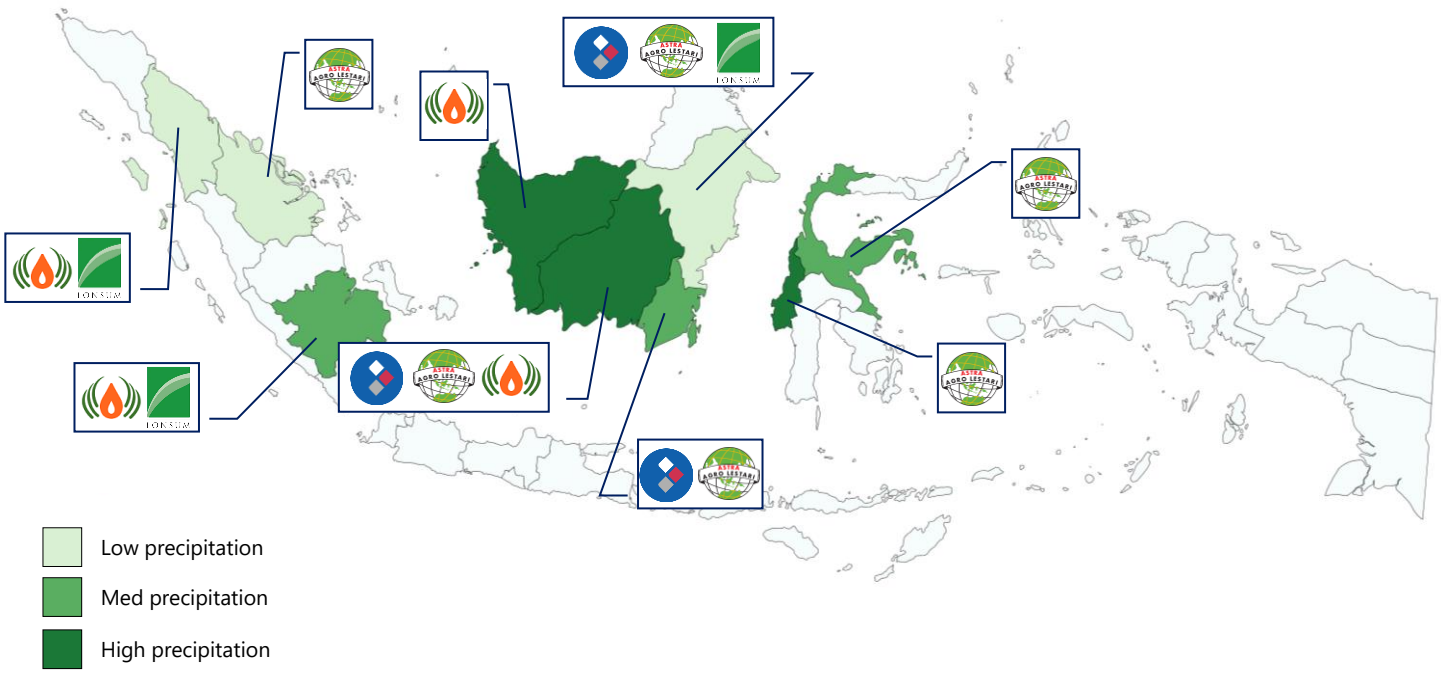
Source : Company

Higher FFB Yield Nucleus Compared to Peers

STAA's strategic diversification of its plantation areas across Sumatra and Kalimantan is expected to mitigate yield volatility for FFB amidst the disruptions caused by El Nino and La Nina. This diversification strategy stands out compared to peers, particularly during periods of strong El Nino events. The strong El Nino in FY15 resulted in a significant contraction of FFB yield nucleus for plantation companies within our universe, with an average decline to 16.8x in FY16 (vs 21.8x in the preceding period). This led to an aggregate FFB production decline of -15.2% YoY. DSNG, which planted area is located wholly in Kalimantan, experienced the most severe contraction, with FY16 FFB production falling by -24.3% YoY. In contrast, AALI and LSIP, with their diversified land holdings in Sumatra (37%/75%) and Kalimantan (45%/15%), experienced minimal FFB production contractions of -13.0% YoY and -12.5% YoY, respectively.

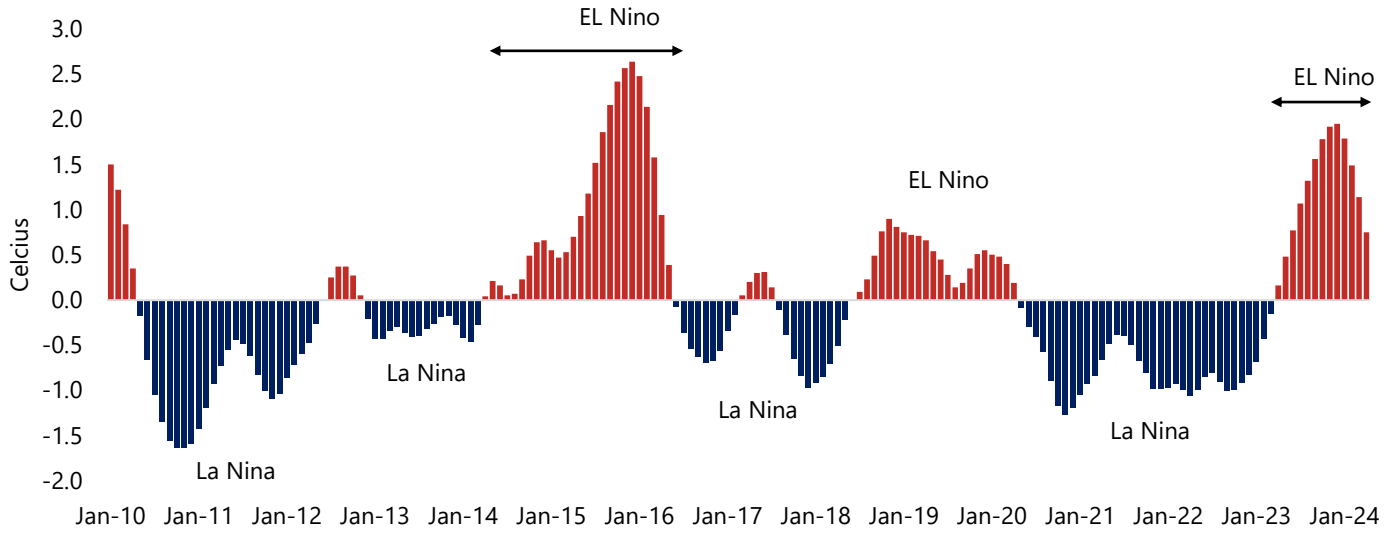
While the majority of STAA's planted area is located in Sumatra, it is important to note that 40.5% of its land is in North Sumatra (24.1% in South Sumatra), which is less susceptible to climate disruptions. Furthermore, the El Nino event in FY23 is expected to be shorter, with an anticipated timeframe of 15 mo. (vs 26 mo. in FY15). Additionally, the maximum sea surface temperature (SST) in the ENSO 3.4 region reached 2.0 degrees Celsius (vs 2.5 in FY15). STAA's relatively young crop age profile (averaging 12.5 years), could serve as a buffer against climate disruptions. Notably, STAA's age profile is younger than that of its peers in our universe (exhibit 34). As a result, STAA has consistently managed to produce higher FFB yield nucleus compared to its peers, reaching 23.5x in FY23 (exhibit 33).

Exhibit 31. We believe that STAA's land diversification might yield solid FFB results, benefiting from geographical advantages



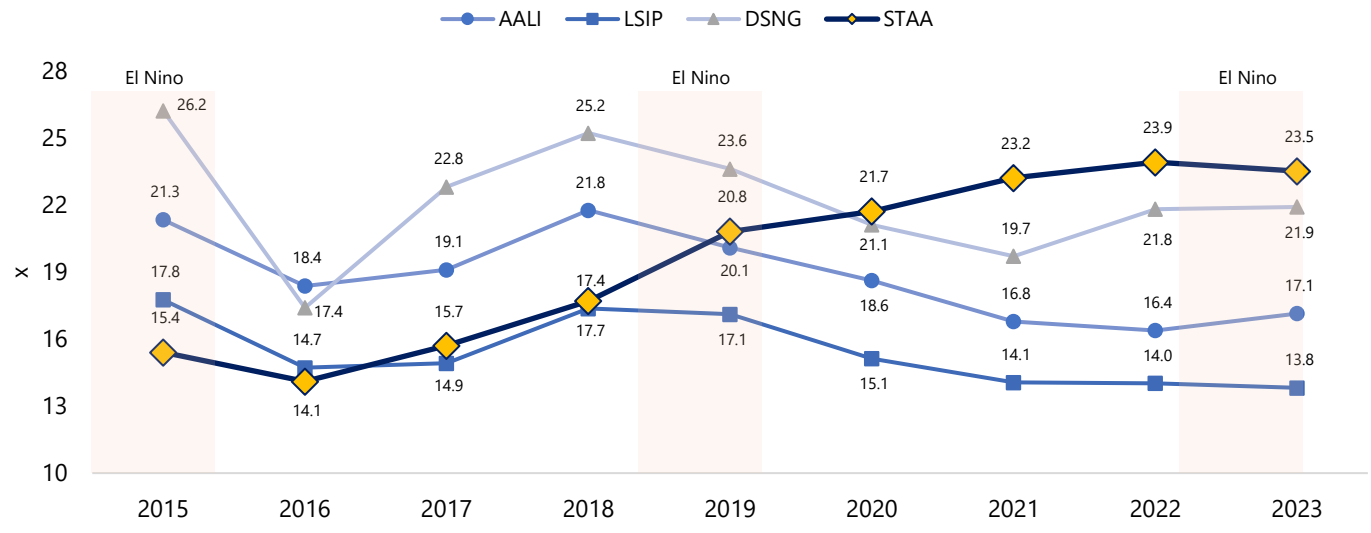
Sources : Mapchart, BMKG, MNCS

Exhibit 32. We estimate that the El Nino duration in FY23 will end sooner than in FY15



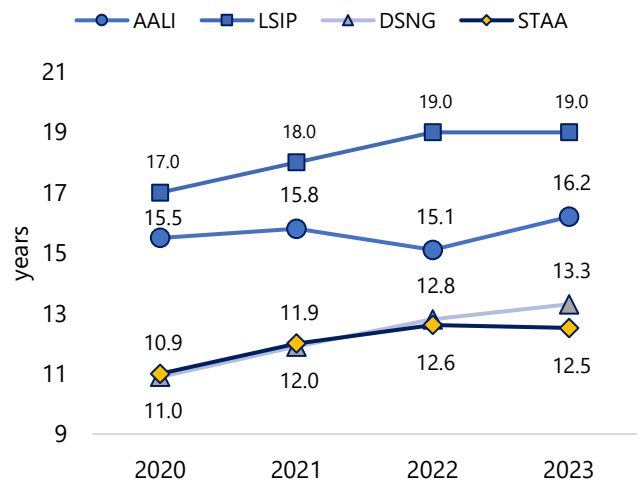
Sources : NOAA, MNCS

Exhibit 33. STAA has a superior nucleus FFB yield compared to our peers



Sources : Companies, MNCS

Exhibit 34. STAA also has a younger avg. plantation age compared to our peers



Sources : Companies, MNCS

Exhibit 35. STAA's extraction rate vs our peers

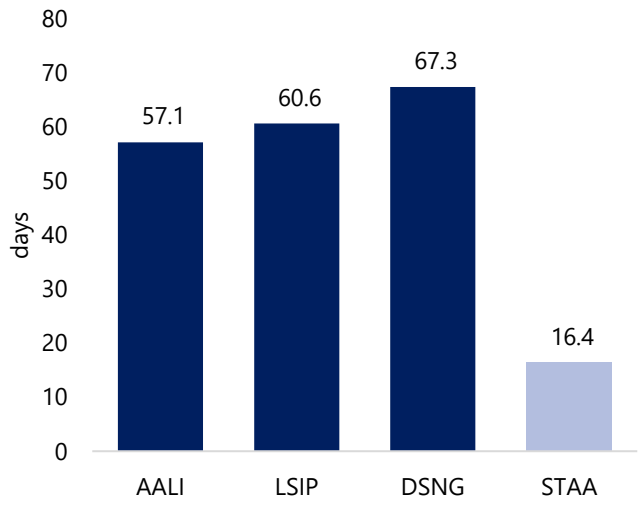
		2021	2022	2023
OER				
	AALI	19.4%	19.0%	18.9%
	LSIP	22.1%	21.6%	21.4%
	DSNG	23.0%	22.8%	23.2%
	STAA	**21.1%**	**21.2%**	**21.7%**
KER				
	AALI	4.1%	4.1%	4.0%
	LSIP	6.2%	6.2%	6.3%
	DSNG	4.1%	4.2%	4.3%
	STAA	**4.7%**	**4.8%**	**4.8%**

Sources : Companies, MNCS

Lower CCC to Support Liquidity; Expect Improved Margin Profitability Onwards

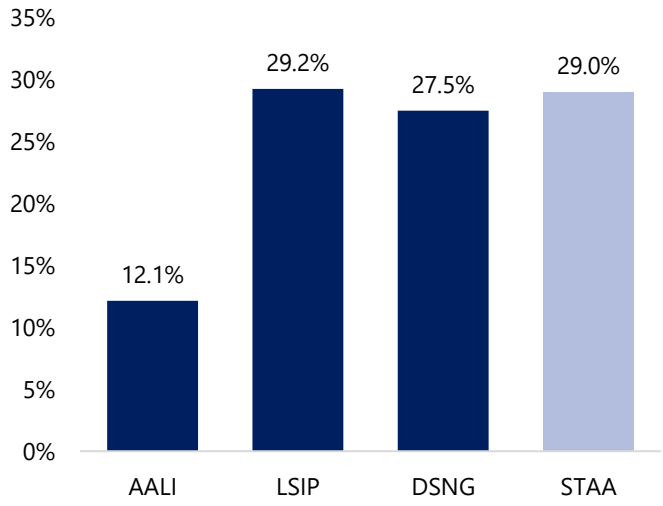
STAA's cash conversion cycle (CCC) is superior compared to its peers. In FY23, STAA recorded a DSO of 6.4 days, DIO of 22.8 days, and DPO of 12.7 days, translating to a CCC of 16.4 days (vs avg. peers of 46.2 days) (exhibit 36). This efficiency ensures greater liquidity to support the company's operations, particularly in the procurement of external FFB. Additionally, we expect the refinery plant operations to maintain an inventory cycle of less than one week. Furthermore, STAA demonstrates competitive profitability compared to its peers. In 1Q24, GPM/OPM were 29.0%/23.8%, respectively, higher than the peers' averages of 22.9%/18.3%. This performance was attributed to the company's exclusivity in sourcing >50% of external FFB from local farmers, which helps to maintain production costs. While STAA's NPM in 1Q24 (15.5%) fell below the peers' average of 20.9% due to seasonal factors, we still anticipate that NPM will improve in subsequent quarters as the company benefits from reduction in debt exposure and ongoing midstream processes. We noted that the FY23 DER improved to 0.3x (vs 1.6x in FY19), accompanied by an NPM improvement to 12.9% (vs 4.7% in FY19).

Exhibit 36. STAA's lower CCC will positively impact liquidity



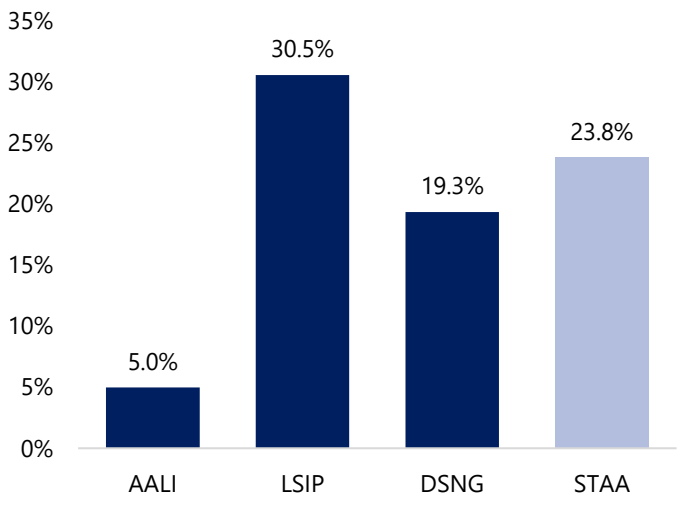
Sources : Companies, MNCS

Exhibit 37. STAA's FY23 GPM Compared to our peers



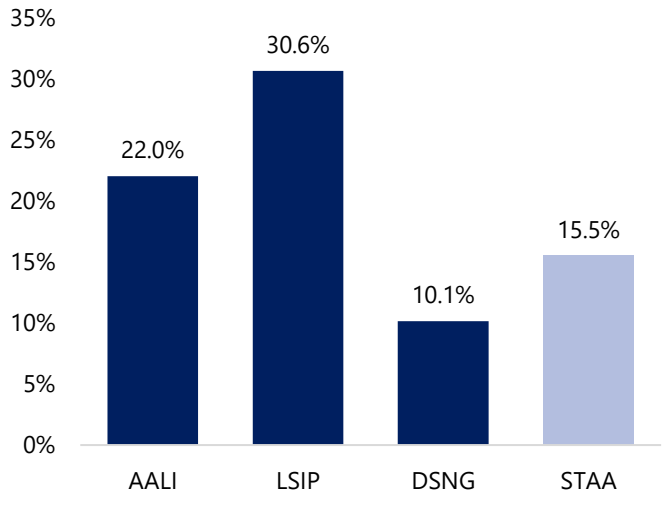
Sources : Companies, MNCS

Exhibit 38. STAA's FY23 OPM Compared to our peers



Sources : Companies, MNCS

Exhibit 39. STAA's FY23 NPM Compared to our peers



Sources : Companies, MNCS

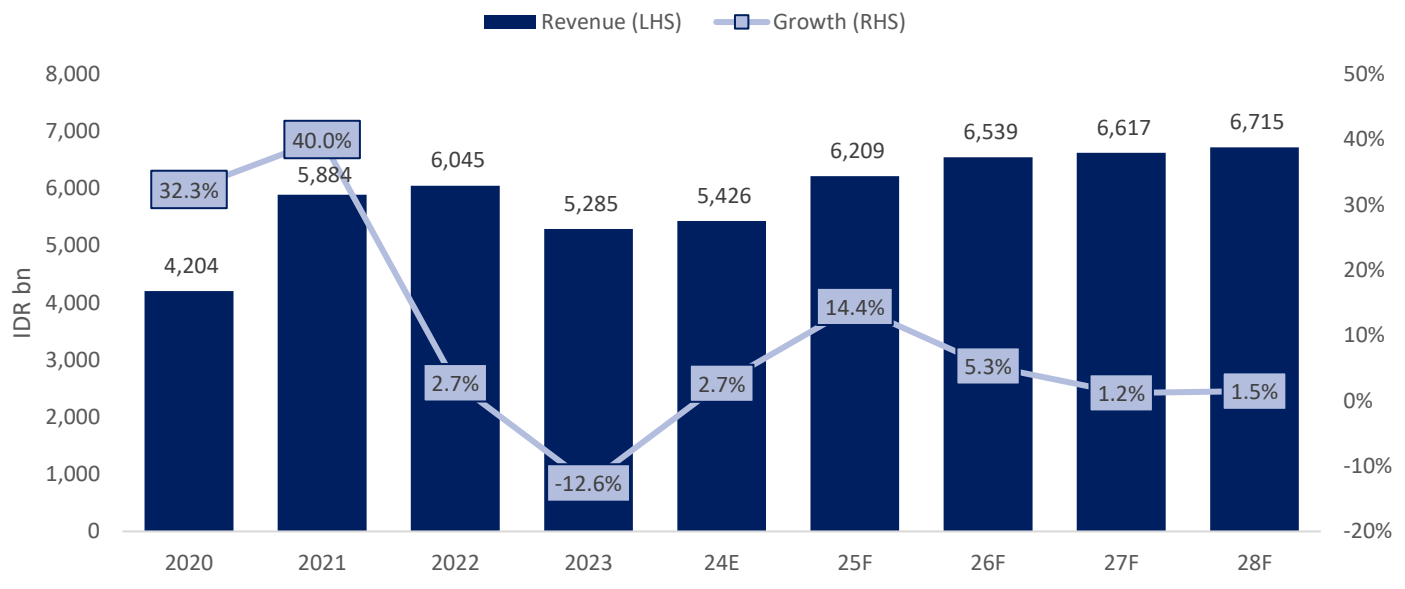
FINANCIAL ANALYSIS

Revenue Growth Potential with a CAGR FY23-28F of +4.9%

STAA's top line exhibited promising signs in 1Q24, with revenue reaching IDR1.3 tn, or grew by +9.7% YoY. This growth was primarily driven by a rise in CPO/CPKO sales volume, up +5.0% YoY/+35.8% YoY, respectively. Additionally, ASP (net of export tax and levy) remained robust, with CPO/CPKO increasing by +1.1% YoY/+2.7% YoY, respectively. Within the product mix, the CPO segment continues to dominate STAA's overall revenue. In FY23, CPO sales accounted for 85.6% of total turnover, followed by CPKO at 8.2%. The steadily increasing contribution of CPKO sales since FY20 reflects STAA's strategic focus on enhancing value creation through a more integrated upstream process. However, total revenue in FY23 declined by -12.6% YoY to IDR5.3 tn. This decrease can be attributed to the normalization of ASP following the windfall in FY21-22.

Looking ahead, we project STAA's revenue to exhibit continued growth by+2.7% YoY to IDR5.4 tn in FY24E. This growth will be supported by anticipated increases in CPO and CPKO sales volumes, reaching 415.8k tons (+3.0% YoY) and 39.4k tons (+4.1% YoY), respectively. Our optimistic outlook is primarily fueled by the belief that STAA's relatively young crop age profile will mitigate the potential disruptions caused by the El Nino event anticipated in FY23. In a moderate scenario, we project STAA's revenue to achieve a CAGR of +4.9% to IDR6.7 tn by FY28F. This projected growth is primarily driven by the expansion of STAA's KCP, which is expected to propel CPKO sales volume growth at a CAGR of +15.7%, coupled with the advantage of higher ASP for CPKO products. Furthermore, the upcoming commissioning of the 10th oil mill is anticipated to underpin CPO sales volume growth, with a projected CAGR of +4.3% to 497.3k tons by FY28F.

Exhibit 40. We project continued revenue growth, supported by volume increases driven by organic expansion



Sources : Company, MNCS

Exhibit 41. CPO price sensitivity analysis on STAA's revenue

% Sensitivity	24E	25F	26F	27F	28F
2%	5,520	6,421	6,871	7,070	7,295
0%	5,426	6,209	6,539	6,617	6,715
-2%	5,333	6,001	6,220	6,191	6,180

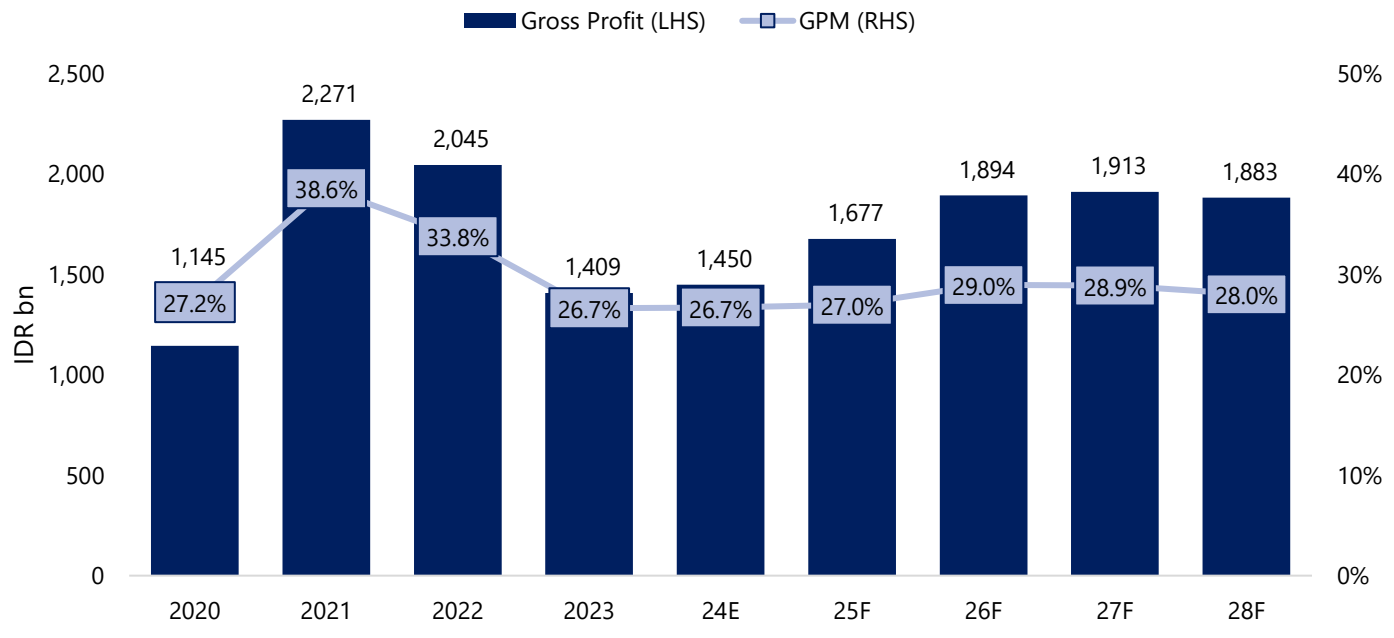
Source : MNCS

Higher FFB Yield Given Favorable Weather to Lift GPM

STAA's gross profit surging by +40.2% YoY to IDR369.9 bn in 1Q24. This translated into a robust GPM of 29.0% in 1Q24 (vs 22.7% in 1Q23). The 1Q24 gross profit was driven by relatively stable COGS (+0.8% YoY), given a decline in FFB production costs. However, FY23 gross profit painted a different picture, with a decrease of -31.1% YoY to IDR1.4 tn. This resulted in a FY23 GPM of 26.7% (vs 33.8% in FY22). The main culprit behind the FY23 gross profit dip was revenue pressure, coupled with a slower-than-expected decrease in FFB purchase cost per kg (-8.9% YoY). It is noteworthy that STAA relies heavily on external FFB for its operations, with external FFB utilization contributing to ~54% of COGS in FY23. This dependence has, however, decreased compared to FY18, when it reached 72.6%, reflecting an increase in internal FFB utilization. This shift towards internal FFB utilization is a positive development for cost management.

Going forward, we expect STAA's gross profit to achieve modest growth of +2.9% YoY to IDR1.5 tn in FY24E, maintaining the FY24E GPM at 26.7%. We anticipate a slight decrease in FFB purchase cost per kilogram of -1.0% YoY to IDR2.2k. Additionally, the continued decline in fertilizer prices is expected to provide further cost relief. Moreover, we estimated STAA's gross profit to grow at a CAGR of +6.0% by FY28F. This growth is expected to be driven by GPM expansion to 28.0%. We believe that STAA's relatively young crop age profile, coupled with favorable weather conditions, will contribute to strong FFB yield (at ~25x). This, in turn, will minimize the company's reliance on external FFB purchases, further improving its cost structure and profitability.

Exhibit 42. We expect GPM to bounce back to ~28% as internal FFB utilization increases



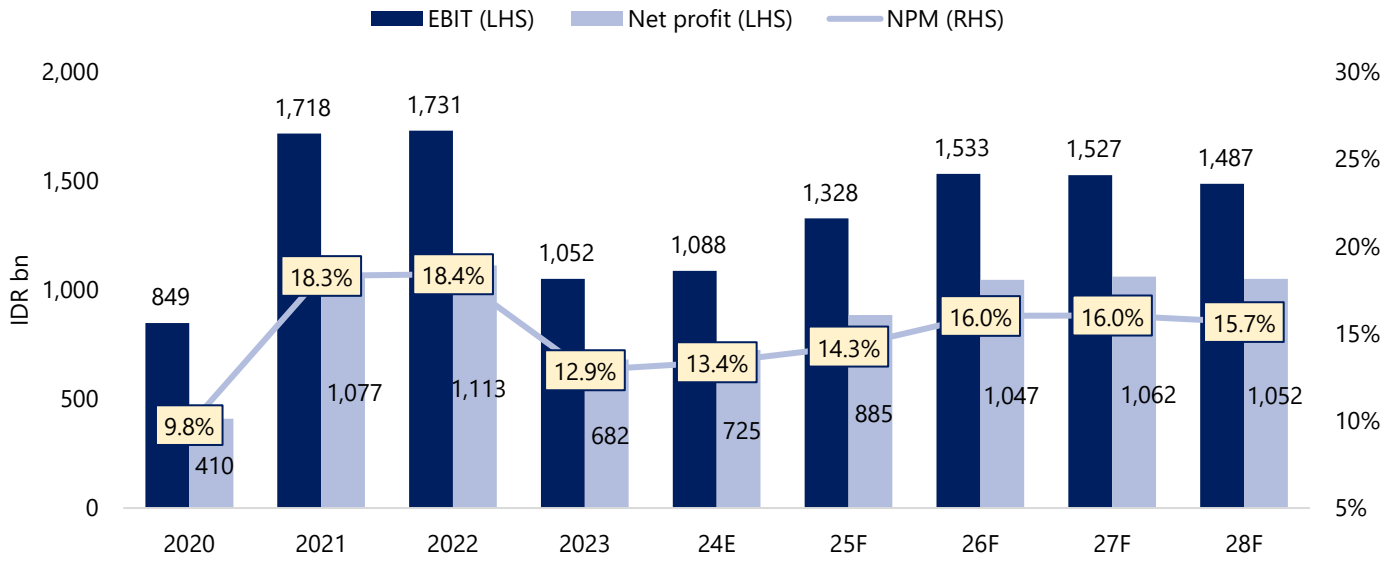
Sources : Company, MNCS

Solid Net Profit Growth with a CAGR FY23-28F of +9.1%, Bolstered by Margin Expansion

STAA's profitability extended its positive momentum into 1Q24, with net profit experiencing a significant increase of +37.6% YoY to IDR197.6 bn. This surge was primarily driven by a rise in EBIT of +42.8% YoY, coupled with a lower tax rate. Consequently, STAA delivered a robust NPM of 15.5% in 1Q24 (vs 12.3% in 1Q23). While FY23 net profit declined by -38.7% YoY to IDR681.9 bn due to lower revenue performance, it is important to consider the remarkable growth achieved over a more extended period. STAA's net profit boasted a splendid CAGR FY18-23 of +301.3%. This outstanding growth was partially attributable to a loss recorded in FY18, but it also highlighted the significant progress made by the company in recent years.

We expect STAA's net profit to maintain its upward trajectory. We project net profit in FY24E reaching IDR725.1 bn, or growing by +6.3% YoY. This solid growth is expected to be driven by a combination of factors, including EBIT growth of +3.4% YoY, a significant decline in finance costs (-10.0% YoY), and relatively stable tax rate. Despite the robust increase in net profit for 1Q24, we still project a moderate growth trajectory with the assumption that the ASP for CPO will remain unchanged. Additionally, we continue to anticipate volatility in FFB production in 2H24 due to the lagged effects of El Nino. On a long-term horizon, we estimate STAA's net profit to achieve a CAGR of +9.1% by FY28F, with an anticipated NPM of 15.7%. This projected growth is primarily fueled by our expectation of manageable operating expenses, leading to EBIT growth at a CAGR FY23-28F of +7.2%. Additionally, a decrease in finance costs is expected to contribute to margin expansion over the forecast period.

Exhibit 43. We expect net profit growth with a CAGR FY23-28F of +9.1%



Sources : Company, MNCS

Exhibit 44. CPO price sensitivity analysis on STAA's net profit

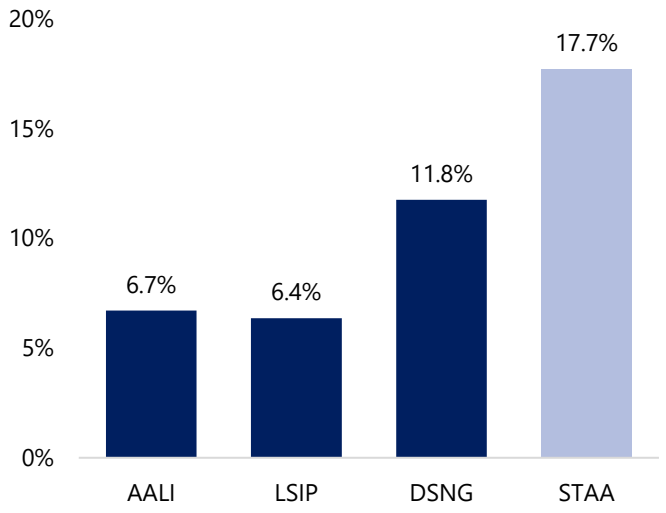
% Sensitivity	24E	25F	26F	27F	28F
2%	785	1,025	1,270	1,370	1,452
0%	725	885	1,047	1,062	1,052
-2%	665	749	833	771	683

Sources : Company, MNCS

Sturdy balance sheet with solid cost structure; higher ROCE against peers

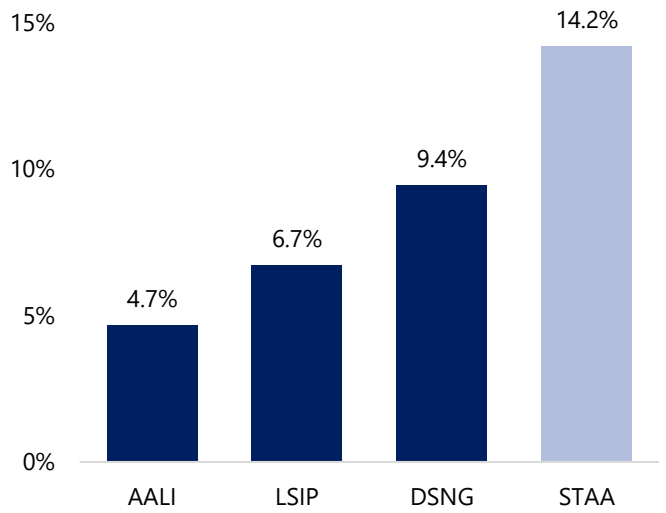
STAA boasts a sturdy balance sheet, particularly in the aftermath of its IPO in FY22 and the associated windfall. This strength was reflected in its FY23 ROCE of 17.7%, which was the highest among its peers in our universe (average: 8.3%). Additionally, the company's solvability has been steadily improving, with a DER of 0.3x and a Net Debt/EBITDA ratio of 0.3x (vs 1.6x/3.2x in FY19). Moreover, ROE stood at 14.2% in FY23. We project STAA's debt exposure to continue declining, with a DER maintained within the range of 0.1x-0.2x. Meanwhile, a mix of revenue growth and margin expansion is expected to increase interest coverage ratio to 10.9x in FY24E. Average annual capex is estimated at IDR610 bn, allocated for routine maintenance in manufacturing and replanting. In terms of dividends, STAA's payout ratio reached 45%/43% in FY22/23 (2Y avg. div. yield: ~4%), exceeding the maximum limit of 30% set in the prospectus. In line with our positive bottom-line growth projections, we anticipate a potential dividend yield in the mid-single-digit range for the foreseeable future.

Exhibit 45. STAA has a superior cost structure compared to peers, reflected by an FY23 ROCE of 17.7%



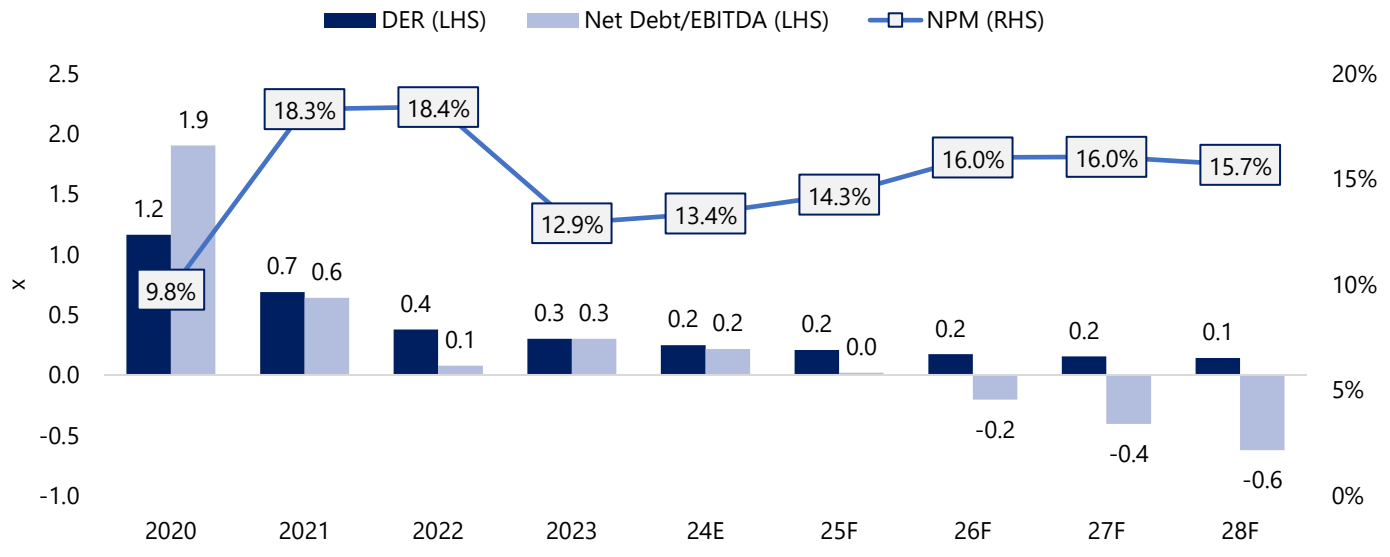
Sources : Company, MNCS

Exhibit 46. STAA's FY23 ROE compared to our peers



Sources : Company, MNCS

Exhibit 47. We believe that diminished debt exposure can also drive NPM growth



Sources : Company, MNCS

VALUATION

Valuation and recommendation

STAA's strong financial performance, coupled with its commitment to margin expansion and cost efficiency, positions the company well for continued growth and profitability in the years to come. Its sturdy balance sheet and dividend policy further enhance its appeal. To determine the fair value of STAA, we used a blended approach incorporating DCF (70%) and EV/ton (30%). We assigned a greater weight to DCF to account for the company's future performance potential, while EV/ton reflects industry performance. Our DCF assumptions include: 1) risk-free rate of 7.1%; 2) risk premium of 5.3%; 3) WACC of 10.2%; and 4) terminal growth rate of 3.0%. Additionally, we utilized EV/ton to align with the FFB processed predominantly by external sources. We arrive at a **BUY recommendation for STAA with a TP of IDR910/share** (indicating a potential upside of 26%), implying a PE of 13.7x/11.2x and PBV of 1.9x/1.7x for FY24E/FY25F. Albeit STAA trading at a premium compared to peers, this is justified by the company's relatively young plant age profile and its ability to generate high liquidity levels. Downside risks to our call includes: 1) Lower-than-anticipated FFB yield; 2) Reduced absorption of external FFB leading to lower mill utilization; 3) Unfavorable government policies; and 4) Delays in planned new plant expansions.

Exhibit 48. STAA's fair value

	EV (USD mn)	CPO sales vol. ('000 ton)	EV/ton (USD)
TAPG	699	677	1,033
AALI	756	1,076	702
DSNG	709	665	1,067
LSIP	75	303	248
TLDN	406	344	1,180
STAA	505	404	1,251
Average			**913**
EV/ton STAA, with +30% premium (USD)			1,187
TP (IDR/share)			**700**

	Weight	Fair Value per Share (IDR)		TP
DCF	70%	1,000	700	**910**
EV/ton	30%	700	210	

Sources : Company, MNCS

Exhibit 49. Financial Projections

Income Statement

In Billion IDR	FY21	FY22	FY23	FY24E	FY25F
Revenue	**5,883.9**	**6,045.4**	**5,285.2**	**5,426.5**	**6,209.3**
COGS	(3,612.7)	(4,000.0)	(3,876.2)	(3,976.1)	(4,532.2)
Gross Profit	**2,271.2**	**2,045.5**	**1,409.0**	**1,450.3**	**1,677.1**
Selling Expenses	(548.4)	(242.6)	(237.6)	(248.4)	(260.8)
G&A Expenses	(135.4)	(141.3)	(193.1)	(194.7)	(195.8)
Other Income (Expenses)	131.0	69.1	73.4	80.7	107.7
Operating Profit	**1,718.4**	**1,730.7**	**1,051.7**	**1,087.9**	**1,328.2**
Finance Income (Expenses)	(178.2)	(102.0)	(49.2)	(38.1)	(51.2)
Other Income (Expenses)	9.8	9.0	4.7	6.8	8.0
Profit Before Tax	**1,550.0**	**1,637.7**	**1,007.3**	**1,056.6**	**1,285.1**
Income Tax (Expenses)	(310.7)	(356.8)	(225.0)	(232.4)	(282.7)
Minority Interest	(162.1)	(168.3)	(100.4)	(99.0)	(116.9)
Net Profit	**1,077.2**	**1,112.6**	**681.9**	**725.1**	**885.4**
EPS (IDR)	98.8	102.0	62.5	66.5	81.2

Balance Sheet

Revenue	FY21	FY22	FY23	FY24E	FY25F
Cash & Equivalents	860.3	1,594.1	1,033.4	990.6	1,177.3
Trade Receivables	37.1	90.8	93.7	100.3	99.0
Inventory	296.6	439.6	245.2	294.2	350.8
Other Current Assets	267.8	175.6	186.9	191.9	219.6
Total Current Asset	**1,461.8**	**2,300.1**	**1,559.2**	**1,577.1**	**1,846.7**
Fixed Assets-net	3,882.4	4,092.5	4,381.0	4,649.5	4,847.3
Other Non-Current Assets	514.4	619.6	741.0	754.1	826.7
Total Non-Current Assets	**4,396.8**	**4,712.1**	**5,122.0**	**5,403.6**	**5,673.9**
TOTAL ASSETS	**5,858.6**	**7,012.2**	**6,681.2**	**6,980.7**	**7,520.7**
Trade Payables	130.7	195.0	137.3	142.1	162.9
Short-Term Debt	333.5	420.6	460.2	414.3	385.5
Other Current Liabilities	343.9	275.3	149.8	153.8	176.0
Total Current Liabilities	**808.2**	**890.8**	**747.2**	**710.2**	**724.4**
Long-Term Debt	1,796.1	1,329.8	983.5	885.4	824.0
Other Non-Current Liabilities	156.2	148.2	146.8	150.7	172.4
Total Non-Current Liabilities	**1,952.3**	**1,478.1**	**1,130.2**	**1,036.1**	**996.4**
Total Equity	**3,098.1**	**4,643.3**	**4,803.7**	**5,234.4**	**5,799.9**
TOTAL LIABILITY AND EQUITY	**5,858.6**	**7,012.2**	**6,681.2**	**6,980.7**	**7,520.7**

Cash Flow

In Billion IDR	FY21	FY22	FY23	FY24E	FY25F
Net Profit	1,077.2	1,112.6	681.9	725.1	885.4
Depreciation	265.0	298.7	318.0	344.0	376.6
Change in Working Capital	(5.3)	(132.4)	133.8	(50.7)	(34.6)
Change in Others	106.9	95.4	(168.4)	(1.0)	(5.5)
CFO Total	**1,443.8**	**1,374.2**	**965.3**	**1,017.3**	**1,221.9**
Capital Expenditure	(521.3)	(626.1)	(609.0)	(612.5)	(574.3)
Change in Others	9.9	(59.8)	(87.3)	(13.1)	(72.6)
CFI Total	**(511.4)**	**(685.9)**	**(696.3)**	**(625.6)**	**(646.9)**
Net Change in Debt	(379.8)	(379.2)	(306.8)	(144.0)	(90.2)
Net Change in Equity	906.0	526.7	-	-	-
Dividend Payment	(1,206.0)	(109.0)	(501.6)	(294.4)	(320.0)
Others	167.4	7.0	(21.4)	3.9	21.7
CFF Total	**(512.5)**	**45.4**	**(829.7)**	**(434.4)**	**(388.4)**
Beginning Cash	**440.4**	**860.3**	**1,594.1**	**1,033.4**	**990.6**
Ending Cash	**860.3**	**1,594.1**	**1,033.4**	**990.6**	**1,177.3**

Ratios

	FY21	FY22	FY23	FY24E	FY25F
Revenue Growth (%)	40.0	2.7	(12.6)	2.7	14.4
Gross Profit Growth (%)	98.3	(9.9)	(31.1)	2.9	15.6
Net Profit Growth (%)	162.7	3.3	(38.7)	6.3	22.1
Current Ratio (%)	180.9	258.2	208.7	222.1	254.9
Receivable Days (x)	2.3	5.4	6.4	6.7	5.7
Inventory Days (x)	29.6	39.6	22.8	26.6	27.9
Payable Days (x)	13.0	17.5	12.7	12.9	12.9
Net Debt/EBITDA (x)	0.6	0.1	0.3	0.2	0.0
Interest Coverage (x)	8.7	11.9	9.5	10.9	14.3
Gross Profit Margin (%)	38.6	33.8	26.7	26.7	27.0
Operating Profit Margin (%)	29.2	28.6	19.9	20.0	21.4
EBITDA Margin (%)	33.7	33.6	25.9	26.4	27.5
Net Profit Margin (%)	18.3	18.4	12.9	13.4	14.3
BVPS (IDR)	284.1	425.9	440.6	480.1	531.9
FFB Yield (x)	22.8	23.0	23.1	23.1	23.9
OER (%)	21.1	21.2	21.7	22.0	22.0

Sources : Company, MNCS

MNC Research Industry Ratings Guidance

- **OVERWEIGHT :** Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months
- **NEUTRAL :** Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months
- **UNDERWEIGHT :** Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

- **BUY** : Share price may exceed 10% over the next 12 months
- **HOLD** : Share price may fall within the range of +/- 10% of the next 12 months
- **SELL** : Share price may fall by more than 10% over the next 12 months
- **Not Rated** : Stock is not within regular research coverage

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