

Upside from Chandra Asri priced-in

Star Energy acquisition to add stable earnings upon completion

Action: Initiate at Neutral and TP of IDR1,860 (1.1% implied upside) Barito Pacific (BRPT) has transformed itself from a timber-based company to having diversified businesses with investments in the petrochemicals, property, forestry and plantation sectors. Key earnings contributor, Chandra Asri (CAP, TPIA IJ, Neutral), BRPT's petrochemical arm, contributes significantly to FY17F earnings, due to losses from the forestry and plantation divisions. BRPT announced its plan to acquire a 66% stake in Star Energy (unlisted) in Dec-16. BRPT's share price is +151% YTD and seems to have been largely factored in an earnings recovery from CAP and more stable earnings once the Star Energy acquisition goes through. Our SOP-derived TP of IDR1,860 translates to an FY18F P/E of 12.7x, still below TPIA's FY18F P/E of 17.4x.

Cheaper proxy to CAP with more stable earnings

1H17 net earnings improved 34% y-y to USD153mn, due to CAP's strong performance. We expect earnings to remain stable in FY18F. We think BRPT is the cheaper proxy to TPIA, with FY18F PE/PBV of 12.5x/1.3x, vs CAP's 17.4x/3.2x. Our petrochemicals analyst, Abhishek Nigam, is positive on CAP's LT outlook due to its: 1) position as the largest domestic petrochemical firm in a fast-growing market; 2) premium pricing due to domestic shortages; and 3) solid growth trajectory. However, he has a Neutral rating on CAP due to its rich valuations, and belief that the re-rating in CAP's stock price is over, and chemical spreads seem likely to consolidate in FY17-19F. Our forecasts are above consensus due to above-consensus forecasts for CAP.

Uncertainty in Star Energy acquisition; upside largely priced-in

BRPT's potential acquisition of Star Energy should provide it with a cushion against a potential downturn in the petrochemicals cycle from CAP. Star Energy should also provide BRPT with more stable earnings with exposure to 875MW of geothermal capacity in Indonesia. However, the acquisition plan has not been concluded and there is a lack of details on the financing plan at this juncture. For petrochem exposure, our top pick is SIAM Cement (SCC TB). Key upside risk: stronger earnings contribution from CAP. Key downside risks: delay in Star Energy acquisition, and higher oil price, which could lower CAP's contribution.

Year-end 31 Dec	FY16		FY17F		FY18F		FY19F	
Currency (USD)	Actual	Old	New	Old	New	Old	New	
Revenue (mn)	1,961		2,179		2,245		2,333	
Reported net profit (mn)	132		143		150		160	
Normalised net profit (mn)	132		143		150		160	
FD normalised EPS	1.89c		1.03c		1.08c		1.15c	
FD norm. EPS growth (%)	na		-45.3		4.9		6.2	
FD normalised P/E (x)	7.1	N/A	13.2	N/A	12.6	N/A	12.0	
EV/EBITDA (x)	4.2	N/A	3.6	N/A	3.0	N/A	2.4	
Price/book (x)	0.7	N/A	1.1	N/A	0.9	N/A	0.8	
Dividend yield (%)	na	N/A	na	N/A	na	N/A	na	
ROE (%)	10.0		9.0		7.9		7.1	
Net debt/equity (%)	15.9		1.8		net cash		net cash	

Source: Company data, Nomura estimates

Key company data: See next page for company data and detailed price/index chart.

Global Markets Research

13 October 2017

Rating Remains	Neutral
Target Price Remains	IDR 1,860
Closing price 11 October 2017	IDR 1,840
Potential upside	+1.1%

Anchor themes

BRPT is a proxy to CAP. The refining and chemical sectors in Asia are poised for a benign margin environment in next 12 months. Upside risks should stem from better-than-expected global demand which may offset supply growth issues for chemicals. Refining supply/demand looks relatively better over next 6 months.

Nomura vs consensus

Our earnings estimates for FY17F-19F are 5-10% above consensus.

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Key data on Barito Pacific

Relative performance chart



Source: Thomson Reuters, Nomura research

Notes:

Performance

(%)	1M	3M	12M		
Absolute (IDR)	-12.4	23.9	283.3	M cap (USDm)	1,900.6
Absolute (USD)	-14.7	22.8	269.0	Free float (%)	N/A
Rel to MSCI Indonesia	-12.7	23.2	275.7	3-mth ADT (USDm)	5.1

Income statement (USDmn)

Year-end 31 Dec	FY15	FY16	FY17F	FY18F	FY19F
Revenue	1,406	1,961	2,179	2,245	2,333
Cost of goods sold	-1,267	-1,474	-1,637	-1,687	-1,753
Gross profit	139	487	542	558	580
SG&A	-85	-81	-89	-92	-92
Employee share expense					
Operating profit	54	407	452	466	488
EBITDA	135	502	544	561	583
Depreciation	-80	-96	-92	-95	-95
Amortisation					
EBIT	54	407	452	466	488
Net interest expense	-29	-38	-33	-27	-22
Associates & JCEs	-4	-5	-5	-5	-5
Other income	13	17	0	0	0
Earnings before tax	35	380	414	434	461
Income tax	-30	-100	-109	-114	-121
Net profit after tax	5	280	305	319	339
Minority interests	-10	-148	-161	-169	-179
Other items					
Preferred dividends					
Normalised NPAT	-5	132	143	150	160
Extraordinary items	0	0	0	0	0
Reported NPAT	-5	132	143	150	160
Dividends					
Transfer to reserves	-5	132	143	150	160

Valuations and ratios

Reported P/E (x)	na	7.1	13.2	12.6	12.0
Normalised P/E (x)	-182.6	7.1	13.2	12.6	12.0
FD normalised P/E (x)	na	7.1	13.2	12.6	12.0
Dividend yield (%)	na	na	na	na	na
Price/cashflow (x)	12.1	2.1	5.6	4.5	4.3
Price/book (x)	0.8	0.7	1.1	0.9	0.8
EV/EBITDA (x)	19.1	4.2	3.6	3.0	2.4
EV/EBIT (x)	49.8	5.2	4.3	3.6	2.9
Gross margin (%)	9.9	24.9	24.9	24.9	24.9
EBITDA margin (%)	9.6	25.6	25.0	25.0	25.0
EBIT margin (%)	3.9	20.7	20.7	20.7	20.9
Net margin (%)	-0.4	6.7	6.6	6.7	6.8
Effective tax rate (%)	85.4	26.4	26.4	26.4	26.4
Dividend payout (%)	na	0.0	0.0	0.0	0.0
ROE (%)	na	10.0	9.0	7.9	7.1
ROA (pretax %)	2.3	18.2	19.5	19.5	19.8

Growth (%)

Revenue	-43.2	39.5	11.1	3.0	3.9
EBITDA	27.1	273.1	8.3	3.1	3.9
Normalised EPS	na	na	-45.3	4.9	6.2
Normalised FDEPS	na	na	-45.3	4.9	6.2

Source: Company data, Nomura estimates

Cashflow statement (USDmn)

Year-end 31 Dec	FY15	FY16	FY17F	FY18F	FY19F
EBITDA	135	502	544	561	583
Change in working capital	-13	56	-60	2	17
Other operating cashflow	-41	-122	-148	-146	-149
Cashflow from operations	81	437	336	416	451
Capital expenditure	-226	-141	-137	-137	-137
Free cashflow	-146	295	199	279	314
Reduction in investments	29	8	0	0	0
Net acquisitions	-46	-2	0	0	0
Dec in other LT assets	3	2	0	0	0
Inc in other LT liabilities					
Adjustments	-5	-2	0	0	0
CF after investing acts	-164	301	199	279	314
Cash dividends					
Equity issue	0	-4	0	0	0
Debt issue	63	-69	-73	-91	-69
Convertible debt issue					
Others	-13	-26	0	0	0
CF from financial acts	51	-100	-73	-91	-69
Net cashflow	-114	201	126	188	245
Beginning cash	219	105	306	432	620
Ending cash	105	306	432	620	866
Ending net debt	499	231	32	-247	-562

Balance sheet (USDmn)

As at 31 Dec	FY15	FY16	FY17F	FY18F	FY19F
Cash & equivalents	105	306	432	620	866
Marketable securities					
Accounts receivable	60	148	119	129	146
Inventories	183	202	205	229	233
Other current assets	100	72	116	118	109
Total current assets	448	729	872	1,096	1,353
LT investments	77	119	119	119	119
Fixed assets	1,639	1,636	1,681	1,723	1,765
Goodwill					
Other intangible assets					
Other LT assets	89	87	87	87	87
Total assets	2,253	2,571	2,759	3,025	3,324
Short-term debt	129	133	133	133	133
Accounts payable	264	367	344	375	398
Other current liabilities	13	44	24	31	37
Total current liabilities	406	545	502	539	569
Long-term debt	475	404	330	239	171
Convertible debt					
Other LT liabilities	176	174	174	174	174
Total liabilities	1,057	1,122	1,006	953	913
Minority interest	0	0	0	0	0
Preferred stock					
Common stock	973	973	973	973	973
Retained earnings	-123	9	313	633	972
Proposed dividends					
Other equity and reserves	346	466	466	466	466
Total shareholders' equity	1,196	1,448	1,753	2,072	2,411
Total equity & liabilities	2,253	2,571	2,759	3,025	3,324

Liquidity (x)

Current ratio	1.11	1.34	1.74	2.03	2.38
Interest cover	1.9	10.7	13.7	17.6	22.5

Leverage

Net debt/EBITDA (x)	3.71	0.46	0.06	net cash	net cash
Net debt/equity (%)	41.7	15.9	1.8	net cash	net cash

Per share

Reported EPS (USD)	-0.08c	1.89c	1.03c	1.08c	1.15c
Norm EPS (USD)	-0.08c	1.89c	1.03c	1.08c	1.15c
FD norm EPS (USD)	-0.08c	1.89c	1.03c	1.08c	1.15c
BVPS (USD)	0.17	0.21	0.13	0.15	0.17
DPS (USD)	0.00	0.00	0.00	0.00	0.00

Activity (days)

Days receivable	22.3	19.4	22.4	20.2	21.5
Days inventory	58.5	47.9	45.4	47.0	48.1
Days payable	97.1	78.3	79.2	77.8	80.5
Cash cycle	-16.3	-11.0	-11.4	-10.7	-10.9

Source: Company data, Nomura estimates

Petrochemicals the largest earnings contributor

Established in 1979, Barito Pacific (BRPT) has transformed from a timber-based company in its early years to a diversified resource-based company through its strategic acquisitions in the past four decades. BRPT is now engaged in the forestry, petrochemicals, property and plantation sectors. BRPT's key earnings contributor is its petrochemical arm, Chandra Asri (CAP; TPIA IJ – Neutral), which contributes significantly to FY17F earnings due to losses from forestry and plantation divisions

CAP is the largest and only integrated petrochemical producer in Indonesia. Being the only company in the country with an olefin cracker, CAP stands to benefit the most relative to peers from the shortage of petrochemical products, which also results in premium pricing for chemicals in the country.

Our petrochemicals analyst, Abhishek Nigam, is positive on CAP's LT outlook due to: 1) CAP is the largest petrochemical company in a fast-growing market; 2) its premium pricing due to domestic shortages; and 3) its solid growth trajectory. However, he has a Neutral rating on CAP because of its rich valuations and his belief that the re-rating in its stock price is over, and chemical spreads are likely to consolidate in FY17-19F.

CAP's key products can be divided into four major categories:

- **Olefins:** With 860ktons of ethylene and 470ktons of propylene production capacities, as per management, CAP is the seventh-largest olefin producer in southeast Asia and largest in Indonesia, with 69% of capacity share in the country. CAP also has the only naphtha-based cracker in the country; the only other olefin producer in Indonesia is Pertamina (unlisted) which has a 608ktons propylene capacity based on the Residue Catalytic Cracker in its refinery. Other key chemicals produced by CAP as part of olefins are Py-Gas (Capacity: 400ktons) and Mixed C4 (Capacity: 315ktons). Olefins contributed ~32% to group revenue in FY16.
- **Polyolefins:** Polyolefin capacity of CAP includes 336ktons of polyethylene (PE) and 480ktons of polypropylene (PP). CAP constitutes ~53% of Indonesia's total polyolefin capacity. CAP is the sixth-largest polyolefin producer in southeast Asia and polyolefin constitutes ~42% of CAP's sales as of FY16. Other key polyolefin players in Indonesia are Lotte Chemical Titan (TTNP MK, Buy), and PT Polytama (unlisted).
- **Styrene Monomer:** CAP is the only producer of SM in Indonesia. Indonesia has surplus SM capacity, with only 185ktons demand in FY16, compared with capacity of 340ktons, according to Nexant. However, SM demand is expected to grow rapidly at a CAGR of 10.5% over the next six years, according to Nexant.
- **Butadiene:** CAP is the sole BD producer in Indonesia, with a capacity of 100ktons. Indonesia has very small BD demand of just 64ktons (in 2016), which is expected to have a CAGR of 17.7% over the next six years to 178ktons. CAP stated that it will raise its BD capacity to 137ktons by 2Q18 according to the company's expansion plans. BD is mainly used to manufacture synthetic rubber. CAP's JV with Michelin, which is part of its downstream integration strategy for BD, with capacity to produce 120ktons of synthetic rubber, is expected to come online in 1Q18F.

Fig. 1: Utilisation breakdown by plants

Utilisation by products	FY15	FY16	FY17F	FY18F	FY19F
Ethylene	39.4%	89.7%	100.0%	100.0%	100.0%
Propylene	38.7%	88.5%	100.0%	100.0%	100.0%
Py-Gas	29.5%	59.3%	60.0%	60.0%	60.0%
Mixed C4	34.9%	79.0%	80.0%	80.0%	80.0%
Polyethylene	66.7%	97.9%	85.0%	100.0%	100.0%
Polypropylene	92.5%	89.2%	90.0%	95.0%	95.0%
Styrene Monomer	68.8%	81.2%	90.0%	100.0%	110.0%
Butadiene	47.1%	88.3%	90.0%	100.0%	110.0%

Source: Company data, Nomura estimates

Fig. 2: CAP: Key chemical spreads

USD/ton	FY15	FY16	FY17F	FY18F	FY19F
Ethylene-naphtha	610	690	650	620	595
Propylene-naphtha	337	353	400	370	345
Polyethylene-naphtha	748	734	700	670	645
Polypropylene-naphtha	666	641	625	595	570
Styrene Monomer-naphtha	632	611	750	720	695
Butadiene-naphtha	410	746	850	420	395

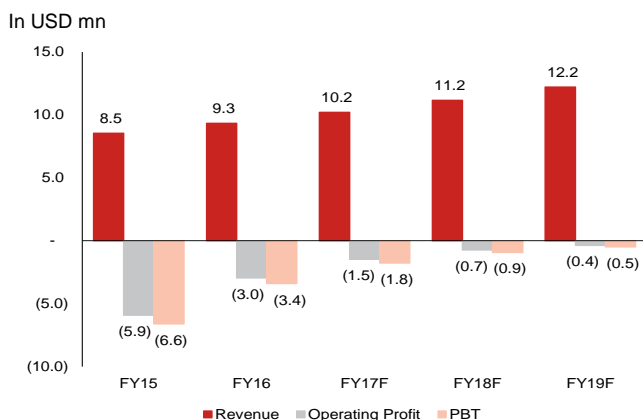
Source: Reuters, Itochu Chemical, Nomura estimates

Stable rental income under property division with upside from new projects

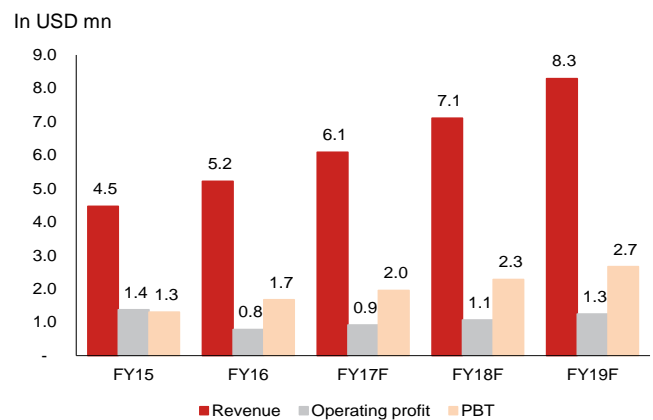
BRPT's property division is responsible for managing Wisma Barito Pacific, the main headquarters for most of BRPT's subsidiaries, and several land holdings in some of Jakarta's prime office districts. It generates stable rental and services revenues and is developing close to 5,290 sqm plot of land adjacent to the Wisma Barito Pacific Towers. Property division also continues to develop an integrated industrial park at the western tip of Jakarta. This project spans more than 50 hectares and includes a commercial complex, office space and standard factory buildings. We expect BRPT's property division to enjoy stable rental income with upside from new projects in FY17-19F. Fig. 4 shows the performance of this segment in the past two years and our estimates.

Weak performance from Forestry division

Although BRPT has been involved in the timber and woodworking industries since 1979, the uncondusive climate pervading over the timber industry in Indonesia forced the company to downsize its timber-based operations. At present, the company continues to produce particle board in Banjarmasin, South Kalimantan. Fig. 3 shows this segment's performance in the past two years and our projections for this division.

Fig. 3: Forestry segment's performance in last two years and our estimates

Source: Company data, Nomura estimates

Fig. 4: Property segment's performance in last two years and our estimates

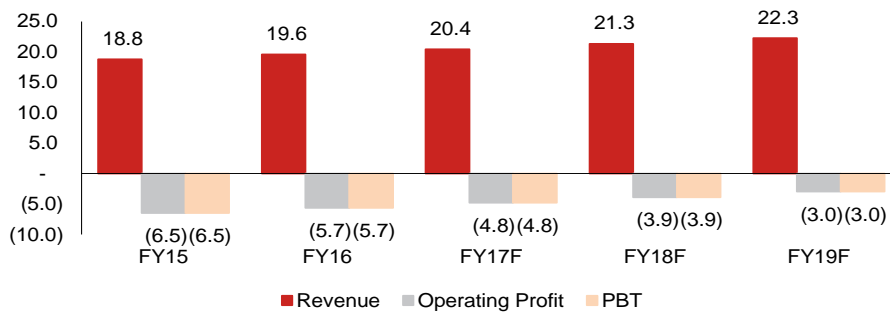
Source: Company data, Nomura estimates

Unexciting outlook for Plantations division

BRPT has a concession area of 28,980ha with a total planted area of 10,767ha as of December 2012. Its subsidiaries are engaged in the development of a palm plantation located in the Balai Sepuak Village, Belitang Hulu District, Sekadau County, West Kalimantan. We believe the outlook for palm oil is subdued in 2018 due mainly to rising inventory levels and recent increases in import duties for vegetable oils in India. We expect weaker demand after the festive seasons and rising output and inventory levels to weigh on the CPO price outlook, with the 2018 average CPO price to remain flat y-y at MYR2,650/MT levels.

Fig. 5: Forestry segment's performance in the past two years and our estimates

In USD mn



Source: Company data, Nomura estimates

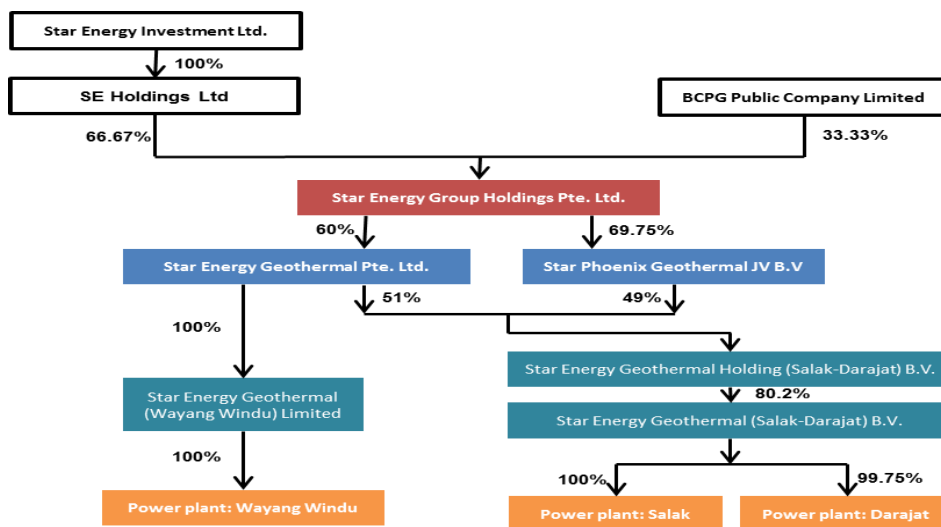
More stable earnings likely after Star Energy acquisition

BRPT plans to further diversify its future earnings with its planned acquisition of a 66% stake in Star Energy. In December 2016, BRPT announced its intent to acquire a 66% stake in Star Energy Group Holdings (Star Energy, Not rated), with an indicative acquisition price of about USD700m ([Announcement](#)). Star Energy is an affiliated entity controlled by tycoon Prajogo Pangestu (BRPT's major shareholder with a 69.3% stake). According to a news article ([Indonesia: Barito Pacific readying \\$700m to acquire majority stake in Star Energy](#), dealstreetasia.com) BRPT has transferred a sum of USD234mn to secure the deal while looking for the remaining financing. The acquisition is expected to be completed by 1Q18 and BRPT plans to consolidate earnings from Star Energy from 2H18 onwards. Star Energy stated that it is planning to increase its geothermal power production capacity to 1,200 MW by 2028. We believe BRPT is likely to finance the acquisition by debt and/or new share issuance in BRPT.

Prajogo Pangestu recently sold 33.3% of his 100% stake in Star Energy Group Holdings Ltd to BCPG (BCPG TB, not rated), a Thai listed renewable energy arm of state majority-owned energy firm Bangchak Corporation (BCP TB – Not rated). The deal was valued at USD357.5 mn, implying a total valuation of USD1,073mn for Star Energy. We refer to Bangchak's [announcement](#) on Stock Exchange of Thailand for details on Star Energy which indicate that BCPG indirectly invests in three operating geothermal power plants: 1) Wayang Windu, 2) Salak, and 3) Darajat.

Following the acquisition, BCPG will hold stakes in three geothermal power plants in Indonesia. The Figure below explains the ownership structure after the BCPG deal with Star Energy.

Fig. 6: Ownership structure of three Indonesia Geothermal plants after BCPG/Star Energy deal



Source: BCPG

1. Geothermal power plant Wayang Windu

Geothermal power plant Wayang Windu is located on the Wayang Windu land concession near Pangalengan City in West Java District, Indonesia, which to the south of Bandung City by approximately 40 kilometres. The current installed capacity to generate electricity is 227 megawatts, which can produce electricity for approximately 1,988 gigawatts hour annually from Unit 1 and Unit 2. According to the power purchase agreement, the installed generating capacity can be maximised to 400 megawatts with the long-term take-or-pay with PT PLN (Persero) ("PLN") which is the state-enterprise engaging in the business of procuring and distributing electricity. The installed capacity of Wayang Windu is the third-largest geothermal source in Indonesia.

At present, there have been reservoirs' exploration and evaluation of the possibility to increase the capacity in Unit 3 (60 megawatts) and Unit 4 (60 megawatts), totalling 120 megawatts. It is now under consideration to drill the exploration well to confirm the possibility of Unit 3 and there will be a process to approve the electricity distribution price and the financing for the investment afterwards.

2. Geothermal power plant Salak

Geothermal power plant Salak is located in Sukabumi & Bogor area in the West Java District, Indonesia. The current installed capacity is 377 megawatts, which can be divided into two types: 1) Units 1-3 with total capacity of 180 megawatts under a steam purchase agreement in a take-or-pay scheme with PT IP (Subsidiary of PLN), and 2) Units 4-6 with total capacity of 197 megawatts under a power purchase agreement in a take-or-pay scheme with PLN. All 6 units are able to generate electricity annually at approximately 2,978 gigawatts hour. The installed capacity of Salak is the largest geothermal source in Indonesia.

3. Geothermal power plant Darajat

Geothermal power plant Darajat is located in Garut and Bandung in the West Java District, Indonesia. The current installed capacity is 271 megawatts, which can be divided into 2 types: 1) Unit 1 with installed capacity of 55 megawatts under a steam purchase agreement in a take-or-pay schedule with PT IP (Subsidiary of PLN), and 2) Units 2-3 with total installed capacity of 216 megawatts under a power purchase agreement in a take-or-pay scheme with PLN. All three units are able to generate electricity annually at approximate 2.374 gigawatts hour. The installed capacity of Darajat is the second-largest geothermal source in Indonesia.

Sensitivity analysis on Star Energy acquisition

Based on Bangchak's [announcement](#), we have constructed scenarios to assess the impact of the Star Energy acquisition on BRPT's financials under different financing scenarios. Our assumptions on earnings contributions from Star Energy are based on financials given for the three Indonesia assets in the [BCPG announcement on SET](#) Acquisition value assumed at USD700mn:

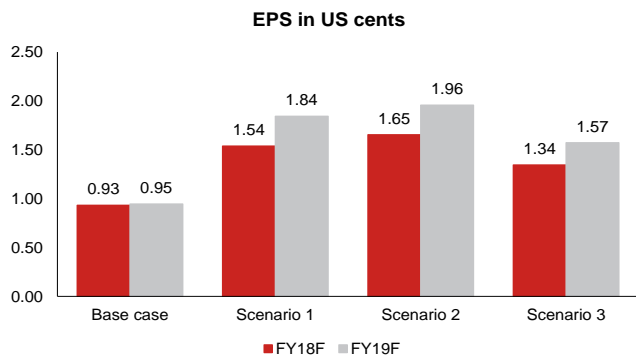
Base case: No Acquisition

Scenario 1: Fully funded by debt

Scenario 2: Partially funded by cash on hand and remaining by debt

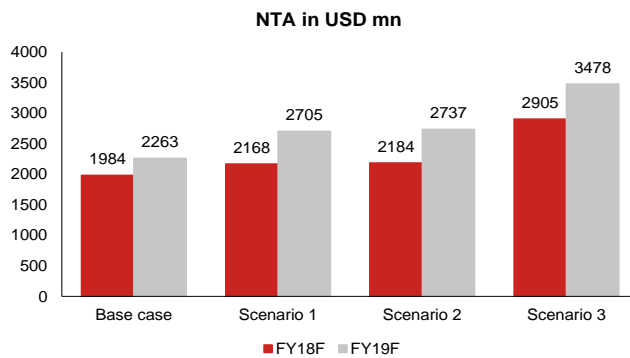
Scenario 3: Fully funded by new shares issued.

Fig. 7: Impact on EPS estimates



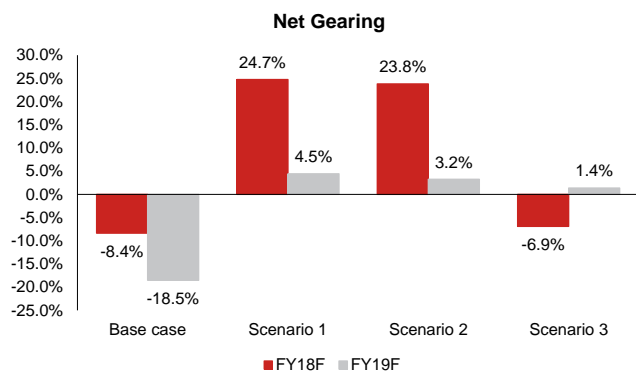
Source: BCPG, Nomura estimates

Fig. 8: Impact on Net total assets



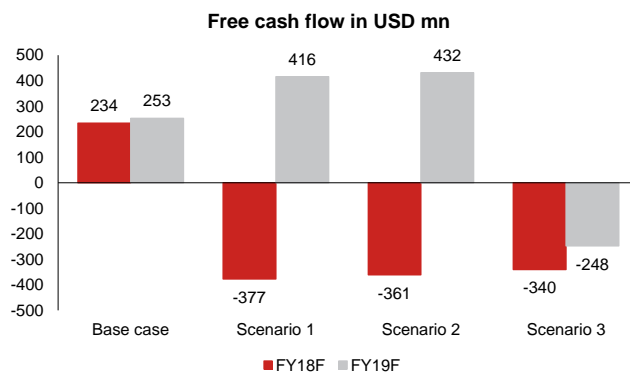
Source: BCPG, Nomura estimates

Fig. 9: Impact on Net Gearing



Source: BCPG, Nomura estimates

Fig. 10: Impact on Free cash flow



Source: BCPG, Nomura estimates

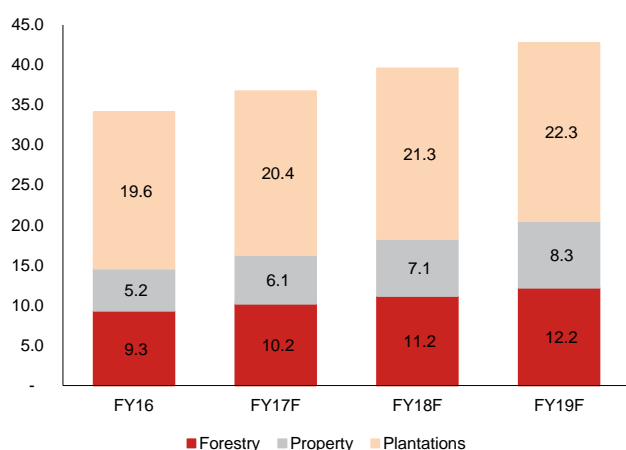
Financials

Key assumptions:

- We have yet to factor-in Star Energy into BRPT earnings forecasts given the lack of data and information about the performance of Star Energy, acquisition price and structure.
- We expect losses to continue in the Forestry segment due to inclement weather and loss of economies of scale.
- We expect the property segment to provide stable income from rentals.
- For the plantation segment, we expect production recovery to continue in the sector but CPO prices to remain subdued, owing to high inventory levels. We expect the segment to minimize losses going forward.
- Below is a summary of our segment forecasts (excluding Petrochemical segment):

Fig. 11: Segment revenues forecast (ex-petchem)

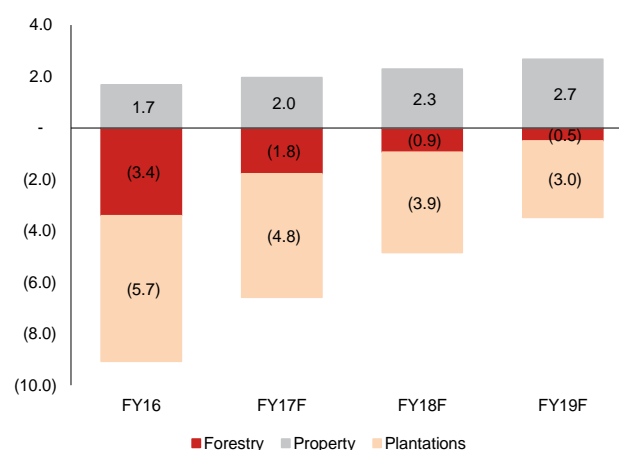
In USD mn



Source: Company data, Nomura estimates

Fig. 12: Segment PBT forecast (ex-petchem)

In USD mn



Source: Company data, Nomura estimates

Key assumptions for CAP

Expect solid plant utilization levels in the absence of any planned TA. CAP has guided that the next turnaround activity of its petrochemical plants is scheduled in 2020. As such, we expect the plant utilization to be maintained at an elevated level over our forecast period FY17-19F, as presented in the table below.

Petchem spreads to fall over the forecast period. We are wary of new US olefins plants expected to start up in the next three years. Hence, we look for flat chemical prices in the forecast period. We have built in a slight uptick in naphtha prices as we expect crude oil prices to stage a modest recovery. Consequently, we forecast falling chemical spreads over FY17-19F. For CAP, some loss due to falling spreads should be offset by increased production capacity and higher utilisation over the same period.

CAP enjoys premium product pricing due to higher import prices. Due to the shortage of feedstock in the country, Indonesia doesn't have sufficient olefins and derivatives capacity to fulfil the domestic demand. Therefore, the country has to import more than 50% of its polyolefin requirement from neighbouring countries. Due to solid domestic demand growth, and lack of capacity growth, the imported chemicals trade at a premium of 6-8% over the regional benchmark (ICIS High). Chandra Asri is a significant beneficiary of this pricing advantage and has planned capacity expansions of PE and PP to further utilize this opportunity.

Due to five-year periodic maintenance in 2015, utilization of its naphtha cracker facility dropped to 42% from 92% in 2014. Naphtha usage dropped from 1559KT in 2014 to 974KT in 2015. This impacted the financial performance of the company too. After the maintenance, in 2016, Naphtha usage increased to 2121KT and utilization increased to 87%. We expect the financials to improve with growth coming from capacity expansion. Charts below summarise BRPT's financial performance in recent years and quarters.

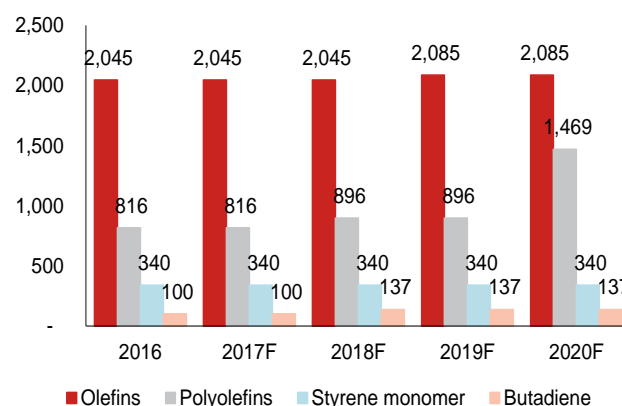
Capacity Expansion and utilization: We have assumed capacity expansion as described in Fig. 13 and Fig. 14. We have assumed plant utilization to remain at 2016 levels for FY17-19F. Our production output and revenues by product are below.

Fig. 13: Key capacity expansion projects of CAP

Project	Capacity added (KT/year)	Estimated cost (USD mn)	Target COD	Source of funds
Polyethylene plant	400	350	4Q19	70:30 (D/E)
Expansion of butadiene factory	37	42	2Q18	Internal cash
Debottlenecking polypropylene plant	110	40	3Q19	Internal cash
Furnace revamp	40	45	1Q20	Internal cash
MTBE and Butene	130+43	87	3Q20	Internal cash
Second Petrochemical Complex	1000	TBA	TBA	TBA

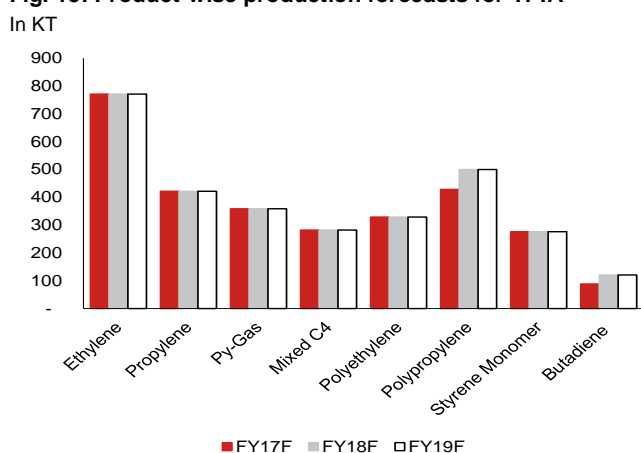
Source: Company data

Fig. 14: Capacity expansion forecasts



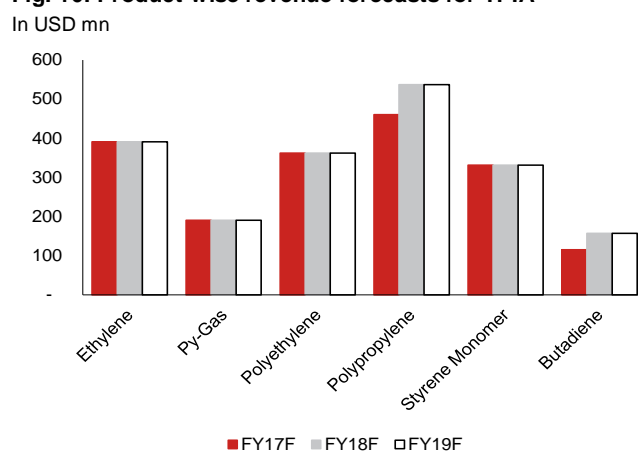
Source: Company data, Nomura estimates

Fig. 15: Product-wise production forecasts for TPIA



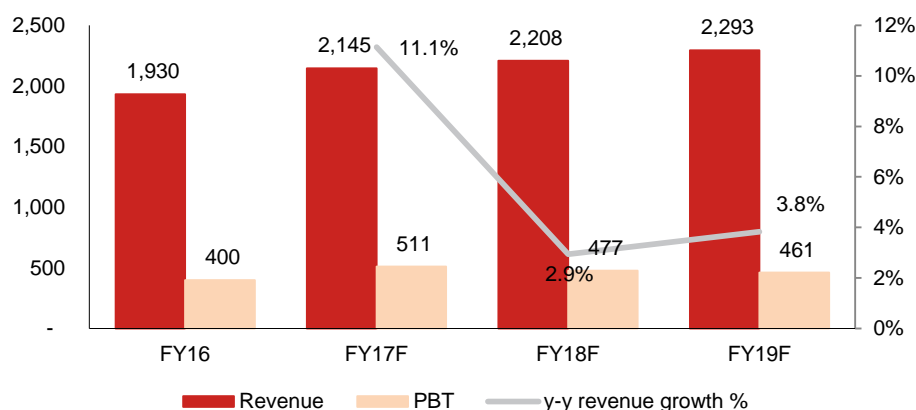
Source: Nomura estimates

Fig. 16: Product-wise revenue forecasts for TPIA



Source: Nomura estimates

Fig. 17: Petrochemical segment forecasts

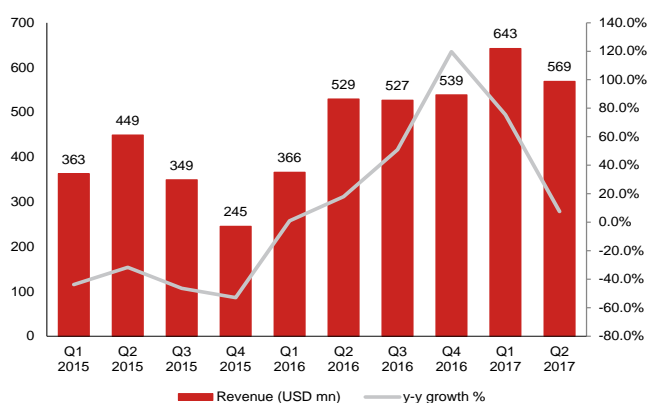


Source: Nomura estimates

Historical financial performance of BRPT

Fig. 18: BRPT's quarterly revenues in last two years

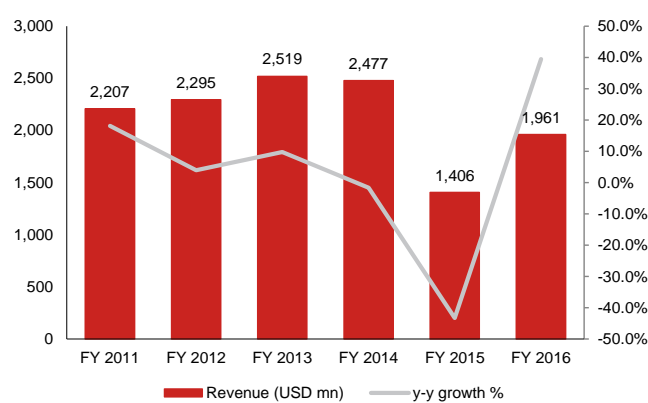
In USD mn



Source: Company data

Fig. 19: BRPT's yearly revenues in last 6 years

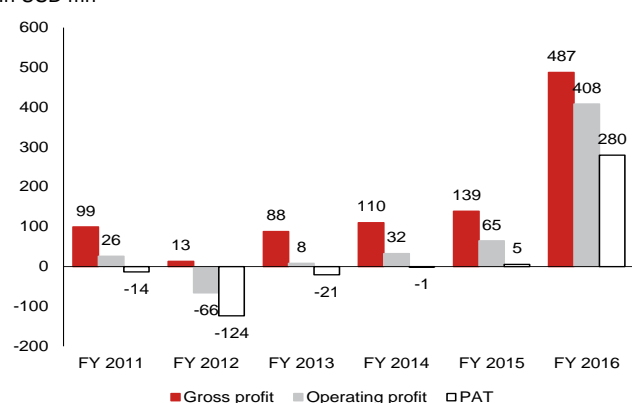
In USD mn



Source: Company data

Fig. 20: BRPT's gross profit, operating profit and PAT

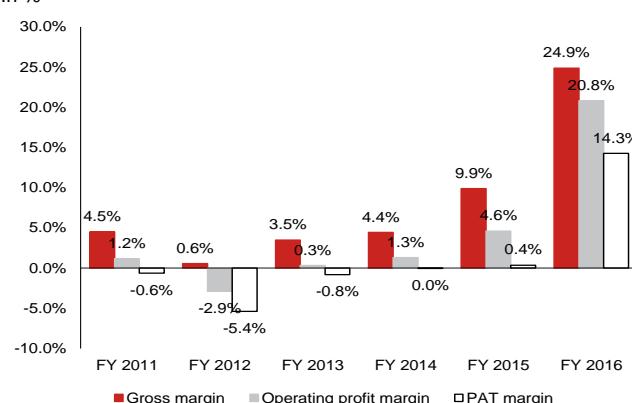
In USD mn



Source: Company data

Fig. 21: BRPT's margin trend in last 6 years

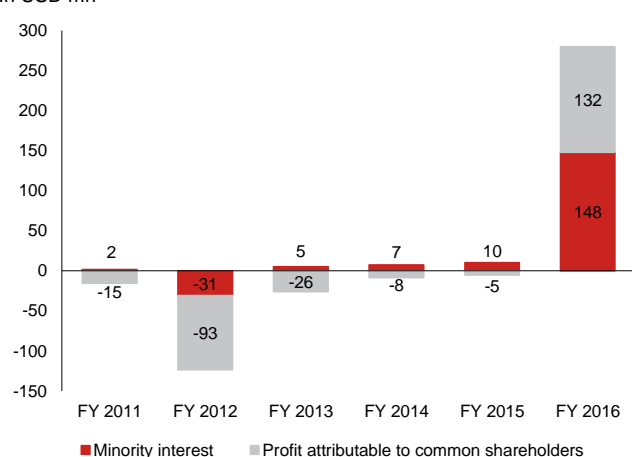
In %



Source: Company data

Fig. 22: BRPT's total PAT divided in minority interest and PATAMI

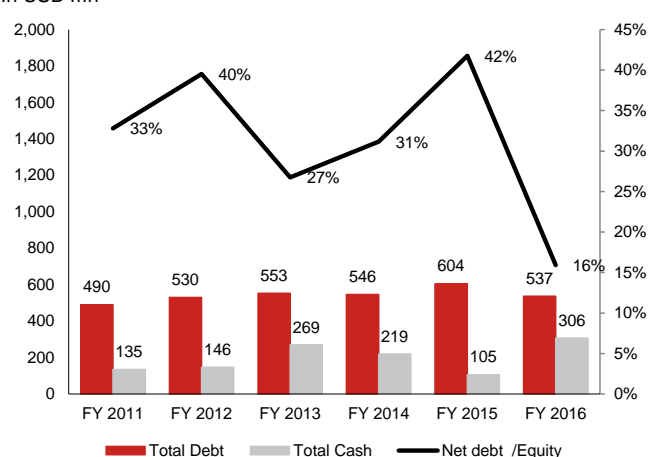
In USD mn



Source: Company data

Fig. 23: BRPT's total debt, cash and net gearing

In USD mn



Source: Company data

Projected income statement for FY17-19F

Fig. 24: Projected Income Statement

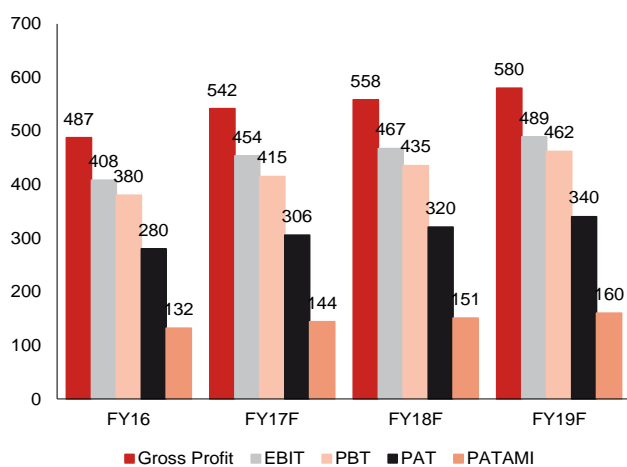
In USD mn

	FY16	FY17F	FY18F	FY19F
Revenues	1961	2179	2245	2333
Cost of revenues	-1474	-1637	-1687	-1753
Gross Profit	487	542	558	580
Selling expenses	-44	-49	-51	-51
G&A	-35	-39	-40	-40
EBIT	408	454	467	489
D&A	-96	-92	-95	-95
EBITDA	504	546	562	584
Finance costs	-38	-33	-27	-22
FX	-1	0	0	0
JV & associates	-5	-5	-5	-5
Other gain/loss	17	0	0	0
PBT	380	415	435	462
tax	-100	-110	-115	-122
PAT	280	306	320	340
MI	148	162	170	180
PATAMI	132	144	151	160

Source: Company data, Nomura estimates

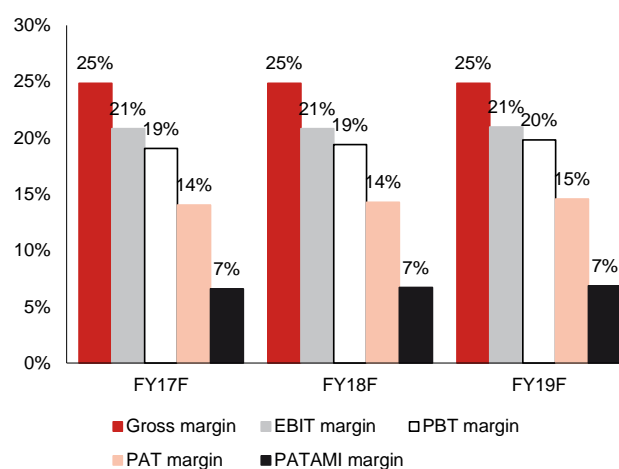
Fig. 25: Key P&L items projections

In USD mn



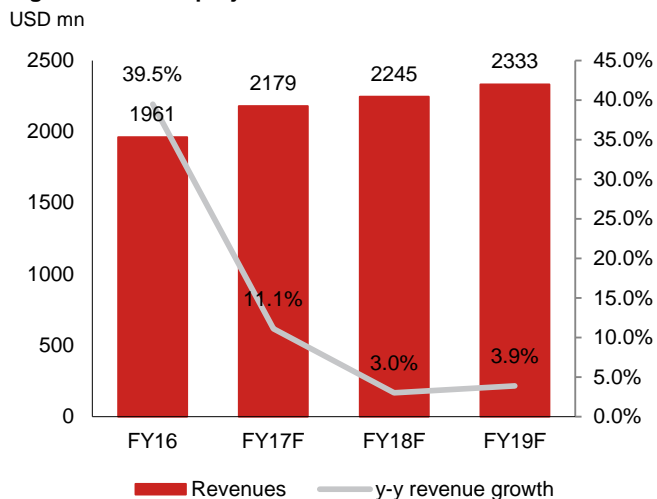
Source: Company data, Nomura estimates

Fig. 26: Margin projections



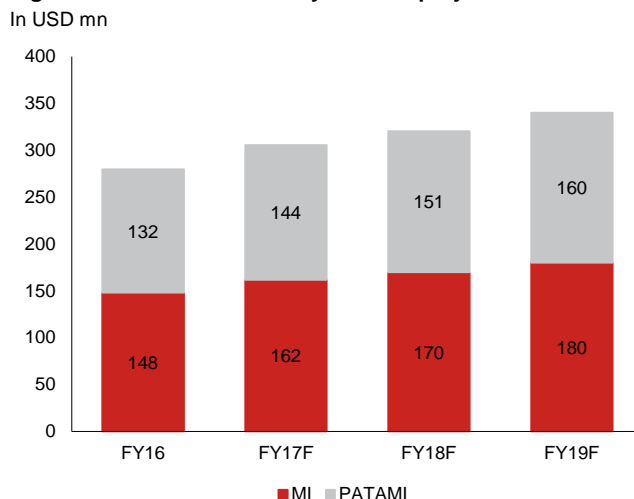
Source: Company data, Nomura estimates

Fig. 27: Revenue projections



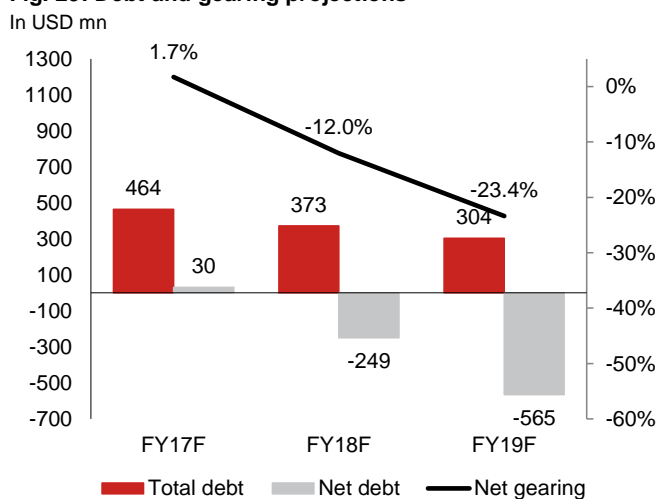
Source: Company data, Nomura estimates

Fig. 28: PATAMI and minority interest projections



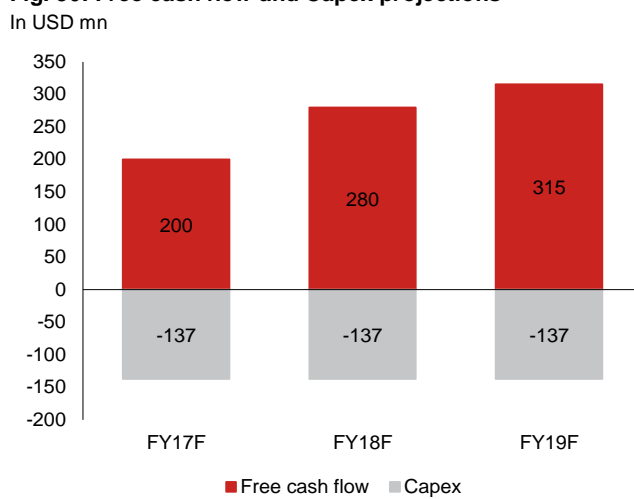
Source: Company data, Nomura estimates

Fig. 29: Debt and gearing projections



Source: Company data, Nomura estimates

Fig. 30: Free cash flow and Capex projections



Source: Company data, Nomura estimates

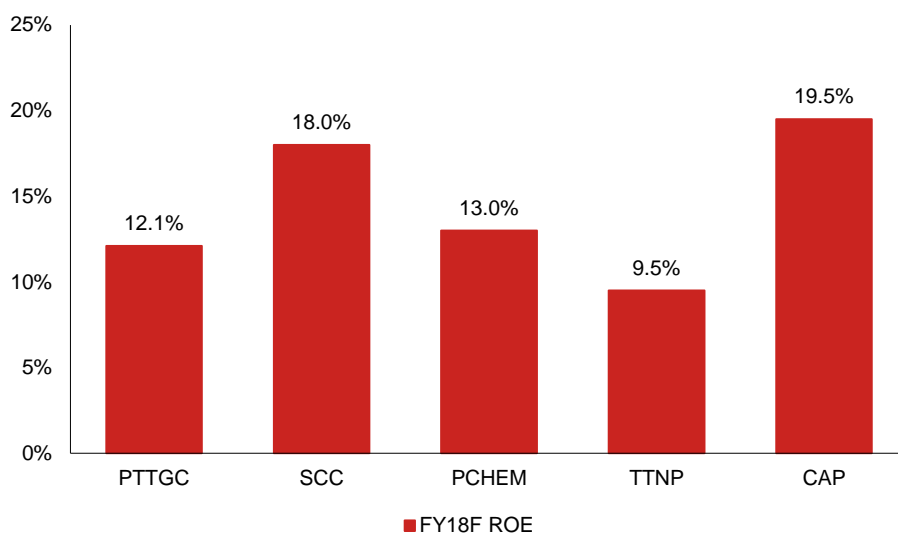
Valuations

We have used a Sum-of-the-Parts valuation method for the purpose of valuation of BRPT's four segments. After combining them, we use a holding company discount of 36% to arrive at our BRPT valuation of IDR1,860 per share.

Petrochemicals: Based on the valuation provided by our petrochemicals analyst, Abhishek Nigam, who uses an EV/EBITDA ratio of 10.0x on CAP's 2018F EBITDA of USD562, he arrived at an enterprise value of USD5,616. He then derived the equity value of USD6,111 by adding CAP's net cash of USD411 and Associates/JVs of USD84mn to the enterprise value. BRPT's share of this equity value is USD3,067mn based on 50.19% ownership. The petrochemical segment contributes more than 95% of our overall company valuation.

Our target multiple of 10.0x for the petrochemical business is at a premium of 33% to regional average FY18F EV/EBITDA multiple of 7.5x. We think the premium is justified given that Indonesia is one of the most attractive markets in the region, due to premium pricing and growth potential. CAP also has very limited competition in Indonesia and has very well laid out planned capacity expansions in the next four years to leverage on its competitive advantage position. Chandra Asri also has the highest return ratio (ROE) among the companies under our coverage (Fig. 31).

Fig. 31: ROE for ASEAN petchem stocks



Source: Company data, Nomura estimates

BRPT's other three segments: BRPT's other three segments are very small compared to the petrochemical segment and contribute only ~5% to our overall company valuation. We have used trailing P/B ratio of 1.0x for rest of the segments, as shown in the figure below.

We use a holding company discount of 40% to the sum of valuations of the four segments of USD3,188mn to arrive at our BRPT valuation of USD,1913mn. This translates into our target price of IDR1860 (1.1% implied upside) with an assumed FX rate of IDR13,500/USD (Nomura forecasts).

Our TP translates into implied 2018F PE/PBV of 12.7x/1.3x respectively. The stock has been trading at a PE/PBV of 12.5x/1.3x, against the peer average of 11.6x/1.5x.

For petrochemical exposure, our top pick is SIAM Cement (SCC TB, Buy).

Fig. 32: BRPT: Sum of Parts valuation for four segments of BRPT

In USD mn

SOTP			
Petrochemicals		Property	
FY18 EBITDA	562		
Target EV/EBITDA	10.0x		
Target EV	5,616	Assets (FY16)	44.1
Net debt+Associates/JVs	(495)	Liability (FY16)	7.1
Total Equity value	6111	Implied book value	37.0
BRPT's ownership	50.2%	book value per share	0.00
BRPT's share of equity value	3067	P/B used	1.0x
Equity value per share (A)	0.221	Equity value per share (B)	0.003

Plantation		Forestry	
Assets (FY16)	85.3	Assets (FY16)	155.7
Liability (FY16)	65.9	Liability (FY16)	91.2
Implied book value	19.4	Implied book value	64.5
book value per share	0.00	book value per share	0.00
P/B used	1.0x	P/B used	1.0x
Equity value per share (C)	0.001	Equity value per share (D)	0.005

Total Equity value per share (A+B+C+D)	0.23
Holding company discount	40%
Target Price (USD/share)	0.14
Total number of shares (mn)	13881
IDRUSD assumed	13500
Target Price (IDR)	1,860
Current market price (IDR)	1840
Upside/downside	1.1%
Implied P/B (2018F)	1.3x
Implied P/E (2018F)	12.7x
ROE (2018)	11.5%

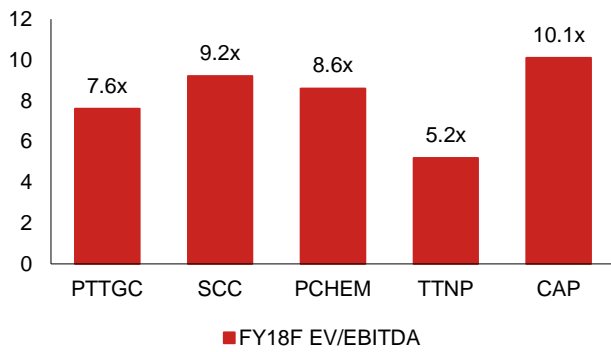
Source: Nomura estimates

Fig. 33: Implied valuations for Chandra Asri

	FY17F	FY18F	FY19F
Implied PE at our TP (X)	17.8	18.9	21.3
Implied EV/EBITDA at our TP (X)	10.4	11.0	11.8
Implied PB at our TP (X)	3.5	3.2	3.0
ROE (%)	23.6	17.8	14.7

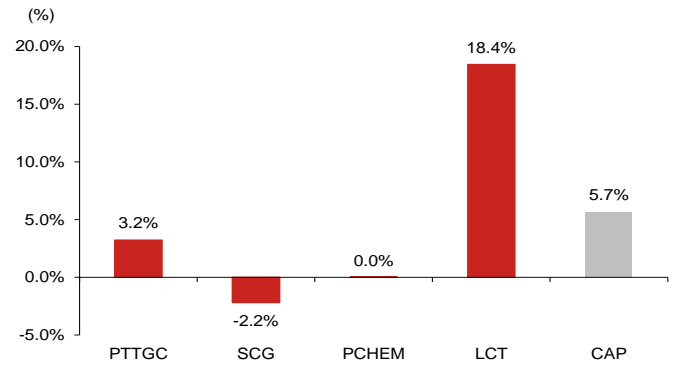
Source: Nomura estimates

Fig. 34: FY18F EV/EBITDA for ASEAN petchem stocks



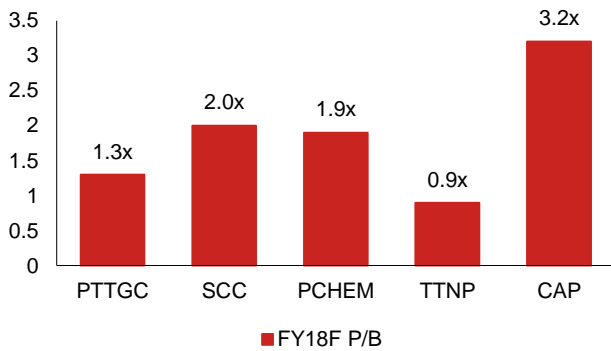
Source: Nomura estimates

Fig. 35: FY17-19F EBITDA growth for ASEAN petchem



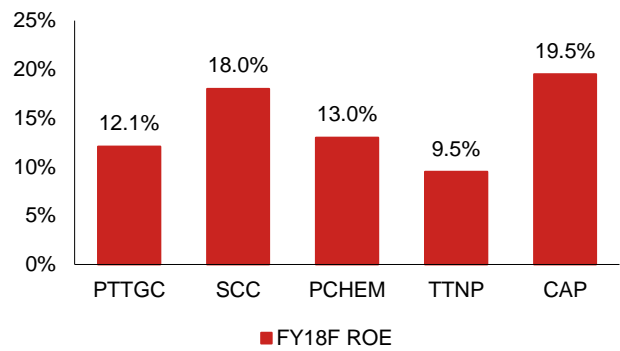
Source: Nomura estimates

Fig. 36: FY18F PB for ASEAN petchem stocks



Source: Nomura estimates

Fig. 37: ROE for ASEAN petchem stocks



Source: Nomura estimates

Fig. 38: Peer comparison table

Company	BBG Ticker	Market cap (US\$m)	Rating	P/E		P/B		EV/EBITDA		Div yield(%)		ROE(%)	
				CY17F	CY18F	CY17F	CY18F	CY17F	CY18F	CY17F	CY18F	CY17F	CY18F
Chemicals													
Thailand													
PTT Global Chemical PCL	PTTGC TB	11,242	Buy	12.8	11.5	1.4	1.3	8.3	7.6	3.9	4.4	11.5	12.1
Siam Cement PCL	SCC TB	18,150	Buy	11.5	11.8	2.2	2.0	8.9	9.2	3.9	3.8	20.6	18.0
Taiwan													
Formosa Plastics	1301 TT	19,857	Neutral	14.4	14.7	1.8	1.8	11.7	12.0	4.9	5.2	13.1	12.3
Nan Ya Plastics	1303 TT	19,602	Neutral	17.9	16.2	1.8	1.7	11.5	10.5	6.0	4.1	9.8	10.7
Formosa Chem & Fibre	1326 TT	18,283	Buy	11.7	11.4	1.7	1.6	8.6	8.2	5.9	6.4	14.5	14.3
Korea													
LG Chem	051910 KS	23,954	Buy	12.8	12.2	1.6	1.5	6.5	6.1	1.6	1.6	13.4	12.7
Lotte Chemical	011170 KS	11,389	Buy	6.9	5.8	1.4	1.1	4.5	3.4	1.1	1.7	21.7	21.1
Hanwha Chemical Corp	009830 KS	4,736	Buy	6.0	6.0	0.9	0.8	4.7	4.3	1.1	1.2	15.6	13.7
Kumho Petrochemical	011780 KS	1,920	Buy	14.9	12.9	1.2	1.1	9.1	7.7	1.4	1.4	10.3	10.8
Malaysia													
Petronas Chemicals Group Bhd	PCHEM MK	13,877	Neutral	14.5	15.0	2.0	1.9	8.3	8.6	3.6	3.4	14.4	13.0
Lotte Chemical Titan Holding Bhd	TTNP MK	2,937	Buy	12.8	10.1	1.0	0.9	6.0	5.2	1.4	3.5	9.5	9.5
Indonesia													
Chandra Asri Petrochemical	TPIA IJ	6,156	Neutral	16.2	17.4	3.5	3.2	9.6	10.1	3.1	2.9	26.5	19.5
Japan													
Sumitomo Chemical	4005 JP	10,282	Neutral	9.7	9.9	1.2	1.1	7.9	7.9	2.2	2.3	12.6	11.2
Asahi Kasei	3407 JP	17,505	Neutral	14.5	14.0	1.5	1.4	7.0	6.5	2.2	2.4	10.6	10.3
Mitsui Chemicals	4183 JP	6,077	Buy	9.2	8.7	1.2	1.1	6.7	6.2	2.9	3.2	14.1	13.6
Mitsubishi Chemical Holdings	4188 JP	14,885	Buy	8.5	8.3	1.2	1.1	6.3	6.4	3.5	3.6	14.8	13.6
Chemicals average				12.1	11.6	1.6	1.5	7.8	7.5	3.0	3.2	14.6	13.5

Source: Bloomberg, Nomura estimates. Pricing as of 11th Oct 2017

Key risks

Key risks from CAP

As CAP accounts for a significant portion of BRPT's earnings, we have highlighted key risks for CAP as below.

- Petrochemical product price risk: Product prices and margins represent a key risk for CAP. Ethylene faces risks from upcoming capacity in the US starting next year which may put downward pressure on margins. As such, our chemical spread assumptions are conservative and we expect ethylene-naphtha spread to fall to USD595/ton in FY19F from USD690/ton in FY16.
- Higher oil prices: The key feedstock for CAP petrochemical operations is naphtha, the price of which remains volatile. CAP has been a beneficiary of lower feedstock (naphtha) cost, which is correlated with crude oil prices. In the past two to three years, weak oil prices have resulted in margins for naphtha crackers trending above historical levels.
- Unplanned plant outages. Even though CAP has guided that next big turnaround of its chemical plants is scheduled in FY20F, there will be potential risk of unplanned shutdowns due to reasons beyond the control of the company.
- Execution risks on new capacity projects: We assume a few capacity expansion projects such as PP expansion (+80ktons), BD expansion (+37ktons) and the Michelin SBR JV to start up on time as guided by the company. Any delay in the start-up of these projects would be a key downside risk to earnings.
- Capex overruns: CAP is currently studying a second petrochemical project in Indonesia with a proposed capacity of 1mn tons of ethylene and other downstream products. This is a huge project with capex estimates ranging from USD4-5bn. Since this is a project of a very large scale requiring significant capital investment, there may be possible cost overruns due to factors such as delayed approvals, higher construction costs and delays in getting feedstock agreements.
- Higher competition in the future: Lotte Chemical Titan (TTNP MK, Buy) is planning to set up a greenfield naphtha cracker in Indonesia with expected COD in 2023. We think this is a potential long term risk to CAP's dominant position in the country.

Other risks for BRPT

- Risk in proposed Star Energy acquisition. BRPT has yet to announce the acquisition price and financing plan for Star Energy acquisition. There will be earnings risk if the acquisition price is unreasonable and/or earnings dilution from issuance of new share for the acquisition.
- Execution risks. There is also execution risk for power plants under Star Energy and proposed capex to fund new capacity expansion under Star Energy acquisition as well as development for new property projects
- Cyclical earnings. BRPT's existing earnings base is highly cyclical, with chemical spreads likely to consolidate in FY17-19F and a muted outlook for plantations due to growing in new supply.
- Still losses at forestry and plantation divisions. We expect continued losses in BRPT's forestry and plantation divisions due to higher operating costs and lack of economies of scale from its small resources-based production. These two units lack economies of scale in operations and we believe these units are unlikely to break-even in the near term due to the unexciting sector outlook and higher operational costs.

Background

From timber to a diversified resource-based company

Established in 1979, Barito Pacific (BRPT) has transformed from a timber-based business in its early years to a more diversified resource-based business through strategic acquisitions in the past four decades.

In 1993, the company listed its shares on the Jakarta Indonesia Stock Exchange (IDX) as PT Barito Pacific Timber Tbk. The proceeds of this listing were used by the company to embark on a massive industrial forest plantation development programs. However, the uncondusive climate pervading over the timber industry in Indonesia forced the company to downsize its timber-based operations.

The acquisition of PT Chandra Asri in 2007, which made the company the controlling majority shareholder with 70% shares in the only olefin producer in Indonesia, marked a key milestone for BRPT. In 2011, PT Chandra Asri and PT Tri Polyta Indonesia Tbk merged to become PT Chandra Asri Petrochemical Tbk (CAP; TPIA IJ – Neutral) the largest integrated petrochemical producer in Indonesia.

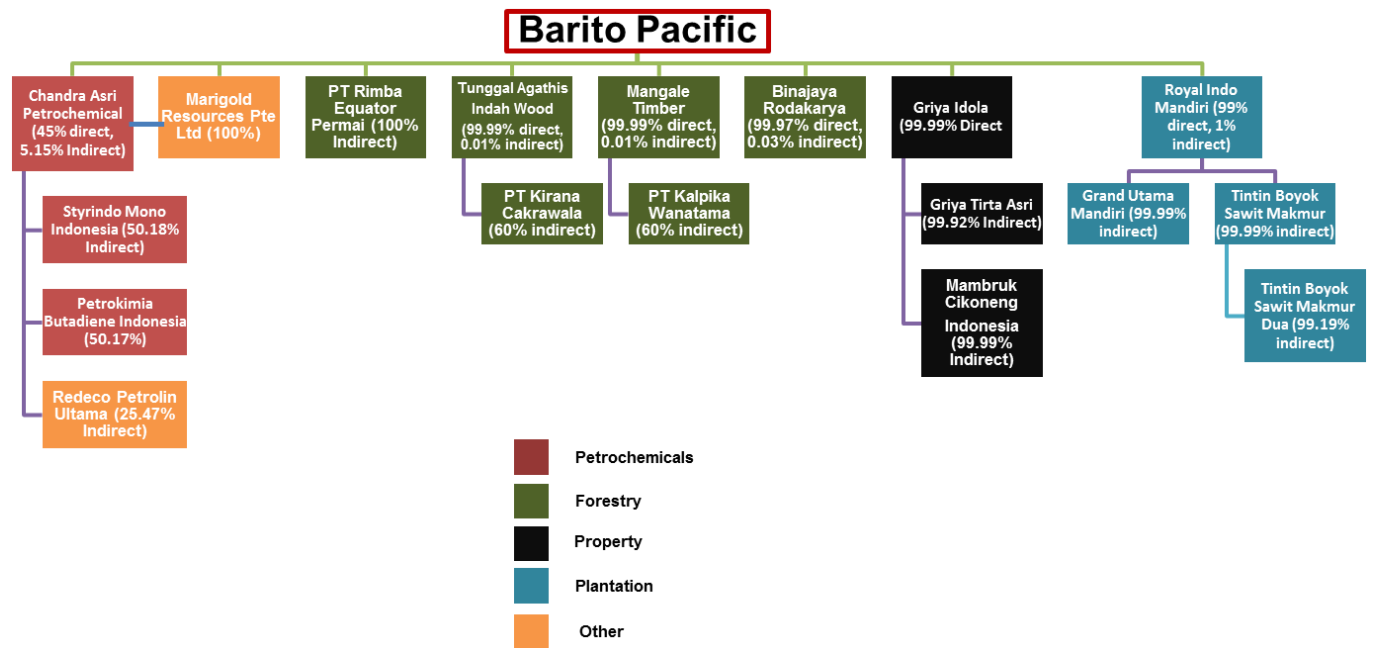
Barito Pacific is currently engaged in the forestry, petrochemicals, property and plantation industry sectors, and ultimately evolved into a fully diversified resource-based enterprise with growing interests in the mining and energy sectors, among other developments. The chart below summarises its journey.

Fig. 39: Evolution of the group from timber based business to diversified resource based business.



Source: Company data, Nomura

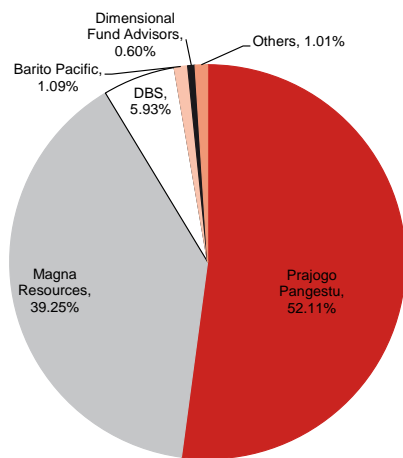
Fig. 40: BRPT's corporate structure and % ownership in different Associates/JVs in all segments



Source: Company data, Nomura

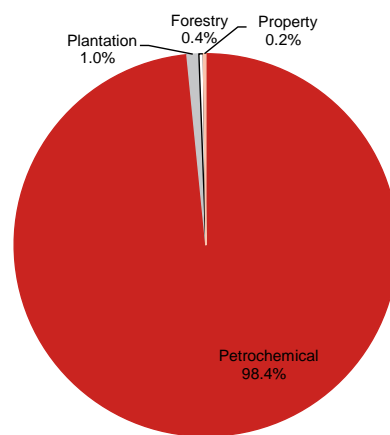
The Petrochemical segment contributed more than 98% of BRPT's FY16 revenue (Fig. 42) and all the earnings (other segment's earnings contribution is slightly negative). Fig. 41 shows the current ownership structure of the firm.

Fig. 41: BRPT: Ownership structure at the end of Sep 2017



Source: Company data, Nomura

Fig. 42: Revenue contribution of different segments (FY16)



Source: Company data, Nomura

Appendix A-1

Analyst Certification

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

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Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Barito Pacific	BRPT IJ	IDR 1,960	12-Oct-2017	Neutral	N/A	
Siam Cement PCL	SCC TB	THB 502.00	11-Oct-2017	Buy	N/A	
Chandra Asri Petrochemical	TPIA IJ	IDR 23,325	12-Oct-2017	Neutral	N/A	

Barito Pacific (BRPT IJ)

IDR 1,960 (12-Oct-2017) Neutral (Sector rating: N/A)

Chart Not Available

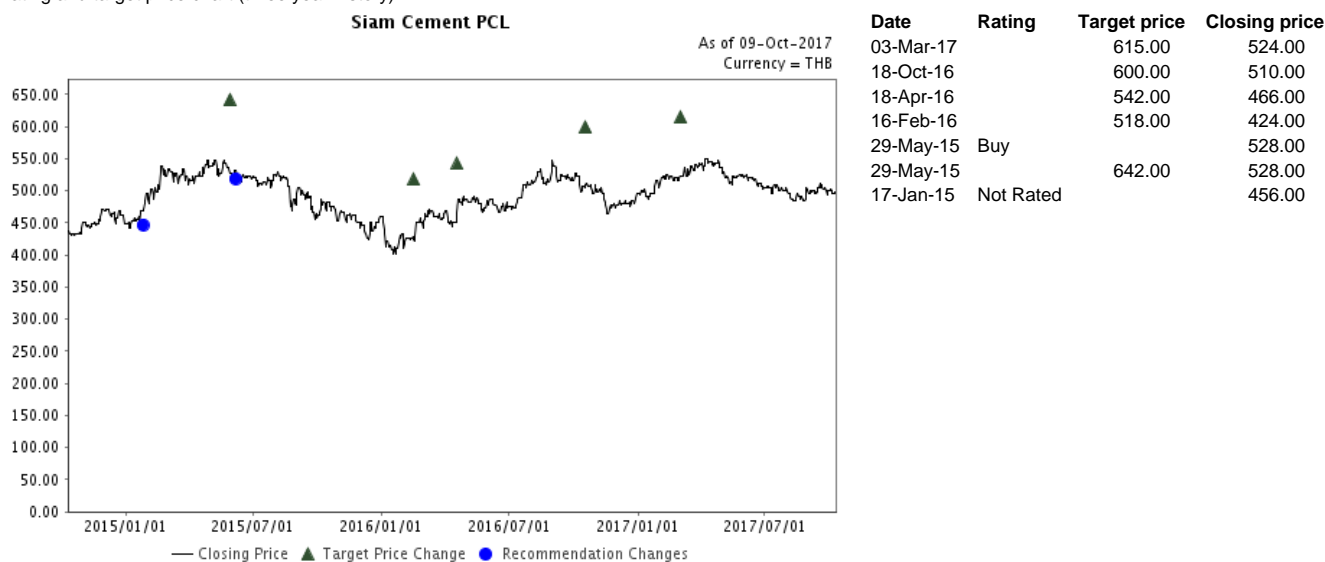
Valuation Methodology We have used Sum of Parts valuation method for the purpose of valuation of BRPT's four segments. After combining them, we used a holding company discount of 40% to arrive at our BRPT valuation of IDR1860 per share. The benchmark index for this stock is MSCI Indonesia.

Risks that may impede the achievement of the target price Key upside risk will be stronger earnings contribution from CAP and key downside risks are delay in Star Energy acquisition and higher oil price which could lower CAP's contribution.

Siam Cement PCL (SCC TB)

THB 502.00 (11-Oct-2017) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of THB615 is based on sum-of-the-parts (SOTP) valuation. We value the three core businesses (cement, chemicals and paper and packaging) on an EV/EBITDA basis, while the investment business is valued at 1.3x FY17F book value. The benchmark index for this stock is the MSCI Thailand.

Risks that may impede the achievement of the target price Key risks: 1) weaker-than-expected petrochemicals spreads; 2) continued slowdown in economic growth and therefore domestic cement demand; and 3) political uncertainties leading to weak economic reforms.

Chandra Asri Petrochemical (TPIA IJ)

IDR 23,325 (12-Oct-2017) Neutral (Sector rating: N/A)

Chart Not Available

Valuation Methodology We value the core business at 10.0x FY18F Ev/EBITDA and Associates at 1x book value to arrive at our target price of IDR23,200 per share. The benchmark for the share price is MSCI Indonesia.

Risks that may impede the achievement of the target price Key downside risks: 1) delayed new capacity start-up, 2) lower PE/PP spreads Key upside risks: 1) higher PE/PP spreads

Important Disclosures**Online availability of research and conflict-of-interest disclosures**

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50% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 41% of companies with this rating are investment banking clients of the Nomura Group*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services** by the Nomura Group.

42% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 51% of companies with this rating are investment banking clients of the Nomura Group*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services by the Nomura Group

8% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 6% of companies with this rating are investment banking clients of the Nomura Group*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services by the Nomura Group.

As at 30 September 2017.

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