

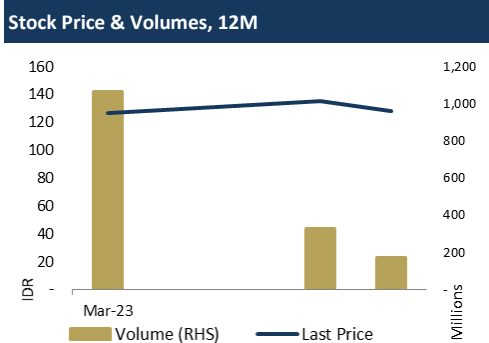
## BUY (Initiation)

Target Price (IDR)	200
Potential Upside (%)	56.2

Price Comparison	
Cons. Target Price (IDR)	N/A
SSI vs. Cons. (%)	N/A

Stock Information	
Last Price (IDR)	128
Shares Issued (Mn)	23,788
Market Cap. (IDR Bn)	3,045
52-Weeks High/Low (IDR)	136/126
3M Avg. Daily Value (IDR Bn)	-
Free Float (%)	15.0
Shareholder Structure:	
PT Mitra Agro Dharma (%)	50.3
Ir. Teguh Patriawan (%)	14.6
Others non public (%)	20.1
Public (%)	15.0

Stock Performance				
(%)	YTD	1M	3M	12M
Absolute	N/A	N/A	N/A	N/A
JCI Return	(3.0)	(4.3)	(2.3)	(4.5)
Relative	N/A	N/A	N/A	N/A



**Company Background**  
 NSS, an upstream integrated plantation company with 5 palm oil estates in Central Kalimantan, has sizeable ready-to-use landbank supporting its high-quality palm oil products. The company has strong leadership with the highest standard of operating framework.



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## Young and Beautiful

NSS, an integrated upstream premium palm oil producer (FFA <3%), owns 55,721 ha land bank strategically located in Central Kalimantan with average plant age of 8.1 years, boosting medium-term production growth. This, coupled with solid global demand for vegetable oils and biofuel, translates to 39.6% EBITDA CAGR in 2023-25F. We also like above-sector 2023-24F ROAE of 33.7%, testimony to NSS' excellent management, ensuring sustained growth. We initiate our coverage on NSSS with BUY and a TP of IDR 200/share, implying an EV/HA of USD 12,000 (35% discount to regional weighted average EV/HA).

**Youngest in the sector & strong yield with premium quality.** Thanks to excellent seeds and young plants (8.1 years old on average), NSS is poised to book 2023F FFB Yield of 17.4 tons/ha (higher than industry average of 17,2 tons/ha), before rising to 20.4 tons/ha in 2024F. We expect NSS to book 2023-24F FFB production of 476.7k tons (+20.5%) - 589,1k tons (+23.6%) driven by 54% of mature plants in prime age (9-11 years), with additional 1,227 ha of new plants reaching young mature phase (4 years). In line with massive FFB growth, NSS' 2023-24F CPO production should jump respectively 24.3%-67.9% with solid OER of 21.3%-22.9% (slightly above 2021 peer average of 21.7%). Furthermore, NSS produces premium CPO with low free fatty acid (FFA <3%), making it more appealing to the downstream sector. This allows NSS to sell CPO at higher prices, supporting both revenue and margin sustainability.

**Solid long-term growth on low cost & ready-to-use landbank.** Unlike its competitors that utilize most of their spending for re-planting older and less productive plants, the majority of NSS' capex will be used to support expansions, including planting new trees and building CPO mills. Currently, NSS still has ~20,000 ha of ready-to-use landbank, which will support growth going forward. We project FFB to grow at 10-Year-CAGR of 10.7%, reflecting CPO production CAGR of 15.8% over the same period. To keep up with its FFB production pace, NSS has made preparation to triple CPO mills capacity to 180 tph, while maintaining low opex of IDR 740/kg of CPO, the 2nd lowest in the sector (2021 avg. sector: IDR 1,078/kg).

**BUY, TP IDR 200 (EV USD 12,000/HA).** NSS will enjoy 2023-25F EBITDA CAGR of 39.6% and high 2023-24F ROAE of 33.7% on the back of excellent management under Teguh Patriawan with 40 years of experience. We initiate our coverage on NSSS with BUY and a TP of IDR 200/share, implying an EV/HA of USD 12,000 (35% discount to regional weighted average EV/HA). Main Risks include global CPO and oil-related policies as well as weather anomalies to drive CPO and other vegetable oils prices.

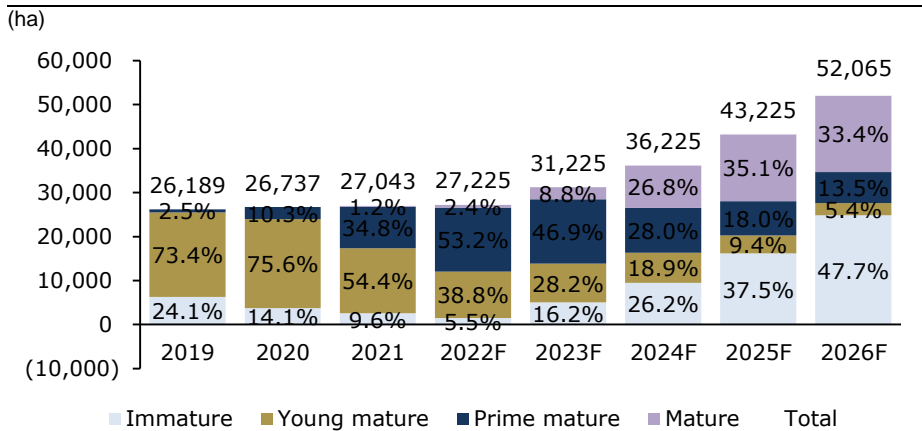
Valuation (at closing price IDR 128 per share)					
Y/E Dec	21A	22F	23F	24F	25F
Revenue (IDR Bn)	1,147	1,137	1,469	2,309	2,341
EBITDA (IDR Bn)	622	453	687	1,150	1,232
EV/EBITDA (x)	5.2	9.9	6.5	3.7	3.4
Net Profit (IDR Bn)	245	76	279	622	693
EPS (IDR)	24	4	12	26	29
EPS Growth (%)	#NA	(84.5)	219.5	117.3	11.5
P/E Ratio (x)	5.3	34.0	10.6	4.9	4.4
BVPS (IDR)	21	24	27	29	31
P/BV Ratio (x)	2.3	4.1	2.1	1.6	1.3
DPS (IDR)	-	-	-	187	208
Dividend Yield (%)	-	-	-	6.1	6.8
ROAE(%)	56.2	12.0	27.2	38.0	33.1
ROAA (%)	8.6	2.5	8.1	15.5	16.3
Interest Coverage (x)	2.5	1.7	3.2	6.0	7.3
Net Gearing (x)	3.5	3.0	1.0	0.7	0.5

## Business Overview

### Based in central Kalimantan with sizeable area & young age

NSS has five integrated oil palm plantation estates in Central Kalimantan, the third-largest plantation area nationwide behind Riau and North Sumatra. NSS controls 55,721 ha of plantation area, of which 27,123 ha are planted (26,288 ha nucleus and 835 ha plasma). To support its production activities, NSS currently operates 60 tph CPO mill and 15 tph kernel crusher located within its plantation. NSS' palm oil plants are young averaging of 8.1 years, while the oldest is younger than 13 years. About 34.8% of NSS' productive plants are in their prime age (9-11 years old), while 9.6% of its planted area are filled with young, not-yet-productive plants.

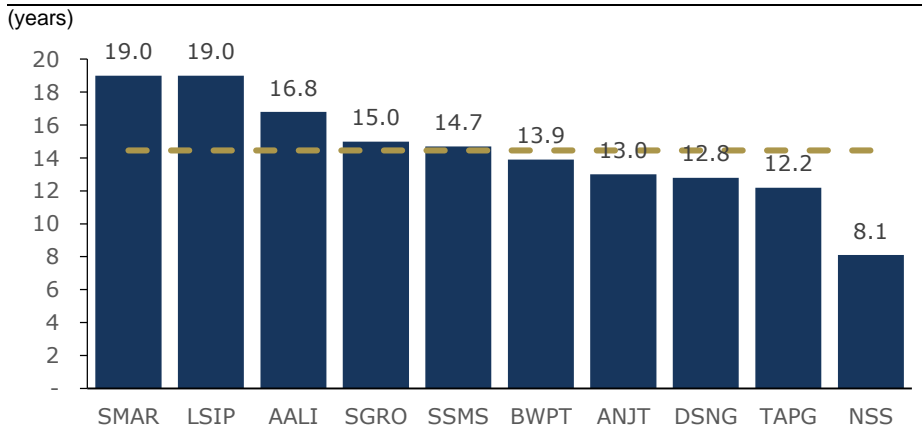
Figure 1. NSS' plant profile, 2019-2026F



Source: NSS, SSI Research

The average age of oil palm plants owned by CPO companies in Indonesia is 13.6 years (not in the prime period), meaning the majority will experience difficulties to increase FFB and CPO production during the moratorium period on new permits to clear natural forests for palm oil plantations. However, as mentioned earlier, NSS has young plants (8.1 years on average), less than half of the industry's average. Thus, NSS' FFB production will continue to expand in the next 10 years at a CAGR of 11.4%.

Figure 2. Average plant age owned by CPO companies, 2021

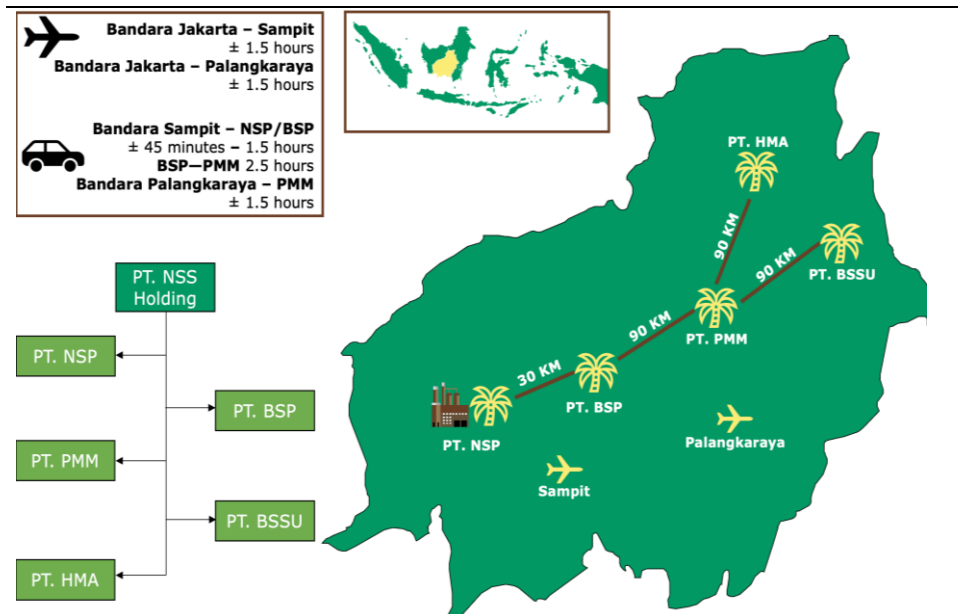


Source: Companies, SSI Research

### Premium location with short distances within estates

All five NSS’ plantation estates are spread across three regions within Central Kalimantan: Kotawaringin Timur, Gunung Mas and Kapuas. Access to these plantations is relatively easy since their locations are not too far from the center of Palangkaraya (capital of Central Kalimantan) and Sampit (third largest city). The length of time from Palangkaraya airport and Sampit airport to NSS’ plantations usually take c.45 minutes - 1.5 hours. In addition, those plantations are located close to each other (30 km - 90 km), meaning that crop shipments can arrive in a timely manner at the palm oil mill.

Figure 3. NSS’ plantation estate locations



Source: NSS, SSI Research

Furthermore, the company’s CPO Mill in Kotawaringin Timur is actually quite near to the mouth of the river (1.5 km), which helps NSS to set up a special terminal (jetty) at the river’s estuary and a connecting pipeline between its CPO Mill and the jetty. Furthermore, the distance between the jetty and bulking terminal at the port of Sampit is also not too far (25 km). Thus, the CPO produced by NSS in Kotawaringin Timur can be delivered through the pipes, eliminating the need for land transport and cutting distribution costs.

Figure 4. Special Terminal and CPO pipe transport system

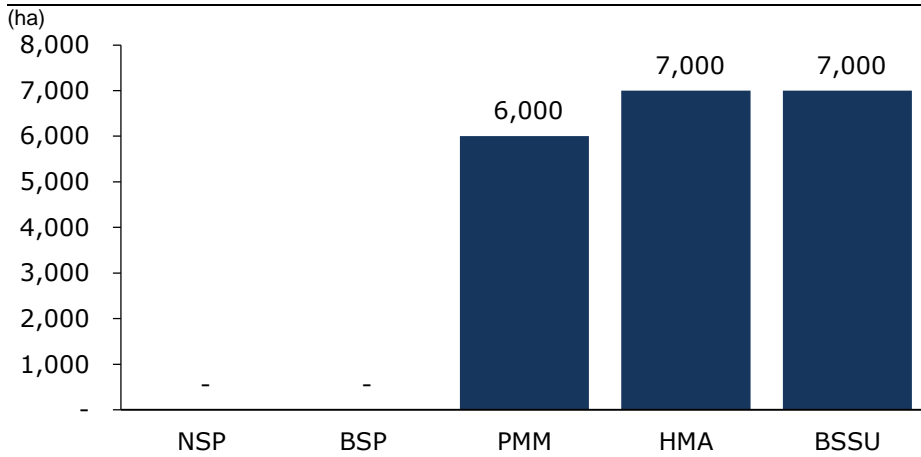


Source: NSS, SSI Research

## Large landbank to help sustain growth

28,505 ha (51.5%) of NSS' plantation areas are non-planted areas: 8,688 ha of plasma land and 20,000 ha of nucleus land, of which the majority are located in the Central Kalimantan regencies of Gunung Mas and Kapuas. For its nucleus landbank, NSS has received Rights to Cultivate (HGU) certificates for 2,745 ha and Cadastral certificates for 17,471 ha. The cadastral areas are expected to be converted into HGU areas by 2023. This sizeable landbank belonging to NSS separates the company from other CPO players which do not have large plantable landbank, suggesting limited growth potential.

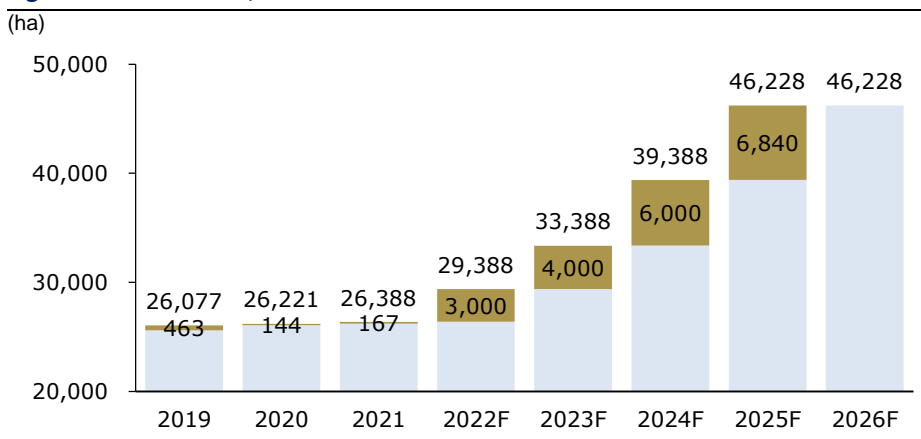
**Figure 5. NSS subsidiaries' nucleus plantable landbank, 2021**



Source: NSS, SSI Research

The company will continue to plant 3,000-6,000 ha of CPO per annum on its ready-to-use areas in the next four years. Therefore, by 2026F, the portion of NSS' nucleus planted area will increase to 76.2% to 46,228 ha. In addition, we expect that by 2029F, all of NSS' plants will mature and become productive. Moreover, NSS will also support plasma growth in accordance with the government's program to help local farmers.

**Figure 6. NSS' nucleus, 2019-2026F**



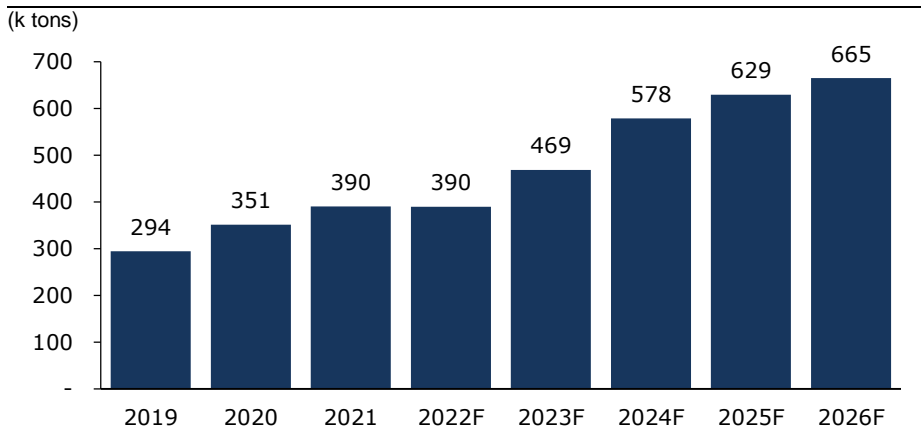
Source: NSS, SSI Research

## Production Overview

### Significant FFB production growth over the medium run

Supported by the increasing number of its young mature plants, NSS is projected to record an annual average FFB production growth rate of 16.1% in the next two years to reach production of c.589k tons in 2024F. Beyond 2024F, the company's plan to increase the portion of its planted nucleus land to 57.1% in the next four years will certainly continue to raise NSS' FFB production. By 2026F, the company's annual FFB production figure is expected to reach c.681k tons, a CAGR of 11.5%.

**Figure 7. FFB production, 2019-2026F**

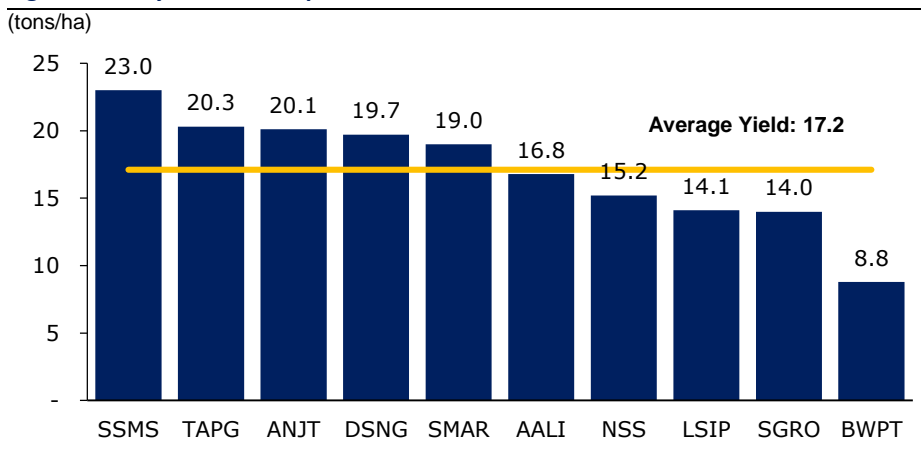


Source: NSS, SSI Research

### Above-industry FFB yield

NSS' FFB productivity should remain solid in 2023F at 17.4 tons/ha given FFB yield reached 16.3 tons/ha in 2021, above the industry average of 17.2 tons/ha. The company managed to record such a high yield due to several factors. First, the company uses only superior seeds (80% of the company's seeds are third-generation seeds from Lonsum). Second, most of the company's plantation estates consist of mineral lands. Third, NSS is supported by a professional management team, which is committed to optimize the company's FFB yield.

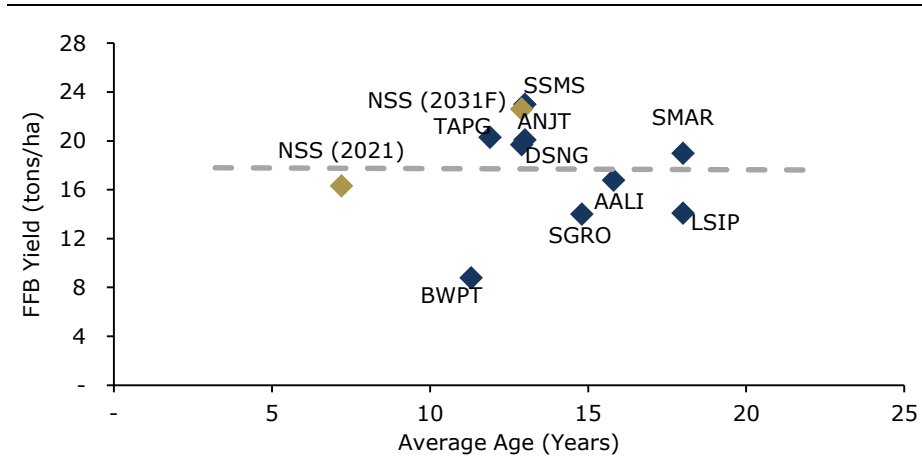
**Figure 8. FFB yields of CPO producers, 2021**



Source: Companies, SSI Research

Note that NSS' above-industry FFB yield in 2021 was achieved with relatively young plants (8.4 years old on average) while 54.4% of the plants were still in their young mature stage (4-8 years old). As NSS' plants continue to grow and become more mature, their productivity will undoubtedly increase. Therefore, in FY31F, NSS' FFB yield will reach 19.5 tons/ha with average plant age of 12.4 years old. If it is assumed that the productivity of other CPO manufacturers remains the same as today, NSS' FFB yield will be the second highest in the industry within ten years.

**Figure 9. FFB yields & avg. plantation age of CPO producers, 2021**

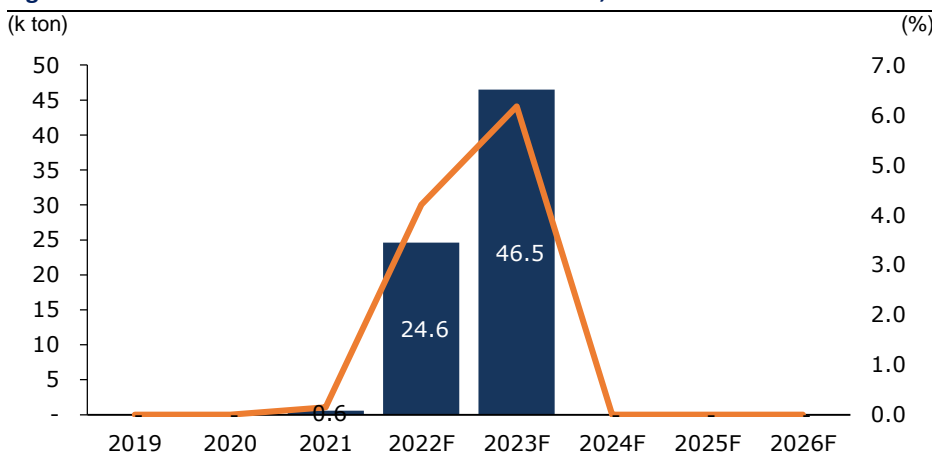


Source: Companies, SSI Research

## NSS to use all its FFB as feedstock starting in 2024F

Currently NSS owns a CPO Mill with a capacity of 60 tph or 360k tpa. This year, the company is building another CPO Mill (to be completed in 2023F) with the same capacity, which will double NSS' production. Due to the high FFB production growth, it is projected to be oversupply by 66.2k tons of FFB in 2022F and 34.8k tons in 2023F, which will be sold to other CPO manufacturers. This will increase the contribution of FFB to the company's revenue to 12.9% in 2022F and 6.0% 2023F. Starting from 2024F, NSS will process all of its FFB into CPO by itself, and none of its FFB will be sold to other parties.

**Figure 10. FFB sales volume and revenue contribution, 2019-2026F**

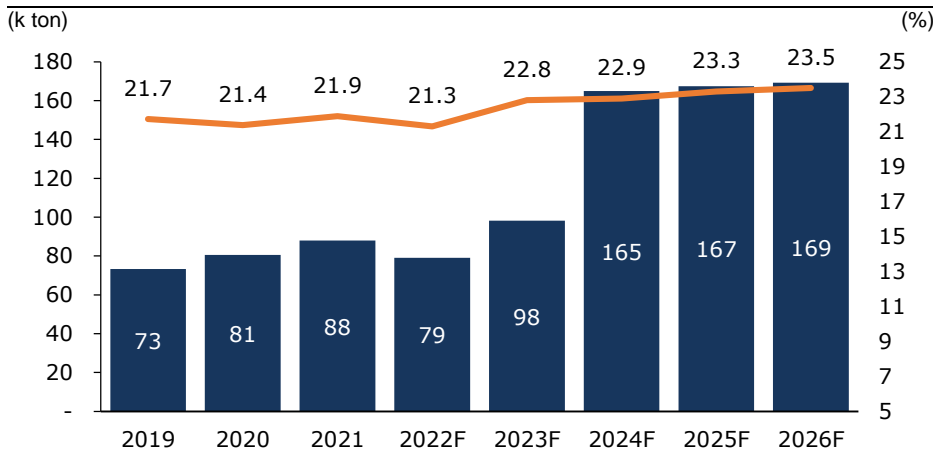


Source: Companies, SSI Research

## CPO solid growth with strong OER and less FFA

Along with the massive increase in FFB production, NSS' CPO production is expected to reach 169.2k tons by 2026F with a 5-year CAGR of 14.0%. The majority of NSS' CPO feedstock (c.98%) comes from its own plantations, enabling the company to maintain control over the quality of its CPO while also getting a higher oil extraction rate (OER) (above 21% p.a). Moreover, the CPO produced by NSS contains a low level of free fatty acid (FFA) (below 2.76%), translating in higher CPO price (+IDR50/kg) which will positively impact NSS' revenue and margins.

**Figure 11. CPO production and OER, 2019-2026F**

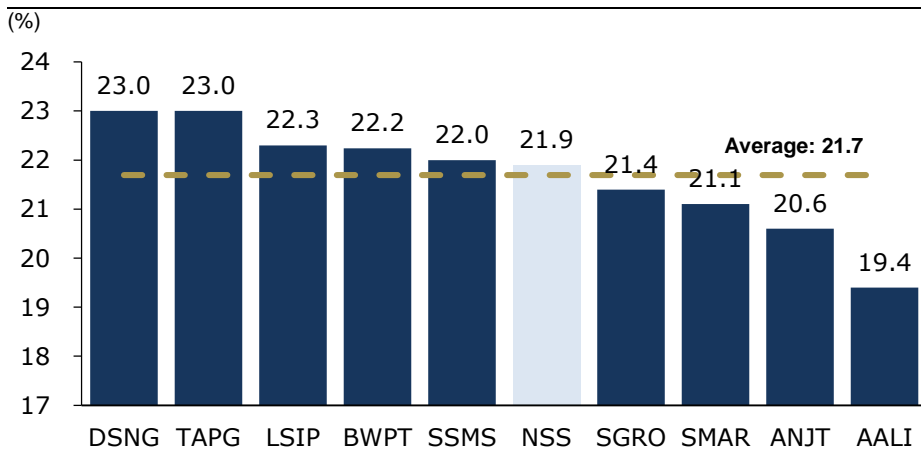


Source: NSS, SSI Research

## NSS' OER above industry average

With the high-quality FFB produced by NSS, the company's OER is expected to reach 22.8% in 2023F and remain above that level until 2026F, which is higher than the industry average, most of which have been established long before NSS (21.0%). Supported by the consistency of the company's OER and rapid growth of its FFB production, NSS' CPO yield is projected to increase from 3.5 tons/ha in 2021A to 4.8 tons/ha in 2026F.

**Figure 12. OER of CPO producers, 2021**



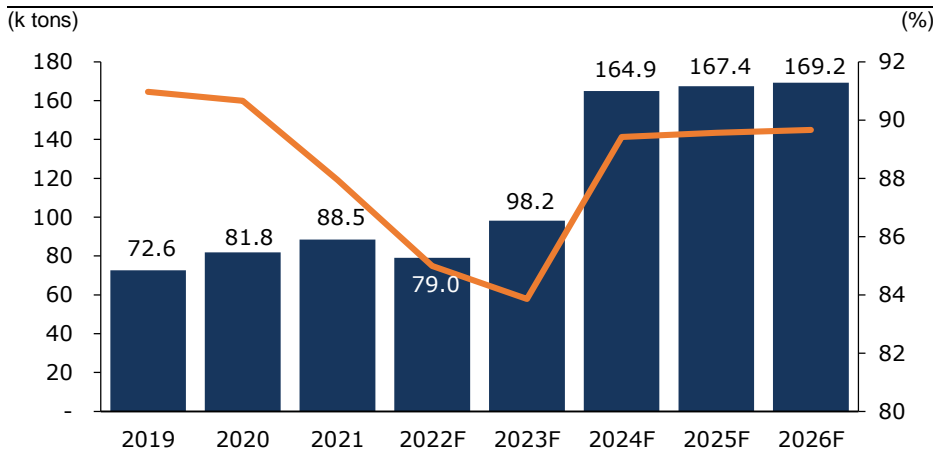
Source: Companies, SSI Research



## CPO the main driver of NSS' revenue

NSS always successfully sells 100% of its CPO, thanks to its impeccable quality control. Thus, the company's CPO sales volume is expected to continue rising at a 5-year CAGR of 13.8%, reaching 169.2k tons in 2026F. CPO accounts for c.89.9% of the company's revenue. NSS sells all its CPO products domestically and receives PT KPBN's auction price at IDR/kg (stemming from global CPO price in local currency). About 82% of NSS' CPO are sold to Smart Tbk and the Wings Group, leading palm oil derivative manufacturers, translating to sustainable demand for NSS products.

**Figure 13. CPO sales volumes and revenue contribution, 2019-2026F**

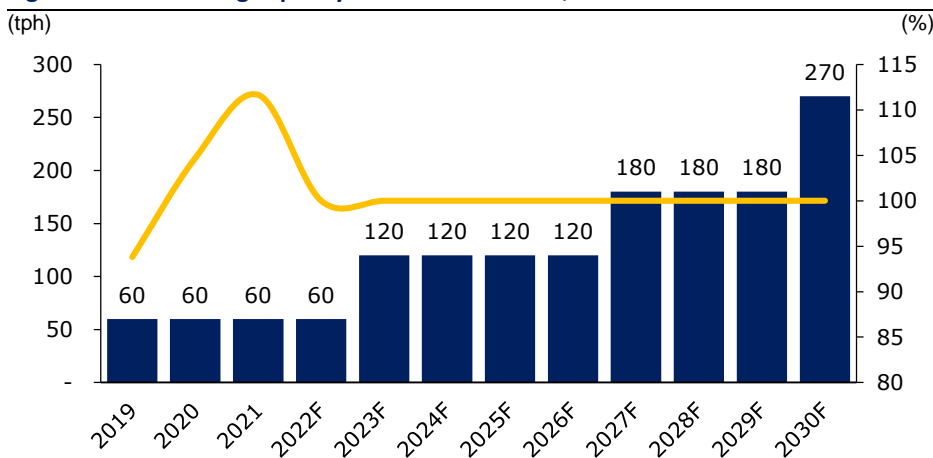


Source: NSS, SSI Research

## Adding four new CPO mills in the next eight years

To improve its CPO production process, NSS will gradually add four new CPO mills in the next 8 years: 2023F (60 tph), 2027F (60 tph) and two in 2030F (45 tph each), bringing the total capacity of NSS' CPO mills to 270 tph, 3.5 times higher than current capacity of 60 tph. Those CPO mills will have utilization rate of above 80% & will be placed in four separate NSS' estates.

**Figure 14. CPO milling capacity and utilization rate, 2019-2030F**



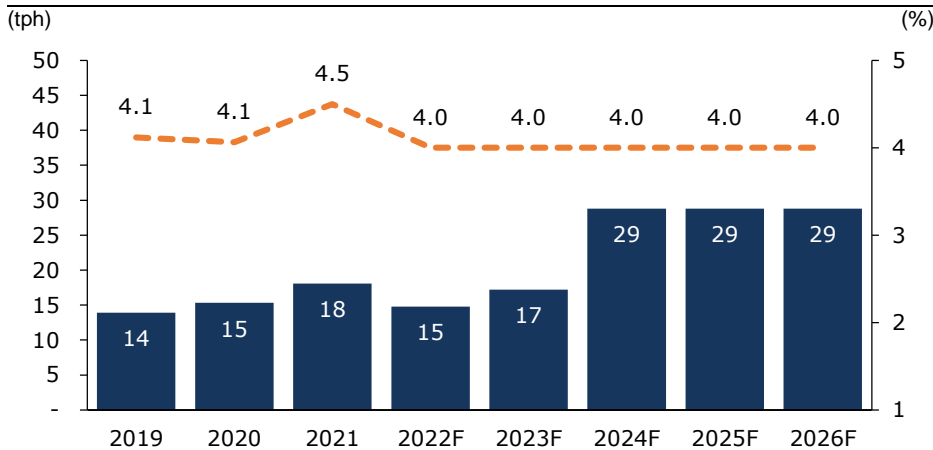
Source: NSS, SSI Research



## Palm Kernel growing inline with FFB and CPO

The high CPO production growth not only boosts NSS' CPO production, but also its palm kernel production. In 2023F, NSS' palm kernel production is expected to reach 17.2k tons (+16.0% yoy) with kernel extraction rate (KER) of 4.0% which has remain relatively stable in the past few years. In the next five years (by 2026F), the company's palm kernel production is projected to grow with 9.8% CAGR to reach 28.8k tons, in line with the increasing productivity of NSS' plants.

Figure 15. Palm kernel production and KER, 2019-2026F

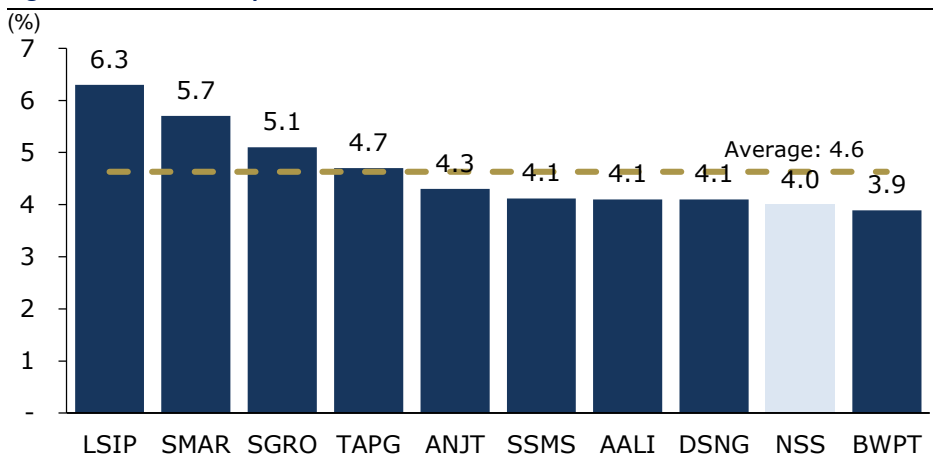


Source: NSS, SSI Research

## KER slightly better than industry average

With the quality of its FFB, NSS is able to maintain its palm kernel production level with KER of 4.0%, only slightly lower than industry's average of 4.6% stemming from high palm oil content of its FFB. 2023F palm kernel yield is expected to grow from 0.6 tons/ha to reach 2026F level of 0.8 tons/ha, supported by the consistency of NSS' KER (4.0% - 4.2%) and the increasing FFB production.

Figure 16. KER of CPO producers, 2021

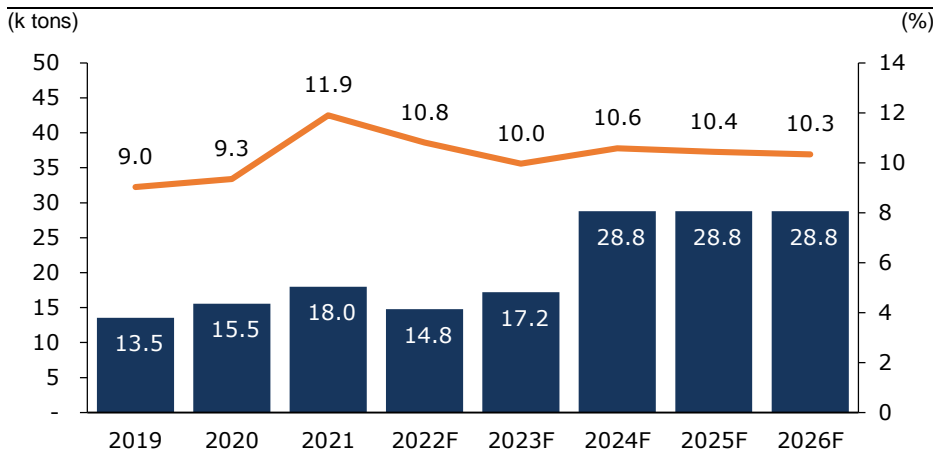


Source: Companies, SSI Research

## Consistent palm kernel contribution

Besides CPO, palm kernel is one of the largest contributors to NSS' revenue, consistently contributing more than 12.0% of the company's revenue. NSS sells 100% of its palm kernel to the domestic market, mostly to PT Sinar Jaya Inti Mulya and PT Wilmar Nabati Indonesia, at Astra's auction price. The company's palm kernel sales volume will also continue to grow, with 5-year CAGR of 9.9%, to reach 28.8k tons by 2026F.

Figure 17. PK sales volumes & revenue contribution, 2019-2026F

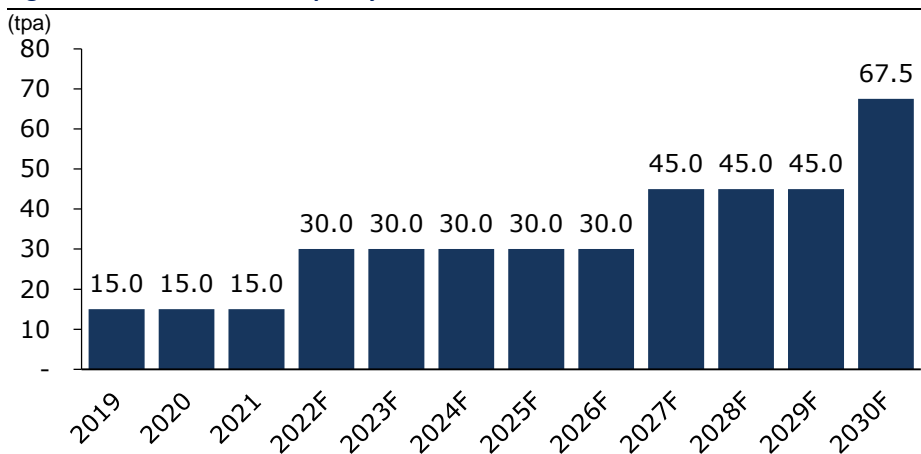


Source: NSS

## 3.5 times higher kernel crusher capacity by 2030F

In addition to adding new CPO mills, NSS will also add four new kernel crushers in the next eight years to boost its productivity. The company will add two new kernel crushers, each with a capacity of 15 tph in 2022F and FY27F, and two other kernel crushers, each with a capacity of 11.3 tph, in FY30F. Therefore, total capacity of NSS' kernel crusher will reach 67.5 tph in FY20F, 3.5 times higher than its current capacity of 15 tph.

Figure 18. Kernel crusher capacity, 2019-2030F

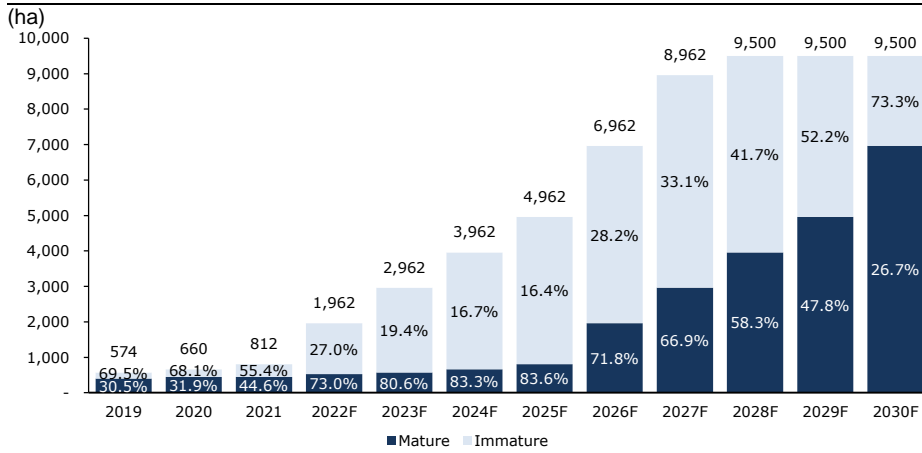


Source: NSS

## Sizeable plasma land to support production growth

Approximately 17.0% (9,500 ha) of NSS’ oil palm plantation area is plasma land. The size of the plasma land area emphasizes its importance in supporting production growth. At present, only 835 ha of the 9,500 ha area are planted, about 3.1% of NSS’s total planted area. NSS plans to have on average 1,000 ha of additional land on its plasma per annum, translating to 7-year CAGR of 42.1%, resulting in the planted plasma land to be all covered within 7 years (2028F).

**Figure 19. Planted plasma land, 2019-2030F**

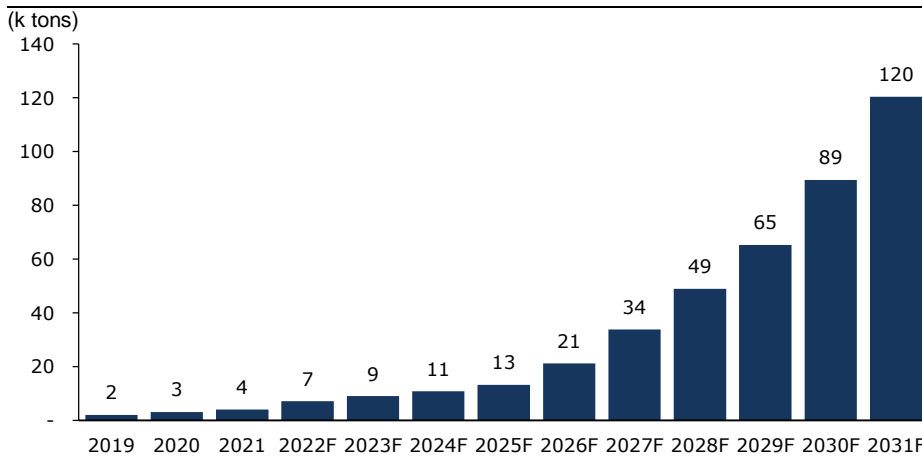


Source: NSS, SSI Research

## Plasma: same seeds = same high quality

The seeds planted by NSS on its plasma land are the same as those planted on its nucleus, allowing for their quality to be the same (average FFB yield to reach 21.7 tons/ha in FY33F). Thus, as NSS covers more of its plasma land, its plasma FFB production will also continue to increase at 10-year CAGR of 41.7%, reaching 130k tons by FY32F and contributing 11.1% of NSS’ total FFB production that year, much higher than its contribution in 2021 of 1.0%.

**Figure 20. Plasma’s FFB production, 2019-2031F**



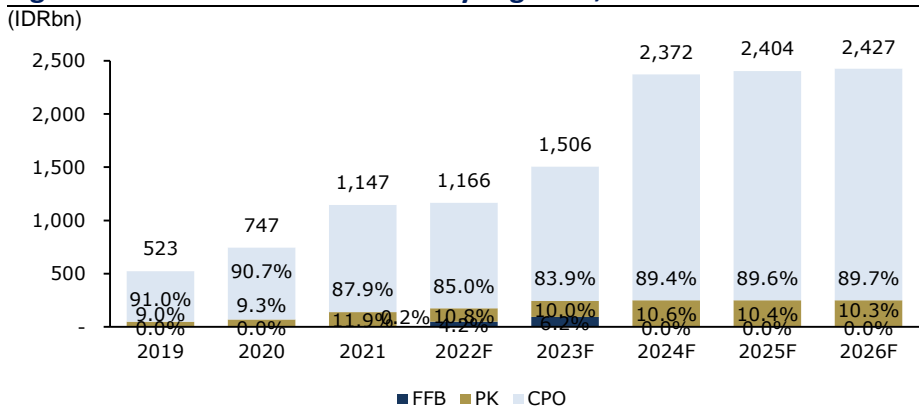
Source: NSS, SSI Research

## Financial Overview

### Revenue driven by CPO sales and growth in PK

NSS relies on CPO sales as its main revenue driver. In 2023F, CPO sales contribute 84.0% of total revenue, followed by PK (9.7%) and FFB (6.3%). However, from FY24F, NSS will stop selling FFB to third parties, using all as feedstock instead, increasing CPO sales contribution to NSS' total revenue to 89.7%, followed by PK (10.1%). Assuming CPO price of USD 1,000-1,250/ton, CPO ASP should reach IDR 12,035-14,916/kg. Therefore, NSS' revenue will grow at 5-year CAGR of 15.6% to IDR 2.4tn by 2026F, supported by CPO (5-year CAGR: 16.1%) and PK sales growth (5-year CAGR: 11.8%).

**Figure 21. Revenue contribution by segment, 2019-2026F**

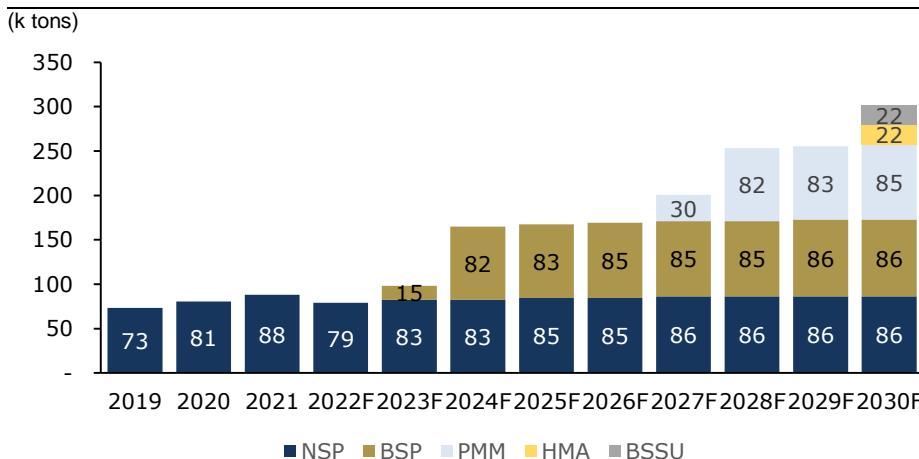


Source: NSS, SSI Research

### Sampit estates as primary CPO sales contributor

During the next five years, NSS' CPO sales will be driven by two estates in Sampit (NSP and BSP), mainly as they have NSS' most mature plant. Both are expected to contribute 169.2k tons in total by 2026F. In 2027F, PMM at Gunung Mas is expected to start contributing (29.6k tons) and up to 86.4k tons p.a. when the plants reach prime mature age. Finally, NSS' two estates in Kapuas (HMA and BSSU) are projected to contribute starting in FY30F.

**Figure 22. CPO sales contribution by estates, 2019-2030F**

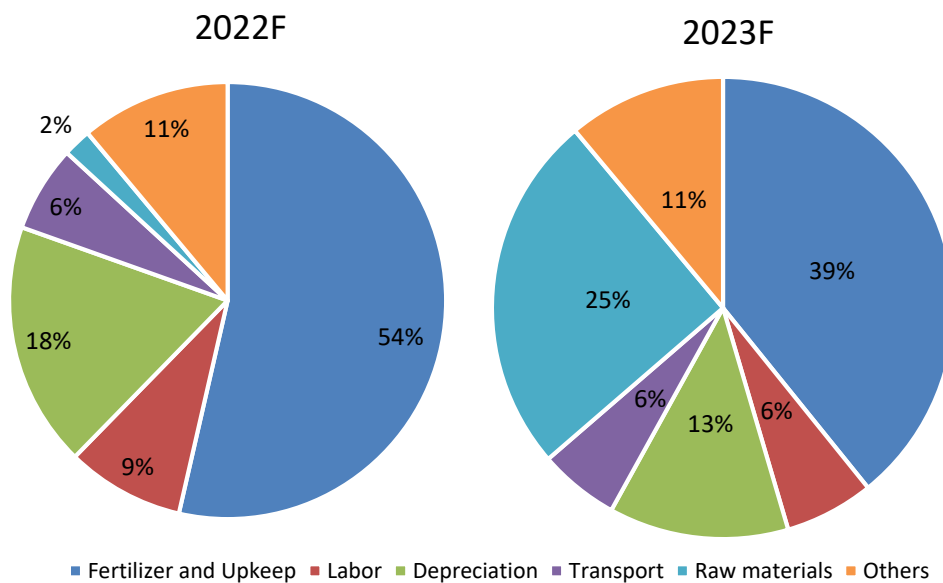


Source: NSS, SSI Research

## Fertilizer: the largest contributor to COGS

Along with the increase in CPO production, NSS' COGS will continue to go up as well, at 5 year-CAGR of 16.3%. Fertilizer expenses are projected to be the largest contributor to the company's COGS in 2023F (56.9%), followed by depreciation (16.8%) and labor (8.1%).

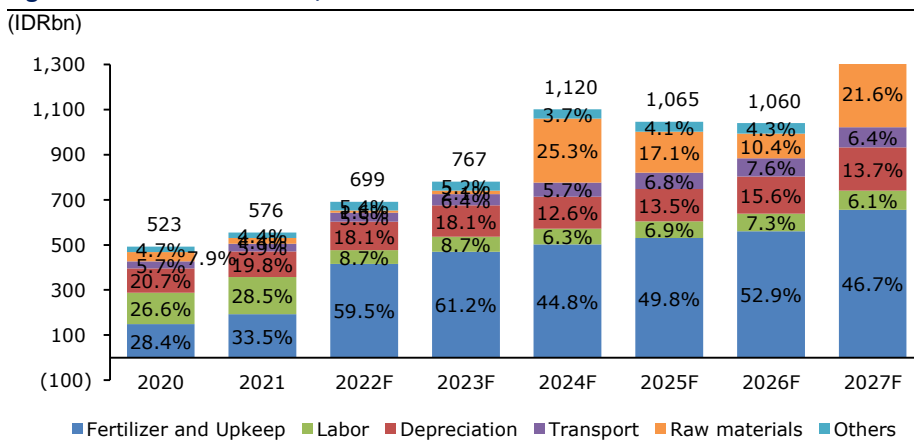
Figure 23. COGS breakdown, 2022F and 2023F



Source: NSS, SSI Research

However, COGS proportion is expected to change in 2028F, since NSS will purchase more FFBS from third parties to meet the demand of its newly built CPO mills. Therefore, raw materials expenses are projected to contribute 31.7% of the company's COGS in 2028F, compared to other expenses like fertilizer and upkeep (38.3%), depreciation (10.9%) and labor (4.4%).

Figure 24. COGS breakdown, 2020 -2027F

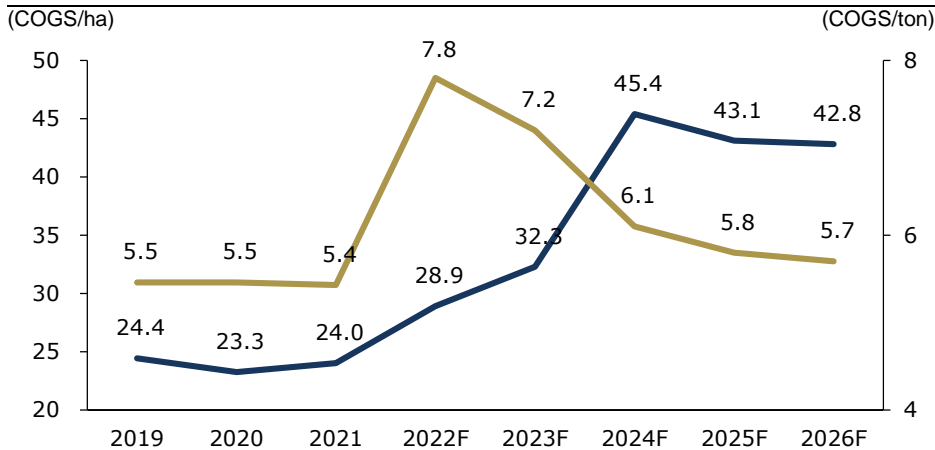


Source: NSS, SSI Research

## COGS/ton to stay below IDR 7.2mn

The annual COGS growth (5-year CAGR: 16.3%) will be accompanied by sales volume growth (5-year CAGR: 15.6%). As a result, NSS' COGS is projected to stay below IDR 7.2mn/ton in the next four years, reaching IDR 5.7 mn/ton in 2026F. On the other hand, the company's COGS/Mature Area is expected to grow at 5-year CAGR of 12.2%, due to the slower growth rate of mature area (5-year CAGR: 1.9%), reaching IDR 42.8mn/ha in 2026F.

**Figure 25. COGS/ton and COGS/ha, 2019-2026F**

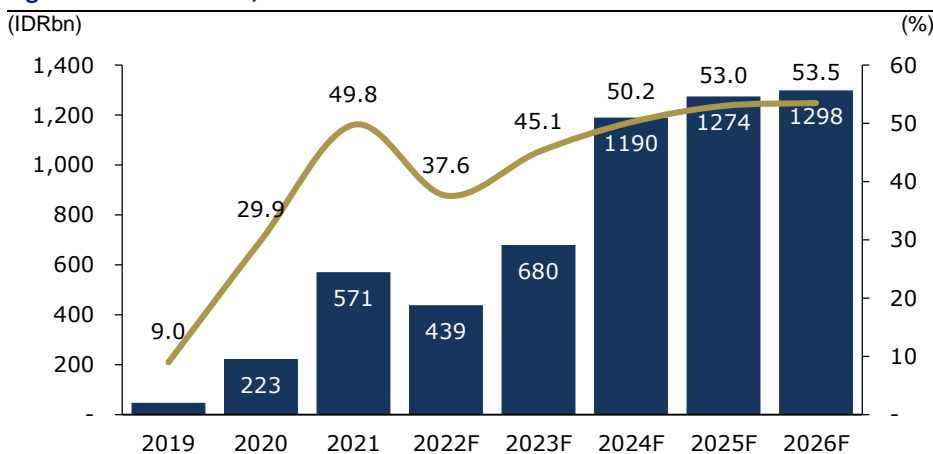


Source: NSS, SSI Research

## Strong gross profit growth on manageable COGS

Thanks to solid sales growth, as well as the company's ability to control its COGS, NSS' gross profit is expected to grow strongly at 5-year CAGR of 16.7%, with gross profit margins ranging between 43.8% - 52.2%, much higher than the company's GPM in FY19-FY21, which only reached 9.0%-49.8%. The factors boosting NSS's gross profit and GPM include higher land productivity and stable COGS.

**Figure 26. Gross Profit, 2019-2026F**



Source: NSS, SSI Research

## Sensitivity analysis: ASP most significant factor on GP

NSS' financial performance is strongly influenced by its ASP. In 2022F-2026F, the company's CPO ASP is estimated to stay within the range of IDR 11.9k/kg-IDR 15.3k/kg or 16% lower than Malaysia's CPO reference price. In the case that there is a +/-10% increase in ASP in 2023F, NSS' gross profit will be +23% higher than the initial estimate, and its net profit +38% higher. In short, NSS' long-term performance is highly sensitive to against changes in ASP. If the company's ASP increases by 10% in 2022F-26F, then its gross profit will improve by an average of +21% and net profit by +43%.

Figure 27. Changes in key financial performance (ASP ±10%)

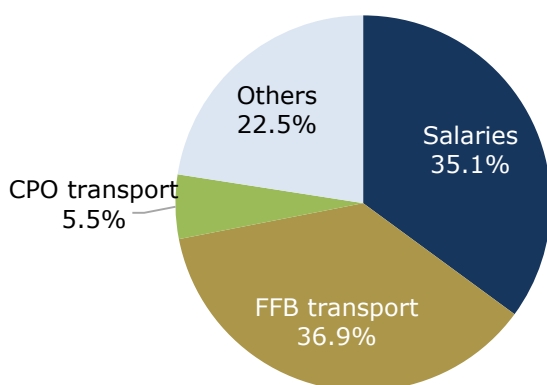
Base Case	2022F	2023F	2024F	2025F	2026F
Sales	1,137	1,469	2,309	2,341	2,364
Gross Profit	409	643	1,127	1,210	1,234
EBITDA	453	687	1,150	1,232	1,274
EBIT	323	545	1,005	1,085	1,104
Net Profit	76	279	621	693	722
ASP (±10%)					
Sales	1,250	1,615	2,540	2,575	2,600
Gross Profit	522	788	1,330	1,426	1,459
EBITDA	562	829	1,347	1,442	1,494
EBIT	433	687	1,202	1,295	1,324
Net Profit	157	386	772	854	891
(± differences)					
Sales	10.0%	10.0%	10.0%	10.0%	10.0%
Gross Profit	27.5%	22.6%	18.0%	17.8%	18.3%
EBITDA	24.2%	20.6%	17.1%	17.1%	17.2%
EBIT	34.0%	26.0%	19.6%	19.4%	19.9%
Net Profit	106.3%	38.3%	24.2%	23.2%	23.4%

Source: NSS, SSI Research

## Relatively low operating expenses: 5% of revenues

NSS' operating expenses are fairly low, reaching approximately 5.7% of its sales revenues in 2021, compared to its listed competitors such as: AALI (5.4%), LSIP (5.4%), DSNG (9.8%), SSMS (10.5%) and TAPG (12.2%). The majority of NSS' operating expenses comes from selling expenses (42.5%) and salary costs (57.5%).

Figure 28. Operating costs breakdown, 2021

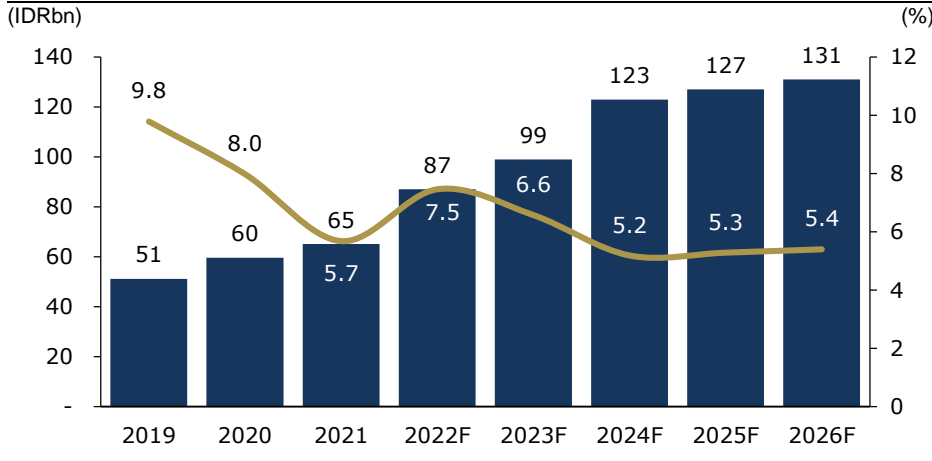


Source: NSS, SSI Research



Going forward, NSS will manage its operating expenses even more efficiently, capping its acceleration. NSS's operating expenses are projected to increase at a slow pace (5-year CAGR: 14.8%), far slower than its revenues growth rate. As a result, NSS' operating costs are expected to decline to less than 5% of the company's revenues by 2026F.

**Figure 29. Operating expenditures, 2019-2026F**

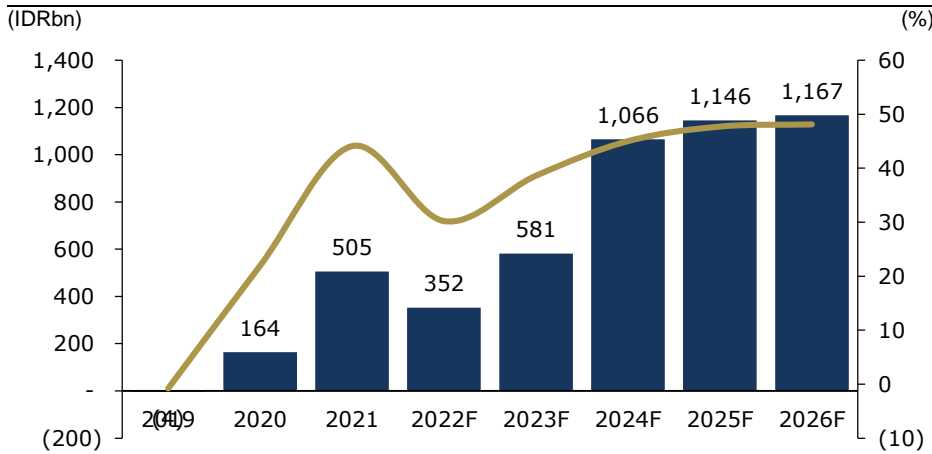


Source: NSS, SSI Research

## Sustainably strong operating profit growth

With low operating expenses and steady growth of gross profit (5-year CAGR: 16.7%), NSS' operating profit is expected to grow at a strong pace of 16.9% based on a 5-year CAGR. NSS' Operating Profit Margin (OPM) is expected to reach 46.7%, and it will stay above 45% for the next five years.

**Figure 30. Operating profit, 2019-2026F**

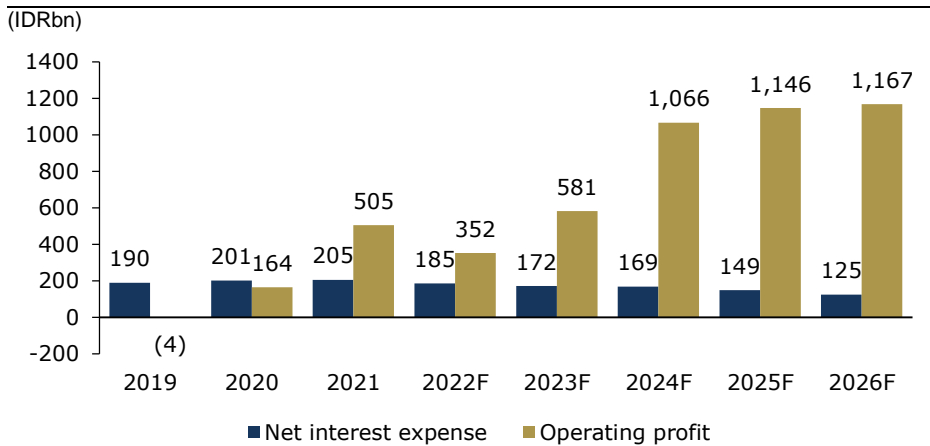


Source: NSS, SSI Research

## Much lower interest expense in five years' time

Currently, NSS' interest expense is quite large. In 2021A, the company's net interest cost was recorded at IDR 205bn, around 40.6% from its EBIT. The majority of NSS' funding comes from debt, as reflected by its DAR in FY20A of 81%, leading to such high interest charge. However, with the funds from its IPO (which will improve the company's capital structure) and solid profitability growth, NSS' interest expense will decline at a rapid pace, down to just IDR 78bn down 62% over 5-year period, and only 11.3% of the company's EBIT.

**Figure 31. Net interest expense and EBIT, 2019-2026F**

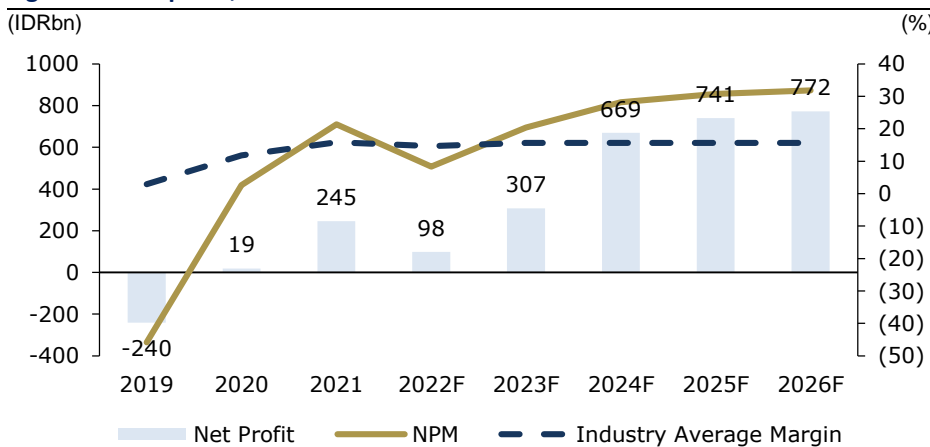


Source: NSS, SSI Research

## Superior net profit growth and NPM expansions

NSS' net profit is projected to reach IDR 279bn in 2023F, due to high CPO price, solid EBIT growth and stable interest expense, among others. On the profitability front, NSS recorded only a small income of IDR 19bn in FY20A, mainly due to large interest expense. In the future, however, the company's net profit will continue to rapidly increase at a 5-year CAGR of 24.1%, reaching IDR 724bn by 2026F. This will also boost NSS' NPM, from 21.4% in 2021A to 30.6% in 2026F, higher than industry's average of 16%.

**Figure 32. Net profit, 2019-2026F**

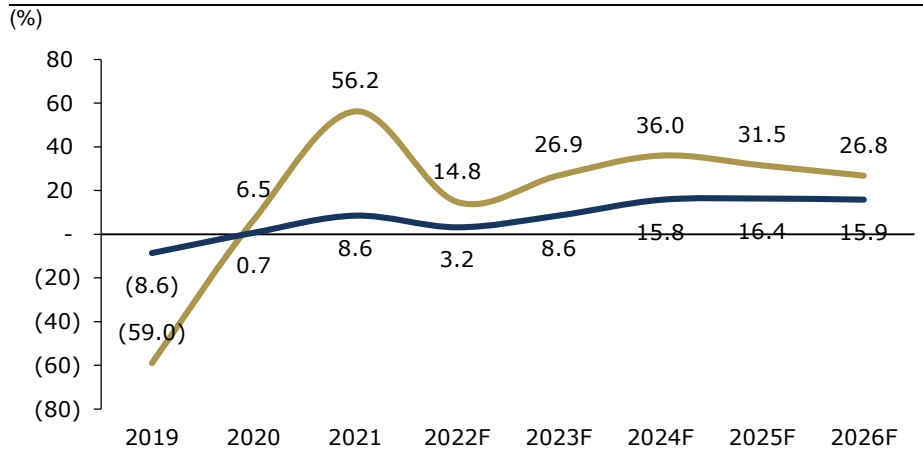


Source: NSS, SSI Research

## Growing ROAA and ROAE

Satisfactory revenue growth and decent profitability margins recorded in 2023F will boost NSS' 2023F ROAE to 28.0% and its ROAA to 8.1%, Going forward, with solid net profit growth in the long term, NSS' ROAE and ROAE are projected to maintain above 20% and 10% respectively.

**Figure 33. ROAA and ROAE, 2019-2026F**

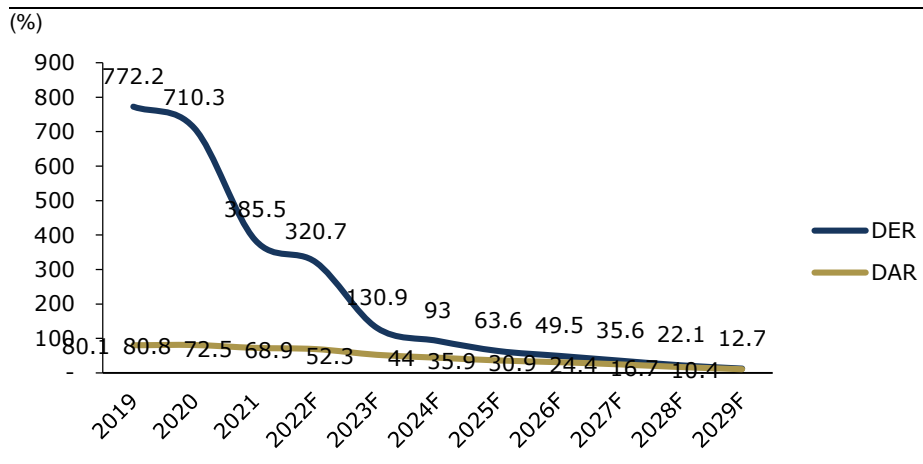


Source: NSS, SSI Research

## Aggressively reducing debt

In 2023F, NSS has DER level of 156.2% and DAR of 55.9%, with interest-bearing debt reaching IDR 2.1tn. However, supported by solid net profit growth, NSS is projected to be able to aggressively reduce its borrowings in the next five years, repaying all of its interest-bearing loans by 2033F, and reducing its DER and DAR to 0%.

**Figure 34. DER & DAR, 2019-2029F**

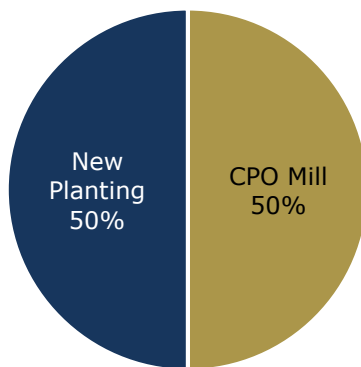


Source: NSS, SSI Research

## Focusing Capex for CPO mill construction and production

NSS has set aside IDR 280bn of its budgeted Capex to fund the construction of its CPO mill in Sampit, with a capacity of 60 tph. The project is expected to be completed in two years' time, translating to the company's spending of IDR 140bn per annum on the project. The new CPO mill in Sampit will support CPO production at the BSP estate with plants that would have started produce FFBS at that time. NSS has 2023F Capex budget of IDR 391bn, of which 50% will be used for the construction of a CPO mill, 50% for new plantings in NSP and PMM.

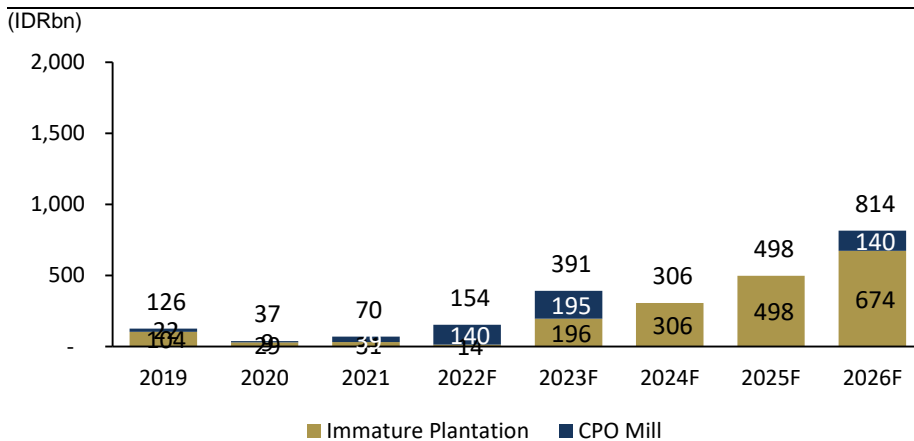
Figure 35. Capex proportion, 2023F



Source: NSS, SSI Research

NSS' capex will continue to grow at a 6-year CAGR of 22.5%. Most of the capex (50-100%) will be spent on new trees. In total, NSS requires IDR 2.2tn in 6 years to plant 20,000 Ha of oil palm trees in PMM, HMA and BSSU. The rest of the budget will be used to add three new CPO mills to support CPO production in all of NSS' estates.

Figure 36. Capex, 2019-2026F

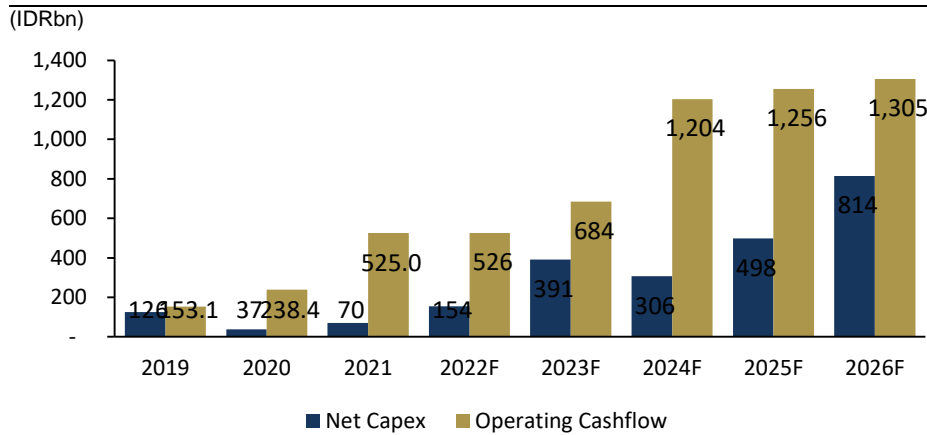


Source: NSS, SSI Research

## All Capex comes from internal funding

NSS has adequate internal fund to cover its capex needs which is expected to continue growing in the next 6 years with a 31.9% 6-year CAGR. With the support of solid financial performance, NSS' operating cash flow will continue to improve with a 17.3% 6-year CAGR, enabling the company to cover its capex needs on its own. Thus, even though the company's capex keeps increasing, NSS can still reduce its debt and give out dividends to shareholders.

**Figure 37. Net capex and operating cashflow, 2019-2026F**

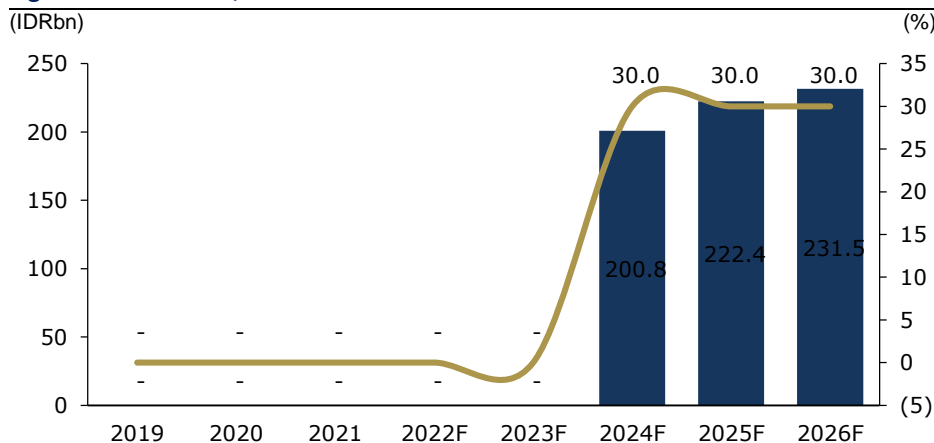


Source: NSS, SSI Research

## Continuously growing dividends

NSS will give out dividends to its shareholders starting in 2024F, in line with net profit growth. The dividend payout ratio is projected to reach 30%, meaning that the total value of dividends distributed will reach IDR 187.3bn in 2024F. The dividends will continue to increase over time, supported by NSS' strong profit growth. Assuming the payout ratio is kept at 30%, the value of dividends distributed by NSS will continue to grow at a 10.3% 4-year CAGR from 2024F until 2028F.

**Figure 38. Dividends, 2019-2026F**



Source: NSS, SSI Research

## Valuations

### BUY, TP IDR 200/share

NSS will enjoy 2023-25F EBITDA CAGR of 39.6% and high 2023-24F ROAE of 33.7% on the back of excellent management under Teguh Patriawan with 40 years of experience. We initiate our coverage on NSSS with BUY and a TP of IDR 200/share, implying an EV/HA of USD 12,000 (35% discount to regional weighted average EV/HA). Main Risks include global CPO and oil-related policies as well as weather anomalies to drive CPO and other vegetable oils prices.

Figure 39. Peer Comparables

Company	Ticker	Market Cap	Total planted area (HA)	EV/HA
<b>Indonesia</b>				
Astra agro lestari	AALI	1,007	214,499	5,597
Sawit Sumbermas Sarana	SSMS	1,034	68,880	19,533
Triputra Agro Persada	TAPG	833	138,000	6,375
Sumber Tani Agung	STAA	706	37,747	19,890
London Sumatra	LSIP	450	92,649	2,186
Dharma Satya Nusantara	DSNG	452	84,500	9,321
<b>Malaysia</b>				
IOI Corp	IOI	5,264	176,926	31,917
Kuala Lumpur Kepong	KLK	5,006	275,037	25,080
Genting Plantations	GENP	1,195	139,022	10,150
FGV Holdings	FGV	1,221	336,315	6,028
<b>Singapore</b>				
Golden Agri-resources	GGR	2,548	536,013	8,654
First Resources	FR	1,797	179,521	9,735
Bumitama Agri	BAL	729	132,728	7,674
<b>Weighted Average</b>				<b>18,369</b>
<b>NSSS</b>				
EV/HA (USD, 35% discount from Peers)		12,000		
TP (IDR/Share)		200		

Source: SSI research

## Financial Summary

Figure 42. Profit loss and balance sheet, 2020-2024F

Income Statement					
Year-End 31 Dec (IDRbn)	2020	2021	2022F	2023F	2024F
<b>Revenue</b>	<b>747</b>	<b>1,147</b>	<b>1,137</b>	<b>1,469</b>	<b>2,309</b>
Gross profit	223	571	409	643	1,127
Operating expense	60	66	86	98	122
<b>EBIT</b>	<b>164</b>	<b>505</b>	<b>323</b>	<b>545</b>	<b>1,005</b>
Depreciation	111	117	130	142	145
<b>EBITDA</b>	<b>275</b>	<b>622</b>	<b>453</b>	<b>687</b>	<b>1,150</b>
Pre-tax profit	(24)	334	104	380	847
Taxes	44	(89)	(28)	(101)	(225)
Minority interest	–	–	–	–	–
<b>Net profit</b>	<b>19</b>	<b>245</b>	<b>76</b>	<b>279</b>	<b>621</b>

Balance Sheet					
Year-End 31 Dec (IDRbn)	2020	2021	2022F	2023F	2024F
Cash and equivalents	42	191	200	600	638
Trade receivables	14	22	19	36	56
Inventories	39	90	81	92	132
Fixed assets	536	542	662	833	813
Biological assets	1,949	1,915	1,855	1,967	2,181
Other assets	175	216	220	275	298
<b>Total assets</b>	<b>2,755</b>	<b>2,975</b>	<b>3,038</b>	<b>3,803</b>	<b>4,119</b>
Interest bearing liabilities	2,226	2,156	2,107	2,127	1,946
Trade payables	120	105	142	161	231
Other liabilities	96	155	153	157	149
<b>Total liabilities</b>	<b>2,442</b>	<b>2,416</b>	<b>2,402</b>	<b>2,445</b>	<b>2,326</b>
Minority interest	–	–	–	–	–
Shareholders' equity	313	559	635	1,358	1,793
<b>Total liabilities and equity</b>	<b>2,755</b>	<b>2,975</b>	<b>3,038</b>	<b>3,803</b>	<b>4,119</b>



**Figure 43. Cash flow and key ratios, 2020-2024F**

<b>Cash Flow Statement</b>					
<b>Year-End 31 Dec (IDRbn)</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
EBIT	164	505	323	545	1,005
Depreciation	111	117	130	142	145
Working capital	(36)	(97)	46	(31)	(5)
Other operating items	0	0	0	0	0
<b>Operating cash flow</b>	<b>238</b>	<b>525</b>	<b>498</b>	<b>656</b>	<b>1,145</b>
Net capital expenditure	1	34	(63)	(314)	(207)
<b>Free cash flow</b>	<b>240</b>	<b>559</b>	<b>435</b>	<b>342</b>	<b>938</b>
Equity raised/(bought)	(248)	(376)	(377)	(409)	(715)
Dividends paid	0	0	0	0	(186)
Net borrowings	15	(70)	(49)	21	(182)
Others	(10)	37	(0)	1	(3)
<b>Net cash flow</b>	<b>(4)</b>	<b>150</b>	<b>9</b>	<b>400</b>	<b>38</b>
Cash flow at beginning	46	42	191	200	600
<b>Cash flow at end</b>	<b>42</b>	<b>191</b>	<b>200</b>	<b>600</b>	<b>638</b>

<b>Key Ratios</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
Gross margin (%)	29.9	49.8	36.0	43.8	48.8
EBITDA margin (%)	36.8	54.2	39.8	46.8	50.2
EBIT margin (%)	21.9	44.0	28.4	37.1	43.5
Net margin (%)	2.6	21.4	6.7	19.0	27.0
Current ratio (x)	0.4	1.1	1.0	2.0	2.1
Quick Ratio (x)	0.4	1.1	1.0	2.0	2.0
DPR (%)	0.0	0.0	0.0	0.0	30.0
ROAE (%)	6.5	56.2	12.0	28.0	39.4
ROAA (%)	0.7	8.6	2.5	8.1	15.7
Net gearing (%)	697.0	351.3	300.0	112.4	72.9
Debts to assets (%)	80.8	72.5	69.3	55.9	47.2
Act. receivable turnover (days)	5.0	5.7	6.0	8.9	8.9
Act. payable turnover (days)	93.2	71.2	71.2	71.2	71.2
Inventory turnover (days)	33.2	40.8	40.8	40.8	40.8

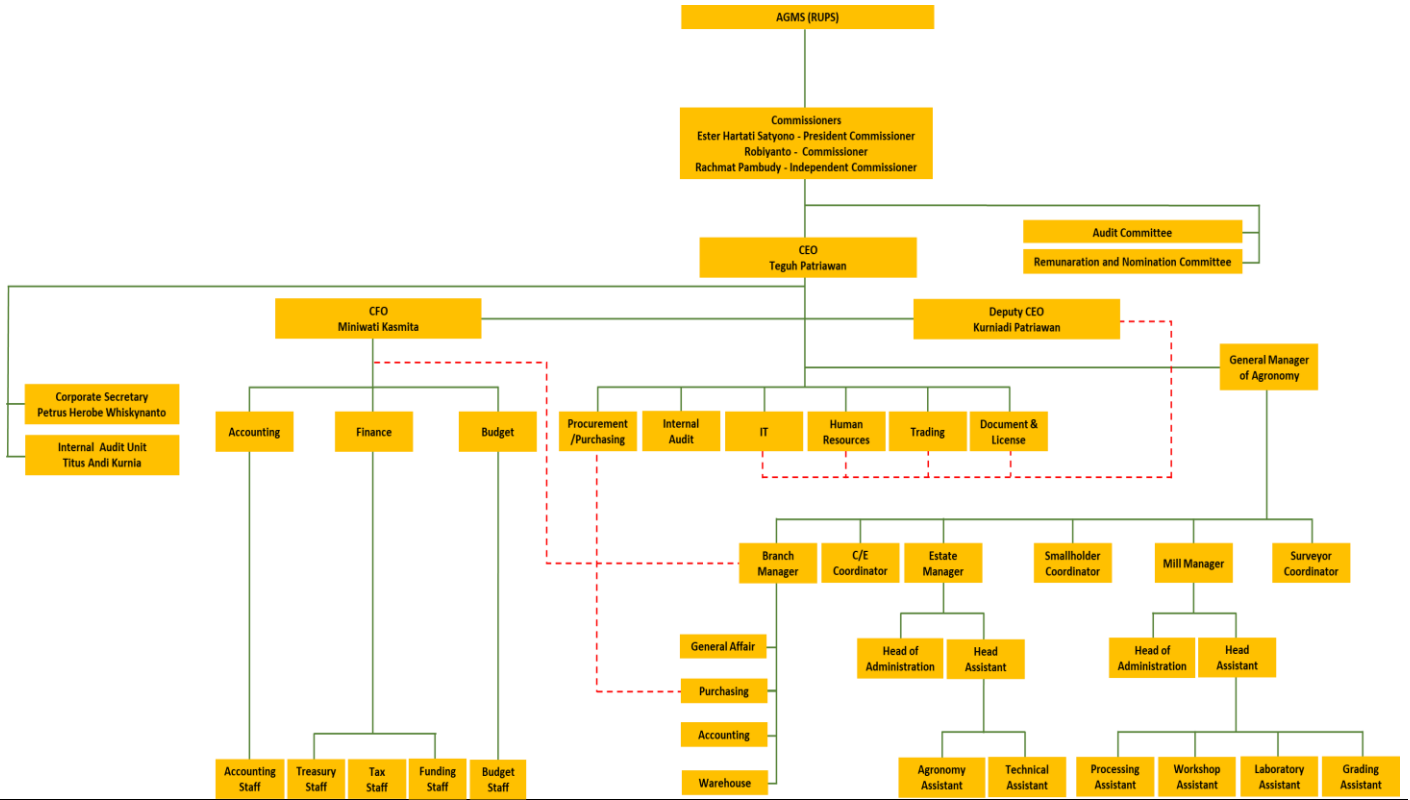
## Appendix

Figure 44. Management profile

BOARD OF COMMISSIONER	
<p><b>President Commissioner</b></p>	 <p>Indonesian citizen, 66 years old. Mrs. Ester Hartati Satyono completed her Bachelor's program at University of San Francisco and obtained her Bachelor of Science degree in 1975. Currently, she has served as PT Nusantara Sawit Sejahtera Tbk (NSS) President Commissioner since 2008.</p>
<p><b>Commissioners</b></p>	 <p>Indonesian citizen, 45 years old. Mr. Robiyanto has completed Doctoral program in Economics, Faculty of Economics and Business at Diponegoro University in 2015 and Doctoral program in Environmental Sciences, Faculty of Environmental Science and Technology at Soegijapranata Catholic University in 2021. Now, he has served as Commissioner PT Nusantara Sawit Sejahtera Tbk (NSS) since 2021.</p>
<p><b>Independent Commissioner</b></p>	 <p>Indonesian citizen, 62 years old. Mr. Rachmat Pambudy has completed the Doctoral program majoring in Development Extension Studies at Bogor Agricultural University in 1999. Currently, he has served as an Independent Commissioner of PT Nusantara Sawit Sejahtera Tbk (NSS) since 2008.</p>
BOARD OF DIRECTOR	
<p><b>President Director</b></p>	 <p>Indonesian citizen, 73 years old. Mr. Teguh Patriawan has completed his Masters program at the PPM Institute in 1991. Currently, he has served as the Company's President Director since 2008.</p>
<p><b>Director</b></p>	 <p>Indonesian citizen, 34 years old. Mr. Kurniadi Patriawan graduated with a Bachelor's degree from the University of California in 2010. Currently, serving as PT Nusantara Sawit Sejahtera Tbk (NSS) Deputy President Director since 2021.</p>
<p><b>Director</b></p>	 <p>Indonesian citizen, 56 years old. Mrs. Miniwati Kasmita graduated with a Bachelor's degree in Economics from Unika Atmajaya in 1990. Currently, she is serving as PT Nusantara Sawit Sejahtera Tbk (NSS) Director since 2017.</p>

Source: Company

Figure 45. Organization structure



Source: Company

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