

## **Agribusiness Industry - Key Success Factors**

The key success factors apply to companies engaged in the production or manufacturing of agricultural products. The criteria exclude companies engaged in the production or manufacturing of non-agricultural products. The industry includes:

- Plantation
- Sugar refinery
- Animal feed and husbandry
- Aquaculture
- Fishery
- Etc, other related industries

## **BUSINESS RISK ASSESSMENT**

### **Competitive Advantage**

The analysis covers the assessment of the company's ability to maintain its market position, business stability, and competitiveness, which can be reflected by the following factors:

- The company's presence and domination in the market, including its ability to maintain its presence going forward.
- The production and sales volume growths to see the sustainability of the business.
- The company's business size and economies of scale, including the scale of production as an important factor to increase competitiveness products.
- The target market, as affected by supply and demand, commodity prices, and economic conditions, will also be reviewed.
- Consistency of production, sales trends, resilience to climate and price fluctuations, and the efficiency of plantation practices to support overall business stability.
- The level of vertical integration from planting, cultivating, harvesting, and processing products and derivatives. Having facilities to produce a variety of derivative products could reduce exposures from commodity price fluctuation.
- Productivity of production facilities, such as the utilization rate, feed conversion ratio, survival or density rate for live stocks.
- The procurement or availability of raw materials, processing facilities and capacity, and power supply.
- The infrastructure and facilities of integrated operations, such as the availability of shipment infrastructure such as storage tanks or warehouses and proximity to shipping ports.
- The use of modern farming techniques and bio-security implementation for live stocks are also crucial to prevent and minimize potential outbreak of diseases.
- Ponds profile for the fishery and aquaculture industry.

### **Diversification**

The analysis covers assessment of the company's diversification, which is primarily based on product or service offering, profile of counterparties and quality of cash flows. This assessment includes the following indicators:

- Products offered, customer base, and sales areas, reflecting the breadth and diversity of markets served.
- Production facilities and geographical operating areas, indicating the company's operational footprint and coverage.
- Diversity of products or outputs and the balance between upstream and downstream activities across the agribusiness value chain. (For plantation-related companies, this includes the variety of crops or derivative products and the geographic distribution of plantation areas.)
- Diversity of customers and buyers, composition of domestic and export markets, and dependency on key counterparties across the supply chain.

- Proportion of recurring and contract-based revenue, payment reliability of counterparties, and overall stability and predictability of cash flows.

### **Operating Management**

The analysis assesses the company's cost position advantages and operating management, as reflected in its profitability, management quality, and working capital or budgetary control. It covers the following key indicators:

- Cash cost per ton
- Production cost per ton
- Profit margins, particularly EBIT and EBITDA margins, as well as other relevant ratios compared to the industry or other companies with similar characteristics.
- Working capital management and comparisons to the industry or other companies with similar characteristics.
- Capability, commitment, and experience of the company's management on quality achieving its target, technological improvement, compliance, safety procedure, maintenance, or labor relation.

## **FINANCIAL RISK ASSESSMENT**

### **Financial Policy**

It is important to understand the management's philosophy and strategy toward financing decisions (historical, current, and future). The aggressive financial policy will carry higher financial risk as opposed to conservative financial policy with lower financial risk. The analysis includes a review and examination of:

- Management's financial targets including growth, leverage, debt structure, hedging and dividend policy
- Debt structures and composition (rupiah vs. foreign currencies, short-term debt vs. long-term debt, fixed rate vs. floating rate)
- Track record on fulfilling its previous financial obligations to determine the degree of its commitments and willingness and consistency to pay obligations on a timely basis
- Other policies to reduce the company's overall financial risk (historical vs. future)

### **Capital Structure**

We are of the view that the debt obligation level in relation to earnings and capital condition is the fundamental part of a company's financial risk profile. The analysis covers careful examination of the company's historical, current and projected leverage, indicated mainly by total and net debt in relation to EBITDA (Debt-to-EBITDA) and equity (Debt-to-Equity).

### **Cash Flow Protection and Liquidity**

The pattern of current and future cash flow generation is also one of the most vital indicators of a company's financial risk. The analysis covers reviews of the company's cash flow generation and capability to meet its short-term and long-term financial obligations, mainly measured by:

- Debt coverage ratio (Funds from Operation to Debt)
- Interest coverage ratio (EBITDA to Interest)

The degree of its liquidity in fulfilling its short-term liabilities relative to its sources of cash is also assessed. The sources of cash include:

- Cash balance
- Estimated cash flow from operations
- Other sources of cash

Under some circumstances, liquidity attains such primacy that it alone constrains a company's credit rating, leaving other credit drivers as a secondary indicator even if supportive. This follows from our view that to succeed in the long term, a company first needs to survive in the short term.

### **Financial Flexibility**

Financial flexibility is an essential factor for a company to carry out its operating activities and/or refinance existing borrowings regularly at short notice. We are of the view that strong financial flexibility will enhance a company's credit profile as it might partially mitigate liquidity risk, while weak financial flexibility could underwhelm a company's credit profile despite having decent credit ratios. The analysis covers evaluation of the company's capability in raising funds, including options under distress, contingency plans, and flexibility to deal with various adverse scenarios. Analysis includes other related factors or figures that are not specifically examined above, such as:

- Banking relationship
- Experience and track record debt and capital markets
- Covenants' compliance in loan/bond agreements
- Parental/shareholders' commitment and support
- Unused credit facilities (committed and uncommitted)
- Unpledged assets

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