

Nippon Indosari_(ROTI IJ)

31 October 2016

Results Note

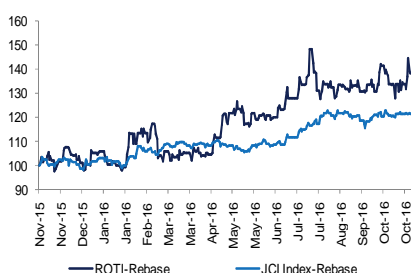
HOLD(Unchanged)

Stock Data

Target price (Rp)	Rp1,600
Prior TP (Rp)	Rp1,650
Shareprice (Rp)	Rp1,650
Upside/downside (%)	(3.0)
Sharesoutstanding (m)	5
Marketcap. (US\$ m)	1
Free float (%)	43.3
Avg. 6m dailyT/O (US\$ m)	0.3

Price Performance

	3M	6M	12M
Absolute (%)	2.5	13.4	34.7
Relative to JCI (%)	1.8	1.2	16.2
52w high/low (Rp)	1,770 - 1,165		



Major Shareholders

PT. Indoritel Makmur	31.5%
Bonlight Investments, Ltd.	26.5%
Pasco Shikishima Corp.	8.5%

Estimate Change; Vs. Consensus

	2016F	2017F
Latest EPS (Rp)	58	67
Vs. Prior EPS (%)	(12.8)	(11.3)
Vs. Consensus (%)	0.8	(4.3)

Source: Bloomberg

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Bitter earnings on high sugar price

- **3Q16 earnings up by 5.7%, within consensus expectation.**
- **Slight margin contraction due to higher raw material costs.**
- **Earnings downgrade due to surge in raw material costs.**
- **Maintain HOLD at a new TP of Rp1,600.**

Earnings within consensus expectation. Nippon Indosari (ROTI) reported net profit of Rp203bn in 9M16 (+7.8% yoy), in line with consensus, but representing only 60% of our FY16F estimates. Despite the economic slowdown, the company reported double-digit revenue growth of 21.5% yoy in 3Q16, supported by white bread and sweet bread, which grew at 24.4% yoy and 22.9% yoy, respectively, in 3Q16. As of 3Q16, white bread accounted for 67% of total sales, while sweet bread contributed 43% of total sales. Meanwhile, the return rate has improved to 12.5% of total sales in 3Q16 vs 15.8% in 2Q15.

Slight margin contraction. ROTI's gross margin contracted by 120bps yoy in 3Q16 due to higher raw material and packaging costs. The raw material cost in 3Q16 accounts for 31.2% of net sales (vs. 3Q15: 29.9%, 2Q16: 30.8%). Despite lower wheat prices as seen since last year, we suspect the surge in sugar price by 48% YTD is the main culprit. Therefore, we expect the gross margin in FY16F to be lower than expected. At the operating level, the margin contracted by 2.4% yoy due to higher spending on A&P and cost for expired/defective inventory. The A&P spending stood at 5.7% of total sales in 3Q16 (vs 3Q15: 5.0%), where expired/defective inventory worsened to 5.0% of total sales (vs 3Q15: 4.1% of total sales).

Earnings downgrade. We slash our earnings by 12.5% and 11.9% for FY16F and FY17F, respectively, due to higher-than-expected raw material costs in 3Q16. We expect the uptrend in sugar prices to continue until the end of this year. Therefore, this might put pressure on ROTI's gross margin. As a result, we forecast ROTI's gross margin to contract to 51% in FY16F before improving slightly to 51.5% in FY17F (vs. 2015: 53%) due to milder raw material cost next year. We estimate net profit to grow at 20.3% CAGR in 2015-2018F on the back of 17.6% revenue growth during the same period.

Maintain HOLD at TP of 1,600. Our new DCF-derived target price of Rp1,600 implies FY17F multiples of 23.7x and EV/EBITDA of 11.6x with earnings growth of 12.3% for the next two years. We continue to like the company due to its strong revenue growth in the past couple of years. As the leading producer in Indonesia's bread industry with 90% domination in mass production bakery, we view ROTI as well-positioned in the growing bread industry in Indonesia. However, we believe its valuation is quite demanding at this point. Therefore, we maintain our HOLD rating on the stock.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	1,880	2,175	2,531	2,979	3,538
EBITDA(RpBn)	356	523	573	687	827
EBITDA Growth (%)	30.7	47.0	9.5	20.0	20.3
Net Profit(RpBn)	193	271	296	341	433
EPS (Rp)	38	54	58	67	85
EPS Growth (%)	21.1	40.8	9.0	15.3	26.8
Net Gearing (%)	18.4	(43.4)	8.7	15.8	10.9
PER (x)	43.3	30.8	28.2	24.5	19.3
PBV (x)	8.7	7.0	5.8	4.8	3.9
Dividend Yield (%)	0.2	0.3	0.3	0.4	0.4
EV/EBITDA (x)	23.0	17.0	14.4	11.8	9.8

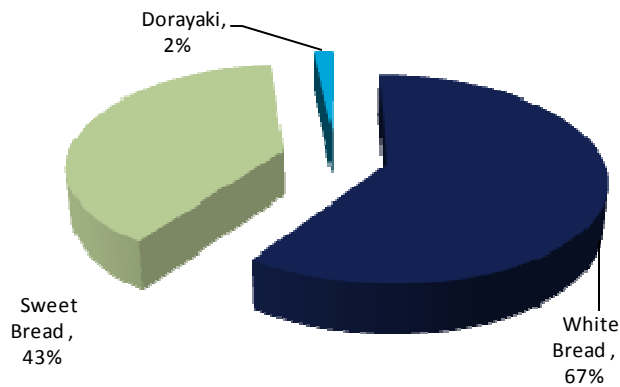
Source: ROTI, IndoPremier

Share Price Closing as of : 28-October-2016

Refer to Important disclosures on the last of this report

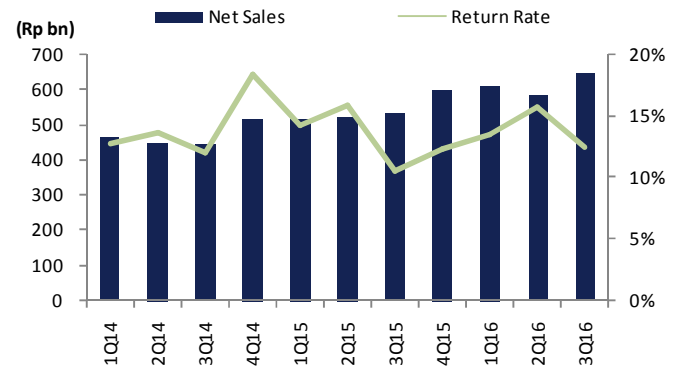
ROTI Results Note

Fig. 1: Sales Mix in 3Q16



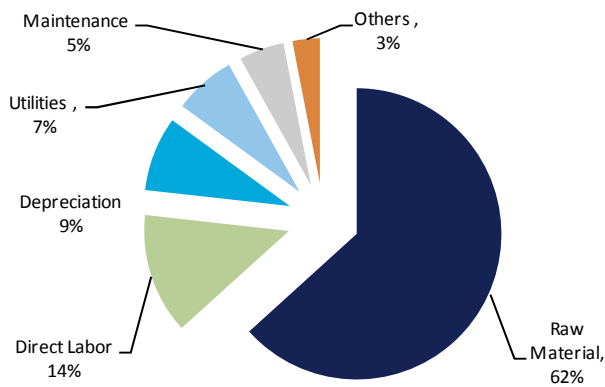
Source: Company, Indo Premier

Fig. 2: Return Rate Trend Quarterly



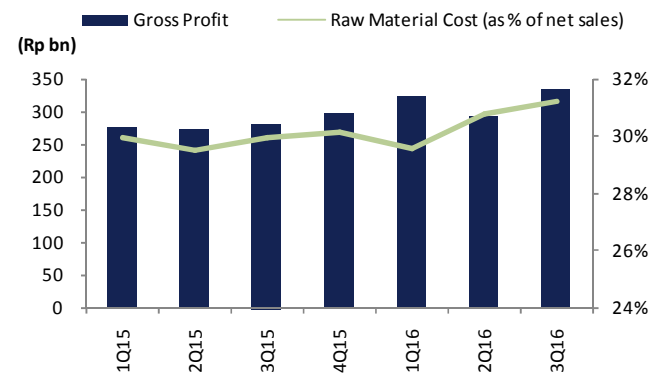
Source: Company, Indo Premier

Fig. 3: COGS Breakdown in 9M15



Source: Company, Indo Premier

Fig. 4: COGS and Raw Material Trend Quarterly



Source: Company, Indo Premier

Fig. 5: Sugar Price Trend



Source: Indo Premier, Bloomberg

Fig. 6: Wheat Price Trend



Source: Indo Premier, Bloomberg

ROTI Results Note

Fig. 7: Earnings Result

(in Rp bn)	3Q16	3Q15	YoY	3Q16	2Q16	QoQ
Revenue	644	530	21.5%	644	582	10.7%
White Bread	431	346	24.4%	431	408	5.6%
Sweet Bread	280	228	22.9%	280	254	10.3%
Gross Profit	333	281	18.8%	333	293	13.7%
Operating Profit	106	100	6.0%	106	60	75.6%
Net Profit	75	71	5.8%	75	42	76.4%
Gross Margin (%)	51.7%	52.9%		51.7%	50.3%	
Operating Margin (%)	16.4%	18.8%		16.4%	10.4%	
Net Margin (%)	11.6%	13.3%		11.6%	7.3%	

Source: Company, IndoPremier

Fig. 8: Earnings Revision

In Rp bn	Old		New		Change	
	FY16F (Rpbn)	FY17F (Rpbn)	FY16F (Rpbn)	FY17F (Rpbn)	FY16F (%)	FY17F (%)
Sales	2,582	3,093	2,531	2,979	-2.0%	-3.7%
Gross profit	1,368	1,639	1,291	1,534	-5.7%	-6.4%
Operating profit	484	580	424	514	-12.4%	-11.4%
Net profit	338	387	296	341	-12.5%	-11.9%
Margins						
Gross margin	53.00%	53.00%	51.00%	51.50%	-2.0%	-1.5%
Operating margin	18.75%	18.75%	16.75%	17.25%	-2.0%	-1.5%
Net margin	13.10%	12.52%	11.69%	11.45%	-1.4%	-1.1%

Source: Company, IndoPremier

ROTI Results Note

Year To 31 Dec (RpBn)	2014A	2015A	2016F	2017F	2018F
Income Statement					
Net Revenue	1,880	2,175	2,531	2,979	3,538
Cost of Sales	(979)	(1,020)	(1,240)	(1,445)	(1,718)
Gross Profit	901	1,155	1,291	1,534	1,820
SG&A Expenses	(639)	(739)	(867)	(1,020)	(1,194)
Operating Profit	263	416	424	514	626
Net Interest	(46)	(75)	(35)	(66)	(56)
Forex Gain (Loss)	4	0	0	0	0
Others-Net	36	39	28	33	39
Pre-Tax Income	257	379	417	480	609
Income Tax	(64)	(108)	(121)	(139)	(177)
Minorities	0	0	0	0	0
Net Income	193	271	296	341	433
Balance Sheet					
Cash & Equivalent	163	516	128	23	(38)
Receivable	213	251	293	345	409
Inventory	41	43	52	61	73
Other Current Assets	4	4	0	0	0
Total Current Assets	420	814	473	429	444
Fixed Assets - Net	1,680	1,821	2,062	2,327	2,712
Goodwill	0	0	0	0	0
Non Current Assets	36	64	76	60	71
Total Assets	2,136	2,699	2,611	2,816	3,227
ST Loans	48	0	0	149	18
Payable	126	160	0	219	260
Other Payables	134	236	186	173	190
Current Portion of LT Loans	0	0	0	0	0
Total Current Liab.	308	396	372	541	467
Long Term Loans	291	0	253	149	177
Other LT Liab.	584	1,122	550	392	465
Total Liabilities	1,183	1,518	1,175	1,082	1,109
Equity	274	274	274	274	274
Retained Earnings	686	915	1,171	1,469	1,854
Minority Interest	0	0	0	0	0
Total SHE + Minority Int.	960	1,189	1,445	1,743	2,128
Total Liabilities & Equity	2,143	2,707	2,620	2,825	3,237

Source: ROTI, IndoPremier

ROTI Results Note

Year to 31 Dec	2014A	2015A	2016F	2017F	2018F
Cash Flow					
Net Income (Excl.Extraordinary&Min.Int)	193	271	296	341	433
Depr. & Amortization	93	107	149	173	201
Changes in Working Capital	(96)	76	(58)	(43)	(22)
Others	78	153	12	88	83
Cash Flow From Operating	267	608	399	560	695
Capital Expenditure	(353)	(277)	(402)	(422)	(597)
Others	1	15	16	16	18
Cash Flow From Investing	(352)	(262)	(386)	(405)	(579)
Loans	178	(339)	253	45	(103)
Equity	0	0	0	0	0
Dividends	(16)	(28)	(27)	(30)	(34)
Others	(44)	409	(614)	(258)	(25)
Cash Flow From Financing	119	42	(388)	(243)	(163)
Changes in Cash	34	388	(375)	(89)	(47)
Financial Ratios					
Gross Margin (%)	47.9	53.1	51.0	51.5	51.5
Operating Margin (%)	14.0	19.1	16.8	17.3	17.7
Pre-Tax Margin (%)	13.7	17.4	16.5	16.1	17.2
Net Margin (%)	10.3	12.5	11.7	11.4	12.2
ROA (%)	9.7	11.2	11.1	12.6	14.3
ROE (%)	22.1	25.3	22.5	21.4	22.4
ROIC (%)	16.9	23.0	19.8	18.4	20.7
Acct. Receivables TO (days)	38.4	38.8	38.9	38.8	38.7
Acct. Receivables - Other TO (days)	0.0	0.2	0.3	0.2	0.2
Inventory TO (days)	25.3	24.3	26.1	25.5	25.7
Payable TO (days)	53.1	51.1	50.8	51.1	50.8
Acct. Payables - Other TO (days)	34.8	36.8	32.9	20.1	16.8
Debt to Equity (%)	35.3	0.0	17.5	17.1	9.1
Interest Coverage Ratio (x)	0.2	0.2	0.1	0.2	0.1
Net Gearing (%)	18.4	(43.4)	8.7	15.8	10.9

Source: ROTI, IndoPremier

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INVESTMENT RATINGS

BUY : Expected total return of 10% or more within a 12-month period
HOLD : Expected total return between -10% and 10% within a 12-month period
SELL : Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION.

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