

Nippon Indosari<sub>(ROTI IJ)</sub>

28 April 2016

## Results Note

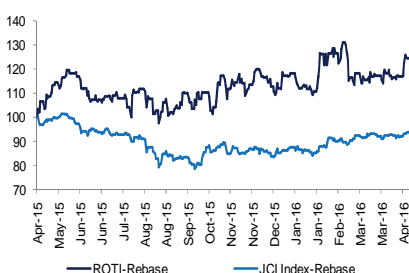
**BUY** (Unchanged)

## Stock Data

Target price (Rp)	Rp1,650
Prior TP (Rp)	Rp1,650
Shareprice (Rp)	Rp1,270
Upside/downside (%)	+29.9
Sharesoutstanding (m)	5
Marketcap. (US\$ m)	0
Free float (%)	43.3
Avg. 6m dailyT/O (US\$ m)	0.2

## Price Performance

	3M	6M	12M
Absolute (%)	-5.9	6.3	14.9
Relative to JCI (%)	-10.0	-1.6	21.5
52w high/low (Rp)	1,400 - 1,045		



## 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)	67	76
Vs. Prior EPS (%)	n/a	n/a
Vs. Consensus (%)	0.2	0.1

Source: Bloomberg

## Sandra Thio

PT Indo Premier Securities  
sandrathio@ipc.co.id  
+62 21 5793 1170

## Solid profit growth beats consensus

- **1Q profit up 28%, beating consensus but in line with our estimates**
- **Stable gross margin due to low raw material and packaging costs**
- **Sustainable earnings growth given low per-capita consumption**
- **Maintain BUY with a TP of Rp1,650 (unchanged)**

**1Q results beat.** Nippon Indosari (ROTI) reported net profit of Rp86bn in 1Q16 (+28.6% yoy; 10.7% qoq), well ahead of consensus estimates by over 20%, but in line with our forecast (1Q profit at 25% of our FY16F estimate). Despite the economic slowdown, the company reported revenue of Rp611bn (+17.8% yoy; +1.7% qoq). The revenue growth is still mainly supported by white bread and sweet bread segment, growing 25.1% yoy and 4.1% yoy, respectively. Although Dorayaki still makes a small contribution to net revenue, the segment reported 327.4% yoy growth. In addition, all factories posted positive revenue growth in 1Q16. The strongest growth was reported in Palembang at 36.1% yoy, followed by Makassar at 32.3% growth. However, the strongest contribution still came from West Java (Bekasi and Cikande), accounting for 41% of total sales.

**Stable gross margin at 53.1%.** Gross margin expanded 10bps yoy (+340bps qoq), attributable to lower raw material and packaging costs. Raw material costs for 1Q16 accounted for 29.6% of net sales (vs. 1Q15:30%; 4Q15:30.2%). We believe gross margin is sustainable on favorable raw material costs and continued low oil price. Sales returns improved to 13.6%, from 14.3% in 1Q15, in line with the plan to shift distribution mix towards general trade channel to 40% by 2020 (vs 25% in 2015). Operating margin contracted by 20bps yoy on 18.5% yoy higher operating expenses, mainly attributable to the 43.3% yoy increase in expired and defective inventory.

**Sustainable earnings growth.** The low per-capita bread consumption in Indonesia offers strong growth opportunity for ROTI, as Indonesians become more upwardly mobile and shift to more convenient food choices such as bread. We also believe the company's strong expansion, increasing promotions and wider distribution coverage will further sustain its strong earnings outlook.

**Maintain BUY.** Our DCF-derived target price of Rp1,650 implies FY17F multiples of 22x and 11x EV/EBITDA with earnings growth of 19.6% for the next two years. We remain bullish on the stock due to its consistency in delivering strong earnings growth in the past couple of years. As the leading producer in Indonesia's bread industry with 90% domination in mass production bakery, we believe ROTI is well-positioned in the growing Indonesian bread industry.

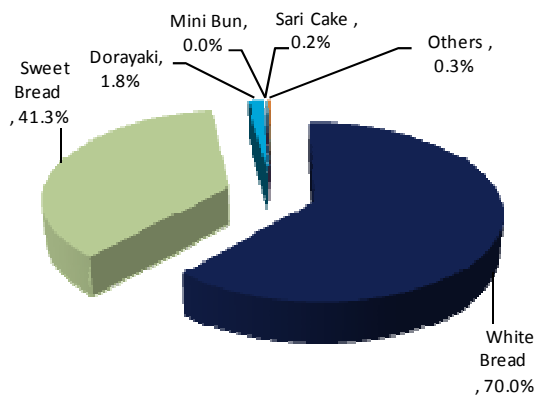
Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (RpBn)	1,880	2,175	2,582	3,093	3,741
EBITDA(RpBn)	356	523	633	753	921
EBITDA Growth (%)	30.7	47.0	21.1	19.0	22.3
Net Profit(RpBn)	193	271	338	387	499
EPS (Rp)	38	54	67	76	98
EPS Growth (%)	21.1	40.8	24.7	14.4	28.8
Net Gearing (%)	18.4	(43.4)	5.0	9.8	3.0
PER (x)	33.3	23.7	19.0	16.6	12.9
PBV (x)	6.7	5.4	4.3	3.5	2.8
Dividend Yield (%)	0.2	0.4	0.4	0.5	0.6
EV/EBITDA (x)	17.6	13.3	10.0	8.3	6.9

Source: ROTI, IndoPremier

Share Price Closing as of: 27 April 2016

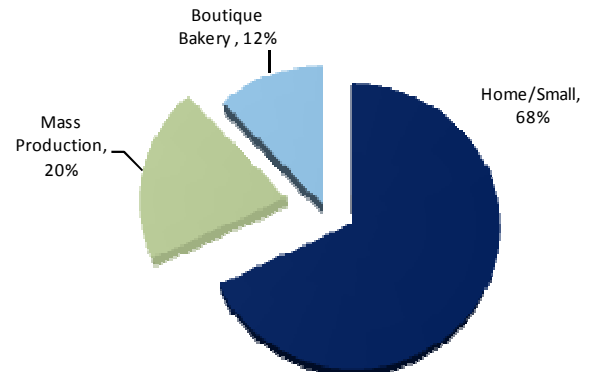
## ROTI Results Note

**Fig. 1: Sales Mix as of 1Q16**



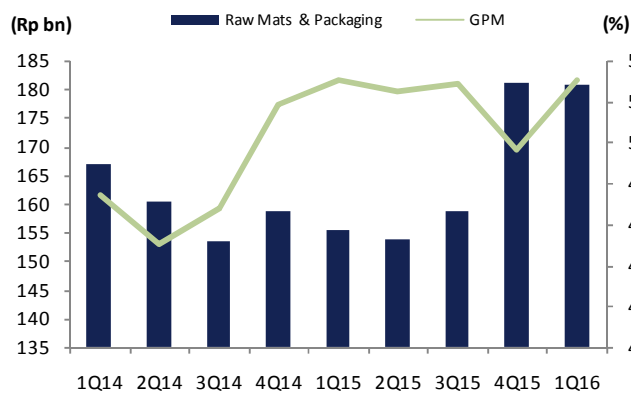
Source: Company, Indo Premier

**Fig. 2: Fragmented Bakery Market in Indonesia**



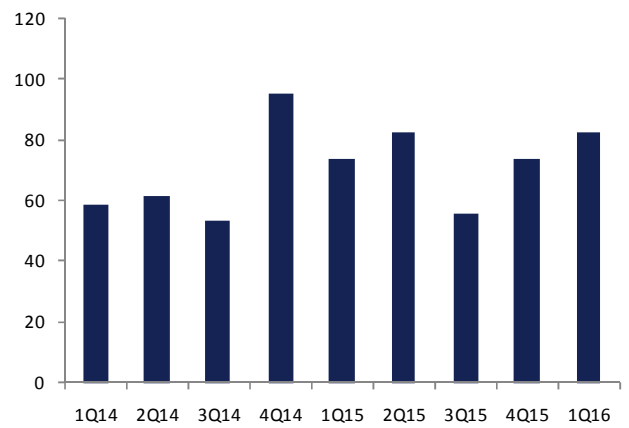
Source: Company, Indo Premier

**Fig. 3: GPM and Raw Mats cost (as % of net sales) quarterly**



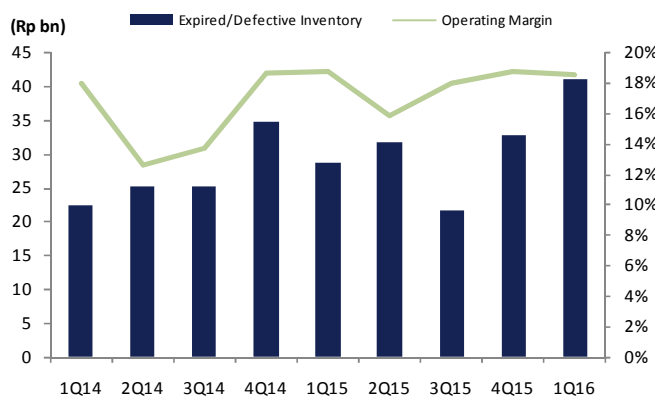
Source: Company, Indo Premier

**Fig. 4: Sales Return Trend Quarterly**



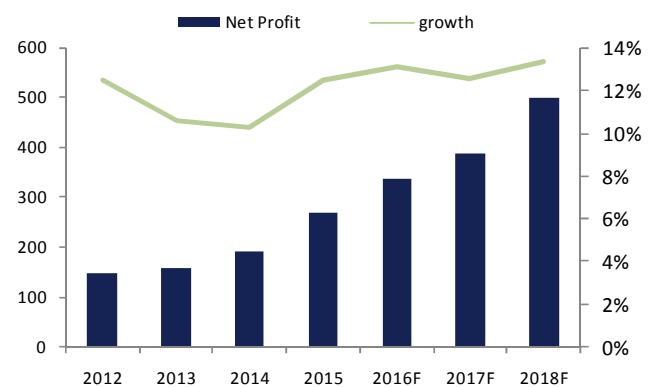
Source: Company, Indo Premier

**Fig. 5: Effect of Expired/Defective Inventory on Op. Margin**



Source: Company, Indo Premier

**Fig. 6: Earnings Outlook**



Source: Company, Indo Premier

## ROTI Results Note

**Fig. 7: Earnings Results**

<b>(in Rp bn)</b>	<b>1Q16</b>	<b>1Q15</b>	<b>YoY</b>	<b>1Q16</b>	<b>4Q15</b>	<b>QoQ</b>
Revenue	611	519	17.8%	611	601	1.7%
White Bread	428	342	25.1%	428	413	3.5%
Sweet Bread	252	242	4.1%	252	252	0.1%
Gross Profit	324	275	17.8%	324	298	8.7%
Operating Profit	113	97	16.5%	113	113	0.5%
Net Profit	86	67	28.6%	86	78	10.7%
<b>Margin (%)</b>	<b>1Q16</b>	<b>1Q15</b>		<b>1Q16</b>	<b>4Q15</b>	
Gross Margin	53.1%	53.0%		53.1%	49.7%	
Operating Margin	18.6%	18.8%		18.6%	18.8%	
Net Margin	14.1%	12.9%		14.1%	13.0%	

Source: Company, Indo Premier

## ROTI Results Note

Year To 31 Dec (RpBn)	2014A	2015A	2016F	2017F	2018F
<b>Income Statement</b>					
Net Revenue	1,880	2,175	2,582	3,093	3,741
Cost of Sales	(979)	(1,020)	(1,214)	(1,454)	(1,758)
Gross Profit	901	1,155	1,368	1,639	1,983
SG&A Expenses	(639)	(739)	(884)	(1,059)	(1,263)
Operating Profit	263	416	484	580	720
Net Interest	(46)	(75)	(36)	(69)	(59)
Forex Gain (Loss)	4	0	0	0	0
Others-Net	36	39	28	34	41
Pre-Tax Income	257	379	477	545	702
Income Tax	(64)	(108)	(138)	(158)	(204)
Minorities	0	0	0	0	0
Net Income	193	271	338	387	499
<b>Balance Sheet</b>					
Cash & Equivalent	163	516	184	130	139
Receivable	213	251	299	358	432
Inventory	41	43	53	64	77
Other Current Assets	4	4	0	0	0
Total Current Assets	420	814	536	551	648
Fixed Assets - Net	1,680	1,821	2,062	2,327	2,712
Goodwill	0	0	0	0	0
Non Current Assets	36	64	77	62	75
Total Assets	2,136	2,699	2,676	2,940	3,435
ST Loans	48	0	0	155	19
Payable	126	160	0	227	275
Other Payables	134	236	184	176	197
Current Portion of LT Loans	0	0	0	0	0
Total Current Liab.	308	396	374	558	490
Long Term Loans	291	0	258	155	187
Other LT Liab.	584	1,122	565	410	495
Total Liabilities	1,183	1,518	1,197	1,123	1,172
Equity	274	274	274	274	274
Retained Earnings	686	915	1,213	1,553	1,999
Minority Interest	0	0	0	0	0
Total SHE + Minority Int.	960	1,189	1,487	1,827	2,274
Total Liabilities & Equity	2,143	2,707	2,684	2,950	3,445

Source: ROTI, IndoPremier

## ROTI Results Note

Year to 31 Dec	2014A	2015A	2016F	2017F	2018F
<b>Cash Flow</b>					
Net Income (Excl.Extraordinary&Min.Int)	193	271	338	387	499
Depr. & Amortization	93	107	149	173	201
Changes in Working Capital	(96)	76	(65)	(42)	(24)
Others	78	153	21	92	92
Cash Flow From Operating	267	608	443	611	767
Capital Expenditure	(353)	(277)	(403)	(423)	(599)
Others	1	15	16	16	18
Cash Flow From Investing	(352)	(262)	(387)	(406)	(581)
Loans	178	(339)	258	51	(103)
Equity	0	0	0	0	0
Dividends	(16)	(28)	(27)	(34)	(39)
Others	(44)	409	(606)	(260)	(21)
Cash Flow From Financing	119	42	(375)	(243)	(163)
Changes in Cash	34	388	(319)	(38)	22
<b>Financial Ratios</b>					
Gross Margin (%)	47.9	53.1	53.0	53.0	53.0
Operating Margin (%)	14.0	19.1	18.8	18.8	19.3
Pre-Tax Margin (%)	13.7	17.4	18.5	17.6	18.8
Net Margin (%)	10.3	12.5	13.1	12.5	13.3
ROA (%)	9.7	11.2	12.6	13.8	15.6
ROE (%)	22.1	25.3	25.3	23.4	24.3
ROIC (%)	16.9	23.0	22.2	20.0	22.4
Acct. Receivables TO (days)	38.4	38.8	38.6	38.5	38.4
Acct. Receivables - Other TO (days)	0.0	0.2	0.3	0.2	0.2
Inventory TO (days)	25.3	24.3	25.2	24.9	25.0
Payable TO (days)	53.1	51.1	52.5	52.3	52.1
Acct. Payables - Other TO (days)	34.8	36.8	33.4	19.8	16.7
Debt to Equity (%)	35.3	0.0	17.4	16.9	9.1
Interest Coverage Ratio (x)	0.2	0.2	0.1	0.1	0.1
Net Gearing (%)	18.4	(43.4)	5.0	9.8	3.0

Source: ROTI, IndoPremier

**Head Office****PT INDO PREMIER SECURITIES**

Wisma GKBI 7/F Suite 718

Jl. Jend. Sudirman No.28

Jakarta 10210 - Indonesia

p +62.21.5793.1168

f +62.21.5793.1167

**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

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