

Bisi International (BISI IJ)

18 May 2016

Initiating Coverage

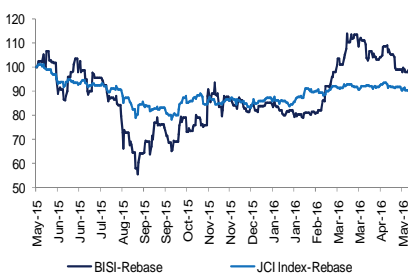
BUY (New)

Stock Data

Target price (Rp)	Rp1,830
Prior TP (Rp)	n/a
Shareprice (Rp)	Rp1,550
Upside/downside (%)	+18.1
Sharesoutstanding (m)	3,000
Marketcap. (US\$ m)	349
Free float (%)	45.9
Avg. 6m dailyT/O (US\$ m)	0.1

Price Performance

	3M	6M	12M
Absolute (%)	19.2	11.9	-6.9
Relative to JCI (%)	18.6	8.2	4.2
52w high/low (Rp)	1,800 - 880		



Major Shareholders

Agrindo Pratama	31.0%
Midsummer Corp	23.1%

Estimate Change; Vs. Consensus

	2016F	2017F
Latest EPS (Rp)	119	145
Vs. Prior EPS (%)	n/a	n/a
Vs. Consensus (%)	7.2	11.5

Source: Bloomberg

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Growing seeds

- Beneficiary of Jokowi's food sovereignty program.
- Higher demand on healthy food.
- Riding up with corn industry growth.
- Initiate a Buy recommendation with 18% upside.

Upside potential from government food sovereignty program. As the supplier of seeds, pesticide and agricultural equipments, BISI is the beneficiary of the government's food sovereignty program. Jokowi's agricultural program which promoted in 2014 presidential campaign includes seeds provision to farmers in the villages, control of foods imports, farmers' technical capability enhancement, construction of 25 dams, etc. The government has built 13 water reservoirs in 2015 which expected to complete within 3-4 years and plans to build another 49 dams. The provision of free high quality (hybrid) corn seeds to the farmers, which begins this year, have helped BISI's corn seed sales to jump 107% yoy in 1Q16. To note, BISI's hybrid corn seed could increase crop yield up to 8-10 tons/ha, higher than local seed's crop yield of around 2 tons/ha.

Higher healthy food demand while farmers' planting practice improves. As demand for high quality food improves, demand for high quality horticulture seeds also increases. BISI which holds around 39% market share in horticulture seed industry posted horticulture seeds sales growth of 17.3% yoy in 1Q16. BISI's up to 300 fruit and vegetable seeds sales contributed 17% of revenues in 1Q16. Additionally, farmers' awareness in best planting practice has pushed higher demand for agrochemical products. The segment formed 46% of 1Q16 revenues.

Earnings growth will be supported by corn seed segment. We expect BISI will post double digit earnings growth in 2016-18, helped by around 18% revenues CAGR, which supported primarily by the growth in the corn seed sales (44% of revenues), and also backed by horticulture seed sales (16% of total) and agrochemical (37%). We have positive view on corn industry outlook in the next several years helped by the government's corn self sufficiency target, upside potential from low hybrid corn seed coverage of 52% (of harvested corn field in Indonesia) and the government policy to stabilize corn price particularly during the harvesting season to attract farmers to plant the commodity.

Initiate Buy with 18% upside. We are initiating coverage on BISI with a Buy rating and 18% upside to our DCF (WACC: 12.2%, TG: 4%) target price of Rp1,830, which implies P/E 2016-17 of 15.7x and 13.1x, respectively. We expect BISI will post 2015-18 earnings CAGR of 23%, stemming from corn field growth estimate of 3% pa, BISI's maintained market share in hybrid corn seed market, and hybrid corn seed coverage improvement to 67% of total corn field.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	1,156	1,438	1,710	2,006	2,351
EBITDA(RpBn)	226	313	416	500	582
EBITDA Growth (%)	4.3	38.9	32.6	20.2	16.5
Net Profit(RpBn)	165	264	349	419	490
EPS (Rp)	55	88	116	140	163
EPS Growth (%)	29.9	60.0	32.2	20.2	16.7
Net Gearing (%)	(10.8)	(17.3)	(17.5)	(17.1)	(16.3)
PER (x)	28.2	17.6	13.3	11.1	9.5
PBV (x)	2.9	2.6	2.3	2.0	1.7
Dividend Yield (%)	0.8	1.4	2.3	3.0	3.6
EV/EBITDA (x)	21.4	15.8	12.1	10.1	8.7

Source: BISI, IndoPremier

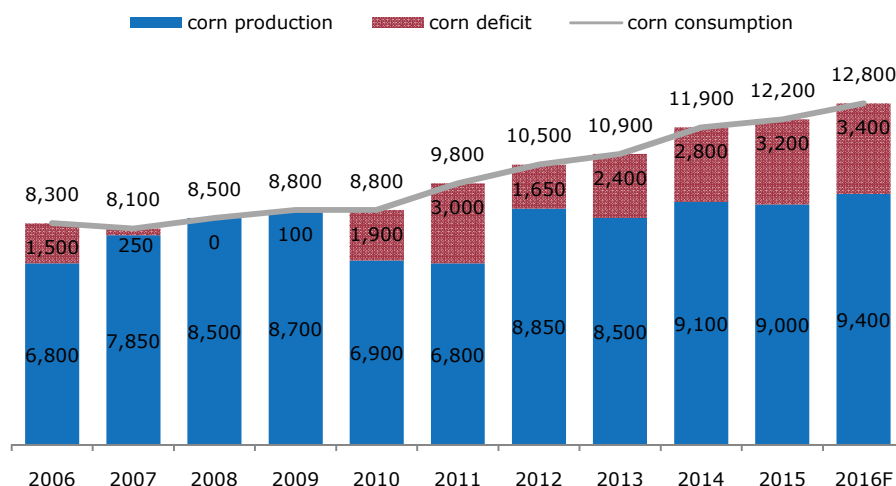
Share Price Closing as of :17 May 2016

Refer to Important disclosures on the last of this report

Benefited by Jokowi's corn self sufficiency program

The government of Indonesia is implementing several initiatives to improve corn production as Indonesia is currently in corn deficit of approximately 3.4m tons with corn demand of around 12.8m tons per year while annual production stand at around 9.4m tons. The government targets to reach self sufficient corn supply by 2017. To achieve the target, the government provides hybrid corn seed (which bought from the seed producers including BISI) to the farmers. Additionally, the government is improving irrigation system and will appoint Perum Bulog (an SOE) as the single corn importer while expanding Bulog's role to stabilize corn and soybean prices (from only rice). The more stable corn price, particularly during harvesting season, is expected to encourage more corn planting by the farmers.

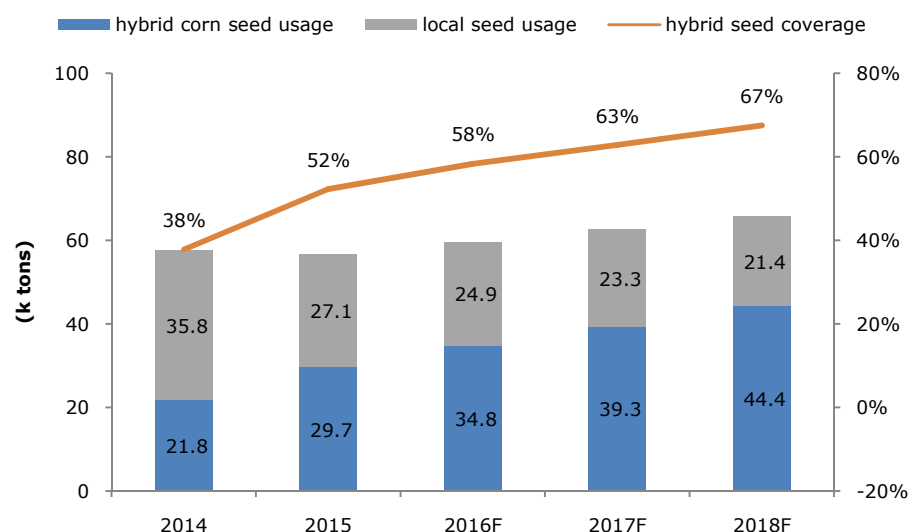
Fig. 1: Indonesia corn production, consumption, deficit (k tons)



Source : USDA

We view that the upside in the corn industry will be limited post Indonesia corn self-sufficiency target is accomplished. However, as we expect the government target will not be achieved within the next three years, we believe BISI's earnings momentum would remain positive in the next several years. We expect Indonesia corn production will increase with 2015-18 CAGR of 8% (vs 2012-15 CAGR of 0.5%), stemming from harvested area CAGR of 3% and improved hybrid corn seed usage to 67% of total harvested area in 2018 (vs 52% in 2015).

Fig. 2: Corn seed demand (k tons)

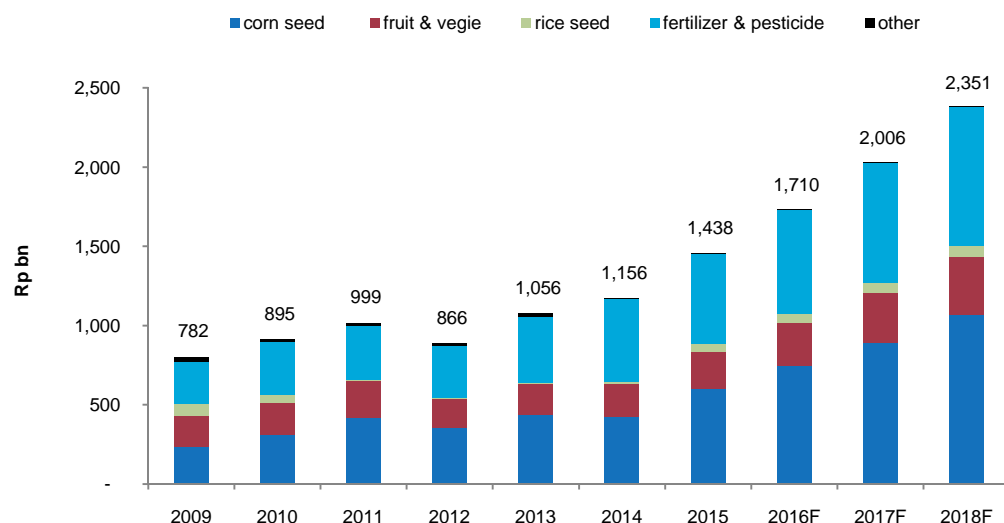


Source : BISI, Central Statistic Agency, IndoPremier

BISI Initiating Coverage

With these assumptions and BISI's unchanged market share of 48% in hybrid corn seed industry, we expect BISI's corn seed sales volumes will increase by 17% yoy in 2016, before increasing by 13% yoy in 2017 and in 2018, allowing corn seed sales to increase by 24%; 20% and 20% in 2016; 2017 and 2018, respectively, as we apply ASP growth of 6% pa. These, coupled with growth contribution from other segments' sales will pave the way for BISI revenues CAGR of 18% in 2015-18, in our view.

Fig. 3: BISI revenues

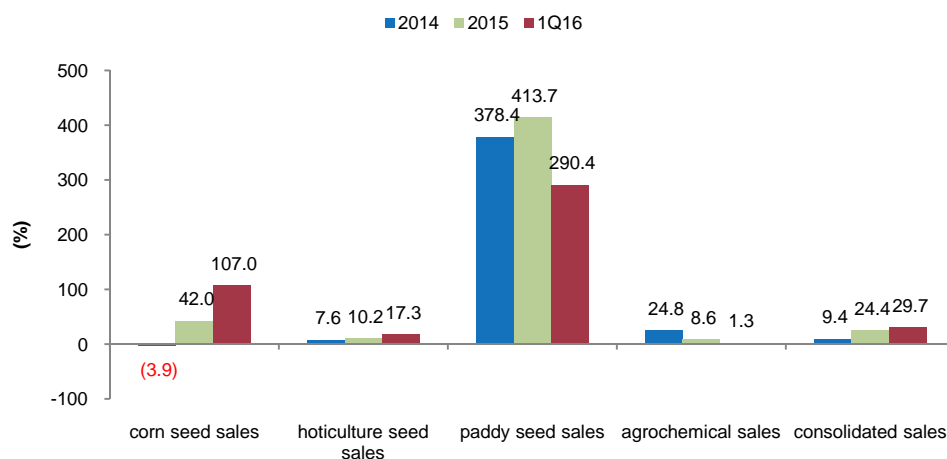


Source : BISI, IndoPremier

Revenues growth mostly contributed by the increase in corn seed sales

While all segments posted revenues growth in 2015, corn seed sales (accounted for 41% of total gross revenues) is the largest contributor to the company's consolidated revenues growth of 24% yoy. BISI maintained its double digit revenues growth of 30% yoy in 1Q16 which mostly caused by higher corn seed sales (+107% yoy). To note, corn seed segment contributed 58% of total EBIT in 1Q16.

Fig. 4: Revenue growth yoy (%)



Source : BISI

BISI is the beneficiary of increasing high quality seed demand as farmers' awareness to implement best planting practice improves. Upside potential in corn seed remain high in our view given 48% of corn plantations have not used hybrid corn seed. We estimate Indonesia corn seed demand is approximately 50k tons annually, while the hybrid corn seed market stand at around ~25k tons. Thus, even without harvested area improvement, upside in the hybrid seed industry remains high, in our view, given the attractive crop yield of up to 8-10tons/ha which hybrid seed offers vs local seed's crop yield of ~2tons/ha.

BISI Initiating Coverage

1Q16 result overview

In 1Q16, BISI posted earnings growth of 35% yoy on the back of 30% yoy revenues growth and expanded margins as ~70% of seed segments' production costs were fixed costs. Top line growth of 30% yoy was mostly attributable to corn seed sales growth of 107% yoy, which caused by ASP increase of 9% yoy and corn seed sales volumes of 2.66k tons (+90% yoy).

BISI's 1Q16 revenues represent 20% of our FY16 estimate, while the earnings form 19% of our FY16 forecast. We view our FY16 forecasts are achievable as in the past couple of years, first quarter top-line represented 20% of full year revenues while first quarter bottom line represented 18% of full year net profit.

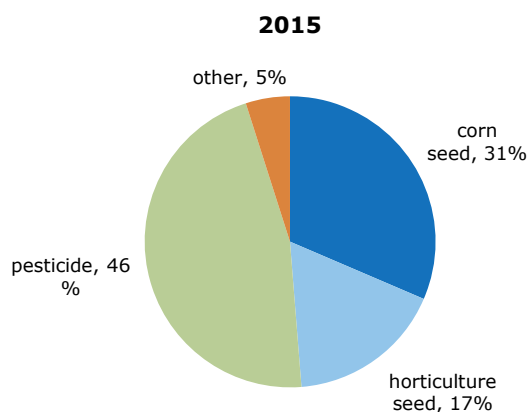
(Rp Bn)	1Q16	1Q15	% Y-Y	1Q16	4Q15	% Q-Q	FY16F	% of forecast
Corn seed sales	107.1	51.8	107.0	107.1	208.5	(48.6)	743.5	14.4
Horticulture seed sales	59.0	50.3	17.3	59.0	78.3	(24.6)	271.5	21.7
Pesticide sales	157.9	155.9	1.3	157.9	143.9	9.7	632.4	25.0
Other revenues	16.8	4.8	252.0	16.8	11.5	46.2	62.5	26.9
Revenues	340.9	262.8	29.7	340.9	442.1	(22.9)	1,709.9	19.9
COGS	210.4	171.1	22.9	210.4	256.3	(17.9)	1,001.2	
Gross profit	130.5	91.6	42.4	130.5	185.8	(29.8)	708.7	18.4
G&A expenses	16.9	11.9	41.3	16.9	35.2	(52.1)	106.2	
Selling expenses	37.3	25.3	47.6	37.3	78.3	(52.3)	209.7	
Operating profit	79.2	57.1	38.7	79.2	94.8	(16.4)	427.6	18.5
Net interest inc. (exp)	4.0	2.6	55.0	4.0	2.6	51.0	10.7	
Forex gain (loss)	-	-	na	-	(1.9)	na	-	
Other	-	-	na	-	8.8	na	10.7	
Pretax profit	83.2	59.7	39.4	83.2	95.5	(12.9)	438.3	19.0
Tax	17.7	11.3	57.3	17.7	19.3	(8.0)	89.4	
Minority Interest	0.0	0.0	40.0	0.0	0.0	320.0	0.0	
Net profit	65.4	48.4	35.2	65.4	76.2	(14.2)	348.9	18.8
	1Q16	1Q15		1Q16	4Q15		FY16F	
GPM (%)	38.3	34.9		38.3	42.0		41.4	
OPM (%)	23.2	21.7		23.2	21.4		25.0	
Pretax mgn (%)	24.4	22.7		24.4	21.6		25.6	
NPM (%)	19.2	18.4		19.2	17.2		20.4	

Source: BISI, IndoPremier

Business segments

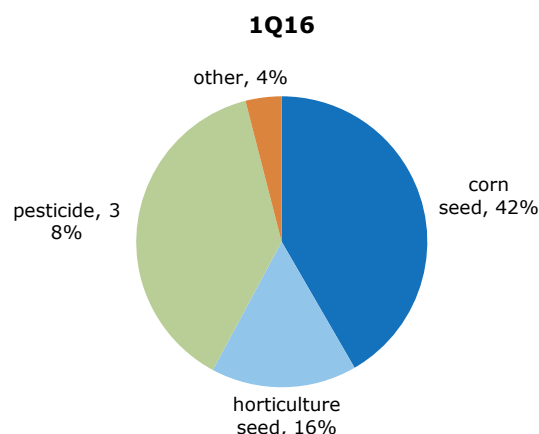
BISI engages in three main business segments, corn seeds sales (42% of total sales), horticulture seeds sales (16% of total sales) and agrochemical (pesticide) sales (38% of total sales). Additionally, BISI produces and sells paddy seeds (3% of total sales) and engages in the sales of farming equipment (other business, 1% of total sales).

Fig. 5: Revenue contribution, 2015



Source: BISI

Fig. 6: Revenue contribution, 1Q16



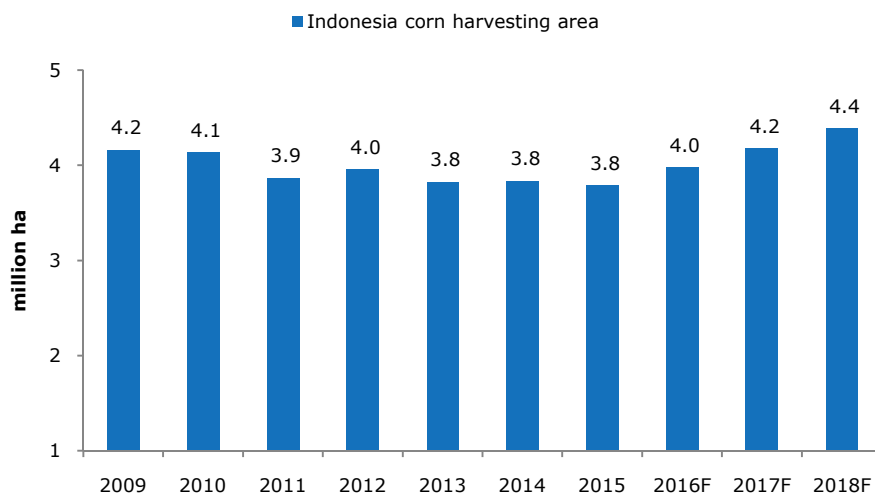
Source: BISI

BISI Initiating Coverage

Corn seed

BISI sold 14.3k tons (+53% yoy) of corn seed in FY15 and 2.66k tons (+90% yoy) in 1Q16. Corn seed contributed 42% of BISI's 1Q16 revenues and 46% of gross profit. In 2010-15, BISI corn seed sales volumes increased with annual growth of 7.2%, despite corn harvested area in Indonesia decreased with CAGR of -2% in the period. Higher hybrid corn seed sales were attributable to the farmers' increasing knowledge to use high quality seeds to improve crop yield. To note, hybrid seeds which produced by BISI offer crop yield of up to 8-10 tons per ha versus the traditional seeds' crop yield of 1.5-2 tons per ha. Thus, despite harvested area were decreasing, Indonesia corn production volumes improved from 8.4m tons in 2010 to 9.0m tons in 2015, while yield per hectare improving from 2.7ton/ha in 2010 to 3.0ton/ha in 2015.

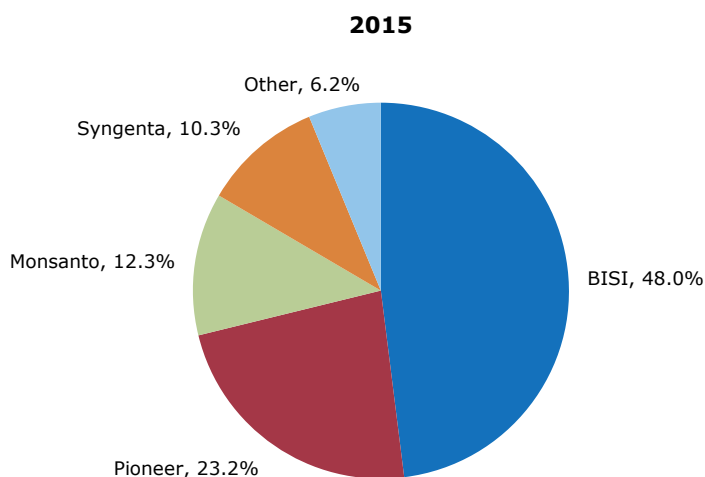
Fig. 7: Indonesia harvested corn field area



Source : Central Statistic Agency, IndoPremier

To maintain crop yield and quality, in every planting season, farmers should use hybrid corn seeds, which produced by BISI, resulting in sustainable corn seed demand for the company. Natural corn plant reproduces sexually in every life cycle which randomly selects half of the genes to the next generation resulting in the lost of the desirable traits found in the crop like high yield and good nutrition. Upside potential in the corn seed market remains high as only 52% (2mn hectares) of corn harvested area use hybrid corn seed, providing large room for corn seed industry growth. Additionally, most farmers in Indonesia plant corn with only one crop cycle per year, which could increase to twice a year with proper irrigation system, which also one of Jokowi administration's top priority program. To note, BISI is the market leader in the hybrid corn seed industry with 48% market share.

Fig. 8: BISI market share in hybrid corn seed market



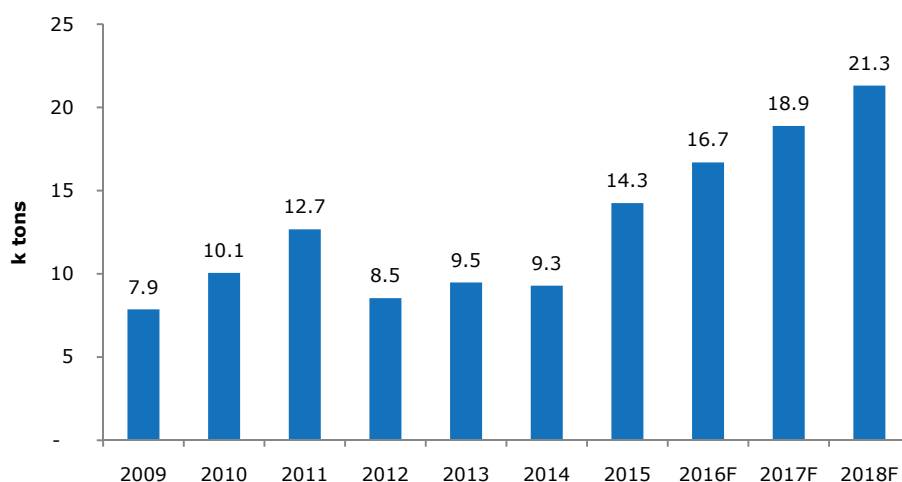
Source : BISI

BISI Initiating Coverage

Upside potential in the corn industry remain high, in our view, with around 48% of total corn harvested area have not use hybrid corn seed,. We note that in 2015, corn harvested area reached 3.79m hectares, assuming the demand of 15kg seeds per ha, potential corn seed market reached 56.8k tons. Hybrid corn seed cover only 52% (29.7k tons) of total corn seed demand, an increase from 37% or 21.6k tons of hybrid corn seeds consumption in 2014. We also note that BISI's market share in hybrid corn seed industry increased to 48% (14.3k tons of seeds) in 2015, from 43% (9.3k tons of seeds) in 2014.

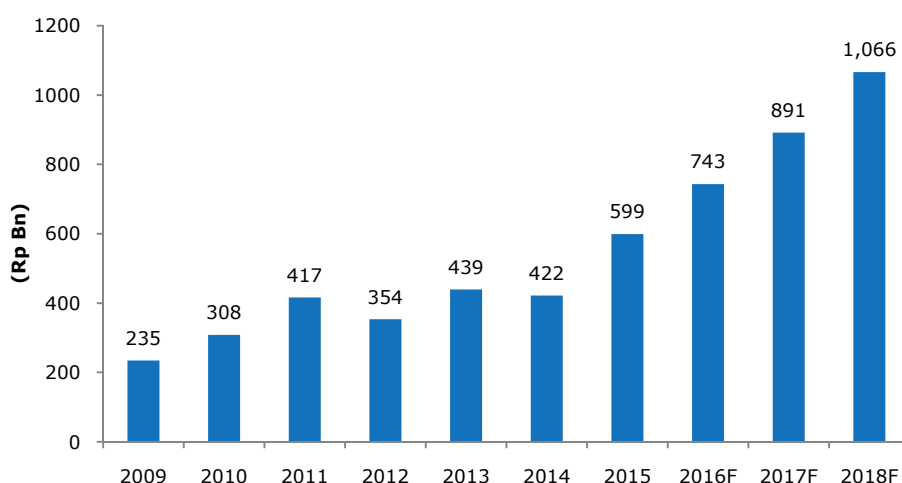
We expect BISI corn seed sales volumes to increase by 17% yoy in 2016, before increasing by 13%-12.8% in 2017-18 helped by increasing harvested corn area (3% pa) and improvement in hybrid corn seed usage by farmers from around 52% of total harvested corn field to 67% in 2018.

Fig. 9: BISI corn seed sales volumes



Source : BISI, IndoPremier

Fig. 10: BISI corn seed sales



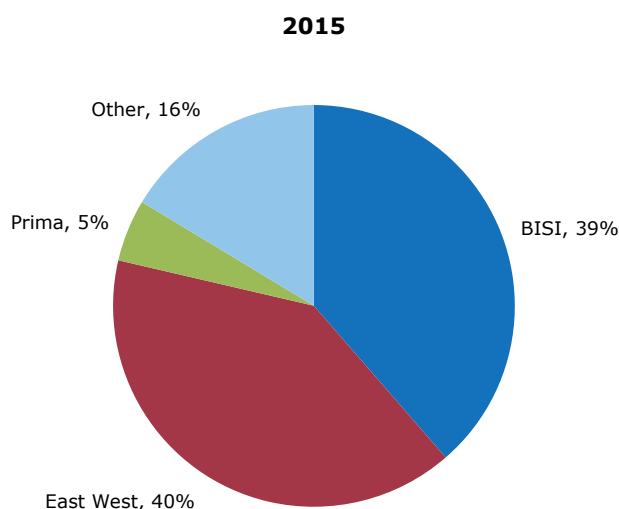
Source : BISI, IndoPremier

With 6% pa higher ASP, we expect BISI's revenues from corn seed segment to increase 24% yoy in 2016, before improving by 20% and 19.6% in 2017 and 2018, respectively. Upside to our estimate will stem from higher than expected harvested corn field area and better than expected execution of government corn self sufficiency program.

Horticulture seed

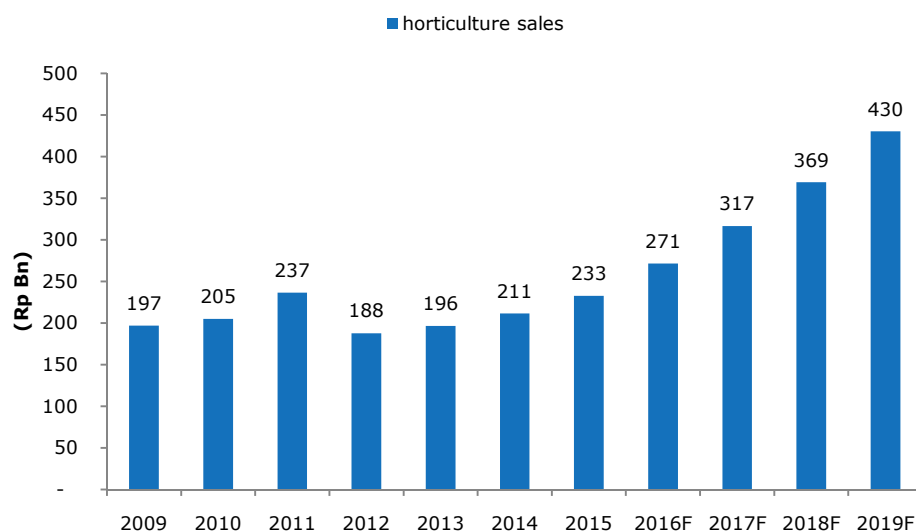
Fruit and vegetable seeds sales accounted for 22% of BISI's revenues and 16% of gross profit in 1Q16. Horticulture seed posted sales growth of 17.3% yoy in 1Q16. Increasing awareness on healthy living has improved higher demand for high quality fruit and vegetables. BISI holds 39% market share in the segment. BISI produces and sells more than 300 fruit and vegetable seeds including chili, cucumber, eggplant, tomato, pumpkin, bitter gourd, water spinach, long bean, spinach, honeydew and watermelon. The horticulture seeds will also lose the desirable crop yield and quality after more than once cycle of production, similar to the company's hybrid corn seed. We apply horticulture sales growth estimate of 17% pa in 2016-18.

Fig. 11: BISI market share in horticulture seed market



Source : BISI

Fig. 12: Horticulture sales

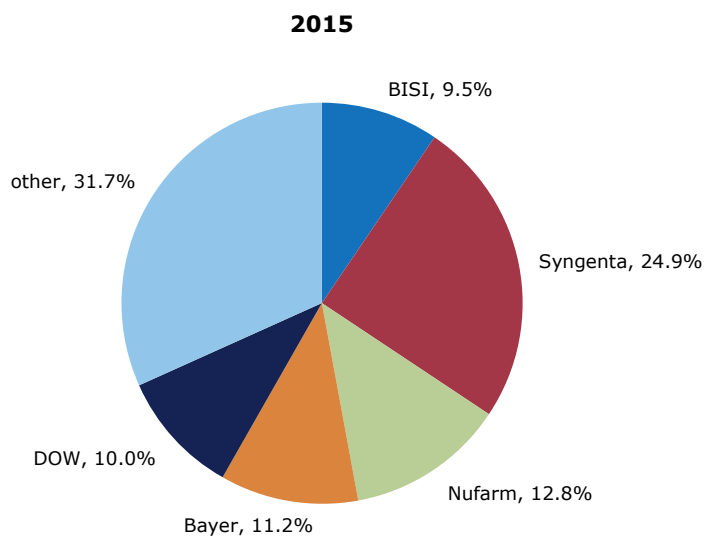


Source : BISI, IndoPremier

Agrochemical

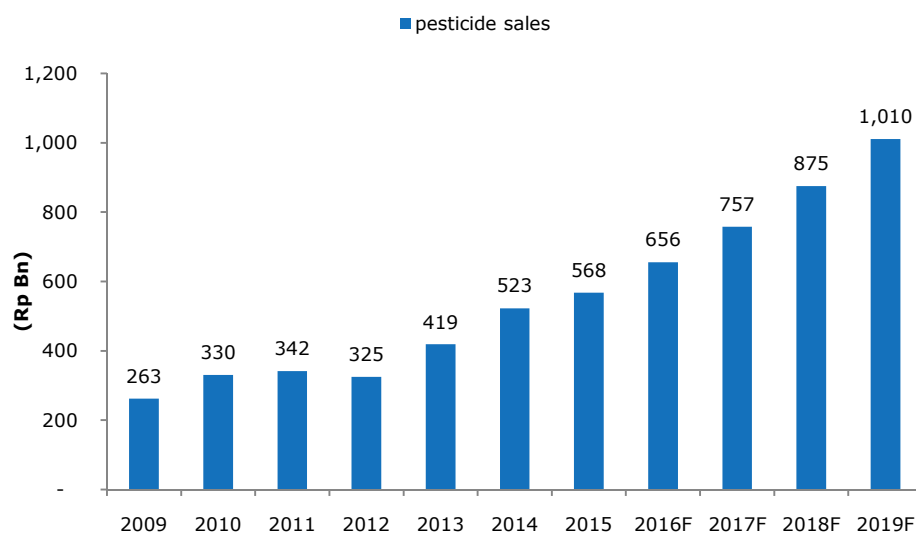
Fertilizer and pesticide sales formed around 46% of total revenues and 43% of gross profit in 1Q16. The segment is the largest revenue and gross profit contributor in 1Q16. BISI produced more than 80 types of agricultural chemicals including herbicides, fungicides, insecticides and other agricultural instruments. The sales of pesticides increased with annual growth of 11.4% in the period of 2010-15 and grew 44.5% yoy in 1Q16. The demand improvement in fertilizer and other agrochemical component are caused by increasing farmers' awareness to apply best planting practice to optimized crop yield.

Fig. 13: BISI market share in pesticide market



Source : BISI

Fig. 14: Agrochemical sales



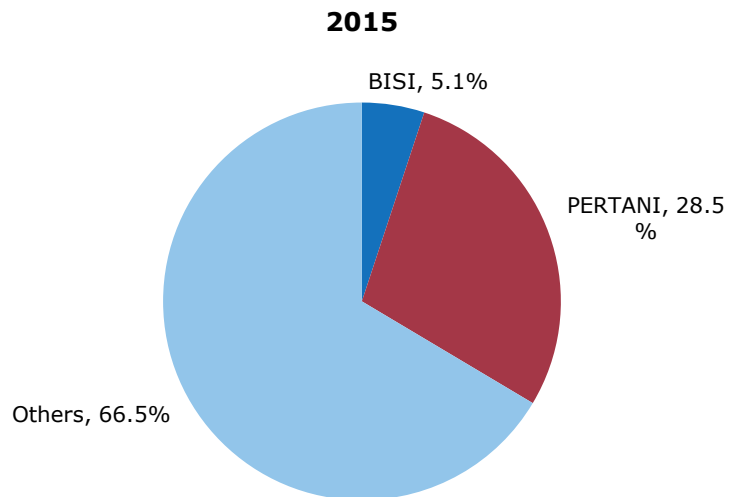
Source : BISI, IndoPremier

Paddy seed

Paddy seeds sales jumped 290% yoy in 1Q16, after soared 5 fold yoy in FY15, which mainly driven by the increase in demand. Paddy seed sales formed only 4% of total revenues in 1Q16. Currently, BISI produces and sells open pollinated (OP) paddy seeds with the brand name of Ciherang Bisi, which initially sold to fill in the market demand post the company decision to halt the distribution of its hybrid paddy seed.

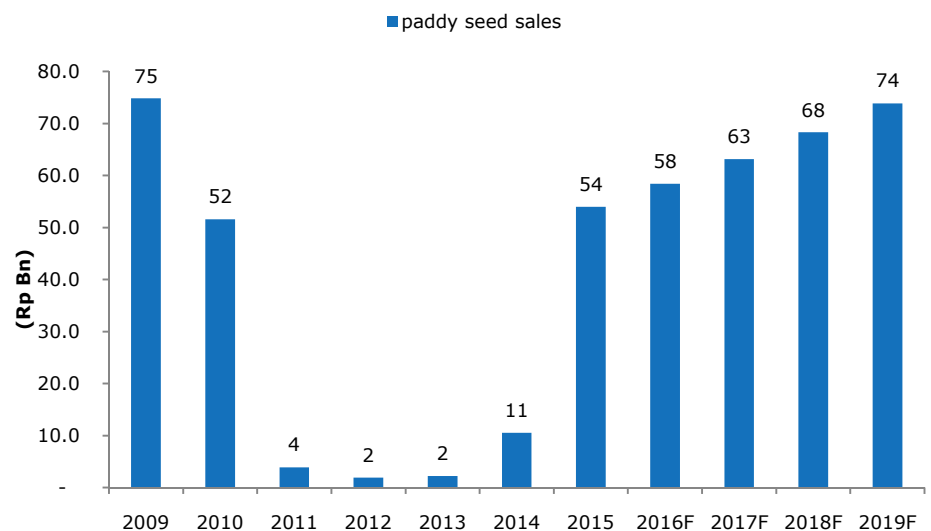
BISI is currently improving the quality of its hybrid paddy seed under the brand name Intani. The distribution of Intani seed is expected in 2017 with full impact to sales and revenues in 2018. However, we have not included hybrid paddy seed sales in our forecast. The segment's revenues growth in 2016-18 is mostly from the sales of OP paddy seed sales. We estimate paddy seed sales to increase 8% pa in 2016-18.

Fig. 15: BISI market share in paddy seed market



Source : BISI

Fig. 16: Paddy seed sales



Source : BISI, IndoPremier

Temporary sustain growth on corn industry restructure, Buy with 18% upside

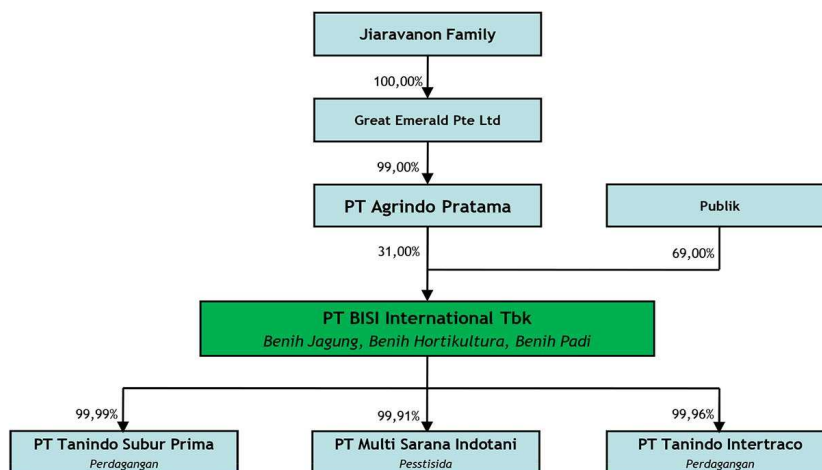
We initiate a Buy recommendation on BISI with 18% upside to our DCF (WACC: 12.2%, TG: 4%) target price of Rp1,830/share, which implies 2016 P/E of 15.7x and 2017 P/E of 13.1x. We expect BISI will post earnings growth of 32%; 20% and 17% yoy in 2016; 2017 and 2018, respectively. Upside to our estimate will stem from better than expected execution on government corn self-sufficiency program. On the flip side, we view earnings volatility risk as high, primarily post the domestic corn production sufficiency as corn oversupply will be negative for corn price, which will discourage farmers' planting activities and lower seed demand. However, even with moderate corn industry growth assumption, we believe BISI's earnings momentum would remain positive in the next several years, helped by increasing usage of hybrid corn seed given its high crop yield.

BISI Initiating Coverage

Company in brief

BISI established in 1983 and listed in the stock exchange since 2007. The company has 14 production facilities including seed production units and research facilities which located in East Java, Central Java, West Java, Bali, West Nusa Tenggara, North Sumatera and Lampung. BISI has three subsidiaries which fully owned and controlled by the company. BISI is controlled by Jiaravanon Family from Thailand. The family also owns and controls Charoen Phokphand Indonesia (CPIN IJ; Not Rated).

Fig. 17: Ownership structure



Source : BISI

Shareholders	Ownership (%)
PT Agrindo Pratama	31.00
Midsummer Limited	23.08
Public (<5%)	
Local	8.59
Foreign	37.33
Total	100.00

Source : BISI

BISI Initiating Coverage

Year To 31 Dec (RpBn)	2014A	2015A	2016F	2017F	2018F
Income Statement					
Net Revenue	1,156	1,438	1,710	2,006	2,351
Cost of Sales	(752)	(875)	(1,001)	(1,160)	(1,360)
Gross Profit	403	562	709	846	991
SG&A Expenses	(197)	(270)	(316)	(370)	(434)
Operating Profit	206	292	393	476	557
Net Interest	6	11	11	11	11
Forex Gain (Loss)	0	(2)	0	0	0
Others-Net	(3)	31	35	41	48
Pre-Tax Income	209	332	438	527	615
Income Tax	(44)	(68)	(89)	(107)	(125)
Minorities	0	0	0	0	0
Net Income	165	264	349	419	490
Balance Sheet					
Cash & Equivalent	174	315	360	401	434
Receivable	792	722	867	1,017	1,191
Inventory	534	713	795	921	1,080
Other Current Assets	30	29	34	40	47
Total Current Assets	1,530	1,778	2,057	2,379	2,753
Fixed Assets - Net	276	293	296	299	302
Goodwill	0	0	0	0	0
Non Current Assets	37	38	46	53	63
Total Assets	1,868	2,142	2,436	2,775	3,169
ST Loans	0	0	0	0	0
Payable	89	121	0	159	186
Other Payables	122	159	188	221	259
Current Portion of LT Loans	0	0	0	0	0
Total Current Liab.	211	279	326	379	445
Long Term Loans	0	0	0	0	0
Other LT Liab.	44	47	52	58	65
Total Liabilities	255	326	378	438	510
Equity	394	394	394	394	394
Retained Earnings	1,219	1,421	1,664	1,944	2,265
Minority Interest	0	0	0	0	0
Total SHE + Minority Int.	1,613	1,815	2,058	2,338	2,659
Total Liabilities & Equity	1,868	2,142	2,436	2,775	3,169

Source: BISI, IndoPremier

BISI Initiating Coverage

Year to 31 Dec	2014A	2015A	2016F	2017F	2018F
Cash Flow					
Net Income (Excl.Extraordinary&Min.Int)	165	264	349	420	490
Depr. & Amortization	7	20	21	22	23
Changes in Working Capital	(58)	(45)	(197)	(239)	(288)
Others	31	(14)	(10)	(1)	0
Cash Flow From Operating	145	225	164	202	225
Capital Expenditure	(44)	(39)	(31)	(33)	(35)
Others	7	12	12	12	12
Cash Flow From Investing	(37)	(27)	(20)	(21)	(24)
Loans	0	0	0	0	0
Equity	0	0	0	0	0
Dividends	(36)	(63)	(106)	(140)	(168)
Others	(1)	0	(1)	(1)	(1)
Cash Flow From Financing	(37)	(63)	(107)	(141)	(169)
Changes in Cash	70	135	37	40	32
Financial Ratios					
Gross Margin (%)	34.9	39.1	41.4	42.2	42.2
Operating Margin (%)	17.8	20.3	23.0	23.7	23.7
Pre-Tax Margin (%)	18.1	23.1	25.6	26.3	26.2
Net Margin (%)	14.3	18.4	20.4	20.9	20.8
ROA (%)	9.2	13.2	15.2	16.1	16.5
ROE (%)	10.7	15.4	18.0	19.1	19.6
ROIC (%)	11.1	16.1	18.6	19.6	20.1
Acct. Receivables TO (days)	188.6	160.3	147.8	148.2	148.3
Acct. Receivables - Other TO (days)	26.1	31.9	21.8	23.2	23.2
Inventory TO (days)	1.2	1.4	1.3	1.4	1.4
Payable TO (days)	41.7	43.7	47.0	46.6	46.3
Acct. Payables - Other TO (days)	8.9	8.8	9.3	9.3	9.3
Debt to Equity (%)	0.0	0.0	0.0	0.0	0.0
Interest Coverage Ratio (x)	0.0	0.0	0.0	0.0	0.0
Net Gearing (%)	(10.8)	(17.3)	(17.5)	(17.1)	(16.3)

Source: BISI, 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.

The views expressed in this research report accurately reflect the analysts personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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