

Mayora Indah (MYOR IJ)

20 June 2018

Re-initiate coverage

HOLD

Stock Data

Target price (Rp)	Rp3,200
Prior TP (Rp)	n.a
Shareprice (Rp)	Rp3,090
Upside/downside (%)	3.5
Sharesoutstanding (m)	22,359
Marketcap. (US\$ m)	4,931
Free float (%)	15.7
Avg. 6m dailyT/O (US\$ m)	0.2

Price Performance

	3M	6M	12M
Absolute (%)	24.9	45.7	42.3
Relative to JCI (%)	30.0	44.4	36.9
52w high/low (Rp)	3,060 - 1,760		



Major Shareholders

PT Unita Branindo	32.9%
Mayora Dhana Utama	26.1%
Jogi Hendra Atmadja	25.2%

Estimate Change; Vs. Consensus

	2018F	2019F
Latest EPS (Rp)	89	100
Vs. Prior EPS (%)	n.a	n.a
Vs. Consensus (%)	13.9	5.9

Source: Bloomberg

Putri Tobing, CFA

PT Indo Premier Sekuritas
putri.tobing@ipc.co.id
+62 21 5793 1168

The battle for market share

- **Innovations to support mid-teens growth in MYOR's coffee sales.**
- **But, tight competition may hamper MYOR's food processing growth.**
- **Favorable raw material prices should help to sustain the margin.**
- **Re-initiate at HOLD with TP of Rp 3,200 (based on target P/E of 36x).**

Upswing in MYOR's coffee segment. MYOR's strategy to launch various coffee variants when competitors have been focusing more on lowering prices via price promotion has resulted in strong growth of MYOR's coffee sales over the last few quarters (1Q18: 9.7%; 4Q17: 32.4%; 3Q17: 20.6%). We expect sales of MYOR's coffee segment to remain strong, growing by 14.2%/14.6% in FY18F/FY19F, from 13.0% CAGR during FY12-FY17, backed by extensive innovations as well as price adjustment. MYOR had kept overall product prices since last year, compared to 7% ASP hike p.a historically, thus we see a potential for 4-5% price hikes in second half this year.

Tight competition curbing growth outlook. Competition in the biscuits category might restrain growth in MYOR's food processing segment, which accounted for 53.8% of the company's overall revenue in 1Q18, despite positive sales outlook during Lebaran this year. Euromonitor data showed that market share of Nabati Group, the pioneer of cheese wafer biscuit, increased to 15.2% in 2017 (vs 2016: 14.7%; 2015: 14.4%) through its *Richeese* brand, resulting in the Nabati Group's rise to the second-ranking vs. MYOR's third ranking position with 13.2% share in 2017. Our own ground check found Nabati Group offers attractive products, which are selling at average of 50% discount vs. MYOR's biscuits, with a very innovative products flavor and packaging, highlighting the difficulties for MYOR to command larger pie in the biscuit market. We expect declining growth trend in MYOR's food processing segment to 12.2/11.2% in FY18F/FY19F, from 16.2% CAGR during FY12-FY17, hampering MYOR's revenue growth to only 13.2%/12.9% FY18F/FY19F, from 14.6% CAGR during FY12-FY17.

Margin to remain solid. On the positive side, prices of key commodities that are used as MYOR's major raw materials like sugar and Robusta coffee bean have been trending down (-17.0% and -2.5%, respectively, YTD), thus could bring upside potential in gross margin level. However, the positive impact might be partially offset by rising wheat price (+25% YTD). We expect GPM of c.26% in FY18F-FY19F, from 24% in FY13-FY17 and EBIT margin of c.12% in FY18F-FY19F, from 11% over the last five, taking into account OPEX-to-sales ratio remain at c. 14% during FY18F-FY19F, in line with MYOR's 3-year historical average.

Valuation. We re-initiate coverage with HOLD rating and TP of Rp3,200, which we derive based on our target FY18F P/E of 36x, or near 1SD of MYOR's 5-year historical average P/E multiple, justified by our forecast for sustained ROAE of c. 24% in the next few years. However, we view the current stock's valuation as demanding, given sharp share price rally since last year and near 50% YTD.

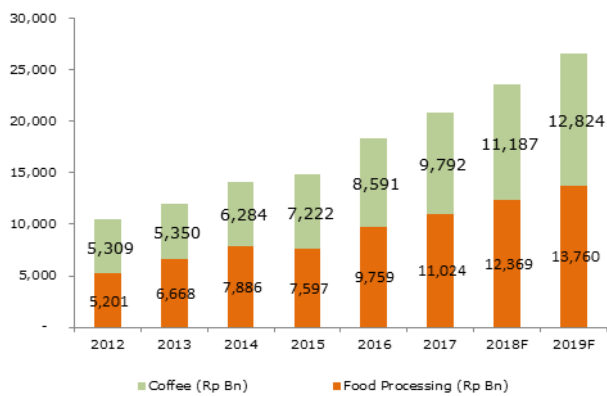
Year To 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (RpBn)	18,350	20,817	23,556	26,584	29,836
EBITDA (RpBn)	2,830	3,000	3,295	3,659	4,126
EBITDA Growth (%)	21.4	6.0	9.8	11.0	12.8
Net Profit (RpBn)	1,355	1,594	1,990	2,244	2,623
EPS (Rp)	61	71	89	100	117
EPS Growth (%)	(95.6)	17.7	24.8	12.8	16.9
Net Gearing (%)	40.4	30.6	25.4	14.1	5.5
PER (x)	51.0	43.3	34.7	30.8	26.3
PBV (x)	11.0	9.4	7.8	6.5	5.5
Dividend Yield (%)	0.4	0.7	0.7	0.9	1.0
EV/EBITDA (x)	25.3	23.8	21.6	19.3	16.9

Source : MYOR, IndoPremier

Share Price Closing as of : 08-June-2018

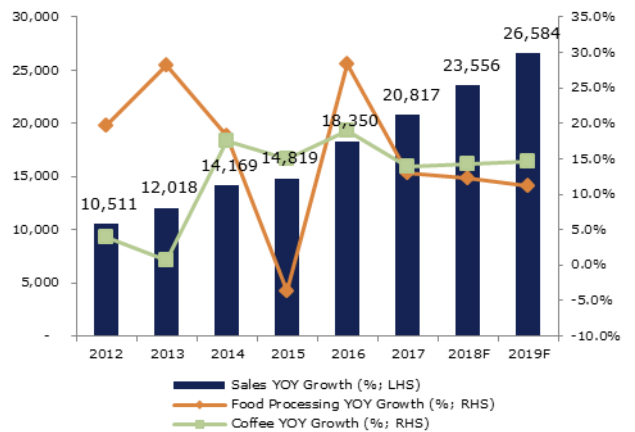
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Fig. 1: Our revenue growth forecast (Rp Bn; % yoy)



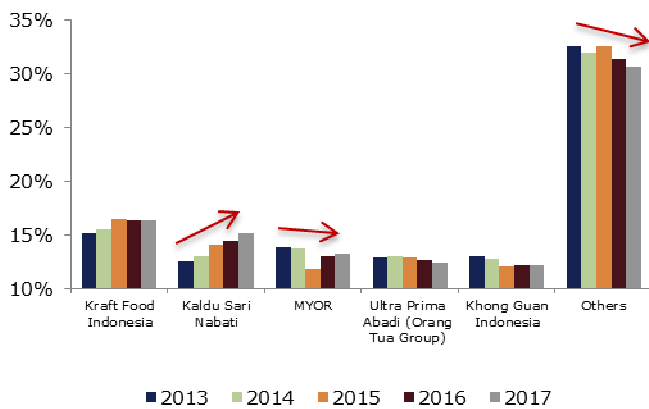
Source: IndoPremier

Fig. 2: Our revenue growth forecast by segment (Rp Bn; % yoy)



Source: IndoPremier

Fig. 3: Indonesia's market share of sweet biscuits (%)



Source: Euromonitor

Fig. 4: Various biscuit products from Nabati Group



Source: IndoPremier

Fig. 5: Manufacturers were preparing for high biscuit demand during Ramadan



Source: IndoPremier

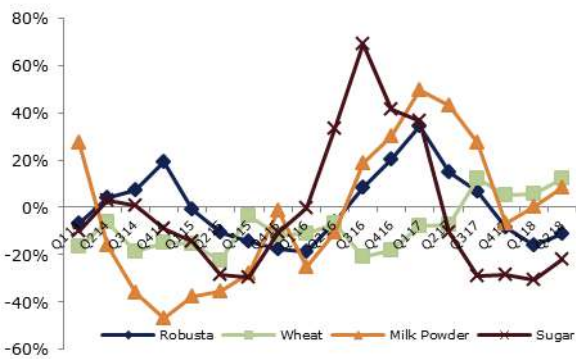
Fig. 6: A huge stall of MYOR's Astor during our visit to Transmart. ITC Kuningan



Source: IndoPremier

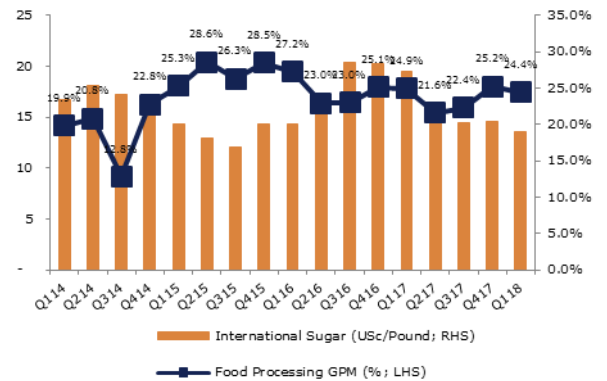
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Fig. 7: Major raw material prices YOY growth (%)



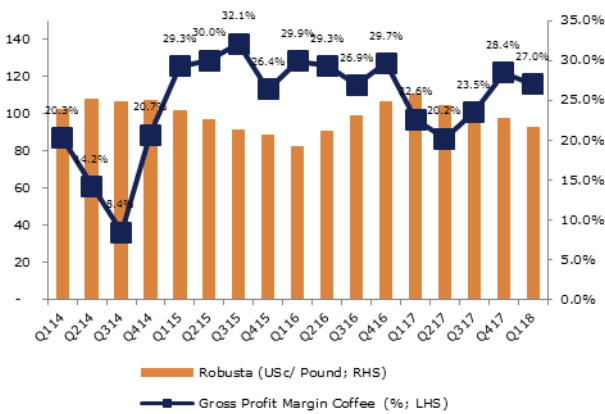
Source: IndoPremier

Fig. 8: Sugar Price vs Food processing GPM (%) trends



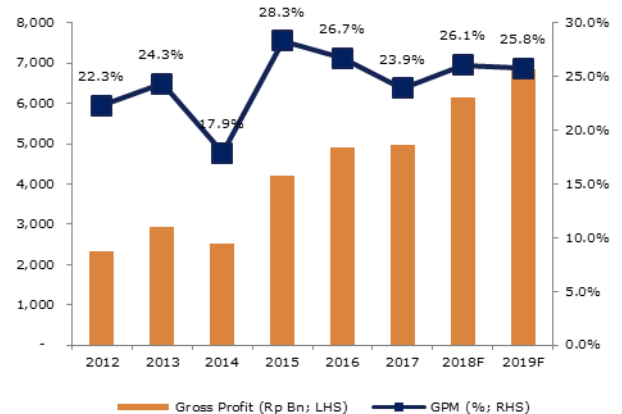
Source: IndoPremier

Fig. 9: Robusta coffee bean vs coffee GPM (%) trends



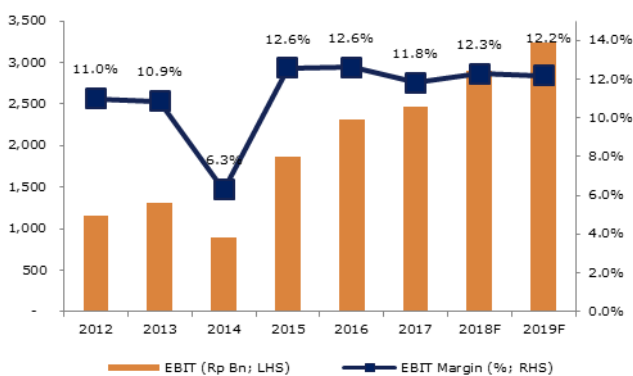
Source: IndoPremier

Fig. 10: Our gross profit and margin forecast (Rp Bn; %)



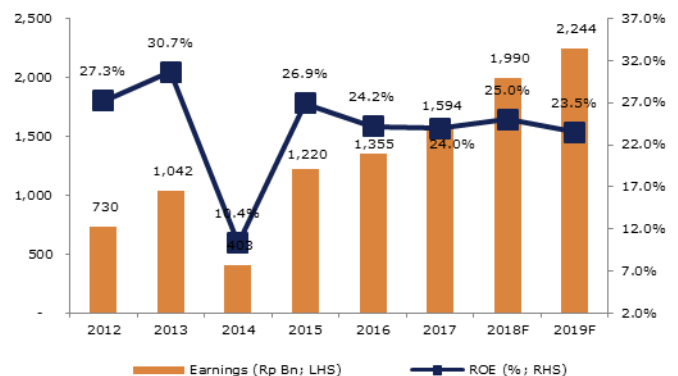
Source: IndoPremier

Fig. 11: Our EBIT and margin forecast (Rp Bn; %)



Source: IndoPremier

Fig. 12: Our earnings and ROE forecast (Rp Bn; %)



Source: IndoPremier

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Year To 31 Dec (RpBn)	2016A	2017A	2018F	2019F	2020F
Income Statement					
Net Revenue	18,350	20,817	23,556	26,584	29,836
Cost of Sales	(13,450)	(15,842)	(17,413)	(19,736)	(22,187)
Gross Profit	4,900	4,975	6,143	6,848	7,649
SG&A Expenses	(2,585)	(2,514)	(3,247)	(3,613)	(3,970)
Operating Profit	2,315	2,461	2,896	3,235	3,679
Net Interest	(342)	(350)	(259)	(253)	(187)
Forex Gain (Loss)	(124)	91	20	20	20
Others-Net	(3)	(15)	0	0	0
Pre-Tax Income	1,846	2,187	2,657	3,001	3,513
Income Tax	(457)	(556)	(627)	(713)	(841)
Minorities	0	0	0	0	0
Net Income	1,355	1,594	1,990	2,244	2,623
Balance Sheet					
Cash & Equivalent	1,543	2,202	3,066	2,886	3,014
Receivable	4,364	5,744	5,808	6,191	6,948
Inventory	2,124	1,825	2,624	2,974	3,343
Other Current Assets	709	903	695	785	881
Total Current Assets	8,740	10,674	12,194	12,836	14,186
Fixed Assets - Net	3,859	3,989	4,240	4,466	4,669
Goodwill	0	0	0	0	0
Non Current Assets	323	253	400	400	400
Total Assets	12,922	14,916	16,834	17,702	19,255
ST Loans	1,284	1,634	2,684	2,534	1,860
Payable	1,330	1,717	0	1,514	1,702
Other Payables	553	528	299	338	379
Current Portion of LT Loans	718	594	1,004	240	240
Total Current Liab.	3,884	4,474	5,418	4,626	4,181
Long Term Loans	2,074	2,226	1,642	1,610	1,610
Other LT Liab.	699	862	862	862	862
Total Liabilities	6,657	7,562	7,922	7,099	6,653
Equity	446	442	448	448	448
Retained Earnings	5,675	6,744	8,275	9,946	11,923
Minority Interest	144	168	189	210	231
Total SHE + Minority Int.	6,265	7,354	8,911	10,603	12,602
Total Liabilities & Equity	12,922	14,916	16,834	17,702	19,255

Source : MYOR,IndoPremier

MYOR IJ Re-initiate coverage

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Cash Flow					
Net Income (Excl.Extraordinary&Min.Int)	1,355	1,594	1,990	2,244	2,623
Depr. & Amortization	506	500	399	424	447
Changes in Working Capital	(1,333)	(578)	(1,528)	(700)	(994)
Others	365	337	(75)	612	187
Cash Flow From Operating	928	1,889	825	2,624	2,311
Capital Expenditure	(801)	(559)	(797)	(650)	(650)
Others	15	36	150	150	150
Cash Flow From Investing	(786)	(522)	(647)	(500)	(500)
Loans	267	378	875	(945)	(674)
Equity	0	0	0	0	0
Dividends	(275)	(481)	(478)	(597)	(673)
Others	(165)	(203)	(383)	(383)	(315)
Cash Flow From Financing	(173)	(306)	14	(1,925)	(1,662)
Changes in Cash	(31)	1,062	192	199	149
Financial Ratios					
Gross Margin (%)	26.7	23.9	26.1	25.8	25.6
Operating Margin (%)	12.6	11.8	12.3	12.2	12.3
Pre-Tax Margin (%)	10.1	10.5	11.3	11.3	11.8
Net Margin (%)	7.4	7.7	8.4	8.4	8.8
ROA (%)	11.2	11.5	12.5	13.0	14.2
ROE (%)	23.6	23.4	24.5	23.0	22.6
ROIC (%)	14.4	14.9	16.7	16.6	18.0
Acct. Receivables TO (days)	76.9	88.6	89.5	82.4	80.4
Acct. Receivables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Inventory TO (days)	6.9	8.0	7.8	7.1	7.0
Payable TO (days)	31.9	35.1	33.0	27.2	26.5
Acct. Payables - Other TO (days)	7.7	5.3	5.2	4.9	5.0
Debt to Equity (%)	65.1	60.6	59.8	41.3	29.4
Interest Coverage Ratio (x)	0.2	0.2	0.1	0.1	0.1
Net Gearing (%)	40.4	30.6	25.4	14.1	5.5

Source : MYOR,IndoPremier

Head Office

PT INDO PREMIER SEKURITAS

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

ANALYSTS CERTIFICATION.

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