

23 JULY 2019

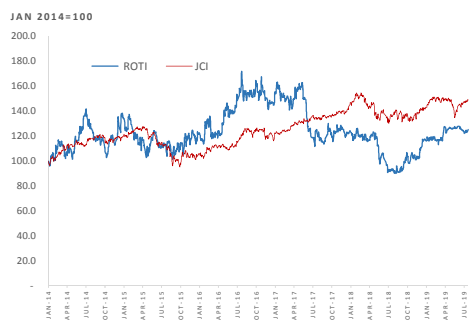
COMPANY UPDATE

BUY

STOCK INFORMATION

Bloomberg Code	ROTI IJ
Sector	Consumer
Current Price	Rp 1,290
Target Price	Rp 1,600
Prev. Target Price	Rp 1,400
Upside/ Downside	24.0%
Share Out (billion shares)	6.11
Market Cap (Rp billion)	7,878
52 – w range (low-high)	Rp 930 - 1,315
52 – w average daily	Rp 1,159

PRICE CHART



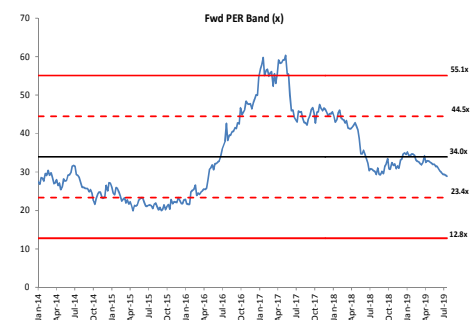
Source: Bloomberg

SHAREHOLDER'S INFORMATION, AS OF JUN 30, 2019

PT Indoritel Makmur Internasional Tbk (DNET.IJ)	25.8%
Bonlight Investments., Ltd	20.8%
Demeter Indo Investment Pte. Ltd	18.0%
Posco Shikishima Corporation	8.5%
Treasury Stock	1.3%
Public	25.6%

Source: Company data

PE BAND



Source: Company data

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PT NIPPON INDOSARI CORPINDO TBK

SOARED EARNINGS LED BY CUT IN RETURN RATE

The dream duo: Robust demand & effective forecasting tool

During 1H19, ROTI recorded a solid sales growth of 24.4% YoY from Rp1.28 trillion in 1H18 to Rp1.59 trillion, on the back of strong demand both in MT and GT in Indonesia and Philippines in line with rapid expansion of distribution outlets in both countries. This is slightly above our expectation (49.4% of FY19F Rp3.2 trillion), as the company manage to gain 0.5% QoQ sales growth in 2Q19, while normally, 2Q is the lowest season of the year, related to fasting month and school holiday – thanks to intensive marketing campaign and promotion during holiday season. We also highlight the improvement in sales return rate that dropped from 23.1% in 1H18 to 13.6% (12.9% in 2Q19), which resulted from successful implication of management's forecasting tool. On the bottomline, the net profit boosted by 153.8% YoY to Rp101.4 billion, which as expected (formed 47.2% of FY19F Rp219.4 billion) due to better sales return, better GPM and further opex efficiencies. Note that as of Jun19, Sari Roti has maintained 95% penetration of MT channels in Indonesia or translated to 33,340 stores (from 29k as of 2018) and covered 61k Point of Sales GT channel (from 44k PoS as of 2018). Recently, the company established a new entity PT Indosari Nusantara Niaga with Rp12.38 billion equity injection, which fully concern in distributorship business to further extend coverage and fulfilling white spaces that has not been covered by existing distributors.

GPM Maintained at All-Time High Level

Profitability-wise, the GPM hiked by 170bps YoY to 54.6% (all time high) as a result of some production efficiency in spite of ~3% YTD price increase in wheat flour (due to decline of production in Australia). Furthermore, despite the higher transportation cost (+59.1% YoY) and marketing cost (+67.3% YoY), due to company's effort to boost sales as well as customer acquisition particularly in Philippines through TVC and other promotional campaign, as well as higher salary cost (+29.9% YoY) which in line with company's expansion both in Indonesia and Philippines, the EBIT margin jumped by 410bps YoY to 7.0%, thanks to 1) lower expired/ defective inventory cost by 37.7% YoY (ratio to sales from 12.4% in 1H18 to only 6.2% in 1H19), which in line with much lower sales return rate during the period; 2) efficiencies in GA expense (ratio to sales declined by 120bps YoY from 8.0% to 6.8%).

Choco & Cheese Sandwich as New PH Booster

During the period, the sales in Philippines of Rp65.2 billion jumped by 93.7% YoY from Rp33.7 billion in 1H18 with attributable loss of Rp23 billion. Today, Sari Roti is currently available in more than 1,800 modern stores (vs 1,280 as of 2018). Recently in July, it has launched new chocolate and cheese filled sandwich bread, which we believe will be a new sales booster particularly for convenience store, plus another 3 new white bread products in 3Q19. By the end of FY19, the company estimated the attributable loss from Philippines will be around Rp40 bn (drop from Rp54.5 bn loss as of FY18).

More Improvement Expected

We believe there will be further GPM improvement in 2H19, as the company has locked a 3% lower wheat flour price for 2H19, following the better harvest in US and stable Rupiah. In terms of expansion, we highlighted the first Kalimantan plant in Balikpapan that just commercially operated in Jun19 has already fully utilized due to massive demand in the area, while currently the company is constructing 2 new plants in Banjarmasin (South Kalimantan) and Pekanbaru (Riau) which expected to be commercially operated in 2020. These expansions, in our view, should benefit the company in terms of transport cost, which is currently peaking. We expect the transport cost to sales ratio should reduce to 8% in 2020 (vs current 9.5% in 1H19), and gradually normalized to ~7.2% in 2021 onwards. The company is currently reviewing its price policy for potential yearly price hike of 5-6% in average (from previous once-in-3 year hike of 8-9%) in order to improve its revenue quality. In our view, however, this is a quite risky move particularly on customer segment B & C who are more price sensitive.

Upgrade TP to Rp1,600/ share – BUY

We made slight adjustment in FY19F sales assumption to reflect better than expected 1H19, while in 2020F onwards we see potential improvements in opex. Using 2020F as base year, our TP on the stock is now Rp1,600/ share (from previous Rp1,400/ share), offers 24.0% upside based on yesterday's closing price. Our TP implies 28.9x PER and 17.3x EV/EBITDA 2020F, while currently the stock is traded at 23.6x PER and 13.3x EV/EBITDA 2020F.

Financial Summary

(Rp billion)	2017A	2018A	2019F	2020F	2021F
Revenue	2,491	2,767	3,269	3,603	3,976
EBITDA	378	326	435	547	607
Net profit	146	173	219	338	401
EPS (Rp)	28	28	35	55	65
PER (x)	46.6	46.2	36.4	23.6	19.9
BVPS (Rp)	517	447	479	524	575
PBV (x)	2.5	2.9	2.7	2.5	2.2
EV/EBITDA (x)	15.9	22.8	17.0	13.3	11.6
Dividend yield (%)	1.02	0.45	0.54	0.68	1.05
RoE (%)	7.15	6.29	7.66	10.88	11.81

Source: Company data and Lotus Andalan Research

Please see important disclosures at the end of this report

## Interim Financial Result

	1H18	1H19	YoY	FY19F	Coverage	1Q19	2Q19	QoQ
<b>P/L (In Rp billion)</b>								
Revenue	1,276.2	1,587.2	24.4%	3,215.8	49.4%	791.7	795.5	0.5%
Cost of revenue	601.0	721.1	20.0%	1,488.9	48.4%	359.8	361.3	0.4%
Gross profit	675.2	866.1	28.3%	1,726.9	50.2%	431.9	434.2	0.5%
Operating Expense	637.3	754.6	18.4%	1,447.0	52.1%	354.2	400.3	13.0%
Operating profit	37.9	111.5	194.2%	279.9	39.9%	77.7	33.8	-56.5%
Net Profit	40.0	101.4	153.8%	215.1	47.2%	64.9	36.6	-43.6%
<b>Profitability</b>								
Gross margin	52.9%	54.6%		53.7%		54.6%	54.6%	
EBIT margin	3.0%	7.0%		8.7%		9.8%	4.3%	
Net margin	3.1%	6.4%		6.7%		8.2%	4.6%	

Source: Company data and Lotus Andalan Research

## Forecast Changes

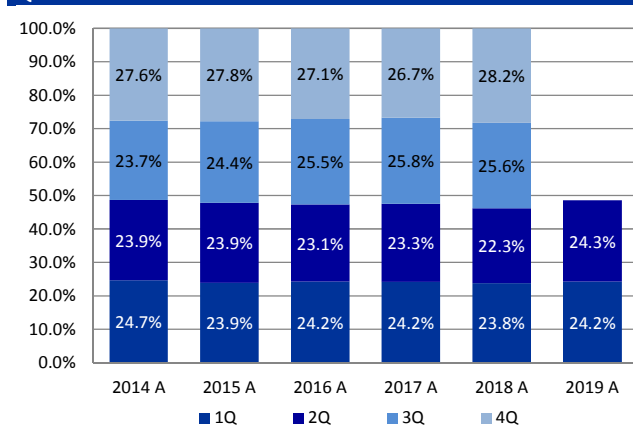
In Rp billion	Previous			New			%Change		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Revenue	3,216	3,543	3,907	3,269	3,603	3,976	1.6%	1.7%	1.8%
Gross Profit	1,727	1,906	2,102	1,755	1,938	2,140	1.6%	1.7%	1.8%
Operating Profit	280	332	380	284	375	414	1.6%	12.9%	9.0%
Net Income	215	305	374	219	338	401	2.0%	10.9%	7.3%

## Financial Ratios

Gross margin	53.7%	53.8%	53.8%	53.7%	53.8%	53.8%	0.0%	0.0%	0.0%
Operating margin	8.7%	9.4%	9.7%	8.7%	10.4%	10.4%	0.0%	1.0%	0.7%
Net margin	6.7%	8.6%	9.6%	6.7%	9.4%	10.1%	0.0%	0.8%	0.5%

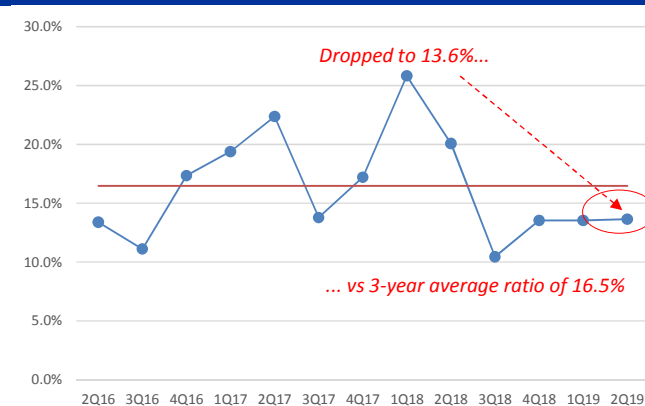
Source: Company data and Lotus Andalan Research

## QUARTERLY PERFORMANCE



Source: Company data and Lotus Andalan Research

## SALES RETURN RATIO



## FINANCIAL HIGHLIGHTS OF PT NIPPON INDOSARI CORPINDO, TBK

In Rp Billion											
<b>BALANCE SHEET</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>	<b>INCOME STATEMENT</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
Cash & cash equivalents	1,895	1,295	1,272	846	1,044	Revenue	2,491	2,767	3,269	3,603	3,976
Accounts receivable	325	413	430	497	557	COGS	(1,183)	(1,274)	(1,513)	(1,665)	(1,837)
Inventories - net	50	65	70	79	89	Gross profit	1,308	1,492	1,755	1,938	2,140
Other current assets	50	104	66	93	111	Operating expenses	(1,051)	(1,298)	(1,471)	(1,563)	(1,725)
<b>Total current assets</b>	<b>2,320</b>	<b>1,876</b>	<b>1,838</b>	<b>1,515</b>	<b>1,801</b>	Operating profit	257	194	284	375	414
Fixed assets	1,994	2,222	2,402	2,516	2,570	EBITDA	378	326	435	547	607
Other non current assets	246	295	279	349	383	Interest income	28	68	47	60	74
<b>Total Non current assets</b>	<b>2,240</b>	<b>2,517</b>	<b>2,681</b>	<b>2,865</b>	<b>2,953</b>	Interest expense	(92)	(82)	(69)	(25)	(8)
<b>TOTAL ASSETS</b>	<b>4,560</b>	<b>4,394</b>	<b>4,519</b>	<b>4,380</b>	<b>4,753</b>	Total other income/(expenses)	(64)	(15)	(22)	35	65
<b>LIABILITIES &amp; EQUITY</b>						Income before tax	193	180	262	410	479
Accounts payable	150	190	210	230	261	Tax expense	(51)	(60)	(66)	(106)	(121)
Current maturities - bank loan	119	41	62	41	41	Pro forma adjustment					
Other payables	258	294	293	360	392	Net profit before minority interest	143	120	197	305	358
<b>Total Current Liabilities</b>	<b>528</b>	<b>525</b>	<b>565</b>	<b>631</b>	<b>694</b>	Minority interest	11	46	23	33	43
Bank loan	0	207	124	83	41	Net profit	153	166	219	338	401
Bonds payable	498	499	497	0	0	EPS (Rp)	28	28	35	55	65
Other non current liabilities	214	246	260	305	335	<b>KEY FINANCIAL RATIOS</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
<b>Total Non Current Liabilities</b>	<b>712</b>	<b>951</b>	<b>880</b>	<b>388</b>	<b>377</b>	Growth (%)					
Capital Stock	124	124	124	124	124	Sales	(1.2)	11.1	18.1	10.2	10.4
Additional PIC	1,459	1,459	1,459	1,459	1,459	Gross profit	0.5	14.1	17.6	10.4	10.4
Treasury stock & other items	(2)	(78)	(78)	(78)	(78)	Operating Profit	(42.0)	(24.4)	46.3	31.9	10.4
Non controlling interest	46	75	55	59	63	EBITDA	(32.3)	(13.6)	33.4	25.6	11.1
RE	1,193	1,337	1,514	1,797	2,115	Net Profit	(47.9)	18.3	27.1	53.9	18.8
<b>Total Equity</b>	<b>2,820</b>	<b>2,917</b>	<b>3,073</b>	<b>3,360</b>	<b>3,682</b>	Profitability (%)					
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>4,060</b>	<b>4,394</b>	<b>4,519</b>	<b>4,380</b>	<b>4,753</b>	Gross margin	52.5	53.9	53.7	53.8	53.8
<b>CASH FLOW STATEMENT</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>	Operating margin	10.3	7.0	8.7	10.4	10.4
Net profit	146	173	219	338	401	EBITDA margin	15.2	11.8	13.3	15.2	15.3
Depreciation & Amortization	121	132	151	171	193	Net Profit margin	5.9	6.2	6.7	9.4	10.1
Change in WC	(66)	(63)	(2)	(56)	(40)	ROA	3.9	3.9	4.9	7.6	8.8
Others	68	(18)	37	40	15	ROE	7.1	6.3	7.7	10.9	11.8
<b>Net Operating Cash Flow</b>	<b>268</b>	<b>223</b>	<b>405</b>	<b>493</b>	<b>570</b>	Solvency (x)					
Change in fixed assets - net	(272)	(361)	(331)	(285)	(247)	Current ratio	2.3	3.6	3.3	2.4	2.6
Others	(118)	(49)	16	(70)	(34)	Quick ratio	2.2	3.4	3.1	2.3	2.5
<b>Net Investing Cash Flow</b>	<b>(390)</b>	<b>(410)</b>	<b>(314)</b>	<b>(356)</b>	<b>(281)</b>	DER	0.4	0.3	0.2	0.0	0.0
Change in borrowings - net	121	(370)	(64)	(559)	(41)	EBITDA coverage	4.1	4.0	6.3	21.7	71.6
Change in equity	1,312	(47)	(20)	4	4	Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Change in other liabilities	54	32	14	46	30						
Dividend payment	(69)	(36)	(43)	(54)	(84)						
Adjustment	(11)	8	-	-	-						
<b>Net Financing Cash Flow</b>	<b>1,406</b>	<b>(414)</b>	<b>(113)</b>	<b>(564)</b>	<b>(91)</b>						
<b>Change in cash</b>	<b>1,284</b>	<b>(601)</b>	<b>(22)</b>	<b>(426)</b>	<b>198</b>						
Cash at the beginning period	611	1,895	1,295	1,272	846						
Cash at the ending period	1,895	1,295	1,272	846	1,044						

Source: Company data and Lotus Andalan Research

## Notes:

The definitions of Lotus Andalan Research for Investment Ratings:

- BUY : +15% and above, over the next 12 months
- NEUTRAL : -15% to +15%, over the next 12 months
- SELL : -15% and worse, over the next 12 months

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