

25 OCTOBER 2019

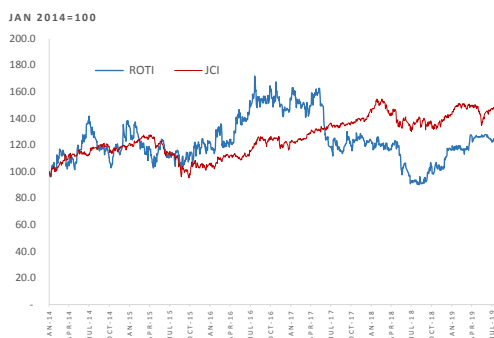
COMPANY UPDATE

BUY

STOCK INFORMATION

Bloomberg Code	ROTI JJ
Sector	Consumer
Current Price	Rp 1,345
Target Price	Rp 1,700
Prev. Target Price	Rp 1,400
Upside/ Downside	26.3%
Share Out (billion shares)	6.11
Market Cap (Rp billion)	8,178
52 – w range (low-high)	Rp 1,345 - 1,360
52 – w average daily	Rp 1,185

PRICE CHART



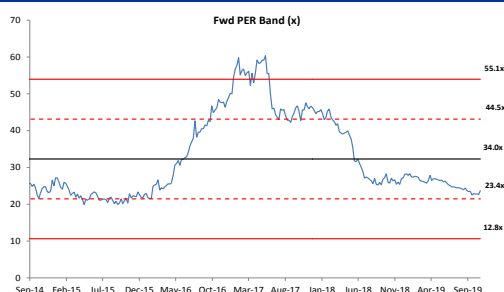
Source: Bloomberg

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

PT NIPPON INDOSARI CORPINDO TBK

WORTH A BITE!

ROTI is on track to achieve higher revenues growth this year and higher gross margins following lower sales returns rate, translating into stronger earnings. We upgrade our FY19F-20F net earnings by 26.3-12.1% with higher TP to Rp 1.700, implying 29.0x-21.1x FY19-20F. Recommendation BUY!

Sales return rate improving, stronger net profit

ROTI recorded 9M19 net sales Rp2.46 trillion growth of 24.0% YoY, 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 inline our expectation representing 75.3% full year estimates. In 3Q19 ROTI manage to gain 10.0% QoQ sales growth, thanks the commencement of new plants in Balikpapan facility, which is almost at full capacity. ROTI has also improved its market penetration in Eastern Indonesia, which should further boost sales and enable to test the potential of new markets. We also highlight the improvement in sales return rate that dropped from 18% in 9M18 to 12.5% in 9M19 and 11.6% in 3Q19, which resulted from successful implication of management's forecasting tool. On the bottom-line, the net profit boosted by 105.8% YoY to Rp211.7 billion, due to better sales return, better GPM and further OPEX efficiencies.

GPM Maintained at All-Time High Level

The GPM hiked by 250bps YoY to 55.5% (all time high) as a result of some production efficiency in spite of ~4% YTD price increase in wheat flour (due to decline of production in Australia). 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 9M18 to only 6.2% in 9M19), 2) increasing from scrap sales +22% YoY to Rp 51.3 billion, 3) biannual wheat contracts as the company has locked a 3% lower wheat flour price for 2H19, following the better harvest in US. ROTI will continue to benefit from the weakness in wheat prices, as flour makes up~40% of its raw material costs. Given weak wheat prices, we anticipate strong GPM in 4Q. In terms of YoY comparison, 4Q will look stronger due to the ASP hike of ~8% in 4Q19.

Remains the best proxy for growing bread market

ROTI remains the only option to investors to gain exposure for growing bread market in Indonesia, given its dominant position in the mass market segment. 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. In our view, these expansions should benefit the company in terms of transport cost. We expect the transport cost to sales ratio should reduce to 8% in 2020 (vs current 9.5% in 9M19), 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, we quite more conservative only estimates 4-5% for yearly price hike.

Raise earnings estimates, maintain BUY TP tp Rp 1.700/share

In our view, upside potential stems from higher-than-expected bottom line growth with higher gross margins following lower sales returns rate, translating into stronger earnings. We upgrade our FY19F-20F net earnings by 26.3%-12.1% % on the back of potential upside its extensive networks, three new plants will fulfill demand especially from outer islands regions which have plenty of room for expansion and higher sales volume supported by higher ASP. We offers 26.4% upside based on yesterday's closing price. Our TP implies 21.1x PER and 12.2x EV/EBITDA 2020F, while currently the stock is traded at 29.0x PER and 14.4x EV/EBITDA. **Key Risks:** 1.) higher competition in the domestic bread market, 2.) lower than expected overseas business operations, 3.) Unfavourable wheat price

Financial Summary

(Rp billion)	2017A	2018A	2019F	2020F	2021F
Revenue	2,491	2,767	3,319	3,933	4,348
EBITDA	378	326	510	592	700
Net profit	146	173	277	379	480
EPS (Rp)	28	28	45	61	78
PER (x)	46.8	46.4	29.0	21.1	16.7
BVPS (Rp)	517	447	488	538	600
PBV (x)	2.5	2.9	2.7	2.4	2.2
EV/EBITDA (x)	16.0	22.9	14.4	12.2	9.9
Dividend yield (%)	1.02	0.45	0.54	0.86	1.17
RoE (%)	7.15	6.29	9.56	11.94	13.65

Source: Company data and Lotus Andalan Research

Sharlita L Malik

Sharlita.malik@lotussekuritas.com  
(+62-21) 2395 1000 ext. 2053

Interim Financial  
Result

	9M18	9M19	YoY	FY19F	Coverage	2Q19	3Q19	QoQ
<b>P/L (In Rp billion)</b>								
Revenue	1,985.2	2,462.6	24.0%	3,268.6	75.3%	795.5	875.4	10.0%
Cost of revenue	933.8	1,097.0	17.5%	1,513.3	72.5%	361.3	375.9	4.0%
Gross profit	1,051.4	1,365.6	29.9%	1,755.2	77.8%	434.2	499.5	15.0%
Operating expense	978.4	1,158.9	18.4%	1,470.7	78.8%	400.3	404.3	1.0%
Operating profit	73.0	206.7	183.1%	284.5	72.7%	33.8	95.2	181.4%
Net Profit	102.9	211.7	105.8%	219.4	96.5%	36.6	110.3	201.3%
<b>Profitability</b>								
Gross margin	53.0%	55.5%		53.7%		54.6%	57.1%	
EBIT margin	3.7%	8.4%		53.7%		54.6%	57.1%	
Net margin	5.2%	8.6%		6.7%		4.6%	12.6%	

Source: Company data and Lotus Andalan Research

## Forecast Changes

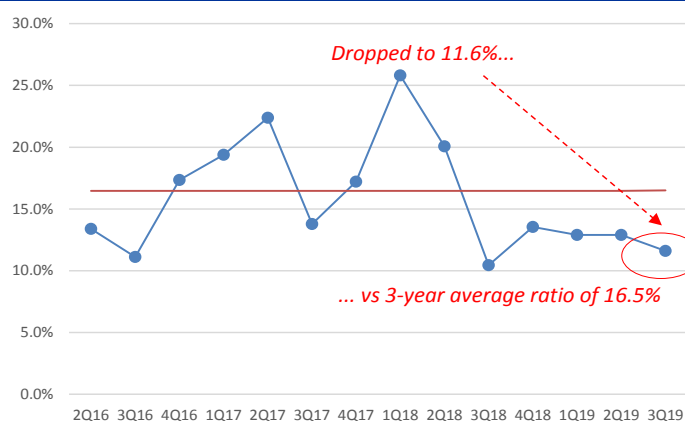
In Rp billion	Previous			New			%Change		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Revenue	3,269	3,603	3,976	3,917	4,601	5,044	19.8%	27.7%	26.9%
Gross Profit	1,755	1,938	2,140	1,799	2,115	2,347	2.5%	9.2%	9.7%
Operating Profit	284	375	414	360	421	507	26.6%	12.3%	22.5%
Net Income	219	338	401	277	379	480	26.3%	12.1%	19.7%

## Financial Ratios

Gross margin	53.7%	53.8%	53.8%	45.9%	46.0%	46.5%	-7.8%	-7.8%	-7.3%
Operating margin	8.7%	10.4%	10.4%	9.2%	9.2%	10.1%	0.5%	-1.3%	-0.4%
Net margin	6.7%	9.4%	10.1%	7.1%	8.2%	9.5%	0.4%	-1.1%	-0.6%

Source: Company data and Lotus Andalan Research

## SALES RETURN RATIO



Source: Company data and Lotus Andalan Research

## 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	1,327	919	1,181	Revenue	2,491	2,767	3,319	3,933	4,348
Accounts receivable	325	413	436	542	609	COGS	(1,183)	(1,274)	(1,520)	(1,817)	(2,001)
Inventories - net	50	65	71	86	97	Gross profit	1,308	1,492	1,799	2,115	2,347
Other current assets	50	104	67	102	121	Operating expenses	(1,051)	(1,298)	(1,439)	(1,694)	(1,840)
<b>Total current assets</b>	<b>2,320</b>	<b>1,876</b>	<b>1,901</b>	<b>1,649</b>	<b>2,009</b>	Operating profit	257	194	360	421	507
Fixed assets	1,994	2,222	2,402	2,516	2,570	EBITDA	378	326	510	592	700
Other non current assets	246	295	283	381	419	Interest income	28	68	47	66	80
<b>Total Non current assets</b>	<b>2,240</b>	<b>2,517</b>	<b>2,685</b>	<b>2,897</b>	<b>2,989</b>	Interest expense	(92)	(82)	(69)	(25)	(8)
<b>TOTAL ASSETS</b>	<b>4,560</b>	<b>4,394</b>	<b>4,586</b>	<b>4,546</b>	<b>4,997</b>	Total other income/(expenses)	(64)	(15)	(21)	40	72
<b>LIABILITIES &amp; EQUITY</b>						Income before tax	193	180	338	461	579
Accounts payable	150	190	211	251	285	Tax expense	(51)	(60)	(85)	(119)	(146)
Current maturities - bank loan	119	41	62	41	41	Pro forma adjustment					
Other payables	258	294	297	393	429	Net profit before minority interest	143	120	254	343	433
<b>Total Current Liabilities</b>	<b>528</b>	<b>525</b>	<b>571</b>	<b>685</b>	<b>755</b>	Minority interest	11	46	23	36	47
Bank loan	0	207	124	83	41	Net profit	153	166	277	379	480
Bonds payable	498	499	497	0	0	EPS (Rp)	28	28	45	61	78
Other non current liabilities	214	246	264	333	367	<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>884</b>	<b>416</b>	<b>408</b>	Growth (%)					
Capital Stock	124	124	124	124	124	Sales	(1.2)	11.1	20.0	18.5	10.6
Additional PIC	1,459	1,459	1,459	1,459	1,459	Gross profit	0.5	14.1	20.6	17.6	11.0
Treasury stock & other items	(2)	(78)	(78)	(78)	(78)	Operating Profit	(42.0)	(24.4)	84.9	17.1	20.4
Non controlling interest	46	75	55	59	63	EBITDA	(32.3)	(13.6)	56.4	16.1	18.2
RE	1,193	1,337	1,571	1,881	2,267	Net Profit	(47.9)	18.3	60.2	37.0	26.7
<b>Total Equity</b>	<b>2,820</b>	<b>2,917</b>	<b>3,130</b>	<b>3,444</b>	<b>3,835</b>	Profitability (%)					
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>4,060</b>	<b>4,394</b>	<b>4,586</b>	<b>4,546</b>	<b>4,997</b>	Gross margin	52.5	53.9	54.2	53.8	54.0
<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	10.8	10.7	11.7
Net profit	146	173	277	379	480	EBITDA margin	15.2	11.8	15.4	15.1	16.1
Depreciation & Amortization	121	132	151	171	193	Net Profit margin	5.9	6.2	8.3	9.6	11.0
Change in WC	(66)	(63)	(8)	(81)	(45)	ROA	3.9	3.9	6.2	8.3	10.1
Others	68	(18)	40	60	17	ROE	7.1	6.3	9.6	11.9	13.6
<b>Net Operating Cash Flow</b>	<b>268</b>	<b>223</b>	<b>460</b>	<b>529</b>	<b>645</b>	Solvency (x)					
Change in fixed assets - net	(272)	(361)	(331)	(285)	(247)	Current ratio	2.3	3.6	3.3	2.4	2.7
Others	(118)	(49)	12	(98)	(38)	Quick ratio	2.2	3.4	3.2	2.3	2.5
<b>Net Investing Cash Flow</b>	<b>(390)</b>	<b>(410)</b>	<b>(319)</b>	<b>(383)</b>	<b>(285)</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	7.4	23.5	82.6
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	18	70	33						
Dividend payment	(69)	(36)	(43)	(69)	(94)						
Adjustment	(11)	8	-	-	-						
<b>Net Financing Cash Flow</b>	<b>1,406</b>	<b>(414)</b>	<b>(109)</b>	<b>(554)</b>	<b>(98)</b>						
<b>Change in cash</b>	<b>1,284</b>	<b>(601)</b>	<b>32</b>	<b>(408)</b>	<b>263</b>						
Cash at the beginning period	611	1,895	1,295	1,327	919						
Cash at the ending period	1,895	1,295	1,327	919	1,181						

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

# PT Lotus Andalan Sekuritas

The City Tower Lantai 7  
Jl. MH. Thamrin No. 81  
Jakarta Pusat 10310  
Tel : (021) 2395 1000  
Fax : (021) 2395 1099

## BRANCH OFFICE

### Pluit

Kawasan CBD Pluit Blok A No.20  
Jl. Pluit Selatan Raya No.1  
Jakarta 14440  
Tel : +6221 66675345  
Fax : +6221 66675234

### Kelapa Gading

Sentra Bisnis Artha Gading  
Jl. Boulevard Artha Gading Blok A6B No. 7  
Jakarta Utara 14240  
Tel : +6221 45856402  
Fax : +6221 45873961

### Bandung

Komplek Paskal Hyper Square Blok C No. 15  
Jl. Pasir Kaliki No. 25 - 27  
Bandung 40181  
Tel : +6222 86061027  
Fax : +6222 86060684

### Puri

Rukan Grand Taman Aries Niaga  
Jl. Taman Aries – Kembangan Blok G 1 No. 1 I  
Jakarta Barat 11620  
Tel : +6221 2931 9515  
Fax : +6221 2931 9516

### Surabaya

Ruko Permata Bintoro  
Jl Ketampon Kav 1-2  
Surabaya  
Tel : +6231 562 2555  
Fax : +6231 567 1398

### Medan

Jalan Kartini No.5  
Medan 20152  
Tel : +6261 451 8855  
Fax : +6261 451 6836

### Medan

Kampus STMIK-STIE MIKROSKILL  
Jl. Thamrin No 140

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