

25 APRIL 2019

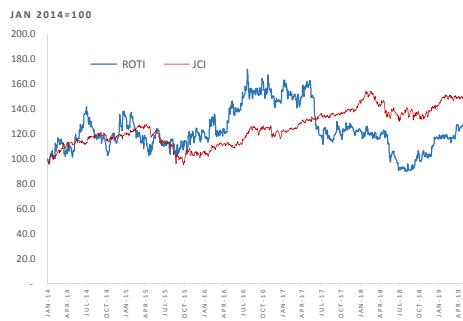
COMPANY UPDATE

NEUTRAL

STOCK INFORMATION

Bloomberg Code	ROTI IJ
Sector	Consumer
Current Price	Rp 1,300
Target Price	Rp 1,400
Prev. Target Price	Rp 1,300
Upside/ Downside	7.7%
Share Out (billion shares)	6.19
Market Cap (Rp billion)	7,939
52 – w range (low-high)	Rp 930 - 1,315
52 – w average daily	Rp 1,106

PRICE CHART



Source: Bloomberg

SHAREHOLDER'S INFORMATION

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

BETTER THAN EXPECTED 1Q RESULT

Solid Sales Growth Coupled with Drop in Return Rate

During 1Q19, ROTI booked a total net sales of Rp791.7 billion, solidly grew by 20.1% YoY, which fully driven by volume growth, both in MT and GT in Indonesia and Philippines. This is better than our expectation, made up 25.5% of our FY19F of Rp3.22 trillion (based on 3yr-average, 1Q sales usually covers c.24% to annual sales). In line with the solid sales growth, the sales return rate also continued to improve to 13.5% (vs 25.8% in 1Q18 to 13.6% in 4Q18), mainly derived from management's strategy on calibrating big data as its forecasting tool that resulted in more efficient and effective sales in MT (better accuracy in product dropping, better shelving, as well as delivery schedule to each outlets). On the bottomline, however, company's net profit of Rp64.9 bn exceeded our expectation, formed 32.4% of our FY19F Rp200.4 bn, mainly due to better than expected finance income (+140.97% YoY to Rp84.6 bn), as a result from better GPM and further efficiencies in opex. As of 1Q19, Sari Roti has maintained 95% penetration of MT channels in Indonesia or translated to 32,700 outlets and covered 55,000 Point of Sales GT channel (from 44,000 PoS as of 2018).

GPM Broke New Record In Spite of RM Price Hike

Profitability-wise, the GPM hiked by 60 YoY to 54.6% (all-time high) as a result of some production efficiency done by the company that resulted in better waste management from 4-5% to c.1%, in spite of ~5% price increase in wheat flour, ROTI's major raw material. Furthermore, despite the 1) higher transportation cost by 42.1% YoY from Rp49 billion to Rp70 billion, due to company's effort heavier marketing cost by 56.9% YoY to Rp62 bn (ratio to sales from 6.0% in 1Q18 to 7.8%) relating to customer acquisition particularly in Philippines through TVC and other promotional campaign and 2) higher salary cost by 28.1% YoY to Rp115 bn which in line with company's expansion both in Indonesia and Philippines, the EBIT margin jumped by 490bps YoY to 9.8%, thanks to 1) lower expired/ defective inventory cost by 46.4% YoY (ratio to sales from 13.9% in 1Q18 to only 6.2% in 1Q19), which in line with much lower sales return rate during the period; 2) efficiencies in GA expense (ratio to sales declined by 80bps YoY from 7.2% to 6.4%).

Sales in PH Almost Tripled

During the period, the sales in Philippines of Rp32.31 billion jumped by 193.9% YoY from Rp11.0 billion in 1Q18 with attributable loss of Rp9.6 billion (-35% QoQ from Rp14.9 bn loss in 4Q18), along with relatively low return rate of below 20%, in line with deeper penetration in the country (currently 62% in Greater Manila area) as Sari Roti is currently available in 1,700 supermarket stores (vs 1,280 as of 2018). In 1Q19, Sari Roti has also initiated sales in general trade market through hawkers and later in 2Q19 the company will launch new loaf brads and sandwiches to cater convenient stores. By the end of FY19, the company estimated the attributable loss from Philippines will be around Rp30 bn (drop from Rp54.5 bn loss as of FY18).

Upgrade TP to Rp1,400/ share – Maintain NEUTRAL recommendation

To reflect better than expected 1Q19 performance, we made uptick adjustments in our projection, particularly in topline assumptions (company's 2019 sales growth guidance 15-18%) and profitability margins. We expect FY19/20F sales will grow by 16.2%/10.2% YoY. Therefore, we come up with new TP of Rp1,400/ share (from previous Rp1,300/ share). However, as our TP offers 7.7% upside, our recommendation on the stock remains NEUTRAL. Our TP implies 39.6x PER and 18.6x EV/EBITDA 2019F, while currently the stock is traded at 37.4x PER and 17.3x EV/EBITDA 2019F.

Financial Summary

(Rp billion)	2017A	2018A	2019F	2020F	2021F
Revenue	2,491	2,767	3,216	3,543	3,907
EBITDA	378	326	431	504	573
Net profit	146	173	215	305	374
EPS (Rp)	28	28	35	49	60
PER (x)	47.0	46.6	37.4	26.4	21.5
BVPS (Rp)	517	447	478	518	566
PBV (x)	2.5	2.9	2.7	2.5	2.3
EV/EBITDA (x)	16.1	23.0	17.3	14.6	12.4
Dividend yield (%)	1.01	0.45	0.53	0.66	0.94
RoE (%)	7.15	6.29	7.51	9.88	11.16

Source: Company data and Lotus Andalan Research

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Interim Financial Result

	1Q18	1Q19	YoY	FY19F	Coverage	4Q18	1Q19	QoQ
P/L (In Rp billion)								
Revenue	659.1	791.7	20.1%	3,110.3	25.5%	781.4	791.7	1.3%
Cost of revenue	303.1	359.8	18.7%	1,440.1	25.0%	340.6	359.8	5.6%
Gross profit	356.0	431.9	21.3%	1,670.2	25.9%	440.8	431.9	-2.0%
Operating Expense	323.7	354.2	9.4%	1,407.4	25.2%	364.1	354.2	-2.7%
Operating profit	32.2	77.7	141.1%	262.8	29.6%	76.7	77.7	1.3%
Net Profit	29.1	64.9	123.2%	200.4	32.4%	69.8	64.9	-7.1%
Profitability								
Gross margin	54.0%	54.6%		53.7%		56.4%	54.6%	
EBIT margin	4.9%	9.8%		8.5%		9.8%	9.8%	
Net margin	4.4%	8.2%		6.4%		8.9%	8.2%	

Source: Company data and Lotus Andalan Research

Forecast Changes

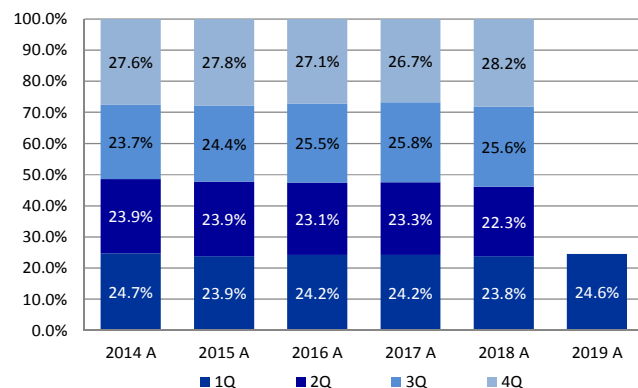
In Rp billion	Previous			New			%Change		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Revenue	3,110	3,405	3,742	3,216	3,543	3,907	3.4%	4.1%	4.4%
Gross Profit	1,670	1,831	2,014	1,727	1,906	2,102	3.4%	4.1%	4.4%
Operating Profit	263	317	364	280	332	380	6.5%	4.9%	4.3%
Net Income	200	290	358	215	305	374	7.3%	5.0%	4.4%

Financial Ratios

Gross margin	53.7%	53.8%	53.8%	53.7%	53.8%	53.8%	0.0%	0.0%	0.0%
Operating margin	8.5%	9.3%	9.7%	8.7%	9.4%	9.7%	0.3%	0.1%	0.0%
Net margin	6.4%	8.5%	9.6%	6.7%	8.6%	9.6%	0.2%	0.1%	0.0%

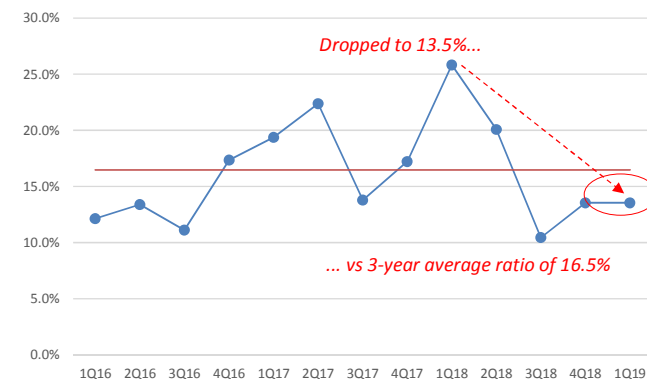
Source: Company data and Lotus Andalan Research

QUARTERLY PERFORMANCE



Source: Company data and Lotus Andalan Research

SALES RETURN RATIO



FINANCIAL HIGHLIGHTS OF PT NIPPON INDOSARI CORPINDO, TBK

In Rp Billion											
BALANCE SHEET	2017A	2018A	2019F	2020F	2021F	INCOME STATEMENT	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalents	1,895	1,295	1,269	812	991	Revenue	2,491	2,767	3,216	3,543	3,907
Accounts receivable	325	413	423	489	547	COGS	(1,183)	(1,274)	(1,489)	(1,637)	(1,805)
Inventories - net	50	65	69	78	88	Gross profit	1,308	1,492	1,727	1,906	2,102
Other current assets	50	104	65	92	109	Operating expenses	(1,051)	(1,298)	(1,447)	(1,574)	(1,722)
Total current assets	2,320	1,876	1,826	1,470	1,735	Operating profit	257	194	280	332	380
Fixed assets	1,994	2,222	2,402	2,516	2,570	EBITDA	378	326	431	504	573
Other non current assets	246	295	274	343	376	Interest income	28	68	46	59	72
Total Non current assets	2,240	2,517	2,676	2,859	2,946	Interest expense	(92)	(82)	(69)	(25)	(8)
TOTAL ASSETS	4,560	4,394	4,502	4,329	4,681	Total other income/(expenses)	(64)	(15)	(23)	34	64
LIABILITIES & EQUITY						Income before tax	193	180	257	366	444
Accounts payable	150	190	207	227	257	Tax expense	(51)	(60)	(64)	(94)	(112)
Current maturities - bank loan	119	41	62	41	41	Pro forma adjustment					
Other payables	258	294	288	354	385	Net profit before minority interest	143	120	193	272	332
Total Current Liabilities	528	525	557	622	683	Minority interest	11	46	22	33	42
Bank loan	0	207	124	83	41	Net profit	153	166	215	305	374
Bonds payable	498	499	497	0	0	EPS (Rp)	28	28	35	49	60
Other non current liabilities	214	246	256	300	330	KEY FINANCIAL RATIOS	2017A	2018A	2019F	2020F	2021F
Total Non Current Liabilities	712	951	876	383	371	Growth (%)					
Capital Stock	124	124	124	124	124	Sales	(1.2)	11.1	16.2	10.2	10.3
Additional PIC	1,459	1,459	1,459	1,459	1,459	Gross profit	0.5	14.1	15.7	10.4	10.3
Treasury stock & other items	(2)	(78)	(78)	(78)	(78)	Operating Profit	(42.0)	(24.4)	44.0	18.7	14.4
Non controlling interest	46	75	55	59	63	EBITDA	(32.3)	(13.6)	32.0	16.9	13.8
RE	1,193	1,337	1,510	1,761	2,059	Net Profit	(47.9)	18.3	24.5	41.6	22.9
Total Equity	2,820	2,917	3,069	3,324	3,627	Profitability (%)					
TOTAL LIABILITIES & EQUITY	4,060	4,394	4,502	4,329	4,681	Gross margin	52.5	53.9	53.7	53.8	53.8
CASH FLOW STATEMENT	2017A	2018A	2019F	2020F	2021F	Operating margin	10.3	7.0	8.7	9.4	9.7
Net profit	146	173	215	305	374	EBITDA margin	15.2	11.8	13.4	14.2	14.7
Depreciation & Amortization	121	132	151	171	193	Net Profit margin	5.9	6.2	6.7	8.6	9.6
Change in WC	(66)	(63)	3	(55)	(39)	ROA	3.9	3.9	4.8	6.9	8.3
Others	68	(18)	33	39	14	ROE	7.1	6.3	7.5	9.9	11.2
Net Operating Cash Flow	268	223	402	460	543	Solvency (x)					
Change in fixed assets - net	(272)	(361)	(331)	(285)	(247)	Current ratio	2.3	3.6	3.3	2.4	2.5
Others	(118)	(49)	21	(69)	(33)	Quick ratio	2.2	3.4	3.2	2.2	2.4
Net Investing Cash Flow	(390)	(410)	(310)	(354)	(280)	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	20.0	67.6
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	10	45	29						
Dividend payment	(69)	(36)	(43)	(53)	(76)						
Adjustment	(11)	8	-	-	-						
Net Financing Cash Flow	1,406	(414)	(118)	(563)	(83)						
Change in cash	1,284	(601)	(25)	(458)	179						
Cash at the beginning period	611	1,895	1,295	1,269	812						
Cash at the ending period	1,895	1,295	1,269	812	991						

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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