

Wilbert

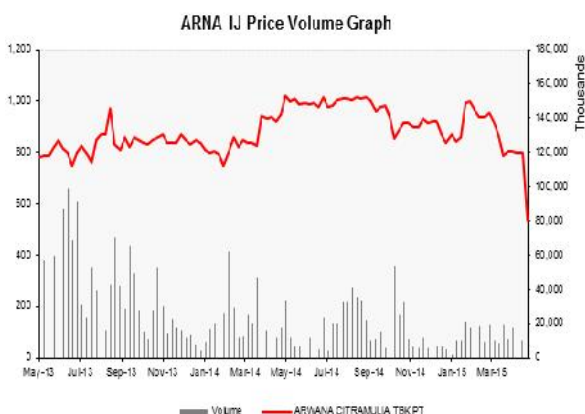
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Pt Arwana Citra Mulia Tbk manufactures ceramic construction material for flooring. Through its subsidiary, the company also distributes its products.

ARNA IJ

Price: IDR 535

Price Target: IDR 680



Source: Bloomberg, Sinarmas Investment Research

Company Update

Arwana Citra mulia

Slowing Sales Contributing to Margin Shrinkage

Neutral

In our view, we see that ARNA had faced tough challenges, which resulted in weak sales and poor performance in 1Q 2015. We view this as the effect of the weakening ceramic industry which gives negative sentiment and leads to weak demand of ARNA's products. We still see big obstacles for ARNA through the year, though we'd like to see any performance recovery in the upcoming quarters. Therefore, we downgrade our recommendation to **NEUTRAL** with our FY2015 target price IDR 680 (down from IDR 910 for the previous TP).

Weak Performance for Q1 2015. ARNA had recorded surprisingly weak performance for 1Q 2015 results, with its bottom line earnings shrunk by 48.8% YoY to IDR 39.9bn. This was due to the weak sales of the company, accounted for 12.2% YoY decline to IDR 359bn (20.6% of our full year 2015 target). We view ARNA had faced the weakening demand of ceramic products due to intense competition and economic slowdown. It was also shown by the significant increase in ARNA's inventories otherwise recorded falling sales in the 1Q 2015. Its 1Q 2015 inventories level had increased by almost 66% YoY, with inventory days of 138 days (twice from 76 days in Q12014).

Rising COGS Leading to Margin Pressure. In contrast with its declining sales, the COGS level raised to 70.2% from its total sales which accounted for IDR 253bn, as the result of rising manufacturing overhead and labor costs. Therefore, its gross profit declined by about 20% to IDR 106bn, and its net income margin falling down from 29.8% in 1Q 2014 to 15.8% in 1Q 2015.

Stock Information

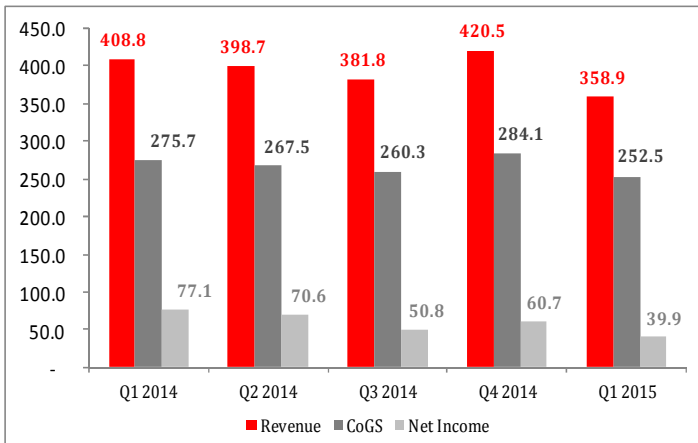
| Sector | Basic Industry |
|---------------------------|----------------|
| Bloomberg Ticker | ARNA IJ |
| 52-Week Low | 515 |
| 52-Week High | 1,030 |
| 52-Week Return | -41.5% |
| Shares Outstanding (mn) | 7,341 |
| Market Cap. (IDR bn) | 3,891 |
| Avg. Daily Value (IDR bn) | 2,4 |

Source: Bloomberg

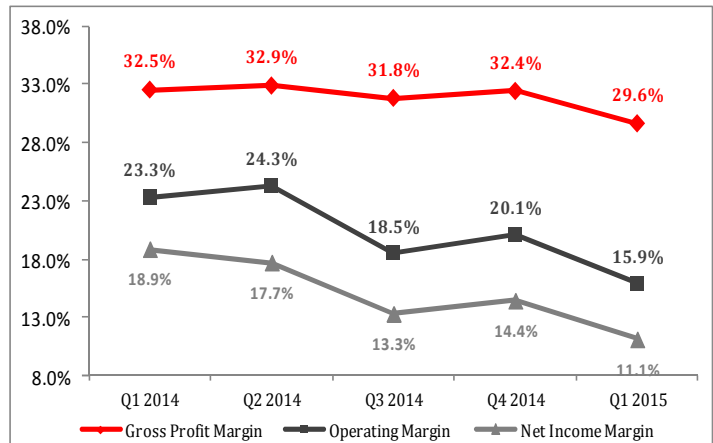
Key Highlights

| in IDR bn | 2012 | 2013 | 2014 | 2015F | 2016F |
|-----------------------|-------|-------|-------|-------|-------|
| Revenue | 1,114 | 1,418 | 1,610 | 1,708 | 1,874 |
| EBITDA | 267 | 401 | 418 | 413 | 432 |
| Net Income | 156 | 235 | 259 | 214 | 277 |
| Net Income Margin (%) | 14.0 | 16.6 | 16.1 | 12.5 | 14.8 |
| EPS | 21 | 32 | 35 | 29 | 38 |
| DPS | 5.0 | 10.0 | 16.0 | 15.9 | 14.6 |
| PE Ratio (x) | 19.3 | 25.6 | 24.6 | 23.3 | 22.5 |

Source: Bloomberg, Sinarmas Investment Research

Revenue, COGS, and Net Income


Source: Bloomberg, Sinarmas Investment Research

GPM, OPM, and NIM


Source: Bloomberg, Sinarmas Investment Research

Q1 2014 vs Q1 2015 Performance

| | Q1 2014 | Q1 2015 | Changes | Growth |
|------------------|---------|---------|---------|--------|
| Revenue | 408.8 | 358.9 | (49.9) | -12.2% |
| Cost of Revenue | 275.7 | 252.5 | (23.2) | -8.4% |
| Gross Profit | 133.1 | 106.4 | (26.7) | -20.0% |
| Operating Income | 95.3 | 57.0 | (38.3) | -40.2% |
| Net Income | 77.1 | 39.9 | (37.2) | -48.3% |

Source: Bloomberg, Sinarmas Investment Research

Balance Sheet

| in IDR bn | 2012 | 2013 | 2014 | 2015F | 2016F |
|------------------------------------------------------|------------|--------------|--------------|--------------|--------------|
| Cash | 45 | 32 | 47 | 10 | 23 |
| Account Receivables | 219 | 305 | 390 | 365 | 416 |
| Inventories | 52 | 56 | 58 | 60 | 72 |
| Others | 2 | 10 | 9 | 10 | 12 |
| Fixed Assets | 599 | 706 | 736 | 927 | 1,020 |
| Total Assets | 937 | 1,135 | 1,259 | 1,393 | 1,566 |
| Account Payables | 108 | 145 | 145 | 166 | 180 |
| ST Debt & Cur. Maturity Other Current Liabilities | 72 | 33 | 49 | 49 | 15 |
| | 98 | 134 | 122 | 135 | 154 |
| LT Debt | 32 | 25 | - | - | - |
| Total Liabilities | 333 | 367 | 347 | 383 | 386 |
| Total Equity | 605 | 768 | 912 | 1,010 | 1,180 |

Cash Flow

| in IDR bn | 2012 | 2013 | 2014 | 2015F | 2016F |
|---------------------|--------------|--------------|--------------|--------------|--------------|
| Net Income | 156 | 235 | 259 | 214 | 277 |
| Depreciation | 38 | 57 | 71 | 109 | 57 |
| Working Capital | 28 | (27) | (98) | 5 | (32) |
| Operating CF | 225 | 268 | 234 | 382 | 304 |
| Capital Expenditure | (90) | (167) | (123) | (300) | (150) |
| Investing CF | (82) | (175) | (93) | (305) | (154) |
| Debts | (72) | (45) | (10) | - | (34) |
| Dividends | (37) | (73) | (117) | (117) | (107) |
| Financing CF | (108) | (107) | (126) | (114) | (138) |
| Net - Cash Flow | 35 | (13) | 15 | (37) | 13 |
| Beginning Cash | 10 | 45 | 32 | 47 | 10 |
| Ending Cash | 45 | 32 | 47 | 10 | 23 |

Income Statement

| in IDR bn | 2012 | 2013 | 2014 | 2015F | 2016F |
|-------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 1,114 | 1,418 | 1,610 | 1,708 | 1,874 |
| COGS | 736 | 915 | 1,088 | 1,195 | 1,293 |
| Gross Profit | 378 | 502 | 522 | 512 | 581 |
| Operating Profit | 229 | 344 | 347 | 303 | 375 |
| EBITDA | 267 | 401 | 418 | 413 | 432 |
| Pre-Tax Profit | 212 | 316 | 348 | 288 | 372 |
| Tax | 54 | 79 | 87 | 72 | 93 |
| Net Profit | 156 | 235 | 259 | 214 | 277 |
| EPS | 21.3 | 32.0 | 35.3 | 29.2 | 37.8 |

Key Ratios

| | 2012 | 2013 | 2014 | 2015F | 2016F |
|-------------------------|--------|-------|-------|--------|-------|
| Revenue Growth | 20.7% | 27.3% | 13.6% | 6.1% | 9.7% |
| Operating Profit Growth | 32.2% | 33.0% | 4.0% | -1.9% | 13.4% |
| EBITDA Growth | 34.0% | 50.5% | 4.3% | -1.4% | 4.6% |
| Net Income Growth | 65.2% | 50.3% | 10.3% | -17.4% | 29.5% |
| EPS Growth | -58.7% | 50.3% | 10.3% | -17.4% | 29.5% |
| ROE | 25.9% | 30.6% | 28.4% | 21.2% | 23.5% |
| ROA | 16.7% | 20.7% | 20.6% | 15.4% | 17.7% |
| Debt to Equity | 17.2% | 7.7% | 5.3% | 4.8% | 1.2% |
| DPS | 5.00 | 10.00 | 16.00 | 15.89 | 14.58 |

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