

March 21th 2013

COMPANY UPDATE

Arwana Citramulia Tbk

PT Arwana Citramulia Tbk

Full speed ahead

BUY

Remarkable performance.

ARNA booked revenues of Rp 1.1tr for 2012, 20.7% higher than that of previous year. The company also reported net income growth of 65% and 3.8% net margin improvement to 14.2% FY 2012. We are optimistic that ARNA will be able to repeat its history. There are two main catalysts for the future: Adequate gas supply to support capacity upgrade and continuing strong demand.

No formidable competitor in sight.

Currently no visible competitor could compete with ARNA in terms of price and production capacity. Although there might be some local players who offer lower ASP, ARNA is still be able to guard its market share as those local players do not have the scale and the lean and mean cost structure of ARNA. Therefore, we believe that there are no formidable competitors of ARNA in sight, which provides a great opportunity for the company to dominate the middle-low segment. Based on our ground survey in Mitra10, ARNA's ASP is still the cheapest among the other ceramic tiles. The nearest potential competitor for ARNA is PT Keramik Indonesia Asosiasi tbk (KIAS). However, KIAS has been under restructuring after bought by Siam Cement on April 2011. From our view, KIAS will take at least two years to be able to penetrate ARNA's market segment in a meaningful way.

Speedy execution on subsidized low cost housing.

Using the momentum from Marunda's event, the municipally of DKI Jakarta has made the agenda of building and reactivate flats for the poor a top priority. We expect that the demand for low cost ceramic tiles will pick up in line with the rising construction activities. ARNA will be at the sweet spot because its ceramic tiles are the cheapest or among the cheapest in the low-end market. The fact that Jakarta has become the role model of many cities in Indonesia creates a trend for other municipalities to follow on similar projects.

Tessa Vania Mulia

Research Analyst

Tessa.mulia@sinarmassekuritas.co.id

Stock Data

Sector	Basic Industry
Last Price (21th Mar 2013)	2,475
Target Price 2013	3,025

EPS 2012E	85
EPS 2013F	132
EPS 2014F	174

Market Cap (IDR billion)	4,542
Issued Shares (million)	1,835

Earning's Multiple	
P/E 2012	29
P/E 2013—Forecast	19
P/E 2014—Forecast	14

Ticker	ARNA.IJ
--------	---------

Five Years Average (annualized historical)

Sales Growth (%)	17
Net Profit Growth (%)	30
ROE (%)	20
Dividend Payout ratio (%)	21

Major Shareholders

Credit Suisse Singapore trust	24.93%
UBS Singapore omnibus acc	17.05%
HSBC Fund Services Client a/c	13.89%
PT Suprakreasi Eradinamika	13.29%
Public	30.84%



Source: www.corporateinformation.com

	2010	2011	2012	2013F	2014F	2015F
Revenues (in bn)	830	923	1,114	1,409	1,720	2,099
Gross Margin (%)	32	31	34	38	39	40
Net Margin (%)	10	10	14	17	19	20
Revenue Growth	16.2	11.1	20.7	26.6	22.0	22.0

Progress of Palembang's plant is on track.

With 3 months of work remaining for Palembang plant, ARNA targets to commence its operation in July 2013. On the first phase, ARNA will boost its capacity of production up to 8mn sq m and make a further increase in its production capacity to a total of 20mn sq m for the next two years. The plant location is expected to grab market share in Sumatera. This new plant is strategically located to capture the bustling demand in Sumatera due to booming property sector. We estimate if the Palembang plant runs at full capacity, it will contribute 33% to total company's production volume.

Income Statement (IDR Billion)	2010	2011	2012	2013 F	2014 F	2015 F
Revenue	830	923	1,114	1,409	1,720	2,099
COGS	566	637	736	878	1,051	1,253
Gross Profit	264	286	378	531	669	847
Operating Expense	117	137	149	189	228	275
Operation profit	147	149	229	342	441	572
Other Income (Expenses)	(39)	(19)	(17)	(14)	(8)	(5)
EBITDA	96	98	175	280	369	489
Earnings Before Tax	108	130	212	328	433	566
Tax Expense	28	34	54	83	109	143
Income before MI	80	96	159	245	324	423
Minority Interest	1	1	2	3	5	6
Net Income	79	95	156	242	319	417
EPS (Rp)	43	52	85	132	174	227

Balance Sheet (IDR Billion)	2010	2011	2012	2013 F	2014 F	2015 F
Cash and cash equivalent	40	10	45	103	78	226
Account receivable	196	199	219	277	338	413
Others receivables	1	0	1	1	1	1
Other current assets	5	16	2	3	3	4
Inventories	57	36	52	60	77	92
Net Fixed Assets	569	565	599	744	843	966
Other Fixed Assets	6	6	15	16	16	17
Total Assets	873	832	932	1,203	1,356	1,718
Current Liabilities	307	257	278	313	298	357
Long Term Liabilities	151	91	55	101	41	46
Total Liabilities	458	348	333	414	339	402
Minority Interest	6	7	9	12	15	20
Total Shareholder's Equity	415	483	605	789	1,018	1,316
Total Equity & Liabilities	873	832	937	1,203	1,356	1,718

Cash Flow (IDR Billion)	2010	2011	2012	2013 F	2014 F	2015 F
Operating Cash Flow	91	138	225	275	346	455
Net Capex	4	(47)	(72)	(200)	(150)	(186)
Free Cash Flow (Operating CF after capex)	95	91	153	75	196	269
Other Investing Items	10	1	(9)	(1)	(1)	(1)
Cash From Investing Activities	13	(46)	(81)	(201)	(151)	(187)
Dividend paid	(13)	(28)	(37)	(61)	(94)	(124)
Other financing item	(54)	(95)	(72)	44	(126)	4
Cash from Financing Activities	(67)	(122)	(109)	(16)	(220)	(120)
Net change in cash	38	(30)	35	58	(25)	148

Growth	2010	2011	2012	2013 F	2014 F	2015 F
Revenue	16.3%	11.1%	20.7%	26.6%	22.0%	22.0%
Gross Profit	24%	8%	32%	41%	26%	27%
Net Income	24%	20%	65%	55%	32%	31%

Ratio	2010	2011	2012	2013 F	2014 F	2015 F
Net Margin	10%	10%	14%	17%	19%	20%
EBITDA margin	12%	11%	16%	20%	21%	23%
Return on Equity	19%	20%	26%	31%	31%	32%
Return on Assets	9%	11%	17%	20%	24%	24%
Payout Ratio	35%	39%	39%	39%	39%	39%
P/E	57	48	29	19	14	11

DISCLAIMER

This report has been prepared by PT Sinarmas Sekuritas, an affiliate of Sinarmas Group.

This material is: (i) created based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such; (ii) for your private information, and we are not soliciting any action based upon it; (iii) not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions expressed are current opinions as of original publication date appearing on this material and the information, including the opinions contained herein, is subjected to change without notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this publication may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, integrating and interpreting market information. Research will initiate, update and cease coverage solely at the discretion of Sinarmas Research department. If and as applicable, Sinarmas Sekuritas' investment banking relationships, investment banking and non-investment banking compensation and securities ownership, if any, are specified in disclaimers and related disclosures in this report. In addition, other members of Sinarmas Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from companies under our research coverage. Further, the Sinarmas Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by Sinarmas Group), or derivatives (including options) thereof, of companies under our coverage, or related securities or derivatives. In addition, the Sinarmas Group, including Sinarmas Sekuritas, may act as market maker and principal, willing to buy and sell certain of the securities of companies under our coverage. Further, the Sinarmas Group may buy and sell certain of the securities of companies under our coverage, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Recipients should not regard this report as substitute for exercise of their own judgment. Past performance is not necessarily a guide to future performance. The value of any investments may go down as well as up and you may not get back the full amount invested.

Sinarmas Sekuritas specifically prohibits the redistribution of this material in whole or in part without the written permission of Sinarmas Sekuritas and Sinarmas Sekuritas accepts no liability whatsoever for the actions of third parties in this respect. If publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

Additional information is available upon request.

Images may depict objects or elements which are protected by third party copyright, trademarks and other intellectual properties.

©Sinarmas Sekuritas(2013). All rights reserved.