

**August 20, 2015**

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**Company Visit Note**

**PT Surya Toto Indonesia Tbk (TOTO)**

Attending TOTO's analyst meeting on 19<sup>th</sup> August 2015, here are some reviews on the company:

**Company in Brief**

- Started its production in 1978, TOTO have transformed into **one of the biggest manufacturer for sanitary and kitchen products** not only in Indonesia, but also South East Asia. Today TOTO runs 7 production lines, commanding **65 - 70%** of Indonesian market share whereas in Jabodetabek, it enjoys approximately **90%** market share. It also possesses vast distribution channel (operated by PT Surya Pertiwi) with about **3.500 dealers** in about **15 major** cities throughout the nation.
- The company is beneficial for possessing **production efficiency** supported by **limited competition** in the industry
- TOTO's export strategy, accounted to 30% from its total sales, has provided it with **natural hedging ability** to minimize currency exposure.

**1H15 Earnings Preview**

- TOTO booked convincing 1H15 results with its revenue and earnings stood at **IDR 1.18tn (+16% YoY)** and **IDR 164bn (-0.1% YoY)** respectively.
- 1H15 bottom line margin decreased slightly to **13.87%** (14.31% FY2014), mainly for the management's decision to maintain selling price. We view this as the right step to maintain good relationship with consumers and its presence in the industry.
- It also showed **good liquidity** along with **low leverage level**. Current ratio (CR) and debt to equity ratio (DER) respectively were recorded at **183.43%** and **13.31%**.

**Expansion Plan**

- Had its 7th production line operated in 4Q14. TOTO continues its sanitary ware expansion by establishing a JV with its sole distributor (PT Surya Pertiwi) to acquire 37ha land in Gresik, East Java. It will accommodate 10 production lines with total capacity of 4.800.000 pieces per annum.
  - As for its kitchen division, TOTO had started its expansion since 2014 in Pasar Kemis, Tangerang which expected to run at the beginning of 2016. By that time, its kitchen factory capacity will reach 432.000 boxes per annum (currently 216.000 boxes per annum).
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**Future Growth Generator**

- From 250 million people in Indonesia, around 60% is still using squat model toilet, reflecting potential market as it is expected to shift towards sitting toilet.
- Growing numbers of property projects will provide TOTO greater potential for growth. By mid of 2015, TOTO had secured sanitary and kitchen projects valued for IDR 158bn and it is targeting additional IDR 121.5bn worth of projects by the end of 2015.

**We like TOTO as it have been able to maintain its presence in sanitary industry for about 37 years, controlling about 70% from Indonesian market share. Moreover, TOTO still faces visible potential growth in the future as seated model toilet penetration is still very low and expected to rise along with the shifting trend from squat model toilet. TOTO had been traded at 19,7x P/E and we recommend “Neutral” for investors seeing the economy is still flat which could affect TOTO’s demand. Additionally, property projects as one of its primary supportive catalysts also seems to be affected by the recent economic downturn.**

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