

We maintain our ADD rating for PT Mayora Indah Tbk (MYOR) with lower 52-week TP of IDR 2,800 (from IDR 2,940), implying a forward PE of 26.8x. Our TP which represents 15.2% upside potential, is pegged to 30.8x target PE (-0.5SD from its 5-year average PE) to capture weaker export sales growth and intensifying competition that may disrupt MYOR's profitability. Despite all the challenges, MYOR managed to book solid top-line growth in 1H19, and hence would surely achieve management's target of 11% this year. To add, we expect MYOR to be able to maintain its ROE at 20.6% for FY19E/20F, one of the highest within the industry, which makes MYOR attractive in our view. Downside risk to our call is rising soft commodity prices.

Decent 1H19 results. As of 1H19, MYOR posted its revenue at IDR 12.1tn (+11.5% YoY) while net income was seen at IDR 807bn (+9.7% YoY), translated to 6.7% NPM which was stable YoY. Interestingly, GPM stayed high at 30% (+430bps from 1H18) as soft commodity prices such as coffee remained supportive. EBIT margin expanded to 11.5% (+220bps YoY), not as high as GPM increase as higher opex was recorded, mainly from A&P (+29.9% YoY) to deal with competition. Meanwhile, NPM was flat resulted from IDR 103.9bn forex losses stemming from USDIDR appreciation, compared to IDR 156.1bn forex gain in the previous year.

Aggressive A&P, a concern to profitability yet is effective to boost sales growth. MYOR may see rising competition especially in the coffee segment, not only in Philippines but also in the domestic market, as several new instant coffee products were launched this year. Consequently, MYOR was left with no choice but to allocate higher A&P in order to tackle the competition and maintain market share. In 2Q19, MYOR's A&P expenses reached IDR 915.4bn (+22.9% YoY; +49.9% QoQ) translated to 15.1% A&P to sales (vs 10.2% in 1Q19), which also brought 1H19 total A&P at IDR 1.53tn (+29.9% YoY; 12.7% A&P to sales). Satisfyingly, the abundant A&P activities were paid off by solid domestic growth of 16.2% YoY, although export sales only grew by 5.8% YoY.

Higher earnings supported by GPM improvement. We are now seeing higher GPM for MYOR at 29.3%/28.1% for FY19E/20F factoring more favorable soft commodity prices. At the mean time, we also bake in higher A&P expenses and potential forex loss to our numbers, bringing net income to IDR 1.9tn/2.2tn for FY19E/20F (+10%/12% from our initial target).

Highlights (IDR Bn)	2017	2018	2019E	2020F	2021F
Revenue	20,817	24,061	26,612	29,266	31,598
% growth	13.4%	15.6%	10.6%	10.0%	8.0%
Gross Profit	4,975	6,397	7,809	8,219	8,727
Net Profit	1,594	1,716	1,891	2,177	2,385
% growth	17.7%	7.6%	10.2%	15.1%	9.5%
Gross Margin (%)	23.9%	26.6%	29.3%	28.1%	27.6%
Net Margin (%)	7.7%	7.1%	7.1%	7.4%	7.5%
Return on Equity (%)	23.4%	21.6%	20.6%	20.6%	19.8%
Return on Assets (%)	11.5%	10.6%	10.6%	11.4%	11.5%
EPS (IDR)	71	77	85	97	107

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Sector	Consumer Staples
Bloomberg Ticker	MYOR IJ
Market Cap. (IDR tn)	54.33
Share Out./Float (mn)	22,358/3,512
Current Price	IDR 2,430
52-week Target Price	IDR 2,800
Upside (%)	15.2%

Share Price Performance

52W High (07/31/18)	3,240
52W Low (07/16/19)	2,100
52W Beta	0.2
YTD Change (%)	-7.3%

Relative Valuations

Trailing P/E	30.3x
Forward P/E	26.8x
P/BV	5.9x
EV/EBITDA	16.2x

Income Statement (IDR Bn)	2017	2018	2019E	2020F	2021F
Revenue	20,817	24,061	26,612	29,266	31,598
COGS	(15,842)	(17,664)	(18,803)	(21,048)	(22,871)
Gross Profit	4,975	6,397	7,809	8,219	8,727
Operating Expenses	(2,514)	(3,769)	(4,613)	(4,798)	(5,035)
Opex to Sales (%)	-12.1%	-15.7%	-17.3%	-16.4%	-15.9%
EBIT	2,461	2,628	3,196	3,420	3,692
EBITDA	3,000	3,177	3,778	4,047	4,363
Net Financing	(350)	(446)	(478)	(413)	(393)
Others	77	200	(108)	4	(3)
EBT	2,187	2,382	2,610	3,011	3,295
Tax Expenses	(556)	(622)	(672)	(781)	(852)
Net Income	1,594	1,716	1,891	2,177	2,385
EPS (IDR)	71	77	85	97	107

Balance Sheet (IDR Bn)	2017	2018	2019E	2020F	2021F
Cash & Equivalents	2,202	2,496	2,954	3,139	3,465
Trade Receivables	6,103	6,075	6,563	7,413	7,929
Inventories	1,825	3,352	2,727	2,966	3,278
Other Current Assets	544	725	830	854	953
Total CA	10,674	12,648	13,073	14,373	15,625
Fixed Assets	3,989	4,258	4,608	4,933	5,210
Other Non CA	253	686	516	586	715
Total Assets	14,916	17,592	18,198	19,891	21,550
Short Term Debt	2,228	2,630	1,866	1,866	2,914
Trade Payables	1,829	1,625	1,844	2,088	2,249
Other CL	417	509	594	623	688
Total CL	4,474	4,765	4,304	4,577	5,850
Long Term Debt	2,226	3,377	3,014	2,867	1,634
Other Non CL	862	907	1,040	1,153	1,224
Total Liabilities	7,562	9,049	8,358	8,597	8,708
Share & APIC	448	448	448	448	448
Retained Earnings	6,744	7,901	9,168	10,588	12,102
Others	163	194	225	258	293
Total Equity	7,354	8,543	9,840	11,294	12,843
Total Liabilities & Equity	14,916	17,592	18,198	19,891	21,550

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2017	2018	2019E	2020F	2021F
Net Income	1,594	1,716	1,891	2,177	2,385
Dep. & Amortization	564	581	607	659	706
Chg. In NWC	(913)	(1,791)	336	(840)	(702)
CF from Operating	1,246	507	2,834	1,996	2,389
Capital Expenditure	(669)	(819)	(931)	(951)	(948)
Chg. in LT Assets	70	(433)	169	(70)	(129)
Chg. in LT Liabs	163	45	133	113	71
CF from Investing	(435)	(1,206)	(629)	(907)	(1,007)
Chg. in Share & APIC	0	0	0	0	0
Chg. in Debt	378	1,553	(1,128)	(147)	(185)
Dividends Paid	(470)	(604)	(687)	(757)	(871)
Others	(60)	44	67	-	-
CF from Financing	(152)	994	(1,747)	(904)	(1,056)
Chg. in Cash	659	294	458	185	326
Beginning Cash	1,543	2,202	2,496	2,954	3,139
Ending Cash	2,202	2,496	2,954	3,139	3,465

Financial Ratio & Key Assumptions	2017	2018	2019E	2020F	2021F
Profitability					
Return on Equity	23.4%	21.6%	20.6%	20.6%	19.8%
Return on Assets	11.5%	10.6%	10.6%	11.4%	11.5%
Gross Margin	23.9%	26.6%	29.3%	28.1%	27.6%
Operating Margin	11.8%	10.9%	12.0%	11.7%	11.7%
EBITDA Margin	14.4%	13.2%	14.2%	13.8%	13.8%
Net Margin	7.7%	7.1%	7.1%	7.4%	7.5%
Liquidity					
Current Ratio (x)	2.4	2.7	3.0	3.1	2.7
Quick Ratio (x)	1.9	1.8	2.2	2.3	1.9
Solvency					
Debt to Equity (x)	0.6	0.7	0.5	0.4	0.4
Debt to Assets (x)	0.3	0.3	0.3	0.2	0.2
Interest Cov. (x)	6.4	5.3	6.2	7.5	8.5
Valuation					
Price to Earnings (x)	39.3	36.5	33.1	28.8	26.3
Price to Book (x)	8.5	7.3	6.4	5.5	4.9

Source: Company Data, Sinarmas Investment Research

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ADD: Share price may range between 10% to 15% over the next 12 months.

NEUTRAL: Share price may range between -10% to +10% over the next 12 months.

REDUCE: Share price may range between -10% to -15% over the next 12 months.

SELL: Share price may fall by more than 15% over the next 12 months.

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