

7th February 2012

## MAYORA INDAH TBK

### Margin recovery is expected

#### OVERWEIGHT

2011 has been the year where high commodities price has constantly dogged Mayora's cost of production hence, its overall profitability. Even though sales remain strong, at 29.7% YoY as of 3Q2011 due to the company's policy in keeping its selling price at a competitive level, Mayora's margin has been badly hurt by higher cost of production—estimated to be 20% higher during 2011 compared to previous year. This is reflected on its 3Q11 gross margin, which dropped to 16.5% from 23.2% YoY whilst 3Q11 net margin dropped to 3.8% vs 6.2% YoY.

#### Compensation margin to kick in

Challenging environment for Mayora in 1H2011, as sugar, CPO, wheat and coffee price reached its highest point, heavily affected Mayora's cost of production. However since then, commodities prices have cool down and we forecast that it will remain stable in 2012, therefore creating a compensation margin for Mayora since the company has increased the selling price of its products by 3%-5% during 2H2011. Furthermore, as management started to address the efficiency issue in Mayora's new factories, operating margin will also improve. We are confident that profit margin will return to 6.1% in 2012 and 6.4% in 2013, although it is slightly lower than our previous forecast.

#### New factories to capture strong demand

Domestic consumption will remain strong due to Indonesia's relatively low inflation environment, rising income and strong economic growth. As such, Mayora has a plan to open up new biscuit and coffee factories whilst also upgrading its existing facilities to boost production capacity by an estimate of 30% in 2012. In addition to its strong domestic position, Mayora has also continue to grow its presence internationally, with export sales contribution to Mayora's total revenue reaching 29.6% as of 3Q2011, compared to a mere 5% in 2005, attributable to its network and products' quality.

#### Upgrading our valuation to IDR 16,400

We have revised down our net profit margin to 4.4%-6.1% for FY 2011E & FY2012F due to a combination of higher commodities price, company's policy to maintain its selling price at a competitive level and inefficiency related to new factories. We have also lowered our WACC to 10.9% as lower risk premium seen in Indonesia. In relation to Mayora's top line growth, revenue growth CAGR until 2013 is forecast at 25%. On that note, we have upgrade our valuation for Mayora to IDR 16,300.

**Jansen Kustianto**

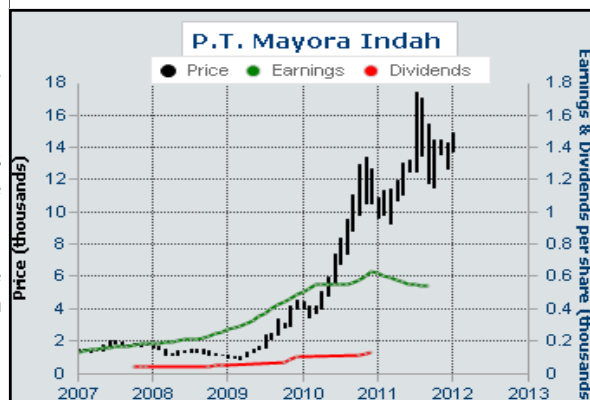
Equity analyst

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Ticker: MYOR

#### Stock Data

Sector	Consumer Goods
Price (7th February 2012)	15,100
Target Price 2012	16,300
EPS 2011E	528
EPS 2012F	919
EPS 2013F	1,170
Market Cap (IDR)	11.1 T
Issued Shares (mil)	766.6
Earnings multiple	
P/E 2011—Estimate	28
P/E 2012—Forecast	16
P/E 2013—Forecast	13
Five Years Average (annualized historical)	
Sales Growth (%)	20.2
Net Profit Growth (%)	60.3
ROE (%)	19.7
Dividend Payout Ratio (%)	24.9
Shareholders	
PT Unita Branindo	32.93%
Public (< 5%)	67.07%

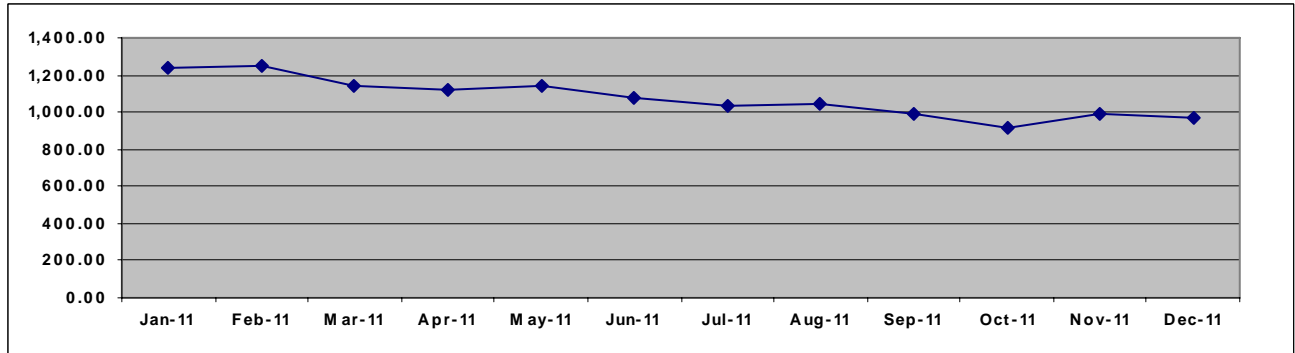


REVENUE FORECAST	2011E	2012F	2013F
Revenue (IDR in bn)	9,175	11,468	13,991
Gross Margin (%)	20	21	22.7
Revenue Growth (%)	27	25	22

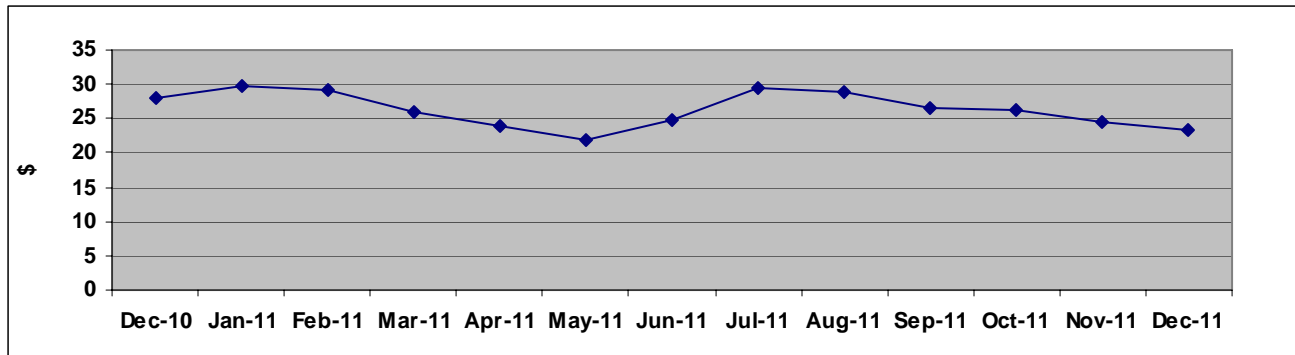


Commodities trend on Mayora's main raw materials show declining trend since 1H2011:

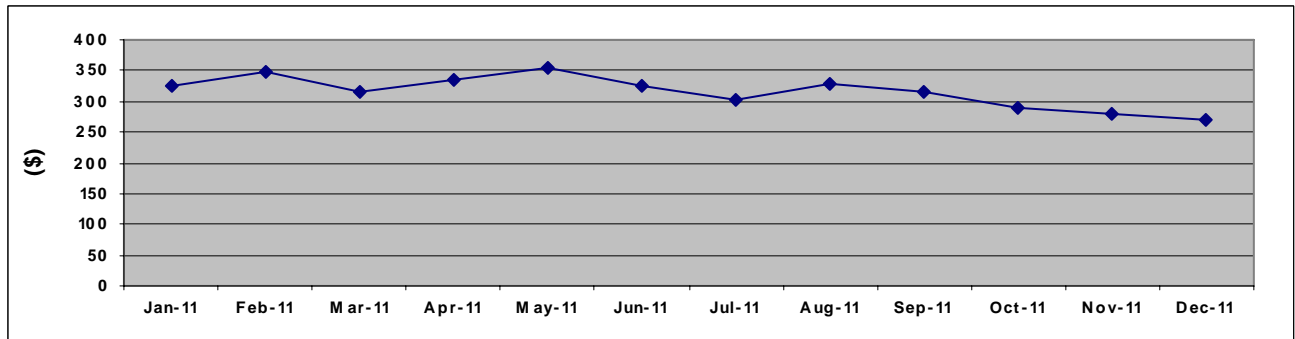
Crude palm oil:



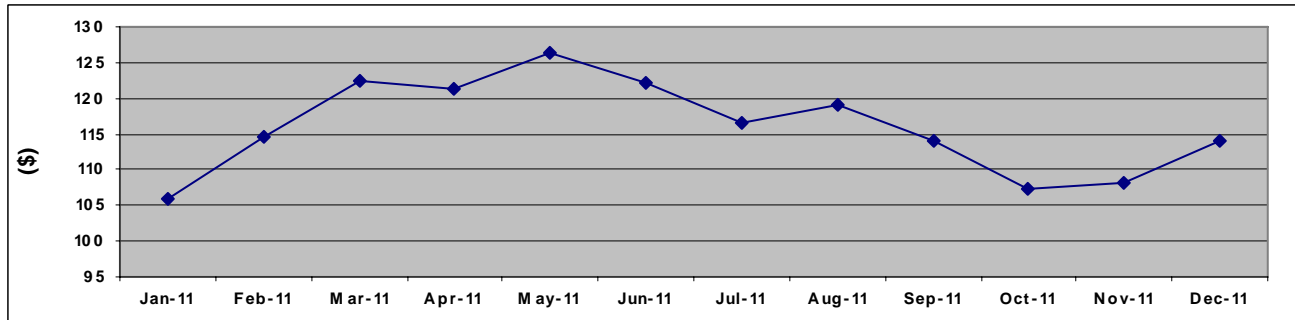
Sugar:



Wheat:



Coffee



Source: World Bank

<i>Fiscal Year End</i>	<b>2009</b>	<b>2010</b>	<b>2011E</b>	<b>2012F</b>	<b>2013F</b>
<b>Income Statement (bn)</b>					
<b>Sales Revenue</b>	<b>4,777</b>	<b>7,224</b>	<b>9,175</b>	<b>11,468</b>	<b>13,991</b>
Cost of Goods Sold	(3,643)	(5,518)	(7,340)	(9,060)	(10,815)
<b>Gross Profit</b>	<b>1,134</b>	<b>1,706</b>	<b>1,835</b>	<b>2,408</b>	<b>3,176</b>
Operating Expenses	(520)	(933)	(1,101)	(1,262)	(1,763)
<b>Operating Income</b>	<b>614</b>	<b>773</b>	<b>734</b>	<b>1,147</b>	<b>1,413</b>
<b>EPS</b>	<b>485</b>				
Net Interest Income (Expenses)	(99)	(88)	(166)	(136)	(132)
Other Income (Expenses)	(11)	(27)	13	(12)	(12)
<b>Income Before Tax</b>	<b>504</b>	<b>658</b>	<b>581</b>	<b>999</b>	<b>1,269</b>
Income Tax Expense	(122)	(159)	(158)	(271)	(345)
Minority Interest	(10)	(16)	(18)	(23)	(28)
<b>Net Income</b>	<b>372</b>	<b>484</b>	<b>405</b>	<b>705</b>	<b>897</b>
<b>Balance Sheet (bn)</b>					
Cash & Cash Equivalents	334	472	334	185	157
Account Receivables	858	1,295	1,624	2,053	2,448
Inventories	459	498	826	826	1,063
Other Current Assets	100	420	229	275	392
Net Fixed Assets	1,283	1,490	2,120	2,540	2,986
Total Non-Current Assets	1,496	1,714	2,670	3,056	3,545
<b>Total Assets</b>	<b>3,247</b>	<b>4,399</b>	<b>5,683</b>	<b>6,395</b>	<b>7,606</b>
Current Liabilities	764	1,040	1,571	1,569	2,065
Long-Term Liabilities	859	1,319	1,775	1,867	1,840
<b>Total Liabilities</b>	<b>1,623</b>	<b>2,359</b>	<b>3,346</b>	<b>3,436</b>	<b>3,905</b>
Shareholder's Equity	1,623	2,040	2,337	2,960	3,701
Minority Interest	41	49	67	90	118
<b>Total Equity &amp; Liabilities</b>	<b>3,246</b>	<b>4,399</b>	<b>5,683</b>	<b>6,395</b>	<b>7,606</b>
<b>Cash Flow (bn)</b>					
<b>Operating Cash flow</b>	<b>467</b>	<b>248</b>	<b>150</b>	<b>803</b>	<b>793</b>
Net Capex	(229)	(396)	(689)	(642)	(718)
Other Investing Items	(124)	14	(326)	34	(44)
<b>Free Cash Flow</b>	<b>238</b>	<b>(134)</b>	<b>(865)</b>	<b>195</b>	<b>31</b>
Dividends paid	(38)	(85)	(126)	(105)	(183)
Other financing items	(40)	369	852	(238)	123
<b>Net Cash Flow</b>	<b>36</b>	<b>150</b>	<b>(138)</b>	<b>(148)</b>	<b>(29)</b>
<b>KEY RATIO</b>					
Sales Growth (%)	22	51	27	25	22
EPS Growth (%)	89	30	-16	74	27
Operating Margin (%)	12.9	10.7	8	10	10
Payout Ratio (%)	19.5	23	25	25	25
Acid-Test Ratio (%)	1.5	1.7	1.2	1.4	1.3
ROE (%)	25.7	26.4	18.5	26.6	26.9
P/E	22.2	23	28	16	13
P/BV	3.7	5.5	4.8	3.8	3
ROA (%)	12.1	12.7	8	11.7	12.8

**Historical recommendation & valuation: PT Mayora Indah Tbk**

Date	Coverage	Recommendation	Valuation
14/7/2010	Initiation	Buy	8,900
31/12/2010	Update	Buy	13,400
4/2/2012	Update	Overweight	16,300

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