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**COMPANY UPDATE**

## PT Nippon Indosari Corpindo Tbk

### Sari Roti Is Flying Off The Shelf

**BUY**

ROTI has continued its recent growth trend with another superb performance throughout 1Q12, thus we have updated our valuation on ROTI to IDR 4,600 and maintained our BUY rating. 1Q12 sales grew by 58.8% YoY at IDR 273.8 billion, purely driven by volume growth with white bread the top gainers, rising 125%, whilst 1Q12 net income up by 19.9% YoY at IDR 32.5 billion, due to lower margin. We are confident that the company will be able to achieve its top line growth target of 35% this year and improve its profit margin by year end, hence the upward revision to our FY12–FY13 earning's expectation by 7.5% and 11.5% respectively.

#### We remain positive on ROTI top line growth

We are maintaining our positive view on ROTI growth outlook, revising its FY12 top line growth to 45% from 35%, and our sales growth forecast of 35.5% CAGR by 2014. The catalyst will be ROTI's brand equity, product mix & higher demand, highlighted by volume coming from new areas. This is reflected by the rapid rise in utilization rate from ROTI's new factories in Medan– at 72% compared to 43% in 3Q11, and Semarang– at 100% compared to 77% in 3Q11, whilst Cibitung factory– at 49%, even though it has only been commercialized in Feb 12.

#### Increasing presence throughout Indonesia

The company is on track with its expansion plan for FY12, with factory in Palembang schedule to be open by August 12, and another factory in Makassar by December 12. The addition of new factories will give ROTI access to new market, enabling it to increase products' penetration and brand exposure. On top of its plan to open new factories, capacity expansion plan is to be completed in its existing Pasuruan, Semarang and Medan factories.

#### Improvement in margin

We estimate that profit margin will improve to 13.6% in FY12. Thus, we maintain our FY13-14 forecast of profit margin at 13.5% level. We still see that cost of raw materials to remain in control due to weaker global economy, and ROTI ASP increase of 10% on all products by April 12, should support its profit margin. Furthermore, packaging cost should normalize as packaging update has been applied in 1Q12, and current packaging should remain for at least 2-3 years.

#### Upgrading valuation to IDR 4,600 & Maintain BUY

As a result of our change in forecast for ROTI's revenue growth, and its profit margin, we have updated our valuation on ROTI to IDR 4,600. At this price, the company will be trading at 29x 2012F P/E and 22x 2013F P/E, with average ROE estimate of 27.5% for the next three years. At current price, the stock is undervalued, therefore we maintain BUY.

**Ticker: ROTI**

#### Stock Data

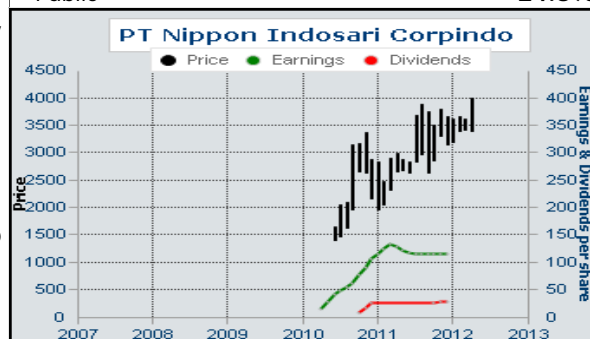
Sector	Consumer Goods
Price (16th of May 2012)	3,975
Target Price 2012	4,600
EPS 2011A	114
EPS 2012E	158
EPS 2013F	211
Market Cap (IDR)	3.9 T
Issued Shares (mil)	1012.4
Earnings Multiple:	
P/E 2011A	35
P/E 2012E	25
P/E 2013F	19

#### Five Years Average (annualized historical)

Sales Growth (%)	34
Net Profit Growth (%)	60
ROE (%)	24
Dividend Payout Ratio (%)	N/A

#### Shareholders

Bonlight Investments Limited	31.5%
Treasure East Investment Ltd	31.5%
Shikishima Baking Co Ltd	8.5%
Sojitz Corporation	4.25%
Public	24.3%



Source: www.corporateinformation.com

REVENUE FORECAST	2012E	2013F	2014F
Revenue (IDR in bn)	1,179	1,592	2,022
Gross Margin (%)	46.5	46.6	46.8
Revenue Growth (%)	45	35	27

<i>Fiscal Year End</i>	2010	2011	2012E	2013F	2014F
<b>Income Statement (bn)</b>					
<b>Sales Revenue</b>	<b>612</b>	<b>813</b>	<b>1,179</b>	<b>1,592</b>	<b>2,022</b>
Cost of Goods Sold	323	434	631	850	1,076
<b>Gross Profit</b>	<b>289</b>	<b>379</b>	<b>548</b>	<b>742</b>	<b>946</b>
Operating Expenses	163	233	338	462	586
<b>Operating Income</b>	<b>126</b>	<b>146</b>	<b>210</b>	<b>280</b>	<b>360</b>
<b>EPS</b>	<b>99</b>	<b>114</b>	<b>158</b>	<b>211</b>	<b>270</b>
Net Interest Income (Expenses)	(5)	-	(3)	(2)	(3)
Other Income (Expenses)	14	9	7	7	8
<b>Income Before Tax</b>	<b>135</b>	<b>155</b>	<b>214</b>	<b>285</b>	<b>364</b>
Income Tax Expense	35	39	54	71	91
Minority Interest	0	0	0	0	0
<b>Net Income</b>	<b>100</b>	<b>116</b>	<b>160</b>	<b>214</b>	<b>273</b>
<b>Balance Sheet (bn)</b>					
Cash & Cash Equivalents	121	48	18	40	15
Account Receivables	76	103	130	178	222
Inventories	10	16	21	33	42
Other Current Assets	7	22	24	29	44
Net Fixed Assets	346	546	717	859	1,056
Total Non-Current Assets	355	569	752	907	1,116
<b>Total Assets</b>	<b>568</b>	<b>759</b>	<b>945</b>	<b>1,188</b>	<b>1,441</b>
Current Liabilities	93	148	194	266	275
Long-Term Liabilities	20	64	73	73	99
<b>Total Liabilities</b>	<b>113</b>	<b>213</b>	<b>267</b>	<b>338</b>	<b>374</b>
Shareholder's Equity	455	546	678	850	1,067
Minority Interest	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>568</b>	<b>759</b>	<b>945</b>	<b>1,188</b>	<b>1,441</b>
<b>Cash Flow (bn)</b>					
<b>Operating Cash flow</b>	<b>114</b>	<b>148</b>	<b>220</b>	<b>276</b>	<b>290</b>
Net Capex	(163)	(218)	(216)	(200)	(273)
Other Investing Items	14	(10)	(12)	(12)	(13)
<b>Free Cash Flow</b>	<b>(35)</b>	<b>(80)</b>	<b>(8)</b>	<b>64</b>	<b>4</b>
Dividends paid	-	(25)	(29)	(42)	(55)
Other financing items	97	33	8	0	26
<b>Net Cash Flow</b>	<b>62</b>	<b>(72)</b>	<b>(30)</b>	<b>22</b>	<b>(25)</b>
<b>DPS (1+actual year) in Rupiah</b>	<b>-</b>	<b>25</b>	<b>29</b>	<b>41</b>	<b>55</b>
<b>KEY RATIO</b>					
Sales Growth (%)	26	33	45	35	27
Net Profit Growth (%)	75	16	38	33	28
Operating Margin (%)	20	18	17.8	17.6	17.8
Payout Ratio (%)	-	25	25	25	25
Acid-Test Ratio (%)	2.1	1.0	0.8	0.8	0.9
ROE (%)	32	23	26	28	29
P/E	39	35	25	19	15
P/BV	8	7.2	5.8	4.6	3.7
ROA (%)	22	18	19	20	21

Several of PT Nippon Indosari products, with its new packaging:



Source: [www.sariroti.com](http://www.sariroti.com)

**Historical recommendation and valuation: PT Nippon Indosari Corpindo Tbk**

Date	Coverage	Recommendation	Valuation
18/8/2010	Initiation	Buy	IDR 1,800
18/2/2011	Update	Buy	IDR 3,000
19/7/2011	Update	Overweight	IDR 3,800
1/11/2011	Update	Buy	IDR 4,100
8/5/2012	Update	Buy	IDR 4,600

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