

1 May 2013

NIPPON INDOSARI CORPINDO TBK

The Bottom Line Has Been Going Beyond Expectation

BUY

We had been expecting momentum for improvement in 1Q13, but apparently the company's profitability has increased higher than the anticipated by 72.4% yoy. The deviation stems from lower defective inventory and lower advertising expenses has delivered higher EBIT margin. In contrast, revenue from sweet bread continues to accelerate the growth by 51% yoy as two new factories in Sumatera and Sulawesi, and three new production lines in existing factories have fully operated. Therefore we tweak our forecasts into revising year-end bottom line margin from 11.9% to 12.4%.

Determination to Lower Return Rate Even Further

It was clear that the sales return is one of the biggest risk faced by a short shelf-life bread producer, such as ROTI. It erodes the profitability as the defective products became a total waste. All this time, the sales return was accounted for around 12% of the company's total gross annual sales. The company is implementing strategy by focusing selling efforts on traditional trade channel over modern trade channel. Historically, traditional trade channel have substantially less return rate. We expect traditional trade channel's contribution to total revenue will rise from the current level of 45% in the medium term.

Finding Lower Long-term Debt Rate to Fund The Expansion

The company plans to issue up to IDR 500 billion bonds each year in 2013 and 2014 to finance its target to build three new plants each year until 2015, two plants in 2016, and one plant in 2017. Based on our estimate, the company's net debt to equity ratio will rise to 0.95x in 2013 and 1.33x in 2014. On the other hand, it would leads to an additional interest expense of approximately IDR 30 bn. By contrast, we consider this level was still manageable and poses no significant threat. This year, ROTI has allocated capex worth of IDR 400bn in order to build 3 new factories in Java region. The significant rise in each plant budget was caused by higher industrial land prices. We expect this year's expansion could add up production capacity by 30%.

Big Upside Potential

The stock performance has lagged the consumer goods index by 6.7% since the start of the year, therefore there is an ample room for upside in the stock as profitability has risen. We upgrade our recommendation from HOLD to BUY rating with new price target of IDR 8,800 which implies a forward 2013 P/E of 46.9x. We derived our 2013 target price based on the company's plan to build 3 new plants in 2013 – 2015, 2 plants in 2016, and 1 plant in 2017. Key risks to our target are: (1) higher raw material prices, especially wheat prices; (2) delay in factory construction; (3) tightening mass-produced bread market which leads to tougher competition.

Christandi Rheza Mihardja

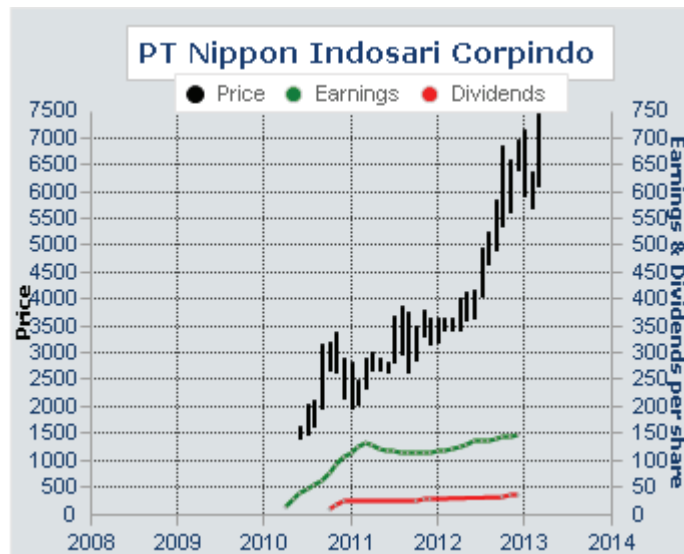
Equity Analyst

Rheza.mihardja@sinarmassekuritas.co.id

Stock Data

Sector	FMCG
Price	7,700
12-month Target Price 2012	8,800
12-month Rating	Buy
Prior	Hold
Ticker	ROTI.IJ (BBG)
Market Cap	IDR 7,795 Bn
Shares Outstanding	1,012 Mn

ROTI Performance



Source: www.corporateinformation.com

In bn	FY 2011	FY 2012	2013F	2014F	2015F
Revenues	813	1,191	1,583	2,011	2,422
Growth	33%	46%	29%	31%	20%
EBIT	146	186	265	362	430
Net Income	116	149	190	244	283
EPS (IDR)	115	147	188	241	280
Growth	16%	29%	28%	16%	36%
Net DPS	25	29	38	48	56

In mn IDR except per share data; Source: Bloomberg, Company data, Sinarmas Sekuritas Research

Profitability	FY 2011	2012E	2013F	2014F	5y avg
Gross Margin %	46.7	46.7	45.5	46.9	47.0
EBIT Margin %	18	15.6	17.3	18.0	17.8
EBITDA Margin %	21.0	19.1	21.0	21.6	21.4
P/E x		48.5	40.9	31.9	27.5
Net DPR	22%	19%	20%	20%	20%

Source: Bloomberg, Company data, Sinarmas Sekuritas Research

Top Holders	
Bonlight Investments Ltd	31.5%
Treasure East Investment Ltd	31.5%
Shikishima Baking Co Ltd	8.50%
Sojitz Corporation	4.25%

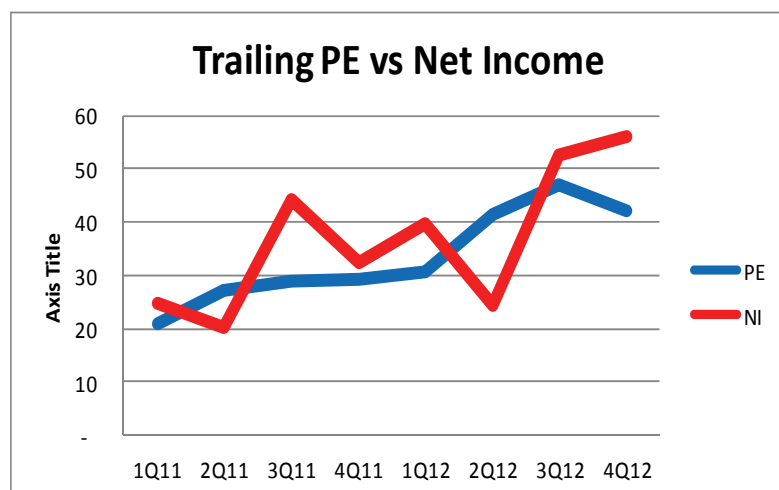
Source: Bloomberg

Table 1: Sensitivity Analysis

Sensitivity Analysis FY13E	FY13E OP impact(%)	FY13E NOPAT impact(%)
Wheat Price +/- 1% change	0.8%	0.8%
Sugar Price +/- 1% change	0.1%	0.1%
Packaging Price +/- 1% change	0.3%	0.3%
Sales Return +/- 100bp changes	2.9%	2.3%
ASP Increase +/- 1% change	2.4%	2.5%
Delay in Factory Construction 1y delayed	6.2%	6.7%

Source: Company, Sinarmas Investment Research

Table 2: As seen in the table below, trailing PE has positive correlation of 0.6 against quarterly net income, thus we believe there is a potential upside in the near future.



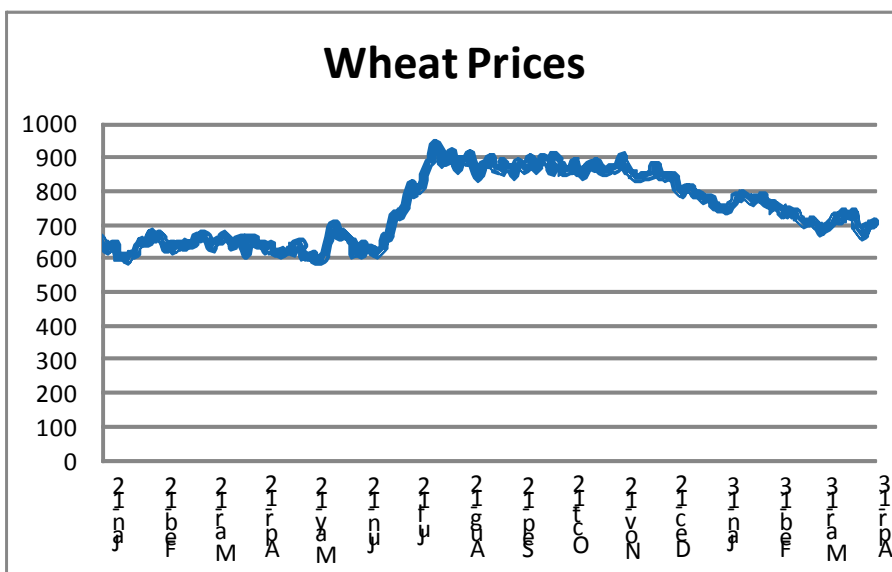
Source: Company, Sinarmas Investment Research

Table 3: Indonesia Food CPI Surged to Two-Year High of 12.9% as production cost accelerated while core inflation, which excludes volatile food and energy prices increased by 4.21% YoY



Source: Bloomberg, Sinarmas Investment Research

Table 4: Wheat price have softened by 10 to 15 percent since beginning of the year, but we projected a price hike in second quarter as the global economy gradually getting better.



Source: Bloomberg, Sinarmas Investment Research

in IDR bn	FQ1 2011	FQ1 2012	FQ1 2013
Revenue	172	274	357
<i>% of FY</i>	21%	23%	23%
<i>growth</i>		59%	30%
Sweet Bread Sari Roti	120	134	202
<i>% of FY</i>	21%	16%	18%
<i>growth</i>		12%	51%
White Bread Sari Roti	78	176	192
<i>% of FY</i>	22%	37%	33%
<i>growth</i>		125%	9%
Sari Cake	1	1	1
Others	1	1	2
Sales Returns	(28)	(39)	(41)
<i>% of sales</i>	-16%	-14%	-11%
Cost of Revenue	91	150	184
Gross Profit	81	123	173
<i>margin</i>	47%	45%	48%
Selling Expenses	-	70	79
<i>% of sales</i>		25%	22%
GA Expenses	-	12	20
<i>% of sales</i>		5%	6%
Operating Expenses	47	82	99
Operating Income	34	41	74
<i>margin</i>	20%	15%	21%
Interest Expense	-	-	4
Foreign Exchange Losses (Gains)	-	1	0
Net Non-Operating Losses (Gains)	(2)	(4)	(5)
Pretax Income	36	43	75
Income Tax Expense	9	11	19
Net Income	27	32	56
<i>% of FY</i>	23%	22%	29%
<i>margin</i>	16%	12%	16%
Basic EPS	27	32	55

Source: Company, Sinarmas Investment Research

Income Statement

Cash Flow

In IDR bn	FY 11	FY 12E	FY 13E	FY 14E	FY 15E	In IDR bn	FY 11	FY 12E	FY 13E	FY 14E	FY 15E
Revenues	813	1,191	1,538	2,011	2,422	Net Income	116	149	190	244	283
<i>growth</i>	<i>33%</i>	<i>46%</i>	<i>29%</i>	<i>31%</i>	<i>20%</i>	Adjustments	24	41	58	72	89
EBITDA	170	227	323	435	519	Net Working Capital	6	1			
<i>growth</i>	<i>17%</i>	<i>33%</i>	<i>42%</i>	<i>35%</i>	<i>19%</i>	Cash From Op.	146	191	238	310	365
EBIT	146	186	265	362	430	Net Change in Capex	(224)	(389)	(356)	(356)	(349)
<i>growth</i>	<i>17%</i>	<i>27%</i>	<i>43%</i>	<i>36%</i>	<i>19%</i>	Sales of FA	0	0	(0)	-	-
<i>EBIT Margin</i>	<i>18%</i>	<i>16%</i>	<i>17%</i>	<i>18%</i>	<i>18%</i>	Changes in minority	-	-	-	-	-
Net Interest	-	-	(32)	(60)	(80)	Changes in OA	(13)	(68)	30	(35)	(36)
Earnings before tax	157	200	254	326	378	Cash From Inv.	(238)	(457)	(327)	(391)	(385)
Tax	39	51	63	81	94	Capital Issues	-	-	-	-	-
<i>tax rate</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	Dividends Paid	(25)	(29)			
Net income	116	149	190	244	283	Changes in Debt	33	270	197	500	-
<i>growth</i>	<i>16%</i>	<i>29%</i>	<i>28%</i>	<i>28%</i>	<i>16%</i>	Other Fin. Act.	11	15	3	15	13
Shares Outstanding	1,012	1,012	1,012	1,012	1,012	Cash From Fin.	19	255	162	466	(44)
EPS	115	147	188	241	280	Beginning Cash	121	48	38	110	496
<i>growth</i>	<i>16%</i>	<i>29%</i>	<i>28%</i>	<i>28%</i>	<i>16%</i>	Net Changes in Cash	(72)	(11)	73	385	(64)
						Ending Cash	48	38	110	496	431

Balance Sheet

In IDR bn	FY 11	FY 12E	FY 13E	FY 14E	FY 15E	Ratio Analysis	FY 11	FY 12E	FY 13E	FY 14E	FY 15E
Cash	48	38	110	496	431	EBITDA Margin	20.9%	19.1%	21.0%	21.6%	21.4%
AR	103	136	155	202	244	Operating Margin	18.0%	15.6%	17.3%	18.0%	17.7%
Inventories	16	23	47	62	74	Net Margin	14.3%	12.5%	12.4%	12.2%	11.7%
Others	22	23	29	38	46	Sales growth	32.9%	46.4%	29.2%	30.7%	20.4%
Current assets	190	220	342	798	795	Net profit growth	16.2%	28.7%	27.6%	28.4%	16.0%
Net fixed assets	546	894	1,193	1,476	1,736	EPS growth	16.2%	28.7%	27.6%	28.4%	16.0%
Others	23	91	62	97	133	Net debt to equity	0.39	0.81	0.95	1.34	1.15
Total Assets	759	1,205	1,596	2,371	2,665	Sales/assets	1.07	0.99	0.96	0.85	0.91
Short term Liabilities	148	195	228	293	847	Assets/equity	1.39	1.81	1.95	2.34	2.15
Long term Liabilities	64	343	549	1,064	576	ROE	21.2%	22.4%	23.2%	24.1%	22.8%
Total Liabilities	213	538	777	1,357	1,424						
Shareholders' Equity	546	667	819	1,014	1,241						
Minority Interest	-	-	-	-	-						
Total	759	1,205	1,596	2,371	2,665						

Date	Coverage	Recommendation	Valuation
18-Aug-10	Initiation	Buy	1,800
18-Feb-11	Update	Buy	3,000
19-Jul-11	Update	Overweight	3,800
1-Nov-11	Update	Buy	4,100
8-May-12	Update	Buy	4,600
6-Aug-12	Update	Buy	5,200
2-Nov-12	Update	Hold	6,200
10-Apr-13	Update	Hold	7,800
1-May-13	Update	Buy	8,800

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.