

We upgrade our NEUTRAL call to ADD for PT Nippon Indosari Corpindo Tbk (ROTI) with FY20 target price of IDR 1,400. Our TP provides 11% upside potential, pegged to 30.5x target PE (its 5-yr average PE). As of 1H19, ROTI booked a pleasant performance by recording 24.4% YoY top-line growth predominantly engineered by higher volume with NPM also having an improvement from 3.1% in 1H18 to 6.4% in 1H19. ROTI's strategy on general trade (GT) with the establishment of 2 new facilities in 2020 should further bolster volume. On the other hand, margins are expected to expand on opex normalization. While valuation may appear to be demanding at 27.7x forward PE, we think it is fair supported by promising growth outlook and healthier profitability.

Strong volume growth going forward. Throughout 2019, ROTI's initiatives involving GT enhancement (GT contributed 23.1% to sales as of 1H19 vs 21.1% in FY18), forecasting tool that stabilizes sales return rate, 2 new production facilities (Gresik and Balikpapan), along with intense marketing activities as a whole have managed to generate a compelling volume for the company. In the future, we expect volume to remain strong as ROTI continues expanding its distribution coverage; one of which by adding 2 new facilities located in Banjarmasin and Pekanbaru, which would enable ROTI to penetrate areas that are previously unreachable.

What is next after volume? Post the convincing volume growth, ROTI now focuses to improve its profitability, one of which by being less aggressive on marketing activities. Another efficiency comes from savings in transportation costs, as ROTI now supply the demand in Kalimantan from its latest and forthcoming Kalimantan plants. This should lower opex which was an issue to ROTI's profitability. In addition, company plans to raise ASP by 5% next year considering the softening competition landscape, and have gradually started to increase ASP by 3% on selective products since Sep-19.

Another robust performance in 2020. Factoring 12%/5% volume and ASP growth, we foresee ROTI's FY20F top-line at IDR 3.9tn (+18.3% YoY) while bottom-line could reach IDR 297bn (7.6% FY20F NPM vs 6.9% FY19E NPM) supported by initiatives at opex level. To note, our FY20F figures are higher than company's accomplishment in FY16 which was the peak performance for the company.

Highlights (IDR Bn)	2017	2018	2019E	2020F	2021F
Revenue	2,491	2,767	3,322	3,929	4,433
% growth	-1.2%	11.1%	20.1%	18.3%	12.8%
Gross Profit	1,308	1,492	1,810	2,149	2,423
Net Profit	146	173	229	297	332
% growth	-47.9%	18.3%	32.5%	29.7%	11.8%
Gross Margin (%)	52.5%	53.9%	54.5%	54.7%	54.6%
Net Margin (%)	5.9%	6.2%	6.9%	7.6%	7.5%
Return on Equity (%)	5.2%	5.9%	7.4%	9.0%	9.3%
Return on Assets (%)	3.2%	3.9%	4.9%	6.6%	6.8%
EPS (IDR)	28	28	37	45	52

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Sector	Consumer Staples
Bloomberg Ticker	ROTI IJ
Market Cap. (IDR tn)	7.76
Share Out./Float (mn)	6,187/2,780
Current Price	1,255
52-week Target Price	1,400
Upside (%)	11.0%

Share Price Performance

52W High (07/10/19)	1,360
52W Low (10/05/18)	980
52W Beta	0.5
YTD Change (%)	4.6%

Relative Valuations

Trailing P/E	33.0x
Forward P/E	27.7x
P/BV	2.7x
EV/EBITDA	18.1x

Income Statement (IDR Bn)	2017	2018	2019E	2020F	2021F
Revenue	2,491	2,767	3,322	3,929	4,433
Cost of Good Sold	(1,183)	(1,274)	(1,512)	(1,780)	(2,011)
Gross Profit	1,308	1,492	1,810	2,149	2,423
Operating Expenses	(1,107)	(1,354)	(1,572)	(1,808)	(2,032)
Opex to Sales (%)	-44.4%	-48.9%	-47.3%	-46.0%	-45.8%
Other Income (Expenses)	56	56	54	55	59
EBIT	257	194	293	396	450
EBITDA	378	335	478	598	663
Net Financing Income (Expenses)	(64)	(15)	(9)	4	11
EBT	186	180	284	400	460
Tax Expenses	(51)	(60)	(85)	(120)	(138)
Net Income	146	173	229	297	332
EPS (IDR)	28	28	37	45	52

Balance Sheet (IDR Bn)	2017	2018	2019E	2020F	2021F
Cash & Equivalents	1,895	1,295	1,105	612	776
Trade Receivables	338	454	402	475	536
Inventories	50	65	70	82	94
Other Current Assets	37	63	75	89	100
Total Current Assets	2,320	1,876	1,653	1,259	1,506
Fixed Assets	1,994	2,222	2,636	2,834	2,886
Other Non Current Assets	246	295	341	411	460
Total Assets	4,560	4,394	4,631	4,504	4,852
Short Term Debt	619	41	41	41	41
Trade Payables	262	395	402	512	557
Other Current Liabilities	146	89	125	136	173
Total Current Liabilities	1,027	525	568	690	771
Long Term Debt	498	706	706	207	207
Other Non Current Liabilities	214	246	269	292	316
Total Liabilities	1,739	1,477	1,543	1,189	1,294
Share & APIC	1,583	1,583	1,583	1,583	1,583
Retained Earnings	1,193	1,337	1,507	1,735	1,978
Others	44	(3)	(2)	(2)	(2)
Total Equity	2,820	2,917	3,087	3,315	3,558
Total Liabilities & Equity	4,560	4,394	4,631	4,504	4,852

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2017	2018	2019E	2020F	2021F
Net Income	146	173	229	297	332
Dep. & Amortization	132	186	216	219	223
Chg. In NWC	1	(81)	77	23	(3)
CF from Operating	279	277	522	539	552
Capital Expenditure	(273)	(369)	(600)	(400)	(266)
Chg. in LT Assets	(118)	(49)	(46)	(70)	(48)
Others	(7)	(16)	(30)	(17)	(10)
CF from Investing	(399)	(435)	(676)	(487)	(324)
Chg. in Share & APIC	1,308	-	-	-	-
Chg. in Debt	121	(370)	-	(499)	-
Dividends Paid	(69)	(36)	(52)	(69)	(89)
Others	43	(38)	16	23	24
CF from Financing	1,403	(444)	(36)	(545)	(65)
Chg. in Cash	1,284	(602)	(190)	(493)	164
Beginning Cash	611	1,895	1,295	1,105	612
Ending Cash	1,895	1,293	1,105	612	776

Financial Ratio & Key Assumptions	2017	2018	2019E	2020F	2021F
Profitability					
Gross Margin	52.5%	53.9%	54.5%	54.7%	54.6%
Operating Margin	10.3%	7.0%	8.8%	10.1%	10.1%
EBITDA Margin	15.2%	12.1%	14.4%	15.2%	15.0%
Net Margin	5.9%	6.2%	6.9%	7.6%	7.5%
Liquidity					
Current Ratio (x)	2.3	3.6	2.9	1.8	2.0
Quick Ratio (x)	2.2	3.3	2.7	1.6	1.7
Solvency					
Debt to Equity (x)	0.4	0.3	0.2	0.1	0.1
Debt to Assets (x)	0.2	0.2	0.2	0.1	0.1
Interest Cov. (x)	2.8	2.4	4.6	15.3	33.4
Valuation					
Price to Earnings (x)	45.4	45.0	33.9	27.7	24.1
Price to Book (x)	2.8	2.7	2.1	2.3	2.2
Key assumptions					
Volume Growth (Est)	2.2%	9.1%	12.0%	12.0%	10.0%
ASP Growth (Est)	2.0%	1.0%	1.0%	5.0%	2.0%
Sales Return Rate	18.2%	17.6%	12.5%	12.0%	12.0%

Source: Company Data, Sinarmas Investment Research

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

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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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