

**Strong growth momentum maintained in 1Q20.** ROTI posted net sales of IDR 913bn (+15.3% YoY, +4.4% QoQ) in 1Q20, driven by 14% volume increase and rollover impact from last year's ASP increase. Bottom-line was recorded at IDR 78bn (+20.0% YoY, -12.8% QoQ). Overall achievement was 23% of FY20E forecast, in-line with ours and consensus'. The strong performance was delivered by both MT and GT channel which grew by 14% and 26% YoY, respectively. MT's contribution slightly inched higher to 74.4% (vs 74% in 4Q19) as company's coverage of MT outlets continuously increases and recently has reached 97.2% (vs 95% in FY19). Export market, on the other hand, was down by 19% YoY (2.8% of net sales) due to Philippines' earlier and stricter Covid-19 handling. Sales return was manageable at 11.6% to gross sales, lowest since 3Q18, indicating its success on forecasting tool implementation.

**Adjusting sales strategy amidst the pandemic.** ROTI's easily accessible products supported by its high penetration on MT retail stores and high-quality brand perception serve as the company's competitive edges during the social distancing period, in our view. The company shifts inventories to cater more demand in residential areas as traffic in schools and offices severely declined, as well as focuses on fast moving products which represent 80% of sales. The under construction factories in Banjarmasin and Pekanbaru which are expected to finish in 2020 should also serve as growth support as it would add up 10-18% of ROTI's capacity. In light of recent pandemic, the company slightly toned down top-line growth expectation to 18% YoY (vs 20% previously) and postpones 2% ASP increase towards year-end on the back of purchasing power concern, especially of those in lower end class segment. On the A&P front, company expects to maintain 8% expense to sales portion as it aims to secure demand during Ramadhan period.

**We reiterate our BUY recommendation on Nippon Indosari Corpindo (ROTI) with a target price of IDR 1,420, which implies 25.8x FY20E P/E.** In addition to company's proven recovery, we believe that given its defensive nature, ROTI would still do well amidst current uncertainties. We bake in 12%/2% growth in volume/ASP which translates to 14% EPS growth in FY20E. Future growth would be catalyzed by company's expansion to second and third tier cities, Indonesian's increasing bread consumption, and widening share in export market. Downside risks to our call are weaker than expected purchasing power, spike in raw materials prices, and delay in new factories opening.

Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	2,767	3,337	3,867	4,339	4,758
% growth	11.1%	20.6%	15.9%	12.2%	9.6%
Gross Profit	1,492	1,849	2,177	2,430	2,651
Net Profit	173	301	343	365	379
% growth	18.3%	74.3%	13.9%	6.4%	3.9%
Gross Margin (%)	53.9%	55.4%	56.3%	56.0%	55.7%
Net Margin (%)	6.2%	9.0%	8.9%	8.4%	8.0%
Return on Equity (%)	6.0%	10.0%	10.6%	10.4%	10.1%
Return on Assets (%)	3.9%	6.6%	7.4%	7.7%	7.5%
EPS (IDR)	28	49	55	59	61

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Sector	Consumer
Bloomberg Ticker	ROTI IJ
Market Cap. (IDR tn)	7.5
Share Out./Float (mn)	6,187/1,556
Current Price	1,210
52-week Target Price	1,420
Upside	17.4%

**Share Price Performance**

52W High (10/23/19)	1,395
52W Low (03/19/20)	1,070
52W Beta	0.5
YTD Change	-6.9%

**Relative Valuations**

Trailing P/E	24.8
Forward P/E	21.8
P/BV	2.4

## ROTI 1Q20 Results

(IDR Bn)	1Q19	4Q19	1Q20	YoY	QoQ	FY18	FY19	YoY	%DH	%Cons
Revenue	792	874	913	<b>15.3%</b>	<b>4.4%</b>	2,767	3,337	<b>20.6%</b>	23%	23%
Gross Profit	432	484	514	<b>19.1%</b>	<b>6.3%</b>	1,492	1,849	<b>23.9%</b>		
Operating Profit	78	103	116	<b>49.3%</b>	<b>12.4%</b>	194	357	<b>83.6%</b>		
Net Profit	65	89	78	<b>20.0%</b>	<b>-12.8%</b>	173	301	<b>74.3%</b>	23%	21%
Opex to Sales	46.6%	45.4%	45.7%			48.9%	46.6%			
Gross Margin	54.6%	55.3%	56.4%			53.9%	55.4%			
Operating Margin	9.8%	11.8%	12.7%			7.0%	10.7%			
Net Margin	8.2%	10.2%	8.5%			6.2%	9.0%			

Source: Company data, Sinarmas Investment Research

## Earnings revision

(IDR Bn)	Old		New		Changes	
	FY20	FY21	FY20	FY21	FY20	FY21
Revenue	3,929	4,408	3,867	4,339	-1.6%	-1.6%
Gross Profit	2,160	2,411	2,177	2,430	0.8%	0.8%
Operating Profit	445	519	441	506	-0.8%	-2.6%
Net Profit	335	384	343	365	2.3%	-5.0%
Gross Margin	55.0%	54.7%	56.3%	56.0%	1.3%	1.3%
Operating Margin	11.3%	11.8%	11.4%	11.7%	0.1%	-0.1%
Net Margin	8.5%	8.7%	8.9%	8.4%	0.3%	-0.3%

Source: Sinarmas Investment Research

<b>Income Statement (IDR Bn)</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021F</b>	<b>2022F</b>
<b>Revenue</b>	<b>2,767</b>	<b>3,337</b>	<b>3,867</b>	<b>4,339</b>	<b>4,758</b>
Cost of Good Sold	(1,274)	(1,488)	(1,690)	(1,909)	(2,107)
<b>Gross Profit</b>	<b>1,492</b>	<b>1,849</b>	<b>2,177</b>	<b>2,430</b>	<b>2,651</b>
Operating Expenses	(1,354)	(1,556)	(1,793)	(1,990)	(2,190)
Opex to Sales (%)	-48.9%	-46.6%	-46.4%	-45.9%	-46.0%
Other Income (Expenses)	56	64	57	65	75
<b>EBIT</b>	<b>194</b>	<b>357</b>	<b>441</b>	<b>506</b>	<b>536</b>
<b>EBITDA</b>	<b>335</b>	<b>516</b>	<b>635</b>	<b>711</b>	<b>753</b>
Net Financing Income (Expenses)	(15)	(11)	(37)	(51)	(52)
<b>EBT</b>	<b>180</b>	<b>346</b>	<b>404</b>	<b>455</b>	<b>484</b>
Tax Expenses	(60)	(111)	(121)	(136)	(145)
<b>Net Income</b>	<b>173</b>	<b>301</b>	<b>343</b>	<b>365</b>	<b>379</b>
<b>EPS (IDR)</b>	<b>28</b>	<b>49</b>	<b>55</b>	<b>59</b>	<b>61</b>

<b>Balance Sheet (IDR Bn)</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021F</b>	<b>2022F</b>
Cash & Equivalents	1,295	1,186	786	976	1,161
Trade Receivables	454	524	467	524	576
Inventories	65	84	84	96	107
Other Current Assets	63	80	93	105	115
<b>Total Current Assets</b>	<b>1,876</b>	<b>1,874</b>	<b>1,431</b>	<b>1,701</b>	<b>1,958</b>
Fixed Assets	2,222	2,540	2,747	2,824	2,846
Other Non Current Assets	295	267	361	376	429
<b>Total Assets</b>	<b>4,394</b>	<b>4,682</b>	<b>4,539</b>	<b>4,902</b>	<b>5,233</b>
Short Term Debt	41	552	52	52	52
Trade Payables	395	383	480	517	584
Other Current Liabilities	89	172	137	173	174
<b>Total Current Liabilities</b>	<b>525</b>	<b>1,107</b>	<b>668</b>	<b>742</b>	<b>810</b>
Long Term Debt	706	206	206	206	206
Other Non Current Liabilities	246	277	303	330	359
<b>Total Liabilities</b>	<b>1,477</b>	<b>1,589</b>	<b>1,177</b>	<b>1,277</b>	<b>1,375</b>
Share & APIC	1,583	1,583	1,583	1,583	1,583
Retained Earnings	1,337	1,565	1,834	2,096	2,329
Others	(3)	(55)	(54)	(54)	(54)
<b>Total Equity</b>	<b>2,917</b>	<b>3,093</b>	<b>3,362</b>	<b>3,624</b>	<b>3,857</b>
<b>Total Liabilities &amp; Equity</b>	<b>4,394</b>	<b>4,682</b>	<b>4,539</b>	<b>4,902</b>	<b>5,233</b>

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2018	2019	2020E	2021F	2022F
<b>Net Income</b>	<b>173</b>	<b>301</b>	<b>343</b>	<b>365</b>	<b>379</b>
Dep. & Amortization	129	134	193	205	216
Chg. in NWC	(2)	100	(153)	31	(5)
Chg. in Other CA	26	18	13	11	10
Chg. in Other CL	(57)	82	(35)	36	1
<b>CF from Operating</b>	<b>220</b>	<b>400</b>	<b>641</b>	<b>564</b>	<b>591</b>
Capital Expenditure	357	453	400	282	238
Chg. in LT Assets	49	(28)	94	15	52
Chg. in LT Liabilities	32	31	26	27	29
<b>CF from Investing</b>	<b>(375)</b>	<b>(394)</b>	<b>(468)</b>	<b>(270)</b>	<b>(261)</b>
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	(370)	11	(500)	-	-
Dividends Paid	29	73	75	103	146
Others	(47)	(52)	1	-	-
<b>CF from Financing</b>	<b>(446)</b>	<b>(115)</b>	<b>(573)</b>	<b>(103)</b>	<b>(146)</b>
Chg. in Cash	(601)	(109)	(400)	191	184
Beginning Cash	1,895	1,295	1,186	786	976
<b>Ending Cash</b>	<b>1,295</b>	<b>1,186</b>	<b>786</b>	<b>976</b>	<b>1,161</b>

Financial Ratio & Key Assumptions	2018	2019	2020E	2021F	2022F
<b>Profitability</b>					
Gross Margin	53.9%	55.4%	56.3%	56.0%	55.7%
Operating Margin	7.0%	10.7%	11.4%	11.7%	11.3%
EBITDA Margin	12.1%	15.5%	16.4%	16.4%	15.8%
Net Margin	6.2%	9.0%	8.9%	8.4%	8.0%
<b>Liquidity</b>					
Current Ratio (x)	3.6	1.7	2.1	2.3	2.4
Quick Ratio (x)	3.3	1.5	1.9	2.0	2.1
<b>Solvency</b>					
Debt to Equity (x)	0.3	0.2	0.1	0.1	0.1
Debt to Assets (x)	0.2	0.2	0.1	0.1	0.0
Interest Cov. (x)	2.4	5.4	5.7	5.9	5.7
<b>Valuation</b>					
Price to Earnings (x)	51.2	29.4	25.8	24.2	23.3
Price to Book (x)	3.0	2.4	2.6	2.4	2.3
<b>Key assumptions</b>					
Volume Growth (Est)	9.1%	12.4%	12.0%	10.0%	7.5%
ASP Growth (Est)	1.0%	2.0%	2.0%	2.0%	2.0%
Sales Return Rate	17.6%	13.2%	12.0%	12.0%	12.0%

Source: Company data, Sinarmas Investment Research

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