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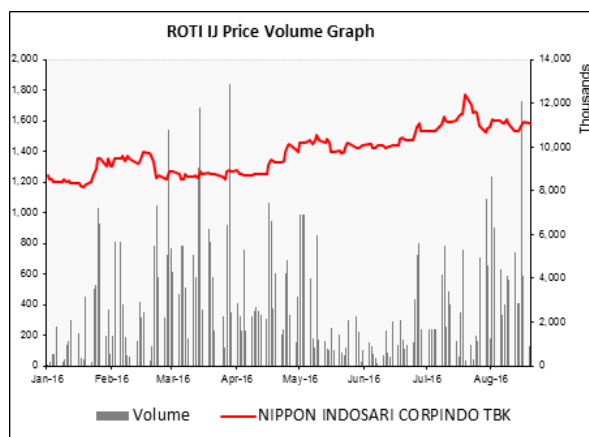


PT Nippon Indosari Corpindo Tbk produces baked goods, which are white and sweet breads, Dorayaki, mini bun and bread crumbs.

Current Price: IDR 1,560

52-Week Target Price: IDR 1,580

Previous Target Price: IDR 1,435


Company Update
PT Nippon Indosari Corpindo Tbk (ROTI)
Expecting a Flat Year
NEUTRAL

2Q16 ROTI's financial results were recorded weak, driven by seasonally weak sales during *Ramadhan* and *Lebaran* season in June, coupled with higher labor costs due to extra 1-month *Lebaran* allowance payment. Moving forward to 2H16, ROTI should come back to see stable gross margin due to lower input costs. However, risks will be on its operating level, on the back of rising operating expense. Moreover, additional costs from its Philippines JV project are estimated to occur as well in 2H16, which will then lead to flat bottom-line earnings this year. **Consequently, we downgrade our recommendation to NEUTRAL, though we increase our target price to IDR 1,560 as we factor lower WACC (10.95%) and extend our model to 10Y DCF valuation. Our TP represent a limited upside at current level and forward P/E ratio of 27.6x. Considering ROTI significant rally YTD, we also see its current valuation is fairly demanding, accounted for 28.5x P/E ratio.**

Historically 2Q weak performance. In 2Q16 alone, ROTI recorded its top and bottom-line at IDR 582bn and IDR 42.5bn. Revenue still up by 11.9% YoY, meanwhile net income down significantly by 18% YoY. Revenue growth was offset by a more significant increase in COGS (+16.1% YoY; 49.7% of revenue), which was on the back of higher salary expenses along with extra 1-month payment for *Lebaran* allowance.

Lower input costs in 2H16. Effective since July, ROTI's flour price under its 6-months flour purchase contract have gone down by 4% on average compared to 1H16. Noting that flour takes around 25% of its COGS, we expect ROTI to see stable gross margin in 2H16. We forecast its gross margin to stay at around 52% by the end of 2016.

Flat FY16E bottom-line earnings due to higher operating expenses. Despite stable gross margin, we see risks will be more on its operating level. Note that its 1H16 opex had increased by 18.7% YoY. With its opex remains high added with potential expenses appearing from its Philippines JV project, ROTI would possibly experience a flat bottom-line earnings this year.

Share Price Performance

Price (IDR)	1,560
52-Week High (07/22/16)	1,770
52-Week Low (10/15/15)	1,065
52-Week Beta	0.79
YTD Change/%	295 / 23.3%

Stock Information

Market Cap (IDR)	7,896.4 B
Shares Out/Float (M)	5,061.8 / 1,550.6 M

Financial Highlights

	2014	2015	2016F	2017F	2018F
Revenue	1,880	2,175	2,541	2,922	3,428
EBIT	299	454	450	501	563
EBITDA	395	566	586	661	744
Net Income	189	271	276	317	377
Net Income Margin	10.0%	12.4%	10.8%	10.8%	11.0%
EPS	37.3	53.4	54.5	62.5	74.5
EPS Growth	19.3%	43.5%	1.9%	14.8%	19.1%
DPS	3.1	5.5	10.7	10.9	15.6
PE Ratio	37.2	23.7	29.0	25.3	21.2
PBV Ratio	7.3	5.4	5.7	4.8	4.1

Source: Company Data, Sinarmas Investment Research

Appendix I: Financial Statements
Balance Sheet

in IDR bn	2014	2015	2016F	2017F	2018F
Cash	163	515	382	462	95
AR	213	251	282	345	407
Inventories	41	43	56	63	75
Others	4	4	44	5	6
Fixed Assets	1,680	1,821	2,110	2,350	2,518
Total Assets	2,143	2,706	2,946	3,314	3,202
Account Payables	194	296	304	383	438
ST Debt & CM	48	-	-	497	-
Other CL	66	99	95	110	128
LT Debt	788	994	994	498	498
Total Liabilities	1,189	1,518	1,535	1,643	1,232
Total Equity	954	1,189	1,410	1,672	1,969

Source: Company Data, Sinarmas Investment Research

Income Statement

in IDR bn	2014	2015	2016F	2017F	2018F
Revenue	1,880	2,175	2,541	2,922	3,428
CoGS	979	1,020	1,218	1,417	1,685
Gross Profit	901	1,155	1,323	1,505	1,743
Operating Profit	299	454	450	501	563
EBITDA	395	566	586	661	744
Pre-Tax Profit	253	378	376	422	503
Tax	64	108	100	106	126
Net Profit	189	271	276	317	377
EPS	37	53	54	63	74

Source: Company Data, Sinarmas Investment Research

Cash Flow

in IDR bn	2014	2015	2016F	2017F	2018F
Net Income	189	271	276	317	377
Depreciation	96	113	136	160	181
Working Capital	(55)	96	(82)	64	(2)
Operating CF	230	480	329	541	556
Capital Expenditure	(602)	(257)	(424)	(400)	(350)
Investing CF	(361)	(284)	(423)	(418)	(361)
Debts	179	159	-	-	(497)
Dividends	(16)	(28)	(54)	(55)	(79)
Financing CF	192	157	(40)	(42)	(563)
Net - Cash Flow	61	353	(134)	81	(368)
Beginning Cash	101	163	515	382	462
Ending Cash	163	515	382	462	95

Source: Company Data, Sinarmas Investment Research

Appendix I: Financial Statements (Con't)
Key Ratios

	2014	2015	2016F	2017F	2018F
Revenue Growth	24.9%	15.6%	16.9%	15.0%	17.3%
Operating Profit Growth	28.5%	51.9%	-0.8%	11.2%	12.4%
EBITDA Growth	33.6%	43.4%	3.4%	12.9%	12.6%
Net Income Growth	19.3%	43.5%	1.9%	14.8%	19.1%
EPS Growth	19.3%	43.5%	1.9%	14.8%	19.1%
ROE	21.8%	25.3%	21.2%	20.5%	20.7%
ROA	9.5%	11.2%	9.8%	10.1%	11.6%
Debt to Equity	87.6%	83.7%	70.5%	59.5%	25.3%
DPS	3.1	5.5	10.7	10.9	15.6

Source: Company Data, Sinarmas Investment Research

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