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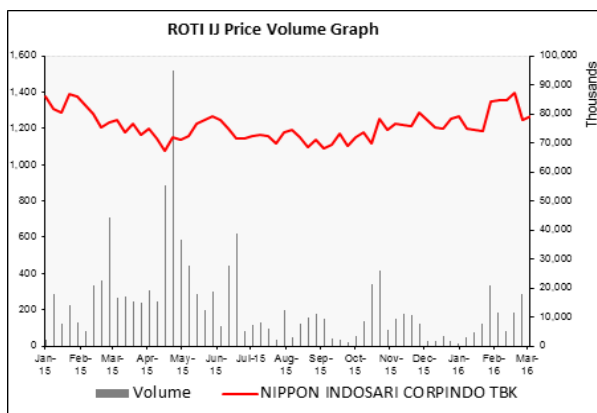


**PT Nippon Indosari Corpindo Tbk produces baked goods, which are white and sweet breads, Dorayaki, mini bun and bread crumbs.**

**Current Price: IDR 1,220**

**52-Week Target Price: IDR 1,435**

*Previous Target Price: IDR 1,475*


**Share Price Performance**

Price (IDR)	1,220
52-Week High (02/19/16)	1,420
52-Week Low (08/24/15)	1,020
52-Week Beta	0.72
YTD Change/%	-3.56%

**Stock Information**

Market Cap (IDR)	6,175.4B
Shares Out/Float (M)	5,061.8 / 1,480 M

**Company Update**
**PT Nippon Indosari Corpindo Tbk (ROTI)**
**Finding New Opportunity**
**BUY**

**ROTI's management has revealed their guidance for 2016.** ROTI FY16 sales is expected to reach IDR 2.6tn, increase by almost 20% YoY. The hike will be mainly derived from sales volume, as there is no price increase plan this year. Management forecast gross profit margin (GPM) to be quite stable, at 52 - 53% despite January contract price of flour has gone up by 4% compared to 2H15. Note that wheat price is now showing a downward trend after rising in mid January. In addition, GPM will be maintained in view of potential further energy price cut by the government (e.g. lower fuel and electricity price will lower ROTI's input costs). However, ROTI's net income margin (NIM) 2016 is expected to stand at 10.65% (shrink from 12.4% in 2015) as a result of potential increasing expenses from its Philippines expansion plan.

**Focus on general trade (GT) to reach lower sales return rate.** Last year, ROTI's revenue are still dominated by modern trade (accounted for about 76%) as modern trade channels (e.g. minimarkets) grow more rapidly. ROTI aims to encourage general trade proportion to 30% this year by appointing one experienced head of general trade sales. Previously, it only had one person in charge of both modern and general trade sales. This strategy is targeted to bring down its sales return level to around 12% (vs 13.5% in 2015), which could positively maintain its profitability.

**ROTI goes to Philippines.** ROTI has just announced its most recent expansion plan, to built and manufacture bread products in Philippines. To realize this, ROTI has signed a JV agreement with Monde Nissin Corporation (MNC), a leading manufacture and distributor of food products there. ROTI will invest USD 6.8mn and hold 55% of the JV, as the rest will be owned by MNC. Though we are agree that Philippines will offer a new potential market, we are still neutral on this as it could burden ROTI's financial position in short-term period.

**We maintain our BUY recommendation on PT Nippon Indosari Corpindo Tbk (ROTI) with our 52-week target price of IDR 1,435/sh (dn from our previous TP at IDR 1,475/sh), offering a potential upside of 17.6% from the current price. Currently, ROTI is traded at 25.1x P/E ratio.**

Financial Highlights	2013	2014	2015E	2016F	2017F
Revenue (IDR bn)	1,506	1,880	2,174	2,556	2,939
EBIT (IDR bn)	232	299	428	476	527
EBITDA (IDR bn)	296	395	530	583	640
Net Income (IDR bn)	158	189	270	290	329
EPS (IDR)	31.2	37.3	53.2	57.4	65.0
Net Income Margin (%)	10.5	10.0	12.8	11.4	11.2
EPS Growth (%)	5.9	19.3	47.3	4.5	13.4
DPS (IDR)	36.8	3.1	9.3	13.7	14.3
PE Ratio (x)	32.7	37.2	26.5	21.7	19.9

Source: Company Data, Sinarmas Investment Research

**ROTI FY15 Unaudited Results**

(in IDR mn)	2014	2015U	Growth
Revenue	1,880	2,174	15.6%
Gross Profit	901	1,152	27.8%
GPM	47.9%	53.0%	10.54%
OpEx	(639)	(763)	19.4%
Opex ratio	-34.0%	-35.10%	
EBIT	299	428	43.4%
EBIT Margin	15.9%	19.70%	
Net Income	189	270	42.9%
NIM	10.0%	12.40%	
EPS (in IDR)	37	53	43.2%

Source: Company, Sinarmas Investment Research

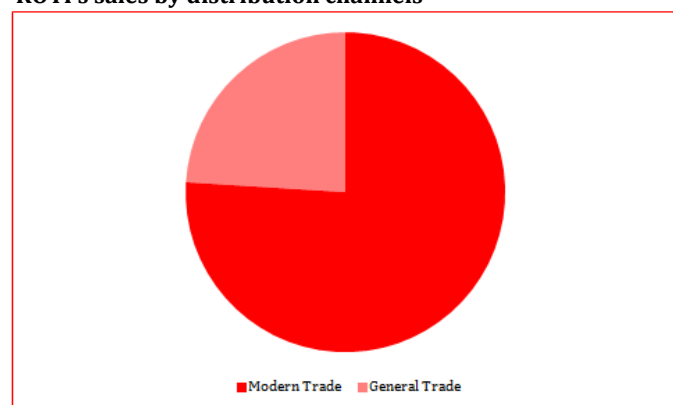
**ROTI 2016 Guidance**

	2015	2016F
Sales (in IDR mn)	2,174	2,600
GPM	53%	52.5 - 53%
OpEx	35%	35%
OPM	18%	18%
NM	12.4%	10.65%

Source: Company, Sinarmas Investment Research

The management has revealed ROTI FY15 Unaudited results and guidance for 2016. Last year has been a bright year for ROTI as it successfully recorded robust performance and profitability amidst the economy slowdown. Its profitability increased significantly with GPM and NIM stood at 53% and 12.4% respectively, mainly due to lower input costs.

For 2016, management expects its top-line to grow by about 20% YoY, most derived from increasing sales volume as there is no selling price hike plan. GPM is expected to be stable at 52.5 - 53% on the back of maintainable low input costs, such as flour price along with utilities costs. However, bottom-line is predicted to shrink, translated to a 10.65% NIM for this year, due to potential drag down from its expansion plans.

**ROTI's strategy for 2016**
**ROTI's sales by distribution channels**


Source: Company, Sinarmas Investment Research

Per 2015, ROTI's sales are contributed by modern trade and general trade with proportion of 76% : 24%, as the result of modern trade channels (minimarkets) have grown more rapidly. Starting this year, ROTI aims to encourage general trade contribution to 30% in order to lower sales return rate. It expects around 12 - 13% sales return rate in 2016, decline from 13.5% the previous year. We believe lower sales return will help ROTI to maintain its margin.

This year, ROTI will allocate capital expenditure totaling IDR 332bn, with about IDR 200bn used to build infrastructures in handling its expired breads, as the rest will be used for maintenances. Currently owning 60 production lines, ROTI does not plan to add any factory or production lines this year, however considering to add one more factory in 2017 (possibly Kalimantan). For its Philippines expansion, ROTI will allocate about IDR 91bn for its factory establishment with two production lines (one sweet and one white).

### **ROTI goes to Philippines**

ROTI has announced its newest expansion plan to Philippines by establishing a joint venture (JV) with Monde Nissin Corporation (MNC), one of the leading manufacturer and distributor of food products in Philippines. In the agreement, ROTI will inject USD 6.8mn investment and own 55% of the JV. The construction of new factory with two production lines (one sweet and one white) will start from 2Q16 and expected to begin its commercialization at 2Q17. The JV will focus in production as distribution will be handed to its local partner, who owns a strong distribution channels there.

### **Why Philippines could be a good destination?**

Management is very positive on the expansion plan as Philippines is the second largest country in ASEAN after Indonesia with a huge population base with rising middle income class, which will provide potential new market for ROTI. Moreover, bread products players in Philippines are very fragmented, as its number one player only owns 11.3% market share in 2014. Other critical factor lies on its JV partner, Monde Nissin, which is one of the biggest and most experienced player in Philippines food industry, equipped with strong distribution channels.

**We view this expansion plan will raise near-term risks for ROTI, in term of rising expenses at its construction stage as well as early stage of its operations. Therefore, it will potentially tighten ROTI's financial position in the near term, before generating positive contributions in a longer period.**

**Appendix I: Financial Statements**

Balance Sheet (in IDR bn)	2013	2014	2015F	2016F	2017F
Cash	101	163	431	359	462
AR	183	213	278	327	367
Inventories	37	41	48	55	60
Others	43	4	4	5	7
Fixed Assets	1,175	1,680	1,778	2,095	2,282
<b>Total Assets</b>	<b>1,823</b>	<b>2,143</b>	<b>2,588</b>	<b>2,896</b>	<b>3,244</b>
Account Payables	277	194	217	260	292
ST Debt & CM	-	48	-	-	497
Other CL	43	66	77	88	101
LT Debt	656	788	993	993	497
<b>Total Liabilities</b>	<b>1,035</b>	<b>1,183</b>	<b>1,397</b>	<b>1,484</b>	<b>1,576</b>
<b>Total Equity</b>	<b>787</b>	<b>960</b>	<b>1,191</b>	<b>1,412</b>	<b>1,668</b>

Income Statement (in IDR bn)	2013	2014	2015F	2016F	2017F
<b>Revenue</b>	<b>1,506</b>	<b>1,880</b>	<b>2,174</b>	<b>2,556</b>	<b>2,939</b>
CoGS	807	979	1,022	1,227	1,433
Gross Profit	699	901	1,152	1,329	1,507
<b>Operating Profit</b>	<b>232</b>	<b>299</b>	<b>428</b>	<b>476</b>	<b>527</b>
EBITDA	296	395	530	583	640
<b>Pre-Tax Profit</b>	<b>211</b>	<b>253</b>	<b>370</b>	<b>387</b>	<b>439</b>
Tax	53	64	93	97	110
<b>Net Profit</b>	<b>158</b>	<b>189</b>	<b>278</b>	<b>290</b>	<b>329</b>
EPS	31.2	37.3	54.9	57.4	65.0

**Appendix I: Financial Statements**

Cash Flow (in IDR bn)	2013	2014	2015E	2016F	2017F
<b>Net Income</b>	<b>158</b>	<b>189</b>	<b>278</b>	<b>290</b>	<b>329</b>
Depreciation	63	96	102	107	113
Working Capital	50	(55)	(39)	(1)	(3)
<b>Operating CF</b>	<b>271</b>	<b>230</b>	<b>340</b>	<b>397</b>	<b>439</b>
Capital Expenditure	(345)	(602)	(200)	(424)	(300)
<b>Investing CF</b>	<b>(537)</b>	<b>(361)</b>	<b>(206)</b>	<b>(432)</b>	<b>(310)</b>
Debts	353	179	158	-	-
Dividends	(37)	(16)	(47)	(69)	(73)
<b>Financing CF</b>	<b>329</b>	<b>192</b>	<b>133</b>	<b>(37)</b>	<b>(26)</b>
Net - Cash Flow	63	61	268	(72)	103
Beginning Cash	38	101	163	431	359
<b>Ending Cash</b>	<b>101</b>	<b>163</b>	<b>431</b>	<b>359</b>	<b>462</b>

Key Ratios (%)	2013	2014	2015E	2016F	2017F
Revenue Growth	26.4%	24.9%	15.6%	17.6%	15.0%
Operating Profit Growth	16.5%	28.5%	43.3%	11.2%	10.8%
EBITDA Growth	22.9%	33.6%	34.0%	10.1%	9.9%
EPS Growth	5.9%	19.3%	47.3%	4.5%	13.4%
ROE	21.7%	21.6%	25.8%	22.3%	21.4%
ROA	10.4%	9.5%	11.7%	10.6%	10.7%
Debt to Equity	83.4%	87.0%	83.4%	70.4%	59.5%
DPS (IDR)	36.83	3.12	9.31	13.72	14.34

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