

1st November 2011

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COMPANY UPDATE

## PT Nippon Indosari Corpindo Tbk

### Top line growth remains strong

**BUY**

An improvement in the utilization level of its factories, especially in Medan and Semarang, resulted in a strong third quarter result with 9M2011 sales (+30.5% YoY) or a total of IDR 560 billion—reaching 70.4% of our FY2011 estimate, whereas net profit (+13.4% YoY) to IDR 71.7 billion—58% of our FY2011 estimate, which is lower than our expectations due to reduced operating margin. We have decreased slightly our FY2011E, FY2012 & 2013F of operating margin to 18.6% - 19.6%.

#### We expect profit margin to improve in 4Q2011

Operating margin dropped to 16.8% as of 3Q2011 compared to 20.6% in 3Q2010. The decline was caused by higher return rate of expired/defective inventories from the two new factories opened in 2011. However, we are confident that operating margin should return to our revised forecast of 18.6%-19.6% as the management has started to address the issue by improving communication with its distribution partners to ensure faster delivery and by revising the sales incentive plan to reduce the return rate. In addition, we still see that the cost of raw materials to remain subdued due to weaker global economy. Therefore we are confident that net profit margin should return to 13.8%-14.6% level.

#### Growth catalyst is still intact

The company aggressive expansion plan to open new factories nationwide is on track. Cibitung factory is to be completed by December 2011, whereas Makassar and Balikpapan factories are scheduled to start operating by Q32012 & Q42012 respectively. The addition of new factories will provide ROTI with the platform for higher revenue growth due to the increase product penetration and greater exposure to consumer. Utilization has improved significantly on ROTI new factories opened in 2011, which is in Medan—rose to 43% and Semarang—rose to 77% which shows that demand on those area is high. Therefore we are confident that its growth prospect is intact and should continue to be reflected by strong top line growth.

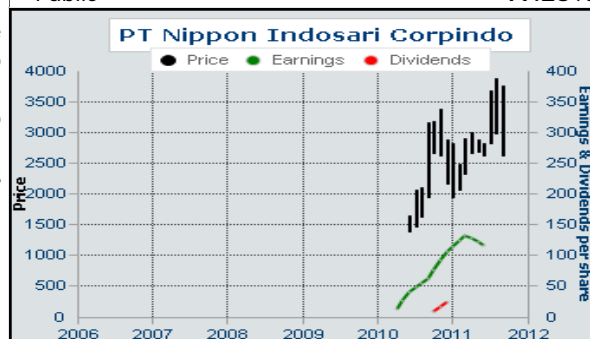
#### Upgrading valuation to IDR 4,100 with BUY rating

We have revised down the operating margin to 18.6%-19.6% for our FY 2011E and 2012 & 2013F, as costs related to opening up new factories and marketing campaign initially will reduce operating margin slightly; However, we remain confident that with the company's aggressive expansion plan, top line growth will remain strong. We forecast revenue to grow by 30.9% CAGR by 2013; therefore we have updated our valuation on ROTI at IDR 4,100.

Ticker: ROTI

#### Stock Data

Sector	Consumer Goods
Price (1st November 2011)	3,425
Target Price 2012	4,100
EPS 2011E	115
EPS 2012F	147
EPS 2013F	190
Market Cap (IDR)	3.5 T
Issued Shares (mil)	1012.4
Earnings Multiple:	
P/E 2011— Estimate	30
P/E 2012— Forecast	23
P/E 2013— Forecast	18
Five Years Average (annualized historical)	
Sales Growth (%)	25
Net Profit Growth (%)	54
ROE (%)	24
Dividend Payout Ratio (%)	N/A
Shareholders	
Bonlight Investments Limited	34%
Treasure East Investment Ltd	34%
Shikishima Baking Co Ltd	8.5%
Sojitz Corporation	4.25%
Public	19.25%



Source: www.corporateinformation.com

REVENUE FORECAST	2011F	2012F	2013F
Revenue (IDR in bn)	796	1,074	1,364
Gross Margin (%)	47.7	47.9	46.5
Revenue Growth (%)	30	35	27

<i>Fiscal Year End</i>	2009	2010	2011E	2012F	2013F
<b>Income Statement (bn)</b>					
<b>Sales Revenue</b>	<b>486</b>	<b>612</b>	<b>796</b>	<b>1,074</b>	<b>1,364</b>
Cost of Goods Sold	264	323	416	560	730
<b>Gross Profit</b>	<b>222</b>	<b>289</b>	<b>380</b>	<b>515</b>	<b>634</b>
Operating Expenses	134	163	223	314	375
<b>Operating Income</b>	<b>88</b>	<b>126</b>	<b>156</b>	<b>200</b>	<b>259</b>
<b>EPS</b>	<b>56</b>	<b>99</b>	<b>115</b>	<b>147</b>	<b>190</b>
Net Interest Income (Expenses)	(11)	(5)	-	-	-
Other Income (Expenses)	3	14	6	7	8
<b>Income Before Tax</b>	<b>80</b>	<b>135</b>	<b>161</b>	<b>207</b>	<b>267</b>
Income Tax Expense	23	35	45	58	75
Minority Interest	0	0	0	0	0
<b>Net Income</b>	<b>57</b>	<b>100</b>	<b>117</b>	<b>149</b>	<b>192</b>
<b>Balance Sheet (bn)</b>					
Cash & Cash Equivalents	58	121	93	76	53
Account Receivables	53	76	87	117	150
Inventories	9	10	16	23	29
Other Current Assets	18	7	18	19	30
Net Fixed Assets	205	346	457	613	744
Total Non-Current Assets	209	355	480	645	785
<b>Total Assets</b>	<b>347</b>	<b>568</b>	<b>694</b>	<b>880</b>	<b>1,047</b>
Current Liabilities	95	93	124	179	186
Long-Term Liabilities	84	20	23	35	42
<b>Total Liabilities</b>	<b>179</b>	<b>113</b>	<b>147</b>	<b>215</b>	<b>228</b>
Shareholder's Equity	168	455	547	665	819
Minority Interest	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>347</b>	<b>568</b>	<b>694</b>	<b>880</b>	<b>1,047</b>
<b>Cash Flow (bn)</b>					
<b>Operating Cash flow</b>	<b>56</b>	<b>114</b>	<b>150</b>	<b>205</b>	<b>204</b>
Net Capex	(20)	(163)	(141)	(196)	(186)
Other Investing Items	(13)	14	(14)	(8)	(9)
<b>Free Cash Flow</b>	<b>23</b>	<b>(35)</b>	<b>(5)</b>	<b>1</b>	<b>9</b>
Dividends paid	-	-	(25)	(30)	(39)
Other financing items	(18)	97	3	12	7
<b>Net Cash Flow</b>	<b>5</b>	<b>62</b>	<b>(28)</b>	<b>(17)</b>	<b>(22)</b>
<b>DPS (1+actual year) in Rupiah</b>	<b>-</b>	<b>-</b>	<b>25</b>	<b>30</b>	<b>38</b>
<b>KEY RATIO</b>					
Sales Growth (%)	27	26	30	35	27
Net Profit Growth (%)	35	75	17	28	29
Operating Margin (%)	18	20	19.6	18.6	19
Payout Ratio (%)	-	-	25	26	26
Acid-Test Ratio (%)	1.2	2.1	1.4	1.1	1.1
ROE (%)	38	32	23	25	26
P/E	-	36	30	23	18
P/BV	-	8	6	5	4
ROA (%)	17	22	19	19	20

PT Nippon Indosari recently launched new products:



Few of PT Nippon Indosari flagship products:



Source: [www.sariroti.com](http://www.sariroti.com)

**Historical recommendation and valuation: PT Nippon Indosari Corpindo Tbk**

Date	Coverage	Recommendation	Valuation
18/8/2010	Initiation	Buy	IDR 1,800
18/2/2011	Update	Buy	IDR 3,000
19/7/2011	Update	Overweight	IDR 3,800
1/11/2011	Update	Buy	IDR 4,100

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