

**We lower our rating on PT Sido Muncul Tbk (SIDO) from BUY to ADD with end-of-FY20 TP of IDR 1,340.** Our TP is derived from FY20F PE of 23.5x (+1.5SD from its 2-year average PE) as we expect SIDO to trade at this range post improvement in the profitability that has been going on since FY18. We forecast SIDO's ROE to reach 26.3%/25.9% in FY19E/20F (vs 22.9% in FY18). Our downgrade is mainly due to the limited upside potential from current market price as most of the positive news have already priced in the 46.4% YTD share appreciation.

**Robust 9M19 results.** As of 9M19, SIDO posted IDR 2.1tn revenue (+9.5% YoY) while net income came in at IDR 578bn (+20.5% YoY), translated to 27.2% NPM or jumped by 250bps YoY. GPM rose to 54.4% (vs 50.8% in 9M18) on better production efficiency coming from the commercialization of COD II plant coupled with ASP hike for several of its F&B products in 2Q19-3Q19. Combined with manageable opex to revenue of 20.6% (vs 21% in 9M18), SIDO's EBIT margin expanded by 410bps to 33.8%.

**Segments breakdown.** SIDO's 9M19 top-line growth was supported by all segments with pharmacy, herbal, and F&B posting 19.8%, 11.8% and 3.2% YoY growth respectively. Margin wise, Herbal's GPM kept on expanding to 65.3% in 3Q19 (vs 64.5% in 2Q19) due to cost saving from COD II operations. Meanwhile, F&B's GPM remained strong at 36.8% in 3Q19, on lower raw material prices and ASP increases.

**Visible growth however margin expected to normalize.** SIDO may still see potential revenue growth as its COD II plant has only been operated since Feb-19. This should enable SIDO to further penetrate both domestic and export market. Top-line will also be supported by overseas expansions that currently is still in the early stage, shown by 5% export portion to total sales as of 9M19. While growth may continue, we assess SIDO's GPM and OPM to normalize at ~54%/34% level as it has already seen 8.4%/9.5% GPM/OPM expansion since end-of-2017 due to the deletion of royalty fee paired with production efficiency.

**Higher earnings on a more favorable GPM.** We are now seeing higher GPM for SIDO at 54.4%/54.0% for FY19E/20F backed by production efficiency. This should translate to higher bottom-line earnings of IDR 796.9bn/846.8bn for FY19E/20F (+11% from our initial forecasts).

Highlights (IDR Bn)	2017	2018	2019E	2020F	2021F
Revenue	2,574	2,763	2,986	3,224	3,462
% growth	0.5%	7.4%	8.1%	7.9%	7.4%
Gross Profit	1,185	1,424	1,623	1,741	1,870
Net Profit	534	664	797	847	906
% growth	11.1%	24.4%	20.0%	6.3%	6.9%
Gross Margin (%)	46.0%	51.5%	54.4%	54.0%	54.0%
Net Margin (%)	20.7%	24.0%	26.7%	26.3%	26.2%
Return on Equity (%)	18.9%	22.9%	26.3%	25.9%	26.1%
Return on Assets (%)	17.4%	20.4%	23.3%	23.3%	23.2%
EPS (IDR)	36	45	54	57	61

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Sector	Consumer Staples
Bloomberg Ticker	SIDO IJ
Market Cap. (IDR tn)	18.5
Share Out./Float (mn)	15,500/2,850
Current Price	1,230
End-of-FY20 Target Price	1,340
Upside (%)	8.9%

**Share Price Performance**

52W High (09/03/19)	1,300
52W Low (01/23/19)	750
52W Beta	0.5
YTD Change (%)	46.4%

**Relative Valuations**

Trailing P/E	24.0x
Forward P/E	21.6x
P/BV	5.8x
EV/EBITDA	16.8x

## 3Q19 Earnings Summary

(IDR Bn)	3Q18	2Q19	3Q19	YoY	QoQ	9M18	9M19	YoY	%Est	%Cons
Revenue	670	696	719	7.3%	3.2%	1,944	2,129	9.5%	72.7%	68.9%
Gross Profit	351	380	400	14.0%	5.3%	987	1,158	17.4%		
Operating Profit	220	209	253	15.2%	20.9%	578	720	24.4%		
Net Profit	188	165	204	8.5%	23.6%	480	578	20.5%	80.6%	74.5%
Opex to Sales	-19.6%	-24.5%	-20.5%			-21.0%	-20.6%			
Gross Margin	52.4%	54.6%	55.7%			50.8%	54.4%			
Operating Margin	32.8%	30.1%	35.2%			29.8%	33.8%			
Net Margin	28.1%	23.7%	28.4%			24.7%	27.2%			

Source: Company Data, Sinarmas Investment Research

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<b>Income Statement (IDR Bn)</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020F</b>	<b>2021F</b>
<b>Revenue</b>	<b>2,574</b>	<b>2,763</b>	<b>2,986</b>	<b>3,224</b>	<b>3,462</b>
Cost of Good Sold	(1,389)	(1,339)	(1,363)	(1,483)	(1,592)
<b>Gross Profit</b>	<b>1,185</b>	<b>1,424</b>	<b>1,623</b>	<b>1,741</b>	<b>1,870</b>
Operating Expenses	(559)	(617)	(631)	(684)	(741)
Opex to Sales (%)	-21.7%	-22.3%	-21.1%	-21.2%	-21.4%
Other Income (Expenses)	14	17	19	19	21
<b>EBIT</b>	<b>640</b>	<b>824</b>	<b>1,011</b>	<b>1,076</b>	<b>1,150</b>
<b>EBITDA</b>	<b>594</b>	<b>726</b>	<b>859</b>	<b>910</b>	<b>970</b>
Net Financing Income (Expenses)	42	44	52	53	57
<b>EBT</b>	<b>682</b>	<b>868</b>	<b>1,063</b>	<b>1,129</b>	<b>1,207</b>
Tax Expenses	(148)	(204)	(266)	(282)	(302)
<b>Net Income</b>	<b>534</b>	<b>664</b>	<b>797</b>	<b>847</b>	<b>906</b>
<b>EPS (IDR)</b>	<b>36</b>	<b>45</b>	<b>54</b>	<b>57</b>	<b>61</b>

<b>Balance Sheet (IDR Bn)</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020F</b>	<b>2021F</b>
Cash & Equivalents	903	806	779	846	956
Trade Receivables	432	415	448	493	527
Inventories	268	311	330	353	375
Other Current Assets	27	16	50	35	39
<b>Total Current Assets</b>	<b>1,629</b>	<b>1,548</b>	<b>1,606</b>	<b>1,727</b>	<b>1,896</b>
Fixed Assets	1,215	1,553	1,640	1,738	1,847
Other Non Current Assets	314	237	250	298	287
<b>Total Assets</b>	<b>3,158</b>	<b>3,338</b>	<b>3,496</b>	<b>3,763</b>	<b>4,030</b>
Short Term Debt	-	-	-	-	-
Trade Payables	136	189	159	174	189
Other Current Liabilities	73	179	124	157	184
<b>Total Current Liabilities</b>	<b>209</b>	<b>368</b>	<b>283</b>	<b>332</b>	<b>373</b>
Long Term Debt	-	-	-	-	-
Other Non Current Liabilities	54	67	50	66	71
<b>Total Liabilities</b>	<b>262</b>	<b>435</b>	<b>333</b>	<b>398</b>	<b>444</b>
Share & APIC	2,206	2,206	2,206	2,206	2,206
Retained Earnings	750	755	1,016	1,218	1,439
Others	(60)	(59)	(59)	(59)	(59)
<b>Total Equity</b>	<b>2,896</b>	<b>2,903</b>	<b>3,163</b>	<b>3,365</b>	<b>3,586</b>
<b>Total Liabilities &amp; Equity</b>	<b>3,158</b>	<b>3,338</b>	<b>3,496</b>	<b>3,763</b>	<b>4,030</b>

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2017	2018	2019E	2020F	2021F
<b>Net Income</b>	<b>534</b>	<b>664</b>	<b>797</b>	<b>847</b>	<b>906</b>
Dep. & Amortization	61	62	62	63	64
Chg. In NWC	64	144	(171)	(6)	(17)
<b>CF from Operating</b>	<b>658</b>	<b>870</b>	<b>688</b>	<b>905</b>	<b>953</b>
Capital Expenditure	(224)	(400)	(149)	(161)	(173)
Chg. in LT Assets	(172)	78	(13)	(48)	11
Chg. in LT Liabs	40	13	-16	16	5
<b>CF from Investing</b>	<b>(357)</b>	<b>(310)</b>	<b>(179)</b>	<b>(193)</b>	<b>(158)</b>
Chg. in Share & APIC	0	0	-	-	-
Chg. in Debt	-	-	-	-	-
Dividends Paid	(387)	(432)	(537)	(644)	(685)
Others	(9)	(226)	0	(0)	0
<b>CF from Financing</b>	<b>(396)</b>	<b>(657)</b>	<b>(537)</b>	<b>(644)</b>	<b>(685)</b>
Chg. in Cash	(94)	(97)	-27	67	111
Beginning Cash	997	903	806	779	846
<b>Ending Cash</b>	<b>903</b>	<b>806</b>	<b>779</b>	<b>846</b>	<b>956</b>

Financial Ratio & Key Assumptions	2017	2018	2019E	2020F	2021F
<b>Profitability</b>					
Return on Equity	18.9%	22.9%	26.3%	25.9%	26.1%
Return on Assets	17.4%	20.4%	23.3%	23.3%	23.2%
Gross Margin	46.0%	51.5%	54.4%	54.0%	54.0%
Operating Margin	24.9%	29.8%	33.9%	33.4%	33.2%
EBITDA Margin	23.1%	26.3%	28.8%	28.2%	28.0%
Net Margin	20.7%	24.0%	26.7%	26.3%	26.2%
<b>Liquidity</b>					
Current Ratio (x)	7.8	4.2	5.7	5.2	5.1
Quick Ratio (x)	6.4	3.3	4.3	4.0	4.0
<b>Solvency</b>					
Debt to Equity (x)	0.0	0.0	0.0	0.0	0.0
Debt to Assets (x)	0.0	0.0	0.0	0.0	0.0
Interest Cov. (x)	na	na	na	na	na
<b>Valuation</b>					
Price to Earnings (x)	34.3	27.6	23.0	21.6	20.2
Price to Book (x)	6.3	6.3	5.8	5.4	5.1

Source: Company Data, Sinarmas Investment Research

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