

PT. Nippon Indosari Corpindo, Tbk.

BUY

Investment Considerations

Fresh Funds from Rights

ROTI has fresh fund from a rights issue in October. Proceeds amounting to IDR. 1.43 trillion will be used for expanding. ROTI plans to build 5 - 6 new plants in Java / Sumatera / Kalimantan in the next 5 years and add some production lines to existing plants. Meanwhile progress of the Sari Monde Corporation plant in the Philippines is in line with management projections, and the plant will start operating in the first quarter of 2018.

New Segments for Supporting

In November 23rd 2017, ROTI signed a conditional share subscription agreement with PT Prima Top Boga (PTB). With the 51% acquisition of PTB, ROTI will expand into a new segment, frozen dough for bread and cakes. Most of PTB's product sales are modern trade and institutional. Frozen dough for bread and cakes has strong growth potential and should support group business activity in the future.

Expecting Higher in 4Q2017

As the peak season for ROTI is in the fourth quarter, we estimate 4Q2017 will be better than the previous quarter and drive revenue to IDR. 2.48 trillion in 2017F. This significant improvement in sales confirm business has normalized and is on the path to recover from the weaker performance in the 1st Half 2017. To boost revenue and maintain market share, ROTI is releasing new products. As of December 2016, ROTI has 55 SKU and plans to launch 45 more in 2017 bringing the total to 100 by year end. We target ROTI net income 2017F will reach IDR. 155 billion and grow in 2018F to IDR. 183 billion.

Valuation: TP 1,520 with 20% Upside

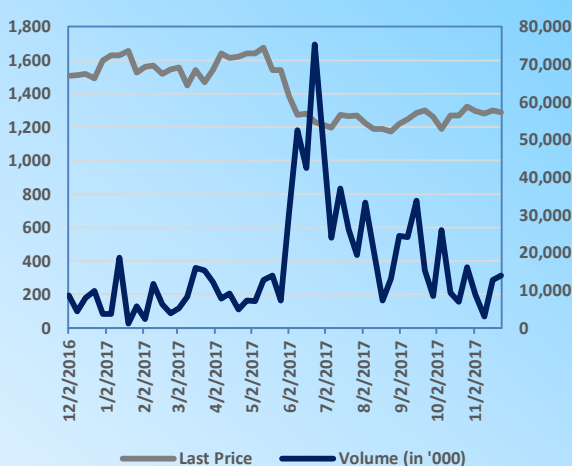
Using a DCF valuation with WACC at 9.03%, we estimate ROTI shares will rise by 20% to IDR. 1,520 within a year. BUY

| Income Statement (in IDR Mn) | 2014 A | 2015 A | 2016 A | 2017 F | 2018 F |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|
| Net Sales | 1,880,263 | 2,174,502 | 2,521,921 | 2,479,712 | 2,975,219 |
| Cost of Sales | (978,841) | (1,019,511) | (1,220,833) | (1,190,262) | (1,437,031) |
| Gross Profit | 901,422 | 1,154,990 | 1,301,088 | 1,289,450 | 1,538,188 |
| Operating Expense | (602,698) | (701,332) | (858,043) | (1,016,682) | (1,219,840) |
| Operating income | 298,724 | 453,658 | 443,045 | 272,768 | 318,348 |
| Other Income | (45,867) | (75,407) | (73,628) | (74,391) | (74,380) |
| PBT | 252,857 | 378,252 | 369,417 | 198,377 | 243,968 |
| Taxes | (64,185) | (107,713) | (89,639) | (49,594) | (60,992) |
| NIAT | 188,672 | 270,539 | 279,777 | 148,783 | 182,976 |
| Minority Interest | 0 | 0 | 184 | 5,913 | 0 |
| Net Profit | 188,672 | 270,539 | 279,961 | 154,696 | 182,976 |
| EPS (IDR) | 37.27 | 53.45 | 55.31 | 25.00 | 29.58 |
| EBITDA | 392,838 | 581,118 | 576,701 | 396,717 | 457,373 |

Source: Company & Binaartha

4 December 2017
Consumer Goods, Equity

| | | |
|------------|-----|-----------|
| Price | IDR | 1,270 |
| Target | IDR | 1,520 |
| JKSE Index | | 5,952.138 |



Stock code

| | |
|------------------------|---------|
| Bloomberg code | ROTI IJ |
| Market cap (in Bn) | 7,887.8 |
| 52-week high | 1,750 |
| 52-week low | 1,145 |
| 6-m avg.dail.val (IDR) | 1,260 |
| Free Float (%) | 29.7 |

Major Share Holders (%)

| | |
|------------------------------------|------|
| Controlling Founding Share Holders | 55.1 |
| KKR | 15.2 |
| Public | 29.7 |

USD/IDR-YE

| | |
|----------------|--------|
| 2016 | 13,795 |
| 2017F (6m-avg) | 13,390 |

Key Indicators

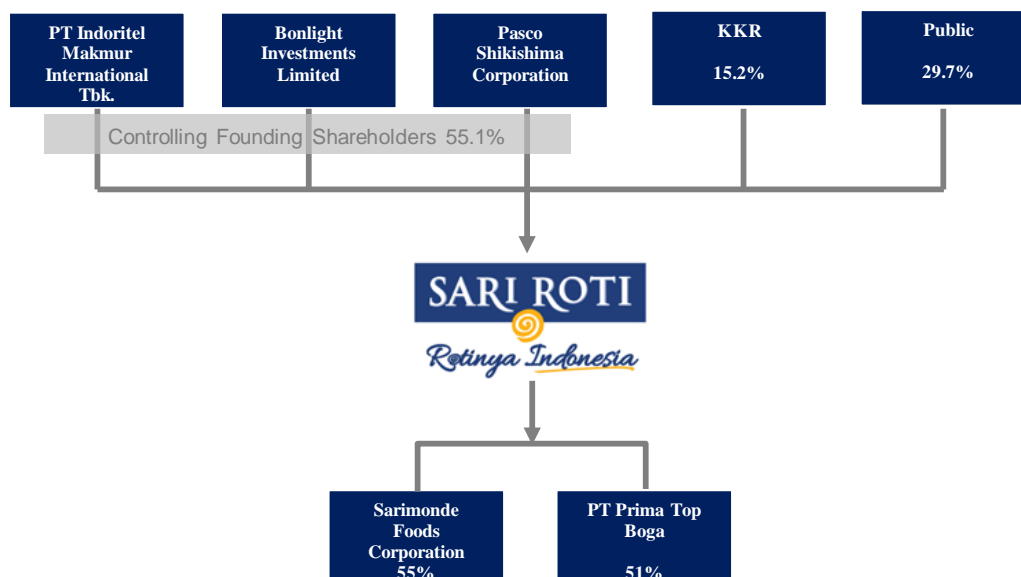
| | |
|--------------------------|------|
| 2018F | |
| ROE (%) | 5.8 |
| Tot. Debt/Tot Equity (x) | 0.53 |
| Current ratio (x) | 2.72 |

Company Profile

PT. Nippon Indosari Corpindo (ROTI) was established as a foreign investment company in 1995, with its first plant named Blok W, in Jababeka Industrial Estate, in Cikarang. To expand its business, in 2005, the company opened its second plant located in Pasuruan, East Java, and in 2008, a third plant in Cikarang was established. PT. Nippon Indosari Corpindo listed as a public company on the Indonesian Stock Exchange on June 28, 2010. As of September 2015 ROTI has 10 plants with a total capacity of 4.2 mn pieces of bread per day. The company's brand namely Sari Roti is very famous, and consistently has a market share of 70% or more among the top brands. Comparing to its competitors, ROTI has an advantage in raw material cost, thus, giving ROTI an edge in pricing its products competitively. ROTI currently has 55 SKUs with a wide range of variants at different price levels.

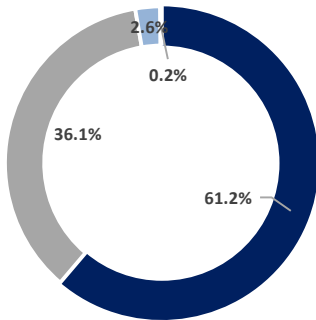
As of February 2016, ROTI set up a Joint Venture with Monde Nissin Corporation (MNC) to build a bread factory in the Philippines as part of their expansion. MNC is a leading manufacturer and distributor of food products in the Philippines. In November 2017, ROTI expanded into frozen dough for bread and cakes by signing a conditional share subscription agreement with PT Prima Top Boga.

Company Structure



Source: Company

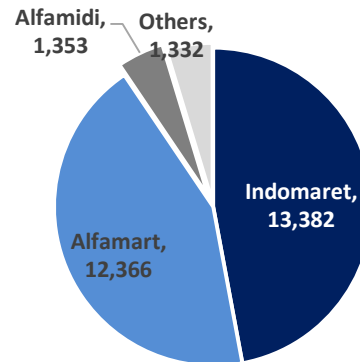
Chart: Revenue Breakdown 9M2017



■ Roti Tawar Sari Roti ■ Roti Manis Sari Roti ■ Kue Sari ■ Lain - Lain

Source: Company

Chart: Outlets Modern Trade 1H2017



Source: Company

Table: Income Statement in IDR. Million QoQ

| Income Statement QoQ (in IDR Mn) | 1Q2016 | 1Q2017 | % | 1H2016 | 1H2017 | % | 9M2016 | 9M2017 | % |
|-----------------------------------|----------------|----------------|-------------|------------------|------------------|-------------|------------------|------------------|-------------|
| Net Sales | 610,977 | 602,977 | -1% | 1,193,105 | 1,183,650 | -1% | 1,837,251 | 1,825,291 | -1% |
| Cost of Sales | (286,813) | (303,492) | 6% | (575,922) | (580,652) | 1% | (886,918) | (881,323) | -1% |
| Gross Profit | 324,163 | 299,485 | -8% | 617,183 | 602,998 | -2% | 950,333 | 943,968 | -1% |
| Operating Expense | (191,914) | (244,574) | 27% | (410,892) | (506,081) | 23% | (626,481) | (765,376) | 22% |
| Operating income | 132,249 | 54,911 | -58% | 206,291 | 96,917 | -53% | 323,853 | 178,592 | -45% |
| Other Income | (17,860) | (17,237) | -3% | (36,534) | (34,771) | -5% | (55,053) | (54,050) | -2% |
| PBT | 114,389 | 37,673 | -67% | 169,757 | 62,146 | -63% | 268,800 | 124,541 | -54% |
| Taxes | (28,045) | (9,926) | -65% | (40,860) | (15,902) | -61% | (64,892) | (33,103) | -49% |
| NIAT | 86,345 | 27,748 | -68% | 128,897 | 46,244 | -64% | 203,908 | 91,438 | -55% |
| Minority Interest | 0 | 2,173 | - | (98) | 3,598 | -3784% | (214) | 5,913 | -2866% |
| Net Profit | 86,345 | 29,920 | -65% | 128,799 | 49,842 | -61% | 203,694 | 97,352 | -52% |
| EPS (IDR) | 17 | 6 | -65% | 25 | 10 | -61% | 40 | 19 | -52% |

Source: Company

Table: Income Statement in IDR. Million YoY

| Income Statement (in IDR Mn) | 2014 A | 2015 A | 2016 A | 2017 F | 2018 F | 2019 F |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Net Sales | 1,880,263 | 2,174,502 | 2,521,921 | 2,479,712 | 2,975,219 | 3,572,848 |
| Cost of Sales | (978,841) | (1,019,511) | (1,220,833) | (1,190,262) | (1,437,031) | (1,725,686) |
| Gross Profit | 901,422 | 1,154,990 | 1,301,088 | 1,289,450 | 1,538,188 | 1,847,163 |
| Operating Expense | (602,698) | (701,332) | (858,043) | (1,016,682) | (1,219,840) | (1,464,868) |
| Operating income | 298,724 | 453,658 | 443,045 | 272,768 | 318,348 | 382,295 |
| Other Income | (45,867) | (75,407) | (73,628) | (74,391) | (74,380) | (89,321) |
| PBT | 252,857 | 378,252 | 369,417 | 198,377 | 243,968 | 292,974 |
| Taxes | (64,185) | (107,713) | (89,639) | (49,594) | (60,992) | (73,243) |
| NIAT | 188,672 | 270,539 | 279,777 | 148,783 | 182,976 | 219,730 |
| Minority Interest | 0 | 0 | 184 | 5,913 | 0 | 0 |
| Net Profit | 188,672 | 270,539 | 279,961 | 154,696 | 182,976 | 219,730 |
| EPS (IDR) | 37.27 | 53.45 | 55.31 | 25.00 | 29.58 | 35.52 |
| EBITDA | 392,838 | 581,118 | 576,701 | 396,717 | 457,373 | 514,153 |

Source: Company & Binaartha

Table: Statement of Financial Position in IDR. Million YoY

| Statement of Financial Position (In IDR Mn) | 2014A | 2015A | 2016A | 2017F | 2018F | 2019F |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| ASSETS | | | | | | |
| CURRENT ASSETS | | | | | | |
| Cash and Cash Equivalents | 162,584 | 515,237 | 610,989 | 1,912,092 | 2,027,739 | 1,533,726 |
| Trade Accounts Receivable | 213,407 | 250,544 | 283,953 | 322,363 | 354,857 | 430,963 |
| Inventories | 40,796 | 43,169 | 50,747 | 50,976 | 60,032 | 72,478 |
| Others Current Assets | 3,530 | 4,040 | 3,725 | 148,783 | 119,009 | 142,914 |
| Total Current Assets | 420,316 | 812,991 | 949,414 | 2,434,214 | 2,561,637 | 2,180,080 |
| NONCURRENT ASSETS | | | | | | |
| Fixed Assets | 1,679,982 | 1,821,378 | 1,842,722 | 1,958,814 | 2,082,219 | 2,213,399 |
| Other Noncurrent Assets | 42,596 | 71,954 | 127,504 | 247,971 | 182,131 | 252,213 |
| Total Noncurrent Assets | 1,722,578 | 1,893,332 | 1,970,227 | 2,206,785 | 2,264,350 | 2,465,612 |
| TOTAL ASSETS | 2,142,894 | 2,706,323 | 2,919,641 | 4,640,999 | 4,825,988 | 4,645,692 |
| LIABILITIES AND EQUITY | | | | | | |
| LIABILITIES | | | | | | |
| CURRENT LIABILITIES | | | | | | |
| Trade Account Payable | 194,165 | 296,484 | 256,950 | 282,271 | 320,906 | 385,868 |
| Others Current Liabilities | 113,443 | 99,436 | 63,552 | 613,962 | 621,488 | 98,967 |
| Total Current Liabilities | 307,608 | 395,920 | 320,502 | 896,234 | 942,394 | 484,835 |
| NONCURRENT LIABILITIES | | | | | | |
| Bonds Payable | 496,542 | 994,405 | 995,988 | 498,032 | 498,032 | 498,032 |
| Long-term bank loans | 291,204 | 0 | 0 | 0 | 0 | 0 |
| Others Noncurrent Liabilities | 93,957 | 127,464 | 160,399 | 223,174 | 210,466 | 267,180 |
| Total Noncurrent Liabilities | 881,703 | 1,121,869 | 1,156,387 | 721,206 | 708,498 | 765,211 |
| TOTAL LIABILITIES | 1,189,311 | 1,517,789 | 1,476,889 | 1,617,439 | 1,650,892 | 1,250,046 |
| Non-controlling interest | 0 | 0 | 43,454 | 52,074 | 37,915 | 60,707 |
| EQUITY | 953,583 | 1,188,535 | 1,399,298 | 2,971,485 | 3,137,181 | 3,334,939 |
| TOTAL LIABILITIES & EQUITY | 2,142,894 | 2,706,324 | 2,919,641 | 4,640,999 | 4,825,988 | 4,645,692 |

Source: Company & Binaartha

Table: Cash Flow in IDR. Million YoY

| Cash Flow (In IDR Mn) | 2014A | 2015A | 2016A | 2017F | 2018F | 2019F |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Net Income | 188,672 | 270,539 | 279,961 | 154,696 | 182,976 | 219,730 |
| Depreciation | 93,145 | 112,627 | 115,699 | 116,092 | 123,405 | 131,180 |
| Change in WC | (7,583) | 48,291 | (116,090) | 392,036 | 34,383 | (570,015) |
| Cash From Operating Activities | 274,235 | 431,457 | 279,570 | 662,823 | 340,764 | (219,105) |
| Capex | (356,915) | (283,382) | (192,594) | (352,650) | (180,970) | (332,441) |
| Cash From Investing Activities | (356,915) | (283,382) | (192,594) | (352,650) | (180,970) | (332,441) |
| Bonds Payable | 631 | 497,864 | 1,583 | (497,956) | 0 | 0 |
| Long-term bank loans | 130,719 | (291,204) | 0 | 0 | 0 | 0 |
| Other Long term liabilities | 24,824 | 33,506 | 32,936 | 62,775 | (12,708) | 56,713 |
| Equity | (12,053) | (35,587) | (25,744) | 1,426,112 | (31,440) | 820 |
| Cash From Financing Activities | 144,121 | 204,579 | 8,775 | 990,930 | (44,147) | 57,533 |
| Net Changes in Cash | 61,441 | 352,655 | 95,751 | 1,301,103 | 115,647 | (494,013) |
| Beginning Balance | 101,142 | 162,584 | 515,237 | 610,989 | 1,912,092 | 2,027,739 |
| Ending Balance | 162,583 | 515,239 | 610,988 | 1,912,092 | 2,027,739 | 1,533,726 |

Source: Company & Binaartha

Table: Ratio Highlights YoY

| Growth (% YoY) | 2014A | 2015A | 2016A | 2017F | 2018F | 2019F |
|------------------------------|-------|-------|-------|--------|-------|-------|
| Sales | 24.9% | 15.6% | 16.0% | -1.7% | 20.0% | 20.1% |
| OP | 28.5% | 51.9% | -2.3% | -38.4% | 16.7% | 20.1% |
| EBITDA | 32.0% | 47.9% | -0.8% | -31.2% | 15.3% | 12.4% |
| NP | 19.4% | 43.4% | 3.5% | -44.7% | 18.3% | 20.1% |
| EPS | 19.4% | 43.4% | 3.5% | -54.8% | 18.3% | 20.1% |
| Profitability (%) | | | | | | |
| Operating Margin | 15.9% | 20.9% | 17.6% | 11.0% | 10.7% | 10.7% |
| EBITDA margin | 20.9% | 26.7% | 22.9% | 16.0% | 15.4% | 14.4% |
| NET Profit margin | 10.0% | 12.4% | 11.1% | 6.2% | 6.2% | 6.2% |
| ROA | 8.8% | 10.0% | 9.6% | 3.3% | 3.8% | 4.7% |
| ROE | 19.8% | 22.8% | 20.0% | 5.2% | 5.8% | 6.6% |
| Stability | | | | | | |
| Total debt/ Total equity (x) | 1.25 | 1.28 | 1.06 | 0.54 | 0.53 | 0.37 |
| Int. Coverage (x) | 5.40 | 4.19 | 4.03 | 2.41 | 2.71 | 3.26 |
| Current Ratio (X) | 1.37 | 2.05 | 2.96 | 2.72 | 2.72 | 4.50 |
| Per Share data (IDR) | | | | | | |
| EPS | 37 | 53 | 55 | 25 | 30 | 36 |
| BVPS | 188 | 235 | 276 | 480 | 507 | 539 |
| Ebitda/share | 78 | 115 | 114 | 64 | 74 | 83 |

Source: Company & Binaartha

Stock Ratings:

Buy : a recommendation to purchase the security with upside potential of **20% or greater**

Hold : a recommendation to neither buy nor sell a security with upside potential of **0-19%**.

Sell : a recommendation to close out a long position in a security with upside potential **below 0% or negative**.

RESEARCH TEAM
(62 21) 520 6678 ext. 611

Disclaimer; PT Binaartha Sekuritas has compiled this report in good faith, using information believed to be reliable. PT Binaartha Sekuritas and its analysts take no responsibility for the accuracy of the information contained in this report. This report has been produced for distribution to clients of PT Binaartha Sekuritas only. This report is not an invitation to buy or sell any security. PT Binaartha Sekuritas may have used the information in this report prior to publication. The company or its clients may have positions in or may from time to time buy or sell the securities mentioned in this report or other related securities.