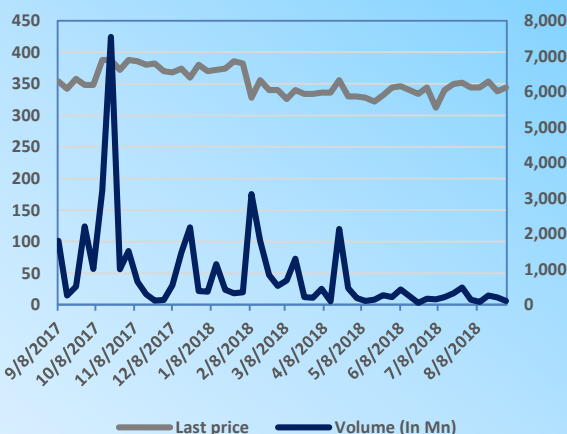


12 September 2018  
Textile, Garment

Price IDR 340

Target Price IDR 510

JKSE Index 5,831.117



### Stock Information

Bloomberg Code SRIL IJ  
Market Cap (IDR bn) 7,035.5  
52-week high (IDR) 414  
52-week low (IDR) 302  
Shares issued (mn) 20,452  
6-m avg. daily Val (IDR) 338  
Free float (%) 39.90%

Major share holders (%)  
PT. Huddleston Indonesia 60.06%  
Founder Shares 0.04%  
Public (below 5% each) 39.90%

USD/ IDR – YE (IDR)  
2017 13,480  
2018F (6m-avg) 14,134

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### Investment Consideration

**BUY**

#### Double digit revenue growth

- As the new capacity expansion started to operate last year, SRIL grew double digits in 1H2018 and we expect sales to enjoy 35%-40% growth, net profit 20%-25% growth in 2018.
- In 1H2018, SRIL saw sales grow 36% yoy to USD 544 million, gross profit USD 98 million grew 13% yoy, operating income grew 45% yoy to USD 99.9 million and net profit grew 68% yoy to USD 56.3 million.
- Gross margin in 1H2018 was 18%, lower compared to 1H2017's 22% due to higher sales from the spinning segment. Net profit margin grew slightly to 9.0% from 8.7% in 1H2017.
- As new capacity starts to operate and the utilization rate is higher, we estimate 2018 sales and net profit will grow strongly at 37% and 25% to USD 1.04 billion and USD 85.2 million respectively.

#### Expand the Spinning Sector

- SRIL has expanded their spinning sector by acquiring two spinning companies in April 2018.
- The two spinning companies are PT Bitratex Industries (BI) and PT Primayudha Mandirijaya (PM). SRIL acquired 100% of the shares in BI and PM with a total transaction value of USD 15.3 million.
- As of 1H2018 the spinning sector has contributed 48% of sales which is higher compared to the 1H2017's 40%. However, the spinning segment has lower margins compared to other segments, causing the gross and EBITDA margins to decrease about 1%-2%.
- In our view, there will still be a positive effect from the acquisitions as they will boost the company's sales in the future. And the company plans to maintain margins by maintaining their product mix (future higher contributions of other segments such as finishing and garment segments).

#### Valuation: TP 510, 51% Upside

- With the new capacity expansion completed and assuming double digit growth for the second semester of 2018, we are targeting SRIL to trade at 7x 2019F PE, which is around IDR 510 per share or 51% potential upside within one year. BUY

Financial Highlights	2013 A	2014 A	2015 A	2016 A	2017 A	2018 F	2019 F	2020 F
Sales (In USD Mn)	450.7	554.6	622.0	679.9	759.3	1040.9	1161.6	1276.2
Net Profit (In USD Mn)	29.6	50.5	55.7	59.4	68.0	85.2	94.1	103.4
EPS (In USD)	0.0016	0.0027	0.0030	0.0032	0.0037	0.0042	0.0046	0.0051
GPM (%)	21.6%	22.1%	21.4%	21.4%	22.6%	18.0%	19.0%	19.0%
NPM (%)	6.6%	9.1%	8.9%	8.7%	9.0%	8.2%	8.1%	8.1%
EBITDA Margin (%)	17.1%	19.7%	19.3%	20.1%	21.5%	29.2%	19.4%	18.6%
Debt / Equity (x)	0.92	0.50	0.55	0.31	0.28	0.32	0.29	0.29
Interest Coverage (x)	1.7	1.7	1.6	1.2	1.1	1.0	1.1	1.2
ROA (%)	6.5%	7.2%	7.1%	6.3%	5.7%	6.4%	6.9%	7.1%

Chart: The new company structure after the acquisition

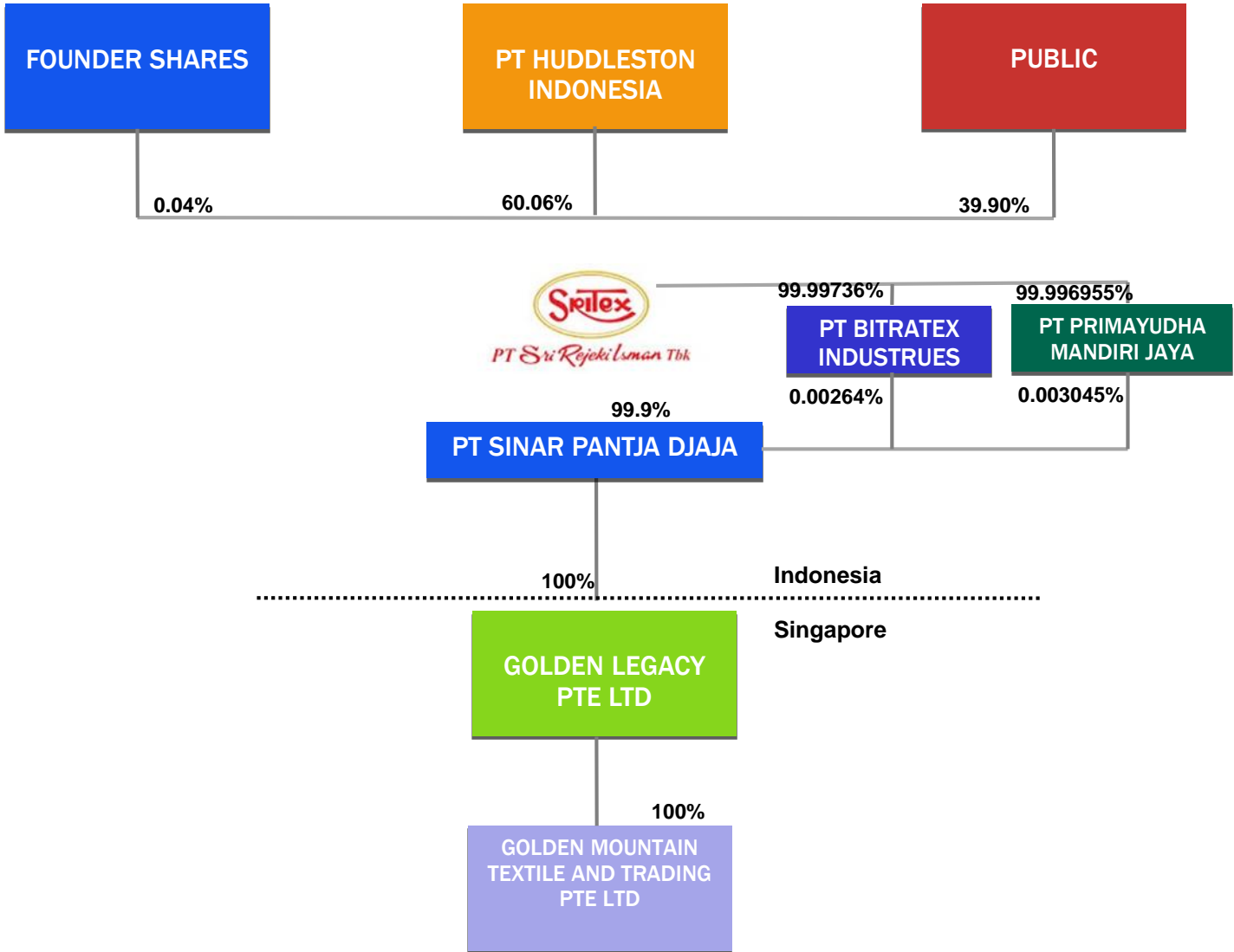
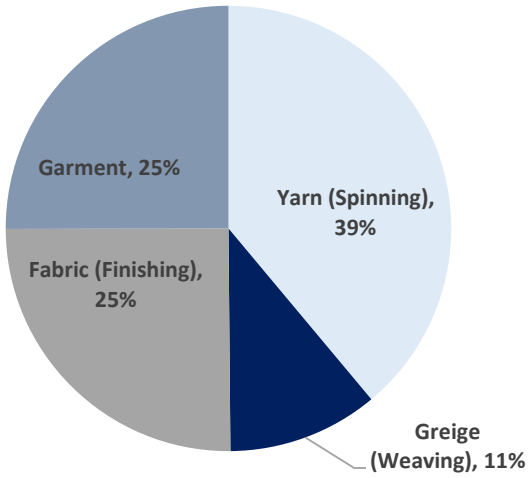
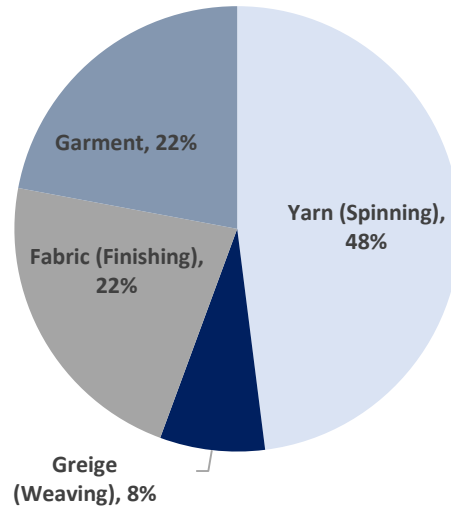


Chart: Sales Contribution 1H2017



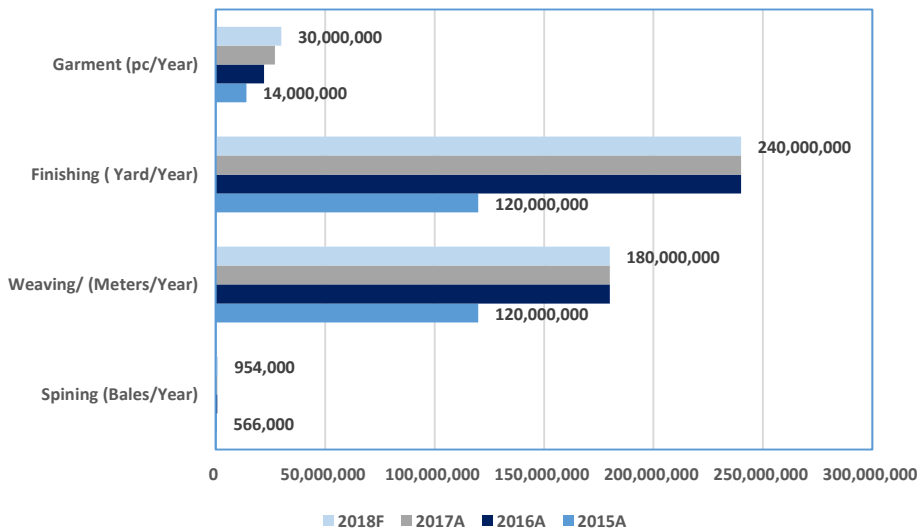
Source: company

Chart: Sales Contribution 1H2018



Source: company

Chart: Production Capacity YoY



Source: company

Table: Income Statement In USD. Million YoY

Income Statement (in USD.Mn)	2013 A	2014 A	2015 A	2016 A	2017 A	2018 F	2019 F	2020 F
<b>Net Sales</b>	<b>450.7</b>	<b>554.6</b>	<b>622.0</b>	<b>679.9</b>	<b>759.3</b>	<b>1,040.9</b>	<b>1,161.6</b>	<b>1,276.2</b>
Cost of Sales	(353.3)	(432.2)	(488.6)	(534.6)	(588.1)	(853.5)	(940.9)	(1,033.7)
<b>Gross Profit</b>	<b>97.4</b>	<b>122.4</b>	<b>133.4</b>	<b>145.4</b>	<b>171.3</b>	<b>187.4</b>	<b>220.7</b>	<b>242.5</b>
Operating Expense	(33.5)	(28.1)	(35.3)	(29.9)	(36.6)	(9.4)	(34.8)	(38.3)
<b>Operating Income</b>	<b>63.8</b>	<b>94.4</b>	<b>98.1</b>	<b>115.5</b>	<b>134.7</b>	<b>178.0</b>	<b>185.9</b>	<b>204.2</b>
Other Income	(19.6)	(28.4)	(33.5)	(49.4)	(62.5)	(83.3)	(81.3)	(89.3)
<b>PBT</b>	<b>44.2</b>	<b>66.0</b>	<b>64.6</b>	<b>66.0</b>	<b>72.1</b>	<b>94.7</b>	<b>104.5</b>	<b>114.9</b>
Taxes	(12.8)	(15.4)	(8.9)	(6.7)	(4.1)	(9.5)	(10.5)	(11.5)
<b>NIAT</b>	<b>31.5</b>	<b>50.5</b>	<b>55.7</b>	<b>59.4</b>	<b>68.0</b>	<b>85.2</b>	<b>94.1</b>	<b>103.4</b>
Minority Interest	0.0	(0.0)	(0.0)	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>29.6</b>	<b>50.5</b>	<b>55.7</b>	<b>59.4</b>	<b>68.0</b>	<b>85.2</b>	<b>94.1</b>	<b>103.4</b>
<b>EPS (in USD)</b>	<b>0.002</b>	<b>0.003</b>	<b>0.003</b>	<b>0.003</b>	<b>0.004</b>	<b>0.004</b>	<b>0.005</b>	<b>0.006</b>
<b>EBITDA</b>	<b>77.2</b>	<b>109.2</b>	<b>119.8</b>	<b>136.5</b>	<b>163.3</b>	<b>303.5</b>	<b>225.8</b>	<b>237.5</b>

Table: Cash Flow In USD. Million YoY

Cash Flow (in USD Mn)	2013A	2014A	2015A	2016A	2017A	2018F	2019F	2020F
Net Income	29.60	50.52	55.66	59.37	68.04	85.25	94.09	103.37
Depreciation	14.78	14.01	19.74	19.93	28.25	120.28	33.35	35.02
Change in WC	(30.02)	(177.25)	1.31	(15.15)	(148.63)	(34.46)	(13.71)	(24.32)
<b>Cash From Operating Activities</b>	<b>14.35</b>	<b>(112.73)</b>	<b>76.71</b>	<b>64.14</b>	<b>(52.35)</b>	<b>171.06</b>	<b>113.72</b>	<b>114.07</b>
Capex	(41.79)	(86.57)	(138.02)	(98.35)	(55.66)	(240.55)	(66.70)	(70.03)
Other non current asset	35.09	(33.55)	30.67	(30.48)	48.69	(9.27)	(1.21)	(1.15)
<b>Cash from investing activities</b>	<b>(6.70)</b>	<b>(120.12)</b>	<b>(107.35)</b>	<b>(128.83)</b>	<b>(6.96)</b>	<b>(249.82)</b>	<b>(67.91)</b>	<b>(71.18)</b>
Long term bank loan	(19.79)	10.18	31.79	(84.38)	(12.69)	16.37	(10.02)	(5.77)
MTN	0.00	30.00	0.00	(30.00)	40.00	25.00	0.00	0.00
other long term liabilities	(2.31)	276.83	4.71	167.46	55.71	54.62	8.32	57.31
Equity	12.57	(8.66)	(10.35)	(5.01)	43.02	(68.40)	(75.27)	(82.70)
<b>cash from financing activities</b>	<b>(9.53)</b>	<b>308.35</b>	<b>26.15</b>	<b>48.08</b>	<b>126.04</b>	<b>27.60</b>	<b>(76.97)</b>	<b>(31.16)</b>
<b>Net Changes in Cash</b>	<b>(1.88)</b>	<b>75.50</b>	<b>(4.50)</b>	<b>(16.61)</b>	<b>66.74</b>	<b>(51.16)</b>	<b>(31.15)</b>	<b>11.74</b>
<b>Beginning Balance</b>	<b>7.99</b>	<b>6.11</b>	<b>81.60</b>	<b>77.11</b>	<b>60.50</b>	<b>127.23</b>	<b>76.07</b>	<b>44.92</b>
<b>Ending balance</b>	<b>6.11</b>	<b>81.60</b>	<b>77.11</b>	<b>60.50</b>	<b>127.23</b>	<b>76.07</b>	<b>44.92</b>	<b>56.65</b>

Table: Statement of Financial Position In USD. Million YoY

Statement of Financial Position (USD.mn)	2013A	2014A	2015A	2016A	2017A	2018F	2019F	2020F
Cash and cash equivalent	6.11	81.60	77.14	60.49	127.23	76.07	44.92	56.65
Trade Account Receivable	60.80	129.24	102.18	149.56	188.96	260.22	278.78	293.53
Inventory	119.67	109.57	135.79	147.62	314.13	281.03	290.40	319.05
Other current asset	5.57	5.83	8.03	20.35	14.73	31.23	30.71	32.26
<b>Current Asset</b>	<b>192.15</b>	<b>326.24</b>	<b>323.14</b>	<b>378.02</b>	<b>645.05</b>	<b>648.55</b>	<b>644.81</b>	<b>701.50</b>
Net Fixed Asset	250.03	322.60	440.88	519.30	546.71	666.98	700.33	735.35
Other long term asset	9.48	7.01	0.03	23.13	1.14	10.41	11.62	12.76
LT investment	7.00	43.02	19.33	26.71	0.00	0.00	0.00	0.00
<b>Total non current Asset</b>	<b>266.51</b>	<b>372.62</b>	<b>460.24</b>	<b>569.14</b>	<b>547.85</b>	<b>677.39</b>	<b>711.95</b>	<b>748.11</b>
<b>Total Asset</b>	<b>458.66</b>	<b>698.87</b>	<b>783.37</b>	<b>947.16</b>	<b>1,192.90</b>	<b>1,325.94</b>	<b>1,356.76</b>	<b>1,449.61</b>
Trade Account Payable	41.78	18.62	11.11	5.53	54.94	62.45	69.70	76.57
Short Term bank loans	100.93	31.67	38.27	73.14	105.19	112.12	116.16	127.62
Other Short term liabilities	40.44	14.19	17.77	14.87	15.06	20.82	23.23	25.52
MTN				30.00				
<b>Total current liabilities</b>	<b>183.14</b>	<b>64.48</b>	<b>67.16</b>	<b>123.53</b>	<b>175.19</b>	<b>195.39</b>	<b>209.09</b>	<b>229.72</b>
Long term bank loans	72.80	82.97	114.77	30.39	17.70	34.08	24.06	18.29
MTN	0.00	30.00	30.00	0.00	40.00	65.00	65.00	65.00
Other Long term liabilities	13.15	289.97	294.68	462.14	517.85	572.48	580.79	638.10
<b>Total non current liabilities</b>	<b>85.94</b>	<b>402.95</b>	<b>439.45</b>	<b>492.53</b>	<b>575.55</b>	<b>671.55</b>	<b>669.85</b>	<b>721.39</b>
<b>Total Liabilities</b>	<b>269.08</b>	<b>467.43</b>	<b>506.61</b>	<b>616.07</b>	<b>750.74</b>	<b>866.94</b>	<b>878.94</b>	<b>951.11</b>
Minority interest	0.01	0.02	0.01	0.00	0.00	0.00	0.00	0.00
Total Equities	189.57	231.41	276.73	331.10	442.16	459.00	477.82	498.50
<b>Total Liabilities and equity</b>	<b>458.66</b>	<b>698.87</b>	<b>783.35</b>	<b>947.17</b>	<b>1,192.90</b>	<b>1,325.94</b>	<b>1,356.76</b>	<b>1,449.61</b>

Table: Ratio Highlights YoY

Ratio	2013 A	2014 A	2015 A	2016 A	2017 A	2018 F	2019 F	2020 F
<b>Growth (%YoY)</b>								
Sales	24.1%	23.1%	12.1%	9.3%	11.7%	37.1%	11.6%	9.9%
OP	20.9%	47.8%	4.0%	17.7%	16.7%	32.2%	4.4%	9.9%
EBITDA	18.6%	41.5%	9.7%	14.0%	19.7%	85.8%	-25.6%	5.2%
Net Profit	21.3%	70.7%	10.2%	6.7%	14.6%	25.3%	10.4%	9.9%
EPS	-81.1%	70.7%	10.2%	6.7%	14.6%	25.3%	10.4%	9.9%
<b>Profitability (%)</b>								
Operating Margin (%)	14.2%	17.0%	15.8%	17.0%	17.7%	17.1%	16.0%	16.0%
Ebitda Margin(%)	17.1%	19.7%	19.3%	20.1%	21.5%	29.2%	19.4%	18.6%
Net Profit Margin(%)	6.6%	9.1%	8.9%	8.7%	9.0%	8.2%	8.1%	8.1%
ROA (%)	6.5%	7.2%	7.1%	6.3%	5.7%	6.4%	6.9%	7.1%
ROE (%)	15.6%	21.8%	20.1%	17.9%	15.4%	18.6%	19.7%	20.7%
<b>Solvability (x)</b>								
Debt / equity	0.92	0.50	0.55	0.31	0.28	0.32	0.29	0.29
Debt / Tot. Asset	0.38	0.16	0.20	0.11	0.10	0.11	0.10	0.10
Debt / EBITDA	2.25	1.05	1.28	0.76	0.75	0.48	0.62	0.61
<b>Liquidity (x)</b>								
Interest Coverage	1.7	1.7	1.6	1.2	1.1	1.0	1.1	1.2
Current Ratio	1.0	5.1	4.8	3.1	3.7	3.3	3.1	3.1
<b>Per Share data (USD)</b>								
EPS	0.002	0.003	0.003	0.003	0.004	0.005	0.005	0.006
BV	0.010	0.012	0.015	0.018	0.024	0.025	0.026	0.027
EBITDA/ Share	0.004	0.006	0.006	0.007	0.009	0.016	0.012	0.013

**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**  
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