

BUY

Investment Consideration

Focus on higher exports sales in 2017

With the new US President, Donald Trump vowing to withdraw from the Trans Pacific Partnership trade agreement, Sri Rejeki (SRIL) sees an opportunity to boost export's sales. The company sees this policy as positive because it will make Indonesia better able to compete with other export countries. As of March 2017, Indonesia exported textile and textile products worth USD 1.26 billion, less than Vietnam, India and Bangladesh which had export revenues of USD 2.84 billion, USD 1.99 billion and USD 1.43 billion each. SRIL's export sales to the U.S. have already started to show improvement, growing 10% in 1Q2017 versus 1Q2016 and were 9% of total sales. With the company focusing on higher export sales, the contribution of export sales to total revenue is expected to increase significantly. The company targets the contribution of export sales in 2017 can reach 60% of total revenue.

Expecting double digit revenue growth on higher utilization

There is a second growth driver for SRIL, the new capacity expansion has been completed and will start operating by the end of this year. Production capacity for the Spinning division is now 654,000 bales/year, Weaving division now has capacity of 180 million meters/year, The finishing division has a capacity to produce 240 million yard/year, and the Garment division 27 million pcs/year. The company targets the new production capacity to be fully utilized in 2018. We estimate revenue in 2017 and 2018 will grow by a double digit percentage to reach USD 768.5 million and USD 871.7 million respectively.

Valuation: TP 500, 59% Upside

With the new capacity expansion completed and assuming an increasing utilization rate in 2017 and reaching full capacity in 2018, we expect SRIL will be able to achieve double digit growth in bottom line profits too. Based on our DCF (WACC 19%), We are targeting SRIL to trade at 10x 2018F PE, which is around IDR 500 a share or 59% upside potential within one year. BUY

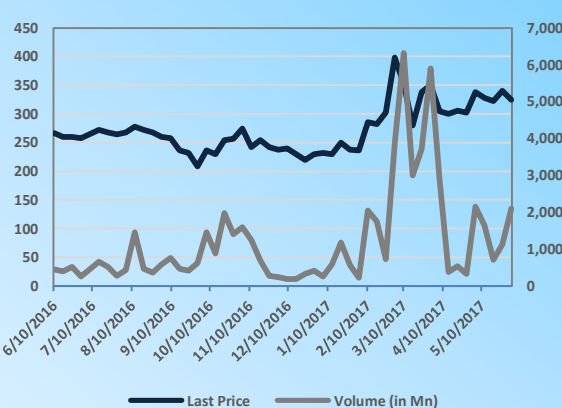
Profit and Loss (in USD.Mn)	2013 A	2014 A	2015 A	2016 A	2017 F	2018 F
Net Sales	450.7	554.6	622.0	679.9	768.5	871.7
Cost of Sales	(353.3)	(432.2)	(488.6)	(534.6)	(599.4)	(688.6)
Gross Profit	97.4	122.4	133.4	145.4	169.1	183.1
Operating Expense	(33.5)	(28.1)	(35.3)	(29.9)	(34.6)	(52.3)
Operating Income	63.8	94.4	98.1	115.5	134.5	130.8
Other Income	(19.6)	(28.4)	(33.5)	(49.4)	(55.3)	(43.6)
PBT	44.2	66.0	64.6	66.0	79.2	87.2
Taxes	(12.8)	(15.4)	(8.9)	(6.7)	(10.3)	(10.5)
NIAT	31.5	50.5	55.7	59.4	68.9	76.7
Minority Interest	0.0	(0.0)	(0.0)	0.0	0.0	0.0
Net Profit	29.6	50.5	55.7	59.4	68.9	76.7
EPS (in USD)	0.002	0.003	0.003	0.003	0.004	0.004
EBITDA	77.2	109.2	119.8	136.5	148.3	157.8

Source: Company and Binaartha

13 June 2017
Textile, Garment

Price IDR 314
Target Price IDR 500

JKSE Index 5691.436



Stock Information

Bloomberg Code SRIL IJ
Market Cap (IDR bn) 4,722.1
52-week high (IDR) 496
52-week low (IDR) 204
Shares issued (mn) 18,592
6-m avg. daily Val (IDR) 292
Free float (%) 43.88

Major share holders (%)
PT. Huddleston Indonesia 56.07%
Founder Shares 0.05%
Public (below 5% each) 43.88%

USD/ IDR – YE (IDR)
2016 13,436
2017F (6m-avg) 13,340

Key Indicators 2018F
ROE (%) 17.3
Curent Ratio 5.1
Debt/Equity (x) 0.3

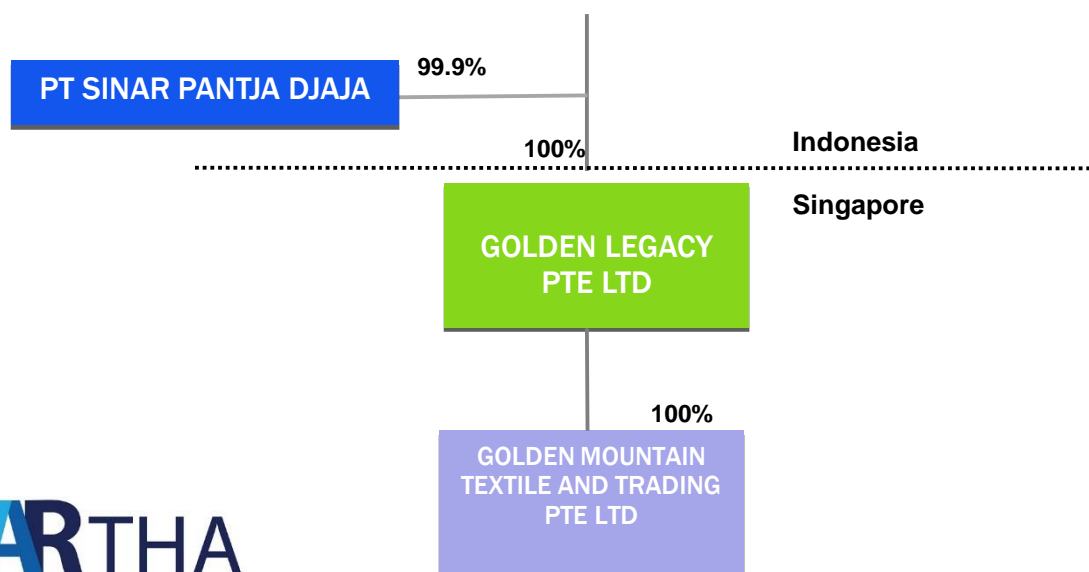
Analyst: Eka Rahmawati R
eka.rahmah@binaartha.com

Company Profile

PT Sri Rejeki Isman Tbk (Sritex) was established as a traditional trading company called “Sri Redjeki” in 1966 in Pasar Klewer, Solo by H.M Lukminto. In 1968, the company established the first printing factory producing bleached and dyed fabric in Solo, Indonesia. In 1982o, the company set up the first weaving factory with 1000 looms and obtained certification to supply military uniforms to the German army and other NATO member states in 1994.

Today, Sritex is one of the largest integrated textile manufacturers in Southeast Asia. The company can produce yarn, greige fabric, finished fabrics and apparels. Sritex has large factories built in a 70 ha plot of land in Sukoharjo, employing more than 17,000 employees. As one of the largest integrated manufactures, Sritex’s competitive advantages include, shorter lead time, higher efficiency, and consistent quality controls with competitive pricing. With all these advantages Sritex received orders from the militaries of several NATO member states such as Germany, UK, Netherlands and others, and fashion clients from H&M, Walmart, JAG, Macy’s, Ito Yukuido and others. Sritex’s finishing division has orders from PangRim, Pan Brothers Tbk, Nextrade Inc, Shengrun Textile, Sofia Trading and others. Meanwhile, the spinning and weaving divisions have orders from Hwaseung, Marubeni, Neo Tax, Silco SA, Filatex Co, Sunteks and others.

The company went public on June 17, 2013 with an offering of 5.600.000.000 shares on the Indonesia Stock Exchange with the issuer code SRIL.

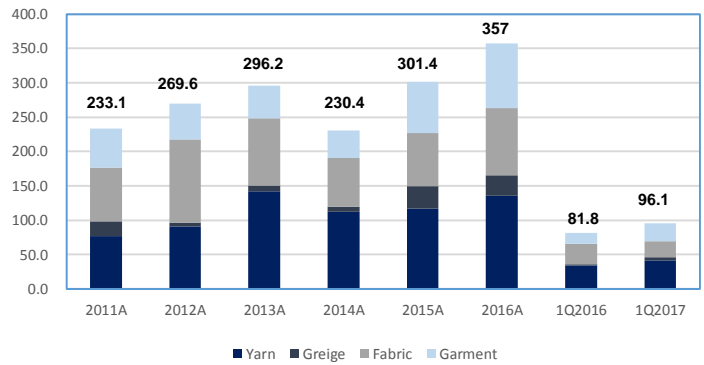


I. U.S. Textile & Apparel Import YoY (In USD Bn)

U.S. Textile & Apparel Import in USD Bn						
	2013	2014	2015	2016	Mar-16	Mar-17
World	104.73	107.46	111.93	104.72	25.25	24.28
China	41.67	41.82	43.22	38.53	8.67	7.85
Vietnam	8.77	9.96	11.29	11.32	2.73	2.84
India	6.3	6.72	7.27	7.22	1.97	1.99
Banglades	5.1	5	5.6	5.49	1.51	1.43
Indonesia	5.23	5.06	5.18	4.9	1.31	1.26
Mexico	4.65	4.77	4.62	4.46	1.05	1.11

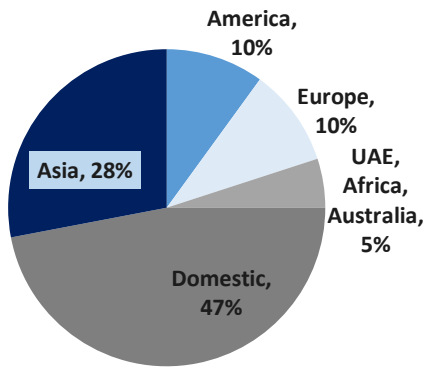
Source: Otexa

II. Sales Export of SRIL YoY (In USD Mn)



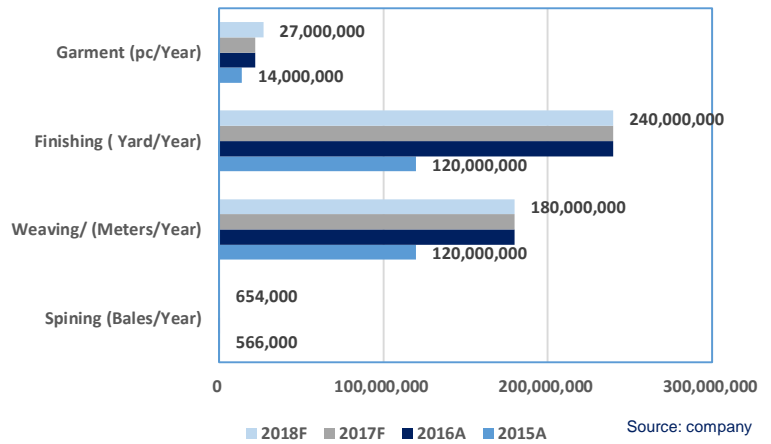
Source: company

III. Sales based on Geography 1Q2017



Source: company

IV. Production Capacity YoY



Source: company

V. Profit and Loss YoY

Profit and Loss (in USD.Mn)	2012 A	2013 A	2014 A	2015 A	2016 A	2017 F	2018 F	2019 F
Net Sales	363.2	450.7	554.6	622.0	679.9	768.5	871.7	916.3
Cost of Sales	(290.2)	(353.3)	(432.2)	(488.6)	(534.6)	(599.4)	(688.6)	(723.9)
Gross Profit	73.0	97.4	122.4	133.4	145.4	169.1	183.1	192.4
Operating Expense	(20.2)	(33.5)	(28.1)	(35.3)	(29.9)	(34.6)	(52.3)	(55.0)
Operating Income	52.8	63.8	94.4	98.1	115.5	134.5	130.8	137.4
Other Income	(18.4)	(19.6)	(28.4)	(33.5)	(49.4)	(55.3)	(43.6)	(45.8)
PBT	34.4	44.2	66.0	64.6	66.0	79.2	87.2	91.6
Taxes	(8.8)	(12.8)	(15.4)	(8.9)	(6.7)	(10.3)	(10.5)	(11.0)
NIAT	25.6	31.5	50.5	55.7	59.4	68.9	76.7	80.6
Minority Interest	0.0	0.0	(0.0)	(0.0)	0.0	0.0	0.0	0.0
Net Profit	24.4	29.6	50.5	55.7	59.4	68.9	76.7	80.6
EPS (in USD)	0.008	0.002	0.003	0.003	0.003	0.004	0.004	0.004
EBITDA	65.0	77.2	109.2	119.8	136.5	148.3	157.8	173.4

VI. Ratio Highlights YoY

Ratio	2011 A	2012 A	2013 A	2014 A	2015 A	2016 A	2017 F	2018F	2019F
Growth (%YoY)									
Sales	3.8%	42.1%	24.1%	23.1%	12.1%	9.3%	13.0%	13.4%	5.1%
OP	-10.0%	81.6%	65.9%	-16.3%	25.9%	-15.4%	15.7%	51.2%	5.1%
EBITDA	9.3%	29.0%	18.6%	41.5%	9.7%	14.0%	8.7%	6.4%	9.9%
Net Profit	-28.2%	37.1%	21.3%	70.7%	10.2%	6.7%	16.0%	11.4%	5.1%
EPS	-28.2%	37.1%	-81.1%	70.7%	10.2%	6.7%	16.0%	11.4%	5.1%
Profitability (%)									
Operating Margin (%)	15.5%	14.5%	14.2%	17.0%	15.8%	17.0%	17.5%	15.0%	15.0%
Ebitda Margin(%)	19.7%	17.9%	17.1%	19.7%	19.3%	20.1%	19.3%	18.1%	18.9%
Net Profit Margin(%)	7.0%	6.7%	6.6%	9.1%	8.9%	8.7%	9.0%	8.8%	8.8%
ROA (%)	5.9%	5.5%	6.5%	7.2%	7.1%	6.3%	6.7%	6.9%	7.0%
ROE (%)	5.9%	16.6%	15.6%	21.8%	20.1%	17.9%	14.4%	17.3%	17.0%
Solvability (x)									
Debt / equity	1.5	1.22	0.92	0.50	0.55	0.31	0.20	0.33	0.30
Debt / Tot. Asset		0.41	0.38	0.16	0.20	0.11	0.09	0.13	0.12
Debt / EBITDA		2.77	2.25	1.05	1.28	0.76	0.63	0.94	0.82
Liquidity (x)									
Interest Coverage	1.1	1.3	1.7	1.7	1.6	1.2	1.5	1.6	1.4
Interest & ST debt coverage	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Current Ratio	1.0	0.9	1.0	5.1	4.8	3.1	3.5	5.1	4.7
Per Share data (USD)									
EPS	0.006	0.008	0.002	0.003	0.003	0.003	0.004	0.004	0.004
BV	0.000	0.051	0.010	0.012	0.015	0.018	0.026	0.024	0.025
EBITDA/ Share	0.000	0.022	0.004	0.006	0.006	0.007	0.008	0.008	0.009

Source: Company and 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

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