

Indonesia Company Guide

Mayora Indah

Version 5 | Bloomberg: MYOR JJ | Reuters: MYOR.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 Nov 2017

HOLD

Last Traded Price (15 Nov 2017): Rp2,060 (JCI : 5,972.30)
Price Target 12-mth: Rp2,000 (-3% downside) (Prev Rp1,800)

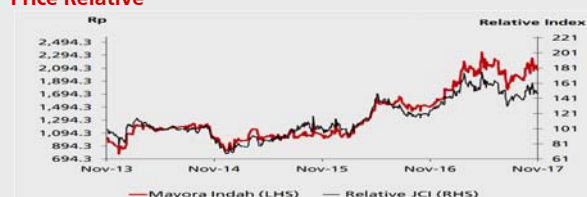
Analyst

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What's New

- Cutting FY17F/18F earnings forecast by 9%/7% following weaker than expected 9M17 results
- Management targets 10% revenue growth in FY18
- Risk of further consensus' earnings downgrade looms
- Maintain Hold with a higher TP of Rp2,000 after rolling over valuation base to 2018

Price Relative



Forecasts and Valuation

FY Dec (Rp m)	2016A	2017F	2018F	2019F
Revenue	18,350	20,377	22,725	25,345
EBITDA	2,854	2,770	3,129	3,496
Pre-tax Profit	1,846	1,803	2,126	2,444
Net Profit	1,355	1,323	1,561	1,796
Net Pft (Pre Ex.)	1,355	1,323	1,561	1,796
Net Pft Gth (Pre-ex) (%)	11.1	(2.4)	18.0	15.0
EPS (Rp)	60.6	59.2	69.8	80.3
EPS Pre Ex. (Rp)	60.6	59.2	69.8	80.3
EPS Gth Pre Ex (%)	11	(2)	18	15
Diluted EPS (Rp)	60.6	59.2	69.8	80.3
Net DPS (Rp)	12.0	21.0	21.0	24.1
BV Per Share (Rp)	274	312	361	417
PE (X)	34.0	34.8	29.5	25.6
PE Pre Ex. (X)	34.0	34.8	29.5	25.6
P/Cash Flow (X)	69.9	23.2	27.4	24.1
EV/EBITDA (X)	17.0	17.2	15.1	13.3
Net Div Yield (%)	0.6	1.0	1.0	1.2
P/Book Value (X)	7.5	6.6	5.7	4.9
Net Debt/Equity (X)	0.4	0.2	0.1	0.0
ROAE (%)	22.1	19.0	19.4	19.3
Earnings Rev (%):		(9)	(7)	N/A
Consensus EPS (Rp):		62.6	74.2	87.4
Other Broker Recs:		B: 8	S: 2	H: 5

Source of all data on this page: Company, DBSVI, DBS Bank, Bloomberg Finance L.P

Wait for better entry point

Cutting earnings forecast; Hold call unchanged. We cut our net profit forecasts by 9%/7% for FY17F/18F following lower than expected results in 9M17. 2017 has been a challenging year for consumer companies in general given the subdued demand environment with low-end consumers cutting spending on non-basic F&B items. Our recent meeting with management suggests that Mayora Indah (MYOR) has seen its domestic and export sales improving recently. On the margin side, the company sees some support from lower coffee price. We expect earnings growth to pick up in FY18 as household demand improves while soft commodity price trends remain favourable for MYOR. However, we think the valuation is rich at 30x PE 18F and we see downside risk to consensus' earnings forecast following the weaker than expected results. Maintain Hold.

Where we differ: Our FY17F/18F net profit forecasts are 6% lower than consensus on lower margin assumptions.

Consensus' expectation on MYOR's potential margin expansion and earnings growth appears too optimistic. We would wait for a better entry point as risk of further consensus' earnings downgrade still looms.

Potential catalysts: 1) Stronger household consumption in both domestic and export markets, and 2) margin expansion on the back of lower coffee price.

Valuation:

We raise our TP to Rp2,000 as we roll over our valuation base to 2018. We peg MYOR's TP to 28x (at five-year historical mean PE), in line with peers.

Key Risks to Our View:

Rapid increase in raw material prices would crimp the company's margins if it is unable to pass on the cost increases to consumers.

At A Glance

Issued Capital (m shrs)	22,359
Mkt. Cap (Rpbn/US\$m)	46,059 / 3,404
Major Shareholders (%)	
Unita Branindo (%)	32.9
Mayora Dhana Utama (%)	26.1
Jogi Hendra Atmadja (%)	25.2
Free Float (%)	15.7
3m Avg. Daily Val (US\$m)	0.19

ICB Industry : Consumer Goods / Food Producers

WHAT'S NEW

Meeting key takeaways and earnings revision

Key takeaways from meeting with management

9M17 performance tracking lower than target but recovery momentum continues. Our recent meeting with management suggests that 9M17 sales is tracking lower than management's target due to weak export sales in 1H17 and weak purchasing power in domestic market, which affected MYOR's sales particularly in the modern trade channels. Nonetheless, management thinks that the worst is over as MYOR has started to see revenue picking up in its domestic and China markets. Average monthly revenue stood at Rp1.6tr in 1H17 but has since improved to above Rp1.7tr after Lebaran.

Targeting 10% revenue growth in 2018. MYOR expects to book 10% revenue growth in FY18. On the margin side, recent decline in coffee price is positive for margins, although there would be some lag time between the coffee price decline and margin improvement as MYOR typically locks in coffee prices for 6-7 months.

Cutting earnings forecast; maintain Hold. We cut our FY17F/8F earnings forecast by 9%/7% as we lower our margin assumption particularly for coffee/cocoa segment after taking into account lower-than-expected 9M17 results. Recall that 9M17 net profit only accounted for 66% of consensus FY17 forecast.

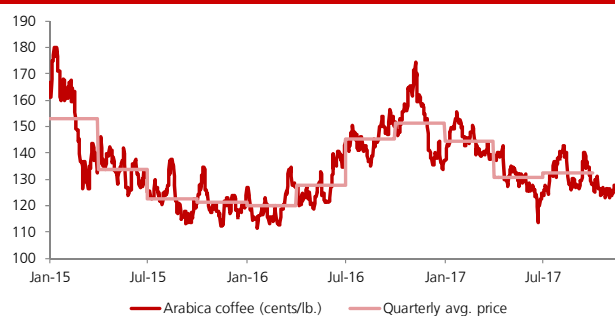
We now forecast MYOR's net profit to decline by 2% y-o-y in FY17F. We expect a brighter earnings outlook in 2018 with earnings growth of 18% y-o-y on the back of 12% y-o-y revenue growth and a slight margin expansion as raw material price trend remains benign. Nonetheless, we advise investors to wait for a better entry point as the stock now trades at a lofty valuation of 30x PE FY18F (30% premium to Indofood CBP), while risk of further consensus' earnings downgrade still looms. Our TP is raised to Rp2,000 (from Rp1,800 previously) as we roll over our valuation base to 2018. We maintain our Hold call with 3% potential downside from last closing price.

Quarterly / Interim Income Statement (Rpbn)

FY Dec	3Q2016	2Q2017	3Q2017	% chg yoy	% chg qoq
Revenue	4,039	4,411	4,908	21.5	11.3
Cost of Goods Sold	(3,035)	(3,489)	(3,784)	24.7	8.4
Gross Profit	1,005	922	1,125	11.9	22.0
Other Oper. (Exp)/Inc	(463)	(588)	(579)	25.2	(1.5)
Operating Profit	542	334	545	0.6	63.4
Other Non Opg (Exp)/Inc	(21.5)	24.9	64.8	nm	160.4
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	(90.8)	(100)	(92.4)	(1.8)	7.6
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	430	259	518	20.4	100.2
Tax	(116)	(64.2)	(129)	11.5	100.4
Minority Interest	(7.7)	(7.6)	(8.9)	(15.8)	17.8
Net Profit	307	187	380	23.9	103.5
Net profit bef Except.	307	187	380	23.9	103.5
EBITDA	928	601	947	2.1	57.7
Margins (%)					
Gross Margins	24.9	20.9	22.9		
Opg Profit Margins	13.4	7.6	11.1		
Net Profit Margins	7.6	4.2	7.7		

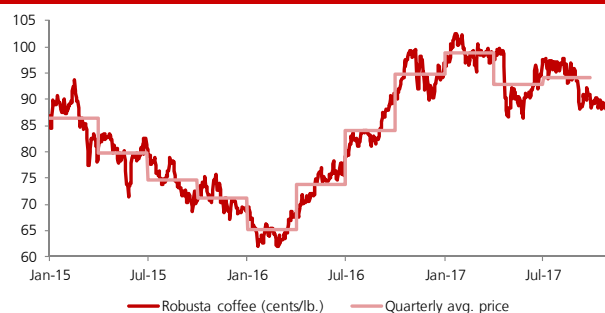
Source of all data: Company, DBSVI, DBS Bank

Arabica coffee price



Source: Bloomberg Finance L.P., DBSVI, DBS Bank

Robusta coffee price



Source: Bloomberg Finance L.P., DBSVI, DBS Bank

Regional peer comparison

Company	PE 17F (x)	PE 18F (x)	EV/EBITDA 17F (x)	EV/EBITDA 18F (x)	PB 17F (x)	EPS growth 17F	EPS growth 18F
Indonesia - Home and Personal Care (HPC)							
Unilever Indonesia	51.1	46.2	35.9	32.5	58.3	14%	10%
Indonesia - Food and Beverage							
Indofood CBP Sukses Makmur	25.3	22.6	15.8	13.9	4.5	9%	12%
Indofood Sukses Makmur	15.8	15.0	8.1	7.5	2.1	7%	6%
Mayora Indah	35.0	29.6	17.3	15.1	5.7	-2%	18%
<i>Simple avg.</i>	<i>25.4</i>	<i>22.4</i>	<i>13.7</i>	<i>12.2</i>	<i>4.1</i>		
Indonesia - HPC and Staples avg.	31.8	28.4	19.3	17.3	4.1		
Regional - F&B							
Singapore							
Thai Beverage PCL	22.3	20.1	16.4	14.8	4.1	37%	11%
Delfi Ltd	27.8	23.2	13.5	11.6	2.9	-10%	20%
Super Group Ltd	30.0	28.0	14.7	13.7	2.4	2%	7%
Del Monte Pacific Ltd	17.6	16.6	10.8	10.0	0.8	-56%	6%
JUMBO Group Ltd	22.3	20.4	13.0	11.5	4.7	9%	10%
Katrina Group Ltd	8.4	7.2	3.6	2.8	2.4	53%	17%
BreadTalk Group Ltd	18.1	20.2	5.9	5.6	3.4	113%	-10%
Thailand							
Thai Union Group PCL	16.9	15.4	13.4	12.4	1.5	-3%	10%
Taokaenoi Food & Marketing PCL	47.5	30.7	30.3	23.5	11.5	-9%	55%
Philippines							
Universal Robina Corp	19.2	16.8	11.8	10.3	3.4	6%	14%
Jollibee Foods Corp	41.3	35.4	21.7	18.4	6.5	10%	17%
Emperador Inc	15.0	14.7	13.0	12.3	1.9	2%	2%
Century Pacific Food Inc	21.0	18.5	14.3	12.4	3.3	2%	13%
Malaysia							
QL Resources Bhd	25.1	25.1	14.3	13.7	2.6	2%	0%
MSM Malaysia Holdings Bhd	20.9	12.7	14.9	9.7	1.3	11%	65%
Oldtown Bhd	19.3	16.4	10.0	8.5	2.7	14%	18%
Regional - Staples avg.	23.3	20.1	13.9	12.0	3.5		

*Price as of 14 Nov 2017

Source: DBSVI, DBS Bank, Bloomberg Finance L.P.

CRITICAL DATA POINTS TO WATCH

Critical Factors

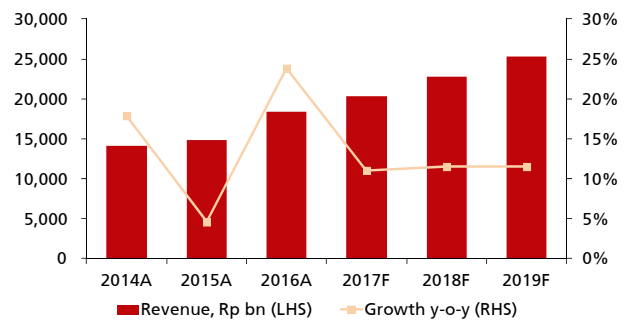
Economic growth in Indonesia and Asian countries. MYOR's products are sold in both domestic and international markets. In 9M17, exports accounted 42% of MYOR's sales, with more than half of exports made to China and Southeast Asian countries. A stronger economy in the countries where MYOR's products are offered would be beneficial to the company.

Weakness of rupiah against US dollar. With high export contribution to sales (42% of sales), MYOR enjoys a natural hedge towards its forex exposure. More than 60% of COGS, which equals to c. 46% of revenue in 9M17, comprises of soft commodities where prices are linked to the US dollar. With this natural hedge, MYOR's margins are more insulated from the risk of rupiah depreciation compared to its listed peers.

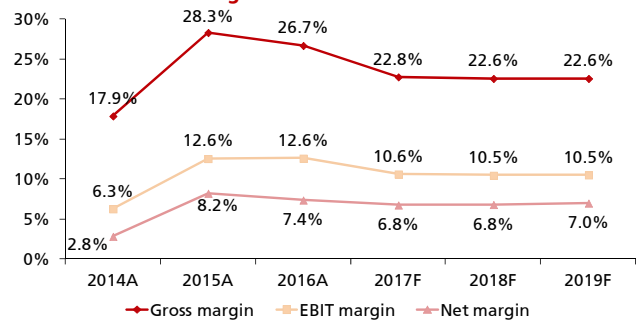
Volatility in commodity prices. Around 78% of MYOR's COGS is attributable to raw materials, which mostly consists of soft commodities such as sugar, palm oil, wheat flour, coffee and cocoa. The prices of these commodities are naturally volatile and MYOR does not enter into future contracts. A sudden spike in the prices of these commodities could adversely hurt the company's margins, as it would not raise ASP hastily in order to protect market share. This was evident in 2011 and 2014, with gross margins dropping by more than 5ppts as raw material prices spiked up.

Competition from new and existing players. MYOR has two product segments: 1) food processing (sweet biscuit and confectionery), and 2) coffee/cacao. MYOR ranked third in its key product categories, namely sweet biscuits, coffee and confectionery, with market share ranging from 10% to 13%. This proves MYOR's strong foothold in the Indonesian F&B market. However, we note that due to lack of product differentiation and tight competition, consumer demand for the products has higher price elasticity. Competition with existing or new players could hurt MYOR's sales or margins if MYOR decides to step up promotional activities to defend its market share.

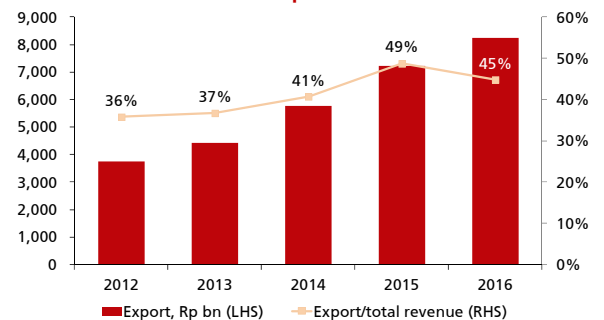
Revenue trend and forecasts



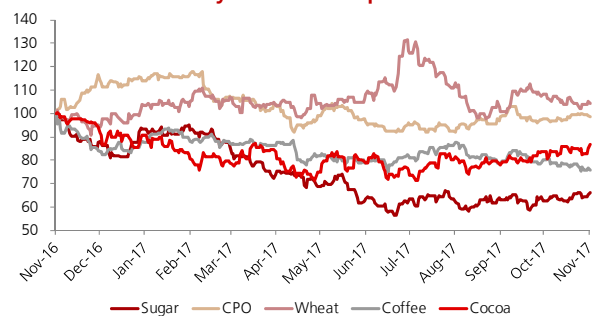
Margin trend and forecasts



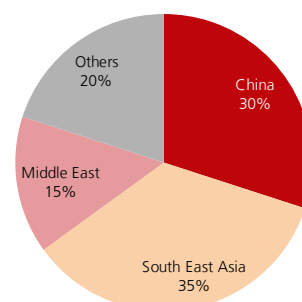
Export sales



Key raw material price index



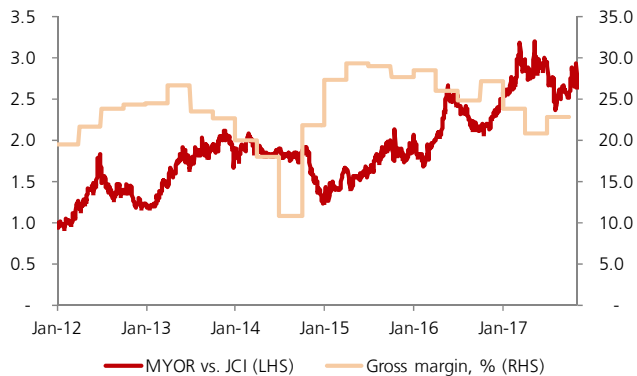
MYOR's export sales mix



Source: Company, DBSVI, DBS Bank, Bloomberg Finance L.P.

Appendix 1: A look at Company's listed history – what drives its share price?

MYOR share price performance vs. gross margin

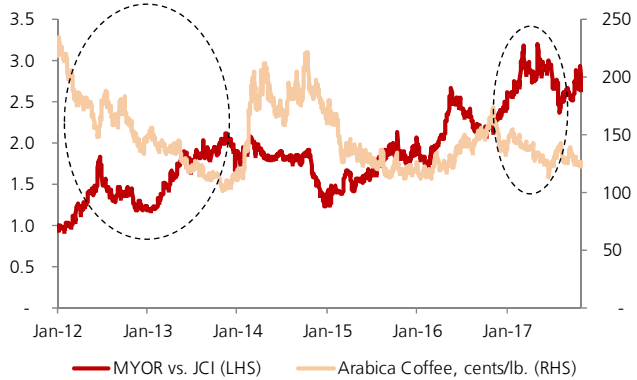


Remarks

Around 78% of MYOR's COGS is attributable to raw materials, which mostly consists of soft commodities such as sugar, palm oil, wheat flour, coffee and cocoa. The prices of these commodities are naturally volatile and MYOR does not enter into future contracts.

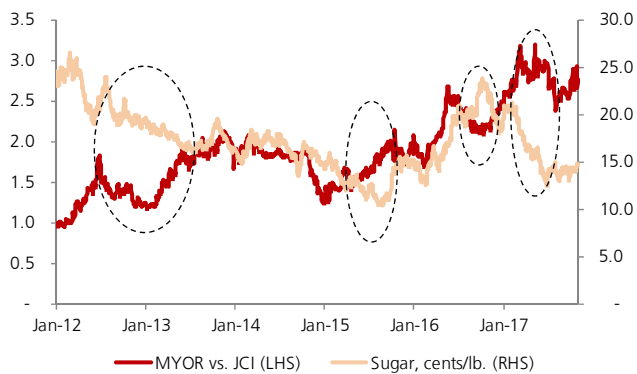
When soft commodity prices rallied, MYOR was typically less aggressive in increasing its selling price compared to its peers as its key strategy is to maintain and grow market share. On the other hand, this strategy caused MYOR's margins to be more volatile.

MYOR share price performance vs. coffee price



In the past, MYOR's share price outperformed JCI when soft commodity price falls, particularly coffee and sugar, which typically led to gross margin expansion.

MYOR share price performance vs. sugar price



Source: Bloomberg Finance L.P., DBSVI, DBS Bank

Mayora Indah

Balance Sheet:

Healthy balance sheet. MYOR has Rp1.9tr cash and interest-bearing debt of Rp4.8tr as at end of Sep 2017. This translates to gross and net gearing of 0.72x and 0.44x respectively.

Share Price Drivers:

Pick-up in economy. A sustained economic recovery or when GDP growth meets market expectations, would be positive for F&B companies like Mayora. This could lead to higher demand for F&B and FMCG products, creating positive sentiment towards the stock.

Increase in export contribution to sales. In FY16, c.45% of sales is contributed by exports, higher from 35% in FY11. As the proportion of exports increases, we think that there will be positive sentiment towards the stock as a higher export proportion would imply a more complete hedge in terms of forex risk. Note that Mayora is already the consumer company with the highest export contribution to sales.

Key Risks:

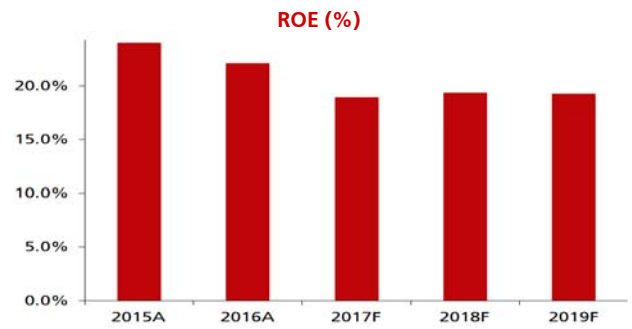
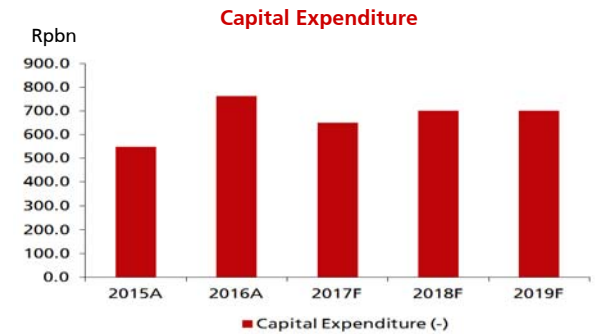
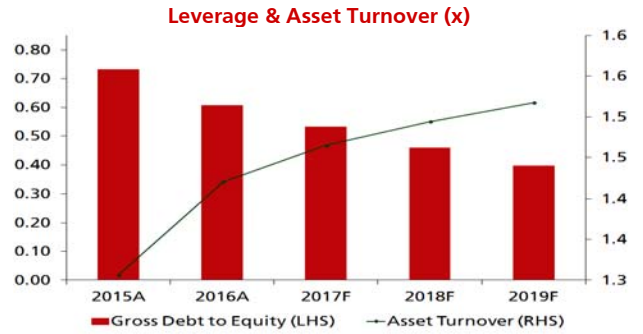
Slowdown in economy. Mayora’s revenue growth will be hurt by softening consumer demand. A slowing global economy would also reduce purchasing power in other countries, potentially reducing Mayora’s export sales.

Rapid increase in prices of raw materials. A spike in prices of raw materials would crimp Mayora’s margins if it is unable to pass on the cost increases to consumers.

Tightening competition. As competition tightens, the company could lose market share and find it increasingly difficult to adjust (raise) selling prices.

Company Background

Mayora Indah (MYOR) manufactures candies and biscuits, as well as food, coffee powder, instant coffee, and cocoa beans. It was founded in 1977 and is one of the largest food companies in Indonesia. It is also among the top players in every product category that it operates in.



Source: Company, DBSVI, DBS Bank

Segmental Breakdown

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenues (Rpbn)					
Food Processing	7,597	9,759	10,596	11,817	13,179
Coffee Powder / Cacao	7,222	8,591	9,781	10,908	12,165
Total	14,819	18,350	20,377	22,725	25,345
Gross Profit (Rpbn)					
Food Processing	2,078	2,407	2,427	2,706	3,018
Coffee Powder / Cacao	2,120	2,493	2,211	2,498	2,786
Total	4,198	4,900	4,637	5,204	5,804
Gross Margins (%)					
Food Processing	27.4	24.7	22.9	22.9	22.9
Coffee Powder / Cacao	29.4	29.0	22.6	22.9	22.9
Total	28.3	26.7	22.8	22.9	22.9

Income Statement (Rpbn)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenue	14,819	18,350	20,377	22,725	25,345
Cost of Goods Sold	(10,620)	(13,450)	(15,740)	(17,521)	(19,541)
Gross Profit	4,198	4,900	4,637	5,204	5,804
Other Opng (Exp)/Inc	(2,336)	(2,585)	(2,473)	(2,739)	(3,033)
Operating Profit	1,863	2,315	2,164	2,465	2,771
Other Non Opg (Exp)/Inc	160	(107)	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(383)	(363)	(361)	(339)	(327)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	1,641	1,846	1,803	2,126	2,444
Tax	(390)	(457)	(446)	(526)	(605)
Minority Interest	(30.2)	(33.7)	(33.5)	(38.2)	(42.9)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	1,220	1,355	1,323	1,561	1,796
Net Profit before Except.	1,220	1,355	1,323	1,561	1,796
EBITDA	2,332	2,854	2,770	3,129	3,496
Growth					
Revenue Gth (%)	4.6	23.8	11.0	11.5	11.5
EBITDA Gth (%)	79.0	22.4	(2.9)	13.0	11.7
Opg Profit Gth (%)	109.0	24.3	(6.5)	13.9	12.4
Net Profit Gth (Pre-ex) (%)	202.3	11.1	(2.4)	18.0	15.0
Margins & Ratio					
Gross Margins (%)	28.3	26.7	22.8	22.9	22.9
Opg Profit Margin (%)	12.6	12.6	10.6	10.8	10.9
Net Profit Margin (%)	8.2	7.4	6.5	6.9	7.1
ROAE (%)	24.0	22.1	19.0	19.4	19.3
ROA (%)	10.8	10.5	9.5	10.3	10.8
ROCE (%)	14.9	15.8	13.6	14.2	14.5
Div Payout Ratio (%)	12.2	19.8	35.5	30.0	30.0
Net Interest Cover (x)	4.9	6.4	6.0	7.3	8.5

Source: Company, DBSVI, DBS Bank

Quarterly / Interim Income Statement (Rpbn)

FY Dec	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
Revenue	4,039	5,035	4,980	4,411	4,908
Cost of Goods Sold	(3,035)	(3,667)	(3,791)	(3,489)	(3,784)
Gross Profit	1,005	1,368	1,189	922	1,125
Other Oper. (Exp)/Inc	(463)	(711)	(600)	(588)	(579)
Operating Profit	542	657	589	334	545
Other Non Opg (Exp)/Inc	(21.5)	61.3	(18.8)	24.9	64.8
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(90.8)	(94.2)	(79.5)	(100)	(92.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	430	624	491	259	518
Tax	(116)	(156)	(123)	(64.2)	(129)
Minority Interest	(7.7)	(10.4)	(6.3)	(7.6)	(8.9)
Net Profit	307	457	361	187	380
Net profit bef Except.	307	457	361	187	380
EBITDA	928	1,171	722	601	947

Growth

Revenue Gth (%)	(12.1)	24.6	(1.1)	(11.4)	11.3
EBITDA Gth (%)	22.4	26.3	(38.4)	(16.8)	57.7
Opg Profit Gth (%)	7.9	21.2	(10.3)	(43.3)	63.4
Net Profit Gth (Pre-ex) (%)	14.2	49.1	(21.0)	(48.3)	103.5

Margins

Gross Margins (%)	24.9	27.2	23.9	20.9	22.9
Opg Profit Margins (%)	13.4	13.0	11.8	7.6	11.1
Net Profit Margins (%)	7.6	9.1	7.3	4.2	7.7

Balance Sheet (Rpbn)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	3,771	3,859	3,903	3,940	3,914
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	118	323	323	323	323
Cash & ST Invt	1,682	1,543	2,409	2,919	3,591
Inventory	1,763	2,124	2,274	2,532	2,824
Debtors	3,379	4,388	4,313	4,810	5,364
Other Current Assets	630	685	685	685	685
Total Assets	11,343	12,922	13,907	15,208	16,701
ST Debt	1,348	2,002	2,002	2,002	2,002
Creditor	1,163	1,404	1,502	1,672	1,864
Other Current Liab	641	478	478	478	478
LT Debt	2,461	1,804	1,804	1,804	1,804
Other LT Liabilities	536	969	969	969	969
Shareholder's Equity	5,078	6,122	6,975	8,068	9,325
Minority Interests	117	144	177	216	259
Total Cap. & Liab.	11,343	12,922	13,907	15,208	16,701
Non-Cash Wkg. Capital	3,969	5,315	5,292	5,876	6,530
Net Cash/(Debt)	(2,126)	(2,263)	(1,397)	(887)	(215)
Debtors Turn (avg days)	83.2	87.3	77.3	77.3	77.3
Creditors Turn (avg days)	41.8	39.7	36.2	36.2	36.2
Inventory Turn (avg days)	63.4	60.0	54.9	54.8	54.8
Asset Turnover (x)	1.3	1.4	1.5	1.5	1.5
Current Ratio (x)	2.4	2.3	2.4	2.6	2.9
Quick Ratio (x)	1.6	1.5	1.7	1.9	2.1
Net Debt/Equity (X)	0.4	0.4	0.2	0.1	0.0
Net Debt/Equity ex MI (X)	0.4	0.4	0.2	0.1	0.0
Capex to Debt (%)	14.4	20.0	17.1	18.4	18.4
Z-Score (X)	7.2	7.0	7.1	6.9	6.9

Source: Company, DBSVI, DBS Bank

Cash Flow Statement (Rpbn)

FY Dec	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	1,641	1,846	1,803	2,126	2,444
Dep. & Amort.	469	539	606	664	726
Tax Paid	(390)	(457)	(446)	(526)	(605)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	506	(1,275)	22.8	(585)	(654)
Other Operating CF	112	6.60	0.0	0.0	0.0
Net Operating CF	2,337	659	1,985	1,679	1,911
Capital Exp.(net)	(549)	(763)	(650)	(700)	(700)
Other Invt.(net)	8.50	15.9	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(541)	(747)	(650)	(700)	(700)
Div Paid	(149)	(268)	(470)	(468)	(539)
Chg in Gross Debt	(796)	265	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	(7.9)	0.0	0.0	0.0
Net Financing CF	(945)	(11.0)	(470)	(468)	(539)
Currency Adjustments	118	(40.7)	0.0	0.0	0.0
Chg in Cash	969	(139)	866	510	672
Opg CFPS (Rp)	81.9	86.5	87.8	101	115
Free CFPS (Rp)	80.0	(4.6)	59.7	43.8	54.2

Source: Company, DBSVI, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	09 Feb 17	1810	1700	HOLD
2:	06 Oct 17	2080	1800	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: DBSVI, DBS Bank

Analyst: Tiesha PUTRI

Andy SIM CFA

DBSVI, DBS Bank recommendations are based an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 16 Nov 2017 10:24:18 (WIB)
Dissemination Date: 16 Nov 2017 16:41:33 (WIB)

Sources for all charts and tables are DBSVI, DBS Bank unless otherwise specified.

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