Mayora Indah

Version 2 | Bloomberg: MYOR IJ | Reuters: MYOR.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

31 Mar 2016

HOLD

Last Traded Price: Rp30,825 (**JCI** : 4,816.66)
Price Target : Rp29,500 (-4% downside) (Prev Rp25,400)

Potential Catalyst: Low raw material prices, larger export revenues
Where we differ: Relatively in line with consensus

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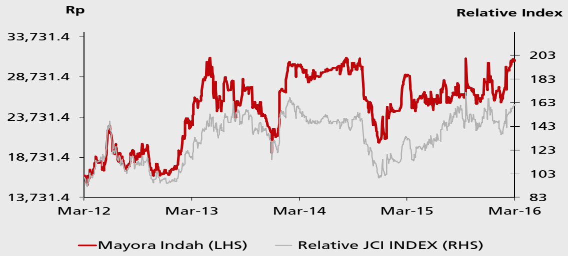
What's New

- **4Q/FY15 earnings topped our/consensus estimates on better-than-expected margins**
- **Revise FY16F/17F net income by c.9%/(2)%**
- **Maintain HOLD with higher TP of Rp29,500**

Price Relative



Forecasts and Valuation

FY Dec (Rp m)	2014A	2015A	2016F	2017F
Revenue	14,169	14,819	16,026	17,663
EBITDA	1,302	2,331	2,254	2,451
Pre-tax Profit	530	1,640	1,413	1,569
Net Profit	404	1,220	1,083	1,204
Net Pft (Pre Ex.)	404	1,220	1,083	1,204
Net Pft Gth (Pre-ex) (%)	(61.3)	202.3	(11.2)	11.2
EPS (Rp)	451	1,364	1,211	1,346
EPS Pre Ex. (Rp)	451	1,364	1,211	1,346
EPS Gth Pre Ex (%)	(61)	202	(11)	11
Diluted EPS (Rp)	451	1,364	1,211	1,346
Net DPS (Rp)	160	477	363	404
BV Per Share (Rp)	4,481	5,677	6,525	7,467
PE (X)	68.3	22.6	25.5	22.9
PE Pre Ex. (X)	68.3	22.6	25.5	22.9
P/Cash Flow (X)	nm	11.8	22.8	20.2
EV/EBITDA (X)	24.2	12.8	13.1	11.9
Net Div Yield (%)	0.5	1.5	1.2	1.3
P/Book Value (X)	6.9	5.4	4.7	4.1
Net Debt/Equity (X)	0.9	0.4	0.3	0.2
ROAE (%)	10.1	24.0	18.6	18.0
Earnings Rev (%):		-	9	(2)
Consensus EPS (Rp):			1,218	1,429
Other Broker Recs:		B: 10	S: 1	H: 2

Source of all data: Company, DBS Vickers, DBS Bank, Bloomberg Finance L.P

Topping expectations

4Q/FY15 earnings topped expectations on strong margins. MYOR's FY15 net income tripled to Rp1.2tr from Rp404bn in FY14, driven by an expansion in margins despite the relatively weak top-line growth. Revenue grew 4.6% y-o-y despite raising its ASP by 8% in October 2014, implying sales volume fell by c.1.2% y-o-y in FY15. On the other hand, gross margin expanded to 28.3% in FY15 from 17.9% in FY14 on the back of lower commodity prices and a weaker rupiah which depreciated by c.10% in FY15 and by c.17% as of end-9M15. Note that MYOR has about half of its sales from exports.

Revised FY16F/17F net income by c.9%/(2)%. We revise our FY16F/17F net income on the back of higher margins but slightly lower revenue growth. The lead time for its raw materials ranges from 3-6 months. Thus, we think the lower raw material prices (CPO and sugar) in 4Q15 will still benefit MYOR at least until 1Q16. We lift our FY16F/17F gross margin assumptions to 24.7%/24.2% from 22.5%/23% previously. On the top-line, we expect MYOR to be more cautious in raising prices given its weak volume growth; thus, we tone down our revenue growth to 8.2%/10.2% from 10.3%/12.4% previously.

Maintain HOLD with higher TP of Rp29,500. With the revised estimates, our target price rises to Rp29,500 – pegged to the FY16F/17F average PE of 23x, which is relatively in line with the regional consumer companies' average valuation. We maintain our HOLD recommendation on MYOR, as we think its earnings volatility would limit any share price re-rating.

Valuation:

We value MYOR at Rp29,500/share, based on the average FY16F/FY17F PE of 23x, which is relatively in line with the regional consumer companies' average valuation.

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)	894
Mkt. Cap (Rpbn/US$m)	27,568 / 2,083
Major Shareholders	
Unita Branindo (%)	32.9
BBH Boston S/A GMO (%)	5.6
Free Float (%)	61.5
3m Avg. Daily Val (US$m)	0.05

ICB Industry : Consumer Goods / Food Producers

WHAT'S NEW

Revised margin assumptions and earnings estimates

FY16F/17F earnings revised by c.9%/(2)%. We revise our earnings estimates for MYOR on higher margin assumptions but slightly slower revenue growth.

Given the lead time of 3-6 months for MYOR's raw materials, we think that the lower commodity prices (CPO and sugar) in 4Q15 will still benefit MYOR at least until 1Q16. Thus, we raise our FY16F/17F gross margin assumptions to 24.7%/24.2% from 22.5%/23% previously. On the top-line, we expect MYOR to be more cautious in raising prices given its weak volume growth; thus, we tone down our revenue growth to 8.2%/10.2% y-o-y from 10.3%/12.4% y-o-y previously, as we expect lower ASP increases in FY16F and FY17F.

Benefiting from lower commodity prices. Soft commodities such as coffee, sugar, wheat and CPO are the main raw materials for MYOR. The prices of such commodities were at low levels in FY15 due to the weak global demand, among other factors. MYOR's margins rose as a result.

While the rupiah has weakened in FY15 by c.10%, MYOR's margins were relatively unaffected as its export contribution to sales was c.50%, thus providing a high degree of natural hedge against rupiah weakness. MYOR's export sales as a % of raw materials used was at c.91% in FY15, implying almost a one-to-one hedge against fluctuations in raw material costs caused by currency movements.

4Q/FY15 Results Summary

MYOR (Rp bn)	4Q15	3Q15	4Q14	q-o-q	y-o-y	FY15	FY14	y-o-y	% of DBS FY15F
Revenue	4,128	3,151	3,612	31.0%	14.3%	14,819	14,169	4.6%	102.5%
Gross Profit	1,140	912	789	25.0%	44.6%	4,198	2,535	65.6%	114.8%
EBIT	616	315	260	95.3%	136.6%	1,863	891	109.0%	126.4%
Net Profit	351	276	154	27.2%	n.a.	1,220	404	202.3%	145.7%
Gross Margin	27.6%	29.0%	21.8%			28.3%	17.9%		
EBIT Margin	14.9%	10.0%	7.2%			12.6%	6.3%		
Net Profit Margin	8.5%	8.8%	4.3%			8.2%	2.8%		

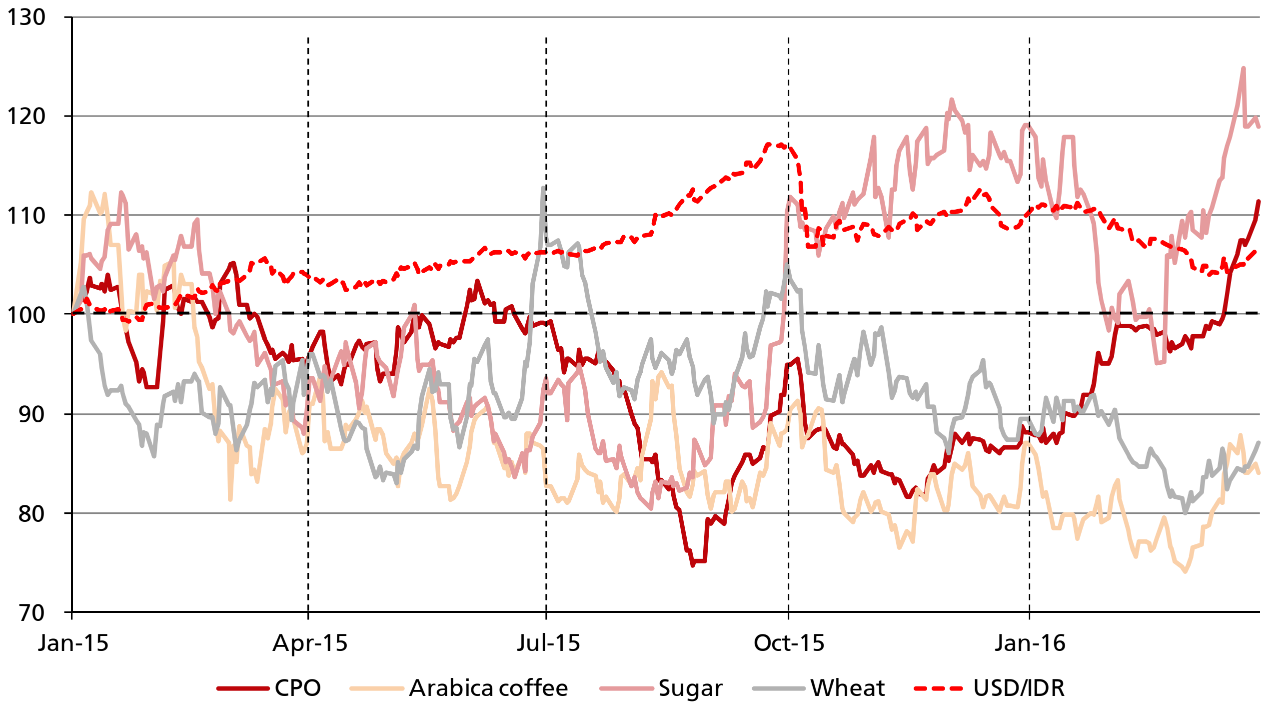
Sources: Company, DBS Vickers, DBS Bank

Revised Earnings Estimates for MYOR

	old FY16F	new FY16F	chg	old FY17F	new FY17F	chg
Revenue	15,934	16,026	1%	17,902	17,663	-1%
Gross profit	3,585	3,959	10%	4,117	4,274	4%
Operating profit	1,657	1,716	4%	1,951	1,855	-5%
Net profit	992	1,083	9%	1,231	1,204	-2%
Gross margin	22.5%	24.7%		23.0%	24.2%	
Operating margin	10.4%	10.7%		10.9%	10.5%	
Net margin	6.2%	6.8%		6.9%	6.8%	

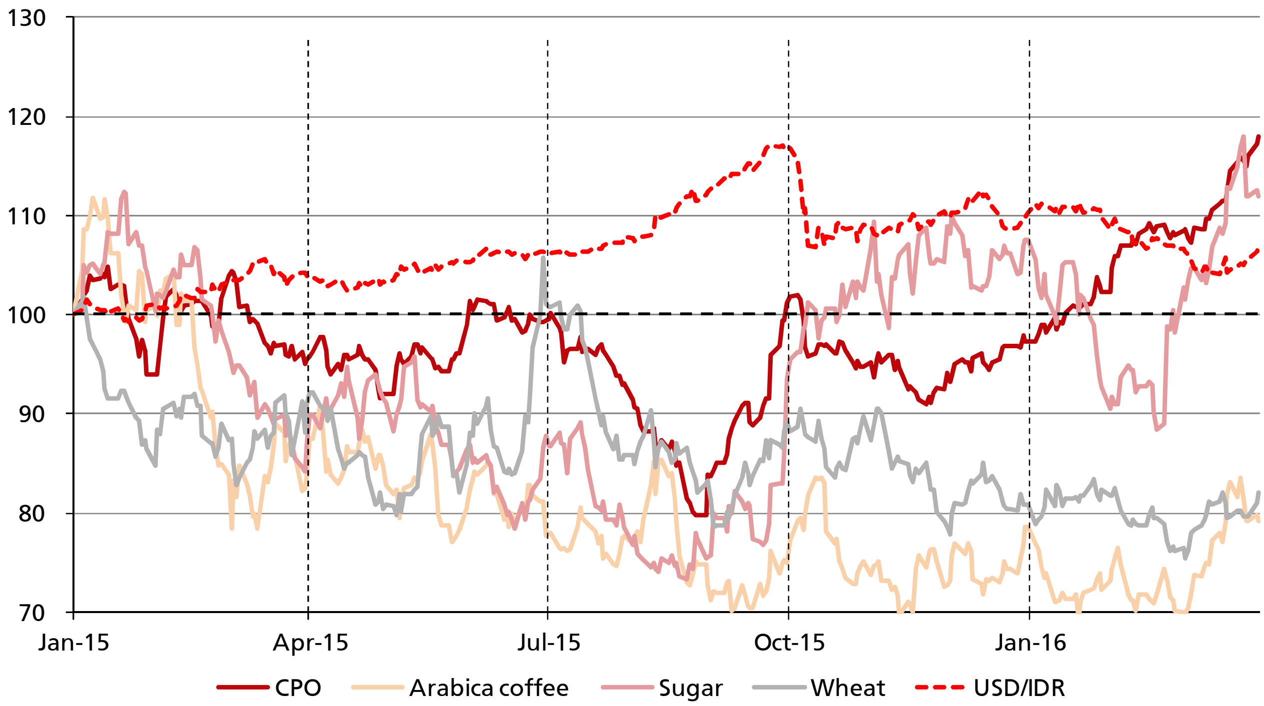
Source: DBS Vickers' estimates

Indexed Commodity Prices (in rupiah)



Sources: Bloomberg Finance L.P., DBS Vickers, DBS Bank

Indexed Commodity Prices (in default currency)



Sources: Bloomberg Finance L.P., DBS Vickers, DBS Bank

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

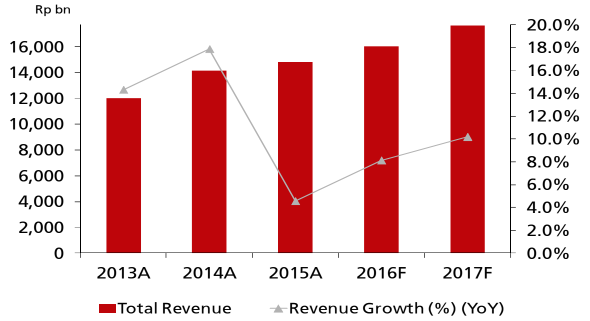
Economic growth in Indonesia (and other Asian countries). Mayora's products are sold in both domestic and international markets. In FY15, exports constituted c.49% of sales, with more than 90% of exports made to China and Southeast Asian countries. We think that the health of an economy is generally reflected in the consumption of basic necessities and staple foods. Thus, a stronger economy in the countries where Mayora's products are offered would be beneficial to the company, favouring sales volume.

Volatility in commodity prices. More than 60% of Mayora's COGS is attributable to raw materials, which mostly consist of soft commodities such as sugar, coffee, wheat flour, and palm oil. The prices of these commodities are naturally volatile and Mayora does not enter into futures contracts. Therefore, 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. Evident in 2011 and 2014, gross margins dropped by more than 5ppts as raw material prices spiked up.

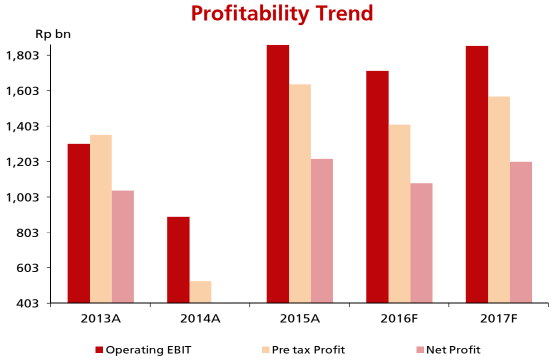
Competition in the coffee and confectionery market. The company has two product segments: (1) Food processing, and (2) Coffee/ Cacao. In terms of value share, Mayora is among the top three in most of its product categories, thus proving its strong foothold in the Indonesian food and beverage market. However, we note that due to lack of product differentiation and tight competition, consumer demand for the products has higher price elasticity. Mayora has a priority to protect/gain market share and is able to tolerate short-term volatility in margins. Hence, as Mayora gains larger market share, it will be easier to raise (adjust) its selling prices.

Weakness of rupiah against the US dollar. With its high export contribution to sales, Mayora enjoys a hedge towards its forex exposure. Note that more than 60% of its COGS is soft commodities which are denominated in the dollar. However, if export contribution decreases, we could see negative impact from rupiah depreciation to earnings. On the other hand, if export contribution increases, Mayora could have its dollar exposure completely hedged, and minimalize impact by rupiah fluctuation.

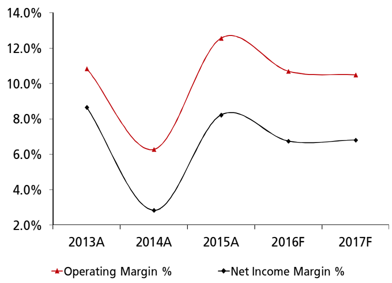
Sales Trend



Profitability Trend



Margins Trend



USD/IDR exchange rate

Arabica coffee price (US$/lb)

Source: Company, DBS Vickers, DBS Bank

Balance Sheet:

Plenty of cash; no debt problem. In 2016, we estimate that Mayora will have Rp1.9tn (US$142mn) in cash and a net gearing of 32%. We believe this gearing level is manageable and would not lead to debt problem for the company. Mayora uses its debt mainly for working capital purposes.

Share Price Drivers:

Pick-up in the economy. A recovery in the economy, 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 FY15, c.49% of sales is contributed by exports. 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.

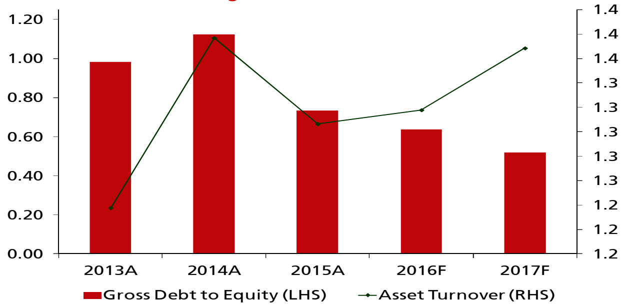
Rapid increase in prices of raw materials. A spike in prices of raw materials would crimp Mayora's margins if it is unable to pass on the cost increases to consumers.

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

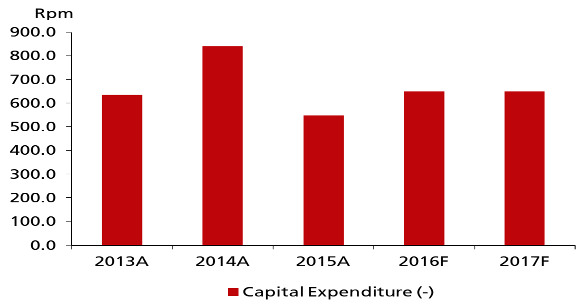
Company Background

Mayora Indah (MYOR) manufactures candies and cookies, 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.

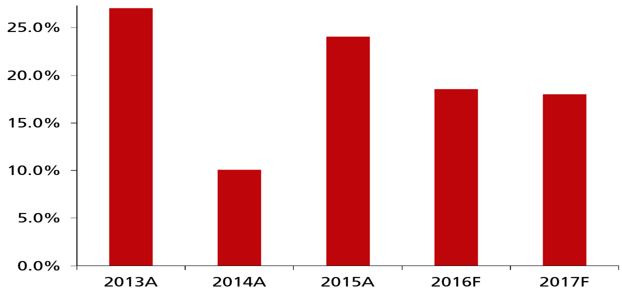
Leverage & Asset Turnover (x)



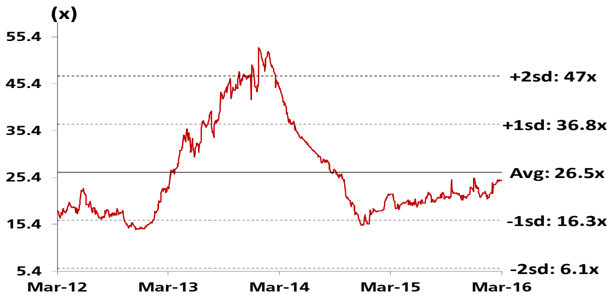
Capital Expenditure



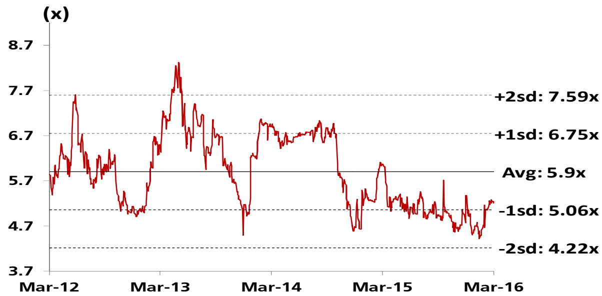
ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Vickers, DBS Bank

Segmental Breakdown

FY Dec	2013A	2014A	2015A	2016F	2017F
Revenues (Rp bn)					
Food Processing	6,668	7,886	7,597	7,693	9,185
Coffee Powder / Cacao	5,350	6,284	7,222	8,334	8,478
Total	**12,018**	**14,169**	**14,819**	**16,026**	**17,663**

Income Statement (Rp bn)

FY Dec	2013A	2014A	2015A	2016F	2017F
Revenue	12,018	14,169	14,819	16,026	17,663
Cost of Goods Sold	(9,096)	(11,634)	(10,620)	(12,068)	(13,388)
Gross Profit	**2,922**	**2,535**	**4,198**	**3,959**	**4,274**
Other Opng (Exp)/Inc	(1,617)	(1,644)	(2,336)	(2,243)	(2,419)
Operating Profit	**1,305**	**891**	**1,863**	**1,716**	**1,855**
Other Non Opg (Exp)/Inc	283	(36.0)	140	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(232)	(326)	(362)	(303)	(286)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**1,356**	**530**	**1,640**	**1,413**	**1,569**
Tax	(298)	(120)	(390)	(310)	(344)
Minority Interest	(17.0)	(6.0)	(30.0)	(20.0)	(21.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**1,042**	**404**	**1,220**	**1,083**	**1,204**
Net Profit before Except.	1,042	404	1,220	1,083	1,204
EBITDA	1,669	1,302	2,331	2,254	2,451
Growth					
Revenue Gth (%)	14.3	17.9	4.6	8.1	10.2
EBITDA Gth (%)	16.9	(22.0)	79.0	(3.3)	8.8
Opg Profit Gth (%)	12.8	(31.7)	109.0	(7.9)	8.2
Net Profit Gth (Pre-ex) (%)	42.8	(61.3)	202.3	(11.2)	11.2
Margins & Ratio					
Gross Margins (%)	24.3	17.9	28.3	24.7	24.2
Opg Profit Margin (%)	10.9	6.3	12.6	10.7	10.5
Net Profit Margin (%)	8.7	2.8	8.2	6.8	6.8
ROAE (%)	27.0	10.1	24.0	18.6	18.0
ROA (%)	10.7	3.9	10.8	8.9	9.3
ROCE (%)	12.4	7.5	14.9	13.0	13.2
Div Payout Ratio (%)	19.7	35.5	35.0	30.0	30.0
Net Interest Cover (x)	5.6	2.7	5.2	5.7	6.5

Gross margin expansion on the back of low commodity price and weak IDR that benefit Mayora

Source: Company, DBS Vickers, DBS Bank

Quarterly / Interim Income Statement (Rp bn)

FY Dec	4Q2014	1Q2015	2Q2015	3Q2015	4Q2015
Revenue	3,612	3,456	4,083	3,151	4,128
Cost of Goods Sold	(2,823)	(2,509)	(2,885)	(2,238)	(2,988)
Gross Profit	**789**	**947**	**1,198**	**912**	**1,140**
Other Oper. (Exp)/Inc	(528)	(556)	(658)	(597)	(525)
Operating Profit	**260**	**391**	**540**	**315**	**616**
Other Non Opg (Exp)/Inc	10.0	73.0	22.0	145	(101)
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(80.0)	(97.0)	(85.0)	(90.0)	(90.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**190**	**367**	**478**	**370**	**425**
Tax	(34.0)	(87.0)	(149)	(87.0)	(67.0)
Minority Interest	(2.0)	(8.0)	(7.0)	(8.0)	(8.0)
Net Profit	**154**	**273**	**321**	**276**	**351**
Net profit bef Except.	154	273	321	276	351
EBITDA	694	522	790	687	1,112
Growth					
Revenue Gth (%)	15.0	(4.3)	18.1	(22.8)	31.0
EBITDA Gth (%)	111.8	(24.8)	51.2	(13.0)	61.9
Opg Profit Gth (%)	5,469.5	50.2	38.2	(41.7)	95.3
Net Profit Gth (Pre-ex) (%)	nm	77.0	17.7	(14.1)	27.2
Margins					
Gross Margins (%)	21.8	27.4	29.3	29.0	27.6
Opg Profit Margins (%)	7.2	11.3	13.2	10.0	14.9
Net Profit Margins (%)	4.3	7.9	7.9	8.8	8.5

c.8% ASP increase in October 2014

Balance Sheet (Rp bn)

FY Dec	2013A	2014A	2015A	2016F	2017F
Net Fixed Assets	3,114	3,585	3,771	3,882	3,936
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	165	197	118	118	118
Cash & ST Invts	1,860	713	1,682	1,919	2,022
Inventory	1,456	1,967	1,763	2,119	2,351
Debtors	2,813	3,081	3,379	3,493	3,850
Other Current Assets	300	748	630	630	630
Total Assets	**9,710**	**10,291**	**11,343**	**12,161**	**12,906**
ST Debt	1,119	1,977	1,348	1,348	1,348
Creditor	1,179	955	1,163	1,203	1,335
Other Current Liab	334	182	641	641	641
LT Debt	2,754	2,626	2,461	2,461	2,211
Other LT Liabilities	385	450	536	536	536
Shareholder's Equity	3,852	4,008	5,077	5,836	6,678
Minority Interests	86.0	93.0	117	137	158
Total Cap. & Liab.	**9,710**	**10,291**	**11,343**	**12,161**	**12,906**
Non-Cash Wkg. Capital	3,057	4,658	3,968	4,398	4,855
Net Cash/(Debt)	(2,012)	(3,890)	(2,126)	(1,889)	(1,536)
Debtors Turn (avg days)	85.4	79.4	83.2	79.6	79.6
Creditors Turn (avg days)	49.3	31.1	41.8	38.1	38.1
Inventory Turn (avg days)	60.9	64.0	63.4	67.1	67.1
Asset Turnover (x)	1.2	1.4	1.3	1.3	1.4
Current Ratio (x)	2.4	2.1	2.4	2.6	2.7
Quick Ratio (x)	1.8	1.2	1.6	1.7	1.8
Net Debt/Equity (X)	0.5	0.9	0.4	0.3	0.2
Net Debt/Equity ex MI (X)	0.5	1.0	0.4	0.3	0.2
Capex to Debt (%)	16.4	18.3	14.4	17.1	18.3
Z-Score (X)	5.7	5.8	6.5	NA	NA

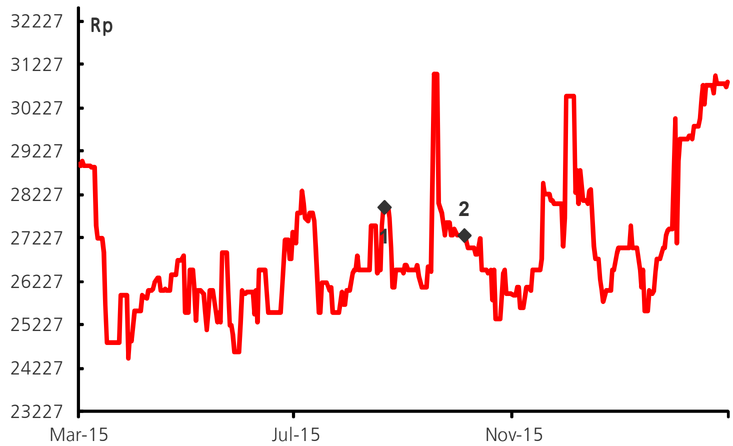
Source: Company, DBS Vickers, DBS Bank

Cash Flow Statement (Rp bn)

FY Dec	2013A	2014A	2015A	2016F	2017F
Pre-Tax Profit	1,356	530	1,640	1,413	1,569
Dep. & Amort.	364	411	469	539	596
Tax Paid	(298)	(120)	(390)	(310)	(344)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(249)	(1,532)	506	(429)	(457)
Other Operating CF	(187)	(151)	112	0.0	0.0
Net Operating CF	**987**	**(862)**	**2,337**	**1,212**	**1,364**
Capital Exp.(net)	(635)	(841)	(549)	(650)	(650)
Other Invts.(net)	25.0	26.0	9.00	0.0	0.0
Invts 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	**(610)**	**(816)**	**(541)**	**(650)**	**(650)**
Div Paid	(183)	(206)	(149)	(325)	(361)
Chg in Gross Debt	119	727	(796)	0.0	(250)
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	**(64.0)**	**522**	**(945)**	**(325)**	**(611)**
Currency Adjustments	208	9.00	118	0.0	0.0
Chg in Cash	521	(1,148)	969	237	103
Opg CFPS (Rp)	1,382	749	2,047	1,835	2,036
Free CFPS (Rp)	393	(1,905)	1,999	628	799

Source: Company, DBS Vickers, DBS Bank

Target Price & Ratings History



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

S.No.	Date	Closing Price	Target Price	Rating
1:	18 Sep 15	27950	25500	HOLD
2:	02 Nov 15	27300	25400	HOLD

Source: DBS Vickers, DBS Bank

DBS Vickers 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*

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