

27 September 2024

Consumer Non-cyclical | Food & Beverage Products

Ultrajaya Milk Industry & Trading (ULTJ IJ)

Gaining Momentum

Not Rated

Fair Value (Return): IDR2,300 (20.7%)
Price: IDR1,905
Market Cap: USD1,457m
Avg Daily Turnover (IDR/USD) 3,394m/0.22m

- **FV of IDR2,300 (21% upside) based on c.18x 2024F P/E.** We met with the management team of Ultrajaya Milk Industry & Trading, a leading fast-moving consumer goods (FMCG) company in Indonesia. With almost 50 years in the business, the company has a strong foothold in the dairy and tea drink segments with well-known brands such as Ultra Milk (its flagship brand), and Teh Kotak. UL TJ, with its strong brand awareness, stands to benefit from growing consumption of dairy products in Indonesia, and the upcoming rollout of the Government's free nutritious meal programme.
- **2Q24 results.** Revenue for 2Q24 was at IDR2.1trn (-6.6% QoQ, +12.7% YoY), bringing 1H24 sales to IDR4.4trn (+7.4% YoY). In 1H24, dairy product sales accounted for c.75% of revenue, while tea and other drinks contributed 18%. Third-party sources, which include toll manufacturing for Sanghiang Perkasa (which is part of Kalbe Farma (KLBF IJ, BUY, IDR1,970)) and Unilever Indonesia (UNVR IJ, NEUTRAL, IDR2,500) made up the remaining 7%. 2Q24 earnings came in at IDR350bn (-13.6% QoQ, +37.0% YoY), leading to IDR755bn net income in 1H24 (+23.6% YoY).
- **Regaining its foothold.** According to Jun 2024 Nielsen data, UL TJ holds a 36.8% market share in the UHT dairy category (1H23: 34.0%) – the highest among its peers – and a 61.8% market share in the ready-to-drink (RTD) tea segment (1H23: 59.7%). The company attributes the growing market share to its initiatives to strengthen its distribution network.
- **Expansion plans.** UL TJ has constructed a new factory in MM2100, Greater Jakarta. A new distribution centre and warehouse are in the final stages of construction, in the same location, and are expected to be fully operational by 4Q24. For the new factory, the UHT Process System machinery is being delivered in phases, with full installation expected in 2025. The factory is expected to increase the company's production capacity by 30%.
- **Regulatory risks.** The company is awaiting further details on the sugar tax regulations. It will take a cautious approach in managing potential cost increases from this regulation to maintain its competitiveness. UL TJ also remains optimistic about the free meal programme, but is awaiting details on the implementation of the initiative.
- **Prospects.** UL TJ remains optimistic for FY24. It is poised to benefit from the decline in milk prices and appreciation of the IDR against the USD. Note that most of its milk raw materials are imported, as national milk supply is not sufficient to meet demand. Based on annualised 1H24 earnings, UL TJ is trading at c.14-15x 2024F P/E with c.29% earnings growth. This is cheaper than Cisarua Mountain Dairy's (CMRY IJ, BUY, IDR5,700) c.27-28x 2024F P/E with c.28% net profit growth. UL TJ should be trading at c.18x 2024F P/E, translating to an FV of IDR2,300.

Analysts

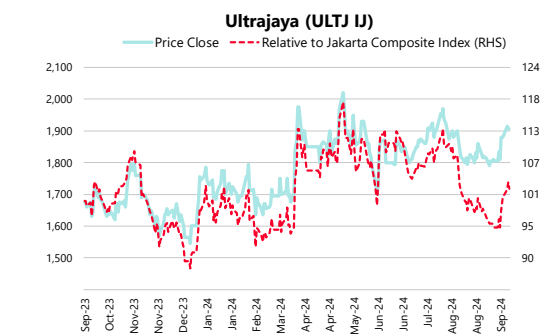
Vanessa Karmajaya
+6221 5093 9888 Ext 985
vanessa@rhbgroupp.com



Indonesia Research
+6221 5093 9888
rhb.id.research@rhbgroupp.com

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	19.1	5.2	3.3	3.5	16.2
Relative	12.6	3.4	(8.8)	(1.6)	4.3
52-wk Price low/high (IDR)				1,545	–2,020



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Total turnover (IDRb)	6,223	5,967	6,617	7,656	8,303
Recurring net profit (IDRb)	1,048	1,113	1,297	968	1,165
Recurring net profit growth (%)	50.3	6.3	16.5	(25.4)	20.4
Recurring P/E (x)	21.01	19.77	16.97	22.74	18.89
P/B (x)	4.0	4.7	4.4	3.8	3.3
P/CF (x)	20.07	18.08	15.56	84.70	15.72
Dividend Yield (%)	0.7	0.6	4.1	1.2	1.5
EV/EBITDA (x)	13.80	14.03	12.62	14.34	12.25
Return on average equity (%)	20.2	21.5	26.1	17.8	19.0
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

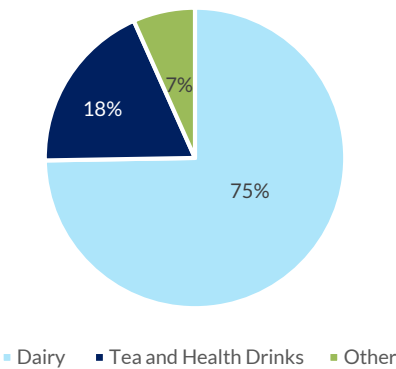
Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (IDR)	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Indonesia	Recurring EPS	90.69	96.37	112.27	83.76	100.86
Consumer Non-cyclical	DPS	12.99	11.83	77.45	23.53	28.30
Ultrajaya Milk Industry & Trading	BVPS	480.24	405.58	436.93	496.71	571.25
ULTJIJ	Return on average equity (%)	20.2	21.5	26.1	17.8	19.0
Not Rated						
	Valuation metrics	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Valuation basis	Recurring P/E (x)	21.01	19.77	16.97	22.74	18.89
P/E	P/B (x)	4.0	4.7	4.4	3.8	3.3
	FCF Yield (%)	5.0	5.5	6.4	1.2	6.4
Key drivers	Dividend Yield (%)	0.7	0.6	4.1	1.2	1.5
i. Low penetration of dairy products;	EV/EBITDA (x)	13.80	14.03	12.62	14.34	12.25
ii. Free meal programme;	EV/EBIT (x)	15.44	16.07	14.28	16.32	13.61
iii. Formidable distribution network.						
	Income statement (IDRb)	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Key risks	Total turnover	6,223	5,967	6,617	7,656	8,303
i. Intensifying competition;	Gross profit	2,342	2,229	2,375	2,457	2,692
ii. Volatility in raw material price (ie. skim milk).	EBITDA	1,396	1,402	1,602	1,447	1,618
	Depreciation and amortisation	(148)	(178)	(186)	(176)	(162)
	Operating profit	1,249	1,224	1,416	1,271	1,456
Company Profile	Net interest	104	47	(79)	7	21
Ultrajaya Milk Industry & Trading Company operates in the F&B sector, primarily focusing on milk and tea drinks. The company's well-known products in Indonesia include Ultra Milk (its flagship brand), Ultra Susu Kental Manis, Ultra Mimi, Teh Kotak, Sari Asem Asli, Sari Kacang Ijo, and Keju. Ultra Milk has consistently dominated the liquid milk market, while Teh Kotak leads the ready-to-drink tea-in-carton segment.	Pre-tax profit	1,375	1,422	1,542	1,289	1,507
	Taxation	(339)	(312)	(265)	(324)	(321)
	Reported net profit	1,032	1,100	1,272	961	1,169
	Recurring net profit	1,048	1,113	1,297	968	1,165
	Cash flow (IDRb)	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
	Change in working capital	(163)	(832)	(1)	(200)	366
	Cash flow from operations	1,097	1,217	1,414	260	1,400
	Cash flow from investing activities	(265)	(2,633)	1,024	552	449
	Dividends paid	(150)	(137)	(895)	(272)	(327)
	Cash flow from financing activities	(236)	1,025	(2,490)	(1,162)	(923)
	Cash at beginning of period	1,444	2,041	1,650	1,599	1,249
	Net change in cash	596	(391)	(51)	(350)	926
	Ending balance cash	2,041	1,650	1,599	1,249	2,174
	Balance sheet (IDRb)	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
	Total cash and equivalents	2,041	1,650	1,599	1,249	2,174
	Tangible fixed assets	1,716	1,878	2,193	2,453	2,595
	Total investments	817	796	281	100	111
	Total assets	6,608	8,754	7,407	7,376	7,523
	Short-term debt	19	2	1	1	2
	Total liabilities	953	3,972	2,269	1,554	837
	Total equity	5,655	4,782	5,138	5,823	6,686
	Total liabilities & equity	6,608	8,754	7,407	7,376	7,523
	Key metrics	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
	Revenue growth (%)	13.7	(4.1)	10.9	15.7	8.4
	Recurrent EPS growth (%)	50.3	6.3	16.5	(25.4)	20.4
	Gross margin (%)	37.6	37.3	35.9	32.1	32.4
	Operating EBITDA margin (%)	22.4	23.5	24.2	18.9	19.5
	Net profit margin (%)	16.6	18.4	19.2	12.6	14.1
	Dividend payout ratio (%)	14.5	12.4	70.4	28.3	28.0
	Interest cover (x)	752	36	6	11	30

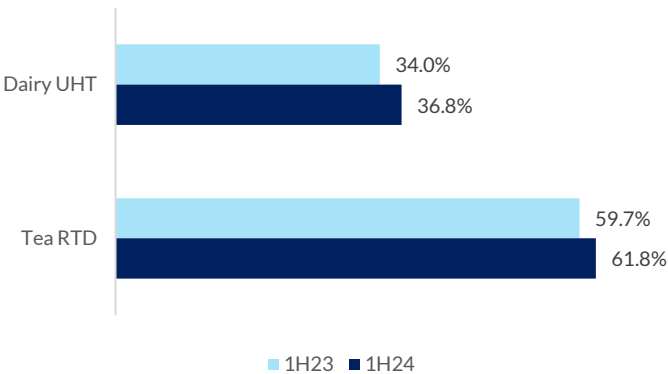
Source: Company data, RHB

Figure 1: Segmental revenue breakdown



Source: Company

Figure 2: ULTJ's market share



Source: Company

Figure 3: ULTJ's wide range of products



Source: Company

Figure 4: ULTJ's new factory



Source: Company

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Figure 5: ULTJ's 2Q24 results highlights

IDRbn	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	6M23	6M24	YoY (%)
Sales	1,906	2,298	2,147	(6.6)	12.7	4,140	4,445	7.4
COGS	1,303	1,521	1,427	(6.2)	9.5	2,797	2,948	5.4
Gross profit	602	777	720	(7.3)	19.6	1,343	1,497	11.5
Selling exp	212	243	282	16.2	33.1	406	524	29.1
G&A exp	76	62	69	12.8	(9.0)	129	131	1.5
Operating expenses	288	304	351	15.5	22.0	535	655	22.5
Operating profit	314	473	369	(21.9)	17.4	807	842	4.3
Net interest income/(expense)	22	13	10	(19.1)	(52.9)	17	23	30.6
Interest income	35	13	11	(19.6)	(69.8)	44	24	(46.7)
Interest expense	(13)	(1)	(0)	(29.5)	(97.0)	(27)	(1)	(96.4)
FX gain (expense)	(4)	32	68	113.2	nm	(43)	100	nm
Other income/ (expense)	(2)	3	5	51.9	nm	9	8	(7.9)
Total other income (costs)	15	48	83	74.2	457.3	(17)	131	nm
Pretax profit	329	520	452	(13.1)	37.4	790	973	23.1
Taxation	(71)	(113)	(100)	(11.7)	39.7	(175)	(213)	22.0
Minority interest	(2)	(2)	(3)	7.0	9.6	(5)	(5)	(3.7)
Net profit	256	405	350	(13.6)	37.0	611	755	23.6
Others	(5)	28	57	106.8	nm	(27)	85	nm
Core profit	261	377	293	(22.4)	12.4	638	670	5.2
Margin (%)								
Gross margin (%)	31.6	33.8	33.6			32.4	33.7	
Operating margin (%)	16.5	20.6	17.2			19.5	18.9	
Pretax margin (%)	17.3	22.7	21.1			19.1	21.9	
Net margin (%)	13.4	17.6	16.3			14.8	17.0	
Turnover days								
Inventory Days	89	70	83			83	80	
Receivable Days	31	36	31			29	30	
Payable Days	29	28	32			27	31	
CCC days	92	78	82			85	80	

Source: Company

Recommendation Chart



Source: RHB, Bloomberg

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470