

19 February 2024

Consumer Cyclical | Consumer Products

Cisarua Mountain Dairy (CMRY IJ)

Buy

Unlocking Growth Potential; Initiate BUY

Target Price (Return): IDR5,000 (+17%)
 Price (Market Cap): IDR4,260 (USD2,163m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (IDR/USD) 6,782m/0.44m

Analysts

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

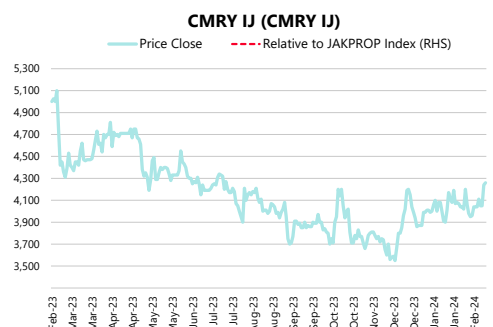


Indonesia Research
 +6221 5093 9888
rhb.id.research@rhbgroupp.com

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	6.2	6.2	12.7	6.2	(14.3)
Relative	6.2	6.2	12.7	6.2	(14.3)
52-wk Price low/high (IDR)				3,550	–5,100

- Initiating coverage with a BUY and IDR5,000 TP, 17% upside.** Cisarua Mountain Dairy is well-positioned to capture the untapped dairy and processed meat market in Indonesia. It has emphasised on innovating products and being prudent in addressing its target market, while strengthening its distribution channel has provided a competitive edge. This strategy has been fruitful, as reflected in its solid financial performance – CMRY has won new consumers and gained market share despite intense competition from large players that have been in the industry much longer.
- Cultivating brand equity through strategic marketing.** We deem CMRY's strategic marketing initiatives as crucial in enabling it to stay ahead of the curve. Its advertising & promotion (A&P) allocation – mostly directed towards digital channels – helped entice suitable target markets, particularly the premium and younger segments. The company remains agile in adjusting strategies, ie setting up temporary ice cream booths at the Moo-gical Treats event and promoting Kanzler Crispy Bubble Crumb by featuring celebrity Nicholas Saputra on billboards. We see the company remaining prudent in terms of managing its A&P cost and profitability levels.
- Unlocking new markets through continuous product innovation.** Despite having more established competitors in both the dairy and consumer foods sectors, CMRY occupies a sweet spot in the domestic market due to its innovative product development. It aims to cater to a wide range of consumers by having 14 different flavours of Cimory ultra high temperature (UHT) milk, and emphasises on the “convenience” aspect with products like Cimory Yoghurt Squeeze and Kanzler Singles, and launching novel items, ie Kanzler Crispy Bubble Crumb nuggets. With its deep market research and knowledge, we believe CMRY can remain at the market's forefront.
- Fortifying distribution toehold.** Currently, CMRY's modern trade (MT) makes up a sizeable portion of its distribution channel, and it plans to expand the general trade (GT) portion too. We remain positive on this, given the majority of Indonesia's fast-moving consumer goods (FMCG) products are distributed through GT. This should be positive to fuel its performance, especially for UHT products – which remain as the entry point for consumers to move on to higher-margin yoghurt products. CMRY plans to double the size of Miss Cimory – its own dedicated sales agent network – over the next 3-4 years. We like this strategy, which enables it to strengthen ties with consumers and boost customer loyalty.
- Financial outlook, valuation, and ESG.** We expect CMRY to continue booking solid financial results, given its continuous product innovation and untapped market potential. Margin growth should continue, due to the continuous drop in commodity prices. Our IDR5,000 TP also reflects c.25x 2024F P/E. its valuation premium over the peer average is justified, in view of its sturdy growth outlook. Note that CMRY is still trading at a discount from the regional peer average. Our TP includes 4% ESG premium over the stock's intrinsic value, as CMRY's ESG score of 3.2 is two notches above the country median.



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E: GOOD

CMRY's environmental management policy was crafted in accordance with prevailing environmental protection rules, regulations, and industry requirements. It is dedicated to the responsible use of resources, providing a strategic advantage by containing operating costs and ensuring ongoing access to natural resources.

S: GOOD

Its community development programmes are carefully crafted in view of its sustainability vision and mission, as well as the needs of the government and local communities. This ensures that these programmes achieve the highest level of success, fostering a sense of belonging that promotes self-sufficiency and enhances public welfare.

G: EXCELLENT

To ensure the effective oversight of sustainability matters and foster long-term value creation, the company has incorporated sustainability into its existing governance framework. CMRY upholds principles of transparency and information disclosure. A robust risk oversight and management system, along with internal controls, is in place to identify, assess, monitor, and manage material risks related to the company's activities.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (IDRb)	4,096	6,378	7,729	9,012	10,364
Recurring net profit (IDRb)	790	1,061	1,303	1,595	1,859
Recurring net profit growth (%)	346.4	34.2	22.9	22.4	16.6
Recurring P/E (x)	42.78	31.87	25.94	21.19	18.18
P/B (x)	7.2	6.4	5.6	4.8	4.2
P/CF (x)	285.79	na	na	33.99	28.29
Dividend Yield (%)	1.2	1.5	1.5	1.9	2.4
EV/EBITDA (x)	28.17	23.52	19.33	15.85	13.38
Return on average equity (%)	29.1	21.3	23.0	24.4	24.7
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Financial Exhibits

Asia	Financial summary (IDR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Indonesia	Recurring EPS	99.59	133.66	164.21	201.07	234.35
Consumer Cyclical	DPS	50.41	63.01	63.49	82.11	100.54
Cisarua Mountain Dairy	BVPS	591.94	662.69	763.41	882.38	1,016.19
CMRY IJ	Return on average equity (%)	29.1	21.3	23.0	24.4	24.7
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	42.78	31.87	25.94	21.19	18.18
10-year DCF	P/B (x)	7.2	6.4	5.6	4.8	4.2
	FCF Yield (%)	(0.4)	(2.5)	(1.9)	1.9	2.4
Key drivers	Dividend Yield (%)	1.2	1.5	1.5	1.9	2.4
i. Increasing disposable income to drive growth in dairy and poultry consumption;	EV/EBITDA (x)	28.17	23.52	19.33	15.85	13.38
ii. Continuous product innovation to boost market share;	EV/EBIT (x)	29.89	25.22	20.82	17.03	14.38
iii. Margin expansion from declining commodity prices and stable FX rates;						
iv. Expanding its distribution channel to strengthen its nationwide presence;						
v. Effective marketing strategies to boost brand and product awareness.						
	Income statement (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	4,096	6,378	7,729	9,012	10,364
i. USD appreciation against IDR;	Gross profit	1,973	2,668	3,223	3,830	4,425
ii. Unfavourable changes in government regulation;	EBITDA	1,070	1,346	1,636	1,972	2,300
iii. Increasing commodity prices.	Depreciation and amortisation	(62)	(91)	(117)	(137)	(159)
	Operating profit	1,008	1,255	1,520	1,835	2,141
Company Profile	Net interest	4	72	18	17	20
Cisarua Mountain Dairy is a prominent producer of premium dairy and consumer foods in Indonesia. Established in 2005, the company is a leading player in the dairy and consumer foods categories, which is a testament of its strong history of offering innovative products.	Pre-tax profit	1,016	1,343	1,692	2,032	2,369
	Taxation	(226)	(282)	(389)	(437)	(509)
	Reported net profit	790	1,061	1,303	1,595	1,859
	Recurring net profit	790	1,061	1,303	1,595	1,859
	Cash flow (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(121)	(1,407)	(427)	(318)	(334)
	Cash flow from operations	118	(139)	(190)	994	1,195
	Capex	(259)	(691)	(456)	(364)	(388)
	Cash flow from investing activities	(302)	(1,564)	362	(391)	(416)
	Cash flow from financing activities	3,779	200	(162)	(227)	(303)
	Cash at beginning of period	67	3,662	2,159	2,169	2,546
	Net change in cash	3,595	(1,503)	10	377	475
	Ending balance cash	3,662	2,159	2,169	2,546	3,021
	Balance sheet (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	3,662	2,159	2,169	2,546	3,021
	Tangible fixed assets	668	1,267	1,606	1,834	2,064
	Total assets	5,604	6,223	7,186	8,315	9,578
	Total liabilities	907	965	1,129	1,314	1,515
	Total equity	4,697	5,258	6,058	7,001	8,063
	Total liabilities & equity	5,604	6,223	7,186	8,315	9,578
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	120.0	55.7	21.2	16.6	15.0
	Recurrent EPS growth (%)	346.4	34.2	22.9	22.4	16.6
	Gross margin (%)	48.2	41.8	41.7	42.5	42.7
	Operating EBITDA margin (%)	26.1	21.1	21.2	21.9	22.2
	Net profit margin (%)	19.3	16.6	16.9	17.7	17.9
	Dividend payout ratio (%)	50.6	47.1	38.7	40.8	42.9
	Capex/sales (%)	6.3	10.8	5.9	4.0	3.7
	Interest cover (x)	322	335	440	2,414,304	2,965,642

Source: Company data, RHB

Solidifying Its Market Footing

According to the Organisation for Economic Co-operation and Development or OECD, countries like China recorded consumption of fresh dairy products of 20kg per capita in 2020 while Indonesia was far behind, at <5kg per capita during the same year. This presents ample opportunities for CMRY to bank on the domestic market. According to Euromonitor and US Department of Agriculture (USDA), the demand for several types of dairy products have surged over the last few years (Figure 2). Based on the data, we believe that the Indonesia's dairy industry has significant untapped potential for growth. According to Statista, revenue from sales of dairy products and eggs in Indonesia could amount to USD26.05bn in 2024, with the market expected to grow 5.74% annually (CAGR for 2024-2028F). Sector revenue of the Indonesia milk market may come up to USD11.63bn in 2024, with this market expected to grow 5.78% annually (CAGR 2024-2028F).

Figure 1: Fresh milk consumption (in kg) per capita

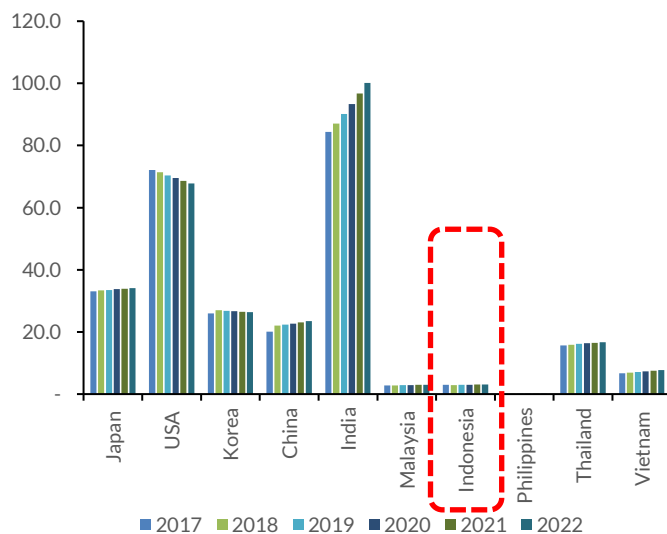
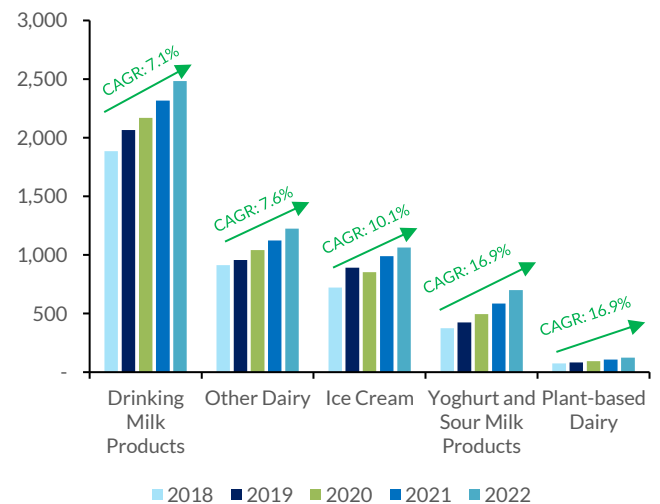


Figure 2: Indonesia sales of packaged dairy F&B products (in USDm)



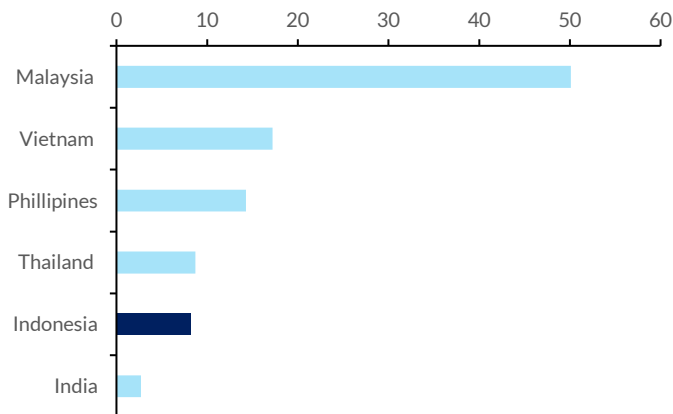
Source: OECD

Source: Euromonitor, USDA

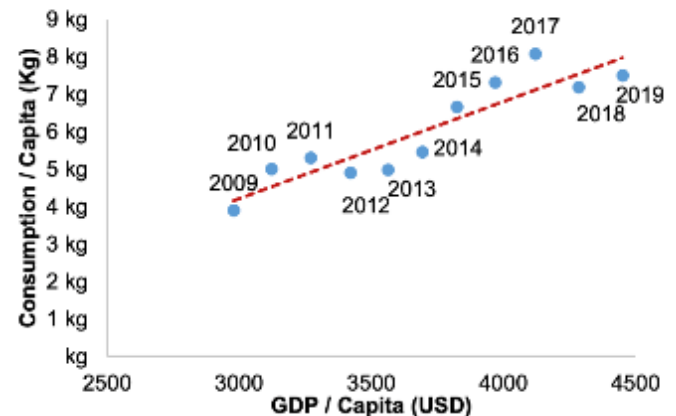
Indonesia's meat consumption has been lagging behind that of other countries as well. The country's rising consumption narrative – based on disposable income per capita (which is expected to continue growing) – should lead to a higher poultry meat consumption per capita. Poultry meat consumption is a major beneficiary of a rising consumption backdrop, due to Indonesia's Muslim-majority population. According to Statista, the consumption per capita of poultry meat here is expected to continuously increase by 1.1kg for the next few years – and reach 9.3kg in 2029.

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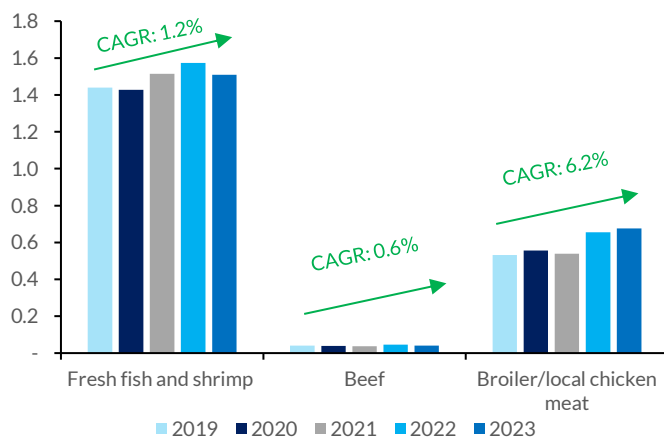
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Figure 3: Poultry meat consumption (in kg) per capita for 9M23 in several Asian countries

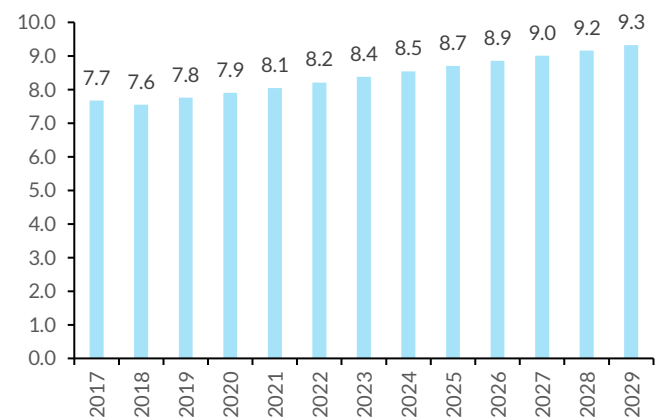
Source: Japfa Comfeed Indonesia's (JPFA) 9M23 presentation

Figure 4: Poultry meat consumption increased in tandem with GDP growth in Indonesia

Source: JPFA's 9M23 presentation

Figure 5: Monthly average consumption per capita of fresh fish and shrimp, beef, and broiler/local chicken meat (in kg), Mar 2019-2023

Source: Statistics Indonesia (BPS)

Figure 6: Indonesia poultry meat consumption (in kg) per capita

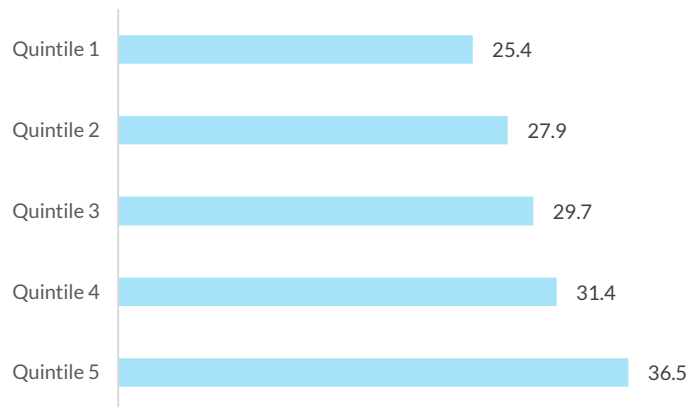
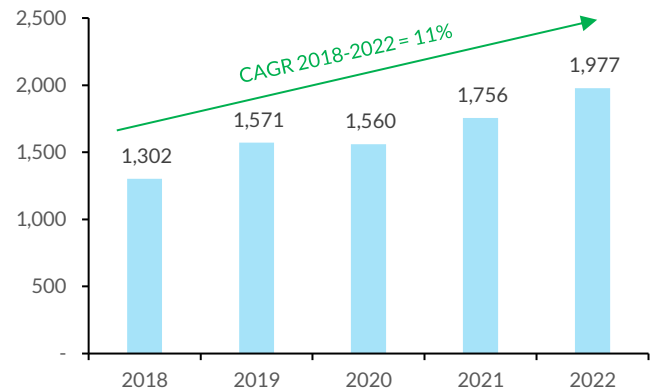
Source: Statista

Interestingly, more consumers in urban areas are turning to frozen/chilled processed foods sold in retail shops (especially poultry products like nuggets and sausages) as opposed to wet markets. We also note that expenditure on prepared food and beverages increases in tandem with the growth of consumer income, and as consumers themselves move to higher tiers of income.

The expansion of modern retail channels has significantly helped to broaden the market for frozen food. Indonesia's revenue in the ready-to-eat (RTE) meals market may amount to USD7.99bn in 2024, with the market expected to grow annually by 4.89% (CAGR over 2024-2028F), according to Statista. The market researcher also estimated that sales revenue of processed meat products may total USD3.4bn in 2024F. This segment is expected to grow annually by 6.41% (CAGR over 2024-2028F).

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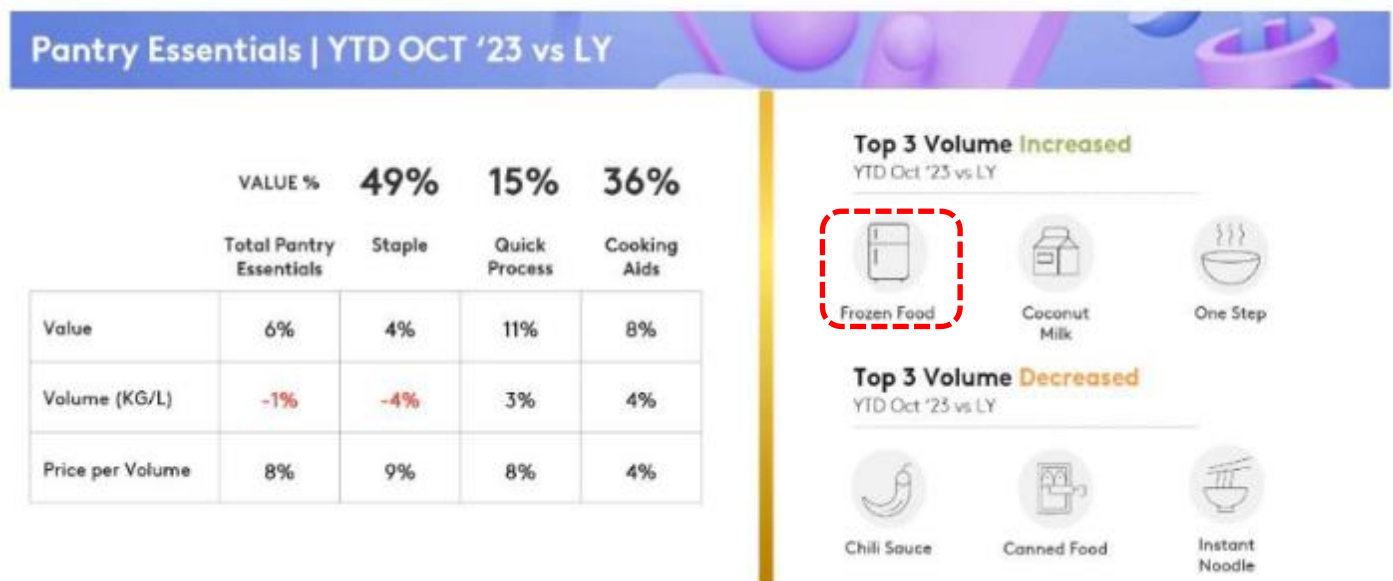
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Figure 7: Percentage of monthly average expenditure per capita for prepared food and beverages (by quintile), Mar 2023**Figure 8: Indonesia sales of processed meat, seafood, and meat alternatives (in USDm)**

Source: BPS

Source: Euromonitor, USDA

Recent data from Kantar also showed that frozen food products was still one of the food categories to book positive sales volume growth in 10M23 amidst a challenging economic backdrop. Frozen food plays a prominent role in driving the organic growth of the quick-process sector, thereby presenting substantial opportunities for further development. Sizeable growth headroom is visible across all categories in this sector, especially in the frozen food category and RTE sausage – CMRY has products in this segment via the Kanzler brand.

Figure 9: Segmental overview of essential pantry products

Source: Kantar

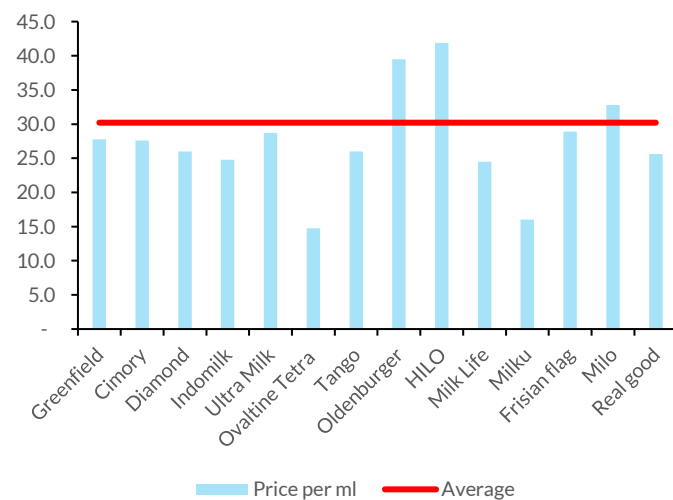
Figure 10: Segmental overview of quick-process food products



Source: Kantar

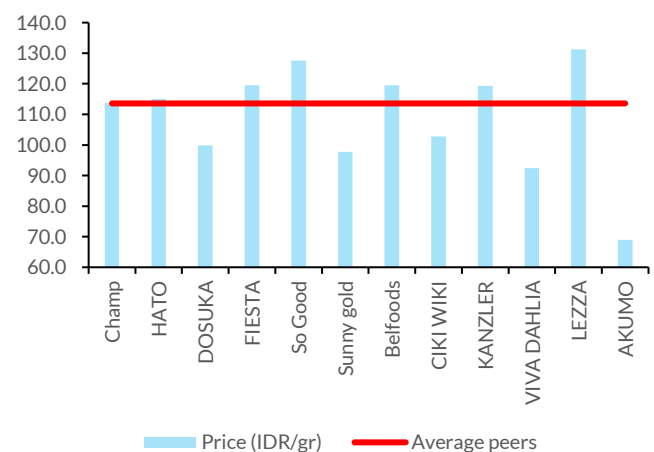
To capture extensive growth opportunities amidst intense competition, market positioning is a crucial consideration. For CMRY, its dairy and consumer foods are known as affordable premium products, ie items have accessible pricing while product quality goes uncompromised. Its UHT milk and chicken nugget products are also competitively priced. Although the average price per volume of its UHT products are not the lowest in the market, it is still lower than the average price of its peers. We believe the premium pricing of its chicken nuggets is justifiable in light of its product quality and unique taste. CMRY's focus on premium customers is understandable because the middle- to upper-income customer segments have greater resilience in a challenging economic environment.

Figure 11: Price comparison across key UHT milk brands



Source: RHB, Company

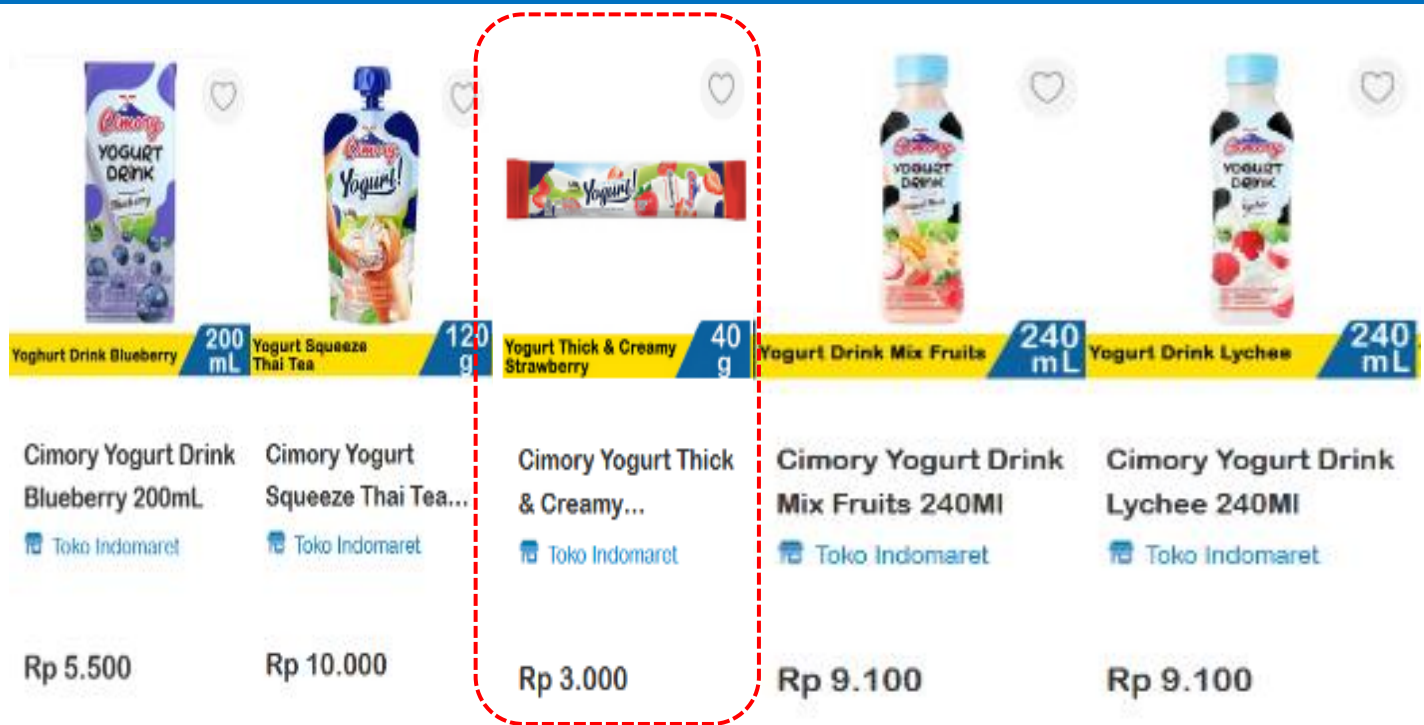
Figure 12: Price comparison across chicken nugget brands



Source: RHB, Company

CMRY has remained nimble in terms of adapting to market situations. It launched its RTE sausage product to take advantage of higher demand for RTE products caused by a busier lifestyle, while pricing its items at lower levels. For its dairy products section, the company also launched a yoghurt stick with much lower pricing – thereby paring down the price entry point for consumers who want to try the new product. These initiatives have enabled the company to expand its consumer base to cover the lower-tier consumer segment, which has limited spending power.

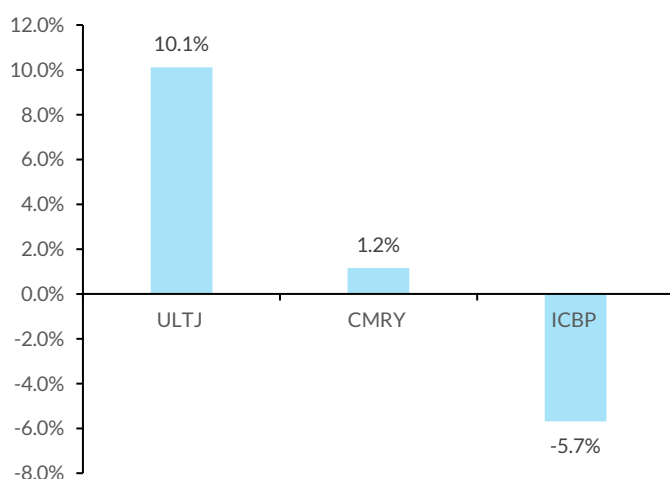
Figure 13: Various packaging types of CMRY's yoghurt products



Source: Klik Indomaret

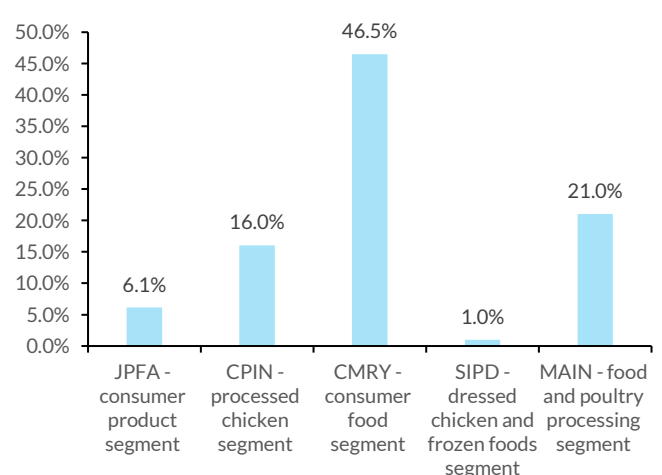
We note that these initiatives have borne fruit, and CMRY booked positive revenue growth during 3Q23. For the dairy segment, its YoY revenue growth was ranked second among the listed dairy companies. It gained strong market share over the last few years for its UHT products. For consumer products, CMRY has chalked strong revenue growth – the highest among its peers. Moreover, its new chicken nuggets product – Kanzler Crispy Chicken Nugget with Crispy Bubble Crumb and RTE Sausage – has gained much consumer interest, according to Kantar.

Figure 14: 3Q23 YoY revenue growth for several listed consumer companies (only for the dairy segment)



Source: RHB, Company data

Figure 15: 3Q23 YoY revenue growth for several listed consumer and poultry companies (only for processed chicken/frozen food segments)



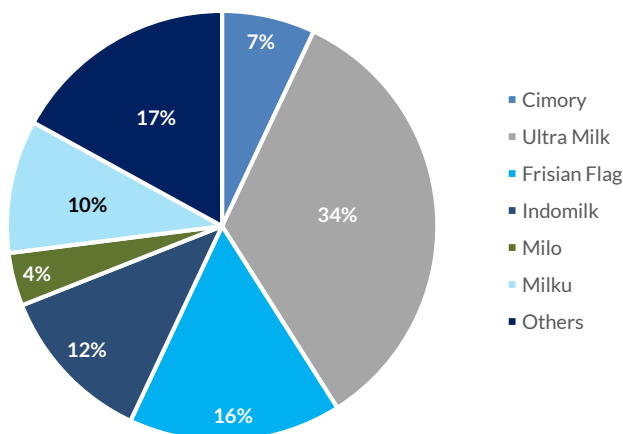
Source: RHB, Company data

Figure 16: Top-growing frozen food and out-of-home urban brands – YTD Oct 2023 vs a year ago



Source: Kantar

Figure 17: UHT volume market share



- ◆ CMRY continues to strengthen its market position – as reflected by its market share reaching 7% in 9M23
- ◆ This is higher than its 9M22 market share of 6%, and is a testament of its ability to provide unique selling points to entice consumer interest and boost loyalty amidst intense competition

Source: Nielsen, RHB, Ultrajaya Milk Industry & Trading Co's (ULTJ) 2023 Public Expose Presentation

In looking at CMRY's continuous market share growth, we believe that the strategies it has implemented will help facilitate this expansion. Also, the consumer response to its premium food products – particularly evidenced by Kanzler being a top-growing frozen food brand – highlights the effectiveness of its affordable premium strategy.

Cementing Its Foothold Via Strategic Marketing

As a new player, CMRY requires higher A&P allocations, as it has to implement strategies to introduce and familiarise customers to and with its products. Although its A&P costs-to-revenue ratio is higher than that of other consumer staples companies, a noteworthy trend has emerged – the percentage of its A&P costs to revenue has stabilised to 9-11% since 1Q23. We believe it will remain at this level as the company has successfully gained traction with a more effective marketing mix in spite of its later entrance into the market vs peers. Looking forward, it will now focus on improving profitability

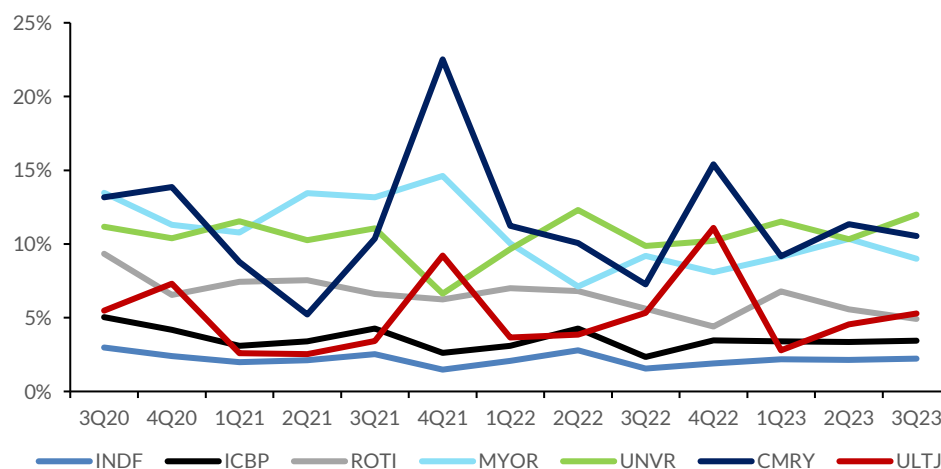
Figure 18: CMRY as a category creator



- ◆ CMRY is the first company in the country to introduce 12 different UHT milk flavours
- ◆ The first mover in the RTE premium category with Kanzler Singles
- ◆ Pioneered the first yoghurt product in a pouch format with Cimory Yoghurt Squeeze

Source: Company data

Figure 19: The percentage of CMRY's A&P costs to revenue has normalised since 1Q23



Source: Company data, RHB

Keeping abreast with the latest consumer trends

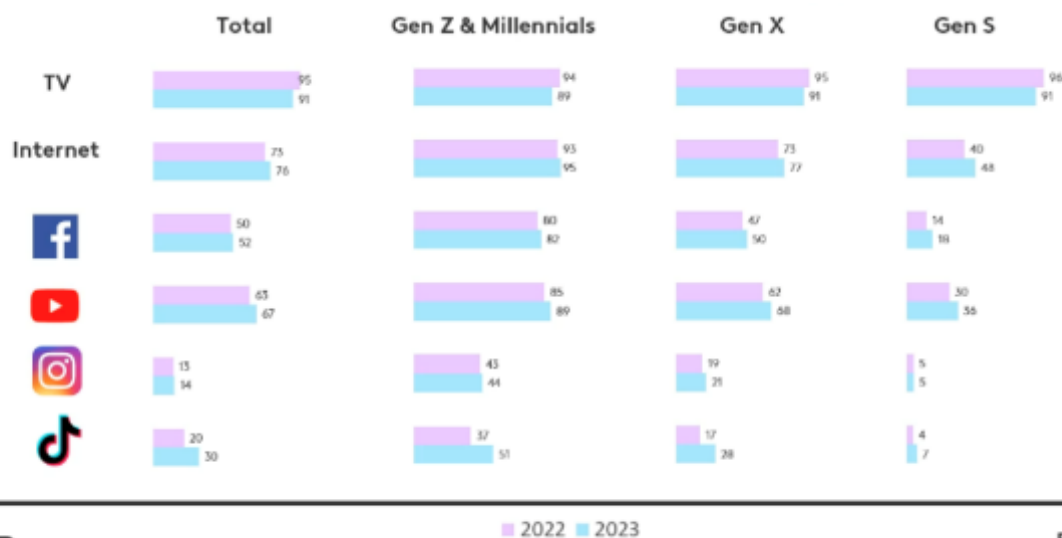
We note that the company has increased its focus on catering to the younger consumer segment. Here, it believes that promoting its products through digital channels should play a key role. That said, it has a presence across all social media and e-commerce platforms.

Figure 20: Shopper behaviour by generation – the younger generation (especially Generation Z and millennials) drives growth across all spending parameters as they are more prone to make more explorative purchases



Source: Kantar

Figure 21: Digital media penetration (%) by FMCG shopper age – the younger generation leans more towards digital channels



KANTAR

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INDONESIA 2024 ²⁴

Source: Kantar

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CMRY believes that fostering closer ties with the consumer is still important. We note that its marketing campaigns via TikTok, Instagram and YouTube are aimed at persuading the audience to purchase its products at the nearest convenience store or supermarket. CMRY also maintains official stores on several e-commerce platforms such as Shopee, Tokopedia, and Blibli.com.

Figure 22: CMRY's online presence on Shopee



Source: Instagram

Figure 23: Online performance of Cimory on Shopee

		Number of products sold	Number of followers	Rating	Number of people who give ratings	Joining date	Chat performance	Last online
Ultrajaya	Official Store	114	133,000	4.9	86,700	Six years ago	100%	Eight minutes ago
Frisian Flag	Official Shop	459	232,300	4.9	660,500	Six years ago	100%	Six minutes ago
Indomilk	Official Shop	301	25,800	4.9	77,900	Six years ago	99%	18 minutes ago
Milku	Wings Official Shop	3,300	1,400,000	4.9	6,500,000	Six years ago	100%	Six minutes ago
Milo	Nestle Indonesia	780	524,800	4.9	741,500	Six years ago	100%	One minutes ago
Cimory	Official Shop	51	43,400	4.9	7,800	Four years ago	57%	26 minutes ago

Source: Shopee, RHB

Figure 24: Online performance of Kanzler on Tokopedia

	Status	Points	Rating	Type of deliveries	Joining time	Number of logistics couriers	Promos	Last online
Champ Nugget	Silver 5	3,444	4.9	Service normal	Jun-20	1	N/A	57 minutes ago
Fiesta Nugget	Gold 3	17,053	4.9	Service normal	Jun-20	1	N/A	Four hours ago
Cedea Official Store	Gold 3	25,159	5.0	Same day instant	Feb-20	2	N/A	One hour ago
Kanzler Official Store	Gold 4	37,932	4.9	Same day instant	Mar-20	2	N/A	yesterday

Source: Tokopedia, RHB

Figure 25: Online performance of Kanzler on Shopee

	Number of products	Number of followers	Rating	Number of people who give ratings	Joining date	Chat performance	Last online
Prima Freshmart Official	178	46,800	4.8	13,000	Seven years ago	22%	Eight minutes ago
Cedea Official Store	61	51,500	4.9	34,500	Four years ago	82%	Five minutes ago
Belfoods Official Store	30	11,700	4.9	1,600	Two years ago	85%	26 minutes ago
Cimory Kanzler Official Store	25	70,800	5.0	10,700	Four years ago	99%	Temporary closed

Source: Shopee, RHB

Figure 26: Online performance of Kanzler on Blibli.com

	Rating	Followers	Response Time	Positive Feedback	Timely Delivery Time	Success Rate
PRIMA FRESHMART	91%	864	48%	99%	99%	99%
CEDEA Jakarta Pusat Official Store	89%	215	54%	100%	90%	94%
Belfoods Official Store	N/A	N/A	N/A	N/A	N/A	N/A
Kanzler Official Store	95%	690	75%	98%	98%	100%

Source: Blibli, RHB

Latest Moo-gical treats offline point to strong enthusiasm

Aside from having a solid digital channel presence, the company believes that ramping up efforts on its offline channels remains a critical tactic to grow. Our discussions with a number of FMCG players indicate that having above-the-line marketing initiatives are important in enhancing product visibility. Also, having below-the-line activities creates closer ties between it brands and consumers.

To this end, CMRY opened an ice cream pop-up store at the Pacific Place shopping mall from 18 Dec 2023 to 14 Jan 2024 – which we visited. The pop-up store offers affordably priced ice cream in a premium shopping centre like Pacific Place. The goal is to attract customers to purchase products and indirectly encourage them to try CMRY's UHT milk products. As a company with multiple UHT milk products, this would enable the company to directly feature these items to its target market.

The pop-up store featured ice cream products in various flavours, including Chocolate Mint, Matcha, Marie Biscuit, and Chocolate Tiramisu. However, only two flavours were available each day. We believe this tactic attracted customers to visit the store more than once to try all the ice cream variants. When we visited the store for the second consecutive day, we noted that long queue of people waiting to enter it. Even though the store was open for two sessions a day, it often closed early as it hit its customer target quota for the day.

While customers were waiting in line, staff offered Cimory Yoghurt Sticks to those who participated in promotional activities via social media. Such initiatives, eg digital promotions on TikTok, have been effective. CMRY's content at Pacific Place consistently appeared on users' For You Page or FYP and, based on our interviews with visitors to the Moo-gical Treats event, many became aware of the event through TikTok video recommendations on their FYPs.

Figure 27: Moo-gical Treats event at Pacific Place



- ◆ The Moo-gical Treats event received a positive response, evidenced by the long queues being closed just 15 minutes after the store opened – this was due to the ice cream product reservations quota being fully filled

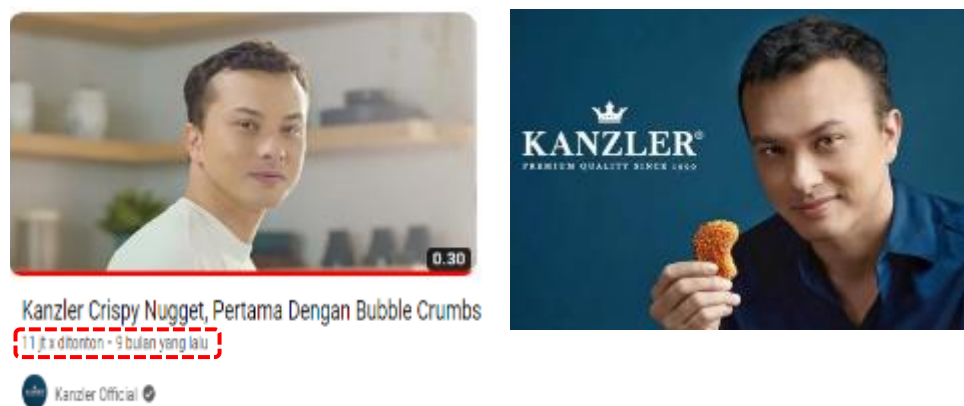
Source: RHB

Kanzler Crispy Bubble Crumb: Another success story

CMRY's promotion of Kanzler Crispy Bubble Crumb was also success. Kanzler's YouTube advertisement that featured actor Nicholas Saputra had 11m views. The timing of the advertisement was strategic – it began screening at the start of the fasting month in 2023 – and the advertisement made reference to heightened cooking activities associated with *Ramadan*.

Also, effective copywriting for the Kanzler Crispy Bubble Crumb campaign also greatly increased the popularity of the product. As of 9M23, the premium consumer foods segment has experienced an impressive revenue growth of 46% YoY.

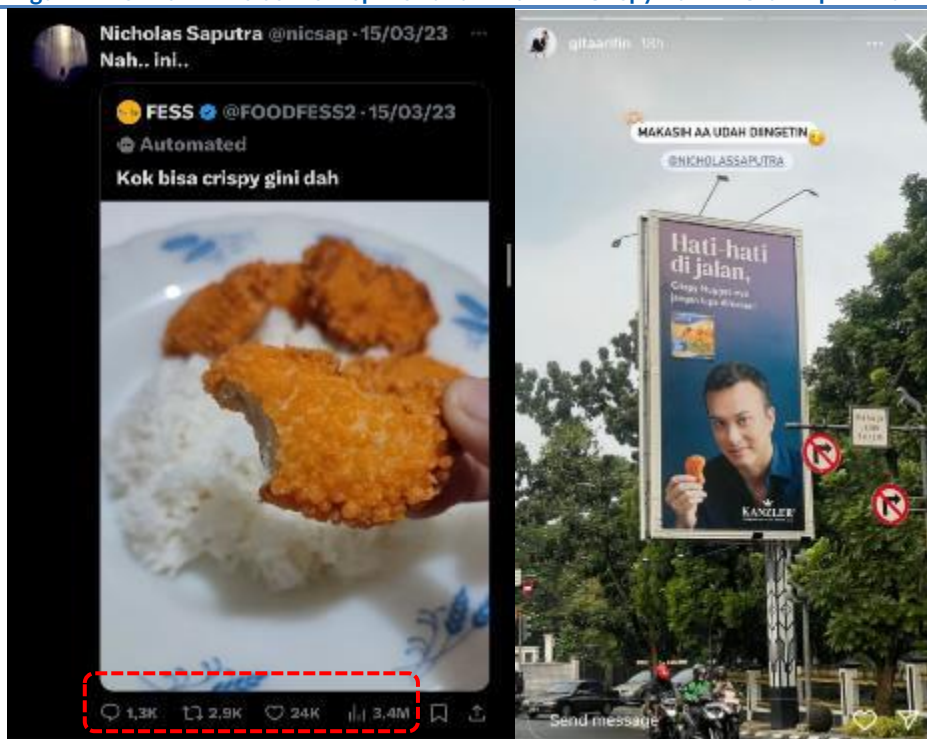
Figure 28: Nicholas Saputra as Kanzler's brand ambassador



- ◆ Nicholas Saputra is an Indonesian actor who is known for the film *Ada Apa dengan Cinta*, which was released in 2001. His becoming Kanzler's brand ambassador has been a successful strategy for CMRY

Source: YouTube

Figure 29: Social media user's response to the Kanzler Crispy Bubble Crumb promotion



Source: Instagram, X

- ◆ Effective copywriting helped to generate social media traffic – and this contributed to the success of the Kanzler Crispy Bubble Crumb promotional campaign

Fostering Growth Through Continuous Product Innovation

CMRY has a clear direction in developing its product portfolio. In terms of dairy, we observed that its main focus is on expanding the UHT milk and yoghurt segments. That said, it is also looking at other dairy-based products too, such as ice-cream (as seen by the market testing done at Pacific Place) over the long term. CMRY is looking to grow its UHT segment first, to increase the consumption of yoghurt – a segment not so popular with local consumers.

We believe CMRY's focus on developing these sectors is effective – as proven by the company's ability to maintain its growing market share – even as competition in the UHT milk segment intensifies. In the yoghurt segment, CMRY said it has become the market leader with a share of c.65-70%.

In consumer foods, its RTE and ready-to-cook (RTC) products come with unique selling points – these points made the items well-received by new customers, as seen by the rising popularity of the company's RTE sausages and Kanzler Singles, as well as in RTC products like Kanzler Crispy Bubble Crumb.

Overall, CMRY's consumer food products show that the company engages in continuous product development. However, its market share in this segment is still dwarfed by that of other consumer food manufacturers.

Figure 30: Cimory's product portfolio



Source: Company data

Pipeline of product innovations as the main growth engine

As of 11M23, CMRY has launched six stock-keeping units or SKUs, as seen in Figure 31. In our view, the company's new product launches serve two main purposes: i) Capture new markets/consumer base, and/or ii) strengthen existing ones. Taking CMRY's UHT milk products as an example, the company currently has 14 items after introducing 12 different flavours during the period when it undertook its IPO. CMRY said this move was aimed at capturing consumer attention by offering new and unique flavours that were not provided previously by other UHT milk players. Moreover, among the 14 flavours offered, the company provided various types of chocolate-based flavours aimed to appeal to local consumers. This focus on UHT milk products also positively impacts CMRY's sister product in the dairy segment, ie yoghurt.

Through our discussions with management, we have identified that the domestic yoghurt market still holds significant potential. However, one challenge facing the Indonesian yoghurt market is the perception that it has a sour taste and may not be in line with local preferences. Therefore, CMRY leverages the premium image established by its UHT milk products to instil trust among consumers, ultimately encouraging them to try its yoghurt offerings – it even offers the sweeter flavours favoured by locals. And, after successfully establishing a new market for sweet-flavoured yoghurt products, CMRY will diversify the flavours offered. As of 9M23, there are 12 different flavours of Cimory Yoghurt Squeeze available.

The strategies used for CMRY's UHT milk and Cimory Yoghurt Squeeze products are also applied to its consumer food items. To penetrate a new market for RTE products, the company launched the Kanzler Singles range that prioritises convenience and offers premium quality products at affordable prices. Other players in this market that have yet to prioritise such premium quality – this has, in turn, led to low brand loyalty and often vulnerability during price wars. We hold the view that CMRY's emphasis on affordable premium quality and convenience through its Kanzler brand creates customer stickiness.

Similar to its other product lines, the company also expands the product types and flavours of its Kanzler Singles offerings. Management continues to work on developing new products, eg Kanzler Singles Meatball – which has also been well received.

Figure 31: CMRY's new SKUs as of 11M23

No.	Product	Details
1	Cimory Yoghurt Stick	New Product: Plain
2	Cimory Yoghurt Stick	New Product: Strawberry
3	Cimory UHT Milk	Flavour extensions: Chocolate Mint
4	Cimory UHT Milk	Flavour extensions: Peanut Butter
5	Kanzler RTC	New Product: Crispy Chicken Nuggets
6	Kanzler RTC	New Product: Crispy Nugget Sticks

Source: Company data

Figure 32: CMRY's product launches (2007-2023)

Year	Product	Details
2007	Cimory Yoghurt Drink	250ml variant
2015	Cimory Fresh Milk	950ml variant
	Yoghurt Drink UHT Besto	200ml variant
2016	Cimory Yoghurt Drink	Grilled sausage
		70ml variant
2019	Kanzler Singles RTE	Four SKUs
	Cimory UHT Milk	250 ml variant
	Kanzler RTC	Chicken nuggets
2020	Yoghurt Drink Low Fat	250ml variant
	UHT Milk	125ml variant
	Cimory Yoghurt Squeeze	120gr variant
	Cimory Greek Yoghurt	450ml variant
2021	Kanzler Singles	RTE Meatballs (original, cheese, and rawit)
2022	Cimory UHT Milk	Chocolate caramel and salted caramel
	Cimory Yoghurt Squeeze	Thai Tea
	Kanzler Singles RTE	Gochujang
2023	Cimory Yoghurt Stick	Plain and strawberry
	Cimory UHT Milk	Chocolate mint and peanut butter
	Kanzler RTC	Crispy chicken nuggets
	Kanzler RTC	Crispy nugget sticks

Source: Company data

Creating industry trends with product innovation

As it is a category creator for certain product types, we can compare CMRY's prices for items in the same segment with that of other companies (Figures 33, 34, and 35). What we need to understand is that the company aims to provide convenience at a premium quality that customers can afford. Therefore, even though its products may not be the cheapest vs that of competitors, CMRY can still outperform such peers due to its unique selling points and retained customer loyalty. This, in our view, leads to a rise in purchase frequency while volume remains unaffected by price wars.

Figure 33: Yoghurt in pouch format – price comparison

Name	Producer	Number of variants	Price (IDR)	size (gr)	Price per gr (IDR/gr)
Cimory Yoghurt Squeeze	CMRY	12	10,000	120	83.33
Biokul To Go!	Diamond Food	6	8,000	80	100
Armani Yoghurt Sip	Orang Tua Group	4	10,000	120	83.33
Greenfields Yoghurt Pouch	Greenfields Indonesia	7	8,900	110	80.90
Daurycious Yoghurt Pouch	CV Sari Burton	3	10,000	100	100

Source: Klik Indomaret, Alfagift

Figure 34: Premium Sausage RTE – price comparison

Name	Producer	Number of variants	Price (IDR)	size (gr)	Price per gr (IDR/gr)
Kanzler Singles	CMRY	5	8,900	60	148.33
So Nice Sosis	So Good Food	4	8,500	60	141.67
Kimbo Probites	Madusari	3	8,500	60	141.67
Fiesta Sausage Ready To Go	Nusaperdana Charoen Pokphand Indonesia	1	8,600	65	132.30

Source: Klik Indomaret, Alfagift

Figure 35: Crispy Bubble Crumb – price comparison

Name	Producer	Price (IDR)	size (gr)	Price per gr (IDR/gr)
Kanzler Chicken Nugget Crispy	CMRY	56,900	450	126.44
Fiesta Crispy Bubble Chicken Nugget	Charoen Pokphand Indonesia	59,000	500	118.00
So Good Crispy Chicken Nugget	So Good Food	53,900	400	134.75
Sunny Gold Nugget Pop Crispy Nugget	Malindo Feedmill	43,956	440	99.90
BELFOODS Nugget Crunchy	Sreeya Sewu Indonesia	51,200	500	102.40

Source: Klik Indomaret, Alfagift

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Moving forward, management plans to introduce new products, such as a konjac jelly product named Fruits Jelly, as well as expand its Cimory Yoghurt Stick flavours by 1Q24, and launch oat milk products. Expanding into plant-based products in 4Q24 could also be an effective strategy, given the soaring interest in plant-based milk – this is regarded as being more environmentally friendly and perceived to have healthier benefits than non-plant based milk. Competition in this segment is also less intense – there are only two key players (Oatly and Outside) that have gained solid popularity in Indonesia. Most importantly, the price per millilitre of a plant-based product tends to be at a bigger premium compared to CMRY's UHT milk price per millilitre – leading to better margins.

We remain optimistic over the company's future development, as each product it launches is well-calculated and deeply researched.

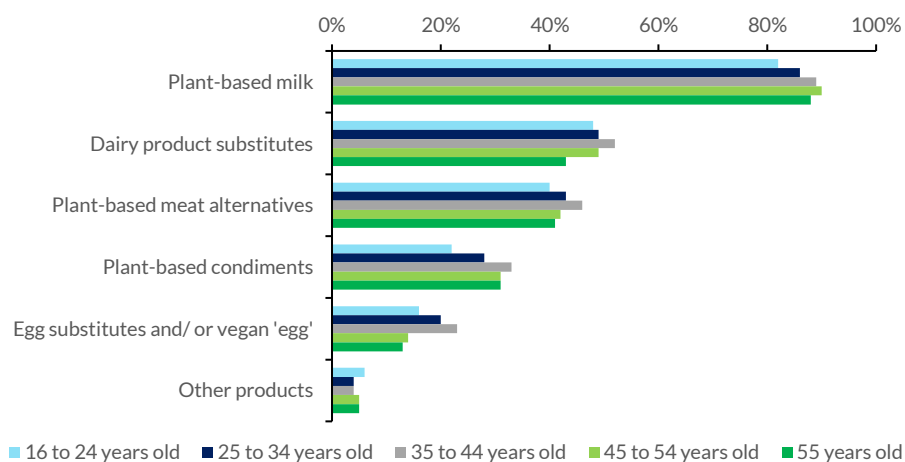
Figure 36: Plant-based beverages – price comparison

Name	Contain	Price (IDR)	size (ml)	Price per gr (IDR/ml)
Oatside Oat Milk	Oat	8,900	200	44.5
Oatly Barista	Oat	65,000	1,000	65.00
Tropicana Slim Almond Drink	Almond	9,700	190	51.05
Blue Diamond Almond Milk	Almond	14,000	180	77.78
Lactasoy Drink Soy	Soy	10,500	250	42.00
Yonsei Soy Milk	Soy	7,600	190	40.00
V-Soy Soya Bean	Soy	8,800	200	44.00
Cimory Fresh Milk	Fresh milk	7,000	250	28.00

Source: Klik Indomaret, Alfagift

◆ Expanding into plant-based products in 4Q24 could be a effective strategy, as the price per millilitre of such products tends to be more premium when compared to CMRY's UHT milk price per millilitre – leading to better margins

Figure 37: Plant-based milk comprise the most familiar plant-based products to Indonesians, according to a Rakuten survey in Nov 2021



Source: Statista

◆ The survey shows that Indonesians are most familiar with plant-based products compared to other categories

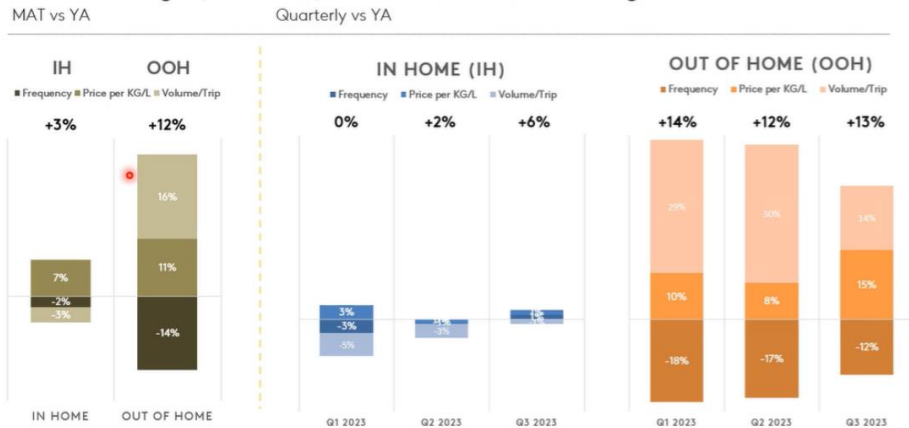
◆ That said, we believe that CMRY's strategy to tap into plant-based milk will be a beneficial one

Keeping abreast with the latest trends

Out-of-home products have not only been well-received by consumers. These have also started to capture the strong growth. According to Kantar, out-of-home products had a 12% YoY growth in value. Furthermore, in 2023, the purchase value of on-the-go products was four times higher than of home products. With the rise in activities outside the home post pandemic, products like Cimory Yoghurt Squeeze and Kanzler Singles have emerged as the strongest contenders, becoming top picks for customers seeking on-the-go products.

Figure 38: Positive growth momentum for the on-the-go products

Food & Beverages | ID Urban | Value % Evolution vs Year Ago



Source: Kantar

Moreover, CMRY's continued product innovation has been playing a critical role in solidifying the market, especially catering to young consumers. KANTAR states that factors like taste or variant preference consistently drive purchasing decisions for young consumers (7-14 years old). With these criteria in mind, it is evident that CMRY has a wide array of products, such as Cimory UHT Milk with its 14 flavours and Kanzler Singles with eight variants.

Figure 39: The main reasons of purchase of young consumers across the FMCG sector



Source: Kantar

Fortifying Its Distribution Toehold

In the leading consumer staples industry, we believe there are three key critical points for a company to succeed: Product innovation, feasibility, and availability. On availability, CMRY has successfully established its presence across various distribution channels such as GT, MT, door-to-door (Miss Cimory), the food service industry, e-commerce, and export. As of 9M23, the biggest contribution to net sales out of all CMRY's distribution channels was MT at 48.5% (vs GT: 36.2%, Miss Cimory: 9.5%, others: 5.8%). Based on our discussions with management, the company will continuously review its distribution channel strategies to remain abreast with market trends to support growth.

Figure 40: CMRY's 9M23 distribution channels

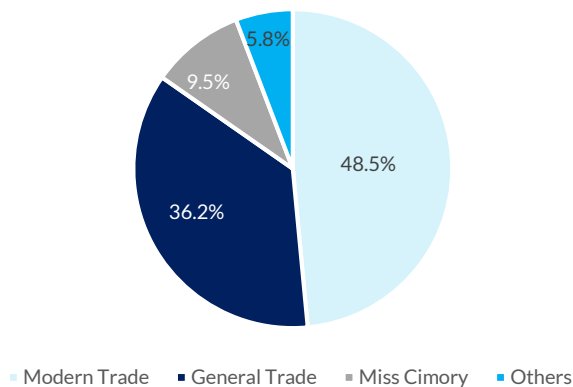
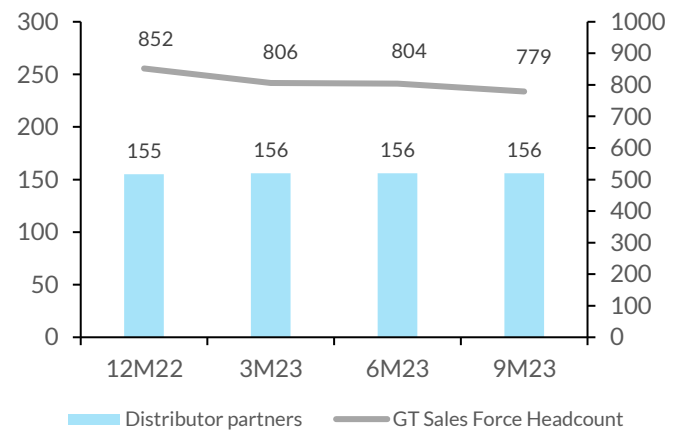


Figure 41: CMRY's distribution partners and GT sales force headcount in 9M23



Source: RHB, Company data

Source: RHB, Company data

Figure 42: CMRY's 9M23 outlet footprint

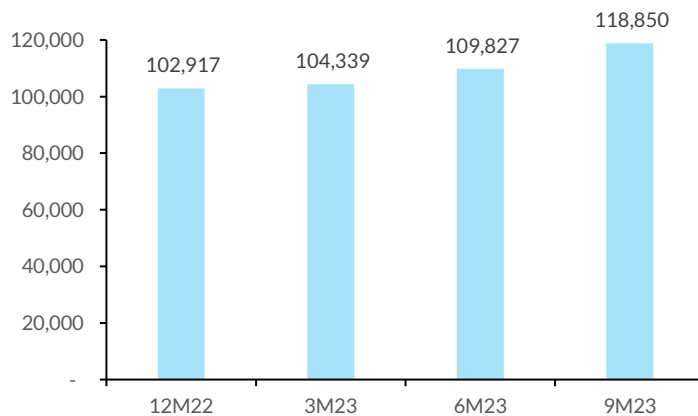
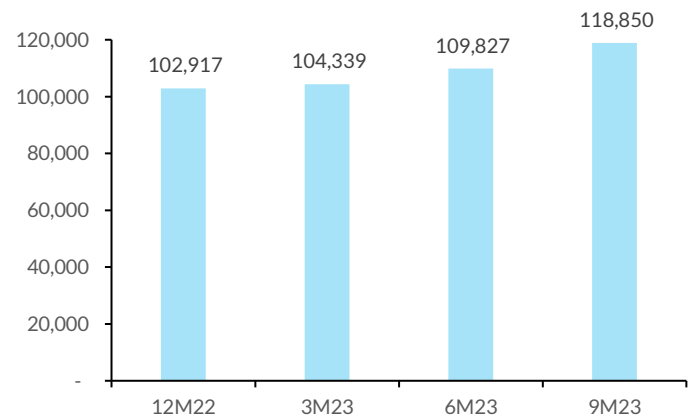


Figure 43: Miss Cimory's footprint in 9M23



Source: RHB, Company data

Source: RHB, Company data

Although MT still accounts for the bulk of its revenue, the company will also focus on expanding the other channels, especially GT and Miss Cimory. These strategies will have a positive impact on CMRY, considering the majority of Indonesians' FMCG purchases are still made at GT outlets as well as the potential margin improvement of Miss Cimory after its investment phase is completed.

The MT channel has consistently been the biggest contributor to CMRY's net sales. We think its strategy to ensure an extensive presence in number of MT outlets has boosted brand awareness – especially among the mid-to-upper income segments as well as the younger generation. It is worth mentioning that CMRY's products have strong brand awareness, which gives the company more leverage for strategic placement on store shelves.

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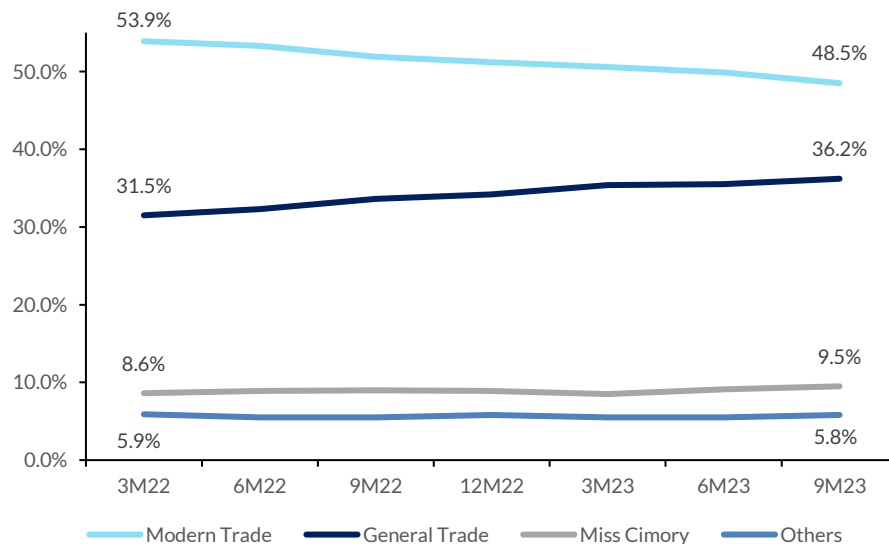
The company will also further enhance distribution through the GT channel, which is more suitable for most of its UHT products that required no specific distribution equipment (ie cold chain). This strategy should help to enlarge its consumer base, enhance brand awareness (especially for its UHT products), and bridge consumers to its higher margin yoghurt products since many of GT buyers are less familiar with CMRY products compared to MT buyers.

Figure 44: CMRY's presence at a FamilyMart store (MT channel)



Source: RHB

Figure 45: CMRY's distribution channel mix



Source: Company data

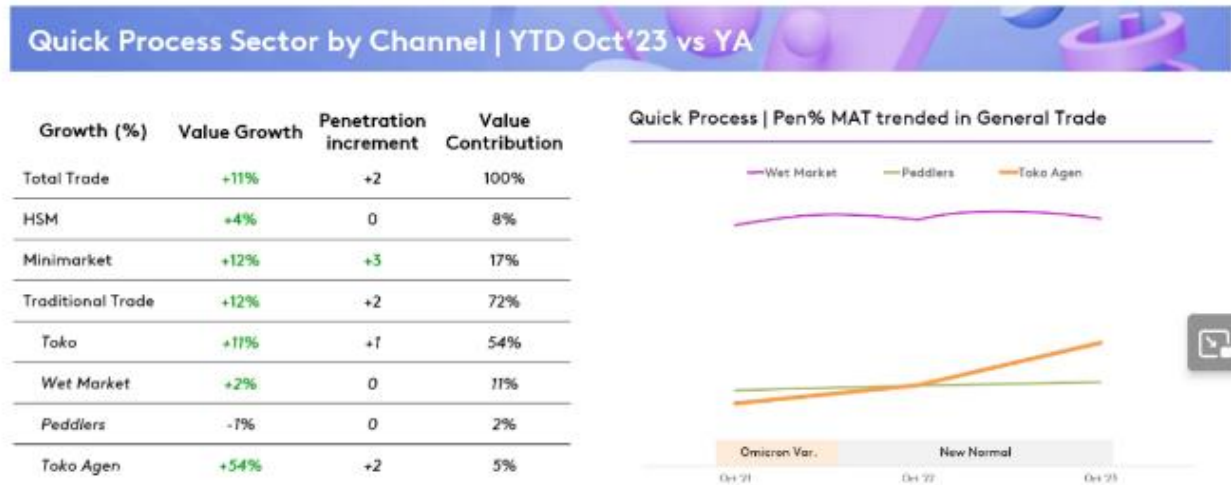
- ◆ The company's focus to expand its presence beyond MT channels should bear fruit
- ◆ The portion of GT channel contributions to CMRY's net sales has been gradually increasing

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Interestingly, agent stores performed well in 10M23. The upward trend in agent store value growth has become evident post pandemic – making it the best performer among CMRY's channels in traditional trade. As such, we see the company sitting in a sweet spot to capitalise on this positive trajectory.

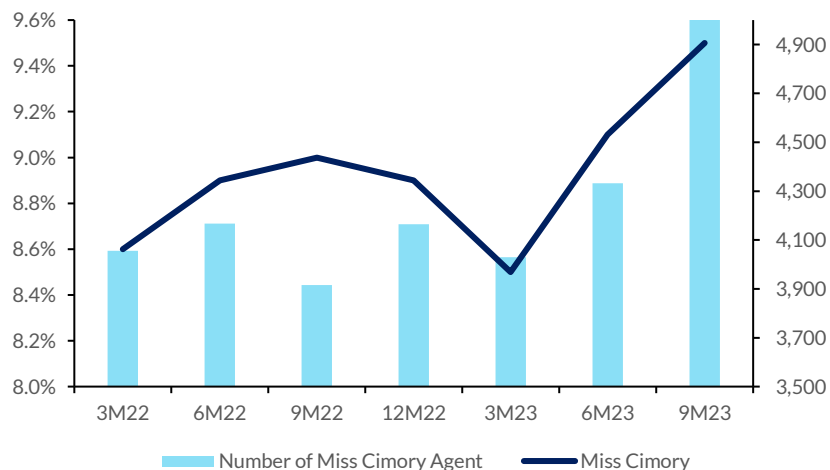
Figure 46: GT numbers have increased significantly, mainly through its agent stores in the quick-process sector



Source: Kantar

Based on our discussion with management, CMRY will continue to expand its Miss Cimory network to 6,000 Miss Cimory agents by the end of 2024, and double that number over the next 3-4 years. We are optimistic on its ability to achieve this target, and believe Miss Cimory's contribution to net sales should increase while its margins should widen – given the anticipated improvement in economies of scale.

Figure 47: Historical Miss Cimory contribution to CMRY's net sales



Source: Company data

◆ Despite facing challenges in developing the Miss Cimory system, CMRY has managed to meet its annual Miss Cimory agent count targets

Financial Outlook

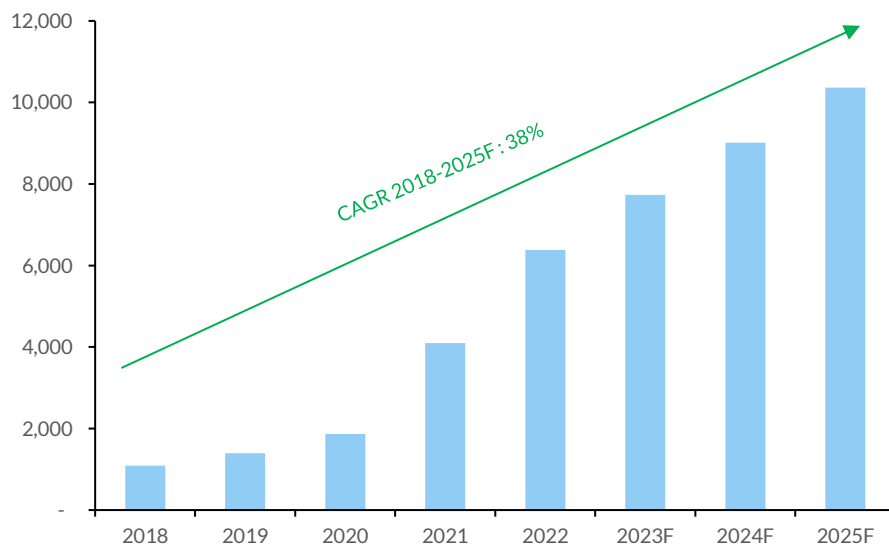
We expect CMRY to book c.16-17% YoY revenue growth in 2024 and continue its strong sales growth trajectory – this, at a CAGR of c.38% from 2018-2025F. The company sees strong growth potential in the consumer food and dairy segments. In the short term, it has a higher focus on using its UHT products to encourage local consumers to bridge the gap between consuming its milk and yoghurt offerings (the latter is much less popular in Indonesia vis-à-vis other dairy-based products, eg milk and ice cream). We believe such growth should come from a combination of existing products, new product innovations, and distribution channel expansion.

During 2023, the revenue growth was almost entirely from sales volumes and we expect this pattern to persist in 2024 as CMRY does not plan to increase prices this year. We believe there still ample demand growth potential for its existing products, owing to the still-low consumption of dairy and poultry meat along with the company's unique selling point, ie becoming consumer's preferred choice given its affordable premium offerings.

As we mentioned earlier, CMRY is a product innovation pioneer, as seen by the having 14 UHT milk flavours, chicken nuggets with crispy bubbles, and yoghurt sticks and squeeze packs among others. We also think its initiative to target the more premium segment will help the company to sustain sales growth despite fluctuations in the economic backdrop – given this segment's consumption resilience.

Meanwhile, CMRY's continuing initiative to launch new products – mostly well-received – should help strengthen its market position, in our view, while attracting new consumer bases. For instance, the potential launch of oat milk products at the end of 2024 should attract vegan consumers as well as those who are lactose intolerant. Additionally, the company aims to expand its distribution channels, especially for the Miss Cimory initiative, which should increase its direct interaction with its consumers. Altogether, we believe this will help bolster its topline growth going forward.

Figure 48: CMRY's revenue (IDRbn)



Source: Company data, RHB

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Margin-wise, we expect to see a recovery from 4Q23 onwards, given the declining commodity prices and stable FX rates. Margins began to recover in 3Q23. So far, CMRY has not seen an increase in commodity prices despite the post-*El Nino* impact and geopolitical tensions in the Middle East. Expectations of stable FX rates should enhance margins as well, in our view, given that a sizeable portion of the company's raw materials – eg skimmed milk – is imported.

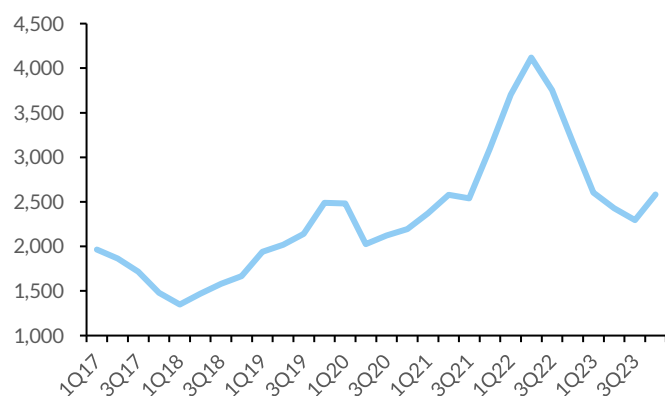
While there may be concerns over CMRY's plans to enlarge its UHT milk product offerings – which have lower margins vs that of its yoghurt products – we think that the continued growth of its consumer products range (that fetch higher margins than the company's UHT milk line-up) – should offset this. Also, greater revenue from CMRY's UHT milk segment – from which products are more easily distributed and received by most Indonesian consumers – should yield higher volumes and increased efficiency due to better operating leverage.

The potential implementation of a sugar tax should also not pose an issue. The company has not seen concrete implementation of this potential upcoming government regulation. Should this tax finally be implemented, CMRY might only need to increase prices by c.1-3%, in our view, as we do not see this the demand for its products coming under threat, given customer loyalty and preference. We also believe its target market is resilient and far less price-sensitive.

Although the percentage of its A&P-expenses-to-revenue exceeds that of other consumer staples companies, a noteworthy trend has emerged over the last three quarters – CMRY's A&P expenses-to-revenue portion has stabilised to c.9-11% during the 1Q23-3Q23 period. Based on this, we believe its A&P-expenses-to-revenue ratio will not reach the c.13% seen in 2020-2021 period – it should stabilise at around 10-11% going forward, in line with management's expectations.

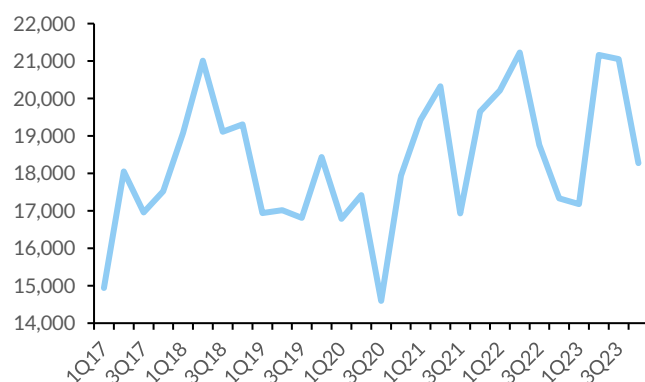
While we have seen CMRY venturing into non-digital A&P channels – eg billboards and pop-up stalls – to advertise its products, management said the use of such channels are for "tactical" reasons like new product launches and should not result in much increase to its A&P budget. The company still allocates most of its A&P budget towards digital A&Ps, which have been effective so far in terms of engaging with its consumer targets. All in, the effective latter marketing strategy has been fruitful in terms of fending off its competitors – it has even helped CMRY gain market share.

Figure 49: Quarterly skimmed milk prices (IDRk/tonne)



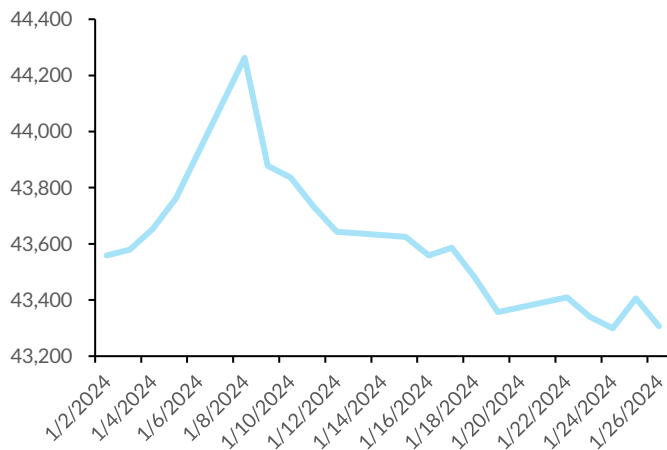
Source: Bloomberg, RHB

Figure 50: Quarterly broiler prices (IDR/kg)



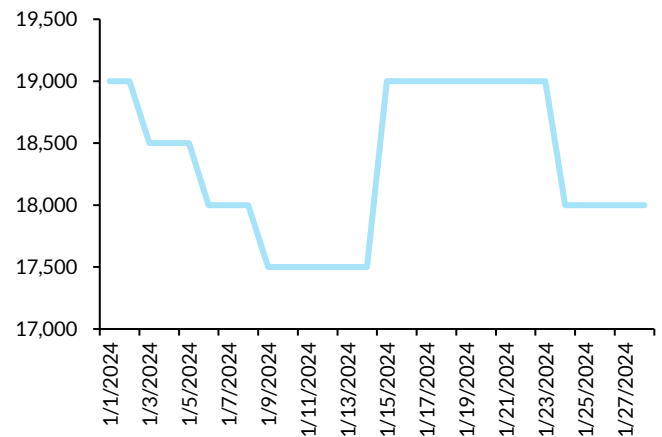
Source: JPFA, RHB

Figure 51: YTD skimmed milk prices (IDRk/MT)



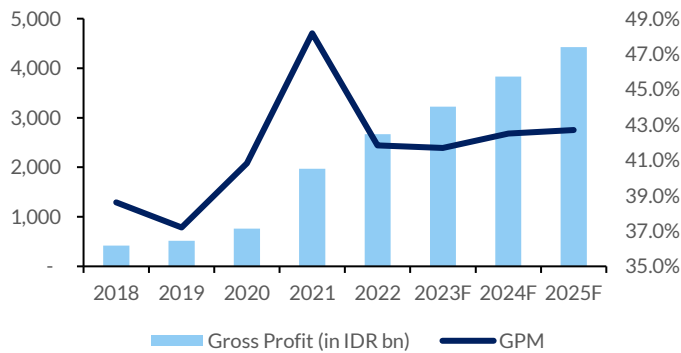
Source: Bloomberg, RHB

Figure 52: YTD broiler prices (IDR/kg)



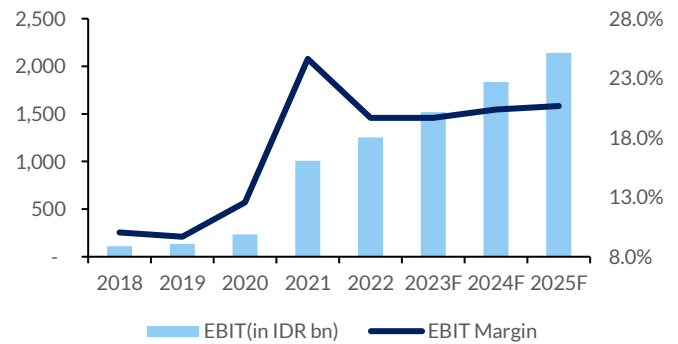
Source: National Food Agency or BPN, RHB

Figure 53: CMRY's gross profit and gross profit margins



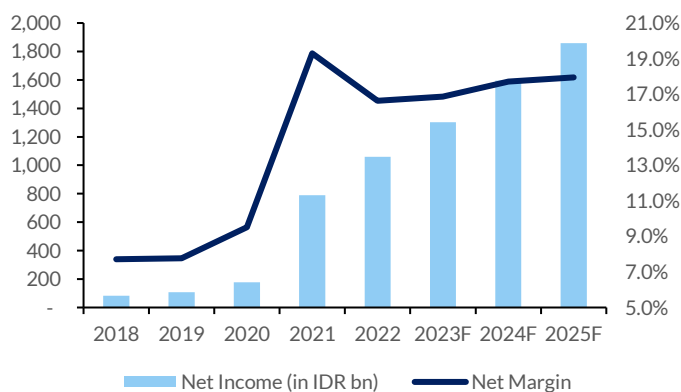
Source: Company data, RHB

Figure 54: CMRY's EBIT and EBIT margins



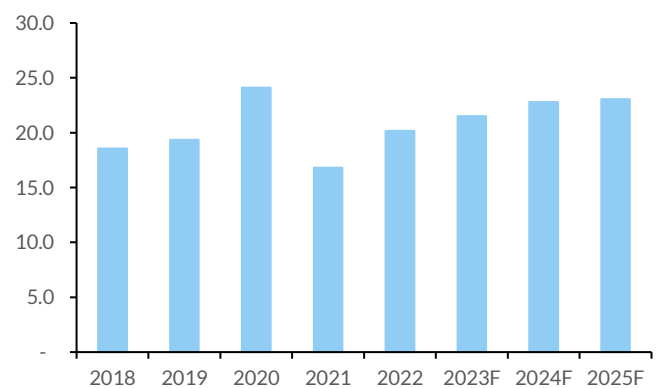
Source: Company data, RHB

Figure 55: CMRY's earnings and net margins



Source: Company data, RHB

Figure 56: CMRY's ROAE (%)



Source: Company data, RHB

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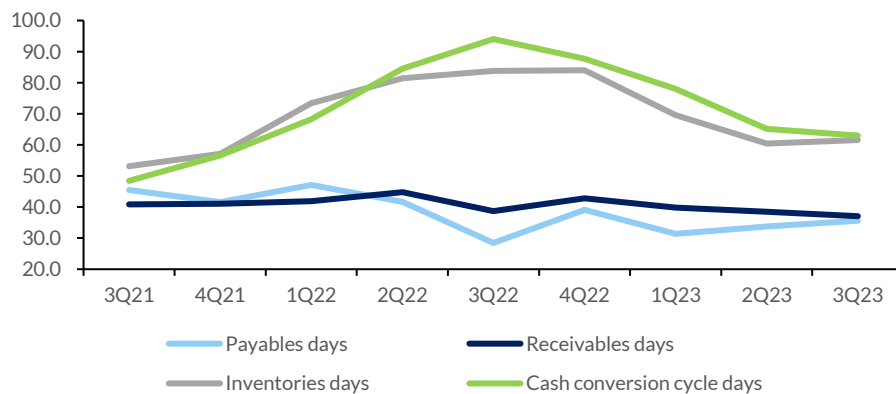
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We believe CMRY will record a healthy balance sheet profile moving forward, and continue to be in a strong net cash position. Note: The company distributed c.50% of 2022 net income as dividends. This is higher than its minimum threshold of a 30% payout ratio.

We expect CMRY to continue distributing dividends, given its ample liquidity. We estimate it to allocate c.IDR400bn for capex in 2024. This would not be a problem for the company, given its strong cash position.

We expect no major capex for this year since the company has just finished its production capacity expansion in 2023. Also, CMRY improved its cash conversion cycle over the last three quarters which should bode well for working capital. We expect it to maintain its high return on average equity or ROAE profile.

Figure 57: CMRY's working capital profile



Source: Company data, RHB

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Valuation

We initiate coverage with a BUY and TP of IDR5,000, 17% upside. Our TP is based on a 10-year DCF valuation, assuming 17% WACC and 3% terminal growth. CMRY is trading at c.20-21x 2024F P/E, which is higher than the peer average of the consumer staples companies here but still lower than that of its global peers.

We deem the premium valuation as justified, given CMRY's superior earnings growth. The counter is currently trading at around -1SD from the 2-year P/E mean. Key downside risks to our call are USD appreciation against the IDR, unfavourable government regulations, increasing commodity prices, and more intense competition.

Figure 58: DCF valuation

IDRbn	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
EBIT	1,835	2,141	2,475	2,771	3,090	3,431	3,772	4,052	4,353	4,567	4,791
EBIT (1-t)	1,376	1,606	1,856	2,078	2,318	2,573	2,829	3,039	3,264	3,425	3,593
Depreciation & amortisation	137	159	181	202	228	256	285	313	345	378	411
Change in working capital	(217)	(227)	(225)	(197)	(203)	(207)	(194)	(133)	(139)	(64)	(65)
Capex	(364)	(388)	(403)	(381)	(466)	(504)	(515)	(494)	(577)	(592)	(588)
Net free cash flow to firm	932	1,149	1,409	1,703	1,877	2,118	2,406	2,725	2,894	3,147	3,351
Terminal value											23,691
PV	932	982	1,029	1,064	1,002	966	938	908	824	766	27,042
Total discounted firm value	36,452										
Less: Net debt	(2,546)										
Less: Minority interest	0										
Equity value	38,998										
Number of shares (bn)	8										
Equity value per share (IDR)	4,915										
ESG premium	2%										
Rounded TP (IDR)	5,013										
Assumptions											
Risk free rate	6.8%										
Beta	1.0										
Equity market premium	6%										
WACC	17.0%										
Terminal growth	3%										

Source: Company data, RHB

Figure 59: Indonesia consumer staples companies' valuations

Company	Price (IDR)	Target (IDR)	Market cap (IDRbn)	P/E (x)		EPS growth (%)		P/BV (x)		Div yield (%)		ROAE (%)		Rec
				FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	
Unilever Indonesia	3,430	4,500	130,855	24.7	23.9	-1.4%	3.4%	34.0	33.1	4.2%	4.1%	134.9%	140.1%	Neutral
Indofood CBP	11,125	14,300	129,739	14.5	12.9	95.1%	12.4%	3.0	2.7	1.8%	3.4%	22.5%	21.9%	Buy
Indofood Sukses	6,450	9,200	56,634	5.8	5.4	53.1%	7.6%	1.0	1.0	6.2%	9.4%	18.0%	18.4%	Buy
Mayora Indah	2,450	3,000	54,779	22.0	20.9	28.0%	5.3%	3.9	3.6	2.0%	2.5%	18.6%	17.8%	Buy
Nippon Indosari	1,155	1,350	7,145	29.8	18.5	-44.4%	60.8%	2.6	2.5	8.5%	3.4%	8.9%	13.9%	Neutral
Weighted average				18.1	16.9	43.2%	8.5%	13.5	13.0					

Source: Bloomberg, Company data, RHB

19 February 2024

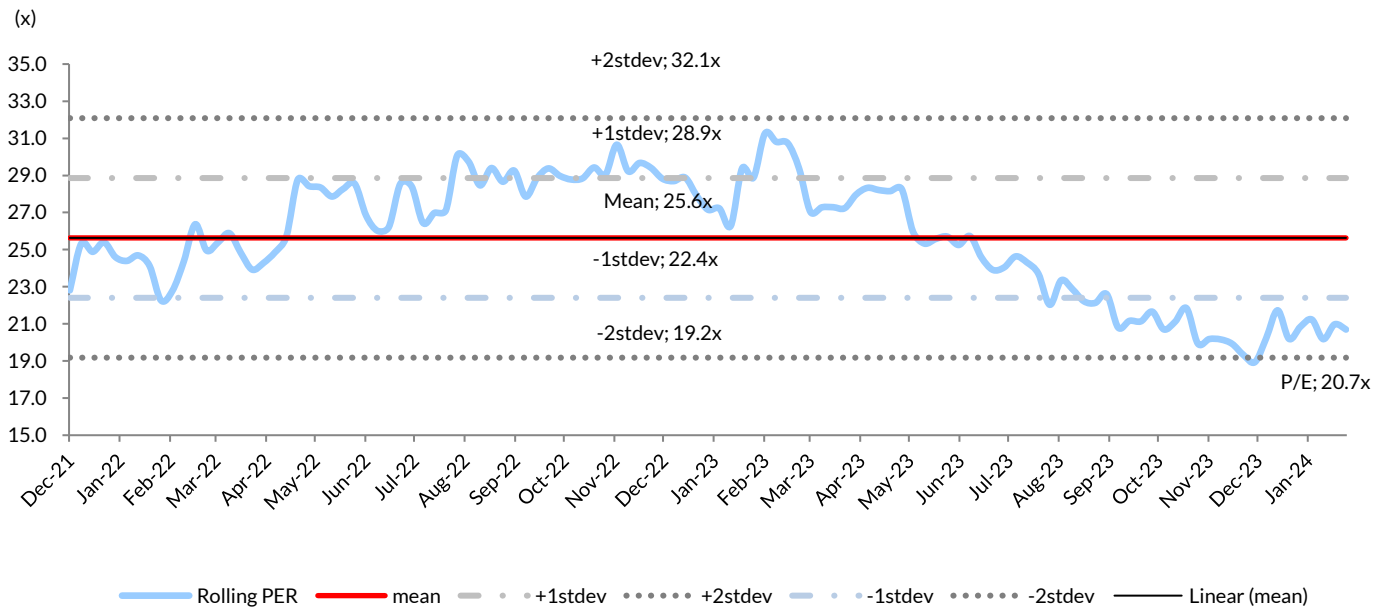
Consumer Cyclical | Consumer Products

Figure 60: Regional dairy companies' valuations

Company	Bloomberg ticker	Ccy	Price	Market cap (USDm)	P/E (x)		EPS growth (%)		P/BV (x)		Dividend yield (%)		ROE (%)		Rec
					FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	
China Mengniu Dairy	2319 HK	HKD	18	9,268	11.6	10.0	9.0	15.9	1.5	1.3	2.9	3.5	13.2	14.0	NR
Inner Mongolia Yili Industrial Group	600887 CH	CNY	27	23,839	16.1	14.3	13.0	12.8	3.2	2.9	4.3	4.8	19.9	20.6	NR
China Feihe	6186 HK	HKD	4	4,463	7.1	6.5	(9.3)	9.6	1.2	1.1	8.1	9.4	17.8	17.9	NR
China Modern Dairy	1117 HK	HKD	1	688	11.4	4.0	(23.2)	187.3	0.4	0.4	2.1	3.4	4.6	8.3	NR
Health and Happiness H&H International Holdings	1112 HK	HKD	12	966	8.4	6.7	34.0	25.7	1.0	1.0	6.1	7.2	12.6	14.6	NR
Universal Robina Corp	URC PM	PHP	120	4,699	19.1	16.9	(1.6)	13.4	2.2	2.1	3.1	3.3	11.5	12.2	NR
Carabao Group	CBG TB	THB	77	2,184	39.1	29.3	(14.4)	33.4	6.8	6.2	1.6	2.2	17.7	21.8	NR
a2 Milk	A2MAU	AUD	4	1,903	19.1	16.2	5.7	17.9	2.3	2.1	-	0.8	12.7	13.3	NR
Nestle India	NEST IN	INR	2,537	29,479	81.6	71.5	25.4	14.2	82.9	63.3	1.0	1.5	101.6	88.6	NR
Weighted average					40.7	35.5	14.1	16.0	33.2	25.6					

Source: Bloomberg, RHB

Figure 61: CMRY's 2-year P/E band



Source: Bloomberg, Company data, RHB

Figure 62: RHB vs consensus estimates

Income Statement (IDRbn)	RHB			Cons			RHB/Cons (%)		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Net revenue	7,729	9,012	10,364	7,656	9,142	10,922	101.0	98.6	94.9
Gross profit	3,223	3,830	4,425	3,202	3,894	4,697	100.7	98.4	94.2
EBIT	1,520	1,835	2,141	1,486	1,841	2,218	102.3	99.7	96.5
Pre-tax income	1,692	2,032	2,369	1,563	1,927	2,334	108.3	105.5	101.5
NPAT	1,303	1,595	1,859	1,231	1,519	1,843	105.8	105.0	100.9

Source: Bloomberg, Company data, RHB

Company Profile

CMRY is a prominent producer of premium dairy and consumer foods in Indonesia, and is seen as a pioneer in both categories. Established in 2005, it has – since then – showcased a robust history of offering innovative products. Under the renowned Cimory brand, the company's premium dairy products line-up includes yoghurt and milk offerings. Meanwhile, CMRY's premium consumer foods range encompasses RTC and RTE items such as sausages, chicken nuggets, and luncheon meats marketed under the Kanzler brand.

CMRY's products are widely available across MT and GT outlets throughout Indonesia. The company also manages an exclusive distribution channel called Miss Cimory that comprises an >4,000-strong force of saleswomen that have directly reached out to more than 400,000 households weekly as of 2022. CMRY also caters to the food services industry and export market. The effectiveness of its business operations is bolstered by an extensive in-house cold-chain logistics warehousing network that facilitates the distribution of products in ambient, chilled, and frozen formats. With six strategically located production facilities, the company ensures market proximity for optimal efficiency.

Figure 63: Company milestones

	Description
1992	The company was founded under the name of Macroprima Panganutama.
1999	Kanzler product launch.
2004	<ul style="list-style-type: none"> Establishment of Cisarua Mountain Dairy. Establishment of Macrocentra Niagaboga, a subsidiary in charge of the Company's distribution.
2005	Approval of the establishment of Cisarua Mountain Dairy from the Minister of Justice and Human Rights.
2006	<ul style="list-style-type: none"> Cisarua Mountain Dairy commenced operations in Cisarua, West Java. Establishment of Java Egg Specialities, a subsidiary engaged in the production of liquid egg products and egg-based condiments.
2007	<ul style="list-style-type: none"> Cimory Yogurt Drink 250ml product launch. Macrocentra Niagaboga commenced operations as an agent and cold chain distributor.
2009	Euro Gourmet product launch.
2012	Establishment of a joint venture between Macroprima Panganutama and Kanematsu Corp of Japan.
2013	The launching of Miss Cimory distribution channel.
2014	The beginning of the general trade distribution channel.
2015	<ul style="list-style-type: none"> Cimory Fresh Milk 950ml and Cimory Yogurt Drink UHT 200ml products launch. Group restructuring with the company as the operating holding company. Besto grilled sausage product launch.
2016	Cimory Yogurt Drink 70ml product launch.
2017	Juragan product launch. Commenced exports to China.
2018	Started central distribution operation in Sentul, West Java.
2019	<ul style="list-style-type: none"> Kanzler Singles, Kanzler chicken nugget, and Cimory UHT Milk 250ml products launched. Macroprima Panganutama added its production facility in Semarang, Central Java.
2020	<ul style="list-style-type: none"> Yogurt Drink Low Fat 250ml, UHT Milk 125ml and Cimory Pouch 120gm product launches. Cimory Greek Yogurt product launch. Commenced exports to the Philippines.
2021	<ul style="list-style-type: none"> Commenced e-commerce distribution channel via Grab platform. IPO on the Indonesia Stock Exchange.

Source: Company data, RHB

Figure 64: CMRY's board of commissioners

Name	Position	Description
Bambang Sutantio	President Commissioner	Bambang Sutantio is the founder of CMRY and its President Commissioner. He currently serves as President Commissioner of Macrocentra Niagaboga (2019-present), Macroprima Panganutama (2019-present), and Wisata Sapta Pesona (2018-present). Bambang is also President Director of Sumber Citarasa Alam (2017-present) and Zestomory Indo Beverage (2016-present). He obtained a certificate in Food Technology from the Technical University of Berlin, Germany, in 1984.
Wenzel Sutantio	Commissioner	Wenzel Sutantio obtained his Bachelor of Commerce degree in Finance from the University of Sydney (2013). He also serves as Director of Macrocentra Niagaboga (2019-present), Macroprima Panganutama (2019-present), Java Egg Specialities (2019-present), and Wisata Sapta Pesona (2017-present). Previously, Wenzel was the President Director of Java Egg Specialities (2017-2019) and CMRY Director (2015-2021).
Alexander S Rusli	Independent Commissioner	Alexander S Rusli has a Bachelor of Business in Information System (1992), Bachelor of Commerce (Hons) in Information System (1993), and Doctor of Philosophy in Information System (2000) from Curtin University of Technology, Perth, Australia. Currently, Alexander also serves as Independent Commissioner of Multipolar Corp (2021-present), Independent Commissioner of PT Link Net (2020-present), a Ministerial Expert at the Ministry of Finance of the Republic of Indonesia for the Renewal of the Tax Administration Core System (2019-present), and Independent Commissioner of Unilever Indonesia (2018-present).

Source: Company data

Figure 65: CMRY's board of directors

Name	Position	Description
Farell Grandisuri Sutantio 	President Director	Farell Grandisuri Sutantio holds a Bachelor of Commerce from the University of Western Australia, Australia (2006), and a Master of Business Administration from Oxford University, the UK (2011). Currently, he serves as President Director of Macrocentra Niagaboga (2019-present), Director of Java Egg Specialities (2017-present), and Director of Macroprima Panganutama (2013-present). Previously, he was a Director with Macrocentra Niagaboga (2013-2019) and CMRY (2012-2015), as well as a consultant at Boston Consulting Group (2011-2012).
Axel Sutantio 	Consumer Foods Director	Axel Sutantio earned his Bachelor of Science from Curtin University of Technology, Australia (2009). Currently, Axel serves as a Director of Java Egg Specialities (2021-present), President Director of Macroprima Panganutama (2019-present), Director of Macrocentra Niagaboga (2013-present), and Vice President of Kanemory Food Service (2013-present). Previously, he was the President Director of Java Egg Specialities (2019-2021).
Bharat Shah Joshi 	CFO and Investor Relations	Bharat Shah Joshi received his Bachelor of Science (Hons) in Mathematics, Operational Research, Economics, and Statistics (MORSE) from the University of Warwick (2006), and participated in the INSEAD Leadership Programme for Senior Executives, Singapore in 2014. Previously, he served as Director, Chief Investment Officer Investments (2015-2021) and Senior Investment Manager (2007-2015) of Aberdeen Asset Management, and Analyst at Credit Suisse (Malaysia) (2006-2007).
Arjoso Wisanto 	Sales Director	Arjoso Wisanto earned his Bachelor's Degree in Electronics and Master of Science from Delft University of Technology, the Netherlands (1989). Previously, he served as Managing Director Supply Chain of Artha Boga Cemerlang (Orang Tua Group) (1996-2010), National Sales Manager of Sanjaya Sakti (Sanyo Group) (1993-1996), and General Manager Contract Manufacturing Services of Multipolar Corporation (Lippo Group) (1989-1993).
Martua P Sihalohe 	Finance Director	Martua P Sihalohe obtained his Bachelor of Accounting degree from STIE Indonesia (2004). Previously, he was Vice President Finance Business Partner of Lazada Indonesia (2019-2020), Head of Commercial Finance and Sales Finance of Kraft Heinz Indonesia (2018-2019), Corporate Finance Manager (2017-2018), Category Finance Manager (2016-2017), Internal Audit Manager (2014-2016).

Source: Company data

ESG

Environment

CMRY's environmental management policy was crafted in accordance with prevailing environmental protection rules, regulations, and industry requirements. The company is dedicated to the responsible use of resources, providing a strategic advantage by containing operating costs and ensuring ongoing access to natural resources. Prior to commencing operations, all facilities undergo Environment Impact Analysis or AMDAL and comply with relevant environmental management provisions and regulations from national and regional authorities. Once operational, regular reviews are conducted to monitor and maintain environmental protection performance, ensure compliance with environmental quality standards, and prevent water, air, or hazardous and toxic waste pollution.

In addressing plastic waste reduction, initiatives were launched in 2021 to minimise the use of virgin plastic pallets in the operation and distribution system. By the end of 2022, CMRY successfully transitioned 100% of its plastic pallets to recycled materials. Ongoing efforts throughout the year also focused on utilising lighter plastic materials for bottle packaging, closures, and secondary packaging, resulting in a reduction of approximately 201 tonnes of plastic waste. The company actively supports biodiversity protection, contributing a donation of IDR110m in 2022 for initiatives in this area.

To decrease energy consumption, CMRY is replacing existing lamps in its plant locations with more environmentally friendly LED lighting. Policies promoting energy efficiency have been implemented, including setting operational hours for artificial lighting to maximise natural light usage and employing wind-powered ventilators. To reduce its carbon footprint, the company began replacing fuel oil-based forklifts with electric forklifts in 2021. Throughout 2022, initiatives included the introduction of CNG-powered production equipment, solar-powered exterior lighting, and the progression toward a Euro IV-compliant truck fleet among third-party partners to minimise harmful emissions during distribution activities.

In 2022, CMRY took steps to reduce groundwater usage by increasing its reliance on fresh water from local water utility companies or PDAM in Sentul and Semarang. Rainwater harvesting and water recycling efforts were intensified to lower operational costs and reduce overall water consumption. The company operates dedicated wastewater treatment plants in production locations, treating wastewater before discharging it into the nearest body of water. A portion of the treated wastewater is recycled for domestic use. Regular monitoring ensures compliance with environmental protection requirements. CMRY is currently expanding its wastewater treatment facility in Semarang. A new plant in Cikupa is scheduled to begin operations in 2023.

Hazardous and toxic waste (B3) is treated separately through partnerships with third-party waste transporters and processors holding the necessary licenses from the Ministry of Environmental Affairs. For non-B3 solid waste, the company continues to implement Reduce-Reuse-Recycle initiatives, collaborating with third-party partners to recycle organic waste and making significant progress in recycling plastic and paper waste in 2022. A total of 201 tons of waste were recycled in 2022, marking a 72% increase from 117 tons in 2021.

Social

The company's community development programmes are carefully crafted, considering its sustainability vision and mission, as well as the needs of the Government and local communities. This ensures that these programmes achieve the highest level of success, fostering a sense of belonging that ultimately promotes self-sufficiency and enhances public welfare.

A notable social initiative aimed at sharing welfare with other parties is the establishment of Miss Cimory, a key distribution channel that remains significant for the company. Launched in 2013, Miss Cimory serves as CMRY's exclusive distribution channel, comprising low- to medium-income women recruited from local communities to become sales agents. These agents – also known as Miss Cimory or MCM agents – interact directly with customers daily to promote and sell the company's premium dairy and consumer food products. Sales agents receive compensation based on their biweekly sales performance, providing additional income to improve their livelihoods. Miss Cimory empowers women from surrounding communities, fostering self-reliance and contributing to the fight against malnutrition in Indonesia through increased access to healthy, protein-based foods.

As of the end of 2022, this salesforce has grown to over 4,000 women sales agents, interacting with approximately 400,000 households every week. Operating out of CMRY's dedicated Miss Cimory Centres or MCM Centres, which are equipped with cold-storage facilities, these centres also serve as socialisation and education hubs where sales agents share experiences and learn new tips to enhance their selling skills. Over the span of less than 10 years, the company has established 179 MCM Centres in Java, Bali, and Sumatra.

Additionally, CMRY engages in partnerships with dairy farmers to ensure supplies while promoting prosperity for other stakeholders. The dairy farmer partnership programme, initiated in 2013 as a CSR initiative, aims to enhance the social well-being of small-holder cattle farmers and secure locally sourced quality fresh milk for the company's production. Beyond committing to purchasing milk at competitive prices based on quality, CMRY introduces good farming practices, supplies quality milking equipment critical for improving yields and quality, and actively supports disease control measures.

When foot and mouth disease struck some regions in 2022, the company took immediate action, coordinating mass vaccination sessions in partnership with local authorities. An intensive communication programme was conducted to control the disease's spread, and CMRY provided disinfectant equipment and vitamin supplements to enhance the immune system of healthy cattle. By the end of 2022, the company had established contract partnerships with over 20 cooperatives in West Java, Central Java, and East Java, enabling more than 10,000 small farmers in rural areas to supply close to 20,000 tons of fresh milk.

In late 2021, CMRY launched the *Srikandi Peternak Indonesia* initiative, a collaborative effort with the Asian Development Bank and Chamberlain Veterinary Services Australia. This programme empowers female dairy farmers in Indonesia by promoting an inclusive, resource-efficient business model for dairy production with less environmental impact. This initiative aligns with the Government's goals for improved sustainability in farming, emphasising food self-sufficiency, strengthened agricultural bio-industry systems, enhanced gender equality, and increased farmer welfare. CMRY organises a series of 3-day training workshops where female farmers learn about Good Dairy Farming Practices along with enhancing their knowledge in financial literacy, digital literacy, and entrepreneurship to support their dairy cattle business.

The Cimory Scholarship Programme, a joint effort between the company and Karya Salemba Empat Foundation, provides financial support to potential students, enabling them to learn and grow into graduates with high integrity and a strong sense of nationalism. Scholarship recipients not only receive financial support but also have opportunities to build and sharpen their leadership and entrepreneurship skills through various seminars and mentoring activities. The Cimory Scholarship Programme for the 2022-2023 Academic Year was officially launched during a virtual sharing session in Oct 2022, with close to 120 students and scholarship recipients benefiting from insights shared by prominent speakers from the company and Karya Salemba Foundation on becoming successful leaders.

Governance

To ensure effective oversight of sustainability matters and foster long-term value creation, CMRY has incorporated sustainability into its existing governance framework, which includes the general meeting of shareholders (GMS), board of commissioners (BOC), and board of directors (BOD). Shareholders exercise their rights through the GMS, convened at least once a year and no later than six months after the company's financial year-end. An EGM may be convened as deemed necessary.

The BOC is tasked with monitoring the BOD's duties and responsibilities, offering advice on execution, and ensuring alignment with the company's Articles of Association, prevailing laws, and regulations. The BOC also oversees the company's sustainability practices. The BOD collectively manages the company, adhering to the Articles of Association and relevant laws. They are responsible for implementing sustainability practices, with the Chief Financial Officer & Investor Relations currently supervising the economic, social, and environmental performance. The company intends to review and enhance its sustainability governance structure.

Members of the BOC and BOD are appointed by the GMS based on recommendations from the Nomination & Remuneration Committee, which evaluates candidates' profiles, qualifications, and suitability transparently and in line with company needs and regulations. All members meet the requirements stipulated in Financial Services Authority Regulation No. 33/POJK.04/2014, the company's Articles of Association, and board manuals.

Affiliated party transactions must be conducted fairly, complying with applicable laws, regulations, company policies, and procedures. Potential conflicts of interest in such transactions require reviews by independent appraisers, following procedures dictated by laws and regulations. If an affiliated transaction's value falls within materiality limits per Financial Services Authority's regulations, it must comply with applicable laws and regulations.

CMRY upholds principles of transparency and information disclosure. Sustainable performance information is disseminated through periodic financial publications, press releases, annual and sustainability reports, and corporate actions via the [Cimory website](#). The company encourages stakeholder inquiries, maintaining communication lines for questions. A robust risk oversight and management system, along with internal controls, is in place to identify, assess, monitor, and manage material risks related to the company's activities, including those associated with CMRY's sustainability practices.

Emissions And ESG

Trend analysis
Although its total emissions increased, the company has lowered its energy usage intensity since 2020.

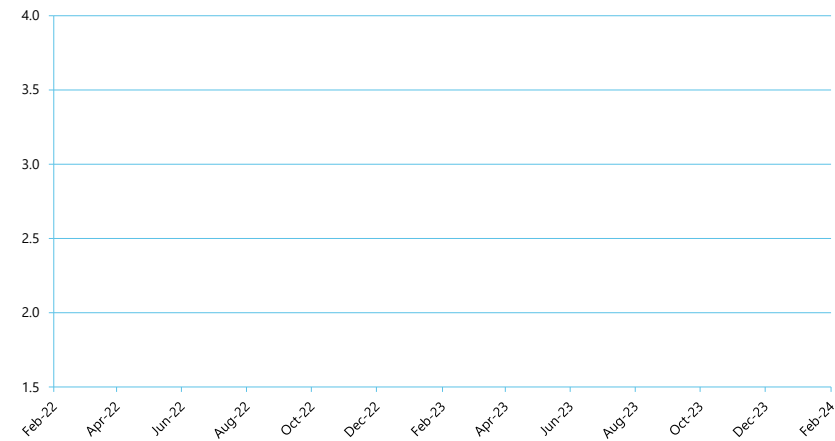
Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
Scope 1	na	5,800	6,745
Scope 2	na	9,482	14,680
Scope 3	na	na	na
Total emissions	na	15,282	21,425

Source: Company data, RHB

Latest ESG-Related Developments

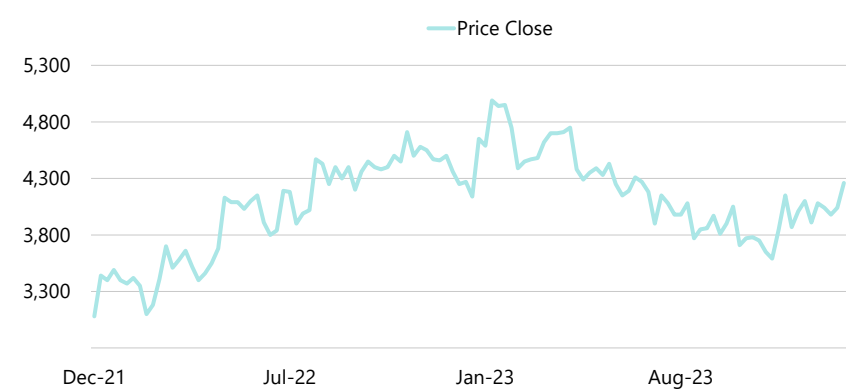
- The company will plans to increase the number of Miss Cimory agents to empower low to medium-income women. It also intends to enter into more partnerships with dairy farmers to ensure supply.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-05	Not Rated	na	3,950
2022-02-03	Not Rated	na	3,180

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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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 9280 8888
Fax : +603 9200 2216

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