Small Cap Asean Research

Indonesia Company Update

Shariah Compliant

4 March 2024

Consumer Non-cyclical | Food & Beverage Products

Nippon Indosari (ROTI IJ)

Neutral (Maintained)

Sailing Through The Storm

Target Price (Return):	IDR1,150 (-6.1%)
Price (Market Cap):	IDR1,225 (USD483m)
ESG score:	3.2 (out of 4)
Avg Daily Turnover (IDR/USD)	932m/0.06m

- **Stay NEUTRAL with new IDR1,150 TP from IDR1,350, 6% downside.** We roll forward our valuation to 2024F and cut our earnings assumption of c.16% from 2024-26 as we remain concerned on soft purchasing power and intensifying competition. Efforts are taken to improve performance, eg launching more affordable products and establishing B2B partnerships, but it takes time to gain traction amid the challenging economic backdrop. Although the stock currently trades at c.17x 2024F P/E, at -1SD from its 5-year mean, we wait for more fundamental catalysts and better stock liquidity profile.
- **Challenges abound in 2024.** Despite the company's efforts to improve its performance, we might see soft 1Q24 results in light of: i) Seasonality pattern, ii) massive rainfall, iii) fasting period starts in March. On average, ROTI recorded c.0.1% QoQ revenue growth during the first quarter from 1Q11-1Q23. We remain concerned on the company's performance post-*Lebaran* given the absence of major festivals to enhance spending. The merchandising tool analytics might provide some help, but it would take time before providing more tangible results. Hence, we believe its return rate might hover around 14% in 2024 (vs. 16% in 2023 and 11-13% in 2019-2022).
- **Efforts remain in place, but impact might still be minimal.** ROTI is aware of the challenging economic outlook, and has launched more affordable products to manage the situation. For instance, its Zuperr sandwich bread was priced at c.8% lower vs its general sandwich bread (Figure 3). Nevertheless, we remain concerned on the competition from other food brands as consumers remain vigilant on managing their spending allocation. The company recently created Sari Roti Food Solutions as a new channel dedicated to supply small and medium businesses. It also launched Sari Choco Spread (Figure 4) to complement its products – still selling in limited areas in East and West Java. Although results have been positive, the impact to earnings has been minimal so far.
- **Note on 4Q23 result.** The company booked IDR103bn net income in 4Q23 (-7% QoQ and -38.9% YoY). Its FY23 earnings were at IDR333 (-22.9% YoY) – 6% below consensus but 39% above our number. Its return rate still came at 16% in 4Q23 (vs 15% in 3Q23, 13% in 4Q22). Revenue was at IDR983bn (-3% QoQ and -8.4% YoY) in 4Q23, bringing FY23 topline at IDR3.8trn (-2.9% YoY) – in line at 96% and 98% of ours and Street's estimates. ROTI has not increased prices in 2023 (vs 6-8% in 2022). It has not increased prices so far in 2024, although it reviews its pricing strategy quarterly.
- **Our TP includes a 4% ESG premium**. ROTI has an ESG score of 3.2, which is above the country median of 3.0. Key upside risks include lower-than-expected raw prices and stronger purchasing power. The opposite represents downside risks.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (IDRb)	3,935	3,821	4,052	4,326	4,570
Recurring net profit (IDRb)	401	268	289	311	335
Recurring net profit growth (%)	63.7	(33.2)	7.9	7.6	7.7
Recurring P/E (x)	18.97	28.41	26.33	24.47	22.71
P/B (x)	2.8	3.2	3.1	3.1	3.1
P/CF (x)	13.00	15.94	13.71	13.00	12.45
Dividend Yield (%)	4.6	8.0	4.3	4.5	4.9
EV/EBITDA (x)	10.06	13.44	12.78	12.22	11.78
Return on average equity (%)	15.6	13.1	14.7	15.5	16.2
Net debt to equity (%)	net cash	2.5	8.0	10.5	12.8

Source: Company data, RHB

Analysts

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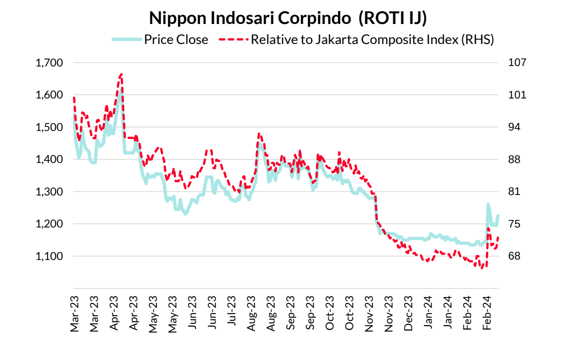
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	6.5	7.5	4.7	(11.2)	(19.7)
Relative	6.0	6.0	1.1	(16.0)	(26.5)
52-wk Price low/high (IDR)					1,135 – 1,615



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E: EXCELLENT

ROTI has teamed up with a third-party expert in handling solid waste to avoid the possibility of environmental pollution. In addition, the company's plants have installed waste treatment and water recycling facilities. ROTI received no related complaints regarding environmental problems by any party.

S: EXCELLENT

ROTI has donated to several areas that needed help, especially during COVID-19 pandemic. Other beneficiaries: Flood victims and healthcare workers. Financial and education aid were also provided for employees' children through the Mister and Miss Roti initiative.

G: GOOD

The company provides shareholders opportunities to ask questions and/or give opinions and voting rights at every AGM. ROTI also has high levels of transparency and business ethics, and regularly discloses information about its business activities to the market.

Note:
Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia
Indonesia
Consumer Non-cyclical
Nippon Indosari
ROTI IJ
Neutral

Valuation basis

DCF

Key drivers

i. Increasing economic activities from workers returning to office and children going back to school;
ii. Declining commodity prices to improve margins;
iii. Improving distribution network.

Key risks

Upside risks:
i. Lower-than-expected raw material prices;
ii. Stronger-than-expected purchasing power recovery;
iii. Faster take up from new products.

Downside risks:
i. Softer-than-expected purchasing power;
ii. Tight competition;
iii. Increasing raw material prices due to unfavourable weather condition.

Company Profile

ROTI manufactures, sells, and distributes bread. Products include white and sweet breads, bread crumbs, and chiffon cupcakes. The company serves customers in Indonesia.

Financial summary (IDR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Recurring EPS	64.57	43.12	46.52	50.07	53.94
DPS	55.74	97.86	52.60	55.72	59.71
BVPS	431.74	385.40	389.67	394.87	399.38
Return on average equity (%)	15.6	13.1	14.7	15.5	16.2

Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Recurring P/E (x)	18.97	28.41	26.33	24.47	22.71
P/B (x)	2.8	3.2	3.1	3.1	3.1
FCF Yield (%)	5.4	3.4	2.4	3.6	4.0
Dividend Yield (%)	4.6	8.0	4.3	4.5	4.9
EV/EBITDA (x)	10.06	13.44	12.78	12.22	11.78
EV/EBIT (x)	13.16	19.63	18.84	17.78	16.92

Income statement (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover	3,935	3,821	4,052	4,326	4,570
Gross profit	2,086	2,065	2,189	2,342	2,466
EBITDA	744	570	610	644	673
Depreciation and amortisation	(176)	(180)	(197)	(201)	(205)
Operating profit	568	391	414	442	468
Net interest	(37)	(47)	(43)	(43)	(37)
Pre-tax profit	573	428	453	486	514
Taxation	(141)	(95)	(100)	(107)	(115)
Reported net profit	432	333	353	378	399
Recurring net profit	401	268	289	311	335

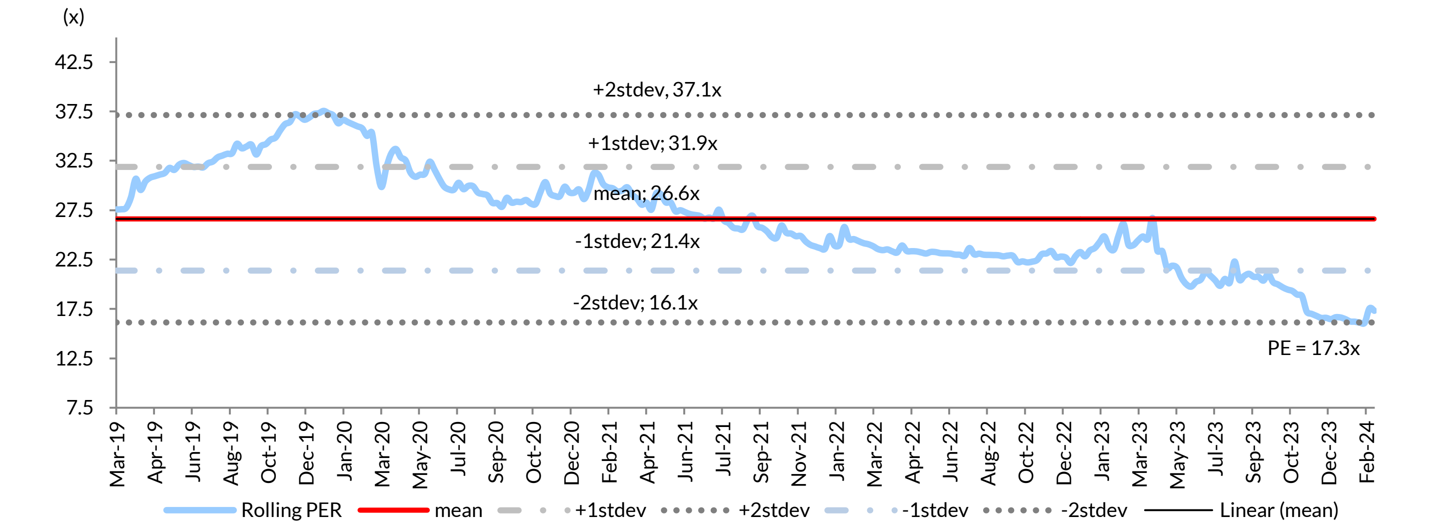
Cash flow (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Change in working capital	(6)	(12)	5	5	8
Cash flow from operations	585	477	555	585	611
Capex	(177)	(222)	(369)	(314)	(309)
Cash flow from investing activities	(94)	(90)	(384)	(331)	(325)
Dividends paid	(346)	(608)	(327)	(346)	(371)
Cash flow from financing activities	(622)	(591)	(307)	(414)	(360)
Cash at beginning of period	759	627	538	402	242
Net change in cash	(131)	(203)	(136)	(160)	(74)
Ending balance cash	627	424	402	242	168

Balance sheet (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total cash and equivalents	627	538	402	242	182
Tangible fixed assets	2,494	2,535	2,707	2,820	2,924
Total assets	4,130	3,944	4,026	4,034	4,127
Short-term debt	0	100	95	0	0
Total long-term debt	498	499	500	500	500
Total liabilities	1,449	1,550	1,606	1,582	1,646
Total equity	2,681	2,393	2,420	2,452	2,480
Total liabilities & equity	4,130	3,944	4,026	4,034	4,127

Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Revenue growth (%)	19.7	(2.9)	6.1	6.8	5.6
Recurrent EPS growth (%)	63.7	(33.2)	7.9	7.6	7.7
Gross margin (%)	53.0	54.0	54.0	54.1	54.0
Operating EBITDA margin (%)	18.9	14.9	15.1	14.9	14.7
Net profit margin (%)	11.0	8.7	8.7	8.7	8.7
Dividend payout ratio (%)	80.1	182.3	92.5	91.5	93.0
Capex/sales (%)	4.5	5.8	9.1	7.3	6.8
Interest cover (x)	11.3	6.4	9.2	9.9	12.5

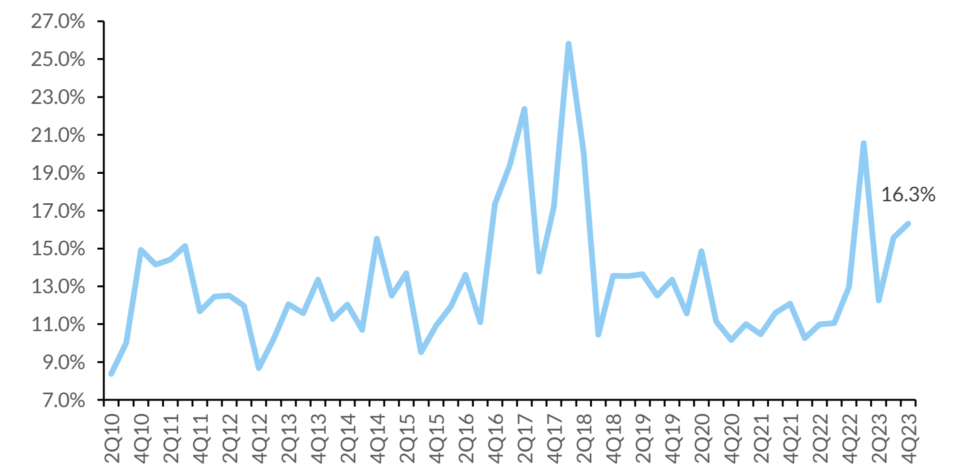
Source: Company data, RHB

Figure 1: ROTI's 5yr P/E band



Source: Company data, Bloomberg, RHB

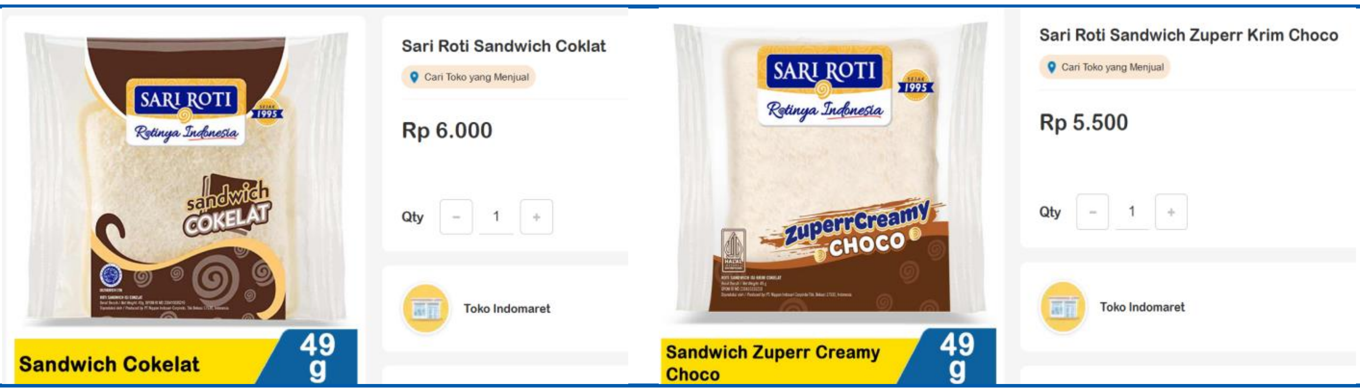
Figure 2: ROTI's return rate



Source: Company data, RHB

- The merchandising tool analytics might provide some help , but still takes time before providing more tangible result
- As such, we think its return rate might hover around 14% in 2024 (vs 16% in 2023 and 11-13% in 2019-2022).

Figure 3: Zuperr sandwich products vs ROTI's general sandwich bread



Source: Company, Klik Indomaret, RHB

Figure 4: Sari choco spread

Products	Weight (in gr)	Price (in IDR)	Price / gr
Sari Roti Choco Spread	150	18,000	120.0
Indomaret Spread Chocolate	160	14,900	93.1
Bella Spread Choco Cashew	300	28,700	95.7
Nutella Jam Spread Kecil Hazelnut	200	30,900	154.5
Ceres Choco Spread Choco Hazelnut	200	21,100	105.5
Morin Jam Hazelnut With Cocoa	150	26,800	178.7

Source: Company data, Klik Indomaret, RHB

Figure 5: RHB changes in estimates

	New			Old			New/Old		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Income Statement (IDRbn)									
Total turnover	4,052	4,326	4,570	4,427	4,937	5,366	(8.5)	(12.4)	(14.8)
Gross profit	2,189	2,342	2,466	2,390	2,670	2,886	(8.4)	(12.3)	(14.5)
EBIT	414	442	468	474	581	616	(12.7)	(23.9)	(24.0)
EBITDA	610	644	673	667	790	836	(8.5)	(18.5)	(19.5)
Pretax profit	453	486	514	511	624	665	(11.3)	(22.1)	(22.7)
Net profit	353	378	399	386	471	502	(8.4)	(19.7)	(20.5)
Key Metrics									
EPS (IDR)	57	61	64	62	76	81	(8.4)	(19.7)	(20.5)
DPS (IDR)	53	56	60	39	62	76	35.8	(10.3)	(21.3)
Revenue growth (%)	6.1	6.8	5.6	11.5	11.5	8.7			
EPS growth (%)	5.9	7.1	5.4	60.3	22.1	6.5			
Gross margin (%)	54.0	54.1	54.0	54.0	54.1	53.8			
Net profit margin (%)	8.7	8.7	8.7	8.7	9.5	9.3			
Dividend payout ratio (%)	98.0	98.0	98.0	100.0	100.0	100.0			

Source: Company data, Bloomberg, RHB

Figure 6: Results Summary

ROTI Sales	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	12M22	12M23	YoY (%)	FY23/ RHB	FY23/ Cons
Sales	1,073	1,014	983	*(3.0)*	*(8.4)*	3,935	3,821	*(2.9)*	96%	98%
COGS	468	456	434	*(4.7)*	*(7.1)*	1,849	1,756	*(5.1)*		
Gross profit	**605**	**558**	**549**	*(1.6)*	*(9.3)*	**2,086**	**2,065**	*(1.0)*	97%	98%
Selling expenses	284	331	329	*(0.4)*	*15.8*	1,186	1,312	*10.7*		
G&A expenses	84	92	100	*8.4*	*18.8*	332	362	*9.0*		
Operating expenses	368	423	429	*1.5*	*16.5*	1,518	1,674	*10.3*		
Operating profit	**237**	**135**	**120**	*(11.6)*	*(49.5)*	**568**	**391**	***(31.2)***	151%	79%
Net interest income/(expense)	(6)	(16)	(8)	*(47.3)*	*37.1*	(37)	(47)	*27.2*		
Interest income	6	1	5	*320.9*	*(11.3)*	14	14	*2.9*		
Interest expense	(12)	(17)	(14)	*(19.9)*	*13.0*	(50)	(61)	*20.6*		
Other income/ (expense)	23	23	25	*7.4*	*11.0*	70	88	*24.8*		
Total other income (costs)	(46)	7	(28)	*nm*	*(39.6)*	(29)	(3)	*(88.0)*		
Pretax profit	**224**	**143**	**133**	*(6.9)*	*(40.8)*	**573**	**428**	***(25.3)***	133%	94%
Taxation	(55)	(32)	(29)	*(6.6)*	*(46.6)*	(141)	(95)	*(32.6)*		
Net profit	**169**	**111**	**103**	*(7.0)*	*(38.9)*	**432**	**333**	*(22.9)*	139%	94%
Margin (%)										
Gross margin (%)	*56.4*	*55.0*	*55.8*			*53.0*	*54.0*			
Operating margin (%)	*22.1*	*13.3*	*12.2*			*14.4*	*10.2*			
Pretax margin (%)	*20.9*	*14.1*	*13.5*			*14.6*	*11.2*			
Net margin (%)	*15.8*	*11.0*	*10.5*			*11.0*	*8.7*			
Turnover days										
Inventory Days	*26*	*27*	*29*			*26*	*29*			
Receivable Days	*36*	*43*	*44*			*40*	*45*			
Payable Days	*45*	*49*	*54*			*46*	*54*			
CCC days	*17*	*21*	*19*			*20*	*20*			
Balance sheet highlights										
Total cash	*627*	*661*	*538*			*627*	*538*			
Total debt	*498*	*899*	*499*			*498*	*499*			
Net gearing (%)	*nc*	*10.3*	*nc*			*nc*	*nc*			
Equity	*2,681*	*2,303*	*2,393*			*2,681*	*2,393*			

Source: Company data, Bloomberg, RHB

Figure 7: RHB vs consensus

Income Statement (IDRb)	RHB		Cons		RHB/Cons (%)	
	2024F	2025F	2024F	2025F	2024F	2025F
Net revenue	4,052	4,326	4,269	4,630	94.9	93.4
Gross profit	2,189	2,342	2,304	2,514	95.0	93.2
EBIT	414	442	558	610	74.2	72.6
Pretax income	453	486	547	602	82.9	80.8
NPAT	353	378	421	462	83.8	82.0

Source: Company data, Bloomberg, RHB

Figure 8: DCF valuation

IDRbn	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
EBIT	**414**	**442**	**468**	**491**	**512**	**531**	**551**	**571**	**593**	**605**	**624**
EBIT (1-t)	**322**	**345**	**363**	**381**	**397**	**412**	**427**	**443**	**460**	**469**	**484**
Depreciation & amortization	197	201	205	208	208	206	204	201	197	191	183
Change in working capital	(15)	(18)	(14)	(14)	(10)	(6)	(6)	(6)	(6)	(3)	(1)
Capex	(369)	(314)	(309)	(330)	(302)	(266)	(279)	(292)	(306)	(280)	(265)
Net free cash flow to firm	135	214	245	244	293	346	346	346	345	377	401
Terminal value											10,398
PV	135	198	211	194	216	236	219	203	188	190	5,045
Total discounted firm value	7,036										
Less: net debt	193										
Less: minority interest	0										
Equity value	6,843										
Number of shares (bn)	6										
Equity value per share (IDR)	**1,102**										
ESG premium	**4%**										
Rounded TP (IDR)	**1,146**										
Assumptions											
Risk free rate	6.5%										
Beta	0.4										
Equity market premium	6%										
WACC	7.9%										
Terminal growth	4%										

Source: Company, Bloomberg, RHB

Emissions And ESG

Trend analysis

The GHG emission intensity in 2022 was 0.54 CO_2eq/tonne, compared to 0.52 CO_2eq/tonne in 2021.

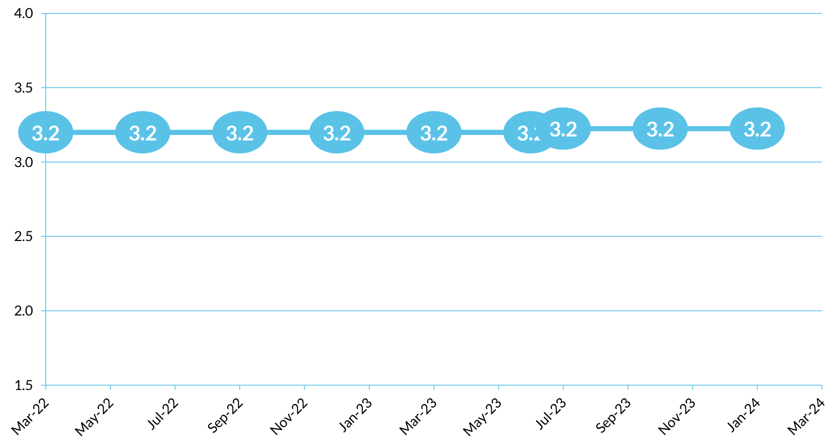
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	14,276	15,114	na
Scope 2	39,148	42,268	na
Scope 3	29	14	na
Total emissions	53,453	57,396	na

Source: Company data, RHB

Latest ESG-Related Developments

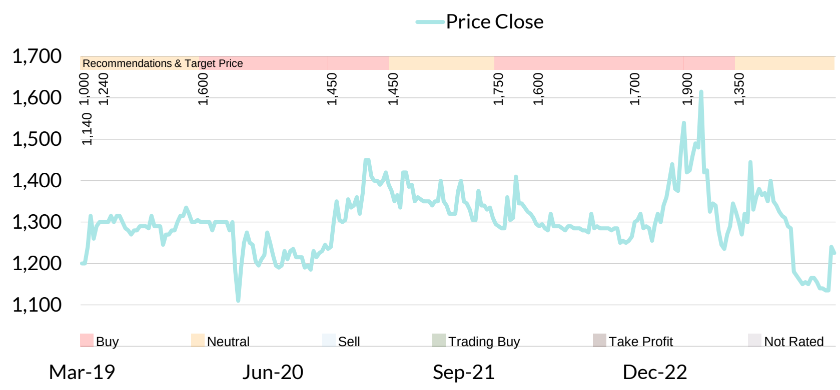
- After replacing plastic bags with paper bags, in 2022 the company made another breakthrough to support the Minister of Environment and Forestry Regulation No. P.75/MENLHK/SETJEN/KUM.1/10/2019 concerning the Roadmap of Reducing Waste by Manufacturers, by reducing the size of its packaging. In the early stages, this innovation began with the packaging of Roti Tawar Special in Greater Jakarta Area. The test results showed that the innovation does not affect the quality of the company's products
- The company disposes and handles its waste in accordance with the applicable laws and regulations by joining forces with third-parties with certified co-processing permit to handle B3 waste. The reporting of B3 waste has been carried out in compliance with PP 101 Year 2014 concerning B3 Waste Management.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-07-06	Neutral	1,350	1,335
2023-03-02	Buy	1,900	1,500
2022-10-27	Buy	1,700	1,270
2022-04-27	Buy	1,600	1,290
2022-03-08	Buy	1,600	1,300
2022-01-20	Buy	1,750	1,450
2021-12-01	Buy	1,750	1,295
2021-08-25	Neutral	1,450	1,320
2021-03-22	Neutral	1,450	1,415
2020-10-25	Buy	1,450	1,235
2020-03-03	Buy	1,600	1,280
2019-12-19	Buy	1,600	1,300
2019-10-10	Neutral	1,240	1,270
2019-07-23	Neutral	1,240	1,290
2019-06-18	Neutral	1,240	1,290

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
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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