

28 July 2023

Consumer Non-cyclical | Healthcare

Sido Muncul (SIDO IJ)

Buy (Maintained)

Long-Term Potential Still Attractive; Stay BUY

Target Price (Return): IDR725 (11.5%)
 Price (Market Cap): IDR650 (USD1,300m)
 ESG score: 3.4 (out of 4)
 Avg Daily Turnover (IDR/USD) 18,048m/1.21m

- **Stay BUY, new IDR725 TP from IDR900, 12% upside.** We cut our 2023F-2025F earnings by c.17%, 20%, and 22% on below-than-expected 2Q23 results. We are upbeat on Sido Muncul's performance from 2024 onwards, based on improving purchasing power, continuing product innovation – which should result in a better product mix and stronger distribution network to fuel domestic and overseas sales – lower commodity prices, and higher utilisation rates from SIDO's production facility. The counter is currently trading at 15x 2023F P/E – almost near -2SD from its 5-year P/E band.
- **Our assumptions remain conservative vs SIDO's new guidance.** While the company has set a new -10% to flat revenue and earnings growth for 2023 guidance, we pencil in c.-15% YoY earnings growth for this year, as we remain cautious over its 3Q23 performance. There might be some hiccups then on seasonality, but we remain positive over the long term. We could continue to stay positive for 4Q23 onward given possible stronger purchasing power – on seasonality and the election impact, and higher demand for healthcare products during the unfavourable weather season.
- **There is still ample positive news.** Tolak Angin, SIDO's key herbal products range, has fortified its dominance by gaining 73% market share in 1H23 vs 71% in 1H22. The F&B segment also booked solid YoY growth, mainly on an ASP rise for energy drinks in 2Q23, strong performances in Malaysia, and improvements in economic activities ex-Java. The pharmaceutical wing also benefited from most syrup medications' top stock-keeping units (SKUs) being able to be distributed again as of May and mid-June. Five SKUs, with contributions of c.2%, are still waiting for National Agency of Drug & Food Control or BPOM testing results.
- **Margins recovery should persist.** On raw material costs, SIDO sees sugar prices still at high levels but remaining stable. Sugar made up c.7-9% of COGS. However, other raw materials, eg taurine, creamer, and aspartame are declining, which should support margins improvements going forward, in our view. With regards to the potential ban on aspartame use, we believe SIDO will continue to work on new formulas to find replacements.
- **Strengthening the overseas presence.** The company is working to resolve FX issues in Nigeria (c.30% of export revenue). It sees ample potential there from enlarging its distribution network – both in Nigeria and the surrounding countries. SIDO also added a new distributor in the Philippines in May, which is set to be fully operational by 2H23.
- **Several new products have gained strong traction,** eg ready-to-drink or RTD products like Vitamin C1000 + D + Zinc and Alang Sari Cool. They made up 4% of the F&B segment's sales. For the herbal segment, Esemag might become the next star product, with sales growing 125% YoY in 1H23 (it now contributes 1% to the herbal business' topline). SIDO just launched a new herbal supplement – Sari Kunyit Plus – in a soft capsules series. We believe this product is aimed at the more premium market, which is more resilient and has higher health awareness.
- **Our new TP** includes an 8% ESG premium, as we assigned a 3.4 ESG score for SIDO, which is above the country median of 3.0.

Analysts

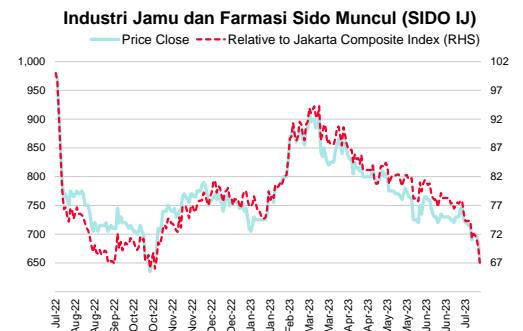
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(13.9)	(11.0)	(18.8)	(14.5)	(33.3)
Relative	(14.6)	(14.5)	(18.1)	(14.5)	(33.3)
52-wk Price low/high (IDR)	635 – 970				



Overall ESG Score: 3.4 (out of 4)

Source: Bloomberg

E: EXCELLENT

The company is committed to reducing the impact of its operations on the environment as much as possible through the implementation of clean production, environmental management with the highest compliance standards and efficient use of resources.

S: GOOD

SIDO established strong commitment create a safe and comfortable work environment so that employees can work optimally as well as giving opportunity to enhance their knowledge and skills. It invest its time and efforts in several community empowerment programs to produce sustainable benefits and multiple impacts on the welfare of the community. Most importantly, SIDO strives to maintain product quality and create various innovations to provide safe and quality products, to meet public health needs.

G: EXCELLENT

The company recognises the importance of consistently implementing good corporate governance (GCG) to maintain its accountability, spur business growth, create value for stakeholders, and strengthen the fundamentals. All employees are committed to implementing GCG principles in the accordance with laws, regulations, and best practices. Periodically, the company evaluates the implementation of GCG and improves GCG soft structure and infrastructure as well as standard operating procedures (SOP) to ensure better GCG.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (IDRb)	4,021	3,866	3,335	3,841	4,335
Recurring net profit (IDRb)	1,248	1,090	924	1,093	1,254
Recurring net profit growth (%)	34.2	(12.6)	(15.3)	18.4	14.7
Recurring P/E (x)	15.63	17.88	21.11	17.83	15.55
P/B (x)	5.6	5.6	5.8	5.5	5.2
P/CF (x)	16.29	17.79	17.19	17.23	13.93
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	11.81	13.51	15.49	13.08	11.48
Return on average equity (%)	37.3	31.7	27.2	31.9	34.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

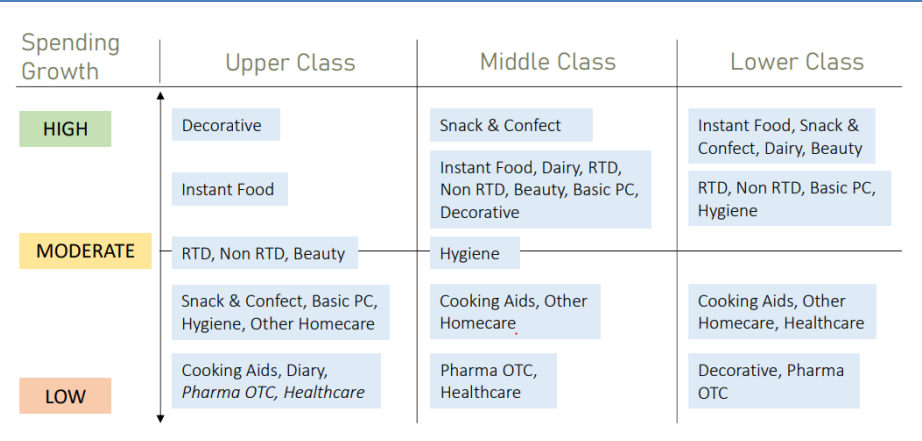
Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (IDR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Indonesia	Recurring EPS	41.60	36.35	30.79	36.45	41.79
Consumer Non-cyclical	BVPS	115.74	116.85	112.07	118.86	125.49
Sido Muncul	Return on average equity (%)	37.3	31.7	27.2	31.9	34.6
SIDO IJ						
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Recurring P/E (x)	15.63	17.88	21.11	17.83	15.55
	P/B (x)	5.6	5.6	5.8	5.5	5.2
	FCF Yield (%)	5.2	4.6	4.7	4.6	5.5
	EV/EBITDA (x)	11.81	13.51	15.49	13.08	11.48
	EV/EBIT (x)	11.81	13.51	15.49	13.08	11.48
	Income statement (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total turnover	4,021	3,866	3,335	3,841	4,335
	Gross profit	2,286	2,163	1,814	2,098	2,375
	EBITDA	1,560	1,375	1,202	1,417	1,606
	Operating profit	1,560	1,375	1,202	1,417	1,606
	Net interest	37	27	29	22	22
	Pre-tax profit	1,613	1,420	1,245	1,454	1,645
	Taxation	(352)	(315)	(311)	(349)	(378)
	Reported net profit	1,261	1,105	934	1,105	1,267
	Recurring net profit	1,248	1,090	924	1,093	1,254
	Cash flow (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(183)	(98)	114	(90)	6
	Cash flow from operations	1,197	1,096	1,135	1,132	1,400
	Capex	(185)	(198)	(212)	(226)	(327)
	Cash flow from investing activities	(122)	(178)	(104)	(137)	(247)
	Cash flow from financing activities	(1,025)	(1,077)	(1,077)	(901)	(1,067)
	Cash at beginning of period	1,032	1,082	923	876	970
	Net change in cash	50	(159)	(47)	93	86
	Ending balance cash	1,082	923	876	970	1,055
	Balance sheet (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	1,082	923	876	970	1,055
	Tangible fixed assets	1,588	1,611	1,621	1,642	1,765
	Total assets	4,069	4,081	3,873	4,145	4,415
	Total liabilities	598	576	511	580	650
	Total equity	3,471	3,505	3,362	3,566	3,765
	Total liabilities & equity	4,069	4,081	3,873	4,145	4,415
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	20.6	(3.9)	(13.7)	15.2	12.8
	Recurrent EPS growth (%)	34.2	(12.6)	(15.3)	18.4	14.7
	Gross margin (%)	56.9	55.9	54.4	54.6	54.8
	Operating EBITDA margin (%)	38.8	35.6	36.0	36.9	37.1
	Net profit margin (%)	31.4	28.6	28.0	28.8	29.2
	Capex/sales (%)	4.6	5.1	6.3	5.9	7.5
	Interest cover (x)	1,810	1,762	1,468	1,648	1,779

Source: Company data, RHB

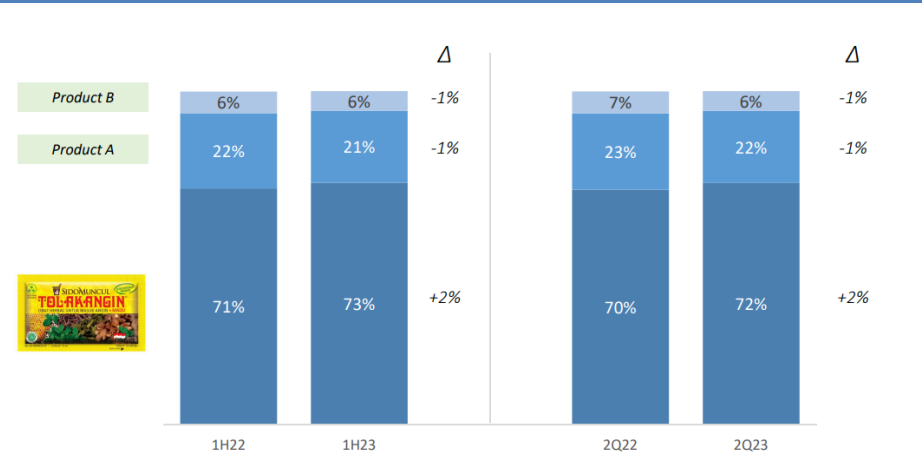
Figure 1: There are changes in spending reallocation



Source: Company data

- ◆ Healthcare-related products (eg pharmaceutical and over the counter or OTC) remain as the low priority across all three segments at this juncture

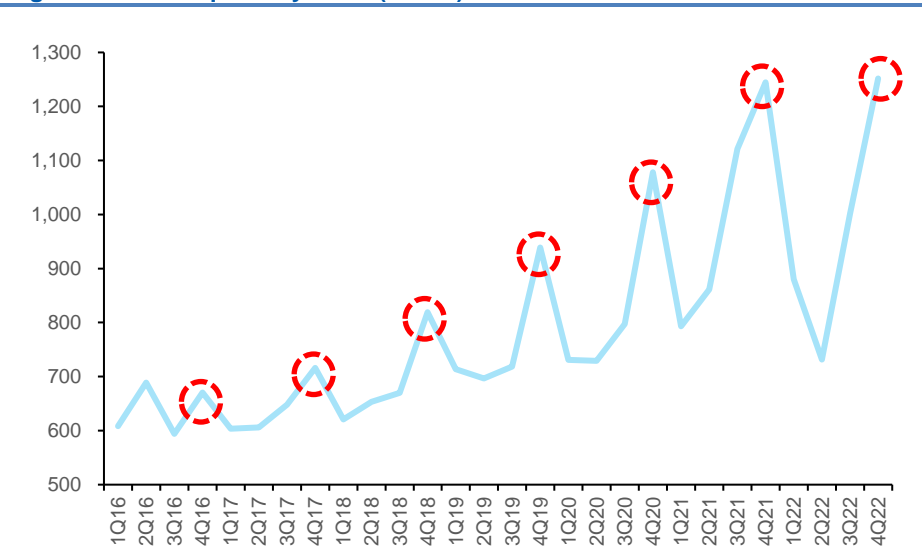
Figure 2: Tolak Angin market share



Source: Company data

- ◆ Despite challenging economic conditions, Tolak Angin managed to gain market share – corroborating SIDO’s dominance in the herbal supplement products segment

Figure 3: SIDO’s quarterly sales (IDRbn)



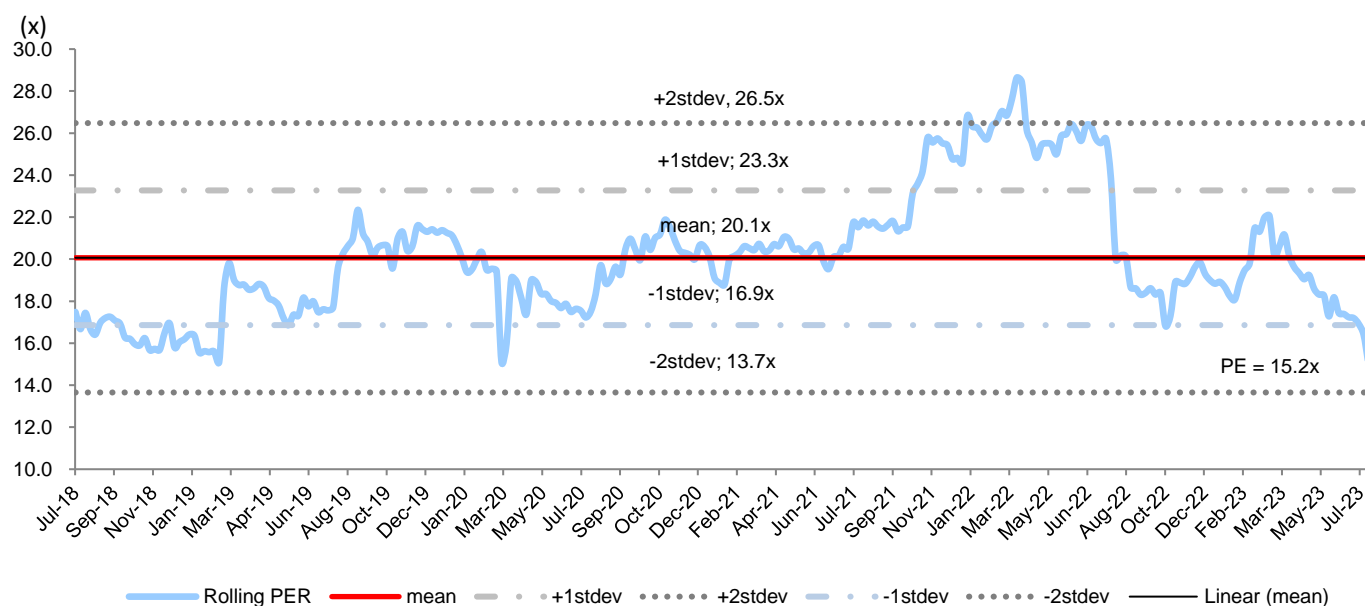
Source: Company data, RHB

- ◆ We see sales peaking during the last quarter of any given year
- ◆ There might be some hiccups in 3Q23 given seasonality, but we remain positive over the long term
- ◆ We might start to remain positive from 4Q23 onwards, given stronger purchasing power due to seasonality and the election impact, as well as higher demand for healthcare products given the unfavourable weather

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Figure 4: SIDO's P/E band



Source: Bloomberg, Company data, RHB

Figure 5: Changes in forecasts

	New			Old			% change		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Income statement (IDRbn)									
Total turnover	3,335	3,841	4,335	3,889	4,464	4,965	(14.2)	(13.9)	(12.7)
Gross profit	1,814	2,098	2,375	2,169	2,520	2,807	(16.3)	(16.7)	(15.4)
EBIT	1,202	1,417	1,606	1,476	1,725	1,923	(18.5)	(17.8)	(16.5)
EBITDA	1,303	1,523	1,723	1,577	1,832	2,043	(17.4)	(16.9)	(15.7)
Pre-tax profit	1,245	1,454	1,645	1,539	1,772	1,970	(19.1)	(18.0)	(16.5)
Net profit	934	1,105	1,267	1,193	1,374	1,526	(21.7)	(19.6)	(17.0)
Key metrics									
EPS (IDR)	31	37	42	40	46	51	(21.7)	(19.6)	(17.0)
Revenue growth (%)	(13.7)	15.2	12.8	0.6	14.8	11.2			
EPS growth (%)	(15.5)	18.3	14.6	7.9	15.2	11.1			
Gross margin (%)	54.4	54.6	54.8	55.8	56.4	56.5			
EBITDA margin (%)	39.1	39.7	39.8	40.6	41.1	41.2			
Net profit margin (%)	28.0	28.8	29.2	30.7	30.8	30.7			
Dividend payout ratio (%)	98.7	98.0	98.0	98.7	98.0	98.0			

Source: Company data, RHB

Figure 6: RHB vs Street's estimates

Income statement (IDRbn)	RHB			Street			RHB/Street (%)		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Revenue	3,335	3,841	4,335	4,192	4,540	4,958	79.6	84.6	87.4
Gross profit	1,814	2,098	2,375	2,339	2,557	2,800	77.6	82.1	84.8
EBITDA	934	1,105	1,267	1,615	1,785	1,967	57.8	61.9	64.4
EBIT	1,202	1,417	1,606	1,489	1,698	1,868	80.7	83.5	86.0
Pre-tax profit	1,245	1,454	1,645	1,554	1,738	1,914	80.1	83.6	85.9
NPAT	934	1,105	1,267	1,194	1,328	1,459	78.2	83.2	86.8

Source: Company data, RHB

Figure 7: DCF valuation

IDRbn	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
EBIT	1,417	1,606	1,775	2,064	2,245	2,408	2,575	2,745	2,934	3,122	3,316
EBIT (1-t)	1,063	1,221	1,366	1,589	1,729	1,854	1,983	2,114	2,259	2,404	2,554
Depreciation & amortisation	106	117	128	135	144	152	161	171	186	199	210
Change in working capital	(67)	28	(72)	(51)	(56)	(60)	(64)	(65)	(64)	(69)	(73)
Capex	(127)	(239)	(240)	(172)	(185)	(198)	(212)	(226)	(327)	(308)	(262)
Net free cash flow to firm	974	1,126	1,182	1,501	1,631	1,749	1,869	1,994	2,055	2,226	2,428
Terminal value											25,865
PV	974	1,002	935	1,056	1,020	973	924	877	803	774	9,840
Total discounted firm value	19,178										
Less: Net debt	(970)										
Less: Minority interest	-										
Equity value	20,147										
Number of shares (bn)	30.0										
Equity value per share (IDR)	672										
ESG premium (Discount)	8%										
TP	725										
Assumptions											
Risk free rate	6.5%										
Beta	1.0										
Equity market premium	6%										
WACC	12.5%										
Terminal growth	3%										

Source: Company data, Bloomberg, RHB

Recommendation Chart

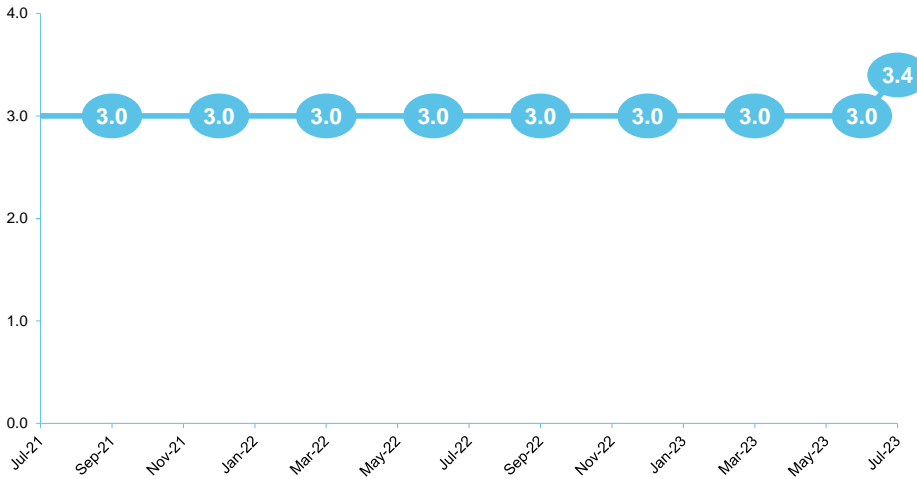


Date	Recommendation	Target Price	Price
2023-07-21	Buy	900	700

Source: RHB, Bloomberg

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Not Rated:	Stock is not within regular research coverage

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