

15 February 2021

Consumer Non-cyclical | Food & Beverage Products

Tiga Pilar Sejahtera Food (AISA IJ)

Not Rated

Turnaround Story With Attractive Valuation

Target Price (Return): N/A
Price: IDR274
Market Cap: USD183m
Avg Daily Turnover (IDR/USD) 34,412m/2.44m

- **We recently met with Tiga Pilar Sejahtera Food's management.** The new management, FKS Group, secured 65% of AISA last year through a rights issue for debt repayment. Positive synergy is expected as FKS Group is leaning towards a soft commodities business and logistics. AISA is leaving its rice business to focus only on snacks and basic foods. Balance sheet and P&L turnaround will happen this year as interest expense should drop 90%. Valuation is attractive at 17x 2021F P/E – cheapest among peers (42% discount).
- **Welcoming better P&L and balance sheet.** Last year, the authorities lifted the suspension of AISA as the company managed to pay-off its debt by raising capital from a rights issue. In Nov 2020, a private placement raised IDR950bn (4.5bn shares at IDR210/share), total injection of IDR1.2trn in 2020, and made FKS Group the majority shareholder. As at 9M20, the company reported total debt of IDR2.1trn with negative equity of IDR1.4trn. Hence, management stated that all the capital raised will be used for the repayment of bond and *sukuk*. Several benefits from the private placement exercise included 75% discount on restructuring loan payment (left with IDR100bn loan), and 2% pa interest on its IDR100bn bond. With the new debt structure, it will save IDR8-9bn/month on interest expense this year.
- **New shareholder, brighter outlook.** FKS Group, the new shareholder, is a holding company which focuses on food, energy and property, logistics and infrastructure. The company is leaning towards commodities business such as sugar, flour mills and corn kernels. We believe AISA will receive competitive pricing on raw materials from FKS Group compared to obtaining it from existing suppliers. Currently, the company is owned by FKS Group (65%), KKR (5-6%), Fidelity (<5%) and public. Management has decided to leave the rice business and only focus on basic foods and snacks.
- **Surprise in 2020-2021.** The new management will focus on reviving AISA's current strong brands through marketing and increase the product distribution with its budget allocated 18% advertising & promotion (A&P) to sales, to revive its market share. In addition, there will be three new products in the pipeline (launching of new Bihunku in 2H21, and new flavours of Taro and Mie Superior). It expects FY21F NPAT of IDR150bn (net margin at 8%), from a loss in 2020. We see the target as achievable as the company cut IDR102bn of interest expense in 2021. Also, A&P to sales ratio was fixed at 17-18% as it focuses to expand its market share by giving out promotions from the extra sales margin.
- **Cheapest among local consumer staples.** AISA is currently trading at 17x 2021F P/E or 42% discount to peers. Re-rating of the stock should uplift the fair value to IDR472 or 72% upside. Risks include the increment of debt or further rights issue, which may diluted ownership, and unsuccessful product launches this year.

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(29.8)	(31.5)	26.9	63.1	63.1
Relative	(33.9)	(29.0)	14.0	43.2	58.6
52-wk Price low/high (IDR)				137 – 442	

Tiga Pilar Sejahtera Food (AISA IJ)



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19
Total turnover (IDRb)	1,951	1,583	1,510
Recurring net profit (IDRb)	(116)	(17)	(178)
Recurring net profit growth (%)	-	(85.3)	938.1
Recurring P/E (x)	na	na	na
P/B (x)	na	na	na
P/CF (x)	3.48	9.16	209.43
Dividend Yield (%)	na	na	na
EV/EBITDA (x)	na	na	na
Return on average equity (%)	-	3.6	(44.4)

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia	Financial summary (IDR)	Dec-17	Dec-18	Dec-19
Indonesia	Recurring EPS	(12.49)	(1.84)	(19.11)
Consumer Non-cyclical	BVPS	(359.34)	(370.40)	(177.93)
Tiga Pilar Sejahtera Food	Return on average equity (%)	-	3.6	(44.4)
AISA IJ				
Not Rated				
Valuation basis	Valuation metrics	Dec-17	Dec-18	Dec-19
N/A	Recurring P/E (x)	na	na	na
	P/B (x)	na	na	na
	FCF Yield (%)	25.4	10.7	0.3
	EV/EBITDA (x)	na	na	na
	EV/EBIT (x)	na	90.00	na
Key drivers	Income statement (IDRb)	Dec-17	Dec-18	Dec-19
i. New management from FKS Group to revamp the company;	Total turnover	1,951	1,583	1,510
ii. Positive equity as of 2020 as new capital injection from FKS Group;	Gross profit	558	460	447
iii. Positive synergy with the majority stake holder.	EBITDA	(360)	(353)	(135)
	Depreciation and amortisation	354	417	44
	Operating profit	(6)	64	(91)
	Net interest	(111)	(76)	(122)
	Pre-tax profit	(5,210)	(86)	1,364
	Taxation	(24)	(38)	(230)
	Reported net profit	(5,233)	(123)	1,134
	Recurring net profit	(116)	(17)	(178)
Key risks	Cash flow (IDRb)	Dec-17	Dec-18	Dec-19
i. Surge on loans post repayment in 2020;	Change in working capital	(6,718)	976	(485)
ii. Lower purchasing power;	Cash flow from operations	733	279	12
iii. Inability to compete with competitors on basic foods and snacks products.	Capex	(85)	(6)	(4)
	Cash flow from investing activities	8	3	(3)
	Cash flow from financing activities	(898)	(370)	(1)
	Cash at beginning of period	292	136	47
	Net change in cash	(157)	(89)	8
	Ending balance cash	136	47	55
Company Profile	Balance sheet (IDRb)	Dec-17	Dec-18	Dec-19
Tiga Pilar Sejahtera Food was established in 1959 by producing vermicelli product. Currently, it produces and distributes basic food (dried noodles and vermicelli) and consumer food (instant noodles, wafer stick and extrusion snack, biscuit and candy).	Total cash and equivalents	136	47	55
	Tangible fixed assets	825	765	1,150
	Total assets	1,982	1,816	1,869
	Short-term debt	3,261	3,293	96
	Total long-term debt	1	0	1,931
	Total liabilities	5,330	5,267	3,527
	Total equity	(3,348)	(3,451)	(1,658)
	Total liabilities & equity	1,982	1,816	1,869
	Key metrics	Dec-17	Dec-18	Dec-19
	Revenue growth (%)	(70.2)	(18.8)	(4.6)
	Recurrent EPS growth (%)	(982.0)	(85.3)	938.1
	Gross margin (%)	28.6	29.0	29.6
	Operating EBITDA margin (%)	(18.5)	(22.3)	(8.9)
	Net profit margin (%)	(268.3)	(7.8)	75.1
	Capex/sales (%)	4.4	0.4	0.2
	Interest cover (x)	(0.02)	0.03	(0.10)

Source: Company data, RHB

AISA's Transformation

In 2020, AISA managed to waive its debts from IDR2.1trn to IDR200bn ie IDR100bn bond and IDR100bn bank loan, which should be reflected in its upcoming FY20 results. On the bank loan, the company is only required to pay 25% of its debt or 75% discount to the original sum. Currently, it had an amount of IDR100bn as bank loan to DBS and it would be paid off in February.

On the bond, it will mature in 2029 with 2% interest cost pa. In 1H21, there will be an auction for AISA's granary, which valued at IDR50bn. Management indicated that the IDR50bn will be used for the bond repayment. All the repayment programmes should translate to IDR8-9bn per month of interest cost savings. As of 9M20, the company had IDR2.1trn of debt and most of it should be wiped off in its upcoming FY20 results.

Management indicated that in 4Q20, AISA's performance was slightly better QoQ, due to its snacks division (biscuits), as it just secured a contract with the Ministry of Health. On overall company performance, it only secured 35-40% utilisation rate in FY20. As the production was underutilised, management is targeting to increase utilisation rate to 70% in FY21. We also expect AISA's balance sheet to be better FY20 as there was a rights issue, coupled with debt repayment (bank loans, *sukuk* and bond).

Management reshuffle resulted in the removal of three key personnel. However, its production team remained the same. Management indicated that there will be two upcoming key persons hired in April— one from Ernst and Young, while the other is from Toyota – and hiring four modern trade (MT) marketing people. This year, management's focus will be on rebranding AISA.

Looking on the company's transformation in 2020, we are positive that AISA's could book IDR150bn of NPAT in 2021. This should be backed by optimisation of production capacity to 70% (+100% YoY), no major capex in 2021, corporate restructuring, positive synergy from the new management, and 70-75% bank loan has been waived. Management also stated that FKS Group will supply most of the raw materials – the pricing should be more competitive compared to its current suppliers. The management also indicated that there will be three new products in the pipeline (launching of new *Bihunku* in 2H21, new flavour of *Taro* and *Mie Superior*). Hence, the spotlight this year should be on *Taro* and *Mie Kremes* as the company is planning to increase the visibility in its modern trade channels by giving out more promotions.

A&P remains the key challenge as the company looks to reinvest every extra margin in marketing to boost sales. Management has set its A&P to sales at 17-18%. Our estimate suggests that, every 1% decline in A&P to sales will translate to +12.5% of AISA's NPAT. With the target that management has set, AISA is currently the cheapest consumer staples company in Indonesia. The stock is currently trading at 17x 2021F P/E or 42% discount to peers. If we re-rate AISA's to be on par with other consumer staples companies, its fair value will be at IDR472 or 72% upside from the current level.

Figure 1: AISA's current valuation

	Base FY21F	-1% A&P to sales	Growth	
Sales (IDRbn)	1,875	1,875		
A&P (IDRbn)	338	319	-5.6%	
A&P to Sales	18%	17%		◆ Every 1% decline in A&P to sales in 2021 will increase AISA's NPAT by +13% followed by margin expansion by +100bps.
NPAT (IDRbn)	150	169	12.5%	◆ Currently, AISA is trading at 17x 2021F P/E. This translates to a 42% discount to Indonesia consumer staples companies.
Net Margin	8%	9%		
Current P/E	17.0	15.1		◆ Re-rating on the stock will bring up AISA's FV to be at IDR472.
Indonesia Consumer Staples P/E	29.3	29.3		
Discount to its peers	-41.9%	-48.4%		
FV (IDR)	472	531		

Source: Company, RHB

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Company Profile

AISA is a consumer goods company which had its portfolio divided into snacks and basic foods divisions (noodles and vermicelli). Both divisions contribute to topline almost equally at 42% (basic foods) and 58% (snacks). The company's most sellable products are *Taro* (snack division) and *Ayam 2 Telur* (basic foods division). It was previously known as the biggest distributor of *Ayam Jago* – rice product. However, due to a scandal, the company has decided to close its rice division under the new management.

The company is currently owned by FKS Group as of 2020, through a private placement of IDR950bn (4.5bn shares at IDR210/share). Note that, the total capital injected to AISA from FKS Group reached IDR1.2trn in 2020. FKS Group, the new shareholder, is a holding company focused on food, energy and property, as well as logistics and infrastructure which covers the domestic and international markets. The company is leaning towards the commodities business such as sugar, flour mills and corn kernels.

Figure 2: AISA's shareholder composition

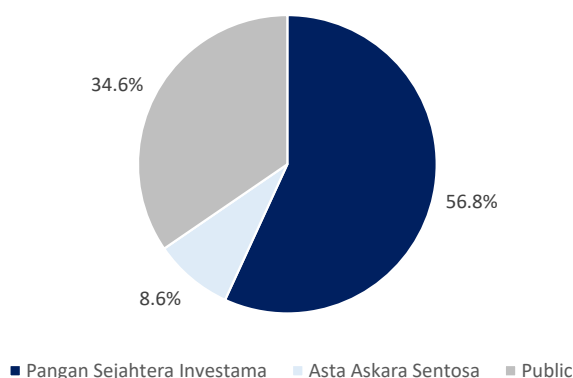
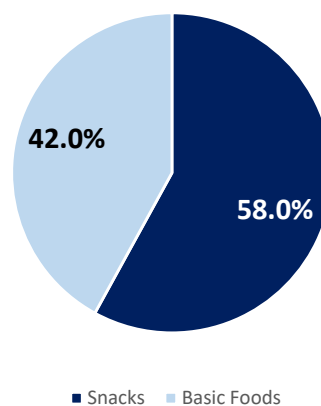


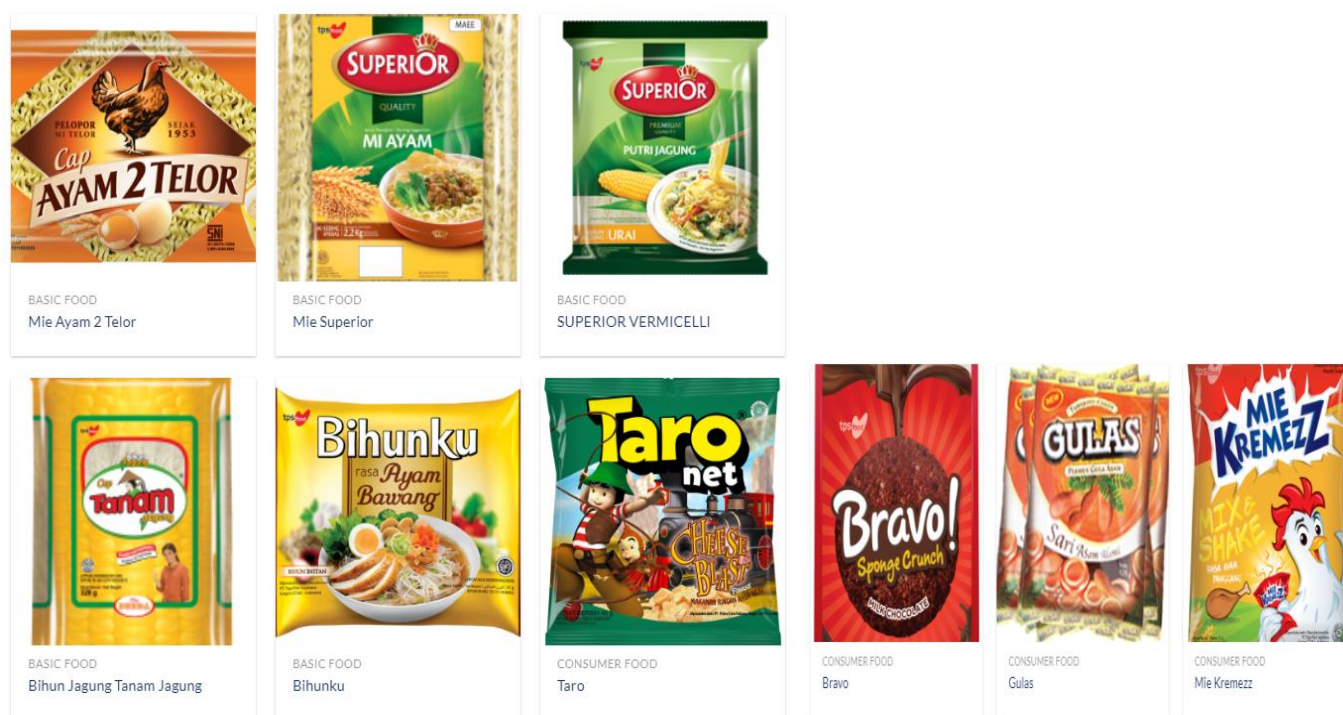
Figure 3: 9M20 revenue composition



Source: Company data, RHB

Source: Company, RHB

Figure 4: AISA's current products



Source: Company

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Figure 5: AISA's board of commissioners

Name	Position	Description
Hengky Koestanto	President Commissioner	Indonesian, graduated in the field of Science in Biosystem and Agricultural Engineering from the University of Minnesota Twin Cities in 1998. He started his career at AISA since 1999 and appointed as commissioner in 2018.
Ir. R. Benny Wachjudi, MBA	Independent Commissioner	Indonesian, graduated in the field of Physical Engineering in 1980 from the Bandung Institute of Technology and obtained his Master of Business Administration in 1989 from the University of Bridgeport, United States. Previously he was the Director General of the Manufacturing Industry Base at the Ministry of Industry of the Republic of Indonesia in 2014 and then served as President Commissioner of PT Semen Baturaja Tbk. (Persero) in 2008 to 2017.
Dr. Drs. Komjen (Purn). Ito Sumardi Djuni Sanyoto S.H., M.H., MM., MBA	Independent Commissioner	Indonesian, completed his education in the field of law until his doctoral level in 1996 and completed Masters in the field of business administration. Previously, he served the state as a member of the Indonesian National Police by holding various positions until 2011. Currently he is the Independent Commissioner of PT Japfa Comfeed Indonesia Tbk (2019 to now).
Jaka Prasetya	Commissioner	Singaporean, graduated in Electrical Engineering from the Bandung Institute of Technology in 1994 and an MBA from MIT Sloan School of Management in 1998. Previously, he had served as Managing Partner at Leafgreen Capital Partners (2011-2014), and Managing Director at Raiffeisen Bank International (2010-2011). Currently, he is a partner of KKR & Co. L.P. (2014 to now).

Source: Company, RHB

Figure 6: AISA's board of directors

Name	Position	Description
Lim Aun Seng	President Director	Graduated in Accounting at Tunku Abdul Rahman University College in 1994 and received his MACPA Certified Final Stage Certified Public Accountant. He began his career as an auditor at Kassim Chan & Co / Deloitte Touche in 1999. He has a long experience in finance, having served as Group Financial Controller Plenitude (2008), Chief Financial Officer of PT Malindo Feedmill, Tbk (2008 to 2014), and President Director of PT FKS Multi Agro (2014 to 2019). He joined TPSF Group as General Manager of PT Putra Taro Paloma since 2019.
Charlie Dungga	Independent Director	Graduated in Finance from Portland State University, Portland, Oregon, in 1993. Before joining AISA, he was an executive in several national and foreign companies and most recently served as Finance Director of PT Petrodrill Manufaktur Indonesia (2018).
Nanang Rismandi	Director	Graduated in Agricultural Engineering in 1997 from the Bogor Agriculture Institute. Starting his career at PT Yupi Indojelly Gum with his last position as Production Supervisor, he also has a long experience in the operational field, namely as an Engineering Manager at PT San Miguel Pf (2000 s.d. 2006), Plant Manager of PT Ades Waters Tbk. (2006 to 2008), and most recently served as Plant Manager of PT Aqua Golden Mississippi (2017 to 2019). He joined TPSF Group as Chief Operating Officer of PT Tiga Pilar Sejahtera Food Tbk. (2020 to present).
Ernest Alto	Director	Graduated in Accounting from the Padjadjaran University, Bandung in 1995 and obtained a Master of Business Administration in 2005 from the Indonesian Institute for Management Development (IPMI), and a Masters in Law from the University of Indonesia in 2011. He joined TPSF Group as Chief Financial Officer of PT Tiga Pilar Sejahtera Food Tbk. (2019 to now). However, AISA received his resignation letter. The company will hold an EGM on 26 Feb on the matter.

Source: Company, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-02-13			

Source: RHB, Bloomberg

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Not Rated:	Stock is not within regular research coverage

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