

Wednesday, 26 July 2017

Non Rated

Buyung Poetera Sembada

Better margins in store

Last price	Rp 374
Sector	Consumer
Bloomberg Ticker	HOKI IJ
No of Shares (mn)	2,350
Mkt. Cap (Rpbn/USDmn)	902/69

Buyung Poetra Sembada (BPS) is upbeat on its growth prospect, on the back of greater distribution network to general trades as well as the expectation to see the full-year impact of its wet paddy processing, which should translate to improve gross margin this year. At current price, the stock is trading at FY17F PE of 9.9x, based on the management's guidance of 110% yoy earnings growth.

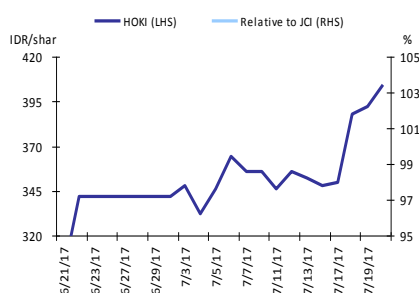
Major shareholders

Buyung Investama Gemilang	66.9%
Sukarta	0.7%
Public	29.8%

Upbeat on its growth prospect. We recently met the management of Buyung Poetra Sembada (HOKI IJ) and learnt that the company is optimistic that it will book solid top line growth going forward. The company, which has extensive experience in the rice business going back to 1977, sells a range of reputable brands that are distributed to modern and general traders across Indonesia and which tap all market segments. Since 3Q15, the company has worked closely with local distributors to further penetrate general trade (GT), successfully raising GT's revenues contribution to 54.9% in 2016 from only 40.8% in 2015.

Wet paddy processing: paving the way for better margins. At the end of Dec 2016, HOKI had total installed production capacity of 302,400tons/year with a utilization rate of almost 80%. Starting mid-2016, the company added a new facility to process the wet paddy. In so doing, BPS was able to cut the supply chain which led to quality improvements in its rice milling. This should help to boost the gross margin by 2%. At present, the supply of rice from its wet paddy facility is approximately 30% of the total sales volume. In the coming years, the company plans to develop new production facilities including both wet paddy processing and rice milling (exhibit 2).

HOKI relative to JCI Index



Source : Bloomberg

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HOKI trades at FY17F PE of 9.9x. The company made its 1Q17 unaudited result available at the meeting. The 1Q17 top line reached Rp347.6bn (+72% yoy) with an improved gross margin of 16.3% (FY16: 14.7%) and bottom line of Rp26.2bn (+94% yoy). For 2017, the company is providing guidance of FY17 revenues and net profits of Rp1.3tn (+13% yoy) and Rp92bn (+110% yoy), respectively. Using fully diluted EPS from the company's FY17 earnings guidance, the company is trading at FY17F PE of 9.9x, slightly above that of its main peer in the rice business (AISA: FY17F PE of 8.5x).

Year to 31 Dec	2014A	2015A	2016A
Revenue, (Rpbn)	518,297	658,280	1,146,888
Gross profit, (Rpbn)	74,254	98,928	168,839
Operating profit, (Rpbn)	25,525	37,784	72,186
Operating profit Growth, (%)	na	48%	91%
Net profit (Rpbn)	13,950	53,277	43,822
Core net profit (Rp bn)	13,468	23,810	43,775
Core profit growth (%)	na	76.8%	83.8%
EPS (Rp)	1,394,969	32.29	26.56
Operating margin (%)	4.9	5.7	6.3
Net margin (%)	2.7	8.1	3.8
Net debt to equity (%)	172	62	52
Receivable days	na	29	29
Inventory days	na	64	31
Cash conversion cycle - days	na	46	55

Source: Bloomberg

Strong brands to tap all market segments. The company offers a range of reputable brands that are distributed to modern and general traders across Indonesia and which tap all market segments (exhibit 1). In its brand portfolio, the company has its own brands (Topi Koki, Belida etc) as well as private labels which are supplied to several supermarkets/hypermarkets. Its own brands were the key growth driver of revenues in 2016 (+92% yoy) followed by private labels (+35% yoy). In term of sales volume contribution, own brands contributed around 76.3% while the remaining from private labels (23%).

Exhibit 1. Brands and segmentation

Brands	Segment	Price/kg
Topi Koki Pandan Wangi/Sentra Ramos	Up	17,000-18,000
Rumah limas setra ramos	Middle/regular	13,000
Hoki	Mid to low	10,000-11,000

Source: Company, Danareksa Sekuritas

Exhibit 2. Brands under Topi Koki



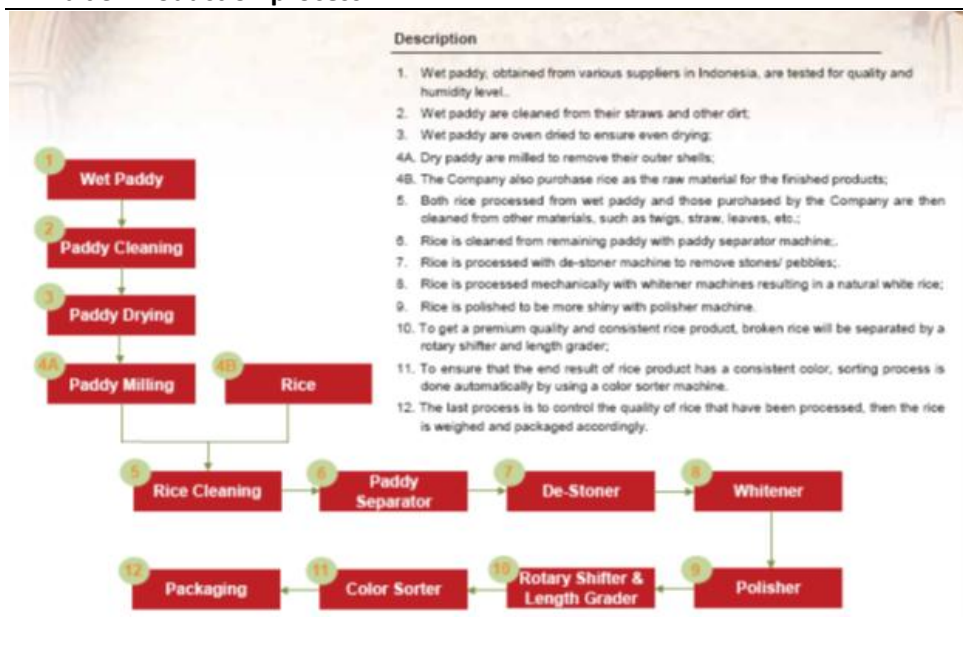
Source: Company

Wet paddy processing: paving the way for better margins.

The company has two factories, which are located in Pasar Induk Cipinang - Jakarta (43,200 tons/year) and Pamanukan, Subang (259,200 tons/year), have storage capacity totaling 24,000 tons. To support distribution to eastern Indonesia, the company has a warehouse in Sidoarjo, East Java with storage capacity of 1,000 tons.

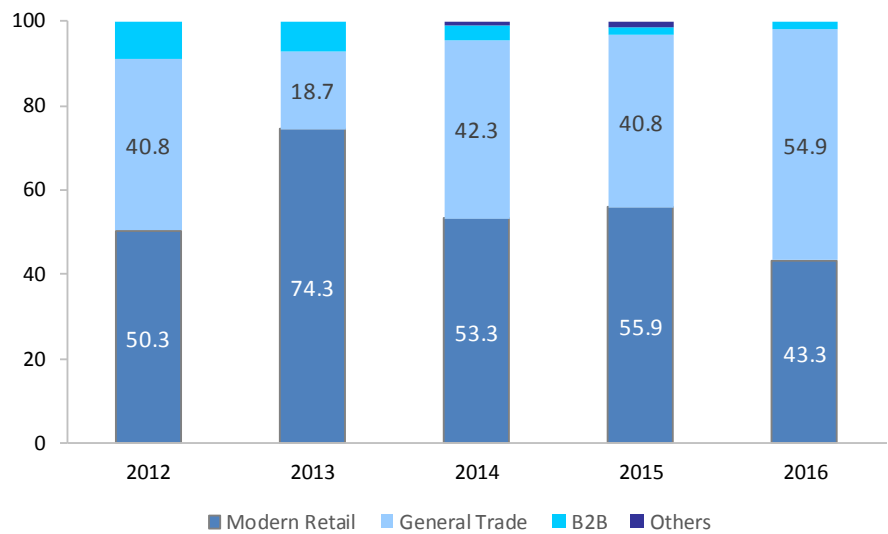
Before July 2016, the company would process the rice bought from farmers as the raw materials for its packaged rice products. However, starting mid-2016, the company added a new facility to process the wet paddy. In so doing, BPS was able to cut the supply chain which led to quality improvements in its rice milling. This should help to boost the gross margin by 2%. At present, the supply of rice from its wet paddy facility is approximately 30% of the total sales volume. In the coming years, the company plans to develop new production facilities including both wet paddy processing and rice milling (exhibit 3).

Exhibit 3. Production process



Source: Company, Danareksa Sekuritas

Exhibit 4. Revenues contribution by distribution channel



Source: Company, Danareksa Sekuritas

Exhibit 5. Company's top customers - 2016

Indomarco Prismaatama	21%
Matahari Putra Prima	5%
Lotte Mart Indonesia	4%
Hero Supermarket	4%
Lotte Shopping Indonesia	3%
Trans Retail Indonesia	2%
Lion Superindo	1%
Sinar Sahabat Inti Makmur	1%
Tip Top	1%
Others	58%

Source: Company, Danareksa Sekuritas

Exhibit 6. Income Statement

In Millions of IDR	FY 2014	FY 2015	FY 2016
Revenue	518,297	658,280	1146,888
- Cost of Revenue	444,043	559,351	978,048
Gross Profit	74,254	98,928	168,839
+ Other Operating Income	-	-	-
- Operating Expenses	48,728	61,144	96,653
Operating Income or Losses	25,525	37,784	72,186
- Interest Expense	6,831	7,687	12,607
- Net Non-Operating Losses (Gains)	(198)	(32,055)	551
Pretax Income	18,892	62,152	59,028
- Income Tax Expense (Benefit)	4,945	8,875	15,206
Income Before XO Items	13,947	53,277	43,822
- Extraordinary Loss Net of Tax	-	-	-
- Minority/Non Controlling Interests (Credits)	(3)	-	-
Net Income/Net Profit (Losses)	13,950	53,277	43,822
- Total Cash Preferred Dividends	-	-	-
- Other Adjustments	-	-	-
Net Inc Avail to Common Shareholders	13,950	53,277	43,822

Source: Bloomberg

Exhibit 7. Balance Sheet

In Millions of IDR	FY 2014	FY 2015	FY 2016
Assets			
+ Cash & Near Cash Items	2,108	997	2,467
+ Short-Term Investments	37,452	-	-
+ Accounts & Notes Receivable	48,403	55,513	127,993
+ Inventories	81,020	114,023	50,783
+ Other Current Assets	20,629	10,378	7,052
Total Current Assets	189,611	180,910	188,295
+ Net Fixed Assets	43,359	149,132	177,826
+ Gross Fixed Assets	50,905	156,612	190,230
- Accumulated Depreciation	7,546	7,479	12,404
+ Other Long-Term Assets	2,072	2,111	4,124
Total Long-Term Assets	45,431	151,244	181,950
Total Assets	235,041	332,154	370,245
Liabilities & Shareholders' Equity			
+ Accounts Payable	125,460	23,872	2,649
+ Short-Term Borrowings	75,317	110,217	116,526
+ Other Short-Term Liabilities	8,068	16,599	22,326
Total Current Liabilities	208,846	150,688	141,501
+ Long-Term Borrowings	-	-	-
+ Other Long-Term Liabilities	5,396	5,792	8,670
Total Long-Term Liabilities	5,396	5,792	8,670
Total Liabilities	214,241	156,480	150,171
+ Total Preferred Equity	-	-	-
+ Minority Interest	36	-	-
+ Share Capital & APIC	5,000	165,484	166,484
+ Retained Earnings & Other Equity	15,764	10,190	53,590
Total Equity	20,800	175,674	220,074
Total Liabilities & Equity	235,041	332,154	370,245

Source: Bloomberg

Exhibit 8. Cash flow

In Millions of IDR	FY 2014	FY 2015	FY 2016
Cash From Operating Activities			
+ Net Income	13,950	53,277	43,822
+ Depreciation & Amortization	2,688	3,726	5,130
+ Other Non-Cash Adjustments	21,205	(159,182)	(25,178)
Cash From Operations	37,842	(102,179)	23,775
Cash From Investing Activities			
+ Disposal of Fixed Assets	-	-	96
+ Capital Expenditures	(22,487)	(123,750)	(28,481)
+ Increase in Investments	-	-	-
+ Decrease in Investments	-	-	-
+ Other Investing Activities	(36,970)	68,982	(519)
Cash From Investing Activities	(59,457)	(54,768)	(28,904)
Cash from Financing Activities			
+ Dividends Paid	(5,000)	-	-
+ Change in Short-Term Borrowings	19,482	34,900	6,309
+ Increase in Long-Term Borrowings	-	-	-
+ Decrease In Long-Term Borrowings	(30)	(429)	(995)
+ Increase in Capital Stocks	-	100,286	1,001
+ Decrease in Capital Stocks	-	-	-
+ Other Financing Activities	7,758	21,080	286
Cash from Financing Activities	22,209	155,837	6,600
Net Changes in Cash	595	(1,111)	1,471

Source: Bloomberg

Exhibit 9. Ratios

	FY 2014	FY 2015	FY 2016
Returns (%)			
Return on Common Equity	—	54.24	22.15
Return on Assets	—	18.79	12.48
Return on Invested Capital	—	16.75	16.95
Margins (%)			
Gross Margin	14.33	15.03	14.72
EBITDA Margin	5.44	6.31	6.74
Operating Margin	4.92	5.74	6.29
Pretax Margin	3.65	9.44	5.15
Net Income Margin	2.69	8.09	3.82
Leverage			
Net Debt/Equity (%)	171.91	62.17	51.83
EBITDA to Interest Expense (x)	4.13	5.40	6.13
Liquidity ratio			
Cash Ratio (x)	0.19	0.01	0.02
Current Ratio (x)	0.91	1.20	1.33
Quick Ratio (x)	0.42	0.38	0.92

Source: Bloomberg