



SEJAK 1951

**SIDOMUNCUL**

**BUY**

Target Price : IDR 1,050

## Stock Data

Curent Price : IDR 805  
 52wk Range H-L : IDR 492-975  
 Share Outstanding : 15,000 mn  
 Free Float (%) : 18.40%  
 Mkt Capitalization : 12,075 bn  
 (IDR bn)

## Major Shareholders

PT Hotel Candi Baru : 81.60%  
 Public : 18.40%



### Research Analyst

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## PT Industri Jamu dan Farmasi Sido Muncul Tbk (SIDO)

Consumer : Pharmacy

### Proven to Achieve Good Health

#### Bottom-Line Pops Double Digits in 9M18

SIDO managed to record a top-line of 4.67% YoY to IDR1.94 tn in 9M18 (vs IDR1.86tn in 9M17), supported by growth of the herbal and pharmaceutical product segments, which contributed 65.72% and 3.96% to total sales, respectively, with growth of 7.46% and 12.44% YoY. Higher recovery rate of raw material's extraction and higher selling price successfully boosted up the gross profit margin at 50.77% (vs 45.70% in 9M17). Meanwhile, SIDO also managed to record a bottom-line that jumped by 26.22% YoY to IDR480.11 bn, with a net profit margin maintained at 24.69% in 9M18. This achievement reflects 74.54%/76.46% of Consensus/MNCS FY18E estimates. As royalty fees expired in 2M18, an increase in ASP for the herbal medicine segment boosted bottom-line performance.

#### Production Capacity Enhancement as a Strategy to Meet Global Market Demand

SIDO plans to raise production capacity from 100 million packs per month to 180 million, as a strategy to further bulk up revenue. A second liquid herbal facility targeted to be completed in December 2018, is to have a capacity of 100 million packs per month. Thus, a FY18E/FY19F herbal medicine segment revenue growth projection of up to 10%/12% YoY realistic. Furthermore, SIDO seeks to penetrate export markets in various countries such as Philippines (population of 107 million, with a culture similar to that of Indonesia). In early 2018, SIDO established a new trading company in Nigeria (population 196 million) to respond to significantly-increased demand for SIDO products. The export sales portion is targeted for a ~5% increase over the 1H18 position, still below 2% of total sales.

#### Recommendation: Maintain BUY with a Target Price of IDR1,050

We recommend **BUY** for **SIDO** at a **TP: IDR1,050**, which implies PE/PBV 25.08x/5.09x on FY18E and 22.22x/4.88x in FY19E. Its stable financial position and strong brand positioning should be able to drive growth. Meanwhile, the rampant circulation of illegal (and potentially dangerous) herbal products, and the availability of raw materials for SIDO, are main points that need to be considered. At present, SIDO is currently trading at level +0.5 STD PE Ratio (3-year average PE) with a current PE level of 18.91x.

#### Key Financial Highlight

IDR billion	FY15	FY16	FY17	FY18E	FY19F
Revenue	2,218.54	2,561.81	2,573.84	2,763.90	3,002.04
EBITDA	547.62	612.79	700.78	825.63	935.96
Net Profit	437.48	480.53	534.40	627.93	708.90
ROA (%)	15.65	16.08	16.92	18.48	19.92
ROE (%)	16.84	17.42	18.45	20.31	21.96
PER (x)	27.22	24.93	22.41	19.23	17.03
PBV (x)	4.58	4.34	4.14	3.91	3.74

Source: Bloomberg, MNCS as of October 30, 2018

### Bottom-Line Pops Double Digits in 9M18, Supported by Herbal and Pharmaceutical Herb Segments

SIDO managed to record a top-line of 4.67% YoY to IDR1.94 tn in 9M18 (vs IDR1.86 tn in 9M17), supported by growth of the herbal and pharmaceutical product segments, which contributed 65.72% and 3.96% to total sales, respectively, with growth of 7.46% and 12.44% YoY. This achievement reflects 70.34%/71.45% of MNCS/Consensus estimates. Gross profit was observed to increase by 16.27% YoY to IDR987.03 bn (vs IDR848.91 bn in 9M17) with gross profit margin rising by 45.70% to 50.77%. A significant increase in Gross Profit resulted from renewed efficiency in production of the new extraction facility (PT Semarang Herbal Indo Plant). Furthermore, higher recovery rate of raw material's extraction and higher selling price successfully boosted up the gross profit margin. Meanwhile, EBITDA and net profit both increased double digits, up 22.11% and 26.22% YoY in 9M18, with margins maintained at 20.48% and 24.69%. As royalty fees expired in 2M18, an increase in ASP for the herbal medicine segment boosted bottom-line performance.

Exhibit 01. 9M18 Financial Results

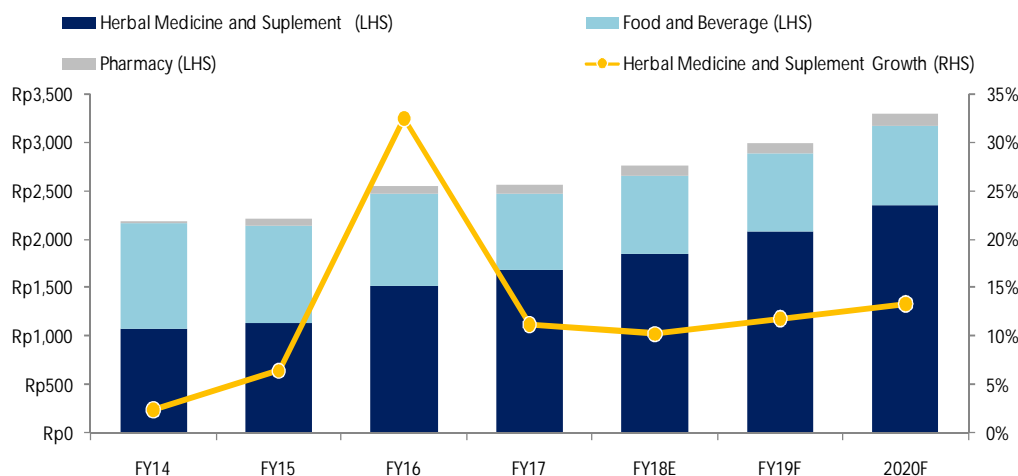
IDR Billion	9M17	9M18	YoY	FY18E Consensus	FY18E MNCS	% Consensus	% MNCS
<b>Sales</b>	<b>1,857.48</b>	<b>1,944.22</b>	<b>4.67%</b>	<b>2,721.00</b>	<b>2,763.90</b>	<b>71.45%</b>	<b>70.34%</b>
COGS	1,008.58	957.19	-5.09%				
<b>Gross Profit</b>	<b>848.91</b>	<b>987.03</b>	<b>16.27%</b>	<b>1,340.09</b>	<b>1,331.04</b>	<b>73.65%</b>	<b>74.15%</b>
Gross Profit Margin	45.70%	50.77%		49.25%	48.16%		
<b>Operating Profit</b>	<b>472.61</b>	<b>585.24</b>	<b>23.83%</b>	<b>761.35</b>	<b>754.21</b>	<b>76.87%</b>	<b>77.60%</b>
Operating Margin	25.44%	30.10%					
<b>EBITDA</b>	<b>517.31</b>	<b>631.67</b>	<b>22.11%</b>	<b>865.66</b>	<b>825.63</b>	<b>72.97%</b>	<b>76.51%</b>
<b>Net Profit</b>	<b>380.38</b>	<b>480.11</b>	<b>26.22%</b>	<b>644.08</b>	<b>627.93</b>	<b>74.54%</b>	<b>76.46%</b>
Net Margin	20.48%	24.69%					

Source: SIDO, Bloomberg, MNCS

### Production Capacity Enhancement Becomes FY19F Strategy

SIDO has revealed plans to raise production capacity from 100 million packs per month to 180 million, as a strategy to further bulk up revenue. A second liquid herbal facility (COD), targeted to be completed in December 2018, is to have a capacity of 100 million packs per month. Thus, a FY18E/FY19F herbal medicine segment revenue growth projection of up to 10%/12% YoY realistic. This COD II plant embodies a modern computerized concept, able to produce all liquid herb varieties. Production is more integrated and efficient, able to avoid process errors customarily resulting from human negligence.

Exhibit 02. SIDO Revenue Growth Trends per FY14-FY20F Business Segment, in Billion Rupiah



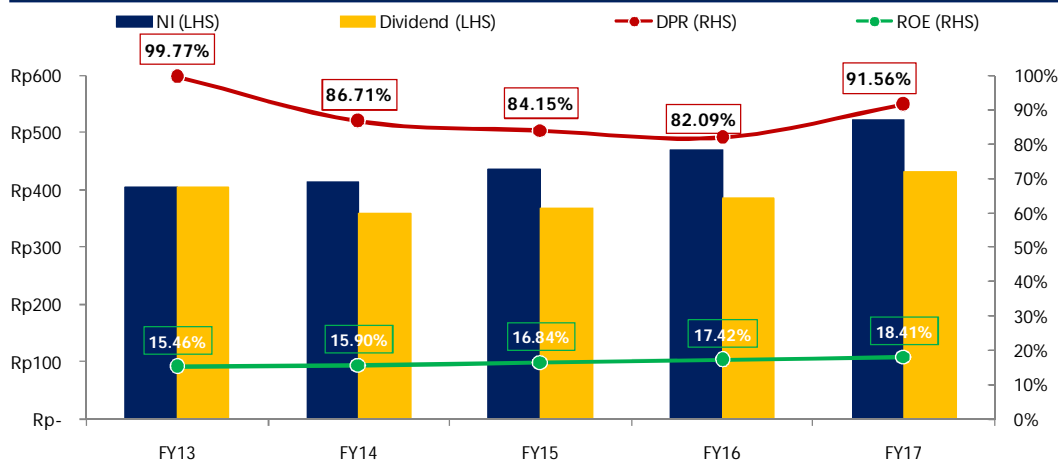
Source : SIDO, Bloomberg, MNCS

**Zero Debt and a Dividend Player**

Positive cash flow and a DER position at level 0 are advantages for SIDO. Supported by a strong balance sheet position, SIDO can carry out various expansive moves, both organic and inorganic, such as the acquisition of formerly legendary herbal brand Nyonya Meneer, paid off with FY17 internal cash. The IDR300 billion capital expenditure budgeted for FY18E also derives from internal cash.

We note how over the last five years SIDO has been able to distribute dividends on a regular basis, with a DPR level at ~87% and a dividend yield of ~5%, evidence that the Company's business position is increasingly well-established. A huge war chest of cash means SIDO is able to pay out high dividends, something investors find most attractive. While the Dividend Payout Ratio (DPR) offered is quite high, SIDO still has potential to grow, in line with the development of Liquid Herbal II facilities, expected to be completed by end-FY18E. Significant revenue growth, supported by appropriate efficiency will, we predict, encourage net profit growth, enabling the Company to provide high returns to investors. We project net profit growth at 17.50%/12.41%, to IDR628 bn/IDR 706 bn in FY18E/FY19F, with DPR at ~ 80%.

Exhibit 03. Dividend Payout Ratio and ROE Trend FY13-FY17



Source: SIDO, Bloomberg, MNCS

**Enlarging the Export Segment through Expansion into the Philippines and Nigeria**

**Recommendation: Maintain BUY with a Target Price of IDR1,050**

SIDO seeks to penetrate export markets in various countries. In FY17, it established a branch in the Philippines (population of 107 million, with a culture similar to that of Indonesia). In early 2018, SIDO established a new trading company in Nigeria (population 196 million) to respond to significantly-increased demand for SIDO products. Management claims Kuku Bima Energy brand is reported to be the number 2 Top of Mind energy drink in Nigeria. The export sales portion is targeted for a ~5% increase over the 1H18 position, still below 2% of total sales.

We recommend **BUY** for **SIDO** at a **TP: IDR1,050**, which implies PE/PBV 25.08x/5.09x on FY18E and 22.22x/4.88x in FY19E. Its stable financial position and strong brand positioning should be able to drive growth. Meanwhile, the rampant circulation of illegal (and potentially dangerous) herbal products, and the availability of raw materials for SIDO, are main points that need to be considered. At present, SIDO is currently trading at level +0.5 STD PE Ratio (3-year average PE) with a current PE level of 18.91x.

Exhibit 04. SIDO is currently trading at Level +0.5 STD PE Ratio (3-year average PE)



Source : Bloomberg, MNCS

Exhibit 05. Financial Projections

Income Statement						Balance Sheet					
IDR Billion	FY15	FY16	FY17	FY18E	FY19F	IDR Billion	FY15	FY16	FY17	FY18E	FY19F
<b>Revenues</b>	<b>2,219</b>	<b>2,562</b>	<b>2,574</b>	<b>2,764</b>	<b>3,002</b>	<b>Current Assets</b>	<b>1,707</b>	<b>1,794</b>	<b>1,629</b>	<b>1,616</b>	<b>1,627</b>
<b>COGS</b>	<b>1,335</b>	<b>1,494</b>	<b>1,412</b>	<b>1,433</b>	<b>1,519</b>	Cash & Cash Equivalents	1,027	1,002	903	909	858
<b>Gross Profit</b>	<b>883</b>	<b>1,068</b>	<b>1,162</b>	<b>1,331</b>	<b>1,483</b>	Trade Receivable	336	367	432	401	436
<b>Operating Expense</b>	<b>405</b>	<b>508</b>	<b>522</b>	<b>577</b>	<b>626</b>	Inventories	265	317	268	277	303
Selling Expenses	303	370	364	398	432	Others current Assets	80	108	27	29	31
G&A	102	138	172	179	194	<b>Non-Current Assets</b>	<b>1,089</b>	<b>1,193</b>	<b>1,529</b>	<b>1,781</b>	<b>1,931</b>
<b>Operating Profit</b>	<b>478</b>	<b>559</b>	<b>640</b>	<b>754</b>	<b>857</b>	Fix Asset - net	962	1,051	1,215	1,444	1,565
<b>EBITDA</b>	<b>548</b>	<b>613</b>	<b>701</b>	<b>826</b>	<b>936</b>	Other Non-Current Assets	127	142	314	337	366
Other Income (Expenses)	-	-	-	-	-	<b>TOTAL ASSETS</b>	<b>2,796</b>	<b>2,988</b>	<b>3,158</b>	<b>3,397</b>	<b>3,559</b>
Interest Income	66	48	42	48	48	<b>Current Liabilities</b>	<b>184</b>	<b>216</b>	<b>209</b>	<b>248</b>	<b>268</b>
Other	-	-	-	-	-	Account Payable	148	178	125	158	171
<b>Profit Before Tax</b>	<b>560</b>	<b>629</b>	<b>682</b>	<b>802</b>	<b>905</b>	Short Term Debt	-	-	-	-	-
Tax Expense	123	149	148	174	196	Other current liabilities	36	38	84	90	98
Net Income Before MI	437	481	534	628	709	<b>Non-Current Liabilities</b>	<b>14</b>	<b>14</b>	<b>54</b>	<b>58</b>	<b>63</b>
Minority Interest	0	-	-	-	-	LT Liabilities	-	-	-	-	-
<b>Net Income</b>	<b>437</b>	<b>481</b>	<b>534</b>	<b>628</b>	<b>709</b>	Other NC Liabilities	14	14	54	58	63
EPS (full amount)	30	32	36	42	47	<b>TOTAL EQUITY</b>	<b>2,598</b>	<b>2,758</b>	<b>2,896</b>	<b>3,092</b>	<b>3,228</b>
						<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>2,796</b>	<b>2,988</b>	<b>3,158</b>	<b>3,397</b>	<b>3,559</b>

Cash Flow						Ratios					
IDR Billion	FY15	FY16	FY17	FY18E	FY19F	Ratio	FY15	FY16	FY17	FY18E	FY19F
<b>CFO Total</b>	<b>434</b>	<b>454</b>	<b>654</b>	<b>758</b>	<b>746</b>	Revenue Growth (%)	0.94	15.47	0.47	7.38	8.62
Net Income	437	481	534	628	709	Operating Profit Growth (%)	9.61	16.93	14.44	17.80	13.67
Depreciation	69	53	61	71	79	Net Profit Growth (%)	4.78	9.84	11.21	17.50	12.90
Working Capital	(37)	(54)	(68)	54	(47)	Current Ratio (%)	92.77	83.18	78.12	65.25	60.63
Change in others	(36)	(26)	127	4	5	Quick Ratio (%)	740.29	634.88	639.96	529.02	481.91
<b>CFI Total</b>	<b>(198)</b>	<b>(158)</b>	<b>(396)</b>	<b>(323)</b>	<b>(229)</b>	Receivable Days	55.21	52.32	61.19	52.97	52.97
ST Investment	-	-	-	-	-	Inventory Days	72.44	77.46	69.26	70.63	72.79
LT Investment	-	-	-	-	-	Payable Days	40.39	43.45	32.29	40.22	41.07
Capex	(240)	(143)	(224)	(300)	(200)	Debt to Equity (x)	-	-	-	-	-
Change in Others	42	(15)	(172)	(23)	(29)	Gross Profit Margin (%)	39.82	41.68	45.15	48.16	49.42
<b>CFF Total</b>	<b>(360)</b>	<b>(355)</b>	<b>(347)</b>	<b>(428)</b>	<b>(568)</b>	Operating Profit Margin (%)	21.57	21.84	24.88	27.29	28.56
Net Change in Debt	-	-	-	-	-	EBITDA Margin (%)	24.68	23.92	27.23	29.87	31.18
Equity financing	-	13	0	-	-	Net Income Margin (%)	19.72	18.76	20.76	22.72	23.61
Dividend payment	(360)	(369)	(387)	(432)	(573)	ROA (%)	15.65	16.08	16.92	18.48	19.92
Others	0	0	40	4	5	ROE (%)	16.84	17.42	18.45	20.31	21.96
Net Cash Increase	(228)	(25)	(90)	6	(51)						
<b>Closing Balance</b>	<b>1,027</b>	<b>1,002</b>	<b>903</b>	<b>909</b>	<b>858</b>						

Source: Company, MNCS

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### MNC Research Investment Ratings Guidance

**BUY** : Share price may exceed 10% over the next 12 months

**HOLD** : Share price may fall within the range of +/- 10% of the next 12 months

**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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