

## Mayora Indah (MYOR IJ)

# New factory and export footprint

### Maintain BUY and TP of IDR2,900

Maintain BUY as MYOR benefits from its large export market base, which will be the driver of its medium-term earnings growth. This will be complemented by new factory space and export-sales footprint. Our TP of IDR2,900 is based on 28x FY22E P/E, its three-year mean. Main downside risks would be: 1) lower-than-expected sales growth; 2) compression of EBIT margin due to higher A&P spending to maintain market share; and 3) significant IDR depreciation.

### Factory construction ahead of our projection...

We are positive on MYOR's new factory and warehouse as: 1) construction has already started, ahead of our expectation of 4Q21; and 2) it will raise the production capacity of wafers and biscuits by 15-20%. We estimate MYOR's total production capacity will increase to 1.8/2.0m tonnes (FY21E: 1.7m). This will be accretive for future sales growth. We forecast FY20-23 sales CAGR to accelerate to 14% (from 11% for FY16-19).

### ...to expand the footprint of food products overseas

We think MYOR's factory expansion will support its plans to boost the export of its flagship domestic food brands (e.g. Better, Malkist and Astor). Our observation suggests MYOR is selling five Indonesian food brands (Fig.5) in China and India (c.15% of total FY22E sales). We believe MYOR will sell these brands in other countries too. To support this, MYOR has intensified A&P on the digital platform to market the products to a global audience. We elaborated on the details in [MYOR report](#) dated 21 May 2021.

### High EPS growth due to diversified market exposure

We see MYOR as a recovery play in the consumer sector. MYOR has a balanced mix of domestic and export sales (55%:45% of FY22E sales). We believe this limits dependency on a single market and provides MYOR with higher earnings growth visibility. Our forecast FY20-23 EPS CAGR of 12% is one of the highest relative to other consumer names (ICBP: 13%, KLBF: 9%, UNVR: 2%) in our coverage.

FYE Dec (IDR b)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	25,027	24,477	28,848	32,273	36,103
EBITDA	3,760	3,563	3,816	4,147	4,913
Core net profit	1,999	2,061	2,100	2,300	2,900
Core EPS (IDR)	89	92	94	103	130
Core EPS growth (%)	16.5	3.1	1.9	9.5	26.1
Net DPS (IDR)	30	37	38	41	52
Core P/E (x)	22.9	29.4	25.6	23.3	18.5
P/BV (x)	4.7	5.5	4.4	3.9	3.4
Net dividend yield (%)	1.5	1.4	1.6	1.7	2.2
ROAE (%)	22.2	19.9	18.0	17.7	19.7
ROAA (%)	10.9	10.6	10.0	9.9	11.4
EV/EBITDA (x)	13.0	17.3	14.5	13.5	11.4
Net gearing (%) (incl perps)	28.5	7.5	11.3	14.1	13.0
Consensus net profit	-	-	2,282	2,618	2,963
MKE vs. Consensus (%)	-	-	(8.0)	(12.1)	(2.1)

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# BUY

Share Price	IDR 2,400
12m Price Target	IDR 2,900 (+22%)
Previous Price Target	IDR 2,900

### Company Description

Mayora Indah produces and markets consumer food products.

### Statistics

52w high/low (IDR)	2,910/2,150
3m avg turnover (USDm)	0.4
Free float (%)	15.7
Issued shares (m)	22,359
Market capitalisation	IDR53.7T USD3.8B

### Major shareholders:

Unita Branindo	32.9%
Mayora Dhana Utama	26.1%
Jogi Hendra Atmadja	25.2%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	9	3	1
Relative to index (%)	8	0	(20)

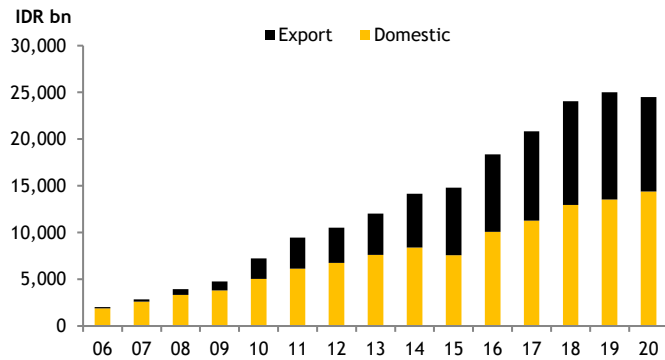
Source: FactSet

ESG@MKE  
Tear Sheet Insert

## Value Proposition

- Major Indonesian confectioner that focuses on biscuits, candy, coffee, nutrition (cereal), wafers and chocolate.
- Manufactures and sells high-equity brand products, such as Roma, Kopiko, and Torabika. Brands are owned by parent company, but MYOR pays no royalty fees.
- Confectionary market has relatively high competition due to low barriers to entry. MYOR typically employs a defensive pricing policy in the fight for market share.
- Among consumer companies, it has the largest export business (~40-50% of revenue). Exports should partially balance the impact of currency volatility.
- Return on capital is above cost of capital. Expect this to be sustainable on asset-light model & continuous growth.

### MYOR's annual revenue by geography



Source: Company, Maybank Kim Eng

## Price Drivers

### Historical share price trend



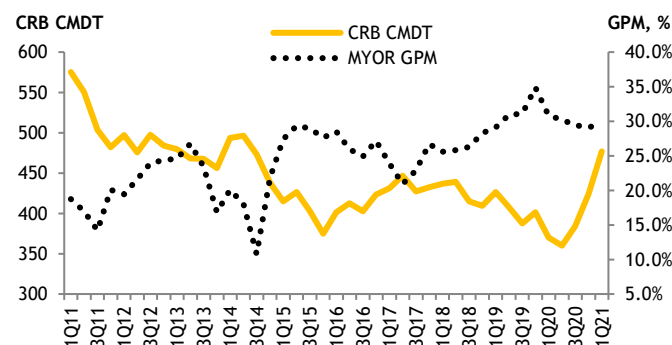
Source: Company, Maybank Kim Eng

- Solid growth for 2016.
- EBIT margin compressed on 2Q17.
- Double digit sales growth retained for FY17 despite economic slowdown.
- EBIT margin compressed over 2Q-3Q18.
- 1Q20 sales dropped by -11% YoY from China's lockdown (c.14% of sales).

## Financial Metrics

- Revenue to grow only 5.5% CAGR over FY19-22E, mainly due to the slowdown in consumption.
- We expect healthy revenue growth from both the domestic and export markets.
- The company generally needs to increase ASP by 5-6% to pass through a 10% increase in raw material costs.
- EBIT margin expanded by 140bps in 2019, mainly due to lower input costs.
- Free cash flow to remain positive over FY21-22E. Net gearing to increase to 15% by FY21E, from 8% in FY20.

### CRB CMDT Index vs. MYOR's GPM



Source: Company, Maybank Kim Eng

## Swing Factors

### Upside

- Overseas business expansion that leads to higher revenue growth.
- Cooling off of competition in the coffee business would lead to better-than-expected margin performance.
- New business segment addition.

### Downside

- Royalty fee hike. Currently the company pays zero fees to its parent group for the brands.
- Consumer safety issues that negatively affects the reputation of the company.
- Surge in raw material price that leads to higher production costs.

Risk Rating & Score <sup>1</sup>	48.5
Score Momentum <sup>2</sup>	N/A
Last Updated	14 Apr 2021
Controversy Score <sup>3</sup>	1 - Environmental impact of the product

## Business Model & Industry Issues

- As a leading FMCG company in Indonesia, the company sets a policy to achieve zero environmental waste for all factories. In addition, MYOR periodically appoints third-party experts and inspectors to ensure the production process is environmentally compliant with the prevailing regulation set by the Ministry of Environment.
- While MYOR entirely employs locals, gender equality is not reflected on the management boards. There is an opportunity for MYOR to promote female representation in the boards to improve the S aspect of ESG implementation.
- Given its high dependence on related parties for the distribution of its finished products (c.63% of sales) to the markets, there is a need for MYOR to diversify its distribution network to 1) lower operational risks and 2) improve the G aspect of ESG implementation. Also, the related parties from MYOR's main shareholders are actively involved in the company's management. That said, MYOR enforces a whistleblowing system to prevent any illegal activities and conflict of interest with its shareholder. But, we still see a need for the company to strive for a more professional board in the long term.

### Material E issues

- In 2019, MYOR received Blue Rank (the third highest rank) of Performance Rating Program in Environmental Management (PROPER) award from the Ministry of Environment for complying with the prevailing regulations.
- All of MYOR's production facilities are equipped with Waste Water Treatment Plant (WWTP), ensuring compliance with the regulation on waste water. MYOR nearly has no environmental waste from its production activity.
- MYOR has a fertilization programme where the company distributes organic fertilizer to the local farmers and community. The fertilizer is the product of MYOR's collaboration with its stakeholder to recycle the production waste through its treatment facility and converts the waste into organic fertilizer.

### Material S issues

- While MYOR has a 100% local work force and adheres to the local minimum wage regulation, there was no female representation on the BoC and BoD. Also, MYOR does not report the number of employees by gender.
- MYOR enforces the ISO standard 14000 for the occupational health and safety since 2004. The Work Accident Rate (WAR), which measures the number of employee involved in work accident, dropped to 2.4 in 2019, from 2.8 in 2018.
- MYOR enforces ISO standard 22000 for Food Safety Management System. In 2019, there were no reports on food safety issue. In 2014, MYOR obtained Hygiene and Sanitary Certificate (H&S) from Indonesian FDA (BPOM).
- MYOR and the National Team for Accelerated Poverty Reduction (TNP2K) signed a MoU to help prevent the nutritional deficiency for the local community in three provinces in Banten, West, and East Java. The program was initiated in March 2020.
- In 2019, CSR-related expenses accounted for 1.9% of total net profit for various social and community developments.

### Key G metrics and issues

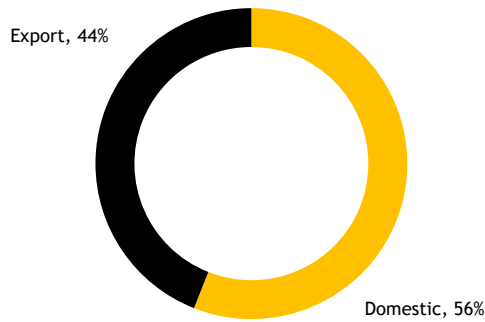
- The company's business operations are managed by the Board of Director (BoD), which are supervised by the Board of Commissioners (BoC), and assisted by an independent audit committee. There are no BoC members on the BoD. The BoC consists of five members, and two of them (40%) are independent commissioners. The BoD consists of five members. There is no independent director at BoD.
- The President Commissioner, Jogi Hendra Atmadja, controls a total of 58.1% stake in MYOR. The Commissioner, Gunawan Atmadja, the President Director, Andre Atmadja, and two members of the BoD, Hendarta and Wardhana Atmadja, are all related to the President Commissioner of MYOR. Public ownership in MYOR is only 15.7%.
- The BoC holds at least one meeting every two months, and also holds a meeting every four months with the BoD. In 2019, the joint meetings of the BoC and BoD were held five times.
- In 2019, total remuneration of the BoC and BoD accounted for 1.3% of the net profit (peer average: 2.0%)
- Moore Global has been the auditor of the company for the last 15 years.
- MYOR manufactures and sells popular brand products, such as Roma, Kopiko, and Torabika. The brands are owned by its parent company, but MYOR does not pay any royalty fees.

Unlike its peers which distribute in-house, MYOR appoints an exclusive distributor; a related party for its products in Indonesia and export markets. As of 2019, the related-party transactions with its distributor are high at 64% of total sales. The remaining 26% is channelled through third-party distributors.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

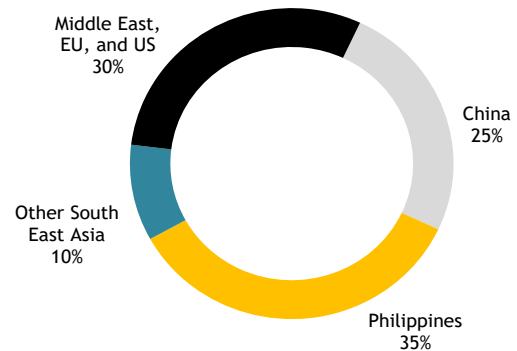
## Focus Charts

Fig 1: MYOR's sales mix (FY21E)



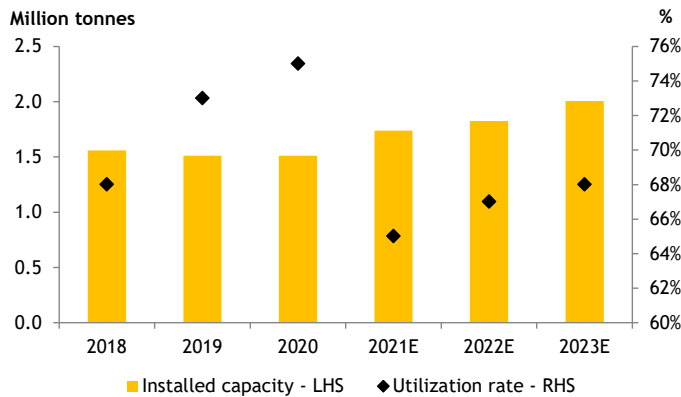
Source: Company, Maybank Kim Eng

Fig 2: MYOR's export sales by countries (FY21E)



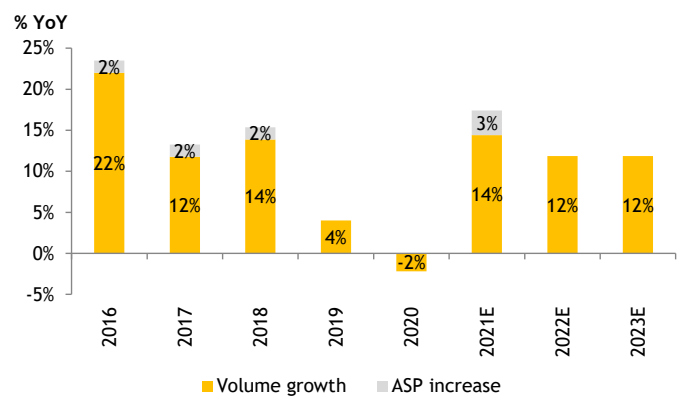
Source: Company, Maybank Kim Eng

Fig 3: MYOR's installed capacity and utilisation rate



Source: Company, Maybank Kim Eng

Fig 4: Composition of MYOR's sales growth



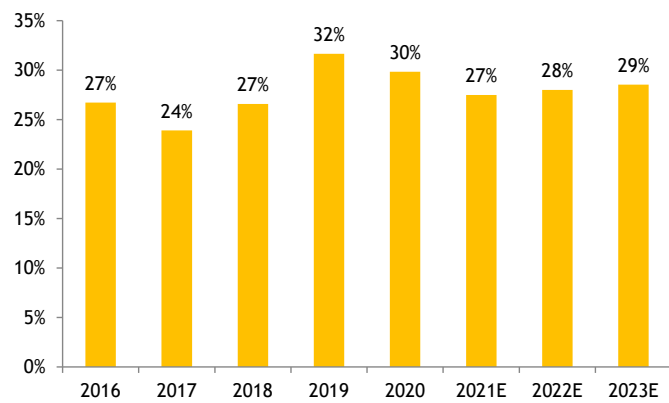
Source: Company, Maybank Kim Eng

Fig 5: MYOR's flagship products sold in China and India

No	Export brand name	Original brand name	Segment	Sub-segment	Product description
<b>China</b>					
1	Cal Cheese	Zuperr-Keju	Food	Wafer	Flat wafer filled with cheddar cheese spread
2	AStick	Astor	Food	Wafer	Stick-rolled wafer with chocolate filling
<b>India</b>					
3	Coffee Joy	Coffee Joy	Food	Biscuit	Coffee-flavoured crispy cracker
4	Malkist	Malkist	Food	Biscuit	Crispy cracker with 10 different flavours
5	Go Choco Weelz	Better	Food	Biscuit	Sandwich biscuit covered with chocolate and filing

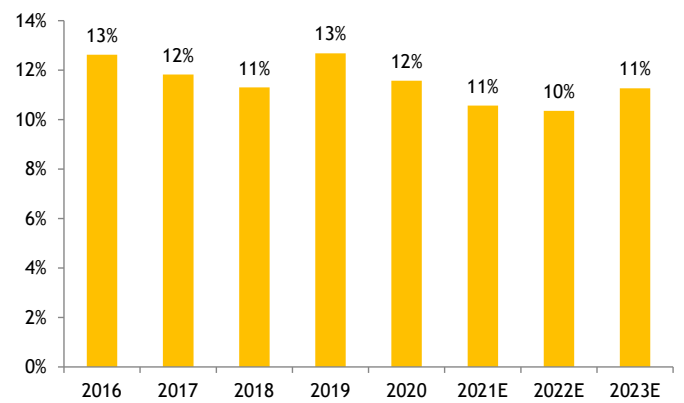
Source: Blibli, Euromonitor, Shopee, Tokopedia, Maybank Kim Eng

**Fig 6: Gross margin**



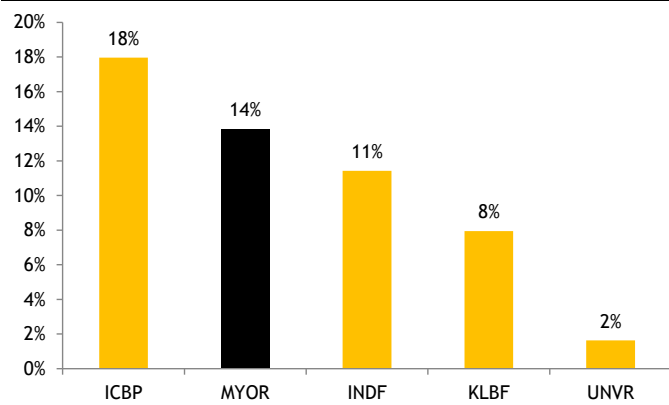
Source: Company, Maybank Kim Eng

**Fig 7: EBIT margin**



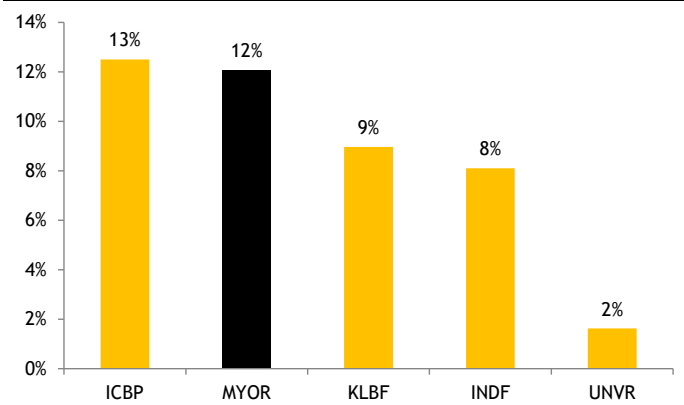
Source: Company, Maybank Kim Eng

**Fig 8: Sales CAGR of MYOR and its peers (FY20-23E)**



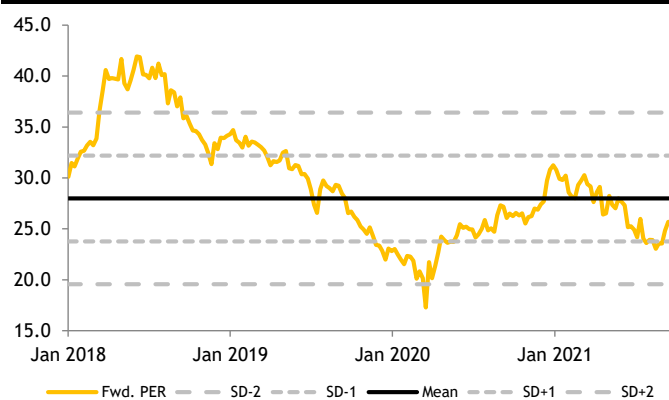
Source: Company, Maybank Kim Eng

**Fig 9: Net profit CAGR of MYOR and its peers (FY20-23E)**



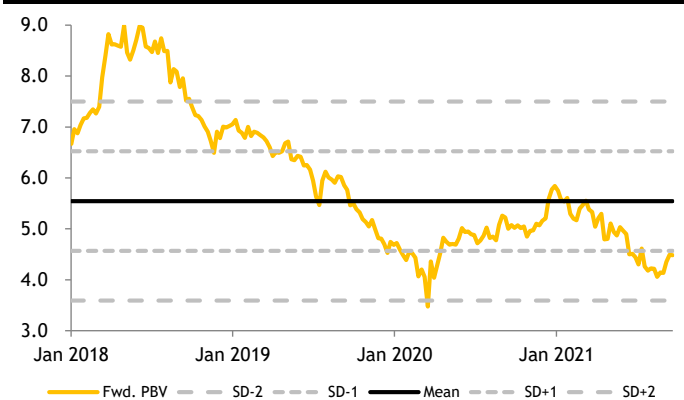
Source: Company, Maybank Kim Eng

**Fig 10: Forward PER band**



Source: Company, Maybank Kim Eng

**Fig 11: Forward PBV band**



Source: Company, Maybank Kim Eng

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Metrics</b>					
P/E (reported) (x)	27.1	24.0	25.6	23.3	18.5
Core P/E (x)	22.9	29.4	25.6	23.3	18.5
P/BV (x)	4.7	5.5	4.4	3.9	3.4
P/NTA (x)	4.7	5.5	4.4	3.9	3.4
Net dividend yield (%)	1.5	1.4	1.6	1.7	2.2
FCF yield (%)	2.7	3.8	nm	0.1	1.1
EV/EBITDA (x)	13.0	17.3	14.5	13.5	11.4
EV/EBIT (x)	15.4	21.8	18.2	16.8	13.8
<b>INCOME STATEMENT (IDR b)</b>					
Revenue	25,026.7	24,477.0	28,847.5	32,272.7	36,103.5
EBITDA	3,760.5	3,563.4	3,815.6	4,147.5	4,913.4
Depreciation	(588.2)	(732.4)	(769.1)	(807.5)	(847.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	3,172.3	2,830.9	3,046.6	3,339.9	4,065.5
Net interest income / (exp)	(302.7)	(302.4)	(355.4)	(346.4)	(336.4)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	2.4	2.0	0.0	0.0	0.0
Other pretax income	(167.5)	153.4	50.0	9.0	57.0
Pretax profit	2,704.5	2,683.9	2,741.2	3,002.6	3,786.1
Income tax	(653.1)	(585.7)	(603.1)	(660.6)	(832.9)
Minorities	(52.1)	(37.5)	(38.3)	(42.0)	(53.0)
Reported net profit	1,999.3	2,060.6	2,099.8	2,300.0	2,900.2
Core net profit	1,999.3	2,060.6	2,099.8	2,300.0	2,900.2
<b>BALANCE SHEET (IDR b)</b>					
Cash & Short Term Investments	2,982.0	3,777.8	3,542.8	2,975.5	2,877.2
Accounts receivable	5,902.0	5,464.0	6,717.9	7,515.6	8,407.7
Inventory	2,790.6	2,805.1	3,416.7	3,794.7	4,214.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	4,675.0	6,043.2	6,524.1	7,716.6	8,868.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other assets	2,688.3	1,687.4	1,988.7	2,224.8	2,488.9
<b>Total assets</b>	<b>19,037.9</b>	<b>19,777.5</b>	<b>22,190.2</b>	<b>24,227.2</b>	<b>26,856.8</b>
ST interest bearing debt	1,421.9	1,010.4	1,010.4	1,010.4	1,010.4
Accounts payable	1,312.2	1,591.8	1,938.8	2,153.3	2,391.5
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	4,386.4	3,614.2	3,957.2	3,957.2	3,957.2
Other liabilities	2,017.0	2,290.0	2,698.0	3,019.0	3,377.0
<b>Total Liabilities</b>	<b>9,138.0</b>	<b>8,506.0</b>	<b>9,604.9</b>	<b>10,139.8</b>	<b>10,736.2</b>
Shareholders Equity	9,662.9	11,011.1	12,286.6	13,746.7	15,726.9
Minority Interest	237.1	260.4	298.7	340.7	393.7
<b>Total shareholder equity</b>	<b>9,899.9</b>	<b>11,271.5</b>	<b>12,585.4</b>	<b>14,087.4</b>	<b>16,120.6</b>
<b>Total liabilities and equity</b>	<b>19,037.9</b>	<b>19,777.5</b>	<b>22,190.2</b>	<b>24,227.2</b>	<b>26,856.8</b>
<b>CASH FLOW (IDR b)</b>					
Pretax profit	2,704.5	2,683.9	2,741.2	3,002.6	3,786.1
Depreciation & amortisation	588.2	732.4	769.1	807.5	847.9
Change in working capital	(7.0)	703.1	(1,518.5)	(961.1)	(1,073.6)
Cash taxes paid	(653.1)	(585.7)	(603.1)	(660.6)	(832.9)
Other operating cash flow	(52.1)	(37.5)	(38.3)	(42.0)	(53.0)
Cash flow from operations	2,249.1	4,399.3	1,243.3	2,074.4	2,600.0
Capex	(1,005.4)	(2,101.6)	(1,250.0)	(2,000.0)	(2,000.0)
Free cash flow	1,243.7	2,297.7	(6.7)	74.4	600.0
Dividends paid	(648.4)	(670.8)	(824.3)	(839.9)	(920.0)
Equity raised / (purchased)	(30.7)	(41.7)	0.0	0.0	0.0
Change in Debt	(199.0)	(1,183.7)	343.0	0.0	0.0
Other invest/financing cash flow	120.8	394.1	252.9	198.2	221.7
Net cash flow	486.3	795.8	(235.0)	(567.3)	(98.3)

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	4.0	(2.2)	17.9	11.9	11.9
EBITDA growth	15.1	(5.2)	7.1	8.7	18.5
EBIT growth	16.7	(10.8)	7.6	9.6	21.7
Pretax growth	13.5	(0.8)	2.1	9.5	26.1
Reported net profit growth	16.5	3.1	1.9	9.5	26.1
Core net profit growth	16.5	3.1	1.9	9.5	26.1
<b>Profitability ratios (%)</b>					
EBITDA margin	15.0	14.6	13.2	12.9	13.6
EBIT margin	12.7	11.6	10.6	10.3	11.3
Pretax profit margin	10.8	11.0	9.5	9.3	10.5
Payout ratio	33.5	40.0	40.0	40.0	40.0
<b>DuPont analysis</b>					
Net profit margin (%)	8.0	8.4	7.3	7.1	8.0
Revenue/Assets (x)	1.3	1.2	1.3	1.3	1.3
Assets/Equity (x)	2.0	1.8	1.8	1.8	1.7
ROAE (%)	22.2	19.9	18.0	17.7	19.7
ROAA (%)	10.9	10.6	10.0	9.9	11.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	117.0	111.8	99.2	103.5	103.5
Days receivable outstanding	82.5	83.6	76.0	79.4	79.4
Days inventory outstanding	64.6	58.6	53.5	55.9	55.9
Days payables outstanding	30.1	30.4	30.4	31.7	31.7
Dividend cover (x)	3.0	2.5	2.5	2.5	2.5
Current ratio (x)	3.4	3.7	3.7	3.6	3.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.1	2.3	2.3	2.4	2.5
Net gearing (%) (incl perps)	28.5	7.5	11.3	14.1	13.0
Net gearing (%) (excl. perps)	28.5	7.5	11.3	14.1	13.0
Net interest cover (x)	10.5	9.4	8.6	9.6	12.1
Debt/EBITDA (x)	1.5	1.3	1.3	1.2	1.0
Capex/revenue (%)	4.0	8.6	4.3	6.2	5.5
Net debt/ (net cash)	2,826.3	846.8	1,424.8	1,992.1	2,090.4

Source: Company; Maybank

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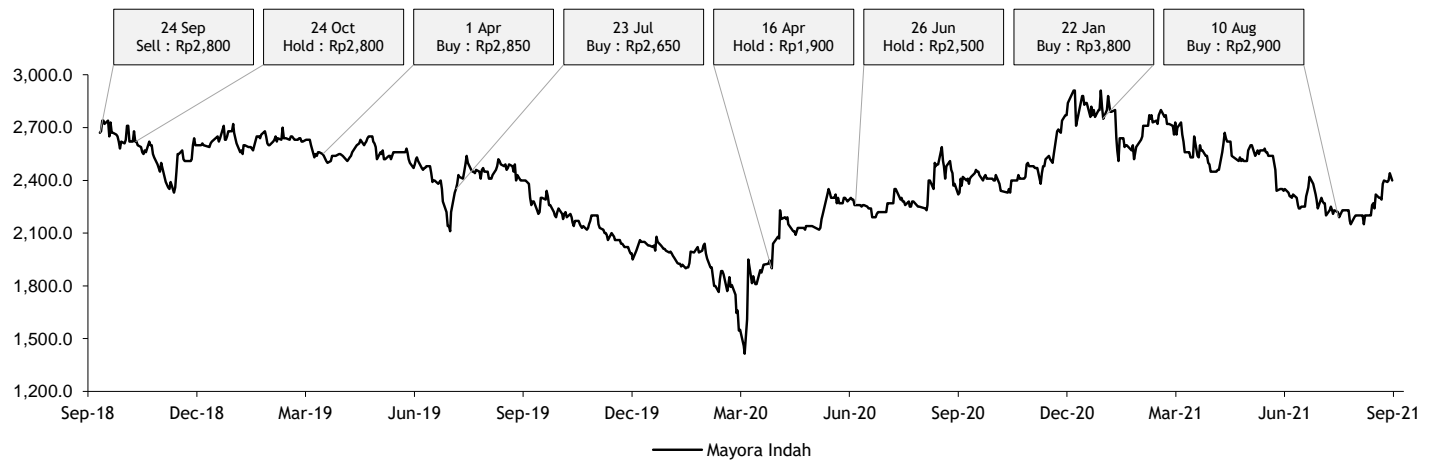
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