PT Sarimelati Kencana Tbk (PZZA)

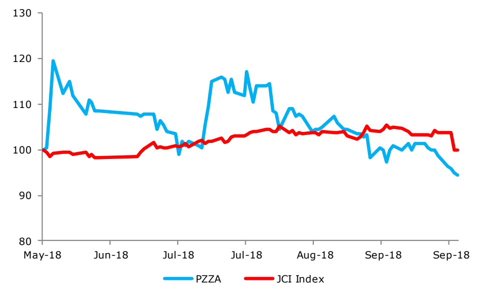
Company Focus **September 28, 2018**

The Biggest Pizza Chain in Indonesia

Overweight

Current Price (IDR) (27/9)	1,040
Target price (IDR)	**1,170**
Upside/Downside (%)	12.5%
52 Week High (IDR)	1,465
52 Week Low (IDR)	1,000
Major Shareholders:	
Sriboga Raturaya	64.79%
JPMorgan Chase and Co.	0.58%

Stock Price Movement



Source: Bloomberg, Shinhan Sekuritas Indonesia

Background. PT Sarimelati Kencana Tbk (PZZA) founded in 1987 and acquired by Sriboga Group in 2004. The company owns the right to develop and operate a Pizza Hut franchise in Indonesia based on the agreement with Yum! Asia Franchise Pte. Ltd. According to the data from Euromonitor, PZZA market share in Indonesia pizza market accounted for ~70%. In 2017, there are 237 Pizza Hut Restaurant (PHR) and 156 Pizza Hut Delivery (PHD) outlets.

Aggressive outlet expansion to boost sales. PZZA is in an expansion phase as the company plans to build 175 new outlets during 2017-2020. In 2017, SSSG recorded at 5.9%. Previously, there's only around 20 new outlets opened every year. PZZA expected to open around 60 outlets this year. There will be 48 PHD, 8 PHR, and 4 Pizza Hut Express (PHE) to build with estimated capex approximately of IDR 208Bn. About 60% of the outlets is set to open in Java while the remaining will be opened outside Java Island. This is in line with sales contribution which mainly comes from outlets in Java Island, and also Bali that represents 73.2% of total sales in 1H18. We expect sales to grow by 14.2% to IDR 3,458Bn on the back of this expansion, while in the 1H, revenue accounted for 49.8% of our full year target this year.

Number one full-service pizza restaurant and delivery. PZZA is the leader in Indonesia chained pizza consumer foodservice providers in Indonesia by retail value since 2012, according to the data from Euromonitor. This was supported by its continuing innovation by introducing new menu every two months. Through the concept of limited time offer (LTO), PZZA is able to launch new menu such as "Black Pizza" and "Triple Box Pizza" which will appeal to its existing and new customers.

Higher profitability compared to peers. The company's offered better profitability as the average of PZZA's operating margin and net profit margin in the last three years seen at 6.6% and 4.0%, respectively. This is higher than its peer such as FAST, which recorded at 3.3% and 3.0%. Moreover, PZZA average return on equity in the past three years was at 41.4%, significantly higher than FAST of 12.6%. We suspect it's not only due to higher leverage, but also the result of PZZA's strategy to accelerate the number of its PHD outlets, with lower investment cost than restaurant, and in line with the increasing trend of food delivery service and takeaway service.

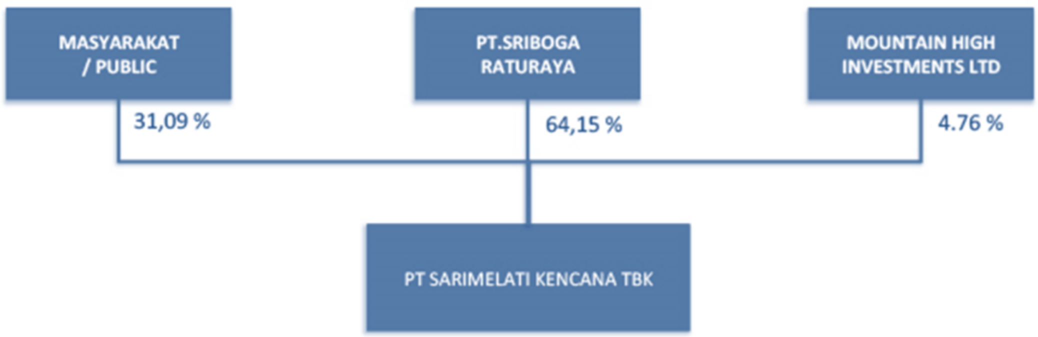
Valuation. We use the blended DCF method to obtain our target price of IDR 1,170 (12.5% Upside). Our target price implies a 2019E P/E of 17x. However, the rerating for higher P/E is still possible on the back of its superior ROE at 39% compared to peer at 13%.

Year to Dec.	Sales (Bn IDR)	OP (Bn IDR)	Pre-tax (Bn IDR)	NP (Bn IDR)	EPS (IDR)	BPS (IDR)	PER (x)	EV/EBITDA (x)	PBV (x)	ROAE (%)
2016	2,695	207	176	130	-	-	-	-	-	41.7
2017	3,027	223	189	141	-	-	-	-	-	39.9
2018F	3,458	252	215	160	62	175	16.8	10.3	6.0	39.1
2019F	3,962	297	254	190	74	212	14.2	9.2	4.9	38.1
2020F	4,543	335	286	213	83	253	12.6	8.5	4.1	35.7

Source: Company, Shinhan Sekuritas Indonesia

Billy Ibrahim
+6221 80869900
billy@shinhansekuritas.co.id

PZZA Ownership Structure



Source: Company

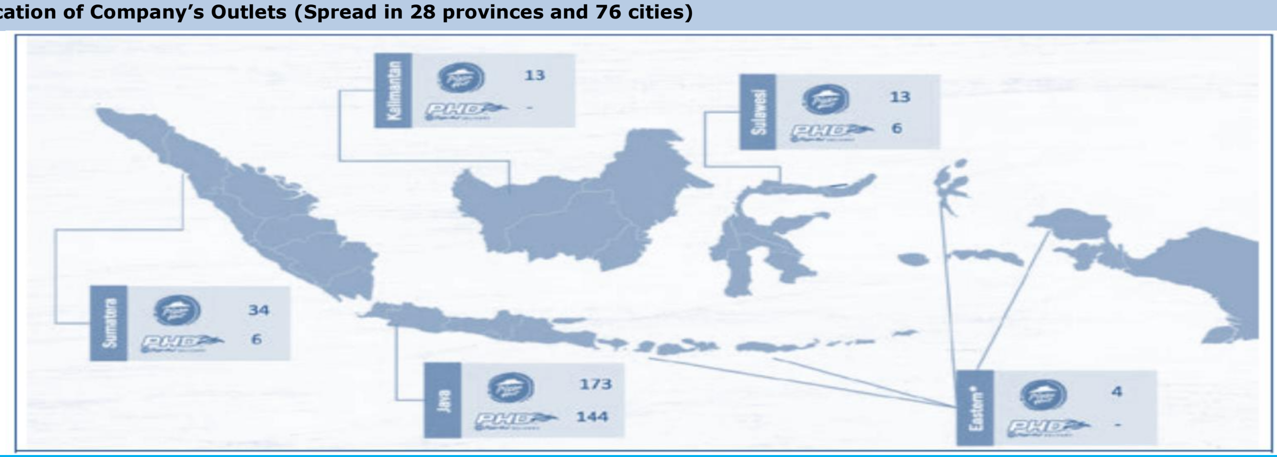
Pizza Hut Restaurant Outlet (237 units in 2017)

Source: Company

Pizza Hut Delivery Outlet (156 units in 2017)

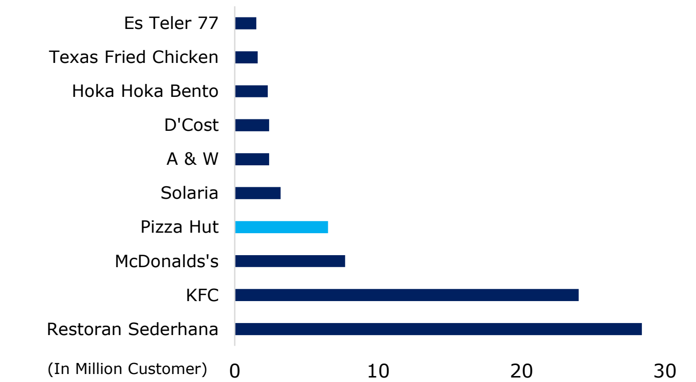
Source: Company

Location of Company's Outlets (Spread in 28 provinces and 76 cities)



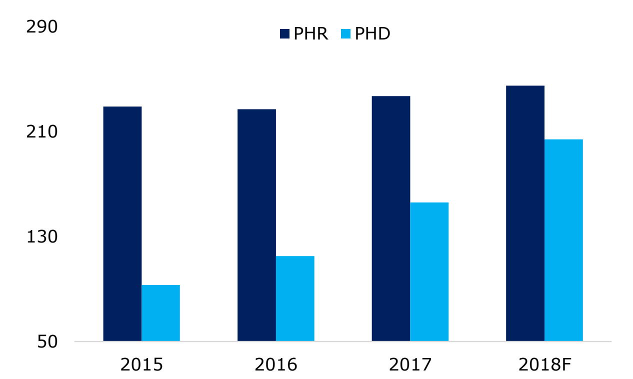
Source: Company

Top 10 restaurant and fast food outlets in Indonesia (12 months to March 2018)



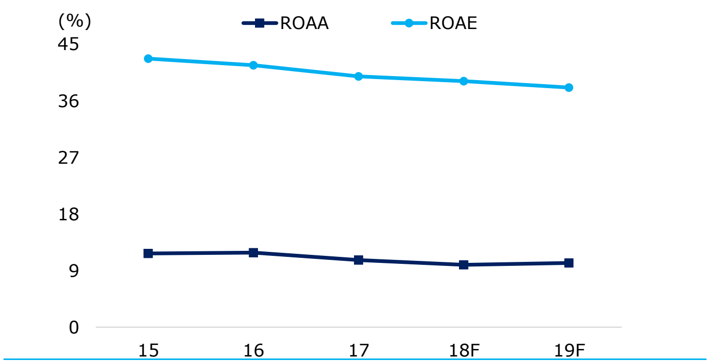
Source: Roy Morgan Singe Source Indonesia

PZZA to add 8 PHR, 48 PHD, and 4 PHE outlets in 18F



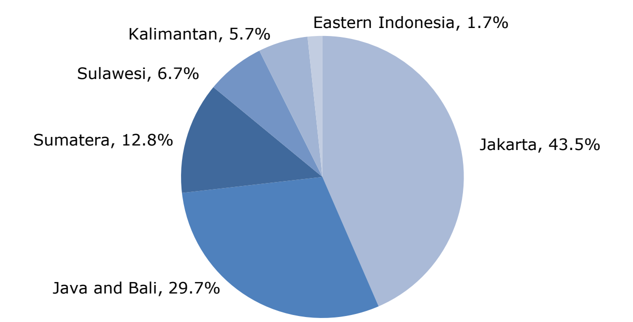
Source: Company, Shinhan Sekuritas Indonesia

ROAA and ROAE maintained at 9.9% and 39.1% in 18F



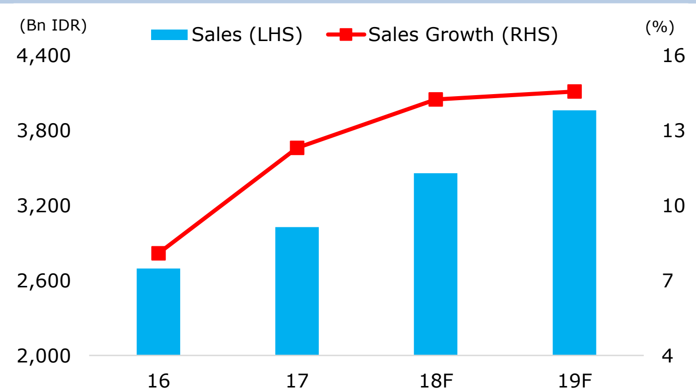
Source: Company, Shinhan Sekuritas Indonesia

Java island and Bali represents 73.2% of 1H18 total sales



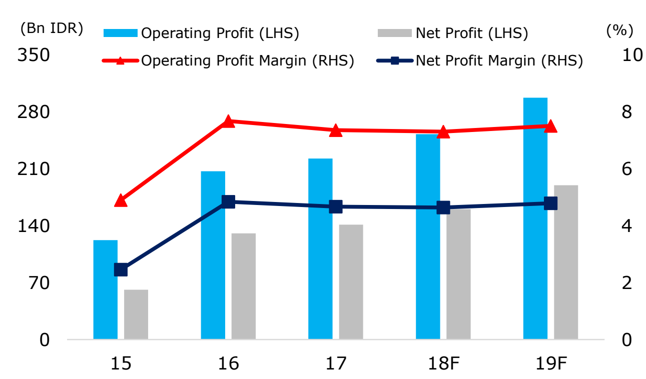
Source: Company, Shinhan Sekuritas Indonesia

Sales expected to grow by 14.2% YoY to IDR 3,458Bn in 18F



Source: Company, Shinhan Sekuritas Indonesia

Operating and profit margin steady at 7% and 5% in 18F



Company, Shinhan Sekuritas Indonesia

Income Statement

Year-end 31 Dec (Bn IDR)	2016	2017	2018F	2019F
Sales	**2,695**	**3,027**	**3,458**	**3,962**
COGS	(873)	(1,002)	(1,145)	(1,307)
Gross Profit	1,823	2,025	2,314	2,654
EBITDA	**318**	**343**	**378**	**438**
Operating Expense	(1,616)	(1,803)	(2,061)	(2,357)
Operating Profit	**207**	**223**	**252**	**297**
Pre-Tax Profit	176	189	215	254
Income Tax - Net	(46)	(48)	(55)	(65)
Net Profit	**130**	**141**	**160**	**190**
EPS (IDR)	-	-	62	74

Source: Company, Shinhan Sekuritas Indonesia Estimates

Cashflow Analysis

Year-end 31 Dec (Bn IDR)	2016	2017	2018F	2019F
CFs from Operation				
Net Profit	130	141	160	190
Change in NWC	(51)	(209)	(136)	(160)
CFs from Operation	**79**	**(68)**	**24**	**29**
CFs from Investments	**(80)**	**(225)**	**(165)**	**(153)**
CFs from Financing	**(1)**	**461**	**(184)**	**176**
Net Inc./(Dec.) in Cash	50	(37)	(246)	146
Cash at End Period	**113**	**75**	**86**	**99**

Source: Company, Shinhan Sekuritas Indonesia Estimates

Balance Sheet

Year-end 31 Dec (Bn IDR)	2016	2017	2018F	2019F
Assets				
Cash and Equivalent	113	75	86	99
Receivables	12	15	17	19
Inventories	148	269	307	351
Others	125	157	179	205
Total Current Assets	**398**	**515**	**589**	**673**
Net Fixed Assets	499	671	755	806
Other Assets	255	308	389	492
Total Assets	**1,152**	**1,494**	**1,733**	**1,971**
Liabilities and Equities				
Payables	322	378	432	495
Other Short-Term Liabilities	201	231	264	303
Total Current Liabilities	523	609	696	797
LT. Debt	79	226	298	340
Other Long Term Liabilities	211	289	289	289
Total Long-Term Liabilities	290	515	587	629
Total Liabilities	813	1,124	1,283	1,426
Shareholders' Equity	339	370	450	545
BVPS (Rp)	-	-	175	212

Source: Company, Shinhan Sekuritas Indonesia Estimates

Key Ratio Analysis

Year-end 31 Dec (Bn IDR)	2016	2017	2018F	2019F
Profitability				
Gross Margin	67.6%	66.9%	66.9%	67.0%
Operating Margin	7.7%	7.4%	7.3%	7.5%
EBITDA Margin	11.8%	11.3%	10.9%	11.1%
Net Income Margin	4.8%	4.7%	4.6%	4.8%
ROAA	11.9%	10.7%	9.9%	10.2%
ROAE	41.7%	39.9%	39.1%	38.1%
Growth				
Revenue	8.1%	12.3%	14.2%	14.6%
Operating Profit	69.3%	7.6%	13.5%	17.7%
EBITDA	41.2%	8.0%	10.3%	15.9%
Net Income	112.5%	8.4%	13.5%	18.2%
Solvability				
Current Ratio (x)	0.8	0.8	0.8	0.8
Quick Ratio (x)	0.5	0.4	0.4	0.4
Debt to Equity (x)	2.4	3.0	2.9	2.6
Interest Coverage (x)	6.4	6.6	6.6	6.8

Source: Company, Shinhan Sekuritas Indonesia Estimates

Valuation

Year-end 31 Dec	2016	2017	2018F	2019F
PER (x)	-	-	16.8	14.2
PBV (x)	-	-	6.0	4.9
EV/EBITDA (x)	-	-	10.3	9.2
EV/Sales (x)	-	-	1.1	1.0

Source: Company, Shinhan Sekuritas Indonesia Estimates

SHINHAN SEKURITAS INDONESIA

Research Team		
Helmi Therik	Head of Research	helmi.therik@shinhansekuritas.co.id
Teuku Hendry Andrean	Research Manager	hendry@shinhansekuritas.co.id
Billy Ibrahim Djaya	Research Analyst	billy@shinhansekuritas.co.id

Office

PT. Shinhan Sekuritas Indonesia
Member of Indonesia Stock Exchange

Head Office :
International Finance Center 2 Floor. 30
Jl. Jendral Sudirman Kav. 22-23
Karet
Jakarta 12920 Indonesia
Telp.: (+62-21) 80869900
Fax : (+62-21) 22057925