

Surya Pertiwi Tbk (SPTO)

Company Focus

September 13, 2018

The leader in sanitary wares, bathroom fittings distributor and producer

Back ground. Surya Pertiwi Toto (SPTO) is the sole distributor of the Surya Toto Tbk. (TOTO) – the producer of the well known Japan brand so-called TOTO. TOTO is the prominent sanitary and fitting product which has 55% of the market share in Indonesia. Leveraging by the strong brand and market existence, the company would strengthening its position in Indonesia by expanding not only the distribution channel but also by expanding its manufacture division through its subsidiary – Surya Pertiwi Nusantara (SPN)- which will produce the same product under TOTO's brand. The expansion would make the company benefited not only through its distribution but also through its manufacturer.

Underpenetrated of the sanitary ware in Indonesia. Only about 67.89% of the households (68mn) in Indonesia have an access for improved sanitary and approximately 50% of the toilet in Indonesia is dominated by the squat toilet. This point to the ample room for the company to grow further which has a sitting toilet as its main product if there is a shifting from squat toilet to sitting toilet along with the higher income per capita growth. The large demographic profile (267mn) and combined with the improving of the GDP/capita that has been increased by 1.4x in the past 10 years to USD4130, would be the supporting factors that could be capitalized.

Revenue is expected to increase by around 5% this year. About 31% of the revenue came from projects base sales while 69% was from retail or through distributors and dealers channel. The project revenue is defined as the sales to the new property and developer projects. We think that the projects demand would be exposed to the cyclicity in the property sector, while the retailers demand is slightly stable driven by the demand from the existing houses or residential and apartment. As of 1H18 the company booked IDR 1tn revenue or representing 48% of the total target revenue this year which expected to increase by 5%yoy to IDR2.2tn.

Stable and manageable margin. With the position as the market leader which has 55% market share and the strong brand equity under 'TOTO', the company could set the price and manage their margin at a favorable level. As a distributor, the company would set the margin based on the formula that would be maintained at above 20% for the gross margin and around 10% for the net margin. We expect the net profit would increase by 5% this year to IDR218bn.

Valuation. We derived our TP at IDR 1250 based on the blended DCF which implies the PE 2018 and 2019 PE at 13.8 and 12.8 respectively or at attractive level compares to the peer that trades above 20x PE.

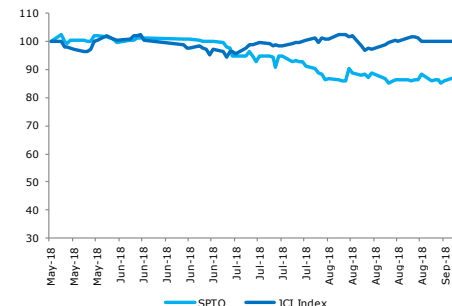
Year to Dec.	GP (bn IDR)	OP (bn IDR)	Pre-tax (bn IDR)	NP (bn IDR)	EPS (IDR)	Growth (%)	BVPS (IDR)	PER (x)	PBR (x)	ROAE (%)	ROAA (%)
2015	491	282	276	205	na	na	na	na	na	82%	19%
2016	511	296	292	218	na	6%	na	na	na	65%	18%
2017	517	311	286	222	na	2%	na	na	na	37%	13%
2018F	543	327	281	218	82.1	-2%	622	12.3	1.62	18%	9%
2019F	570	343	295	229	86.2	5%	669	11.7	1.51	13%	8%

Source: Company, Shinhan Sekuritas Indonesia

Overweight

Current Price (IDR) (31/7)	1,010
Target price (IDR)	1,250
Upside/Downside (%)	23.8%
52 Week High (IDR)	1,300
52 Week Low (IDR)	970
Major Shareholders:	
PT Suryaparamitra Abadi	37.04%

Stock Price Movement



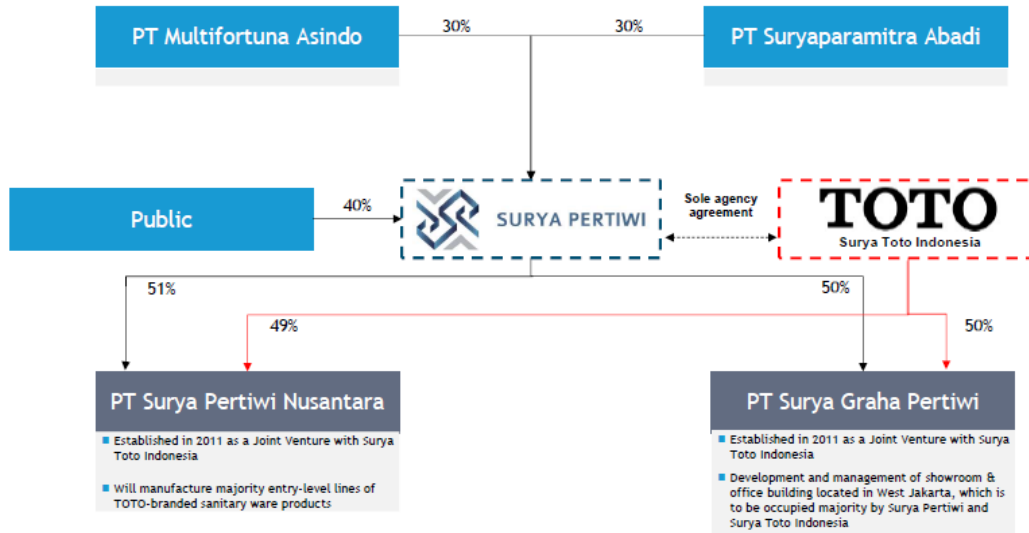
Source: Bloomberg, Shinhan Sekuritas Indonesia

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SPTO Ownership Structure.



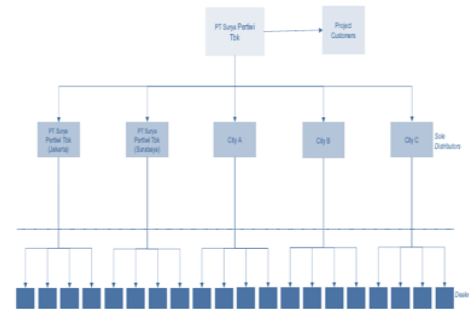
Source: Company

SPTO's Products Mix



Source: Company

Distribution Channel Structure illustration



Source: Company

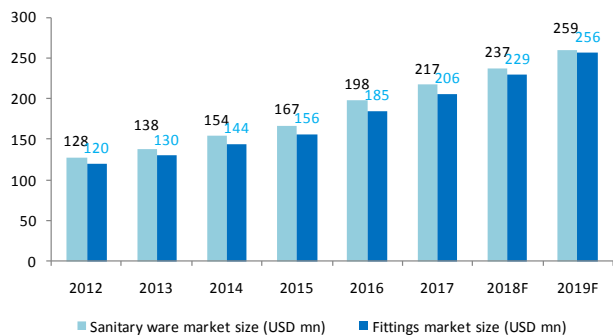
Surya Pertiwi Nusantara (SPN) with estimated capacity for 500,000pcs/annum

First line capacity 1 line = 500,000 pcs/annum. First production line commenced operations in end -April 2018. The second line installation is targeted at 1Q19. The second line is dedicated to anticipate the order from Toto China that estimated at 700,000pcs or up from currently at 70,000 pcs.



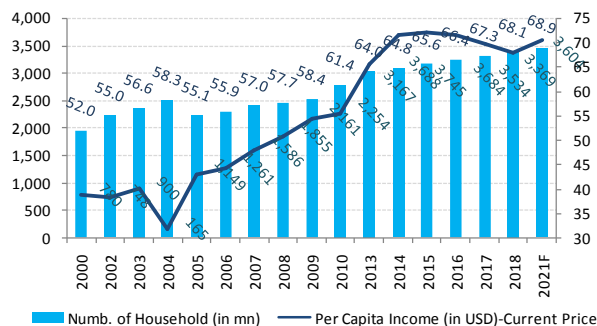
Source: Company

Improving market size



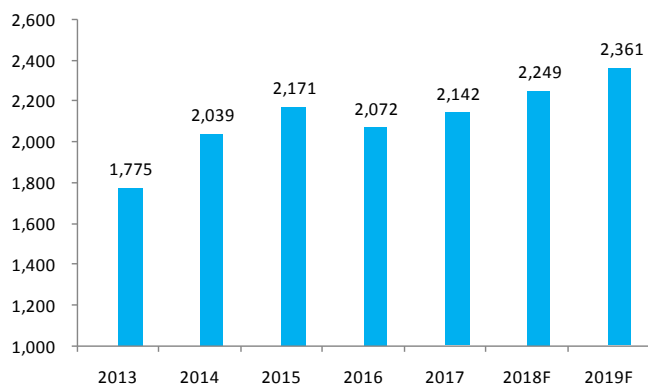
Source: Company, Euromonitor

Potential demand on the back of demographic & improving per capita income



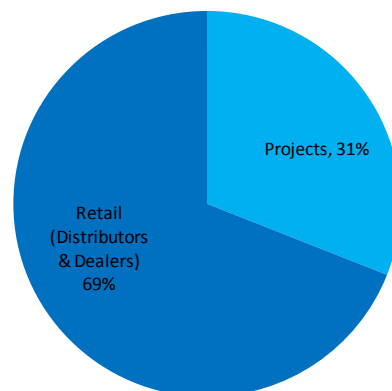
Source: BPS, Shinhan Sekuritas Indonesia Estimates

Revenue growth



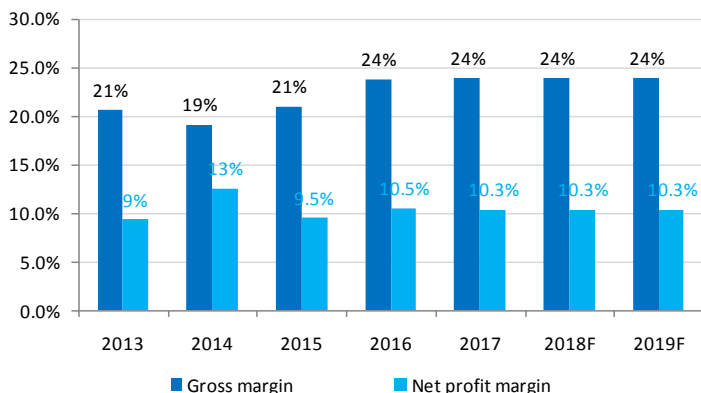
Source: Company, Shinhan Sekuritas Indonesia Estimates

Sales break down



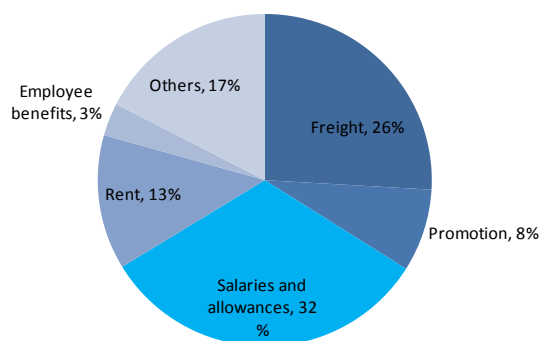
Source: Company, Shinhan Sekuritas Indonesia Estimates

Stable profitability margin



Source: Company, Shinhan Sekuritas Indonesia Estimates

Operation cost structure



Source: Company, Shinhan Sekuritas Indonesia Estimates

Income Statement

Year-end 31 Dec (IDRbn)	2016	2017	2018F	2019F
Sales	2,072	2,142	2,249	2,361
COGS	(1,581)	(1,631)	(1,732)	(1,818)
Gross profit	511	517	543	570
EBITDA	293	289	284	299
Operating expense	(204)	(224)	(235)	(247)
Operating profit	296	311	327	343
Pre-tax profit	292	286	281	295
Income tax - net	74	64	63	66
Net profit	218	222	218	229
EPS (IDR)	-	-	82	86

Source: Company, Shinhan Sekuritas Indonesia Estimates

Balance Sheet

Year-end 31 Dec (IDRbn)	2016	2017	2018F	2019F
Assets				
Cash and equiv	139	160	893	817
Receivables	374	429	406	427
Inventories	261	328	348	366
Others	52	93	98	103
Total current assets	827	1,011	1,745	1,712
Net fixed assets	276	769	967	1,164
Other assets	253	240	240	239
Total assets	1,356	2,020	2,951	3,115
Liabilities and equities				
Payables	456	497	522	548
Other Short-Term Liabilities	302	542	569	597
Total Current Liabilities	759	1,038	1,090	1,145
LT. debt	2	96	70	51
Other long term liabilities	179	112	112	112
Total Liabilities	181	208	182	164
Minority Interest	139	482	482	482
Shareholders' equity	417	773	1,679	1,807
BVPS (IDR)	na	na	622	669

Source: Company, Shinhan Sekuritas Indonesia Estimates

Valuation

Year-end 31 Dec (IDRbn)	2016	2017	2018F	2019F
PER (x)	na	na	12.3	11.7
PBV (x)	na	na	1.6	1.5
EV/EBITDA (x)	na	na	9.2	9.2
EV/Sales (x)	na	na	1.2	1.2
Dividend yield (%)	na	na	3.7%	3.8%

Source: Company, Shinhan Sekuritas Indonesia Estimates

Cashflow Analysis

Year-end 31 Dec (IDRbn)	2016	2017	2018F	2019F
CFs from operation				
Net profit	222	225	222	233
Change in working capitals	(248)	(108)	(172)	(221)
CFs from operation	(26)	117	50	12
CFs from investments	(261)	(479)	(197)	(197)
CFs from financing activities	180	551	763	(19)
Net inc/(dec) in cash	(55)	16	737	(76)
Cash at end period	139	160	893	817

Source: Company, Shinhan Sekuritas Indonesia Estimates

Key Ratio Analysis

Year-end 31 Dec (IDRbn)	2016	2017	2018F	2019F
Profitability				
Gross margin	23.7%	23.9%	23.0%	23.0%
Operating margin	13.9%	13.4%	12.5%	12.5%
EBITDA margin	14.1%	13.5%	12.6%	12.6%
Net profit margin	10.5%	10.3%	9.7%	9.7%
ROAA	17.7%	13.1%	8.8%	7.5%
ROAE	65.5%	37.2%	17.8%	13.1%
Growth				
Revenue	-4.6%	3.4%	5.0%	5.0%
Operating Profit	5.8%	-0.1%	-1.7%	5.0%
EBITDA	6.1%	-1.4%	-1.7%	5.1%
Net Income	6.2%	1.6%	-1.7%	5.0%
Solvability				
Current ratio (x)	1.1	1.0	1.6	1.5
Quick ratio (x)	0.7	0.7	1.3	1.2
Debt to equity (x)	2.3	1.6	0.8	0.7

Source: Company, Shinhan Sekuritas Indonesia Estimates



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