

# ULTRAJAYA MILK INDUSTRY

ULTJ IJ / ULTJ.JK

Company Update | Consumer Sector

## BUY

Previous: BUY

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Target Price: IDR6,275/share

Previous Target Price: IDR6,025/share

Current Price: IDR4,750/share

Upside potential: 32.1%

## Milking profits

### Net profit above estimates...

ULTJ posted a 9M16 net profit of IDR546bn (+38.8% YoY), forming 91.7/90.1% of ours/street's estimate. Revenue came in at IDR3.45tn (+5.5% YoY), marking 70.9/68.8% of ours/consensus' numbers. We believe the better than expected margins stems from protracted weakness in skimmed milk powder (SMP) prices, coupled with relatively lower USD/IDR rate. Aside from raw material, we also note that opex has been trimmed, with 9M16 opex to sales ratio at 15.3% (9M15:16.5%). Going into 3Q16 numbers, net profit clocked in at IDR246bn (+82.2% QoQ; +45% YoY), with the help of margins expansions, from lower raw material costs as well as trimming in opex clearly reflected in 3Q16. Opex to sales ratio is especially low in 3Q16, at 10.3% (2Q16: 21.5%; 3Q15: 12.6%). Taking into consideration the time lag in soft raw material prices and company's efficiencies, we adjust our numbers, resulting in 19/10% upgrade in our 2016/17F bottom line.

### ...with clean balance sheet

Cash level continues to inch up in 9M16, to IDR1.4tn (6M16: IDR1.16tn), while outstanding debt remains low at IDR99bn. That said, ULTJ retains its net cash position. Going forward, we do not think that this status would change, despite the company's venture into upstream business. Similarly, cash cycle remains at 76 days (6M16: 77 days), with no major changes in inventory days (9M16: 79 days; 6M16: 78 days).

### Margins may dip slightly, but efficiencies should limit the drop

Going into 4Q16, along with SMP prices creeping up, we think that current margins would be unsustainable. Reflecting to the recent movement in SMP prices, we think that gross margin would start to feel the heat. Post adjusting our forecast, our gross margin in 2016F would come at 32.3%, and will dip again in 2017F to 32.1%. Regardless of the margins compression, we think that ULTJ would be able to implement efficiency measures, limiting net margin drop (2016F: 14.2%; 2017F: 13.7%)

### Raise TP to IDR6,275, Buy

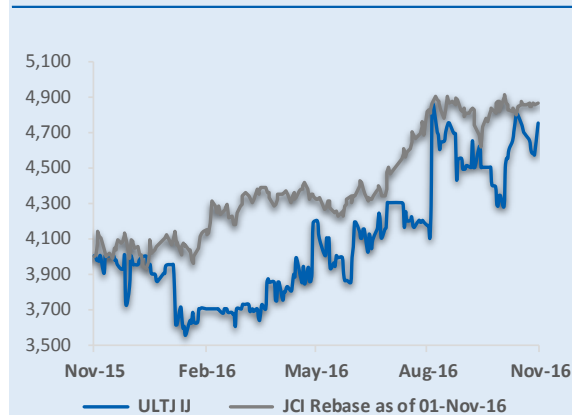
Post adjusting our 2017F numbers, our target price increased to IDR6,275. This would reflect ~23.6x 2017 target PE, at par level to its mean PE. Despite SMP prices continue to inch up, we note that recent prices are still below historical prices, with ULTJ having proven to maintain its gross margin at ~24%. That said, we implore investors to take another look at this stock. Our target price offers 32% upside, Buy. Key risks to our call include: swing to a higher SMP prices, less favorable USD/IDR rate, faster than expected higher SMP prices recognition.

### Exhibit 1. Financial Summary

ULTJ IJ (IDRbn)	2014A	2015A	2016F	2017F	2018F
Revenue	3,917	4,394	4,868	5,601	6,350
EBITDA	469	806	1,043	1,176	1,267
Net Profit	291	519	707	767	855
EPS (IDR)	101	180	245	265	296
EPS Growth (%)	(10.5)	78.3	36.2	8.4	11.5
DPS (IDR)	-	12	24	27	30
PE (x)	47.1	26.4	19.4	17.9	16.0
PB (x)	6.1	4.9	4.0	3.3	2.8
EV/EBITDA (x)	27.7	16.1	12.5	11.1	10.3
Dividend Yield (%)	-	0.3	0.5	0.6	0.6
Payout Ratio (%)	-	6.7	10.0	10.0	10.0
ROE (%)	13.6	20.5	22.7	20.3	19.0
Net Debt (%)	n.c.	n.c.	n.c.	n.c.	n.c.

Source: Bloomberg, BCA Sekuritas

### PRICE PERFORMANCE



Source: Bloomberg, BCA Sekuritas

### STOCK PERFORMANCE

52-week price range (IDR)	:	3,480 - 5,000
Market cap (IDRbn)/(USDmn)	:	13,719.8 / 1,051.5
Avg Daily Turnover (IDRbn/USDmn)	:	0.5 / 0.0

Source: Bloomberg

### MARKET DATA

	YTD	1M	3M	12M
Absolute	20.4%	9.4%	13.4%	18.8%
JCI Return	18.1%	1.1%	4.0%	21.7%
Relative	2.3%	8.4%	9.4%	-3.0%

Source: Bloomberg

### SHAREHOLDERS

PT Prawirawidjaja Prakarsa	:	21.4%
Tuan Sabana Prawirawidjaja	:	14.9%
Others	:	26.4%
Public (each below 5%)	:	37.3%

Source: Bloomberg

**Exhibit 2. ULTJ Financial Summary**

<b>Income Statement</b>	<b>2014A</b>	<b>2015A</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
<b>Year-end 31 Dec (IDRbn)</b>					
<b>Revenue</b>	<b>3,917</b>	<b>4,394</b>	<b>4,868</b>	<b>5,601</b>	<b>6,350</b>
Cost of revenue	2,980	3,011	3,296	3,804	4,349
<b>Gross profit</b>	<b>937</b>	<b>1,382</b>	<b>1,573</b>	<b>1,797</b>	<b>2,001</b>
<b>Operating profit</b>	<b>327</b>	<b>653</b>	<b>867</b>	<b>962</b>	<b>1,046</b>
Interest income	25	36	58	62	85
Interest expense	(4)	(2)	(7)	(3)	(13)
Forex gain/(losses)	18	(0)	(0)	(0)	(0)
Other income/(expense)	10	14	22	(2)	16
<b>EBITDA</b>	<b>469</b>	<b>806</b>	<b>1,043</b>	<b>1,176</b>	<b>1,267</b>
Income before tax	375	701	940	1,018	1,135
Tax expenses	(92)	(178)	(235)	(254)	(284)
Minority interests	(8)	4	(2)	(3)	(4)
<b>Net income</b>	<b>291</b>	<b>519</b>	<b>707</b>	<b>767</b>	<b>855</b>
<b>EPS (IDR)</b>	<b>101</b>	<b>180</b>	<b>245</b>	<b>265</b>	<b>296</b>

**2016F net income to grow robustly as SMP prices remain low...**

<b>Balance sheet</b>	<b>2014A</b>	<b>2015A</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
<b>Year-end 31 Dec (IDRbn)</b>					
Cash and equivalents	489	849	1,236	1,778	2,424
Account receivables	395	448	516	598	664
Inventories	714	739	757	849	953
L-T Invest & receivables	213	228	229	230	230
Fixed assets	1,003	1,161	1,485	1,547	1,640
Other assets	102	115	171	198	202
<b>Total assets</b>	<b>2,917</b>	<b>3,540</b>	<b>4,393</b>	<b>5,199</b>	<b>6,114</b>
S-T liabilities	9	3	3	4	6
Other S-T liabilities	482	559	762	847	946
L-T liabilities	60	100	106	124	166
Other L-T liabilities	101	81	101	108	116
<b>Total liabilities</b>	<b>652</b>	<b>742</b>	<b>972</b>	<b>1,082</b>	<b>1,234</b>
<b>Equity</b>	<b>2,265</b>	<b>2,798</b>	<b>3,421</b>	<b>4,117</b>	<b>4,880</b>
<b>Total liabilities &amp; equity</b>	<b>2,917</b>	<b>3,540</b>	<b>4,393</b>	<b>5,199</b>	<b>6,114</b>

**...supported by high inventories**

<b>Cash Flows Statement</b>	<b>2014A</b>	<b>2015A</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
<b>Year-end 31 Dec (IDRbn)</b>					
Net Income	291	519	707	767	855
Depreciation & Amortization	142	153	176	214	221
Change in working capital	(308)	(33)	114	(123)	(113)
<b>Operating cash flow</b>	<b>125</b>	<b>639</b>	<b>997</b>	<b>858</b>	<b>963</b>
Capital expenditure	(238)	(329)	(501)	(277)	(314)
Others	67	15	(66)	(15)	4
<b>Investing cash flow</b>	<b>(171)</b>	<b>(314)</b>	<b>(567)</b>	<b>(292)</b>	<b>(311)</b>
Dividend paid	(35)	-	(35)	(71)	(77)
Net change in debt	(25)	42	21	40	77
Others	(17)	(6)	(29)	7	(7)
<b>Financing cash flow</b>	<b>(76)</b>	<b>35</b>	<b>(43)</b>	<b>(24)</b>	<b>(6)</b>
Change in cash	(122)	360	387	542	646
Beginning cash flow	612	489	849	1,236	1,778
<b>Ending cash flow</b>	<b>489</b>	<b>849</b>	<b>1,236</b>	<b>1,778</b>	<b>2,424</b>

**Strong operating cash flow generation**

<b>Key Ratios</b>	<b>2014A</b>	<b>2015A</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Gross margin (%)	23.9	31.5	32.3	32.1	31.5
EBITDA margin (%)	12.0	18.3	21.4	21.0	20.0
EBIT margin (%)	8.3	14.9	17.8	17.2	16.5
Pretax margin (%)	9.6	15.9	19.3	18.2	17.9
Net margin (%)	7.4	11.8	14.5	13.7	13.5
ROAE (%)	13.6	20.5	22.7	20.3	19.0
ROAA (%)	10.2	16.1	17.8	16.0	15.1
Current ratio (x)	3.3	3.7	3.4	3.9	4.3
Acid ratio (x)	1.8	2.3	2.3	2.8	3.2
Gearing (%)	3.8	4.6	4.3	4.6	5.5
Net gearing (%)	n.c.	n.c.	n.c.	n.c.	n.c.
AR turnover (days)	36	37	38	38	38
Inventory turnover (days)	75	87	82	76	75
AP turnover (days)	51	45	50	54	51

**Margins to dip slowly, but the drop will be contained**

Source: Company, BCAS estimates

**Exhibit 3. ULTJ 9M16 result**

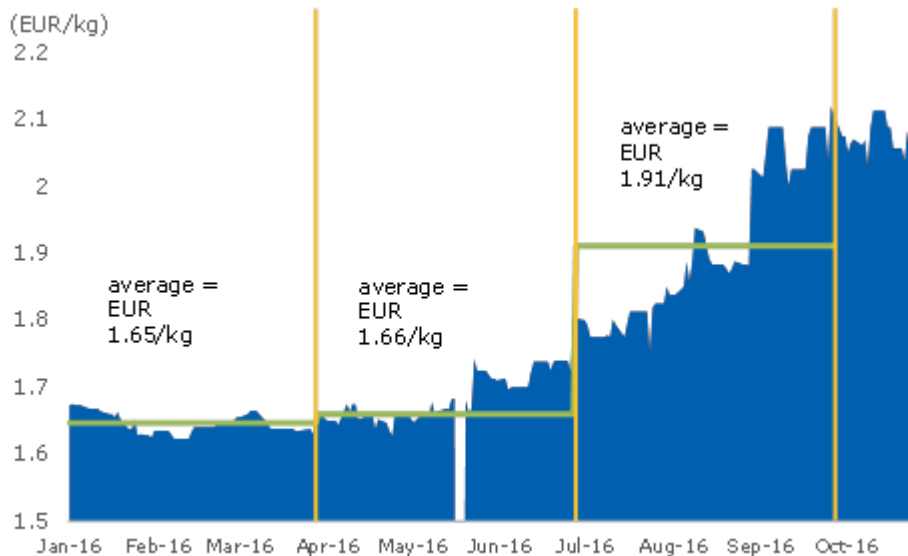
ULTJ IJ IDRbn	3Q15	2Q16	3Q16	QoQ (%)	YoY (%)	9M15	9M16	YoY (%)	9M16/ 2016 (%)	9M16/ cons. (%)
Revenue	1,089	1,200	1,156	(3.7)	6.1	3,275	3,453	5.5	70.9	68.8
COGS	748	779	733	(5.9)	(2.0)	2,251	2,262	0.5		
Gross profit	341	421	423	0.4	23.9	1,023	1,191	16.4		
<i>gross profit margin (%)</i>	<i>31.3</i>	<i>35.1</i>	<i>36.6</i>			<i>31.3</i>	<i>34.5</i>			
Operating expenses	(137)	(258)	(120)	(53.7)	(12.9)	(540)	(529)	(2.2)		
<b>Operating profit</b>	<b>204</b>	<b>163</b>	<b>303</b>	<b>86.2</b>	<b>48.6</b>	<b>483</b>	<b>662</b>	<b>37.1</b>	<b>89.5</b>	<b>85.7</b>
<i>operating margin (%)</i>	<i>18.7</i>	<i>13.6</i>	<i>26.2</i>			<i>14.7</i>	<i>19.2</i>			
<b>Net profit</b>	<b>169</b>	<b>135</b>	<b>246</b>	<b>82.2</b>	<b>45.0</b>	<b>394</b>	<b>546</b>	<b>38.8</b>	<b>91.7</b>	<b>90.1</b>
<i>Net margin (%)</i>	<i>15.5</i>	<i>11.2</i>	<i>21.2</i>			<i>12.0</i>	<i>15.8</i>			
<b>Cash</b>	<b>719</b>	<b>1,158</b>	<b>1,409</b>			<b>719</b>	<b>1,409</b>			
<b>Interest bearing liabilities</b>	<b>77</b>	<b>100</b>	<b>99</b>			<b>77</b>	<b>99</b>			
<b>Equity</b>	<b>2,666</b>	<b>3,104</b>	<b>3,344</b>			<b>2,666</b>	<b>3,344</b>			
<i>Net gearing (%)</i>	<i>net cash</i>	<i>net cash</i>	<i>net cash</i>			<i>net cash</i>	<i>net cash</i>			

Source: Company, BCA Sekuritas, Bloomberg

**Exhibit 4. Forecast changes**

(IDR bn)	2016F			2017F		
	Old	New	Change (	Old	New	Change (%)
Revenue	4,868	4,868	-	5,601	5,601	-
Gross profit	1,570	1,573	0.2	1,794	1,797	0.2
EBITDA	916	1,043	13.8	1,093	1,176	7.6
EBIT	740	867	17.1	879	962	9.4
Net profit	596	707	18.7	694	767	10.4
Gross margin	32.2	32.3		32.0	32.1	
EBITDA margin	18.8	21.4		19.5	21.0	
EBIT margin	15.2	17.8		15.7	17.2	
Net margin	12.2	14.5		12.4	13.7	

Source: BCA Sekuritas

**Exhibit 5. SMP prices, Ytd**


Source: Bloomberg, BCA Sekuritas

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