Equity Research

BUY With Target Price Rp 2,017

Last Traded Price (27 Dec 2019): Rp1,630 (JCI : 6,319.44)

Price Target 12-mth: Rp 2,017 (23.80% upside)

Potential Catalyst: Strong potentials in domestic milk consumption.

Where we differ: Broadly in line with consensus

Analyst

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What's New

- Strong top and bottom line growth due to increasing volume sold and adjustment selling price
- Accelerated bottom line growth due to economies of scale.

Price Relative



Source: Bloomberg.com

Forecasts and Valuation

FY Dec (Rpbn)	2017A	2018A	2019F	2020F	2021F
Revenue	4,880	5,473	6,206	6,742	7,355
Growth (%)	*4.1%*	*12.2%*	*13.4%*	*8.6%*	*9.1%*
Gross Profit	1,836	1,956	2,306	2,459	2,655
Growth (%)	*12%*	*7%*	*18%*	*7%*	*8%*
Operating Profit	918	852	1,120	1,165	1,233
Growth (%)	*9%*	*-7%*	*31%*	*4%*	*6%*
Net Profit	718	702	925	939	1,005
Growth (%)	*1%*	*-2%*	*32%*	*1%*	*7%*
EPS	62	61	80	81	87
BV Per Share	363	413	463	516	550
PE Ratio	21.3	22.4	23.6	24.4	24.1
PBV Ratio	3.7	3.4	4.1	3.8	3.8
Net Debt/Equity	2%	3%	1%	1%	1%
ROAE (%)	15%	13%	15%	14%	14%
ROIC (%)	17%	14%	16%	15%	15%

Source: Company data, Wanteg Sekuritas.

Continuous growth attractively valued

Maintain BUY on attractive valuation. ULTJ remains our top pick in the domestic consumer sector. Our BUY call is premised on ULTJ's attractive valuation. Based on our calculation, the company now trades at a 18% discount to its DCF valuation. ULTJ offers an attractive entry into a growing strong potentials domestic milk consumption. ULTJ is traded at PE 20x FY19F PE (around its 5-year PE mean).

Strong revenue growth is continued. ULTJ revenue growth spike in 2018 is due to higher quantity and price of products sold. This growth is expected to continue in the upcoming years due to business expansion as well as increasing demand as the market size grows.

Strong long-term potentials in domestic milk consumption. Indonesia has very low milk consumption per capita (in liters) compared to its neighbors such as Malaysia and Thailand which provides significant upside growth potentials for ULTJ as the market leader in the industry.

Valuation:

According to our DCF valuation, we set target price at Rp 2,017 (23.80% upside potentials) for the next 12-months period. At this valuation the PE ratio would be 24.30 and PBV 3.8.

Key Risks to Our View:

Business risk due to more intense competition and cost pressure after adjustments to fuel price. The higher fuel price generally leads to higher costs of goods and services, which would crimp margins if the company is unable to raise selling prices.

At A Glance

Issued Capital (bn shares)	11.55
Mkt. Cap (Rpbn)	18,770
Major Shareholders (%)	
Sabana Prawirawidjaja (%)	31.81
PT Prawirawidjaja Prakarsa	21.4
Free Float (%)	31.81
3m Avg. Daily Val (US$m)	96

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

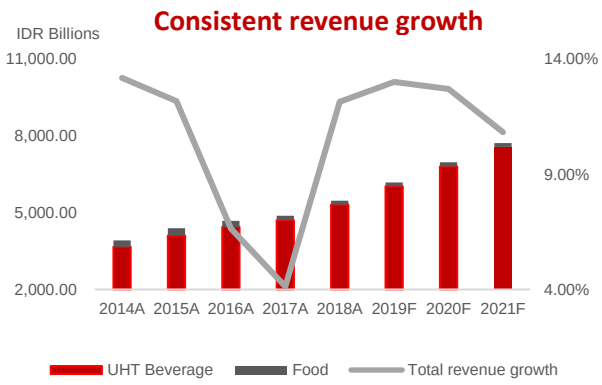
Strong revenue growth is continued. ULTJ revenue growth spike in 2018 is due to higher quantity and price of products sold. This growth will continue in the upcoming years due to business expansion as well as increasing demand as the market size grows. Revenue in ULTJ mostly comes from UHT beverage business segment which accounted to more than 90%. Moreover, this business segment is also the growth diver of ULTJ revenue.

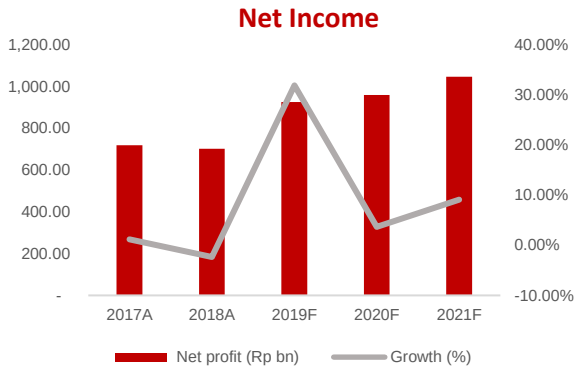
Increased margin and accelerated bottom line growth due to efficient cost structure and highly automated business process. In the recent years ULTJ has harnessed the benefit of economies of scale due to its highly automated manufacturing process where increasing production volume and average selling price do not affect significantly cost structure in the mid-term. Moreover, vertical integration along the value chain guarantee ULTJ full control over sits product quality.

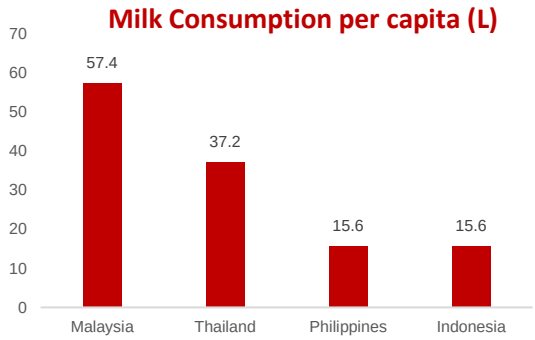
Strong upside potentials in milk consumption per capita. Indonesia has very low milk consumption per capita (in liters) compared to its neighbors such as Malaysia and Thailand which provides significant upside growth potentials for ULTJ as the market leader in the industry.

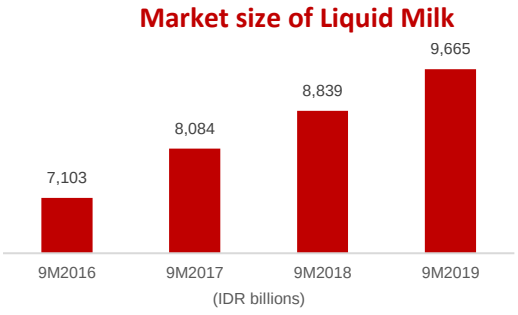
Growing liquid milk market size. Due to low milk consumption while growing middle income class. Liquid milk market size in Indonesia is steadily growing and is predicted to do so in the coming years.

Consistent market leading products. Two main products of ULTJ, Ultra milk and The Kotak, are market leading and top tier products in its segments.









Source: Company data, Wanteg Sekuritas.

Balance Sheet:

Efficient operating history. Efficient working capital management is one of the strong cash flow drivers. ULTJ has consistent days sales outstanding while decreasing days inventory due to more efficient inventory management as well as more transparent supply chain process after Oracle Enterprise Resource Planning implementation.

Very low leverage and healthy liquidity. ULTJ is historically very low leverage with strong liquidity. Debt level is almost zero and with very strong current ratio. This means that ULTJ does not rely on debt to stay profitable in running its business. Low leverage also indicates that this business has large debt capacity when it is ready to capture new growth opportunity.

Well controlled capital expenditure with very low leverage. ULTJ has healthy free cash flow due to high profitability as well as efficient working capital management and moderate capital expenditure.

Share Price Drivers:

Economic recovery. When GDP growth meets market expectations, it is normally favorable for staple food companies like ULTJ. This would raise expectations for higher sales volumes and top-line growth, which could lift the share price.

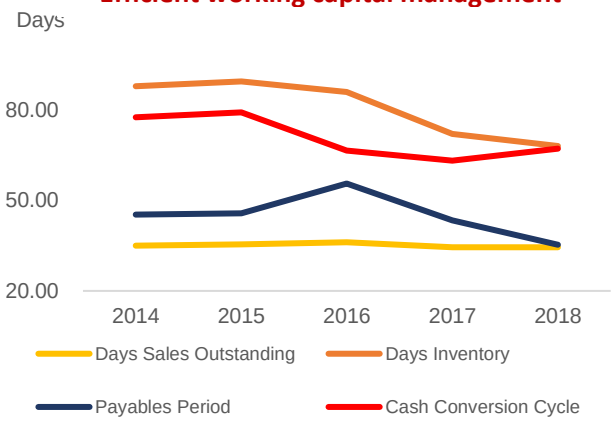
Cost pressure after adjustments to fuel price. The higher fuel price generally leads to higher costs of goods and services, which would crimp margins if the company is unable to raise selling prices.

Key Risks:

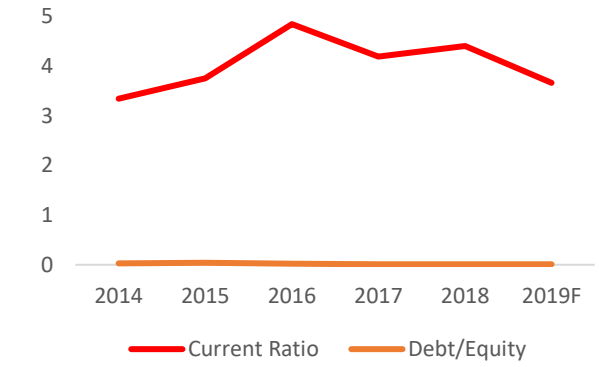
Business Competition Risk

The Company operates in a highly competitive domestic and multinational environment. The Company competes with a number of manufacturers and marketers of UHT milk products and RTD tea, some of which are larger and have a resource that is substantially larger than the Company, including the ability to issue a greater advertising and marketing cost. The Company also faces competition from new entrants who may have more flexibility in responding to the changes in business and economic conditions.

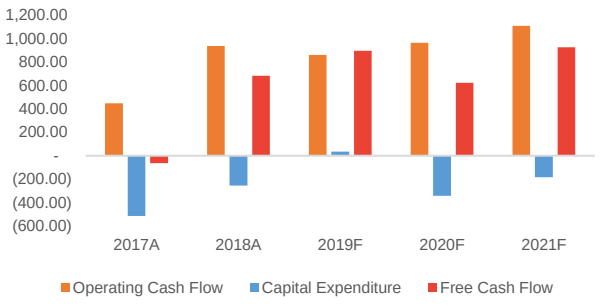
Efficient working capital management



Liquidity ratios and Leverage



Healthy cashflow and capital expenditure



Source: Company data, Wanteg Sekuritas.

Competition in this industry is based on product pricing, new product innovation, brand awareness, advertising and promotional activities, introduction of new products, and other activities. The increase in the competition level of one of the above parameters can lead to lower revenue, higher spending on marketing, promotion, and development of new products, and thus may lead to a reduction in the rate of growth or profits of the Company.

Financial Risk

Financial risk includes the following risk:

- Currency Exchange Rate Risk
- Credit and Liquidity Risks
- Interest Rate Risk

Product Quality Risk

Product quality risk could be caused by inconsistent product quality due to unexpected changes both in the production process or raw materials quality as well as in the distribution along the value chain.

Company Background

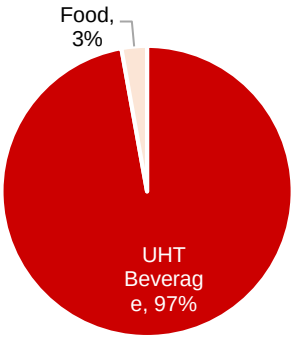
PT Ultrajaya Milk Industry Tbk, formerly PT Ultrajaya Milk Industry & Trading Company Tbk, is an Indonesia-based company primarily engaged in manufacturing aseptic-packaged ultra-high-temperature (UHT) beverages. The UHT beverages it produces include UHT fresh milk, UHT tea and other UHT drinks. Besides UHT beverages, the Company also manufactures non-UHT products, such as sweetened condensed milk, tropical fruit juice concentrate and powdered milk. It markets its products under various brand names, such as Ultra Milk and Susu Sehat for its UHT fresh milk, Teh Kotak and Teh Bunga for its UHT tea and Cap Sapi and Golden Choice for its sweetened condensed milk. It has a manufacturing facility in Padalarang, Indonesia. Some of its subsidiaries are PT Nikos Intertrade, PT Nikos Distribution Indonesia and PT Ultra Peternakan Bandung Selatan.

Revenue mostly comes from domestic market. Domestic market stays as the largest revenue contributor of ULTJ revenue with 99% contribution. Furthermore, UHT beverage business segment contributes 97% of revenue. This segment also the major revenue growth driver with growing market acceptance to ULTJ's market winning ultra-milk brands.

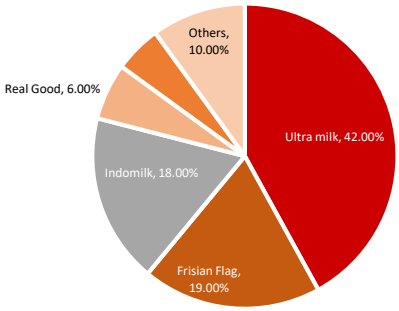
ULTJ's Teh Kotak is top tier products in its segment



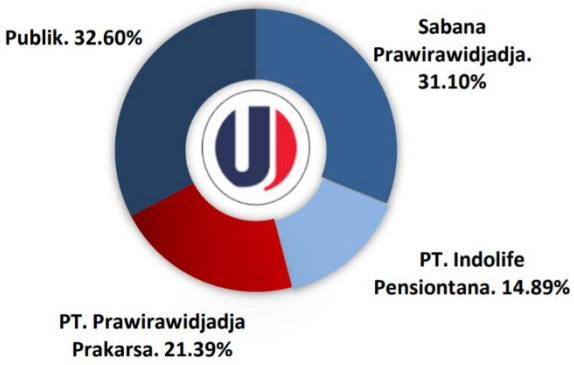
Revenue breakdown



ULTJ's Ultra Milk lead the market share

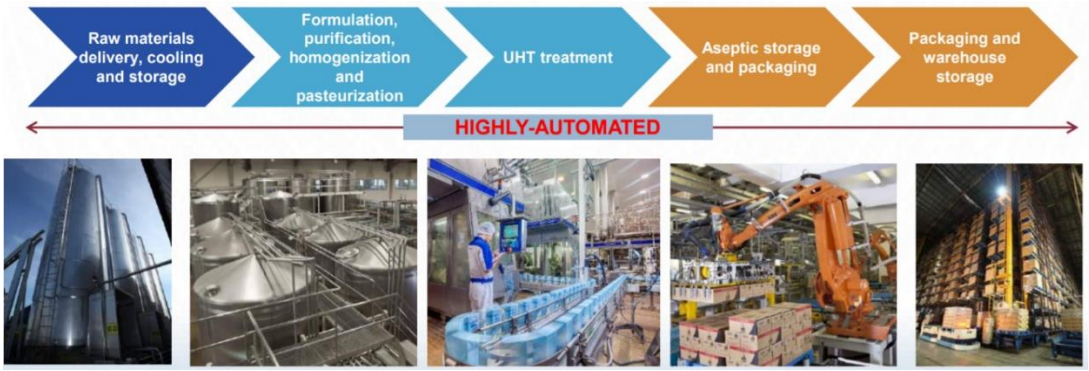


Shareholders composition of ULTJ



Source: Company data, Wanteg Sekuritas.

Vertically integrated and Highly-Automated production facilities



Source: Company data, Wanteg Sekuritas.

A Glimpse to Business Environment in Indonesia

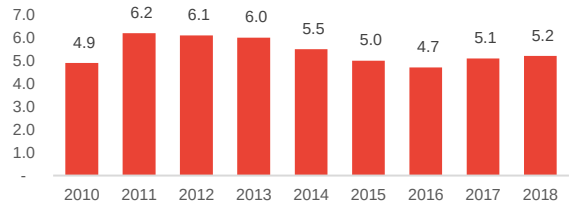
Robust GDP growth supported by large young and growing population. Indonesia GDP has been growing at 5.2% in last 2018 due to dominant contribution from domestic consumption sectors. Consumption spending continuously growing mainly due to growing population, better economic welfare, growing share of urban population and average young population (29 years old according to Statista 2019).

Largest population among SEA countries. Opportunities and space to grow is very large in Indonesia consumer industry due its large population base compared to its peers in South East Asia.

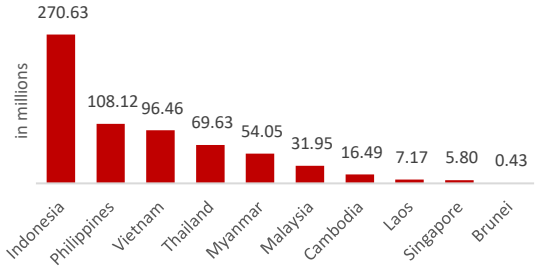
Significant GDP per capita growth potential compared to its peers in SEA. Indonesia has GDP per capita USD14,000 which is very low compared to its neighbors such as Malaysia and Singapore. This indicates significant upside potentials for GDP per capita growth.

Growing middle class as the results of increasing urban population and robust economic growth. Urban population in Indonesia has been steadily growing from 47% in 2007 to 54% in 2017 which indicates more Indonesian live in urban area to pursue better economic welfare as well as better job and income opportunities and better access to public education and health facilities.

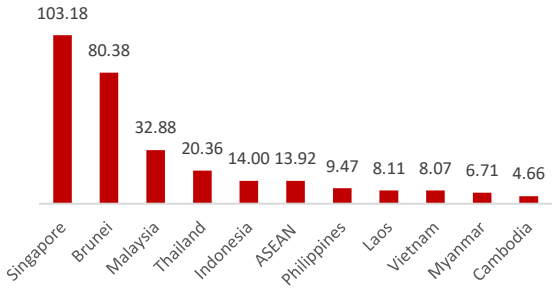
Indonesia GDP growth



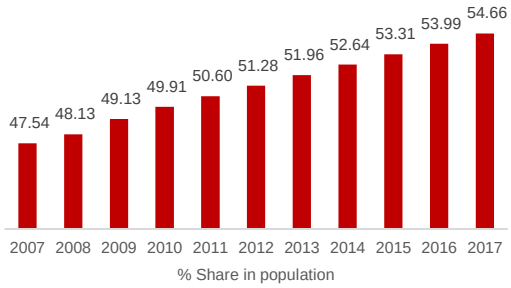
Population among SEA countries



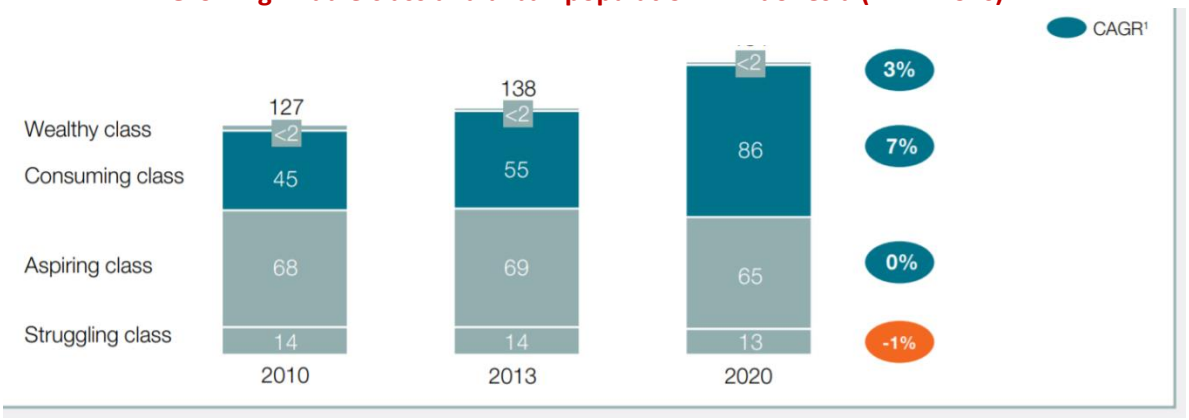
GDP per capita in USD thousands



Share of urban population in Indonesia



Growing middle class and urban population in Indonesia (in millions)



Source: Company data, Wanteg Sekuritas.

Income Statement

FY Dec (IDR Billions)	2017A	2018A	2019F	2020F	2021F
Total Revenue	3,916.79	4,393.93	4,685.99	4,879.56	5,472.88
Cost of Revenue	(2,979.80)	(3,011.44)	(3,052.88)	(3,043.94)	(3,516.61)
Gross Profit	**936.99**	**1,382.49**	**1,633.11**	**1,835.62**	**1,956.28**
Operating Expense	600.60	742.16	793.79	917.22	1,104.15
Operating Profit	**336.39**	**640.33**	**839.32**	**918.40**	**852.13**
Non-Operating Inc/Exp	38.57	60.35	93.17	116.42	96.89
Earning Before Tax	374.96	700.68	932.48	1,035.19	949.02
Net Profit	**283.06**	**523.10**	**709.83**	**718.40**	**701.61**

Growth

Revenue growth (%)	4.1	12.2	13.4	8.6	9.1
Operating profit growth (%)	9.4	(7.2)	31.4	5.0	9.1
Net profit growth (%)	1.2	(2.3)	31.9	3.7	9.1

Margin & Ratio

Gross Margin (%)	23.9	31.5	34.9	37.6	35.7
Operating profit margin (%)	8.6	14.6	17.9	18.8	15.6
Net Profit Margin (%)	7.2	11.9	15.1	14.7	12.8
ROAE (%)	15.3	13.1	15.6	14.4	14.4
ROIC (%)	17.1	13.6	16.0	15.2	15.2
ROE (%)	18.7	15.6	18.3	16.9	17.0
Div Payout Ratio (%)	11.9	17.0	30.0	40.0	60.0

Balance Sheet

FY Dec (IDR Billions)	2017A	2018A	2019F	2020F	2021F
Cash and Cash Equivalents	2,120.40	1,444.31	2,449.69	2,640.12	2,592.63
Inventories	682.62	708.77	870.83	930.28	1,002.40
Receivables	538.02	560.62	662.07	717.07	773.22
Prepayments and Deposits	98.94	79.82	86.68	111.25	117.64
Net Fixed Assets	1,549.45	1,790.81	1,745.23	2,071.92	2,236.52
Other Non-Current Assets	186.46	971.54	390.87	424.19	589.93
Total Assets	**5,175.90**	**5,555.87**	**6,329.48**	**7,029.66**	**7,459.46**
Payables and Accrued Exp	791.42	546.63	828.85	915.13	934.31
ST Debt	29.21	88.53	-	-	-
LT Debt	58.71	50.69	50.69	50.69	50.69
Other Liabilities	98.85	95.07	95.07	95.07	95.07
Total Liabilities	978.19	780.92	974.61	1,060.89	1,080.07
Shareholders' Equity	4,197.71	4,774.96	5,354.88	5,968.77	6,379.39
Total Equity and Liab.	**5,175.90**	**5,555.87**	**6,329.48**	**7,029.66**	**7,459.46**
Common Shares Issued	**11.55**	**11.55**	**11.55**	**11.55**	**11.55**

Source: Company data, Wanteg Sekuritas.

Valuation

ULTJ historical price multiple valuation

Historically, share price of ULTJ is very volatile which provide great opportunity to buy at weakness and sell at strength. Considering price multiple valuation, currently ULTJ is traded at 20 PER and 3.5 PBV. At its peak, it was traded at PER 25 and PBV 4.5.

DCF Valuation

Valuation in this report is based on DCF by using two-stage growth model. Revenue growth is extrapolated to most reasonable business life-cycle model with srevenue growth is expected to decline from by 10% annually from 13% at 2019 to 8.42% at 2029 gradually. The terminal growth is 3%. We build first-stage growth for 10 years to reduce sensitivity caused by terminal value.

Estimated enterprise value of ULTJ by the end of 2020 is IDR 23.4 Trillion. After subtracting debt and debt equivalents we estimated the equity value of ULTJ to be around IDR 23.3 Trillion. At this valuation, the intrinsic share value will be around IDR 2,017 per share with PER 24.3 and PBV 3.91. The upside is around 23%. High valuation in consumer companies is due to low cost of capital and low beta as well as growth potentials.

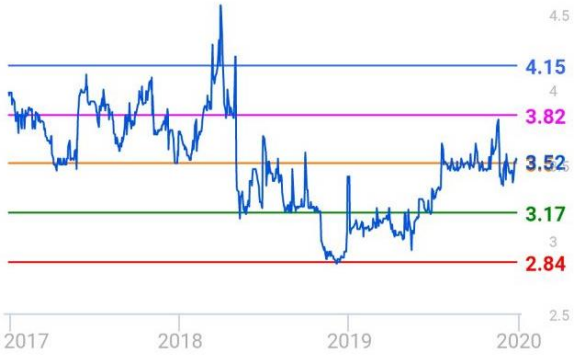
Hereby, according to comprehensive analysis, we conclude as follows:

Target price for ULTJ in the next 12 months period is Rp 2,017 at PER 24.30 and PBV 3.8.

PE Standard Deviation Band



PBV Standard Deviation Band



Source: Company data, Wanteg Sekuritas.

Key valuation parameters			
Terminal growth	3%	Cost of debt	9.75%
Levered beta ULTJ	0.3980	Tax	25.00%
Equity risk premium	4.95%	Debt Weight	1.96%
Risk free rate	7.43%	Equity Weight	96.08%
Cost of Equity	9.40%	WACC	9.40%

Wanteg Sekuritas recommendations are based an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

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