Sido Muncul Tbk (SIDO IJ)

3Q : Herbal Demand Show Sign of Recovery

NH KORINDO SEKURITAS

Initiation of Coverage | Nov. 02, 2020

SIDO managed to record outstanding performance, despite uncertainty situation. On a more positive note, we believe several key initiatives from SIDO's management including launching product and tapping new export market offers a significant leap for long-term outlook

We initiate our coverage on PT Industri Jamu dan Farmasi Sido Muncul Tbk (SIDO) with BUY recommendation and FY21 target price at IDR 930.

Our TP reflects 17% upside potential which implies FY21F 14.2x PE. Despite weak purchasing power of local buyer, we expect SIDO sales to grow stronger in upcoming years in accordance with improving economic conditions and their initiatives to tap in to new markets. Downside risks to our call are: 1) Low enthusiasm on new product launchings 2) Intensifying competition on herbal products

Herbal Product's Demand Remains Hopeful of Recovery

As of 2019, SIDO held 35.6 percent share of the Jamu Industry and become a key player in the fast-growing Indonesian consumer health market. SIDO has witnessed an increase in demand for herbal product, which can be translated into CAGR of 10.3% during FY14-19, according to Euromonitor. In 3Q20 we saw 11% YoY revenue growth, led by 7% growth in herbal segment which is mostly represented by Tolak Angin (c. 64% of total revenue) with modest recovery from one of the export destinations, Malaysia. Overall sales were also supported by impressive growth in the F&B segment (especially Vit C 1000 and Ginger Beverage) with 23% YoY, while Pharma segment reported a -11% sales decline in 3Q20. Furthermore, we still need to be cautious about herbal medicine sales in the short term as recovery in consumer spending, particularly for the low-income segment, could be slower than expected. Of note, sales via Modern Trade (MT) accounted for c.13% of total sales in 9M20, which indicates that most of total sales rely heavily on General Trade (GT).

Financial Outlook

SIDO's earnings for 3Q increased by 11.0% YoY to IDR182 bn with steady sales during the period. However, GPM slipped by 100bps due to higher COGS. This year, SIDO has launched another food supplement product, e.g. Vitamin E100, Sari Kunyit, and others. The newly launched food supplement is a strategic addition to the existing product portfolio. Meanwhile, SIDO decided to spend less on A&P spending amidst the current unfavorable situation, which lead to 11% A&P-to-sales ratio in 3Q20 (vs. 13% in 3Q19). We still expect the management could increase their budget for promotional activities with average of about >10% as these products may potentially target the upper middle class. Another positive note, SIDO kept its leverage ratio to zero and strong cash position which make SIDO more appealing compared to its peers

Expanding Footprint

We see that SIDO is well on the track to dominate the SEA such as Philippines, Malaysia and Nigeria, through two brands *Tolak Angin* and *Kuku Bima*. This year, SIDO has executed several initiatives: 1) entering new export market, with Saudi Arabia as export destination for *Tolak Angin*. 2) Launching new types of food supplement in soft capsule format (e.g. *Tolak Angin, Sari Kunyit*) and *Tolak Linu*. In addition, SIDO also has launched new type of remedy for gastric problem, *Esemag* during the fasting month of Ramadhan.

PT Sido Muncul Tbk | Summary

	2019A	2020E	2021F	2022F
Sales	3.067	3.227	3.420	3.665
Growth (%)	*11,0%*	*5,2%*	*6,0%*	*7,2%*
EBIT	1.024	1.105	1.221	1.364
Net Profit	808	885	976	1.088
EPS (IDR)	54	59	66	73
P/E	11,8x	10,2x	9,3x	8,3x
P/BV	3,0x	2,7x	2,5x	2,2x
NPM	*26,3%*	*27,4%*	*28,5%*	*29,7%*
EV/EBITDA	7,7x	6,4x	5,8x	5,0x
ROE (%)	*25,5%*	*26,6%*	*26,5%*	*26,7%*
ROA (%)	*22,8%*	*23,2%*	*23,5%*	*23,4%*
ROIC (%)	*24,3%*	*25,6%*	*25,6%*	*25,7%*
Dividend Yield	*6,7%*	*4,4%*	*6,8%*	*7,5%*

Unit: IDR bn, %, x
Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

BUY

Price Target (IDR)	**930**
Consensus Price (IDR)	813
TP to Consensus Price	14.4%
vs. Last Price	17.0%

Shares data

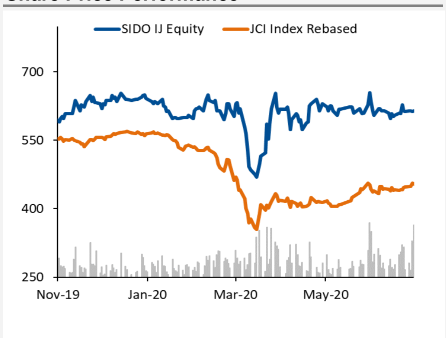
Last Price (IDR)	795
Price Date as of	Oct 22, 2020
52 wk Range (Hi/Lo)	810 / 470
Free Float (%)	42.70
Outstanding sh.(mn)	46,875
Market Cap (IDR bn)	71,485
Market Cap (USD mn)	4,876
Avg. Trd Vol - 3M (mn)	35.72
Avg. Trd Val - 3M (bn)	56.12
Foreign Ownership	3.9%

Consumer Goods Industry

Pharmaceutical

Bloomberg	**SIDO IJ**
Reuters	**SIDO.JK**

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	24.6%	6.0%	27.6%	42.0%
Rel. Ret.	43.8%	11.7%	28.0%	60.2%

Putu Chantika Putri D.
(021) 5088 9129
putu.chantika@nhsec.co.id

Summary of Financials

INCOME STATEMENT

(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E
Net Sales	**3.067**	**3.227**	**3.420**	**3.665**
Growth	*11,0%*	*5,2%*	*6,0%*	*7,2%*
COGS	(1.387)	(1.455)	(1.522)	(1.583)
Gross Profit	**1.681**	**1.771**	**1.898**	**2.082**
Gross Margin	*54,8%*	*54,9%*	*55,5%*	*56,8%*
Operating Expenses	(656)	(666)	(677)	(718)
EBIT	**1.024**	**1.105**	**1.221**	**1.364**
EBIT Margin	*33,4%*	*34,3%*	*35,7%*	*37,2%*
Depreciation	87	92	54	54
EBITDA	**1.111**	**1.198**	**1.275**	**1.417**
EBITDA Margin	36,2%	37,1%	37,3%	38,7%
Interest Expenses	-	-	-	-
EBT	**1.074**	**1.153**	**1.271**	**1.418**
Income Tax	(266)	(266)	(265)	(292)
Minority Interest	-	(4)	(4)	(4)
Net Profit	**808**	**885**	**976**	**1.088**
Growth	*21,7%*	*9,6%*	*10,3%*	*11,5%*
Net Profit Margin	*26,3%*	*27,4%*	*28,5%*	*29,7%*

PROFITABILITY & STABILITY

	2019/12A	2020/12E	2021/12E	2022/12E
ROE	25,5%	26,6%	26,5%	26,7%
ROA	22,8%	23,2%	23,5%	23,4%
ROIC	24,3%	25,6%	25,6%	25,7%
Cash Dividend (IDR bn)	640	402	619	683
Dividend Yield	6,7%	4,4%	6,8%	7,5%
Payout Ratio	79,2%	45,4%	63,5%	62,8%
DER	0,0%	0,0%	0,0%	0,0%
Net Gearing	0,0%	0,0%	0,0%	0,0%
LT Debt to Equity	0,0%	0,0%	0,0%	0,0%
Capitalization Ratio	0,0%	0,0%	0,0%	0,0%
Equity Ratio	89,7%	87,1%	88,7%	87,8%
Debt Ratio	0,0%	0,0%	0,0%	0,0%
Financial Leverage	97,0%	102,9%	98,3%	101,0%
Current Ratio	538,1%	477,0%	554,1%	521,8%
Par Value (IDR)	10	10	10	10
Total Shares (mn)	14.884	14.884	14.884	14.884
Share Price (IDR)	638	608	608	608
Market Cap (IDR tn)	9,5	9,0	9,0	9,0

BALANCE SHEET

(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E
Cash	959	1.093	1.340	1.630
Receivables	373	555	492	527
Inventories	356	352	389	435
Total Current Assets	**1.709**	**2.050**	**2.271**	**2.642**
Net Fixed Assets	1.601	1.531	1.627	1.742
Other Non Current Assets	225	231	250	266
Total Assets	**3.535**	**3.812**	**4.148**	**4.650**
Payables	173	115	194	202
ST Bank Loan	-	-	-	-
LT Debt	-	-	-	-
Total Liabilities	**365**	**490**	**470**	**567**
Capital Stock & APIC	2.206	2.206	2.206	2.206
Retained Earnings	918	1.402	1.758	2.163
Shareholders' Equity	**3.170**	**3.321**	**3.678**	**4.083**

VALUATION INDEX

	2019/12A	2020/12E	2021/12E	2022/12E
Price /Earnings	11,8x	10,2x	9,3x	8,3x
Price /Book Value	3,0x	2,7x	2,5x	2,2x
Price/Sales	3,1x	2,8x	2,6x	2,5x
PE/EPS Growth	0,5x	1,1x	0,9x	0,7x
EV/EBITDA	7,7x	6,4x	5,8x	5,0x
EV/EBIT	8,3x	6,9x	6,0x	5,2x
EV (IDR bn)	8.523	7.611	7.364	7.074
Sales CAGR (3-Yr)		7,8%	7,4%	6,1%
EPS CAGR (3-Yr)		18,4%	13,7%	10,4%
Basic EPS (IDR)	54	59	66	73
Diluted EPS (IDR)	54	59	66	73
BVPS (IDR)	213	223	247	274
Sales PS (IDR)	206	217	230	246
DPS (IDR)	43	27	42	46

CASH FLOW STATEMENT

(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E
Operating Cash Flow	837	964	1.035	1.158
Investing Cash Flow	(136)	(87)	(169)	(184)
Financing Cash Flow	(640)	(403)	(619)	(683)
Net Changes in Cash	**61**	**473**	**246**	**291**

OWNERSHIP

By Geography	%	Shareholders	%
Unknown	92,8	Hotel Candi Baru	81,0
Indonesia	3,3	Schroder Investment	2,8
Norway	2,2	Norges Bank	1,8
Luxembourg	0,6	Fil Limited	9,5

Source: Company Data, NHKSI Research

Company Background

Beginning as a home industry in Yogyakarta, currently Sido Muncul is the first herbal medicine industry company to be listed on the Indonesia Stock Exchange (IDX). In 1951, Sido Muncul first established its first herbal medicine factory in Semarang with Jamu Tolak Angin as its main product. As time goes, Sido Muncul built another factory that was inaugurated in 2000, and also received two certificates, How to Make Better Traditional Medicine (CPOTB), equivalent to pharmaceuticals. Both certificates made Sido Muncul the only herbal medicine factory to be the only pharmacy standardized.

Sido Muncul has two subsidiaries, PT Semarang Herbal Indo Plat and PT Muncul Mekar. In 2014, SIDO acquired the PT Berlico Mulia Farma that has started operation in 1976. This acquisition is a real step for Sido Muncul in realizing its long-term plan to expand into the pharmaceutical industry. In 2018, Sido Muncul established a subsidiary in Nigeria called Sido Muncul Nigeria Limited.

Previously in 2013, PT Sido Muncul Tbk. Herbal Medicine and Pharmacy Industry. (SIDO) officially listed its shares on the Indonesia Stock Exchange and set an initial share price (IPO) in the range of Rp580 per share with 1.5 billion new shares released to the public, or 10% of the investment capital placed and fully paid after IPO.

Subsidiaries

Semarang Herbal Indo Plant ("SHI")

PT Semarang Herbal Indo Plant ("SHI") is a raw material extraction factory established with to increase the production capacity because with the additional capacity of the extraction machine will shorten the production chain. SHI has increased the quality of materials and herbal medicines so that the end products of Sido Muncul can have prime quality standards and are able to compete in the global market.

Muncul Mekar ("MM")

PT Muncul Mekar ("MM") is a distribution company that specializes in distributing all Sido Muncul products through the distribution network spread all over Indonesia. In its development, MM established four Representative Offices in Jakarta, Bandung, Semarang, dan Surabaya. Now, the four Representative Offices have developed into 122 Sub Representatives and Distributors.

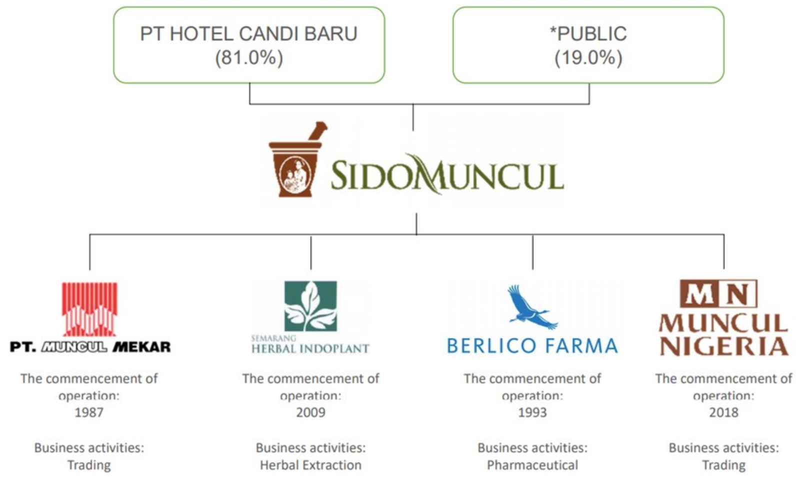
Berlico Mulia Farma

PT Berlico Mulia Farma officially joined as a Sido Muncul subsidiary in September 1, 2014, to support the company's vision to be the lead of Indonesia's pharmacy industry. Currently, PT Berlico Mulia Farma has produced around 80 types of medicines that consists of ethical products, OTC, dietary supplements, and herbal medicines. Some of the products available in the market are: Anacetine (fever-reducing medicine for children), Berlosid (ulcer medicine), Anabion (children's multivitamin), Suprabion (multivitamin for adults), and *Minyak Telon Cap 3 Anak*.

Muncul Nigeria Limited

In an effort to strengthen exports to Africa, SIDO established a subsidiary in Nigeria called Muncul Nigeria Limited. Muncul Nigeria Limited is focused on distributing Sido Muncul products to Nigeria and other African countries. In March 2019, SIDO for the distributed *Kuku Bima Energi* to Nigeria for the first time.

Company Background



Source: Company Data, NHKSI Research

Portfolio Product

The abundance of natural resources means Indonesia's herb products and medicines available to be consumed by various groups of people at competitive prices. Moreover, consumer loyalty is another key for the pharmaceutical and herbal medicine industry to have a stable prospect until now. To fulfill both factors, PT Industri Jamu dan Farmasi Sido Muncul tbk. try to improve both the product quality and distribution. Some of the Sido Muncul products from various segments are:

Source: Company Data, NHKSI Research

The first Sido Muncul product is *Tolak Angin* with ~70% market share. *Tolak Angin* is a modern herbal medicine packed in sachets and consumed to maintain immunity and reducing the symptoms of cold. *Tolak Angin* is in the herbal and supplement segment, which is recorded to contribute the largest amount of sales, reaching 64%. In 2015/2016, SIDO launched a new product and was the market leader in the liquid herbal analgesic category through one of its brands, *Tolak Linu*. Meanwhile, the food and beverage segment was recorded to contribute 32% to its income. One of the launched products in 2014 is the pioneer of fruit-flavored energy drinks, *Kuku Bima Energi* (KBE). KBE managed to be the top player in Indonesia's fruit-flavored energy drinks with a market share of ~40%. Through both the products, *Tolak Angin* and *Kuku Bima Energi*, SIDO carried out exports to states such as the Philippines, Malaysia, and Nigeria. Meanwhile, the medicine segments produced by PT Berlico Mulia Farma contributed the least at 4% based on the 9M20 financial report.

Investment Thesis

Wheels Keep Turning on Innovations

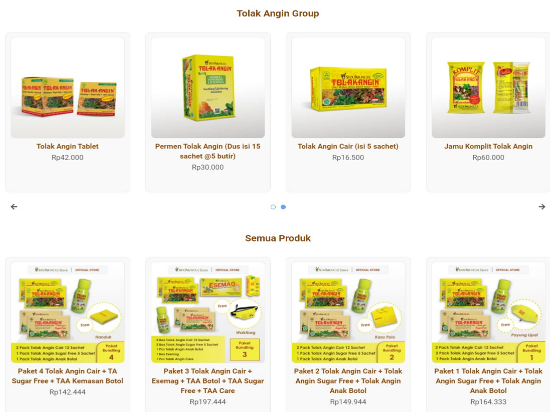
Sido Muncul has a quite strong brand awareness especially for its featured products such as Tolak Angin and Kuku Bima Energi. However, along the tight competition in the consumption sector pushed the company to keep innovating. Until 1H20, SIDO has launched 14 new products or variants such as Sari Kunyit, Tolak Angin Mint, Tolak Linu, VCO, and Vit E300 in the form of soft capsule. Meanwhile, the two newest products launched in April 2020 such as Esemag is a herbal medicine for ulcer, and Tolak Linu Cool is an aromatherapy ointment for muscle pain.

Some of SIDO's initiative in developing and launching new products can be seen through some forms such as the introduction of new products (such as soft capsule) for products already existing in the portfolio or launching new herbal product. Throughout 2019, the traditional and herbal medicine industry booked growth of 6% based on the data from Director General of Chemical, Pharmaceutical and Textile Industries (IKFT). The growth is far below the recorded growth by SIDO which reached the double digit.

Tolak Angin Product at MT's Display

Source: NHKSI Research

Sido Muncul Official Store



Source: Company , NHKSI Research

MT Sales Accelerate as Restrictions Take Hold

As an effort to fulfill the domestic needs, Sido Muncul tries to distribute equally and maintain product availability in domestic outlets. In this matter, Sido Muncul sells through various channels such as Modern Trade (MT), General Trade, and online. As we know, SIDO has had its success in sales through GT for quite some time, but entering the MT channel is a good step considering the tight competition in FMCG industry. Meanwhile, SIDO also does digital sales by cooperating with some e-commerce such as Tokopedia, Shopee, and its own online platform, Sudomunculstores.com. Amid the pandemic happening this year, we project that the people are more comfortable with online purchases and MT so we project that sales through those channels will book significant growth in the next couple of years. However, the general trade channel will potentially grow if SIDO is successful in maximizing the potentials of market in the Eastern part of Indonesia.

Sido Muncul plans to increase its export market share for countries in Southeast Asia. Up until now, sales of SIDO's products through the Tolak Angin and Kuku Bima Energi (KBE) brands have successfully entered the export market in Malaysia, the Philippines, and Nigeria. In the long term, SIDO will aim for market shares in Vietnam and Myanmar. However, the export that has been realized is the sales of herbal products and medicine to Saudi Arabia. Previously, Tolak Angin had long been traded in Saudi Arabia, but it was still trading.

Multiple Valuation

Forward P/E band | Last 3 years

Source: NHKSI research

Dynamic Forward P/E band | Last 3 years

Source: NHKSI research

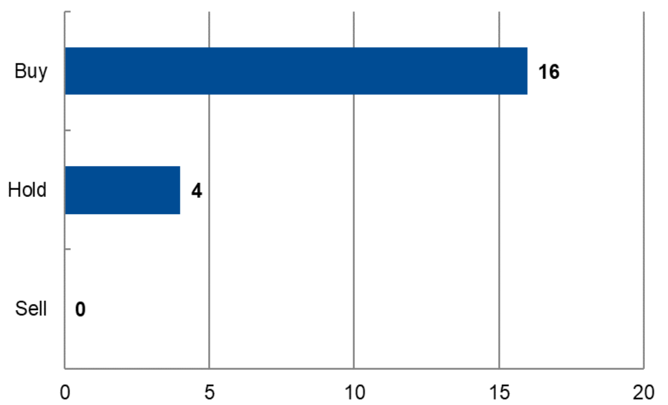
Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
11/02/2020	Buy	930 (Dec 2021)	795	813	+17.0%	+14.4%

Source: NHKSI research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price

Source: NHKSI research

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

1. Period: End of year target price
2. Rating system based on a stock's absolute return from the date of publication
   - Buy : Greater than +15%
   - Hold : -15% to +15%

3Q20 review (IDR bn)

	3Q19	4Q19	1Q19	2Q20	3Q20 Actual	3Q20 Estimate	3Q20 y-y	3Q20 q-q	3Q20 Surprise	4Q20E
Sales	719	939	731	729	798		*11,0%*	*9,4%*		970
Gross Profit	400	522	408	374	436		*8,9%*	*16,6%*		554
Gross Margin	*55,7%*	*55,6%*	*55,8%*	*51,3%*	*54,7%*		*-1,0%*	*3,4%*		*57,2%*
EBIT	257	294	281	226	277		*7,6%*	*22,4%*		322
EBIT Margin	*35,8%*	*31,3%*	*38,5%*	*31,0%*	*34,7%*		*-1,1%*	*3,7%*		*33,2%*
EBITDA	281	318	306	251	301		*7,2%*	*20,0%*		341
EBIT Margin	*39,0%*	*33,8%*	*41,8%*	*34,4%*	*37,7%*		*-1,4%*	*3,3%*		*35,2%*
Net Profit	**204**	**229**	**232**	**182**	**227**		***11,1%***	***24,6%***		**244**
Net Margin	*28,4%*	*24,4%*	*31,7%*	*25,0%*	*28,5%*		*0,0%*	*3,5%*		*25,2%*

Source: Bloomberg, NHKSI research

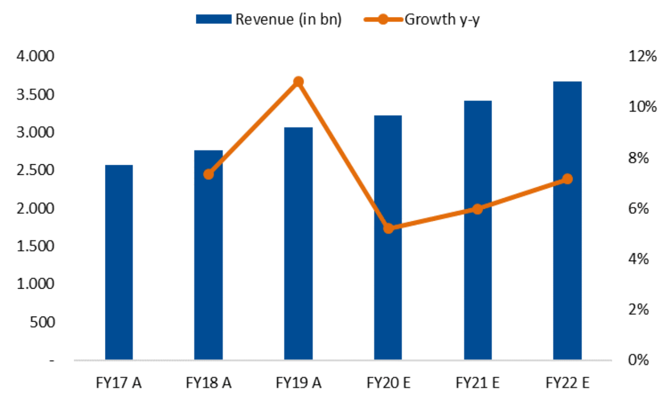
Earnings revision (IDR bn)

		2020E	2021F	2022F
Sales	-Revised	3.227	3.420	3.665
	-Previous			
	-Change			
Gross Profit	-Revised	1.455	1.522	1.583
	-Previous			
	-Change			
Gross Margin	-Revised	*45,1%*	*44,5%*	*43,2%*
	-Previous			
EBIT	-Revised	1.024	1.105	1.221
	-Previous			
	-Change			
EBIT Margin	-Revised	*31,7%*	*32,3%*	*33,3%*
	-Previous			
EBITDA	-Revised	1.111	1.198	1.275
	-Previous			
	-Change			
EBITDA Margin	-Revised	*34,4%*	*35,0%*	*34,8%*
	-Previous			
Net Profit	-Revised	**808**	**885**	**976**
	-Previous			
	-Change			
Net Margin	-Revised	*25,0%*	*25,9%*	*26,6%*
	-Previous			

Source: NHKSI research

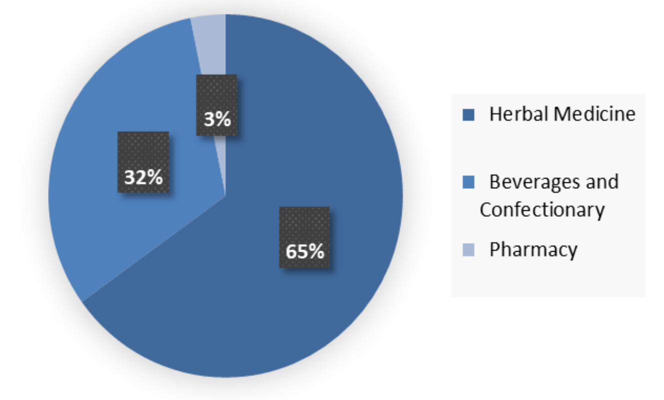
Key Charts

SIDO's FY17A—FY22E Revenues



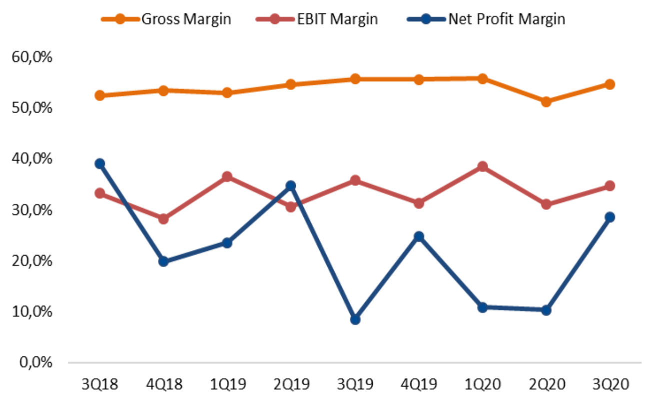
Source: Company Data, NHKSI Research

SIDO's Revenue Breakdown



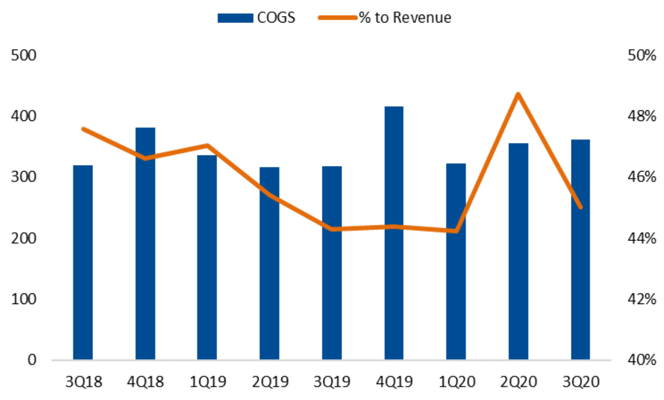
Source: Company Data, NHKSI Research

SIDO's Margin Ratios



Source: Company Data, NHKSI Research

SIDO's COGS



Source: Company Data, NHKSI Research

Disclaimer