

PT. Uni-Charm Indonesia Tbk

The Market Leader

27 February 2020

Buy (+11.8%)

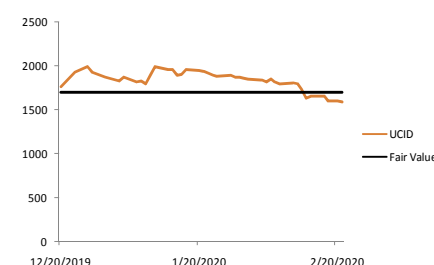
INVESTMENT THESIS

Market Leader. UCID is a market leader in Indonesia in diapers and feminine care products, dominating the markets by 49.8% in baby diapers segment, 42.1% in feminine care segment and 46% in adult diapers segment in 2018.

Growing Market Supported by Huge Population. Indonesia, with a large number of small children in its population, 24 million in the 0-4 age range, and a growing awareness of health and hygiene among parents, has great market potential for baby products. During the period 2014-2018, the retail sales of baby diapers increased by 9.1% annually. Indonesia also held one of the lowest consumption per capita rate than its neighboring Asian countries. In average, a child between 0-4-year-old in the nation used less than one disposable diaper per day at 0.8 (282 diapers/year). With rising purchasing power, Indonesia's baby market is expected to flourish in the coming years.

Price (24/02) **IDR 1,610**
Fair Value **IDR 1,800**
 Ticker (Bloomberg) UCID.IJ
 IDX Sector Basic Industry

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FINANCIAL PROJECTION

Profit & Loss. We project revenue in 2019 to reach IDR 8.7 trillion. While for 2020 we project revenue to reach IDR 9.5 trillion supported by an increase in sales volume and ASP. Between 2016 and 2021, based on our projections revenue can grow CAGR 8.7%. While in 2020E we project net income to reach IDR 570 billion.

INVESTMENT RISK

Fluctuating Raw Material Cost. Raw material cost is a major contributor to the company COGS, which made about 83% of the total. A significant rise in raw material cost can negatively affect the company's performance.

VALUATION & RECOMMENDATION

We set **fair price of UCID at IDR 1,800** where it reflects PER'20E of 28.67x and PBV'20E of 2.34. Comparing the closing price of UCID on Monday (24/02) at the level of IDR 1,610, where there is still an upside potential of 11.8%, **we recommend Buy for UCID.**

Company Description:

PT Uni-Charm Indonesia Tbk (UCID) produces baby diapers, feminine care products and adult diapers. UCID is a market leader in Indonesia, dominating the markets by 49.8% in baby diapers segment, 42.1% in feminine care segment and 46% in adult diapers segment.

Stock Data

52-week Range (IDR) 1,550 | 2,030
 Mkt Cap (IDR tn) 6.63
 JCI Weight 0.09%
 Shares O/S (mn) 4,156
 YTD Change -14.7%

Share Holders:

Uni-Charm Corporation 59.2%
 Purinusa 20.8%
 Public 20.0%

Exhibit 01– Key Metrics

Key Metrics	FY2017	FY2018	FY2019E	FY2020E	FY2021E
Revenue (bn IDR)	7,278	8,351	8,740	9,506	10,342
COGS (bn IDR)	5,383	6,241	6,555	7,129	7,756
Gross Profit (bn IDR)	1,895	2,110	2,185	2,376	2,585
Operating Profit (bn IDR)	306	503	524	570	620
Net Income (bn IDR)	110	181	230	261	295
EPS (IDR)	26	44	55	63	71
Revenue Growth	6.83%	14.74%	4.67%	8.76%	8.79%
ROA	1.56%	2.52%	3.16%	3.50%	3.84%
ROE	4.24%	6.47%	7.72%	8.18%	8.60%

Source: Company & MCS Research

I. BUSINESS MODEL

I.1. Value Proposition

Market leader of Baby Diapers, Feminine Care and Adult Diapers in Indonesia...

PT Uni-Charm Indonesia (UCID.IJ) produces baby diapers, feminine care products and adult diapers. Based on Euromonitor, UCID is a market leader in Indonesia, dominating the markets by 49.8% in baby diapers segment, 42.1% in feminine care segment and 46% in adult diapers segment.

UCID is a part of Unicharm Corporation ('UC Japan'), manufacturer of various products ranging from baby and child care, adult care, cosmetic, pet care, to household goods that is based on Japan. UCID produces baby diapers "MamyPoko", feminine care "Charm", adult diapers "Lifree", and wet wipes "MamyPoko".

Product categories....

I.1.1. Baby Diapers

Baby Diapers....

The baby diaper segment consist of disposable baby diapers that are available in variances of tape-type diapers and pants-type diaper in numerous sizes and quality with functions that are adjusted to each step of babies and children development. The baby diaper products are marketed under the brand "MamyPoko." UCID produces a range of the baby care product from the ones with normal to premium quality for newborns to three-year-old children with different price segments.

Exhibit 02. Baby Diapers



Source: Company

I.1.2. Feminine Care

Feminine Care segment consist of sanitary napkins and panty liners. They are marketed under the brand “Charm.” UCID offers various options to meet the market ranging preferences, such as fragrance-free, fragranced and delicate products.

Feminine Care...

Exhibit 03. Feminine Care



Source: Company

I.1.3. Adult Diapers

The adult diapers segment consist of products ranging from tape-type diapers to pants-type diapers that are marketed under the brand “Lifree.”

Exhibit 04. Adult Diapers

Adult Diapers....



Source: Company

I.1.4. Wet Wipes

The wet wipes segment consist of wet wipes produced from soft, absorbent materials with non-woven fibre technology. The products are marketed under the brand “MamyPoko”.

Exhibit 05. Wet Wipes

Wet Wipes...



Source: Company

I.2. Production and Distribution

I.2.1. Production Facility

UCID operates 4 factories and 4 warehouses....

UCID has four production facility, two of them that are located in Karawang and the other two which are in Mojokerto. All the production facility has strategic locations that are in short distances with distributors and primary consumers. This contributes to the saving of transportation costs. While raw materials and finished goods are stored in different warehouses. UCID has four warehouses, two of them are located in Karawang and the other two in Mojokerto. UCID also uses three other warehouses that are owned by external third-parties, located in Karawang, Cikarang, and Surabaya.

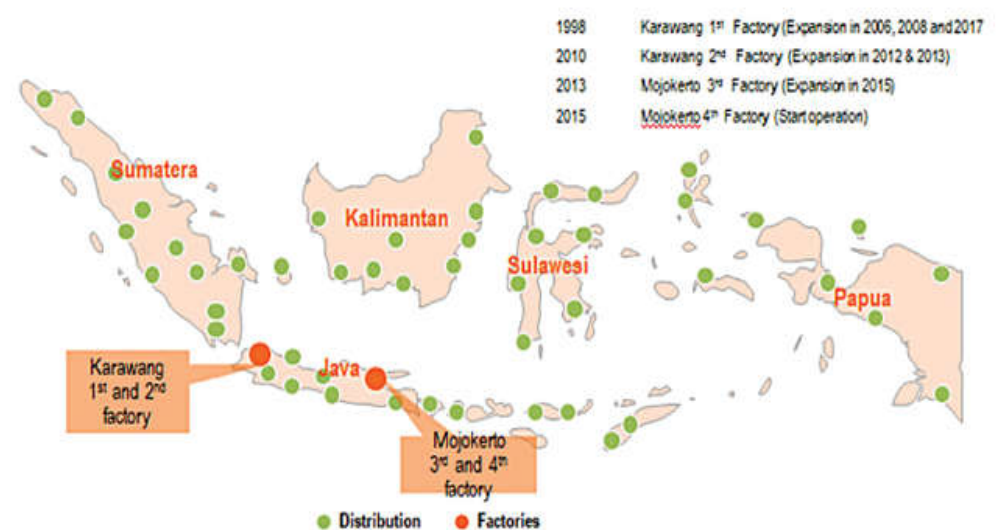
I.2.2. Distribution Line

Distribution network...

As of 30 June 2019, UCID has nation-scaled distribution line that consists of 108 third-party private distributors that are located in all Indonesia's five main islands, 98 cities, and 494 regions in Indonesia. The distribution network provides access to 380,000 direct and indirect sales outlets in Indonesia.

UCID's products are then sold to end customers through general trade channel such as traditional markets, kiosk, pop and mom stores and modern trade channel such as supermarkets, hypermarkets, convenience stores and minimarkets. UCID also uses other channel such as hospitals, clinics, pharmacies, and e-commerce sellers.

Exhibit 06. Production and Distribution



Source: Company

I.3. Key Resources

As of 30 June 2019, the average of built-in production capacity for all products (excepts wet baby wipes and non-woven fabric) reach about 4.406 million production units per annum with utility rate of 82%.

Exhibit 07. Production Facility

4 factories with production capacity of 4.406 million unit....

Source: Company

Three production facilities manufactured baby care products, and two facilities produced feminine care and adult diapers goods. UCID attempted to not rely on only one factory to manufacture its products, except wet baby wipes that were only produced in Mojokerto 2 factory.

Exhibit 08. Production Capacity

High utilization rate....

Source: Company

1.4. Key Partners

1.4.1. Suppliers

Supplier....

UCID imported raw materials from various countries to fulfil the production's needs. Certain main raw materials, such as pulp, are mostly imported from United States, Hong Kong, and Japan. Meanwhile, polymer materials are fully imported, directly or indirectly directly from various countries. Other certain raw materials, such as non-woven fabrics, films, and tissue are partly imported from Japan and Thailand. UCID has two suppliers that contribute more than 10% of COGS.

Exhibit 09. Major Supplier

Source: Company

1.4.2. Competitors

Competitor....

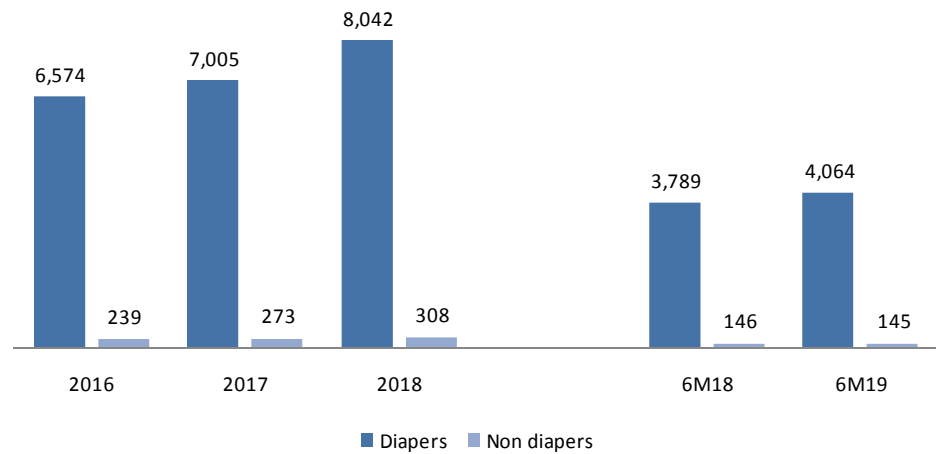
UCID compete with both local and international manufacturers of disposable sanitary products. The leading brand competitors in Indonesia for baby diapers segment are "Sweety" from PT Softex Indonesia, "Pampers" from Procter and Gamble, and "Merries" from Kao. The leading brand competitors for feminine care segment are "Laurier" from Kao, and "Softex" from PT Softex Indonesia. The leading brand competitor for adult diaper segment is "Confidence" from PT Softex Indonesia.

I.5. Revenue Streams

UCID's revenue has seen a CAGR of 10.7%, growing from IDR 6.8 trillion in 2016 to IDR 8.3 trillion in 2018. Diapers and non diapers segment revenue recorded CAGR of 10.6% and 13.6% respectively during 2016-2018 period.

Exhibit 10. Net Revenue (IDR bn)

CAGR of 10.7% from 2016 to 2018....

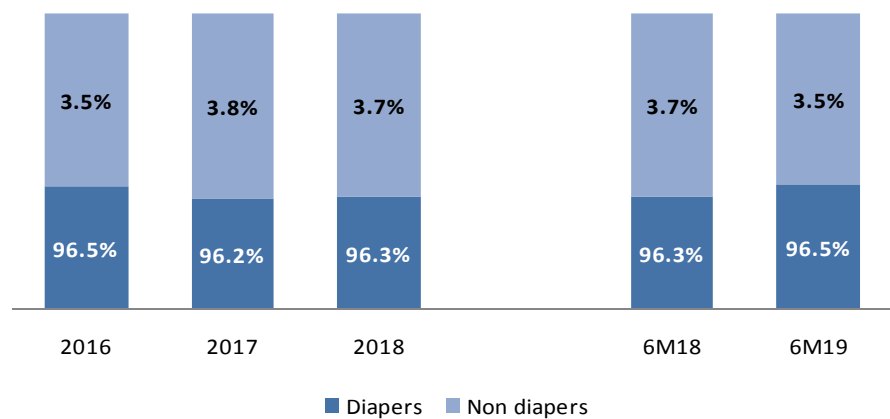


Source: Company

Diapers segment is the primary benefactor that contributed 96.5% of net revenue in six months 2019. Meanwhile, non diapers segment contributed 3.5%.

Exhibit 11. Net Revenue Breakdown

Net revenue breakdown...



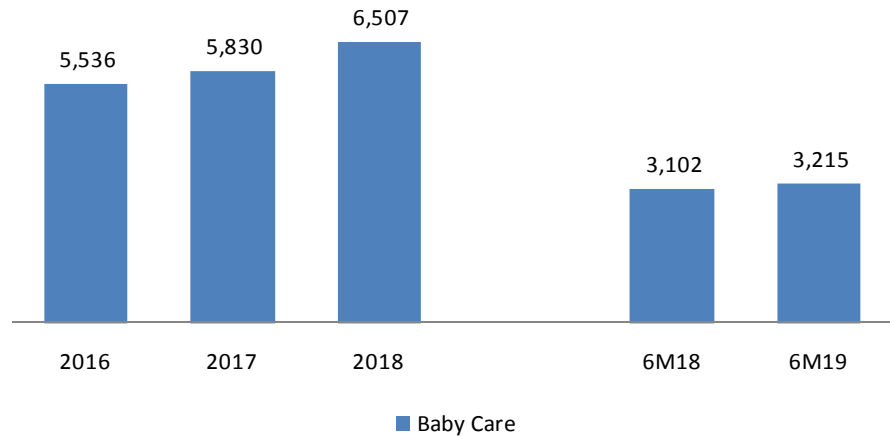
Source: Company

I.5.1. Baby Diapers Segment

UCID's baby diapers segment revenue has seen a CAGR of 8.4%, growing from IDR 5.5 trillion in 2016 to IDR 6.5 trillion in 2018. As of June 30, 2019, UCID has 170 SKUs for baby diapers segment, representing 76.4%, 77.9%, 80.1% respectively and 81.3% of revenue for the 6 months period ended on 30 June 2019 and in the years ended 31 December 2018, 2017 and 2016.

Exhibit 12. Baby Diapers Segement Revenue (IDR bn)

CAGR of 10.7% from 2016 to 2018....



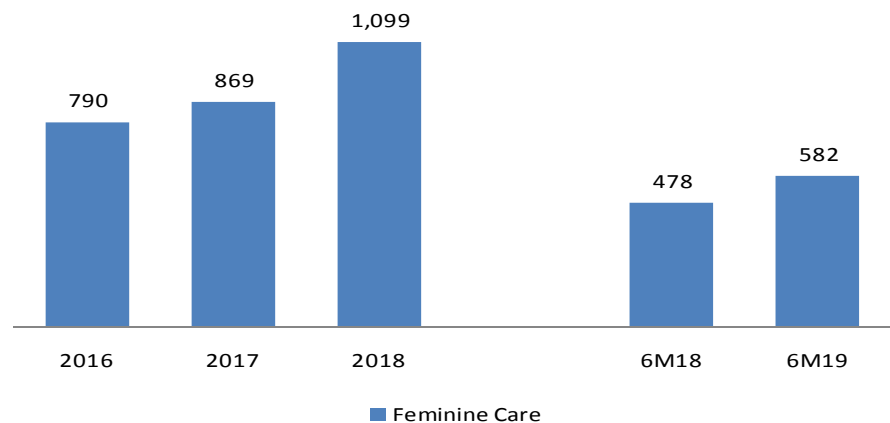
Source: Company

I.5.2. Feminine Care Segment

UCID's feminine care segment revenue has seen a CAGR of 17.9%, growing from IDR 790 billion in 2016 to IDR 1.1 trillion in 2018. As of June 30, 2019, UCID had 83 SKUs for feminine care products, which represent 13.8%, 13.2%, 11.9%, and respectively 11.6% of the revenue for the 6 months period ended on 30 June 2019 and in the years ended 31 December 2018, 2017 and 2016.

Exhibit 13. Feminine Care Segement Revenue (IDR bn)

CAGR of 17.9% from 2016 to 2018....



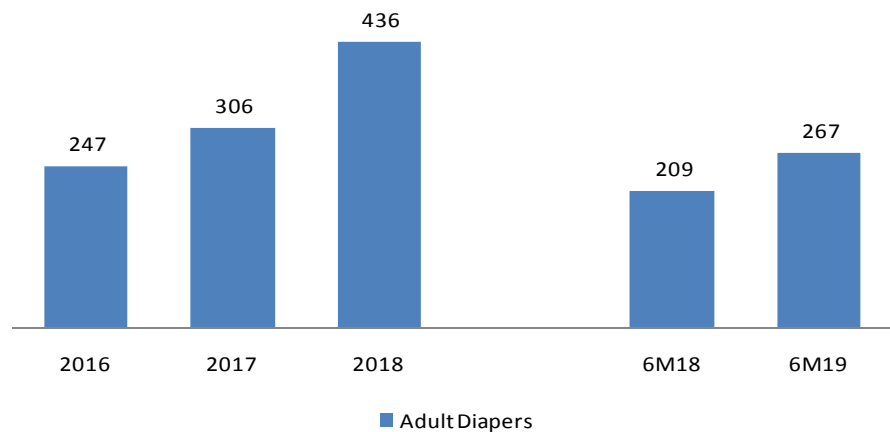
Source: Company

I.5.3. Adult Diapers Segment

UCID's adult diapers segment revenue has seen a CAGR of 32.8%, growing from IDR 247 billion in 2016 to IDR 436 billion in 2018. As of June 30 2019, UCID has 45 SKUs for adult adult diaper products, respectively representing 6.3%, 5.2%, 4.2% and 3.6% of revenue for the 6 period the month ending June 30, 2019 and the years ending date December 31, 2018, 2017 and 2016.

CAGR of 32.8% from 2016 to 2018....

Exhibit 14. Adult Diapers Segement Revenue (IDR bn)



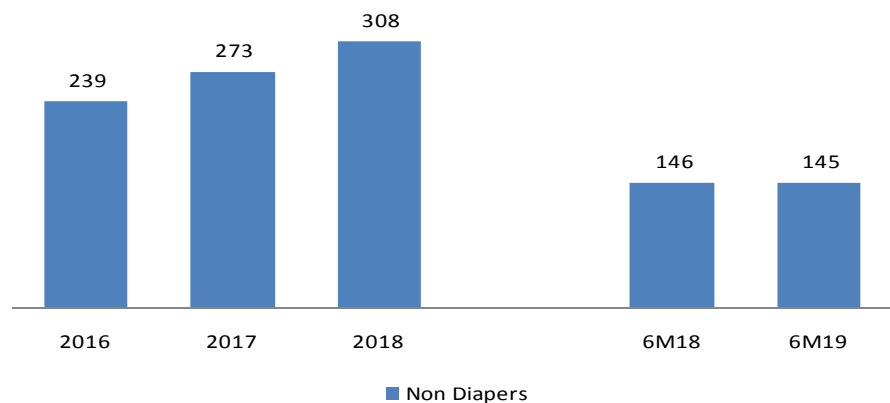
Source: Company

I.5.4. Non Diapers Segment

UCID's non diapers revenue has seen a CAGR of 13.6%, growing from IDR 308 billion in 2016 to IDR 308 billion in 2018.

CAGR of 13.6% from 2016 to 2018....

Exhibit 15. Non Diapers Segment Revenue (IDR bn)



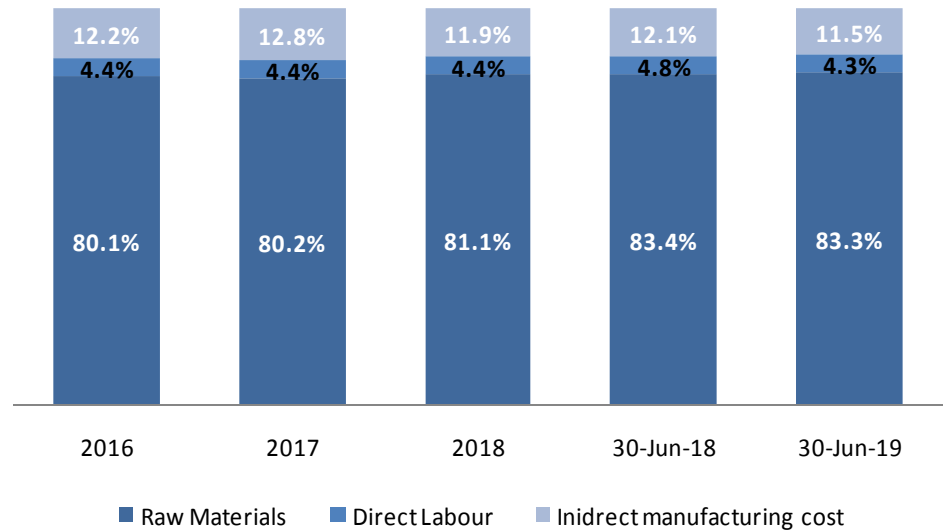
Source: Company

I.6. Cost Structure

Raw materials mainly consists of pulp, polymer, non-woven fabrics and packaging materials, consisting of cardboard, polytube, film and tissue. Cost of raw materials contributed a significant proportion of COGS.

Raw material cost is significant....

Exhibit 16. Production Cost Breakdown



Source: Company

II. INVESTMENT THESIS

II.1. Market Leader in a Growing Market

UCID is a market leader in Indonesia in baby and feminine care products, dominating the markets by 49.8% in baby diapers segment, 42.1% in feminine care segment and 46% in adult diapers segment.

Exhibit 17. Market Share

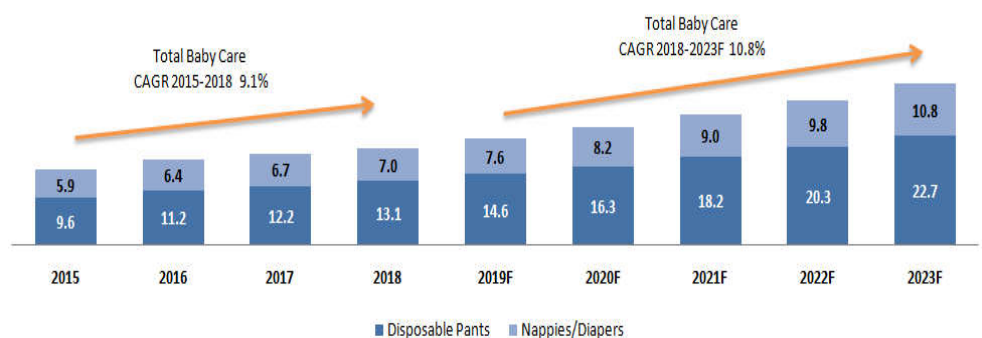
Market leader....

Source: Euromonitor International Passport

The market for disposable hygiene products in Indonesia is still led by baby care products with market share 75% in 2018. During the period of 2015-2018, the retail sales of baby care product increased by 9.1% annually, reaching IDR 20.1 trillion in 2018. In this category, disposable pants are more often purchased in Indonesia because of its ease of use compared to nappies/diapers. Therefore, this sub-category contributed more than 65% of market value in 2018.

Exhibit 18. Baby Care Market in Indonesia (IDR tn)

Baby care segment grew 9.1% annually in 2015-2018....

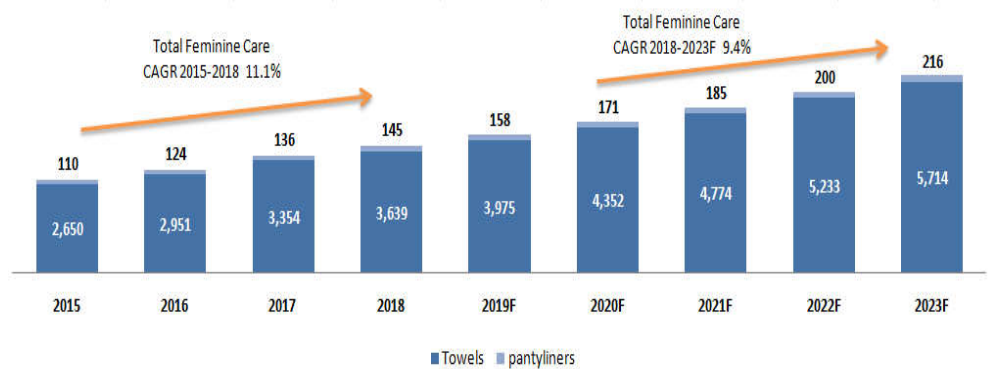


Source: Euromonitor International Passport

Feminine care products segment registered a CAGR of 11.1% from 2015 to 2018, reaching market value of IDR 3.8 trillion in 2018. The segment is estimated to grow 9.4% annually during 2018 to 2023E driven by factors such as rise in awareness and innovations in product design. In addition, increase in the demand for sanitized products in the rural area trigger the market growth. Based on type, feminine care market is segmented as panty liner and sanitary napkin. Sanitary napkin account for a greater market share owing to the necessity.

Exhibit 19. Feminine Care Market in Indonesia (IDR tn)

Feminine care segment grew 11.1% annually in 2015-2018....

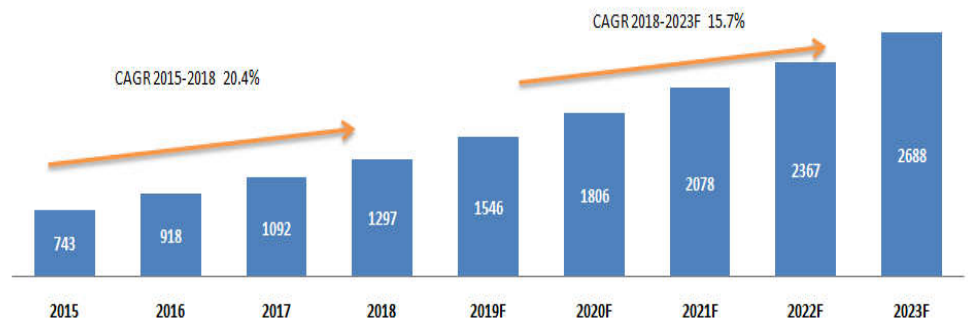


Source: Euromonitor International Passport

Adult diaper products segment grew 20.4% annually from 2015 to 2018 driven by rise in number of aged population. The segment is estimated to grow 15.7% annually from 2018 to 2023F driven by the increase in number of aging population and rise in rate of urbanization. Adult diapers are designed for people suffering from severe conditions such as incontinence, mobility impairment, diarrhea, and others.

Exhibit 20. Adult Diapers Market in Indonesia (IDR tn)

Adult diapers segment grew 20.4% annually in 2015-2018....



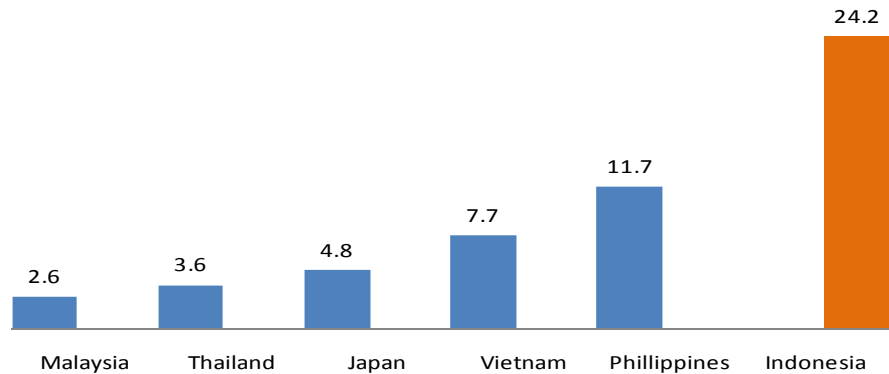
Source: Euromonitor International Passport

II.1. Huge Population

With over 267 million people, Indonesia is the world fourth most populous country. In 2018, there are more than 2.4 million population around the age of 0-4 years old which is a large potential market for baby diapers products.

Exhibit 21. Number of Toddlers and Infants (mn)

Huge potential market....

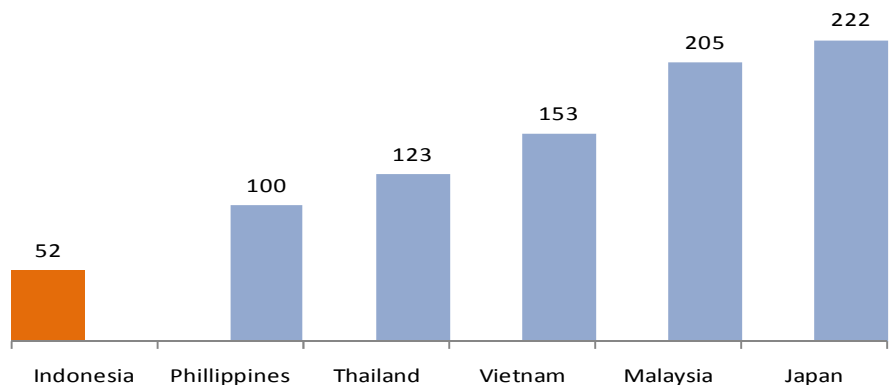


Source: Euromonitor International Passport

However, the country has one of the lowest consumption per capita rate of baby diapers products on the continent, using only 0.8 diapers per day (282 diapers/ year). Families in the rural area mostly opt to use washable diapers made of fabrics instead of disposable goods as they are lower in cost. With rising purchasing power and growing awareness for health and hygiene, baby care market is expected to flourish in the coming years.

Meanwhile in 2018, women around the age of 12-54 years old represented 32% of the total population, about 85.5 million in numbers. The increasing consumption of sanitary napkins products is driven by several factors, such as: more access towards high education for women, growth in the numbers of working women, as well as the increase in women's income level.

Exhibit 22. Feminine Care Product Consumption per Capita in 2018



Source: Euromonitor International Passport

III. FINANCIAL PROJECTIONS

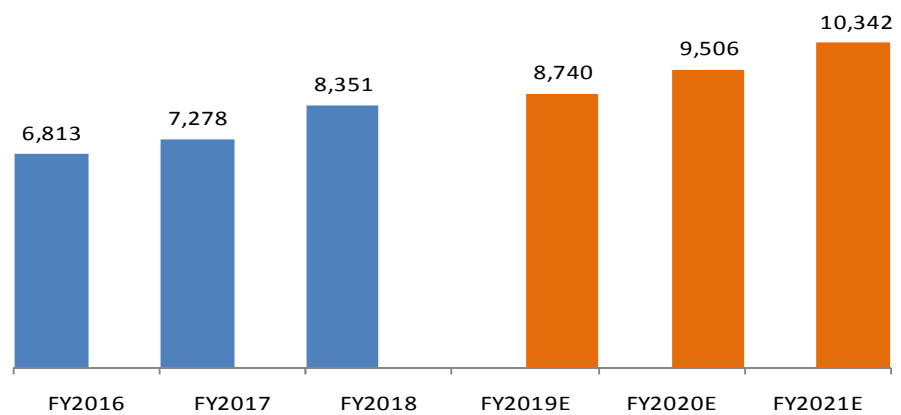
III.1. Profit & Loss

Revenue to grow CAGR 8.7% between 2016-2021E

UCID's net sales increased by +7% yoy to IDR 4.21 trillion in 1H19 driven by volume growth and ASP increase. Baby diapers segment recorded sales of IDR 3.2 trillion in 1H19, an increase of +3.6% YoY, supported by promotion and ASP increase. Feminine care segment booked sales of IDR 581.8 billion, an increase of +21.7% and adult diapers segment's sales increased +27.7% to IDR 266.9 billion.

We project revenue in 2019 to reach IDR 8.7 trillion. While for 2020 we project revenue to reach IDR 9.5 trillion. Between 2016 and 2021, based on our projections revenue can grow CAGR 8.7%.

Exhibit 23. Net Revenue (IDR bn)

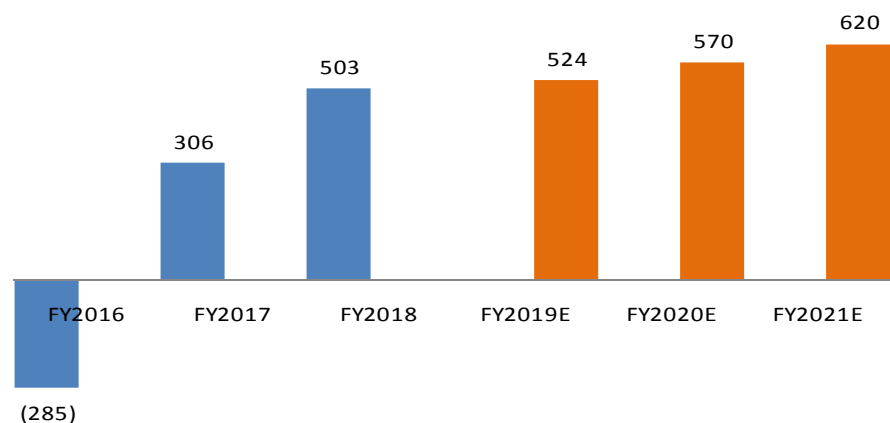


Source : Company & MCS Research

We project Operating Income in 2019E to reach IDR 524 billion. While in 2020E we project operating income to reach IDR 570 billion.

Exhibit 24. Operating Income (IDR bn)

Operating Income estimated to reach IDR 570 billion in 2020....

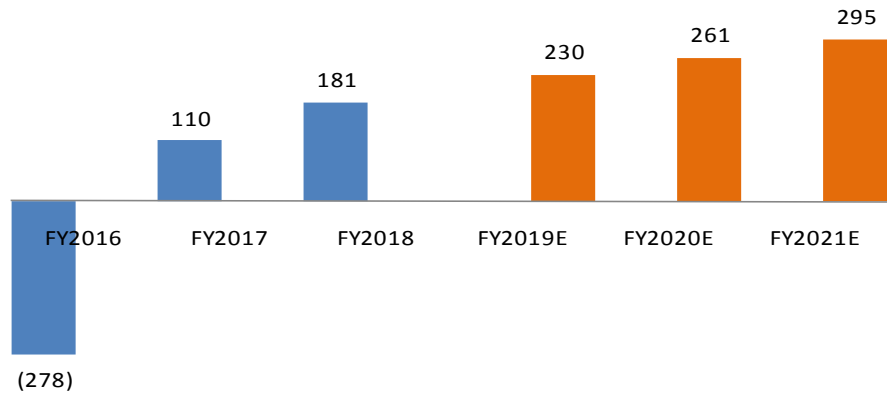


Source : Company & MCS Research

We project Net Income in 2019E to reach IDR 524 billion. While in 2020E we project net income to reach IDR 570 billion.

Exhibit 25. Net Income (IDR bn)

Net Income estimated to reach IDR 570 billion in 2020....



Source : Company & MCS Research

IV. VALUATION & RECOMMENDATION

IV.1. Valuation

In valuing UCID, we use relative valuation method. In this report we set a fair value of UCID of IDR 1,800 per share, where it reflects PER'20E of 28.67x and PBV'20E of 2.34.

UCID Fair Value: IDR 1,700

IV.2. Recommendation

Comparing the closing price of UCID on Monday (24/02) at the level of IDR 1,610, where there is still an upside potential of 11.8%, **we recommend Buy for UCID.**

Recommendation Neutral

Following is the classification of recommendations that we issue :

Recommendation	Potential Return
Strong Buy	>40%
Buy	10% to 39%
Neutral	0% to 9%
Reduce	<0%
No Rating	No Coverage

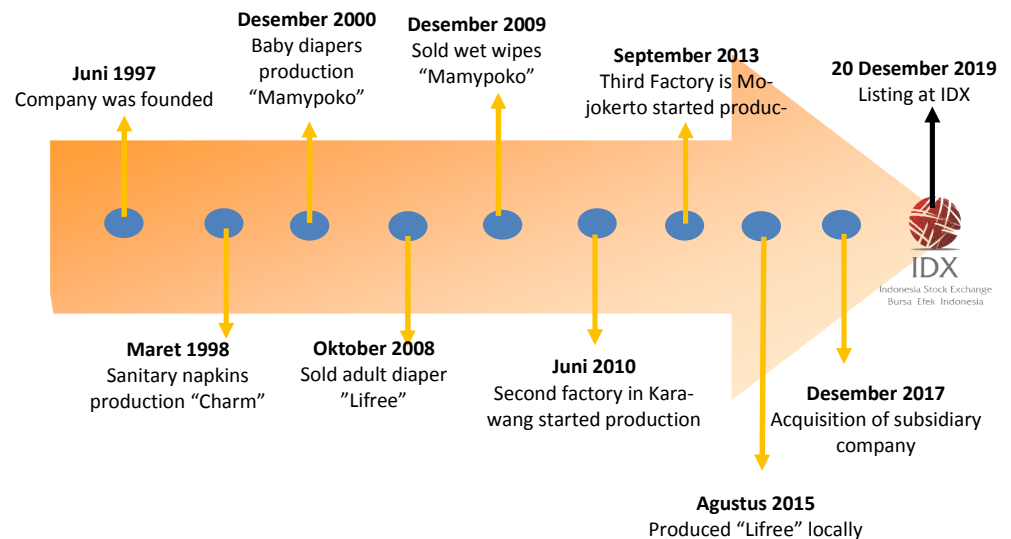
V. ABOUT THE COMPANY

V.1. Brief History

Founded in 1997, Listed in 2019

The company was founded in 1997 with 74% of its ownership belong to Japan's Uni-Charm and the remaining 26% to Purinusa. The company started the production of sanitary napkins in the year 1998, under the brand "Charm", and its baby diapers products later in 2000 under the brand "Mamypoko". The company launched the adult diapers products under the brand "LiFree" in 2008 and wet wipes products under the brand "Mamypoko" in 2009.

Exhibit 26. Company's Milestone



Source : Company

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