

PT TRISULA INTERNATIONAL TBK
BUY

We maintained our BUY rating with higher Target Price of IDR 400, assuming full dilution of warrants. Key catalysts include the acquisition of new brand from another distributor in Indonesia which might result in multiple expansion for the retail segment and a boost in future revenue derived from retail, declining prices of raw materials and progress from the fabric efficiency program that the firm is currently undertaking.

1H2012 results came out in-line with our expectation as normally first half results tend to be weak due to lack of holiday seasons and 'special design' projects. For the garment division, sales in the second half of the year is usually characterized by stronger profitability due to higher margin derived from orders for Autumn/Winter Collection (A/W collections tend to be more elaborate with more 'special design' projects requested by designer houses as compared to Spring/Summer collections. 'Special Design' projects include the use of wool instead of polyester/nylon, special lining and handlings of materials in which TRIS charges higher ASP to compensate it for more laborious technique required).

For the retail side, revenue growth is highly dependent on number of holiday seasons and second half has 2 holiday seasons (Hari Raya Idul Fitri and Christmas/New Year Sales) while first half has only one holiday season (Chinese New Year). Retail firms usually leverage on these holiday seasons to boost their revenues and at the same time clear their old stocks for new inventory. They hold End of Year Sales at their respective Points of Sales (or in collaboration with department stores) or they rent a conference room at office building to hold an event/bazaar to sell their products (Trisula recently held a fashion bazaar at Plaza Bapindo weeks before Hari Raya Idul Fitri celebration with sales revenue reaching IDR 1bn per day and as of publication, JOBB is still having 50% discounts on selected products in all department stores till end of August 2012). Sales and bazaars tend to lower the margin but it is compensated by the volume.

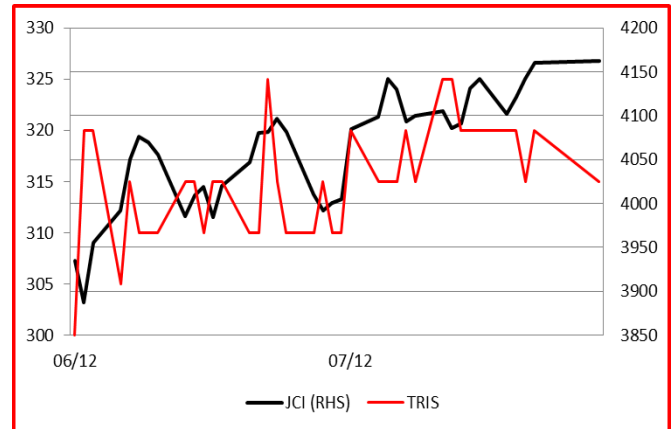
Results Summary

Trisula booked a 1.2% growth in revenue mainly driven by retail division (+32% yoy) while garment division reported slightly negative growth (-2.5% yoy) due to slowdown of exports to European countries and the United States and real estate/property grew by 2.5%. The current ongoing crisis in the Eurozone and the United States has dented consumer confidence and retail spending prompting many designers/retailers to reduce orders as they cope with declining sales revenue and to minimize inventory. However, TRIS, through TRIMAS (a subsidiary specialized in Japanese markets), managed to boost its exports sale to Japan by 45% with higher Average Selling price (ASP) thus lifting profitability for this division.

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Stock Data

Sector	Retail/Garment Manufacturing
Price (24 August 2012)	IDR 315
12-month Target Price	IDR 400
12-month Rating	BUY
Ticker	TRIS.IJ (BBG); TRIS.JK (RIC)
Market Cap	IDR315bn
Shares Outstanding	1,000 mn
Free Float	300 mn
Warrants Issued	75 mn
Strike Price	IDR 300
TRIS Performance against JCI Index	



Source: Bloomberg

	2012E	2013F	2014F	2015F	2016F
Revenue	539,373	654,535	765,392	880,849	1,016,683
yoy growth	14.16%	21.35%	16.94%	15.08%	15.42%
EBITDA	71,110	93,905	106,027	118,893	135,506
EBITDA Margin	13.18%	14.35%	13.85%	13.50%	13.33%
Net Profit	32,722	43,397	48,886	54,713	63,475
yoy growth	n/a	6.63%	6.39%	6.21%	6.24%
P/E	13.14	9.91	8.80	7.99	6.89
EV/EBITDA	6.15	4.66	4.12	3.68	3.23
ROA	9.8%	10.8%	9.8%	9.1%	9.1%
ROE	13.4%	14.8%	13.9%	12.1%	12.1%
Net Debt/Equity	net cash	3.3%	net cash	net cash	net cash

 Source: Bloomberg, Company data, Sinarmas Sekuritas Research
 In IDR mn except pershare data

Ownership rate

PT Karya Dwimanunggal Sejahtera	28%
PT Trisula Insan Tiara	42%
Retail/Others	30%

Source: Bloomberg (as of 23 August 2012)

This is not classified as an objective report.
Please see the disclosure at page 5.

Retail Division

TRIS reported same store growth of **54% for Jack Nicklaus** and **35% for JOBB** yoy due to combination of increase in sales volume and price points. As of June 2012, the firm has opened a total of 29 POS to 194 POS with 2 new directly-owned stores (DOS) coming at Kota Kasablanka Mall (for JOBB and Jack Nicklaus). The firm further plans to open more DOS at Mall Alam Sutera, Mal Taman Anggrek, Mal Exion at Kemang Village and Mal Hartono at Solo before the end of the year. The opening of new stores at strategic locations will have positive impacts on revenue growth and with combination of higher than expected first half growth, we increase our revenue forecast for retail division to 35% from our previous estimate of 25%.

Margin Expansion in the Garment Division

Garment division experienced significant margin expansion despite slowing revenue growth. TRIS, through Trimas, boosted its sale to Japanese markets (+45% yoy) with higher ASP as compared to TGM (focus on EU and the US markets). Sale to Japan now accounts for 42% of total exports sale (vs 28% in 1H2011; 30% in 12M2011). Gross margin increased to 17.2% (+566bps vs 1H2011) with EBIT margin rose to 8.1% (+ 454bps yoy) and net margin increased to 5.8% (+318bps yoy). We expect this margin to be sustainable and with recovering EU and US markets in the future, we expect volume sales to grow with ASP rising in tandem thereby boosting margin further up.

Valuations

We derived our target price of IDR 410 based on Sum-of-the-Parts (SOTP) valuation methodology. We assign P/E multiples of 20 for retails, 13 for garment division (excluding Trisco), 5 for property division and 17 for Trisco. Trisco deserved higher valuation multiples due to its higher margin business, more specialized and unique services offered to its clients. We double checked our valuations via Discounted Cash Flow Methodology (WACC 11.4%, terminal growth rate of 3.5%) and we arrived at valuations of IDR 433 per share (assumed full dilution of warrants). The target price of IDR 400 represents an upside potential of 27% and 2012P/E and 2013P/E of 13.1 and 9.9, respectively.

Key Catalysts

Key Catalysts include: (1) addition of new brand through joint-venture which might result in P/E multiples expansion for retail division and if it is managed well, we expect further revenue boost and overall margin expansion. ; (2) Higher ASP is sustainable and the firm is able to secure more contracts with higher ASP through their extensive networks with designer brands thereby enhancing profitability and revenue growth; (3) Contribution from Trisco will be felt in the 2nd Half of the year; (4) Expansions in the retail segment

Key Risks

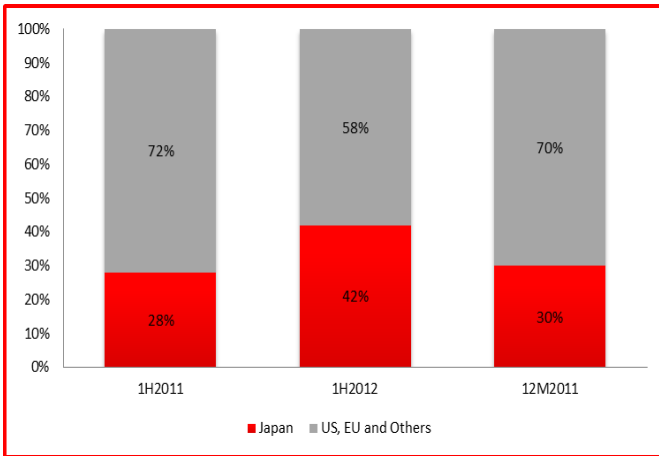
Key risks include: (1) Deterioration of macroeconomic conditions and EU crisis affecting garment export sales to EU, the US and possibly Japan; (2) Rising raw materials, especially those derived from crude oils such as polyester and nylon, will lower margin for retail segment to large extent and to lesser extent, garment division; (3) Aggressive growth which is not accompanied by KPI monitoring of each POS might result in significant loss of investment.

Table 1: SOTP Valuations Summary

	P/E Multiples	2012 Net Income	Ownership	Total	Rationales
Retail	20	4,523	100%	90,458	MAPI is currently trading at P/E12 of 25. With lesser brands under the firm, we expect the firm to trade at lower P/E than MAPI
Garment (ex Trisco)	13	14,462	95%	178,600	PBRX is currently trading at trailing P/E of around 35.
Property	5	764	98%	3,744	
Trisco	17	25,472	50%	216,511	Trisco deserved higher valuation due to its customized and unique services offered to clients and potential growth opportunity from overseas business
EV				489,313	
Less Net debt				52,141	
Net EV				437,172	
Price per share				407	Diluted figures. Undiluted price per share is IDR 437

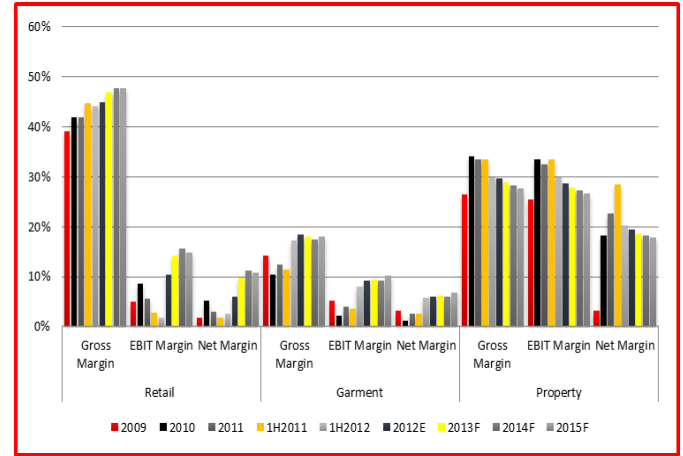
Source: Company data, Sinarmas Research Estimate; in IDR mn except per share data.

Chart 1: Export Sales by Destination



Source: Company data

Chart 2: Margin Comparison Across Divisions



Source: Company data, Sinarmas Research Estimate

Table 2: Income Statement Summary (IDR mn)

	2009	2010	2011	1H2011	1H2012	2012F	2013F	2014F	2015F	2016F	2017F
Revenue	177,611	230,780	288,199	139,112	140,778	539,373	654,535	765,392	880,849	1,016,683	1,158,031
Cost of Revenue	141,899	192,542	235,839	115,990	108,745	401,869	477,380	562,612	650,683	751,734	856,861
Gross Profit	35,712	38,238	52,361	23,122	32,033	137,505	177,155	202,781	230,166	264,948	301,170
SG&A	25,504	29,060	38,469	17,699	21,631	73,820	91,048	105,699	121,458	141,016	161,281
EBIT	10,208	9,177	13,891	5,423	10,402	63,685	86,107	97,082	108,709	123,933	139,890
Other non-operating income	181	310	302	958	405	0	0	0	0	0	0
net interest income	-3,211	-2,457	-3,034	-1,218	-1,914	-3,074	-4,928	-4,847	-5,759	-6,250	-7,619
Profit Before Tax	7,179	7,031	11,159	5,163	8,893	60,611	81,179	92,235	102,950	117,682	132,270
Taxation	1,882	1,826	2,790	1,227	2,409	15,153	20,295	23,059	25,737	29,421	33,068
Profit After Tax	5,297	5,204	8,370	3,936	6,484	45,458	60,884	69,177	77,212	88,262	99,203
Minorities	235	126	314	161	340	12,736	17,488	20,291	22,500	24,787	27,250
Net Income	5,062	5,079	8,056	3,774	6,144	32,722	43,397	48,886	54,713	63,475	71,952
Gross Margin	20.1%	16.6%	18.2%	16.6%	22.8%	25.5%	27.1%	26.5%	26.1%	26.1%	26.0%
EBITDA Margin	8.4%	5.9%	6.4%	5.4%	8.6%	13.2%	14.3%	13.9%	13.5%	13.3%	13.2%
EBIT Margin	5.7%	4.0%	4.8%	3.9%	7.4%	11.8%	13.2%	12.7%	12.3%	12.2%	12.1%
Net Margin	2.8%	2.2%	2.8%	2.7%	4.4%	6.1%	6.6%	6.4%	6.2%	6.2%	6.2%
Revenue Growth		29.9%	24.9%		1.2%	87.2%	21.4%	16.9%	15.1%	15.4%	13.9%
EBITDA Growth		-7.9%	34.6%		63.1%	284.9%	32.1%	12.9%	12.1%	14.0%	12.9%
EBIT Growth		-10.1%	51.4%		91.8%	358.4%	35.2%	12.7%	12.0%	14.0%	12.9%
Net Profit Growth		0.3%	58.6%		62.8%	306.2%	32.6%	12.6%	11.9%	16.0%	13.4%

Source: Company data, Sinarmas Research Estimate

Fiscal Year End	PT Trisula International Tbk			Trisco			Post-Acquisition of Trisco					
	2009	2010	2011	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	2017F
Income Statement (IDR mn)												
Sales Revenue	177,611	230,780	288,199	119,546	152,668	184,255	539,373	654,535	765,392	880,849	1,016,683	1,158,031
Gross Profit	35,712	38,238	52,361	24,473	31,478	55,520	137,505	177,155	202,781	230,166	264,948	301,170
Operating Income	10,208	9,177	13,891	11,013	14,158	32,649	63,685	86,107	97,082	108,709	123,933	139,890
Depreciation & Amortization	4,698	4,545	4,585	3,280	3,174	3,284	7,425	7,798	8,945	10,184	11,573	13,122
EBITDA	14,906	13,722	18,476	14,293	17,332	35,933	71,110	93,905	106,027	118,893	135,506	153,011
Other non-operating income	181	310	302	1,576	2,736	-688	0	0	0	0	0	0
Net Interest Income (expense)	-3,211	-2,457	-3,034	-906	-672	-656	-3,074	-4,928	-4,847	-5,759	-6,250	-7,619
Profit before tax	7,179	7,031	11,159	11,683	16,223	31,305	60,611	81,179	92,235	102,950	117,682	132,270
Tax expenses	1,882	1,826	2,790	3,197	3,999	6,407	15,153	20,295	23,059	25,737	29,421	33,068
Profit after tax	5,297	5,204	8,370	8,486	12,223	24,898	45,458	60,884	69,177	77,212	88,262	99,203
Minority Interests	235	126	314	0	0	0	12,736	17,488	20,291	22,500	24,787	27,250
Net Profit	5,062	5,079	8,056	8,486	12,223	24,898	32,722	43,397	48,886	54,713	63,475	71,952
Cash Flow (IDR mn)												
Operating Cash Flow	17,617	-26,631	-3,865	6,723	9,183	17,634	10,646	10,941	85,295	51,587	96,505	74,009
Capex	636	3,749	5,806	3,750	1,871	2,305	10,090	12,177	14,120	15,884	17,903	20,052
Property Investment	128	0	260	0	0	0	146	154	269	282	237	187
Free Cash Flow	16,854	-30,380	-9,930	2,973	7,312	15,329	409	-1,390	70,906	35,420	78,365	53,770
Investing Cash Flow	-763	-3,748	-5,141	-3,750	-1,871	390	-47,143	-23,912	-47,474	-31,009	-35,064	-39,424
Financing Cash Flow	-16,410	35,794	9,262	-4,930	-4,639	-13,867	72,306	635	23,566	4,318	-36	5,792
Balance Sheet (IDR mn)												
Cash & cash equivalents	2,391	7,806	7,671	2,697	5,370	9,527	55,800	46,884	132,321	162,022	229,145	276,170
Account Receivables and other receivables	21,729	33,217	38,790	12,956	15,095	13,316	60,069	76,774	83,829	102,598	114,444	134,259
Inventories	31,250	51,112	64,906	17,602	23,800	26,684	108,045	161,299	160,527	203,947	215,116	260,981
Other Current assets	4,935	6,855	6,103	3,596	4,869	3,785	14,443	17,992	20,821	23,810	27,597	31,435
Net fixed assets	26,507	27,094	29,912	20,196	19,476	19,289	51,866	56,245	61,420	67,119	73,450	80,380
Other Non-Current Assets	19,829	18,201	17,863	643	781	378	44,672	43,580	38,219	40,524	40,860	40,153
Total Assets	106,640	144,284	165,246	57,691	69,390	72,979	334,896	402,775	497,137	600,020	700,612	823,378
Short term Liabilities	57,908	65,150	76,958	27,026	32,465	18,693	85,134	101,873	118,497	142,667	165,712	196,569
Long term Liabilities	1,659	2,675	3,966	1,385	2,057	2,280	5,516	7,073	39,567	23,532	35,175	53,642
Total Liabilities	59,566	67,825	80,924	28,411	34,523	20,972	90,651	108,946	158,065	166,199	200,887	250,212
Shareholders' Equity	44,881	74,090	81,889	29,280	34,867	52,006	204,760	242,609	286,157	371,937	426,050	486,073
Minority Interest	2,192	2,369	2,433	0	0	0	39,485	51,220	64,574	79,699	96,860	116,232
Total Equity & Liabilities	106,640	144,284	165,246	57,691	69,390	72,979	334,896	402,775	508,795	617,835	723,797	852,516
Key Ratio												
Revenue Growth (%)	n/a	29.94%	23.21%	n/a	27.71%	20.69%	14.16%	21.35%	16.94%	15.08%	15.42%	13.90%
EPS Growth (%)	n/a	2.20%	83.24%	n/a	44.04%	103.69%	59.58%	32.62%	12.65%	11.92%	16.01%	13.36%
EBITDA Margin (%)	8.39%	5.95%	6.41%	11.96%	11.35%	19.50%	13.18%	14.35%	13.85%	13.50%	13.33%	13.21%
Payout Ratio (%)	4.57%	29.53%	0.00%	12.23%	54.93%	8.52%	16.79%	22.74%	22.67%	22.67%	22.77%	22.82%
ROE (%)	11.28%	6.85%	9.84%	28.98%	35.06%	47.87%	13.40%	14.77%	13.94%	12.11%	12.14%	11.95%
Quick Ratio (x)	0.42	0.63	0.60	0.58	0.63	1.22	1.36	1.21	1.82	1.85	2.07	2.09
Debt/Equity (%)	0.80	0.47	0.37	0.33	0.28	net cash	net cash	0.03	net cash	net cash	net cash	net cash

Proforma Adjusted

Source: Company data, Sinar Mas Research Estimate

Appendix—Plaza Bapindo Sales

Queues in Cashiers



Crowd on the first day of sale



Crowd in JOBB stand



Crowd in Jack Nicklaus stand



Crowd on the last day of sale



Disclosure

Sinarmas Sekuritas has acted, as lead manager in a public offering of equity security for PT Trisula International Tbk.

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