Reliance Sekuritas Indonesia

PT Sri Rejeki Isman, Tbk (SRIL)

Initiation Report: August 15th, 2017.

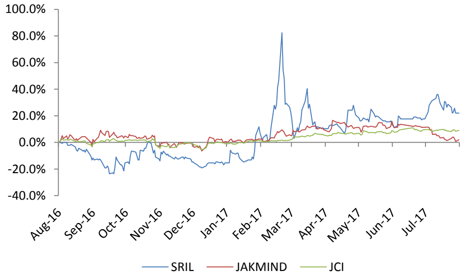
BUY

Current Price	**332**
2017E P/E	7.5
Target Price	**580**
2017E P/E	13.1

Textile & Apparel	
Bloomberg Ticker	SRIL.IJ
Reuters Ticker	SRIL.JK
52 week High	496
52 week Low	204
Market Cap *(Rp tn)*	6.17
Shares Outstanding *(millions)*	18,592
Daily avg vol *('000 shares)*	254,511

Major Shareholders (%):	
PT Huddleston Indonesia	56.00
Public	44.00

Relative performance vs JCI JKSE & miscellaneous inddustries index:



PT Sri Rejeki Isman Tbk is one of the biggest integrated textile manufacturer in South East Asia. Its products are yarns, greige, fabric, and garment which are sold in domestic and international markets.

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Excecutive Summary

As a leading textile exporter with integrated product lines, SRIL is in a good position to take advantage of other low wage textile companies from China and Bangladesh that will be hard pressed to maintain its low wage labor advantage. This development will have positive impact on SRIL income stream especially in Asia market. In addition, Indonesian-European trade deal would benefit SRIL exports to European countries where tariffs difference have made Indonesian textile exporters in an unequal footings with its peers such as Vietnam that has been given a much more favorable tariffs. Given our medium term positive outlook on SRIL's value, we initiate coverage with a **BUY** recommendation.

We highlight four investment themes which give support to our stock call:

1. **Pursuing growth in international markets**. It is a good possibility that SRIL would strenghthen its position in Asian and European markets to pursue growth which has met challenges in domestic and US markets.

2. **Demand for high quality products**. Customers in developed world are more attracted to quality products than just cheap products. SRIL as the leading textile exporting company is in a good position to take advantage of its new machineries arsenals to capture demands from its competitors who still rely on old machineries.

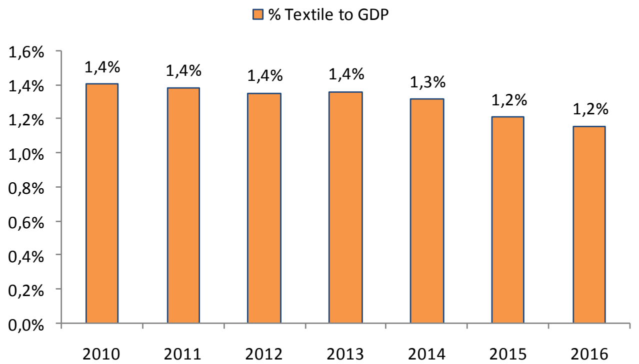
3. **Low wage competitors' constraints**. China and Bangladesh would be hard pressed to maintain their low wage advantage, while Vietnam textile companies are constrained financially to expand beyond regional market as it has shallow capital market. The weakening labor cost advantage of these competitors would be more exploitable when Indonesian-European trade deal is settled, possibly next year. The expected tariff reduction would put Indonesian textile exporters in a good position to capture European market.

4. **Lower and protected raw material cost.** With newly built rayon factory in full operation, imported raw materials dependency is estimated to be reduced by 30%, hence potentially providing SRIL a better gross margin and more insulation to foreign exchange fluctuations.

Considering the mentioned major themes, we estimate SRIL value to be IDR 580 based on DCF & EVA calculations and initiate our stock call to **BUY** recommendation. We expect accelerating export growth in the next few years would support our target price. Our target price implies PE2017E multiple of 13.1.

As the first modern manufacturing industry in Indonesia, textile industry is a significant source of living to its inhabitants, employing 2.69 million people or employing 17% people in manufacturing industries. However, textile contribution to GDP has been declining since 2013, making its contribution to the economy less especially in 2015..

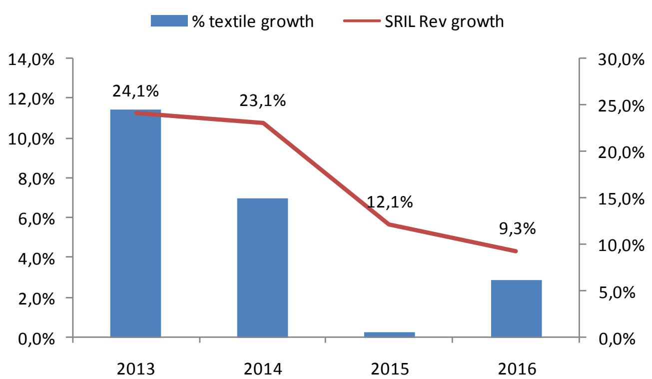
Textile contribution to economy



Source: BPPS

..which impact was vividly depicted by declining textile revenue growth to almost 0%, a year when slump in SRIL revenue growth was especially felt.

Indonesian textile growth

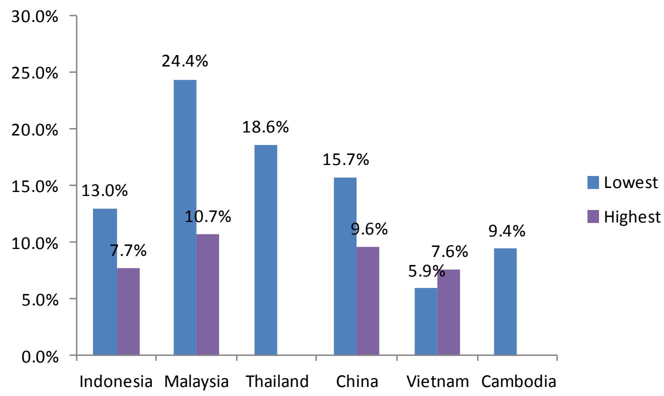


Source: BPPS, Company

This decline in revenue growth occured when export growth on global scale slowed down as well. WTO reported it was caused by falling export price and trade volume as economic slowdown in China and Brazil brought oil and other commodities lower, while divergence in developed countries monetary policies brought stronger currencies fluctuation that worsen international trade environment.

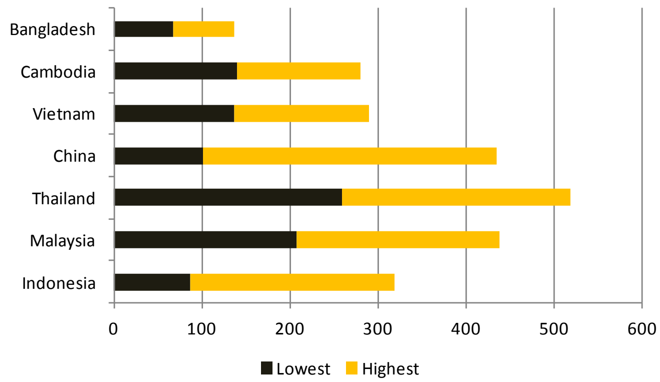
Other major challenge faced in this industry aside from global demand was rising minimum wage growth. However, despite the wage growth, Indonesia is still competitive compared to its peers.

Monthly wage growth 2016 vs 2015



Source: www.shenglufashion.wordpress.com

Monthly minimum wage (USD)



Source: Company

Indonesia wage growth however, has been relatively lower compared to its peers in recent years after the introduction of a new regulation that gives objective wage increase based on inflation. The biggest increase in wage growth occurred in the lowest paid labor as is the case for other Asian countries. However, wage growth impact on the company profitability should not be overstated. As we will later demonstrate, labor wage growth is not a dominant factor for the company's margin.

Another major issue has to do with raw materials procurement. Given its tropical climate, Indonesia is incapable of producing cotton, one of main textile raw materials. Consequently, Indonesia has to import most of its cotton needs, primarily from US. Therefore, a trade deal with US not only gives benefit of product demand, but also a cheaper raw materials.

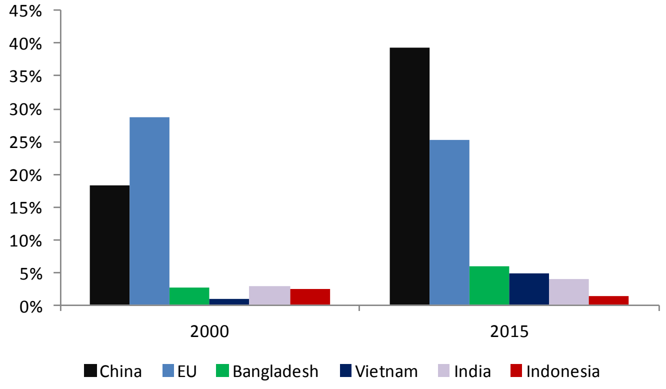
Absent of this deal, Indonesian textile companies have to find other ways to remain competitive relative to its rivals that have secured trade deals with US, such as China and Vietnam. One measure attempted by these companies was developing synthetic cotton substitute known as rayon which is made from eucalyptus woods.

The absence of trade deal, particularly with US and Europe, has cost Indonesian textile export market share to shrink from 2.4% in 2000 to 1.5% in 2015 while regional competitors particularly China, Bangladesh, and Vietnam gained upper hands.

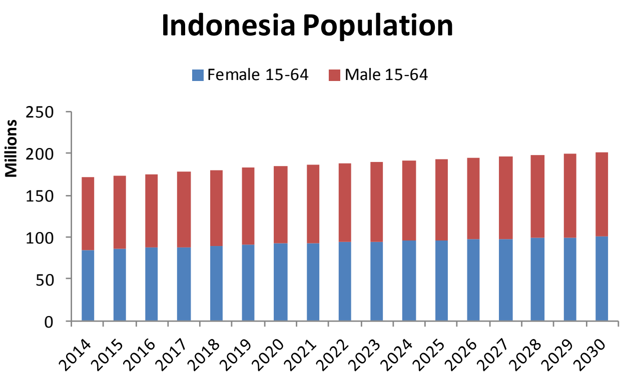
In the medium term, as infrastructure development is being developed plus its growing middle income young population at the age of where fashion is integral to lifestyle, a growing demand in domestic market is to be expected. World Bank estimated that Indonesian productive age population would grow 0.98% annually from 2016-2030. As access to urban cities are easier, we could expect a pick up in garment demand.

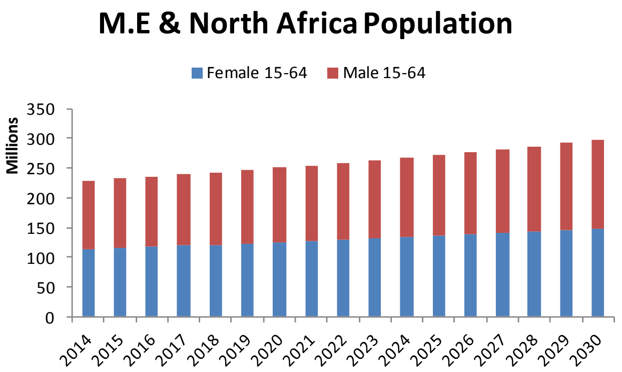
Nonetheless, it seems that **growth potential in international market is more attractive than domestic market**, particularly in Middle East and North Africa where the productive age population growth rate is expected to be 1,67% annually from 2016-2030. In particular, Indonesian textile industry is increasing its presence in Turkey, Egypt, and Iran markets. Add this to the fact that textile industry in domestic market is getting more competitive as it has been penetrated by cheaper imports from China and Vietnam, we could expect that Indonesia textile producers have to expand overseas or risk losing sales from intense competition in domestic market where cheaper products are generally more preferred.

Clothing export market share



Source: WITS





Source: World Bank

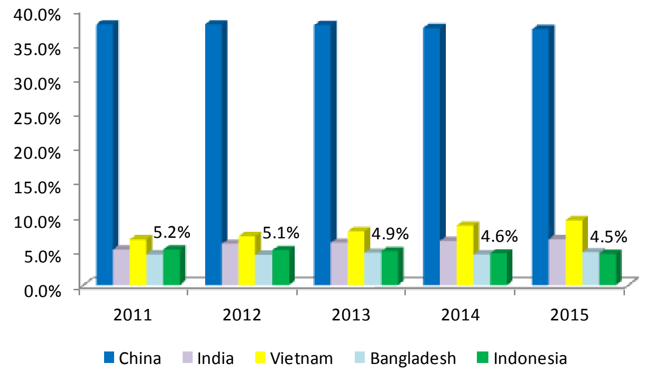
Thus, the key aspect for domestic textile industry to grow is international market penetration. As such, multinational trade deals would be the major factor for growth. As of now, Indonesia is lagging behind its ASEAN peers in getting more favorable trade deal with Europe and US. Currently, Indonesian textile products were taxed from 11-30% in Europe. However, we could expect a much more favorable rates when Comprehensive Economic Partnership Agreement (CEPA) deal is signed, presumably in next year.

An analysis by CSIS has shown that abolishment of European tariffs, both MFN and GSP, could increase Indonesian textile export to Europe by 19.16%. On the other hand, if CEPA negotiation failed and EU is seeking trade deal with other countries to satisfy its needs, Indonesian textile export to Europe could fall by 1.61%.

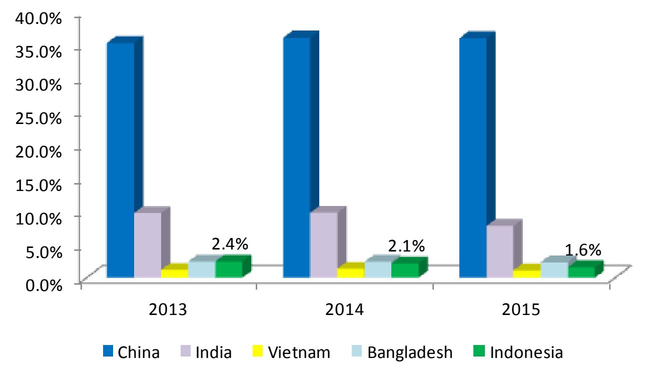
For the US market, a renewal of GSP (special treatment to emerging countries) is certainly something to be looked out for. The peak of Indonesian textile export in US market was reached in 2012 for the reason that GSP was lapsed after that. The result was textile export to US decreased from 5.1% in 2012 to 4.5% in 2015 and in its place was Vietnam who increased its export from 7.1% to 9.4% in the same periods due to bilateral trade deal between the two countries.

Nonetheless, it would seem that a favorable trade deal being struck with US is getting less plausible in near term when US pulled out from TPP this year and has been taking protectionist stance ever since, especially with countries that run persistent trade surplus against US such as Indonesia.

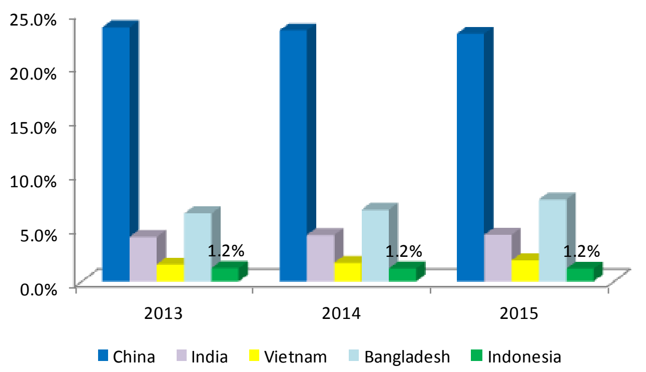
Textile export share: US



Textile export share: Middle East & North Africa



Textile export share: Europe & Central Asia



Source: WITS

Company Brief

SRIL is the leading Indonesian textile exporters. It is an integrated textile producers having business from upstream in raw materials, which are heavily imported, down to midstream products where it sells various textiles directly to customers, and down to downstream where it sells its products to retailers around the world.

The company was first founded by Lukminto family in 1966 in a used factory in Sukoharjo, Central Java. 30 years later, it successfully growing bigger by diversifying its products from just dyed fabric with strong customers base in more than 50 countries. Aside from supplying local militaries uniform, SRIL also supply uniforms to NATO personnels.

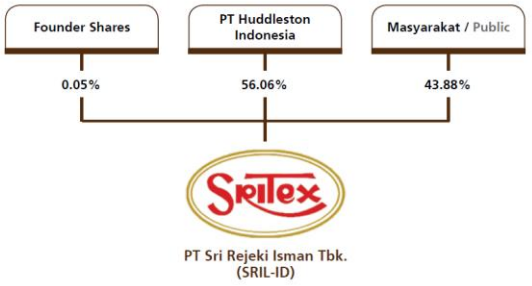
It became publicly listed in 2013 coded as SRIL. In 2016, it was listed by Forbes as one of the top 50 Indonesian company. Its main operation is still located in Sukoharjo totaling 61 ha plant (Sritex 1 & 2) with additional 18 ha plant in Semarang located near Tanjung Emas port which gives favorable cost for exports and imports.

Company Management

SRIL came as a family owned business. Its current president director is Iwan Setiawan Lukminto and its vice president is Iwan Kurniawan Lukminto. It is monitored by three members in its board of commissioners and its operations are supported by five directors.

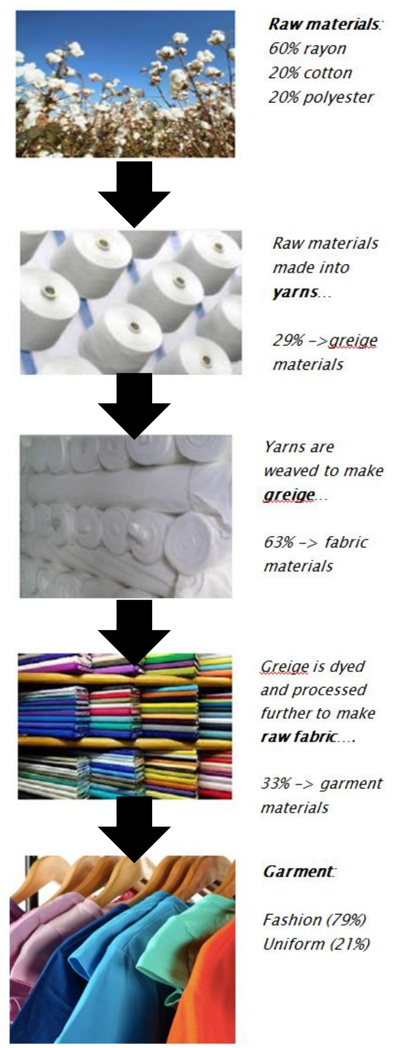
Shareholder Composition

After it went public, the founders (Lukminto family) shares of the company is only 0.05%. However, this does not mean that the founders influence has been severely limited as 56% of its shares is owned by PT. Huddleston Indonesia, a private investment firm established by Lukminto family.



Business Description

The company creates business by selling integrated textile products to diversified customers. To understand how vertically integrated SRIL is, it is helpful to back track the origin of its highest valued product: garment. Garment is the final product sold as military uniforms and other retail apparel products made according to customer orders and design. To produce garment, it requires finished fabric which is a bleached, dyed version of greige or raw fabrics. Raw fabrics are made by weaving together yarns which is made from raw materials: rayon, cotton, or polyester. The majority of its materials are imported and its export products made up almost half of its revenue.



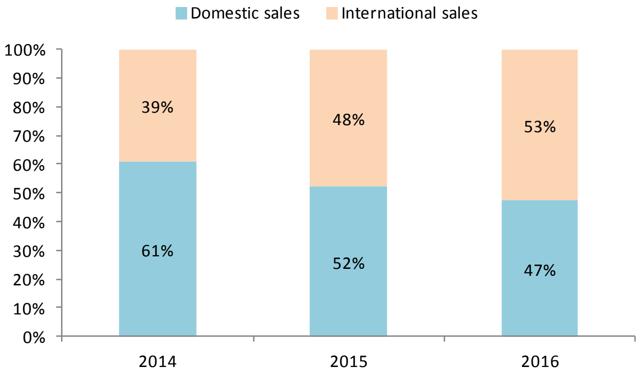
Competitive Advantage

1. **Vertically integrated**: SRIL prides itself to be one of the largest integrated textile company in South East Asia. The integrated plants enable SRIL to manage its raw materials efficiently.
2. **Quality over quantity**: SRIL endeavors to provide excellent products backed by modern production facility and strict quality control system. Its quality enables SRIL to charge higher price in export products.
3. **Loyal and diversified customers**: Its quality products have also earned SRIL the loyalty of its customers. SRIL is entrusted to supply military uniforms for domestic army and NATO.
4. **Cheap labor**: Based in Sukoharjo, a lower end wage area in Java, SRIL procured 36% of its labors from Sukoharjo, thus making its labor cost more competitive than its regional peers. Sukoharjo minimum labor wage was US$113/month, a figure that could be compared to China and only exceeded by Bangladesh in terms of its cheapness.

Target Market & Competition

SRIL generates more than half of its revenues in international markets, mainly in Asia.

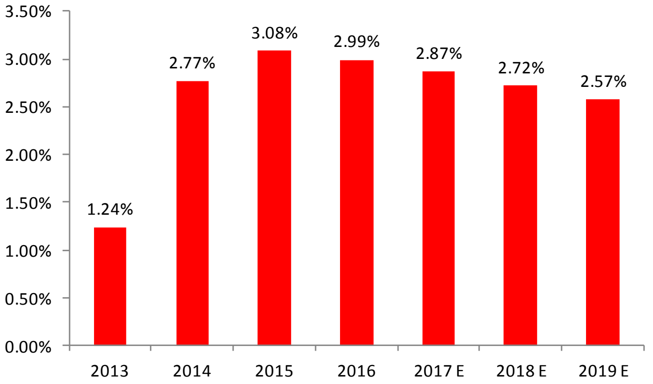
Revenue contribution by geography



Source: Company

In South East Asia, the major destination countries for its textiles are Indonesia (30%), Vietnam (30%), Vietnam (15%), and Malaysia (12%). In domestic market, despite increasing competition from low import textile from China, Hong Kong, and India, SRIL is able to maintain its market share although the contribution to sales is getting less which implies a slower growth in domestic market compared to international markets. We think that going forward, its domestic market share would decline as the focus for growth would be in overseas market.

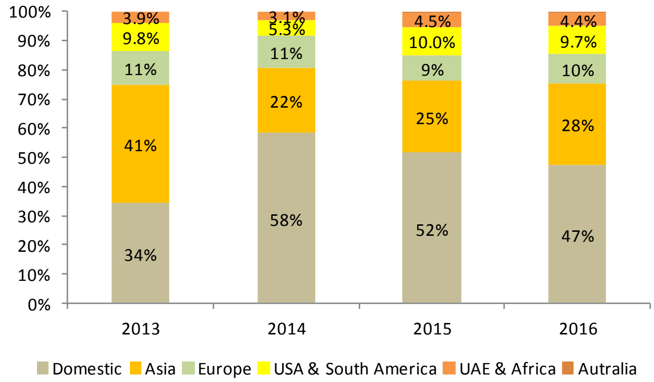
Domestic market share



Source: BPPS, Company, Reliance Sekuritas Indonesia

Its sales from Europe and United States however, remain constrained as a consequence of the absence of advantageous trade deals. The good news so far came from Asian and Middle East markets where SRITEX textiles have grown the most since 2014.

Customer segmentation



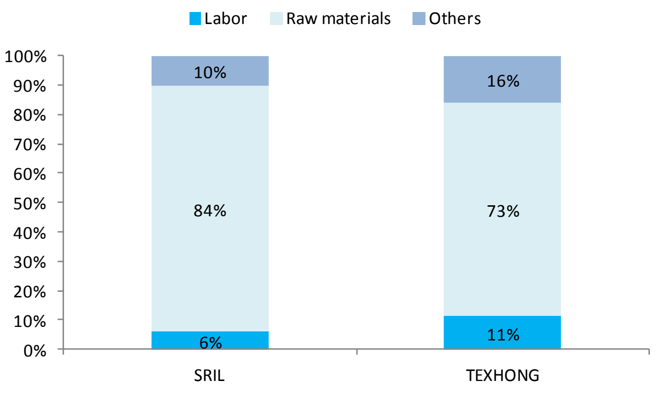
Source: Company

Looking at EBITDA margin across companies from different countries, we could see that SRIL EBITDA margin is in the upper end of this industry. This condition has been maintained successfully even when labor cost is rising across Asia for the past few years.

This high margin could not be associated with productive labor as SRIL labor productivity, measured by revenue/employee, lags far behind its competitors. If SRIL labor is not as competitive as its regional peers, then how come it was able to maintain its margin?

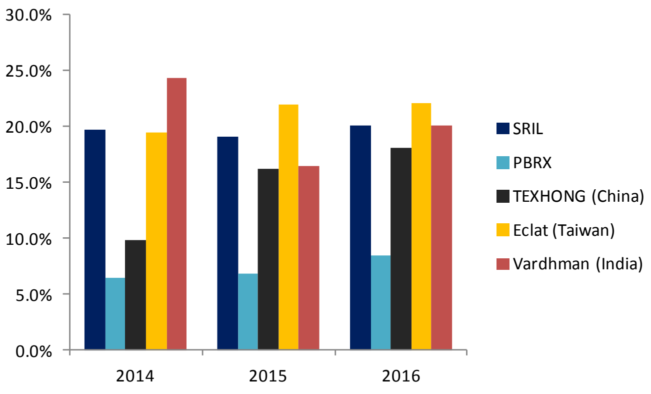
We think the answer lies within SRIL cost structure. When we take a look at the costs in detail, we could see that labor cost is only 6% of its total operational cost (COGS plus SGA). In comparison, Texhong, a competitor from China, has labor cost which takes up 11% of its total costs. This cost composition makes Texhong to be more sensitive to an increase in labor wage than SRIL. Labor cost as a percentage of revenue is 10% for Texhong, compared to 5% for SRIL, hence putting SRIL in an advantage to maintain its margin compared to its peers in times of increasing wage pressure.

Cost structure

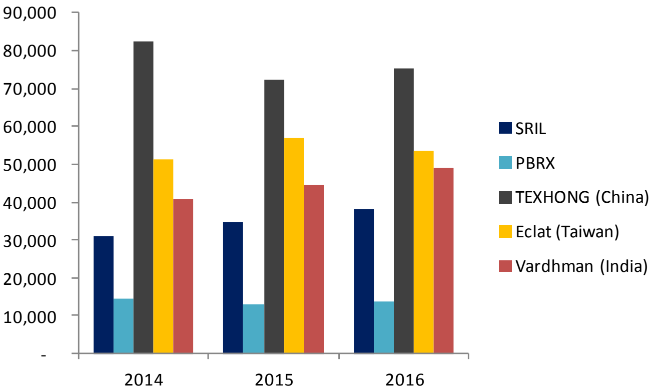


Source: Company

EBITDA margin



Labor productivity (Revenue (USD)/Employee)



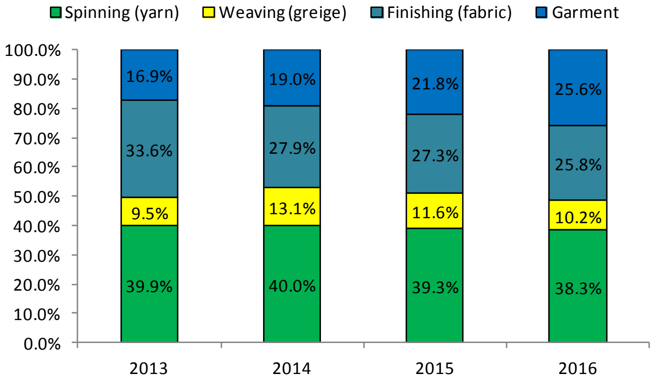
Source: Bloomberg

Value Drivers

Business Segment Growth
SRIL has managed to grow its revenue on average 17% since 2012, a decent growth for an industry where a lot of demands are satisfied by small textile producers. Moreover, SRITEX growth has outperformed its domestic competitor, Pan Brothers, whose growth was 14% during the same period.

Its revenue growth has been supported by its high valued product – garment - which has been growing above 30% on average every year since 2012, making it the fastest growing product.

Revenue segmentation by products



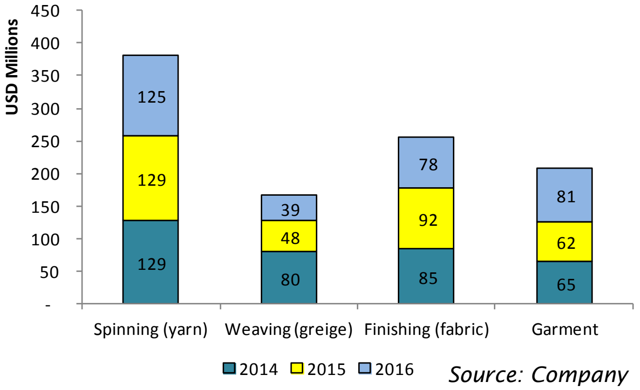
Source: Company

The growth is more telling when we break revenue in domestic and international market. Backed by government agenda to push high valued exports, its garment products have been well received in both domestic and international market generating USD 81 mil and USD 93 mil respectively in 2016.

The importance of garment for SRIL value creation could be clearly seen from economic profit in each product segment. It is clearly seen that only garment segment has been enjoying growing economic profit consistently, hence, it needs further analysis that we will shortly discuss.

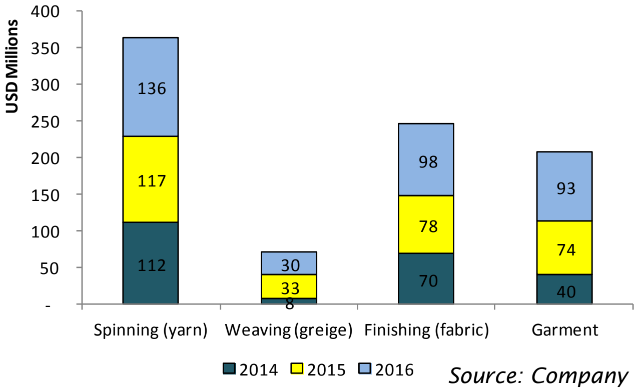
While the other segments still continue earning above its cost of capital, the only exception is weaving segment. In our view, this has been a problem for the company as it is essential for producing fabric, which in turn is needed to produce garment.

Domestic revenue



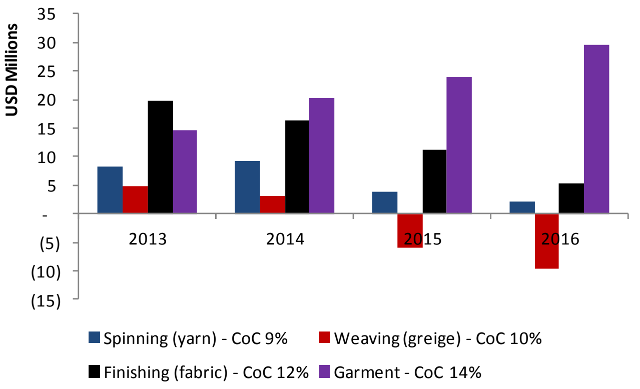
Source: Company

Export revenue



Source: Company

Economic Profits

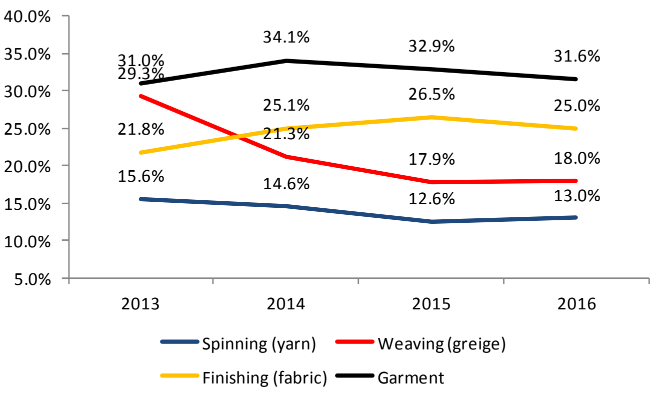


Source: Reliance Sekuritas Indonesia

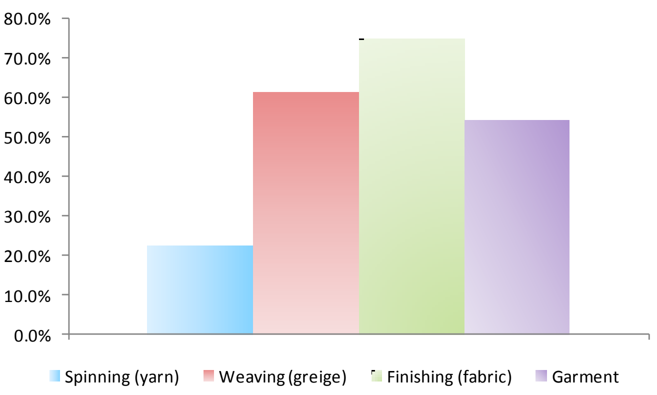
The poor returns from weaving was due to both its low margin and asset expansion which charge has not been compensated with its returns.

Note that 63% of its produced greige is used as materials for fabrics. Its asset was expanded as production facility was unable to keep up with demand in 2014-2015.

Gross margin for each segment

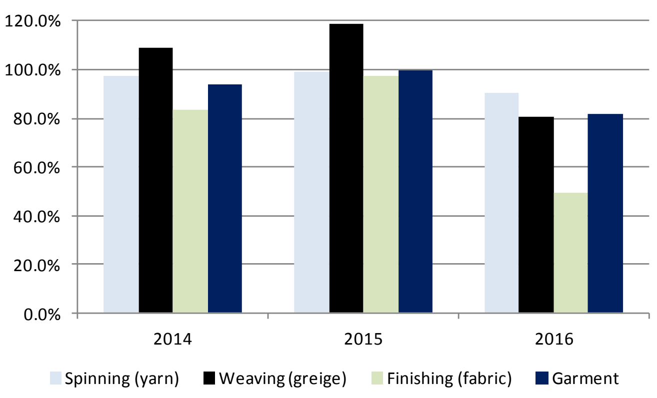


Asset growth 3-year CAGR



Capacity Utilization

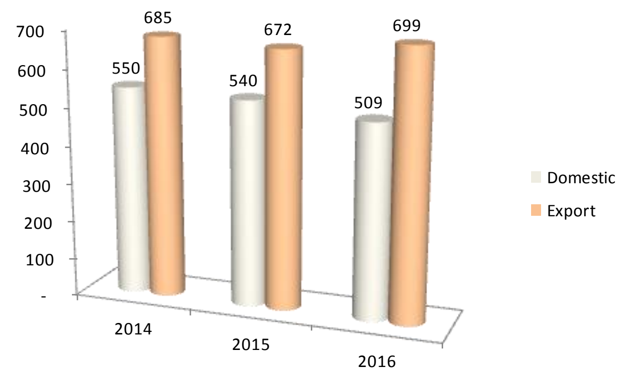
Source: Company



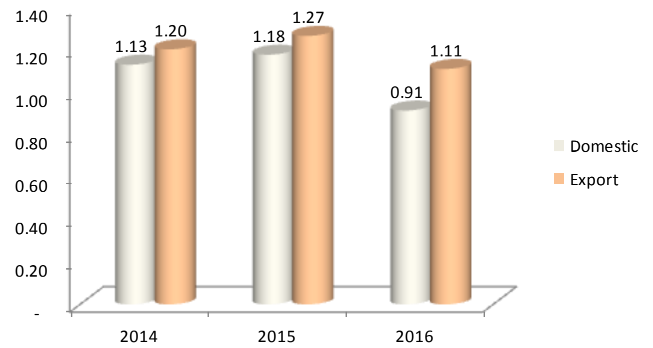
The overheated weaving segment pushed SRIL to expand its capacity 120 mil meters to 180 mil meters in 2016. This has to be done as 63% of produced greige is needed to produce fabric products which contributed more than 25% of SRITEX revenue and its demand in international market is increasing.

On the other hand, it is quite clear that SRITEX generated much of its value from its garment segment. Its high economic profit is backed by high sales growth with high gross margin. Looking deeper into growth, its garment products are well received in both domestic and international markets. The picture of garment is more interesting when we measure the average aggregate selling price between domestic and international market. **The price per unit charged for each segment in international market is usually higher than in domestic.** However, the picture changes drastically in garment segment where domestic price is consistently way higher than in international market.

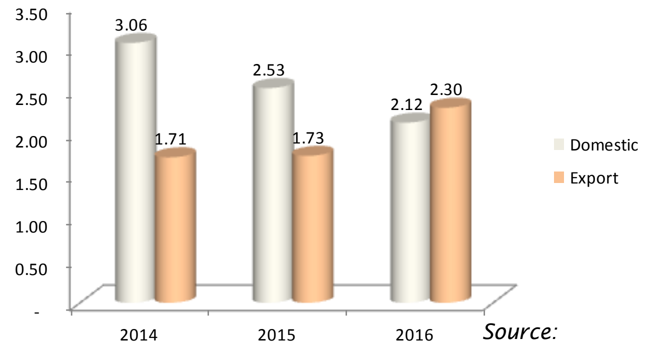
Yarn average selling price (USD/bale)



Greige average selling price (USD/meter)

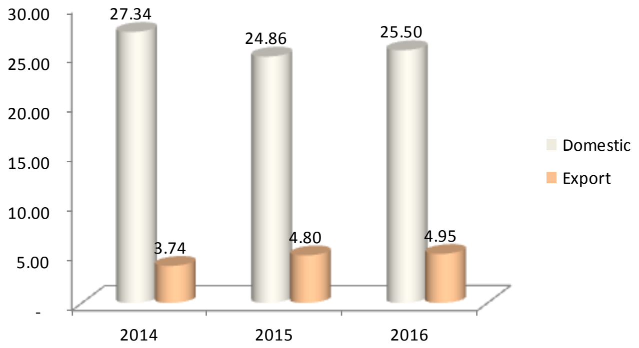


Fabric average selling price (USD/yard)



Source: Company

Garment average selling price (USD/pcs)

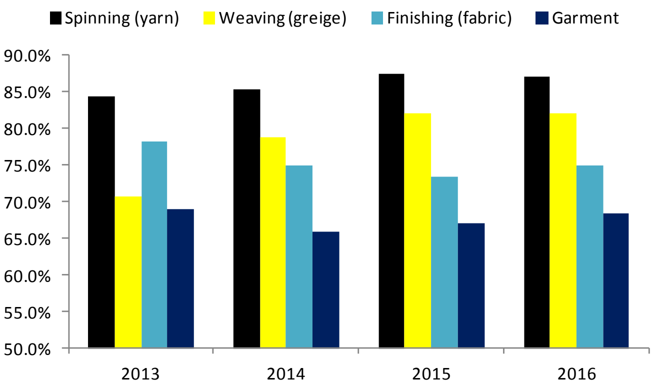


Clearly, from the average price, the domestic and international market in garment is vastly different. This can be explained if we take a look at the kind of garment produced. **In domestic market, all of the garment produced was in uniform category (largely for the national army uniform), whereas uniform only takes 19% of its garment production while 81% is produced for fashion in international market.**

Therefore, it is likely that SRITEX is able to exert more pricing power in uniforms than in fashions and this is reasonable as brands from manufacturer is more recognizable in uniform than in fashion where such brands came from the retailers themselves such as H&M, Zara, and Uniqlo.

Regardless of the pricing power difference in garment products, SRITEX garment still offers a very attractive 30% gross margin thanks largely to its cost efficiency where it has the lowest cost to sales ratio compared to other segments.

Cost per sales for each segment



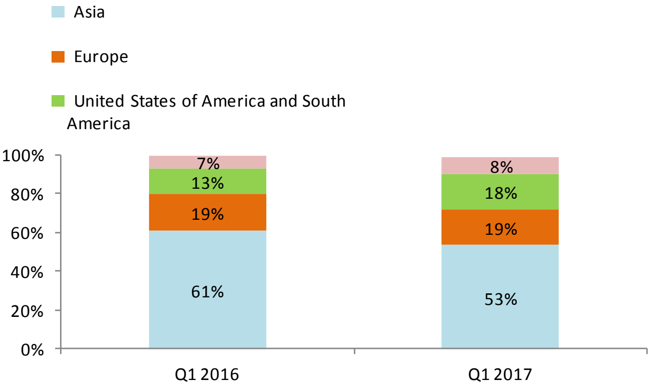
Source: Company

Seeking growth in international market

As we pointed out in 'Target Market & Competition,' we see that international market gives a better opportunity for SRIL to grow, and it has been pleasing to see garment segment which have the highest economic profit to be well received in international market, mostly in fashion garments. Realizing this, SRIL aims to increase the exports proportion of its revenue to reach 56% in this year which is higher compared to last year which stood at 53%.

In recent media interview, Iwan Setiawan Lukminto expressed its concern to United States that may rise import tariffs towards Indonesia as a countermeasure to its trade deficit. Lukminto said that SRIL would maintain a good relationship with US by increasing its cotton needs from US where in last year only 25% of its cotton was imported from US. He had hoped that by doing that, US would give a special treatment to SRIL products. So far, the development in the US market seems encouraging enough. In Q1 2017, revenue contribution from US and South America increased to 10% from previously 6% in Q1 2016. However, without formal bilateral trade agreement between the two countries, we think SRIL's revenue portion in US market would only be maintained at best.

Revenue from exports



Source: Company

Aside from US market concern, SRIL aims to increase its export to China from currently 3% of its total revenue to 15% for the next 5 years as it seeks to take advantage of rising labor cost in China. This may seem to be too optimistic. Even as China is losing its labor cost advantage, China is surrounded by low cost textile producers which have geographic advantage compared to Indonesia, such as Bangladesh to the south and Vietnam to the east. Additionally, both countries have significant relationship with China.

Important to remember as well, increasing share of revenue must mean something has to give. As it would be unlikely to be Europe (which we predict to increase as CEPA deal is expected to be signed next year), it would mean that SRIL is increasingly expanding outward than inward and the picture of revenue share would be similar back in 2013 where revenue from domestic market only accounted for around 30%.

In addition, Indonesia textile industry is seeking new market in Middle East territory as was explained earlier, although may not be as significant growth driver as in Europe and Asia as Indonesia already has a good trade relationship in Middle East as depicted by its textile export share which makes up 6.5% of Turkey textile import, significantly higher than Vietnam that only makes up 3% of its textile import.

We project significantly slower growth in domestic market compared to export market partly because SRIL products are losing its market share in its own turf and the other is caused by slower growth in domestic textile demand compared to export market.

The growth in export market would possibly come from China and Europe. Rising wage growth hurt Chinese textile companies more than Indonesian textile companies. As China gradually reduces its reliance on manufacturing and switching to higher paying jobs, textile companies would be hard pressed to maintain its low wage to attract labors. This gives a good opening for Indonesia to enter into China market.

The completion of CEPA agreement that would drastically reduce tariffs would be a key factor for Indonesia textiles expansion in European market. We expect the agreement is completed before the end of 2018 and would have its biggest effect in 2019.

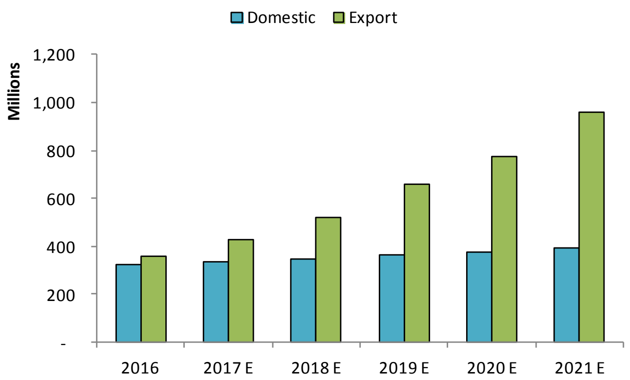
More Control Over Raw Materials

Consisting 85% of total costs, raw material is the single biggest cost factor for SRIL. 60% of its raw materials are imported with details as follows: All of its cotton is imported, 50% of its rayon is imported, and 50% of its polyester is imported. As SRIL completely manufactures its products domestically, depreciation of local currency and rising commodities would adversely impact its margin.

To protect itself against those risks while also ensuring raw materials availability, SRIL spent USD 250 million to build rayon plant that is capable of producing rayon 80.000-100.000 tons a year that was in operation in mid last year. SRIL projected this move could reduce 30% of its imports. This would mean its rayon import could be reduced from 50% imported to 29%, a move that is expected to lower rayon cost.

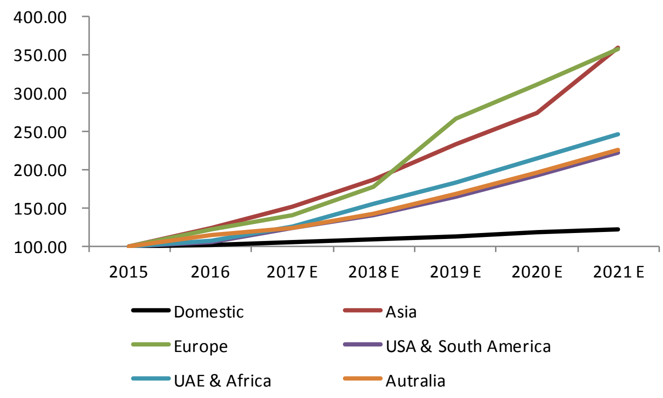
We expect that rayon plant could reduce 3% of its rayon cost. This would translate into higher margin by 120bp by our estimation. We are pretty optimistic that this increase in margin could be realized as indicated by gross margin improvement from 21% in Q1 2016 to 22% in Q1 2017, in line with our projection.

Domestic vs export revenue (USD)



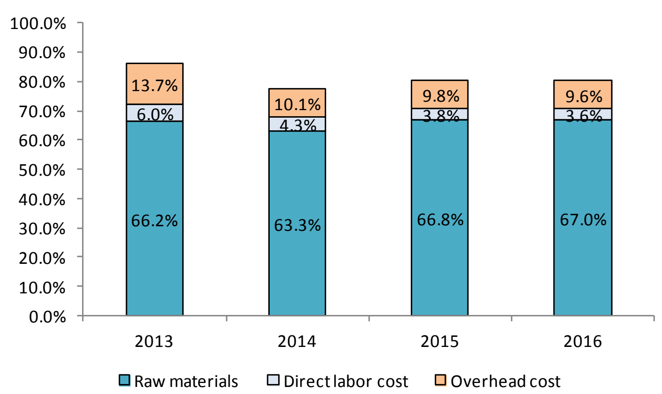
Source: Company & Reliance Sekuritas Indonesia

Revenue growth index (2015 = 100)



Source: Company & Reliance Sekuritas Indonesia

Cost composition as % of revenue



Source: Company

Valuation

We value SRIL at IDR 580 per share using DCF and EVA methodologies, while keeping in mind SRIL position in competitive textile industry that makes it hard to earn returns higher than its cost of capital. However, we think SRIL is in a good position to earn returns higher than its cost of capital for a long time due to its massive integrated textile facility that is less dependent on import raw materials.

Our valuation is heavily dependent on revenue growth acceleration in the next few years that we predict would come majorly from export market, especially in Asian and European market as rising labor cost is challenging China position as a low wage manufacturer and other rival countries are constrained by their domestic affairs that would make their expansion to other countries harder. The completion of CEPA is expected to boost Indonesian exports to European market significantly, including textile goods. We project its effect would have its biggest impact on SRIL revenue growth in the second year after the deal is signed and bring its 5-year average annual growth rate into 2021 to be 13.6%. For this year revenue projection, we are following management guidance that gives target of USD 762 million which we think will be achieved by looking at the first quarter revenue of USD 180 million, or 24% of its year end target which is still within its historic seasonality.

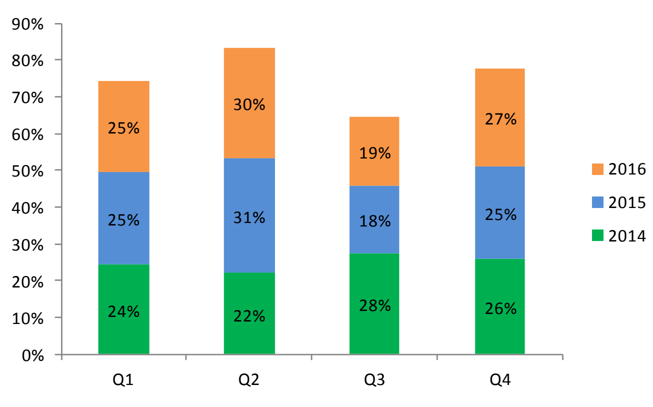
In longer term, we assume SRIL could maintain a constant return on capital that is higher than its cost of capital although not substantially due to its integrated plants that is pretty self-sufficient on procuring raw materials, and able to maintain revenue growth of 7.8% on average for the next 15 years driven by expanding textile demand in overseas market.

Discounted Cash Flow (DCF) valuation

USD	2017 E	2018 E	2019 E	2020 E	2021 E	2032 E
NOPLAT	99,379,956	112,299,350	131,390,240	148,470,971	167,772,197	
Depreciation	25,965,225	25,892,096	26,676,474	31,211,475	35,268,966	
Gross Cash Flow	**125,345,181**	**138,191,446**	**158,066,714**	**179,682,445**	**203,041,163**	
Change in working capital	(17,410,198)	(41,913,361)	(61,935,052)	(55,413,655)	(62,617,430)	
Net Capex	(24,217,053)	(44,549,635)	(121,765,196)	(116,287,913)	(131,405,342)	
Gross Investments	**(41,627,252)**	**(86,462,997)**	**(183,700,248)**	**(171,701,568)**	**(194,022,772)**	
Free Cash Flow	**83,717,929**	**51,728,449**	**(25,633,534)**	**7,980,877**	**9,018,391**	**166,057,200**
						5-year CAGR
Revenue growth	*12.0%*	*13.0%*	*17.0%*	*13.0%*	*13.0%*	*13.6%*
ROIC (year end)	*11.5%*	*12.2%*	*12.2%*	*12.2%*	*12.2%*	

WACC		**10.13%**
CV Assumptions		
	growth	4.4%
	RONIC	11.00%
CV		2,985,339,513
Operating Value		**1,299,238,633**
Excess cash		51,308,111
Restricted cash		1,339,631
Investment in shares		27,561
Other non current ass		26,680,897
Enterprise Value		**1,378,594,833**
ST debt		103,150,718
LT debt		465,117,200
LT employe benefits liab.		12,864,368
Equity Value		**797,462,547**
IDR/USD		13,450
Eq Val in IDR Mn		10,725,871
Shares Outstanding Mn		18,592
Equity/share		**577**

Revenue seasonality



Source: Reliance Sekuritas Indonesia

From EVA perspective, we expect SRIL would be able to earn positive and increasing economic profits going forward that would make up 35% of our intrinsic value calculation from its existing invested capital. Its efficiently integrated plants would be crucial for the company to earn increasing economic profit when it seeks growth in international market, particularly Asia and Europe. Our target of IDR 580 per share implies PE2017E multiple of 13.1.

Economic Value Added (EVA) valuation

USD			2016	2017 E	2018 E	2019 E	2020 E	2021 E
NOPLAT			82,313,733	99,379,956	112,299,350	131,390,240	148,470,971	167,772,197
Capital Charge			(69,090,388)	(85,880,687)	(87,467,904)	(93,606,266)	(109,519,331)	(123,756,844)
Economic profit			**13,223,345**	**13,499,269**	**24,831,446**	**37,783,974**	**38,951,639**	**44,015,353**
WACC	*10.13%*							
Continuing Value Assump.								
growth	4.4%							
RONIC	11.0%							
PV of Economic Profits	447,431,967		*35%*					
Beginning Invested Capital	847,436,328		*65%*					
Operating Value	**1,294,868,296**							
Excess cash	51,308,111							
Restricted cash	1,339,631							
Investment in shares	27,561							
Other non current ass	26,680,897							
Enterprise Value	**1,374,224,495**							
ST debt	103,150,718							
LT debt	465,117,200							
LT mploye benefits liab.	12,864,368							
Equity Value	**793,092,209**							
IDR/USD	13,450							
Eq Val in IDR Mn	10,667,090							
Shares Outstanding	18,592							
Equity/share	**574**							

Source: Reliance Sekuritas Indonesia

Target Risks

There are four factors that we see could put our target at the most risk:

1. **Continuation of global trade slow down**. SRIL is preparing itself to generate more than half of its revenue in export markets. Global trade slow down would jeopardize our projection significantly.
2. **CEPA deals-off**. Although unlikely, but if CEPA negotiation failed, growth in European market is unlikely to take off and even leads to contraction as it would be harder to compete with other favored countries.
3. **Raw materials getting expensive**. As most of its raw materials are imported (with now exception of rayon), an increase in raw materials could be caused by either commodities appreciation or USD appreciation versus rupiah. In case of significant USD appreciation, SRIL gross margin would be pressured as the rise in cost due to USD could not be passed to domestic customers.
4. **Growth in Middle East and North Africa:** We do not expect SRIL to target growth substantially in Middle East. Although Middle East is a promising market in the future, there is no visible sign that SRIL would put its focus there in near future. A substantial growth in Middle East would give upside risk in our forecast. In North Africa, growing textile market share based on cost advantage would be difficult as it must compete with Ethiopian cheap products.

Financial Highlights

Income Statement (thousand USD)	2016	2017 E	2018 E	2019 E
Revenue	679,939	761,532	860,531	1,006,822
COGS	(534,589)	(589,426)	(666,051)	(779,280)
SGA	(35,256)	(39,600)	(44,748)	(52,355)
Others	(44,067)	(50,967)	(47,757)	(47,729)
EBT	66,028	81,540	101,975	127,458
Tax expense	(6,662)	(20,385)	(25,494)	(31,864)
Net Income	59,366	61,155	76,481	95,593

Cash Flows Statement (thousand USD)	2016	2017 E	2018 E	2019 E
Net income	59,366	61,155	76,481	95,593
Depreciation	19,926	25,965	25,892	26,676
Working capital change	(83,425)	(17,410)	(41,913)	(61,935)
Others	(1,524)	-	-	-
Cash Flow from Operation	(5,658)	69,710	60,460	60,335
CapEx	(102,180)	(24,217)	(44,550)	(121,765)
Others	(26,681)	-	-	-
Cash Flow from Investing	(128,861)	(24,217)	(44,550)	(121,765)
Cash Flow from Financing	114,377	(45,493)	(15,911)	61,430

Quarterly Results (thousand USD)	2016 Q1	2017 Q1	YoY change
Revenue	168,685	180,184	6.8%
EBITDA	33,669	39,674	17.8%
Net Income	16,446	17,723	7.8%
EPS*	219	238	9.0%
EBITDA margin	20%	22%	

*in IDR

Balance Sheet (thousand USD)	2016	2017 E	2018 E	2019 E
Operating & Excess cash	60,487	61,589	62,925	64,900
Trade receivables	149,561	166,911	188,610	220,673
Inventories	147,616	163,101	184,305	215,636
Other current assets	20,361	12,925	14,431	16,656
Fixed assets	519,304	517,842	533,529	624,229
LT purchase of FA	23,132	22,846	25,816	30,205
Other LT assets	26,708	26,708	26,708	26,708
Total Assets	947,170	971,923	1,036,324	1,199,009
ST Debts	103,151	103,151	103,151	103,151
Trade payables	5,524	12,919	14,598	17,080
Other ST liab.	14,854	16,549	18,700	21,880
LT liabilities	492,532	465,386	472,420	562,528
Total Liabilities	616,060	598,005	608,869	704,639
Total Equity	331,110	373,918	427,455	494,370

Key Ratios	2016	2017 E	2018 E	2019 E
Growth				
Revenue	9%	12%	13%	17%
EBIT	12%	20%	13%	17%
Net Income	7%	3%	25%	25%
Profitability				
Gross margin	21%	23%	23%	23%
EBIT margin	16%	17%	17%	17%
ROE	18%	16%	18%	19%
ROIC	10%	12%	12%	12%
Leverage				
Debt to Equity	1.72	1.45	1.28	1.29
Capital Efficiency				
Days receivable	80.3	80.0	80.0	80.0
Days inventory	100.8	101.0	101.0	101.0
Days payable	3.8	8.0	8.0	8.0
Revenue/Inv Capital	0.8	0.9	0.9	0.9

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