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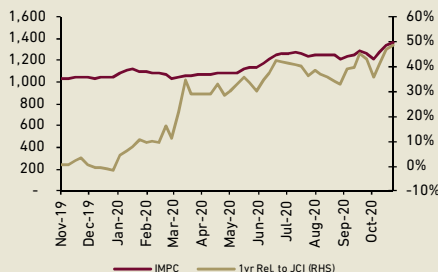
Impack Pratama Industri

Outperforming during pandemic

Sector	Basic Industry
Bloomberg Ticker	IMPC IJ

Share Price Performance

Last price (Rp)	1,400		
Avg. daily T/O (Rpbn/USDmn)	0.9/0.1		
	3m	6m	12m
Absolute (%)	12.4	29.6	33.3
Relative to JCI (%)	6.5	10.8	46.6
52w High/Low price (Rp)	1,400/1,020		



Outstanding shrs (mn)	4,834
Mkt. Cap (Rpbn/USDmn)	6,767/481
Estimated free float (%)	8.5
Major shareholders	
Tunggal Jaya Investama	45.6%
Harimas Tunggal Perkarsa	44.4%

EPS Consensus

	Ciptadana	Cons.	% Diff
2020F	n/a	n/a	n/a
2021F	n/a	n/a	n/a
2022F	n/a	n/a	n/a

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Market leader in polycarbonate building material with 40 years proven track record

Founded in 1981, Impack Pratama Industri (IMPC) is market leader in Polycarbonate (PC) building materials (mainly roofing and façade). IMPC manufactures and distributes its products through its operating subsidiaries in Indonesia, Malaysia, Vietnam, Australia and New Zealand. Domestic sales accounted for 68% of total revenue and export market made up the 32% balance which also provides natural hedge as around 39% costs are exposed to forex movement. The company has 85% and 50% market share for PC roofing in Indonesia and New Zealand, respectively. The excellent properties of Polycarbonate such as its i) resistant to shock and fracture, ii) easy to bend, iii) less than half the weight of glass and is considered almost unbreakable, giving it a very clear advantage over glass in safety and iv) color, make them the preferred material for buildings. Therefore, IMPC should be well-placed to seize opportunities from Indonesia's positive long-term outlook in property/construction development.

Earnings soar 56% in 9M20 despite the pandemic

The company delivered robust earnings growth of 56% YoY in 9M20 to Rp86.8 bn mainly driven by higher revenue and solid margins. Revenue grew by 18% YoY to Rp1.2 tn owing mainly to higher volume (7% YoY) and hike in ASP (3% YoY). Gross profit rose by higher pace of 30% YoY to Rp442.7 bn but operating profit grew at slower rate of 13% YoY to Rp151.1 bn as Opex rose by 42%. Below operating line, IMPC booked forex gain of Rp26.3 bn. Excluding forex gain, IMPC's core earnings would have risen by 33% YoY to Rp70.3 bn. IMPC did well during pandemic situation although Covid-19 has had a devastating impact on the Indonesia and its export markets economy which hit construction/property sectors particularly hard.

Maintaining strong balance sheet and profitable margins

The company shows a stellar balance sheet with gearing level standing at 0.45x in 9M20. The company's bond is rated idA- by Pefindo rating agency reflecting a strong capacity to meet its long-term financial commitments relative to that of other Indonesian obligors. IMPC has also strong cash flow generation abilities with cash flow from operation has always been positive for many years. The company also benefits from being the first to offer its high-quality products and focused businesses dominating its markets which lead to higher margins. IMPC's has generated gross profit margin of 32-36%, operating margin of 12-19% and net margin of 7.3-9.0% in the last five years.

Stock valuation and trading liquidity set improve going forward

Management indicates 2020 net profit of up to Rp130 bn (+25.3% YoY), beating their initial estimate of Rp100 bn as revenue is seen to grow by 17% to Rp1.75 tn (vs. initial forecast of Rp1.6 tn). As for 2021, the company expects to register revenue of Rp1.9 tn (+9% YoY) and net profit of Rp165 bn (+27% YoY) which implies 2021F PER of 41.0x and PEG of 1.5x. These looks more expensive than cement sector PER of 24.0x but more attractive than cement sector PEG of 2.0x. The company plans to issue up to 10% new shares via private placement (see detailed on page 6) which is expected to increase free-float shares to 18.5% and trading liquidity on IDX.

Exhibit 1 : Financial Highlights

Year to 31 Dec	2017A	2018A	2019A	9M19	9M20
Revenue (Rpbn)	1,193.1	1,395.3	1,495.8	1,042.3	1,233.4
Operating profit (Rpbn)	159.0	158.1	215.6	134.0	151.1
Net profit (Rpbn)	87.3	86.4	103.7	55.6	86.8
EPS (Rp)	18.1	17.9	21.5	11.6	18.1
EPS growth (%)	-15.5	-2.3	21.3	34.2	56.1
EV/EBITDA (x)	32.5	30.8	26.7	-	-
PER (x)	77.6	78.3	65.3	-	-
PBV (x)	5.5	5.2	4.9	-	-
Dividend yield (%)	0.6	0.6	1.1	-	-
ROE (%)	8.5	7.8	9.0	-	-

Source : Bloomberg

Market leader in polycarbonate building material with 40 years proven track record

Founded in 1981, Impack Pratama Industri (IMPC) is market leader in polycarbonate building materials (mainly roofing and façade for buildings and housings). IMPC manufactures and distributes its products through its operating subsidiaries in Indonesia (7 offices), Malaysia (2 offices), and each one office in Vietnam, Australia and New Zealand. Besides roofing (71.5% of total revenue) and façade products (10.0% of revenue), IMPC produces other materials (7.6% of revenue) such as PVC compound and Sealant. The company also trades toilet cubical and other 3rd party products (9.8% of revenue). Through its property unit, the company also sells and rents and sells office tower (Altira Office Tower) and office park (Altira Office Park) which are located in North Jakarta but only contributes 1.2% to total revenue. Among company's popular brand are : SolarTuff, Twinlite, Alderon, Alcotuff, Topglass, Laserlite, and Alsynite. Most of IMPC's polycarbonate products are warranted for a period of 15 years against excessive loss of light transmission and or surface yellowing on the UV protected surface which enable the company to sell at higher prices than competitors.

Exhibit 2: IMPC's major brands



Source : Company's presentation material

Exhibit 3: IMPC's product at Terminal 3 Soekarno Hatta airport and One Pacific Place mall in Jakarta



Source : Company's presentation material

Exhibit 4: IMPC's product at pedestrian bridge in Jakarta



Exhibit 5: IMPC's product at pawn office



Exhibit 6: Company's product at ceramic plant



Exhibit 7: Company's product at LRT project Jakarta



Exhibit 8: Company's product for wet market project



Exhibit 9: IMPC's product for home improvement project



Source : Company's presentation material

Domestic sales accounted for 68% of total sales and export market made up the 32% balance in 9M20 which also provides natural hedge as around 39% costs and 19% of debts are exposed to foreign currencies (USD, AUD, NZD, MYR) movement. The company has 85% and 50% market share for polycarbonate roofing in Indonesia and New Zealand, respectively.

Exhibit 10: Company's market share

Product	Market Share				
	Indonesia	Malaysia	Vietnam	Australia	NZ
Roofing					
PC	85%	20%	25%	26%	50%
uPVC	50%				
FRP	30%	35%		20%	50%
Façade					
ACP	15%				
Impraboard	65%				
Material					
PVC Compound	60%				
Sealant & Adhesive	15%				
Trading					
Toilet Cubical	35%				

Source : Company's internal research

The excellent properties of polycarbonate such its i) resistant to shock and fracture, ii) easy to bend, iii) less than half the weight of glass and is considered almost unbreakable, giving it a very clear advantage over glass in safety and iv) transmits light but color too, make them the preferred material for buildings. Therefore, IMPC should be well-placed to seize opportunities from Indonesia's positive long-term outlook in property/construction development.

Home improvement businesses see resilient demand during pandemic

The company did well during pandemic situation although Covid-19 has had a devastating impact on the Indonesia and its export markets economy which hit construction/property sectors particularly hard. Since the pandemic started and people have been staying home, homeowners have been taking on projects like landscaping, deck-building or other home renovations. Hardware stores and other businesses that sell materials in those areas have actually done better than projected in the last few months. On home improvement, polycarbonate can be used for garden canopy/veranda, carport roof, etc. Around 90% of IMPC sales volume comes from retailers that sells company's product to individual housing. The remaining 10% volume is sold to government infrastructure and commercial projects (Airport, MRT, LRT, factories, hospitals, wet markets and property developers etc). Management also believes that IMPC grabs significant market share from competitors that face operational and financial problems during pandemic.

Earnings soar 56% in 9M20

IMPC delivered robust earnings growth of 56% YoY in 9M20 to Rp86.8 bn mainly driven by higher revenue and solid margins. 9M20 revenue grew by 18% YoY to Rp1.2 tn owing to higher volume (7% YoY), hike in ASP (3% YoY) as well as 5% depreciation in Rupiah. As revenue outgrew COGS (+12% YoY), gross profit rose by higher pace of 30% YoY to Rp442.7 bn but operating profit grew at slower rate of 13% YoY to Rp151.1 bn as Opex rose by 42%. Below operating line, the company booked forex gain of Rp26.3 bn. Excluding forex gain and other expenses of Rp15.5 bn, IMPC core earnings would have risen by 33% YoY to Rp70.3 bn. IMPC's export revenue outperformed domestic revenue as it grew by 46% YoY to Rp398.7 bn vs. 8.6% domestic revenue growth to Rp834.7 bn. Export revenue share also expanded to 32% in 9M20 as compared to 25% in 2019. Continued higher export volume should bode well for IMPC as it can sell its product at higher prices than in local market. As an example, polycarbonate roofing is sold at equivalent of Rp116 mn/ton or 42% more expensive than local price of Rp82 mn/ton.

Exhibit 11: 9M20 results

in Rp bn	9M20	9M19	YoY
Revenue	1,233.4	1,042.3	18%
COGS	-790.6	-703.1	12%
Gross profit	442.7	339.3	30%
Opex	-291.6	-205.3	42%
Operating profit	151.1	134.0	13%
Net interest	-51.2	-53.1	-4%
Forex gain (loss)	26.3	-6.2	n/m
Other income (expenses)	-15.5	-4.5	244%
Profit before tax	110.9	69.5	60%
Tax expenses	-32.8	-24.2	36%
Minority interest	8.7	10.3	-16%
Net profit	86.8	55.6	56%
Gross margin	35.9%	32.5%	3.3%
Operating margin	12.3%	12.9%	-0.6%
Net margin	7.0%	5.3%	1.7%

Source : Company and Ciptadana

Maintaining strong balance sheet and profitable margins

IMPC shows a stellar balance sheet with gearing and net gearing level standing at 0.45x and 0.34x as at end of September 2020. The company's bond is rated idA- by Pefindo rating agency reflecting a strong capacity to meet its long-term financial commitments relative to that of other Indonesian obligors. The company has also strong cash flow generation abilities with cash flow from operation has always been positive for many years. The company also benefits from being the first to offer its high-quality products and focused businesses dominating its markets which lead to higher margins for early adopters. IMPC's has generated gross profit margin of 32-36%, operating margin of 12-19% and net margin of 7.3-9.0% in the last five years. These are slightly higher than cement companies GPM of 30-34%, OPM of 11.2-13.8% and NPM of 6.0-7.5%.

Announcing private placement

IMPC is proposing to place up to 483 mn new shares in the company via non-preemptive right issue (private placement). The placement shares represent about 10% of the firm's existing issued share capital of 4.83 bn shares. The net proceeds will go towards capital expenditures for the growth of the group's business, acquisition plan, working capital purpose and repayment of bond amounting to Rp100 bn that will mature in December 2021. The private placement will be carried out within two years after getting approval of the company's EGM to be held in 15-Dec-2020. With the assumption that all the shares have been issued, the existing shareholders will be diluted to a maximum of 9.09% from its ownership prior to the placement exercise. Management expects the private placement to increase the company's shareholder base, the stock's free float to 18.5% and liquidity on the IDX.

Exhibit 12: ESG review

Company description	Building material producer
ESG-related opportunity or risk assessment	<p>Environmental</p> <ol style="list-style-type: none"> 1. In response to the environmental challenges, the company integrates Environmental Waste Management System with reference to ISO 14001:2015 into daily operations and implements a circular economy policy to transform raw materials from post-industrial/post-consumer waste into green solutions. 2. Collaborates with Covestro (Thailand) Co. Ltd. with the aim of improving existing post-harvest management by disseminating Solar Dryer Domes (SDD) to small-holder farmers and agriculture cooperatives among underserved communities. SDD also enables the farmers to dry agricultural as well as fisheries products under more hygienic conditions, utilising solar energy as a renewable energy source. <p>Social</p> <ol style="list-style-type: none"> 1. Prioritises and fosters employment opportunities for local workers by filtering the prospective employees based on the company's requirements. 2. Conducts Occupational Health and Safety (OHS) and sustainability awareness training, along with fire and earthquake drills regularly 3. More than 170 SDD have been installed across Indonesia and continuously yield positive social impacts by uplifting the livelihoods of more than 25.000 beneficiaries from underserved communities. <p>Governance</p> <ol style="list-style-type: none"> 1. The ability to achieve predetermined economic growth in 2020 despite the impacts of Covid-19 pandemic. 2. Fully integrates UN Sustainable Development Goals (SDGs) into by formulating <i>Four Sustainability Pillars</i> that acts as a foundation and direction of the company. The pillars cover economic growth, employees and communities, environmental solutions and climate change. 3. Translates the <i>Four Sustainability Pillars</i> into quantitative targets to measure and track company's contribution towards the SDG. 4. The company has appointed Director of Sustainability whose primary responsibility is to oversee and incorporate sustainability into daily operations. 5. Female directors comprise 25% (two people out of eight) of the seats on the Board of Directors and the presence of one independent commissioner in the Board of Commissioners.

Source : Company and Ciptadana

Exhibit 13 - Income Statement

Year to 31 Dec (Rpbn)	2016A	2017A	2018A	2019A
Revenue	1,135.3	1,193.1	1,395.3	1,495.8
COGS	-729.3	-808.5	-980.2	-1,001.0
Gross profit	406.0	384.5	415.1	494.7
Oper. expenses	-202.7	-228.2	-273.0	-293.5
Oper. profit	218.8	159.0	158.1	215.6
EBITDA	272.3	219.4	233.6	273.4
Interest income	0.0	21.6	14.2	10.8
Interest expense	45.1	76.5	72.3	71.0
Other income (exp.)	0.0	1.4	1.9	1.4
Pre-tax profit	164.8	110.6	115.0	132.6
Income tax	-39.0	-20.1	-11.9	-40.8
Minority interest	-23.3	-4.0	-19.1	10.6
Net profit	102.5	87.3	86.4	103.7

Exhibit 14 - Balance Sheet

Year to 31 Dec (Rpbn)	2016A	2017A	2018A	2019A
Cash & cash equivalent	521.5	355.0	280.6	218.3
Acct, receivables	186.5	242.2	255.1	292.1
Inventory	486.9	521.4	543.9	573.1
Other curr, asset	67.0	82.0	140.6	91.2
Total current asset	1,262.0	1,200.7	1,220.1	1,174.7
Fixed assets - net	700.0	742.2	757.4	851.6
Other non-curr.asset	314.1	351.8	392.7	474.8
Total asset	2,276.0	2,294.7	2,370.2	2,501.1
ST debt + curr. maturity	149.0	177.4	189.1	275.9
Acct, payable	107.5	147.0	126.6	165.8
Other curr. liab	78.0	8.6	26.6	37.4
Long term debt	617.7	544.5	531.6	464.0
Other non-curr, liab,	98.2	128.2	124.1	149.7
Total liabilities	1,050.4	1,005.7	998.0	1,092.8
Shareholder equity	978.8	1,049.9	1,115.8	1,177.8
Minority interest	246.8	239.1	256.4	230.5
Total liab + SHE	2,276.0	2,294.7	2,370.2	2,501.1

Source : Bloomberg

Exhibit 15 - Cash Flow

Year to 31 Dec (Rpbn)	2016A	2017A	2018A	2019A
Net income	102.5	87.3	86.4	103.7
Depreciation	53.5	53.5	61.8	69.7
Chg in working cap.	0.1	-120.2	-105	-36.8
Other	8.6	0.0	0.0	0.0
CF-Oper activities	164.7	20.6	43.2	136.6
Capital expenditure	-202.2	-89.4	-93.7	-145.7
Others	-4.8	-34.3	18.2	0
CF-Investing activities	-207.0	-123.7	-75.5	-145.7
Net change in debt	335.3	51.7	-5.8	398.0
Net change in equity	18.0	22.1	4.9	29.4
Dividend payment	-9.7	-41.4	-43.6	-77.8
Other financing	98.5	-100	0	-400
CF-Financing activities	442.1	-67.6	-44.5	-50.4
Net cash flow				
Cash - begin of the year	121.8	521.5	355.1	280.6
Cash - end of the year	521.5	355.0	280.6	218.3

Source : Bloomberg

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