

19 December 2024

PKRI Affirms Mayora Indah at 'inaAA+'; Outlook Stable

PKRI has affirmed PT Mayora Indah Tbk's (MYOR) Issuer Rating at 'inaAA+'. The rating outlook is Stable. MYOR's rating reflects a solid business position as one of the largest FMCG companies in Indonesia with a strong diversified brand portfolio, covering different demographic segments. In 2024, the company continued to deliver a solid execution by achieving double-digit revenue growth, despite a slight decline in margin. The stable outlook denotes PKRI's belief that MYOR will combine consistent financial performance with low debt levels and its leverage metrics is expected to remain consistent with the rating level through a moderate stress scenario.

RATING RATIONALES

Cost Inflation Dilutes Margin: Raw material price volatility, particularly in cocoa and coffee bean, has resulted in a compression of MYOR's gross profit margin that declined to 23.9% in 9M24 (9M23:26.7%). PKRI notes that MYOR has always navigated carefully between passing on higher costs and ensuring consumer affordability to balance growth and profitability. However, the time lag between input cost inflation and price response may lead to transient margin compression. While uncertainty surrounding commodity markets remains a risk, PKRI expects MYOR's gross profit margin would modestly improve during the forecasting period with ongoing cost-saving initiatives and strategic investments to counteract external pressures.

Solid Liquidity despite Inventory Build Up: Cocoa and coffee crop failure in some main producing countries have resulted in an increase in key raw material costs. To anticipate further price escalation, MYOR has utilized its financial flexibility to proactively increase its inventory level to ensure resilience and maintain production continuity. Nevertheless, the strategy has significantly increased working capital requirements as MYOR's inventory level increased to IDR7.0 trillion (99 days) in 9M24 compared to IDR4.3 trillion (70 days) in 9M23. The inventory build-up has also led to a temporary operating cash flow deficit and elevated leverage as it is financed by short-term loans. Nevertheless, PKRI believes MYOR's financial position would remain solid, characterized by sufficient cash reserves, low debt level, and well-spread debt maturity schedule. Operating cash flow is forecasted to be back to positive in 2025 upon stabilization of raw material prices.

Sustaining Market Leadership amidst Fierce Competition: MYOR has shown that its market leadership has enabled them to maintain pricing power and safeguard market share despite challenging operating environment, intense competition, and continuous shifting consumer preference. As of 9M24, MYOR recorded respectable growth of 12% yoy despite numerous alternative products have been introduced by recent market entrants. PKRI notes that the growth is relatively higher compared to most of its peers in the packaged food sector, indicating MYOR's ability to innovate and adapt to the dynamic of customer preference. Strong competitive position and good brand proposition are also evidenced by MYOR products that consistently achieve top three domestic position with significant market share in several key product categories. MYOR has also established presence in approximately 100 countries worldwide with revenue contribution accounting for around 40% of total revenue.

Outstanding Leverage despite Temporary Spike. MYOR's leverage ratio (adjusted net debt/EBITDAR) elevated to 1.1x as at end-Sep24 from 0.1x as at end-Dec23 as MYOR utilized more short-term bank

borrowing to cover the surge in working capital. However, we expect the spike will be temporary as raw material price would normalize following the commodities cycle. We also expect annual capex to decline to IDR850 billion in 2025-2027 from IDR2 trillion in 2024 following the completion of Jayanti and Pasuruan plant expansion. As a result, funding requirement should decline and leverage ratio to gradually decrease to below 0.5x as at end-2027. MYOR should be able to comfortably address its upcoming maturing long-term debt (IDR800 billion each in 2025-2026 as well as IDR1.9 trillion in 2027) using funds generated from its operations as well as through refinancing efforts, including debt-issuance.

Potential Headwinds for 2025 Growth. The government policies to implement a higher value added tax (VAT) of 12% from previously 11% and excise on packaged sweetened drinks in 2025, would increase the price of some MYOR's packaged goods, making them more expensive to consumers. This coupled with the recent trend of eroding purchasing power could deter demand especially from lower income group. MYOR has taken anticipatory steps by imposing prudent pricing strategies and offering products with lower sugar content to the market. Nevertheless, MYOR may face pressure to absorb some additional charges, although the impact may not be material.

Continuous Improvement and Operational Excellence. MYOR's management has set continuous expansion program that will take place in every 3-4 years to increase production capacity. The latest project of Jayanti and Pasuruan factory expansion plan, will increase the production capacity to 2.3 million tons per year from previously 2.1 million tons per year. Apart from the expansion plan, continuous program amounting IDR850 billion per year are budgeted for 2025-2027 period for automation, technology upgrades and other regular maintenances to generate productivity improvement, logistics efficiency, as well as sustainable solutions.

SENSITIVITY DRIVERS

Key drivers that could lead to positive rating action:

- Stronger portfolio of brands that drive organic sales above the industry average while continue to improve EBITDAR margin to 15%.

Key drivers that could lead to negative rating action:

- Total adjusted Net Debt/EBITDAR increase above 1.25x on a sustained basis.
- Weaker market positioning as indicated by unsuccessful product launching and/or declining market share.

ISSUER PROFILE SUMMARY

PT Mayora Indah Tbk is a leading Indonesian consumer goods company, founded in 1977, specializing in the production of food and beverages. Known for popular brands like Kopiko, Torabika, Roma, and Energen, the company offers a wide range of products including biscuits, candy, coffee, and beverages. With a strong market presence in Southeast Asia and distribution in over 100 countries, Mayora has built its reputation through innovation and a commitment to quality. The company has recorded IDR25.64 trillion of revenue in 9M24 (2023: IDR31.48 trillion), with the domestic market contributed 58.4% and 41.6% came from export market (2023: 56.4% and 43.6%), and around 70.0% of sales were generated through related -party.

MYOR has strategically located its manufacturing facilities in Cikarang (Bekasi) and Tangerang, initially focusing on the Jabodetabek region as its key target market. Currently, the company operates 7 factories with a total production capacity increased to 2.22 million tons as of the 9M24 (2023: 2.12

million tons) due to expansions at the Jayanti and Pasuruan plants. MYOR has consistently maintained a 55% utilization rate, with the remaining capacity typically used during festive seasons.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) PROFILE

In terms of the environmental aspect, MYOR has adopted sustainable energy practices by utilizing coffee grounds, solar panels, and renewable electricity supplied by PLN, with a target to achieve the contribution of total renewable energy would be 15% of total energy consumption by 2030. MYOR is also committed to reduce water usage, manage waste effectively using water treatment, and promote sustainable and more environmentally friendly packaging such as blister packs. Meanwhile, for the social aspect, the company ensures a safe, comfortable, and productive working environment, along with providing various training programs for employees. As a result, only 0.001% of its employees have experienced work-related accidents. Regarding governance, MYOR has established a few internal control and risk management to comply with regulation and publish necessary comprehensive disclosures. Based on Sustainalytics report, as of 14 October 2024, MYOR has a score of 33.8/High Risk and is ranked 343 out of 644 companies engaged in food products industry globally.

FINANCIAL HIGHLIGHTS

	2021	2022	2023	9M24
Total Debt (IDR bn)	5,134	5,529	4,267	9,280
Total Equity (IDR bn)	11,360	12,835	15,282	16,083
Total Revenue (IDR bn)	27,905	30,669	31,485	25,639
EBITDAR (IDR bn)	2,695	3,361	5,211	3,508
EBITDAR Margin (%)	9.7	11.0	16.6	13.7
Cash Flow from Operation (IDR bn)	1,065	1,650	5,344	(1,625)
Free Cashflow (IDR bn)	(1,119)	(392)	2,021	(4,413)
Total adjusted Net Debt/EBITDAR (x)	0.89	0.78	0.13	1.08
EBITDAR/(Net Interest Paid+Rents) (x)	6.60	7.43	16.87	19.61

Source: MYOR, some figures are adjusted according to PKRI's definition

The principal methodology used in these ratings was Rating Criteria for Non-Financial Corporation published in February 2022 and available at <https://www.pemeringkatkreditindonesia.com/>.

'_{ina}AA' rating reflects a belief in the fulfillment of obligations with the expectation of low credit risk relative to other issuers or debt securities.

ANALYST TEAM

Fadhlan Muhtadi - Analyst
fadhlan.muhtadi@pkri.co.id

Sintia Prihastanti - Analyst
sintia.prihastanti@pkri.co.id

Stefanus Yuniardhi – Director
stefanus.yuniardhi@pkri.co.id

PT Pemeringkat Kredit Indonesia
www.pemeringkatkreditindonesia.com

6221 2709-3505
 TIFA Building, 7th Floor
 Kuningan Barat No. 26
 Jakarta 12710

DISCLAIMER: This report or publication is the opinion of PT Pemeringkat Kredit Indonesia ("PKRI") which was given and is in effect on the date of this report. PKRI's opinion and analysis do not constitute a recommendation to buy, hold, or sell any securities instruments, or make investment decisions. PKRI has no obligation to update the contents of the report in any form. In preparing this report, the PKRI has obtained information from sources that are believed to be reliable. PKRI has the full right to disseminate opinions and analyzes written in its report. PKRI does not conduct audits, due diligence, or verification of the information obtained and is not responsible for the truth, completeness, timeliness, and accuracy of the information referred to. Reports issued by the PKRI may not be used for purposes that are contrary to regulations or violate the law. PKRI has policies and procedures to ensure and maintain the confidentiality of certain non-public information received in connection with the analysis process and has commitment and integrity to maintain independence in the report preparation process.