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PKRI Upgrades Mayora Indah to '$_{\text{ina}}$AA+'; Outlook Stable

PKRI has upgraded PT Mayora Indah Tbk's (MYOR) Issuer Rating from '$_{\text{ina}}$AA'/Outlook Positive to '$_{\text{ina}}$AA+'/Outlook Stable. The rating upgrade is underpinned by MYOR's resilience and flexibility to maintain sufficient margin and low leverage through different points in the economic cycles. MYOR's ability to lead price increases without significant impact on sales volume in 2023 has brought its profit margin to recover to the pre-pandemic level, reflecting its established market position and the strength of its key brands.

The stable outlook denotes PKRI's confidence that the company would maintain leading position that supports strong balance sheet. In PKRI's view, MYOR still has capacity to deleverage and would maintain net leverage below 1.25x in the medium term.

RATING RATIONALES

Price Leadership. MYOR's ability to increase average selling price in 2023 highlighted its power to implement pricing adjustment and pass-through as the company has chosen to focus on margin over growth. This, combined with margin gains from lower commodities prices, has resulted in gross profit margin recovery to 26.7% in 9M23 from 22.3% in 2022, while sales volume declined. PKRI expects sales volume will rebound next year when consumers have become accustomed to the new selling price. PKRI projects that gross profit margin will sustain at 24%-26% in 2023-2026, in line with MYOR's target, while EBITDAR margin will stay around 12.9% - 15.1% in 2023-2026. MYOR will continue to deal with commodity and foreign exchange markets and remain sensitive to changes in purchasing power and consumer behavior, however the management has the necessary tools and capability to manage volatility. Continuous upgrade in production capacity would also help the company to improve productivity and cost efficiency.

Strong Liquidity and Financial Flexibility. Solid cashflow from operation has provided MYOR with adequate cash to fund its capex and loan repayment. PKRI expects that MYOR would generate neutral free cash flow (FCF) in 2023 and 2024 before turning positive in 2025-2026 due to declining capex in line with completion of Pasuruan and Jayanti factory development as part of the company's expansion plan. Thus, net leverage (net adjusted debt/operating EBITDAR) is forecasted to remain satisfactory in 2024-2026. Liquidity is considered very comfortable with well spread debt maturity schedule. In addition, MYOR's outstanding credit records have established the company to become one of a handful Indonesian corporates of which 100% of its banking facilities are based on clean basis (unsecured).

Growth Potential and Targeted Markets. Medium-term demand is expected to rise in line with urbanization trend, population growth and rising income. PKRI expects that MYOR will focus on organic growth in Indonesia and other Asian emerging countries. Currently, export market to around 100 countries has accounted for about 40% of MYOR's revenue, providing support to MYOR in the case of unfavorable domestic demand. In our view, MYOR's growth prospect is robust as its presence mostly in markets that are less matured. Nevertheless, threat of cheaper competitors' products might erode MYOR's market share and/or profitability. However, these would be mitigated by the company's well-known brand and by its track record of successful product launches.

Solid Business Operations Management. MYOR's operation is supported by its strong distribution channel driven by its capability to maintain its strong foothold in traditional market (small retailers/kiosks) covering a vast geographical coverage, which contributes around 80% of total sales (while the rest 20% generated from modern market). The company also has longstanding relationship with plenty and diverse suppliers that would partly mitigate operational issues such as raw material shortages as occurred in 2022. Strong supply chain management and distribution channels coupled with solid research and development (R&D) to produce innovative products have helped MYOR to establish its brand equity existence.

Relative Elasticity. MYOR has proven itself to be able to generate profitable operation despite challenging situation such as in 2020-2022 when facing declining demand and/or rising cost of raw materials. As a food manufacturer, MYOR benefited from more resilient demand compared to non-durable goods producers or most companies in different sectors. However, MYOR's products are not considered basic necessities/staple food so its margin and volume are perceived to be more vulnerable during cyclical downturn compared to its larger peers with better diversification across food categories.

SENSITIVITY DRIVERS

Key drivers that could lead to positive rating action are as follow:

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

However, key drivers that could lead to negative rating action are as follow:

- 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 (MYOR) is a well-established consumer goods production company that was founded in 1977. The company has recorded IDR22.9 tn of revenue in 9M23 (2022: IDR30.7 tn), with domestic market contributed 57.1% and 42.9% came from export market (2022: 56.4% and 43.6%), and around 69% of sales were generated through related - party.

MYOR has concentrated its factory establishments in Cikarang (Bekasi) and Tangerang, considering its earlier primary target market in Jabodetabek area. Currently, it has 12 factories in total. With 45 years of expertise, to-date, the company is a well-known manufacturer of various biscuits, snacks, cereals, and confectionery brands, such as: Roma, Beng-Beng, Slai O'lai, Energen, Choki-Choki, and Kopiko. MYOR is equipped with total capacity of 2.1 mn tons as of 9M23 and will increase by 10%, once the Jayanti and Pasuruan factory expansion is fully completed. MYOR has been consistently maintain 55% capacity utilization, while the remaining capacity would be used during festive season.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) PROFILE

In term of environmental aspect, MYOR has been using coffee grounds and solar panel as source of energy. MYOR has also used renewable energy powered electricity generated by PLN. MYOR has targeted that its 15% of energy intake in 2030 will come from renewable source. It also has commitment to reduce water usage and manage its waste. Meanwhile for the social aspect, MYOR has provided safe, comfortable, and productive working environment and created several training programs to foster its employee, which has resulted in only 0.001% of total employees experiencing work accident. Regarding governance aspect, MYOR has also fulfilled the standard criteria of good corporate governance, which is expected to continue in the near future. Based on Sustainalytics report 2023, MYOR has score of 31.2/High Risk and is ranked 235 out of 626 companies engage in food products industry globally, which has improved from 2022 (score: 38.2/High Risk and rank: 346 out of 577).

FINANCIAL HIGHLIGHTS

	2020	2021	2022	9M23
Total Debt (IDR billion)	5,066	5,418	5,874	4,988
Total Equity (IDR billion)	11,271	11,360	12,835	14,093
Total Revenue (IDR billion)	24,477	27,905	30,669	22,894
EBITDAR (IDR billion)	3,636	2,695	3,361	3,471
EBITDAR Margin (%)	14.9	9.7	11.0	15.2
Cash Flow from Operation (IDR billion)	3,767	1,065	1,650	3,508
Free Cashflow (IDR billion)	1,927	-1,119	-392	771
Total adjusted Net Debt/EBITDAR (x)	0.35	0.89	0.78	0.38
EBITDAR/(Net Interest Paid+Rents) (x)	8.77	6.60	7.43	14.01

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

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

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