

PT Darmi Bersaudara Tbk – Fast Growing Greenback Earner

Company Profile

PT Darmi Bersaudara Tbk (DARMI) focuses mainly in trading processed wood products. The company is based in Surabaya, Indonesia. The production and workshop is located in Gresik, Indonesia. In 2017, the founder decided to fully concentrate in trading wood processed product. The company obtained the verification legal system from ministry of environment and forestry. Under the trademark of DARBE WOOD, the company is providing wood products including: decking, E2E, T&G, flooring, door jamb, post beam, finger joint, window jamb. The company exports mainly to India, Nepal and soon to be South Korea.

Shareholders Before IPO

PT Darbe Putra Makmur	: 70%
PT Marinay Berjaya Investama	: 10%
PT Cladia Karya Indonesia	: 10%
PT Indymike Inti Investama	: 10%

Shareholders After IPO

PT Darbe Putra Markmur	: 54.21%
PT Marinay Berjaya Investama	: 7.74%
PT Cladia Karya Indonesia	: 7.74%
PT Indymike Inti Investama	: 7.74%
Public	: 22.57%

Research Analyst

Research Team

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Moving in a lucrative and fast growing industry. With the growing global wood consumption, DARMI is well placed in the industry. It has a strong bargaining power from the supply side. We expect DARMI's sales 2019F/2020F to reach Rp59.6bn/114.6bn (+58% YoY/92% YoY) respectively achieved mostly through export to the Nepal and Indian market.

Full support from Indonesian Government. The growing concern of illegal logging in the global market require any business produces and sells processed wood product to prove their legality status. With government support to provide Wood Legal Verification System (SLVK), the legality of Company's wood will be assured to the global market. Thus, the SLVK will help to speed up the export

Benefit from strengthening USD. As a company that engage 100% of the sales in global market, we see this as the strength of DARMI. With the outlook that the fed to slow down interest rate cut, and conservative BI rate policy, we expect USD will still fluctuate with upward pressure. We believe this condition will mostly benefit DARMI to keep higher margin through total USD exposure.

IPO to grab low hanging fruit. Through IPO, DARMI will be able to improve the production capacity and fulfill the demand from their customers. Currently DARMI can only produce 360 containers/year compared to current 2018 customer's order of 6,480 containers for the next 3-4 years. This shows a large potential for DARMI to grow their sales over the next 4 years while production capacity will be the only culprit.

Valuation. In DARMI valuation we use the multiple comparison valuation. We think the fair value of the company is at the forward PER 2020F of 12.5x – 14.5x and PBV 2020F of 1.12 – 1.30x slightly better valuation compared to current wood industry PER of 12.63x and PBV of 2.05x. we believe with the low DER of 0.19x makes DARMI a sound and attractive investment.

Figure 1. DARMI Financial Summary

Key Financials (million IDR)	2017	2018	2019F	2020F	2021F
Revenue	21,726	37,624	59,623	114,660	176,576
Gross Profit	3,938	6,396	10,367	20,935	32,252
Income Before Tax	169	2,411	4,597	10,154	16,715
Net Income	129	1,853	3,448	7,615	12,536
GP Margin	18.1%	17.0%	17.4%	18.3%	18.3%
Net Profit Margin	0.6%	4.9%	5.8%	6.6%	7.1%
ROA	0.7%	3.6%	4.0%	7.5%	11.3%
ROE	2.7%	5.9%	5.2%	9.4%	13.7%
DER	1.46	0.27	0.19	0.13	0.08

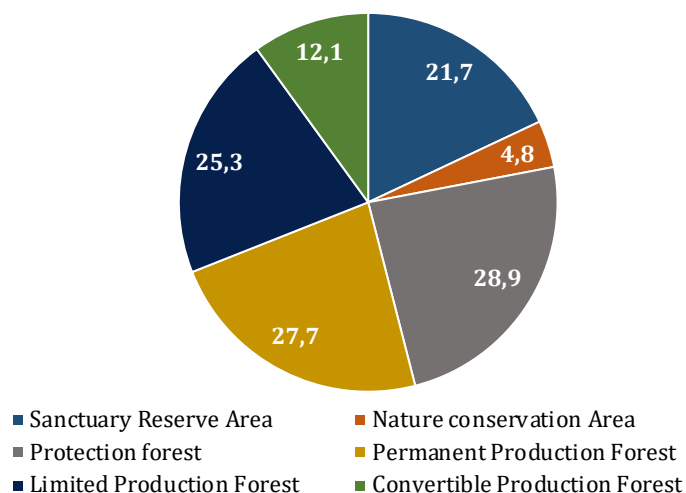
Source: Company, ASI Forecast

Industry Analysis

We view that Indonesia wood industry has a vast opportunity as it is blessed by 120.6 million hectares of land in which 63% or 76 million hectares are designated as national forest area which mean Indonesia government has dedicated this portion of land to be permanent forest. Indonesian government also categorized the forest as 3 different functions: 1) Production forest 68.8 million hectares; 2) Protection forest 29.7 million hectares; 3) Conservation forest 22.1 million hectares.

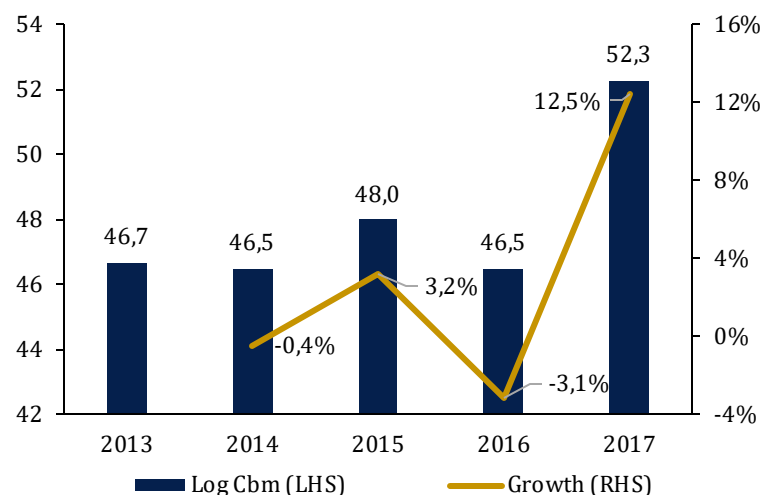
With this huge forest area, wood related business will surely benefit from the ample supply of timber products. In 2017, the industrial log production has reached 52.3 million M³ (+12.5% YoY), the increase in production in-line with growing demand of global market. Indonesia wood products exported to several country including: China, Japan, US, South Korea India and Others with total export 2017 of US\$10,896.63 Million.

Figure 2. Indonesia Forest Area (Million Hectares)



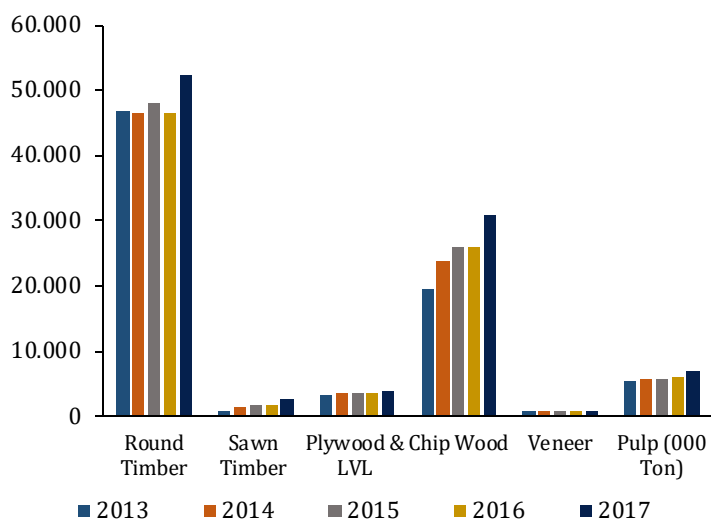
Source: Ministry of Environment and Forestry Indonesia

Figure 3. Indonesia Log Production (Million M³)



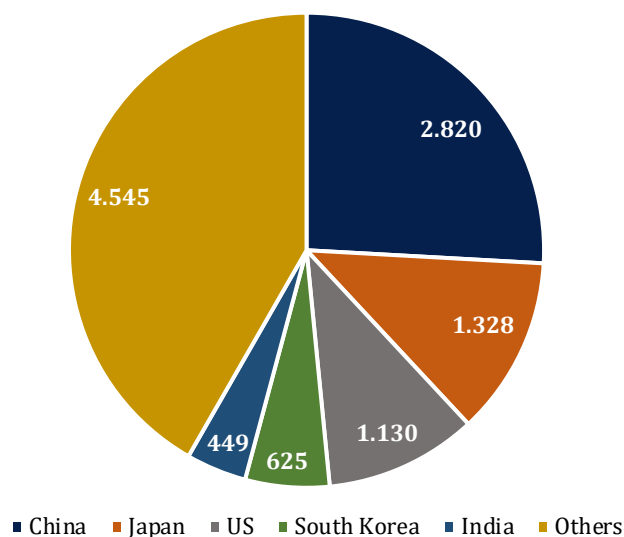
Source: Ministry of Environment and Forestry Indonesia

Figure 4. Indonesia Wood Production (in 000 M³)



Source: Ministry of Environment and Forestry Indonesia

Figure 5. Indonesia Export by Country (Million US\$)

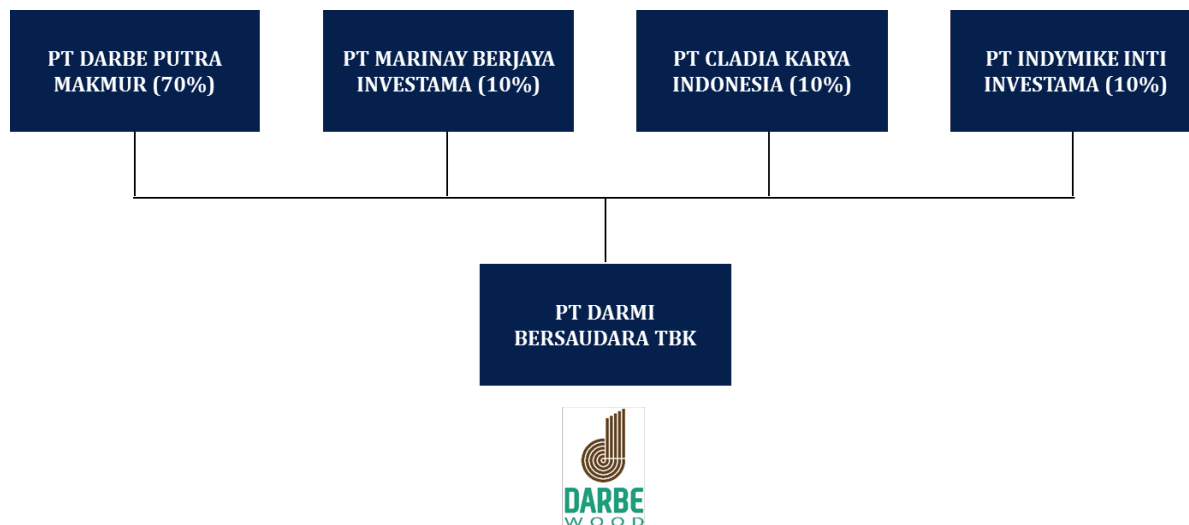


Source: Ministry of Environment and Forestry Indonesia

Company Overview

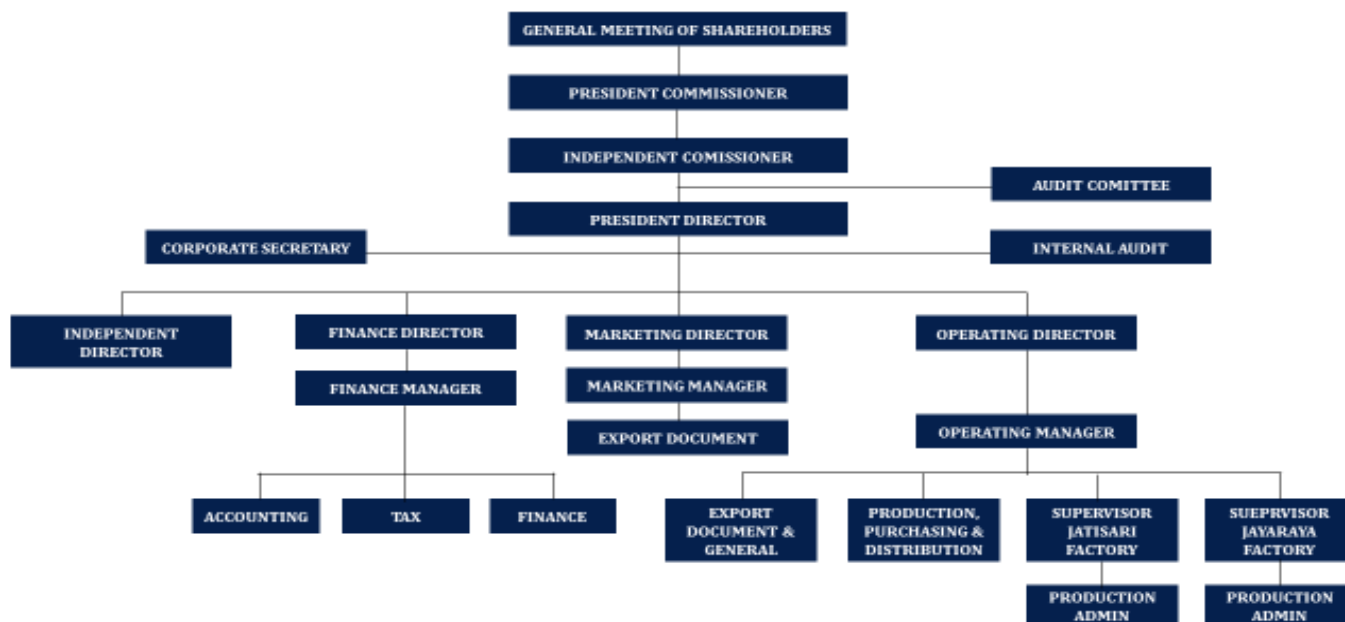
PT Darmi Bersaudara Tbk was founded in 2010 in Surabaya, East Java. Originally, the company trades various products mainly contributed by poultry and processed wood. As the processed wood trading business grow larger, DARMI decided to focus only in processing the wood products by 2017. Since then, the company rented the wood processing facility in Gresik, East Java with total capacity of 48.000 M³/year. Currently, DARMI is exporting to Kolkata - India, while aiming to build new market in other big cities in India such as New Delhi, Bangalore, and others.

Figure 6. DARMI Current Ownership Structure



Source: Company

Figure 7. DARMI Current Ownership Structure



Source: Company

Figure 8. DARMI Board Structure



Drs. Mochamad Taufan Hadiwijaya, President Commissioner

An Indonesian nationality aged 51 years. Graduated in 1989 with Bachelor Degree of International Relation from Social and Political Science Faculty of Airlangga University.

Serving as President Commissioner since 3 June 2010. Prior to the position, he was working as a relationship manager at PT Bank International Indonesia Tbk in 1990 – 1993. Working as Vice President Sales Specialist Transaction Banking and Branch Manager of Deutsche Bank AG Surabaya in 1993- 2018.



Dolvy Elfianes, Independent Commissioner

An Indonesian nationality aged 54 years. Graduated as Master of Business Administration from University of Airlangga in 1999. Hold a Bachelor Degree of International Relation from Social and Political Science Faculty from University of Airlangga in 1989

Serving as Independent Commissioner of the company since 6 September 2018. Prior to the position, he served as Sub-Branch Manager Bank International Indonesia Tbk from 1990 – 1998, and Assistant Vice President Global Transaction Banking Deutsche Bank AG in 2006 – 2018.



Nanang Sumartono H, S.H., President Director

An Indonesian nationality aged 45 years. Graduated as Bachelor of Law from University of Brawijaya in 1995.

Serving as the President Director of the company since 6 June 2010. Prior to the position, he was serving as Operation in Bank Bali for Surabaya Branch from 1995 – 2001.



Lie Kurniawan, Independent Director

Indonesian nationality aged 35 years. Graduated as Bachelor of Banking and finance form Philippine School of Business Administration in 2004.

Serving as Independent Director since 6 September 2018. Prior to the position, he was Financial Market Professional since 2002 – 2016, serving as Business Development Manager in Cygnus Travel in 2014- Mei 2018, and Head of Investment in PT Versailles Indomitra Utama since October 2017 – April 2018.



Pandey Sanjay Kumar, Marketing Director

India nationality aged 53 years. Graduated with Bachelor Degree of City College of Communication and Business Administration from University of Calcutta - India in 1984.

Serving as the Marketing Director since 7 October 2016. Prior to the position, he was Assistant Manager Accounting & Finance in Bria Group of Industries in India 1984 – 1994, Country Manager for Ashita Impact in 1995 – 2008, PT Sinarmas Then and PT Yorimasa Company in 2009 – 2020 and as Commissioner at PT Sanjaya Bumi Resources in 2013 – 2016.



Abdul Haris Nofianto, S.H., Operation Director

Indonesia nationality aged 49 years. Graduated with bachelor degree of Civil Law from University of Airlangga in 1992.

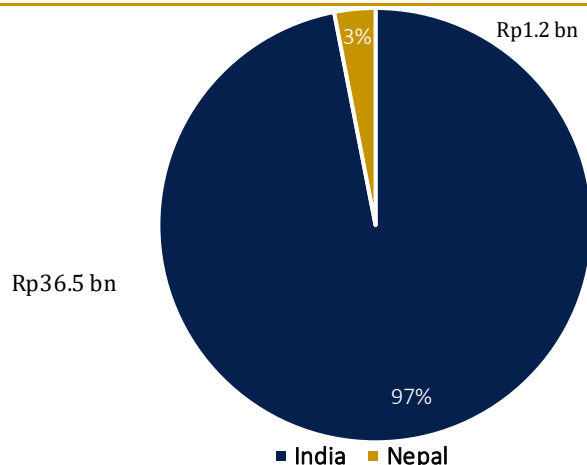
Serving as Operation Director since 3 June 2010 and concurrently serving as Corporate Secretary since 6 September 2018. Prior to the position, he was working as Sales Manager in PT Dunkindo Cipta Rasa in 1996 – 2010 and Director at PT Darbe Jaya Abadi since 2016 – now.

Source: Company

Business Overview

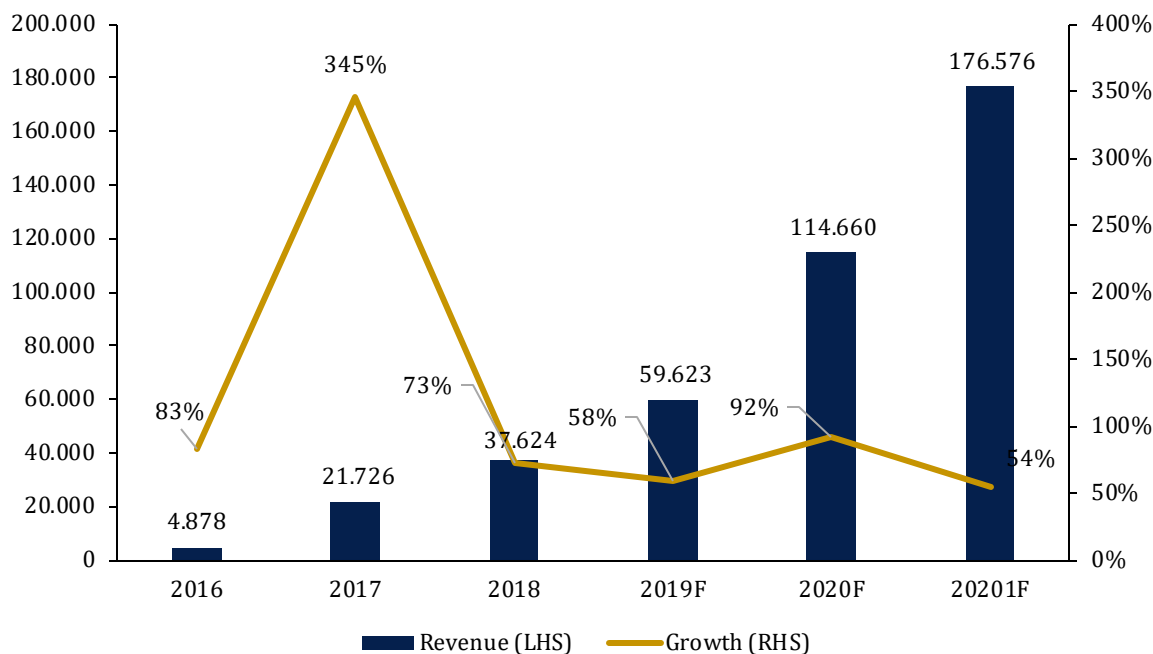
Since DARMI changed their business focus into trading processed wood in 2017 this brings a positive impact as sales 2017 reaches Rp21.72 bn (+345.5% YoY) which shows a significant increase as the company breaking into various export market. In 2018, DARMI posted revenue figure of Rp37.6 bn (+73.2% YoY) due to high demand of wood in India. Looking at this strong global demand, we believe DARMI sales in 2019F/2020F could reach Rp59.0 bn/Rp114.7 bn (+57.25% YoY/+94.4% YoY) The growth mainly supported by increasing production toward higher utilization rate.

Figure 9. DARMI Sales Breakdown by Country in 2018



Source: Company

Figure 10. DARMI Revenue Forecast (in Million IDR)



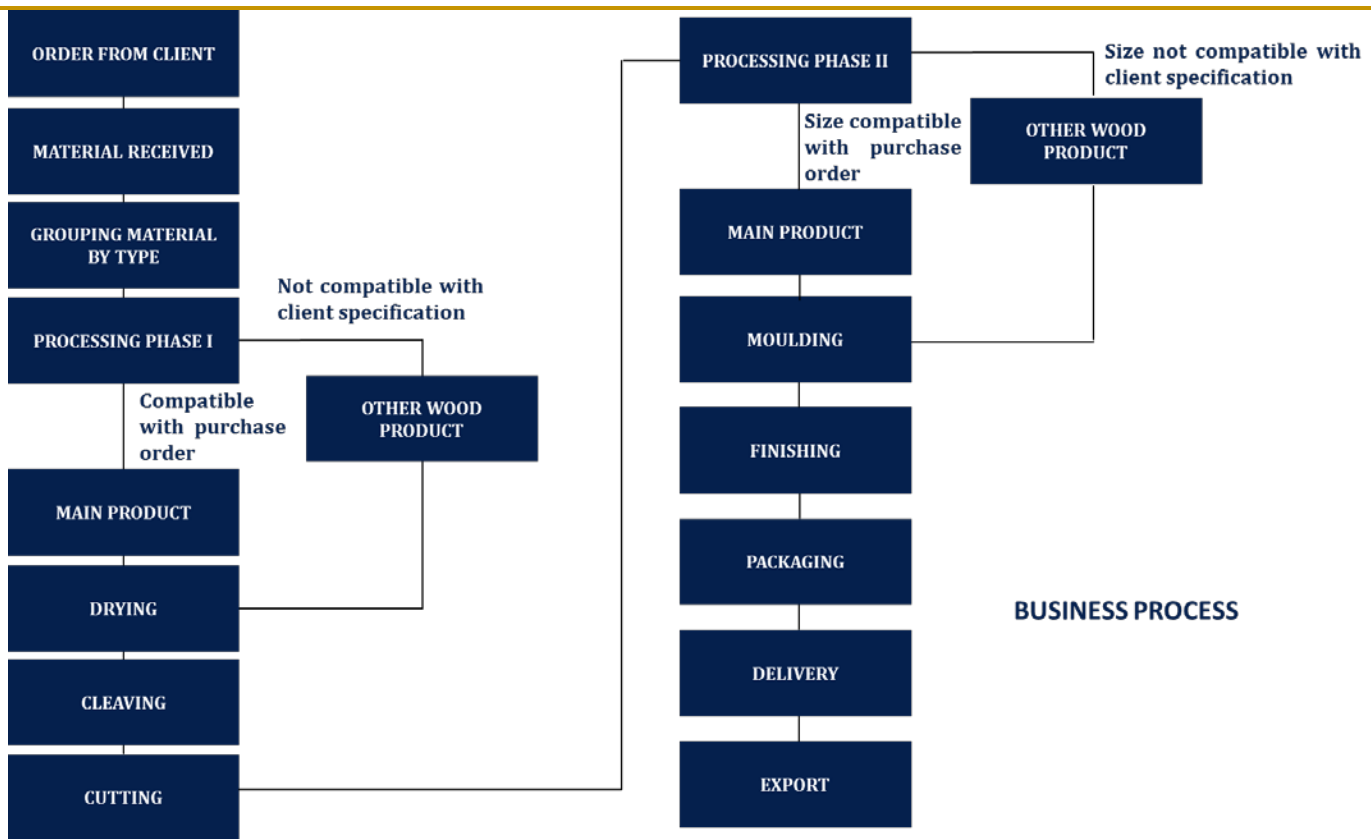
Source: Company, ASI Forecast

Currently DARMI rented a warehouse and paid third party services to process raw materials. This warehouse and processing facility located in East Java. After wood processed into end product, DARMI will perform quality check and pack the final product for export.

In acquiring raw material, DARMI only purchase from companies that harvests the wood legally. The global market is strict with the illegal logging issues. To prove the legality of the wood product, DARMI holds the Wood Legality Verification System (SLVK) with license number 273.SLK.010-IDN.

DARMI business process is separated into 2 stages. The first stage is to acquire and separate the wood material type according to the customer specified order. In case the raw material is not compatible with the specified order, then DARMI will process it into other product or sell it in the local market. Similarly, the second stage is processing stage, where the processed product will be filtered according to the precision of the cutting measurement that is compatible with the purchase order. In the case the measurement is not compatible with the specification, it will be processed into another wood product and sell it in the local market. The product sold in the local market is recorder as other income in DARMI's income statement.

Figure 11. DARMI Business Process



Source: Company

Figure 12. DARMI Processing Facilities



Wood Log



DARMI Sawmill Machine



DARMI Crosscut Machine



Sawn Timber



DARMI Molding Machine



End Product

Source: Company

Figure 13. DARMIProduct Range



Decking Variant 1



Tongue & Groove



Door Jam



E2E



Post Beam



Window Jam

Source: Company

IPO Proceed Plan

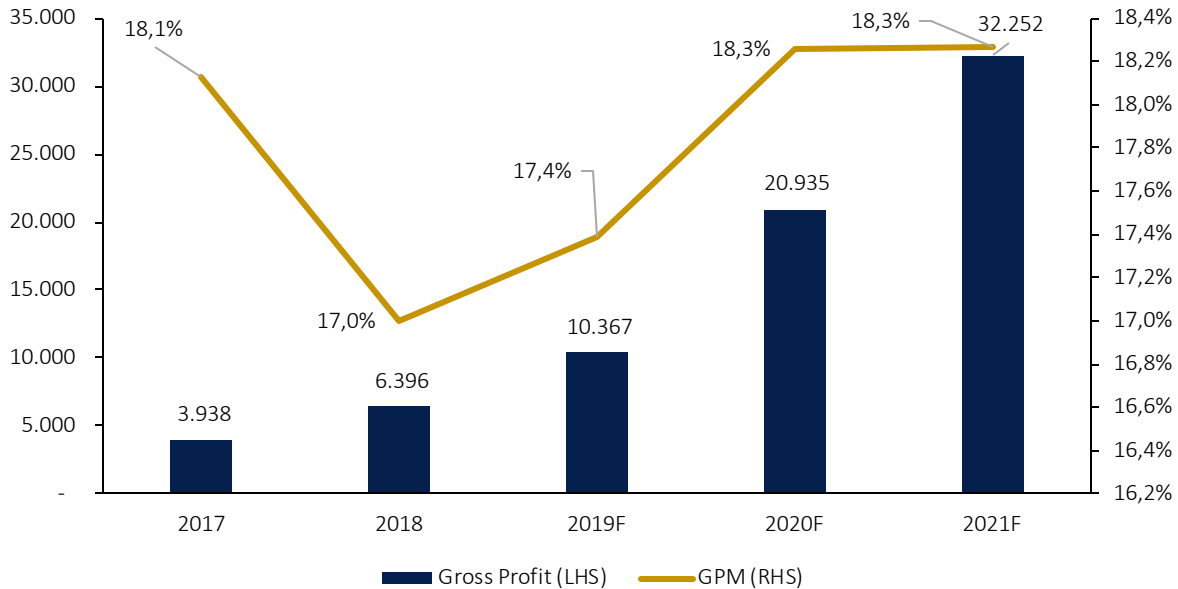
With undergoing IPO process, DARMI is looking to improve the production capacity through increase in working capital as currently DARMI can produce on average 30 Containers/Month while the customers ordered more than the capacity they can produce per month. Current order on hand reaches total 6,480 containers for the next 4 years with total value worth of US\$84.2 bn. Hence with the IPO DARMI will be able to increase total working capital and purchase additional fix asset to improve the production capacity. We believe by improving utilization and capacity, DARMI will have their gross profit margin widen in 2020F to 18.3% (vs FY18: 17.0%) due to achieving economic of scale.

Figure 14. DARMI 2019 - 2022 Customer Contracts

Customers Name	Order (Containers)	Total Volume (M3)	Selling Price (US\$/M3)	Order Value	Contract Period
India - 001/DB-KP/X/2018	1080	21,600	650	\$14,040,000	2019 - 2021
India - 001/DB-KP/XI/2018	1920	38,400	650	\$24,960,000	2019 - 2022
India - 002/DB-KP/X/2018	720	14,400	650	\$9,360,000	2019 - 2021
India - 002/DB-KP/XI/2018	360	7,200	650	\$4,680,000	2019 - 2021
India - 003/DB-KP/XI/2018	1440	28,800	650	\$18,720,000	2019 - 2022
India - 004/DB-KP/X/2018	960	19,200	650	\$12,480,000	2019 - 2022
Total	6,480	129,600	N/A	\$84,240,000	

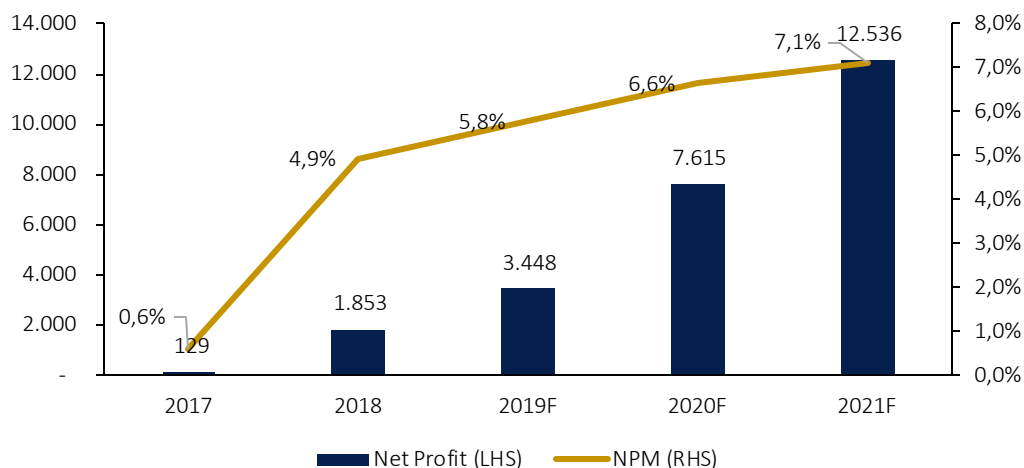
Source: Company

Figure 15. DARMI Gross Profit (IDR Million) and Gross Profit Margin 2017 - 2021F



Source: Company, ASI Forecast

Figure 16. DARMI Net Profit (IDR Million) and Net Profit Margin 2017 – 2021F



Source: Company, ASI Forecast

Valuation

In valuing DARMI, we use the multiple comparison against other companies within the same industry. Currently the average PER for the wood industry stands on 12.63x. Compared to its peers, the forecasted 2020F shows that DARMI can achieve net profit margin of 5.8% by 2020F above market average of 3.3% due to DARMI operating under a light asset position and supported with low DER ratio of 0.19x lower than average industry DER of 4.83x. Hence, we value DARMI would be trading slightly below wood industry average at 12.5x - 14.5x forward PER 2020F and forward PBV 2020F of 1.12-1.30x.

Figure 16. DARMI Net Profit and Net Profit Margin (as Per 27 May 2019)

Ticker	PER TTM	PBV	ROA	ROE	NPM	GPM	DER (X)	Market Cap (Billion IDR)	Net Income (Billion IDR)
WOOD	24.04	2.32	5.20%	9.8%	11.4%	35.17%	0.01	5,813	239
SULI	5.72	3.74	3.20%	65.3%	3.5%	15.7%	11.59	271	47
TIRT	-1.71	0.76	-4.00%	-41.7%	-3.5%	10.93%	7.02	66	-36
GEMA	22.46	1.38	2%	5.1%	1.9%	19.5%	0.69	531	22
Simple Average	12.63	2.05	1.65%	9.63%	3.31%	20.35%	4.83	1,670	68
DARMI *)	12.5-14.5	1.12 - 1.30	8.6%	9.4%	5.8%	17.4%	0.19	100	8

Source: Company, ASI Forecast

*) Uses 2020F data

Key Financials (IDR Million)

	2017	2018	2019F	2020F	2020F		2017	2018	2019F	2020F	2020F
Asset						Employee Benefit	270	257	258	258	258
Cash & Equivalent	159	390	340	381	113	Long Term Bank Loan	1,598	1,270	982	695	407
Short-term Investment	0	3,000	3,000	3,000	3,000	Non-Current Liabilities	1,868	1,527	1,240	952	665
Trade Receivable	0	0	13,759	22,932	37,456	Total liabilities	21,385	18,663	21,219	19,516	19,433
Other Receivable	14,800	5,840	0	0	0	Total Equity	7,859	55,019	77,578	85,197	97,738
Inventories	1,370	2,519	10,985	16,405	16,216	Total Liabilities & Equities	29,244	73,682	98,797	104,714	117,171
Advance to Suppliers	4,875	52,278	52,390	32,430	16,720	Income Statement					
Prepaid Tax	488	1,854	7,049	13,716	18,238	Net Revenue	21,726	37,624	59,623	114,660	176,576
Current Asset	21,691	65,881	87,523	88,865	91,743	COGS	(17,788)	(31,228)	(49,256)	(93,725)	(144,325)
Estimated Tax Refund	0	437	437	437	437	Gross Profit	3,938	6,396	10,367	20,935	32,252
Deferred Tax Asset	0	64	64	64	64	Selling Expense	(2,027)	(1,395)	(3,876)	(6,880)	(9,712)
Property for Investing	0	6,786	6,632	6,478	6,323	G&A Expense	(900)	(2,002)	(3,308)	(6,158)	(9,250)
Fixed Asset	7,486	500	4,128	8,856	18,590	Financing Expense	(1,005)	(1,377)	(1,377)	(1,193)	(852)
Other Non-Current Asset	67	14	14	14	14	Other Expense	(73)	(289)	(417)	(803)	(1,236)
Non-Current Asset	7,553	7,801	11,274	15,849	25,428	Other Income	236	1,078	3,208	4,253	5,513
Total Asset	29,244	73,682	98,797	104,714	117,171	Income Before Tax	169	2,411	4,597	10,154	16,715
Liabilities						Tax Expense	(40)	(558)	(1,149)	(2,538)	(4,179)
Short Term Bank Loan	9,911	13,770	13,770	10,270	7,270	Net Income	129	1,853	3,448	7,615	12,536
Trade Payables	2,198	747	947	1,197	1,497	Key Ratios					
Other Payables	377	252	252	252	252	GP Margin	18.1%	17.0%	17.4%	18.3%	18.3%
Tax Payables	58	828	719	719	719	OP Margin	4.3%	6.4%	7.7%	8.9%	9.5%
Accrued Expense	0	40	40	40	40	Net Profit Margin	0.6%	4.9%	5.8%	6.6%	7.1%
Advance from Customer	6,787	1,164	3,916	5,751	8,655	ROA	0.4%	4.2%	4.5%	8.6%	13.9%
Current Bank Loan	186	335	335	335	335	ROE	1.6%	5.9%	5.2%	9.4%	13.7%
Current Liabilities	19,517	17,136	19,979	18,564	18,768	Current Ratio	1.11	3.84	4.38	4.79	4.89
						Quick Ratio	1.04	3.70	3.83	3.90	4.02
						DER	1.49	0.28	0.19	0.13	0.08

Disclaimer

INVESTMENT RATINGS: Indicators of expected total return (price appreciation plus dividend yield) within the 12-month period from the date of the last published report, are: Buy (10% or higher), Neutral (-10% to 10%) and Sell (-10% or lower).

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