

BUY

TP: IDR 610

▼ 58.0%

PT Panca Mitra Multiperdana Tbk

PMMP IJ

Shrimply Prawntastic

PMMP is the 2nd largest shrimp exporter in Indonesia. We forecast core EPS to grow by 41% YoY in FY22E and 7% YoY in FY23E (23% CAGR), largely driven by rising sales volume (8th facility started operations in Oct21) and increased share of higher-margin value-added shrimp exports. We believe PMMP is well-positioned to benefit from robust overseas demand given its scalable operations and low-cost structure. We initiated coverage with a BUY rating and DCF-based TP of IDR610/share, implying 7.7x FY23E P/E.

- Newly built facility driving top line:** In response to robust demand for its shrimp products from overseas markets (US – 87.6% and Japan – 12% of revenue in FY21), PMMP has expanded production facilities every 1-2 years, with the 8th plant (TMM4) coming on stream in Oct21, pushing up production capacity to 27,100 tons (+8% YoY). We expect revenue to rise by ~14% YoY in FY22E and ~5% YoY in FY23E (9% CAGR), largely driven by sales volume of TMM4. Mgmt. plans to build another plant (capacity of 6.5k tons) by end of FY23E, which we have not priced in into our model yet.
- OP margin improvement:** We expect OP margin to improve from 11% in FY21 to 12.3% in FY23E given: 1) Production capacities have been allocated to cooked shrimps, and more recently towards value-added products (e.g., breaded shrimps, etc.), which generates higher GP margins (value-added: 25-30%, cooked: 20-25%) than raw shrimps (10-15%); and 2) Declining shipping and freight cost, as logistic issue (i.e. shortage of containers for exports) should resolve gradually from FY21 onwards. Note that FY21 saw a decline in operating profit due to rising logistic cost, which was more than enough to offset improvement in gross margin.
- Well-positioned to capture demand for value-added shrimps:** We believe PMMP is well-poised to fulfil robust demand for value-added shrimps, given: 1) Its 17ha land could fit 3 more plants and PMMP has large cold storage facilities; 2) Plants in Situbondo incur lower labor cost and have convenient access to cultivation centres and Surabaya's port; 3) Attainment of various "must-have" certifications enables it to secure more clients globally; and 4) "Proven" production process and experienced mgmt. with established long-term client relationships (Walmart, Maruha, etc.).
- Initiating coverage with BUY; TP of IDR610/share:** We derive our end-FY22E TP of IDR610/share using DCF methodology, implying FY23E P/E of 7.7x. PMMP trades at an attractive 4.9x FY23E P/E, with Core EPS growing robustly at ~23% CAGR from FY21-23E, and further upside potential if 1 more plant is built by end of FY23E.

Financial highlights

Y/E 31 Dec (USD'm)	FY21A	FY22E	FY23E	FY24E	FY25E
Revenue	175.8	200.1	209.8	209.8	209.7
Operating Profit	19.4	24.1	25.7	25.8	25.8
Core PATMI	8.4	11.8	12.7	12.9	13.0
Outstanding shares (bn)	2.4	2.4	2.4	2.4	2.4
Core EPS (US\$c)	0.36	0.50	0.54	0.55	0.55
Core EPS growth (%)	-34.2%	41.4%	7.2%	1.8%	0.7%
NPM (%)	4.8%	5.9%	6.0%	6.1%	6.2%
ROE (%)	12.6%	13.8%	12.9%	11.6%	10.5%
Core P/E (x)*	7.6	5.2	4.9	4.8	4.8

Source: Company, SCCM; *Core P/E is computed based on average FX rate of IDR14,650

27 June 2022



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PRICE CLOSE (24 June 2022)

IDR 386

MARKET CAP

IDR 0.91 tn

USD 61.2 m

SHARES O/S

2,353 m

FREE FLOAT

23%

3M AVG DAILY VOLUME/VALUE

14.7m / IDR6.0bn

52 WK HIGH

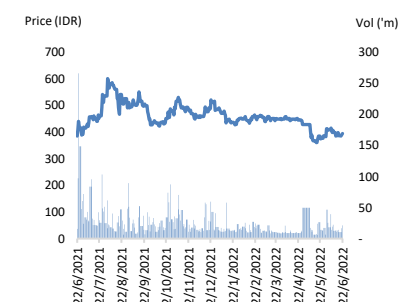
IDR625

52 WK LOW

IDR348

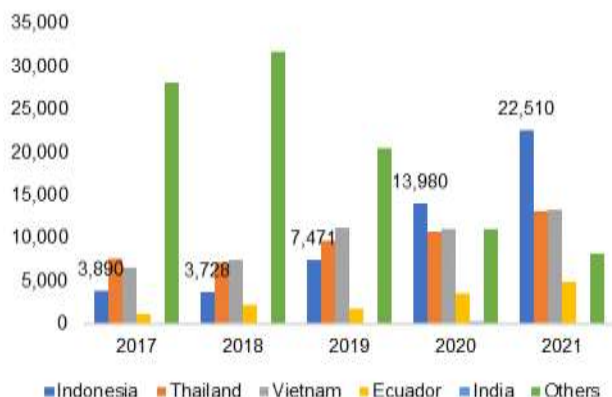
Target Price

IDR610



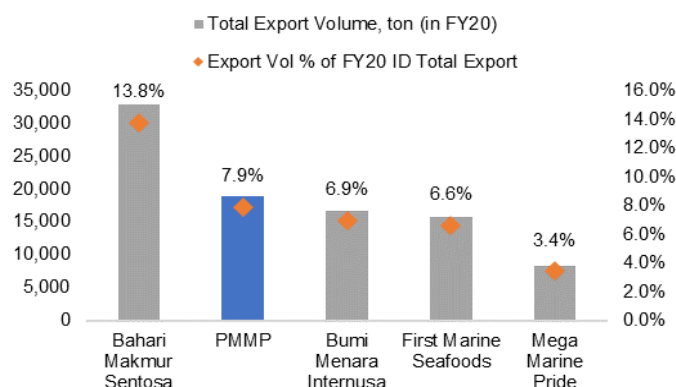
Focus Charts

Fig 1 - US now imports most of its breaded shrimps from Indonesia (in tons)



Source: NOAA Fisheries

Fig 2 - 2nd largest shrimp exporter in Indonesia (FY20)



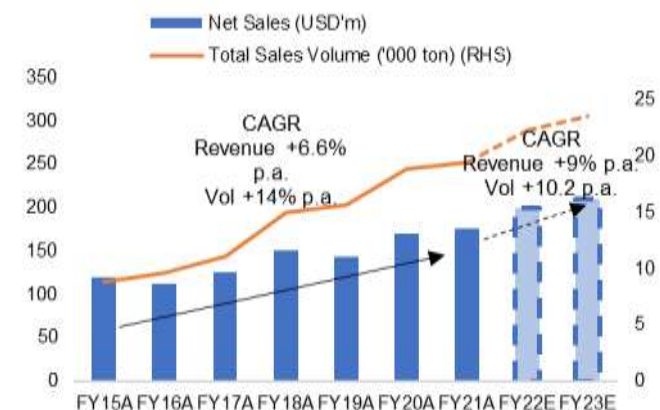
Source: Company, SCCM Research

Fig 3 - The 8th plant started operations in Oct21, boosting overall production capacity to 27,100 tons



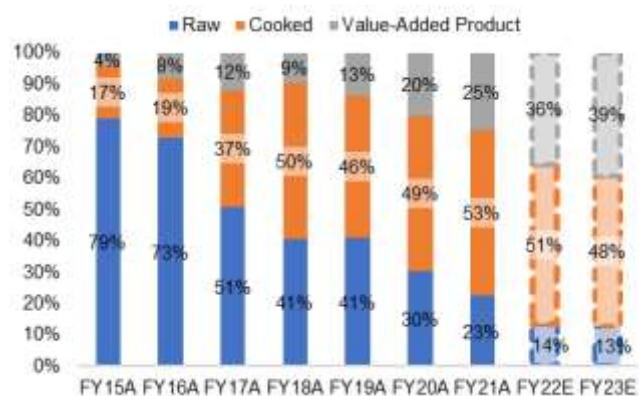
Source: Company, SCCM Research

Fig 4 - Revenue to grow by ~14% YoY in FY22E and ~5% YoY in FY23E, largely driven by the 8th plant



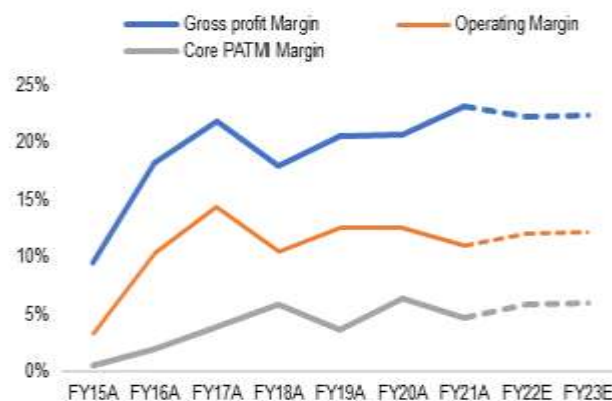
Source: Company, SCCM Research

Fig 5 - Rising share of Cooked and Value-Added Shrimps driving profit margins expansion



Source: Company, SCCM Research

Fig 6 - GP margin to normalize; OP and Core PATMI margins to improve



Source: Company, SCCM Research

Key Catalysts and Risks

Fig 7 - Catalysts and Risks

Catalysts	Comments
Rising production to meet robust demand	<ul style="list-style-type: none"> PMMP's export sales volume normally increases within a year after the establishment of each production facility. This is because PMMP only scales its operations when: 1) It has received an indicative order for product type and order size from its existing customers, 2) It enters new markets (e.g., domestic), and 3) Its latest plant has operated near or at full capacity. We expect PMMP's revenue to grow by ~14% YoY in FY22E and ~5% YoY in FY23E (9% CAGR), driven mainly by rising sales volume (the 8th unit "TMM4" came on stream in Oct21). PMMP plans to build another facility (capacity of 6.5k tons) by end of FY23E, but we have not factored this into our model yet. Its 17ha land in Situbondo could fit 3 more plants.
Improving OP margin from increased sales of higher margin products and declining shipping & freight cost	<ul style="list-style-type: none"> From FY21-23E, we expect OP margin to improve from 11% in FY21 to 12.3% in FY23E given: 1) Production capacities have been allocated to cooked shrimps, and more recently towards value-added products (e.g., breaded shrimps, etc.), which generate higher GP margins (value-added: 25-30%, cooked: 20-25%) than raw shrimps (10-15%); and 2) Declining shipping and freight cost, as logistic issue (shortage of containers for exports) should gradually resolve from FY21 onwards.
Cold storages ensure sufficient supply of raw materials and stable margins	<ul style="list-style-type: none"> PMMP currently owns one of the largest cold storage facilities among peers, with a capacity of 46,000 tons, which is more than enough to ensure sufficient supply of raw materials to fulfil its 6-12mo sales contracts. Excess storage capacity also allows PMMP to buy raw materials when prices are low enough to absorb the cost of financing the purchases. This should help stabilize margins.
Strategic location enables it to compete on cost	<ul style="list-style-type: none"> Indonesia produces plenty of shrimps throughout the year via farming and fishing. This allows processors to purchase raw materials in domestic market (raw material accounted for ~87 of total cost in FY21), instead of importing. Labor is the third largest cost after raw materials and factory overhead, accounting for ~8% of cost in FY21. PMMP has benefitted from the low minimum wage in Situbondo (~IDR1.9m/mo), where it can hire many workers at relatively lower cost compared to other areas in East Java. Its low-cost structure provides an edge against its local peers (mostly reside in bigger cities), as well as enabling it to remain competitive against global rivals. Land price in Situbondo is also cheaper relative to other areas in East Java, should PMMP decide to purchase nearby lands for future expansion.
Global certifications to bring in more clients	<ul style="list-style-type: none"> PMMP has obtained various global certifications, which provide a gateway to penetrate developed markets (US, Japan, EU) and securing customers with big global names (Walmart Inc., Kroger Company, Aldi and Target) and clients from other countries, including Singapore, Denmark, Hongkong, etc. New countries that have placed purchase orders in FY21 were the UK and South Korea.
Risks	Comments
Business risks	<ul style="list-style-type: none"> Shortage of containers: PMMP could export up to 160 containers/mo, but it exported only ~80 containers/mo around Mid-FY21 due to shortage of shipping containers for frozen food. This resulted in higher shipping cost (i.e., negative impact on operating margin) and longer cash conversion cycle. We believe this situation has improved in FY22E, but it is not at pre-covid level yet. Exposed to movements in raw material costs: PMMP does not have its own farm. It is dependent on supply of shrimps procured from various sources, where the amounts and purchase prices can't be accurately determined. PMMP partially mitigates this risk by leveraging on its huge cold storage facilities, where it could stock up when prices are low. Product rejects: There is a possibility for products to be rejected by buyers after being produced and sent abroad. PMMP mitigates this by performing a comprehensive Quality Control (QC) process prior to shipment of goods. Some buyers even placed their own QC persons in the sites to check on products before shipments. Its policy is to have less than 1% of rejected products after the QC process. PMMP has not experienced this issue for more than 10 years. Several buyers account for significant share of revenue: Several major buyers accounted for a significant proportion of PMMP's revenue, and hence there is a risk that its top-line may be impacted negatively should they switch to other suppliers in Indonesia or other countries. However, it is important to note that some of these existing major clients have already established mutually beneficial long-term relationships with PMMP (E.g., PMMP has reliably delivered value-added products to buyers according to their proprietary recipes).

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PMMP.IJ

Company Initiation**Indonesia**

Consumer Goods

Financial risks	<ul style="list-style-type: none">■ Vulnerability to liquidity, credit, and dilution risks: PMMP relies heavily on revolving credit to finance working capital, which resulted in high short-term debt. It may also require more equity funding for setting-up new plants, which could result in dilution of existing shareholders' stakes.■ Affected by FX fluctuations: FX fluctuations could impact financial performances because exports sales are settled in foreign currencies, while the cost of raw materials and operating costs are denominated in IDR. Weaker USD against IDR could erode operating margin. However, mgmt. does hedge ~50% of its revenue.
Industry risks	<ul style="list-style-type: none">■ Outbreak of diseases: While PMMP does not engage in the shrimp farming industry, an outbreak of diseases may reduce supply of raw materials and cause importers to postpone purchases due to disease scare. However, it is important to note that the cultivation centres in Indonesia are not centralized in a single location, and PMMP purchases its raw materials from different areas to mitigate supply risks.■ Heightened competition in value-added segment: There is a risk that other major supplying countries (e.g., India, etc.) to catch up with value-added products, causing margins to shrink. However, we believe that it may take some time for raw shrimp supplying countries to move up the value-chain as major buyers normally start off with ordering basic products, and gradually shifts towards higher value products once they get to know the reliability of the shrimp producers.

Source: Company, SCCM Research

Brief Company Profile

- **PT Panca Mitra Multiperdana Tbk** ("PMMP") is one of the leading and fast-growing shrimp exporter companies in Indonesia. Headquartered in Surabaya and Situbondo, it is the second largest shrimp exporter (based on FY20 sales volume) among Indonesian players. To-date, it has 8 processing plants and cold storage facilities with annual capacities of 27,100 tons and 46,000 tons, respectively, producing three product categories – raw shrimps, cooked shrimps, and value-added products.
- PMMP exports close to 100% of its products and sources everything locally. In FY21, it has exported ~19,437 tons of shrimps largely to the US and Japan. In view of greater demand for value-added shrimp products, PMMP plans to expand its production capacity to cater to the rising demand as well as to improve its margins. Currently, it commands ~11% share of Indonesia's shrimp exports. PMMP also commanded ~29% and ~23% of Indonesia's cooked shrimp and value-added exports to the US in FY20 and FY21, respectively.

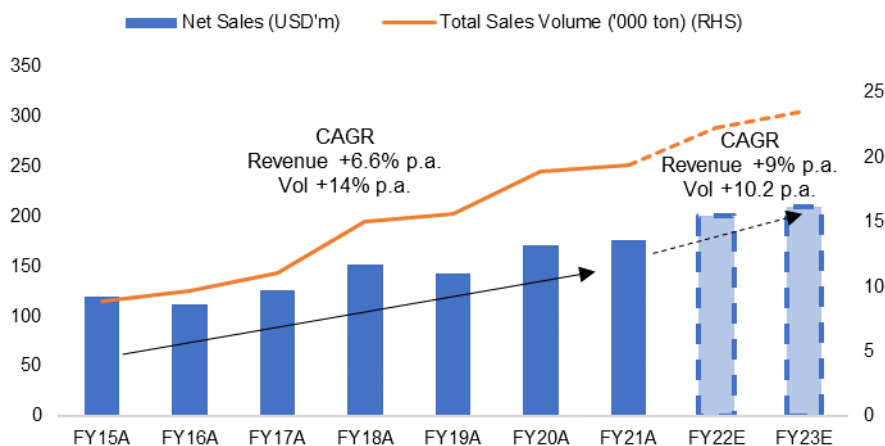
More details on the company and the industry can be found in the appendix section

Investment Thesis

1. Ramping up production to meet increasing demand

- **Growing appetite for Indonesia's shrimps:** According to FAO, around 2m tons of shrimps in FY20 (FY17: ~1.5m tons) were imported by these five major importers – US, CHN, JP, KOR, UK and EU. Shrimps are cheaper than crabs and lobsters, making them popular seafood dishes. Moreover, shrimp processors are adding more value-added products to their product lines (e.g., breaded shrimps, cooked shrimp ring), which have helped to expand their client base.
 - 1) **US market:** US's shrimp imports from Indonesia increased by 10.9% CAGR from FY17-21 (vs 3.9% CAGR from worldwide), placing Indonesia as the second largest supplier to the US. Further, Indonesia accounted for most of the US's imports of "breaded" shrimps (~36.2% in FY21), with volume growing substantially by 55% CAGR from FY2017-21 (vs 7% CAGR from worldwide). We expect this +ve trend to sustain, given low per capita shrimp consumption in US, continuing robust demand for shrimp products via retail trades, and easing of restrictions in the food services sector.
 - 2) **Japan market:** Japan's imports of shrimps from worldwide declined by 3.1% CAGR from FY17-20. However, its imports of shrimps from Indonesia have been stable, with market share of ~15% in FY20. We think Indonesia's shrimp products are competitive enough in Japan, and well poised to maintain its market share at the very least.
- **Robust sales volume driven by newly built facility:** Since its establishment in 2004, PMMP alongside its subsidiary, PT Tri Mitra Makmur (TMM), has grown to 8 processing plants (6 plants in Situbondo and 2 plants in Tarakan), with the latest facility "TMM4" coming on stream in Oct21, pushing up annual production capacity by 8% YoY to 27,100 tons. ***We expect revenue to grow ~14% and ~5% YoY to US\$200m in FY22E and US\$210m in FY23E (i.e., CAGR of ~9% from FY21-23E), respectively, largely driven by sales volume of TMM4 and ramping-up of existing production facilities.***

Fig 8 - Majority of growth will be reflected in FY22E due to rising sales volume

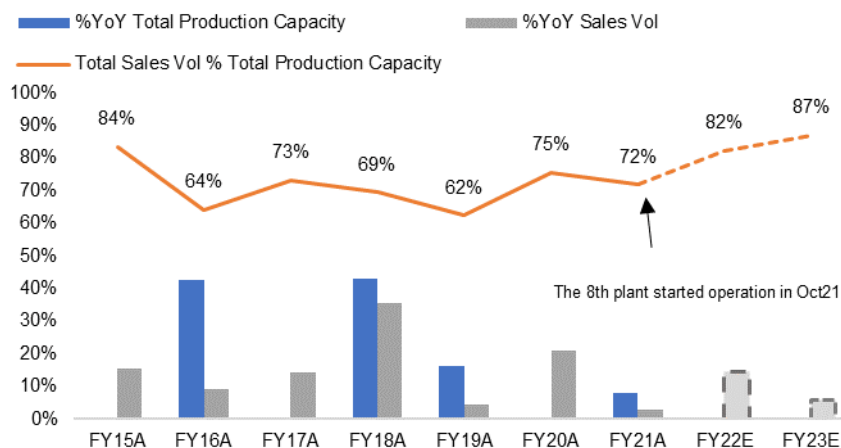


Source: Company, SCCM Research

As the latest processing facility, TMM4, was only commissioned in late FY21, most of the revenue growth will only be reflected in FY22E

- Sales volume normally rose within 1-year following the establishment of new facilities because mgmt. has a prudent expansion strategy where it is based on:
 - 1) Higher demand from existing customers.
 - 2) Continuous innovation efforts on developing new value-added products, thus increasing its market share in existing markets. For example, launching Cooked Shrimp Ring and Pre-Fried Breaded Products.
 - 3) Entering new markets – Indonesia, UK and South Korea. PMMP has collaborated with Mulia Raya Agri Jaya to distribute its own private brand “Ebinoya” to retailers and food services across Indonesia. Moreover, it has also collaborated with a chain restaurant operator in Indonesia. We believe domestic sales have increased substantially since then, though it does not account for a significant portion of revenue yet. Aside from Indonesia, PMMP has received orders from new clients in the UK and South Korea in FY21.
- With the addition of the new plant, we estimate that overall utilization rate could reach 87% by FY23E. There are currently unused capacities as PMMP has reduced the production of raw shrimps in some of the older facilities, given severe competition in the segment. **To boost utilization rate, PMMP has plans to modify/convert those unused capacities to produce higher-margin value-added shrimps going forward.** The lower utilization rates recorded in FY16, FY18, FY19 were all due to higher capacity coming from newly built capacity in those years, respectively.

Fig 9 - Sales volume rose after establishment of new plants



Source: Company, SCCM Research

- There is still spare land space to accommodate 3 more plants: PMMP's existing 17ha of land in Situbondo regency has 50% occupancy rate and can fit 3 additional plants. With proven processes, PMMP can easily scale up with a brand-new processing facility and replicate its technical know-how in terms of optimal plant design and efficient operational requirement.

Fig 10 - PMMP's potential expansion layout

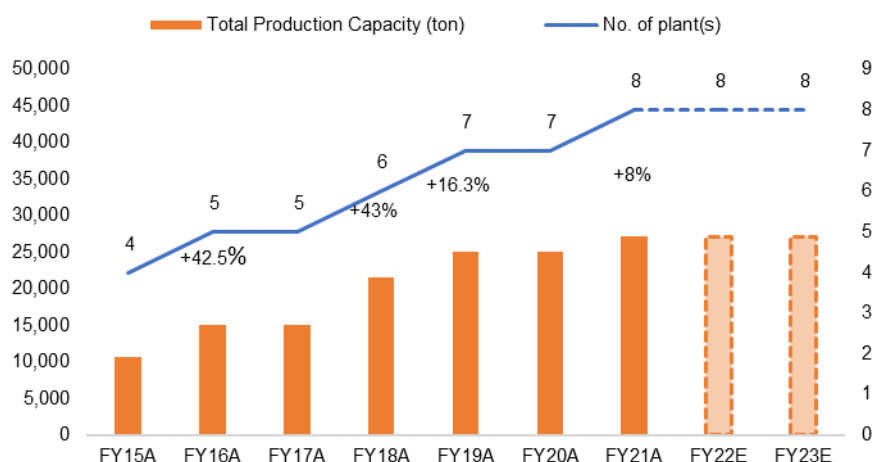


Source: Company

PMMP has plans to purchase more lands nearby its 17ha of land so it can be integrated with its existing facilities

- Planning to build another production facility by mid-FY23E: Given our estimate that the utilization rate of its 8th facility (TMM4) has already reached above 90% and there are further indicative orders already in places (PMMP normally starts planning to build new plant when indicative orders are ~50% of the capacity of the future plant), PMMP could look to build another production facility (i.e., the 9th plant) by end of FY23E, with an estimated capacity of 6.5k tons (~24% increase from current capacity), which we have not priced in into our model yet.

Fig 11 - Expected production facilities and capacity





Our model assumes no additional plant capacity in FY23E

Source: Company, SCCM Research

2. Moving up the value chain to generate higher margin

- Indonesia mainly exports two types of shrimp, i.e., L. Vannamei Shrimp (accounts for majority of export share) and the P. Monodon Shrimp (a.k.a. Black Tiger Shrimp), which primarily exports to Japan.
- PMMP offers both species of shrimps in 3 different types of products, namely raw shrimp, cooked shrimp, and value-added products (including breaded shrimp, sushi ebi shrimp, nobashi shrimp, raw tempura shrimp, pre-fried breaded shrimp, garlic butter marinated shrimp and cooked shrimp ring).
- It can provide customized solution to meet customer's need, in terms of processing and packaging.

Fig 12 - PMMP's Product Offerings

Type of Products	Name of Product	Description
Commodity Products	Raw Shrimp 	<ul style="list-style-type: none"> c.22.5% of FY21 Revenue The simplest product form, where consumers buy it and cook it according to their preference 2 main types of raw shrimps that PMMP offers: Black Tiger and Vannamei Gross Profit Margin: 10-15%
	Cooked Shrimp 	<ul style="list-style-type: none"> c.55.8% of FY21 Revenue Ready-to-eat product Provide 29% share of Indonesia-US total cooked shrimps export market in 2020 Gross Profit Margin: 20-25%

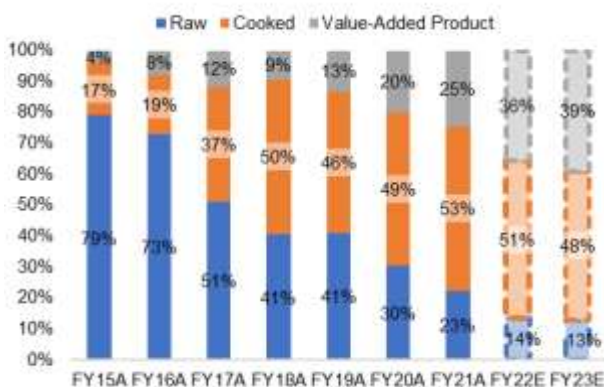


Source: SCCM Research

- From FY21-23E, we expect OP margin to improve from 11% in FY21 to 12.3% in FY23E given: 1) Production capacities have been allocated to cooked shrimps, and more recently towards value-added products (e.g., breaded shrimps, etc.), which generate higher GP margins (value-added: 25-30%, cooked: 20-25%) than raw shrimps (10-15%); and 2) Declining shipping and freight cost, as logistic issue (shortage of containers for exports) should gradually resolve from FY21 onwards.
- It is important to note that PMMP's GP margin (at 23.3%) in FY21 was at unsustainably high level and likely to edge lower in FY22E and FY23E, though declining shipping and freight cost will be more than enough to offset this decline and improve OP margin.
- In FY21, many shrimp producers postponed the purchases of raw materials due to shortages of frozen food containers for exports (i.e., some producers do not want to stock up raw materials or they do not have the cold storage facilities). This unavailability of freights for frozen food resulted in 1) oversupply of raw materials in domestic market and the subsequent drop in raw material prices, as farmers were clearing off their inventories (positive impact on gross profit); and 2) rising logistic cost (negative impact on operating profit).

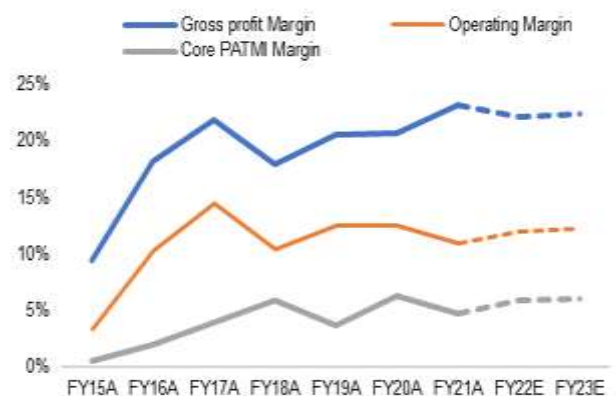
In general, the GP Margins are 10-15% for raw shrimp, 20-25% for cooked shrimp and 25-30% for value-added products

Fig 13 - Value-Added sees fastest growth, boosting its share to become 2nd largest segment



Source: Company, SCCM Research

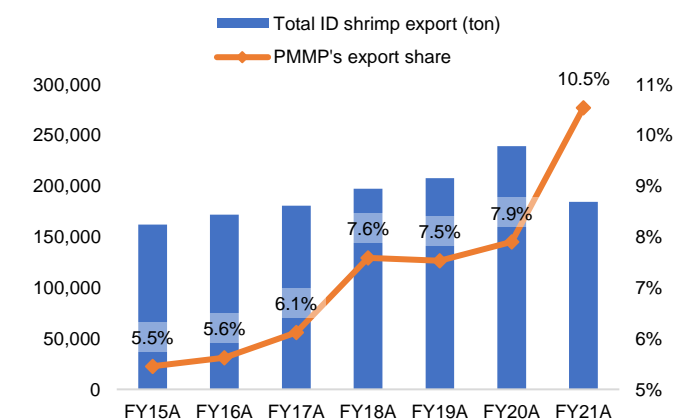
Fig 14 - Gross margin to normalize; OP and Core PATMI margins to improve



Source: Company, SCCM Research

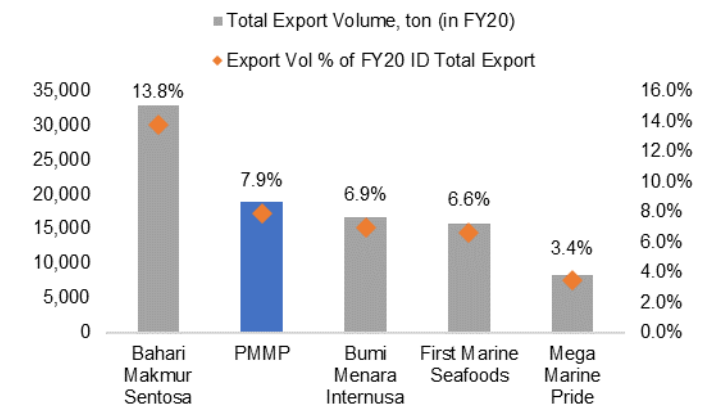
- PMMP made a deliberate move to shift its product mix towards higher margin value-added products given:
 - Raw shrimp, particularly the raw Vannamei, faces heavy competition from countries such as India and Ecuador, which are flooding the global market with large supply at low prices, resulting in thin margins.
 - Value-added products with long shelf life are relatively more convenient to consumers. Hence, it is seeing increasing demand from population with busier lifestyle and various end-user such as hotels, restaurants, and fast-food chains.
 - Value-added products contain lesser shrimps (i.e., raw material), and thus are less prone to unfavourable movements in raw material price.
- As it shifts its focus towards higher value products, PMMP's export share has also expanded.

Fig 15 - PMMP gaining ground in Indonesia's shrimp export market



Source: Ministry of Marine Affairs and Fisheries, Company, SCCM Research

Fig 16 - 2nd largest shrimp exporter in Indonesia (FY20)



Source: Ministry of Marine Affairs and Fisheries, Company, SCCM Research

3. Multiple strengths to generate higher returns

(a) Strategic location allows PMMP to compete on costs

- Thanks to the tropical weather, Indonesia farmers can harvest throughout the year. This makes the country less dependent on shrimp imports, which can be expensive.

Sufficient supply of raw materials in the domestic market

Fig 17 - Located in East Java and North Kalimantan



Source: Company

- 2) Leveraging on its proximity with major ports, PMMP could minimize the transport time and ensure the quality of its shrimps, to be delivered fresh and undamaged. Consequently, this will reduce wastage.

Fig 18 - Distance to the International Port Hub in Surabaya

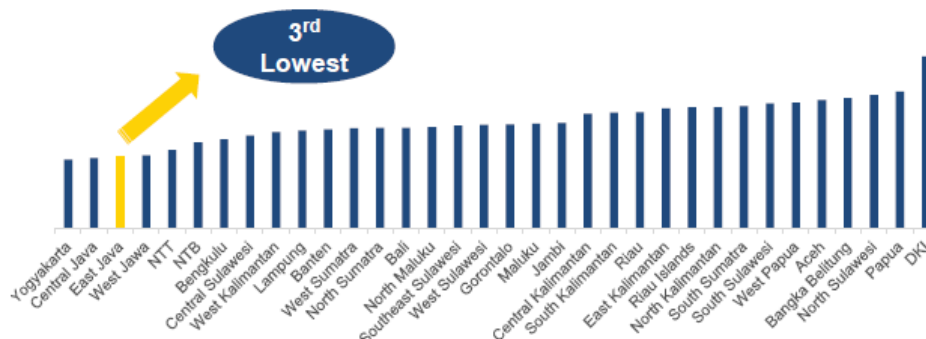


Source: Company

- 3) Labour is the third largest costs components, accounting for c.8% of total cost in FY21. While the Group has been integrating automation technology and implementing centralized system to reduce labour expenses, the management noted that the industry will remain labour intensive in near future. There has yet to be technology that could automate processes such as, peeling, deveining, inspection, skewering, breeding, and shrimp stretching, without compensating for quality. It is also one of PMMP's unique selling point – "hand-made" shrimp.

Nonetheless, PMMP benefits from the low East Java provincial minimum wage. The Company can hire many workers with relatively lower Regional Minimum Wage compared to other areas in East Java. Situbondo Regency is known by its relatively lower regency minimum wage compared to other areas in East Java, where the average minimum wage in Situbondo is half of Surabaya's. Its low-cost structure provides an edge against its local peers as well as enables it to remain competitive against global players in India and Vietnam.

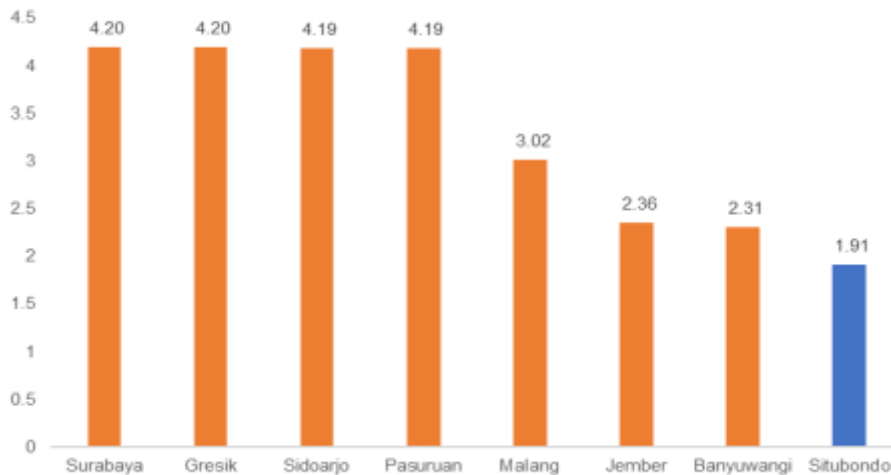
Fig 19 - 2020 Provincial Minimum Wage in Indonesia



Source: Company

The installed capacity for shrimp processing in Indonesia is predominantly located in western Indonesia. The government plans to improve logistics efficiency and expand its market share in the US, Japan, China, and the European Union

Fig 20 - East Java Regional Minimum Wage (IDR million/month)



Source: Company

- It is also important to note that many of the major competitors in Indonesia are in bigger cities, where prices of nearby lands are already expensive should they decide to scale-up operations.

Competitors are mostly located in larger cities, where land is more expensive to build plant facilities

(b) Established relationship with key customers

- Major buyers normally start off with ordering simple products like raw shrimps, and then towards higher value products (which may require them to share their recipes to producers), after they acknowledge the reliability of the producers. PMMP already went through this process, and it has established long-term mutually beneficial relationships with its clients.
- Its top 3 US importers account for c.64% of its revenue. ***Its customers include Walmart, Kroger, Albertsons, Aldi and Target.*** PMMP has been receiving bulk order from Walmart since FY17.
- On the other hand, Japanese trading company Marubeni Corporation and Japanese seafood company Maruha Nichiro Corporation have been PMMP's loyal customers, with more than 20 years of relationship.

Fig 21 - PMMP's customer profile

	US	Japan	Other countries e.g. Denmark, Singapore, Hong Kong, South Korea and UK
% of PMMP's FY21 Sales Volume	88.2%	11.4%	0.01%
Major Companies (end user)	<ul style="list-style-type: none"> ▪ Retailers Walmart, Albertsons, Aldi, Kroger, Target ▪ Food Services Gordon Food Service ▪ Reprocessor Rich's ▪ Restaurant Chains Benihana, Red Lobster, Texas Steakhouse, Darden 	<ul style="list-style-type: none"> ▪ Wholesalers/Retailers Mandai, AEON, Ito Yokado ▪ Restaurant Chains Skylark Group, Kura, Saizeriya ▪ Convenience Shop 7-Eleven 	NA
Importers	Eastern Fish Company, CP, Blue Sea, Lawrence Wholesale, Limson Trading, AEL Seafood Enterprises, Certifresh, Chicken of the Sea	Maruha Nichiro, Kohyo, Marubeni	Nordic Seafood, Sea World, Wealth Seafood

Source: Company

(c) Relatively resilient business model with manageable risks

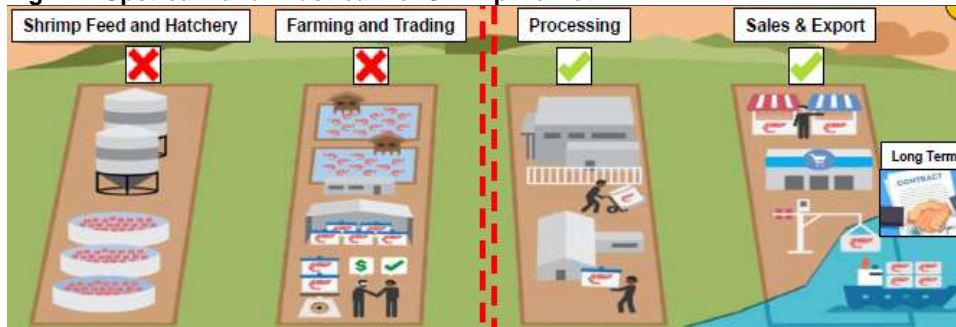
- 1) ***PMMP's production are supported by secured order books, which provides revenue visibility for the next 6-12 months.***
- 2) PMMP sources its raw materials (i.e., shrimps to be processed) from designated local traders (intermediaries) and directly from third party farmers. It maintains a close relationship with traders and farmers to ensure a stable and sustainable supply of raw shrimps. The trade can be in pre-agreed supply contract (for large-scale farmers) or informal spot-sale (for small-scale farmers). The pre-agreed supply contracts allow PMMP to lock in raw material's price for around 4mo in advance (shrimps' cultivation period is ~4mo).
- 3) PMMP leverages on its huge cold storage facilities to ensure sufficient supply to fulfil its sales commitment as well as to manage cost of raw shrimps in order to achieve its targeted GP margin (i.e., recall that PMMP's selling prices are fixed under 6-12mo contracts, while raw material price can only be locked for 4mo). With a 6-12mo' sales order book, the Management has a better visibility in forecasting the number of purchases and the amount of buffer stock to ensure smooth production. The huge storage capacity also allows it to capture opportunistic purchases when shrimp prices are low enough to absorb the cost of financing the purchases. This could help PMMP maintain a stable margin amidst large price fluctuations.
- 4) PMMP only operates in mid- to downstream segment of the shrimp industry value chain. Shrimp hatchery and farming are deemed to have higher risk – high investment and associated with a diverse range of risks and uncertainties, including climate variability, harvest risks, disease, and unpredictability in demand.

Selling price is fixed under 6-12mo contracts, providing revenue visibility

Purchase price of raw material (i.e. shrimps) can be locked only for 4mo

PMMP's large storage facilities of a combined 46,000 tons of storage capacity helps to secure supply and meet cost target

Fig 22 - Upstream and Midstream of Shrimp Market

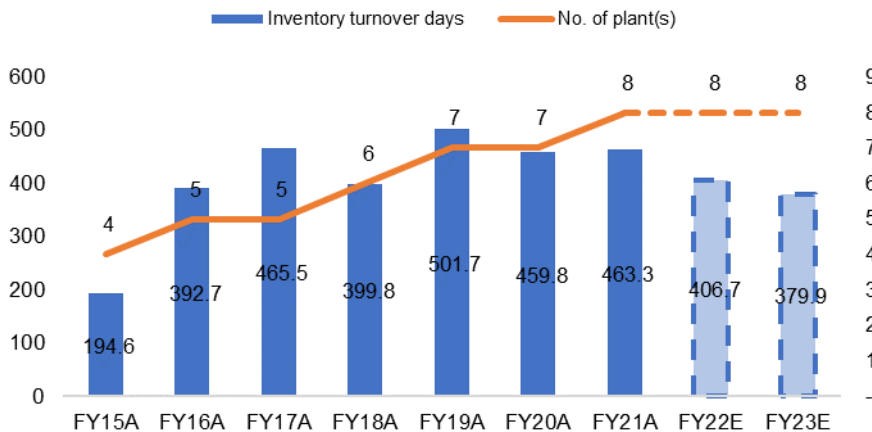


Source: Company

- 5) Inventory turnover days has peaked at ~16mo in FY19 and declined afterwards to ~15mo in FY21. Prior to FY19, PMMP had to stock up inventories because it has added new production capacities throughout the years and has larger number of sales orders with longer term sale contracts (6-12mo). **We expect that inventory turnover days will eventually stabilize to ~12-13mo as availability of domestic raw shrimp supply increases and PMMP to gain further operating efficiency. Management's long-term target is to have inventory turnover days at 12mo or better.**

Inventory turnover days to stabilize at around 12-13mo

Fig 23 - Inventory turnover days to stabilize at ~12-13mo



Source: Company, SCCM Research

(d) Benefitting from various global certifications – a recognition of its quality as well as an entry barrier

- 1) Global certification is an essential criterion to win orders from big global buyers. Apart from meeting the standard requirement set by the US Food and Drugs Administration (FDA), third-party certification for seafood products is becoming a required part of business transactions among major producers and purchasers. In fact, it has become a prerequisite for obtaining importation contracts in the US and Europe, thus limiting market access for products from uncertified fisheries or producers.
- 2) Not only that the Company has earned 4-star Best Aquaculture Practices (BAP) certification and AA Grade from British Retail Consortium (BRC) Certification, but it has also recently secured certification from Aquaculture Stewardship Council (ASC). These certifications provide a gateway to penetrate into developed markets and securing customers with big global names such as Walmart Inc., Kroger Company, Aldi and Target.

PMMP has the 2nd largest number of BAP 4-star certified shrimp plants among Indonesian exporters, with 3 plants certified BAP 4-star as of Dec21

Fig 24 - Recognized by global certification bodies



Source: Company

Fig 25 - In-house laboratory to ensure quality consistency



Source: Company

4. Experienced management team with technical expertise

- PMMP's senior management team are industry veterans, led by Mr Soesilo Soebardjo, the founder and President Commissioner, who has experience of more than 39 years in production, shrimp farming and marketing. The strong management team is equipped with technical expertise as well as know-how required in efficient processing, storage and compliance with the stringent international regulations on food and safety.
- In addition, it can also be ahead of the curve in terms of the supply-demand dynamics, industry trend and consumer preference by leveraging on its long-term relationship with traders, farmers as well as customers.

Management has 39 years of experience in shrimp farming, production and marketing

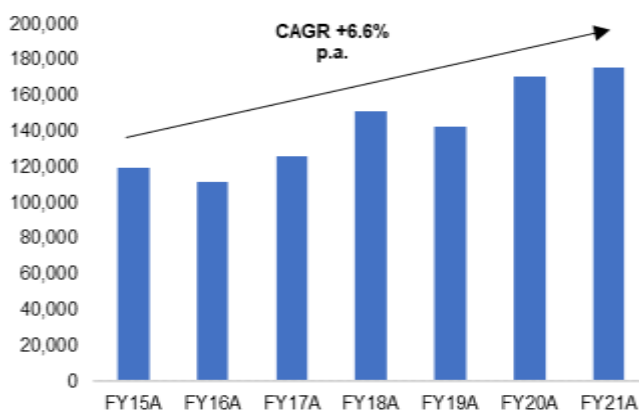
Financial Analysis

- **Steady revenue growth in tandem with higher sales volume:** PMMP's revenue grew at CAGR of 6.6% between FY15-21, underpinned by higher demand from overseas. Sales volume increased 14% CAGR during the same period, driven by the increased production capacity at 16.9% CAGR. However, revenue was partially offset by lower average sales price (ASP). Change in product mix has led to decline in ASP at CAGR of -6.5% between FY15-21.
- It is important to note that raw shrimps are of bigger sizes and hence fetch higher prices but deliver lower gross margin. On the other hand, medium and smaller sized shrimps are normally used for cooked shrimps and value-added products, which have lower selling prices, but fetch higher gross margin. **As production capacities have shifted towards cooked shrimps and value-added products (i.e., more favourable product-mix), ASP has therefore trended lower, and margins have gone higher.**

Revenue is driven mainly by sales volume of cooked shrimps and value-added products

Meanwhile, ASP has trended downwards because the selling price for cooked shrimps and value-added products are lower than that of raw shrimps, but they generate higher gross margins

Fig 26 - Revenue on upward trend (in USD thousand)



Source: Company, SCCM Research

Fig 27 - Sales volume continued its growth momentum (in tons)



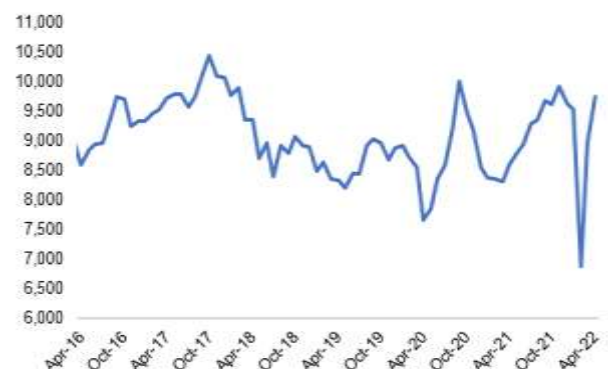
Source: Company, SCCM Research

Fig 28 - FY21 ASP rebounded close to FY19 level (In USD)



Source: Company, SCCM Research

Fig 29 - Indonesia's shrimp export price (USD/ton) has rebounded recently



Source: Bloomberg, SCCM Research

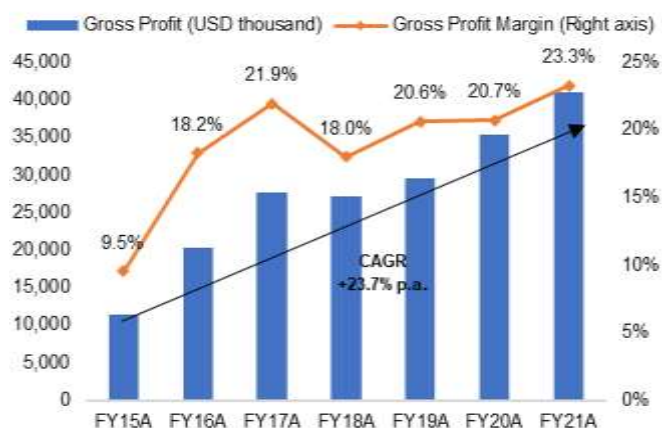
- **Gross profit lifted by better gross profit margin:** PMMP's gross profit grew at CAGR of 23.7% between FY15-21, as cooked shrimps and value-added products lifted gross

profit margin from 9.5% in FY15 to 23.3% in FY21. Improvements in gross margin was driven by 1) A shift towards higher margin products (cooked and value-added shrimps); and 2) Oversupply of raw material (i.e., shrimps) and declining raw material prices. The oversupply happened because shrimp producers were postponing the purchases of raw materials due to shortage of freight containers (i.e., they do not want to build inventories, or they do not have cold storage facilities), which prompted farmers to sell their raw shrimps at much lower prices to clear up built-up inventories.

- **Operating profit grew at a faster pace from FY15-20, but declining in FY21 due to higher logistic cost:** Operating profit grew at CAGR of 39.7% between FY15-20, as operating profit margin improved from 3.4% in FY15 to 12.6% in FY20. However, operating profit declined by -9.9% YoY in FY21, while operating margin decreased to 11% during the same period, mainly due to higher logistic costs arising from shortage of containers for frozen food. Although shortage of containers resulted in raw material oversupply and higher gross margin, this situation has a negative impact on operating profit.
- **Declining Core PATMI and Core EPS:** Core PATMI increased significantly by ~73% CAGR from FY15-20, as margin expanded by 6ppt to 6.4%. However, Core PATMI declined by -23% YoY in FY21 as higher logistic cost and exclusion of non-cash gain on FX (i.e., adjustment) weigh down on its bottom-line. Core EPS declined at a faster pace (by -34.2% YoY in FY21), as weighted average shares outstanding increased by 16.9% YoY.

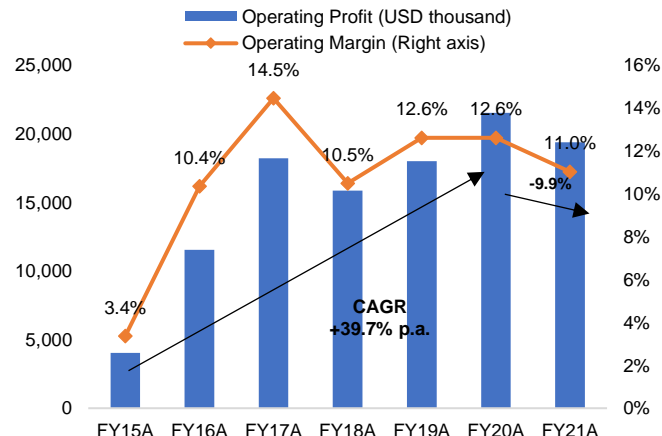
Limited availability of containers in FY21 have also caused rising freight cost, which was more than enough to offset the gain from lower raw materials prices, resulting in lower operating profit on YoY

Fig 30 - FY21 gross profit margin +2.5pp YoY to 23.3%



Source: Company, SCCM Research

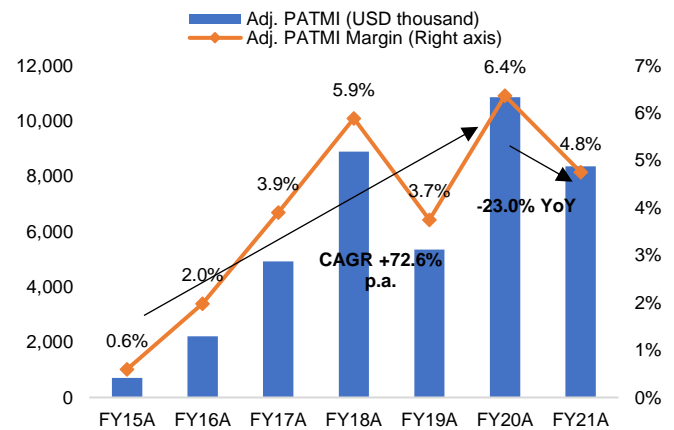
Fig 31 - FY21 operating profit margin -1.6pp YoY to 11%



Source: Company, SCCM Research

Fig 32 - Operating expenses % of total sales suddenly increased to 12.2% in FY21 due to higher logistic cost

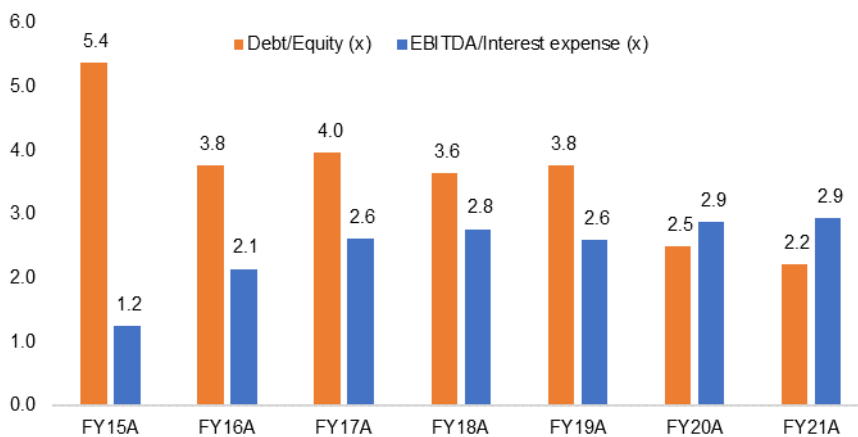
Source: Company, SCCM Research

Fig 33 - Core PATMI declined -23% YoY in FY21, after growing at a remarkable CAGR of 72.6% from FY15-20

Note: Core PATMI excludes gain/loss on FX and other expenses/income
Source: Bloomberg, SCCM Research

- DER was reduced to 2.2x; Interest coverage ratio was flat at 2.9x: Gearing ratio improved to 2.2x in FY21 from 2.5x in FY20 and 3.8x prior to IPO in FY19. Meanwhile, interest coverage ratio remained flat at 2.9x in FY21. The development of new plant in FY23E is likely to be funded by equity capital (e.g., right issue), in our view.

DER has improved to 2.2x in FY21 from 2.5x in FY20 and 3.8x in FY19 (prior to IPO)

Fig 34 - FY21 gearing at 2.2x, while interest coverage ratio is at 2.9x

Source: Company, SCCM Research

- Improvement in cash conversion cycle due to declining inventory turnover days from FY19-21:** Inventory days has peaked at ~16mo in FY19 and declined afterwards to ~15mo in FY21. This resulted in cash conversion cycle to decline from ~17mo in FY19 to ~16mo in FY21, as well.
- Prior to FY19, PMMP had to stock up inventories because it built additional production capacities and has more sales orders with longer term sale contracts (e.g., 1-year contract).

BUY

TP: IDR 610

▼ 58.0%

PT Panca Mitra Multiperdana Tbk

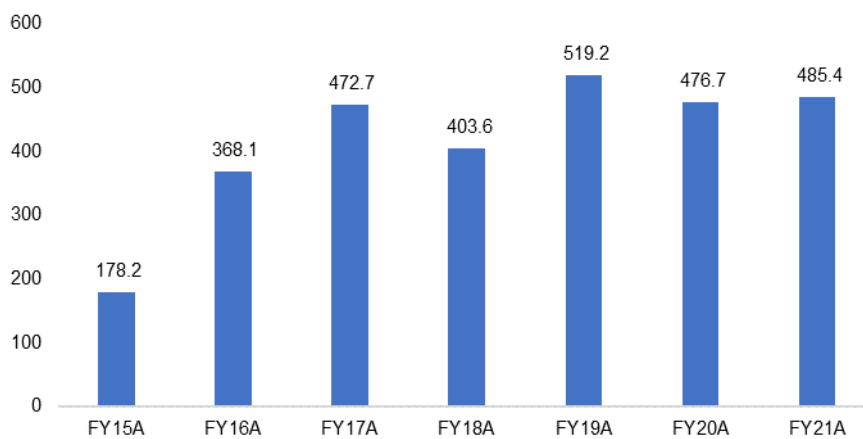
PMMP.IJ

Company Initiation

Indonesia

Consumer Goods

Fig 35 - Cash conversion cycle is largely affected by high inventory days



Source: Company, SCCM Research

Financials forecasts and key assumptions

- Revenue growth:** In tandem with rising production from TMM4, we expect sales volume to grow by ~14% YoY in FY22E and ~5% YoY in FY23E (i.e., CAGR of ~9% p.a.). We have assumed no change in sales price. However, due to change in product mix, we expect ASP to marginally decline by -0.8% throughout FY21-23E to US\$8,895 per ton.
- Gross margin:** GPM to normalize at 22.2% in FY22E and 22.4% in FY23E, which are higher than FY20 level. Given unfavourable competitive landscape in raw shrimp segment, PMMP will shift its product mix into the higher-value segment, i.e., cooked, and value-added products. We expect contribution from its raw products to decrease to 14.9% in FY23E from 22.5% in FY21.
- OP margin:** We expect OP margin to increase from 11% in FY21 to 12.3% in FY23E, as we expect logistic issues to ease off and PMMP will be able to pass through some of the shipping and freights costs to the customers.

Raw shrimps are of bigger sizes and hence fetch higher price, but deliver lower margin

Meanwhile, medium and smaller sized shrimps are used for cooked and value-added products. Therefore, these products are lower in selling price, but fetches higher margin

Fig 36 - Robust Core EPS growth from FY21-23E



Source: Company, SCCM Research

Fig 37 - ROE rising to ~13% level



Source: Company, SCCM Research

- Core EPS growth:** We believe Core PATMI margin could improve by 1.3pp to 6.0% from FY21-23E, resulting in Core EPS to rise by ~41% YoY in FY22E and ~7% in FY23 (i.e., ~23% CAGR from FY21-23E). FY22E Core EPS increased significantly due to PATMI margin improvement in FY22E and the exclusion of non-cash gain on FX in FY21 (i.e., adjustment). In IDR terms, FY22E Core EPS increased slightly faster by 45% YoY, due to our expectation of weakening IDR.
- Profitability return:** We expect ROE to rise from 12.6% in FY21 to 13.8% in FY22E and 12.9% in FY23E, respectively. FY23E ROE will be slightly lower than that of FY22E as equity increases at a faster pace than PATMI.

BUY

TP: IDR 610

▼ 58.0%

PT Panca Mitra Multiperdana Tbk

PMMP.IJ

Company Initiation

Indonesia

Consumer Goods

Fig 38 - Consolidated P&L

Y/E 31 Dec (USD'm)	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Net Revenue	170.6	175.8	200.1	209.8	209.8	209.7
<i>Net Revenue Growth</i>	19.5%	3.0%	13.9%	4.8%	0.0%	-0.1%
COGS	(135.3)	(134.9)	(155.6)	(162.7)	(162.7)	(162.7)
Gross Profit	35.3	40.9	44.5	47.1	47.1	47.0
<i>Gross Margin</i>	20.7%	23.3%	22.2%	22.4%	22.4%	22.4%
Operating Expenses	(13.8)	(21.5)	(20.4)	(21.4)	(21.3)	(21.1)
Operating Profit	21.5	19.4	24.1	25.7	25.8	25.8
<i>Operating Profit Margin</i>	12.6%	11.0%	12.0%	12.3%	12.3%	12.3%
Adjust: Depreciation Expense	4.4	4.4	2.9	3.1	3.3	3.3
EBITDA	25.9	23.8	27.0	28.8	29.1	29.1
<i>EBITDA Margin</i>	15.2%	13.5%	13.5%	13.7%	13.9%	13.9%
Interest Expense	(9.0)	(8.5)	(8.9)	(9.5)	(9.3)	(9.2)
Interest Income	0.2	0.0	0.0	0.0	0.0	0.0
Others	(0.2)	1.2	0.0	0.0	0.0	0.0
EBT	12.5	12.1	15.2	16.2	16.5	16.6
Tax	(1.8)	(2.8)	(3.3)	(3.6)	(3.6)	(3.7)
Net Income	10.6	9.3	11.8	12.7	12.9	13.0
Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0
PATMI	10.6	9.3	11.8	12.7	12.9	13.0
<i>PATMI Margin</i>	6.2%	5.3%	5.9%	6.0%	6.1%	6.2%
Shares Outstanding in millions	2,012.6	2,353.0	2,353.0	2,353.0	2,353.0	2,353.0
EPS (USD)	0.0053	0.0040	0.0050	0.0054	0.0055	0.0055
EPS (IDR)	77	56	74	79	80	81
<i>FX Rate (IDR/USD)</i>	14,529	14,296	14,650	14,650	14,650	14,650
<i>EPS Growth (in USD)</i>	84.0%	-25.3%	27.2%	7.2%	1.8%	0.7%
<i>EPS Growth (in IDR)</i>	89.0%	-26.5%	30.3%	7.2%	1.8%	0.7%
Core EPS (USD)	0.0054	0.0036	0.0050	0.0054	0.0055	0.0055
Core EPS (IDR)	78	51	74	79	80	81
<i>Core EPS Growth (in USD)</i>	101.8%	-34.2%	41.4%	7.2%	1.8%	0.7%
<i>Core EPS Growth (in IDR)</i>	107.4%	-35.2%	44.9%	7.2%	1.8%	0.7%

Source: SCCM Research

- **Inventory turnover days:** We expect inventory turnover days to decline to ~12-13mo, as this is in line with the higher number of long-term contract sales, PMMP's inventory management strategy, improving logistics cost, as well as better production efficiency. Management's long-term target is to have inventory turnover days at 12mo or better.
- **Receivable days and payable days:** We expect receivable days and payable days to remain constant at 57 days and 34 days, respectively. We think that these ratios should normalize due to easing of logistic issues and reopening of economies.
- **Capital expenditures (CapEx):** Every year, we expect CapEx to be at ~US\$1m for equipment and ~US\$50k for vehicles. Note that we have not taken into account the CapEx consideration for the 9th facility in mid-FY23E, which likely to be funded by equity capital (e.g., right issue), in our view.
- **Short-term loan:** We expect working capital to be financed by short-term loans.

Improvements in inventory days and receivable days will improve cash conversion cycle

Fig 39 - Consolidated Balance Sheet

Y/E 31 Dec (USD'm)	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Cash	3.3	2.8	41.3	54.9	68.2	83.5
Restricted cash in banks and time deposits	9.3	12.2	12.2	12.2	12.2	12.2
Trade Receivables	24.2	40.7	31.3	32.8	32.7	32.7
Inventories	169.9	171.2	173.4	169.4	167.3	167.6
Other Current Assets	1.4	2.1	2.4	2.6	2.6	2.6
Current Assets	208.0	229.0	260.6	271.7	282.9	298.5
Net Fixed Assets	39.9	39.5	37.7	35.6	33.4	31.1
Other Non-Current Assets	0.2	0.1	0.1	0.1	0.1	0.1
Non-Current Assets	40.1	39.6	37.7	35.7	33.4	31.2
Total Assets	248.1	268.6	298.3	307.4	316.3	329.7
Trade Payables	12.9	23.0	14.5	15.2	15.1	15.2
OD & ST Debt	152.0	159.6	186.5	183.7	179.7	180.1
Tax Payable	4.6	5.2	5.9	6.2	6.2	6.2
Other ST Liabilities	1.4	1.4	1.4	1.4	1.4	1.4
Current Liabilities	170.9	189.2	208.3	206.5	202.5	202.9
LT Debt	3.9	3.0	1.8	0.0	0.0	0.0
Other LT Liabilities	8.6	2.8	2.8	2.8	2.8	2.8
Total Liabilities	183.3	194.9	212.8	209.3	205.3	205.7
Shareholder's Capital	34.2	33.8	33.8	33.8	33.8	33.8
Retained Earnings	30.6	39.9	51.7	64.4	77.3	90.3
Total Equity	64.8	73.7	85.5	98.2	111.0	124.0
Total Liabilities and Equity	248.1	268.6	298.3	307.4	316.3	329.7

Source: SCCM Research

- **Cashflow from operation:** With improvement in cash conversion cycle, we expect cashflow from operation to increase significantly from FY21-23E.
- **No fixed dividend policy:** Mgmt. paid out ~5% of its net profit as dividends in FY21 (dividend yield of 0.8%). Our estimates do not factor in any dividend payout.

Fig 40 - Consolidated Cash Flow Statement

Y/E 31 Dec (USD'm)	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
PBT	12.5	12.1	15.2	16.2	16.5	16.6
Add: Depreciation	4.4	4.4	2.9	3.1	3.3	3.3
Others adjustments	9.1	7.3	8.9	9.5	9.3	9.2
CFs generated before WC	25.9	23.8	27.0	28.8	29.1	29.1
Changes in WC	(11.8)	(7.9)	(0.9)	3.4	2.1	(0.4)
CFS generated from operating activities	14.0	15.9	26.1	32.2	31.2	28.7
Interest income	0.2	0.0	0.0	0.0	0.0	0.0
Interest expense	(9.0)	(8.5)	(8.9)	(9.5)	(9.3)	(9.2)
Income tax expense	(1.8)	(2.8)	(3.3)	(3.6)	(3.6)	(3.7)
Others	0.3	1.5	0.0	0.0	0.0	0.0
Net CFs from operating activities	3.7	6.2	13.8	19.2	18.3	15.9
Acquisitions of fixed assets	(2.2)	(4.0)	(1.1)	(1.1)	(1.1)	(1.1)
Others	0.0	0.1	0.0	0.0	0.0	0.0
Net CFs from investing activities	(2.2)	(4.0)	(1.1)	(1.1)	(1.1)	(1.1)
ST bank loans, net	(7.5)	9.2	27.5	(3.4)	(2.1)	0.4
Cash receipts/(payments) from related parties	(0.0)	(5.9)	0.0	0.0	0.0	0.0
LT bank loans, net	(3.1)	(1.6)	(1.7)	(1.2)	(1.8)	0.0
Restricted cash in banks and time deposits	0.2	(2.9)	0.0	0.0	0.0	0.0
Consumer financing payables, net	(0.0)	(0.0)	(0.0)	0.0	0.0	0.0
Additional issuance of share capital	8.0	0.0	0.0	0.0	0.0	0.0
Pmt of dividends to shareholders	0.0	(0.5)	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0
Net CFs from financing activities	(2.4)	(1.7)	25.7	(4.6)	(3.9)	0.4
Net increase/(decrease) in cash	(1.0)	0.5	38.5	13.5	13.4	15.2
Cash, beginning	2.6	1.6	2.1	40.6	54.2	67.5
Cash, end	1.6	2.1	40.6	54.2	67.5	82.8
Bank Overdraft	1.6	0.7	0.7	0.7	0.7	0.7

Source: SCCM Research

Initiating with BUY; TP IDR610/share

DCF Valuation Methodology

- We value PMMP using a 5-year DCF valuation methodology given its positive cashflow generation capability. We derive our end-FY22E TP of IDR610/share, implying FY23E P/E of 7.7x, which is still at a ~29% discount to Asian peers' average of 10.9x FY23E P/E. Currently, PMMP is attractively trading at 55% discount to its peers (based on FY23E P/E).
- We apply a 9.2% discount rate (WACC) and a long-term growth rate of zero.** We are conservative on our long-term growth rate assumption, as PMMP's sales are mostly fixed under 6-12mo contracts (i.e., short-term contracts) and future growth is highly dependent on capacity additions, instead of organic growth.

Fig 41 - End-FY22E DCF summary and assumptions

Y/E Dec (US\$m)	FY22E	WACC Assumptions	
Cumulative PV of FCFF	91.9	Debt-to-Capital	55.0%
Perpetuity Growth Rate	0.0%		
PV of Terminal Value	143.3	Cost of debt	5.5%
		Tax rate	22.0%
Enterprise Value	235.2	Risk-free rate	7.5%
Add: Cash on hand and in banks	41.3	Market Risk Premium	6.0%
Add: Restricted cash in banks and time deposits	12.2	Beta	1.3
Less: ST bank loans	(185.3)	Cost of Equity	15.3%
Less: LT bank loans	(3.0)	WACC	9.24%
Less: Employee benefits liability	(1.5)		
Less: Deferred tax liabilities, net	(1.3)		
Equity Value	97.6		
Shares Outstanding (m)	2,353		
Implied Share Value (USD)	0.0415		
USD/IDR	14,650		
Fair Value/Share (IDR)	610		

Source: SCCM Research

Fig 42 - Target Price Sensitivity Analysis (IDR/share)

	7.7%	8.2%	8.7%	9.2%	9.7%	10.2%	10.7%
0.0%	870	770	680	610	540	480	420
0.5%	950	840	750	660	590	520	460
1.0%	1,050	930	820	730	640	570	500
1.5%	1,160	1,020	900	800	700	620	550
2.0%	1,290	1,130	1,000	880	770	680	600

Source: SCCM Research

Sensitivity of applied WACC vs. perpetual growth rate

No existing direct comparable

- However, it is important to note that PMMP has no direct comparable in terms of product offerings (e.g., competitors also offer other seafood products) and activities (e.g., competitors also involve in upstream and midstream markets). Moreover, the other top-4 shrimp exporters in Indonesia are private companies.

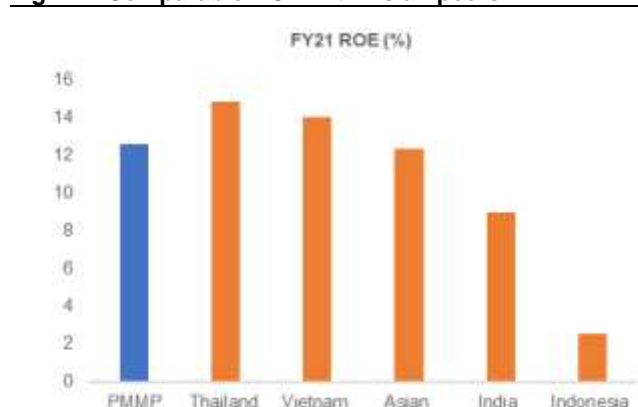
Fig 43 - Comparable peers

Fig 10 - Comparable peers												
Company	FYE	Market Cap	EV	FY21 Gross Margin	FY21 Op Margin	FY21 Net Margin	P/E (x)			EV/EBITDA (x)		
		(US\$m)	(US\$m)	(%)	(%)	(%)	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Indonesian												
PT Panca Mitra Multiperdana Tbk	Dec	75	232	23.3	11.7	5.3	7.8	5.2	4.9	5.8	5.4	5.1
PT Sekar Bumi Tbk	Dec	44	70	13.8	2.2	0.8	21.0	n.a	n.a	8.9	n.a	n.a
PT Prima Cakrawala Abadi Tbk*	Dec	11	12	13.2	1.8	0.8	587.5	n.a	n.a	76.4	n.a	n.a
Thailand												
Thai Union Group PCL	Dec	2297	4523	18.2	7.8	5.7	11.3	12.2	10.9	10.2	11.5	10.8
Asian Sea Corp PCL	Dec	413	477	19.8	12.8	11.0	14.0	13.1	11.9	11.4	10.8	9.7
Surapon Foods PCL	Dec	75	106	14.8	7.9	3.7	11.4	n.a	n.a	4.3	n.a	n.a
Seafresh Industry PCL	Dec	106	155	13.8	5.0	4.0	10.9	n.a	n.a	11.7	n.a	n.a
Vietnam												
Sao Ta Foods JSC	Dec	175	172	10.2	5.1	5.1	11.1	12.7	9.9	9.2	n.a	n.a
Thuan Phuoc Seafoods & Trading Co.	Dec	67	113	13.8	6.6	3.3	13.7	n.a	n.a	14.4	n.a	n.a
India												
Apex Frozen Foods Ltd	Mar	97	118	-	6.7	4.5	21.2	n.a	n.a	13.0	n.a	n.a
1 st Quartile				13.7	5.0	3.3	11.3	12.5	10.4	9.2	11.0	10.0
Median				13.8	6.6	4.0	13.7	12.7	10.9	11.4	11.1	10.2
3 rd Quartile				15.7	7.8	5.1	21.0	12.9	11.4	13.0	11.3	10.5
Min				10.2	1.8	0.8	10.9	12.2	9.9	4.3	10.8	9.7
Max				19.8	12.8	11.0	587.5	13.1	11.9	76.4	11.5	10.8

Source: Bloomberg (as at 24Jun22)

- **Valuation discount to peers likely to narrow:** While PMMP has a comparable ROE at 12.6% vs 12.3% of its Asian peers, we note its FY21 debt-to-equity (DER) ratio at 221% was much higher than its peers' median average DER at ~62%. As we expect DER to decline gradually to 187% in FY23E, PMMP's current valuation discount (at 55% discount to peers on FY23E P/E) could likely narrow as well moving forward.

Fig 44 - Comparable ROE with Asian peers



Source: Bloomberg, Company, SCCM Research

Fig 45 - Much higher DER relative to Asian peers



Source: Bloomberg, Company, SCCM Research

SWOT Analysis

Strengths	Opportunities
<ul style="list-style-type: none"> A leading shrimp exporter with expanding production capacity and largest cold storage facilities in Indonesia. Strategically located production facilities, enables PMMP to (i) gain access to year-round supply of shrimps; and (ii) enjoy low labour costs, thus keeping cost structure competitive. Has huge cold storage facilities to mitigate risk of supply shortage as well as to manage cost of raw shrimps. Holds various global certifications, which enables it to penetrate into developed markets and secure orders from big global names such as Walmart Inc., Kroger Company, Aldi and Target. Experienced management team in seafood processing and marketing and established long-term relationship with prominent customers in US, Japan and EU. 	<ul style="list-style-type: none"> Growing consumer affluence and increasingly affordable shrimp prices. Rising demand for value-added products, which also leads to expanded consumer base for shrimp. Favourable Indonesia government policy to promote shrimp production and exports.
Weaknesses	Threats
<ul style="list-style-type: none"> Capital and labour intensive. The nature of the business requires huge cash to fund working capital. Susceptible to movements in raw material costs and currencies. 	<ul style="list-style-type: none"> Intense competition from both domestic and global players, which could cause excess capacity and price pressure. Highly regulated environment. Outbreak of diseases.

Appendix

Company Overview

- PT Panca Mitra Multiperdana Tbk (PMMP) started its operation in 2004 with a 5,000-ton shrimp processing plant in Situbondo. In 2010, it started to diversify its product offerings by adding a processing plant in Tarakan, North Kalimantan. Through this new plant, PMMP ventured into the Black Tiger shrimp market, which is popular in Japan.

PMMP has 8 processing plants and cold storage facilities with annual capacities of 27,100 tons and 46,000 tons, respectively, producing three product categories – raw shrimps, cooked shrimps, and value-added products

Fig 46 - Key Milestones and Development



Source: Company

- Tapping on to the rising global shrimp demand, particularly in the US, it has continuously expanded its production capacity. Currently, it has 8 processing plants with a total production capacity of 27,100 tons per year.

Fig 47 - PMMP's Six Integrated Modern Facilities in Situbondo



Source: Company

Fig 48 - PMMP's Cold Storage



Source: Company

Fig 49 - PMMP's Production Facility



Source: Company

- To support its growth strategy, PMMP has also scaled up its cold storage facilities. These integrated cold storage facilities also help PMMP to manage costs and operational risks. Coupled with 26 cold storages and a total storage capacity of 46,000 tons, PMMP is now a leading shrimp processor with the largest cold storage facilities in Indonesia.

Fig 50 - PMMP's Production and Cold Storage Capacities

Location	Situbondo						Tarakan	
Plant	PMMP 1	PMMP 2	TMM 1	TMM 2	TMM 3	TMM 4	PMMP	TMM
Production Capacity (Ton)	5,000	6,500	1,800	4,500	3,500	2,000	1,900	1,900
Cold Storage Capacity (Ton)	10,500	10,000	500	16,000*	8,000	16,000*	500	500
Goods Produced								
Export Segmentation								

Source: Company

Production process

1. Processing and stocking

- PMMP procures its shrimps from middle-men or designated local traders. The trade can be part of pre-agreed supply contract or informal spot-sale.
- The harvest is subsequently graded and sorted by size and quality. Different sizes cater to different product offerings, e.g., shrimps meeting optimum size and criteria are meant for export as raw products (fetching higher price), while medium and smaller sized shrimps are used for cooked and value-added products.
- After that, shrimps will be processed as per the need of the target market and requirement of the customer. Processed shrimps are then frozen and stocked in its cold storage facilities to ensure quality preservation. PMMP's advanced cold storage facilities can hold the stock for long durations (up to 2 years) until they are exported or thawed for further processing (processed raw shrimps could be further processed into cooked and value-added products).

2. Exporting

- Different export markets require these processing and cold storage facilities to be certified with different certifications. For example, for the US market, Best Aquaculture Practices (BAP) and Food & Drug Administration (FDA) are the key certifications, for the European Union (EU) markets are Good Manufacturing Processes (GMP), Hazard Analysis Critical Control Points (HACCP), International Food Standard (IFS), and British Retail Consortium (BRC). There are also local regulatory standards that need to be followed before a company can gain the license to export. Meanwhile, for Japan, quality control standards are usually prescribed by the individual local importers or customers.
- Internationally recognized bodies' certification schemes, such as BAP and Aquaculture Stewardship Council (ASC), are increasingly important amidst rising awareness on sustainability and traceability. Obtaining such certifications can boost business opportunities. In the US, approximately 80% of major retailers are committed to sustainable seafood and limit their purchases of seafood to specific certifications, such as BAP certification. For example, Walmart requires a 4-star BAP certification before importing aquaculture produce from any company.

PMMP implements two freezing methods, i.e. block freezing and individual quick freezing (IQF)

IQF is an improved method where shrimps are frozen as individual pieces, hence providing a better quality natural looking product with higher shelf life, as well as minimizes chances of spoilage due to freezer burns or under-freezing

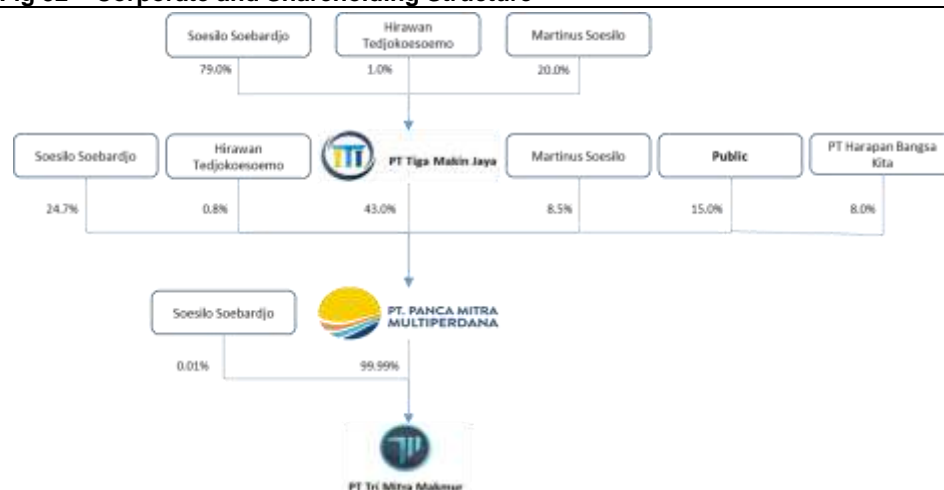
Fig 51 - PMMP holds the 2nd largest number of BAP 4-star certified plants among Indonesian exporters

Company	No. of BAP 4-star certified plants
PT Bumi Menara Internusa	4
PT Panca Mitra MultiPerdana	3
PT Bahari Makmur Sejati	2
PT Bumi Pangan Utama	1
PT Surya Adikumala Abadi	1
PT Bumi Pangan Sejahtera	1
PT First Marine Seafoods	1
PT Grahamakmur Ciptapratama	1
PT Indo American Seafoods	1
PT Indokom Samudra Persada	1
PT Khom Foods	1
PT Mega Marine Pride	1
PT Samudra Seafood Products	1
PT Satu Tiga Enam Delapan	1
PT Sekar Bumi, Tbk	1
PT Surya Alam Tunggal	1
PT Tamron Akuatik Produk Industri	1
PT Wirontono Baru	1

Source: BAP (as at 24Sep20), SCCM Research

Corporate Structure

Fig 52 - Corporate and Shareholding Structure



Source: Company

Key Management

Fig 53 - Key Management Profile

Name	Designation	Age	Remarks
Board of Commissioners			
Soesilo Soebardjo	President Commissioner	68	<ul style="list-style-type: none"> ▪ Founder of PT Panca Mitra Multiperdana Tbk ▪ Over 37 years of experience in aquaculture business ▪ Held senior level positions in several aquaculture and shipping businesses prior to founding PMMP ▪ Master degree in Notary from Airlangga University
Suwarli, S.E., Ak.	Independent Commissioner	63	<ul style="list-style-type: none"> ▪ Over 35 years of experience in aquaculture business ▪ Served as internal audit team in aquaculture company in Indonesia, prior to joining PMMP ▪ Bachelor of Accounting from Airlangga University
Salis Teguh Hartono	Commissioner	52	<ul style="list-style-type: none"> ▪ Over 25 years of experience in banking and finance businesses ▪ Currently serves as Director in PT Indah Bima Prima and Advisor in PT Gan Konsulindo / Gan Kapital ▪ Bachelor degree in Economics – Major in Accounting from Universitas Persada Indonesia YAI
Board of Directors			
Martinus Soesilo	President Director	38	<ul style="list-style-type: none"> ▪ Over 9 years of experience in aquaculture ▪ Served as Relationship Manager for HSBC Indonesia prior to joining PMMP in 2009 ▪ Master degree in International Business from Curtin University
Hirawan Tedjokoemo	Director	64	<ul style="list-style-type: none"> ▪ Over 21 years in aquaculture and trading business ▪ Served as senior positions in several companies prior to joining PMMP in 2004 ▪ Bachelor degree in Economics from Universitas Gadjah Mada
Alin Rostanti	Chief Financial Officer	45	<ul style="list-style-type: none"> ▪ Over 11 years of experience working in shrimp producing companies, handling Finance & Accounting matters ▪ Bachelor degree in Accounting from STIE Malangkecewara
Patrick Djuanda	Marketing Director	31	<ul style="list-style-type: none"> ▪ More than 6 years of experience as consultant and sales ▪ Served as a marketing personnel for a few other companies before joining PMMP in 2014 ▪ Double Bachelor degree in Entrepreneurship and Information Process Management from Indiana University Bloomington
Sujud Kusrinto	Production Director	55	<ul style="list-style-type: none"> ▪ More than 32 years of experience in shrimp producing companies, handling Production ▪ Served as plant manager for several companies before joining PMMP in 2005. ▪ Bachelor Degree in Engineering from Hang Tuah University in 2004

Source: Company

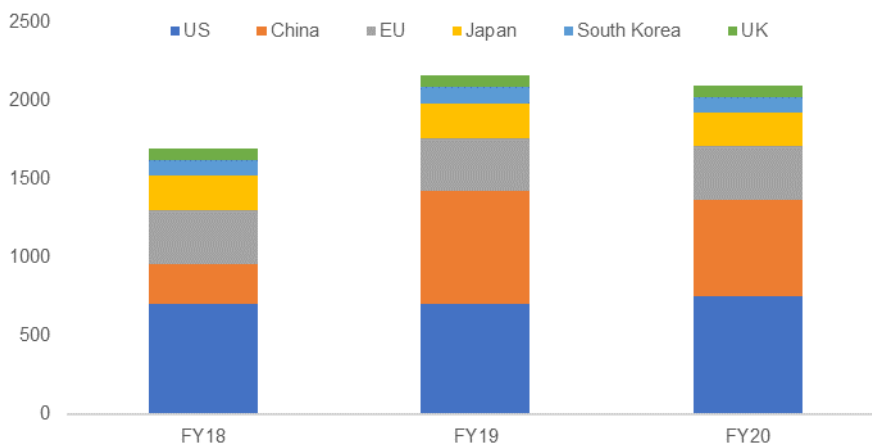
Industry Analysis

Global shrimp demand and supply markets

- **US took shares of global imports; China became 2nd largest importer since FY19:** In terms of volume, US, CHN, JP, EU, KOR, and UK are the top shrimp importers globally, commanding for more than 65% of global trade in FY20E. US import of shrimps increased by 6.9% CAGR from FY17-20, boosting its position further as the largest importer of shrimps from across the world.
- Notably, China saw its shrimp imports increased substantially by 179% YoY in FY19, making it the 2nd largest importer ever since.

US is the largest importer of shrimps

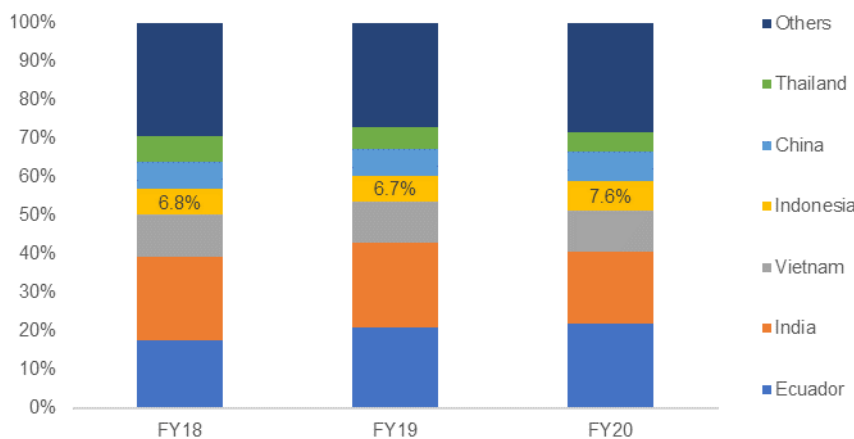
Fig 54 - Global Top Shrimp Importers in FY18-20 (in thousand tons)



Note: EU countries consist of Germany, France and Spain
Source: FAO

- **Indonesia and Ecuador took shares of global shrimp exports:** Similarly, global shrimp export is dominated by few countries, being Ecuador, India, Vietnam, Indonesia, China and Thailand, accounting for ~70% of global supply, at 3.06m tons in FY20.
- Only Indonesia and Ecuador reported consistent increased in exports, with 9.9% and 16.3% CAGRs from FY17-20, boosting their shares by 1.8ppt and 7.9ppt to 7.8% and 22.6%, respectively.

Fig 55 - Global Top Shrimp Exporters in FY18-20 (in terms of volume)

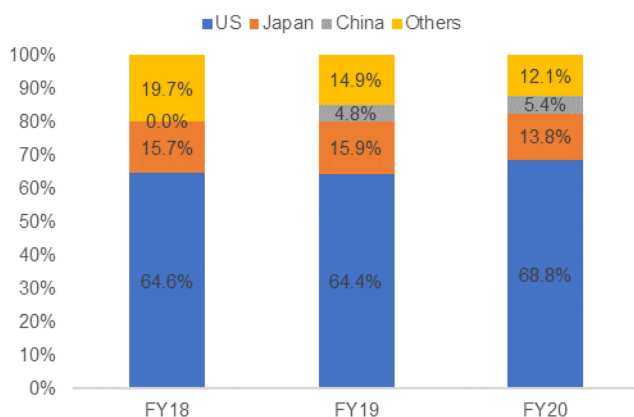


Source: FAO, SCCM Research

Indonesia: An emerging key exporter for the global demand

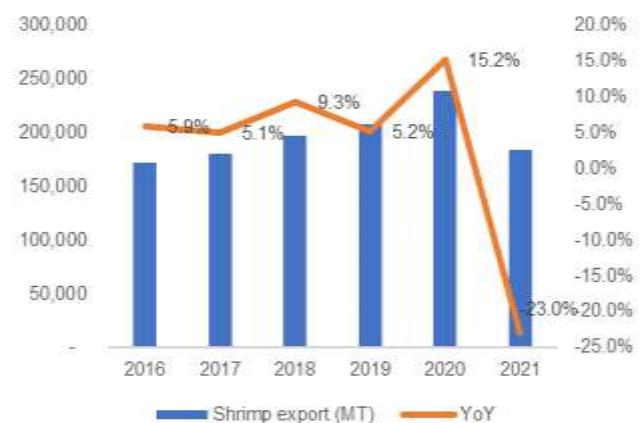
- Growing appetite for Indonesia's shrimps, but logistic issue emerged in FY21:**
 Indonesia exported most of its shrimps to these 3 countries – US (69%), Japan (14%), and China (5%). The country's shrimp exports has been increasing at a CAGR of 7.6% from FY12-20 but declined ~23% YoY to ~184k tons in FY21.

Fig 56 - Indonesia's top shrimp export destinations in 2018-20 (in terms of volume)



Source: FAO, SCCM Research

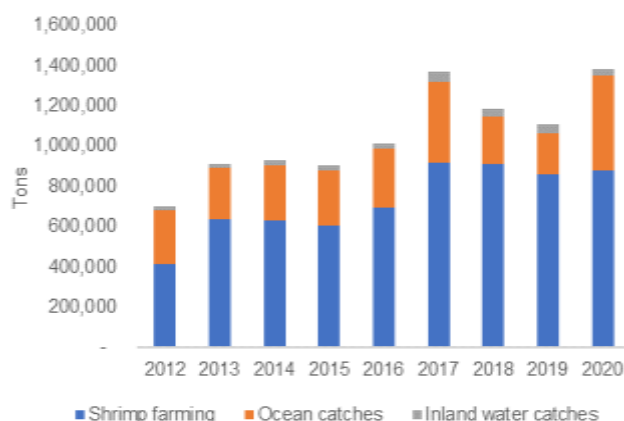
Fig 57 - Indonesia's global shrimp exports



Source: Ministry of Marine Affairs and Fisheries, SCCM Research

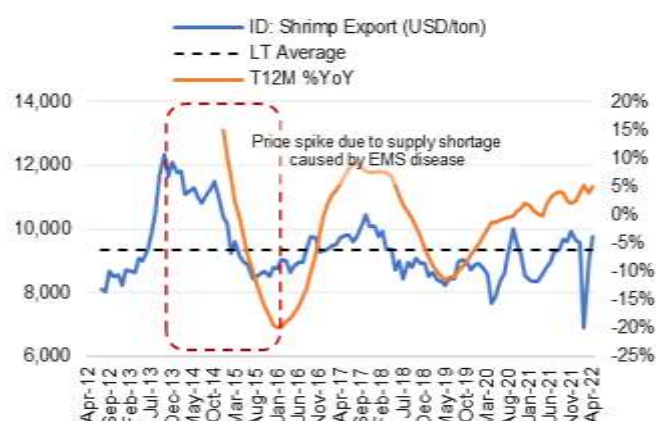
- We think export volume in FY21 might be down partially due to logistic issues, rather than weak global demand or shortage of raw materials in Indonesia. The combined supply of shrimps generated from farming (i.e., aquaculture) and fishing (inland water and ocean catches) have remained high at ~1.38m tons in FY20, which was ~7x that of export volume.
- Meanwhile, average export price per ton has increased since early FY21.

Fig 58 - Indonesia's productions from shrimp farming and fishing in FY12-20 (in tons)



Source: Ministry of Marine Affairs and Fisheries, SCCM Research

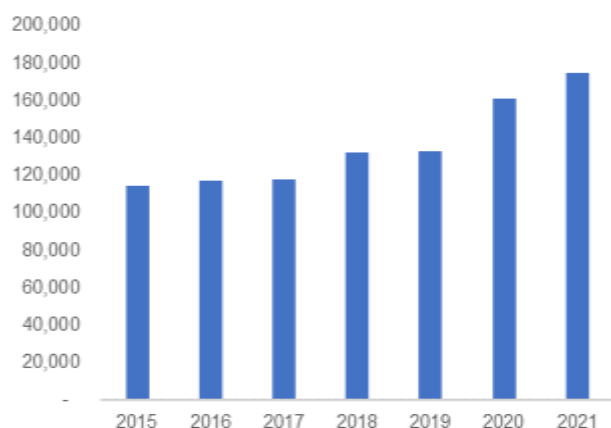
Fig 59 - Indonesia's export price per ton has recovered recently



Source: Bloomberg, SCCM Research

- **Robust exports to US, with growing preference for breaded shrimps:** Indonesia's overall shrimp exports to the US market have increased consistently by 10.3% CAGR to 174.6k tons from FY17-21.
- In the value-added segment, Indonesia's breaded shrimps have become increasingly popular in the US, as exports grew by 55% CAGR to 22.5k tons from FY2017-21 (vs 7% CAGR for worldwide), boosting its export shares by 28ppt and 1.9ppt to 36.2% (out of breaded shrimp exports to US) and 2.5% (out of overall shrimp exports to US), respectively, from FY17-21. Note that US imports of breaded shrimp was still small, accounting for a mere 6.9% of the overall shrimp imports in FY21.
- With the easing of restrictions in the food service sector and robust demand for processed shrimps via retail trades, we believe per capita shrimp consumption could increase further in the US, after reaching all-time high at 4.7 pounds in FY19 (it is still much lower than beef/pork/chicken at 55.4/48.8/67 pounds, respectively).

Fig 60 - Indonesia's shrimp exports to US increased consistently (in tons)



Source: NOAA Fisheries, SCCM Research

Fig 61 - US imports most of its breaded shrimps from Indonesia (in tons)

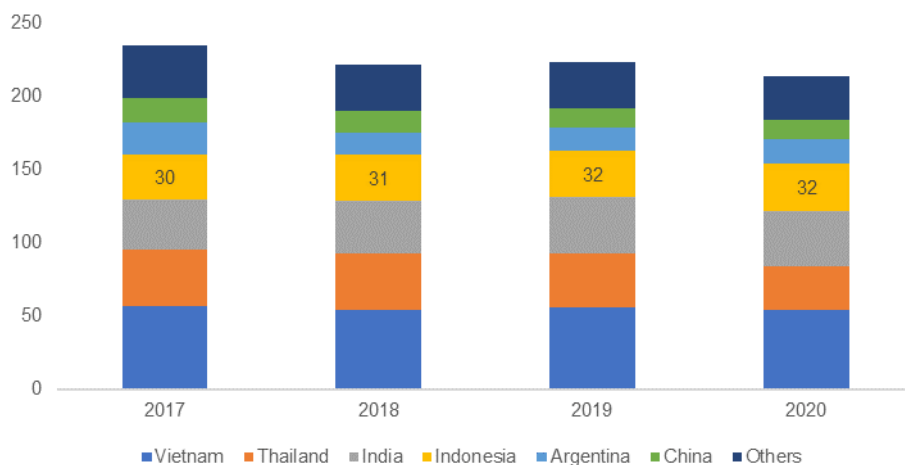


Source: NOAA Fisheries, SCCM Research

- **Steady exports to Japan:** Japan has generally imported lesser shrimps into the country (-3.1% CAGR from FY17-20). However, Indonesia's shrimp exports to Japan were stable at ~32k tons from FY19-20, a slight increase from 30k tons in FY17.

- Amid declining seafood consumption in Japan (per capita seafood consumption declined by almost half to 23.8 kg in FY19E, from 40.2 kg in FY01), we think that Indonesia's shrimp products are competitive enough in Japan and well poised to maintain its market share, at the very least.

Fig 62 - Japan's imports of shrimps from Indonesia remained more or less stable in FY17-20 ('000' tons)



Source: FAO, SCCM Research

- Supportive government policy:** On Mar20, Indonesian Ministry of Maritime Affairs and Fisheries established a new “Pokja” that will be focused on increasing domestic shrimp production and shrimp exports, with a target of 250% upsurge in four years’ time (2020–2024).

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