Lautan Luas

Bloomberg: LTLS.IJ | Reuters: LTLS.JK

Samuel Equity Research

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Catch the rising tide

We profile Lautan Luas (translation “vast ocean”), a small cap Indonesian chemical distributor transitioning to consumer related manufacturing. LTLS has a 63 year operating history and an established distribution network throughout the country. Traditionally an industrial supplier, LTLS is now leveraging the company’s platform to tap Indonesia’s growing middle class market for snack food and cosmetics. A USD earner trading with a 2015 PE of 4.9x relative to 14x for the JCI we expect profits to triple by 2016 as manufacturing expansions are completed. We initiate with a BUY and 2015YE TP of 2,125.

Aggressive expansion into higher margin consumer foods and cosmetics. LTLS has started manufacturing non-dairy creamer (NDC), a food ingredient made primarily from palm oil and cane sugar. With Indonesia a major producer of both ingredients, LTLS plans to triple production in 2015 to 60,000 tons, making this division its fastest growing business segment. Through a joint-venture with Japanese partner Ajinomoto, LTLS is also producing moisturizers and other additives for the cosmetic industry. With the ability to distribute both domestically and internationally, LTLS can leverage its platform for a variety of consumer products.

Shift from distribution to manufacturing creates more predictable cash flows. LTLS originally started as a chemical distributor and currently distributes over 1,000 products. LTLS historically depended on short term financing to increase working capital for its chemical trading business. By shifting the majority of sales to manufacturing, LTLS can improve the predictability of its cash flows and extend its debt to longer tenor instruments

Experienced management team. The management team is seasoned with over 20 years experience in the industry. Given the shortage of management talent in Indonesia, the company has maintained a stable of prime managers to oversee their projects. Together with expertise from world class partners, the company is taking advantage of its experience to leverage the company as a platform for new product launches.

Valuation Risks. 1) Slowing Economy 2) Weakening IDR 3) Rising Interest Rates

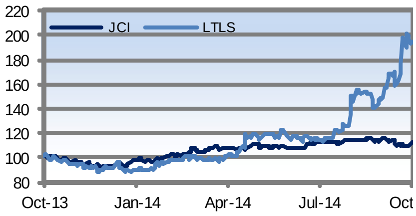
Forecast and Valuation (at closing price Rp1,455 per share)

Y/E Dec (Rp Bn)	13A	14E	15E	16E
Revenue	5,735	6,344	7,121	8,080
EBITDA	350	518	641	1,098
Net Profit	85	146	229	466
EPS (Rp)	110	187	294	598
DPS (Rp)	25	26	45	71
Dividend Yield (%)	1.7	1.8	3.1	4.9
BV per Share (Rp)	1,782	1,935	2,171	2,678
EV/EBITDA (x)	5.7	5.4	4.5	2.5
P/E Ratio (x)	13.3	7.8	4.9	2.4
P/BV Ratio (x)	0.8	0.8	0.7	0.5

BUY (Initiate)

Target Price	Rp 2,125
Last Price	Rp 1,455
Potential Upside	46.0%
JCI Index	5,040
Share issued (mn)	0.780
Market Cap. (Rp bn)	1,134.900
52-Weeks High/Low	1530/600
Avg Daily Vol (mn)	1.64
Free Float	40.0%
Nominal Value	Rp 10
Book value/share ‘15	Rp 2,171

Relative to JCI Chart



Company Background

PT Lautan Luas Tbk (LTLS) distributes basic and specialty chemicals. Through its subsidiaries, LTLS also manufactures basic and specialty chemicals such as poly aluminum chloride, sulfuric acid, food coloring, white oil, among others. The company is expanding into manufacturing for the food and cosmetic industry.

Shareholder Structure

PT Caturkarsa Megatunggal	56.1%
Public	44.0%

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Company profile

PT Lautan Luas Tbk (LTLS) is a chemical importer and distributor in Indonesia, established in 1951 as NV Lim Teck Lee Co. Ltd. The company's initial core business was distribution of chemicals for batik and food industries before expanding into manufacturing of sulfuric acid in 1969. As part of Indonesia's initial industrialization during the 1970's, LTLS expanded production capacity and broadened their distribution networks in Indonesia putting greater emphasis on specialty chemicals. The diversification into a broader base of products has given LTLS greater ability to weather market volatility and stabilized margins. After their IPO in 1997, LTLS widened its presence in regional markets, setting up a subsidiary in Singapore as well as manufacturing plants and distribution networks in Thailand, Vietnam, and China. As a platform to tap into the growing middle class segment, the company is currently placing greater focus on snack food and cosmetic products. Presently, its portfolio comprises of 1,000 chemical products including partnerships with 100 international principals to supply 2,000 industrial end-users in Indonesia and neighboring countries.

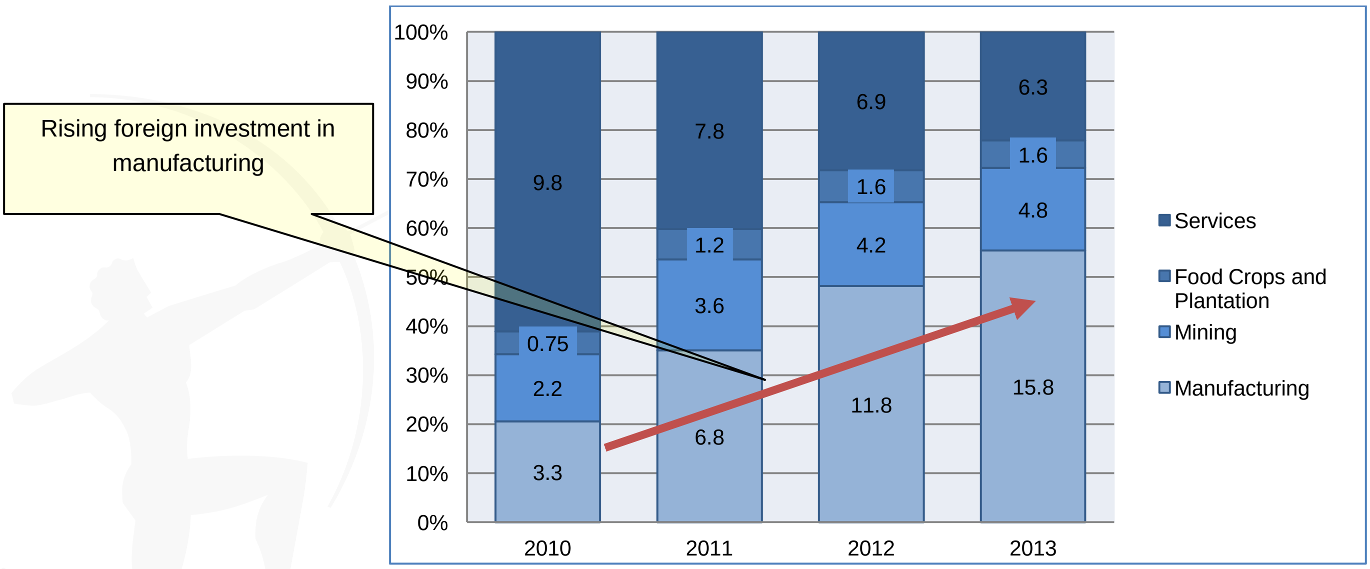
Indonesia's manufacturing sector

The Indonesian manufacturing sector has been a steady contributor to the country's GDP growth although it is an underrepresented part of the MSCI Index relative to other countries with industrials representing only 3.7% of the Indonesian index compared to 6.6% for the MSCI Emerging Market index and 10.5% of the MSCI all country index. Indonesia's underweighting in manufacturing is due in part to the relative immaturity of the sector and a reliance on foreign joint ventures, such as in car manufacturing, which do not need to tap the Indonesian capital markets for financing.

Historically, Indonesia's industrial sector has been challenged by high transportation and logistical costs relative to its competitors. However rising middle class incomes and increased domestic demand has steady attracted greater foreign investment over the past 5 years. In 2013, foreign direct investment in manufacturing reached over US$15.8 billion which is a 34% gain compared to 2012 and represented 55.4% of total foreign investment. By comparison, the manufacturing sector only attracted US$3.3 billion or 20.6% of total foreign direct investment in 2010.

As Indonesia's manufacturing and related infrastructure matures, we believe logistical costs will continue to decrease allowing greater efficiencies and economies of scale for existing companies.

Figure 1. Indonesia foreign direct investment (US$ bn)



Source: Indonesia Investment Coordinating Board

Investment thesis

Lautan Luas is transforming itself from a distributor of specialty chemicals into a leading consumer related manufacturer. We believe if the company continues on its current growth path, manufacturing will become the primary revenue and earnings driver for the company by 2017 which should lead to margin expansion, greater earnings predictability, and a higher valuation.

We believe LTLS has the ability to successfully accomplish this objective for the following reasons: 1) the company has an established product platform for successfully identifying and launching new products 2) LTLS has already identified non-dairy creamer (NDC) as a promising market which is ideally suited for the Indonesian consumer and offers the additional advantage that two of the largest inputs can be sourced most cheaply within Indonesia 3) the company has a stable of managers and foreign joint venture partners capable of taking on new businesses and expanding them to meet their full economic potential

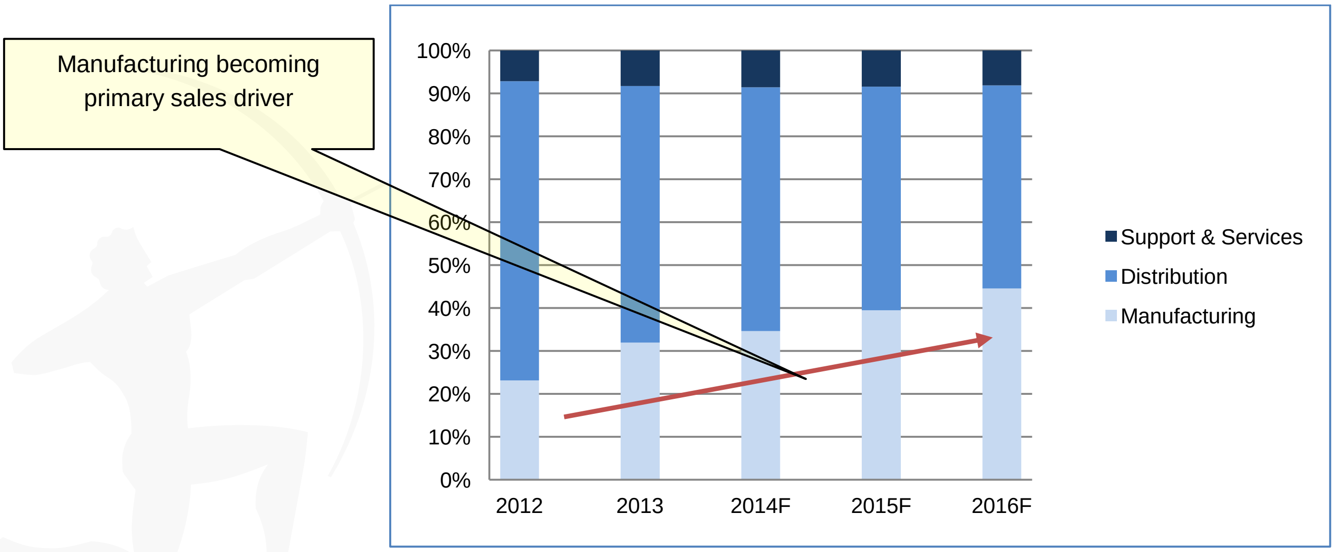
Established product platform

Lautan Luas established itself as a major supplier to the industrial sector by selling important chemical and manufacturing inputs to serve Indonesian factories. With its roots as a trading company, Lautan Luas grew over 65 years to establish a client base of 2,000+ corporate clients and a nation-wide distribution network in Indonesia with 7 branch offices and seven representative offices located in major cities throughout the archipelago as well as regional offices in Singapore, China, Thailand, and Vietnam.

With over 1,000 products in its product portfolio and a diverse client base, LTLS has the ability to screen the most promising products and services based on its own sales data and invest in the best ones that can be manufactured locally. Through a network of over 100 international principals, the company has also collected a brain trust of foreign experts and consultants that can provide additional technical and logistical advice when needed. Unlike other manufacturers, LTLS already has an established distribution and logistics division which it successfully spun off to an independent profit center in 2001. As a result, LTLS is able to go to market and achieve both a nationwide and regional reach within a matter of months which is significantly faster than competitors.

The appendix lists the total number of subsidiaries and affiliates to the publicly listed parent company.

Figure 2. LTLS' sales contribution by division



Source: Company reports and SSI estimates

Manufacturing division

Lautan Luas has previously leveraged its platform to become a successful manufacturer of a number of specialty chemicals. The company is currently the Indonesian market leader in the manufacturing and sale of sodium carbonate (water treatment, glass) sulfuric acid (mineral processing, fertilizer), aluminum chlorohydrate (antiperspirant, deodorant, water treatment), and azodicarbonamide (blowing agent for foam plastics, plastics, synthetic leather)

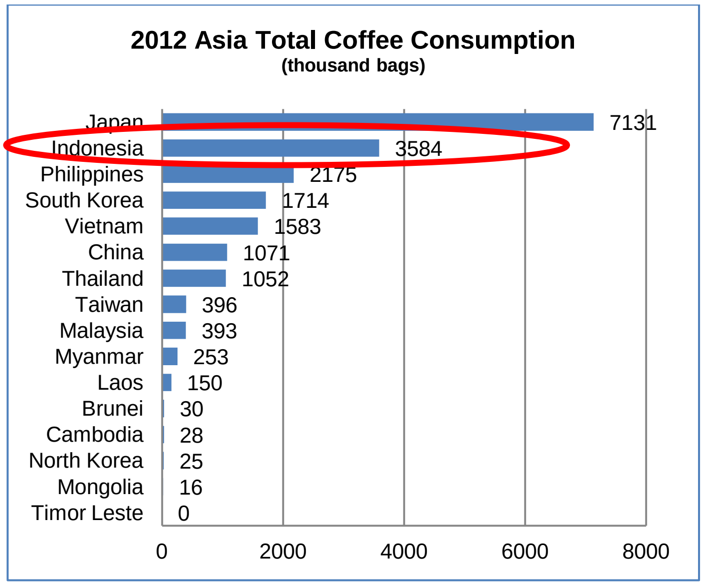
The company first entered into manufacturing in 1969 by building Indonesia's first privately owned sulfuric acid production plant. Since this period, LTLS has steadily increased its manufacturing capabilities by identifying other key markets by leveraging its sales and distribution network. To date Lautan Luas has ten subsidiaries which manufacture specialty chemicals for the Indonesian market. LTLS is the majority shareholder for each of these companies. In addition the company holds a minority position in five additional companies that provide other specialty manufacturing and services including ethanol, dyes and pigments for the batik industry, and water treatment systems. (See Appendix A) While these all of these provide stable earnings, consumer related products such as aluminum chlorohydrate have seen the strongest growth in demand and the company is doubling production capacity starting in 2015. LTLS also sees strong prospects in water treatment and is increasing production capacity of sodium metabisulphite by up to six times in a new production facility to complete by the end of 2014.

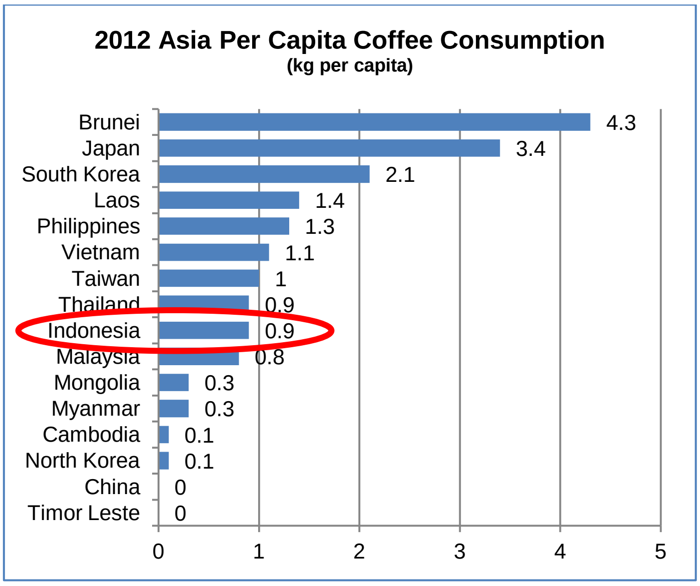
Recently Lautan Luas has entered into two new businesses which have good prospects of higher growth by further tapping the Indonesian consumer base. The first is non-dairy creamer (NDC) which is a food ingredient used in combination with soft drinks, coffee, ice cream, and other snack foods. The second are moisturizers for soaps and cosmetics. For the moisturizer business Lautan Luas partnered with Japan-based Ajinomoto who owns the majority share of their joint-venture in Indonesia to develop such additives for the Indonesian market. For 2014 we project that the manufacturing division will increase earnings by 20% and that sales growth rises to 28% in 2015 and 2016 due to expansion of NDC and sodium metabisulphite business.

Expansion of non dairy creamer business

With Indonesia representing the largest consumer market in ASEAN, Lautan Luas' move into non dairy creamer (NDC) has two main advantages: 1) the main inputs for NDC are palm oil and cane sugar both of which Indonesia produces in abundance. Developing value added businesses for crude palm oil has strategic cost and political advantages given the government's desire for additional CPO related industries. 2) the product is consumer based and focused on the lower-middle segment of the market which is the sweet spot for Indonesia. Historically, Indonesia has not been a significant consumer of coffee. However with rising incomes and greater emphasis on urban living and convenience, 3 in 1 coffee sticks and "white" coffee using NDC have been one of the most successful product launches in Indonesia over the last few years. Given the relatively harsh taste of Robusta beans, which is the dominant bean grown in Indonesia, coffee combined with NDC has been successfully marketed as a "low acid" and "healthy" alternative. Recent launches of bottled cold coffee beverages containing NDC sold in modern convenience stores have also attracted Indonesian consumers. According to the International Coffee Council, over the past 12 years, coffee consumption in Indonesia has grown by an average 6.6%p.a. making it the second largest coffee market in Asia after Japan and the 8th largest worldwide. However on a per capita basis, Indonesia still consumes less than 1 kg per person annually compared to 5kg for Brazil and 4 kg for the United States. We expect sales of NDC to grow at a faster rate than coffee consumption given its relatively lower rate of penetration and the greater appeal to Asian consumers.

Figure 3. Asia coffee consumption





Source: International Coffee Council, 2014

Distribution division

One of LTLS strengths relative to other manufacturers is a fully integrated national and regional distribution platform which the company spun off into a separate operating entity in 2001. The extended sales reach through this distribution network, helps the company achieve greater sales than stand-alone manufacturers and allows it to accelerate the process of going-to-market and achieve economies of scale.

In 2012, the company made the strategic decision to stop the sale and distribution of high speed diesel fuel which accounted for 18% of total 2012 revenues. As a result, the company saw a drop in sales in 2012 and 2013 although margins improved as the company focused on more profitable products. The strength of the non dairy creamer manufacturing has an added benefit of boosting revenues for the distribution division given the large amount of local inputs and the large delivery footprint within Indonesia.

With higher energy costs and increased competition, management sees the distribution division as having stable but lower growth prospects in the near future. We forecast that sales from the division will grow at a rate of 5% in 2014 and slow to 3% in 2015 and 2016.

Services division

LTLS's service division is the smallest contributor to earnings, but its expansion into water treatment is making the division one of the fastest growing ancillary businesses to the manufacturing division. The original business focused on laboratory services and solutions for light industries including leather, paper and textile. Recently the company has focused on the water treatment as well as information technology and supply chain solutions. We expect this division to grow sales at rate of 15% in 2014 and 10% in 2015 and 2016.

Experienced management team

Lautan Luas has maintained a stable of capable managers, many with over 20 years of industry experience, who often rotate through different divisions both within Indonesia and internationally. Unlike many of its competitors, Lautan Luas was one of the first Indonesian companies to recognize the importance of building a strong core team of experienced middle managers and a talent pool for staffing future new businesses. To accomplish this objective the company has dedicated a significant portion of net profits every year to employee training. In 2013, the company dedicated 1.25% or Rp2bn to employee training. Lautan Luas also offers many other long term incentives to retain its employees including a generous medical insurance program, pension, and car ownership program where employees have the ability to purchase company cars after a period of time

Recent financial results

Lautan Luas reported 1H14 results which met expectations with revenues achieving 45.4% of our full year target. Revenues grew by 6.6% year over year but margins shrank on higher costs including rental, service charges and labor. As a result, operating margins shrank 3.8% YoY and net margins fell by 3.1%. Margin compression was expected as the company finalized winding down its high speed diesel business. However we expect margins to re-inflate in FY14 as NDC sales report a full year of production sales after their recent expansion to 20,000 tons.

Net profits were also boosted by a one-time sale of assets and a positive foreign exchange gain which boosted operating earnings by 44%. As manufacturing gradually becomes a larger and larger part of the business, we expect core earnings quality for LTLS to improve and contribution from non-operating sources will become less of a factor.

Figure 4. LTLS 1H14 Financial Results

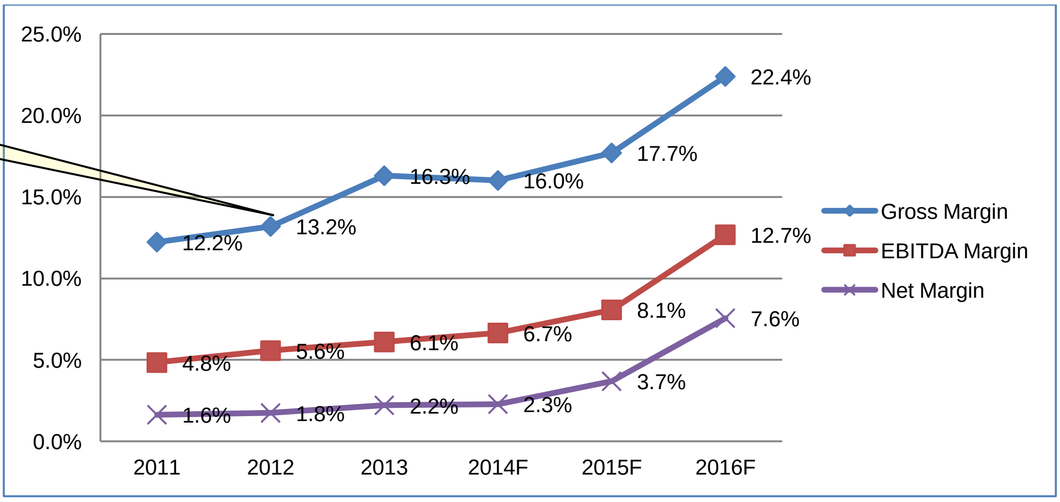
Rp bn	2Q13	1Q14	2Q14	qoq	yoy	1H13	1H14	yoy	1H14/FY14E	FY14E
Revenue	**1,338**	**1,409**	**1,508**	**7.0%**	**12.7%**	**2,746**	**2,917**	**6.2%**	**46.0%**	**6,344**
COGS	(1,128)	(1,161)	(1,276)	9.9%	13.1%	(2,318)	(2,437)	5.1%		
Gross Profit	**210**	**248**	**232**	**-6.4%**	**10.5%**	**427**	**480**	**12.3%**	**43.2%**	**1,112**
Total Operating Exp.	(164)	(157)	(174)	11.3%	6.4%	(301)	(331)	9.9%		(670)
Other operating income						172	193			
Other operating expenses						(41)	(76)			
Operating Profit	**176**	**126**	**141**	**12.1%**	**-19.7%**	**257**	**267**	**3.6%**	**60.4%**	**442**
Equity in net earnings (losses) of associated companies - net	1	1	(6)	-519.8%	-963.4%	(2)	(4)	158.0%		
Finance income						5	2			
Finance costs	(25)	(32)	(30)	-7.3%	18.4%	(57)	(62)	8.6%		
Pre-tax Income	**153**	**96**	**106**	**10.8%**	**-30.4%**	**204**	**203**	**-0.6%**	**69.9%**	**290**
Tax	(40)	(24)	(25)	6.1%	-36.7%	(52)	(50)	-5.0%		
Difference in foreign currency translation	17					19	23	23.0%		
Difference in value of equity transaction with NCI										
Profit For Period	**113**	**72**	**81**	**12.5%**	**-28.3%**	**152**	**153**	**0.7%**	**70.4%**	**217**
Profitability										
Gross margin	15.7%	17.6%	15.4%	-2.2%	-0.3%	15.6%	16.5%	0.9%		17.5%
Operating margin	13.1%	8.9%	9.3%	0.4%	-3.8%	9.4%	9.1%	-0.2%		7.0%
Profit margin	8.4%	5.1%	5.4%	0.3%	-3.1%	5.5%	5.2%	-0.3%		3.4%

Source: Company and SSI estimates

In 2015 and 2016 we expect improved quality to earnings and less volatility due to F/X changes as the company changes the reporting of the NDC subsidiary from IDR to USD. We also expect that increases to sales revenue will come less from the sale of assets and more from the sale of incremental production from its manufacturing facilities.

Winds down Hi-Speed Diesel Distribution

Figure 5. LTLS margin analysis

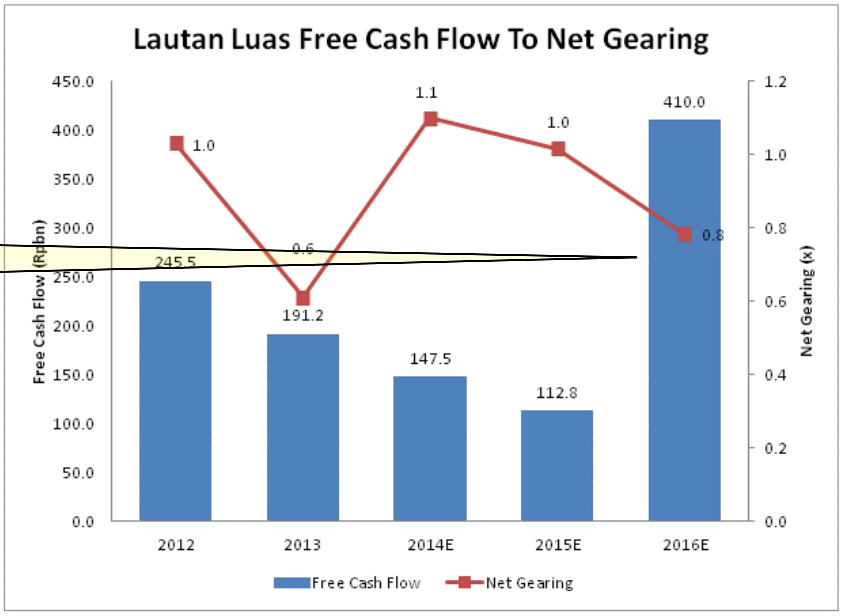


Source: Company and SSI estimates

As a distribution company LTLS is dependent on short term debt to fund its inventory and working capital. However as sales from the company's manufacturing division ramps up, we expect the company gradually will be able to shift its borrowing to longer tenor instruments. This should even out earnings volatility while improving the firm's capital structure. We note that our Free Cash Flow projections are positive for 2014 and increase significantly by 2016 as the full impact of the NDC expansion is felt. We project LTLS's net gearing ratio to improve from 1.1x in 2014 to 0.8x in 2016 as the company's manufacturing expansions are completed and sales comes on line. Interest coverage expands from 2.7x in 2014 to 6.3x in 2016

Net Gearing and Free Cash Flow improving by 2016

Figure 6. LTLS' free cash flow and net gearing



Source: Company and SSI estimates

Valuation assessment and methodology

We evaluate Lautan Luas on a discounted cash flow basis given its disparate lines of business and large number of affiliates where it holds a minority stake. We have not included any assumptions of further expansion of its NDC factory and left dividends from its minority interests flat providing further upside to our valuation.

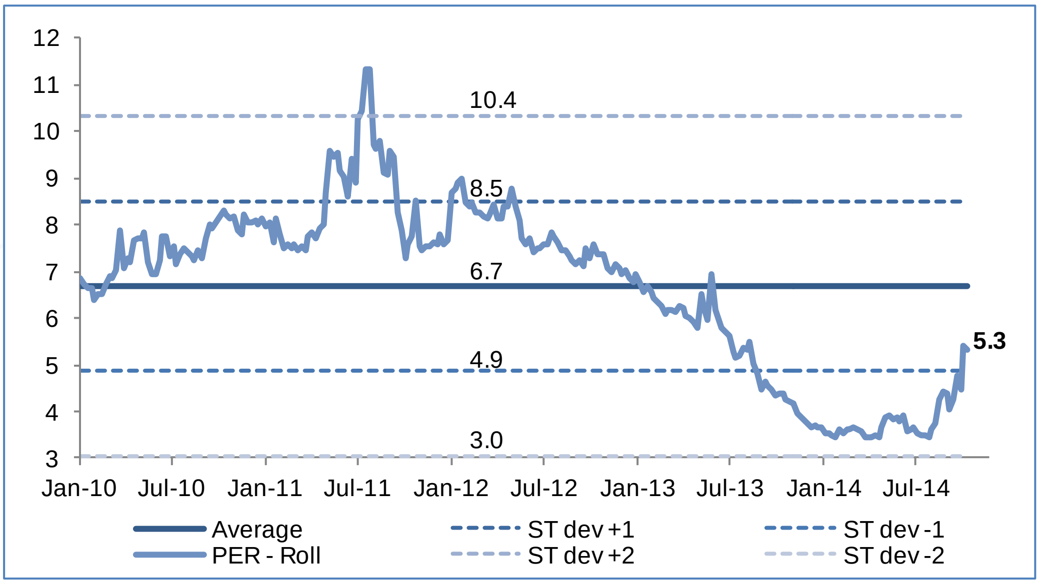
Figure 7. DCF valuation

Terminal Growth Rate (%)	3.0%	**Terminal Growth Rate (%)**	**3.0%**
Adjusted Beta	**0.69**	**WACC (%)**	9.7%
Risk-Free Rate	8.6%	NPV of Cash Flows	**1,333**
Market Risk Premium	6.0%	NPV of Terminal Value	1,983
Cost of Equity	**12.8%**	**Total NPV**	3,315
Gross Cost of Debt	10.0%	Cash/(Debt)	(1,657)
Tax Rate	25.0%	Implied Equity Value	1,658
Net Cost of Debt	**7.5%**	**Implied Per Share Value**	**2126**
Equity/(Equity + Debt) (%)	42.2%	Outstanding Shares (Mn)	780
Weighted Cost of Equity (%)	5.4%	Implied 2015F P/E	7.2
Debt /(Equity + Debt) (%)	57.8%	Implied 2015F PEG	0.2
Weighted Cost of Debt (%)	4.3%	Implied 2015F EV/EBITDA	2.6
WACC	**9.7%**	Implied 2015F PBV	1.0

Source: SSI estimates

We find LTLS has an undemanding valuation relative to its projected growth rate and an improving cash flow position. Trading with a 2015 PBV of 0.7x and PEG of just 0.13x our earnings forecast, we believe the company will soon emerge on the radar of institutional investors as the market cap has recently exceeded 1 trillion. The company is still trading significantly below its 5 year average PE valuation of 6.7x as investors have not full accounted for the company's future earnings growth. We are forecasting a CAGR of 12.1% and 51.6% respectively for revenue and earnings through 2016 as margins expand due to greater contribution from manufacturing.

Figure 8. LTLS' forward PE band



Source: SSI estimates, Bloomberg

On a relative valuation basis, LTLS is trading at significant discount to other distribution and logistics related companies such as AKR Corporindo (AKRA), Tigaraksa Satria (TGKA) or Wickasana Overseas (WICO), as well as consumer manufacturing companies such as Kalbe Farma (KLBF). While LTLS does not yet have the level of sales or earnings to rival Kalbe Farma, it does share several other similarities including: **1) diversified product portfolio.** Like KLBF, Lautan Luas has a diversified product line and the ability to develop its own product brands, **2) integrated distribution network**. Both Lautan Luas and Kalbe Farma have long operating histories in Indonesia and in the course of their business developed their own distribution and logistics centers. Kalbe Farma spun off Enseval Trading as its own independent profit center and similarly LTLS has also separated its distribution division. Having an integrated distribution platform allows both companies to test and launch new products with superior speed and reach, and **3) strong customer base with relatively inelastic demand.** LTLS is the leading provider for a number of critical inputs to Indonesian manufacturing companies therefore product demand is relatively inelastic as long as the clients can maintain their end-user sales. KLBF is well known as a pharmaceutical distributor, but in recent years the company sales have come predominately from consumer related products. The company has identified products with a strong consumer following and the resulting margin expansion has propelled the company into one of the most highly valued consumer based companies on the Indonesian exchange. If LTLS was to successfully launch end user consumer branded products then it would have opportunity to draw favorable comparisons with KLBF.

Figure 9. LTLS comparison table

2014E Comparisons		P/E	P/Book	EV/EBITDA
Distributors				
AKRA IJ	AKR Corporindo	25.7	3.9	16.5
EMPT IJ	Enseval Putera Megatrading	18.0	2.6	11.9
TGRA IJ	Tigaraksa Satria	21.1	3.8	8.9
WICO IJ	Wicakasana Overseas	1.9	0.6	88.9
Consumer Manufacturing				
KLBF IJ	Kalbe Farma	37.0	8.2	24.6
LTLS IJ	Lautan Luas	7.8	0.8	5.4
Source: SSI and Bloomberg Consensus Estimates				

Trading at a significant discount to similar peers

Source: SSI estimates, Bloomberg

Risks and concerns

The primary risks to our earnings estimates for Lautan Luas are as follows:

1) a slowing economy that impairs sales
2) a weaker rupiah leads to higher F/X losses
3) higher interest rates would lead to higher interest expense and tighter liquidity could constrain expansion as the company relies on short term financing for its working capital requirement.

The company has a diverse client base (See Appendix B) which insulates the company from economic shocks. Management's decision to wind down its distribution of high speed diesel also limits the company's exposure to the depressed metal and mining industries. Company earnings are exposed to depreciation of the rupiah relative to the USD. A primary reason for this is the large amount of capital expenditure denominated in USD while the company reports revenues in rupiah for several subsidiaries. Although sales are conducted in USD, accounting rules present timing differences for reporting which can lead to significant foreign exchange losses reported even though they are of a non-cash nature. To reduce volatility due to rupiah volatility, the company will change the reporting of its NDC manufacturing subsidiary to USD which will eliminate a significant amount of foreign exchange volatility starting in 2015.

As a small-cap stock, the company can also suffer from poor liquidity. However this issue can be mitigated as the company consistently meets its financial targets and becomes better known to institutional investors. We also have some concern that the large number of subsidiaries and business lines makes it tempting for management to invest in projects which do not always provide the best return and thereby reduce the company's return on equity.

Conclusion

Lautan Luas has the potential to move into a different valuation rating now that the manufacturing division has become the primary generator of profits. We expect that in 2014, manufacturing will drive the majority of company earnings and become the primary contributor to sales by 2017. The tripling of NDC volume will allow for contribution from manufacturing to become the company's primary earnings driver and we forecast that manufacturing will exceed distribution as the main source of revenues within 2 years.

The company trades below book value and at a PEG of 0.13x its 2015 earnings which indicates limited downside risk. With stronger core earnings and more predictable cash flows, we predict Lautan Luas will transform itself into one of Indonesia's leading consumer related manufacturing companies providing a higher valuation from investors.

Key Financials

Profit and Loss Statement

Yr-end Dec (Rpbn)	13A	14E	15E	16E
Revenue	**5,735**	**6,344**	**7,121**	**8,080**
COGS	(4,800)	(5,232)	(5,755)	(6,158)
Gross profit	935	1,112	1,366	1,922
Gross margin (%)	16.3	17.5	19.2	23.8
Operating profit	**278**	**415**	**581**	**1,038**
Operating margin (%)	4.9	6.5	8.2	12.8
EBITDA	**350**	**518**	**641**	**1,098**
EBITDA margin (%)	6.1	8.2	9.0	13.6
Other income (expenses)	0	0	0	0
Pre-tax profit	174	290	457	928
Income tax - net	(46)	(72)	(114)	(232)
Net profit	**85**	**146**	**229**	**466**
Net profit margin (%)	1.5	2.3	3.2	5.8

Cash Flow

Yr-end Dec (Rp bn)	13A	14E	15E	16E
Net income	127	217	342	696
Depreciation & amort.	72	104	60	60
Others	0	0	0	0
Working capital	31	2	(114)	(156)
Operating cash flow	**230**	**323**	**289**	**601**
Net - Capital expenditure	(301)	(204)	(283)	(448)
Investing cash flow	**(253)**	**(204)**	**(283)**	**(448)**
Net - Borrowings	(763)	306	0	0
Other financing	687	(96)	0	0
Financing cash flow	**(129)**	**143**	**(67)**	**(67)**
Net - Cash flow	**(151)**	**262**	**(62)**	**85**
Cash at beginning	118	148	410	348
Cash at ending	**148**	**410**	**348**	**434**

Balance Sheet

Yr-end Dec (Rpbn)	13A	14E	15E	16E
Cash & ST Investment	161	410	348	434
Receivables	1,200	1,238	1,383	1,561
Inventories	891	857	943	1,009
Others	148	148	148	148
Total Current Assets	**2,400**	**2,653**	**2,822**	**3,152**
Net fixed assets	1,107	1,304	1,479	1,891
Other assets	1,025	1,096	1,144	1,120
Total Assets	**4,532**	**5,053**	**5,445**	**6,163**
Payables	1,229	1,259	1,375	1,464
ST Loans	764	800	800	800
Other current liabilities	113	76	76	76
LT. debt	921	1,267	1,267	1,267
Other long term liabilities	115	94	94	94
Total Liabilities	**3,142**	**3,497**	**3,613**	**3,702**
Total Equity	**1,390**	**1,509**	**1,694**	**2,089**

Key Ratios

Yr-end Dec (Rp bn)	13A	14E	15E	16E
ROE (%)	6.1	9.7	13.5	22.3
ROA (%)	1.9	2.9	4.2	7.6
Revenue growth (%)	(7.7)	10.6	12.3	13.5
EBITDA growth (%)	1.1	48.1	23.6	71.3
EPS growth (%)	**4.9**	**70.6**	**57.5**	**103.3**
Interest coverage (x)	2.3	2.7	3.7	6.3
Debt to equity (%)	71.6	137.0	122.1	99.0
Net gearing (%)	**60.9**	**109.8**	**101.5**	**78.2**

Major Assumptions

	13A	14E	15E	16E
USD/IDR	11,440	11,600	11,700	11,000
Inventory days	55	67	59	59
Cash conversion days	50	54	46	46

Appendix A—Lautan Luas Subsidiaries and Affiliates

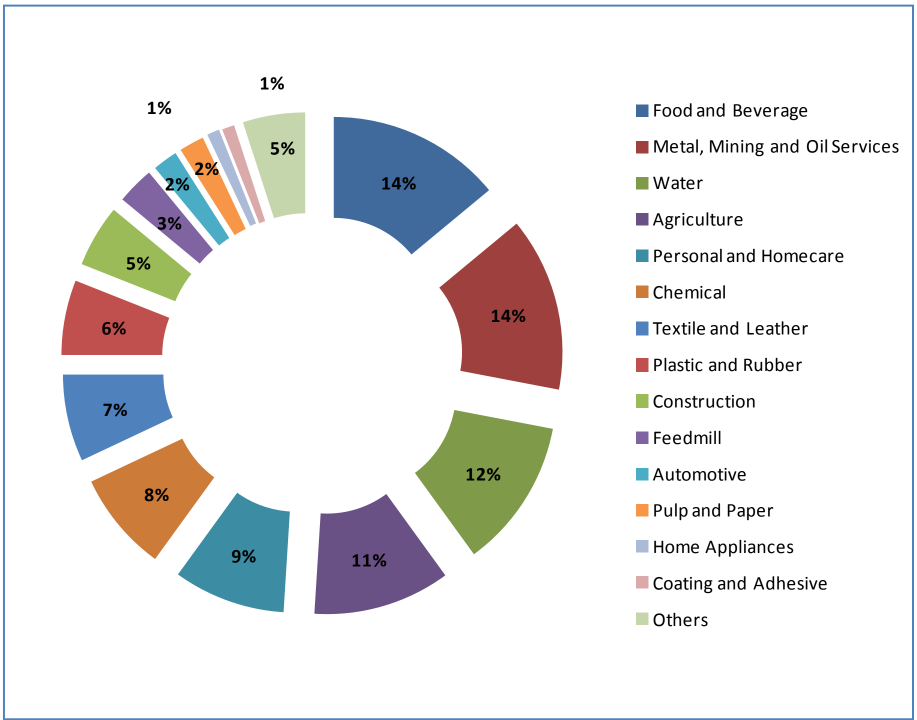
Majority Owned Subsidiaries

No.	Companies	Line of Business	Shareholders	Ownership
1	Lautan Luas Singapore Pte. Ltd.	• Distributor of Basic and Specialty Chemicals • Investment in Manufacturing Companies of Basic and Specialty Chemicals	PT LAUTAN LUAS Tbk	100%
2	PT Advance Stabilindo Industry	Manufacturer of Methyltin Stabilizer, Plastic Additives, and Compound	• PT LAUTAN LUAS Tbk • PT Fumasjaya Utama	99% 1%
3	PT Dunia Kimia Jaya	Manufacturer of Specialty Chemical for Paper, Textile, Agriculture, Rubber / Plastic, Water Treatment, Band Ply Lubricant, and Fertilizer	• PT LAUTAN LUAS Tbk • Indrawan Masrin	99.90% 0.10%
4	PT Dunia Kimia Utama	• Manufacturer of Sulfuric Acid and Aluminum Sulfate • Distributor of Sulfuric Acid and Aluminum Sulfate	• PT LAUTAN LUAS Tbk • PT Gading Masindotama • Tip International Company • PT Wongso Kharismamulia • Ting Aurelia Yuwita Elika • PT Syam Bersaudara	53.38% 30.41% 9.64% 2.76% 2.21% 1.60%
5	PT Indonesian Acids Industry	• Manufacturer of Sulfuric Acid, Aluminum Sulfate, Potash Alum, Oleum, Ferro Sulfate and Sodium Silicate • Distributor of Sulfuric Acid, Aluminum Sulfate, Potash Alum, Oleum, Ferro Sulfate and Sodium Silicate	• PT LAUTAN LUAS Tbk • Citicon Investment Group Limited • Tip International Company • PT Wongso Kharismamulia • Ting Aurelia Yuwita Elika • PT Syam Bersaudara	53.38% 30.41% 9.64% 2.76% 2.21% 1.60%
6	PT Lautan Natural Krimerindo	Manufacturer of Non-Dairy Creamer	• PT LAUTAN LUAS Tbk • Indrawan Masrin	99.988% 0.012%
7	PT Lautan Sulfamat Lestari	Manufacturer of Sulfamic Acid	• PT LAUTAN LUAS Tbk • PT Fumasjaya Utama	99.00% 1.00%
8	PT Liku Telaga	Manufacturer of Sulfuric Acid, Aluminum Sulfate, and Sodium Silicate	• PT LAUTAN LUAS Tbk • PT Gading Masindotama • Tip International Company • PT Wongso Kharismamulia • Wen Chie Siang • PT Syam Bersaudara	53.38% 30.41% 9.64% 2.76% 2.21% 1.60%
9	PT Mahkota Indonesia	Manufacturer of Sulfuric Acid, Aluminum Sulfate, Sodium Silicate, Ferro Sulfate, and Potash Alum	• PT LAUTAN LUAS Tbk • PT Mingsindo Jaya • Tip International Company • PT Wongso Kharismamulia • Ting Aurelia Yuwita Elika • PT Syam Bersaudara	53.38% 30.41% 9.64% 2.76% 2.21% 1.60%
10	PT Metabisulphite Nusantara	Manufacturer of Sodium Metabisulphite	• PT LAUTAN LUAS Tbk • Indrawan Masrin	99.997% 0.003%
11	PT Pacinesia Chemical Industry	Manufacturer of Poly Aluminum Chloride and Main Distributor	• PT LAUTAN LUAS Tbk • Indrawan Masrin	99.975% 0.025%
12	PT White Oil Nusantara	Manufacturer of White Oil	• PT LAUTAN LUAS Tbk • Indrawan Masrin	99.998% 0.002%
13	PT Cipta Mapan Logistik	Freight Forwarding (Transportation Management Service) Warehouse management	• PT LAUTAN LUAS Tbk • Indrawan Masrin	99.999% 0.001%
14	PT Lautan Jasaindo	Support & Laboratory Services	• PT LAUTAN LUAS Tbk • PT Fumasjaya Utama	99.06% 0.94%
15	PT Strategic Partner Solution	• Trading Computer & Accessories • IT Consultant & Management Services	• PT LAUTAN LUAS Tbk • Jimmy Masrin	99.82% 0.18%

Minority Owned Affliates				
16	PT PKG Lautan Indonesia	Trading basic and specialty chemicals (main dristribution and importer)	• PT LAUTAN LUAS Tbk • Perusahaan Kimia Gemilang Sdn	49.00% 51.00%
17	PT Indonesia Ethanol Industry	Manufacturer of Pure Ethanol	• PT LAUTAN LUAS Tbk • Siam Resources (S) Pte. Ltd • Cleveland Pte. Ltd. • Matrix Membranes Enterprises Pte. Ltd.	30.44% 19.88% 43.61% 6.07%
18	PT Lautan Ajinomoto Fine Ingredients	Manufacturer of Cosmetic Ingredients for Personal Care Products	• PT LAUTAN LUAS Tbk • Ajinomoto Co., Inc.	33.33% 66.67%
19	PT Lautan Otsuka Chemical	Manufacturer of Azodicarbonamide (Blowing Agent)	• PT LAUTAN LUAS Tbk • Otsuka Chemical Co. Ltd.	30% 70%
20	PT Roha Lautan Pewarna	Manufacturer of Dyes & Pigment	• PT LAUTAN LUAS Tbk • Roha Dyechem Pte. Ltd.	30% 70%
21	PT Jakamitra Indonesia	Industrial estate	PT LAUTAN LUAS Tbk PT Japfa Indoland	30% 70%
22	PT Lautan Organo Water	Turnkey, BOO, BOT for Water Treatment System and Equipment	• PT LAUTAN LUAS Tbk • Organo Corporation	49% 51%

Source: Company reports, 2013

Appendix B—Lautan Luas Customers By Industry Sector (2013)



Source: Company reports

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