Avia Avian Tbk. (AVIA)

"Paint Your World, Paint Your Portfolio"

AVIA is one of Indonesia's leading integrated manufacturing companies in the building materials industry, particularly paints and coatings. With its "Avitex" wall paint, "Avian" wood & iron paint and "No Drop" waterproofing, AVIA is Indonesia's number one market share leader in the paint and coatings industry. Given its ability to generate consistent cashflow, stable profitability, strong balance sheet strength as shown by its solid cash position, AVIA is interesting to watch and attractive even though it has dropped quite significantly since its IPO Price.

Begins 1Q24 with a Good Results

- On a consolidated basis, AVIA's revenue grew +6.9% YoY to IDR 1.905T in 1Q24 (1Q23: IDR 1.782T). Meanwhile, gross profit grew +9.8% YoY to IDR 886B in 1Q24 (1Q23: IDR 807B). AVIA's net profit in 1Q24 grew +7% YoY to IDR 446B in 1Q24 (1Q23: IDR 417B). This performance was supported by stable growth and more efficient bottom line performance.

Performance Propelled by Improved Architectural Solutions Segment

- Segment-wise, AVIA's revenue is divided into two segments including the architectural solutions segment (covering paints and coatings) which contributes to ±80% of AVIA's revenue and the rest comes from the trading goods segment (PVC pipes and building material supplies). The architectural solutions segment experienced sales growth of 5.6% YoY to IDR 1.574T and the trading goods segment grew 13.9% YoY to IDR 331B. The GPM of architectural solutions segment stood at 52.4% in 1Q24 (1Q23: 50.6%) and merchandise at 18.4% in 1Q24 (1Q23: IDR 18.1%). AVIA's GPM performance in 1Q24 stood at 46.5%, up 1.2% YoY. Speaking of NPM AVIA as of 1Q24 was at a stable level of 23.4%.

Buy Recommendation with TP at IDR 730 (Upside Potential +40.4%)

- AVIA is currently trading at an attractive valuation, where this market leader in the paint and coatings sector in Indonesia is currently trading quite discounted when compared to its regional peers and its Historical PE. NHKSI Research recommends BUY rating for AVIA, with target price of IDR 730 (+40.4% upside potential, implying 24.1x Forward-PE 2024).

- This is driven by the prediction of better performance shown through AVIA's performance with stable performance growth at better profitability margins, more efficient performance supported by the strength of a strong distribution center network as well as the expansion of new factory production which in the future will be an added value for AVIA. In addition, despite AVIA's mature condition, AVIA still has ample room for growth, which is industry-wide, supported by Indonesia's per capita paint consumption which is still below some Southeast Asian & global averages. Risks for AVIA include: The ongoing weakening of the rupiah has led to higher prices of several types of raw materials and the weakening purchasing power of the public which is quite depressed due to food inflation and the unfavorable macroeconomic situation.

Avia Avian Tbk | Summary (IDR bn)

In IDR Bn	2023A	2024E	2025F	2026F
Revenues	7,017	7,559	8,164	8,833
Revenues growth	*4.8%*	*7.7%*	*8.0%*	*8.2%*
Net profit	1,643	1,746	1,898	2,081
Growth	*17.3%*	*6.3%*	*8.7%*	*9.6%*
EPS (IDR)	27	28	31	34
P/E	18.9x	25.9x	24.9x	23.8x
P/BV	3.1x	4.4x	4.5x	4.6x
EV/EBITDA	13.0x	18.8x	18.5x	17.6x
ROE	*16.6%*	*17.2%*	*18.1%*	*19.3%*
Dividend yield	*4.4%*	*3.3%*	*3.4%*	*3.6%*
BVPS (IDR)	160	164	169	174
EBITDA margin	*27.5%*	*27.2%*	*26.6%*	*27.5%*
NPM	*23.4%*	*23.1%*	*23.3%*	*23.6%*
ROE	*16.6%*	*17.2%*	*18.1%*	*19.3%*
ROA	*14.7%*	*14.5%*	*15.0%*	*16.0%*
DPS (IDR)	22.0	24.0	26.0	28.5
EBITDA	1,928	2,057	2,175	2,426

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

NH KORINDO SEKURITAS INDONESIA

Initiation Report | 28 June 2024

Buy

Target Price (IDR)	**730**
Consensus Price (IDR)	696
TP to Consensus Price	+4.9%
Potential Upside	+40.4%

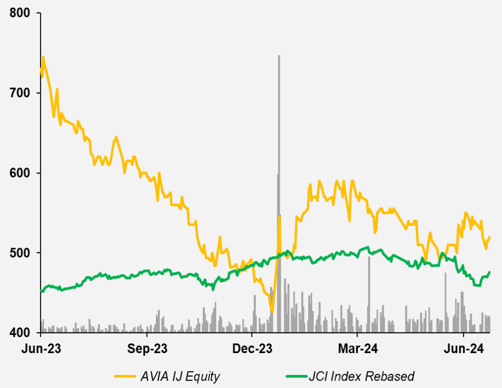
Shares data	
Last Price (IDR)	520
Price date as of	27 June, 2024
52 wk range (Hi/Lo)	670 / 422
Free float (%)	24.15
Outstanding sh.(mn)	61,954
Market Cap (IDR bn)	32,216
Market Cap (USD mn)	1,943
Avg. Trd Vol - 3M (mn)	26
Avg. Trd Val - 3M (IDR bn)	13.59
Foreign Ownership	17.20%

Financial Services

Banking

Bloomberg	**AVIA IJ**
Reuters	**AVIA.JK**

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	4.0%	2.0%	-5.5%	-21.8%
Rel. Ret.	8.9%	4.9%	-0.8%	-26.4%

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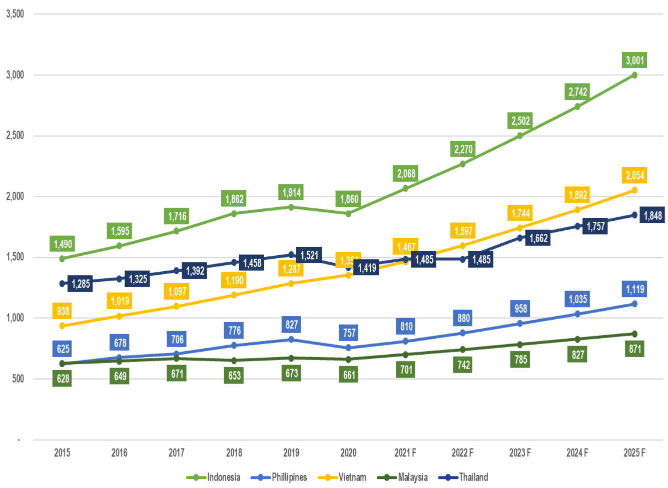
Indonesia Paint-Coating Industry Outlook

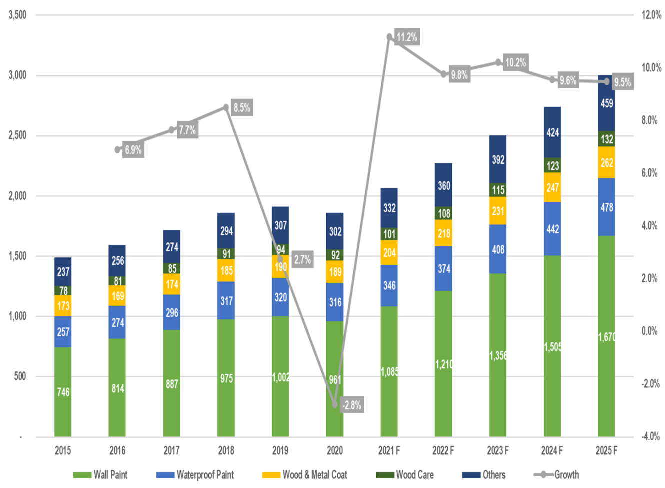
In the pre-Covid 19 period, particularly in 2015-2019, according to a survey from Frost and Sullivan, the market value of decorative paints and coatings (wall paint, waterproofing, wood & metal, wood care, glue, roof paint, and instant cement) in Indonesia recorded a CAGR of +6.5% (2015: USD 1,490 million, 2019: USD 1,914 million). This is supported by an increase in income, consumption and overall purchasing power. The volume demand for paints and coatings in Indonesia is experiencing higher growth in line with increasing GDP per capita, higher urbanization, increasing consumer purchasing power and changing consumer lifestyles. Of the various paint & coatings product type sub-segments, paint recorded the highest CAGR for the forecast period 2015 - 2019 for Indonesia. The paint segment in Indonesia recorded a CAGR of +7.7% from 2015 to 2019 (2015: USD 746 Million, 2019: USD 1,002 million). (For comparison AVIA's CAGR in the decorative paints & coatings segment in 2015-2019 is 12%.)

Figure 1. Value Growth of Paint and Coatings Market in ASEAN



Source: Frost and Sullivan, NHKSI Research

Figure 2. Indonesia Paints and Coatings Market Value Growth (by Product Type)



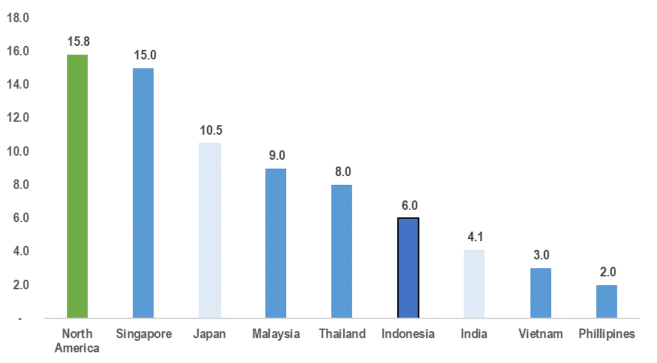
Source: Frost and Sullivan, NHKSI Research

Wall paint is one type of paint product that accounts for almost 70-75% of total paint and coating sales in Indonesia. This is supported by the behavior of the Indonesian people, as reflected in the characteristics of repainting. In the last decade, the average repainting cycle in Indonesia has significantly reduced from 6-7 years to 3-4 years. The cycle is also relatively shorter compared to countries with more mature paint industries such as India and Thailand, where India and Thailand have repainting cycles of around 4-5 years. This shorter repainting cycle in Indonesia is one of the factors supporting the growth of wall and decorative paint sales.

Repainting walls is a behavior & character of the Indonesian people that is very influential in driving the growth of paint sales. In general, when talking about seasonal factors, Indonesians repaint their exterior and interior walls for major holiday events which are generally done during major holidays such as Eid al-Fitr and Christmas. In addition, Indonesian consumers are starting to realize the importance of the aesthetic angle of their homes. The growth of Indonesia's middle class also brings significant changes to the overall market demand for paints and decorative coatings. With the growth of higher incomes, more people especially in the lower middle class can afford to spend a portion of their income on painting and home improvements. Talking about the future prospects of Indonesia's paint and coatings industry, we are currently hoping for higher growth post-pandemic due to the pent-up and stagnant paint demand growth caused by the ongoing covid-19 outbreak. In addition, if we compare Indonesia's per capita paint and coatings consumption, it is still quite small when compared to several countries in the ASEAN Region and developed countries (Singapore, USA & North and Japan). This shows that there is still room for growth based on the per capita consumption of paints and coatings.

Despite the fact that in the last few quarters people's purchasing power began to weaken due to the ongoing el-nino and food inflation, economic recovery is still a hope for Indonesia in the future. Therefore, the decorative paints and coatings market in Indonesia is expected to register a CAGR of around +9.8% between 2021 and 2025, growing from USD 2,068 million in 2021 to USD 3,001 million US Dollars in 2025. Future expectations for the growth of the paint industry in Indonesia include: Improvement as well as recovery of the weak economy and purchasing power of the people as well as the growth of the middle class, increasing urbanization trends as well as more massive commercial and subsidized housing developments.

Figure 3. Per Capita Paint and Coatings Consumption (In Liters)



Source: Frost and Sullivan, NHKSI Research

Figure 4. Wall Painting Illustration in One of Indonesia's Regions

Source: Antara News

Avia Avian (AVIA) *In A Glance*

Avia Avian Tbk. (AVIA) is one of the leading paint and decorative coatings manufacturing companies in Indonesia with a 45+ year track record, where AVIA has a highly integrated ecosystem from upstream to downstream. AVIA's portfolio ranges from the production of various types of paints and decorative coatings as well as a solid distribution network spread throughout Indonesia.

To this day, Avian Brands is the market leader in the decorative paints and coatings industry in Indonesia, with a total market share of approximately 23% based on Avian Brands' 2023 sales revenue generated from decorative paints and coatings products (Based on Frost & Sullivan survey data). The Company has strong manufacturing capacity and capabilities through its manufacturing facilities in Sidoarjo and Serang, Indonesia and an extensive distribution network in Indonesia through wholly-owned, third-party-independent distribution centers, exclusive and non-exclusive distribution centers and direct sales. AVIA also continues to expand its distribution centers, and is currently building an additional new manufacturing facility in Cirebon City, Indonesia. AVIA manufactures and sells a range of Architectural Solutions products that are typically used in home building or construction. The Architectural Solutions product portfolio consists of (a) wall paints, (b) wood and iron paints, (c) waterproof paints (d) wood treatments and (e) other architectural solutions, which include roof paints, instant cement, automotive coatings and others. Avian Brands also offers merchandise such as pipes, furniture, and support products needed in the painting process, including paint rollers, paint brushes, sealing tape, and sandpaper.

Brief History of Avia Avian

The Company started its business in 1978 and was started by Mr. Soetikno Tanoko by focusing on the production of wood and iron paint products under the brand name "AVIAN". The company's first product in that era was wall paint under the brand name "Avitex" which was released in 1981. Since 1983, the company has focused on becoming an integrated manufacturing company. The company made progress by expanding its product range, focusing on resin production independently, expanding its manufacturing facilities and building its own metal can factory. In 2005, the company released paint products that included leak-proof coating paint under the brand name "No Drop". At the end of 2005, the company continued to expand its marketing reach in 20 locations in Indonesia through the Company's distribution company, PT Tirtakencana Tatawarna which was established in 2000.

In 2010, the company adopted a point-of-sale tinting model and deployed a tinting machine for retail customers that can provide thousands of color options for consumers. As of 2011, the Company expanded its product offering to the instant cement product category. The Company completed the construction of an instant cement plant located at the manufacturing facility in Sidoarjo and started selling instant cement products in the market under the brand "Giant Mortar". As of 2014, the Company increased its production capacity for wall paints and leak-proof coatings by 80,000 MT. The Company continued to expand its distribution network to 62 distribution centers throughout Indonesia through PT Tirtakencana Tatawarna, a subsidiary of the Company in 2016.

The Company further strengthened its existence by listing on the Indonesia Stock Exchange on December 8, 2021 as a public company and officially established PT Avia Avian Tbk with the Issuer Code "AVIA", and sold 6.2 billion shares at IDR 930 per share. AVIA also made history as the market leader in the decorative paints and coatings industry in Indonesia to go public / IPO. The total funds raised from the offering amounted to IDR 5.77 Trillion.

As of 2023, the Company started the construction of a new production facility in Cirebon with a land area of 11 hectares and a production capacity of up to 225,000 MT per year as a strategy to increase the Company's production capacity to respond to future opportunities. To date, the Company increased its total wholly owned distribution centers to 121, and total wholly owned mini distribution centers to 15 through PT Tirtakencana Tatawarna, a subsidiary of the Company.

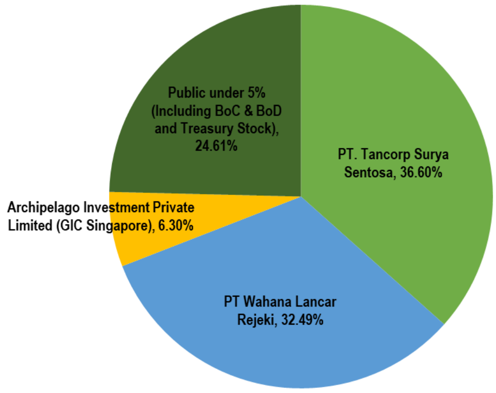
The following is the logo and shareholder structure of AVIA:

Figure 5. AVIA's Company Logo

Avian BRANDS

Source: AVIA, NHKSI Research

Figure 6. AVIA Shareholder Structure as of June 2024



Source: AVIA, NHKSI Research

The Company Structure of Avia Avian Tbk. (AVIA)

Currently Avia Avian Tbk. (AVIA) has several subsidiaries, including the following:

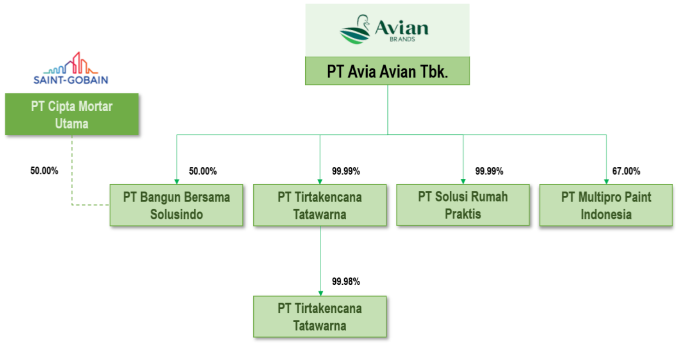
a. PT Bangun Bersama Solusindo: This company is a joint venture, with 50% shareholding each owned by the Company and PT Cipta Mortar Utama, a wholly owned subsidiary of Saint-Gobain Group which is a leading player in the manufacture of mortar for construction. The establishment of the company is aimed at developing the Company's business in entering the two-component cement-based leak-proof coating paint market in Indonesia.

b. PT Tirtakencana Tatawarna (TKTW): This company is a paint distribution network company of Avian Group, which has a nationwide distribution network of 121 distribution centers located in 34 provinces and 98 cities in Indonesia, as well as 15 mini distribution centers located in several cities. In addition, TKTW is also the owner of PT Tirtakencana Batamindo ("TKBI"), a distribution company that focuses on distribution centers in Batam.

c. PT Multipro Paint Indonesia: The Company acquired 67.00% shareholding in PT Multipro Paint Indonesia from the previous owner, which is engaged in the manufacturing of protective paint and marine paint in October 2021.

d. PT Solusi Rumah Praktis: A trading and service company established by AVIA in 2018, which is engaged in the retail trade of paints, varnishes and lacquers, as well as painting.

Figure 7. AVIA's Company Structure



Source: AVIA, NHKSI Research

Dissecting Sales Contribution Based on Product Segmentation

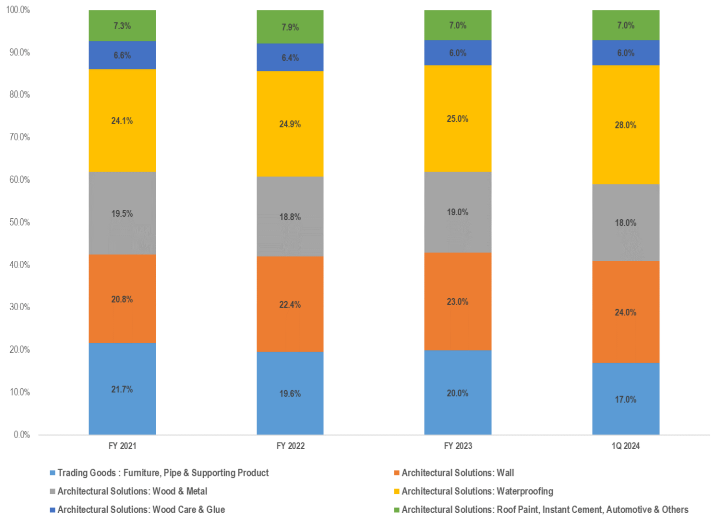
AVIA is one of the market leader integrated paint manufacturing and distribution companies, which controls 20% market share in the paint and coatings industry in Indonesia. From the sales segment, AVIA's product categories are divided into two, including Architectural Solutions (covering wall paints, waterproofing, wood paints, iron and wood protection, etc.) and Paint Supplies and Trading Goods (pipes, furniture and support equipment). The Architectural Solutions segment accounts for 80% of AVIA's sales revenue, and within this segment, there are several products that dominate the coatings market share, such as No Drop and wallpaint Avian & Avitex. The Trading Goods segment accounts for approximately 20% of total revenue, and products in this segment include pipes, painting equipment and so on.

Figure 8. AVIA Product Classification

Source: AVIA, NHKSI Research

Below is the amount of sales segmentation contribution by product type category from AVIA:

Figure 9. Sales Segmentation by Product Type

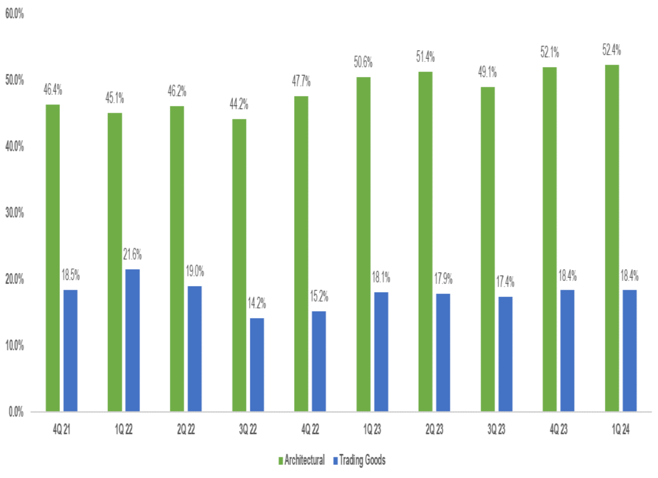


Source: AVIA, NHKSI Research

Based on the above contribution picture, the waterproofing paint segment under the No Drop brand is the largest contributor to the company's revenue, followed by wall paint and wood paint, which are the main contributors to the company's revenue from the Architectural Solutions segment. If we look at the Trading Goods segment, PVC pipe is the largest contributor to the company's revenue.

The following is AVIA's Gross Margin by segment and AVIA's Revenue by segment on a quarterly basis:

Figure 10. AVIA Gross Profit Margin by Segment (In %)



Source: AVIA, NHKSI Research

Figure 11. AVIA Revenue by Segment (Quarterly Basis)

Source: AVIA, NHKSI Research

Avia Avian Tbk (AVIA) Product List

The following is a detailed list of the names of the products launched by AVIA by Product type category:

Figure 12. List of Segmentation Catalogs and Products Launched by AVIA

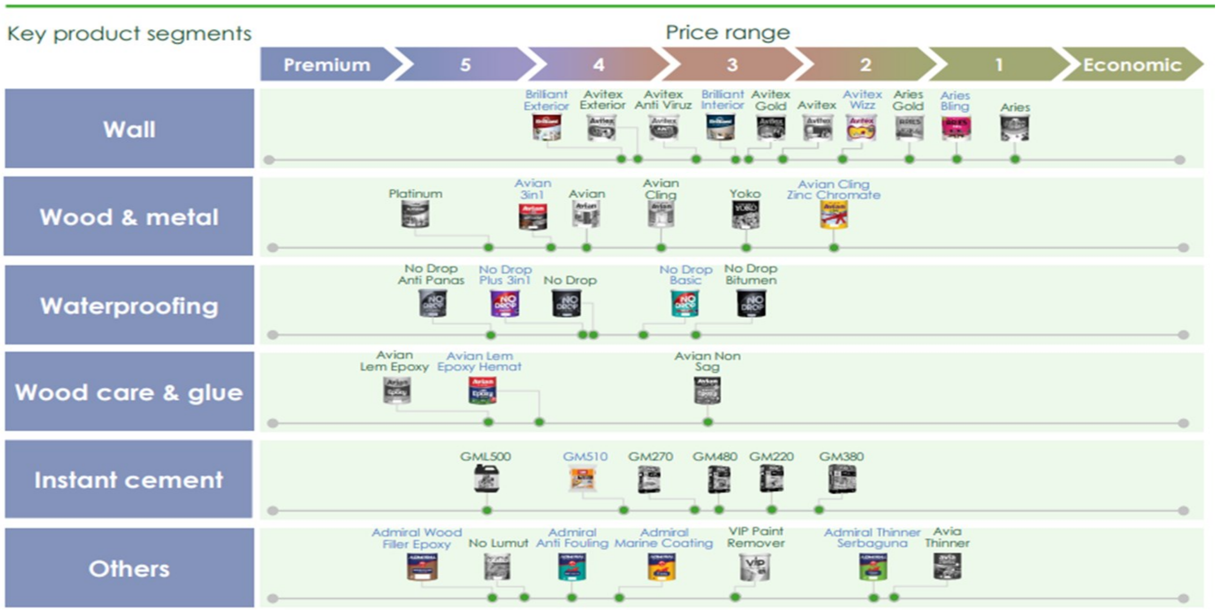
Category List	Nama Produk *(Product Name)*		
Cat Tembok *(Wall Paint)*	• Avitex Wizz • Aries Bling • Brilliant Cat Tembok Interior • Brilliant Cat Tembok Eksterior • Avitex Gold • Avitex Anti Viruz • Sunguard All-In-One • Sunguard • Everglo	• Everglo Kids Care • No Odor Medicare • No Odor • Supersilk Anti Noda • Supersilk • Aquamatt • Avitex Eksterior • Avitex 4kids • Avitex Cat Tembok	• Avitex One Coat • Avitex Cat Tembok Dapur & Kamar Mandi • Jasmine • Fres • Aries Gold • Aries Cat Tembok
Cat Spesial Efek *(Special Effect Paint)*	• HomeDeco Glow In The Dark • HomeDeco Magnetic	• HomeDeco Glitz	• HomeDeco Metallic
Pelapis Anti Bocor *(Waterproofing)*	• No Drop Plus 3in1 • No Drop Basic • No Drop Anti Panas • No Drop	• No Drop Bitumen Black • No Drop 100 • No Drop Mortar Anti Bocor • No Drop Tape	• No Drop Membrane • PRO-X 207
Cat Kayu Dan Besi *(Wood and Metal Paint)*	• Admiral Cat Kapal • Avian Cling Synthetic • Platinum	• Avian Cat Kayu dan Besi • Glovin Cat Kayu dan Besi • Yoko Cat Kayu dan Besi	• Avian Cat Alumunium • Avian 3 in 1 Anti Karat
Cat Pelindung Kayu *(Wood Care)*	• Boyo Politur Melamin • Wood-Eco Woodstain Water-Based • Wood-Eco Woodstain Solvent-Based	• Boyo Politur Vernis Water-Based • Boyo Politur Vernis Solvent-Based • Wood-Eco Politur Interior P01 • Wood-Eco Politur Eksterior P03 • Boyo Wood Stain Solvent-Based	• Boyo Wood Filler Solvent-Based • Boyo Sanding Sealer NC Solvent-Based • Boyo Clear Coat NC Solvent-Based.
Cat Dasar *(Primer)*	• Avian Cling Zinc Chromate • Lenkote Alkali Resisting Primer • Lenkote Wall Sealer	• Avitex Alkali Resisting Primer • Avian Zinc Chromate • Yoko Cat Dasar Kayu dan Besi	• Belmas Zinc Chromate • Suzuka Epoxy Filler
Plamir *(Putty)*	• Lenkote Plamir Tembok (Wall Putty) • No Odor Wall Putty	• Avitex Plamir Tembok • Aries Gold Wall Putty	• Giant Mortar 220
Cat Genteng dan Seng *(Roof Paint)*	• Absolute Roof Coating	• Avitex Cat Genteng & Seng	• Yoko Cat Genteng & Seng
Semen Instan *(Instant Cement)*	• Giant Mortar 260 • Giant Mortar 270	• Giant Mortar 380 • Giant Mortar 420	• Giant Mortar 480 • Giant Mortar 510
Lem *(Glue)*	• Avian Lem Epoxy Hemat • Admiral Wood Filler Epoxy • Lem Putih VIP PVAc	• Lem Putih MAX PVAc • Viplas	• Avian Lem Epoxy Super • Avian Non-Sag Epoxy Super
Cat Pelapis Batu Alam *(Stone Coating)*	• No Lumut Solvent-Based	• No Lumut Water-Based	
Cat Duco dan Spray *(Autorefinish and Spray*	• Suzuka Spray • Suzuka Cat Duco Otomotif	• Suzuka 2:1 PU Clear Coat	• Suzuka 4:1 PU Clear Coat
Cat Lantai *(Floor Coating)*	• Avian Roadline Paint	• Avian Cat Paving	
Pengencer Cat *(Thinner)*	• Admiral Thinner Serbaguna • Avian Thinner Enamel • Avian Thinner B Asli • Avia Thinner Lacquer A • Avia Thinner Lacquer A Special	• Avia Thinner Lacquer Super • Aries Thinner Lacquer A • Aries Thinner Lacquer A Special • Thinner 16213 • Thinner 1660	• Thinner 1633 • Thinner 1634 • Thinner 1601 • Thinner 1602
Aditif Semen *(Cement Additive)*	• No Drop Plaston; dan	• Giant Mortar L500.	
Lain - Lain *(Others)*	• PRO-X 111 • VIP Pengupas Cat Tembok	• Avitex Biocidal Wash	• VIP Paint Remover
Produk Pendukung *(Supporting Products)*	• Basic Paint Roller • Green Brush • Yellow Brush • Plastic Scrapper • Mini Refil • Mini Roller • Paint Tray • White Brush	• Synthetic Brush • Budget Paint Roller • All Paints Paint Roller • Budget Roller Cover • Regular Roller Cover • All Paints Roller Cover • Abrasive Paper • Abrasive Cloth Roll	• Masking Tape • Seal Tape • Drywall Tape • Fiberglass Tape • Roof Drain

Source: AVIA, NHKSI Research

List of the Latest Products Released by Avia Avian Tbk (AVIA)

The following is a list of newly launched products by AVIA as of 4Q-2023 (Note: 14 new AVIA products launched in 2023 across various product type categories. Newly launched products are marked with blue).

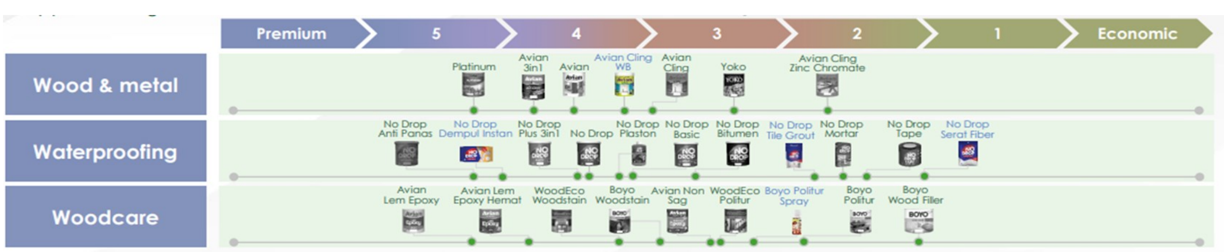
Figure 13. AVIA's Segmentation Catalog and Product Launches as of 4Q-2023



Source: AVIA, NHKSI Research

By 1Q-24, AVIA has launched 5 new products, which are spread across 3 segments of product types. AVIA's strategy in launching new products is to fill the price gap in the market and expand the customer base through products that have the best performance with durability and are easily accessible in the market.

Figure 14. AVIA's Segmentation Catalog and Product Launches as of 1Q-24



Source: AVIA, NHKSI Research

AVIA: Integrated Production and Distribution Facilities

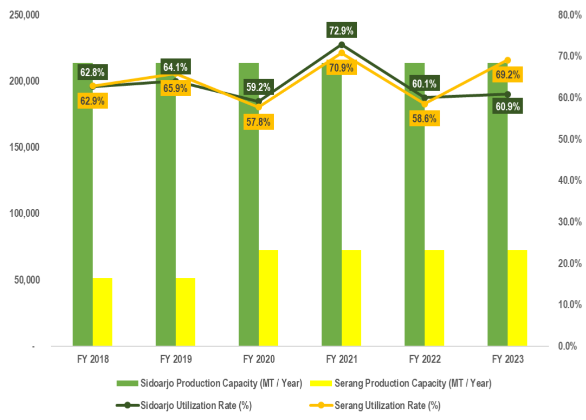
AVIA Production Center

As one of the market leaders in the paint and coatings industry of Indonesia, AVIA has an integrated manufacturing facility. As of today, the company has two operating manufacturing facilities in Sidoarjo, East Java Province and Serang, West Java Province that produce AVIA's architectural solutions segment products.

AVIA can mold and build an integrated manufacturing ecosystem where AVIA can obtain raw materials with lower cost margins while at the same time high quality to achieve greater economies of scale, where AVIA reduces dependence on suppliers and reduces production time of end products by shortening delivery time for raw materials. AVIA's advantages of owning production facilities include being able to produce most of its paint and coatings raw materials independently. Most of the raw materials for paints and coatings are produced by AVIA independently, or sourced from local suppliers. This gives AVIA an attractive profitability margin when compared to some of its competitors.

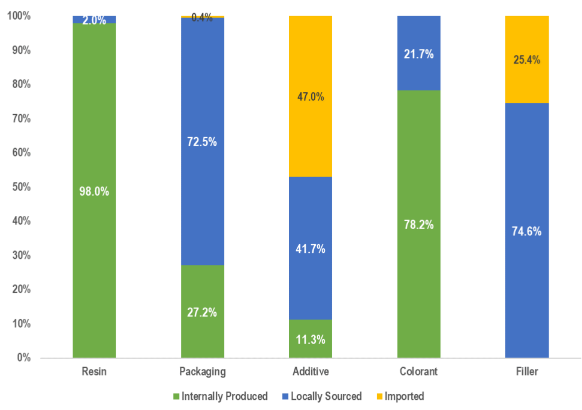
The following is AVIA's plant production & utilization capacity as well as the amount of production capability & raw material sourcing of paints and coatings from AVIA:

Figure 15. AVIA Production Capacity & Utilization



Source: AVIA, NHKSI Research

Figure 16. AVIA Production Capability & Raw Material Sourcing (FY2023)



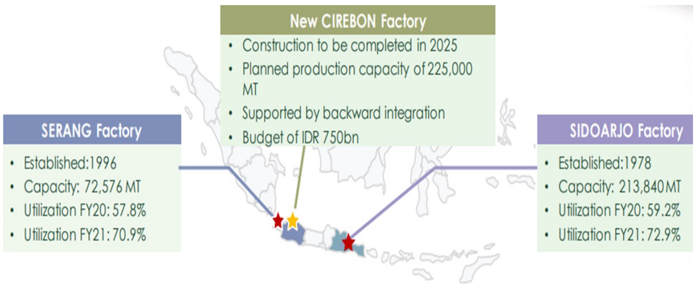
Source: AVIA, NHKSI Research

Cirebon Plant Expansion & Construction

AVIA's third plant, located in Cirebon City and currently under construction, is one of AVIA's expansions to increase its productivity capabilities. It is estimated that the construction of the third plant located in Cirebon City will be completed in 2025. The Cirebon plant is targeted to have a planned production capacity of 225,000 MT, which is greater than the capacity of Serang (72,526 MT) and Sidoarjo (213,840 MT). The Cirebon Plant is planned to have a built-up area of 11 ha. As for the construction phase of the Cirebon Plant, it is currently in the process of installing foundation piles.

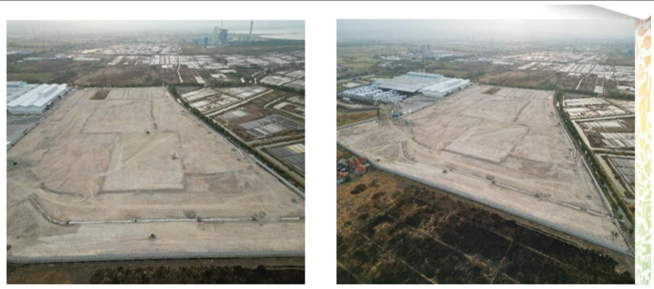
The construction of this Plant is one of the expansions and positive signals shown by AVIA while strengthening AVIA to become a market leader in the paint and coatings industry. In addition to capitalizing on AVIA's very healthy balance sheet position, the construction of this plant in addition to increasing production capacity is also a factor that can grow AVIA's position and strengthen AVIA's market share in the paint and coatings industry in Indonesia. The Cirebon Plant in the initial phase will only utilize a capacity of 80,000-100,000 MT specifically focused on wall paint production and gradually increased as needed.

Figure 17. Cirebon Factory Expansion Plan



Source: AVIA, NHKSI Research

Figure 18. Final Backfill Stages of AVIA Cirebon Factory



Source: AVIA, NHKSI Research

AVIA: Integrated Production and Distribution Facilities

AVIA Distribution Center Expansion

The flow of paint sales schemes depends on each country. In Southeast Asian countries such as Thailand, Indonesia, and Malaysia as well as India, distributors play an important role as they have a very wide and good reach to retailers and an established sales network across the country and the majority of sales occur through retail channels and general building stores. Sales through direct Business-to-Business (B2B) channels are less prominent.

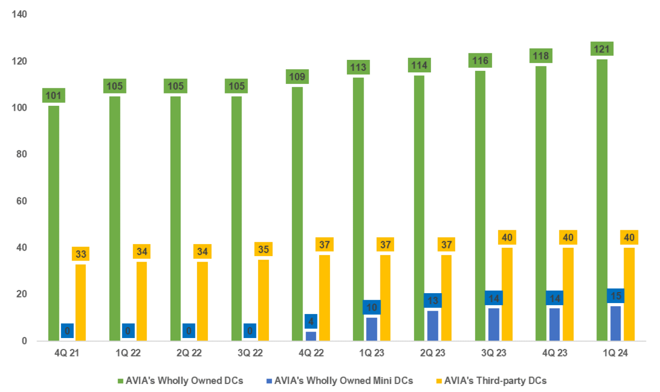
In retail sales, the distribution model commonly used by paint and coatings manufacturers in Indonesia is a mix of direct sales utilizing their own distribution centers or sales centers as well as using third parties. The establishment of distribution centers is usually well planned with sales targets set for each region or city in Indonesia and locations are often chosen only if there are established and stable retail stores. Big players such as AVIA and its competitors such as Nippon Paint, and Pacific Paint have distribution centers spread across the country.

One of the advantages of AVIA as the market leader of the paint industry in Indonesia is that it has an extensive Distributor Center and Network. AVIA has a distribution network spread from Sabang to Merauke, the western tip of Sumatra Island to Papua Island. AVIA continues to develop its delivery service fleet and build distribution centers. This Distribution Network is located and managed by one of AVIA's subsidiaries, PT Tirtakencana Tatawarna (TKTW).

As of 1Q 2024, AVIA reopened 3 wholly-owned DCs and 1 wholly owned mini DC. AVIA's logistics services per day per period can process 11,000 shipments per day as well as 93% of the number of one day services. To date, AVIA has 176 distribution centers (consisting of 121 wholly-owned DCs, 15 wholly-owned mini DCs, and 40 third-party DCs) as of 1Q 2024.

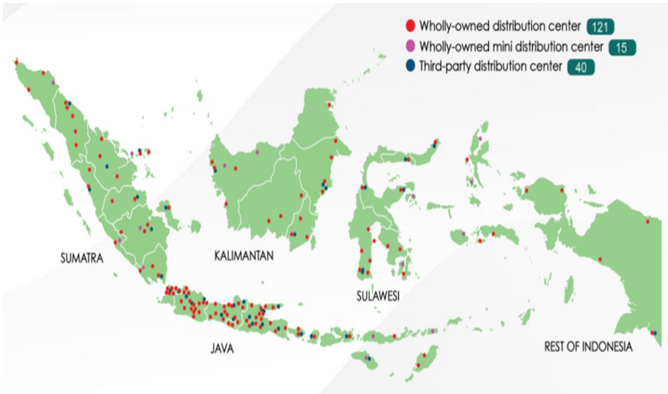
The following is an update on the growth and coverage of AVIA's distribution network in Indonesia:

Figure 19. Development of AVIA Distribution Network Growth



Source: AVIA, NHKSI Research

Figure 20. Distribution of Current AVIA Distributor Center Network Centers



Source: AVIA, NHKSI Research

The advantages of the express delivery service feature initiated by AVIA include encouraging retail outlets to sell new products launched by the company, as well as encouraging retail outlets (building material stores) to be interested in selling products that have not been well known in the market. With this express delivery service feature, retail outlets do not need to store inventory for these products, which will reduce their working capital.

The benefits that AVIA can reap in the development and expansion of the distribution center include increasing product penetration by reaching wider customers throughout Indonesia, providing excellent service and improving customer relationships that will lead to increased customer satisfaction and build loyalty as well as improving the quality of inventory management and minimizing losses.

Figure 21. Third-Wheeler Unit of AVIA Distribution Center

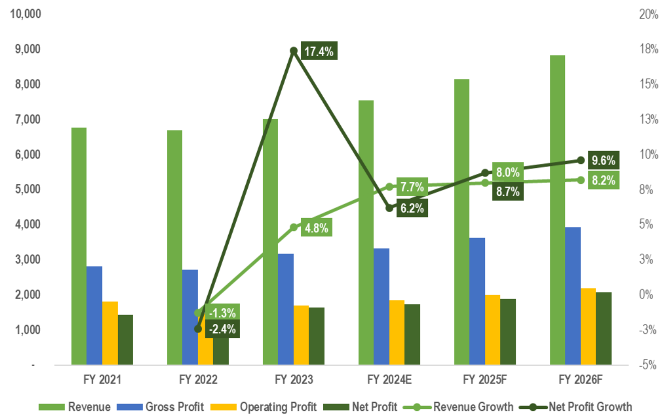
Source: AVIA, NHKSI Research

AVIA Financial Performance Outlook

AVIA Profitability: Stable and Consistent Growth with High Profitability Margins

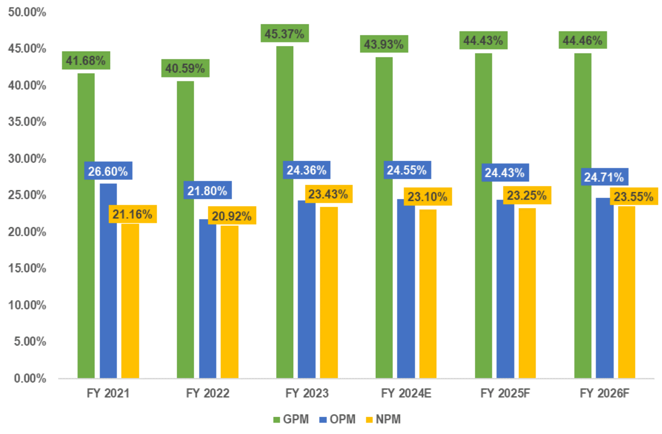
We expect AVIA's sales growth to be in the range of 7.7%-8.2% over the next few years until 2026. This is in line with market surveys and studies conducted by Frost & Sullivan, where in reference to the research the CAGR of the paint and coatings industry in Indonesia experienced a projected CAGR growth of +8% from 2015 to 2025. This is supported by the architectural segment which recorded stable ASP growth, as well as boosted by the growth of the more expansive trading goods segment.

Figure 22. Profitability Growth (In IDR Bio)



Source: AVIA, NHKSI Research

Figure 23. AVIA's Margin and Profitability (In %)



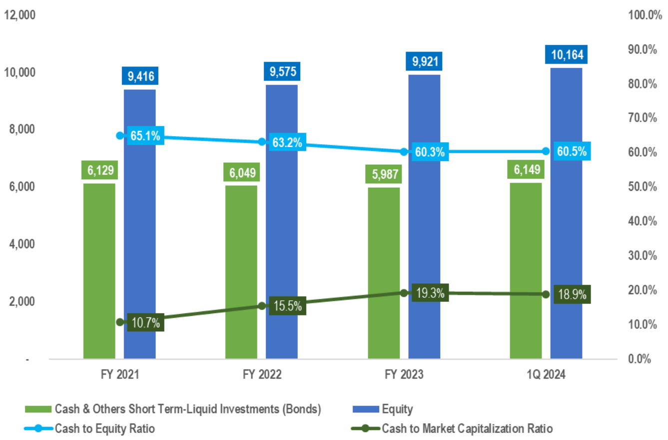
Source: AVIA, NHKSI Research

AVIA Balance Sheet: A Very Solid Cash Strength

One of AVIA's strengths is its very solid balance sheet position, as shown by its net cash position as of 1Q24. The cash figure in FY2023 (IDR 5.9T) implies 53.6% of total assets & 60.3% of total capital as of FY2023. Despite AVIA's position as the market leader in the Indonesian paint and coatings industry, the company is debt free, quite mature and has limited room to grow organically, yet AVIA is a good and consistent cashflow generator.

The strength of AVIA's abundant cash position can be utilized to seek opportunities for inorganic growth and M&A activities in the Indonesian paint and coatings industry. In addition, while waiting and scoring inorganic growth that will be done by AVIA, the company is currently conducting buyback activities to increase the value of shareholders worth IDR 1 Trillion rupiah, where the maximum number of shares to be purchased is 1.425 billion shares (±2.3% of the company's total capital).

Figure 24. Comparison of Net Cash with Total Capital & Market Cap (In IDR Bio)



Source: AVIA, NHKSI Research

Valuation of AVIA

Peers Comparison of AVIA

We decided to select some similar paint and coatings companies as some sample peers to compare with AVIA. These companies are from the United States, Japan and India which are quite representative of paint and coatings companies on a global scale. The peers can be seen in the data below:

Figure 25. Paint and Coating Companies Peer Comparison (Global)

Ticker Name	Country	Market Cap (IDR Bn)	Net Profit LTM (IDR Bn)	ROE (LTM)	Dividend Yield (%)
Sherwin-Williams	United States	1,227,282	36,397	72.5%	0.9
RPM International Inc.	United States	228,321	7,243	25.3%	1.7
Nippon Point Holdings Co. Ltd	Japan	258,011	12,865	9.4%	1.3
Kansai Paint Co. Ltd.	Japan	54,305	7,127	22.3%	1.6
Asian Paints Ltd.	India	539,146	10,121	31.5%	1.2
Berger Paints India Ltd.	India	114,385	2,164	23.7%	0.5
Akzo Nobel N.V	Netherland	172,236	7,282	11.8%	3.5
			Average	28.0%	1.5
Avia Avian Tbk.	Indonesia	32,216	1,642	16.5%	4.4

Source: Bloomberg NHKSI Research

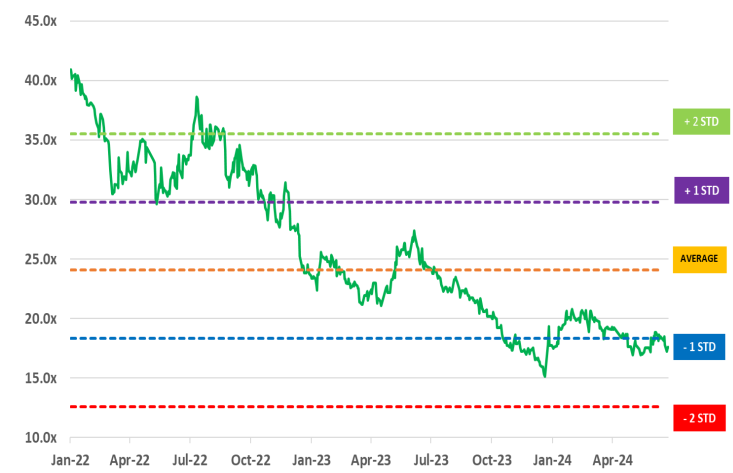
Figure 26. Paint and Coating Companies Performance Comparison (Global)

Ticker Name	Country	P/E Ratio			P/B Ratio			Gross Profit Margin (%)			EBITDA Margin (%)			Net Profit Margin (%)		
		2022	2023	2024F	2022	2023	2024F	2022	2023	2024F	2022	2023	2024F	2022	2023	2024F
Sherwin-Williams	United States	30.2x	32.4x	26.0x	19.8x	21.4x	18.2x	42.1%	46.7%	48.1%	18.4%	20.5%	19.2%	9.1%	10.4%	11.7%
RPM International Inc.	United States	23.8x	17.0x	22.3x	5.7x	4.8x	5.7x	36.3%	37.9%	41.2%	13.7%	13.8%	15.2%	7.3%	6.6%	8.6%
Nippon Point Holdings Co. Ltd	Japan	30.7x	22.6x	19.3x	2.1x	2.0x	1.7x	37.2%	39.9%	41.6%	12.1%	15.3%	15.3%	6.1%	8.2%	8.3%
Kansai Paint Co. Ltd.	Japan	19.1x	17.1x	7.3x	1.6x	1.4x	1.5x	29.8%	26.9%	30.8%	11.5%	10.2%	13.2%	6.3%	4.9%	11.9%
Asian Paints Ltd.	India	97.5x	64.5x	50.0x	21.4x	16.6x	14.6x	37.8%	38.3%	42.5%	16.6%	18.2%	21.4%	10.5%	11.9%	15.4%
Berger Paints India Ltd.	India	81.6x	65.7x	57.2x	17.3x	12.6x	12.4x	38.7%	36.2%	40.7%	15.7%	14.5%	16.6%	9.8%	8.3%	10.4%
Akzo Nobel N.V	Netherland	30.2x	28.6x	15.7x	2.5x	3.0x	2.3x	36.2%	39.7%	41.0%	9.9%	13.0%	14.4%	3.2%	4.1%	6.3%
	Average	44.7x	35.4x	28.3x	10.1x	8.8x	8.1x	36.9%	37.9%	40.8%	14.0%	15.1%	16.5%	7.5%	7.8%	10.4%
Avia Avian Tbk.	Indonesia	27.9x	18.9x	24.1x	4.1x	3.1x	4.4x	40.6%	45.4%	43.9%	25.0%	27.5%	27.2%	20.9%	23.4%	23.1%

Source: Bloomberg NHKSI Research

If we refer to the average peers above, AVIA's valuation on a P/E basis is relatively quite discounted when compared to its global peers, both historically and in future estimates. When viewed from the level of profitability margins as depicted by GPM, EBITDA-M and NPM, AVIA has attractive margins compared to some of these global players while indicating that AVIA's bottom line performance is attractive. This is also supported by the fact that most of AVIA's raw material composition is produced independently.

Figure 27. AVIA's Forward PE Band



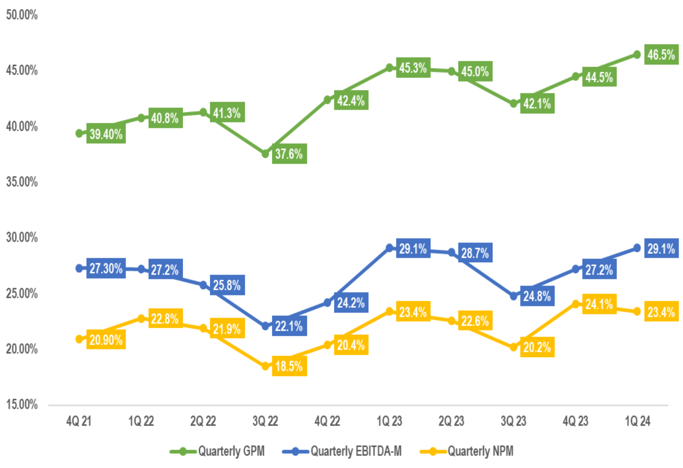
Source: Bloomberg NHKSI Research

Based on the PE Band of AVIA, we give a Buy recommendation for AVIA with a target price of **IDR 730** that implies a 24.1x Forward PE position at the average PE Band since IPO. Currently, this valuation is quite conservative and discounted when compared to similar industries globally. The valuation also implies a ±15% discount to its global peers in FY2024 (28.3x).

Despite AVIA's mature stage, there is still plenty of room for growth. This can be seen from Indonesia's per capita paint consumption which is still below some ASEAN & global averages, integrated ecosystem and optimized and efficient performance. Risks for AVIA include: Ongoing weakening of the IDR which has increased the prices of several types of raw materials and the weakening purchasing power of the people which is quite depressed due to food inflation & unfavorable macroeconomic situation causing people to reduce their tertiary consumption needs & behavior (house painting etc.).

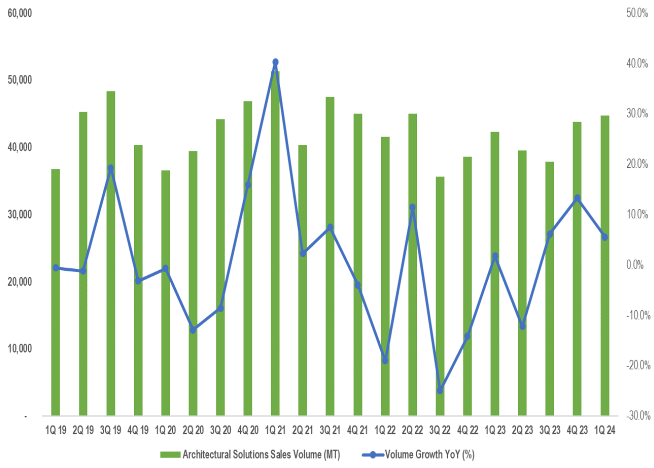
Other Performance Highlight For AVIA

Figure 28. AVIA Historical Profitability Margin Ratios (In %)



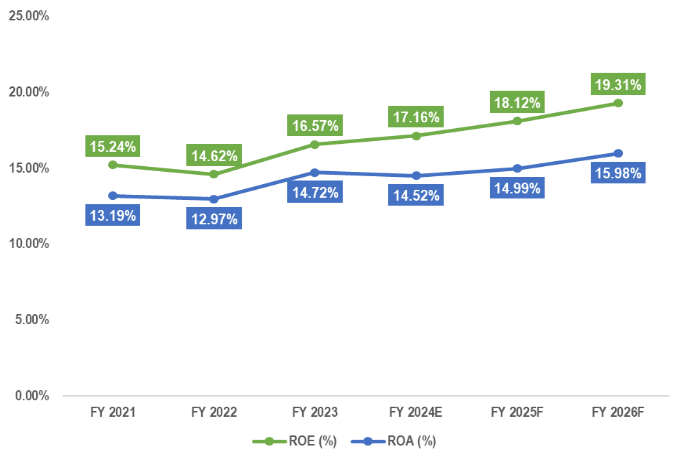
Source: AVIA, NHKSI Research

Figure 29. AVIA Architectural Solutions Sales by Volume



Source: AVIA, NHKSI Research

Figure 30. AVIA ROE & ROA (%)



Source: AVIA, NHKSI Research

Summary of Financials

INCOME STATEMENT

(IDR bn)	2023/12A	2024/12E	2025/12F	2026/12F
Revenues	**7,017**	**7,559**	**8,164**	**8,833**
Growth (% y/y)	*4.8%*	*7.7%*	*8.0%*	*8.2%*
Cost of Revenues	(3,834)	(4,239)	(4,537)	(4,906)
Gross Profit	**3,183**	**3,320**	**3,627**	**3,927**
Gross Margin	*45.4%*	*43.9%*	*44.4%*	*44.5%*
Operating Expenses	(1,475)	(1,464)	(1,633)	(1,745)
EBIT	**1,709**	**1,856**	**1,994**	**2,183**
EBIT Margin	*24.4%*	*24.6%*	*24.4%*	*24.7%*
Depreciation	219	201	181	243
EBITDA	**1,928**	**2,057**	**2,175**	**2,426**
EBITDA Margin	*27.5%*	*27.2%*	*26.6%*	*27.5%*
Interest Expenses	284	360	408	451
EBT	**1,992**	**2,216**	**2,402**	**2,633**
Income Tax	(349)	(470)	(504)	(553)
Net Profit	**1,643**	**1,746**	**1,898**	**2,081**
Growth (% y/y)	*17.3%*	*6.3%*	*8.7%*	*9.6%*
Net Profit Margin	*23.4%*	*23.1%*	*23.3%*	*23.6%*

PROFITABILITY & STABILITY

	2023/12A	2024/12E	2025/12F	2026/12F
ROE	16.6%	17.2%	18.1%	19.3%
ROA	14.7%	14.5%	15.0%	16.0%
Inventory Turnover	2.52x	2.71x	2.68x	2.66x
Receivables Turnover	5.64x	5.74x	5.92x	5.91x
Payables Turnover	0.01x	0.01x	0.01x	0.01x
Dividend Yield	4.4%	3.3%	3.3%	3.3%
Dividend Payout Ratio	83.0%	85.0%	85.0%	85.0%
DER	0.00x	0.01x	0.01x	0.01x
Equity Ratio	88.8%	84.6%	82.7%	82.8%
Debt Ratio	0.00x	0.01x	0.00x	0.00x
Financial Leverage	112.6%	115.4%	119.6%	120.9%
Current Ratio	762.2%	554.7%	484.2%	475.7%
Quick Ratio	633.0%	462.6%	415.5%	403.4%
Par Value (IDR)	10	10	10	10
Total Shares (mn)	61,954	61,954	61,954	61,954
Share Price (IDR)	500	730	790	865
Market Cap (IDR tn)	31.0	45.2	48.9	53.6

BALANCE SHEET

(IDR bn)	2023/12A	2024/12E	2025/12F	2026/12F
Cash & Liquid Investments	5,987	6,519	6,996	6,811
Receivables	1,349	1,389	1,368	1,474
Inventories	1,519	1,611	1,437	1,556
Other Current Assets	102	180	330	391
Total Current Assets	**8,957**	**9,698**	**10,132**	**10,232**
Net Fixed Assets	1,754	1,953	2,134	2,378
Other Non Current Assets	455	377	396	409
Total Non Current Assets	**2,210**	**2,330**	**2,530**	**2,787**
Total Assets	**11,167**	**12,028**	**12,662**	**13,019**
Payables	1,036	1,436	1,513	1,661
ST Debt	16	34	37	30
Others Current Liab.	123	278	543	459
Total Current Liabilities	**1,175**	**1,748**	**2,092**	**2,151**
LT Debt	16	31	26	26
Others Non Current Liab.	55	71	71	66
Total Liabilities	**1,245**	**1,850**	**2,189**	**2,242**
Capital Stock + APIC	8,413	8,413	8,413	8,413
Retained Earnings	1,335	1,597	1,882	2,194
Shareholders' Equity	**9,921**	**10,178**	**10,472**	**10,776**

VALUATION INDEX

	2023/12A	2024/12E	2025/12F	2026/12F
Price /Earnings	18.9x	25.9x	25.8x	25.8x
PE/EPS Growth	1.1x	4.1x	3.0x	2.7x
Price /Book Value	3.1x	4.4x	4.7x	5.0x
EV/EBITDA	13.0x	18.8x	19.3x	19.3x
EV (IDR bn)	25,022	38,771	42,010	46,835
Revenues CAGR (3-Yr)	-	3.7%	6.8%	8.0%
Net Income CAGR (3-Yr)	-	6.8%	10.7%	8.2%
Basic EPS (IDR)	27	28	31	34
BVPS (IDR)	160	164	169	174
DPS (IDR)	22.0	24.0	26.0	28.5

OWNERSHIP

By Geography	%
Indonesia	83.1
Singapore	6.9
Luxembourg	2.6
Others	7.4

Shareholders	%
PT Tancorp Surya Sentosa	36.6
PT Wahana Lancar Rejeki	32.5
Archipelago Investment Private Ltd. (GIC Singapore)	6.3
Others	24.6

CASH FLOW STATEMENT

(IDR bn)	2023/12A	2024/12E	2025/12F	2026/12F
Operating Cash Flow	1,586	2,347	2,377	2,174
Investing Cash Flow	(1,083)	(556)	(608)	(706)
Financing Cash Flow	(1,441)	(1,259)	(1,293)	(1,653)
Net Changes in Cash	**(938)**	**532**	**477**	**(185)**

Source: Company Data, Bloomberg, NHKSI Research

Management Profile: Board of Commissioners

Hermanto Tanoko

President Commissioner

Indonesian citizen, 61 years old, graduated as Master of Management from IBMT School of Management in 2001. Currently serves as President Commissioner of the Company and holds several other positions as follows:

Concurrent Position

- Commissioner of PT Tirtakencana Tatawarna (2000 - present);
- President Commissioner of PT Jaya Sukses Makmur Sentosa Tbk (2003 - present);
- President Commissioner of PT Sariguna Primatirta Tbk (2009 - present);
- President Director of PT Tancorp Global Sentosa (2010 - present);
- Commissioner of PT Tirtakencana Batamindo (2010 - present); - President Commissioner of PT Avia Avian Industri Pipa (2014 - present);
- President Director of PT Tancorp Surya Sentosa (2015 - present);
- Vice President Director of PT Solusi Rumah Praktis (2018 - present);
- President Commissioner of PT Caturkarda Depo Bangunan Tbk (2020 - present);
- President Commissioner of PT Multipro Paint Indonesia (2021 - present);
- Member of the Nomination and Remuneration Committee of the Company (2021 - present); and
- President Commissioner of PT Penta Valent Tbk (2022 - present).

Working Experience:

- Commissioner of PT Sariguna Primatirta (2001 – 2009)

Source: AVIA, NHKSI Research

Mohammad Noor Rachman Soejoeti

Commissioner

Indonesian citizen, 66 years old, graduated as Master of Arts in Economics from Colorado State University, Colorado, United States in 1991.

Currently serves as Independent Commissioner of the Company as well as holding several other positions as follows:

Concurrent Position

- Commissioner of PT Bursa Efek Indonesia (2018 - present)
- Chairman of the Audit Committee of PT Bursa Efek Indonesia (2018 - present)
- Chairman of the Audit Committee of the Company (2021 - present)
- Chairman of the Nomination and Remuneration Committee of the Company (2021 - present)
- Independent Commissioner of PT Nusantara Sejahtera Raya Tbk (2023 - present).

Working Experience

- Member of the Supervisory Board of the Republic of Indonesia Money Printing Corporation (2000 - 2007)
- Deputy Commissioner for Capital Market Supervision II of the Financial Services Authority (2013 - 2017)
- President Commissioner of PT Maybank Asset Management (2017 - 2020)
- President Commissioner of PT Ristia Bintang Mahkota Sejati Tbk (2018 - 2020)

Source: AVIA, NHKSI Research

Management Profile: Board of Directors

Wijono Tanoko

President Director

Indonesian citizen, 71 years old, graduated from St. Joseph's College High School, Malang in 1972.

Currently serves as President Director of the Company as well as several other positions as follows:

Concurrent Position

- President Director of PT Avia Avian Industri Pipa (2014 - present)
- President Commissioner of PT Tirtakencana Tatawarna (2014 - present)
- Director of PT Wahana Lancar Rejeki (2015 - present)
- President Commissioner of PT Tirtakencana Batamindo (2016 - present)
- Commissioner of PT Solusi Rumah Praktis (2018 - present)
- President Director of PT Multipro Paint Indonesia (2021 - present)

Working Experience:

- President Director of PT Tirtakencana Batamindo (2010 - 2016)
- President Commissioner of PT Wahana Lancar Rejeki (2013 - 2015).

Source: AVIA, NHKSI Research

Ruslan Tanoko

Vice President Director

Indonesian citizen, 48 years old, graduated as Master of Engineering in Chemical Engineering from Cornell University, New York, United States (1997). Currently serves as Vice President Director of the Company as well as several other concurrent positions as follows:

Concurrent Position

- President Director of PT Multipro Paint Indonesia (2021 - present)
- President Director of PT Tirtakencana Tatawarna (2014 - present)
- President Director of PT Wahana Lancar Rejeki (2015 - present)
- President Director of PT Tirtakencana Batamindo (2016 - present)
- Vice President Director of PT Avia Avian Industri Pipa (2017 - present)
- President Director of PT Solusi Rumah Praktis (2018 - present)
- President Commissioner of PT Bangun Bersama Solusindo (2021 - present)
- Commissioner of PT Multipro Paint Indonesia (2021 - present).

Working Experience

- Marketing Director of the Company (2000 - 2016)
- Director of PT Tirtakencana Tatawarna (2006 - 2014)
- Director of PT Tirtakencana Batamindo (2010 - 2016)
- Director of PT Wahana Lancar Rejeki (2013 - 2015)
- Commissioner of PT Avia Avian Industri Pipa (2014 - 2017)

Source: AVIA, NHKSI Research

Robert Christian Tanoko

Director

Indonesian citizen, 38 years old, graduated as Bachelor of Commerce in Information Technology from Curtin University, Bentley, Australia (2006). Currently serves as Director of Operations and Development of the Company as well as several other positions as follows:

Concurrent Position

- President Director of PT Multipro Paint Indonesia (2021 - present)
- Director of PT Avia Avian Pipe Industry (2014 - present)
- Director of PT Tancorp Surya Sentosa (2015 - present)
- Vice President Director of PT Tirtakencana Tatawarna (2017 - present)
- Vice President Director of PT Tirtakencana Batamindo (2017 - present)
- President Commissioner of PT Solusi Rumah Praktis (2018 - present)
- Director of PT Bangun Bersama Solusindo (2021 - present)
- Director of PT Multipro Paint Indonesia (2021 - present)
- Chairman of the Company's Good Corporate Governance Committee (2021 - present)

Working Experience

- Deputy Director of Operations of the Company (2009 - 2015)
- Director of PT Tirtakencana Tatawarna (2014 - 2017)

Source: AVIA, NHKSI Research

Management Profile: Board of Directors

Kurnia Hadi Sinanto

Director

Indonesian citizen, 54 years old, graduated as Bachelor of Accounting from Airlangga University, Surabaya (1992). Currently serves as the Company's Finance & Investor

Concurrent Position

- Director of PT Avia Avian Industri Pipa (2017 - present)
- Director of PT Multipro Paint Indonesia (2021 - present)
- Member of the Company's Good Corporate Governance Committee (2021 - present)
- Chairman of the Related Party Transaction Committee of the Company (2022 - present).

Working Experience

- Financial Accounting Manager of the Company (2006 - 2010)
- Deputy Director of Finance and Accounting of the Company (2010 - 2016)
- Corporate Secretary of the Company (2021 - 2022).

Source: AVIA, NHKSI Research

Angelica Tanisia Jozar

Director

Indonesian citizen, 42 years old, graduated as Bachelor of Engineering from Parahyangan Catholic University, Bandung (2003) and Engineering Professional Education from Parahyangan Catholic University, Bandung (2021). Currently, she serves as the Director of Research, Development and Innovation of the Company.

Working Experience

- Head of Production of PT Tiga Arga (2003 - 2010)
- Manager Research & Development, Trade Unit Division PT Nipsea Paint & Chemicals (2010 - 2018)
- Research, Development & Innovation Director of the Company (2018 - 2022).

Source: AVIA, NHKSI Research

NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings

1. Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
2. Rating system based on a stock's potential upside from the date of publication
   - Buy : Greater than +15%
   - Overweight : +5% to 15%
   - Hold : -5% to +5%
   - Underweight : -5% to –15%
   - Sell : Less than -15%

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