



Not Rated

Stock Data

| | |
|-----------------------------|--------------|
| Curent Price | : IDR388 |
| 52wk Range H-L | : IDR340-480 |
| Share Outstanding | : 1,808.2 mn |
| Free Float (%) | : 22.38% |
| Mkt Capitalization (IDR bn) | : 708.82 |

Major Shareholders

| | |
|-----------------------|----------|
| PT Hilon Indonesia | : 45.54% |
| PT Samudera Industri | : 20.83% |
| Sandiana Soemarmo | : 11.24% |
| Securities Depository | : 6.32% |
| Public | : 16.07% |



Research Associate

Catherina Vincentia
 catherina.vincentia@mncgroup.com
 (021) 2980 3111 ext. 52306

PT Inocycle Technology Group Tbk (INOV)

Recycled Polyester Staple Fiber ("Re-PSF") Producer

Recycling Trash into Treasure

The Largest Hollow Conjugated Re-PSF Producer in Indonesia

PT Inocycle Technology Group (INOV) is considered as the largest Hollow Conjugated Polyester Staple Fiber producer in Indonesia that has a market share of more than 40%. The company is engaged in the production of Recycle Polyester Staple Fiber (Re-PSF) by purchasing waste PET bottles as a source of their main raw material and directly produce it into bottle flakes used as raw material of Re-PSF. Inocycle is utilizing PT Hilon Indonesia's domestic sales network to distribute its Re-PSF, hence the stable sales growth is achieved. The Re-PSF demand in the future is believed to keep on increasing due to the incline in vehicle productions, infrastructure development and clothing production. Inocycle will be on the advantage because it has the greatest potential to absorb all of the increase in demand with its production capacity and its ability to handle large scale production.

9M19 Performance: Bottom Line soared up by 425% YoY!

Revenue inclined by 28% YoY to IDR380 billion in 9M19 (vs IDR298 trillion in 9M18). Sales growth is driven by the 36% YoY incline in fiber sales as it contributed 78.13% YoY towards the total sales in 9M19 reaching IDR301 billion, followed by the Non-Woven growth of 12% YoY to IDR59 billion and others which also grew by 477% YoY. Meanwhile, the operating profit grew by 109% YoY to IDR48 billion in 9M19 with the margin at 13%. The bottom line significantly surged up by 425% YoY to IDR24 billion in 9M19 (vs IDR5 billion in 9M18) with the Net Profit margin at the level of 6%.

PlasticPay: Turns your Trash into Cash!

INOV has just launched a new app called PlasticPay, which is a block chain system where people will get rewards from bringing plastic bottles to collection point. The purchase price of waste PET bottles has risen from IDR5,000 per Kg in early 2013 to an average of IDR7,000 per Kg. So the intention with PlasticPay is to gather raw materials from the masses based on the weight of the bottles, rather than buying them for a higher price from a third party. PlasticPay is being tested on several convenience store, as one of the collection point. The rewards collected from the app can be monetized or used by the user as cash to shop at the convenience store.

Valuation and Recommendation: NOT RATED

INOV's shares grew by 0.52% YTD with current PE at 22x and PBV at 2.11x. We believe that the increase in Re-PSF demand that is supported by the company's strategy which is focusing on supply chain, with the following strategies: 1) Securing Bottle Supplies: becoming more efficient and affordable in collecting raw materials; 2) Building factories in small cities where the bottle collection is not yet monopolized; 3) Building a new Fiber Plant in Medan; 4) Efficiently utilizing the machines; 5) Taking over a plant in Makassar to become a washing factory in the upcoming years will potentially increase Company's performance.

Key Financial Highlight

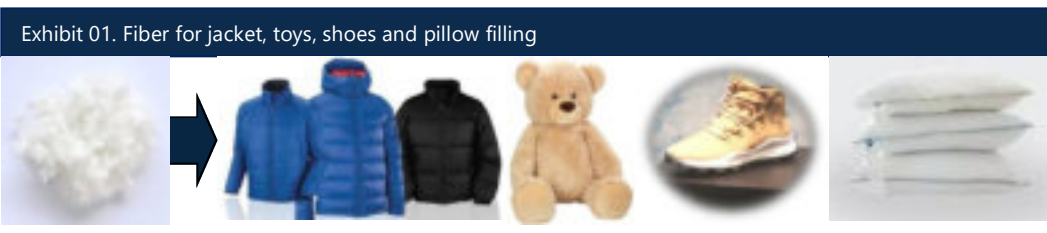
| In billion IDR | FY16 | FY17 | FY18 | 9M19 |
|-----------------------------|--------|--------|--------|--------|
| Revenue | 314.87 | 327.38 | 395.63 | 379.73 |
| Operating Profit | 15.47 | 25.58 | 49.57 | 22.83 |
| Operating Profit Margin (%) | 4.91% | 7.81% | 12.53% | 6.01% |
| Net Profit | 6.82 | 15.25 | 16.04 | 24.42 |
| Net Profit Margin (%) | 2.17% | 4.66% | 4.05% | 6.43% |
| ROA (%) | 1.82 | 3.68 | 2.80 | 3.43 |
| ROE (%) | 5.06 | 10.15 | 9.63 | 7.33 |

Sources : INOV, MNCS

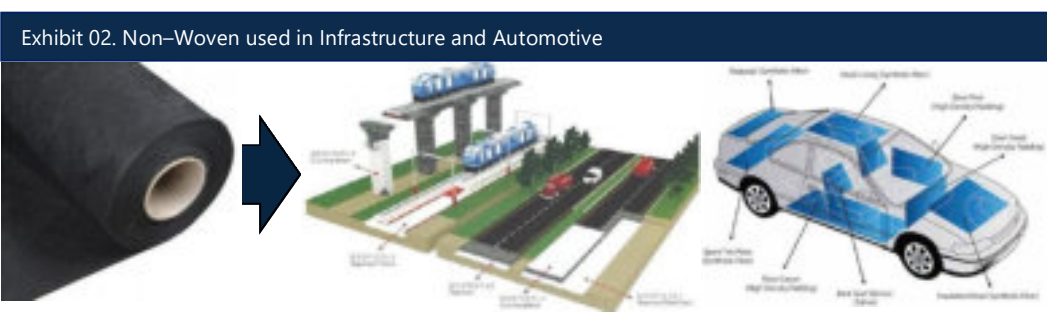
**The Largest Hollow
Conjugated Re-PSF Producer
in Indonesia**

PT Inocycle Technology Group (INOV) was established in 2001 under the name of PT Hilon Felt with its first factory in Tangerang. Inocycle is one of the largest integrated Non Woven produces with a combined experience of more than 40 years in its field. The company is engaged in the production of Recycle Polyester Staple Fiber (Re-PSF) by processing recycled plastics and considered as the largest Hollow Conjugated Polyester Staple Fiber producer in Indonesia. The company purchases waste PET bottles as a source of their main raw material and directly produce it into bottle flakes used as raw material of Re-PSF. As one of the pioneers of clean-tech companies in Indonesia, Inocycle succeeded in gaining 40% of the Re-PSF and non-woven market share in Indonesia. In addition, it is the only company in Indonesia that is certified with the Global Recycled Standards in Recycled Polyethylene terephthalate (PET) bottles. Inocycle is utilizing PT Hilon Indonesia’s domestic sales network to distribute its Re-PSF, hence the stable sales growth is achieved. The Re-PSF demand in the future is believed to keep on increasing due to the incline in vehicle productions, infrastructure development and clothing production. Inocycle will be on the advantage because it has the greatest potential to absorb all of the increase in demand with its production capacity and its ability to handle large scale production.

Inocycle is producing several types of fiber such as Hollow Conjugated Fiber, Special Function Fiber and Solid Fiber. Inocycle fiber is regarded as the closest quality to the virgin grade that people can buy in the global market. These fibers then turned into filling for Jacket, Toys, Pillow, Shoes, Automotive, Etc. In addition to Fiber, Inocycle directly produce and sell Geotextile non-woven products which is a product used in various industries such as mining, construction, agriculture, manufacturing and infrastructure. Inocycle also produce some household items such as bed clothes that are made from Re-PSF.



Source : INOV

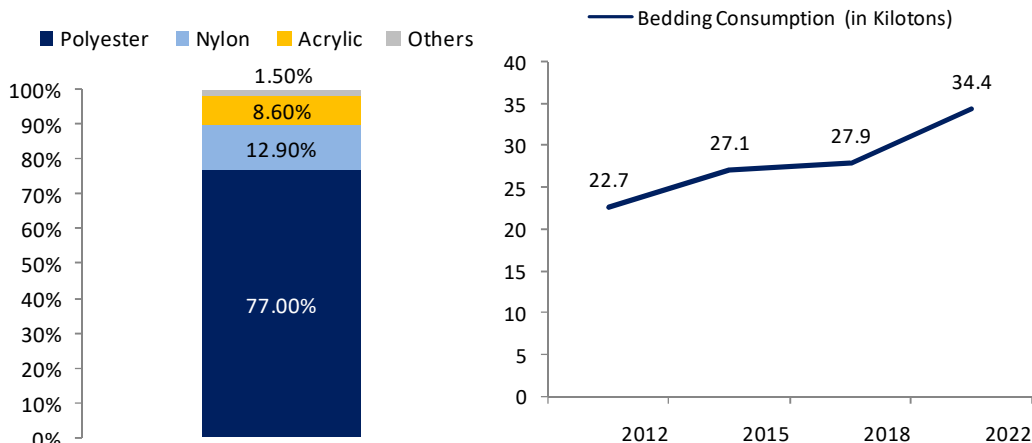


Source : INOV

PSF has Started to Take Over the Spotlight Globally

PSF has grown to substitute cotton in the apparel market. Inocycle has become a prominent PSF supplier for non-woven materials in Indonesia ranging from jackets, shoes, hats and bags. The total market size as indicated by apparels revenue in Indonesia amounted to USD5,340 mn in 2018 which has increased by 5% YoY. The total apparels market is estimated to grow by 5.9% to USD6,245mn in 2021 with the assumption of same pace growth.

Exhibit 03. Polyester as Cotton Substitute and Indonesia's Bedding Consumption

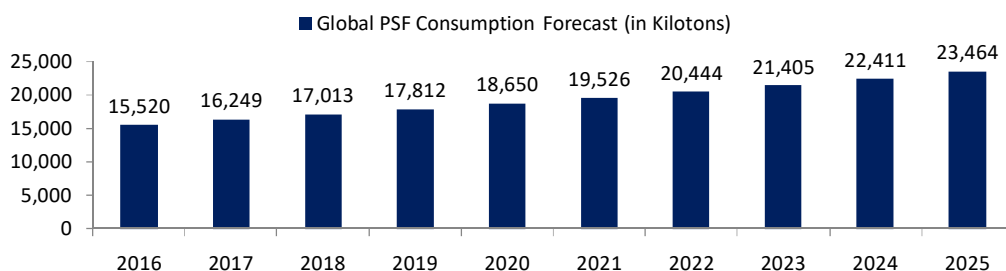


Source : INOV

Bedding products and mattress in Indonesia has started to use recycled polyester fiber as their main material, so the application of recycled polyester fiber and garment fabric is estimated to increase by 4.3% CAGR from 27.9 kilotons at 2018 to 34.4 kilotons at 2022. This is also supported by the growth of hotel and tourism which has triggered the demand for the bedding goods product. Inocycle nonwoven product has been used by 70% of the spring bed producer in Indonesia.

Inocycle has market dominance of more than 40% market share in the domestic market for Hollow Conjugated Re-PSF. We expect that the market share will expand along with the Re-PSF facility expansion. The demand for Re-PSF in the future is expected to continue to increase, this is supported by infrastructure development that will continue to run and increase, as well as increasing demand for clothing. If this happens, Inocycle will be able to absorb all of the increase in demand with its production capacity and its ability to handle large scale production.

Exhibit 04. Global PSF Consumption Forecast (in Kilotons)

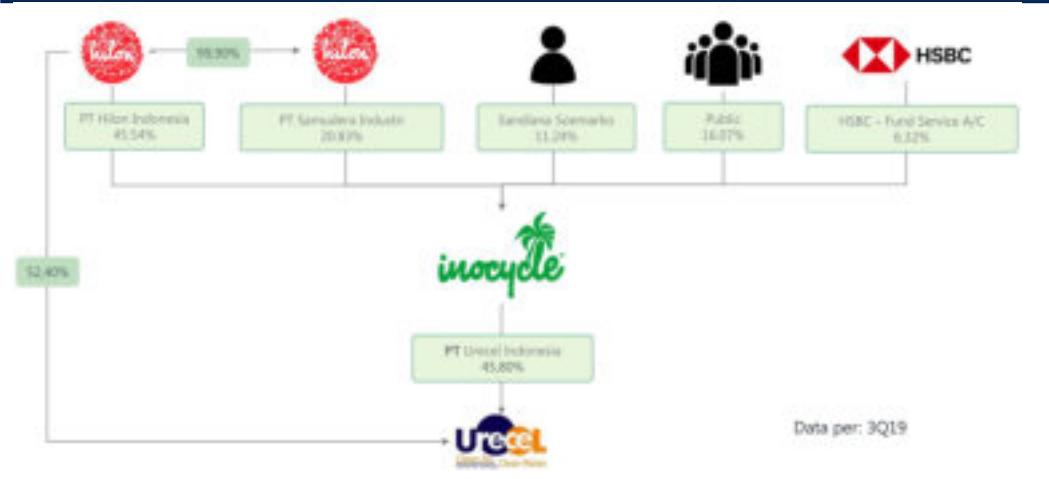


Source : INOV

Inside Inocycle

On 6th of November 2019, the MNCS team visited PT Inocycle Technology Group’s Tangerang Plant, which is located at Kawasan Industri Pasar Kemis, Tangerang. The site visit was commenced by an opening speech and business profile presentation by Mr. Victor Choi, one of the Directors, followed by the financial presentation by Mr. Yoon Chong Hyun as the Finance Director. After a short Q&A session, our team was taken on a factory tour followed by a short visit to the factory outlet and the first PlasticPay installation.

Exhibit 05. Inocycle Shareholder’s Composition



Source : INOV, MNCS

Exhibit 06. INOV Plant Information

| Location | Production Area | Product | Facilities | Capacity | Utilization |
|-------------|-----------------|----------------------|---|-------------|-------------|
| Tangerang | 28,156m2 | Re-PSF | Fiber Machine | 10,200 Tons | 85% |
| Karanganyar | 14,085m2 | Re-PSF | Crusher, Fiber Machine, Washer | 10,200 Tons | 95% |
| Mojokerto | 7,222m2 | Re-PSF | Washer, Boiler, Fiber | 13,200 Tons | 90% |
| Salatiga | 9,479m2 | Non-Woven, Home Ware | HDP Line, CF Line, Sewing Machine, Press Machine, Blower, Quilting Machine, Comforter Machine | 2,000 Tons | 82% |
| Palembang | 13,766m2 | Non-Woven, Home Ware | HDP Line, CF Line, Sewing Machine, Press Machine, Blower, Quilting Machine, Comforter Machine | 1,800 Tons | 75% |

Source : INOV, MNCS

The Tangerang plant has an area of 65,423 m² with the production area of 28,156 m². The plant is equipped with fiber machines with a capacity of 10,200 tons of fiber (Re-PSF), reaching 85% level of utilization. The plant acts as a factory as well as a warehouse for raw materials such as washed-plastic flakes and the processed fiber. The flakes are firstly melted into a thin thread then it is stretched and compiled in a large bucket. The fibers were sorted based on colors, because the company doesn't use bleach on their plastic but they use the plastic original color. Then, the fiber threads are dried and mixed so that it will make a cloud-like fiber, which then being stretched into sheets and pressed together. Some fibers are being pressed and packed into a cube shape to be exported. The final products are fibers for bedding, plush toys and garments while the non-woven final products are fiber sheets which used in various industries such as mining, construction, agriculture, manufacturing, and infrastructure.

Exhibit 07. INOV Tangerang Plant



Source : INOV, MNCS

Moving on to the factory outlet, where INOV sells their own bedding products such as bolsters, pillows, blankets, bed sheets, baby bed sets and many more. Their products are also being sold to other department stores as well as abroad. The products are sold at a discounted price with export quality. Next to the factory outlet is the first installation of PlasticPay collection point, which has not began operating yet. The installation is equipped with a plastic pressing machine to simplify plastic transfer and storage on the collection point.

Exhibit 08. Hilon Bedding Products



Source : INOV

Exhibit 09. Plastic Flakes being processed



Source : INOV, MNCS

Exhibit 10. Fiber Stretching and Compiling



Source : INOV, MNCS

Exhibit 11. Blue Fiber Drying Process



Source : INOV, MNCS

Exhibit 12. Green Fiber Pressing and Packing



Source : INOV, MNCS

Exhibit 13. Fiber Pressing Process

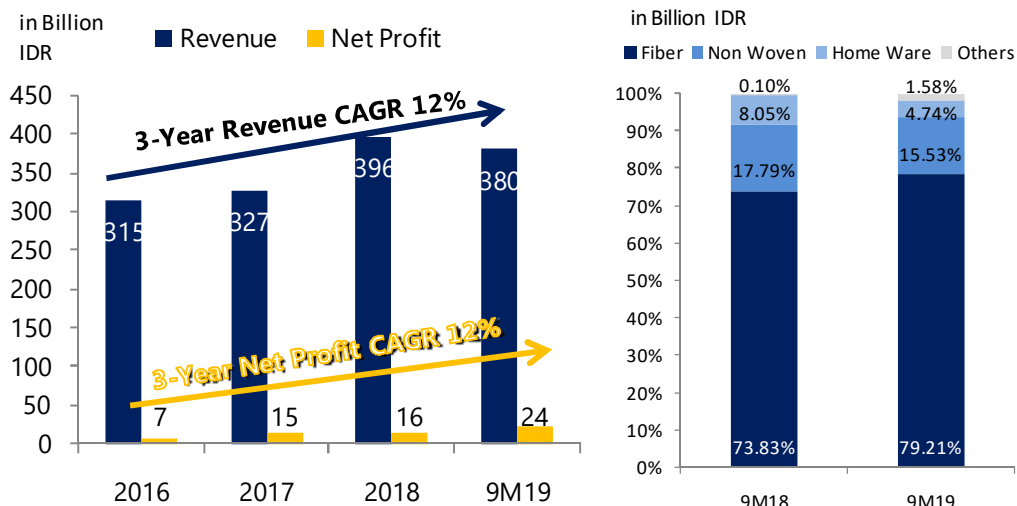


Source : INOV, MNCS

9M19 Performance: Bottom Line soared up by 425% YoY!

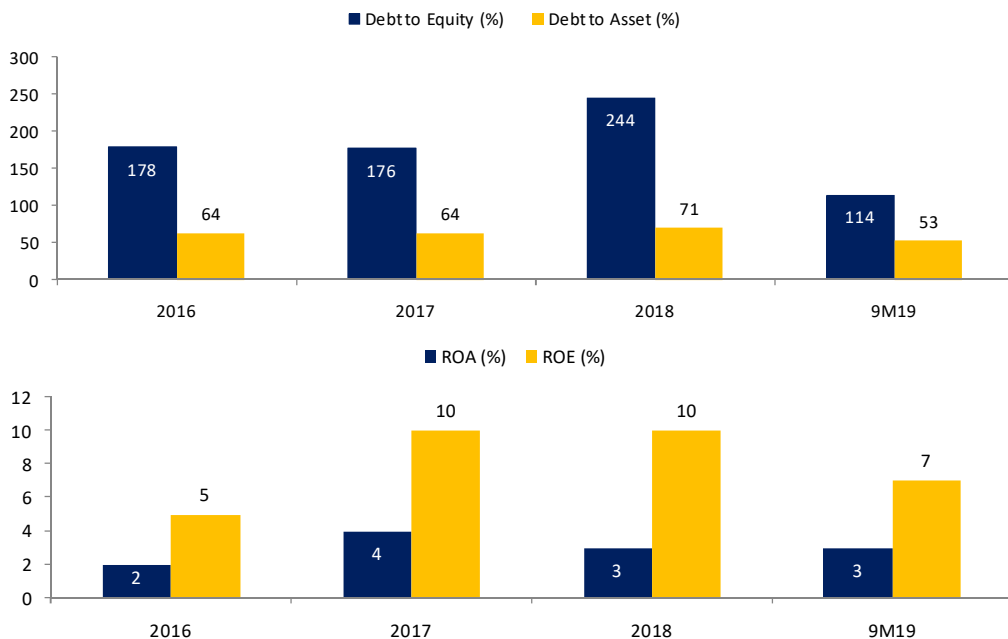
The Company’s revenue grew by 28% YoY which became IDR380 billion in 9M19 (vs IDR298 trillion in 9M18). The growth of sales is driven by the 36% YoY incline in fiber sales as it contributed 78.13% YoY towards the total sales in 9M19 reaching IDR301 billion, followed by the Non-Woven growth of 12% YoY to IDR59 billion and others which also grew by 477% YoY. Meanwhile, the operating profit grew by 109% YoY to IDR48 billion in 9M19 with the margin at 13%. The bottom line significantly surged up by 425% YoY to IDR24 billion in 9M19 (vs IDR5 billion in 9M18) with the Net Profit margin at the level of 6%.

Exhibit 14. INOV Net Profit and Revenue Trend and Breakdown



Source : INOV, MNCS

Exhibit 15. INOV Financial Ratios

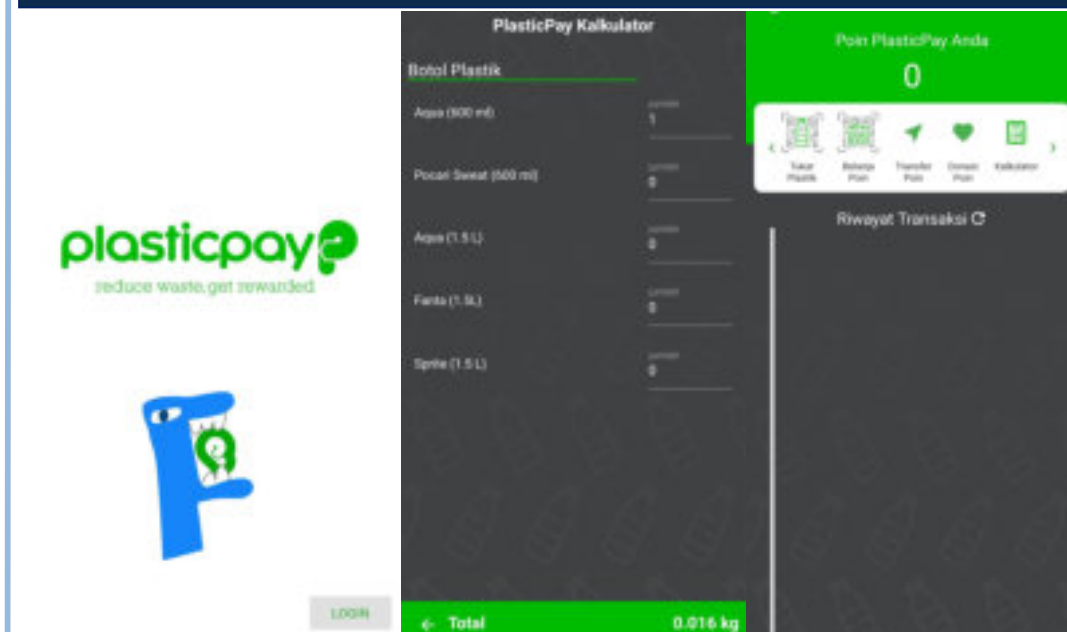


Source : INOV, MNCS

PlasticPay : Turns your Trash into Cash!

INOV has just launched a new app called PlasticPay, which is a block chain system where people will get rewards from bringing plastic bottles to collection point. The purchase price of waste PET bottles has risen from IDR5,000 per Kg in early 2013 to an average of IDR7,000 per Kg. So the intention with PlasticPay is to gather raw materials from the masses based on the weight of the bottles, rather than buying them for a higher price from a third party. PlasticPay is being tested on several convenience store, as one of the collection point. The rewards collected from the app can be monetized or used by the user as cash to shop at the convenience store.

Exhibit 16. PlasticPay App



Source : INOV, MNCS

Exhibit 17. PlasticPay Collection Point and Press Machine



Source : INOV, MNCS

Valuation and Recommendation: NOT RATED

INOV's shares grew by 0.52% YTD with current PE at 22x and PBV at 2.11x. We believe that the increase in Re-PSF demand that is supported by the company's strategy which is focusing on supply chain, with the following strategies: 1) Securing Bottle Supplies: becoming more efficient and affordable in collecting raw materials; 2) Building factories in small cities where the bottle collection is not yet monopolized; 3) Building a new Fiber Plant in Medan; 4) Efficiently utilizing the machines; 5) Taking over a plant in Makassar to become a washing factory in the upcoming years will potentially increase Company's performance.

Exhibit 18. Financial Summary

| Income Statement | | | | | Balance Sheet | | | | |
|--------------------------|----------------|----------------|----------------|----------------|---------------------------------------|---------------|---------------|---------------|---------------|
| IDR Billion | FY16 | FY17 | FY18 | 9M19 | IDR Billion | FY16 | FY17 | FY18 | 9M19 |
| Revenues | 314.87 | 327.38 | 395.63 | 379.73 | Current Assets | 137.52 | 164.34 | 234.52 | 377.58 |
| COGS | 243.17 | 254.64 | 288.63 | 306.66 | Cash and Cash Equivalents | 12.86 | 18.95 | 45.47 | 95.17 |
| Gross Profit | 71.70 | 72.74 | 107.00 | 73.07 | Trade Receivable | 63.45 | 75.05 | 68.38 | 120.02 |
| Operating Expense | (56.23) | (47.16) | (57.43) | (46.06) | Inventories | 55.02 | 57.89 | 99.81 | 111.70 |
| | | | | | Others current Assets | 6.19 | 12.45 | 20.86 | 50.69 |
| Operating Profit | 127.93 | 119.90 | 164.43 | 22.83 | Non-Current Assets | 237.49 | 249.85 | 338.18 | 334.30 |
| EBITDA | 8.68 | 17.23 | 16.59 | 39.17 | Fix Asset - net | 197.01 | 208.68 | 298.09 | 293.13 |
| Interest Expense | (1.50) | (1.34) | (9.49) | (0.41) | Other Non-Current Assets | 40.48 | 41.17 | 40.09 | 41.17 |
| Interest Income | 6.90 | 5.30 | 5.74 | 21.19 | TOTAL ASSETS | 375.01 | 414.19 | 572.70 | 711.88 |
| Other | - | - | - | - | Current Liabilities | 91.65 | 99.66 | 235.48 | 230.92 |
| | | | | | Account Payable | 63.01 | 78.23 | 46.69 | 41.32 |
| Profit Before Tax | 11.86 | 19.83 | 21.69 | 31.32 | Short Term Debt | - | 46.74 | 116.37 | 125.16 |
| Tax Expense | (5.04) | (4.58) | (5.65) | (6.90) | Other current liabilities | 28.64 | (25.31) | 72.42 | 64.44 |
| Net Income Before MI | 16.90 | 24.41 | 27.34 | 38.22 | Non-Current Liabilities | 148.52 | 164.33 | 170.74 | 148.01 |
| Minority Interest | - | - | - | - | Long-term Liabilities - Net | 119.35 | 125.11 | - | 129.05 |
| | | | | | Other Non-Current Liabilities | 29.17 | 39.22 | 170.74 | 18.96 |
| Net Income | 6.82 | 15.25 | 16.04 | 24.42 | TOTAL EQUITY | 134.84 | 150.19 | 166.48 | 332.95 |
| EPS (IDR) | 5.68 | 12.71 | 13.37 | 4.66 | TOTAL LIABILITIES & EQUITY | 375.01 | 414.18 | 572.70 | 711.88 |

| Cash Flow | | | | | Ratios | | | | |
|---------------------------|------|----------------|----------------|----------------|-----------------------------|--------|---------|--------|---------|
| IDR Billion | FY16 | FY17 | FY18 | 9M19 | Ratio | FY16 | FY17 | FY18 | 9M19 |
| CFO Total | | (34.33) | 52.54 | (44.28) | Revenue Growth (%) | 0.00 | 39.87 | 20.85 | 28.00 |
| Net Income | | 15.25 | 16.04 | 24.42 | Gross Profit Margin (%) | 22.77 | 22.22 | 27.05 | 19.24 |
| Depreciation | | 1.26 | 0.46 | 0.46 | Operating Profit Margin (%) | 40.63 | 36.62 | 41.56 | 6.01 |
| Change in Working Capital | | (811.36) | 8.55 | 73.33 | EBITDA Margin (%) | 2.76 | 5.26 | 4.19 | 10.32 |
| Change in others | | 760.52 | 27.49 | (142.49) | Net Profit Margin (%) | 2.17 | 4.66 | 4.05 | 6.43 |
| CFI Total | | (74.90) | (4.19) | (34.69) | Current Ratio (%) | 150.05 | 164.90 | 99.59 | 163.51 |
| Capex | | 12.93 | 89.87 | 293.59 | Quick Ratio (%) | 83.26 | 94.32 | 48.35 | 93.19 |
| Change in Others | | (30.90) | (197.17) | (328.28) | Receivable Days | 73.55 | 83.67 | 63.09 | 115.36 |
| | | | | | Inventory Days | 82.59 | 82.98 | 126.22 | 132.95 |
| CFF Total | | (58.36) | (78.51) | 52.35 | Payable Days | 94.58 | 112.13 | 59.04 | 49.18 |
| Net Change in Debt | | 52.50 | (55.48) | 254.21 | Debt to Equity (x) | 0.89 | 1.14 | 0.70 | 0.76 |
| Equity financing | | - | - | 180.82 | Debt to EBITDA (x) | 13.75 | 9.97 | 7.01 | 6.49 |
| Dividend payment | | - | - | - | EBITDA Coverage | (5.79) | (12.86) | (1.75) | (95.54) |
| Others | | (110.86) | (23.03) | (382.68) | | | | | |
| Net Cash Increase | | 12.89 | 21.72 | 49.50 | ROA (%) | 1.82 | 3.68 | 2.80 | 3.43 |
| Closing Balance | | 18.95 | 45.47 | 95.17 | ROE (%) | 5.06 | 10.15 | 9.63 | 7.33 |

Source: Bloomberg, MNCS

MNC SEKURITAS RESEARCH TEAM

Thendra Crisnanda

Head of Institutional Research, Strategy
thendra.crisnanda@mncgroup.com
(021) 2980 3111 ext. 52162

Victoria Venny

Banking, Small-Mid Cap, Telco
victoria.nawang@mncgroup.com
(021) 2980 3111 ext. 52236

Jessica Sukimaja

Consumer, Plantation, Property
jessica.sukimaja@mncgroup.com
(021) 2980 3111 ext. 52307

I Made Adi Saputra

Head of Fixed Income Research
imade.saputra@mncgroup.com
(021) 2980 3111 ext. 52117

Muhamad Rudy Setiawan

Construction, Oil & Gas, Property
muhamad.setiawan@mncgroup.com
(021) 2980 3111 ext. 52317

Catherina Vincentia

Automotive, Coal Mining, Metal Mining
catherina.vincentia@mncgroup.com
(021) 2980 3111 ext. 52306

Edwin J. Sebayang

Head of Retail Research, Technical
edwin.sebayang@mncgroup.com
(021) 2980 3111 ext. 52233

Aqil Triyadi

Research Associate
aqil.triyadi@mncgroup.com
(021) 2980 3111 ext. 52313

T. Herditya Wicaksana

Technical Specialist, Cement
herditya.wicaksana@mncgroup.com
(021) 2980 3150 ext. 52150

MNC SEKURITAS EQUITY SALES TEAM

Andi Abidin

Associate Director Institution & High Network
andi.abidin@mncgroup.com
(021) 2980 3111 ext. 52170

Harun Nurrosyid

Manager Equity Institution
harun.nurrosyid@mncgroup.com
(021) 2980 3111 ext. 52187

Agus Eko Santoso

Manager Equity Institution
agus.santoso@mncgroup.com
(021) 2980 3111 ext. 52185

Wesly Andri Rajaguguk

Head of Institutional Equity Sales
wesly.rajaguguk@mncgroup.com
(021) 2980 3111 ext. 52341

Ibnu Ramadhan

Institutional Equity Sales
ibnu.ramadhan@mncgroup.com
(021) 2980 3111 ext. 52178

Gina Purnama Sari

Institutional Equity Sales
gina.purnamasari@mncgroup.com
(021) 2980 3111 ext. 52181

Nesya Kharismawati

Manager Equity Institution
nesya.kharismawati@mncgroup.com
(021) 2980 3111 ext. 52182

Okhy Ibrahim

Manager Equity Institution
okhy.ibrahim@mncgroup.com
(021) 2980 3111 ext. 52180

MNC Research Investment Ratings Guidance

BUY : Share price may exceed 10% over the next 12 months

HOLD : Share price may fall within the range of +/- 10% of the next 12 months

SELL : Share price may fall by more than 10% over the next 12 months

Not Rated : Stock is not within regular research coverage

PT MNC SEKURITAS

MNC Financial Center Lt. 14 – 16
Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340
Telp : (021) 2980 3111
Fax : (021) 3983 6899
Call Center : 1500 899

Disclaimer

This research report has been issued by PT MNC Sekuritas. It may not be reproduced or further distributed or published, in whole or in part, for any purpose. PT MNC Sekuritas has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; PT MNC Sekuritas makes no guarantee, representation or warranty and accepts no responsibility to liability as to its accuracy or completeness. Expression of opinion herein are those of the research department only and are subject to change without notice. This document is not and should not be construed as an offer or the solicitation of an offer to purchase or subscribe or sell any investment. PT MNC Sekuritas and its affiliates and/or their offices, director and employees may own or have positions in any investment mentioned herein or any investment related thereto and may from time to time add to or dispose of any such investment. PT MNC Sekuritas and its affiliates may act as market maker or have assumed an underwriting position in the securities of companies discussed herein (or investment related thereto) and may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.