

Dua Putra Utama Makmur (DPUM IJ)

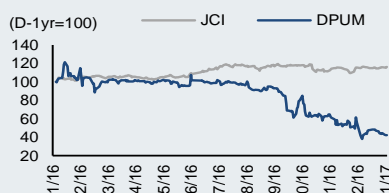
Plenty more fish in secured waters

Trade

Company Report
February 2, 2017

Recommendation	Not rated
Target Price (12M, IDR)	N/A
Share Price (2/1/17, IDR)	498
Expected Return	N/A

Consensus OP (17F, IDRbn)	245.7		
EPS Growth (17F, %)	N/A		
P/E (17F, x)	14.6		
Industry P/E (17F, x)	18.6		
Benchmark P/E (17F, x)	14.8		
Market Cap (IDRbn)	2,079.2		
Shares Outstanding (mn)	4,175.0		
Free Float (mn)	2,063.7		
Institutional Ownership (%)	50.5		
Beta (Adjusted, 24M)	0.8		
52-Week Low (IDR)	436		
52-Week High (IDR)	1,730		
(%)	1M	6M	12M
Absolute	-24.0	-57.8	-57.8
Relative	-24.5	-57.2	-73.0



PT. Mirae Asset Sekuritas Indonesia

Christine Natasya
+62-21-515-1140
natasya@miraeeasset.co.id

Dua Putra Utama Makmur (DPUM) is an Indonesia-based company primarily engaged in integrated fishery, marine product processing, and cold storage industries. DPUM's sea catch is composed of black pomfret, silver pomfret, red snapper, purple-spotted bigeye, yellow croaker, mackerel, skipjack tuna, shrimp, squid, and baby octopus, among others.

To benefit from government support for fishery industry

In our view, the long-term outlook for DPUM appears compelling given the Indonesian government's support for the fishery industry. Government support takes the form of 1) a prohibition on the operation of foreign construction vessels in Indonesia, 2) a prohibition on any open sea transshipment, ensuring all fisheries are processed locally, 3) an open market for investment in cold storage and fishery processes, and 4) the Presidential Decree No. 7 of 2016, which promotes economic acceleration in the maritime sector.

Greater maritime security, more opportunities for Indonesian companies

As a tropical archipelago situated between two great oceans (the Pacific and Indian oceans), Indonesia has abundant fisheries resources. The country is within the Coral Triangle, home to over 3,000 types of fish. According to the Food and Agriculture Organization (FAO) of the United Nations, Indonesia's fisheries production is the second largest in the world. However, as the Southeast Asian country with the largest maritime territory, it has been particularly vulnerable to fishing by unauthorized foreign vessels despite the implementation of the cabotage principle in 2011.

Nonetheless, since President Joko Widodo took office in 2014, Indonesian coastguards have captured and destroyed 220 foreign vessels found fishing illegally. According to the Indonesian Minister of Maritime Affairs and Fisheries, Mrs. Susi Pudjiastuti, this action has reduced the number of illegal vessels operating in Indonesian waters by 90%. We believe the reduction in illegal fishing should translate into more opportunities for Indonesian fishery companies to catch fish within the nation's waters.

Compelling outlook for DPUM

Given the improvement in maritime security along with rising global fish consumption and demand, we believe DPUM will prosper going forward. DPUM's investor relations team estimates the company's net profit for 2016 at IDR96bn. In light of the compelling outlook, we expect DPUM to achieve its target of 25% YoY bottom-line growth in 2017. With this net profit target, DPUM is currently trading at 19.6x 2017F P/E.

FY (Dec)	12/13	12/14	12/15
Revenue (IDRbn)	139.8	302.0	732.2
Gross Profit (IDRbn)	27.4	65.6	153.1
Operating Profit (IDRbn)	24.7	58.3	139.7
Net profit (IDRbn)	15.8	36.0	77.9
EPS (IDR/share)	N/A	N/A	40.0
ROA (%)	N/A	15.7	8.3
P/E ratio (x)	N/A	N/A	24.8
ROE (%)	N/A	92.4	12.3

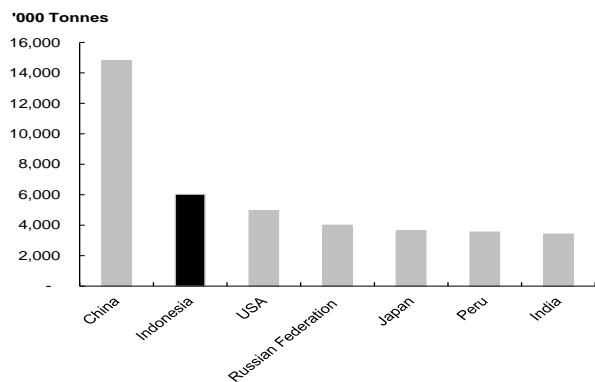
Note: All figures are based on consolidated data; OP refers to operating profit
Source: Bloomberg, Mirae Asset Sekuritas Research Indonesia

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The fishery giant that is Indonesia

As a tropical archipelago with 17,000 islands situated between two great oceans, the Pacific and Indian oceans, Indonesia is richly endowed with habitats for fisheries production. The country is within the Coral Triangle, home to over 3,000 types of fish, and its waters have been referred to as the “Amazon of the sea” by several scientists. According to the Food and Agriculture Organization (FAO) of the United Nations, Indonesia’s fisheries production is the second largest in the world, after China.

Figure 1. Indonesia is the second largest fish producer



Source: FAO 2014, Mirae Asset Sekuritas Research

Figure 2. The Coral Triangle



Source: Company data, Mirae Asset Sekuritas Research

Support for the fishery sector from the Indonesian government

In our view, the long-term outlook for the Indonesian fishery sector appears compelling given the government’s support. With his Global Maritime Fulcrum (GMF) program, President Joko Widodo has included the maritime sector as a central focus in his vision for Indonesia’s economy . As one of the president’s top agenda priorities, this program seeks to transform Indonesia into a central hub and a major power in the global maritime landscape. Some of the government’s focuses are to strengthen maritime infrastructure and improve connectivity within the archipelago.

Figure 3. Five pillars of the Global Maritime Fulcrum

Maritime culture	Revival of Indonesia’s maritime culture, creating link between Indonesia’s archipelagic geography, identity, and livelihood
Marine resources	Improvement of the management of oceans and fisheries through the development of the fishing industry and building maritime “food sovereignty” and security.
Archipelagic connectivity	Boost in Indonesia’s maritime economy by improving island connectivity through water highways, port infrastructure, shipping industry and maritime tourism.
Naval development/ maritime security	Bolstering Indonesia’s maritime defences to support maritime sovereignty and wealth, and realising the role in maintaining navigation safety and maritime security.
Maritime diplomacy	Maritime and border issues as the heart of diplomacy, encouraging the development of maritime diplomacy that inspires Indonesia’s partners to work together to eliminate conflict arising over illegal fishing, breaches of sovereignty, territorial disputes, piracy and environmental concerns.

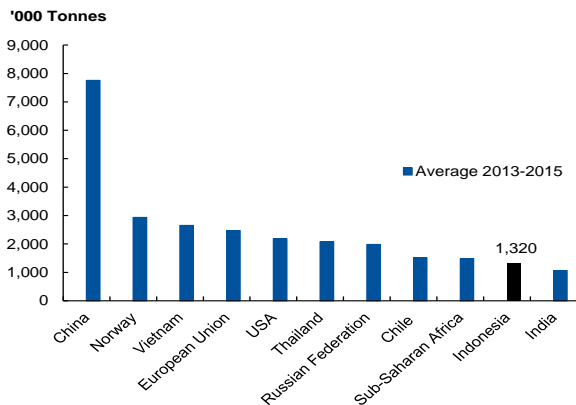
Source: Jakarta Post, Mirae Asset Sekuritas Research

Government support for the fishery sector also takes the form of maritime-related laws including: 1) a prohibition on the operation of foreign construction vessels in Indonesia, 2) a prohibition on any open sea transshipment, ensuring all fisheries are processed locally, 3) an open market for investment in cold storage and fishery processes, and 4) the Presidential Decree No. 7 of 2016, which promotes economic acceleration in the maritime sector.

Indonesia the 10th largest fishery exporter

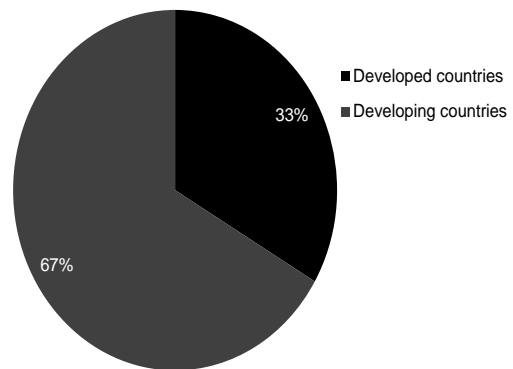
Indonesia is the second largest fish-producing country in the world, contributing 6.3% of the world’s production. However, as a fishery product exporter, the country ranks only 10th, with fish exports totaling 1.3mn tonnes (average during 2013-15). Indonesia’s fish exports account for only c.3.4% of the world’s total exports of 39.1mn tonnes. We believe the illegal, unreported, and unregulated (IUU) fishing by neighboring countries within Indonesian waters is the main cause of the nation’s deteriorating exports.

Figure 4. Fishery product exports by source



Source: OECD and FAO, Mirae Asset Sekuritas Research

Figure 5. Fishery product exports by source



Source: OECD and FAO, Mirae Asset Sekuritas Research

Illegal fishing in Southeast Asia & prohibition on foreign construction vessels

As the Southeast Asian country with the largest maritime territory, Indonesia has been particularly vulnerable to fishing by unauthorized foreign vessels despite the implementation of the cabotage principle in 2011. The cabotage principle means that each nation is entitled to prohibit foreign-flagged vessels from transporting or operating within its coastal/inshore waters. This principle was first enacted in Indonesia in 2008 but did not become fully effective until May 7th, 2011.

According to the European Parliamentary Research Service, many of the unauthorized foreign vessels fishing in Indonesia’s exclusive economic zone in 2014 came from Thailand, Vietnam, and China. We note that Indonesia’s territorial sea waters are vast, making up 76% of the country’s surface area. President Widodo has estimated the value of Indonesia’s stolen catch at USD20bn/year.

Figure 6. Countries' competing claims in the South China Sea



Overlapping territorial claims of Brunei, China, Malaysia, Taiwan, the Philippines and Vietnam

Source: Bloomberg

Nonetheless, since President Widodo took office in 2014, Indonesian coastguards have captured and destroyed 220 foreign vessels found fishing illegally. According to the Indonesian Minister of Maritime Affairs and Fisheries, Mrs. Susi Pudjiastuti, this action has reduced the number of illegal vessels operating in Indonesian waters by 90%. We believe the reduction in illegal fishing should translate into more opportunities for Indonesian fishery companies to catch fish within the nation's waters.

Figure 7. An unmanned Vietnamese fishing boat was blown up by the Indonesian Navy



Source: Reuters, Antara Foto, Immanuel Antonius

Figure 8. Indonesian Navy blew up an illegal fishing boat in North Sumatra on February 22nd, 2016



Source: Bloomberg

Compelling outlook for DPUM

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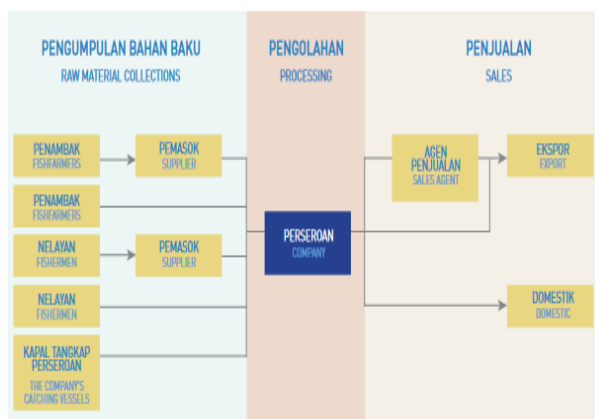
Given the improvement in maritime security along with rising global fish consumption and demand, we believe DPUM will prosper going forward. DPUM's investor relations team estimates the company's net profit for 2016 at IDR96bn. In light of the compelling outlook, we expect DPUM to achieve its target of 25% YoY bottom-line growth in 2017. With this net profit target, DPUM is currently trading at 19.6x 2017F P/E.

Figure 9. DPUM's facility & cold storage in Pati



Source: Company data, Mirae Asset Sekuritas Research

Figure 10. DPUM's business activities



Source: Company data, Mirae Asset Sekuritas Research

APPENDIX 1

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Hold	Relative performance of -10% and 10%	Underweight	Fundamentals are unfavorable or worsening
Sell	Relative performance of -10%		

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Mirae Asset Securities (America) Inc. 320 Park Avenue, 31st Floor. New York, NY 10022 United States Tel: 1-212-407-1000	Mirae Asset Securities (Europe) Ltd. 41st Floor, Tower 42 25 Old Broad Street London EC2N 1HQ United Kingdom Tel: 44-20-7982-8000	Mirae Asset Securities (Singapore) Pte. Ltd. Six Battery Road #11-01 Singapore, 049909 Tel: 65-6671-9845
Tokyo Representative Office 7F, Yusen Building, 2-3-2 Marunouchi, Chiyoda-ku Tokyo 100-0005 Japan Tel: 81-3- 3211-5511	Beijing Representative Office 2401A, 24th Floor. East Tower Twin Tower, B-12 Jianguomenwai Avenue Chaoyang District, Beijing 100022 China Tel: 86-10-6567-9699	Shanghai Representative Office Room 38T31, 38F SWFC 100 Century Avenue, Pudong New Area, Shanghai, 200120 China Tel: 86-21-5013-6392
Ho Chi Minh Representative Office Suites 901B. Centec Tower 72-74 Nguyen Thi Minh Khai St, Ward 6 District 3, HCMC Tel: 84-8-3910-6000	Mirae Asset Investment Advisory (Beijing) Co., Ltd 2401B,24th Floor. East Tower Twin Tower, B-12 Jianguomenwai Avenue Chaoyang District, Beijing 100022 China Tel: 86-10-6567-9699	Mirae Asset Securities (Mongolia) LLC #406, Blue Sky Tower, Peace Avenue 17 1 Khoroo, Sukhbaatar District Ulaanbaatar 14240 Mongolia Tel: 976-7011-0807