Indofood CBP Sukses Makmur Tbk (ICBP IJ)

Retains Double Digit Bottom Line Growth

We pencil in that ICBP consistently posted the double-digit growth in 3Q19 bottom line as most of its segments—excluding the beverages and dairy segments left bruise by stiff competition—accomplished growth. Indonesia's stagnant macroeconomic backdrop leaves consumption soft. Regardless of the murky outlook, ICBP is still capable of posting conservative growth, supported by innovation in products and more expansive markets.

Double-Digit Growth Spurs Net Profits to IDR1.3 Trillion

Despite soft consumption, ICBP achieved net profits of IDR1.3 trillion or a 10% y-y increase. The net profits, on an accumulative basis, grew to IDR4.1 trillion or a 15.9% y-y increase. Another to surging net profits, the 3Q19 GMP was maintainable at 35.2% (vs. 34.2% in 2Q19; and 33.0% in 3Q19). Keys to maintainable GMP were the ratio of A&P growth to the 9M19/18 sales was at 4.1% or 4.2% and efficient use of raw materials. However, we view declines in the top line from 12%y-y in 3Q18 to 6%y-y in 3Q19. The slower growth was on grounds of the 2H19 normal sales, the end of Ramadan and Idulfitri in as well as the subsidies allocated for Family Hope Program (PKH) in 1H19. The instant noodle segment posting IDR6.9 trillion worth of revenues of a 7% y-y increase made up the fist largest proportion of ICBP's total revenues. The second's largest contributor to ICBP's total revenues was the dairy segment even though the segment posted a sharp decline of 6% y-y (vs. 16% y-y in 3Q18). But, the dairy segment likely posts the higher growth in 4Q19 as dairy consumption is part of what people perceive as a healthy diet and nutrition for the body. Besides, the snack food segment posted surging revenues of 8% y-y (vs. -8% in 3Q18), while the food seasonings, and the nutrition & special foods respectively contributing less than 5% to the total revenues succeeded to surge by 159% y-y and 17% y-y, respectively. Like the dairy segment, the beverages segment recorded the 3Q19 profit loss of -7% y-y to IDR487 billion on grounds of stiff competition with its peers.

Middle-Term Setback on Consumer Goods Segment

After enjoying the 2019 non-energy subsidies of IDR64.3 billion or 28.7% of the total subsidies allocation, the consumer goods sector, in the middle terms, must battle against hiking tariffs coming into force in the early of 2020 as soft consumption is inevitable. But, we are optimistic about ICBP's conservative performance to achieve the single-digit growth of 9% in the topline and the double-digit growth of 11.5% in FY20F bottom line. ICBP's dominance over domestic and overseas markets is proven by Indomie's world top slot Instant Ramen Power Rankings in 2019. The sales of Indomie in the domestic market accounted for IDR29 trillion or 89% of total accumulative revenues in 9M19, while sales of Indomie in the overseas markets accounted for IDR3 trillion or 11% of total accumulative revenues in 9M19

Rating Hold with the Price Target of IDR12,875

We revise the price target of IDR12,875 and revise lower the rating into HOLD based on the P/E forward valuation of 25.5x and a 12.9% yield upside potential of the current stock price. The risks from our price target are rising prices of flour and sugar, the rupiah depreciation, and declining purchases of finished goods.

Indofood CBP Sukses Makmur Tbk | Summary (IDR bn)

	2018A	2019E	2020F	2021F
Sales	38,413	42,300	47,415	54,479
Sales growth	*7.9%*	*10.1%*	*12.1%*	*14.9%*
EBITDA	6,783	8,344	9,358	10,721
Net Profit	4,576	5,101	5,878	5,391
EPS (IDR)	392	437	508	586
EPS growth	*20.5%*	*11.5%*	*16.1%*	*15.4%*
BVPS (IDR)	1,947	2,189	2,478	2,811
EBITDA margin	*17.7%*	*19.7%*	*19.7%*	*19.7%*
NPM	*11.9%*	*12.1%*	*12.5%*	*12.5%*
ROE	*21.3%*	*21.2%*	*21.8%*	*22.2%*
ROA	*13.9%*	*14.1%*	*14.8%*	*15.4%*
ROIC	*18.5%*	*19.6%*	*20.5%*	*20.9%*
P/E	22.7x	23.9x	22.4x	19.5x
P/BV	4.6x	4.8x	4.6x	4.1x
EV/EBITDA	14.5x	14.4x	13.8x	11.9x
DPS (IDR)	162	196	218	253
Dividend yield	*1.8%*	*1.9%*	*1.9%*	*2.2%*

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

NH KORINDO SEKURITAS

Company Report | Nov 22, 2019

Hold

Dec 2020 TP (IDR)	**12,875**
Consensus Price (IDR)	12,798
TP to Consensus Price	+0.6%
vs. Last Price	+12.9%

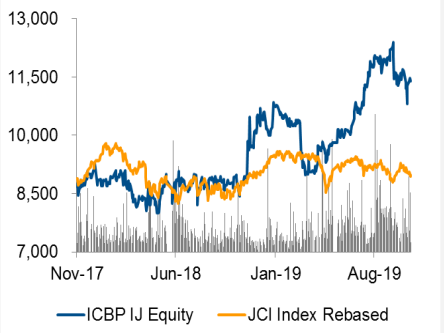
Shares data

Last Price (IDR)	11,400
Price date as of	Nov 15, 2019
52 wk range (Hi/Lo)	12,400 / 8,975
Free float (%)	19.5
Outstanding sh.(mn)	11,662
Market Cap (IDR bn)	113,237
Market Cap (USD mn)	9,459
Avg. Trd Vol - 3M (mn)	5.57
Avg. Trd Val - 3M (bn)	65.14
Foreign Ownership	7.3%

Consumer Staples
Packaged Foods & Beverages

Bloomberg	**ICBP IJ**
Reuters	**ICBP.JK**

Share Price Performance

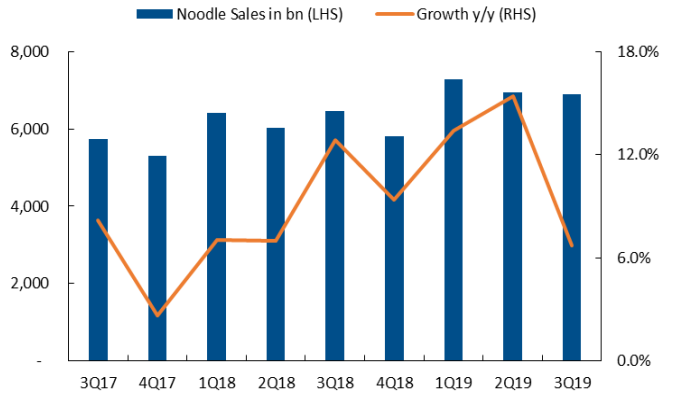


	YTD	1M	3M	12M
Abs. Ret.	9.6%	0.2%	1.1%	30.7%
Rel. Ret.	-5.8%	-0.5%	-0.2%	2.9%

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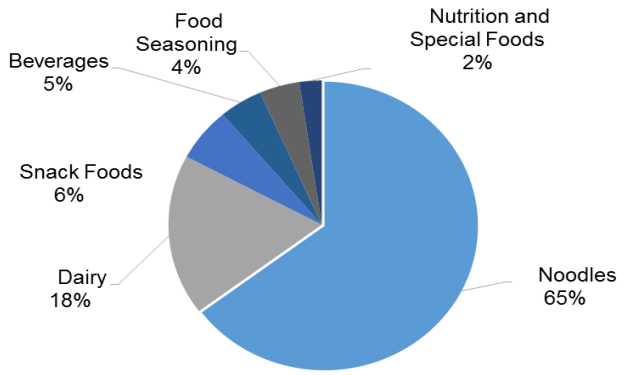
Performance Highlights

Noodle Sales Growth Yearly | 3Q17 - 3Q19



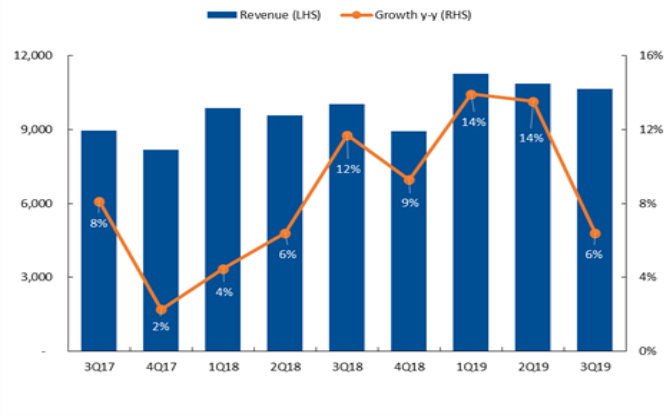
Source: Company, NHKS Research

Sales Breakdown | 3Q19



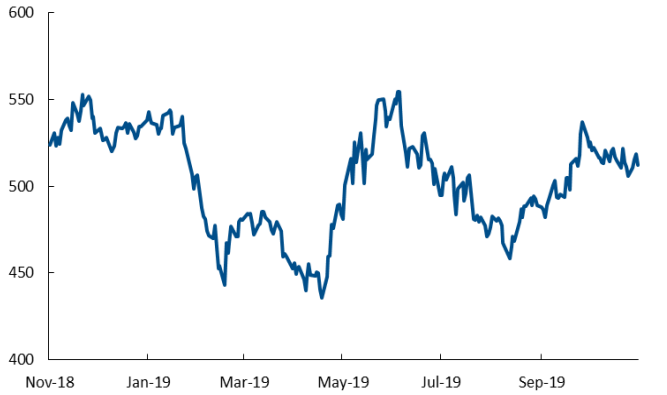
Source: Company, NHKS Research

ICBP Sales | 3Q17 - 3Q19



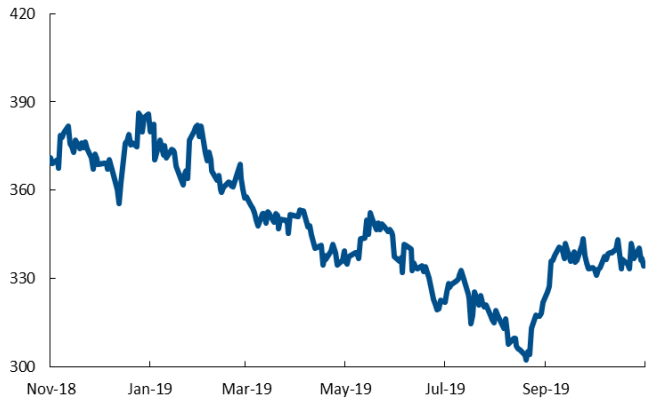
Source: Company, NHKS Research

Wheat Price (USD/MT) | 3Q18 - 3Q19



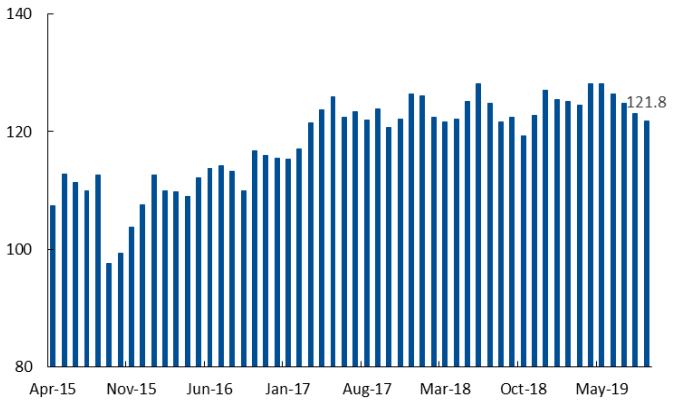
Source: Bloomberg, NHKS Research

Sugar Price (USD/MT) | 3Q18-3Q19



Source: Company, NHKS Research

Indonesia Consumer Confidence Index | 2015 - 2018



Source: Bloomberg, NHKS Research

3Q19 review (IDR bn)

	3Q18	4Q18	1Q19	2Q19	3Q19					4Q19E
					Actual	Estimate	y-y	q-q	surprise	
Sales	10,019	8,935	11,256	10,874	10,660	10,766	*6.4%*	*-2.0%*	*-1.0%*	9,510
Gross Profit	3,302	2,674	3,788	3,724	3,747	3,184	*13.5%*	*0.6%*	*17.7%*	3,356
Gross Margin	*33.0%*	*29.9%*	*33.7%*	*34.2%*	*35.2%*	*29.6%*	*2.2%*	0.9%	*5.6%*	*35.3%*
EBIT	1,635	1,306	1,997	1,912	1,946	1,536	*19.0%*	*1.8%*	*26.7%*	1,774
EBIT Margin	*16.3%*	*14.6%*	*17.7%*	*17.6%*	*18.3%*	*14.3%*	*1.9%*	0.7%	*4.0%*	*18.7%*
EBITDA	1,876	1,592	2,276	2,199	2,237	1,744	*19.2%*	*1.7%*	*28.3%*	2,018
EBIT Margin	*18.7%*	*17.8%*	*20.2%*	*20.2%*	*21.0%*	*16.2%*	*2.3%*	0.8%	*4.8%*	*21.2%*
Net Profit	**1,194**	**1,091**	**1,337**	**1,238**	**1,311**	**1,158**	***9.8%***	***5.9%***	***13.2%***	**1,359**
Net Margin	*11.9%*	*12.2%*	*11.9%*	*11.4%*	*12.3%*	*10.8%*	*0.4%*	0.9%	*1.5%*	*14.3%*

Source: Bloomberg, NHKS research

Earnings revision (IDR bn)

		2018E	2019F	2020F
Sales	-Revised	38,413	42,300	47,415
	-Previous	38,596	42,084	46,152
	-Change	*-0.5%*	*0.5%*	*2.7%*
Gross Profit	-Revised	12,266	14,450	16,205
	-Previous	12,650	13,806	15,153
	-Change	*-3.0%*	*4.7%*	*6.9%*
Gross Margin	-Revised	*31.9%*	*34.2%*	*34.5%*
	-Previous	*32.8%*	*32.8%*	*32.8%*
EBIT	-Revised	6,049	7,463	8,373
	-Previous	6,221	6,795	7,464
	-Change	*-2.8%*	*9.8%*	*12.2%*
EBIT Margin	-Revised	*15.7%*	*17.6%*	*17.7%*
	-Previous	*16.1%*	*16.1%*	*16.2%*
EBITDA	-Revised	6,783	8,344	9,358
	-Previous	6,938	7,677	8,453
	-Change	*-2.2%*	*8.7%*	*10.7%*
EBITDA Margin	-Revised	*17.7%*	*17.9%*	*19.7%*
	-Previous	*18.0%*	*18.2%*	*18.3%*
Net Profit	-Revised	4,576	5,101	5,922
	-Previous	4,472	4,881	5,411
	-Change	*2.3%*	*4.5%*	*9.4%*
Net Margin	-Revised	*11.9%*	*12.1%*	*12.5%*
	-Previous	*11.6%*	*11.6%*	*11.7%*

Source: NHKS research

A Glance at ICBP

Armed with well-diversified businesses ranging from instant noodles, dairy products, snacks, seasonings, nutrition and special food, as well as beverages, ICBP is a leading producer of branded consumers' products. To support its core business, it runs a packaging business producing flexible and cardboard-based packaging.

ICBP through its 40 well-known branded products offers assorted daily products for varied-ages consumers and different market shares. Millions of Indonesian consumers' lasting loyalty to ICBP strengthens its legacy in Indonesia's market shares. Most of its products are available across Indonesia. Supported by the extensive distribution networks owned by its parent entity, ICBP succeeds in supplying the demand of markets in a way more efficient and prompt manner.

Its operational activities are supported by more than 50 factories located in major cities in Indonesia; therefore, it easily supplies the demand of markets and ensures its quality products. Not only does it market its products in Indonesia but it also exports its products in more than 60 countries.

ICBP's Competitiveness in the Asia Pacific

Compared to its peers in the Asia Pacific, ICBP has the less expensive P/E and the equal or even higher ROE. In fact, it is still capable of achieving double-digit growth of 11.3% in net profits.

Asia Pacific Packaged Food Company

Company	Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Margin	ROE LTM	P/E LTM	P/BV
Indonesia									
ICBP	8,253	2,382	2,769	327	19.97%	11.8%	21.6%	24.8x	5.1x
INDF	4,334	6,691	5,214	301	3.77%	5.8%	12.8%	14.1x	1.7x
Japan									
Nissin Foods Holdings	6,854	5,034	4,068	175	-43.57%	4.3%	5.6%	37.3x	2.2x
Toyo Suisan Kaisha Ltd	4,636	3,523	3,618	166	0.04%	4.6%	6.4%	24.8x	1.5x
South Africa									
Pioneer Foods Group Ltd	1,076	1,026	1,553	70	8.42%	4.5%	11.4%	14.0x	1.8x
South Korea									
Samyang Foods Co Ltd	457	370	417	29	-4.51%	6.9%	14.1%	16.6x	2.2x
Nongshim Co Ltd	1,315	2,274	2,032	73	-12.62%	3.6%	4.3%	17.8x	0.8x
Ottogi Corporation	2,151	1,853	2,036	143	23.56%	7.0%	13.7%	14.2x	1.8x
Thailand									
Thai President Foods	1,846	954	695	105	19.31%	15.2%	16.7%	16.7x	2.7x
Thai Union Group	2,811	4,390	4,113	113	-32.02%	2.8%	8.3%	19.6x	2.0x
Malaysia									
Nestle Berhad	8,419	689	1,360	163	2.74%	12.0%	75.9%	52.6x	39.4x
PPB Group Berhad	6,384	5,623	1,114	278	9.60%	25.0%	5.5%	24.4x	1.2x
India									
Nestle India Ltd	16,275	1,161	1,640	236	22.62%	14.4%	N/A	68.6x	N/A
Britannia Industries Ltd	9,757	900	1,570	166	15.42%	10.6%	30.3%	58.4x	15.9x

Source: Bloomberg

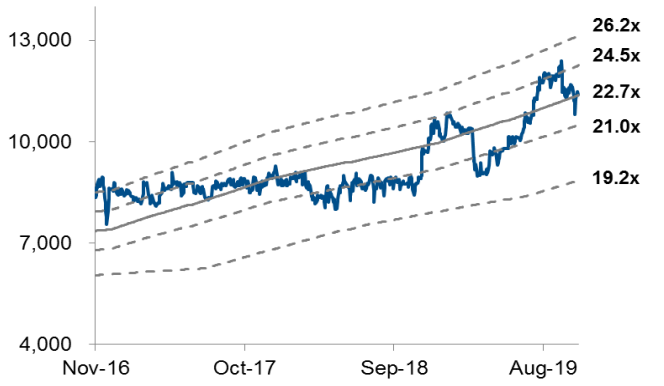
Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKS research

Dynamic Forward P/E band | Last 3 years



Source: NHKS research

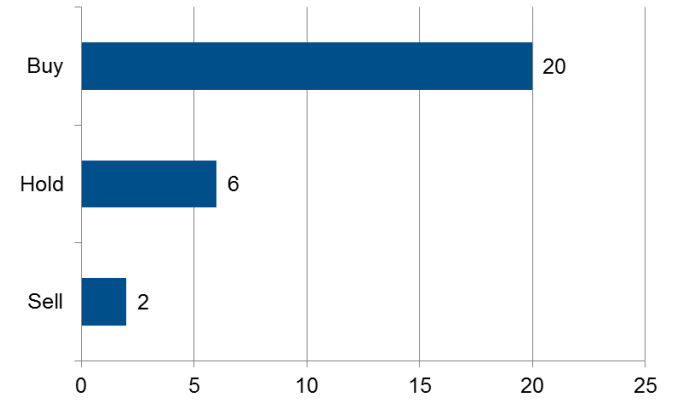
Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
07/18/2018	Buy	10,550 (Dec 2018)	8,675	9,417	+21.6%	+12.0%
09/26/2018	Buy	10,550 (Dec 2019)	8,950	9,715	+17.9%	+8.6%
12/06/2018	Buy	11,225 (Dec 2019)	9,750	9,855	+15.1%	+13.9%
12/06/2019	Buy	11,600 (Dec 2019)	9,950	11,002	+16.6%	+5.4%
21/11/2019	Hold	12,875 (Dec 2020)	11,400	12,798	+12.9%	+0.6%

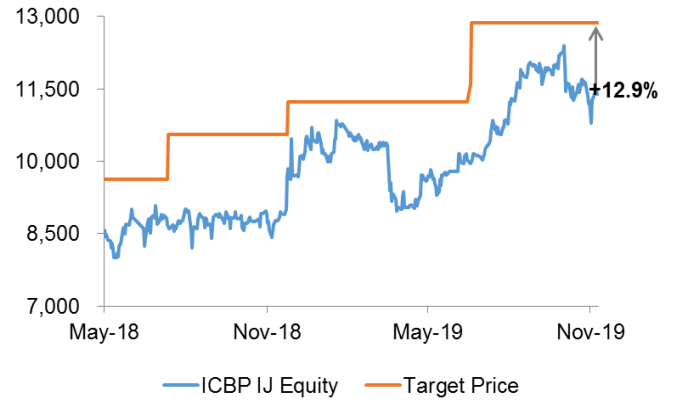
Source: NHKS research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKS research

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

1. Period: End of year target price
2. Rating system based on a stock's absolute return from the date of publication
   - Buy : Greater than +15%
   - Hold : -15% to +15%
   - Sell : Less than -15%

Summary of Financials

INCOME STATEMENT

(IDR bn)	2018/12A	2019/12A	2020/12E	2021/12E
Sales	**38,413**	**42,300**	**47,415**	**54,479**
Growth	*7.9%*	*10.1%*	*12.1%*	*14.9%*
COGS	(26,148)	(27,850)	(31,210)	(35,860)
Gross Profit	**12,266**	**14,450**	**16,205**	**18,619**
Gross Margin	*31.9%*	*34.2%*	*34.2%*	*34.2%*
Operating Expenses	(6,216)	(6,987)	(7,832)	(8,999)
EBIT	**6,049**	**7,463**	**8,373**	**9,621**
EBIT Margin	*15.7%*	*17.6%*	*17.7%*	*17.7%*
Depreciation	734	881	984	1,100
EBITDA	**6,783**	**8,344**	**9,358**	**10,721**
EBITDA Margin	17.7%	19.7%	19.7%	19.7%
Interest Expenses	(147)	(164)	(185)	(174)
EBT	**6,227**	**7,316**	**8,208**	**9,468**
Income Tax	(1,568)	(2,020)	(2,067)	(2,385)
Minority Interest	(83)	(195)	(218)	(252)
Net Profit	**4,576**	**5,101**	**5,922**	**6,832**
Growth	*20.5%*	*11.5%*	*16.1%*	*15.4%*
Net Profit Margin	*11.9%*	*12.1%*	*12.5%*	*12.5%*

PROFITABILITY & STABILITY

	2018/12A	2019/12A	2020/12E	2021/12E
ROE	21.3%	21.2%	21.8%	22.2%
ROA	13.9%	14.1%	14.8%	15.4%
ROIC	18.5%	19.6%	20.5%	20.9%
Cash Dividend (IDR bn)	1,889	2,283	2,545	2,955
Dividend Yield	1.8%	1.9%	1.9%	2.2%
Payout Ratio	49.8%	49.9%	49.9%	49.9%
DER	8.0%	8.0%	6.0%	5.0%
Net Gearing	11.6%	11.1%	7.9%	6.4%
LT Debt to Equity	2.9%	2.9%	2.2%	1.8%
Capitalization Ratio	7.4%	7.4%	5.6%	4.7%
Equity Ratio	66.1%	67.3%	68.9%	69.7%
Debt Ratio	5.3%	5.4%	4.1%	3.5%
Financial Leverage	153.3%	149.9%	146.7%	144.3%
Current Ratio	62.2%	60.0%	60.6%	63.8%
Par Value (IDR)	50	50	50	50
Total Shares (mn)	11,662	11,662	11,662	11,662
Share Price (IDR)	8,900	10,450	11,400	11,400
Market Cap (IDR tn)	103.8	121.9	132.9	132.9

BALANCE SHEET

(IDR bn)	2018/12A	2019/12A	2020/12E	2021/12E
Cash	4,727	6,694	8,438	10,661
Receivables	4,128	4,262	4,280	4,918
Inventories	4,001	3,206	3,593	4,128
Total Current Assets	**14,122**	**15,327**	**17,526**	**20,897**
Net Fixed Assets	10,742	11,796	12,981	14,372
Other Non Current Asset	9,504	10,796	11,442	11,765
Total Assets	**34,367**	**37,919**	**41,948**	**47,034**
Payables	2,956	3,149	3,692	4,421
ST Bank Loan	1,146	1,288	1,093	1,033
LT Debt	667	750	636	601
Total Liabilities	**11,660**	**12,395**	**13,047**	**14,256**
Capital Stock	6,569	6,569	6,569	6,569
Retained Earnings	15,030	17,847	21,224	25,101
Shareholders' Equity	**22,707**	**25,525**	**28,901**	**32,778**

VALUATION INDEX

	2018/12A	2019/12A	2020/12E	2021/12E
Price /Earnings	22.7x	23.9x	22.4x	19.5x
Price /Book Value	4.6x	4.8x	4.6x	4.1x
Price/Sales	2.7x	2.9x	2.8x	2.4x
PE/EPS Growth	1.1x	2.1x	1.4x	1.3x
EV/EBITDA	14.5x	14.4x	13.8x	11.9x
EV/EBIT	16.3x	16.1x	15.5x	13.2x
EV (IDR bn)	98,305	120,062	129,398	127,347
Sales CAGR (3-Yr)	6.6%	7.1%	10.0%	12.4%
EPS CAGR (3-Yr)	15.1%	12.3%	16.0%	14.3%
Basic EPS (IDR)	392	437	508	586
Diluted EPS (IDR)	392	437	508	586
BVPS (IDR)	1,947	2,189	2,478	2,811
Sales PS (IDR)	3,294	3,627	4,066	4,672
DPS (IDR)	162	196	218	253

CASH FLOW STATEMENT

(IDR bn)	2018/12A	2019/12A	2020/12E	2021/12E
Operating Cash Flow	4,653	7,253	7,412	8,089
Investing Cash Flow	(4,690)	(3,227)	(2,815)	(2,815)
Financing Cash Flow	(4,033)	(2,058)	(2,854)	(3,051)
Net Changes in Cash	**(4,070)**	**1,967**	**1,743**	**2,223**

OWNERSHIP

By Geography	%	Shareholders	%
Indonesia	92.7	First Pacific Company	80.5
United States	4.1	Matthews Intl Capital	1.8
Norway	1.1	Schroder Investment	1.1
Ireland	0.7	Norges Bank	1.0

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