

# Indofood Sukses Makmur Tbk (INDF)

## Rebound Rooms for Agribusiness

Company Report | Sep 27, 2018

### CBP Division as the Pillar of INDF's Stability

The Consumer Branded Products (CBP) division remains to be INDF's backbone because this division contributes 52% to INDF's total sales. The CBP division dominates virtually 72%-75% of Indonesia-based instant noodles' market shares and continuously innovates new products, e.g. the launch of Indomie Mi Keriting Goreng Rasa Telur Asin expected to accelerate its future growth. Furthermore, ICBP carried out the increment of 10% in production capacities of instant noodles distributed to Greater Jakarta; accordingly, the total national capacities reach 18 billion packages per year. Overseeing ICBP's market share dominance, we estimate that **the CBP division likely maintains a stable growth of 5-6% per year from 2018 to 2020 with the net profit margin at around 12%.**

### Awaiting Surprises from Flour Division and Agribusiness Division

We estimate that the flour division and the agribusiness division will give surprises of rosier sales. The cost-plus sales strategy and **the recovery in prices of milled wheat flour since the early of 2018 are the growth pillars for the flour division.** The flour division posted the increment of 6% and 12% in 1Q18's sales and 2Q18's sales, respectively. Such rosier sales were in stark contrast to the decline of 5% and 6% in 1Q17's sales and 2Q17's sales.

The Agribusiness division is suffering from waning sales because of sluggish CPO prices. **The further implementation and improvement in the biodiesel mandatory are rebound drivers for CPO prices** because the policy inevitably raises the demand for CPO.

### Target Price of IDR8,175

We use an estimate of forward P/E of 12.4x (1SD lower than the 3-year average P/E of 14.9x) to obtain the target price in December 2019. The target price implies a 2019E P/E of 13.6x. Now, INDF is traded at a 2018E P/E of 11.4x.

### Indofood Sukses Makmur Tbk | Summary (IDR bn)

	2017	2018E	2019F	2020F
Sales	70,187	74,313	80,492	87,963
<i>Sales growth</i>	5.1%	5.9%	8.3%	9.3%
EBITDA	10,436	11,615	13,218	14,490
Net Profit	4,139	4,601	5,264	5,802
EPS (IDR)	471	524	599	661
<i>EPS growth</i>	-0.1%	11.2%	14.4%	10.2%
BVPS (IDR)	5,325	5,674	6,012	6,375
EBITDA margin	14.9%	15.6%	16.4%	16.5%
NPM	5.9%	6.2%	6.5%	6.6%
ROE	9.1%	9.5%	10.3%	10.7%
ROA	4.9%	5.0%	5.4%	5.6%
ROIC	8.4%	8.4%	9.0%	9.3%
P/E	16.2x	11.4x	10.0x	9.0x
P/BV	1.4x	1.1x	1.0x	0.9x
EV/EBITDA	9.8x	7.6x	6.8x	6.2x
DPS (IDR)	235	237	261	298
<i>Dividend yield</i>	3.1%	4.0%	4.4%	5.0%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

## Buy

<b>Dec 2019 TP (IDR)</b>	<b>8,175</b>
Consensus Price (IDR)	8,252
TP to Consensus Price	-0.9%
vs. Last Price	+36.8%

### Shares data

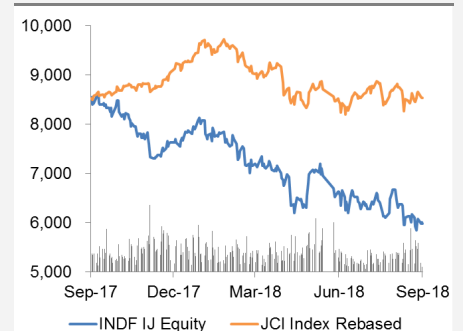
Last Price (IDR)	5,975
Price date as of	Sep 26, 2018
52 wk range (Hi/Lo)	8,600 / 5,850
Free float (%)	49.9
Outstanding sh.(mn)	8,780
Market Cap (IDR bn)	52,682
Market Cap (USD mn)	3,537
Avg. Trd Vol - 3M (mn)	6.03
Avg. Trd Val - 3M (bn)	37.92
Foreign Ownership	99.9%

### Consumer Staples

#### Packaged Food & Agricultural Products

Bloomberg	INDF IJ
Reuters	INDF.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-20.9%	-10.5%	-9.8%	-29.9%
Rel. Ret.	-13.5%	-8.9%	-10.6%	-30.1%

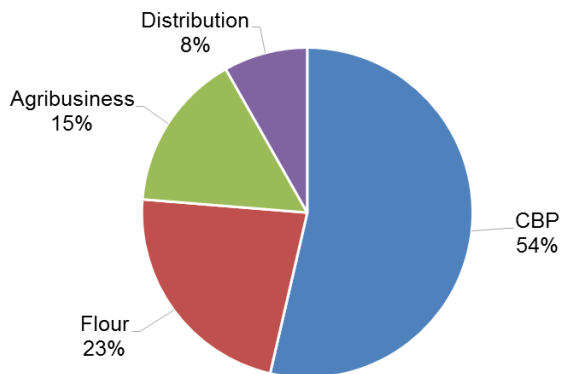
### Joni Wintarja

+62 21 797 6202, ext:138

joni.wintarja@nhsec.co.id

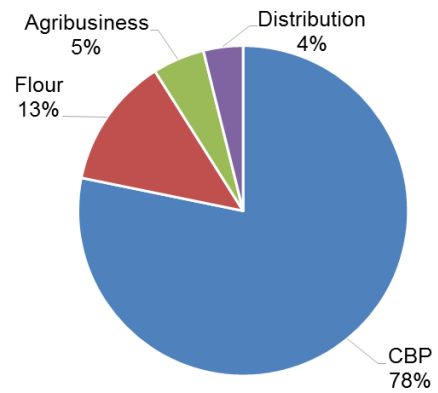
## Performance Highlights

INDF Sales Breakdown | 2Q18



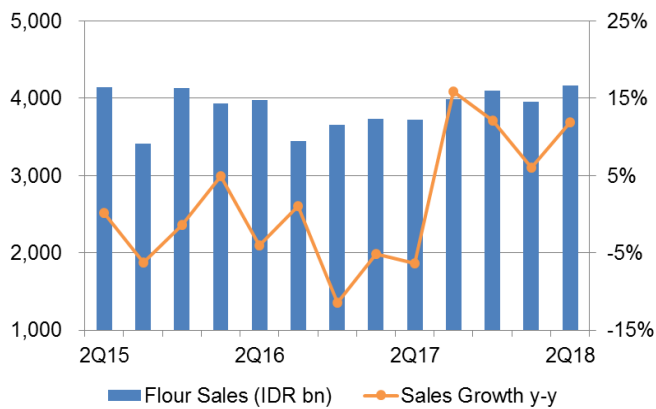
Source: Company, NHKS Research

INDF EBIT Breakdown | 2Q18



Source: Company, NHKS Research

Flour Sales Trend | 2Q15 - 2Q18



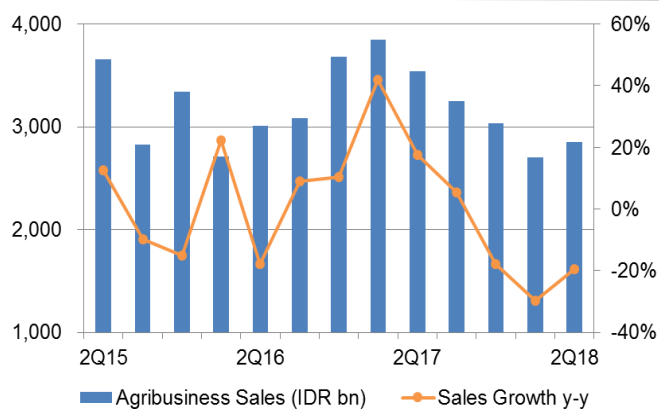
Source: Company, NHKS Research

Milling Wheat Price (IDR/kg) | 2015 - 2018



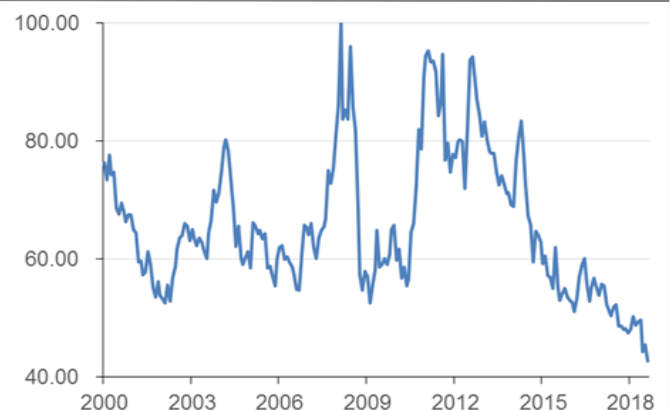
Source: Bloomberg, NHKS Research

Agribusiness Sales Trend | 2Q15 - 2Q18



Source: Company, NHKS Research

Bloomberg Agri Index | 2000 - 2018



Source: Bloomberg, NHKS Research

## 2Q18 review (IDR bn)

	2Q17	3Q17	4Q17	1Q18	2Q18					3Q18E
					Actual	Estimate	y-y	q-q	surprise	
Sales	17,817	17,468	17,066	17,631	18,368	17,760	3.1%	4.2%	3.4%	19,141
Gross Profit	4,837	5,092	4,568	5,261	4,908	4,951	1.5%	-6.7%	-0.9%	5,635
<i>Gross Margin</i>	27.1%	29.2%	26.8%	29.8%	26.7%	27.9%	-0.4%	-3.1%	-1.2%	29.4%
EBIT	1,924	2,181	1,733	2,405	1,864	2,044	-3.1%	-22.5%	-8.8%	2,444
<i>EBIT Margin</i>	10.8%	12.5%	10.2%	13.6%	10.1%	11.5%	-0.7%	-3.5%	-1.4%	12.8%
EBITDA	2,428	2,753	2,260	2,926	2,658	2,744	9.5%	-9.2%	-3.1%	3,149
<i>EBITDA Margin</i>	13.6%	15.8%	13.2%	16.6%	14.5%	15.5%	0.8%	-2.1%	-1.0%	16.5%
<b>Net Profit</b>	<b>1,066</b>	<b>1,007</b>	<b>891</b>	<b>1,189</b>	<b>767</b>	<b>1,128</b>	<b>-28.0%</b>	<b>-35.4%</b>	<b>-32.0%</b>	<b>1,299</b>
<i>Net Margin</i>	6.0%	5.8%	5.2%	6.7%	4.2%	6.4%	-1.8%	-2.6%	-2.2%	6.8%

Source: Bloomberg, NHKS research

## Earnings revision (IDR bn)

		2018E	2019F	2020F
Sales	-Revised	74,313	80,492	87,963
	-Previous	73,699	77,420	80,352
	-Change	0.8%	4.0%	9.5%
Gross Profit	-Revised	21,178	23,358	25,509
	-Previous	20,879	21,924	22,747
	-Change	1.4%	6.5%	12.1%
Gross Margin	-Revised	28.5%	29.0%	29.0%
	-Previous	28.3%	28.3%	28.3%
EBIT	-Revised	8,901	10,131	11,083
	-Previous	8,833	9,270	9,614
	-Change	0.8%	9.3%	15.3%
EBIT Margin	-Revised	12.0%	12.6%	12.6%
	-Previous	12.0%	12.0%	12.0%
EBITDA	-Revised	11,615	13,218	14,490
	-Previous	11,600	12,368	13,059
	-Change	0.1%	6.9%	11.0%
EBITDA Margin	-Revised	15.6%	16.4%	16.5%
	-Previous	15.7%	16.0%	16.3%
<b>Net Profit</b>	-Revised	<b>4,601</b>	<b>5,264</b>	<b>5,802</b>
	-Previous	4,373	4,580	4,745
	-Change	5.2%	14.9%	22.3%
Net Margin	-Revised	6.2%	6.5%	6.6%
	-Previous	5.9%	5.9%	5.9%

Source: NHKS research

## A Glance at INDF

Indofood (INDF) has transformed into a Total Food Solutions within the last two decades with the operational activities covering all phases of the processed food production — from raw materials processing into end products available in markets. Now, INDF has its credibility as a leading company in each of its business categories. Its operational activities gain benefits from the economics scale and its robust business model consisting of 4 integrated strategic business categories (Group).

The consumer branded products (CBP) is supported by the strength of its products. The CBP group produces a diverse range of consumer branded products, such as instant noodles, dairy products, snacks, food seasonings, nutrition and special foods, and beverages. The Bogasari segment equipped with shipping and packaging business units produces wheat flour and pasta. The agribusiness segment activities are researches and developments, seed breeding, cultivating and processing oil palm, as well as, production and marketing cooking oil, margarine, and shortening. This segment also cultivates and process rubber, sugar cane, and other plantations. The distribution segment distributes most of consumer products manufactured by Indofood, its subsidiaries, and the third parties, to markets.

### INDF's Competitiveness in the Asia Pacific

INDF has the lowest P/E of 13.6x among its peers in ASEAN. Another to having the lowest P/E, it has two-digit ROE of 12.6%. In addition, the growth in its Last Twelve Month (LTM) net profit is negative because the agribusiness division posts the decrease of 51% in EBIT.

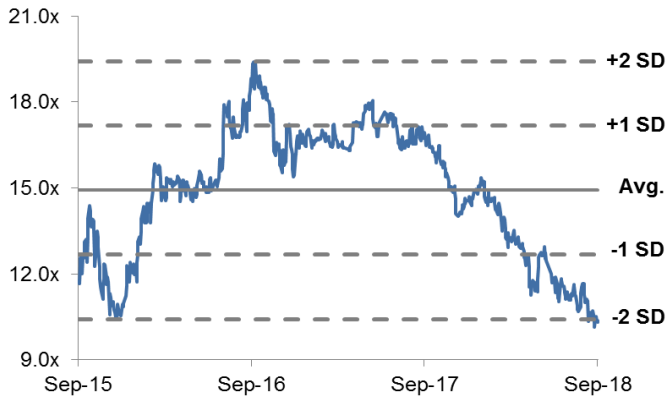
#### Asia Pacific Consumer Company

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
<b>Indonesia</b>									
INDF	3,521	6,472	5,187	283	-7.22%	5.5%	12.6%	13.6x	1.7x
ICBP	6,827	2,327	2,692	294	7.61%	10.9%	21.3%	25.5x	5.2x
<b>Japan</b>									
Nissin Foods Holdings	7,379	5,348	4,541	287	17.48%	6.3%	9.9%	26.0x	2.5x
Toyo Suisan Kaisha Ltd	4,376	3,516	3,557	171	-5.92%	4.8%	6.7%	24.1x	1.6x
<b>South Africa</b>									
Pioneer Foods Group Ltd	1,537	958	1,489	68	-20.33%	4.6%	11.0%	19.5x	2.7x
<b>South Korea</b>									
Samyang Foods Co Ltd	506	373	446	34	30.88%	7.7%	18.4%	15.0x	2.5x
Nongshim Co Ltd	1,333	2,295	2,016	77	-1.98%	3.8%	4.6%	16.8x	0.8x
Ottogi Corporation	2,230	1,613	2,001	115	-3.27%	5.8%	11.6%	19.0x	2.1x
<b>Thailand</b>									
Thai President Foods	1,625	903	638	84	-0.62%	13.2%	15.1%	18.5x	2.7x
Thai Union Group	2,632	4,491	4,136	124	-24.87%	3.0%	9.2%	21.0x	2.0x
<b>Malaysia</b>									
Nestle Berhad	8,325	630	1,312	160	4.98%	12.2%	89.9%	52.9x	53.4x
PPB Group Berhad	5,766	5,636	1,091	307	-4.37%	28.2%	6.0%	19.8x	1.4x
<b>India</b>									
Nestle India Ltd	12,878	1,153	1,614	226	41.19%	14.0%	41.5%	63.6x	25.2x
Britannia Industries Ltd	9,308	796	1,525	156	13.54%	10.2%	32.9%	67.4x	19.9x

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

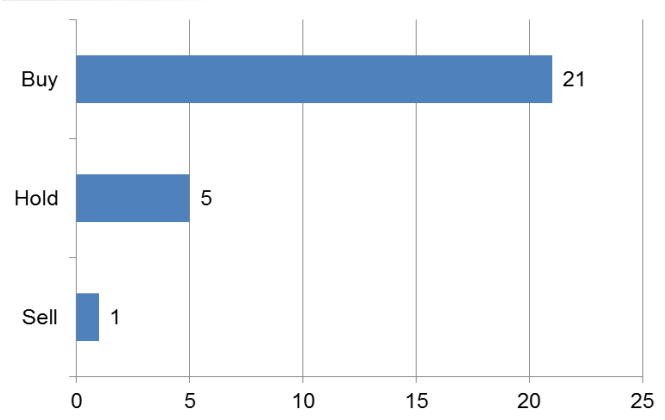
## Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
12/13/2017	Buy	9,825 (Dec 2018)	7,350	9,454	+33.7%	+3.9%
04/26/2018	Buy	8,175 (Dec 2018)	6,900	9,117	+18.5%	-10.3%
09/27/2018	Buy	8,175 (Dec 2019)	5,975	8,252	+36.8%	-0.9%

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)	2017/12A	2018/12E	2019/12E	2020/12E
<b>Sales</b>	<b>70,187</b>	<b>74,313</b>	<b>80,492</b>	<b>87,963</b>
<i>Growth</i>	5.1%	5.9%	8.3%	9.3%
COGS	(50,318)	(53,135)	(57,134)	(62,453)
<b>Gross Profit</b>	<b>19,869</b>	<b>21,178</b>	<b>23,358</b>	<b>25,509</b>
<i>Gross Margin</i>	28.3%	28.5%	29.0%	29.0%
Operating Expenses	(11,534)	(12,277)	(13,228)	(14,426)
<b>EBIT</b>	<b>8,334</b>	<b>8,901</b>	<b>10,131</b>	<b>11,083</b>
<i>EBIT Margin</i>	11.9%	12.0%	12.6%	12.6%
Depreciation	2,101	2,714	3,087	3,407
<b>EBITDA</b>	<b>10,436</b>	<b>11,615</b>	<b>13,218</b>	<b>14,490</b>
<i>EBITDA Margin</i>	14.9%	15.6%	16.4%	16.5%
Interest Expenses	(1,396)	(1,440)	(1,574)	(1,647)
<b>EBT</b>	<b>7,550</b>	<b>7,826</b>	<b>8,952</b>	<b>9,868</b>
Income Tax	(2,486)	(2,558)	(2,927)	(3,226)
Minority Interest	(925)	(666)	(762)	(840)
<b>Net Profit</b>	<b>4,139</b>	<b>4,601</b>	<b>5,264</b>	<b>5,802</b>
<i>Growth</i>	-0.1%	11.2%	14.4%	10.2%
<i>Net Profit Margin</i>	5.9%	6.2%	6.5%	6.6%

PROFITABILITY & STABILITY				
	2017/12A	2018/12E	2019/12E	2020/12E
ROE	9.1%	9.5%	10.3%	10.7%
ROA	4.9%	5.0%	5.4%	5.6%
ROIC	8.4%	8.4%	9.0%	9.3%
Cash Dividend (IDR bn)	2,063	2,081	2,291	2,621
Dividend Yield	3.1%	4.0%	4.4%	5.0%
Payout Ratio	49.8%	50.3%	49.8%	49.8%
DER	52.0%	52.0%	52.0%	52.0%
Net Gearing	47.8%	43.4%	43.6%	42.6%
LT Debt to Equity	24.8%	19.5%	19.5%	19.5%
Capitalization Ratio	34.2%	34.2%	34.2%	34.2%
Equity Ratio	53.2%	52.1%	52.5%	52.4%
Debt Ratio	27.7%	27.1%	27.3%	27.2%
Financial Leverage	181.2%	182.1%	186.4%	185.1%
Current Ratio	150.3%	127.3%	123.7%	121.9%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	8,780	8,780	8,780	8,780
Share Price (IDR)	7,625	5,975	5,975	5,975
Market Cap (IDR tn)	67.0	52.5	52.5	52.5

BALANCE SHEET				
(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E
Cash	13,690	15,107	15,305	15,880
Receivables	5,040	5,336	5,780	6,316
Inventories	9,691	10,233	11,004	12,028
<b>Total Current Assets</b>	<b>32,515</b>	<b>35,385</b>	<b>36,796</b>	<b>38,933</b>
Net Fixed Assets	39,476	43,643	47,559	51,453
Other Non Current Asset	55,424	60,267	63,845	67,908
<b>Total Assets</b>	<b>87,939</b>	<b>95,652</b>	<b>100,641</b>	<b>106,840</b>
Payables	4,076	4,199	4,571	4,966
ST Bank Loan	12,713	16,190	17,156	18,190
LT Debt	11,605	9,720	10,300	10,920
<b>Total Liabilities</b>	<b>41,183</b>	<b>45,834</b>	<b>47,850</b>	<b>50,867</b>
Capital Stock	1,162	1,162	1,162	1,162
Retained Earnings	21,378	24,015	26,988	30,170
<b>Shareholders' Equity</b>	<b>46,757</b>	<b>49,818</b>	<b>52,791</b>	<b>55,973</b>

VALUATION INDEX				
	2017/12A	2018/12E	2019/12E	2020/12E
Price /Earnings	16.2x	11.4x	10.0x	9.0x
Price /Book Value	1.4x	1.1x	1.0x	0.9x
Price/Sales	1.0x	0.7x	0.7x	0.6x
PE/EPS Growth	-116.4x	1.0x	0.7x	0.9x
EV/EBITDA	9.8x	7.6x	6.8x	6.2x
EV/EBIT	12.2x	9.9x	8.8x	8.2x
EV (IDR bn)	101,795	87,907	89,256	90,335
Sales CAGR (3-Yr)	3.3%	5.1%	6.4%	7.8%
EPS CAGR (3-Yr)	1.6%	15.7%	8.3%	11.9%
Basic EPS (IDR)	471	524	599	661
Diluted EPS (IDR)	471	524	599	661
BVPS (IDR)	5,325	5,674	6,012	6,375
Sales PS (IDR)	7,994	8,463	9,167	10,018
DPS (IDR)	235	237	261	298

CASH FLOW STATEMENT				
(IDR bn)	2017/12A	2018/12E	2019/12E	2020/12E
Operating Cash Flow	6,508	8,880	8,126	8,788
Investing Cash Flow	(6,058)	(7,242)	(7,184)	(7,247)
Financing Cash Flow	(122)	(64)	(745)	(966)
<b>Net Changes in Cash</b>	<b>328</b>	<b>1,574</b>	<b>197</b>	<b>575</b>

OWNERSHIP		
By Geography	% Shareholders	%
Seychelles	81.9 First Pacific Comp. Ltd	50.1
United States	10.6 Vanguard Group	1.8
Luxembourg	2.0 Dimensional Fund	1.8
Ireland	1.2 Blackrock	1.7

### DISCLAIMER

This report and any electronic access hereto are restricted and intended only for the clients and related entity of PT NH Korindo Sekuritas Indonesia. This report is only for information and recipient use. It is not reproduced, copied, or made available for others. Under no circumstances is it considered as a selling offer or solicitation of securities buying. Any recommendation contained herein may not suitable for all investors. Although the information here is obtained from reliable sources, its accuracy and completeness cannot be guaranteed. PT NH Korindo Sekuritas Indonesia, its affiliated companies, respective employees, and agents disclaim any responsibility and liability for claims, proceedings, action, losses, expenses, damages, or costs filed against or suffered by any person as a result of acting pursuant to the contents hereof. Neither is PT NH Korindo Sekuritas Indonesia, its affiliated companies, employees, nor agents liable for errors, omissions, misstatements, negligence, inaccuracy arising herefrom.

All rights reserved by PT NH Korindo Securities Indonesia