

Indofood CBP Sukses Makmur

Tbk (ICBP IJ)

1Q20 Impression : Stellar Growth along with Margin Expansion

In 1Q20, ICBP recorded strong revenue and earnings supported by excellent performance from all segments, except beverage segment that still showed a decline. However, we project that the ICBP's income would grow slower in 2Q20 due to declining purchase power and possible distribution issues due to public activities limitation. In addition, ICBP has also approved Pinehill acquisition by signing CSPA on 22 May 2020.

Solid Financial Performance in 1Q20

ICBP started 2020 by posting revenues reaching IDR12 trillion (+6.7% y-y, + 26.3% q-q), or forming 26% of the estimate in FY20E. This was supported by segments which recorded positive sales performance such as the noodles division (+6.0% y-y), dairy (+6.9% y-y), snack foods (+5.8% y-y), and nutrition & special foods (+14.9%). While the food seasoning division performed better than the other segments by record of sales growth of + 26.0% y-y. On the other hand, the beverages division still recorded a decrease of -9.2% y-y. On the margin side, GPM expanded by 120bps to 34.8%. Meanwhile, OPM was recorded to be relatively stable at 18% and NPM grew by 460bps to 17% due to gain from foreign exchange rates. Therefore, ICBP recorded a significant growth in net profit by 48.3% to Rp1.9 trillion. Amid the challenging environment, we project that revenue growth in 2Q20 will slow down compared to the previous quarter. This is due to the people's purchasing power that depresses as well as the limitation of activities in the society. However, we continue to project positive growth in revenue and earnings for FY20E.

Impact of Pinehill Acquisition on ICBP

In financing the Pinehill transaction, ICBP would use internal cash as much as USD300 million or equivalent to IDR4.4 trillion and combined it with debt from third party. Therefore, we assumed that ICBP would take out loans amounted of USD2.6 billion or IDR39 trillion to complete the transaction, with tenor target of 5 years and interest rate that still under discussion. Post-acquisition, we assumed that calculation of guaranteed profit that the Pinehill Group presented was USD128.5 million p.a.; this acquisition would immediately accretive to its earnings that we expect to grow by 5%/ 24% in FY20/21. On leverage side, debt to equity ratio also increased by 1.18x (vs current 0.1x) as consequence of loans that ICBP will pay for the transaction. As a record, Pinehill's revenue in FY19 was USD533 million, which translates to c.19% of total ICBP revenue in FY19 with CAGR of 28.17% over 2 years. Considering the pandemic situation this year, we considered that the target guaranteed profit set for Pinehill will be difficult to achieve. Also, we estimate that the implied PE of ICBP in FY21 is 17.3x, which is lower than PE of the target company at 23x, hence Pinehill's valuation might be considered as expensive. In short term, this is a negative sentiment, especially the increased leverage that ICBP must bear so that it causes significant dip in stock price. In long term, we expect Pinehill has better potential market segment, especially for the brand "Indomie" that has been very popular along with increasing volume of instant noodle.

Rating Hold with Lower Target Price of IDR9.850/share

We project Pinehill acquisition will happen in FY20 (see fig. 3—this figure was a rough estimation). We retain our Hold call on ICBP with lower TP IDR 9,850 with a forward PE of 20.1x higher than current share price in PE 12.7x. Risks of our price target are: 1) Depreciation of Rupiah exchange rate, 2) Higher loan interest rate, 3) Higher raw material price.

Indofood CBP Sukses Makmur Tbk | Summary (IDR bn)

	2019A	2020E	2021F	2022F
Sales	42,297	46,221	48,148	50,435
EBITDA	8,429	9,453	9,947	10,121
Net Profit	5,039	5,707	5,839	6,071
EPS (IDR)	432	489	501	521
<i>EPS growth</i>	10.1%	13.3%	2.3%	4.0%
NPM	11.9%	12.3%	12.1%	12.0%
ROE	20.4%	19.6%	17.7%	16.9%
ROA	13.8%	13.7%	12.5%	11.8%
P/E	25.8x	17.7x	17.3x	16.6x
P/BV	4.9x	3.2x	2.9x	2.7x
EV/EBITDA	15.2x	10.2x	9.6x	9.1x
DPS (IDR)	137	245	245	250
<i>Dividend yield</i>	1.8%	2.8%	2.8%	2.9%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

Hold

Dec 2020 TP (IDR)	9,850
Consensus Price (IDR)	10,368
TP to Consensus Price	-5.0%
vs. Last Price	+13.9%

Shares data

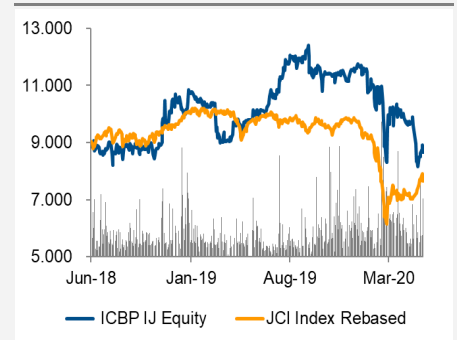
Last Price (IDR)	8,650
Price date as of	Jun 10, 2020
52 wk range (Hi/Lo)	12,400 / 8,150
Free float (%)	19.5
Outstanding sh.(mn)	11,662
Market Cap (IDR bn)	100,292
Market Cap (USD mn)	7,071
Avg. Trd Vol - 3M (mn)	13.08
Avg. Trd Val - 3M (bn)	116.96
Foreign Ownership	5.9%

Consumer Staples

Packaged Foods & Beverages

Bloomberg	ICBP IJ
Reuters	ICBP.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-22.4%	-11.3%	-19.7%	-17.6%
Rel. Ret.	-21.7%	6.1%	-5.7%	-24.2%

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A glance at Pinehill

Pinehill Company Limited "Pinehill" is a consumer food company based in the Middle East, Africa and Southeast Europe, which is 51% owned by Pinehill Corpora and the remaining 49% is owned by Steele Lake Limited. Pinehill has 12 instant noodle production facilities in 8 countries with a total population of 550 million and has a distribution network in 33 countries with a production capacity of 10 billion packs of instant noodles

The Transaction of Pinehill

On May 22, 2020, ICBP management has signed a Conditional Shares Sale and Purchase Agreement (CSPA) value of USD2,998 million or IDR44.1 trillion (assuming a rupiah exchange rate of 14,710). In detail, USD1,528.98 million is a transaction that must be paid to Pinehill Corpora and USD1,469.02 million is a transaction that must be paid to Steele Lake Limited. ICBP will finance the acquisition of Pinehill using internal cash of USD300 million and loans from banks.

Based on Payment Consideration

- 1) Payment of USD2,347.68 million will be paid on the transaction settlement date.
- 2) Payment of USD650 million will be withheld by the company and will only be paid by April 30, 2020 (in accordance with the provisions regarding the purchase price adjustment).

Guaranteed Profit

Under the Agreement, Sellers have agreed to provide guarantees that the average annual audited consolidated Net Profit After Tax (NPAT) of the Pinehill Group shall not be less than USD128.5 billion p.a. during FY20 and FY21. If Guaranteed Profit is not achieved by Pinehill Group with less than 95%, a purchase price will be adjusted according to the following formula.

$$\text{Adjusted Amount} = (\text{Guaranteed Profit} - \text{Actual Profit}) \times \text{PE Target Group}$$

Based on the formula agreed by ICBP, the sales price will be deducted if the average annual consolidated net profit after tax of the Pinehill group for the Guaranteed Period is less than 95%. For illustrative purposes, if the shortfall of USD10 million (c.8%) it will result in a decrease in selling price of USD230 million (see fig.2). Thus, USD650 million of the purchase price will be retained by ICBP approximately two years after the completion of the transaction and can be reduced in accordance with the above provisions

Condition Precedent

ICBP has obtained the approval of Proposed Acquisition at general meeting of shareholder no later than **28 August 2020**.

Completion

Completion shall take place on the date falling five Business Days after all of the Conditions Precedent are fulfilled or (if applicable) waived.

Figure 1. Pinehill Group's Guaranteed Profit FY20/21

Pinehill Group Corpora (in USD mn)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	324	391	533		
EBIT	59	85	145		
Net Income	69	72	101		
NPAT	46,5	41,8	43,2	128,5	128,5
Core Profit*	55,5	55,1	77,1		

*Income for the years attributable to owner of the company excluding foreign exchange & loan interest expense

Source : Company Data, NHKSI Research

Figure 2. Reduction Sale Price from Acquisition Cost

Pinehill (in USD mn)	-4%	-5%	-10%
NPAT (guaranteed profit)	257	257	257
NPAT (shortfall)	247	244	231
Adj. Amount	10,0	12,9	25,7
PE	23	23	23
Reduction Sale Price	230	296	591

Source : Company Data, NHKSI Research

Fig 3. Post Acquisition Pinehill

Income Statement	ICBP		ICBP + Pinehill		%Change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	46.221	48.148	48.519	59.566	5%	24%
COGS	(30.459)	(31.689)	(31.972)	(38.608)		
EBIT	8.217	8.600	8.672	11.235		
Net Profit	5.039	5.707	5.832	6.700	15,7%	17,4%
EPS	489	501	500	574		

Balance Sheet	FY20E	FY21E	FY20E	FY21E
Cash & Equivalent	11.594	14.900	3.987	8.338
Receivable	5.284	5.504	5.284	6.487
Inventory	3.805	3.958	3.805	4.594
Other current assets	393	385	393	385
Total Current assets	22.261	25.932	14.653	18.570
Fixed assets	11.706	12.101	11.706	12.514
Total Non-current assets	22.438	22.829	62.853	66.893
Total Assets	44.699	48.761	77.506	85.463
ST Loans	1.046	1.056	1.049	1.966
Other Current Liabilities	2.356	2.454	2.356	2.892
LT loans	2.976	3.005	36.431	37.359
Total Liabilities	13.275	14.351	46.734	50.907
Equity	585	585	585	585
Retained Earnings	23.117	26.103	22.466	26.250
Total Equity	31.424	34.409	30.772	34.556
Total Liabilities & Equity	44.699	48.761	77.506	85.463

Figure 4. ICBP Stock Price (YTD)



Source : Bloomberg, NHKSI Research

1Q20 review (IDR bn)

	1Q19	2Q19	3Q19	4Q19	1Q20			2Q20E
					Actual	y-y	q-q	
Sales	11,256	10,874	10,660	9,506	12,007	6.7%	26.3%	11,154
Gross Profit	3,788	3,724	3,747	3,145	4,183	10.4%	33.0%	3,476
<i>Gross Margin</i>	33.7%	34.2%	35.2%	33.1%	34.8%	1.2%	1.8%	31.2%
EBIT	1,997	1,912	1,946	1,646	2,214	10.9%	34.6%	1,643
<i>EBIT Margin</i>	17.7%	17.6%	18.3%	17.3%	18.4%	0.7%	1.1%	14.7%
EBITDA	2,276	2,199	2,237	1,949	2,563	12.6%	31.5%	1,950
<i>EBIT Margin</i>	20.2%	20.2%	21.0%	20.25%	21.3%	1.1%	0.8%	17.5%
Net Profit	1,337	1,238	1,311	1,153	1,982	48.3%	71.9%	1,430
<i>Net Margin</i>	11.9%	11.4%	12.3%	12.1%	16.5%	4.6%	4.4%	12.8%

Source: Bloomberg, NHKSI research

Earnings revision (IDR bn)

		2020E	2021F	2022F
Sales	-Revised	46,221	48,148	50,435
	-Previous	46,224	51,880	
	-Change	0.0%	-7.2%	
Gross Profit	-Revised	15,762	16,460	17,202
	-Previous	15,798	17,731	
	-Change	-0.2%	-7.2%	
Gross Margin	-Revised	34.1%	34.2%	34.1%
	-Previous	34.2%	34.2%	
EBIT	-Revised	8,217	8,600	8,969
	-Previous	8,163	9,162	
	-Change	0.7%	-6.1%	
EBIT Margin	-Revised	17.8%	17.9%	17.8%
	-Previous	17.7%	17.7%	
EBITDA	-Revised	9,453	9,947	10,121
	-Previous	9,147	10,259	
	-Change	3.3%	-3.0%	
EBITDA Margin	-Revised	20.5%	20.7%	20.1%
	-Previous	19.8%	19.8%	
Net Profit	-Revised	5,707	5,839	6,071
	-Previous	5,770	6,501	
	-Change	-1.1%	-10.2%	
Net Margin	-Revised	12.3%	12.1%	12.0%
	-Previous	12.5%	12.5%	

Source: NHKSI 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.

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	7,071	2,796	3,040	401	20.94%	13.2%	22.6%	17.6x	3.7x
INDF	3,776	6,947	5,419	350	14.69%	6.5%	13.2%	10.8x	1.3x
Japan									
Nissin Foods Holdings	8,839	5,350	4,313	270	51.46%	6.3%	9.0%	31.8x	2.8x
Toyo Suisan Kaisha Ltd	5,874	3,735	3,827	215	26.80%	5.6%	7.8%	24.8x	1.9x
South Africa									
Pioneer Foods Group Ltd	N/A	967	1554	63	-15.18%	4.1%	10.5%	N/A	N/A
South Korea									
Samyang Foods Co Ltd	775	407	490	60	121.29%	12.2%	26.1%	13.1x	3.1x
Nongshim Co Ltd	1,643	2,297	2,067	77	11.60%	3.7%	4.7%	20.6x	0.9x
Ottogi Corporation	1,746	1,863	2,038	98	-27.61%	4.8%	9.2%	16.3x	1.4x
Thailand									
Thai President Foods	2,116	1,151	773	127	15.82%	16.4%	17.8%	16.6x	2.8x
Thai Union Group	1,897	4,769	4,137	115	-2.78%	2.8%	7.7%	16.6x	1.2x
Malaysia									
Nestle Berhad	7,711	667	1,321	150	-5.87%	11.3%	71.6%	52.5x	38.2x
PPB Group Berhad	5,857	5,765	1,104	262	-3.76%	23.7%	5.0%	22.8x	1.1x
India									
Nestle India Ltd	21,143	991	1,791	287	23.42%	16.0%	N/A	78.8x	N/A
Britannia Industries Ltd	10,701	1,040	1,615	198	21.01%	12.3%	32.4%	57.8x	18.4x

Source: Bloomberg

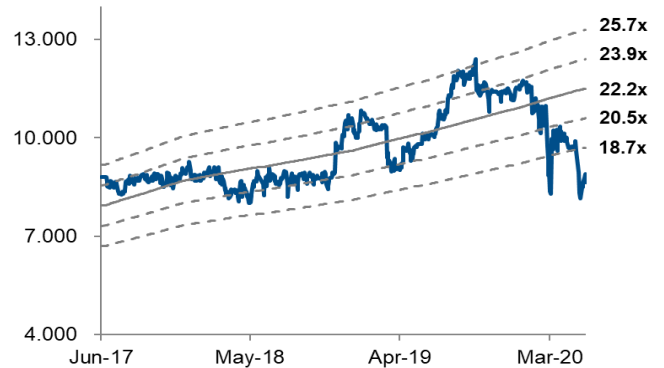
Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKSI research

Dynamic Forward P/E band | Last 3 years



Source: NHKSI research

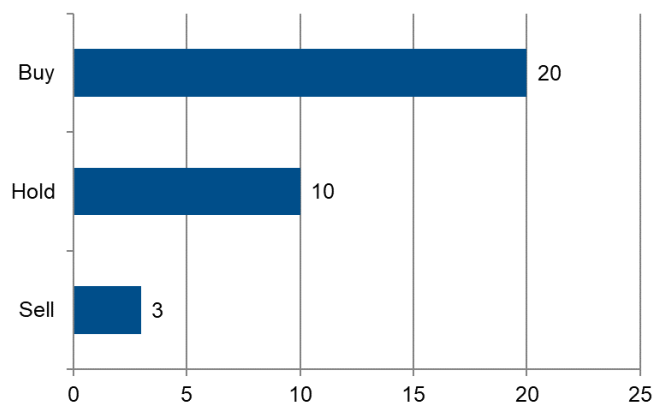
Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
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%
16/06/2020	Hold	9,850 (Dec 2020)	8,650	10,368	+13,9%	-5,0%

Source: NHKS research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKSI 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)	2019/12A	2020/12E	2021/12E	2022/12E
Sales	42.297	46.221	48.148	50.435
<i>Growth</i>	10,1%	9,3%	4,2%	4,7%
COGS	(27.893)	(30.459)	(31.689)	(33.233)
Gross Profit	14.404	15.762	16.460	17.202
<i>Gross Margin</i>	34,1%	34,1%	34,2%	34,1%
Operating Expenses	(6.904)	(7.545)	(7.859)	(8.233)
EBIT	7.500	8.217	8.600	8.969
<i>EBIT Margin</i>	17,7%	17,8%	17,9%	17,8%
Depreciation	929	1.236	1.346	1.152
EBITDA	8.429	9.453	9.947	10.121
<i>EBITDA Margin</i>	19,9%	20,5%	20,7%	20,1%
Interest Expenses	(161)	(200)	(398)	(443)
EBT	7.412	8.097	8.285	8.614
Income Tax	(2.052)	(2.039)	(2.087)	(2.169)
Minority Interest	(321)	(351)	(359)	(373)
Net Profit	5.039	5.707	5.839	6.071
<i>Growth</i>	10,1%	13,3%	2,3%	4,0%
<i>Net Profit Margin</i>	11,9%	12,3%	12,1%	12,0%

PROFITABILITY & STABILITY

	2019/12A	2020/12E	2021/12E	2022/12E
ROE	20,4%	19,6%	17,7%	16,9%
ROA	13,8%	13,7%	12,5%	11,8%
ROIC	18,8%	17,3%	16,7%	15,9%
Cash Dividend (IDR bn)	1.598	2.856	2.853	2.920
Dividend Yield	1,2%	2,8%	2,8%	2,9%
Payout Ratio	34,9%	56,7%	50,0%	50,0%
DER	8,4%	12,8%	11,8%	12,5%
Net Gearing	11,7%	17,0%	15,2%	15,7%
LT Debt to Equity	6,4%	9,5%	8,7%	9,3%
Capitalization Ratio	7,7%	11,3%	10,6%	11,1%
Equity Ratio	68,9%	70,3%	70,6%	69,4%
Debt Ratio	5,8%	9,0%	8,3%	8,7%
Financial Leverage	148,0%	143,6%	142,0%	143,0%
Current Ratio	62,3%	70,8%	75,4%	82,4%
Par Value (IDR)	50	50	50	50
Total Shares (mn)	11.662	11.662	11.662	11.662
Share Price (IDR)	11.150	8.650	8.650	8.650
Market Cap (IDR tn)	130,0	100,9	100,9	100,9

BALANCE SHEET

(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E
Cash	8.359	11.594	14.900	19.733
Receivables	4.049	5.284	5.504	5.817
Inventories	3.841	3.805	3.958	3.824
Total Current Assets	16.625	22.261	25.932	30.948
Net Fixed Assets	11.342	11.706	12.101	12.462
Other Non Current Assets	10.742	10.732	10.728	10.725
Total Assets	38.709	44.699	48.761	54.136
Payables	2.635	2.968	3.907	3.915
ST Bank Loan	546	1.046	1.056	1.221
LT Debt	1.695	2.976	3.005	3.474
Total Liabilities	12.038	13.275	14.351	16.575
Capital Stock	6.569	6.569	6.569	6.569
Retained Earnings	18.495	23.117	26.103	29.254
Shareholders' Equity	26.671	31.424	34.409	37.561

VALUATION INDEX

	2019/12A	2020/12A	2021/12E	2022/12E
Price /Earnings	25,8x	17,7x	17,3x	16,6x
Price /Book Value	4,9x	3,2x	2,9x	2,7x
Price/Sales	3,1x	2,2x	2,1x	2,0x
PE/EPS Growth	2,6x	1,3x	7,4x	4,2x
EV/EBITDA	15,2x	10,2x	9,6x	9,1x
EV/EBIT	17,1x	11,7x	11,1x	10,2x
EV (IDR bn)	128.225	96.364	95.041	91.774
Sales CAGR (3-Yr)	7,1%	9,1%	7,8%	6,0%
EPS CAGR (3-Yr)	11,9%	14,6%	8,5%	6,4%
Basic EPS (IDR)	432	489	501	521
Diluted EPS (IDR)	432	489	501	521
BVPS (IDR)	2.287	2.695	2.951	3.221
Sales PS (IDR)	3.627	3.963	4.129	4.325
DPS (IDR)	137	245	245	250

CASH FLOW STATEMENT

(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E
Operating Cash Flow	7.302	7.714	7.858	8.628
Investing Cash Flow	(2.364)	(2.488)	(1.737)	(1.511)
Financing Cash Flow	(1.305)	(1.991)	(2.815)	(2.285)
Net Changes in Cash	3.633	3.235	3.306	4.833

OWNERSHIP

By Geography	% Shareholders	%
Indonesia	94,1	First Pacific Company 80,5
United States	3,6	Matthews Intl Capital 1,7
Luxembourg	0,6	Schroder Investment 0,9
Norway	0,5	Vanguard Bank 0,5

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