

Unilever Indonesia Tbk (UNVR)

Margin Improvement Amid Lower Topline

Despite booking soft revenue numbers, UNVR succeeded to record margin improvement in 3Q20. When looking into 3Q20 numbers, our concern is the continued weakness in the F&R segment. However, we believe that its portfolio expansion and A&P also started back on track would support its near to medium-term earnings growth.

3Q20 Review: Revenue Slip 2.0% YoY; Net Profit Up 0.3% YoY

UNVR posted a -2.0% YoY slip in its revenue for 3Q20, as a result of weak performance in F&R segment. Meanwhile, with a lower tax rate, UNVR's earnings managed to grow slightly by 0.3% YoY to IDR 1.8bn. On the bright side, 3Q20 GPM of 53.7% marks a 340bps improvement from the 50.3% recorded in 3Q19, along with OPM and NPM which recorded an improvement on quarterly basis. We think that the margin improvement in 3Q20 might be a good sign amid stagnant revenue growth due low purchasing intention. However, we saw the growth trends of A&P as promotion expense were up 19.7% YoY, bring up A&P to revenue stood at 21.5% (vs. 19.8% in 3Q19).

F&R Segment Remains Weak

Food and Refreshment (F&R) sales fell by -11.2% YoY in 3Q20, steeper decline than -2.5% YoY drop in 2Q20. The decline that came on the back of large-scale social restriction has become a major challenge for ice cream and ingredient products under Unilever Food Solution (UFS). In addition, we noticed that UNVR continued to maintain its innovation stance, which targeted all market segment. This year, UNVR has launched Walls Viennetta, Walls Unicornetto Minipack (Ice Cream Category), as well as health and hygiene product such as *Lux Hand Sanitizer*, *Molto Fabric Spray*, *Sahaya Spray Higienis*. On the flip side, Home and Personal Care (HPS) reported modest growth, which increased by 2.1% YoY. We saw that the demand of HPC (c.72% of total revenue) has recovered faster than F&R, underpinned by better hygiene awareness. UNVR has witnessed a growing demand for some notable products such as *Lifebuoy* soap and hand-sanitizer as well as other home care categories such as toilet-cleaning and floor-cleaning. As such, we estimate HPC segment to still be able to book a low-single digit growth by 3.5%/3.1% FY20E/FY21E, respectively.

Initiates at Overweight with TP of IDR8,600/ share

Our TP reflects 8.9% upside potential which implies FY21F 43.4x PE. Based on slow economic growth in this year, we estimate the F&R segment particularly for ice cream product is likely to experience a demand contraction in the near term. On the other hand, the positive catalyst for UNVR may come from modest sales growth in the HPC segment as well as from its gross margin. We believe that UNVR remains attractive safe haven for long term due to its defensive characteristic and strong brand portfolio. Downside risks to our call are: 1) lower-than-expected quarterly sales 2) volatility in raw material prices.

Unilever Indonesia Tbk | Summary (IDR bn)

	2019	2020E	2021F	2022F
Sales	42.923	43.573	44.515	45.366
<i>Sales growth</i>	2,7%	1,5%	2,2%	1,9%
EBITDA	11.266	10.970	11.336	11.449
Net Profit	7.393	7.476	7.850	7.994
EPS (IDR)	194	196	206	210
<i>EPS growth</i>	-18,8%	1,1%	5,0%	1,8%
EBITDA margin	26,2%	25,2%	25,5%	25,2%
NPM	17,2%	17,2%	17,6%	17,6%
ROE	140,0%	115,9%	118,3%	119,2%
ROA	35,8%	35,9%	37,1%	37,4%
P/E	43,3x	40,3x	38,4x	37,7x
P/BV	60,7x	46,7x	45,4x	44,9x
EV/EBITDA	28,2x	27,1x	26,2x	25,9x
DPS (IDR)	241	161	195	198
<i>Dividend yield</i>	2,9%	2,0%	2,5%	2,5%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Overweight

Dec 2021 TP (IDR)	8,600
Consensus Price (IDR)	8,896
TP to Consensus Price	-3.3%
vs. Last Price	+8.9%

Shares data

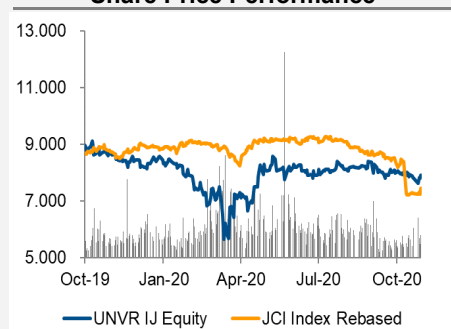
Last Price (IDR)	7,900
Price date as of	Nov 05, 2020
52 wk range (Hi/Lo)	8,770 /5,650
Free float (%)	15.0
Outstanding sh.(mn)	38,150
Market Cap (IDR bn)	307,107
Market Cap (USD mn)	21,651
Avg. Trd Vol - 3M (mn)	9.67
Avg. Trd Val - 3M (bn)	77.96
Foreign Ownership	4.4%

Consumer Staples

Household & Personal Products

Bloomberg	UNVR IJ
Reuters	UNVR.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-7.6%	-2.2%	-4.2%	-9.9%
Rel. Ret.	-16.2%	-12.5%	-18.4%	-15.0%

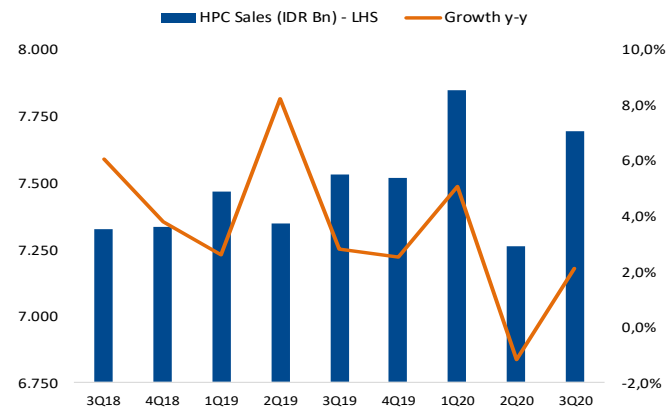
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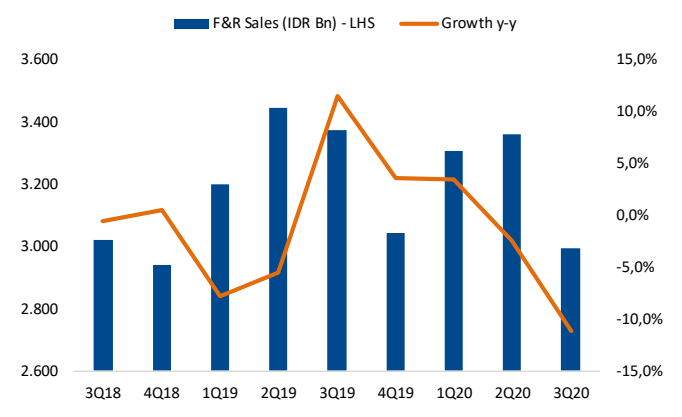
Performance Highlights

HPC Division Quarterly Sales | 3Q18 - 3Q20



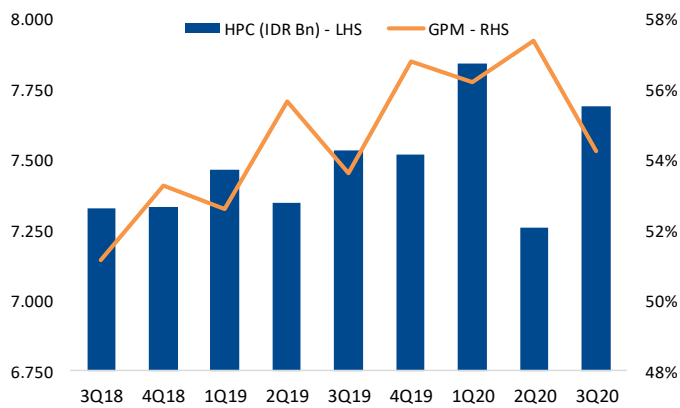
Source: Company, NHKSI Research

FR Division Quarterly Sales | 3Q18 - 3Q20



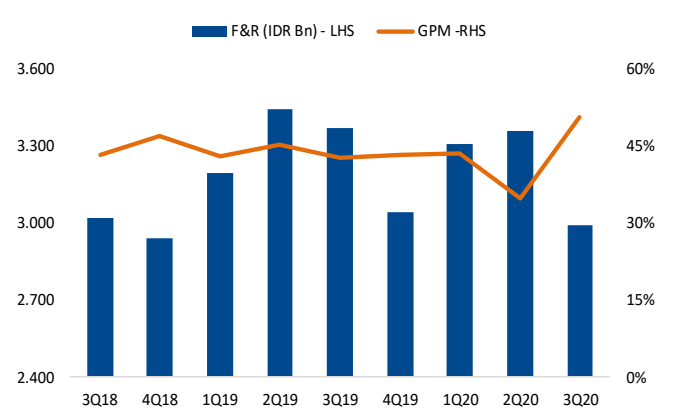
Source: Company, NHKS Research

HPC Division Gross Profit & Margin | 3Q18 - 3Q20



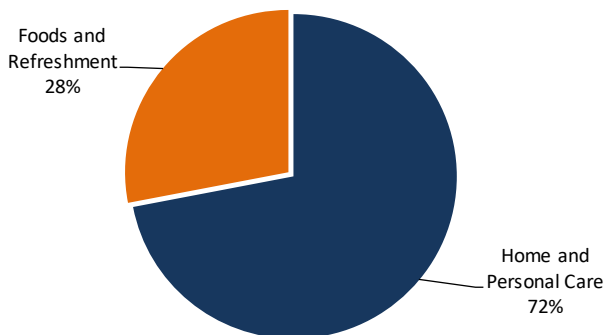
Source: Company, NHKSI Research

FR Division Gross Profit & Margin | 3Q18 - 3Q20



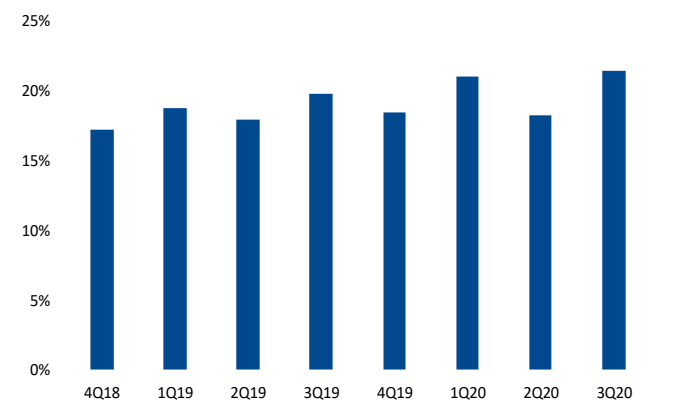
Source: Company, NHKSI Research

Revenue Breakdown | 9M20



Source: BI, Bloomberg, NHKSI Research

Total A&P to Revenue (%) | 4Q18 - 3Q20



Source: Bloomberg, NHKS Research

3Q20 review (IDR bn)

	3Q19	4Q19	1Q20	2Q20	3Q20				4Q20E
					Actual	Estimate	y-y	q-q	
Sales	10.904	10.562	11.153	10.619	10.685		-2,0%	0,6%	11,116
Gross Profit	5.484	5.591	5.848	5.336	5.740		4,7%	7,6%	5.807
<i>Gross Margin</i>	50,3%	52,9%	52,4%	50,2%	53,7%		3,4%	3,5%	52,2%
EBIT	2.501	2.604	2.393	2.352	2.413		-3,5%	2,6%	2.806
<i>EBIT Margin</i>	22,9%	24,7%	21,5%	22,1%	22,6%		-0,4%	0,4%	25,2%
EBITDA	2.760	2.954	2.692	2.602	2.639		-4,4%	1,4%	3.036
<i>EBIT Margin</i>	25,3%	28,0%	24,1%	24,5%	24,7%		-0,6%	0,2%	27,3%
Net Profit	1.812	1.883	1.863	1.757	1.819		0,3%	3,5%	2.037
<i>Net Margin</i>	16,6%	17,8%	16,7%	16,5%	17,0%		0,4%	0,5%	18,3%

Source: Bloomberg, NHKSI research

Earnings revision (IDR bn)

		2020E	2021F	2022F
Sales	-Revised	43.573	44.515	45.366
	-Previous			
	-Change			
Gross Profit	-Revised	22.731	23.409	23.842
	-Previous			
	-Change			
Gross Margin	-Revised	52,2%	52,6%	52,6%
	-Previous			
EBIT	-Revised	9.964	10.365	10.549
	-Previous			
	-Change			
EBIT Margin	-Revised	22,9%	23,3%	23,3%
	-Previous			
EBITDA	-Revised	10.970	11.336	11.449
	-Previous			
	-Change			
EBITDA Margin	-Revised	25,2%	25,5%	25,2%
	-Previous			
Net Profit	-Revised	7.476	7.850	7.994
	-Previous			
	-Change			
Net Margin	-Revised	17,2%	17,6%	17,6%
	-Previous			

Source: NHKSI research

A Glance at UNVR

Founded on December 5, 1933, Unilever Indonesia has grown into one of the leading FMCG companies in Indonesia. It offers assorted brands—well known in overseas countries—such as Pepsodent, Lux, Lifebuoy, Dove, Sunsilk, Clear, Rexona, Vaseline, Rinso, Molto, Sunlight, Wall’s, Blue Band, Royco, Bango.

Its shares were initially offered to the public in 1981 and listed on Indonesia Stock Exchange since January 11, 1982. At the end of 2017, UNVR was acknowledged as the 5 biggest companies based on market capitalization on the Indonesia Stock Exchange.

It has 9 factories situated at a number of industrial estates such as Jababeka, Cikarang, and Rungkut in Surabaya. Its products consisting of 39 major brands and virtual 1,000 stock keeping units (SKU) are marketed through more than 800 independent distributors for reaching a hundred stores in Indonesia.

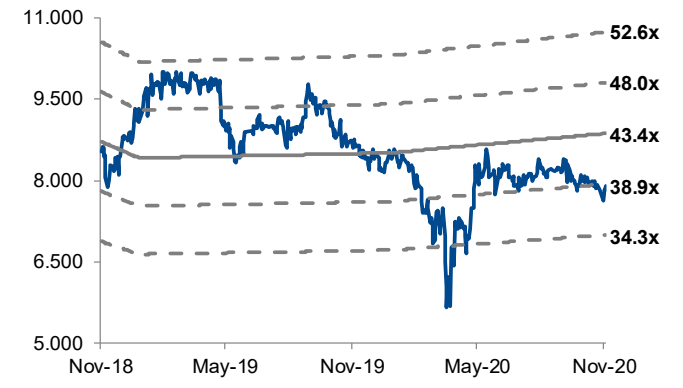
Multiple Valuation

Forward P/E band | Last 2 years



Source: NHKSI research

Dynamic Forward P/E band | Last 2 years



Source: NHKSI research

Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
11/11/2020	Overweight	8,600	7,900	8,896	+8.9%	-3.3%

Source: NHKSI research, Bloomberg

Summary of Financials

INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E		2019/12A	2020/12E	2021/12E	2022/12E
Sales	42.923	43.573	44.515	45.366	ROE	140,0%	115,9%	118,3%	119,2%
<i>Growth</i>	2,7%	1,5%	2,2%	1,9%	ROA	35,8%	35,9%	37,1%	37,4%
COGS	(20.894)	(20.841)	(21.106)	(21.524)	ROIC	92,2%	90,8%	92,8%	94,5%
Gross Profit	22.029	22.731	23.409	23.842	Cash Dividend (IDR bn)	9.192	6.155	7.434	7.570
<i>Gross Margin</i>	51,3%	52,2%	52,6%	52,6%	Dividend Yield	2,9%	2,0%	2,5%	2,5%
Operating Expenses	(11.902)	(12.768)	(13.044)	(13.293)	Payout Ratio	124,3%	82,3%	94,7%	94,7%
EBIT	10.126	9.964	10.365	10.549	DER	55,3%	31,5%	30,0%	28,5%
<i>EBIT Margin</i>	23,6%	22,9%	23,3%	23,3%	Net Gearing	56,3%	32,0%	30,4%	28,9%
Depreciation	1.140	1.006	970	900	LT Debt to Equity	0,0%	0,0%	0,0%	0,0%
EBITDA	11.266	10.970	11.336	11.449	Capitalization Ratio	35,6%	24,0%	23,1%	22,2%
<i>EBITDA Margin</i>	26,2%	25,2%	25,5%	25,2%	Equity Ratio	25,6%	30,9%	31,4%	31,4%
Interest Expenses	(230)	(272)	(189)	(185)	Debt Ratio	14,1%	9,7%	9,4%	9,0%
EBT	9.902	9.674	10.158	10.345	Financial Leverage	3,26	3,55	3,23	3,20
Income Tax	(2.509)	(2.199)	(2.309)	(2.351)	Current Ratio	65,3%	75,2%	78,8%	81,1%
Minority Interest	-	-	-	-	Par Value (IDR)	10	10	10	10
Net Profit	7.393	7.476	7.850	7.994	Total Shares (mn)	38.150	38.150	38.150	38.150
<i>Growth</i>	-18,8%	1,1%	5,0%	1,8%	Share Price (IDR)	8.400	7.900	7.900	7.900
<i>Net Profit Margin</i>	17,2%	17,2%	17,6%	17,6%	Market Cap (IDR tn)	320,5	301,4	301,4	301,4

BALANCE SHEET					VALUATION INDEX				
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E		2019/12A	2020/12E	2021/12E	2022/12E
Cash	629	350	575	901	Price /Earnings	43,3x	40,3x	38,4x	37,7x
Receivables	5.335	5.885	6.196	6.190	Price /Book Value	60,7x	46,7x	45,4x	44,9x
Inventories	2.429	2.627	2.660	2.713	Price/Sales	7,5x	6,9x	6,8x	6,6x
Total Current Assets	8.530	9.084	9.610	10.005	PE/EPS Growth	-2,3x	36,0x	7,7x	20,5x
Net Fixed Assets	11.610	11.244	10.986	10.812	EV/EBITDA	28,2x	27,1x	26,2x	25,9x
Other Non Current Asset	509	518	549	533	EV/EBIT	31,4x	29,8x	28,6x	28,1x
Total Assets	20.649	20.846	21.145	21.349	EV (IDR bn)	318.098	296.967	296.739	296.588
Payables	4.517	4.554	4.587	4.691	Sales CAGR (3-Yr)	2,3%	1,9%	2,1%	1,9%
ST Bank Loan	2.920	2.032	1.991	1.912	EPS CAGR (3-Yr)	5,0%	2,2%	-4,8%	2,6%
LT Debt	-	-	-	-	Basic EPS (IDR)	194	196	206	210
Total Liabilities	15.368	14.396	14.508	14.640	Diluted EPS (IDR)	194	196	206	210
Capital Stock	172	172	172	172	BVPS (IDR)	138	169	174	176
Retained Earnings	5.110	6.278	6.465	6.537	Sales PS (IDR)	1.125	1.142	1.167	1.189
Shareholders' Equity	5.282	6.450	6.637	6.709	DPS (IDR)	241	161	195	198

CASH FLOW STATEMENT					OWNERSHIP			
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E	By Geography	% Shareholders	%	
Operating Cash Flow	8.669	7.698	8.671	9.037	Indonesia	95,7	Unilever Ind. Holding	85,0
Investing Cash Flow	(1.446)	(795)	(743)	(710)	United States	1,9	Blackrock	0,6
Financing Cash Flow	(6.977)	(7.183)	(7.703)	(8.001)	United Kingdom	0,5	Vanguard Group	0,5
Net Changes in Cash	246	(280)	225	326	Luxembourg	0,3	Schroder Investment	0,3

STOCK RATINGS AND DISCLAIMER FORMAT

NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings

1. Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
2. Rating system based on a stock's potential upside from the date of publication
 - Buy : Greater than +15%
 - Overweight : +5% to 15%
 - Hold : -5% to +5%
 - Underweight : -5% to -15%
 - Sell : Less than -15%

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