

# Indofood Sukses Makmur Tbk (INDF IJ)

## Solid Growth Outlook

INDF experienced relatively modest performance of sales and net foreign exchange loss during the quarter. Nonetheless, we note that EBIT margin has improved across all segment, benefitted from upward trend commodity prices. We still upbeat with INDF's outlook and maintain recommendation BUY.

### Slightly Underperform Earnings

INDF recorded revenue of IDR19.3tn in 3Q20 (+0.8% YoY, -3.4% QoQ) and IDR58.7tn cumulatively in 9M20 (+1.6% YoY), forming 75% and 72.5% of our and consensus estimates. This modest top-line growth is mainly supported by all segments that performed relatively well. As COGS recorded a decline, gross margin expanded by 340 bps to 32.7%. One of the most salient facts that can explain the slightly underperformed earning throughout the quarter was net foreign exchange loss of IDR887 bn due to rupiah depreciation. As such, 3Q20 earnings stood at IDR910 bn (-7.7% YoY, -36.8% QoQ).

### Expecting Strong Margin to be Sustainable

A relatively stable demand of consumer products is likely to support the company to register respectable growth during the prolonged pandemic. Meanwhile, agribusiness performance was still exciting as we continue to expect the commodity price to still rally, and would translate in increasing sales going forward. In 3Q20, agribusiness segment booked strong EBIT growth, nearly twice with margin of 10% (vs. 3Q19: 5%). Of note, we also notice that CPO reference prices currently touched USD895/MT (according to the Minister of Trade). Bogasari should enjoy better figure as wheat price has been on an upward trend. We note that Bogasari reported a better EBIT margin of 9% (vs. 3Q19: 5%). Meanwhile, distribution segment booked a stable margin of 4% during the quarter.

### Maintain BUY with TP of IDR8,000/share

We maintain BUY recommendation on INDF with Target Price of IDR8,000 which was derived using a sum-of-the-parts (SOTP) methodology to better reflect the value of each unit. The expectation of better purchasing power, upward trend of commodity prices, and stable rupiah should provide company with room to boost sales and maintain margins. INDF currently traded at 11.4x (-1 SD from its 5-years average).

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

	2019A	2020E	2021F	2022F
Sales	76,593	78,392	82,848	88,191
<i>Sales growth</i>	4.4%	2.3%	5.7%	6.4%
EBITDA	12,840	14,647	15,813	16,800
Net Profit	4,908	4,323	4,653	5,100
EPS (IDR)	559	492	530	581
<i>EPS growth</i>	17.8%	-11.9%	7.6%	9.6%
NPM	6.4%	5.5%	5.6%	5.8%
ROE	9.4%	6.6%	6.0%	6.4%
ROA	5.1%	3.4%	2.9%	3.1%
P/E	14.2x	12.3x	15.1x	13.8x
P/BV	1.3x	0.7x	0.9x	0.9x
EV/EBITDA	8.1x	9.3x	9.5x	8.6x
<i>Dividend yield</i>	2.2%	4.6%	3.0%	3.2%

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

## BUY

<b>Target Price</b>	<b>8,000</b>
Consensus Price (IDR)	8,800
TP to Consensus Price	-9.1%
vs. Last Price	+16.8%

### Shares data

Last Price (IDR)	6,850
Price date as of	Jan 08, 2021
52 wk range (Hi/Low)	8,250 / 5,050
Free float (%)	49.9
Outstanding sh.(mn)	8,780
Market Cap (IDR bn)	59,487
Market Cap (USD mn)	4,269
Avg. Trd Vol - 3M (mn)	12.51
Avg. Trd Val - 3M (bn)	88.44
Foreign Ownership	100.0%

### Consumer Staples

#### Packaged Foods

Bloomberg	INDF IJ
Reuters	INDF.JK

### Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-0.7%	-2.9%	-5.9%	-17.3%
Rel. Ret.	-5.4%	-8.1%	-30.1%	-17.8%

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## 3Q20's review (IDR bn)

	3Q19	4Q19	1Q20	2Q20	3Q20					4Q20E
					Actual	Estimate	y-y	q-q	surprise	
Sales	19,236	18,748	19,305	20,080	19,391	17,866	0.8%	-3.4%	8.5%	19,617
Gross Profit	5,638	5,717	6,283	6,197	6,350	4,467	12.6%	2.5%	42.2%	6,630
Gross Margin	29.3%	30.5%	32.5%	30.9%	32.7%	25.0%	3.4%	1.9%	7.7%	33.8%
EBIT	2,325	2,711	2,878	2,663	2,878	1,519	23.8%	8.1%	89.5%	3,178
EBIT Margin	12.1%	14.5%	14.9%	13.3%	14.8%	8.5%	2.8%	1.6%	6.3%	16.2%
Net Profit	986	1,377	1,404	1,439	910	610	-7.7%	-36.8%	49.2%	1,057
Net Margin	5.1%	7.3%	7.3%	7.2%	4.7%	3.4%	-0.4%	-2.5%	1.3%	5.4%

Source: Bloomberg, NHKSI research

## Revisions to Earnings (IDR bn)

		2020E	2021F	2022F
Sales	-Revised	78,392	82,848	88,191
	-Previous	72,967	74,518	76,668
	-Change	7.4%	11.2%	15.0%
Gross Profit	-Revised	24,973	26,969	28,974
	-Previous	21,376	22,485	23,760
	-Change	16.8%	19.9%	21.9%
Gross Margin	-Revised	31.9%	32.6%	32.9%
	-Previous	29.3%	30.2%	31.0%
EBIT	-Revised	11,110	12,318	13,378
	-Previous	9,064	9,911	10,823
	-Change	22.6%	24.3%	23.6%
EBIT Margin	-Revised	14.2%	14.9%	15.2%
	-Previous	12.4%	13.3%	14.1%
Net Profit	-Revised	4,323	4,653	5,100
	-Previous	4,581	4,934	5,380
	-Change	-5.6%	-5.7%	-5.2%
Net Margin	-Revised	5.5%	5.6%	5.8%
	-Previous	6.3%	6.6%	7.0%

Source: NHKSI research

## A Glance at INDF

Indofood (INDF) has transformed into a Total Food Solutions company within the last two decades as INDF's operational activities cover all phases of food manufacturing— to start from production and processing of raw materials to product distribution in the markets. INDF is well known for its credibility as a leading company in each of its business segments, and its operational activities capitalize on economies of scale and resilient business model consisting of 4 integrated strategic business segments (Group).

The consumer branded products (CBP) is supported by the strength of its products. The CBP segment produces varied consumer-branded products, i.e., instant noodles, dairy, snacks foods, food seasonings, nutrition & special foods, and beverages. Meanwhile, the Bogasari segment equipped with shipping & packaging business units produces wheat flour and pasta. Furthermore, the agribusiness segment covers activities, i.e., researches & development, seed breeding, oil palm cultivation & milling to the production and marketing of branded cooking oil, margarine and shortening. The segment also cultivates and processes rubber, sugar cane, and other crops. In addition, the distribution segment distributes most of consumer products manufactured by Indofood and its subsidiaries as well as by the third parties, to markets.

### SOTP Valuation

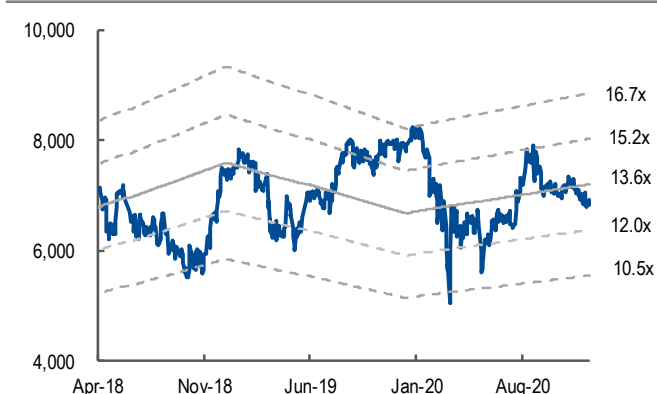
	2021 EBIT	Multiples Assigned	% Ownership	Value
CBP (ICBP)	8,024	29.9x	82%	107.755
Bogasari	1,511	18.0x	100%	16.303
Agribusiness (SIMP)	448	21.5x	75%	4.982
Distribution	79	31.0x	100%	1,957
Add : Cash				18.854
Deduct : Debt				(52.052)
<u>Net Equity Value</u>				<u>93.884</u>
Holding Discount			25%	(23.470)
<b>Equity Per Share</b>				<b>8.000</b>
Discount SOTP at Current Price				<b>17%</b>

## Multiple Valuation

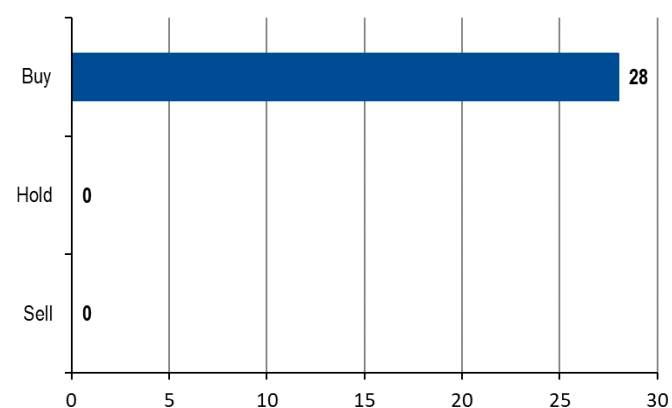
Forward P/E band | Last 2 years



Dynamic Forward P/E band | Last 2 years



Analyst Coverage Rating



Closing and Target Price



## Summary of Financials

INCOME STATEMENT				
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E
<b>Sales</b>	<b>76,593</b>	<b>78,392</b>	<b>82,848</b>	<b>88,191</b>
<i>Growth</i>	<i>4.4%</i>	<i>2.3%</i>	<i>5.7%</i>	<i>6.4%</i>
COGS	(53,877)	(53,419)	(55,879)	(59,217)
<b>Gross Profit</b>	<b>22,716</b>	<b>24,973</b>	<b>26,969</b>	<b>28,974</b>
<i>Gross Margin</i>	<i>29.7%</i>	<i>31.9%</i>	<i>32.6%</i>	<i>32.9%</i>
Operating Expenses	(12,924)	(13,863)	(14,651)	(15,596)
<b>EBIT</b>	<b>9,792</b>	<b>11,110</b>	<b>12,318</b>	<b>13,378</b>
<i>EBIT Margin</i>	<i>12.8%</i>	<i>14.2%</i>	<i>14.9%</i>	<i>15.2%</i>
Depreciation	3,048	3,537	3,495	3,422
<b>EBITDA</b>	<b>12,840</b>	<b>14,647</b>	<b>15,813</b>	<b>16,800</b>
<i>EBITDA Margin</i>	<i>16.8%</i>	<i>18.7%</i>	<i>19.1%</i>	<i>19.1%</i>
Interest Expenses	(1,462)	(920)	(1,385)	(1,457)
<b>EBT</b>	<b>8,749</b>	<b>8,342</b>	<b>8,979</b>	<b>9,841</b>
Income Tax	(2,847)	(2,630)	(2,831)	(3,103)
Minority Interest	(994)	(994)	(1,389)	(1,495)
<b>Net Profit</b>	<b>4,908</b>	<b>4,323</b>	<b>4,653</b>	<b>5,100</b>
<i>Growth</i>	<i>17.8%</i>	<i>-11.9%</i>	<i>7.6%</i>	<i>9.6%</i>
<i>Net Profit Margin</i>	<i>6.4%</i>	<i>5.5%</i>	<i>5.6%</i>	<i>5.8%</i>

PROFITABILITY & STABILITY				
	2019/12A	2020/12E	2021/12E	2022/12E
ROE	9.4%	6.6%	6.0%	6.4%
ROA	5.1%	3.4%	2.9%	3.1%
ROIC	9.2%	11.3%	9.3%	9.9%
Cash Dividend (IDR bn)	1,501	2,441	2,118	2,280
Dividend Yield	2.2%	3.5%	3.0%	3.2%
Payout Ratio	36.0%	49.7%	49.0%	49.0%
DER	0.4x	0.7x	0.7x	0.6x
Net Gearing	0.3x	1.4x	1.1x	0.9x
LT Debt to Equity	16.5%	51.2%	48.4%	44.0%
Capitalization Ratio	28.8%	41.1%	39.8%	37.5%
Equity Ratio	56.3%	47.2%	48.1%	49.4%
Debt Ratio	22.8%	33.0%	31.8%	29.7%
Financial Leverage	181.9%	185.4%	147.4%	208.3%
Current Ratio	106.6%	127.2%	136.0%	137.9%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	8,780	8,780	8,780	8,780
Share Price (IDR)	7,925	8,000	8,000	8,000
Market Cap (IDR tn)	69.6	70.2	70.2	70.2

BALANCE SHEET				
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E
Cash	13,745	15,584	18,854	20,316
Receivables	5,406	6,873	6,128	5,799
Inventories	9,659	11,457	10,104	8,923
<b>Total Current Assets</b>	<b>31,403</b>	<b>37,776</b>	<b>38,949</b>	<b>38,901</b>
Net Fixed Assets	43,387	47,601	47,917	48,551
Other Non Current Asset	64,795	123,825	124,903	126,307
<b>Total Assets</b>	<b>96,199</b>	<b>161,601</b>	<b>163,852</b>	<b>165,208</b>
Payables	4,522	3,939	4,405	5,192
ST Bank Loan	13,006	14,226	13,898	13,086
LT Debt	8,948	39,054	38,154	35,926
<b>Total Liabilities</b>	<b>41,996</b>	<b>85,270</b>	<b>84,986</b>	<b>83,522</b>
Capital Stock	1,162	1,162	1,162	1,162
Retained Earnings	26,780	29,134	31,669	34,489
<b>Shareholders' Equity</b>	<b>54,203</b>	<b>76,331</b>	<b>78,866</b>	<b>81,686</b>

VALUATION INDEX				
	2019/12A	2020/12E	2021/12E	2022/12E
Price /Earnings	14.2x	16.2x	15.1x	13.8x
Price /Book Value	1.3x	0.9x	0.9x	0.9x
Price/Sales	0.9x	0.9x	0.8x	0.8x
PE/EPS Growth	0.8x	-1.4x	2.0x	1.4x
EV/EBITDA	8.1x	10.5x	9.5x	8.6x
EV/EBIT	10.6x	13.9x	12.1x	10.8x
EV (IDR bn)	104,054	153,974	149,477	144,974
Sales CAGR (3-Yr)	4.6%	4.7%	3.8%	4.1%
EPS CAGR (3-Yr)	5.8%	1.5%	3.8%	1.3%
Basic EPS (IDR)	559	492	530	581
Diluted EPS (IDR)	559	492	530	581
BVPS (IDR)	6,173	8,693	8,982	9,303
Sales PS (IDR)	8,723	8,928	9,436	10,044
DPS (IDR)	171	278	241	260

CASH FLOW STATEMENT				
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E
Operating Cash Flow	13,345	10,638	11,041	11,461
Investing Cash Flow	(584)	(36,665)	(4,426)	(4,678)
Financing Cash Flow	(7,660)	26,905	(3,346)	(5,320)
<b>Net Changes in Cash</b>	<b>5,100</b>	<b>1,857</b>	<b>3,270</b>	<b>1,463</b>

OWNERSHIP		
By Geography	% Shareholders	%
Unknown	81.9 FPIML	50.1
United States	9.7 Vanguard Group Inc	1.8
Luxembourg	1.5 Blackrock	1.5
Ireland	1.0 Dimensional Fund A.	1.5

Source: Bloomberg, NHKSI research

**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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Source: Bloomberg, NHKSI research