

PT Indofood CBP Sukses Makmur Tbk (ICBP)

Company Focus

September 14, 2018

Maintain leading position and solid profitability

Background. PT Indofood CBP Sukses Makmur Tbk (ICBP) has become one of the leaders in consumer branded product with around 40 leading product brands. Its business operation is supported by more than 50 factories located in key area across Indonesia. Besides in Indonesia, ICBP products are also present in more than 60 countries around the world.

Maintain market share in noodles. ICBP through its so-called 'Indomie' products managed to be a top brand in Asia and Africa, as ranked 8th in the global FMCG brand ranking according to Kantar Worldpanel. Moreover, Indomie market share in the Asia Pacific region ranked at 6th, above Mie Sedaap by Wings Group which ranked at 10th. In 2018, ICBP expected to maintain its market share, especially in Indonesia noodles market, supported by effective advertising and promotions. The company has spent USD 10mn to become the official partner in the event of 2018 Asian Games held in Jakarta and Palembang.

Resilient to the depreciation of Rupiah. In the midst of Rupiah deterioration, we expect ICBP's EBIT margin to remain stable at double digits. ICBP impacted by the exchange rate fluctuation as the company obtained its raw material such as wheat, from imports. Nevertheless, ICBP is exceptionally resilient company which able to keep its profitability stable amid the high volatility of the Rupiah. It was reflected in 2013, when the Rupiah was depreciate by 26.1% in 2013, from IDR 9,650 per USD to IDR 12,170 per USD. In that period, ICBP kept its EBIT margin steady and only down by 2% from 13.1% in 2012, to 11.0% in 2013. While in 2014, the EBIT margin was recorded at 10.7%, and started to pick up again to 12.5% in 2015. ICBP able to adjust its ASP during unfavorable economic condition given its strong market position.

Rising social assistance program to spur consumption. The Indonesia government plans to increase the social assistance program from IDR 41.3Tn in 2018 to IDR 59.43Tn in 2019 State Budget. We expect household consumption to improve and ICBP would be benefited along with the expansion of the social spending under the so-called 'Family Hope Program'. Cash transfer to the poorest household will spur consumption and increase the company's sales volume growth.

Valuation. We apply the blended DCF method to obtain the target price of IDR 10,200 (15.5% Upside). The target price implies a 2019F P/E of 25x, justified by improvement in operating margin and double digit net profit growth.

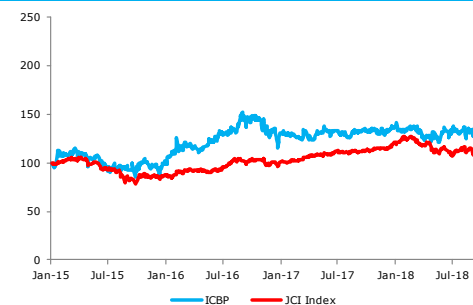
Year to Dec.	Sales (Bn IDR)	OP (Bn IDR)	Pre-tax (Bn IDR)	NP (Bn IDR)	EPS (IDR)	BPS (IDR)	PER (x)	EV/EBITDA (x)	PBV (x)	ROAE (%)
2016	34,375	4,864	4,989	3,600	309	1,586	27.8	18.4	5.4	20.6
2017	35,607	5,222	5,207	3,797	326	1,743	27.3	18.0	5.1	19.6
2018F	38,652	5,816	5,864	4,244	364	1,925	24.5	16.1	4.6	19.8
2019F	42,235	6,529	6,591	4,770	409	2,129	21.8	14.4	4.2	20.2
2020F	45,893	7,025	7,060	5,108	438	2,348	20.3	13.2	3.8	19.6

Source: Company, Shinhan Sekuritas Indonesia

Overweight

Current Price (IDR) (31/8)	8,850
Target price (IDR)	10,200
Upside/Downside (%)	15.3%
52 Week High (IDR)	9,275
52 Week Low (IDR)	7,900
Major Shareholders:	
First Pacific	80.53%
Matthews International	1.8%

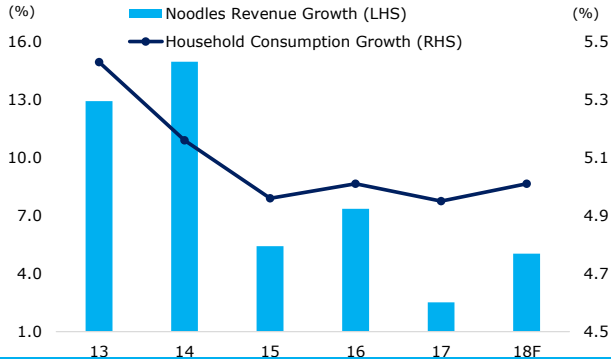
Stock Price Movement



Source: Bloomberg, Shinhan Sekuritas Indonesia

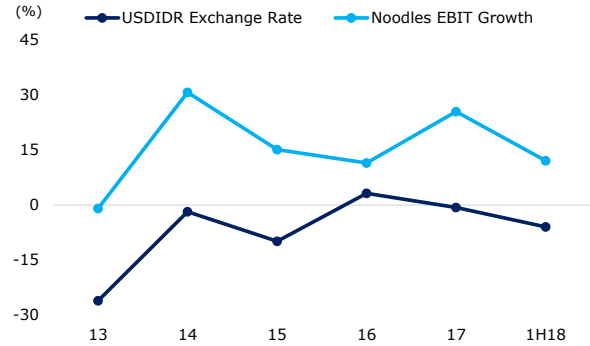
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The increase in household consumption to boost revenue growth



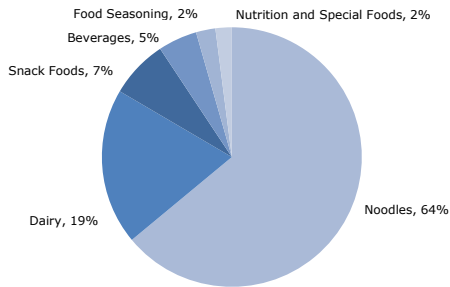
Source: Bloomberg, Company, Shinhan Sekuritas Indonesia

USDIDR exchange rate and noodles EBIT growth



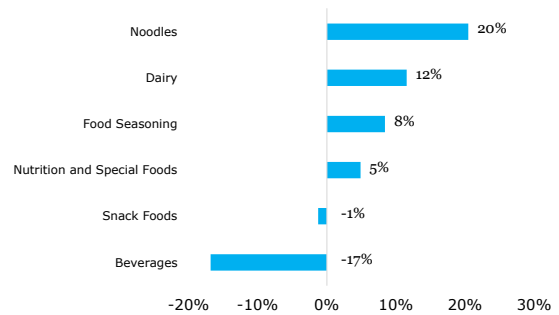
Source: Company, Shinhan Sekuritas Indonesia

Sales contribution mainly comes from noodles segment with 64% of total sales (1H18)



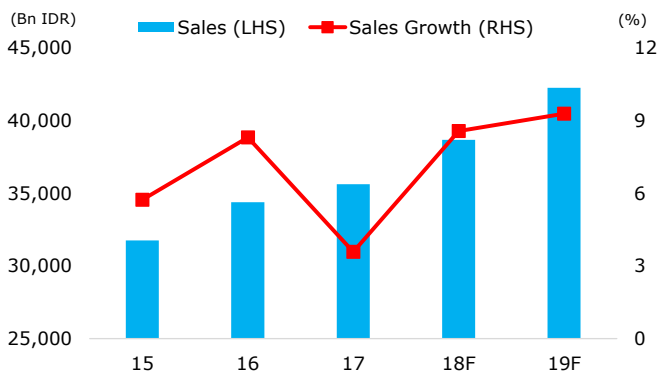
Source: Company, Shinhan Sekuritas Indonesia

EBIT margin of noodles segment remain the highest at 20% (1H18)



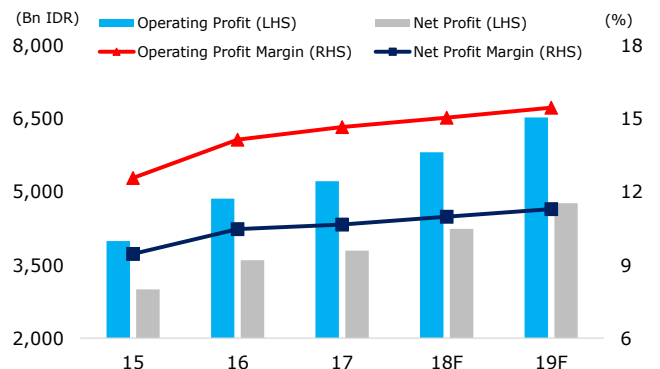
Source: Company, Shinhan Sekuritas Indonesia

Revenue expected to grow by 8.5% YoY in 2018F



Source: Company, Shinhan Sekuritas Indonesia Estimates

Expecting double digit bottom line growth of 11.8% YoY in 2018F



Source: Company, Shinhan Sekuritas Indonesia Estimates

Noodles Brands



Source: Company

Dairy Brands



Source: Company

Snack Foods Brands



Source: Company

Food Seasonings Brands



Source: Company

Nutrition & Special Foods Brands



Source: Company

Beverages Brands



Source: Company

Income Statement

Year-end 31 Dec (Bn IDR)	2016	2017	2018F	2019F
Sales	34,375	35,607	38,652	42,235
COGS	(23,607)	(24,548)	(26,536)	(28,686)
Gross Profit	10,768	11,059	12,116	13,549
EBITDA	5,497	5,857	6,500	7,158
Operating Expense	(5,904)	(5,837)	(6,300)	(7,021)
Operating Profit	4,864	5,222	5,816	6,529
Pre-Tax Profit	4,989	5,207	5,864	6,591
Income Tax - Net	(1,358)	(1,663)	(1,583)	(1,780)
Net Profit	3,600	3,797	4,244	4,770
EPS (IDR)	309	326	364	409

Source: Company, Shinhan Sekuritas Indonesia Estimates

Balance Sheet

Year-end 31 Dec (Bn IDR)	2016	2017	2018F	2019F
Assets				
Cash and Equivalent	8,372	8,797	9,779	11,948
Receivables	3,721	3,871	4,202	4,223
Inventories	3,110	3,262	3,526	3,442
Others	368	650	693	571
Total Current Assets	15,571	16,579	18,200	20,184
Net Fixed Assets	7,114	8,120	8,741	9,446
Total Assets	28,902	31,620	33,861	36,550
Liabilities and Equities				
Payables	5,103	5,204	5,649	5,913
Other Short-Term Liabilities	1,366	1,624	1,762	1,926
Total Current Liabilities	6,470	6,828	7,412	7,839
LT. Debt	872	955	490	367
Other Long Term Liabilities	3,059	3,513	3,513	3,513
Total Long-Term Liabilities	3,931	4,468	4,003	3,880
Total Liabilities	10,401	11,295	11,415	11,719
Minority Interest	937	761	761	761
Shareholders' Equity	18,501	20,324	22,446	24,831
BVPS (Rp)	1,586	1,743	1,925	2,129

Source: Company, Shinhan Sekuritas Indonesia Estimates

Valuation

Year-end 31 Dec	2016	2017	2018F	2019F
PER (x)	27.8	27.3	24.5	21.8
PBV (x)	5.4	5.1	4.6	4.2
EV/EBITDA (x)	18.4	18.0	16.1	14.4
EV/Sales (x)	2.9	3.0	2.7	2.4

Source: Company, Shinhan Sekuritas Indonesia Estimates

Cashflow Analysis

Year-end 31 Dec (Bn IDR)	2016	2017	2018F	2019F
CFs from Operation				
Net Profit	3,600	3,797	4,244	4,770
Change in NWC	(4,028)	(4,022)	(4,299)	(4,158)
CFs from Operation	(428)	(225)	(54)	611
CFs from Investments	(731)	(1,710)	(621)	(705)
CFs from Financing	(235)	360	(465)	(123)
Net Inc./ (Dec.) in Cash	714	425	983	2,169
Cash at End Period	8,372	8,797	9,779	11,948

Source: Company, Shinhan Sekuritas Indonesia Estimates

Key Ratio Analysis

Year-end 31 Dec (Bn IDR)	2016	2017	2018F	2019F
Profitability				
Gross Margin	31%	31%	31%	32%
Operating Margin	14%	15%	15%	15%
EBITDA Margin	16%	16%	17%	17%
Net Income Margin	10%	11%	11%	11%
ROAA	13%	13%	13%	14%
ROAE	21%	20%	20%	20%
Growth				
Revenue	8%	4%	9%	9%
Operating Profit	22%	7%	11%	12%
EBITDA	22%	7%	11%	10%
Net Income	20%	5%	12%	12%
Solvability				
Current Ratio (x)	2.4	2.4	2.5	2.6
Quick Ratio (x)	1.9	2.0	2.0	2.1
Debt to Equity (x)	0.6	0.6	0.5	0.5
Interest Coverage (x)	27.2	33.9	23.2	29.0

Source: Company, Shinhan Sekuritas Indonesia Estimates



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