

# Consumer Sector

Sectoral Focus

December 10, 2018

## Remain Upbeat on Selected Retail and Consumer Company

**Fiscal stimulus to spur consumption. Indonesia minimum wage will be increased by 8.03% YoY in 2019. The government also raises the social protection budget by 32.8% YoY to IDR 381Tn next year. These fiscal policies expected to lead to purchasing power recovery, which then translate to increase aggregate demand. We expect private consumption to accelerate and become the growth driver for consumers and retailers.**

**Consumer spending started to pick up.** Household consumption grew by 5.01% YoY in 3Q18, higher compared to 4.93% YoY in 3Q17. Food and beverage segment became the highest contributor with 36.69% of total household consumption. Purchasing intention increased thanks to controlled CPI inflation at 2.5% YtD until November 2018. Stable fuel price and electricity tariffs help to maintain the purchasing power of the middle-low class segment, while the government energy subsidies was increased in October 2018 by 56.2% YoY to IDR 160.36Tn. Improving consumer spending reflected in the performance of consumer staples under our coverage, which revenue was increased by 7.2% YoY in 9M18. ICBP has enjoying Indonesian appetite for instant noodles, with average consumption per capita 15-19F CAGR of 9.1%. To secure future growth, the company also continues its penetration in the dairy market, which consumption 15-19F CAGR of 16.8% surpassed instant noodles market. This is in line with CAMP efforts to capture the growth of ice cream market in Indonesia, with consumption 15-19F CAGR of 9.3%.

**Ease cost pressure from foreign exchange rate.** The currency has strengthened by 6.5% from its lowest this year at IDR 15,235 per USD to IDR 14,302 per USD by the end of November 2018. The recent gain of Rupiah was on the back of declining oil price which expected to support Indonesia's current account deficit. Easing cost pressures will benefit consumer staples and retailers, which import most of its raw material needs. Profitability was stable for market leader such as SPTO, which gives room for ASP adjustment. EBIT margin of consumers under our coverage recorded at 16.7% in 9M18 (15.1% in 9M17), while retailer's EBIT margin recorded at 7.4% (6.1% in 9M17).

**Accelerated retail sales growth.** Retail sales growth in September 2018 recorded at 4.8% YoY, higher compared to 1.8% YoY in the same period last year. In terms of commodity group, Clothing were the main driver of retail sales, achieving growth of 28.1% YoY (-1.6% YoY in September 2017). Robust sales growth of retailer under our coverage was attributed to aggressive expansion, as total outlet of retailer under our coverage increased by 12.6% YoY in 9M18. Among our coverage, ERAA has expanded the most with 121 new stores in 9M18. Additional outlet not only focused in Greater Jakarta, but retailer also undertook market penetration to tier-2 and tier 3 cities, in order to reach potential demand from Indonesia smartphone users which expected to reach 70.2 million in FY18F. Along with the resilience spending of the middle-up class segment and improving macroeconomic condition, we expect the average SSSG of retailer under our coverage to improve in FY18F to 7.1% YoY (5.5% YoY in FY17). ACES's SSSG expected to be the highest at 13.2% YoY, and followed by PZZA at 5.2% YoY and RALS at 4.9% YoY.

**Our call.** We overweight ICBP due to its leading position and steady growth. CAMP is on the right track to capture an ample room of growth in ice cream market. We also overweight ERAA and ACES on the back of its stellar earnings performance, supported by outlet expansion. RALS improving operating margin after closing unprofitable supermarket. PZZA due to its increasing SSSG along with PHD expansion, which better suit with current lifestyle. We overweight SPTO on the back of its dominance in sanitary wares and stable margin.

## Overweight

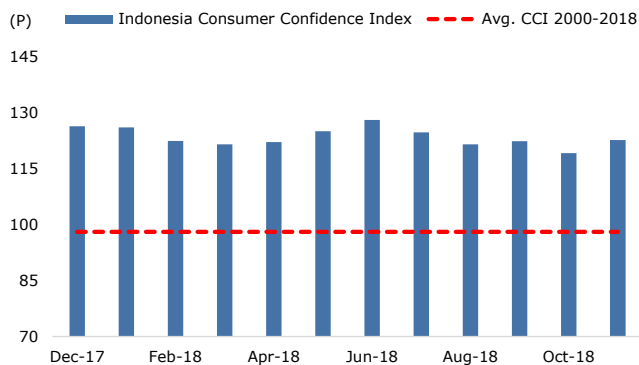
Avg. SSI Consumer Performance



Source: Bloomberg, Shinhan Sekuritas Indonesia

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### Consumer remain upbeat reflected in CCI above the historical mean



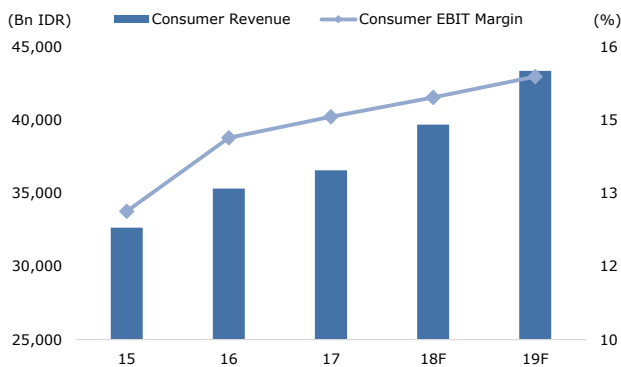
Source: Trading Economics, Shinhan Sekuritas Indonesia

### Retailers still optimistic with 4.8% YoY growth in September



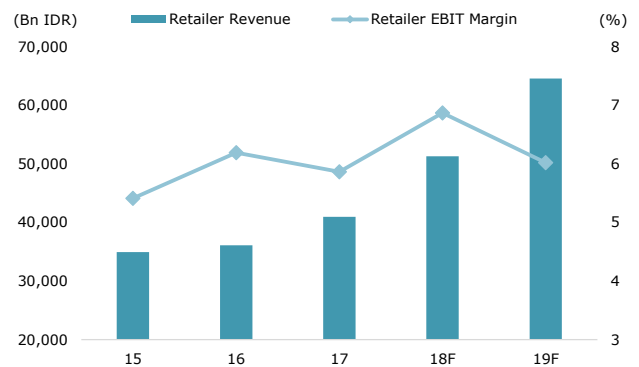
Source: Trading Economics, Shinhan Sekuritas Indonesia

### Consumer revenue and EBIT margin trend



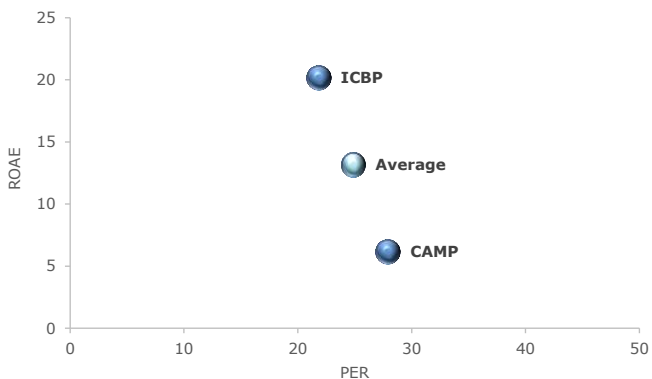
Source: Company, Shinhan Sekuritas Indonesia

### Retailer revenue and EBIT margin trend



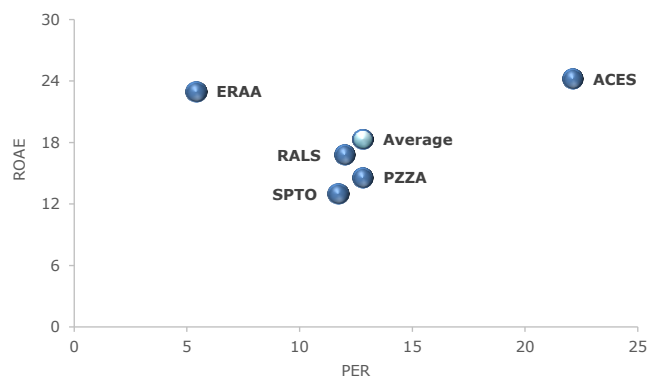
Source: Company, Shinhan Sekuritas Indonesia

### Consumer valuation matrix



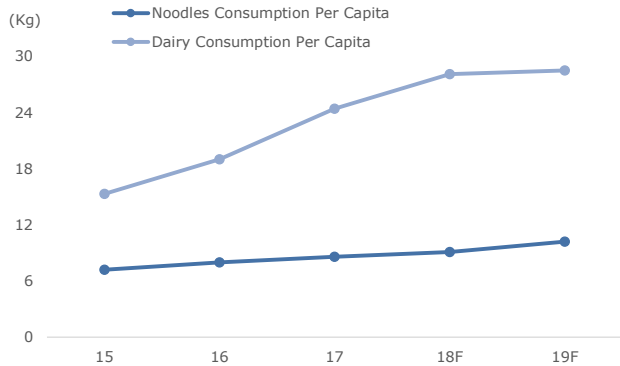
Source: Company, Shinhan Sekuritas Indonesia

### Retailer valuation matrix



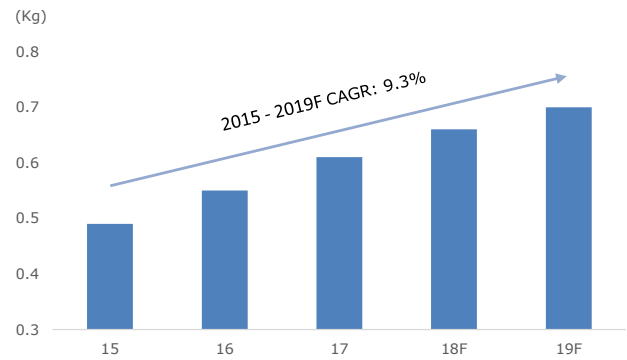
Source: Company, Shinhan Sekuritas Indonesia

**Noodles consumption (15-19F CAGR: 9.1%) and Dairy consumption (15-19F CAGR: 16.8%)**



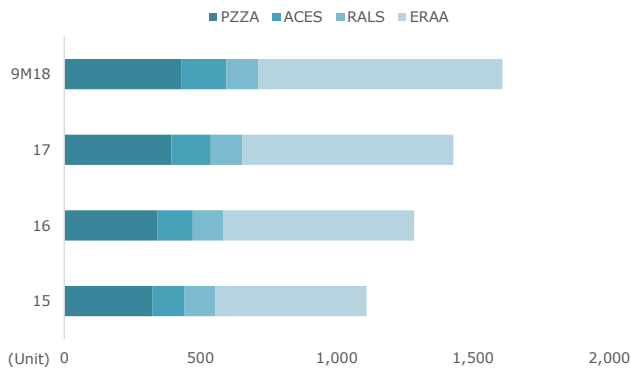
Source: Statista, Shinhan Sekuritas Indonesia

**Ice cream consumption (15-19F CAGR: 9.3%)**



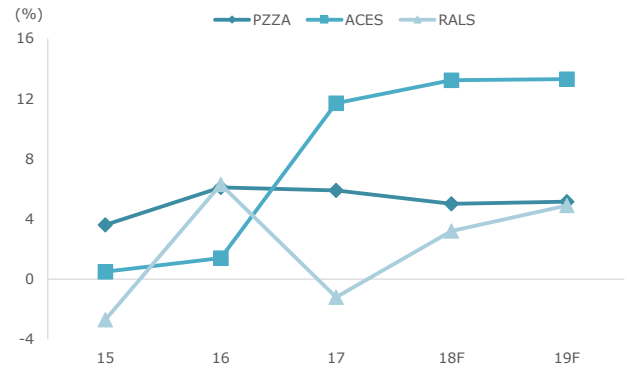
Source: Statista, Shinhan Sekuritas Indonesia Estimates

**Retailer numbers of outlet**



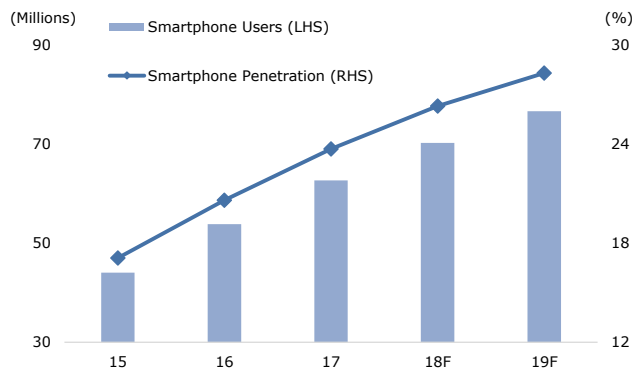
Source: Company, Shinhan Sekuritas Indonesia

**Retailer annual SSSG**



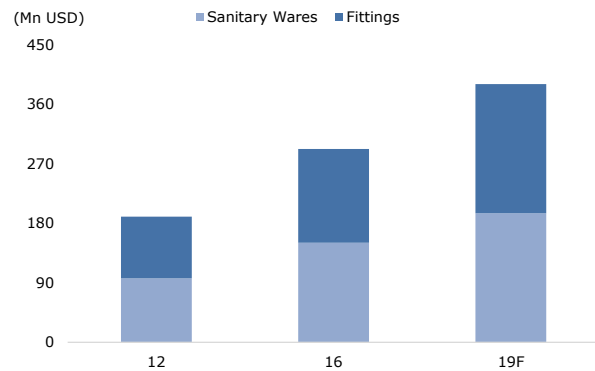
Source: Company, Shinhan Sekuritas Indonesia

**Smartphone users and penetration**



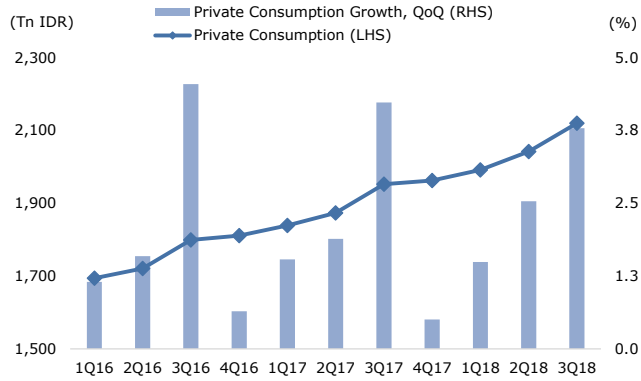
Source: Statista, Shinhan Sekuritas Indonesia

**Sanitary Wares and Fittings sales volume**



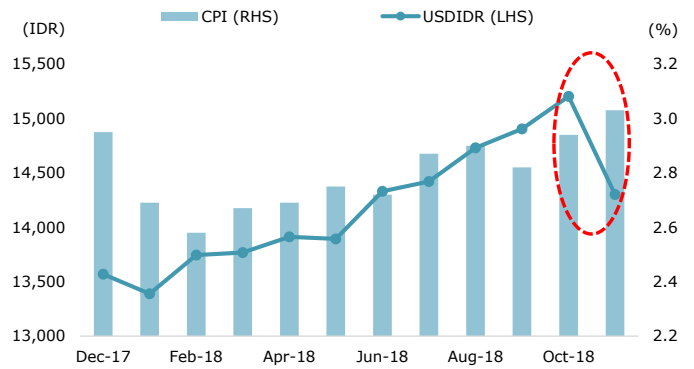
Source: Euromonitor, Shinhan Sekuritas Indonesia

### Gradual increase of private consumption



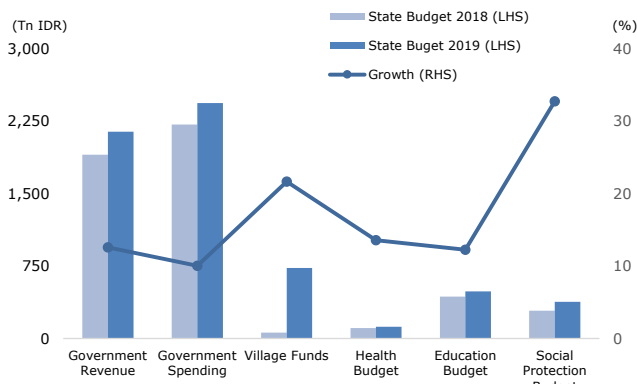
Source: Statistics Indonesia, Company, Shinhan Sekuritas Indonesia

### Ease cost pressure from Rupiah exchange rate



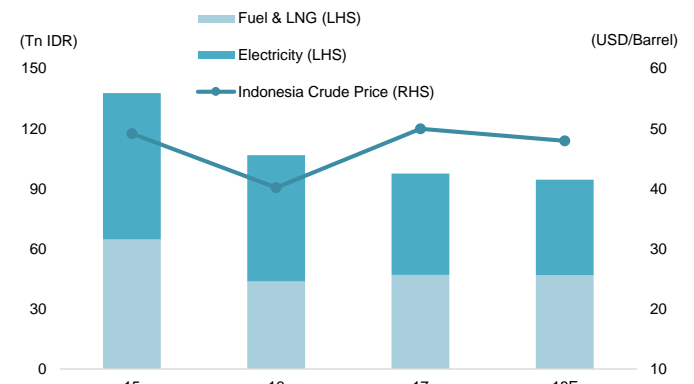
Source: Bloomberg, Shinhan Sekuritas Indonesia

### Social protection budget surge in State Budget 2019



Source: Finance Ministry, Shinhan Sekuritas Indonesia

### Energy subsidy spending to controlled electricity and fuel price



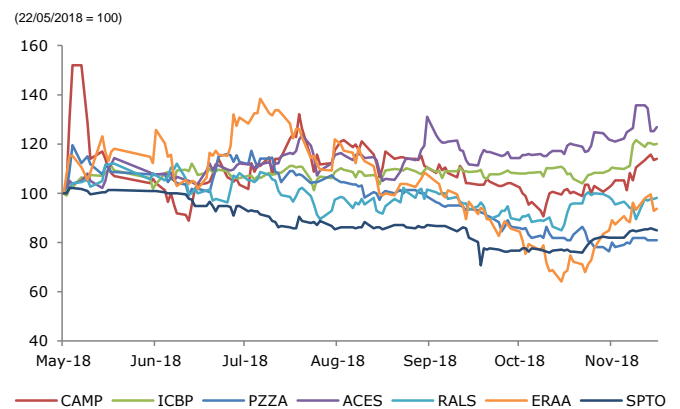
Source: Finance Ministry, Shinhan Sekuritas Indonesia Estimates

### Indonesia total population and minimum monthly wages



Source: Statista, Trading Economics, Shinhan Sekuritas Indonesia

### Stock price performance



Source: Bloomberg, Shinhan Sekuritas Indonesia



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