

# PT Indofood CBP Sukses Makmur Tbk (ICBP)

Company Focus

December 9, 2019

## Thrive in a challenging environment

**The government's social spending to be the buffer for private consumption.** The allocation for social protection program in 2020 State Budget amounted to IDR 372.5trn (IDR 369.1trn in 2019E). Aside from the existing social protection system, the government will introduce new social support cards for low-income populations. The new support cards, consists of College Smart Indonesian Card, Pre-Employment Card, and Basic Foods Card with a total budget amounted to USD 3.2bn. The budget expected to provide a buffer amid the increase of premium for the state health insurance (BPJS Kesehatan), lower subsidies for electricity, as well as the increase in the minimum prices of cigarettes by an average of 35% and the excise tax in tobacco products by 23%. The continuation of the Family Hope Program (PKH), Smart Indonesia Program (PIP), and Ultra-Micro Credit Program should sustain consumption growth for the lower middle-income segment in the midst of moderate economic growth of around 5.0% YoY next year.

**Sustainable demand amid steady domestic noodles consumption.** We expected noodles division to grow by 8.5% YoY to IDR 29.9trn and drive total net sales to IDR 46.5trn (+9.1% YoY) in 2020F. Indonesia's annual noodles consumption hasn't climbed since 2014, providing that consumption per capita was steady at ~47.8 pack per capita per year, and signaling that population growth is the key factor to sustain the demand in the future. The size of Indonesia's instant noodles industry is estimated to grow by 7.4% average annual rate through 2023 according to Passport, above the Asia Pacific region of 2.5% 2019-2024 CAGR. ICBP holds 2.8% market share in APAC and 68.1% in Indonesia, compared to Wings (16.9%) as its nearest competitor.

**Bottom line in 2020F expected to reach IDR 5.7trn (+10.8% YoY).** We are in the view that ICBP will be able to maintain its level of profitability, supported by manageable raw material cost. The commodity price of wheat, as the main components for noodles, estimated to be stable next year. While the increasing cost from rising CPO (+19.2% YtD) prices could be pass through to the consumer, given the company's pricing power. For dairy division, we see the increasing price of skimmed milk powder (+30.0% YtD) will weigh on its EBIT margin, while the price of sugar remained flat (+1.0% YtD).

**Valuation.** On the back of the defensive nature of consumer staples, ICBP stellar noodles division performance, and manageable raw material cost, we maintain our Buy recommendation in ICBP. We also upgrade our TP for ICBP to IDR 13,200 based on our DCF calculation method using 9% WACC and 5% Terminal Growth Rate. Our TP also implies the 2020F PE at 27x.

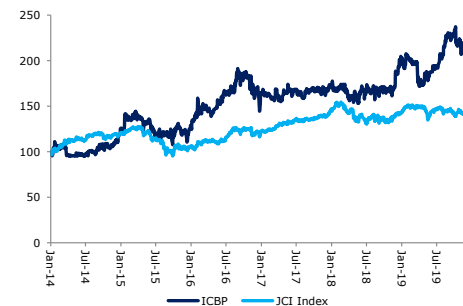
Year to Dec.	Sales (Bn IDR)	OP (Bn IDR)	Pre-tax (Bn IDR)	NP (Bn IDR)	EPS (IDR)	BPS (IDR)	PER (x)	EV/EBITDA (x)	PBV (x)	ROAE (%)
2017	35,607	5,222	5,207	3,797	326	1,743	27.3	16.5	5.1	19.6%
2018	38,413	6,448	6,447	4,576	392	1,947	26.6	18.2	5.4	21.3%
2019F	42,708	7,176	7,273	5,162	443	2,164	25.8	17.4	5.3	21.5%
2020F	46,583	7,951	8,057	5,719	490	2,416	23.3	15.6	4.7	21.4%
2021F	50,887	9,392	9,508	6,749	579	2,698	19.7	13.2	4.2	22.6%

Source: Company, Shinhan Sekuritas Indonesia

## Buy

Current Price (IDR) (6/12)	11,425
<b>Target price (IDR)</b>	<b>13,200</b>
Upside/Downside (%)	15.5%
52 Week High (IDR)	12,550
52 Week Low (IDR)	8,950
Major Shareholders:	
Indofood Sukses Makmur	80.53%

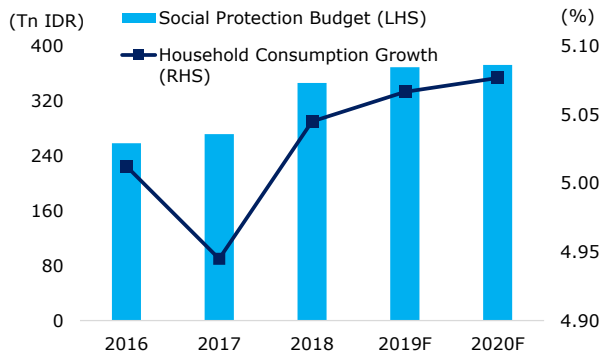
### Stock Price Movement



Source: Bloomberg, Shinhan Sekuritas Indonesia

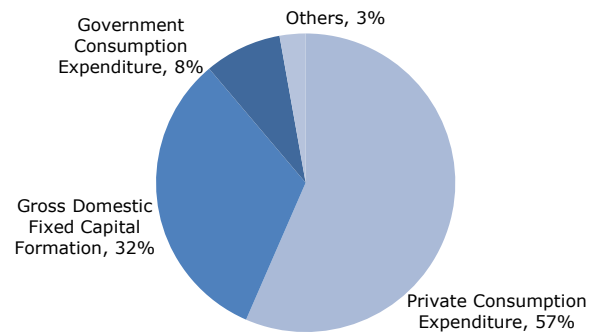
**Billy Ibrahim**  
**+6221 80869900**  
 billy.ibrahim@shinhan.com

### Social spending to provide a cushion for consumption



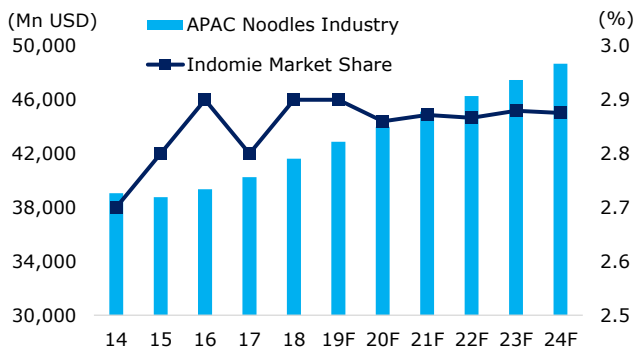
Source: Ministry of Finance, Shinhan Sekuritas Indonesia

### Private consumption remain the main engine for GDP growth in 3Q19



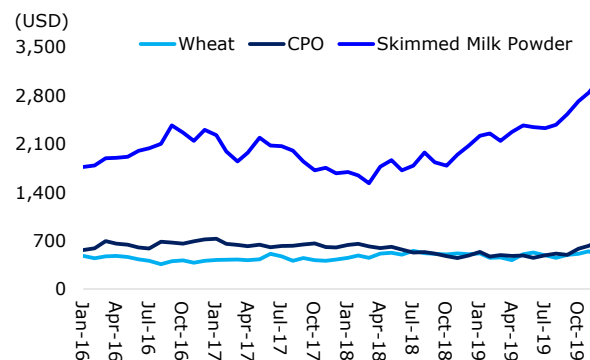
Source: Statistics Indonesia, Shinhan Sekuritas Indonesia

### Asia Pacific noodles industry 2019-2024F CAGR: 2.5%; Indomie market share maintained at 2.8%



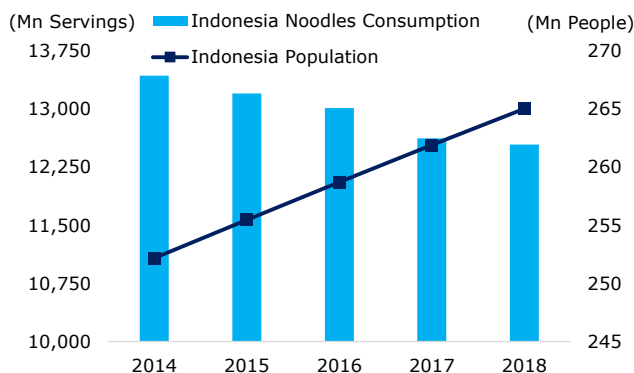
Source: Bloomberg, Shinhan Sekuritas Indonesia

### Slight increase of CPO and Skimmed Milk Powder commodity price expected to continue in 2020F



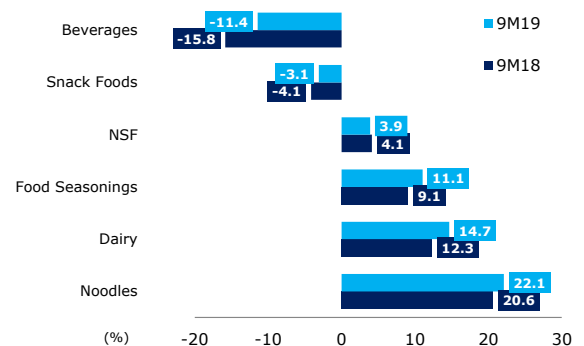
Source: Bloomberg, Shinhan Sekuritas Indonesia

### Population growth sustaining the aggregate demand for instant noodles in Indonesia



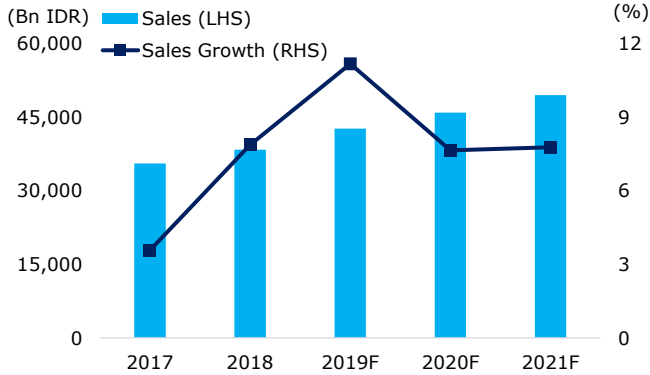
Source: WINA, Bloomberg, Shinhan Sekuritas Indonesia

### EBIT margin improved for most division in 9M19, except for nutrition and special foods



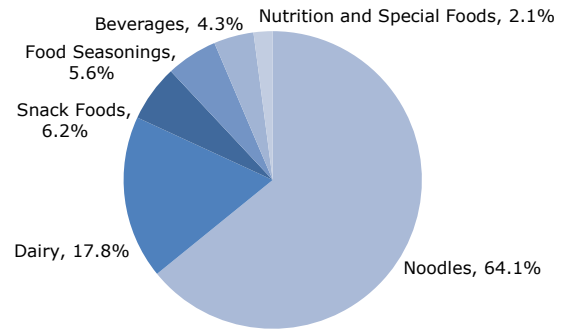
Source: Company, Shinhan Sekuritas Indonesia

### Revenue expected to grow by 9.1% YoY in 2020F



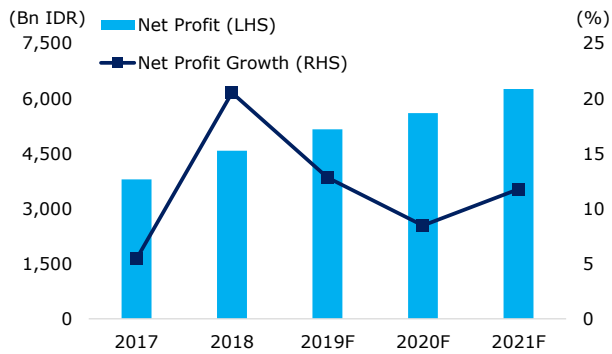
Source: Company, Shinhan Sekuritas Indonesia Estimates

### Noodles division remain the largest revenue contributor in 9M19



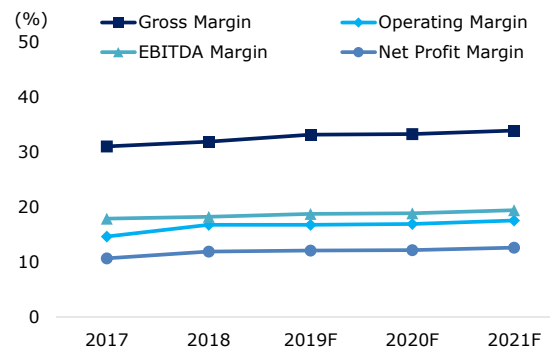
Source: Company, Shinhan Sekuritas Indonesia

### Net profit growth in 2020F estimated at 10.8% YoY



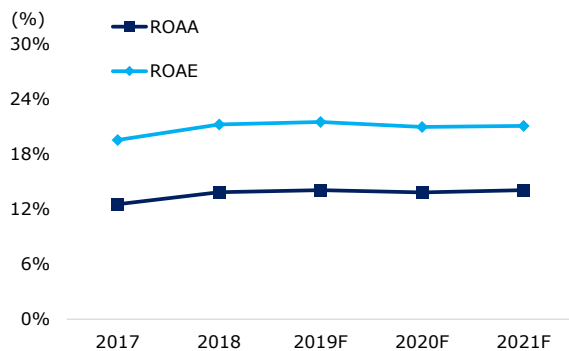
Source: Company, Shinhan Sekuritas Indonesia Estimates

### Profitability maintained with net profit margin of 12.3% in 2020F



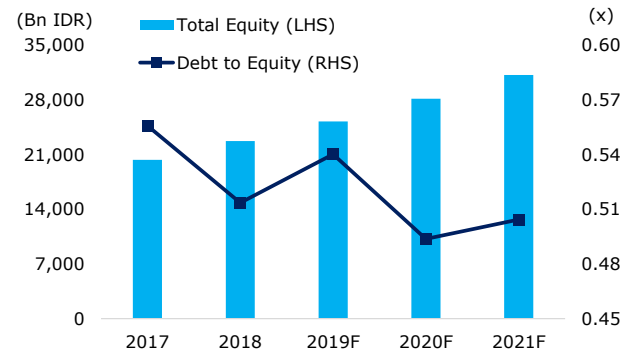
Source: Company, Shinhan Sekuritas Indonesia Estimates

### ROA and ROE projected to be at 14.1% and 21.4% in 2020F, respectively



Source: Company, Shinhan Sekuritas Indonesia Estimates

### Debt to Equity still stable at 0.5x in 2020F



Source: Company, Shinhan Sekuritas Indonesia Estimates

#### Income Statement

Year-end 31 Dec (Bn IDR)	2017	2018	2019F	2020F
<b>Sales</b>	<b>35,607</b>	<b>38,413</b>	<b>42,708</b>	<b>46,583</b>
COGS	(24,548)	(26,148)	(28,530)	(30,940)
Gross Profit	11,059	12,266	14,178	15,643
<b>EBITDA</b>	<b>6,378</b>	<b>7,010</b>	<b>8,021</b>	<b>8,852</b>
Operating Expense	5,837	5,818	7,002	7,692
<b>Operating Profit</b>	<b>5,222</b>	<b>6,448</b>	<b>7,176</b>	<b>7,951</b>
Pre-Tax Profit	5,207	6,447	7,273	8,057
Income Tax - Net	1,663	1,788	2,017	2,235
<b>Net Profit</b>	<b>3,797</b>	<b>4,576</b>	<b>5,162</b>	<b>5,719</b>
EPS (IDR)	326	392	443	490

Source: Company, Shinhan Sekuritas Indonesia Estimates

#### Cash Flow

Year-end 31 Dec (Bn IDR)	2017	2018	2019F	2020F
<b>CFs from Operation</b>				
Net Profit	3,797	4,576	5,162	5,719
Change in NWC	(4,022)	(5,780)	(4,933)	(5,691)
<b>CFs from Operation</b>	<b>(225)</b>	<b>(1,204)</b>	<b>230</b>	<b>27</b>
<b>CFs from Investments</b>	<b>(1,710)</b>	<b>(5,205)</b>	<b>(2,804)</b>	<b>(1,113)</b>
<b>CFs from Financing</b>	<b>360</b>	<b>285</b>	<b>162</b>	<b>1,131</b>
Net Inc./(Dec.) in Cash	245	(3,895)	104	2,832
<b>Cash at End Period</b>	<b>8,797</b>	<b>4,727</b>	<b>6,406</b>	<b>7,643</b>

Source: Company, Shinhan Sekuritas Indonesia Estimates

#### Balance Sheet

Year-end 31 Dec (Bn IDR)	2017	2018	2019F	2020F
<b>Assets</b>				
Cash and Equivalent	8,797	4,727	6,406	7,643
Receivables	4,126	4,271	4,698	5,183
Inventories	3,262	4,001	3,709	4,101
Others	395	1,122	997	1,085
<b>Total Current Assets</b>	<b>16,579</b>	<b>14,122</b>	<b>15,810</b>	<b>18,012</b>
Net Fixed Assets	8,120	10,742	12,396	12,745
Other Assets	6,920	9,504	10,653	11,418
<b>Total Assets</b>	<b>31,620</b>	<b>34,367</b>	<b>38,859</b>	<b>42,175</b>
<b>Liabilities and Equities</b>				
Payables	2,904	2,956	3,844	3,688
Other Short-Term Liabilities	3,923	4,279	3,630	4,779
<b>Total Current Liabilities</b>	<b>6,828</b>	<b>7,235</b>	<b>7,474</b>	<b>8,467</b>
LT. Debt	955	852	2,385	1,759
Other Long Term Liabilities	3,513	3,573	3,769	3,769
<b>Total Long-Term Liabilities</b>	<b>4,468</b>	<b>4,425</b>	<b>6,154</b>	<b>5,528</b>
<b>Total Liabilities</b>	<b>11,295</b>	<b>11,660</b>	<b>13,628</b>	<b>13,995</b>
Minority Interest	761	1,088	1,278	1,278
<b>Shareholders' Equity</b>	<b>20,324</b>	<b>22,707</b>	<b>25,231</b>	<b>28,180</b>
BVPS (IDR)	1,743	1,947	2,164	2,416

Source: Company, Shinhan Sekuritas Indonesia Estimates

#### Key Ratio

Year-end 31 Dec (Bn IDR)	2017	2018	2019F	2020F
<b>Profitability</b>				
Gross Margin	31.1%	31.9%	33.2%	33.6%
Operating Margin	14.7%	16.8%	16.8%	17.1%
EBITDA Margin	17.9%	18.2%	18.8%	19.0%
Net Income Margin	10.7%	11.9%	12.1%	12.3%
ROAA	12.5%	13.9%	14.1%	14.1%
ROAE	19.6%	21.3%	21.5%	21.4%
<b>Growth</b>				
Revenue	3.6%	7.9%	11.2%	9.1%
Operating Profit	7.4%	23.5%	11.3%	10.8%
EBITDA	9.7%	9.9%	14.4%	10.4%
Net Income	5.4%	20.5%	12.8%	10.8%
<b>Solvability</b>				
Current Ratio (x)	2.4	2.0	2.1	2.1
Quick Ratio (x)	2.0	1.4	1.6	1.6
Debt to Equity (x)	0.6	0.5	0.5	0.5
Interest Coverage (x)	33.9	28.6	28.6	29.1

Source: Company, Shinhan Sekuritas Indonesia Estimates

#### Valuation

Year-end 31 Dec	2017	2018	2019F	2020F
PER (x)	27.3	26.6	25.8	23.3
PBV (x)	5.1	5.4	5.3	4.7
EV/EBITDA (x)	16.5	18.2	17.4	15.6
EV/Sales (x)	3.0	3.3	3.3	3.0

Source: Company, Shinhan Sekuritas Indonesia Estimates



<b>Research Team</b>		
<b>Helmi Therik, FRM</b>	Head of Research	helmi@shinhan.com
<b>Billy Ibrahim Djaya</b>	Research Analyst	billy.ibrahim@shinhan.com

<b>Office</b>
<p><b>PT. Shinhan Sekuritas Indonesia</b>                      Member of Indonesia Stock Exchange</p>
<p><b>Head Office :</b>                      International Finance Center 2 Floor. 30                      Jl. Jendral Sudirman Kav. 22-23                      Karet                      Jakarta 12920 Indonesia                      Telp.: (+62-21) 80869900                      Fax : (+62-21) 22057925</p>

**Disclaimer:** All opinions and estimates included in this report constitute our judgments as of the date of this report and are subject to changes without notice. This information has been compiled from sources we believe to be reliable, but we do not hold ourselves responsible for its completeness or accuracy. It is not an offer to sell or solicitation of an offer to buy any securities. Clients should consider whether it is suitable for their particular circumstances before acting on any opinions and recommendations in this report. This report is distributed to our clients only, and any unauthorized use, duplication, or redistribution of this report is prohibited.