

PT Indofood CBP Sukses Makmur Tbk (ICBP)

Company Focus

October, 2021

Reaping the Benefits of Pinehill Acquisition

Top-line growth will be supported by the full revenue contribution from Pinehill. ICBP's revenue is expected to reach IDR 56.8trn (+21.9% YoY) in FY21F on the back of gradual economic recovery, solid domestic instant noodles segment performance, and the full revenue contribution from the Pinehill acquisition. Easing restrictions is estimated to increase economic activity and further helped household consumption to grow positively. Household consumption increase by +5.93% YoY in 1H21 amid the reopening of the economy, compared with -5.51% YoY in the same period last year. Moreover, revenue from the instant noodles segment is to be driven not only by its leading position in the domestic market with a 73% market share but also its global market outreach following the acquisition of Pinehill on 3Q20. ICBP will be able to fully realize the contribution of Pinehill business of manufacturing and distributing instant noodles in Africa, Middle East, and Southeast Europe. ICBP experienced an increase of sales from the Middle East and Africa by 254.9% YoY to IDR 5.75trn in 1H21, which accounted for 20.4% of the total revenue, compared with 7.0% contribution in 1H20.

Expecting higher finance expense but improving net core profit. ICBP's global bonds issuance of USD 1.75bn in June this year consists of USD 1.15bn with 10 years period and a fixed interest rate of 3.398%, and USD 600mn with 30 years period and fixed interest rate of 4.745%. Refinancing with a fixed interest rate aims to anticipate the outlook of the interest rate hike cycle. The proceeds mainly used to finance the repayment of bank loans regarding the Pinehill acquisition. The bank loan facility is denominated in USD and JPY worth USD 2.05bn in total, for the period of 5 years. This financing is expected to expose the company to foreign exchange risk and higher finance expense that leads the net profit in FY21F to IDR 6.72trn (+2.1% YoY). Net profit actually declined to IDR 3.22trn (-4.6% YoY) in 1H21, attributable to the higher interest expenses and bank charges, and net loss from financing activities on foreign exchange. Nevertheless, the core profit that excluded non-recurring and difference in foreign exchange rate showed a double-digit growth to IDR 3.95trn (+25% YoY) in 1H21.

Manageable profitability level amid the increase in raw material cost. The recent rally in soft commodity prices was felt in 2Q21 as gross profit margin declined to 34.8% from the record high of 38.9% in 1Q21. The operating profit margin was also down to 19.7% in 2Q21 from the all-time high of 23.7% recorded in the previous quarter. This was attributable to several price adjustments made by the company in 1H21. The higher input cost pressure is expected to continue in 3Q21 as the company is projected to keep the average selling price steady in the midst of tightening competition. Nevertheless, gross and operating margin still estimated to be maintained in FY21F given exceptional 1Q21 performance, which was already reflected from the 1H21 gross profit margin of 37.0% (vs 36.1% in 1H20) and operating profit margin of 21.9% (vs 18.8% in 1H20).

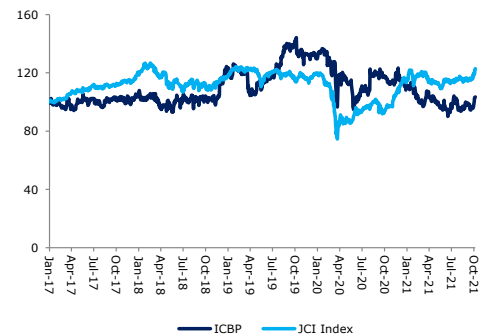
Year to Dec.	Revenue (Bn IDR)	OP (Bn IDR)	Pre-tax (Bn IDR)	NP (Bn IDR)	EPS (IDR)	BPS (IDR)	PER (x)	EV/EBITDA (x)	PBV (x)	ROAE (%)
2019	42,297	7,400	7,437	5,039	432	2,170	26.3	16.0	5.2	19.9%
2020	46,641	9,201	9,959	6,587	565	2,524	17.0	13.0	3.8	22.4%
2021F	56,858	12,117	10,318	6,728	577	2,901	19.4	11.7	3.1	19.9%
2022F	61,151	12,845	11,619	7,735	663	3,345	16.9	10.8	2.6	19.8%
2023F	65,617	13,654	12,532	8,389	719	3,812	15.6	10.0	2.3	18.9%

Source: Company, Shinhan Sekuritas Indonesia

Buy

Current Price (IDR) (11/10)	8,850
Target price (IDR)	11,200
Upside/Downside (%)	27%
52 Week High (IDR)	10,625
52 Week Low (IDR)	7,625
Major Shareholders:	
PT Indofood Sukses Makmur Tbk	80.53%
Public	19.47%

Stock Price Movement



Source: Bloomberg, Shinhan Sekuritas Indonesia

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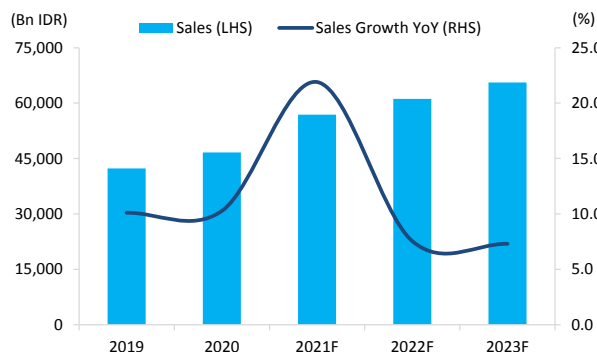
Valuation. The company is expected to withstand the impact of the ongoing Covid-19 pandemic and increasing soft commodity prices through a strong balance sheet to support inorganic growth and continuous dominance in the domestic instant noodle market. On the back of the resilient financial performance and the prospect of gradual domestic economic recovery, we recommend buy in ICBP. We derived our TP at IDR 11,200 (27% upside) based on our blended DCF calculation method. Our TP also implies the FY22F PE at 17x which is below the industry PE at 21x.

ICBP latest financial highlight

Bn IDR	3M20	3M21	YoY	6M20	6M21	YoY
Revenue	12,007	15,092	25.7%	23,047	28,199	22.4%
Gross Profit	4,183	5,872	40.4%	8,331	10,433	25.2%
Operating Expense	1,383	2,053	48.5%	3,654	4,072	11.4%
Operating Profit	2,800	3,819	36.4%	4,677	6,361	36.0%
Pretax Profit	2,755	2,649	-3.9%	4,744	5,024	5.9%
Net Profit	1,982	1,737	-12.4%	3,378	3,221	-4.6%
(%)						
Gross Margin	34.8%	38.9%		36.1%	37.0%	
Operating Margin	18.3%	23.7%		18.8%	21.9%	
Net Margin	16.5%	11.5%		14.7%	11.4%	

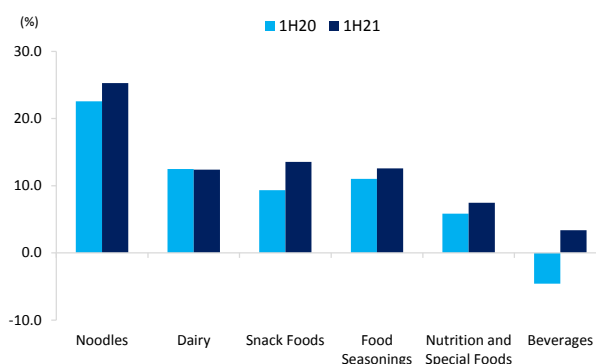
Source: Company, Shinhan Sekuritas Indonesia

Estimated double-digit revenue growth of 21.9% YoY in FY21F



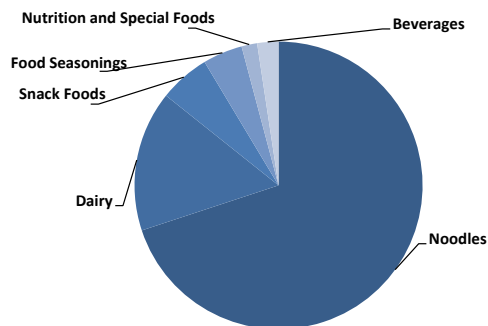
Source: Company, Shinhan Sekuritas Indonesia

EBIT margin in most segments improved in 1H21 from 1H20



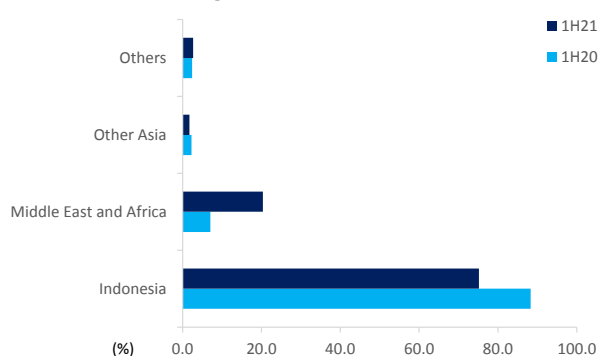
Source: Company, Shinhan Sekuritas Indonesia

Revenue breakdown in 1H21 still dominated by instant noodles



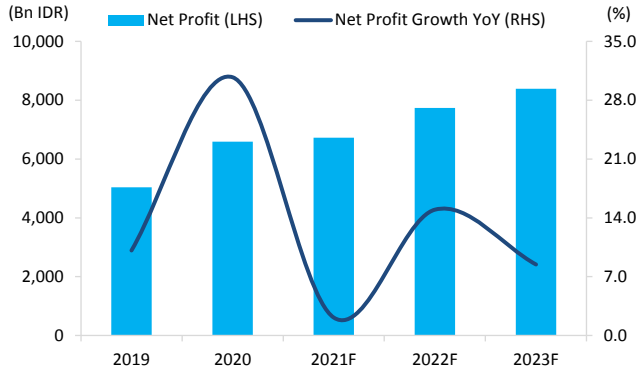
Source: Company, Shinhan Sekuritas Indonesia

Revenue breakdown based on the geographic segment (% of total revenue)



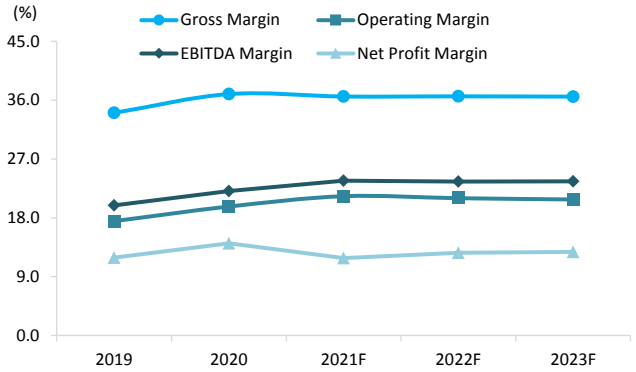
Source: Company, Shinhan Sekuritas Indonesia

Net profit is expected to grow by 2.1% YoY in FY21F amid increasing finance costs and currency risk



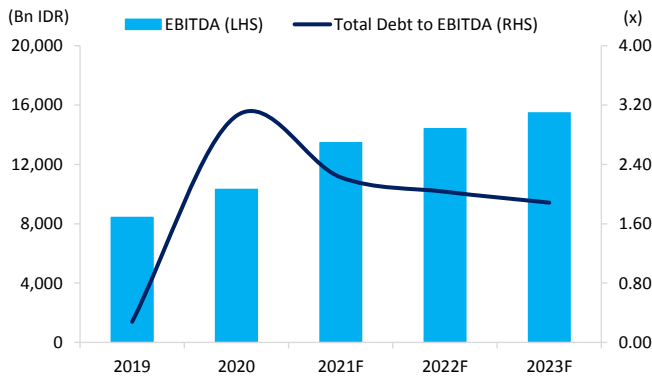
Source: Company, Shinhan Sekuritas Indonesia

Steady profitability despite higher input cost



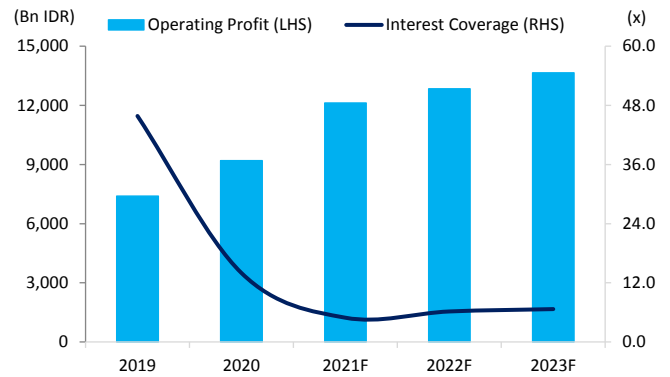
Source: Company, Shinhan Sekuritas Indonesia

Total debt to EBITDA



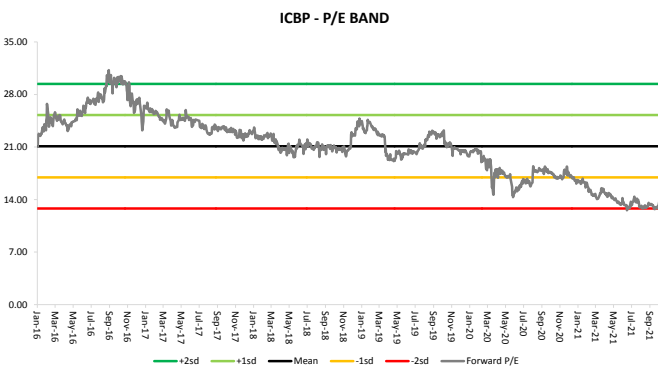
Source: Company, Shinhan Sekuritas Indonesia

Interest coverage ratio



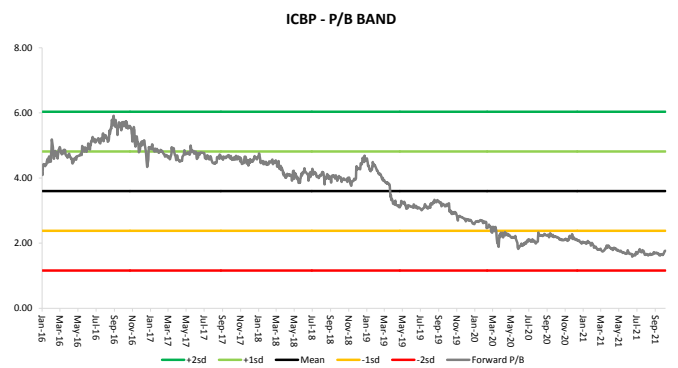
Source: Company, Shinhan Sekuritas Indonesia

ICBP Forward P/E Band



Source: Company, Shinhan Sekuritas Indonesia

ICBP Forward P/B Band



Source: Company, Shinhan Sekuritas Indonesia

Income Statement

(Bn IDR)	2019	2020	2021F	2022F	2023F
Revenue	42,297	46,641	56,858	61,151	65,617
COGS	-27,893	-29,417	-36,072	-38,780	-41,639
Gross Profit	14,404	17,224	20,786	22,372	23,978
EBITDA	8,427	10,313	13,460	14,407	15,478
Operating Expense	-7,004	-8,023	-8,669	-9,527	-10,324
Operating Profit	7,400	9,201	12,117	12,845	13,654
Pre-Tax Profit	7,437	9,959	10,318	11,619	12,532
Tax Expense (Benefit)	-2,077	-2,540	-2,847	-3,211	-3,414
Net Profit	5,039	6,587	6,728	7,735	8,389
EPS (IDR)	432	565	577	663	719

Source: Company, Shinhan Sekuritas Indonesia

Balance Sheet

(Bn IDR)	2019	2020	2021F	2022F	2023F
Assets					
Cash and Equivalent	8,359	9,535	10,563	12,334	14,741
Receivables	4,132	5,747	7,562	8,561	9,186
Inventories	3,841	4,587	5,988	6,050	6,496
Others	293	847	1,592	1,223	1,312
Total Current Assets	16,625	20,716	25,705	28,168	31,736
Net Fixed Assets	11,342	13,351	16,516	19,101	22,226
Other Assets	10,742	69,521	70,242	70,705	71,173
Total Assets	38,709	103,588	112,462	117,974	125,135
Liabilities and Equities					
Payables	3,803	5,703	6,368	5,504	5,906
Other Short-Term Liabilities	2,753	3,473	8,244	9,631	10,335
Total Current Liabilities	6,556	9,176	14,613	15,135	16,240
LT. Debt	1,695	30,773	29,103	28,195	28,017
Other Long Term Liabilities	3,787	13,321	14,032	14,751	15,535
Total Long-Term Liabilities	5,482	44,094	43,134	42,946	43,551
Total Liabilities	12,038	53,270	57,747	58,081	59,791
Total Equity	26,671	50,318	54,715	59,894	65,343
BVPS (IDR)	2,170	2,524	2,901	3,345	3,812

Source: Company, Shinhan Sekuritas Indonesia

Cash Flow

(Bn IDR)	2019	2020	2021F	2022F	2023F
CFs from Operation					
Net Profit	5,039	6,587	6,728	7,735	8,389
Change in Working Capital	2,359	2,750	-1,210	679	1,794
CFs from Operation	7,398	9,337	5,518	8,414	10,183
CFs from Investments	-2,400	-34,957	-5,091	-4,611	-5,416
CFs from Financing	-1,266	26,758	598	-2,077	-2,414
Net Inc./ (Dec.) in Cash	3,637	1,187	1,025	1,770	2,405
Cash at End Period	8,359	9,535	10,563	12,334	14,741

Source: Company, Shinhan Sekuritas Indonesia

Key Ratio

	2019	2020	2021F	2022F	2023F
Profitability					
Gross Margin	34.1%	36.9%	36.6%	36.6%	36.5%
Operating Margin	17.5%	19.7%	21.3%	21.0%	20.8%
EBITDA Margin	19.9%	22.1%	23.7%	23.6%	23.6%
Net Margin	11.9%	14.1%	11.8%	12.6%	12.8%
ROAA	13.0%	6.4%	6.0%	6.6%	6.7%
ROAE	19.9%	22.4%	19.9%	19.8%	18.9%
Growth					
Revenue	10.1%	10.3%	21.9%	7.6%	7.3%
Operating Profit	14.8%	24.3%	31.7%	6.0%	6.3%
EBITDA	15.6%	22.4%	30.5%	7.0%	7.4%
Net Income	10.1%	30.7%	2.1%	15.0%	8.5%
Solvability					
Current Ratio (x)	2.54	2.26	1.76	1.86	1.95
Quick Ratio (x)	1.91	1.67	1.24	1.38	1.47
Debt to Equity (x)	0.5	1.1	1.1	1.0	0.9
Debt to Asset (x)	45.8	14.0	4.9	6.2	6.7

Source: Company, Shinhan Sekuritas Indonesia



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