

CONSUMER/REINITIATING COVERAGE

BUY

Target Price, Rp 13,400

Upside 13.5%

ICBP IJ/ICBP JK

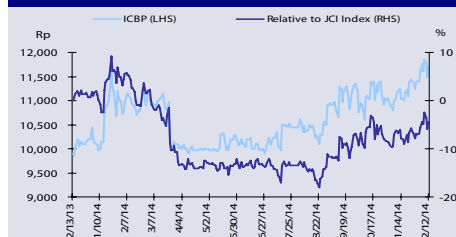
Last Price, Rp 11,800

No. of shares (mn) 5,830

Market Cap, Rp bn 68,794

(US\$ mn) 5,4,17

3M T/O, US\$mn 2.1

ICBP relative to JCI Index**Market Recommendation****Danareksa vs Consensus**

	Our	Cons	% Diff
Target price, Rp	13,400	12,074	10.9
EPS 2014F, Rp	485	458	5.9
PER 2014F, x	24.3	25.7	-5.4

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Indofood CBP Sukses Makmur**Feeding the Nation**

As one of the largest F&B companies in Indonesia, ICBP's brands have become household names across much of the country thanks to their mass market appeal and easy availability at many stores. As such, we believe that the company represents a safe shelter in Indonesia's consumer sector at the present time, especially since inflation has gone up recently. Furthermore, in valuation terms, the shares look enticing in view of the company's lower PE relative to the JAKCONS. We reinitiate coverage on ICBP with a Target Price of Rp13,400. BUY.

Defensive products with extensive distribution and market penetration

As purchasing power may wane due to a higher cost of living, we think that ICBP is one of the most defensive stocks in the market that can weather the challenging macro conditions. The company's defensive characteristics are exemplified by its best-selling instant noodles, which have low selling prices and high brand awareness among Indonesian consumers. Benefiting from Indonesia's young demographics and the burgeoning middle-class, ICBP's other product segments also offer some potential upside. To support its operations, the company also has an extensive distribution network across Indonesia.

Margins projected to improve in 2015 onwards

We note that margins have taken a hit since 2013, and while the weakness may have been protracted into 2014, we are more upbeat on 2015-16F. In our view, commodity prices should remain soft going forward, paving the way for margins improvement. We also believe that the Rupiah will strengthen in 2H15, with every Rp100 increase in the average USD/IDR exchange rate leading to an increase in the net profit by about 4.5%. We estimate net margins in 2015-16F of 9.8%-10.3%.

The balance sheet remains healthy

We have ascertained the healthiness of ICBP's P&L and balance sheet in terms of profitability, solvency and liquidity ratios. Margins are expected to improve (profitability), while sufficient cash should keep ICBP in a net cash position (solvency). In terms of liquidity, the company's cash conversion cycle is expected to remain stable, at marginally below 40 days, with working capital turnover at about 4 days.

Valuation at its 5-year average as market conditions are less conducive

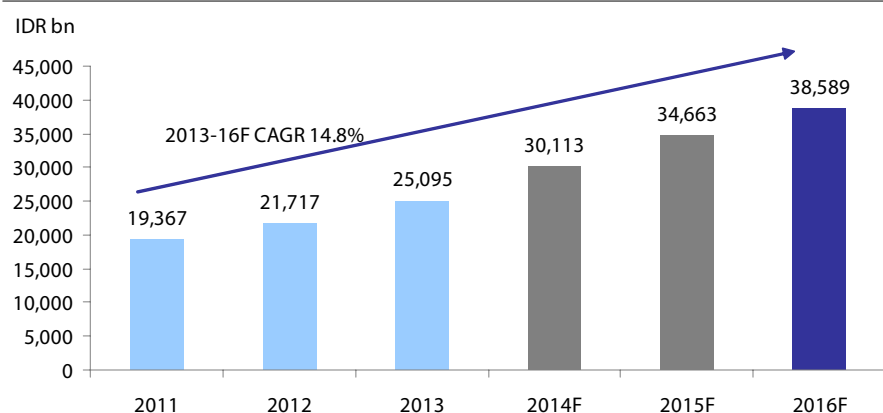
While ICBP's PE ratio has on average been at 31% above the JCI, compared to its peers, ICBP's PE is at a discount (16.6%). Currently, ICBP is trading at around 20x 12-month forward PE, or around its 3-year PE average and at a 14% discount to its regional peers. Under the current conditions, we believe a higher valuation is warranted. We derive our Rp 13,400 Target Price from 22.9x 2015PE, at par to its regional peers.

	2012	2013F	2014F	2015F	2016F
Revenue, Rp bn	21,717	25,095	30,113	34,663	38,589
EBITDA, Rp bn	3,001	3,099	3,917	4,805	5,449
EBITDA growth, %	7.4	3.3	26.4	22.7	13.4
Net profit, Rp bn	2,180	2,225	2,830	3,408	3,968
Core profit, Rp bn	2,186	2,224	2,830	3,407	3,968
Core EPS, Rp	375	381	485	584	680
Core EPS growth, %	10.4	1.7	27.3	20.4	16.4
Net gearing, %	net cash	net cash	net cash	net cash	net cash
PER, x	31.6	30.9	24.3	20.2	17.3
PBV, x	6.0	5.5	4.8	4.2	3.7
EV/EBITDA, x	22.9	22.2	17.6	14.3	12.6
Yield, %	1.6	1.6	2.1	2.5	2.9

Leading F&B player with dominant market share

ICBP is a diverse F&B FMCG producer with strong brand names. While Indonesian consumption is likely to contract on the back of higher inflation (November 2014: CPI: 6.23% YoY), we believe that ICBP's performance will remain stable, largely thanks to its continued domination in the Indonesian instant noodles market. And once the inflation shock has receded, the company's dairy and beverage segments should perform better as well. Going forward, we expect ICBP to continue delivering robust financial performance, with 2011-2016F top line CAGR to reach 14.8%. Margins wise, as we expect the strengthening Rupiah in the latter part of 2015 as well as commodity prices to remain subdued, margins should improve from their 2014 levels, with the overall operating margin to reach 12%- 12.7% and the net margin 9.8-10.3% in 2015 and 2016, respectively.

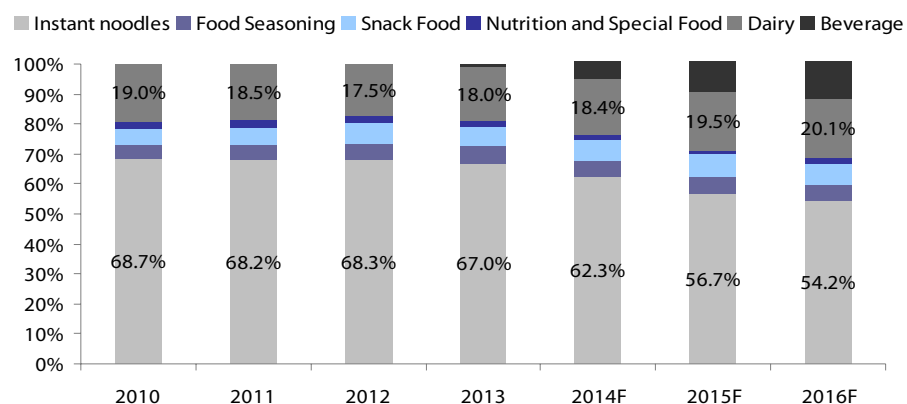
Exhibit 1. ICBP's sales growth, 2010-16F



Source: Company, Danareksa Sekuritas

As part of the F&B segment, ICBP has to keep innovating in its product offerings. ICBP has several business lines which cater to different markets, namely: 1) the noodles segment, which dominates the sales mix (2013: 66.9%), 2) dairy (the second-largest contributor; 18% in 2013), with snacks, seasonings, nutritionals and beverages rounding up the sales mix. Most of ICBP's brands are very well-known among the general population. The company also has extensive distribution, both in general trade and modern trade. We note that in many street-side restaurants, Indomie has become synonymous with instant noodles in general. We will have a closer look at each business segment in the rest of this report.

Exhibit 2. ICBP's sales mix, 2010-2016F

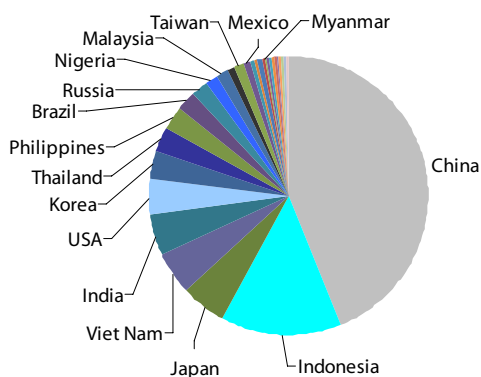


Source: Company, Danareksa Sekuritas

Noodles: Steady as she goes

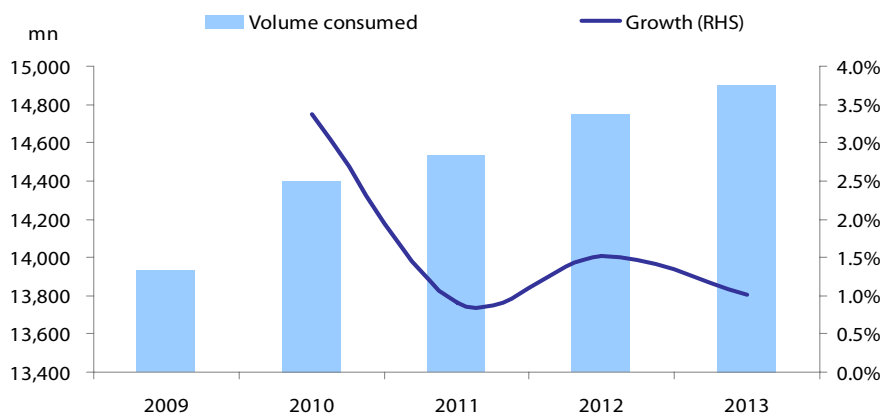
ICBP’s brand of instant noodles, Indomie, has been sold in the Indonesian market for generations. Based on WINA, Indonesia’s noodle consumption is the second-largest in the world, with 14.9bn packets consumed in 2013. As a major brand in the Indonesian instant noodles market, ICBP continues to enjoy high sales volumes. Based on Kantar Worldpanel, consumers like to buy local products, especially when it comes to food. This gives Indomie the upper hand, in our view, with the company extremely aware of Indonesian consumer preferences, which explains its more extensive selection of flavors compared to its competitors. Recently, Indomie released the “Indomie Kuliner Indonesia” line, comprising of ‘Dendeng Balado Fried Noodle’ and ‘Soto Lamongan Noodles’, which have more noticeable local flavors. Thus, in the F&B industry, where continuous innovation is needed, we believe that Indomie retains its edge, supported by revamps to its flavor profile to keep up with changes in Indonesian consumer tastes. While we do not discount the possibility of cannibalization, we believe that by providing a greater variety of products to the market, ICBP can better fulfill consumer demand. Furthermore, ICBP also meets demand for a highly convenient form of noodles, the cup noodles segment, through its Popmie and Popbihun lines.

Exhibit 3. Global consumption of instant noodles, 2013



Source: WINA, Danareksa Sekuritas

Exhibit 4. Indonesian instant noodles consumption, volume and growth, 2009-2013



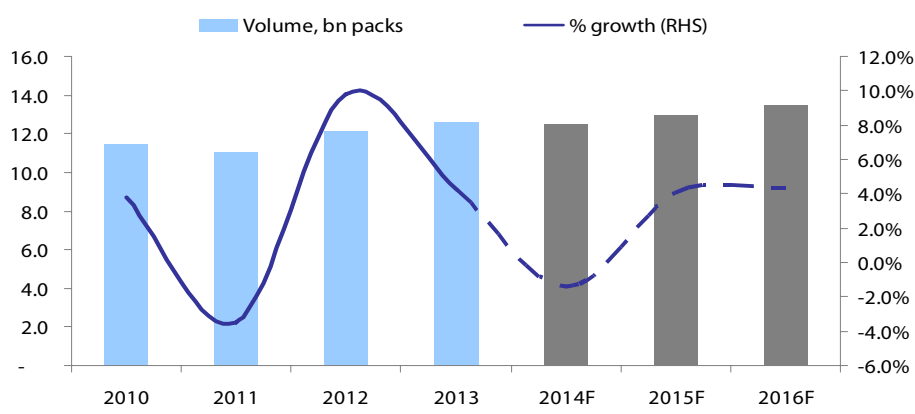
Source: WINA, Danareksa Sekuritas

In order to better meet market demand, ICBP caters to consumers with different levels of income. Its products range from Sarimie for the mass market to the Indomie Keriting line, a premium product. We have conducted channel checks with local stores and discovered that the products of ICBP's competitors are priced at a similar level to Indomie, despite this brand's dominant market share. In light of the recent high inflation, although we think that consumer purchasing power will wane before consumers adjust to the new price levels, Indomie, as one of the cheapest food sources, will continue to enjoy resilient sales, with our sales forecast of 12.97bn packs in 2015 (+4% YoY).

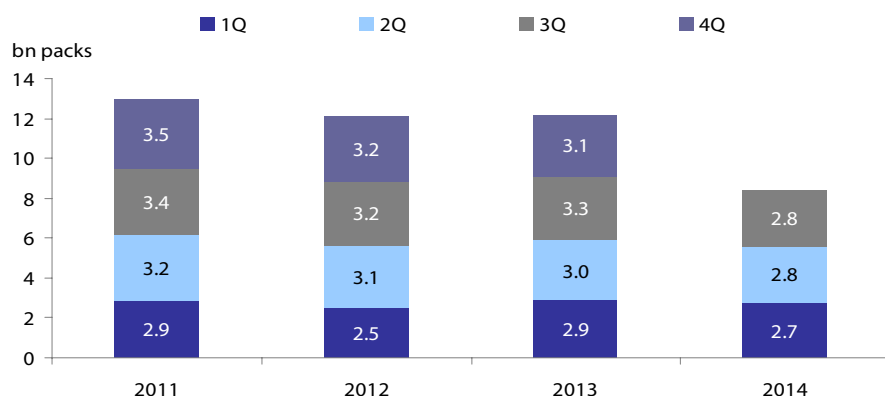
Exhibit 5. ICBP's instant noodle products and competitors

Instant Noodle	Packaging	Size (gr)	Price (IDR)	Substitution	Packaging	Size (gr)	Price (IDR)	
Indomie goreng	Standard	86	1,920	ABC Sedaap	Selera pedas goreng	80	2,200	
	Iga Penyet	80	2,025		Goreng	90	1,925	
	Goreng Pedes	80	2,025		Sambal goreng	90	1,740	
	Cabe Ijo	85	2,050		Goreng Ayam Krispi	84	2,140	
	Rendang	91	2,025					
	Cakalang	82	2,047					
	Jumbo	126	2,950					
Mie Keriting Goreng	Dendeng Balado	90	2,600					
	Standard	80	3,442					
Indomie	Bulgogi	90	3,825					
	Ayam Bawang	Ayam Bawang	70	1,850	ABC	Ayam Bawang	70	1,450
		Ayam Special	75	1,950		Selera Pedas	75	1,775
		Kari Ayam	72	2,025		Sup Tomat Pedas	75	1,775
		Soto Mie	70	1,815		Sumur Ayam Pedas	75	1,700
		Soto Special	75	1,875		Gulai Ayam Pedas	85	1,750
		Empal Gentong	74	1,903		Gule Salero	70	2,025
		Mie Kocok Bandung	75	1,903				
	Soto Banjar Limau Kulit	Soto Banjar Limau Kulit	74	2,275	Sedaap	Ayam Bawang	70	1,825
		Soto Betawi	75	1,903		Ayam Special	66	1,825
		Soto Lamongan	90	2,600		Kari Special	75	1,825
		Cakalang	75	2,070		Kari Ayam	72	1,850
	Supermie	Soto	75	1,775		Soto	75	1,775
		Semur Ayam	75	1,900		Baso Special	77	1,825
Sarimie	Dua Koya Jeruk Nipis	112	2,160					
	Dua Kari Special	115	2,450					
	Dua Soto	113	2,500					
	Dua Ayam Bawang	115	2,115					

Source: Danareksa Sekuritas

Exhibit 6. ICBP's noodles revenues and growth, 2010-2016F

Source: Company, Danareksa Sekuritas

Exhibit 7. ICBP's noodles sales volume per quarter, 2011-3Q14

Source: Company, Danareksa Sekuritas

Indomie has achieved extensive market penetration in Indonesia, and the product is readily available at various types of general trade and modern retailers. Nonetheless, demand may now have matured, thus preventing extensive growth in consumption volume. However, we continue to like ICBP's instant noodles segment as we believe that noodles remain one of the most affordable food products, making it attractive to consumers, especially when inflation has picked up. As such, we believe that ICBP's instant noodles division will continue to record high sales. Additionally, we like Indomie's growing presence overseas, especially in Nigeria, where production plants have been operating since 1995. Indomie also has a strong presence in other countries, especially where the population of Indonesian expats and/or international students is relatively high.

In terms of costs, while local wheat prices have surged as of late, especially triggered by the fuel subsidy cuts, going forward, we expect wheat (commodity) prices to remain soft, plus the IDR to appreciate in 2015. As such, the cost of the main raw material for noodles should stay manageable. We have conducted sensitivity analysis in this regard and found that for every Rp100/kg decline in wheat prices, the net margin will improve by 2.06% in 2015 and by 1.89% in 2016. Although there may be protracted weakness in sales volumes and margins at the beginning of 2015, we believe conditions will be more favorable in 2H15. The costs in other components such as condiments are also expected to increase (e.g. onions, sugar), although the impact on ICBP's noodles segment should be minimal.

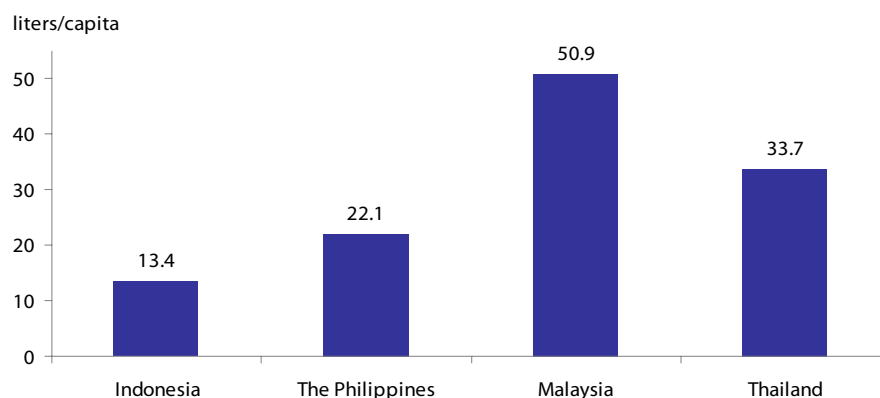
Exhibit 8. Wheat prices sensitivity table

Rp bn	Base case			- Rp100/kg wheat prices			% changes		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Noodles COGS	13,848	14,377	15,197	13,762	14,287	15,104	-0.6	-0.6	-0.6
Total COGS	22,009	25,033	27,496	21,923	24,944	27,403	-0.4	-0.4	-0.3
Gross profit	8,104	9,630	11,093	8,190	9,719	11,186	1.1	0.9	0.8
Net profit	2,830	3,408	3,968	2,895	3,478	4,043	2.3	2.1	1.9

Source: Danareksa Sekuritas

Dairy: Milking the profits

According to Tetra Pak, global white milk consumption is projected to grow by CAGR of 13% from 2013-2016, with volume reaching 223bn liters. In Indonesia, milk consumption is still low. According to USDA, Indonesia currently consumes 13.4 liters per capita or far below Malaysia's 50.9 liters per capita. With such low consumption, we believe the Indonesian dairy market remains highly prospective, supported by the growing middle class and young population as well as the inclination toward healthier lifestyles. As for ICBP, we see that its Dairy division shall be driven by 3 general types of products: powder milk, UHT milk and condensed milk. Helped by Indonesians' penchant for condensed milk, which can be used in many forms of traditional snacks to daily breakfast breads, ICBP's condensed milk sales volume should remain buoyant. ICBP has Indomilk, its main brand for milk products (both UHT and powder form). From our local store checks, we note that Indomilk's UHT milk is priced at a discount to its competitors' (13-16% discount on average) while its condensed milk varies from a 6% premium to a 14% discount on average. We also note that traditional flavored milks (vanilla, chocolate and strawberry) continue to dominate the market. Indomilk itself has several UHT products – Indomilk, Indomilk Kids and Indomilk Champs, which target different age groups. Recently, ICBP announced that the company is acquiring Danone's dairy division, which will give ICBP the "Milkuat" brand. So far, Milkuat's product portfolio consists of UHT milk and powder milks targeted toward young children in the 5-12 age group, which should enhance ICBP's dairy target market. In addition to that, this acquisition should provide ICBP with additional capacity to further enhance its market share in the Indonesian dairy market.

Exhibit 9. Asian consumption of milk, 9M14

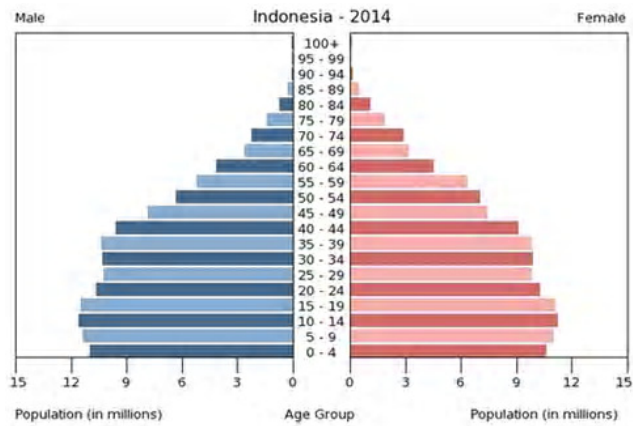
Source: USDA

Exhibit 10. ICBP's dairy products and competitors

Dairy	Packaging	Size	Price (IDR)	Substitution	Packaging	Size	Price (IDR)
UHT milk	Indomilk	200 ml	3,275		Ultramilk	200 ml	3,395
					Milo	200 ml	3,940
					Diamond	200 ml	3,300
		Hilo	200 ml		6,775		
		Bendera	190 ml		3,500		
					1,000 ml	12,250	Ultramilk
				Bendera	1000 ml	14,500	
				Diamond	1000 ml	14,200	
Condensed milk	Indomilk	375 gr	9,750		Omela	375 gr	8,925
	Enaak	375 gr	8,275		Carnation	375 gr	8,750
	Kremer	375 gr	7,850		Bendera	375 gr	8,925
					Nona	380 gr	10,225

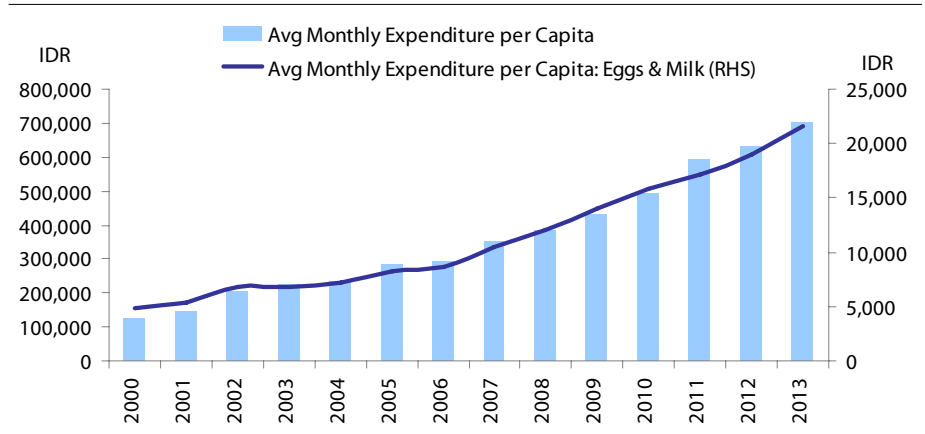
Source: Danareksa Sekuritas

Exhibit 11. Indonesia population pyramid, 2014



Source: CIA World Factbook

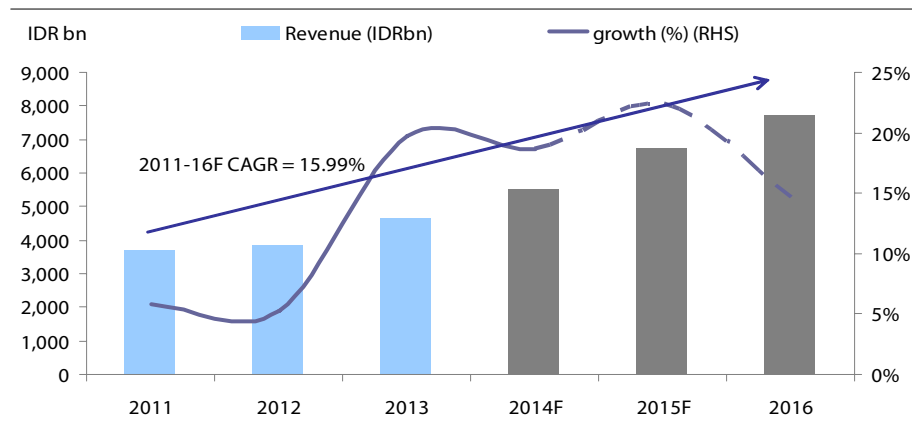
Exhibit 12. Indonesia's average monthly exp per capita as a whole and for eggs & milk



Source: CEIC

In 9M14, Dairy's EBIT margin dropped to 4.2% from 10.1% in 9M13 on the back of the high Milk SMP price (lagging 3-6 months) and the continued IDR weakness against the USD. While we believe Indonesia will have to continue to import SMP, we think the days of high SMP prices are gone. Further fueled by the strengthening IDR in 2015, margins expansion should be visible - especially in 2H15. Our sensitivity study reveals that for every USD10/ton drop in the SMP price, the overall net profit will increase by 3.68-3.71% in 2015-16F. At the top line, we forecast the dairy segment to continue growing at a rapid rate, from sales of Rp5,526bn in 2014 to Rp6,764bn and Rp 7,756bn in 2015-16F respectively (translating into 16% 2011-16F CAGR). Our biggest concern lies in possible spending cuts in Indonesia's consumption of dairy products, especially since most Indonesian consumers have not yet incorporated milk into their daily diets.

Exhibit 13. ICBP's milk revenues and growth, 2011-2016F



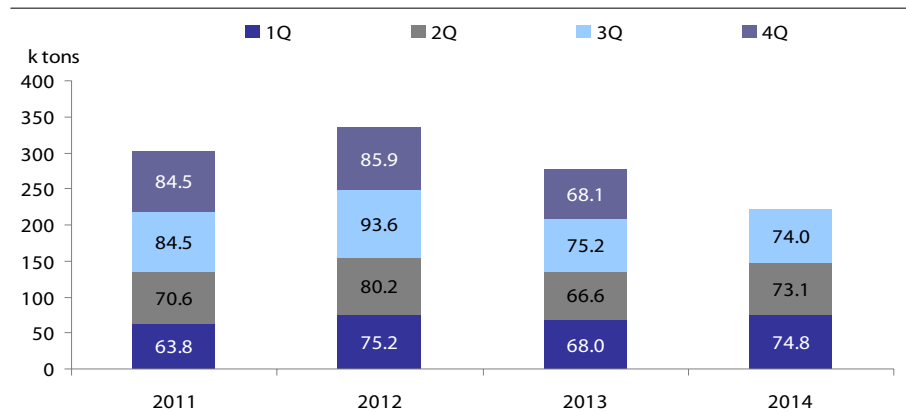
Source: Company, Danareksa Sekuritas

Exhibit 14. Milk prices sensitivity table

IDR bn	Base case			- USD10/ton SMP prices			% changes		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Milk COGS	3,921	4,786	5,386	3,625	4,400	4,944	-7.6	-8.1	-8.2
Total COGS	22,009	25,033	27,496	21,713	24,647	27,054	-1.3	-1.5	-1.6
Gross profit	8,104	9,630	11,093	8,400	10,016	11,535	3.7	4.0	4.0
Net profit	2,830	3,408	3,968	3,054	3,709	4,321	7.9	8.8	8.9

Source: Danareksa Sekuritas

Exhibit 15. ICBP's dairy sales volume per quarter, 2011-3Q14

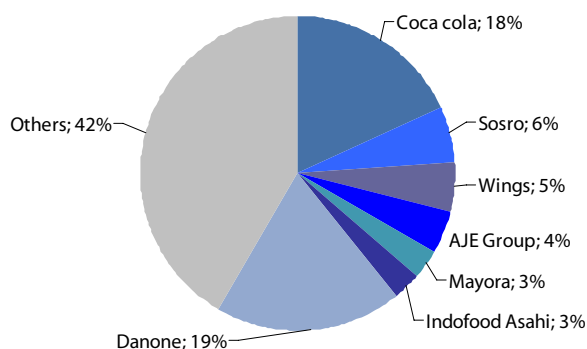


Source: Company, Danareksa Sekuritas

Beverages: Quenching the thirst

For beverages, the Indonesian market is very lucrative considering: 1) the growing youth demographics; 2) Indonesians' penchant for sweet and flavored drinks; 3) a growing health-conscious population that seeks alternatives to carbonated drinks. Euromonitor estimates that the Indonesian soft drinks market will expand by an average 5.6% p.a. in the next 4 years. ICBP, in a JV with Asahi, established AIBM and IASB to enter the non-alcoholic RTD beverages segment in 2012. Thus far, the beverages line has acquired PepsiCo brands and Club (bottled water). In addition to that, there are currently 2 products under the JVs: Ichi Ocha (RTD tea) and Caféla Latte (RTD coffee). Ichi Ocha uses premium tea leaves from Japan with a 1x brewing process, which attracts more health-conscious customers. We note that Ichi Ocha is 17% cheaper on average than its substitutes, possibly since it is the new entrant in the market and does not yet have pricing power (the RTD leader has around a 63% market share in terms of volume). As for Caféla, it originates from premium coffee beans with milk and creamer added. Both drinks appeal to Indonesian consumer tastes – easy to carry around, sweet, refreshing as cold drinks, and perceived as a healthier choice than soda. Since Ichi Ocha's introduction to the market in February 2014, the RTD tea has managed to capture 3% of Indonesia's soft drinks market. Undoubtedly, this remarkable achievement is partly attributable to ICBP's extensive distribution network. Again, as part of the F&B industry, ICBP will have to constantly innovate its flavor profiles. We believe ICBP can benefit from Asahi's extensive knowledge and portfolio in the beverages business, supported by ICBP's expertise on the Indonesian market. While the segment has yet to book an operating profit, the management targets the Beverages division to turn profitable by 2016, with the management setting an ambitious target of Rp 5tn in sales by 2017 (3Q14: Rp 1.3tn). We are upbeat on the prospects for this new business line, with our estimate for sales to reach Rp2.6-3.4tn in 2015-16.

Exhibit 16. RTD beverages' share by value, Oct 2014



Source: AC Nielsen

Exhibit 17. Beverages of ICBP and its competitors

Beverages	Packaging	Size (ml)	Price (IDR)	Substitution	Packaging	Size (ml)	Price (IDR)
RTD Tea	Ichi Ocha	500	4,740		Frestea	500	5,410
					Nu Greentea	500	5,460
					Poka Greentea	500	9,500
					Joytea	500	5,670
					Mirai Ocha	500	5,700
					Teh Gelas	500	4,600
					Teh Pucuk	480	4,900
					Futami	480	4,750
					Fruit Tea	500	6,450
					My Tea	450	6,330
					Teh Sosro	450	6,150
RTD coffee	Cafela Latte	250	5,412		Good Day	250	4,207
					Kopiko 78p	250	6,018
					Nescafe	240	6,924

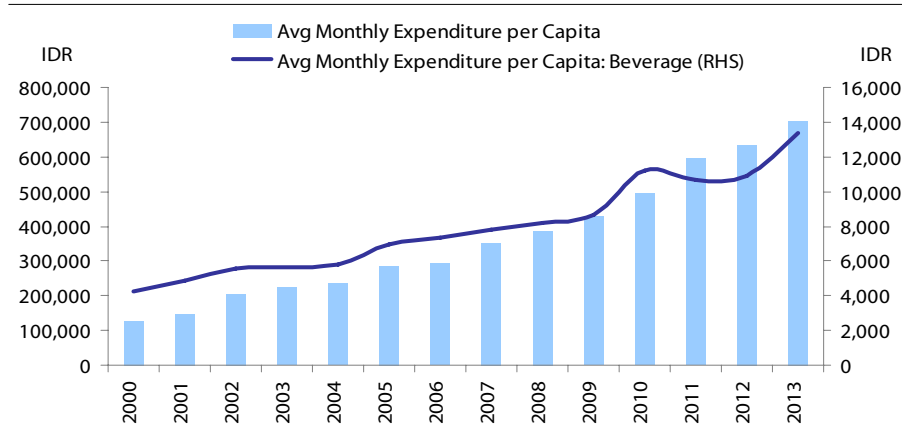
Source: Danareksa Sekuritas

Exhibit 18. ICBP's launched beverages



Source: Company

Exhibit 19. Indonesia's average monthly exp per capita as a whole and for beverages



Source: CEIC

Snacks, Seasoning and Nutritionals: Variety is the spice of life

ICBP operates its Snack division with a JV with Seven-Up Netherlands B.V., and has a vast array of products in its portfolio. The snack brands include Chitato, Lays, Cheetos, Chiki, Qtela and many more. Other than these, ICBP also operates the biscuit segment on its own. As snacks are highly discretionary, ICBP has to constantly renew its product portfolio to satisfy the shifting consumer tastes. While we note that some classic flavors are kept, at the same time, ICBP also innovates new flavors – i.e. limited edition Chitatos and Lays for the 2014 Brazil World Cup and Qtela purple sweet potato chips. ICBP also launched Dueto, a cream sandwich cookie marketed for children. We observe that ICBP's snacks can be found in almost all stores, both general and modern. Going forward, while the road may be bumpy as consumers tend to cut down on discretionary consumption during periods of high inflation, we remain positive on the Snack division given its large number of varieties, availability and affordability. As for seasonings, we think sales volume will remain buoyant, helped by stable instant noodles sales volume. The Nutritional and Special Foods division may continue to face rough patches, especially with intense competition in the mass market coming from Nestle and Kalbe. Facing such competition, ICBP has started to branch out to Provita and Govit to support this business line. However, we are of the view that Nutritionals sales will see unexciting growth, and that they will continue to comprise only a small portion of ICBP's sales mix.

To sum up, we do not expect major changes in the product mix in 2015-16. Noodles will remain ICBP's backbone, while dairy and beverages are expected to offer solid growth prospects. Compared to previous years, the 2014-16F top line may be expected to show slowing growth. Nonetheless, we still believe ICBP can book decent revenues growth (2015 growth: 15.1% YoY; 2016: 11.3% YoY). On the cost side, as we expect the IDR to strengthen on average in 2015, our model foresees a 4.5-4.6% improvement in net profits per Rp100 appreciation in the USD/IDR rate on average in the respective years. Furthermore, commodity prices are expected to remain soft, also boding well for ICBP.

Exhibit 20. USD/IDR rates sensitivity

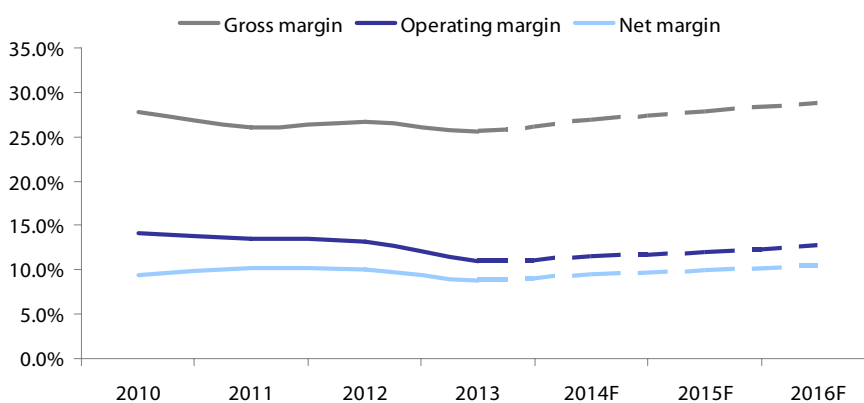
IDR bn	Base case			+Rp100 in USD/IDR rate average			% changes		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Total COGS	22,009	25,033	27,496	22,009	24,829	27,262	0.0	-0.8	-0.9
Gross profit	8,104	9,630	11,093	8,104	9,834	11,327	0.0	2.1	2.1
Net profit	2,830	3,408	3,968	2,830	3,561	4,152	0.0	4.5	4.6

Source: Danareksa Sekuritas

Balance Sheet: No need for a red flag

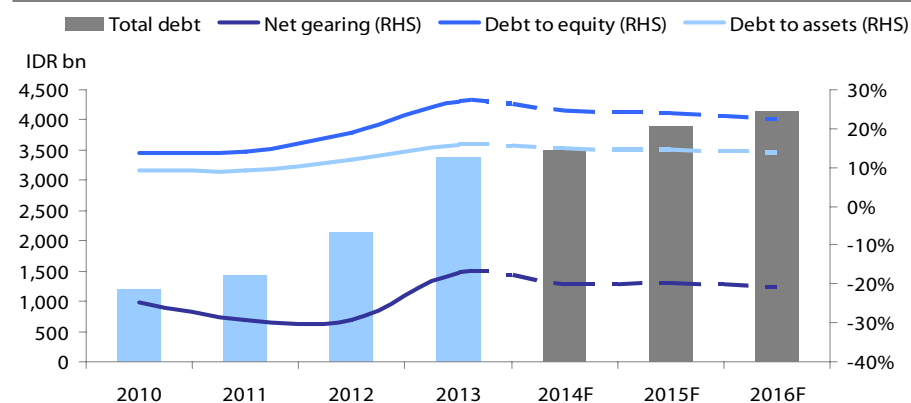
As we believe that consumer purchasing power may be weaker in early 2015, we have taken a close look at the company's balance sheet. We have tried to assess the company's health from 3 types of measures: the profitability (from P&L), solvency and liquidity ratios. In terms of profitability, we look at the margins. Due to higher raw material prices and lower volumes, the 2013 margins showed some weakness, and we believe this trend will continue into 2014 (2014F net margin of 9.4%). We are, however, more optimistic on 2015, as we believe the 2015-16F net margins will improve to 9.8-10.3%. In terms of gearing, going forward, especially with beverages still in an early stage, we believe that the debt level is unlikely to come down. However, with substantial cash, we expect ICBP to remain in a net cash position, with its debt to equity and debt to assets ratios stable at the current level. From the liquidity perspective, we expect the cash conversion cycle to remain stable, at marginally below 40 days, with working capital turnover at about 4 days. Overall, we believe ICBP's balance sheet will remain healthy and that it can still support further expansion. We think that there is also ample room for the company to take on debt should it need to raise funds.

Exhibit 21. ICBP's margins, 2010-2016F



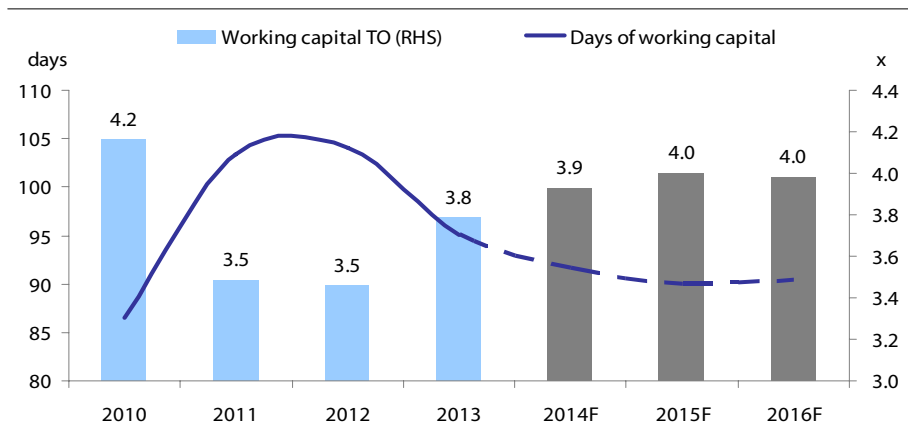
Source: Company, Danareksa Sekuritas

Exhibit 22. ICBP's debt level and ratios, 2010-2016F



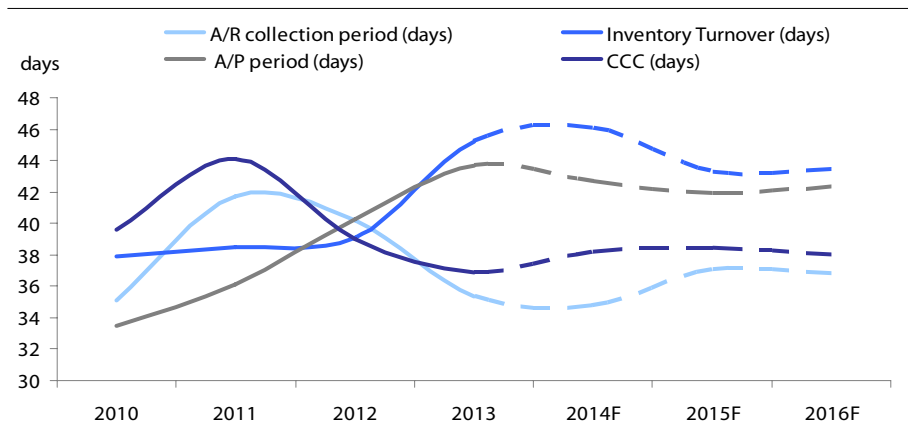
Source: Company, Danareksa Sekuritas

Exhibit 23. ICBP's working capital days and turnover, 2010-2016F



Source: Company, Danareksa Sekuritas

Exhibit 24. ICBP's cash conversion cycle, 2010-2016F



Source: Company, Danareksa Sekuritas

9M14: Improving

On the back of the normalization post-Lebaran, sales in 3Q14 were weaker on a quarterly basis. However, we note the margins improvement in 3Q14 from both 2Q14 and 3Q13, indicating that ICBP was able to control its costs despite unexciting sales. On a yearly basis, 3Q14 was much improved, with net profits increasing 22.6% YoY. In line with the lower top line, sales volumes were also down in all segments except beverages. We believe 4Q14 will see healthier sales volume despite the recent high inflation. The 3Q14 operating margins in most segments also improved both QoQ and YoY, although beverages were still loss-making and nutritional and special foods remained under pressure.

Helped by the 3Q14 performance, 9M14 saw a healthy increase in sales of 20.7% while COGS grew 19.7%. Opex, however, surged 39.7% on higher advertising and salary expenses. Overall, the result remains positive with net profits up 11.75%. Margins-wise, the performance was mixed, with improving gross margins (9M14:26.6%; 9M13: 26%) but lower operating margins (9M14: 10.9%; 9M13: 12.4%) and lower net margins (9M14: 9.1%; 9M13: 9.8%). In terms of sales volume, the 9M14 noodles sales were stable compared to 9M13, but most of the other segments' sales volumes were slightly down. Snacks were the only line that saw higher sales volumes in 9M14, but we are cautious on the outlook for snacks' sales volumes in 4Q14.

Exhibit 25. 9M14 results (IDR bn)

	9M13	9M14	y-y, %	3Q13	2Q14	3Q14	q-q %	y-y %	2014F	A/F, %
Net sales	18,877	22,784	20.7	6,369	8,167	7,262	(11.1)	14	30,113	75.7
COGS	13,970	16,723	19.7	4,758	6,049	5,168	(14.6)	9	22,009	0.8
Gross profit	4,906	6,061	23.5	1,611	2,118	2,094	(1.2)	30	8,104	0.7
Opex	2,560	3,576	39.7	901	1,316	1,255	(4.7)	39	4,655	0.8
Operating profit	2,347	2,485	5.9	711	802	839	4.7	18	3,449	72.1
Other income (exp)	154	231	50.0	59	32	137	325.8	134		
Pretax profit	2,501	2,717	8.6	770	834	976	17.1	27	3,773	72.0
Tax expense	(610)	(709)	16.1	(198)	(234)	(256)	9.3	29		
Minority interest	(38)	62	(262.0)	25	50	10				
Net profit	1,853	2,070	11.7	597	650	731	12.4	0	2,830	73.1
(in %)										
Gross margin	26.0	26.6		25.3	25.9	28.8			26.9	
Operating margin	12.4	10.9		11.2	9.8	11.6			11.5	
Net margin	9.8	9.1		9.4	8.0	10.1			9.4	

Source: Company, Danareksa Sekuritas

Exhibit 26. Sales volume breakdown

	9M13	9M14	y-y, %	3Q13	2Q14	3Q14	q-q %	y-y %
Volume Sales								
Instant noodle (bn packs)	9.8	9.8	(0.7)	3.3	3.2	3.1	(5.0)	(5.5)
Food seasoning (k tons)	75.0	63.8	(15.0)	20.7	28.1	15.4	(45.1)	(25.5)
Snack food (k tons)	24.1	26.0	7.9	7.9	10.0	8.1	(18.9)	2.5
Nutrition & special food (k tons)	11.2	10.2	(9.5)	3.4	3.4	3.1	(8.9)	(10.2)
Dairy (k tons)	253.2	238.4	(5.9)	75.2	85.9	68.1	(20.7)	(9.4)
Beverage (mn liters)	-	915.0	-	-	345.9	355.1	2.7	-

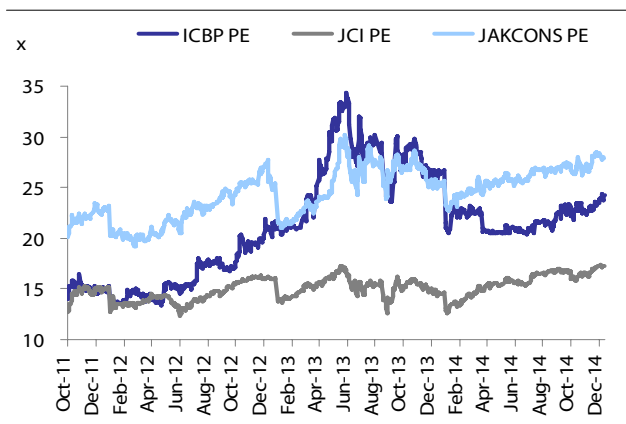
Source: Company, Danareksa Sekuritas

Valuation

Since its listing in 2010, ICBP's current PE has fluctuated from 12.77x (February 2011) to 34.33x (May 2013). Historically, ICBP has traded at a 31% premium to the JCI Index, but 16.6% below the JAKCONS Index. Looking at its 12-month forward PE, the current price is around its 3 year average (19.45x). As such, ICBP's valuation looks attractive compared to its JAKCONS peers. Given the high inflation following the reduction in fuel subsidies, we believe ICBP can provide a safe shelter in the sector with its stable performance, especially from its instant noodles division. At the same time, we are cautiously optimistic on the prospect of the USD/IDR exchange rate turning in favor of the IDR (on an average basis), although this may be difficult to achieve in the first few months of 2015. However, we believe that 2H15 should be favorable for ICBP.

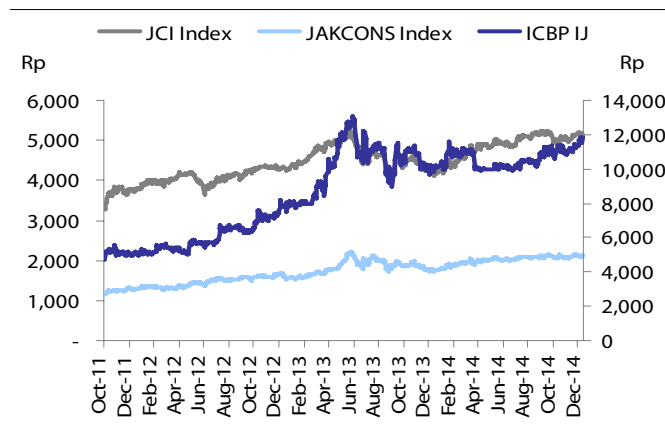
The EV/EBITDA bands offer another perspective. Similar to the PE bands, ICBP's forward EV/EBITDA band is around the mean. We have also undertaken a peers' comparison for ICBP, where we note that there is a lack of listed and well-covered peers in the Southeast Asia region. All in all, ICBP is trading close to its Chinese peers but below its Japanese peers. Although South Korean companies may have lower PEs, we note that ICBP has one of the healthiest PEG ratios. As we believe in ICBP's strong stance in the Southeast Asia region, we believe the company should be trading at par to its regional average. With 2015F PE of 22.9x (close to +1SD from the forward average at 23.97x), we derive our Target Price of Rp 13,400. With around 14% upside, we re-initiate coverage on ICBP with a BUY.

Exhibit 27. ICBP and JCI PE band comparison, with its premium



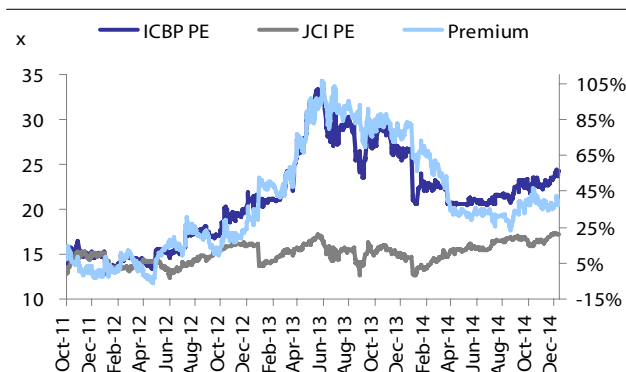
Source: Bloomberg, Danareksa Sekuritas

Exhibit 28. Current PE bands comparison



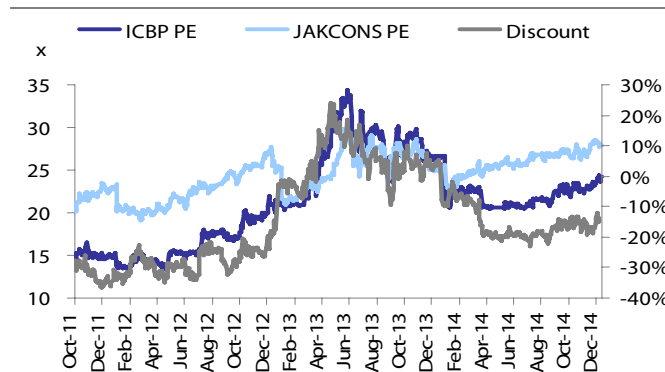
Source: Bloomberg, Danareksa Sekuritas

Exhibit 29. ICBP share price/index comparison



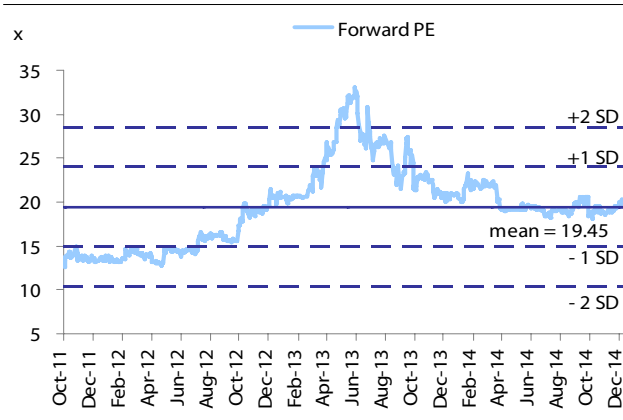
Source: Bloomberg, Danareksa Sekuritas

Exhibit 30. ICBP & JAKCONS PE band comparison, with its premium



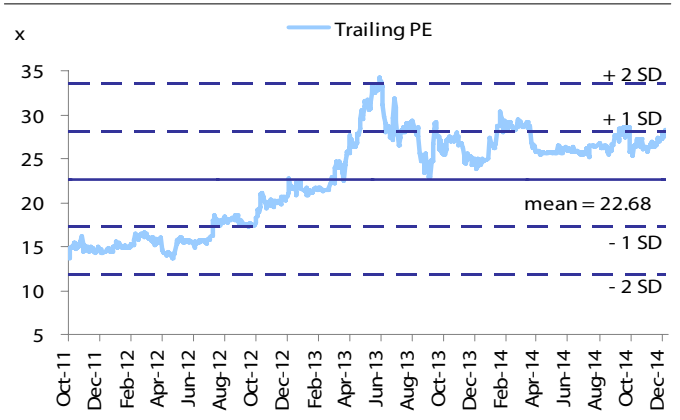
Source: Bloomberg, Danareksa Sekuritas

Exhibit 31. ICBP 12-month forward PE band



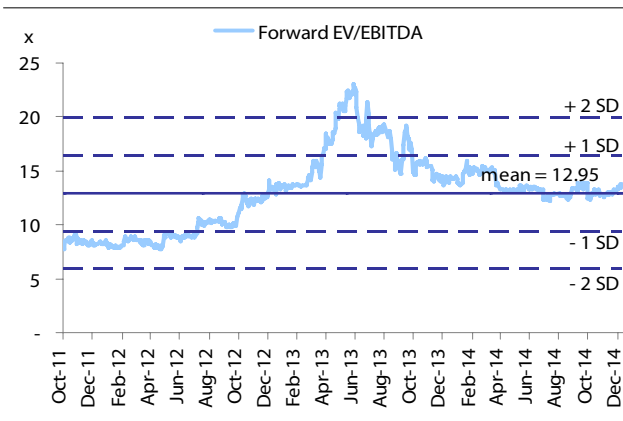
Source: Bloomberg, Danareksa Sekuritas

Exhibit 32. ICBP 12-month trailing PE band



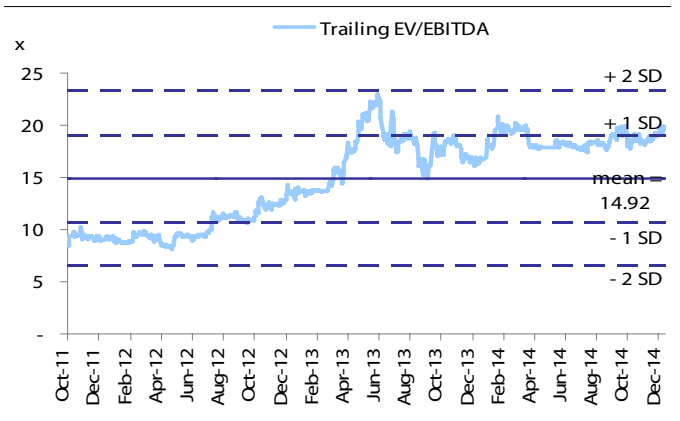
Source: Bloomberg, Danareksa Sekuritas

Exhibit 33. ICBP 12-month forward EV/EBITDA band



Source: Bloomberg, Danareksa Sekuritas

Exhibit 34. ICBP 12-month trailing EV/EBITDA band



Source: Bloomberg, Danareksa Sekuritas

Exhibit 35. Regional consumer valuations

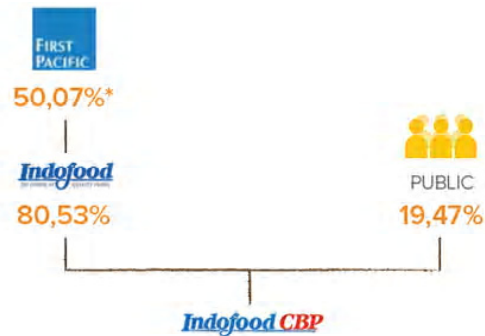
Company	Market cap (USDb)	PER		PBV (x)		EV/EBITDA (x)		ROE (%)		PEG (x)	
		2014F	2015F	2014F	2015F	2014F	2015F	2014F	2015F	2014	2015
INDOFOOD CBP SUKSES MAKMUR T	5.6	24.3	20.2	4.8	4.2	17.6	14.4	0.2	0.2	0.9	1.0
China											
WANT WANT CHINA HOLDINGS LTD	17.0	24.3	20.7	7.5	6.5	16.7	14.3	33.9	34.2	4.0	1.2
UNI-PRESIDENT CHINA HOLDINGS	3.9	40.3	31.3	2.2	2.1	14.4	11.8	6.0	6.6	(0.8)	1.1
INNER MONGOLIA YILI INDUS-A	13.7	19.0	15.6	4.1	3.8	13.5	11.1	22.7	24.6	0.4	0.7
KEMEN NOODLE MANUFACTURING-A	0.5	33.0	28.6	4.2	3.8	21.5	18.0	12.4	12.9	3.5	1.8
Weighted average	35.1	24.2	20.0	5.5	4.9	15.3	12.9	26.1	27.0	2.1	1.0
Japan											
KIRIN HOLDINGS CO LTD	12.2	34.2	26.7	1.3	1.3	9.0	8.7	3.6	4.6	(0.6)	1.0
TOYO SUISAN KAISHA LTD	3.6	18.1	21.2	1.8	1.7	8.3	8.9	10.4	8.2	1.5	(1.5)
NISSIN FOODS HOLDINGS CO LTD	5.6	30.1	29.4	1.9	1.9	14.1	13.5	6.6	6.4	2.1	12.0
SUNTORY BEVERAGE & FOOD LTD	10.8	35.1	26.5	2.2	2.1	9.8	9.1	6.6	9.3	3.5	0.8
HOUSE FOODS GROUP INC	1.8	25.4	29.9	1.1	1.0	11.8	10.7	4.3	3.5	10.4	(2.0)
KATO SANGYO CO LTD	0.7	12.9	12.9	0.9	0.8	2.0	2.1	7.2	6.2	(1.7)	(30.2)
Weighted average	34.7	31.2	26.4	1.7	1.7	10.0	9.6	5.8	6.7	1.9	1.7
South Korea											
NONGSHIM CO LTD	1.4	18.1	16.1	1.0	0.9	6.6	6.1	5.6	6.1	(2.8)	1.3
OTTOGI CORPORATION	1.6	16.9	15.0	2.1	1.9	10.4	9.6	13.2	13.2	1.4	1.2
Weighted average	3.0	17.5	15.5	1.6	1.4	8.6	8.0	9.6	9.9	(0.6)	1.2
Regional Average	72.8	27.3	22.9	3.6	3.2	12.5	11.1	15.8	16.6	1.9	1.3

Source: Bloomberg, Danareksa Sekuritas

Company background

Established in 2009 as a separate entity from its parent company, Indofood Sukses Makmur (INDF), ICBP, which was listed in October 2010, possesses a number of well-known consumer product brands under several types of product categories with its noodles division as the most famous line of business. Instant noodles, spearheaded by Indomie – the undisputed local instant noodles brand leader that has been sold in Indonesia since 1984 – has been supported by the addition of Sarimie (established in 1982), Supermi (established in 1986) and Pop Mie (established in 1988). Indomie is now a household name across the country. While its dominance was challenged by Wings Group in 2003 (through Mie Sedaap), we note that Indomie has regained its crown and continues to be the most popular instant noodles brand in Indonesia. ICBP’s most recent venture is into the RTD beverage segment, through its subsidiaries under a JV with Asahi. The beverage line has grown both organically and inorganically, through the launch of new products (Ichi Ocha and Cafela) and the acquisition of PT Prima Cahaya Indobeverages (the producer of Pepsi, Tropicana, Tekita). Taking a step further, in January 2014, ICBP acquired Club, a bottled water brand. In order to keep up with changing flavor profiles, ICBP constantly introduces new flavors from its existing line of products. Some recent examples include Mie Goreng Dendeng Balado and Soto Lamongan for Indomie and Lays and Chitato soccer-themed editions in time for the World Cup. Continuing to enhance its products portfolio, ICBP is in the process of acquiring the Milkkuat brand from Danone Dairy Indonesia, which should help the company to attain a larger market share in western Indonesia. As part of the integrated Salim group, ICBP can enjoy more reliability in its operations (e.g: raw materials, transportation).

Exhibit 36. ICBP’s Shareholding Structure



*) Through CAB Holdings Limited
 **) Melalui CAB Holdings Limited

Source: Company

Exhibit 37. Several samples of ICBP products




Source: Company, Danareksa Sekuritas

Exhibit 38. ICBP's subsidiaries and associated parties

Name	Ownership	Type of Business	Location
Drayton Pte Ltd	80.50%	Investment and export agency	Singapore, Singapore
Indofood (M) Food Industries Sdn Bhd	80.83%	Noodles	Perak, Malaysia
Indofood Fritolay Makmur	41.07%	Snacks	Jakarta, Indonesia
Indofood Asahi Sukses Beverage	41.07%	Beverage (marketing)	Jakarta, Indonesia
Indofood Tsukishima Sukses Makmur	52.30%	Oil and fat derivatives	Jakarta, Indonesia
Indofood Mitra Bahari Makmur	80.00%	Fisheries business	Jakarta, Indonesia
Pinnacle Permata Makmur	76.50%	Management consulting	Jakarta, Indonesia
Sukses Artha Jaya	80.20%	Management consulting	Jakarta, Indonesia
Indolakto	55.22%	Dairy	Sukabumi, Indonesia
Buana Distrindo	51.00%	Trading and transportation	Jakarta, Indonesia
Tirta Makmur Perkasa	50.70%	Marketing and distribution for beverages	Jakarta, Indonesia

Notes:

denotes indirect ownership denotes associated parties 

Source: Company, Danareksa Sekuritas

Risks faced by the company

- 1) Serving Indonesian consumers, ICBP is exposed to macroeconomic risks, which includes but is not limited to: economic slowdown, higher-than-expected inflation, waning consumer purchasing power and slowing middle-class consumption.
- 2) Competition, coming from both local brands and international brands; in all product segments.
- 3) As part of being a F&B producer, brand trust is an important factor. ICBP's brands will take a hit if there is any product rejection and/or health-related complaints from consumers.
- 4) Fluctuations in the US\$/IDR exchange rate and raw material prices may provide negative catalysts for ICBP.
- 5) Cannibalization as several products may compete in the same market segment.
- 6) Innovation and product research and development are crucial. However, such activities may not bear fruit.
- 7) Changing diet patterns in Indonesia will affect the current product portfolio.

Exhibit 39. Profit and Loss (Rp bn)

	2012	2013	2014F	2015F	2016F
Sales	21,717	25,095	30,113	34,663	38,589
COGS	15,913	18,669	22,009	25,033	27,496
Gross profit	5,804	6,426	8,104	9,630	11,093
SG&A	2,958	3,691	4,595	5,374	6,110
Depreciation	155	365	408	548	466
EBITDA	3,001	3,099	3,917	4,805	5,449
Other op. income (exp)	4	38	(60)	(98)	(98)
Operating income	2,849	2,772	3,449	4,158	4,885
Interest income	234	372	398	461	499
Interest expense	(54)	(165)	(104)	(114)	(138)
Forex gain (loss)	-	-	-	-	-
Other income (exp)	5	(11)	31	35	39
Pre-tax income	3,034	2,967	3,773	4,540	5,284
Income tax	(745)	(734)	(933)	(1,123)	(1,307)
Minority interest	(103)	(10)	(10)	(10)	(10)
Pro-forma adjustment	(7)	2	-	0	0
Net income	2,180	2,225	2,830	3,408	3,968

Source: Company, Danareksa Sekuritas

Exhibit 40. Balance Sheet (Rp bn)

	2012	2013	2014F	2015F	2016F
Cash and cash equivalent	5,487	5,526	6,408	7,131	8,034
Account receivables	2,384	2,549	3,242	3,858	3,967
Inventories	1,816	2,869	2,750	3,227	3,353
Other current assets	235	377	399	391	466
Total current assets	9,923	11,322	12,800	14,607	15,821
PPE	3,869	4,844	4,730	5,420	6,378
Others	4,028	5,101	6,360	7,095	7,757
Total assets	17,820	21,267	23,890	27,122	29,956
Account payable	2,178	2,952	3,000	3,503	3,675
Other current liabilities	1,470	1,744	2,132	2,444	2,454
Total current liabilities	3,648	4,697	5,133	5,947	6,129
Long term borrowings	641	1,383	1,410	1,438	1,466
Other long term liabilities	1,547	1,922	2,262	2,543	2,794
Total non-current liabilities	2,187	3,305	3,672	3,980	4,260
Total liabilities	5,836	8,002	8,805	9,927	10,389
Capital stock	583	583	583	583	583
Additional paid in	5,985	5,985	5,985	5,985	5,985
Diff. fr changes in equity	7	38	38	38	38
Diff. fr FX translation	1	2	2	2	2
Retained earnings	4,838	5,979	7,696	9,689	11,953
Minority interest	572	679	781	898	1,006
Pro forma capital	(2)	-	-	-	-
Total liabilities and equity	17,820	21,267	23,890	27,122	29,956

Source: Company, Danareksa Sekuritas

Exhibit 41. Statement of cash flow (Rp bn)

	2012	2013	2014F	2015F	2016F
Net income	2,180	2,225	2,830	3,408	3,968
Depreciation and amortisation	155	365	408	548	466
Change in working capital	977	(100)	520	441	842
Operating cash flow	3,312	2,490	3,758	4,396	5,275
Capex	(1,414)	(1,340)	(293)	(1,238)	(1,424)
Others	27	(1,073)	(1,259)	(735)	(662)
Investing cash flow	(1,387)	(2,413)	(1,552)	(1,973)	(2,086)
Dividends	(987)	(1,090)	(1,113)	(1,415)	(1,704)
Net change in debt	525	1,039	25	165	74
Others	(402)	13	(237)	(451)	(656)
Financing cash flow	(865)	(37)	(1,325)	(1,700)	(2,286)
Net change in cash	1,060	39	882	723	904
Net cash (debt) at beg.	4,427	5,487	5,526	6,408	7,131
Net cash (debt) at end.	5,487	5,526	6,408	7,131	8,034

Source: Company, Danareksa Sekuritas

Exhibit 42. Ratios

	2012	2013	2014F	2015F	2016F
Profitability (%)					
Gross margin	26.72	25.61	26.91	27.78	28.75
Operating margin	13.12	11.05	11.45	12.00	12.66
Pretax margin	13.97	11.82	12.53	13.10	13.69
Net margin	10.04	8.87	9.40	9.83	10.28
ROA	12.23	10.46	11.85	12.56	13.25
ROE	19.10	17.68	19.79	20.91	21.38
Leverage					
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Per share data (Rp)					
EPS	374	382	485	584	680
BVPS	1,957	2,159	2,453	2,795	3,183
DPS	187	191	243	292	340
Multiples (x)					
P/E	31.3	30.7	24.1	20.0	17.2
P/BV	6.0	5.4	4.8	4.2	3.7
EV/EBITDA	22.7	22.0	17.4	14.2	12.5

Source: Company, Danareksa Sekuritas

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