

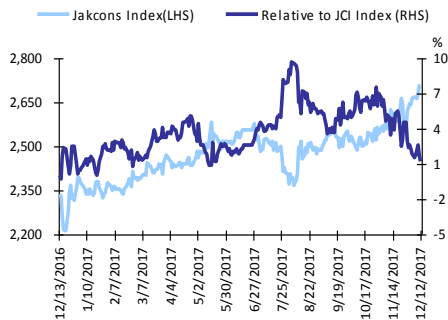
Wednesday, 20 December 2017

NEUTRAL Downgrade

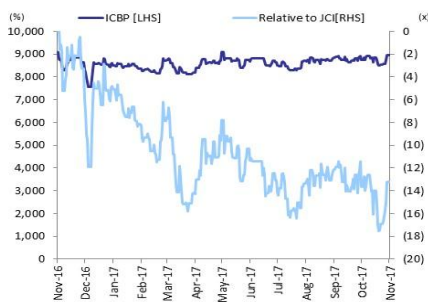
Consumer

Bright outlook but a bit pricey

Jakcons relative to JCI Index



ICBP relative to JCI Index



INDF relative to JCI Index



Natalia Sutanto

(62-21) 29 555 888 ext.3508

natalia.sutanto@danareksa.com

Looking ahead to 2018, a year before the next election, we believe that more populist government policies will be implemented to please the nation's grassroots. Purchasing power should improve on the back of easing cost pressures given the government's 2018 state budget will increase energy and health subsidies. This should help to support demand for consumer products and sustain higher sector earnings growth of 10.8% yoy.

Pre-election = higher growth. In 2018, there will be 171 regional elections (on 27 June 2018) in 17 provinces, 115 municipalities and 39 cities. This is nearly double the number of regional elections in 2017 (101 only). From the past two presidential elections (2009 and 2014), data from consumer companies depicts significant revenues growth on a yearly basis in the 4 quarters before the elections. In 2009, the sector's revenues increased by 11.2% yoy while in 2014 growth was higher at 14.2% yoy (in the 4 quarters prior to the elections). Should this pattern be repeated in 2018-19, consumer companies will be positively impacted.

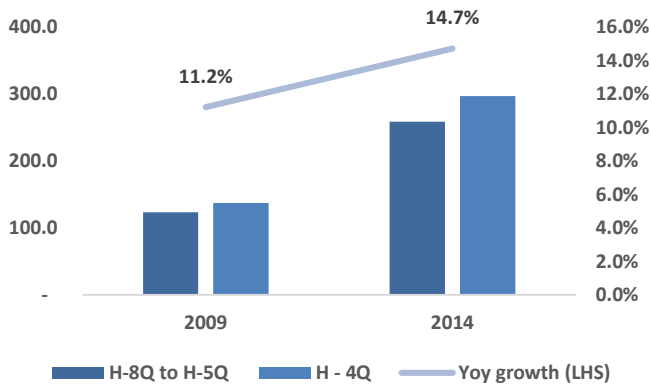
Purchasing power boost from government programs. For 2018, the government proposes ID94.6tn of energy subsidies, up 5.2% from the amount in 2017's revised budget. The government also plans for 10mn low-income households (2017 target: 6mn) to receive non-cash social assistance. To further support purchasing power, the government is also planning to launch a cash-basis labor intensive program in 2018 to absorb job seekers as well as provide direct income, with funding coming from village funds (2018: IDR60tn). Combined with continued health subsidies, these government programs should support purchasing power in the coming years, we believe.

Higher 2018 earnings growth. The revenues growth of consumer companies is highly correlated with household consumption and GDP growth. Hence, better expected GDP growth of 5.3-5.4% (DRI estimates) should bode well for the sector. In our view, the sector's revenues growth has already bottomed in 2Q17. Therefore, the prospect of easing cost pressures in the coming quarters should translate into more spending at the grassroots level. For the stocks under our coverage, we estimate solid FY17-18F top line growth of 6.3% and 8.1% yoy, respectively. Supported by slight 2018F margins improvement across the board, we estimate FY18F earnings growth of 10.8% yoy.

Top pick in the sector: ICBP. Looking ahead to 2018, a year before the next election, we believe that more populist government policies will be implemented to please the nation's grassroots. This should lead to a recovery in purchasing power and bode well for the consumer sector. As such, we continue to like the sector given its defensive nature with proven track record and solid balance sheet (FY18F gearing 0.3x). However, with limited upside to our TP, we downgrade our sector call to Neutral. Our top pick in the sector is ICBP.

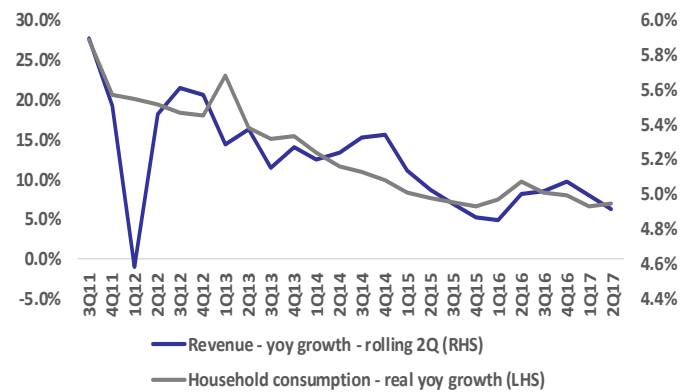
Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%)
					2017F	2018F	2017F	2018F	2018F
Indofood CBP	ICBP IJ	BUY	9,700	104,083	26.6	24.1	5.3	4.7	20.6
Indofood	INDF IJ	BUY	9,100	65,853	15.3	13.9	2.1	2.0	14.8
Kino Indonesia	KINO IJ	HOLD	2,100	2,886	25.2	20.0	1.4	1.4	7.0
Mayora Indah	MYOR IJ	HOLD	1,960	50,531	41.0	37.1	7.5	6.5	18.8
Unilever Indonesia	UNVR IJ	HOLD	52,000	404,199	58.3	52.5	76.4	66.8	135.8

Exhibit 1. Sector revenues increased in 4Q before the elections



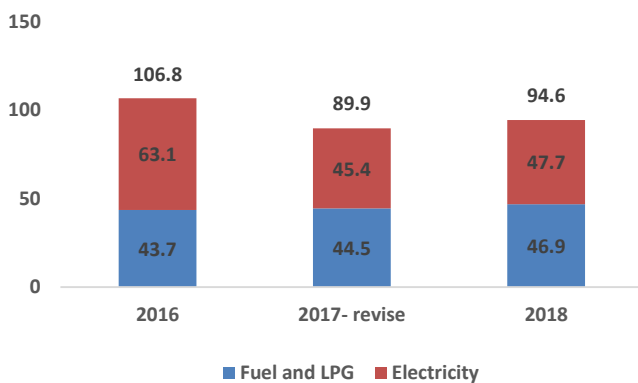
Source: Danareksa Sekuritas

Exhibit 2. Revenues and household consumption



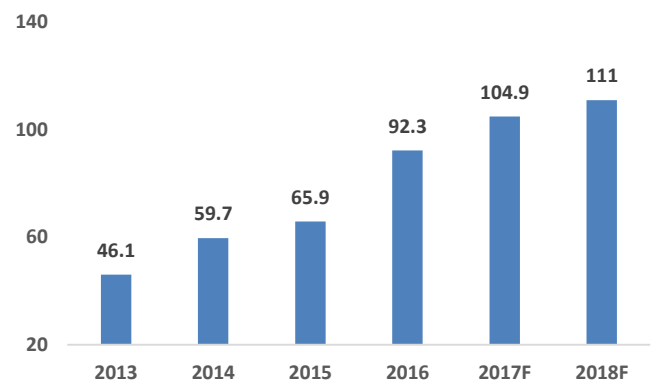
Source: BPS, Danareksa Sekuritas

Exhibit 3. Government subsidies in Energy



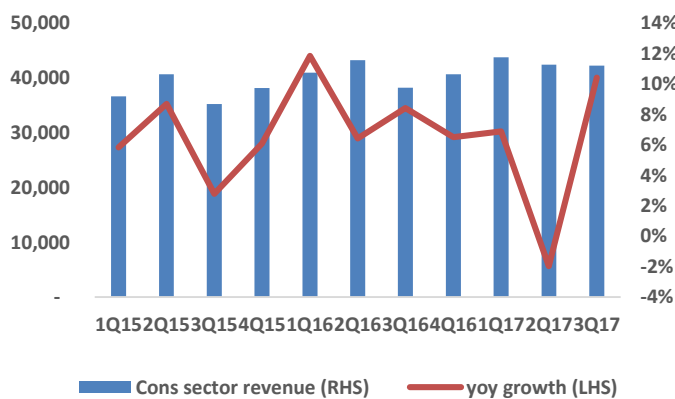
Source: Ministry of Finance, Danareksa Sekuritas

Exhibit 4. Health subsidy



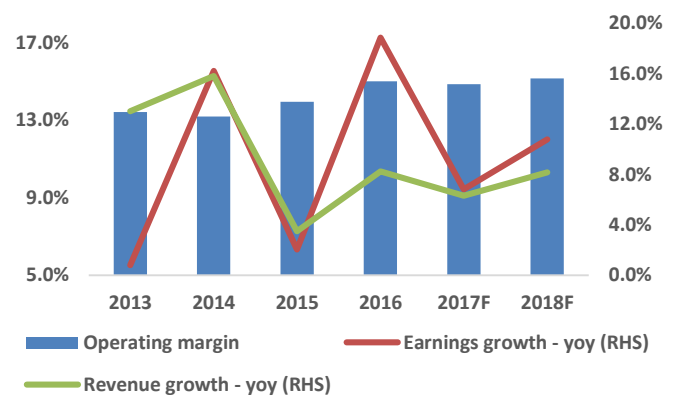
Source: Ministry of Finance, Danareksa Sekuritas

Exhibit 5. Sector's quarterly revenues growth



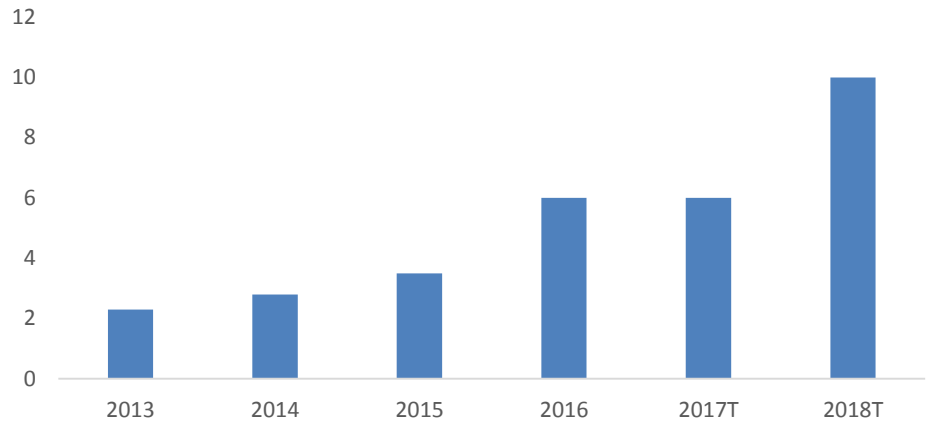
Source: Danareksa Sekuritas

Exhibit 6. Growth and margins of the consumer sector



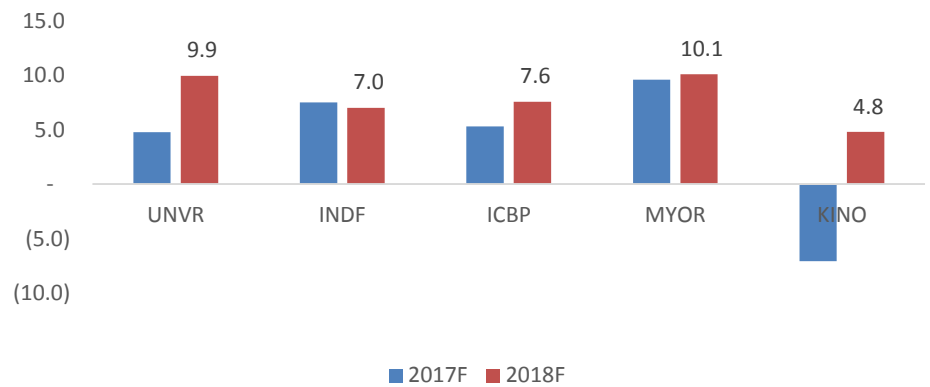
Source: Danareksa Sekuritas estimates

Exhibit 7: Participants of Indonesia' conditional cash transfer program (PKH)*



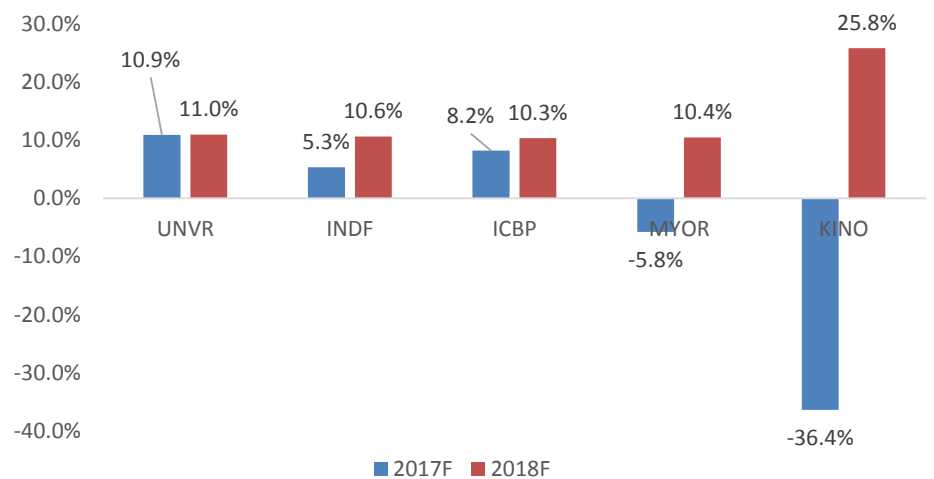
Source: RAPBN 2018 *Program Keluarga Harapan (million household)

Exhibit 8. Top line growth – 2017-18F



Source: Danareksa Sekuritas

Exhibit 9: Earnings growth – 2017-18F



Source: Danareksa Sekuritas

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