

Thursday, 3 January 2019

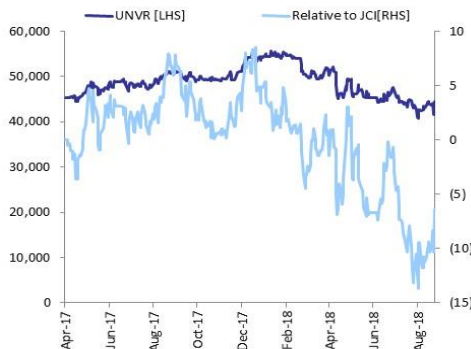
NEUTRAL

Downgrade

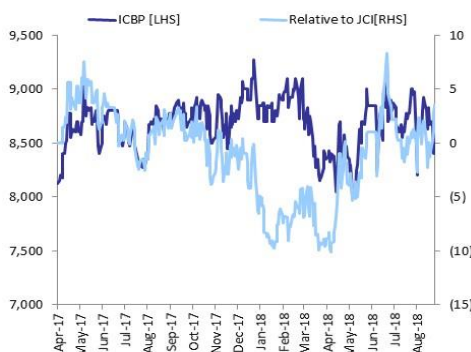
Consumer

To receive an elections boost

UNVR relative to JCI Index



ICBP relative to JCI Index



Source : Bloomberg



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We believe the consumer sector stands to benefit the most in 2019 from stronger expected domestic demand ahead of 2019's presidential elections. Soft commodity prices and a stable currency will also provide upside for our 2019 earnings estimates. However, with limited upside to our TPs, we downgrade the sector to Neutral.

Government policies to sustain domestic demand amid manageable inflation. Over the past 4 years, the government has distributed a total of IDR187tn of village funds. These funds have supported infrastructure development and encouraged economic activities. Combined with social aid including non-cash subsidies on food and rice (BPNT), education and health, income per capita has increased in rural areas and the poverty rate has declined. Many populist government policies have supported household consumption growth which reached 5-5.1% in 2Q-3Q18 amid manageable inflation of 2.88% yoy in September 2018. For 2019, the government will increase the 2019 social fund budget by 33% yoy to IDR387.3tn. Specifically, the budget for the Indonesia Conditional Cash Transfer Programme (Program Keluarga Harapan – PKH) soared 98% yoy to IDR34.3tn, with the budget for food vouchers up 54% yoy. Village funds, which are used to support development in rural areas, are up by 17% yoy to IDR70tn.

Signs of improvement in the sector. Within our coverage, we see signs of improvement with strong 3Q18 noodles sales and dairy volume and positive growth of 1.5% yoy in cigarette sales in the same period. Among the listed consumer companies under our coverage, many improvements and efficiencies have been made to sustain revenues and earnings growth amid increasing competition. Data from other sectors also shows stronger buying power, namely: higher domestic car sales volume (10M18: +7.1% yoy) & higher cement sales (10M18: +5.1% yoy).

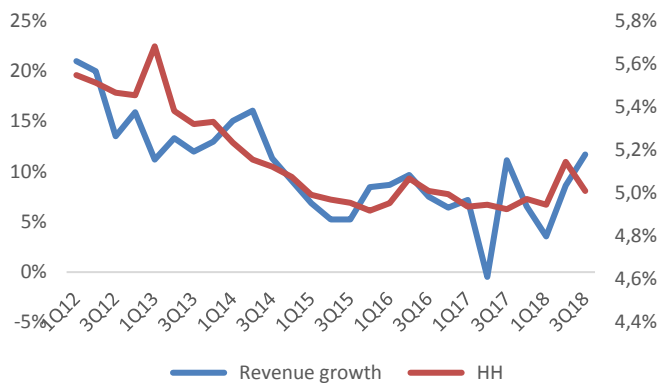
Expect a better 4Q18, continuing into 2019. In the last two presidential elections, consumer companies recorded brisker growth in the 4 quarters before the election quarter. In 2018, the improvement began in 2Q18 followed by higher growth in 3Q18. And in 4Q18, we estimate double-digit growth of 10.6% yoy in consumer sector revenues. For 2019, we estimate top line growth for the sector of 8.1% yoy, higher than FY18F's growth of 7.1% yoy. We also expect consumer sector margins to be maintained, a lower oil price, soft commodity prices and a stable currency, which, we believe, should benefit consumer companies in 2019. We estimate FY19F earnings growth of 8.3%yoy.

Our Top Pick is INDF. We continue to like INDF for its attractive valuation and as a proxy to ICBP. Among the small caps with less liquidity, we continue to like SIDO on potentially higher revenues from additional capacity. With less upside to our TP, we downgrade the sector to Neutral.

Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%)
					2018F	2019F	2018F	2019F	
Unilever Indonesia	UNVR IJ	SELL	38,900	354,032	39.6	49.0	48.4	48.2	98.5%
Indofood CBP	ICBP IJ	HOLD	11,000	121,284	29.0	27.2	5.6	5.0	19.4%
Kalbe Farma	KLBF IJ	HOLD	1,400	71,485	29.1	27.5	4.8	4.4	16.7%
Mayora Indah	MYOR IJ	HOLD	2,730	59,251	37.7	34.5	7.2	6.3	19.4%
Indofood Sukses	INDF IJ	BUY	8,200	63,878	16.6	14.9	1.9	1.8	12.5%
Kimia Farma	KAEF IJ	SELL	2,310	13,996	39.4	32.5	5.1	4.5	14.6%
Sido Muncul	SIDO IJ	BUY	1,000	12,675	18.5	15.6	4.1	3.9	25.8%
Kino Indonesia	KINO IJ	HOLD	2,800	4,000	28.1	23.0	1.9	1.8	7.9%

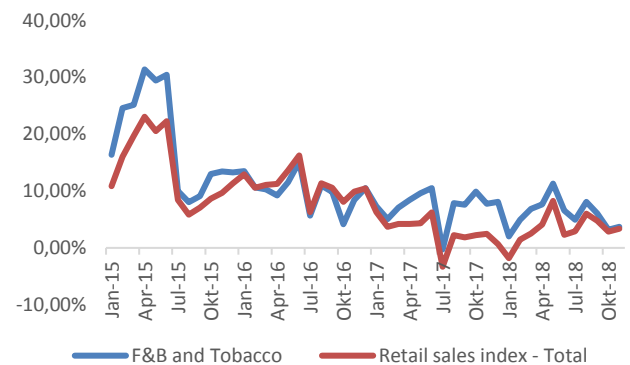
Source: Bloomberg, Danareksa estimates

Exhibit 1. Revenues and Household consumption (yoy growth)



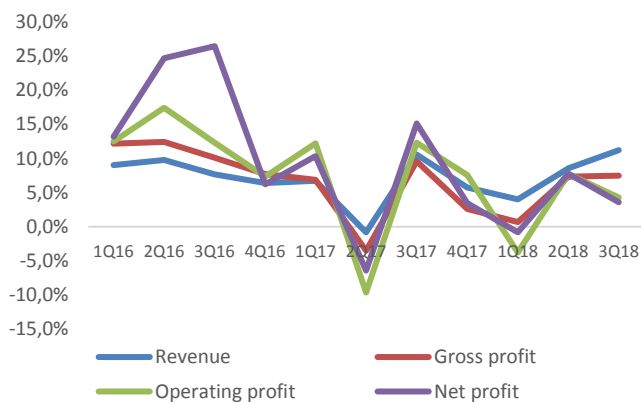
Source: BPS, Danareksa Sekuritas

Exhibit 2. Retail Sales Index -F&B/Tobacco & Total (yoy growth)



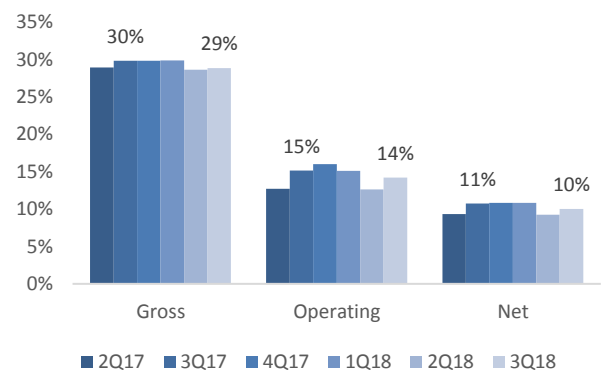
Source: Bank Indonesia

Exhibit 3. Sector quarterly growth yoy (%)



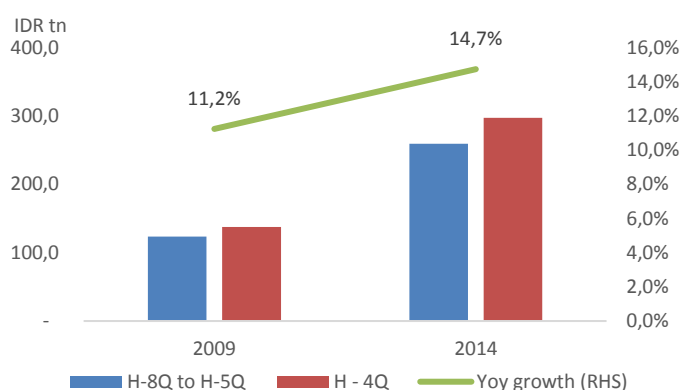
Source: Company

Exhibit 4. Sector quarterly margins (%)



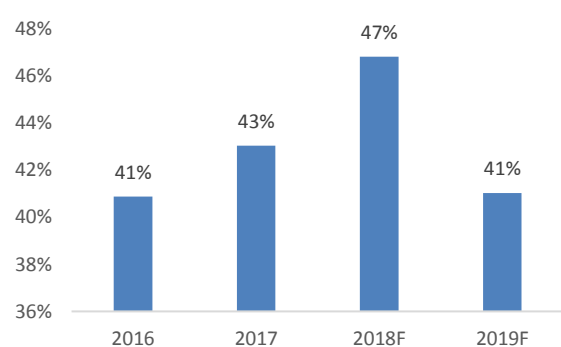
Source: Company

Exhibit 5. Revenue growth – 4Q before presidential election



Source: Company, Danareksa

Exhibit 6. Sector Gearing ratio (%)



Source: Company, Danareksa Sekuritas estimates

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