

Thursday, 01 August 2019

BUY
Maintain

Last price (IDR)	6,900
Target Price (IDR)	7,950
Upside/Downside	+15.2%
Previous Target Price (IDR)	7,950

Stock Statistics

Sector	CONSUMER
Bloomberg Ticker	INDF.UJ
No of Shrs (mn)	8,780
Mkt. Cap (IDRbn/USDmn)	60,585/4,319
Avg. daily T/O (IDRbn/USDmn)	64.2/4.6

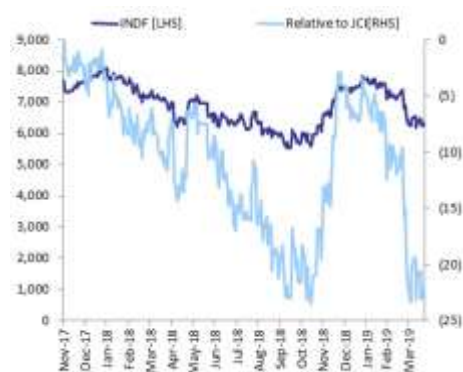
Major shareholders (%)

FIRST PACIFIC COMPANY LIMITED	50.1
VANGUARD GROUP	1.6
Estimated free float	49.9

EPS Consensus (IDR)

	2019F	2020F	2021F
Danareksa	511.9	578.9	616.4
Consensus	533.3	585.6	626.9
Danareksa/Cons	(4.0)	(1.1)	(1.7)

INDF relative to JCI Index



Source : Bloomberg



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Indofood Sukses Makmur (INDF.UJ)

A good set of results

INDF reported solid 1H19 earnings growth of 30% yoy, supported by brisk top line growth (+7.2%) with higher margins across the board, following strong performance of ICBP and Bogasari. The 1H19 net profits are 56.6% of our FY19F (i.e. above) and 51% of consensus estimates (i.e. inline).

Solid 2Q19 revenues. INDF reported 2Q19 revenues of IDR19.4tn, +1.4% qoq and +5.8% yoy, which led to 1H19 revenues of IDR38.6tn, +7.2% yoy. By division, Bogasari reported the strongest 1H19 revenues growth of 16.2% yoy, followed by ICBP with 12.4% yoy. Meanwhile, Agribusiness revenues were down 1.5% yoy hit by lower CPO prices despite improved volume growth. Distribution revenues were down 30.4% yoy following consolidation of ICBP's subsidiary – NICI starting this year. The 1H19 top line figure is in line with our forecast (48%) and consensus estimates (47%).

High margins supported the 1H19 earnings. In 2Q19, INDF reported a lower gross margin of 28.6% (1Q19: 30.2%). Thanks to strong 1Q19 margins, however, the company reported an improved 1H19 gross margin of 29.4%. This cushioned the impact of high opex spent to support promotional activities, in our view. As a result, INDF booked a better 1H19 operating margin of 11.8% (1H18: 11%). By division, ICBP reported a better 1H19 operating margin of 16.8%. For Bogasari, soft wheat prices with higher selling ASP supported a higher operating margin of 7.3% (1H18: 5.5%). Distribution also reported a higher margin of 4.9% compared to 3.5% in 1H18. On the flip side, Agribusiness reported 1H19 operating losses of IDR41bn, translating into a negative operating margin of -0.6% following lower CPO prices. This filtered through to 1H19 net profits of IDR2.5tn, +30% yoy with a net margin of 6.6%. The 1H19 net profit is above our full year forecast (57%) & inline with consensus estimates (51%).

Maintain BUY with a TP of IDR7,950. As a proxy to the consumer sector, INDF is trading at an attractive valuation compared to its peers. Strong performance of Indofood CBP and Bogasari has sustained the company's earnings despite challenges from lower CPO prices. At the current share price, INDF is trading at FY19F PE of 12.5x, or at a 43% discount to the consumer sector. We will revisit our forecast following the release of the 1H19 results. In the meantime, we maintain our BUY recommendation on the stock with a TP of IDR7,950 – based on the average 2-y PE of 15.5x.

Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (IDRbn)	70,187	73,395	80,417	86,404	91,854
EBITDA (IDRbn)	10,597	10,734	12,723	13,748	14,981
EBITDA Growth (%)	2.1	1.3	18.5	8.1	9.0
Net profit (IDRbn)	4,156	4,166	4,494	5,083	5,412
EPS (IDR)	473.4	474.5	511.9	578.9	616.4
EPS growth (%)	0.3	0.2	7.9	13.1	6.5
BVPS (IDR)	3,565.0	3,828.3	4,108.0	4,436.3	4,768.7
DPS (IDR)	235.0	235.7	236.2	254.8	288.2
PER (x)	13.5	13.5	12.5	11.1	10.4
PBV (x)	1.8	1.7	1.6	1.4	1.3
Dividend yield (%)	3.7	3.7	3.7	4.0	4.5
EV/EBITDA (x)	6.2	7.1	5.7	5.4	5.0

Source : INDF, Danareksa Estimates

Exhibit 1. Revenues and Growth

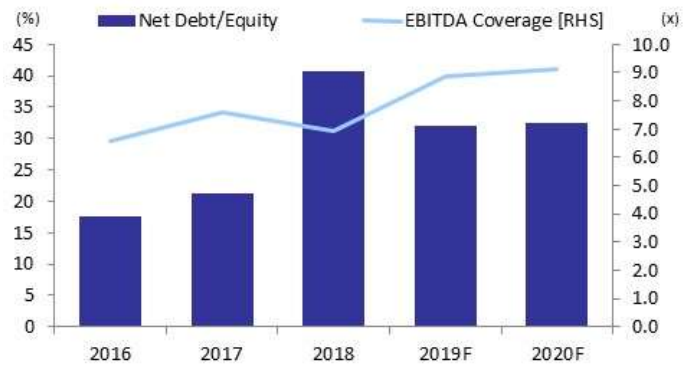

Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth


Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Margins


Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Gearing Level


Source: Company, Danareksa Sekuritas estimates

Exhibit 5. 2Q19 result

IDR bn	2Q18	1Q19	2Q19	yoy	qoq	1H18	1H19	yoy	2019F	A/F	A/Cons
Revenue	18,368	19,170	19,439	5.8%	1.4%	36,000	38,609	7.2%	80,417	48.0%	47.3%
COGS	13,460	13,372	13,876	3.1%	3.8%	25,830	27,248	5.5%	58,120		
Gross profit	4,908	5,797	5,563	13.3%	-4.0%	10,170	11,361	11.7%	22,298		
Opex	3,252	3,320	3,479	7.0%	4.8%	6,212	6,799	9.5%	12,614		
Operating profit	1,656	2,478	2,084	25.8%	-15.9%	3,958	4,562	15.3%	9,684	47.1%	44.9%
Pretax profit	1,541	2,341	1,895	23.0%	-19.0%	3,611	4,236	17.3%	8,739		
Net profit	767	1,349	1,196	55.8%	-11.4%	1,956	2,545	30.1%	4,494	56.6%	51.0%
Gross margin	26.7%	30.2%	28.6%			28.2%	29.4%		27.7%		
Operating margin	9.0%	12.9%	10.7%			11.0%	11.8%		12.0%		
Pretax margin	8.4%	12.2%	9.7%			10.0%	11.0%		10.9%		
Net margin	4.2%	7.0%	6.2%			5.4%	6.6%		5.6%		

Source: Company, Danareksa Sekuritas estimates

Exhibit 6. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Revenue	70,187	73,395	80,417	86,404	91,854
COGS	(50,417)	(53,183)	(58,120)	(62,357)	(65,559)
Gross profit	19,770	20,212	22,298	24,047	26,295
EBITDA	10,597	10,734	12,723	13,748	14,981
Oper. profit	8,463	7,928	9,684	10,494	11,520
Interest income	500	421	329	304	273
Interest expense	(1,396)	(1,553)	(1,438)	(1,509)	(1,475)
Forex Gain/(Loss)	62	(28)	5	0	0
Income From Assoc. Co's	(103)	(95)	0	0	0
Other Income (Expenses)	69	774	160	178	205
Pre-tax profit	7,595	7,447	8,739	9,468	10,523
Income tax	(2,498)	(2,485)	(2,916)	(3,160)	(3,512)
Minority interest	(941)	(796)	(1,328)	(1,225)	(1,599)
Net profit	4,156	4,166	4,494	5,083	5,412
Core Net Profit	4,094	4,194	4,490	5,083	5,412

Exhibit 7. Balance Sheet

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	13,690	8,809	8,772	7,483	7,105
Receivables	6,853	6,573	6,998	7,380	8,032
Inventory	9,793	11,644	11,964	13,232	13,700
Other Curr. Asset	1,812	2,128	2,229	2,290	2,381
Fixed assets - Net	39,492	42,388	45,503	48,748	52,164
Other non-curr.asset	15,960	20,877	21,460	22,440	22,711
Total asset	88,401	96,538	97,593	102,241	106,760
ST Debt	12,074	21,631	16,846	16,881	16,863
Payables	5,466	5,501	6,046	6,562	6,833
Other Curr. Liabilities	4,097	4,072	4,504	4,758	5,015
Long Term Debt	11,607	7,490	8,802	8,926	8,864
Other LT. Liabilities	8,053	7,927	8,505	8,805	9,407
Total Liabilities	41,298	46,621	44,702	45,933	46,982
Shareholder's Funds	31,303	33,614	36,070	38,952	41,871
Minority interests	15,800	16,303	16,821	17,355	17,907
Total Equity & Liabilities	88,401	96,538	97,593	102,241	106,760

Exhibit 8. Cash Flow

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Net income	4,156	4,166	4,494	5,083	5,412
Depreciation and Amort.	2,461	2,749	3,039	3,254	3,462
Change in Working Capital	(2,162)	(1,513)	(4)	(958)	(765)
Other Oper. Cash Flow	476	799	1,544	1,221	1,283
Operating Cash Flow	4,931	6,201	9,074	8,600	9,392
Capex	(6,826)	(5,644)	(6,154)	(6,499)	(6,878)
Others Inv. Cash Flow	2,377	(7,814)	3,197	(675)	2
Investing Cash Flow	(4,449)	(13,459)	(2,957)	(7,174)	(6,876)
Net change in debt	1,906	5,409	(3,773)	160	(80)
New Capital	675	717	554	571	589
Dividend payment	(2,063)	(2,069)	(2,074)	(2,238)	(2,531)
Other Fin. Cash Flow	(671)	(1,680)	(861)	(1,208)	(874)
Financing Cash Flow	(154)	2,377	(6,154)	(2,714)	(2,895)
Net Change in Cash	328	(4,881)	(37)	(1,288)	(378)
Cash - begin of the year	13,362	13,690	8,809	8,772	7,483
Cash - end of the year	13,690	8,809	8,772	7,483	7,105

Exhibit 9. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Growth (%)					
Sales	5.3	4.6	9.6	7.4	6.3
EBITDA	2.1	1.3	18.5	8.1	9.0
Operating profit	2.3	(6.3)	22.1	8.4	9.8
Net profit	0.3	0.2	7.9	13.1	6.5
Profitability (%)					
Gross margin	28.2	27.5	27.7	27.8	28.6
EBITDA margin	15.1	14.6	15.8	15.9	16.3
Operating margin	12.1	10.8	12.0	12.1	12.5
Net margin	5.9	5.7	5.6	5.9	5.9
ROAA	4.9	4.5	4.6	5.1	5.2
ROAE	13.8	12.8	12.9	13.6	13.4
Leverage					
Net Gearing (x)	0.2	0.4	0.3	0.3	0.3
Interest Coverage (x)	6.1	5.1	6.7	7.0	7.8

Source : INDF, Danareksa Estimates

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