

Monday, 18 November 2019

**BUY**  
**Maintain**

Last price (IDR) 7,875  
Target Price (IDR) 8,800  
Upside/Downside +11.7%  
Previous Target Price (IDR) 7,950

**Stock Statistics**

Sector CONSUMER  
Bloomberg Ticker INDF IJ  
No of Shrs (mn) 8,780  
Mkt. Cap (IDRbn/USDmn) 69,146/4,912  
Avg. daily T/O (IDRbn/USDmn) 54.8/3.9

**Major shareholders (%)**

FIRST PACIFIC COMPANY LIMITED 50.1  
Estimated free float 49.9

**EPS Consensus (IDR)**

	2019F	2020F	2021F
Danareksa	528.8	600.4	663.0
Consensus	534.4	596.8	662.0
Danareksa/Cons	(1.0)	0.6	0.2

**INDF relative to JCI Index**



Source : Bloomberg



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# Indofood Sukses Makmur (INDF IJ)

## Still a solid value play

**INDF remains a value play to its consumer subsidiary ICBP. The solid performance of ICBP combined with the expectation of further support for higher CPO prices may create a positive catalyst for INDF. We roll over our valuation and maintain our BUY recommendation on the stock with a higher TP of IDR 8,800.**

**Benefiting from the strong performance of ICBP.** We see that the solid performance of Indofood CBP combined with soft raw material prices has supported the performance of INDF. Stronger volume growth of Noodles – following its new product launches supported by advertising in social media to tap the millennials segment – has helped to sustain the top line growth in 2019. For 2019, we expect ICBP to book top line and earnings growth of 10.8% yoy and 12.7% yoy, respectively.

**Flattish growth in Bogasari.** The company’s management estimates that the growth in its FY19 wheat flour division will be similar to the growth achieved in FY18 (+11% yoy for the FY18 revenues vs +10.5% yoy in 9M19). The Indonesia Association of Wheat Flour Producers (Aptindo) expects slower growth in domestic wheat flour consumption this year due to slower growth in the domestic and global markets. In 2016, the growth in wheat flour consumption reached 7.72% yoy before declining to 6.41% and 3.79% in 2017 and 2018, respectively. For Bogasari, we estimate flat volume growth in 2019.

**Agribusiness: expect better performance in 2020.** The issue over tight CPO supply given lower replanting areas and the reduction in fertilizer usage by local plantation companies over the past few years is expected to provide support for the CPO price. Although the CPO price sank to an average low of MYR2,009/ton in 2Q19, the implementation of the B-30 program starting in January 2020 should absorb an additional 2.5-3mn tons of CPO and support CPO prices. For INDF, the contribution from its agriculture division to revenues and EBIT has continued to decline over the past few years amid solid growth in other divisions. In our view, an uptrend in CPO prices would create a positive catalyst for the share price performance and the EBIT margin of its Agribusiness.

**Maintain BUY with a higher TP of IDR8,800.** We roll over our valuation to 2020 and incorporate our new forecasts for ICBP in our valuation. Based on the mid-value of the sum-of-the-parts (SOTP) valuation and a 40% discount to the PE of ICBP, our new TP is set at IDR8,800 (FY20F PE of 14.7x). At the current share price, INDF trades at an attractive valuation of FY20F PE of 13.5x. We still see INDF as the value play to its consumer subsidiary ICBP. Maintain BUY.

**Key Financials**

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (IDRbn)	70,187	73,395	80,090	85,904	91,814
EBITDA (IDRbn)	10,597	10,734	12,473	14,094	15,188
EBITDA Growth (%)	2.1	1.3	16.2	13.0	7.8
Net profit (IDRbn)	4,156	4,166	4,643	5,272	5,821
EPS (IDR)	473.4	474.5	528.8	600.4	663.0
EPS growth (%)	0.3	0.2	11.4	13.5	10.4
BVPS (IDR)	3,565.0	3,828.3	4,124.9	4,466.2	4,834.6
DPS (IDR)	235.0	235.7	236.2	263.3	298.9
PER (x)	16.6	16.6	14.9	13.1	11.9
PBV (x)	2.2	2.1	1.9	1.8	1.6
Dividend yield (%)	3.0	3.0	3.0	3.3	3.8
EV/EBITDA (x)	7.5	8.3	6.9	6.2	5.7

Source : INDF, Danareksa Estimates

**Exhibit 1. Revenues and Growth**

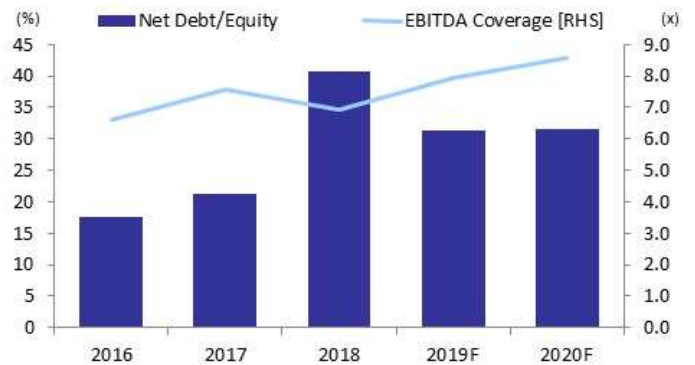

Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. Net Profits and Growth**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. Margins**


Source: Company, Danareksa Sekuritas estimates

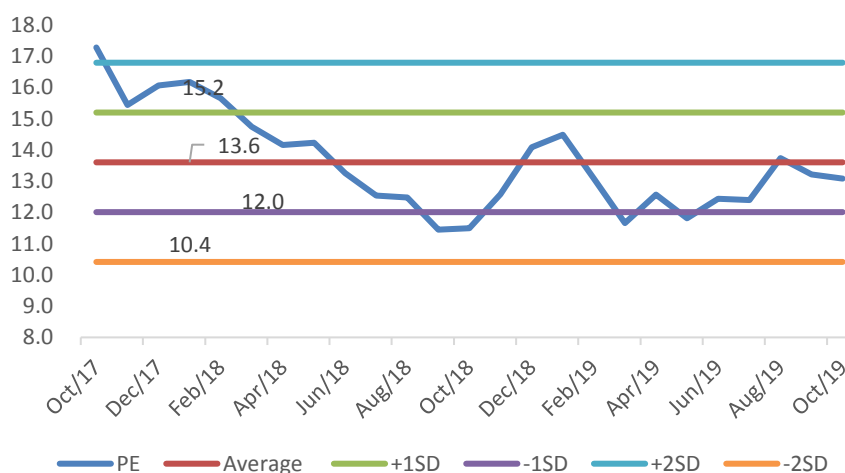
**Exhibit 4. Gearing Level**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. SOTP valuation and PE**

Valuation						
SOTP	Stake	EBIT 2020	EV	Effective valuation	%	Method
			IDR bn	IDR bn		
ICBP	80.5%		147,660	118,866	82%	Based on Danareksa' TP of IDR12,900
Bogasari	100.0%	1,632	13,053	13,053	9%	8x EV/EBIT
Agribusiness	74.3%		14,633	10,878	7%	Market
Distribution	100.0%	277	2,796	2,796	2%	10.1x EV/EBIT
Net debt - holding Co				(17,974)		
Total EV				127,618		
Holding company disc	25%			(31,905)		
Equity value (Rp bn)				95,714		
Per share (Rp)				10,900		18.2x PE 2020
Based on PE - 40% discount to 2016 to ytd to PE ICBP				6,633		14.5x PE 2020
<b>Target price - based on mid value</b>				<b>8,800</b>		
Implied P/E - 2020				14.7		

Source: Company, Danareksa Sekuritas estimates

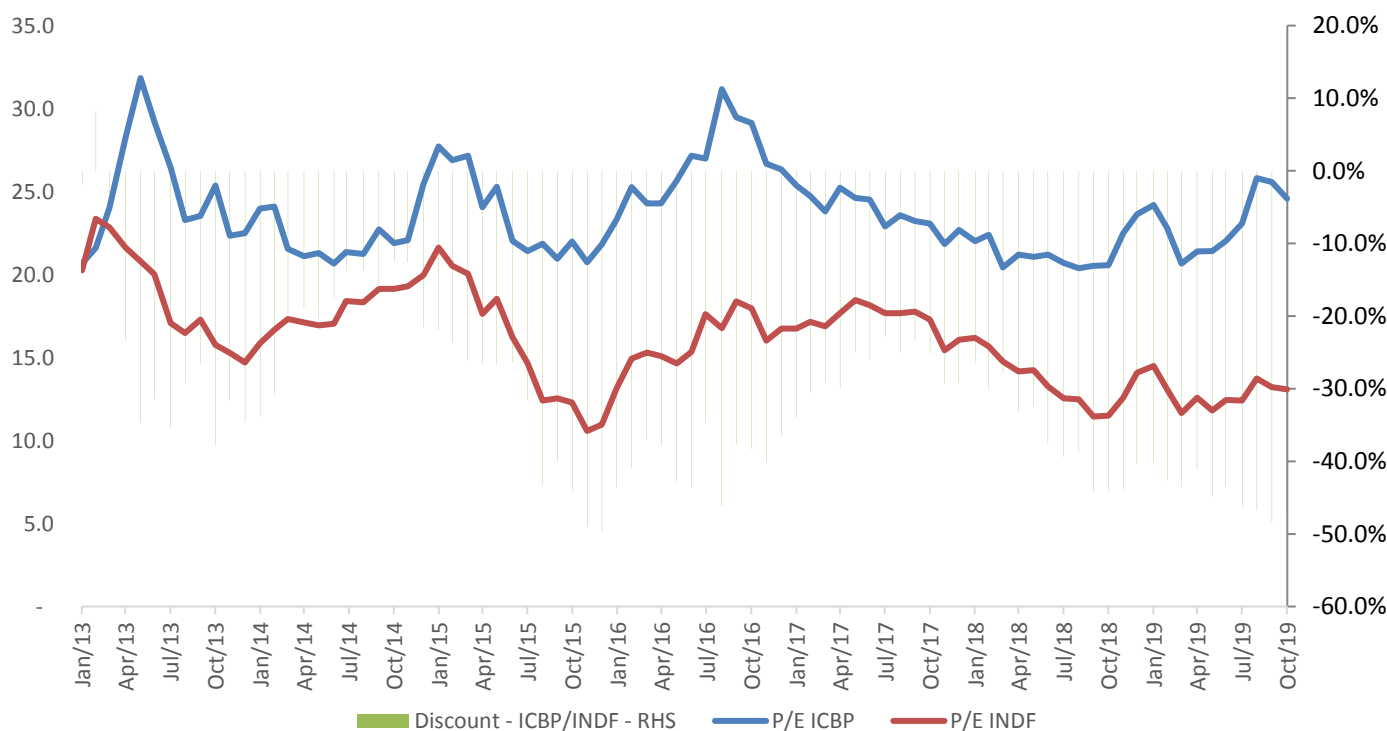
**Exhibit 6. PE Band**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 7. Earnings revision**

	Previous		New		Changes	
	2019	2020	2019	2020	2019	2020
Revenue	80,417	86,404	80,090	85,904	-0.4%	-0.6%
Gross profit	22,298	24,047	21,997	24,317	-1.3%	1.1%
Operating profit	9,684	10,494	9,434	10,842	-2.6%	3.3%
Net profit	4,603	5,089	4,643	5,272	0.9%	3.6%
Gross margin	27.7%	27.8%	27.5%	28.3%		
Operating margin	12.0%	12.1%	11.8%	12.6%		
Net margin	5.7%	5.9%	5.8%	6.1%		

Source: Danareksa Sekuritas estimates

**Exhibit 8. Discount PE ICBP and INDF**


Source: Danareksa Sekuritas estimates, Bloomberg

### Exhibit 9. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
<b>Revenue</b>	<b>70,187</b>	<b>73,395</b>	<b>80,090</b>	<b>85,904</b>	<b>91,814</b>
COGS	(50,417)	(53,183)	(58,093)	(61,587)	(65,317)
<b>Gross profit</b>	<b>19,770</b>	<b>20,212</b>	<b>21,997</b>	<b>24,317</b>	<b>26,497</b>
<b>EBITDA</b>	<b>10,597</b>	<b>10,734</b>	<b>12,473</b>	<b>14,094</b>	<b>15,188</b>
<b>Oper. profit</b>	<b>8,463</b>	<b>7,928</b>	<b>9,434</b>	<b>10,842</b>	<b>11,728</b>
Interest income	500	421	340	324	301
Interest expense	(1,396)	(1,553)	(1,570)	(1,646)	(1,609)
Forex Gain/(Loss)	62	(28)	5	0	0
Income From Assoc. Co's	(103)	(95)	0	(47)	0
Other Income (Expenses)	69	774	289	176	236
<b>Pre-tax profit</b>	<b>7,595</b>	<b>7,447</b>	<b>8,499</b>	<b>9,650</b>	<b>10,656</b>
Income tax	(2,498)	(2,485)	(2,836)	(3,220)	(3,556)
Minority interest	(941)	(796)	(1,020)	(1,158)	(1,279)
<b>Net profit</b>	<b>4,156</b>	<b>4,166</b>	<b>4,643</b>	<b>5,272</b>	<b>5,821</b>
<b>Core Net Profit</b>	<b>4,094</b>	<b>4,194</b>	<b>4,638</b>	<b>5,272</b>	<b>5,821</b>

### Exhibit 10. Balance Sheet

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	13,690	8,809	9,002	7,972	7,776
Receivables	6,853	6,573	6,969	7,338	8,028
Inventory	9,793	11,644	11,959	13,069	13,650
Other Curr. Asset	1,812	2,128	2,222	2,280	2,380
Fixed assets - Net	39,492	42,388	45,479	48,689	52,104
Other non-curr.asset	15,960	20,877	21,423	22,381	22,706
<b>Total asset</b>	<b>88,401</b>	<b>96,538</b>	<b>97,720</b>	<b>102,395</b>	<b>107,311</b>
ST Debt	12,074	21,631	16,846	16,881	16,863
Payables	5,466	5,501	6,044	6,481	6,807
Other Curr. Liabilities	4,097	4,072	4,491	4,739	5,013
Long Term Debt	11,607	7,490	8,802	8,926	8,864
Other LT. Liabilities	8,053	7,927	8,499	8,797	9,406
<b>Total Liabilities</b>	<b>41,298</b>	<b>46,621</b>	<b>44,680</b>	<b>45,824</b>	<b>46,954</b>
Shareholder's Funds	31,303	33,614	36,219	39,216	42,450
Minority interests	15,800	16,303	16,821	17,355	17,907
<b>Total Equity &amp; Liabilities</b>	<b>88,401</b>	<b>96,538</b>	<b>97,720</b>	<b>102,395</b>	<b>107,311</b>

### Exhibit 11. Cash Flow

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Net income	4,156	4,166	4,643	5,272	5,821
Depreciation and Amort.	2,461	2,749	3,038	3,251	3,460
Change in Working Capital	(2,162)	(1,513)	21	(868)	(851)
Other Oper. Cash Flow	476	799	1,664	1,339	1,388
<b>Operating Cash Flow</b>	<b>4,931</b>	<b>6,201</b>	<b>9,367</b>	<b>8,994</b>	<b>9,818</b>
Capex	(6,826)	(5,644)	(6,129)	(6,461)	(6,875)
Others Inv. Cash Flow	2,377	(7,814)	3,247	(634)	(24)
<b>Investing Cash Flow</b>	<b>(4,449)</b>	<b>(13,459)</b>	<b>(2,882)</b>	<b>(7,095)</b>	<b>(6,899)</b>
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)	(2,312)	(2,625)
Other Fin. Cash Flow	(671)	(1,680)	(999)	(1,347)	(1,000)
<b>Financing Cash Flow</b>	<b>(154)</b>	<b>2,377</b>	<b>(6,292)</b>	<b>(2,928)</b>	<b>(3,115)</b>
<b>Net Change in Cash</b>	<b>328</b>	<b>(4,881)</b>	<b>192</b>	<b>(1,029)</b>	<b>(196)</b>
Cash - begin of the year	13,362	13,690	8,809	9,002	7,972
Cash - end of the year	13,690	8,809	9,002	7,972	7,776

### Exhibit 12. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
<b>Growth (%)</b>					
Sales	5.3	4.6	9.1	7.3	6.9
EBITDA	2.1	1.3	16.2	13.0	7.8
Operating profit	2.3	(6.3)	19.0	14.9	8.2
Net profit	0.3	0.2	11.4	13.5	10.4
<b>Profitability (%)</b>					
Gross margin	28.2	27.5	27.5	28.3	28.9
EBITDA margin	15.1	14.6	15.6	16.4	16.5
Operating margin	12.1	10.8	11.8	12.6	12.8
Net margin	5.9	5.7	5.8	6.1	6.3
ROAA	4.9	4.5	4.8	5.3	5.6
ROAE	13.8	12.8	13.3	14.0	14.3
<b>Leverage</b>					
Net Gearing (x)	0.2	0.4	0.3	0.3	0.3
Interest Coverage (x)	6.1	5.1	6.0	6.6	7.3

Source : INDF, Danareksa Estimates

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