

Monday, 24 August 2020

BUY
Maintain

Last price (IDR)	10,100
Target Price (IDR)	12,700
Upside/Downside	+25.7%
Previous Target Price (IDR)	11,600

Stock Statistics

Sector	Consumer
Bloomberg Ticker	ICBP JJ
No of Shrs (mn)	11,662
Mkt. Cap (IDRbn/USDmn)	117,785/7,973
Avg. daily T/O (IDRbn/USDmn)	102.2/6.9

Major shareholders (%)

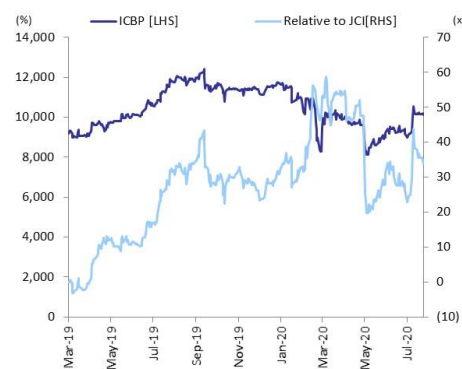
Indofood Sukses Makmur Tbk	80.5
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Estimated free float	19.5
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EPS Consensus (IDR)

	2020F	2021F	2022F
Danareksa	527.1	561.6	607.8
Consensus	494.0	534.9	597.1
Danareksa/Cons	6.7	5.0	1.8

ICBP relative to JCI Index



Source : Bloomberg



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Indofood CBP Sukses Makmur (ICBP JJ)

Upside revisions on solid performance

Following a strong 1H20, we revise up our FY20 earnings estimate by 13.7%. As such, we estimate strong FY20 net profits growth of 22% yoy, supported by a solid top line with a higher gross margin and lower tax rate. We see room for a potential rerating from the current valuation of 18x FY21 PE. BUY with a TP of IDR12,700.

Strong 1H20, FY20 earnings revised up by 13.7%. In 1H20, ICBP reported top line growth of 4% yoy, supported by a mix of volume and ASP growth. We now estimate FY20 top line growth of 6.6% yoy, with the expectation that brisker economic activities in 2H20 will underpin better performance. In 1H20, ICBP reported its highest ever gross margin of 36.1% thanks to the IDR100/pack ASP adjustment for instant noodles early this year combined with soft raw material prices. However, the prices of skimmed milk and CPO started to increase in the past month. As such, we estimate a slightly lower FY20 gross margin of 35.4%. We also foresee continued efficiencies in opex with opex/revenues maintained at 16.7%. Below the operating line, a lower tax rate this year will help ICBP to book FY20 net profits of an estimated IDR6.14tn, +22% yoy. We revise up our FY20 earnings estimate by 13.7%.

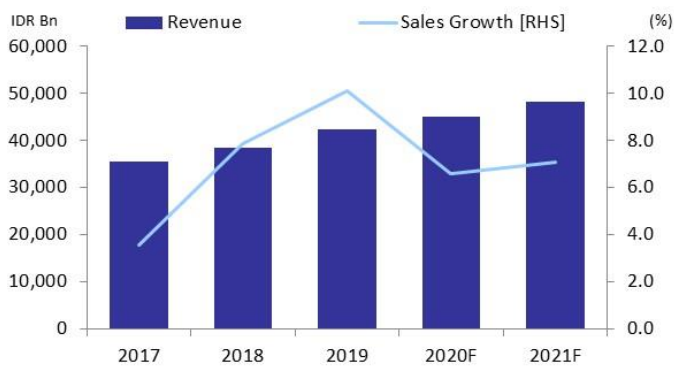
Pinehill acquisition to be completed by end-August 2020. ICBP estimates that the acquisition will provide higher revenues growth within the next 5 years at 10.55%/year (post PCL consolidation) from 8.03% previously. At a recent meeting, the management stated that as of end-May 2020, the operations of PCL were not materially impacted by the Covid-19 pandemic while the performance was ahead of the initial forecast. On 18 August 2020, the company signed a USD2.05bn loan facility agreement with the Bank of China (Hong Kong) Ltd, BNP Paribas, Mizuho Bank Ltd – Singapore and Sumitomo Mitsui Banking Corporation – Singapore. With the signing of the loan agreement and the compliance of all the required conditions necessary for the Pinehill acquisition, the transaction should be completed by the end of August 2020. If we assume an interest rate of 2.1%, IDR/USD exchange rate of IDR14,764/USD and USD128.5mn of additional NPAT from Pinehill in 2020-21, our rough calculation (excluding the impact of forex and the full consolidation method) shows potential upside of 3% from our current 2020 earnings estimate (4 months only) and 8% from our 2021 earnings estimate. We have not taken into account the Pinehill acquisition in our forecast.

Maintain BUY with a higher TP of IDR12,700. ICBP is currently trading at FY21 PE of 18x – still below its average 3y to 10y rolling PE of 21 to 23x. We see room for a potential rerating for ICBP in the future. As such, we roll over our valuation to 2021 and maintain our BUY recommendation with a higher TP of IDR12,700 – based on the average 5-y PE of 22.7x.

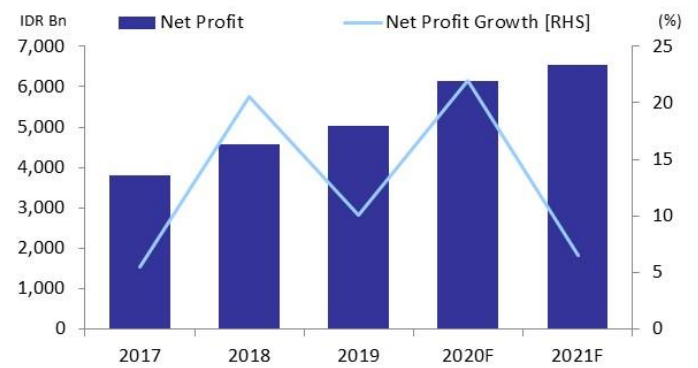
Key Financials

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue (IDRbn)	38,413	42,297	45,093	48,278	52,948
EBITDA (IDRbn)	4,931	6,209	7,400	7,863	8,528
EBITDA Growth (%)	4.9	25.9	19.2	6.3	8.5
Net profit (IDRbn)	4,576	5,039	6,147	6,550	7,088
EPS (IDR)	392.4	432.1	527.1	561.6	607.8
EPS growth (%)	20.5	10.1	22.0	6.5	8.2
BVPS (IDR)	1,853.8	2,169.5	2,436.7	2,717.5	3,021.4
DPS (IDR)	195.0	216.0	263.6	280.8	303.9
PER (x)	25.7	23.4	19.2	18.0	16.6
PBV (x)	5.4	4.7	4.1	3.7	3.3
Dividend yield (%)	1.9	2.1	2.6	2.8	3.0
EV/EBITDA (x)	23.4	18.0	15.0	14.0	12.8

Source : ICBP, Danareksa Estimates

Exhibit 1. Revenues and Growth


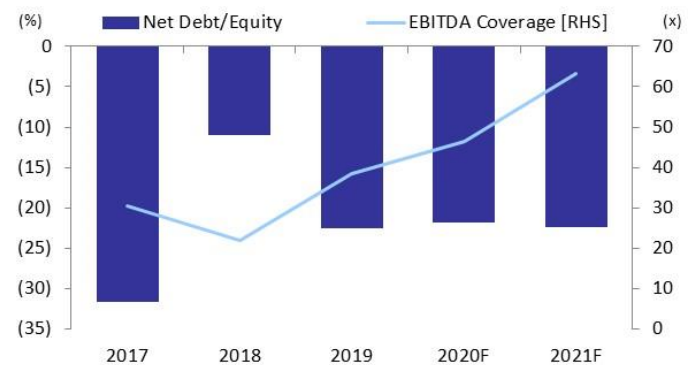
Source: Company, Danareksa Sekuritas estimates

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. Earnings revisions

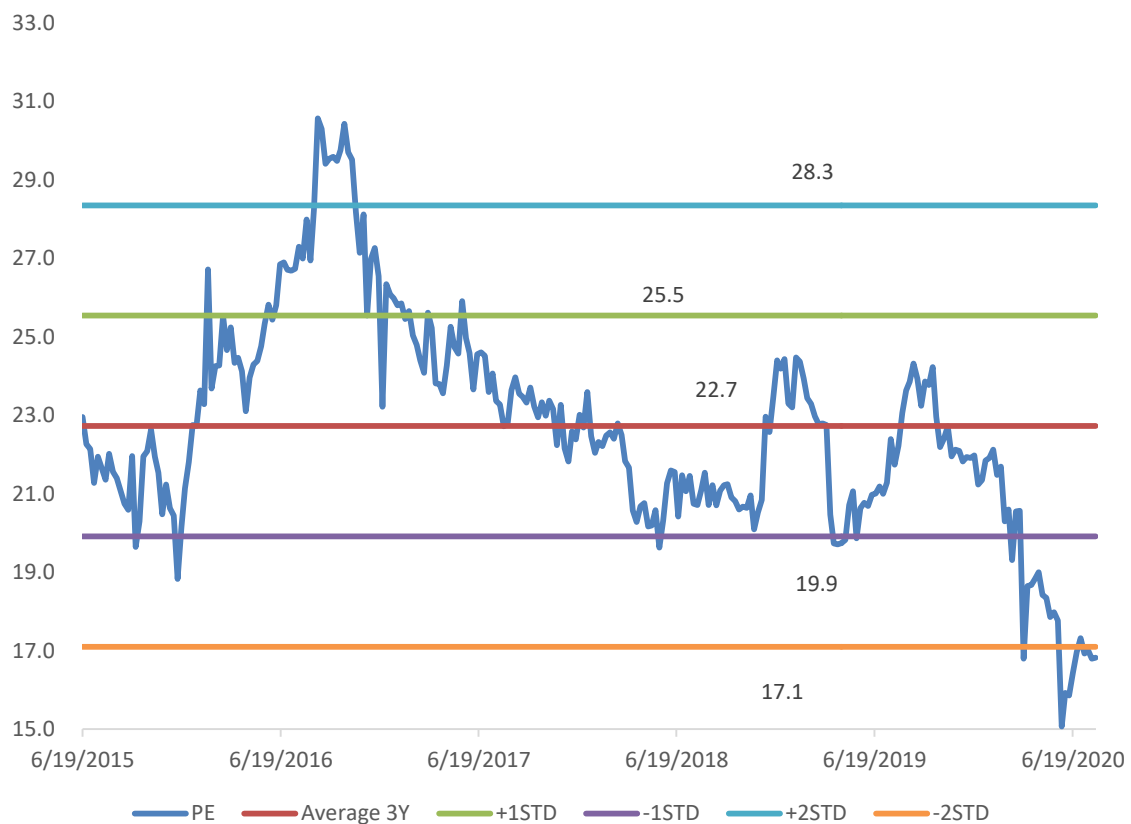
	Old		New		Changes	
	2020F	2021F	2020F	2021F	2020F	2021F
Revenue	46,086	50,198	45,076	48,165	-2.2%	-4.1%
Gross profit	15,413	16,733	15,952	16,951	3.5%	1.3%
Operating profit	7,668	8,331	8,413	8,923	9.7%	7.1%
Net profit	5,399	5,855	6,137	6,542	13.7%	11.7%
Changes in assumption						
Sales volume						
Noodles	5.5%	5.5%	3.0%	6.0%		
Dairy	5.0%	5.0%	1.5%	4.5%		
Snack	-2.0%	-1.0%	1.0%	2.0%		
Beverages	-0.5%	0.0%	-10.0%	-5.0%		
Nutritional	3.0%	3.0%	-8.0%	3.0%		
Seasoning	4.0%	6.0%	23.0%	10.0%		

Source: Company, Danareksa Sekuritas estimates

Exhibit 6. EBIT margins by division

	Historical and previous forecast					New	
	2017	2018	2019	2020F	2021F	2020F	2021F
Noodles	21.5%	21.5%	22.5%	22.3%	22.8%	24.8%	24.2%
Dairy	10.5%	10.5%	14.2%	11.3%	11.0%	8.2%	7.0%
Snack	-2.0%	-7.8%	-1.7%	0.6%	0.6%	8.7%	9.4%
Beverages	-19.3%	-16.3%	-8.5%	-7.5%	-3.5%	-7.5%	-3.5%
Nutritional	4.7%	3.7%	4.2%	4.2%	4.0%	4.2%	4.0%
Seasoning	12.2%	13.8%	12.3%	10.6%	11.0%	12.3%	11.6%
A&P/sales	3.7%	3.5%	3.6%	3.8%	3.8%	3.7%	3.7%

Source: Company, Danareksa Sekuritas estimates

Exhibit 7. Rolling PE Band – 5 year


Source: Bloomberg, Danareksa Sekuritas estimates

Exhibit 8. New innovations and line extension

INNOVATION	LINE EXTENSION	
<p style="text-align: center;">Dairy</p> 	<p style="text-align: center;">Snack Foods</p> 	<p style="text-align: center;">Noodles</p> 

Source: Bloomberg, Danareksa Sekuritas estimates

Exhibit 9. Income Statement

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Revenue	38,413	42,297	45,093	48,278	52,948
COGS	(26,148)	(27,893)	(29,124)	(31,297)	(34,500)
Gross profit	12,266	14,404	15,969	16,981	18,448
EBITDA	4,931	6,209	7,400	7,863	8,528
Oper. profit	5,772	7,278	8,427	8,935	9,624
Interest income	254	246	325	347	374
Interest expense	(226)	(161)	(159)	(124)	(137)
Forex Gain/(Loss)	179	0	0	0	0
Income From Assoc. Co's	(30)	(48)	(51)	(55)	(60)
Other Income (Expenses)	497	122	130	139	153
Pre-tax profit	6,447	7,437	8,672	9,242	9,954
Income tax	(1,788)	(2,077)	(2,119)	(2,258)	(2,432)
Minority interest	(83)	(321)	(406)	(434)	(434)
Net profit	4,576	5,039	6,147	6,550	7,088
Core Net Profit	4,397	5,039	6,147	6,550	7,088

Exhibit 10. Balance Sheet

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	4,727	8,359	8,932	9,489	10,390
Receivables	4,271	4,132	5,098	6,129	7,668
Inventory	4,001	3,841	4,283	4,602	5,074
Other Curr. Asset	558	293	312	335	367
Fixed assets - Net	10,742	11,342	12,695	14,107	15,571
Other non-curr.asset	9,504	10,742	11,335	12,010	13,000
Total asset	34,367	38,709	42,655	46,672	52,070
ST Debt	1,146	458	524	563	621
Payables	3,706	3,258	3,402	3,655	4,029
Other Curr. Liabilities	1,907	2,387	2,545	2,725	2,989
Long Term Debt	1,099	1,898	1,814	1,323	1,457
Other LT. Liabilities	3,802	4,037	4,229	4,542	5,003
Total Liabilities	11,660	12,038	12,514	12,808	14,099
Shareholder's Funds	21,619	25,301	28,416	31,691	35,235
Minority interests	1,088	1,370	1,725	2,173	2,736
Total Equity & Liabilities	34,367	38,709	42,655	46,672	52,069

Exhibit 11. Cash Flow

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Net income	4,576	5,039	6,147	6,550	7,088
Depreciation and Amort.	841	1,069	1,027	1,072	1,096
Change in Working Capital	(469)	(8)	(1,143)	(958)	(1,432)
Other Oper. Cash Flow	(2,145)	577	(160)	(121)	(86)
Operating Cash Flow	2,803	6,677	5,871	6,543	6,665
Capex	(3,355)	(1,530)	(2,338)	(2,484)	(2,560)
Others Inv. Cash Flow	(528)	(249)	(65)	(98)	(278)
Investing Cash Flow	(3,883)	(1,779)	(2,402)	(2,582)	(2,838)
Net change in debt	(112)	111	(18)	(452)	192
New Capital	504	498	355	447	563
Dividend payment	(2,274)	(2,519)	(3,074)	(3,275)	(3,544)
Other Fin. Cash Flow	(226)	(161)	(159)	(124)	(137)
Financing Cash Flow	(2,107)	(2,071)	(2,896)	(3,404)	(2,926)
Net Change in Cash	(3,187)	2,826	572	557	901
Cash - begin of the year	8,797	4,727	8,359	8,932	9,489
Cash - end of the year	4,727	8,359	8,932	9,489	10,390

Exhibit 12. Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Growth (%)					
Sales	7.9	10.1	6.6	7.1	9.7
EBITDA	4.9	25.9	19.2	6.3	8.5
Operating profit	7.3	26.1	15.8	6.0	7.7
Net profit	20.5	10.1	22.0	6.5	8.2
Profitability (%)					
Gross margin	31.9	34.1	35.4	35.2	34.8
EBITDA margin	12.8	14.7	16.4	16.3	16.1
Operating margin	15.0	17.2	18.7	18.5	18.2
Net margin	11.9	11.9	13.6	13.6	13.4
ROAA	13.9	13.8	15.1	14.7	14.4
ROAE	22.2	21.5	22.9	21.8	21.2
Leverage					
Net Gearing (x)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Interest Coverage (x)	25.6	45.1	52.9	71.8	70.2

Source : ICBP, Danareksa Estimates

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