

Friday, 23 October 2020

**BUY**  
**Maintain**

Last price (IDR)	7,850
Target Price (IDR)	9,100
Upside/Downside	+15.9%
Previous Target Price (IDR)	9,100

**Stock Statistics**

Sector	Consumer
Bloomberg Ticker	UNVR IJ
No of Shrs (mn)	38,150
Mkt. Cap (IDRbn/USDmn)	299,478/21,266
Avg. daily T/O (IDRbn/USDmn)	122.7/8.2

**Major shareholders (%)**

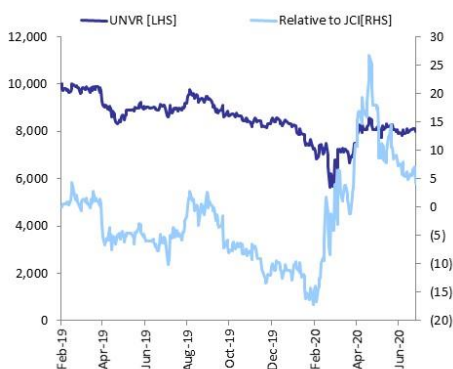
Unilever Indonesia Holding B.V.	85.0
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Estimated free float	15.0
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**EPS Consensus (IDR)**

	2020F	2021F	2022F
Danareksa	204.1	217.9	231.6
Consensus	199.3	214.1	230.4
Danareksa/Cons	2.4	1.8	0.5

**UNVR relative to JCI Index**



Source : Bloomberg



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# Unilever Indonesia (UNVR IJ)

## Steady performance

UNVR reported 3Q20 earnings growth of 1.4% yoy, leading to 9M20 net profits of IDR5.46tn, -0.9% yoy. The 9M20 top line growth was soft at only +0.3% mainly supported by HPC while FNR remains under pressure given weak demand from UFS. Thanks to strong gross margins and a lower tax rate, UNVR maintained its net profits in 9M20. The 9M20 net profits are slightly below our full year forecast (70%) but in line with consensus estimates (72%).

**9M20 domestic revenues grew 1.7% yoy – excluding UFS (1H20: 2.4%yoy).** UNVR reported 2Q20 top line growth of 0.6% qoq and -2% yoy, leading to 9M20 revenues growth of 0.3% yoy. Domestic revenues grew +0.8% yoy in 9M20, while exports declined by 9.2% yoy in the same period. By division, the Home and Personal Care (HPC) division reported solid top line growth in 9M20 of 2%yoy while Food and Refreshments (FNR) booked -3.5% yoy growth. Domestic sales were mainly driven by the increasing sales of health and cleaning products given growing health awareness during the pandemic. Unilever Food Solution (UFS) that taps hotels and restaurants remains weak despite signs of recovery in some areas. Excluding UFS, domestic sales showed stronger growth of 1.7% in 9M20 (1H20: 2.4%yoy).

**9M20 net profits down 0.9% yoy.** UNVR reported a higher 3Q20 gross margin of 53.2%. This helped UNVR to book an improved 1H20 gross margin of 52% (9M19: 50.8%). At the operating level, FNR reported a lower operating margin of 13.1% (9M19: 16.1%) given soft demand from UFS. Meanwhile, HPC reported a stable operating margin of 33% - as the company continued to benefit from stable demand for health-related products /daily necessities. Opex spending started to increase in 3Q20 (+11% yoy), leading to higher 9M20 opex/revenues of 30.1% (9M19: 27.5% and 1H20: 29.6%). By the end of September 2020, UNVR reported higher A&P/revenues and Service Fees/revenues of 10.3% and 7.5%, respectively. This reined in the 9M20 operating profits which reached IDR7.1tn, down 5.6% yoy. Supported by a lower tax rate, UNVR reported 9M20 net profits of IDR5.49tn, down 0.9% yoy. The 9M20 net profit is slightly below our FY20F estimate (70.1%) and inline to achieve consensus estimates (72%). In recent years, the 9M20 net profits were 72% to 75% of the FY figure.

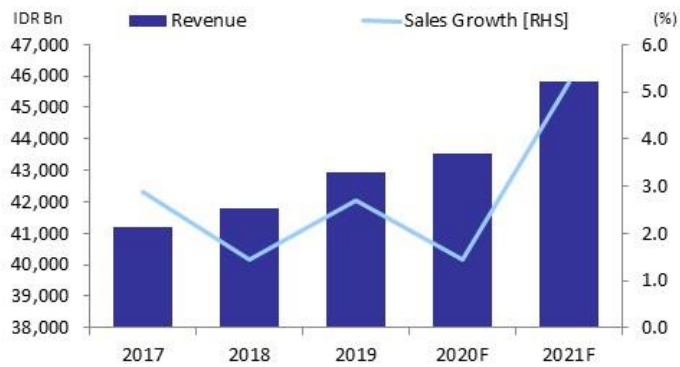
**Maintain BUY.** In 3Q20, UNVR made various production innovation efforts to tap the growing demand for health products. The company also adapted to the weaker customer purchasing power during the pandemic by offering lower recommended selling prices such as IDR5,000/unit. At the current share price, UNVR is trading at FY21 PE of 36x, slightly below its -2SD avg 3-y PE of 36.6x.

**Key Financials**

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue (IDRbn)	41,802	42,923	43,541	45,801	48,612
EBITDA (IDRbn)	13,079	10,988	11,199	11,825	12,456
EBITDA Growth (%)	29.1	(16.0)	1.9	5.6	5.3
Net profit (IDRbn)	9,081	7,393	7,788	8,314	8,834
EPS (IDR)	238.0	193.8	204.1	217.9	231.6
EPS growth (%)	29.6	(18.6)	5.3	6.8	6.3
BVPS (IDR)	193.5	138.4	148.7	159.6	171.1
DPS (IDR)	240.9	196.1	193.9	207.0	220.0
PER (x)	33.0	40.5	38.4	36.0	33.9
PBV (x)	40.6	56.7	52.8	49.2	45.9
Dividend yield (%)	3.0	2.5	2.4	2.6	2.7
EV/EBITDA (x)	23.3	28.0	28.8	27.2	25.8

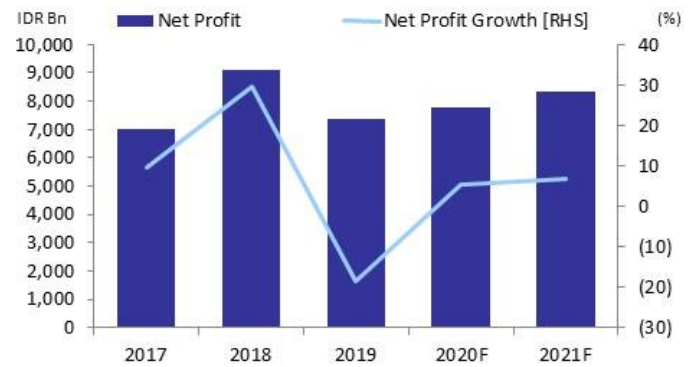
Source : UNVR, Danareksa Estimates

**Exhibit 1. Revenues and Growth**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. Net Profits and Growth**



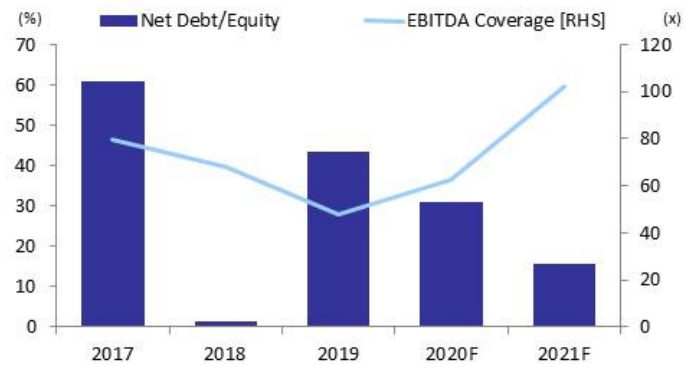
Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. Margins**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 4. Gearing Level**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. 3Q20 result**

UNVR	9M19	9M20	YoY, %	3Q19	2Q20	3Q20	QoQ, %	YoY, %	2020F	A/F, %	A/C, %
<b>(in IDR bn)</b>											
Net sales	32,361	32,457	0.3%	10,904	10,619	10,685	0.6%	-2.0%	43,541	74.5%	73.7%
COGS	15,923	15,586	-2.1%	5,419	5,283	4,997	-5.4%	-7.8%	21,158		
Gross profit	16,438	16,871	2.6%	5,484	5,336	5,687	6.6%	3.7%	22,383		
Opex	8,913	9,755	9.4%	2,984	2,995	3,311	10.6%	11.0%	12,060		
Operating profit	7,527	7,106	-5.6%	2,498	2,352	2,360	0.3%	-5.5%	10,324	68.8%	71.2%
Pretax profit	7,367	6,960	-5.5%	2,411	2,265	2,357	4.0%	-2.3%	10,159		
Net profit	5,510	5,459	-0.9%	1,813	1,758	1,839	4.6%	1.4%	7,788	70.1%	72.2%
<b>(in %)</b>											
Gross margin	50.8%	52.0%		50.3%	50.2%	53.2%			51.4%		
Opex to revenue	27.5%	30.1%		27.4%	28.2%	31.0%			27.7%		
Operating margin	23.3%	21.9%		22.9%	22.1%	22.1%			23.7%		
Net margin	17.0%	16.8%		16.6%	16.6%	17.2%			17.9%		
<b>Breakdown by divisions</b>											
Revenue (IDR bn)	22,345	22,796	2.0%	7,532	7,260	7,691	5.9%	2.1%			
HPC	10,016	9,661	-3.5%	3,372	3,359	2,994	-10.9%	-11.2%			
FNR											
Segment result (%)	33.4%	33.0%		32.9%	35.6%	32.0%					
HPC	16.1%	13.1%		15.7%	12.3%	11.2%					
FNR	33.4%	33.0%		32.9%	35.6%	32.0%					

Source: Company, Danareksa Sekuritas estimates

### Exhibit 6. Income Statement

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>41,802</b>	<b>42,923</b>	<b>43,541</b>	<b>45,801</b>	<b>48,612</b>
COGS	(20,697)	(20,894)	(21,158)	(22,170)	(23,485)
<b>Gross profit</b>	<b>21,105</b>	<b>22,029</b>	<b>22,383</b>	<b>23,631</b>	<b>25,127</b>
<b>EBITDA</b>	<b>13,079</b>	<b>10,988</b>	<b>11,199</b>	<b>11,825</b>	<b>12,456</b>
<b>Oper. profit</b>	<b>12,324</b>	<b>10,121</b>	<b>10,324</b>	<b>10,945</b>	<b>11,593</b>
Interest income	16	11	14	15	14
Interest expense	(192)	(230)	(179)	(116)	(84)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	0	0	0	0	0
<b>Pre-tax profit</b>	<b>12,148</b>	<b>9,902</b>	<b>10,159</b>	<b>10,845</b>	<b>11,523</b>
Income tax	(3,067)	(2,509)	(2,371)	(2,531)	(2,689)
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>9,081</b>	<b>7,393</b>	<b>7,788</b>	<b>8,314</b>	<b>8,834</b>
<b>Core Net Profit</b>	<b>9,081</b>	<b>7,393</b>	<b>7,788</b>	<b>8,314</b>	<b>8,834</b>

### Exhibit 7. Balance Sheet

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	352	629	520	527	606
Receivables	5,103	5,448	5,140	4,986	5,081
Inventory	2,658	2,429	2,576	2,699	2,859
Other Curr. Asset	145	25	25	26	28
Fixed assets - Net	11,524	11,610	11,836	12,092	12,496
Other non-curr.asset	545	509	509	512	515
<b>Total asset</b>	<b>20,327</b>	<b>20,649</b>	<b>20,607</b>	<b>20,842</b>	<b>21,584</b>
ST Debt	460	2,920	2,270	1,470	1,070
Payables	4,573	4,517	4,650	4,899	5,162
Other Curr. Liabilities	3,693	3,351	3,401	3,576	3,790
Long Term Debt	0	0	0	0	0
Other LT. Liabilities	4,218	4,580	4,614	4,810	5,034
<b>Total Liabilities</b>	<b>12,943</b>	<b>15,368</b>	<b>14,935</b>	<b>14,755</b>	<b>15,056</b>
Shareholder's Funds	7,384	5,282	5,671	6,087	6,529
Minority interests	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>20,327</b>	<b>20,649</b>	<b>20,607</b>	<b>20,842</b>	<b>21,584</b>

### Exhibit 8. Cash Flow

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Net income	9,081	7,393	7,788	8,314	8,834
Depreciation and Amort.	577	627	875	879	862
Change in Working Capital	(31)	(205)	321	380	138
Other Oper. Cash Flow	887	398	222	367	373
<b>Operating Cash Flow</b>	<b>10,515</b>	<b>8,212</b>	<b>9,206</b>	<b>9,941</b>	<b>10,207</b>
Capex	(653)	(713)	(1,101)	(1,136)	(1,266)
Others Inv. Cash Flow	(28)	43	14	15	14
<b>Investing Cash Flow</b>	<b>(681)</b>	<b>(671)</b>	<b>(1,087)</b>	<b>(1,120)</b>	<b>(1,251)</b>
Net change in debt	(2,990)	2,460	(650)	(800)	(400)
New Capital	0	0	0	0	0
Dividend payment	(9,192)	(7,483)	(7,398)	(7,898)	(8,392)
Other Fin. Cash Flow	2,295	(2,242)	(179)	(116)	(84)
<b>Financing Cash Flow</b>	<b>(9,887)</b>	<b>(7,265)</b>	<b>(8,227)</b>	<b>(8,814)</b>	<b>(8,877)</b>
<b>Net Change in Cash</b>	<b>(53)</b>	<b>277</b>	<b>(109)</b>	<b>7</b>	<b>79</b>
Cash - begin of the year	405	352	629	520	527
Cash - end of the year	352	629	520	527	606

### Exhibit 9. Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
<b>Growth (%)</b>					
Sales	1.5	2.7	1.4	5.2	6.1
EBITDA	29.1	(16.0)	1.9	5.6	5.3
Operating profit	29.8	(17.9)	2.0	6.0	5.9
Net profit	29.6	(18.6)	5.3	6.8	6.3
<b>Profitability (%)</b>					
Gross margin	50.5	51.3	51.4	51.6	51.7
EBITDA margin	31.3	25.6	25.7	25.8	25.6
Operating margin	29.5	23.6	23.7	23.9	23.8
Net margin	21.7	17.2	17.9	18.2	18.2
ROAA	45.2	36.1	37.8	40.1	41.6
ROAE	146.6	116.7	142.2	141.4	140.0
<b>Leverage</b>					
Net Gearing (x)	0.0	0.4	0.3	0.2	0.1
Interest Coverage (x)	64.2	44.0	57.7	94.4	137.4

Source : UNVR, Danareksa Estimates

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