

Wednesday, 24 November 2021

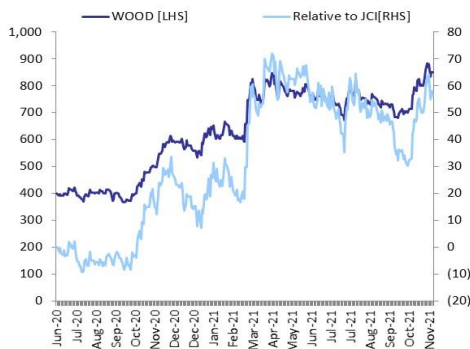
## NEUTRAL

### Maintain

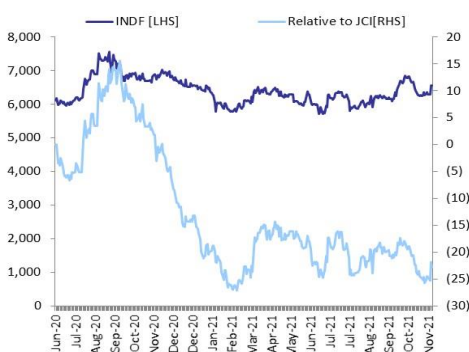
# Consumer

## To benefit from economic recovery

WOOD relative to JCI Index



INDF relative to JCI Index



Source : Bloomberg

**Brisker 2022 GDP growth** albeit with higher inflation should translate into improved purchasing power, allowing consumer companies to adjust selling prices going forward. In 2022, we estimate earnings growth of 7.9% yoy. We see that some stocks have attractive valuations with potential upside given the expected recovery in the economy. **Maintain neutral.**

**Continued recovery expected in 4Q21 with price increases to sustain margins.** We foresee continued recovery in the top lines of consumer companies in 4Q21, in line with brisker business activities. To pass on higher commodity prices, consumer companies have gradually raised their selling prices since 3Q21. This will partially limit the margin declines in 4Q21 and might provide a more significant impact in 2022 subject to movements in commodity prices. For 2021, we estimate that the consumer sector will book FY21 top line growth of 14.8% yoy mainly supported by Indofood group. However, with the pressure on margins, we estimate FY21 net profits growth of -4% yoy. Among the companies under our coverage, we expect Integra (WOOD) to post the highest net profits growth in 2021.

**Improved 2022 earnings growth.** Going into 2022, further economic recovery is expected. This bodes well for the sales of FMCG products. Brisker GDP growth albeit with higher inflation should translate into improved purchasing power, allowing companies to adjust selling prices going forward. On the flip side, minimal increases in the basic minimum wage, less subsidies and a lower social protection budget may create headwinds for the recovery story. It is also worth noting that the government plans to implement excise tariffs on sweetened beverages that will prompt companies to raise selling prices else face lower margins if competition remains tough. For 2022, we estimate top line growth of 6.6% yoy. At the bottom line, we estimate 7.9% yoy growth in 2022.

**Maintain neutral.** The revenues growth in the consumer sector is positively correlated to increases in the minimum wage as well as household consumption. As such, economic recovery will positively support the sales of consumer companies. Despite pressure on margins from higher commodity prices, we have learnt that consumer companies are making efforts to conduct efficiencies in raw materials procurement, the production process, distribution logistics and operating expenses. We note that several companies have managed to maintain/reduce opex spending. Solid top lines with efficiency efforts will sustain earnings going forward. The consumer non-cyclical sector has underperformed the most in the past 6 months. With 9% upside to our TP, we maintain our neutral stance on the sector. Our top pick is Integra Indocabinet (WOOD) which has the opportunity to tap the US Furniture & Building components market left by Chinese producers, leading to strong forecast 2021-23 earnings CAGR of 22%. From the big caps, we prefer Indofood Sukses (INDF), supported by high CPO prices and the resilient consumer proxy (ICBP).



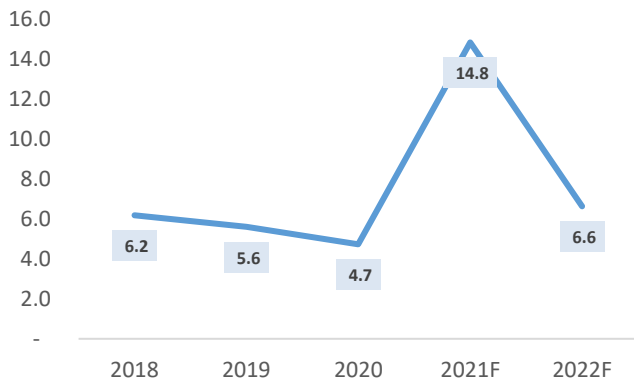
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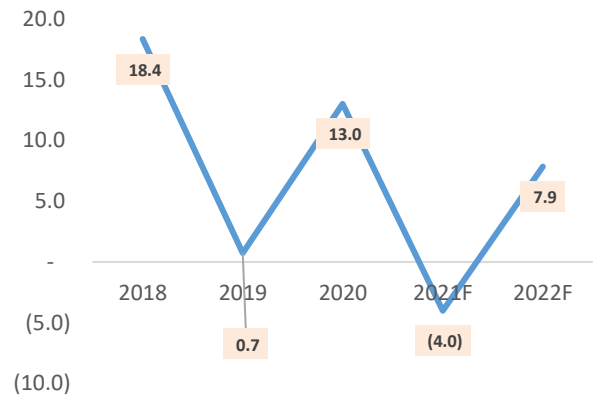
Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%) 2022F
					2021F	2022F	2021F	2022F	
Unilever Indonesia	UNVR IJ	HOLD	4,300	177,779	29.3	27.7	35.8	35.6	128.9
Indofood CBP	ICBP IJ	BUY	11,500	105,248	16.9	15.5	3.1	2.8	18.9
Indofood Sukses	INDF IJ	BUY	8,700	57,511	7.7	7.1	1.2	1.1	16.1
Mayora Indah	MYOR IJ	SELL	2,100	52,990	35.5	33.2	4.5	4.1	12.9
Integra Indocabinet	WOOD IJ	BUY	1,200	5,408	12.3	9.8	1.5	1.3	14.6
Kino Indonesia	KINO IJ	SELL	1,700	2,971	27.2	32.0	1.1	1.1	3.5

**Exhibit 1. Consumer sector – revenues growth (% yoy)**



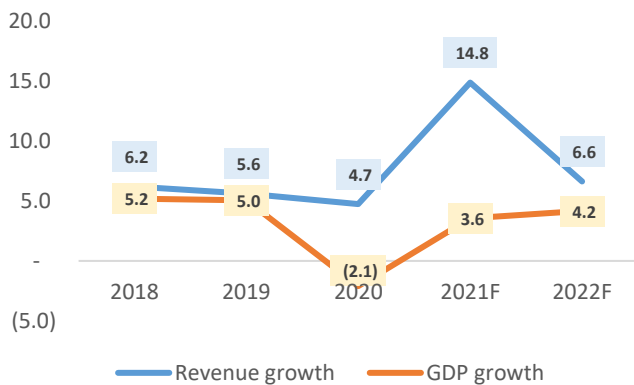
Source: Companies, BRIDS

**Exhibit 2. Consumer sector – earnings growth (%yoy)**



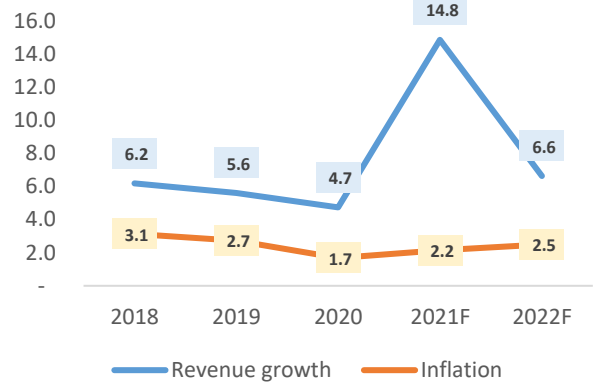
Source: Companies, BRIDS

**Exhibit 3. Sector revenues growth vs GDP**



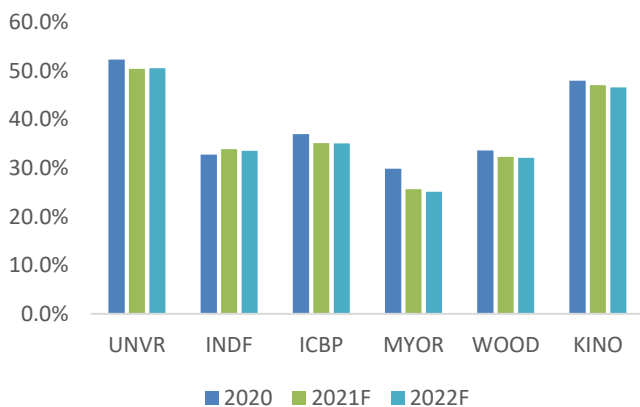
Source: MOF, BRIDS

**Exhibit 4. Sector revenues growth vs inflation**



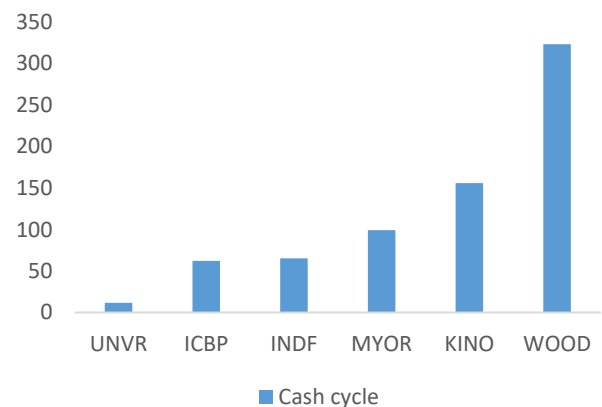
Source: MOF, BRIDS

**Exhibit 5. We estimate maintain GPM in 2022**



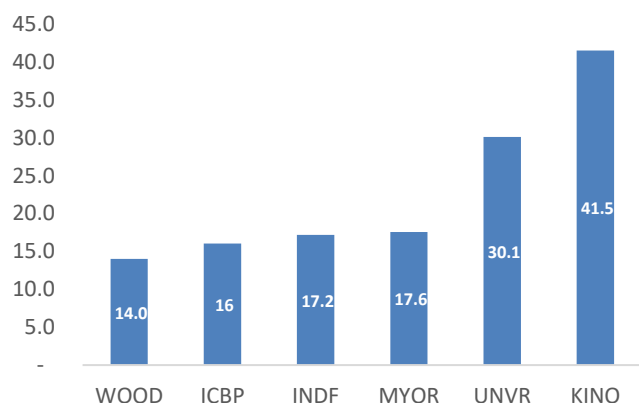
Source: BRIDS

**Exhibit 6. Cash cycle within consumer sector**



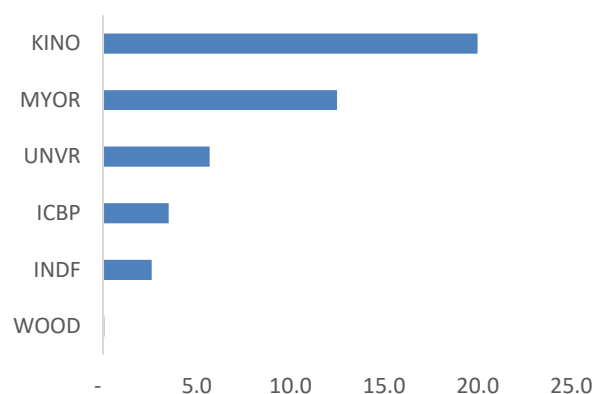
Source: BRIDS

**Exhibit 7. Opex to revenue (%) - 2022F**



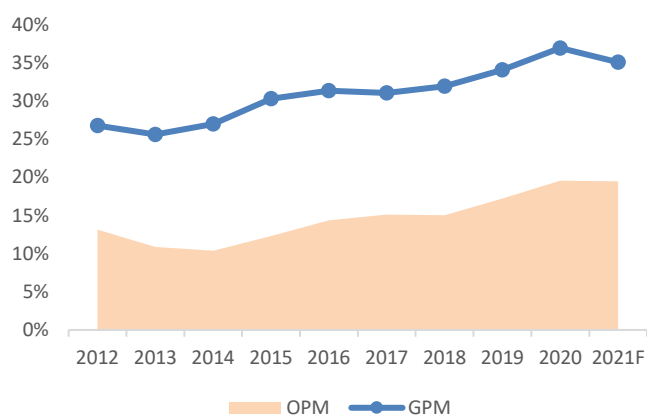
Source: BRIDS

**Exhibit 8. A&P to revenue (%) - 2022F**



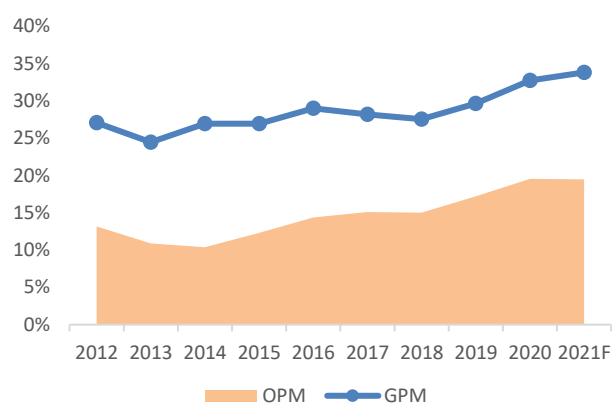
Source: BRIDS

**Exhibit 9. ICBP – maintained efficiencies in opex**



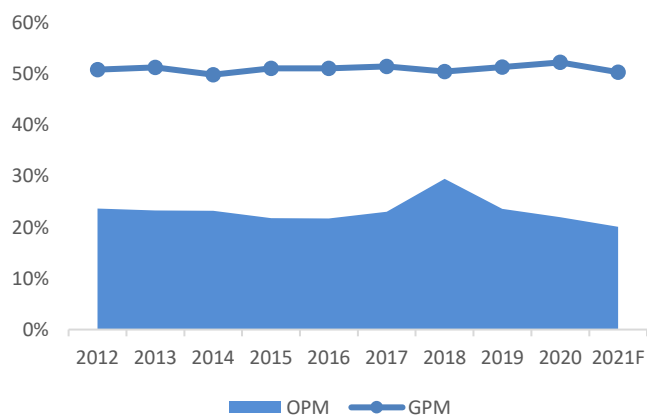
Source: BRIDS

**Exhibit 10. INDF – also showing similar efficiencies**



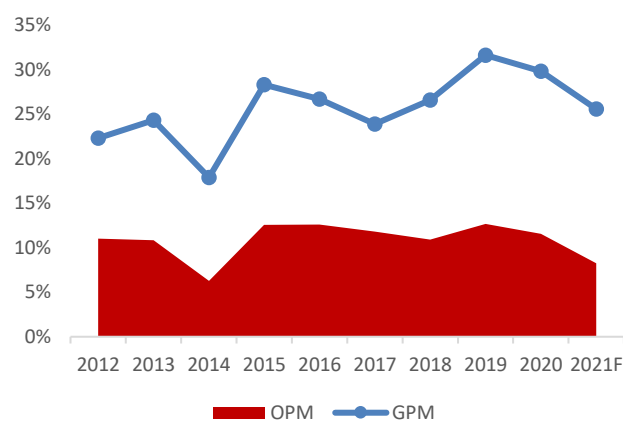
Source: BRIDS

**Exhibit 11. UNVR – starting to spend more opex to push sales**



Source: BRIDS

**Exhibit 12. MYOR – more aggressive to maintain market share**



Source: BRIDS

**Exhibit 13. Company outlook 2022**

Ticker	Target Price	Rating	Summary
<b>WOOD</b>	1,200	Buy	<ul style="list-style-type: none"> <li>Integra Indocabinet (WOOD) enjoys competitive advantages as an integrated timber manufacturer supported by:163,425ha of forest concessions – FSC certified to tap export markets, sizeable facilities, a 30-year track-record in the industry combined with good relations with international retailers such as Target, Costo, Hampton Lumber, H&amp;M Home, etc.</li> <li>Potential higher market share in the US furniture and building components market will help Integra to book strong 2021-23 earnings CAGR of 22%. It is also worth noting that access to abundant raw materials supports its capability to tap the exports market.</li> <li>WOOD is currently trading at an attractive valuation of FY22F PE of 9.8x, still below its historical average of 12-15x and regional peers. We maintain our BUY recommendation with a TP of IDR1,200.</li> </ul>
<b>INDF</b>	8,700	Buy	<ul style="list-style-type: none"> <li>For INDF, we estimate stronger FY21 earnings growth supported by strong performance of ICBP following the consolidation of Pinehill as well as benefiting from higher CPO prices. With the expectation of a strong 2H21, we estimate 15% yoy earnings growth in 2021.</li> <li>Going into 2022, INDF will continue to benefit from the resilient consumer products business (ICBP) as well as higher CPO prices that will sustain margins in its agribusiness division.</li> <li>At the current share price, INDF trades at an undemanding valuation. We maintain our BUY recommendation with a TP of IDR8,700. Downside risks include the inability of ICBP to pass on higher raw material costs leading to lower-than-expected margins as well as forex losses.</li> </ul>
<b>ICBP</b>	11,500	Buy	<ul style="list-style-type: none"> <li>We estimate that ICBP will book solid 2H21 results as a beneficiary of brisker business activities and the festive season toward the end of the year.</li> <li>For 2022, further economic recovery should pave the way for higher ASP to pass on higher raw material prices. With solid volume, we estimate FY22 earnings growth of 8.9% yoy.</li> <li>We maintain our BUY call on ICBP with a TP of IDR11,500 with implied PE of 19.7x. Downside risks include forex losses and the inability to pass on higher commodity costs resulting in lower margins and earnings growth.</li> </ul>
<b>UNVR</b>	4,300	Hold	<ul style="list-style-type: none"> <li>We foresee continued recovery in 4Q21, especially in the FNR division. To pass on higher raw material prices and sustain margins, the company plans to gradually raise selling prices starting in October 2021.</li> <li>This bodes well for the 2022 earnings growth, we believe. Nonetheless, tough competition in the HPC segment will hinder strong recovery in the future.</li> <li>We maintain our HOLD recommendation on the company with a TP of IDR4,300.</li> </ul>
<b>MYOR</b>	2,100	Sell	<ul style="list-style-type: none"> <li>We are optimistic on the prospects for quarterly revenues growth ahead. However, higher raw material prices will potentially put pressure on margins, which will translate into soft earnings in 2022.</li> <li>Over the past 10 years, MYOR reported strong revenues CAGR of 12.9%. However, amid higher commodity prices, we observed volatility in margins and this translated into weak earnings.</li> <li>At the current share price, MYOR is trading at FY22F PE of 33.2x, higher than its average 2-y PE of 31x and its consumer peers. Maintain Sell with a TP of IDR2,000, implying FY22F PE of 28x. Key risks to our recommendation include stronger-than-expected earnings from higher margins and forex gains.</li> </ul>
<b>KINO</b>	1,700	Sell	<ul style="list-style-type: none"> <li>Going into 2022, we believe economic activities will gradually pick up and have a positive impact on the company.</li> <li>We expect a recovery in FY22F top line growth of 7.1% yoy.</li> <li>We estimate lower FY22 net profits of IDR93bn, down 15% yoy. At current price, KINO is trading at FY22F PE of 32x. Maintain Sell with lower TP of IDR1,700 – based on DCF (WACC 7.5%, TG 4.5%).</li> </ul>

Source: BRI Danareksa Sekuritas estimates

**Exhibit 14. Financial ratio 2022F**

Financial ratios	WOOD	INDF	ICBP	UNVR	MYOR	KINO
Sales growth (%)	15.8	5.9	5.6	3.9	13.9	7.1
EBITDA growth (%)	13.5	2.0	3.1	5.0	4.2	22.1
Operating profit growth (%)	14.5	5.1	3.0	5.4	3.9	24.7
Net profit growth (%)	25.6	8.3	8.9	5.6	7.0	(15.0)
Gross margin (%)	32.1	33.5	35.0	50.5	25.1	46.5
EBITDA Margin (%)	20.1	19.0	16.9	22.4	10.3	7.9
Operating margin (%)	18.0	16.3	19.0	20.4	7.5	5.0
Net margin (%)	10.9	7.6	11.2	15.5	5.1	2.2
ROAA (%)	7.8	4.7	6.0	31.2	7.3	1.7
ROAE (%)	14.6	16.1	18.9	128.9	12.9	3.5
Net gearing (x)	0.5	0.4	0.3	0.5	0.1	0.7
Interest Coverage (x)	4.5	7.4	7.4	40.6	6.3	1.4

Source: Company, BRI Danareksa Sekuritas estimates