

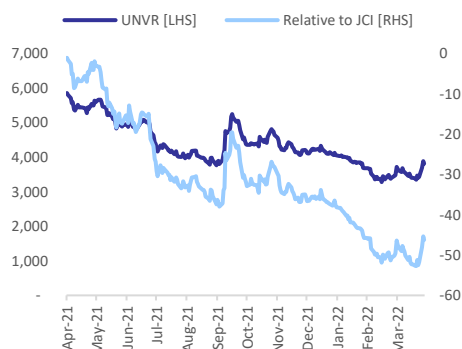
Tuesday, 17 May 2022

Overweight
Maintain

Consumer

Threats from higher wheat prices

UNVR relative to JCI Index



India has banned wheat exports following damage to crops in order to ensure food security in the country. As a result, the wheat price shot up 12.5% on a weekly basis (and 8.9% mom). Higher wheat prices will negatively affect ICBP and MYOR's earnings and put pressure on the share prices. We advise investors to take refuge in UNVR and SIDO.

India to ban wheat exports to manage food security. The government of India has prohibited wheat exports amid higher wheat prices in the local market as hundreds of acres of wheat crops were damaged during India's hottest March on record, resulting in potentially a 50% lower yield. The world was counting on wheat supply from India given the prolonged Russia/Ukraine conflict. Earlier, India had targeted 10mn tons of wheat exports in 2022-23. To ensure local food supplies, governments around the world have made efforts to ensure local food supplies: Indonesia has banned palm oil exports, for example, while Serbia and Kazakhstan have imposed quotas on grain shipments.

The export ban will lead to higher prices. Russia and Ukraine account for around 29% of global wheat exports. Food protectionism has pushed agricultural prices higher and driven up inflation around the world. Since mid-March 2022, the wheat price has stabilized at around USD1,000-1,100/bushel. However, since the announcement of India's wheat export ban, the wheat price has increased to USD1,228/bushel (+12.45% wow and 8.9% mom).

SIDO relative to JCI Index



Higher input costs will negatively impact the margins of consumer companies. Within our coverage, we have INDF, ICBP and MYOR with cost exposure to imported wheat. We estimate that wheat provides a 16% contribution to MYOR's COGS, while for ICBP the figure is around 15%. Based on our sensitivity analysis, higher wheat prices will negatively impact MYOR's earnings. For INDF, the company will also face a negative impact from ICBP's products as well as from Bogasari's wheat flour. Note that INDF implements a cost-plus system for Bogasari. However, the impact on margins may vary given delays in the adjustments to wheat flour prices.

Temporary pressure on wheat-based consumer names; we prefer UNVR. The management of Indofood has stated that the company's supplies of wheat are mainly from Australia with other sources including India and South America. However, the company has already managed its wheat supply and has 3 to 4 months of physical supply stocks of wheat. For Indofood, it already increased its noodle prices by another IDR100/pack in April 2022, resulting in a total 6-8% Ytd ASP increase. In Indonesia, we believe there was strong domestic consumption in the fasting and Ramadhan season. This continued during the long weekend holiday, a reflection of the solid recovery in the local economy. We hope this will cushion purchasing power amid the threat of higher inflation. Fluctuations in wheat prices will negatively impact the Indofood group and Mayora. We see more upside for UNVR as it still trades below its -1SD avg 4-y PE of 32x. SIDO is also another safe play with its minimal exposure to imported raw materials.

Source: Bloomberg



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Company	Ticker	Rec	Target	Market	P/E (x)		P/BV (x)		ROE (%)
			Price (Rp)	Cap. (RpBn)	2022F	2023F	2022F	2023F	2022F
Unilever Indonesia	UNVR IJ	BUY	5,500	183,120	28.2	27.5	42.1	41.9	150.0
Indofood CBP	ICBP IJ	BUY	10,100	95,330	14.5	13.0	2.5	2.2	18.3
Kalbe Farma	KLBF IJ	BUY	1,900	75,000	22.7	21.2	3.5	3.2	16.2
Indofood Sukses	INDF IJ	BUY	8,300	56,630	6.4	6.0	1.0	0.9	17.2
Mayora Indah	MYOR IJ	BUY	2,000	38,233	29.3	24.9	3.3	3.0	11.4
Sido Muncul	SIDO IJ	BUY	1,100	27,750	19.3	17.4	7.9	7.7	41.0
Integra Indocabinet	WOOD IJ	BUY	1,200	3,817	6.9	5.8	0.9	0.8	14.6
Kino Indonesia	KINO IJ	SELL	1,700	6,500	70.0	66.4	2.4	2.4	3.5

Exhibit 1. Wheat sensitivity analysis for ICBP

Change in Wheat price	Net profit 2022F	Changes in Net profit 2022F
-10%	7,078	7.8%
-5%	6,823	3.9%
Base Case	6,568	0.0%
5%	6,314	-3.9%
10%	6,059	-7.8%

Source: BRI Danareksa estimates

Exhibit 2. Wheat sensitivity for MYOR

Change in Wheat	Net profit 2022F	Changes in Net profit 2022F
-10%	1,578	21.0%
-5%	1,441	10.5%
Base Case	1,304	0.0%
5%	1,167	-10.5%
10%	1,030	-21.0%

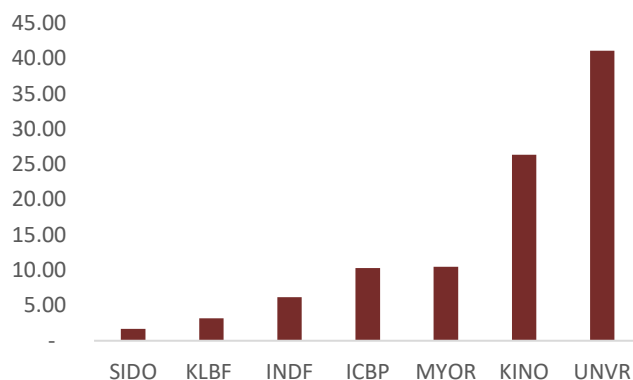
Source: BRI Danareksa estimates

Exhibit 3. Wheat sensitivity analysis for INDF

Change in Wheat price	Net profit 2022F	Changes in Net profit 2022F
-10%	9,701	10.1%
-5%	9,254	5.1%
Base Case	8,807	0.0%
5%	8,360	-5.1%
10%	7,914	-10.1%

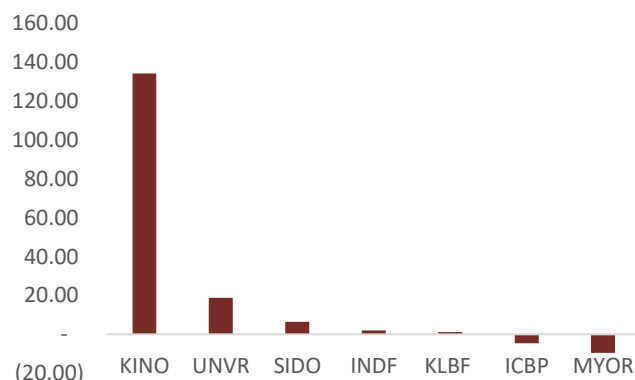
Source: BRI Danareksa estimates

Exhibit 4. Share price performance – 1M



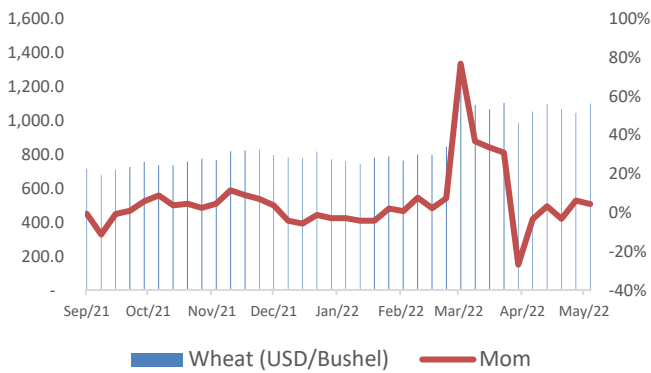
Source: Bloomberg

Exhibit 5. Share price performance – Ytd



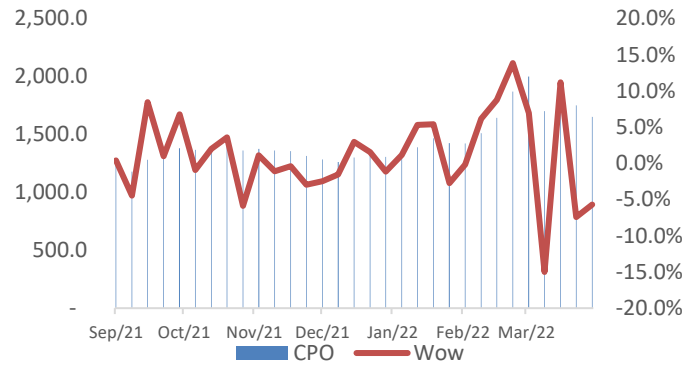
Source: Bloomberg

Exhibit 6. Wheat price and Mom movement



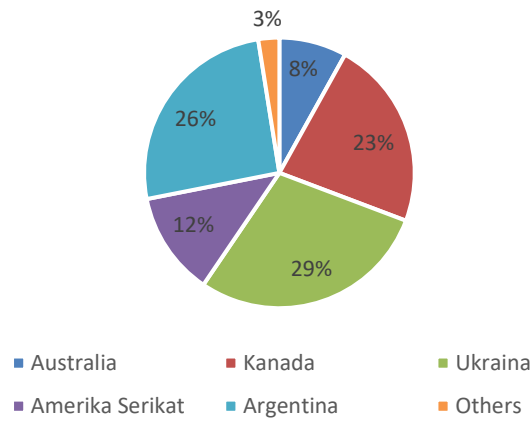
Source: Bloomberg

Exhibit 7. CPO price and Wow movement



Source: Bloomberg

Exhibit 8. Wheat importers to Indonesia, 2020



Source: Nasdaq, CNBC

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