Consumer staples

Back to basics

We began the year 2022 with a quite cautious stance on domestic consumption due to (1) prolonged unemployment, (2) a bleak increase in minimum wage, and (3) lower govt stimulus. Now as we believe that the pandemic is coming to an end, here's what we think would be the outlook for consumer staples companies.

Heading into an inflationary situation, a brief insight from the past

After the recent subsidized fuel price increase, Indonesia's inflation is set to remain high in the coming months. Looking at historical data, almost all staples companies still exhibited double-digit sales growth a year after the fuel price hikes in the last 20 years. There are at least three possible explanations: (1) Indonesia's robust economy in the mid-2000s helped lower the unemployment rate, (2) a significant increase in the minimum wage, and (3) the demand for consumer staples goods is relatively inelastic.

What we think will happen after 2022 price hike: a slightly different chapter

While most firms are still in the early stages of recovery after the pandemic, we believe it may be challenging to create enough jobs to absorb all the unemployed, yet to set a sharp increase in minimum wage in the current situation. Assuming the wage adjustment would only be around GDP growth or inflation (~5-6%), we think this may not enough to cover rising cost of living, especially for those who sit in the lowest income bracket. However, we believe staples companies will generate relatively consistent revenues as it is difficult to adjust consumption of basic necessities for living.

Input costs concern should subside

Throughout the year, we see that investors were concerned about staples' margins, as input costs had soared while companies had limited power to pass on to consumers due to weak purchasing power. However, prices have now dropped significantly. Our CPO analyst forecasts that FY23's global CPO prices would decline by 30% YoY, and Bbg consensus estimates global wheat prices would fall by 7% YoY. Besides that, the prices of global containers also have declined sharply, easing the burden of export expenditure.

Re-initiate consumer staples sector coverage with OW recommendation

We maintain our cautious stance on domestic purchasing power as we are heading into an era of rising inflation and a global economic slowdown. Nonetheless, we anticipate staples' top-line growth will be largely driven by latest ASP increase, and together with declining input costs should result in robust earnings growth. Our top picks are: MYOR, ICBP, and INDF.

Consumer staples valuation

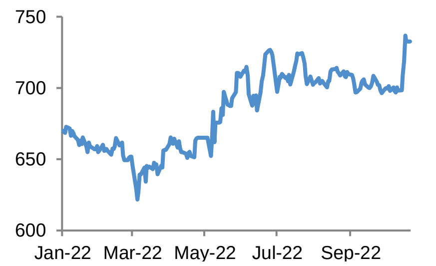
Ticker	Mkt Cap (IDR tn)	PE (x)		PB (x)		EPS growth (%)		ROE (%)	
		FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
ICBP	109.9	16.3	14.2	3.0	2.7	(1.5)	15.0	9.3	11.7
INDF	55.3	6.5	6.4	1.0	0.9	5.2	2.2	13.8	14.5
MYOR	53.7	35.4	24.4	4.5	4.0	27.5	45.2	13.1	17.2
UNVR	203.1	31.1	29.2	42.6	40.5	13.2	6.7	143.5	142.3

Source: Bloomberg, KISI

Overweight (Re-Initiate)

Company	Rating	TP (IDR)
ICBP	BUY	11,250
INDF	BUY	7,500
MYOR	BUY	3,000
UNVR	SELL	4,400

IDXNCYC Index



Source: Bloomberg

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Latest macroeconomic data reading; more resilient than others

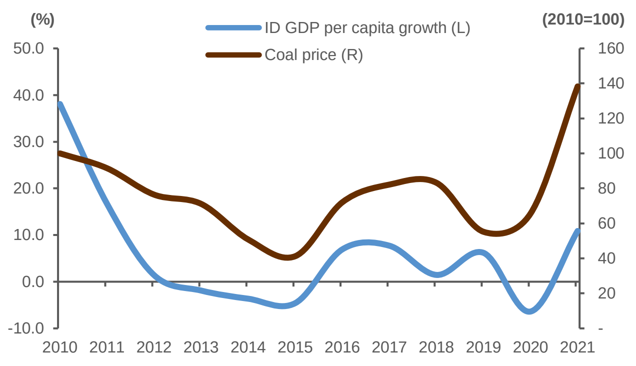
Amid the global slowdown, Indonesia's economy is coping well thanks to robust consumer spending and a sharp rise in commodity exports. As one of the top exporters of coal and crude palm oil, Indonesia benefits from high global commodity prices. Latest reading from BPS suggested the country's GDP grew 5.4% YoY in the second quarter, in contrast to negative growth in the economic giants US and China. Demand for Indo's commodity exports remains healthy, thus supporting growth and generating a fiscal revenue windfall. Based on historical evidence, coal and CPO prices have positive correlations with regions whose economies rely on commodities, such as provinces in Sumatra and Kalimantan.

Table 1. Indonesia GDP growth rate (% YoY)

Quarter	Q1	Q2	Q3	Q4
2016	4.9	5.2	5.0	4.9
2017	5.0	5.0	5.1	5.2
2018	5.1	5.3	5.2	5.2
2019	5.1	5.1	5.0	5.0
2020	3.0	-5.3	-3.5	-2.2
2021	-0.7	7.1	3.5	5.0
2022	5.0	5.4		

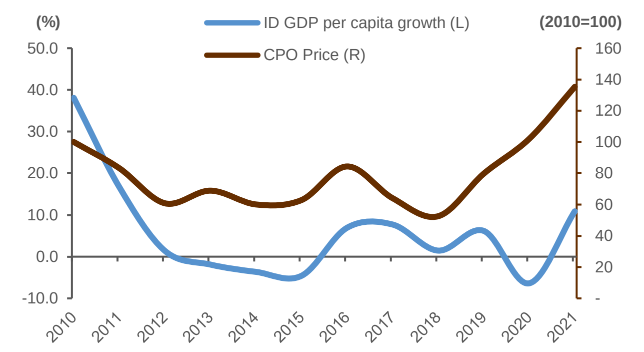
Source: BPS, KISI

Fig 1. ID GDP per capita growth and coal price



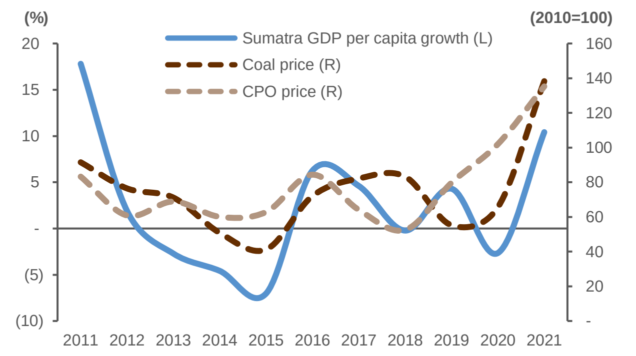
Source: BPS, Bloomberg, KISI

Fig 2. ID GDP per capita growth and CPO price



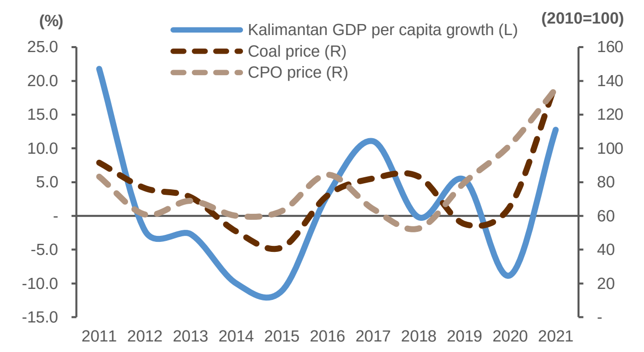
Source: BPS, Bloomberg, KISI

Fig 3. Sumatra GDP per capita growth vs. coal and CPO price



Source: BPS, Bloomberg, KISI

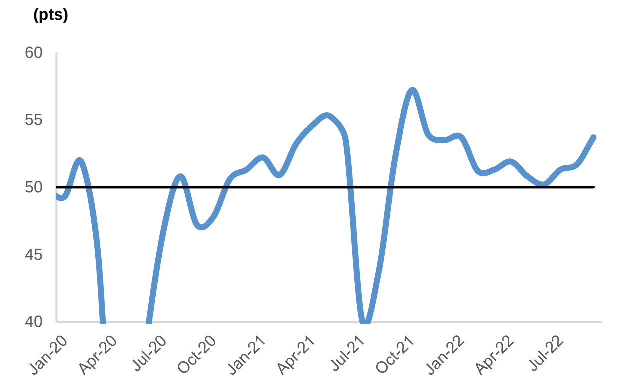
Fig 4. Kalimantan GDP per capita growth vs. coal and CPO price



Source: BPS, Bloomberg, KISI

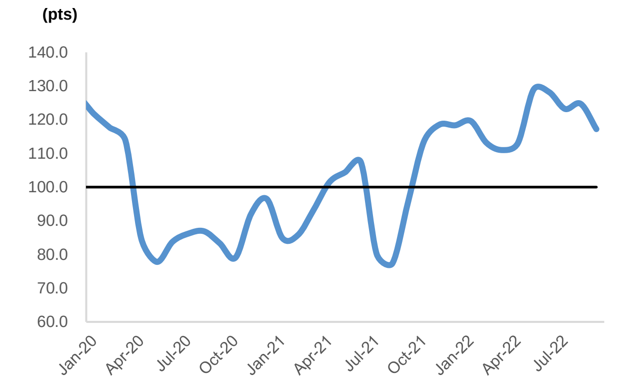
Following the country's reopening, some economic indicators indicate that Indonesia's economy is in the early stages of recovery. Household consumption, which makes up 53% of the economy, grew by 5.5% YoY. The Manufacturing PMI index has been in the expansion zone for the 13th consecutive month, while consumer confidence index has been relatively higher from the pandemic time, showing a good willingness to spend with some adjustments due to higher inflation. Unemployment and poverty rates have slow declined since the pandemic's peak, and the farmers' terms of trade (FTT) index reflects that index prices received by farmers are higher than prices paid by them.

Fig 5. Manufacturing PMI has been in the expansion zone for the 13th consecutive months



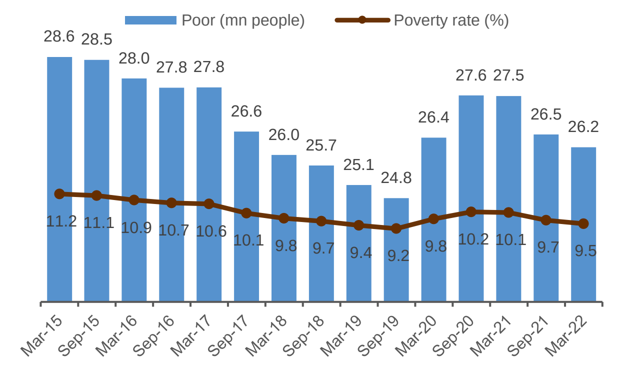
Source: S&P Global, KISI

Fig 6. Consumer confidence index declined in the last 2 months, but still higher than the pandemic



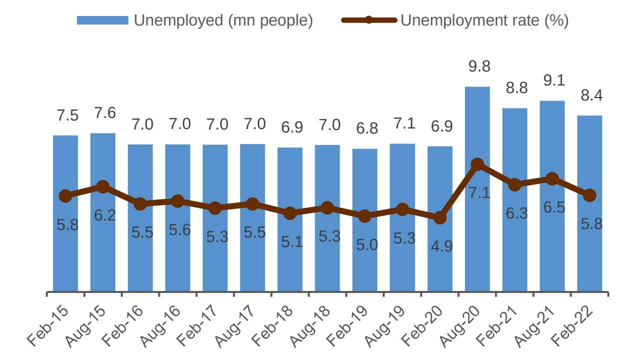
Source: BI, KISI

Fig 7. Poverty rate



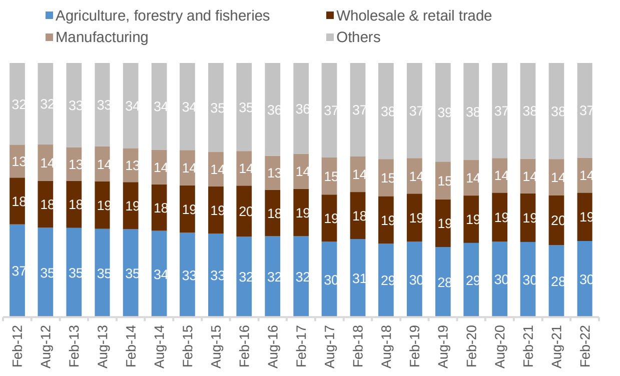
Source: BPS, KISI

Fig 8. Unemployment rate



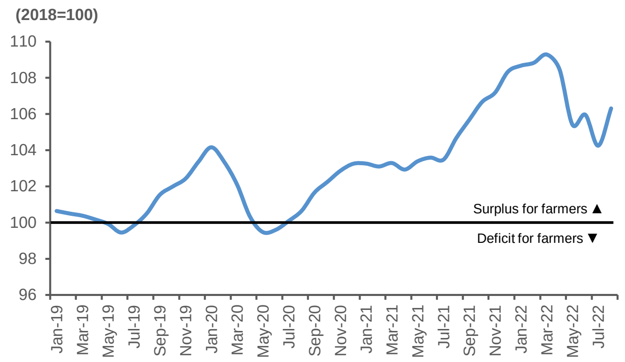
Source: BPS, KISI

Fig 9. Distribution of workforce by sector (%); 30% of Indonesian workforce works in agriculture sector



Source: BPS, KISI

Fig 10. Farmers' terms of trade index



Source: BPS, KISI

Heading into an inflationary situation, a brief insight from the past

In order to curb spending on ballooning energy subsidies, Indonesia increased the price of subsidized fuel (Pertalite and Biosolar) by ~30% in early Sep2022. The govt anticipates higher inflation in the short term before gradually returning to normal. As expected, latest data of inflation per Sep2022 jumped 5.95%, the highest since Oct2015. Transportation costs jumped the highest amongst the others.

Table 2. Inflation detail; transportation jumped by 16% YoY

	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
Indo CPI	**2.2**	**2.1**	**2.6**	**3.5**	**3.6**	**4.4**	**4.9**	**4.7**	**6.0**
Unprocessed Food	2.7	3.0	3.1	3.5	3.6	3.7	4.0	4.2	4.5
Food, beverages, and tobacco	3.5	2.5	3.6	5.2	5.6	8.3	9.4	7.7	7.9
Housing and utilities	1.2	1.5	1.8	2.1	2.1	2.1	2.6	3.1	3.2
Clothing	1.9	1.9	2.0	1.8	1.1	1.4	1.5	1.6	1.6
Health	1.7	1.9	2.1	2.2	2.3	2.5	2.3	2.1	2.5
Education, Recreation and Sport	1.6	1.7	1.7	1.7	1.7	1.7	1.9	2.5	2.6
Transportation and Financial Services	1.9	1.7	2.4	4.8	4.8	5.5	6.7	6.6	16.0
Household Equipment, Tools, Routine Maintenanc	3.3	3.4	3.8	4.2	4.4	4.8	4.9	4.9	5.0
Information, Communication, Financial Services	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3
Recreation, Sports, Culture	1.5	1.8	1.9	1.9	2.1	2.0	2.3	2.5	2.7
Personal Care & Other Services	2.1	2.9	4.4	4.9	4.6	4.4	4.8	4.9	5.2
Core CPI	**1.8**	**2.0**	**2.4**	**2.6**	**2.6**	**2.6**	**2.9**	**3.0**	**3.2**
Administered Prices	2.4	2.3	3.1	4.8	4.8	5.3	6.5	6.8	13.3
Volatile items	3.4	1.8	3.3	5.5	6.1	10.1	11.5	8.9	9.0

Source: BPS, KISI

To better understand the impact of fuel price increases, we conducted a case study based on historical data. In the last 20 years, the government has raised the price of subsidized fuel five times. It occurred twice in 2005 (for a total increase of 120%), once in 2008 (33% increase), 2013 (34% increase), and in 2014 (41% increase). The highest increase happened in 2005, when premium prices were raised by >100% from IDR 1,810/L to IDR 4,500/L. The fuel price hikes then resulted in soaring inflation (*see Table 3*).

Table 3. The effect of subsidized fuel price hike to CPI and GDP

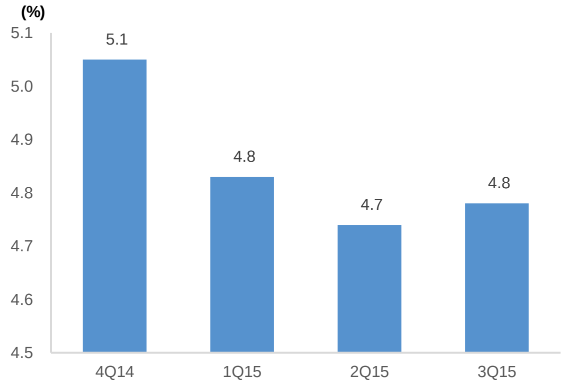
Period	CPI (%)	Core CPI (%)	GDP growth (%)
2003	5.1	6.1	3.3
2004	6.4	6.7	5.4
2005	17.1	9.8	4.3
2006	6.6	6.0	5.5
2007	6.6	6.3	6.4
2008	11.1	8.3	7.7
2009	2.8	4.3	4.7
2010	7.0	4.3	6.4
2011	3.8	4.3	6.2
2012	3.7	4.4	6.0
2013	8.1	5.0	5.6
2014	8.4	4.9	5.0
2015	3.4	4.0	4.9
2016	3.0	3.1	5.0

Source: World Bank, various news, KISI

Fig 11. ID CPI surged by 1.4ppts to 6.2% in the following month after fuel price hike in Nov2014

Source: BPS, KISI

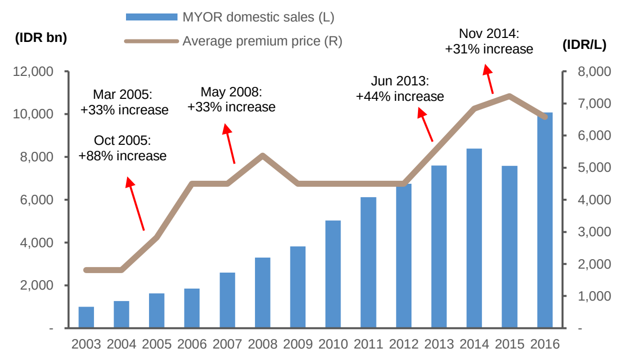
Fig 12. ID GDP growth slowed by ~-0.3%-0.4% for the next two quarters



Source: BPS, KISI

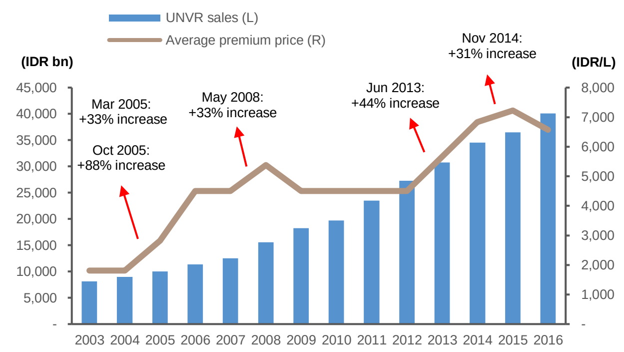
With that, Indonesia's inflation is set to remain high in the coming months. The central bank estimates inflation to reach 5% by the end of 2022 (vs 4.84% YTD as of Sep2022). **Higher prices are hard for everyone, even harder for the poor,** who struggle to pay for basic necessities. It may hurt household purchasing power in the short to medium term. While it's hard to quantify the magnitude of the fuel price hike impact on consumption, we look at the companies' performance the year after.

Fig 13. MYOR domestic sales vs fuel price hikes



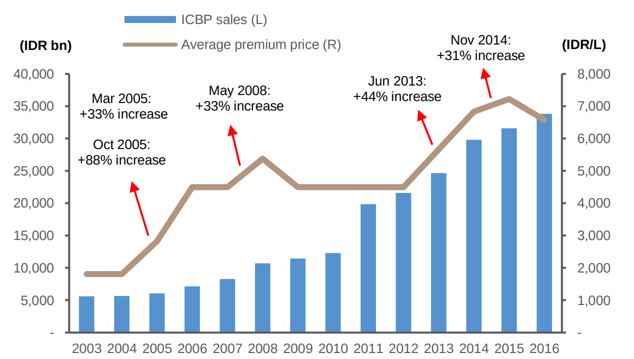
Source: Company, various news, KISI

Fig 14. UNVR sales vs fuel price hikes



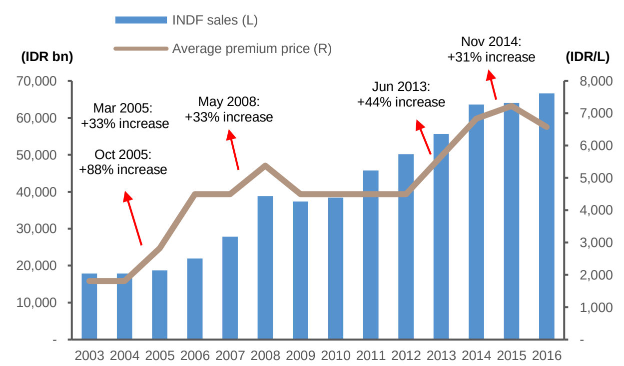
Source: Company, various news, KISI

Fig 15. ICBP sales vs fuel price hikes



Source: Company, various news, KISI

Fig 16. INDF sales vs fuel price hikes



Source: Company, various news, KISI

Figure 13-16 shows that almost all companies still exhibited double-digit sales growth a year after the hikes, with the exception of INDF and MYOR in 2015. There are at least three possible explanations for this: (1) Indonesia's robust economy following the 2000s commodity boom helped to create many new jobs and lower the unemployment rate; (2) a significant increase in the minimum wage, which provides a buffer against the inflation effect; and (3) the nature of consumer staples, which are essential goods that have relatively inelastic demand.

A slightly different chapter

However, we think that the current condition is quite different from what it was back then. The country has been facing **weaker economic growth since almost a decade ago**, after the commodities boom ended amid the global economic slowdown. Then the pandemic hit everyone, many people lost their jobs, unemployment rate rose to 7%. While most firms are still in the early stages of recovery after the pandemic, we believe it may be **challenging to create enough jobs to absorb all the unemployed, including the group of annual newcomers** (~2mn Indonesians enter the workforce every year).

Table 4. Indonesia's economy expanded strongly during mid-2000s, but have slowed down in the past 10 years

	2001-2005	2006-2010	2011-2015	2016-2019	2020-2021
GDP growth (%)	4.7	5.7	5.5	5.1	0.8
GDP per capita growth (%)	3.3	4.3	4.1	3.9	(0.2)
CPI (%)	9.3	7.9	5.8	3.4	1.7
Unemployment rate (%)	9.4	8.8	6.1	5.2	5.6
Minimum wage hike (%)	18.9	12.4	14.6	9.3	4.3

Source: World Bank

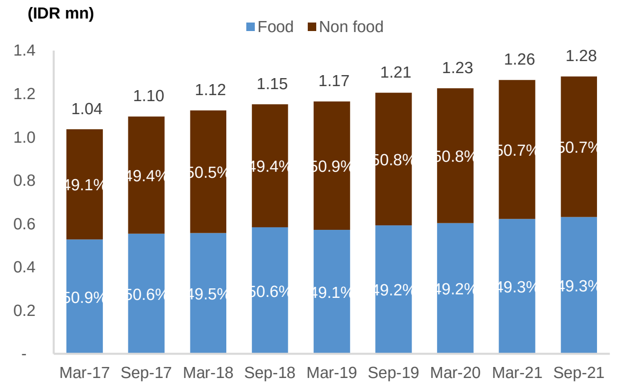
The govt has been keeping the 2021-22 wage hike limited to only ~1% during 2021-22, far below the avg. pre-pandemic levels of >10%. Up to this writing, govt has yet to announce the 2023 wage hike. According to Government Regulation (GR) 36/2021, the determination of the minimum wage hike is based on economic (GDP or inflation, whichever is higher) and employment conditions by taking into account upper and lower limits of the minimum wage.

Assuming the wage adjustment would only be around GDP growth or inflation (~5-6%), we think this may not enough to cover rising cost of living, especially for those who sit in the lowest income bracket. For these reasons, we think that mass purchasing power might see only a mild recovery from the pandemic state. However, we believe that staples companies will generate relatively consistent revenues as it is difficult to adjust consumption of basic necessities for living.

Direct cash assistance to lessen the inflationary impacts

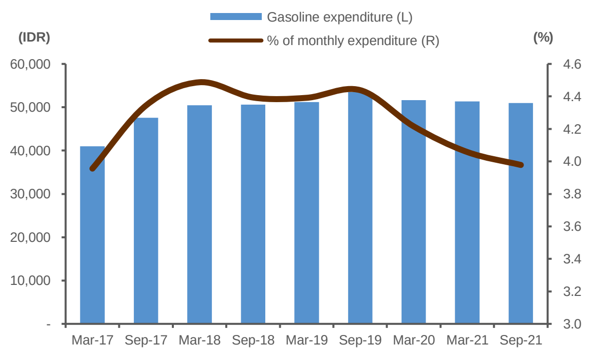
To soften the blow, the MoF announced additional social assistance programs totaling IDR 24.2tn, through: (1) direct cash assistance (BLT) for 20.65 mn families (IDR 150k/month for four months), (2) wage subsidy assistance (Bantuan Subsidi Upah/BSU) amounting IDR 600k each for 16 mn workers who earn <IDR 3.5mn monthly, and (3) transportation subsidies. We believe that these cash assistance programs would help to buffer the poor in the near-term from the inflationary effects of the increase.

Fig 17. Indonesia monthly spending per capita breakdown (IDR mn)



Source: BPS, KISI

Fig 18. Gasoline expenditure contributes ~4% to monthly expenditure per capita (~IDR 50k/month)



Source: BPS, KISI

Nonetheless, expecting higher ASP to be the main growth driver

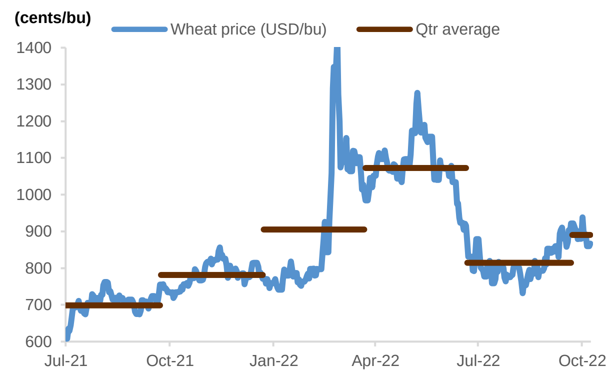
Along with the recovering consumer confidence, all of consumer staples companies we cover have passed on higher input costs to consumers through several price hikes. Indofood group raised the price of its instant noodles four times (each by 3-4%) in 2021-22, as well as its dairy products and snacks. Mayora and Unilever have both gradually raised their prices by >10% YTD. As a result, we anticipate staples' top-line growth would be largely driven by full impact of the latest ASP increases rather than volume growth in FY23F.

Margins to improve afterwards

Throughout the year, we see that investors were concerned about staples' margins, as input costs had soared while companies had limited power to pass on to consumers due to weak purchasing power. However, soft commodity prices have now dropped significantly. CPO, for example, is now priced at MYR 3,800/MT, far below the average 1H22 price of MYR 6,300/MT. Our CPO analyst forecasts that global CPO prices will stay at MYR 3,800/MT for the next four months of FY22, resulting in an average FY22 price of MYR 5,000/MT, before normalizing to MYR 3,500 in FY23 (-30% YoY) due to ample supply and lower demand from China as the country is facing a prolonged lockdown.

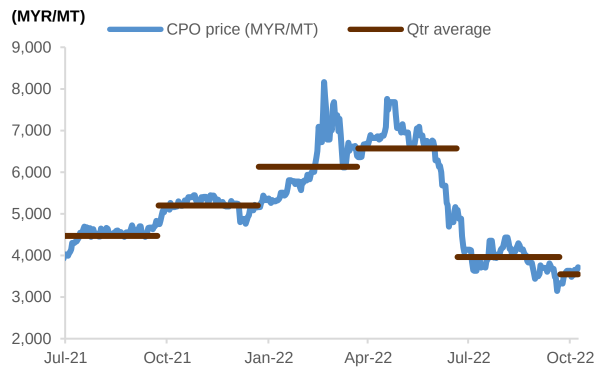
Wheat prices have also been declining since reaching a 12-year high in Mar2022 at USc 1,425/bu. Many uncertainties remain, including the ongoing conflict between Russia and Ukraine, which may cause price volatility in the short term. Ukraine was the world's sixth biggest wheat exporter in 2021 and accounting for 10% of global wheat market share. Even so, Bloomberg consensus forecasts that wheat prices will fall to USc 880/bu in 2023, down from USc 950/bu in 2022 (-7% YoY). This was due to improved supply following the resumption of wheat exports from Ukraine after the Black Sea Grain deal. As such, the concern over input costs should ease, and we should expect improving margins afterwards.

Fig 19. Wheat price



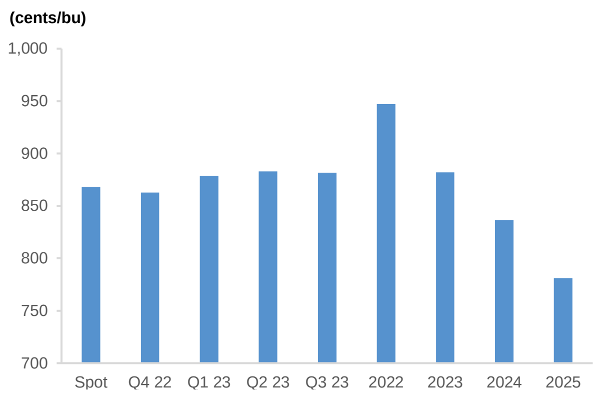
Source: Bloomberg, KISI

Fig 20. CPO price



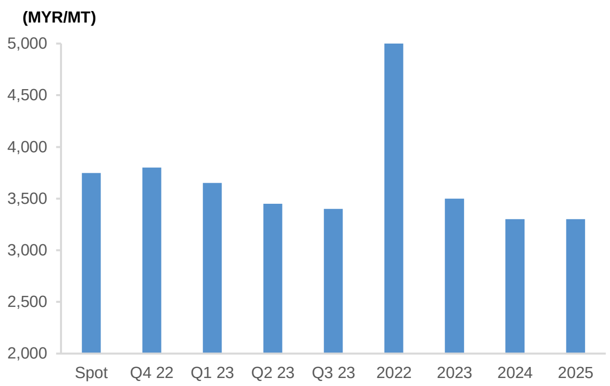
Source: Bloomberg, KISI

Fig 21. Wheat price forecast



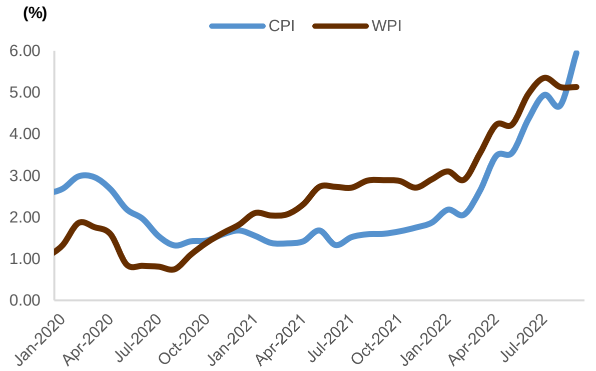
Source: Bloomberg, KISI

Fig 22. CPO price forecast



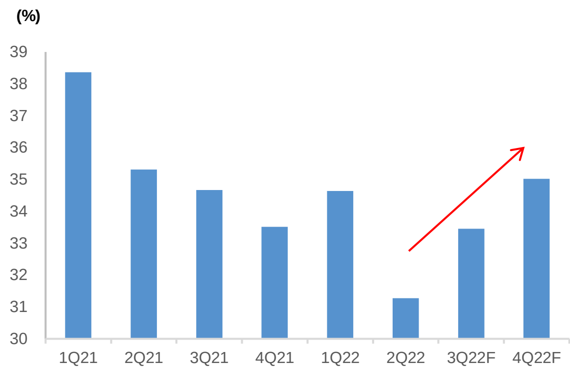
Source: Bloomberg, KISI

Fig 23. Narrowing gap between CPI and WPI



Source: BPS, KISI

Fig 24. Staples' GPM should improve after 2Q22

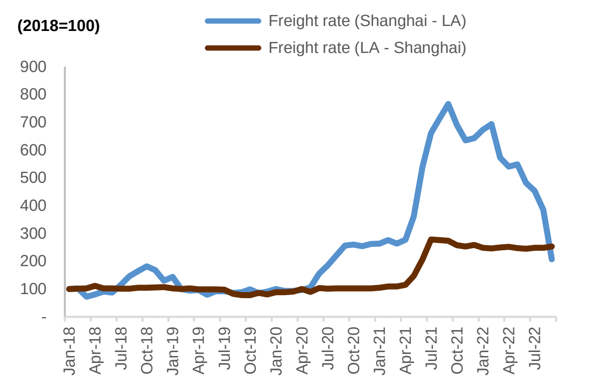


Source: Companies, KISI

Declining global container prices

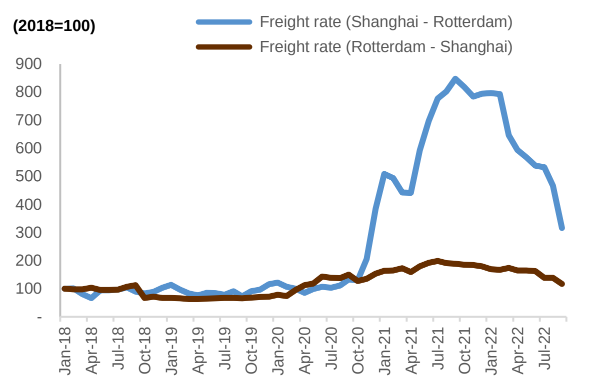
As the pandemic disrupted the supply chain, the cost of 12-meter shipping containers–which carry more than 80% of global trade–rose sharply. At its peak in Sep2021, the cost of sending a container from China to US and Europe was nearly 10 times higher than in 2018. As a result of softening demand, now the prices of global containers have dropped significantly and are heading to pre-pandemic levels (*see Fig. 25-26*). The lower shipping rates may ease the burden of export expenditure.

Fig 25. Freight cost Shanghai to LA (& return)



Source: Bloomberg, KISI

Fig 26. Freight cost Shanghai to Rotterdam (& return)



Source: Bloomberg, KISI

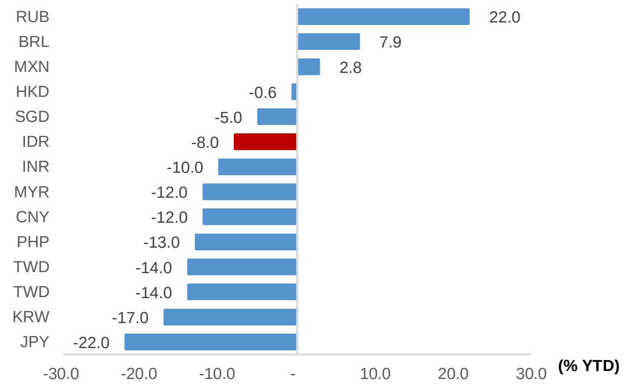
Risk emerges from strengthening USD against IDR

Global uncertainty from persistently high inflation, with a more hawkish monetary stance, has triggered the fear of global recession. Capital outflows are likely to continue, and Indonesia's trade surplus may see a narrowing trend, putting pressure on foreign exchange reserves and rupiah stability. A depreciating IDR might cause profound risk inhouse–driving up import prices, which will raise the input costs for companies that import raw materials. Additionally, this can lead to ballooning USD-denominated debt payments. However, the risk is less for exporters as export earnings may be able to cover the higher import costs.

Fig 27. DXY

Source: Bloomberg

Fig 28. IDR is among the most resilient vs. USD



Source: Bloomberg

Sugary drink tax impact would be minimal

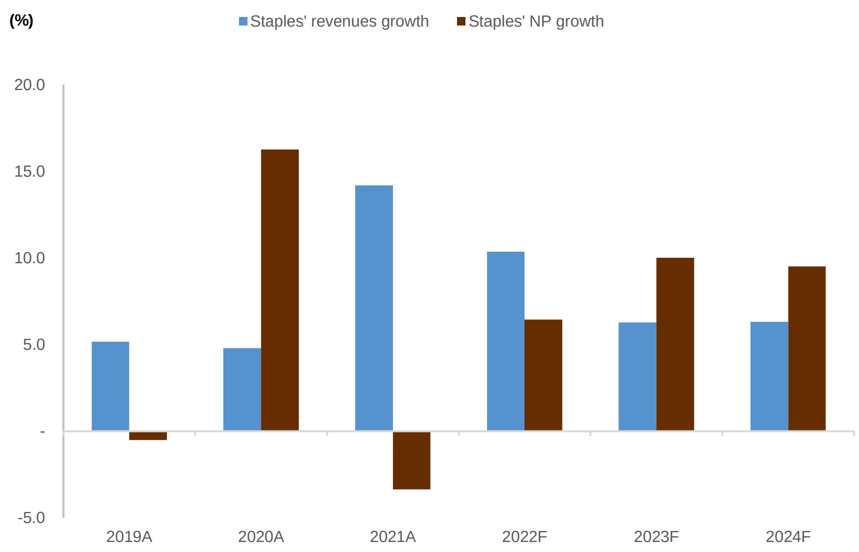
The Indonesian govt agreed to include an excise tax on packaged sweetened beverages in the 2023 state budget, though the implementation would largely depend on the pace of recovery next year. Has been in the talk since 2009, and it is one of the govt's initiatives to tackle the country's rising obesity and diabetes disease. The final proposal has yet to be released, but latest talk back in Feb2020, the MoF proposed an excise tax of IDR IDR1,500/L for bottled RTD tea and IDR2,500/L for carbonated drinks, energy drinks, and bottled RTD coffee.

However, we think the negative impact of the new regulation **would be minimal** for F&B manufacturers under our coverage, since all beverages under MYOR are in powder forms, and beverages only contribute to a small portion of overall ICBP sales.

II. Re-initiate consumer staples sector coverage with OW recommendation

We maintain our cautious stance on domestic purchasing power as we are heading into an era of rising inflation and a global economic slowdown. Nonetheless, we believe that consumer companies will generate relatively consistent revenues even during recessions, buoyed by the persistent demand for their products. Meanwhile, declining input costs should drive robust earnings growth.

Table 5. Expect moderate top-line growth driven by higher ASP, while declining input costs should result in robust earnings growth

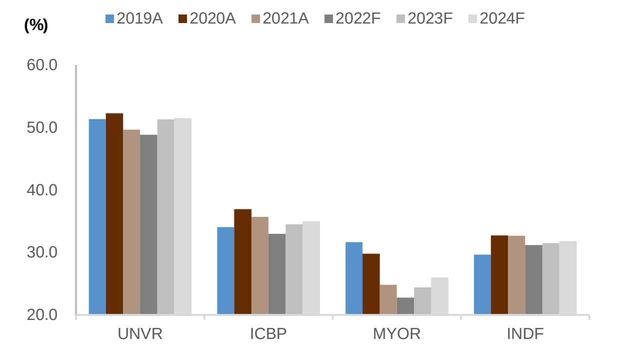


Source: Companies, KISI

In current valuation, we believe all the bad news has been priced-in. **Should earnings expand from margin expansions, we believe that valuation may rerate back to its historical mean.** For our top picks, we are looking for companies with (1) a strong pricing power as market leader, (2) large contribution from export sales, and (3) rich net cash in USD currency to deal with USD strengthening. Our top picks are: MYOR, ICBP, and INDF. While we have a SELL rating on UNVR as we believe valuation re-rating is unlikely given its sluggish growth.

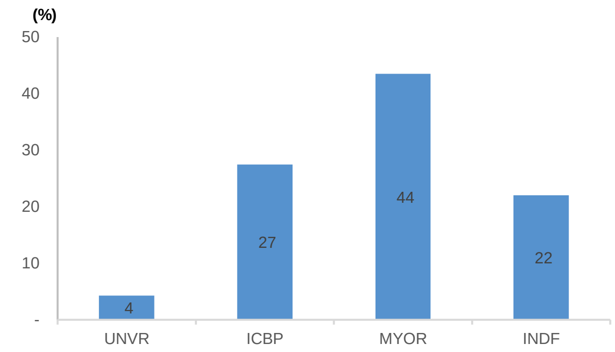
Downside risks to our call are: (1) weaker-than-expected purchasing power and (2) another spike in input costs.

Fig 29. Consumer's gross margin



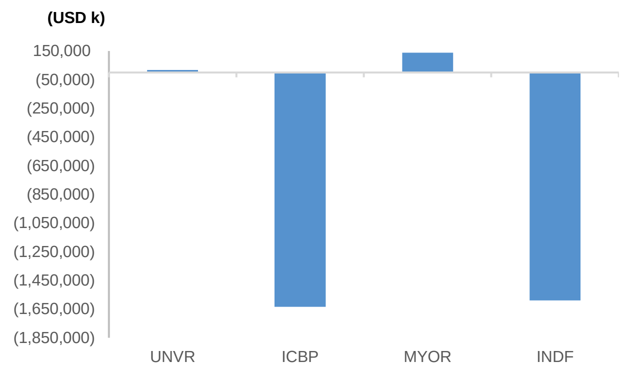
Source: Companies, KISI

Fig 30. Export sales contribution to sales in FY23F



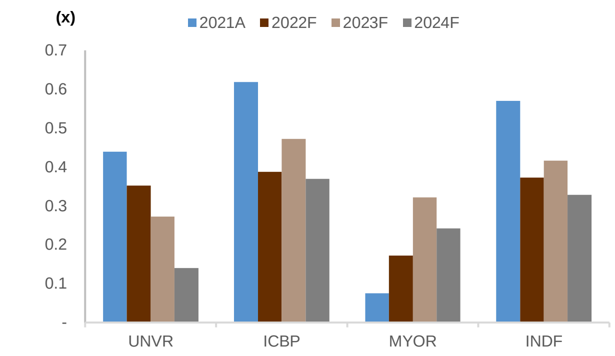
Source: Companies, KISI

Fig 31. Net USD cash/(debt) in FY21



Source: Companies, KISI

Fig 32. Net leverage



Source: Companies, KISI

Fig 33. Peers comparison

Company	Market cap	PE (x)		EV/EBITDA (x)		PB (x)		EPS growth (%)		Dividend yield (%)		ROE (%)	
	(IDR tn)	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
UNILEVER INDONESIA TBK PT	UNVR IJ	203.1	31.1	29.2	21.8	20.4	42.6	40.5	13.2	6.7	3.0	3.3	143.5
INDOFOOD CBP SUKSES MAKMUR T	ICBP IJ	109.9	16.3	14.2	12.8	10.6	3.0	2.7	(1.5)	15.0	2.3	2.3	9.3
INDOFOOD SUKSES MAKMUR TBK P	INDF IJ	55.3	6.5	6.4	6.7	6.1	1.0	0.9	5.2	2.2	4.4	4.0	13.8
MAYORA INDAH PT	MYOR IJ	53.7	35.4	24.4	18.5	13.7	4.5	4.0	27.5	45.2	1.1	1.4	13.1
INDUSTRI JAMU DAN FARMASI SI	SIDO IJ	21.3	18.6	17.8	6.2	5.8	14.6	12.9	(12.7)	8.7	5.2	5.1	32.0
NIPPON INDOSARI CORPINDO TBK	ROTI IJ	7.8	21.5	19.4	2.7	2.5	12.9	11.3	47.4	21.9	2.2	2.9	11.4
CISARUA MOUNTAIN DAIRY PT TB	CMRY IJ	36.6	29.8	25.7	6.7	5.6	22.1	17.0	36.8	31.7	(1.9)	(3.2)	19.8
Indonesia peers average		22.8	19.6	10.8	9.2	14.4	12.8	16.6	18.8	2.3	2.3	34.7	36.5

Source: Bloomberg, KISI

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& Sekuritas Indonesia

Indofood CBP Sukses Makmur (ICBP)

A taste of home

Alternative staple food

Instant noodle has become an important alternative to rice as the country's staple food, as its price is the cheapest among others. In the instant noodle market, ICBP's Indomie continues to dominate the market with a 75% market share, followed by Wings' Mie Sedaap with a 16% market share. While some brands emerge and position themselves as alternatives (e.g. more premium, healthier, or cheaper), none have come close to grabbing the market as much as Indomie. This translates into strong pricing power, enabling the company to raise ASP despite pandemic setback. ICBP still booked a volume growth of 17% YoY as of 1H22, despite raising ASP 3 times during 2021-1H22 with a total increase of 10-12%. In Jul2022, ICBP implemented another 3-4% price increase.

Top-line growth shall be supported by higher ASP and volume

We expect ICBP to post 12%/10% top-line growth in FY22/FY23, based on higher ASP and volume. Given the declining soft commodity prices, we expect ICBP will only raise price once annually going forward in the domestic market, unless there is another sharp increase in input costs. Volume growth would largely come from exports, driven by Pinehill's effort to tap into second-tier cities. Margin pressure should ease, but we still take into account the possibility of fluctuating wheat prices as a result of prolonged Russia-Ukraine tension.

Forex risk should not be a concern in the near-term

ICBP faces a high FX risk from its huge global bonds amounting USD 2.75bn, maturing in 2031 and 2051, with a blended fixed interest rate of 3.9% p.a. (~USD 108mn). Our sensitivity analysis shows that if the exchange rate of USD strengthens/weakens against IDR by 1% and all other factors remain constant, the company will record an unrealized fx loss/gain of IDR 385bn on the translation of bonds payable (a non-cash item). The company does not have any formal hedging policy, as export sales (28% of sales) generate USD that serves as a natural hedge for its interest payment. Since no principal payment is required in the near term, the unrealized fx should not affect its core business. As such, excluding fx effect, we forecast ICBP would post -1%/+15% earnings growth in FY22/23F.

Re-initiate coverage with BUY recommendation with TP of IDR 11,250

Our TP implies 17x FY23F core PE, based on its 3-yr mean. Downside risk to our call: weaker-than-expected purchasing power and higher-than-expected raw material prices.

	2020A	2021A	2022F	2023F	2024F
Sales (IDR bn)	46,641	56,804	63,787	70,410	77,751
GP (IDR bn)	17,224	20,278	21,050	24,291	27,213
OP (IDR bn)	9,117	11,536	11,086	13,269	15,153
Core profit – ex. FX (IDR bn)	7,419	6,850	6,749	7,763	8,833
EBITDA (IDR bn)	10,230	12,806	12,485	14,819	16,869
Net debt/(cash) (IDR bn)	31,132	21,191	27,602	23,759	18,916
OP margin (%)	19.5	20.3	17.4	18.8	19.5
ROE (%)	17.1	12.2	9.3	11.7	13.0
Dividend yield (%)	2.3	2.3	2.3	2.3	2.6
Core EPS (IDR)	636	587	579	666	757
chg. (%, YoY)	43.8	(7.7)	(1.5)	15.0	13.8
BPS (IDR)	2,524	2,905	3,140	3,544	4,054
DPS (IDR)	215	215	215	215	247
Core PE (x)	14.8	16.0	16.3	14.2	12.4
PB (x)	3.7	3.2	3.0	2.7	2.3
EV/EBITDA (x)	15.8	11.9	12.8	10.6	9.1

Company
Update

Consumer Staples

25 October 2022

12M rating	**BUY (Re-Initiate)**
12M TP	**IDR 11,250**
Upside	**19.4%**

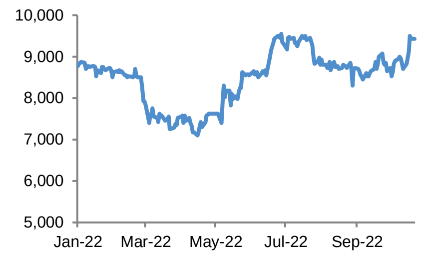
Stock Data

JCI (Oct 24)	7,053
Stock price (Oct 24, IDR)	9,425
Market cap (IDR bn)	109,913
Shares outstanding (mn)	11,662
52-week high/low (IDR)	9,625 / 7,050
6M avg. daily turnover (IDR bn)	70.6
Free float (%)	19.5
Major shareholders (%)	
PT Indofood Sukses Makmur	80.5

Performance

	1M	6M	12M
Absolute (%)	8.3	30.0	4.6
Relative to JCI (%p)	7.1	32.9	(1.9)

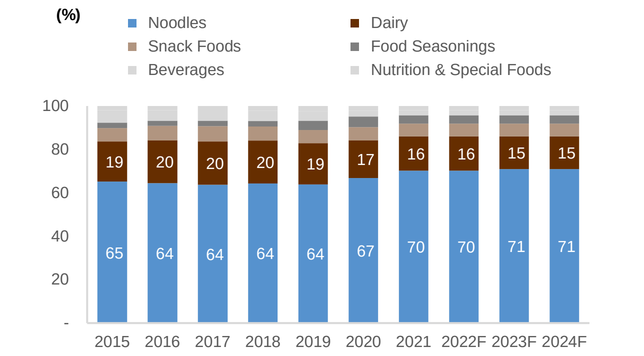
ICBP stock price



Source: Bloomberg

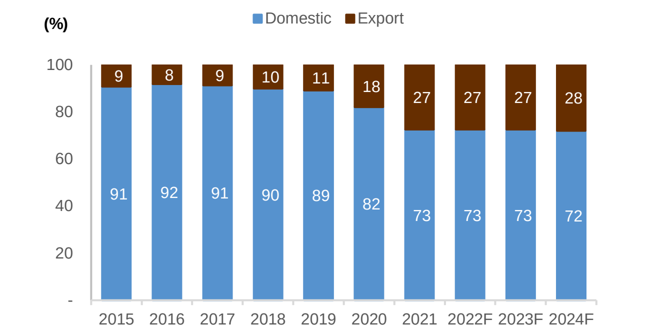
Elvira Natalia
elvira.n@kisi.co.id

Fig 1. Revenue breakdown by segment (% of sales)



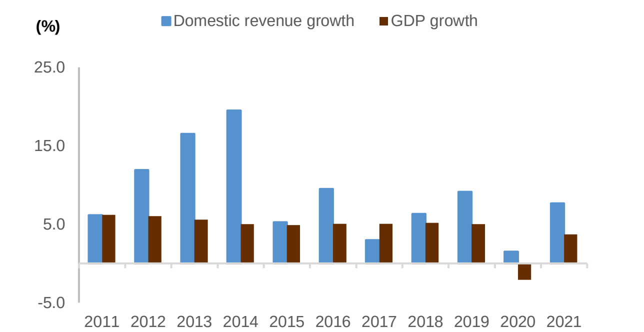
Source: Company, KISI

Fig 2. Revenue breakdown by area (% of sales)



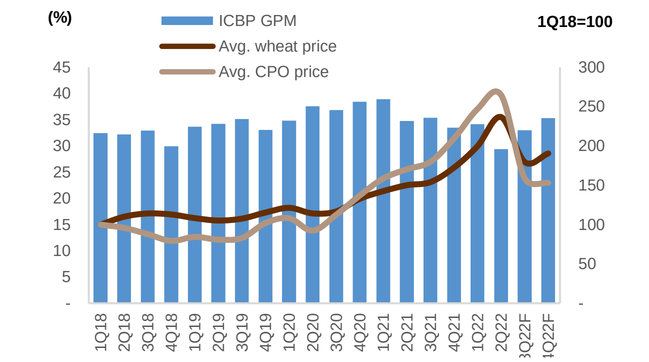
Source: Company, KISI

Fig 3. Domestic revenue vs. GDP growth



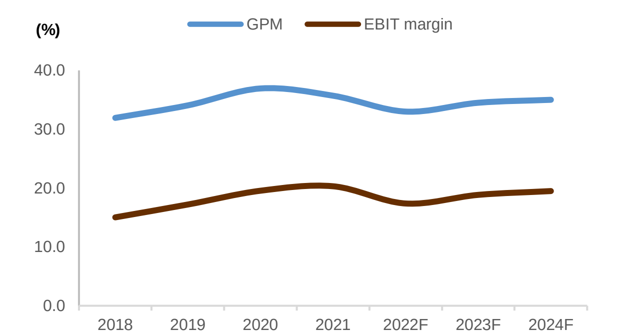
Source: Company, KISI

Fig 4. Quarterly GPM vs. wheat and CPO price



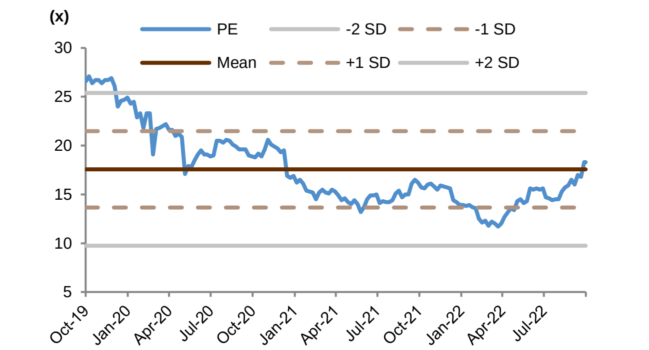
Source: Company, KISI

Fig 5. GPM and EBIT margin



Source: Company, KISI

Fig 6. ICBP PE band



Source: Bloomberg

Company Overview

Indofood CBP Sukses Makmur (ICBP) was established in 1982 as the consumer branded product group of its parent company, Indofood Sukses Makmur (INDF). It conducted its IPO in 2010. It has several product categories: noodles, dairy, snack foods, food seasonings, nutrition and special foods, and beverages. The company also operates a packaging business to support its products.

Besides Indonesia, ICBP also exports its products worldwide. As part of its core business expansion strategy, in 2020, ICBP acquired Pinehill Company Limited, an instant noodle producer with more than 20 manufacturing facilities in Africa, the Middle East and Southeastern Europe, making ICBP one of the world's largest instant noodle producers with a strong market share globally.

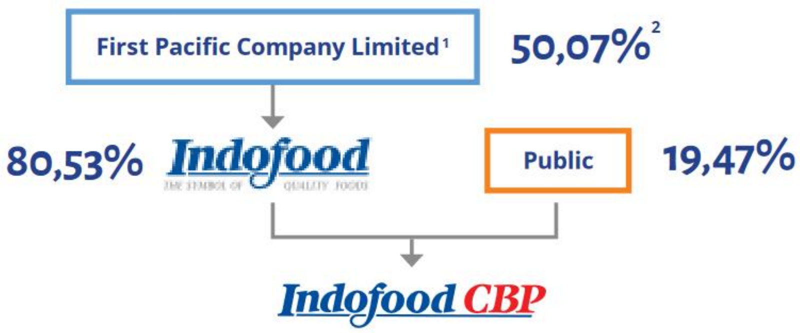
RM procurement from related party – ICBP purchased wheat flour from INDF, and cooking oil and fats from Salim Ivomas Pratama (SIMP, related party).

Royalty fee – ICBP has a trademark license agreement with INDF for the use of Indofood's trademarks. As a compensation, ICBP is charged a royalty fee of 1.5% of net sales of the branded food products.

Global bonds – ICBP issued a total of USD 2.75bn global bonds in 2021, comprising:

1. 10-year bonds totaling USD 1.75bn (blended interest rate 3.4% p.a., fixed, due in 2031 and 2032)
2. 30-year bonds totaling USD 1.0bn (blended interest rate 4.8%, fixed, due in 2051 and 2053)

Fig 7. ICBP shareholder structure



1. First Pacific Company Limited, is a public listed company on the Hong Kong Stock Exchange. Mr. Anthoni Salim holds interests in and controls indirectly First Pacific Company Limited.
2. Through First Pacific Investment Management Limited, an indirect subsidiary of First Pacific Company Limited.

Source: Company

Balance sheet

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash & cash equivalent	9,535	20,378	13,967	17,810	22,653
Accounts & other receivables	5,747	6,834	6,648	7,338	8,103
Inventories	4,587	5,857	6,079	6,560	7,189
Others	847	928	928	928	928
Non-current assets					
Fixed assets	13,351	14,176	15,400	16,595	17,909
Intangible assets	1,859	1,726	1,726	1,726	1,726
Total investment	10,645	11,069	11,069	11,069	11,069
Other non-current assets	57,017	57,099	57,099	57,099	57,099
Total assets	103,588	118,067	112,916	119,125	126,676
Current liabilities					
Accounts & other payables	8,450	8,784	9,128	9,537	9,991
ST debt	513	515	515	515	515
Current portion of LT debt	213	323	323	323	323
Others	-	9,275	-	-	-
Non-current liabilities					
LT debt	39,941	40,731	40,731	40,731	40,731
Other non-current liabilities	4,153	3,716	3,716	3,716	3,716
Total liabilities	53,270	63,344	54,413	54,822	55,276
Controlling interest					
Capital stock	583	583	583	583	583
Additional paid-in capital	5,985	5,985	5,985	5,985	5,985
Retained earnings	22,576	26,917	29,655	34,361	40,309
Others	286	396	396	396	396
Minority interest	20,888	20,842	21,884	22,978	24,127
Shareholders' equity	50,318	54,723	58,503	64,303	71,400

Cash flow

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operating	9,062	5,006	(2,460)	8,000	9,608
Net profit	6,587	6,390	5,244	7,213	8,833
Depreciation	1,112	1,271	1,399	1,550	1,716
Net incr. in W/C	2,565	(2,809)	(8,966)	(763)	(941)
Others	(1,202)	154	(137)	-	-
C/F from investing	(54,095)	(2,250)	(2,486)	(2,744)	(3,030)
CAPEX	(1,919)	(2,250)	(2,486)	(2,744)	(3,030)
Others	(52,176)	-	-	-	-
C/F from financing	46,209	8,087	(1,465)	(1,413)	(1,735)
Incr. in equity	-	-	-	-	-
Incr. in debts	29,149	10,070	-	-	-
Dividends	(2,507)	(2,507)	(2,507)	(2,507)	(2,884)
Others	19,567	524	1,042	1,094	1,149
Increase in cash	1,176	10,843	(6,411)	3,843	4,843

Income statement

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Sales	46,641	56,804	63,787	70,410	77,751
COGS	(29,417)	(36,526)	(42,737)	(46,119)	(50,538)
Gross profit	17,224	20,278	21,050	24,291	27,213
SG&A expense	(8,107)	(8,742)	(9,964)	(11,022)	(12,060)
Operating profit	9,117	11,536	11,086	13,269	15,153
Financial income					
Interest income	1,624	144	343	318	405
Financial expense					
Interest expense	(671)	(1,966)	(3,417)	(2,484)	(1,934)
Other non-operating profit	84	124	194	214	237
Gains (Losses) from associates and JV	(195)	99	108	119	143
Earnings before tax	9,959	9,937	8,314	11,436	14,004
Income taxes	(2,540)	(2,035)	(1,829)	(2,516)	(3,081)
Net profit	6,587	6,390	5,244	7,213	8,833
Core profit	7,419	6,850	6,749	7,763	8,833
Non-controlling interest	832	1,512	1,241	1,707	2,090
EBITDA	10,230	12,806	12,485	14,819	16,869

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
Core EPS	636	587	579	666	757
BPS	2,524	2,905	3,140	3,544	4,054
DPS	215	215	215	215	247
Growth (%)					
Sales growth	10.3	21.8	12.3	10.4	10.4
OP growth	25.3	26.5	(3.9)	19.7	14.2
Core profit growth	43.8	(7.7)	(1.5)	15.0	13.8
EBITDA growth	40.6	25.2	(2.5)	18.7	13.8
Profitability (%)					
OP margin	19.5	20.3	17.4	18.8	19.5
Core profit margin	15.9	12.1	10.6	11.0	11.4
EBITDA margin	21.9	22.5	19.6	21.0	21.7
ROA	9.3	5.8	4.5	6.2	7.2
ROE	17.1	12.2	9.3	11.7	13.0
Dividend yield	2.3	2.3	2.3	2.3	2.6
Dividend payout ratio	49.8	38.1	39.2	47.8	40.0
Stability					
Net debt/(cash) (IDR bn)	31,132	21,191	27,602	23,759	18,916
Int.-bearing debt/equity (%)	105.6	79.1	73.4	67.7	61.3
Valuation (X)					
Core PE	14.8	16.0	16.3	14.2	12.4
PB	3.7	3.2	3.0	2.7	2.3
EV/EBITDA	15.8	11.9	12.8	10.6	9.1

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Company Update

Consumer Staples

25 October 2022

Indofood Sukses Makmur (INDF)

Solely backed by CBP

CBP: improving margins

CBP segment accounts for the majority of INDF's total revenue (>50% contribution). We expect that this will continue, on the back of its strong instant noodle business. Given that it increased its ASP 4 times in 2021-2022, we forecast ICBP to deliver 12%/10% top-line growth in FY22/23F. Recovery on its margin should be seen following the declining global soft commodity prices, resulting in an EBIT margin expansion to 17.4%/18.8% in FY22/23F.

Agribusiness: hampered by declining CPO price

The normalization of global commodity prices, on the other hand, should give a negative impact on INDF's agribusiness segment. After reaching a record high in 1H22 with an avg. of MYR 6,300/MT, the global CPO price has slowed down and now stood at MYR 3,800/MT. Our CPO analyst predicts that global CPO price will stay at MYR 3,800/MT for the last 3 months in FY22, before normalizing to MYR 3,500/MT in FY23 due to an imbalance in supply demand. We forecast agribusiness top-line to decline by 10%/5% in FY22/23F due to lower ASP.

Bogasari: expecting lower revenue from lower global wheat prices

As a cost-plus business, INDF's Bogasari segment has been raising ASP in response to the rising global wheat price. However, the wheat price has declined by ~40% from its peak in Mar2022, and according to Bloomberg consensus, the price will continue to decline by 7% YoY in FY23. While we expect that wheat prices might still be volatile due to prolonged Russia-Ukraine tension, we expect its revenue to grow by 20.4% in FY22 before declining by 5% in FY23.

FX risk from global bonds

INDF is facing high FX risk from its huge global bonds amounting USD 2.75bn (issued by its subsidiary ICBP). This might lead to an unrealized forex loss/gain of IDR 385bn per 1% USD strengthening/weakening against IDR on the translation effect of its bonds payable (non cash item). However, we believe this should not affect its core business. Excluding fx effect, we forecast INDF would post 11%/1.4% earnings growth in FY22/23F.

Re-initiate coverage with BUY recommendation with TP of IDR 7,500

We continue to favor Indofood Group (ICBP and INDF) due to its resilient performance, however we prefer ICBP to enjoy full recovery of staples' margin Our INDF TP implies 7.6x FY23F PE (its 3-yr mean). Downside risk: weaker-than-expected purchasing power; higher-than-expected input costs.

	2020A	2021A	2022F	2023F	2024F
Sales (IDR bn)	81,731	99,346	109,913	114,728	119,993
GP (IDR bn)	26,752	32,464	34,293	36,139	38,158
OP (IDR bn)	12,657	17,100	16,629	17,855	19,584
Core profit (IDR bn)	5,960	8,050	8,467	8,656	9,387
EBITDA (IDR bn)	15,797	20,350	20,081	21,533	23,497
Net debt/(cash) (IDR bn)	45,109	32,294	38,747	33,360	27,035
OP margin (%)	15.5	17.2	15.1	15.6	16.3
ROE (%)	16.1	16.9	13.8	14.5	15.1
Dividend yield (%)	4.4	4.4	4.4	4.0	4.7
Core EPS (IDR)	679	917	964	986	1,069
chg. (%, YoY)	21.6	35.1	5.2	2.2	8.4
BPS (IDR)	4,826	5,497	6,012	6,682	7,456
DPS (IDR)	278	278	278	253	295
Core PE (x)	9.3	6.9	6.5	6.4	5.9
PB (x)	1.3	1.1	1.0	0.9	0.8
EV/EBITDA (x)	8.7	6.2	6.7	6.1	5.4

12M rating	**BUY (Re-Initiate)**
12M TP	**IDR 7,500**
Upside	**19.0%**

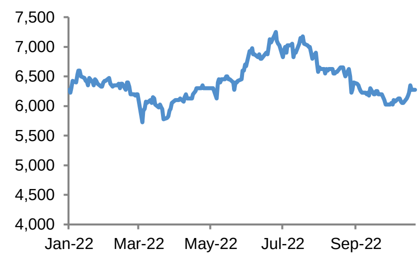
Stock Data

JCI (Oct 24)	7,053
Stock price (Oct 24, IDR)	6,300
Market cap (IDR bn)	55,317
Shares outstanding (mn)	8,780
52-week high/low (IDR)	7,250 / 5,725
6M avg. daily turnover (IDR bn)	68.4
Free float (%)	49.9
Major shareholders (%)	
First Pacific Company Limited	50.1

Performance

	1M	6M	12M
Absolute (%)	0.4	4.6	(2.5)
Relative to JCI (%p)	3.4	2.4	(10.8)

INDF stock price



Source: Bloomberg

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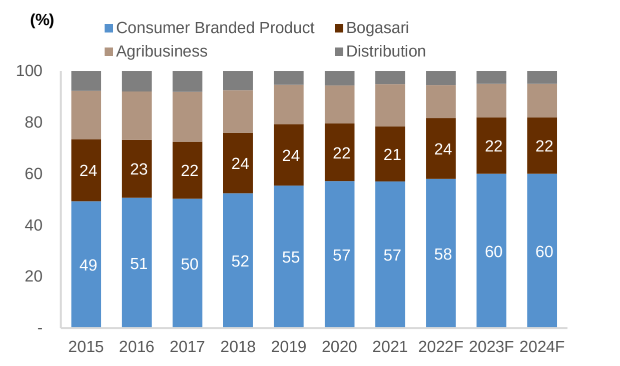
Table 1. INDF SoTP valuation

Business	Ownership	Valuation method	Equity value (IDR bn)	Equity value adj to INDF's ownership (IDR bn)	
CBP	81%	Target market cap	131,196	105,653	
Bogasari	100%	6x EBIT	11,888	11,888	
Agribusiness	60%	Current market cap	6,550	3,917	
Distribution	100%	7x EBIT	1,734	1,734	
			Total	123,191	
			Less: net debt (ex-ICBP)	(9,601)	
			Firm value	113,590	
			INDF no. of share	8.8	
			Fair value/share	12,937	
			Holding discount	42%	*5-yr avg. discount*
			Target price (rounded)	7,500	

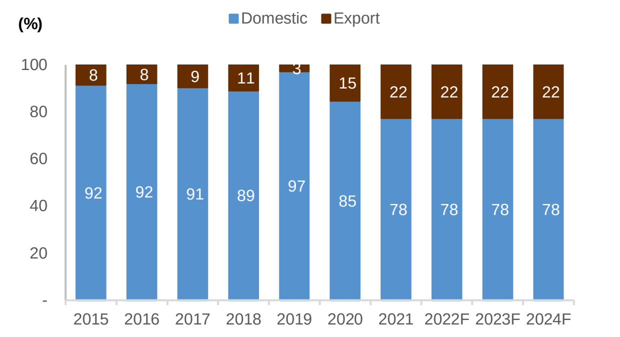
Source: KISI

Fig 1. Revenue breakdown by segment (% of sales)



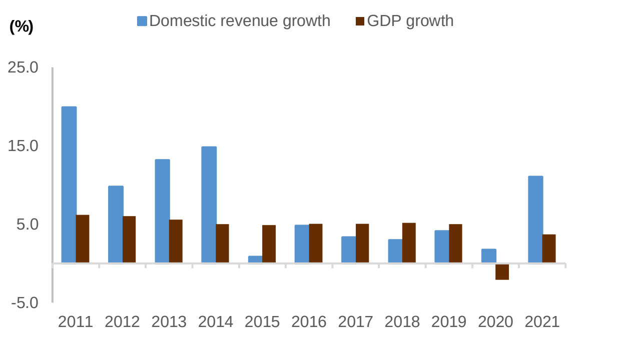
Source: Company, KISI

Fig 2. Revenue breakdown by area (% of sales)



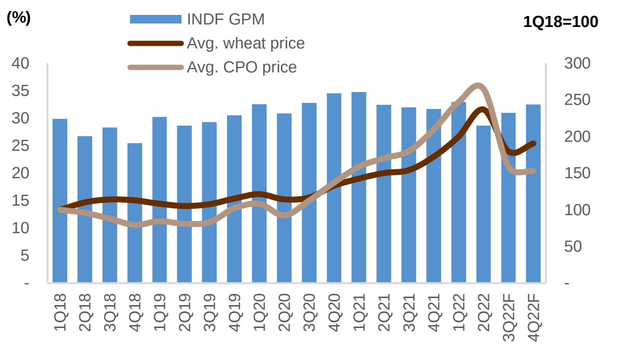
Source: Company, KISI

Fig 3. Domestic revenue vs. GDP growth



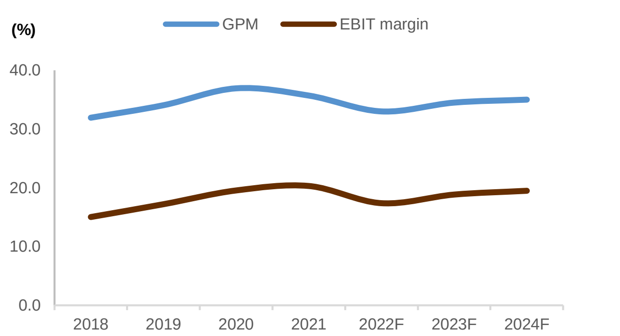
Source: Company, KISI

Fig 4. Quarterly GPM vs. wheat and CPO price



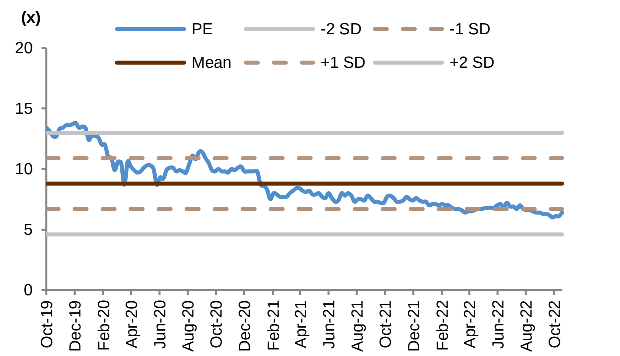
Source: Company, KISI

Fig 5. GPM and EBIT margin



Source: Company, KISI

Fig 6. INDF PE band



Source: Bloomberg, KISI

Company Overview

Indofood Sukses Makmur (INDF) is a producer, marketer and distributor of food products. It operates four segments: (1) consumer branded products, (2) Bogasari, (3) Agribusiness and (4) Distribution. It is a subsidiary of First Pacific Investment Management Limited, and the parent entity of Indofood CBP Sukses Makmur (ICBP) and Salim Ivomas Pratama (SIMP).

1. Consumer branded products – includes noodles, dairy, snack foods, food seasonings, nutrition and special foods, and beverages.
2. Bogasari – operates 4 flour mills in Jakarta, Surabaya, Cibitung, Tangerang, with total annual capacity of 4.4mn tonnes. Established brands: Cakra Kembar, Segitiga Biru, Kunci Biru, Lencana Merah. INDF mainly sources wheat from Australia, Canada, and US.
3. Agribusiness – engages in oil palm plantations, processing mills, and production of branded cooking oils, margarine, shortening, and specialty fats. The agribusiness group is led by SGX-listed IndoAgri and have two operating subsidiaries namely SIMP and PP London Sumatra Indonesia (LSIP).
4. Distribution – operates nationwide distribution with extensive network of more than 1,300 distribution/ stock points to escalate access to both traditional and modern trade outlets.

Fig 7. INDF shareholder structure

1. First Pacific Company Limited, is a public listed company on the Hong Kong Stock Exchange. Mr. Anthoni Salim holds interests in and controls indirectly First Pacific Company Limited.
2. Through First Pacific Investment Management Limited, an indirect subsidiary of First Pacific Company Limited.

Source: Company

Balance sheet (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash & cash equivalent	17,338	29,479	23,026	28,413	34,738
Accounts & other receivables	7,452	8,464	8,932	9,323	9,751
Inventories	11,150	12,684	14,219	14,777	15,388
Others	2,479	3,557	3,557	3,557	3,557
Non-current assets					
Fixed assets	45,863	46,752	48,994	50,807	52,635
Intangible assets	1,859	1,726	1,726	1,726	1,726
Total investment	11,682	12,102	12,102	12,102	12,102
Other non-current assets	65,314	64,593	64,593	64,593	64,593
Total assets	163,137	179,357	177,149	185,298	194,490
Current liabilities					
Accounts & other payables	13,262	13,811	14,439	14,692	14,972
ST debt	13,800	13,306	13,306	13,306	13,306
Current portion of LT debt	913	2,013	2,013	2,013	2,013
Others	-	9,275	-	-	-
Non-current liabilities					
LT debt	47,734	46,454	46,454	46,454	46,454
Other non-current liabilities	8,289	7,867	7,865	7,865	7,865
Total liabilities	83,998	92,726	84,077	84,330	84,610
Controlling interest					
Capital stock	878	878	878	878	878
Additional paid-in capital	284	284	284	284	284
Retained earnings	31,116	36,855	41,377	47,259	54,056
Others	10,097	10,247	10,247	10,247	10,247
Minority interest	36,764	38,367	40,286	42,300	44,415
Shareholders' equity	79,139	86,631	93,072	100,968	109,880

Cash flow (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operating	(40,798)	8,390	(671)	11,086	12,540
Net profit	6,456	7,642	6,961	8,105	9,388
Depreciation	3,140	3,250	3,452	3,677	3,913
Net incr. in W/C	(48,862)	(2,958)	(10,649)	(696)	(761)
Others	(1,532)	456	(435)	-	-
C/F from investing	(4,398)	(4,595)	(5,259)	(5,489)	(5,741)
CAPEX	(4,398)	(4,595)	(5,259)	(5,489)	(5,741)
Others	-	-	-	-	-
C/F from financing	48,789	8,346	(523)	(210)	(474)
Incr. in equity	-	-	-	-	-
Incr. in debts	30,309	8,494	-	-	-
Dividends	(2,441)	(2,441)	(2,441)	(2,224)	(2,589)
Others	20,921	2,293	1,918	2,014	2,115
Increase in cash	3,593	12,141	(6,453)	5,387	6,325

Income statement (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Sales	81,731	99,346	109,913	114,728	119,993
COGS	(54,979)	(66,882)	(75,620)	(78,589)	(81,835)
Gross profit	26,752	32,464	34,293	36,139	38,158
SG&A expense	(14,095)	(15,364)	(17,664)	(18,284)	(18,574)
Operating profit	12,657	17,100	16,629	17,855	19,584
Financial income					
Interest income	1,667	325	525	514	632
Financial expense					
Interest expense	(1,876)	(2,885)	(3,936)	(3,003)	(2,453)
Other non-operating profit	232	(218)	(241)	(251)	(263)
Gains (Losses) from associates and JV	(254)	134	108	119	143
Earnings before tax	12,426	14,456	13,085	15,234	17,643
Income taxes	(3,674)	(3,253)	(2,879)	(3,352)	(3,881)
Net profit	6,456	7,642	6,961	8,105	9,388
Core profit	5,960	8,050	8,467	8,656	9,388
Non-controlling interest	(2,296)	(3,561)	(3,245)	(3,777)	(4,374)
EBITDA	15,797	20,350	20,081	21,533	23,497

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
Core EPS	679	917	964	986	1,069
BPS	4,826	5,497	6,012	6,682	7,456
DPS	278	278	278	253	295
Growth (%)					
Sales growth	6.7	21.6	10.6	4.4	4.6
OP growth	32.8	35.1	(2.8)	7.4	9.7
Core profit growth	21.6	35.1	5.2	2.2	8.5
EBITDA growth	65.8	28.8	(1.3)	7.2	9.1
Profitability (%)					
OP margin	15.5	17.2	15.1	15.6	16.3
Core profit margin	7.3	8.1	7.7	7.5	7.8
EBITDA margin	19.3	20.5	18.3	18.8	19.6
ROA	5.0	4.5	3.9	4.5	4.9
ROE	16.1	16.9	13.8	14.5	15.1
Dividend yield	4.4	4.4	4.4	4.0	4.7
Dividend payout ratio	49.7	37.8	31.9	31.9	31.9
Stability					
Net debt/(cash) (IDR bn)	45,109	32,294	38,747	33,360	27,035
Int.-bearing debt/equity (%)	93.7	74.5	68.8	63.7	58.6
Valuation (X)					
Core PE	9.3	6.9	6.5	6.4	5.9
PB	1.3	1.1	1.0	0.9	0.8
EV/EBITDA	8.7	6.2	6.7	6.1	5.4

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Korea Investment & Sekuritas Indonesia

Mayora Indah (MYOR)

Delivering the right snacks

Company Update

Consumer Staples

25 October 2022

Strong brand, high demand

According to Kantar, MYOR's Roma biscuit is the only one from the non-pantry-essentials brand in the top 5 most preferred brands in the food category *(see Table 1)*. Securing the 4th place, we may attribute the result to the popularity of MYOR's brand and its expertise with assortments. Nielsen reported that there has been a growing trend of consuming snacks at home, resulting in a stronger-than-expected snacks industry growth. A strong brand combined with a higher demand should give a buffer to the company amidst the challenges in the soaring inflation situation.

Expecting gross margin to normalize

Following the declining trend of soft commodity prices, we think that MYOR's GPM should have bottomed in 2Q22 and improve afterwards. Note that company gradually raised its ASP by >10% in 2022, and it rarely cuts prices; therefore we can expect the full impact in 2023. We anticipate that volume growth will be mostly driven by export market recovery i.e. China, while domestic volume remain flat. This equals to 7.3% top-line growth in FY23. Our GPM assumption of 24.4% in FY23 might be on the conservative side, before returning to normal in FY24 (~26-27%), as we still factor in the possibility of fluctuating wheat prices due to the ongoing conflict between Russia and Ukraine.

Potential earnings surprise from lower-than-expected opex

In all, we forecast MYOR to book IDR 2.2tn earnings (+45% YoY), 18% above consensus. We think the current consensus opex projections may be too high since we believe that: (1) the company will continue to be cautious on A&P spending until gross margin stabilizes, and (2) the company should enjoy lower logistic costs as container prices for export have declined. We assume a 15.2% opex-to-sales ratio (vs. cons' 16.7%).

Less risks from a stronger USD

Should the USD strengthen against the IDR next year, this may cause profound risk for Indonesia–driving up import prices and ballooning USD-denominated debt payments. However, by having a large export sales contribution (>40% of total sales) and huge net cash in USD (>50% of MYOR's total cash is in USD), we believe the risks could be contained by the company.

Re-initiate coverage with BUY recommendation with TP of IDR 3,000

Our TP implies 30x FY23 PE, based on its 5-yr historical mean. Downside risk to our call: weaker-than-expected purchasing power and higher-than-expected raw material prices.

	2020A	2021A	2022F	2023F	2024F
Sales (IDR bn)	24,477	27,905	31,176	33,441	35,239
GP (IDR bn)	7,299	6,923	7,108	8,159	9,162
OP (IDR bn)	2,831	1,772	2,169	3,087	3,286
NP (IDR bn)	2,061	1,187	1,514	2,199	2,319
EBITDA (IDR bn)	3,563	2,616	3,122	4,176	4,461
Net debt/(cash) (IDR bn)	847	1,955	3,734	3,217	2,255
OP margin (%)	11.6	6.4	7.0	9.2	9.3
ROE (%)	19.9	10.7	13.1	17.2	16.5
Dividend yield (%)	1.3	2.2	1.1	1.4	2.1
EPS (IDR)	92	53	68	98	104
chg. (%, YoY)	3.7	(42.4)	27.5	45.2	5.5
BPS (IDR)	492	497	538	603	658
DPS (IDR)	31	54	27	34	49
PE (x)	26.0	45.2	35.4	24.4	23.1
PB (x)	4.9	4.8	4.5	4.0	3.6
EV/EBITDA (x)	15.4	21.3	18.5	13.7	12.6

12M rating	**Buy (Re-Initiate)**
12M TP	**IDR 3,000**
Upside	**25.0%**

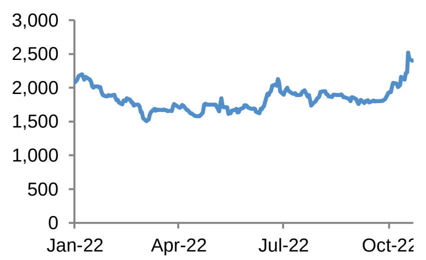
Stock Data

JCI (Oct 24)	7,053
Stock price (Oct 24, IDR)	2,400
Market cap (IDR bn)	53,661
Shares outstanding (mn)	22,359
52-week high/low (IDR)	2,520 / 1,485
6M avg. daily turnover (IDR bn)	19.0
Free float (%)	15.7
Major shareholders (%)	
Unita Branindo	32.9
Mayora Dhana Utama	26.1
Jogi Hendra Atmadja	15.7

Performance

	1M	6M	12M
Absolute (%)	34.8	54.8	(0.2)
Relative to JCI (%p)	35.7	55.6	(6.2)

MYOR stock price



Source: Bloomberg

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Table 1. Top 5 most chosen consumer brands in food category in Indonesia*

2021 rank	Brand	Company	CRP (M)	Penetration (%)	Buying frequency
1	Indomie	Indofood	2,197	95.5	33.0
2	Mie Sedaap	Wings Group	1,746	94.1	26.6
3	Royco	Unilever	1,286	81.0	22.8
4	Roma	Mayora	1,270	92.4	19.7
5	Masako	Ajinomoto	922	66.1	20.0

*Kantar measures consumer choice through a metric called CRP (Consumer Reach Point) which refers to number of households that buy any particular brand (market penetration) and the frequency of the brands being purchased (consumer choice)

Source: Kantar

Table 2. Mayora's market share

Category	1Q22	1H22	Rank
Biscuit	42.0%	39.0%	1
Candy	20.0%	20.0%	2
Wafer	21.0%	19.0%	2
Chocolate	29.0%	30.0%	1
Coffee	7.0%	7.0%	5
Breakfast cereal	69.0%	N/A	1

Source: Company

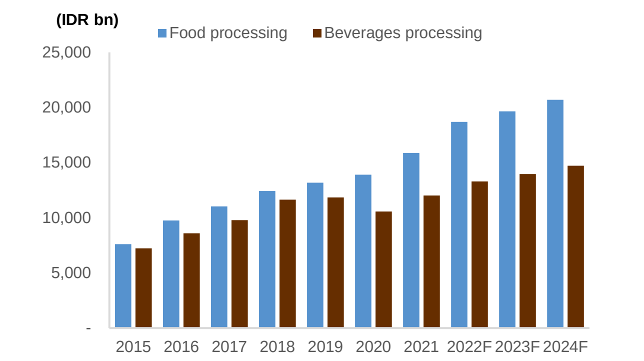
Table 3. KISI and consensus estimates (IDR bn)

	KISI			Consensus*			KISI/Consensus*		
	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
Revenue	31,176	33,441	35,239	30,951	33,998	37,496	101%	98%	94%
Gross profit	7,108	8,159	9,162	7,031	8,268	9,570	101%	99%	96%
Opex	4,939	5,072	5,876	5,069	5,674	6,497	97%	89%	90%
EBIT	2,169	3,087	3,286	1,962	2,594	3,073	111%	119%	107%
NPAT	1,514	2,199	2,319	1,378	1,869	2,282	110%	118%	102%
GPM (%)	22.8	24.4	26.0	22.7	24.3	25.5			
Opex to sales (%)	15.8	15.2	16.7	16.4	16.7	17.3			
EBIT margin (%)	7.0	9.2	9.3	6.3	7.6	8.2			
NPAT margin (%)	4.9	6.6	6.6	4.5	5.5	6.1			

*as of 24 October 2022

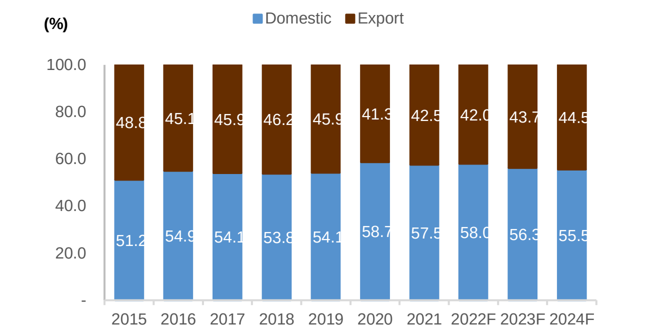
Source: KISI, Bloomberg

Fig 1. Revenue breakdown by segment



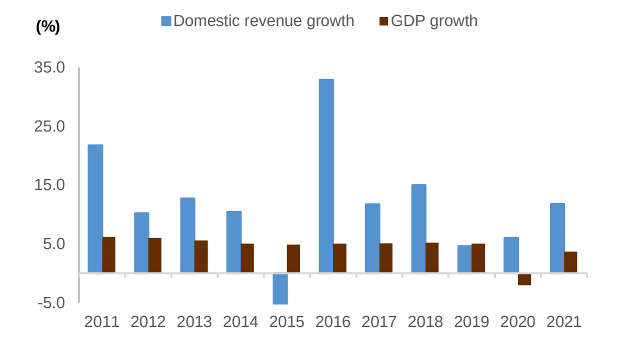
Source: Company, KISI

Fig 2. Revenue breakdown by area (% of sales)



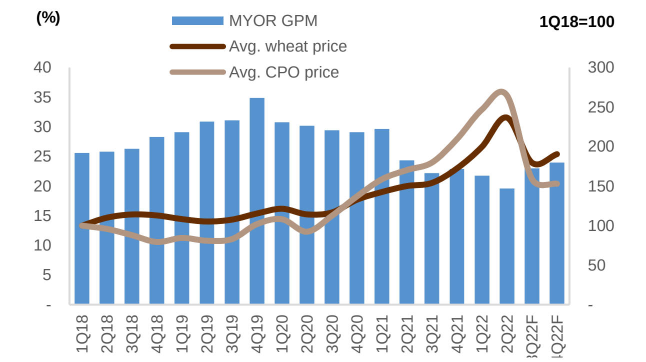
Source: Company, KISI

Fig 3. Domestic revenue vs. GDP growth



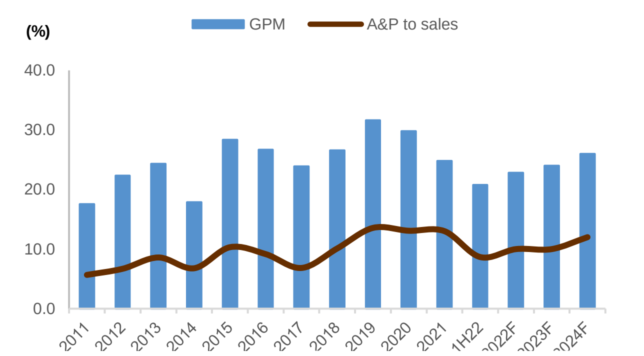
Source: Company, KISI

Fig 4. Quarterly GPM vs. wheat and CPO price



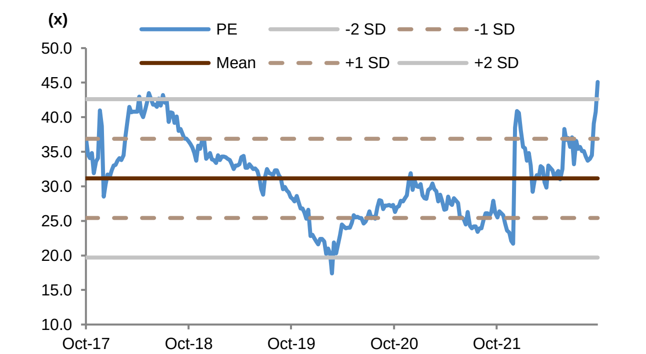
Source: Company, Bloomberg, KISI

Fig 5. GPM and A&P to sales



Source: Company, KISI

Fig 6. MYOR PE band



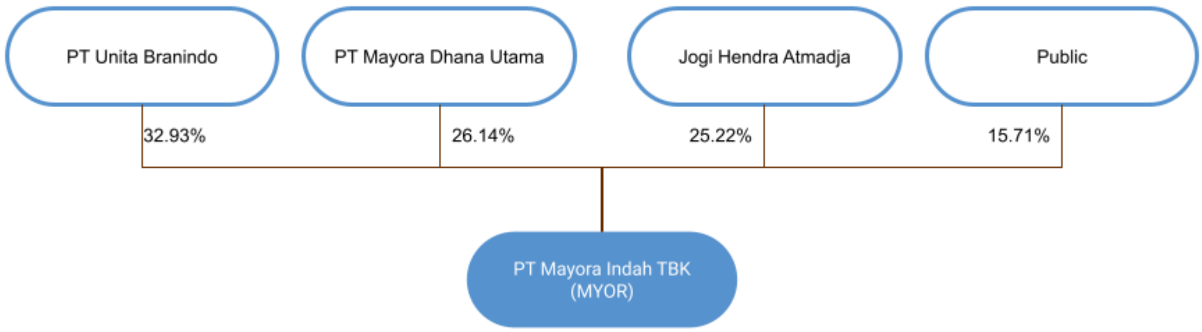
Source: Bloomberg

Company Overview

Established in 1977, Mayora Indah (MYOR) is an Indonesian F&B manufacturer. It has six product lines: biscuits, candies, wafers, chocolate, coffees, and healthy foods. Its well-known brands include Roma, Kopiko, Danisa, Energen, Torabika, Beng Beng, and etc. It conducted its IPO in 1990 and expanded its presence to other Asian countries. Export sales currently account for more than 40% of total sales, with the top five destinations including the Philippines, China, Vietnam, Malaysia, Thailand, and others. As of 2021, the company has two reportable segments including packaged food processing (57% of sales) and packaged beverages processing (43% of sales).

In the domestic market, MYOR targets the lower-income segment; the GT (General Trade) market accounts for 80% of its domestic sales. MYOR engages PT Inbisco Niagatama Semesta (an affiliated company) as its sole distributor in the domestic market. Currently, the Company operates 12 factories, one of which is located in the Philippines.

Fig 7. MYOR shareholder structure



Source: Company, KISI

Fig 8. MYOR top products

Source: Company

Balance sheet

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash & cash equivalent	3,777	3,008	2,229	2,746	3,708
Accounts & other receivables	5,464	5,912	6,355	6,816	7,183
Inventories	2,805	3,034	3,821	4,014	4,140
Others	792	1,014	1,014	1,014	1,014
Non-current assets					
Fixed assets	6,043	6,377	7,919	8,336	8,219
Intangible assets	-	-	-	-	-
Total investment	-	-	-	-	-
Other non-current assets	896	571	571	571	571
Total assets	19,777	19,916	21,909	23,497	24,835
Current liabilities					
Accounts & other payables	2,467	2,361	2,421	2,552	2,659
ST debt	50	795	795	795	795
Current portion of LT debt	960	2,323	2,878	2,878	2,878
Others	84	91	91	91	91
Non-current liabilities					
LT debt	3,614	1,845	2,290	2,290	2,290
Other non-current liabilities	1,332	1,142	1,142	1,142	1,142
Total liabilities	8,507	8,557	9,617	9,748	9,855
Controlling interest					
Capital stock	447	447	447	447	447
Additional paid-in capital	-	-	-	-	-
Retained earnings	10,571	10,684	11,605	13,049	14,267
Others	(8)	(13)	(13)	(13)	(13)
Minority interest	260	241	253	266	279
Shareholders' equity	11,270	11,359	12,292	13,749	14,980

Cash flow

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operating	3,302	650	1,296	2,766	3,107
Net profit	2,061	1,187	1,514	2,199	2,319
Depreciation	732	844	952	1,088	1,175
Net incr. in W/C	1,976	(862)	(1,170)	(521)	(387)
Others	(1,467)	(519)	-	-	-
C/F from investing	(634)	(659)	(2,494)	(1,505)	(1,057)
CAPEX	(634)	(659)	(2,494)	(1,505)	(1,057)
Others	-	-	-	-	-
C/F from financing	(1,873)	(760)	419	(744)	(1,088)
Incr. in equity	-	-	-	-	-
Incr. in debts	(1,184)	338	1,000	-	-
Dividends	(685)	(1,207)	(593)	(757)	(1,101)
Others	(4)	109	12	13	13
Increase in cash	795	(769)	(779)	517	962

Income statement

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Sales	24,477	27,905	31,176	33,441	35,239
COGS	(17,178)	(20,982)	(24,068)	(25,282)	(26,077)
Gross profit	7,299	6,923	7,108	8,159	9,162
SG&A expense	(4,468)	(5,151)	(4,939)	(5,072)	(5,876)
Operating profit	2,831	1,772	2,169	3,087	3,286
Financial income					
Interest income	51	23	40	38	49
Financial expense					
Interest expense	(354)	(321)	(362)	(395)	(395)
Other non-operating profit	155	75	134	149	94
Gains (Losses) from associates and JV	-	-	-	-	-
Earnings before tax	2,683	1,549	1,981	2,879	3,034
Income taxes	(584)	(338)	(436)	(635)	(667)
Net profit	2,061	1,187	1,514	2,199	2,319
Non-controlling interest	38	24	31	45	48
EBITDA	3,563	2,616	3,122	4,176	4,461

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
EPS	92	53	68	98	104
BPS	492	497	538	603	658
DPS	31	54	27	34	49
Growth (%)					
Sales growth	(2.2)	14.0	11.7	7.3	5.4
OP growth	(10.8)	(37.4)	22.4	42.3	6.4
NP growth	3.7	(42.4)	27.5	45.2	5.5
EBITDA growth	(5.2)	(26.6)	19.3	33.8	6.8
Profitability (%)					
OP margin	11.6	6.4	7.0	9.2	9.3
NP margin	8.4	4.3	4.9	6.6	6.6
EBITDA margin	14.6	9.4	10.0	12.5	12.7
ROA	10.6	6.0	7.2	9.7	9.6
ROE	19.9	10.7	13.1	17.2	16.5
Dividend yield	1.3	2.2	1.1	1.4	2.1
Dividend payout ratio	34.5	58.6	50.0	50.0	50.1
Stability					
Net debt/(cash) (IDR bn)	847	1,955	3,734	3,217	2,255
Int.-bearing debt/equity (%)	44.7	44.9	51.5	46.7	42.3
Valuation (X)					
PE	26.0	45.2	35.4	24.4	23.1
PB	4.9	4.8	4.5	4.0	3.6
EV/EBITDA	15.4	21.3	18.5	13.7	12.6

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Unilever Indonesia (UNVR)

Rerating is unlikely

Losing market share from tough competition

Rising inflation should limit Indonesian purchasing power, and therefore consumption might weaken as a consequence. Consumer downtrading and downsizing are likely to continue, the competition is heating up as all the businesses fight for a share of the consumers' wallets. Also, consumers can now compare products and pricing online, making it easier for them to switch to cheaper brands. As a result, according to Euromonitor (*see Figure 1-6*), UNVR continues to lose its market share in almost all segments to its competitors such as Wings Group, P&G, and other smaller players in the past 3 years.

Earnings upside only from input costs normalization

Because of the persistently high soft commodity prices, price hikes were almost inevitable for all consumer players. As of 1H22, UNVR has raised its price by 10% YTD, while having to sacrifice its volume (vol. drop by 2% YoY). We anticipate downtrading may result in additional volume losses, hence further price increases should be limited. We expect UNVR to post modest top-line growth of 6%/4.3% in FY22/23F. On the opex side, we believe the company still has to put out effort into more A&P spending to make up for its lost market share. Of all, we expect UNVR to post 13.2%/6.7% earnings growth in FY22/23F, largely attributable to normalizing input costs. UNVR is also exposed to currency risk since more than half of its input costs are linked to foreign currencies, with only a small contribution from exports. A sharp IDR depreciation should pose challenges for UNVR.

Valuation re-rating to historical level is unlikely

Historically, UNVR traded at an avg. of 44x forward PE from 2011 to 18, about twice the avg. of its peers (~24x). However, UNVR continues to lose its premium valuation as revenue growth slows; revenue grew by 1.4% CAGR in 2017-20 (vs. 12.6% CAGR in 2010-16). It also posted negative growth of 8% in 2021, despite the nation's GDP growing by 3.7%. We believe that re-rating to historical is unlikely due to its sluggish performance going forward.

Re-initiate coverage with SELL recommendation with TP of IDR 4,400

Our TP implies 24x FY23F PE (-1.5SD from its 5-yr mean). UNVR now trades at 29x PE, much higher than avg. Indonesian consumer peers of 18x PE. We think the current share price has adequately reflected UNVR's potential earnings growth with limited catalysts to rerate. Upside risk to our call: faster sales growth.

	2020A	2021A	2022F	2023F	2024F
Sales (IDR bn)	42,972	39,546	41,918	43,730	45,914
GP (IDR bn)	22,457	19,626	20,469	22,422	23,640
OP (IDR bn)	9,471	7,678	8,467	9,025	9,682
NP (IDR bn)	7,164	5,759	6,539	6,994	7,531
EBITDA (IDR bn)	10,313	8,513	9,377	9,981	10,688
Net debt/(cash) (IDR bn)	2,170	1,523	1,289	683	106
OP margin (%)	22.0	19.4	20.2	20.6	21.1
ROE (%)	140.2	124.4	143.7	142.6	145.3
Dividend yield (%)	3.7	3.1	3.0	3.3	3.6
EPS (IDR)	188	151	171	182	196
chg. (%, YoY)	(3.1)	(19.6)	13.2	6.7	7.4
BPS (IDR)	129	113	125	131	139
DPS (IDR)	194	166	159	176	188
PE (x)	28.4	35.3	31.1	29.2	27.2
PB (x)	41.1	47.0	42.6	40.5	38.3
EV/EBITDA (x)	19.9	24.0	21.8	20.4	19.0

Company Update

Consumer Staples

25 October 2022

12M rating	**SELL (Re- Initiate)**
12M TP	**IDR 4,400**
Upside	**-17.4%**

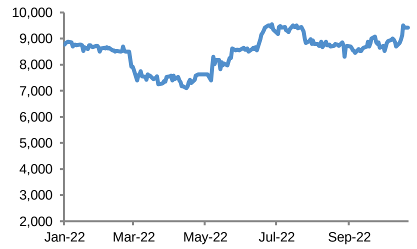
Stock Data

JCI (Oct 24)	7,053
Stock price (Oct 24, IDR)	5,325
Market cap (IDR bn)	203,149
Shares outstanding (mn)	38,150
52-week high/low (IDR)	5,475 / 3,280
6M avg. daily turnover (IDR bn)	143.6
Free float (%)	15.0
Major shareholders (%)	
Unilever Indonesia Holding BV	85.0

Performance

	1M	6M	12M
Absolute (%)	10.2	58.5	9.4
Relative to JCI (%p)	12.7	59.0	3.5

UNVR stock price



Source: Bloomberg

Elvira Natalia
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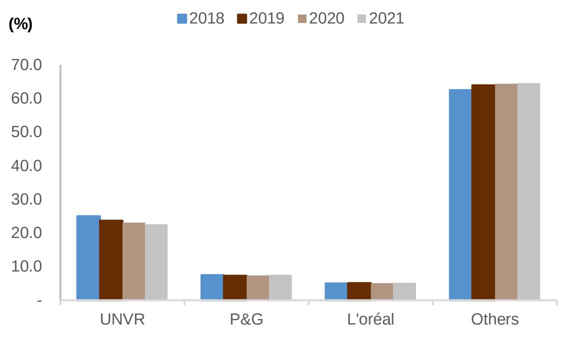
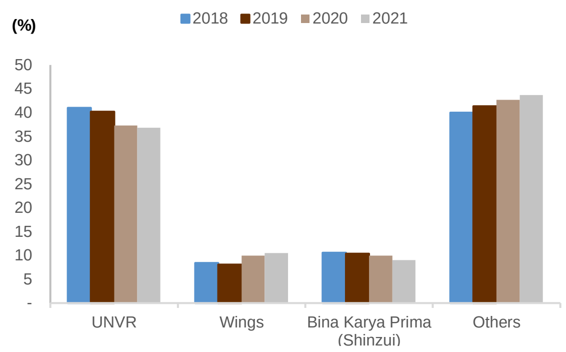
Fig 1. Beauty and personal care market share



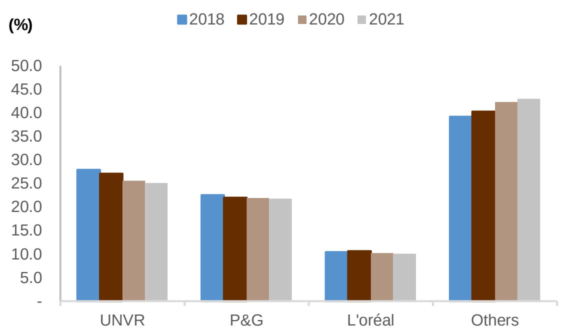
Source: Euromonitor

Fig 2. Bath and shower market share



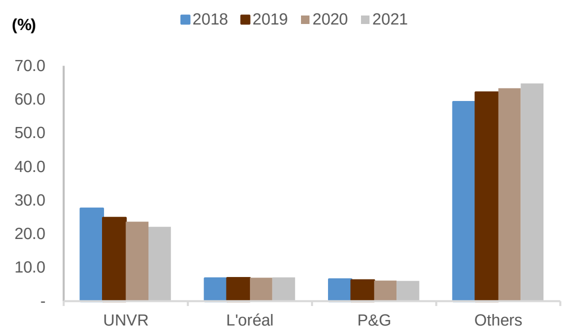
Source: Euromonitor

Fig 3. Hair care market share



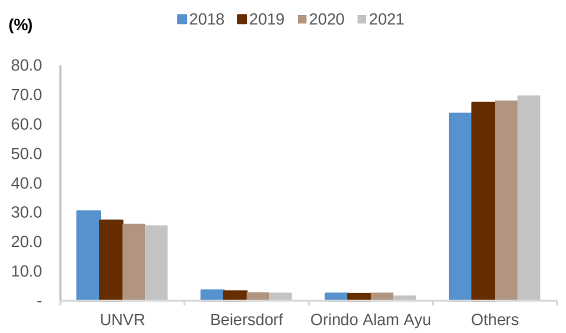
Source: Euromonitor

Fig 4. Skin care market share



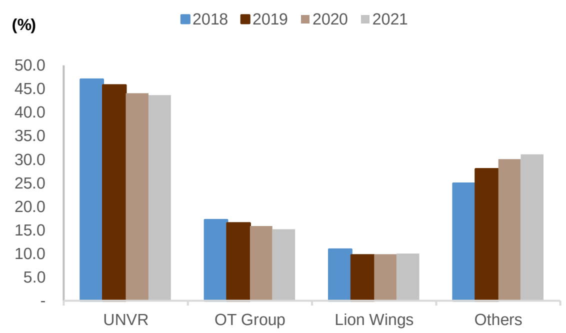
Source: Euromonitor

Fig 5. Deodorant market share



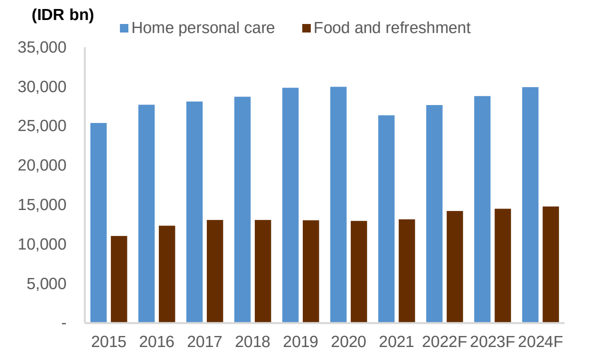
Source: Euromonitor

Fig 6. Oral care market share



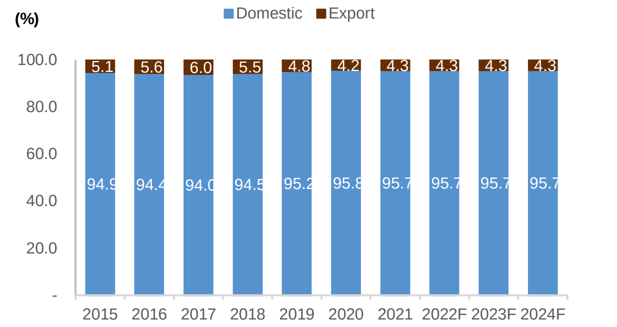
Source: Euromonitor

Fig 7. Revenue breakdown by segment



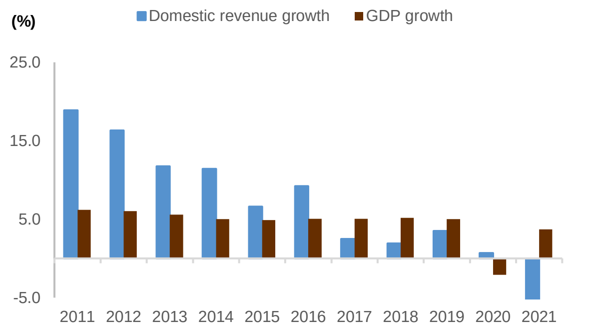
Source: Company, KISI

Fig 8. Revenue breakdown by area (% of sales)



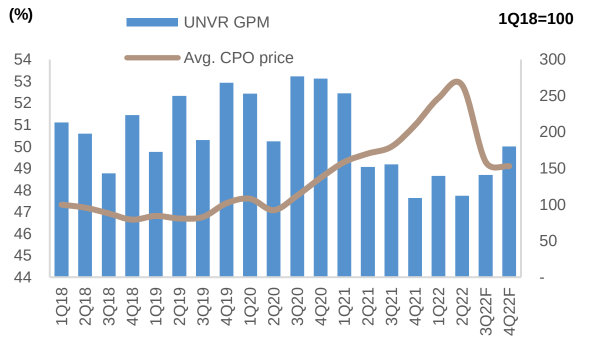
Source: Company, KISI

Fig 9. Domestic revenue vs. GDP growth



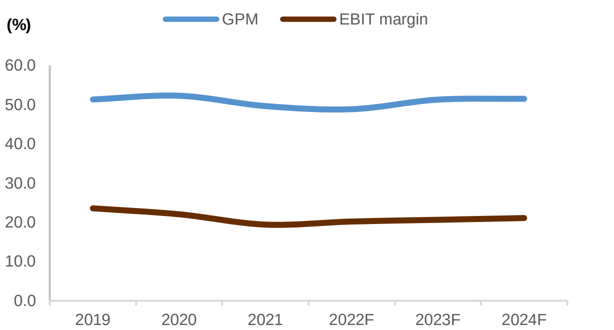
Source: Company, KISI

Fig 10. Quarterly GPM vs. CPO price



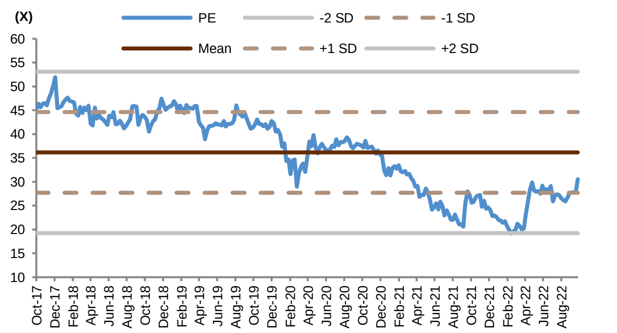
Source: Company, KISI

Fig 11. GPM and EBIT margin



Source: Company, KISI

Fig 12. UNVR PE band



Source: Bloomberg, KISI

Company Overview

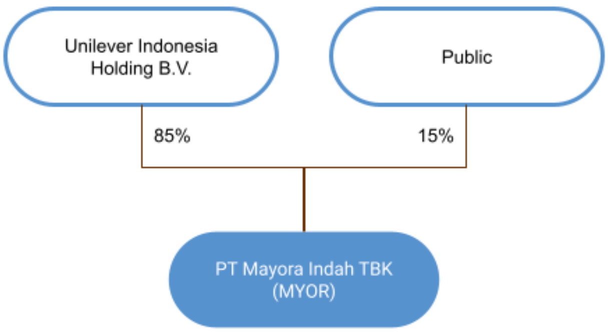
Established in 1933, Unilever Indonesia has become one of Indonesia's leading consumer goods producer. UNVR is 85% owned by Unilever Indonesia Holding B.V., while its ultimate parent entity is Unilever PLC, a British multinational consumer goods company. The company engages in 2 main business (1) home and personal care, and (2) foods and refreshment. As of 2021, it has 43 core domestic brands that is marketed through 800 independent distributors across Indonesia. It has 9 factories that have received halal certification.

Targeting all segments, MT market accounts for 45% of sales. Well-known brands include Pepsodent, Lux, Lifebuoy, Dove, Sunsilk, Clear, Rexona, Vaseline, Rinso, Molto, Sunlight, Wall's, Royco, Bango and more.

Royalty fee – UNVR has entered into several agreements with Unilever PLC, including:

1. Trademark License Agreement. From 2015 onwards, the royalty fee is 3% of total sales, excluding the turnover of products under the trademarks owned by UNVR.
2. Technology License Agreement. From 2015 onwards, the royalty fee is 2% of total sales.
3. Central Service Agreement. The service fee is calculated based on the actual cost recovery with a cap of 3% of total sales.
   As of 2021, total royalty fee paid by company is 7.8% of sales.

Fig 13. UNVR shareholder structure



Source: Company, KISI

Balance sheet

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash & cash equivalent	845	327	552	1,148	1,713
Accounts & other receivables	5,295	4,517	5,140	5,362	5,630
Inventories	2,463	2,454	2,605	2,588	2,705
Others	226	347	347	347	347
Non-current assets					
Fixed assets	10,420	10,102	10,031	9,950	9,862
Intangible assets	408	475	475	475	475
Total investment	829	781	781	781	781
Other non-current assets	49	68	68	68	68
Total assets	20,535	19,071	19,999	20,719	21,581
Current liabilities					
Accounts & other payables	10,230	10,515	10,996	11,471	12,044
ST debt	3,015	1,850	1,850	1,850	1,850
Current portion of LT debt	-	-	-	-	-
Others	113	83	83	83	83
Non-current liabilities					
LT debt	-	-	-	-	-
Other non-current liabilities	2,240	2,302	2,302	2,302	2,302
Total liabilities	15,598	14,750	15,231	15,706	16,279
Controlling interest					
Capital stock	76	76	76	76	76
Additional paid-in capital	96	96	96	96	96
Retained earnings	4,765	4,149	4,596	4,841	5,130
Others	-	-	-	-	-
Minority interest	-	-	-	-	-
Shareholders' equity	4,937	4,321	4,768	5,013	5,302

Cash flow

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operating	8,017	7,461	7,137	8,185	8,668
Net profit	7,164	5,759	6,522	6,959	7,474
Depreciation	842	835	909	956	1,006
Net incr. in W/C	169	944	(294)	270	188
Others	(158)	(77)	-	-	-
C/F from investing	(388)	(440)	(838)	(875)	(918)
CAPEX	(388)	(440)	(838)	(875)	(918)
Others	-	-	-	-	-
C/F from financing	(7,413)	(7,539)	(6,074)	(6,714)	(7,185)
Incr. in equity	-	-	-	-	-
Incr. in debts	95	(1,165)	-	-	-
Dividends	(7,401)	(6,333)	(6,074)	(6,714)	(7,185)
Others	(107)	(41)	-	-	-
Increase in cash	216	(518)	225	596	565

Income statement

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Sales	42,972	39,546	41,918	43,730	45,914
COGS	(20,515)	(19,920)	(21,449)	(21,308)	(22,274)
Gross profit	22,457	19,626	20,469	22,422	23,640
SG&A expense	(12,986)	(11,948)	(12,002)	(13,397)	(13,958)
Operating profit	9,471	7,678	8,467	9,025	9,682
Financial income					
Interest income	5	2	3	5	9
Financial expense					
Interest expense	(249)	(185)	(111)	(111)	(111)
Other non-operating profit	(20)	2	2	2	2
Gains (Losses) from associates and JV	-	-	-	-	-
Earnings before tax	9,207	7,497	8,361	8,921	9,582
Income taxes	(2,043)	(1,738)	(1,839)	(1,962)	(2,108)
Net profit	7,164	5,759	6,522	6,959	7,474
Non-controlling interest	-	-	-	-	-
EBITDA	10,313	8,513	9,377	9,981	10,688

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
EPS	188	151	171	182	196
BPS	129	113	125	131	139
DPS	194	166	159	176	188
Growth (%)					
Sales growth	0.1	(8.0)	6.0	4.3	5.0
OP growth	(6.4)	(18.9)	10.3	6.6	7.3
NP growth	(3.1)	(19.6)	13.2	6.7	7.4
EBITDA growth	(6.1)	(17.5)	10.1	6.4	7.1
Profitability (%)					
OP margin	22.0	19.4	20.2	20.6	21.1
NP margin	16.7	14.6	15.6	15.9	16.3
EBITDA margin	24.0	21.5	22.4	22.8	23.3
ROA	34.8	29.1	33.4	34.2	35.3
ROE	140.2	124.4	143.5	142.3	144.9
Dividend yield	3.6	3.1	3.0	3.3	3.5
Dividend payout ratio	100.1	88.4	105.5	102.9	103.2
Stability					
Net debt/(cash) (IDR bn)	2,170	1,523	1,298	702	137
Int.-bearing debt/equity (%)	59.0	40.0	40.7	37.8	35.9
Valuation (X)					
PE	28.4	35.3	31.1	29.2	27.2
PB	41.1	47.0	42.6	40.5	38.3
EV/EBITDA	19.9	24.0	21.8	20.4	19.0

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