

July 27, 2015

Company Visit Note

PT Indofood Sukses Makmur Tbk (INDF) and PT Indofood CBP Sukses Makmur Tbk (ICBP)

Meeting the management on 23rd July 2015, here are some reviews on **INDF** and **ICBP**.

Key Generator FY2015

- **For INDF.** INDF performance will still mainly supported by its **consumer branded products (ICBP) segment** as its other segments still face tough challenges. Its Bogasari segment encounters intense competition as the agribusiness segment (SIMP and LSIP) faces low commodity prices which expected to remain soft in the near term.
- **For ICBP.** ICBP still dominated INDF's revenue this year (51.8% in the 1Q15) with the biggest growth in **beverage division** (+39.4% YoY in 1Q15), compared to flat growth in noodles division. Though, the beverage division still recorded negative EBIT margin, accounted for -37.8% due to some of its products (Cafela Latte and Ichi Ocha) are still imported and the diseconomies of scale from its new beverage plant, and expected to contribute positive EBIT margin on 2016.

2Q15 Earnings Preview

- We view that INDF 2Q15 will be flat as the result from the continuing economy slowdown throughout the period.
- Though ICBP able to record manageable performance in 1Q15, we view 2Q15 results will not increase significantly as ***the Ramadhan and Lebaran momentum effect*** seems to be much smaller this year. The management said that its seasonal products such as flour (Bogasari) and snacks (ICBP) would probably give only limited effect to sales this year.

Opportunity to Expand

- For 2015, the allocated capex was IDR 8,5tn and had been realized about IDR 1,2tn in 1Q15 (about 14% from its total capex). Despite the slowdown, management reveals that expansion plan will still be on track. Hence, management takes this condition as the opportunity to expand. INDF plans to establish new mill to increase its Bogasari's capacity (currently its mills have reached 85% utilization rate). As for ICBP, new plants for noodle divisions will be added in some regions.

Though INDF has been discounted by about 19% YTD, we still remain cautious on its agribusiness segment. We believe ICBP will still be the growth engine, especially from its dairy and beverage divisions which still provide plenty room to growth. For INDF and ICBP, we recommend to wait for its 2Q15 earnings release by the end of July .

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