Consumer Staples Sector

A Winding Path to Recovery

NEUTRAL

24 December 2021

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Consumer behavior post pandemic. As income level fell due to pandemic, several consumer behaviors emerged. Entering the second year of the pandemic, consumer downtrading appears to be persisting. Consumers tend to choose cheaper products that provide lower profitability for companies. Aside from that, as the year passes with several mobility restrictions, this has accelerated the rapid uptake of e-commerce in Indonesia. This may be either a boon or a bane for FMCG industry. The rise of e-commerce may assist local shops (who sell big FMCG items) in growing their business, that may further contribute to FMCG sales. On the other side, this might result in a more competitive landscape since e-commerce lessens the barriers to entry for new players.

Unemployment and poverty may not yet be back to normal. Following nearly two years of the pandemic, unemployment rate in the country slightly improved to 6.5% in Aug-21 (vs. 7.1% in Aug-20), but still higher than the pre-pandemic levels of c.5%. Moreover, poverty rate remains high at 10.1% in Mar-21 (latest announcement). Despite rehiring has occurred in several sectors, job creation in formal sector remains modest. Usually, the formal sector expands in parallel with economic recovery. Meanwhile, informal employment remains persistently high in Indonesia. This type of employee typically lacked social security and decent pay. Looking at the recent progress, we think purchasing power may take some time to completely recover. We believe that those who sit in the lowest income bracket will continue to rely heavily on government assistance.

Less supportive government assistance. If we break down Indonesia's 2022 state budget draft, government support for social protection was seen lower by 12.4% YoY, bringing the number down to IDR 427.5 tn. Government will extend their National Economic Recovery (PEN) into 2022, but with a lower budget of IDR 414 tn (-44% YoY). Meanwhile, from income standpoint, the government is keeping 2022 wage hike limited for only 1.09% on average, after a nearly 0% hike in 2021. This bleak increase may continue to curb consumption. Another threat to purchasing power comes from the upcoming increase in VAT rate. Government intends to raise the VAT tax rate from 10% to 11%, effective from Apr-22.

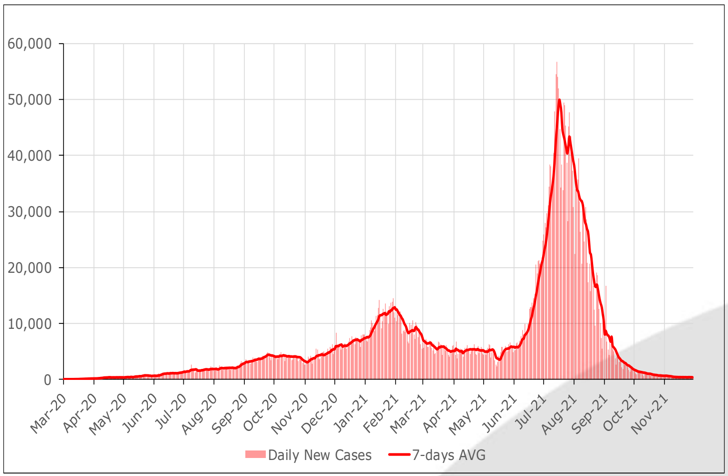
Margin pressure will continue to follow. The global commodity prices have skyrocketed, owing in part to supply-chain disruption. The current supply-chain disruption, in our view, may last until 2023. Given we believe that purchasing power recovery would be gradual, we believe margin concerns will continue to follow FMCG players and may normalize in 2H22.

We reiterate our NEUTRAL stance for consumer staples sector. Our call is based on our concern that consumption levels might not yet fully recover after being hit by the pandemic. We believe that, in light of rising competition from e-commerce and the risk of continued margin pressure, staples will face difficulties in bringing out satisfying both top and bottom line growth next year. Our pecking order is as follows: ICBP > INDF > KLBF > SIDO > UNVR.

Ticker	Rating	CP	TP	% Chg	FY22F P/E
UNVR	NEUTRAL	4,080	4,300	5.4%	26.0x
ICBP	BUY	8,775	10,800	23.1%	17.6x
KLBF	BUY	1,590	1,800	13.2%	26.3x
INDF	BUY	6,375	7,800	22.4%	9.1x
SIDO	ADD	880	970	10.2%	21.2x

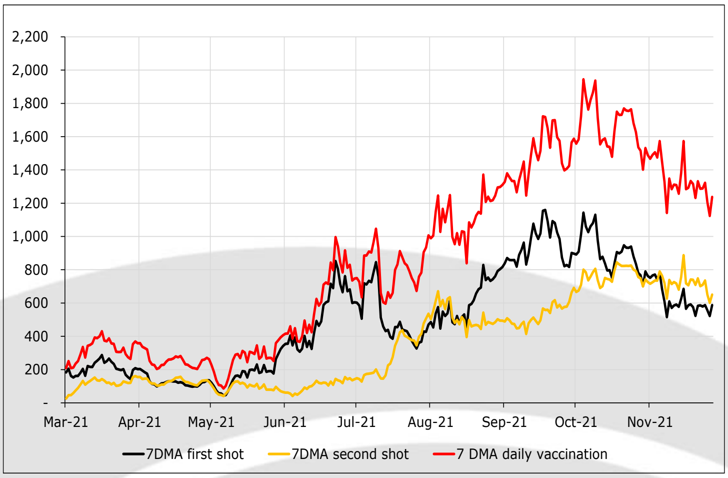
2021 at a glance: the spotlight was still on the pandemic. We started the year with quite a cautious stance on the consumption-based sectors due to concerns from lower government stimulus related to consumption, bleak increase in minimum wage, and prolonged unemployment. As the year proceeds, the severe impact of Covid-19 pandemic has further weakened consumers' purchasing power. We saw a shift in consumer behavior, they tend to either buying in smaller quantities (downsizing) or preferring the less expensive options (downtrading). Not to mention that the second wave of the outbreak by Delta variant in July hampered Indonesia's efforts to recover from economic downturn. The government had to impose a stricter mobility restriction (PPKM) for the whole month in July. That said, economic activities were muted since shopping malls were closed, dine-in was prohibited, and supermarket's operating hours were limited.

Indonesia daily new confirmed Covid-19 cases



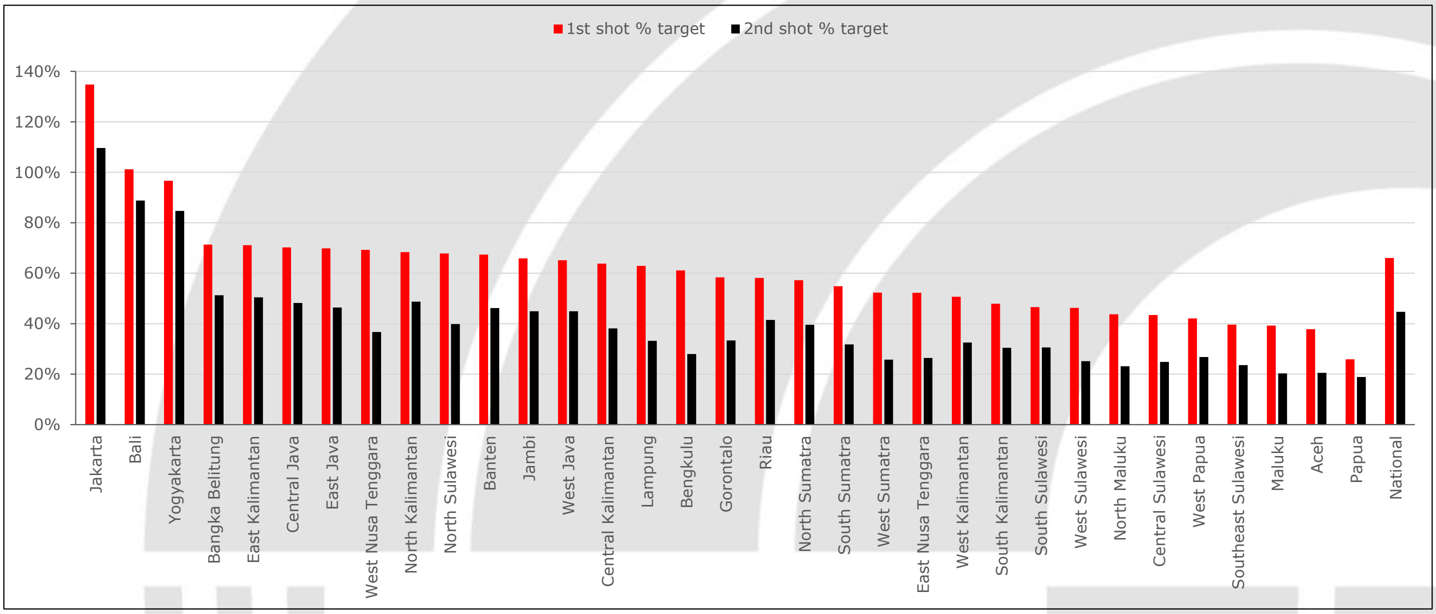
Source: Ministry of Health, Sinarmas Investment Research

Indonesia daily Covid-19 vaccination



Source: Ministry of Health, Sinarmas Investment Research

Indonesia cumulative Covid-19 vaccination, by provinces



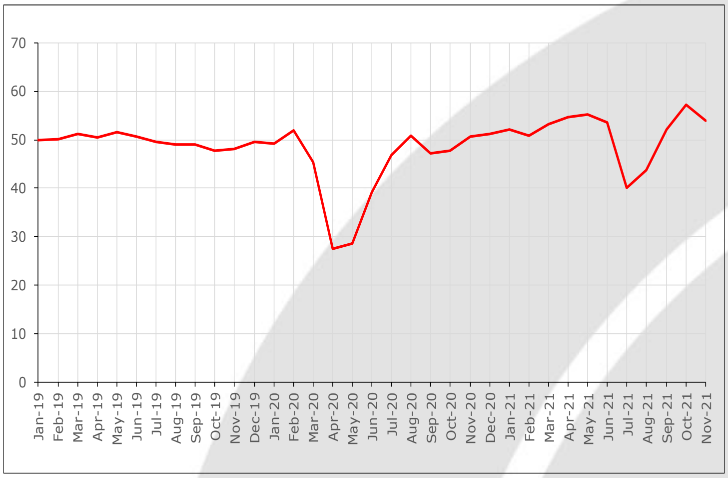
Source: Ministry of Health, Sinarmas Investment Research

A combination of mass vaccinations and mobility curbs appeared to have helped Indonesia contain the pandemic. After peaking in July with c.50k cases confirmed within a day, country's daily new cases and positivity rate has been declining, with only c.300-400 new cases/day discovered in November. Daily vaccination pace has tremendously jumped to 1.5 mn doses/day, over 60% of our people has received the first jab and nearly

45% has been fully vaccinated. Most of the domestic indicators that we monitor (PMI Manufacturing, Consumer Confidence Index, etc) have shown recovery in 2H21, suggesting optimism on our economic recovery trajectory. Although another concern emerged in late November from the discovery of the new Covid-19 variant, Omicron, which sent shockwaves across the globe. At the time of this writing, we don't know yet whether this variant will be as dangerous and deadly as Delta. But we are of the view that vaccination remain important to reduce the severity of the disease, thus we appreciate government's action to provide booster shots accessible to all in early next year.

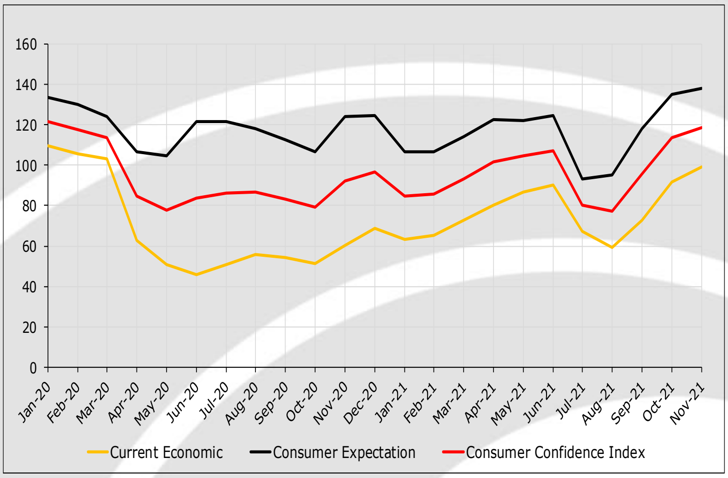
Improving CCI and PMI suggesting optimism on economic recovery. The pandemic curbs had effectively brought confirmed cases under control, allowing the government to gradually ease them. Malls and supermarkets have been allowed to operate at 100% capacity since early November, signifying economic activities have begun to pick up. On the production side, Indonesia's PMI Manufacturing for November came in at 53.9, marking the third straight month of expansion, after witnessing contractions in July and August. This suggests that the manufacturers saw improving business conditions along with the economic reopening. On the consumption side, Indonesia's consumer confidence index has returned back to optimistic level, rising from 95.5 in September to 118.5 in November. Consumers are becoming more optimistic in line with improving economic activities and higher mobility. These achievements indicate that Indonesia's economy has been on a recovery path in 2021.

PMI Manufacturing



Source: Bloomberg, Sinarmas Investment Research

Consumer Confidence Index



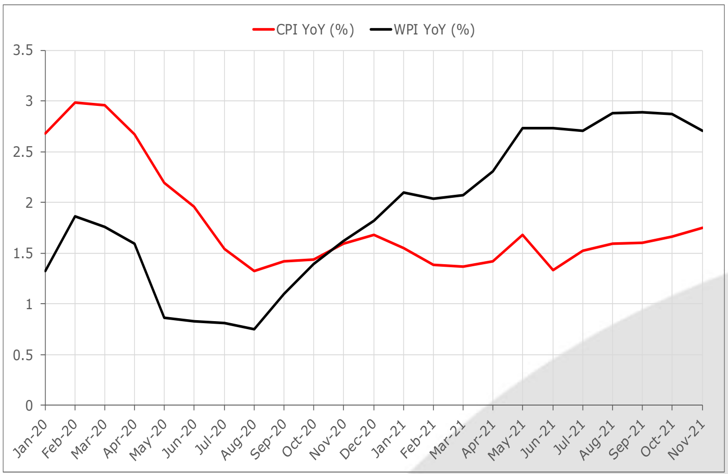
Source: BI, Sinarmas Investment Research

Those who are health-related remain resilient,... The prolonged Covid -19 pandemic seemingly has created opportunities for those who engaged in healthcare and pharmaceutical industry. Demand for health-related products remain high as consumers become more aware of their health and wellness. We have witnessed positive performances in all health-related players under our coverage (SIDO and KLBF). SIDO has consistently delivered strong quarterly results throughout 2021, cementing its position of being the market leader in modern jamu industry. Its Tolak Angin sales enjoyed a 20% YoY growth in 9M21, not an easy feat in this difficult period. Furthermore, its new products such as Vitamin C drinks and supplement products have been well received by consumers, generating a 51% CAGR over the last three years and may set a solid foundation for the future.

Similarly, KLBF has revised its top-line target multiple times in recent quarters due to better-than-expected outcomes. Initially, company aimed for only 5%-8% growth in 2021, but this was eventually revised to 11%-13% for both top-line and bottom-line growth. It is worth noting that their revenue/profit increased by 11.7%/12.8% YoY as of 9M21, thanks to strong performance in prescription and distribution segment.

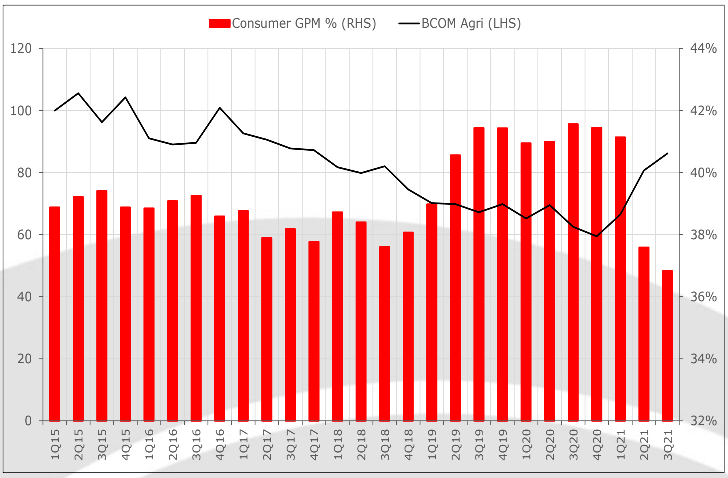
...while the remaining, facing margin pressure. Commodity prices have undeniably trended upward as the global economy begins to rebound. CPO price hit an all-time-high, reaching an average of RM 5,300 (+54% YoY) in Nov-21, while other commodities such as skimmed milk powder/ sugar/wheat surged by 54%/30%/27% YoY, respectively, driving up raw material costs in manufacturing sector. According to BPS data, Indonesia producer prices saw an inflation of 2.71% YoY in November, while on the consumer side, prices only increased by 1.75% YoY. The still-weak purchasing power has made it difficult for companies to fully pass on the rising material costs. We see that the wide gap between producer and consumer price has hurt the profitability of some consumer companies listed on IDX, including ICBP and UNVR.

Wholesale and Consumer Price Index



Source: BPS, Sinarmas Investment Research

Rising input costs affecting staples margin



Source: Bloomberg, Company data, Sinarmas Investment Research

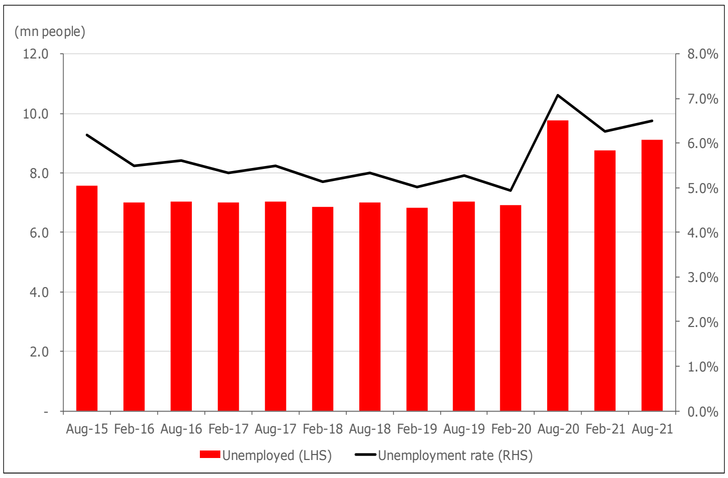
What to expect in FY22?

Consumer behavior post pandemic. The pandemic created an inflection point that led people to reassess their way of living. As the year passes with several mobility restrictions that limit people from doing traditional shopping at brick-and-mortar stores, **the pandemic has propelled a shift in behavior toward online shopping**, a trend that will likely continue. This has accelerated the rapid uptake of e-commerce in Indonesia. Government predicts that e-commerce transactions would reach Rp 530 tn next year, a 31.4% increase from Rp 403 tn expected this year.

The rapid growth of e-commerce may be either a boon or a bane for FMCG industry. First, the rise of e-commerce may assist local shops (who sell big FMCG items) in growing their business, that may further contribute to FMCG sales. On the other side, this might result in a more competitive landscape since e-commerce lessen the barriers to entry for new players. All of this, we believe, is contingent on FMCG companies' strategies for increasing/maintaining their market share.

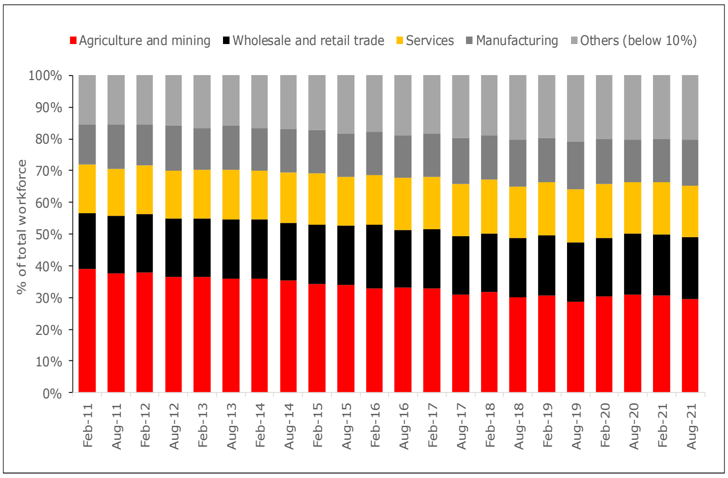
Unemployment and poverty may not yet be back to normal. Most of businesses experience a severe hit due to pandemic. Sectors involved in entertainment, leisure, discretionary products, and transportation are those faced with the hardest challenges. This has certainly contributed to a rise in unemployment and poverty in Indonesia. Following nearly two years of the pandemic, unemployment rate in the country slightly improved to 6.5% in Aug-21 (from 7.1% in Aug-20), indicating that several sectors are on pace to recover and create more jobs. However, the unemployment rate is still higher than the pre-pandemic levels of around 5%. Moreover, according to the most recent BPS data, the poverty rate remains high at 10.1% in Mar-21. While BPS has not released Sep-21 poverty rate, we expect it to stay high due to no meaningful changes in the number of unemployed.

Unemployment rate



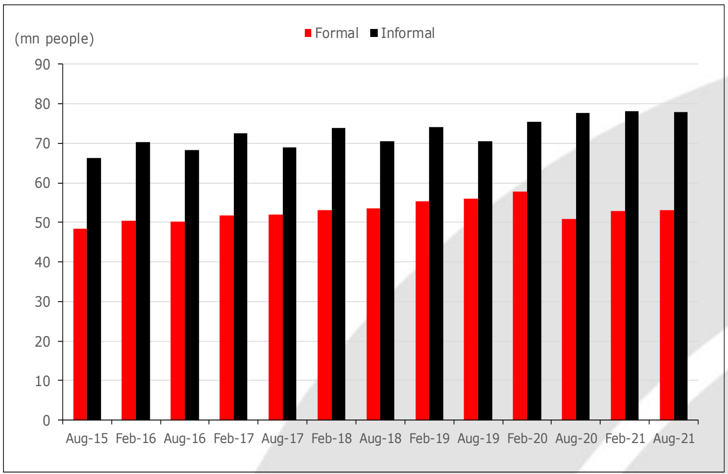
Source: BPS, Sinarmas Investment Research

Distribution of employment, by sector



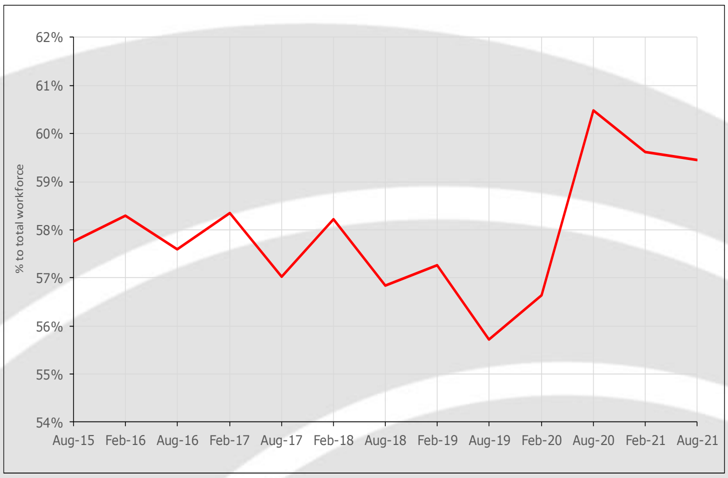
Source: BPS, Sinarmas Investment Research

Distribution of employment, by status



Source: BPS, Sinarmas Investment Research

% of informal workers to total workforce



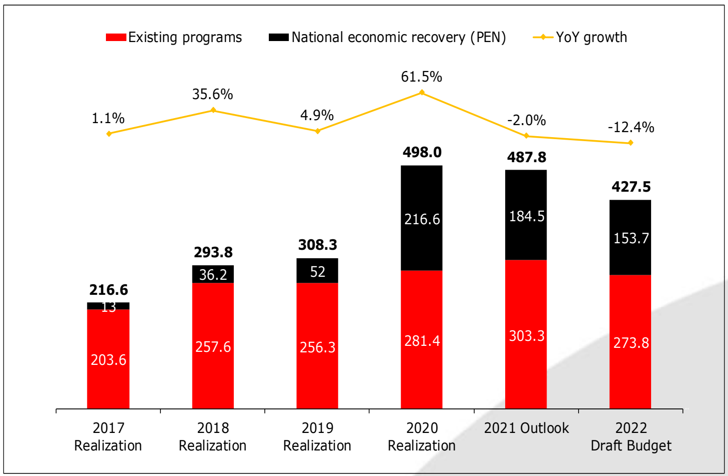
Source: BPS, Sinarmas Investment Research

Over the last decade, Indonesia's employment has shifted away from agriculture into more productive sectors. In 2011, the agriculture sector employed 39.1% of the workforce, but eventually went down to 30.2% in 2020 (before the pandemic). On the other hand, employment in wholesale and retail trade increased by 110 bps to 18.6%, services sector increased by 190 bps to 17.1%, and manufacturing sector by 140 bps to 14.0%. This structural shift indicates that workers are reallocating to more productive, higher-wage sectors.

However, Indonesia government estimated at least 5 - 6 million of formal jobs were lost in early pandemic. Despite rehiring has occurred in several sectors, job creation in formal sector remains modest, with only c.2.4 million individuals hired. Usually, the formal sector expands in parallel with economic recovery. Meanwhile, informal employment remains persistently high in Indonesia. The percentage of informal workers to total workforce stood at 59.4% in Aug-21, down 1% from Aug-20, but still deemed high (vs. 56.6% in Feb-20). This type of employee typically lacked social security and decent pay. Looking at the recent progress, we think purchasing power may take some time to completely recover.

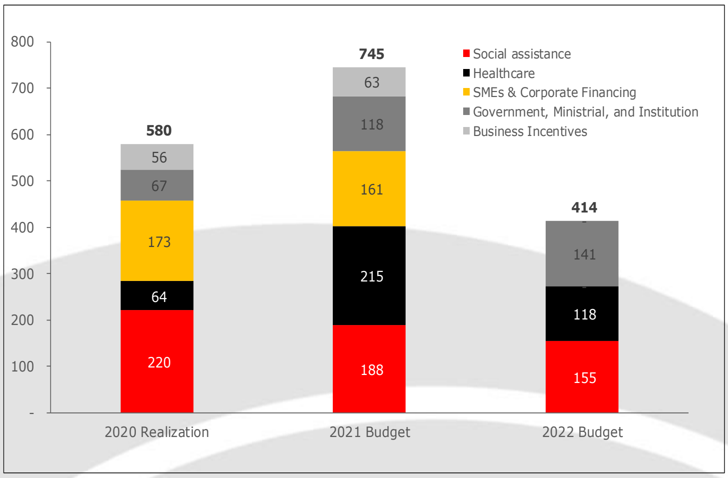
Downtrading is likely to continue. As income level fell due to pandemic, several consumer behaviors emerged: (1) downsizing essential goods purchases, (2) downtrading to cheaper brands, (3) deferring non-essentials purchases. Entering the second year of the pandemic, consumer downtrading appears to be persisting according to some FMCG companies we cover. UNVR, for example, claimed that competition remains fierce. The company has lost market share in certain of its product categories as a result of consumer downtrading. On the same page, KLBF said the trend has caused a decline on its nutritionals segment margin. Consumers have been seen downtrading to its less expensive products (Zee and Morinaga Chil-go) that provide lower profitability. With 2022 closely approaching, we are of the view that downtrading might persist since people may have less disposable income to spend after two years of the outbreak. We believe that those who in the lowest income bracket will continue to rely heavily on government assistance.

Social welfare budget allocation (IDR Tn)



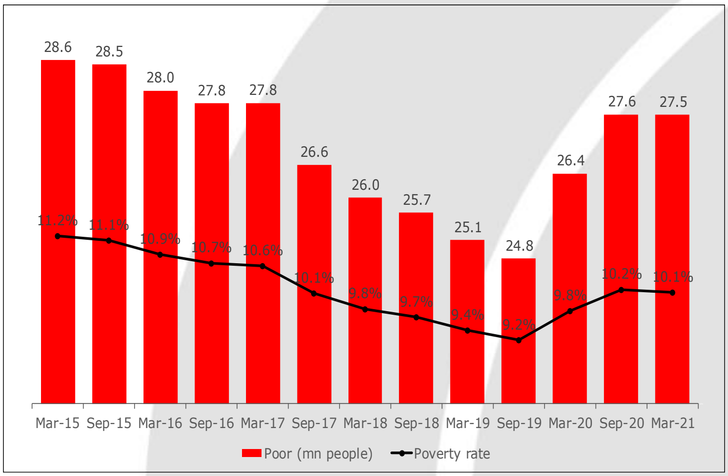
Source: APBN 2022, MoF, Sinarmas Investment Research

PEN budget details (IDR Tn)



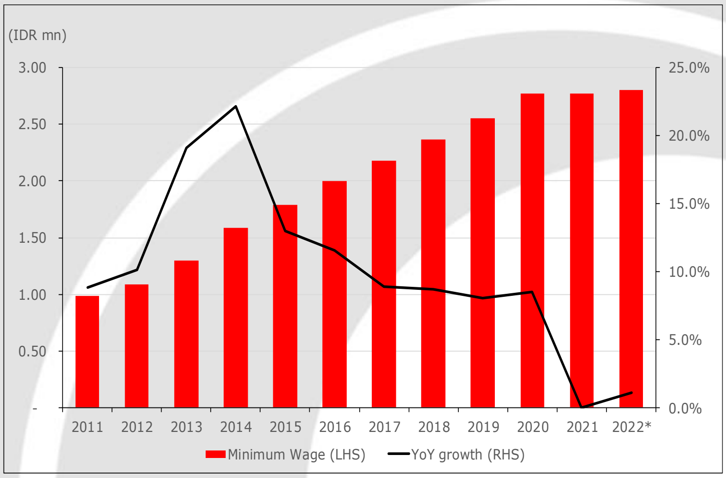
Source: Ministry of Finance, Sinarmas Investment Research

Poverty Rate



Source: BPS, Sinarmas Investment Research

Minimum wage



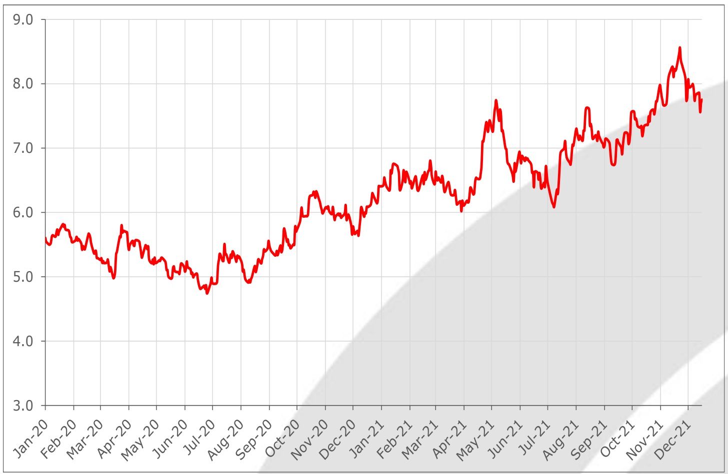
Source: BPS, Sinarmas Investment Research

Assessing government's support towards purchasing power. However, if we break down Indonesia's 2022 state budget draft, government support for social protection was seen lower by 12.4% YoY, bringing the number down to IDR 427.5 tn. Government will extend their National Economic Recovery (PEN) into 2022, but with a lower budget of IDR 414 tn (-44% YoY). We see that the country is underpinned by an expectation that things will return to a state of semi-normalcy soon, as government assumed our GDP growth will return back to 5.0-5.5% in 2022 and inflation may reach 3% in 2022.

Meanwhile, from income standpoint, the government is keeping 2022 wage hike limited for only 1.09% on average, after nearly 0% hike in 2021. This bleak increase may continue to curb consumption. Another threat to purchasing power comes from the upcoming increase in VAT rate. Government intends to raise the VAT tax rate from 10% to 11%, effective from Apr-22. Taking into account all of these factors, we see that purchasing power recovery may be more on a milder side than robust side.

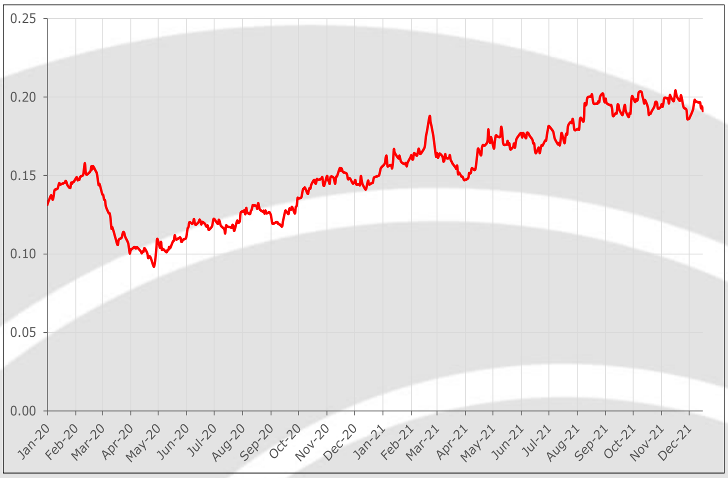
Margin pressure will continue to follow. As mentioned before, global commodity prices have skyrocketed, owing in part to supply-chain disruption. The current supply-chain disruption, in our view, may last until 2023 due to (1) capacity shortages, (2) ongoing quarantine measures, (3) insufficient labor, and (4) poor sorting system. Not to mention that freight rates remain high and schedule reliability dropped. Our CPO analyst predicts that CPO prices might remain high until 1Q22, before starting to normalize in 2Q22. The average global CPO price is estimated to be MYR 4,300/3,600 in FY21E/FY22F. Although the price projection seems declining, it is still higher when compared to pre-pandemic level of MYR 2,200 in FY19. Given our view that purchasing power recovery would be gradual, we believe margin concerns will continue to follow consumer names and may normalize in 2H22.

Wheat price (USD/bu)



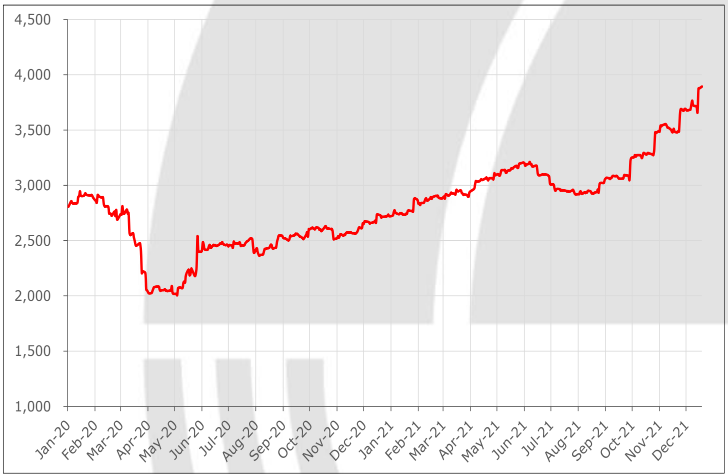
Source: Bloomberg, Sinarmas Investment Research

Sugar price (USD/lb)



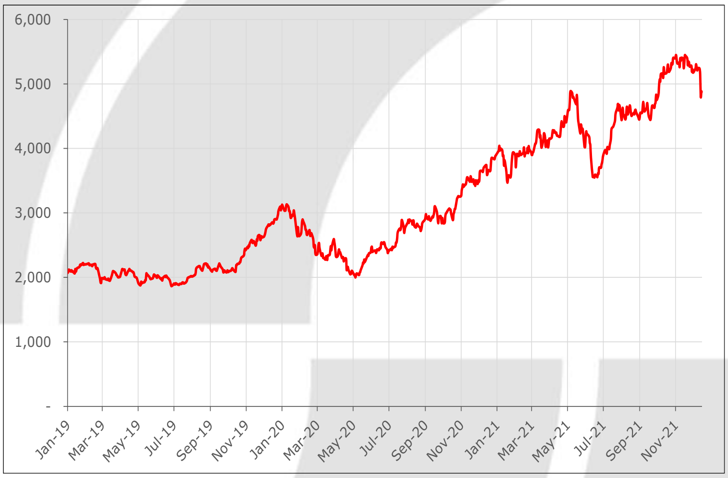
Source: Bloomberg, Sinarmas Investment Research

Skimmed milk powder price (EUR/MT)



Source: Bloomberg, Sinarmas Investment Research

CPO price (MYR/MT)

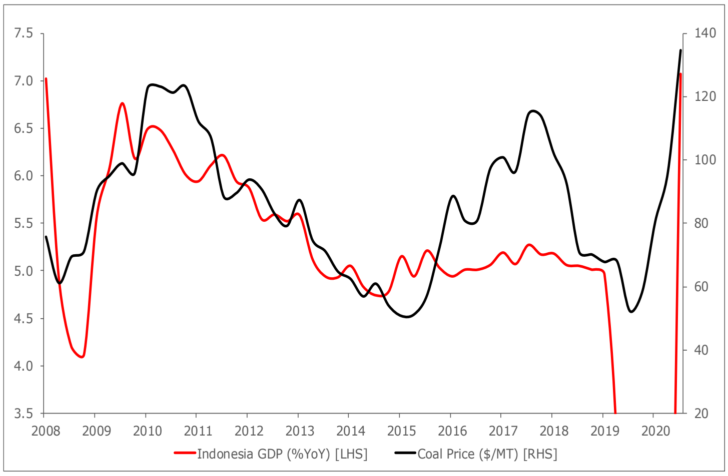


Source: Bloomberg, Sinarmas Investment Research

On the other hand, persistently high commodity prices could spell a good news for purchasing power. Higher commodity prices may benefit the economies of commodity-producing countries, including Indonesia.

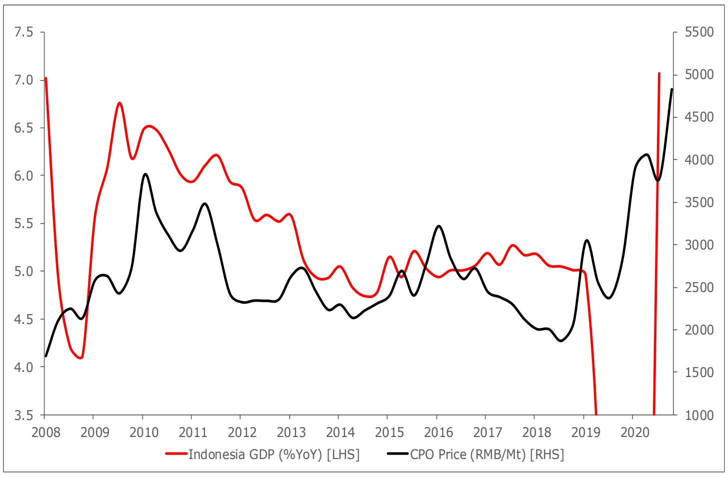
Based on historical evidence, coal and CPO have positive correlation with economic growth, as well as retail sales and loan growth. This might strengthening regions whose economies rely on commodities such as provinces in Sumatra and Kalimantan.

Indonesia GDP growth and coal price



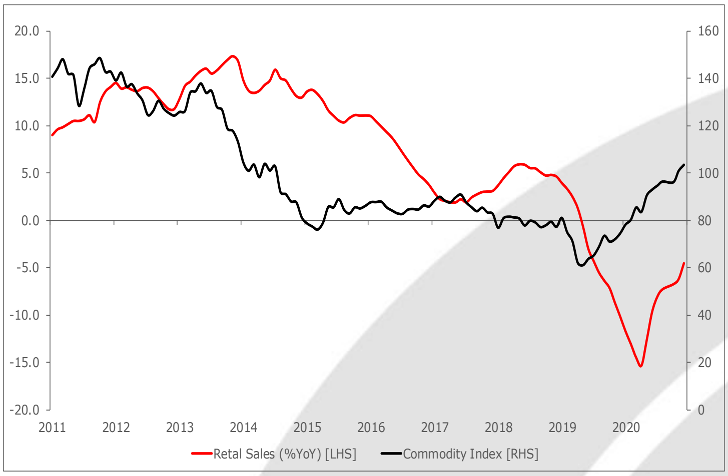
Source: Bloomberg, Sinarmas Investment Research

Indonesia GDP growth and CPO Price



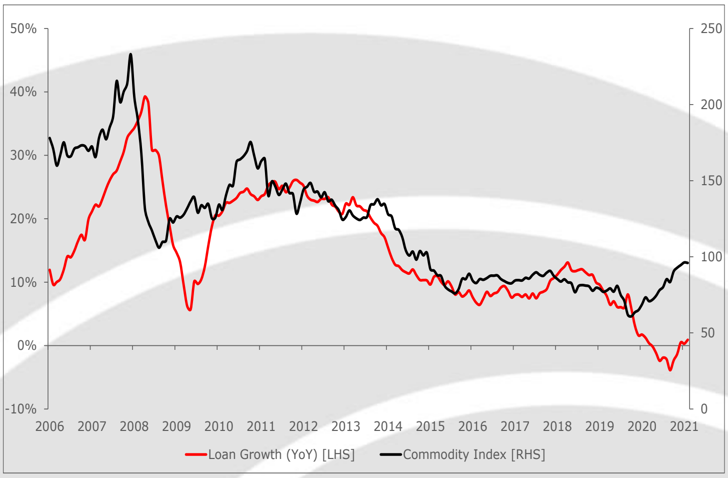
Source: Bloomberg, Sinarmas Investment Research

Indonesia Retail Sales & Commodity Index



Source: Bloomberg, Sinarmas Investment Research

Indonesia Loan Growth & Commodity Index



Source: Bloomberg, Sinarmas Investment Research

We reiterate our NEUTRAL stance for staples sector. Our call is based on our concern that consumption levels might not yet fully recover after being hit by the pandemic due to: (1) prolonged unemployment and poverty from the pandemic, (2) reduced government support related to consumption, (3) limited wage hike, and (4) a higher VAT rate. Not to mention that FMCG players may encounter increased competition as a result of Indonesia's rapid growth of e-commerce. On the profitability side, margin pressure may persist given the remain high commodities prices. Hence, staples will face difficulties in bringing out satisfying both top and bottom line growth next year. We think that the winners in this challenging situation would be those with a strong brand and the ability to keep its margin. Our pecking order is as follows: ICBP > INDF > KLBF > SIDO > UNVR.

Ticker	Rating	CP	TP	% Chg	FY22F P/E
UNVR	NEUTRAL	4,080	4,300	5.4%	26.0x
ICBP	BUY	8,775	10,800	23.1%	17.6x
KLBF	BUY	1,590	1,800	13.2%	26.3x
INDF	BUY	6,375	7,800	22.4%	9.1x
SIDO	ADD	880	970	10.2%	21.2x

PT Unilever Indonesia Tbk.

Has Yet to Recover

NEUTRAL (TP: IDR 4,300)

24 December 2021

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No major progress. The pandemic has further eroded consumers' purchasing power and caused a shift in consumer behavior, making 2021 a challenging year for UNVR. Downtrading remains common among consumers, resulting company losing market share owing to heightened competition. UNVR 9M21 revenue declined by 7.5% YoY due to a drop in HPC segment by 5% YoY, while F&R witnessed a slight improvement by 4% YoY. On the margin side, GPM stood at 50.3%, down 170bps YoY due to persistently high raw material prices. Management does not expect commodity prices to ease in the near term, therefore it will rely on price increase to anticipate prolonged margin pressure. It should be noted that UNVR has begun raising prices by c.2% in early Oct-21.

Enriching portfolio in premium and value segment. UNVR will continue to focus on strengthening its position in the premium segment (particularly in beauty and personal care (BPC) products) which is growing c.3x faster than the middle segment. Per the latest information, UNVR has set a long-term target of ~40% market share in the premium market, similar to its current national market share. In terms of competition, there is currently no clear winner in BPC premium market which consists of products priced between IDR 100k-IDR 600k. Simultaneously, UNVR will serve the lower segment by providing affordable packaging and pricing (ranging from IDR 500-IDR 2k) from big brands such as Royco, Bango, Rinso, and others. Management believes that it is critical for UNVR as a market leader, to stimulate consumption. Hence, company plans to invest more in A&P spending in FY22. However, we are of the view that downtrading behavior might persist since people may have less disposable income to spend post Covid outbreak, particularly those in the lowest income bracket. Thus, its strategy may require a couple of years before we see the result. We expect UNVR to post a modest growth of 3.5% in FY22F, after posting a negative growth of 6.4% in FY21E. GPM would improve to 50.0% due to higher ASP, resulting in a 7.4% EPS growth in FY22F.

We maintain our NEUTRAL rating on PT Unilever Indonesia (UNVR) with a lower 52-week TP of IDR 4,300. Our TP derived from 26.0x FY22F PE (-2SD from its 5-yr mean). We have not seen any major turnaround progress from UNVR, but the concerns from rising raw material prices and shifting in consumer behavior remain. Thus, we continue to believe that its valuation may be difficult to re-rate back to its historical mean. Upside risks: better-than-expected sales growth and margin improvement.

Highlights (IDR Bn)	2020	2021E	2022F	2023F	2024F
Revenue	42,972	40,207	41,631	43,292	44,255
% growth	0.1%	-6.4%	3.5%	4.0%	2.2%
Gross Profit	22,457	20,030	20,835	21,767	22,335
Net Profit	7,164	5,884	6,318	6,752	6,997
% growth	-3.1%	-17.9%	7.4%	6.9%	3.6%
Gross Margin (%)	52.3%	49.8%	50.0%	50.3%	50.5%
Net Margin (%)	16.7%	14.6%	15.2%	15.6%	15.8%
Return on Equity (%)	140.2%	124.9%	140.0%	144.6%	143.4%
Return on Assets (%)	35.9%	30.3%	32.7%	35.5%	37.2%
EPS (IDR)	188	154	166	177	183

Stock Information	
Sector	Consumer
Bloomberg Ticker	UNVR IJ
Market Cap. (IDR tn)	155.7
Share Out./Float (mn)	38,150/5,725
Current Price	4,080
FY22F Target Price	4,300
Upside	5.4%

Share Price Performance	
52W High (01/19/21)	8,000
52W Low (09/21/21)	3,800
52W Beta	0.8
YTD Change	-44.5%

Relative Valuations	
Trailing P/E	26.5x
Forward P/E	24.6x
P/BV	29.2x

Income Statement (IDR Bn)	2020	2021E	2022F	2023F	2024F
Revenue	**42,972**	**40,207**	**41,631**	**43,292**	**44,255**
% growth	0.1%	-6.4%	3.5%	4.0%	2.2%
Cost of Good Sold	(20,515)	(20,177)	(20,796)	(21,525)	(21,920)
Gross Profit	**22,457**	**20,030**	**20,835**	**21,767**	**22,335**
% growth	1.9%	-10.8%	4.0%	4.5%	2.6%
Operating Expenses	(12,986)	(12,232)	(12,696)	(13,110)	(13,431)
Opex to Sales (%)	30.2%	30.4%	30.5%	30.3%	30.3%
Other Income (Expenses)	(20)	(8)	(8)	(9)	(9)
EBIT	**9,451**	**7,790**	**8,131**	**8,648**	**8,895**
% growth	-6.6%	-17.6%	4.4%	6.4%	2.9%
EBITDA	**10,360**	**8,697**	**9,090**	**9,650**	**9,829**
% growth	-5.6%	-16.1%	4.5%	6.2%	1.9%
Net Financing Income (Expenses)	(244)	(246)	(234)	(209)	(149)
EBT	**9,207**	**7,544**	**7,897**	**8,439**	**8,744**
Tax Expenses	(2,043)	(1,660)	(1,579)	(1,687)	(1,747)
Net Income	**7,164**	**5,884**	**6,318**	**6,752**	**6,997**
% growth	-3.1%	-17.9%	7.4%	6.9%	3.6%
EPS (IDR)	**188**	**154**	**166**	**177**	**183**

Balance Sheet (IDR Bn)	2020	2021E	2022F	2023F	2024F
Cash & Equivalents	844	657	714	673	398
Trade Receivables	5,413	4,934	5,161	5,382	5,473
Inventories	2,463	2,441	2,509	2,589	2,644
Other Current Assets	108	39	33	30	36
Total Current Assets	**8,828**	**8,071**	**8,417**	**8,674**	**8,551**
Fixed Assets	11,187	10,800	10,483	10,053	9,733
Other Non Current Assets	519	520	517	520	522
Total Assets	**20,534**	**19,391**	**19,417**	**19,247**	**18,806**
Short Term Debt	3,128	2,759	2,770	1,783	797
Trade Payables	6,820	6,690	6,602	6,924	7,146
Other Current Liabilities	3,409	3,564	3,510	3,631	3,785
Total Current Liabilities	**13,357**	**13,013**	**12,882**	**12,338**	**11,728**
Long Term Debt	847	846	871	902	926
Other Non Current Liabilities	1,393	1,044	1,126	1,209	1,194
Total Liabilities	**15,597**	**14,903**	**14,879**	**14,449**	**13,848**
Share & APIC	172	172	172	172	172
Retained Earnings	4,765	4,316	4,366	4,626	4,786
Others	-	-	-	-	-
Total Equity	**4,937**	**4,488**	**4,538**	**4,798**	**4,958**
Total Liabilities & Equity	**20,534**	**19,391**	**19,417**	**19,247**	**18,806**

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2020	2021E	2022F	2023F	2024F
Net Income	**7,164**	**5,884**	**6,318**	**6,752**	**6,997**
Dep. & Amortization	909	907	959	1,002	934
Chg. In NWC	127	597	(431)	144	225
CF from Operating	**8,200**	**7,388**	**6,846**	**7,898**	**8,156**
Capital Expenditure	(486)	(520)	(641)	(572)	(613)
Chg. in LT Assets	(10)	-	2	(3)	(2)
Chg. in LT Liabs	9	(352)	82	84	(18)
CF from Investing	**(487)**	**(872)**	**(557)**	**(491)**	**(633)**
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	10	(370)	36	(956)	(961)
Dividends Paid	(7,401)	(6,333)	(6,268)	(6,492)	(6,837)
Others	(107)	-	-	-	-
CF from Financing	**(7,498)**	**(6,703)**	**(6,232)**	**(7,448)**	**(7,798)**
Chg. in Cash	215	(187)	57	(41)	(275)
Beginning Cash	629	844	657	714	673
Ending Cash	**844**	**657**	**714**	**673**	**398**

Financial Ratio & Key Assumptions	2020	2021E	2022F	2023F	2024F
Profitability					
Return on Equity	140.2%	124.9%	140.0%	144.6%	143.4%
Return on Assets	35.9%	30.3%	32.7%	35.5%	37.2%
Gross Margin	52.3%	49.8%	50.0%	50.3%	50.5%
Operating Margin	22.0%	19.4%	19.5%	20.0%	20.1%
EBITDA Margin	24.1%	21.6%	21.8%	22.3%	22.2%
Net Margin	16.7%	14.6%	15.2%	15.6%	15.8%
Liquidity					
Current Ratio (x)	0.7	0.6	0.7	0.7	0.7
Quick Ratio (x)	0.5	0.4	0.5	0.5	0.5
Solvency					
Debt to Equity (x)	0.8	0.8	0.8	0.6	0.3
Debt to Assets (x)	0.2	0.2	0.2	0.1	0.1
Interest Cov. (x)	38.0	31.6	34.7	41.5	59.7
Valuation					
Price to Earnings (x)	24.0	29.2	27.2	25.4	24.5
Price to Book (x)	34.8	38.3	37.8	35.8	34.6

Source: Company Data, Sinarmas Investment Research

PT Indofood CBP Sukses Makmur Tbk.

Expecting Softer Margin Pressure

BUY (TP: IDR 10,800)

24 December 2021

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Fundamentally resilient amidst Covid-19. ICBP continued to prove its resilient performance amongst other staples names, with revenue up by 25.7% YoY in 9M21. Its top-line was supported in part by implementation of mobility restrictions that encouraged in-home consumption. What was notable from its latest results was that it can expand its 3Q21 GPM by 60 bps QoQ despite persistently high raw material prices, bringing its YTD GPM stable at 36.4% compared to last year. On the operating level, ICBP spent higher A&P in 3Q21 (+38.4% QoQ/+12.8% YoY) to promote new launches across all categories and maintain brand awareness.

Growth may normalize in 2022, higher finance expense from debt refinancing. As 2021 coming to an end, we expect future growth will likely to stabilize in the coming year as Pinehill performance has been fully consolidated this year. Though Pinehill's detailed results were not disclosed, we believe its performance is likely to meet its 2-yr average guideline of USD 128.5 mn profit (~IDR 1.8 tn assuming USDIDR 14,500). Hence, ICBP should pay the entire amount of retention payable in Apr-22, which is USD 650 mn (~IDR 9 tn). The funding will come from additional global bonds it has issued on Oct-21, amounting USD 1 tn with a 4.05% blended interest rate. We bake in a higher blended interest rate of 3.8% in FY22F (vs 3.5% in FY21F), translates into higher finance expense by 6% YoY.

Another ASP increase may soften margin pressure. The unforeseen and prolonged Covid-19 has disrupted supply chains across continents, prompting a surge in commodity prices. Through the year, we have seen an uptrend on global prices of wheat (+27% YoY), CPO (+54% YoY), and sugar (+30% YoY). Despite higher RM costs, ICBP was able to retain its GPM through price adjustments, volume growth, and meaningful efficiency. In the last quarter of 2021, ICBP raised another IDR 100/pack on its noodle price, following an increase of IDR 100/pack earlier this year. ICBP also raised prices on selected dairy products by 3-4% on average. Hence, we expect milder effect from arising commodity prices on ICBP's margin

We reiterate our BUY call on PT Indofood CBP Sukses Makmur Tbk. (ICBP) with a 52-week TP of IDR 10,800, derived from 17.6x FY22F PE. ICBP is now trading at 14.3x FY22F PE (-2SD from its 5-year mean). That said, we continue to favor ICBP for its attractive valuation and its positive outlook ahead. Downside risks to our call: weaker-than-expected purchasing power and higher-than-expected raw material prices.

Stock Information	
Sector	Consumer
Bloomberg Ticker	ICBP IJ
Market Cap. (IDR tn)	102.3
Share Out./Float (mn)	11,661/2,270
Current Price	8,775
FY22F Target Price	10,800
Upside	23.1%

Share Price Performance	
52W High (01/19/21)	9.900
52W Low (06/21/21)	7,625
52W Beta	0.6
YTD Change	-8.4%

Relative Valuations	
Trailing P/E	15.1x
Forward P/E	14.3x
P/BV	3.2x

Highlights (IDR Bn)	2020	2021F	2022F	2023F	2024F
Revenue	46,641	57,143	60,614	63,567	66,545
% growth	10.3%	22.5%	6.1%	4.9%	4.7%
Gross Profit	17,224	20,712	22,029	23,200	24,259
Net Profit	6,587	6,739	7,138	7,677	8,031
% growth	30.7%	2.3%	5.9%	7.6%	4.6%
Gross Margin (%)	36.9%	36.2%	36.3%	36.5%	36.5%
Net Margin (%)	14.1%	11.8%	11.8%	12.1%	12.1%
Return on Equity (%)	24.1%	21.4%	19.9%	19.0%	17.9%
Return on Assets (%)	5.8%	5.6%	5.8%	6.0%	6.1%
EPS (IDR)	565	578	612	658	689

Income Statement (IDR Bn)	2020	2021F	2022F	2023F	2024F
Revenue	**46,641**	**57,143**	**60,614**	**63,567**	**66,545**
% growth	10.3%	22.5%	6.1%	4.9%	4.7%
Cost of Good Sold	(29,417)	(36,432)	(38,585)	(40,366)	(42,285)
Gross Profit	**17,224**	**20,711**	**22,029**	**23,201**	**24,260**
% growth	19.6%	20.2%	6.4%	5.3%	4.6%
Operating Expenses	(8,023)	(8,933)	(9,537)	(10,002)	(10,523)
Opex to Sales (%)	17.2%	15.6%	15.7%	15.7%	15.8%
EBIT	**9,201**	**11,778**	**12,492**	**13,199**	**13,737**
% growth	24.3%	28.0%	6.1%	5.7%	4.1%
EBITDA	**10,483**	**13,008**	**13,990**	**14,872**	**15,640**
% growth	25.9%	24.1%	7.5%	6.3%	5.2%
Net Financing Income (Expenses)	758	(1,371)	(1,469)	(1,491)	(1,489)
EBT	**9,959**	**10,407**	**11,023**	**11,708**	**12,248**
Tax Expenses	(2,540)	(2,186)	(2,315)	(2,343)	(2,450)
Minority Interest	(832)	(1,482)	(1,570)	(1,688)	(1,767)
Net Income	**6,587**	**6,739**	**7,138**	**7,677**	**8,031**
% growth	30.7%	2.3%	5.9%	7.6%	4.6%
EPS (IDR)	**565**	**578**	**612**	**658**	**689**

Balance Sheet (IDR Bn)	2020	2021F	2022F	2023F	2024F
Cash & Equivalents	9,536	24,524	15,610	19,173	22,277
Trade Receivables	5,747	5,956	6,225	6,617	6,898
Inventories	4,587	5,132	5,462	5,727	5,981
Other Current Assets	847	606	650	703	717
Total Current Assets	**20,717**	**36,218**	**27,947**	**32,220**	**35,873**
Fixed Assets	13,606	17,162	20,917	23,395	26,247
Other Non Current Assets	69,266	69,528	70,016	70,049	70,133
Total Assets	**103,589**	**122,908**	**118,880**	**125,664**	**132,253**
Short Term Debt	817	660	719	781	5,076
Trade Payables	3,907	4,787	4,900	5,108	5,432
Other Current Liabilities	4,453	12,451	3,656	3,938	3,972
Total Current Liabilities	**9,177**	**17,898**	**9,275**	**9,827**	**14,480**
Long Term Debt	30,908	44,430	43,293	43,685	39,241
Other Non Current Liabilities	13,185	4,985	5,199	5,432	5,734
Total Liabilities	**53,270**	**67,313**	**57,767**	**58,944**	**59,455**
Share & APIC	6,569	6,569	6,569	6,569	6,569
Retained Earnings	22,576	26,808	31,229	35,685	40,554
Minority Interest	20,888	21,932	23,029	24,180	25,389
Others	286	286	286	286	286
Total Equity	**50,319**	**55,595**	**61,113**	**66,720**	**72,798**
Total Liabilities & Equity	**103,589**	**122,908**	**118,880**	**125,664**	**132,253**

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2020	2021F	2022F	2023F	2024F
Net Income	**6,587**	**6,739**	**7,138**	**7,677**	**8,031**
Dep. & Amortization	1,282	1,230	1,498	1,673	1,903
Chg. In NWC	(459)	8,364	(9,323)	(220)	(191)
CF from Operating	**7,410**	**16,333**	**(687)**	**9,130**	**9,743**
Capital Expenditure	(3,545)	(4,786)	(5,253)	(4,152)	(4,755)
Chg. in LT Assets	(58,524)	(263)	(488)	(33)	(84)
Chg. in LT Liabs	9,406	(8,206)	212	234	301
CF from Investing	**(52,663)**	**(13,255)**	**(5,529)**	**(3,951)**	**(4,538)**
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	29,368	13,373	(1,078)	454	(149)
Dividends Paid	(2,507)	(2,507)	(2,717)	(3,221)	(3,161)
Others	19,567	1,044	1,097	1,151	1,209
CF from Financing	**46,428**	**11,910**	**(2,698)**	**(1,616)**	**(2,101)**
Chg. in Cash	1,175	14,988	(8,914)	3,563	3,104
Beginning Cash	8,361	9,536	24,524	15,610	19,173
Ending Cash	**9,536**	**24,524**	**15,610**	**19,173**	**22,277**

Financial Ratio & Key Assumption	2020	2021F	2022F	2023F	2024F
Profitability					
Return on Equity	24.1%	21.4%	19.9%	19.0%	17.9%
Return on Assets	5.8%	5.6%	5.8%	6.0%	6.1%
Gross Margin	36.9%	36.2%	36.3%	36.5%	36.5%
Operating Margin	19.7%	20.6%	20.6%	20.8%	20.6%
EBITDA Margin	22.5%	22.8%	23.1%	23.4%	23.5%
Net Margin	14.1%	11.8%	11.8%	12.1%	12.1%
Liquidity					
Current Ratio (x)	2.3	2.0	3.0	3.3	2.5
Quick Ratio (x)	1.7	1.7	2.4	2.6	2.0
Solvency					
Debt to Equity (x)	0.6	0.8	0.7	0.7	0.6
Debt to Assets (x)	0.3	0.4	0.4	0.4	0.3
Interest Cov. (x)	13.7	7.3	7.3	7.6	7.9
Valuation					
Price to Earnings (x)	19.1	18.7	17.6	16.4	15.7
Price to Book (x)	2.5	2.3	2.1	1.9	1.7

Source: Company Data, Sinarmas Investment Research

PT Kalbe Farma Tbk.

Relatively Safe and Sound

BUY (TP: IDR 1,800)

24 December 2021

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2021 decent outcome. KLBF managed to record a decent performance in 9M21, with revenue up 11.7% YoY. Strongest growth came from distribution and prescription segment with 23.9% and 11.2% YoY growth. On the margin side, GPM was down 220bps YoY to 43.3%, owing to lower GPM in prescription/nutritionals by 300 bps/320 bps YoY, respectively. Lower GPM in prescription was associated with increasing contribution from unbranded generics, whereas the down-trading trend in consumer behavior has resulted in a fall in nutritionals GPM. However, opex efficiencies kept its EBIT margin level stable at 15%. In all, KLBF managed to increase it bottom-line by 12.8% YoY, exceeding company's initial growth target of 5-8%.

Favorable growth in prescription. The growth of prescription sales in 9M21 was supported mostly by unbranded generic (+26.3% YoY) as KLBF has successfully expanded its participation in e-Catalogue (National Health Insurance) from 60 SKUs in 2020 to 90 SKUs in 2021 (+50% YoY). As a result, the unbranded generic contribution to prescription sales has increased to 25%, up from 22% last year. Heading into 2022, we anticipate that unbranded generic sales may expand in tandem with the government's rising healthcare expenditure budget from IDR 125.2 tn in 2021 to IDR 139.4 tn (+11.3% YoY). Combined with the hospital outpatient traffic recovery and potential developed earnings from its oncology and biosimilar business unit, we expect prescription sales may grow by 14%/6% YoY in FY21E/FY22F.

Digital platform to support earnings. The pandemic in the current digital era has encouraged the adoption of digitalized health services in Indonesia. KLBF has entered into the growing digital healthcare market by establishing its own platforms, either for B2B or B2C. Company has developed Klikdokter for its B2C services, a platform that provides doctor consultation services and health products. For its B2B services, KLBF has developed EMOS (order management platform) and MOSTRANS (transportation management platform) to enable order fulfillment in a more efficient way. This innovation can leverage its distribution channel through Enseval, thus we estimate distribution segment to grow by 21%/11% YoY in FY21E/FY22F.

We maintain our BUY call on PT Kalbe Farma Tbk. (KLBF) with a higher TP of IDR 1,800, which implies 26.3x FY22F P/E. Taking all of its initiatives into account, we estimate KLBF to post 12.4%/6.5% revenue growth in FY21E/FY22F. Although its GPM may decline due to changes in segment mix, we believe KLBF may retain its attractive margin in the operating level from opex efficiencies, as proven historically. Downside risks to our call: IDR depreciation and weaker-than-expected purchasing power.

Highlights (IDR Bn)	2020	2021E	2022F	2023F	2024F
Revenue	23,113	25,911	27,666	28,777	29,936
% growth	2.1%	12.1%	6.8%	4.0%	4.0%
Gross Profit	10,246	11,195	11,898	12,326	12,790
Net Profit	2,733	3,024	3,254	3,446	3,601
% growth	9.0%	10.6%	7.6%	5.9%	4.5%
Gross Margin (%)	44.3%	43.2%	43.0%	42.8%	42.7%
Net Margin (%)	11.8%	11.7%	11.8%	12.0%	12.0%
Return on Equity (%)	16.4%	16.6%	16.5%	16.0%	15.5%
Return on Assets (%)	11.8%	12.2%	12.2%	12.0%	12.1%
EPS (IDR)	58	65	69	74	77

Stock Information	
Sector	Consumer
Bloomberg Ticker	KLBF IJ
Market Cap. (IDR tn)	74.5
Share Out./Float (mn)	46,875/19,741
Current Price	1,590
FY22F Target Price	1,800
Upside	13.2%

Share Price Performance	
52W High (01/12/21)	1,960
52W Low (08/09/21)	1,240
52W Beta	0.8
YTD Change	7.4%

Relative Valuations	
Trailing P/E	24.5x
Forward P/E	23.0x
P/BV	4.0x

Income Statement (IDR Bn)	2020	2021E	2022F	2023F	2024F
Revenue	**23,113**	**25,911**	**27,666**	**28,777**	**29,936**
% growth	2.1%	12.1%	6.8%	4.0%	4.0%
Cost of Good Sold	(12,866)	(14,716)	(15,768)	(16,450)	(17,146)
Gross Profit	**10,247**	**11,195**	**11,898**	**12,327**	**12,790**
% growth	0.0%	9.3%	6.3%	3.6%	3.8%
Operating Expenses	(6,691)	(7,349)	(7,792)	(8,089)	(8,387)
Opex to Sales (%)	28.9%	28.4%	28.2%	28.1%	28.0%
EBIT	**3,556**	**3,846**	**4,106**	**4,238**	**4,403**
% growth	7.4%	8.2%	6.8%	3.2%	3.9%
EBITDA	**4,032**	**4,313**	**4,606**	**4,786**	**4,988**
% growth	9.7%	7.0%	6.8%	3.9%	4.2%
Net Financing Income (Expenses)	72	126	167	175	208
EBT	**3,628**	**3,972**	**4,273**	**4,413**	**4,611**
Tax Expenses	(829)	(875)	(940)	(883)	(923)
Minority Interest	(66)	(73)	(79)	(84)	(87)
Net Income	**2,733**	**3,024**	**3,254**	**3,446**	**3,601**
% growth	9.0%	10.6%	7.6%	5.9%	4.5%
EPS (IDR)	**58**	**65**	**69**	**74**	**77**

Balance Sheet (IDR Bn)	2020	2021E	2022F	2023F	2024F
Cash & Equivalents	5,208	5,023	5,605	6,573	7,614
Trade Receivables	3,595	4,010	4,322	4,496	4,662
Inventories	3,600	4,356	4,583	4,779	5,013
Other Current Assets	673	592	623	649	678
Total Current Assets	**13,076**	**13,981**	**15,133**	**16,497**	**17,967**
Fixed Assets	8,310	8,973	9,611	10,206	10,772
Other Non Current Assets	1,179	919	1,004	1,046	1,063
Total Assets	**22,565**	**23,873**	**25,748**	**27,749**	**29,802**
Short Term Debt	369	222	227	250	263
Trade Payables	1,897	1,982	2,115	2,213	2,293
Other Current Liabilities	911	711	801	865	861
Total Current Liabilities	**3,177**	**2,915**	**3,143**	**3,328**	**3,417**
Long Term Debt	789	725	649	638	694
Other Non Current Liabilities	322	371	388	405	425
Total Liabilities	**4,288**	**4,011**	**4,180**	**4,371**	**4,536**
Share & APIC	435	435	435	435	435
Retained Earnings	16,876	18,418	20,078	21,840	23,678
Minority Interest	871	914	960	1,008	1,058
Others	95	95	95	95	95
Total Equity	**18,277**	**19,862**	**21,568**	**23,378**	**25,266**
Total Liabilities & Equity	**22,565**	**23,873**	**25,748**	**27,749**	**29,802**

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2020	2021E	2022F	2023F	2024F
Net Income	**2,733**	**3,024**	**3,254**	**3,446**	**3,601**
Dep. & Amortization	476	467	500	548	585
Chg. In NWC	714	(1,205)	(349)	(234)	(351)
CF from Operating	**3,923**	**2,286**	**3,405**	**3,760**	**3,835**
Capital Expenditure	(1,120)	(1,130)	(1,138)	(1,144)	(1,150)
Chg. in LT Assets	197	259	(84)	(42)	(17)
Chg. in LT Liabs	(11)	48	19	18	17
CF from Investing	**(934)**	**(823)**	**(1,203)**	**(1,168)**	**(1,150)**
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	341	(210)	(72)	12	69
Dividends Paid	(1,219)	(1,482)	(1,594)	(1,684)	(1,763)
Others	56	44	46	48	50
CF from Financing	**(822)**	**(1,648)**	**(1,620)**	**(1,624)**	**(1,644)**
Chg. in Cash	2,167	(185)	582	968	1,041
Beginning Cash	3,041	5,208	5,023	5,605	6,573
Ending Cash	**5,208**	**5,023**	**5,605**	**6,573**	**7,614**

Financial Ratio & Key Assumption	2020	2021E	2022F	2023F	2024F
Profitability					
Return on Equity	16.4%	16.6%	16.5%	16.0%	15.5%
Return on Assets	11.8%	12.2%	12.2%	12.0%	12.1%
Gross Margin	44.3%	43.2%	43.0%	42.8%	42.7%
Operating Margin	15.4%	14.8%	14.8%	14.7%	14.7%
EBITDA Margin	17.4%	16.6%	16.6%	16.6%	16.7%
Net Margin	11.8%	11.7%	11.8%	12.0%	12.0%
Liquidity					
Current Ratio (x)	4.1	4.8	4.8	5.0	5.3
Quick Ratio (x)	2.8	3.1	3.2	3.3	3.6
Solvency					
Debt to Equity (x)	0.1	0.0	0.0	0.0	0.0
Debt to Assets (x)	0.1	0.0	0.0	0.0	0.0
Interest Cov. (x)	39.7	66.7	77.4	78.7	75.5
Valuation					
Price to Earnings (x)	30.9	27.9	25.9	24.5	23.4
Price to Book (x)	4.6	4.2	3.9	3.6	3.3

Source: Company Data, Sinarmas Investment Research

PT Indofood Sukses Makmur Tbk.

Solid CBP and Agribusiness Outlook

BUY (TP: IDR 7,800)

24 December 2021

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CBP continues to be a solid contributor. We have seen resilient performance on the CBP segment, supported in part by Pinehill inclusion as well as implementation of mobility restrictions that encouraged domestic in-home consumption. Though Pinehill's detailed results were not disclosed, we believe its performance is likely to meet its 2-yr average guideline of USD 128.5 mn profit by the end of 2021. With 2022 closely approaching, we expect future growth will likely to stabilize as Pinehill performance has been fully consolidated in 2021. Aside from that, we expect a milder effect from rising commodity prices on its margin in FY22F, as company has raised price for its noodle and dairy products in 4Q21. We forecast its revenue to grow 23%/6% in FY21E/FY22F, translating into higher EBIT by 28%/6% in FY21E/FY22F.

Bogasari may continue to face margin pressure, but higher CPO price should offer buffers. Commodity prices have clearly risen as the global economy continues to rebound. The continued rise in global wheat price has driving up Bogasari's input costs. Bogasari has raised prices by around 5% in 1Q21 to pass on the higher RM costs. We expect this division would post 8.2%/6.1% top-line growth in FY21E/FY22F, assuming no pricing adjustments and driven solely by higher volume. On the other hand, we believe that agribusiness division should enjoy better financial figures from the higher CPO price. In Nov-21, CPO price hit an all-time-high, reaching an average of RM 5,300 (+54% YoY). Our CPO analyst predicts that CPO prices might remain high until 1Q22, before starting to normalize in 2Q22. The average global CPO price is estimated to be MYR 4,300/3,600 in FY21E/FY22F. Although the price projection seems declining, it is still higher when compared to pre-pandemic level of MYR 2,200 in FY19. We forecast top-line for agribusiness to grow by 30%/5% in FY21E/FY22F.

We reiterate our BUY recommendation on PT Indofood Sukses Makmur Tbk. (INDF) with FY22F target price of IDR 7,800, derived from SoTP valuation. This TP implies 9.1x FY22F P/E. All in all, we believe that INDF will generate 19%/6% top-line growth, translating into 7%/8.8% EPS growth in FY21E/FY22F. We are of the view that CBP segment would continue to be the company's backbone, while agribusiness will provide buffers to its margin. INDF is currently trades at an attractive value of 7.4x FY22F P/E (-2 SD below its 5-yr average). Downside risks to our call: weaker-than-expected domestic demand and higher-than-expected raw material prices.

Highlights (IDR Bn)	2020	2021E	2022F	2023F	2024F
Revenue	81,731	97,357	103,165	108,359	112,626
% growth	6.7%	19.1%	6.0%	5.0%	3.9%
Gross Profit	26,752	31,918	33,957	35,667	37,213
Net Profit	6,456	7,011	7,503	8,160	8,603
% growth	31.5%	8.6%	7.0%	8.8%	5.4%
Gross Margin (%)	32.7%	32.8%	32.9%	32.9%	33.0%
Net Margin (%)	7.9%	7.2%	7.3%	7.5%	7.6%
Return on Equity (%)	16.1%	15.7%	15.2%	15.1%	14.6%
Return on Assets (%)	3.7%	3.9%	4.1%	4.2%	4.4%
EPS (IDR)	735	798	855	929	980

Stock Information	
Sector	Consumer
Bloomberg Ticker	INDF IJ
Market Cap. (IDR tn)	56.0
Share Out./Float (mn)	8,780/4,383
Current Price	6,375
FY22F Target Price	7,800
Upside	22.4%

Share Price Performance	
52W High (01/19/21)	7,025
52W Low (06/21/21)	5,750
52W Beta	0.8
YTD Change	-6.9%

Relative Valuations	
Trailing P/E	7.9x
Forward P/E	7.4x
P/BV	1.2x

Income Statement (IDR Bn)	2020	2021E	2022F	2023F	2024F
Revenue	**81,731**	**97,357**	**103,165**	**108,359**	**112,626**
% growth	6.7%	19.1%	6.0%	5.0%	3.9%
Cost of Good Sold	(54,979)	(65,439)	(69,208)	(72,692)	(75,413)
Gross Profit	**26,752**	**31,918**	**33,957**	**35,667**	**37,213**
% growth	17.8%	19.3%	6.4%	5.0%	4.3%
Operating Expenses	(13,863)	(16,859)	(17,738)	(18,580)	(19,426)
Opex to Sales (%)	17.0%	17.3%	17.2%	17.1%	17.2%
EBIT	**12,889**	**15,059**	**16,219**	**17,087**	**17,787**
% growth	33.7%	16.8%	7.7%	5.4%	4.1%
EBITDA	**16,035**	**18,233**	**19,529**	**20,633**	**21,600**
% growth	30.5%	13.7%	7.1%	5.7%	4.7%
Net Financing Income (Expenses)	(463)	(2,218)	(2,477)	(2,515)	(2,425)
EBT	**12,426**	**12,841**	**13,742**	**14,572**	**15,362**
Tax Expenses	(3,674)	(2,825)	(3,023)	(2,915)	(3,072)
Minority Interest	(2,296)	(3,005)	(3,216)	(3,497)	(3,687)
Net Income	**6,456**	**7,011**	**7,503**	**8,160**	**8,603**
% growth	36.9%	8.6%	7.0%	8.8%	5.4%
EPS (IDR)	**735**	**798**	**855**	**929**	**980**

Balance Sheet (IDR Bn)	2020	2021E	2022F	2023F	2024F
Cash & Equivalents	17,336	32,359	26,151	30,731	34,986
Trade Receivables	7,452	8,158	8,505	8,956	9,339
Inventories	11,150	12,828	13,444	14,039	14,665
Other Current Assets	2,479	2,600	2,761	2,908	3,013
Total Current Assets	**38,417**	**55,945**	**50,861**	**56,634**	**62,003**
Fixed Assets	47,056	48,868	51,024	53,724	56,163
Other Non Current Assets	77,663	77,177	77,987	78,037	78,254
Total Assets	**163,136**	**181,990**	**179,872**	**188,395**	**196,420**
Short Term Debt	14,813	14,656	14,716	14,778	19,073
Trade Payables	6,155	7,269	7,700	8,076	8,403
Other Current Liabilities	7,007	14,440	5,936	6,428	6,402
Total Current Liabilities	**27,975**	**36,365**	**28,352**	**29,282**	**33,878**
Long Term Debt	38,565	49,725	48,505	48,810	44,275
Other Non Current Liabilities	17,457	10,353	10,872	11,383	11,983
Total Liabilities	**83,997**	**96,443**	**87,729**	**89,475**	**90,136**
Share & APIC	1,162	1,162	1,162	1,162	1,162
Retained Earnings	31,116	35,686	40,352	45,102	50,338
Minority Interest	36,764	38,602	40,532	42,559	44,687
Others	10,097	10,097	10,097	10,097	10,097
Total Equity	**79,139**	**85,547**	**92,143**	**98,920**	**106,284**
Total Liabilities & Equity	**163,136**	**181,990**	**179,872**	**188,395**	**196,420**

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2020	2021E	2022F	2023F	2024F
Net Income	**6,456**	**7,011**	**7,503**	**8,160**	**8,603**
Dep. & Amortization	3,146	3,174	3,310	3,546	3,813
Chg. In NWC	(926)	6,042	(9,196)	(325)	(814)
CF from Operating	**8,676**	**16,227**	**1,617**	**11,381**	**11,602**
Capital Expenditure	(7,130)	(4,987)	(5,466)	(6,246)	(6,251)
Chg. in LT Assets	(55,940)	486	(810)	(50)	(217)
Chg. in LT Liabs	8,960	(7,181)	436	424	509
CF from Investing	**(54,110)**	**(11,682)**	**(5,840)**	**(5,872)**	**(5,959)**
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	30,543	11,081	(1,078)	454	(149)
Dividends Paid	(2,441)	(2,441)	(2,837)	(3,410)	(3,367)
Others	20,921	1,838	1,930	2,027	2,128
CF from Financing	**49,023**	**10,478**	**(1,985)**	**(929)**	**(1,388)**
Chg. in Cash	3,589	15,023	(6,208)	4,580	4,255
Beginning Cash	13,747	17,336	32,359	26,151	30,731
Ending Cash	**17,336**	**32,359**	**26,151**	**30,731**	**34,986**

Financial Ratio & Key Assumption	2020	2021E	2022F	2023F	2024F
Profitability					
Return on Equity	16.1%	15.7%	15.2%	15.1%	14.6%
Return on Assets	3.7%	3.9%	4.1%	4.2%	4.4%
Gross Margin	32.7%	32.8%	32.9%	32.9%	33.0%
Operating Margin	15.8%	15.5%	15.7%	15.8%	15.8%
EBITDA Margin	19.6%	18.7%	18.9%	19.0%	19.2%
Net Margin	7.9%	7.2%	7.3%	7.5%	7.6%
Liquidity					
Current Ratio (x)	1.4	1.5	1.8	1.9	1.8
Quick Ratio (x)	0.9	1.1	1.2	1.4	1.3
Solvency					
Debt to Equity (x)	0.7	0.8	0.7	0.6	0.6
Debt to Assets (x)	0.3	0.4	0.4	0.3	0.3
Interest Cov. (x)	6.9	5.1	5.3	5.5	5.8
Valuation					
Price to Earnings (x)	10.9	10.0	9.4	8.6	8.2
Price to Book (x)	0.9	0.8	0.8	0.7	0.7

Source: Company Data, Sinarmas Investment Research

PT Industri Jamu dan Farmasi Sido Muncul Tbk.

Exciting Growth Across All Segments

ADD (TP: IDR 970)

24 December 2021

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Proxy to consumer-health industry. The prolonged Covid-19 pandemic has made consumers to be more attentive of their health and wellness. Following nearly two years of the pandemic, surging demand is still seen in healthcare and pharmaceutical sector beyond other FMCG sectors. Demand for herbal supplements and multivitamins remains high as consumers become more aware of the importance of preventive healthcare. Latest result from SIDO showed that Tolak Angin continued to perform well in 9M21, with revenue up 20% over the prior year. We believe that Tolak Angin would remain the major growth driver in FY22F, owing to higher contribution from the Eastern side and export sales recovery. SIDO has been continuously expanding its product availability and improving accessibility nationwide over the past years. Its outlet coverage has reached 131k (+18k YTD) as of Sep-21, with half of the new outlets located in East Indonesia. On the other hand, we believe that SIDO's healthy drink products, particularly the Vitamin C line, will continue to drive the overall performance of F&B segment. Note that as of 9M21, the contribution of healthy drinks to the entire F&B category has increased to 52-53%, surpassing the contribution of energy drinks. Overall, we expect SIDO would be able to achieve 20.4%/14.6% top-line growth in FY21E/ FY22F.

Strong margin from stable RM prices. Despite the rising global commodity prices (wheat, sugar, CPO, etc) that keep pressuring its peers' margin, SIDO's GPM came in strong at 56.3% in 9M21 (vs. 9M20: 53.9%). Management said its RM costs were relatively stable thanks to its diverse raw material needs and its warehouse facility where it may store its RM for up to six months. Aside from that, c.80% of its raw materials are sourced locally, reducing its exposure to exchange rate fluctuations. We believe that SIDO could maintain its strong margin going forward, supported by a better product mix that includes higher margin products.

We maintain our ADD call on Industri Jamu dan Farmasi Sido Muncul Tbk. (SIDO) with a higher TP of 970, derived from 21.2x FY22F P/E (+1SD from its 5-yr mean). Our overall forecast translates into 27.6%/15.1% EPS growth in FY21E/FY22F. We believe that SIDO deserves a premium valuation due to: (1) its stronger growth potential than its peers under our coverage, (2) its ability to retain its attractive margin, (3) its healthy balance sheet with zero leverage and rich cash position, and (4) a consistently high dividend payout ratio (80-100%). Downside risks to our call: weaker-than-expected purchasing power and aggressive competition.

Highlights (IDR Bn)	2020	2021E	2022F	2023F	2024F
Revenue	3,335	4,014	4,602	4,945	5,188
% growth	8.7%	20.4%	14.6%	7.5%	4.9%
Gross Profit	1,839	2,262	2,596	2,800	2,938
Net Profit	934	1,192	1,372	1,519	1,593
% growth	15.6%	27.6%	15.1%	10.7%	4.9%
Gross Margin (%)	55.1%	56.4%	56.4%	56.6%	56.6%
Net Margin (%)	28.0%	29.7%	29.8%	30.7%	30.7%
Return on Equity (%)	29.7%	35.9%	38.5%	39.7%	39.4%
Return on Assets (%)	23.8%	28.4%	30.1%	31.6%	32.4%
EPS (IDR)	31	40	46	51	53

Stock Information	
Sector	Consumer
Bloomberg Ticker	SIDO IJ
Market Cap. (IDR tn)	26.6
Share Out./Float (mn)	30,229/5,723
Current Price	880
FY22F Target Price	970
Upside	10.2%

Share Price Performance	
52W High (11/23/21)	935
52W Low (07/01/21)	699
52W Beta	0.6
YTD Change	10.2%

Relative Valuations	
Trailing P/E	22.0x
Forward P/E	19.1x
P/BV	8.6x

Income Statement (IDR Bn)	2020	2021E	2022F	2023F	2024F
Revenue	**3,335**	**4,014**	**4,602**	**4,945**	**5,188**
% growth	8.7%	20.4%	14.6%	7.5%	4.9%
Cost of Good Sold	(1,497)	(1,752)	(2,006)	(2,146)	(2,250)
Gross Profit	**1,838**	**2,262**	**2,596**	**2,799**	**2,938**
% growth	9.4%	23.1%	14.8%	7.8%	5.0%
Operating Expenses	(693)	(794)	(901)	(971)	(1,020)
Opex to Sales (%)	20.8%	19.8%	19.6%	19.6%	19.7%
Other Income (Expenses)	5	8	9	9	10
EBIT	**1,150**	**1,476**	**1,704**	**1,837**	**1,928**
% growth	12.3%	28.3%	15.4%	7.8%	5.0%
EBITDA	**1,230**	**1,560**	**1,800**	**1,938**	**2,037**
% growth	11.0%	26.8%	15.4%	7.7%	5.1%
Net Financing Income (Expenses)	49	53	55	60	64
EBT	**1,199**	**1,529**	**1,759**	**1,897**	**1,992**
Tax Expenses	(265)	(337)	(387)	(378)	(399)
Net Income	**934**	**1,192**	**1,372**	**1,519**	**1,593**
% growth	15.6%	27.6%	15.1%	10.7%	4.9%
EPS (IDR)	**31**	**40**	**46**	**51**	**53**

Balance Sheet (IDR Bn)	2020	2021E	2022F	2023F	2024F
Cash & Equivalents	1,032	1,017	1,123	1,213	1,250
Trade Receivables	668	650	760	835	858
Inventories	309	373	425	449	476
Other Current Assets	43	21	25	29	28
Total Current Assets	**2,052**	**2,061**	**2,333**	**2,526**	**2,612**
Fixed Assets	1,568	1,685	1,812	1,900	2,028
Other Non Current Assets	229	250	267	272	279
Total Assets	**3,849**	**3,996**	**4,412**	**4,698**	**4,919**
ST Lease Liabilities	3	3	3	3	3
Trade Payables	214	232	265	284	299
Other Current Liabilities	343	260	338	368	366
Total Current Liabilities	**560**	**495**	**606**	**655**	**668**
LT Lease Liabilities	4	4	4	4	4
Other Non Current Liabilities	64	79	87	92	101
Total Liabilities	**628**	**578**	**697**	**751**	**773**
Share & APIC	2,207	2,207	2,207	2,207	2,207
Retained Earnings	1,073	1,240	1,508	1,740	1,939
Others	(59)	(29)	-	-	-
Total Equity	**3,221**	**3,418**	**3,715**	**3,947**	**4,146**
Total Liabilities & Equity	**3,849**	**3,996**	**4,412**	**4,698**	**4,919**

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2020	2021E	2022F	2023F	2024F
Net Income	**934**	**1,192**	**1,372**	**1,519**	**1,593**
Dep. & Amortization	80	84	96	101	109
Chg. In NWC	(29)	(89)	(55)	(54)	(34)
CF from Operating	**985**	**1,187**	**1,413**	**1,566**	**1,668**
Capital Expenditure	(55)	(201)	(223)	(189)	(237)
Chg. in LT Assets	(2)	(20)	(18)	(5)	(7)
Chg. in LT Liabs	9	16	8	5	6
CF from Investing	**(48)**	**(205)**	**(233)**	**(189)**	**(238)**
Chg. in Share & APIC	1	-	-	-	-
Chg. in Lease Liabilities	7	-	-	-	-
Dividends Paid	(774)	(1,026)	(1,103)	(1,287)	(1,393)
Others	(4)	29	29	-	-
CF from Financing	**(770)**	**(997)**	**(1,074)**	**(1,287)**	**(1,393)**
Chg. in Cash	167	(15)	106	90	37
Beginning Cash	865	1,032	1,017	1,123	1,213
Ending Cash	**1,032**	**1,017**	**1,123**	**1,213**	**1,250**

Financial Ratio & Key Assumptions	2020	2021E	2022F	2023F	2024F
Profitability					
Return on Equity	29.7%	35.9%	38.5%	39.7%	39.4%
Return on Assets	23.8%	28.4%	30.1%	31.6%	32.4%
Gross Margin	55.1%	56.4%	56.4%	56.6%	56.6%
Operating Margin	34.5%	36.8%	37.0%	37.1%	37.2%
EBITDA Margin	36.9%	38.9%	39.1%	39.2%	39.3%
Net Margin	28.0%	29.7%	29.8%	30.7%	30.7%
Liquidity					
Current Ratio (x)	3.7	4.2	3.8	3.9	3.9
Quick Ratio (x)	3.0	3.4	3.1	3.1	3.2
Solvency					
Debt to Equity (x)	-	-	-	-	-
Debt to Assets (x)	-	-	-	-	-
Valuation					
Price to Earnings (x)	30.5	23.9	20.8	18.8	17.9
Price to Book (x)	8.8	8.3	7.7	7.2	6.9

Source: Company Data, Sinarmas Investment Research

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

BUY: Share price may rise by more than 15% over the next 12 months.
ADD: Share price may range between 10% to 15% over the next 12 months.
NEUTRAL: Share price may range between –10% to +10% over the next 12 months.
REDUCE: Share price may range between –10% to –15% over the next 12 months.
SELL: Share price may fall by more than 15% over the next 12 months.

DISCLAIMER