

Indofood Sukses Makmur (INDF) is planning to privatize Indofood Agri (IFAR) following the announcement of SGD 0.28/share offer (~21.5% premium from 1-month VWAP) for 25.5% stake of IFAR (INDF currently owns 74.5% of the agribusiness group). Using the offer price, INDF would have to spend around IDR 1tn for the buyout. The price of SGD 0.28/share also implies trailing EV/EBITDA of 9.7x, which is higher than AALI's at 8x as one of the biggest plantation player in Indonesia. Overall, we believe that the corporate action may give short-term pressure on Indofood Group, both INDF and ICBP, as it may raise concern on tightening liquidity, lower cash flow generation, as well as potential higher leverage. Note that INDF's FY18 cash position was recorded at IDR 8.8tn (-35.7% YoY) with total funded debt increased by 22.2% YoY to IDR 29.7tn. Meanwhile, INDF's Rupiah bonds VII of IDR 2tn will mature in mid-2019 and FY19 capex allocation is set at IDR 7.5tn. As a result, INDF's share has dropped by ~5% this morning following the negative sentiment. **We view that despite tightening liquidity and lower cash flow generation may be an issue, INDF's fundamental should remain intact and current valuation of 12.2x forward PE is undemanding. Hence, any further correction may become an attractive entry point for INDF.**

Wilbert

Deputy Head of Research

+62 21 392 5550 ext. 610

wilbert@sinarmassekuritas.co.id



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