

# PT Indofood CBP Sukses Makmur Tbk.

## Robust Margins on Benign Commodities Prices



ADD (TP: IDR 12,400)

12 August 2019

**We maintain our ADD call on PT Indofood CBP Sukses Makmur Tbk (ICBP) with raised 52-week target price of IDR 12,400 as we roll over our valuation.** Our TP represents a potential upside of 10%, derived via 28x target PE (5-yr average historical PE). ICBP might come out as one of the top performer in consumer staples by demonstrating solid revenue growth and margins expansion in 1H19. Moving forward to 2H19, we expect solid performance to persist as soft commodity prices remain supportive for the near term. Despite the demanding valuation, we continue to like ICBP acknowledging its robust profitability profile (~21% ROE) and resiliency amidst challenging environment. Key risks to our call include weaker than expected growth and sudden spike in raw soft commodity prices.

**Robust 1H19 results.** As of 1H19, ICBP registered revenue and net profit of IDR 22.1tn/2.6tn, or grew by 13.7%/12.4% YoY respectively. Revenue growth came from volume and ASP proportionately, which was impressive on our thought noting the sluggish FMCG industry volume according to Nielsen's finding. GPM bolstered to 33.9% (+160bps YoY), thanks to the benign input costs. Operating wise, moderate opex growth of 11.4% had resulted in 17.4% OPM (vs 16.8% in 1H18). At the bottom, net margin was slightly dropped by 20bps to 11.6%. The fact that ICBP was still able to perform well during the unsupportive industry conditions might have proven that management's strategies are effective to preserve ICBP's performance.

**Strong performances in noodles and dairy while beverages eyeing improvement.** Noodles posted YoY sales growth of 14.8%, whereas ~9% came from volume on rural area penetration and new products strategies, leading EBIT margin to 21.4% (vs 20.5% in 1H18). Dairy sales were up 7.4% YoY (~6% volume growth) with robust EBIT margin at 16% (vs 11.6% in 1H18), mainly benefited from low sugar price. Both divisions grew better than industry, hence we see ICBP continue grabbing market share. While beverages saw 3.2% YoY sales growth on tough competition, yet EBIT margin was improving to -10.3% (vs -16.8% in 1H18).

**Revising up our EPS on better GPM assumption.** Post 1H19 results, we tweak our margins higher to account for benign commodity prices. Our GPM forecast currently stands at 33.2%/32.5% FY19E/FY20F (vs initial 31.6%/31.4%), which then lead to 5.2%/4.5% higher EPS growth for FY19E/20F.

Highlights (IDR Bn)	2017	2018	2019E	2020F	2021F
Revenue	35,607	38,413	42,642	45,869	48,505
% growth	3.3%	7.9%	11.0%	7.6%	5.7%
Gross Profit	11,059	12,266	14,154	14,924	15,520
Net Profit	3,797	4,576	5,055	5,260	5,273
% growth	5.4%	20.5%	10.5%	4.1%	0.2%
Gross Margin (%)	31.1%	31.9%	33.2%	32.5%	32.0%
Net Margin (%)	10.7%	11.9%	11.9%	11.5%	10.9%
Return on Equity (%)	19.6%	21.3%	21.0%	19.6%	18.0%
Return on Assets (%)	12.5%	13.9%	14.0%	13.2%	12.2%
EPS (IDR)	326	392	433	451	452

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### Stock Information

Sector	Consumer Staples
Bloomberg Ticker	ICBP IJ
Market Cap. (IDR tn)	131.5
Share Out./Float (mn)	11,662/2,270
Current Price	11,275
52-week Target Price	12,400
Upside (%)	10.0%

### Share Price Performance

52W High (08/07/19)	11,900
52W Low (08/14/18)	8,150
52W Beta	0.6
YTD Change (%)	7.7%

### Relative Valuations

Trailing P/E	27.0x
Forward P/E	25.0x
P/BV	5.8x
EV/EBITDA	15.7x

## 2Q19 Earnings Summary

IDR Bn	2Q18	1Q19	2Q19	% QoQ	% YoY	1H18	1H19	% YoY
Revenue	9,579	11,256	10,874	<b>-3.4%</b>	<b>13.5%</b>	19,459	22,130	<b>13.7%</b>
Gross Profit	3,084	3,788	3,724	<b>-1.7%</b>	<b>20.7%</b>	6,289	7,512	<b>19.4%</b>
Operating Profit	1,555	1,955	1,894	<b>-3.1%</b>	<b>21.8%</b>	3,270	3,849	<b>17.7%</b>
Net Profit	1,078	1,337	1,237	<b>-7.5%</b>	<b>14.8%</b>	2,291	2,575	<b>12.4%</b>
Gross Margin	32.2%	33.7%	34.2%			32.3%	33.9%	
Operating Margin	16.2%	17.4%	17.4%			16.8%	17.4%	
Net Margin	11.3%	11.9%	11.4%			11.8%	11.6%	

Source: Company Data, Sinarmas Investment Research

<b>Income Statement (IDR Bn)</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020F</b>	<b>2021F</b>
<b>Revenue</b>	<b>35,607</b>	<b>38,413</b>	<b>42,642</b>	<b>45,869</b>	<b>48,505</b>
Cost of Good Sold	(24,548)	(26,148)	(28,488)	(30,946)	(32,985)
<b>Gross Profit</b>	<b>11,059</b>	<b>12,266</b>	<b>14,154</b>	<b>14,924</b>	<b>15,520</b>
Operating Expenses	(5,681)	(6,494)	(7,222)	(7,809)	(8,363)
Opex to Sales (%)	-16.0%	-16.9%	-16.9%	-17.0%	-17.2%
Other Income (Expenses)	(156)	676	171	236	222
<b>EBIT</b>	<b>5,222</b>	<b>6,448</b>	<b>7,102</b>	<b>7,350</b>	<b>7,379</b>
<b>EBITDA</b>	<b>5,845</b>	<b>7,182</b>	<b>8,132</b>	<b>8,566</b>	<b>8,782</b>
Non Op. Income (Expenses)	(15)	(1)	(37)	3	(8)
<b>EBT</b>	<b>5,207</b>	<b>6,447</b>	<b>7,066</b>	<b>7,353</b>	<b>7,371</b>
Tax Expenses	(1,663)	(1,788)	(1,960)	(2,039)	(2,044)
<b>Net Income</b>	<b>3,797</b>	<b>4,576</b>	<b>5,055</b>	<b>5,260</b>	<b>5,273</b>
<b>EPS (IDR)</b>	<b>326</b>	<b>392</b>	<b>433</b>	<b>451</b>	<b>452</b>

<b>Balance Sheet (IDR Bn)</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020F</b>	<b>2021F</b>
Cash & Equivalents	8,797	4,727	6,289	5,596	6,075
Trade Receivables	4,126	4,271	4,264	4,587	4,716
Inventories	3,262	4,001	4,072	4,580	4,798
Other Current Assets	395	1,122	1,012	994	1,020
<b>Total Current Assets</b>	<b>16,579</b>	<b>14,122</b>	<b>15,638</b>	<b>15,756</b>	<b>16,609</b>
Fixed Assets	8,120	10,742	12,988	15,049	16,922
Other Non Current Assets	6,920	9,504	9,419	10,740	11,035
<b>Total Assets</b>	<b>31,620</b>	<b>34,367</b>	<b>38,045</b>	<b>41,545</b>	<b>44,567</b>
Short Term Debt	1,400	1,393	1,171	1,198	1,220
Trade Payables	3,519	3,706	4,038	4,386	4,675
Other CL	1,908	2,136	2,528	2,720	2,803
<b>Total CL</b>	<b>6,828</b>	<b>7,235</b>	<b>7,737</b>	<b>8,304</b>	<b>8,698</b>
Long Term Debt	957	852	852	852	852
Other Non CL	3,511	3,573	3,948	4,345	4,532
<b>Total Liabilities</b>	<b>11,295</b>	<b>11,660</b>	<b>12,537</b>	<b>13,500</b>	<b>14,082</b>
Share & APIC	6,569	6,569	6,569	6,569	6,569
Retained Earnings	12,799	15,030	17,797	20,277	22,657
Others	957	1,109	1,143	1,200	1,260
<b>Total Equity</b>	<b>20,324</b>	<b>22,707</b>	<b>25,508</b>	<b>28,045</b>	<b>30,485</b>
<b>Total Liabilities &amp; Equity</b>	<b>31,620</b>	<b>34,367</b>	<b>38,045</b>	<b>41,545</b>	<b>44,567</b>

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2017	2018	2019E	2020F	2021F
<b>Net Income</b>	<b>3,797</b>	<b>4,576</b>	<b>5,055</b>	<b>5,260</b>	<b>5,273</b>
Dep. & Amortization	369	817	1,081	1,270	1,456
Chg. In NWC	(21)	(975)	796	(245)	21
<b>CF from Operating</b>	<b>4,145</b>	<b>4,418</b>	<b>6,931</b>	<b>6,284</b>	<b>6,750</b>
Capital Expenditure	(1,727)	(3,475)	(3,277)	(3,277)	(3,277)
Chg. in LT Assets	(704)	(2,584)	85	(1,321)	(295)
Others	27	(51)	3	4	7
<b>CF from Investing</b>	<b>(2,404)</b>	<b>(6,110)</b>	<b>(3,188)</b>	<b>(4,594)</b>	<b>(3,565)</b>
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	24	81	(248)	-	-
Dividends Paid	(1,796)	(1,889)	(2,288)	(2,780)	(2,893)
Others	455	(569)	355	396	188
<b>CF from Financing</b>	<b>(1,317)</b>	<b>(2,378)</b>	<b>(2,181)</b>	<b>(2,384)</b>	<b>(2,705)</b>
Chg. in Cash	425	(4,070)	1,563	(694)	479
Beginning Cash	8,372	8,797	4,727	6,289	5,596
<b>Ending Cash</b>	<b>8,797</b>	<b>4,727</b>	<b>6,289</b>	<b>5,596</b>	<b>6,075</b>

Financial Ratio & Key Assumptions	2017	2018	2019E	2020F	2021F
<b>Profitability</b>					
Return on Equity	19.6%	21.3%	21.0%	19.6%	18.0%
Return on Assets	12.5%	13.9%	14.0%	13.2%	12.2%
Gross Margin	31.1%	31.9%	33.2%	32.5%	32.0%
Operating Margin	14.7%	16.8%	16.7%	16.0%	15.2%
EBITDA Margin	16.4%	18.7%	19.1%	18.7%	18.1%
Net Margin	10.7%	11.9%	11.9%	11.5%	10.9%
<b>Liquidity</b>					
Current Ratio (x)	2.4	2.0	2.0	1.9	1.9
Quick Ratio (x)	1.9	1.2	1.4	1.2	1.2
<b>Solvency</b>					
Debt to Equity (x)	0.12	0.10	0.08	0.07	0.07
Debt to Assets (x)	0.07	0.07	0.05	0.05	0.05
Interest Cov. (x)	33.9	28.6	37.0	41.8	42.0
<b>Valuation</b>					
Price to Earnings (x)	38.1	31.6	28.6	27.5	27.4
Price to Book (x)	7.1	6.4	5.7	5.2	4.7

Source: Company Data, Sinarmas Investment Research

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