

2Q20 Results: In-line top-line, bottom-line beat estimates. In 2Q20, revenue increased by 3.3% YoY (+4.0% QoQ), made up 49% of our and consensus' forecasts. This was mainly attributed to solid CBP performance as it grew by 2.7% YoY, outperformed overall FMCG industry. Agribusiness also recorded robust sales (+12.0% YoY, +5.5% QoQ) on the back of higher CPO price. Bogasari, on the other hand, continued its 1Q20 underperformance given declining wheat price (-9% YTD). On margins side, GPM decreased to 30.9% (-170bps YoY, +220QoQ) and OPM moved lower to 10.9% (-690bps YoY, -50bps YoY). The declines were due to lower margins in all segments but CBP. NPM was relatively stable at 7.0% (-30bps YoY, +80bps QoQ) due to a reversal in 1Q20 fx loss. Overall, bottom-line was above estimates as it formed 52%/54% of forecasts given.

Welcoming Pinehill into company's portfolio. PCL acquisition has been approved by both INDF's and ICBP's shareholders, seeking creditors' approval next. Management expects that cost of fund to be at 2.7% for USD loan and 1.4% for JPY loan. While we have yet to price in PCL into our consolidated earnings for INDF valuation, we estimate that PCL would generate USD 113/134 million in core profit in FY20E/FY21F, or 3%/8% higher FY20E/FY21F EPS for ICBP.

Looking beyond 1H20. While we have moved from strict PSBB implementation to a less strict one, we have yet to see full recovery in economic activities. We are of the view that demand for basic needs including FMCG products would remain resilient as households tend to prioritize primary needs during challenging economic period. INDF, in our view, would end FY20 on a positive note given CBP's favorable products portfolio, leading brand position, as well as benefitted from lower wheat price. Agribusiness should also enjoy better financial figures as CPO price moves higher. Bogasari and distribution, on the other hand, would remain a drag on the back of low price environment and fewer volume from external distribution business.

We assume our coverage on INDF and reiterate our BUY recommendation with FY21 TP of 8,000, derived from SoTP valuation. Key catalysts to our call are lesser uncertainties on PCL acquisition, resilient business model, and attractive valuation. INDF is currently traded at 10.9x P/E (-1.7SD from its 5-yr avg), implying a 41% discount to ICBP (vs avg. of 37% discount). Downside risks to our call: weaker-than-expected domestic demand and shortfall in PCL earnings.

Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	73,395	76,593	79,018	81,179	83,512
% growth	4.6%	4.4%	3.2%	2.7%	2.9%
Gross Profit	20,212	22,716	23,134	23,727	24,457
Net Profit	4,166	4,908	5,484	5,682	5,889
% growth	0.2%	17.8%	11.7%	3.6%	3.6%
Gross Margin (%)	27.5%	29.7%	29.3%	29.2%	29.3%
Net Margin (%)	5.7%	6.4%	6.9%	7.0%	7.1%
Return on Equity (%)	8.6%	9.4%	9.7%	9.3%	9.3%
Return on Assets (%)	4.5%	5.1%	5.6%	5.6%	5.6%
EPS (IDR)	474	559	625	647	671

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Sector	Consumer
Bloomberg Ticker	INDF IJ
Market Cap. (IDR tn)	56.6
Share Out./Float (mn)	48,150/5,726
Current Price	6,750
FY21F Target Price	8,000
Upside	18.5%

Share Price Performance

52W High (01/15/20)	8,300
52W Low (03/24/20)	5,000
52W Beta	0.96
YTD Change	-18.6%

Relative Valuations

Trailing P/E	11.4x
Forward P/E	10.7x
P/BV	1.42x

INDF 2Q20 Earnings Summary

IDR Bn	2Q19	1Q20	2Q20	% QoQ	% YoY	6M19	6M20	% YoY	% DH	% Cons
Revenue	19,439	19,305	20,080	4.0%	3.3%	38,609	39,385	2.0%	49.8%	48.6%
Gross Profit	5,563	6,283	6,197	-1.4%	11.4%	11,361	12,479	9.8%		
Operating Profit	2,214	3,434	2,195	-36.1%	-0.8%	4,791	5,629	17.5%		
Net Profit	1,196	1,404	1,413	0.7%	18.2%	2,545	2,843	11.7%	51.8%	53.5%
Gross Margin	28.6%	32.5%	30.9%			29.4%	31.7%			
Operating Margin	11.4%	17.8%	10.9%			12.4%	14.3%			
Net Margin	6.2%	7.3%	7.0%			6.6%	7.2%			

Source: Company data, Sinarmas Investment Research

Earnings revision

(IDR Bn)	Old		New		Changes	
	FY20	FY21	FY20	FY21	FY20	FY21
Revenue	82,557	87,418	79,018	81,179	-4.3%	-7.1%
Gross Profit	23,976	25,299	23,134	23,727	-3.5%	-6.2%
Operating Profit	10,139	10,630	10,295	10,578	1.5%	-0.5%
Net Profit	5,104	5,489	5,484	5,682	7.4%	3.5%
EPS (IDR)	581	625	625	647	7.5%	3.5%
Gross Margin	29.0%	28.9%	29.3%	29.2%	0.2%	0.3%
Operating Margin	12.3%	12.2%	13.0%	13.0%	0.7%	0.9%
Net Margin	6.2%	6.3%	6.9%	7.0%	0.8%	0.7%

Source: Sinarmas Investment Research

Income Statement (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	73,395	76,593	79,018	81,179	83,512
Cost of Good Sold	(53,183)	(53,877)	(55,884)	(57,452)	(59,055)
Gross Profit	20,212	22,716	23,134	23,727	24,457
Operating Expenses	(12,284)	(13,187)	(13,136)	(13,417)	(13,861)
Opex to Sales (%)	-16.7%	-17.2%	-16.6%	-16.5%	-16.6%
Other Income (Expenses)	1,215	111	296	268	305
EBIT	9,143	9,641	10,295	10,578	10,901
EBITDA	11,865	12,438	13,428	13,879	14,369
Non Op. Income (Expenses)	(1,696)	(1,082)	(800)	(741)	(705)
EBT	7,447	8,559	9,494	9,837	10,196
Tax Expenses	(2,485)	(2,847)	(2,899)	(3,004)	(3,113)
Net Income	4,166	4,908	5,484	5,682	5,889
EPS (IDR)	474	559	625	647	671

Balance Sheet (IDR Bn)	2018	2019	2020E	2021F	2022F
Cash & Equivalents	8,809	13,745	9,781	12,969	14,444
Trade Receivables	6,573	5,964	7,259	7,458	7,672
Inventories	11,644	9,659	11,890	12,047	12,474
Other Current Assets	6,247	2,035	4,937	5,000	5,068
Total Current Assets	33,273	31,403	33,868	37,474	39,657
Fixed Assets	42,388	43,073	43,684	44,127	44,403
Other Non Current Assets	20,877	21,723	22,136	22,808	23,323
Total Assets	96,538	96,199	99,688	104,408	107,383
Short Term Debt	22,237	14,022	13,490	15,445	13,415
Trade Payables	5,501	5,988	5,780	5,942	6,108
Other Current Liabilities	3,466	4,677	4,067	4,178	4,298
Total Current Liabilities	31,204	24,687	23,337	25,566	23,822
Long Term Debt	7,490	8,955	8,995	6,595	6,221
Other Non Current Liabilities	7,927	8,354	8,535	8,768	9,020
Total Liabilities	46,621	41,996	40,867	40,929	39,063
Share & APIC	1,162	1,162	1,162	1,162	1,162
Retained Earnings	23,304	26,780	30,577	34,373	38,309
Others	25,451	26,261	27,082	27,944	28,850
Total Equity	49,917	54,202	58,820	63,479	68,321
Total Liabilities & Equity	96,538	96,199	99,688	104,408	107,383

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2018	2019	2020E	2021F	2022F
Net Income	4,166	4,908	5,484	5,682	5,889
Dep. & Amortization	3,544	3,640	4,283	4,491	4,701
Chg. In NWC	(1,847)	4,439	(4,655)	(144)	(423)
CF from Operating	5,864	12,988	5,112	10,029	10,166
Capital Expenditure	(5,889)	(3,812)	(3,783)	(3,783)	(3,783)
Chg. in LT Assets	(4,916)	(846)	(414)	(671)	(516)
Others	(49)	(391)	(290)	(289)	(288)
CF from Investing	(10,854)	(5,048)	(4,487)	(4,743)	(4,587)
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	5,409	(6,749)	(492)	(445)	(2,404)
Dividends Paid	(2,364)	(1,432)	(1,687)	(1,885)	(1,953)
Others	(2,935)	5,178	(2,411)	233	252
CF from Financing	110	(3,004)	(4,590)	(2,097)	(4,105)
Chg. in Cash	(4,880)	4,936	(3,964)	3,188	1,475
Beginning Cash	13,690	8,809	13,745	9,781	12,969
Ending Cash	8,810	13,745	9,781	12,969	14,444

Financial Ratio & Key Assumptions	2018	2019	2020E	2021F	2022F
Profitability					
Return on Equity	8.6%	9.4%	9.7%	9.3%	9.3%
Return on Assets	4.5%	5.1%	5.6%	5.6%	5.6%
Gross Margin	27.5%	29.7%	29.3%	29.2%	29.3%
Operating Margin	12.5%	12.6%	13.0%	13.0%	13.1%
EBITDA Margin	16.2%	16.2%	17.0%	17.1%	17.2%
Net Margin	5.7%	6.4%	6.9%	7.0%	7.1%
Liquidity					
Current Ratio (x)	1.1	1.3	1.5	1.5	1.7
Quick Ratio (x)	0.5	0.8	0.7	0.8	0.9
Solvency					
Debt to Equity (x)	0.60	0.42	0.38	0.35	0.29
Debt to Assets (x)	0.31	0.24	0.23	0.21	0.18
Interest Cov. (x)	4.5	5.6	8.5	8.9	10.1
Valuation					
Price to Earnings (x)	17.0	14.4	12.9	12.4	12.0
Price to Book (x)	1.4	1.3	1.2	1.1	1.0

Source: Company data, Sinarmas Investment Research

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

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