

We reiterate our BUY recommendation on PT Indofood Sukses Makmur Tbk (INDF) with 52-week target price of IDR 8,900. Our SOTP based TP represents 20.3% potential upside, implying 16x target PE. INDF reported satisfying 1H19 results as strong achievements of ICBP, Bogasari, and distribution offset the weakness in agribusiness. Moving forward, we maintain positive on INDF's performance with expectation on potential recovery in agribusiness as it might have bottomed in 1H19. Valuation wise, INDF remains undemanding, traded at 13.2x forward PE.

Satisfying 1H19 results. As of 1H19, INDF reported revenue and net income at IDR 38.6tn/2.5tn, jumped by 7.2%/30.1% YoY respectively. GPM widened to 29.4% (+120bps from 1H18) supported by margin expansions across the divisions, except agribusiness. OPM slightly dipped to 12.4% (vs 12.6% in 1H18) on 9.4% YoY opex growth and lower forex gain. At the bottom, NPM stood at 6.6% (vs 5.4% in 1H19) as lower finance costs were posted (-21.5% YoY), thanks to the strengthening USDIDR in the period. Overall results were solid as core profit, excluding the forex effect, still surged by 21.9% YoY.

All segments were robust except agribusiness. Out of its 4 segments, agribusiness was the only drag in INDF's performance this year, primarily on sluggish CPO price. Agribusiness' sales dropped by 1.5% YoY despite the 10-14% YoY volume growth from CPO and PK. It also noted IDR 41bn loss, translated to -0.6% NPM (vs 6.6% in 1H18). On the other hand, ICBP recorded robust growth and profitability (read: [ICBP IJ - Robust Margins on Benign Commodities Prices](#)). Bogasari was seeing flat volume, however significant ASP hike (~13-15% since May-18; 1-2% in early 2019) had resulted in 16.2% YoY sales growth and strong EBIT margin of 7.3% (vs 5.5% in 1H19). Distribution's sales dropped by 30.4% YoY due to NICI consolidation to ICBP, yet in return provided higher EBIT margin of 4.9% (vs 3.5% in 1H19).

Preferring INDF for higher potential upside. YTD, ICBP's share movement has outperformed INDF by 5%, resulting in a widening forward PE discount between INDF and ICBP to ~48% (higher than 5-yr average of ~40%), which we believe is on INDF's exposure to CPO. However on the estimation that agribusiness' performance might recover in 2H19, we expect the discount to narrow onwards. Furthermore, we also believe that INDF hold more potential upside than ICBP at current price.

Highlights (IDR Bn)	2017	2018	2019E	2020F	2021F
Revenue	70,187	73,395	79,025	83,868	88,136
% growth	5.3%	4.6%	7.7%	6.1%	5.1%
Gross Profit	19,770	20,212	22,756	23,598	24,752
Net Profit	4,156	4,166	4,852	4,919	5,253
% growth	0.3%	0.2%	16.5%	1.4%	6.8%
Gross Margin (%)	28.2%	27.5%	28.8%	28.1%	28.1%
Net Margin (%)	5.9%	5.7%	6.1%	5.9%	6.0%
Return on Equity (%)	9.1%	8.6%	9.4%	8.9%	9.0%
Return on Assets (%)	4.9%	4.5%	5.0%	4.9%	5.0%
EPS (IDR)	473	474	553	560	598

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Stock Information

Sector	Consumer Staples
Bloomberg Ticker	INDF IJ
Market Cap. (IDR tn)	65.0
Share Out./Float (mn)	8,780/4,383
Current Price	7,400
52-week Target Price	8,900
Upside (%)	20.3%

Share Price Performance

52W High (01/28/19)	7,900
52W Low (10/11/18)	5,500
52W Beta	1.3
YTD Change (%)	-0.7%

Relative Valuations

Trailing P/E	13.7x
Forward P/E	13.2x
P/BV	1.9x
EV/EBITDA	7.8x

2Q19 Earnings Summary

IDR Bn	2Q18	1Q19	2Q19	% QoQ	% YoY	1H18	1H19	% YoY
Revenue	18,368	19,170	19,439	1.4%	5.8%	36,000	38,609	7.2%
Gross Profit	4,908	5,797	5,563	-4.0%	13.3%	10,170	11,361	11.7%
Operating Profit	2,060	2,578	2,214	-14.1%	7.4%	4,542	4,791	5.5%
Net Profit	767	1,349	1,196	-11.4%	55.8%	1,956	2,545	30.1%
Gross Margin	26.7%	30.2%	28.6%			28.2%	29.4%	
Operating Margin	11.2%	13.4%	11.4%			12.6%	12.4%	
Net Margin	4.2%	7.0%	6.2%			5.4%	6.6%	

Source: Company Data, Sinarmas Investment Research

Income Statement (IDR Bn)	2017	2018	2019E	2020F	2021F
Revenue	70,187	73,395	79,025	83,868	88,136
Cost of Good Sold	(50,417)	(53,183)	(56,270)	(60,270)	(63,384)
Gross Profit	19,770	20,212	22,756	23,598	24,752
Operating Expenses	(11,307)	(12,284)	(13,758)	(14,335)	(15,094)
Opex to Sales (%)	-16.1%	-16.7%	-17.4%	-17.1%	-17.1%
Other Income (Expenses)	221	1,215	374	378	389
EBIT	8,684	9,143	9,372	9,642	10,047
EBITDA	14,213	11,865	12,421	12,929	13,572
Non Op. Income (Expenses)	(1,089)	(1,696)	(1,033)	(1,188)	(1,020)
EBT	7,595	7,447	8,339	8,453	9,027
Tax Expenses	(2,498)	(2,485)	(2,560)	(2,595)	(2,771)
Net Income	4,156	4,166	4,852	4,919	5,253
EPS (IDR)	473	474	553	560	598

Balance Sheet (IDR Bn)	2017	2018	2019E	2020F	2021F
Cash & Equivalents	13,690	8,809	7,427	6,072	6,335
Trade Receivables	6,853	6,573	6,988	7,705	8,097
Inventories	9,793	11,644	11,625	12,824	13,290
Other Current Assets	2,612	6,247	4,937	5,078	5,202
Total Current Assets	32,948	33,273	30,977	31,679	32,924
Fixed Assets	39,492	42,388	44,716	46,806	48,659
Other Non Current Assets	15,960	20,877	22,130	23,495	24,762
Total Assets	88,401	96,538	97,823	101,980	106,345
Short Term Debt	12,711	22,237	17,034	17,063	19,093
Trade Payables	5,466	5,501	5,820	6,234	6,556
Other Current Liabilities	3,461	3,466	4,074	4,317	4,536
Total Current Liabilities	21,638	31,204	26,929	27,613	30,186
Long Term Debt	11,607	7,490	8,861	8,464	6,108
Other Non Current Liabilities	8,053	7,927	8,535	9,059	9,520
Total Liabilities	41,298	46,621	44,325	45,136	45,813
Share & APIC	1,162	1,162	1,162	1,162	1,162
Retained Earnings	21,502	23,304	26,070	28,559	31,349
Others	24,439	25,451	26,266	27,122	28,021
Total Equity	47,103	49,917	53,498	56,843	60,532
Total Liabilities & Equity	88,401	96,538	97,823	101,980	106,345

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2017	2018	2019E	2020F	2021F
Net Income	4,156	4,166	4,852	4,919	5,253
Dep. & Amortization	6,519	3,544	3,976	4,227	4,528
Chg. In NWC	(3,137)	(1,847)	368	(1,400)	(441)
CF from Operating	7,538	5,864	9,197	7,745	9,340
Capital Expenditure	(19,644)	(5,889)	(5,377)	(5,377)	(5,377)
Chg. in LT Assets	11,527	(4,916)	(1,253)	(1,365)	(1,267)
Others	168	(49)	(112)	(84)	(105)
CF from Investing	(7,950)	(10,854)	(6,742)	(6,826)	(6,749)
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	1,898	5,409	(3,832)	(368)	(326)
Dividends Paid	(2,063)	(2,081)	(2,086)	(2,429)	(2,463)
Others	897	(3,218)	2,080	523	461
CF from Financing	731	110	(3,837)	(2,274)	(2,328)
Chg. in Cash	320	(4,880)	(1,382)	(1,355)	263
Beginning Cash	13,362	13,690	8,809	7,427	6,072
Ending Cash	13,682	8,810	7,427	6,072	6,335

Financial Ratio & Key Assumptions	2017	2018	2019E	2020F	2021F
Profitability					
Return on Equity	9.1%	8.6%	9.4%	8.9%	9.0%
Return on Assets	4.9%	4.5%	5.0%	4.9%	5.0%
Gross Margin	28.2%	27.5%	28.8%	28.1%	28.1%
Operating Margin	12.4%	12.5%	11.9%	11.5%	11.4%
EBITDA Margin	20.2%	16.2%	15.7%	15.4%	15.4%
Net Margin	5.9%	5.7%	6.1%	5.9%	6.0%
Liquidity					
Current Ratio (x)	1.5	1.1	1.2	1.1	1.1
Quick Ratio (x)	0.9	0.5	0.5	0.5	0.5
Solvency					
Debt to Equity (x)	0.52	0.60	0.48	0.45	0.42
Debt to Assets (x)	0.28	0.31	0.26	0.25	0.24
Interest Cov. (x)	5.8	4.5	5.3	6.0	6.7
Valuation					
Price to Earnings (x)	19.4	19.4	16.6	16.4	15.4
Price to Book (x)	1.7	1.6	1.5	1.4	1.3

Source: Company Data, Sinarmas Investment Research

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