

**9M18 results.** INDF's 9M18 top-line reached IDR 54.7tn, accounting for 74% of our projection, while net income achieved IDR 2.8tn or 67% of our estimates. Top-line was mainly supported by strong Bogasari and ICBP's performances which recorded 9.2% and 8.3% YoY growth respectively. Meanwhile, agribusiness was the only segment which posted a significant decline of 15.5% YoY in sales. INDF's net profit fell by 11.9% YoY as Rupiah depreciation had raised net losses on forex to IDR 727.4bn in 9M18(from IDR 57.5bn in 9M17).

**Strong growth performed by ICBP and Bogasari.** This year, INDF was mainly supported by ICBP and Bogasari while agribusiness has been a drag down to its performances. Amidst the recent weak FMCG industry, ICBP and Bogasari performed well in 9M18, recorded positive volume growth of ~3% and 3% respectively. ICBP specifically its noodles division, along with Bogasari have also demonstrated ASP increases which we believe was on their strong brand and dominance in the market. On the other hand, agribusiness posted unexciting earnings due to unfavorable CPO prices.

**Our view on INDF.** We expect ICBP and Bogasari's strong performances to continue in the upcoming quarters, supported by the continuous disbursement of Government's social programs (with more budget allocated for 2019) and spillover effect from presidential election campaign. This is as ICBP and Bogasari's products in our view, are most suitable with rising disposable income from the low-end consumers. Meanwhile, despite lack of short-term catalysts, CPO prices may have been bottoming at current level of MYR 1,785/ton therefore we expect less downside risks on agribusiness' earnings.

**Stable Rupiah could be the key for INDF.** Another reason for the underperformance of INDF's share (-18% YTD) could be Rupiah depreciation which raised finance costs. However, with Rupiah currently standing strong at IDR 14,500, appreciated from its peak at IDR 15,200, we expect INDF's net losses on forex to shrink in the upcoming quarters, hence providing positive sentiment for INDF. Given CPO prices have been bottoming and Rupiah stays stable, we expect no more bad news for INDF. Valuation wise, INDF remains undemanding, trading at 13.7x forward PE. **Maintain BUY with lower end-of-FY19 TP of IDR 8,650, representing potential upside of 38.0%.**

Highlights (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	66,659	70,187	73,279	77,934	82,285
% growth	4.1%	5.3%	4.4%	6.4%	5.6%
Gross Profit	19,338	19,869	19,818	20,669	21,745
Net Profit - MI	4,145	4,168	4,024	4,413	4,681
% growth	39.6%	0.6%	-3.5%	9.6%	6.1%
Gross Margin (%)	29.0%	28.3%	27.0%	26.5%	26.4%
Net Margin (%)	6.2%	5.9%	5.5%	5.7%	5.7%
Return on Equity (%)	9.4%	8.9%	8.1%	8.4%	8.4%
Return on Assets (%)	5.0%	4.7%	4.5%	4.8%	4.9%
EPS	472	475	458	503	533

**Wilbert**

Deputy Head of Research

+62 21 392 5550 ext. 611

[wilbert@sinarmassekuritas.co.id](mailto:wilbert@sinarmassekuritas.co.id)**Stock Information**

Sector	Consumer Staples
Bloomberg Ticker	INDF IJ
Market Cap. (IDR tn)	55.10
Share Out./Float (mn)	8,780.4/4,382.9
Current Price	6,725
FY19F Target Price	8,650
Upside (%)	38.0%

**Share Price Performance**

52W High (01/23/18)	8,125
52W Low (10/11/18)	5,500
52W Beta	1.3
YTD Change (%)	-17.7%

**Relative Valuations**

Trailing P/E	14.8x
Forward P/E	13.2X
P/BV	1.7X
EV/EBITDA	8.1x

<b>Income Statement (IDR Bn)</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019F</b>	<b>2020F</b>
<b>Revenue</b>	<b>66,659</b>	<b>70,187</b>	<b>73,279</b>	<b>77,934</b>	<b>82,285</b>
% growth	4.1%	5.3%	4.4%	6.4%	5.6%
COGS	(47,322)	(50,318)	(53,460)	(57,264)	(60,540)
% growth	1.1%	6.3%	6.2%	7.1%	5.7%
<b>Gross Profit</b>	<b>19,338</b>	<b>19,869</b>	<b>19,818</b>	<b>20,669</b>	<b>21,745</b>
% growth	12.0%	2.7%	-0.3%	4.3%	5.2%
Operating Expenses	(11,066)	(11,307)	(11,200)	(11,572)	(12,173)
Opex to Sales (%)	-16.6%	-16.1%	-15.3%	-14.8%	-14.8%
Other Inc (Exp)	14	186	283	420	363
<b>EBIT</b>	<b>8,285</b>	<b>8,748</b>	<b>8,902</b>	<b>9,517</b>	<b>9,935</b>
% growth	12.5%	5.6%	1.8%	6.9%	4.4%
<b>EBITDA</b>	<b>10,209</b>	<b>10,776</b>	<b>11,304</b>	<b>12,160</b>	<b>12,818</b>
% growth	11.7%	5.6%	4.9%	7.6%	5.4%
Non Op. Inc (Exp)	(900)	(1,089)	(1,405)	(1,210)	(1,138)
<b>EBT</b>	<b>7,385</b>	<b>7,659</b>	<b>7,496</b>	<b>8,307</b>	<b>8,797</b>
% growth	48.8%	3.7%	-2.1%	10.8%	5.9%
Tax Expenses	(2,533)	(2,513)	(2,460)	(2,726)	(2,887)
<b>Net Income - MI</b>	<b>4,145</b>	<b>4,168</b>	<b>4,024</b>	<b>4,413</b>	<b>4,681</b>
% growth	39.6%	0.6%	-3.5%	9.6%	6.1%
<b>EPS</b>	<b>472</b>	<b>475</b>	<b>458</b>	<b>503</b>	<b>533</b>

<b>Balance Sheet (IDR Bn)</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019F</b>	<b>2020F</b>
Cash & Equivalents	13,896	14,490	13,616	10,447	10,216
Trade Receivables	5,205	6,853	6,243	6,778	7,400
Inventories	8,470	9,691	9,932	10,834	11,351
Other Current Assets	1,415	1,481	1,547	1,645	1,737
<b>Total CA</b>	<b>28,985</b>	<b>32,515</b>	<b>31,338</b>	<b>29,703</b>	<b>30,704</b>
Fixed Assets	25,702	29,787	32,384	34,741	36,858
Other Non CA	27,487	25,637	26,517	27,932	28,933
<b>Total Assets</b>	<b>82,175</b>	<b>87,939</b>	<b>90,239</b>	<b>92,377</b>	<b>96,495</b>
Short Term Debt	10,524	12,711	12,056	10,093	10,134
Trade Payables	4,760	5,466	5,808	6,221	6,577
Other CL	3,935	3,461	3,771	4,084	4,319
<b>Total CL</b>	<b>19,219</b>	<b>21,638</b>	<b>21,634</b>	<b>20,398</b>	<b>21,030</b>
Long Term Debt	11,888	11,607	10,833	10,453	10,105
Other Non CL	7,126	7,938	8,288	8,814	9,306
<b>Total Liabilities</b>	<b>38,233</b>	<b>41,183</b>	<b>40,755</b>	<b>39,666</b>	<b>40,441</b>
Share & APIC	1,162	1,162	1,162	1,162	1,162
Retained Earnings	19,506	21,378	23,327	25,736	28,220
Others	23,274	24,217	24,995	25,813	26,672
<b>Total Equity</b>	<b>43,941</b>	<b>46,757</b>	<b>49,485</b>	<b>52,711</b>	<b>56,054</b>
<b>Total Liabilities &amp; Equity</b>	<b>82,175</b>	<b>87,939</b>	<b>90,239</b>	<b>92,377</b>	<b>96,495</b>

Cash Flow (IDR Bn)	2016	2017	2018E	2019F	2020F
<b>Net Income</b>	<b>4,145</b>	<b>4,168</b>	<b>4,024</b>	<b>4,413</b>	<b>4,681</b>
Dep. & Amortization	3,058	3,054	3,415	3,811	4,113
Chg. In NWC	(510)	(2,705)	955	(808)	(640)
<b>CF from Operating</b>	<b>6,693</b>	<b>4,518</b>	<b>8,394</b>	<b>7,415</b>	<b>8,153</b>
Capital Expenditure	(2,720)	(6,379)	(5,000)	(5,000)	(5,000)
Chg. in LT Assets	(3,569)	1,850	(880)	(1,415)	(1,001)
Others	6,534	(150)	(233)	(350)	(371)
<b>CF from Investing</b>	<b>245</b>	<b>(4,678)</b>	<b>(6,113)</b>	<b>(6,765)</b>	<b>(6,372)</b>
Chg. in Share & APIC	(239)	-	-	-	-
Chg. in Debt	(5,184)	1,907	(1,429)	(2,341)	(307)
Dividends Paid	(1,475)	(2,063)	(2,075)	(2,003)	(2,197)
Others	248	646	350	526	492
<b>CF from Financing</b>	<b>(6,650)</b>	<b>489</b>	<b>(3,154)</b>	<b>(3,818)</b>	<b>(2,011)</b>
Chg. in Cash	288	328	(874)	(3,168)	(230)
Beginning Cash	13,076	13,362	13,690	12,816	9,647
<b>Ending Cash</b>	<b>13,364</b>	<b>13,691</b>	<b>12,816</b>	<b>9,647</b>	<b>9,417</b>

Financial Ratios	2016	2017	2018E	2019F	2020F
<b>Profitability</b>					
Return on Equity	9.4%	8.9%	8.1%	8.4%	8.4%
Return on Assets	5.0%	4.7%	4.5%	4.8%	4.9%
Gross Margin	29.0%	28.3%	27.0%	26.5%	26.4%
Operating Margin	12.4%	12.5%	12.1%	12.2%	12.1%
EBITDA Margin	15.3%	15.4%	15.4%	15.6%	15.6%
Net Margin	6.2%	5.9%	5.5%	5.7%	5.7%
<b>Liquidity</b>					
Current Ratio (x)	1.5	1.5	1.4	1.5	1.5
Quick Ratio (x)	1.0	1.0	0.9	0.8	0.8
<b>Solvency</b>					
Debt to Equity (x)	0.51	0.52	0.46	0.39	0.36
Debt to Assets (x)	0.27	0.28	0.25	0.22	0.21
Interest Cov. (x)	5.3	5.9	4.7	5.9	0.0
<b>Valuation</b>					
Price to Earnings (x)	18.3	18.2	18.9	17.2	16.2
Price to Book (x)	1.7	1.6	1.5	1.4	1.4

## 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

This report has been prepared by PT Sinarmas Sekuritas, an affiliate of Sinarmas Group.

This material is: (i) created based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such; (ii) for your private information, and we are not soliciting any action based upon it; (iii) not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions expressed are current opinions as of original publication date appearing on this material and the information, including the opinions contained herein, is subjected to change without notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst (s) responsible for the preparation of this publication may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, integrating and interpreting market information. Research will initiate, update and cease coverage solely at the discretion of Sinarmas Research department. If and as applicable, Sinarmas Sekuritas' investment banking relationships, investment banking and non-investment banking compensation and securities ownership, if any, are specified in disclaimers and related disclosures in this report. In addition, other members of Sinarmas Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from companies under our research coverage. Further, the Sinarmas Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by Sinarmas Group), or derivatives (including options) thereof, of companies under our coverage, or related securities or derivatives. In addition, the Sinarmas Group, including Sinarmas Sekuritas, may act as market maker and principal, willing to buy and sell certain of the securities of companies under our coverage. Further, the Sinarmas Group may buy and sell certain of the securities of companies under our coverage, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Recipients should not regard this report as substitute for exercise of their own judgment. Past performance is not necessarily a guide to future performance. The value of any investments may go down as well as up and you may not get back the full amount invested.

Sinarmas Sekuritas specifically prohibits the redistribution of this material in whole or in part without the written permission of Sinarmas Sekuritas and Sinarmas Sekuritas accepts no liability whatsoever for the actions of third parties in this respect. If publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

### Additional information is available upon request.

Images may depict objects or elements which are protected by third party copyright, trademarks and other intellectual properties.

©Sinarmas Sekuritas(2018). All rights reserved.