

2Q20 results review: top-line was slightly down, bottom-line saw reversal from fx loss. Unicharm Indonesia (UCID) recorded IDR 2.1 tn in revenue (-5.3% YoY, +1.4% QoQ), forming 48% of our estimate. Non-diaper segment increased significantly (+29.7% YoY) due to higher demand for hygiene products (e.g. baby wipes, surgical mask). The weaker sales was in-line with FMCG industry's volume decline given the strict PSBB implementation during the quarter. Higher sales promotion to push sales through MT channel resulted in 5.9% decline in baby care's net revenue. Margins were seen expanding across the levels on the back of 1) lower raw materials prices (i.e. crude oil linked SAP polymer and pulp), 2) operating efficiency, and 3) fx loss reversal. As a result, bottom-line was posted at IDR 321 bn (+491.7% YoY, vs loss IDR 131 bn in 1Q20). 1H20 NPATMI came in at IDR 190bn (45% of our forecast).

Growth outlook remains intact. We are of the view that overall outlook remains promising as company has seen current sales normalizing to its 1Q20 level. While sales promotion was higher than initial target of 16.5%, we see this year is likely to be a one-off as company has to pursue more sales from MT and e-commerce given the social distancing measures which severely hampered GT sales. We expect sales promotion to tone down once Covid-19 condition improves and sales in GT has normalized. On the competition side, we see a healthier environment as evidenced by ASP hike of industry's second biggest player. UCID, on the other hand, maintains ASP YTD. As a result, baby care's market share increased from 45% in FY19 to 47% in 1H20 and feminine care's rose to 46% (vs 44% in FY19).

Premiumization in lieu of down-trading. Even amidst current challenging economic condition, company maintains its premiumization strategy by focusing on its higher margin products (e.g. Mamy Poko pants X-tra Dry, Charm Night, and Lifree adult diaper). Measures include a more aggressive above-the-line promotions, encouraging night-time feminine napkins usage, and increasing adult diaper penetration. Feminine care segment saw 10.3% YoY hike in net sales which is mainly due to more sales of premium products within its product mix.

We maintain our BUY recommendation with FY21F target price of IDR 1,800, implying 15.8x FY21F P/E. Forward-looking outlook is positive, in our view, on the back of 1) lucrative industry growth, 2) strong brand equity, 3) and continuous margin improvement. Key risks to our call are further IDR depreciation, lower-than-expected purchasing power, and heightening competition.

| Highlights (IDR Bn)  | 2018  | 2019   | 2020E | 2021F | 2022F |
|----------------------|-------|--------|-------|-------|-------|
| Net Revenue          | 8,351 | 8,520  | 8,604 | 8,941 | 9,320 |
| % growth             | 14.7% | 2.0%   | 1.0%  | 3.9%  | 4.2%  |
| Gross Profit         | 2,110 | 2,148  | 2,174 | 2,257 | 2,358 |
| Net Profit           | 181   | 399    | 423   | 473   | 534   |
| % growth             | 64.5% | 120.1% | 6.2%  | 11.8% | 12.8% |
| Gross Margin (%)     | 25.3% | 25.2%  | 25.3% | 25.2% | 25.3% |
| Net Margin (%)       | 2.2%  | 4.7%   | 4.9%  | 5.3%  | 5.7%  |
| Return on Equity (%) | 6.7%  | 11.2%  | 9.4%  | 9.7%  | 10.1% |
| Return on Assets (%) | 2.5%  | 5.1%   | 5.1%  | 5.6%  | 6.3%  |
| EPS                  | 44    | 96     | 102   | 114   | 128   |

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**Stock Information**

|                       |           |
|-----------------------|-----------|
| Sector                | Consumer  |
| Bloomberg Ticker      | UCID IJ   |
| Market Cap. (IDR tn)  | 6,214     |
| Share Out./Float (mn) | 4,157/831 |
| Current Price         | 1,495     |
| FY21F Target Price    | 1,800     |
| Upside                | 20.4%     |

**Share Price Performance**

|                     |        |
|---------------------|--------|
| 52W High (12/26/19) | 2,030  |
| 52W Low (03/24/20)  | 900    |
| 52W Beta            | 0.9    |
| YTD Change          | -20.1% |

**Relative Valuations**

|              |       |
|--------------|-------|
| Trailing P/E | 15.6x |
| Forward P/E  | 14.8x |
| P/BV         | 1.4x  |

## UCID 2Q20 Earnings Summary

| IDR bn           | 2Q19  | 1Q20  | 2Q20  | % QoQ | % YoY  | 1H19  | 1H20  | % YoY | % DH |
|------------------|-------|-------|-------|-------|--------|-------|-------|-------|------|
| Net Revenues     | 2,192 | 2,047 | 2,076 | 1.4%  | -5.3%  | 4,209 | 4,124 | -2.0% | 48%  |
| Gross Profit     | 539   | 511   | 523   | 2.4%  | -3.1%  | 1,040 | 1,033 | -0.6% |      |
| Operating Profit | 137   | 144   | 187   | 29.7% | 36.9%  | 235   | 331   | 41.2% |      |
| EBITDA           | 230   | 232   | 274   | 18.6% | 19.3%  | 410   | 506   | 23.5% |      |
| Net Income       | 54    | (131) | 321   |       | 491.7% | 154   | 190   | 23.4% | 45%  |
| Gross Margin     | 24.6% | 24.9% | 25.2% |       |        | 24.7% | 25.1% |       |      |
| Operating Margin | 6.2%  | 7.0%  | 9.0%  |       |        | 5.6%  | 8.0%  |       |      |
| EBITDA Margin    | 10.5% | 11.3% | 13.2% |       |        | 9.7%  | 12.3% |       |      |
| Net Margin       | 2.5%  | -6.4% | 15.5% |       |        | 3.7%  | 4.6%  |       |      |

Source: Company data, Sinarmas Investment Research

## Segment Reporting

| Segment                     | 2016  | 2017  | 2018  | 2019  | 1H19  | 1H20  |
|-----------------------------|-------|-------|-------|-------|-------|-------|
| Baby Care                   | 5,536 | 5,830 | 6,507 | 6,383 | 3,215 | 3,025 |
| YoY Growth                  |       | 5.3%  | 11.6% | -1.9% | 3.6%  | -5.9% |
| Contribution to Net Revenue | 81.3% | 80.1% | 77.9% | 74.9% | 76.4% | 73.4% |
| Feminine Care               | 790   | 869   | 1,099 | 1,279 | 582   | 642   |
| YoY Growth                  |       | 9.9%  | 26.5% | 16.4% | 21.8% | 10.3% |
| Contribution to Net Revenue | 11.6% | 11.9% | 13.2% | 15.0% | 13.8% | 15.6% |
| Healthcare                  | 247   | 306   | 436   | 535   | 268   | 265   |
| YoY Growth                  |       | 23.7% | 42.5% | 22.7% | 28.0% | -1.0% |
| Contribution to Net Revenue | 3.6%  | 4.2%  | 5.2%  | 6.3%  | 6.4%  | 6.4%  |
| Baby Wipes                  | 239   | 273   | 308   | 322   | 145   | 191   |
| YoY Growth                  |       | 14.3% | 12.9% | 4.5%  | -0.7% | 31.5% |
| Contribution to Net Revenue | 3.5%  | 3.8%  | 3.7%  | 3.8%  | 3.4%  | 4.6%  |

Source: Company data, Sinarmas Investment Research

## Earnings Revision

| (IDR Bn)         | Old   |        | New   |       | Changes |        |
|------------------|-------|--------|-------|-------|---------|--------|
|                  | FY20  | FY21   | FY20  | FY21  | FY20    | FY21   |
| Revenue          | 9,454 | 10,172 | 8,604 | 8,941 | -9.0%   | -12.1% |
| Gross Profit     | 2,459 | 2,673  | 2,174 | 2,257 | -11.6%  | -15.6% |
| Operating Profit | 698   | 763    | 687   | 701   | -1.6%   | -8.1%  |
| Net Profit       | 443   | 557    | 423   | 473   | -4.4%   | -15.0% |
| EPS (IDR)        | 107   | 134    | 102   | 114   | -4.8%   | -15.0% |
| Gross Margin     | 26.0% | 26.3%  | 25.3% | 25.2% | -0.7%   | -1.0%  |
| Operating Margin | 7.4%  | 7.5%   | 8.0%  | 7.8%  | 0.6%    | 0.3%   |
| Net Margin       | 4.7%  | 5.5%   | 4.9%  | 5.3%  | 0.2%    | -0.2%  |

Source: Sinarmas Investment Research

| <b>Income Statement (IDR Bn)</b> | <b>2018</b>    | <b>2019</b>    | <b>2020E</b>   | <b>2021F</b>   | <b>2022F</b>   |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Net Revenue</b>               | <b>8,351</b>   | <b>8,520</b>   | <b>8,604</b>   | <b>8,941</b>   | <b>9,320</b>   |
| % growth                         | 14.7%          | 2.0%           | 1.0%           | 3.9%           | 4.2%           |
| COGS                             | (6,241)        | (6,372)        | (6,430)        | (6,684)        | (6,962)        |
| <b>Gross Profit</b>              | <b>2,110</b>   | <b>2,148</b>   | <b>2,174</b>   | <b>2,257</b>   | <b>2,358</b>   |
| % growth                         | 11.4%          | 1.8%           | 1.3%           | 3.8%           | 4.5%           |
| <b>Operating Expenses</b>        | <b>(1,607)</b> | <b>(1,559)</b> | <b>(1,487)</b> | <b>(1,556)</b> | <b>(1,616)</b> |
| Opex to Sales                    | 19.2%          | 18.3%          | 17.3%          | 17.4%          | 17.3%          |
| <b>Operating Profit</b>          | <b>503</b>     | <b>588</b>     | <b>687</b>     | <b>701</b>     | <b>742</b>     |
| % growth                         | 64.6%          | 16.9%          | 16.8%          | 2.0%           | 5.8%           |
| <b>EBITDA</b>                    | <b>819</b>     | <b>939</b>     | <b>1,027</b>   | <b>1,052</b>   | <b>1,097</b>   |
| % growth                         | 20.4%          | 14.6%          | 9.4%           | 2.4%           | 4.3%           |
| Net Financing                    | (24)           | (14)           | 3              | 21             | 34             |
| Other Income (Expenses)          | (189)          | (25)           | (125)          | (91)           | (64)           |
| <b>Profit Before Tax</b>         | <b>290</b>     | <b>549</b>     | <b>565</b>     | <b>631</b>     | <b>712</b>     |
| Tax Expense                      | (109)          | (151)          | (141)          | (158)          | (178)          |
| Tax Rate                         | 37.5%          | 27.4%          | 25.0%          | 25.0%          | 25.0%          |
| <b>Net Income</b>                | <b>181</b>     | <b>399</b>     | <b>423</b>     | <b>473</b>     | <b>534</b>     |
| % growth                         | 64.5%          | 120.1%         | 6.2%           | 11.8%          | 12.8%          |

| <b>Balance Sheet (IDR Bn)</b>         | <b>2018</b>  | <b>2019</b>  | <b>2020E</b> | <b>2021F</b> | <b>2022F</b> |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash                                  | 1,140        | 1,987        | 2,339        | 2,512        | 2,758        |
| Trade Receivables                     | 1,790        | 2,368        | 2,089        | 2,141        | 2,228        |
| Inventories                           | 724          | 639          | 685          | 702          | 730          |
| Total Current Assets                  | 4,145        | 5,562        | 5,590        | 5,840        | 6,220        |
| Fixed Assets                          | 2,941        | 2,637        | 2,648        | 2,481        | 2,199        |
| Other Non Current Assets              | 94           | 117          | 106          | 108          | 113          |
| <b>Total Assets</b>                   | <b>7,180</b> | <b>8,316</b> | <b>8,344</b> | <b>8,430</b> | <b>8,532</b> |
| Trade Payables                        | 932          | 839          | 890          | 912          | 949          |
| Loans                                 | 295          | 178          | 171          | 165          | 158          |
| Total Current Liabilities             | 2,394        | 2,315        | 2,298        | 2,344        | 2,426        |
| Intercompany Loan                     | 1,884        | 1,520        | 1,239        | 886          | 463          |
| Other Non Current Liabilities         | 104          | 139          | 122          | 125          | 130          |
| <b>Total Liabilities</b>              | <b>4,382</b> | <b>3,974</b> | <b>3,659</b> | <b>3,356</b> | <b>3,019</b> |
| Share & APIC                          | 324          | 1,478        | 1,478        | 1,478        | 1,478        |
| Retained Earnings                     | 2,462        | 2,852        | 3,195        | 3,584        | 4,023        |
| Non Controlling Interest              | 0.2          | 0.3          | 0.3          | 0.3          | 0.3          |
| Other Components of Equity            | 11.5         | 11.5         | 11.5         | 11.5         | 11.5         |
| <b>Total Equity</b>                   | <b>2,798</b> | <b>4,342</b> | <b>4,685</b> | <b>5,074</b> | <b>5,513</b> |
| <b>Total Liabilities &amp; Equity</b> | <b>7,180</b> | <b>8,316</b> | <b>8,344</b> | <b>8,430</b> | <b>8,532</b> |

Source: Company data, Sinarmas Investment Research

| Cash Flow (IDR Bn)    | 2018  | 2019  | 2020E | 2021F | 2022F |
|-----------------------|-------|-------|-------|-------|-------|
| Net Income            | 181   | 399   | 423   | 473   | 534   |
| Depreciation          | 316   | 350   | 340   | 351   | 355   |
| Chg. in NWC           | 128   | 532   | (314) | 26    | 44    |
| CF from Operating     | 370   | 217   | 1,077 | 798   | 845   |
| Capital Expenditure   | 22    | 47    | 351   | 184   | 74    |
| Chg. in LT Assets     | 1     | 23    | (11)  | 3     | 4     |
| Chg in LT Liabilities | (6)   | 35    | (17)  | 3     | 5     |
| CF from Investing     | (29)  | (35)  | (356) | (183) | (73)  |
| Chg. in Share & APIC  | -     | 1,154 | -     | -     | -     |
| Chg. in Debt          | (329) | (481) | (288) | (358) | (431) |
| Dividends Paid        | (18)  | -     | 80    | 85    | 95    |
| Others                | (0)   | -     | -     | -     | -     |
| CF from Financing     | (311) | 664   | (368) | (443) | (525) |
| Change in Cash        | 29    | 847   | 353   | 172   | 247   |
| Beginning Cash        | 1,111 | 1,140 | 1,987 | 2,339 | 2,512 |
| Ending Cash           | 1,140 | 1,987 | 2,339 | 2,512 | 2,758 |

| Financial Ratio             | 2018  | 2019  | 2020E | 2021F | 2022F |
|-----------------------------|-------|-------|-------|-------|-------|
| <b>Profitability</b>        |       |       |       |       |       |
| ROE                         | 6.7%  | 11.2% | 9.4%  | 9.7%  | 10.1% |
| ROA                         | 2.5%  | 5.1%  | 5.1%  | 5.6%  | 6.3%  |
| Gross Margin                | 25.3% | 25.2% | 25.3% | 25.2% | 25.3% |
| Operating Margin            | 6.0%  | 6.9%  | 8.0%  | 7.8%  | 8.0%  |
| EBITDA Margin               | 9.8%  | 11.0% | 11.9% | 11.8% | 11.8% |
| Net Margin                  | 2.2%  | 4.7%  | 4.9%  | 5.3%  | 5.7%  |
| <b>Liquidity</b>            |       |       |       |       |       |
| Current Ratio (x)           | 1.7   | 2.4   | 2.4   | 2.5   | 2.6   |
| Quick Ratio (x)             | 1.2   | 1.9   | 1.9   | 2.0   | 2.1   |
| <b>Solvency</b>             |       |       |       |       |       |
| Debt to Equity Ratio (x)    | 0.8   | 0.4   | 0.3   | 0.2   | 0.1   |
| Debt to Asset Ratio (x)     | 0.3   | 0.2   | 0.2   | 0.1   | 0.1   |
| Interest Coverage Ratio (x) | 15.9  | 21.3  | 35.9  | 47.6  | 75.0  |
| Net Debt to EBITDA (x)      | 1.3   | -0.3  | -0.9  | -1.4  | -1.9  |

Source: Company data, Sinarmas Investment Research

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