

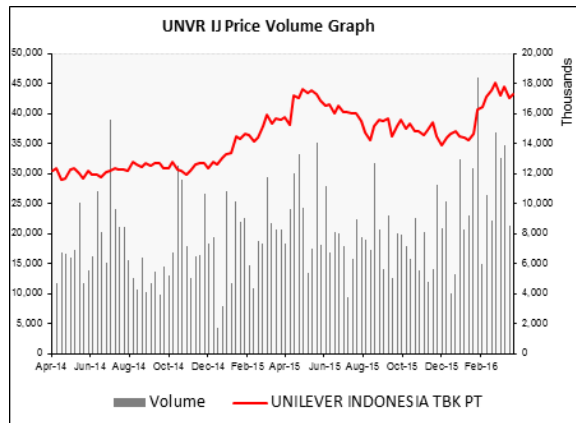
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**PT Unilever Indonesia Tbk manufactures soaps, detergents, margarine, oil and dairy based foods, tea based beverages, ice cream and cosmetics.**

**Current Price: IDR 43,150**

**52-Week Target Price: IDR 38,500**



#### Share Price Performance

Price (IDR)	43,150
52-Week High (03/02/16)	47,800
52-Week Low (08/24/15)	33,000
52-Week Beta	0.96
YTD Change/%	5,775 /15.61 %

#### Stock Information

Market Cap (IDR)	326,373.3 B
Shares Out/Float (M)	7,630 / 1,145

Source: Bloomberg, SinarMas Investment Research

#### Initiating Coverage

## PT Unilever Indonesia Tbk (UNVR)

### Bigger, Better, Stronger

**NEUTRAL**

**We initiate coverage on PT Unilever Indonesia Tbk (UNVR) as a NEUTRAL, with a 52-week target price of IDR 38,500, representing a 10.8% downside.** We used a DCF for valuation purposes. These valuations imply 48x P/E 16E. We initiate UNVR with a NEUTRAL rating mainly due to valuation concerns.

#### A proxy to Indonesian consumer goods company.

Being one of the top five largest Indonesian companies by market cap makes UNVR become a proxy to both Indonesia Stock Exchange and consumer goods companies. Benign domestic inflation and stable currency levels support our argument that the worst may be over for the consumer goods companies. The current government's focus to control inflation and stabilizing crude prices will offer the government additional options to control inflation by cutting domestic gasoline prices.

#### A stable dividend payer offers moderate potential growth.

UNVR has been consistently paying 100% of net income as dividends for the last six years. At the same time the company has also been able to offer moderate growth to investors during the period. Hence, we see this as one of the reasons why UNVR has always traded at a premium compared to its peers.

#### 2015 slowdown hit the company's margin

UNVR FY15 performance was relatively flat. Net profit was down by 130 bps compare to FY14. The company was able to maintain the top line margin FY15 at 51.1% (vs 49.9% FY14), mainly due to the company's strong brand loyalty. However, net profit margin compressed to 16% (vs 17.2% FY14) due to an increase in operating expenses

**The risks to our call include:** i) demanding valuation has always been an issue for UNVR. ii) increase competition among the HPC and Food Refreshment divisions. iii) underestimation of the inflation level and US rates path.

Financial Highlights	2014	2015	2016E	2017F	2018F
Revenue	34,512	36,484	39,263	42,389	45,877
EBIT	8,013	7,939	8,279	9,346	10,210
EBITDA	8,388	8,444	8,714	9,798	10,670
Net Income	5,927	5,852	6,075	6,912	7,592
EPS (IDR)	777	767	796	906	995
Gross Profit Margin	49.9%	51.1%	51.2%	51.5%	51.5%
Net Income Margin	17.2%	16.0%	15.5%	16.3%	16.5%
ROE	128.9%	121.2%	125.8%	143.2%	157.3%
ROA	41.5%	37.2%	37.8%	42.5%	45.4%

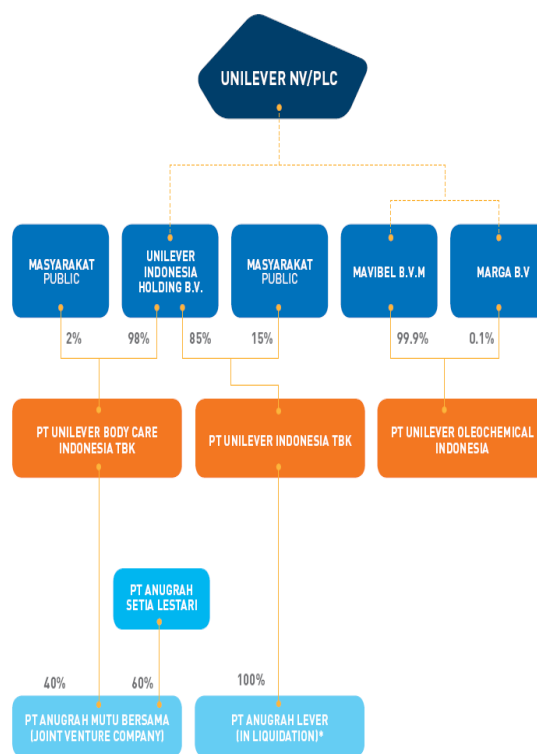
Source: Company Data, SinarMas Investment Research

## Company Background

PT Unilever Indonesia Tbk (UNVR) was first established in 1933 at Angke, Jakarta. Since then, UNVR has aggressively expanded their presence in Indonesia. The company started selling their flagship products, Margarine Blue Band and Lux body soap, in 1936. Then, in 1982 UNVR went public through selling 15% of their shares on the IDX. They had successfully transformed into one of the largest and most respected consumer goods companies in Indonesia. They currently operate approximately 8 factories throughout Indonesia, employ around 6,500 employees and sell up to 40 product brands.

UNVR is an integrated consumer goods companies. They produce, market, and distribute a huge range of products from soaps, detergents, margarine, dairy, ice creams, cosmetic products and many more. They classify their revenue into mainly two different categories, which are Home Personal Care (HPC) and Food and Refreshment categories. UNVR's wide range of product offerings from premium brands to cost-conscious options is one of many competitive advantages that the company has.

Having a population up to 250 million people definitely makes Indonesia a perfect destination for most consumer goods companies in the globe. This, as they look to take advantage of a rising middle class and a young and dynamic population. This is what actually supports UNVR to become one of the biggest consumer goods companies in Indonesia. UNVR internally manages all of their business processes, ranging from production to marketing strategy. UNVR has successfully expanded their channels into one of the farthest reach among competitors. They do not only depend on the modern trade channel but they have also managed to expand their presence into the traditional trade across the nation.



----- Indirect Ownership

\*Proses likuidasi selesai pada kuartal pertama 2015.  
The liquidation process was completed in the first quarter of 2015.

## Investment Catalysts

- **Just like any consumer goods company, a stable currency, and benign inflation are the boosters that UNVR needs.**

Stable currency and benign inflation are the boosters for UNVR.

Two most important concerns for most companies operating in Indonesia are currency and inflation, particularly consumer goods companies. The data shows that the Rupiah turned out to be the outperformer among regional peers in 1Q16, which we assume primarily due to money inflows into our bond markets. Moreover, the current Jokowi administration apparently put so much attention on controlling our domestic inflation levels. This goes along with long-lasting benign crude oil prices which allow the current government to cut the gasoline prices for two consecutive periods. Therefore, the worst has passed for our consumer goods companies and we expect a strong rebound for this year and ahead.

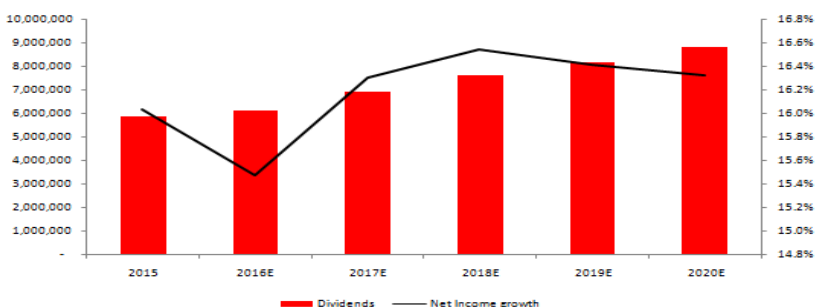
- **Extensive distribution channels and the wide range of product offerings really support the mass market consumer.**

Logistic and distribution have always become a profound issue in Indonesia.

Having extensive distribution channels should be the top priority for consumer goods companies in order to maintain a sustainable presence over the long term, particularly in Indonesia. It is not considered a new issue knowing that Indonesia is an archipelago whereby logistics have always been a major issue. A good product without sufficient distribution channels is just like operating a yacht without a capable captain, in our view. UNVR has been established, and has continued growing, for 83 years, making UNVR one of few companies in Indonesia which is able to penetrate both modern and traditional trade, also known as “warungs”. We see this as one of the important competitive advantages that UNVR has compared to their peers.

- **Consistent dividend payer which offer moderate potential growth over the long term horizon.**

UNVR have been a consistent dividend payer with 100% DPR (Dividend Payout Ratio) for the last six years. At the same time, the company has also been able to offer moderate bottom line growth at a FY11-15 CAGR of 8.8 %. This is one of the reasons why UNVR has always traded at a premium valuation compared to its peers.



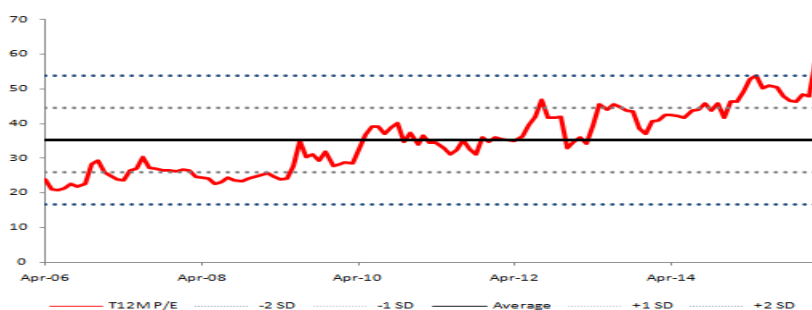
Source: Company, Bloomberg, Sinarmas Investment Research

## The risks to our investment theses include

- **Valuation is major issue for UNVR, in our view.**

Historically, UNVR's valuations have re-rated every year. In FY16E, UNVR should record IDR 6tn in income (+3.8% YoY). At these levels, our TP would imply 48x forward P/E, well over 1 SD of its historical mean.

Record high PE Valuation for UNVR



- **Increasing competition for both the HPC and Food Refreshment divisions.**

Having been in operations for nearly 85 years apparently does not close the room for competitors. We are aware that for the last 3 years Food and Beverages division has been at the top list of Indonesia's direct investments. That can come from the expansion of the current existing facility or even the new Greenfield investment. We can name there are two close competitors to UNVR which are at the expansion stage, P&G and Wings group. We see there is a risk that UNVR's market share could be eaten out going forwards.

- **Underestimation on inflation level and US rates path.**

We see that there could be a potential risk regarding to an understatement of current domestic inflation level and the pace of the US rate path. We believe that the effect of deterioration in the crude oil price would evade eventually. We see at the near term crude oil price has stabilized at the range of \$35 to \$45 per barrel. Any production cut or even freeze from the top oil producing nations could be an upside risk for the crude prices going forwards. The other risk we foresee is that sooner or later the Fed would eventually raise the FFR (Fed Funds Rate). It is just a matter of time. We still believe that at least there will be another 2 hikes coming from the Fed for this year FY16. have these events materialize, both current inflation and currency level could be at risk.

Crude oil effect would only be a transitory event.

## Our Conclusion

- Undoubtedly, UNVR is a proxy to the Indonesian mass-market consumer goods sector. Indonesia's dynamic young population and rising middle class will remain the investment theses in the next five years,. And in our view. UNVR is the beneficiary of this catalyst.

**Appendix I: Financial Statements**
**Balance sheet**

in IDR bn	2014	2015	2016E	2017F	2018F
Cash	859	628	917	720	773
AR	2,896	3,245	3,234	3,440	3,869
Inventories	2,326	2,298	2,310	2,493	2,699
Fixed Assets	7,348	8,321	8,459	8,432	8,184
<b>Total Assets</b>	<b>14,281</b>	<b>15,730</b>	<b>16,063</b>	<b>16,266</b>	<b>16,715</b>
Account Payables	4,632	4,842	4,632	5,092	5,693
ST Debts	1,250	1,700	1,600	1,200	700
<b>Total Liabilities</b>	<b>9,682</b>	<b>10,903</b>	<b>11,236</b>	<b>11,439</b>	<b>11,888</b>
<b>Total Equity</b>	<b>4,599</b>	<b>4,827</b>	<b>4,827</b>	<b>4,827</b>	<b>4,827</b>

Source: Sinarmas Investment Research

**Income statement**

in IDR bn	2014	2015	2016E	2017F	2018F
<b>Revenue</b>	<b>34,512</b>	<b>36,484</b>	<b>39,263</b>	<b>42,389</b>	<b>45,877</b>
CoGS	(17,305)	(17,835)	(19,157)	(20,559)	(22,241)
Gross Profit	17,207	18,649	20,106	21,830	23,636
<b>Operating Income</b>	<b>8,013</b>	<b>7,939</b>	<b>8,279</b>	<b>9,346</b>	<b>10,210</b>
EBITDA	8,388	8,444	8,714	9,798	10,670
<b>Pre-Tax Income</b>	<b>7,928</b>	<b>7,829</b>	<b>8,126</b>	<b>9,244</b>	<b>10,155</b>
Tax	(2,001)	(1,978)	(2,051)	(2,332)	(2,563)
<b>Net Income</b>	<b>5,927</b>	<b>5,852</b>	<b>6,075</b>	<b>6,912</b>	<b>7,592</b>
EPS	777	767	796	906	995

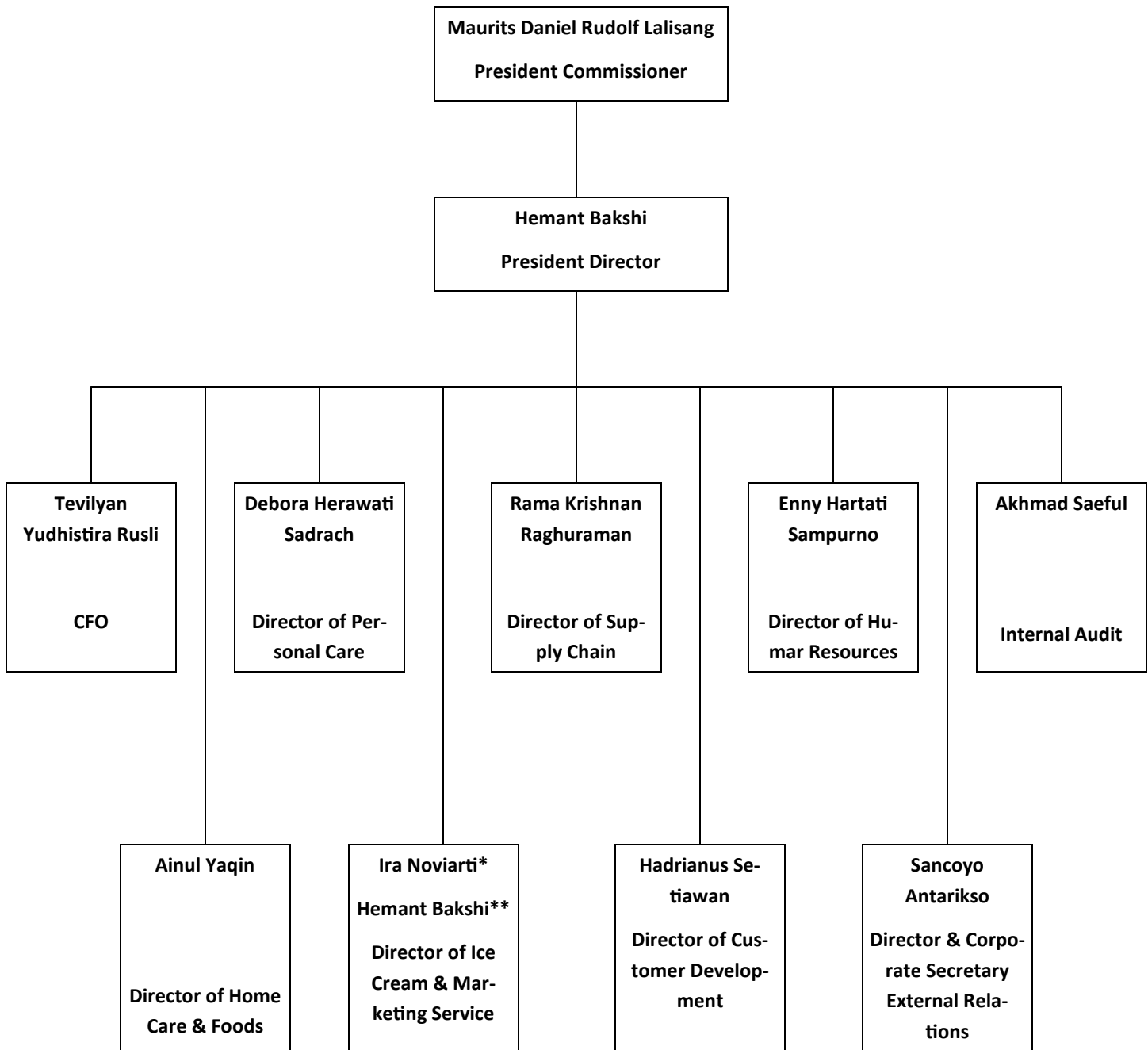
Source: Sinarmas Investment Research

**Cash flow**

in IDR bn	2014	2015	2016E	2017F	2018F
<b>Net Income</b>	<b>5,927</b>	<b>5,852</b>	<b>6,075</b>	<b>6,912</b>	<b>7,592</b>
Depreciation	375	505	435	452	461
Working Capital	(296)	(296)	(468)	(79)	(212)
<b>Operating CF</b>	<b>6,597</b>	<b>6,652</b>	<b>6,978</b>	<b>7,444</b>	<b>8,265</b>
Capital Expenditure	849	1,477	573	425	213
<b>Investing CF</b>	<b>(690)</b>	<b>(1,710)</b>	<b>(514)</b>	<b>(328)</b>	<b>(119)</b>
Debts	273	450	(100)	(400)	(500)
Dividends	5,927	5,852	6,075	6,912	7,592
<b>Financing CF</b>	<b>(5,309)</b>	<b>(5,173)</b>	<b>(6,175)</b>	<b>(7,312)</b>	<b>(8,092)</b>
Net - Cash Flow	598	(231)	289	(197)	54
Beginning Cash	261	859	628	917	720
<b>Ending Cash</b>	<b>859</b>	<b>628</b>	<b>917</b>	<b>720</b>	<b>773</b>

Source: Sinarmas Investment Research

Company & Shareholder Organization Structure



\*Until 1 December 2014

\*\*Since 1 December 2014—1 January 2015

Source: Company Annual Report 2014

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