

Subdued demand in 2Q20 after a surge in 1Q20. In 2Q20, revenue came in similar to its indicative results released earlier of this week at IDR 10.6tn (-1.6% YoY, -4.8% QoQ). Home & personal care was down by 1.2% YoY (-7.5% QoQ), while food & refreshment declined by 2.5% YoY (+1.5% QoQ). 2Q20 was quite challenging for overall consumption environment as PSBB was strictly implemented in some provinces, reducing out-of-home food purchases. On the other hand, HPC declined as households reduce the pantry stocking for personal hygiene products in the quarter. GPM was down by 220bps as soft commodity prices have started to recover. Efficiency was seen on the opex level given 290bps decline on the opex to sales portion. As a result, NPAT came in at IDR 1.8tn (-9.8% YoY, -5.7% QoQ).

Looking beyond 1H20 performance. Overall, we think that personal care sales should remain favorable for the rest of 2020 on the back of higher hygiene consciousness amidst Covid-19. Looser PSBB implementation since June 2020 should contribute to improving F&R sales as well. We forecast 3.4%/4.0% revenue growth in FY20E/FY21F and 4.7%/2.6% EPS growth in FY20E/FY21F. HPC is forecasted to grow by 4.0%/4.6% in FY20E/FY21F, while F&R to grow by 2.0%/2.7% in FY20E/FY21F. GPM should be relatively supported by lower soft commodity prices in FY20E as global demand weakens and should normalize in FY21F. Opex, on the other hand, was adjusted higher as we take into account higher A&P expense for both above and below the line marketing measures needed to support company's product launchings and higher e-commerce portion in its distribution mix. As UNVR decides to retain its tea business in Indonesia, we expect no major changes in its business portfolio in the near term.

Assuming coverage on PT Unilever Indonesia Tbk (UNVR), upgrade rating to ADD (from NEUTRAL) with FY21F target price of IDR 9,280 as we bake in 44.6x FY21F P/E (-0.5SD from its 5-yr avg.). We believe that the outlook is positive for the company amidst current challenging economic situation given its defensive nature, wide range of product portfolios catering low to high class segments, and strong penetration in both offline and online channels. While competition has been intense in the past few years, company has been actively coping by introducing various new product lines (e.g. affordable Seru ice cream, Hijab Fresh personal care). Downside risks to our call: worse than expected economic impact from Covid-19.

Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	41,802	42,923	44,378	46,155	48,026
% growth	1.5%	2.7%	3.4%	4.0%	4.1%
Gross Profit	21,105	22,029	22,813	23,606	24,678
Net Profit	9,081	7,393	7,738	7,936	8,315
% growth	29.6%	-18.6%	4.7%	2.6%	4.8%
Gross Margin (%)	50.5%	51.3%	51.4%	51.1%	51.4%
Net Margin (%)	21.7%	17.2%	17.4%	17.2%	17.3%
Return on Equity (%)	144.6%	116.7%	142.8%	140.4%	141.0%
Return on Assets (%)	46.3%	36.1%	37.9%	38.3%	38.4%
EPS (IDR)	238	194	203	208	218

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Sector	Consumer
Bloomberg Ticker	UNVR IJ
Market Cap. (IDR tn)	320.46
Share Out./Float (mn)	48,150/5,726
Current Price	8,400
52-week Target Price	9,280
Upside	10.5%

Share Price Performance

52W High (08/30/19)	9,795
52W Low (03/20/20)	5,275
52W Beta	0.8
YTD Change	-2.0%

Relative Valuations

Trailing P/E	43.7x
Forward P/E	41.1x
P/BV	36.4x

UNVR 2Q20 Earnings Summary

IDR Bn	2Q19	1Q20	2Q20	% QoQ	% YoY	6M19	6M20	% YoY	% DH	% Cons
Revenue	10,793	11,153	10,619	-4.8%	-1.6%	21,457	21,772	1.5%	49%	49%
Gross Profit	5,647	5,848	5,336	-8.8%	-5.5%	10,953	11,183	2.1%		
Operating Profit	2,660	2,389	2,350	-1.6%	-11.6%	5,023	4,740	-5.6%		
Net Profit	1,949	1,863	1,757	-5.7%	-9.8%	3,697	3,620	-2.1%	48%	46%
Opex to Sales	-27.7%	-31.0%	-28.1%			-27.6%	-29.6%			
Gross Margin	52.3%	52.4%	50.2%			51.0%	51.4%			
Operating Margin	24.6%	21.4%	22.1%			23.4%	21.8%			
Net Margin	18.1%	16.7%	16.5%			17.2%	16.6%			

Source: Company data, Sinarmas Investment Research

Earnings revision

(IDR Bn)	Old		New		Changes	
	FY20	FY21	FY20	FY21	FY20	FY21
Revenue	44,660	47,259	44,378	46,155	-0.6%	-2.3%
Gross Profit	22,396	23,497	22,813	23,606	1.9%	0.5%
Operating Profit	9,917	10,356	10,086	10,325	1.7%	-0.3%
Net Profit	7,311	7,651	7,738	7,936	5.8%	3.7%
EPS (IDR)	192	201	203	208	5.9%	3.7%
Gross Margin	50.1%	49.7%	51.4%	51.1%	1.3%	1.4%
Operating Margin	22.2%	21.9%	22.7%	22.4%	0.5%	0.5%
Net Margin	16.4%	16.2%	17.4%	17.2%	1.1%	1.0%

Source: Sinarmas Investment Research

Income Statement (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	41,802	42,923	44,378	46,155	48,026
Cost of Good Sold	(20,697)	(20,894)	(21,565)	(22,549)	(23,348)
Gross Profit	21,105	22,029	22,813	23,606	24,678
Operating Expenses	(11,603)	(11,911)	(12,730)	(13,285)	(13,871)
Opex to Sales (%)	-27.8%	-27.7%	-28.7%	-28.8%	-28.9%
Other Income (Expenses)	2,823	3	3	3	3
EBIT	12,324	10,121	10,086	10,325	10,811
EBITDA	13,079	10,988	10,719	11,010	11,536
Net Financing Income (Expenses)	(176)	(219)	(166)	(150)	(151)
EBT	12,148	9,902	9,920	10,175	10,660
Tax Expenses	(3,067)	(2,509)	(2,182)	(2,238)	(2,345)
Net Income	9,081	7,393	7,738	7,936	8,315
EPS (IDR)	238	194	203	208	218

Balance Sheet (IDR Bn)	2018	2019	2020E	2021F	2022F
Cash & Equivalents	352	629	624	936	1,263
Trade Receivables	5,103	5,448	5,110	5,486	5,712
Inventories	2,658	2,429	2,655	2,748	2,867
Other Current Assets	145	25	100	97	79
Total Current Assets	8,258	8,530	8,491	9,268	9,921
Fixed Assets	10,627	10,715	11,139	11,375	11,548
Other Non Current Assets	1,442	1,404	560	573	585
Total Assets	20,327	20,649	20,190	21,216	22,054
Short Term Debt	460	2,920	2,520	2,520	2,520
Trade Payables	6,684	6,595	6,684	7,051	7,312
Other Current Liabilities	4,130	3,551	3,616	3,829	3,946
Total Current Liabilities	11,274	13,065	12,820	13,400	13,779
Long Term Debt	-	-	-	-	-
Other Non Current Liabilities	1,669	2,302	1,815	2,069	2,231
Total Liabilities	12,943	15,368	14,635	15,469	16,010
Share & APIC	172	172	172	172	172
Retained Earnings	7,211	5,110	5,383	5,574	5,872
Others	-	-	-	-	-
Total Equity	7,384	5,282	5,555	5,747	6,044
Total Liabilities & Equity	20,327	20,649	20,190	21,216	22,054

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2018	2019	2020E	2021F	2022F
Net Income	9,081	7,393	7,738	7,936	8,315
Dep. & Amortization	755	867	633	685	725
Chg. In NWC	1,362	-664	190	115	52
CF from Operating	11,198	7,596	8,560	8,737	9,092
Capital Expenditure	(960)	(955)	(1,057)	(921)	(898)
Chg. in LT Assets	(899)	38	844	(13)	(13)
Chg. in LT Liabs	469	633	(487)	254	162
CF from Investing	(1,390)	(284)	(700)	(681)	(749)
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	(2,990)	2,460	(400)	-	-
Dividends Paid	(6,981)	(6,981)	(7,465)	(7,744)	(8,017)
Others	111	(2,513)	-	-	-
CF from Financing	(9,861)	(7,035)	(7,865)	(7,744)	(8,017)
Chg. in Cash	(53)	277	(4)	312	327
Beginning Cash	405	352	629	624	936
Ending Cash	352	629	624	936	1,263

Financial Ratio & Key Assumptions	2018	2019	2020E	2021F	2022F
Profitability					
Return on Equity	144.6%	116.7%	142.8%	140.4%	141.0%
Return on Assets	46.3%	36.1%	37.9%	38.3%	38.4%
Gross Margin	50.5%	51.3%	51.4%	51.1%	51.4%
Operating Margin	29.5%	23.6%	22.7%	22.4%	22.5%
EBITDA Margin	31.3%	25.6%	24.2%	23.9%	24.0%
Net Margin	21.7%	17.2%	17.4%	17.2%	17.3%
Liquidity					
Current Ratio (x)	0.7	0.7	0.7	0.7	0.7
Quick Ratio (x)	0.5	0.5	0.4	0.5	0.5
Solvency					
Debt to Equity (x)	0.1	0.6	0.5	0.4	0.4
Debt to Assets (x)	0.0	0.1	0.1	0.1	0.1
Interest Cov. (x)	64.2	44.0	57.1	63.0	66.0
Valuation					
Price to Earnings (x)	39.0	47.9	45.8	44.6	42.6
Price to Book (x)	48.0	67.1	63.8	61.6	58.6

Source: Company data, Sinarmas Investment Research

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