

**We maintain our NEUTRAL recommendation for PT Unilever Indonesia Tbk (UNVR) with 52-week target price of IDR 46,100.**

Our TP represents limited upside potential of 1.3%, pegged to 46.2x target PE (-0.5SD to its 5-yr average historical PE) which also implies 42.6x FY20F PE. Despite UNVR's 1H19 modest performance, we are not seeing much catalysts that could boost company's future growth. Not to mention that competition remains fierce in FMCG industry and consumption trend may soften due to potential utilities tariff hike next year. To add, we maintain our view that UNVR's mild growth would not be able to justify its premium valuation.

**Modest 1H19 results.** As of 1H19, UNVR booked sales and net income of IDR 21.5tn (+1.3% YoY)/IDR 3.7tn (+5.2% YoY) respectively, making up 47.2%/ 51% of our forecast. Flat sales were mainly on the absence of spread business this year, whereas UNVR still saw a pretty good 6.6% YoY domestic sales ruling out the spread. Looking further into each segment, Home and Personal Care (HPC) segment noted 5.3% YoY sales growth, while Food and Refreshment (F&R) saw 6.7% YoY decline in sales. Margin wise, HPC segment noted 110bps margin increase to 54.1% while F&R segment's margin contracted to 44.2% from 46.6% in 1H18.

**Margins expansion across the board.** Particularly in 2Q19, UNVR was enjoying margins expansion in all levels. GPM expanded to 52.3% (vs 49.8%/50.6% in 1Q19/2Q18), thanks to the muted soft commodity prices and mighty USDIDR. Coupled with flat opex (mainly on lower ads, remuneration and selling expenses), which indicated further operating efficiency, UNVR succeed to widen its OPM and NPM to 24.6% and 18.1% respectively.

**Future growth outlook.** In 2Q19, UNVR continued to launch several new products, both HPC and F&R, in order to sustain its long-term growth. Regardless of UNVR's being aggressive in innovation, we are unsure if it will be able to bolster meaningful growth in the near future. Not to mention that FMCG industry does not seem to have improved much from the previous year with Nielsen recorded -3.5% YoY FMCG volume growth in 1H19. Going forward, a threat to consumption trend may come from the potential utilities tariff adjustment next year, while at the same time competition is not loosening by any time soon.

Highlights (IDR Bn)	2017	2018	2019E	2020F	2021F
Revenue	41,205	41,802	43,085	46,454	49,873
% growth	2.9%	1.5%	3.1%	7.8%	7.4%
Gross Profit	21,220	21,092	21,970	23,584	25,007
Net Profit	7,005	9,109	7,385	7,829	8,244
% growth	9.6%	30.1%	-18.9%	6.0%	5.3%
Gross Margin (%)	51.5%	50.5%	51.0%	50.8%	50.1%
Net Margin (%)	17.0%	21.8%	17.1%	16.9%	16.5%
Return on Equity (%)	141.8%	142.9%	100.8%	108.2%	109.2%
Return on Assets (%)	39.3%	47.4%	37.0%	37.5%	37.5%
EPS (IDR)	918	1,194	968	1,026	1,081

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**Stock Information**

Sector	Consumer Staples
Bloomberg Ticker	UNVR IJ
Market Cap. (IDR tn)	347.5
Share Out./Float (mn)	7,630/1,145
Current Price	45,550
52-week Target Price	46,100
Upside (%)	1.3%

**Share Price Performance**

52W High (04/18/19)	50,525
52W Low (11/12/18)	38,900
52W Beta	1.1
YTD Change (%)	-1.3%

**Relative Valuations**

Trailing P/E	37.5x
Forward P/E	42.6x
P/BV	68.5x
EV/EBITDA	26.3x

## 2Q19 Earnings Summary

IDR Bn	2Q18	1Q19	2Q19	% QoQ	% YoY	6M18	6M19	% YoY
Revenue	10,437	10,665	10,793	1.2%	3.4%	21,184	21,457	1.3%
Gross Profit	5,281	5,306	5,647	6.4%	6.9%	10,774	10,953	1.7%
Operating Profit	2,301	2,363	2,660	12.5%	15.6%	4,819	5,023	4.2%
Net Profit	1,686	1,749	1,949	11.4%	15.6%	3,514	3,697	5.2%
Opex to Sales	-28.6%	-27.6%	-27.7%			-28.1%	-27.6%	
Gross Margin	50.6%	49.8%	52.3%			50.9%	51.0%	
Operating Margin	22.0%	22.2%	24.6%			22.7%	23.4%	
Net Margin	16.2%	16.4%	18.1%			16.6%	17.2%	

Source: Company Data, Sinarmas Investment Research

<b>Income Statement (IDR Bn)</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020F</b>	<b>2021F</b>
<b>Revenue</b>	<b>41,205</b>	<b>41,802</b>	<b>43,085</b>	<b>46,454</b>	<b>49,873</b>
Cost of Good Sold	(19,985)	(20,710)	(21,115)	(22,870)	(24,866)
<b>Gross Profit</b>	<b>21,220</b>	<b>21,092</b>	<b>21,970</b>	<b>23,584</b>	<b>25,007</b>
Operating Expenses	(11,715)	(11,636)	(11,988)	(12,963)	(13,847)
Opex to Sales (%)	-28.4%	-27.8%	-27.8%	-27.9%	-27.8%
Other Income (Expenses)	(9)	2,823	(10)	(10)	(11)
<b>EBIT</b>	<b>9,496</b>	<b>12,279</b>	<b>9,972</b>	<b>10,610</b>	<b>11,149</b>
<b>EBITDA</b>	<b>10,129</b>	<b>13,033</b>	<b>10,609</b>	<b>11,271</b>	<b>11,861</b>
Net Financing Income (Expenses)	(124)	(93)	(93)	(136)	(120)
<b>EBT</b>	<b>9,372</b>	<b>12,186</b>	<b>9,879</b>	<b>10,474</b>	<b>11,028</b>
Tax Expenses	(2,367)	(3,076)	(2,494)	(2,644)	(2,784)
<b>Net Income</b>	<b>7,005</b>	<b>9,109</b>	<b>7,385</b>	<b>7,829</b>	<b>8,244</b>
<b>EPS (IDR)</b>	<b>918</b>	<b>1,194</b>	<b>968</b>	<b>1,026</b>	<b>1,081</b>

<b>Balance Sheet (IDR Bn)</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020F</b>	<b>2021F</b>
Cash & Equivalents	405	352	336	583	601
Trade Receivables	4,855	5,103	5,529	5,424	6,043
Inventories	2,394	2,658	2,531	2,768	2,951
Other Current Assets	288	212	143	173	201
<b>Total Current Assets</b>	<b>7,942</b>	<b>8,325</b>	<b>8,539</b>	<b>8,947</b>	<b>9,796</b>
Fixed Assets	10,422	10,627	11,279	11,802	12,156
Other Non Current Assets	543	571	571	614	658
<b>Total Assets</b>	<b>18,906</b>	<b>19,523</b>	<b>20,389</b>	<b>21,363</b>	<b>22,610</b>
Short Term Debt	3,450	460	2,460	2,060	2,060
Trade Payables	6,202	6,684	6,579	7,057	7,711
Other Current Liabilities	2,880	3,991	3,164	3,700	3,972
<b>Total Current Liabilities</b>	<b>12,532</b>	<b>11,135</b>	<b>12,202</b>	<b>12,817</b>	<b>13,743</b>
Long Term Debt	-	-	-	-	-
Other Non Current Liabilities	1,201	810	1,114	1,152	1,164
<b>Total Liabilities</b>	<b>13,733</b>	<b>11,945</b>	<b>13,316</b>	<b>13,969</b>	<b>14,907</b>
Share & APIC	172	172	172	172	172
Retained Earnings	5,001	7,406	6,901	7,222	7,531
Others	-	-	-	-	-
<b>Total Equity</b>	<b>5,173</b>	<b>7,578</b>	<b>7,073</b>	<b>7,394</b>	<b>7,703</b>
<b>Total Liabilities &amp; Equity</b>	<b>18,906</b>	<b>19,523</b>	<b>20,389</b>	<b>21,363</b>	<b>22,610</b>

Source: Company Data, Sinarmas Investment Research

<b>Cash Flow (IDR Bn)</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020F</b>	<b>2021F</b>
<b>Net Income</b>	<b>7,005</b>	<b>9,109</b>	<b>7,385</b>	<b>7,829</b>	<b>8,244</b>
Dep. & Amortization	633	755	637	661	713
Chg. In NWC	(725)	1,156	(1,163)	854	95
<b>CF from Operating</b>	<b>6,912</b>	<b>11,020</b>	<b>6,859</b>	<b>9,345</b>	<b>9,052</b>
Capital Expenditure	(1,526)	(960)	(1,289)	(1,184)	(1,067)
Chg. in LT Assets	85	(28)	(0)	(43)	(44)
Chg. in LT Liabs	37	(391)	304	38	12
<b>CF from Investing</b>	<b>(1,403)</b>	<b>(1,378)</b>	<b>(985)</b>	<b>(1,189)</b>	<b>(1,099)</b>
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	1,057	(2,990)	2,000	(400)	-
Dividends Paid	(6,638)	(6,981)	(7,890)	(7,508)	(7,935)
Others	103	277	-	-	-
<b>CF from Financing</b>	<b>(5,478)</b>	<b>(9,695)</b>	<b>(5,890)</b>	<b>(7,908)</b>	<b>(7,935)</b>
Chg. in Cash	31	(53)	(16)	247	18
Beginning Cash	374	405	352	336	583
<b>Ending Cash</b>	<b>405</b>	<b>352</b>	<b>336</b>	<b>583</b>	<b>601</b>

<b>Financial Ratio &amp; Key Assumptions</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020F</b>	<b>2021F</b>
<b>Profitability</b>					
Return on Equity	141.8%	142.9%	100.8%	108.2%	109.2%
Return on Assets	39.3%	47.4%	37.0%	37.5%	37.5%
Gross Margin	51.5%	50.5%	51.0%	50.8%	50.1%
Operating Margin	23.0%	29.4%	23.1%	22.8%	22.4%
EBITDA Margin	24.6%	31.2%	24.6%	24.3%	23.8%
Net Margin	17.0%	21.8%	17.1%	16.9%	16.5%
<b>Liquidity</b>					
Current Ratio (x)	0.6	0.7	0.7	0.7	0.7
Quick Ratio (x)	0.4	0.5	0.5	0.5	0.5
<b>Solvency</b>					
Debt to Equity (x)	0.7	0.1	0.3	0.3	0.3
Debt to Assets (x)	0.2	0.0	0.1	0.1	0.1
Interest Cov. (x)	74.4	113.0	97.6	72.2	83.3
<b>Valuation</b>					
Price to Earnings (x)	50.2	38.6	47.6	44.9	42.7
Price to Book (x)	68.0	46.4	49.7	47.6	45.7

Source: Company Data, Sinarmas Investment Research

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