

# Unilever Indonesia Tbk (UNVR)

## Dilemma: Inclining Debt vs Declining Dividend

### 2017 Performance Review

UNVR posted **the increment of 2.9% in sales** from IDR40 trillion in 2016 into IDR41.2 trillion in 2017. The increment in sales was underpinned by the growth of 5.8% in sales from IDR12.3 trillion in 2016 into IDR13 trillion in 2017 achieved by the Food and Refreshment division, and the slight growth of 1,6% in sales achieved by the Home and Personal Care division.

Although UNVR posted the slight growth of 2.9%, **its net profit grew by 9.6%** backed by the incline of 0.4% in gross profit from 51.1% in 2016 into 51.5% in 2017. Besides, the ratio of operational cost to sales declined by 0.9% from 29.4% in 2016 into 28.5% in 2017.

### Picking Up CCC : Potent Driver for Working Capital

Since 2013 the shift in the direction of cash conversion cycle (CCC) occurred from the prior consistency of settling in the negative position to the positive position of 2.8 days in 2017. Days in inventory declined consistently, but **days in receivables picked up** from 33.8 days into 41.8 days. We oversee that this backdrop was a potential indicator of **the hike in short-term loan funding** for working capital.

### Target Price of Rp49.450

We use an estimate of forward P/E of 49.5x that is the last 3-year average as the basis of valuation method for obtaining the target price. This target price implies a 2018E P/E of 51.6x. Now, UNVR is traded at a 2018E P/E of 56.2x.

### Unilever Indonesia, Tbk | Summary (IDR bn)

	2016/12A	2017/12A	2018/12E	2019/12E
Sales	40,054	41,205	43,066	45,070
<i>Sales growth</i>	9.8%	2.9%	4.5%	4.7%
EBITDA	9,249	10,148	10,402	10,922
Net profit	6,391	7,005	7,318	7,621
EPS (IDR)	838	918	959	999
<i>EPS growth</i>	9.2%	9.6%	4.5%	4.1%
BVPS (IDR)	617	678	673	665
EBITDA margin	23.1%	24.6%	24.2%	24.2%
NPM	16.0%	17.0%	17.0%	16.9%
ROE	134.1%	141.8%	141.9%	149.2%
ROA	39.4%	39.3%	37.8%	37.4%
ROIC	95.2%	90.2%	85.6%	85.6%
P/E	46.3x	60.9x	56.2x	54.0x
P/BV	62.9x	82.4x	80.0x	81.0x
EV/EBITDA	32.2x	42.3x	39.9x	38.0x
DPS (IDR)	835	915	956	996
<i>Dividend yield</i>	2.2%	1.6%	1.8%	1.8%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

## Hold

<b>Dec 2018 TP (IDR)</b>	<b>49,450</b>
Consensus Price (IDR)	52,798
TP to Consensus Price	-6.3%
vs. Last Price	-8.3%

### Shares data

Last Price (IDR)	53,900
Price date as of	Feb 28, 2018
52 wk range (Hi/Lo)	55,900/41,975
Free float (%)	15.0
Outstanding sh.(mn)	7,630
Market Cap (IDR bn)	413,453
Market Cap (USD mn)	30,365
Avg. Trd Vol - 3M (mn)	2.27
Avg. Trd Val - 3M (bn)	120.77
Foreign Ownership	4.2%

### Consumer Staples

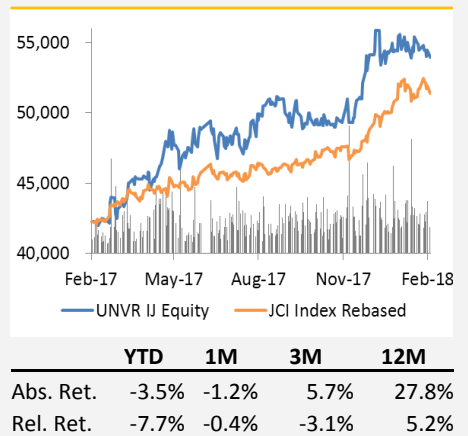
#### Household & Personal Products

Bloomberg	<b>UNVR IJ</b>
Reuters	<b>UNVR.JK</b>

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### Share Price Performance



### Inclining DER vs Declining DPR

UNVR as one of the preferred shares in Indonesia is consistently capable of giving the dividend payout ratio (DPR) to virtually near 100% annually. Nonetheless, within the last two years, its debt to equity ratio (DER) kept inclining from 26% in 2014, 35% in 2015, 51% in 2016, and reaching 67% in 2017. We estimate that if UNVR consistently pays DPR nearing 100% within the next two coming years, **its DER will incline up to 91%**.

### UNVR at A Glance

Founded on December 5, 1933, Unilever Indonesia has grown into one of prominent FMCG companies in Indonesia. It offers assorted brands—well known in overseas countries—such as Pepsodent, Lux, Lifebuoy, Dove, Sunsilk, Clear, Rexona, Vaseline, Rinso, Molto, Sunlight, Wall's, Blue Band, Royco, Bango.

Its shares were offered to public initially in 1981 and listed on Indonesia Stock Exchange since January 11, 1982. In the end of 2017, UNVR was acknowledged as the 5 biggest companies based on market capitalization on Indonesia Stock Exchange.

It has 9 factories situated at a number of industrial estates such as Jababeka, Cikarang, and Rungkut in Surabaya. Its products consisting of 39 major brands and virtual 1,000 stock keeping units (SKU) are marketed through more than 800 independent distributors for reaching hundred stores in Indonesia.

### Personal Products Industry in Asia Pacific

UNVR has the highest net profit margin amongst its peers in Asia Pacific. It has not only ROE topping 100% but also big market capitalization.

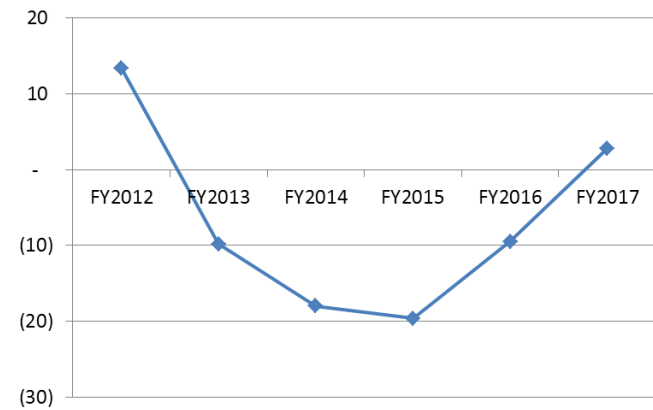
#### Asia Pacific Personal Products Companies

Company	Market Cap (USD mn)	Total Asset (USD mn)	Net Profit Growth	Net Profit Margin	ROE	P/E	P/BV	Dividend Yield
UNVR	30,365	1,390	9.6%	17.0%	141.8%	60.9x	82.4x	1.6%
<b>India</b>								
Hindustan Unilever Ltd	44,322	2,421	8.1%	13.8%	67.2%	64.0x	42.6x	1.4%
<b>Pakistan</b>								
Colgate Palmolive Pakistan	1,301	143	7.4%	11.1%	28.4%	43.3x	11.5x	1.0%
<b>Malaysia</b>								
NTPM Holdings Bhd	149	167	-19.2%	7.7%	9.8%	13.3x	1.3x	3.1%
<b>Bangladesh</b>								
Reckitt Benckiser Bangladesh	100	18	6.7%	8.9%	134.0%	28.0x	35.1x	3.7%

Source: Bloomberg, NHKS research

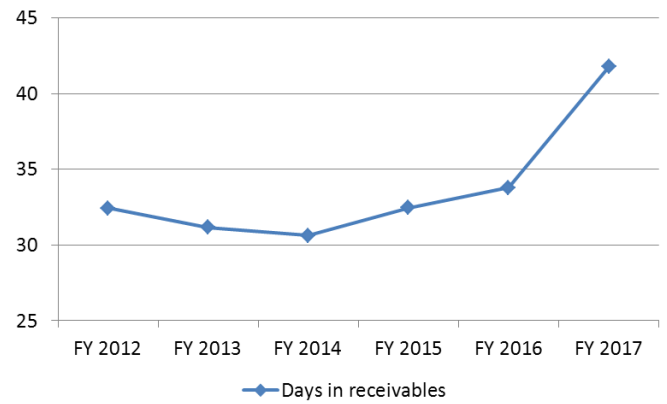
## Performance Highlights

Cash Conversion Cycle | 2012 - 2017



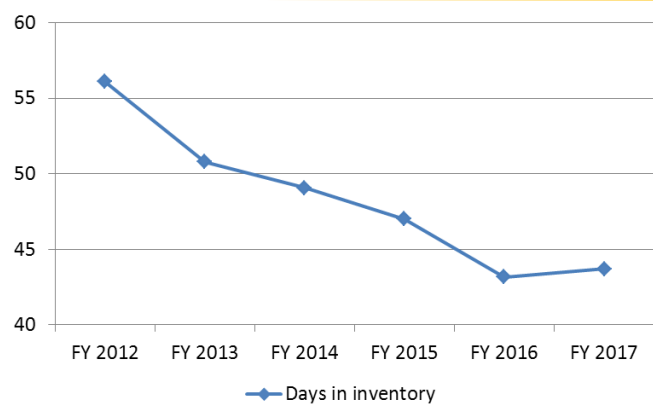
Source: Company, NHKS Research

Days in Receivables | 2012 - 2017



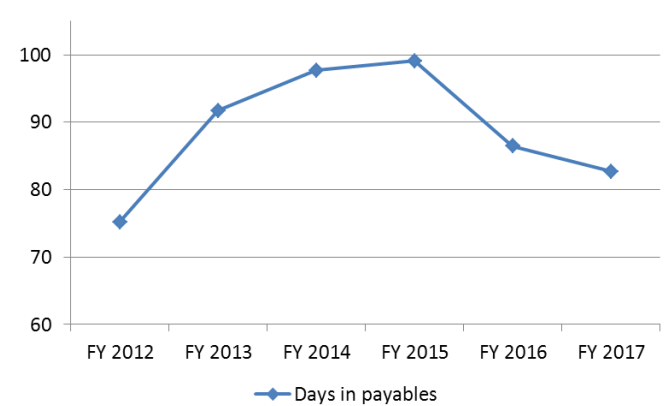
Source: Company, NHKS Research

Days in Inventory | 2012 - 2017



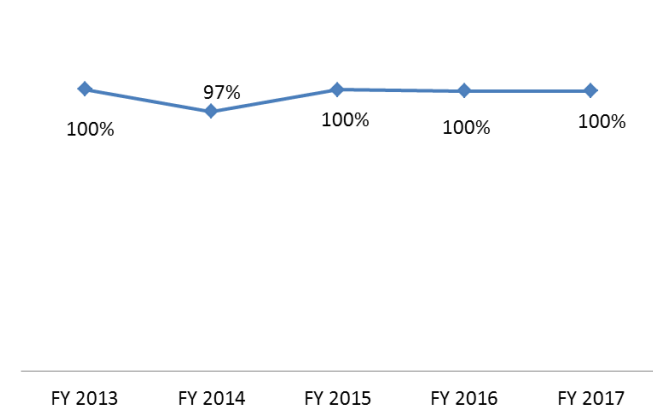
Source: Company, NHKS Research

Days in Payables | 2012 - 2017



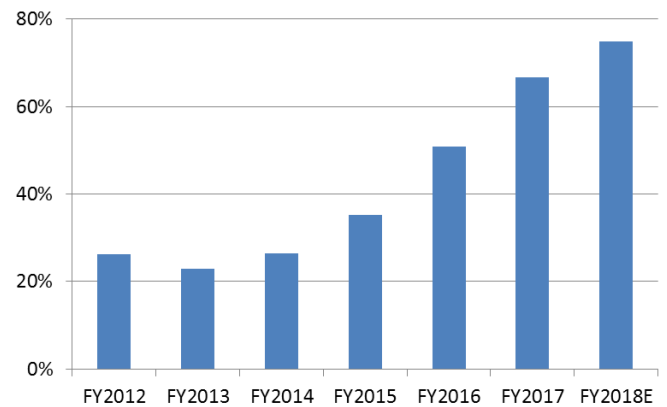
Source: Company, NHKS Research

Dividend Payout Ratio | 2013 - 2017



Source: Company, NHKS Research

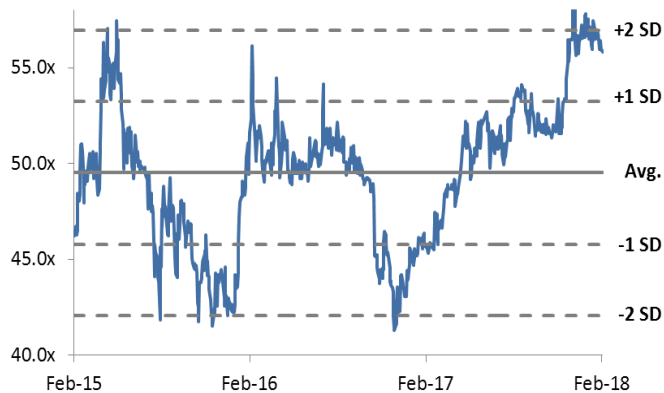
Debt to Equity Ratio | 2012 - 2017



Source: Company, NHKS Research

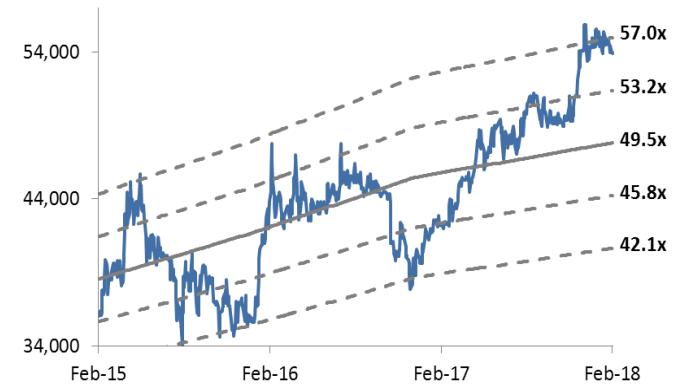
## Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKS research

Dynamic Forward P/E band | Last 3 years



Source: NHKS research

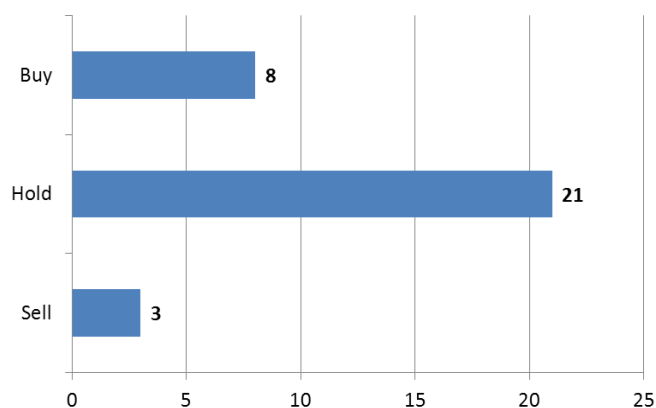
## Rating and target price update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
01/06/2017	Buy	47,900 (Dec 2017)	40,550	43,835	+18.1%	+9.3%
03/30/2017	Buy	51,875 (Dec 2017)	43,650	44,455	+18.8%	+16.7%
05/29/2017	Buy	57,600 (Dec 2017)	47,725	45,545	+20.7%	+26.5%
09/05/2017	Buy	58,750 (Dec 2018)	50,975	49,423	+15.3%	+18.9%
11/17/2017	Buy	57,275 (Dec 2018)	48,975	49,615	+16.9%	+15.4%
03/02/2018	Hold	49,450 (Dec 2018)	53,900	52,798	-8.3%	-6.3%

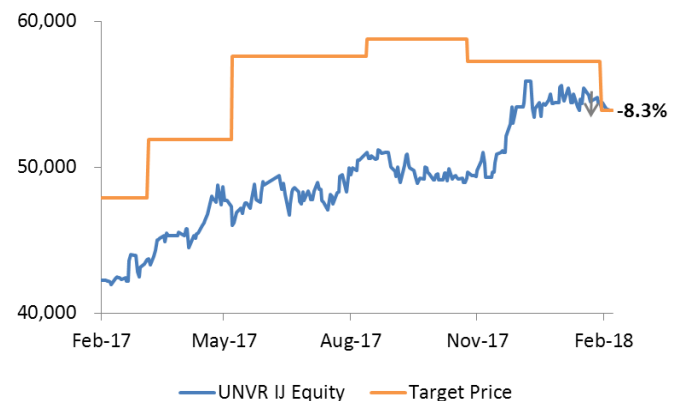
Source: NHKS research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKS research

### NH Korindo Sekuritas Indonesia (NHKS) stock ratings

Period: End of year target price

Rating system based on a stock's absolute return from the date of publication

- Buy : Greater than +15%
- Hold : -15% to +15%
- Sell : Less than -15%

## Financial Summary

UNVR Summary			
Last Price (IDR)	February 28, 2018		53,900
Target Price (IDR)	Dec 2018		49,450
Analyst: Joni Wintarja	Rating:		Hold

### INCOME STATEMENT

in IDR Bn	2016/12A	2017/12A	2018/12E	2019/12E
Sales	40,054	41,205	43,066	45,070
Growth (% y/y)	9.8%	2.9%	4.5%	4.7%
Cost of Revenue	(19,595)	(19,985)	(20,887)	(21,902)
<b>Gross Profit</b>	<b>20,459</b>	<b>21,220</b>	<b>22,179</b>	<b>23,168</b>
Gross Margin	51.1%	51.5%	51.5%	51.4%
Operating Expenses	(11,761)	(11,731)	(12,288)	(12,859)
<b>EBIT</b>	<b>8,698</b>	<b>9,489</b>	<b>9,892</b>	<b>10,309</b>
EBIT Margin	21.7%	23.0%	23.0%	22.9%
Depreciation	551	659	511	614
<b>EBITDA</b>	<b>9,249</b>	<b>10,148</b>	<b>10,402</b>	<b>10,922</b>
EBITDA Margin	23.1%	24.6%	24.2%	24.2%
Interest Expenses	(143)	(128)	(117)	(131)
<b>EBT</b>	<b>8,571</b>	<b>9,377</b>	<b>9,810</b>	<b>10,215</b>
Income Tax	(2,180)	(2,373)	(2,492)	(2,594)
Minority Interest	-	-	-	-
<b>Net Profit</b>	<b>6,391</b>	<b>7,005</b>	<b>7,318</b>	<b>7,621</b>
Growth (% y/y)	9.2%	9.6%	4.5%	4.1%
Net Profit Margin	16.0%	17.0%	17.0%	16.9%

### BALANCE SHEET

in IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Cash	374	405	410	415
Receivables	3,708	4,716	4,929	5,158
Inventories	2,318	2,394	2,502	2,623
<b>Total Current Assets</b>	<b>6,588</b>	<b>7,942</b>	<b>8,221</b>	<b>8,600</b>
Net Fixed Assets	9,529	10,422	11,019	11,745
Other Non Current Assets	628	543	556	622
<b>Total Assets</b>	<b>16,746</b>	<b>18,906</b>	<b>19,796</b>	<b>20,967</b>
Payables	4,642	4,527	4,732	4,961
ST Bank Loan	2,393	3,450	3,844	4,617
Other Current Liab.	3,843	4,555	4,949	5,180
LT Debt	-	-	-	-
Other Non Current Liab.	1,163	1,201	1,133	1,133
<b>Total Liabilities</b>	<b>12,041</b>	<b>13,733</b>	<b>14,658</b>	<b>15,892</b>
<b>Shareholders' Equity</b>	<b>4,704</b>	<b>5,173</b>	<b>5,138</b>	<b>5,075</b>

### CASH FLOW STATEMENT

in IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Net Income	6,391	7,005	7,318	7,621
Deprec & Amortization	551	654	511	614
Chg. In Working Capital	(257)	(599)	324	86
<b>CFI</b>	<b>6,684</b>	<b>7,060</b>	<b>8,153</b>	<b>8,320</b>
Capex	(1,788)	(1,684)	(1,108)	(1,339)
<b>CFI</b>	<b>(1,779)</b>	<b>(1,602)</b>	<b>(1,188)</b>	<b>(1,405)</b>
Dividends Paid	(5,843)	(6,494)	(7,354)	(7,683)
Net Borrowing (PMT)	693	1,057	394	773
<b>CFI</b>	<b>(5,159)</b>	<b>(5,427)</b>	<b>(6,960)</b>	<b>(6,910)</b>
<b>Net Changes in Cash</b>	<b>(254)</b>	<b>31</b>	<b>5</b>	<b>5</b>

### OWNERSHIP

By Geography	% Shareholders	%
Indonesia	95.8	Unilever Ind. Holding 85.0
United States	2.0	Blackrock 0.7
Luxembourg	0.5	Vanguard Group 0.5
United Kingdom	0.4	Standard Life Plc 0.5

### PROFITABILITY & STABILITY

	2016/12A	2017/12A	2018/12E	2019/12E
ROE	134.1%	141.8%	141.9%	149.2%
ROA	39.4%	39.3%	37.8%	37.4%
ROIC	95.2%	90.2%	85.6%	85.6%
EBITDA/Equity	194.1%	205.5%	201.8%	213.9%
EBITDA/Assets	39.4%	39.3%	37.8%	37.4%
Cash Dividend IDR bn)	6,371	6,984	7,296	7,598
Dividend Yield (%)	2.2%	1.6%	1.8%	1.8%
Payout Ratio (%)	99.7%	99.7%	99.7%	99.7%
DER	50.9%	66.7%	74.8%	91.0%
Net Gearing	51.9%	67.9%	76.3%	92.7%
LT Debt to Equity	0.0%	0.0%	0.0%	0.0%
Capitalization Ratio	33.7%	40.0%	42.8%	47.6%
Equity Ratio	28.1%	27.4%	26.0%	24.2%
Debt Ratio	14.3%	18.2%	19.4%	22.0%
Financial Leverage	330.1%	339.1%	366.7%	387.7%
Current Ratio	60.6%	63.4%	60.8%	58.3%
Quick Ratio	37.5%	40.9%	39.5%	37.8%
Cash Ratio	3.4%	3.2%	3.0%	2.8%
Cash Conversion Cycle	(9.5)	2.8	2.8	2.8
Par Value (IDR)	10	10	10	10
Total Shares (mn)	7,630	7,630	7,630	7,630
Share Price (IDR)	38,800	55,900	53,900	53,900
Market Cap (IDR tn)	296.0	426.5	411.3	411.3

### VALUATION INDEX

	2016/12A	2017/12A	2018/12E	2019/12E
Price /Earnings	46.3x	60.9x	56.2x	54.0x
Price /Book Value	62.9x	82.4x	80.0x	81.0x
Price/Sales	7.4x	10.4x	9.5x	9.1x
PE/EPS Growth	5.0x	6.3x	12.6x	13.1x
EV/EBITDA	32.2x	42.3x	39.9x	38.0x
EV/EBIT	34.3x	45.3x	41.9x	40.3x
EV (IDR bn)	298,063	429,562	414,691	415,459
Sales CAGR (3-Yr)	9.2%	6.1%	5.7%	4.0%
EPS CAGR (3-Yr)	6.1%	5.7%	7.7%	6.0%
Basic EPS (IDR)	838	918	959	999
Diluted EPS (IDR)	838	918	959	999
BVPS (IDR)	617	678	673	665
Sales PS (IDR)	5,250	5,400	5,644	5,907
DPS (IDR)	835	915	956	996

### DCF, RIM & EVA

	2016/12A	2017/12A	2018/12E	2019/12E
<b>DCF (IDR bn)</b>				
NOPAT	6,485	7,088	7,379	7,690
+Depr./Amor.	551	654	511	614
-CAPEX	(1,788)	(1,684)	(1,108)	(1,339)
-Incr. (Decr.) in Working Cap.	(257)	(599)	324	86
(Unlevered) FCFF	4,991	5,459	7,106	7,051
<b>WACC</b>				
Cost of Debt (Tax Adj.)	8.1%	7.1%	7.1%	7.1%
Cost of Equity (COE)	9.8%	12.7%	12.7%	12.7%
WACC (%)	9.8%	12.7%	12.7%	12.7%
<b>RIM</b>				
Spread (FROE-COE) (%)	122.6%	136.2%	128.7%	135.6%
Residual Income (IDR bn)	5,919	6,407	6,661	6,967
Equity Charge (IDR bn)	471	598	658	653
<b>EVA</b>				
Invested Capital (IDR bn)	6,527	7,097	8,623	8,982
ROIC-WACC (%)	89.6%	87.2%	72.9%	73.0%
EVA (IDR bn)	5,849	6,189	6,287	6,554

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