Indofood CBP Sukses Makmur Tbk (ICBP IJ)

Maintaining Positive Momentum from Acquisition

NH KORINDO SEKURITAS

Company Report | Sept 07, 2020

In the middle of an unprecedented pandemic, ICBP still enjoyed stronger earnings growth along with revenue growth. We also expected ICBP outlook to remain positive due to lucrative earnings form Pinehill acquisition. Thus, we upgraded our rating on ICBP from Hold to BUY.

Pinehill Acquisition : On Track

ICBP's Extraordinary General Meetings of Shareholders (EGMS), which had been scheduled for July 15, was postponed due to additional information that had to be provided to Indonesian financial regulator. The EGMS which was finally held on Aug 3 resulted in a favorable outcome which is the approval from shareholders for its acquisition of Pinehill Company, Ltd. Furthermore, on 18 Aug 2020, ICBP's management has signed a syndicated loan facility agreement with a total amount of USD2.050 mn, with maturity of five years. An unsecured loan of that size was taken from Bank of China (Hong Kong) Limited, BNP Paribas, Mizuho Bank Ltd (Singapore Branch), Natixis (Hong Kong Branch), and Sumitomo Mitsui Banking Corporation (Singapore Branch).

Given the fact that ICBP will materialize the acquisition of Pinehill, we have factored it into our rough calculation (please refer to ICBP report 1Q20: *Stellar Growth along With Margin Expansion*). Besides, we have raised our debt assumption with USD IDR of 14,700 and 2.4% interest rate to reflect a USD2bn loan secured by ICBP. As a note, Pinehill recorded a CAGR of 28.17% in over 2 years, thus we expect Pinehill group's noodles sales will immediately and significantly add to ICBP's annual sales. According to Pinehill's financial performance, Sawaz (it subsidiary in the Middle East and Africa) registered the highest CAGR among others of 36.7% for period FY17-19, and taps around 195mn people. Thus, the Pinehill acquisition are expected to bring potential new customers.

ICBP Earnings 2Q20 Notched Up 12.8%

Indofood CBP Sukses Makmur (ICBP) succeeded to post 2Q20 net profit of IDR1.3tn, notched up 12.8% YoY, translating into 1H20 earnings of IDR3,4tn. Meanwhile, revenue growth in 2Q20 increased by a mere 1.5%, relatively soft compared to the last year (2Q19: +13.5% YoY). On margin side, GPM rose by 330bps to 37.6%, mainly due to a decline in raw material purchasing. Subsequently, OPM and NPM also increased to 20% and 13%, respectively. During unsupportive conditions in 2Q20, ICBP's Noodle segment and utrition segment booked a mid-single digit sales growth (+5.0% YoY) to IDR7.3tn and low-single digit sales growth (+1.8% YoY) to IDR229bn, respectively. Meanwhile, Food Seasoning recorded a double-digit growth (+24.4% YoY), which we believe is due to the cooking-at-home trend during Covid-19 lockdown in 2Q. On the other hand, dairy and snack foods posted a decline by -0.5% YoY to IDR2tn and -2.9% YoY to IDR661bn, respectively. Subsequently, beverages segment posted unexciting growth during the quarter.

Higher TP, Upgrade BUY

Given our new forecast, we see that ICBP's earnings likely to improve going forward, which mostly attributable to acquisition of Pinehill. Thus, we upgraded our recommendation from HOLD to BUY on ICBP with higher TP IDR 12,150 with a forward PE 21.7x higher than current share price in PE 20.5x Risk of our price target are: 1) Weakening IDR against USD 2) Higher raw material price 3) Economic Slowdown.

Indofood CBP Sukses Makmur Tbk | Summary (IDR bn)

	2019A	2020E	2021F	2022F
Sales	42.297	44.454	54.566	64.342
EBITDA	8.429	9.627	12.075	13.073
Net Profit	5.039	6.613	7.096	8.015
EPS (IDR)	432	567	608	687
EPS growth	*10,1%*	*31,3%*	*7,3%*	*13,0%*
NPM	*11,9%*	*14,9%*	*13,0%*	*12,5%*
ROE	*20,4%*	*22,0%*	*19,8%*	*19,8%*
ROA	*13,8%*	*10,8%*	*8,2%*	*8,7%*
P/E	25,8x	15,3x	14,2x	12,6x
P/BV	4,9x	3,0x	2,6x	2,4x
EV/EBITDA	15,2x	10,0x	11,1x	9,9x
DPS (IDR)	137	153	201	304
Dividend yield	*1,2%*	*1,8%*	*2,3%*	*3,5%*

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

BUY

Target Price (IDR)	**12,150**
Consensus Price (IDR)	10,368
TP to Consensus Price	17.2%
vs. Last Price	+18.0%

Shares data

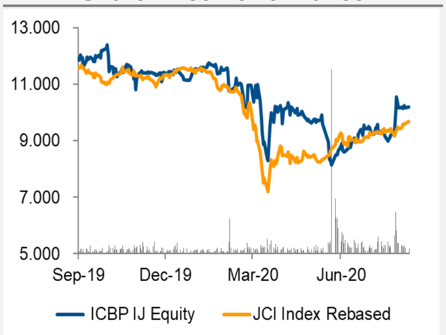
Last Price (IDR)	10,300
Price date as of	Sept 04, 2020
52 wk range (Hi/Lo)	12,400 / 8,150
Free float (%)	19.5
Outstanding sh.(mn)	11,662
Market Cap (IDR bn)	100,292
Market Cap (USD mn)	7,071
Avg. Trd Vol - 3M (mn)	13.08
Avg. Trd Val - 3M (bn)	116.96
Foreign Ownership	5.9%

Consumer Staples

Packaged Foods & Beverages

Bloomberg	**ICBP IJ**
Reuters	**ICBP.JK**

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-8.5%	10.0%	4.9%	-12.3%
Rel. Ret.	-15.7%	4.2%	17.4%	-15.8%

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2Q20 review (IDR bn)

	2Q19	3Q19	4Q19	1Q20	2Q20					3Q20E
					Actual	Estimate	y-y	q-q	Surprise	
Sales	10.874	10.660	9.506	12.007	11.041	11.154	*1,5%*	*-8,0%*	*-1,0%*	11.339
Gross Profit	3.724	3.747	3.145	4.183	4.148	3.478	*11,4%*	*-0,8%*	*19,3%*	4.118
Gross Margin	*34,2%*	*35,2%*	*33,1%*	*34,8%*	*37,6%*	*31,2%*	3,3%	2,7%	*6,4%*	*36,3%*
EBIT	1.912	1.946	1.646	2.214	2.155	1.643	*12,7%*	*-2,7%*	*31,2%*	2.216
EBIT Margin	*17,6%*	*18,3%*	*17,3%*	*18,4%*	*19,5%*	*14,7%*	*1,9%*	1,1%	*4,8%*	*19,5%*
EBITDA	2.199	2.237	1.949	2.563	2.478	1.950	*12,7%*	*-3,3%*	*27,1%*	2.521
EBIT Margin	*20,2%*	*21,0%*	*20,5%*	*21,3%*	*22,4%*	*17,5%*	*2,2%*	1,1%	*5,0%*	*22,2%*
Net Profit	**1.238**	**1.311**	**1.153**	**1.982**	**1.396**	**1.430**	***12,8%***	***-29,6%***	***-2,4%***	**1.860**
Net Margin	*11,4%*	*12,3%*	*12,1%*	*16,5%*	*12,6%*	*12,8%*	*1,3%*	-3,9%	*-0,2%*	*16,4%*

Source: Bloomberg, NHKSI research

Earnings revision (IDR bn)

		2020E	2021F	2022F
Sales	-Revised	44.454	54.566	64.342
	-Previous	46.224	51.880	
	-Change	*-3,8%*	*5,2%*	
Gross Profit	-Revised	15.964	20.020	22.836
	-Previous	15.798	17.731	
	-Change	*1,1%*	*12,9%*	
Gross Margin	-Revised	*35,9%*	*36,7%*	*35,5%*
	-Previous	*34,2%*	*34,2%*	
EBIT	-Revised	8.414	10.753	11.908
	-Previous	8.163	9.162	
	-Change	*3,1%*	*17,4%*	
EBIT Margin	-Revised	*18,9%*	*19,7%*	*18,5%*
	-Previous	*17,7%*	*17,7%*	
EBITDA	-Revised	9.627	12.075	13.073
	-Previous	9.147	10.259	
	-Change	*5,3%*	*17,7%*	
EBITDA Margin	-Revised	*21,7%*	*22,1%*	*20,3%*
	-Previous	*19,8%*	*19,8%*	
Net Profit	-Revised	6.613	7.096	8.015
	-Previous	5.770	6.501	
	-Change	*14,6%*	*9,2%*	
Net Margin	-Revised	*14,9%*	*13,0%*	*12,5%*
	-Previous	*12,5%*	*12,5%*	

Source: NHKSI research

A Glance at ICBP

Armed with well-diversified businesses ranging from instant noodles, dairy products, snacks, seasonings, nutrition and special food, as well as beverages, ICBP is a leading producer of branded consumers' products. To support its core business, it runs a packaging business producing flexible and cardboard-based packaging.

ICBP through its 40 well-known branded products offers assorted daily products for varied-ages consumers and different market shares. Millions of Indonesian consumers' lasting loyalty to ICBP strengthens its legacy in Indonesia's market shares. Most of its products are available across Indonesia. Supported by the extensive distribution networks owned by its parent entity, ICBP succeeds in supplying the demand of markets in a way more efficient and prompt manner.

Its operational activities are supported by more than 50 factories located in major cities in Indonesia; therefore, it easily supplies the demand of markets and ensures its quality products. Not only does it market its products in Indonesia but it also exports its products in more than 60 countries.

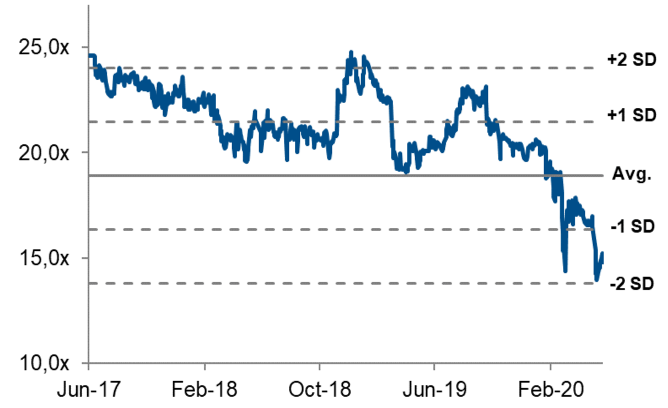
Asia Pacific Packaged Food Company

Company	Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Margin	ROE LTM	P/E LTM	P/BV
Indonesia									
ICBP	7,071	2,796	3,040	401	20.94%	13.2%	22.6%	17.6x	3.7x
INDF	3,776	6,947	5,419	350	14.69%	6.5%	13.2%	10.8x	1.3x
Japan									
Nissin Foods Holdings	8,839	5,350	4,313	270	51.46%	6.3%	9.0%	31.8x	2.8x
Toyo Suisan Kaisha Ltd	5,874	3,735	3,827	215	26.80%	5.6%	7.8%	24.8x	1.9x
South Africa									
Pioneer Foods Group Ltd	N/A	967	1554	63	-15.18%	4.1%	10.5%	N/A	N/A
South Korea									
Samyang Foods Co Ltd	775	407	490	60	121.29%	12.2%	26.1%	13.1x	3.1x
Nongshim Co Ltd	1,643	2,297	2,067	77	11.60%	3.7%	4.7%	20.6x	0.9x
Ottogi Corporation	1,746	1,863	2,038	98	-27.61%	4.8%	9.2%	16.3x	1.4x
Thailand									
Thai President Foods	2,116	1,151	773	127	15.82%	16.4%	17.8%	16.6x	2.8x
Thai Union Group	1,897	4,769	4,137	115	-2.78%	2.8%	7.7%	16.6x	1.2x
Malaysia									
Nestle Berhad	7,711	667	1,321	150	-5.87%	11.3%	71.6%	52.5x	38.2x
PPB Group Berhad	5,857	5,765	1,104	262	-3.76%	23.7%	5.0%	22.8x	1.1x
India									
Nestle India Ltd	21,143	991	1,791	287	23.42%	16.0%	N/A	78.8x	N/A
Britannia Industries Ltd	10,701	1,040	1,615	198	21.01%	12.3%	32.4%	57.8x	18.4x

Source: Bloomberg

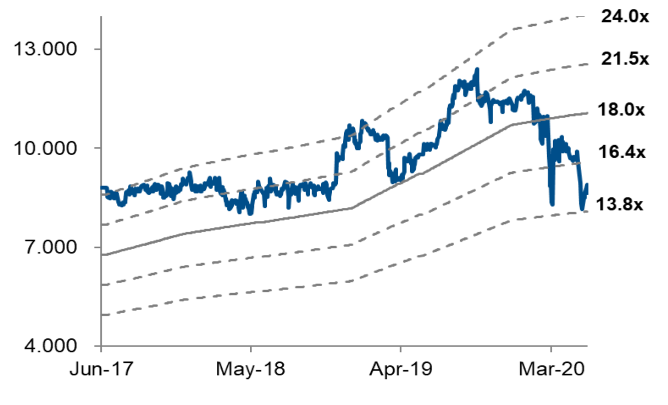
Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKSI research

Dynamic Forward P/E band | Last 3 years



Source: NHKSI research

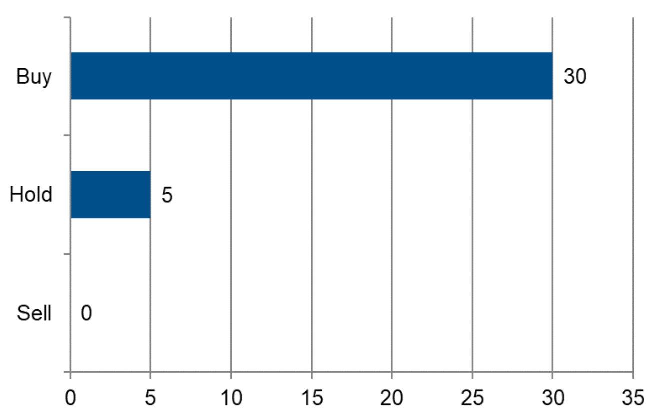
Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
09/26/2018	Buy	10,550 (Dec 2019)	8,950	9,715	+17.9%	+8.6%
12/06/2018	Buy	11,225 (Dec 2019)	9,750	9,855	+15.1%	+13.9%
12/06/2019	Buy	11,600 (Dec 2019)	9,950	11,002	+16.6%	+5.4%
21/11/2019	Hold	12,875 (Dec 2020)	11,400	12,798	+12.9%	+0.6%
16/06/2020	Hold	9,850 (Dec 2020)	8,650	10,368	+13,9%	-5,0%

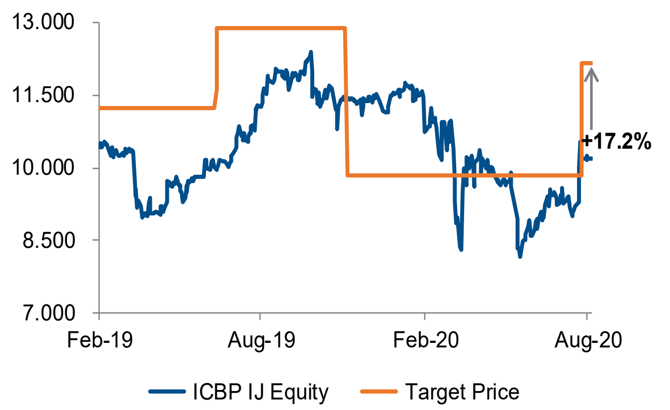
Source: NHKSI research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKSI research

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

1. Period: End of year target price
2. 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%

Summary of Financials

INCOME STATEMENT

(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E
Sales	**42.297**	**44.454**	**54.566**	**64.342**
Growth	*10,1%*	*5,1%*	*22,7%*	*17,9%*
COGS	(27.893)	(28.489)	(34.546)	(41.506)
Gross Profit	**14.404**	**15.964**	**20.020**	**22.836**
Gross Margin	*34,1%*	*35,9%*	*36,7%*	*35,5%*
Operating Expenses	(6.904)	(7.550)	(9.267)	(10.928)
EBIT	**7.500**	**8.414**	**10.753**	**11.908**
EBIT Margin	*17,7%*	*18,9%*	*19,7%*	*18,5%*
Depreciation	929	1.213	1.322	1.165
EBITDA	**8.429**	**9.627**	**12.075**	**13.073**
EBITDA Margin	19,9%	21,7%	22,1%	20,3%
Interest Expenses	(161)	(830)	(992)	(944)
EBT	**7.412**	**8.607**	**11.016**	**12.443**
Income Tax	(2.052)	(2.123)	(2.775)	(3.134)
Minority Interest	(321)	129	(1.146)	(1.294)
Net Profit	**5.039**	**6.613**	**7.096**	**8.015**
Growth	*10,1%*	*31,3%*	*7,3%*	*13,0%*
Net Profit Margin	*11,9%*	*14,9%*	*13,0%*	*12,5%*

PROFITABILITY & STABILITY

	2019/12A	2020/12E	2021/12E	2022/12E
ROE	20,4%	22,0%	19,8%	19,8%
ROA	13,8%	10,8%	8,2%	8,7%
ROIC	18,8%	8,7%	10,6%	11,3%
Cash Dividend (IDR bn)	1.598	1.785	2.343	3.548
Dividend Yield	1,2%	1,8%	2,3%	3,5%
Payout Ratio	34,9%	35,4%	35,4%	50,0%
DER	8,4%	118,8%	99,0%	85,0%
Net Gearing	11,7%	154,5%	124,1%	103,8%
LT Debt to Equity	6,4%	111,9%	93,3%	80,1%
Capitalization Ratio	7,7%	54,3%	49,7%	45,9%
Equity Ratio	68,9%	39,9%	42,5%	45,1%
Debt Ratio	5,8%	47,4%	42,1%	38,3%
Financial Leverage	148,0%	203,9%	242,6%	228,3%
Current Ratio	62,3%	63,0%	65,2%	67,0%
Par Value (IDR)	50	50	50	50
Total Shares (mn)	11.662	11.662	11.662	11.662
Share Price (IDR)	11.150	8.650	8.650	8.650
Market Cap (IDR tn)	130,0	100,9	100,9	100,9

BALANCE SHEET

(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E
Cash	8.359	8.737	10.682	12.966
Receivables	4.049	5.115	6.279	7.421
Inventories	3.841	3.769	4.570	4.776
Total Current Assets	**16.625**	**21.043**	**24.866**	**28.542**
Net Fixed Assets	11.342	11.747	12.399	13.164
Other Non Current Asset	10.742	50.985	52.563	52.892
Total Assets	**38.709**	**83.774**	**89.827**	**94.598**
Payables	2.635	2.763	3.350	4.026
ST Bank Loan	546	2.303	2.191	2.101
LT Debt	1.695	37.383	35.585	34.130
Total Liabilities	**12.038**	**50.370**	**51.669**	**51.972**
Capital Stock	6.569	6.568	6.568	6.568
Retained Earnings	18.495	25.104	29.857	34.325
Shareholders' Equity	**26.671**	**33.405**	**38.158**	**42.625**

VALUATION INDEX

	2019/12A	2020/12A	2021/12E	2022/12E
Price /Earnings	25,8x	15,3x	14,2x	12,6x
Price /Book Value	4,9x	3,0x	2,6x	2,4x
Price/Sales	3,1x	2,3x	1,8x	1,6x
PE/EPS Growth	2,6x	0,5x	1,9x	1,0x
EV/EBITDA	15,2x	10,0x	11,1x	9,9x
EV/EBIT	17,1x	11,5x	12,4x	10,9x
EV (IDR bn)	128.225	96.364	133.558	129.703
Sales CAGR (3-Yr)	7,1%	7,7%	12,4%	15,0%
EPS CAGR (3-Yr)	11,9%	20,3%	15,7%	16,7%
Basic EPS (IDR)	432	567	608	687
Diluted EPS (IDR)	432	567	608	687
BVPS (IDR)	2.287	2.864	3.272	3.655
Sales PS (IDR)	3.627	3.812	4.679	5.517
DPS (IDR)	137	153	201	304

CASH FLOW STATEMENT

(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E
Operating Cash Flow	7.302	8.266	9.749	9.636
Investing Cash Flow	(2.364)	(44.620)	(3.552)	(2.259)
Financing Cash Flow	(1.305)	37.266	(4.252)	(5.093)
Net Changes in Cash	**3.633**	**911**	**1.945**	**2.285**

OWNERSHIP

By Geography	%	Shareholders	%
Indonesia	94,1	First Pacific Company	80,5
United States	3,6	Matthews Intl Capital	1,7
Luxembourg	0,6	Schroder Investment	0,9
Norway	0,5	Vanguard Bank	0,5