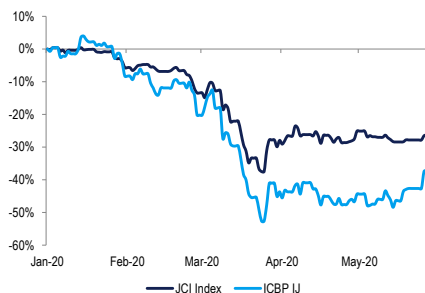


Stock Data

Target price	Rp8,600
Prior TP	Rp10,200
Current price	Rp8,325
Upside/downside	+3%
Shares outstanding (mn)	11,662
Market cap (Rp bn)	97,085
Free float	19%
Avg. 6m daily T/O (Rp bn)	59

Price Performance

	3M	6M	12M
Absolute	-30.1%	-31.5%	-38.5%
Relative to JCI	-10.3%	-8.5%	-15.5%
52w low/high (Rp)	3,280 – 7,675		



Major Shareholders

First Pacific Company Ltd	80.5%
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A negative headline; downgrade to Hold

- ICBP booked a solid 1Q20 result with core profit improvement of +17% yoy, in line, on the back of solid sales and margins across divisions.
- Pinehill related party acquisition at 23x P/E does not look cheap (ICBP's 19x P/E). ICBP net gearing will also spike to 0.9x from net cash position.
- While the deal may be earnings accretive (with low interest rate), sentiment will remain weak. We downgrade to Hold with Rp8,600 TP.

Solid sets of 1Q20 results amid Covid-19; in line

ICBP's 1Q20 core profit improved by +16.8% yoy to Rp1,538bn, in-line at 31%/28% of ours and consensus' estimates (vs. 3Y average of 27%). 1Q20 sales also recorded a solid +6.7% yoy growth; also in-line. Major divisions, i.e. noodles, dairy, and snack foods recorded solid growth of +7%/9%/8% (with +3%/6%/3% volume growth) respectively. EBIT margin also significantly improved in snack foods and beverages divisions as ICBP put a halt to biscuits and Pepsi operations in 2H19, respectively.

Pinehill acquisition finalized

Transaction value amounts to US\$2,998mn (or around Rp44.1tr) with US\$2,348mn (around 78%) will be paid on the completion date (should be no later than end of this year), while the remaining US\$650mn will only be paid subject to meeting the guaranteed net profit of US\$128.5mn (or around Rp1.9tr) – downward adjustment will be made shall earnings deviate >5% from guaranteed profit, see Fig 3). The guaranteed profit implies c.29% core profit CAGR in 2019-21F (vs. US\$77.6mn core profit in 2019).

Acquisition price tag seems rich; but may be earnings accretive

The deal implies 23x 2020/21F P/E on guaranteed profit, not essentially cheap vs. ICBP at 19x 2021F P/E especially considering its size, despite its EV/pack is decent at around Rp5,800 in 2019, vs. ICBP noodles' at around Rp7,600, in our estimates. To fund the transaction, ICBP will use US\$300mn from internal cash and the remaining from third party banks. We estimate ICBP will have to acquire US\$2bn loan in 2020F should the deal goes through. Assuming ICBP could secure a low c.3% interest rate (mix of US\$ and JPY), ICBP will have to endure an additional Rp900bn interest expenses in 2021F (c.14% of earnings); hence the deal may be earnings accretive assuming Pinehill can meet the guaranteed profit.

Risks and negative sentiment remains; downgrade to Hold

Nonetheless, Pinehill's rich valuation and its related-party nature may put ICBP under negative sentiment. While its guaranteed profits are positive, it may not put investors at ease given its uncertainty. As such, despite increasing our FY20-21F earnings estimates by 14-20% to accommodate its solid 1Q20 results and possible short-term earnings upsides from Pinehill acquisition, we downgrade our call to Hold with TP Rp8,600, pegged to 15.5x 2021F P/E (4 s.d. below its 5-year mean) from previously Rp10,200.

Financial Summary (Rp bn)	2018A	2019A	2020F	2021F	2022F
Revenue	38,413	42,297	46,937	57,763	62,608
EPS (Rp)	352	427	490	557	611
ROE	21.3%	20.4%	19.9%	19.4%	18.0%
PER (x)	23.7	19.5	17.0	14.9	13.6
EV/EBITDA (x)	13.9	10.8	12.9	9.4	9.1
Dividend yield	2.6%	1.7%	2.7%	3.1%	3.4%
Forecast change			+14.5%	+19.5%	+22.4%
IPS vs. consensus			104%	108%	108%

Source: Company, Indo Premier

Share price closing as of: 27 May 2020

Pinehill Company Limited acquisition – A brief summary

On 22 May 2020, ICBP has signed an agreement to acquire 100% of Pinehill Company Limited (“Pinehill Group”), a holding company which owns 4 (four) subsidiaries, from Pinehill Corpora Limited (an affiliate, owned 51%) and Steele Lake Limited (non-affiliate, owned 49%).

To go through with the acquisition, ICBP has to obtain approval in EGMS (to be held no later than 28 Aug 2020), but does not require the approval of independent shareholders – we think likely due to the business similarity between the target group (Pinehill) and ICBP’s core businesses of producing instant noodles.

Pinehill Group manufactures and distributes instant noodles under the brand “Indomie” in Africa, Middle East, and South Eastern Europe. It has 59% stake in 3 of the subsidiaries and 49% in one of the subsidiary (Dufil).

In total, Pinehill Group has a total production capacity of almost 9bn packs of instant noodles per annum with an 86% utilization rate as of 2019. Pinehill Group sold 7.6bn packs of instant noodles in 2019 (roughly half of Indonesia’s volume) with c.10% sales volume CAGR in the past two years (vs. c.6% in Indonesia).

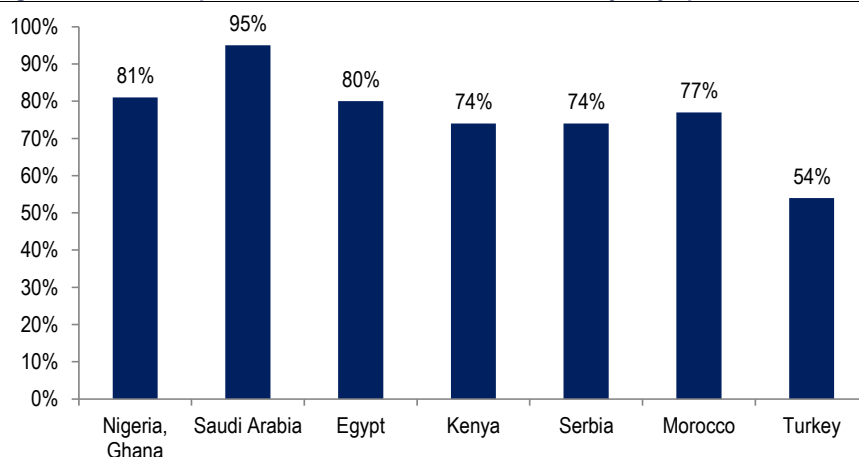
Pinehill Group booked US\$533.5mn sales in 2019 (18% of ICBP’s) with total PBT of US\$125mn (implying 23% PBT margin). Its core profit stood at US\$77.6mn (or Rp1,141bn – around 22% of ICBP’s) in 2019, implying a +41% yoy growth from US\$55.1mn in 2018.

Fig. 1: Pinehill Group’s entities and sales volume

Entity	Year of effective operation	Base country	Sales volume inc. export in 2019 (mn packs)	Sales volume CAGR (1995-2019)
DUFIL	1995	Nigeria & Ghana	4,062	22%
PAFL	1995	Saudi Arabia	1,779	
SAWAZ	2010	Egypt	1,256	
	2014	Kenya	92	
	2017	Serbia	125	
	2017	Morocco	75	21%
SAWAZ Turkey	2015	Turkey	211	
Total Pinehill Group			7,600	21%

Source: Company, Indo Premier

Fig. 2: Pinehill Group's domestic market share in each country they operate in



Source: Company, Indo Premier

Details on the transaction

Transaction value amounts to US\$2,998mn (equivalent to Rp44.1tr); wherein US\$2,348mn (78%) will be paid on the completion date (no later than end of this year), while the remaining US\$650mn will only be paid subject to the adjustment based on guaranteed profit on 30 April 2022 or later.

Sellers guaranteed an average NPAT of US\$128.5mn (equivalent to Rp1.9tr) per annum for 2020 and 2021. In the event that the guaranteed profit is not achieved, then the purchase consideration shall be adjusted in accordance with the following formula:

Adjustment value = (Guaranteed Profit – Actual Profit) x PE Target Group

With this formula, assuming Pinehill will miss its NPAT by 10%, ICBP will get a c.10% discount to its total acquisition cost.

With the minimum guaranteed profit, the sale implies a PE target group of 23x 2020/21F P/E – seems like a rich price tag when compared to ICBP's 19x 2021F P/E.

Fig. 3: For every -10% deviation in Pinehill's guaranteed profit, ICBP will receive almost 10% discount to its total acquisition cost.

Guaranteed profit deviation (%)	Value adjustment (US\$ mn)	Discount to total acquisition cost (%)
-10%	295.6	9.9%
-20%	591.1	19.7%
-30%	886.7	29.6%

Source: Indo Premier

Fig. 4: Pinehill Group's profits and guaranteed NPAT for 2020-21F

(US\$ mn)	2018	2019	2020F	2021F
PBT	87.2	125.0		
NPAT*	41.8	43.2	128.5	128.5
Core profit	55.1	77.6		
*guaranteed profit				

Source: Company, Indo Premier

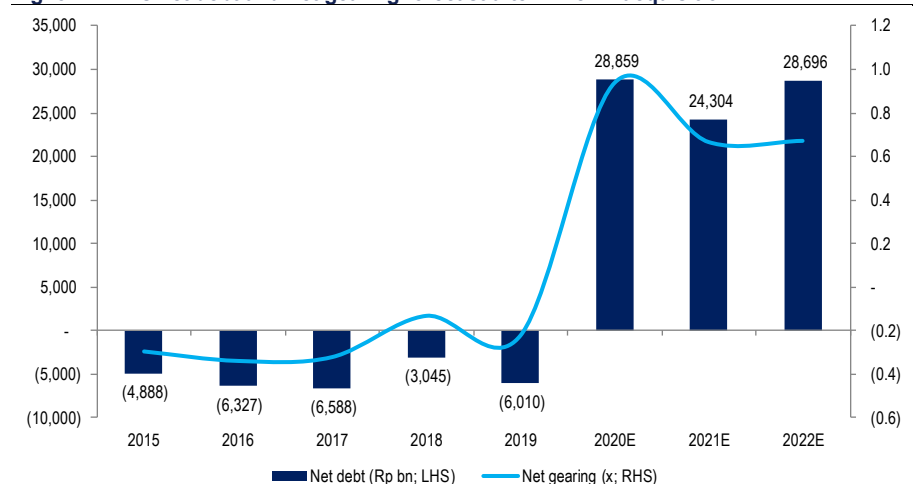
Impact to ICBP – Possibly earnings accretive in 2021F should ICBP is able to secure low interest rate; nonetheless, added balance sheet risks

To fund the transaction, ICBP will use US\$300mn from internal cash and the remaining from third party banks. We estimate ICBP will have to acquire US\$2mn loan in 2020F should the deal goes through. Assuming ICBP could secure a low c.3% interest rate (mix of US\$ and JPY), ICBP will have to endure an additional Rp900bn interest expenses in 2021F (c.14% of earnings); hence the deal may be earnings accretive assuming Pinehill can meet the guaranteed profit of US\$128.5mn (or around Rp1.9tr) in 2021F.

Assuming the deal to go through at end-3Q20, we estimate Pinehill acquisition to be earnings-neutral in 2020F and earnings-accretive by c.4% in 2021F, under the following assumptions: 1) 2019-21F sales CAGR of 15%, 2) PBT margin of 29%, 3) Tax rate of 15%, and 4) Earnings to minorities of 45%. We roughly estimate Pinehill Group to book around Rp300bn core net profit in 4Q20 and Rp1.4tr core net profit in 2021F.

Nonetheless, balance sheet wise, we will see ICBP moving from net cash position of Rp6.0tr as of end-2019 to possibly a net debt of Rp28.9tr as of end-2020F, with a net gearing of 0.92x.

Fig. 5: ICBP's net debt and net gearing forecast after Pinehill acquisition



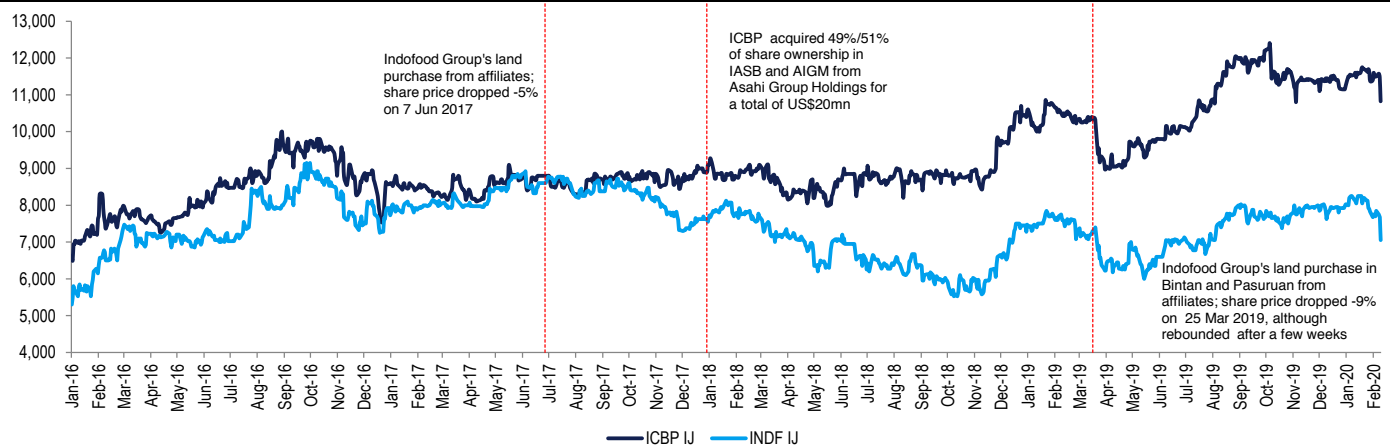
Source: Company, Indo Premier

Still, negative sentiment will linger, downgrade to Hold with Rp8,600 TP

While this is not ICBP's first related-party transaction, the size of current Pinehill transaction is significantly more sizeable compared to previous acquisitions. Hence, we believe that the expensive valuation and its related-party nature may put ICBP under negative sentiments. Although its guaranteed profit is a sweetener, this may not be enough to ease investors' concerns.

As such, despite raising our FY20-21F earnings estimate by 14-20% to accommodate for its solid 1Q20 results and possible earnings upside from Pinehill's acquisition, we downgrade our call to Hold with TP of Rp8,600, pegged to 15.5x FY21F P/E (4 s.d. below its 5-year mean) from previously Rp10,200.

Fig. 6: ICBP's share price reacted negatively to past news on land purchase from affiliates (which transaction size was much smaller than current acquisition). Following Pinehill's acquisition, we expect negative sentiment to linger for some time following prolonged balance sheet and earnings uncertainty risks



Source: Bloomberg, Indo Premier

Fig. 7: IndoPremier estimates on the impact of Pinehill acquisition towards ICBP's 2020-21F financial performance

	ICBP		ICBP + Pinehill		Changes	
	2020F	2021F	2020F	2021F	2020F	2021F
Sales (Rp bn)	44,885	48,037	46,937	57,763	4.6%	20.2%
Gross profit (Rp bn)	15,474	16,475	16,062	19,744	3.8%	19.8%
EBIT (Rp bn)	7,959	8,484	8,486	11,406	6.6%	34.4%
Core net profit (Rp bn)	5,799	6,246	5,713	6,498	-1.5%	4.0%
EPS (Rp)	497	535	490	557	-1.5%	4.0%
Margins, %						
Gross margin	34.5%	34.3%	34.2%	34.2%	-0.3%	-0.1%
EBIT margin	17.7%	17.7%	18.1%	19.7%	0.3%	2.1%
Core net margin	12.9%	13.0%	12.2%	11.2%	-0.7%	-1.8%
Growth, % yoy						
Sales growth	6.1%	7.0%	11.0%	23.1%		
EBIT growth	9.4%	6.6%	16.6%	34.4%		
Core net profit growth	16.3%	7.7%	14.6%	13.7%		

Source: Indo Premier

Fig. 8: Forecast changes

	Previous		Current		Changes	
	2020F	2021F	2020F	2021F	2020F	2021F
Sales (Rp bn)	44,064	47,169	46,937	57,763	6.5%	22.5%
Gross profit (Rp bn)	14,500	15,487	16,062	19,744	10.8%	27.5%
EBIT (Rp bn)	7,123	7,640	8,486	11,406	19.1%	49.3%
Core profit (Rp bn)	4,990	5,438	5,713	6,498	14.5%	19.5%
EPS (Rp)	428	466	490	557	14.5%	19.5%
Margins, %						
Gross margin	32.9%	32.8%	34.2%	34.2%	1.3%	1.3%
EBIT margin	16.2%	16.2%	18.1%	19.7%	1.9%	3.5%
Core profit margin	11.3%	11.5%	12.2%	11.2%	0.8%	-0.3%
Growth, % yoy						
Sales growth	4.2%	7.0%	11.0%	23.1%		
EBIT growth	-2.1%	7.3%	16.6%	34.4%		
Core profit growth	0.1%	9.0%	14.6%	13.7%		

Source: Indo Premier

Fig. 9: ICBP is currently trading at 18.6x 12M fwd. P/E, or around 2 s.d. below its 5-year mean of 23.3x



Source: Bloomberg, Indo Premier

Income Statement (Rp bn)	2018A	2019A	2020F	2021F	2022F
Net revenue	38,413	42,297	46,937	57,763	62,608
Cost of sales	(26,148)	(27,893)	(30,875)	(38,020)	(41,405)
Gross profit	12,266	14,404	16,062	19,744	21,203
SG&A Expenses	(6,494)	(7,126)	(7,576)	(8,338)	(9,016)
Operating profit	5,772	7,278	8,486	11,406	12,187
Net interest	28	85	(210)	(913)	(910)
Forex gain (loss)	0	0	0	0	0
Others	647	74	(120)	(96)	(77)
Pre-tax income	6,447	7,437	8,155	10,397	11,200
Income tax	(1,788)	(2,077)	(2,033)	(2,592)	(2,568)
Minority interest	(83)	(321)	(410)	(1,307)	(1,502)
Net income	4,576	5,039	5,713	6,498	7,130

Balance Sheet (Rp bn)	2018A	2019A	2020F	2021F	2022F
Cash & equivalent	5,291	8,359	3,581	8,135	3,744
Receivable	4,271	4,132	4,663	5,738	6,219
Inventory	4,001	3,841	4,340	5,345	5,820
Other current assets	558	293	472	581	630
Total current assets	14,122	16,625	13,057	19,799	16,414
Fixed assets	10,742	11,342	14,763	15,360	15,832
Goodwill	1,776	1,776	1,776	1,776	1,776
Total non-current assets	20,246	22,084	60,372	60,836	71,175
Total assets	34,367	38,709	73,429	80,635	87,588
ST loans	1,146	458	458	458	458
Payable	3,706	3,258	3,854	4,746	5,168
Other payables	1,702	1,842	1,961	2,415	2,630
Current portion of LT loans	248	196	91	91	91
Total current liab.	7,235	6,556	7,049	8,553	9,266
Long term loans	852	1,695	31,891	31,891	31,891
Other LT liab.	3,573	3,787	3,787	3,787	3,787
Total liabilities	11,660	12,038	42,727	44,231	44,944
Equity	6,569	6,569	6,569	6,569	6,569
Retained earnings	15,030	18,495	22,353	26,748	31,486
Minority interest	1,088	1,370	1,780	3,088	4,590
Total SHE + minority int.	22,707	26,671	30,702	36,404	42,645
Total liabilities & equity	34,367	38,709	73,429	80,635	87,588

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2018A	2019A	2020F	2021F	2022F
EBIT	5,772	7,278	8,486	11,406	12,187
Depr. & amortization	976	1,160	1,255	1,536	1,661
Changes in working capital	(1,198)	1,189	(612)	(685)	(293)
Others	(897)	(2,229)	(2,363)	(3,601)	(3,555)
Cash flow from operating	4,653	7,398	6,766	8,657	10,000
Capital expenditure	(3,512)	(2,026)	(4,543)	(2,000)	(2,000)
Others	(1,201)	(374)	(35,000)	0	(10,000)
Cash flow from investing	(4,713)	(2,400)	(39,543)	(2,000)	(12,000)
Loans	2,979	412	30,091	0	0
Equity	0	0	0	0	0
Dividends	(2,566)	(1,683)	(1,855)	(2,103)	(2,392)
Others	(4,656)	5	(237)	0	0
Cash flow from financing	(4,242)	(1,266)	27,999	(2,103)	(2,392)
Changes in cash	(4,093)	3,637	(4,778)	4,554	(4,392)

Key Ratios	2018A	2019A	2020F	2021F	2022F
Gross margin	31.9%	34.1%	34.2%	34.2%	33.9%
Operating margin	15.0%	17.2%	18.1%	19.7%	19.5%
Pre-tax margin	16.8%	17.6%	17.4%	18.0%	17.9%
Net margin	11.9%	11.9%	12.2%	11.2%	11.4%
ROA	13.9%	13.8%	10.2%	8.4%	8.5%
ROE	21.3%	20.4%	19.9%	19.4%	18.0%
Acct. receivables TO (days)	39.9	36.3	36.3	36.3	36.3
Inventory TO (days)	50.7	51.3	51.3	51.3	51.3
Payable TO (days)	50.4	45.6	45.6	45.6	45.6
Debt to equity	9.9%	8.8%	105.7%	89.1%	76.1%
Interest coverage ratio (x)	25.6	35.6	19.6	10.1	10.8
Net gearing	-13.4%	-22.5%	94.0%	66.8%	67.3%

Source: Company, Indo Premier

INVESTMENT RATINGS

BUY	: Expected total return of 10% or more within a 12-month period
HOLD	: Expected total return between -10% and 10% within a 12-month period
SELL	: Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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