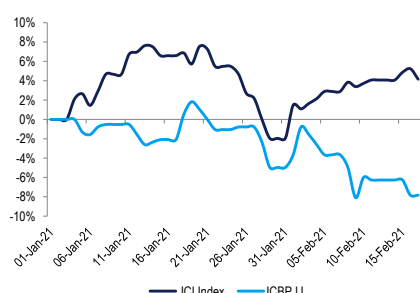


Stock Data

Target price	Rp12,500
Prior TP	Rp12,000
Current price	Rp8,825
Upside/downside	+42%
Shares outstanding (mn)	11,662
Market cap (Rp bn)	102,916
Free float	19%
Avg. 6m daily T/O (Rp bn)	99

Price Performance

	3M	6M	12M
Absolute	-14.1%	-12.6%	-19.8%
Relative to JCI	-26.6%	-31.1%	-25.2%
52w low/high (Rp)	8,150-11,225		



Major Shareholders

Indofood SM	80.5%
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Neutral impact from IFL transaction

- ICBP purchased 49% of IFL shares from non-affiliated Fritolay for Rp494bn – implying an undemanding 5.3x FY21F EV/EBITDA.
- IFL will conclude the licensing agreement for Cheetos, Lays, and Doritos. Yet the transaction shall remain earnings accretive albeit small.
- We forecast ICBP's earnings to increase by 17.4/11.8% in 2021/22F, strongest among its peers. Maintain Buy with higher TP of Rp12,500.

ICBP purchased the remaining 49% shares from Fritolay – valuation seems fair, in our estimates

On 17 Feb 2021, ICBP has purchased the remainder shares of PT Indofood Fritolay Makmur (IFL; its snack foods division) owned by Fritolay (an affiliated of PepsiCo) – amounting to 49% of total shares for Rp494bn, financed by its internal cash. This implies an undemanding 0.3x FY21F P/S (vs. ICBP's 1.8x) and 5.3x FY21F EV/EBITDA (vs. ICBP's 10.1x) – figure 1. Following the transaction, ICBP's ownership in IFL increased from 51% to 99.99%.

Impact from termination of PepsiCo brands shall be muted

IFL will terminate the licensing agreement with PepsiCo and hence cease the production and sales of those products in Indonesia, which include Cheetos, Lays, and Doritos, with 6 months transition period. According to Euromonitor, as of 2020, IFL is the market leader in the savory snacks industry with 10.6% market share; with Cheetos, Lays, and Doritos having 3.6/0.3/<0.1% market share respectively. Based on this data, we estimate ICBP to lose c.37% of its sales from the termination of these brands. Yet we expect the transaction to remain earnings-accretive (by c.Rp26bn – c.0.4% of earnings) as the parent entity will be entitled for 99.99% of IFL's earnings – see Figure 2.

ICBP sales tend to prevail in times of weak economic growth

We think ICBP's defensive and market leader position will allow them to continue to prevail in weak economic growth environment – see Fig 6. ICBP also still managed to increase ASP by Rp100 (implying 3-4% yoy increase) in Jan21 for most of its major noodle brands, which shall help to offset the increasing commodity prices, i.e. Bogasari (under INDF) has increased their wheat flour prices by around 2-3%, also in Jan21.

Maintain Buy with higher TP of Rp12,500 (rolled-forward)

While we trimmed our FY21/22F earnings by 10.3/12.0% to take into account possibility of higher A&P expenses and other Pinehill-related opex, we rolled forward our valuation target to 20.5x 2022F P/E (still at 1 s.d. below 5-year mean) and thus, higher TP of Rp12,500 (maintain Buy). ICBP is currently trading at an attractive 16.4x P/E (2.5 s.d. below 5-year mean). Overall, we think the impact of ICBP's 'separation' from Fritolay is rather Neutral given its immaterial earnings impact and non-affiliated nature.

Financial Summary (Rpbn)	2018A	2019A	2020F	2021F	2022F
Revenue	38,413	42,297	46,040	56,511	60,659
EBITDA growth	3.0%	25.1%	12.0%	33.4%	7.9%
Net profit	4,576	5,039	5,365	6,297	7,041
EPS growth	1.8%	21.4%	7.6%	17.4%	11.8%
ROE	21.3%	20.4%	18.8%	18.9%	17.9%
PER (x)	25.1	20.6	19.2	16.3	14.6
EV/EBITDA (x)	14.8	11.5	14.0	10.1	9.7
Dividend yield	2.5%	1.6%	2.5%	2.7%	3.2%
Forecast change			-8%	-10%	-12%
IPS vs. consensus			95%	97%	99%

Source: Company, Indo Premier

Share price closing as of: 17 February 2021

Neutral impact from IFL transaction; valuation also seems fair

Fig. 1: Based on the transaction value, we estimate that IFL was valued at 5.3x 2021F EV/EBITDA and 0.3x 2021F P/S – fairly-valued in our view

	2019	2020F	2021F	2022F
Snack foods revenue	2,637	2,716	2,938	3,178
<i>yoy growth (%)</i>	2.8%	3.0%	8.2%	8.2%
EBIT	(43)	272	264	286
<i>EBIT margin (%)</i>	-1.6%	10.0%	9.0%	9.0%
Snack foods revenue excl. Lays, Cheetos, Doritos	1,667	1,717	1,857	2,009
Snack foods EBIT excl. Lays, Cheetos, Doritos		172	167	181
<i>EBIT margin (%)</i>		10.0%	9.0%	9.0%
Total assets	1,247	1,436		
ICBP total assets	38,709	72,977		
<i>As % of ICBP total assets</i>	3.2%	2.0%		
Depreciation	1,160	1,255		
IFL's depreciation	37	25	25	25
<i>assuming proportional to total assets</i>				
IFL's EBITDA		196	192	205
IFL's EV				1,008
IFL's implied EV/EBITDA		5.1	5.3	4.9
IFL's implied Price/sales		0.4	0.3	0.3

Source: Indo Premier

Fig. 2: We expect the transaction to be earnings-accretive albeit small (Rp26bn – or 0.4% of FY21F earnings), in our estimates

Before transaction				
Snack foods revenue	2,637	2,716	2,938	3,178
EBIT	(43)	272	264	286
EBIT margin (%)	-1.6%	10.0%	9.0%	9.0%
NPAT		212	206	223
Tax rate: 22%				
Minorities		(104)	(101)	(109)
Income attributable to parent entity		108	105	114
After transaction				
Snack foods revenue	1,667	1,717	1,857	2,009
excl. Lays, Cheetos, Doritos				
EBIT		172	167	181
excl. Lays, Cheetos, Doritos				
EBIT margin (%)		10.0%	9.0%	9.0%
NPAT		134	130	141
Tax rate: 22%				
Minorities		-	-	-
Income attributable to parent entity		134	130	141
Earnings accretive / (dilutive)		26	25	26
As % of total earnings		0.5%	0.4%	0.4%

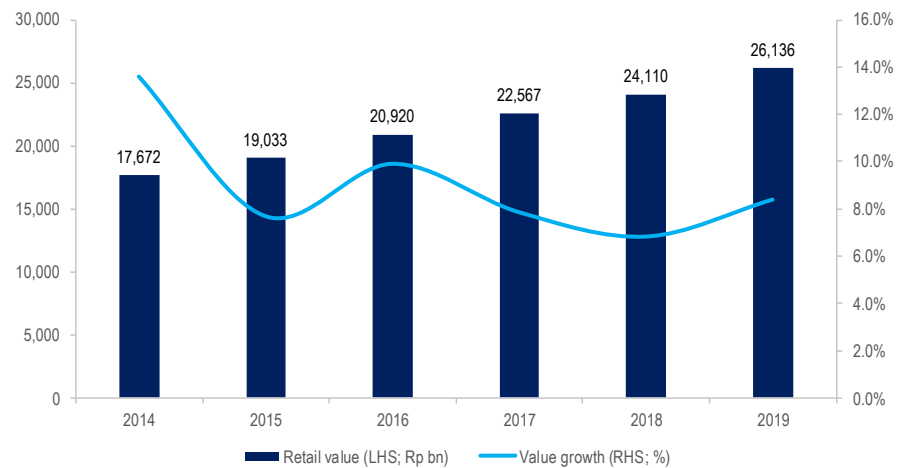
Source: Indo Premier

Consumption trend of savory snacks

According to Euromonitor's data, in the last few years, the snack industry saw a steady CAGR of 8.3% in 2015-19, from previously 12.2% CAGR during their peak in 2010-14. Among the snack categories, salty snacks make up around 33% of the total snack category sales, followed by nuts and seeds snacks at around 25%.

Due to the current pandemic and also persisting lockdowns (PSBB) in some cities, consumption of extruded snacks has been growing steadily across the country as people spend more time at home. Among the categories, salty snacks (i.e. Taro, Cheetos, Chiki) have been seeing relatively decent growth of around 9% yoy (vs. average growth of 6% yoy for other snack categories) as of Sep20, only surpassed by potato chips (i.e. Lay's and Chitato) at around 12% yoy growth (albeit from a low base). Most of this growth happened in 1Q20 with the subsequent slowdown seen in 2Q20, in line with weakening purchasing power.

Fig.3: Savoury snack industry trend

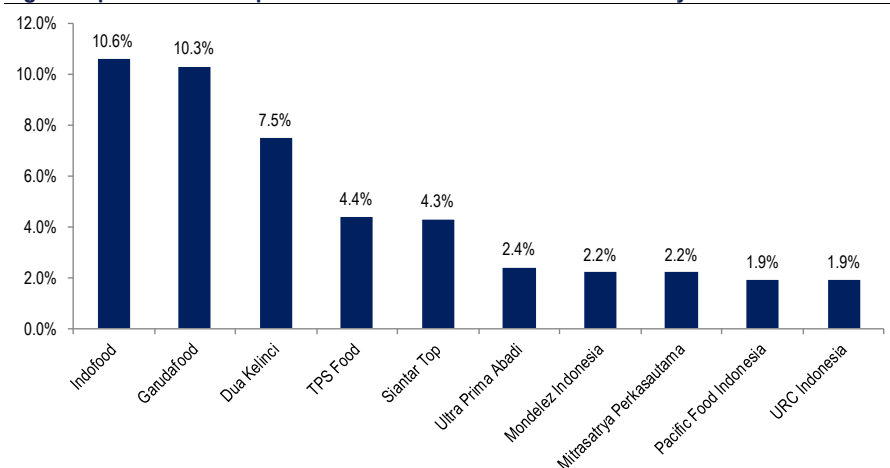


Source: Euromonitor, Indo Premier

At the same time, competition in the snack industry has been intensifying in the last few years with more major players coming into Indonesia, such as the relatively recent partnership between Calbee and Wings. This has caused the pricing and advertising competition in the industry to pick-up especially in the last two years. In terms of market share, currently Indofood is still leading the snacks industry with a 11% market share, followed closely by Garudafood with 10%, Dua Kelinci with 8% and Tiga Pilar with 4%. On a per brand basis, Kacang Garuda is the market leader with market share of 8.5%, followed by Kacang Dua Kelinci at 6.8% and Cheetos at 3.6%.

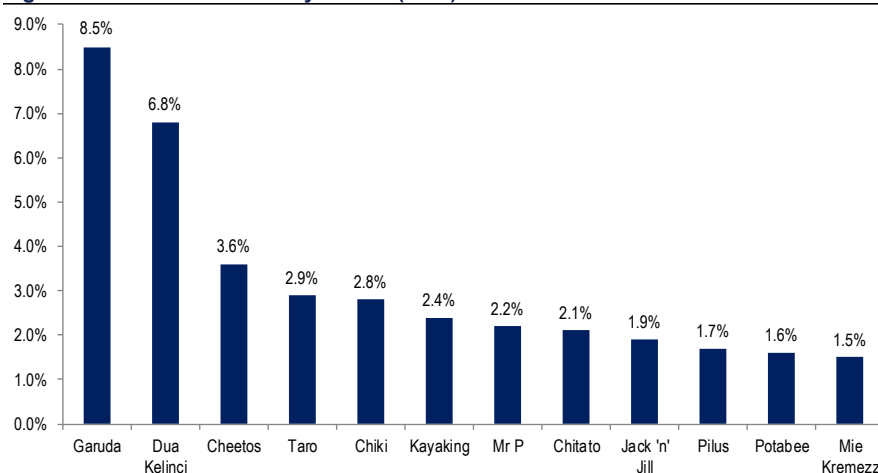
Other in-house brands of Indofood (not under licensing agreement with PepsiCo) also hold a respectable market share of 2.8/2.1% for Chiki and Chitato respectively.

Fig.4: Top 10 FMCG companies' market share in the snacks industry



Source: Euromonitor, Indo Premier

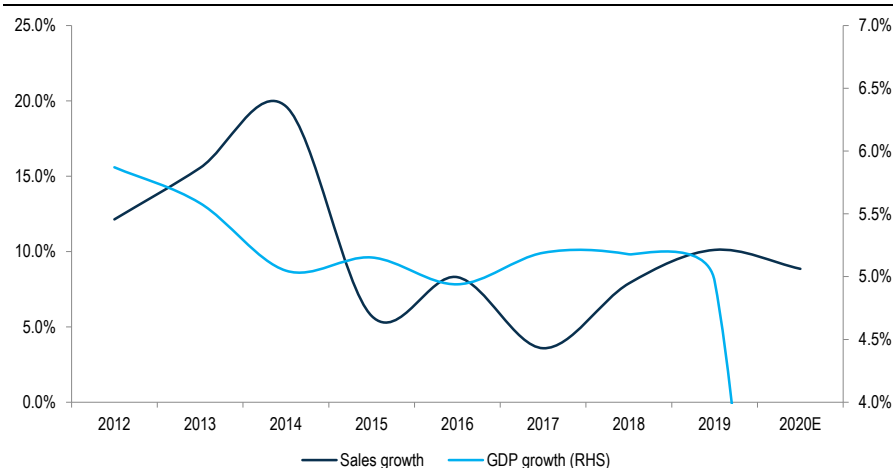
Fig.5: Brand shares of savoury snacks (2020)



Source: Euromonitor, Indo Premier

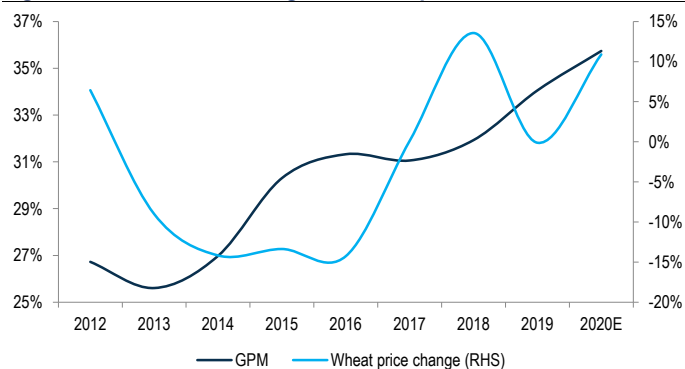
ICBP sales tend to prevail in times of weak economic growth

Fig. 6: ICBP's sales growth tend to perform extremely well during weaker economic years



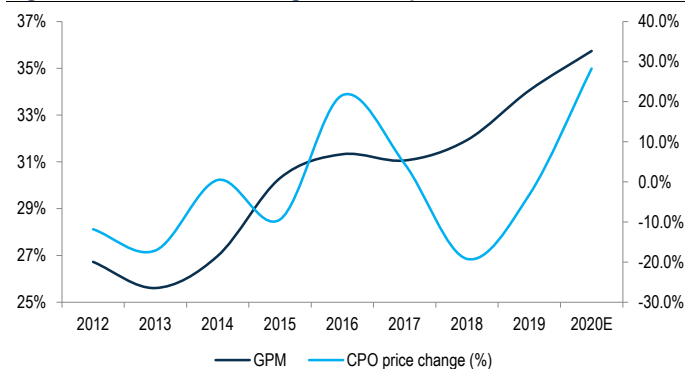
Source: Company, Indo Premier

Fig. 7: ICBP's GPM vs. changes in wheat price



Source: Bloomberg, Indo Premier

Fig. 8: ICBP's GPM vs. changes in CPO price



Source: Bloomberg, Indo Premier

Fig. 9: Forecast change

	Previous			Current			Changes		
	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F
Sales (Rp bn)	46,520	57,586	62,420	46,040	56,511	60,659	-1.0%	-1.9%	-2.8%
Gross profit (Rp bn)	16,666	21,087	23,037	16,455	20,539	22,097	-1.3%	-2.6%	-4.1%
EBIT (Rp bn)	8,599	11,854	13,049	8,197	11,071	11,939	-4.7%	-6.6%	-8.5%
Core net profit (Rp bn)	5,839	7,018	8,003	5,365	6,297	7,041	-8.1%	-10.3%	-12.0%
EPS (Rp)	501	602	686	460	540	604	-8.1%	-10.3%	-12.0%
Margins, %									
Gross margin	35.8%	36.6%	36.9%	35.7%	36.3%	36.4%	-0.1%	-0.3%	-0.5%
EBIT margin	18.5%	20.6%	20.9%	17.8%	19.6%	19.7%	-0.7%	-1.0%	-1.2%
Core net margin	12.6%	12.2%	12.8%	11.7%	11.1%	11.6%	-0.9%	-1.0%	-1.2%
Growth, % yoy									
Sales growth	10.0%	23.8%	8.4%	8.8%	22.7%	7.3%			
EBIT growth	18.1%	37.9%	10.1%	12.6%	35.1%	7.8%			
Core net profit growth	17.1%	20.2%	14.0%	7.6%	17.4%	11.8%			

Source: Company, Indo Premier

Fig. 10: ICBP is currently trading at 16.4x 12M fwd. P/E, or around 2.5 s.d. below its 5-year mean of 23.2x



Source: Bloomberg, Indo Premier

Income Statement (Rp bn)	2018A	2019A	2020F	2021F	2022F
Net Revenue	38,413	42,297	46,040	56,511	60,659
Cost of Sales	(26,148)	(27,893)	(29,585)	(35,972)	(38,563)
Gross Profit	12,266	14,404	16,455	20,539	22,097
SG&A Expenses	(6,494)	(7,126)	(8,258)	(9,468)	(10,158)
Operating Profit	5,772	7,278	8,197	11,071	11,939
Net Interest	28	85	(214)	(757)	(752)
Forex Gain (Loss)	0	0	0	0	0
Others-Net	647	74	(120)	(96)	(77)
Pre-Tax Income	6,447	7,437	7,863	10,218	11,110
Income Tax	(1,788)	(2,077)	(1,921)	(2,496)	(2,492)
Minorities	(83)	(321)	(577)	(1,425)	(1,577)
Net Income	4,576	5,039	5,365	6,297	7,041

Balance Sheet (Rp bn)	2018A	2019A	2020F	2021F	2022F
Cash & Equivalent	5,291	8,359	3,409	7,994	3,682
Receivable	4,271	4,132	4,573	5,614	6,026
Inventory	4,001	3,841	4,159	5,057	5,421
Other Current Assets	558	293	463	569	611
Total Current Assets	14,122	16,625	12,605	19,233	15,740
Fixed Assets - Net	10,742	11,342	14,763	15,360	15,832
Goodwill	1,776	1,776	1,776	1,776	1,776
Non-Current Assets	20,246	22,084	60,372	60,836	71,175
Total Assets	34,367	38,709	72,977	80,069	86,915
ST Loans	1,146	458	458	458	458
Payable	3,706	3,258	3,693	4,490	4,814
Other Payables	1,702	1,842	1,879	2,285	2,449
Current Portion of LT Loans	248	196	91	91	91
Total Current Liab.	7,235	6,556	6,777	8,122	8,667
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	42,455	43,800	44,345
Equity	6,569	6,569	6,569	6,569	6,569
Retained Earnings	15,030	18,495	22,006	26,328	31,051
Minority Interest	1,088	1,370	1,947	3,372	4,949
Total SHE + Minority Int.	22,707	26,671	30,522	36,269	42,569
Total Liabilities & Equity	34,367	38,709	72,977	80,069	86,915

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2018A	2019A	2020F	2021F	2022F
EBIT	5,772	7,278	8,197	11,071	11,939
Depr. & Amortization	976	1,160	1,255	1,536	1,661
Changes in Working Capital	(1,198)	1,189	(604)	(699)	(273)
Others	(897)	(2,229)	(2,254)	(3,349)	(3,321)
Cash Flow From Operating	4,653	7,398	6,594	8,559	10,007
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)	(1,975)	(2,318)
Others	(4,656)	5	(237)	0	0
Cash Flow From Financing	(4,242)	(1,266)	27,999	(1,975)	(2,318)
Changes in Cash	(4,093)	3,637	(4,950)	4,585	(4,311)

Key Ratios	2018A	2019A	2020F	2021F	2022F
Gross Margin	31.9%	34.1%	35.7%	36.3%	36.4%
Operating Margin	15.0%	17.2%	17.8%	19.6%	19.7%
Pre-Tax Margin	16.8%	17.6%	17.1%	18.1%	18.3%
Net Margin	11.9%	11.9%	11.7%	11.1%	11.6%
ROA	13.9%	13.8%	9.6%	8.2%	8.4%
ROE	21.3%	20.4%	18.8%	18.9%	17.9%

Acct. Receivables TO (days)	40	36	36	36	36
Inventory TO (days)	51	51	51	51	51
Payable TO (days)	50	46	46	46	46

Debt to Equity	9.9%	8.8%	106.3%	89.4%	76.2%
Interest Coverage Ratio (x)	25.6	35.6	18.9	11.4	12.3
Net Gearing	-13.4%	-22.5%	95.1%	67.4%	67.6%

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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