INDOPREMIER

Unilever Indonesia

SELL *(downgrade)*

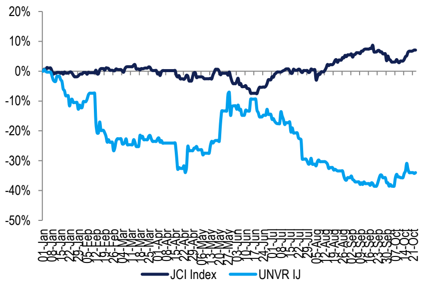
Company Update | Consumer Staples | UNVR IJ | 23 October 2024

Stock Data

Target price	**R1,750**
Prior TP	*Rp2,800*
Current price	Rp2,330
Upside/downside	*-25%*
Shares outstanding (mn)	38,150
Market cap (Rp bn)	88,890
Free float	15%
Avg. 6m daily T/O (Rp bn)	52

Price Performance

	3M	6M	12M
Absolute	-14,7%	0,0%	-41,6%
vs. JCI	-21,1%	-9,5%	-56,0%
52w low/high (Rp)		2,170 – 4,080	



Major Shareholders

Unilever Indonesia Holding	85%

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3Q24 results: big miss amid steep volume decline; downgrade to Sell

- UNVR's 9M24 net profit of Rp3.0tr (-28.1% yoy) was way below our/consensus estimate at 63/65% vs. 5yr avg of 80%.
- 3Q24's net profit of Rp543bn declined by -62% yoy on the back of sales decline (-18% yoy) as volume dropped by -16%yoy.
- We cut UNVR's FY24/25F earnings by -21/-28% and downgrade to SELL with TP of Rp1,750/sh.

9M24 profit miss from sustained A&P spending despite slump in sales

UNVR recorded 9M24 net profit of Rp3tr (-28.1% yoy) and this came way below our/consensus estimate at 63/65% vs. 5yr average of 80%. Sales attainment of Rp27.4tr (-10.1% yoy) came with unit volume growth (UVG) of -5.8%, unit price growth (UPG) of -4.1% and export drop -17.5% yoy. GPM/net profit margin declined to 48.4/11% (-163/-275bps yoy) as negative operating leverage kicked in.

3Q24: lack of strategic coherence led to sharp volume decline

3Q24 sales decline of -18.0% yoy (UVG of -16% yoy) was driven not only by the residual impact of negative boycott sentiment, but also price instability across sales channel impacting some distributors' viability and further retailers' stock reduction (on top of 1H23's). In particular, the wide range of pricing within channels arise due to the different working capital ability of distributors during discount campaigns across channels and this actually conflicts with UNVR's stock reduction program on future fitting distributors. In sum, this was an internal company issue which the company is working on, along with challenging external factors such as intense competition amidst down-trading trends.

3Q24 margins adversely impacted from negative operating leverage

Consequently, 3Q24 GPM declined to 45.5% (-495bps yoy, c.190bps of which is due to company transformation cost that is likely to extend into 4Q24F). Opex/sales ratio swelled to 36.8% (+424bps yoy) as A&P as % of sales climbed to 10.8% of sales. In sum, net profit margin recorded an all-time quarterly low of 6.5% (-751bps yoy).

FY24/25F EPS cut led to downgrade; SELL with lower TP at Rp1,750/sh

With this, we cut FY24/25F net profit by -21/-28% on the back of 3Q24 results. A substantial cut on FY25F earnings stem from a new GPM baseline which may need to be structurally lower in the company's attempt to recover volume and market share, in our view. Given the uncertainty and execution risk of management's strategies amidst sustained down-trading trend, we downgrade UNVR to SELL with lower TP of Rp1,750, based on 18x FY25F PE (-2.5s.d. from its 5yr avg).

Financial Summary (Rp bn)	2022A	2023A	2024F	2025F	2026F
Revenue	41,219	38,611	34,130	35,592	37,475
EBITDA	7,929	6,279	5,664	5,574	6,132
Net profit	5,365	4,801	3,776	3,703	4,129
EPS (Rp)	141	126	99	97	108
EPS growth	-6.8%	-10.5%	-21.3%	-1.9%	11.5%
ROE	129.0%	130.1%	131.6%	159.6%	165.4%
PER (x)	16.6	18.5	23.5	24.0	21.5
Dividend yield	7.1%	7.1%	5.4%	4.2%	4.2%
Forecast change			-21%	-28%	-23%
IPS vs. consensus			82%	76%	80%

Source: Company, Indo Premier *Share price closing as of: 23 October 2024*

Fig. 1: UNVR' 3Q24 result summary

(Rp bn)	3Q24	3Q23	% YoY	2Q24	% QoQ	9M24	9M23	% YoY	IPS FY24F	% of IPS	Cons. FY24F	% of cons	5Yr avg
Net sales	**8,373**	**10,214**	**-18.0%**	**8,964**	**-6.6%**	**27,417**	**30,506**	**-10.1%**	**39,132**	**70%**	**37,590**	**73%**	**76%**
COGS	(4,561)	(5,057)	**-9.8%**	(4,529)	**0.7%**	(14,137)	(15,232)						
Gross profit	**3,813**	**5,157**	**-26.1%**	**4,435**	**-14.0%**	**13,281**	**15,274**	**-13.0%**					
Operating cost	(3,084)	(3,328)	-7.3%	(3,127)	-1.4%	(9,361)	(9,818)						
EBIT	**729**	**1,828**	**-60.1%**	**1,308**	**-44.3%**	**3,920**	**5,456**	**-28.1%**	**6,198**	**63%**	**6,018**	**65%**	**79%**
Others	(33)	(11)	197.1%	1	-3741.9%	(56)	(65)						
PBT	**696**	**1,817**	**-61.7%**	**1,309**	**-46.9%**	**3,864**	**5,391**	**-28.3%**					
Tax	(153)	(388)	-60.6%	(291)	-47.6%	(854)	(1,202)						
Net profit	**543**	**1,430**	**-62.0%**	**1,018**	**-46.7%**	**3,010**	**4,189**	**-28.1%**	**4,802**	**63%**	**4,624**	**65%**	**80%**
Margin (%)													
Gross margin	45.5%	50.5%		49.5%		48.4%	50.1%						
EBIT margin	8.7%	17.9%		14.6%		14.3%	17.9%						
Net margin	6.5%	14.0%		11.4%		11.0%	13.7%						
Opex/sales	-36.8%	-32.6%		-34.9%		-34.1%	-32.2%						
Segment information													
Domestic	8,125	9,927	-18.2%	8,713	-6.8%	26,632	29,554	-9.9%					
Export	248	287	-13.4%	251	-1.0%	786	952	-17.5%					
Revenue breakdown													
Home and Personal Care	5,312	6,671	-20.4%	5,839	-9.0%	17,593	19,922	-11.7%					
Food and Refreshment	3,062	3,543	-13.6%	3,125	-2.0%	9,824	10,584	-7.2%					
Gross profit													
Home and Personal Care	2,489	3,551	-29.9%	3,051	-18.4%	8,971	10,575	-15.2%					
Food and Refreshment	1,324	1,606	-17.5%	1,384	-4.3%	4,310	4,699	-8.3%					
GPM													
Home and Personal Care	46.9%	53.2%		52.3%		51.0%	53.1%						
Food and Refreshment	43.2%	45.3%		44.3%		43.9%	44.4%						

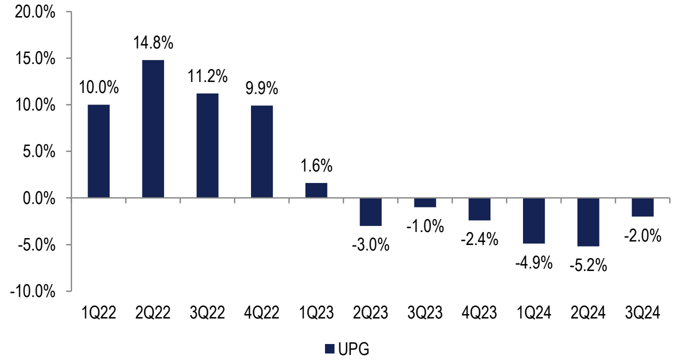
Source: Company, Indo Premier

Fig. 2: UNVR' Earnings changes

	Previous			Current			Changes		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Sales (Rp bn)	39,132	40,169	40,814	34,130	35,592	37,475	-12.8%	-11.4%	-8.2%
Gross profit (Rp bn)	19,432	20,155	20,610	16,440	16,801	17,877	-15.4%	-16.6%	-13.3%
EBIT (Rp bn)	6,198	6,606	6,957	4,873	4,774	5,324	-21.4%	-27.7%	-23.5%
Net profit (Rp bn)	4,802	5,121	5,393	3,776	3,703	4,129	-21.4%	-27.7%	-23.4%
Margins, %									
Gross margin	49.7%	50.2%	50.5%	48.2%	47.2%	47.7%	-1.5%	-3.0%	-2.8%
EBIT margin	15.8%	16.4%	17.0%	14.3%	13.4%	14.2%	-1.6%	-3.0%	-2.8%
Net profit margin	12.3%	12.7%	13.2%	11.1%	10.4%	11.0%	-1.2%	-2.3%	-2.2%
Growth, % yoy									
Sales growth	1.3%	2.6%	1.6%	-11.6%	4.3%	5.3%	-13.0%	1.6%	3.7%
EBIT growth	-1.3%	6.6%	5.3%	-22.4%	-2.0%	11.5%	-21.1%	-8.6%	6.2%
Net profit growth	0.0%	6.6%	5.3%	-21.3%	-1.9%	11.5%	-21.4%	-8.6%	6.2%

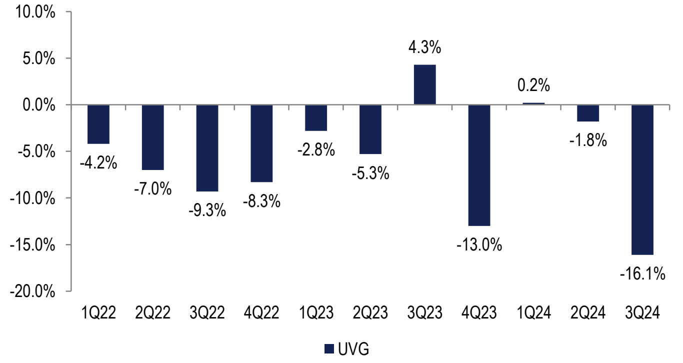
Source: Indo Premier

Fig. 3: UNVR's domestic price growth trend



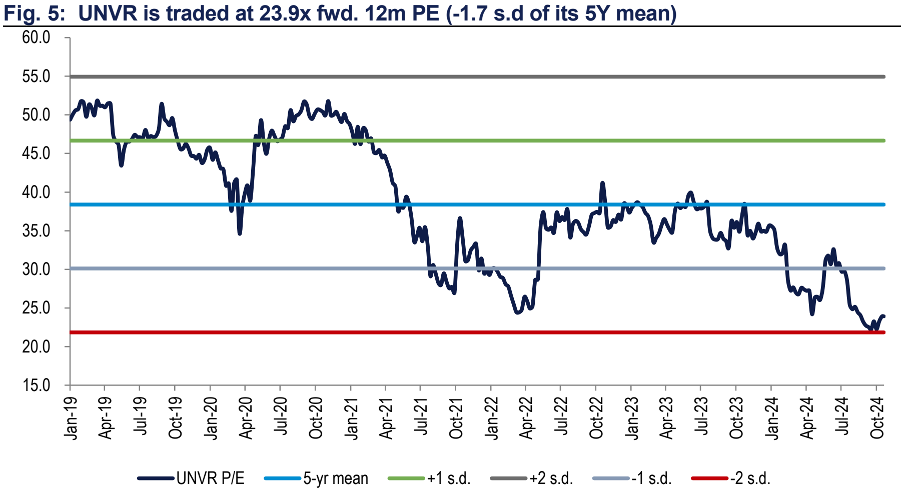
Source: Company, Indo Premier

Fig. 4: UNVR's unit volume growth trend



Source: Company, Indo Premier

Fig. 5: UNVR is traded at 23.9x fwd. 12m PE (-1.7 s.d of its 5Y mean)



Source: Bloomberg, Indo Premier

Income Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
Net revenue	41,219	38,611	34,130	35,592	37,475
Cost of sales	(22,154)	(19,417)	(17,690)	(18,790)	(19,598)
Gross profit	**19,065**	**19,195**	**16,440**	**16,801**	**17,877**
SG&A Expenses	(11,995)	(12,915)	(11,567)	(12,027)	(12,552)
Operating profit	**7,070**	**6,279**	**4,873**	**4,774**	**5,324**
Net interest	(75)	(77)	5	9	9
Forex gain (loss)	0	0	0	0	0
Others	(1)	0	0	0	0
Pre-tax income	**6,994**	**6,202**	**4,878**	**4,783**	**5,334**
Income tax	(1,629)	(1,401)	(1,102)	(1,081)	(1,205)
Minority interest	0	0	0	0	0
Net income	**5,365**	**4,801**	**3,776**	**3,703**	**4,129**

Balance Sheet (Rp bn)	2022A	2023A	2024F	2025F	2026F
Cash & equivalent	503	1,021	45	996	2,295
Receivable	3,924	2,343	2,071	2,160	2,274
Inventory	2,625	2,422	2,207	2,344	2,445
Other current assets	515	406	451	458	466
Total current assets	**7,568**	**6,192**	**4,774**	**5,957**	**7,480**
Fixed assets	9,536	9,311	8,745	8,171	7,589
Goodwill	62	62	62	62	62
Total non-current assets	**10,750**	**10,472**	**9,859**	**9,238**	**8,608**
Total assets	**18,318**	**16,664**	**14,633**	**15,195**	**16,088**
ST loans	600	0	0	0	0
Payable	4,700	4,064	3,702	3,933	4,102
Other payables	7,142	7,160	6,515	6,921	7,218
Current portion of LT loans	0	0	0	0	0
Total current liab.	**12,442**	**11,224**	**10,218**	**10,853**	**11,320**
Long term loans	0	0	0	0	0
Other LT liab.	1,879	2,059	2,059	2,059	2,059
Total liabilities	**14,321**	**13,283**	**12,277**	**12,912**	**13,379**
Equity	172	172	172	172	172
Retained earnings	3,825	3,209	2,184	2,111	2,537
Minority interest	0	0	0	0	0
Total SHE + minority int.	**3,997**	**3,381**	**2,357**	**2,283**	**2,709**
Total liabilities & equity	**18,318**	**16,664**	**14,633**	**15,195**	**16,088**

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
EBIT	7,070	6,279	4,873	4,774	5,324
Depr. & amortization	859	0	791	800	808
Changes in working capital	1,499	1,275	(564)	403	244
Others	(1,367)	(437)	(1,096)	(1,071)	(1,195)
Cash flow from operating	**8,061**	**7,118**	**4,003**	**4,906**	**5,180**
Capital expenditure	(585)	(585)	(178)	(178)	(178)
Others	59	(244)	0	0	0
Cash flow from investing	**(526)**	**(829)**	**(178)**	**(178)**	**(178)**
Loans	(1,165)	(1,165)	0	0	0
Equity	0	0	0	0	0
Dividends	(6,342)	(6,342)	(4,801)	(3,776)	(3,703)
Others	150	1,736	0	0	0
Cash flow from financing	**(7,358)**	**(5,771)**	**(4,801)**	**(3,776)**	**(3,703)**
Changes in cash	**177**	**517**	**(976)**	**951**	**1,299**

Key Ratios	2022A	2023A	2024F	2025F	2026F
Gross margin	46.3%	49.7%	48.2%	47.2%	47.7%
Operating margin	17.2%	16.3%	14.3%	13.4%	14.2%
Pre-tax margin	17.0%	16.1%	14.3%	13.4%	14.2%
Net margin	13.0%	12.4%	11.1%	10.4%	11.0%
ROA	28.7%	27.4%	24.1%	24.8%	26.4%
ROE	129.0%	130.1%	131.6%	159.6%	165.4%
Acct. receivables TO (days)	34.8	22.1	22.1	22.1	22.1
Inventory TO (days)	43.3	45.5	45.5	45.5	45.5
Payable TO (days)	77.4	76.4	76.4	76.4	76.4
Debt to equity	15.0%	0.0%	0.0%	0.0%	0.0%
Interest coverage ratio (x)	83.0	59.3	N/A	N/A	N/A
Net gearing	2.4%	0.0%	-1.9%	-43.6%	-84.7%

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

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