

# Indofood CBP

**HOLD** (unchanged)

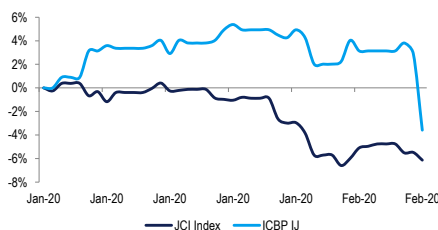
Company Update | Consumer Staples | ICBP IJ | 12 February 2020

## Stock Data

Target price	Rp11,500
Prior TP	Rp11,500
Current price	Rp10,750
Upside/downside	+7%
Shares outstanding (mn)	11,662
Market cap (Rp bn)	125,366
Free float	19%
Avg. 6m daily T/O (Rp bn)	58.9

## Price Performance

	3M	6M	12M
Absolute	-5.7%	-4.4%	2.9%
Relative to JCI	-1.4%	0.4%	10.9%
52w low/high (Rp)	Rp8,975 - Rp12,400		



## Major Shareholders

Indofood SM	80.5%
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## Exploring potential affiliated acquisition

- Last night ICBP announced it is currently considering a potential acquisition of Pinehill Group from affiliated parties.
- Pinehill Group manufactures “Indomie” instant noodles for 7 countries – mainly in Middle East – with dominant 50-90% market share.
- Valuation remains a question for now, but overall assets looks promising. Historically ICBP/INDF share price always dropped post related party transaction announcement; fundamentals remain the key to rebound.

### Exploring potential acquisition of Pinehill Group from its affiliates

ICBP announced that they are currently exploring potential acquisition of the entire issued share capital of Pinehill Company Limited (“Pinehill Group”) from affiliated parties Pinehill Corpora Limited and Steele Lake Limited. Pinehill engages in the manufacturing of instant noodles in Saudi Arabia, Nigeria, Turkey, Egypt, Kenya, Morocco and Serbia using the “Indomie” trademark under the licensing agreement with INDF.

### Huge growth potential from the 7 countries served

Currently between the 7 countries that Pinehill serves (mentioned above), total sales volume stood at 7.4bn packs of noodle in FY19 (vs. ICBP’s around 14bn packs sales volume in Indonesia), with 3-year volume CAGR of around 10%. They are also the most dominant player in all these countries (market share of 50-90%). Despite Indomie’s dominance, ICBP still sees a huge potential in these markets as average annual noodle consumption per capita still stands at low teens, significantly lower compared to Indonesia’s 60-70 packs per capita.

### Learning from history; may be a short-term glitch in share price

We recorded three of Indofood Group’s latest corporate actions, two of which (Jun 2017 and end-2018) were land acquisitions from related parties. Upon announcement, share price reacted negatively (-5/-7% and -9/-11% for ICBP/INDF) in those two instances, although the latter one was short-lived as ICBP reported strong 1Q19 revenue and earnings growth soon after. Today we see 6.3% and 8.8% share price decline for ICBP and INDF respectively. While overall assets look promising, transaction value remains a question for now. Learning from past history, it may not be a bargain.

### Maintain Hold with Rp11,500 TP; we prefer INDF over ICBP

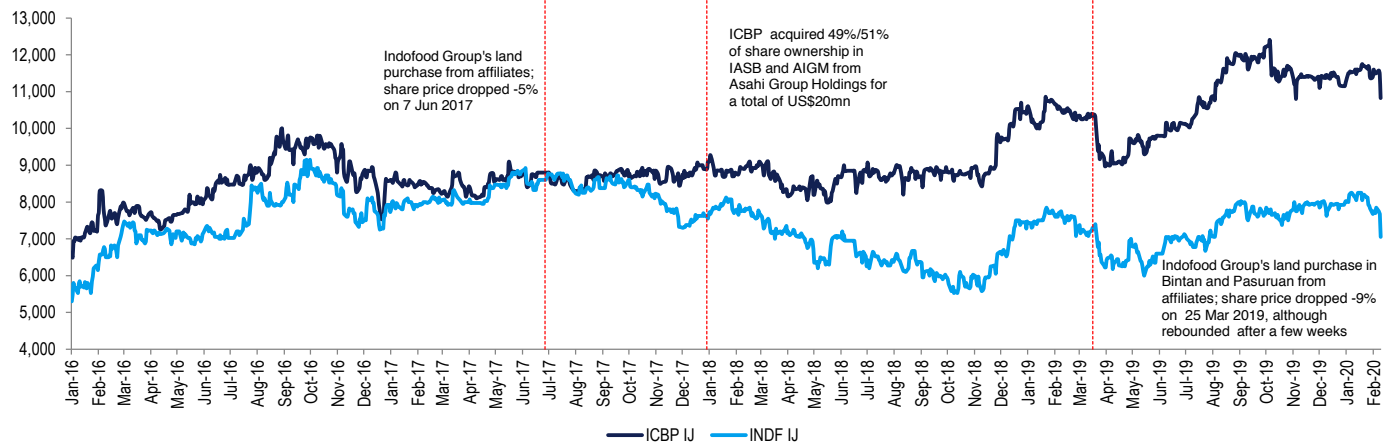
We maintain our Hold call on ICBP as we expect sales volume to normalize in 2H19 and into 2020F as weak purchasing power stays, while valuation looks pretty stretched, hence share price re-rating may be limited. We still prefer its parent company INDF, trading at 54% discount to ICBP (vs. 3-year average discount of 39%), while benefitting from the recent CPO price rally.

Financial Summary	2017A	2018A	2019F	2020F	2021F
Revenue (Rp bn)	35,607	38,413	42,340	45,200	48,298
EBITDA (Rp bn)	6,553	6,748	8,160	8,667	9,211
EBITDA growth	12.2%	3.0%	20.9%	6.2%	6.3%
Net profit (Rp bn)	3,797	4,576	4,851	5,265	5,711
EPS (Rp)	346	352	416	451	489
EPS growth	8.2%	1.8%	18.1%	8.5%	8.5%
ROE	19.6%	21.3%	20.1%	19.4%	18.8%
PER (x)	31.1	30.5	25.9	23.8	22.0
EV/EBITDA (x)	18.1	18.1	14.8	13.6	12.5
Dividend yield	1.4%	2.0%	1.9%	2.0%	2.2%
Forecast change			N/A	N/A	N/A
IPS vs. consensus			97%	96%	95%

Sources: Company, IndoPremier

Share price closing as of: 12 February 2020

**Fig. 1: ICBP's share price reacted negatively to past news on land purchase from affiliates. Similarly share price dropped 6.3% today after ICBP announced potential acquisition of Pinehill Group from affiliates.**



Source: Bloomberg, IndoPremier

**Fig. 2: ICBP's strong 1Q19 result explains its re-rating post its end-2018 land purchase announced in Mar 2019**

ICBP	2Q17	4Q17	1Q19
Announcement date	Jul-17	Mar-18	Apr-19
Revenue growth, % yoy	-2.7%	3.4%	13.9%
Net profit growth, % yoy	-3.3%	-1.7%	10.2%
Core profit growth, % yoy	-10.5%	27.1%	12.4%

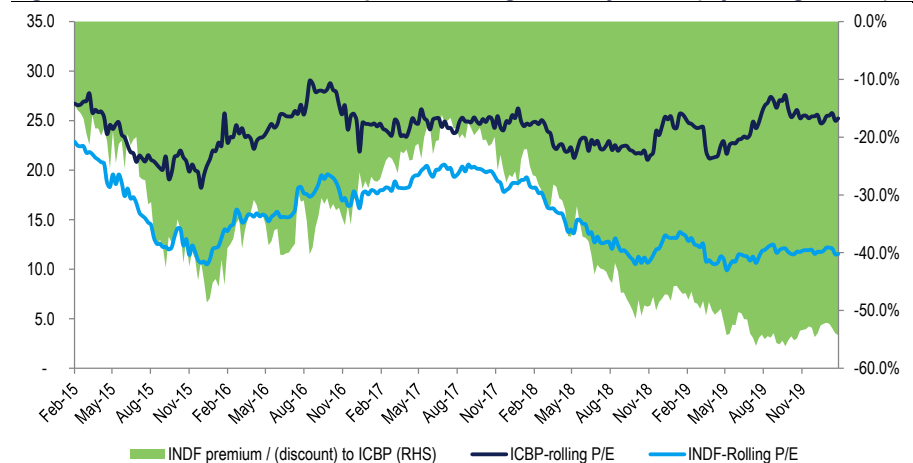
Sources: Company, IndoPremier

**Fig. 3: INDF's strong 1Q19 result explain its re-rating post its end-2018 land purchase announcement in Mar 2019**

INDF	2Q17	4Q17	1Q19
Announcement date	Jul-17	Mar-18	Apr-19
Revenue growth, % yoy	1.4%	1.6%	8.7%
Net profit growth, % yoy	-59.9%	-23.9%	13.5%
Core profit growth, % yoy	-12.8%	-10.8%	19.2%

Sources: Company, IndoPremier

**Fig. 4: INDF's discount to ICBP keeps on widening; currently at 54% (3-year avg. of 39%)**



Sources: Bloomberg, IndoPremier

Income Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Net Revenue	35,607	38,413	42,340	45,200	48,298
Cost of Sales	(24,548)	(26,148)	(28,190)	(30,166)	(32,228)
<b>Gross Profit</b>	<b>11,059</b>	<b>12,266</b>	<b>14,150</b>	<b>15,034</b>	<b>16,070</b>
SG&A Expenses	(5,681)	(6,494)	(7,181)	(7,718)	(8,306)
<b>Operating Profit</b>	<b>5,378</b>	<b>5,772</b>	<b>6,968</b>	<b>7,316</b>	<b>7,763</b>
Net Interest	170	28	77	163	269
Forex Gain (Loss)	0	0	0	0	0
Others-Net	(341)	647	(90)	(120)	(96)
<b>Pre-Tax Income</b>	<b>5,207</b>	<b>6,447</b>	<b>6,955</b>	<b>7,359</b>	<b>7,936</b>
Income Tax	(1,663)	(1,788)	(1,859)	(1,931)	(2,042)
Minorities	253	(83)	(245)	(163)	(183)
<b>Net Income</b>	<b>3,797</b>	<b>4,576</b>	<b>4,851</b>	<b>5,265</b>	<b>5,711</b>

Balance Sheet (RpBn)	2017A	2018A	2019F	2020F	2021F
Cash & Equivalent	8,945	5,291	6,501	9,119	12,219
Receivable	4,126	4,271	4,628	4,941	5,280
Inventory	3,262	4,001	3,916	4,190	4,477
Other Current Assets	246	558	443	473	506
<b>Total Current Assets</b>	<b>16,579</b>	<b>14,122</b>	<b>15,489</b>	<b>18,723</b>	<b>22,481</b>
Fixed Assets - Net	8,120	10,742	12,185	12,468	12,654
Goodwill	1,424	1,776	1,776	1,776	1,776
<b>Non-Current Assets</b>	<b>2,851</b>	<b>5,023</b>	<b>4,889</b>	<b>4,754</b>	<b>4,619</b>
<b>Total Assets</b>	<b>31,620</b>	<b>34,367</b>	<b>37,043</b>	<b>40,426</b>	<b>44,236</b>
ST Loans	1,149	1,146	665	665	665
Payable	3,519	3,706	3,893	4,165	4,450
Other Payables	1,908	2,136	2,180	2,333	2,492
Current Portion of LT Loans	251	248	233	91	91
<b>Total Current Liab.</b>	<b>6,828</b>	<b>7,235</b>	<b>6,970</b>	<b>7,254</b>	<b>7,698</b>
Long Term Loans	957	852	915	915	915
Other LT Liab.	3,511	3,573	3,573	3,573	3,573
<b>Total Liabilities</b>	<b>11,295</b>	<b>11,660</b>	<b>11,458</b>	<b>11,742</b>	<b>12,186</b>
Equity	6,764	6,589	6,569	6,569	6,569
Retained Earnings	12,799	15,030	17,683	20,619	23,802
Minority Interest	761	1,088	1,333	1,496	1,679
<b>Total SHE + Minority Int.</b>	<b>20,324</b>	<b>22,707</b>	<b>25,585</b>	<b>28,684</b>	<b>32,049</b>
<b>Total Liabilities &amp; Equity</b>	<b>31,620</b>	<b>34,367</b>	<b>37,043</b>	<b>40,426</b>	<b>44,236</b>

Sources: Company, IndoPremier

Cash Flow Statement (RpBn)	2017A	2018A	2019F	2020F	2021F
Net Income	3,543	4,659	5,096	5,428	5,894
Depr. & Amortization	623	734	1,057	1,217	1,314
Changes in Working Capital	(258)	(781)	39	(224)	(248)
Others	164	(162)	(323)	(291)	(419)
<b>Cash Flow From Operating</b>	<b>4,072</b>	<b>4,450</b>	<b>5,869</b>	<b>6,130</b>	<b>6,541</b>
Capital Expenditure	(1,319)	(5,879)	(2,366)	(1,365)	(1,365)
Others	(838)	(222)	181	240	327
<b>Cash Flow From Investing</b>	<b>(2,157)</b>	<b>(6,101)</b>	<b>(2,185)</b>	<b>(1,126)</b>	<b>(1,038)</b>
Loans	312	(112)	(432)	(142)	0
Equity	0	0	0	0	0
Dividends	(1,796)	(2,566)	(2,197)	(2,329)	(2,528)
Others	306	(11)	120	86	124
<b>Cash Flow From Financing</b>	<b>(1,178)</b>	<b>(2,688)</b>	<b>(2,509)</b>	<b>(2,385)</b>	<b>(2,404)</b>
<b>Changes in Cash</b>	<b>737</b>	<b>(4,339)</b>	<b>1,174</b>	<b>2,619</b>	<b>3,099</b>

Key Ratios	2017A	2018A	2019F	2020F	2021F
Gross Margin	31.1%	31.9%	33.4%	33.3%	33.3%
Operating Margin	15.1%	15.0%	16.5%	16.2%	16.1%
Pre-Tax Margin	14.6%	16.8%	16.4%	16.3%	16.4%
Net Margin	10.7%	11.9%	11.5%	11.6%	11.8%
ROA	12.5%	13.9%	13.6%	13.6%	13.5%
ROE	19.6%	21.3%	20.1%	19.4%	18.8%
ROIC	19.8%	21.1%	20.2%	20.0%	19.8%
Acct. Receivables TO (days)	41	40	40	40	40
Inventory TO (days)	47	51	51	51	51
Payable TO (days)	49	50	50	50	50
Debt to Equity	11.6%	9.9%	7.1%	5.8%	5.2%
Interest Coverage Ratio (x)	34.9	25.6	66.8	95.6	132.1
Net Gearing	-32.4%	-13.4%	-18.3%	-26.0%	-32.9%

Sources: Company, IndoPremier

## 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

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