

5 November 2018

Consumer Non-cyclical | Consumer Staples

Indonesia Consumer Staples

Overweight (Maintained)

3Q18 Earnings Mostly Beat; Stay OVERWEIGHT

Stocks Covered: 4

Ratings (Buy/Neutral/Sell): 2 / 2 / 0

Last 12m Earnings Revision Trend: Neutral

Maintain OVERWEIGHT on sector with ICBP and MYOR as our Top Picks. 3Q18 earnings for consumer companies under our coverage (ICBP, MYOR, ROTI, and UNVR) mostly beat expectations. 9M18 total sales increased at high single-digit rates, with slightly lower EBIT margins. Wider noodles and dairy EBIT margins boosted ICBP's earnings, while MYOR booked strong earnings growth despite higher A&P expenses. ROTI's earning growth was driven by lower sales returns, while a one-time gain boosted UNVR's earnings. Key risk for the sector is a weakened IDR.

Top Picks

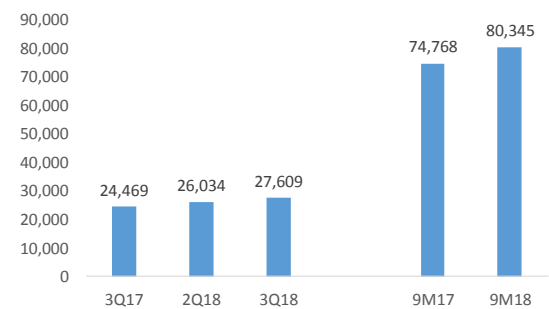
Indofood CBP (ICBP IJ) – BUY
Mayora Indah (MYOR IJ) – BUY

Target Price

IDR10,300
IDR3,300

Stronger 9M18 sales but EBIT margins narrowed. Total 9M18 sales for consumer staples companies under our coverage – Indofood CBP (ICBP), Mayora Indah (MYOR), Nippon Indosari (ROTI), and Unilever (UNVR) – increased 7.5% YoY to IDR80.3trn, while EBIT increased 5.4% YoY to IDR13.6trn. However, 9M18 EBIT margins fell slightly to 16.9% (9M17: 17.3%), due partly to higher advertising & promotional (A&P) expenses. A&P expenses-to-sales ratio rose to 8.2% in 9M18 (9M17: 7.7%). 9M18 salary expenses and transportation & logistics costs-to-sales ratios were stable at 3.2% and 3.3%.

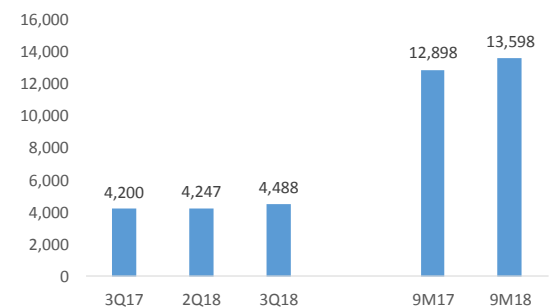
ICBP, MYOR, ROTI, & UNVR – total sales (IDRbn)



Source: Company, RHB

ICBP: 9M18 earnings beat. ICBP booked a 3Q18 net profit of IDR862bn (-34% QoQ, -1% YoY), bringing 9M18 earnings to IDR3.5trn (+15% YoY) – reaching 83% and 82% of our and consensus full-year estimates, or above expectations, as 9M17 was 80% of its FY17 figure. In 3Q18, noodles and dairy boosted earnings, while beverage recorded lower operational losses. 3Q18 revenue stood at IDR10trn (+5% QoQ, +12% YoY), bringing 9M18 topline to IDR29.5trn (+7% YoY) – hitting 75% and 77% of our and consensus full-year estimates.

ICBP, MYOR, ROTI, & UNVR – total EBIT (IDRbn)



Source: Company, RHB

MYOR: 9M18 earnings in line. MYOR booked a 3Q18 net profit of IDR364bn (+36% QoQ, -4% YoY), bringing 9M18 earnings to IDR1.1trn (+19% YoY) – achieving 61% and 61% of our and consensus full-year estimates. 9M17 earnings were 58% of its FY17 figure and 9M16 earnings accounted for 64% of its FY16 figure. Given the cyclical nature of its earnings, we deem its 9M18 results as within our expectations. MYOR raised its A&P spending to strengthen its brands.

Its 3Q18 revenue of IDR6.5trn (+21% QoQ, +33% YoY) brought 9M18 revenue to IDR17.4trn (+21% YoY) – achieving 74% and 73% of our and consensus full-year estimates. GPM increased to 26% in 3Q18 vs 23% in 3Q17. MYOR booked FX gains of IDR294bn (+383% YoY) during 9M18.

Related reports that were published recently:

[Indofood CBP: 9M18 Earnings Beat Estimates; Reiterate BUY](#)

[Mayora Indah: Earnings In Line; Higher Ad Spend To Boost Brands](#)

[Nippon Indosari: Lower Sales Returns Boost 3Q18 Earnings](#)

[Unilever Indonesia: Robust 9M18 On One-Off Gain; Lower To NEUTRAL](#)

ROTI: 9M18 earnings beat. 3Q18 net profit jumped to IDR63bn (+476% QoQ, +32% YoY), bringing 9M18 earnings to IDR103bn (+6% YoY) – above our but in line with Street estimates. Robust 3Q18 earnings were driven by lower sales returns, which fell to 10.4% in 3Q18 (2Q18: 20.1%, 3Q17: 13.8%). This caused 3Q18 defective inventory costs to fall to IDR35bn (-47% QoQ, -17% YoY). ROTI indicated that the main reason for the lower sales returns was better sales forecasting, which estimated sales/store, and lower new product launches. We also see ROTI being more selective in putting its products in the modern trade (MT) channel. Notably, despite putting fewer of its products in MT, sales/day still rose 16.1% QoQ to IDR7.8bn/day in 3Q18 (2Q18: IDR6.7bn).

UNVR: One-time gain boosted 9M18 earnings. UNVR posted 3Q18 net profit of IDR3.7trn (+123% QoQ, +135% YoY), bringing 9M18 earnings to IDR7.3trn (+40% YoY). This accounted for 96% and 93% of our and consensus full-year estimates, which was a beat, as 9M17 was 75% of FY17's figure. However, the strong 3Q18 earnings were driven by a one-time gain on the spreads business divestment, which totalled IDR2.2trn. Excluding this one-off gain, UNVR posted a net profit of IDR5.2trn, achieving 68% of our estimates.

Company Name	Rating	Price	Target	% Upside (Downside)	P/E (X) Dec-19F	P/B (X) Dec-19F	Yield (%) Dec-19F
Indofood CBP	BUY	8,925	10,300	15.4	22.8	4.3	2.2
Mayora Indah	BUY	2,560	3,300	28.9	26.4	5.8	1.2
Unilever Indah	BUY	42,725	46,900	9.8	41.7	50.6	2.6
Nippon Indosari	NEUTRAL	1,080	1,000	-7.4	30.0	2.2	0.5

Source: Company data, RHB

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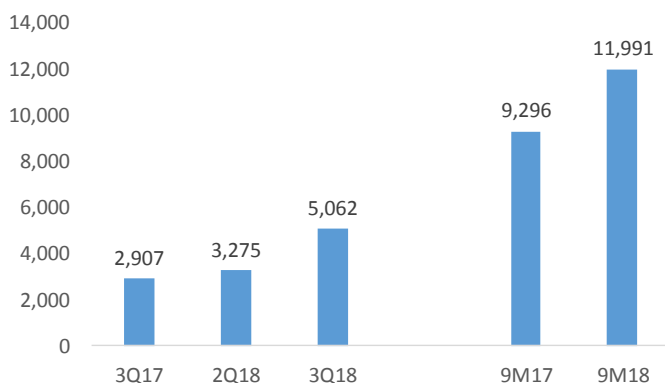


Figure 1: 9M18 results highlights – ICBP, MYOR, ROTI, & UNVR

(IDRbn)	3Q17	2Q18	3Q18	QoQ	YoY	9M17	9M18	YoY
Revenue	24,469	26,034	27,609	6.1%	12.8%	74,768	80,345	7.5%
EBIT	4,200	4,247	4,488	5.7%	6.9%	12,898	13,598	5.4%
EBIT margin	17.2%	16.3%	16.3%			17.3%	16.9%	
Pretax income	4,055	4,410	7,013	59.0%	73.0%	12,626	16,331	29.3%
Pretax margin	16.6%	16.9%	25.4%			16.9%	20.3%	
NP - reported	2,907	3,275	5,062	54.6%	74.1%	9,296	11,991	29.0%
NM - reported	11.9%	12.6%	18.3%			12.4%	14.9%	
NP - recurring	2,907	3,275	2,962	-9.5%	1.9%	9,296	9,891	6.4%
NM - recurring	11.9%	12.6%	10.7%			12.4%	12.3%	

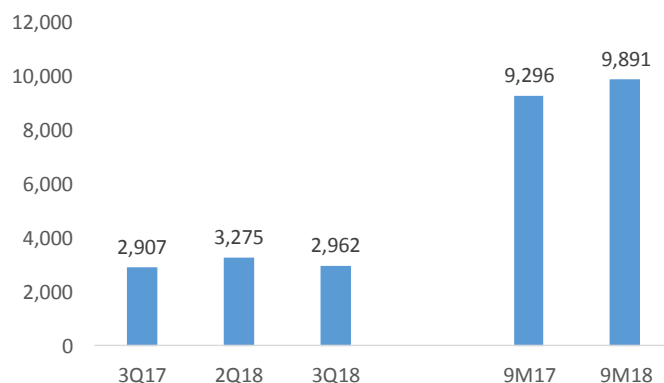
Source: Company data, RHB

Figure 2: ICBP, MYOR, ROTI, & UNVR – reported earnings (IDRbn)



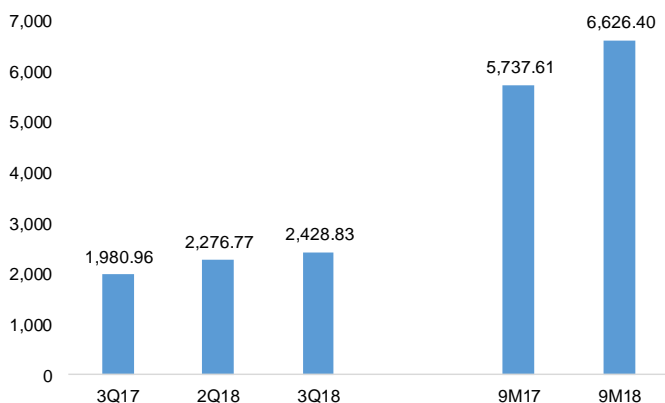
Source: Company data, RHB

Figure 3: ICBP, MYOR, ROTI, & UNVR – recurring earnings (IDRbn)



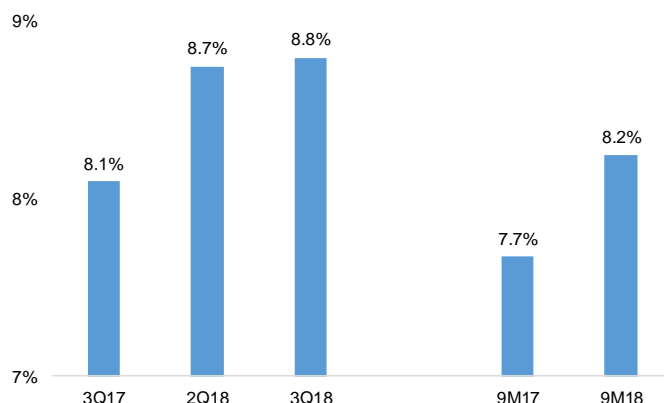
Source: Bloomberg, RHB

Figure 4: ICBP, MYOR, ROTI, & UNVR – A&P expense (IDRbn)



Source: Company data, RHB

Figure 5: ICBP, MYOR, ROTI, & UNVR – A&P-to-sales (%)

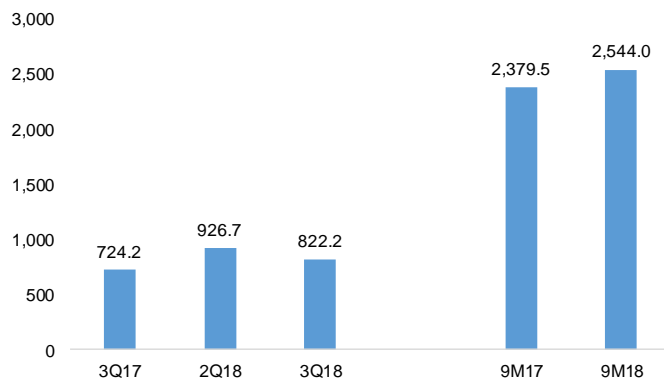


Source: Bloomberg, RHB

5 November 2018

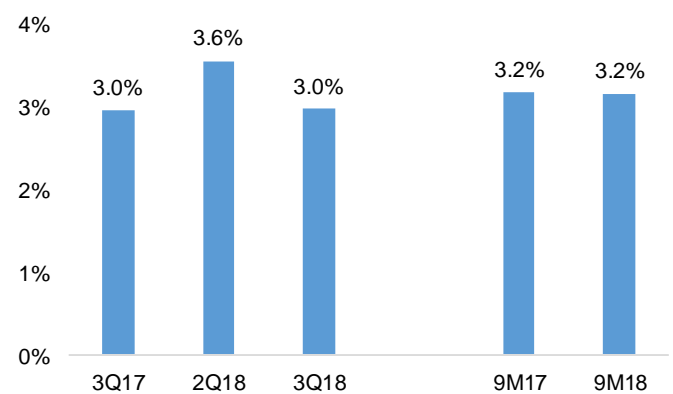
Consumer Non-cyclical | Food & Beverage Products

Figure 6: ICBP, MYOR, ROTI, & UNVR – salary expenses (IDRbn)



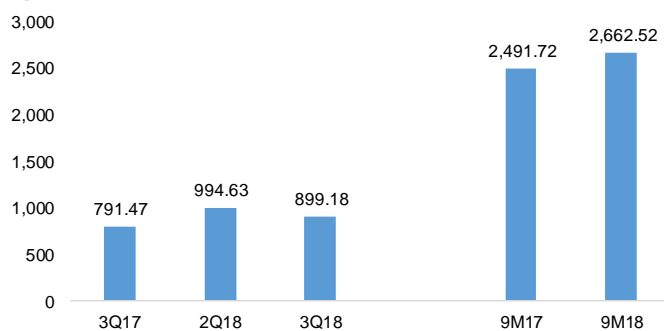
Source: Company data, RHB

Figure 7: ICBP, MYOR, ROTI, & UNVR – salary expenses-to-sales (%)



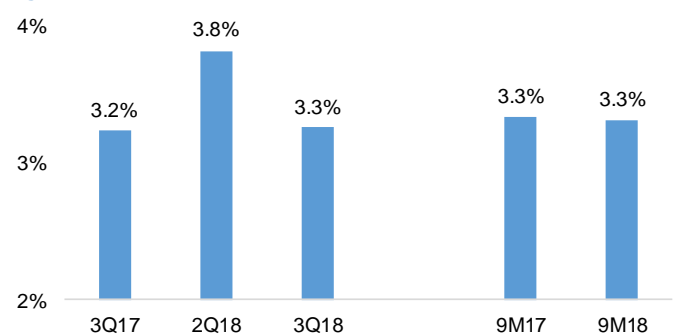
Source: Bloomberg, RHB

Figure 8: ICBP, MYOR, ROTI, & UNVR – transportation and logistics expenses (IDRbn)



Source: Company data, RHB

Figure 9: ICBP, MYOR, ROTI, & UNVR – transportation and logistics expenses-to-sales (%)



Source: Bloomberg, RHB

Figure 10: ICBP's 9M18 results highlights

(IDRbn)	3Q17	2Q18	3Q18	QoQ	YoY	9M17	9M18	YoY	% RHB FY18F	% Cons FY18F
Revenue	8,970	9,579	10,019	4.6%	11.7%	27,430	29,478	7.5%	75%	77%
EBIT	1,380	1,555	1,705	9.6%	23.5%	4,159	4,975	19.6%	87%	89%
EBIT margin	15.4%	16.2%	17.0%			15.2%	16.9%			
Pretax profit	1,325	1,785	1,394	-21.9%	5.1%	4,242	4,948	16.6%	95%	86%
Pretax margin	14.8%	18.6%	13.9%			15.5%	16.8%			
NP - reported	875	1,306	862	-34.0%	-1.5%	3,042	3,485	14.6%	83%	82%
NM - reported	9.8%	13.6%	8.6%			11.1%	11.8%			

Source: Company data, RHB

Figure 11: MYOR's 9M18 results highlights

(IDRbn)	3Q17	2Q18	3Q18	QoQ	YoY	9M17	9M18	YoY	% RHB FY18F	% Cons FY18F
Revenue	4,908.4	5,401.8	6,533.0	20.9%	33.1%	14,298.8	17,349.9	21.3%	73.8%	73.3%
EBIT	545.5	401.6	486.4	21.1%	-10.8%	1,468.0	1,493.1	1.7%	52.1%	54.3%
EBIT margin	11.1%	7.4%	7.4%			10.3%	8.6%			
Pretax income	517.6	369.5	496.1	34.3%	-4.2%	1,266.8	1,507.7	19.0%	60.8%	61.7%
Pretax margin	10.5%	6.8%	7.6%			8.9%	8.7%			
NP - reported	380.0	267.2	364.2	36.3%	-4.2%	927.9	1,100.1	18.6%	60.8%	61.2%
NM - reported	7.7%	4.9%	5.6%			6.5%	6.3%			

Source: Company data, RHB

5 November 2018

Consumer Non-cyclical | Food & Beverage Products

Figure 12: ROTI's 9M18 results highlights

(IDRbn)	3Q17	2Q18	3Q18	QoQ	YoY	9M17	9M18	YoY	% RHB FY18F	% Cons FY18F
Revenue	641.6	617.1	709.0	14.9%	10.5%	1,825.3	1,985.2	8.8%	72%	72%
EBIT	81.7	5.7	79.8	1305.1%	-2.3%	178.6	117.7	-34%		
EBIT margin	12.7%	0.9%	11.3%			9.8%	5.9%			
Pretax income	62.4	2.3	76.4	3192.1%	22.5%	124.5	107.6	-13.6%	61%	50%
Pretax margin	9.7%	0.4%	10.8%			6.8%	5.4%			
NP - reported	47.5	10.9	62.9	476.1%	32.4%	97.4	102.9	5.7%	79%	68%
NM - reported	7.4%	1.8%	8.9%			5.3%	5.2%			

Source: Company data, RHB

Figure 13: UNVR's 9M18 results highlights

(IDRbn)	3Q17	2Q18	3Q18	QoQ	YoY	9M17	9M18	YoY	% RHB FY18F	% Cons FY18F
Revenue	9,950	10,436	10,348	-0.8%	4.0%	31,214	31,531	1.0%	74%	74%
EBIT	2,193	2,285	2,217	-3.0%	1.1%	7,092	7,013	-1.1%	70%	73%
EBIT margin	22.0%	21.9%	21.4%			22.7%	22.2%			
Pretax income	2,150	2,253	5,047	124.0%	134.8%	6,993	9,768	39.7%	83%	95%
Pretax margin	21.6%	21.6%	48.8%			22.4%	31.0%			
NP - reported	1,605	1,691	3,774	123.2%	135.1%	5,229	7,303	39.7%	84%	93%
NM - reported		16.2%	36.5%			16.8%	23.2%			
NP - recurring	1,605	1,691	1,674	-1.0%	4.3%	5,229	5,203	-0.5%	60%	66%
NM - recurring	16.1%	16.2%	16.2%			16.8%	16.5%			

Source: Company data, RHB

Figure 14: Indonesian consumer staples companies' valuation table – I

Name	BBG Ticker	Rating	Price (IDR)	TP (IDR)	Upside/ Downside (%)	Market Cap (USDm)	EPS Growth			PER			PBV		
							FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F
Unilever Indonesia	UNVR IJ	Neutral	42,725	46,900	9.8	21,819	24.6	-10.4	13.6	37.3	41.7	36.7	45.6	50.6	46.8
Indofood CBP	ICBP IJ	Buy	8,925	10,300	15.4	6,967	3.6	12.7	10.7	25.7	22.8	20.6	4.8	4.3	3.9
Mayora Indah	MYOR IJ	Buy	2,560	3,300	28.9	3,831	18.8	18.3	15.1	31.2	26.4	22.9	6.8	5.8	5.0
Nippon Indosari Corpindo	ROTI IJ	Neutral	1,080	1,000	-7.4	447	34.8	50.0	6.1	45.0	30.0	28.3	2.3	2.2	2.1
Sector Weighted Average (excl. Unilever)							10.0	16.1	12.1	28.4	24.3	21.7	5.4	4.7	4.2
Sector Weighted Average							19.7	-1.4	13.1	34.3	35.8	31.6	32.0	35.0	32.3

Note: Prices as at 2 Nov 2019

Source: Bloomberg, RHB

Figure 15: Indonesian consumer staples companies' valuation table – II

Name	PEG			Yield			ROA			ROE								
	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F						
Unilever Indonesia	1.5	-4.0	2.7	2.1	2.6	2.4	45.7	42.2	43.5	122.2	121.4	120.3						
Indofood CBP	7.2	1.8	1.9	2.0	2.2	2.4	12.2	12.4	12.9	19.3	19.0	19.2						
Mayora Indah	1.7	1.4	1.5	1.1	1.2	1.5	11.0	12.0	12.5	23.2	23.7	23.3						
Nippon Indosari Corpindo	1.3	0.6	4.6	0.4	0.5	0.7	3.8	5.2	5.2	5.0	6.6	6.6						
Sector Weighted Average (excl. Unilever)							5.1	1.6	1.9	1.6	1.8	2.0	20.1					
Sector Weighted Average							2.7	-2.1	2.4	1.9	2.3	2.3	34.1	31.9	33.0	87.5	86.9	86.2

Source: Bloomberg, RHB

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Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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