

24 August 2018

## Indonesia Consumer Staples

**Bullish On FMCG: Initiate Mayora; Upgrade Unilever**

We are bullish on Indonesian FMCG companies – initiate coverage on Mayora with BUY, upgrade Unilever to BUY from Neutral, reiterate BUY on Indofood CBP with higher TP. We see consumer spending improving, boosted by higher government subsidies – recipients of cash hand-outs have increased and public servants' salaries are to be raised by 5% on average. Key risk in our view is a weaker IDR that may increase costs. However, we see room to pass on higher costs by raising selling prices. Our ground checks suggest no major retail price increases YTD.

**Higher government subsidies to boost consumer spending.** Based on the planned 2019 State Budget expenditure, the Government is increasing social protection. One of the reasons for the higher subsidy budget is to raise the number of recipients for the conditional cash transfer programme and national health insurance. The village funds budget is also being increased to create more labour-intensive jobs.

**Consumer confidence reached record high in Jun 2018.** Although the Consumer Confidence Index conducted by Bank Indonesia declined slightly to 125 in Jul 2018 (Jun 2018: 128), it is still at a high level. Note that this index recorded a new high in Jun 2018. Robust vehicles sales indicated improved consumer spending, with Jul 2018's domestic car sales being the highest monthly sales over the last 3.5 years. This has strengthened our view that consumer spending will likely be better in 2H, driven by government stimulus.

**Initiate coverage on Mayora Indah with BUY.** We believe the growing middle income population will increase consumption of tertiary products eg biscuits, wafer, coffee – Mayora's core products. It is in a better position vs its peers in facing a weaker IDR, given higher export sales. In 2H18, Mayora plans to raise sales prices, the first in three years – previously, price increases were driven by new product launches. Key risk is rising raw material costs, eg sugar and flour.

**Upgrade Unilever Indonesia to BUY from Neutral.** Unilever is attractively valued, trading at -2SD of its historical mean. Improved domestic consumer spending driven by higher government subsidies is a catalyst for its share price. We believe it is aiming to increase market share. Our ground checks suggest Unilever's home-care products' retail prices are now closer to peers, which should support its aim to increase market share in addition to more aggressive product launches. Gains from an asset divestment in 3Q may lead to a special dividend. Unilever offers FY19F ROE of 130%.

**Reiterate BUY on Indofood CBP with higher IDR10,300 TP (from IDR9,500).** Despite lower domestic sales volumes for instant noodles, it still booked higher volumes with stronger ASPs. This was due to its robust position locally. Its exports have also strengthened. For future growth, earnings should be driven by the dairy and snack foods segments, as it has launched more new product variants.

**NEUTRAL on Nippon Indosari.** Indosari indicated that sales returns at its bread division declined significantly in Jul 2018. However, operational costs/unit has increased on the commencement of its new Philippines plant. We see the market there as promising despite the initial high cost of operations.

**Key risk** to our call is rising costs, driven by a weaker IDR, as the bulk of raw materials are still imported or linked to the USD. However, we see room for selling price increases, thanks to expected better consumer spending over the next 12 months. Our ground checks reveal no major retail selling price increases YTD, although some fast-moving consumer goods (FMCG) products – especially consumer foods where the main raw material is flour – have seen higher retail prices in Jun 2018 and Jul 2018.

Company Name	Rating	Price	Target	% Upside (Downside)	P/E (x) Dec-19F	P/B (x) Dec-19F	Yield (%) Dec-19F
Indofood CBP	BUY	IDR8,925	IDR10,300	15.4	22.8	4.3	2.2
Mayora Indah	BUY	IDR2,870	IDR3,300	15.0	29.5	6.5	1.1
Unilever Indonesia	BUY	IDR43,350	IDR50,500	16.5	40.2	49.2	2.2
Nippon Indosari	NEUTRAL	IDR940	IDR860	(8.5)	29.9	1.9	0.5

Source: Company data, RHB

Consumer Non-cyclical | Consumer Staples

**Overweight** (Maintained)

Stocks Covered: 4  
Ratings (Buy/Neutral/Sell): 3 / 1 / 0  
Last 12m Earnings Revision Trend: Neutral

**Top Picks**

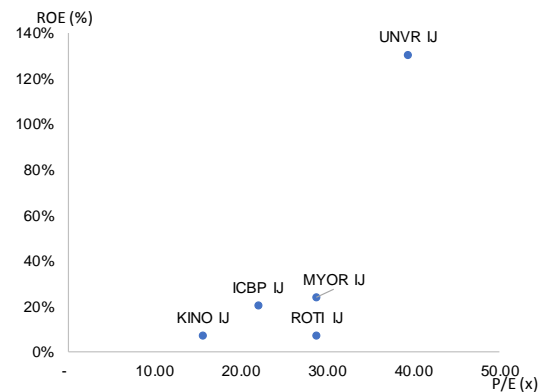
Indofood CBP (ICBP IJ) – BUY  
Unilever (UNVR IJ) – BUY  
Mayora Indah (MYOR IJ) – BUY

**Target Price**

IDR10,300  
IDR50,500  
IDR3,300

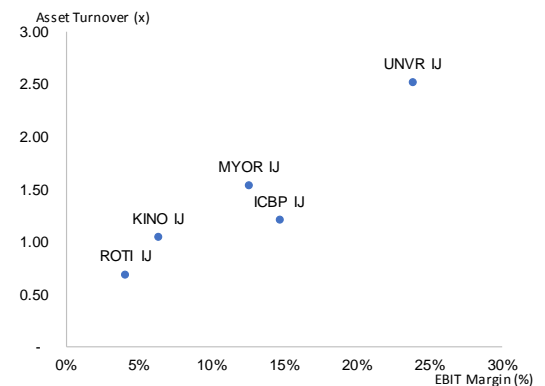
**Our pecking order: ICBP > UNVR > MYOR > ROTI**

**Consumer staples' FY19F P/Es and ROEs**



Source: RHB, Bloomberg

**FY19F EBIT margin vs asset turnover**



Source: RHB

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## Investment Summary

We see consumer spending improving, boosted by higher government subsidy, especially for the lower income population. The Government's budget for consumption related items is to increase by 38% YoY for the next 12 months.

Key risk in our view is a weaker IDR, which may increase input costs. However, we see room to pass on higher costs by raising selling prices. Our ground checks suggest there have been no major retail price increases so far.

We are bullish on Indonesian FMCG companies. We initiate coverage on Mayora with BUY, upgrade Unilever to BUY from Neutral, and reiterate BUY on Indofood CBP with a higher TP.

### Higher government subsidy should boost consumer spending

Based on the planned 2019 State Budget expenditure, the Government is to increase social protection with the following programmes:

- Increase the number of recipients for the National Health Insurance (*Jaminan Kesehatan Nasional/JKN*) to 96.8m people from 92.4m;
- Increase the number of recipients for the Family Hope Programme (*Program Keluarga Harapan/PKH*) to 10m beneficiary families from 5m;
- Gradually increase the target for Non-Cash Food Aid to 15.6m beneficiary families and to replace the rice distribution programme (*Beras Sejahtera*).

The number of recipients for cash hand-outs has increased, while public servants' salaries and pensions is to be raised by 5% on average. We think Indonesia's continued focus on populist measures will be the anchor for strong consumption momentum going into next year.

Based on our calculations, the Government's budget for consumption related items will increase 38% YoY to IDR307trn during the 2H18-1H19 period (next 12 months) compared to IDR258trn during 2H17-1H18 (over the last 12 months). One of the reasons behind the higher budget is to increase the number of recipients for the PKH subsidies card – a conditional cash transfer programme.

The Government is also changing the village funds disbursement scheme to create more jobs. Under its new policy, the disbursement of such funds would be used for labour-intensive projects that involve local people. We see this new scheme creating more jobs for the country's villagers.

Figure 1: Budget for consumption-related items is going up (IDRtrn)

	2015	2016	2017	2018F	2019F	Last 12 months (2H17 & 1H18)	Next 12 months (2H18 & 1H19)
<b>Social aid</b>	<b>63</b>	<b>67</b>	<b>70</b>	<b>75</b>	<b>91</b>	<b>73</b>	<b>83</b>
<b>Growth</b>	<b>14%</b>	<b>6%</b>	<b>4%</b>	<b>7%</b>	<b>21%</b>	<b>6%</b>	<b>15%</b>
Unconditional cash transfer (such as BLT)	9	-	-	-	-	-	-
Subsidised rice and basic food (Rastra and BPNT)	22	22	21	21	21	21	21
Health insurance for the poor (such as JKN-PBI)	20	25	26	26	26	26	26
Scholarship for poor students (such PIP)	6	11	11	11	11	11	11
Conditional cash transfer (PKH)	6	9	12	17	33	15	25
<b>Village funds</b>	<b>-</b>	<b>47</b>	<b>60</b>	<b>60</b>	<b>77</b>	<b>36</b>	<b>63</b>
<b>Growth</b>	<b>0%</b>	<b>28%</b>	<b>28%</b>	<b>0%</b>	<b>28%</b>	<b>-33%</b>	<b>74%</b>
Electricity subsidy	73	51	45	53	59	53	55
<b>Growth</b>	<b>-30%</b>	<b>-30%</b>	<b>-12%</b>	<b>18%</b>	<b>11%</b>	<b>3%</b>	<b>5%</b>
Fuel & gas subsidy	65	44	44	47	61	48	53
<b>Growth</b>	<b>-</b>	<b>-32%</b>	<b>0%</b>	<b>7%</b>	<b>30%</b>	<b>15%</b>	<b>11%</b>
Civil servants of PNS THR and 13th salary	-	18	23	36	36	36	36
<b>Growth</b>	<b>-</b>	<b>28%</b>	<b>57%</b>	<b>0%</b>	<b>618%</b>	<b>0%</b>	<b>0%</b>
Regional and presidential election budget	7	-	6	12	17	12	17
<b>Growth</b>	<b>-49%</b>	<b>-</b>	<b>100%</b>	<b>42%</b>	<b>105%</b>	<b>38%</b>	<b>38%</b>
<b>Total</b>	<b>208</b>	<b>227</b>	<b>248</b>	<b>283</b>	<b>341</b>	<b>258</b>	<b>307</b>
<b>Growth</b>	<b>-50%</b>	<b>9%</b>	<b>9%</b>	<b>14%</b>	<b>20%</b>	<b>14%</b>	<b>19%</b>

Note: Assume realisation follows 2017 semesterly realisation; 1H18 realisation based on 8 Jun 2018 balance at village level (Rekening Kas Desa / RKD)

Source: Ministry of Finance, World Bank, Nielsen

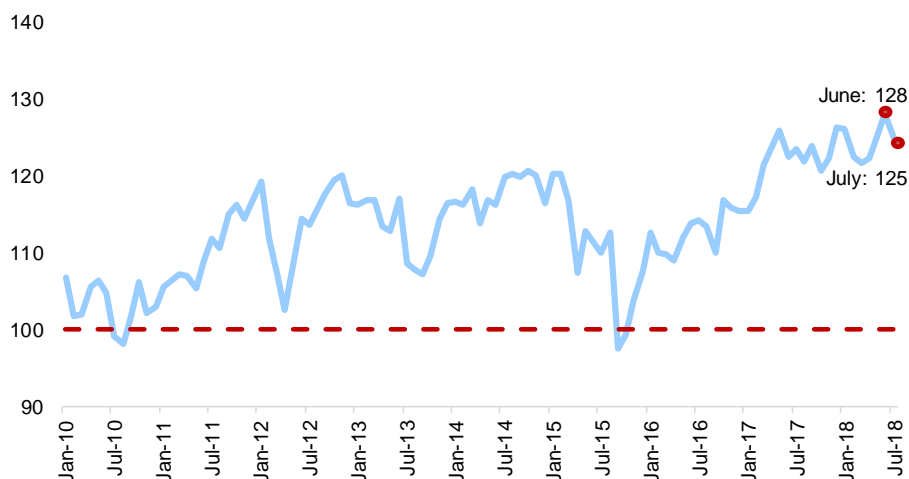
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**Consumer confidence reached record high in June**

Although the Consumer Confidence Index conducted by Bank Indonesia declined slightly to 125 in Jul 2018 (Jun 2018: 128), it is still at a high level. Note that the index recorded a new high of 128.1 in Jun 2018.

On a quarterly basis, the average 2Q18 Consumer Confidence Index stood at 125.2, higher than the 123.4 recorded in 1Q18 and 124 in 2Q17. Increased consumer confidence is driven by improvements in the perception of economic conditions and expectations of future economic conditions. The improvements have strengthened our view that consumer spending will likely be better in 2H, driven by government stimulus.

**Figure 2: Consumer Confidence Index**



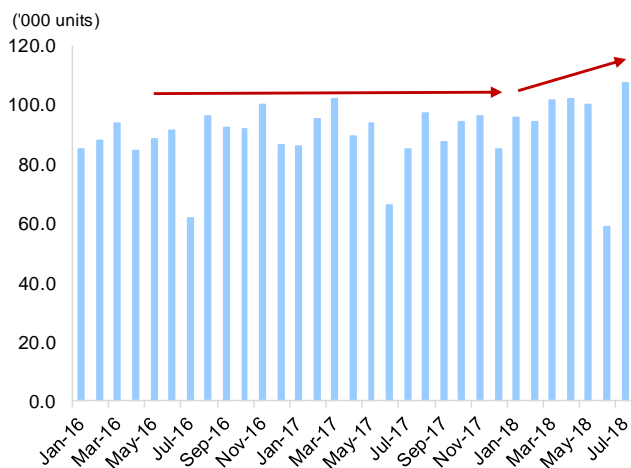
Source: Bank Indonesia

**Robust vehicles sales indicate improved consumer spending**

Jul 2018 domestic car sales were the highest monthly sales over the last 3.5 years. It came in at 107,431 units (+83% MoM, +26% YoY). Based on our calculations, 7M18 wholesale reached 661,210 units (+6.9% YoY), while four-wheel (4W) vehicle sales started to recover since Mar 2018. Note that the low Jun 2018 sales were due to cyclical because of a shorter working month.

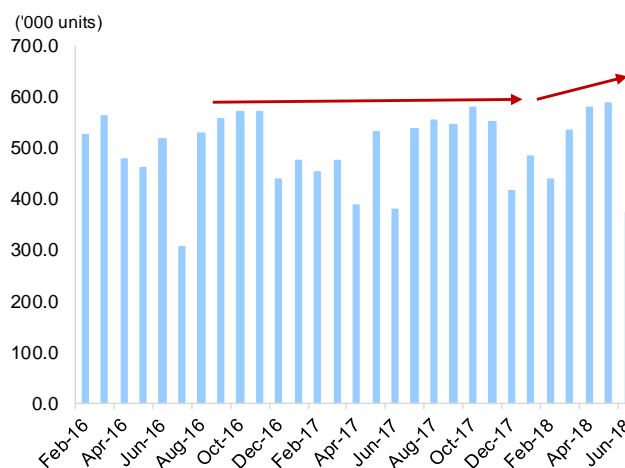
Based on latest national motorcycle sales data (up to Jun 2018), domestic motorcycle sales started to recover in Jan 2018, earlier than car sales. These stronger monthly sales for cars and motorcycles indicate improved consumer spending, both in the lower-end and middle- to upper consumer classes.

**Figure 3: Domestic 4W wholesale ('000 units)**



Source: Gaikindo, RHB

**Figure 4: Domestic 2W wholesale ('000 units)**



Source: AISI, RHB

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## Pecking Order Of Stocks

**Bullish on FMCG: Initiate coverage on Mayora with BUY; Upgrade Unilever**

**Our pecking order: ICBP > UNVR > MYOR > ROTI**

**Indofood CBP – Outperforming industry growth; BUY:**

- i. Maintain BUY with new DCF-derived IDR10,300 TP from IDR9,500, 15% upside. Our TP implies FY19F-20F P/E of 26-23x;
- ii. Despite lower domestic sales volumes for instant noodles, Indofood CBP still booked an increase in volume with higher ASPs;
- iii. This was due to its robust position locally. Its exports have also strengthened;
- iv. For future growth, earnings should be driven by the dairy and snack foods segments as the firm has launched more new product variants in these categories;
- v. Weaker IDR is the main risk to our call, as it may increase production costs.

**Unilever Indonesia – Attractive valuations at -2SD of mean; Upgrade To BUY:**

- i. Upgrade to BUY from Neutral with higher DCF-derived IDR50,500 TP from IDR47,700, 16% upside;
- ii. Our TP implies FY19F-20F P/E of 47-43x (-1SD from its average rolling forward P/E). The counter is attractively valued, trading at -2SD of historical mean;
- iii. Improved domestic consumer spending driven by higher government subsidies is a catalyst for Unilever's share price;
- iv. We believe the firm is aiming to increase market share. Our ground checks suggest its retail prices have been flat YTD, while its peers have been raising ASPs;
- v. More aggressive upcoming product launches should also be positive;
- vi. Gains from an asset divestment in 3Q may lead to a special dividend.

**Mayora Indah – Beneficiary of rising middle class with export buffer; BUY:**

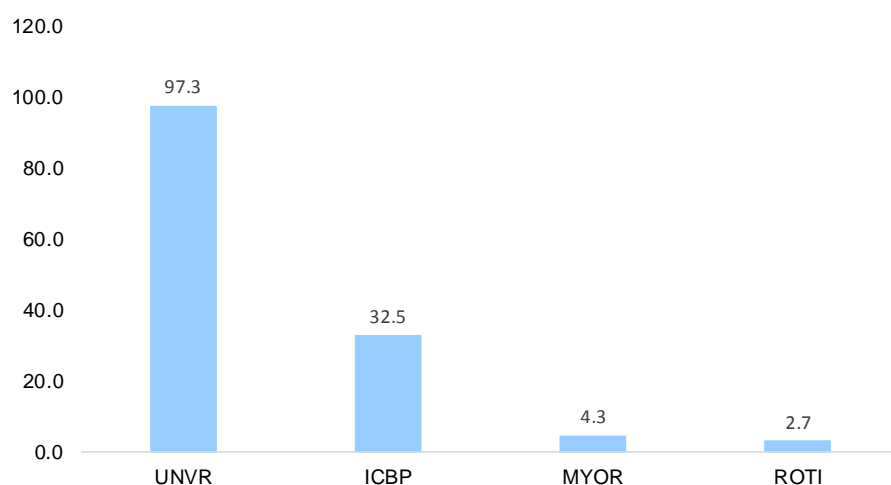
- i. Initiate with BUY and DCF-derived IDR3,300 TP (15% upside);
- ii. Our TP implies 2019F-2020F P/E of 35-30x, which we believe are deserved given its superior growth and ROEs vs its peers;
- iii. Growing middle income population should increase consumption of tertiary products eg biscuits, wafer, coffee – Mayora's core products;
- iv. In a better position vs peers in facing a weaker IDR, given higher export sales;
- v. In 2H18, Mayora plans to raise its sales prices, the first in three years – previously, price increases were driven by new product launches;
- vi. Key risk is rising raw material costs, eg sugar and flour.

**Indosari – Expansion into new markets for future growth; NEUTRAL:**

- i. Maintain NEUTRAL, with lower DCF-derived TP of IDR860 from IDR1,000, 9% downside and implying FY19F-20F P/E of 26x-25x;
- ii. Our lower earnings estimates factor in higher operational costs from Indosari's Philippines operations (new plant started operating in April);
- iii. Domestically, Indosari indicated that sales returns have declined significantly;
- iv. The company plans to expand into a new business – frozen dough;
- v. Key downside risk to our call is intense competition, especially from *MyRoti* and *Prime Bread*;
- vi. Key upside risk would be lower sales returns, which reduces costs.

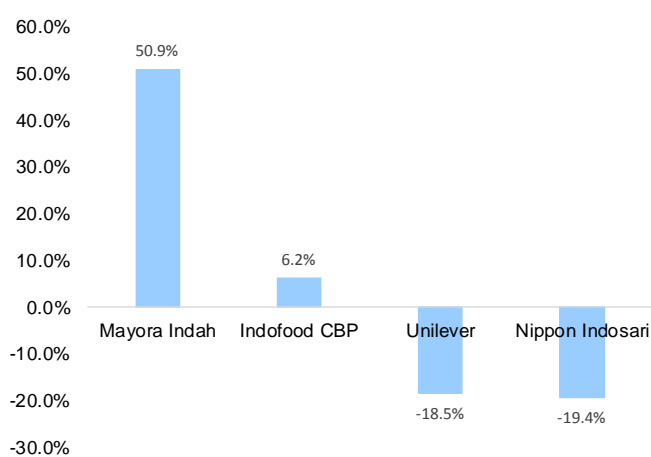
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Figure 5: 3-month trading liquidity (IDRbn)



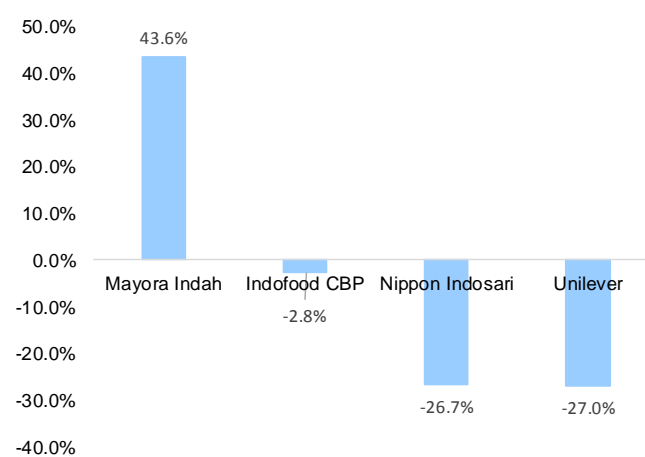
Source: Bloomberg

Figure 6: Share performance – YTD relative return (%)



Source: Bloomberg

Figure 7: Share performance – YTD absolute return (%)



Source: Bloomberg

## Valuation Comparison & SD Bands

Figure 8: Valuations for Indonesian consumer companies I

Name	BBG Ticker	Rating	Price (IDR)	TP (IDR)	Upside/Downside (%)	Market Cap (USDm)	EPS Growth			PER			PBV		
							FY18F (%)	FY19F (%)	FY20F (%)	FY18F (x)	FY19F (x)	FY20F (x)	FY18F (x)	FY19F (x)	FY20F (x)
Unilever Indonesia	UNVR IJ	Buy	43,350	50,500	16.5	22,695	8.5	8.2	8.0	43.5	40.2	37.2	55.9	49.2	44.6
Indofood CBP	ICBP IJ	Buy	8,925	10,300	15.4	7,142	10.2	9.3	12.1	24.9	22.8	20.3	4.8	4.3	3.9
Mayora Indah	MYOR IJ	Buy	2,870	3,300	15.0	4,403	9.9	19.4	14.4	35.8	30.0	26.2	7.3	6.2	5.3
Nippon Indosari Corpindo	ROTI IJ	Neutral	940	860	-8.5	399	1.4	44.6	17.8	33.5	23.2	19.7	1.9	1.8	1.7
Kino Indonesia	KINO IJ	Not Rated	1,645	N/A	N/A	161	17.3	17.0	13.3	18.3	15.6	13.8	1.1	1.0	1.0
<b>Sector Weighted Average (excl. Unilever)</b>							<b>9.9</b>	<b>14.2</b>	<b>13.1</b>	<b>29.0</b>	<b>25.3</b>	<b>22.3</b>	<b>5.6</b>	<b>4.9</b>	<b>4.3</b>
<b>Sector Weighted Average</b>							<b>9.0</b>	<b>10.3</b>	<b>9.8</b>	<b>38.5</b>	<b>35.0</b>	<b>32.0</b>	<b>38.4</b>	<b>33.8</b>	<b>30.6</b>

Note: Closing price 23 Aug 2018

Source: RHB, Bloomberg

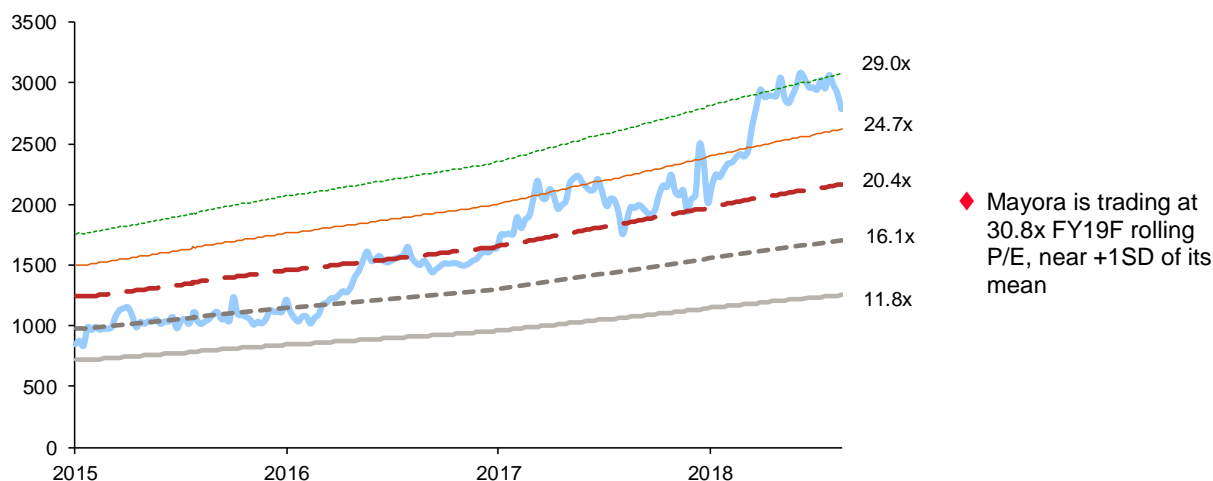
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Figure 9: Valuations for Indonesian consumer companies II

Name	PEG			Yield			ROA			ROE		
	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F
	(x)	(x)	(x)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Unilever Indonesia	5.1	4.9	4.6	2.0	2.2	2.5	40.8	43.6	44.6	138.2	130.2	125.7
Indofood CBP	2.4	2.5	1.7	2.0	2.1	2.4	12.7	12.9	13.4	20.3	20.0	20.2
Mayora Indah	3.0	1.5	1.6	0.8	0.8	0.8	13.0	14.1	13.5	22.1	22.0	22.1
Nippon Indosari Corpindo	-54.4	0.7	4.8	0.6	0.6	0.6	3.5	5.8	7.0	5.7	7.8	8.7
Kino Indonesia	1.1	0.9	1.0	0.5	0.5	0.5	3.7	3.9	4.2	6.2	6.9	7.3
<b>Sector Weighted Average (excl. Unilever)</b>	<b>0.7</b>	<b>2.0</b>	<b>1.7</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>	<b>12.4</b>	<b>13.0</b>	<b>13.1</b>	<b>20.3</b>	<b>20.2</b>	<b>20.4</b>
<b>Sector Weighted Average</b>	<b>3.6</b>	<b>3.9</b>	<b>3.6</b>	<b>1.8</b>	<b>2.0</b>	<b>2.2</b>	<b>30.9</b>	<b>32.9</b>	<b>33.7</b>	<b>97.2</b>	<b>91.9</b>	<b>89.1</b>

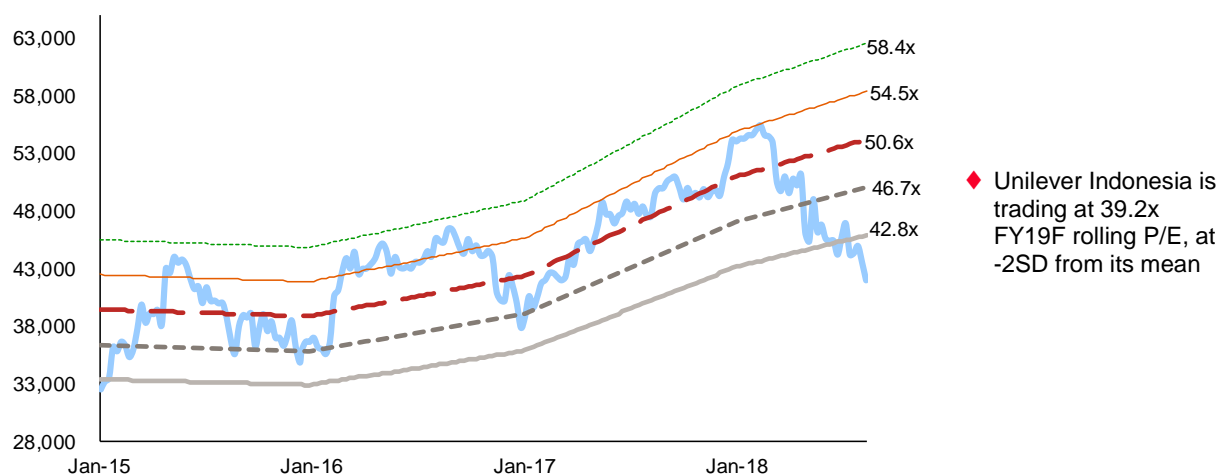
Note: Closing price 23-Aug-18  
Source: RHB, Bloomberg

Figure 10: Mayora's 3-year rolling forward P/E



Note: Data as of 23 Aug 2018  
Source: Bloomberg, RHB

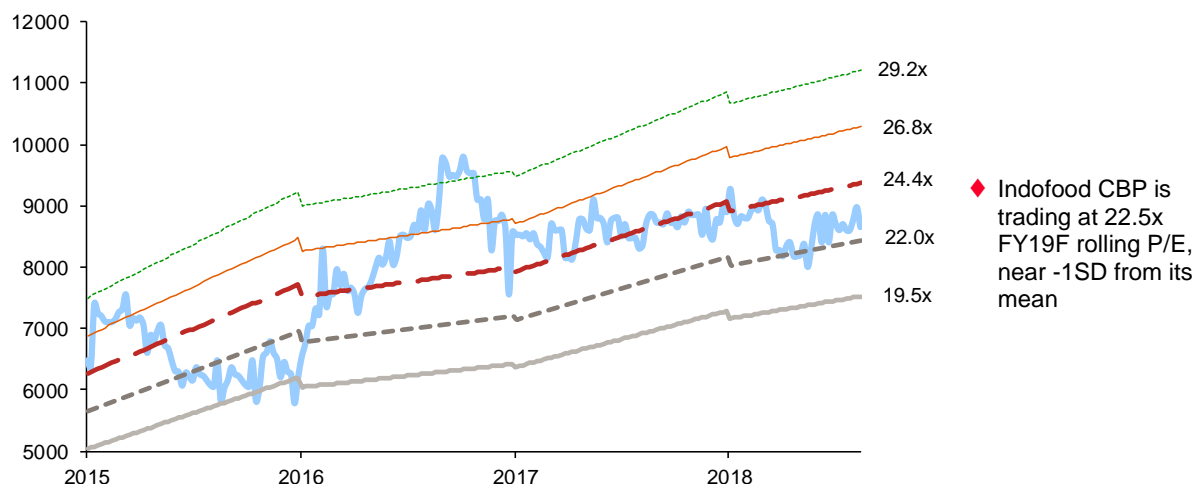
Figure 11: Unilever's 3-year rolling forward P/E



Note: Data as of 23 Aug 2018  
Source: Bloomberg, RHB

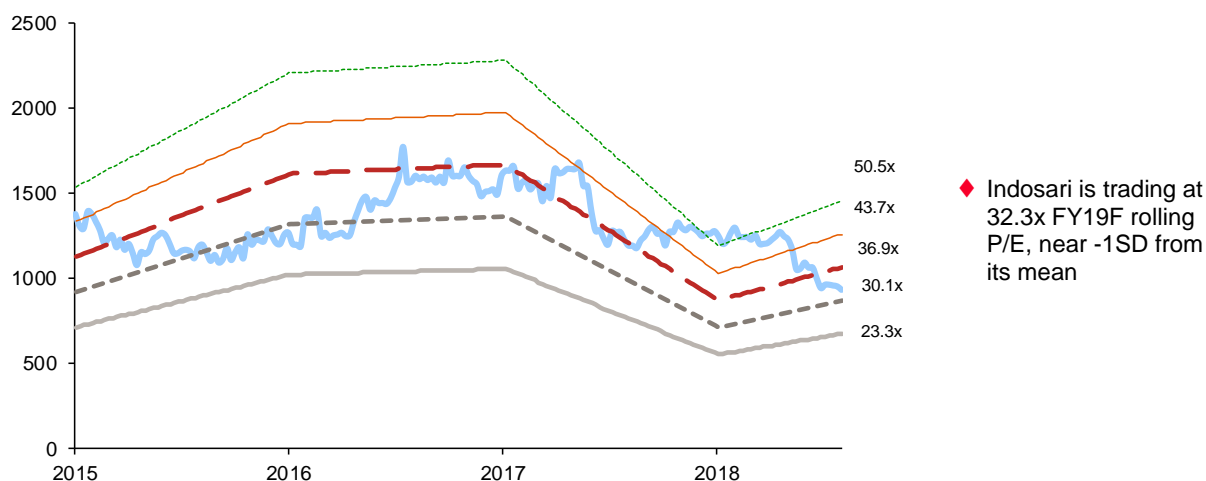
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Figure 12: Indofood CBP's 3-year rolling forward P/E



Note: Data as of 23 Aug 2018  
Source: Bloomberg, RHB

Figure 13: Indosari's 3-year rolling forward P/E



Note: Data as of 23 Aug 2018  
Source: Bloomberg, RHB

## Comparative Performance

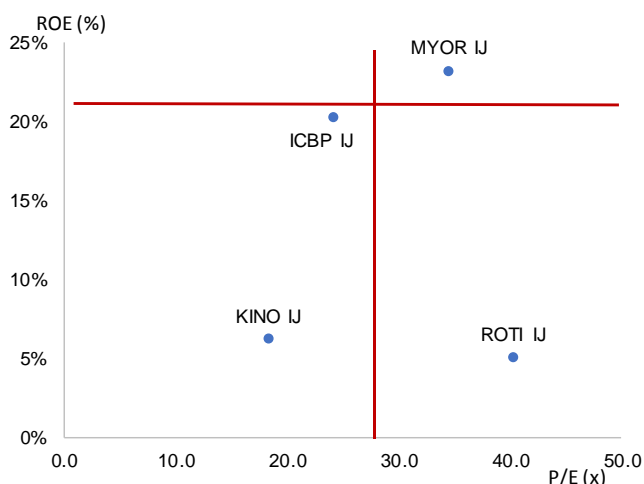
Among Indonesian FMCG companies under our radar (excluding Unilever), Mayora offers the highest equity return, supported by its superior asset turnover, which is the highest among its peers. Given its high ROE and asset turnover, we believe Mayora deserves to trade at premium valuations. Going forward, we see potential rerating of Mayora's valuations, thanks to its huge growth potential, benefitting from a growing middle class, strong export sales exposure (denominated in USD), and high equity returns.

Indofood CBP's EBIT margin is the highest among its peers (excluding Unilever), driven by its robust position in the instant noodles market. Its dairy and snack food segment will likely drive earnings growth over the long term. Note that Indofood CBP's ROE is the second highest in the industry. Despite its promising growth potential and strong equity return, Indofood CBP is trading at lower earnings multiples vs the peer average – we believe the company's valuations are undemanding at current levels.



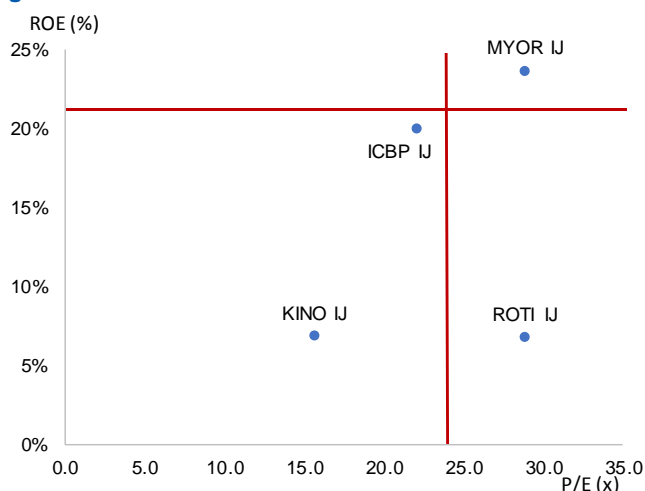
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Figure 14: FY18F P/E and ROE



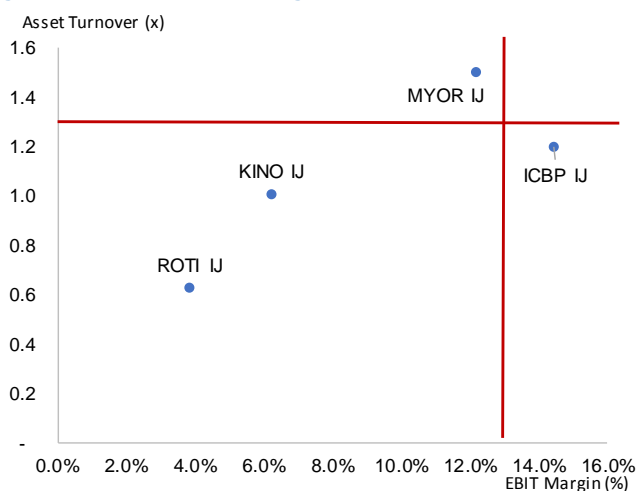
Source: RHB

Figure 15: FY19F P/E and ROE



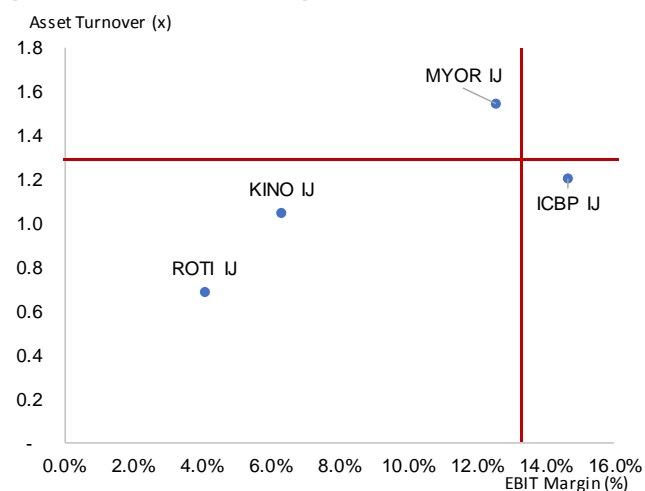
Source: RHB

Figure 16: FY18F EBIT Margin vs Asset Turnover



Source: RHB

Figure 17: FY19F EBIT Margin vs Asset Turnover



Source: RHB

Unilever's earnings performance is much better than its peers. It offers FY18-19F ROEs of 138.2-130.2% vs the peer average of 20.6-20.7% over the same period. Its FY18-19F asset turnover of 2.4-2.5x is also much higher than the peer average of 1.3-1.3x. Unilever's FY18-19F EBIT margin of 23.7-23.8% is also ahead of its peers (13.1-13.4% over the same period).

The market is likely satisfied with Unilever's consistently high ROEs. This is the main reason for its premium P/Es, which average at 51x on a rolling forward basis. Note that the counter is now trading at attractive valuations of 39x FY19F P/E, -2SD of its average P/E.

Figure 18: Unilever's valuations and financial performance

	FY18F	FY19F
P/E (x)	42.7	39.4
ROE (%)	138.2%	130.2%
EBIT Margin (%)	23.7%	23.8%
Assets Turnover (x)	2.4	2.5

Source: RHB

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## Operating Matrices

The table below compares the basic businesses of FMCG companies under our radar. Robust brand names are one of the key factors supporting consumer companies' good earnings performances. In terms of advertising cost-to-sales ratios, Unilever allocates the highest budget to its brands – its advertising cost-to-sales ratio is the highest at 10%, followed by Mayora (7% of total sales), Indosari (6% of total sales), and Indofood CBP (4% of total sales).

In terms of working capital management, Unilever is also the most effective consumer company in managing its cash, with a conversion cycle of merely four days, thanks to its short inventory and receivable days. Mayora requires more working capital than other consumer companies due to longer receivable days, which is likely due to longer cash collection from export sales.

Indofood CBP and Unilever's dividend yields are ~2%, higher than the peer average – dividend yields for Indonesian consumer companies range between 0.5-2.1%.

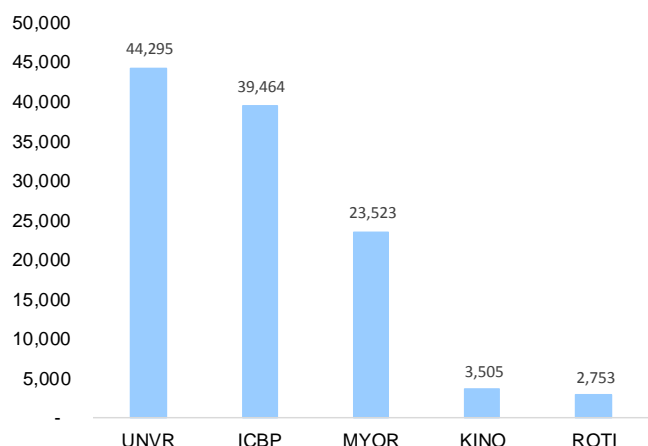
**Figure 19: Indonesia consumers' operating matrices**

	ICBP	UNVR	MYOR	ROTI	KINO
Name	Indofood CBP Sukses Makmur	Unilever Indonesia	Mayora Indah	Nippon Indosari Corpindo	Kino Indonesia
Bloomberg Tickers	ICBP IJ	UNVR IJ	MYOR IJ	ROTI IJ	KINO IJ
Market Cap (IDRbn)	100,875	324,466	62,381	5,815	2,357
3M trading liquidity (IDRbn)	32.5	97.3	4.3	2.7	0.4
RHB ratings	BUY	BUY	BUY	Neutral	Not Rated
Main business	One of Indonesia's largest food company that provides wide range of products e.g noodles (Indomie), dairy (Indomilk), snacks (Chitato, Cheetos), etc	One of Indonesia's largest FMCG company that manufactures wide range of products from toiletries including soap (Lifebuoy, Lux), shampoo (Dove, Sunsilk) to eadibles (Wall's Ice Cream, Royco), etc	Specializes in producing snacks (Astor, beng-beng), candies (Kis, Kopiko) and coffee (Torabika)	Manufactures, sells, and distributes breads (Sari Roti)	Mostly engages in personal care (main products: Ellips, Ovale, and Eskulin), baby care products (Sleek), beverages (Cap Kaki Tiga), etc
Majority owners	PT Indofood Sukses Makmur	Unilever Indonesia Holding BV	Unita Branindo	Indoritel Makmur International	Kino Investindo
Free float	19.5%	15.0%	15.7%	41.5%	9.2%
CEO	Anthoni Salim	Hemant Bakshi	Andre Sukendra Atmadja	Wendy Sui Cheng Yap	Harry Sanusi
Sponsor Affiliation	Salim family	Unilever global	Atmadja family	Salim family	Harry Sanusi family
FY18 Net sales (IDRbn)	39,464	44,295	23,523	2,753	3,505
FY18 EBIT (IDRbn)	5,691	21,220	4,975	1,260	218
FY18 EBIT margin (%)	14.4%	23.7%	12.2%	3.8%	6.2%
FY18 EBITDA margin (%)	14.8%	25.1%	14.1%	8.6%	7.6%
FY18 NPAT margin (%)	10.6%	17.2%	7.7%	5.3%	3.7%
FY18 Advertising-to-sales (%)	4%	10.0%	7.0%	6.0%	N/A
FY18 Salaries-to-sales (%)	4%	3.0%	1.5%	13.8%	N/A
FY18 CCC (days)	38	4	103	15	N/A
FY18 Inventory days	39	22	43	16	N/A
FY18 Creditor days	42	52	41	46	N/A
FY18 Debtor days	41	34	101	46	N/A
FY18 ROA (%)	12.7%	40.8%	11.6%	3.3%	3.7%
FY18 Asset Turnover (x)	1.2	2.4	1.5	0.6	1.0
FY18 ROE (%)	20.3%	138.2%	23.2%	5.1%	6.2%
FY18 Net Gearing (x)	Net Cash	40%	25%	Net Cash	N/A
FY18 Dividend Yield (%)	2.0%	2.1%	1.0%	0.5%	0.5%

Source: Company data, Bloomberg, RHB

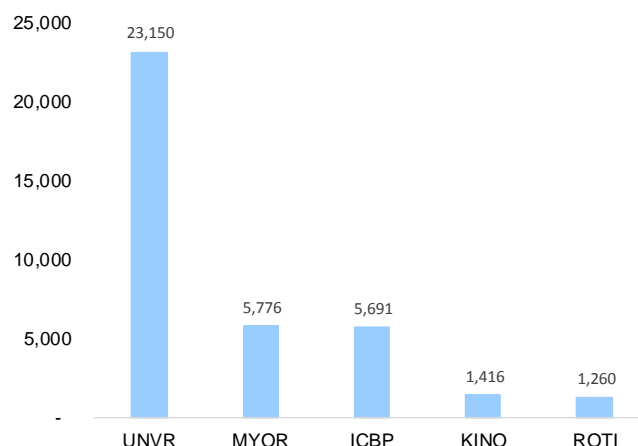
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Figure 20: FY18F net sales (IDRbn)



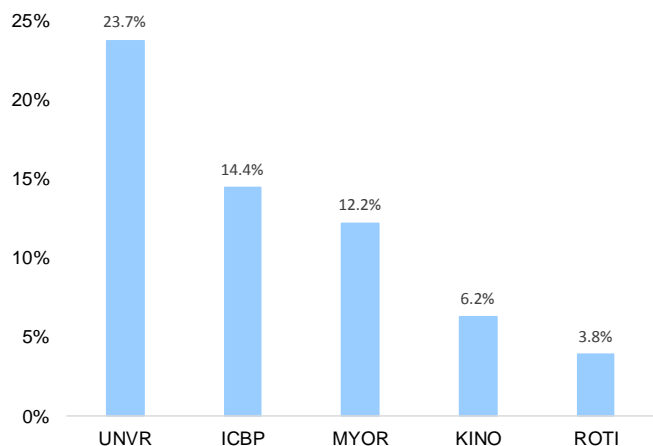
Source: RHB, Bloomberg

Figure 21: FY18F gross profit (IDRbn)



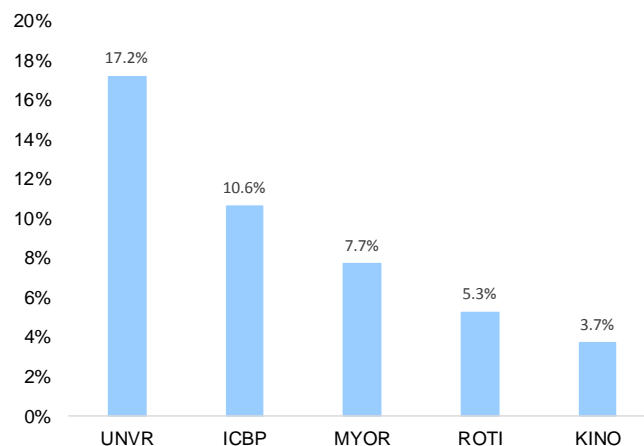
Source: RHB, Bloomberg

Figure 22: FY18F EBIT margin (%)



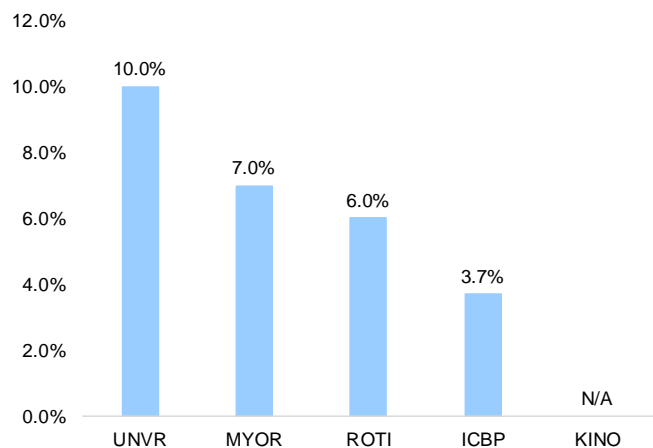
Source: RHB, Bloomberg

Figure 23: FY18F NPAT margin (%)



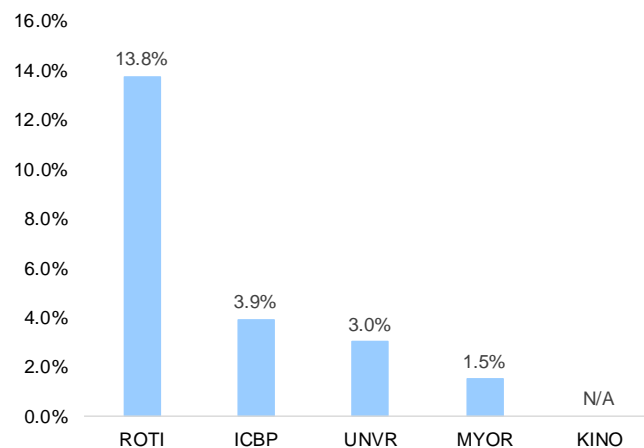
Source: RHB, Bloomberg

Figure 24: FY18F advertising-to-sales (%)



Source: RHB

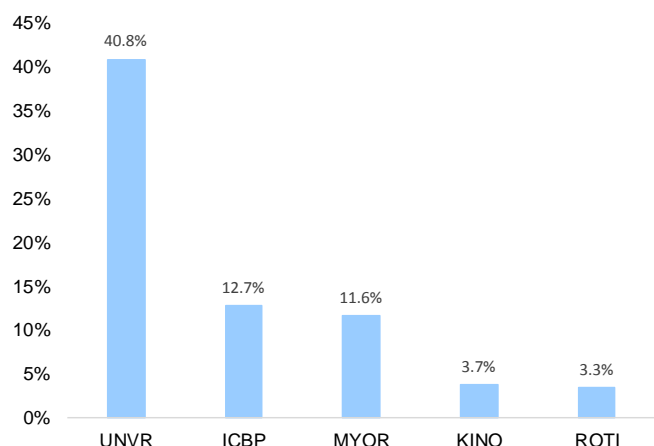
Figure 25: FY18F salaries-to-sales (%)



Source: RHB

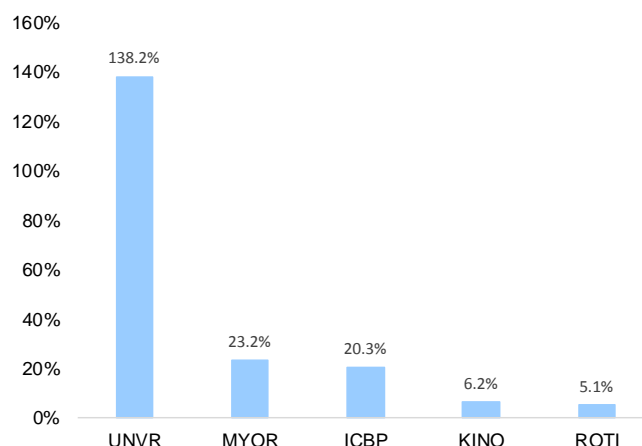
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Figure 26: FY18F ROA (%)



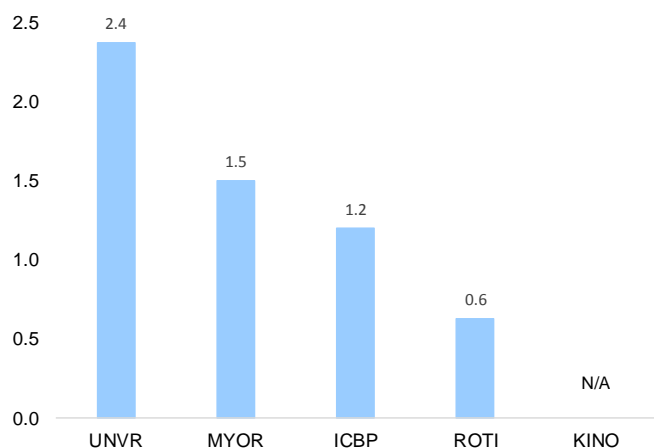
Source: RHB, Bloomberg

Figure 27: FY18F ROE (%)



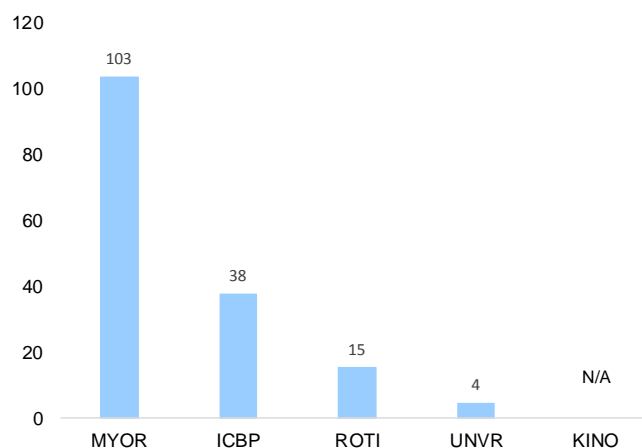
Source: RHB, Bloomberg

Figure 28: FY18F asset turnover (x)



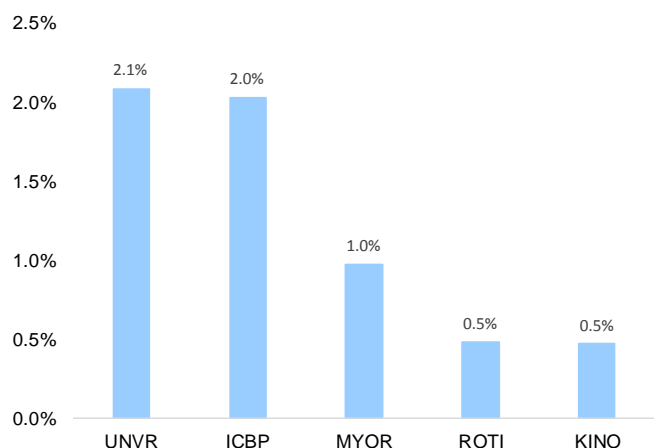
Source: RHB, Bloomberg

Figure 29: FY18F CCC (days)



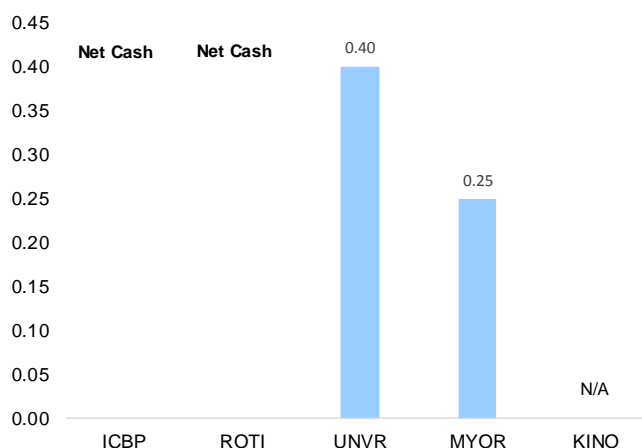
Source: RHB, Bloomberg

Figure 30: FY18F dividend yield (%)



Source: RHB, Bloomberg

Figure 31: FY18F net gearing (x)



Source: RHB, Bloomberg

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## Our Ground Checks

Based on our latest ground checks, some FMCG products' – especially consumer food products where the main raw materials are related to flour – retail prices have started to increase in June and July.

For instant noodles, the prices for *Mie Ayam Dua Telor*, *Indomie Kari Ayam*, and *Bakmi Mewah* have increased.

Biscuit and snack retail prices are largely flat. However, our channel checks at Mayora indicate that the company plans to increase its selling prices in 2H18.

Bread retail prices have been flat, likely due to continued intense competition in the bread market.

For milk-based products, liquid milk retail prices have been mixed due to dynamic competition in the industry. Meanwhile, ice cream retail prices remained flat. We notice that Nestle has entered the domestic ice cream market by selling its products at premium supermarkets.

Competition in the ready-to-drink (RTD) tea market remains intense, resulting in lower retail prices for some major products – *Ichi Ocha* and *Nu Green Tea* retail prices have declined while *Teh Pucuk Harum's* retail price has increased.

Retail prices for detergent have been flat. The trend for soap retail prices is mixed as a result of dynamic competition in the industry. Unilever's toothpaste retail price has increased.

Please see our 8 Jun 2018 report for our previous ground checks on FMCG retail prices, [Ground Checks: Retail Selling Prices Mostly Flat](#).

### Trend in instant noodles retail price

Our ground checks suggest that Indofood has increased most of their noodles retail prices by 3.8-4.7% QoQ for *Indomie Kari Ayam* and *Indomie Goreng Special*. Meanwhile, for its premium noodles, *Indomie Real Meat*, the price was lowered by 2.3% QoQ. This was likely to keep up with its peer Wings' *Bakmi Mewah*, which had its retail price declining sharply in February.

The retail prices for ordinary instant noodles are up 1.8-4.7% QoQ, but on the contrary, we saw Tiga Pilar's *Mie Ayam Dua Telor's* retail price decline by 7.4% QoQ, the highest decline among its peers. We believe the 29% MoM increase in its retail price was likely to keep up with its peers.

Figure 32: Breakdown of instant noodle prices by product (IDR)

	Size (gram)	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
<b>Tiga Pilar</b>	Mie Ayam Dua Telor	200 gram	4,300	4,400	4,400	4,300	3,400	3,400	3,400	29.4%	-7.4%	-15.8%
<b>Indofood</b>	Indomie Kari Ayam	72 gram	2,070	2,150	2,175	2,175	2,175	2,175	2,300	0.0%	3.8%	-0.1%
<b>Indofood</b>	Indomie Goreng Special	86 gram	2,250	2,150	2,150	2,150	2,150	2,275	2,275	-3.3%	4.7%	-1.9%
<b>Indofood</b>	Indomie Real Meat	110 gram	7,300	7,700	7,700	7,200	7,200	7,200	7,200	0.0%	-2.3%	-3.7%
<b>Wings</b>	Bakmi Mewah	110 gram	8,750	8,700	7,400	7,400	7,400	7,400	7,600	0.0%	1.8%	8.2%

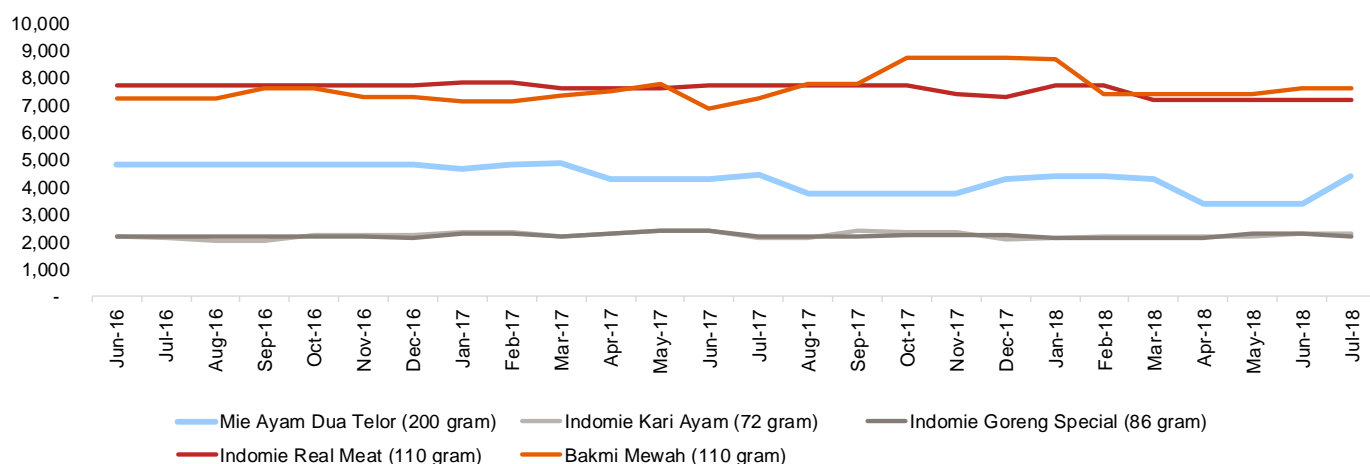
Note: QoQ change refers to average Feb-Apr 2018 retail prices vs average May-Jul 2018 retail prices

Note 2: YoY change refers to average Aug 2016-Jul 2017 retail prices vs average Aug 2017-Jul 2018 retail prices

Source: RHB

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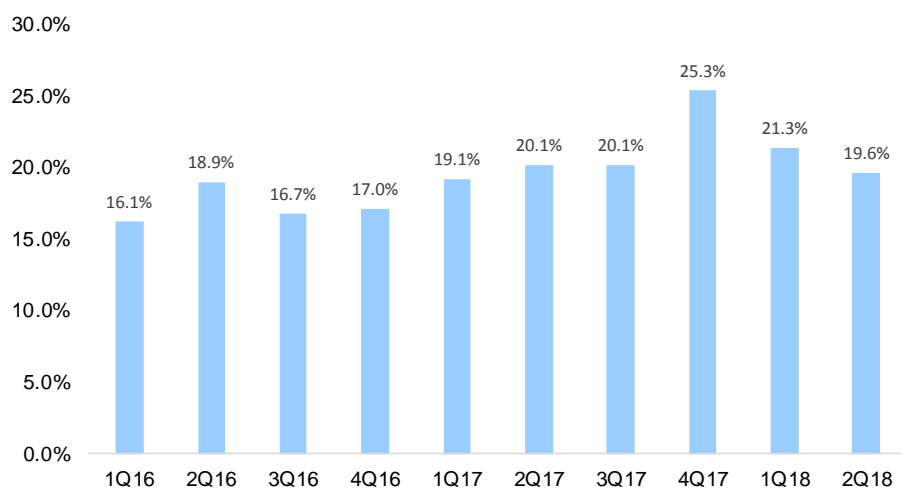
Figure 33: Retail price trends for instant noodles (IDR)



Source: RHB

We believe the higher retail selling prices for *Indomie Kari Ayam* and *Indomie Goreng Special* were to pass on higher input costs. Our channel checks of other consumer food producers showed that Bogasari started to increase its flour price in July. The EBIT margin for Indofood CBP's noodles business normalised to 19.6% in 2Q18 (1Q18: 21.3%, 2Q17: 20.1%). We note that its 4Q17 EBIT was abnormal, as it recorded other revenues.

Figure 34: EBIT margin trend for Indofood's noodles segment



Source: Company data, RHB

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### Bread retail prices were flat QoQ

YTD, Indosari has maintained the retail prices of its products (ie *Sari Roti*), after raising them in Apr 2017. As competition has been intense – coming from rivals like Yamazaki Indonesia (Yamazaki) and Gardenia Makmur Selaras (Gardenia), which produce *Prime Bread* items – hiking retail prices is now the final option for bread makers to maintain or increase their EBIT margins.

Figure 35: Breakdown of retail prices for bread by product (IDR)

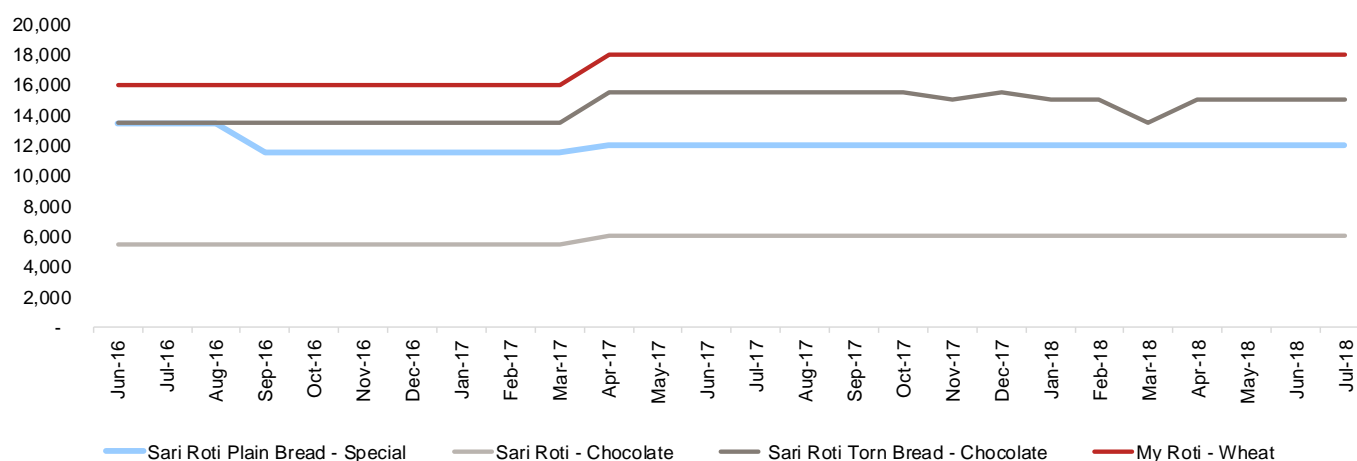
	Size (gram)	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
<b>Sari Roti</b>	Plain Bread - Special	1 pack	12,000	12,000	12,000	12,000	12,000	12,000	12,000	0.0%	0.0%	1.4%
<b>Sari Roti</b>	Bread - Chocolate	1 pack	6,000	6,000	6,000	6,000	6,000	6,000	6,000	0.0%	0.0%	5.9%
<b>Sari Roti</b>	Torn Bread - Chocolate	1 pack	15,500	15,000	15,000	13,500	15,000	15,000	15,000	0.0%	3.4%	6.2%
<b>My Roti</b>	My Roti - Wheat	1 pack	18,000	18,000	18,000	18,000	18,000	18,000	18,000	0.0%	0.0%	8.0%

Note: QoQ change refers to average Feb-April 2018 retail prices vs average May-July 2018 retail prices

Note 2: YoY change refers to average Aug 2016-July 2017 retail prices vs average Aug 2017-July 2018 retail prices

Source: RHB

Figure 36: Retail price trends for bread (IDR)



Source: RHB

### Dairy retail prices have been mixed

Our ground checks indicate that there were various changes in the retail selling prices for ultra-high temperature processing (UHT) milk. For Indofood CBP's UHT milk, *Indomilk's* retail price rose 9-11% QoQ but its peer, Ultrajaya Milk Industry's *Ultra Milk's* retail price declined 5% QoQ for its 200ml pack although its 1-litre *Ultra Milk* pack's retail price increased 5% QoQ. The significant change was due to Nestle Indonesia's *Milo* product, where its retail selling price decreased by 17% QoQ.

Figure 37: Retail prices for UHT milk by product (IDR)

	Size (ml)	Jul-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY	
<b>Indofood</b>	Indomilk	190	3,300	3,400	3,400	3,400	3,600	3,750	3,850	3,750	-2.6%	9.1%	6.4%	
<b>Ultra Jaya</b>	Ultramilk	200	4,100	4,600	4,400	4,600	4,300	4,300	4,100	4,100	0.0%	-5.3%	8.2%	
<b>Nestle</b>	Milo	190	4,125	4,800	4,800	4,850	4,850	4,119	3,950	3,950	0.0%	-17.1%	5.6%	
<b>Indofood</b>	Indomilk	1,000	17,100	17,100	15,100	17,100	16,300	12,990	16,700	17,900	-6.7%	10.6%	-1.5%	
<b>Ultra Jaya</b>	Ultramilk	1,000	16,100	14,990	15,700	15,700	15,700	14,490	15,700	16,400	0.0%	5.7%	-0.2%	
<b>Frisian Flag</b>	Bendera	900	15,210	14,300	14,500	16,000	14,300	14,300	12,790	14,850	14,300	-3.7%	-6.0%	-2.3%
<b>Diamond Cold Storage</b>	Diamond	1,000	16,400	14,310	15,900	15,900	15,200	15,200	16,450	14,550	14,550	-11.6%	-0.2%	-3.7%
<b>Greenfields Indonesia</b>	Greenfields	900	16,200	16,900	16,900	17,900	17,600	17,600	20,400	20,400	20,400	0.0%	10.0%	-2.3%

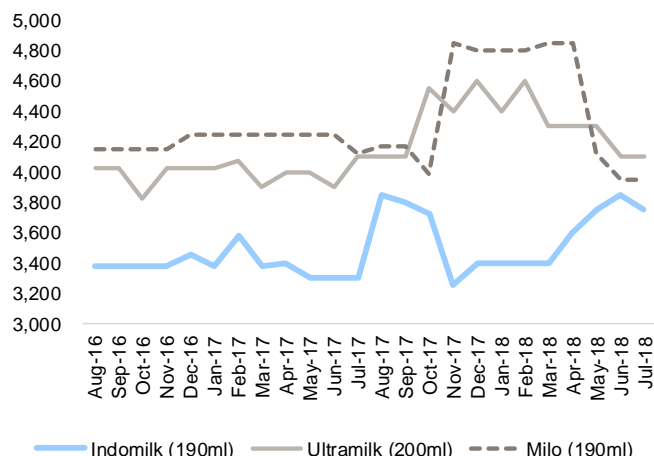
Note: QoQ change refers to average Feb-Apr 2018 retail prices vs average May-Jul 2018 retail prices

Note 2: YoY change refers to average Aug 2016-Jul 2017 retail prices vs average Aug 2017-Jul 2018 retail prices

Source: RHB

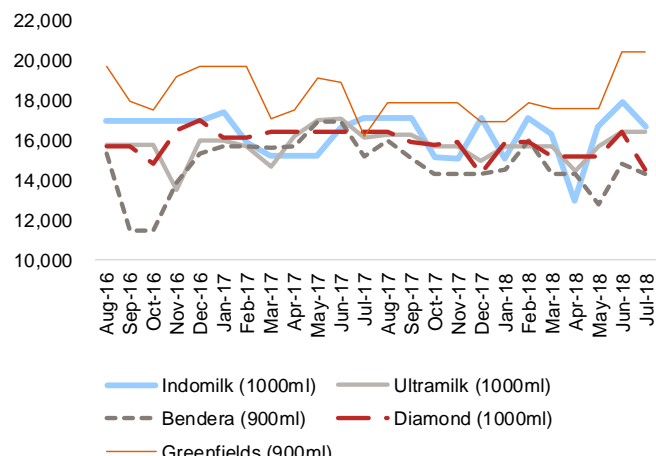
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Figure 38: UHT milk retail price trends I (IDR)



Source: RHB

Figure 39: UHT milk retail price trends II



Source: RHB

Most retail prices for condensed milk declined by around 0.8-5.2% QoQ. Indofood saw the greatest decline in its *Indomilk* retail price, which fell by 5.2% QoQ, followed by Frisian Flag's *Bendera* and *Omela*, where both retail prices declined by ~1% QoQ. Meanwhile, Nestle saw the highest retail price increase for its *Carnation* brand, which was up by 9.2% QoQ. Indomilk's *Enaak* price was also up by 2.5% QoQ.

Figure 40: Breakdown of retail prices for condensed milk by product (IDR)

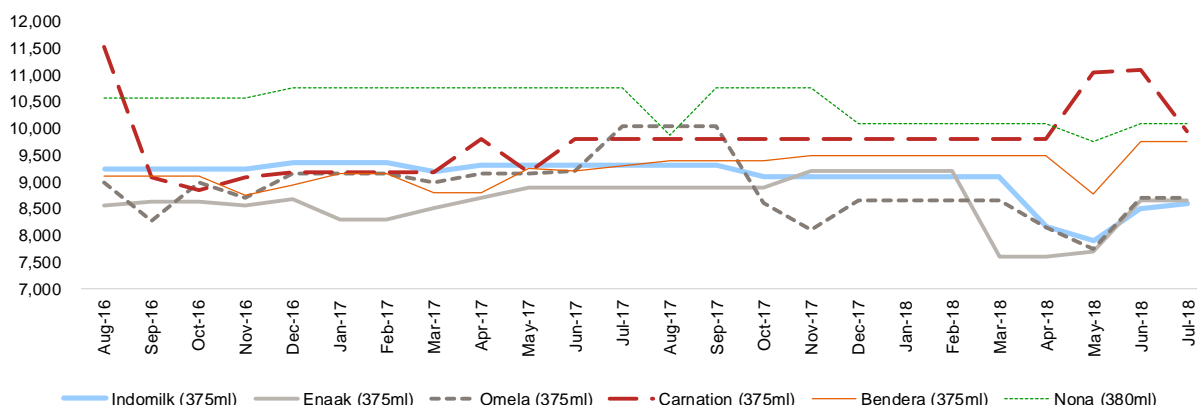
		Size (ml)	Jul-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
Indofood	Indomilk	375	9,300	9,100	9,100	9,100	9,100	8,150	7,890	8,500	8,600	1.2%	-5.2%	-4.6%
Indofood	Enaak	375	8,900	9,200	9,200	9,200	7,600	7,600	7,700	8,650	8,650	0.0%	2.5%	0.2%
Frisian Flag	Omela	375	10,050	8,650	8,650	8,650	8,650	8,150	7,750	8,700	8,700	0.0%	-1.2%	-3.9%
Nestle	Carnation	375	9,800	9,800	9,800	9,800	9,800	9,800	11,050	11,100	9,950	-10.4%	9.2%	5.7%
Frisian Flag	Bendera	375	9,300	9,500	9,500	9,500	9,500	9,500	8,775	9,750	9,750	0.0%	-0.8%	4.4%
Nestle	Nona	380	10,750	10,100	10,100	10,100	10,100	10,100	9,750	10,100	10,100	0.0%	-1.2%	-4.5%

Note: QoQ change refers to average Feb-Apr 2018 retail prices vs average May-Jul 2018 retail prices

Note 2: YoY change refers to average Aug 2016-Jul 2017 retail prices vs average Aug 2017-Jul 2018 retail prices

Source: RHB

Figure 41: Retail price trends for condensed milk (IDR)



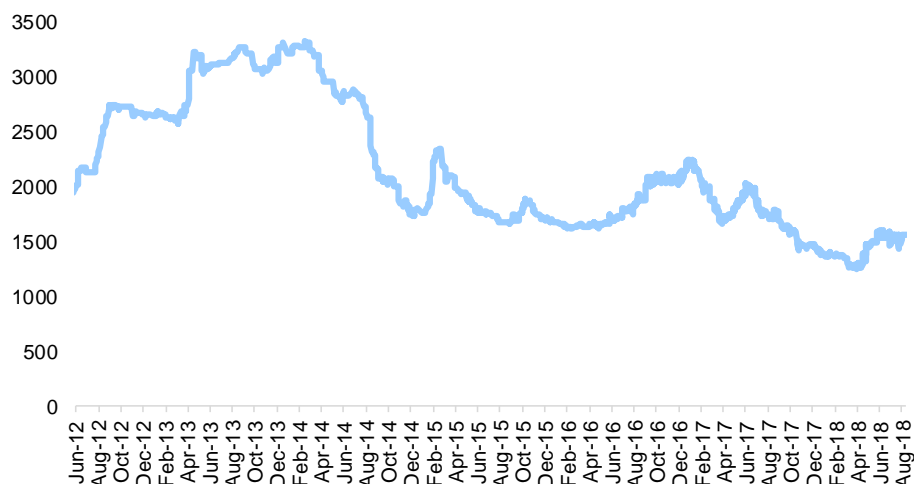
Source: RHB

International milk prices have been fluctuating since Jan 2018. Average prices in 1Q18 showed a decline of 8.8% QoQ and then it was up by 8.9% QoQ in 2Q18, followed by an increase of 4.3% QoQ from July to the second week of Aug 2018. We see this unforeseen movement in international milk prices as the reason milk retail prices have been mixed.



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Figure 42: International milk prices (EUR/tonne)



Source: RHB

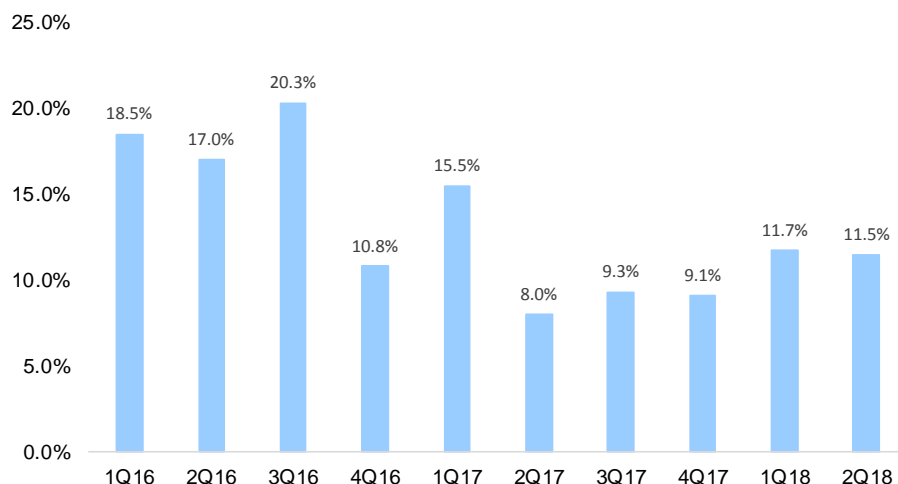
Figure 43: International milk price trends

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	July-W2 Aug
Average wheat price (USD/bu)	1,647	1,686	1,911	2,093	1,965	1,468	1,719	1,479	1,348	1,468	1,531
Change QoQ		2.4%	13.4%	9.5%	-6.1%	-25.3%	17.1%	-14.0%	-8.8%	8.9%	4.3%
Change YoY					19.3%	-12.9%	-10.0%	-29.4%	-31.4%	0.0%	-10.9%

Source: Bloomberg, RHB

Based on its latest financial results, Indofood CBP's dairy business' 2Q18 EBIT margin was flat at 11.5% (1Q18: 11.7%, 2Q17: 8%), driven by higher retail price of liquid milk.

Figure 44: EBIT margin trend for Indofood's dairy business



Source: Company data, RHB

Ice cream retail prices still flat

Our ground checks suggest that ice cream retail prices have been largely flat. Both Unilever and Campina Ice Cream Industry (Campina) have maintained their retail prices – although the former has been aggressively marketing its small-sized ice cream packs. This was evidenced by Unilever's unchanged prices on a MoM basis for its Walls ice cream.

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Figure 45: Breakdown of ice cream retail prices by product (IDR)

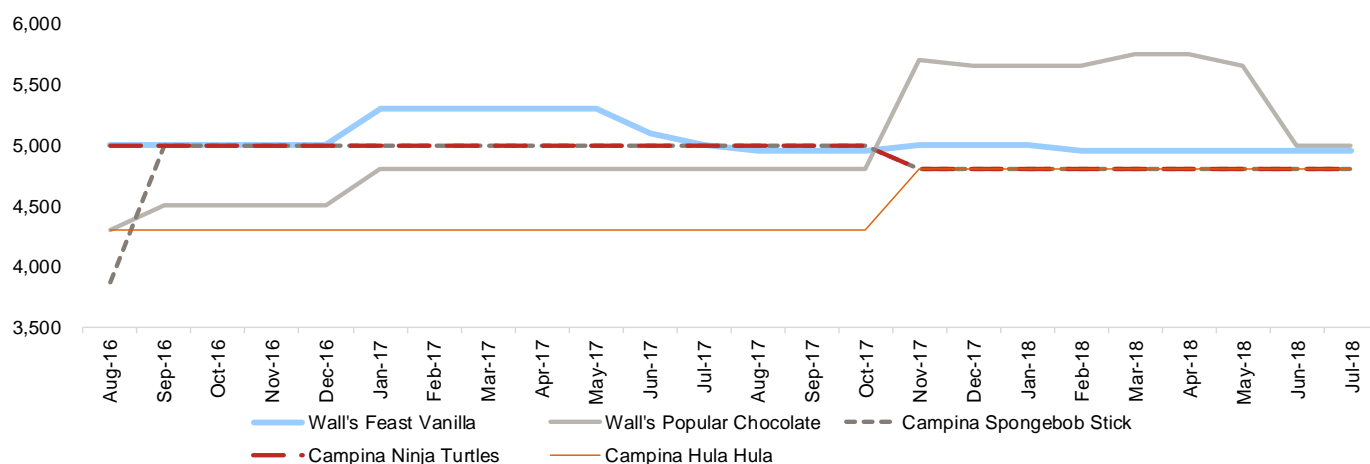
		Size (ml)	Jul-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
Unilever	Wall's Selection Cookies & Cream	1 pcs	26,300	29,750	29,750	29,750	29,750	29,750	29,750	29,750	29,750	0.0%	0.0%	9.0%
Unilever	Wall's Feast Vanilla	1 pcs	5,000	5,000	5,000	4,950	4,950	4,950	4,950	4,950	4,950	0.0%	0.0%	-3.3%
Unilever	Wall's Cornetto	1 pcs	10,100	9,000	10,000	9,000	9,000	9,000	9,450	9,450	9,450	0.0%	5.0%	5.1%
Unilever	Wall's Popular Chocolate	1 pcs	4,800	5,650	5,650	5,650	5,750	5,750	5,650	5,000	5,000	0.0%	-8.7%	14.8%
Campina	Campina Spongebob Stick	70ml	5,000	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	0.0%	0.0%	-1.1%
Campina	Campina Ninja Turtles	90ml	5,000	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	0.0%	0.0%	-3.0%
Campina	Campina Hula Hula	90ml	4,300	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	0.0%	0.0%	8.7%

Note: QoQ change refers to average Feb-Apr 2018 retail prices vs average May-Jul 2018 retail prices

Note 2: YoY change refers to average Aug 2016-Jul 2017 retail prices vs average Aug 2017-Jul 2018 retail prices

Source: RHB

Figure 46: Ice cream retail price trends (IDR)



Source: RHB

### Competition in RTD tea market remains intense

Our ground checks indicate that most of RTD tea retail prices rose 1.2-7.7% QoQ, except for Indofood's *Ichi Ocha* and its peer, ABC President's *Nu Green Tea*. *Ichi Ocha*'s retail price declined by 6.2% QoQ and *Nu Green Tea*'s retail price slipped by 1.2% QoQ.

Indofood CBP has maintained its *Ichi Ocha* retail price at around IDR4,225 per bottle since Jun 2018, which is around 13.5-25% lower than its peers – this is the lowest retail price among its peers, namely ABC President's *Nu Green Tea* and Orang Tua Group's *Teh Gelas*.

Figure 47: Breakdown of retail prices for RTD tea (IDR)

		Size (ml)	Jul-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
Indofood	Ichi Ocha	500	4,850	4,600	4,600	4,600	4,600	4,600	4,500	4,225	4,225	0.0%	-6.2%	-6.0%
Sinar Sosro	Teh Sosro	450	5,450	5,500	5,500	5,500	5,500	5,500	5,500	5,600	5,600	0.0%	1.2%	-5.4%
Sinar Sosro	Teh Sosro - Less Sugr	450	5,200	5,550	5,500	5,500	5,500	5,500	5,500	5,600	5,600	0.0%	1.2%	-5.5%
ABC President	Nu Tea - Green Tea	500	5,700	5,600	5,600	5,600	5,500	5,500	5,200	5,600	5,600	0.0%	-1.2%	-6.6%
Orang Tua Group	Teh Gelas	500	4,850	5,200	5,200	5,200	5,200	5,200	5,200	5,800	5,800	0.0%	7.7%	3.8%
Mayora	Teh Pucuk	480	5,650	3,500	5,000	5,000	4,500	4,500	4,500	5,200	5,275	1.4%	7.0%	-9.6%
Garudafood	My tea	450	5,800	5,100	6,000	6,000	5,100	5,100	6,000	5,500	5,500	0.0%	4.9%	0.5%
Wings Food	Teh Javana	350	2,900	2,200	2,200	2,200	2,200	2,200	2,500	2,750	2,750	0.0%	21.2%	-6.2%

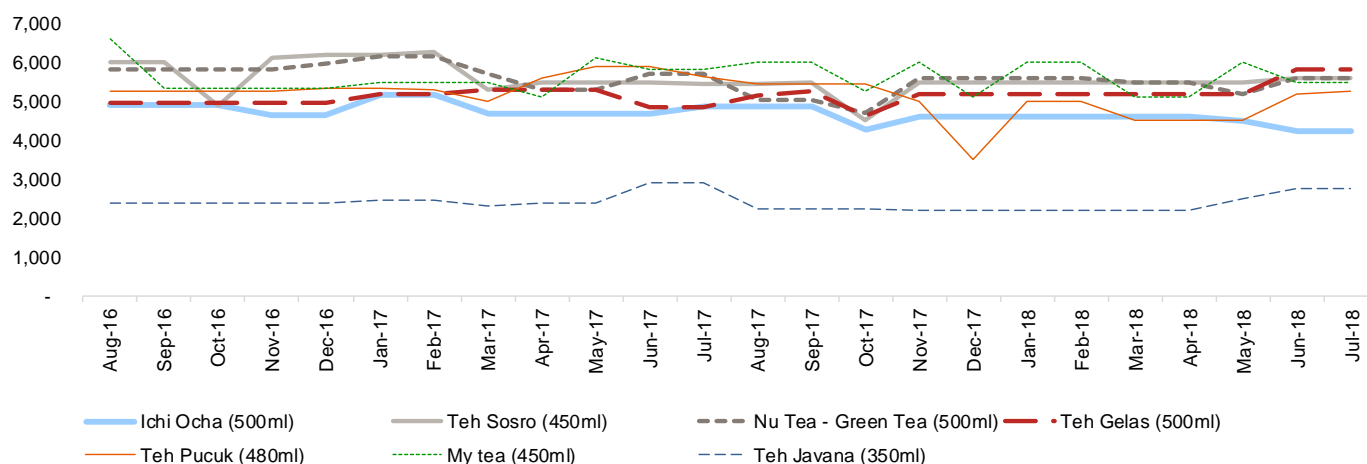
Note: QoQ change refers to average Feb-Apr 2018 retail prices vs average May-Jul 2018 retail prices

Note 2: YoY change refers to average Aug 2016-Jul 2017 retail prices vs average Aug 2017-Jul 2018 retail prices

Source: RHB

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Figure 48: RTD tea retail price trends (IDR)



Source: RHB

Biscuit retail prices largely flat

Our ground checks indicate that the bulk of biscuit retail prices have been maintained, likely due to flat flour prices. Based on our channel checks, biscuit producer, Mayora plans to increase its selling prices in 2H18 to pass on higher costs, especially flour.

Figure 49: Breakdown of retail prices for biscuits (IDR)

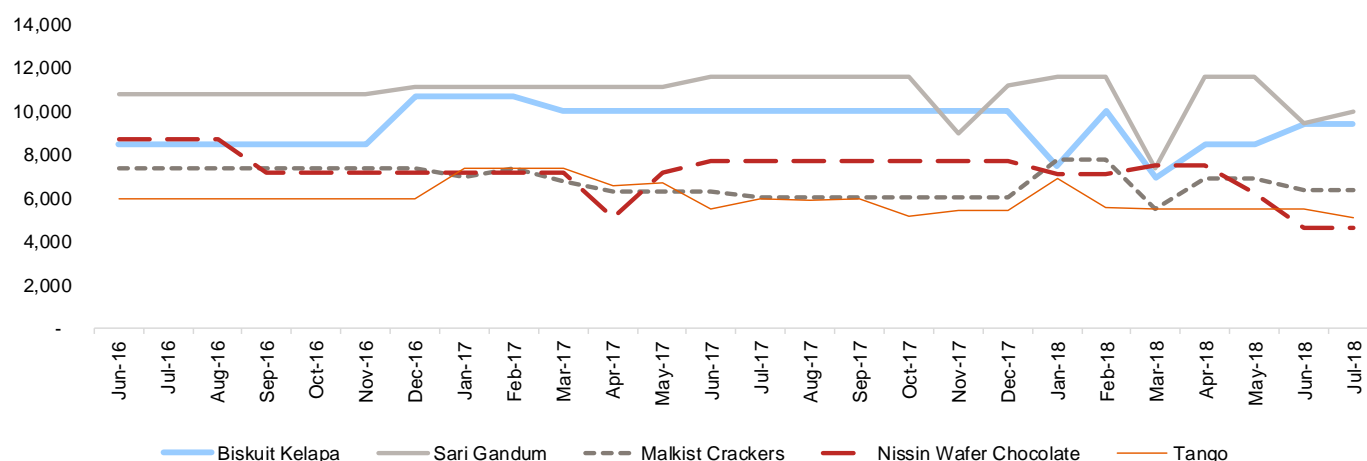
		Size (gram)	Jul-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
Mayora	Biskuit Kelapa	300 gram	10,000	10,000	7,500	10,000	6,950	8,500	8,450	9,450	9,450	0.0%	7.5%	-5.0%
Mayora	Sari Gandum	240 gram	11,600	11,200	11,600	11,600	7,360	11,600	11,600	9,450	10,000	5.8%	1.6%	-3.6%
Nissin	Malkist Crackers	150 gram	6,050	6,050	7,800	7,800	5,520	6,900	6,900	6,350	6,350	0.0%	-3.1%	-6.0%
Orang Tua Group	Nissin Wafer Chocolate	150 gram	7,700	7,700	7,100	7,100	7,500	7,500	6,250	4,650	4,650	0.0%	-29.6%	-3.7%
Orang Tua Group	Tango	78 gram	5,950	5,400	6,900	5,550	5,500	5,500	5,500	5,500	5,100	-7.3%	-2.7%	-12.4%

Note: QoQ change refers to average Feb-Apr 2018 retail prices vs average May-Jul 2018 retail prices

Note 2: YoY change refers to average Aug 2016-Jul 2017 retail prices vs average Aug 2017-Jul 2018 retail prices

Source: RHB

Figure 50: Biscuits retail price trends (IDR)



Source: RHB

24 August 2018

**Snack retail prices have not been raised**

Our ground checks indicate that most of snack retail prices have not been raised, except for Indofood's *Chitato* and Mayora's *Beng Beng*, where prices increased by 10.6% QoQ and 16.7% QoQ respectively.

**Figure 51: Breakdown of retail prices for snacks (IDR)**

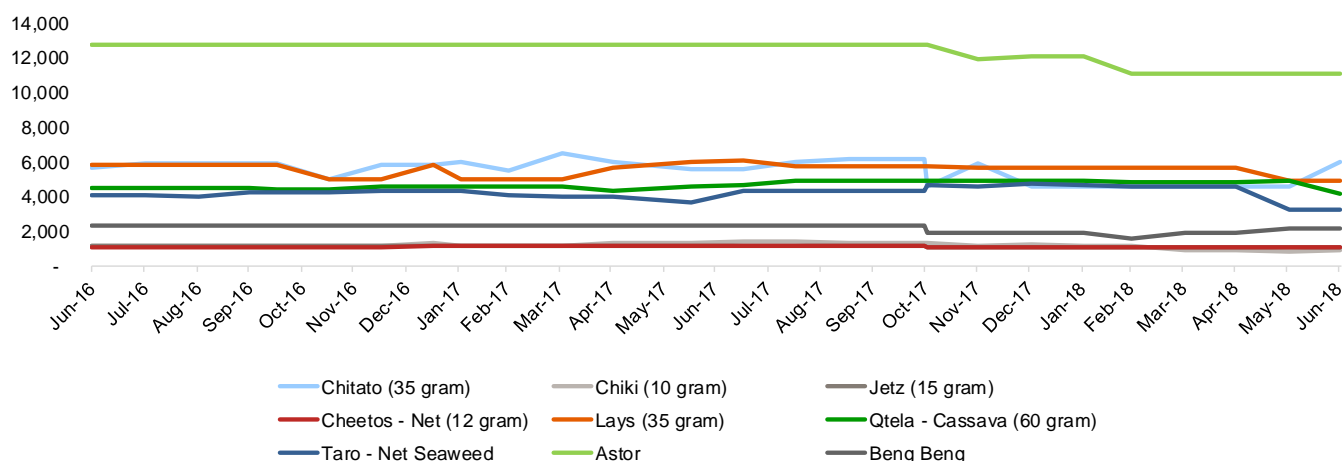
		Size (gram)	Jul-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
Indofood	Chitato	35	5,600	5,900	4,550	4,550	4,550	4,550	4,550	4,550	6,000	31.9%	10.6%	-10.6%
Indofood	Chiki	10	1,450	1,200	1,250	1,200	1,200	900	900	800	900	12.5%	-21.2%	-7.7%
Indofood	Jetz	15	1,200	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	0.0%	0.0%	-6.3%
Indofood	Cheetos - Net	12	1,125	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	0.0%	0.0%	0.6%
Indofood	Lays	35	6,050	5,700	5,700	5,700	5,700	5,700	5,700	4,900	4,900	0.0%	-9.4%	1.7%
Indofood	Qtela - Cassava	60	4,650	4,950	4,950	4,900	4,800	4,800	4,800	4,900	4,150	-15.3%	-4.5%	6.5%
Tiga Pillar	Taro - Net Seaweed	40	4,300	4,600	4,750	4,700	4,600	4,600	4,600	3,250	3,250	0.0%	-20.1%	4.1%
Mayora	Astor	150g	12,800	11,900	12,100	12,100	11,100	11,100	11,100	11,100	11,100	0.0%	-2.9%	-7.0%
Mayora	Beng Beng	22g	2,350	1,900	1,900	1,900	1,600	1,900	1,900	2,200	2,200	0.0%	16.7%	-13.3%

Note: QoQ change refers to average Feb-Apr 2018 retail prices vs average May-Jul 2018 retail prices

Note 2: YoY change refers to average Aug 2016-Jul 2017 retail prices vs average Aug 2017-Jul 2018 retail prices

Source: RHB

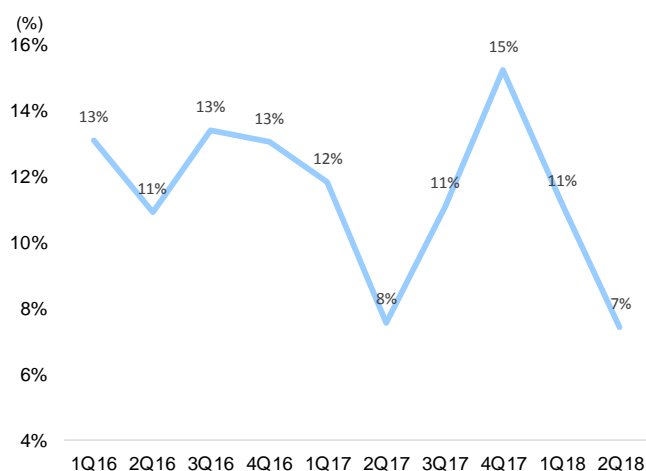
**Figure 52: Snacks retail price trends (IDR)**



Source: RHB

24 August 2018

Figure 53: Mayora's EBIT margin



- ◆ Mayora has maintained retail prices for both its snacks, *Astor* and *Beng Beng* since Apr 2018, and has narrowed its EBIT margin ever since. Its EBIT margin narrowed to 11% in 1Q18 vs 15% in 4Q17, falling further to 7% in 2Q18.
- ◆ As guided by management, Mayora plans to increase its prices in 2H18, which should normalise its margin from 3Q18 onwards.

Source: Company data, RHB

Candy retail prices remained flat

Our ground checks indicate that candy retail prices remained flat MoM likely due to the declining price of sugar as it is the main ingredient in candies. According to Mayora's management, the company chose to lower its candy prices to stay competitive in the market, as people start to shift to healthier lifestyles by reducing sugar consumption.

Figure 54: Breakdown of retail prices for candy (IDR)

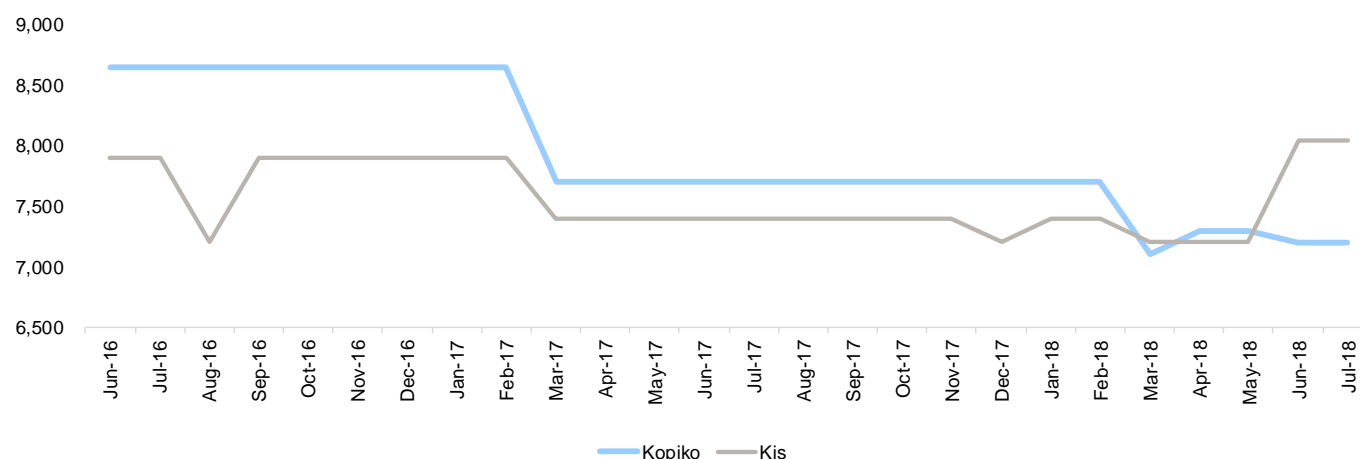
		Size	Jul-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
<b>Mayora</b>	Kopiko	150 gram	7,700	7,700	7,700	7,700	7,100	7,300	7,300	7,200	7,200	0.0%	-1.8%	-9.1%
<b>Tiga Pilar</b>	Kis	125 gram	7,400	7,200	7,400	7,400	7,200	7,200	7,200	8,050	8,050	0.0%	6.9%	-2.5%

Note: QoQ change refers to average Feb 2018-Apr 2018 retail prices vs average May 2018-Jul 2018 retail prices

Note 2: YoY change refers to average Aug 2016-Jul 2017 retail prices vs average Aug 2017-Jul 2018 retail prices

Source: RHB

Figure 55: Candy retail price trends (IDR)

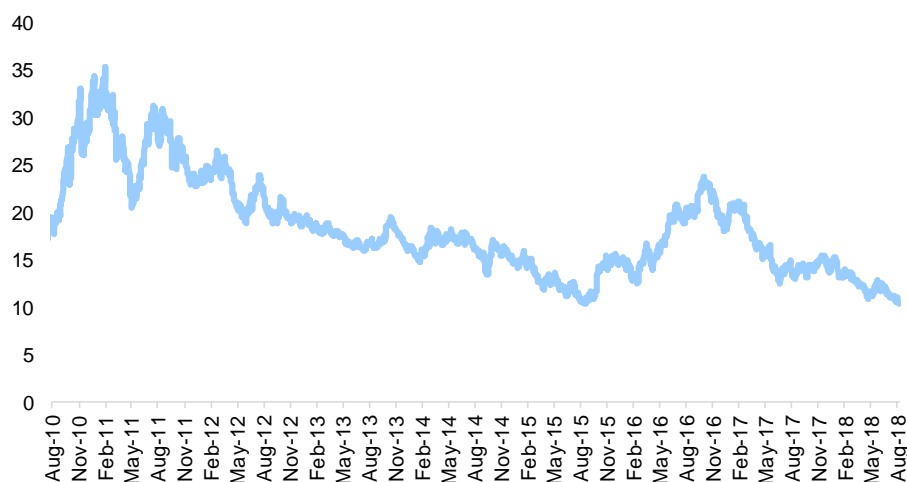


Source: RHB

International sugar price has been declining since Feb 2018, the lowest since 2015. This was likely due to increasing global sugar production since 2016 (+140% from Jan 2016 to Aug 2018, +80% YTD).

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Figure 56: Sugar price (USD/lb)



Source: Bloomberg

Figure 57: Sugar price trends

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	July-W2 Aug
Average sugar price (USD/lb)	14	17.0	20.4	20.9	19.6	15.1	13.9	14.5	13.5	11.9	11
Change QoQ		18.5%	19.4%	2.6%	-6.2%	-22.7%	-7.8%	4.3%	-7.5%	-11.5%	-7.6%
Change YoY					36.1%	-11.3%	-31.5%	-30.3%	-31.3%	-21.3%	-21.1%

Source: Bloomberg, RHB

### Retail prices for detergent have been flat

In Jul 2018, detergent retail prices remained unchanged MoM. Unilever reduced the average retail prices for its detergents, *Rinso* and *Surf* by 2.5% and 7.4% QoQ respectively. On the contrary, Kao Indonesia (Kao) raised the price of its *Attack Jaz1* by 9.6% QoQ. As a result, the difference between the retail prices of *Rinso* and *Surf* and its peers – *Daia* and *Attack* – has narrowed. We believe Unilever will likely change its strategy to focus on growing its market share and sales volume instead of improving its EBIT margin.

Figure 58: Breakdown of retail prices for detergents and softeners (IDR)

	Size (gram)	Jul-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
<b>Unilever</b> Rinso (Powder) antinoda	900	18,200	17,900	17,900	16,900	16,900	15,500	17,450	17,450	0.0%	-2.5%	2.7%
<b>Unilever</b> Surf (Powder) putih cemerlang	900	17,900	16,700	16,700	16,600	16,600	15,400	15,400	15,400	0.0%	-7.4%	-4.3%
<b>Wings</b> Daia (Powder) + softener pink	900	14,600	14,600	14,500	14,500	14,500	14,500	14,900	14,900	0.0%	1.8%	6.5%
<b>Kao</b> Attack Easy (Powder) purple	700	14,600	13,950	13,900	13,850	13,900	13,900	14,100	14,200	0.7%	1.3%	1.8%
<b>Kao</b> Attack Jaz1 (Powder)	900	14,300	14,300	13,400	13,450	13,400	13,400	15,350	15,350	0.0%	9.6%	10.0%
<b>Unilever</b> Rinso matic top load	800	24,900	18,900	18,900	18,900	18,900	18,900	18,500	18,500	0.0%	-1.4%	-34.7%
<b>Unilever</b> Molto all in one	900	27,900	25,150	25,200	24,500	25,200	25,200	27,900	27,900	0.0%	8.1%	10.5%
<b>Unilever</b> Molto ultra	900	28,100	26,425	26,700	25,800	26,700	26,700	27,050	27,050	0.0%	2.0%	1.1%

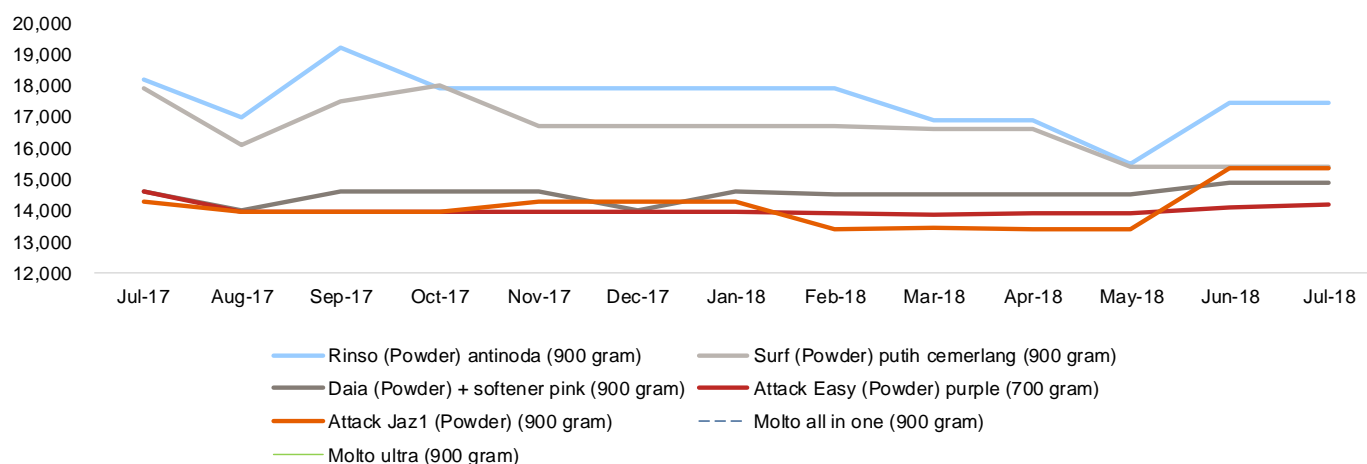
Note: QoQ change refers to average Feb-Apr 2018 retail prices vs average May-Jul 2018 retail prices

Note 2: YoY change refers to Jul 2017 retail prices vs that of Jul 2018

Source: RHB

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Figure 59: Retail price trends for detergents and softeners (IDR)



Source: RHB

Trend of retail prices for soap

Over the last one year, Unilever’s retail prices for its soap products largely declined. This trend is similar on a quarterly basis. Its peers such as Reckitt Benckiser, Kao, and Wings increased retail prices for selective products. This is in line with Nielsen Retail Audit’s survey, which reported that domestic toiletries and soap selling prices increased by an average of 1.3% YoY in 1H18. Unilever’s lower retail price strategy is likely to increase its market share.

Figure 60: Breakdown of retail prices for soap (IDR)

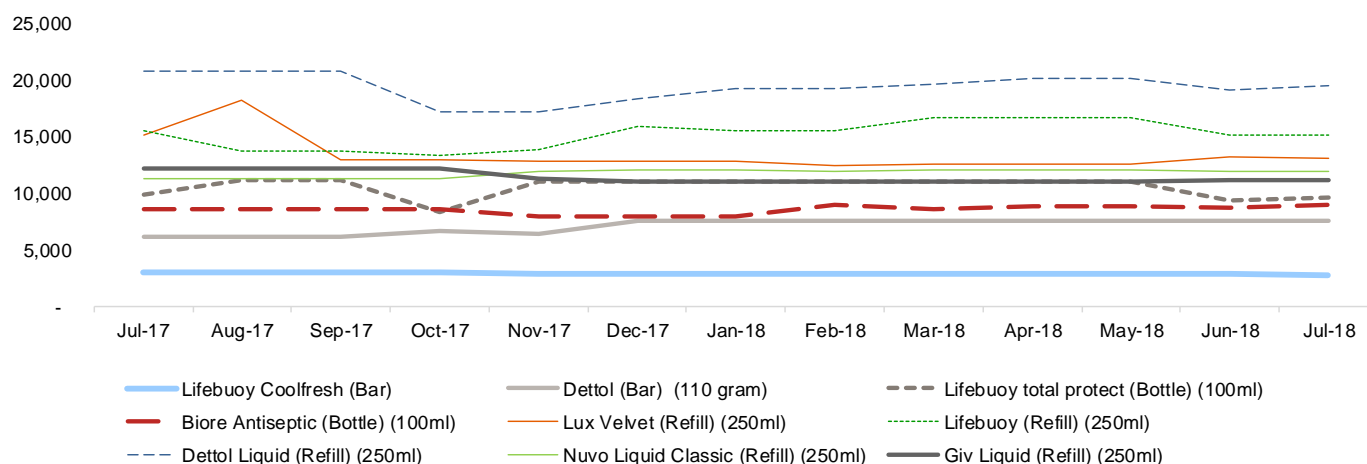
	Size (gram/ml)	Jul-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
Unilever	Lifebuoy Coolfresh (Bar)	3,075	2,900	2,900	2,900	2,900	2,900	2,850	2,750	-3.5%	-2.3%	-10.6%
Reckitt Benckiser	Dettol (Bar)	110	6,117	7,600	7,600	7,600	7,600	7,600	7,600	0.0%	0.0%	24.3%
Unilever	Lifebuoy total protect (Bottle)	100	9,850	11,100	11,100	11,100	11,100	9,400	9,600	2.1%	-9.6%	-13.9%
Kao	Biore Antiseptic (Bottle)	100	8,650	8,000	8,950	8,600	8,800	8,800	8,775	2.6%	0.9%	4.0%
Unilever	Lux Velvet (Refill)	250	15,200	12,900	12,500	12,600	12,600	13,250	13,100	-1.1%	3.3%	-28.2%
Unilever	Lifebuoy (Refill)	250	15,550	15,500	15,500	16,700	16,700	15,150	15,200	0.3%	-3.8%	10.5%
Reckitt Benckiser	Dettol Liquid (Refill)	250	20,775	19,300	19,300	19,600	20,100	20,100	19,100	2.1%	-0.5%	-6.1%
Wings	Nuvo Liquid Classic (Refill)	250	11,300	12,050	12,000	12,100	12,100	12,000	12,000	0.0%	-0.3%	6.2%
Wings	Giv Liquid (Refill)	250	12,175	11,100	11,100	11,000	11,000	11,200	11,200	0.0%	0.9%	-8.0%

Note: QoQ change refers to average Feb-Apr 2018 retail prices vs average May-Jul 2018 retail prices

Note 2: YoY change refers to Jul 2017 retail prices vs that of Jul 2018

Source: RHB

Figure 61: Retail price trends for soap (IDR)



Source: RHB

24 August 2018

**Toothpaste retail prices have increased**

In July, Unilever increased retail prices for its toothpaste by 5-34% MoM. On a yearly basis, Unilever’s toothpaste retail selling price increased in the range of 0.6-6.9% YoY, faster than its peers. PT Lion Wings Indonesia reduced its *Ciptadent* retail price by 8.3%, while GlaxoSmithKline increased its *Sensodyne* retail price by 2% YoY.

**Figure 62: Breakdown of retail prices for toothpaste (IDR)**

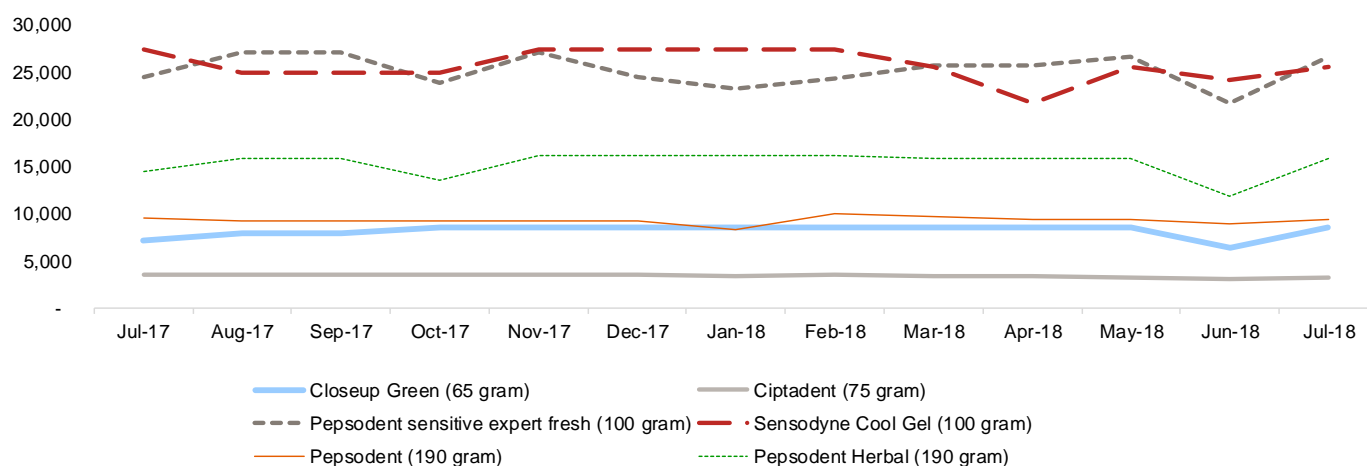
		Size (gram)	Jul-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
Unilever	Closeup Green	65	7,200	8,550	8,500	8,500	8,500	8,500	6,450	8,500	31.8%	-8.0%	6.9%
Lion Wings	Ciptadent	75	3,600	3,390	3,500	3,400	3,400	3,300	3,050	3,300	8.2%	-6.3%	-8.3%
Unilever	Pepsodent sensitive expert fresh	100	24,550	23,275	24,400	25,800	25,800	26,700	21,700	26,700	23.0%	-1.2%	-1.3%
Glaxosmithkline	Sensodyne Cool Gel	100	27,400	27,500	27,500	25,500	21,675	25,500	24,250	25,500	5.2%	0.8%	2.0%
Unilever	Pepsodent	190	9,600	8,275	10,000	9,765	9,400	9,400	8,950	9,400	5.0%	-4.9%	2.2%
Unilever	Pepsodent Herbal	190	14,500	16,100	16,100	15,900	15,900	15,900	11,890	15,900	33.7%	-8.8%	0.6%

Note: QoQ change refers to average Feb-Apr 2018 retail prices vs average May-Jul 2018 retail prices

Note 2: YoY change refers to Jul 2017 retail prices vs that of Jul 2018

Source: RHB

**Figure 63: Retail price trends for toothpaste (IDR)**



Source: RHB



24 August 2018

Consumer Non-cyclical | Food & Beverage Products

## Mayora Indah

**Buy**

### Beneficiary Of Rising Middle Class With Export Buffer

Target Price: IDR3,300  
 Price: IDR2,870  
 Market Cap: USD4,403m  
 Bloomberg Ticker: MYOR IJ

**Initiate coverage with BUY and Street-high DCF-derived IDR3,300 TP (15% upside). Our TP implies 2019F-2020F P/E of 35-30x, which we believe are deserved given Mayora's superior growth and ROE vs peers. The growing middle-income population should increase consumption of tertiary products, eg biscuits, wafer, coffee – Mayora's core products. It is better positioned vs peers in facing a weaker IDR, given higher export sales. In 2H18, Mayora plans to raise its sales prices, the first time in three years – previously, price increases were driven by new product launches. Key risk is rising raw material costs, eg sugar and flour.**

**Beneficiary of growing middle class and minimart expansion.** We see big potential for Mayora's core products – biscuits, wafers and coffee – with popular brand names like *Roma*, *Beng Beng*, *Torabika* and *Kopiko*. With rising income, people tend to consume more snacks and beverages. It is also benefiting from a shift in shopping patterns towards minimarkets vs supermarkets – its products are mostly sold in small packs and are easily available.

**Better positioned to face weaker IDR.** Mayora is in a better position vs its peers to weather a weaker IDR, thanks to high export sales contributions. Around 46% of sales are exports, mostly to China and South-East Asian countries, vs an average of ~10% for its peers. USD revenue from export sales is a natural hedge in cushioning against higher imported raw material costs.

**Starting to increase selling prices.** After zero selling price hikes on its existing products over the past three years, Mayora plans to increase its selling prices in 2H18. The previous ASP hike was c.2-3% pa, driven by new products. We believe Mayora's selling price hike will likely be followed by its peers, as they are in more challenging positions vs Mayora in dealing with a weaker IDR.

**Young management team hungry for growth.** Mayora has been helmed by a second generation management team since 2011. The young team – average age: 40s – is enthusiastic about bringing Mayora to the next level of growth. This is evident in its aggressive sales growth, which has been faster than its peers both at home and overseas. Export sales have also increased to 46% of total sales in 2017, vs 35% in 2011.

**BUY.** Our DCF-derived IDR3,300 TP assumes WACC of 9.7% and TG of 5%, and implies 2019F-2020F P/E of 35-30x. Although the stock is now trading near +1SD of its mean forward P/E, we believe it is still attractive, given Mayora's solid growth – highest among peers – and diversified market base. The company's 2018F-2020F ROE of over 23% are also superior to its peers' average of 20% (excluding Unilever). In addition, it is more defensive against a weaker IDR with a higher proportion of export sales. We expect its balance sheet to improve, with net debt-to-equity estimated to decline to 0.12x by end-2020 (2017: 0.31x).

**Main risk** to our call is raw material costs – mainly sugar, flour, CPO – where increases reflect higher commodity prices or a weakened IDR. Mayora has 3-6 months of inventory as a buffer against fluctuations in raw material prices.

#### Share Data

Avg Daily Turnover (IDR/USD) 3,538m/0.25m  
 52-wk Price low/high (IDR) 1,895 - 3,140  
 Free Float (%) 16  
 Shares outstanding (m) 22,359  
 Estimated Return 15%

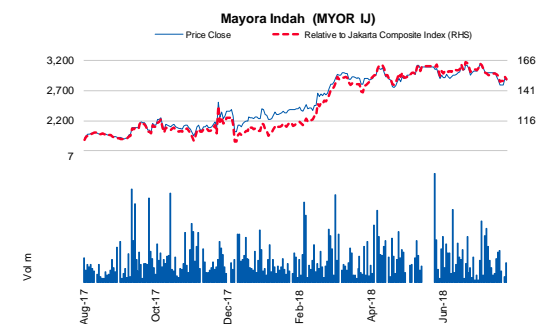
#### Shareholders (%)

Unita Branindo 32.9  
 Mayora Dhana Utama 26.1  
 Jogi Hendra Atmadja 25.2

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	42.1	(3.1)	(1.0)	19.6	47.9
Relative	48.6	(4.3)	(4.7)	30.1	46.5

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (IDRb)	18,350	20,817	23,523	26,581	30,036
Reported net profit (IDRb)	1,355	1,594	1,809	2,164	2,497
Recurring net profit (IDRb)	1,451	1,537	1,823	2,177	2,510
Recurring net profit growth (%)	30.3	5.9	18.6	19.5	15.3
Recurring EPS (IDR)	65	69	82	97	112
DPS (IDR)	12.0	21.0	27.1	30.8	37.7
Recurring P/E (x)	44.2	41.7	35.2	29.5	25.6
P/B (x)	10.5	8.9	7.6	6.5	5.6
P/CF (x)	94.7	56.2	41.2	34.4	30.2
Dividend Yield (%)	0.4	0.7	0.9	1.1	1.3
EV/EBITDA (x)	23.7	22.5	20.1	17.3	15.2
Return on average equity (%)	24.2	24.0	23.2	23.7	23.3
Net debt to equity (%)	40.4	30.6	24.9	18.1	12.3
Our vs consensus EPS (adjusted) (%)			2.9	2.7	5.6

Source: Company data, RHB

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## Financial Exhibits

Financial model updated on: 2018-08-20

Asia  
Indonesia  
Consumer Non-cyclical  
**Mayora Indah**  
Bloomberg MYOR IJ  
**Buy**

### Valuation basis

DCF, 9.7% WACC, 5% TG.

### Key drivers

- Improved domestic consumer spending;
- Higher export sales.

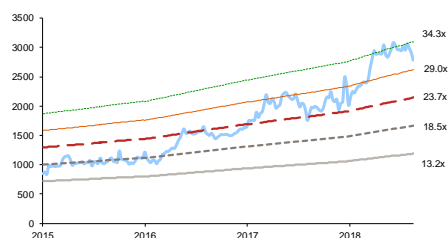
### Key risks

Higher raw material costs, such as flour, CPO, milk, sugar.

### Company Profile

Mayora manufactures candies and cookies. Through its subsidiaries, the company also manufactures food, coffee powder, instant coffee, and processes cocoa beans.

### Mayora Indah's 3-year rolling forward P/E



Financial summary	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Recurring EPS (IDR)	65	69	82	97	112
EPS (IDR)	61	71	81	97	112
DPS (IDR)	12.0	21.0	27.1	30.8	37.7
BVPS (IDR)	274	322	375	441	515
Weighted avg adjusted shares (m)	22,359	22,359	22,359	22,359	22,359

Valuation metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Recurring P/E (x)	44.2	41.7	35.2	29.5	25.6
P/E (x)	47.4	40.2	35.5	29.7	25.7
P/B (x)	10.5	8.9	7.6	6.5	5.6
FCF Yield (%)	0.1	0.8	1.2	1.7	2.0
Dividend Yield (%)	0.4	0.7	0.9	1.1	1.3
EV/EBITDA (x)	23.7	22.5	20.1	17.3	15.2
EV/EBIT (x)	28.9	27.1	23.2	19.8	17.4

Income statement (IDRb)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover	18,350	20,817	23,523	26,581	30,036
Gross profit	4,900	4,975	5,776	6,546	7,416
EBITDA	2,822	2,960	3,315	3,827	4,317
Depreciation and amortisation	(506)	(500)	(451)	(492)	(529)
Operating profit	2,315	2,461	2,863	3,334	3,787
Net interest	(342)	(350)	(364)	(353)	(350)
Exceptional income - net	2	3	0	0	0
Pre-tax profit	1,846	2,187	2,482	2,964	3,419
Taxation	(457)	(556)	(631)	(754)	(869)
Minority interests	(34)	(37)	(41)	(47)	(53)
Recurring net profit	1,451	1,537	1,823	2,177	2,510

Cash flow (IDRb)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Change in working capital	(1,345)	(913)	(764)	(857)	(971)
Cash flow from operations	678	1,141	1,556	1,864	2,125
Capex	(595)	(629)	(772)	(799)	(826)
Cash flow from investing activities	(801)	(559)	(772)	(799)	(826)
Dividends paid	(268)	(470)	(606)	(688)	(844)
Cash flow from financing activities	(2)	(91)	(606)	(688)	(844)
Cash at beginning of period	1,682	1,543	2,202	2,321	2,634
Net change in cash	(125)	491	179	378	455
Ending balance cash	1,557	2,034	2,380	2,699	3,089

Balance sheet (IDRb)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total cash and equivalents	1,543	2,202	2,321	2,634	3,019
Tangible fixed assets	3,859	3,989	4,309	4,615	4,912
Total other assets	323	253	253	253	253
Total assets	12,922	14,916	16,391	18,071	20,010
Short-term debt	2,002	2,228	2,228	2,228	2,228
Total long-term debt	2,074	2,226	2,226	2,226	2,226
Other liabilities	699	862	862	862	862
Total liabilities	6,657	7,562	7,833	8,037	8,322
Shareholders' equity	6,123	7,191	8,395	9,871	11,524
Minority interests	144	168	168	168	168
Total equity	6,265	7,354	8,558	10,034	11,688
Net debt	2,533	2,252	2,133	1,820	1,435
Total liabilities & equity	12,922	14,916	16,391	18,071	20,010

Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Revenue growth (%)	23.8	13.4	13.0	13.0	13.0
Recurrent EPS growth (%)	30.3	5.9	18.6	19.5	15.3
Gross margin (%)	26.7	23.9	24.6	24.6	24.7
Operating EBITDA margin (%)	15.4	14.2	14.1	14.4	14.4
Net profit margin (%)	7.4	7.7	7.7	8.1	8.3
Capex/sales (%)	3.2	3.0	3.3	3.0	2.8
Interest cover (x)	6.49	6.36	7.32	8.52	9.68

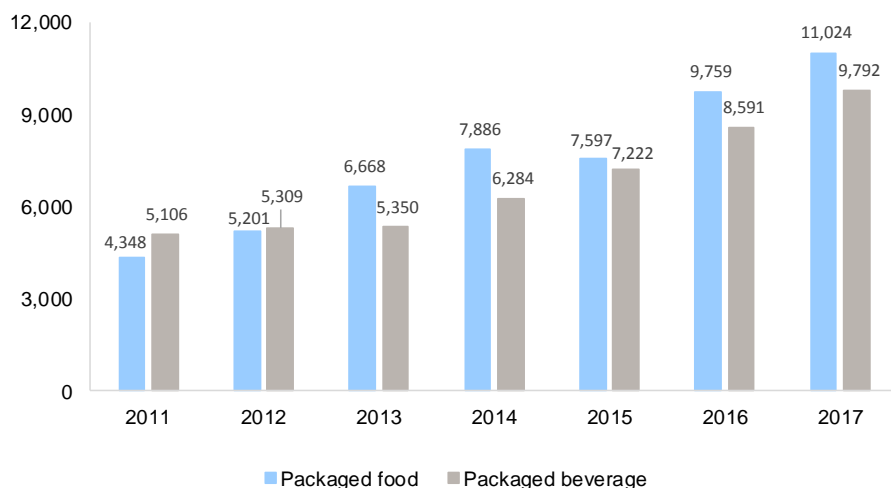
Source: Company data, RHB, Bloomberg

## Investment Thesis

### Beneficiary of growing middle-income population

We believe the market potential for Mayora's core products – biscuits, wafer and coffee – is huge. We believe people tend to consume more tertiary products such as snacks and beverages when income levels rise along with a growing middle income population. During 2011-2017, Mayora's packaged food sales increased at a CAGR of 16.3%, while sales for its packaged beverages rose by a CAGR of 12.4% – growth was driven by higher sales volumes.

Figure 1: Segmental breakdown of Mayora's sales

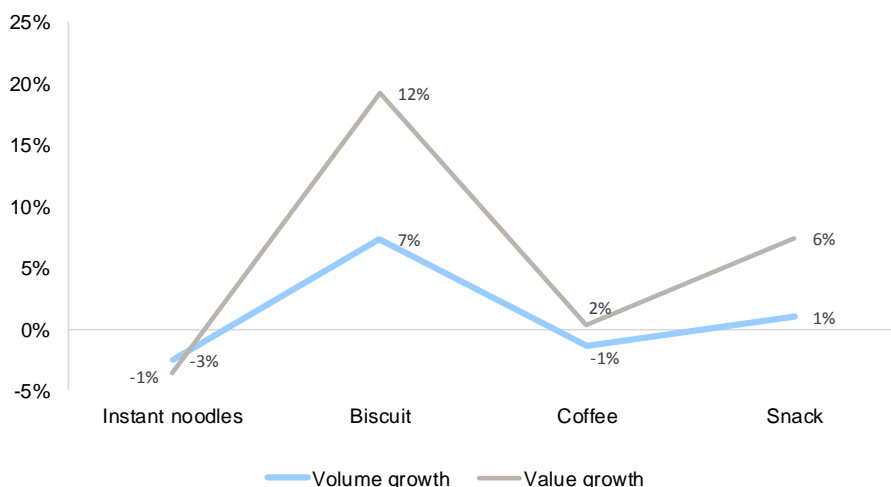


Source: Company data, RHB

Solid growth in biscuits and wafer sales has outpaced sales of basic foods – instant noodles and rice – which have been more moderate. As almost all Indonesians consume rice and noodles, the market for these two basic food items is rather mature.

According to Nielsen, biscuits sales grew by double digits in 2Q18, recording a 12% YoY growth in value and 7% YoY growth in volume. Snacks sales grew 6% YoY growth in value and 1% YoY growth in volume, while instant noodles saw negative growth, decreasing 1% YoY in value and 3% YoY in volume due to its mature market.

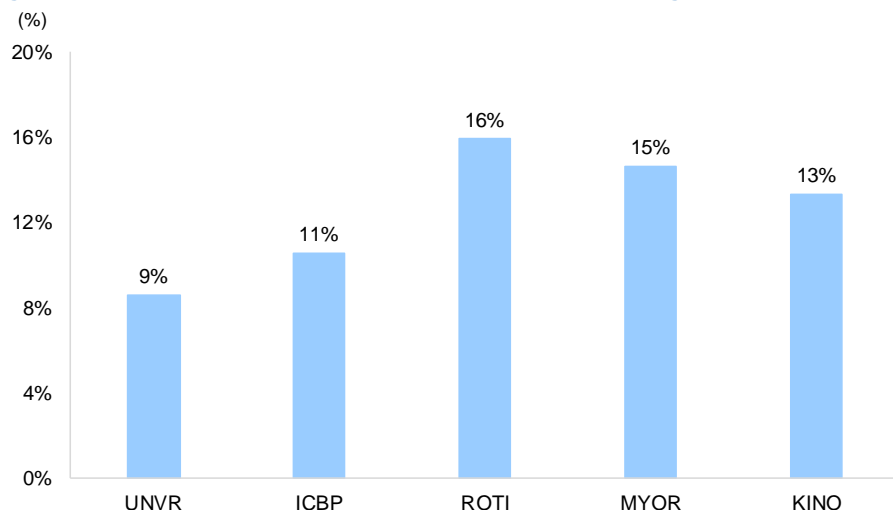
Figure 2: FMCG sales growth during 2Q18 (YoY)



Source: Nielsen, RHB

The huge growth potential of biscuits and snacks sales is likely the main reason that Mayora's sales growth has been ahead of its peers. Over the last five years, among Indonesian FMCG companies, Mayora's sales growth was one of fastest with CAGR of 15% vs Indosari's (ROTI IJ, NEUTRAL, TP: IDR860) 16%, Kino Indonesia's (KINO IJ, NR) 13%, Indofood CBP's (ICBP IJ, BUY, TP: IDR10,300) 11%, and Unilever's (UNVR IJ, BUY, TP: IDR50,500) 9%.

Figure 3: Indonesian FMCG companies – sales CAGR during 2012-2017



Source: Company data, RHB

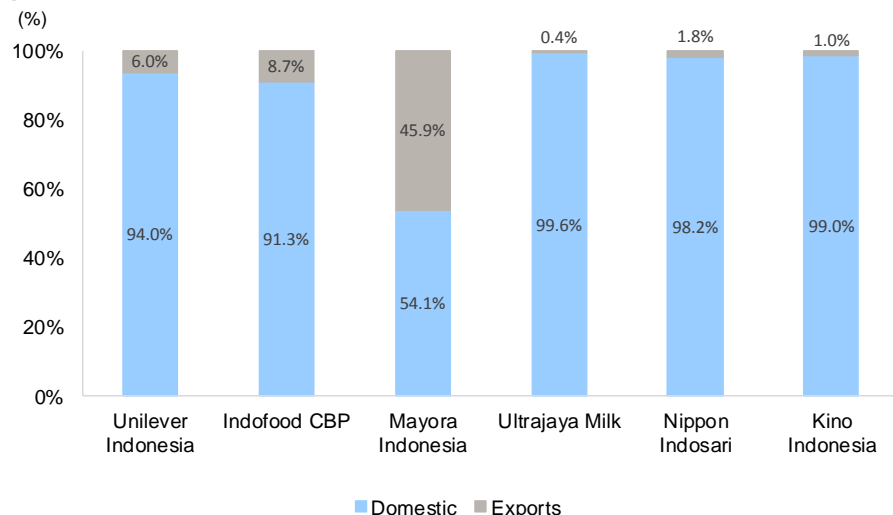
**Better positioned to deal with weakened IDR**

Given Mayora's higher export sales proportion, where revenue is largely denominated in USD, it is in a better position than other Indonesian consumer companies to deal with the current weak IDR. Note that other Indonesian consumer companies' revenues are mainly derived from the domestic market and denominated in IDR.

Figure 4 shows that Mayora has the largest export contribution to total sales when compared to its peers. In 2017, around 46% of its sales were from export markets, while peers Unilever Indonesia, Indofood CBP, Ultrajaya Milk, Indosari and Kino Indonesia exported 6%, 9%, 0.4%, 2% and 1% of their total sales.

Out of Mayora's total 2017 exports sales, which amounted to IDR9.5trn, 97% was exported to Asia, especially China and South East Asian countries. The company's brands such as *Kopiko*, *Torabika*, *Danisa*, *Roma*, *Beng Beng*, *Malkist*, and *Energen* are well-known in its export markets.

Figure 4: Indonesian consumer companies – sales breakdown in 2017 (%)



Source: Company data, RHB

### Starting to increase selling prices

After maintaining selling prices for existing products over the last three years, Mayora plans to increase them in 2H18. This is to pass on higher costs on a weaker IDR, since the bulk of its raw materials are imported or indirectly linked to the USD.

Note that previously, Mayora's ASP hikes were driven by new product launches or re-launches, which are priced higher than existing products. There have so far been no selling price increases on existing products.

We believe Mayora's selling price hike will be followed by its peers, since their revenue base is largely denominated in IDR and that they would be in more challenging positions compared to Mayora, with the recent weakening in IDR vs USD.

### New product launches to boost ASP

Mayora actively launches and re-launches 4-8 new products pa to boost its sales. In 1H18, the company launched *Beng Beng Drink*, *Torabika Espresso*, and *Astor* new variants with vanilla and green tea flavours. Mayora revealed that these new product launches were quite successful. According to management, new products increase blended ASPs by around 2-3%, thanks to their higher selling price ranges.

Figure 5: *Beng Beng Drink*



Source: Tokopedia

Figure 6: *Torabika Espresso*



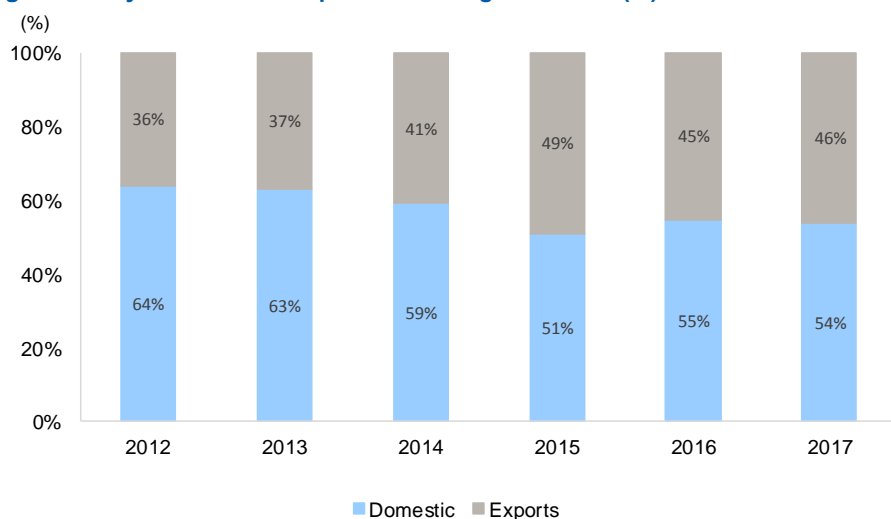
Source: Tokopedia

### Young management team enthusiastic about long-term growth

Mayora is helmed by the second-generation Atmadja family, with an average age profile in the early forties. CEO, Andre Sukendra Atmadja (43 years old) has led the company since 2011, while his younger brothers, Hendarta Atmadja (40 years old) and Wardhana Atmadja (39 years old) are the supply-chain director and operation director, who have been in their positions since 2010 and 2011 respectively.

This second generation management team has brought Mayora to the next stage of growth. During 2011-2017, Mayora increased its sales both in packaged food and beverages faster than its peers. It also strengthened its position in its export markets – Mayora increased its export sales exposure to 46% of total sales in 2017 from 35% in 2011.

Figure 7: Mayora's sales composition during 2012-2017 (%)



Source: Company data, RHB

## Valuations

Based on our revenue and earnings forecasts, we derive our DCF value for the stock assuming a WACC of 9.7% and a TG rate of 5%. We arrive at a fair value per share of IDR3,300 (15% upside). Based on our sensitivity analysis, the company's fair value should increase by around 5% if we raise the TG rate by 0.5ppts. Meanwhile, Mayora's fair value should increase by around 5% if we reduce the WACC by 0.25ppts.

Figure 8: Mayora's DCF valuation

Cash flow (Rp bn)	2019f	2020f	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	Terminal Value
Year	1	2	3	4	5	6	7	8	9	10	
EBIT	3,334	3,787	4,314	4,905	5,575	6,323	7,157	8,085	9,114	10,254	
Tax on EBIT	(848)	(963)	(1,097)	(1,247)	(1,417)	(1,607)	(1,819)	(2,055)	(2,317)	(2,607)	
Depreciation	492	529	564	596	627	657	685	713	740	767	
Change in working capital	(857)	(971)	(1,098)	(2,008)	(1,501)	(1,697)	(1,917)	(2,166)	(2,448)	(2,766)	
<b>Total operating cash flow</b>	<b>2,122</b>	<b>2,382</b>	<b>2,683</b>	<b>2,247</b>	<b>3,284</b>	<b>3,676</b>	<b>4,106</b>	<b>4,576</b>	<b>5,089</b>	<b>5,648</b>	
Capital expenditures	(799)	(826)	(855)	(885)	(912)	(939)	(967)	(996)	(1,026)	(1,057)	
<b>Free cash flow</b>	<b>1,324</b>	<b>1,556</b>	<b>1,828</b>	<b>1,362</b>	<b>2,372</b>	<b>2,737</b>	<b>3,138</b>	<b>3,579</b>	<b>4,063</b>	<b>4,591</b>	
FCF per share (Rp)	59	70	82	61	106	122	140	160	182	205	
<b>Discounted free cash flow (IDRbn)</b>	<b>1,207</b>	<b>1,294</b>	<b>1,386</b>	<b>941</b>	<b>1,495</b>	<b>1,573</b>	<b>1,645</b>	<b>1,711</b>	<b>1,770</b>	<b>1,824</b>	<b>41,023</b>
	Total (IDRbn)										
Sum of discounted free cash flow (IDRbn)	34,629										
Terminal value (IDRbn)	<u>41,023</u>										
Value of the firm (IDRbn)	75,652										
Less: Net debt (IDRbn)	(1,435)										
Equity value (IDRbn)	74,217										
<b>Equity value per share (IDR)</b>	<b>3,319</b>										

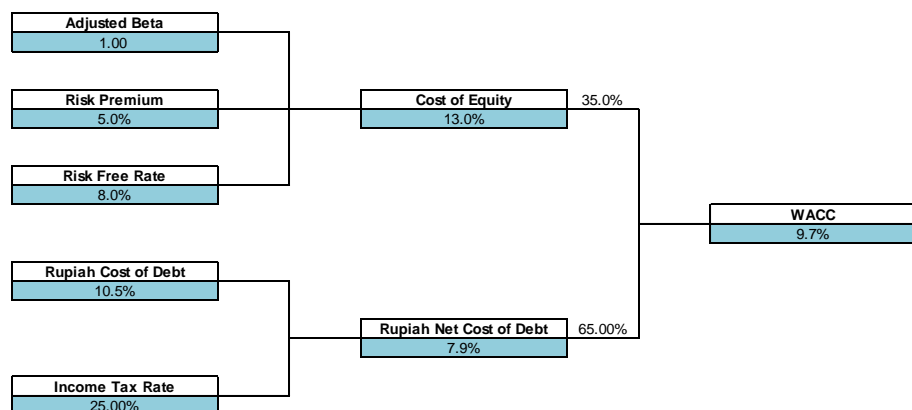
Source: RHB

Figure 9: Mayora's equity value per share – DCF sensitivity analysis

WACC	TG						
	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%
9.0%	3,245	3,419	3,632	3,898	4,241	4,699	5,343
9.2%	3,094	3,250	3,437	3,670	3,965	4,351	4,879
9.5%	2,955	3,094	3,260	3,465	3,720	4,049	4,489
9.7%	2,825	2,950	3,099	3,319	3,502	3,785	4,156
10.0%	2,704	2,817	2,951	3,111	3,307	3,552	3,868
10.2%	2,592	2,694	2,814	2,957	3,130	3,344	3,616
10.5%	2,486	2,579	2,687	2,815	2,969	3,157	3,393

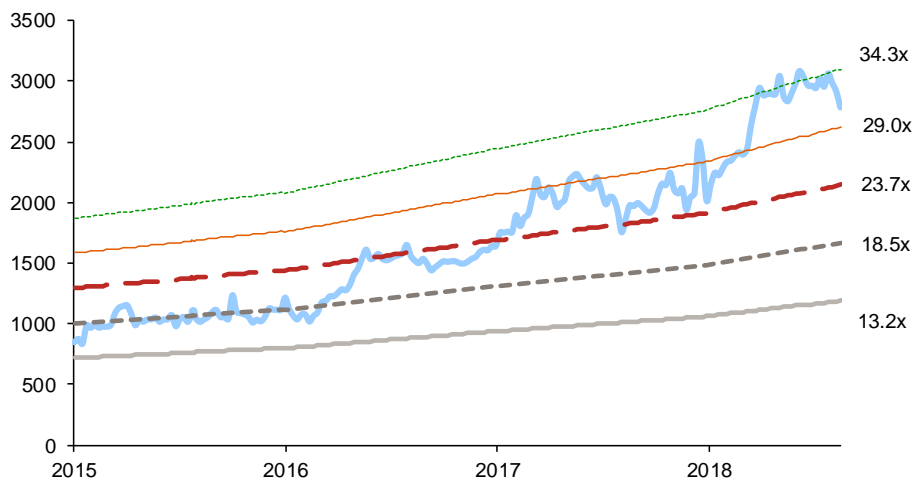
Source: RHB

Figure 10: Mayora's WACC calculation



Source: RHB

Figure 11: Mayora 3-year forward rolling P/E's



Source: Bloomberg, RHB

### Cross checking relative valuations

Our IDR3,300 TP implies 2019F-2020F P/Es of 35-30x, or +2SD from its 3-year average valuation. We believe our target valuations are justified, as Mayora has the following:

- Huge growth potential;
- Strong export sales exposure, which is denominated in USD;
- Young and dynamic management team;
- Relatively high equity returns.

The counter is now trading at 30-26x 2019F-2020F P/E, with superior ROE of over 23%. Given Mayora's strong export exposure and huge growth potential, we are of the view that the stock deserves to trade at a premium to its peers (excluding Unilever), which are trading at 25x (FY19F) and 22x (FY20F) P/E on average, but offering ROEs of only 20% for FY19F-20F.

Figure 12: Valuation table - Indonesian consumer companies I

Name	BBG Ticker	Rating	Price (IDR)	TP (IDR)	Upside/Downside (%)	Market Cap (USDm)	EPS Growth (%)			PER (x)			PBV (x)		
							FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F
Unilever Indonesia	UNVR IJ	Buy	43,350	50,500	16.5	22,695	8.5	8.2	8.0	43.5	40.2	37.2	55.9	49.2	44.6
Indofood CBP	ICBP IJ	Buy	8,925	10,300	15.4	7,142	10.2	9.3	12.1	24.9	22.8	20.3	4.8	4.3	3.9
Mayora Indah	MYOR IJ	Buy	2,870	3,300	15.0	4,403	9.9	19.4	14.4	35.8	30.0	26.2	7.3	6.2	5.3
Nippon Indosari Corpindo	ROTI IJ	Neutral	940	860	-8.5	399	1.4	44.6	17.8	33.5	23.2	19.7	1.9	1.8	1.7
Kino Indonesia	KINO IJ	Not Rated	1,645	N/A	N/A	161	17.3	17.0	13.3	18.3	15.6	13.8	1.1	1.0	1.0
<b>Sector Weighted Average (excl. Unilever)</b>							<b>9.9</b>	<b>14.2</b>	<b>13.1</b>	<b>29.0</b>	<b>25.3</b>	<b>22.3</b>	<b>5.6</b>	<b>4.9</b>	<b>4.3</b>
<b>Sector Weighted Average</b>							<b>9.0</b>	<b>10.3</b>	<b>9.8</b>	<b>38.5</b>	<b>35.0</b>	<b>32.0</b>	<b>38.4</b>	<b>33.8</b>	<b>30.6</b>

Note: Data as at 23 Aug 2018

Source: RHB, Bloomberg

Figure 13: Valuation table - Indonesian consumer companies II

Name	PEG			Yield (%)			ROA (%)			ROE (%)		
	FY18F (x)	FY19F (x)	FY20F (x)	FY18F (%)	FY19F (%)	FY20F (%)	FY18F (%)	FY19F (%)	FY20F (%)	FY18F (%)	FY19F (%)	FY20F (%)
Unilever Indonesia	5.1	4.9	4.6	2.0	2.2	2.5	40.8	43.6	44.6	138.2	130.2	125.7
Indofood CBP	2.4	2.5	1.7	2.0	2.1	2.4	12.7	12.9	13.4	20.3	20.0	20.2
Mayora Indah	3.0	1.5	1.6	0.8	0.8	0.8	13.0	14.1	13.5	22.1	22.0	22.1
Nippon Indosari Corpindo	-54.4	0.7	4.8	0.6	0.6	0.6	3.5	5.8	7.0	5.7	7.8	8.7
Kino Indonesia	1.1	0.9	1.0	0.5	0.5	0.5	3.7	3.9	4.2	6.2	6.9	7.3
<b>Sector Weighted Average (excl. Unilever)</b>												
<b>0.7</b>												
<b>2.0</b>												
<b>1.7</b>												
<b>1.5</b>												
<b>1.6</b>												
<b>1.7</b>												
<b>12.4</b>												
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<b>3.6</b>												
<b>1.8</b>												
<b>2.0</b>												
<b>2.2</b>												
<b>30.9</b>												
<b>32.9</b>												
<b>33.7</b>												
<b>97.2</b>												
<b>91.9</b>												
<b>89.1</b>												

Note: Data as at 23 Aug 2018

Source: RHB, Bloomberg

### Key risks

A key risk to our call is an increase in costs of main raw materials – such as sugar, flour, CPO and milk – which reflect higher commodity prices or a weaker IDR. However, Mayora has 3-6 months of inventory as a buffer against fluctuations in raw material prices. Furthermore, we believe it is in a better position than peers in dealing with the weakened IDR given the higher export exposure.

YTD, international commodity prices for sugar, CPO, milk have been stable or on a downtrend. Only wheat prices have increased slightly. We believe higher flour costs will likely be offset by lower sugar, CPO, and milk costs.

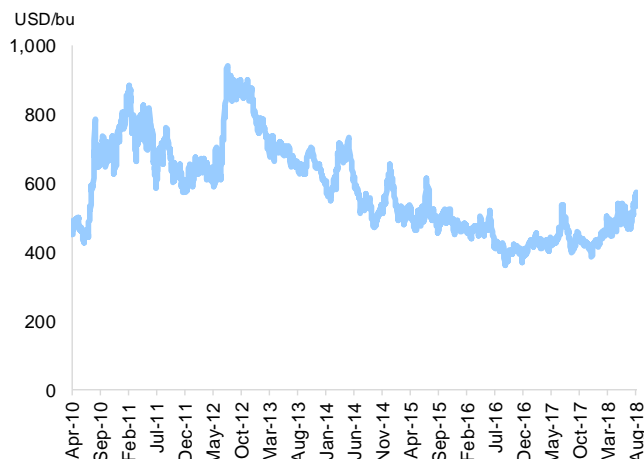


Figure 14: International sugar prices



Source: Bloomberg, RHB

Figure 15: International wheat prices



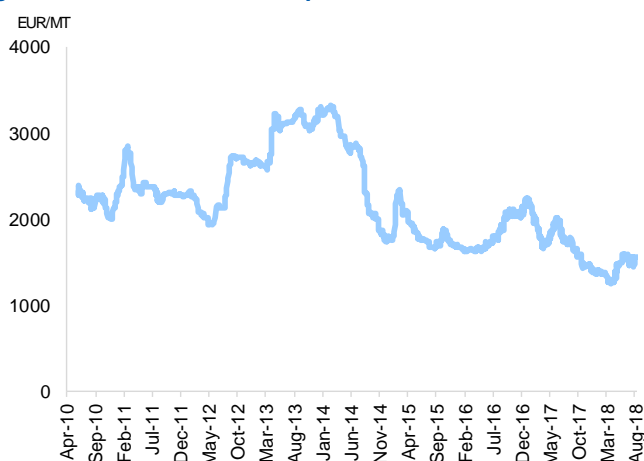
Source: Bloomberg, RHB

Figure 16: International CPO prices



Source: Bloomberg, RHB

Figure 17: International milk prices

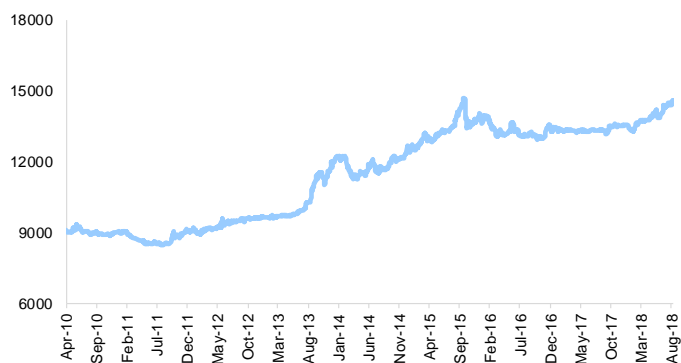


Source: Bloomberg, RHB

Another risk we would like to highlight is the fluctuations in currency exchange rates that could impact Mayora's raw material costs. Some of Mayora's raw materials are imported, and some are based on international benchmark prices.

As such, fluctuations in foreign exchange rates, most notably the USD, could affect costs. However, we note that this risk could partially be offset as 46% of Mayora's sales come from USD-denominated exports.

Figure 18: USD/IDR exchange rate



Source: Bloomberg, RHB

## Company Background

Mayora started baking its first biscuits out of a home kitchen in 1948, with *Marie Biscuits* as its first product. The company was officially established in 1977 and opened its first biscuit plant in Tangerang to cater to the Jakarta market and surrounding areas. Later in 1990, the company was finally able to cater to the entire Indonesian market and was listed as a public company on the Indonesian Stock Exchange.

Today, the company's products have spread across five continents in the world, with products ranging from biscuits, candies, wafer, chocolate, coffees, and health food. It has been a pioneer in launching various new products, some of which are *Kopiko*, *Astor*, *Beng Beng*, and *Choki Choki*.

Up to the present, the company remains consistent in developing its main activities, which is the processing of food and beverages.

**Figure 19: Mayora's milestones**

Year	Milestones
1948	Started baking its first biscuits out of a home kitchen in 1948, with its product made was Marie Biscuits
1967	Moved to Kampung Bali, Jakarta, to continue baking its authentic biscuits and started selling the biscuits with the "Roma" brand
1972	Purchased first electric oven and expanded its product portfolio to Roma Marie and Roma Coconut biscuits
1977	Mayora officially established and opened its first full-production biscuit plant in Tangerang, Indonesia
1982	Produced many pioneering products such as Kopiko, which was first coffee candy in the market, and Astor, which created the wafer roll category. It began to sell internationally for the first time.
1984	The company introduced Beng Beng to the market as the first chocolate-combo snack
1985	Launched Choki Choki as the first chocolate paste stick snack
1990	Launched Torabika as the pioneer in premixed instant coffee which combines coffee and sugar
1992	Mayora entered the nutritious drink category "Energen", a breakfast solution made from milk, egg, cereal, oats, and essential vitamins
1994	Built Mayora Head Office Building in Tomang, Jakarta
1995	Began producing instant noodle branded named "Mie Gelas" as the first instant noodle without artificial MSG, food coloring, and preservatives in Indonesia
1996	Built a new plant in MM2100 Industrial Area, Cibitung, Indonesia
2002	Launched Sari Gandum biscuit
2005	Started to enter beverages market by building its beverages plant in Ciawi
2011	Launched Teh Pucuk Harum as the #1 non-cup Jasmine RTD tea brand in Indonesia
2013	Constructed a new giant biscuit plant in Balaraja
2015	Introduced an innovative product named "Bakmi Mewah" - ready to serve noodle with chicken and mushroom

Source: Company data, RHB

### Strong and experienced management team

Mayora is currently led by Mr Andre Sukendra Atmadja, who has served as President Director since 2011. Mayora's management team is strong and experienced, with the majority having worked in the company for decades – this points to the team's deep understanding of the company's business activities as well as strong corporate governance.

### Well-known brands

Mayora's brands – *Roma*, *Beng Beng*, *Choki Choki* and *Torabika* – have been in the market for more than 30 years. This makes its products quite visible in the biscuits and snack food segments of the market.

Figure 20: Mayora's brands

Division	Brands
Biscuits	Roma, Malkist, ROYAL CHOICE, Slai Olai, Better, Danisa, CoffeeJoy, Wonder Wheat
Candies	KOPIKO coffee SHOT, KIS mint, Tamarin Tamarind Candy, Jutzy Milk, FRES mint candy
Wafer & Chocolate	beng-beng, Cal Cheese, Superstar, choki choki
Coffee	TORA BIKA, KOPIKO
Instant Food	Bakmi Mewah, JoyMee, MIGELAS Protovit, SUPER BUBUR

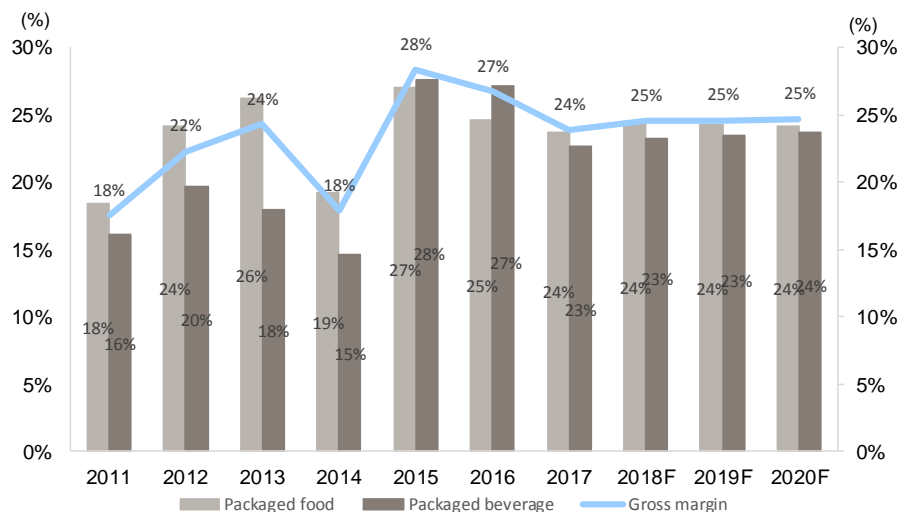
Source: Company data, RHB

Solid financial performance

Mayora has consistently booked increasing to stable margins – registering a 24% gross margin, 12% EBIT margin, and 8% net margin in 2017. However, as shown in the charts below, the company experienced decelerating margins in 2014 as a result of higher raw material costs during that year.

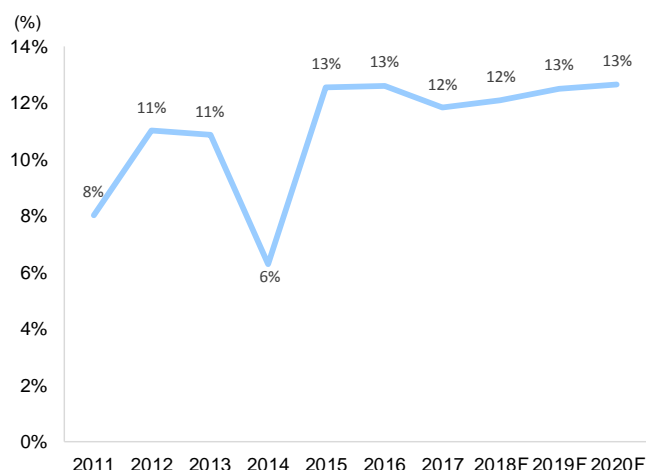
In our forecasts, we expect GPM to widen to 25%, driven by higher sales prices. Mayora plans to increase its selling prices on existing products in 2H18, the first time in three years.

Figure 21: Blended gross margins and segmental margins (%)



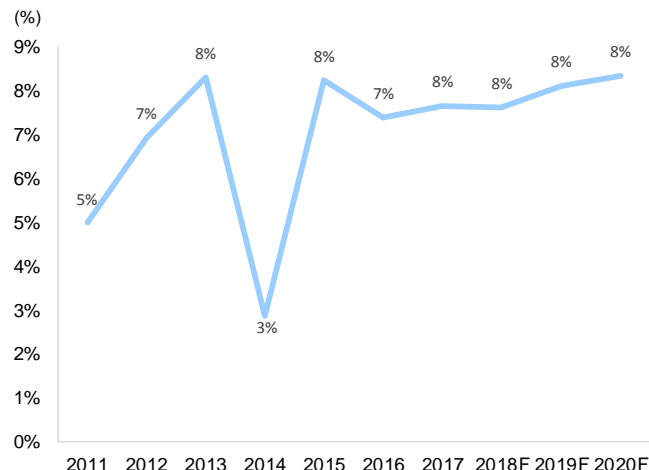
Source: Company data, RHB

Figure 22: EBIT margin (%)



Source: Company data, RHB

Figure 23: NPM (%)



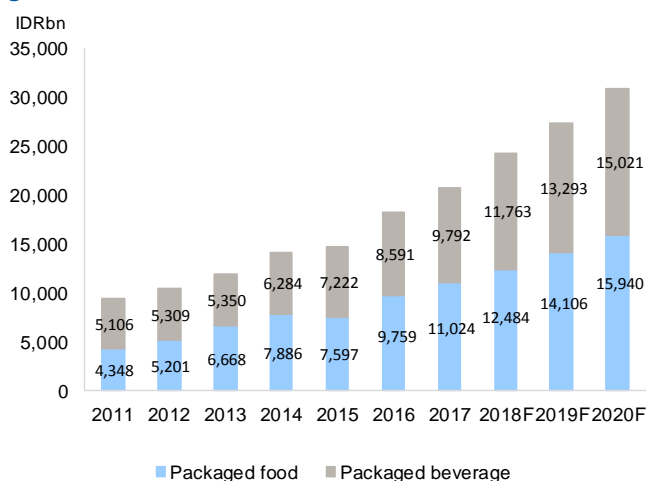
Source: Company data, RHB

Mayora's business comprises three operating segments – food processing, packaged beverages, and others. Its sales have been fairly evenly split over the years, with the food processing segment contributing 53% to revenue, while the remaining 47% came from packaged beverages in 2017.

We expect the sales composition to continue to be similar over the next three years, with packaged food remaining stable at 51% of total sales, and packaged beverages accounting for 49% of total sales over the next three years.

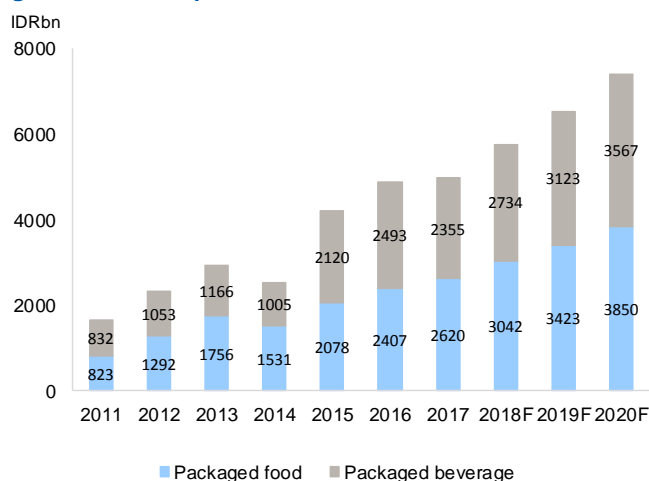
Based on its gross profit breakdown, along with our forecast for sales composition, we forecast packaged food contributions to remain stable at 52-53% and packaged beverages at 47-48% over the next three years, assuming 5% YoY and 8% YoY growth in price and volume.

Figure 24: Sales breakdown



Source: Company data, RHB

Figure 25: Gross profit breakdown

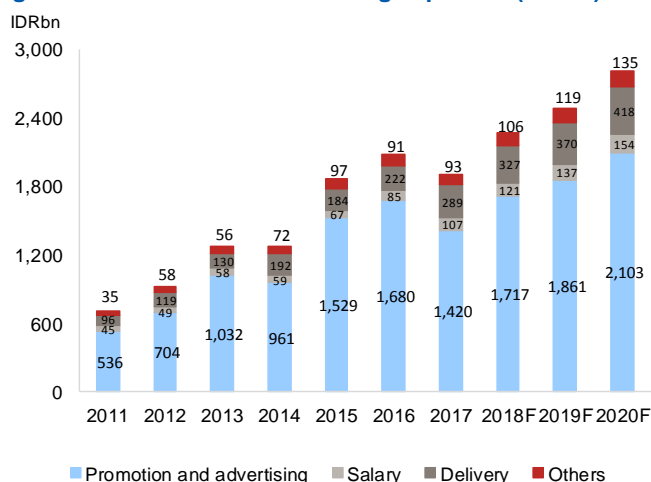


Source: Company data, RHB

Mayora's opex mainly comprises marketing expenses and GA expenses. As shown in Figure 26, marketing expenses are dominated by promotional and advertising expenses, accounting for 74% of marketing expenses in 2017. We expect this situation to continue over the next three years. We are also forecasting promotion and advertising expenses to account for 7% of sales, with salary costs accounting for 1% of total sales, delivery costs 1% of total sales, and others at 0.4% of total sales over the same period.

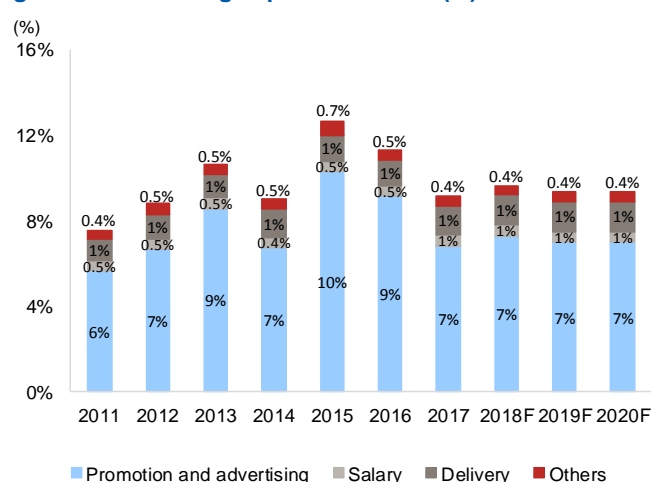
GA expenses are mainly dominated by salaries, which account for 35% of 2017's GA expenses. Other GA components consist of depreciation, travelling, rent, maintenance, and others such as printing and stationery, laboratory, and recruitment. We forecast salary costs to grow by 13% YoY over the next three years, based on its historical double-digit growth trend.

Figure 26: Breakdown of marketing expenses (IDRbn)



Source: Company data, RHB

Figure 27: Marketing expense-to-sales (%)



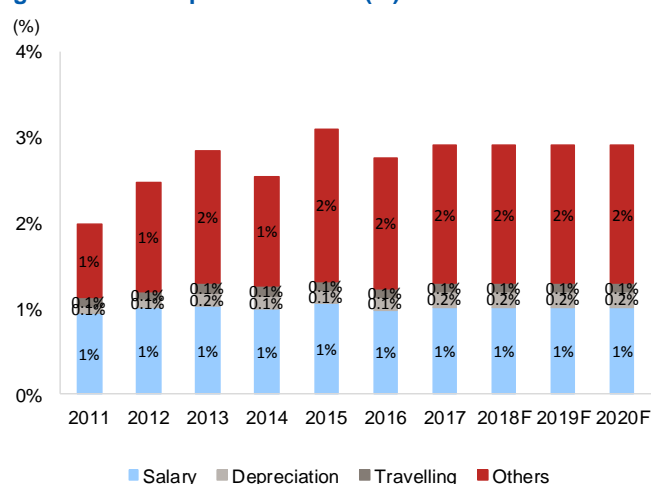
Source: Company data, RHB

Figure 28: Breakdown of GA expenses (IDRbn)



Source: Company data, RHB

Figure 29: GA expense-to-sales (%)



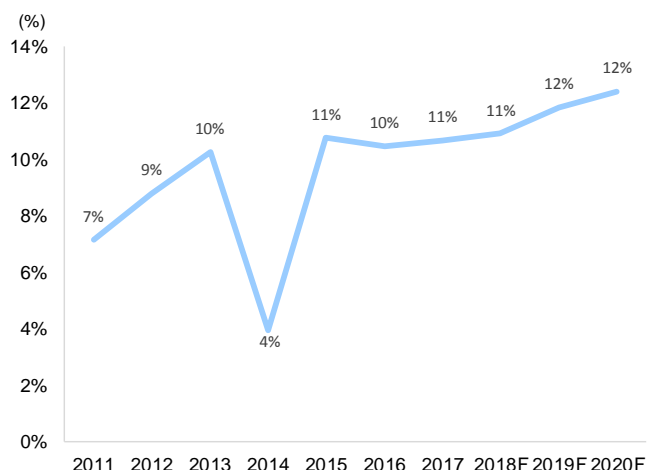
Source: Company data, RHB

Over the last seven years, Mayora has booked increasing ROAs and ROEs, with the exception of lower ROA and ROE in 2014 on account of lower earnings, which were impacted by higher raw material costs.

In the following years, the company succeeded in booking gradually higher ROA and ROE – 11% ROA and 22% ROE in 2017. These double-digit returns show the management team’s effectiveness in utilising its assets and capital, in our view.

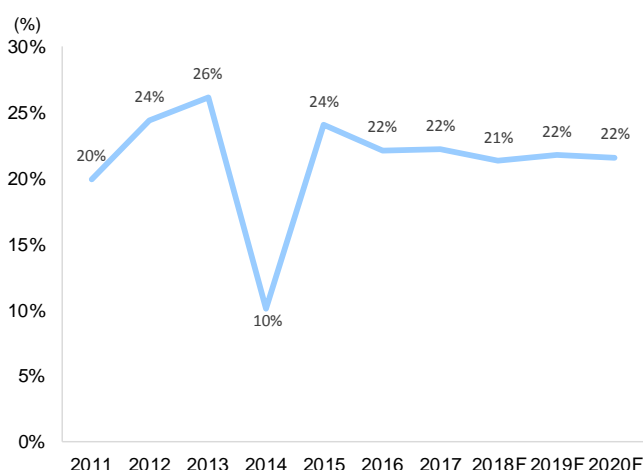
Going forward, we forecast Mayora’s ROA and ROE to remain stable at 12% and 23% in 2020F.

Figure 30: Return on assets (%)



Source: Company data, RHB

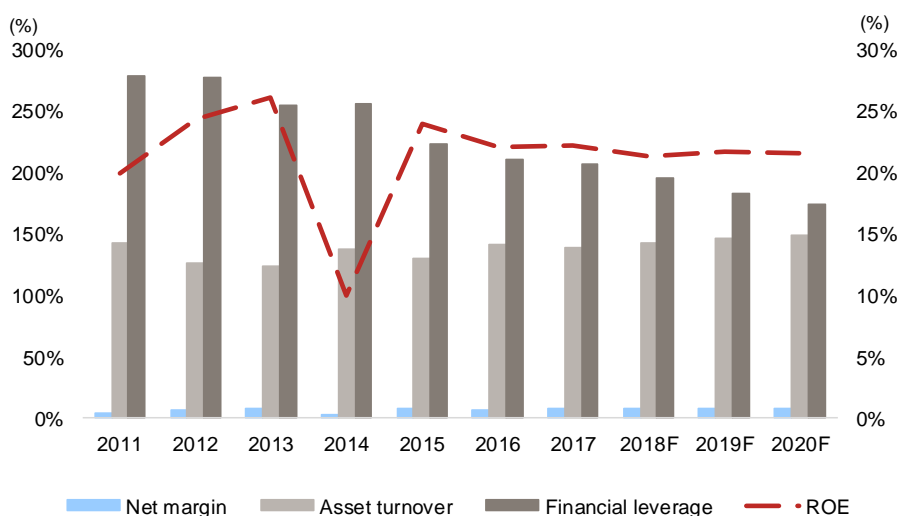
Figure 31: Return on equity (%)



Source: Company data, RHB

Looking deeper, using the DuPont analysis for Mayora’s ROE, the increase in its ROE was due to healthier financial leverage, indicated by decreasing financial leverage over the years. Asset turnover and net margin increased slightly over the last seven years, therefore supporting the rise in ROE.

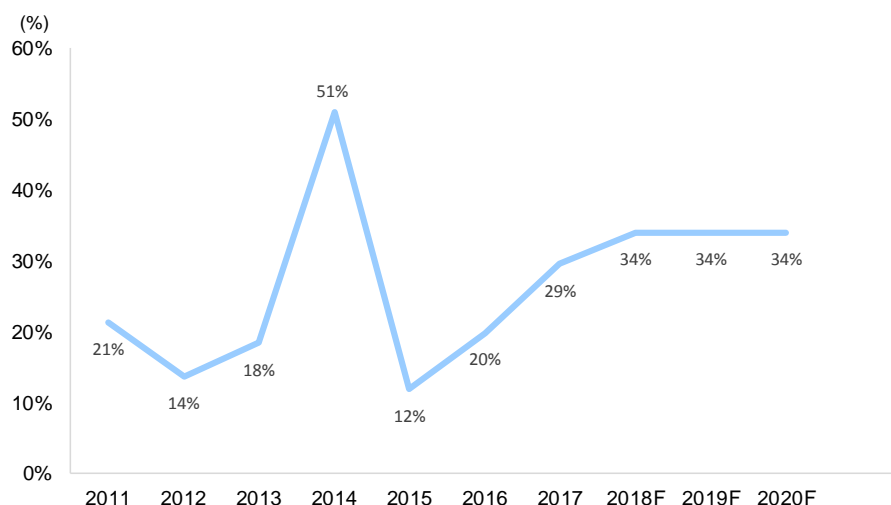
Figure 32: DuPont analysis



Source: Company data, RHB

Mayora’s dividend payout has been stable over the years, except in 2014 when the company booked lower net income while continuing to pay stable cash dividends – this resulted in a significant increase in the dividend payout ratio (51%). However, based on the historical rising trend in Mayora’s dividend payout, we expect its payout ratio to remain stable at 34% over the next three years, with the company continuing to distribute dividends in the form of cash.

Figure 33: Dividend payout ratio



Source: Company data, RHB

Overall, our estimates are in line with Bloomberg consensus. RHB's 2018F-2020F earnings estimates are 2.9%, 3.7%, and 4.8% higher than Street estimates.

Figure 34: RHB vs Street estimates

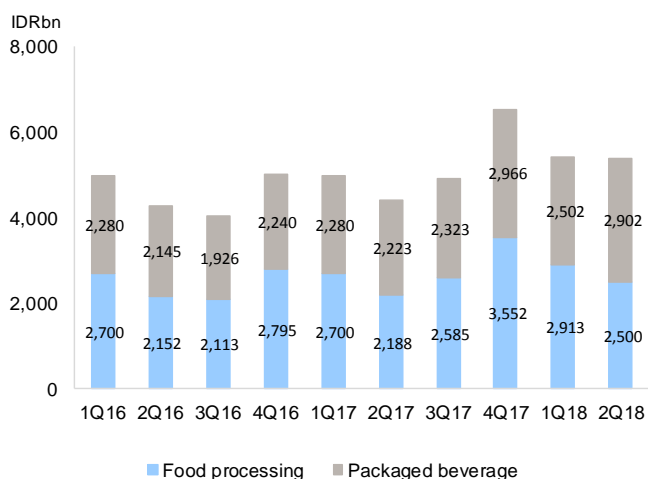
(IDRbn)	RHB forecast			Consensus forecast			Differences		
	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F
Sales	23,523	26,581	30,036	23,304	26,431	29,935	0.9%	0.6%	0.3%
EBITDA	3,315	3,827	4,317	3,180	3,704	4,200	4.2%	3.3%	2.8%
EBIT	2,863	3,334	3,787	2,720	3,203	3,568	5.3%	4.1%	6.1%
Pre-tax profit	2,482	2,964	3,419	2,385	2,834	3,233	4.0%	4.6%	5.8%
Net profit - reported	1,809	2,164	2,497	1,758	2,087	2,384	2.9%	3.7%	4.8%

Source: Bloomberg, RHB

## Quarterly Revenue & Earnings Cycle

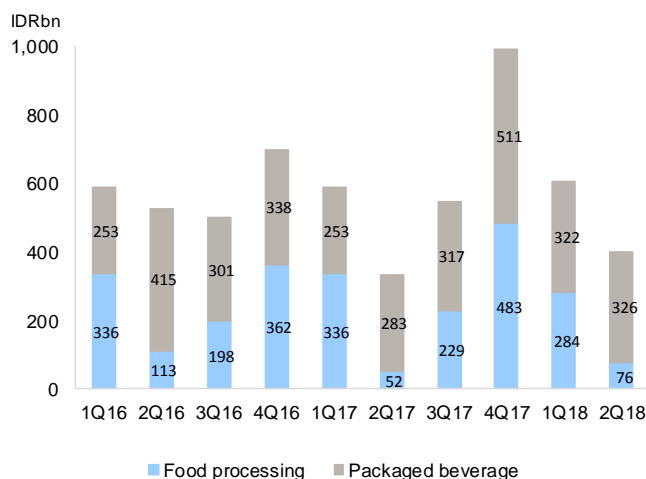
Mayora's quarterly performances have been affected by seasonality, where its 4Q performance always exceeds preceding quarters' performances. As shown in Figures 35 and 36, Mayora's performance in 4Q17 significantly exceeded its previous three quarters' performances. This was due to Indonesia's consumption trend, where there is increased spending – especially on biscuits and snacks – during festive seasons at the end of the year, such as Christmas and New Year.

Figure 35: Quarterly sales breakdown



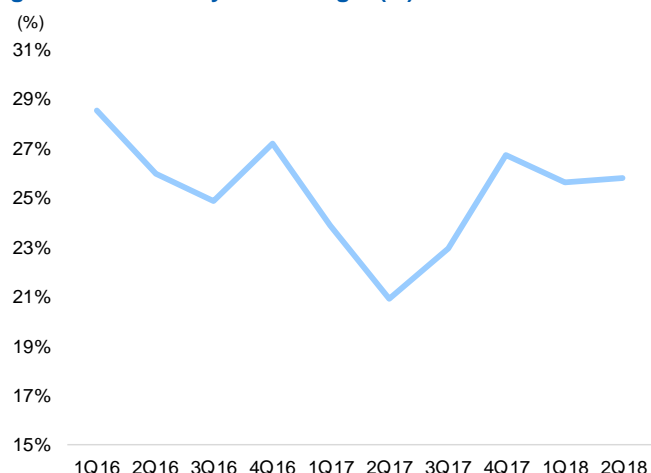
Source: Company data, RHB

Figure 36: Quarterly EBIT breakdown



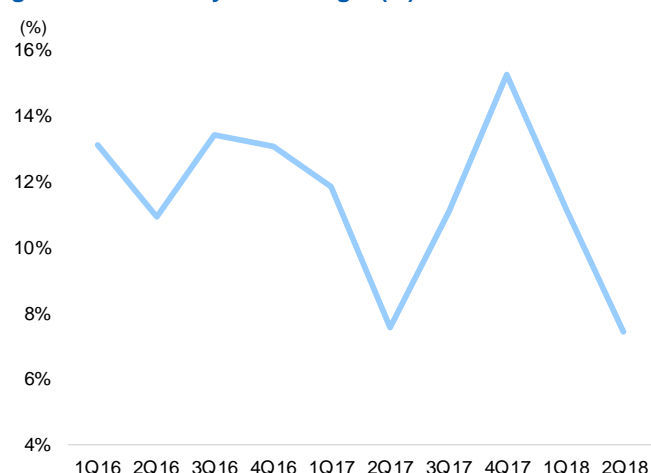
Source: Company data, RHB

Figure 37: Quarterly GPM margin (%)



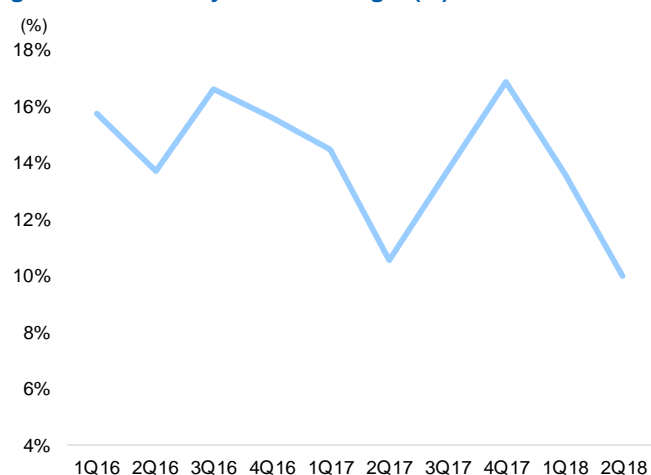
Source: Company data, RHB

Figure 38: Quarterly EBIT margin (%)



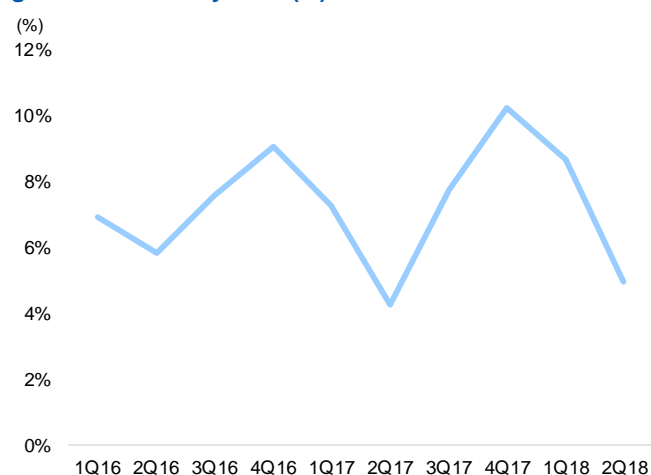
Source: Company data, RHB

Figure 39: Quarterly EBITDA margin (%)



Source: Company data, RHB

Figure 40: Quarterly NPM (%)



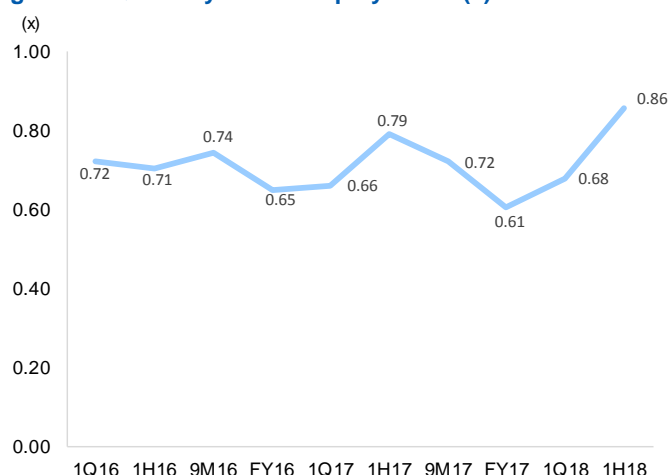
Source: Company data, RHB

As shown in the charts below, Mayora has healthy debt ratios, with debt-to-equity and net gearing at below 1x. The sudden increase in its debt ratio in 1H18 was on rising debt and lower retained earnings due to dividend payments that usually occur in 2Q.

In 1H18, Mayora's total debt increased by 21% compared to 1Q18. Retained earnings decreased by 5%, resulting in its equity decreasing by 4% – this resulted in its debt-to-equity rising to 0.9x and net gearing to 0.6x.

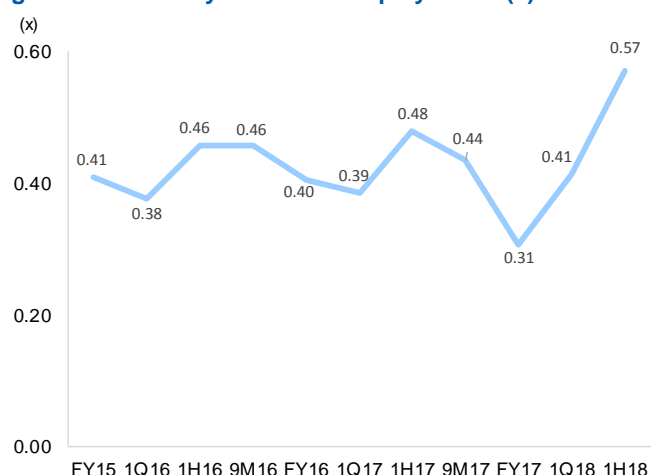


Figure 41: Quarterly debt-to-equity ratios (x)



Source: Company data, RHB

Figure 42: Quarterly net debt-to-equity ratios (x)

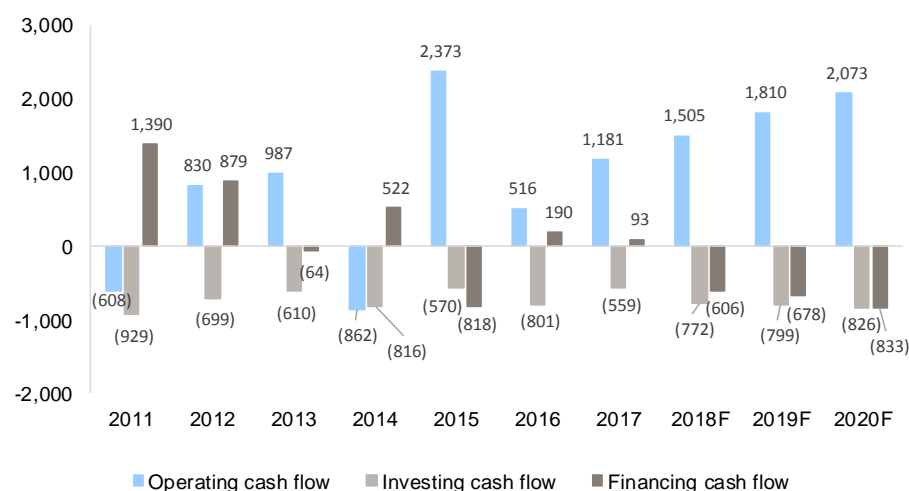


Source: Company data, RHB

Stronger cash flows

We have assumed that Mayora would continue to book a positive trend in operating cash flows over the next three years. From the chart below, Mayora registered a significant increase in operating cash flows in 2015, after previously booking negative operating cash flows in 2014. We believe the significant increase in 2015 was due to improvements in working capital management, backed by decreasing inventory and higher payables.

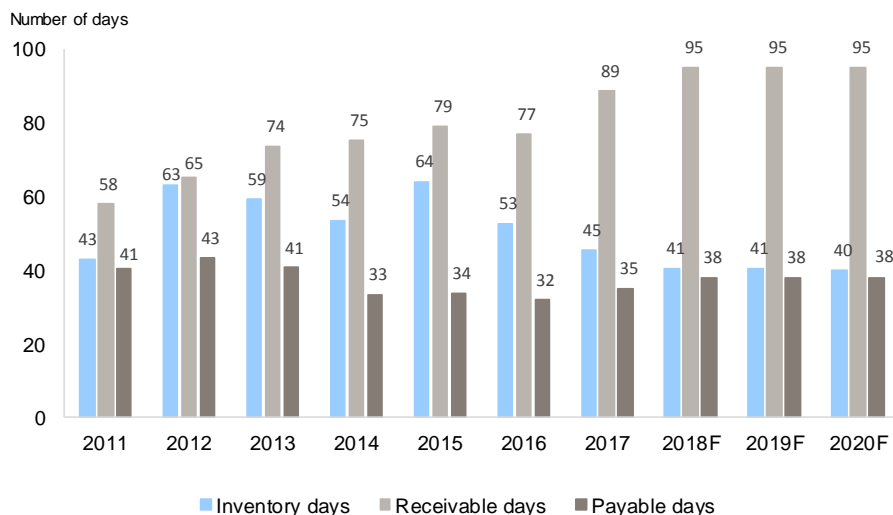
Figure 43: Net cash flows



Source: Company data, RHB

From the chart below, Mayora has had increasing receivable days and shorter inventory days over the years. Payable days decreased slightly over the years, indicating its ability to pay its trade liabilities earlier. Based on these historical trends, we have assumed conservative working capital days, by projecting longer receivable days, shorter inventory days, and stable payable days over the next three years.

Figure 44: Working capital days

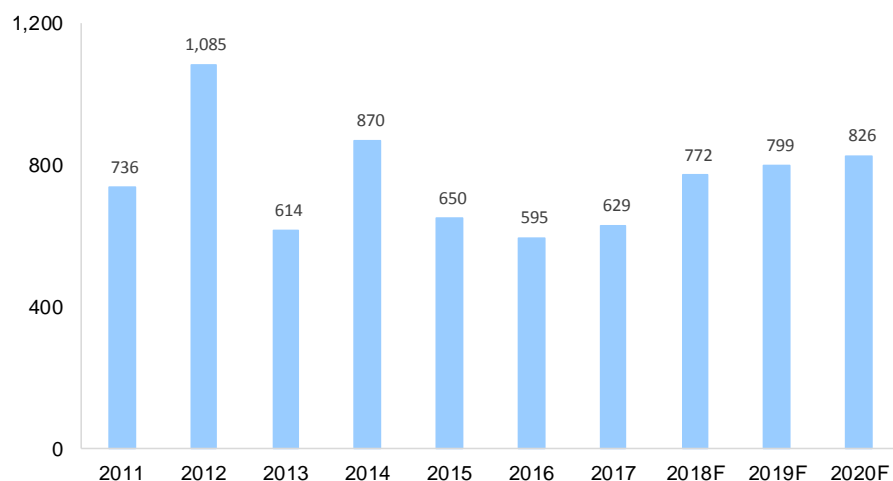


Source: Company, RHB

Capex for expansion

Mayora allocates an annual capex of around IDR750bn to increase its production capacity by 15% pa. We expect this to be funded by largely by internal cash and some debt.

Figure 45: Capex



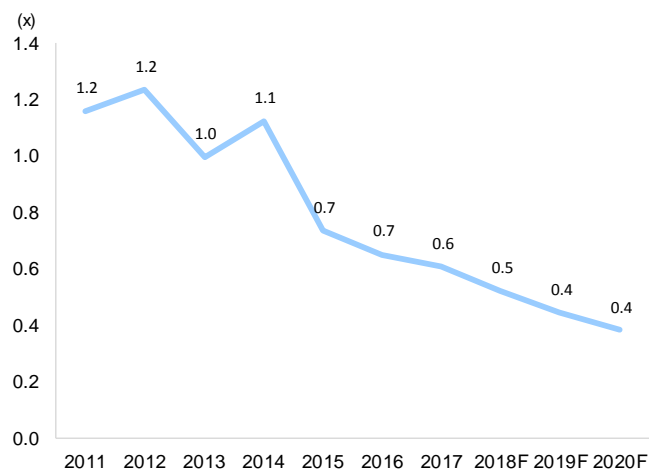
Source: Company data, RHB

**Healthier cash position, lower debt levels**

Mayora's cash position increased to IDR2.2trn in 2017, from IDR325bn in 2011. Total debt also increased to IDR4.5trn in 2017, from IDR2.8trn in 2011. However, the significant increase in Mayora's cash position has caused its net debt-to-equity ratio to decline sharply to 0.31x from 1.02x during the same period, indicating healthier financial leverage over the last seven years.

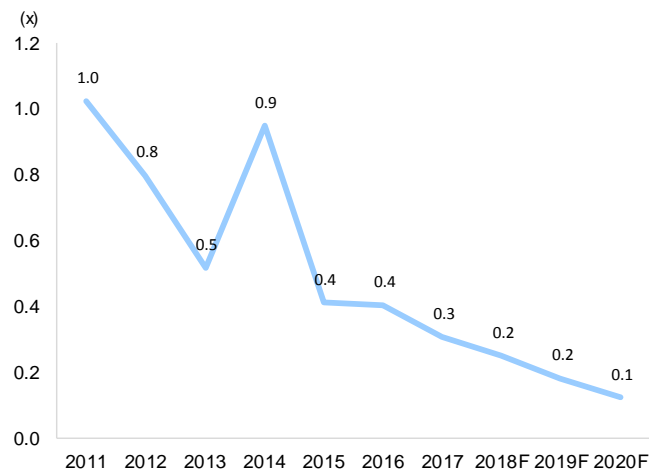
From this historical perspective, we expect Mayora's net debt-to-equity to continue to decrease, backed by higher positive net operating cash flows – we forecast the debt-to-equity and net debt-to-equity ratios to stand at 0.38x and 0.12x in 2020F.

**Figure 46: Annual debt to equity ratios (x) – 2011-2020F**



Source: Company data, RHB

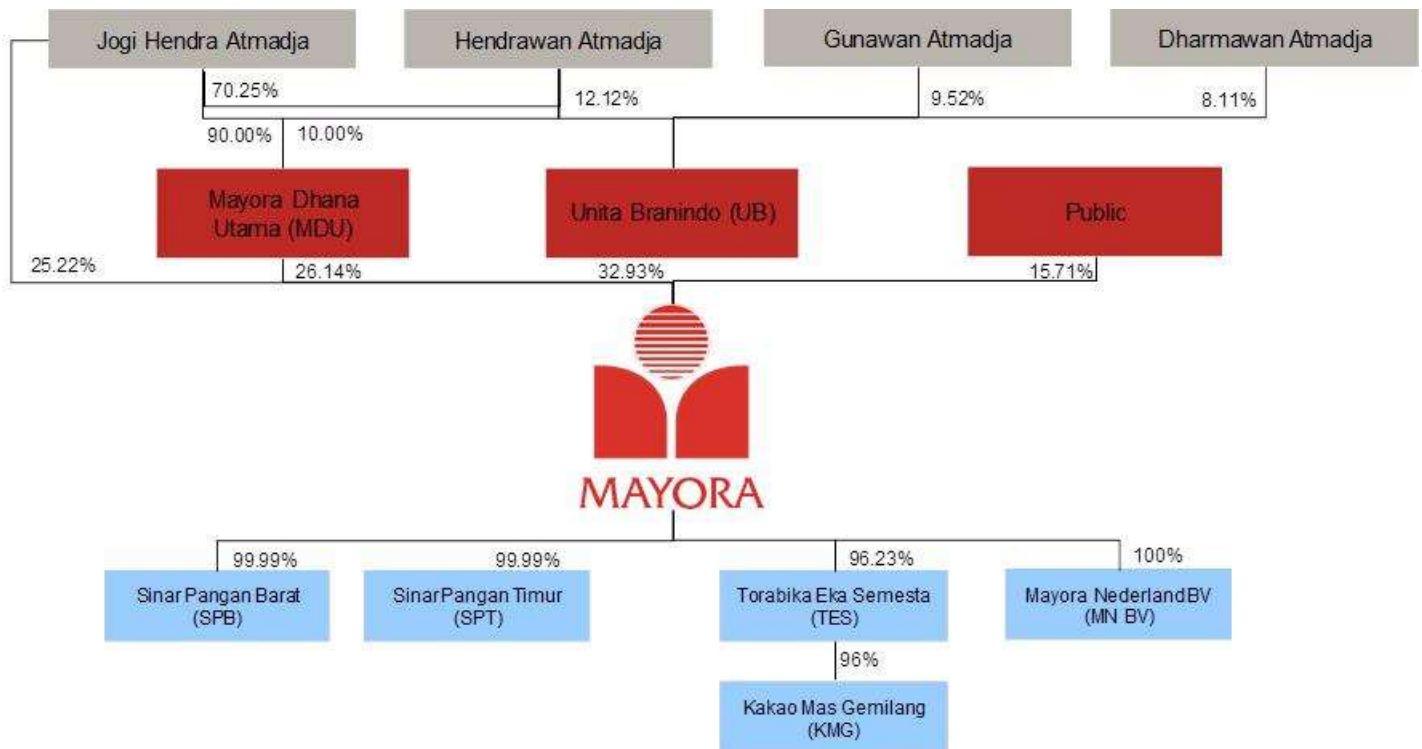
**Figure 47: Annual net debt-to-equity ratios (x) – 2011-2020F**



Source: Company data, RHB

## Appendix

Figure 48: Shareholding structure








Source: Company data, RHB

Figure 49: Board of directors

Name	Position	Background
 Andre Sukendra Atmadja	President Director	Mr. Andre has been serving as the company's President Director since 2011, while also serving as Director of Torabika Eka Semesta, Kakao Mas Gemilang, and Unita Branindo. Previously, he served as the company's Director (2004 - 2011), and Operations Manager (1996 - 2004). He holds a bachelor degree from Boston University, USA.
 Hendarta Atmadja	Supply Chain Director	Mr. Hendarta has been serving as the company's Director since 2010, while also serving as Director of Torabika Eka Semesta, Kakao Mas Gemilang, and Unita Branindo. Previously, he served various positions in Mayora until he was appointed as Director in June 2010. He passed his educations at the Beijing Language and Cultural University in 2000 and University of Wisconsin, Madison, in 1999.
 Wardhana Atmadja	Operations Director	Mr. Wardhana has been serving as the company's Director since 2011, while also serving as Commissioner of Torabika Eka Semesta, Kakao Mas Gemilang, and Unita Branindo. He started his career at the company in 2001 as Finance Executive with last position being Deputy Director (2009 - 2011). He holds a bachelor degree in Science from New York University in 2001.
 Hendrik Polisar	Finance Director	Mr. Hendrik has been serving as the company's Director since 2010 up to the present. Previously, he worked in Mulia Industrindo (1992 - 2009), Tifa Arum Realty (1990 - 1992), Mustofa, Tony, and Surjadinata Public Accounting Firm (1987 - 1990). He passed his education from Faculty of Accounting, Brawijaya University.
 Muljono Nurlimo	Marketing Director	Mr. Muljono has been serving as the company's Director since 2011. Prior to joining Mayora in 2004, he worked at Agel Langgeng (1992 - 2003), Seafer (1985 - 1991), Bulan Mas Indonesia (1984 - 1985), and Commotrade Indonesia (1975 - 1982). He holds a master degree in Management from Surabaya University in 2001.

Source: Company, RHB

Figure 50: Board of commissioners

Name	Position	Background
 Jogi Hendra Atmadja	President Commissioner	Mr. Jogi has been serving as the company's President Commissioner since 1977, while also serving as President Commissioner in Unita Branindo, Torabika Eka Semesta, and Kakao Mas Gemilang, as well as Commissioner of Sinar Pangan Barat and Sinar Pangan Timur. He graduated from Faculty of Medicine, Trisakti University, Jakarta.
 Hermawan Lesmana	Commissioner	Mr. Hermawan has been serving as the company's Commissioner since 2019, after serving as the company's Director of Finance from (1985 - 2010). Prior to his current position, he was the company's Director of Marketing and Administration (1977 - 1985) and Sales Director of Inbisco Jaya (1971 - 1976).
 Gunawan Atmadja	Commissioner	Mr. Gunawan has been serving as the company's Commissioner since 2011 up to present, while also serving as Commissioner of Torabika Eka Semesta, Kakao Mas Gemilang, and Unita Branindo, President Director of Sinar Pangan Barat, and Director of Sinar Pangan Timur. Previously, he served as the company's Assistant Director of Finance (1985 - 1990), Director of Marketing (1990 - 1996), Director of Marketing and Operations (1996 - 2000), and President Director (2000 -2011). He earned his bachelor degree from Faculty of Economics, Tarumanegara University.
 Ramli Setiawan	Independent Commissioner, Chairman of Audit Committee	Mr. Ramli has been serving as the company's Commissioner since 2008 up to the present. He first joined Mayora Indah in 1995 to handle local and export marketing, and then oversaw Communication and General Affairs. Previously, he served as the company's Senior Advisor (2003 - 2008). He received his education at the Faculty of Medicine from Trisakti University, Jakarta.
 Suryanto Gunawan	Independent Commissioner	Mr. Suryanto has been serving as the company's Commissioner since 2011. Previously, he served as the company's production consultant (2009 - 2011), and also served various positions at Torabika Eka Semesta (1997 - 2009) with the last position held as Assistant Director. He received his education from Faculty of Medicine, Trisakti University, Jakarta, in 1983.

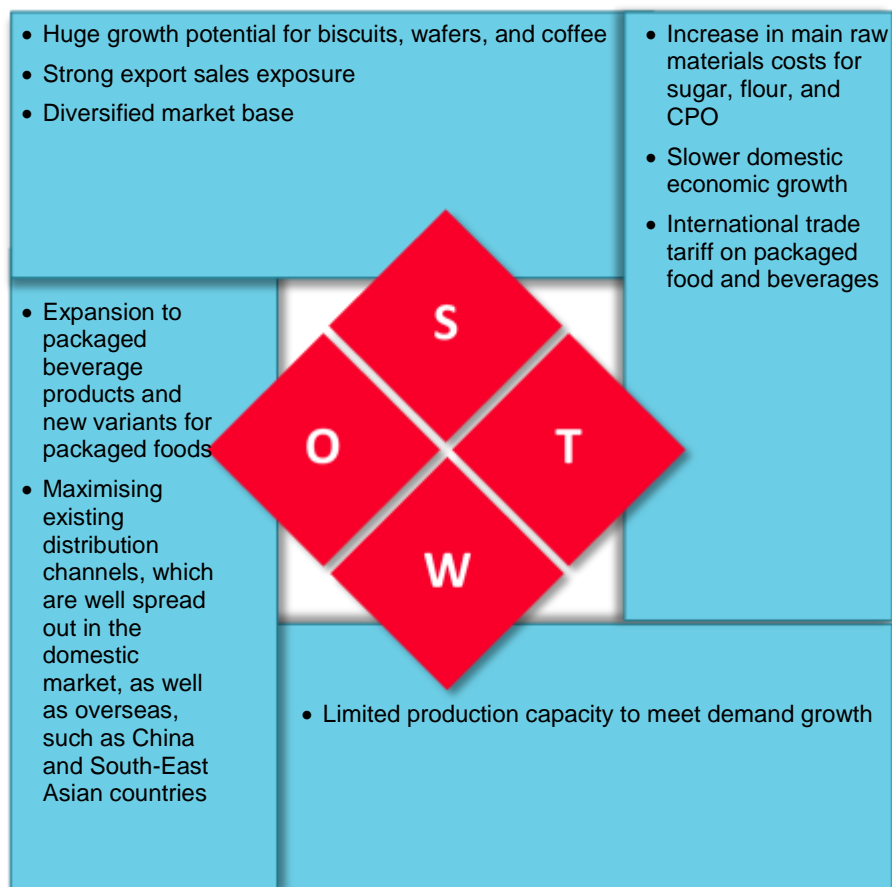
Source: Company, RHB

Figure 51: Products portfolio



Source: Company, RHB

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2012-02-03	Buy	16,500	504
2011-04-04	Buy	13,200	384
2010-11-03	Neutral	13,200	430
2010-08-11	Buy	9,500	255

Source: RHB, Bloomberg



24 August 2018

Consumer Non-cyclical | Food & Beverage Products

## Indofood CBP

**Buy** (Maintained)

### Outperforming Industry Growth; BUY

Target Price: IDR10,300  
 Price: IDR8,925  
 Market Cap: USD7,142m  
 Bloomberg Ticker: ICBP IJ

**Maintain BUY with a new DCF-based IDR10,300 TP from IDR9,500, 15% upside. Our TP implies 26-23x FY19F-20F P/E. Despite lower domestic sales volumes for instant noodles, Indofood CBP still booked an increase in volume with higher ASPs. This was due to its robust position locally. Its exports have also strengthened. For future growth, earnings should be driven by the dairy and snack foods segments, as it has launched more new product variants in these categories. A weaker IDR is the main risk to our call, as it may increase production costs.**

**While the long-term outlook for instant noodles domestically might remain challenging,** we remain optimistic for Indofood CBP's offerings in the short term. Its 1H18 instant noodle sales volume still grew by c.3.5% YoY while ASP rose 3.5-4% YoY – much better than the industry, where sales volumes declined 2.5% YoY and ASP slipped 1% YoY. In addition, it recorded higher export sales, driven by exports to Malaysia, Australia, Nigeria, and Syria.

**To boost sales,** the company actively innovates and launches new variants, eg four new instant noodle variants with local flavours in the first semester. Additionally, earlier this month, Indofood CBP launched a new premium instant noodle: *Indomie Salted Egg*. We believe this strategy is not easy for its peers – who have much lower economies of scale – to replicate, since the launching of new products command high costs. Indofood's market share in the local instant noodles market is ~86%. To boost snack food sales, it launched new potato and cassava chips variants, with brand names *Chitato*, *Lays*, *Qtela*, and *Doritos*.

Indofood CBP has also innovated the product packaging for its *Wonderland* wafers & biscuits and *Dueto* chocolate chip cookies by offering products in packaged plastic drums. They were previously sold in tins. This should lower production costs and enable the firm to sell its product at more competitive selling prices than its peers – this should increase sales volumes.

**Dairy and snack foods to be future growth drivers.** In 1H18, Indofood CBP launched and re-launched 36 new stock keeping units (SKUs), the bulk of which were in the dairy (13 new SKUs) and snack foods (13 new SKUs) segments. For ice cream, Indofood CBP introduced five new variants with brand names like *MaxSwich* and *Kul Kul*. The plus point: while the company sells its ice creams at affordable prices, it offers good quality. However, the main constraint we see is product availability. It needs to invest more in ice cream freezers for both general and modern trade channels.

**Maintain BUY** with a new DCF-based IDR10,300 TP from IDR9,500, 15% upside. Our TP implies 26-23x FY19F-20F P/E. We maintain our earnings forecasts, however, after rolling forward our valuation base to FY19's estimated cash flow. Indofood is now attractively trading near to -1SD and improvements in domestic consumer spending is a catalyst for the company. Key downside risks to our call include a weakened IDR, which should lift production costs. Our ground checks indicate that *Indomie* retail prices have increased, likely due to a passing on of higher costs.

#### Share Data

Avg Daily Turnover (IDR/USD) 26,920m/1.92m  
 52-wk Price low/high (IDR) 8,000 - 9,275  
 Free Float (%) 19  
 Shares outstanding (m) 11,662  
 Estimated Return 15%

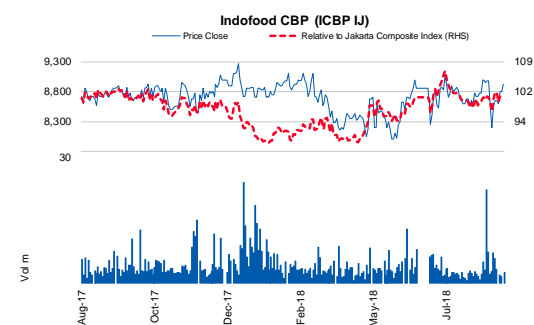
#### Shareholders (%)

Indofood Sukses Makmur 80.5

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.3	2.9	11.2	0.0	2.3
Relative	6.8	2.4	8.6	10.2	1.8

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (IDRb)	34,466	35,607	39,464	42,728	46,791
Reported net profit (IDRb)	3,600	3,797	4,183	4,573	5,124
Recurring net profit (IDRb)	3,653	3,903	4,046	4,557	5,046
Recurring net profit growth (%)	24.3	6.8	3.7	12.6	10.7
Recurring EPS (IDR)	313	335	347	391	433
DPS (IDR)	128	128	176	192	215
Recurring P/E (x)	28.5	26.7	25.7	22.8	20.6
P/B (x)	5.93	5.32	4.80	4.33	3.91
P/CF (x)	22.6	25.7	27.5	24.8	22.3
Dividend Yield (%)	1.4	1.4	2.0	2.2	2.4
EV/EBITDA (x)	18.5	17.1	16.1	14.4	12.8
Return on average equity (%)	21.8	20.5	20.3	20.0	20.2
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(3.6)	(0.3)	3.2

Source: Company data, RHB

#### Analyst

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24 August 2018

Consumer Non-cyclical | Food &amp; Beverage Products

## Financial Exhibits

Financial model updated on: 2018-08-20.

Asia  
Indonesia  
Consumer Non-cyclical  
**Indofood CBP**  
Bloomberg ICBP IJ  
**Buy**

### Valuation basis

DCF, 9% WACC, 5% TG.

### Key drivers

- Lower input costs, such as flour and milk powder prices;
- Consumer spending recovery that boost sales volume;
- Lower operating losses at its beverage business.

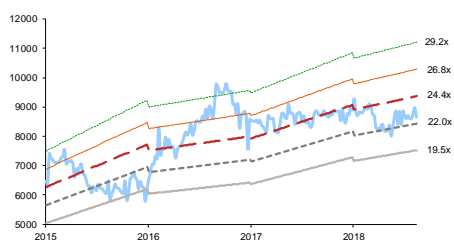
### Key risks

- High forex volatility;
- Weakened IDR.

### Company Profile

Indofood CBP is a total food solutions company with operations in all stages of food manufacturing: from production of raw materials and processing to the supply of consumer products to retailers.

### Indofood 3-year rolling forward P/E



Financial summary	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Recurring EPS (IDR)	313	335	347	391	433
EPS (IDR)	309	326	359	392	439
DPS (IDR)	128	128	176	192	215
BVPS (IDR)	1,506	1,678	1,861	2,061	2,285
Weighted avg adjusted shares (m)	11,662	11,662	11,662	11,662	11,662

Valuation metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Recurring P/E (x)	28.5	26.7	25.7	22.8	20.6
P/E (x)	28.9	27.4	24.9	22.8	20.3
P/B (x)	5.93	5.32	4.80	4.33	3.91
FCF Yield (%)	3.4	2.3	2.0	2.4	2.8
Dividend Yield (%)	1.4	1.4	2.0	2.2	2.4
EV/EBITDA (x)	18.5	17.1	16.1	14.4	12.8
EV/EBIT (x)	19.6	17.7	16.5	14.8	13.2

Income statement (IDRb)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover	34,466	35,607	39,464	42,728	46,791
Gross profit	4,936	5,378	5,691	6,263	6,916
EBITDA	5,243	5,553	5,835	6,440	7,126
Depreciation and amortisation	(307)	(176)	(144)	(177)	(210)
Operating profit	4,936	5,378	5,691	6,263	6,916
Net interest	224	170	11	36	61
Income from associates & JVs	(99)	(185)	(205)	(222)	(243)
Pre-tax profit	4,989	5,207	5,697	6,098	6,845
Taxation	(1,358)	(1,663)	(1,795)	(1,830)	(2,053)
Minority interests	(31)	253	281	304	333
Recurring net profit	3,653	3,903	4,046	4,557	5,046

Cash flow (IDRb)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Change in working capital	(224)	(21)	(248)	(422)	(440)
Cash flow from operations	4,615	4,058	3,782	4,203	4,672
Capex	(1,069)	(1,629)	(1,685)	(1,723)	(1,762)
Cash flow from investing activities	(1,560)	(2,950)	(1,685)	(1,723)	(1,762)
Dividends paid	(1,493)	(1,493)	(2,047)	(2,238)	(2,508)
Cash flow from financing activities	(2,196)	(1,800)	(2,047)	(2,238)	(2,508)
Cash at beginning of period	7,658	8,372	8,797	10,088	11,397
Net change in cash	859	(692)	50	242	402
Ending balance cash	8,516	7,680	8,846	10,330	11,799

Balance sheet (IDRb)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total cash and equivalents	8,372	8,945	10,236	11,545	13,108
Tangible fixed assets	7,114	8,120	9,217	10,321	11,434
Intangible assets	3,754	3,254	2,754	2,254	1,755
Total investments	1,632	2,645	2,645	2,645	2,645
Total other assets	830	1,021	1,021	1,021	1,021
Total assets	28,902	31,620	34,168	36,816	39,829
Short-term debt	980	924	924	924	924
Total long-term debt	872	955	955	955	955
Other liabilities	2,647	3,128	3,128	3,128	3,128
Total liabilities	10,401	11,295	11,708	12,021	12,418
Shareholders' equity	17,564	19,564	21,699	24,034	26,650
Minority interests	937	761	761	761	761
Total equity	18,501	20,324	22,460	24,795	27,411
Net debt	(6,520)	(7,067)	(8,358)	(9,667)	(11,230)
Total liabilities & equity	28,902	31,620	34,168	36,816	39,829

Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Revenue growth (%)	8.6	3.3	10.8	8.3	9.5
Recurrent EPS growth (%)	24.3	6.8	3.7	12.6	10.7
Gross margin (%)	14.3	15.1	14.4	14.7	14.8
Operating EBITDA margin (%)	15.2	15.6	14.8	15.1	15.2
Net profit margin (%)	10.4	10.7	10.6	10.7	11.0
Capex/sales (%)	3.1	4.6	4.3	4.0	3.8
Interest cover (x)	27.6	34.9	35.6	39.2	43.3

Source: Company data, RHB, Bloomberg

## Our Ground Checks

### Instant noodles retail price trends

Our ground checks suggest that Indofood CBP has increased retail prices by 3.8-4.7% QoQ for most of its noodles – like *Indomie Kari Ayam* and *Indomie Goreng Special* – while lowering the price of its premium noodles (eg *Indomie Real Meat*) by 2.3% QoQ. This is likely to keep up with Wings’ *Bakmi Mewah*, which has seen retail prices declining significantly since February.

Meanwhile, the QoQ retail prices for ordinary instant noodles have gone up 1.8-4.7% QoQ, with the exception of Tiga Pilar Sejahtera Food’s (Tiga Pilar) *Mie Ayam Dua Telor* – its retail price declined 7.4% QoQ, the highest decline among peers. As a result, we believe the 29% MoM increase in Tiga Pilar’s *Mie Ayam Dua Telor* retail price will allow the company to keep up with its peers.

Figure 1: Breakdown of instant noodle prices by product (IDR)

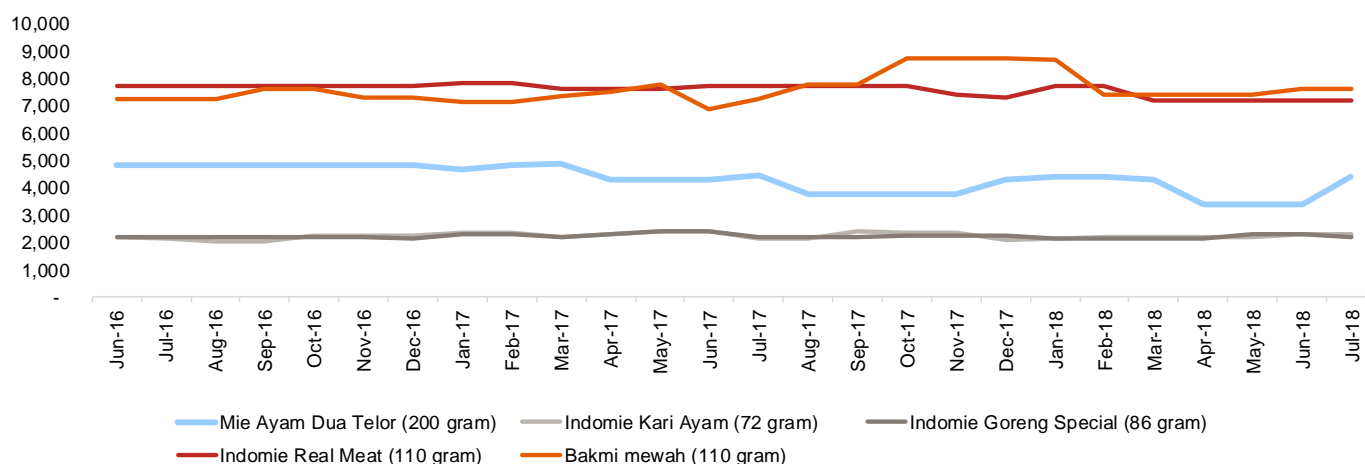
	Size (gram)	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY	
<b>Tiga Pilar</b>	Mie Ayam Dua Telor	200 gram	4,300	4,400	4,400	4,300	3,400	3,400	3,400	4,400	29.4%	-7.4%	-15.8%
<b>Indofood</b>	Indomie Kari Ayam	72 gram	2,070	2,150	2,175	2,175	2,175	2,175	2,300	2,300	0.0%	3.8%	-0.1%
<b>Indofood</b>	Indomie Goreng Special	86 gram	2,250	2,150	2,150	2,150	2,150	2,275	2,275	2,200	-3.3%	4.7%	-1.9%
<b>Indofood</b>	Indomie Real Meat	110 gram	7,300	7,700	7,700	7,200	7,200	7,200	7,200	7,200	0.0%	-2.3%	-3.7%
<b>Wings</b>	Bakmi mewah	110 gram	8,750	8,700	7,400	7,400	7,400	7,400	7,600	7,600	0.0%	1.8%	8.2%

Note: QoQ change refers to average Feb-Apr 2018 retail prices vs average May-Jul 2018 retail prices

Note 2: YoY change refers to average Aug 2016-Jul 2017 retail prices vs average Aug 2017-Jul 2018 retail prices

Source: RHB

Figure 2: Retail price trends for instant noodles (IDR)

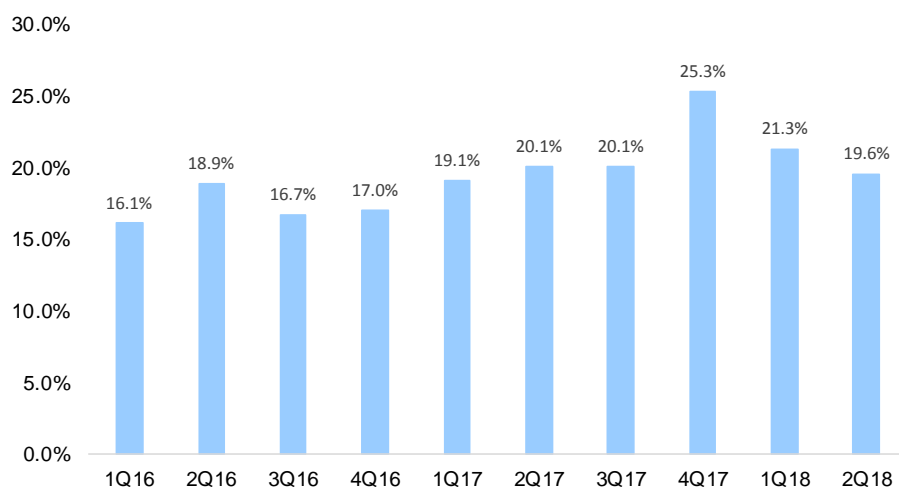


Source: RHB

We believe the higher retail selling prices for *Indomie Kari Ayam* and *Indomie Goreng Special* is a case of passing on increased input costs. Our channel checks on other consumer food producers indicate that Bogasari started to increase flour prices in Jul 2018.

The EBIT margin for Indofood CBP's noodle business normalised to 19.6% in 2Q18 (1Q18: 21.3%, 2Q17: 20.1%). We note that its 4Q17 EBIT was abnormal, as the company recorded other revenue.

**Figure 3: EBIT margin trend for Indofood's instant noodles segment**



Source: Company data, RHB

### Dairy retail prices have been mixed

Our ground checks indicate that there were various changes in the retail selling prices for ultra-high temperature processing (UHT) milk as a whole. Indofood's *Indomilk* retail price rose 9-11% QoQ while peer Ultrajaya Milk Industry's *Ultra Milk*'s retail price dropped 5% QoQ for its 200ml pack – however, its 1-litre pack's retail price rose 5% QoQ. The most significant change in this segment was undertaken by Nestle and its *Milo* product – its selling price decreased 17% QoQ.

**Figure 4: UHT milk retail prices by product (IDR)**

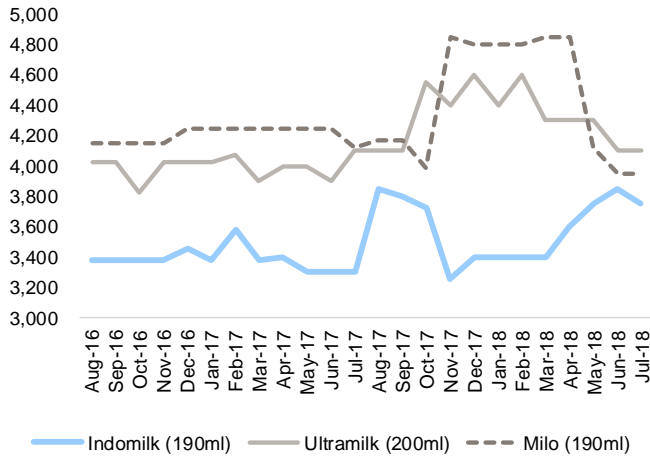
		Size (ml)	Jul-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
<b>Indofood</b>	Indomilk	190	3,300	3,400	3,400	3,400	3,400	3,600	3,750	3,850	3,750	-2.6%	9.1%	6.4%
<b>Ultra Jaya</b>	Ultramilk	200	4,100	4,600	4,400	4,600	4,300	4,300	4,300	4,100	4,100	0.0%	-5.3%	8.2%
<b>Nestle</b>	Milo	190	4,125	4,800	4,800	4,800	4,850	4,850	4,119	3,950	3,950	0.0%	-17.1%	5.6%
<b>Indofood</b>	Indomilk	1,000	17,100	17,100	15,100	17,100	16,300	12,990	16,700	17,900	16,700	-6.7%	10.6%	-1.5%
<b>Ultra Jaya</b>	Ultramilk	1,000	16,100	14,990	15,700	15,700	15,700	14,490	15,700	16,400	16,400	0.0%	5.7%	-0.2%
<b>Frisian Flag</b>	Bendera	900	15,210	14,300	14,500	16,000	14,300	14,300	12,790	14,850	14,300	-3.7%	-6.0%	-2.3%
<b>Diamond Cold Storage</b>	Diamond	1,000	16,400	14,310	15,900	15,900	15,200	15,200	15,200	16,450	14,550	-11.6%	-0.2%	-3.7%
<b>Greenfields Indonesia</b>	Greenfield	900	16,200	16,900	16,900	17,900	17,600	17,600	17,600	20,400	20,400	0.0%	10.0%	-2.3%

Note: QoQ change refers to average Feb 2018-Apr 2018 retail prices vs average May 2018-Jul 2018 retail prices

Note 2: YoY change refers to average Aug 2016-Jul 2017 retail prices vs average Aug 2017-Jul 2018 retail prices

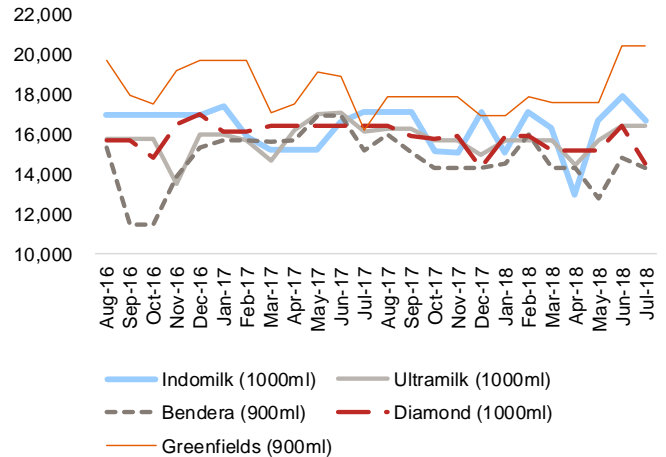
Source: RHB

Figure 5: UHT milk retail price trends I (IDR)



Source: RHB

Figure 6: UHT milk retail price trends II (IDR)



Source: RHB

Most retail prices for condensed milk have declined by around 0.8-5.2% QoQ. Indofood CBP saw the greatest decrease for its *Indomilk* products, with retail prices falling 5.2% QoQ. This was followed by Frisian Flag Indonesia's *Bendera* and *Omela*, which saw retail prices slip by c.1% QoQ. Nestle booked the highest retail price increase for its *Carnation* brand: up 9.2% QoQ. By comparison, Indofood's *Cap Enaak* was up 2.5% QoQ.

Figure 7: Breakdown of retail prices for condensed milk by product (IDR)

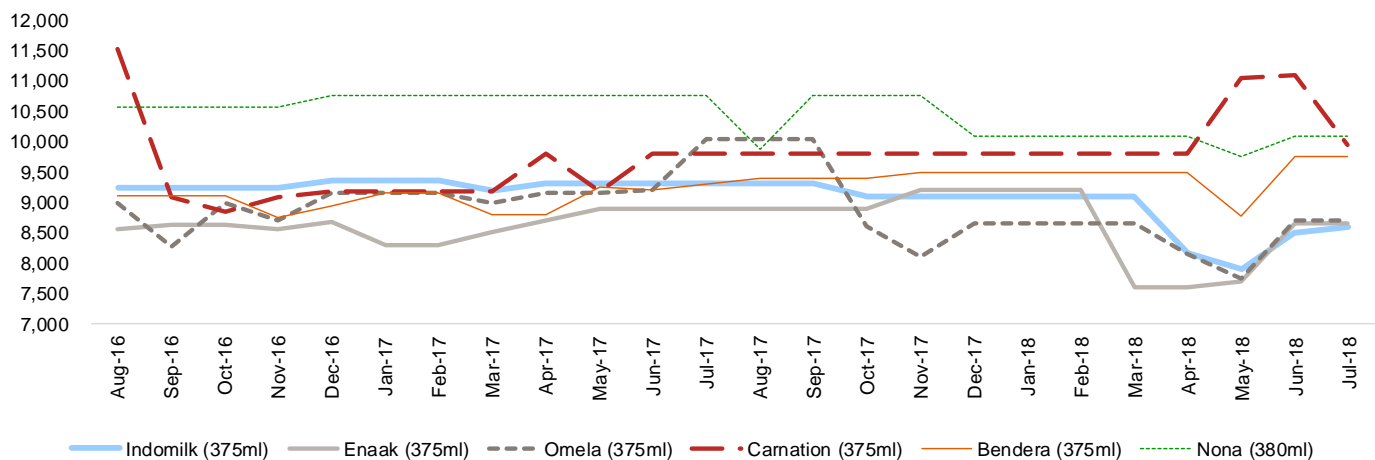
	Size (ml)	Jul-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
<b>Indofood</b>	Indomilk	375	9,300	9,100	9,100	9,100	8,150	7,890	8,500	8,600	1.2%	-5.2%	-4.6%
<b>Indofood</b>	Enaak	375	8,900	9,200	9,200	7,600	7,600	7,700	8,650	8,650	0.0%	2.5%	0.2%
<b>Frisian Flag</b>	Omela	375	10,050	8,650	8,650	8,650	8,150	7,750	8,700	8,700	0.0%	-1.2%	-3.9%
<b>Nestle</b>	Carnation	375	9,800	9,800	9,800	9,800	9,800	11,050	11,100	9,950	-10.4%	9.2%	5.7%
<b>Frisian Flag</b>	Bendera	375	9,300	9,500	9,500	9,500	9,500	8,775	9,750	9,750	0.0%	-0.8%	4.4%
<b>Nestle</b>	Nona	380	10,750	10,100	10,100	10,100	10,100	9,750	10,100	10,100	0.0%	-1.2%	-4.5%

Note: QoQ change refers to average Feb-Apr 2018 retail prices vs average May-Jul 2018 retail prices

Note 2: YoY change refers to average Aug 2016-Jul 2017 retail prices vs average Aug 2017-Jul 2018 retail prices

Source: RHB

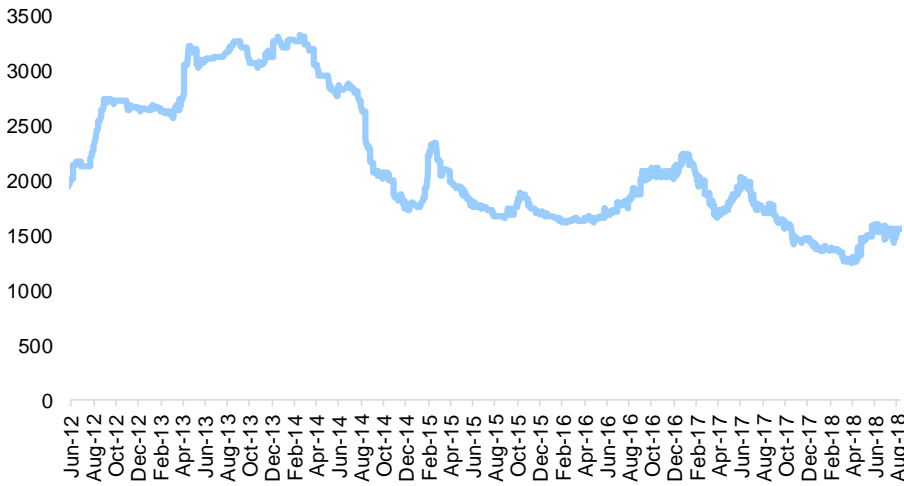
Figure 8: Retail price trends for condensed milk (IDR)



Source: RHB

International milk prices have been fluctuating since Jan 2018. The average price in 1Q18 showed a decline of 8.8% QoQ before going up 8.9% QoQ in 2Q18. This was followed by a 4.3% QoQ increase from Jul 2018 to the second week of Aug 2018. We see this unforeseen international milk price movement as the reason behind the mixed milk retail prices.

Figure 9: International milk priced chart (EUR/tonne)



Source: RHB

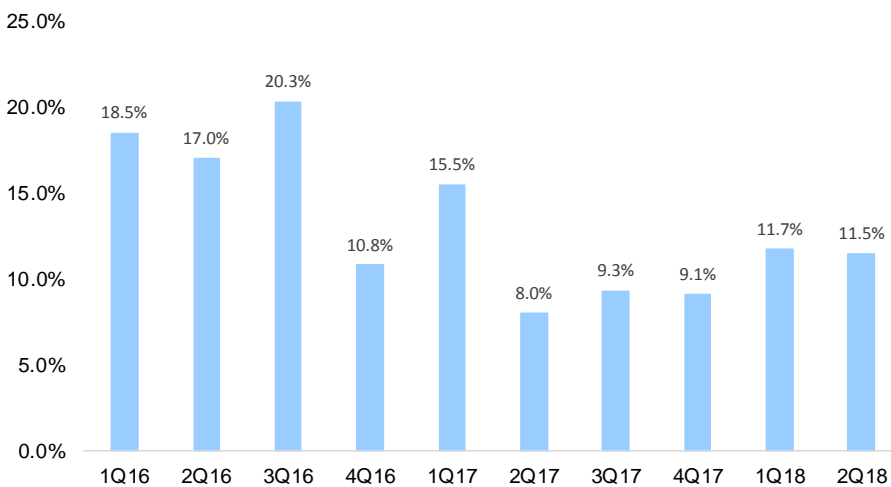
Figure 10: International milk price trends

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	July-W2 Aug
Average wheat price (USD/bu)	1,647	1,686	1,911	2,093	1,965	1,468	1,719	1,479	1,348	1,468	1,531
Change QoQ		2.4%	13.4%	9.5%	-6.1%	-25.3%	17.1%	-14.0%	-8.8%	8.9%	4.3%
Change YoY					19.3%	-12.9%	-10.0%	-29.4%	-31.4%	0.0%	-10.9%

Source: Bloomberg, RHB

Based on its latest financial results, Indofood CBP's dairy business' 2Q18 EBIT margin was flat at 11.5% (1Q18: 11.7%, 2Q17: 8%), driven by higher liquid milk retail prices.

Figure 11: EBIT margins trend of Indofood's dairy business



Source: Company data, RHB

### Competition in the RTD tea segment remains intense

Our ground checks indicate that most RTD tea retail prices have risen 1.2-7.7% QoQ. The exceptions are Indofood's *Ichi Ocha* and ABC President's *Nu Green Tea*. The former's retail price declined 6.2% QoQ while the latter's price slipped 1.2% QoQ.

Indofood CBP has maintained its *Ichi Ocha* retail price at around IDR4,225 per bottle since Jun 2018. This is around 13.5-25% lower than peers, making it the lowest retail price among market competitors of the same size, namely *Nu Green Tea* and Orang Tua's *Teh Gelas*.

Figure 12: Breakdown of retail prices for RTD-tea (IDR)

		Size (ml)	Jul-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
<b>Indofood</b>	<i>Ichi Ocha</i>	500	4,850	4,600	4,600	4,600	4,600	4,600	4,500	4,225	4,225	0.0%	-6.2%	-6.0%
<b>Sinar Sosro</b>	<i>Teh Sosro</i>	450	5,450	5,500	5,500	5,500	5,500	5,500	5,500	5,600	5,600	0.0%	1.2%	-5.4%
<b>Sinar Sosro</b>	<i>Teh Sosro - Less Sugr</i>	450	5,200	5,550	5,500	5,500	5,500	5,500	5,500	5,600	5,600	0.0%	1.2%	-5.5%
<b>ABC President</b>	<i>Nu Tea - Green Tea</i>	500	5,700	5,600	5,600	5,600	5,500	5,500	5,200	5,600	5,600	0.0%	-1.2%	-6.6%
<b>Orang Tua Group</b>	<i>Teh Gelas</i>	500	4,850	5,200	5,200	5,200	5,200	5,200	5,200	5,800	5,800	0.0%	7.7%	3.8%
<b>Mayora</b>	<i>Teh Pucuk</i>	480	5,650	3,500	5,000	5,000	4,500	4,500	4,500	5,200	5,275	1.4%	7.0%	-9.6%
<b>Garudafood</b>	<i>My tea</i>	450	5,800	5,100	6,000	6,000	5,100	5,100	6,000	5,500	5,500	0.0%	4.9%	0.5%
<b>Wings Food</b>	<i>Teh Javana</i>	350	2,900	2,200	2,200	2,200	2,200	2,200	2,500	2,750	2,750	0.0%	21.2%	-6.2%

Note: QoQ change refers to average Feb-Apr 2018 retail prices vs average May-Jul 2018 retail prices

Note 2: YoY change refers to average Aug 2016-Jul 2017 retail prices vs average Aug 2017-Jul 2018 retail prices

Source: RHB

### Snack food retail prices have not been raised

Our ground checks indicate retail prices for most snack foods have not been raised, except for Indofood CBP's *Chitato* and Mayora Indah's *Beng Beng*, which increased 10.6% and 16.7% QoQ.

Figure 13: Breakdown of retail prices for snack foods (IDR)

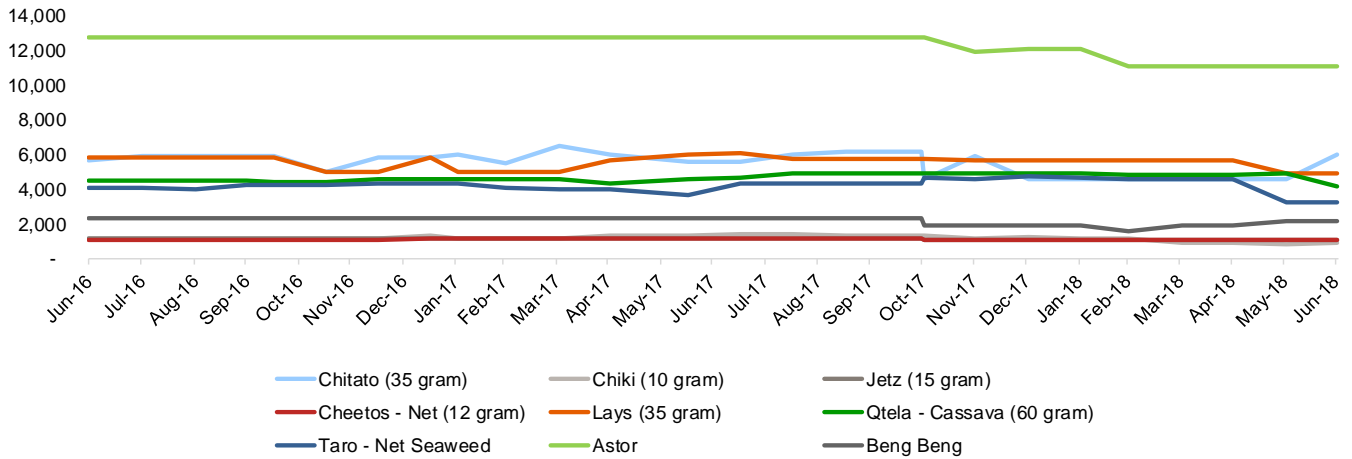
		Size (gram)	Jul-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
<b>Indofood</b>	<i>Chitato</i>	35	5,600	5,900	4,550	4,550	4,550	4,550	4,550	4,550	6,000	31.9%	10.6%	-10.6%
<b>Indofood</b>	<i>Chiki</i>	10	1,450	1,200	1,250	1,200	1,200	900	900	800	900	12.5%	-21.2%	-7.7%
<b>Indofood</b>	<i>Jetz</i>	15	1,200	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	0.0%	0.0%	-6.3%
<b>Indofood</b>	<i>Cheetos - Net</i>	12	1,125	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	0.0%	0.0%	0.6%
<b>Indofood</b>	<i>Lays</i>	35	6,050	5,700	5,700	5,700	5,700	5,700	5,700	4,900	4,900	0.0%	-9.4%	1.7%
<b>Indofood</b>	<i>Qtela - Cassava</i>	60	4,650	4,950	4,950	4,900	4,800	4,800	4,800	4,900	4,150	-15.3%	-4.5%	6.5%
<b>Tiga Pillar</b>	<i>Taro - Net Seaweed</i>	40	4,300	4,600	4,750	4,700	4,600	4,600	4,600	3,250	3,250	0.0%	-20.1%	4.1%
<b>Mayora</b>	<i>Astor</i>	150g	12,800	11,900	12,100	12,100	11,100	11,100	11,100	11,100	11,100	0.0%	-2.9%	-7.0%
<b>Mayora</b>	<i>Beng Beng</i>	22g	2,350	1,900	1,900	1,900	1,600	1,900	1,900	2,200	2,200	0.0%	16.7%	-13.3%

Note: QoQ change refers to average Feb 2018-Apr 2018 retail prices vs average May 2018-Jul 2018 retail prices

Note 2: YoY change refers to average Aug 2016-Jul 2017 retail prices vs average Aug 2017-Jul 2018 retail prices

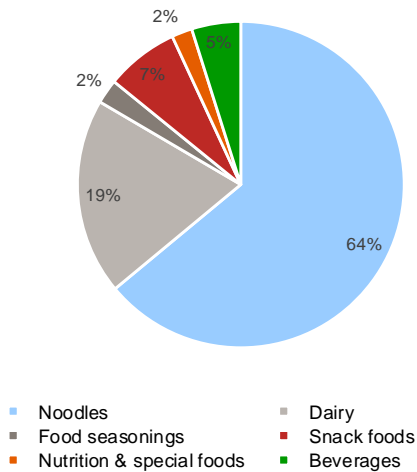
Source: RHB

Figure 14: Snack food retail price trends (IDR)



Source: RHB

Figure 15: Indofood CBP's 1H18 sales breakdown



Source: Company data, RHB

Figure 16: Indofood CBP's 1H18 EBIT breakdown (IDRbn)

	% - Total EBIT	EBIT (IDRbn)
Noodles	88%	2,598
Dairy	15%	439
Food seasonings	2%	60
Snack foods	-1%	(18)
Nutrition & special foods	1%	19
Beverages	-5%	(159)

Source: Company data, RHB



Figure 17: Indofood CBP's new product launches – 2018



Source: Company

Figure 18: Wonderland cookies in plastic drum packaging



Source: Various

Figure 19: Wonderland cookies in tin packaging



Source: Various

Figure 20: Indofood CBP's DCF calculation

<b>WACC</b>	<b>9.0%</b>										
<b>Terminal value growth</b>	<b>5.0%</b>										
Indofood CBP - DCF calculation											
<b>Cash flow (IDRbn)</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>	<b>2027F</b>	<b>2028F</b>	<b>Terminal Value</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	
EBIT	6,263	6,916	7,583	7,914	8,257	8,582	9,334	8,884	9,766	10,749	
Tax on EBIT	(1,879)	(2,075)	(2,275)	(2,374)	(2,477)	(2,575)	(2,800)	(2,665)	(2,930)	(3,225)	
Depreciation & amortisation	1,119	1,149	1,178	1,206	1,231	1,256	1,280	1,289	1,312	1,334	
Change in working capital	78	60	80	(51)	587	575	265	301	238	300	
<b>Total operating cash flow</b>	<b>5,581</b>	<b>6,050</b>	<b>6,566</b>	<b>6,694</b>	<b>7,598</b>	<b>7,838</b>	<b>8,079</b>	<b>7,809</b>	<b>8,386</b>	<b>9,159</b>	
Capital expenditures	(1,723)	(1,762)	(1,790)	(1,818)	(1,847)	(1,876)	(1,905)	(1,935)	(1,966)	(1,997)	
<b>Free cash flow</b>	<b>3,858</b>	<b>4,288</b>	<b>4,776</b>	<b>4,876</b>	<b>5,751</b>	<b>5,962</b>	<b>6,173</b>	<b>5,873</b>	<b>6,420</b>	<b>7,162</b>	
<b>Discounted free cash flow (IDRbn)</b>	<b>3,538</b>	<b>3,606</b>	<b>3,684</b>	<b>3,450</b>	<b>3,731</b>	<b>3,548</b>	<b>3,369</b>	<b>2,939</b>	<b>2,946</b>	<b>3,014</b>	<b>78,369</b>
	Total (IDRbn)										
Sum of discounted free cash flow (IDRbn)	33,826										
Terminal value (IDRbn)	<u>78,369</u>										
Value of the firm (IDRbn)	112,195										
Less: Net debt (IDRbn)	8,209										
Equity value (IDRbn)	120,405										
<b>Equity value per share (IDR)</b>	<b>10,325</b>										
Discount to Fair Value	0%										
<b>Target price (IDR)</b>	<b>10,325</b>										

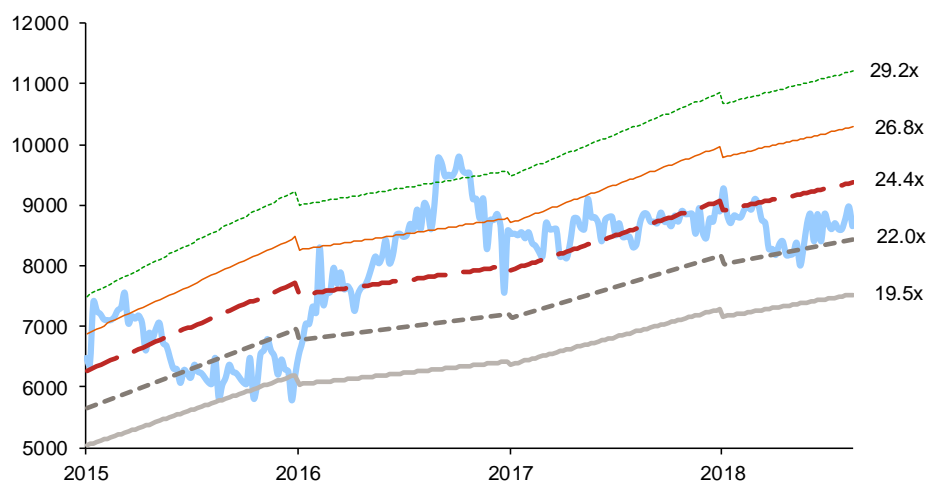
Source: RHB

Figure 21: Indofood CBP's equity value - DCF sensitivity analysis

WACC	Terminal value of growth						
	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%
<b>9.8%</b>	8,690	8,836	8,999	9,183	9,390	9,626	9,898
<b>9.5%</b>	8,991	9,152	9,333	9,536	9,767	10,031	10,337
<b>9.3%</b>	9,312	9,490	9,690	9,916	10,173	10,470	10,815
<b>9.0%</b>	9,655	9,851	10,073	<b>10,325</b>	10,613	10,946	11,337
<b>8.8%</b>	10,021	10,238	10,485	10,766	11,089	11,466	11,909
<b>8.5%</b>	10,412	10,654	10,929	11,243	11,607	12,033	12,538
<b>8.3%</b>	10,833	11,101	11,408	11,761	12,172	12,655	13,233

Source: RHB

Figure 22: Indofood CBP's 3-year rolling forward P/E



Source: RHB

Figure 23: Valuation table - Indonesian consumer companies I

Name	BBG Ticker	Rating	Price (IDR)	TP (IDR)	Upside/ Downside (%)	Market Cap (USDm)	EPS Growth			PER			PBV		
							FY18F (%)	FY19F (%)	FY20F (%)	FY18F (x)	FY19F (x)	FY20F (x)	FY18F (x)	FY19F (x)	FY20F (x)
Unilever Indonesia	UNVR IJ	Buy	43,350	50,500	16.5	22,695	8.5	8.2	8.0	43.5	40.2	37.2	55.9	49.2	44.6
Indofood CBP	ICBP IJ	Buy	8,925	10,300	15.4	7,142	10.2	9.3	12.1	24.9	22.8	20.3	4.8	4.3	3.9
Mayora Indah	MYOR IJ	Buy	2,870	3,300	15.0	4,403	9.9	19.4	14.4	35.8	30.0	26.2	7.3	6.2	5.3
Nippon Indosari Corpindo	ROTI IJ	Neutral	940	860	-8.5	399	1.4	44.6	17.8	33.5	23.2	19.7	1.9	1.8	1.7
Kino Indonesia	KINO IJ	Not Rated	1,645	N/A	N/A	161	17.3	17.0	13.3	18.3	15.6	13.8	1.1	1.0	1.0
<b>Sector Weighted Average (excl. Unilever)</b>							<b>9.9</b>	<b>14.2</b>	<b>13.1</b>	<b>29.0</b>	<b>25.3</b>	<b>22.3</b>	<b>5.6</b>	<b>4.9</b>	<b>4.3</b>
<b>Sector Weighted Average</b>							<b>9.0</b>	<b>10.3</b>	<b>9.8</b>	<b>38.5</b>	<b>35.0</b>	<b>32.0</b>	<b>38.4</b>	<b>33.8</b>	<b>30.6</b>

Note: Closing price 23-Aug-18

Source: RHB, Bloomberg

Figure 24: Valuation table - Indonesian consumer companies II

Name	PEG			Yield			ROA			ROE								
	FY18F (x)	FY19F (x)	FY20F (x)	FY18F (%)	FY19F (%)	FY20F (%)	FY18F (%)	FY19F (%)	FY20F (%)	FY18F (%)	FY19F (%)	FY20F (%)						
Unilever Indonesia	5.1	4.9	4.6	2.0	2.2	2.5	40.8	43.6	44.6	138.2	130.2	125.7						
Indofood CBP	2.4	2.5	1.7	2.0	2.1	2.4	12.7	12.9	13.4	20.3	20.0	20.2						
Mayora Indah	3.0	1.5	1.6	0.8	0.8	0.8	13.0	14.1	13.5	22.1	22.0	22.1						
Nippon Indosari Corpindo	-54.4	0.7	4.8	0.6	0.6	0.6	3.5	5.8	7.0	5.7	7.8	8.7						
Kino Indonesia	1.1	0.9	1.0	0.5	0.5	0.5	3.7	3.9	4.2	6.2	6.9	7.3						
<b>Sector Weighted Average (excl. Unilever)</b>							<b>0.7</b>	<b>2.0</b>	<b>1.7</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>	<b>12.4</b>	<b>13.0</b>	<b>13.1</b>	<b>20.3</b>	<b>20.2</b>	<b>20.4</b>
<b>Sector Weighted Average</b>							<b>3.6</b>	<b>3.9</b>	<b>3.6</b>	<b>1.8</b>	<b>2.0</b>	<b>2.2</b>	<b>30.9</b>	<b>32.9</b>	<b>33.7</b>	<b>97.2</b>	<b>91.9</b>	<b>89.1</b>

Note: Closing price 23-Aug-18

Source: RHB, Bloomberg







## Appendix

**Figure 25: Indofood CBP's milestones**

Year	Description
1982	Started the noodles business.
1985	Started the nutrition and special foods business.
1990	Started the snack foods business through a joint venture with Fritolay Netherlands Holding B.V., an affiliate of PepsiCo.
1991	Started the food seasonings business.
2005	Started the biscuit business. Collaborated with Nestlé SA to market culinary products.
2008	Started the dairy business through the acquisition of Drayton Pte. Ltd., which owns a majority share of PT Indolakto ("Indolakto").
2013	Started the beverage business through a joint venture with Asahi Group Holdings Southeast Asia Pte. Ltd., established in 2012. Became an exclusive bottler for PepsiCo products.
2014	Entered into the packaged water business, through the acquisition of the Club brand. Expanded the dairy business through the acquisition of the Milkkuat brand.









Source: Company

**Figure 26: Board of commissioners**

Name	Position	Description
 Franciscus Welirang	President Commissioner	Mr. Welirang has been served as President Commissioner of Indofood CBP since 2015. He currently also serves as Vice President Director of Indocement, Commissioner of Unggul Indah Cahaya Director of Indofood Sukses Makmur, Chairman of Indonesian Public Listed Companies Association, Chairman of the Indonesian Flour Mills Association. Previously, he served as commissioner of ICBP, President Commissioner of Surabaya Stock Exchange. He is related to Mr. Anthoni Salim and Mr. Axton salim who are Directors of the Company, and also affiliated to the Company's substantial shareholder.
 Paulus Moleonoto	Commissioner	Mr. Moloenoto has been served as a Commissioner of Indofood CBP since 2009. Currently, he also serves as Director of Indofood Sukses Makmur and Executive Director of IndoAgri, Vice President Director of SIMP and President Commissioner of PP London Sumatera. Previously, he served as Vice President I of PP London Sumatera. He has no affiliation with BOC and BOD member or substantial shareholder of the company. He obtained his Master of Science Degree in Administration and Business Policy from university of Indonesia in 2001.
 Alamsyah	Commissioner	Mr. Alamsyah has been served as a Commissioner since 2009. Currently, he also serves as Commissioner of Cyberindo Aditama, and Director of Lajuperdana Indah. He has no affiliation with the members of the BOC, BOD or substantial shareholder of the Company. He obtained his Bachelor Arts Degree in Accounting from Parahyangan Catholic University in Bandung.
 F.G. Winarno	Independent Commissioner	Mr. Winarno has been served as Independent Commissioner of Indofood CBP since 2010. Currently, he serves as Independent Commissioner of Mustika Ratu. Previously, he was Rector of Atma Jaya Catholic University in Jakarta (2007-2011). He has no affiliation with the other members of the BOC, BOD, or substantial shareholder of the Company. He Obtained his Master of Science degree and a PhD in Food Science from the University of Massachusetts, USA, in 1968 and 1970
 Hans Kartikahadi	Independent Commissioner	Mr. Kartikahadi has been served as Independent Commissioner of Indofood CBP since 2015. Previously, he served as Independent Commissioner of Indofood (2013-2015). Mr. Kartikahadi was one of the founders of Public Accountants Section Indonesian Accountants Association ("IAI"), which is now known as Indonesian Institute of Public Accountants (IAPI). He has no affiliation with the members of the BOC, BOD, or substantial shareholder of the Company. Mr. Kartikahadi obtained a Doctorandus degree in Accountancy from the Faculty of Economics at the University of Indonesia in 1966.
 A. Prijohandojo Kristanto	Independent Commissioner	Mr. Kristanto has been served as Independent Commissioner since 2016. He also serves as Chairman of PB Taxand, Chairman of Tax Committee at the Indonesian Employers Association and Commissioner of Sentul City. Previously, He served as the Chairman of the Tax Committee at the Indonesian Chamber of Commerce and Industry. He has no affiliation with the members of the BOC, BOD or substantial shareholder of the Company. Mr. Kristanto obtained a Bachelor of Laws degree from the University of 17 Agustus in Jakarta in 2014, and a Bachelor of Economics degree from Tarumanagara University in Jakarta in 1977.

Source: Company

Figure 27: Board of directors

Name	Position	Description
 Anthoni Salim	President Director	Mr. Anthoni Salim has been served as President Director since 2009. Currently, he also serves as President Director of Indofood Sukses Makmur, President Commissioner of FFI, Chairman of First Pacific and member of the Asia Business Council. Previously, He served as Director of First Pacific (1981-2003). He is related to Mr. Franciscus Welirang and Mr. Axton Salim who are Directors of the company and also affiliated to the Company's substantial shareholder.
 Tjhie Tje Fie (Thomas Tjhie)	Director	Mr. Tjhie has been served as director of Indofood ICBP since 2009. Currently, he also serves as Director of Indofood Sukses Makmur, Non-Executive Director of SIndoAgri, President Commissioner of SIMP. Previously, he served as Director of PP London Sumatera (2007-2014) and Indomiwon Citra Inti (1993-2000). He has no affiliation with BOC and BOD member or substantial shareholder of the company. He obtained his Bachelor's Degree in Accounting from Perbanas Institute.
 Taufik Wiraatmadja	Director	Mr. Wiraatmadja has been served as Director of Indofood CBP since 2009. Currently, he also serves as Director of Indofood and Commissioner of SIMP. He has no affiliation with the members of the BOD or BOC, but is affiliated to the Company's substantial shareholder. He obtained a Master of Business Administration degree from the GS FAME Institute of Business in 1988.
 Axton Salim	Director	Mr. Axton Salim has been served as Director Indofood CBP since 2009. Currently, he also serves as Director of Indofood Sukses Makmur, Non-Executive Director of IndoAgri and Gallant Venture Ltd, Commissioner of PP London Sumatera and SIMP, Director of Art and Photography Centre Ltd. Previously, he served as Assistant CEO of Indofood (2007-2009). He related to Mr. Anthoni Salim and Mr. Franciscus Welirang, who are Directors of the company and also affiliated with the Company's substantial shareholder. He obtained his bachelor of Science in Business Administration from university of Colorado, US in 2002.
 Joedianto Soerjonopoetro	Director	Mr. Soejonopoetro was appointed as Director of Indofood CBP since 2018. Currently, he also serves as Director of Indofood sukses Makmur, President director of IAP and Putridaya Usahatama. Prior to that, He was the Cief Operation Officer of Pebapan. He has no affiliation with BOC and BOD member or substantial shareholder of the company. He obtained his bachelor degree of economics from Parahyangan University.
 Hendra Widjaja	Director	Mr. Hendra Widjaja has been served as Director of Indofood CBP SINCE 2009. Currently, he also serves as Director of Indofood Sukses Makmur as head of Corporate Controller Division of the Company, Commissioner of Salim Invomas Pratama, Commissioner of PP London Sumatera, Director of indolakto, Anugerah indoffod Barokah Makmur and Tirta Sukses Perkasa. He previously served as a Director and CFO of indomarco Adiprima. He Obtained a Bachelor's degree in Management and Finance from Chatolic University of Atma Jaya in 1986
 Suaimi Suriady	Director	Mr. Suriady has been served as Director of Indofood CBP since 2009. Currently, he also serves as Director of SIMP and Executive Director of IndoAgri. He has no affiliation with members of the BOD, BOC, or substantial shareholder of the Company. He obtained a Master of Business Administration degree from De Montfort University in UK in 2000.
 T. Eddy Hariyanto	Director	Mr. Hariyanto was appointed as a Director of Indofood ICBP group in 2018. Previously, he served as Director of PP London Sumatera and Operation and Production Director of Wenang Sakti. He obtained his Bachelor's degree in Civil Engineer from Christian University of Indonesia in 1983

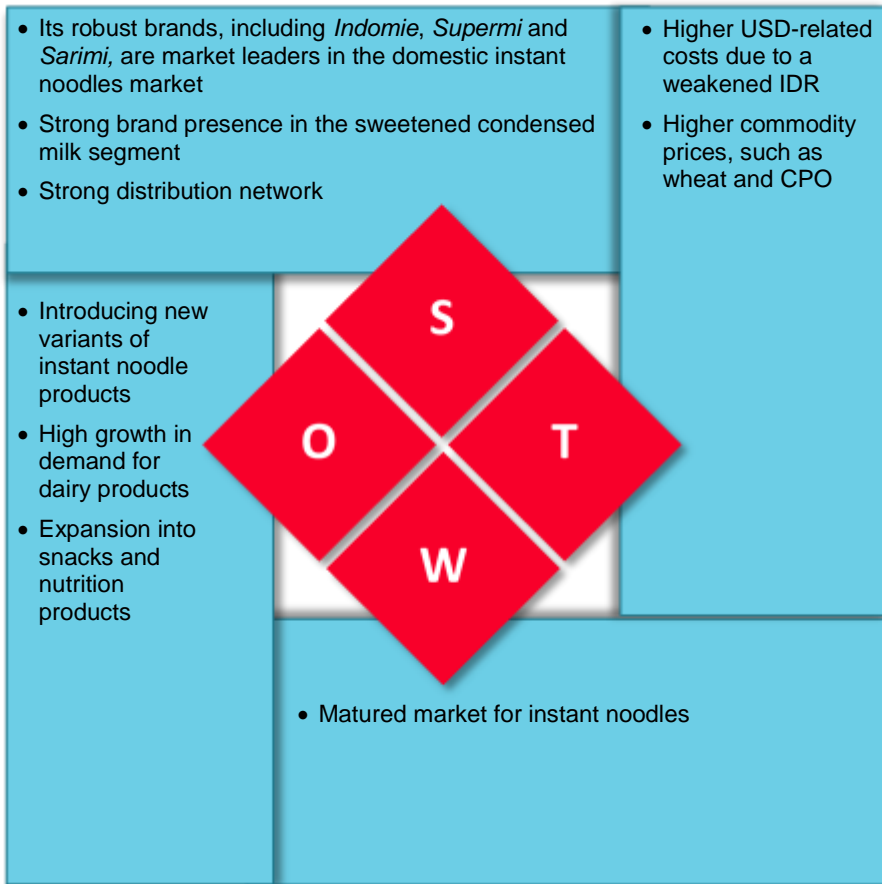
Source: Company

Figure 28: Indofood CBP's brands



Source: Company

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-08-01	Buy	9,500	8,725
2018-03-21	Buy	9,500	8,600
2017-11-08	Buy	9,700	8,500
2017-07-30	Buy	10,300	8,475
2016-08-21	Buy	10,200	9,025
2016-05-02	Buy	16,800	7,650
2016-03-29	Buy	16,800	7,513
2015-11-02	Buy	16,300	6,563
2015-08-03	Buy	16,300	6,325
2015-03-22	Buy	16,300	7,550

Source: RHB, Bloomberg

24 August 2018

Consumer Non-cyclical | Household Products

## Unilever Indonesia

### Attractive Valuation Below 2SD; Upgrade To BUY

**Upgrade to BUY from Neutral with a higher DCF-based IDR50,500 TP from IDR47,700, 16% upside. Our TP implies 47-43x FY19F-20F P/E. Unilever is now attractively trading below 2SD. Improved domestic consumer spending – driven by higher government subsidies – is a catalyst for the share price. We believe that it is aiming to gain market share, as our ground checks suggest its retail prices are now closer to peers. More aggressive product launches should also be positive. Gains from a 3Q asset divestment may lead to a special dividend.**

**Attractively trading below 2SD.** The improvement in domestic consumer spending – driven by higher government subsidies – is a catalyst for Unilever Indonesia's share price. The Government's conditional cash transfer subsidy recipients have increased and public servants' salaries are to be raised by 5%, on average. As one of Indonesia's largest FMCG, Unilever should be one of key beneficiaries of better national consumption.

**Aiming to gain market share.** Our ground checks suggest that Unilever's retail prices – especially for detergent products – are now closer to those of its peers. Previously, it priced its detergent at a premium to peers. We think this flat retail selling price strategy is likely to increase market share.

**More innovative new products in 2Q.** Unilever launched and re-launched 24 new products in 2Q18 (1Q18: six launches). These include 17 products in the Home Personal Care (HPC) segment, with the remaining seven from the food & refreshment sector. These new products have better added value besides offering improved prices and profit margins. We see this more aggressive new products launch/re-launch strategy as being positive for the company.

**We expect Unilever to book a one-time gain of IDR2.28-2.66trn in FY18 (30-35% of FY18F earnings)** from the divestment of food spreads business – it carries an estimated total transaction value of IDR2.92trn. We note that the transaction value on the food spreads wing's intangible assets divestment – at IDR2.66trn – is much higher than Unilever's intangible assets book value of IDR380bn as at 30 Jun. We have not factored the divestment gains into our net profit forecast due to limited disclosure on the book value of the food spreads business' assets. This divestment gain may also lead to a special dividend (see our 26 Jun [Divestment Gain May Lead To Special Dividend](#) report for details).

**Upgrade to BUY from Neutral with a DCF-based IDR50,500 TP**, which reflects 47-43x FY19F-20F P/E or near to its 3-year average rolling forward P/E. We maintain our earnings estimates, however, after rolling forward our valuation base to FY19's estimated cash flow. Key downside risks to our call include a weakened IDR, which would lift production costs. However, we believe Unilever still has room to pass on cost increases by raising selling prices. Our ground checks suggest there has been no major retail price hike on Unilever products YTD.

**Buy** (from Neutral)

Target Price: IDR50,500  
 Price: IDR43,350  
 Market Cap: USD22,695m  
 Bloomberg Ticker: UNVR IJ

#### Share Data

Avg Daily Turnover (IDR/USD) 78,856m/5.57m  
 52-wk Price low/high (IDR) 40,800 - 55,900  
 Free Float (%) 15  
 Shares outstanding (m) 7,630  
 Estimated Return 16%

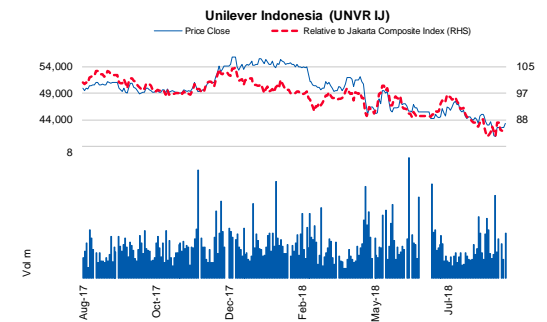
#### Shareholders (%)

Unilever Indonesia Holding BV 85.0

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(22.5)	(2.6)	(6.6)	(20.4)	(13.2)
Relative	(16.0)	(3.1)	(9.2)	(10.2)	(13.7)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (IDRb)	40,054	41,205	44,295	47,617	51,188
Reported net profit (IDRb)	6,391	7,005	7,601	8,226	8,884
Recurring net profit (IDRb)	6,391	7,005	7,601	8,226	8,884
Recurring net profit growth (%)	9.2	9.6	8.5	8.2	8.0
Recurring EPS (IDR)	838	918	996	1,078	1,164
DPS (IDR)	799	873	886	974	1,073
Recurring P/E (x)	51.8	47.2	43.5	40.2	37.2
P/B (x)	71.8	65.1	55.9	49.2	44.6
P/CF (x)	49.2	48.2	39.7	38.7	34.1
Dividend Yield (%)	1.8	2.0	2.0	2.2	2.5
EV/EBITDA (x)	36.1	33.3	30.1	28.1	26.4
Return on average equity (%)	136.9	144.6	138.2	130.2	125.8
Net debt to equity (%)	42.9	58.9	43.5	39.2	30.8
Our vs consensus EPS (adjusted) (%)			(1.8)	2.8	4.7

Source: Company data, RHB

#### Analyst

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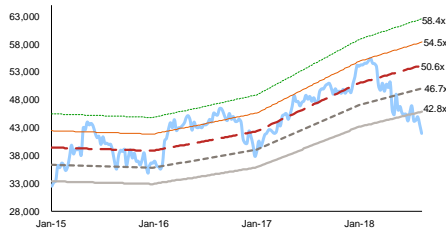
[andrey.wijaya@rhbgroupp.com](mailto:andrey.wijaya@rhbgroupp.com)





## Financial Exhibits

Financial model updated on: 2018-08-20

Asia		<b>Financial summary</b>					
Indonesia		<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	
Consumer Non-cyclical		Recurring EPS (IDR)	838	918	996	1,078	1,164
<b>Unilever Indonesia</b>		EPS (IDR)	838	918	996	1,078	1,164
Bloomberg UNVR IJ		DPS (IDR)	799	873	886	974	1,073
<b>Buy</b>		BVPS (IDR)	604	665	776	880	972
		Weighted avg adjusted shares (m)	7,630	7,630	7,630	7,630	7,630
<b>Valuation basis</b>		<b>Valuation metrics</b>					
DCF, assuming a WACC of 9% and a TG rate of 5%.		<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	
<b>Key drivers</b>		Recurring P/E (x)	51.8	47.2	43.5	40.2	37.2
Accelerating earnings growth, on the back of:		P/E (x)	51.8	47.2	43.5	40.2	37.2
i. Higher consumer spending that should be boosted by softer inflation;		P/B (x)	71.8	65.1	55.9	49.2	44.6
ii. Improved operating efficiencies.		FCF Yield (%)	1.5	1.7	2.2	2.2	2.6
<b>Key risks</b>		Dividend Yield (%)	1.8	2.0	2.0	2.2	2.5
i. Slower-than-expected economic growth;		EV/EBITDA (x)	36.1	33.3	30.1	28.1	26.4
ii. A weakening IDR.		EV/EBIT (x)	38.2	35.1	31.7	29.4	27.2
<b>Company Profile</b>		<b>Income statement (IDRb)</b>					
Unilever Indonesia manufactures soaps, detergents, margarine, oil and dairy based foods, tea based beverages, ice cream, and cosmetics		<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	
		Total turnover	40,054	41,205	44,295	47,617	51,188
		Gross profit	20,459	21,220	23,150	24,804	26,690
		EBITDA	9,226	10,020	11,058	11,883	12,619
		Depreciation and amortisation	(519)	(515)	(542)	(531)	(389)
		Operating profit	8,707	9,505	10,516	11,352	12,230
		Net interest	(136)	(124)	(328)	(318)	(314)
		Pre-tax profit	8,572	9,372	10,195	11,034	11,916
		Taxation	(2,181)	(2,367)	(2,594)	(2,808)	(3,032)
		Recurring net profit	6,391	7,005	7,601	8,226	8,884
<b>Unilever's 3-year rolling forward P/E</b>		<b>Cash flow (IDRb)</b>					
		<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	
		Change in working capital	(162)	(725)	202	(219)	435
		Cash flow from operations	6,719	6,858	8,337	8,538	9,708
		Capex	(1,706)	(1,389)	(1,157)	(1,162)	(1,168)
		Cash flow from investing activities	(1,570)	(1,323)	(1,157)	(1,162)	(1,168)
		Dividends paid	(6,096)	(6,658)	(6,759)	(7,429)	(8,186)
		Cash flow from financing activities	(5,403)	(5,601)	(6,859)	(7,429)	(8,186)
		Cash at beginning of period	628	374	405	733	680
		Net change in cash	(254)	(66)	321	(54)	354
		Ending balance cash	374	308	726	680	1,033
		<b>Balance sheet (IDRb)</b>					
		<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	
		Total cash and equivalents	374	405	733	680	1,033
		Tangible fixed assets	9,529	10,422	11,037	11,668	12,447
		Total other assets	628	543	543	543	543
		Total assets	16,746	18,906	18,069	19,042	19,956
		Short-term debt	2,393	3,450	3,350	3,350	3,350
		Other liabilities	1,163	1,201	1,201	1,201	1,201
		Total liabilities	12,041	13,733	12,055	12,230	12,447
		Shareholders' equity	4,608	5,077	5,919	6,716	7,413
		Total equity	4,704	5,173	6,015	6,812	7,509
		Net debt	2,019	3,045	2,617	2,670	2,317
		Total liabilities & equity	16,746	18,906	18,069	19,042	19,956
		<b>Key metrics</b>					
		<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	
		Revenue growth (%)	9.8	2.9	7.5	7.5	7.5
		Recurrent EPS growth (%)	9.2	9.6	8.5	8.2	8.0
		Gross margin (%)	51.1	51.5	52.3	52.1	52.1
		Operating EBITDA margin (%)	23.0	24.3	25.0	25.0	24.7
		Net profit margin (%)	16.0	17.0	17.2	17.3	17.4
		Capex/sales (%)	4.3	3.4	2.6	2.4	2.3
		Interest cover (x)	60.8	74.4	31.6	35.1	37.9

Source: Company data, RHB, Bloomberg

## Ground Checks On Unilever's Retail Selling Prices

### Detergent retail prices have been flat

In Jul 2018, we saw that detergent retail prices stayed relatively unchanged MoM. Unilever reduced the average retail price of its detergents *Rinso* and *Surf* by 2.5% and 7.4% QoQ, while Kao raised the price of its *Attack Jaz1* by 9.6% QoQ. As a result, the difference between the retail prices of *Rinso* and *Surf* and its peers – *Daia* and *Attack* – narrowed. We believe Unilever is likely to change its strategy – focusing on growing market share and sales volume instead of improving EBIT margins.

Figure 1: Breakdown of retail prices for detergents and softeners (IDR)

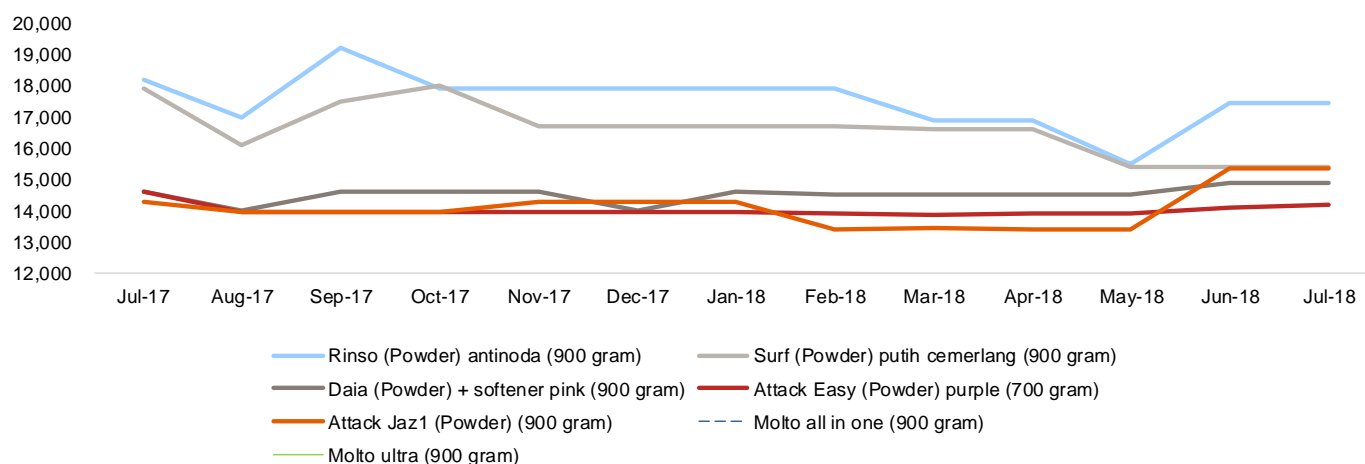
	Size (gram)	Jul-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
<b>Unilever</b> Rinso (Powder) antinoda	900	18,200	17,900	17,900	16,900	16,900	15,500	17,450	17,450	0.0%	-2.5%	2.7%
<b>Unilever</b> Surf (Powder) putih cemerlang	900	17,900	16,700	16,700	16,600	16,600	15,400	15,400	15,400	0.0%	-7.4%	-4.3%
<b>Wings</b> Daia (Powder) + softener pink	900	14,600	14,600	14,500	14,500	14,500	14,500	14,900	14,900	0.0%	1.8%	6.5%
<b>Kao</b> Attack Easy (Powder) purple	700	14,600	13,950	13,900	13,850	13,900	13,900	14,100	14,200	0.7%	1.3%	1.8%
<b>Kao</b> Attack Jaz1 (Powder)	900	14,300	14,300	13,400	13,450	13,400	13,400	15,350	15,350	0.0%	9.6%	10.0%
<b>Unilever</b> Rinso matic top load	800	24,900	18,900	18,900	18,900	18,900	18,900	18,500	18,500	0.0%	-1.4%	-34.7%
<b>Unilever</b> Molto all in one	900	27,900	25,150	25,200	24,500	25,200	25,200	27,900	27,900	0.0%	8.1%	10.5%
<b>Unilever</b> Molto ultra	900	28,100	26,425	26,700	25,800	26,700	26,700	27,050	27,050	0.0%	2.0%	1.1%

Note: QoQ change refers to average Feb-Apr 2018 retail prices vs average May-Jul 2018 retail prices

Note 2: YoY change refers to Jul 2017 retail prices vs Jul 2018

Source: RHB

Figure 2: Retail price trends for detergents and softeners (IDR)



Source: RHB

### Retail price trends for soap

In the last one year, Unilever's retail price for soap saw a major decline. This trend is similar on a quarterly basis. At the same time, peers such as Reckitt Benckiser, Kao and Wings have increased retail prices for selective products. This is in line with Nielsen's retail audit survey, which reported that the selling prices of domestic toiletries soap increased by 1.3% YoY on average in 1H18. Unilever's lower retail price strategy is likely to increase its market share, in our view.

**Figure 3: Breakdown of retail prices for soap (IDR)**

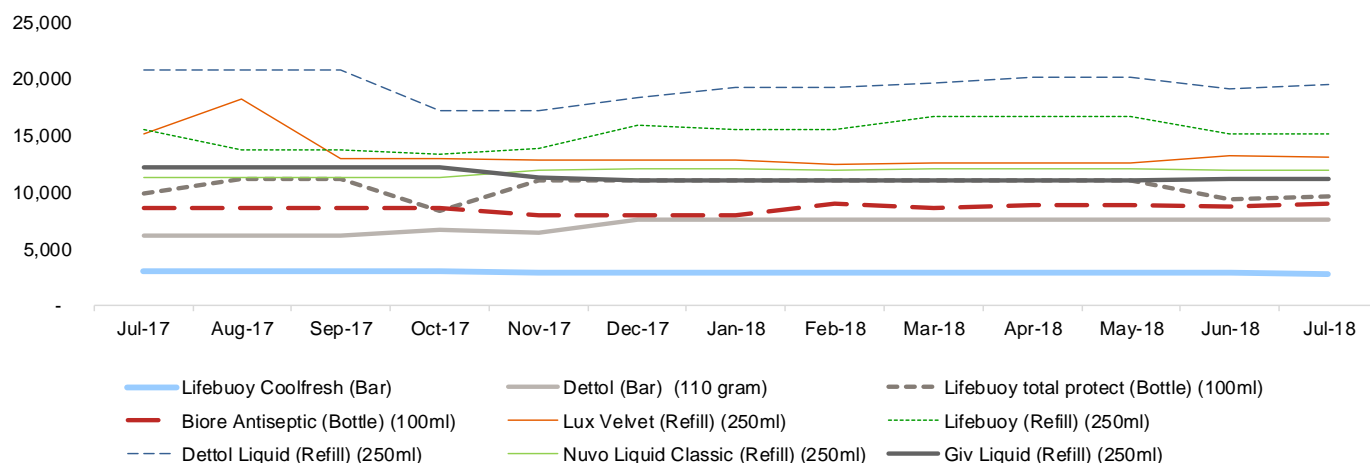
	Size (gram/ml)	Jul-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
<b>Unilever</b>	Lifebuoy Coolfresh (Bar)	3,075	2,900	2,900	2,900	2,900	2,900	2,850	2,750	-3.5%	-2.3%	-10.6%
<b>Reckitt Benckiser</b>	Dettol (Bar)	110	6,117	7,600	7,600	7,600	7,600	7,600	7,600	0.0%	0.0%	24.3%
<b>Unilever</b>	Lifebuoy total protect (Bottle)	100	9,850	11,100	11,100	11,100	11,100	9,400	9,600	2.1%	-9.6%	-13.9%
<b>Kao</b>	Biore Antiseptic (Bottle)	100	8,650	8,000	8,950	8,600	8,800	8,800	8,775	2.6%	0.9%	4.0%
<b>Unilever</b>	Lux Velvet (Refill)	250	15,200	12,900	12,500	12,600	12,600	13,250	13,100	-1.1%	3.3%	-28.2%
<b>Unilever</b>	Lifebuoy (Refill)	250	15,550	15,500	15,500	16,700	16,700	15,150	15,200	0.3%	-3.8%	10.5%
<b>Reckitt Benckiser</b>	Dettol Liquid (Refill)	250	20,775	19,300	19,300	19,600	20,100	20,100	19,500	2.1%	-0.5%	-6.1%
<b>Wings</b>	Nuvo Liquid Classic (Refill)	250	11,300	12,050	12,000	12,100	12,100	12,000	12,000	0.0%	-0.3%	6.2%
<b>Wings</b>	Giv Liquid (Refill)	250	12,175	11,100	11,100	11,000	11,000	11,200	11,200	0.0%	0.9%	-8.0%

Note: QoQ change refers to average Feb-Apr 2018 retail prices vs average May-Jul 2018 retail prices

Note 2: YoY change refers to Jul 2017 retail prices vs Jul 2018

Source: RHB

**Figure 4: Retail price trends for soap (IDR)**



Source: RHB

24 August 2018

Consumer Non-cyclical | Household Products

### Toothpaste retail prices have been increased

In Jul 2018, Unilever increased the retail prices of its toothpaste products from the *Pepsodent* and *Close Up* brands, raising them 5-34% MoM. On a yearly basis, the company's retail selling price for toothpaste increased in the range of 0.6-6.9% YoY, faster than its peers. Lion Wings reduced *Ciptadent*'s retail price by 8.3% while GlaxoSmithKline increased *Sensodyne*'s price by a mere 2% YoY.

Figure 5: Breakdown of retail prices for toothpaste (IDR)

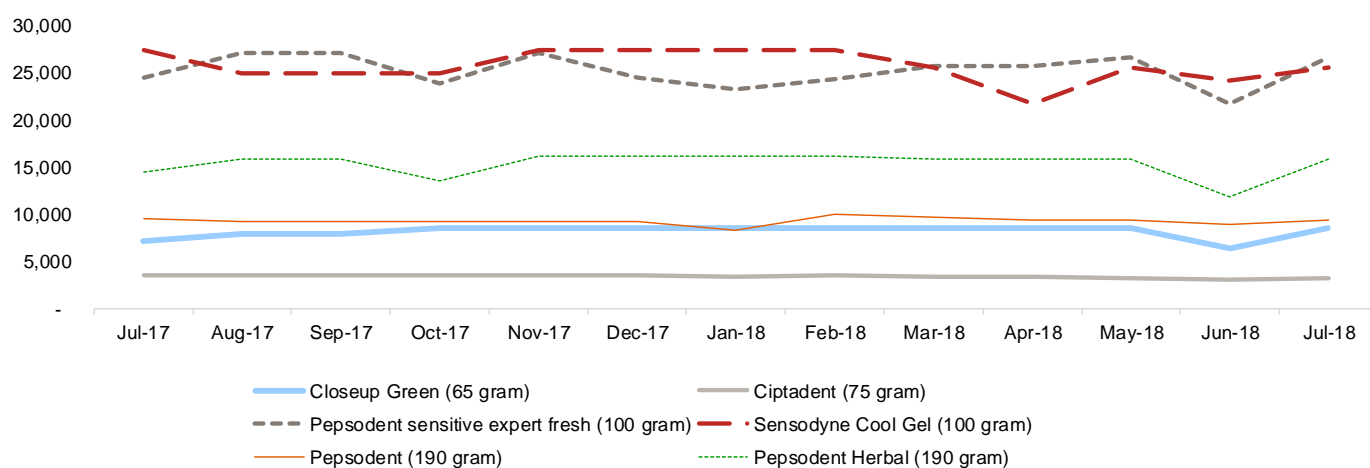
		Size (gram)	Jul-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
Unilever	Closeup Green	65	7,200	8,550	8,500	8,500	8,500	8,500	6,450	8,500	31.8%	-8.0%	6.9%
Lion Wings	Ciptadent	75	3,600	3,390	3,500	3,400	3,400	3,300	3,050	3,300	8.2%	-6.3%	-8.3%
Unilever	Pepsodent sensitive expert fresh	100	24,550	23,275	24,400	25,800	25,800	26,700	21,700	26,700	23.0%	-1.2%	-1.3%
Glaxosmithkline	Sensodyne Cool Gel	100	27,400	27,500	27,500	25,500	21,675	25,500	24,250	25,500	5.2%	0.8%	2.0%
Unilever	Pepsodent	190	9,600	8,275	10,000	9,765	9,400	9,400	8,950	9,400	5.0%	-4.9%	2.2%
Unilever	Pepsodent Herbal	190	14,500	16,100	16,100	15,900	15,900	15,900	11,890	15,900	33.7%	-8.8%	0.6%

Note: QoQ change refers to average Feb-Apr 2018 retail prices vs average May-Jul 2018 retail prices

Note 2: YoY change refers to Jul 2017 retail prices vs Jul 2018

Source: RHB

Figure 6: Retail price trends for toothpaste (IDR)



Source: RHB

**Ice cream retail prices still flat**

Our ground checks suggest that ice cream retail prices have been largely flat. Both Unilever and Campina have maintained their prices, although the former has been aggressively marketing its small-sized ice cream packs. This is evidenced by the unchanged MoM prices for Unilever's *Walls* ice cream.

**Figure 7: Breakdown of ice cream retail prices by product (IDR)**

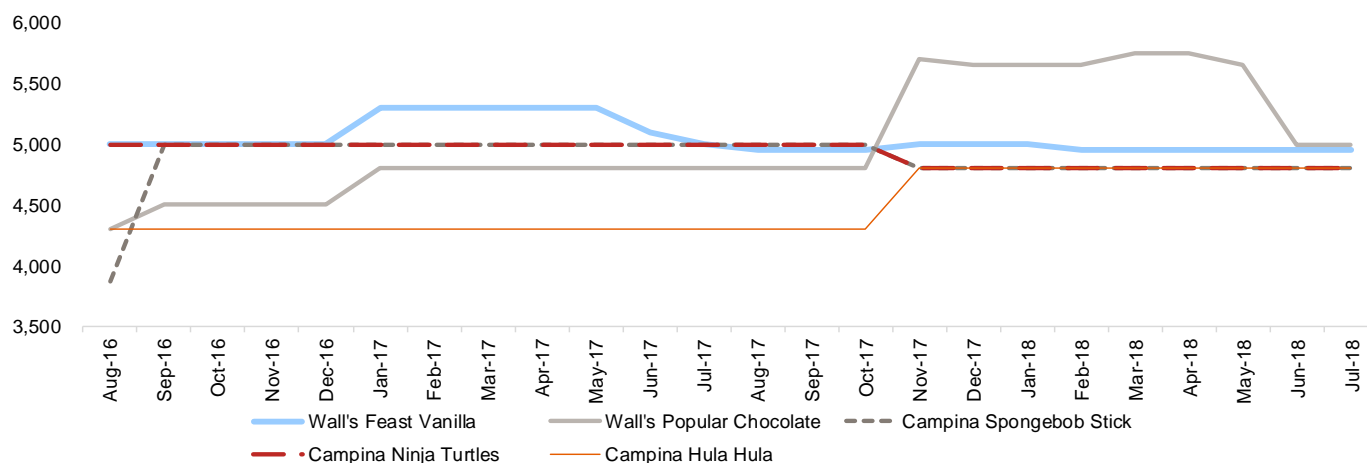
	Size (ml)	Jul-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
<b>Unilever</b>	Wall's Selection Cookies & Cream	1 pcs	26,300	29,750	29,750	29,750	29,750	29,750	29,750	29,750	0.0%	0.0%	9.0%
<b>Unilever</b>	Wall's Feast Vanilla	1 pcs	5,000	5,000	5,000	4,950	4,950	4,950	4,950	4,950	0.0%	0.0%	-3.3%
<b>Unilever</b>	Wall's Cornetto	1 pcs	10,100	9,000	10,000	9,000	9,000	9,450	9,450	9,450	0.0%	5.0%	5.1%
<b>Unilever</b>	Wall's Popular Chocolate	1 pcs	4,800	5,650	5,650	5,650	5,750	5,650	5,000	5,000	0.0%	-8.7%	14.8%
<b>Campina</b>	Campina Spongebob Stick	70ml	5,000	4,800	4,800	4,800	4,800	4,800	4,800	4,800	0.0%	0.0%	-1.1%
<b>Campina</b>	Campina Ninja Turtles	90ml	5,000	4,800	4,800	4,800	4,800	4,800	4,800	4,800	0.0%	0.0%	-3.0%
<b>Campina</b>	Campina Hula Hula	90ml	4,300	4,800	4,800	4,800	4,800	4,800	4,800	4,800	0.0%	0.0%	8.7%

Note: QoQ change refers to average Feb-Apr 2018 retail prices vs average May-Jul 2018 retail prices

Note 2: YoY change refers to average Aug 2016-Jul 2017 retail prices vs average Aug 2017-Jul 2018 retail prices

Source: RHB

**Figure 8: Ice cream retail price trends (IDR)**



Source: RHB

Figure 9: Unilever new products launch/re-launched

Month	No	Product	Remark	Division	Product Knowledge
January	1	Cornetto	Launching	Ice Cream	Cornetto 5,000
February	2	Bango	Launching	Foods	Launch Bango Light
	3	Superpell	Relaunching	Home Care	Super Pell Relaunch
	4	Dove Deo Whitening	Launching	Personal Care	Go Fresh - Launch of Dove Deo Whitening
March	5	Sunlight	Relaunching	Home Care	Relaunch Sunlight Lime with Habatussauda
	6	Ponds	Launching	Personal Care	Ponds Instabright tone up milk cream
April	7	Ponds	Launching	Personal Care	Ponds Age Miracle 20gr
	8	Fair & Lovely	Launching	Personal Care	Fair & Lovely Powder Cream Launch
	9	Pepsodent	Launching	Personal Care	Pepsodent Big Pack Launch
	10	Rexona	Launching	Personal Care	Mass Attack - Rexona Antibac + Invisible
	11	Lifebuoy	Launching	Personal Care	Lifebuoy Kasturi
	12	Close Up	Launching	Personal Care	Close up white attraction
	13	Citra	Launching	Personal Care	Citra Nourishing White UV
	14	Magnum	Launching and Relaunching	Ice Cream	Magnum Hazelnut and Magnum core with Natural Flavor
	15	Feast	Relaunching	Ice Cream	Feast Relaunching
	16	Paddle Pop	Launching	Ice Cream	Paddle Pop Twister Marshmallow
May	17	Paddle Pop	Launching	Ice Cream	Paddle Pop Fruity Shots and Yakoo
	18	Pepsodent Tooth Brush	Launching	Personal Care	Pepsodent Bamboo Salt
	19	Bango	Relaunching	Home Care	Bango Pedas Rawit
	20	Molto	Relaunching	Home Care	Molto Relaunching
	21	Pepsodent	Relaunching	Personal Care	Pepsodent Travel Kit
	22	Citra	Relaunching	Personal Care	Citra Face Care Relaunching
	23	Wipol	Relaunching	Home Care	Wipol Relaunching
	24	Sunsilk	Launching	Personal Care	Sunsilk Naturals
	25	Rinso	Relaunching	Home Care	Rinso Matic Relaunch
	June	26	Rinso	Launching and Relaunching	Home Care
27		Lux	Launching	Personal Care	Lux new variant - Lavender
28		Axe	Launching	Personal Care	Axe You Cool Charge
29		Dove Shampoo	Launching	Personal Care	Dove Naturals
30		Rexona	Launching	Personal Care	Rexona Mini RO

Source: Company data

## Valuation

Figure 10: Unilever's DCF valuation

(IDRbn)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	TG
	1	2	3	4	5	6	7	8	9	10	
EBIT	11,352	12,230	13,464	15,157	16,636	18,331	20,197	22,483	24,968	27,746	
Tax paid	(2,889)	(3,112)	(3,427)	(3,857)	(4,234)	(4,665)	(5,140)	(5,722)	(6,354)	(7,061)	
Depreciation	531	389	285	299	314	330	347	364	382	401	
Capex	(1,162)	(1,168)	(1,174)	(1,180)	(1,186)	(1,192)	(1,198)	(1,204)	(1,210)	(1,216)	
Change in working capital	(219)	435	(236)	(140)	(289)	(318)	(350)	(423)	(469)	(521)	
<b>FCF</b>	<b>7,612</b>	<b>8,774</b>	<b>8,913</b>	<b>10,280</b>	<b>11,242</b>	<b>12,486</b>	<b>13,856</b>	<b>15,499</b>	<b>17,317</b>	<b>19,349</b>	<b>508,468</b>
PV FCF	6,984	7,385	6,883	7,283	7,308	7,447	7,582	7,781	7,976	8,177	
Sum of PV FCF	167,600										
PV of TG	214,867										
Net present value	382,467										
Net debt	(2,617)										
DCF value	385,083										
<b>DCF per share (IDR)</b>	<b>50,500</b>										

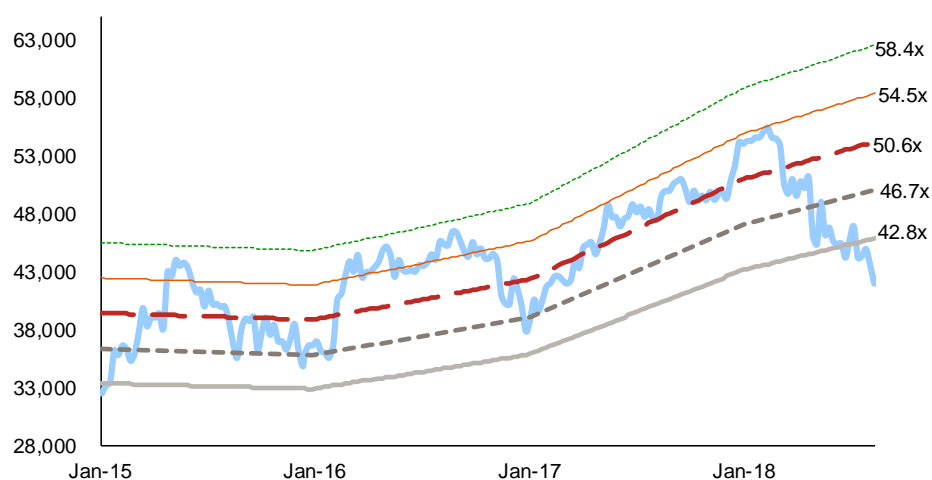
Source: RHB

Figure 11: Unilever's equity value – DCF sensitivity analysis

WACC	Terminal value of growth						
	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%
8.4%	50,922	53,030	55,455	58,513	62,097	66,420	72,007
8.6%	48,708	50,605	52,925	55,561	58,829	62,730	67,579
8.8%	46,705	48,497	50,500	52,925	55,771	59,251	63,573
9.0%	44,807	46,388	48,286	50,500	53,030	56,088	59,883
9.2%	43,015	44,491	46,177	48,181	50,500	53,241	56,615
9.4%	41,328	42,698	44,280	46,072	48,075	50,605	53,663
9.6%	39,746	41,011	42,382	44,069	45,967	48,181	50,816

Source: RHB

Figure 12: Unilever's 3-year rolling forward P/E



Source: RHB

Figure 13: Valuation table – Indonesian consumer companies 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	Buy	43,350	50,500	16.5	22,695	8.5	8.2	8.0	43.5	40.2	37.2	55.9	49.2	44.6
Indofood CBP	ICBP IJ	Buy	8,925	10,300	15.4	7,142	10.2	9.3	12.1	24.9	22.8	20.3	4.8	4.3	3.9
Mayora Indah	MYOR IJ	Buy	2,870	3,300	15.0	4,403	9.9	19.4	14.4	35.8	30.0	26.2	7.3	6.2	5.3
Nippon Indosari Corpindo	ROTI IJ	Neutral	940	860	-8.5	399	1.4	44.6	17.8	33.5	23.2	19.7	1.9	1.8	1.7
Kino Indonesia	KINO IJ	Not Rated	1,645	N/A	N/A	161	17.3	17.0	13.3	18.3	15.6	13.8	1.1	1.0	1.0
<b>Sector Weighted Average (excl. Unilever)</b>							<b>9.9</b>	<b>14.2</b>	<b>13.1</b>	<b>29.0</b>	<b>25.3</b>	<b>22.3</b>	<b>5.6</b>	<b>4.9</b>	<b>4.3</b>
<b>Sector Weighted Average</b>							<b>9.0</b>	<b>10.3</b>	<b>9.8</b>	<b>38.5</b>	<b>35.0</b>	<b>32.0</b>	<b>38.4</b>	<b>33.8</b>	<b>30.6</b>

Note: Closing price 23 Aug 2018

Source: RHB, Bloomberg

Figure 14: Valuation table – Indonesian consumer companies II

Name	PEG			Yield			ROA			ROE		
	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F
Unilever Indonesia	5.1	4.9	4.6	2.0	2.2	2.5	40.8	43.6	44.6	138.2	130.2	125.7
Indofood CBP	2.4	2.5	1.7	2.0	2.1	2.4	12.7	12.9	13.4	20.3	20.0	20.2
Mayora Indah	3.0	1.5	1.6	0.8	0.8	0.8	13.0	14.1	13.5	22.1	22.0	22.1
Nippon Indosari Corpindo	-54.4	0.7	4.8	0.6	0.6	0.6	3.5	5.8	7.0	5.7	7.8	8.7
Kino Indonesia	1.1	0.9	1.0	0.5	0.5	0.5	3.7	3.9	4.2	6.2	6.9	7.3
<b>Sector Weighted Average (excl. Unilever)</b>												
<b>Sector Weighted Average</b>												
	<b>0.7</b>	<b>2.0</b>	<b>1.7</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>	<b>12.4</b>	<b>13.0</b>	<b>13.1</b>	<b>20.3</b>	<b>20.2</b>	<b>20.4</b>
	<b>3.6</b>	<b>3.9</b>	<b>3.6</b>	<b>1.8</b>	<b>2.0</b>	<b>2.2</b>	<b>30.9</b>	<b>32.9</b>	<b>33.7</b>	<b>97.2</b>	<b>91.9</b>	<b>89.1</b>

Note: Closing price 23 Aug 2018

Source: RHB, Bloomberg



## Appendix

**Figure 15: Unilever's milestones**

Year	Description
1933	Unilever was established in Angke, Jakarta, under the name Lever's Zeepfabrieken N.V.
1936	Blue Band margarine and Lux soap were sold for the first time in Indonesia.
1982	Unilever Indonesia listed 15% of its shares on the Indonesia Stock Exchange, becoming a public company.
1992	Unilever marked the opening of the Wall's ice cream factory in Cikarang with the launch of Conello and Paddle Pop.
2004	Knorr Indonesia was acquired from Unilever Overseas Holding Ltd and merged with Unilever Indonesia. Unilever relocated their hair care factory from Rungkut to Cikarang.
2008	Unilever opened their new Skin Care factory, the largest in Asia, in Cikarang. Unilever acquired Buavita and Gogo and made first entry into the fruit juice business in Indonesia. SAP was rolled out throughout our operations in Indonesia.
2012	Unilever passed an important milestone by registering more than €2 billion in sales, having doubled the business within five years.
2013	Celebrated 80 years of Unilever Indonesia by launching Project Sunlight, aimed at inspiring people to create a brighter future for children, and for future generations.
2014	Unilever launched the 'Bitobe for Indonesia' programme as part of Lifebuoy's commitment to support a healthier Indonesia, which has been running for a decade.
2015	Unilever opened its 9th production facility, a 6-hectare Foods factory, in Cikarang. It has an annual production capacity of 7 million units of seasonings and savoury.
2016	Unilever started to move to the new Head Office in BSD City, Tangerang, which was built on a 3-hectare site to green specifications. The office houses around 1,500 employees and was inaugurated in 2017
2017	Unilever commemorated 35 years of UNVR shares being listed on the Indonesia Stock Exchange. During that period, the Company's shares have shown excellent performance, increasing more than 1,570 times since the IPO, and the Company's assets have also grown more than 110-fold.






Source: Company

**Figure 16: Unilever's products variants**













Source: Company

Figure 17: Unilever's board of commissioners

Name	Position	Description
 Maurits Daniel Rudolf Lalisang	President Commissioner & Member of Nomination and Remuneration Committee	Mr. Lalisang has been appointed as President Commissioner since 2014. Prior to that, he was the Unilever's President Director from 2004 until 2014. He has held several other senior posts in the Company, including Corporate Relations Director (2003-2004), Foods Director (2000-2003), Home Care Director (1999-2000) and Sales Director (1997-1999). He obtained his bachelor degree in business administration from the University of Indonesia in 1978 and in 2001 he attended the Advanced Executive Programme at the Kellogg Graduate School of Management of the University of Chicago, USA.
 Mahendra Siregar	Independent Commissioner & Chairman of Nomination and Remuneration Committee	Mr. Siregar has been appointed as a Commissioner of Unilever Indonesia since 2015. Prior to that, he served as Chairman of the Indonesian Investment Coordinating Board (BKPM) (2013-2014), Vice-Minister of Finance (2011-2013) and Vice-Minister of Trade (2009-2011), and he was awarded the prestigious Bintang Mahaputra medal. Currently, he also served as the President Commissioner of Sarana Multi Infrastruktur (since 2017) and President Commissioner of Bank Mandiri (Europe) Ltd London (since 2016), as well as being a Commissioner of Sequis (since 2015), AKR Corporindo Tbk (since 2015), and Vale Indonesia (since 2016). Moreover, he also serves on the Advisory Councils of the Indonesian e-Commerce Association (idEA) and the Indonesia Fintech Association. He graduated from the University of Indonesia in 1986 with a degree in Development Economics, and received his Master's degree in Economics from Monash University, Australia, in 1991.
 Erry Firmansyah	Independent Commissioner & Chairman of the Audit Committee	Erry Firmansyah has been appointed as an Independent Commissioner of Unilever Indonesia since 2009. He currently is serving as the Chairman of the Audit Committee of the company. Currently, he is also serving as Independent Commissioner of Elang Mahkota Teknologi, Solusi Tunas Pratama, Bali Towerindo Sentra and Totalindo Eka Persada. He is also a Commissioner of Makmur Sejahtera Wisesa, Indo Premier Securities, and Eagle Capital, Chairman of KADIN's GCG Committee, Chairman of BANI Arbitrase Indonesia, Chairman of the Advisory Council of Indonesia Overseas Alumni and a member of the Honour Council of BAPMI. Previously, he served as President Commissioner at KSEI (Indonesian Central Securities Depository) (2009-2015) and Bloom Capital Nusantara (2010-2013), Commissioner at Pefindo (2009-June 2016) and Perusahaan Pengelola Aset (Persero) (2009-2012), Independent Commissioner at Astra Internasional (2009-2015), Elnusa (2010-2013) and Berau Coal Energy (2010-2014), President Director of Bursa Efek Indonesia (2002-2009) and Kustodian Sentral Efek Indonesia (1998-2002) and Director at AON Indonesia (1992-1997). He obtained his bachelor degree in accounting from University of Indonesia.
 Hikmahanto Juwana	Independent Commissioner	Mr. Juwana has been appointed as an Independent Commissioner of Unilever Indonesia since 2011. He is also Professor of International Law at the University of Indonesia. Currently, he is also serving as Independent Commissioner of Aneka Tambang, Independent commissioner at Sinar Mas Agro Resources and Technology a Legal Expert at the Ministry of Defence, a member of the Legal Committee at the Ministry of State-Owned Enterprises, arbitrator on the Indonesian Commodities Arbitration Body (BAKTI) and a member of Supervision Board of Bank Indonesia (BSBI). Previously, he served as an Independent Commissioner at Tugu Reasuransi Indonesia (2008-2012). He earned a degree in Law from the University of Indonesia in 1987, and was awarded an LLM from Keio University, Japan in 1992 and a PhD from the University of Nottingham, UK in 1997.
 Alexander Rusli	Independent Commissioner	Mr. Rusli w appointed as Independent Commissioner on 23 May 2018. He is currently Commissioner of Mandiri Capital Investment, Hermina Hospital Group, advisor Sarana Menara Nusantara (Protelindo), as well as experienced as Commisisoner in several big companies. He also serves as Director at Digiasia Bios PTE LTD. Previously, he served as Chief Executive Officer (CEO) of Indosat Ooredoo (2012 – 2017), dan Chairman at Geodipa Energi (2008-2012), Partner di Northstar Pacific (2009-2012). He holds a Bachelor degree of Business, Information System in 1992 dan Bachelor of Commerce (Hons), Information System in 1993 from Curtin University of Technology, Perth, Australia. He also holds a doctorate degree as Doctor of Philosophy (Ph.D), Information System in 2000 in Curtin University of Technology, Perth, Australia.

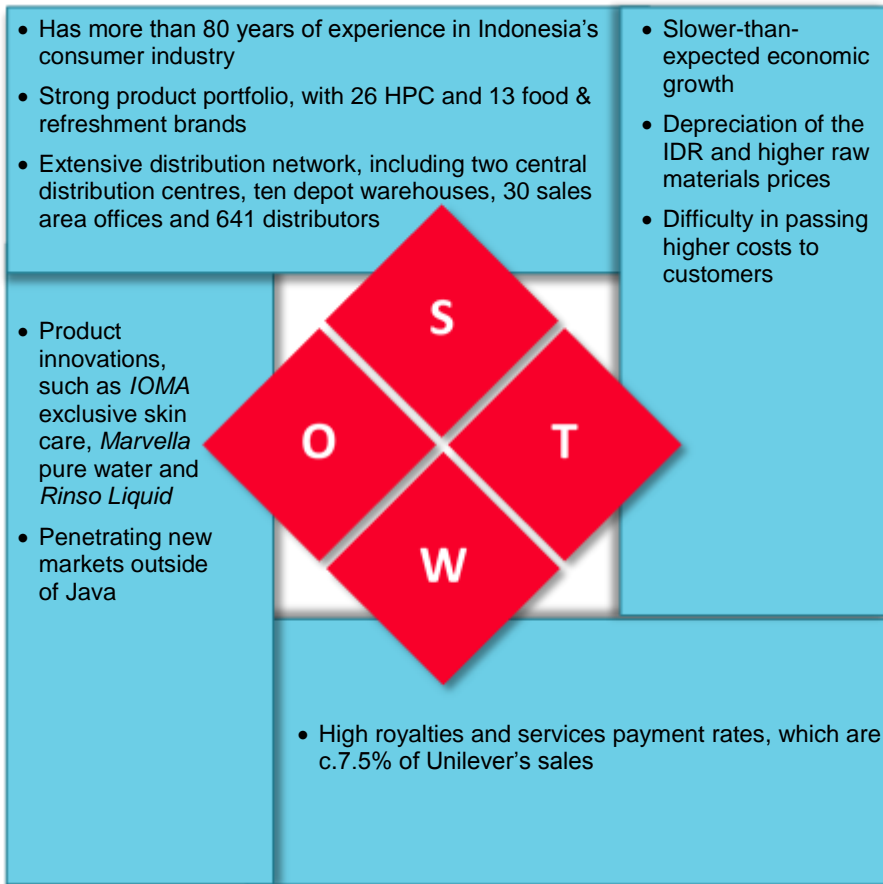
Source: Company

Figure 18: Unilever's board of directors

Name	Position	Description
 Hemant Bakshi	President Director	Mr. Bakshi is an Indian citizen. He has been appointed as President Director since 2014. Prior to the position, he served as include Executive Director for the Home and Personal Care Business of Hindustan Unilever Limited (2012) and Director, Customer Development of Hindustan Unilever Limited (2008). He graduated with a B.Tech in Chemical Engineering from the Indian Institute of Technology, Mumbai (1986) and was awarded an MBA from the Indian Institute of Management in Ahmedabad (1989).
 Tevlyan Yudhistira Rusli	Finance Director	Mr. Rusli has been appointed as a finance director since 2013. Prior to that, he served as Regional Finance Director for Asia Africa Food Solutions (2011-2013) of the company. He joined Unilever Indonesia in 2000 and has held several senior posts at Unilever, including Commercial Manager – Foods (2003-2005), Financial Planning & Analysis Director of Unilever Vietnam (2005-2008), Global Corporate Audit Director based in Singapore (2008-2011). He obtained his Bachelor's degree in Accountancy from Chung Yuan University in Taiwan.
 Jochanan Senf	Refreshment Director	Mr. Senf is a Dutch citizen. He has been appointed as Refreshment Director since April 2017. Previously, he served as Managing Director Ben & Jerry's Europe based in the UK, Global Marketing and Strategy Manager Beverages based at UL Headquarter in Rotterdam, Brand-category manager Foods Netherlands. He holds a Master degree in Economics (with honours) from the Vrije Universiteit Amsterdam.
 Ira Novianti	Personal Care Director	Ms. Novianti has been appointed as Personal Care Director since October 2017. Previously, she served as include Managing Director for Unilever Foods Solutions South East Asia (2015-2017), and Vice President of Ice Cream, Media and Consumer Market Insight at PT Unilever Indonesia Tbk (2010-2015). She holds a degree in Economics from the University of Indonesia (1995), majoring in Financial Accounting.
 Enny Hartati Sampurno	Customer Development Director	Ms. Sampurno has been served as Customer Development Director since January 2016. Previously, she served the company as Human Resource Director (until 31 December 2015), General Manager of Supply Planning (2009-2011), Commercial Manager of HPC (2008-2009), Commercial Manager of Customer Development (2006-2008), Senior Finance Business Partner (2006) and Commercial Manager of Customer Care (2005-2006). She holds a Bachelor's degree in Accountancy from Parahyangan University, 1991.
 Willy Saelan	Human Resources Director	Mr. Saelan has been appointed as Human Resource Director Since 2016. Prior to the position, he served the company as HR for Marketing and Sales at Unilever Indonesia (2011-2015), (Acting) Head of HR at Unilever Australia and New Zealand (2015), HR Director Marketing & R&D South East Asia (2009-2011), HR Director Leadership Supply & Organisation Effectiveness, AACEE (Asia Africa Middle East, Eastern Europe Region) (2007-2009), and Indonesia & Philippines Reward Director (2005-2006). He holds a Bachelor's Degree in Social and Political Sciences from Padjadjaran University (1989-1994) and a Master of Arts in Human Resources Management, University of Leeds, UK (1996-1997).
 Hernie Raharja	Foods Director	Ms. Raharja has been appointed as Food Director since 2016. Previously, she served the company as Global Brand Director of Pepsodent (2014-2016), leading innovations, marketing mix creation, business development and strategy in Southeast Asia, South Asia, Middle East and Africa; Regional Brand Director for Oral Care Southeast Asia (2013-2014); Hair Care Indonesia Marketing Director (2010-2013), and Oral Care Indonesia Marketing Director (2006-2010). She obtained her Bachelor's Degree in Food and Technology and Nutrition from Bogor Agricultural Institute at 1997.
 Vikas Gupta	Home Care Director	Mr. Gupta is an Indian citizen. He has been served as Home Care Director since 2016. Previously, He served as Vice President of Laundry for Indian and South Asia (2015-2016) and Global VP, Dirt is Good initiative of OMO/Persil based in Singapore (2014-2015). He has 18 years of experience in sales, brand building and brand development. He holds an MBA in Marketing & Finance (1998) and a Bachelor of Engineering (Mechanical) (1996) from the Indian Institute of Management and Delhi College of Engineering.
 Amparo Cheung Aswin	Supply Chain Director	Ms. Aswin is a Philippines citizen. She has been appointed as Supply Chain Director since 2016. She previously served the company as Vice President Manufacturing, Foods and Refreshment South East Asia (2013), Vice President Logistics Excellence Asia, Africa, Middle East, Turkey and Rusia (2011). She obtained her Bachelor of Science (with honors) in Industrial Engineering from De La Salle University, Philippines in 1997.
 Sancoyo Antarikso	Governance & Corporate Affairs Director and Corporate Secretary	Mr. Antarikso has been served as Governance and Corporate Affairs Director since 2012 while he also served as Corporate Secretary since 2010. He is currently the Chairman of Indonesian Advertising Council Presidium, Chairman of Association of Indonesian Advertising Companies, Secretary General of Association of Corporate Priority Line and Secretary General of Indonesian Cosmetics Association. Previously, he served the company as General Manager External Relations & Corp. Secretary (2009-2012), Financial Controller (2006-2009), Group Audit Manager (2005-2006), Commercial Manager of Home Care (2003-2004), Commercial Director of Kimberly-Lever Indonesia (2000-2003). He holds a Master's degree in Management from IPMI (1996) and an MBA from Mt. Eliza Business School, Monash University, Australia (1997).

Source: Company data

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-06-26	Neutral	47,700	44,550
2018-02-27	Neutral	50,700	53,975
2017-07-31	Neutral	48,500	48,950
2016-07-28	Neutral	48,500	47,800
2016-03-31	Neutral	42,500	42,925
2016-01-20	Buy	42,500	35,600

Source: RHB, Bloomberg

24 August 2018

Consumer Non-cyclical | Food & Beverage Products

## Nippon Indosari

**Neutral** (Maintained)

### Expanding Into New Markets For Future Growth

Target Price: IDR860  
 Price: IDR940  
 Market Cap: USD399m  
 Bloomberg Ticker: ROTI IJ

**Maintain NEUTRAL, with new DCF-based TP of IDR860 from IDR1,000, 9% downside and implying 26x-25x FY19F-20F P/E. Our lower earnings estimates factor in higher operational costs from Indosari's Philippines operations (new plant started operating in April). Domestically, it said sales returns have declined significantly. The company plans to expand into a new business – frozen dough. Key downside risk to our call is intense competition, especially from MyRoti and Prime Bread while key upside risk would be lower sales returns, which reduces costs.**

**Philippines market expansion.** Sari Monde – a JV company between Indosari Corpindo and Monde Nissin – just launched *Sari Roti* white bread, which is now available in 420 locations (supermarkets and hypermarkets). The Sari Monde factory just started commercial run in Apr 2018. This commencement, both in manufacturing and marketing, has led to Philippines operational costs that are above our expectations. Management believes operational cost/unit will decline, in line with higher sales volume. It indicated that Philippine market 2H18 sales are likely to be 200% higher than 1H18 sales.

**Lower sales returns in July.** For the domestic market, Indosari shared that monthly sales returns declined to 10% in Jul 2018 from 18.3% in Jun 2018. The company is now more selective in placing product variants at its modern trade (MT) outlets. It expects the lower sales returns to be maintained for the rest of the year. Note that 2H sales account for about 52% of total annual sales.

**Expanding into the frozen dough business** by building a factory in Gresik. Management said that its venture into frozen dough is to increase market coverage to remote areas – due to the longer expiry date – and to enter into a new product and market segment. It targets for the frozen dough factory to commence production in 2020. We have not factored this new business into our forecasts.

**Reiterate NEUTRAL, with lower DCF TP of IDR860 implying 26x-25x FY19F-20F P/E. We roll forward our valuation to FY19F earnings, and reduce our FY18F-20F earnings to IDR145bn, IDR202bn and IDR213bn (-23%, -18%, -13%), driven by higher operational costs from the new Philippines operations.**

**Risks.** The key downside risk is competition in the domestic bread market. About 39% and 27% of *Sari Roti* 1H18 sales were via Indomareto Prismaatama (*Indomareto*) and Sumber Alfaria Trijaya (*Alfamart*). Affiliated parties to *Indomareto* and *Alfamart* penetrate the domestic bread market with *Prime Bread* and *MyRoti* brands. This may create conflicts of interest as to *Sari Roti* distribution, especially through MT channels.

The key upside risk to our call is lower sales returns, which cut defective products expenses and, in turn, lead to increased EBIT margins.

#### Share Data

Avg Daily Turnover (IDR/USD) 2,129m/0.15m  
 52-wk Price low/high (IDR) 930 - 1,340  
 Free Float (%) 29  
 Shares outstanding (m) 6,186  
 Estimated Return -9%

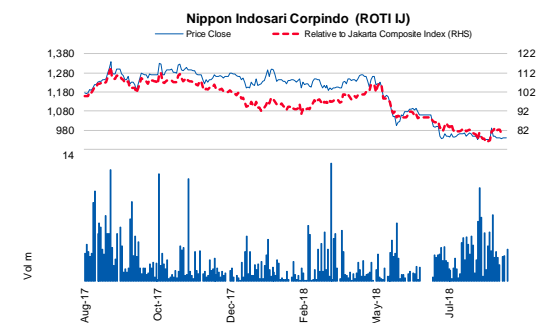
#### Shareholders (%)

Indoritel Makmur International 25.8  
 Bonlight Investments 20.8  
 Demeter Indo Investment Pte Ltd 15.2

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(26.3)	(2.6)	(8.3)	(24.2)	(20.0)
Relative	(19.8)	(3.1)	(10.9)	(14.0)	(20.5)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (IDRb)	2,522	2,491	2,753	2,973	3,270
Reported net profit (IDRb)	280	146	145	202	213
Recurring net profit (IDRb)	234	110	131	194	206
Recurring net profit growth (%)	(3.8)	(53.0)	19.1	48.4	5.8
Recurring EPS (IDR)	37.8	17.8	21.2	31.4	33.3
DPS (IDR)	8.7	11.2	4.5	4.5	6.3
Recurring P/E (x)	24.8	52.9	44.4	29.9	28.3
P/B (x)	4.15	2.10	2.01	1.90	1.79
P/CF (x)	16.0	15.7	20.7	16.2	15.5
Dividend Yield (%)	0.9	1.2	0.5	0.5	0.7
EV/EBITDA (x)	12.5	14.3	20.9	16.4	13.3
Return on average equity (%)	21.6	7.0	5.1	6.8	6.8
Net debt to equity (%)	26.7	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(11.8)	(14.4)	(21.7)

Source: Company data, RHB

#### Analyst

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## Financial Exhibits

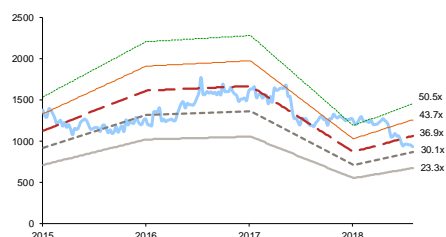
Financial model updated on: 2018-08-20

Asia	
Indonesia	
Consumer Non-cyclical	
<b>Nippon Indosari</b>	
Bloomberg	ROTI IJ
<b>Neutral</b>	
<b>Valuation basis</b>	
DCF, assuming a 9.8% WACC and 5% TG	
<b>Key drivers</b>	
Earnings growth driven by:	
i. Lower prices for its main raw material – flour;	
ii. Lower sales returns;	
iii. Higher income from sale of scrap products.	

<b>Key risks</b>	
i. Rising competition;	
ii. Higher sales returns;	
iii. Weakened consumer spending.	

**Company Profile**  
Nippon Indosari Corpindo is Indonesia's largest mass bread maker with factories located in Jakarta, Surabaya, Pasuruan, Semarang, Medan, Palembang, Makassar, Purwakarta and Cikande. The company created a joint venture company to expand into the Philippines bread market.

### Indosari's 7-year mean forward P/E



Financial summary	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Recurring EPS (IDR)	37.8	17.8	21.2	31.4	33.3
EPS (IDR)	45.2	23.5	23.4	32.6	34.5
DPS (IDR)	8.7	11.2	4.5	4.5	6.3
BVPS (IDR)	227	449	468	496	524
Weighted avg adjusted shares (m)	6,186	6,186	6,186	6,186	6,186

Valuation metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Recurring P/E (x)	24.8	52.9	44.4	29.9	28.3
P/E (x)	20.8	39.9	40.2	28.8	27.3
P/B (x)	4.15	2.10	2.01	1.90	1.79
FCF Yield (%)	3.4	3.8	(5.9)	3.0	3.1
Dividend Yield (%)	0.9	1.2	0.5	0.5	0.7
EV/EBITDA (x)	12.5	14.3	20.9	16.4	13.3
EV/EBIT (x)	16.3	22.9	46.9	39.8	27.9

Income statement (IDRb)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover	2,522	2,491	2,753	2,973	3,270
Gross profit	1,301	1,308	1,260	1,342	1,476
EBITDA	499	321	237	293	352
Depreciation and amortisation	(116)	(121)	(131)	(173)	(185)
Operating profit	383	201	106	121	167
Net interest	(74)	(64)	53	121	88
Exceptional income - net	(2)	0	0	0	0
Pre-tax profit	369	186	177	252	266
Taxation	(90)	(51)	(44)	(63)	(66)
Minority interests	(0)	11	12	13	14
Recurring net profit	234	110	131	194	206

Cash flow (IDRb)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Change in working capital	(27)	(66)	6	(16)	(24)
Cash flow from operations	364	371	281	359	375
Capex	(164)	(151)	(625)	(185)	(194)
Cash flow from investing activities	(217)	(370)	(625)	(185)	(194)
Proceeds from issue of shares	0	1,308	0	0	0
Dividends paid	(54)	(69)	(28)	(28)	(39)
Cash flow from financing activities	(52)	860	(526)	(28)	(39)
Cash at beginning of period	515	611	1,895	1,025	1,171
Net change in cash	96	861	(870)	146	142
Ending balance cash	611	1,472	1,025	1,171	1,313

Balance sheet (IDRb)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total cash and equivalents	611	1,895	1,025	1,171	1,313
Tangible fixed assets	1,843	1,994	2,488	2,500	2,510
Total other assets	128	246	246	246	246
Total assets	2,920	4,560	4,217	4,409	4,604
Short-term debt	0	119	119	119	119
Total long-term debt	996	498	0	0	0
Other liabilities	160	214	214	214	214
Total liabilities	1,477	1,739	1,281	1,298	1,319
Shareholders' equity	1,402	2,776	2,892	3,067	3,241
Minority interests	43	46	46	46	46
Total equity	1,443	2,820	2,937	3,111	3,285
Net debt	385	(1,278)	(906)	(1,052)	(1,193)
Total liabilities & equity	2,920	4,560	4,217	4,409	4,604

Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Revenue growth (%)	16.0	(1.2)	10.5	8.0	10.0
Recurrent EPS growth (%)	(3.8)	(53.0)	19.1	48.4	5.8
Gross margin (%)	51.6	52.5	45.8	45.1	45.1
Operating EBITDA margin (%)	19.8	12.9	8.6	9.9	10.8
Net profit margin (%)	11.1	5.8	5.3	6.8	6.5
Dividend payout ratio (%)	19.2	47.7	19.3	13.7	18.2
Capex/sales (%)	6.5	6.1	22.7	6.2	5.9
Interest cover (x)	4.18	2.18	1.73	10.26	14.20

Source: Company data, RHB, Bloomberg

**Ground checks: Domestic bread retail prices flat QoQ**

YTD, Indosari has maintained the retail prices of its products (ie *Sari Roti*), since last raising them in Apr 2017. As competition – from rivals like Yamazaki and Gardenia, which produces *Prime Bread* items – has been intense, hiking retail prices is now the final option for bread makers to maintain or increase their EBIT margins.

**Figure 1: Breakdown of retail prices of bread by product (IDR)**

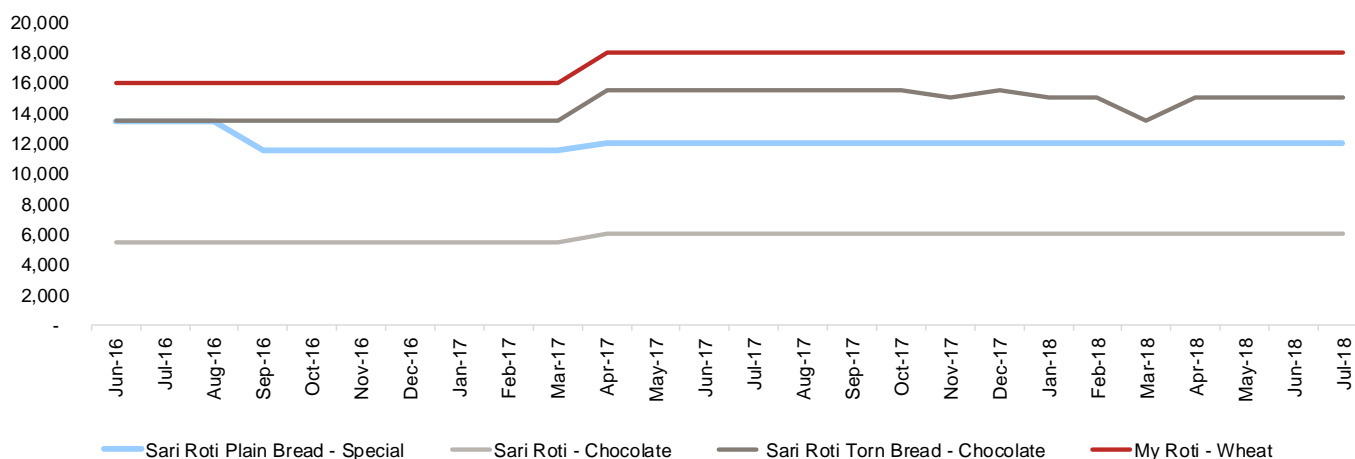
	Size (gram)	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Chg MoM	Chg QoQ	Chg YoY
<b>Sari Roti</b>	Plain Bread - Special	1 pack	12,000	12,000	12,000	12,000	12,000	12,000	12,000	0.0%	0.0%	1.4%
<b>Sari Roti</b>	Bread - Chocolate	1 pack	6,000	6,000	6,000	6,000	6,000	6,000	6,000	0.0%	0.0%	5.9%
<b>Sari Roti</b>	Torn Bread - Chocolate	1 pack	15,500	15,000	15,000	13,500	15,000	15,000	15,000	0.0%	3.4%	6.2%
<b>My Roti</b>	My Roti - Wheat	1 pack	18,000	18,000	18,000	18,000	18,000	18,000	18,000	0.0%	0.0%	8.0%

Note: QoQ change refers to average Feb-Apr 2018 retail prices vs average May-Jul 2018 retail prices

Note 2: YoY change refers to average Aug 2016-Jul 2017 retail prices vs average Aug 2017-Jul 2018 retail prices

Source: RHB

**Figure 2: Retail price trends for bread (IDR)**



Source: RHB

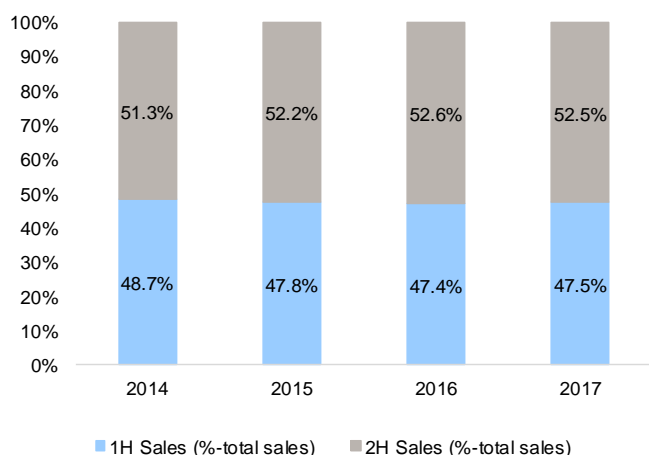
**Figure 3: Indosari's Sari Roti's presence in the Philippine market**



Note: (left) Factory commercial run in Apr 2018, Laguna, the Philippines. Six SKUs: Three white bread products (350g and 550g); (right) Kris Aquino as Sari Roti's brand ambassador

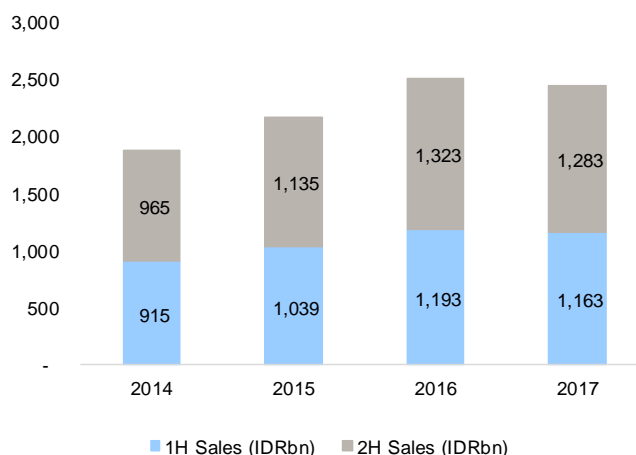
Source: Company, RHB

Figure 4: Indosari's sales cyclicity – 1H and 2H (%)



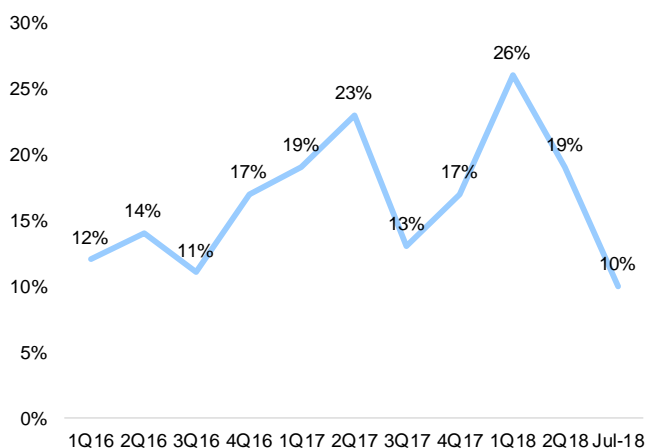
Source: Company data, RHB

Figure 5: Indosari's sales cyclicity – 1H and 2H (IDRbn)



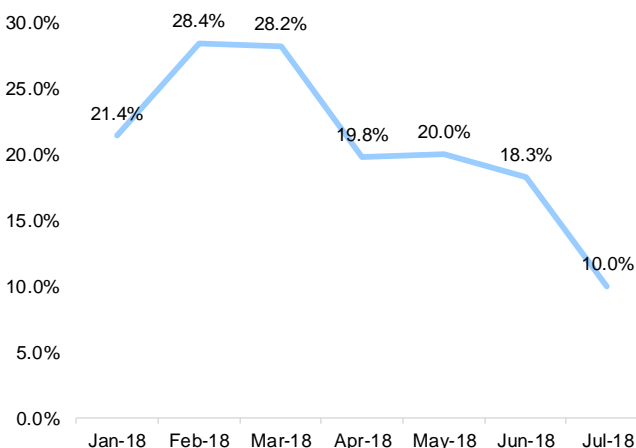
Source: Company data, RHB

Figure 6: Quarterly sales return to gross sales (%)



Source: Company data

Figure 7: Monthly sales return to gross sales (%)



Source: Company data

Figure 8: Revised forecasts

(IDR bn)	FY18F - FY18F - Chg (%)			FY19F - FY19F - Chg (%)			FY20F - FY20F - Chg (%)		
	New	Old		New	Old		New	Old	
Sales	2,753	2,740	0.5%	2,973	2,959	0.5%	3,270	3,255	0.5%
Gross profit	1,260	1,255	0.5%	1,342	1,336	0.5%	1,476	1,469	0.5%
Operating profit	106	133	-20.2%	121	137	-11.8%	167	162	3.2%
Pretax profit	177	235	-24.6%	252	311	-18.8%	266	308	-13.6%
Net profit	145	188	-23.1%	202	246	-17.8%	213	245	-12.8%
Margin									
Gross profit	45.8%	45.8%		45.1%	45.1%		45.1%	45.1%	
Operating profit	3.8%	4.8%		4.1%	4.6%		5.1%	5.0%	
Pretax profit	6.4%	8.6%		8.5%	10.5%		8.1%	9.5%	
Net profit	5.3%	6.9%		6.8%	8.3%		6.5%	7.5%	

Source: RHB



Figure 9: Indosari's DCF calculation

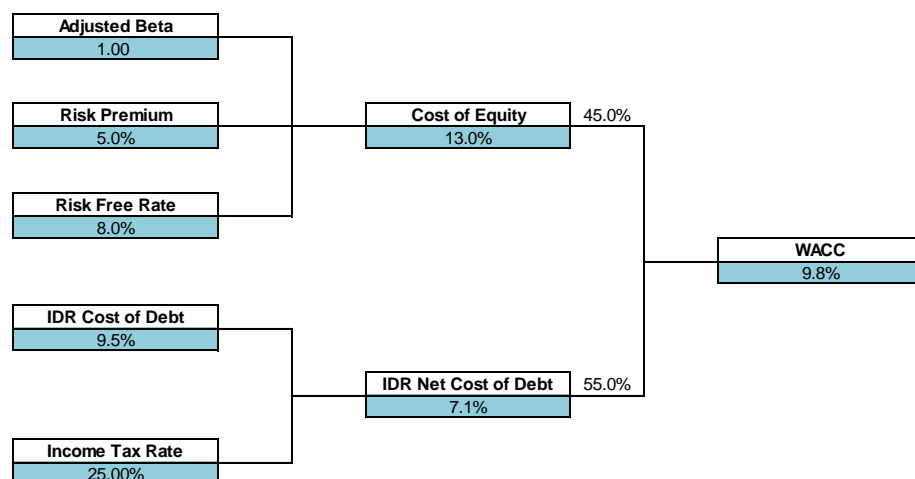
WACC		9.8%									
Terminal value (TV) growth		5.0%									
Cash flow (IDRbn)	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	TV
	1	2	3	4	5	6	7	8	9	10	
EBIT	121	167	197	265	327	355	385	417	441	499	
Tax on EBIT	(30)	(42)	(49)	(66)	(82)	(89)	(96)	(104)	(110)	(125)	
Depreciation	173	185	198	211	226	240	256	271	287	304	
Change in working capital	(16)	(24)	(26)	(27)	(30)	(32)	(35)	(39)	(42)	(49)	
<b>Total operating cash flow</b>	<b>247</b>	<b>287</b>	<b>319</b>	<b>383</b>	<b>441</b>	<b>474</b>	<b>509</b>	<b>545</b>	<b>576</b>	<b>629</b>	
Capital expenditures	(185)	(194)	(204)	(214)	(221)	(227)	(234)	(241)	(248)	(256)	
<b>Free cash flow</b>	<b>62</b>	<b>93</b>	<b>116</b>	<b>169</b>	<b>221</b>	<b>247</b>	<b>275</b>	<b>304</b>	<b>327</b>	<b>373</b>	
<b>Discounted free cash flow (IDRbn)</b>	<b>57</b>	<b>77</b>	<b>87</b>	<b>116</b>	<b>138</b>	<b>141</b>	<b>143</b>	<b>144</b>	<b>141</b>	<b>147</b>	<b>3,235</b>
Total (IDRbn)											
Sum of discounted free cash flow (IDRbn)	1,193										
Terminal value (IDRbn)	<u>3,235</u>										
Value of the firm (IDRbn)	4,427										
Less: Net debt (IDRbn)	906										
Equity value (IDRbn)	5,333										
<b>Equity value per share (IDR)</b>	<b>862</b>										

Source: RHB

Currently, Indosari is virtually debt free since the company has just obtained cash from rights issuance proceeds. This year, it would build two bread factories in Gresik and Lampung. We have factored in capex for new Gresik and Lampung plants in our forecasts.

Going forward, Indosari plans to build another two new bread factories, the locations have not yet been decided. In addition, it plans to build two frozen dough plants and expand its Philippines factory. We have not factored capex for these plants in our forecasts. This expansion is to be funded by internal cash and debts. Therefore, in the WACC calculation, we assume that Indosari would have a debt ratio of 55% of total capital in the future, which is in line with its comfortable debt level.

Figure 10: Indosari's WACC calculation



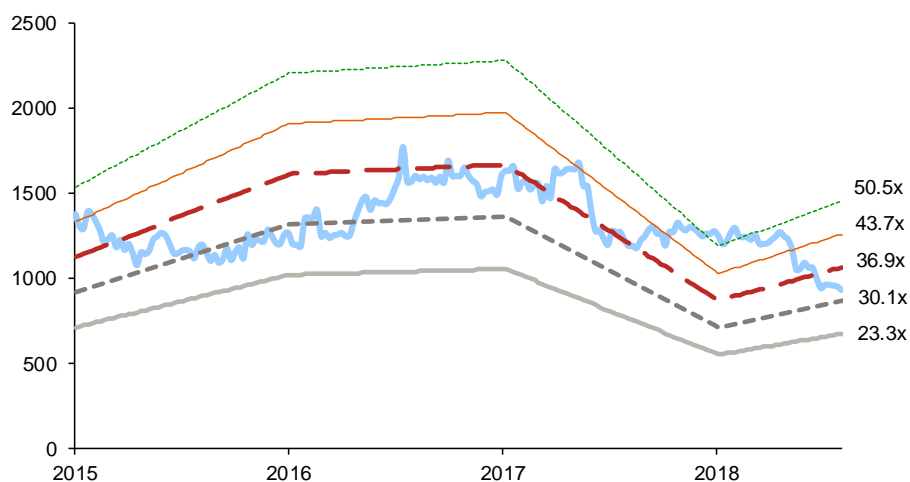
Source: RHB

Figure 11: Indosari's equity value – DCF sensitivity analysis

WACC	Terminal value of growth						
	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%
9.0%	828	874	930	1,001	1,092	1,213	1,382
9.3%	796	838	888	949	1,027	1,130	1,268
9.5%	767	805	849	903	971	1,058	1,175
9.8%	741	774	814	862	921	996	1,095
10.0%	717	747	783	825	878	942	1,026
10.3%	694	721	754	792	838	894	966
10.5%	673	698	727	761	802	853	914

Source: RHB

Figure 12: Indosari's 3-year rolling forward P/E



Source: RHB

Figure 13: Valuation table – Indonesian consumer companies 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	Buy	43,350	50,500	16.5	22,695	8.5	8.2	8.0	43.5	40.2	37.2	55.9	49.2	44.6
Indofood CBP	ICBP IJ	Buy	8,925	10,300	15.4	7,142	10.2	9.3	12.1	24.9	22.8	20.3	4.8	4.3	3.9
Mayora Indah	MYOR IJ	Buy	2,870	3,300	15.0	4,403	9.9	19.4	14.4	35.8	30.0	26.2	7.3	6.2	5.3
Nippon Indosari Corpindo	ROTI IJ	Neutral	940	860	-8.5	399	1.4	44.6	17.8	33.5	23.2	19.7	1.9	1.8	1.7
Kino Indonesia	KINO IJ	Not Rated	1,645	N/A	N/A	161	17.3	17.0	13.3	18.3	15.6	13.8	1.1	1.0	1.0
<b>Sector Weighted Average (excl. Unilever)</b>							<b>9.9</b>	<b>14.2</b>	<b>13.1</b>	<b>29.0</b>	<b>25.3</b>	<b>22.3</b>	<b>5.6</b>	<b>4.9</b>	<b>4.3</b>
<b>Sector Weighted Average</b>							<b>9.0</b>	<b>10.3</b>	<b>9.8</b>	<b>38.5</b>	<b>35.0</b>	<b>32.0</b>	<b>38.4</b>	<b>33.8</b>	<b>30.6</b>

Note: Closing price 23 Aug 2018

Source: RHB, Bloomberg

Figure 14: Valuation table – Indonesian consumer companies II

Name	PEG			Yield			ROA			ROE		
	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F
Unilever Indonesia	5.1	4.9	4.6	2.0	2.2	2.5	40.8	43.6	44.6	138.2	130.2	125.7
Indofood CBP	2.4	2.5	1.7	2.0	2.1	2.4	12.7	12.9	13.4	20.3	20.0	20.2
Mayora Indah	3.0	1.5	1.6	0.8	0.8	0.8	13.0	14.1	13.5	22.1	22.0	22.1
Nippon Indosari Corpindo	-54.4	0.7	4.8	0.6	0.6	0.6	3.5	5.8	7.0	5.7	7.8	8.7
Kino Indonesia	1.1	0.9	1.0	0.5	0.5	0.5	3.7	3.9	4.2	6.2	6.9	7.3
<b>Sector Weighted Average (excl. Unilever)</b>												
<b>Sector Weighted Average</b>												
	<b>0.7</b>	<b>2.0</b>	<b>1.7</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>	<b>12.4</b>	<b>13.0</b>	<b>13.1</b>	<b>20.3</b>	<b>20.2</b>	<b>20.4</b>
	<b>3.6</b>	<b>3.9</b>	<b>3.6</b>	<b>1.8</b>	<b>2.0</b>	<b>2.2</b>	<b>30.9</b>	<b>32.9</b>	<b>33.7</b>	<b>97.2</b>	<b>91.9</b>	<b>89.1</b>

Note: Closing price 23 Aug 2018

Source: RHB, Bloomberg




## Appendix

**Figure 15: Indosari's milestones**

Year	Description
1995	Established as a foreign investment company named PT Nippon Indosari Corporation.
1996	Commenced commercial production of Sari Roti brand breads and operated the first factory in Cikarang (West Java).
2001	Increased the production capacity by adding two machinery lines (white bread and sweet bread).
2003	Changed the company's name to PT Nippon Indosari Corpindo from PT Nippon Indosari Corporation.
2005	The second factory was started in Pasuruan (East Java).
2008	Opened the third factory in Cikarang (West Java).
2010	IPO on 28 Jun 2010 on Indonesia's stock exchange with the ticker code ROTI.
2011	Two new factories in Semarang (Central Java) and Medan (North Sumatera) were opened.
2012	Started the sixth factory in Cibitung (West Java), as well as adding one new production line to each of the existing factories located in Pasuruan, Semarang, and Medan.
2013	Two new factories in Makassar (South Sulawesi) and Palembang (South Sumatera) started their operations.
2016	Signed an agreement with Monde Nissin on 18 Feb 2016 to establish a JV company engaging in the F&B industry in the Philippines, Sarimonde Foods Corporation.
2017	Signed a share subscription agreement with the shareholders of PT Prima Top Boga (PTB), relating to the latter's new shares issuance.






Source: Company

**Figure 16: Indosari's board of commissioners**

Name	Position	Description
 Benny Setiawan Santoso	President Commissioner	Mr Benny currently also serves as executive director of PT Salim Group (since 1994), director of PT Indocement Tunggul Prakarsa (1994-current), commissioner of PT Indofood Sukses Makmur (2004-current), and commissioner of PT Fast Food Indonesia (1993-current). He graduated from Ngee Ann College, Singapore, majoring in Business Studies.
 Jusuf Arbiyanto Tjondrolukito	Independent Commissioner	Mr Jusuf currently also serves as independent commissioner of PT Bank ANZ Indonesia (since 2007) and is an arbitrator for the Indonesian National Arbitration Board (BANI) (1997-current). He earned his Doctorate from the Faculty of Economics of Gajah Mada University.
 Jaka Prasetya	Commissioner	Mr Jaka is a partner at KKR Singapore (2014-current), and director of Demeter Indo Investment (2017-current). He graduated with an MBA from the MIT Sloan School of Management, US.

Source: Company

Figure 17: Indosari's board of directors

Name	Position	Description
Wendy Sui Cheng Yap 	President Director & CEO	Mrs Yap also serves as director of Bonlight Investments (2001-current), director of PT Sentragraha Sentosa (2000-current), director of PT Nusaplaza Indah (2005-current), and director of PT Saripuri Permai Hotel (2009-current). She graduated with a Bachelor of Commerce from the University of Melbourne, Australia.
Indrayana 	Director	Mr Indrayana is Indosari's compliance director. He is also involved in business development in Salim Group (2008-current). He graduated with a Bachelor of Food Technology and Nutrition from Bogor Agricultural University and an MBA from the Central Institute of Management, Jakarta.
Kaneyoshi Morita 	Director	Mr Morita has previously served as senior managing director, managing director, director, general manager and manager of Pasco Shikishima and was an associate at Fuji Bank. He also serves as a director of Pasco Shikishima, which is one of Indosari's shareholders. He graduated from the Department of Economics, College of Economics, Aoyama Gakuin University.
Arlina Sofia 	Director	Mrs Arlina has previously served as the chief, senior vice president and vice president of human resources and general affairs at Indosari; as well as the the following positions in finance & accounting: head, corporate secretary, senior general manager, general manager, assistant general manager and manager.
Chin Yuen Loke 	Independent Director	Mr Chin has previously held several senior management positions, including director at Credit Suisse Private Banking and senior manager at Standard Chartered Bank. He graduated with a Bachelor of Arts in Economics from the University of Western Ontario.

Source: Company

Figure 18: Indosari's products portfolio



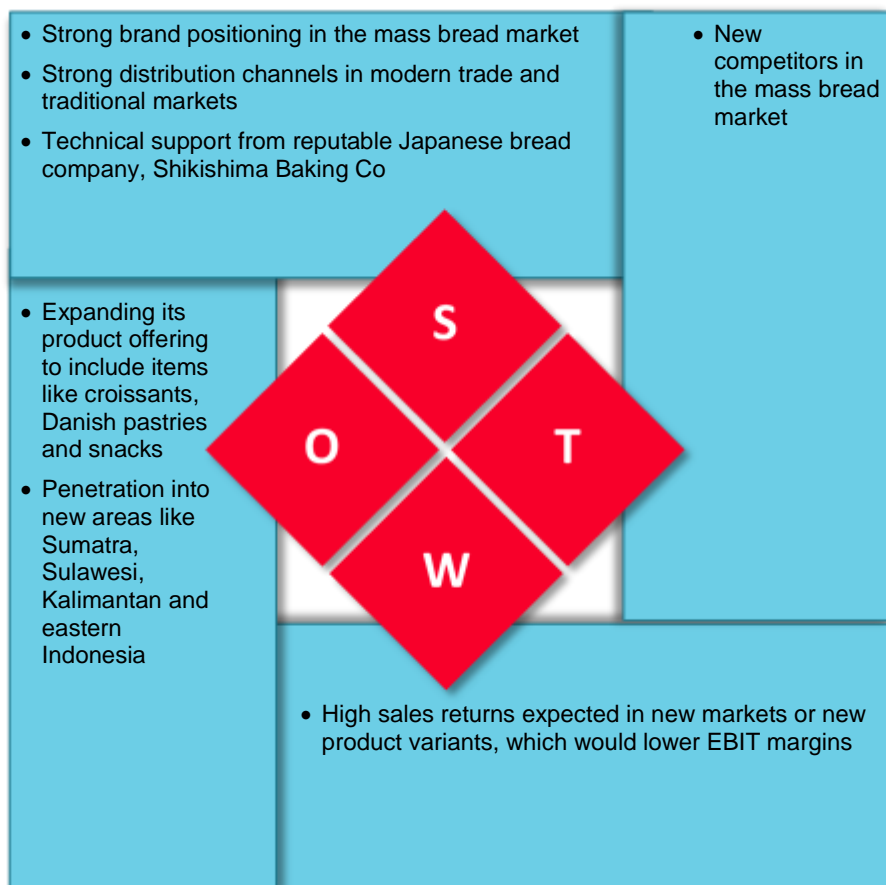
Source: Company

Figure 19: Indosari's plant locations in Indonesia

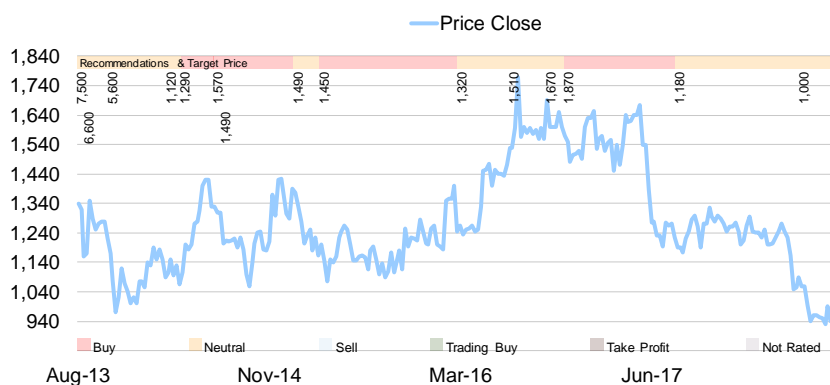


Source: Company

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-05-30	Neutral	1,000	1,075
2017-10-31	Neutral	1,180	1,270
2017-10-01	Neutral	1,180	1,260
2017-08-03	Neutral	1,180	1,200
2016-11-09	Buy	1,870	1,580
2016-09-27	Neutral	1,670	1,595
2016-06-30	Neutral	1,510	1,580
2016-04-01	Neutral	1,320	1,265
2016-02-26	Neutral	1,320	1,245
2015-11-01	Buy	1,450	1,195

Source: RHB, Bloomberg

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**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

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

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