

24 March 2021

Consumer Non-cyclical | Food &amp; Beverage Products

## Indofood Sukses (INDF IJ)

### Buy (Maintained)

### Solid 4Q20 Results, Prefer ICBP; Keep BUY

Target Price (Return): IDR8,700 (+30%)  
Price: IDR6,675  
Market Cap: USD4,071m  
Avg Daily Turnover (IDR/USD) 71,156m/5.04m

- **Keep BUY and IDR8,700 TP, 30% upside.** Indofood Sukses hosted a 4Q20 earnings call and confidently guided a 2021F 19-21% topline growth with stable margins YoY for Indofood CBP (ICBP IJ, BUY, TP: IDR11,900). We estimate Pinehill's FY consolidation should inorganically support 12-13% FY21 growth with 6-8% domestic growth (4% on January's ASP). ICBP's production cost inflation remains a concern, especially with Bogasari raising ASPs 5% YTD. A strong agribusiness is expected on strong CPO prices, but may be temporary despite a 15-17% volumes decline.
- **ICBP 4Q20 results: Solid with strong margin expansion.** 4Q20 EBIT reached IDR2.9trn, contributing 104% and 107% of our and Street's estimates. Aside from Pinehill's full quarter consolidation, management saw strong sales pick-up during the Nov-Dec 2020 period. One strong driver highlighted: The classic "Supermie" variant, Kaldu Ayam, which went viral in social media – it helped ICBP increase market share. Consequently, the instant noodle segment saw 15% volume growth YoY in FY20. Other segments also positively contributed to revenue and EBIT growth, except for dairy, which experienced intensifying competition from new players in the liquid format.
- **ICBP outlook: Potentially normalising margin in 1Q21, but offset by Pinehill.** The snacks division saw 14% YoY like-for-like volume growth, excluding the discontinued biscuit operations. The segment saw a reversal in EBIT margin to +11%. Post the termination agreement with Pepsi Co (Pepsi), ICBP is focused on developing its current brand portfolio, as it has the knowledge of consumers' appetite for Pepsi's target market. Food seasonings' 22% YoY volume growth should continue in 2021, given the social-distancing measures remain intact.
- **Bogasari: 2% volume growth YoY in FY20, 5% ASP hike in 2021 YTD.** On the back of rising wheat prices, Bogasari has started to pass on higher raw material prices. Volume demand could still be limited in 1H21, as business-to-business economic activities (eg restaurants and bakeries) remain limited. INDF targets 2-4% revenue growth in 2021, which translates to flat to a decline in volume growth for this year. This is because the company implemented a 5% ASP hike in 1Q21. EBIT margins also remain low: 5-7% guidance.
- **Agribusiness: Continued strong CPO prices in 1Q21, but could be temporary.** INDF should continue to enjoy higher CPO prices in the early part of 2021. However, we believe – and management's is in line with our view – that there could be volatility in commodity prices ahead, as well as for CPO. The CPO segment recorded c.1,000% EBIT growth in FY20 with 15% volumes decline. Topline guidance in FY21 remains cautious, at just 0-5% YoY.
- **Maintain BUY, IDR8,700 TP.** Risks: Bogasari's margin pressure, continued global demand slowdown, and pressure on commodity prices.

#### Analysts

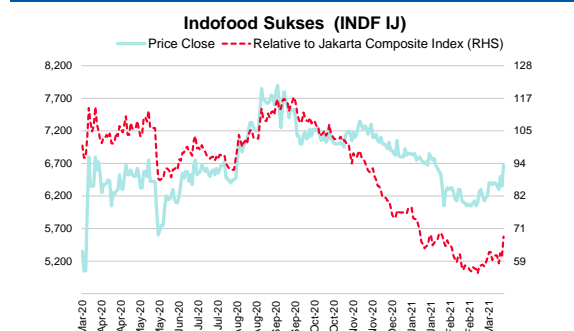
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.6)	10.3	(1.8)	(10.1)	24.8
Relative	(7.2)	10.6	(5.9)	(37.2)	(31.9)
52-wk Price low/high (IDR)				5,050 – 7,900	



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (IDRb)	76,593	81,731	94,960	101,947	110,152
Recurring net profit (IDRb)	4,829	5,650	6,911	7,185	8,058
Recurring net profit growth (%)	38.6	17.0	22.3	4.0	12.1
Recurring P/E (x)	12.14	10.37	8.48	8.16	7.27
P/B (x)	1.6	1.4	1.3	1.2	1.1
P/CF (x)	4.89	7.01	6.79	5.63	5.11
Dividend Yield (%)	2.6	4.2	5.5	5.3	6.1
EV/EBITDA (x)	6.31	7.60	7.13	6.50	5.96
Return on average equity (%)	13.7	16.1	14.2	15.3	15.7
Net debt to equity (%)	16.9	45.4	46.9	38.7	31.5

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

24 March 2021

Consumer Non-cyclical | Food &amp; Beverage Products

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (IDR)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
Indonesia	Recurring EPS	550.02	643.53	787.11	818.29	917.68
Consumer Non-cyclical	DPS	171.00	278.00	367.62	352.44	408.06
<b>Indofood Sukses</b>	BVPS	4,302.53	4,826.01	5,118.81	5,582.49	6,089.77
INDF IJ	Return on average equity (%)	13.7	16.1	14.2	15.3	15.7
Buy						
	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Valuation basis</b>	Recurring P/E (x)	12.14	10.37	8.48	8.16	7.27
We derive our 12-month IDR8,700 TP based on 25% discount to SOP valuation.	P/B (x)	1.6	1.4	1.3	1.2	1.1
	FCF Yield (%)	14.0	8.0	(6.0)	6.8	6.7
	Dividend Yield (%)	2.6	4.2	5.5	5.3	6.1
<b>Key drivers</b>	EV/EBITDA (x)	6.31	7.60	7.13	6.50	5.96
i. Increasing CPO prices;	EV/EBIT (x)	8.30	9.45	8.95	8.15	7.47
ii. Undemanding valuations;						
iii. Favorable USD/IDR.						
	<b>Income statement (IDRb)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Key risks</b>	Total turnover	76,593	81,731	94,960	101,947	110,152
i. Bogasari margin pressures;	Gross profit	22,716	26,752	29,996	32,707	35,851
ii. Continued global demand slowdown;	EBITDA	12,544	15,732	17,563	18,979	20,487
iii. Pressure on commodity prices.	Depreciation and amortisation	(3,014)	(3,075)	(3,573)	(3,836)	(4,144)
	Operating profit	9,530	12,657	13,990	15,144	16,343
<b>Company Profile</b>	Net interest	(897)	(1,374)	(1,052)	(1,323)	(843)
INDF and its subsidiaries manufacture instant noodles, wheat flour, baby food, food seasonings, coffee, cooking oil, and snacks.	Pre-tax profit	8,749	12,426	11,913	13,794	15,470
	Taxation	(2,847)	(3,674)	(3,523)	(4,079)	(4,574)
	Reported net profit	4,908	6,456	6,189	7,166	8,037
	Recurring net profit	4,829	5,650	6,911	7,185	8,058
	<b>Cash flow (IDRb)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Change in working capital	4,439	(879)	(1,128)	(595)	(704)
	Cash flow from operations	11,993	8,362	8,634	10,406	11,478
	Capex	(3,783)	(3,674)	(12,180)	(6,432)	(7,555)
	Cash flow from investing activities	(112)	(62,655)	(13,456)	(7,043)	(8,296)
	Dividends paid	(1,432)	(2,120)	(3,618)	(3,095)	(3,583)
	Cash flow from financing activities	(6,945)	57,884	2,617	5,540	35
	Cash at beginning of period	8,809	13,745	17,337	15,132	24,036
	Net change in cash	4,936	3,592	(2,205)	8,904	3,216
	Ending balance cash	13,745	17,337	15,132	24,036	27,252
	<b>Balance sheet (IDRb)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Total cash and equivalents	13,801	17,338	15,134	24,037	27,254
	Tangible fixed assets	43,073	45,863	54,470	57,067	60,477
	Total investments	5,107	11,724	11,724	11,724	11,724
	Total assets	96,199	163,137	174,177	187,982	197,349
	Short-term debt	14,022	14,713	17,379	12,758	11,832
	Total long-term debt	8,948	38,565	37,108	46,322	46,254
	Total liabilities	41,996	83,998	90,266	97,451	99,505
	Total equity	54,202	79,138	83,911	90,531	97,844
	Total liabilities & equity	96,199	163,137	174,177	187,982	197,349
	<b>Key metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Revenue growth (%)	4.4	6.7	16.2	7.4	8.0
	Recurrent EPS growth (%)	38.6	17.0	22.3	4.0	12.1
	Gross margin (%)	29.7	32.7	31.6	32.1	32.5
	Operating EBITDA margin (%)	16.4	19.2	18.5	18.6	18.6
	Net profit margin (%)	6.4	7.9	6.5	7.0	7.3
	Dividend payout ratio (%)	30.6	37.8	52.2	43.2	44.6
	Capex/sales (%)	4.9	4.5	12.8	6.3	6.9
	Interest cover (x)	5.52	6.75	7.29	7.28	7.99

Source: Company data, RHB

24 March 2021

Consumer Non-cyclical | Food &amp; Beverage Products

Figure 1: INDF's 4Q20 results

IDRbn	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	12M19	12M20	YoY (%)	FY20 2020F	FY20 Cons
<b>Sales</b>	<b>18,748</b>	<b>19,391</b>	<b>22,956</b>	<b>18.4</b>	<b>22.4</b>	<b>76,593</b>	<b>81,731</b>	<b>6.7</b>	<b>100.3</b>	<b>101.1</b>
<b>Gross profit</b>	<b>5,717</b>	<b>6,350</b>	<b>7,922</b>	<b>24.8</b>	<b>38.6</b>	<b>22,716</b>	<b>26,752</b>	<b>17.8</b>		
Selling expenses	1,980	2,332	2,222	(4.7)	12.2	8,489	9,008	6.1		
G&A expenses	1,088	1,146	1,226	7.0	12.7	4,697	5,087	8.3		
<b>Operating profit</b>	<b>2,650</b>	<b>2,872</b>	<b>4,474</b>	<b>55.8</b>	<b>68.9</b>	<b>9,530</b>	<b>12,657</b>	<b>32.8</b>	<b>115.6</b>	<b>110.6</b>
Net interest income/(expense)	120	(1,162)	1,366	(217.5)	1,041.0	(897)	(209)	(76.7)		
Other income/ (expense)	9	80	(163)	(305.1)	(2,019.3)	117	(22)	(118.5)		
<b>Pre-tax profit</b>	<b>2,554</b>	<b>1,789</b>	<b>5,677</b>	<b>217.2</b>	<b>122.3</b>	<b>8,749</b>	<b>12,426</b>	<b>42.0</b>		
Taxation	(847)	(525)	(1,654)	215.2	95.3	(2,847)	(3,674)	29.1		
<b>Net profit</b>	<b>1,377</b>	<b>910</b>	<b>2,703</b>	<b>197.1</b>	<b>96.3</b>	<b>4,908</b>	<b>6,456</b>	<b>31.5</b>	<b>118.9</b>	<b>120.5</b>
<b>Margin (%)</b>										
Gross margin (%)	30.5	32.7	34.5			29.7	32.7			
Operating margin (%)	14.1	14.8	19.5			12.4	15.5			
Pre-tax margin (%)	13.6	9.2	24.7			11.4	15.2			
Net margin (%)	7.3	4.7	11.8			6.4	7.9			
Inventory days	74	76	62			71	68			
Receivable days	26	30	23			25	26			
Payable days	30	25	27			29	29			
Total cash	13,745	14,821	17,337			13,745	17,337			
Total debt	22,970	54,937	53,278			22,970	53,278			
Net gearing (%)	24.4	53.3	45.4			24.4	45.4			
Equity	37,778	75,274	79,138			37,778	79,138			

Source: Company data, RHB

Figure 2: INDF's 4Q20 segment breakdown

<b>IDRbn</b>								
<b>Revenue</b>	4Q19	3Q20	4Q20	QoQ	YoY	12M19	12M20	YoY
ICBP	10,288	10,921	13,252	21.3%	28.8%	42,753	46,969	9.9%
Bogasari	5,570	5,584	6,305	12.9%	13.2%	22,839	22,965	0.6%
Distribution	1,005	1,112	1,142	2.8%	13.6%	4,140	4,562	10.2%
SIMP	3,571	3,441	4,226	22.8%	18.3%	13,600	14,551	7.0%
<b>Subtotal</b>	<b>20,435</b>	<b>21,058</b>	<b>24,925</b>	<b>18.4%</b>	<b>22.0%</b>	<b>83,333</b>	<b>89,046</b>	<b>6.9%</b>
Elimination	1,687	1,666	1,970	18.2%	16.7%	6,740	7,315	8.5%
<b>Total</b>	<b>18,748</b>	<b>19,391</b>	<b>22,956</b>	<b>18.4%</b>	<b>22.4%</b>	<b>76,593</b>	<b>81,731</b>	<b>6.7%</b>
<b>EBIT</b>								
ICBP	1,722	1,982	2,923	47.5%	69.7%	7,200	9,115	26.6%
Bogasari	481	477	549	15.1%	14.1%	1,621	1,790	10.4%
Distribution	64	50	27	-45.6%	-58.2%	213	162	-24.0%
SIMP	367	348	921	165.0%	151.0%	495	1,493	201.6%
Elimination	12	16	54	248.1%	346.7%	-1	98	N/A
<b>Total</b>	<b>2,647</b>	<b>2,872</b>	<b>4,474</b>	<b>55.8%</b>	<b>69.0%</b>	<b>9,527</b>	<b>12,657</b>	<b>32.9%</b>
<b>EBIT margin</b>								
ICBP	16.7%	18.2%	22.1%	3.9	5.3	16.8%	19.4%	2.6
Bogasari	8.6%	8.5%	8.7%	0.2	0.1	7.1%	7.8%	0.7
Distribution	6.4%	4.5%	2.4%	-2.1	-4.1	5.1%	3.5%	-1.6
SIMP	10.3%	10.1%	21.8%	11.7	11.5	3.6%	10.3%	6.6

Source: Company data, RHB

24 March 2021

Consumer Non-cyclical | Food &amp; Beverage Products

Figure 3: RHB vs Street estimates

Income statement (IDRbn)	RHB		Street		RHB/Street (%)	
	2021F	2022F	2021F	2022F	2021F	2022F
Net revenue	94,960	101,947	91,703	97,512	103.6	104.5
Gross Profit	29,996	32,707	29,280	31,178	102.4	104.9
EBITDA	17,563	18,979	16,359	17,699	107.4	107.2
EBIT	13,990	15,144	13,788	15,034	101.5	100.7
Pre-tax profit	11,913	13,794	11,186	12,308	106.5	112.1
NPAT	6,189	7,166	6,105	6,778	101.4	105.7
BVPS (IDR)	5,119	5,582	5,041	5,476	101.5	101.9
ROE (%)	13.8	14.6	14.3	14.5	96.5	101.0

Source: Bloomberg, RHB

Figure 4: Changes in earnings estimates

Income statement (IDRbn)	New		Old			New/ Old (%)	
	2021F	2022F	2020F	2021F	2022F	2021F	2022F
Total turnover	94,960	101,947	81,485	92,988	100,096	2.1	1.8
Gross profit	29,996	32,707	24,870	28,501	31,577	5.2	3.6
EBITDA	17,563	18,979	14,298	16,972	19,251	3.5	(1.4)
Net profit	6,189	7,166	5,567	6,619	7,324	(6.5)	(2.2)
<b>Key metrics</b>							
EPS (IDR)	705	816	634	754	834	(6.5)	(2.2)
BVPS (IDR)	5,119	5,582	5,026	5,463	5,920	(6.3)	(5.7)
Revenue growth (%)	16.2	7.4	6.4	14.1	7.6		
EPS growth (%)	(4.1)	15.8	13.4	18.9	10.7		
Gross margin (%)	31.6	32.1	30.5	30.7	31.5		
EBITDA margin (%)	18.5	18.6	17.5	18.3	19.2		
Net profit margin (%)	6.5	7.0	6.8	7.1	7.3		
ROE (%)	13.8	14.6	12.6	13.8	14.1		

Source: RHB

Figure 5: INDF SOTP Valuation

Subsidiaries	2021F EBIT	Tax	NPAT	Implied P/E	Methodology	Market cap	INDF's stake	Equity value
ICBP	11,165	-4,597	6,568	20.9	TP	137,027	80.5%	110,307
Flour (Bogasari)	1,859	-55	1,804	14.0	14x 2021F P/E average CPO sector	25,257	100.0%	25,257
SIMP	1,180	-940	240	34.3	Last share price	8,225	59.6%	4,902
Distribution & Others	173	-7	165	10.0	EPMT IJ and ERAA IJ 2021F P/E average	1,651	100.0%	1,651
<b>Total equity value</b>								<b>142,117</b>
Total outstanding no. of shares (bn)								8.8
Debt								54,487
Cash								15,132
<b>Implied price per share (IDR)</b>								<b>11,704</b>
Conglo discount								25%
<b>Discounted price per share (IDR)</b>								<b>8,731</b>
Current share price								6,675
Current Equity value								58,609
<b>Discount SOTP at current price</b>								<b>31%</b>

Source: RHB

24 March 2021

Consumer Non-cyclical | Food &amp; Beverage Products

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-12-01	Buy	8,700	7,100
2020-05-26	Buy	8,200	6,000
2019-12-27	Buy	8,900	7,925
2018-11-01	Buy	8,500	5,925
2018-03-21	Buy	9,500	7,275

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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