

11 February 2022

Consumer Non-cyclical | Household Products

Unilever Indonesia (UNVR IJ)

Buy (Maintained)

Poor 4Q21 Results, 2-4% Earnings D/G; Keep BUY

Target Price (Return): IDR5,300 (33.2%)
 Price (Market Cap): IDR3,980 (USD10,587m)
 ESG score: (out of 4)
 Avg Daily Turnover (IDR/USD) 75,680m/5.29m

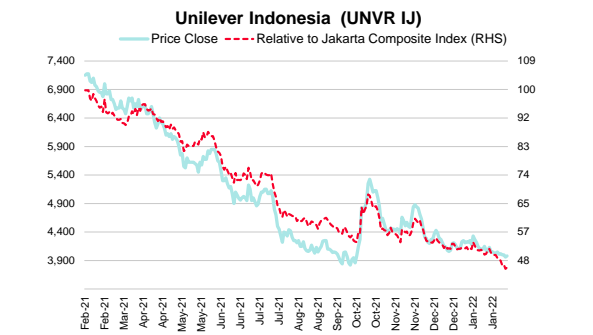
- **BUY with new IDR5,300 TP from IDR5,800, 33% upside.** 4Q21 operating profit was below expectations, mainly on lower revenue and further gross margin contractions due to raw material cost inflations. We expect 1H22 margins to remain under pressure on continued high commodity prices while the Omicron wave delays purchasing power recovery and the return of offline fast-moving consumer goods retailing. Hence, we tone down FY22F-23F earnings by 2-4%, adjusting for lower volumes and margins. 24x 22F P/E offers an attractive 57.6% discount to Hindustan Unilever.
- **4Q21 results were operationally below expectations** on a revenue decline and lower GPM. NPAT reached IDR1.379trn (+3.5% QoQ, -20% YoY). FY21 NPAT was slightly helped by finance cost savings (FY21: -25.7% YoY) and re-measurements of employee benefit obligations (FY21: -60.3% YoY), translating to IDR5.75trn (-19.6% YoY) or equal to 94.4% and 89.8% of our and Street's full-year forecasts. On higher oil and CPO prices (15% and 12% QoQ in 4Q21), and containership costs, GPM corrected 1.5ppts QoQ and 5.5ppts YoY to 47.6% – nearing 2008's levels. We believe Unilever Indonesia's weak performance during the pandemic was due to consumers' shifting to online sales with a lower barrier to entry, which inhibited UNVR from passing on cost inflation. Its strong retail presence and superior shelf space should help the company regain its lost market share as soon as offline sales pick up post the pandemic.
- **Weak 4Q21 revenue from both segments.** The home & personal care (HPC) segment declined 3.7% QoQ (-8.9% YoY) while food & refreshment was also down 2.9% QoQ (-10.7% YoY). On an annualised basis, the latter unit still contributed 1.4% YoY growth through UNVR's opportunistic initiatives in answering to consumer behaviour changes during the pandemic, eg rising health awareness with the launch of the Buavita 100% daily vitamins requirements or vitamin D Paddle Pop ice cream. In addition, new 4Q21 product launches – Vaseline Gluta-Hya Serum Burst Lotion with vitamin C, Love Beauty & Planet Tucuma Butter, and Dove Baby – focused on strengthening its products portfolio in the premium and value segments.
- **Outlook: Still BUY on valuation, 2-4% earnings downgrade.** The share price correction post UNVR's disappointing earnings should provide a safe entry opportunity, as it is currently trading at 24x 2022F P/FCF, c.15% and >50% discounts to global peers and Hindustan Unilever in P/E multiples, while the potential EPS growth in 2022 is relatively similar at 10% YoY. 1H22F margins will likely to remain under pressure due to continued high commodity prices while the Omicron wave delays purchasing power – inhibiting UNVR from passing on cost inflations. Packaging costs will be the next downside risks, in our view, as Brent crude has surpassed USD90.00/bbl. Hence, we tone down FY22F-23F earnings 2-4%. Our TP includes a 8% premium to our in-house ESG methodology, where UNVR is above the median.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.2)	(6.4)	(8.9)	(6.4)	(44.3)
Relative	(6.9)	(8.4)	(11.0)	(18.5)	(54.3)
52-wk Price low/high (IDR)	3,820 – 7,175				



Source: Bloomberg

Overall ESG Score: 3.4 (out of 4)

E: GOOD

The company ensures minimal water usage, lower energy and especially significantly reduce CO2 emissions by more than one-fifth vs 2018's levels. In addition, UNVR secures 0% landfill waste, recycling 16.4k tons of collected and processed plastic waste and a 1.5k ton reduction in waste YoY in 2020.

S: EXCELLENT

Unilever Group has implemented Unilever Sustainable Living Plan or USLP over a decade ago with the goal of promoting a sustainable lifestyle and a statement that a business must be able to change its role in the community. UNVR's mission is to improve the quality of customer's life and encourage the community in taking real action in reducing our environmental impacts. In addition, UNVR empowers women employment to more than 40x YoY in 2020.

G: EXCELLENT

There are five qualities in achieving a strong corporate governance: i) Transparency, ii) accountability, iii) responsibility, iv) independence, and v) fairness. UNVR is one of the highest across the five aspects. 100% dividend yields with more than 100% ROE also provides a plus point to the overall score. However, the recent large changes in the board of directors have dampened the ratings.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (IDRb)	42,923	42,972	39,546	40,996	43,046
Recurring net profit (IDRb)	7,391	7,179	5,757	6,262	6,873
Recurring net profit growth (%)	6.0	(2.9)	(19.8)	8.8	9.8
Recurring P/E (x)	20.54	21.15	26.37	24.25	22.09
P/B (x)	28.7	30.8	35.1	27.6	22.2
P/CF (x)	20.64	19.07	20.42	21.63	19.14
Dividend Yield (%)	6.1	4.9	4.2	3.4	3.6
EV/EBITDA (x)	14.03	14.93	18.02	16.63	15.08
Return on average equity (%)	116.7	140.2	124.4	127.6	111.5
Net debt to equity (%)	43.4	44.0	35.3	5.8	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (IDR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Indonesia	Recurring EPS	193.72	188.18	150.90	164.14	180.16
Consumer Non-cyclical	DPS	240.92	194.00	166.00	133.43	145.14
Unilever Indonesia	BVPS	138.45	129.42	113.27	144.01	179.07
UNVR IJ	Return on average equity (%)	116.7	140.2	124.4	127.6	111.5
Buy						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	20.54	21.15	26.37	24.25	22.09
	P/B (x)	28.7	30.8	35.1	27.6	22.2
	FCF Yield (%)	4.0	4.8	4.5	4.1	4.5
	Dividend Yield (%)	6.1	4.9	4.2	3.4	3.6
	EV/EBITDA (x)	14.03	14.93	18.02	16.63	15.08
	EV/EBIT (x)	15.23	16.26	19.97	18.39	16.62
	Income statement (IDRb)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total turnover	42,923	42,972	39,546	40,996	43,046
	Gross profit	22,029	22,457	19,626	20,599	21,925
	EBITDA	10,985	10,313	8,513	9,148	9,997
	Depreciation and amortisation	(867)	(842)	(835)	(874)	(927)
	Operating profit	10,118	9,471	7,678	8,274	9,070
	Net interest	(219)	(244)	(183)	(122)	(122)
	Pre-tax profit	9,902	9,207	7,497	8,154	8,950
	Taxation	(2,509)	(2,043)	(1,738)	(1,891)	(2,075)
	Reported net profit	7,393	7,164	5,758	6,263	6,875
	Recurring net profit	7,391	7,179	5,757	6,262	6,873
	Cash flow (IDRb)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	(664)	115	920	(117)	130
	Cash flow from operations	7,355	7,962	7,436	7,020	7,931
	Capex	(1,317)	(631)	(659)	(760)	(1,023)
	Cash flow from investing activities	(677)	(271)	(478)	(808)	(1,091)
	Dividends paid	(9,191)	(7,401)	(6,333)	(5,090)	(5,537)
	Cash flow from financing activities	(6,402)	(7,476)	(7,477)	(5,099)	(5,769)
	Cash at beginning of period	352	629	844	325	1,439
	Net change in cash	277	215	(519)	1,113	1,071
	Ending balance cash	629	844	325	1,439	2,509
	Balance sheet (IDRb)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	629	844	325	1,439	2,509
	Tangible fixed assets	10,715	10,420	10,102	9,988	10,083
	Total assets	20,649	20,535	19,069	20,353	21,930
	Short-term debt	2,920	3,015	1,850	1,758	1,406
	Total liabilities	15,368	15,597	14,747	14,859	15,098
	Total equity	5,282	4,937	4,321	5,494	6,832
	Total liabilities & equity	20,649	20,535	19,069	20,353	21,930
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	2.7	0.1	(8.0)	3.7	5.0
	Recurrent EPS growth (%)	6.0	(2.9)	(19.8)	8.8	9.8
	Gross margin (%)	51.3	52.3	49.6	50.2	50.9
	Operating EBITDA margin (%)	25.6	24.0	21.5	22.3	23.2
	Net profit margin (%)	17.2	16.7	14.6	15.3	16.0
	Dividend payout ratio (%)	124.3	103.3	110.0	81.3	80.5
	Capex/sales (%)	3.1	1.5	1.7	1.9	2.4
	Interest cover (x)	43.9	38.1	41.5	67.4	72.4

Source: Company data, RHB

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Figure 1: Results Summary

UNVR										FY21	FY21
IDRbn	4Q20	3Q21	4Q21	QoQ (%)	YoY (%)	12M20	9M21	12M21	YoY (%)	RHB	Cons
Sales	10,516	9,853	9,516	(3.4)	(9.5)	42,972	30,030	39,546	(8.0)	73.8	74.4
Gross profit	5,586	4,845	4,533	(6.4)	(18.8)	22,457	15,093	19,626	(12.6)		
Selling expense	2,042	2,050	1,598	(22.1)	(21.7)	8,629	6,266	7,864	(8.9)		
G&A expense	1,179	1,023	1,067	4.4	(9.5)	4,357	3,017	4,084	(6.3)		
Operating profit	2,365	1,773	1,868	5.4	(21.0)	9,471	5,810	7,678	(18.9)	72.0	72.9
Net interest income/(expense)	(88)	(57)	(33)	(41.4)	(62.1)	(244)	(149)	(183)	(25.1)		
FX gain (expense)	-	-	-	-	-	-	-	-	-		
Other income/ (expense)	(10)	2	(1)	(158)	(89)	(20)	3	2	(107.6)		
Pre-tax profit	2,267	1,718	1,834	6.8	(19.1)	9,207	5,663	7,497	(18.6)		
Taxation	(542)	(385)	(454)	18.1	(16.2)	(2,043)	(1,284)	(1,738)	(14.9)		
Net profit	1,725	1,333	1,379	3.5	(20.0)	7,164	4,379	5,758	(19.6)	71.8	72.8
Margin (%)											
Gross margin (%)	53.1	49.2	47.6			52.3	50.3	49.6			
Operating margin (%)	22.5	18.0	19.6			22.0	19.3	19.4			
Pre-tax margin (%)	21.6	17.4	19.3			21.4	18.9	19.0			
Net margin (%)	16.4	13.5	14.5			16.7	14.6	14.6			
Inventory days	45	47	11			43	31	44			
Receivable days	45	50	8			45	33	45			
Payable days	80	84	21			77	56	80			
Total cash	844	542	325			844	542	325			
Total debt	3,015	1,900	1,850			3,015	1,900	1,850			
Net gearing (%)	44.0	25.5	35.3			44.0	25.5	35.3			
Equity	4,937	5,326	4,321			4,937	5,326	4,321			
Sales breakdown	4Q20	3Q21	4Q21	QoQ	YoY	12M20	9M21	12M21	YoY		
HPC	7,195	6,565	6,324	-3.7%	-12.1%	29,991	20,053	26,376	-12.1%		
Food & refreshment	3,321	3,288	3,193	-2.9%	-3.9%	12,982	9,977	13,169	1.4%		
% contribution											
HPC	68.4	66.6	66.5			69.8	66.8	66.7			
Food & refreshment	31.6	65.7	33.5			30.2	33.2	33.3			
Gross profit											
HPC	4,064	3,376	3,201	-5.2%	-21.2%	16,813	10,666	13,867	-17.5%		
Food & refreshment	1,522	1,470	1,332	-9.4%	-12.5%	5,644	4,427	5,759	2.0%		
GP margin											
HPC	56.5%	51.4%	50.6%	-0.8	-5.9	56.1%	53.2%	52.6%	-3.5		
Food & refreshment	45.8%	44.7%	41.7%	-3.0	-4.1	43.5%	44.4%	43.7%	0.3		
EBIT											
HPC	2,260	1,762	1,973	11.9%	-12.7%	9,788	5,799	7,772	-20.6%		
Food & refreshment	674	572	489	-14.5%	-27.5%	1,941	1,608	2,097	8.0%		
EBIT margin											
HPC	31.4%	26.8%	31.2%	4.4	-0.2	32.6%	28.9%	29.5%	-3.2		
Food & refreshment	20.3%	17.4%	15.3%	-2.1	-5.0	15.0%	16.1%	15.9%	1.0		

Source: Company data, RHB

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Figure 2: RHB vs consensus

IDRbn	RHB			Consensus			RHB/Cons (%)		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Net revenue	40,703	40,996	43,046	40,352	41,990	44,146	100.9	97.6	97.5
Gross profit	19,751	20,599	21,925	20,190	21,189	22,466	97.8	97.2	97.6
EBITDA	8,940	9,148	9,997	8,787	9,361	10,071	101.7	97.7	99.3
EBIT	8,066	8,274	9,070	7,970	8,505	9,153	101.2	97.3	99.1
Profit before tax	7,839	8,154	8,950	7,738	8,294	8,901	101.3	98.3	100.6
NPAT	6,099	6,263	6,875	6,018	6,471	6,984	101.3	96.8	98.4

Source: Company data, Bloomberg, RHB

Figure 3: Changes to estimates

	New		Old		New/ Old (%)	
	2022F	2023F	2022F	2023F	2022F	2023F
Income statement (IDRbn)						
Total turnover	40,996	43,046	42,200	44,310	(2.9)	(2.9)
Gross profit	20,599	21,925	21,289	22,705	(3.2)	(3.4)
EBITDA	9,148	9,997	9,398	10,460	(2.7)	(4.4)
Net profit	6,263	6,875	6,390	7,163	(2.0)	(4.0)
Key metrics						
EPS (IDR)	164	180	168	188	(2.0)	(4.0)
Revenue growth (%)	3.7	5.0	3.7	5.0		
EPS growth (%)	8.8	9.8	4.8	12.1		
Gross margin (%)	50.2	50.9	50.4	51.2		
EBITDA margin (%)	22.3	23.2	22.3	23.6		
Net profit margin (%)	15.3	16.0	15.1	16.2		
Dividend payout ratio (%)	88.4	88.4	99.6	99.6		

Source: Company data, RHB

Recommendation Chart

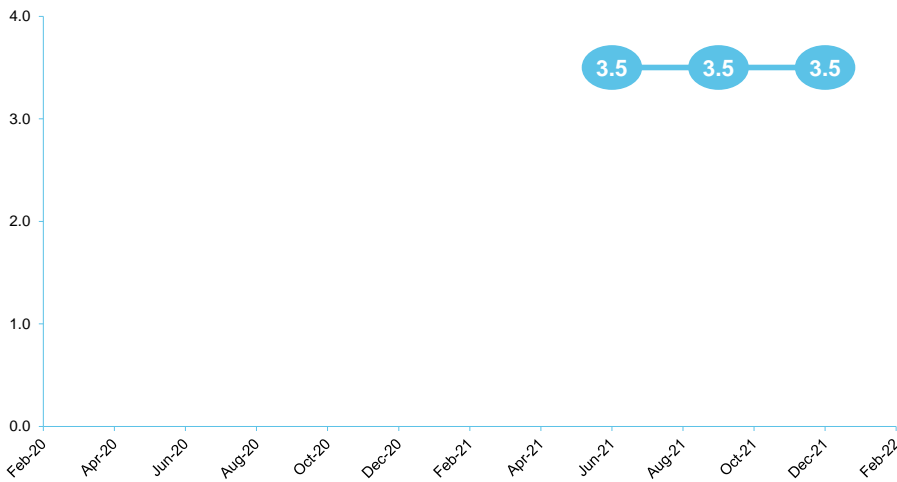


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-07-26	Buy	5,800	4,700
2021-07-15	Buy	6,800	5,150
2021-02-08	Buy	8,000	7,100
2020-03-12	Buy	8,600	7,225
2020-01-31	Neutral	8,600	7,950
2018-10-30	Neutral	46,900	8,900
2018-08-24	Buy	50,500	8,600

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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