

8 March 2021

Consumer Non-cyclical | Food &amp; Beverage Products

## Indofood CBP (ICBP IJ)

### Buy (Maintained)

### Bottoming Out? Defensive And Dirt Cheap; BUY

Target Price (Return): IDR11,500 (+35%)  
Price: IDR8,500  
Market Cap: USD6,932m  
Avg Daily Turnover (IDR/USD) 104,594m/7.43m

- **Maintain BUY and TP at IDR11,500, 35% upside and c.3% yield.** Post 16% share price underperformance YTD vs JCI, Indofood CBP currently trades at 15x 2021F P/E, or -2.3SD from its 3-year mean. Rising US Treasury 10-year bond (UST10YR) yield could increase traction to defensive names, – ICBP is a laggard with attractive valuation. Moreover, large FX gain on strengthening IDR at end-2020 should offset potentially weak 4Q20F EBIT margin. Given Pinehill's guaranteed performance, ICBP will likely perform well within 2021F expectations.
- **Start early on digital transformation.** ICBP's parent company, Salim Group, just signed a strategic partnership with Google Cloud to transform its business digitally. The conglomerate claimed that it is seeking to use the experience in big data and analytics to support the transformation. This partnership also enables the group to use advanced artificial intelligence (AI) and machine learning. Given the stay-at-home policy amidst the pandemic, there has been accelerated growth in internet usage, making digital platforms more relevant now. Salim's investment in Google Cloud should enable all its business units to better forecast consumer demand, which we believe will fundamentally be positive to the group, especially ICBP. We believe more targeted advertising should help ICBP to improve its advertising & promotion (A&P) spending budget.
- **Most of the bad news has been priced in.** The recent Pinehill acquisition, cessation with Pepsi Co through the acquisition of the JV company, weak 3Q20 results, and expected weak operational performance in 4Q20F due to continued high soft commodities prices should have been well reflected in the poor share price performance over the past three months. The share price has underperformed JCI by 16% YTD given optimism towards cyclical sectors during the market rally in 4Q20. We expect weaker 4Q20F results, while the ASP hike in the beginning of 1Q21F should partially offset the declining GPM. Past records of related-party transactions have worsened Salim Group's and ICBP's corporate governance.
- **Cheap valuation, defensive preferred over the short term.** ICBP is currently trading at 15x 2021F P/E – 48% discount to its regional fast-moving consumer goods (FMCG) peers. Compared to other staples – Mayora Indah (MYOR IJ, NEUTRAL, TP: IDR2,700) and Charoen Pokphand Indonesia (CPIN IJ, NEUTRAL, TP: IDR5,350) – ICBP is trading at 41% and 50% discount. At this stage, ICBP is the cheapest leading FMCG in Indonesia. Our economist expects UST10YR yield to further rise to 1.75%, which may affect the IDR outlook and JCI performance. We believe key laggards eg ICBP should outperform in the next few months before our economist expects declining UST10YR yield in 2H21F.

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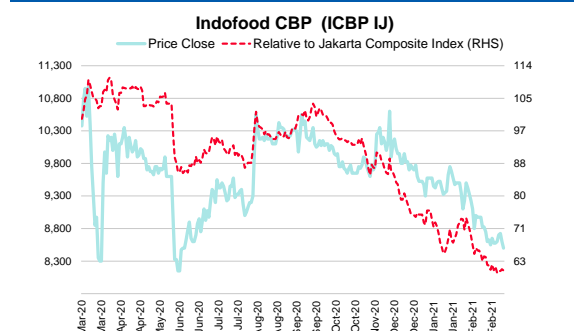


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.2)	(7.9)	(14.6)	(17.5)	(22.4)
Relative	(15.9)	(9.6)	(22.3)	(36.9)	(33.4)
52-wk Price low/high (IDR)	8,150 – 10,975				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (IDRb)	38,413	42,297	47,116	56,221	60,992
Recurring net profit (IDRb)	4,151	5,017	5,301	6,630	7,208
Recurring net profit growth (%)	1.7	20.8	5.7	25.1	8.7
Recurring P/E (x)	23.88	19.76	18.70	14.95	13.75
P/B (x)	4.6	3.9	3.2	2.8	2.5
P/CF (x)	24.11	13.85	25.11	14.44	12.52
Dividend Yield (%)	2.6	1.6	2.5	2.7	3.3
EV/EBITDA (x)	14.34	10.91	8.24	6.74	6.73
Return on average equity (%)	22.2	21.5	18.8	19.9	19.4
Net debt to equity (%)	net cash	net cash	71.0	55.8	64.6

Source: Company data, RHB

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (IDR)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
Indonesia	Recurring EPS	355.96	430.17	454.57	568.53	618.09
Consumer Non-cyclical	DPS	220.00	137.00	215.17	227.48	284.44
<b>Indofood CBP</b>	BVPS	1,853.81	2,169.53	2,694.08	3,037.77	3,374.28
ICBP IJ	Return on average equity (%)	22.2	21.5	18.8	19.9	19.4
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
We derive our 12-month TP IDR11,500 based on 10-year DCF with WACC of 7.7% and terminal growth rate of 1%.	Recurring P/E (x)	23.88	19.76	18.70	14.95	13.75
	P/B (x)	4.6	3.9	3.2	2.8	2.5
	FCF Yield (%)	2.6	5.8	1.7	4.0	5.5
	Dividend Yield (%)	2.6	1.6	2.5	2.7	3.3
	EV/EBITDA (x)	14.34	10.91	8.24	6.74	6.73
	EV/EBIT (x)	16.43	12.45	9.03	7.35	7.35
<b>Key drivers</b>						
Defensive noodle demand						
<b>Key risks</b>	<b>Income statement (IDRb)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
i. Peaked margins on rising raw material prices;	Total turnover	38,413	42,297	47,116	56,221	60,992
ii. Unfavourable restructuring on its snack division;	Gross profit	12,266	14,404	16,621	19,686	21,491
iii. Sooner-than-expected correction in commodities price recovery as global demand slowdown continues.	EBITDA	6,613	8,305	9,341	11,154	12,199
	Depreciation and amortisation	(841)	(1,027)	(812)	(929)	(1,029)
	Operating profit	5,772	7,278	8,529	10,225	11,170
	Net interest	87	128	(787)	(542)	(643)
	Pre-tax profit	6,447	7,437	7,777	9,724	10,572
	Taxation	(1,788)	(2,077)	(1,944)	(2,431)	(2,643)
	Reported net profit	4,576	5,039	5,327	6,661	7,242
	Recurring net profit	4,151	5,017	5,301	6,630	7,208
<b>Company Profile</b>	<b>Cash flow (IDRb)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
Indofood CBP manufactures instant noodles, dairy, baby food, food seasonings, coffee, and snacks.	Change in working capital	(1,197)	1,187	(2,476)	(1,049)	(713)
	Cash flow from operations	4,112	7,155	3,947	6,866	7,917
	Capex	(1,577)	(1,438)	(2,308)	(2,922)	(2,501)
	Cash flow from investing activities	(5,939)	(2,768)	(45,202)	(3,283)	(2,548)
	Cash flow from financing activities	(2,243)	(754)	41,967	(3,080)	(7,108)
	Cash at beginning of period	8,797	4,727	8,359	9,071	9,574
	Net change in cash	(4,070)	3,632	712	503	(1,739)
	Ending balance cash	4,727	8,359	9,071	9,574	7,835
	<b>Balance sheet (IDRb)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total cash and equivalents	4,727	8,359	9,071	9,574	7,835
	Tangible fixed assets	10,742	11,342	12,555	14,223	15,335
	Total investments	2,705	3,890	47,661	47,661	47,661
	Total assets	34,367	38,709	86,525	91,361	92,134
	Short-term debt	1,391	654	808	858	913
	Total long-term debt	667	1,695	31,901	29,901	34,391
	Total liabilities	11,660	12,038	53,231	53,427	49,588
	Total equity	22,707	26,671	33,294	37,934	42,545
	Total liabilities & equity	34,367	38,709	86,525	91,361	92,134
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	7.9	10.1	11.4	19.3	8.5
	Recurrent EPS growth (%)	1.7	20.8	5.7	25.1	8.7
	Gross margin (%)	31.9	34.1	35.3	35.0	35.2
	Operating EBITDA margin (%)	17.2	19.6	19.8	19.8	20.0
	Net profit margin (%)	11.9	11.9	11.3	11.8	11.9
	Dividend payout ratio (%)	56.1	31.7	47.1	39.8	45.8
	Capex/sales (%)	4.1	3.4	4.9	5.2	4.1
	Interest cover (x)	25.6	45.1	7.9	13.3	12.7

Source: Company data, RHB

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Figure 1: Sensitivity analysis

	New		Old		Changes	
	2021F	2022F	2021F	2022F	2021F	2022F
<b>Income Statement (IDRbn)</b>						
Total Turnover	58,072	62,957	56,221	60,992	3.3	3.2
Gross Profit	18,836	20,547	19,686	21,491	(4.3)	(4.4)
EBITDA	10,127	11,068	11,154	12,199	(9.2)	(9.3)
Net Profit	5,937	6,414	6,661	7,242	(10.9)	(11.4)
<b>Key Metrics</b>						
EPS (IDR)	509	550	571	621	(10.9)	(11.4)
BVPS (IDR)	2,976	3,272	3,038	3,374	(2.0)	(3.0)
Revenue Growth (%)	23.3	8.4	19.3	8.5		
EPS Growth (%)	11.5	8.0	25.0	8.7		
Gross Margin (%)	32.4	32.6	35.0	35.2		
EBITDA Margin (%)	17.4	17.6	19.8	20.0		
Net Profit Margin (%)	10.2	10.2	11.8	11.9		
ROE (%)	17.1	16.8	18.8	18.4		
P/E	17	15	15	14		

◆ Despite the expectation of lower margin in 2021F, our sensitivity suggests that ICBP is still trading at an attractive valuation at 16.7x 2021F P/E

◆ On the scenario, we uplift the raw materials cost of noodle by 10% and ASP by 4%, as the company increased ASP by 4% in 1Q21. This should translate to drop in earnings by 11%. Note that, the noodle division contributed 81% of ICBP's EBIT

Source: Company data, RHB

Figure 2: Regional peer comparison

BBG Ticker	Last px (LCY)	Rec	Target Price	Upside /Downside	Market Cap (USDm)	3M Avg Trading Vol (USDm)	P/BV (x)		P/E (x)		PEG	ROE (%)		Yield (%)	
							2021F	2022F	2021F	2022F		2021F	2022F	2021F	2022F
INDF IJ Equity	6,125	BUY	8,700	42.0%	3,761	6.2	1.2	1.1	8.7	7.9	0.7	13.7	13.9	4.4	5.1
ICBP IJ Equity	8,500	BUY	11,500	35.3%	6,932	8.3	3.0	2.6	15.3	13.7	1.2	20.4	19.6	2.4	2.8
UNVR IJ Equity	6,725	BUY	8,000	19.0%	17,941	9.5	49.6	46.3	34.6	33.0	6.5	143.2	140.5	2.8	2.9
MYOR IJ Equity	2,730	NEUTRAL	2,700	-1.1%	4,268	1.2	4.8	4.2	26.0	22.5	1.4	19.7	19.9	1.2	1.4
ROTI IJ Equity	1,400	BUY	1,450	3.6%	606	0.1	2.4	2.3	26.4	23.1	1.6	9.4	9.9	1.3	1.2
HOKI IJ Equity	258	BUY	338	30.8%	175	3.9	0.8	0.8	8.5	6.8	0.3	9.7	11.4	3.5	2.7
CPIN IJ Equity	6,350	NEUTRAL	4,750	-25.2%	7,282	4.1	4.2	3.9	30.4	29.3	7.6	13.9	13.3	1.2	1.4
JPFA IJ Equity	1,645	BUY	2,000	21.6%	1,349	3.2	1.6	1.4	11.9	11.1	1.4	13.3	12.9	1.2	2.1
<b>Sector Weighted</b>					<b>42,313</b>		<b>22.9</b>	<b>21.3</b>	<b>26.6</b>	<b>24.9</b>	<b>4.5</b>	<b>70.3</b>	<b>68.9</b>	<b>2.4</b>	<b>2.6</b>
CAB MK Equity	23.3	NEUTRAL	22.2	-4.7%	1,748	2.8	37.3	37.4	27.7	23.8	1.5	143.5	162.0	3.4	4.1
NESZ MK Equity	135.5	NEUTRAL	128.0	-5.5%	7,798	2.6	60.7	59.0	50.8	47.4	6.7	106.7	112.3	2.0	2.1
HEIM MK Equity	24.7	NEUTRAL	24.0	-2.8%	1,831	1.1	20.6	20.5	28.3	24.0	1.3	76.6	88.2	3.6	4.1
PWRT MK Equity	1.7	BUY	2.4	40.0%	176	0.3	2.9	2.9	20.2	15.7	0.6	14.1	18.8	5.1	6.4
OSP TB Equity	36.3	BUY	46.0	26.9%	3,571	15.8	5.6	5.4	28.4	25.6	2.4	20.1	21.6	3.0	3.4
BJC TB Equity	37.5	BUY	44.0	17.3%	4,929	24.0	1.3	1.2	26.1	22.0	1.2	4.9	5.5	2.0	2.3
CPF TB Equity	29.0	BUY	38.0	31.0%	8,002	49.5	1.3	1.2	10.8	10.5	3.4	11.5	11.3	3.7	3.8
TKN TB Equity	10.2	NEUTRAL	11.0	7.8%	462	8.0	5.8	5.4	28.7	22.7	0.9	21.6	25.2	2.1	3.0
<b>Sector Weighted</b>					<b>28,518</b>		<b>21.6</b>	<b>21.1</b>	<b>29.1</b>	<b>26.4</b>	<b>3.5</b>	<b>49.9</b>	<b>53.6</b>	<b>2.8</b>	<b>3.1</b>

Source: Bloomberg, RHB

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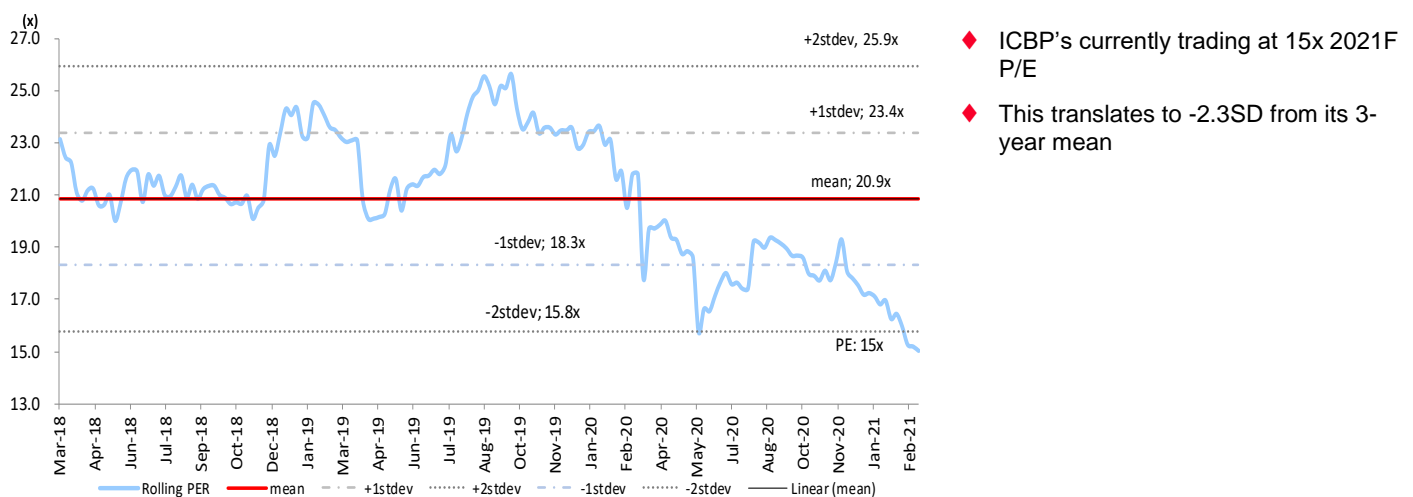
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Figure 3: ICBP's share price event



Source: Bloomberg, RHB

Figure 4: ICBP's 3-year rolling forward P/E band



Source: Company data, RHB

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## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-12-01	Buy	11,500	10,100
2020-05-25	Neutral	10,000	9,600
2020-03-24	Buy	11,700	8,300
2019-12-27	Neutral	11,700	11,175
2019-01-30	Buy	12,300	10,775
2018-08-24	Buy	10,300	8,875

Source: RHB, Bloomberg

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