

24 March 2023

Consumer Non-cyclical | Food & Beverage Products

## Indofood CBP (ICBP IJ)

**Buy** (Maintained)

### Ground Checks: Keeping Abreast Of Trends; BUY

Target Price (Return):	IDR12,500 (+29%)
Price (Market Cap):	IDR9,700 (USD7,372m)
ESG score:	2.90 (out of 4)
Avg Daily Turnover (IDR/USD)	41,904m/2.75m

- Maintain BUY and IDR12,500 TP, 29% upside and 3% yield.** We visited Yatai Ramen Indomie at Chillax, Jakarta – Indofood CBP’s instant noodle stall selling Indomie’s newly launched premium noodles (Tori Miso Ramen, Shoyu Ramen and Takoyaki) – which opened from 1-8 Mar. We note there was a sizeable crowd dining at the stall. The company simultaneously opened the concept stall in two other locations in Jakarta (Pantjoran PIK and Bloc M). All in, we believe this initiative will create brand awareness and sustain sales.
- Impact to ICBP.** We think the impact of the pop-up stalls will be minimal on sales. However, we see encouraging response by the public, more so if it goes viral online, especially with the younger generation. This could help to maintain brand awareness and sustain sales. Statistics Indonesia revealed that the average instant noodles weekly consumption per capita reached c.0.87pack/person (CAGR 2020-2022: 5.6%). Also, this premium product may provide the younger generation as well as mid-to-upper segment with a cheaper alternative to imported ramen products – Indomie’s premium ramen products are sold at c.50% lower per gram vs its competitors.
- Numerous initiatives at the forefront.** Other product launches like Supermi Nutrimi should help ICBP to capitalise on the growing health consciousness trend. Also, it has worked with diverse partners such as Rabbit Habit, a local beauty product brand, to boost brand recognition, especially among younger consumers and women. We like the effectiveness of its marketing strategies. The company has been able to extend its reach with minimal promotional effort to boost brand awareness. In fact, it has the lowest advertising & promotion expenses to revenue ratio vs other fast-moving consumer goods firms under our coverage – all this while maintaining its market dominance in instant noodles (c.70-75%).
- Staying ahead in dairy products.** It saw drop in market share in dairy products from 15% in Sep 2021 to 13% as of Sep 2022 given intensifying competition. We remain concern on the launch on its Indomilk Korean UHT series as competition by peers has been intense in monetising the Korean Wave. Most notably is Milk Life, which is currently promoting its BT21 (messaging app Line’s project with Korean pop group BTS) products and merchandise to fuel sales. Decreasing price of skim milk (used in ICBP’s products) may widen margins, but rising sugar prices may undermine this.
- Reiterate ICBP as our sector Top Pick.** Our channel checks show instant noodle prices remaining steady YTD in most of the areas in Java post c.11% price increase in 9M22. We pencil in a c.3% ASP increment in 2023 for instant noodles. We expect margins to improve as Bogasari may adjust flour prices this year along with the softening of CPO prices. Also, we believe ICBP is one of the defensive plays amidst a challenging economic scenario. Risks to our call include higher-than-expected IDR depreciation against USD and more challenging economic condition for the Pinehill market.
- We apply a 2% ESG discount** to our DCF-based intrinsic value, based on our in-house methodology, to derive our TP.

#### Analysts

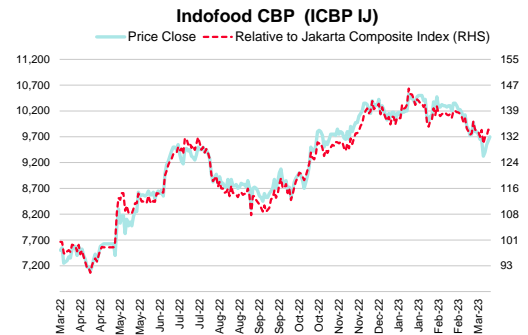
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.0)	(5.8)	(5.1)	11.5	30.2
Relative	(0.7)	(3.1)	(3.2)	18.4	34.0
52-wk Price low/high (IDR)	7,100 – 10,525				



Source: Bloomberg

#### Overall ESG Score: 2.90 (out of 4)

##### E: EXCELLENT

ICBP has implemented various programmes to ensure sound environmental management practices. These initiatives are focused on regulatory compliance, efficient use of resources, proper management of water and treatment of waste, utilisation of renewable energy sources, and mitigation of greenhouse gases.

##### S: GOOD

ICBP develops its human capital through a wide range of training and development programmes to improve people competency. All ICBP employees are also free to participate in any labour unions. The company also operates a fleet of mobile clinic throughout Java and Medan under Indofood Nutrition Care programme, providing free healthcare services and educating communities.

##### G: GOOD

Among the other staples companies, ICBP has shown poor corporate governance practices, and many of its related party transactions have been red-flagged.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (IDRb)	46,641	56,804	66,289	76,113	83,527
Recurring net profit (IDRb)	5,387	6,240	6,665	8,732	10,071
Recurring net profit growth (%)	7.4	15.8	6.8	31.0	15.3
Recurring P/E (x)	21.00	18.13	16.97	12.95	11.23
P/B (x)	3.8	3.3	3.0	2.6	2.3
P/CF (x)	18.82	7.71	na	11.85	9.80
Dividend Yield (%)	2.2	3.2	2.8	3.0	3.9
EV/EBITDA (x)	14.08	11.25	11.10	8.64	7.51
Return on average equity (%)	19.4	20.2	18.8	21.9	22.2
Net debt to equity (%)	43.6	38.7	45.4	31.9	20.3

Source: Company data, RHB

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## Financial Exhibits

Asia	Financial summary (IDR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Indonesia	Recurring EPS	461.90	535.11	571.51	748.79	863.58
Consumer Non-cyclical	DPS	215.00	311.27	273.90	287.89	376.88
<b>Indofood CBP</b>	BVPS	2,523.63	2,905.35	3,207.22	3,673.09	4,165.23
ICBP IJ	Return on average equity (%)	19.4	20.2	18.8	21.9	22.2
Buy						
	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Valuation basis</b>	Recurring P/E (x)	21.00	18.13	16.97	12.95	11.23
We derive our 12-month TP based on a 10-year DCF.	P/B (x)	3.8	3.3	3.0	2.6	2.3
	FCF Yield (%)	3.9	11.2	(5.9)	6.4	7.7
<b>Key drivers</b>	Dividend Yield (%)	2.2	3.2	2.8	3.0	3.9
i. Defensive noodles demand;	EV/EBITDA (x)	14.08	11.25	11.10	8.64	7.51
ii. Dominant market share allows for passing on of cost increases.	EV/EBIT (x)	15.94	12.49	12.17	9.44	8.26
	<b>Income statement (IDRb)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Key risks</b>	Total turnover	46,641	56,804	66,289	76,113	83,527
i. Rising raw material prices;	Gross profit	17,224	20,277	22,050	26,770	29,669
ii. IDR depreciation;	EBITDA	10,324	12,806	13,668	17,131	19,192
iii. Weaker-than-expected sales in the Pinehill market.	Depreciation and amortisation	(1,207)	(1,271)	(1,210)	(1,455)	(1,757)
	Operating profit	9,117	11,535	12,458	15,675	17,434
	Net interest	(326)	(1,786)	(1,426)	(1,574)	(1,172)
<b>Company Profile</b>	Pre-tax profit	8,679	9,935	11,099	14,178	16,346
Indofood CBP manufactures instant noodles, dairy, baby food, food seasonings, coffee, and snacks.	Taxation	(2,540)	(2,035)	(2,775)	(3,403)	(3,923)
	Reported net profit	5,308	6,388	6,715	8,790	10,134
	Recurring net profit	5,387	6,240	6,665	8,732	10,071
	<b>Cash flow (IDRb)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Change in working capital	(366)	7,169	(13,270)	(1,213)	(959)
	Cash flow from operations	6,012	14,680	(4,922)	9,542	11,548
	Capex	(1,553)	(1,978)	(1,723)	(2,256)	(2,841)
	Cash flow from investing activities	(61,858)	(2,320)	(1,054)	(2,492)	(2,946)
	Cash flow from financing activities	57,023	(1,518)	(6,384)	(6,291)	(7,361)
	Cash at beginning of period	8,359	9,535	20,378	8,017	8,776
	Net change in cash	1,176	10,842	(12,361)	759	1,241
	Ending balance cash	9,535	20,378	8,017	8,776	10,017
	<b>Balance sheet (IDRb)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	9,535	20,378	8,017	8,776	10,017
	Tangible fixed assets	13,351	14,176	14,266	14,557	15,025
	Total investments	10,645	11,069	11,069	11,069	11,069
	Total assets	103,588	118,067	107,996	111,487	115,075
	Short-term debt	725	838	870	927	989
	Total long-term debt	30,773	40,731	34,312	29,312	24,312
	Total liabilities	53,270	63,343	48,142	44,216	39,776
	Total equity	50,318	54,724	59,854	67,271	75,299
	Total liabilities & equity	103,588	118,067	107,996	111,487	115,075
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	10.3	21.8	16.7	14.8	9.7
	Recurrent EPS growth (%)	7.4	15.8	6.8	31.0	15.3
	Gross margin (%)	36.9	35.7	33.3	35.2	35.5
	Operating EBITDA margin (%)	22.1	22.5	20.6	22.5	23.0
	Net profit margin (%)	11.4	11.2	10.1	11.5	12.1
	Dividend payout ratio (%)	47.2	56.8	47.6	38.2	43.4
	Capex/sales (%)	3.3	3.5	2.6	3.0	3.4
	Interest cover (x)	13.6	5.9	6.4	8.6	12.5

Source: Company data, RHB

Figure 1: Yatai Ramen Indomie at Chillax Sudirman saw a healthy crowd...



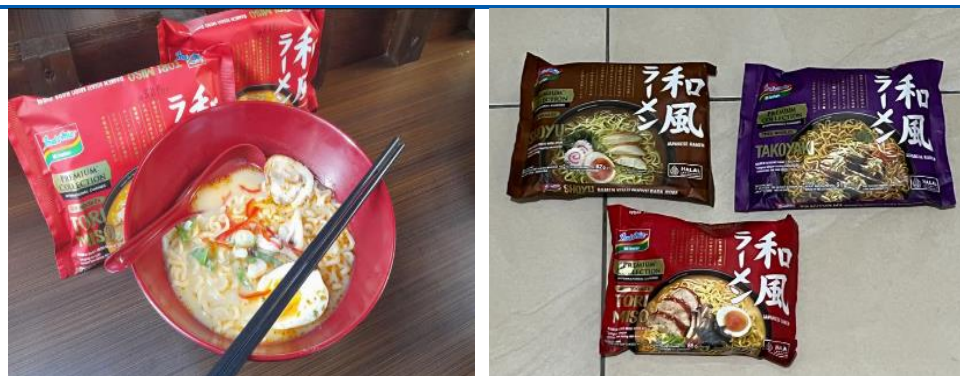
Source: Company data, RHB

Figure 2: ...even on a rainy day



Source: RHB

Figure 3: Indomie's premium ramen, priced at IDR6,000/pack...



Source: Kompas, RHB

Figure 4: ... is around 30-35% higher compared to its other instant noodle flavours...

Flavour	Volume (in grams)	Price (IDR/per pack)	Price per gram
Kaldu Ayam	75	3,100	41.3
Kari Ayam	72	3,500	48.6
Ayam Spesial	68	3,500	51.5
Soto Mie	70	3,380	48.3
Ayam Bawang	69	3,500	50.7
Mie Goreng	80	3,500	43.8
Mie Goreng Takoyaki	91	6,000	65.9
Mie Kuah Shoyu	82	6,000	73.2
Mie Kuah Tori Miso	86	6,000	69.8

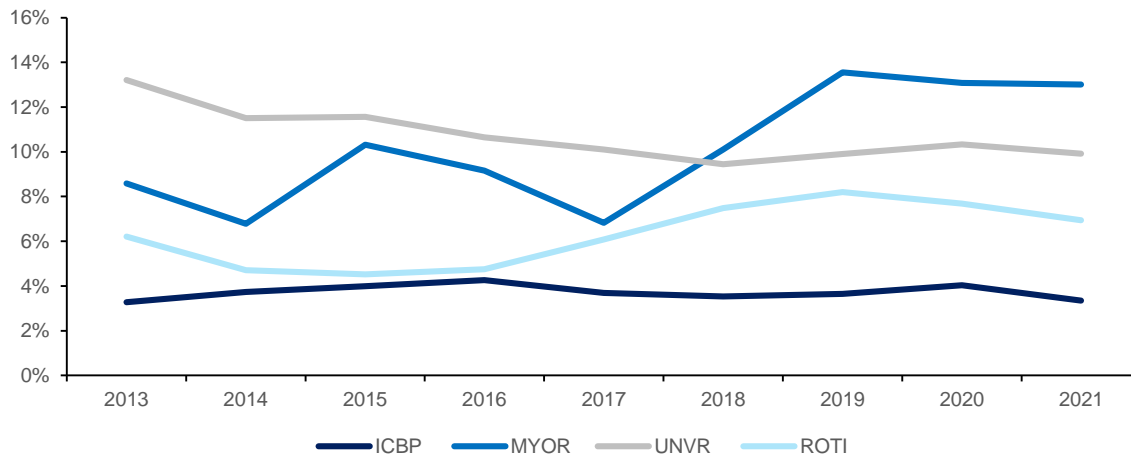
Source: Tokopedia, RHB

Figure 5: ... but still 50% cheaper vs other imported ramen products

Brand	Volume (in grams)	Price (IDR/per pack)	Price per gram
Indomie Mie Goreng Takoyaki	91	6,000	65.9
Indomie Mie Kuah Shoyu	82	6,000	73.2
Indomie Mie Kuah Tori Miso	86	6,000	69.8
Samyang Buldak Ramen Cream Carbonara	140	23,900	170.7
Samyang Buldak Ramen Mala	135	25,500	188.9
Samyang Ramen Spicy	120	17,500	145.8
Samyang Buldak Ramen Jjajang	140	22,900	163.6
Samyang Buldak Ramen Stew	145	23,900	164.8
Samyang Mie Instant Goreng Pedas Ayam	130	26,200	201.5
Arirang Mie Instant Kuah Sum Sum	110	12,500	113.6
Arirang Mie Instant Goreng Pedas	130	12,500	96.2
Arirang Mie Instant Goreng Ayam	130	12,500	96.2

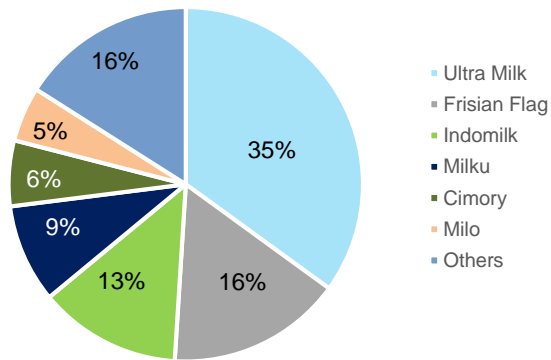
Source: Tokopedia, KlikIndomaret, RHB

Figure 6: ICBP has the lowest advertising & promotion to revenue ratio among its peers



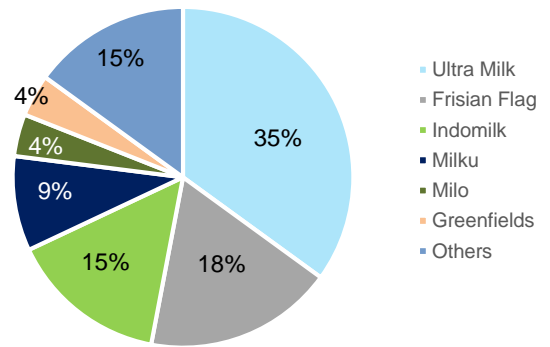
Source: Company data, RHB

Figure 7: UHT volume market share YTD-30 Sep 2022



Source: Ultrajaya (ULTJ IJ, NR), Nielsen, RHB

Figure 8: UHT volume market share YTD-30 Sep 2021



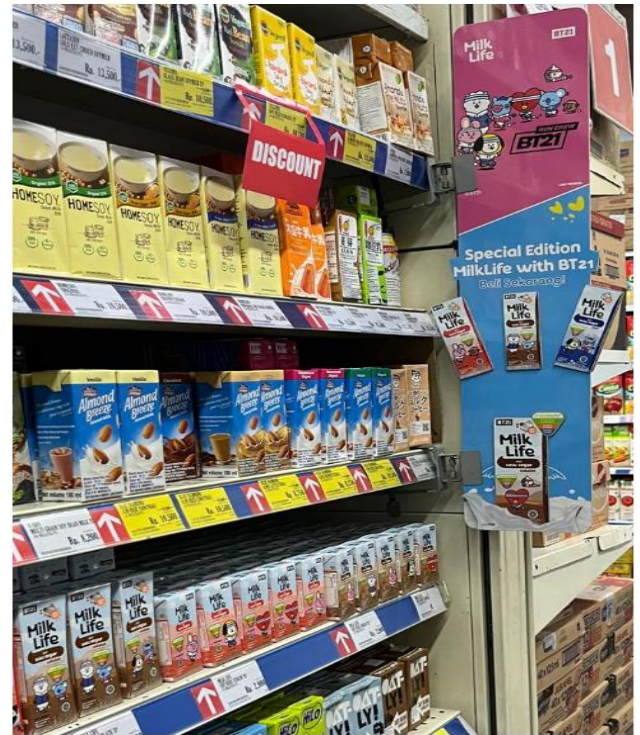
Source: Ultrajaya (ULTJ IJ, NR), Nielsen, RHB

Figure 9: Indomilk's Korean UHT series



Source: Company, RHB

Figure 10: Milk Life's BT21 promotional packaging



Source: RHB

Figure 11: Instant noodle prices in Central Java

	31-Dec-22	31-Jan-23	28-Feb-23	10-Mar-23
<b>Provinsi Jawa Tengah</b>	<b>2,778</b>	<b>2,909</b>	<b>2,823</b>	<b>2,829</b>
Kab. Banyumas	3,000	3,000	3,000	3,000
Kab. Purbalingga	2,733	2,767	2,767	2,767
Kab. Kebumen	3,000	3,000	3,000	3,000
Kab. Purworejo	3,125	3,125	3,125	3,125
Kab. Wonosobo	3,100	3,100	3,100	3,100
Kab. Magelang	2,800	2,500	2,500	2,500
Kab. Klaten	3,000	3,000	3,000	3,000
Kab. Sukoharjo	3,000	3,000	3,000	3,000
Kab. Wonogiri	3,000	3,000	3,000	3,000
Kab. Karanganyar	3,000	3,000	3,000	3,000
Kab. Sragen	2,883	2,883	2,883	2,933
Kab. Grobogan	3,000	3,000	3,000	3,000
Kab. Blora	2,550	2,550	2,550	2,550
Kab. Pati	2,500	2,500	2,500	2,500
Kab. Kudus	2,500	2,500	2,900	2,900
Kab. Jepara	3,000	3,000	3,000	3,000
Kab. Demak	2,500	2,500	2,500	2,500
Kab. Temanggung	3,000	3,000	3,000	3,000
Kab. Kendal	3,000	3,000	3,000	3,000
Kab. Batang	3,000	3,000	3,000	3,000
Kab. Pekalongan	3,000	3,000	3,000	3,000
Kab. Pemalang	3,000	3,000	3,000	3,000
Kab. Tegal	2,800	2,800	2,800	2,800
Kab. Brebes	3,500	3,000	3,000	3,000
Kota Magelang	2,700	2,900	2,900	2,900
Kota Surakarta	2,800	2,800	2,800	2,800
Kota Salatiga	2,950	3,167	3,167	3,167
Kota Semarang	3,000	3,000	3,000	3,000
Kota Pekalongan	3,100	3,500	3,500	3,500
Kota Tegal	2,400	2,600	2,600	2,600

Source: Central Java Commodity Production and Price Information System (SiHaTi)

**Note:**

**Yellow highlight:** prices remained unchanged

**Red highlight:** prices were trending down

**Blue highlight:** prices were trending up

Figure 12: Instant noodle prices in West Java

	31-Dec-22	31-Jan-23	28-Feb-23	10-Mar-23
<b>Provinsi Jawa Barat</b>	<b>3,300</b>	<b>2,939</b>	<b>2,939</b>	<b>2,995</b>
Kota Bandung	3,000	3,000	3,000	3,000
Kota Banjar	3,000	3,000	3,000	3,000
Kota Bekasi	3,000	3,000	3,000	3,000
Kota Bogor	3,500	3,500	3,500	3,500
Kota Cimahi	2,800	2,800	2,800	2,800
Kota Cirebon	3,050	3,050	3,050	3,050
Kota Depok	2,800	2,800	2,800	2,800
Kota Sukabumi	2,900	2,900	2,900	2,900
Kota Tasikmalaya	2,800	2,800	2,800	2,800
Kab. Bandung	3,000	3,000	3,000	3,000
Kab. Bandung Barat	3,070	3,067	3,033	3,033
Kab. Bekasi	3,500	3,500	3,500	3,500
Kab. Bogor	3,100	2,900	3,000	3,000
Kab. Ciamis	2,100	2,100	2,100	3,000
Kab. Cianjur	3,050	3,150	3,150	3,150
Kab. Cirebon	2,800	2,800	2,800	2,800
Kab. Garut	3,000	3,000	3,000	3,000
Kab. Indramayu	3,000	3,000	3,000	3,000
Kab. Karawang	3,500	3,500	3,500	3,500
Kab. Kuningan	3,000	3,000	3,000	3,000
Kab. Majalengka	2,960	2,960	2,960	2,960
Kab. Pangandaran	2,900	2,900	2,900	2,900
Kab. Purwakarta	2,933	2,933	2,933	2,933
Kab. Sabang	3,000	3,000	3,000	3,000
Kab. Sukabumi	2,975	2,975	2,975	2,975
Kab. Sumedang	2,800	2,867	2,867	2,867

Source: West Java Inflation Control Information System (SILINDA DI JABAR)

**Note:**

*Yellow highlight: prices remained unchanged*

*Red highlight: prices were trending down*

*Blue highlight: prices were trending up*

Figure 13: Instant noodle prices in East Java

	31-Dec-22	31-Jan-23	28-Feb-23	10-Mar-23
<b>Prov Jawa Timur</b>	<b>3,016</b>	<b>3,020</b>	<b>3,032</b>	<b>3,034</b>
Kab. Bangkalan	3,000	3,000	3,000	3,000
Kab. Banyuwangi	2,900	2,900	2,900	2,900
Kab. Blitar	3,000	3,000	3,100	3,200
Kab. Bojonegoro	2,500	2,750	2,750	2,750
Kab. Bondowoso	2,500	2,500	2,500	2,500
Kab. Gresik	3,167	3,167	3,333	3,333
Kab. Jember	2,960	2,960	2,950	2,950
Kab. Jombang	3,000	3,000	2,900	2,900
Kab. Kediri	3,100	2,900	2,933	2,933
Kab. Lamongan	3,000	3,000	3,000	3,000
Kab. Lumajang	3,500	3,500	3,500	3,500
Kab. Madiun	3,375	3,500	3,500	3,500
Kab. Magetan	2,900	2,900	2,900	2,900
Kab. Malang	3,000	3,000	3,000	3,000
Kab. Mojokerto	2,950	2,950	2,950	3,000
Kab. Nganjuk	2,733	2,900	2,900	2,900
Kab. Ngawi	3,000	3,000	3,000	3,000
Kab. Pacitan	3,167	3,167	3,333	3,333
Kab. Pamekasan	3,000	3,250	3,250	3,250
Kab. Pasuruan	2,933	2,933	2,933	2,933
Kab. Probolinggo	2,967	3,000	3,000	3,000
Kab. Sampang	3,500	3,500	3,500	3,500
Kab. Sidoarjo	3,000	3,000	3,000	3,000
Kab. Situbondo	2,733	2,733	2,733	2,733
Kab. Sumenep	3,500	3,500	3,500	3,500
Kab. Trenggalek	3,500	3,500	3,500	3,500
Kab. Tuban	3,000	3,000	3,000	3,000
Kab. Tulungagung	3,067	3,067	3,067	3,067
Kota Batu	3,250	3,175	3,175	3,175
Kota Blitar	3,000	3,000	3,000	3,000
Kota Kediri	3,000	3,000	3,000	3,000
Kota Madiun	2,667	2,667	2,667	2,667
Kota Malang	3,083	3,017	3,050	3,050
Kota Mojokerto	3,000	3,000	3,000	3,000
Kota Pasuruan	2,800	2,900	2,900	2,900
Kota Probolinggo	2,867	2,867	2,867	2,867
Kota Surabaya	3,133	3,133	3,133	3,133

Source: East Java Main Commodity Availability and Price Trend Information Centre (SISKAPERBAPO)

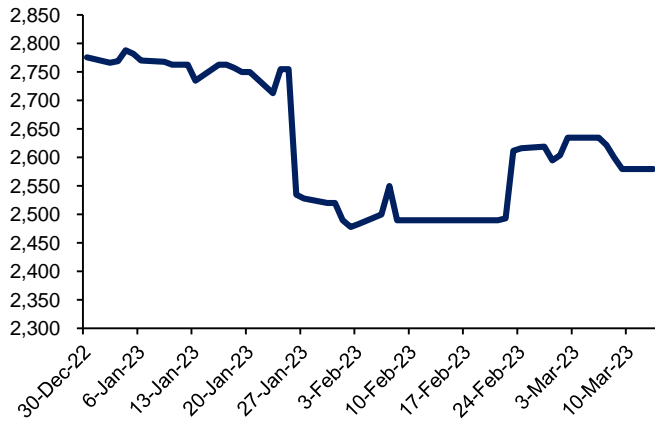
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Red highlight: prices were trending down

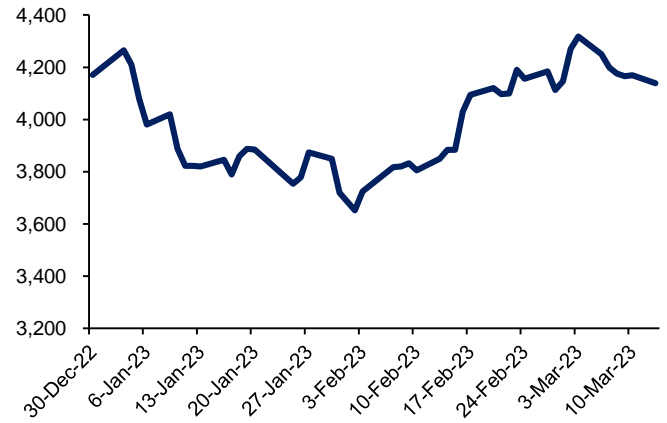
Blue highlight: prices were trending up

Figure 14: Skim milk prices YTD (EUR/tonne)



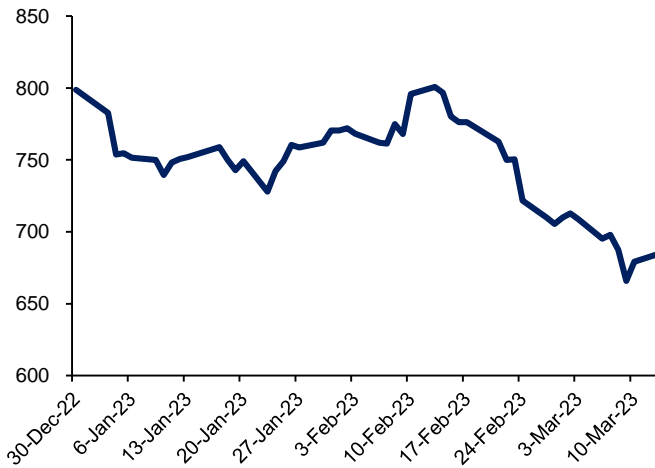
Source: Bloomberg, RHB

Figure 15: CPO prices YTD (MYR/tonne)



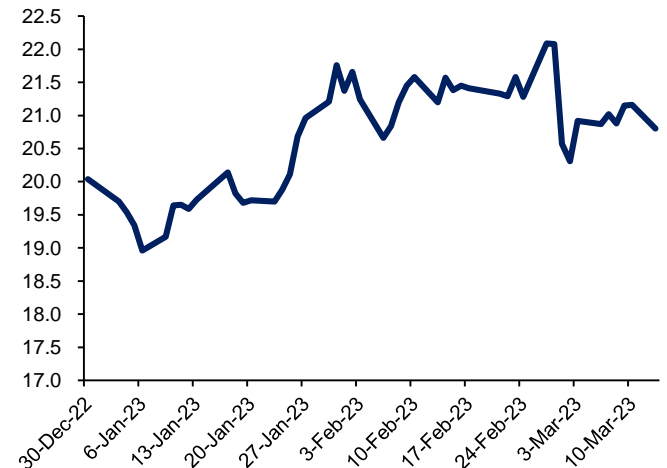
Source: Bloomberg, RHB

Figure 16: Wheat prices YTD (USD/bushel)



Source: Bloomberg, RHB

Figure 17: Sugar prices YTD (USD/lb)



Source: Bloomberg, RHB

### Recommendation Chart

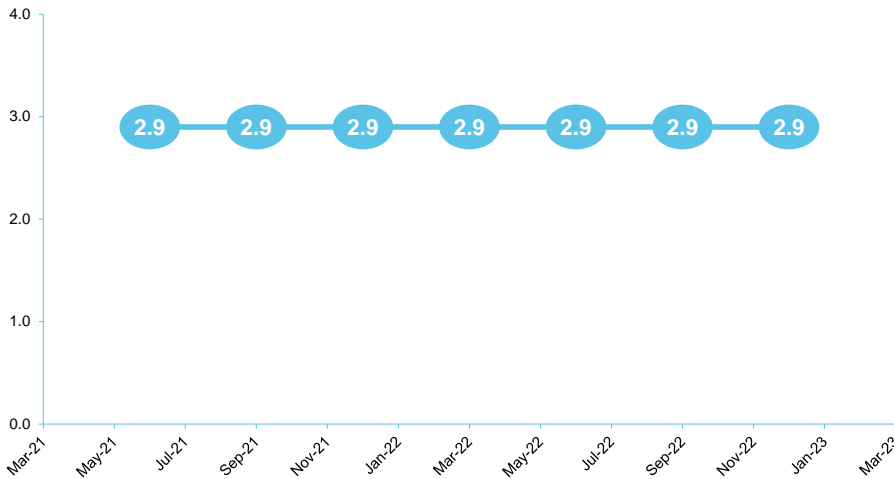


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-12-06	Buy	12,500	10,350
2022-09-01	Buy	12,000	8,700
2022-07-07	Buy	12,000	9,475
2021-08-30	Buy	11,000	8,600
2021-07-02	Buy	12,100	8,425
2021-03-24	Buy	11,900	9,250
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
2019-08-01	Buy	12,300	10,700
2019-03-25	Buy	12,300	9,400
2019-01-30	Buy	12,300	10,775
2018-11-01	Buy	10,300	8,925
2018-10-03	Buy	10,300	8,825

Source: RHB, Bloomberg

### ESG Rating History



Source: RHB

## RHB Guide to Investment Ratings

<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
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