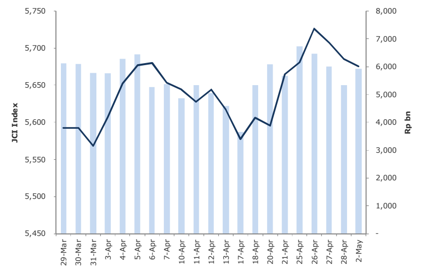
INDOPREMIER

Equity | Indonesia | Research Daily

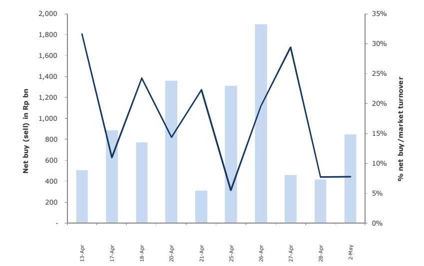
3 May 2017

Premier Insight

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,676	-0.2%	17.9%	7.2%
LQ45	941	0.0%	13.7%	6.3%
DJI	20,950	0.2%	18.0%	6.0%
SET	1,564	-0.1%	11.9%	1.4%
HSI	24,696	0.3%	19.4%	12.3%
NKY	19,311	0.6%	19.6%	1.7%
FTSE	7,250	0.6%	17.2%	1.5%
FSSTI	3,211	1.1%	14.2%	11.5%
EIDO	27	0.6%	16.8%	9.9%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	47.7	-2.4%	6.4%
CPO/tonne	590.9	1.6%	-1.7%
Soy/bushel	9.4	-0.2%	-9.5%
Rubber/kg	2.3	0.6%	21.2%
Nickel/tonne	9,463	0.6%	0.6%
Tins/tonne	20,015	0.1%	16.0%
Copper/tonne	5,771	1.1%	14.0%
Gold/try.oz (Spot)	1,255	-0.1%	-2.4%
Coal/tonne	79.0	-0.5%	54.9%
Corn/bushel	3.5	-1.5%	-8.8%
Wheat/bushel*	146.4	-0.6%	-10.8%

** : 1 month change*

Source : Bloomberg

Indofood CBP (ICBP IJ; Hold)

Strong 1Q17, looming tight margin

- **1Q result was within expectation.**
- **Growing EBIT in noodle division, given strong top-line.**
- **Dairy division was hit by raw material price hike.**
- **Maintain Hold at TP Rp8,700.**

In-line 1Q17 results, helped by decelerating opex. ICBP reported net profit of Rp1.1tn (+42% qoq, +16% yoy) in 1Q17, still in-line with our/consensus expectation, on the back of improving sales and operating profit. Sales grew by+18% qoq and +6% yoy to Rp9.5tn (forming 25% of our FY17 forecast), which mainly driven by noodles, dairy, and snacks division. EBIT margin showed at 16% (+110bps yoy), thanks to positive EBIT growth from noodles and snacks with decelerated opex (-0.8% yoy) in 1Q17. Opex-to-sales ratio in 1Q17 reached 15.5% (below the 3-year average at 16%), mainly attributable from lower-than-average freight and distribution cost. In our view, these two costs were not sustainable, and combined with advertisement expense, should be accelerating in the coming quarter to meet high demand in festive season. Thus, we expect EBIT margin to normalize back to 13% in FY17F, pressuring bottom-line margin.

Noodle division booked strong EBIT. In noodle division, the sales growth (+2.6% yoy) was contributed from higher ASP with flat volume. In January, ICBP increased its ASP on the upper segment products, while maintaining the price point for the lower segment. This initiative was in-line with the management strategy in bolstering profitability from the premium noodle products as it targets the upper income consumers. EBIT margin expanded to 19% (+300bps yoy) in 1Q17, which we expect to be momentarily as the heighten competition should bring margin back to its normal at 16% in FY17F.

Profitability in dairy division was hit by higher input cost. In 1Q17, dairy division posted sales growth of 9% yoy, supported by growing sales volume (+11% yoy) with flat ASP. However, profitability was hit, shown by EBIT fell -9% yoy and EBIT margin shrank to 15.5% (1Q16: 18.5%), caused by higher skim milk price (+3% yoy). In addition, stiffer competition should limit dairy division ability in increasing ASP. Thus, we expect tight operating margin at c.10% in 2017.

Reiterate Hold. We maintain our forecast and Hold recommendation for the stock, given the in-line result in 1Q17 and modest growth expectation in FY17F. We expect 2Q achievement to be strong given the effect of Easter and Lebaran season. Upside risk: lower raw material price (skim milk & wheat), better-than-expected recovery in lower tier consumers' purchasing power.

Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue(RpBn)	31,741	34,466	37,898	41,815	46,190
EBITDA(RpBn)	3,908	4,936	4,720	5,215	5,753
EBITDA Growth (%)	27.6	26.3	(4.4)	10.5	10.3
Net Profit(RpBn)	3,001	3,600	3,753	4,180	4,588
EPS (Rp)	257	309	322	358	393
EPS Growth (%)	15.2	20.0	4.2	11.4	9.8
Net Gearing (%)	(29.8)	(35.2)	(40.1)	(40.3)	(36.6)
PER (x)	32.7	27.3	26.2	23.5	21.4
PBV (x)	6.0	5.3	4.7	4.2	3.8
Dividend Yield (%)	1.3	1.5	1.6	1.8	2.1
EV/EBITDA (x)	26.4	21.2	22.6	20.6	18.7

Source : ICBP,IndoPremier *Share Price Closing as of : 27-April-2017*

Indofood Sukses Makmur (INDF IJ; Buy)

Solid 1Q17, strong outlook in Agri

- **In-line 1Q results, bottom-line margin increased.**
- **Agribusiness came strong, contributing 31% to INDF's EBIT.**
- **Opex slowed in 1Q mainly from ICBP, expect opex to increase in 2Q.**
- **Bogasari profitability was pressured, given low wheat price.**
- **Reiterate Buy with TP of Rp9,400.**

Strong 1Q17, within expectation. INDF booked net profit of Rp1.2tn in 1Q17 (+33% qoq, +11% yoy), still within our/consensus expectation (forming 27% of FY17F), on the back of strong top-line. Sales was reported at Rp17.8tn (+6% qoq, +8% yoy), backed by ICBP and Agribusiness positive sales growth. EBIT booked strong growth (+19% qoq, +35% yoy) and EBIT margin expanded to 14.4% (1Q16: 11.5%), on the back of slowed operating expense from consumer branded product business (ICBP). Meanwhile, lower interest expense was compesated for higher tax paid, which lead net margin to have slight increase to 6.8% (+18bps).

Recovery in Agribusiness. Agribusiness' EBIT growth recorded high at 272% yoy helped by both factors: 1) last year low base and 2) better top-line. Sales was booked at Rp4.4tn (+4% qoq, +40% yoy), supported from both divisions, plantation and edible oils & fats (EOF). In plantation division, CPO and PK shown solid volume growth (+6%/+23% yoy) with strong ASP increase (+35%/+90% yoy, respectively), which significantly affect plantation EBIT margin to 28.5% in 1Q. Despite lower EOF's EBIT margin (hit by higher CPO price), Agribusiness still booked positive EBIT margin at 18% (1Q16: 7%).

Opex slowed in 1Q, expect to increase in coming quarters. We noted that INDF's opex-to-sales ratio has decreased to 15.8% in 1Q17 (1Q16: 16.5%), driven by lower-than-average freight and distribution expense in ICBP. We believe these two costs were not sustainable, and combined with aggressive competition in F&B sector, opex should catch up in coming quarters to secure market share during festive season.

Bogasari's performance was hit by lower ASP. Despite growing volume (+4% yoy), sales growth in Bogasari was depressed (-7% yoy), mainly from lower global wheat price. EBIT fell to Rp306bn (-32% yoy) and margin compressed to 6.7% in 1Q17, yet still within sustainable 6-8% margin span.

Buy opportunity with TP of Rp9,400. Based on 1Q17 in-line results, we maintained our FY17 forecast and reiterate Buy at TP of Rp9,400. Amidst soft margin pressure on ICBP, we believe higher CPO price will benefit INDF for 2017. Downside risks: falling CPO price and slower recovery in consumer purchasing power.

Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue(RpBn)	64,062	66,750	76,849	83,352	89,599
EBITDA(RpBn)	8,744	10,377	12,117	13,122	14,094
EBITDA Growth (%)	(2.3)	18.7	16.8	8.3	7.4
Net Profit(RpBn)	2,968	4,145	4,392	4,902	5,038
EPS (Rp)	338	472	500	558	574
EPS Growth (%)	(24.7)	39.6	6.0	11.6	2.8
Net Gearing (%)	33.7	20.6	21.8	17.7	15.8
PER (x)	23.6	16.9	15.9	14.3	13.9
PBV (x)	1.6	1.6	1.5	1.4	1.4
Dividend Yield (%)	2.8	2.1	2.9	3.1	3.5
EV/EBITDA (x)	6.3	5.9	5.0	4.7	4.4

Source : INDF,IndoPremier *Share Price Closing as of : 27-April-2017*

News & Analysis

Corporates

BEST: Bekasi Fajar Industrial Estate (BEST IJ; Rp 290; Not Rated) booked an earnings of Rp83bn (-33% yoy) in 1Q17, which is in-line with consensus estimates (formed 22% of FY17F). Here are some key takeaways:

- Despite flat revenue and gross profit, company saw higher interest expense and decrease in forex gain, which pressured 1Q17's net margin to 44.9% from 67.4% in 1Q16.
- Reported marketing sales of 7ha in 1Q17 with ASP 2.6mn/sqm which purchased by local company which engaged in consumer sector vs. 0ha in 1Q16.
- BEST received significant inquiry level of 69ha per April 2017 and targets marketing sales of 30-40ha in FY17 (+20% yoy) vs. 31.3ha in FY16. (Company)

CTRA: Ciputra Development (CTRA IJ; Rp1,215; Buy) posted net profit of Rp228bn (+9% yoy) with net margin expanded to 17.9% from 16% as company recorded Rp65bn from gain on disposal of investment in associates. Revenue and operating profit decreased 3% and 14% with gross and operating margin dropped to 47.5% and 22.7% (1Q16: 50.1% and 25.6%) as company see higher COGS on the operation. (Company).

Comment: CTRA's 1Q17 was inline with our expectation but higher than consensus. We like CTRA given its solid sales in Surabaya and its diversified portfolio across cities in Indonesia. Maintain BUY.

MPPA: Matahari Putra Prima (MPPA IJ; Rp975; Hold) booked net loss of Rp177bn (+72% yoy) in 1Q17, on the back of lower sales and high operating cost. Net sales was reported at Rp3.1tn (-1% qoq, +3.5% yoy), still in-line with our/consensus expectation (22%/21% of FY17F, respectively). High opex growth (+22% qoq, +26% yoy) depressed EBIT margin to negative 7% (1Q16: -3%). (Company).

Comment: Amidst negative SSSG and challenging supermarket environment, MPPA booked relatively good result in 1Q17, given the expansion in gross margin to 14% (1Q16: 13%). However, opex shoot up in 1Q, which bring opex-to-net sales at 21% (+49bps yoy), mainly from the allowance on receivables booked in this quarter and high gross rental cost growth (+30% yoy).

PRDA: Prodia (PRDA IJ; Rp4,610; Buy) posted net profit of Rp32bn (+34% yoy), with net margin expanded to 9.3% from 7.8% in 1Q17. This is in-line with ours and consensus with 27/25% of FY17F estimates. Revenue increased 6% yoy while operating profit grew 23% yoy, thanks to higher intrest income from IPO proceeds. (Company).

Comment: PRDA's result is inline with ours and consensus expectation and has shown solid 1Q17 result. Maintain Buy.

RALS: Ramayana (RALS IJ; Rp1,305; Buy) sees a sales pickup (+12%) in April 2017, supported from fashion division (+17% yoy) while supermarket was relatively flat, due to Lebaran season. RALS expect 10% sales growth in period May to July 2017 (Lebaran), which contributes 43% of total FY17 sales. (Kontan)

Comment: We are positive with the early sales pickup (+12% yoy) in April, bringing net sales to Rp2.1tn YTD. RALS forecasts 10% sales growth in May'17 and within our net sales expectation at Rp6.2tn (forming 45% of FY17F). We maintain Buy on RALS.

Markets & Sector

Telecommunication sector: The Telecommunication Authority Body (BRTI) indicated to issue new ruling to determine the production cost of voice service, SMS and data. The production cost should cover network cost, operational expenses and promotion. BRTI claims to set the formulation of the cost and not to determine the production cost itself. BRTI intends to create a healthy competitive environment which is sustainable. (Bisnis Indonesia).

INDOPREMIER

Head Office

PT INDO PREMIER SEKURITAS

Wisma GKBI 7/F Suite 718

Jl. Jend. Sudirman No.28

Jakarta 10210 - Indonesia

p +62.21.5793.1168

f +62.21.5793.1167

INVESTMENT RATINGS

BUY : Expected total return of 10% or more within a 12-month period
HOLD : Expected total return between -10% and 10% within a 12-month period
SELL : Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION.

The views expressed in this research report accurately reflect the analyst;s personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.