

Indofood CBP (ICBP JJ)

27 March 2017

Result Note

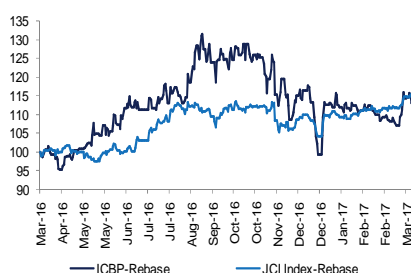
HOLD (Unchanged)

StockData

Target price (Rp)	Rp8,700
Prior TP (Rp)	Rp9,500
Shareprice (Rp)	Rp8,600
Upside/downside (%)	+1.2
Sharesoutstanding (m)	11,662
Marketcap. (US\$ m)	7,526
Free float (%)	19.5
Avg. 6m dailyT/O (US\$ m)	3.0

Price Performance

	3M	6M	12M
Absolute (%)	-0.3	-9.2	12.2
Relative to JCI (%)	-5.3	-13.0	-2.7
52whigh/low (Rp)	8,600 - 7,250		



Major Shareholders

Indofood SM	80.5%
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Estimate Change; Vs. Consensus

	2016F	2017F
Latest EPS (Rp)	322	358
Vs. Prior EPS (%)	(9)	(11)
Vs. Consensus (%)	(6.1)	(6.0)

Source: Bloomberg

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Tough outlook looms, tight margin

- In-line 4Q16 achievement, decent earnings growth.
- Looming margin compression in FY17F.
- Lower FY17/18F earnings given tough competition.
- Maintain Hold with lower TP of Rp8,700.

Earnings was in-line with consensus. PT Indofood CBP (ICBP) reported net profit of Rp3.6tn (+20% yoy) in FY16, in-line with our forecast/consensus, on the back of growing revenue and lower interest expense throughout the year. Revenue grew by 8.6% yoy in FY16, which mainly driven by better volume sales growth in snack and dairy division. On quarterly basis, its overall revenue growth slowed by -3.6% qoq, but still better than last year (+4.6% yoy). Looking at noodle and dairy segment sales growth, noodle (-2% qoq, +5% yoy) and dairy (-8% qoq, +2% yoy) still booked slight sales increase amid tough competition in this soft 4Q. To note the quarter-on-quarter drop was a cyclical in nature as retailers have frontloaded the purchase in 3Q16 to prepare the year-end demand.

Slower margin expansion in 4Q16. In 4Q16, gross profit was reported at Rp2.4tn (-11% qoq, +8% yoy) and gross margin at 30% (vs. 4Q15: 29.1%). We expect margin to contract in 2017 on the back of higher material price (ie. palm oil and sugar). We also note that the strong dairy performance in FY16, +17% volume growth and higher EBIT margin at 17%, should not be sustainable, as the competitors have yet to compete in securing market share. We assume more aggressive ads & promotion expense that could hamper dairy's EBIT margin in the future. Meanwhile in noodle segment, weaker volume growth is expected in mature business, but the premiumization strategy has proven to be successful. Better sales mix has increased noodle ASP in 4Q16 (+3% qoq, +8.5% yoy), resulting in stable EBIT margin at 17%.

Earnings revision. We cut FY17/18F earnings by -9%/-11% respectively, after we incorporate lower EBIT growth in dairy and snack segment amidst tougher competition. In addition, we factor in the higher raw material costs (skim milk powder, sugar, palm oil), bringing lower gross margin to 29.8% in FY17F. Our revision is still in-line with 2017 guidance as the management guided for lower EBIT margins across all segments. Higher A&P and distribution cost should lead to overall FY17F EBIT margin at 12.5%.

Hold warranted. We reduce our PE-based TP to Rp8,700 (from Rp9,500), using 27x multiple (at par with 5year historical PE). We reiterate Hold rating for this stock, given the higher operating expense, higher raw material cost, and tight competition will normalize margin post FY16 achievement. Upside risks include: lower material cost YTD, strong uptick in consumer buying appetite.

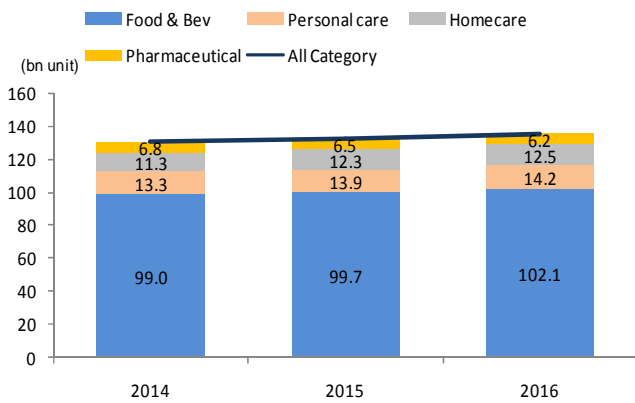
Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (RpBn)	31,741	34,466	37,898	41,815	46,190
EBITDA (RpBn)	3,908	4,936	4,720	5,215	5,753
EBITDA Growth (%)	27.6	26.3	(4.4)	10.5	10.3
Net Profit (RpBn)	3,001	3,600	3,753	4,180	4,588
EPS (Rp)	257	309	322	358	393
EPS Growth (%)	15.2	20.0	4.2	11.4	9.8
Net 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 : 24-March-2017

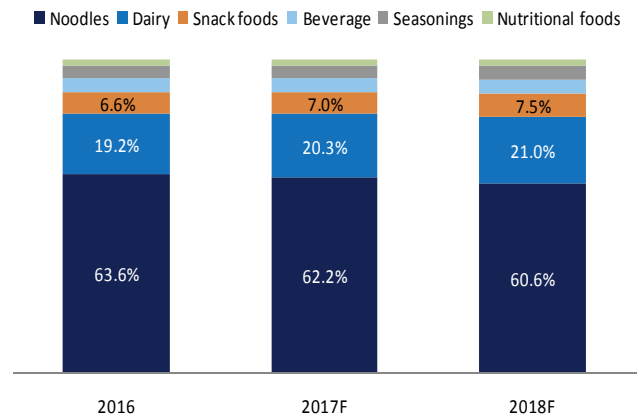
ICBP Result Note

Fig. 1: FMCG volume sales in 2016



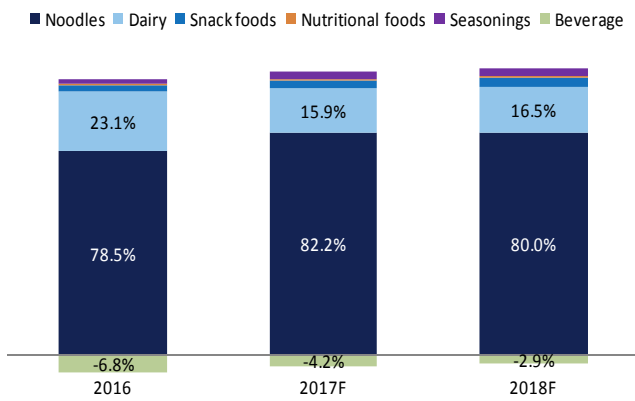
Source: Indo Premier, Company

Fig. 2: Per segment: sales contribution



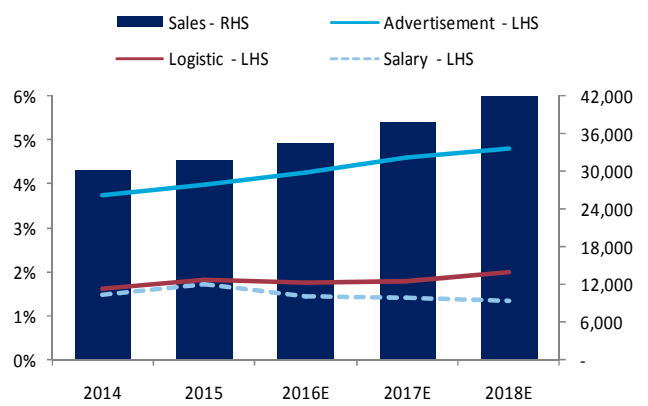
Source: Indo Premier, Company

Fig. 3: Per segment: EBIT contribution



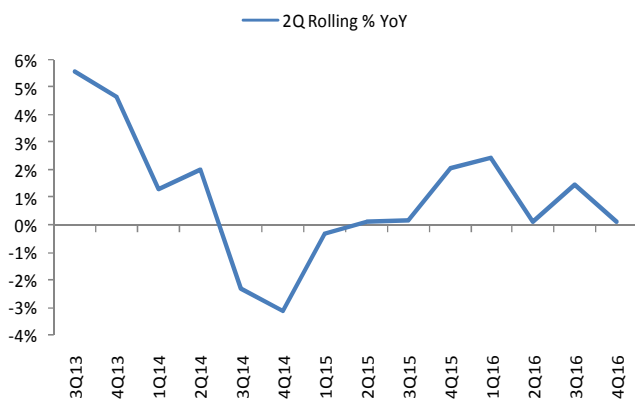
Source: Indo Premier, Company

Fig. 4: % of opex (ads, logistic, salary) to total sales



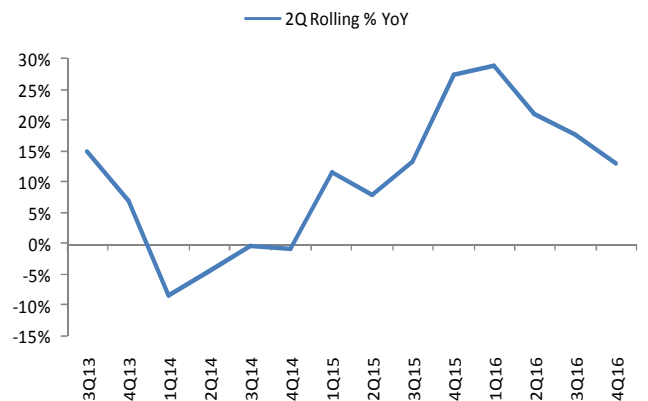
Source: Indo Premier, Company

Fig. 5: Noodles sales volume growth trend



Source: Indo Premier, Company

Fig. 6: Dairy sales volume growth trend



Source: Indo Premier, Company

ICBP Result Note

Fig. 7: FY16 results financial highlights

(IDR b)	4Q16	3Q15	4Q15	---Change---		FY16	FY15	Change
	(IDR b)	(IDR b)	(IDR b)	(%qoq)	(%yoy)	(IDR b)	(IDR b)	(%yoy)
Sales	7,995	8,296	7,645	-3.6%	4.6%	34,466	31,741	8.6%
Gross profit	2,399	2,700	2,227	-11.1%	7.7%	10,859	9,619	12.9%
Operating profit	895	1,232	711	-27.3%	25.9%	4,864	3,908	24.5%
Pre-tax profit	1,009	1,257	876	-19.7%	15.1%	4,989	4,010	24.4%
Net profit	768	853	557	-9.9%	38.0%	3,600	3,001	20.0%
Margins								
Gross margin (%)	30.0	32.5	29.1			31.5	30.3	
Operating margin (%)	11.2	14.8	9.3			14.1	12.3	
Pre tax margin (%)	12.6	15.1	11.5			14.5	12.6	
Net margin (%)	9.6	10.3	7.3			10.4	9.5	

Source: Indo Premier

Fig. 8: Earnings Revision

(Rp bn)	Old		New		Change (%)	
	FY17F	FY18F	FY17F	FY18F	FY17F	FY18F
Revenue	39,333	43,434	37,898	41,815	-4%	-4%
Gross profit	12,308	13,893	11,278	12,559	-8%	-10%
Operating profit	4,953	5,524	4,720	5,215	-5%	-6%
Net profit	4,127	4,674	3,753	4,180	-9%	-11%
Gross margin	31.3%	32.0%	29.8%	30.0%		
Operating margin	12.6%	12.7%	12.5%	12.5%		
Net margin	10.5%	10.8%	9.9%	10.0%		
Revenue (Rp bn)						
Snack foods	2,823	3,260	2,742	3,212	-3%	-1%
Dairy	8,137	9,312	7,899	9,041	-3%	-3%
Sales Volume (k tons)						
Snack foods	39	43	43	50	11%	17%
Dairy	459	500	479	523	4%	4%
ASP (Rp mn / ton)						
Snack foods	73	76	64	64	-12%	-16%
Dairy	18	19	16	17	-7%	-7%

Source: Indo Premier

ICBP Result Note

Year To 31 Dec (RpBn)	2015A	2016A	2017F	2018F	2019F
Income Statement					
Net Revenue	31,741	34,466	37,898	41,815	46,190
Cost of Sales	(22,122)	(23,607)	(26,620)	(29,256)	(32,389)
Gross Profit	9,619	10,859	11,278	12,559	13,802
SG&A Expenses	(5,711)	(5,923)	(6,558)	(7,344)	(8,049)
Operating Profit	3,908	4,936	4,720	5,215	5,753
Net Interest	175	329	361	355	359
Forex Gain (Loss)	(63)	(4)	0	0	0
Others-Net	(10)	(271)	(152)	(84)	(92)
Pre-Tax Income	4,010	4,989	4,929	5,487	6,020
Income Tax	(1,086)	(1,358)	(1,232)	(1,372)	(1,505)
Minorities	78	(31)	56	64	74
Net Income	3,001	3,600	3,753	4,180	4,588
Balance Sheet					
Cash & Equivalent	7,757	8,372	9,955	10,775	10,814
Receivable	3,364	3,894	3,867	4,267	4,713
Inventory	2,547	3,110	3,328	3,657	4,049
Other Current Assets	294	196	194	214	237
Total Current Assets	13,962	15,571	17,344	18,913	19,813
Fixed Assets - Net	6,556	7,114	8,117	9,439	10,902
Goodwill	1,424	1,424	1,424	1,424	1,424
Non Current Assets	4,619	4,792	4,425	4,624	5,683
Total Assets	26,561	28,902	31,310	34,399	37,822
ST Loans	873	375	375	375	375
Payable	2,581	3,083	0	3,510	3,886
Other Payables	1,984	2,407	2,361	2,734	3,067
Current Portion of LT Loans	565	605	647	519	480
Total Current Liab.	6,002	6,470	6,577	7,138	7,808
Long Term Loans	1,432	877	529	460	480
Other LT Liab.	2,740	3,055	3,232	3,423	3,627
Total Liabilities	10,174	10,401	10,339	11,021	11,915
Equity	6,605	6,584	6,584	6,584	6,584
Retained Earnings	8,850	10,979	13,422	15,800	18,299
Minority Interest	932	937	965	994	1,024
Total SHE + Minority Int.	16,387	18,501	20,971	23,378	25,907
Total Liabilities & Equity	26,561	28,902	31,310	34,399	37,822

Source : ICBP,IndoPremier

ICBP Result Note

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
Cash Flow					
Net Income (Excl.Extraordinary&Min.Int)	2,923	3,631	3,697	4,115	4,515
Depr. & Amortization	473	511	619	688	783
Changes in Working Capital	(351)	(591)	(80)	(413)	(462)
Others	452	442	345	(200)	208
Cash Flow From Operating	3,497	3,992	4,580	4,190	5,044
Capital Expenditure	(1,664)	(1,242)	(1,254)	(2,209)	(3,305)
Others	426	504	519	503	487
Cash Flow From Investing	(1,239)	(738)	(735)	(1,705)	(2,818)
Loans	(537)	(1,012)	(305)	(197)	(19)
Equity	0	0	0	0	0
Dividends	(1,294)	(1,493)	(1,620)	(1,801)	(2,090)
Others	(275)	(138)	(81)	(63)	(36)
Cash Flow From Financing	(2,106)	(2,643)	(2,006)	(2,062)	(2,145)
Changes in Cash	152	611	1,839	423	81
Financial Ratios					
Gross Margin (%)	30.3	31.5	29.8	30.0	29.9
Operating Margin (%)	12.3	14.3	12.5	12.5	12.5
Pre-Tax Margin (%)	12.6	14.5	13.0	13.1	13.0
Net Margin (%)	9.5	10.4	9.9	10.0	9.9
ROA (%)	11.6	13.0	12.5	12.7	12.7
ROE (%)	19.4	20.6	19.0	18.8	18.6
ROIC (%)	19.4	21.7	20.9	20.7	20.3
Acct. Receivables TO (days)	36.1	38.4	37.4	35.5	35.5
Acct. Receivables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Inventory TO (days)	8.3	8.3	8.3	8.4	8.4
Payable TO (days)	44.0	43.8	43.0	41.8	41.7
Acct. Payables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Debt to Equity (%)	17.5	10.0	7.4	5.8	5.2
Interest Coverage Ratio (x)	0.1	0.0	0.0	0.0	0.0
Net Gearing (%)	(29.8)	(35.2)	(40.1)	(40.3)	(36.6)

Source : ICBP, IndoPremier

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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

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