

Indofood CBP (ICBP JJ)

05 March 2015

Company Update

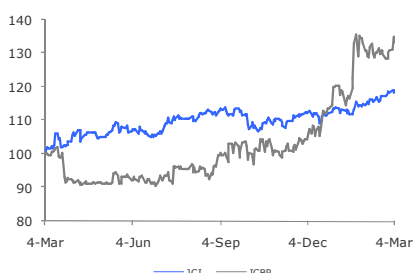
BUY (Unchanged)

Stock Data

Target price (Rp)	Rp17,400
Prior TP (Rp)	Rp13,050
Share price (Rp)	Rp14,725
Upside/downside (%)	+18.2
Shares outstanding (m)	5,831
Market cap. (US\$ m)	6,620
Free float (%)	19.5
Avg. 6m dailyT/O (US\$ m)	n/a

Price Performance

	3M	6M	12M
Absolute (%)	25.3	35.1	35.4
Relative to JCI (%)	19.8	30.2	18.4
52w high/low (Rp)	14,725 - 9,900		



Major Shareholders

Indofood SM	80.5%
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Estimate Change; Vs. Consensus

	2014F	2015F
Latest EPS (Rp)	466.8	544.4
Vs. Prior EPS (%)	-	0.1
Vs. Consensus (%)	2.2	1.4

Source: Bloomberg

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Still a noodle play

- Higher ASP will be a key earnings driver in longer run
- A recovery in spending power should drive non-noodle sales
- ICBP to actively branch out into more lucrative businesses
- Retain BUY rating with a higher TP Rp17,400

Remains a noodle play. We retain our bullish view on ICBP despite the company's relatively conservative guidance, and with contribution of 60% and 90% to the company's revenue and EBIT respectively, we expect higher noodle price to be the company's key earnings driver in longer run. Meanwhile, with another round of noodle's ASP hike of Rp100/pack in January (on top of 3x price hike last year), we view this as the company's reaffirmation of superior pricing power. We also expect a recovery in consumers' purchasing power to drive higher non-noodle businesses sales, which mostly consist of discretionary items. With the Consumer Confidence Index (CCI) and Retail Sales Index (RSI) – which indicates the level of optimism among Indonesian consumers and retail sales growth – remaining on an upward trajectory, we believe this would serve as a positive sign for the consumer staple companies.

Earnings upgraded on new guidance. We revise our FY15F EBIT margin forecast for instant noodle to 16.5% from 16.2% as a result of lower input costs and higher ASP. Further, we increase our dairy sales volume growth assumption to 20%yoy (from 10%), in line with management's guidance. Consistent with our earnings revisions, our consolidated revenue and EBIT growth projections increase by 0.8%/1.7% and 1.6%/3.2% for FY15F/FY16F, respectively. Meanwhile, we estimate that for every 1% decline in raw material prices, ICBP's EPS would grow by 2.7%.

In pursuit of inorganic growth. Sitting on a huge cash pile of Rp5.6tn, we expect ICBP to actively pursue inorganic routes to growth, mainly to provide alternatives for its saturated instant noodle business. We believe its sturdy balance sheet should be enough to help ICBP branch out into more lucrative businesses via JVs. Meanwhile, ICBP reportedly acquired a 9.88% stake in JC Comsa, a Japan-based company engaged in the food business, for US\$2.37mn. We believe this should help strengthen its relationship with its Japanese counterpart, where both have already entered into a JV in restaurant management since last year.

Retain BUY rating with a higher TP of Rp17,400. ICBP currently trades at 26.6x /23.7x FY15F/FY16F P/E, which is in line with the Jakarta Consumer Index. Consistent with our earnings revision, we revise our TP to a higher Rp17,400, based on a market-cap weighted average of Indonesian consumer staples stocks of 32x FY15 P/E. Maintain BUY.

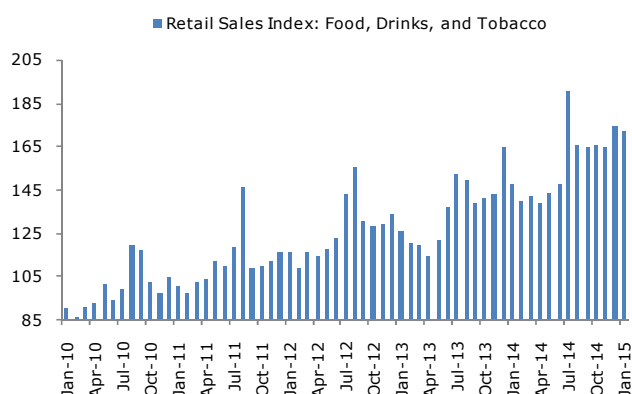
Year To 31 Dec	2012A	2013A	2014F	2015F	2016F
Revenue (RpBn)	21,717	25,095	30,283	34,507	38,832
EBITDA (RpBn)	2,846	2,734	3,304	3,931	4,512
EBITDA Growth (%)	7.8	(3.9)	20.8	19.0	14.8
Net Profit(RpBn)	2,180	2,225	2,722	3,175	3,582
EPS (Rp)	374	382	467	544	614
EPS Growth (%)	10.3	2.1	22.3	16.6	12.8
Net Gearing (%)	(35.4)	(23.2)	(23.1)	(14.5)	(13.0)
PER (x)	39.4	38.6	31.5	27.0	24.0
PBV (x)	7.2	6.5	5.7	5.1	4.5
Dividend Yield (%)	1.1	1.3	1.2	1.4	1.7
EV/EBITDA (x)	28.7	30.3	24.9	21.2	18.5

Source : ICBP,IndoPremier

Share Price Closing as of : 03-March-2015

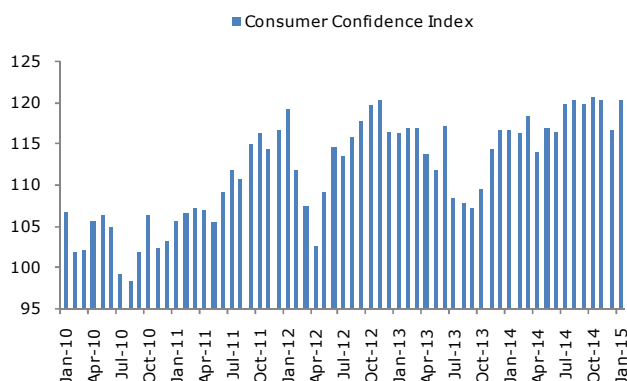
ICBP Company Update

Fig. 1: Retail sales index shows a strengthening trend...



Source : Bank of Indonesia; IndoPremier

Fig. 2: ...so does Consumer Confidence Index



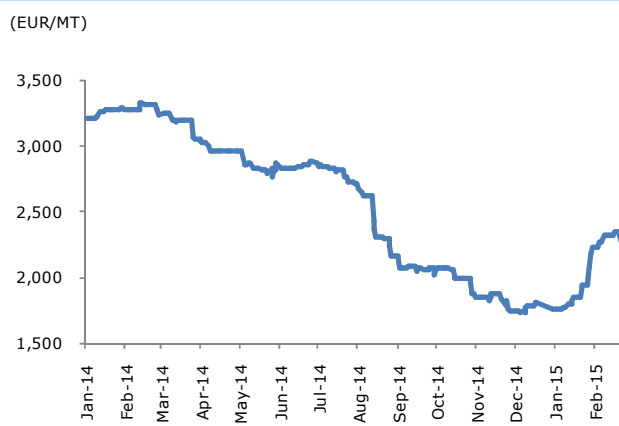
Source : Bank of Indonesia; IndoPremier

Fig. 3: Lower wheat price...



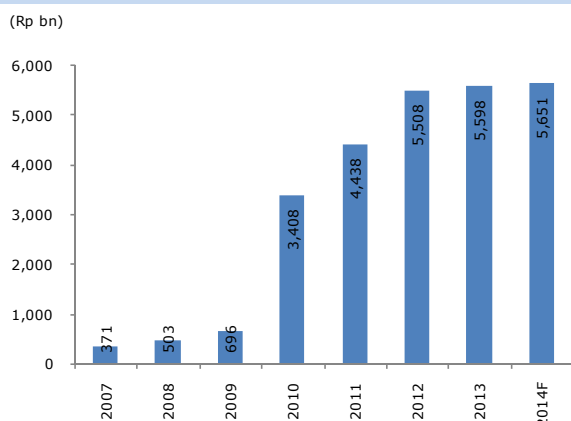
Source : Bloomberg; IndoPremier

Fig. 4: ...and skimmed milk price



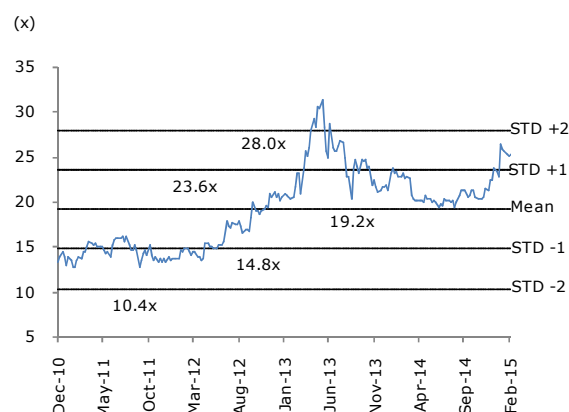
Source : Bloomberg; IndoPremier

Fig. 5: Sitting on a huge cash pile



Source : Company; IndoPremier

Fig. 6: ICBP's P/E

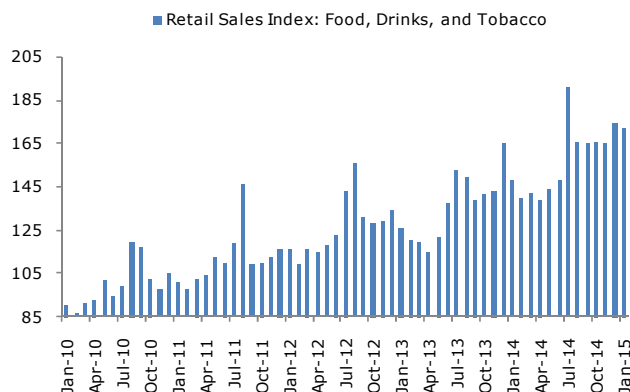


Source : IndoPremier

A sign of recovery in consumers' spending power

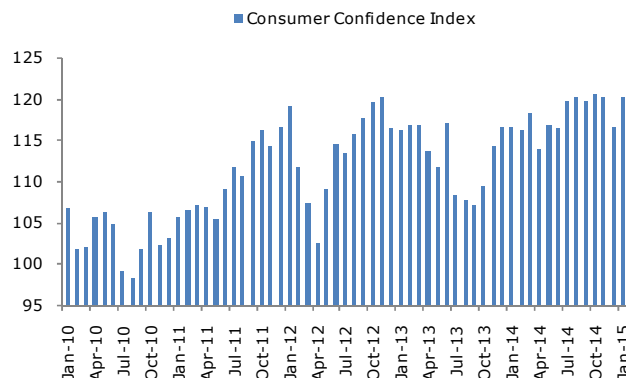
Based on the retail sales index (RSI) released by the Bank of Indonesia (BI), the projected retail sales growth for food, drinks and tobacco was at 16.5%yoy and -1.1%mom in the month of January. This may indicate that consumers' spending power is already in a recovery mode. Further, the consumer confidence index, which measures the level of optimism among Indonesian consumers, shows a strengthening trend. While there is not much correlation between ICBP's sales performance and the retail sales index, we believe the upward sign is positive for the consumer staples sector.

Fig. 7: Retail Sales Index: Food, Drinks and Tobacco



Source : CEIC; Bank of Indonesia

Fig. 8: Consumer Confidence Index



Source : CEIC; Bank of Indonesia

Another price hike is a testament to its superior pricing power

After three consecutive price hikes averaging c5% each in 2014, ICBP has again raised its noodle's selling price by Rp100/pack, a move that we view positively. Management indicated that the ASP hike was in response to the surging chili prices and higher labor cost in one of its plants in Java. We believe the higher chili price will only affect its seasonings margin, not the instant noodle and even so, the impact should also be negligible. Based on data from the Indonesian Statistics Agency, the chili price has declined by some 60% from January's peak, which should be a big relief for its seasonings division. In addition, we believe the higher noodle price should more than compensate for the higher seasonings price (management guided a 4-5% increase in seasonings price in FY15).

Fig. 9: Chili prices have now stabilized at Rp22,000/kg



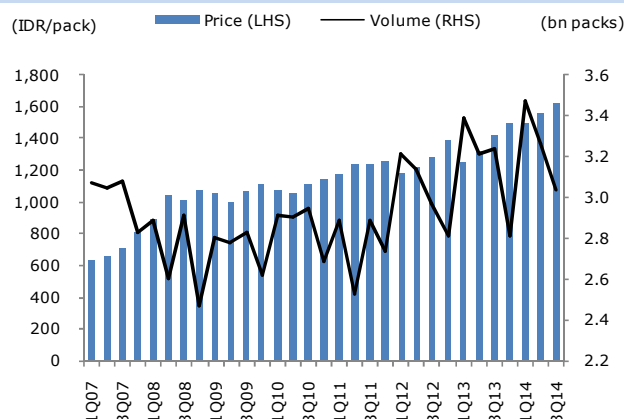
Source : BPS

Despite our conservative assumption of noodle price growth of 6% for FY15F (in line with management's guidance), we believe there is still ample room for an ASP hike. Our argument is that consumers have been familiar with a higher instant noodle price given that part of the purchases are done in the mom-and-pop shops (traditional wet markets, sundry shops, and mom & pop shops represent 70-80% of grocery sales). The price difference between mom-and-pop shops and modern retailers can be up to 39% (Rp2,500/pack vs Rp1,800/pack), which leaves ample room for ICBP to raise prices, in our view.

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We also keep our noodle sales volumes assumption of 12.8bn packs, or a 2% increase from FY14F (in line with our forecasted industry's growth). We expect volume to be driven by "taste and convenient" coming from ICBP's higher priced noodles such as cup noodle, which still makes up less than 10% of its instant noodle's top-line. Going forward, we expect price to continue to play a major role in determining the company's growth.

Fig. 10: Slower volume growth due to already saturated market



Source : Company; IndoPremier

More favorable raw material prices to help expand margins.

Coupled with higher ASPs, we expect lower raw material prices, such as wheat, CPO, and skimmed milk powder to boost ICBP's margins. We estimate that for every 1% decline in raw material prices, ICBP's EPS would grow by 2.7%.

Based on Bloomberg data, prices (FY15 vs. FY14's average) of wheat have declined by some 15%, CPO by 27%, and skimmed milk by 5.5%, mainly on higher inventories and weaker demand. For wheat, we believe the current conditions have allowed new entrants in the flour milling business to challenge the market leader through lower prices as they plan to increase their market share. Bogasari, being ICBP's only wheat flour supplier, has in response cut its flour price twice last year by as much as 2% each time to protect its market share. In contrast, we believe this news is positive for ICBP given that wheat flour makes up a big chunk of its COGS. Our EBIT margin assumption of 16.5% is slightly higher than management's target as we think management may be overly conservative. However, we reckon that its EBIT margin may not be as high as the 3Q14 given the higher ad and promotion spend in FY15 as ICBP plans to launch new products and brands.

Meanwhile, we continue to expect the wheat price to decline on abundant global stockpiles. The US Department of Agriculture raised its outlook for world stockpiles by 0.9% to 197.85mn metric tons, higher than the 196.22mn expected by the street.

On another note, we expect ICBP's dairy division to also benefit from lower skimmed milk powder and a recovery in demand. The dairy business was surrounded by many problems last year, specifically escalating costs as the company was unable to fully pass on the much higher skimmed milk powder prices to consumers while at the same time, sales volumes were affected by weaker demand. We expect the dairy business to recover on the improved consumers' spending power and lower input costs. For FY15, we conservatively assume an EBIT margin of 7% and volume growth of 20% – in line with management's target.

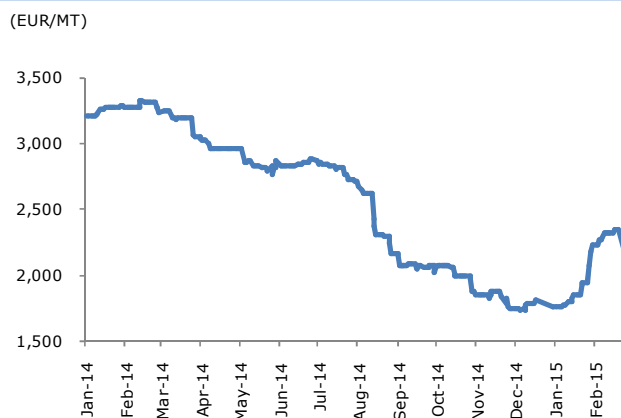
ICBP Company Update

Fig. 7: Lower wheat price



Source : Bloomberg; IndoPremier

Fig. 8: ... and skimmed milk price



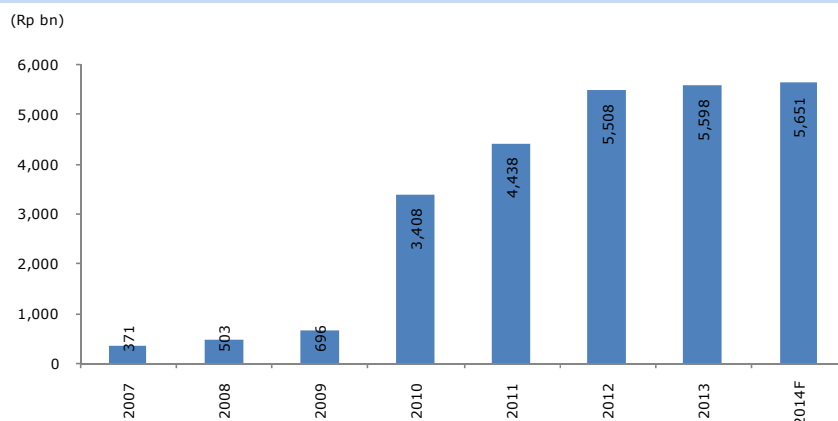
Source : Bloomberg; IndoPremier

Sturdy balance sheet helps branch out into more lucrative businesses

In the past two years, ICBP has been pursuing M&A and joint ventures, such as a JV in beverages with Asahi, acquisitions of Club mineral water and Nestle's Milkkuat brand, and other JVs with its Japanese counterparts. The company has recently acquired a 9.88% stake in JC Comsa for a consideration of US\$2.37mn. We believe other businesses' contribution is likely to remain small in the foreseeable future but given that the company is no longer complacent, we believe ICBP's pursuit of inorganic growth should be positively viewed as it provides alternatives for ICBP's now mature instant noodle business.

Backed by the company's sturdy balance sheet with cash sitting at Rp5.6tn (US\$434mn) in FY14F, we expect ICBP to actively pursue inorganic growth. We believe it is unlikely for the company to conduct any sizeable acquisitions given the scarcity in the consumer-orientated business in Indonesia, and if any, the acquisition price is likely to be overpriced. We continue to believe the JVs will work well owing to ICBP's unrivalled distribution networks, which allow the company to penetrate the market faster.

Fig. 12: Sitting on a huge cash pile



Source : ICBP; IndoPremier

Earnings revision

To summarize, we raise our EBIT margin assumptions for noodles for FY15F to 16.5% as we see room for price increases and higher contributions from the premium segment. We also envisage that the margin in dairy will recover this year, with skimmed milk powder having fallen by 38% from last year's peak. Thus, we raise our dairy margin to 7.5% from 7% for FY15F and 16F. Concurrently, we retain our EBIT margin assumptions for other divisions: snack foods at 5%/5%, seasonings at 7.5%/7.5%, and beverages at -8.0%/-2.0%. Ergo, our EBIT margins assumptions on a consolidated basis increase by 1.0% and 1.1% for FY15 and FY16, respectively.

ICBP Company Update

Tab. 1: Earnings Revision

	Old		New		Change	
	FY15F (Rp bn)	FY16F (Rp bn)	FY15F (Rp bn)	FY16F (Rp bn)	FY15F (%)	FY16F (%)
Revenue	34,227	38,177	34,507	38,832	0.8%	1.7%
Gross profit	9,283	10,391	9,358	10,589	0.8%	1.9%
Operating profit	3,870	4,372	3,931	4,512	1.6%	3.2%
Net profit	3,170	3,564	3,175	3,582	0.1%	0.5%
Gross margin	27.1%	27.2%	27.1%	27.3%	0.0%	0.1%
Operating margin	11.3%	11.5%	11.4%	11.6%	0.1%	0.2%
Net margin	9.3%	9.3%	9.2%	9.2%	-0.1%	-0.1%
Revenue Breakdown (after elimination):						
Noodles	20,731	22,203	20,928	22,195	1.0%	0.0%
Snack foods	2,275	2,627	2,275	2,627	0.0%	0.0%
Nutritional foods	657	745	657	745	0.0%	0.0%
Seasonings	1,380	1,640	1,342	1,594	-2.8%	-2.8%
Dairy	6,000	6,615	6,545	7,903	9.1%	19.5%
Beverage	3,187	4,350	2,762	3,770	-13.3%	-13.3%
EBIT:						
Noodles	3,422	3,665	3,518	3,799	2.8%	3.7%
Snack foods	115	133	115	133	0.0%	0.0%
Nutritional foods	20	22	20	22	0.0%	0.0%
Seasonings	148	176	96	114	-35.2%	-35.2%
Dairy	420	463	458	632	9.1%	36.5%
Beverage	(255)	(87)	(276)	(188)	nm	nm

Source: IndoPremier

Valuation

ICBP currently trades at 26.6x /23.7x FY15F/FY16F P/E, which is in line with the Jakarta Consumer Index. Consistent with our earnings revision, we revise our TP to a higher Rp17,400, based on a market-cap weighted average of Indonesian consumer staples stocks of 32x FY15 P/E. Maintain BUY.

Tab. 2: Peer comparison

Company	Ticker	----- P/E -----		----- EPS Growth -----		----- ROE -----	
		2015 (x)	2016 (x)	2015 (%)	2016 (%)	2015 (%)	2016 (%)
Indofood CBP	ICBP IJ	27.5	23.8	17.3	15.2	20.2	20.5
Indofood SM	INDF IJ	13.6	12.4	13.7	9.8	15.9	15.7
Unilever Indonesia	UNVR IJ	45.1	39.8	11.3	13.5	124.5	126.0
Mayora Indah	MYOR IJ	27.8	21.1	82.7	31.8	18.0	19.8
Nippon Indosari	ROTI IJ	26.2	20.6	28.8	26.9	22.7	23.0
Gudang Garam	GGRM IJ	17.8	15.7	13.6	13.8	16.9	17.2
Kalbe Farma	KLBF IJ	33.8	28.5	19.5	18.9	24.3	24.9
Kimia Farma	KAEF IJ	23.2	19.0	35.2	21.8	15.8	17.4
Sido Muncul	SIDO IJ	18.0	16.5	10.4	9.1	17.6	17.7
Weighted Average		32.6	28.4	20.6	16.4	30.6	31.3

Source: Bloomberg; IndoPremier

ICBP Company Update

Year To 31 Dec (RpBn)	2012A	2013A	2014F	2015F	2016F
Income Statement					
Net Revenue	21,717	25,095	30,283	34,507	38,832
Cost of Sales	(15,913)	(18,669)	(22,284)	(25,149)	(28,243)
Gross Profit	5,804	6,426	7,999	9,358	10,589
SG&A Expenses	(2,958)	(3,691)	(4,695)	(5,427)	(6,077)
Operating Profit	2,846	2,734	3,304	3,931	4,512
Net Interest	181	206	206	199	126
Forex Gain (Loss)	0	0	0	0	0
Others-Net	8	26	15	11	11
Pre-Tax Income	3,034	2,967	3,525	4,141	4,649
Income Tax	(745)	(734)	(881)	(1,035)	(1,162)
Minorities	(103)	(10)	78	69	95
Net Income	2,180	2,225	2,722	3,175	3,582
Balance Sheet					
Cash & Equivalent	5,508	5,598	5,651	4,229	4,274
Receivable	2,384	2,549	3,028	3,451	3,883
Inventory	1,816	2,869	2,228	2,515	2,824
Other Current Assets	214	305	321	337	354
Total Current Assets	9,923	11,322	11,229	10,531	11,335
Fixed Assets - Net	3,869	4,844	6,203	8,837	10,631
Goodwill	1,424	1,424	1,424	1,424	1,424
Non Current Assets	2,604	3,677	4,152	4,381	4,645
Total Assets	17,820	21,267	23,007	25,174	28,035
ST Loans	583	979	838	857	876
Payable	1,996	2,531	0	2,647	2,973
Other Payables	1,029	1,029	1,184	1,361	1,565
Current Portion of LT Loans	40	157	120	120	120
Total Current Liab.	3,648	4,697	4,488	4,985	5,535
Long Term Loans	641	1,383	1,230	800	800
Other LT Liab.	1,547	1,922	2,303	2,437	2,584
Total Liabilities	5,836	8,002	8,020	8,222	8,919
Equity	6,574	6,608	6,608	6,608	6,608
Retained Earnings	4,838	5,979	7,679	9,624	11,772
Minority Interest	572	679	699	720	742
Total SHE + Minority Int.	11,984	13,266	14,987	16,952	19,122
Total Liabilities & Equity	17,820	21,267	23,007	25,174	28,041

Source : ICBP,IndoPremier

ICBP Company Update

Year to 31 Dec	2012A	2013A	2014F	2015F	2016F
Cash Flow					
Net Profit	2,282	2,235	2,644	3,106	3,487
Depr. & Amortization	2,714	323	402	517	642
Changes in Working Capital	374	(683)	(24)	(407)	(416)
Others	714	(3)	(99)	142	277
Cash Flow From Operating	6,091	1,870	2,924	3,358	3,990
Capital Expenditure	(3,969)	(2,371)	(2,235)	(3,382)	(2,700)
Others	234	372	422	371	298
Cash Flow From Investing	(3,734)	(2,000)	(1,813)	(3,011)	(2,402)
Loans	522	1,257	(332)	(412)	20
Equity	16	0	0	0	0
Dividends	(985)	(1,085)	(1,001)	(1,225)	(1,429)
Others	(56)	157	64	(150)	(149)
Cash Flow From Financing	(503)	329	(1,269)	(1,786)	(1,558)
Changes in Cash	1,854	199	(158)	(1,439)	30
Financial Ratios					
Gross Margin (%)	26.7	25.6	26.4	27.1	27.3
Operating Margin (%)	13.1	10.9	10.9	11.4	11.6
Pre-Tax Margin (%)	14.0	11.8	11.6	12.0	12.0
Net Margin (%)	10.0	8.9	9.0	9.2	9.2
ROA (%)	13.2	11.4	12.3	13.2	13.5
ROE (%)	19.2	17.6	19.3	19.9	19.9
ROIC (%)	20.4	18.7	19.9	20.6	20.3
Acct. Receivables TO (days)	40.0	35.9	33.6	34.3	34.5
Acct. Receivables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Inventory TO (days)	9.2	8.0	8.7	10.6	10.6
Payable TO (days)	39.3	44.3	39.9	36.2	36.3
Acct. Payables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Debt to Equity (%)	10.5	19.0	14.6	10.5	9.4
Interest Coverage Ratio (x)	0.0	0.1	0.1	0.0	0.0
Net Gearing (%)	(35.4)	(23.2)	(23.1)	(14.5)	(13.0)

Source : ICBP,IndoPremier

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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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