

## Indofood SM (INDF IJ)

24 March 2015

## Company Update

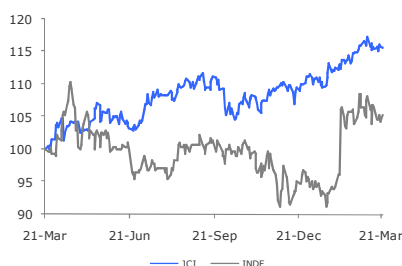
**BUY** (Unchanged)

## Stock Data

Target price (Rp)	Rp9,700
Prior TP (Rp)	Rp8,600
Shareprice (Rp)	Rp7,400
Upside/downside (%)	+31.1
Sharesoutstanding (m)	8,780
Marketcap. (US\$ m)	4,990
Free float (%)	49.9
Avg. 6m dailyT/O (US\$ m)	n/a

## Price Performance

	3M	6M	12M
Absolute (%)	12.1	5.0	5.0
Relative to JCI (%)	6.7	(0.3)	(10.5)
52w high/low (Rp)	7,725 - 6,325		



## Major Shareholders

CAB Holdings Ltd	50.1%
Anthoni Salim	0.0%

## Estimate Change; Vs. Consensus

	2015F	2016F
Latest EPS (Rp)	358.3	428.2
Vs. Prior EPS (%)	(32.1)	(27.5)
Vs. Consensus (%)	(34.2)	(31.2)

Source: Bloomberg

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## Value for money

- **CBP continues to be a defensive play**
- **China Minzhong divestment to lower INDF's risks**
- **Downward revisions to incorporate the exclusion of China Minzhong**
- **Reiterate BUY rating with a higher TP of Rp9,700**

**Defensive consumer branded products.** Despite the FY14 results coming in slightly below consensus and our estimates at operating level, due to increase in several operating costs such as freight and handling, minimum wages, and ad & promotion, we believe FY15 is going to be a good year for ICBP. We believe the successful launches of a series of new instant noodle flavors (Indomie Pecel and Chicken Satay) demonstrate a high degree of reception within Indonesian consumers towards innovative products. On its beverage business, contrary to market beliefs, Wings Food's new launch of "Javana Tea" is not a threat to ICBP's Ichi Ocha, because the former is a black tea-based RTD versus the latter which is a green-tea based RTD. However, ICBP will in no way ignore the arrival of "Javana Tea" given that it also plans to enter into the potential black tea market (approximately 70% of the Rp19tn RTD market comprises black tea drinkers).

**Greater comfort thanks to China Minzhong (MINZ) divestment.** We now have more certainty on the MINZ divestment, which is due to be completed by June this year. We believe the deal would serve the best interests of Indofood's shareholders as it would lower the company's risks, mainly those associated with MINZ, such as lowering USD-denominated debts if the proceeds were used to pay off debts, and reducing its exposure to China's fluctuating vegetable market. We hence believe the divestment of MINZ should give greater comfort to investors.

**Earnings revision.** We adjust our model to incorporate the exclusion of MINZ, assuming the deal will take place by June this year. We have yet to include the one-off item, if it exists, from the stake sale. Our exclusion of MINZ is assumed at book value. Our revenue estimates are reduced by 8% and 8.2% while at the same time, our operating profit forecasts are also reduced by 10.7% and 11.3% in FY15F and FY16F, respectively.

**Reiterate BUY rating at a new TP of Rp9,700.** We believe INDF is lucratively valued at 26% discount to its NAV vs. historical average of 10%, which is unwarranted given it still holds the CBP brands. We also raise our SoTP-based TP to Rp9,700 to incorporate higher TP on ICBP (TP Rp17,400 from Rp13,050) and the exclusion of MINZ. Investors would not mind having exposure on cyclical business, in our view; INDF provides better potential upside than ICBP (31% vs. 18% to current price). On another note, the implied valuation of the consumer branded (CBP) division within the INDF is also at a steep discount of 33.4% (vs. average historical discount of 17.4%), which presents an opportunity to own the CBP via INDF. Reiterate BUY rating with TP at RP9,700.

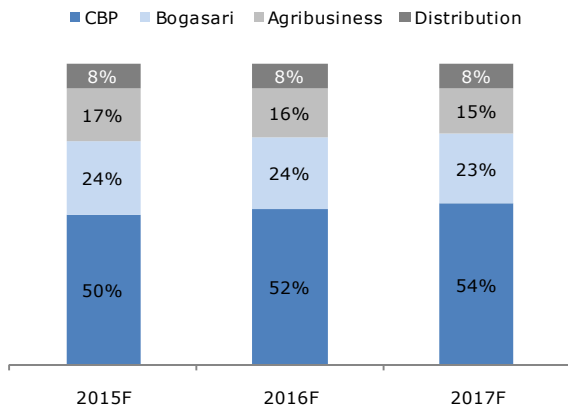
Year To 31 Dec	2013A	2014A	2015F	2016F	2017F
Revenue (RpBn)	55,624	63,594	68,437	74,132	80,020
EBITDA (RpBn)	5,557	6,874	7,861	8,672	9,404
EBITDA Growth (%)	(17.7)	23.7	14.4	10.3	8.4
Net Profit(RpBn)	2,504	3,885	3,146	3,760	4,376
EPS (Rp)	285	443	358	428	498
EPS Growth (%)	(23.2)	55.2	(19.0)	19.5	16.4
Net Gearing (%)	25.3	29.4	33.8	30.4	26.0
PER (x)	26.0	16.7	20.7	17.3	14.8
PBV (x)	1.7	1.6	1.5	1.4	1.3
Dividend Yield (%)	2.5	1.9	3.0	2.4	2.9
EV/EBITDA (x)	10.0	7.7	6.4	5.9	5.5

Source : INDF,IndoPremier

Share Price Closing as of : 19-March-2015

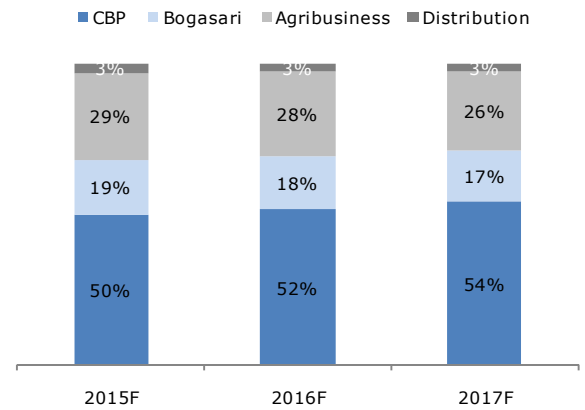
## INDF Company Update

**Fig. 1: CBP to remain the top contributor to revenue...**



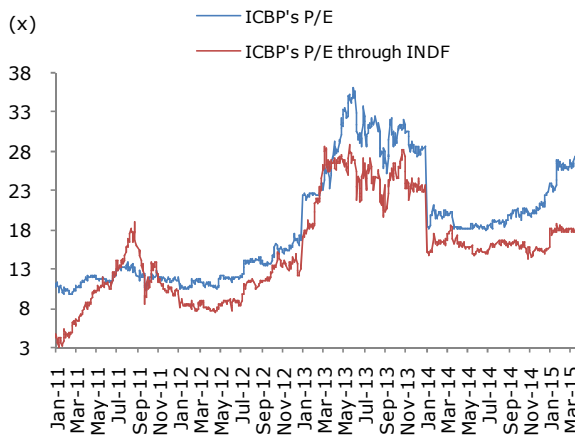
Source : Indofood; IndoPremier

**Fig. 2: ...as well as operating profit**



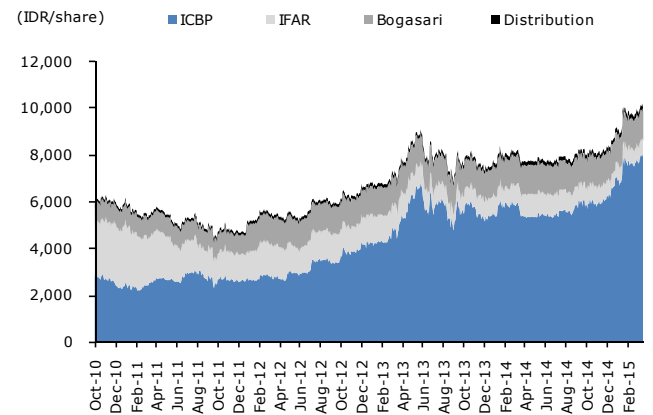
Source : Indofood; IndoPremier

**Fig. 3: CBP through INDF is at 33.4% discount**



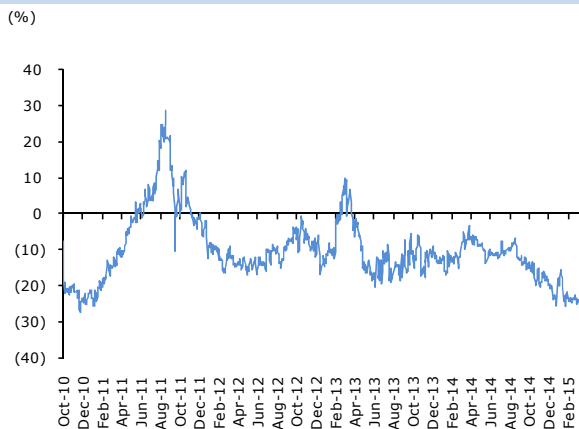
Source : Indofood; Bloomberg; IndoPremier

**Fig. 4: INDF's NAV**



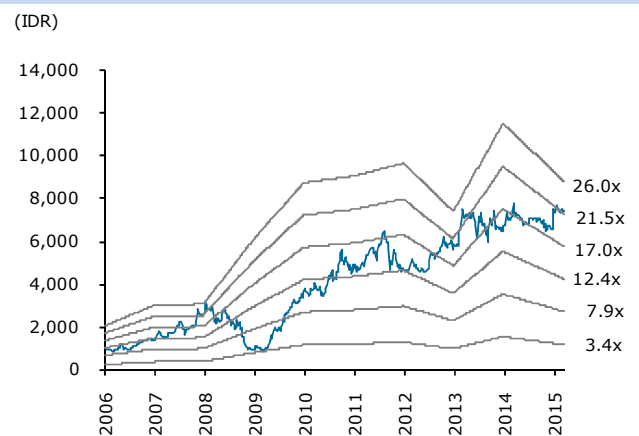
Source : Indofood; Bloomberg; IndoPremier

**Fig. 5: Trading at 26% discount to its NAV**



Source : Indofood; Bloomberg; IndoPremier

**Fig. 6: P/E Band Chart**



Source : Bloomberg; IndoPremier

## INDF Company Update

**Tab.1: Earnings Revision**

	Old		New		Change	
	FY15F (Rp bn)	FY16F (Rp bn)	FY15F (Rp bn)	FY16F (Rp bn)	FY15F (%)	FY16F (%)
Revenue	74,351	80,740	68,437	74,132	-8.0%	-8.2%
Gross profit	19,562	21,463	18,577	20,279	-5.0%	-5.5%
Operating profit	8,802	9,778	7,861	8,672	-10.7%	-11.3%
Net profit	4,629	5,178	3,146	3,760	-32.0%	-27.4%
Gross margin	26.3%	26.6%	27.1%	27.4%	0.8%	0.8%
Operating margin	11.8%	12.1%	11.5%	11.7%	-0.4%	-0.4%
Net margin	6.2%	6.4%	4.6%	5.1%	-1.6%	-1.3%
<b>Revenue Breakdown:</b>						
CBP	34,093	38,027	34,249	38,479	0.5%	1.2%
Bogasari	16,618	17,798	16,715	17,561	0.6%	-1.3%
Agribusiness	12,730	13,219	11,868	12,016	-6.8%	-9.1%
Distribution	5,697	6,217	5,605	6,077	-1.6%	-2.3%
EBIT:						
CBP	3,870	4,372	3,910	4,481	1.0%	2.5%
Bogasari	1,457	1,560	1,465	1,540	0.6%	-1.3%
Agribusiness	2,308	2,501	2,262	2,408	-2.0%	-3.7%
Distribution	228	249	224	243	-1.6%	-2.3%

Source: IndoPremier Securities

## INDF Company Update

Year To 31 Dec (RpBn)	2013A	2014A	2015F	2016F	2017F
<b>Income Statement</b>					
Net Revenue	55,624	63,594	68,437	74,132	80,020
Cost of Sales	(42,018)	(46,545)	(49,860)	(53,853)	(58,087)
Gross Profit	13,606	17,050	18,577	20,279	21,933
SG&A Expenses	(8,049)	(10,175)	(10,716)	(11,608)	(12,530)
Operating Profit	5,557	6,874	7,861	8,672	9,404
Net Interest	(437)	(809)	(1,230)	(1,242)	(1,205)
Forex Gain (Loss)	(1,657)	(51)	(305)	0	0
Others-Net	537	215	215	215	215
Pre-Tax Income	4,001	6,229	6,542	7,645	8,414
Income Tax	(1,177)	(1,828)	(1,635)	(1,911)	(2,019)
Minorities	(913)	(1,261)	(1,760)	(1,973)	(2,019)
Net Income	2,504	3,885	3,146	3,760	4,376
<b>Balance Sheet</b>					
Cash & Equivalent	17,757	14,823	13,623	14,931	16,588
Receivable	5,267	4,340	3,919	4,245	4,582
Inventory	8,161	8,455	8,341	9,009	9,717
Other Current Assets	1,587	13,378	14,047	14,750	15,487
Total Current Assets	32,772	40,996	39,929	42,934	46,374
Fixed Assets - Net	30,097	30,604	36,082	38,336	40,278
Goodwill	3,970	3,977	3,977	3,977	3,977
Non Current Assets	10,772	10,362	10,779	11,395	12,448
Total Assets	77,611	85,939	90,767	96,641	103,077
ST Loans	8,729	8,993	6,509	6,960	7,456
Payable	3,678	3,847	0	4,216	4,547
Other Payables	3,762	8,739	9,176	9,635	10,116
Current Portion of LT Loans	3,303	1,103	1,389	1,459	1,532
Total Current Liab.	19,471	22,682	20,977	22,269	23,651
Long Term Loans	15,324	16,838	20,331	20,541	20,468
Other LT Liab.	4,924	5,191	6,250	7,620	9,394
Total Liabilities	39,720	44,711	47,559	50,431	53,513
Equity	9,820	9,484	9,484	9,484	9,485
Retained Earnings	13,609	16,216	17,419	19,607	22,103
Minority Interest	14,462	15,528	16,304	17,120	17,976
Total SHE + Minority Int.	37,892	41,228	43,208	46,211	49,564
Total Liabilities & Equity	77,611	85,939	90,767	96,641	103,077

Source : INDF,IndoPremier

## INDF Company Update

Year to 31 Dec	2013A	2014A	2015F	2016F	2017F
<b>Cash Flow</b>					
Net Profit	3,417	5,146	4,906	5,734	6,395
Depr. & Amortization	0	0	0	0	0
Changes in Working Capital	(1,966)	802	591	(681)	(714)
Others	(120)	1,041	(6,313)	376	684
Cash Flow From Operating	738	6,244	(816)	5,428	6,365
Capital Expenditure	(11,686)	(104)	(5,894)	(2,869)	(2,996)
Others	606	693	427	428	473
Cash Flow From Investing	(11,080)	589	(5,468)	(2,441)	(2,523)
Loans	12,033	(423)	1,296	731	496
Equity	0	0	0	0	1
Dividends	(1,624)	(1,247)	(1,943)	(1,573)	(1,880)
Others	2,325	(1,105)	(851)	(825)	(790)
Cash Flow From Financing	12,733	(2,775)	(1,498)	(1,667)	(2,173)
Changes in Cash	2,391	4,058	(7,782)	1,320	1,669
<b>Financial Ratios</b>					
Gross Margin (%)	24.5	26.8	27.1	27.4	27.4
Operating Margin (%)	10.0	10.8	11.5	11.7	11.8
Pre-Tax Margin (%)	7.2	9.8	9.6	10.3	10.5
Net Margin (%)	4.5	6.1	4.6	5.1	5.5
ROA (%)	3.7	4.8	3.6	4.0	4.4
ROE (%)	7.0	9.8	7.5	8.4	9.1
ROIC (%)	7.1	8.9	6.6	7.4	8.1
Acct. Receivables TO (days)	29.2	27.6	22.0	20.1	20.1
Acct. Receivables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Inventory TO (days)	5.3	5.6	5.9	6.2	6.2
Payable TO (days)	31.8	29.5	28.4	27.5	27.5
Acct. Payables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Debt to Equity (%)	72.2	65.3	65.3	62.7	59.4
Interest Coverage Ratio (x)	0.2	0.2	0.2	0.2	0.2
Net Gearing (%)	25.3	29.4	33.8	30.4	26.0

Source : INDF, 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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