

Unilever Indonesia (UNVR IJ)

29 October 2015

Results Note

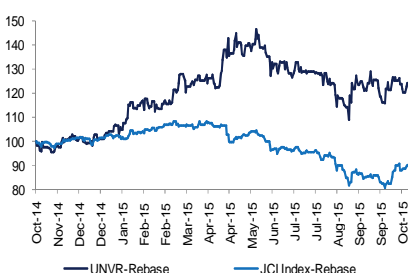
HOLD (Unchanged)

Stock Data

Target price (Rp)	Rp39,375
Prior TP (Rp)	Rp39,375
Shareprice (Rp)	Rp38,500
Upside/downside (%)	+2.3
Sharesoutstanding (m)	7,630
Marketcap. (US\$ m)	21,726
Free float (%)	15.0
Avg. 6m dailyT/O (US\$ m)	5.2

Price Performance

	3M	6M	12M
Absolute (%)	-3.1	-13.5	26.4
Relative to JCI (%)	-0.5	-2.1	34.6
52w high/low (Rp)	45,725 - 29,800		



Major Shareholders

Unilever Plc	85.0%
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Estimate Change; Vs. Consensus

	2015F	2016F
Latest EPS (Rp)	774	856
Vs. Prior EPS (%)	(2.4)	0.23
Vs. Consensus (%)	(4.9)	(8.5)

Source: Bloomberg

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Sluggish growth

- Earnings decelerated due to economic slowdown
- Better gross margin, but ...
- ... Lower operating margin on higher selling expenses
- Maintain HOLD.

Deceleration in bottom-line growth. UNVR posted Rp.1,253 earnings in 3Q15 (-6.5%qoq; 4.3%yoy) accounting for 71% of our full year forecast. On a yearly basis, Home and Personal Care revenue grew 3.2, while food posted an 11.3% increase. The weak top-line growth is mainly due to low consumer purchasing power as a result of the current sluggish economic conditions. Thus, we lower our revenue growth forecast to 10.1% (vs.12.4%) for FY2015 with the Indonesian Consumer Index down to 97.5, the lowest in the past 5 years. However, with its diversified product, we believe UNVR has the ability to maintain its market share.

Gross margin improved. Despite the weakening IDR against USD, gross margin showed a slight improvement to 50.7% from 50.3% in the last quarter. UNVR has benefited from lower commodity prices such as packaging or other oil-based materials. That apart, it has increased ASP by 3.7% YoY posted on March, August and the latest in October 2015 to sustain the GPM. This year's price hike is still relatively subdued compared to last year's cumulative hike at 9%, which will give UNVR room to adjust its ASP if necessary. Moreover, we expect its newly operated sister company will guarantee flexibility and supply of raw materials to UNVR.

Slightly lower operating margin due to higher selling expenses. UNVR's spending on A&P accounts increased to 12.75% of sales from 12.37% of sales in 2Q15. We see the increase in A&P as crucial to maintain brand awareness among consumers during difficult times; in particular, UNVR has diversified products that require constant A&P to maintain market share. Another significant hike also comes from royalty spending at 7.46% of sales in 3Q15, which we expect will rise to 8% of sales in 2016F. The operating margin is currently at 19.5%, an increase of 3bps on quarterly basis.

Maintain HOLD. We trim our earnings forecast by 2% considering the current economic conditions. We derive our TP of Rp. 39,375 from 51x P/E 2015F. The valuation is justified due to its brand reputation, strong track record and healthy balance sheet. However, based on 3Q15 results and the continuation of weak purchasing power, the stock price is relatively overpriced since the risk of heating up competition, further economic slowdown and further IDR depreciation are unavoidable. Thus, we maintain our HOLD recommendation on the stock.

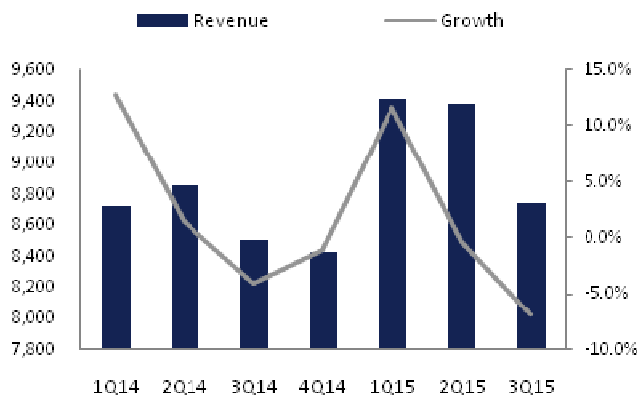
Year To 31 Dec	2013A	2014A	2015F	2016F	2017F
Revenue(RpBn)	30,757	34,512	38,013	42,484	47,509
EBITDA(RpBn)	7,122	7,779	8,024	8,831	9,815
EBITDA Growth (%)	10.3	9.2	3.1	10.1	11.1
Net Profit(RpBn)	5,353	5,739	5,904	6,531	7,257
EPS (Rp)	702	752	774	856	951
EPS Growth (%)	10.6	7.2	2.9	10.6	11.1
Net Gearing (%)	16.8	8.5	12.2	8.0	(0.5)
PER (x)	54.9	51.2	49.8	45.0	40.5
PBV (x)	69.0	63.9	58.2	54.6	49.1
Dividend Yield (%)	1.7	1.8	1.9	2.1	2.3
EV/EBITDA (x)	41.1	37.7	36.5	33.2	29.9

Source: UNVR, IndoPremier

Share Price Closing as of : 27-October 2015

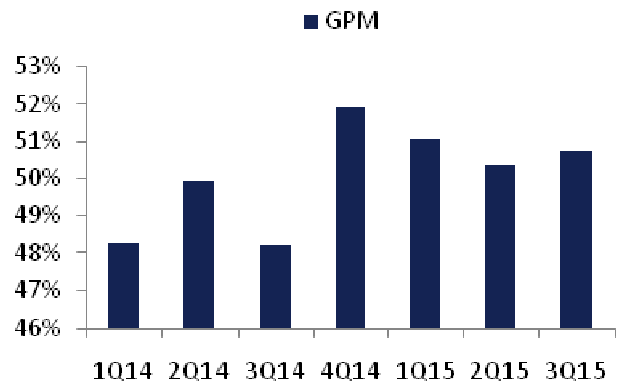
UNVR Results Note

Fig. 1: 3Q15 revenue growth is decelerating further...



Source: UNVR, IndoPremier

Fig. 2: Better gross margin in 4Q vs. 3Q



Source: UNVR, IndoPremier

Fig. 3: Slower sales growth, but still a market leader

Facial Cleanser

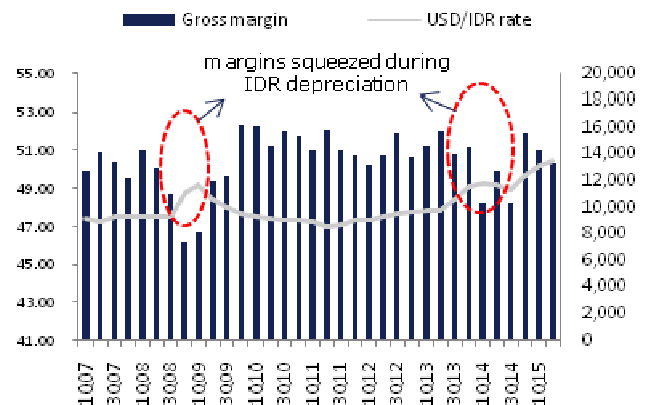
Brand	TBI 2015
Pond's (UNVR)	38.40%
Garnier	1.04%

Toothpaste

Brand	TBI 2015
Pepsodent (UNVR)	70.80%
Formula	7.80%

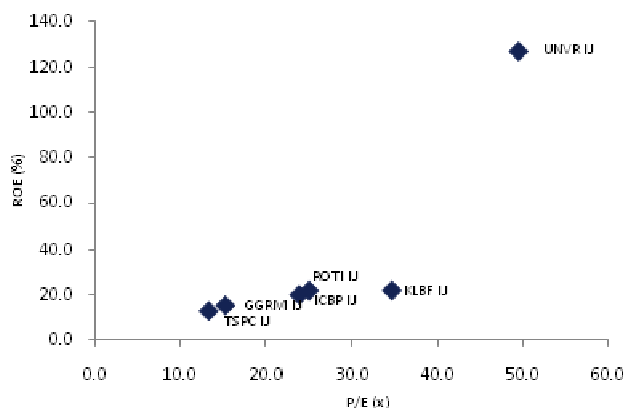
Source: Top Brand Index

Fig. 4: Quick margin rebound after IDR depreciation



Source: UNVR, IndoPremier

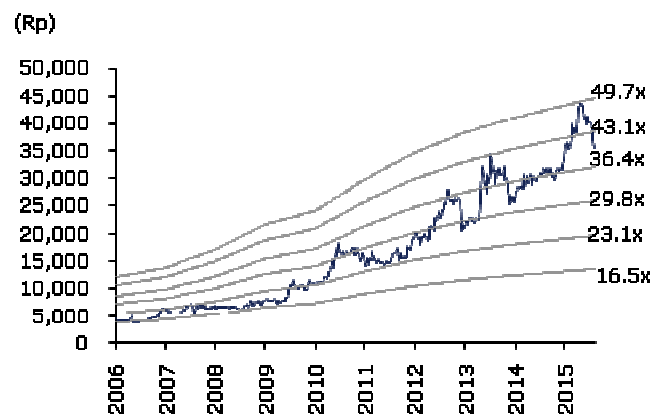
Fig. 5: P/E vs. ROE ...highest among its peers (FY15F)



Source: UNVR, IndoPremier

Note: TSPC IJ, Rp1,710, Not Rated; GGRM IJ, Rp45,900, Not Rated; ROT IJ, Rp1,235, Not Rated; ICBP IJ, Rp13,700, Not Rated; KLBF IJ, Rp1455, Buy

Fig. 6: P/E Band Chart



Source: UNVR, IndoPremier

UNVR Results Note

Earnings Revision

In Rp Bn		Old		New		Change	
		FY15F (Rpbn)	FY16F (Rpbn)	FY15F (Rpbn)	FY16F (Rpbn)	FY15F (%)	FY16F (%)
Sales		38,802	43,268	38,013	42,484	-2.0%	-1.8%
	HPC	27,097	29,807	26,851	29,536	-0.9%	-0.9%
	FC	11,705	13,461	11,162	12,948	-4.6%	-3.8%
Gross profit		19,530	21,735	19,165	21,369	-1.9%	-1.7%
	HPC	14,497	15,947	14,365	15,802	-0.9%	-0.9%
	FC	5,033	5,788	4,800	5,567	-4.6%	-3.8%
Operating profit		8,162	8,970	8,024	8,831	-1.7%	-1.6%
Net profit		6,051	6,677	5,904	6,531	-2.4%	-2.2%
Margins							
Gross margin (%)		50.3%	50.2%	50.4%	50.3%	0.08%	0.07%
	HPC (%)	53.5%	53.5%	53.5%	53.5%	0.00%	0.00%
	FC (%)	43.0%	43.0%	43.0%	43.0%	0.00%	0.00%
Operating margin (%)		21.0%	20.7%	21.1%	20.8%	0.07%	0.05%
Net margin (%)		15.6%	15.4%	15.5%	15.4%	-0.06%	-0.06%

Source: UNVR, IndoPremier

UNVR Results Note

Year To 31 Dec (RpBn)	2013A	2014A	2015F	2016F	2017F
Income Statement					
Net Revenue	30,757	34,512	38,013	42,484	47,509
Cost of Sales	(14,979)	(17,412)	(18,848)	(21,114)	(23,669)
Gross Profit	15,778	17,099	19,165	21,369	23,840
SG&A Expenses	(8,657)	(9,320)	(11,141)	(12,539)	(14,025)
Operating Profit	7,122	7,779	8,024	8,831	9,815
Net Interest	(6)	(86)	(59)	(28)	(40)
Forex Gain (Loss)	(8)	0	1	2	3
Others-Net	51	(17)	(18)	(19)	(20)
Pre-Tax Income	7,159	7,677	7,948	8,786	9,758
Income Tax	(1,806)	(1,938)	(2,044)	(2,255)	(2,501)
Minorities	0	0	0	0	0
Net Income	5,353	5,739	5,904	6,531	7,257
Balance Sheet					
Cash & Equivalent	261	859	58	246	32
Receivable	3,270	2,896	3,395	3,795	4,244
Inventory	2,084	2,326	2,387	2,674	2,997
Other Current Assets	248	257	280	306	335
Total Current Assets	5,863	6,337	6,120	7,020	7,608
Fixed Assets - Net	6,874	7,348	7,571	7,771	7,951
Goodwill	62	62	62	62	62
Non Current Assets	549	534	510	487	463
Total Assets	13,348	14,281	14,263	15,340	16,085
ST Loans	977	1,250	677	677	0
Payable	3,765	4,632	0	5,091	5,706
Other Payables	3,678	2,983	3,132	3,289	3,454
Current Portion of LT Loans	0	0	0	0	0
Total Current Liab.	8,419	8,865	8,353	9,056	9,160
Long Term Loans	0	0	0	0	0
Other LT Liab.	674	817	858	901	946
Total Liabilities	9,094	9,682	9,211	9,957	10,106
Equity	172	172	172	172	172
Retained Earnings	4,082	4,426	4,879	5,210	5,807
Minority Interest	0	0	0	0	0
Total SHE + Minority Int.	4,255	4,599	5,052	5,383	5,979
Total Liabilities & Equity	13,348	14,281	14,263	15,340	16,085

Source: UNVR, IndoPremier

Year to 31 Dec	2013A	2014A	2015F	2016F	2017F
Cash Flow					
Net Income (Excl.Extraordinary&Min.Int)	5,353	5,739	5,904	6,531	7,257
Depr. & Amortization	441	144	259	255	250
Changes in Working Capital	(256)	484	(595)	(86)	(101)
Others	231	496	(127)	100	116
Cash Flow From Operating	5,769	6,862	5,441	6,800	7,522
Capital Expenditure	(977)	(602)	(458)	(432)	(407)
Others	14	10	3	14	2
Cash Flow From Investing	(963)	(592)	(455)	(418)	(405)
Loans	(63)	273	(573)	0	(677)
Equity	0	0	0	0	0
Dividends	(5,066)	(5,394)	(5,452)	(6,199)	(6,661)
Others	173	47	(21)	1	4
Cash Flow From Financing	(4,956)	(5,074)	(6,046)	(6,198)	(7,334)
Changes in Cash	(150)	1,196	(1,060)	184	(218)
Financial Ratios					
Gross Margin (%)	51.3	49.5	50.4	50.3	50.2
Operating Margin (%)	23.2	22.5	21.1	20.8	20.7
Pre-Tax Margin (%)	23.3	22.2	20.9	20.7	20.5
Net Margin (%)	17.4	16.6	15.5	15.4	15.3
ROA (%)	42.3	41.5	41.4	44.1	46.2
ROE (%)	130.2	129.6	122.4	125.2	127.8
ROIC (%)	104.8	103.8	102.1	111.0	120.6
Acct. Receivables TO (days)	33.8	32.6	30.2	30.9	30.9
Acct. Receivables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Inventory TO (days)	7.2	7.9	8.0	8.3	8.3
Payable TO (days)	79.5	88.0	88.8	83.3	83.3
Acct. Payables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Debt to Equity (%)	23.0	27.2	13.4	12.6	0.0
Interest Coverage Ratio (x)	0.0	0.0	0.0	0.0	0.0
Net Gearing (%)	16.8	8.5	12.2	8.0	(0.5)

Source: UNVR, 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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