

Indofood SM<sub>(INDF IJ)</sub>

11 February 2016

## Company Update

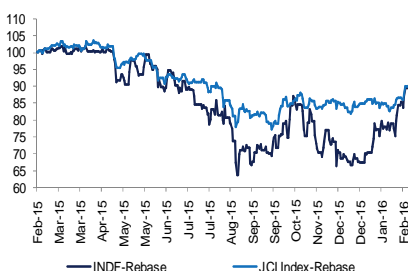
BUY (Unchanged)

## Stock Data

Target price (Rp)	Rp7,900
Prior TP (Rp)	Rp9,700
Shareprice (Rp)	Rp6,775
Upside/downside (%)	+16.6
Sharesoutstanding (m)	8,780
Marketcap. (US\$ m)	4,421
Free float (%)	49.9
Avg. 6m dailyT/O (US\$ m)	3.6

## Price Performance

	3M	6M	12M
Absolute (%)	30.9	14.3	-8.8
Relative to JCI (%)	25.1	11.1	3.5
52w high/low (Rp)	6,775 - 4,680		



## Major Shareholders

CAB Holdings Ltd	50.1%
Anthoni Salim	0.0%

## Estimate Change; Vs. Consensus

	2016F	2017F
Latest EPS (Rp)	371	461
Vs. Prior EPS (%)	(6.9)	(13.0)
Vs. Consensus (%)	(15.7)	(14.8)

Source: Bloomberg

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## Holding on to consumer business

- **Indofood CBP raised its major noodle prices by 5%.**
- **Declining fresh fruit bunch (FFB) production in agribusiness.**
- **Downgrade earnings on the back of depressed agribusiness.**
- **Reiterate Buy rating with lower TP of Rp7,900.**

**Resilient consumer branded products.** We expect consumer branded products from 80.5% owned subsidiary, Indofood CBP (ICBP IJ; Rp15,850; Buy), will continue to drive INDF's earnings. We noted an increase of c.5% ASP for its major noodle brands at the end of 2015, in-line with our forecast. In our view, ICBP's ability to increase prices and pursue product innovations in all business segments (i.e. *Indomie Goreng Rasa Soto*, *Indomie Goreng Rasa Ayam Bawang*, *Chitato Rasa Indomie Goreng*, and *Qtela Choco Delight*) will help to keep gross margin intact at 28.8% and maintain contribution of 54% to INDF's top-line in 2016.

**Negative impact of El Nino.** Still, we believe the company's FFB production will continue to be stressed, due, apart from the low production cycle trend, to the impact of extreme dry weather conditions in the later part of 2015. In 9M15, the group's FFB nucleus production achieved a marginal increase of +0.8% yoy; we expect a production downtrend until 1H16. We estimate that every 1% change in FFB production will affect FY16 agribusiness earnings by c.6%. Having said that, we maintain our CPO price assumption at US\$650/MT and project agribusiness operating profit to grow at 3% yoy in FY16F, after a decline of c.17% in FY15F.

**Earnings revision.** We lower our earnings forecast by 9% and 7% for FY16/17F respectively, on the back of lower operating margins to 10.6/11.0% (from 11.7/11.8%). We keep our ICBP sales growth assumption at 10% for FY16F, while tweaking Bogasari FY16/17F ASP price assumption to Rp6,535/kg and Rp6,603/kg (from c.Rp7,000/kg) to reflect weak global wheat price. We also trim our FY16/17F FFB production yield assumption to 15.5/16.5% (from 17.6%) to factor in the extreme dry weather.

**Valuation and Risks.** We cut our DCF-derived TP to Rp7,900 (from Rp9,700), but keep our Buy rating unchanged. Currently, INDF is trading at 17.3x P/E FY16F, which is still below the 4-year mean. Our TP implies a targeted FY16F P/E of 20.3x. Downside risks include: slumped CPO price (16% of revenue is from agribusiness), high USD denominated debt, and declining noodles market share post ASP hike due to intensifying competition.

Year To 31 Dec	2013A	2014A	2015F	2016F	2017F
Revenue (RpBn)	55,624	63,594	65,566	71,576	78,180
EBITDA (RpBn)	5,557	6,874	6,822	7,614	8,577
EBITDA Growth (%)	(17.7)	23.7	(0.8)	11.6	12.7
Net Profit (RpBn)	2,504	3,885	3,261	3,413	4,044
EPS (Rp)	285	443	371	389	461
EPS Growth (%)	(23.2)	55.2	(16.1)	4.7	18.5
Net Gearing (%)	27.2	31.0	14.3	14.5	12.1
PER (x)	23.6	15.2	18.1	17.3	14.6
PBV (x)	1.6	1.4	1.4	1.3	1.2
Dividend Yield (%)	2.8	2.1	3.3	2.8	2.9
EV/EBITDA (x)	8.8	6.7	7.7	6.9	6.2

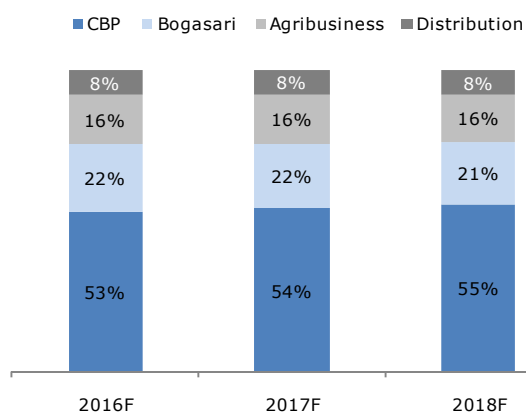
Source : INDF,IndoPremier

Share Price Closing as of : 11-February-2016

Refer to Important disclosures on the last of this report

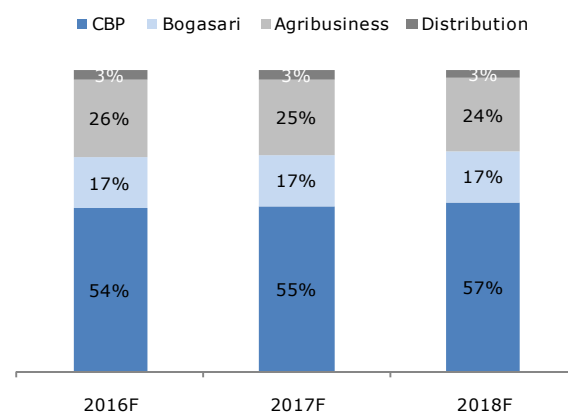
# INDF Company Update

**Fig. 1: Per segment contributor to INDF sales**



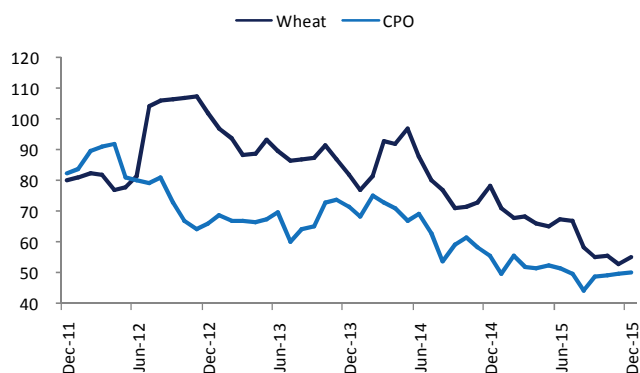
Source: INDF, Indopremier

**Fig. 2: CBP remains the top contributor to operating profit**



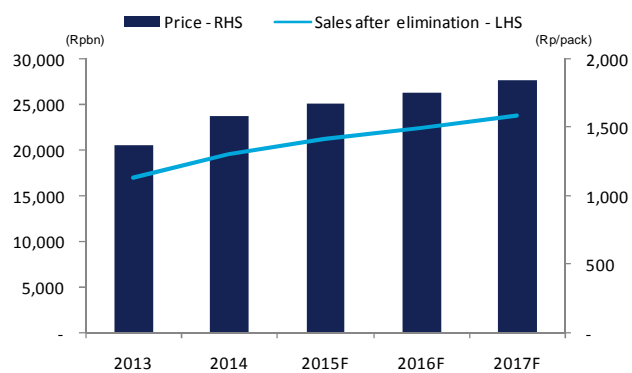
Source: INDF, Indopremier

**Fig. 3: Declining trend in CPO & wheat price**



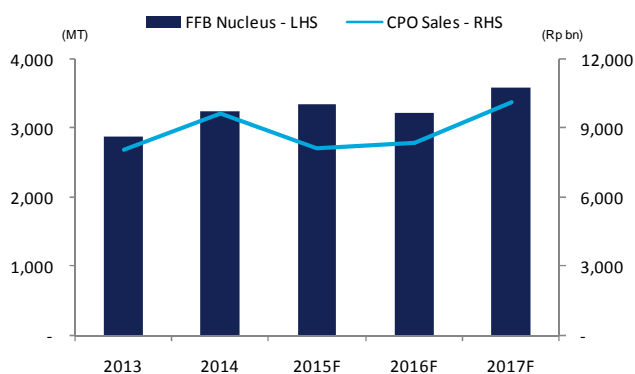
Source: Bloomberg, Indopremier

**Fig. 4: Strong pricing power from ICBP**



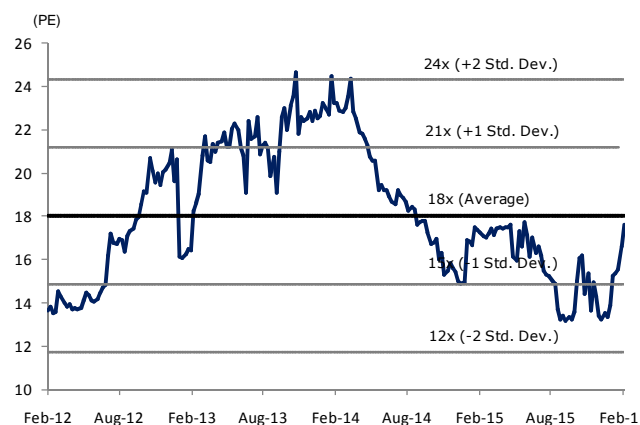
Source: CEIC, Indopremier

**Fig. 5: Shrinking FFB production drags CPO sales**



Source: CEIC, Indopremier

**Fig. 6: INDF historical 4-year PE band**



Source: Bloomberg, Indopremier

## INDF Company Update

**Fig.7: Earnings Revision**

	Old		New		Change	
	FY16F (Rp bn)	FY17F (Rp bn)	FY16F (Rp bn)	FY17F (Rp bn)	FY16F (%)	FY17F (%)
Revenue	74,132	80,020	71,576	78,180	-3.4%	-2.3%
Gross profit	20,279	21,933	18,873	20,875	-6.9%	-4.8%
Operating profit	8,672	9,404	7,614	8,577	-12.2%	-8.8%
Net profit	3,760	4,376	3,413	4,044	-9.2%	-7.6%
Gross margin	27.4%	27.4%	26.4%	26.7%	-1.0%	-0.7%
Operating margin	11.7%	11.8%	10.6%	11.0%	-1.1%	-0.8%
Net margin	5.1%	5.5%	4.8%	5.2%	-0.3%	-0.3%
<b>Revenue Breakdown:</b>						
CBP	38,479	42,916	38,481	42,918	0.0%	0.0%
Bogasari	17,561	18,450	15,611	16,036	-11.1%	-13.1%
Agribusiness	12,016	12,082	11,626	12,875	-3.2%	6.6%
Distribution	6,077	6,573	5,858	6,351	-3.6%	-3.4%
<b>EBIT Breakdown</b>						
CBP	4,481	5,084	4,172	4,739	-6.9%	-6.8%
Bogasari	1,540	1,617	1,322	1,398	-14.1%	-13.6%
Agribusiness	2,408	2,439	1,885	2,186	-21.7%	-10.4%
Distribution	243	263	234	254	-3.6%	-3.4%

Source: IndoPremier

## INDF Company Update

Year To 31 Dec (RpBn)	2013A	2014A	2015F	2016F	2017F
<b>Income Statement</b>					
Net Revenue	55,624	63,594	65,566	71,576	78,180
Cost of Sales	(42,018)	(46,545)	(48,211)	(52,704)	(57,305)
Gross Profit	13,606	17,050	17,354	18,873	20,875
SG&A Expenses	(8,049)	(10,175)	(10,532)	(11,259)	(12,297)
Operating Profit	5,557	6,874	6,822	7,614	8,577
Net Interest	(437)	(809)	(1,191)	(1,665)	(1,597)
Forex Gain (Loss)	(1,657)	(51)	0	0	0
Others-Net	537	215	215	215	215
Pre-Tax Income	4,001	6,229	5,846	6,165	7,196
Income Tax	(1,177)	(1,828)	(1,462)	(1,541)	(1,727)
Minorities	(913)	(1,261)	(1,123)	(1,210)	(1,425)
Net Income	2,504	3,885	3,261	3,413	4,044
<b>Balance Sheet</b>					
Cash & Equivalent	17,757	14,823	21,446	21,805	20,638
Receivable	5,267	4,340	5,230	5,709	6,236
Inventory	8,161	8,455	8,605	9,407	10,228
Other Current Assets	1,587	13,378	1,565	1,626	1,694
Total Current Assets	32,772	40,996	36,846	38,548	38,796
Fixed Assets - Net	29,828	30,325	31,960	34,229	36,068
Goodwill	3,970	3,977	3,977	3,977	3,977
Non Current Assets	9,792	9,054	9,163	9,496	9,861
Total Assets	77,611	85,939	83,582	88,036	90,653
ST Loans	8,729	8,993	9,102	9,328	9,432
Payable	3,678	3,847	0	4,260	4,632
Other Payables	3,762	8,739	4,399	4,878	5,372
Current Portion of LT Loans	3,303	1,103	1,088	3,137	1,142
Total Current Liab.	19,471	22,682	18,486	21,603	20,578
Long Term Loans	15,324	16,838	16,780	15,355	15,417
Other LT Liab.	4,924	5,191	4,927	4,956	5,059
Total Liabilities	39,720	44,711	40,193	41,914	41,054
Equity	9,820	9,484	9,484	9,484	9,484
Retained Earnings	13,609	16,216	17,523	19,285	21,597
Minority Interest	14,462	15,528	16,382	17,352	18,518
Total SHE + Minority Int.	37,892	41,228	43,389	46,121	49,599
Total Liabilities & Equity	77,611	85,939	83,582	88,036	90,653

Source : INDF,IndoPremier

## INDF Company Update

Year to 31 Dec	2013A	2014A	2015F	2016F	2017F
<b>Cash Flow</b>					
Net Income (Excl.Extraordinary&Min.Int)	3,417	5,146	4,385	4,623	5,469
Depr. & Amortization	0	0	0	0	0
Changes in Working Capital	(1,284)	1,171	(993)	(856)	(917)
Others	(377)	21	(6,846)	7,809	467
Cash Flow From Operating	1,163	5,594	(3,455)	11,576	5,018
Capital Expenditure	(11,341)	234	(1,744)	(2,602)	(2,205)
Others	466	720	519	0	0
Cash Flow From Investing	(10,875)	954	(1,225)	(2,602)	(2,205)
Loans	12,033	(423)	37	850	(1,829)
Equity	0	0	0	0	0
Dividends	(1,624)	(1,247)	(1,935)	(1,624)	(1,700)
Others	2,325	(1,105)	(1,439)	(695)	(431)
Cash Flow From Financing	12,733	(2,775)	(3,337)	(1,469)	(3,959)
Changes in Cash	3,021	3,773	(8,016)	7,506	(1,146)
<b>Financial Ratios</b>					
Gross Margin (%)	24.5	26.8	26.5	26.4	26.7
Operating Margin (%)	10.0	10.8	10.4	10.6	11.0
Pre-Tax Margin (%)	7.2	9.8	8.9	8.6	9.2
Net Margin (%)	4.5	6.1	5.0	4.8	5.2
ROA (%)	3.7	4.8	3.8	4.0	4.5
ROE (%)	7.0	9.8	7.7	7.6	8.4
ROIC (%)	7.1	8.9	7.1	6.2	7.1
Acct. Receivables TO (days)	25.5	23.8	21.7	22.8	22.8
Acct. Receivables - Other TO (days)	3.7	3.8	4.9	5.1	5.1
Inventory TO (days)	5.3	5.6	5.7	5.9	5.8
Payable TO (days)	26.8	29.5	29.3	28.2	28.3
Acct. Payables - Other TO (days)	10.1	9.7	9.9	9.6	9.6
Debt to Equity (%)	72.2	65.3	62.2	60.3	52.4
Interest Coverage Ratio (x)	0.2	0.2	0.3	0.2	0.2
Net Gearing (%)	27.2	31.0	14.3	14.5	12.1

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

### ANALYSTS CERTIFICATION.

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