

Indofood SM (INDF JJ)

30 March 2016

Results Note

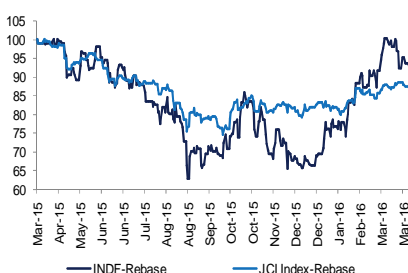
HOLD (From Buy)

StockData

Target price (Rp)	Rp7,000
Prior TP (Rp)	Rp7,900
Shareprice (Rp)	Rp6,925
Upside/downside (%)	+1.1
Sharesoutstanding (m)	8,780
Marketcap. (US\$ m)	4,552
Free float (%)	49.9
Avg. 6m dailyT/O (US\$ m)	4.2

Price Performance

	3M	6M	12M
Absolute (%)	33.8	31.3	-6.4
Relative to JCI (%)	29.2	17.1	6.6
52whigh/low (Rp)	6,925 - 4,680		



Major Shareholders

CAB Holdings Ltd	50.1%
Anthoni Salim	0.0%

Estimate Change; Vs. Consensus

	2016F	2017F
Latest EPS (Rp)	378	432
Vs. Prior EPS (%)	1.9	(6.3)
Vs. Consensus (%)	(15.1)	(16.4)

Source: Bloomberg

Kevin Rusli

PT Indo Premier Securities
 kevin.rusli@ipc.co.id
 +62 21 5793 1168

Slower growth, waiting for upbeat

- Flat net profit growth in FY15, way below our expectation.
- Low commodity price and higher operating cost hurt margins.
- Downgrade earnings on new guidance.
- We downgrade to Hold and cut TP to Rp7,000.

Weak FY15 results. Indofood Sukses Makmur (INDF) booked FY15 net profit of Rp2.9tn (+0.7% yoy), below our estimates (91% of our FY15 forecast). Net profit margin fell to 5% (from 6% previously), due to higher-than-expected forex loss and higher tax rate at 35% (from 29% last year). Gross profit growth was also flat (+0.8% yoy), on the back of weak sales growth (+0.7% yoy) and tight gross margin at 26.9%. Forex loss in FY15 spiked to Rp1.1tn (42% of total finance expenses compared to 3% last year) due to depreciated IDR/USD exchange rate.

Margins squeezed from falling ASP. Although INDF's core net profit still grew 4% in FY15, assuming the exclusion of forex loss, its operating margin shrank by 30bps to 10.7%. Operating cost grew 2.3% yoy, outpacing its top-line (+0.7% yoy). In our view, INDF failed to maintain its operating margin in the midst of last year's economic slowdown. In addition, the falling ASP in wheat and palm oil put downward pressure on Bogasari and Agribusiness division, reducing its sales growth by 4%/5% yoy, respectively, and further clipped operating margin to 7%/11% (from 7%/15% previously). Bogasari's short-term challenge is apparent from low wheat prices, while in the long term, competition risk is expected to persist. Thus, it brings an additional margin pressure going forward.

Earnings revision. We reduce our earnings forecast by 3% and 6% for FY16F/17F respectively, on the back of incorporating our new sales assumption from its consumer branded products subsidiary (ICBP) and agribusiness. We tweak our ICBP sales growth assumption at 7% for FY16F (from 10% previously) to be in-line with management's conservative guidance. Yet in agribusiness, we revise up our sales assumption by 8% for FY16F to factor in the early uptrend in CPO price. To note, the majority of INDF's consolidated sales was from ICBP (50%), followed by Bogasari (24%), agribusiness (19%), and distribution (7%).

Valuation and risks. Consistent with our earnings downgrade, we cut our DCF-derived TP to Rp7,000 (from Rp7,900) and downgrade our recommendation to Hold. Our TP implies 18.5/16.2x P/E in FY16F/17F, while currently INDF trades at 15.9/13.7x P/E respectively. Upside risk: lower leverage from MINZ divestment, continuing uptrend in CPO price.

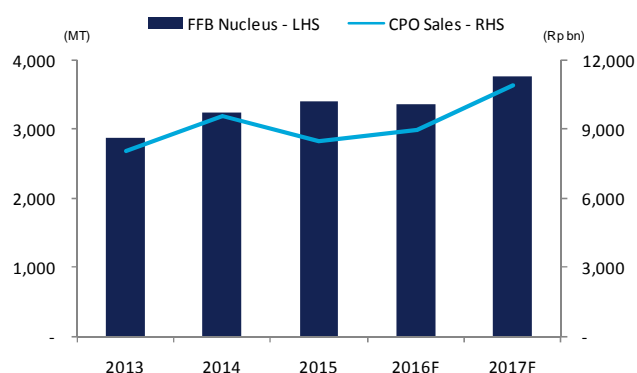
Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (RpBn)	63,594	64,062	67,465	72,922	80,897
EBITDA (RpBn)	6,874	6,877	7,337	8,106	9,088
EBITDA Growth (%)	23.7	0.0	6.7	10.5	12.1
Net Profit (RpBn)	3,885	2,968	3,320	3,796	4,448
EPS (Rp)	443	338	378	432	507
EPS Growth (%)	55.2	(23.6)	11.9	14.3	17.2
Net Gearing (%)	31.0	33.7	13.4	11.4	10.3
PER (x)	15.6	20.5	18.3	16.0	13.7
PBV (x)	1.5	1.4	1.3	1.2	1.2
Dividend Yield (%)	2.1	3.2	2.4	2.7	3.1
EV/EBITDA (x)	7.0	6.7	7.5	6.8	6.1

Source: INDF, IndoPremier

Share Price Closing as of: 29-March-2016

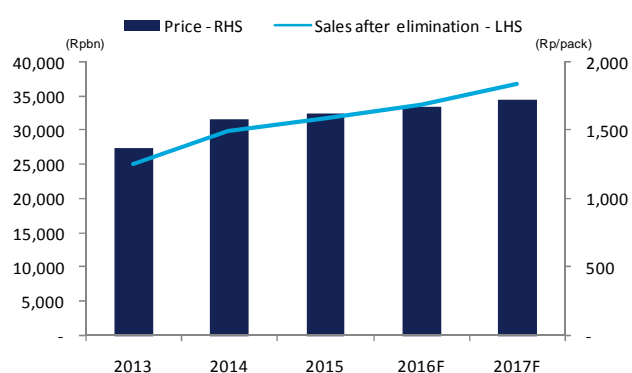
INDF Results Note

Fig. 1: FFB production vs. CPO sales



Source: IndoPremier. INDF

Fig. 2: Consumer branded product (ICBP) sales



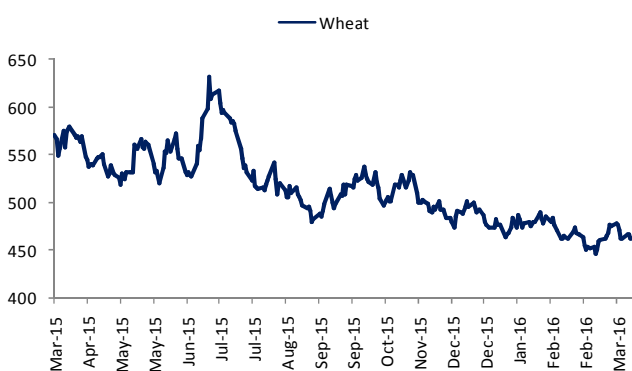
Source: IndoPremier. INDF

Fig. 3: CPO price: Early uptrend starts from January 2016



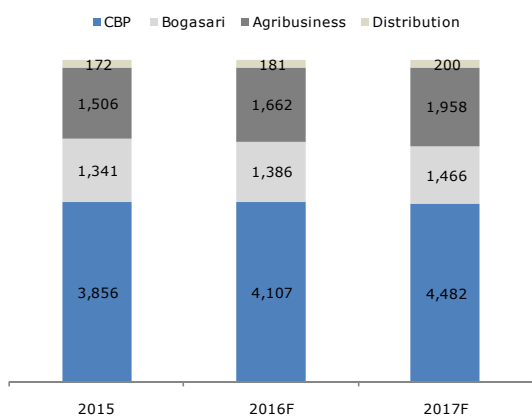
Source: IndoPremier. INDF

Fig. 4: Wheat price: Still continuing on downward trend



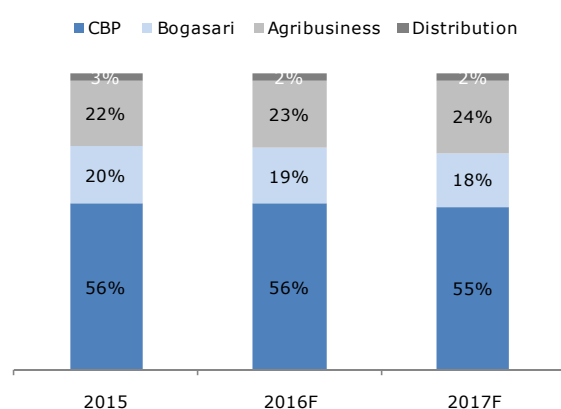
Source: IndoPremier. INDF

Fig. 5: Per segment operating profit to INDF



Source: IndoPremier. INDF

Fig. 6: ICBP remains the backbone of INDF's EBIT



Source: IndoPremier. INDF

INDF Results Note

Tab.1: Earnings Revision

	Old		New		Change	
	FY16F (Rpbn)	FY17F (Rpbn)	FY16F (Rpbn)	FY17F (Rpbn)	FY16F (%)	FY17F (%)
Revenue	71,576	78,180	67,465	72,922	-5.7%	-6.7%
Gross profit	18,873	20,875	17,580	19,178	-6.9%	-8.1%
Operating profit	7,614	8,577	7,337	8,106	-3.6%	-5.5%
Net profit	3,413	4,044	3,320	3,796	-2.7%	-6.1%
Gross margin	26.4%	26.7%	26.1%	26.3%	-0.3%	-0.4%
Operating margin	10.6%	11.0%	10.9%	11.1%	0.2%	0.1%
Net margin	4.8%	5.2%	4.9%	5.2%	0.2%	0.0%
Revenue Breakdown:						
CBP	38,481	42,918	33,663	36,739	-12.5%	-14.4%
Bogasari	15,611	16,036	15,959	16,393	2.2%	2.2%
Agribusiness	11,626	12,875	12,600	14,197	8.4%	10.3%
Distribution	5,858	6,351	5,242	5,593	-10.5%	-11.9%
EBIT Breakdown						
CBP	4,172	4,739	4,107	4,482	-1.6%	-5.4%
Bogasari	1,322	1,398	1,386	1,466	4.9%	4.8%
Agribusiness	1,885	2,186	1,662	1,958	-11.8%	-10.4%
Distribution	234	254	181	200	-22.6%	-21.3%

Source: IndoPremier Securities

INDF Results Note

Year To 31 Dec (RpBn)	2014A	2015A	2016F	2017F	2018F
Income Statement					
Net Revenue	63,594	64,062	67,465	72,922	80,897
Cost of Sales	(46,545)	(46,804)	(49,885)	(53,744)	(59,526)
Gross Profit	17,050	17,258	17,580	19,178	21,371
SG&A Expenses	(10,175)	(10,381)	(10,243)	(11,072)	(12,283)
Operating Profit	6,874	6,877	7,337	8,106	9,088
Net Interest	(809)	(2,067)	(1,155)	(1,092)	(1,006)
Forex Gain (Loss)	(51)	0	0	0	0
Others-Net	215	152	152	152	152
Pre-Tax Income	6,229	4,962	6,333	7,166	8,233
Income Tax	(1,828)	(1,730)	(1,773)	(1,935)	(2,141)
Minorities	(1,261)	(742)	(1,239)	(1,436)	(1,645)
Net Income	3,885	2,968	3,320	3,796	4,448
Balance Sheet					
Cash & Equivalent	14,823	14,167	23,987	23,077	23,791
Receivable	4,340	5,117	4,936	5,335	5,918
Inventory	8,455	7,627	8,570	9,233	10,227
Other Current Assets	13,378	15,906	1,574	1,643	1,744
Total Current Assets	40,996	42,817	39,067	39,288	41,679
Fixed Assets - Net	30,325	33,903	35,746	37,584	40,014
Goodwill	3,977	3,977	3,977	3,977	3,977
Non Current Assets	9,054	9,052	9,257	9,572	10,024
Total Assets	85,939	91,832	90,240	92,792	98,324
ST Loans	8,993	7,719	9,252	9,354	9,805
Payable	3,847	3,585	0	4,267	4,726
Other Payables	8,739	10,811	5,072	5,552	6,112
Current Portion of LT Loans	1,103	2,993	5,500	3,596	5,622
Total Current Liab.	22,682	25,108	23,785	22,769	26,265
Long Term Loans	16,838	16,894	14,279	14,615	12,708
Other LT Liab.	5,191	6,708	6,241	6,335	6,578
Total Liabilities	44,711	48,710	44,306	43,719	45,552
Equity	9,484	10,442	10,442	10,442	10,442
Retained Earnings	16,216	16,827	18,646	20,759	23,289
Minority Interest	15,528	15,852	16,846	17,872	19,041
Total SHE + Minority Int.	41,228	43,122	45,934	49,073	52,772
Total Liabilities & Equity	85,939	91,832	90,240	92,792	98,324

Source : INDF,IndoPremier

INDF Results Note

Year to 31 Dec	2014A	2015A	2016F	2017F	2018F
Cash Flow					
Net Income (Excl.Extraordinary&Min.Int)	5,146	3,710	4,560	5,231	6,093
Depr. & Amortization	0	0	0	0	0
Changes in Working Capital	1,171	(89)	(263)	(689)	(1,015)
Others	21	(4,668)	(827)	8,044	(312)
Cash Flow From Operating	5,594	(1,525)	3,470	12,586	4,766
Capital Expenditure	234	(3,576)	(2,047)	(2,153)	(2,882)
Others	720	174	613	628	633
Cash Flow From Investing	954	(3,402)	(1,434)	(1,526)	(2,249)
Loans	(423)	672	1,426	(1,467)	571
Equity	0	0	0	0	0
Dividends	(1,247)	(1,932)	(1,476)	(1,651)	(1,887)
Others	(1,105)	(1,552)	(1,188)	(694)	(469)
Cash Flow From Financing	(2,775)	(2,812)	(1,238)	(3,812)	(1,785)
Changes in Cash	3,773	(7,739)	798	7,248	732
Financial Ratios					
Gross Margin (%)	26.8	26.9	26.1	26.3	26.4
Operating Margin (%)	10.8	10.7	10.9	11.1	11.2
Pre-Tax Margin (%)	9.8	7.7	9.4	9.8	10.2
Net Margin (%)	6.1	4.6	4.9	5.2	5.5
ROA (%)	4.8	3.3	3.6	4.1	4.7
ROE (%)	9.8	7.0	7.5	8.0	8.7
ROIC (%)	8.9	6.6	7.0	7.6	8.4
Acct. Receivables TO (days)	23.8	22.2	22.6	21.4	21.1
Acct. Receivables - Other TO (days)	3.8	4.7	4.6	4.3	4.3
Inventory TO (days)	5.6	5.8	6.2	6.0	6.1
Payable TO (days)	29.5	29.0	27.6	27.9	27.6
Acct. Payables - Other TO (days)	9.7	11.3	12.2	12.4	12.2
Debt to Equity (%)	65.3	64.0	63.2	56.2	53.3
Interest Coverage Ratio (x)	0.2	0.4	0.2	0.2	0.2
Net Gearing (%)	31.0	33.7	13.4	11.4	10.3

Source : INDF, IndoPremier

Head Office

PT INDO PREMIER SECURITIES

Wisma GKBI 7/F Suite 718

Jl. Jend. Sudirman No.28

Jakarta 10210 - Indonesia

p +62.21.5793.1168

f +62.21.5793.1167

Institutional Equity & Private Client

Benny B. Soebagjo	Head of Equities	benny.soebagjo@ipc.co.id
Angkula Ruriawan	Equity Sales	angkula.ruriawan@ipc.co.id
Alexander Salim	Equity Sales	alexander.salim@ipc.co.id
Edward Azizy	Equity Sales	edazizy@ipc.co.id
Henry Sutanto	Equity Sales	henry.sutanto@ipc.co.id
Isna Alfiathi	Equity Sales	isna.alfiathi@ipc.co.id
Angky Amarylis	Sales Trader	angky.amarylis@ipc.co.id
Thomas Samuil	Sales Trader	thomas.samuil@ipc.co.id

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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