

Unilever Indonesia (UNVR IJ)

27 July 2016

Results Note

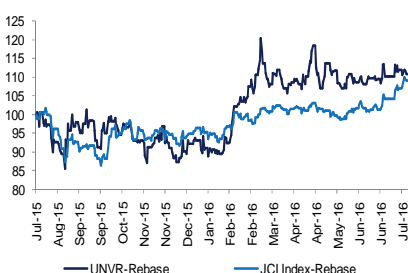
HOLD(Unchanged)

Stock Data

Target price (Rp)	Rp42,500
Prior TP (Rp)	Rp42,500
Shareprice (Rp)	Rp44,775
Upside/downside (%)	(5.1)
Sharesoutstanding (m)	7,630
Marketcap. (US\$ m)	25,980
Free float (%)	15.0
Avg. 6m dailyT/O (US\$ m)	6.5

Price Performance

	3M	6M	12M
Absolute (%)	5.2	22.0	15.2
Relative to JCI (%)	-2.7	8.9	6.4
52w high/low (Rp)	47,800 - 34,000		



Major Shareholders

Unilever Plc	85.0%
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Estimate Change; Vs. Consensus

	2016F	2017F
Latest EPS (Rp)	854	945
Vs. Prior EPS (%)	0.0	0.0
Vs. Consensus (%)	2.0	1.1

Source: Bloomberg

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A Spark after the Sunset

- Earnings grew 29.1% yoy in 2Q16, in line with expectations
- Margin expansion on better sales mix and favorable material costs
- EBIT margin improvement on stable royalty fees
- Maintain HOLD at TP Rp42,500

Strong earnings growth. Unilever Indonesia (UNVR) reported strong earnings growth of 29.1%yoy in 2Q16, accounting for 24% of our FY16F, on the back of 6.8% yoy revenue growth in 2Q16. The revenue growth was driven mainly by the Home and Personal Care (HPC) segment which grew 12.3% yoy; meanwhile, Foods and Ice Cream (FC) reported revenue contraction of 12.5% yoy. We think the slowdown in the FC segment can be attributed to consumers continuing to hold off consumption of non-necessities due to weak economic conditions during 1H16. In addition, we think the effect of Ramadan season has not been fully reflected in FC sales; therefore, we expect FC sales to improve during 3Q16.

Gross margin expansion. UNVR's gross margin expanded by 390bps yoy to 50.9% in 2Q16, helped by higher contribution from the higher-margin HPC segment at 68% of total sales (2Q15:65% of total sales). There was a slight improvement in raw material costs, which accounted for 40% of total sales in 2Q16 (vs. 1Q16:41% of total sales). In addition, the strengthening of the IDR against the USD since the beginning of the year, further improved margins as around 55% of raw material costs are USD link. We expect UNVR to sustain its high gross margin if commodity prices stay at current levels and the IDR continues to strengthen.

EBIT margin improvement. Operating profit grew 25.2%yoy in 2Q16 with operating margin standing at 21.7%. In 2Q16, A&P spending increased slightly to 11.4% of total sales from 10.3% in 1Q16 (vs. 2Q15:11.5% of total sales). We trace the increase in A&P spending to improved macro conditions, which historically translate into more UNVR brand activities. Meanwhile, net margin also improved by 280bps yoy to 16.1% in 2Q16. Furthermore, we do not expect the proposed excise tax on bottle packaging to affect UNVR as the regulation will be imposed specifically on beverage bottle packaging only.

Maintain HOLD at TP Rp42,500. Our DCF-based target price implies FY17F P/E of 45x. We forecast revenue/EBIT to grow 11.4%/10.5% CAGR in 2015-2017F on the back of improving economic conditions. However, we continue to think that UNVR's valuation is highly demanding at current levels given its limited growth prospects. Therefore, we maintain HOLD.

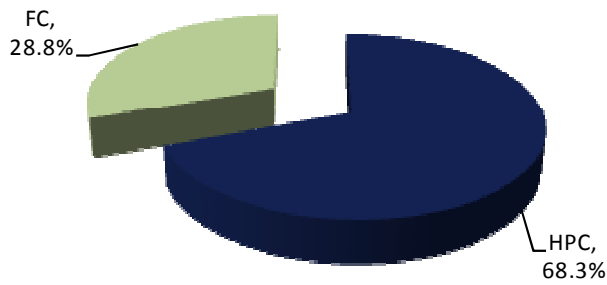
Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	34,512	36,484	40,542	45,238	50,497
EBITDA(RpBn)	7,779	7,944	8,765	9,706	10,941
EBITDA Growth (%)	9.2	2.1	10.3	10.7	12.7
Net Profit(RpBn)	5,739	5,852	6,515	7,216	8,101
EPS (Rp)	752	767	854	946	1,062
EPS Growth (%)	7.2	2.0	11.3	10.8	12.3
Net Gearing (%)	8.5	23.0	14.3	6.9	(2.0)
PER (x)	59.5	58.4	52.4	47.3	42.2
PBV (x)	74.3	73.2	64.1	56.6	49.4
Dividend Yield (%)	1.6	1.7	1.7	1.9	2.1
EV/EBITDA (x)	43.9	42.9	38.9	35.2	31.2

Source: UNVR, IndoPremier

Share Price Closing as of : 26 July 2016

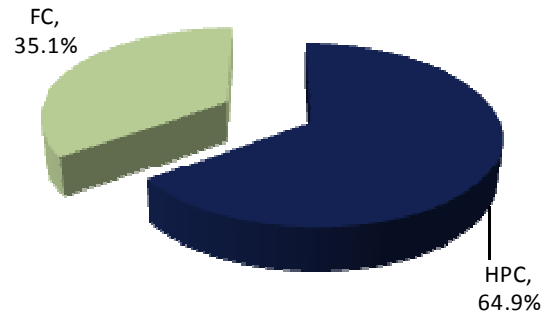
UNVR Results Note

Fig. 1: Improving contribution from HPC in 2Q16...



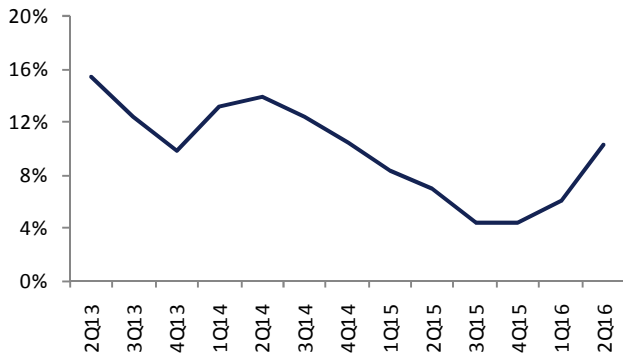
Source: Company, IndoPremier

Fig. 2: ... In comparison to sales mix in 2Q15



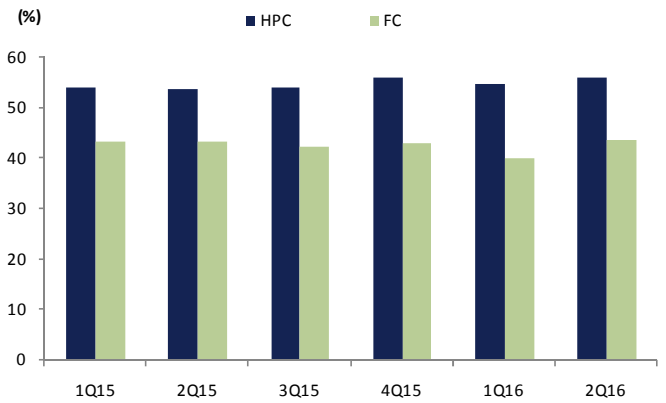
Source: Company, IndoPremier

Fig. 3: Recovery in revenue growth trend (%yoy, 2q rolling)



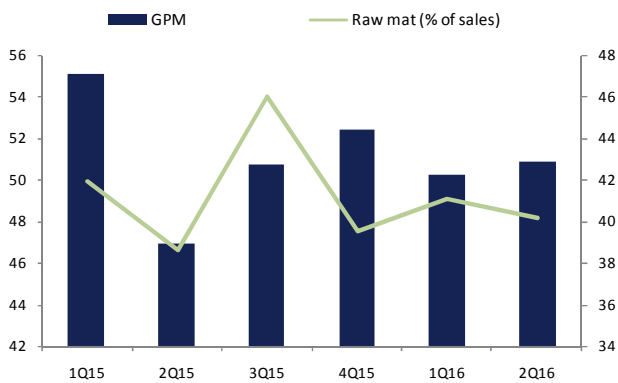
Source: Company, IndoPremier

Fig. 4: Gross Margin Expansion on better sales mix



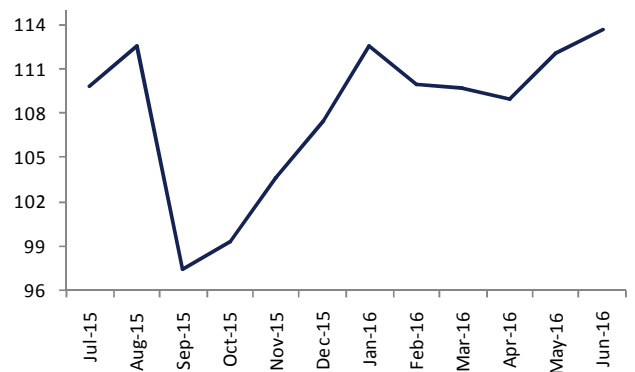
Source: Company, IndoPremier

Fig. 5: GPM and Raw Material Trend quarterly



Source: Company, IndoPremier

Fig. 6: Recovery in Consumer Confidence Index since Aug-15



Source: Bank Indonesia, IndoPremier

UNVR Results Note

Fig. 7: Earnings Result

(in Rp bn)	2Q16	2Q15	YoY	2Q16	1Q16	QoQ
Revenue	10,757	10,076	6.8%	10,757	9,988	7.7%
HPC	7,344	6,541	12.3%	7,344	6,689	9.8%
FC	3,094	3,536	-12.5%	3,094	3,618	-14.5%
Gross Profit	5,470	4,726	15.7%	5,470	5,021	9.0%
Operating Profit	2,330	1,861	25.2%	2,330	2,148	8.5%
Net Profit	1,728	1,339	29.1%	1,728	1,570	10.1%
Gross Margin (%)	50.9%	46.9%	3.9%	50.9%	50.3%	0.6%
Operating Margin (%)	21.7%	18.5%	3.2%	21.7%	21.5%	0.2%
Net Margin (%)	16.1%	13.3%	2.8%	16.1%	15.7%	0.3%

Source: Company, IndoPremier

Year To 31 Dec (RpBn)	2014A	2015A	2016F	2017F	2018F
Income Statement					
Net Revenue	34,512	36,484	40,542	45,238	50,497
Cost of Sales	(17,412)	(17,835)	(19,819)	(22,165)	(24,802)
Gross Profit	17,099	18,649	20,723	23,073	25,695
SG&A Expenses	(9,320)	(10,705)	(11,958)	(13,367)	(14,754)
Operating Profit	7,779	7,944	8,765	9,706	10,941
Net Interest	(86)	(110)	(73)	(79)	(91)
Forex Gain (Loss)	0	0	0	0	0
Others-Net	(17)	(4)	(5)	(5)	(5)
Pre-Tax Income	7,677	7,829	8,687	9,621	10,845
Income Tax	(1,938)	(1,978)	(2,172)	(2,405)	(2,744)
Minorities	0	0	0	0	0
Net Income	5,739	5,852	6,515	7,216	8,101
Balance Sheet					
Cash & Equivalent	859	626	253	489	1,404
Receivable	2,896	3,245	3,412	3,807	4,249
Inventory	2,326	2,298	2,569	2,873	3,215
Other Current Assets	257	295	336	364	396
Total Current Assets	6,337	6,463	6,569	7,533	9,264
Fixed Assets - Net	7,348	8,321	8,838	9,324	9,782
Goodwill	62	62	62	62	62
Non Current Assets	534	724	717	712	707
Total Assets	14,281	15,570	16,186	17,630	19,814
ST Loans	1,250	1,700	1,014	905	1,262
Payable	4,632	4,842	0	5,887	6,587
Other Payables	2,983	3,585	3,765	3,953	4,151
Current Portion of LT Loans	0	0	0	0	0
Total Current Liab.	8,865	10,128	10,042	10,745	12,000
Long Term Loans	0	0	0	0	0
Other LT Liab.	817	775	814	854	897
Total Liabilities	9,682	10,903	10,856	11,599	12,897
Equity	172	172	172	172	172
Retained Earnings	4,426	4,495	5,158	5,859	6,744
Minority Interest	0	0	0	0	0
Total SHE + Minority Int.	4,599	4,667	5,331	6,031	6,917
Total Liabilities & Equity	14,281	15,570	16,186	17,630	19,814

Source: UNVR, IndoPremier

UNVR Results Note

Year to 31 Dec	2014A	2015A	2016F	2017F	2018F
Cash Flow					
Net Income (Excl.Extraordinary&Min.Int)	5,739	5,852	6,515	7,216	8,101
Depr. & Amortization	144	372	296	312	327
Changes in Working Capital	484	308	57	(1)	(7)
Others	496	(60)	189	160	175
Cash Flow From Operating	6,862	6,472	7,058	7,688	8,597
Capital Expenditure	(602)	(1,536)	(806)	(793)	(780)
Others	10	11	11	12	12
Cash Flow From Investing	(592)	(1,525)	(795)	(781)	(767)
Loans	273	450	(686)	(109)	358
Equity	0	0	0	0	0
Dividends	(5,394)	(5,784)	(5,852)	(6,515)	(7,216)
Others	47	(163)	(46)	(50)	(60)
Cash Flow From Financing	(5,074)	(5,496)	(6,584)	(6,674)	(6,919)
Changes in Cash	1,196	(550)	(322)	232	911
Financial Ratios					
Gross Margin (%)	49.5	51.1	51.1	51.0	50.9
Operating Margin (%)	22.5	21.8	21.6	21.5	21.7
Pre-Tax Margin (%)	22.2	21.5	21.4	21.3	21.5
Net Margin (%)	16.6	16.0	16.1	16.0	16.0
ROA (%)	41.5	39.2	41.0	42.7	43.3
ROE (%)	129.6	126.3	130.3	127.0	125.1
ROIC (%)	103.8	96.0	102.7	108.8	107.4
Acct. Receivables TO (days)	32.6	30.7	30.0	29.1	29.1
Acct. Receivables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Inventory TO (days)	7.9	7.7	8.1	8.1	8.1
Payable TO (days)	88.0	96.9	93.1	91.8	91.8
Acct. Payables - Other TO (days)	0.0	0.0	0.0	0.0	0.0
Debt to Equity (%)	27.2	36.4	19.0	15.0	18.3
Interest Coverage Ratio (x)	0.0	0.0	0.0	0.0	0.0
Net Gearing (%)	8.5	23.0	14.3	6.9	(2.0)

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

ANALYSTS CERTIFICATION.

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