

Indofood CBP_(ICBP IJ)

22 August 2016

Results Note

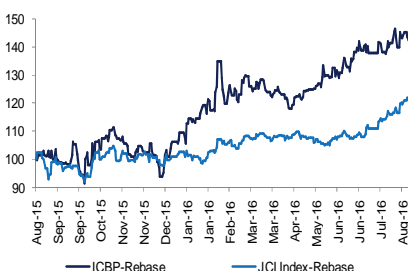
BUY (Unchanged)

Stock Data

| | |
|---------------------------|----------|
| Target price (Rp) | Rp10,500 |
| Prior TP (Rp) | Rp9,450 |
| Shareprice (Rp) | Rp9,100 |
| Upside/downside (%) | +15.4 |
| Sharesoutstanding (m) | 11,662 |
| Marketcap. (US\$ m) | 8,017 |
| Free float (%) | 19.5 |
| Avg. 6m dailyT/O (US\$ m) | 3.0 |

Price Performance

| | 3M | 6M | 12M |
|---------------------|---------------|------|------|
| Absolute (%) | 14.5 | 20.3 | 48.0 |
| Relative to JCI (%) | 1.1 | 5.7 | 26.0 |
| 52w high/low (Rp) | 9,100 - 5,625 | | |



Major Shareholders

| | |
|-------------|-------|
| Indofood SM | 80.5% |
|-------------|-------|

Estimate Change; Vs. Consensus

| | 2016F | 2017F |
|-------------------|-------|-------|
| Latest EPS (Rp) | 328 | 387 |
| Vs. Prior EPS (%) | 10.8 | 13.8 |
| Vs. Consensus (%) | 7.4 | 14.5 |

Source: Bloomberg

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Solid 2Q earnings, better margins

- Earnings grew 16% yoy in 2Q16, above our/market expectation.
- Gross and EBIT margin grew to 32%/15%, respectively.
- Upgrade FY16F earnings on higher sales volume estimate.
- Maintain Buy ratings at new TP of Rp10,500.

Good 2Q results. PT Indofood CBP Sukses Makmur (ICBP) reported net profit of Rp1.0tn in 2Q16 (+15.9% yoy, +9.5% qoq), leading to 1H16 earnings of Rp1.9tn (+17% yoy). The results were ahead of our/market expectations (accounted for 55%/57% of FY16F estimates, respectively), driven by sales growth (+8% yoy) and lower operating expenses (-1.1% yoy). For this quarter, the top sales contributors were: noodle division at 64% and dairy at 19% of total sales. The noodle division's sales grew 8.5% yoy, mainly driven by higher ASP (flat volumes in 2Q16), while the dairy division posted robust sales growth of +18.4% yoy, on the back of increase in ASP and volume growth. In addition, these two divisions booked EBIT contribution at 76% and 23% respectively, while the beverage division still recorded losses (-Rp141bn) in this quarter.

Improving margins in dairy division, beverages still disappointing. Gross margin expanded to 31.9% in 2Q16 (+40bps qoq, +14bps yoy), still benefiting from lower raw material costs trends in wheat and skim milk powder for noodle and dairy segment. In addition, the consol. EBIT margin has improved significantly to 15.1% in 1H16 (+190 bps yoy), thanks to the dairy and beverage division's EBIT margin expansion to 17.7%/-16% in 1H16 (+840/+1,050 bps yoy). However, our view on the beverage division is still negative, as we think the current margin expansion is unsustainable, on the back of keen competition. From the cost structure, ICBP successfully reduced its advertisement, logistics, and salary expenses (combining these three expenses: -14.3% qoq, -14.6% yoy).

Upgrade earnings on higher volumes. We upgrade our dairy and snack divisions' volume estimates by +13%/18% respectively, given the better sales volumes in 2Q16, helped by steady product innovation. We prefer to incorporate the new management guidance, considering the outlook is reasonable and prudent. We also increase our ASP estimate in these aforementioned business segments, on the back of better sales mixed through premiumization strategy. With these assumptions, we upgrade revenue estimates by 9%/14% and earnings by 11%/14% in FY16/17F, respectively.

Reiterate our Buy with new TP at Rp10,500. We roll over our PE-based valuation to FY17F and raise our TP to Rp10,500 (from Rp9,450). Our new TP implies 27x PE FY17F, which is at a two-year average historical PE of FY13-15. We remain bullish on the stock, given the strong earnings growth and favourable soft commodity prices.

| Year To 31 Dec | 2014A | 2015A | 2016F | 2017F | 2018F |
|--------------------|--------|--------|--------|--------|--------|
| Revenue(RpBn) | 30,022 | 31,741 | 36,924 | 41,924 | 47,836 |
| EBITDA(RpBn) | 3,063 | 3,908 | 4,688 | 5,487 | 6,496 |
| EBITDA Growth (%) | 12.0 | 27.6 | 20.0 | 17.0 | 18.4 |
| Net Profit(RpBn) | 2,604 | 3,001 | 3,831 | 4,510 | 5,377 |
| EPS (Rp) | 223 | 257 | 328 | 387 | 461 |
| EPS Growth (%) | (41.5) | 15.2 | 27.7 | 17.7 | 19.2 |
| Net Gearing (%) | (27.4) | (29.8) | (35.3) | (40.2) | (43.1) |
| PER (x) | 40.4 | 35.1 | 27.5 | 23.3 | 19.6 |
| PBV (x) | 7.2 | 6.4 | 5.5 | 4.8 | 4.2 |
| Dividend Yield (%) | 1.1 | 1.2 | 1.3 | 1.7 | 2.1 |
| EV/EBITDA (x) | 35.7 | 28.2 | 23.9 | 20.8 | 17.9 |

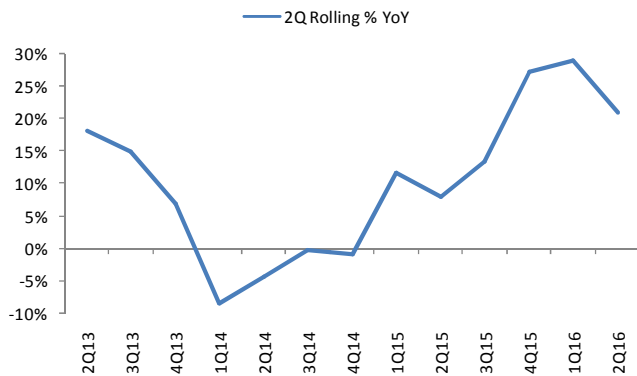
Source : ICBP,IndoPremier

Share Price Closing as of : 22-August-2016

Refer to Important disclosures on the last of this report

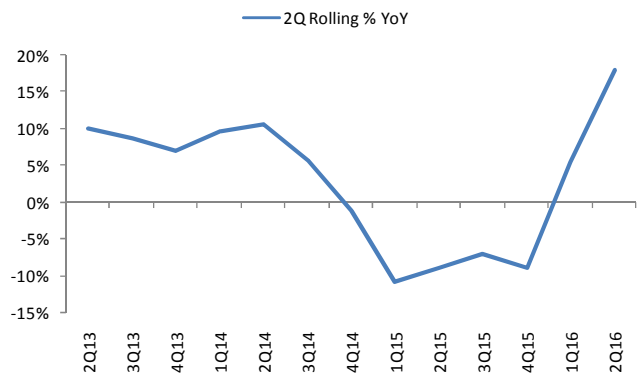
ICBP Results Note

Fig. 1: Dairy segment: volume growth



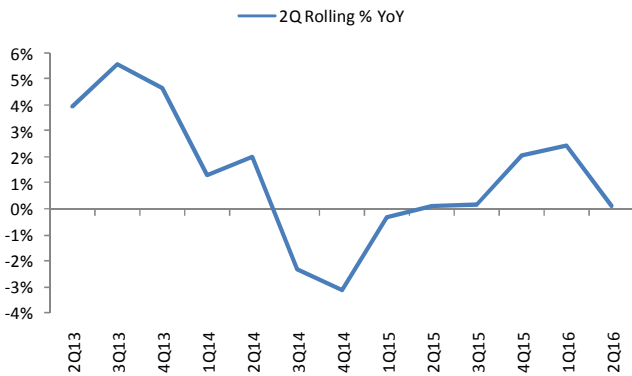
Source: IndoPremier, ICBP

Fig. 2: Snack segment: volume growth



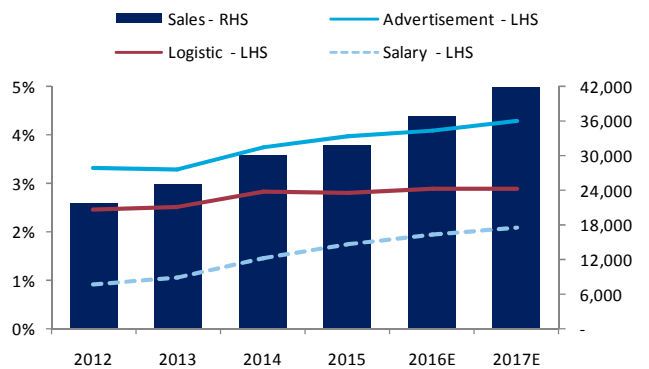
Source: IndoPremier, ICBP

Fig. 3: Noodle segment: volume growth



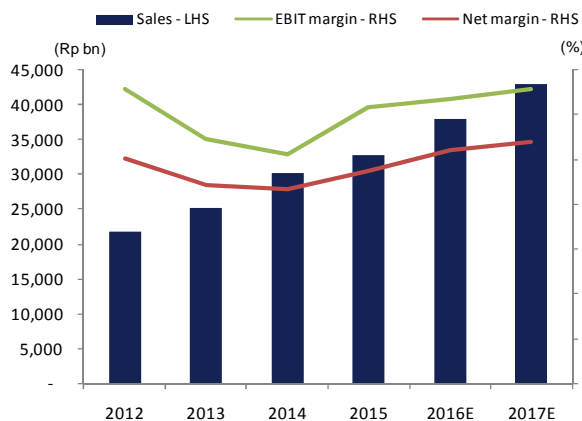
Source: IndoPremier, ICBP

Fig. 4: % of opex (ads, logistic, salary) to total sales



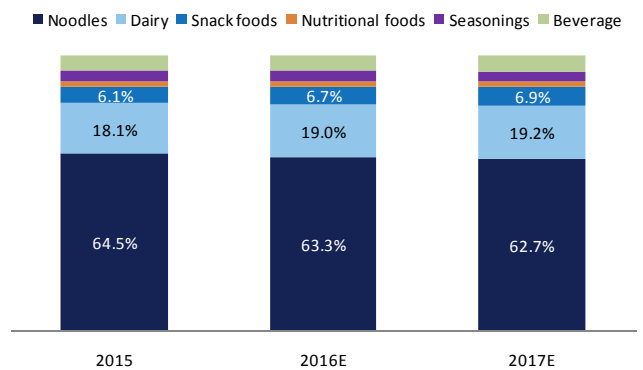
Source: IndoPremier, ICBP

Fig. 5: Sales, EBIT, Net Margin



Source: IndoPremier, ICBP

Fig. 6: Per division: sales contribution



Source: IndoPremier, ICBP

ICBP Results Note

Fig. 7: 2Q results

| (IDR b) | 2Q16 | 1Q16 | 2Q15 | ---Change--- | | 1H16 | 1H15 | Change |
|----------------------|---------|---------|---------|--------------|--------|---------|---------|---------|
| | (IDR b) | (IDR b) | (IDR b) | (q-q%) | (y-y%) | (IDR b) | (IDR b) | (y-y %) |
| Sales | 9,253 | 8,922 | 8,584 | 3.7 | 7.8 | 18,175 | 16,551 | 9.8 |
| Gross profit | 2,951 | 2,809 | 2,726 | 5.1 | 8.3 | 5,760 | 5,077 | 13.5 |
| Operating profit | 1,406 | 1,332 | 1,163 | 5.6 | 20.8 | 2,737 | 2,143 | 27.7 |
| Pre-tax profit | 1,378 | 1,346 | 1,196 | 2.3 | 15.2 | 2,724 | 2,193 | 24.2 |
| Net profit | 1,034 | 945 | 893 | 9.5 | 15.9 | 1,979 | 1,689 | 17.2 |
| Others | | | | | | | | |
| Gross margin (%) | 31.9 | 31.5 | 31.8 | | | 31.7 | 30.7 | |
| Operating margin (%) | 15.2 | 14.9 | 13.6 | | | 15.1 | 12.9 | |
| Pre tax margin (%) | 14.9 | 15.1 | 13.9 | | | 15.0 | 13.3 | |
| Net margin (%) | 11.2 | 10.6 | 10.4 | | | 10.9 | 10.2 | |

Source: IndoPremier Securities

Fig. 8: Earnings Revision

| | Old | | New | | Change | |
|------------------------------|------------------|------------------|------------------|------------------|--------------|--------------|
| | FY16F (Rp bn) | FY17F (Rp bn) | FY16F (Rp bn) | FY17F (Rp bn) | FY16F (%) | FY17F (%) |
| Revenue | 33,799 | 36,888 | 36,924 | 41,924 | 9% | 14% |
| Gross profit | 10,609 | 11,955 | 11,289 | 13,188 | 6% | 10% |
| Operating profit | 4,204 | 4,794 | 4,688 | 5,487 | 12% | 14% |
| Net profit | 3,453 | 3,967 | 3,831 | 4,510 | 11% | 14% |
| Gross margin | 31.4% | 32.4% | 30.6% | 31.5% | | |
| Operating margin | 12.4% | 13.0% | 12.7% | 13.1% | | |
| Net margin | 10.2% | 10.8% | 10.4% | 10.8% | | |
| Revenue (Rp bn) | | | | | | |
| Snack foods | 2,342 | 2,533 | 2,512 | 2,956 | 7% | 17% |
| Dairy | 6,594 | 7,616 | 7,176 | 8,213 | 9% | 8% |
| Sales Volume (k tons) | | | | | | |
| Snack foods | 32 | 33 | 36 | 39 | 12% | 18% |
| Dairy | 399 | 438 | 421 | 459 | 6% | 5% |
| ASP (Rp mn / ton) | | | | | | |
| Snack foods | 68 | 70 | 70 | 75 | 4% | 8% |
| Dairy | 17 | 17 | 17 | 18 | 3% | 3% |

Source: IndoPremier Securities

ICBP Results Note

| Year To 31 Dec (RpBn) | 2014A | 2015A | 2016F | 2017F | 2018F |
|-----------------------------|----------|----------|----------|----------|----------|
| Income Statement | | | | | |
| Net Revenue | 30,022 | 31,741 | 36,924 | 41,924 | 47,836 |
| Cost of Sales | (21,963) | (22,122) | (25,635) | (28,736) | (32,413) |
| Gross Profit | 8,060 | 9,619 | 11,289 | 13,188 | 15,423 |
| SG&A Expenses | (4,997) | (5,711) | (6,601) | (7,702) | (8,927) |
| Operating Profit | 3,063 | 3,908 | 4,688 | 5,487 | 6,496 |
| Net Interest | 261 | 175 | 301 | 391 | 518 |
| Forex Gain (Loss) | 0 | (63) | 0 | 0 | 0 |
| Others-Net | 65 | (10) | (11) | (12) | (13) |
| Pre-Tax Income | 3,389 | 4,010 | 4,979 | 5,866 | 7,000 |
| Income Tax | (857) | (1,086) | (1,245) | (1,467) | (1,750) |
| Minorities | 73 | 78 | 97 | 111 | 127 |
| Net Income | 2,604 | 3,001 | 3,831 | 4,510 | 5,377 |
| Balance Sheet | | | | | |
| Cash & Equivalent | 7,403 | 7,757 | 9,307 | 11,233 | 13,150 |
| Receivable | 2,921 | 3,364 | 3,846 | 4,367 | 4,983 |
| Inventory | 2,813 | 2,547 | 3,016 | 3,381 | 3,813 |
| Other Current Assets | 485 | 294 | 336 | 382 | 436 |
| Total Current Assets | 13,622 | 13,962 | 16,505 | 19,363 | 22,382 |
| Fixed Assets - Net | 5,809 | 6,556 | 6,958 | 7,722 | 8,537 |
| Goodwill | 1,424 | 1,424 | 1,424 | 1,424 | 1,424 |
| Non Current Assets | 4,174 | 4,619 | 4,775 | 4,744 | 5,036 |
| Total Assets | 25,029 | 26,561 | 29,663 | 33,253 | 37,379 |
| ST Loans | 1,548 | 873 | 757 | 758 | 758 |
| Payable | 2,756 | 2,581 | 0 | 3,504 | 3,953 |
| Other Payables | 1,636 | 1,984 | 1,874 | 2,273 | 2,613 |
| Current Portion of LT Loans | 268 | 565 | 517 | 499 | 481 |
| Total Current Liab. | 6,208 | 6,002 | 6,274 | 7,035 | 7,805 |
| Long Term Loans | 1,590 | 1,432 | 1,265 | 1,165 | 1,070 |
| Other LT Liab. | 2,647 | 2,740 | 2,927 | 3,117 | 3,326 |
| Total Liabilities | 10,445 | 10,174 | 10,466 | 11,318 | 12,202 |
| Equity | 6,603 | 6,605 | 6,605 | 6,605 | 6,605 |
| Retained Earnings | 7,053 | 8,850 | 11,632 | 14,342 | 17,554 |
| Minority Interest | 929 | 932 | 960 | 989 | 1,018 |
| Total SHE + Minority Int. | 14,584 | 16,387 | 19,196 | 21,935 | 25,177 |
| Total Liabilities & Equity | 25,029 | 26,561 | 29,663 | 33,253 | 37,379 |

Source : ICBP,IndoPremier

ICBP Results Note

| Year to 31 Dec | 2014A | 2015A | 2016F | 2017F | 2018F |
|---|---------|---------|---------|---------|---------|
| Cash Flow | | | | | |
| Net Income (Excl.Extraordinary&Min.Int) | 2,532 | 2,923 | 3,734 | 4,400 | 5,250 |
| Depr. & Amortization | 337 | 473 | 542 | 565 | 760 |
| Changes in Working Capital | (91) | (351) | (406) | (507) | (600) |
| Others | 685 | 452 | 449 | (312) | 89 |
| Cash Flow From Operating | 3,462 | 3,497 | 4,319 | 4,146 | 5,500 |
| Capital Expenditure | (1,799) | (1,664) | (1,100) | (1,299) | (1,866) |
| Others | 482 | 426 | 564 | 618 | 717 |
| Cash Flow From Investing | (1,317) | (1,239) | (536) | (681) | (1,149) |
| Loans | 886 | (537) | (330) | (115) | (114) |
| Equity | 0 | 0 | 0 | 0 | 0 |
| Dividends | (1,108) | (1,294) | (1,380) | (1,800) | (2,165) |
| Others | (216) | (275) | (163) | (128) | (87) |
| Cash Flow From Financing | (438) | (2,106) | (1,873) | (2,044) | (2,366) |
| Changes in Cash | 1,707 | 152 | 1,910 | 1,421 | 1,984 |
| Financial Ratios | | | | | |
| Gross Margin (%) | 26.8 | 30.3 | 30.6 | 31.5 | 32.2 |
| Operating Margin (%) | 10.2 | 12.3 | 12.7 | 13.1 | 13.6 |
| Pre-Tax Margin (%) | 11.3 | 12.6 | 13.5 | 14.0 | 14.6 |
| Net Margin (%) | 8.7 | 9.5 | 10.4 | 10.8 | 11.2 |
| ROA (%) | 11.3 | 11.6 | 13.6 | 14.3 | 15.2 |
| ROE (%) | 18.7 | 19.4 | 21.5 | 21.9 | 22.8 |
| ROIC (%) | 19.2 | 19.4 | 22.5 | 23.2 | 24.5 |
| Acct. Receivables TO (days) | 33.3 | 36.1 | 35.6 | 35.8 | 35.7 |
| Acct. Receivables - Other TO (days) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Inventory TO (days) | 7.7 | 8.3 | 9.2 | 9.0 | 9.0 |
| Payable TO (days) | 43.9 | 44.0 | 40.6 | 42.1 | 42.0 |
| Acct. Payables - Other TO (days) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt to Equity (%) | 23.4 | 17.5 | 13.2 | 11.0 | 9.2 |
| Interest Coverage Ratio (x) | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |
| Net Gearing (%) | (27.4) | (29.8) | (35.3) | (40.2) | (43.1) |

Source : ICBP,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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