

Indofood SM (INDF IJ)

23 August 2016

Results Note

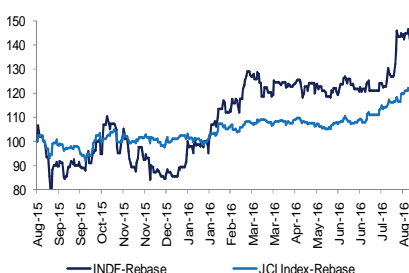
BUY (From HOLD)

StockData

Target price (Rp)	Rp9,600
Prior TP (Rp)	Rp7,000
Shareprice (Rp)	Rp7,925
Upside/downside (%)	+21.1
Sharesoutstanding (m)	8,780
Marketcap. (US\$ m)	5,261
Free float (%)	49.9
Avg. 6m dailyT/O (US\$ m)	5.0

Price Performance

	3M	6M	12M
Absolute (%)	13.6	16.1	51.7
Relative to JCI (%)	0.2	1.5	29.6
52whigh/low (Rp)	7,925 - 4,875		



Major Shareholders

CAB Holdings Ltd	50.1%
Anthoni Salim	0.0%

Estimate Change; Vs. Consensus

	2016F	2017F
Latest EPS (Rp)	440	490
Vs. Prior EPS (%)	16.3	13.5
Vs. Consensus (%)	(1.6)	(3.6)

Source: Bloomberg

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Early recovery seen in Bogasari

- Net profit grew 33% yoy in 2Q16, above our/market expectation.
- Expanding margins on the back of low soft commodity price.
- Upgrade earnings on the back of ICBP & Bogasari's performance.
- We upgrade to Buy and raise TP to Rp9,600.

Mixed 2Q results. Indofood Sukses Makmur (INDF) booked net profit of Rp1.1tn (+5.5% qoq, +33.1% yoy), leading to 1H16 earnings of Rp2.2tn (+29% yoy). The results were ahead of our/market expectations (accounted for 67%/57% of FY16F estimates, respectively), driven by steady sales growth (+6.4% qoq) and low input cost, mainly contributed by ICBP. Bogasari posted sales at Rp5.1tn in 2Q16 (+2.4% qoq, +2.7% yoy), bringing 1H16 sales to Rp10tn (+3.9% yoy). For the Agribusiness segment, sales seemed to pick up in 2Q16 at Rp3.6tn (+13% qoq, -15% yoy), due to recent uptick in CPO price. On the EBIT side, the consolidated EBIT has reached Rp2.3tn in 2Q16 (+19% qoq, +12% yoy), thanks to ICBP's achievement (+21% yoy) which offset poorer performance from its Agribusiness at Rp289bn (-15% yoy). Bogasari posted growing EBIT of Rp436bn (-4% qoq, +7% yoy), due to higher volume growth and still enjoying a bottomed wheat price.

Better outlook in Bogasari, yet Agribusiness still dragging. INDF's gross margin expanded to 29.5% in 2Q16 (+160bps qoq, +200bps yoy), helped by lower raw material price in all business segments, and EBIT margin improved to 12.9% (+140bps qoq, +150bps yoy). Apart from ICBP's stellar performance in 2Q16, Bogasari was able to keep EBIT margin at 8.6% (-60bps qoq, +30% yoy) due to relatively stable competition in the market. Meanwhile for Agribusiness, we view the quarterly EBIT growth (+37% qoq, -16% yoy) and margin expansion to 8.1% (+1.4% qoq, -0.1% yoy) is not sustainable, given the lower ASP for the coming quarters, following our stagnant CPO price assumption.

Earnings upgrades. We upgrade our earnings forecast by 16% and 13% for FY16/17F respectively, after we factor in the upgrades in ICBP and slight increase in Bogasari's EBIT margin at 7.1% for FY16F. We raise ICBP sales growth to 9%/14% for FY16/17F to be in-line with management's prudent guidance. As for Agribusiness, we adjust our FY16F earnings forecast due to lower CPO production volumes post El Nino impact, whilst maintaining our FY17F estimates due to volume recovery following better rainfall in 1H16.

Upgrade to Buy with new TP at Rp9,600. We roll over our valuation FY17F, raise our TP to Rp9,600 (from Rp7,000) and upgrade our recommendation to Buy. Our TP implies 21.8/19.6x P/E in FY16/17F, while five-year average historical PE of FY11-15 stood at 20x. Downside risks: worsening agribusiness performance, soft consumer purchasing power, and weaker Rupiah.

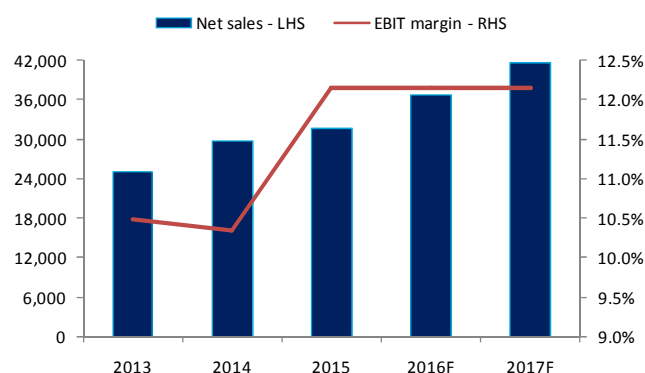
Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	63,594	64,062	71,769	76,050	84,416
EBITDA(RpBn)	6,874	6,877	8,078	8,779	9,813
EBITDA Growth (%)	23.7	0.0	17.5	8.7	11.8
Net Profit(RpBn)	3,885	2,968	3,875	4,309	4,888
EPS (Rp)	443	338	440	490	557
EPS Growth (%)	55.2	(23.6)	30.1	11.5	13.6
Net Gearing (%)	31.0	33.7	13.8	10.9	9.5
PER (x)	17.9	23.4	18.0	16.2	14.2
PBV (x)	1.7	1.6	1.5	1.4	1.3
Dividend Yield (%)	1.8	2.8	2.1	2.8	3.1
EV/EBITDA (x)	8.3	8.0	7.8	7.3	6.6

Source : INDF,IndoPremier

Share Price Closing as of : 22-August-2016

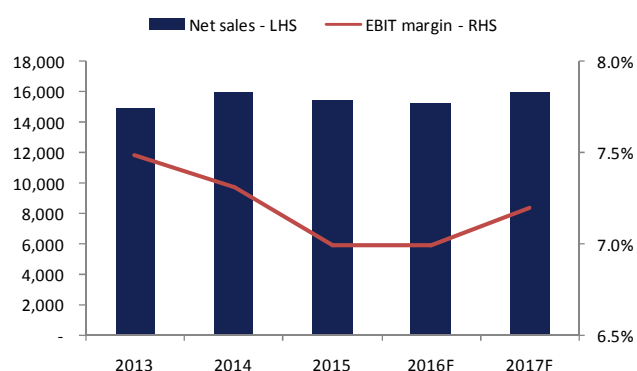
INDF Results Note

Fig. 1: ICBP's sales after elimination, EBIT margin



Source: IndoPremier. INDF

Fig. 2: Bogasari's sales after elimination, EBIT margin



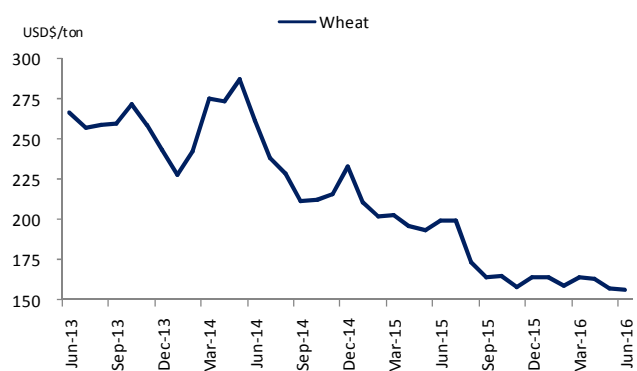
Source: IndoPremier. INDF

Fig. 3: CPO price trend has rebounded in 1H16



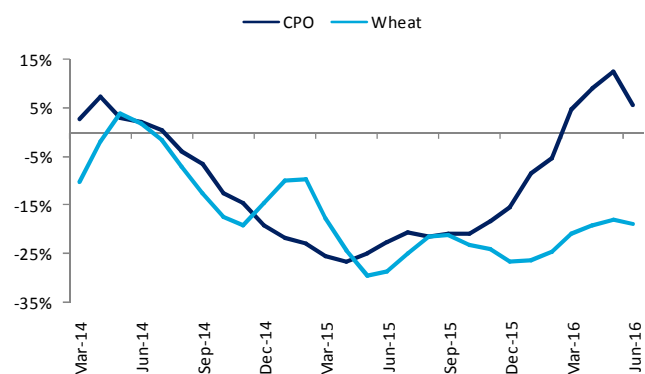
Source: IndoPremier. INDF

Fig. 4: Wheat price trend: still no sign of recovery



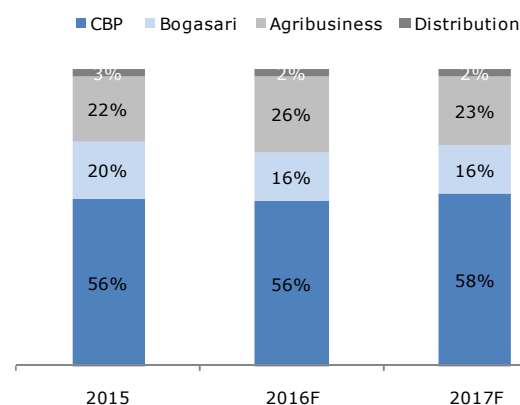
Source: IndoPremier. INDF

Fig. 5: CPO & Wheat price growth (% yoy - 3M rolling)



Source: IndoPremier. INDF

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



Source: IndoPremier. INDF

INDF Results Note

Fig. 7: 2Q results

	2Q16	1Q16	2Q15	Change		1H16	1H15	Change
	(Rp bn)	(Rp bn)	(Rp bn)	(%qoq)	(%yoy)	(Rp bn)	(Rp bn)	(%yoy)
Sales	17,568	16,516	17,614	6%	0%	34,084	32,635	4%
Gross profit	5,186	4,614	4,844	12%	7%	9,800	8,952	9%
Operating profit	2,258	1,892	2,014	19%	12%	4,150	3,630	14%
Pre-tax profit	1,858	1,731	1,471	7%	26%	3,589	2,569	40%
EAT	1,312	1,262	952	4%	38%	2,574	1,729	49%
Net profit	1,145	1,086	861	6%	33%	2,231	1,731	29%
Margins								
Gross margin (%)	29.5	27.9	27.5			28.8	27.4	
Operating margin (%)	12.9	11.5	11.4			12.2	11.1	
Pre tax margin (%)	10.6	10.5	8.4			10.5	7.9	
Net margin (%)	6.5	6.6	4.9			6.5	5.3	

Source: IndoPremier. INDF

Fig. 8: Earnings Revision

	Old		New		Change (%)	
(Rp bn)	FY16F	FY17F	FY16F	FY17F	FY16F	FY17F
Revenue	67,465	72,922	71,769	76,050	6%	4%
Gross profit	17,580	19,178	18,996	20,331	8%	6%
Operating profit	7,337	8,106	8,079	8,784	10%	8%
Net profit	3,320	3,796	3,875	4,309	17%	14%
Gross margin	26.1%	26.3%	26.5%	26.7%		
Operating margin	10.9%	11.1%	11.3%	11.5%		
Net margin	4.9%	5.2%	5.4%	5.7%		
Revenue Breakdown:						
CBP	33,663	36,739	36,775	41,755	9%	14%
Bogasari	15,959	16,393	15,285	15,958	-4%	-3%
Agribusiness	15,383	12,275	14,221	12,275	-8%	0%
Distribution	5,242	5,593	5,489	6,063	5%	8%
EBIT Breakdown						
CBP	4,107	4,482	4,487	5,094	9%	14%
Bogasari	1,386	1,466	1,348	1,432	-3%	-2%
Agribusiness	1,662	1,958	2,066	2,039	24%	4%
Distribution	181	200	198	219	9%	9%

Source: IndoPremier Securities

Year To 31 Dec (RpBn)	2014A	2015A	2016F	2017F	2018F
Income Statement					
Net Revenue	63,594	64,062	71,769	76,050	84,416
Cost of Sales	(46,545)	(46,804)	(52,794)	(55,724)	(61,786)
Gross Profit	17,050	17,258	18,975	20,325	22,630
SG&A Expenses	(10,175)	(10,381)	(10,897)	(11,547)	(12,817)
Operating Profit	6,874	6,877	8,078	8,779	9,813
Net Interest	(809)	(2,067)	(1,142)	(1,064)	(972)
Forex Gain (Loss)	(51)	0	0	0	0
Others-Net	215	152	301	301	301
Pre-Tax Income	6,229	4,962	7,237	8,016	9,142
Income Tax	(1,828)	(1,730)	(1,954)	(2,164)	(2,468)
Minorities	(1,261)	(742)	(1,423)	(1,547)	(1,785)
Net Income	3,885	2,968	3,860	4,305	4,888
Balance Sheet					
Cash & Equivalent	14,823	14,167	23,106	22,246	22,923
Receivable	4,340	5,117	5,752	6,095	6,766
Inventory	8,455	7,627	9,262	9,776	10,840
Other Current Assets	13,378	15,906	1,628	1,683	1,788
Total Current Assets	40,996	42,817	39,749	39,801	42,317
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	9,489	9,741	10,214
Total Assets	85,939	91,832	91,294	93,575	99,266
ST Loans	8,993	7,719	9,094	9,252	9,478
Payable	3,847	3,585	0	4,644	5,149
Other Payables	8,739	10,811	5,461	5,854	6,452
Current Portion of LT Loans	1,103	2,993	5,500	3,497	5,525
Total Current Liab.	22,682	25,108	24,454	23,247	26,603
Long Term Loans	16,838	16,894	13,857	13,848	11,941
Other LT Liab.	5,191	6,708	6,326	6,393	6,647
Total Liabilities	44,711	48,710	44,637	43,488	45,190
Equity	9,484	10,442	10,442	10,442	10,442
Retained Earnings	16,216	16,827	19,186	21,539	24,255
Minority Interest	15,528	15,852	17,030	18,106	19,379
Total SHE + Minority Int.	41,228	43,122	46,657	50,087	54,076
Total Liabilities & Equity	85,939	91,832	91,294	93,575	99,266

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	5,283	5,852	6,674
Depr. & Amortization	0	0	0	0	0
Changes in Working Capital	1,171	(89)	(1,192)	(559)	(1,111)
Others	21	(4,668)	(1,078)	8,108	(546)
Cash Flow From Operating	5,594	(1,525)	3,013	13,401	5,017
Capital Expenditure	234	(3,576)	(2,280)	(2,090)	(2,903)
Others	720	174	613	628	633
Cash Flow From Investing	954	(3,402)	(1,667)	(1,462)	(2,270)
Loans	(423)	672	845	(1,853)	346
Equity	0	0	0	0	0
Dividends	(1,247)	(1,932)	(1,476)	(1,919)	(2,140)
Others	(1,105)	(1,552)	(992)	(615)	(332)
Cash Flow From Financing	(2,775)	(2,812)	(1,622)	(4,388)	(2,127)
Changes in Cash	3,773	(7,739)	(276)	7,551	620
Financial Ratios					
Gross Margin (%)	26.8	26.9	26.4	26.7	26.8
Operating Margin (%)	10.8	10.7	11.3	11.5	11.6
Pre-Tax Margin (%)	9.8	7.7	10.1	10.5	10.8
Net Margin (%)	6.1	4.6	5.4	5.7	5.8
ROA (%)	4.8	3.3	4.2	4.7	5.1
ROE (%)	9.8	7.0	8.6	8.9	9.4
ROIC (%)	8.9	6.6	7.9	8.5	9.2
Acct. Receivables TO (days)	23.8	22.2	23.0	23.6	23.1
Acct. Receivables - Other TO (days)	3.8	4.7	4.6	4.8	4.7
Inventory TO (days)	5.6	5.8	6.3	5.9	6.0
Payable TO (days)	29.5	29.0	27.6	29.6	28.9
Acct. Payables - Other TO (days)	9.7	11.3	12.2	13.1	12.8
Debt to Equity (%)	65.3	64.0	61.0	53.1	49.8
Interest Coverage Ratio (x)	0.2	0.4	0.2	0.2	0.2
Net Gearing (%)	31.0	33.7	13.8	10.9	9.5

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

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