

Unilever Indonesia (UNVR)

Expecting better result in the remaining year

9 August 2023



UNVR II	BUY
Sector	Consumer
Price at 8 August 2023 (IDR)	3,750
Price target (IDR)	4,130
Upside/Downside (%)	10.1

Stock Information

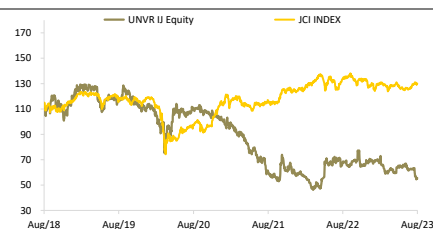
Unilever Indonesia (UNVR) has grown to become one of Indonesia's Fast Moving Consumer Goods (FMCG) company, manufacturers detergent, soaps, margarine, dairy based foods, ice cream, cosmetics and many more. The company has more than 40 brands which most of the products has a strong presence and well-known worldwide.

Market cap (IDR bn)	171,675
Shares outstanding (mn)	38,150
52w range (IDR)	3,670-4,580
3M average daily vol. ('000)	15,655
3M average daily val. (IDR mn)	66,825

Shareholders (%)

Unilever Indonesia	85.0
Public	15.0

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(11.5)	(16.3)	(21.9)

Analyst(s)

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2H23 could be more challenging as 1H23 came in below ours and street expectation. Market share likely to sustained, yet in terms of value could be lower as competition remain intense and thus should also limiting any ASP adjustment needed going forward. Softened cost input will stay as the main story and we expect UNVR soon to be able to take the benefit. We revisit our model and made some adjustment to accommodate with the disappointing 1H23 results. Upgrade to BUY, mainly as share price sharp drop has brought UNVR stock price entering the BUY zone (more than 10% upsides). Our new TP of IDR4,130 equal to 27.9x '23F P/E, while it is currently trading at 25.2x '23F P/E, or below its -1SD of 5-yr historical mean of 29.3x P/E

Another disappointing result

UNVR 1H23 net profit stood at IDR2.75tn, tanked by 19.6% yoy, driven by poor performance from top to bottom. Despite enjoying lower cost input which recorded 8.5% yoy lower which we believe as a result of lower commodity prices trend, gross profit continues to weakened (-2.2% yoy) as top line across all segment continue under pressure and dragged total revenue by -5.5% yoy. 1H23 result came in far below ours and consensus expectation at 44.1%/43.5% versus 51.2% of 5yr 1H to FY historical earnings average. On 2Q23 stand alone, PATMI was 3.9% yoy and 3.6% qoq lesser and arriving lower-than-anticipated to both ours and consensus '23F PATMI for UNVR at IDR1.41tn/IDR1.44tn (UNVR IDR1.35tn).

Margin expansion across the boards on quarterly basis

UNVR saw an improvement GPM to 49.9% from 48.2% in 1H22 mainly supported by softened cost input. Yet, a 42.9% increase on trademarks fees has made overall opex climbed 10.7% yoy amid lower adex expenses by 5.6% yoy. On the flip of coin, easing cost of sales by 13.6% yoy, 10.7% qoq coupled with lower opex by 3.4% yoy, 7.5% qoq brought quarterly basis net margin recover to 14.0% (+72bps yoy, +73bps qoq).

2H23 looks more challenging

Poor 1H23 results has made 2H23 looks more challenging and tougher to achieve, since UNVR need to booked more than 80% yoy earnings growth in 2H23 to arrives with ours and consensus '23 PATMI for UNVR of IDR6.26tn and IDR6.34tn, or equal to a run rate of 56%/57% far above its 5year historical at 49%. We believe, continuing pressure on UNVR brands will remains as landscape competition stay stiffer, while price sensitiveness also plays important role and overall will become as another drawback for UNVR brand going forward.

Expecting UNVR to continue get benefit from lower cost input

We might see margin improvement should remain intact as cost input normalization likely to continue (benefiting from motionless commodity prices). Additionally, we expect to witness UNVR market share will continue to gain traction. Yet, we think the escalation seems will be limited as competition remain intense and thus ASP adjustment likely will be limited.

Post fine-tuned, 2H23 now looks more achievable ceteris paribus

We revisit our model and make some adjustment. Our new '23F/'24F revenue for UNVR is -1.8% and -3.1% compared to our previous figure, as we lower our assumption on HPC and F&B segmentation volume index driver. We think there will be no significant shocked on operating expense. We have also incorporated higher trademark fees as well as the assumption on higher adex spending for UNVR's brand awareness, and thus we keep our opex forecast unchanged. Ours and street new '23F earnings for UNVR which has accommodate its 1H23 unfortunate results now looks more achievable (1H23 run rate at 50%/49% vs 51%).

Upgrade to BUY, with target price of IDR4,130

UNVR shares dropped by around 13.3% (less than 2 weeks) since its 1H23 disappointing results published and thus has made UNVR stocks now offering more than 10% of upside potential compared to yesterday closing. Using blended valuation of DCF, DDM, single stage fair PBV and rolling P/E, our new TP for UNVR of IDR4,130 (previously IDR4,580) implying 27.9x '23F PE, while it is currently trading at 25.2x '23F P/E, or below its -1SD of 5-yr historical mean of 29.3x P/E. Risks to our call: a) lower-than-expected purchasing power, volume and asp growth, b) higher than expected input costs which could pressure and dragged down margin further, c) lower-than-expected market share and intensifying competition from substitutes brands.

Key Statistics

Year-end Dec	2021A	2022A	2023F	2024F	2025F
Revenue (Rp bn)	39,546	41,219	42,616	44,128	46,168
Operating profit (Rp bn)	7,679	7,069	7,541	7,740	7,999
Net profit (Rp bn)	5,758	5,365	5,621	5,743	6,083
EPS (Rp)	151	141	147	151	159
EPS growth (%)	(19.62)	(6.83)	4.77	2.18	5.87
ROE (%)	133.3	134.2	119.6	120.0	121.1
ROA (%)	30.2	29.3	29.6	31.1	32.4
PER (x)	24.6	26.5	25.2	24.7	23.3
PBV (x)	32.8	35.5	30.2	29.7	28.3
EV/EBITDA (x)	20.5	21.9	20.1	19.3	18.9
Div Yield (%)	3.4	4.0	1.9	3.5	4.0

Source: Company, KB Valbury Sekuritas

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Figure 1: UNVR 6M23 financials results

UNVR 6M22 Results (IDRbn)	6M22	6M23	YoY (%)	2Q22	2Q23	YoY (%)	1Q23	QoQ (%)	2023F	% to '23F	Cons'	% to Cons'	New cons'	Chg (%) cons'
Revenue	21,463	20,292	(5.5)	10,625	9,687	(8.8)	10,605	(8.7)	43,403	46.8	46,307	43.8	42,047.0	-9.2%
COGS	(11,118)	(10,175)	(8.5)	(5,553)	(4,800)	(13.6)	(5,375)	(10.7)	(21,691)					
Gross Profit	10,345	10,117	(2.2)	5,072	4,887	(3.6)	5,230	(6.6)	21,712	46.6	22,747	44.5	20,621.1	-9.3%
Opex	(5,862)	(6,490)	10.7	(3,229)	(3,118)	(3.4)	(3,372)	(7.5)	(13,317)					
EBIT	4,483	3,627	(19.1)	1,843	1,769	(4.0)	1,858	(4.7)	8,395	43.2	8,325	43.6	7,526.0	-9.6%
Other income (exp.)	(40)	(53)	32.9	(8)	(13)	60.1	(40)	(67.7)	(46)					
Pre-tax income	4,443	3,574	(19.6)	1,835	1,756	(4.3)	1,817	(3.4)	8,348					
Taxes	(1,013)	(815)	(19.6)	(426)	(402)	(5.6)	(412)	(2.4)	(2,087)					
Net Income	3,430	2,759	(19.6)	1,409	1,354	(3.9)	1,405	(3.6)	6,261	44.1	6,344	43.5	5,638.0	-11.1%
Segmentation (IDRbn)														
Home and Personal Care	14,234	13,251	(6.9)	7,105	6,429	(9.5)	6,823	(5.8)	28,147	47.1				
Foods & Refreshment	7,230	7,041	(2.6)	3,520	3,258	(7.4)	3,782	(13.8)	14,469	48.7				
Margins (%)														
Gross Profit	48.2	49.9	1.659	47.7	50.5	2.715	49.3	1.1	50.025					
EBIT	20.9	17.9	(3.012)	17.3	18.3	0.918	17.5	0.7	19.342					
Pretax	20.7	17.6	(3.088)	17.3	18.1	0.860	17.1	1.0	19.235					
Net Profit	16.0	13.6	(2.383)	13.3	14.0	0.719	13.3	0.73	14.426					

Source: Company, KB Valbury Sekuritas

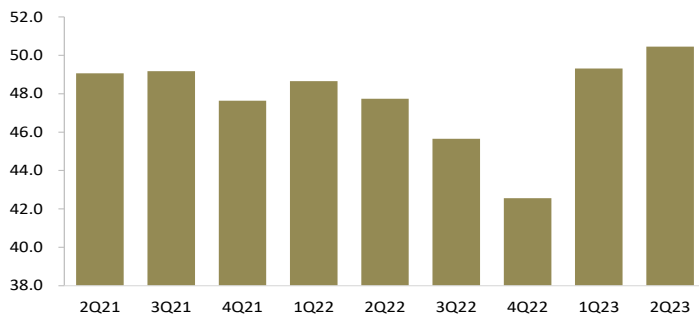
Figure 2: UNVR forecast adjustment

UNVR	New		Original		Diff		Street		Var	
	2023F	2024F	2023F	2023F	2023F	2024F	2023F	2024F	2023F	2024F
Forecast changes										
Revenues	42,616	44,128	43,403	45,549	-1.8%	-3.1%	41,219	42,047	3.4%	4.9%
Cost of revenues	-21,758	-22,216	-21,691	-22,331	0.3%	-0.5%				
Gross profit	20,858	21,913	21,712	23,217	-3.9%	-5.6%	19,064	20,620	9.4%	6.3%
Operating expenses	-13,317	-14,173	-13,317	-14,173	0.0%	0.0%			0.0%	0.0%
EBIT	7,541	7,740	8,395	9,045	-10.2%	-14.4%	7,069	7,526	6.7%	2.8%
EBITDA	8,381	8,686	9,235	9,991	-9.2%	-13.1%				
Other inc/(exp)	-46	-82	-46	-81	0.0%	1.3%	0	0	0.0%	0.0%
Pretax profit	7,494	7,658	8,348	8,964	-10.2%	-14.6%	0	0	0.0%	0.0%
Tax Expenses	-1,874	-1,914	-2,087	-2,241	-10.2%	-14.6%	0	0	0.0%	0.0%
Net profit	5,621	5,743	6,261	6,723	-10.2%	-14.6%	6,034	6,514	-6.8%	-11.8%

Source: Company, KB Valbury Sekuritas

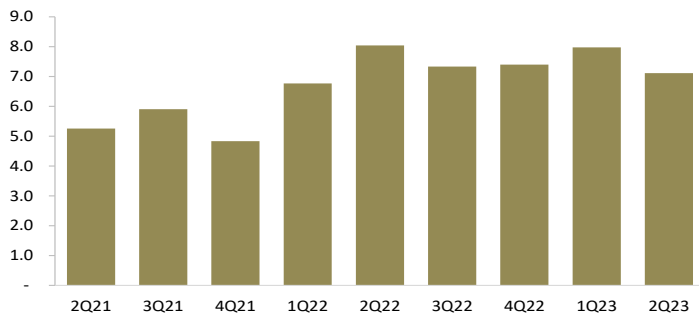
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Figure 3: Expecting improving GPM on lower cost input (%)



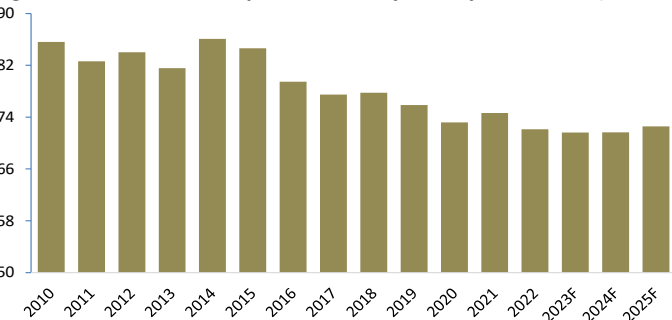
Source: Company, KB Valbury Sekuritas

Figure 5: Manageable ADEX to maintain brand equity (% to sales)



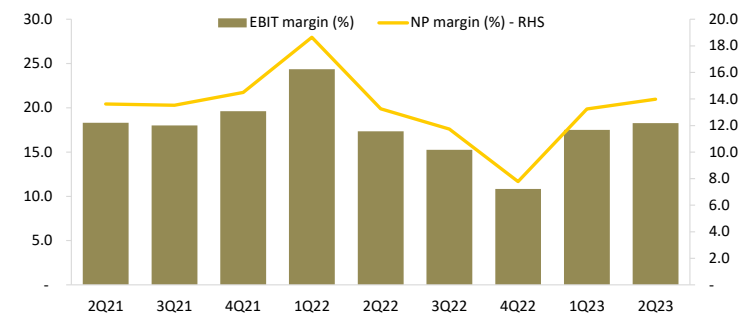
Source: Company, KB Valbury Sekuritas

Figure 7: Softened cost input hikes catalyst likely to remains (% to COGS)



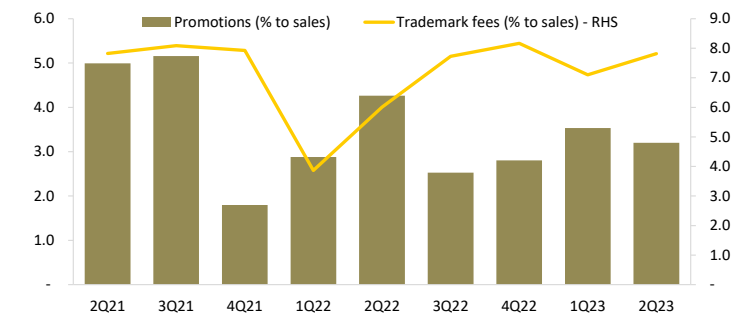
Source: Bloomberg, KB Valbury Sekuritas

Figure 4: With lower opex to overall supporting EBIT and NP margin (%)



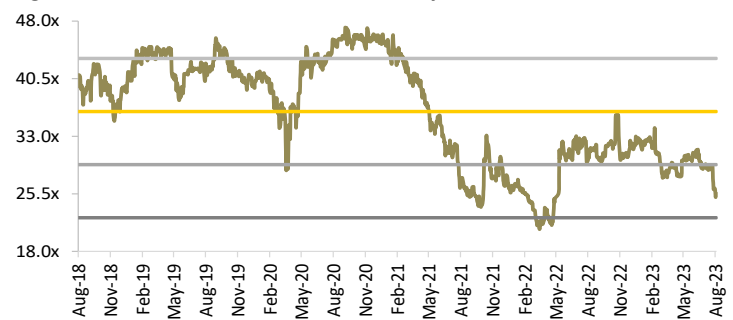
Source: Company, KB Valbury Sekuritas

Figure 6: Manageable royalty fees and stable promotions (% to sales)



Source: Bloomberg, KB Valbury Sekuritas

Figure 8: At 25.2 x '23F P/E, below -1SD 5-year hist mean of 29.3x



Source: Bloomberg, KB Valbury Sekuritas

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Revenues	39,546	41,219	42,616	44,128	46,168
Cost of revenues	(19,920)	(22,154)	(21,758)	(22,216)	(22,798)
Gross profit	19,626	19,065	20,858	21,913	23,370
Operating expenses	(11,947)	(11,996)	(13,317)	(14,173)	(15,371)
Operating income	7,679	7,069	7,541	7,740	7,999
EBITDA	8,256	7,660	8,381	8,686	8,879
Other income/(expenses)	(183)	(75)	(46)	(82)	(11)
Pretax profit	7,497	6,994	7,494	7,658	7,988
Tax Expenses	(1,738)	(1,629)	(1,874)	(1,914)	(1,905)
Minorities interest	0	0	0	0	0
Net profit	5,758	5,365	5,621	5,743	6,083

Source: Company, KB Valbury Sekuritas

Unilever Indonesia (UNVR)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Current assets					
Cash	325	503	514	532	574
Receivables	4,517	3,924	4,803	5,003	5,425
Advances and other debtors	122	286	113	116	121
Inventories	2,454	2,625	2,578	2,593	3,015
Other current assets	225	229	49	30	33
Total current assets	7,642	7,568	8,058	8,275	9,168
Non-current assets					
Fixed assets - net	10,102	9,536	9,666	9,121	8,648
Goodwill	62	62	62	62	62
Intangible Asset	475	447	468	478	494
Right-of-use assets	719	627	673	650	662
Other non-current assets	68	78	45	46	48
Total non-current assets	11,426	10,750	10,915	10,357	9,914
Total assets	19,069	18,318	18,974	18,631	19,082
Current liabilities					
Bank borrowings	1,850	600	1,000	250	150
Payables	7,758	7,664	7,569	7,761	8,001
Accrued expenses	2,631	3,998	2,856	2,924	3,000
Pension obligation	123	144	73	76	80
Lease lib - curr	83	36	59	48	53
Total current liabilities	12,445	12,442	11,558	11,058	11,284
Non-current liabilities					
Deferred tax liabilities	259	254	340	346	363
LT employee benefits - non curr	1,240	977	1,418	1,468	1,446
Lease liabilities	804	648	958	973	965
Total non-current liabilities	2,302	1,879	2,716	2,787	2,774
Total liabilities	14,747	14,321	14,274	13,846	14,058
Shareholder's Equity	4,321	3,997	4,700	4,786	5,023
Total liabilities and equity	19,069	18,318	18,974	18,631	19,082

Source: Company, KB Valbury Sekuritas

Unilever Indonesia (UNVR)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year End Dec	2021A	2022A	2023F	2024F	2025F
EBIT	7,679	7,069	7,541	7,740	7,999
Depreciation & amortization	577	591	840	946	881
Changes in working capital	920	1,499	(1,764)	52	(526)
CF from operating activities	9,176	9,159	6,617	8,738	8,354
Decr. (incr.) in fixed assets	(259)	(25)	(971)	(401)	(407)
Decr. (incr.) in non-current assets	(19)	120	(67)	14	(28)
Other investing activities	(19)	(10)	33	(1)	(2)
CF from investing activities	(297)	85	(1,005)	(388)	(437)
Net change in gross debt	(1,165)	(1,250)	400	(750)	(100)
Dividends paid	(5,723)	(2,632)	(4,918)	(5,658)	(5,845)
Other financing activities	(2,511)	(5,184)	(1,083)	(1,925)	(1,929)
CF from financing activities	(9,398)	(9,066)	(5,601)	(8,332)	(7,875)
Net Changes in Cash	(519)	178	11	18	42
Cash at beginning of period	844	325	503	514	532
Cash at end of period	325	503	514	532	574

Source: Company, KB Valbury Sekuritas

KEY RATIO

Year End Dec	2021A	2022A	2023F	2024F	2025F
Gross profit margin (%)	49.6	46.3	48.9	49.7	50.6
Operating profit margin (%)	19.4	17.1	17.7	17.5	17.3
EBITDA margin	20.9	18.6	19.7	19.7	19.2
Net profit margin (%)	(14.6)	(13.0)	(13.2)	(13.0)	(13.2)
ROE (%)	133.3	134.2	119.6	120.0	121.1
ROA (%)	30.2	29.3	29.6	30.8	31.9
DER (x)	0.4	0.2	0.2	0.1	0.0
Net (cash) gearing (x)	0.4	0.0	0.1	(0.1)	(0.1)
Interest coverage ratio (x)	41.5	83.0	132.7	81.7	337.9
PER (x)	24.6	26.5	25.2	24.7	23.3
PBV (x)	32.8	35.5	30.2	29.7	28.3
EV/EBITDA (x)	20.5	21.9	20.1	19.3	18.9
Dividend Yield (%)	4.0	1.9	3.5	4.0	4.1

Source: Company, KB Valbury Sekuritas


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