

Unilever Indonesia (UNVR)

Valuation says it all

15 February 2023



Unilever

UNVR IJ	HOLD
Sector	Consumer
Price at 14 Feb 2023 (IDR)	4,560
Price target (IDR)	4,580
Upside/Downside (%)	0.4

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)	172,438
Shares outstanding (mn)	38,150
52w range (Rp)	3,280-5,475
3M average daily vol. ('000)	13,349
3M average daily val. (Rp mn)	62,733

Shareholders (%)

Unilever Indonesia	84.9
Public	15.1

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	5.6	(2.0)	16.8

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UNVR is expected to take advantage from lower commodity prices in following quarters resulting in improvement in margins whereas a focus on value brands would bring greater benefit to earnings going forward. Stiffer competition in FMCG is likely to affect volume growth, whilst room for ASP adjustment seems to be limited given the availability of product substitutes. In all, stronger purchasing power is expected while domestic economy growth resiliency coupled with the upcoming election could become as a turnaround story. Its weak FY22 results has been fairly priced-in and brought valuation at below -1SD of 5-yr historical mean (27.5x P/E). Downgrade to HOLD with target price of IDR4,580 (27.9x '23F P/E).

Earnings missed KBV's and street expectations

UNVR's HPC segment improvement of 3.3% yoy in FY22 to IDR27.25 tn and solid F&B division which saw 6.0% yoy growth, has brought total revenue rose 4.2 yoy to IDR 41.21tn and largely in line with KBVs and street estimates at 99.7% and 98.7%. However, earnings was down by 6.8% yoy to IDR5.36 tn due to spiking input cost and missed ours and consensus expectation at 89.2% and 86.8%. On quarterly basis, top line only saw a mild growth of 1.7% and with soaring cost of revenue by 11.6% yoy which made 4Q22 earnings declined sharply by 45.4% yoy and 36.3% qoq.

Distressed margin remains

The company saw declining margin across the board both in 4Q22 and cumulative period. GPM was at 42.6% slid by 510bps yoy and 310bps qoq, while NPM shrunk to 7.8% in 4Q22 vs 14.5% in 4Q21 and 11.7% in 3Q22. Likewise, for FY22 period, whereas GPM weakened by 340bps yoy to 46.3%, EBIT margin also stood 2.3% yoy lower to 17.1%, triggered by advertising expenses which rose 39.3% yoy and bringing overall NPM declined by 1.5% yoy from 14.6% in FY21.

Flattish top line likely to continue

We believe key will remain lies on the stable improvement on people's mobility. While the company seems has not gain much advantage from softer commodity price in 4Q22, we expect the impact will appear in the following quarter this year. Nevertheless, we also assumed volume growth to be stagnant as competition remain intense, while limited ASP increase may not be able to boost margins. As such, we expect top line to grow by 5.3% yoy (cons at: 5.8% yoy).

Cut '23F earnings by 3%

On the input costs, while we believe UNVR could record softer raw material used as the biggest chunk in the cost structure, we increase direct labor cost assumption and hence make the overall cost of revenue figure up by 2.9% to IDR21.69 tn. Moreover, we doubt that the company will be less aggressive on advertising and promotions expenses, as we believe it is required for global brand like UNVR to remain stand out in the competition landscape. On this backdrop, our EBIT margin forecast for UNVR arrived at 19.3%, or softened vs our previous projection at 20.4%. Our overall new assumption has also brought '23F new net profit margin lower by around 54 bps from 15.0% to 14.4%. Our '23F earnings is at IDR 6.26 tn, or 1.1% below consensus' figure.

Downgrade to HOLD with target price of IDR4,580

Aside from DCF as a commonly used valuation, we also run another three methodologies to fairly valued UNVR using DDM, single stage fair PBV and rolling P/E and came up with a blended intrinsic value of IDR4,580 (implying 27.9x '23F PE) and downgrade to HOLD. Risks to our call: a) lower-than-expected purchasing power, volume and asp growth, b) higher than expected input costs which could pressure dragged down margin, 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	43,403	45,549	48,387
Operating profit (Rp bn)	7,679	7,069	8,395	9,045	9,172
Net profit (Rp bn)	5,758	5,365	6,261	6,723	6,873
EPS (Rp)	151	141	164	176	180
EPS growth (%)	(19.62)	(6.83)	16.71	7.37	2.24
ROE (%)	133.3	134.2	121.6	122.9	123.2
ROA (%)	30.2	29.3	32.3	34.8	34.4
PER (x)	30.2	32.4	27.8	25.9	25.3
PBV (x)	40.3	43.5	33.8	31.8	31.2
EV/EBITDA (x)	21.3	22.7	18.9	17.4	17.2
Div Yield (%)	3.3	1.5	2.9	3.7	3.9

Source: Company, KB Valbury Sekuritas

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Figure 1: UNVR FY22 results and forecast changes

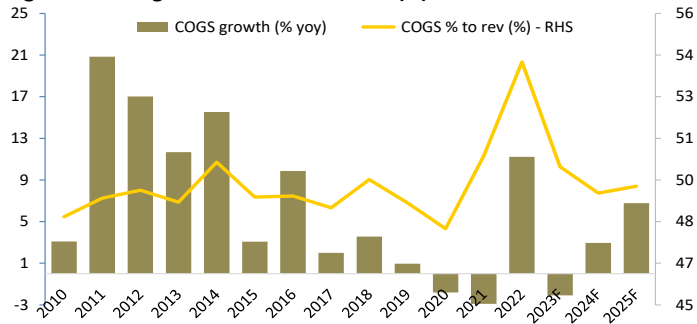
UNVR 12M22 Results (IDRbn)	12M22	12M21	YoY (%)	4Q22	4Q21	QoQ (%)	YoY (%)	3Q22	2022F	% to '22F	Cons'	% of Cons'
Revenue	41,219	39,546	4.2	9,680	9,516	(3.9)	1.7	10,076	41,333	99.7	41,782	98.7
COGS	(22,154)	(19,920)	11.2	(5,560)	(4,983)	1.5	11.6	(5,476)	(20,269)	109.3	(21,597)	102.6
Gross Profit	19,065	19,626	(2.9)	4,120	4,533	(10.4)	(9.1)	4,600	21,064	90.5	20,185	94.5
OpEx	(11,996)	(11,947)	0.4	(3,071)	(2,666)	0.2	15.2	(3,063)	(12,856)	93.3	(12,112)	99.0
EBIT	7,069	7,679	(8.0)	1,049	1,867	(31.8)	(43.8)	1,537	8,208	86.1	8,073	87.6
EBITDA	7,420	8,438	(12.1)	1,076	2,049	(35.8)	(47.5)	1,676	8,718	85.1	8,123	91.3
Net Income	5,365	5,758	(6.8)	753	1,379	(36.3)	(45.4)	1,182	6,014	89.2	6,180	86.8

Margins (%)	12M22	12M21	YoY (%)	4Q22	4Q21	QoQ (%)	YoY (%)	3Q22	2022F	% to '22F	Cons'	% of Cons'
Gross Margin	46.3	49.6	-3.4	42.6	47.6	(3.1)	-5.1	45.7				
EBIT Margin	17.1	19.4	-2.3	10.8	19.6	(4.4)	-8.8	15.3				
Net Margin	13.0	14.6	-1.5	7.8	14.5	(4.0)	-6.7	11.7				

Forecast Changes (IDR bn)	New		Original		Difference		Consensus		Difference	
	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
Revenues	43,403	45,549	43,163	45,333	0.6	0.5	43,607	45,786	-0.5	-0.5
EBIT	8,395	9,045	8,808	9,382	-4.7	-3.6	8,325	8,964	0.8	0.9
EBITDA	9,235	9,991	9,397	9,988	-1.7	0.0	9,164	9,873	0.8	1.2
Net profit	6,261	6,728	6,459	6,869	-3.1	-2.1	6,333	6,835	-1.1	-1.6

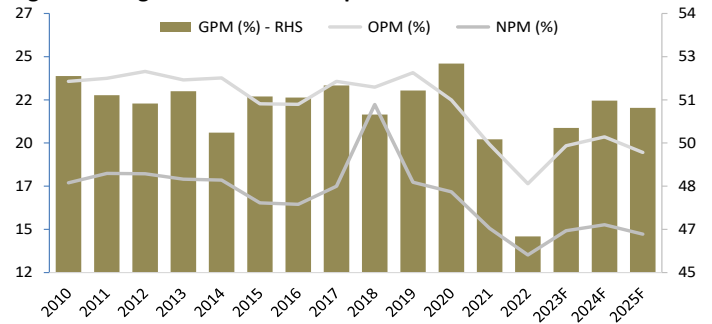
Source: Company, KB Valbury Sekuritas

Figure 2: COGS growth and % to revenue (%)



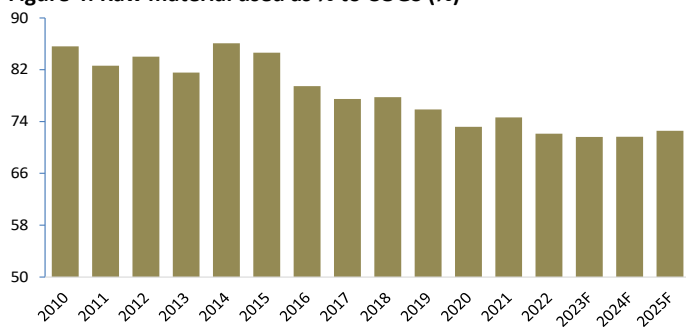
Source: Company, KB Valbury Sekuritas

Figure 3: Margin will remain under pressure



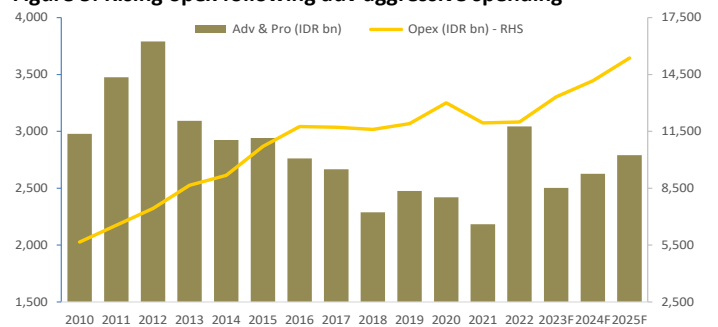
Source: Company, KB Valbury Sekuritas

Figure 4: Raw material used as % to COGS (%)



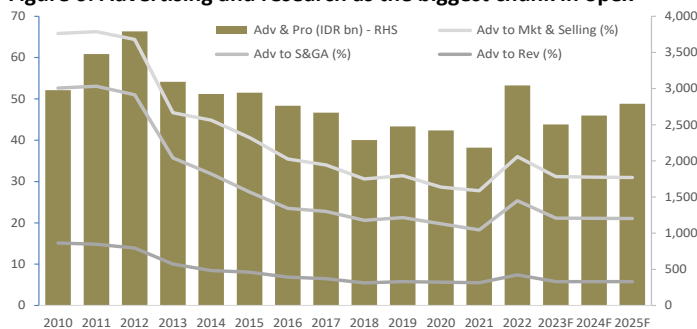
Source: Company, KB Valbury Sekuritas

Figure 5: Rising opex following adv aggressive spending



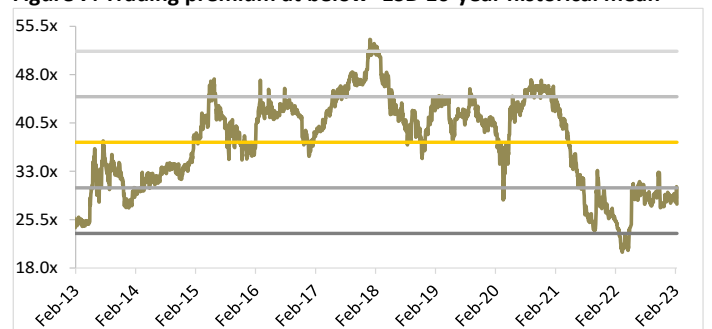
Source: Bloomberg, KB Valbury Sekuritas

Figure 6: Advertising and research as the biggest chunk in opex



Source: Bloomberg, KB Valbury Sekuritas

Figure 7: Trading premium at below -1SD 10-year historical mean



Source: Bloomberg, KB Valbury Sekuritas

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CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Revenues	39,546	41,219	43,403	45,549	48,387
Cost of revenues	(19,920)	(22,154)	(21,691)	(22,331)	(23,844)
Gross profit	19,626	19,065	21,712	23,217	24,543
Operating expenses	(11,947)	(11,996)	(13,317)	(14,173)	(15,371)
Operating profit	7,679	7,069	8,395	9,045	9,172
EBITDA	8,256	7,660	9,235	9,991	10,052
Other income/(expenses)	(183)	(75)	(46)	(74)	4
Pretax profit	7,497	6,994	8,348	8,970	9,175
Tax Expenses	(1,738)	(1,629)	(2,087)	(2,243)	(2,294)
Minorities interest	0	0	0	0	0
Net profit	5,758	5,365	6,261	6,728	6,882

Source: Company, KB Valbury Sekuritas

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Current assets					
Cash	325	503	596	676	726
Receivables	4,517	3,924	4,979	5,327	5,748
Advances and other debtors	122	286	126	133	145
Inventories	2,454	2,625	2,639	2,689	3,290
Other current assets	225	229	94	87	106
Total current assets	7,642	7,568	8,435	8,913	10,014
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	85	96	113
Total non-current assets	11,426	10,750	10,955	10,407	9,978
Total assets	19,069	18,318	19,390	19,320	19,993
Current liabilities					
Bank borrowings	1,850	600	1,000	250	150
Payables	7,758	7,664	7,549	7,748	8,239
Accrued expenses	2,631	3,998	2,592	2,624	2,734
Pension obligation	123	144	172	177	181
Lease lib - curr	83	36	59	48	53
Total current liabilities	12,445	12,442	11,373	10,847	11,358
Non-current liabilities					
Deferred tax liabilities	259	254	353	366	391
LT employee benefits - non curr	1,240	977	1,501	1,585	1,600
Lease liabilities	804	648	1,015	1,050	1,068
Total non-current liabilities	2,302	1,879	2,869	3,002	3,058
Total liabilities	14,747	14,321	14,242	13,849	14,416
Shareholder's Equity	4,321	3,997	5,148	5,471	5,577
Total liabilities and equity	19,069	18,318	19,390	19,320	19,993

Source: Company, KB Valbury Sekuritas

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Year End Dec	2021A	2022A	2023F	2024F	2025F
EBIT	7,679	7,069	8,395	9,045	9,172
Depreciation & amortization	577	591	840	946	881
Changes in working capital	920	1,499	(2,244)	(173)	(441)
CF from operating activities	9,176	9,159	6,991	9,818	9,611
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)	(7)	(11)	(16)
CF from investing activities	(297)	85	(1,045)	(399)	(452)
Net change in gross debt	(1,165)	(1,250)	400	(750)	(100)
Dividends paid	(5,723)	(2,632)	(5,110)	(6,400)	(6,768)
Other financing activities	(2,511)	(5,184)	(1,143)	(2,189)	(2,242)
CF from financing activities	(9,398)	(9,066)	(5,853)	(9,339)	(9,110)
Net Changes in Cash	(519)	178	93	80	49
Cash at beginning of period	844	325	503	596	676
Cash at end of period	325	503	596	676	726

Source: Company, KB Valbury Sekuritas

KEY RATIO

Year End Dec	2021A	2022A	2023F	2024F	2025F
Gross profit margin (%)	49.6	46.3	50.0	51.0	50.7
Operating profit margin (%)	19.4	17.1	19.3	19.9	19.0
EBITDA margin	20.9	18.6	21.3	21.9	20.8
Net profit margin (%)	(14.6)	(13.0)	(14.4)	(14.8)	(14.2)
ROE (%)	133.3	134.2	121.6	122.9	123.2
ROA (%)	30.2	29.3	32.3	34.8	34.4
DER (x)	0.4	0.2	0.2	0.0	0.0
Net (cash) gearing (x)	0.4	0.0	0.1	(0.1)	(0.1)
Interest coverage ratio (x)	41.5	83.0	147.8	95.5	387.5
PER (x)	30.2	32.4	27.8	25.9	25.3
PBV (x)	40.3	43.5	33.8	31.8	31.2
EV/EBITDA (x)	21.3	22.7	18.9	17.4	17.2
Dividend Yield (%)	3.3	1.5	2.9	3.7	3.9

Source: Company, KB Valbury Sekuritas


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