

Indofood CBP Sukses Makmur (ICBP)

Pinning hopes on flattening commodity prices

7 September 2022

Indofood CBP

ICBP II	BUY
Sector	FMCG
Price at 05 Sept 2022 (Rp)	8,650
Price target (Rp)	10,150
Upside/Downside (%)	17.3

Stock Information

Indofood CBP Sukses Makmur (ICBP) is leading consumer company, engaged in diverse business categories, including noodles, dairy, snack foods, food seasonings, nutrition and special foods, and beverages. It also operates a packaging business, producing flexible and corrugated packaging for its products.

Market cap (Rp bn)	101,750
Shares outstanding (mn)	11,662
52-week range (Rp)	7,125-9,425
3M average daily vol. ('000)	8,458
3M average daily val. (Rp mn)	75,819

Shareholders (%)

Indofood Sukses Makmur	80.5
Public	19.5

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(1.7)	0.0	1.5

- ICBP's 1H22 net profit plunged 40.1% YoY to Rp1.93tn (loss Rp10.7bn in 2Q22)
- We expect revenue growth of 16% YoY with net profit Rp4.9tn in 2022
- We reiterate our "BUY" call with 17% upside potential on a 12-month view on improved margins in 2H22, and overseas expansion

Soft performance largely due to forex loss

ICBP's net profit came in at Rp1.93tn in 1H22, plunging 40.1% YoY (loss of Rp10.7bn in 2Q22), accounting for 33.2% of our FY forecast. The lower profit YoY was mainly caused by ballooning finance expense due to higher forex loss from financing and interest expenses. Taking forex loss out, ICBP's 1H22 net profit was Rp3.0tn or down 25.0% YoY. Meanwhile, ICBP's revenue grew 15.6% YoY to Rp32.6bn in 1H22 (-10.4% QoQ in 2Q22 to Rp15.4tn). Nevertheless, GPM contracted from 37.0% in 1H21 to 31.9% in 1H22 (34.2% in 1Q22 to 29.4% in 2Q22) due to higher COGS +25.0% YoY (-3.8% QoQ in 2Q22) amid surging commodities prices. Furthermore, opex also rose 14.7% YoY to Rp4.90tn in 1H22, mainly from selling and distribution expense due to ads & promotion and freight, leading to lower OPM from 21.9% in 1H21 to 16.9% in 1H22. Other income in 1H22 largely derived from net gains on forex from Pinehill. Balance-sheet wise, net gearing remained controllable in 1H22 at 0.9x.

Margin contractions in most segments

ICBP's 1H22 net revenue was mostly supported by noodles that grew 15.4% YoY (-9.4% QoQ in 2Q22). However, margin of noodles tumbled from 25.3% in 1H21 to 19.9% in 1H22. Despite lower margin, noodles contribution to revenue was stable at 69.8% in 1H22. This was followed by dairy products that grew 14.6% YoY in 1H22 (-9.4% QoQ) with margin of 7.4%, lowered from 12.4% in 1H21 due to higher price of skim milk. The contribution of dairy to its revenue was stabilized at 15.7% in 1H22. Furthermore, snacks, which contributed 5.8% of its revenue in 1H22, increased 18.4% YoY. Although, its margin also plunged from 13.6% in 1H21 to 6.5% in 1H22. Meanwhile, beverage products reported higher margin of 5.7% in 1H22 compared to in 1H21 of 3.4%.

Top line growth to remain solid

We expect ICBP's revenue to grow 15% YoY in 2022 as the company has carried out price hikes twice in 1H22, mostly on noodles. Amid high commodity prices, we estimate gross margin to lower to 32.4% in 2022, yet will improve on QoQ basis, in addition to higher contribution of Middle Eastern and African markets. Nevertheless, we expect commodity prices hikes will slow down in 2H22, impacted by higher interest rates and, indicated by lower wheat price by c.25% in September, compared to June. Furthermore, skimmed milk powder price has also come down this month, therefore we expect ICBP's dairy product margins to at least stay at current level. Nevertheless, we revise down our ICBP's net profit forecast to Rp4.88tn in 2022 on the back of higher-than-expected finance costs.

Reiterate BUY on the back of strong leadership in instant noodle

We maintain our BUY recommendation with a DCF-based price target of Rp10,150/ share. The stock is currently traded at a 2022F PER of 24.2x. We note several paramount catalysts to the company's performance, namely 1) leadership in instant noodle market; 2) better selling prices; 3) expansion in Middle East and African market through Pinehill that will bring margin improvement; 4) lower commodity prices in 2H22; and 5) relatively controllable leverage ratio. Nevertheless, we highlight several factors that may hamper to its performance, including 1) strong energy and commodity prices; 2) soft purchasing power in the wake of BBM price hike ; and 3) USD appreciation and higher finance costs.

Key Statistics

Year end Dec	2020A	2021A	2022F	2023F	2024F
Net sales (Rp bn)	46,641	56,804	65,259	71,133	76,112
EBITDA (Rp bn)	10,230	12,806	12,574	15,152	17,389
Net profit (Rp bn)	6,587	6,388	4,888	6,591	8,100
Net profit margin (%)	14.1%	11.2%	7.5%	9.3%	10.6%
EPS (Rp)	564.8	547.8	419.2	565.2	694.5
ROAA (%)	9.26%	5.76%	4.19%	5.56%	6.45%
ROAE (%)	17.1%	12.2%	8.7%	11.0%	12.6%
PER (x)	18.0	18.5	24.2	18.0	14.6
PBV (x)	2.4	2.2	2.1	1.9	1.8
EV/EBITDA	9.0	6.3	6.9	5.2	4.3
Dividend yield per share	1.6%	2.1%	2.6%	2.9%	3.3%

Analyst

Devi Harjoto

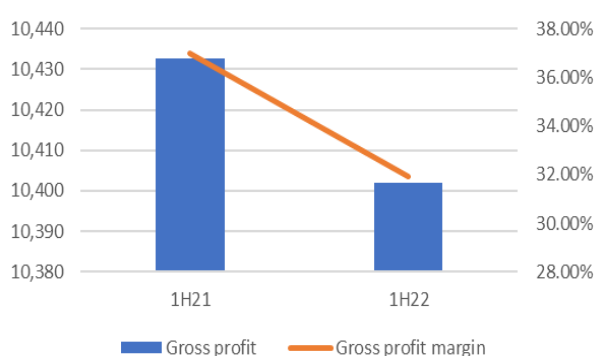
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ICBP's Financial Overview

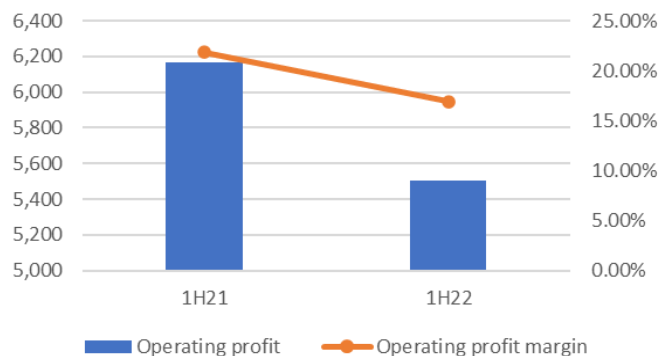
Consolidated Statements of Profit or Loss (Rp bn)	1H21	1H22	YoY Change	1Q22	2Q22	QoQ Change
Net sales	28,199	32,593	15.6%	28,199	15,405	(10.4%)
COGS	(17,766)	(22,191)	24.9%	(17,766)	(10,879)	(3.8%)
Gross profit	10,433	10,402	(0.3%)	10,433	4,526	(23.0%)
Gross profit margin	37.0%	31.9%		37.0%	29.4%	
Operating expenses	(4,269)	(4,897)	14.7%	(4,269)	(2,393)	(4.4%)
Operating profit	6,164	5,505	(10.7%)	6,164	2,133	(36.8%)
Operating profit margin	21.9%	16.9%		21.9%	13.8%	
EBITDA	6,794	6,160	(9.3%)	6,794	333	2.9%
EBITDA margin	24.1%	18.9%		24.1%	2.2%	
Other income/expenses	(1,139)	(2,170)	90.4%	(1,139)	(1,563)	157.3%
Profit before tax	5,024	3,335	(33.6%)	5,024	570	(79.4%)
Income tax expenses	(1,060)	(923)	(12.9%)	(1,060)	(415)	(18.3%)
Net profit	3,221	1,930	(40.1%)	3,221	(11)	(100.6%)
Net profit margin	11.4%	5.9%		11.4%	(0.1%)	

Source: Company, KB Valbury Sekuritas

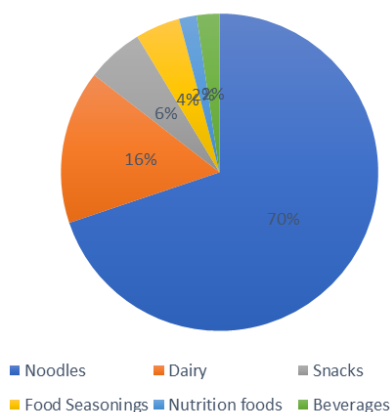
ICBP's margins contract as leverage ratios remain controllable



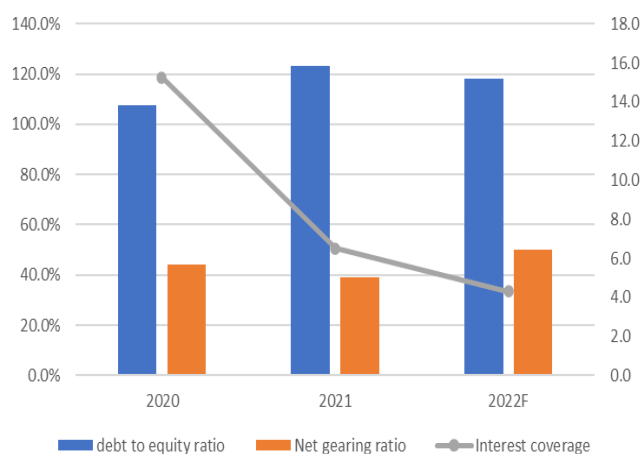
Source: Companies, KB Valbury Securities



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Indofood CBP Sukses Makmur (ICBP)

FINANCIAL TABLES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net sales	46,641	56,804	65,259	71,133	76,112
COGS	(29,417)	(36,526)	(44,096)	(46,755)	(49,100)
Gross profit	17,224	20,277	21,163	24,377	27,012
<i>Gross profit margin</i>	36.9%	35.7%	32.4%	34.3%	35.5%
Operating expenses	(8,107)	(8,742)	(9,869)	(10,520)	(10,937)
Operating profit	9,117	11,535	11,295	13,857	16,075
<i>Operating profit margin</i>	19.5%	20.3%	17.3%	19.5%	21.1%
EBITDA	10,230	12,806	12,574	15,152	17,389
<i>EBITDA margin</i>	21.9%	22.5%	19.3%	21.3%	22.8%
Other income/expenses	758	(1,723)	(4,308)	(4,216)	(4,136)
Profit before tax	9,959	9,935	7,643	10,305	12,664
Income tax	(2,540)	(2,035)	(1,681)	(2,267)	(2,786)
After tax profit	6,587	6,388	4,888	6,591	8,100
<i>Net profit margin</i>	14.1%	11.2%	7.5%	9.3%	10.6%

Source: Company, KB Valbury Sekuritas

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash and cash equivalents	9,535	20,378	14,417	21,812	26,419
Trade receivables	5,273	6,401	8,601	7,751	9,746
Inventories	4,587	5,857	6,392	6,596	7,043
Other current assets	847	928	1,378	1,264	1,338
Total current assets	20,716	33,998	31,127	37,744	44,858
Non-current assets					
Fixed assets	13,351	14,176	14,247	14,532	14,677
Other non-current assets	69,521	69,893	69,834	69,598	69,797
Total non-current assets	82,872	84,069	84,080	84,130	84,474
Total assets	103,588	118,067	115,207	121,874	129,332
Current liabilities					
Trade payables	3,045	3,586	4,407	4,460	4,807
Taxes payables	1,796	1,198	623	685	740
Accrued expenses	2,260	2,584	2,609	2,818	2,959
Short term debts	817	907	734	789	831
Other current liabilities	1,258	10,621	1,557	1,688	1,798
Total current liabilities	9,176	18,896	9,931	10,440	11,137
Non-current liabilities					
Lease liabilities	127	107	96	91	87
Other non-current liabilities	43,967	44,340	47,387	49,463	51,207
Total non-current liabilities	44,094	44,447	47,483	49,554	51,294
Shareholders' equity	50,318	54,724	57,793	61,879	66,901
Total liabilities and equity	103,588	118,067	115,207	121,874	129,332

Source: Company, KB Valbury Sekuritas

Indofood CBP Sukses Makmur (ICBP)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year End Dec (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net profit	6,587	6,587	6,388	4,888	6,591
D&A	1,112	1,112	1,271	1,279	1,295
Changes in working capital	(458)	(458)	7,191	(11,882)	1,232
CF from operating activities	7,242	7,242	14,850	(5,715)	9,118
Investment in fixed assets	(3,121)	(3,121)	(2,096)	(1,350)	(1,580)
Others	(58,779)	(58,779)	(372)	60	235
CF from investing activities	(61,900)	(61,900)	(2,468)	(1,290)	(1,345)
Dividends paid	(2,507)	(2,507)	(2,507)	(1,858)	(2,505)
Debt raised/(repaid)	29,360	29,360	10,028	3,021	2,210
Others	55,867	55,867	(1,527)	1,049	(374)
CF from financing activities	55,835	55,835	(1,540)	1,044	(379)
Free cash flows	1,176	1,176	10,843	(5,961)	7,395
Cash and cash equivalents, beginning	8,359	8,359	9,535	20,378	14,417
Cash and cash equivalents, ending	9,535	9,535	20,378	14,417	21,812

Source: Company, KB Valbury Sekuritas

RATIO ANALYSIS

Year End Dec	2020A	2021A	2022F	2023F	2024F
Gross profit margin	36.9%	35.7%	32.4%	34.3%	35.5%
Operating profit margin	19.5%	20.3%	17.3%	19.5%	21.1%
EBITDA margin	21.9%	22.5%	19.3%	21.3%	22.8%
Net profit margin	11.2%	19.1%	18.0%	18.0%	18.0%
Receivables turnover (x)	10.01	9.73	8.70	8.70	8.70
Inventory turnover (x)	7.0	7.0	7.2	7.2	7.2
Payable turnover (x)	10.1	10.6	10.9	10.5	10.5
ROAA	9.3%	5.8%	4.2%	5.6%	6.4%
ROAE	17.1%	12.2%	8.7%	11.0%	12.6%
ROIC	9.1%	8.4%	5.5%	7.6%	9.1%
Debt/ Equity	107.8%	123.2%	121.1%	114.5%	106.0%
Net debt/Equity (x)	0.4	0.4	0.5	0.4	0.3
Net debt/ EBITDA (x)	2.2	1.7	2.4	1.7	1.3
Sales/assets turnover (x)	0.7	0.5	0.6	0.6	0.6
Interest coverage (x)	15.3	6.5	2.8	3.4	3.9
EPS (Rp)	564.8	547.8	419.2	565.2	694.5
BV/ Share (Rp)	4,314.7	4,692.5	4,955.6	5,306.1	5,736.7

Source: Company, KB Valbury Sekuritas

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