

Indofood CBP (ICBP)

Recovery momentum to continue

14 August 2023

Indofood CBP

ICBP IJ	BUY
Sector	Consumer
Price at 11 Aug 2023 (IDR)	13,650
Price target (IDR)	11,475
Upside/Downside (%)	19.0

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)	133,820
Shares outstanding (mn)	11,662
52-week range (Rp)	8,125-11,925
3M average daily vol. ('000)	8,946
3M average daily val. (Rp mn)	101,099

Shareholders (%)

Indofood Sukses Makmur	80.5
Public	19.9

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	(2.5)	5.5	32.3

Analyst(s)

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Following its sturdy 1H23 results, we revised up our '23F/'24F earnings for ICBP by 14.5%/11.2% amid lower Opex and minority interest. In the remaining quarters, the story will remain lie on the softening cost input coupled with stronger sales volume and stable ASP adjustment. Another catalyst should come from ICBP's strong presence and its resilience market share in the domestic landscape competition, while the upcoming election should provide an additional tailwind boost. **Maintain BUY, with higher TP of IDR13,650 implying 17.0x/15.8x '23F/'24F PE. ICBP still looks attractive, trading at 14.2x/13.3x '23F/'24F PE, or below its -1SD 5-year hist mean of 15.8.**

Solid earnings improvement

We like ICBP's mid-year 2023 earnings result (+196.6% yoy) which beats both ours and street expectations at 61%/60% vs 5yr historical average of 49%. Even using core earnings figures at IDR4.7 tn which removes the net forex gain and loss of IDR4.5 tn, the 1H23 run-rate is in-line with consensus and above our '23F for ICBP at 50%/56% and 48%/54%. On segment basis, food seasonings recorded the highest growth at 13.5% yoy, while noodles remain as the biggest chunk of total revenue portion with 7.6% yoy growth in 1H23.

Solid margin escalation

ICBP saw EBIT margin expansion across the segmentation board (except for dairy business), with noodles and beverages noted the same growth of around 630bps higher to 26.2% and 6.3%, respectively. We expect solid margin improvement to continue in 2H23 underpinned by expectation of easing commodity price. Aside from this, we also think that the upcoming election will also play noteworthy role to boost consumer spending.

Superb '23F earnings growth

Entering into 2H23, we believe KBVS and cons '23F earnings for ICBP now looks more effortlessly to achieved. Using both '3Q23F and '4Q23 of ours/street estimates, ICBP 2023 earnings would arrives at IDR9.56 tn/IDR9.66 tn, or 2.5%/2.6% higher than the '23F figures of IDR9.33 tn/ IDR9.41 tn. What's more, using the based figure, ICBP would only need to book run-rate earnings of ours and cons. estimates at 38.7%/ 39.2% in 2H23, or far below its 5yr hist. run rate of 51%. This scenario is equal to a superb earnings growth of 87.1% yoy/91.3% yoy.

Softening cost input to continue

Wheat, CPO and skimmed milk prices continue to walking within their downhill track, with year-to-date drop of around 18.2%, 9.0% and 18.9%, respectively. We do aware that any unwanted event might affecting and paused the softening commodity prices trend such as heating up Russia/Ukraine tension, El Nino climate and other geopolitical risks. Nevertheless, such huge year-to-date price drop and softening cost input from high base in 2022 as well as ICBP's strong presence and its solid noodles business market share would seem more than enough to counterbalance any latent drawbacks that could dragged earnings fall far below street expectation.

Revising up our PATMI growth

We revisiting our model to accommodate ICBP's 1H23 robust earnings growth. Our new '23F/'24F net revenue for ICBP of IDR71.69 tn/IDR78.62 tn will be supported mainly by its noodles, beverages and food seasonings business. We keep our cost input forecast as our previous figures has includes the assumption of cost input sharp drop. We came up with higher '23F/'24F earnings growth forecast of 104.7% yoy/7.2% yoy (cons: 105.3% yoy/6.3% yoy), while net margin is expected to expand to 13.1%/12.8% (cons: 13.2%/12.9%)

Maintain BUY with higher target price of IDR13,650

We run another valuation methodologies (DDM, single stage fair PBV and rolling P/E) to fairly valued ICBP, aside from DCF as a commonly used valuation and came up with a blended intrinsic value of IDR13,650 (implying 17.0x/15.8x '23F/24F PE) while currently trading at 14.2x/13.3x '23F/'24F PE, below -1SD 5-yr hist of 15.8x. Risks to our call: a) lower-than-expected purchasing power, sales volume and ASP adjustment, b) higher-than-expected soft commodity prices (Wheat & CPO), c) Depreciating Rupiah that will increase forex loss and interest expenses.

Key Statistics

Year-end Dec	2021A	2022A	2023F	2024F	2025F
Revenue (Rp bn)	56,804	64,798	71,690	78,622	85,670
Operating profit (Rp bn)	11,550	12,414	15,280	16,741	18,573
Net profit (Rp bn)	6,399	4,587	9,391	10,070	10,884
EPS (IDR)	549	393	805	864	933
EPS growth (%)	(2.8)	(28.3)	104.7	7.2	8.1
ROAE (%)	20.1	13.0	24.0	22.4	21.0
ROAA (%)	5.8	3.9	7.9	7.9	7.9
PER (x)	20.9	29.2	14.2	13.3	12.3
PBV (x)	3.9	3.7	3.2	2.8	2.4
EV/EBITDA (x)	12.2	12.1	9.9	9.1	8.3
Div Yield (%)	1.9	1.9	2.7	2.6	2.8

Source: Company, KB Valbury Sekuritas

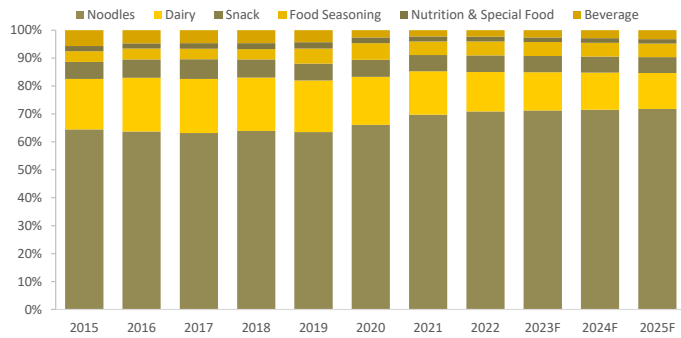
Figure 1: ICBP earnings revision and 1H23 solid results

ICBP 6M22 Results (IDRbn)	6M22	6M23	YoY (%)	1Q23	2Q23	YoY (%)	2023F	% to '23F	Cons'	% to Cons'
Revenue	32,593	34,479	5.8	19,143.5	15,335.1	(19.9)	71,690	48.1	71,325	48.3
COGS	(22,191)	(21,948)	(1.1)	(12,182.3)	(9,766.1)	(19.8)	(45,586)			
Gross Profit	10,402	12,530	20.5	6,961	5,569	(20.0)	26,104	48.0	25,656	48.8
Opex	(4,897)	(4,991)	1.9	(2,656.2)	(2,334.7)	(12.1)	(10,824)			
EBIT	5,505	7,539	37.0	4,305	3,234	(24.9)	15,280	49.3	15,412	48.9
Net finance income (expenses)	(2,575)	1,225	(147.6)	1,498	(273)	N/A	(3,004)			
Other income (exp.)	405	(401)	N/A	(296.4)	(105.0)	N/A	1,739			
Pre-tax income	3,335	8,363	150.8	5,507	2,856	(48.1)	14,015	59.7	14,164	59.0
Taxes	(923)	(1,905)	106.4	(1,178.4)	(726.1)	(38.4)	(3,364)			
Net Income	1,930	5,725	196.6	3,955	1,770	(55.2)	9,391	61.0	9,418	60.8
Segmentation (IDRbn)										
Noodles	23,540	25,326	7.6	14,013	11,313	(19.3)	51,202	49.5		
Dairy	5,219	4,868	(6.7)	2,695	2,174	(19.3)	10,894	44.7		
Snacks	1,935	2,084	7.7	1,135	949	(16.3)	4,358	47.8		
Food Seasonings	1,799	2,042	13.5	1,259	783	(37.9)	2,905	70.3		
Nutrition foods	587	610	4.0	317	293	(7.6)	1,417	43.0		
Beverages	755	783	3.7	394	389	(1.3)	1,771	44.2		
Total	33,835	35,712	5.5	19,813	15,900	(19.7)	72,548	49.2		
Net	32,593	34,479	5.8	19,144	15,335	(19.9)	70,856	48.7		
Margins (%)										
Gross Profit	31.9	36.3	4.4	36.4	36.3	(0.0)				
EBIT	16.9	21.9	5.0	22.5	21.1	(1.4)				
Pretax	10.2	24.3	14.0	28.8	18.6	(10.1)				
Net Profit	5.9	16.6	10.7	20.7	11.5	(9.1)				

Forecast Changes	New		Original		Diff		Street		Var	
	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
Revenues	71,690	78,622	70,856	77,552	1.2	1.4	71,342	77,902	0.49	0.92
Cost of revenues	(45,586)	(49,635)	(45,585)	(49,634)	0.0	0.0	(45,675)	(49,608)	(0.20)	0.05
Gross profit	26,104	28,988	25,272	27,918	3.3	3.8	25,667	28,294	1.70	2.45
Operating expenses	(10,824)	(12,247)	(10,502)	(11,829)	3.1	3.5				
Operating profit	15,280	16,741	14,769	16,089	3.5	4.1	15,412	16,861	(0.85)	(0.71)
EBITDA	16,497	18,046	16,089	17,429	2.5	3.5	16,753	18,365	(1.53)	(1.73)
Net finance income (expenses)	(3,004)	(2,703)	(2,007)	(1,434)	49.7	88.4				
Pre-tax income	14,015	15,275	12,580	14,068	11.4	8.6				
Tax Expenses	(3,364)	(3,819)	(2,577)	(3,022)	30.5	26.3				
Minorities interest	(1,260)	(1,386)	(1,801)	(1,988)	(30.0)	(30.3)				
Net profit	9,391	10,070	8,203	9,057	14.5	11.2	9,418	10,013	(0.29)	0.57

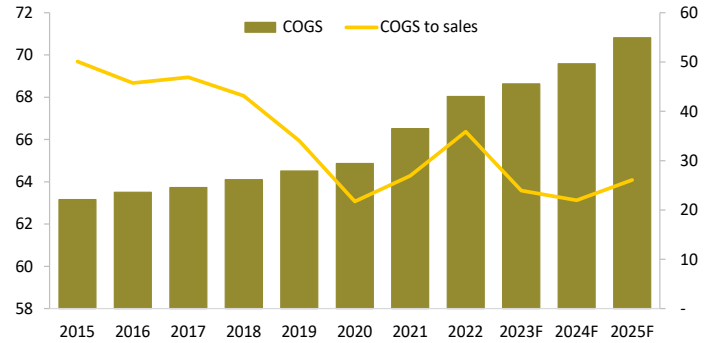
Source: Company, KB Valbury Sekuritas

Figure 2: Noodles remain as the backbone driver growth (%)



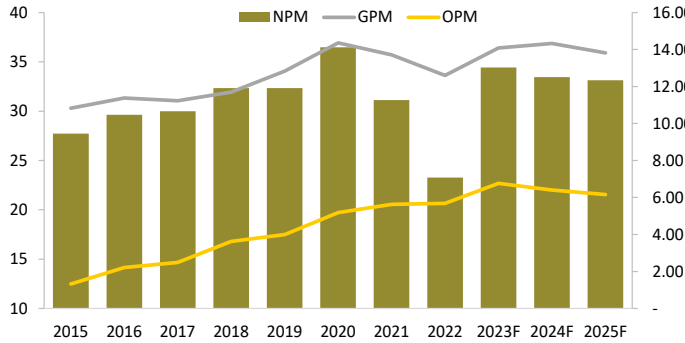
Source: Company, KB Valbury Sekuritas

Figure 3: Softening cost input to continue (COGS IDRtn and COGS to sales %)



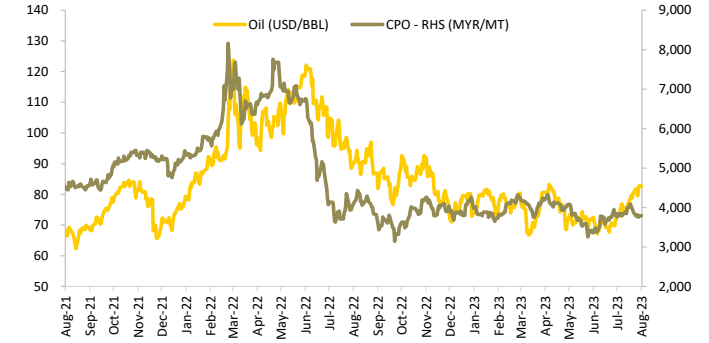
Source: Company, KB Valbury Sekuritas

Figure 4: Expecting margin improvement to sustained at pre-covid level (%)



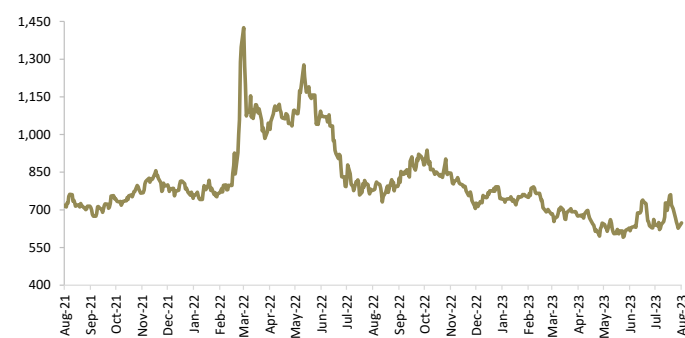
Source: Company, KB Valbury Sekuritas

Figure 5: Low commodity benchmark price likely to continue



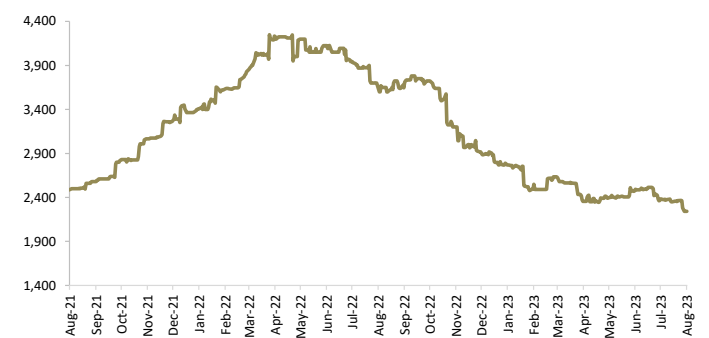
Source: Company, KB Valbury Sekuritas

Figure 6: Waning wheat price likely to continue & benefit GPM (USD/BU)...



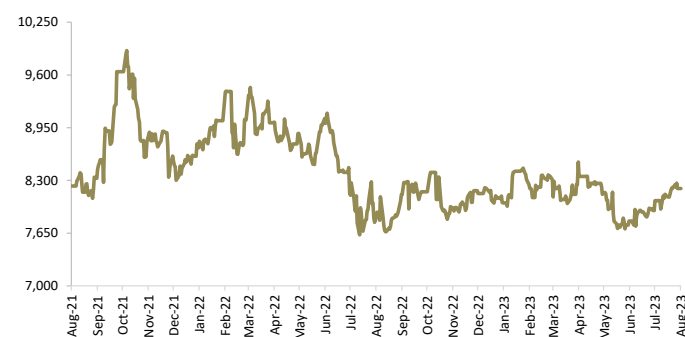
Source: Company, KB Valbury Sekuritas

Figure 7: ..likewise for skimmed milk (EUR/MT)...



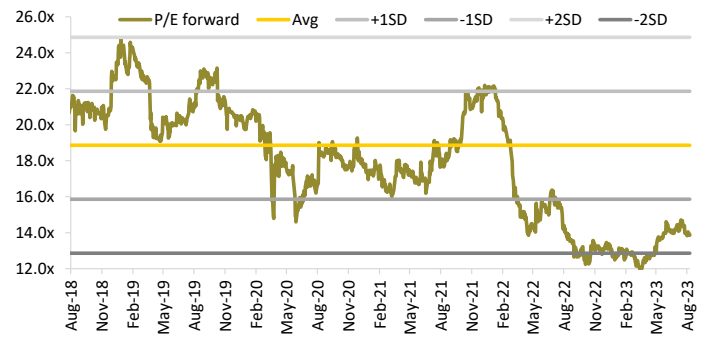
Source: Company, KB Valbury Sekuritas

Figure 8: ..and polyethylene (CNY/MT)



Source: Company, KB Valbury Sekuritas

Figure 9: 14.3x/13.6x '23F/'24F P/E, below -1SD 5-yr hist. mean of 15.9x



Source: Company, KB Valbury Sekuritas

FINANCIAL TABLES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Revenues	56,804	64,798	71,690	78,622	85,670
Cost of revenues	(36,516)	(43,005)	(45,586)	(49,635)	(53,277)
Gross profit	20,287	21,792	26,104	28,988	32,393
Operating expenses	(8,738)	(9,378)	(10,824)	(12,247)	(13,821)
Operating profit	11,550	12,414	15,280	16,741	18,573
EBITDA	12,672	13,522	16,497	18,046	19,947
Net finance income (expenses)	(1,786)	(5,944)	(3,004)	(2,703)	(2,899)
Other income (exp.)	186	1,055	1,739	1,237	1,362
Pre-tax income	9,950	7,525	14,015	15,275	17,036
Taxes	(2,038)	(1,803)	(3,364)	(3,819)	(4,259)
Net Income	6,399	4,587	9,391	10,070	10,884

Source: Company, KB Valbury Sekuritas

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Current assets					
Cash and other investments	20,662	15,897	16,111	16,651	17,348
Receivables	6,834	7,228	7,779	8,180	9,040
Inventories	5,857	7,132	6,885	7,235	7,822
Other current assets	644	812	802	904	1,017
Total current assets	33,998	31,070	31,577	32,970	35,226
Non-current assets					
Deferred tax assets	376	272	740	733	737
Long term investments	11,069	11,169	9,551	11,475	13,668
Fixed assets	14,176	14,521	14,831	15,128	15,436
Rights of use assets	208	204	222	212	213
Deferred charges - net	63	48	153	144	141
Goodwill	54,006	54,006	59,751	65,528	71,403
Intangible assets	1,726	1,593	2,858	2,949	3,016
Other non current assets	2,395	2,422	3,061	3,527	3,676
Total non-current assets	84,018	84,235	91,168	99,697	108,290
Total assets	118,015	115,306	122,744	132,666	143,516
Current liabilities					
Short-term debts	515	825	908	998	1,048
Payables	4,552	4,725	5,956	6,105	6,572
Curr matt LT Loans	323	487	0	0	0
Other current liabilities	13,507	3,997	4,718	5,352	6,008
Total current liabilities	18,896	10,034	11,581	12,455	13,628
Non-current liabilities					
Long-term debts	1,779	1,549	1,704	1,874	1,968
Bonds payable	38,952	42,968	42,538	43,601	45,782
Other non-current liabilities	3,448	3,282	3,737	5,006	5,334
Total non-current liabilities	44,179	47,799	47,979	50,481	53,083
Minority interests	20,851	20,954	21,598	21,554	21,538
Shareholder's Equity	34,090	36,519	41,586	48,176	55,267
Total liabilities and equity	118,015	115,306	122,744	132,666	143,516

Source: Company, KB Valbury Sekuritas

Indofood CBP (ICBP)

CONSOLIDATED STATEMENT OF CASH FLOW

Year End Dec	2021A	2022A	2023F	2024F	2025F
Net profit	6,399	4,587	9,391	10,070	10,884
Depreciation & amortization	1,122	1,108	1,216	1,305	1,374
Changes in working capital	7,453	(11,174)	1,659	(71)	(436)
CF from operating activities	14,974	(5,479)	12,267	11,305	11,822
Decr. (incr.) in fixed assets	(1,946)	(1,454)	(1,526)	(1,603)	(1,683)
Decr. (incr.) in non-current assets	(321)	128	(6,623)	(8,232)	(8,285)
Other investing activities	730	452	0	0	0
CF from investing activities	(1,537)	(874)	(8,149)	(9,834)	(9,968)
Net change in gross debt	10,070	4,260	(680)	1,325	2,324
Dividends paid	(2,507)	(2,507)	(3,679)	(3,525)	(3,809)
Other financing activities	(9,873)	(166)	455	1,268	329
CF from financing activities	(2,311)	1,587	(3,904)	(932)	(1,157)
Net Changes in Cash	11,127	(4,765)	214	539	697
Cash at beginning of period	9,535	20,662	15,897	16,111	16,651
Cash at end of period	20,662	15,897	16,111	16,651	17,348

Source: Company, KB Valbury Sekuritas

RATIO ANALYSIS

Year End Dec	2021A	2022A	2023F	2024F	2025F
Gross profit margin (%)	35.7	33.6	36.4	36.9	37.8
Operating profit margin (%)	20.3	19.2	21.3	21.3	21.7
EBITDA margin	22.3	20.9	23.0	23.0	23.3
Net profit margin (%)	11.3	7.1	13.1	12.8	12.7
ROAE (%)	20.1	13.0	24.0	22.4	21.0
ROAA (%)	5.8	3.9	7.9	7.9	7.9
Net gearing (x)	62.2	82.4	69.8	61.9	56.9
Interest coverage ratio (x)	5.9	2.0	4.4	5.2	5.4
PER (x)	20.9	29.2	14.2	13.3	12.3
PBV (x)	3.9	3.7	3.2	2.8	2.4
EV/EBITDA (x)	12.2	12.1	9.9	9.1	8.3
Dividend yield (%)	1.9	1.9	2.7	2.6	2.8

Source: Company, KB Valbury Sekuritas


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