

Inline 9M23, expecting better 4Q23

9 November 2023



INDF IJ	BUY
Sector	Consumer
Price at 8 Nov 2023 (IDR)	6,350
Price target (IDR)	8,020
Upside/Downside (%)	26.3

Stock Information

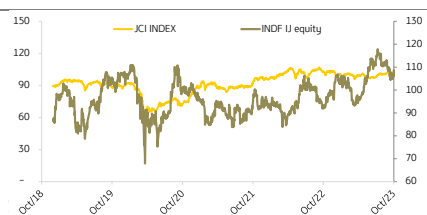
PT Indofood Sukses Makmur Tbk is a total food solutions company. Operating in all stages of food manufacturing to consumer products in the market. Its consumer branded products business segment produces a range of consumer products such as: noodles, dairy, snack foods, food seasonings, nutrition and special foods as well as and beverages. Bogasari business produced wheat flour, while the company also has agribusiness division and distribution businesses.

Market cap (IDR bn)	55,975
Shares outstanding (mn)	8,780
52-week range (IDR)	6,050-7,550
3M average daily vol. ('000)	8,613
3M average daily val. (IDR mn)	58,873

Shareholders (%)

First Pacific Company Limited	50.1
Public	49.9

Stock Performance



	1M	3M	12M
Performance	-8.0	-10.3	-1.9

Analyst

Akhmad Nurcahyadi
akhmad.nurcahyadi@kbvalbury.com

INDF 9M23 PATMI growth at 52.4% yoy to IDR7.08 tn, came in line with ours and street forecasts at 74.3%/73.4% (5yr historical average: 72.4%). Net sales growth of 3.8% yoy was as a result of weakening agribusiness segment, while solid PATMI growth (+52.4% yoy) mainly underpinned by net gains on foreign exchange of IDR402.2 bn which brought finance income soared by 206.8% yoy. Segmentation margin saw a mixed bag figures, with CBP having the highest EBIT margin expansion at 341bps yoy. On consolidated level, EBIT margin was flattish at 17.0% while NPM escalates by 2.69% yoy to 8.4%. We expect INDF to record stronger earnings in 4Q23. Reiterate BUY with TP of IDR8,020 (7.1x '24F P/E), while it is trading at 5.6x '24F P/E, or below -1SD of 6.7x '24F P/E.

9M23 results overall inline

INDF 9M23 net profit grew by 52.4% yoy to IDR7.08 tn, mainly driven by soaring finance income (+206.8% yoy) came in within ours and street expectation at a run-rate of 74.3%/73.4% (5yr historical average of 72.4%). Top line grew 3.8% yoy, on the back of CBP segment revenue growth at 4.8% yoy. Gross profit growth remains positive (4.4% yoy), despite cost input recorded 3.5% yoy higher. The company saw flat EBIT at IDR14.2 tn (0.3% yoy), due to losses on foreign exchange difference from operating activities and brought other expenses rose by 23.1% yoy and other income shrank by 48.6% yoy.

Bogasari and Agribusiness dragged down top line

INDF 3.8% yoy net sales growth was mainly driven by inched down sales growth from Bogasari (-1% yoy) and lower agribusiness segment at 4% yoy. Distribution segment, surprisingly booked solid sales growth at 25% yoy. Bogasari has made price adjustment by around 10%-12% to accommodate lower wheat prices, following raising prices in FY21 and FY22. Meanwhile, despite higher sales volume (CPO +12% yoy and PK, PKO, PKE +16% yoy), agribusiness segment saw -3.9% yoy sales growth due to lower ASP. We expect recovery momentum in noodles segment remain intact with further surprising results from distribution business to offset another potential agribusiness poor growth in 4Q23 ('23F: -3.7% yoy).

Strong CBP margin, yet very week on agribusiness

INDF recorded GP margin at 31.2% or 20bps higher yoy, while in 3Q23 stand alone, margin expansion recorded better by 63bps yoy and 132bps stronger qoq to 31.9%. NP margin was 269bps higher to 8.4% in 9M23. On segmentation EBIT margin, CBP saw the highest improvement at 3.41% yoy to 21.4% helped by its solid margin in noodles business, snack foods and beverages segment. On consolidated basis, 9M23 EBIT margin was flattish to 17.0% from around 17.1% in 9M22, as agribusiness division EBIT margin contracted 9.15% yoy to 9.7% vs 18.9% in 9M22.

Expecting stronger 4Q23 result

We expect INDF to post better quarterly result in 4Q23. Using the assumption of 5yr historical average PATMI in 4Q to FY of 29.1% and putting the same on that portion to ours / consensus expectation for INDF net profit this year, then FY23 PATMI figures could arrives at IDR9.85 tn (55.0% yoy) / IDR9.81 tn (54.3% yoy) for '23F consensus figures and came in above expectation at 103.5%/104.6%.

Reiterate BUY, with TP of IDR8,020

We reiterate BUY on INDF. Our intrinsic value for INDF of IDR8,020 implying 7.1x '24F P/E., while it is currently trading at 5.6x '24F P/E, or below its -1SD of 6.7x '24F P/E. Risks to our call: a) lower-than-expected purchasing power, volume, asp growth and EBIT achievement, b) higher than expected input costs which could pressure and dragged down margin further, c) intensifying competition, d) softened than expected demand, e) continuing weakening Bogasari and Agribusiness segment EBIT and f) wheat price declined further which impacting to further asp cut.

Exhibit 1: Key Statistics

Year end Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Revenue	99,346	110,830	118,195	125,646	133,427
Operating profit	16,915	19,693	19,068	20,099	21,505
Net profit	7,662	6,359	9,529	9,914	10,570
EPS (IDR)	873	724	1,085	1,129	1,204
EPS growth (%)	18.7	-17.0	49.9	4.0	6.6
ROE (%)	8.8	6.8	9.5	9.1	9.0
ROA (%)	4.3	3.5	5.0	5.1	5.2
PER (x)	7.3	8.8	5.9	5.6	5.3
PBV (x)	35.1	0.6	0.6	0.6	0.5
EV/EBITDA (x)	4.6	4.3	4.7	4.2	3.8
Div Yield (%)	4.0	1.9	3.5	4.0	4.1

Source: Company, KBVS Research

Exhibit 2: INDF 9M23 results (consolidated financial, segmentation and margin)

ICBP 9M23 Results (IDRbn)	9M22	9M23	YoY (%)	3Q22	3Q23	YoY (%)	2Q23	QoQ (%)	KBVS '23F	% to '23F	23F Cons'	% to Cons'
Net revenue	80,822	83,888	3.8	28,035	27,801	-0.8	25,544	8.8	118,195	71.0	116,259	72.2
COGS	-55,743	-57,705	3.5	-19,259	-18,924	-1.7	-17,724	6.8	-83,419	69.2	-80,126	72.0
Gross Profit	25,079	26,183	4.4	8,776	8,877	1.2	7,820	13.5	34,776	75.3	36,133	72.5
Selling expenses	-8,014	-8,243	2.9	-2,509	-2,731	8.8	-2,539	7.6				
G&A expenses	-3,622	-3,813	5.3	-1,212	-1,296	6.9	-1,297	-0.1				
EBIT	14,185	14,223	0.3	5,358	5,365	0.1	3,889	38.0				
Finance income	366	1,123	206.8	115	-1,453	-1,363.5	306	-574.8				
Finance expenses	-5,441	-2,521	-53.7	-2,064	-876	-57.6	-866	1.2				
Pre-tax income	9,063	12,820	41.5	3,424	3,081	-10.0	3,265	-5.6				
Tax	-2,379	-3,018	26.9	-901	-756	-16.1	-871	-13.2				
Net Income	4,646	7,082	52.4	1,745	1,516	-13.1	1,716	-11.7	9,529	74.3	9,654	73.4

Margins (%)	9M22	9M23	YoY (%)	3Q22	3Q23	YoY (%)	2Q23	QoQ (%)
Gross Profit	31.0	31.2	0.18	31.3	31.9	0.63	30.6	1.3
EBIT	17.6	17.0	-0.6	19.1	19.3	0.2	15.2	4.1
Pretax	11.2	15.3	4.1	12.2	11.1	-1.1	12.8	-1.7
Net Profit	5.7	8.4	2.7	6.2	5.5	-0.8	6.7	-1.3

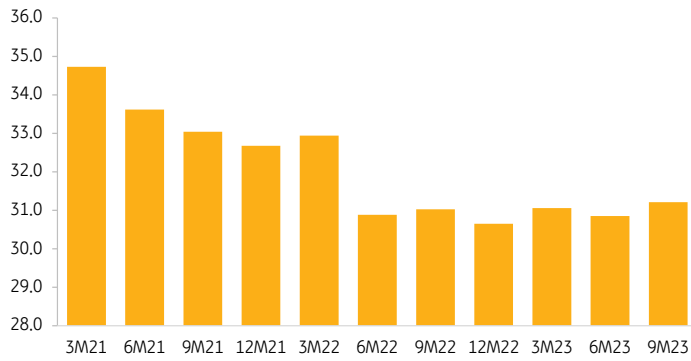
Segmentation sales (IDRbn)	9M22	9M23	YoY (%)	3Q22	3Q23	YoY (%)	2Q23	QoQ (%)	KBVS '23F	% to '23F
Consumer Branded Products	48,913	51,269	4.8	16,716	16,990	1.6	15,738	8.0	71,775	71.4
Bogasari	23,345	23,218	-0.5	8,281	7,373	-11.0	7,026	4.9	27,478	84.5
Agribusiness	12,296	11,818	-3.9	4,315	4,264	-1.2	3,537	20.6	13,206	89.5
Distribution	4,267	5,323	24.7	1,386	1,706	23.1	1,648	3.5	5,735	92.8
Net	80,822	83,888	3.8	28,035	27,801	-0.8	25,544	8.8	118,195	71.0

Segmentation EBIT (IDRbn)	9M22	9M23	YoY (%)	3Q22	3Q23	YoY (%)	2Q23	QoQ (%)
Consumer Branded Products	8,796	10,969	24.7	3,397	3,610	6.3	3,229	11.8
Bogasari	1,945	1,606	-17.4	737	596	-19.1	509	17.1
Agribusiness	2,321	1,150	-50.5	806	533	-33.9	152	250.7
Distribution	344	359	4.4	98	96	-2.0	80	20.0
Elimination	36	43	19.4	15	14	-6.7	14	0.0
Unallocated Income (Expenses)	743	96	-87.1	305	516	69.2	-95	-643.2
Net	14,185	14,223	0.3	5,358	5,365	0.1	3,889	38.0

Segmentation EBIT margin (%)	9M22	9M23	YoY (%)	3Q22	3Q23	YoY (%)	2Q23	QoQ (%)
Consumer Branded Products	18.0	21.4	3.41	20.3	21.2	0.93	20.5	0.73
Bogasari	8.3	6.9	-1.41	8.9	8.1	-0.82	7.2	0.84
Agribusiness	18.9	9.7	-9.15	18.7	12.5	-6.18	4.3	8.20
Distribution	8.1	6.7	-1.32	7.1	5.6	-1.44	4.9	0.77
Net	17.6	17.0	-0.60	19.1	19.3	0.19	15.2	4.07

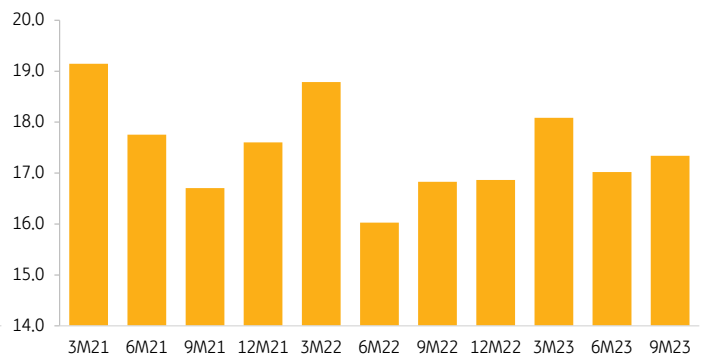
Source: Company, KBVS Research

Exhibit 3: Expecting stronger GPM on lower cost input (%)...



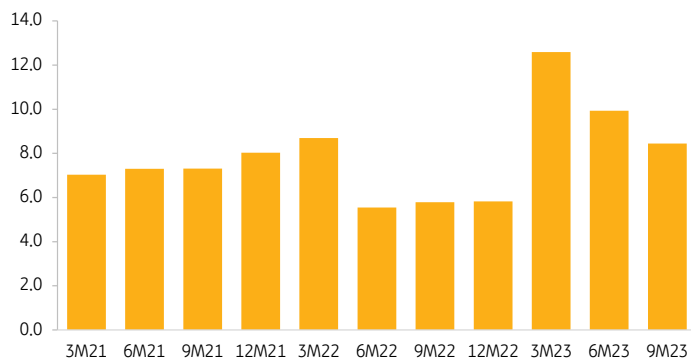
Source: Company, KBVS Research

Exhibit 4: ..coupled with continuing stronger EBIT margin in 4Q23 (%)..



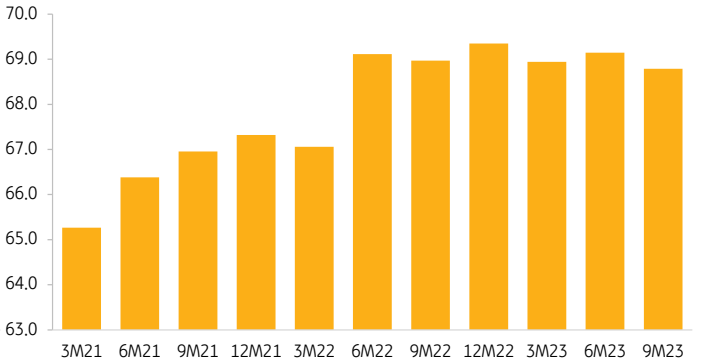
Source: Company, KBVS Research

Exhibit 5: ..and better NPM (%)



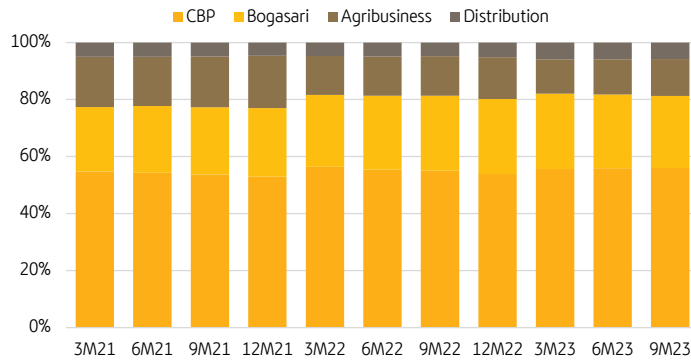
Source: Company, KBVS Research

Exhibit 6: Softened COGS likely to continue (%)



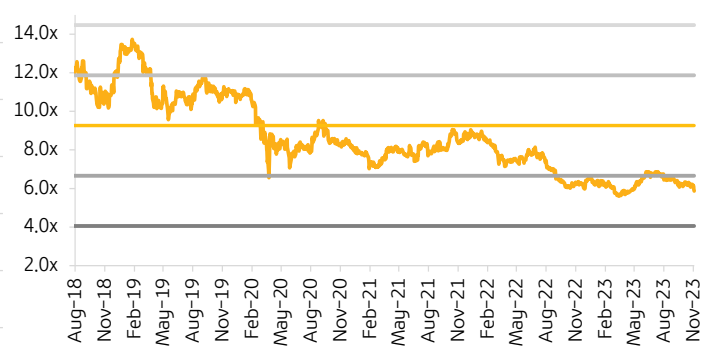
Source: Company, KBVS Research

Exhibit 7: Expecting CBP to continue offset further weak agribusiness (%)



Source: Company, KBVS Research

Exhibit 8: Currently trading at 5.6x '24F P/E, or below its -1SD of 6.7x P/E



Source: Company, KBVS Research

FINANCIAL TABLES

Exhibit 9: Profit & Loss

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Revenues	99,346	110,830	118,195	125,646	133,427
Cost of revenues	(66,872)	(76,859)	(82,462)	(87,521)	(93,158)
Gross profit	32,474	33,972	35,733	38,126	40,270
Operating expenses	(15,559)	(14,279)	(16,665)	(18,027)	(18,764)
Operating income	16,915	19,693	19,068	20,099	21,505
Net interest income	(2,487)	(7,403)	(916)	(1,011)	(1,095)
Other income/(expenses)	61	28	(102)	(110)	(109)
Pretax profit	14,489	12,319	18,050	18,977	20,302
Tax expenses	(3,259)	(3,126)	(5,990)	(6,291)	(6,755)
Net profit	7,662	6,359	9,529	9,914	10,570

Source: Company, KBVS Research

Exhibit 10: Balance Sheet

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
Cash	29,478	25,946	27,896	29,446	31,020
Deposits & ST inv.	1,154	976	1,065	1,021	1,043
Receivables	8,464	9,001	9,110	9,016	9,630
Inventories	12,684	16,517	15,742	14,716	13,616
Other current assets	2,403	2,436	3,095	3,177	3,290
Total current assets	54,183	54,877	56,908	57,375	58,599
Fixed assets – net	46,752	47,411	51,215	55,076	59,034
Goodwill	56,463	56,358	56,358	56,358	56,358
Intangible Asset	1,726	1,593	1,572	1,560	1,480
Other non-current assets	20,148	20,195	25,410	25,901	27,426
Total non-current assets	125,088	125,557	134,555	138,896	144,299
Total assets	179,272	180,433	191,463	196,271	202,897
Bank borrowings	13,306	15,255	19,068	15,255	12,967
Payables	6,983	6,968	8,736	9,197	9,750
Accrued expenses	3,552	3,616	3,977	4,308	4,595
S-T employee benefit	1,449	1,486	918	872	823
Current matt. long term loan	4,012	1,628	1,520	1,505	1,588
Other current liabilities	11,103	1,773	1,790	1,903	2,021
Total current liabilities	40,403	30,726	36,009	33,041	31,744
Long-term debt	5,504	6,205	6,143	6,082	6,021
Bonds	38,952	42,968	42,538	42,113	41,692
Deferred tax liabilities	895	914	1,225	1,224	1,255
LT employee benefits – non curr	5,621	5,182	4,969	4,733	4,397
Other non liabilities	911	815	152	160	162
Total non-current liabilities	51,882	56,084	55,028	54,311	53,526
Shareholder's equity	86,987	93,623	100,425	108,920	117,627
Total liabilities and equity	179,272	180,433	191,463	196,271	202,897

Source: Company, KBVS Research

Exhibit 11: Cash Flow

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
EBIT	17,133	18,683	16,719	18,076	19,314
Depreciation & amortization	3,054	3,108	1,934	2,076	2,236
Changes in working capital	8,921	-14,023	5,312	-1,869	-941
CF from operating activities	29,108	7,768	23,965	18,283	20,609
Decr. (incr.) in fixed assets	-3,943	-3,767	-5,738	-5,938	-6,193
Decr. (incr.) in non-current assets	106	-193	-3,208	-420	-1,058
Other investing activities	288	383	-2,028	-59	-386
CF from investing activities	-3,549	-3,576	-10,974	-6,418	-7,638
Net change in gross debt	5,890	4,718	-492	-487	-482
Dividends paid	-2,441	-2,441	-2,257	-2,859	-2,974
Other financing activities	-16,867	-10,001	-8,292	-6,970	-7,941
CF from financing activities	-13,418	-7,724	-11,040	-10,315	-11,397
Net Changes in Cash	12,141	-3,532	1,950	1,550	1,574
Cash at beginning of period	17,337	29,478	25,946	27,896	29,446
Cash at end of period	29,478	25,946	27,896	29,446	31,020

Source: Company, KBVS Research

Exhibit 12: Key performance metrics

Year End Dec (%)	2021A	2022A	2023F	2024F	2025F
Gross profit margin (%)	32.7	30.7	30.2	30.3	30.2
Operating profit margin (%)	17.0	17.8	16.1	16.0	16.1
Net profit margin (%)	7.7	5.7	8.1	7.9	7.9
ROE (%)	8.8	6.8	9.5	9.1	9.0
ROA (%)	4.3	3.5	5.0	5.1	5.2
DER (%)	71.0	70.6	69.0	59.6	52.9
Net gearing (x)	37.1	42.8	41.2	32.6	26.6
Interest coverage ratio (x)	5.9	2.5	8.1	8.1	8.3
PER (x)	7.3	8.8	5.9	5.6	5.3
PBV (x)	0.6	0.6	0.6	0.5	0.5
EV/EBITDA (x)	4.6	4.3	4.7	4.2	3.8
Dividend Yield (%)	4.0	1.9	3.5	4.0	4.1

Source: Company, KBVS Research

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KB Valbury Sekuritas Head Office

Sahid Sudirman Center 41st Floor Unit A-C
Jalan Jenderal Sudirman No. 86 Kelurahan Karet Tengsin,
Kecamatan Tanah Abang, Jakarta Pusat 10220, Indonesia
T. +62 21 – 250 98 300
F. +62 21 – 255 33 778

Branch Office

Jakarta – Sudirman

Sahid Sudirman Center 41st Floor Unit A-C
Jalan Jenderal Sudirman No. 86 Karet Tengsin,
Tanah Abang, Jakarta Pusat 10220
T. (021) 25098300/301

Jakarta – Kelapa Gading

Rukan Plaza Pasifik
Jl. Raya Boulevard Barat Blok A1 No. 10
Jakarta Utara 11620
T. (021) 29451577

Jakarta – Puri Indah

Rukan Grand Aries Niaga Blok E1 No. IV
Jl. Taman Aries, Kembangan
Jakarta Barat 11620
T. (021) 22542390

Jakarta – Pluit

Jl. Pluit Putra Raya No. 2
Jakarta Utara 14450
T. (021) 6692119

Bandung

Jl. HOS Cokroaminoto No. 82
Bandung 40171
T. (022) 87255800

Malang

Jl. Pahlawan Trip No. 7
Malang 65112
T. (0341) 585888

Banjarmasin

Jl. Gatot Subroto No. 33
Banjarmasin 70235
T. (0511) – 3265918

Pekanbaru

Jl. Tuanku Tambusai, Komplek CNN
Blok A No. 3 Pekanbaru 28291
T. (0761) 839393

Palembang

Komplek PTC Mall Blok I No. 7
Jl. R. Sukanto
Palembang 30114
T. (0711) 5700281

Surabaya

Pakuwon Center Lt 21
Jl. Embong Malang No.1
Surabaya 60261
T. (031) 2955788

Padang

Jl. Kampung Nias II No. 10,
Padang 25211
T. (0751) 8955747

Yogyakarta

Jl. Magelang KM 5.5 No. 75
Yogyakarta 55000
T. (0274) 623111

Semarang

Candi Plaza Building Lt. Dasar
Jl. Sultan Agung No. 90-90A
Semarang 50252
T. (024) 8501122

Makassar

Komplek RUKO Citraland City Losari
Business Park, Blok B2 No. 09
Jl. Citraland Boulevard Makassar 90111
T. (0241) 16000818

Medan

Komplek Jati Junction No. P5-5A
Jl. Perintis Kemerdekaan
Medan 20218
T. (061) 88816222

Denpasar

Jl. Teuku Umar No. 177
Komplek Ibis Styles Hotel
Denpasar Bali 80114
T. (0361) 225229

Investment Gallery

Jakarta

Citra Garden 6 Ruko Sixth Avenue
Blok J.1 A/18, Cengkareng
Jakarta Barat 11820
T. (021) 522392181

Semarang

Jl. MT Haryono 637
Semarang 50242
T. (024) 8415195

Salatiga

Jl. Diponegoro No. 68
Salatiga 50711
T. (0298) 313007

Solo

Jl. Ronggowarsito No. 34
Surakarta 57118
T. (0271) 6726306