

Indofood CBP (ICBP)

Earnings recovery momentum to continue

7 February 2023

Indofood CBP

ICBP II	BUY
Sector	Consumer
Price at 6 Feb 2023 (IDR)	10,275
Price target (IDR)	12,360
Upside/Downside (%)	20.3

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 (IDR bn)	119,830
Shares outstanding (mn)	11,662
52w range (Rp)	7,050-10,600
3M average daily vol. ('000)	4,674
3M average daily val. (Rp mn)	47,308

Shareholders (%)

Indofood Sukses Makmur	80.5
Public	19.9

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	1.0	5.4	18.8

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We continue to like ICBP for its strong presence as the noodle market leader with a proven track record to balance growth and profitability. Margin expansion due to lower input cost prices, increasing minimum wage and higher ASP coupled with stable volume growth will overall act as ICBP's catalysts, aside from solid purchasing power and the upcoming election which could positively impact spending behavior and the overall grassroots economy activities. ICBP looks attractive trading at 15.6x '23F P/E, or at its -1SD 5-year hist mean. Maintain BUY, with higher target price of IDR12,360 (18.4x '23F P/E).

Expecting another solid qoq in 4Q22

Albeit its poor 9M22 result as a result of soaring forex losses, we still like ICBP due to its ability to maintain its top line growth at 15% yoy on the back of strong performance across the segment board. We expect its qoq turnaround earnings in 3Q22 at IDR1.39 tn from a net loss of IDR10.8 bn in the previous quarter to continue in 4Q22 and will carry FY22 earnings to arrive within our and street expectations. Our '22F PATMI forecast for ICBP at IDR5.53 tn (cons: IDR5.43 tn) will be supported by '22F revenue growth of 14.9% yoy (cons. : 15.1% yoy) which is mainly driven by noodles segment growth at 14.5% yoy (9M22 at 16.2% yoy) as well as snack foods and food seasoning division at 12% yoy and 15% yoy (9M22 at 15% yoy and 16% yoy), respectively.

More tailwinds to underpin growth

Entering 2023, Indonesia's FMCG will enjoy strong tailwinds in our view. We might see another solid earnings growth momentum driven by improving purchasing power as a result of solid country's minimum wage growth. We also anticipating lower raw material cost input as further catalysts for the sector, aside from the election event which could boost consumption. That said, we expect ICBP's '23F earnings could reach IDR7.84 tn (cons : IDR7.87 tn), supported by 9.3% yoy growth in revenue (cons: 10.0% yoy). On segmentation basis, noodles will remain as the backbone with 10.1% yoy growth ('22F at 14.5% yoy) while dairy and snack foods as the second growth driver at 6.8% yoy and 12.5% yoy ('22F at 12.0% yoy and 15.0% yoy).

Down trending trajectory cost input to boost earnings power

Softer commodity prices likely to continue and this will become as the main bolster and benefiting some names in consumer universe including ICBP. Wheat and CPO prices continue to walked within the downhill path from its high in April and May 2022. With the expectation of further commodity price downtrend that already started in 4Q22, we believe ICBP's margin in 4Q22 and 2023 will continue to improve. Furthermore, our economist expects weaker oil prices at USD60.84/barrel in 23F vs USD81.61/barrel in EOY 2022 which will drive logistic cost lower, thus should also benefit ICBP and translated into a stronger earnings growth, in our view.

Revising up our PATMI growth

Post revisiting our model, we came up with higher earnings growth forecast by 6.9% to 41.7% yoy (cons: 45.3% yoy) from 34.8% yoy previously. Net margin is expected to expand to 8.5% from 7.5% previously, as we assumed lower cost input by 1.87% in 2023F.

Maintain BUY with higher target price of IDR12,360

We believe ICBP deserves higher valuation and expect a potential re-rating to its 5-year average historical mean of 18.6x. Maintain BUY, with higher target price of IDR12,360 (18.4x '23F P/E). 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

Key Statistics

Year-end Dec	2020A	2021A	2022F	2023F	2024F
Revenue (Rp bn)	46,641	56,804	65,259	71,361	76,713
Operating profit (Rp bn)	9,117	11,535	11,874	14,667	16,316
Net profit (Rp bn)	6,587	6,388	5,535	7,845	9,035
EPS (Rp)	565	548	475	673	775
EPS growth (%)	30.7	(3.0)	(13.4)	41.7	15.2
ROE (%)	17.1	12.2	9.8	12.9	13.7
ROA (%)	9.3	5.8	4.7	6.6	7.2
PER (x)	18.5	19.1	22.1	15.6	13.5
PBV (x)	2.4	2.2	2.1	1.9	1.8
EV/EBITDA (x)	11.0	7.9	8.1	6.4	5.7
Div Yield (%)	2.1	2.1	1.4	2.6	3.3

Source: Company, KB Valbury Sekuritas

Figure 1: ICBP Forecast changes and segmentation revenue

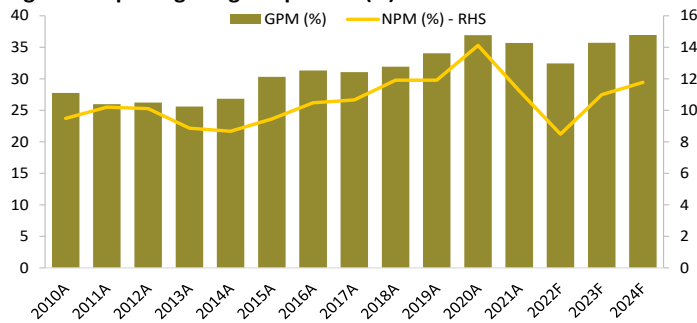
Forecast changes	New		Original		Diff		Street		Diff	
	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
Revenue	71,361	76,713	71,133	76,112	0.3%	0.8%	71,880	78,337	-0.7%	-2.1%
COGS	45,880	48,363	46,755	49,100	-1.9%	-1.5%	47,045	50,480	-2.5%	-4.2%
Gross profit	25,481	28,350	24,377	27,012	4.5%	5.0%	21,564	24,835	18.2%	14.2%
EBIT	14,667	16,316	13,857	16,075	5.8%	1.5%	14,130	15,876	3.8%	2.8%
EBITDA	15,962	17,630	15,152	17,389	5.3%	1.4%	15,752	17,734	1.3%	-0.6%
Pretax profit	12,266	14,126	10,305	12,664	19.0%	11.6%	12,333	14,325	-0.5%	-1.4%
Net profit	7,845	9,035	6,591	8,100	19.0%	11.6%	7,872	9,127	-0.3%	-1.0%

Source: Company, KB Valbury Sekuritas

Segmentation Revenue	2015	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
Noodles	20,682	22,167	22,680	24,732	27,031	31,152	39,926	45,715	50,310	54,083
Dairy	5,880	6,803	7,085	7,541	8,046	8,125	8,947	10,021	10,704	11,507
Snack Foods	1,956	2,254	2,545	2,528	2,561	2,839	3,309	3,805	4,282	4,603
Food Seasonings	778	817	863	943	1,794	2,266	2,232	2,679	2,854	3,069
Nutrition & Special Food	606	662	719	838	981	999	1,048	1,363	1,427	1,534
Beverages	1,839	1,672	1,716	1,832	1,884	1,258	1,342	1,677	1,784	1,918
Total	31,741	34,375	35,607	38,413	42,297	46,641	56,804	65,259	71,361	76,713

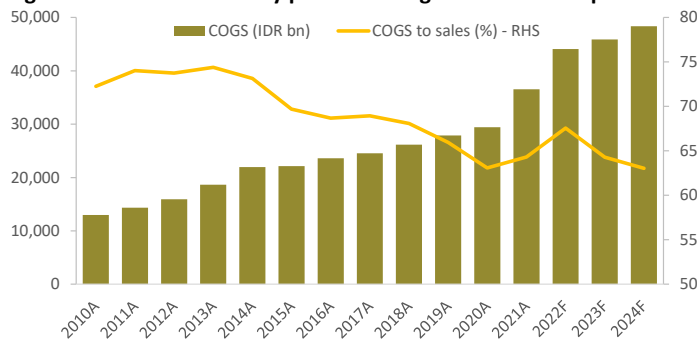
Source: Company, KB Valbury Sekuritas

Figure 2: Expecting margin expansion (%)



Source: Company, KB Valbury Sekuritas

Figure 4: Softer commodity price resulting to lower cost input



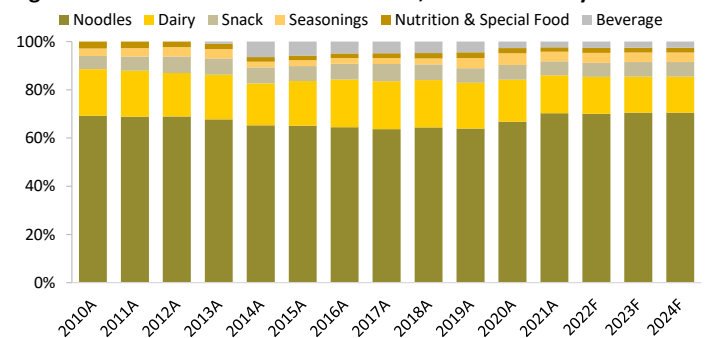
Source: Company, KB Valbury Sekuritas

Figure 6: Stable low CPO prices will benefit cost input



Source: Bloomberg, KB Valbury Sekuritas

Figure 3: Noodles remains as the backbone, with better dairy and snack



Source: Company, KB Valbury Sekuritas

Figure 5: Stable low wheat prices will benefit cost input



Source: Bloomberg, KB Valbury Sekuritas

Figure 7: Expecting potential rerating to its 5-year historical mean



Source: Bloomberg, KB Valbury Sekuritas

Indofood CBP (ICBP)

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year End Dec (IDR bn)	2020A	2021A	2022F	2023F	2024F
Revenues	46,641	56,804	65,259	71,361	76,713
Cost of revenues	(29,417)	(36,526)	(44,096)	(45,880)	(48,363)
Gross profit	17,224	20,277	21,163	25,481	28,350
Operating expenses	(8,107)	(8,742)	(9,289)	(10,814)	(12,034)
Operating profit	9,117	11,535	11,874	14,667	16,316
EBITDA	10,230	12,806	13,153	15,962	17,630
Other income/(expenses)	84	124	657	783	961
Net finance income/expenses	758	(1,723)	(3,878)	(3,184)	(3,151)
Pretax profit	9,959	9,935	8,654	12,266	14,126
Tax Expenses	(2,540)	(2,035)	(1,904)	(2,699)	(3,108)
Minorities interest	(832)	(1,512)	(1,215)	(1,722)	(1,983)
Net profit	6,587	6,388	5,535	7,845	9,035

Source: Company, KB Valbury Sekuritas

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Year End Dec (IDR bn)	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash and other investments	9,535	20,662	16,276	20,362	22,398
Receivables	5,747	6,834	8,939	9,560	10,251
Inventories	4,587	5,857	6,392	7,618	10,633
Other current assets	847	644	1,094	980	1,054
Total current assets	20,716	33,998	32,701	38,519	44,335
Non-current assets					
Deferred tax assets	478	427	376	346	329
Long term investments	10,645	11,069	11,091	11,202	11,258
Fixed assets	13,351	14,176	14,247	14,532	14,677
Rights of use assets	255	208	235	224	215
Deferred charges - net	86	63	50	46	42
Goodwill	54,006	54,006	54,006	54,006	54,006
Intangible assets	1,859	1,726	1,657	1,574	1,527
Other non current assets	2,192	2,395	2,419	2,201	2,421
Total non-current assets	82,872	84,069	84,080	84,130	84,474
Total assets	103,588	118,067	116,781	122,649	128,809
Current liabilities					
Short-term debts	513	515	180	189	191
Payables	3,907	4,552	5,469	5,267	5,766
Curr matt LT Loans	213	323	387	445	512
Other current liabilities	4,544	13,507	3,845	4,144	4,394
Total current liabilities	9,176	18,896	9,882	10,045	10,863
Non-current liabilities					
Long-term debts	30,773	1,779	1,868	1,962	1,981
Bonds payable	0	38,952	42,847	43,918	44,357
Other non-current liabilities	13,321	3,716	3,548	3,459	3,374
Total non-current liabilities	44,094	44,447	48,262	49,338	49,712
Minority interests	20,888	20,842	20,842	20,842	20,842
Shareholder's Equity	29,430	33,882	37,794	42,423	47,392
Total liabilities and equity	103,588	118,067	116,781	122,649	128,809

Source: Company, KB Valbury Sekuritas

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Year End Dec	2020A	2021A	2022F	2023F	2024F
Net profit	6,587	6,388	5,535	7,845	9,035
Depreciation & amortization	1,112	1,271	1,279	1,295	1,314
Changes in working capital	(458)	7,191	(11,882)	(1,710)	(3,122)
CF from operating activities	7,242	14,850	(5,068)	7,430	7,228
Decr. (incr.) in fixed assets	(3,121)	(2,096)	(1,350)	(1,580)	(1,460)
Decr. (incr.) in non-current assets	(59,010)	(169)	84	18	21
Other investing activities	231	(203)	(24)	218	(220)
CF from investing activities	(61,900)	(2,468)	(1,290)	(1,345)	(1,659)
Net change in gross debt	29,142	10,070	3,714	1,232	527
Dividends paid	(2,507)	(2,507)	(1,660)	(3,217)	(4,066)
Other financing activities	29,200	(9,102)	(82)	(86)	(83)
CF from financing activities	55,835	(1,540)	1,972	(2,071)	(3,621)
Net Changes in Cash	1,176	10,843	(4,387)	4,015	1,948
Cash at beginning of period	8,359	9,535	20,378	15,991	20,006
Cash at end of period	9,535	20,378	15,991	20,006	21,954

Source: Company, KB Valbury Sekuritas

KEY RATIO

Year End Dec	2020A	2021A	2022F	2023F	2024F
Gross profit margin (%)	36.9	35.7	32.4	35.7	37.0
Operating profit margin (%)	19.5	20.3	18.2	20.6	21.3
EBITDA margin	21.9	22.5	20.2	22.4	23.0
Net profit margin (%)	14.1	11.2	8.5	11.0	11.8
ROAE (%)	17.1	12.2	9.8	12.9	13.7
ROAA (%)	9.3	5.8	4.7	6.6	7.2
DER (x)	107.8	123.2	120.4	110.1	99.7
Net (cash) gearing (x)	44.1	39.0	50.3	42.2	37.1
Interest coverage ratio (x)	15.3	6.5	3.2	4.6	5.1
PER (x)	18.5	19.1	22.1	15.6	13.5
PBV (x)	2.4	2.2	2.1	1.9	1.8
EV/EBITDA (x)	11.0	7.9	8.1	6.4	5.7
Dividend Yield (%)	2.1	2.1	1.4	2.6	3.3

Source: Company, KB Valbury Sekuritas

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