

## Unilever Indonesia (UNVR)

Poor 1Q23 yoy, stronger qoq

16 May 2023



Unilever

<b>UNVR IJ</b>	<b>HOLD</b>
Sector	Consumer
Price at 15 May 2023 (IDR)	4,500
Price target (IDR)	4,580
Upside/Downside (%)	1.8

## Stock Information

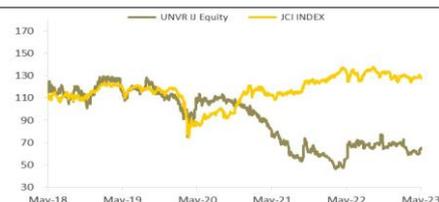
Unilever Indonesia (UNVR) has grown to become one of Indonesia's Fast Moving Consumer Goods (FMCG) company, manufacturers detergent, soaps, margarine, dairy based foods, ice cream, cosmetics and many more. The company has more than 40 brands which most of the products has a strong presence and well-known worldwide.

Market cap (IDR bn)	171,675
Shares outstanding (mn)	38,150
52w range (IDR)	3,960-5,475
3M average daily vol. ('000)	14,355
3M average daily val. (IDR mn)	61,370

## Shareholders (%)

Unilever Indonesia	85.0
Public	15.0

## Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance (%)	8.4	(0.4)	(6.3)

## Analyst(s)

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We expect UNVR soon to be able to take the benefit from continuing lower commodity prices expectation this year which will resulting to an improving margin. Lower cost input could provide stronger earnings power and at the same time cushioned its limited ability to increase ASP in the middle of uninterrupted stiffer competition among FMCG manufacturers. We also view, focus on value brands would bring greater advantage to earnings visibility. YTD stock underperformance seems has fairly priced-in its fundamental. Maintain HOLD with TP of IDR4,580 (27.9x '23F P/E), while it is currently trading at 27.4x '23F P/E, or below its -1SD of 10-yr historical mean of 30.4x P/E

## Poor 1Q23 result, came below KBVs and street expectation

UNVR booked 1Q23 net profit of IDR1.40 tn, faded by 30.5% yoy, on the back of inched drop in top line by 2.2% yoy (HPC -4.3% yoy, +2.0% qoq) and higher opex by 28.1% yoy. The weakening earnings which caused by sluggish sales growth was mainly as a result of UNVR's policy to reducing trade stock channel (since 2H22) both in modern and traditional channels. The mounting opex was triggered by rising marketing and sales expenses by 18.4% yoy which leads by A&P expenses acceleration by 15.4% yoy and 20.1% yoy, aside from surging G&A expenses of +57.6% yoy which mainly driven by a sharp increase on trademark / royalty fees by 79.7% yoy. PATMI in 1Q23 arrived below ours and street forecast at 22.4%/22.2%, whereas in 5-year historical average, 1Q contribution to full year figures is around 27.4%.

## Stronger qoq results on solid topline and lower cost

Despite the yoy poor results, on quarterly basis, 1Q23 results demonstrates solid growth from top to bottom with net sales noted 9.6% qoq higher. Lower cost input by 3.3% qoq coupled with manageable opex at 9.8% qoq (28.1% yoy) has overall underpinned net profit growth which surged 86.7% qoq. Worth noting that UNVR's first quarter result at IDR1.40 tn was beating KBVs 1Q23F for UNVR around 2.9% at IDR1.36 tn. We expect 2Q23 result will get better on the back of continuing muted commodity price hikes and potential stock normalization along with uninterrupted innovation as well as stronger product portfolio. On this back drop, we might see '23F net profit to arrive at IDR6.26 tn or 16.7% yoy (cons. '23F growth for UNVR at 18.3% yoy).

## Distressed yoy margin, yet improving on quarterly basis

The company saw declining margin year-on-year across the board in 1Q23. GPM was at 49.3% slid by 70bps yoy, with EBIT squeezed hardly by 680bps to 17.5% vs 24.4% a year earlier, while NPM shrunk to 13.3% from 18.6% in 1Q22. Nonetheless, profitability was improving qoq from top to bottom with GPM rising by 6.8% from 42.6% in 4Q22. Likewise for EBIT margin which saw 670bps improvement to 17.5% vs 10.8% in 4Q22, while NPM arrived at 13.3% or 550bps higher compared to previous quarter at only 7.8%. We expecting '23F GPM margin could improve by approximately 3.5% (cons at around 3%), while NPM likely to record at 14.4%.

## Benefit from lower commodity price will soon kick-in

We highly expecting the company starts to get benefit from continuing softer commodity price expectation this year, despite our assumption that volume growth seems would not rising that much as competition remain intense and limited ASP increase may not be able also to boost margins. UNVR consistently will focus on its five priority strategies which are: (1) unlocking potential value from its main brand (2) enriching and widening product portfolio to premium and value segment (3) strengthening position in both GT and MT as well as future promising channel such as e-commerce (4) implementing e-everything in all business line and (5) remain as a pioneer in sustainability business improvement.

## Maintain HOLD with target price of IDR4,580

Aside from DCF as a commonly used valuation, we also run another 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). Risks to our call: a) lower-than-expected purchasing power, volume and asp growth, b) higher than expected input costs which could pressure and dragged down margin further, 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)	29.2	31.3	26.8	25.0	24.4
PBV (x)	38.8	42.0	32.6	30.7	30.1
EV/EBITDA (x)	20.5	21.9	18.2	16.8	16.6
Div Yield (%)	3.4	1.6	3.0	3.8	4.0

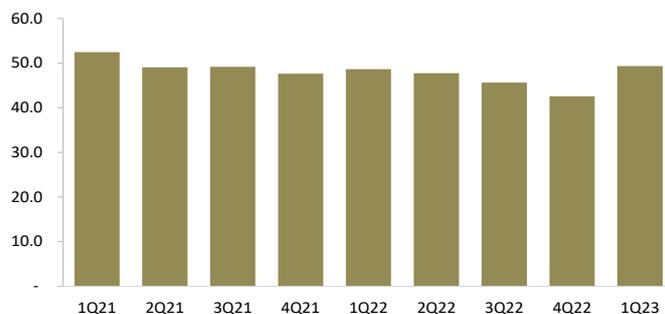
Source: Company, KB Valbury Sekuritas

**Figure 1: UNVR 3M23 financials results**

UNVR 3M22 Results (IDRbn)	3M22	3M23	YoY (%)	1Q22	1Q23	YoY (%)	4Q22	QoQ (%)	2023F	% to '23F	Cons'	% to Cons'
Revenue	10,838	10,605	(2.2)	10,838	10,605	(2.2)	9,680	9.6	43,403	24.4	46,307	22.9
COGS	(5,565)	(5,375)	(3.4)	(5,565)	(5,375)	(3.4)	(5,560)	(3.3)	(21,691)		(23,560)	
Gross Profit	5,273	5,230	(0.8)	5,273	5,230	(0.8)	4,120	27.0	21,712	24.1	22,747	23.0
Opex	(2,633)	(3,372)	28.1	(2,633)	(3,372)	28.1	(3,071)	9.8	(13,317)		0	
EBIT	2,640	1,858	(29.6)	2,640	1,858	(29.6)	1,049	77.1	8,395	22.1	8,325	22.3
Other income (exp.)	(32)	(40)	26.0	(32)	(40)	26.0	(23)	72.4	(46)			
Pre-tax income	2,608	1,817	(30.3)	2,608	1,817	(30.3)	1,026	77.2	8,348			
Net Income	2,021	1,405	(30.5)	2,021	1,405	(30.5)	753	86.7	6,261	22.4	6,344	22.2
<b>Segmentation (IDRbn)</b>												
Home and Personal Care	7,129	6,823	(4.3)	7,129	6,823	(4.3)	6,419	6.3	28,496	23.9		
Foods & Refreshment	3,709	3,782	2.0	3,709	3,782	2.0	3,260	16.0	14,907	25.4		
<b>Margins (%)</b>												
Gross Profit	48.7	49.3	0.7	48.7	49.3	0.7	42.6	6.8				
EBIT	24.4	17.5	(6.8)	24.4	17.5	(6.8)	10.8	6.7				
Pretax	24.1	17.1	(6.9)	24.1	17.1	(6.9)	10.6	6.5				
Net Profit	18.6	13.3	(5.4)	18.6	13.3	(5.4)	7.8	5.5				

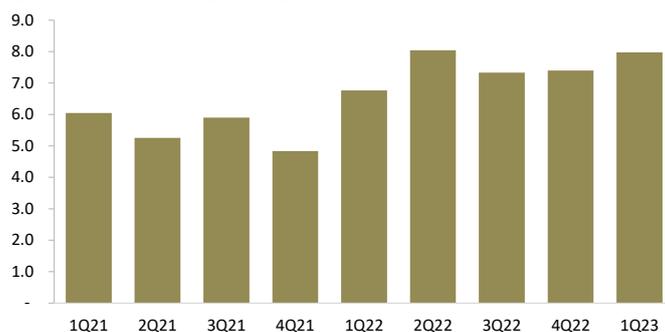
Source: Company, KB Valbury Sekuritas

**Figure 2: Expecting improving GPM on lower cost input (%)**



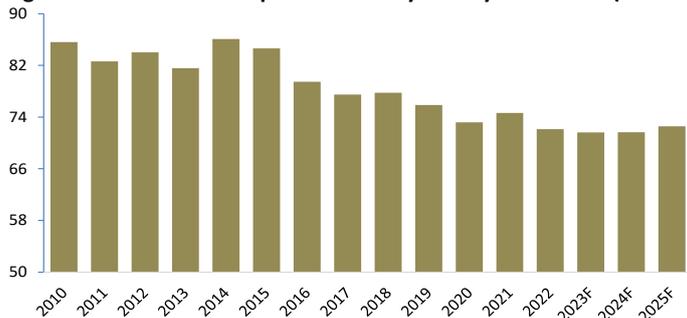
Source: Company, KB Valbury Sekuritas

**Figure 4: Acceptable growing ADEX to maintain brand equity (% to sales)**



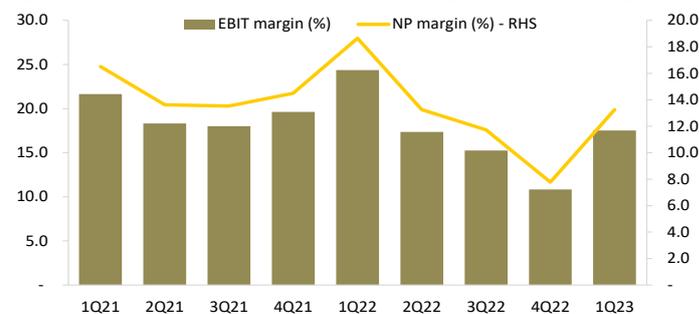
Source: Company, KB Valbury Sekuritas

**Figure 6: Softened cost input hikes catalyst likely to remains (% to COGS)**



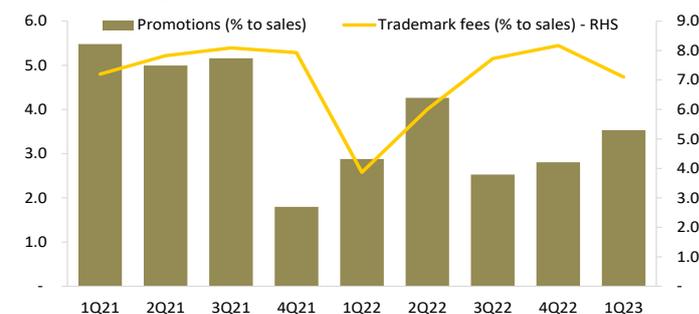
Source: Bloomberg, KB Valbury Sekuritas

**Figure 3: With lower opex to overall supporting EBIT and NP margin (%)**



Source: Company, KB Valbury Sekuritas

**Figure 5: Manageable royalty fees and stable promotions (% to sales)**



Source: Bloomberg, KB Valbury Sekuritas

**Figure 7: At 27.4 x '23F P/E, below -1SD 10-year hist mean of 30.4x**



Source: Bloomberg, KB Valbury Sekuritas

# Unilever Indonesia (UNVR)

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
<b>Revenues</b>	<b>39,546</b>	<b>41,219</b>	<b>43,403</b>	<b>45,549</b>	<b>48,387</b>
Cost of revenues	(19,920)	(22,154)	(21,691)	(22,331)	(23,844)
<b>Gross profit</b>	<b>19,626</b>	<b>19,065</b>	<b>21,712</b>	<b>23,217</b>	<b>24,543</b>
Operating expenses	(11,947)	(11,996)	(13,317)	(14,173)	(15,371)
<b>EBIT</b>	<b>7,679</b>	<b>7,069</b>	<b>8,395</b>	<b>9,045</b>	<b>9,172</b>
<b>EBITDA</b>	<b>8,256</b>	<b>7,660</b>	<b>9,235</b>	<b>9,991</b>	<b>10,052</b>
Other income/(expenses)	(183)	(75)	(46)	(81)	(8)
<b>Pretax profit</b>	<b>7,497</b>	<b>6,994</b>	<b>8,348</b>	<b>8,964</b>	<b>9,164</b>
Tax Expenses	(1,738)	(1,629)	(2,087)	(2,241)	(2,291)
Minorities interest	0	0	0	0	0
<b>Net profit</b>	<b>5,758</b>	<b>5,365</b>	<b>6,261</b>	<b>6,723</b>	<b>6,873</b>

Source: Company, KB Valbury Sekuritas

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Year End Dec (IDR bn)	2021A	2022A	2023F	2024F	2025F
<b>Current assets</b>					
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
<b>Total current assets</b>	<b>7,642</b>	<b>7,568</b>	<b>8,435</b>	<b>8,913</b>	<b>10,014</b>
<b>Non-current assets</b>					
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
<b>Total non-current assets</b>	<b>11,426</b>	<b>10,750</b>	<b>10,955</b>	<b>10,407</b>	<b>9,978</b>
<b>Total assets</b>	<b>19,069</b>	<b>18,318</b>	<b>19,390</b>	<b>19,320</b>	<b>19,993</b>
<b>Current liabilities</b>					
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
<b>Total current liabilities</b>	<b>12,445</b>	<b>12,442</b>	<b>11,373</b>	<b>10,847</b>	<b>11,358</b>
<b>Non-current liabilities</b>					
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
<b>Total non-current liabilities</b>	<b>2,302</b>	<b>1,879</b>	<b>2,869</b>	<b>3,002</b>	<b>3,058</b>
Total liabilities	14,747	14,321	14,242	13,849	14,416
<b>Shareholder's Equity</b>	<b>4,321</b>	<b>3,997</b>	<b>5,148</b>	<b>5,471</b>	<b>5,577</b>
<b>Total liabilities and equity</b>	<b>19,069</b>	<b>18,318</b>	<b>19,390</b>	<b>19,320</b>	<b>19,993</b>

Source: Company, KB Valbury Sekuritas

## Unilever Indonesia (UNVR)

## 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)
<b>CF from operating activities</b>	<b>9,176</b>	<b>9,159</b>	<b>6,991</b>	<b>9,818</b>	<b>9,611</b>
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)
<b>CF from investing activities</b>	<b>(297)</b>	<b>85</b>	<b>(1,045)</b>	<b>(399)</b>	<b>(452)</b>
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)
<b>CF from financing activities</b>	<b>(9,398)</b>	<b>(9,066)</b>	<b>(5,853)</b>	<b>(9,339)</b>	<b>(9,110)</b>
Net Changes in Cash	(519)	178	93	80	49
Cash at beginning of period	844	325	503	596	676
<b>Cash at end of period</b>	<b>325</b>	<b>503</b>	<b>596</b>	<b>676</b>	<b>726</b>

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)	29.2	31.3	26.8	25.0	24.4
PBV (x)	38.8	42.0	32.6	30.7	30.1
EV/EBITDA (x)	20.5	21.9	18.2	16.8	16.6
Dividend Yield (%)	3.4	1.6	3.0	3.8	4.0

Source: Company, KB Valbury Sekuritas

# Unilever Indonesia (UNVR)

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