

PT. Indofood CBP Sukses Makmur Tbk.

Investment Consideration

Expecting Noodles growth to offset a downturn in the dairy segment

For 2017, ICBP management has conservative targets for volume and EBIT growth. The noodle, food seasoning and snack divisions are expecting to be stable in line with Indonesia's economic growth while the dairy and beverage divisions are forecast to have lower growth due to higher competition and lower prices of skimmed milk powder and sugar. We expect the noodle division to grow 1%-3% in volume and 14%-15% in EBIT. The dairy division is targeting to grow volume 9%-11%, EBIT 9-11%. The snack division is targeting to grow volume by 15%-17% and EBIT by 4%-5%. In line with management guidance, we are targeting ICBP's net profit 2017F to reach IDR 3.82 trillion or 6% growth.

Focus on 'Premium' products

As the leader in the noodle industry, ICBP is enlarging their premium segment by launching two new premium products in 1Q2017, Indomie Chicken Mushroom Fried Noodles and Indomie Beef Rendang Fried Noodles. With product innovation and new initiatives we believe the noodle division can maintain its market share.

Valuation: TP 9,530 offers 9% Upside

We are targeting ICBP to trade at 26x 2017F PE within a year. Target Price is 9,530, which represents 9% upside. **HOLD**

Profit and Loss (in IDR Bn)	2012 A	2013 A	2014 A	2015 A	2016 A	2017 F	2018 F	2019 F
Net Sales	21,717	25,095	30,022	31,741	34,466	38,196	42,214	46,801
Cost of Sales	(15,913)	(18,669)	(21,963)	(22,122)	(23,607)	(26,355)	(29,127)	(32,292)
Gross Profit	5,804	6,426	8,060	9,619	10,859	11,841	13,086	14,508
Operating Expense	(3,190)	(4,119)	(5,375)	(6,213)	(6,485)	(7,257)	(8,021)	(8,892)
Operating income	2,614	2,306	2,685	3,407	4,375	4,584	5,066	5,616
Other Income	421	661	704	603	615	764	844	936
PBT	3,034	2,967	3,389	4,010	4,989	5,347	5,910	6,552
Taxes	(745)	(734)	(857)	(1,086)	(1,358)	(1,497)	(1,596)	(1,769)
NIAT	2,289	2,233	2,532	2,923	3,631	3,850	4,314	4,783
Minority Interest	103	10	(73)	78	(31)	(34)	(38)	(42)
Net Profit	2,180	2,225	2,604	3,001	3,600	3,816	4,276	4,741
EPS (in IDR)	374	382	447	515	309	327	367	407
EBITDA	3,338	3,455	3,947	4,872	5,773	5,896	6,479	7,164

Source: Company and Binaartha

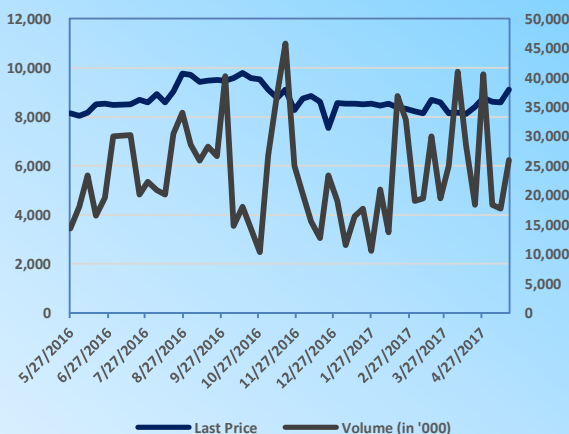
May 22, 2017

Consumer Food– Food and Beverage

Price IDR 8,750

Target Price IDR 9,530

JKSE Index 5,749.445



Stock Information

Bloomberg Code	ICBP IJ
Market Cap (IDR bn)	104,082.5
52-week high (IDR)	10,275
52-week low (IDR)	7,550
Shares issued (mn)	11,661.9
6-m avg. daily Val (IDR)	8,479
Free float	19.47%

Major share holders

PT Indofood Sukses Makmur	80.53%
Public	19.47%

USD/ IDR – YE (IDR)

2016	13,436
2017F (6m-avg)	13,358

Key Indicators 2018F

Tot. Debt/Equity (x)	0.55
Curent Ratio (x)	2.48
ROE (%)	18.5

Analyst

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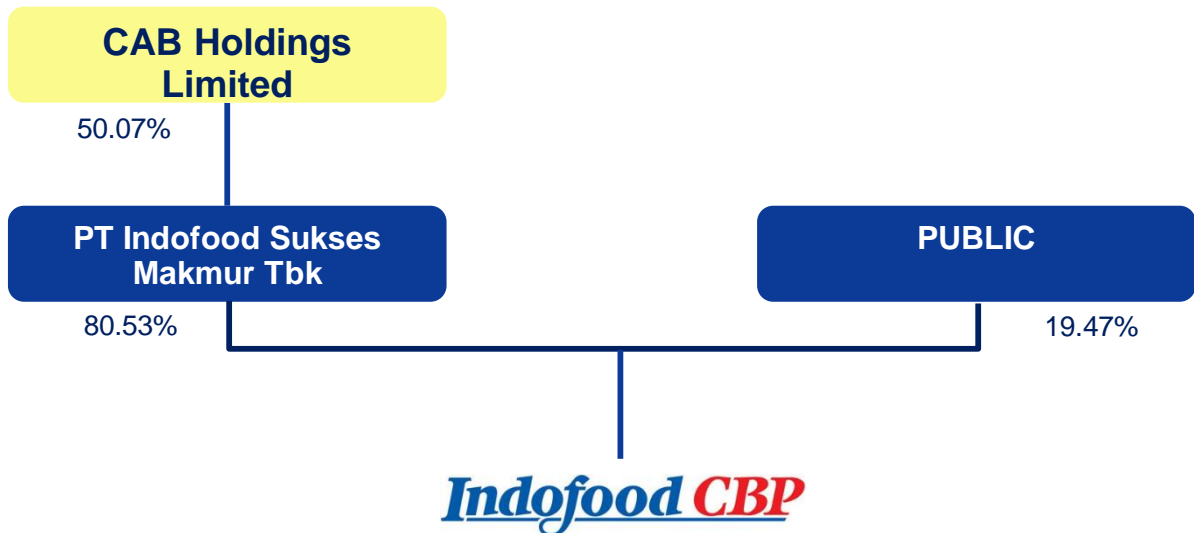
Company Profile

PT Indofood CBP Sukses Makmur Tbk has been The Consumer Branded Products (CBP) group of PT Indofood Sukses Makmur Tbk, its parent company, since 1982. The company started in the noodles business in 1982 and the nutrition and special foods business in 1985. In 1990 the Company started the snack foods business through a joint venture with Fritolay Netherlands Holding B.V and started the food seasonings business in 1991. During the 2000s, the company expanded into the biscuit business, the dairy business, the beverage business, through a joint venture with Asahi Group Holding Southeast Asia Pte. Ltd, and the packaged water business through the acquisition of the Club brand.

The noodle division is the largest contributing division with a 63% share of revenue in the first quarter of 2017. As the leading manufacturer with several well know brands such as Indomie, Supermi, Sarimi, Sakura, and Pop Mie, the company has an annual production capacity of 18 billion packs of noodles with 17 factories in Indonesia and one factory in Malaysia.

ICBP now has 50 manufacturing plants to support their business operations. With an extensive distribution network, ICBP products are sold not only in Indonesia but also in more than 60 countries around the world.

Company Structure



Company Products and Divisions



Noodles

The Noodles Division is one of the world's largest instant noodles manufactures and the market leader in Indonesia. Indomie is Indonesia's favorite instant noodle brand with 17 factories in Indonesia and Malaysia. Other noodle brands are Supermi, Sakura, Pop Mie, and Mi telur Cap 3 Ayam.



Dairy

The Dairy division has six factories producing and marketing dairy products including sweetened condensed milk (SCM), creamers, ultra-high temperature (UHT) milk, sterilized bottled milk, pasteurized liquid milk, lactic acid beverages, powdered milk, ice creams and butter. Dairy division brands are Indomilk, Cap Enak, Tiga Sapi, Indomilk Kids, milkat, Indoeskrim, and Orchid Butter.



Snack Foods

The Snack Foods Division comprises two business units, snack foods and biscuits. The products are marketed under the Chitato, Lay's, Qtela, Cheetos, Jetz, and Chiki brands.



Food Seasonings

ICBP together with Nestle S.A built a joint venture company namely PT Nestle Indofood Citrarasa Indonesia (NICI) which is the group's Food Seasonings division. It produces sauces like tomato sauce, paste and instant seasonings under the Indofood, Piring Lombok, Indofood Racik and Maggi brands.



Nutrition & Special Foods

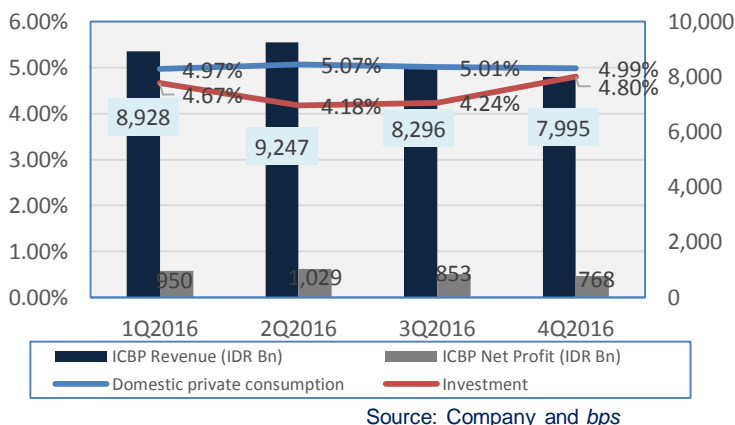
The Nutrition & Special Foods Divisions produce and market specialty nutritional foods such as cereals, biscuits, puddings, and milk. The brands are Promina, SUN, and Govit.



Beverages

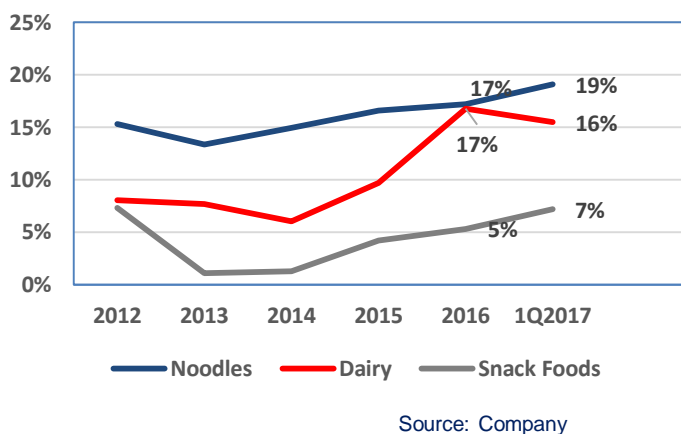
The Beverage Division is operated by two joint ventures between Asahi and ICBP called PT Indofood Asahi Sukses Beverage (IASB) and PT Asahi Indofood Beverage Makmur (AIBM). IASB is responsible for commercial operations, while AIBM manufactures the beverages. The brands are Ichi Ocha, Tekita, Cafela, Club, Pepsi, Sting and Fruitamin.

I. Domestic private consumption, Investment in Indonesia, **Expecting Noodles growth to offset a downturn in the dairy segment**
 ICBP's Revenue and Net Profit QoQ



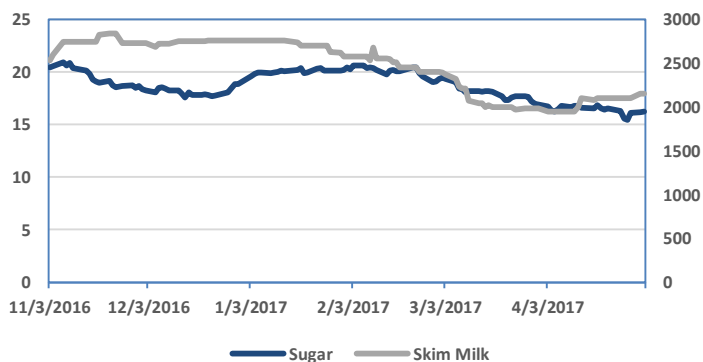
The consumer food sector in Indonesia has a seasonal trend depending on holidays like the Lebaran holidays. This year Lebaran falls in the last month of the second quarter, June. This will greatly affect domestic private consumption in the second quarter of 2017 and therefore ICBP as one of the companies engaged in the consumer food industry. Looking at last year's sales, ICBP sales in 2Q2016 were higher than in the other quarters at IDR 9.24 trillion, in line with the increase in domestic private consumption in 2Q2016 by 5.07%. ICBP's 1Q2017 results were better than 1Q2016. Sales grew 6% to IDR 9.45 trillion and net profit grew 14.4% to Rp 1.1 trillion. We expect that 2Q2017 will be better than 2Q2016 and will positively affect the sales growth and net profit of ICBP for the full year 2017.

II. EBIT Margin by Segment YoY



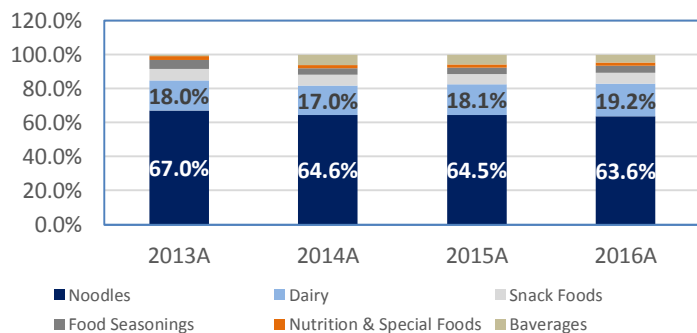
For 2017, ICBP management has conservative targets for volume and EBIT growth. The noodle, food seasoning and snack divisions are expecting to be stable in line with Indonesia's economic growth while the dairy and beverage divisions are forecast to have lower growth due to higher competition and lower prices of skimmed milk powder and sugar. We expect the noodle division to grow 1%-3% in volume and 14%-15% in EBIT. The dairy division to grow volume 9%-11% and EBIT 9-11%. The snack division is targeting growth of 15%-17% in volume and 4%-5% in EBIT. The nutrition and Special food division should see volume growth of 6%-8% and EBIT growth of 2%-4%. The beverage division is targeting to grow 15%-20% by volume and EBIT -10% to -12%. In line with management guidance, we are targeting ICBP's net profit 2017F to reach IDR 3.82 trillion or 6% growth.

III. Skim Milk Prices and Sugar Prices



Source: bloomberg

IV. Contribution by Segment YoY

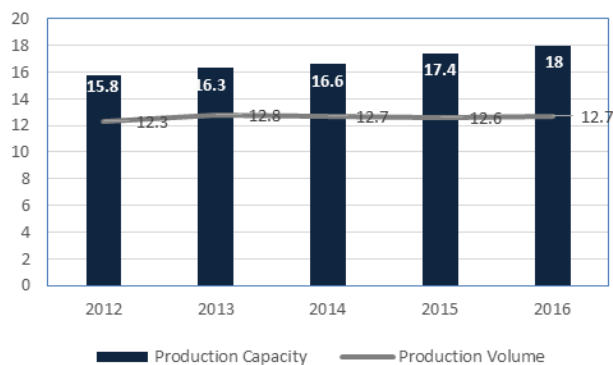


Source: Company

Focus on 'Premium' products

As the leader in the noodle industry, ICBP is enlarging their premium segment by launching two new premium products in 1Q2017, Indomie Chicken Mushroom Fried Noodles and Indomie Beef Rendang Fried Noodles. Premium products will help strengthen the company presence in modern retail outlets (Supermarket, hypermarket and mini market). In addition to expanding in the premium segment, the noodle division is also expanding their range of regional flavors with Indomie Goreng Tahu Tek Tek, Indomie Tengkleng, Indomie Goreng Soto, Indomie Goreng Ayam, Supermi Opor Ayam, Sarimi Tongseng Ayam, Sarimi Gulai Ayam and Sarimi Gelas Kari Ayam. With product innovation and new initiatives we believe the noodle division can maintain its market share.

V. Instant Noodles Production volume and production capacity YoY (in Mn packs)



Source: Company

Valuation: TP 9,530 gives 9% Upside

Compared to its peers, ICBP had the highest margin in 1Q2017 with a gross profit margin of 31.5%, operating profit margin of 16.0% and net profit margin of 11.5%. We are targeting ICBP to trade at 26x 2017F PE within a year. Our Target Price 9,530 represents 9% upside. HOLD

VI. Margin Peers Comparison 1Q2016 vs 1Q2017

Peers comparison	1Q2016			1Q2017		
	GPM	OPM	NPM	GPM	OPM	NPM
ICBP	31.5%	15.0%	10.6%	31.5%	16.0%	11.5%
INDF	27.9%	11.4%	6.6%	30.1%	14.5%	6.8%
MYOR	28.5%	13.1%	6.9%	23.9%	11.8%	7.3%

Source: Company, Binaartha

VII. Profit and Loss YoY (in IDR Bn)

Profit and Loss (in IDR Bn)	2010 A	2011 A	2012 A	2013 A	2014 A	2015 A	2016 A	2017 F	2018 F	2019 F
Net Sales	17,960	19,367	21,717	25,095	30,022	31,741	34,466	38,196	42,214	46,801
Cost of Sales	(12,977)	(14,336)	(15,913)	(18,669)	(21,963)	(22,122)	(23,607)	(26,355)	(29,127)	(32,292)
Gross Profit	4,983	5,031	5,804	6,426	8,060	9,619	10,859	11,841	13,086	14,508
Operating Expense	(2,657)	(2,597)	(3,190)	(4,119)	(5,375)	(6,213)	(6,485)	(7,257)	(8,021)	(8,892)
Operating income	2,326	2,435	2,614	2,306	2,685	3,407	4,375	4,584	5,066	5,616
Other Income	193	310	421	661	704	603	615	764	844	936
PBT	2,519	2,745	3,034	2,967	3,389	4,010	4,989	5,347	5,910	6,552
Taxes	(667)	(679)	(745)	(734)	(857)	(1,086)	(1,358)	(1,497)	(1,596)	(1,769)
NIAT	1,852	2,066	2,289	2,233	2,532	2,923	3,631	3,850	4,314	4,783
Minority Interest	124	91	103	10	(73)	78	(31)	(34)	(38)	(42)
Net Profit	1,704	1,975	2,180	2,225	2,604	3,001	3,600	3,816	4,276	4,741
EPS (in IDR)	344	339	374	382	447	515	309	327	367	407
EBITDA	2,810	3,018	3,338	3,455	3,947	4,872	5,773	5,896	6,479	7,164

Source: Company, Binaartha

VIII. Ratio Highlights

	2011A	2012A	2013A	2014A	2015A	2016A	2017F	2018F	2019F
Growth (% YoY)									
Sales	7.8%	12.1%	15.6%	19.6%	5.7%	8.6%	10.8%	10.5%	10.9%
OP	4.7%	7.3%	-11.8%	16.4%	26.9%	28.4%	4.8%	10.5%	10.9%
EBITDA	7.4%	10.6%	3.5%	14.2%	23.5%	18.5%	2.1%	9.9%	10.6%
NP	15.9%	10.3%	2.1%	17.0%	15.2%	20.0%	6.0%	12.1%	10.9%
EPS	-1.5%	10.3%	2.1%	17.0%	15.2%	-40.0%	6.0%	12.1%	10.9%
Profitability									
Gross Margin	26.0%	26.7%	25.6%	26.8%	30.3%	31.5%	31.0%	31.0%	31.0%
Operating Margin(%)	12.6%	12.0%	9.2%	8.9%	10.7%	12.7%	12.0%	12.0%	12.0%
EBITDA margin(%)	15.6%	15.4%	13.8%	13.1%	15.4%	16.8%	15.4%	15.3%	15.3%
NET Profit margin(%)	10.2%	10.0%	8.9%	8.7%	9.5%	10.4%	10.0%	10.1%	10.1%
ROA(%)	12.9%	12.2%	10.5%	10.5%	11.3%	12.5%	11.8%	11.5%	11.6%
ROE(%)	19.4%	19.1%	17.7%	18.5%	19.4%	20.5%	19.1%	18.5%	18.7%
Solvability (x)									
Tot. debt/ Tot.equity	0.46	0.51	0.64	0.70	0.66	0.59	0.57	0.55	0.56
Debt Ratio	3.30	3.05	2.66	2.52	2.61	2.78	2.86	2.91	2.88
Liquidity (x)									
Current Ratio	2.78	2.72	2.41	2.18	2.33	2.41	2.44	2.48	2.45
Cash Ratio	1.42	1.50	1.18	1.18	1.28	1.29	1.30	1.27	1.25

Source: Company, Binaartha

Stock Ratings:

- Buy : a recommendation to purchase the security with upside potential of **20% or greater**
Hold : a recommendation to neither buy nor sell a security with upside potential of **0-19%**.
Sell : a recommendation to close out a long position in a security with upside potential **below 0% or negative**.

RESEARCH TEAM
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