

**PT. Indofood CBP Sukses Makmur Tbk.**

**BUY**

**Investment Considerations**

**Negative Acquisition Sentiment**

- ICBP plans to acquire Pinehill Company Limited (PCL) Group from Pinehill Corpora Limited (PCoL) and Steele Lake Limited (SLL) and the value of the proposed transaction is USD 2.99 billion or equivalent to IDR 41.68 trillion (using the exchange rate of IDR 13,901/ USD).
- There is negative sentiment because the value is pricey compared to the book equity of USD 2.65 billion or equivalent to IDR 39.8 trillion.
- After this transaction, ICBP 's debt will surge with additional debt of around IDR 37 trillion. The funds will come from internal cash of USD 300 million and external funds (bank loans) of USD 2.69 billion or IDR 37 trillion.
- PCL is owned 49% by Anthony Salim, and primary engages in the instant noodle industry as a producer and holder of Indomie brand licenses in Saudi Arabia, Nigeria, Ghana, Turkey, Egypt, Kenya, Marocco, and Serbia. With the acquisition, ICBP will therefore enlarge its global market.
- ICBP is still waiting for investor approval through a second EGM on 3 August, after the EGM on July 15 was postponed.

**Double Digit Growth**

- Despite the covid-19 outbreak, ICBP net sales grew 7% to IDR 12 trillion. In 1Q2020. Noodles are still the largest contributor at 63.7%, followed by Dairy at 18%, Snack Foods at 6.2%, Food Seasonings at 6.9%, Nutrition & Special Foods at 2.1% and Beverages at 3.3%. Snack Foods and Beverage recorded positive operating income in 1Q2020 of IDR 97 billion and IDR 17 billion respectively after experiencing operating losses for the last 3 years.
- Snack food and beverage EBIT margins improved from -4% and -10.3% in 1Q2019 to 12.6% and 4.1% respectively.
- Gross profit recorded double digit growth of 10.4% to IDR 4.18 trillion as cost of sales was well managed with 4.8% growth. This resulted in a higher GPM of 34.8% in 1Q2020.
- Operating income also grew 24.6% to IDR 2.8 trillion helped by gains on foreign exchange of IDR 584.2 billion. OPM was higher at 23.3% compared to 17.4% in 1Q2019.
- This all resulted in double-digit bottom line growth of 48.3% to IDR 1.9 trillion.
- We target ICBP can maintain single digit sales growth to IDR 45.5 in 2020F as they enlarge their market. We do expect higher interest costs because of higher debt from the acquisition.

**Valuation: BUY with TP 11,800**

- We are targeting ICBP to reach IDR 11,800 or 29% upside, which is a 23x PE valuation within one year. Maintain BUY.

Consumer Goods, Food and Beverage  
30 July 2020

Price	IDR.	9,125
Target	IDR.	11,800
JKSE Index		5,111.113



**Stock code**

Bloomberg code	ICBP IJ
Market cap (in Bn)	105,540
52-week high	12,250
52-week low	7,750
6-m avg.dail.val (IDR)	9,838
Free Float (%)	19.47%

**Major Share Holders (%)**

PT Indofood Sukses Makmur Tbk	80.53%
Public	19.47%

**USD/IDR-YE**

2019	14,390
2020F (6m-avg)	14,334

Analyst:  
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Financial Highlights	2016A	2017A	2018A	2019A	2020F	2021F
Net Sales (IDR Bn)	34.375	35.606	38.413	42.297	45.551	49.064
EBITDA (IDR Bn)	5.773	6.035	7.513	8.626	9.257	9.940
Net Profit (IDR Bn)	3.600	3.796	4.576	5.039	5.535	6.050
EPS (IDR)	309	326	392	432	475	519
GPM (%)	31%	31%	32%	34%	35%	35%
OPM (%)	14%	15%	17%	17%	18%	18%
ROE (%)	20%	19%	21%	20%	20%	20%
ROA (%)	12%	12%	13%	13%	13%	13%

Table: Income Statement in IDR. Billion YoY

Income Statement ( in IDR Bn)	2016 A	2017 A	2018 A	2019 A	2020 F	2021 F
<b>Net Sales</b>	<b>34.375</b>	<b>35.606</b>	<b>38.413</b>	<b>42.297</b>	<b>45.551</b>	<b>49.064</b>
Cost of Sales	-23.607	-24.548	-26.148	-27.892	-29.608	-31.892
<b>Gross Profit</b>	<b>10.768</b>	<b>11.058</b>	<b>12.266</b>	<b>14.405</b>	<b>15.943</b>	<b>17.172</b>
Operating Expense	-5.904	-5.837	-5.818	-7.004	-7.744	-8.341
<b>Operating income</b>	<b>4.864</b>	<b>5.221</b>	<b>6.448</b>	<b>7.401</b>	<b>8.199</b>	<b>8.832</b>
Other Income	125	-15	-1	37	-91	-98
<b>PBT</b>	<b>4.989</b>	<b>5.206</b>	<b>6.447</b>	<b>7.438</b>	<b>8.108</b>	<b>8.733</b>
Taxes	-1.358	-1.663	-1.788	-2.077	-2.108	-2.183
<b>NIAT</b>	<b>3.631</b>	<b>3.543</b>	<b>4.659</b>	<b>5.361</b>	<b>6.000</b>	<b>6.550</b>
Minority Interest	-31	253	-83	-321	-465	-500
<b>Net Profit</b>	<b>3.600</b>	<b>3.796</b>	<b>4.576</b>	<b>5.039</b>	<b>5.535</b>	<b>6.050</b>
<b>EPS (in IDR)</b>	<b>309</b>	<b>326</b>	<b>392</b>	<b>432</b>	<b>475</b>	<b>519</b>
<b>EBITDA</b>	<b>5.773</b>	<b>6.035</b>	<b>7.513</b>	<b>8.626</b>	<b>9.257</b>	<b>9.940</b>

Source: Company &amp; Binaartha

Table: Cash Flow in IDR. Billion YoY

Cash Flow (in IDR.bn)	2016A	2017A	2018A	2019A	2020F	2021F
+ Net Income	3.600	3.796	4.576	5.039	5.535	6.050
+Depreciation	605	675	841	1.027	956	1.034
- Change in WC	-428	-225	-1.204	450	48	-178
<b>Cash From Operating Activities</b>	<b>3.777</b>	<b>4.246</b>	<b>4.213</b>	<b>6.516</b>	<b>6.539</b>	<b>6.905</b>
capex	-1.336	-2.385	-6.047	-2.865	-2.314	-3.216
<b>cash from investing activities</b>	<b>-1.336</b>	<b>-2.385</b>	<b>-6.047</b>	<b>-2.865</b>	<b>-2.314</b>	<b>-3.216</b>
Long-term debt	-544	83	-103	850	439	-470
Other Long term liabilities	304	454	60	207	320	365
equity	-1.486	-1.973	-2.192	-1.076	-3.106	-3.178
<b>cash from financing activities</b>	<b>-1.726</b>	<b>-1.437</b>	<b>-2.235</b>	<b>-18</b>	<b>-2.347</b>	<b>-3.283</b>
<b>Net Changes in Cash</b>	<b>715</b>	<b>424</b>	<b>-4.069</b>	<b>3.633</b>	<b>1.878</b>	<b>406</b>
<b>Beginning Balance</b>	<b>7.658</b>	<b>8.372</b>	<b>8.797</b>	<b>4.727</b>	<b>8.359</b>	<b>9.480</b>
<b>Ending balance</b>	<b>8.372</b>	<b>8.796</b>	<b>4.727</b>	<b>8.359</b>	<b>10.237</b>	<b>9.886</b>

Source: Company &amp; Binaartha

Table: Statement of Financial Position in IDR. Billion YoY

Statement of Financial Position (in IDR Bn)	2016A	2017A	2018A	2019A	2020F	2021F
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and Cash Equivalents	8.372	8.797	4.727	8.359	9.480	9.992
Trade Accounts Receivable	3.894	4.126	4.271	4.132	4.100	4.416
Inventories	3.110	3.262	4.001	3.841	3.963	4.269
Others Current Assets	196	395	1.122	293	603	742
<b>Total Current Assets</b>	<b>15.571</b>	<b>16.579</b>	<b>14.122</b>	<b>16.625</b>	<b>18.145</b>	<b>19.417</b>
<b>NONCURRENT ASSETS</b>						
Fixed Assets	7.114	8.120	10.742	11.342	12.298	13.332
Long-term Investment	1.632	2.645	2.705	3.890	3.236	3.775
Other Noncurrent Assets	4.584	4.275	6.799	6.851	7.908	8.518
<b>Total Noncurrent Assets</b>	<b>13.331</b>	<b>15.040</b>	<b>20.246</b>	<b>22.084</b>	<b>23.442</b>	<b>25.624</b>
<b>TOTAL ASSETS</b>	<b>28.902</b>	<b>31.619</b>	<b>34.367</b>	<b>38.709</b>	<b>41.587</b>	<b>45.042</b>
<b>LIABILITIES AND EQUITY</b>						
<b>LIABILITIES</b>						
<b>CURRENT LIABILITIES</b>						
Short-term Bank Loans	573	921	1.058	703	273	491
Trade Account Payable	3.083	3.519	3.706	3.258	3.735	3.925
Others Current Liabilities	2.813	2.387	2.471	2.596	2.996	3.171
<b>Total Current Liabilities</b>	<b>6.470</b>	<b>6.828</b>	<b>7.235</b>	<b>6.556</b>	<b>7.004</b>	<b>7.586</b>
<b>NONCURRENT LIABILITIES</b>						
Long-term debt	872	955	852	1.702	2.141	1.671
Others Noncurrent Liabilities	3.059	3.513	3.573	3.780	4.100	4.465
<b>Total Noncurrent Liabilities</b>	<b>3.931</b>	<b>4.468</b>	<b>4.425</b>	<b>5.482</b>	<b>5.483</b>	<b>5.484<sup>1a</sup></b>
<b>TOTAL LIABILITIES</b>	<b>10.401</b>	<b>11.295</b>	<b>11.660</b>	<b>12.038</b>	<b>12.487</b>	<b>13.070</b>
Non-controlling interest	937	761	1.088	1.370	1.264	1.367
<b>EQUITY</b>	<b>17.564</b>	<b>19.563</b>	<b>21.619</b>	<b>25.301</b>	<b>27.836</b>	<b>30.604</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>28.902</b>	<b>31.619</b>	<b>34.367</b>	<b>38.709</b>	<b>41.587</b>	<b>45.042</b>

Source: Company &amp; Binaartha

Table: Ratio Highlights YoY

	2016A	2017A	2018A	2019A	2020F	2021F
<b>Growth (% YoY)</b>						
Sales	8,3%	3,6%	7,9%	10,1%	7,7%	7,7%
OP	42,8%	7,3%	23,5%	14,8%	10,8%	7,7%
EBITDA	18,5%	4,5%	24,5%	14,8%	7,3%	7,4%
NP	20,0%	5,4%	20,5%	10,1%	9,8%	9,3%
EPS	-40,0%	5,4%	20,5%	10,1%	9,8%	9,3%
<b>Profitability</b>						
Gross Margin	31,3%	31,1%	31,9%	34,1%	35,0%	35,0%
Operating Margin(%)	14,2%	14,7%	16,8%	17,5%	18,0%	18,0%
EBITDA margin(%)	16,8%	16,9%	19,6%	20,4%	20,3%	20,3%
NET Profit margin(%)	10,5%	10,7%	11,9%	11,9%	12,2%	12,3%
ROA(%)	12,5%	12,0%	13,3%	13,0%	13,3%	13,4%
ROE(%)	20,5%	19,4%	21,2%	19,9%	19,9%	19,8%
<b>Solvability (x)</b>						
Tot. debt/ Tot.equity	0,59	0,58	0,54	0,48	0,45	0,43
Debt Ratio	2,78	2,80	2,95	3,22	3,33	3,45
<b>Liquidity (x)</b>						
Current Ratio	2,41	2,43	1,95	2,54	2,59	2,56
Cash Ratio	1,29	1,29	0,65	1,27	1,35	1,32

Source: Company &amp; 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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