



CONSUMER SECTOR UPDATE

Immunity in Uncertainty!

PSBB Restrictions are Changing People's Spending Habits

Most of our FMCG player shows a single digit growth of revenue and earnings with an average of 4.42%/4.60% YoY respectively in 1Q20. Moreover, as the domestic economy continues to adapt the lasting impact of Covid-19 outbreak, we see that consumer priorities have become centered on the most basic needs, sending the demand for hygiene, cleaning and staples products rising, while non-essential categories slump. On the flip side, the limited business activity prolonged will potentially impact to a massive lay off and lower employee's wage so that hurts the consumer spending especially on lower SES (Socio Economic Status). We expect a downturn will still occur in 2Q20 to 3Q20 along with the Ministry of Finance projection of lower GDP at -3.1% in 2Q20 which potentially hurt its household spending.

FMCG and Health Care Sector are Most Benefited, While Retailer might have enjoyed a Short Term Benefit as PSBB Eases

For several sectors, the Covid-19 outbreak generated opportunities especially ones with digital technology adaptation as well as good logistics channels and product mix. We believe staple food (FMCG) and health care are some sectors that are benefited due to their variety of product mixes such as: 1) Staple products and instant noodles that are relatively easy to find (available anywhere) and affordable for stockpiles during a pandemic (INDF IJ, ICBP IJ); 2) Sanitation and hygiene products which became an essential (UNVR IJ); 3) Medicines, supplements and vitamins (KLBF IJ, SIDO IJ) wherein 1Q20 the pharmaceutical industries grew by 5.9%. Besides, retail (MAPI IJ, RALS IJ) and restaurants (PZZA IJ) might have enjoyed a short term benefit as PSBB eases. However, Nielsen believes that Indonesian intention to visit mall is increasing after PSBB but may not reach the 'normal stage'.

Fiscal Stimulus has been Increased, but would it be Effective?

The government has again increased its planned spending on Indonesia's battle against the Covid-19 outbreak amid plunging tax revenue and a widening state budget deficit. Several stimulus package that has been set includes: 1) Increasing the budget to cushion the impact of the outbreak to IDR695.2 trillion, or 4.2% of GDP, an increase compared to the previous 2.75% level; 2) BI conducts QE program worth IDR503.8 trillion, lowers the GWM level and purchases of SBN on the secondary market; 3) OJK has relaxed the rules on credit restructuring with more than 43 banks having restructured 262,966 debtors worth IDR56.5 trillion outstanding in April 2020. We believe it is too early to say that the stimulus carried out by the government has been effective, bearing in mind that this stimulus has just been implemented. In addition, the longer the Covid-19 pandemic lasts, the more it hits the domestic economy and the greater the stimulus needed.

OVERWEIGHT Outlook with Selected Top Picks: INDF, ICBP, HMSP, SIDO

We expect that people's purchasing power should be maintained amid the pandemic outbreak although it will be lower in the short-term. We are looking at consumer player that are still able to record positive earnings through innovation, cost efficiency and attractive dividends. Therefore, we maintain **OVERWEIGHT** for the Consumer Sector with preferred shares such as **INDF (BUY; TP:IDR8,500), ICBP (BUY; TP:IDR10,300), HMSP (BUY; TP:IDR2,500), SIDO (BUY; TP:IDR1,400)**.



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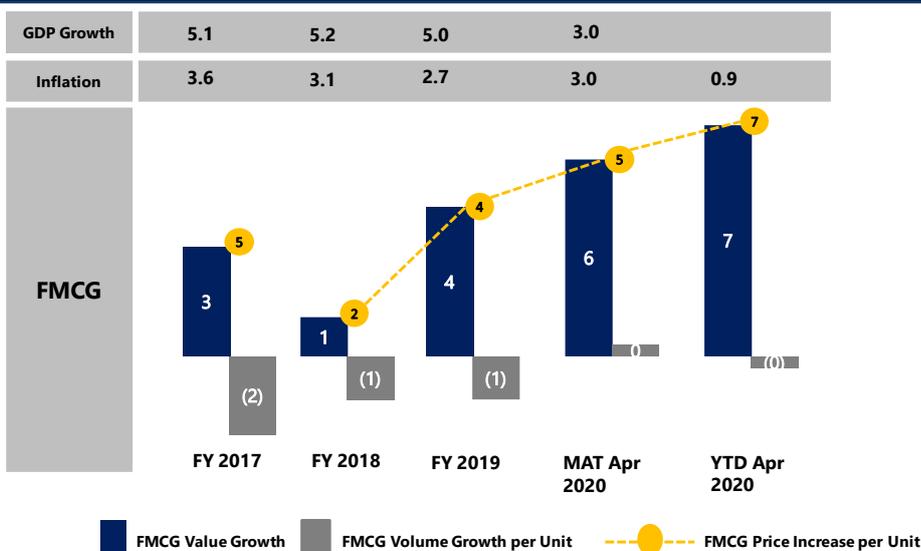
Ticker	Market Cap (IDR bn)	PER (x)		PBV (x)		Rec.	Target Price (IDR)
		FY20E	FY21F	FY20E	FY21F		
UNVR IJ	308,061	41.01	38.51	35.87	33.71	HOLD	8,400
ICBP IJ	105,832	19.72	18.00	3.87	3.50	BUY	10,300
INDF IJ	57,292	11.28	10.16	1.42	1.30	BUY	8,500
HOKI IJ	1,563	20.52	14.91	2.13	1.81	HOLD	700
SIDO IJ	18,225	20.53	18.11	5.53	5.19	BUY	1,400
TBLA IJ	3,045	7.24	6.90	0.55	0.52	BUY	630
GGRM IJ	91,779	10.04	9.25	1.71	1.57	BUY	55,450
HMSP IJ	198,904	15.54	15.03	5.57	5.58	BUY	2,500
KLBF IJ	68,438	26.18	24.41	3.88	3.57	HOLD	1,280

Sources: Bloomberg, MNCS (as of June 25, 2020)

Positive Earnings amidst Economic Slowdown

Most of our FMCG player shows a single digit growth of revenue and earnings with an average of 4.42%/4.60% YoY respectively in 1Q20. We note that margin still expand due to the lower ads and promotion expense combined with lower corporate income tax rate (3% reduction). Moreover, this positive performance supported by: 1) the ASP increases in FMCG categories; 2) an early festive season; 3) an early distribution of food and staple card (program sembako) in Jan-Feb 2020; 4) a reasonable-cost of raw material were stockpiled earlier this year when prices were relatively low. We expect a downturn will still occur in 2Q20 to 3Q20 along with the Ministry of Finance projection of lower GDP at -3.1% in 2Q20 which potentially hurt its household spending.

Exhibit 01. ASP Increased Led the FMCG Growth in Apr 2020



Source : Nielsen 2020

PSBB restrictions are changing people's spending habits

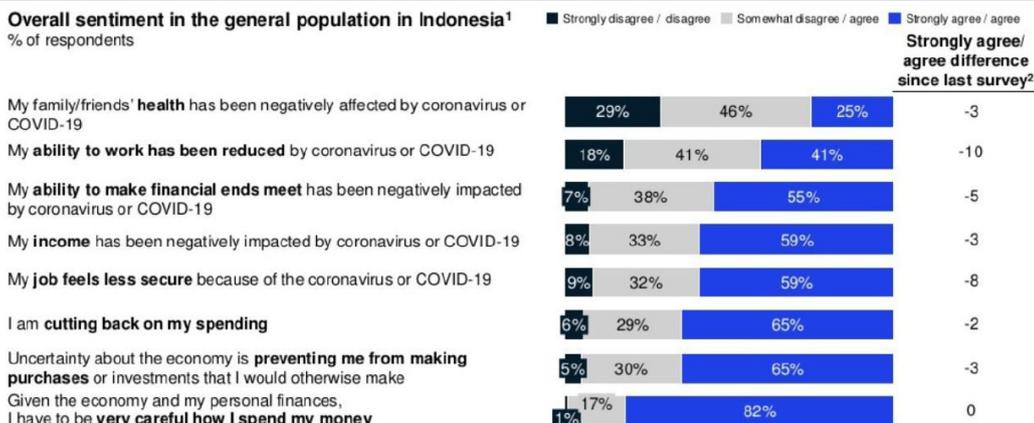
As the domestic economy continues to adapt the lasting impact of Covid-19 outbreak, we see that consumer priorities have become centered on the most basic needs, sending the demand for hygiene, cleaning and staples products rising, while non-essential categories slump. We believe this should be positive for consumer staples and healthcare sector as well as people looking for more DIY home cooking and concern to hygiene lifestyle (see exhibit 02). According to Nielsen, FMCG and Fresh Staples contribution increased by 12.3%/23.2% in 1Q20 slightly higher compared to 10.8%/20.8% in 1Q19. On the flip side, the limited business activity prolonged will potentially impact to a massive lay off and lower employee's wage so that hurts the consumer spending especially on lower SES.

Exhibit 02. Indonesians Now Reduce Their Visit to Stores for Grocery Shopping as well as Dining Out



Source : Nielsen 2020

Exhibit 03. Most Indonesian are Being Careful about Spending, and Two-Thirds are Cutting Back

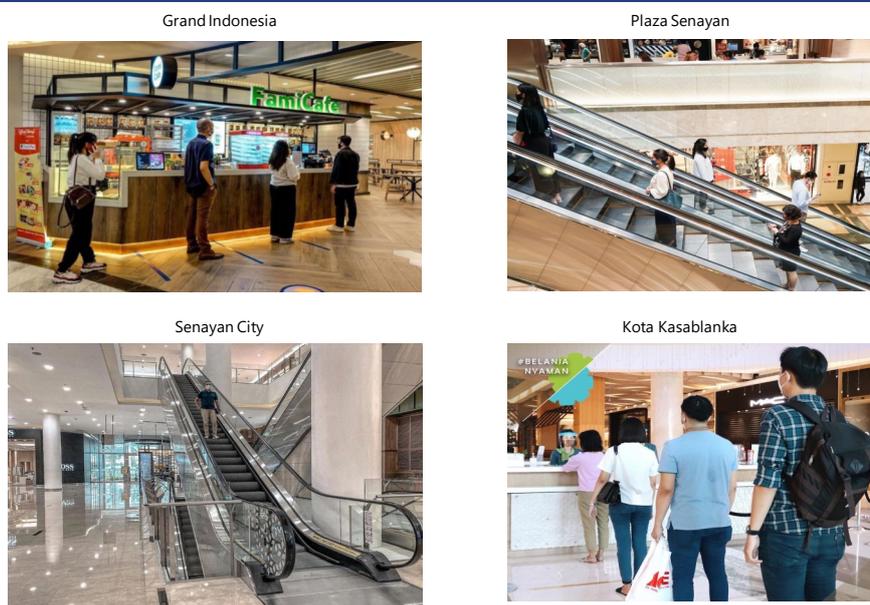


Source : McKinsey Survey

For several sectors, the Covid-19 outbreak generated opportunities especially ones with digital technology adaptation as well as good logistics channels and product mix. We believe staple food (FMCG) and health care are some sectors that are benefited due to their variety of product mixes such as: 1) Staple products and instant noodles that are relatively easy to find (available anywhere) and affordable for stockpiles during a pandemic (INDF IJ, ICBP IJ); 2) Sanitation and hygiene products which became an essential (UNVR IJ); 3) Medicines, supplements and vitamins (KLBF IJ, SIDO IJ) wherein 1Q20 the pharmaceutical industries grew by 5.9%. However, we believe that the impact of this pandemic will be greater in 2Q20 so that Indonesia's GDP growth will be at its lowest level due to a prolonged PSBB. And we estimate in 2Q20-3Q20, the consumer sector will probably be at a single-digit growth with a substantial downside risk on stock prices. This is due to the potential results in 2Q20 which are expected to be worse than expectations. We admit that people's purchasing power will depend on the success of the transition period in the 'New Normal' era. Besides, retail (MAPI IJ, RALS IJ) and restaurants (PZZA IJ) might have enjoyed a short term benefit as PSBB eases. However, Nielsen believes that Indonesian intention to visit mall is increasing after PSBB but may not reach the 'normal stage'. There has been a gradual reopening of shopping mall, restaurant and apparel stores in Jakarta since June 15, 2020.

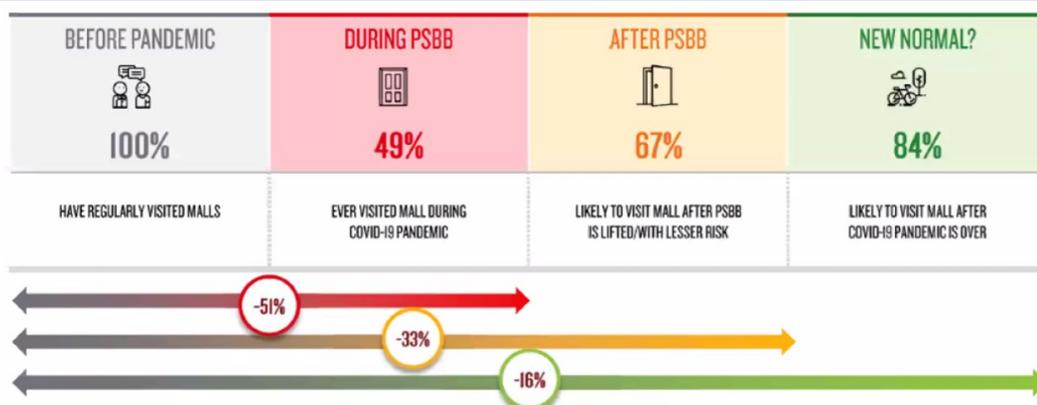
FMCG and Health Care Sector are Most Benefited, While Retailer might have enjoyed a Short Term Benefit as PSBB Eases

Exhibit 04. Reopening several shopping mall in Jakarta



Sources : Grand Indonesia, Senayan City, Plaza Senayan, Kota Kasablanka

Exhibit 05. Indonesian intention to visit mall is increasing after PSBB but may not reach the 'normal stage'



Source : Nielsen 2020

The government has again increased its planned spending on Indonesia's battle against the Covid-19 outbreak amid plunging tax revenue and a widening state budget deficit. Several stimulus package that has been set includes: 1) Increasing the budget to cushion the impact of the outbreak to IDR695.2 trillion, or 4.2% of GDP, an increase compared to the previous 2.75% level; 2) BI conducts QE program worth IDR503.8 trillion, lowers the GWM level and purchases of SBN on the secondary market; 3) OJK has relaxed the rules on credit restructuring with more than 43 banks having restructured 262,966 debtors worth IDR56.5 trillion outstanding in April 2020. We believe it is too early to say that the stimulus carried out by the government has been effective, bearing in mind that this stimulus has just been implemented. In addition, the longer the corona pandemic lasts, the more it hits the domestic economy and the greater the stimulus needed. The Ministry of Manpower noted that the number of employees affected by layoffs due to Covid-19 reached 3.05 million people as of June 2020, even as many as 25 million workers were predicted to be at risk of losing their jobs, especially from the informal workers sector which accounted for 56% of the total Indonesian worker.

Exhibit 06. Indonesian intention to visit mall is increasing after PSBB but may not reach the 'normal stage'

Program Description	Total Budget (IDR)	Number of Beneficiaries	Realization (as of Jun 2020)
Pre-Employed Card	20 tn	5.6 mn	NA
Family Hope Program	37.4 tn	10 mn families / 50 mn citizens	50.98%
Food Staple Card	43.6 tn	20 mn	39.47%
Smart Card	15.76 tn	17.9 mn students	100%
Village Fund	31.8 tn	8 mn	13.52%
Electricity Fee Exemption	61.69 tn	24 mn subscribers	NA

Source : Ministry of Finance, Ministry of Manpower

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OVERWEIGHT Outlook with Selected Top Picks: INDF, ICBP, HMSP, SIDO

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