

## Indofood CBP

**BUY**

Target Price : IDR10,300

### Stock Data

Current Price : IDR8,325  
 52wk Range H-L : IDR12,550-8,125  
 Share Outstanding : 11.66 bn  
 Free Float (%) : 19.5%  
 Mkt Capitalization (IDR bn) : 104,374.0

### Major Shareholders

Indofood Sukses Makmur : 80.5%  
 Public : 19.5%



**Research Analyst**

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## PT Indofood CBP Tbk (ICBP IJ)

### Déjà Vu: Rare Opportunity!

**Pinehill Acquisition worth to USD2.99 bn (IDR44.25 tn) at a Premium Price with 23x PE**  
 Indofood CBP Sukses Makmur (ICBP IJ) share price plunged by 6.98% in the first trading session bringing -25.34% YTD downturn (27/05). We believe that this fall was due to ICBP's announcement on its acquisition of its British Virgin Island affiliates, Pinehill Corpora Limited and Steele Lake Limited (Pinehill group). ICBP has finally signed the agreement on May 22, 2020, with an exceptional transaction value of USD2.99 bn (IDR44.25 tn; IDR14,800/USD) or 43% of ICBP's market cap and funding mostly came from bank loans (90%) and 10% of internal cash worth to USD300 mn (IDR4.44 tn). However, the acquisition value may create a short-term negative sentiment given its premium valuation of 23.25x PE (vs 18.36x ICBP PE FY20E at current share price). Furthermore, Pinehill Corpora Limited is an affiliate of Mr Anthoni Salim (CEO Indofood Group) which owns approximately 49% of the shares; it may affect the market perception about this related party transaction.

#### Pinehill Group at a glance

Pinehill owns four subsidiary companies and is primarily engaged in the manufacturing of instant noodles using the "Indomie" trademark (which is licensed by INDF) in 8 countries with the total population of approximately 550 mn. Pinehill has 12 instant noodle production facilities with a production capacity of 10 bn packs and also has distribution networks in 33 countries that have a total population of 885 mn people.

#### Learning from the past: How serious is the current slump?

We note that ICBP's share price downturn has happened several times along with the corporate actions: 1) Back in March-2019 (-8.74%) when INDF announced its land acquisition in Bintan and Pasuruan; 2) PepsiCo decision to discontinue their distribution contract with Indofood (AIBM) in October-2019 (-7.66%); 3) ICBP announced its plan to explore the offer made in purchasing the entire issued shares owned by affiliated parties Pinehill Corporate Limited in February-2020 (-6.31%). Historically speaking, this downswing might only be temporary, note that the stock will always rebound eventually supported by the solid earnings result.

#### Long-term Synergy to Become a Global Food Player

Based on the agreement, Pinehill guaranteed a net profit of USD128.5 mn (IDR1.90 tn) p.a. in FY20E and FY21F with 5% of deviation. To secure the payment of the adjustment value, ICBP shall retain USD650 mn on Apr 30, 2022. We believe that this agreement will benefit ICBP in the long run, along with the huge potential market (550mn population) and underpenetrated noodle consumption. This would make ICBP the largest player of instant noodles globally. On the flip side, this acquisition could potentially affect to its DER level to above 1.30x in FY20E from 0.09x in FY19. Assuming that USD interest rate stood at 4%, the additional debt will surge up around IDR1.60 tn to ICBP's financing cost, translated to ~6% higher in FY20E post-deal net profit.

#### Maintain BUY with a lower TP of IDR10,300

We maintain our BUY recommendation on ICBP with a slightly lower TP of IDR10,300 (previously IDR11,500) based on FY20E PE of 18x (close to -2.5STD of its 5-years mean). Downside risk to our call: 1) higher interest costs due to the acquisition; 2) higher COGS pressure; 3) depreciation of IDR.

#### Key Financial Highlight

YE Dec (IDR bn)	FY17	FY18	FY19	FY20E	FY21F
Revenue	35,606.59	38,413.41	42,296.70	45,872.44	49,810.09
Net Profit	3,796.55	4,575.80	5,038.79	5,355.21	5,630.70
EPS (IDR)	325.55	392.37	432.07	459.21	482.83
PE (x)	27.49	22.81	20.71	19.49	18.54
BVS (IDR)	1,677.57	1,853.81	2,169.53	2,353.21	2,546.34
PBV (x)	5.34	4.83	4.13	3.80	3.51
ROA (%)	12.01	13.31	13.02	13.09	12.92
ROE (%)	18.68	20.15	18.89	18.59	18.13
Dividend Yield (%)	1.72	2.46	1.53	3.08	3.24

Sources: Bloomberg, MNCS as of May 26, 2020

**Exhibit 01. ICBP's 1Q20 Solid Performance**

IDR (bn)	1Q19	4Q19	1Q20	QoQ	YoY	FY20E Consensus	FY20E MNCS	% Consensus	% MNCS
<b>Revenue</b>	<b>11,256</b>	<b>9,506</b>	<b>12,007</b>	<b>26.31%</b>	<b>6.67%</b>	<b>45,716</b>	<b>45,872</b>	<b>26.26%</b>	<b>26.17%</b>
COGS	7,468	6,361	7,824						
<b>Gross Profit</b>	<b>3,788</b>	<b>3,145</b>	<b>4,183</b>	<b>33.00%</b>	<b>10.43%</b>	<b>15,223</b>	<b>15,212</b>	<b>27.48%</b>	<b>27.50%</b>
Gross Profit Margin	33.65%	33.08%	34.84%						
<b>Operating Profit</b>	<b>1,928</b>	<b>1,606</b>	<b>2,195</b>	<b>36.67%</b>	<b>13.85%</b>				
Operating Profit Margin	17.13%	16.89%	18.28%						
<b>PBT</b>	<b>1,957</b>	<b>1,685</b>	<b>2,755</b>	<b>63.50%</b>	<b>40.78%</b>	<b>7,961</b>	<b>7,855</b>	<b>34.61%</b>	<b>35.07%</b>
<b>Net Profit</b>	<b>1,337</b>	<b>1,153</b>	<b>1,982</b>	<b>71.90%</b>	<b>48.24%</b>	<b>5,512</b>	<b>5,355</b>	<b>35.96%</b>	<b>37.01%</b>
Net Profit Margin	11.88%	12.13%	16.51%						

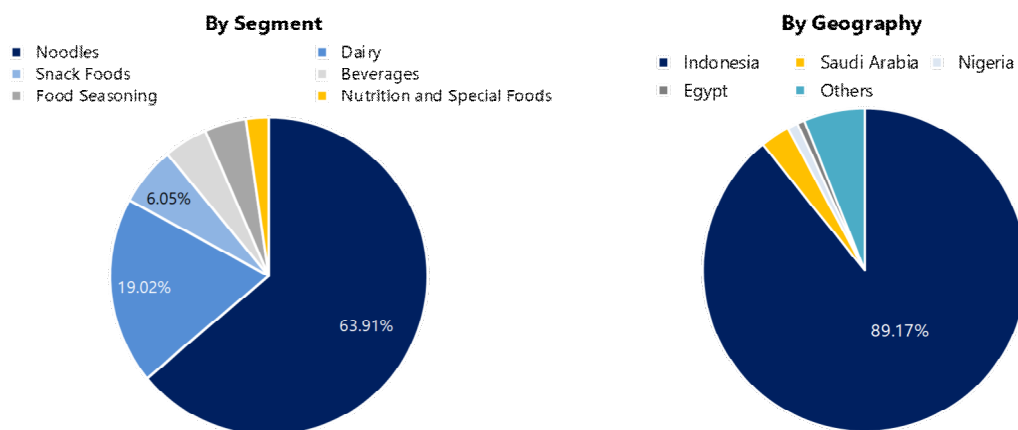
Sources: Company, Bloomberg, MNCS

**Exhibit 02. Pinehill Group FY19 Performance and Market Share**

Entity	Factory Operation	Base Country	FY19 Sales Volume incl.Export (mn 70gr packs)	FY19 Domestic Market Share	FY19 Population (mn people)	FY19 Consumption per capita (packs)
DUFIL	1995	Nigeria, Ghana	4,062	81%	231	18
PAFL	1995	Saudi Arabia	1,779	95%	34	20
SAWAZ	2010	Egypt	1,256	80%	100	13
	2014	Kenya	92	74%	53	2
	2017	Serbia	125	74%	7	4
	2017	Morroco	75	77%	36	1
SAWAZ Turkey	2015	Turkey	211	54%	83	3
<b>Pinehill Group</b>			<b>7,600</b>		<b>544</b>	

Source: Company

**Exhibit 03. ICBP's FY19 Revenue Breakdown: UEA & Africa dominated export market**



Sources : Company, MNCS

Exhibit 04. ICBP PE Forward (close to -2.5STD in 5 years average PE)



Source : Bloomberg as of May 26, 2020

Exhibit 05. Learning from the past: ICBP's share price downturn has happened several times



Source : Bloomberg as of May 26, 2020

**Exhibit 06. Financial Projections**

Income Statement						Balance Sheet					
IDR Billion	FY17	FY18	FY19	FY20E	FY21F	IDR Billion	FY17	FY18	FY19	FY20E	FY21F
<b>Revenues</b>	<b>35,606.59</b>	<b>38,413.41</b>	<b>42,296.70</b>	<b>45,872.44</b>	<b>49,810.09</b>	<b>Current Assets</b>	<b>16,579.33</b>	<b>14,121.57</b>	<b>16,624.93</b>	<b>17,977.18</b>	<b>19,620.75</b>
<b>COGS</b>	<b>(24,547.76)</b>	<b>(26,147.86)</b>	<b>(27,892.69)</b>	<b>(30,660.47)</b>	<b>(33,292.35)</b>	Cash and Cash Equivalents	8,945.09	5,290.66	8,359.16	8,079.65	9,288.23
<b>Gross Profit</b>	<b>11,058.84</b>	<b>12,265.55</b>	<b>14,404.01</b>	<b>15,211.96</b>	<b>16,517.75</b>	Trade Receivable	3,871.25	4,128.19	4,049.29	5,149.29	5,049.29
<b>Operating Expense</b>	<b>(6,246.11)</b>	<b>(6,636.81)</b>	<b>(7,313.04)</b>	<b>(7,516.20)</b>	<b>(8,410.43)</b>	Inventories	3,261.64	4,001.28	3,840.69	4,340.69	4,840.69
<b>Operating Profit</b>	<b>4,812.73</b>	<b>5,628.75</b>	<b>7,090.97</b>	<b>7,695.76</b>	<b>8,107.31</b>	Others current Assets	501.35	701.44	375.78	407.55	442.53
<b>EBITDA</b>	<b>5,621.62</b>	<b>6,603.18</b>	<b>8,250.97</b>	<b>8,739.93</b>	<b>9,106.55</b>	<b>Non-Current Assets</b>	<b>15,040.18</b>	<b>20,245.59</b>	<b>22,084.39</b>	<b>22,948.34</b>	<b>23,949.14</b>
Interest Income	403.92	313.00	278.00	334.37	323.19	Fix Asset - net	8,120.25	10,741.62	11,342.41	11,298.25	11,299.01
Interest Expense	(127.69)	(147.01)	(161.44)	(175.10)	(194.25)	Other Non-Current Assets	6,919.93	9,503.96	10,741.98	11,650.10	12,650.13
Other Income (Expense)	-	-	-	-	-	<b>TOTAL ASSETS</b>	<b>31,619.51</b>	<b>34,367.15</b>	<b>38,709.31</b>	<b>40,925.53</b>	<b>43,569.89</b>
<b>Profit Before Tax</b>	<b>5,206.56</b>	<b>6,446.79</b>	<b>7,436.97</b>	<b>7,855.03</b>	<b>8,236.25</b>	<b>Current Liabilities</b>	<b>6,827.59</b>	<b>7,235.40</b>	<b>6,556.36</b>	<b>6,683.40</b>	<b>6,818.25</b>
Tax Expense	(1,663.39)	(1,788.00)	(2,076.94)	(2,178.58)	(2,284.31)	Account Payable	5,204.03	5,612.40	5,645.00	5,695.00	5,745.00
Net Income Before MI	3,543.17	4,658.78	5,360.03	5,676.45	5,951.94	Short Term Debt	1,397.86	1,390.91	654.11	709.41	770.30
Minority Interest	(253.37)	82.98	321.24	321.24	321.24	Other current liabilities	225.70	232.10	257.25	279.00	302.95
<b>Net Income</b>	<b>3,796.55</b>	<b>4,575.80</b>	<b>5,038.79</b>	<b>5,355.21</b>	<b>5,630.70</b>	<b>Non-Current Liabilities</b>	<b>4,467.60</b>	<b>4,424.61</b>	<b>5,481.85</b>	<b>5,428.93</b>	<b>5,686.17</b>
EPS (full amount)	325.55	392.37	432.07	459.21	482.83	Long-term Liabilities - Net	954.55	667.10	1,694.79	1,741.87	1,949.10
BVPS (full amount)	1,677.57	1,853.81	2,169.53	2,353.21	2,546.34	Other Non-Current Liabilities	3,513.05	3,757.51	3,787.07	3,687.07	3,737.07
						<b>TOTAL EQUITY</b>	<b>20,324.33</b>	<b>22,707.15</b>	<b>26,671.10</b>	<b>28,813.19</b>	<b>31,065.47</b>
						<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>31,619.51</b>	<b>34,367.15</b>	<b>38,709.31</b>	<b>40,925.53</b>	<b>43,569.89</b>

Cash Flow						Ratios					
IDR Billion	FY17	FY18	FY19	FY20E	FY21F	Ratio	FY17	FY18	FY19	FY20E	FY21F
<b>CFO Total</b>	<b>4,298.79</b>	<b>4,768.33</b>	<b>6,821.69</b>	<b>4,839.36</b>	<b>6,268.91</b>	Revenue Growth (%)	3.58	7.88	9.03	8.45	8.58
Net Income	3,796.55	4,575.80	5,038.79	5,355.21	5,630.70	Operating Profit Growth (%)	2.70	10.91	17.43	5.61	8.58
Depreciation	808.89	974.43	1,160.00	1,044.16	999.24	Net Profit Growth (%)	5.45	20.53	10.12	6.28	5.14
Change in Working Capital	(201.07)	(588.21)	272.09	(1,550.00)	(350.00)	Current Ratio (%)	242.83	195.17	253.57	268.98	287.77
Change in others	(105.57)	(193.69)	350.82	(10.02)	(11.03)	Quick Ratio (%)	195.06	139.87	194.99	204.04	216.77
<b>CFI Total</b>	<b>(2,518.49)</b>	<b>(6,179.83)</b>	<b>(2,998.80)</b>	<b>(1,908.12)</b>	<b>(2,000.04)</b>	Receivable Days	39.68	39.23	34.94	40.97	37.00
Capex	(1,814.86)	(3,595.80)	(1,760.79)	(1,000.00)	(1,000.00)	Inventory Days	48.50	55.85	50.26	51.67	53.07
Change in Others	(703.63)	(2,584.03)	(1,238.01)	(908.12)	(1,000.04)	Payable Days	24.11	19.55	20.27	19.50	19.93
<b>CFF Total</b>	<b>2,385.57</b>	<b>2,843.25</b>	<b>2,200.17</b>	<b>(3,210.75)</b>	<b>(3,060.29)</b>	Debt to Equity (x)	0.12	0.09	0.09	0.09	0.09
Net Change in Debt	312.10	(294.40)	290.89	102.38	268.13	Debt to EBITDA (x)	0.42	0.31	0.28	0.28	0.30
Equity financing	-	-	-	-	-	Gross Profit Margin (%)	31.06	31.93	34.05	33.16	33.16
Dividend payment	1,795.93	2,565.62	1,597.68	(3,213.13)	(3,378.42)	Operating Profit Margin (%)	13.52	14.65	16.76	16.78	16.28
Others	277.54	572.02	311.60	(100.00)	50.00	EBITDA Margin (%)	15.79	17.19	19.51	19.05	18.28
Net Cash Increase	573.11	(3,654.43)	3,068.50	(279.51)	1,208.58	Net Profit Margin (%)	10.66	11.91	11.91	11.67	11.30
<b>Closing Balance</b>	<b>8,945.09</b>	<b>5,290.66</b>	<b>8,359.16</b>	<b>8,079.65</b>	<b>9,288.23</b>	ROA (%)	12.01	13.31	13.02	13.09	12.92
						ROE (%)	18.68	20.15	18.89	18.59	18.13

Sources: Company, Bloomberg, MNCS

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**BUY** : Share price may exceed 10% over the next 12 months  
**HOLD** : Share price may fall within the range of +/- 10% of the next 12 months  
**SELL** : Share price may fall by more than 10% over the next 12 months  
**Not Rated** : Stock is not within regular research coverage

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