



Consumer Non-Cyclical Sector Updates The Old Star Has Returned

Soft Commodity Prices Remain at a High Level

- World wheat prices have soared this year +40% YTD, pushing up the raw material cost, especially bread and noodles. According to the USDA, global wheat production in FY23F is forecasted to lower by -4.46 mn Mt (-0.57% YoY) to 774.83 mn Mt (vs 779.29 mn Mt in FY22E). Despite high wheat prices, high consumption demand leads to higher trade year (July/June) imports in FY22E/23F at a record 201.2 mn Mt.
- Meanwhile, the sugar prices are predicted to fall due to improving global production, which is projected to increase +0.94% YoY to 182.89 mn Mt in FY23F. Furthermore, skim milk prices still have the potential to strengthen, triggered by high prices for fertilizers, animal feed, and fuel.
- We believe that higher input costs will partly be offset by higher retail selling prices for some companies that have stronger pricing power.

Refocusing on State Budget to Maintaining Purchasing Power

- The government refocused the budget to increase energy subsidies and compensation of IDR350 tn in response to the increase in world oil prices. Furthermore, the social assistance (Bansos) budget was also added by IDR 18.6 tn. The addition comes from the outlook for state revenues of IDR420 tn which is supported by rising commodity prices.
- We believe the government's efforts can maintain people's purchasing power through controlled inflation and prevent the negative impact of the commodity boom in FY10-FY14. Whereas in FY11, the increase in world oil prices to a level of >100USD/Bbl caused a significant increase in domestic inflation up to 8% YoY (exhibit 04).
- The maintained public purchasing power is expected to be a positive catalyst for the consumer sector amidst the high world commodity prices.
- However, we need to keep an eye on the slowdown in the core inflation component in May-22 which was recorded at +2.58% YoY (vs +2.60% YoY in Apr-22), amid the rising inflation in the energy and foodstuff components which continued to strengthen. The increase in these two components since the beginning of the year has moved in contrast to the growth in retail sales of food, beverage and tobacco categories as well as motor vehicle fuels, which tended to decline. (exhibit 05).

ICBP Resilient Amid Wheat Prices Soared

- We believe that the "Indomie" brand has strong pricing power, thus supporting the increase in ASP to offset the increase in raw materials.
- The management has adjusted the ASP at the beginning of this year. Based on our survey, the price of "Indomie goreng" and "soto mie" at retail increased by IDR500 (+16.7% YTD) respectively before Apr-22.
- Despite the increase in ASP, we believe sales volume will remain solid and support revenue this year along with: 1) strong pricing power, 2) solid business footprint, 3) high market share of ~73%.
- In 1Q22, ICBP managed to record double digit growth on the top-bottom line (+13.89% YoY/+11.75% YoY). With this fairly solid performance, we assess that ICBP's bottom-line has the potential to increase by +11.55% YoY, to IDR7.13 tn in FY22E, supported by: 1) integrated holding ecosystem under INDF's group; 2) solid revenue growth; 3) decrease in financial expenses.

Recommendation : Overweight for The Consumer Non-Cyclicals

We transfer our coverage on consumer non-cyclicals sector from Rifqi Ramadhan to Raka Junico and upgrade our recommendation from **Neutral** to **Overweight** for consumer non-cyclicals sector for 2H22E. Our top picks are **INDF IJ (BUY; TP: IDR7,850)** and **ICBP IJ (BUY; TP: IDR9,800)** as a proxy of consumer food spend, **SIDO IJ (BUY; TP: IDR1,100)** with a lower commodity prices exposure, while **UNVR IJ (HOLD; TP: IDR4,600)** due to high volatility on oil and skim milk prices.

Ticker	Market Cap (IDR Tn)	PER (x)		PBV (x)		Rec	Target Price (IDR)
		FY22E	FY23F	FY22E	FY23F		
ICBP IJ Equity	100.88	16.04	11.75	1.92	1.75	BUY	9,800
INDF IJ Equity	60.80	7.58	6.99	0.74	0.69	BUY	7,850
UNVR IJ Equity	181.98	28.56	26.32	37.42	35.89	HOLD	4,600
SIDO IJ Equity	29.70	22.77	20.80	8.80	8.16	BUY	1,100

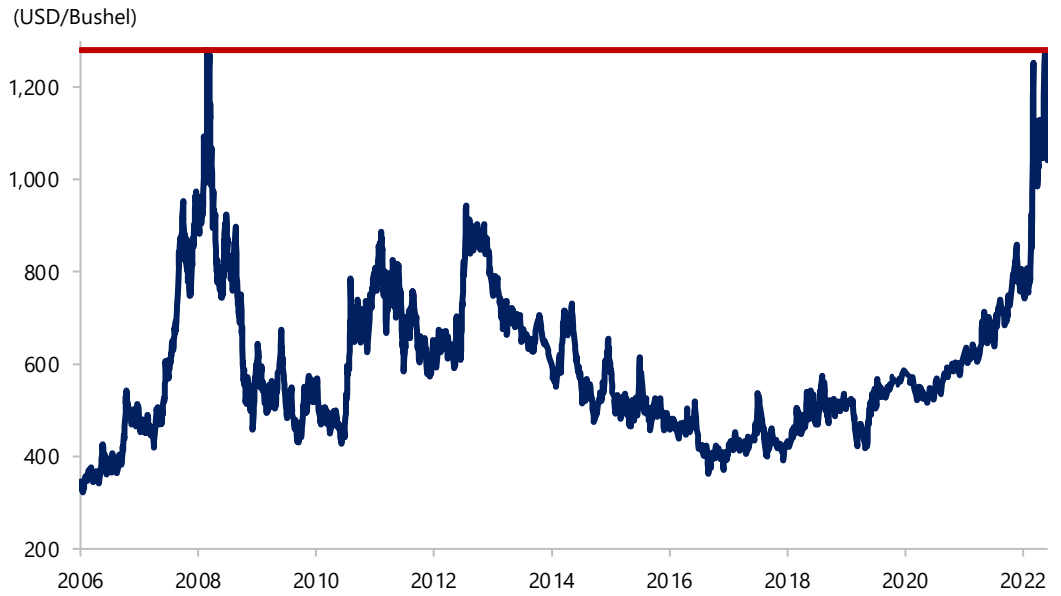
Sources : MNCS



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Global wheat prices currently near at resistance level in FY08.

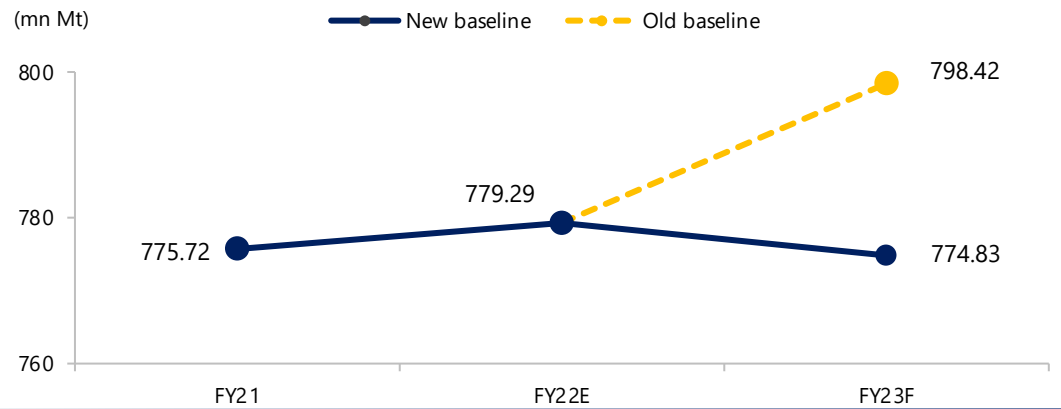
Exhibit 01. Wheat Prices FY06-FY22



Sources : Bloomberg, MNCS

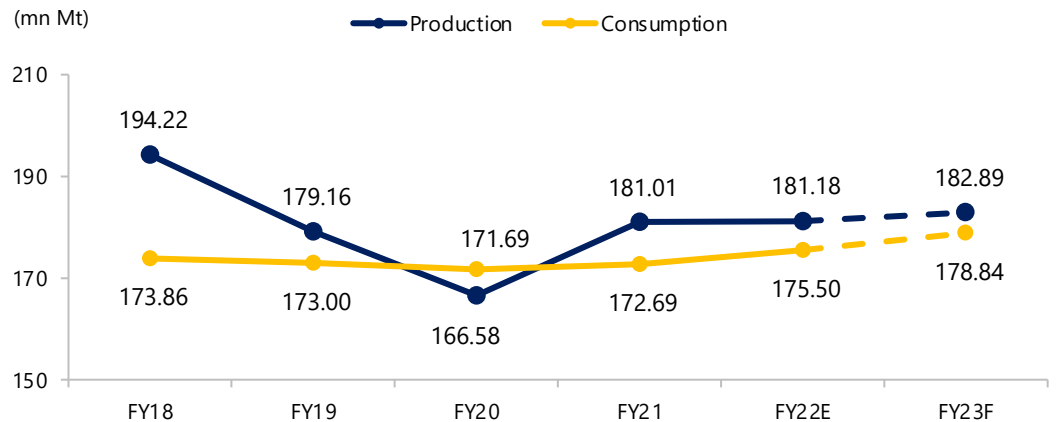
USDA revised its forecast for world wheat production due to low supply and consumption. Where production is projected to decline in Ukraine, Australia and Morocco while production in Canada, Russia and US is projected to increase.

Exhibit 02. USDA's Global Wheat Production Forecast



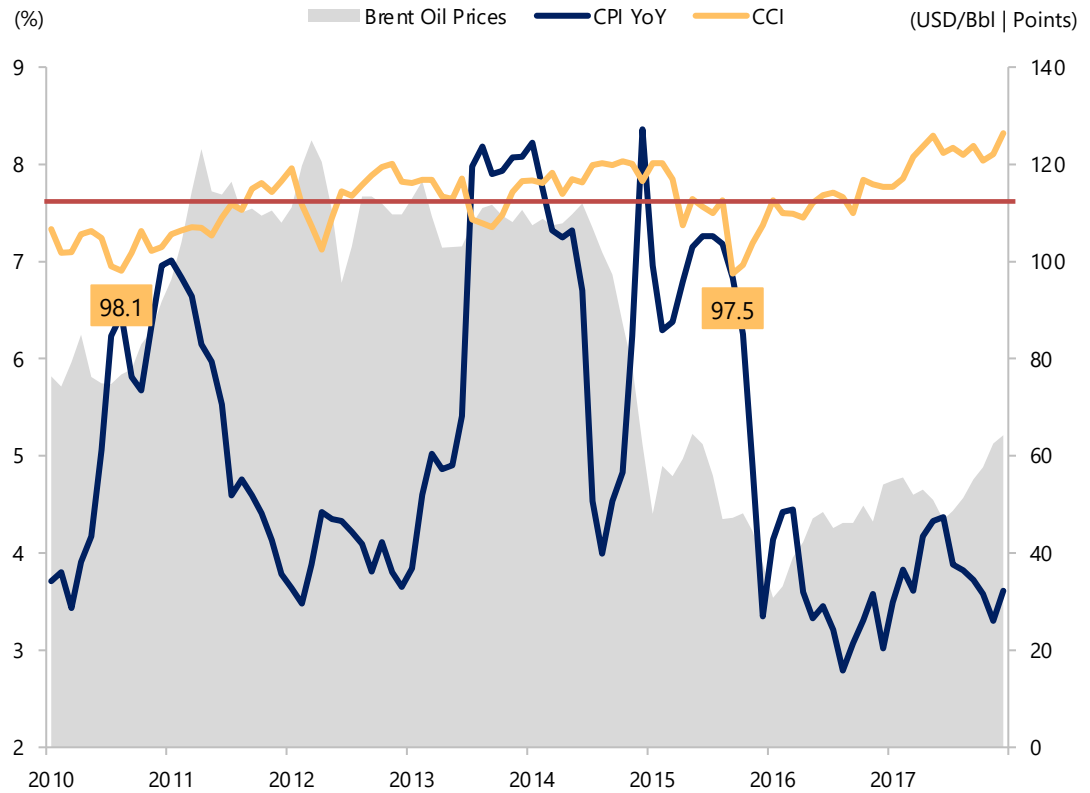
Sources : USDA, MNCS

Exhibit 03. USDA's Global Sugar Production Forecast



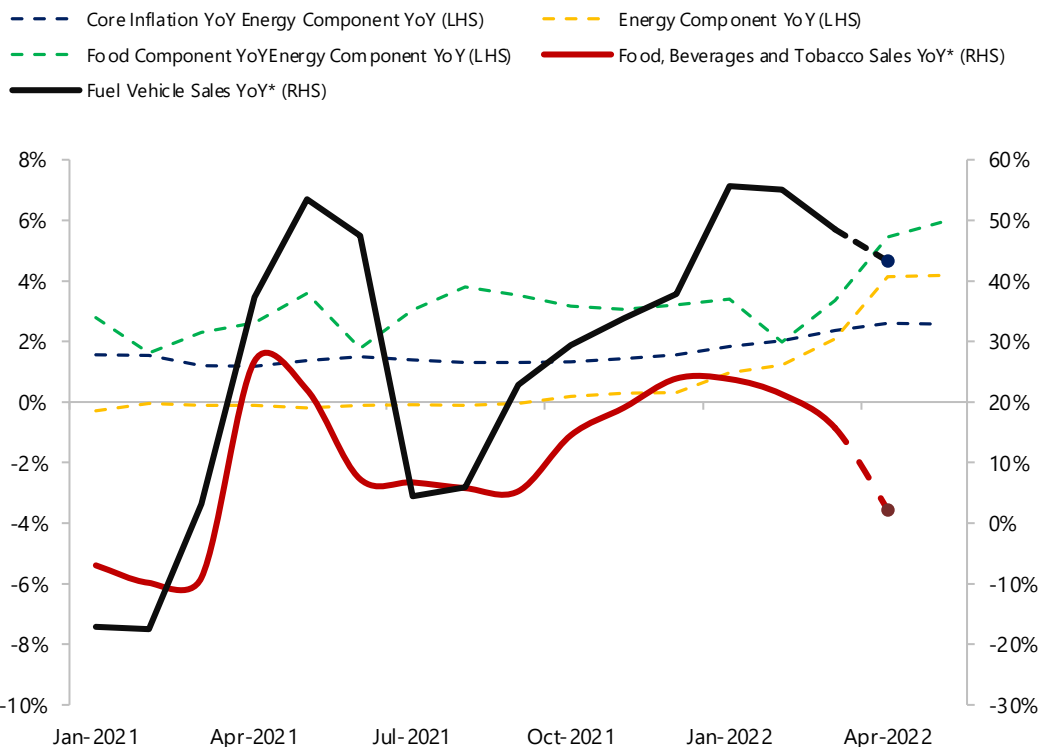
Sources : USDA, MNCS

Exhibit 04. CPI vs CCI vs Brent Oil Prices FY10-FY17



Sources : Bloomberg, MNCS

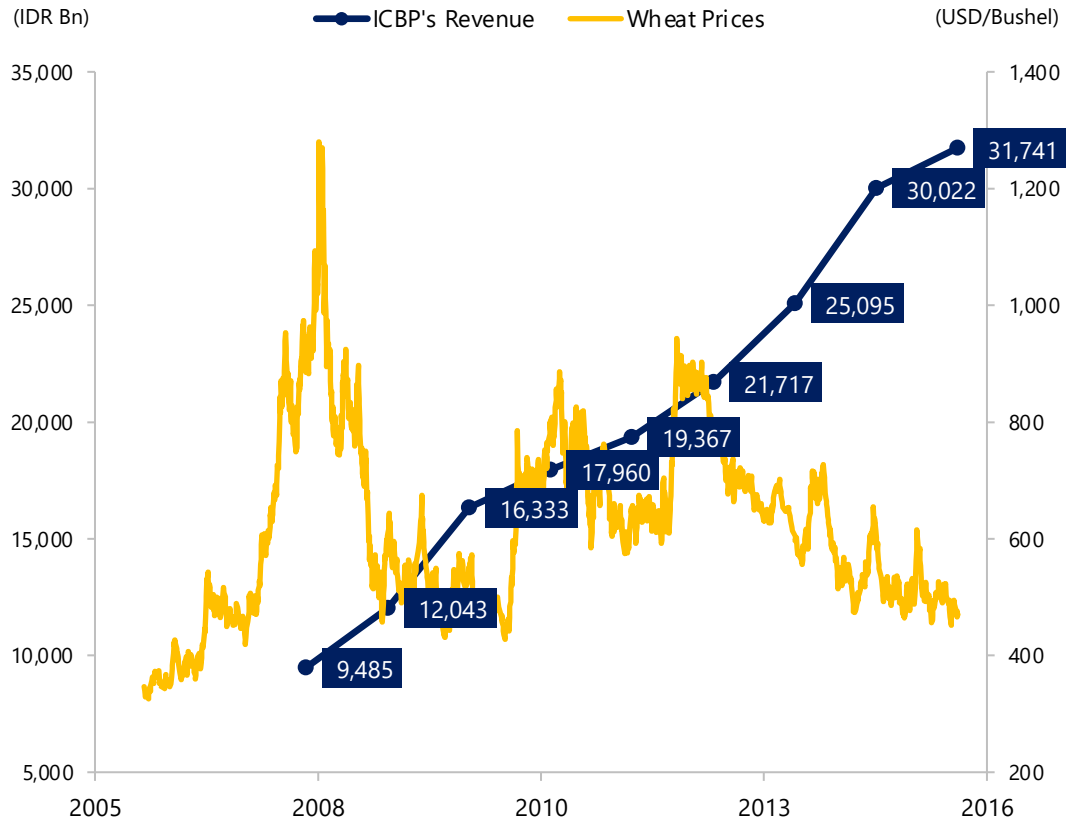
Exhibit 05. Core Inflation, Food and Energy Component vs Food and Fuel Sales



Sources : Bank Indonesia, MNCS (*Bank Indonesia estimates)

Exhibit 06. ICBP's Revenue vs Wheat Prices FY06-FY16

ICBP continues to record revenue growth amid rising wheat prices since listed on stock exchange in FY10



Sources : Bloomberg, Company, MNCS

Exhibit 07. Observing on "Indomie" Prices

We have been observing the price of noodles since the beginning of the year at retail stalls that we often visit.



Products	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	YTD
Indomie Goreng	IDR3,000	IDR3,000	IDR3,000	IDR3,000	IDR3,500	IDR3,500	IDR3,500	16.67%
Indomie Soto Mie	IDR2,500	IDR2,500	IDR2,500	IDR2,500	IDR3,000	IDR3,000	IDR3,000	20.00%

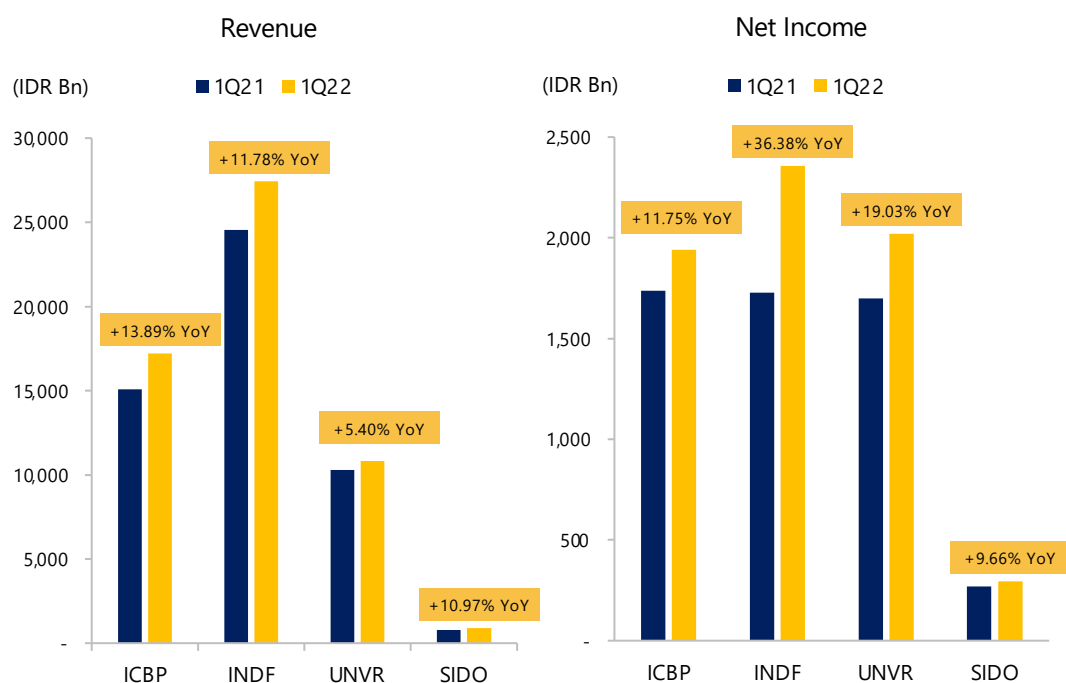
Sources : MNCS

Exhibit 08. ICBP's Noodles Products Market Share: Indomie (72.9%), Sarimi (2.6%), Supermi (1.6%)

Brand	TBI FY22
Indomie	72.9%
Mie Sedaap	15.5%
Sarimi	2.6%
Gaga 100/Mie 100	2.2%
Supermi	1.6%

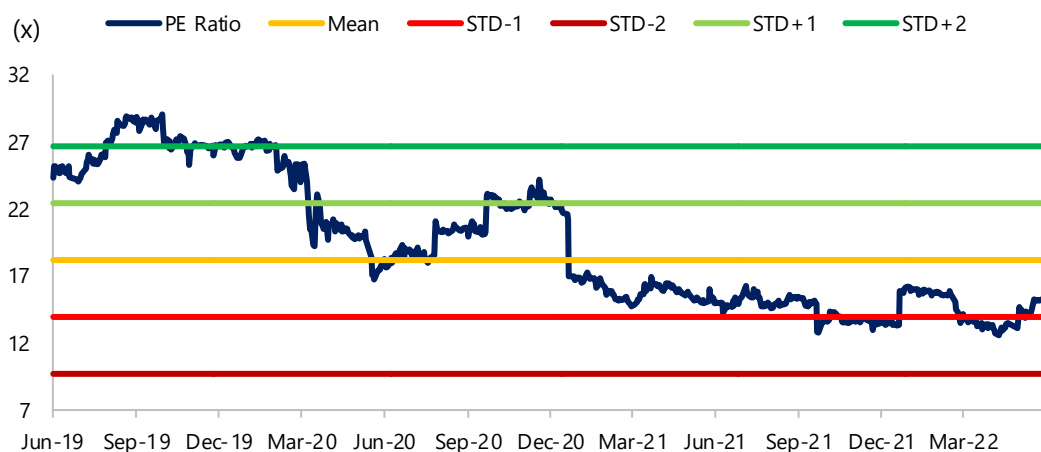
Sources : Top Brand Award, MNCS

Exhibit 09. Revenue and Net Income Consumer Non-Cyclicals in Our Coverages



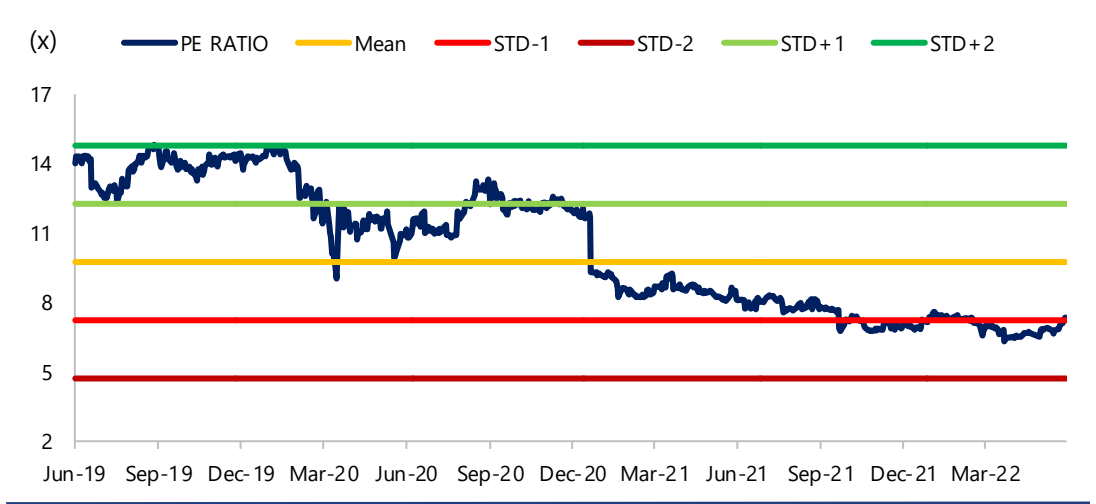
Sources : Company, MNCS

Exhibit 10. ICBP IJ is currently trading close to -1STD PE Band (3 years historical mean)



Sources : Bloomberg, MNCS

Exhibit 11. INDF IJ is currently trading close to -1STD PE Band (3 years historical mean)



Sources : Bloomberg, MNCS

Exhibit 12. SIDO IJ is currently trading close to 0STD PE Band (3 years historical mean)



Sources : Bloomberg, MNCS

Exhibit 13. UNVR IJ is currently trading close to -1STD PE Band (3 years historical mean)



Sources : Bloomberg, MNCS

MNC Research Industry Ratings Guidance

OVERWEIGHT: Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

NEUTRAL: Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

UNDERWEIGHT: Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

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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