

Brace for impact!

- Expect 2Q15 sales volume to be as weak as the previous quarter
- Weak Lebaran sales have been priced in, but there may be further downside risk
- Our channel checks indicate demand has not recovered, consumer sentiment remains weak, and business owners are pessimistic
- Stick to staple names and play on valuation:
Buy INDF and avoid UNVR

Recovery elusive in 2Q15. We expect stocks in the sector to report disappointing 2Q15 results as consumption remains weak, and the fundamentals have not improved substantially for us to believe otherwise. 1Q15 results were largely supported by an increase in ASPs, which will not be the case in 2Q as sellers would not be able to raise prices amid already slowing demand.

Lebaran unable to catapult spending. The Lebaran season normally spurs consumer spending compared to other periods in the year, but it is not having a strong impact this year. Hence, we expect 2Q15 results to show weaker sales y-o-y. The positive impact of low commodity prices would also be partly negated by the weak rupiah, suggesting minimal margin expansion. We expect downward revision to earnings post-2Q15 results.

Channel checks confirm weak demand. The checks revealed that consumer sentiment is indeed weak. Business owners are sceptical and pessimistic about business prospects, citing the weakest Lebaran sales in the past 2-3 years. Sales have dropped 20-30% y-o-y for some businesses as consumers become pickier and competition intensify, and rising food and energy costs continue to deter consumer spending especially on discretionary items.

Buy INDF (BUY; TP Rp8,350) and avoid UNVR (FV; TP Rp35,400). We recommend sticking to consumer staple names for now as retailers are more likely to be hurt by slowing demand for discretionary items. UNVR is overpriced at current levels amid slowing earnings growth. We have a BUY call for INDF for its attractive valuation discount and exposure to ICBP.

JCI : 4,893.92

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STOCKS

	Price	Mkt Cap	Target Price	Performance (%)		Rating
	Rp	US\$m	Rp	3 mth	12 mth	
Indofood Sukses Makmur	6,525	4,320	8,350	(11.2)	(8.1)	BUY
Matahari Department Store	17,300	3,806	22,200	(6.9)	20.1	BUY
Indofood CBP	12,500	5,496	13,500	(12.0)	24.1	HOLD
Mitra Adiperkasa	5,400	676	5,625	(6.5)	2.4	HOLD
Unilever Indonesia	40,350	23,214	35,400	1.5	32.7	FULLY VALUED

Source: DBS Bank, DBS Vickers

Indofood Sukses Makmur : Indofood Sukses Makmur is a Total Food Solutions company with operations spanning from the production of raw materials and their processing, to consumer products.

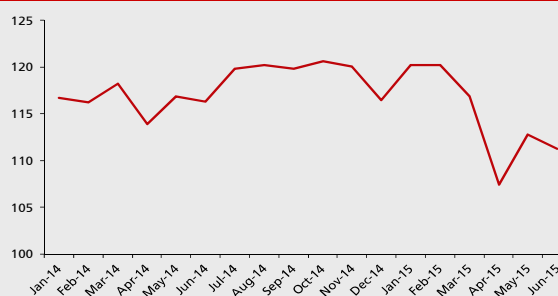
Matahari Department Store : PT Matahari Department Store Tbk engages in the retail business for several types of products such as clothes, accessories, bags, shoes, cosmetics, and household appliances.

Indofood CBP Sukses Makmur : ICBP is a leading branded consumer products company in Indonesia with products comprising noodles, dairy, snack foods, food seasonings, nutrition & special foods, biscuits, and beverages.

Mitra Adiperkasa : Mitra Adiperkasa operates department stores and specialty stores selling a broad range of goods including clothing, toys, food, and other merchandises.

Unilever Indonesia : PT Unilever Indonesia Tbk manufactures soaps, detergents, margarine, oil, and dairy based foods, tea based beverages, ice cream, and cosmetics.

Consumer Confidence Index



Source: Bank Indonesia, DBS Bank, DBS Vickers

2Q 2015: Not so rosy

Expect sales volumes to remain weak

Street surveys indicate consumer demand is still wobbly. In late June, we visited Pasar Benhil, a traditional market, and Pasar Tanah Abang, the largest wholesale clothing market in Southeast Asia. We feel these two sites are a decent representation of the prevailing consumer sentiment. The key takeaways from the visits were: (1) Lebaran sales this year is the weakest in the last two years; (2) buyers are becoming pickier, focusing on value, and (3) rising food and energy prices have hurt purchasing power.

Downward revision to growth forecasts. Earlier this month, the Finance Minister had revised its 2015 GDP growth forecast to 5.2% from 5.7% assumption used in the budget. 2016 GDP growth forecast was also lowered to 5.5-6.0% from 5.8-6.2% previously. Similarly, the World Bank and IMF had cut their economic growth forecasts for Indonesia to 4.7% from 5.2%. We believe the revisions suggest policy-makers are compelled to accept that any turnaround in the economy would come later rather than sooner. On this note, we expect consumption to remain weak in the second quarter and likely for the rest of the year.

Consumer Confidence Index (CCI) has not picked up. The Central Bank's consumer survey shows that the CCI has been weak this year. There has not been a meaningful recovery in 2Q15 compared to 1Q, despite the Lebaran season. This led us to believe that consumer demand is likely to remain weak in the second quarter (see next chart).

In the first quarter of the year, the CCI was weaker as consumers were affected by the removal of fuel subsidy, which caused RON 88 fuel price to be adjusted bi-weekly in line with fluctuations in global oil prices. But there were no adjustments in the second quarter, in a bid to contain inflationary pressure leading to the Lebaran season. Despite that, the CCI remained weak, possibly because the weak Q1

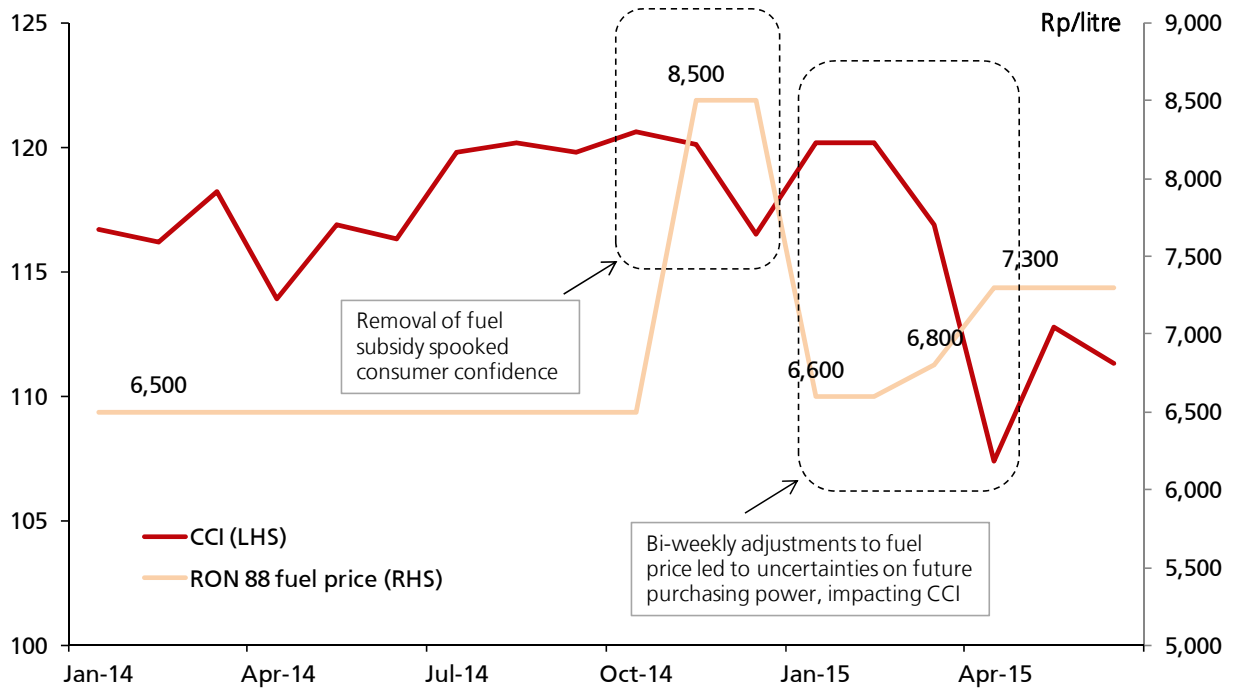
GDP and slower-than-expected rollout of government projects had created concerns over employment prospects, and in turn, future income.

Consumers padding up savings. The Central Bank consumer surveys indicate the propensity to consume has decreased in 2015 relative to the previous year. Rising energy costs due to removal of subsidies on fuel and electricity tariff, have led consumers to defer spending because of insecurity over future income. The percentage of income that is saved has increased in 1Q15 and 2Q15 (see chart). Therefore, consumers will spend on staple products rather than discretionary items.

Low commodity prices – positive for producers, not for consumers. The weak coal and CPO prices are positive for producers as they would reduce input costs (and possibly expand margins). But this might not benefit consumers who live on the islands, such as Kalimantan and Sumatera. The economies of several cities on those islands are driven by mining or plantation industries. Therefore, the weak commodity prices have caused some businesses to close down or lay off workers; these have raised unemployment and reduced average incomes in those cities. In 2Q15, prices of coal and CPO had remained stubbornly low because of weaker global demand, and we have heard some businesses in areas outside Java are doing poorly.

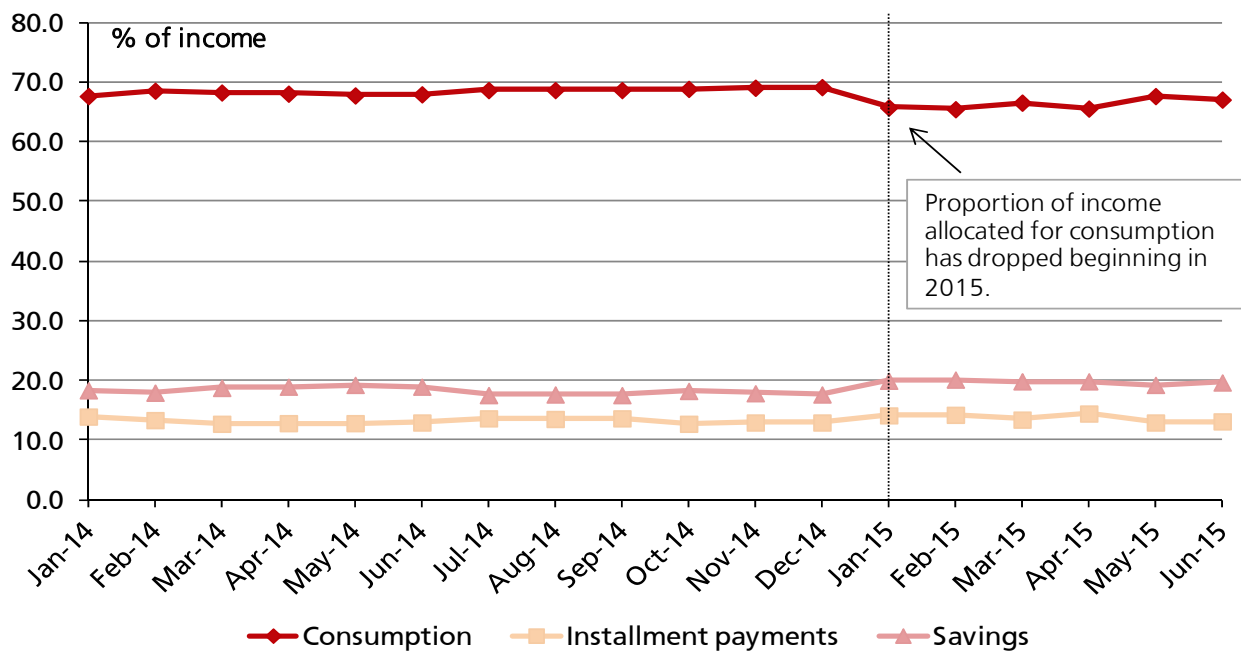
In June, our analyst Edward Tanuwijaya visited two cities in Eastern Kalimantan province, the 6th largest province by national GDP contribution and which economy is mostly driven by the commodities industry. In his 8 Jun 2015 report titled *Basking in past glory*, he noted that retail traffic in shopping malls was slower than what he had expected. And checks with some local subcontractors indicate business activities have slowed down somewhat, and there have been cases of workers being laid off.

CCI vs. RON 88 fuel price (2014-1H15)



Source: Bank Indonesia, DBS Vickers

Proportion of income saved vs. spent (2014-1H15)



Source: Bank Indonesia

Lower raw material input prices could bump up margins

Commodity prices are trending down, positive for margins. Prices of key commodities that are used as raw material input (e.g. wheat, palm oil, sugar, skimmed milk powder) by Indofood and Unilever had been trending down over 4Q14-1Q15. Given a raw materials inventory lead time of 3-6 months adopted by those companies, here could be upside to gross margins in 2Q15.

But weaker rupiah will negate some of the impact. We note that the soft commodities are either imported or denominated in foreign currencies, and therefore, the translated prices will be hurt by the weak rupiah. Lower raw material prices should lift margins, but the impact will be partly negated by the rupiah, which has weakened by c.8% against the USD between 4Q14 and 1Q15.

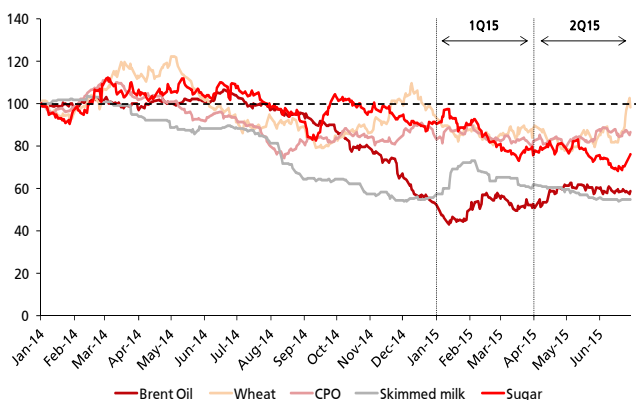
UNVR raised selling prices in March; no impact on margins. Within our coverage, Unilever had raised average selling price by 1% in March. But, we do not expect that to lift margins because service and royalty fees have also been raised by a similar quantum this year.

MAPI had reined in discounts and promotions in 2Q15. MAPI had been offering large discounts previously in a bid to reduce high inventory levels, which hurt its margins. But since mid-May, it had started rein in discounts because inventories are at acceptable levels. This should ease pressure on gross margins, and accordingly, we expect margins to improve in 2Q15. We would highlight that although the weaker rupiah should hurt MAPI's margins, the exchange rate is still within the currency buffer that MAPI has embedded in its selling prices.

ICBP and INDF should see relatively flat margins in 2Q compared to 1Q. ICBP did not adjust noodle prices in 2Q15. The last price hike (4-5%) for noodles was in early January. That suggests ICBP should book relatively stable margins in 2Q15 on a quarterly basis. For INDF, Bogasari typically passes on cost fluctuations through adjustments to selling prices, and the group saw relatively flat CPO prices in the last two quarters. Therefore, INDF should also book relatively stable margins.

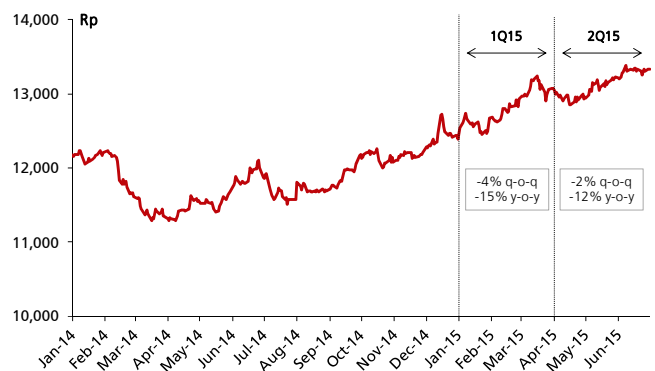
LPPF should see higher margins prior to Lebaran. Matahari Department Store has minimal exposure to the USD, so it will not be affected by the weaker rupiah. And past data indicate the quarter leading to the Lebaran season will see margin expansion, which is what we are expecting for 2Q15.

Indexed commodity prices (2014-1H15)



Sources: Bloomberg Finance L.P., DBS Vickers

USD/IDR exchange rate (2014-1H15)



Sources: Bloomberg Finance L.P., DBS Vickers

What we saw on the streets

Pasar Benhil

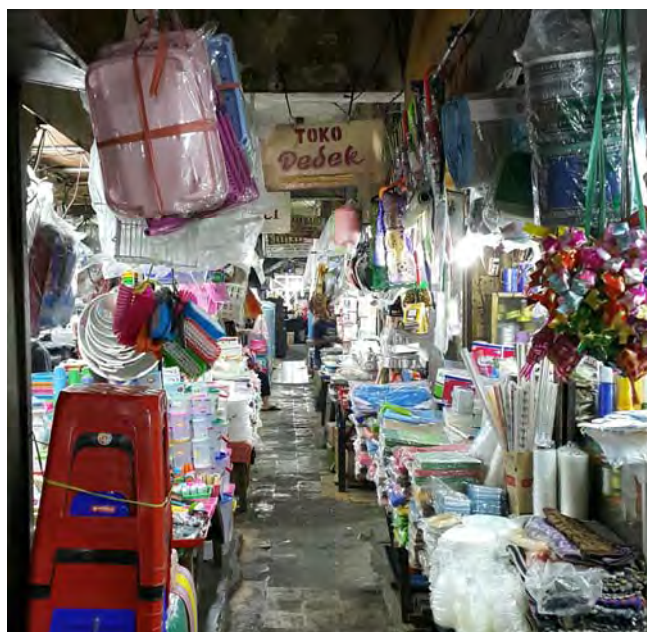
40-year old traditional market. The market started operation in 1974 in a two-storey building in Benhil in Central Jakarta, next to Jakarta's Golden Triangle. 'Pasar' means 'market' in Bahasa, while 'Benhil' is short for 'Bendungan Hilir' – its location. The market occupies approximately 1.8 ha and houses more than 600 vendors. Items sold there range from beef ribs and salak fruit to cooking wares, while most of its customers are resellers and warung (local street shop) owners.

"Slowest Lebaran period in 2-3 years". We had the chance to chat with one of the vendors who sells household products and plastic containers, among other items. The business was inherited from his parent. The two stores, located adjacent to each other, measures 6-8 sqm each. Below are the key takeaways from our conversation:

- (1) There has been a visible slowdown in consumer demand since late last year, reflected by less frequent visits by the vendor's regular customers.
- (2) His regular customers (some are sellers of bite-size cakes) have also shared of stories of slower demand.
- (3) When asked about this year's Lebaran sales, he said it has been unexciting and the slowest in the last 2-3 years. He said sales usually start to pick up a month before Lebaran, but not this year.
- (4) Customers are now pickier, push for better bargains, and would take the trouble to seek primary suppliers (the vendor's supplier) for better prices.
- (5) His take is that rising food and fuel prices have led consumers to think twice before making purchases. Moreover, selling prices of his products have been raised by 10-15% YTD because his suppliers had raised prices.
- (6) The vendor also mentioned that some policies introduced by the provincial government were premature, e.g. prohibiting parking outside the market, but the parking site provided is too far from the market, which deterred some customers from shopping there.

We also had a quick chat with one of the fruit vendors located in front of the market, who mentioned that relocating the parking site has reduced his sales. On top of that, competition is also tough as buyers are now more price-sensitive. At times, he had to sell his fruits at cost or even at a slight loss, just to get customers to buy from him.

Pasar Benhil



Source: DBS Vickers

Pasar Tanah Abang

Established more than 200 years ago. Pasar Tanah Abang was first built in 1735 during the Dutch era. It has been reconstructed and renovated several times, most recently in early 2000s. The multi-storey building complex is occupied by more than 20,000 shops, making it the largest wholesale clothing market in Southeast Asia. There, buyers can find anything from plain tees to baby bibs to lingerie. We understand most of the stores there cater to resellers because the vendors require bulk purchases, i.e. minimum of a dozen pieces of each item.

“Lebaran sales almost halved this year”. It took us several tries to finally get hold of a shop-owner who would have a chat with us, although she wanted it wrapped up quickly as she was uncomfortable that owners in adjacent shops might be listening in. Her shop sells clothing for teenage girls, and her customers live in Java, but outside Jakarta. The key takeaways from the chat are as follows:

- (1) A fair share of her regular customers has shut down their businesses because of slow demand. Some have switched to operating small F&B outlets because that seems to hold better prospects in the current economic setting.
- (2) For her shop, sales leading to the Lebaran season have dropped by almost 50% this year compared to previous years. She felt her customers are more selective in terms of style and pricing, and she often had to yield to customers’ demands if she wanted to close the transaction.
- (3) Many of her friends who operate stores in Tanah Abang have voiced similar concerns. High rental cost (now about US\$27,000 per year for a 12 sqm space) coupled with lackluster demand have prompted some to consider closing down as they are uncertain when the situation would turn around.

Our findings were echoed by the recent article in *The Jakarta Post*. In the article, “Storekeepers’ siestas sign of weak demand” dated 6 July, the writer had highlighted similar findings. One of the store keepers the journalist met mentioned that the stores were so deserted that it was possible to take naps. Another storekeeper voiced her anxiety about a bonus this year as her store’s revenue has dropped to Rp30mn (US\$2,300) per month from Rp80-90mn (US\$6,500) previously. She was quoted as saying, “... around this time sales should peak but up until now they are still weak”.

Pasar Tanah Abang



Source: DBS Vickers

Regulations/ policies that pertain to the Consumer and Retail sector

No	Regulations/ policies that pertain to the sector	What does it say?	Our comments	Companies of interest
1	Presidential Decree on control of food prices	<p>The recently signed Presidential Decree No. 71/2015 will allow the government to control prices of certain basic foods during, before, and after a religious festive season, or during a period of price volatility.</p> <p>The food covered are: - Agriculture products: rice, soy-based products, chilies, shallots - Industrial products: sugar, cooking oil, wheat flour - Livestock: beef, chicken, eggs, fresh-water fish</p>	<p>The Trade Ministry had said it would release detailed guidelines following the decree.</p> <p>But now, the Ministry said the detailed guidelines would not be released this year because of insufficient time to prepare. As such, the Decree will not have an immediate impact.</p>	INDF, ICBP
2	Removal of luxury tax	<p>Removal of luxury tax on:</p> <ul style="list-style-type: none"> - sporting equipment (previously taxed at 30%), - branded bags > Rp5mn (previously taxed at 40%) - branded clothes > Rp3mn (previously taxed at 40%) 	<p>This will have minimal impact on Mitra Adiperkasa (MAPI IJ) as less than 2% of its products fall under this category.</p>	MAPI
3	Increase in import tax for certain luxury products	<p>Increased import tax to 10% from 7.5% for the qualifying items (see above)</p>	<p>This will have minimal impact on Mitra Adiperkasa (MAPI IJ) as less than 2% of its products fall under the category.</p>	MAPI
4	Domestic transactions must be conducted in rupiah, not USD	<p>The Central Bank has issued regulation No. 17/3/PBI/2015, which states that:</p> <p>All cash and non-cash transactions in Indonesia performed by individuals or corporations must use the rupiah currency. This include:</p> <ul style="list-style-type: none"> - transactions which requires a payment; - any obligation that must be fulfilled by transferring money; and/or - other financial transactions. 	<p>No impact on companies in our universe because import and export transactions are exempted.</p>	MAPI, UNVR, ICBP, INDF
5	Regulation on local content	<p>The Trade Ministry has revised the regulation which stipulates products sold in Indonesia should have a minimum of 80% local content. The revised rule exempts products that are sold in specialty stores, are part of a global supply chain, and that cannot be produced domestically.</p>	<p>Positive for Mitra Adiperkasa (MAPI IJ) as this has removed a regulatory overhang on the company.</p>	MAPI

Sources: Various sources, DBS Vickers

Stick to staple names and cheap valuation

Valuation is attractive for INDF (BUY: TP Rp8,350). In the current environment, we would recommend sticking to companies that offer staple items, and avoid stocks that are involved in general retail. Demand for staple products tends to be more resilient when the economy is slow, compared to demand for discretionary items. At the current price, investors would be able to gain exposure to ICBP at 21% discount to ICBP's current market price. Furthermore, CPO price is already hovering near its lowest levels, and a faster-than-expected pickup in CPO price would lead to earnings upside, which would bode well for the stock price. INDF is currently trading at 13x FY16F PE while our sum-of-parts derived TP is Rp8,350, implying 17x FY16F PE and 27% upside from current level.

But UNVR is pricey given slowing growth (FV: TP Rp35,400). Unilever's sales volume growth will decelerate amid the slowing domestic economy and overall FMCG industry. That said, a shift in revenue mix, a weak rupiah, and difficulty in passing on cost-increases to consumers, would lead to weaker margins. We estimate UNVR will see relatively flat earnings growth in 2015, up only 2%. UNVR is currently trading at 49x FY16F PE, about +2SD of its 5-year average valuation; this is pricey given its muted growth prospect. Our TP is pegged to 43x FY16F PE, which is about +1SD of its 5-year average valuation, indicating 12% downside from the current level.

Consumer peers valuation table

Company	Curr	Last Px	Mkt Cap (US\$ m)	2015F PE (x)	2016F PE (x)	2015F EV/ EBITDA	2016F EV/ EBITDA	P/B (x)	P/S (x)
Indofood CBP Sukses Makmur Tbk PT	IDR	12,500	5,468	25.2	22.4	15.7	13.6	5.0	2.4
Indofood Sukses Makmur Tbk PT	IDR	6,400	4,216	14.5	13.1	8.1	7.1	2.1	0.9
Kalbe Farma Tbk PT	IDR	1,695	5,960	34.2	30.0	22.0	19.0	8.0	4.5
Unilever Indonesia Tbk PT	IDR	40,000	22,896	52.7	49.1	36.9	34.4	48.2	8.7
Gudang Garam Tbk PT	IDR	49,000	7,073	16.2	14.0	9.9	8.9	2.7	1.4
Mayora Indah Tbk PT	IDR	26,000	1,744	28.2	20.9	13.8	11.3	5.4	1.6
Nippon Indosari Corpindo Tbk PT	IDR	1,170	444	24.4	19.0	13.1	10.7	5.8	3.1
Tiga Pilar Sejahtera Food Tbk	IDR	2,125	513	17.3	14.7	9.9	7.8	2.0	1.2
Universal Robina Corp	PHP	192.00	9,264	30.7	25.9	18.5	15.9	7.3	4.1
Nestle Malaysia Bhd	MYR	72.00	4,444	28.5	26.3	18.8	17.5	20.0	3.5
Super Group Ltd/Singapore	SGD	1.07	873	18.4	16.6	11.1	10.3	2.2	2.2
				26.7	23.1	16.2	14.2		

Retail peers valuation table

Company	Curr	Last Px	Mkt Cap (US\$ m)	2015F PE (x)	2016F PE (x)	2015F EV/ EBITDA	2016F EV/ EBITDA	P/B (x)	P/S (x)
Matahari Department Store Tbk PT	IDR	17,600	3,849	25.3	21.1	17.6	14.7	149.2	6.4
Mitra Adiperkasa Tbk PT	IDR	5,175	644	30.4	19.0	8.7	7.4	3.5	0.7
Matahari Putra Prima Tbk PT	IDR	3,025	1,219	27.1	22.6	14.7	12.3	5.6	1.2
Sumber Alfaria Trijaya Tbk PT	IDR	600	1,867	37.0	29.4	11.9	10.4	8.1	0.5
Modern Internasional Tbk PT	IDR	444	152	34.7	28.6	11.7	9.9	1.5	1.3
Courts Asia Ltd	SGD	0.40	156	11.3	9.2	6.8	6.3	0.7	0.3
Sheng Siong Group Ltd	SGD	0.84	939	23.0	21.3	14.3	12.9	5.1	1.7
Puregold Price Club Inc	PHP	36.00	2,202	19.7	17.3	11.7	10.2	2.8	1.1
Robinsons Retail Holdings Inc	PHP	70.50	2,159	22.0	18.9	13.2	11.1	2.4	1.2
Parkson Holdings Bhd	MYR	1.39	399	11.1	11.2	4.0	3.9	0.6	0.4
Big C Supercenter PCL	THB	193.00	4,614	19.3	17.2	11.7	10.7	3.6	1.2
				23.7	19.6	11.5	10.0		

Sources: DBS Vickers' estimates, Bloomberg Finance L.P. as of 14-Jul-2015

Valuation bands

ICBP PE Band



Source: Bloomberg Finance L.P., DBS Vickers

INDF PE Band



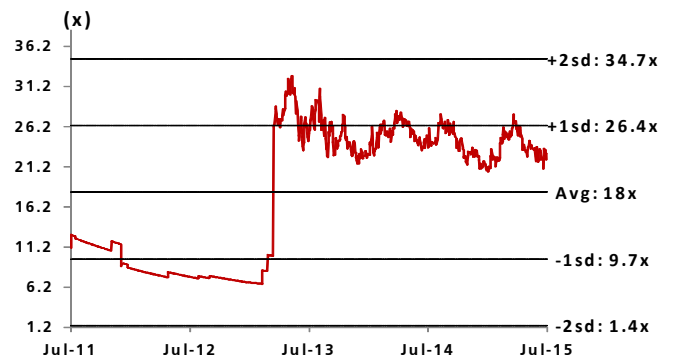
Source: Bloomberg Finance L.P., DBS Vickers

MAPI PE Band



Source: Bloomberg Finance L.P., DBS Vickers

LPPF PE Band



Source: Bloomberg Finance L.P., DBS Vickers

UNVR PE Band



Source: Bloomberg Finance L.P., DBS Vickers

JCI PE Band



Source: Bloomberg Finance L.P., DBS Vickers

Stock Profiles

Indonesia Company Guide

Indofood Sukses Makmur

Edition 1 Version 1 | Bloomberg: INDF IJ | Reuters: INDF.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Jul 2015

BUY

Last Traded Price: Rp6,525 (JCI : 4,893.92)

Price Target: Rp 8,350 (28% upside) (Prev Rp9,050)

Potential Catalyst: Recovery of CPO prices, lower raw material prices

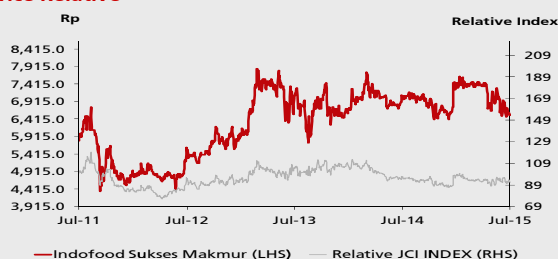
Where we differ: Marginally below consensus

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Price Relative



Forecasts and Valuation

FY Dec (Rp bn)	2013A	2014A	2015F	2016F
Turnover	55,624	63,594	68,049	74,538
EBITDA	8,723	10,175	10,109	11,787
Pre-tax Profit	4,001	6,229	6,845	8,578
Net Profit	2,504	3,885	3,951	4,372
Net Pft (Pre Ex.)	2,504	3,885	3,951	4,372
EPS (Rp)	285	443	450	498
EPS Pre Ex. (Rp)	285	443	450	498
EPS Gth (%)	(23)	55	2	11
EPS Gth Pre Ex (%)	(23)	55	2	11
Diluted EPS (Rp)	285	443	450	498
Net DPS (Rp)	142	221	225	249
BV Per Share (Rp)	2,668	2,927	3,152	3,401
PE (X)	22.4	14.5	14.2	12.9
PE Pre Ex. (X)	22.4	14.5	14.2	12.9
P/Cash Flow (X)	8.1	6.1	7.5	7.2
EV/EBITDA (X)	8.8	8.1	8.0	7.0
Net Div Yield (%)	2.2	3.5	3.5	3.9
P/Book Value (X)	2.4	2.2	2.0	1.9
Net Debt/Equity (X)	0.2	0.3	0.2	0.2
ROAE (%)	10.7	15.1	14.3	14.6
Earnings Rev (%):		0	(10)	(15)
Consensus EPS (Rp):		N/A	492	539
Other Broker Recs:		B: 25	S: 0	H: 5

Source of all data: Company, DBS Bank, DBS Vickers, Bloomberg Finance L.P

VALUATION GAP REMAINS ATTRACTIVE

Maintain BUY; trimmed FY15F/16F earnings by 10%/15%

We maintain our BUY call for Indofood with a lower target price of Rp8,350, implying 28% upside from current levels. Our TP implies 16.8x FY16F PE, in line with its average valuation over the last four years. We revised down FY15F/16F revenue and EBIT following similar adjustments for Indofood CBP (ICBP IJ) and Indofood Agri (IFAR SP).

Exposure to ICBP at attractive 24% discount

On the back of the slower economy, we revised down estimates for the Consumer Branded Products (CBP) division, which is housed under ICBP. However, we remain optimistic of this division and continue to flag the attractive valuation gap between Indofood and ICBP. At Indofood's current share price, investors would gain exposure to ICBP at a cheaper valuation. We estimate the value of ICBP in Indofood is at 24% discount to the current market price.

Potential upside with a recovery in CPO price and domestic economy

The current low CPO price has been pressuring Indofood's Agribusiness performance. Similarly, a slower domestic economy has dampened volume growth at the wheat flour operation under Bogasari. We forecast sales volume for Bogasari will be relatively flat this year at +1% y-o-y. A recovery in CPO price and a pickup in Bogasari's sales volume would lift Indofood's earnings.

Valuation:

We value Indofood Sukses Makmur at Rp8,350/share based on sum-of-the-parts valuation. Our target price implies 19x FY15F and 17x FY16F earnings.

Key Risks to Our View:

Surge in wheat price. Low wheat prices will benefit Indofood's CBP segment as well as Bogasari. But unfavourable weather could disrupt supply and raise global wheat prices, which would hurt margins and be a risk to our call.

At A Glance

Issued Capital (m shrs)	8,780
Mkt. Cap (Rpbn/US\$m)	56,195 / 4,237
Major Shareholders	
CAB Holding (%)	51.5
Free Float (%)	48.5
3m Avg. Daily Val (US\$m)	4.8
ICB Industry : Consumer Goods / Food Producers	

CRITICAL DATA POINTS TO WATCH

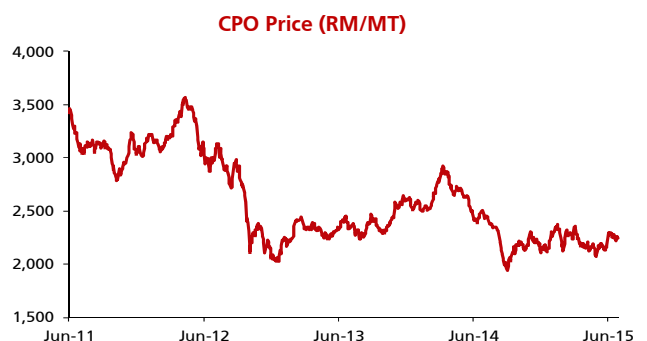
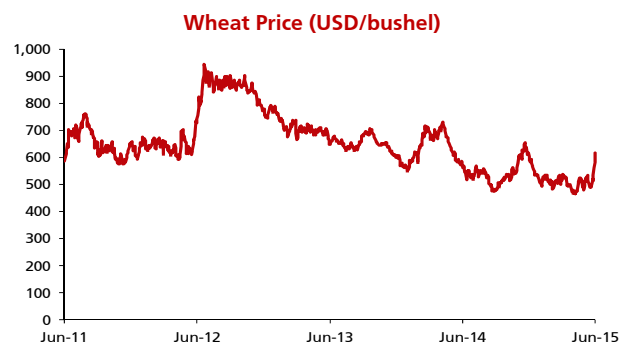
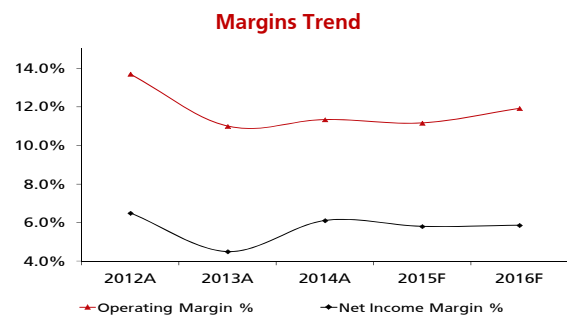
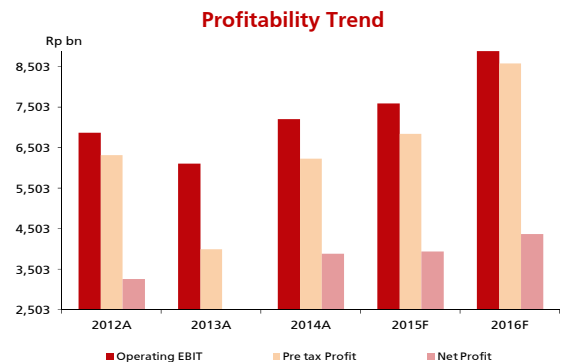
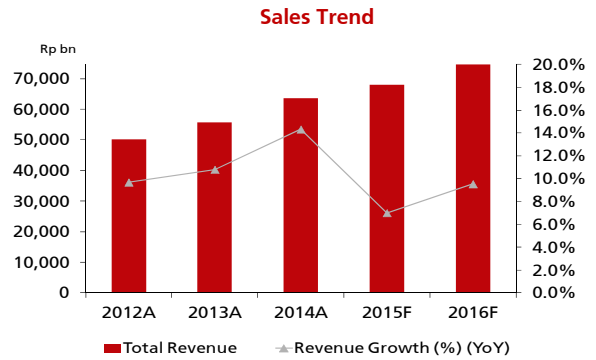
Earnings Drivers:

Consumer Branded Products (CBP) segment is the primary earnings driver. In 2014, Indofood’s CBP segment, under ICBP, contributed more than 40% of Group EBIT. Agribusiness and Bogasari contributed 30% and 20%, respectively. Growth in the CBP segment is predominantly driven by the noodles business which generated over 95% of ICBP’s earnings in FY14. Also, noodles are considered a cheap substitute to rice for many Indonesians, which is why noodle sales are relatively resilient in a slow economy.

Wheat price and rupiah strength. Bogasari produces wheat flour, of which 30% is used by ICBP, 65% is sold to SMEs, and the rest to retail consumers. Bogasari imports all its wheat requirement, which means it is susceptible to fluctuations in global wheat prices and the strength of the rupiah. It adjusts average selling price according to its costs, which eventually affects ICBP’s margins. The sharp depreciation of the rupiah in 2013-14 had reduced EBIT margins at the CBP segment by about 300bps to 10.2% in 2014 from 13.1% in 2012.

CPO price. The Agribusiness segment, under 60.5%-owned subsidiary Indofood Agri Resources (IFAR SP), is involved in both upstream and downstream operations. Currently, the low CPO price is pressuring the Agribusiness margins, i.e. EBIT margin fell to 15% in 2014 vs. 24% in 2011. Our plantation analyst indicated that excess supply and slower demand from China are keeping CPO prices down. The Agribusiness segment contributed c.30% of Indofood’s 2014 EBIT. A recovery of the global economy would help to lift demand for palm oil and support CPO price.

Recovery of the domestic economy. The slow domestic economy has been pressuring revenues at both the CBP segment and Bogasari. We estimate volume growth at ICBP will be relatively flat in 2015 given weaker consumer demand this year. Earnings growth at ICBP will also be relatively muted, which would affect Indofood’s earnings. Similarly, as 65% of Bogasari’s wheat flour is sold to SMEs, weak domestic consumer demand would also dampen Bogasari’s sales volume as small businesses are now less inclined to expand operations, which implies lower demand for wheat flour.



Source: Company, DBS Bank, DBS Vickers

Balance Sheet:

Cash-rich; ready for attractive ventures. Indofood Sukses Makmur had Rp14.2tr cash (US\$1.07bn) as at end 2014. This puts the company in a comfortable position to take on acquisitions or joint ventures that are in line with its vision of being a Total Food Company.

Healthy debt ratio. As of 2014, Indofood has a debt-equity ratio of 0.19x which is reasonable. After the planned partial divestment of China Minzhong this year, we expect the proceeds to be used to pare down outstanding debts, and reduce the debt-equity ratio to 0.1x by end 2015.

Share Price Drivers:

Commodity prices. INDF is exposed to fluctuations in wheat as well as crude palm oil (CPO) prices. An increase in wheat price (as well as a weaker rupiah) would translate into higher wheat flour price, which will consequently reduce margins for ICBP's noodle segment (assuming no adjustment to noodle ASP). Overall, that would hurt INDF as ICBP's noodle segment accounts for c.40% of INDF's operating profit. Similarly, weak CPO prices will hurt the Agribusiness segment, and consequently, INDF. These could pressure INDF's share price.

Pick up in the economy. A recovery of the economy, or when GDP growth meets market expectations, would be positive for staple companies like INDF. This should lift sales volumes for ICBP as well as Bogasari, and create positive sentiment towards the stock.

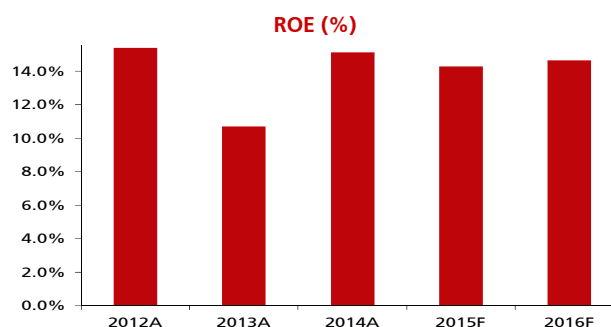
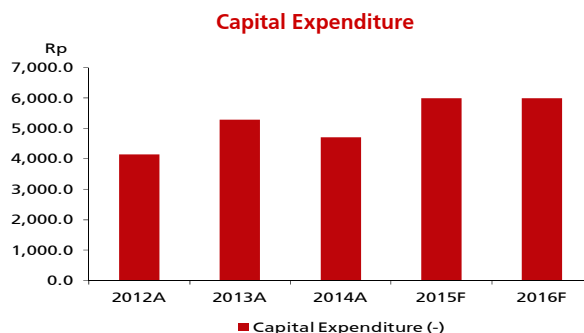
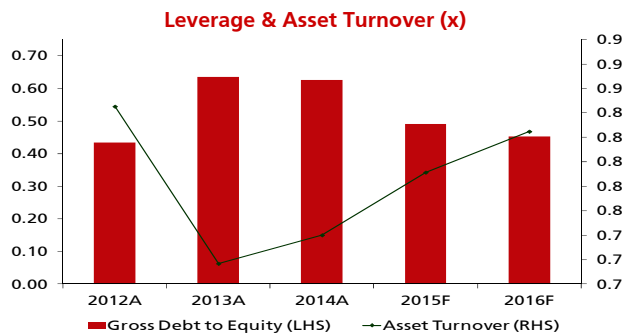
Key Risks:

Volatile commodity prices. Fluctuations in commodity prices could swing costs, and consequently, margins.

Suppressed CPO price. Persistently low CPO prices could hurt Agribusiness revenues.

COMPANY BACKGROUND

Indofood Sukses Makmur is the largest instant noodle and wheat flour manufacturer in Indonesia, has the largest market share in the cooking oil market, and is also involved in oil palm cultivation (through subsidiary, Indofood Agri Resources), and other branded food products, including snack food, food seasoning, specialty and nutrition food, and dairy products.



Source: Company, DBS Bank, DBS Vickers

Segmental Breakdown

FY Dec	2012A	2013A	2014A	2015F	2016F
Revenues (Rp bn)					
Consumer Branded	21,710	24,746	29,921	33,065	36,824
Bogasari	15,934	18,678	19,926	20,930	22,203
Agribusiness	13,869	13,300	14,677	15,016	16,565
Distribution	3,933	4,548	5,135	5,319	5,826
Cultivation and Processed	0	0	2,110	4,099	0
Elimination	(5,244)	(5,648)	(6,064)	(6,281)	(6,880)
Total	50,202	55,624	63,595	68,049	74,538
Operating Profit (Rp bn)					
Consumer Branded	2,848	2,633	3,039	3,638	4,117
Bogasari	1,373	1,402	1,445	1,465	1,554
Agribusiness	2,390	1,363	2,197	2,330	3,037
Distribution	143	162	192	160	175
Cultivation and Processed	0	0	532	861	0
Elimination	(1)	(3)	1	1	1
Total	6,753	5,557	7,406	8,454	8,884
Operating Profit Margins (%)					
Consumer Branded	13.1	10.6	10.2	11.0	11.2
Bogasari	8.6	7.5	7.3	7.0	7.0
Agribusiness	17.2	10.3	15.0	15.5	18.3
Distribution	3.6	3.6	3.7	3.0	3.0
Cultivation and Processed	N/A	N/A	25.2	21.0	N/A
Total	13.5	10.0	11.6	12.4	11.9

Assumed divestment of Minzhong stake would be completed by 1H15

Income Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Revenue	50,202	55,624	63,594	68,049	74,538
Cost of Goods Sold	(36,610)	(42,018)	(46,545)	(50,357)	(54,786)
Gross Profit	13,591	13,606	17,050	17,693	19,753
Other Opng (Exp)/Inc	(6,714)	(7,494)	(9,841)	(10,099)	(10,869)
Operating Profit	6,878	6,112	7,209	7,594	8,884
Other Non Opg (Exp)/Inc	(148)	(1,657)	(51)	0	0
Associates & JV Inc	(33)	(17)	(119)	96	416
Net Interest (Exp)/Inc	(380)	(437)	(809)	(845)	(722)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	6,317	4,001	6,229	6,845	8,578
Tax	(1,531)	(1,177)	(1,828)	(2,009)	(2,518)
Minority Interest	(1,518)	(322)	(516)	(885)	(1,689)
Preference Dividend	0	0	0	0	0
Net Profit	3,261	2,504	3,885	3,951	4,372
Net Profit before Except.	3,268	2,502	3,885	3,951	4,372
EBITDA	9,123	8,723	10,175	10,109	11,787
Growth					
Revenue Gth (%)	9.7	10.8	14.3	7.0	9.5
EBITDA Gth (%)	2.4	(4.4)	16.6	(0.6)	16.6
Opg Profit Gth (%)	0.4	(11.1)	17.9	5.3	17.0
Net Profit Gth (%)	6.0	(23.2)	55.2	1.7	10.7
Margins & Ratio					
Gross Margins (%)	27.1	24.5	26.8	26.0	26.5
Opg Profit Margin (%)	13.7	11.0	11.3	11.2	11.9
Net Profit Margin (%)	6.5	4.5	6.1	5.8	5.9
ROAE (%)	15.4	10.7	15.1	14.3	14.6
ROA (%)	5.5	3.2	4.5	4.6	4.8
ROCE (%)	9.8	6.5	7.0	7.5	8.3
Div Payout Ratio (%)	49.8	49.8	50.0	50.0	50.0
Net Interest Cover (x)	18.1	14.0	8.9	9.0	12.3

Forecast contribution by Minzhong as an Associate entity starting 2H15

Source: Company, DBS Bank, DBS Vickers

Quarterly / Interim Income Statement (Rp bn)

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Revenue	15,032	19,035	16,327	13,201	15,021
Cost of Goods Sold	(11,196)	(13,509)	(12,069)	(9,771)	(10,913)
Gross Profit	3,836	5,526	4,259	3,430	4,108
Other Oper. (Exp)/Inc	(2,237)	(2,733)	(2,595)	(2,276)	(2,358)
Operating Profit	1,598	2,793	1,663	1,154	1,750
Other Non Opg (Exp)/Inc	(62)	23	14	(26)	(408)
Associates & JV Inc	(45)	(29)	33	(78)	(71)
Net Interest (Exp)/Inc	545	(823)	(317)	(214)	(173)
Exceptional Gain/(Loss)	261	0	0	745	209
Pre-tax Profit	2,298	1,964	1,392	1,583	1,307
Tax	(526)	(488)	(398)	(415)	(321)
Minority Interest	(384)	(312)	(253)	(311)	(116)
Net Profit	1,388	1,163	740	856	870
Net profit bef Except.	1,126	1,163	740	111	661
EBITDA	2,184	3,391	2,349	1,752	2,374

Growth

Revenue Gth (%)	4.8	26.6	(14.2)	(19.1)	13.8
EBITDA Gth (%)	22.7	55.2	(30.7)	(25.4)	35.5
Opg Profit Gth (%)	18.7	74.7	(40.4)	(30.6)	51.6
Net Profit Gth (%)	138.5	(16.2)	(36.4)	15.6	1.6

Margins

Gross Margins (%)	25.5	29.0	26.1	26.0	27.3
Opg Margins (%)	10.6	14.7	10.2	8.7	11.6
Net Profit Margins (%)	9.2	6.1	4.5	6.5	5.8

Balance Sheet (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Net Fixed Assets	22,727	30,097	30,604	30,175	33,272
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	10,426	14,742	14,339	14,435	14,851
Cash & ST Invt	13,899	17,757	14,823	14,306	13,932
Inventory	7,786	8,161	8,455	8,692	9,456
Debtors	3,641	5,267	4,340	4,999	5,476
Other Current Assets	910	1,587	13,378	13,378	13,378
Total Assets	59,389	77,611	85,939	85,985	90,366
ST Debt	6,470	8,729	8,993	8,993	8,993
Creditor	3,643	4,851	5,151	5,755	6,261
Other Current Liab	2,692	5,892	8,538	8,538	8,538
LT Debt	8,354	15,324	16,838	12,924	12,924
Other LT Liabilities	4,090	4,924	5,191	5,191	5,191
Shareholder's Equity	21,206	23,429	25,700	27,676	29,862
Minority Interests	12,934	14,462	15,528	16,909	18,598
Total Cap. & Liab.	59,389	77,611	85,939	85,985	90,366
Non-Cash Wkg. Capital	6,002	4,273	12,484	12,777	13,512
Net Cash/(Debt)	(925)	(6,296)	(11,008)	(7,610)	(7,984)
Debtors Turn (avg days)	26.5	34.6	24.9	26.8	26.8
Creditors Turn (avg days)	38.7	44.9	43.1	43.9	44.0
Inventory Turn (avg days)	82.7	75.6	70.8	66.3	66.5
Asset Turnover (x)	0.8	0.7	0.7	0.8	0.8
Current Ratio (x)	2.0	1.7	1.8	1.8	1.8
Quick Ratio (x)	1.4	1.2	0.8	0.8	0.8
Net Debt/Equity (X)	0.0	0.2	0.3	0.2	0.2
Net Debt/Equity ex MI (X)	0.0	0.3	0.4	0.3	0.3
Capex to Debt (%)	28.0	22.0	18.2	27.4	27.4
Z-Score (X)	NA	2.3	2.4	2.6	2.7

Source: Company, DBS Bank, DBS Vickers

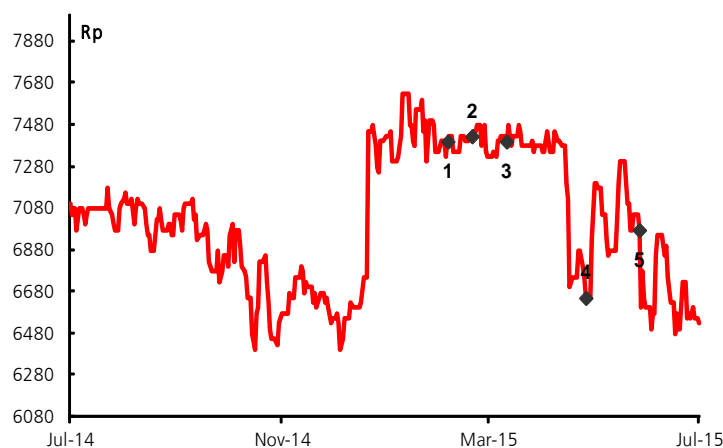
Cash Flow Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Pre-Tax Profit	6,317	4,001	6,229	6,845	8,578
Dep. & Amort.	1,690	2,078	2,467	2,515	2,903
Tax Paid	(1,531)	(1,177)	(1,828)	(2,009)	(2,518)
Assoc. & JV Inc/(loss)	33	17	119	(96)	(416)
Chg in Wkg.Cap.	(2,590)	1,742	(8,385)	203	(735)
Other Operating CF	3,500	268	10,667	0	0
Net Operating CF	7,419	6,929	9,269	7,459	7,812
Capital Exp.(net)	(4,152)	(5,286)	(4,707)	(6,000)	(6,000)
Other Invt.(net)	0	(3,398)	(3,937)	0	0
Invt in Assoc. & JV	(423)	(4,389)	(461)	3,914	0
Div from Assoc & JV	(603)	(552)	0	0	0
Other Investing CF	84	(776)	(1,058)	0	0
Net Investing CF	(5,093)	(14,402)	(10,163)	(2,086)	(6,000)
Div Paid	(1,537)	(1,624)	(1,247)	(1,975)	(2,186)
Chg in Gross Debt	(150)	8,851	3,109	(3,914)	0
Capital Issues	0	0	0	0	0
Other Financing CF	(622)	(436)	(459)	0	0
Net Financing CF	(2,309)	6,791	1,403	(5,889)	(2,186)
Currency Adjustments	191	981	130	0	0
Chg in Cash	208	298	639	(517)	(374)
Opg CFPS (Rp)	1,140	591	2,011	826	973
Free CFPS (Rp)	372	187	520	166	206

Assume proceeds from the sale of Minzhong stake would be used to pare down debts

Source: Company, DBS Bank, DBS Vickers

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	17 Feb 15	7400	9050	Buy
2:	03 Mar 15	7425	9050	Buy
3:	23 Mar 15	7400	9050	Buy
4:	08 May 15	6650	9050	Buy
5:	08 Jun 15	6975	9050	Buy

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Indonesia Company Guide

Matahari Department Store

Edition 1 Version 1 | Bloomberg: LPPF IJ | Reuters: LPPF.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Jul 2015

BUY

Last Traded Price: Rp17,300 (JCI : 4,893.92)

Price Target : Rp22,200 (28% upside)

Potential Catalyst: New stores, stronger-than-expected SSSG

Where we differ: Most bullish among consensus estimates

Analyst

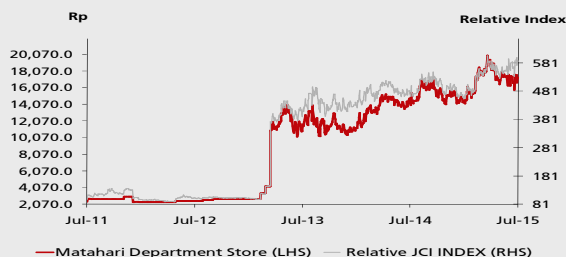
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Price Relative



Forecasts and Valuation

FY Dec (Rpbn)	2013A	2014A	2015F	2016F
Revenue	6,754	7,926	9,286	10,820
EBITDA	2,012	2,290	2,822	3,304
Pre-tax Profit	1,524	1,851	2,497	2,996
Net Profit	1,150	1,419	1,997	2,397
Net Pft (Pre Ex.)	1,150	1,419	1,997	2,397
Net Pft (ex. BA gains)	N/A	N/A	N/A	N/A
EPS (Rp)	394	486	684	821
EPS Pre Ex. (Rp)	394	486	684	821
EPS Gth (%)	49	23	41	20
EPS Gth Pre Ex (%)	49	23	41	20
Diluted EPS (Rp)	394	486	684	821
Net DPS (Rp)	158	292	411	493
BV Per Share (Rp)	(268)	61	335	663
PE (X)	43.9	35.6	25.3	21.1
PE Pre Ex. (X)	43.9	35.6	25.3	21.1
P/Cash Flow (X)	39.1	32.3	21.2	19.3
EV/EBITDA (X)	25.5	22.1	17.6	14.7
Net Div Yield (%)	0.9	1.7	2.4	2.8
P/Book Value (X)	nm	284.3	51.7	26.1
Net Debt/Equity (X)	CASH	0.3	CASH	CASH
ROAE (%)	(147.2)	799.1	204.5	123.8

Earnings Rev (%)	-	-	-	-
Consensus EPS (Rp):			647	789
Other Broker Recs:	B: 19	S: 1	H: 1	

Source of all data: Company, DBS Vickers, DBS Bank, Bloomberg Finance L.P

THE TOUGHER ONE

Maintain BUY; a defensive play in the retail space

We maintain our BUY recommendation for Matahari with a target price of Rp22,200, pegged to 27x FY16F earnings, or +1SD of its average valuation over the last five years. Given its strong lead in the department store space, attractive growth prospects as well as sustainable business model, the stock deserves to trade at a premium to domestic peers. In the current environment of slow consumer demand and weak currency, Matahari's earnings will be more resilient than other players in the domestic retail space.

Strong double-digit earnings growth despite slowdown

We estimate Matahari's net income will grow at 26% CAGR between 2014 and 2017F on the back of stable same-store growth and store expansion, as well as full year impact of a reduced effective tax rate from 2015 onwards, and a debt-free balance sheet. Matahari has minimal exposure to the USD, which is a significant advantage given the weakening rupiah.

New stores on track, looking to benefit from Lebaran season

YTD, Matahari has opened eight new stores, as guided. We assumed they would open 12 new stores this year. The management's strategy is to open most of its new stores prior to Lebaran to capture the spending momentum that usually peaks towards the Lebaran season, which falls in the third week of July this year.

Valuation:

We value Matahari at Rp22,200, pegged to 27x FY16F PE, or +1SD of its historical average valuation.

Key Risks to Our View:

Slowing economy and rising energy prices will crimp spending.

Matahari's target segment makes up c.60% of the country's population. A slowing economy and rising energy prices would impact this segment and revenue growth, which would reduce earnings.

At A Glance

Issued Capital (m shrs)	2,918
Mkt. Cap (Rpbn/US\$m)	50,480 / 3,806
Major Shareholders	
Multipolar (%)	20.5
Asia Color (%)	2.0
Free Float (%)	77.5
3m Avg. Daily Val (US\$m)	5.3

ICB Industry : Consumer Services / General Retailers

Matahari Department Store

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Stable SSSG and new store openings. We assumed 10.7%/11% SSSG, and the opening of 12/11 new stores in FY15F/16F. Matahari saw weaker SSSG in 1Q15 because of generally weaker consumer spending, especially in ex-Java islands such as Kalimantan where incomes have been affected by low commodity prices and several closures of commodity-related businesses. Kalimantan’s economy is dependent on the commodity industry, such as coal-mining and oil palm cultivation.

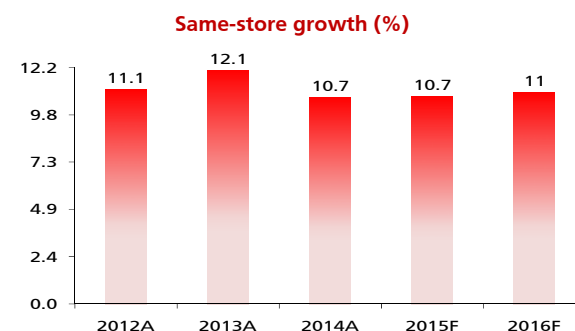
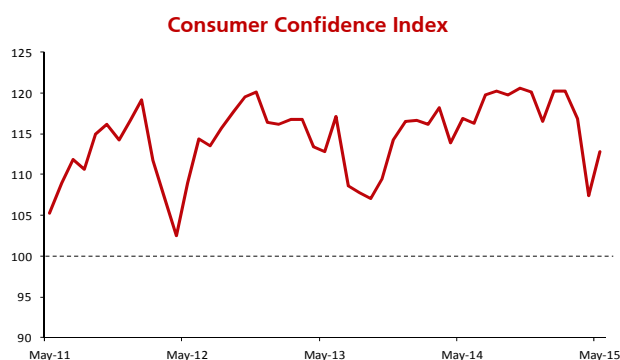
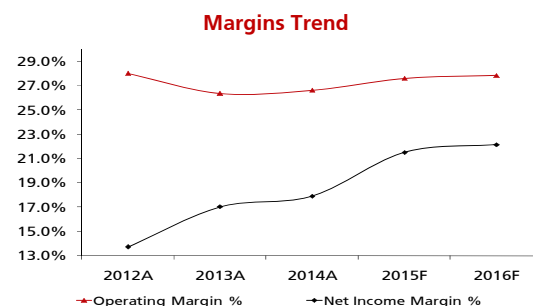
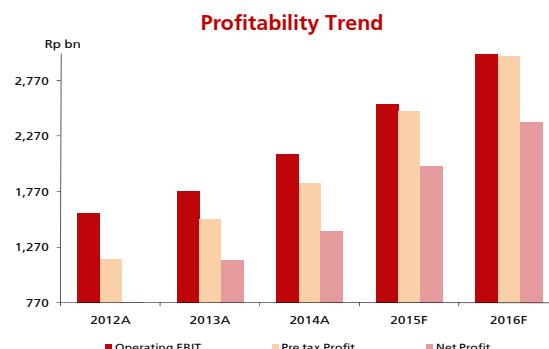
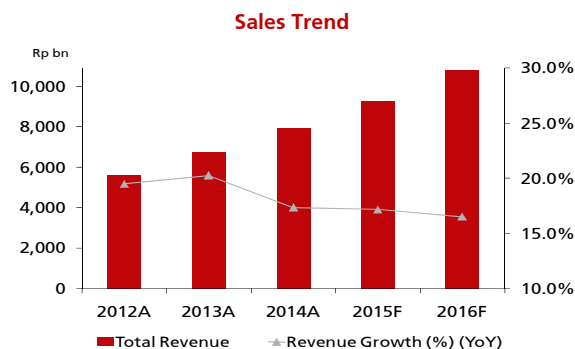
Meanwhile, Matahari has opened eight new stores prior to the Lebaran season which will fall in the third week of July this year. This is a positive move as it means the company would benefit from the spending momentum that usually peaks towards the Lebaran season.

Recovery of consumer sentiment. Matahari’s target market is the mid-low/middle income consumers, which make up about 60% of the country’s population. A pickup in the consumer sentiment, represented by the Consumer Confidence Index, would lift sales growth.

Larger share of retail sales to lift margins. Matahari operates two main business segments: consignment sales and retail sales. Gross margins from retail sales are higher than from consignment sales, at 43% vs 31%. Going forward, we expect retail sales to outpace consignment sales, which would expand margins as the revenue mix shifts.

Expect net profit to grow at 26% CAGR (FY14-17F). Our earnings projection is premised on: (1) margin expansion arising from a shift in revenue mix, (2) stable SSSG and store expansion, and (3) full year impact of lower effective tax rate of 20% from 2015 onwards, supported by a debt-free balance sheet and strong cashflow generation.

Low exposure to USD/IDR volatility. More than 80% of Matahari’s products are sourced locally, so margins are rarely affected by the volatile rupiah. Currently, the rupiah is trading at Rp13,300 to the dollar amid a weak domestic macro environment, and in anticipation of the Fed raising interest rate by the end of this year. Our in-house forecast for the rupiah is Rp13,660 by the end of 2015, implying further downside. We like Matahari for its minimal exposure to the USD and relatively stable earnings throughout our forecast period.



Source: Company, DBS Vickers, DBS Bank

Matahari Department Store

Balance Sheet:

An asset-light, debt-free company. At the end of 2014, Matahari had Rp410bn in long-term debt. The company aims to be debt-free by this year end, which is likely to happen given its stellar operating cash flow generation capability. The other positive aspect is the company's asset-light business model. We like that 100% of Matahari's stores are leased – 70% on 10-year fixed rent contracts and 30% on revenue sharing contracts with the space operator.

Matahari also does not rely heavily on distribution centres as its effective supply chain allows for just-in-time inventory system; its goods are shipped to its stores nationwide within 48 hours of arriving at the distribution centre. This business model has allowed the company to improve its operating efficiency, and its store and marketing initiatives have expanded net margins over the past few years.

Share Price Drivers:

Better-than-expected same store growth. A recovery in the domestic economy and a pickup in consumer spending will be reflected in better-than-expected SSSG for Matahari. In 1Q15, Matahari stores recorded 5.4% SSSG, which was weak but relatively better than peers' amid the slow economy.

Going into the second quarter, expectations are that Matahari will capitalise on the Lebaran season, when consumers generally spend more. Again, stronger-than-expected SSSG in the quarter could re-rate the stock.

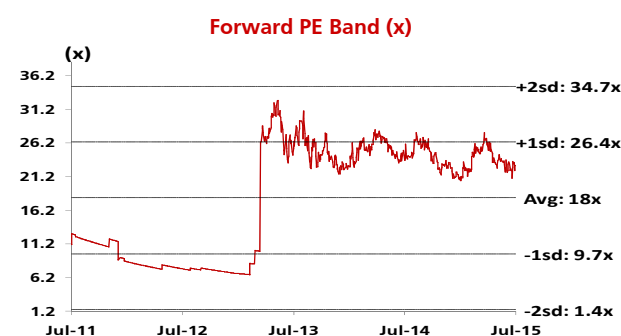
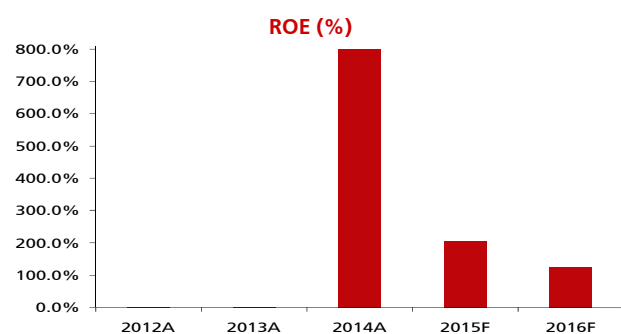
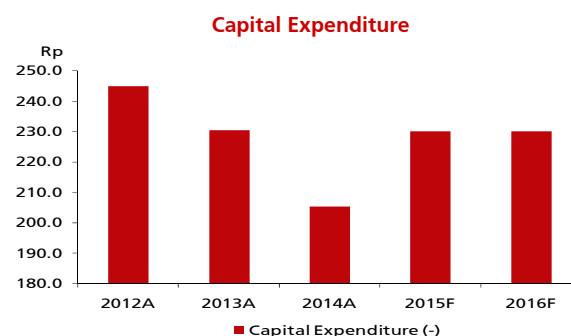
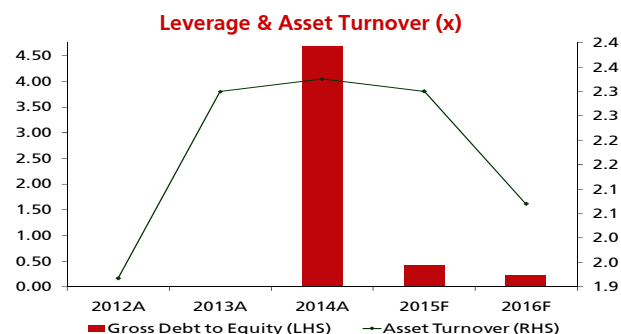
Key Risks:

Slower demand because of higher fuel price. The increase in (subsidised) fuel price could reduce middle-low/ middle income consumers' disposable income, and subsequently, reduce discretionary spending.

Limited available space for expansion. Matahari's store expansion plan may slow down if space becomes limited. This could lead to slower-than-expected revenue growth.

COMPANY BACKGROUND

PT Matahari Department Store Tbk operates a retail business that carries several types of products including clothes, accessories, bags, shoes, cosmetics, and household appliances.



Source: Company, DBS Vickers, DBS Bank

Matahari Department Store

Key Assumptions

FY Dec	2012A	2013A	2014A	2015F	2016F
New stores	13.0	9.0	6.0	12.0	11.0
Same-store growth (%)	11.1	12.1	10.7	10.7	11.0

Segmental Breakdown

FY Dec	2012A	2013A	2014A	2015F	2016F
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Revenues (Rp bn)

Consignment sales	7,712	8,695	9,552	10,885	12,321
Retail sales	3,175	4,044	4,899	5,836	6,902
Service fees	35	37	45	53	60
Total	10,922	12,776	14,496	16,774	19,283

Gross Profit (Rp bn)

Consignment sales	2,407	2,674	2,981	3,398	3,858
Retail sales	1,281	1,668	2,038	2,469	2,968
Service fees	18	22	29	34	39
Total	3,706	4,363	5,048	5,900	6,865

Gross Profit Margins (%)

Consignment sales	31.2	30.7	31.2	31.2	31.3
Retail sales	40.4	41.2	41.6	42.3	43.0
Service fees	50.6	58.1	63.3	65.0	65.0
Total	33.9	34.2	34.8	35.2	35.6

Income Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Revenue	5,617	6,754	7,926	9,286	10,820
Cost of Goods Sold	(1,911)	(2,391)	(2,878)	(3,386)	(3,955)
Gross Profit	3,706	4,363	5,048	5,900	6,865
Other Opng (Exp)/Inc	(2,132)	(2,582)	(2,937)	(3,336)	(3,852)
Operating Profit	1,574	1,781	2,111	2,564	3,013
Other Non Opg (Exp)/Inc	10	34	(27)	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(425)	(291)	(233)	(67)	(17)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	1,159	1,524	1,851	2,497	2,996
Tax	(388)	(373)	(431)	(499)	(599)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	771	1,150	1,419	1,997	2,397
Net Profit before Except.	771	1,150	1,419	1,997	2,397
EBITDA	1,758	2,012	2,290	2,822	3,304

Growth

Revenue Gth (%)	19.5	20.2	17.3	17.2	16.5
EBITDA Gth (%)	26.1	14.4	13.8	23.2	17.1
Opg Profit Gth (%)	25.4	13.2	18.5	21.5	17.5
Net Profit Gth (%)	65.6	49.2	23.4	40.7	20.0

Margins & Ratio

Gross Margins (%)	66.0	64.6	63.7	63.5	63.4
Opg Profit Margin (%)	28.0	26.4	26.6	27.6	27.8
Net Profit Margin (%)	13.7	17.0	17.9	21.5	22.1
ROAE (%)	(39.9)	(147.2)	799.1	204.5	123.8
ROA (%)	26.3	39.2	41.6	49.5	45.8
ROCE (%)	73.6	115.6	123.4	120.6	90.6
Div Payout Ratio (%)	0.0	40.0	60.0	60.0	60.0
Net Interest Cover (x)	3.7	6.1	9.0	38.0	176.5

Source: Company, DBS Vickers, DBS Bank

Revenues based on gross consignment sales

Overall gross margin expected to expand with bigger contribution from retail sales

Revenues here based on net consignment sales

Quarterly / Interim Income Statement (Rp bn)

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Revenue	1,480	1,849	2,710	1,886	1,619
Cost of Goods Sold	(555)	(665)	(992)	(665)	(601)
Gross Profit	924	1,184	1,718	1,221	1,018
Other Oper. (Exp)/Inc	(661)	(740)	(798)	(738)	(762)
Operating Profit	263	444	920	484	256
Other Non Opg (Exp)/Inc	(20)	1	(6)	(2)	(1)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(53)	(116)	(34)	(30)	(14)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	190	329	880	452	241
Tax	(67)	(90)	(181)	(93)	(56)
Minority Interest	0	0	0	0	0
Net Profit	123	239	699	359	185
Net profit bef Except.	123	239	699	359	185
EBITDA	297	500	972	542	307

Growth

Revenue Gth (%)	(10.1)	25.0	46.6	(30.4)	(14.2)
EBITDA Gth (%)	(35.6)	68.3	94.3	(44.3)	(43.4)
Opg Profit Gth (%)	(33.6)	68.7	107.3	(47.4)	(47.0)
Net Profit Gth (%)	(50.9)	93.8	192.8	(48.7)	(48.4)

Margins

Gross Margins (%)	62.5	64.0	63.4	64.7	62.9
Opg Margins (%)	17.8	24.0	33.9	25.6	15.8
Net Profit Margins (%)	8.3	12.9	25.8	19.0	11.4

Balance Sheet (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Net Fixed Assets	694	727	726	698	637
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	452	481	565	565	565
Cash & ST Invt	1,039	798	786	1,326	2,273
Inventory	520	724	955	1,086	1,363
Debtors	58	33	45	31	58
Other Current Assets	167	174	331	331	331
Total Assets	2,930	2,937	3,408	4,037	5,227
ST Debt	675	116	423	423	423
Creditor	1,055	1,266	1,411	1,650	1,882
Other Current Liab	453	508	685	685	685
LT Debt	2,475	1,567	410	0	0
Other LT Liabilities	203	262	302	302	302
Shareholder's Equity	(1,932)	(781)	178	976	1,935
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	2,930	2,937	3,408	4,037	5,227
Non-Cash Wkg. Capital	(764)	(843)	(764)	(887)	(815)
Net Cash/(Debt)	(2,111)	(885)	(47)	903	1,850
Debtors Turn (avg days)	3.7	1.8	2.1	1.2	1.9
Creditors Turn (avg days)	221.6	210.6	192.8	192.6	187.5
Inventory Turn (avg days)	109.2	120.4	130.5	126.7	135.8
Asset Turnover (x)	1.9	2.3	2.3	2.3	2.1
Current Ratio (x)	0.8	0.9	0.8	1.0	1.3
Quick Ratio (x)	0.5	0.4	0.3	0.5	0.8
Net Debt/Equity (X)	CASH	CASH	0.3	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	0.3	CASH	CASH
Capex to Debt (%)	7.8	13.7	24.7	54.4	54.4
Z-Score (X)	NA	11.4	13.0	14.0	13.4

Assume zero LT debt from 2015 onwards

Source: Company, DBS Vickers, DBS Bank

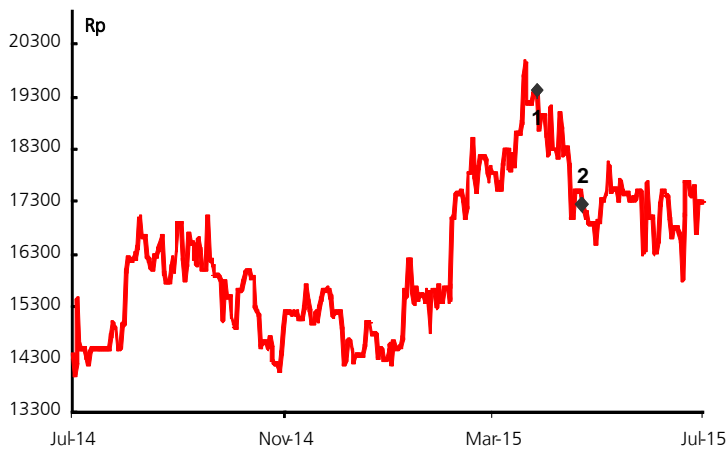
Matahari Department Store

Cash Flow Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Pre-Tax Profit	1,159	1,524	1,851	2,497	2,996
Dep. & Amort.	174	197	207	258	291
Tax Paid	(388)	(373)	(431)	(499)	(599)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg. Cap.	82	(68)	(61)	123	(72)
Other Operating CF	5	11	(2)	0	0
Net Operating CF	1,032	1,290	1,563	2,378	2,615
Capital Exp.(net)	(245)	(230)	(205)	(230)	(230)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc& JV	0	0	0	0	0
Other Investing CF	(217)	38	(21)	0	0
Net Investing CF	(462)	(192)	(227)	(230)	(230)
Div Paid	0	0	(460)	(1,198)	(1,438)
Chg in Gross Debt	(478)	(1,363)	(907)	(410)	0
Capital Issues	0	(3,767)	0	0	0
Other Financing CF	0	3,767	0	0	0
Net Financing CF	(478)	(1,363)	(1,367)	(1,609)	(1,438)
Currency Adjustments	(9)	24	19	0	0
Chg in Cash	83	(241)	(12)	540	947
Opg CFPS (Rp)	325	465	557	773	921
Free CFPS (Rp)	270	363	465	736	817

Source: Company, DBS Vickers, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	08 Apr 15	19425	22200	Buy
2:	04 May 15	17250	22200	Buy

Source: DBS Vickers, DBS Bank

Indonesia Company Guide

Indofood CBP Sukses Makmur

Edition 1 Version 1 | Bloomberg: ICBP IJ | Reuters: ICBP.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Jul 2015

HOLD

Last Traded Price: Rp12,500 (JCI : 4,893.92)

Price Target : Rp13,500 (8% upside) (Prev Rp14,300)

Potential Catalyst: Lower raw material prices, rupiah appreciation

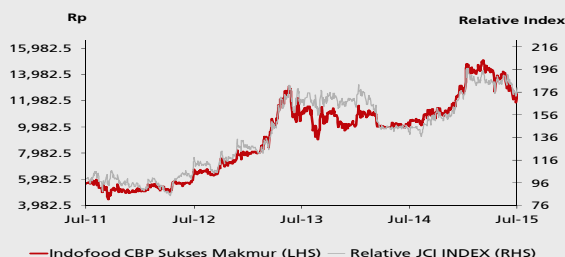
Where we differ: One of the lowest earnings among consensus estimates

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Price Relative



Forecasts and Valuation

FY Dec (Rp bn)	2013A	2014A	2015F	2016F
Revenue	25,095	30,022	33,065	36,824
EBITDA	3,279	3,748	4,432	5,011
Pre-tax Profit	2,967	3,389	3,982	4,476
Net Profit	2,224	2,604	2,889	3,248
Net Pft (Pre Ex.)	2,225	2,604	2,889	3,248
Net Pft (ex. BA gains)	N/A	N/A	N/A	N/A
EPS (Rp)	382	447	496	557
EPS Pre Ex. (Rp)	382	447	496	557
EPS Gth (%)	2	17	11	12
EPS Gth Pre Ex (%)	2	17	11	12
Diluted EPS (Rp)	382	447	496	557
Net DPS (Rp)	190	223	248	278
BV Per Share (Rp)	2,159	2,414	2,662	2,941
PE (X)	32.8	28.0	25.2	22.4
PE Pre Ex. (X)	32.8	28.0	25.2	22.4
P/Cash Flow (X)	36.6	18.9	21.2	19.0
EV/EBITDA (X)	21.4	18.6	15.7	13.6
Net Div Yield (%)	1.5	1.8	2.0	2.2
P/Book Value (X)	5.8	5.2	4.7	4.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	17.7	18.5	18.6	18.9
Earnings Rev (%):			(6)	(6)
Consensus EPS (Rp):			509	594
Other Broker Recs:		B: 16	S: 1	H: 10

Source of all data: Company, DBS Bank, DBS Vickers, Bloomberg Finance L.P

EXPECT A REVISED GUIDANCE

Maintain HOLD; trimmed FY15F/16F earnings by 6% after accounting for a slower economy

We maintain our HOLD call for ICBP with a lower TP of Rp13,500, pegged to 24x FY16F PE, or +1SD of its 5-year average valuation. We cut earnings by 6% for both FY15F and FY16F after adjusting for muted sales volume of ICBP's products. We also revised down margin assumptions as the rupiah is expected to weaken further; our in-house estimates are Rp13,660/Rp13,870 to the dollar for 4Q15/1Q16.

Expect a revised guidance by end July

The management had provided full-year guidance on sales volume growth and EBIT margin in March. But during that time, there was still optimism over the newly-elected government and the Central Bank was targeting 5.4-5.8% GDP growth for 2015. Today, full-year GDP growth is estimated at c.5.0%; the slower economy could prompt the management to revise its guidance during the 2Q15 result announcement in July.

Watch for sales volume and margins in 2Q15

In 1Q15, all products registered weaker y-o-y sales volume growth; the Dairy segment saw 15% volume growth mainly because of the acquisition of *Milkuat*. Margins were relatively strong due to lower raw material prices in 4Q14. But in 2Q15, we would want to see sales volume pick up and meet expectations given the Lebaran season in July, and whether margins would remain resilient despite the rupiah having depreciated by c.8% against the US dollar to date.

Valuation:

We value ICBP at Rp13,500, pegged to 24x FY16F PE, or +1SD of its 5-year average valuation. We prefer exposure to ICBP through its parent company, Indofood Sukses Makmur (INDF IJ), as that stock offers better value.

Key Risks to Our View:

Rapid rupiah depreciation and commodity price hike. A sharp rupiah depreciation or increase in commodity prices could hurt ICBP's margins.

At A Glance

Issued Capital (m shrs)	5,831
Mkt. Cap (Rpbn/US\$m)	72,887 / 5,496
Major Shareholders	
PT Indofood Sukses Makmur (%)	80.5
Free Float (%)	19.5
3m Avg. Daily Val (US\$m)	2.6

ICB Industry : Consumer Goods / Food Producers

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

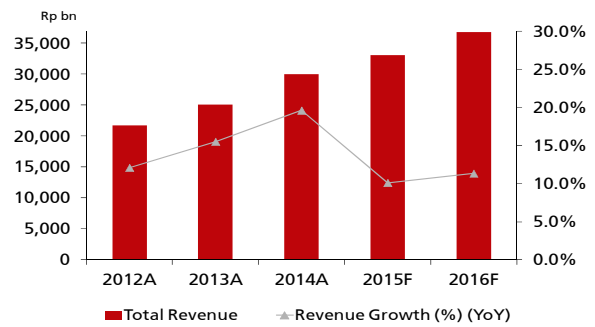
Noodle segment the primary earnings driver. The noodles segment was ICBP’s primary revenue and earnings contributor in FY14, at 66% and 95%, respectively. It is also their strongest product, capturing 72% market share in Indonesia to maintain a comfortable lead over its closest competitor which has 15% market share. The strong lead allows it to be a price-maker in the segment, which is an advantage during times of rising costs and slowing demand. Instant noodles are the preferred substitute to rice by many Indonesians, hence, the resilient demand for the product.

Beverage segment to turnaround in 2016-17. To diversify its revenue and earnings, ICBP expanded into the beverage business by forming a JV with Asahi, one of the largest beverage producers in Japan. Its products include RTD green tea, RTD coffee, and bottled drinking water. It started operations in 4Q13 and aims to breakeven at operating profit level in 2016-17. We are optimistic that ICBP’s expertise in consumer products coupled with Indofood’s extensive distribution network would help ICBP to establish its presence in the under-tapped domestic RTD beverage market.

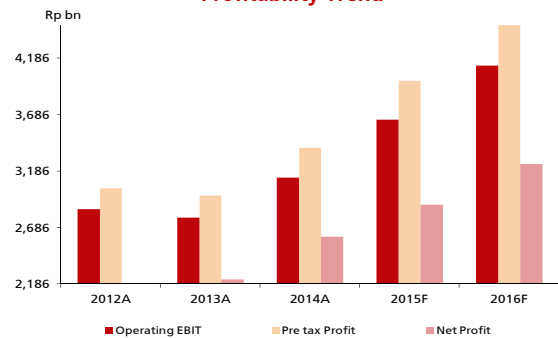
Rupiah strength and commodity prices are key margin drivers. The primary ingredient for noodles is wheat flour, which ICBP obtains through its sister company – Bogasari. Palm oil, skimmed milk powder, potatoes and chilies are also ingredients for ICBP. Most of the soft commodities such as wheat and milk powder are imported, which means its costs are affected by the strength of the rupiah. Hence, ICBP’s margins will be dampened by a rapid depreciation of the rupiah, as well as fluctuations in commodity prices.

New products and new markets to drive topline growth. In December 2014, ICBP entered into a JV with Oji Holding Corporation, a Japanese company that produces paper diapers. The business plans and objectives are still unclear, but this would be another product line to drive topline growth going forward. According to Nielsen’s report, when consumer demand slowed down this year, sales volume of baby diapers in Indonesia had been the most resilient among all the FMCG categories.

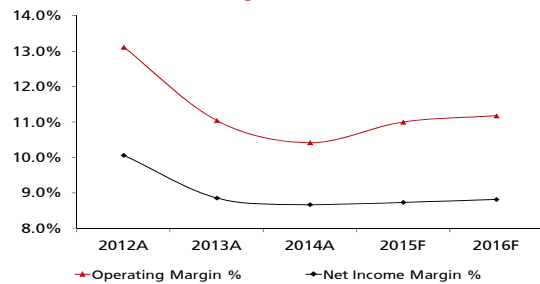
Sales Trend



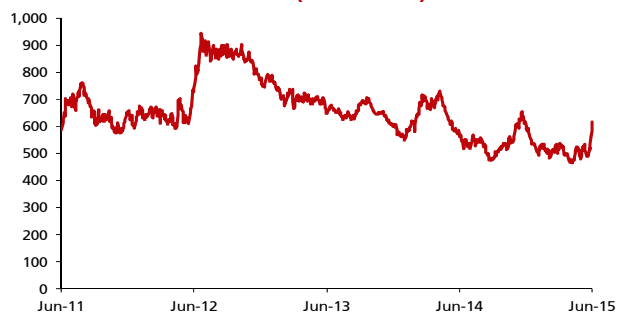
Profitability Trend



Margins Trend



Wheat Price (USD/bushel)



USD/IDR Exchange Rate



Source: Company, DBS Bank, DBS Vickers

Balance Sheet:

Strong cash position with a steady cash conversion cycle. At end 1Q15, ICBP had Rp7.54tr cash on its balance sheet. This will allow the company to tap on attractive acquisitions and/or joint ventures. Furthermore, cash conversion cycle is strong at 38.5 days (at end 2014), and the trend has been improving over the past four years. The company has been paying out 50% of earnings as dividends to shareholders.

Share Price Drivers:

Soft commodity prices and rupiah. The majority of ICBP’s raw materials are priced in US dollars; these include wheat flour, skimmed milk powder, potato, and palm oil. Therefore, the strength of the rupiah and volatile commodity prices would affect margins. During periods of bad harvests, a supply deficit would inflate the price of the affected commodity. This would lead to expectations of weaker margins, and pressure the share price.

Economic recovery. When GDP growth meets market expectations, it is normally favourable for staple food companies like ICBP. This would raise expectations for higher sales volumes and topline growth, which could lift the share price.

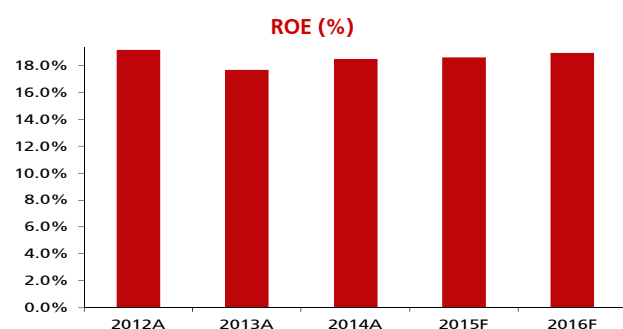
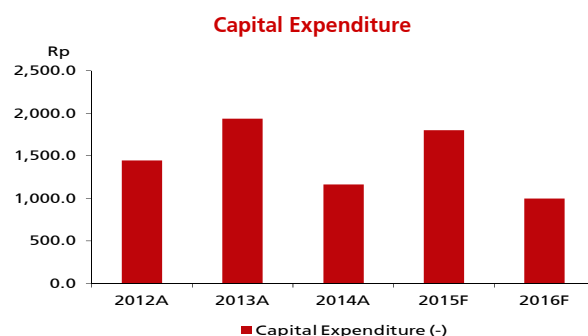
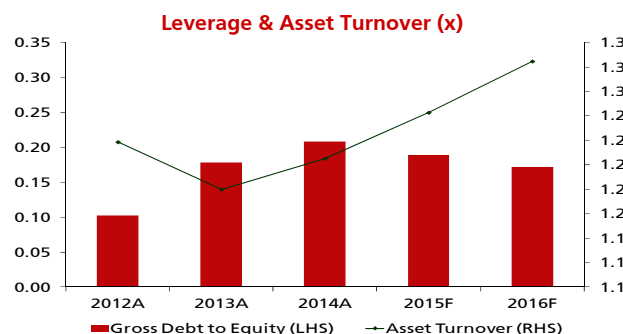
Key Risks:

Rupiah depreciation and commodity price hike. ICBP is susceptible to these because it imports raw materials such as wheat and milk powder.

Cost pressure after adjustments to fuel price. The higher fuel price generally leads to higher costs of goods and services, which would crimp margins if the company is unable to raise selling prices.

COMPANY BACKGROUND

Indofood CBP Sukses Makmur is a 80.5%-subsidiary of Indofood Sukses Makmur PT (INDF IJ). It is the Consumer Branded Products arm of INDF, with noodles its biggest revenue and profit contributor. In the domestic market, ICBP’s flagship brand Indomie captures the largest market share for instant noodles at 72%. Other segments in the company include: dairy, snack food, food seasoning, beverage, and nutritional food.



Source: Company, DBS Bank, DBS Vickers

Indofood CBP Sukses Makmur

Segmental Breakdown

FY Dec	2012A	2013A	2014A	2015F	2016F
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Revenues (Rp bn)

Noodles	15,339	17,322	19,916	21,724	23,696
Dairy	3,888	4,657	5,248	5,946	6,737
Snack Foods	1,503	1,714	2,002	2,016	2,180
Food Seasonings	1,181	1,397	1,146	1,285	1,468
Beverages	0	219	1,923	2,388	3,095
Others	(193)	(214)	(213)	(295)	(353)
Total	21,717	25,095	30,022	33,065	36,824

Operating Profit (Rp bn)

Noodles	2,333	2,311	2,976	3,259	3,483
Dairy	313	358	317	416	472
Snack Foods	109	18	25	101	109
Food Seasonings	63	85	87	90	103
Beverages	0	(49)	(352)	(239)	(62)
Others	31	49	75	12	12
Total	2,849	2,772	3,129	3,638	4,117

Operating Profit Margins (%)

Noodles	15.2	13.3	14.9	15.0	14.7
Dairy	8.0	7.7	6.0	7.0	7.0
Snack Foods	7.3	1.1	1.3	5.0	5.0
Food Seasonings	5.3	6.1	7.5	7.0	7.0
Beverages	N/A	(22.5)	(18.3)	(10.0)	(2.0)
Others	(16.3)	(23.0)	(35.5)	(3.9)	(3.5)
Total	13.1	11.0	10.4	11.0	11.2

Income Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Revenue	21,717	25,095	30,022	33,065	36,824
Cost of Goods Sold	(15,913)	(18,669)	(21,963)	(24,468)	(27,250)
Gross Profit	5,804	6,426	8,060	8,597	9,574
Other Opng (Exp)/Inc	(2,955)	(3,654)	(4,931)	(4,959)	(5,457)
Operating Profit	2,849	2,772	3,129	3,638	4,117
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	5	(11)	(1)	0	0
Net Interest (Exp)/Inc	181	206	261	343	358
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	3,034	2,967	3,389	3,982	4,476
Tax	(745)	(734)	(857)	(1,007)	(1,132)
Minority Interest	(103)	(10)	73	(85)	(96)
Preference Dividend	0	0	0	0	0
Net Profit	2,186	2,224	2,604	2,889	3,248
Net Profit before Except.	2,186	2,224	2,604	2,889	3,248
EBITDA	3,273	3,279	3,748	4,432	5,011

Growth

Revenue Gth (%)	12.1	15.6	19.6	10.1	11.4
EBITDA Gth (%)	9.1	0.2	14.3	18.2	13.1
Opg Profit Gth (%)	9.2	(2.7)	12.9	16.3	13.2
Net Profit Gth (%)	10.7	1.7	17.1	10.9	12.4

Margins & Ratio

Gross Margins (%)	26.7	25.6	26.8	26.0	26.0
Opg Profit Margin (%)	13.1	11.0	10.4	11.0	11.2
Net Profit Margin (%)	10.1	8.9	8.7	8.7	8.8
ROAE (%)	19.2	17.7	18.5	18.6	18.9
ROA (%)	12.3	10.5	10.5	10.9	11.3
ROCE (%)	14.6	11.9	11.6	12.5	13.1
Div Payout Ratio (%)	49.6	49.8	50.0	50.0	50.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Bank, DBS Vickers

Others include:
Nutritional and Special
Foods, and elimination

880% increase as sales
only started in 4Q2013

We forecast the beverage
segment will contribute
positively to operating
profit only in 2017

Quarterly / Interim Income Statement (Rpbn)

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Revenue	7,355	8,167	7,262	7,239	7,968
Cost of Goods Sold	(5,496)	(6,059)	(5,168)	(5,240)	(5,617)
Gross Profit	1,860	2,108	2,094	1,999	2,351
Other Oper. (Exp)/Inc	(964)	(1,304)	(1,250)	(1,413)	(1,341)
Operating Profit	896	804	844	586	1,010
Other Non Opg (Exp)/Inc	0	3	0	(3)	0
Associates & JV Inc	(2)	(6)	18	(10)	(46)
Net Interest (Exp)/Inc	27	19	115	100	33
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	921	820	976	672	997
Tax	(223)	(230)	(256)	(149)	(291)
Minority Interest	1	51	10	11	90
Net Profit	699	640	731	534	797
Net profit bef Except.	699	640	731	534	797
EBITDA	1,040	957	1,002	749	1,176

Growth

Revenue Gth (%)	18.3	11.0	(11.1)	(0.3)	10.1
EBITDA Gth (%)	77.5	(7.9)	4.7	(25.3)	57.0
Opg Profit Gth (%)	99.7	(10.3)	5.0	(30.6)	72.4
Net Profit Gth (%)	88.3	(8.4)	14.2	(27.0)	49.2

Margins

Gross Margins (%)	25.3	25.8	28.8	27.6	29.5
Opg Margins (%)	12.2	9.8	11.6	8.1	12.7
Net Profit Margins (%)	9.5	7.8	10.1	7.4	10.0

Balance Sheet (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Net Fixed Assets	3,869	4,844	5,839	6,845	6,951
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	4,028	5,101	5,468	5,468	5,468
Cash & ST Invt	5,508	5,598	7,403	7,591	8,809
Inventory	1,816	2,869	2,822	3,170	3,530
Debtors	2,547	2,772	3,081	3,231	3,605
Other Current Assets	50	82	298	298	298
Total Assets	17,820	21,267	24,910	26,604	28,662
ST Debt	583	979	1,548	1,548	1,548
Creditor	1,996	2,531	2,813	2,977	3,315
Other Current Liab	1,069	1,187	1,869	1,869	1,869
LT Debt	641	1,383	1,590	1,590	1,590
Other LT Liabilities	1,547	1,922	2,050	2,050	2,050
Shareholder's Equity	11,412	12,587	14,078	15,522	17,146
Minority Interests	572	679	962	1,047	1,143
Total Cap. & Liab.	17,820	21,267	24,910	26,604	28,662
Non-Cash Wkg. Capital	1,349	2,006	1,518	1,853	2,248
Net Cash/(Debt)	4,285	3,236	4,265	4,453	5,671
Debtors Turn (avg days)	42.8	40.3	37.5	35.7	35.7
Creditors Turn (avg days)	47.0	50.9	48.1	45.9	45.9
Inventory Turn (avg days)	42.8	57.7	48.3	48.9	48.9
Asset Turnover (x)	1.2	1.2	1.2	1.2	1.3
Current Ratio (x)	2.7	2.4	2.2	2.2	2.4
Quick Ratio (x)	2.2	1.8	1.7	1.7	1.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	118.0	81.8	37.1	57.4	31.9
Z-Score (X)	NA	8.0	7.0	7.0	7.0

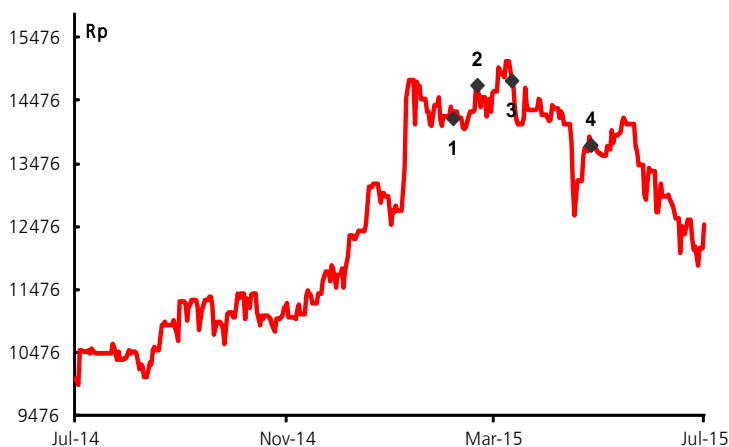
Source: Company, DBS Bank, DBS Vickers

Cash Flow Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Pre-Tax Profit	3,034	2,967	3,389	3,982	4,476
Dep. & Amort.	423	507	619	793	894
Tax Paid	(745)	(734)	(857)	(1,007)	(1,132)
Assoc. & JV Inc/(loss)	(5)	11	1	0	0
Chg in Wkg.Cap.	537	(633)	418	(334)	(396)
Other Operating CF	(191)	(125)	291	0	0
Net Operating CF	3,054	1,993	3,861	3,434	3,842
Capital Exp.(net)	(1,444)	(1,934)	(1,164)	(1,800)	(1,000)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	(64)	(445)	(218)	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	0	(368)	0	0
Net Investing CF	(1,507)	(2,379)	(1,750)	(1,800)	(1,000)
Div Paid	(985)	(1,085)	(1,108)	(1,445)	(1,624)
Chg in Gross Debt	424	996	686	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(31)	297	135	0	0
Net Financing CF	(593)	208	(286)	(1,445)	(1,624)
Currency Adjustments	24	195	23	0	0
Chg in Cash	978	17	1,847	189	1,218
Opg CFPS (Rp)	432	450	590	646	727
Free CFPS (Rp)	276	10	463	280	487

Source: Company, DBS Bank, DBS Vickers

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	17 Feb 15	14200	14300	Hold
2:	03 Mar 15	14725	14300	Hold
3:	23 Mar 15	14800	14300	Hold
4:	08 May 15	13775	14300	Hold

Source: DBS Bank, DBS Vickers

Indonesia Company Guide

Mitra Adiperkasa

Edition 1 Version 1 | Bloomberg: MAPI IJ | Reuters: MAPI.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Jul 2015

HOLD

Last Traded Price: Rp5,400 (JCI : 4,893.92)

Price Target : Rp5,625 (4% upside)

Potential Catalyst: Stronger-than-expected SSSG, margin recovery

Where we differ: Neutral call among mostly bullish consensus calls

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Price Relative



Forecasts and Valuation

FY Dec (Rp bn)	2013A	2014A	2015F	2016F
Revenue	9,734	11,822	13,212	15,088
EBITDA	1,215	1,088	1,316	1,513
Pre-tax Profit	485	192	421	676
Net Profit	328	74	295	473
Net Pft (Pre Ex.)	328	24	295	473
Net Pft (ex. BA gains)	N/A	N/A	N/A	N/A
EPS (Rp)	197	45	178	285
EPS Pre Ex. (Rp)	197	14	178	285
EPS Gth (%)	(24)	(77)	298	60
EPS Gth Pre Ex (%)	(24)	(93)	1,151	60
Diluted EPS (Rp)	197	45	178	285
Net DPS (Rp)	20	5	18	29
BV Per Share (Rp)	1,463	1,530	1,690	1,946
PE (X)	27.3	121.0	30.4	19.0
PE Pre Ex. (X)	27.3	380.5	30.4	19.0
P/Cash Flow (X)	83.3	46.3	8.6	9.8
EV/EBITDA (X)	9.4	11.0	8.7	7.4
Net Div Yield (%)	0.4	0.1	0.3	0.5
P/Book Value (X)	3.7	3.5	3.2	2.8
Net Debt/Equity (X)	1.0	1.1	0.9	0.6
ROAE (%)	13.5	2.9	10.5	14.6
Earnings Rev (%):			0	0
Consensus EPS (Rp):			173	306
Other Broker Recs:		B: 18	S: 2	H: 6

Source of all data: Company, DBS Vickers, Bloomberg Finance L.P

AWAITING A TURNAROUND

Maintain HOLD; awaiting visible evidence of a turnaround

We maintain our HOLD call for MAPI with a TP of Rp5,625.

Our sum-of-parts TP implies 9.0x FY15F EV/EBITDA, slightly above current valuation of 8.6x. We like the company for its dominance in the domestic retail industry, and are positive on its long-term prospects. However, the stock is fairly priced and will only rerate when there are signs of sustainable improvements.

What to watch for

The following could rerate the stock: a drop in inventory level, which would allow MAPI to reduce discounts and promotions and recover margins, as well as stronger-than-expected same-store growth as the slow economy would be expected to put pressure on discretionary spending.

2Q15 results due end of July

MAPI's 2Q15 results will give a better picture of whether operations are turning around. It has already reduced debt with the issuance of zero-coupon bonds. Now, we expect better inventory turnover as the company is targeting 155 days by end 1H15, from a high of 180 days in 1Q15; we estimate margins will start to recover when that drops to 165 days. The results would also show how MAPI's revenue is affected by the slower economy. 1Q15 SSSG was 5%; our assumption for the year is 7.5%.

Valuation:

Our sum-of-parts based TP is Rp5,625, which implies 9.0x/7.6x FY15F/16F EV/EBITDA, or -1SD of its 3-year average valuation.

Key Risks to Our View:

Rapid depreciation of the rupiah. More than 80% of MAPI's costs are in the US dollar. This makes margins susceptible to the weakening rupiah.

At A Glance

Issued Capital (m shrs)	1,660
Mkt. Cap (Rpbn/US\$m)	8,964 / 676
Major Shareholders	
Satya Mulia Gema G (%)	55.0
Map Premier Indo (%)	6.0
Free Float (%)	39.0
3m Avg. Daily Val (US\$m)	0.4
ICB Industry : Consumer Services / General Retailers	

CRITICAL DATA POINTS TO WATCH

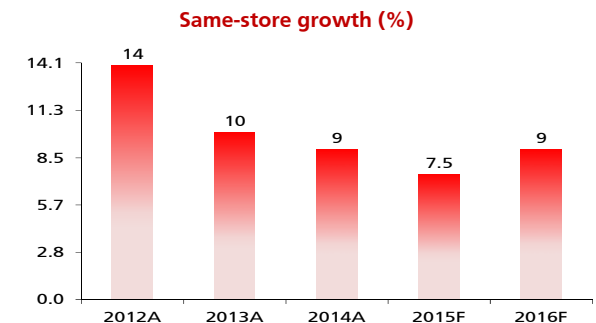
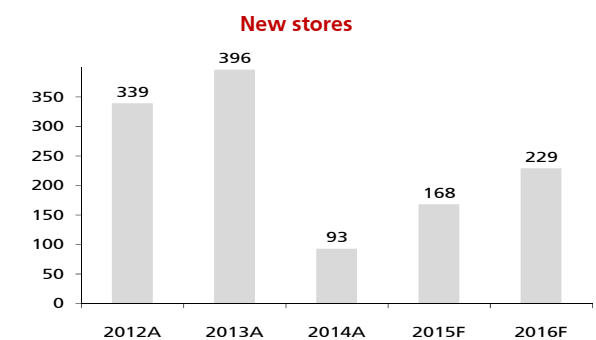
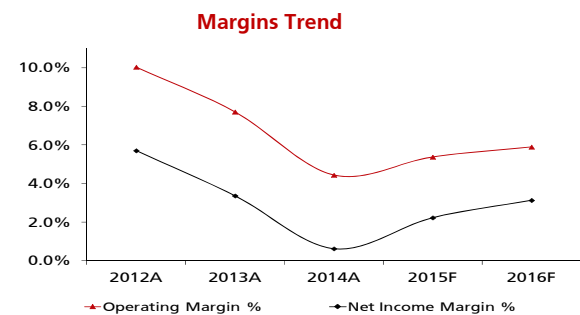
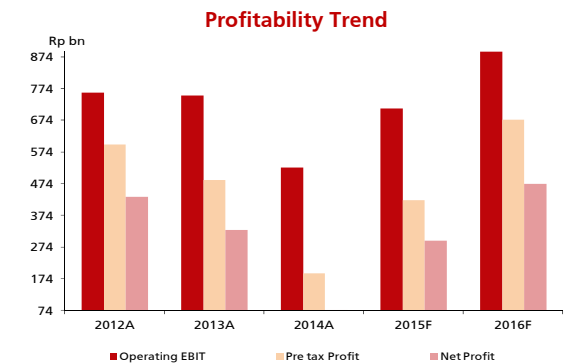
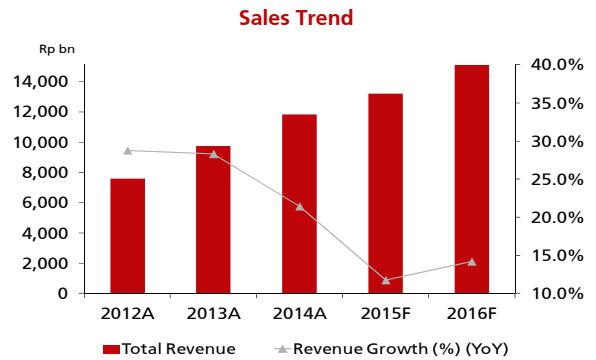
Earnings Drivers:

Growth in discretionary spending. Mitra Adiperkasa is the leader in Indonesia’s retail store segment, with a presence in 30-40% of major shopping malls nationwide. Its stores mainly cater to the mid-high/ high income earners. Demand for its products normally picks up when the economy is growing and the macro front (i.e. interest rates, exchange rate, government policies) is not clouded by uncertainty. When there are too many uncertainties, consumers tend to reduce discretionary purchases, in our view.

Strength of the rupiah against US dollar. With more than 80% of MAPI’s costs in US dollars, a rapidly depreciating rupiah will hurt margins and earnings. MAPI applies a 10-15% buffer in its selling prices, on top of its cost price that is based on the prevailing rupiah spot rate when the products arrive at the ports. This measure is effective when the rupiah depreciates moderately. But, in periods when the rupiah depreciates rapidly, margins will contract. When the rupiah weakened by 22% in the second half of 2013, MAPI’s operating margin averaged 4.5% in 2014 vs 7.6% in 2013.

Limited expansion and mediocre SSSG will slow down revenue growth. Management has guided that they will rein in store expansion for the time being in order to maximize existing store efficiency, manage debt, and reduce inventory levels which has been excessively high in the past few years. MAPI plans to expand operating store space by 50,000 sqm this year, and is targeting 6-8% SSSG. We are assuming similar space expansion and 7.5% SSSG. Missing these targets means there will be downside to earnings.

Tapping on growth of e-commerce. The company has ventured into the fast-growing e-commerce market in Indonesia by setting up online shop portals for some of its brands, i.e. *planetsports.net* and *lineashoes.com*. This year, it is developing its integrated e-commerce website, *mapemall.com*. It is scheduled for launch in 3Q15, its mobile apps would be available in 4Q15, while online shopping capability and in-store pickup would be available in 1Q16. We are positive that given MAPI’s extensive store network and expertise in the retail space, the e-channel could be a significant earning contributor in the future.



Source: Company, DBS Vickers

Balance Sheet:

Rp1.5tr (US\$115mn) zero-coupon bonds to pare down debt. MAPI has issued 5-year unsecured, zero-coupon bonds with a face value of Rp1.5tr (US\$115mn). The proceeds will be used to pare down the company's debt, and reduce its interest-bearing net gearing to 0.33x in FY15F from 1.12x in FY14.

Inventory levels a concern. MAPI had expanded rapidly between 2012 and 2014, growing store space by more than 40% and almost doubling its store count. That caused inventory level to be elevated, and MAPI took on debt to fund its stretched cash flow, which hurt profits. MAPI also had to discount its products heavily to reduce inventory. In 1Q15, inventory was still high at 180 days. The company is targeting to reduce that to 155-160 days by end 1H15. We estimate operating margins will start to recover when inventory levels drop below 165 days.

Share Price Drivers:

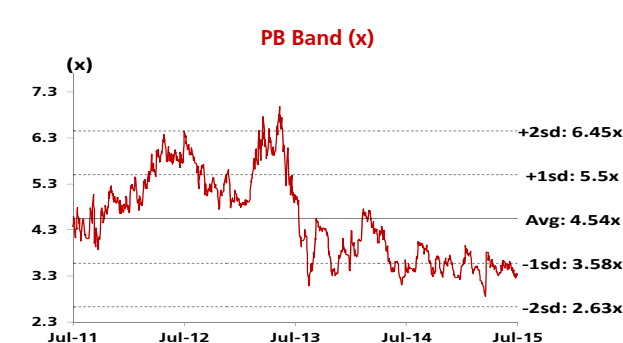
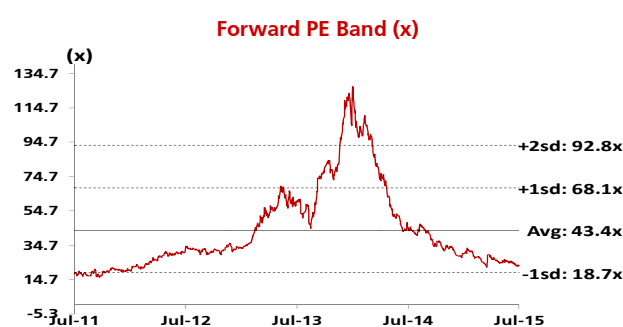
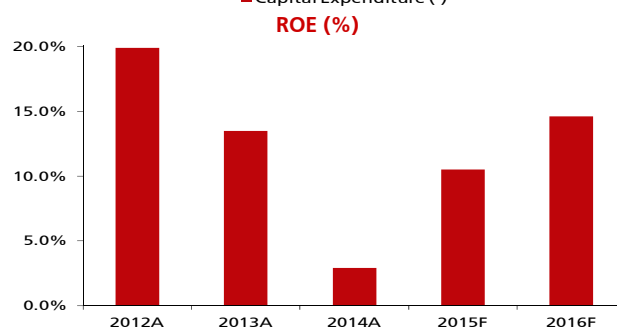
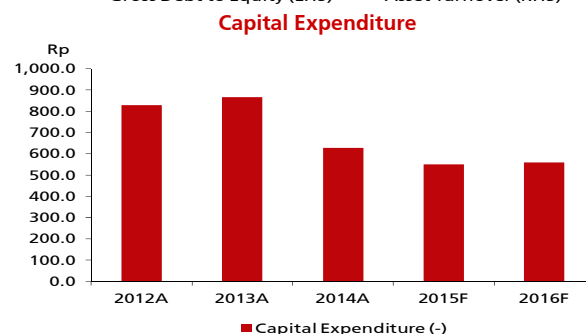
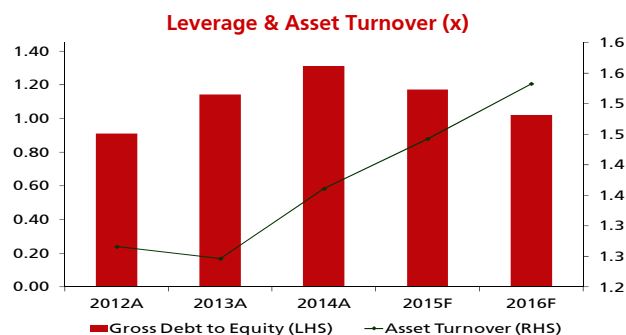
Pickup in the economy, stable rupiah. Factors that will support MAPI's share price include: (1) faster-than-expected economic recovery (i.e. stronger GDP growth), (2) a stronger rupiah on the back of an improving macro environment, and (3) taking on new initiatives/ brands that will lift margins.

Key Risks:

Rapid depreciation of the rupiah will crimp margins. More than 80% of MAPI's costs are in US dollars and it does not hedge its foreign currency exposure. These make margins highly susceptible to a weak rupiah. The company applies a 10-15% buffer in its selling prices to address a moderate depreciation of the rupiah, but would be hurt by a sudden weakness of the rupiah. The sharp 22% depreciation of the rupiah in 2H13 crimped margins by over 300bps between 2013 and 2014.

COMPANY BACKGROUND

Mitra Adiperkasa (MAPI) operates department stores and specialty stores, selling a broad range of goods including sporting apparels, clothing, food, and other merchandise. Its stores mainly cater to the middle-high/ high income segment and to date, it carries more than 140 brands and operates more than 1,800 stores nationwide, making it Indonesia's largest retail store operator.



Source: Company, DBS Vickers

Key Assumptions

FY Dec	2012A	2013A	2014A	2015F	2016F
New stores	339	396	93	168	229
Same-store growth (%)	14.0	10.0	9.0	7.5	9.0

Segmental Breakdown

FY Dec	2012A	2013A	2014A	2015F	2016F
Revenues (Rp bn)					
Retail sales	4,532	5,955	7,498	8,623	10,134
Department stores	1,961	2,370	2,599	2,653	2,735
Cafe and restaurant	967	1,277	1,547	1,754	2,032
Others	124	133	178	182	187
Total	7,585	9,734	11,822	13,212	15,088
Operating Profit (Rp bn)					
Retail sales	606	638	498	647	801
Department stores	136	116	2	13	22
Cafe and restaurant	6	(10)	19	44	61
Others	13	8	6	6	7
Total	761	751	525	710	890
Operating Profit Margins (%)					
Retail sales	13.4	10.7	6.6	7.5	7.9
Department stores	6.9	4.9	0.1	0.5	0.8
Cafe and restaurant	0.6	(0.8)	1.2	2.5	3.0
Others	10.1	5.9	3.4	3.5	3.5
Total	10.0	7.7	4.4	5.4	5.9

Retail sales to remain major contributor to operating profit

Income Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Revenue	7,585	9,734	11,822	13,212	15,088
Cost of Goods Sold	(3,726)	(4,886)	(6,352)	(7,095)	(8,027)
Gross Profit	3,859	4,849	5,470	6,117	7,061
Other Opng (Exp)/Inc	(3,098)	(4,098)	(4,945)	(5,407)	(6,171)
Operating Profit	761	751	525	710	890
Other Non Opg (Exp)/Inc	(19)	(46)	(14)	0	0
Associates & JV Inc	11	13	7	0	0
Net Interest (Exp)/Inc	(156)	(233)	(376)	(289)	(214)
Exceptional Gain/(Loss)	0	0	51	0	0
Pre-tax Profit	598	485	192	421	676
Tax	(165)	(157)	(119)	(126)	(203)
Minority Interest	0	0	1	0	0
Preference Dividend	0	0	0	0	0
Net Profit	433	328	74	295	473
Net Profit before Except.	433	328	24	295	473
EBITDA	1,114	1,215	1,088	1,316	1,513
Growth					
Revenue Gth (%)	28.8	28.3	21.4	11.8	14.2
EBITDA Gth (%)	22.5	9.0	(10.5)	21.0	15.0
Opg Profit Gth (%)	22.3	(1.3)	(30.1)	35.3	25.3
Net Profit Gth (%)	20.1	(24.3)	(77.4)	297.8	60.5
Margins & Ratio					
Gross Margins (%)	50.9	49.8	46.3	46.3	46.8
Opg Profit Margin (%)	10.0	7.7	4.4	5.4	5.9
Net Profit Margin (%)	5.7	3.4	0.6	2.2	3.1
ROAE (%)	19.9	13.5	2.9	10.5	14.6
ROA (%)	7.2	4.2	0.9	3.2	4.8
ROCE (%)	12.5	9.2	3.1	7.5	8.8
Div Payout Ratio (%)	16.5	10.1	10.1	10.1	10.1
Net Interest Cover (x)	4.9	3.2	1.4	2.5	4.2

Lowest EBIT margin since IPO in 2004

Full year impact of interest savings arising from the Rp1.5tr bond proceeds will be reflected in 2016F

Source: Company, DBS Vickers

Quarterly / Interim Income Statement (Rp bn)

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Revenue	2,675	2,827	3,162	3,158	2,965
Cost of Goods Sold	(1,430)	(1,464)	(1,803)	(1,655)	(1,628)
Gross Profit	1,245	1,363	1,359	1,503	1,337
Other Oper. (Exp)/Inc	(1,121)	(1,194)	(1,295)	(1,336)	(1,220)
Operating Profit	124	170	64	167	118
Other Non Opg (Exp)/Inc	19	(10)	(7)	(16)	(2)
Associates & JV Inc	3	4	1	(2)	(3)
Net Interest (Exp)/Inc	(80)	(91)	(91)	(114)	(94)
Exceptional Gain/(Loss)	0	0	49	1	0
Pre-tax Profit	67	72	16	36	18
Tax	(20)	(19)	(5)	(74)	(7)
Minority Interest	0	0	0	1	2
Net Profit	47	53	11	(37)	12
Net profit bef Except.	47	53	(38)	(38)	12
EBITDA	255	312	207	313	265

Growth

Revenue Gth (%)	(5.0)	5.7	11.8	(0.1)	(6.1)
EBITDA Gth (%)	(30.1)	22.0	(33.5)	51.0	(15.4)
Opg Profit Gth (%)	(47.2)	36.6	(62.2)	160.3	(29.5)
Net Profit Gth (%)	(53.0)	12.8	(79.7)	nm	nm

Margins

Gross Margins (%)	46.5	48.2	43.0	47.6	45.1
Opg Margins (%)	4.6	6.0	2.0	5.3	4.0
Net Profit Margins (%)	1.8	1.9	0.3	(1.2)	0.4

Balance Sheet (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Net Fixed Assets	2,106	2,600	2,636	2,580	2,516
Invts in Associates & JVs	17	22	93	93	93
Other LT Assets	605	722	795	795	795
Cash & ST Invts	526	369	513	926	1,235
Inventory	1,918	2,942	3,203	3,304	3,673
Debtors	283	415	496	509	581
Other Current Assets	535	739	950	950	950
Total Assets	5,991	7,808	8,686	9,158	9,844
ST Debt	1,113	1,729	1,567	1,567	1,567
Creditor	1,206	1,830	1,726	1,986	2,246
Other Current Liab	364	437	549	549	549
LT Debt	865	1,048	1,858	1,805	1,805
Other LT Liabilities	270	338	377	377	377
Shareholder's Equity	2,173	2,428	2,541	2,805	3,230
Minority Interests	0	0	69	69	69
Total Cap. & Liab.	5,991	7,808	8,686	9,158	9,844
Non-Cash Wkg. Capital	1,166	1,829	2,375	2,229	2,409
Net Cash/(Debt)	(1,451)	(2,408)	(2,913)	(2,446)	(2,138)
Debtors Turn (avg days)	13.1	13.1	14.1	13.9	13.2
Creditors Turn (avg days)	106.9	113.4	102.1	95.5	96.2
Inventory Turn (avg days)	161.4	181.5	176.5	167.4	158.6
Asset Turnover (x)	1.3	1.2	1.4	1.4	1.5
Current Ratio (x)	1.2	1.1	1.3	1.4	1.5
Quick Ratio (x)	0.3	0.2	0.3	0.3	0.4
Net Debt/Equity (X)	0.7	1.0	1.1	0.9	0.6
Net Debt/Equity ex MI (X)	0.7	1.0	1.1	0.9	0.7
Capex to Debt (%)	41.9	31.2	18.3	16.3	16.6
Z-Score (X)	NA	3.0	2.9	3.1	3.3

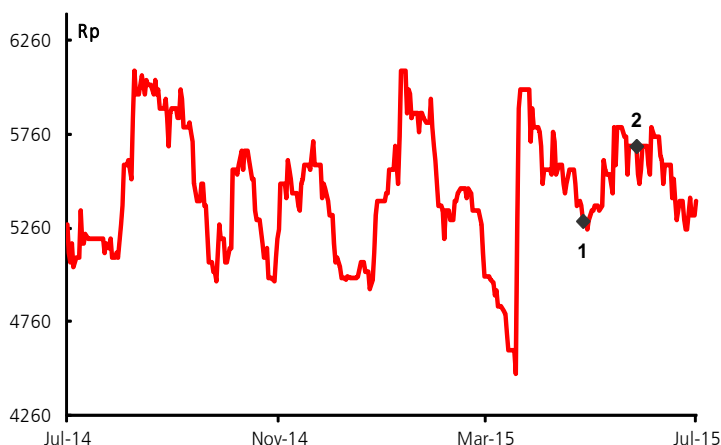
Source: Company, DBS Vickers

Cash Flow Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Pre-Tax Profit	598	485	192	421	676
Dep. & Amort.	353	464	563	606	623
Tax Paid	(165)	(157)	(119)	(126)	(203)
Assoc. & JV Inc/(loss)	(11)	(13)	(7)	0	0
Chg in Wkg.Cap.	(408)	(589)	(575)	146	(180)
Other Operating CF	(32)	(82)	140	0	0
Net Operating CF	334	108	194	1,046	917
Capital Exp.(net)	(828)	(866)	(628)	(550)	(560)
Other Invt.(net)	9	7	6	0	0
Invt in Assoc. & JV	0	0	57	0	0
Div from Assoc & JV	7	8	12	0	0
Other Investing CF	(41)	(52)	(52)	0	0
Net Investing CF	(854)	(904)	(606)	(550)	(560)
Div Paid	(58)	(71)	(33)	(30)	(48)
Chg in Gross Debt	880	799	645	(53)	0
Capital Issues	0	0	0	0	0
Other Financing CF	(64)	(87)	(52)	0	0
Net Financing CF	758	640	559	(83)	(48)
Currency Adjustments	(1)	(2)	(3)	0	0
Chg in Cash	238	(158)	144	414	309
Opg CFPS (Rp)	447	420	463	543	660
Free CFPS (Rp)	(297)	(457)	(262)	299	215

Source: Company, DBS Vickers

Target Price & Ratings History



Note : Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	08 May 15	5300	5620	Hold
2:	08 Jun 15	5700	5620	Hold

Source: DBS Vickers

Indonesia Company Guide

Unilever Indonesia

Edition 1 Version 1 | Bloomberg: UNVR IJ | Reuters: UNVR.JK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Jul 2015

FULLY VALUED

Last Traded Price: Rp40,350 (JCI : 4,893.92)

Price Target: Rp35,400 (12% downside)

Potential Catalyst: Lower raw material prices, stronger rupiah

Where we differ: Lower margins than consensus'

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (Rpbn)	2013A	2014A	2015F	2016F
Revenue	30,757	34,512	38,497	42,763
EBITDA	7,680	8,137	8,368	8,977
Pre-tax Profit	7,159	7,677	7,819	8,395
Net Profit	5,353	5,739	5,845	6,275
Net Pft (Pre Ex.)	5,353	5,739	5,845	6,275
Net Pft (ex. BA gains)	N/A	N/A	N/A	N/A
EPS (Rp)	702	752	766	822
EPS Pre Ex. (Rp)	702	752	766	822
EPS Gth (%)	11	7	2	7
EPS Gth Pre Ex (%)	11	7	2	7
Diluted EPS (Rp)	702	752	766	822
Net DPS (Rp)	672	722	735	790
BV Per Share (Rp)	558	603	633	666
PE (X)	57.5	53.6	52.7	49.1
PE Pre Ex. (X)	57.5	53.6	52.7	49.1
P/Cash Flow (X)	49.4	47.6	47.9	45.6
EV/EBITDA (X)	40.2	37.9	36.9	34.4
Net Div Yield (%)	1.7	1.8	1.8	2.0
P/Book Value (X)	72.4	66.9	63.7	60.6
Net Debt/Equity (X)	0.2	0.1	0.1	0.2
ROAE (%)	125.8	124.8	120.9	123.4
Earnings Rev (%):			-	-
Consensus EPS (Rp):			817	920
Other Broker Recs:		B: 4	S: 11	H: 10

Source of all data: Company, DBS Vickers, DBS Bank, Bloomberg Finance L.P

PRICEY PROXY

Valuation is pricey given slowing growth

We maintain our FULLY VALUED call on Unilever Indonesia with a target price of Rp35,400, pegged to 43x FY16F earnings, which is +1SD of its 5-years average valuation. The stock is currently trading at 50x FY16F earnings, which is about +2SD of its 5-year average valuation. Given the company's slowing growth and a weak domestic economy, the stock is fully valued.

Multiple headwinds

Amid a slowing economy and rising energy costs, Unilever's revenue growth will decelerate, and the group is expected to book flat earnings growth in 2015. In addition, a shift in revenue mix, a weak rupiah, and the snag in passing on cost-increases to consumers, would also lead to lower margins. We project net margins to fall to 14.3% in FY17F from 16.6% in FY14.

Watch for 2Q15 sales numbers

Revenue grew 7.9% y-o-y in 1Q15, the slowest in the last five years. Given the slowing economy and tight competition in the FMCG industry, Unilever's products (which are mostly priced at a premium) are losing traction among consumers. 2Q15 numbers would indicate whether there has been a pickup in growth as demand tends to pick up 1-2 months preceding the Lebaran season.

Valuation:

We value Unilever Indonesia at Rp35,400 per share based on 43x FY16F EPS, which is +1SD of its 5-year average valuation.

Key Risks to Our View:

Faster-than-expected recovery of the domestic economy. World Bank projects Indonesia's GDP will grow by 4.7% y-o-y in 2015. Our in-house projection is 5.1%, in line with our Central Bank's forecast of 5.0-5.4%. A faster-than-expected pickup in Unilever's earnings could lead us to upgrade our recommendation.

At A Glance

Issued Capital (m shrs)	7,630
Mkt. Cap (Rpbn/US\$m)	307,871 / 23,214
Major Shareholders	
Unilever Indonesia Holding BV	85.0
Free Float (%)	15.0
3m Avg. Daily Val (US\$m)	6.1
ICB Industry :Consumer Goods / Personal Goods	

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

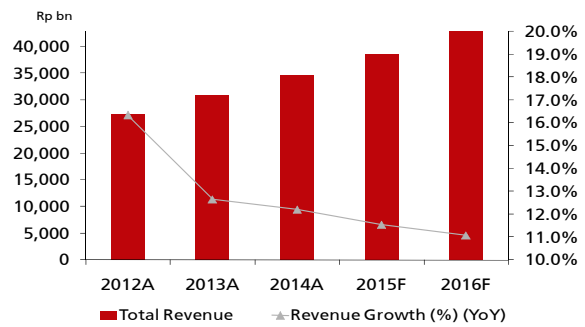
Domestic GDP growth. The health of the domestic economy is generally reflected in consumption of basic necessities as well as Fast Moving Consumer Goods (FMCG). In June, the IMF and World Bank had revised down projections for Indonesia’s 2015 GDP growth to 4.7%, from 5.2% previously. Our Central Bank also made a similar downward revision to 5.0-5.4% from 5.4-5.8%. Slowing exports, low commodity prices, and unrealised infrastructure spending have contributed to the weak economic growth. A recovery in these areas would positively impact FMCG companies like Unilever.

Strength of the rupiah against US dollar. More than half of Unilever’s raw material costs are in US dollars, which means a weaker rupiah will hurt its margins. Currently, the rupiah is trading at Rp13,300 to the dollar because of the weak macro backdrop, as well as in anticipation of the Fed tightening its monetary policy by year end to strengthen the dollar. Our in-house assumption for the rupiah is Rp13,660 to the dollar by end 2015, suggesting further downside to earnings.

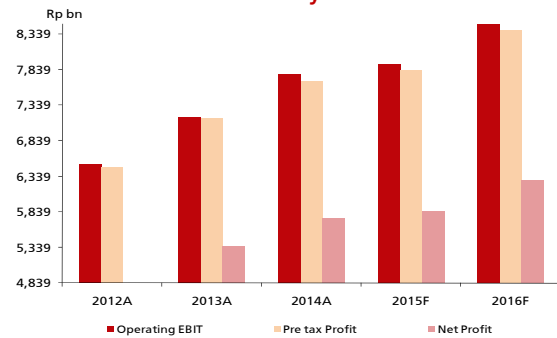
CPO price. About 60% and 30% of Unilever’s COGS are spent on raw materials and packaging, respectively, which mostly uses palm oil and its derivatives as ingredients. Currently, the price of crude palm oil (CPO) is hovering at its lowest in five years because of excess supply. However, our plantation analyst expects CPO price to rebound towards year end, as inventory levels normalise. This could put upward pressure on costs, and if the rupiah weakens simultaneously, margins could contract further.

Earnings to grow by 2%/7% in FY15F/16F. We project earnings growth will be flat in 2015 at 2%. This is based on slowing revenue growth, weaker margins, as well as a 1.5% increase in royalty fees this year. We estimate gross margin will fall by c.100bps in 2015 following the shift in revenue mix, cost pressure, as well as difficulty in passing on cost-increases to consumers in this time of slowing demand.

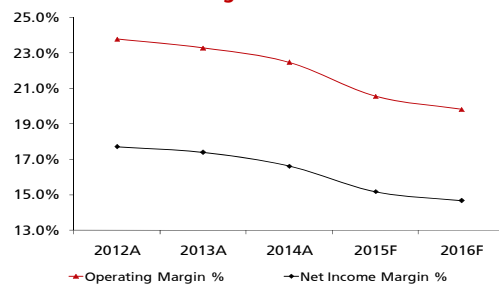
Sales Trend



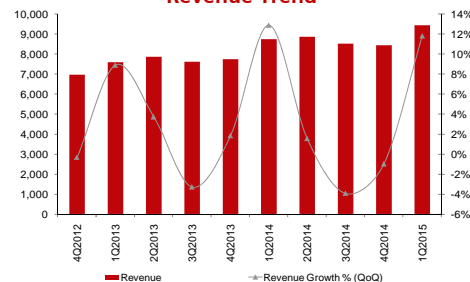
Profitability Trend



Margins Trend



Revenue Trend



CPO Price (RM/MT)



Source: Company, DBS Vickers, DBS Bank

Balance Sheet:

Low leveraged company. Unilever has strong operating cash flow as well as free cash flow, and has consistently pared down bank loans at the end of its fiscal year. The loans are mainly used to fund working capital and largely denominated in rupiah. This eliminates foreign exchange risks associated with its debt. And, the company's size and healthy balance sheet have allowed them to secure favorable lending rates. In 2014, net gearing ratio stood at <0.1x and average loan interest rate was c.8%, which is close to prime rate.

Share Price Drivers:

Recovery in economic growth. Indonesia's 1Q15 GDP growth was weak at 4.71%, the lowest in five years. The Central Bank has revised down its full year projection to 5.0-5.4% from 5.4-5.8% and has said full year growth could be below 5%. In August, all eyes will be watching the 2Q15 GDP growth number, which would paint a clearer picture of whether consumption is recovering (or not) as demand normally peaks in the months preceding the Lebaran season.

Key Risks:

Slower-than-expected economic growth

- A slower-than-expected economic recovery would dampen consumption further and hurt the company's revenues and earnings.

Weaker rupiah, higher raw material prices

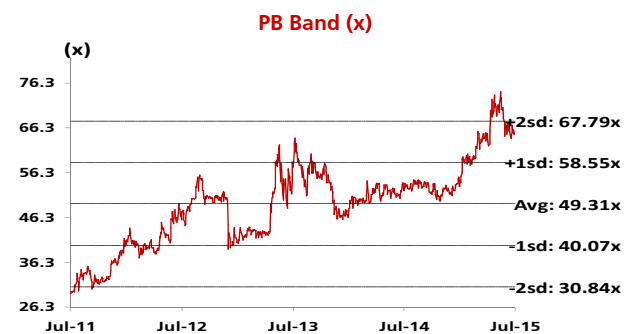
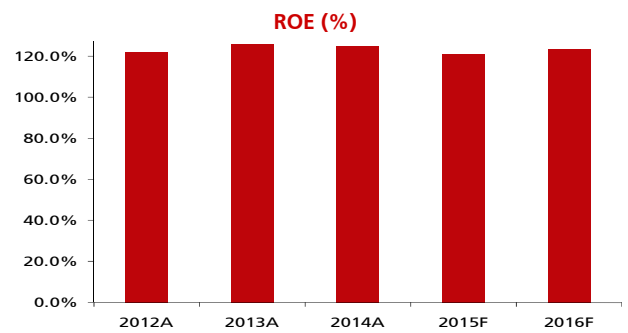
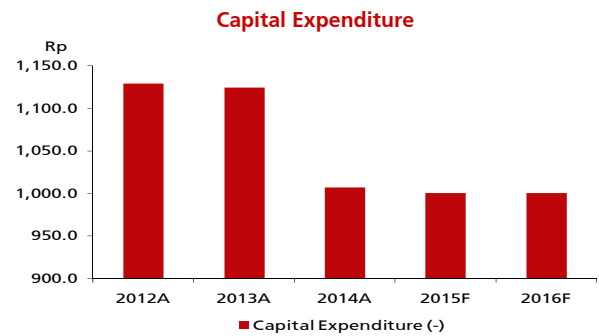
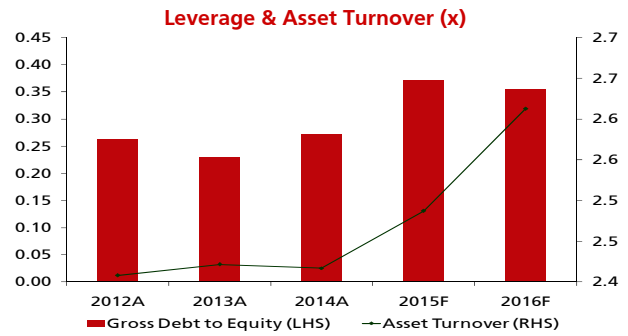
- These would reduce company's margins, which would in turn, reduce earnings.

Difficult to pass on cost increases to consumers

- Slowing consumption and weak consumer sentiment have led consumers to become more selective. This would limit the company's ability to pass on cost increases to consumers, which would crimp margins.

COMPANY BACKGROUND

PT Unilever Indonesia Tbk manufactures soaps, detergents, margarine, oil, and dairy-based foods, tea-based beverages, ice cream and cosmetics.



Source: Company, DBS Vickers, DBS Bank

Segmental Breakdown

FY Dec	2012A	2013A	2014A	2015F	2016F
Revenues (Rp bn)					
Home and Personal Care	19,922	22,415	24,634	26,851	29,080
Foods and Refreshment	7,381	8,343	9,878	11,646	13,684
Total	27,303	30,757	34,512	38,497	42,763
Gross Profit (Rp bn)					
Home and Personal Care	10,757	12,137	12,943	13,828	14,772
Foods and Refreshment	3,132	3,642	4,156	4,868	5,679
Total	13,889	15,778	17,099	18,696	20,451
Gross Profit Margins (%)					
Home and Personal Care	54.0	54.1	52.5	51.5	50.8
Foods and Refreshment	42.4	43.7	42.1	41.8	41.5
Total	50.9	51.3	49.5	48.6	47.8

Gross margins expected to contract because of the shift in revenue mix, as well as rising raw material prices

Income Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Revenue	27,303	30,757	34,512	38,497	42,763
Cost of Goods Sold	(13,414)	(14,979)	(17,412)	(19,801)	(22,312)
Gross Profit	13,889	15,778	17,099	18,696	20,451
Other Opng (Exp)/Inc	(7,391)	(8,614)	(9,337)	(10,779)	(11,974)
Operating Profit	6,498	7,164	7,762	7,917	8,477
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(31)	(6)	(86)	(98)	(83)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	6,467	7,159	7,677	7,819	8,395
Tax	(1,628)	(1,806)	(1,938)	(1,974)	(2,120)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	4,839	5,353	5,739	5,845	6,275
Net Profit before Except.	4,839	5,353	5,739	5,845	6,275
EBITDA	6,888	7,680	8,137	8,368	8,977
Growth					
Revenue Gth (%)	16.3	12.7	12.2	11.5	11.1
EBITDA Gth (%)	16.2	11.5	5.9	2.8	7.3
Opg Profit Gth (%)	16.7	10.3	8.3	2.0	7.1
Net Profit Gth (%)	16.2	10.6	7.2	1.8	7.4
Margins & Ratio					
Gross Margins (%)	50.9	51.3	49.5	48.6	47.8
Opg Profit Margin (%)	23.8	23.3	22.5	20.6	19.8
Net Profit Margin (%)	17.7	17.4	16.6	15.2	14.7
ROAE (%)	121.9	125.8	124.8	120.9	123.4
ROA (%)	42.7	42.1	40.2	37.8	38.3
ROCE (%)	88.6	90.7	87.0	79.4	82.3
Div Payout Ratio (%)	104.5	95.8	96.0	96.0	96.0
Net Interest Cover (x)	207.3	1,271.0	90.7	80.5	102.7

Bottom-line growth impacted by higher royalty fees in 2015

Source: Company, DBS Vickers, DBS Bank

Quarterly / Interim Income Statement (Rp bn)

FY Dec	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Revenue	8,725	8,857	8,507	8,422	9,413
Cost of Goods Sold	(4,518)	(4,435)	(4,406)	(4,053)	(4,610)
Gross Profit	4,207	4,422	4,101	4,368	4,803
Other Oper. (Exp)/Inc	(2,342)	(2,455)	(2,450)	(2,090)	(2,710)
Operating Profit	1,865	1,968	1,651	2,278	2,094
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(46)	11	(29)	(22)	(31)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	1,820	1,979	1,622	2,256	2,062
Tax	(459)	(492)	(421)	(567)	(471)
Minority Interest	0	0	0	0	0
Net Profit	1,361	1,487	1,201	1,690	1,592
Net profit bef Except.	1,361	1,487	1,201	1,690	1,592
EBITDA	1,971	2,074	1,765	2,327	2,219

Growth

Revenue Gth (%)	12.8	1.5	(4.0)	(1.0)	11.8
EBITDA Gth (%)	9.8	5.2	(14.9)	31.8	(4.6)
Opg Profit Gth (%)	11.4	5.5	(16.1)	38.0	(8.1)
Net Profit Gth (%)	7.8	9.3	(19.2)	40.7	(5.8)

Margins

Gross Margins (%)	48.2	49.9	48.2	51.9	51.0
Opg Margins (%)	21.4	22.2	19.4	27.1	22.2
Net Profit Margins (%)	15.6	16.8	14.1	20.1	16.9

Balance Sheet (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Net Fixed Assets	6,283	6,874	7,348	7,897	8,397
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	666	611	595	595	595
Cash & ST Invt	230	261	859	1,231	957
Inventory	2,062	2,084	2,326	2,333	2,629
Debtors	2,021	2,796	3,052	3,322	3,691
Other Current Assets	77	76	100	100	100
Total Assets	11,339	12,703	14,281	15,478	16,369
ST Debt	1,040	977	1,250	1,800	1,800
Creditor	2,764	3,765	4,632	5,045	5,685
Other Current Liab	3,086	3,033	2,983	2,983	2,983
LT Debt	0	0	0	0	0
Other LT Liabilities	481	674	817	817	817
Shareholder's Equity	3,968	4,255	4,599	4,833	5,084
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	11,339	12,703	14,281	15,478	16,369
Non-Cash Wkg. Capital	(1,690)	(1,841)	(2,137)	(2,274)	(2,249)
Net Cash/(Debt)	(810)	(716)	(391)	(569)	(843)
Debtors Turn (avg days)	27.0	33.2	32.3	31.5	31.5
Creditors Turn (avg days)	77.5	95.0	99.2	95.2	95.1
Inventory Turn (avg days)	57.8	52.6	49.8	44.0	44.0
Asset Turnover (x)	2.4	2.4	2.4	2.5	2.6
Current Ratio (x)	0.6	0.7	0.7	0.7	0.7
Quick Ratio (x)	0.3	0.4	0.4	0.5	0.4
Net Debt/Equity (X)	0.2	0.2	0.1	0.1	0.2
Net Debt/Equity ex MI (X)	0.2	0.2	0.1	0.1	0.2
Capex to Debt (%)	108.5	115.0	80.6	55.6	55.6
Z-Score (X)	NA	26.7	23.8	22.2	21.4

Low leverage

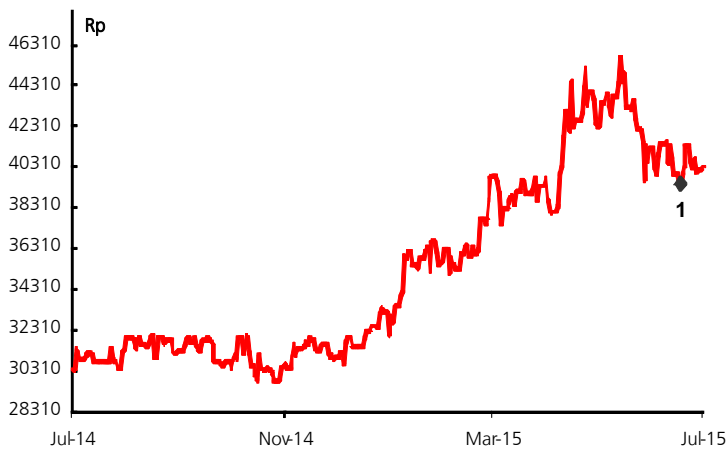
Source: Company, DBS Vickers, DBS Bank

Cash Flow Statement (Rp bn)

FY Dec	2012A	2013A	2014A	2015F	2016F
Pre-Tax Profit	6,467	7,159	7,677	7,819	8,395
Dep. & Amort.	390	516	375	451	499
Tax Paid	(1,628)	(1,806)	(1,938)	(1,974)	(2,120)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	(43)	232	277	137	(24)
Other Operating CF	6	136	72	0	0
Net Operating CF	5,192	6,236	6,463	6,433	6,750
Capital Exp.(net)	(1,129)	(1,124)	(1,007)	(1,000)	(1,000)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	31	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(4)	0	0	0	0
Net Investing CF	(1,102)	(1,124)	(1,007)	(1,000)	(1,000)
Div Paid	(4,538)	(5,059)	(5,127)	(5,611)	(6,024)
Chg in Gross Debt	341	(63)	273	550	0
Capital Issues	0	0	0	0	0
Other Financing CF	0	0	0	0	0
Net Financing CF	(4,197)	(5,122)	(4,854)	(5,061)	(6,024)
Currency Adjustments	1	41	(4)	0	0
Chg in Cash	(106)	32	598	372	(274)
Opg CFPS (Rp)	686	787	811	825	888
Free CFPS (Rp)	533	670	715	712	754

Source: Company, DBS Vickers, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	30 Jun 15	39500	35400	Fully Valued

Source: DBS Vickers

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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