

## ANALISA SAHAM INDONESIA

JULY 16, 2020

- \* THE JCI TRADING RANGE: 5,050PT - 5,150PT (YESTERDAY CLOSE: 5,076PT)
- \* WALL STREET ENDED HIGHER BY SOME 1% ON PROGRESS OF COVID-19 VACCINES
- \* THE JCI IS EXPECTED TO GAIN EDGE BY SUPPORT OF STABLE USDIDR AND OIL CLOSE

Morning,

The Jakarta Composite Index (JCI) today (16/7) is expected to be in the range of 5,050pt – 5,150pt to gain edge with investors being cautious for the 2Q20 earnings release. Meanwhile, yesterday (15/7) in Wall Street the DJIA ended higher by 228 points or 0.9% at 26,870pt, while the S&P500 and the Nasdaq both ended higher by 0.9% and 0.6%, respectively. Wall Street welcomed news that Moderna's Covid-19 vaccines produced significant immune response.

### Indonesia Consumer Sector

- **Unilever Indonesia, with strong grip on profitability**
- **Maintain our BUY call with a 12-M Target Price of IDR10,600 / share**

We reviewed Unilever Indonesia (UNVR) published financials for the year ended 2019 (FY19), and March 31, 2020 (1Q20) against our earnings forecasts. UNVR's FY19 and 1Q20 revenue, operating profits, and net profit came in at 100.3%, 24.9%, 95%, 23.2%, 97%, and 24%, respectively, against our estimated earnings. We therefore keep our forecasts and fair price valuations unchanged for this and next year (please see our published report on December 6, 2019).

We valued the company's share by DCF method (WACC:9%, LTG:2%) and come with a 12-month fair price of IDR10,600/share. At the fair price of IDR10,600, the counter is trading at 51 times next year's earnings or about similar to its historical earnings multiple. At yesterday price of

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IDR8,050, UNVR is trading at 38.9 times our estimated FY21 earnings, representing a historical premium rate of some 70% to the general market earnings multiples. We view premium to the counter justified.

We maintain our BUY recommendation for the company, mainly on the following reasons. 1) strong grip on profitability as the company has been in the country for some 85 years. This implies that UNVR has a deeper knowledge on its customer base as compared to other newer players, which has been indicated by the track records of stable profitability margins, especially for Home and Personal Care (HPS) division. 2) in times of low-to-middle single digits sales growth, investors can enjoy lavish dividend distribution that produced current yield of close to 3%, higher as compared to other counters in the Indonesia Stock Exchange at around 1% - 2%. 3) Investors of its stock can always hope for unexpected sweet growth surprise, as the company has its tradition of innovations. An example has been the shampoo for Indonesian women with hijab launched around 5 (five) years ago that did very well since the initiation. 4) strong and lean balance sheet with the company distributes almost all of its net profit to shareholders, 5) UNVR is among the highest rank in the IDX in terms of market capitalization, yesterday at IDR307tr, and thus might be ruled out as a cornering object. 6) UNVR gearing stood at 28% as at end of March this year, lower as compared to 55% as at end of 2019.

### **Share price performances this year**

As a relatively lower beta company, UNVR has performed above our expectation. At yesterday closing price, UNVR share price has risen its year-low by 53% as compared to the broader Jakarta Composite Index (JCI) of 29.8%, and to the consumer sector of 40.3%. The JCI did undergo heavy selling pressures in the spark of Covid-19 spread in the last week of March.

### **Financial Performances**

The company reported FY19 revenue at IDR42.9tr representing growth of 2.7% YoY (2018:1.4% YoY), while operating margins at the level of 23.6% (2018: 22.7%). In 2018, UNVR had an Other Income from the sales of a right of its product's brand at the amount of IDR2.8tr. Net profit in 2019 was recorded at IDR7.4tr, or representing a growth of , and net profit in the amount of IDR7.4tr which represented growth of 18.1% YoY excluding the non-operational income.

Last year, Home & Personal Care (HPC) was the main source of growth, at 4.0% YoY with sales of IDR29.9tr, while gross margins for HPC in 2019 improved to 54.7% as compared to 52.6% in 2018. At the other end, Food & Refreshment total sales came in flat at IDR13.06tr vs. IDR13.07tr in 2018, while gross margins for F&R was at 43.7% as compared to 45.9% in 2018.

Meanwhile, in the 1Q20, UNVR sales came in at IDR11.2tr or representing a YoY growth of 4.6%, while gross margins 52.4% as compared to 49.8% in 1Q19, and operating margins in 1Q20 came in at 21.4% (1Q19: 22.2%, and net profit in 1Q20 grew by 6.5% YoY to IDR1.9tr to give net profit margins of 16.7%(1Q19: 16.4%).

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HPC sales in 1Q20 grew by 5.4% YoY at IDR7.9tr , while F&R grew by 3.4% YoY to reach IDR3.3tr. HPC gross margin slightly expanded to 56.2% in the 1Q20 as compared to 52.7% in 1Q19, while gross margins in the F&R division was largely stable in 1Q20 at 43.5% as compared to 43.1% in 1Q19.

UNVR continued its innovation trait for both divisions to secure growth. In the HPC, being successful with the shampoo for the women with hijab, for example, the company applied the same concept to other line of products, along with other creative innovations.

At the other end, yesterday the WTI price increased by 2.3% to close at USD41.2/barrel as the United States last week's crude inventory level data was released at a drop of 7.5mn barrels, much higher as compared to the consensus's estimated of 2.1mn barrels. Meanwhile the USDIDR closed at IDR14.616 vs. IDR14.512 the previous one.

We advise the following recommendation as for now, for both trading and longer-time investment purpose. **AALI, LSIP (sector of Agri, allocation suggestion Underweight ), UNTR, ITMG, ADRO, PTBA (sector of Coal Mining, allocation suggestion Market-weight), GGRM, UNVR, ICBP (sector of Consumer, allocation suggestion Overweight ), ASII (sector of Automotive, allocation suggestion Market-weight), and ACES, SCMA, MAPI (sector of Trade, allocation suggestion Overweight),and TKIM (sector of Basic Industry, allocation suggestion Market-weight).**

Cheers,

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