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Equity Research

Indofood Sukses Makmur Perkasa (INDF)

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A stable company with low risk and minimal potential return

Current Price: Rp 7,750

Recommendation: Hold

Opinion: INDF is a safe but slow growing company with an unremarkable upside

- INDF is relatively low risk due to the stable nature of its revenues and cheap valuation
- INDF is a mature firm with limited growth potential
- Potential reward is not big enough to justify buying the stock given existing risks

Key figures and ratios

Market Cap (Rp):	68.27 T
Shares O/S:	8.78 B
EPS (Annualized):	497
P/E:	16.28
P/Book:	2.35
P/Sales (Annualized)	0.96
Debt Ratio	0.47

Strong stability and low valuation indicate minimal downside risk

As a leading company in the FMCG industry, INDF has shown relatively stable financial performance over the last decade while posting modest growth. Its main sales contributors include the sales from its subsidiary Indofood CBP, (which sells Indomie) responsible for about 50% of total sales and Bogasari branded products (around 21% of total sales), both of which have considerable market share and strong brand loyalty. This is reflected through consistent sales volume despite rising average selling prices. Furthermore, the nature of a mature firm in the FMCG industry like INDF has continued demand for its products. For these reasons we can assume that INDF will have strong, persistent demand going forward.

ICBP, Indofood's child company that handles its FMCG business, has Rp103.2 Trillion market cap, while INDF only has market cap worth Rp 67 Trillion. Considering that INDF owns 80.53% of ICBP, the market value of INDF should be at least Rp 83.1 Trillion (80.53% of ICBP market cap), and this excludes the values of INDF's other subsidiaries. Looking at the valuation ratios, INDF's P/E ratio is relatively low compared to comparable public companies such as ICBP, MYOR, and UNVR (see table 1). Lower P/E ratio, especially when compared to similar companies provides evidence that the stock is undervalued. With INDF potentially undervalued and business stability, we believe that INDF has minimal potential downside.

Table 1

Stock	P/E Ratio
INDF	**16.28**
ICBP	26.62
MYOR	37.77
UNVR	55.90

INDF Feb 2016 - Feb 2017



Unremarkable upside potential

On the other hand, being a mature firm (especially in the consumer goods industry) means limited growth potential, and managers of INDF do not seem to have any strategy to boosts INDF's growth beyond its current rate. We therefore do not expect INDF to grow remarkably in the near future.

Beware of the external risks

While we expect the majority of INDF's revenues to be stable, earnings of INDF's agribusiness (agricultural production) depends heavily on the market prices of the commodity they produce (mostly palm oil). About 20% of INDF's sales comes from it's subsidiary that operates in agribusiness in 2016. INDF's child company, IndoAgri, did not do well in 2015 due to lower commodity prices for agriculture crops and weaker Indonesian Rupiah.

Indonesia's tax target is increased this year. Franciscus Welirang, one of INDF directors and Indofood CBP's President Commissioner has expressed concerns that the increase in tax target could lead to a corporate tax hike. If this actually happens, the company bottomline's would be significantly affected.

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