Equity Research
Company Update

Monday,30 October 2023

HOLD

Maintain

Unilever Indonesia (UNVR IJ)

Margins aided 9M23 earnings, volume remained soft

Last price (IDR)	3,790
Target Price (IDR)	**4,100**
Upside/Downside	**+8.2%**
Previous Target Price (IDR)	*4,300*

Stock Statistics

Sector	Consumer
Bloomberg Ticker	UNVR IJ
No of Shrs (mn)	38,150
Mkt. Cap (IDRbn/USDmn)	144,589/9,099
Avg. daily T/O (IDRbn/USDmn)	56.8/3.6

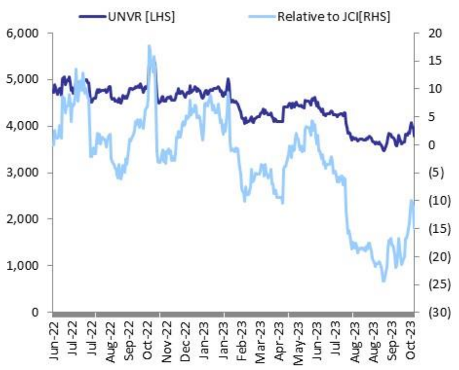
Major shareholders (%)

Unilever Indonesia Holding B.V.	85.0
Estimated free float	15.0

EPS Consensus (IDR)

	2023F	2024F	2025F
Danareksa	150.3	158.2	166.0
Consensus	144.9	155.2	166.3
Danareksa/Cons	3.7	1.9	(0.2)

UNVR relative to JCI Index



Source : Bloomberg

UNVR reported inline 9M23 earnings, with improved margins from lower raw materials price & improved volume growth. We slightly raised FY23F EPS growth forecast to 6.9% yoy but expect FY24 growth to remain tepid at +5.3% yoy amidst 4.2% yoy top line growth (in line with the pre-pandemic 2015-19 CAGR). We estimate +10bps gross margins improvement and continued high spending on A&P. Maintain HOLD with a lower TP of IDR4,100.

Improved 3Q23 earnings, but inline 9M23; volume growth remains soft. In 3Q23, UNVR recorded an improved top line growth of 5.4% qoq though yoy growth is still soft (at +1.4%). 3Q23 volume growth (based on the company's UVG) reached 4.3% but this came at the expense of price growth (UPG) of -1% (off high price adjustments in FY22). 3Q23 volumes were mainly driven by Home Care products (particularly dishwashing), Beauty Personal Care (oral and hair care) as well as Food & Refreshments (Bango, Royco and Buavita). The improvement in 3Q23 top line led to 9M23 revenues of IDR30.5tn (-4.4% yoy) with Home Personal Care (HPC) and Food and Refreshments (FNR) still showing negative growth of -4.4% yoy and -1.1% yoy, respectively. In 9M23, lower input costs supported gross margins of 50.1% (vs. 47.4% in 9M22), but the impact of higher opex (of 32.2% of sales vs. 9M22's 28.3%, especially due to higher A&P to support sales and normalized fee payment to Unilever Plc) has brought 9M23 net profits to IDR4.2tn (-9.2% yoy). The 9M23 bottom line formed 74%/ 75% of our/ consensus FY23F estimates, hence is inline**.**

Expect a slightly lower FY24F net profit growth of +5.3% yoy. UNVR has historically benefited from rising spending during election campaign period particularly from out-of-home consumption including ice cream and tea, which shall boost the FNR division revenue (35% of total). For FY24F, we maintain our top line growth of 4.2% yoy, inline with the pre-pandemic CAGR in 2015-19. The rise in geopolitical turbulence may lead to higher commodity prices and thus pose a threat to UNVR's margins. As such, we conservatively estimate only a 10bps improvement in the FY24F gross margin supported by higher volume growth. Combined with continued high A&P spending to support the company's brands, we forecast FY24 earnings growth of 5.3% yoy.

Maintain HOLD. UNVR currently trades at FY24F PE of 24x, below its -1SD avg 3y PE, but remains a premium to the sector's (average of 17.9x FY24F PE and projected EPS growth of 9.2%). We roll over our valuation to 2024 and lower our target price at IDR4,100 with implied FY24F PE of 25.9x which is above UNVR's -1SD avg 3y PE of 26.8x.

Key Financials

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Revenue (IDRbn)	39,546	41,219	41,912	43,678	45,987
EBITDA (IDRbn)	8,514	7,880	8,279	8,627	8,953
EBITDA Growth (%)	(17.3)	(7.4)	5.1	4.2	3.8
Net profit (IDRbn)	5,758	5,365	5,733	6,035	6,332
EPS (IDR)	150.9	140.6	150.3	158.2	166.0
EPS growth (%)	(19.6)	(6.8)	6.9	5.3	4.9
BVPS (IDR)	113.3	104.8	105.4	106.0	106.7
DPS (IDR)	150.3	140.0	149.7	157.5	165.3
PER (x)	25.1	27.0	25.2	24.0	22.8
PBV (x)	33.5	36.2	36.0	35.7	35.5
Dividend yield (%)	4.0	3.7	3.9	4.2	4.4
EV/EBITDA (x)	17.2	18.4	17.5	16.8	16.2

Source : UNVR, BRI Danareksa Estimates

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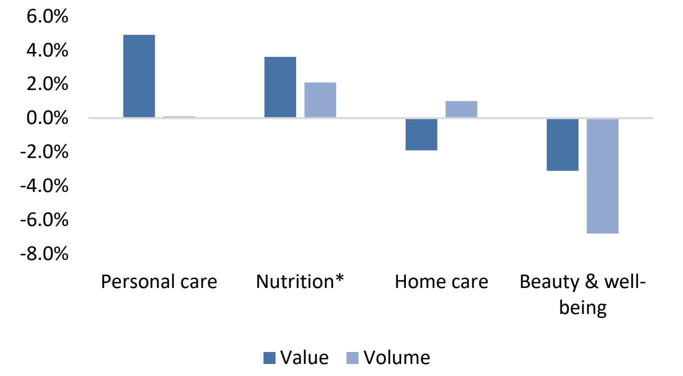
Better margins aided 9M23 earnings, but volume remained soft

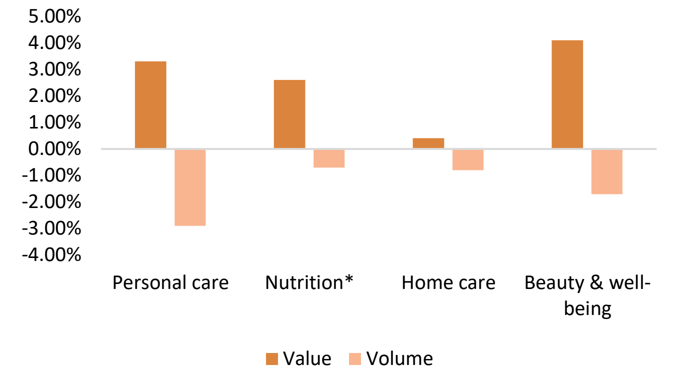
Based on the company data by the end of Sept 2023 (exhibit 3), several major categories reported improved volume share, but with a lower improvement in value share (only Oral and Face care showed a higher value share improvement vs volume share). This finding is in-line with quarterly spending (value) and consumption (volume), based on data provided by Kantar, that indicates the continuation of softer consumption, with volume remaining in negative growth.

Exhibit 1. Volume and value growth – Unilever Indonesia (9M23)



*Source: Company *Nutrition with tea and tea bag only*

Exhibit 2. Volume and value growth – Market (9M23)



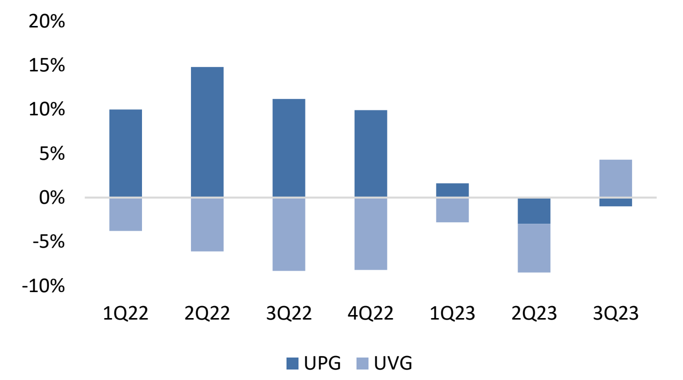
*Source: Company *Nutrition with tea and tea bag only*

Exhibit 3. Additional share in Value & Volume – 9M23 (UNVR)

	9M23 - additional %	
	Value share	**Volume share**
BPC		
Skin cleansing liquid	4.47%	6.30%
Oral care	0.86%	0.48%
Face care	1.22%	0.78%
Home care		
Home care	na	0.48%
Fabric cleaning	na	0.32%
Cleaners	na	3.10%

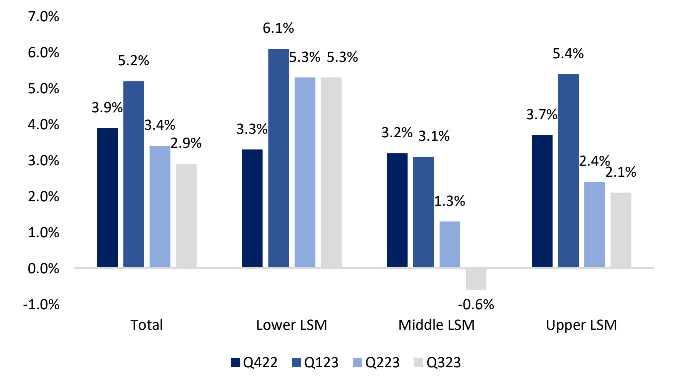
Source: Company

Exhibit 4. Volume and value growth – Market (9M23)



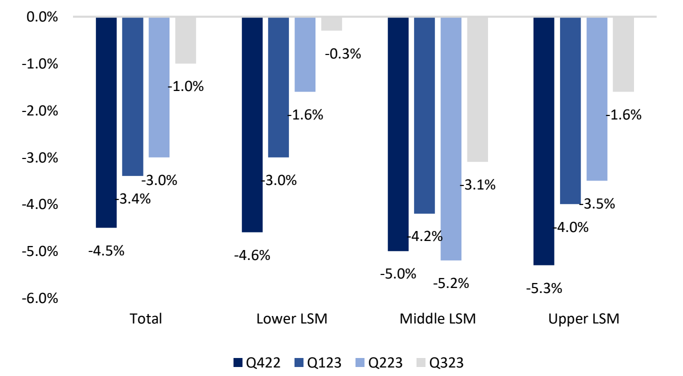
Source: Company

Exhibit 5. Quarterly spend/household (market) – yoy growth



Source: Company, Kantar Homepanel report Sept 2023

Exhibit 6. Quarterly consumption/household (market) – yoy growth



Source: Company, Kantar Homepanel report Sept 2023

Prospect of a better 4Q23 to aid FY23F earnings growth (+6.9% yoy) achievement.

Following the 9M23 result, we fine tune our forecast and maintain our FY23F top line estimate at IDR41.9tn (+1.7% yoy) supported by a stronger 4Q23. With improved FY23F gross margins of 50.1% (FY22: 46.3%), higher opex spending (32% to FY23F revenues vs 29% in FY22) and the low base effect in 4Q22, we estimate FY23 net profits of IDR5.7tn, +6.9% yoy.

For 2024, we estimate higher volume to drive the FY24 top line growth of 4.2% yoy. Higher volume and stable low input cost should sustain FY24 gross margin at 50.2%. We estimate continued aggressive spending on A&P to sustain the brand. This led to FY24F net profit growth of 5.3% yoy.

Exhibit 7. Earnings revision and change in assumptions

	Previous			New			Changes		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Revenue	40,322	42,099	44,538	41,912	43,678	45,987	3.9%	3.8%	3.3%
Gross profit	20,172	21,106	22,326	21,005	21,920	23,140	4.1%	3.9%	3.6%
Operating profit	7,474	7,922	8,272	7,481	7,880	8,268	0.1%	-0.5%	-0.1%
Net profit	5,680	6,007	6,274	5,733	6,035	6,332	0.9%	0.5%	0.9%
Gross margin	50.0%	50.1%	50.1%	50.1%	50.2%	50.3%			
Operating margin	18.5%	18.8%	18.6%	17.9%	18.0%	18.0%			
Net margin	14.1%	14.3%	14.1%	13.7%	13.8%	13.8%			

Changes in assumption

	Previous			New		
	2023F	2024F	2025F	2023F	2024F	2025F
ASP	0.4%	0.8%	1.8%	-1.0%	0.2%	1.1%
Volume	-2.4%	3.6%	3.9%	2.8%	4.0%	4.1%
Opex/revenue	31.5%	31.3%	31.6%	32.3%	32.1%	32.3%
A&P/revenue	7.7%	7.7%	7.7%	7.9%	7.9%	7.9%

Source: BRI Danareksa estimates

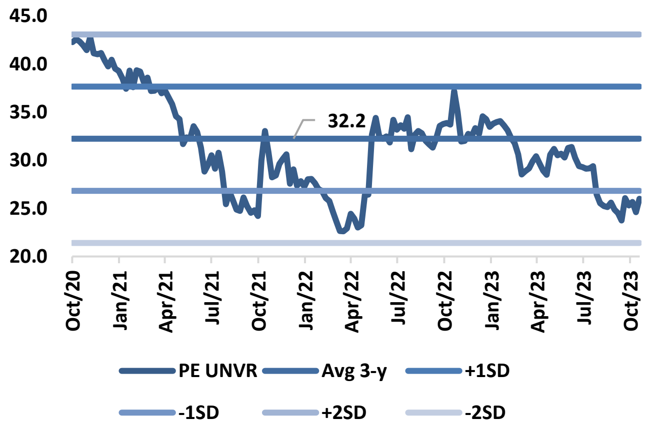
Exhibit 8. 3Q23/ 9M23 earnings summary

UNVR IJ	9M22	9M23	YoY, %	3Q22	2Q23	3Q23	QoQ, %	YoY, %	2023F	A/F, %	A/C, %
(in IDR bn)											
Net sales	31,539	30,506	*-3.3%*	10,076	9,687	10,214	*5.4%*	*1.4%*	41,912	*73%*	*74%*
COGS	16,594	15,232	*-8.2%*	5,476	4,800	5,057	*5.4%*	*-7.6%*	20,907		
Gross profit	14,945	15,274	*2.2%*	4,600	4,887	5,157	*5.5%*	*12.1%*	21,005		
Opex	8,926	9,819	*10.0%*	3,064	3,118	3,328	*6.7%*	*8.6%*	13,523		
Operating profit	6,019	5,455	*-9.4%*	1,536	1,769	1,828	*3.3%*	*19.0%*	7,481	*73%*	*74%*
Pretax profit	5,968	5,391	*-9.7%*	1,525	1,756	1,817	*3.5%*	*19.2%*	7,398		
Net profit	4,611	4,189	*-9.2%*	1,182	1,354	1,430	*5.6%*	*21.0%*	5,733	*73%*	*75%*
(in %)											
Gross margin	47.4%	50.1%		45.7%	50.5%	50.5%			50.1%		
Opex to revenue	28.3%	32.2%		30.4%	32.2%	32.6%			32.3%		
Operating margin	19.1%	17.9%		15.2%	18.3%	17.9%			17.9%		
Net margin	14.6%	13.7%		11.7%	14.0%	14.0%			13.7%		

Breakdown by divisions	9M22	9M23	YoY, %	3Q22	2Q23	3Q23	QoQ, %	YoY, %
Revenue (IDR bn)								
HPC	20,837	19,922	*-4.4%*	6,603	6,429	6,671	*3.8%*	*1.0%*
FNR	10,702	10,584	*-1.1%*	3,473	3,258	3,543	*8.7%*	*2.0%*
Segment result (%)								
HPC	25.2%	26.1%		17.7%	27.1%	25.7%		
FNR	21.5%	19.0%		26.2%	19.4%	17.6%		

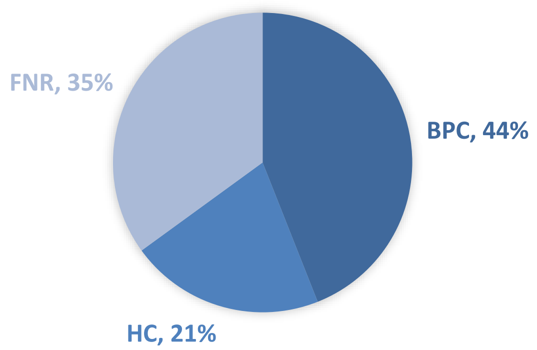
Source: BRI Danareksa estimates, Bloomberg

Exhibit 9. PE Band



Source: BRI Danareksa, Bloomberg

Exhibit 10. Revenues contribution by segment, 9M23



Source: Company

Exhibit 11. Income Statement

Year to 31 Dec (IDRbn)	2021A	2022A	2023F	2024F	2025F
Revenue	**39,546**	**41,219**	**41,912**	**43,678**	**45,987**
COGS	(19,920)	(22,154)	(20,907)	(21,758)	(22,847)
Gross profit	**19,626**	**19,065**	**21,005**	**21,920**	**23,140**
EBITDA	**8,514**	**7,880**	**8,279**	**8,627**	**8,953**
Oper. profit	**7,679**	**7,069**	**7,481**	**7,880**	**8,268**
Interest income	2	10	20	11	7
Interest expense	(185)	(85)	(104)	(104)	(104)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	0	0	0	0	0
Pre-tax profit	**7,497**	**6,994**	**7,398**	**7,787**	**8,171**
Income tax	(1,738)	(1,629)	(1,664)	(1,752)	(1,838)
Minority interest	0	0	0	0	0
Net profit	**5,758**	**5,365**	**5,733**	**6,035**	**6,332**
Core Net Profit	**5,758**	**5,365**	**5,733**	**6,035**	**6,332**

Exhibit 12. Balance Sheet

Year to 31 Dec (IDRbn)	2021A	2022A	2023F	2024F	2025F
Cash & cash equivalent	325	503	503	475	314
Receivables	4,638	4,211	4,461	4,798	5,271
Inventory	2,454	2,625	2,233	2,290	2,539
Other Curr. Asset	225	229	233	243	255
Fixed assets - Net	10,821	10,163	9,964	9,786	9,833
Other non-curr.asset	605	587	597	609	622
Total asset	**19,069**	**18,318**	**17,990**	**18,202**	**18,835**
ST Debt	1,850	600	800	800	800
Payables	4,571	4,700	4,435	4,683	4,896
Other Curr. Liabilities	3,361	4,657	4,470	4,661	4,893
Long Term Debt	0	0	0	0	0
Other LT. Liabilities	4,965	4,363	4,264	4,012	4,174
Total Liabilities	**14,747**	**14,321**	**13,969**	**14,156**	**14,763**
Shareholder'sFunds	4,321	3,997	4,021	4,046	4,072
Minority interests	0	0	0	0	0
Total Equity & Liabilities	**19,069**	**18,318**	**17,990**	**18,201**	**18,834**

Exhibit 13. Cash Flow

Year to 31 Dec (IDRbn)	2021A	2022A	2023F	2024F	2025F
Net income	5,758	5,365	5,733	6,035	6,332
Depreciation and Amort.	758	352	797	747	686
Change in Working Capital	993	233	(252)	(59)	(395)
OtherOper. Cash Flow	153	907	(78)	(70)	361
Operating Cash Flow	**7,662**	**6,857**	**6,200**	**6,654**	**6,984**
Capex	(392)	306	(598)	(570)	(733)
Others Inv. Cash Flow	(65)	38	12	2	(2)
Investing Cash Flow	**(457)**	**344**	**(587)**	**(567)**	**(734)**
Net change in debt	(1,165)	(1,250)	200	0	0
New Capital	0	0	0	0	0
Dividend payment	(5,734)	(5,343)	(5,709)	(6,010)	(6,306)
Other Fin. Cash Flow	(825)	(431)	(104)	(104)	(104)
Financing Cash Flow	**(7,724)**	**(7,024)**	**(5,613)**	**(6,114)**	**(6,410)**
Net Change in Cash	**(519)**	**177**	**0**	**(28)**	**(161)**
Cash - begin of the year	844	325	503	503	475
Cash - end of the year	325	503	503	475	314

Exhibit 14. Key Ratios

Year to 31 Dec	2021A	2022A	2023F	2024F	2025F
Growth (%)					
Sales	(8.0)	4.2	1.7	4.2	5.3
EBITDA	(17.3)	(7.4)	5.1	4.2	3.8
Operating profit	(18.7)	(8.0)	5.8	5.3	4.9
Net profit	(19.6)	(6.8)	6.9	5.3	4.9
Profitability (%)					
Gross margin	49.6	46.3	50.1	50.2	50.3
EBITDA margin	21.5	19.1	19.8	19.8	19.5
Operating margin	19.4	17.1	17.9	18.0	18.0
Net margin	14.6	13.0	13.7	13.8	13.8
ROAA	29.1	28.7	31.6	33.3	34.2
ROAE	124.4	129.0	143.0	149.6	156.0
Leverage					
Net Gearing (x)	0.4	0.0	0.1	0.1	0.1
Interest Coverage (x)	41.5	83.0	71.9	75.8	79.5

Source : UNVR, BRI Danareksa Estimates