

Sell

(Maintained)

Unilever Indonesia (UNVR IJ)

Broadly inline 1Q24 earnings, but still challenging outlook in 2Q24 onwards

Last Price (Rp)	2,390
Target Price (Rp)	2,300
Previous Target Price (Rp)	2,650
Upside/Downside	-3.8%
No. of Shares (mn)	38,150
Mkt Cap (Rpbn/US\$m)	91,179/5,644
Avg, Daily T/O (Rpbn/US\$m)	50.3/3.1
Free Float (%)	15.0
Major Shareholder (%)	
Unilever Indonesia Holding B.V.	85.0
EPS Consensus (Rp)	
	2024F 2025F 2026F
BRIDS	119.0 120.2 126.9
Consensus	133.5 141.6 148.7
BRIDS/Cons (%)	(10.9) (15.1) (14.6)

- UNVR's 1Q24 earnings was inline thanks to a higher gross margin and royalty savings; sales volume was +0.2% yoy while prices fell 4.9% yoy.
- FY24 strategy will focus on volume growth to obtain market share at the pre-boycott level with continued price intervention/promotions.
- We revise down our FY24/25F by 9.9% and 13.6% with negative ASP growth and lower margins. Maintain Sell with lower TP of Rp2,300.

1Q24 NP up 3.1%yoy due to the higher gross margin and royalty savings

UNVR reported a 1Q24 revenue of Rp10tr (+24.4% qoq but -5% yoy). The management stated that in Mar24, the sales run rate had already recovered to the 3Q23 level and the Feb24 market share had picked up from its low in Dec23, but still below the pre-boycott level of 37% in 9M23. In 1Q24, Underlying Price Growth (UPG) was -4.9% yoy (FY23: -1.1% and 4Q23: -2.4%) with volume growth of +0.2% yoy (FY23: -4.1% and 4Q23: -13%). UNVR's 1Q24 gross margin expanded by 60bps to 49.9% thanks to lower commodity prices. A reduction in royalty rates to 5% (1Q23: 7.1%) also offset higher A&P/revenue spending of 9% (1Q23: 8%) and higher promotional expenses (4.2% vs 1Q23's 3.5%). This led to 1Q24 net profit of Rp1.45tn, +3.1% yoy. The 1Q24 net profit is 28% of the consensus and 29% of our FY24F, i.e., broadly inline. (In the past years, 1Q ranging from 25-28% of FY).

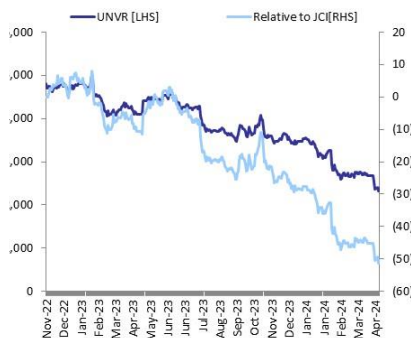
Challenging outlook in 2Q24 onwards

In FY24, UNVR aims to focus on volume growth with continued price intervention/promotions potentially leading to negative UPG, with the assumption of stable raw material prices. In 2Q24 onward, royalty expenses will also return to the normal rate (7.5-7.8%) as the 1Q24 royalty savings came from the recovery of the actual service fee expenses that had already been paid in FY23. We believe it will take some time for UNVR to recover its market share to the pre-boycott period. The weakening rupiah, geopolitical issues and soft recovery in purchasing power will add to the major obstacles to the recovery in 2Q24 onward.

Maintain Sell with lower TP of Rp2,300.

We revise down our FY24-25F net profit by 9.9% and 13.6% following the expectation of negative ASP with lower gross margin from soft top line with continued high opex/revenue to offset continued A&P ahead (despite lower royalty) (Exhibit 2). Our revised forecast leads to lower DCF-based TP to Rp2,300 (implying FY24F PE of 19x). We maintain our Sell rating. Key risks to our call are stronger recovery in the coming quarters.

UNVR relative to JCI Index



Source: Bloomberg

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Key Financials

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
Revenue (Rpbn)	41,219	38,611	37,178	38,475	39,894
EBITDA (Rpbn)	7,880	7,015	6,555	6,626	6,943
EBITDA Growth (%)	(7.4)	(11.0)	(6.5)	1.1	4.8
Net Profit (Rpbn)	5,365	4,801	4,538	4,586	4,843
EPS (Rp)	140.6	125.8	119.0	120.2	126.9
EPS Growth (%)	(6.8)	(10.5)	(5.5)	1.1	5.6
BVPS (Rp)	104.8	88.6	89.1	89.6	90.1
DPS (Rp)	140.0	125.3	118.5	119.7	126.4
PER (x)	17.0	19.0	20.1	19.9	18.8
PBV (x)	22.8	27.0	26.8	26.7	26.5
Dividend yield (%)	5.9	5.2	5.0	5.0	5.3
EV/EBITDA	11.6	12.9	13.9	13.7	13.0

Source: UNVR, BRIDS Estimates

1Q24 result summary: Broadly inline 1Q24 earnings, but still challenging outlook in 2Q24 onwards

1Q24 top line down 5% yoy with lower prices

UNVR reported a 1Q24 revenue of Rp10tr (+24.4% qoq but -5% yoy). Food & Refreshment (FNR) revenues fell -3.8% yoy with Unilever Food Solutions reporting +2.1% yoy growth. Meanwhile, Home and Personal care (HPC) revenues fell -5.6% yoy, dragged down by Homecare (-9.1% yoy). The management stated that in Mar24, the sales run rate had already recovered to the 3Q23 level and the Feb24 market share had picked up from its low in Dec23, but still below the pre-boycott level of 37% in 9M23. In 1Q24, Underlying Price Growth (UPG) was -4.9% yoy (FY23: -1.1% and 4Q23: -2.4%) with volume growth of +0.2% yoy (FY23: -4.1% and 4Q23: -13%).

1Q24 NP up 3.1%yoy due to the higher gross margin and royalty savings

UNVR's 1Q24 gross margin expanded by 60bps to 49.9% thanks to lower commodity prices. A reduction in royalty rates to 5% (1Q23: 7.1%) also offset higher A&P/revenue spending of 9% (1Q23: 8%) and higher promotional expenses (4.2% vs 1Q23's 3.5%). This paved the way for 1Q24 operating profit growth of +1.3% yoy to Rp1.9tn. With lower finance costs, UNVR reported 1Q24 net profit of Rp1.45tn, +3.1% yoy. The 1Q24 net profit is 28% of the consensus and 29% of our FY24F, i.e., broadly inline (In the past years, 1Q ranging from 25-28% of FY).

Exhibit 1. 1Q24 result summary

UNVR IJ	1Q23	4Q23	1Q24	QoQ, %	YoY, %	2024F	A/F, %	A/F, % *	A/C, %	
(in IDR bn)										
Net sales	10,605	8,106	10,080	24.4%	-5.0%	37,178	26%	27%	25%	
COGS	5,375	4,185	5,047	20.6%	-6.1%	19,041				
Gross profit	5,230	3,921	5,033	28.4%	-3.8%	18,137	26%	28%	26%	
Opex	3,372	3,097	3,151	1.8%	-6.6%	12,287				
Operating profit	1,858	824	1,882	128.4%	1.3%	5,850	29%	32%	28%	
Pretax profit	1,817	811	1,859	129.3%	2.3%	5,862				
Net profit	1,405	612	1,449	136.7%	3.1%	4,538	29%	32%	28%	
(in %)										
Gross margin	49.3%	48.4%	49.9%			48.8%				
Opex to revenue	31.8%	38.2%	31.3%			33.0%				
Operating margin	17.5%	10.2%	18.7%			15.7%				
Net margin	13.3%	7.6%	14.4%			12.2%				
Breakdown by divisions										
Revenue (IDR bn)										
HPC	6,823	5,228	6,443	23.2%	-5.6%					
FNR	3,782	2,877	3,637	26.4%	-3.8%					
Segment result (%)										
HPC	25.5%	18.8%	26.7%							
FNR	20.1%	18.3%	19.9%							

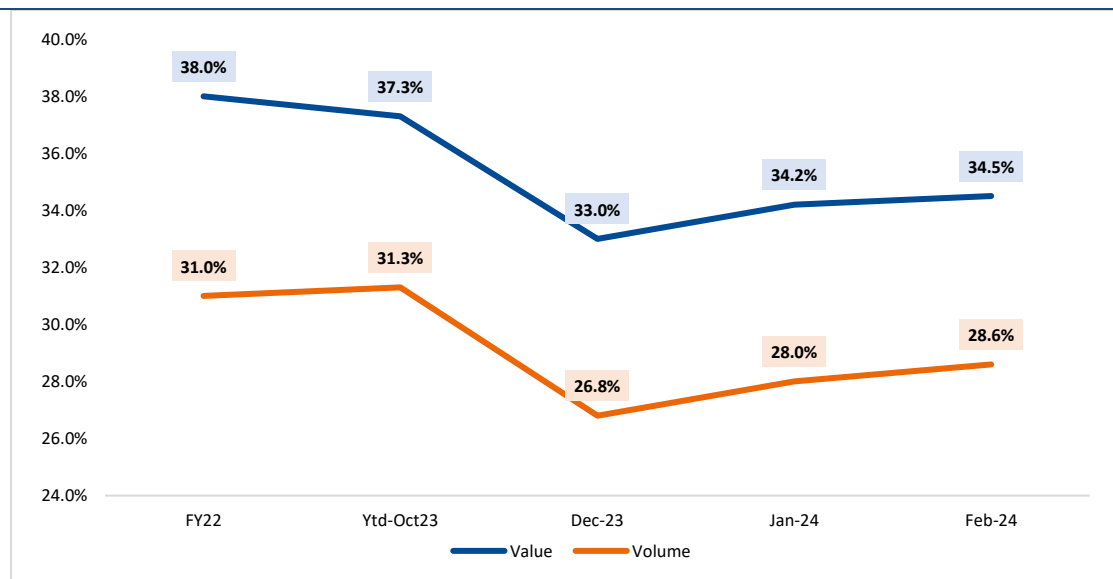
Source: Company, BRIDS Estimates *1Q24 to our revised forecast

Exhibit 2. Earnings revision

	Previous			New forecast			Changes		
	2024F	2025F	2026F	2024F	2025F	2026F	2024	2025	2026
Revenue	38,999	40,716	42,598	37,178	38,475	39,894	-4.7%	-5.5%	-6.3%
Gross profit	19,292	20,158	21,048	18,137	18,823	19,522	-6.0%	-6.6%	-7.2%
Operating profit	6,493	6,844	7,302	5,850	5,922	6,236	-9.9%	-13.5%	-14.6%
Net profit	5,038	5,306	5,676	4,538	4,586	4,843	-9.9%	-13.6%	-14.7%
Gross margin	49.5%	49.5%	49.4%	48.8%	48.9%	48.9%			
Operating margin	16.6%	16.8%	17.1%	15.7%	15.4%	15.6%			
Net margin	12.9%	13.0%	13.3%	12.2%	11.9%	12.1%			
Changes in assumption									
	2024F	2025F	2026F	2024F	2025F	2026F			
ASP	0.3%	0.9%	1.1%	-4.2%	0.9%	1.1%			
Volume	0.7%	3.5%	3.5%	0.5%	2.6%	2.5%			
Opex/revenue	32.8%	32.7%	32.3%	33.0%	33.5%	33.3%			
A&P/revenue	8.2%	8.2%	8.0%	8.6%	8.5%	8.5%			

Source: Compan, BRI Danareksa estimates

Exhibit 3. Market share of UNVR – based on value and volume

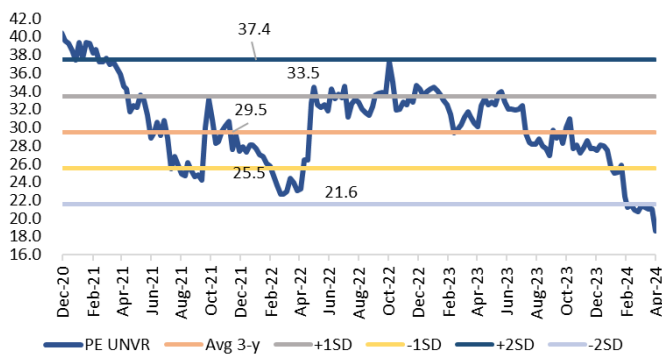


*Nutrition with Tea within Tea Bag only

** Market data information for Ice Cream is not completed (only available for MT)

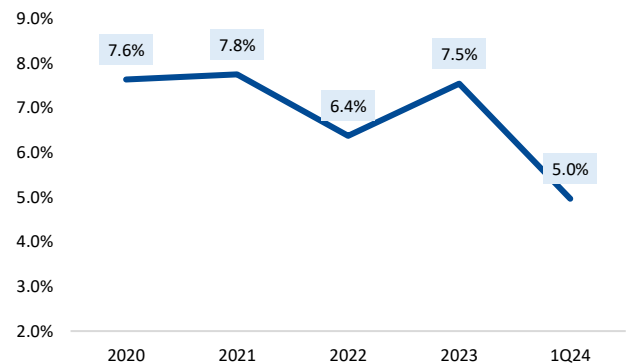
Source: Company

Exhibit 4. PE Band



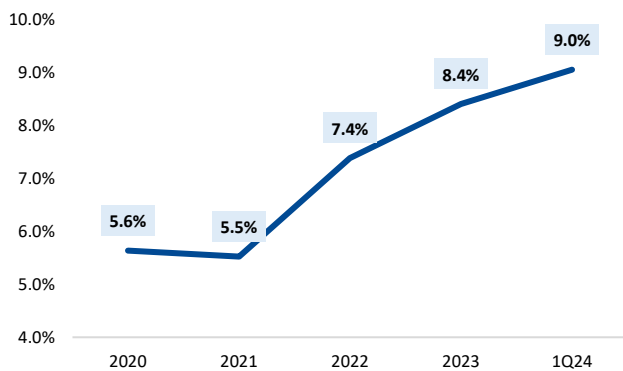
Source: Company, BRIDS Estimates

Exhibit 5. Service and royalty, 2020-1Q24 (as % to revenue)



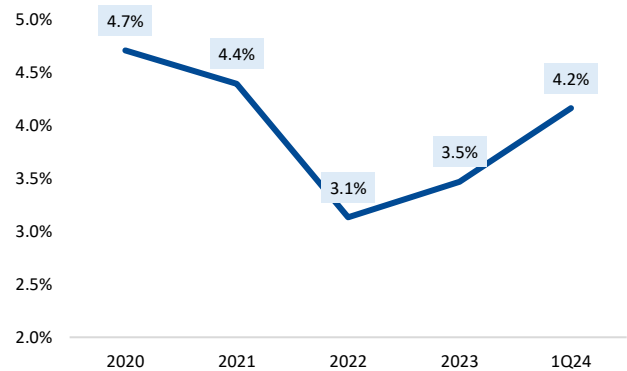
Source: Company, BRIDS Estimates

Exhibit 6. Adv and market research, 2020-1Q24 (as % to revenue)



Source: Company, BRIDS Estimates

Exhibit 7. Promotion, 2020-1Q24 (as % to revenue)



Source: Company, BRIDS Estimates

Exhibit 8. Income Statement

Year to 31 Dec (Rpbn)	2022A	2023A	2024F	2025F	2026F
Revenue	41,219	38,611	37,178	38,475	39,894
COGS	(22,154)	(19,417)	(19,041)	(19,652)	(20,372)
Gross profit	19,065	19,195	18,137	18,823	19,522
EBITDA	7,880	7,015	6,555	6,626	6,943
Oper. profit	7,069	6,279	5,850	5,922	6,236
Interest income	10	29	21	15	24
Interest expense	(85)	(106)	(8)	(12)	(4)
Forex Gain/(Loss)	0	0	-	-	-
Income From Assoc. Co's	0	0	-	-	-
Other Income (Expenses)	0	0	-	-	-
Pre-tax profit	6,994	6,202	5,862	5,924	6,256
Income tax	(1,629)	(1,401)	(1,324)	(1,338)	(1,413)
Minority interest	0	0	-	-	-
Net profit	5,365	4,801	4,538	4,586	4,843
Core Net Profit	5,365	4,801	4,538	4,586	4,843

Exhibit 9. Balance Sheet

Year to 31 Dec (Rpbn)	2022A	2023A	2024F	2025F	2026F
Cash & cash equivalent	503	1,021	353	621	880
Receivables	4,211	2,598	3,255	3,344	3,370
Inventory	2,625	2,422	2,427	2,456	2,546
Other Curr. Asset	229	100	96	100	103
Fixed assets - Net	10,163	9,978	9,942	9,860	9,711
Other non-curr.asset	587	545	542	545	548
Total asset	18,318	16,664	16,614	16,927	17,158
ST Debt	600	0	200	100	-
Payables	4,700	4,064	4,517	4,677	4,693
Other Curr. Liabilities	4,657	4,421	4,317	4,444	4,617
Long Term Debt	0	0	-	-	-
Other LT. Liabilities	4,363	4,798	4,181	4,287	4,410
Total Liabilities	14,321	13,283	13,214	13,508	13,720
Shareholder's Funds	3,997	3,381	3,400	3,419	3,439
Minority interests	0	0	-	-	-
Total Equity & Liabilities	18,318	16,664	16,614	16,927	17,158

Exhibit 3. Cash Flow

Year to 31 Dec (Rpbn)	2022A	2023A	2024F	2025F	2026F
Net income	5,365	4,801	4,538	4,586	4,843
Depreciation and Amort.	352	404	706	704	707
Change in Working Capital	233	1,252	(254)	115	(11)
Other Oper. Cash Flow	907	275	(682)	150	180
Operating Cash Flow	6,857	6,732	4,308	5,555	5,719
Capex	306	(167)	(669)	(622)	(558)
Others Inv. Cash Flow	38	76	21	15	24
Investing Cash Flow	344	(91)	(649)	(607)	(534)
Net change in debt	(1,250)	(600)	200	(100)	(100)
New Capital	0	0	-	-	-
Dividend payment	(5,343)	(4,781)	(4,519)	(4,567)	(4,823)
Other Fin. Cash Flow	(431)	(742)	(8)	(12)	(4)
Financing Cash Flow	(7,024)	(6,123)	(4,327)	(4,679)	(4,927)
Net Change in Cash	177	518	(668)	269	259
Cash - begin of the year	325	503	1,021	353	621
Cash - end of the year	503	1,021	353	621	880

Exhibit 4. Key Ratio

Year to 31 Dec	2022A	2023A	2024F	2025F	2026F
Growth (%)					
Sales	4.2	(6.3)	(3.7)	3.5	3.7
EBITDA	(7.4)	(11.0)	(6.5)	1.1	4.8
Operating profit	(8.0)	(11.2)	(6.8)	1.2	5.3
Net profit	(6.8)	(10.5)	(5.5)	1.1	5.6
Profitability (%)					
Gross margin	46.3	49.7	48.8	48.9	48.9
EBITDA margin	19.1	18.2	17.6	17.2	17.4
Operating margin	17.1	16.3	15.7	15.4	15.6
Net margin	13.0	12.4	12.2	11.9	12.1
ROAA	28.7	27.4	27.3	27.3	28.4
ROAE	129.0	130.1	133.8	134.5	141.2
Leverage					
Net Gearing (x)	0.0	(0.3)	(0.0)	(0.2)	(0.3)
Interest Coverage (x)	83.0	59.3	731.2	493.5	1,558.9

Source: UNVR, BRIDS Estimates

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INVESTMENT RATING

BUY	Expected total return of 10% or more within a 12-month period
HOLD	Expected total return between -10% and 10% within a 12-month period
SELL	Expected total return of -10% or worse within a 12-month period

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