

Unilever (UNVR IJ)

Elida Beauty sale risks loss of growth engine

Maintain SELL and lower TP to IDR3,050; Prefer ICBP

Maintain SELL ahead of slower earnings growth as UNVR's main business has become less competitive, in our view. Elida Beauty's potential sale will also create uncertainty for UNVR's future growth trajectory. We cut FY23-25 EPS by 9%/5%/3% and roll forward our valuation base to end-FY24E, resulting in a 5% lower TP of IDR3,050, based on an unchanged 21x FY24E PER. Main upside risk is higher-than-expected EBIT margin. We prefer Indofood CBP (ICBP IJ, CP IDR11,100, BUY, TP IDR14,000) for its stronger growth outlook.

Elida Beauty's potential sale is negative...

We are negative on the potential sale of Elida Beauty, ULVR's new unit for its 22 non-core beauty and personal care brands (Fig 10), that is also home to UNVR's two giant mass-market skin care (Ponds) and baby care (Zwitsal) brands along with its popular premium personal care (St.Ives) brand. On 20 Sept 2023, ULVR reportedly (by [Reuters](#)) appointed several investment banks to help with the sale of Elida Beauty. We view this as a strategic move to refocus its portfolio on brands with high visibility for sustainable growth under ULVR's new CEO Hein Schumacher.

... for UNVR's future earnings and growth

If Elida Beauty is sold, we see UNVR losing 1) an earnings stream; 2) growth engines (Figs 4-7); and 3) opportunities to roll out products in the premium segment through Elida Beauty's brands. Although the sale may offer a one-time rise in FY24E dividend yield to 7.0% (vs. our current estimate: 3.9%), UNVR's FY24E core profit could drop by 10% without Ponds, St. Ives, and Zwitsal (5% of FY24E sales). We have provided our scenario analysis (Figs 2-3) as earnings contribution from the brands is not disclosed by UNVR.

Cut FY23-25E earnings

We have also cut our 1) sales and 2) EBIT margins, leading to lower FY23-25E earnings of IDR5.2t (-9%), IDR5.5t (-5%), IDR6.0t (-3%), respectively. Our estimates suggest UNVR's earnings will grow by only a 4% FY22-25E CAGR, lower than FY16-19's 5%. Meanwhile, we have not factored in potential earnings loss from the sale of Elida Beauty, pending ULVR's decision and further disclosures.

FYE Dec (IDR b)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	39,546	41,219	39,863	40,290	42,011
EBITDA	8,548	7,929	7,650	8,047	8,778
Core net profit	5,758	5,365	5,210	5,506	6,075
Core EPS (IDR)	151	141	137	144	159
Core EPS growth (%)	(19.6)	(6.8)	(2.9)	5.7	10.3
Net DPS (IDR)	166	153	137	144	159
Core P/E (x)	27.2	33.4	27.1	25.6	23.2
P/BV (x)	36.3	44.9	35.3	35.3	35.3
Net dividend yield (%)	4.0	3.3	3.7	3.9	4.3
ROAE (%)	124.4	129.0	130.3	137.7	152.0
ROAA (%)	29.1	28.7	28.1	29.7	32.7
EV/EBITDA (x)	18.5	22.6	18.5	17.5	16.1
Net gearing (%) (incl perps)	35.3	2.4	14.8	net cash	net cash
Consensus net profit	-	-	5,535	6,023	6,429
MIBG vs. Consensus (%)	-	-	(5.9)	(8.6)	(5.5)

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SELL

Share Price	IDR 3,700
12m Price Target	IDR 3,050 (-13%)
Previous Price Target	IDR 3,200

Company Description

Unilever Indonesia manufactures and markets consumer-branded products, including food and non-food.

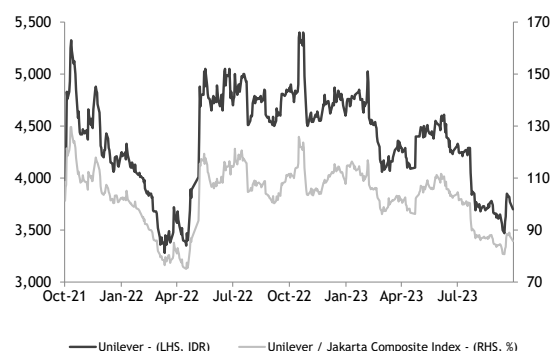
Statistics

52w high/low (IDR)	5,400/3,470
3m avg turnover (USDm)	3.1
Free float (%)	15.0
Issued shares (m)	38,150
Market capitalisation	IDR141.2T USD9.1B

Major shareholders:

Unilever NV	85.0%
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Price Performance



	-1M	-3M	-12M
Absolute (%)	1	(13)	(23)
Relative to index (%)	1	(17)	(23)

Source: FactSet

Companies mentioned in this report:

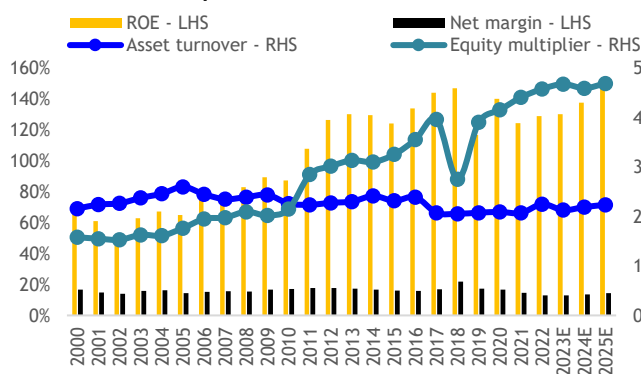
- Unilever PLC ((ULVR LN, CP GBP4,066, Not Rated)) - The ultimate parent of UNVR
- Hindustan Unilever (HUVR IN, CP INR2,469, Not Rated) - ULVR's Indian business arm
- Morgan Stanley (MS US, CP USD81.6, Not Rated)
- Evercore (EVR US, CP137.8, Not Rated)

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 Tear Sheet Insert

Value Proposition

- Subsidiary of a global company with solid branding and long-standing history, UNVR has maintained market leadership in various segments over the decades.
- Does not own distribution channel but strong partnership with distributors has ensured good product availability.
- Given dominant position, expect slower growth ahead.
- Personal care – with brands such as Dove, Sunsilk, Ponds – is the main sales contributor. Food business is likely to be driven mainly by ice cream (Walls).
- But competition intensifying as more players (P&G and Henkel, etc) are eyeing the Indonesian market.
- Sustainable ROE, well above cost of capital, excellent capital management as well as asset light and high cash generative business model. 100% DPR policy to stay.

DuPont ROE decomposition

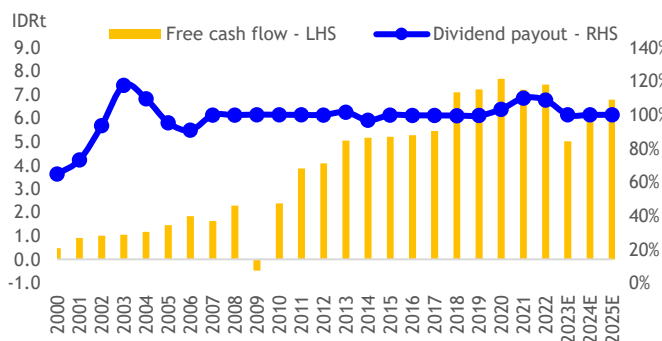


Source: Company, Maybank iBG Research

Financial Metrics

- Expect revenue to contract -3% YoY in FY23E, before resuming low growth of 1% and 4% YoY in FY24E and FY25E.
- EBIT margin to gradually increase over 2024-25E as cost pressure from rising input costs should subside.
- Exposed to currency volatility mainly through raw materials. We believe the company needs to increase ASP by 4% to pass on cost hike from the 10% IDR depreciation.
- FCF should be positive. DPR at 100% for FY23-25E.

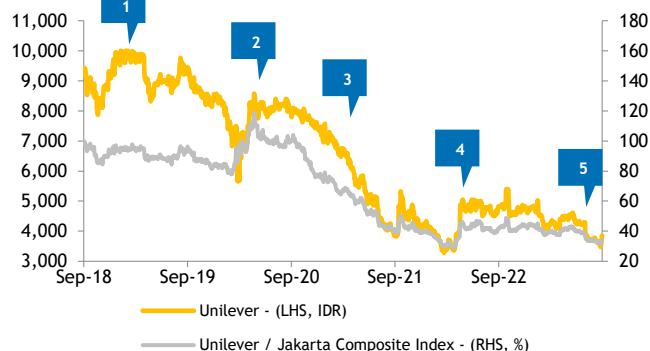
Strong cash flow generation



Source: Company, Maybank iBG Research

Price Drivers

Historical share price trend



Source: Company, Maybank iBG Research

1. Sales recovery visible in 2H18.
2. 1H20 earnings continued to grow despite the social restriction and challenging economic condition.
3. Concern the slow earnings recovery in 2021, due to the uneven economic recovery and increase in production costs.
4. Earnings recovery in 1Q22 due to strong EBIT margin improvement during the quarter from one-off royalty fee adjustment to 3.9% of sales in 1Q22 (from 7.9% in 4Q21).
5. Weak 2Q/1H23 earnings print due to weaker sales growth and EBIT margin contraction. The former comes as business competition persists mainly in its home and personal care businesses.

Swing Factors

Upside

- Exit of competitors that will ease competition.
- IDR appreciation that leads to lower production cost.
- Successful launch of new products.

Downside

- Further increase in royalty fees.
- Consumer safety issue that could damage the company's reputation.
- Market-share loss that costs the company its pole position.

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Risk Rating & Score ¹	18.7
Score Momentum ²	+0.3
Last Updated	15 Apr 2021
Controversy Score ³ (Updated: 13 Apr 2019)	0 - No reported incidents

Business Model & Industry Issues

- UNVR, together with its parent company UNVR NV, has pledged EUR1b for Clean Future initiatives. This aims to: 1) halve the use of virgin plastic; and 2) reduce the company's carbon footprint by 20%, by 2025. In our view, the Clean Future initiatives are positive for improving the E aspect of UNVR's ESG practices.
- UNVR enforces its Code of Business Principle and Code of Policies to promote good corporate governance. In addition, UNVR has 100% professional boards, meaning none of the BoC and BoD is affiliated with the controlling shareholder and the other members of the BoC and BoD.
- UNVR actively develops eco-friendly products and promotes women empowerment in its engagement with stakeholders. In sum, we are of the view ESG integration within UNVR's business practices has been significant as it also follows the strong commitments of its parent entity. As such, we believe UNVR deserves a valuation premium for its advanced ESG initiatives.

Material E issues

- In 2022, the majority of UNVR's factories (eight of a total of nine) received Blue Rank (the third highest rank) of Performance Rating Program in Environmental Management (PROPER) award from the Ministry of Environment for complying with the prevailing regulations.
- All of UNVR's factories have acquired the Leadership in Energy and Environmental Design (LEED) certificate from the US Green Building Council since 2015.
- UNVR complies with the group-wide target in reducing use of new plastic and will source 100% renewable chemical input for products (c.21% of sales). It aims for a 20% reduction in carbon footprint of its operations by 2025.
- UNVR has implemented a zero waste-to-landfill policy since 2014, leading to no waste and non-hazardous waste from its factories and offices ending up at landfills.
- UNVR imposes its Sustainable Agriculture Code (SAC) on its suppliers to achieve eco-responsible raw material sourcing and has zero tolerance towards biodiversity damage. With this, UNVR only sources its tea input from Rainforest Alliance certified growers and palm oil from Roundtable on Sustainable Palm Oil (RSPO) certified planters.

Material S issues

- The proportion of male-to-female in the workforce was 80%:20% in 2022, improving from 82%:18% in 2021. UNVR adheres to the local minimum wage regulation. In 2021, six out of twelve on the BoD (50%) were female.
- UNVR enforces the ISO standard 45001 for the Occupational Health and Safety Management System (OHS). In 2019, there was no report of accidents in its workplace.
- UNVR actively provide multiple training programs for both its employees and stakeholders. In 2022, the total employee training hours dropped by 23% to 32,790 hours.
- UNVR undertakes various women empowerment initiatives to increase the potential of the women's economy. In 2019, UNVR reached more than 500,000 women entrepreneurs in rural areas.

Key G metrics and issues

- UNVR has implemented the ASEAN Corporate Governance Scorecard since 2015, issued by the ASEAN Capital Market Forum (ACMF) and the ASEAN Development Bank. UNVR was awarded the Good Corporate Governance (GCG) Award from the Indonesian Institute of Corporate Directorship (IICD) in 2019.
- The company's business operations are managed by the Board of Directors (BoD), which are supervised by the Board of Commissioners (BoC), assisted by an independent Audit Committee. There are no BoC members sitting in the BoD.
- The BoC consists of six members and the BoD consists of nine members. Sanjiv Mehta, President Commissioner of UNVR, does not have any financial affiliations with the controlling shareholder of UNVR while none of the BoC members have any family and financial relationship with the BoD members.
- The BoC holds at least one meeting every two months, and also holds a meeting every four months with the BoD. In 2022, the joint meetings of the BoC and BoD were held six times, increased from three in 2021.
- In 2022, total remuneration of the BoC and BoD accounted for c.1.6% of the net profit.
- KPMG has been the auditor of the company for six years.
- In 2018, UNVR divested its spread business to Sigma Bidco B.V., an entity related to a private equity company (KKR), for EUR164m. This follows the strategy of its parent's spread business divestment move to improve the sustainability aspect of its business practices.
- UNVR enters into recurring related party transactions mostly involving the export sales of its product (c.4.7% of sales in 2019). In addition, UNVR pays a royalty of 6.9% of sales to the ultimate parent entity for the use of trademarks, technology, and service fees.
- Since 2007, UNVR has consistently delivered a 100% dividend payout to its shareholders.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative Parameters (Score: 52)						
	Particulars	Unit	2020	2021	2022	ULVR LN (2021)
E	Scope 1 GHG emissions	tCO2e	16,518	20,858	16,517	N/A
	Scope 2 GHG emissions	tCO2e	12,825	0	0	N/A
	Total	tCO2e	29,344	20,858	16,517	N/A
	Scope 3 GHG emissions	tCO2e	3,154,177	2,843,661	NA	N/A
	Total	tCO2e	3,183,521	2,864,519	16,517	33,740,000
	Renewable energy share of power usage	%	60.7%	73.8%	70.0%	86.0%
	Biomass energy usage of total energy consumption	%	14.0%	16.0%	13.0%	N/A
	Emission intensity to revenue	tCO2e/IDRb	0.92	0.69	0.40	38.0
	Waste generated intensity to revenue	m3/IDRb	0.87	0.88	NA	N/A
	Energy intensity in manufacturing sites	GJ/ton	0.80	0.83	0.86	N/A
	Water Withdrawal Intensity	m3/ton	1.19	1.28	1.37	N/A
	Total waste generated from manufacturing sites	kg/ton	23.10	23.44	24.65	N/A
Recycled waste of total waste generated	%	95.9%	99.3%	99.3%	N/A	
Renewable energy share of power usage	tCO2e	16,518	20,858	16,518	N/A	
S	% of women in workforce	%	31.8%	32.0%	20.0%	36.0%
	% of women in management roles	%	39.5%	41.0%	42.9%	27.3%
	Number of Lost time accidents	cases	1	3	0	NA
	Employee TRFR (Total Recordable Incident Frequency Rate)	rate	0.37	0.56	0.48	0.55
	WHO-aligned nutritional standards (% of UNVR's total F&B SKUs)	%	87%	86%	80%	NA
	Average employee training hours	hours	18.96	13.04	17.53	NA
	Corporate training coverage to total employees	%	34.1%	41.4%	38.6%	NA
G	Key management salary (BoC and BoD) as % of profit	%	1.45%	1.48%	1.63%	76.5%
	Female directors and commissioners in the BoD and BoC	%	40%	47%	44%	33.3%
	Independent commissioners in the BoC (with tenure less than 10 years)	%	67%	100%	83%	100%

Qualitative Parameters (Score: 83)						
a)	is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee? <i>Yes - Unilever Indonesia Foundation (UIF) has been UNVR's main ESG committee since 2000. UIF members report directly to the President Director. UIF's main responsibility includes formulating ESG-oriented, company-wide programmes and oversees the execution. UIF 1) supports 17 Sustainable Development Goals (SDGs), which is outlined in the Presidential Regulation of RI No.59 of 2017 and 2) follows the principles of the United Nations Global Compact (UNGC) to create a culture of sustainability in all UNVR business.</i>					
b)	is the senior management salary linked to fulfilling ESG targets? <i>No - UNVR does not explicitly disclose sustainability KPI on the senior management's salary structure.</i>					
c)	Does the company have programs for improving nutritional value of products, environment friendly products? <i>Yes. Through "Future Foods," UNVR is committed to accelerating society's transition to a healthier diet and reducing the environmental impact of the global food chain. The company has a commitment that effective as of 1 January 2022, it will not direct any marketing communications to children under the age of 13.</i>					
e)	Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured? <i>Yes - UNVR has captured Scope 3 emissions.</i>					
f)	What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company? <i>UNVR's ESG initiatives have been deep-rooted in each of UNVR's business aspects. UNVR has 1) adopted Post-Consumption Recycled Resin (PCR; raw material for product packaging) for all home care products (c.20% of sales); 2) built detailed frameworks to reduce GHG emissions by 50% in 2025; and 3) created digital ecosystem for its external logistical parties to reduce Scope 3 emissions. The future plan includes rolling out PCR-based products for other UNVR's products. Broadly speaking, these initiatives will reduce carbon and production waste in future.</i>					
g)	Does carbon offset form part of the net zero/carbon neutrality target of the company? <i>Yes - Unilever Compass has incorporated UNVR's long-term carbon neutrality plan.</i>					

Target (Score: 80)			
Particulars	Target	Achieved	
Reduce total GHG emissions (vs. 2019 baseline)	50%	26%	
Increase renewable energy usage	100%	74%	
Increase renewable-based product formulation for UNVR's cleaning and detergent products	100%	59%	
Reduce hazardous waste and non-hazardous waste annually	na	na	
Compliance rate of UNVR's manufacturing facilities to Ministry of Environment's green building standard	100%	89%	
Overall Score: 67			
As per our ESG matrix, Unilever Indonesia (UNVR IJ) has an overall score of 67.			

ESG score	Weights	Scores	Final Score
Quantitative	50%	52	26
Qualitative	25%	83	21
Target	25%	80	20
Total			67

As per our ESG assessment, UNVR has an established framework, internal policies, and tangible mid/long-term targets. Interestingly, UNVR performs better in some MIBG ESG metrics vs. its parent company (ULVR). UNVR's overall ESG score is 67, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

1. Negative on potential sale of Elida Beauty

We are negative on the sale of Elida Beauty, a newly spun-off entity of the non-core beauty and personal care business of Unilever PLC (ULVR LN, CP GBP4,066, not rated). If the Elida Beauty divestment is realized, UNVR will lose two giant mass-market brands: Ponds (skin care) and Zwitsal (baby care), as well as one premium brand: St. Ives (personal care).

We believe UNVR will lose a significant amount of earnings and its core growth pillar without these brands, although the sale may deliver a one-time rise in the FY24E dividend yield to 7.0% (vs. our current estimate: 3.9%). Meanwhile, our calculation suggests divestments of Ponds, St. Ives, and Zwitsal (c.8% of FY24E Home and Personal Care sales) will lower our FY24E total sales by 5% and core profit by 10%.

ULVR has reportedly hired Morgan Stanley (MS US, CP USD81.6, not rated) and Evercore (EVR US, CP137.8, not rated) on 20 Sep 2023, to divest Elida Beauty, its newly-formed subsidiary, according to a [Reuters' report](#). This revives the sale effort, which had not been previously reported, it abandoned in FY21A as the previous bidders did not meet ULVR's valuation expectation. Elida Beauty is home to 22 of ULVR's brands (Fig 10).

1.1 Negative impact on UNVR's long-term business

The sale of Elida Beauty will, in our view, have three negative impacts on UNVR's long-term business outlook, as UNVR will lose **1) a significant amount of earnings;** **2) future sales growth engine;** and **3) opportunities to intensify its business presence in the premium segment through existing Elida Beauty brands which contradict UNVR's strategic moves (Fig 1).**

Fig 1: UNVR's five strategic moves

Strategies	Key actions
Strengthen and unlock core products	1) Create superior products that become top of consumer minds 2) Drive market development through brand communication; and 3) Implement 'bigger-better' innovations to drive more users with more usage
Play full portfolio	1) Drive product 'premiumization'; and 2) Build tier-2 product portfolio in selected categories to capture value segment
Build execution powerhouse	1) Win market share in minimarket and e-commerce; and 2) Create future-fit distributive trade by bringing scale and efficiency
Transformational capabilities	1) Increase Modern Trade (MT) and e-commerce trade capabilities; 2) Drive cost leadership; and 3) Promote integrated operations to raise effectiveness
Sustainability at UNVR's core	1) Improve people welfare 2) Intensify product recycling and waste management 3) Champion women empowerment and inclusivity

Source: Company, Maybank IBG Research

For the former, UNVR will lose two large skin and baby care brands (Ponds and Zwitsal) with strong presence in the mass market segment, along with one body wash and skin care brand (St Ives), due to potential brand disposals as a result of Elida Beauty divestment. This also means a loss of opportunity to market 19 other Elida brands, which we think fits well with UNVR's strategy to intensify its presence in premium markets.

UNVR has not disclosed the earnings contribution from Ponds, St. Ives, and Zwitsal. However, we estimate that UNVR’s FY24E Home and Personal Care (HPC) segment sales will drop by 8.0% YoY. Consequently, this will lower our FY24E sales and core profit by -5.1% and -10.0%, respectively. At this juncture, we do not know whether the divestment of Ponds, St.Ives, and Zwitsal will be accretive or dilutive to UNVR’s FY24E HPC gross margin.

Fig 2: Our sensitivity analysis to FY24E sales and core profit without Ponds, St. Ives, and Zwitsal

FY24E potential HPC* sales loss	FY24E sales (IDRb)	Change (%)	FY24E net profit (IDRb)	Change (%)
-4%	39,265	-2.5%	5,230	-5.0%
-6%	38,753	-3.8%	5,092	-7.5%
-8% (base case)	38,240	-5.1%	4,954	-10.0%
-10%	37,728	-6.4%	4,817	-12.5%
-12%	37,216	-7.6%	4,679	-15.0%

Source: Maybank IBG Research | *HPC: Home and Personal Care

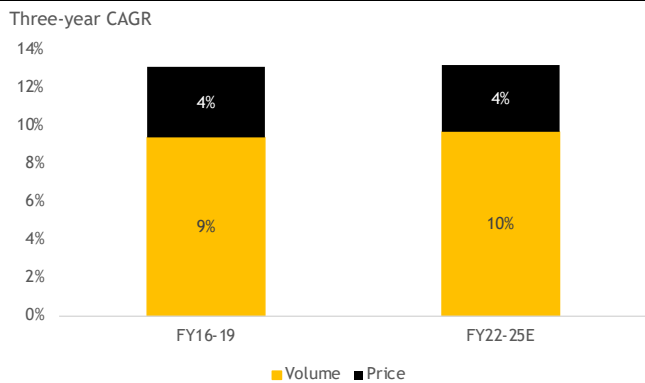
Fig 3: Our scenario analysis for FY24E core profit without Ponds, St. Ives, and Zwitsal business

FY24E potential HPC* sales loss	FY24E HPC* gross margin				
	-100 bps	-50 bps	Base case (52.8%)	+50 bps	+100 bps
-4%	5,038 (-8.5%)	5,134 (-6.8%)	5,230 (-5.0%)	5,326 (-3.3%)	5,422 (-1.5%)
-6%	4,904 (-10.9%)	4,998 (-9.2%)	5,092 (-7.5%)	5,186 (-5.8%)	5,280 (-4.1%)
-8% (base case)	4,771 (-13.3%)	4,863 (-11.7%)	4,954 (-10.0%)	5,046 (-8.4%)	5,138 (-6.7%)
-10%	4,637 (-15.8%)	4,727 (-14.1%)	4,817 (-12.5%)	4,907 (-10.9%)	4,996 (-9.3%)
-12%	4,503 (-18.2%)	4,591 (-16.6%)	4,679 (-15.0%)	4,767 (-13.4%)	4,855 (-11.8%)

Source: Maybank IBG Research | *HPC: Home and Personal Care

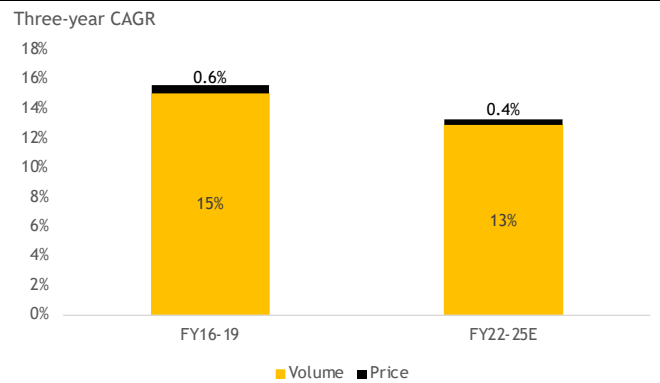
For the latter, UNVR will lose its future sales growth engines without Ponds, St. Ives, and Zwitsal, in our view. These brands have strong presence in the baby care, body wash, deodorant, and skin care markets. Euromonitor suggests Indonesia’s baby care (Fig 4), body care (Fig 6), deodorant (Fig 5), and skin care (Fig 7) segments will grow at 14%, 5%, 13%, and 9% FY22-25E sales CAGRs (vs. mass market beauty and personal care: 8%), faster than UNVR’s FY22-25E sales CAGR of 0.6%.

Fig 4: Industry sales growth of baby care, ...



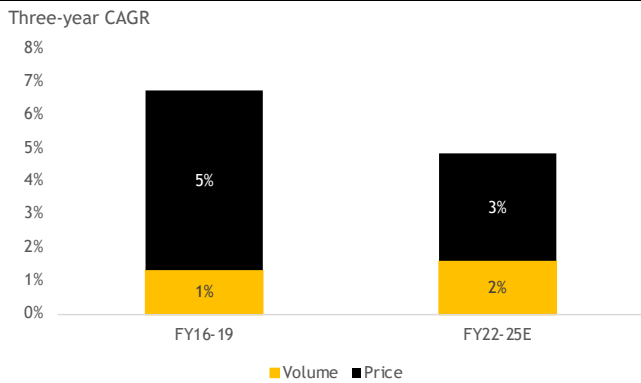
Source: Euromonitor, Maybank IBG Research

Fig 5: ... men’s grooming (deodorant), ...



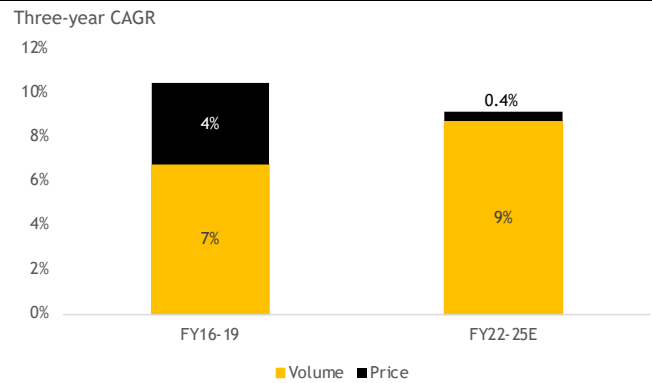
Source: Euromonitor, Maybank IBG Research

Fig 6: ... body care (bath and shower), ...



Source: Euromonitor, Maybank IBG Research

Fig 7: ... and skin care business



Source: Euromonitor, Maybank IBG Research

At the same time, we estimate UNVR will book one-off gains of IDR4.4t arising from the sale of Ponds, St. Ives, and Zwitsal brands. This is on the back of our implied 1) EV of UNVR's Ponds, St. Ives, and Zwitsal business at IDR7.4t, based on 2.3x FY24E EV/sales (in line with ULVR's multiple); 2) book value of the business of IDR1.4t; and 3) 25% tax rate applicable to the gain on divestment.

Learning from UNVR's previous margarine and vegetable fat spread (Blue Band brand) business divestment in FY18A, UNVR will likely pass the gains from the sale to shareholders in the form of higher dividends. That said, the dividend yield could rise to 7.0% in FY24E vs. our FY24E estimate of 3.9%.

Fig 8: EV estimates of Ponds, St. Ives, and Zwitsal businesses

Aspects	Amount
Estimated FY24E sales from the brands (IDRb)	3,223
Target EV/sales* multiple (x)	2.3
Implied EV for the brands (IDRb)	7,405
Estimated book value** of the brands (IDRb)	1,465
Potential one-off after-tax gain (IDRb)	4,455

Source: Maybank IBG Research

*Using ULVR LN's EV/sales multiple of 2.3x (based on closing price on 29 September 2023) and assuming related businesses carry zero interest-bearing debts |

**Deriving the implied asset value of the business by applying sales/asset turnover ratio of 2.2x (in line with our FY24E estimates).

Fig 9: Sensitivity of FY24E dividend yield and net gearing arising from potential divestment gains

	Net gearing (%)	Dividend yield (%)
100% payout	-2.9%	7.0%
50% payout	-1.8%	5.4%
0% payout	-1.3%	3.9%

Source: Maybank IBG Research

1.2 Brief overview of Elida Beauty

Elida Beauty, established in February 2021, is a relatively new UK-based subsidiary of ULVR that comprises a number of ULVR's smaller beauty and personal care brands. The company is headed by Jean-Laurent Ingles who has worked at ULVR since 2000 with several key management roles.

Meanwhile, we note Elida Beauty has 22 brands (Fig 10) which generated USD760m sales in FY22A. If Elida Beauty's divestment proceeds, we think the sales impact to ULVR is negligible as the Elida Beauty business contributed only 1.2% to ULVR's FY22A sales.

Fig 10: ULVR's brand portfolio

No	Brand	Product category	Earnings impact to UNVR IJ	ULVR's in-house brand	ULVR's acquired brand	
				Launched in	Acquired from	Acquired in
1	Caress	Body wash	No	1960s	-	-
2	TIGI	Hair care	No	-	Bruno, Anthony and Guy Mascolo	2009
3	Timotei	Hair care	No	1975	-	-
4	Monsavon	Body wash and deodorants	No	-	Sara Lee	2010
5	St. Ives	Body wash and skin care	Yes	-	Alberto Culver	2010
6	Zwitsal	Baby care	Yes	1928	-	-
7	Ponds	Skin care	Yes	1846	-	-
8	Brut	Fragrance	No	-	Faberge Inc.	1992
9	Moussel	Body wash	No	-	-	-
10	Alberto Balsam	Hair care	No	2015	-	-
11	Matey	Body wash	No	2014	-	-
12	Q-Tips	Cotton swab	No	-	Chesebrough-Ponds	1987
13	Impulse	Fragrance	No	1972	-	-
14	Brylcreem	Men's Grooming	No	-	Sara Lee	2012
15	Noxzema	Skin care	No	1914	-	-
16	VO5	Hair care	No	-	Sara Lee	2010
17	Toni & Guy	Hair care	No	-	Bruno, Anthony and Guy Mascolo	2009
18	Badedas	Skin care	No	-	Sara Lee	2010
19	Fissan	Baby care	No	-	Sara Lee	2010
20	Pento	Men's Grooming	No	-	Sara Lee	2012
21	Lever 2000	Body wash	No	1987	-	-
22	Williams	Skin and hair care	No	-	Sara Lee	2010

Source: Companies, Maybank IBG Research

Elida Beauty emphasizes 1) rejuvenating its brand portfolio; 2) operating in a less bureaucratic structure with 'no silos, start-up, and one-team' approach; and 3) increasing brand penetration in the mass-market segment with a 'for the many, not the few' philosophy. In our view, the former is reasonable as nine of Elida Beauty's brands have been commercialized since the 1990s.

In our view, ULVR’s move to spin off Elida Beauty as an autonomous business unit may reflect its divestment plan for the business. Looking into Elida Beauty’s business strategy, we also think that it could appeal to private equity firms for acquisition.

On top of its own R&D facility in Liverpool, Elida Beauty has four global supply chain partners, namely 1) Sudesan (UK-based hygiene and personal care manufacturer), 2) Roglig (Global logistic operator), 3) Abdos (Global packaging manufacturer), and 4) Publicis Group (Global digital hub), supporting its global business operations.

2. Lower FY23-25E earnings

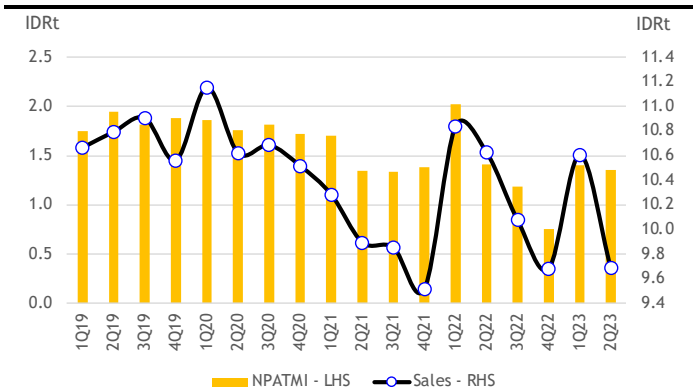
We lower our FY23-25E earnings to IDR5,210b (-8.8%), IDR5,506b (-4.7%), and IDR6,075b (-3.1%), respectively. Our new FY23E/FY24E/FY25E earnings estimates are 5.9%/8.6%/5.5% below consensus, and suggest earnings growth of -2.9%/5.7%/10.3% YoY. Meanwhile, we have not factored in the potential earnings loss from the sale of Elida Beauty in our forecasts, pending any moves and further disclosures by ULVR.

To summarize, we made several adjustments to our earnings forecasts:

- Cut FY23E/24E/25E sales by -7.1%/-4.2%/-2.4% to IDR39.8t/IDR40.2t/IDR42.0t. We still expect demand moderation for UNVR’s home and personal care (64% of FY24E sales) products. That said, UNVR printed weak 1H23 sales of IDR20.2t (-5% YoY).

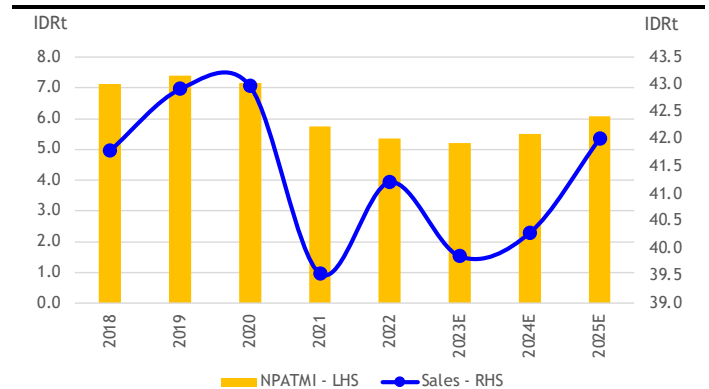
It has become apparent that UNVR’s target customers have reduced their pantry stocking, mainly for favourite items during the pandemic, like health and wellness, home and personal care, and home-improvement products.

Fig 11: Quarterly sales and NPATMI



Source: Company, Maybank IBG Research

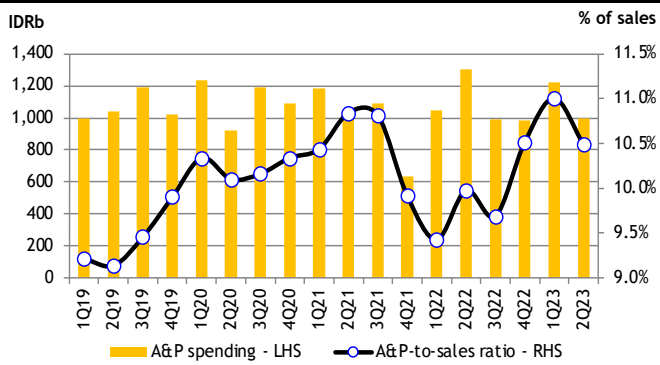
Fig 12: Annual sales and core profit



Source: Company, Maybank IBG Research

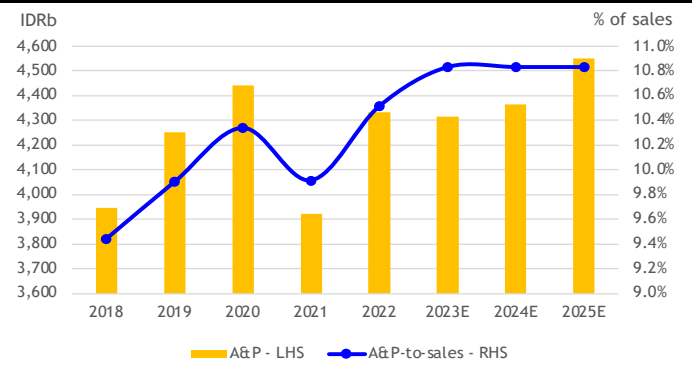
- Raise FY23E/24E/25E Advertising and Promotion (A&P) to sales ratio by 50bps/50bps/50bps to 10.8%/10.8%/10.8% (vs. 1H23: 10.6%), to account for rising competition risk amid a weak demand outlook. We have elaborated on the risks in our two previous UNVR reports [Slow-moving giant](#) (8 Jan 2023) and [Enters low-growth period](#) (10 Apr 2023).

Fig 13: Quarterly A&P expenses



Source: Company, Maybank IBG Research

Fig 14: Annual A&P expenses

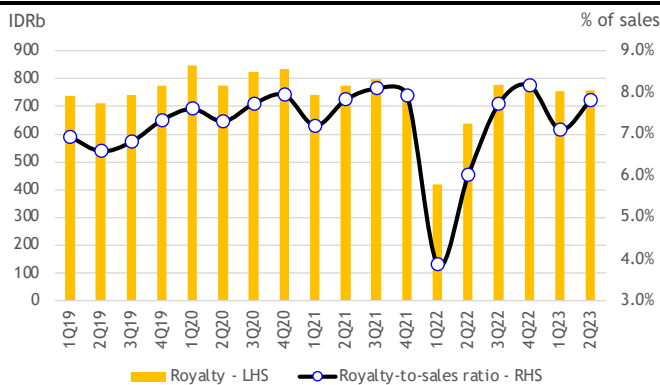


Source: Company, Maybank IBG Research

- Raise FY23E/FY24E/FY25E royalty-to-sales ratio by 40bps/30bps/30bps to 7.6%/7.5%/7.5%.

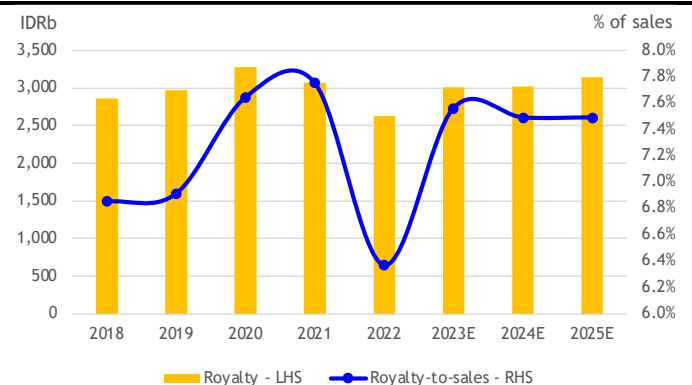
As UNVR is based in a country with a low royalty tax rate (10%), we expect ULVR will charge UNVR a higher royalty rate than Hindustan Unilever (HUVR IN, CP INR2,469, not rated) of sub-3.0%. This is likely because India raised its royalty tax rate to 15% from 10% in late 1Q23; higher than in ASEAN countries (5%-10%).

Fig 15: Quarterly royalty expenses



Source: Company, Maybank IBG Research

Fig 16: Annual royalty expenses



Source: Company, Maybank IBG Research

- As a result of our revised FY23-25E A&P-to-sales and royalty-to-sales ratio, our FY23E/FY24E/FY25E EBIT margins drop by 30bps/10bps/10bps to 17.0%/17.8%/18.8%.

Fig 17: Changes to our estimates

	2023E	2024E	2025E
Total sales, IDR b			
New	39,863	40,290	42,011
Old	42,930	42,037	43,023
<i>Change (bps)</i>	<i>-7.1%</i>	<i>-4.2%</i>	<i>-2.4%</i>
Advertising and promotion expense, % of sales			
New	10.8%	10.8%	10.8%
Old	10.3%	10.3%	10.3%
<i>Change (bps)</i>	<i>50</i>	<i>50</i>	<i>50</i>
Royalty expense, % of sales			
New	7.6%	7.5%	7.5%
Old	7.2%	7.2%	7.2%
<i>Change (bps)</i>	<i>40</i>	<i>30</i>	<i>30</i>
EBIT margin, %			
New	17.0%	17.8%	18.8%
Old	17.3%	17.9%	18.9%
<i>Change (%)</i>	<i>-30</i>	<i>-10</i>	<i>-10</i>
Net income, IDR b			
New	5,210	5,506	6,075
Old	5,712	5,779	6,270
<i>Change (%)</i>	<i>-8.8%</i>	<i>-4.7%</i>	<i>-3.1%</i>

Source: Maybank IBG Research

Fig 18: Our revised FY23E-25E estimates

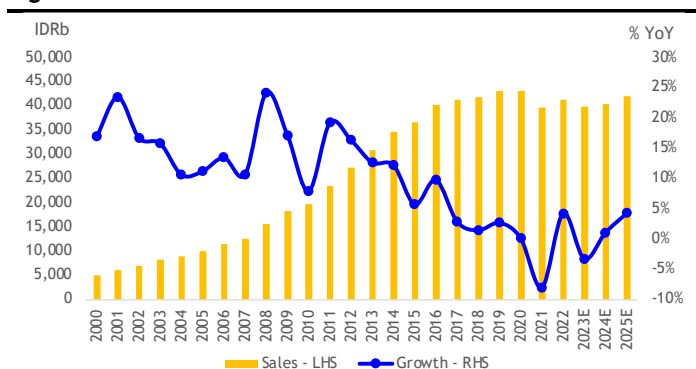
	2023E	2024E	2025E
Home and Personal Care sales, IDR b	25,621	25,621	26,902
<i>growth</i>	<i>-6.0%</i>	<i>0.0%</i>	<i>5.0%</i>
F&B sales, IDR b	14,242	14,669	15,109
<i>growth</i>	<i>2.0%</i>	<i>3.0%</i>	<i>3.0%</i>
Profit & Loss, IDR b			
Sales	39,863	40,290	42,011
<i>Growth</i>	<i>-3.3%</i>	<i>1.1%</i>	<i>4.3%</i>
EBIT	6,772	7,170	7,900
<i>Growth</i>	<i>-4.2%</i>	<i>5.9%</i>	<i>10.2%</i>
Net Profit	5,210	5,506	6,075
<i>Growth</i>	<i>-2.9%</i>	<i>5.7%</i>	<i>10.3%</i>

Source: Maybank IBG Research

3. Maintain SELL with lower TP of IDR3,050

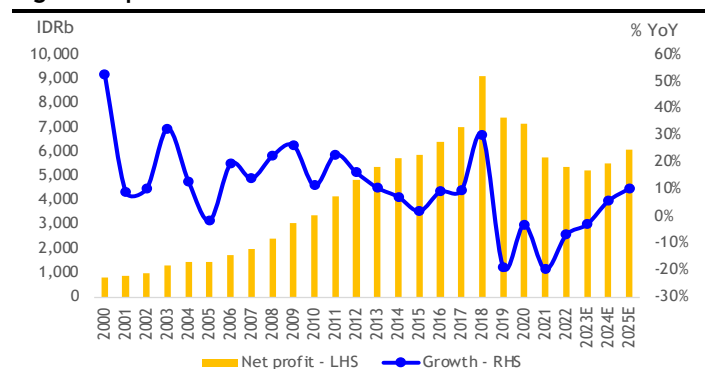
Maintain SELL as we believe UNVR’s earnings growth will slow. UNVR’s main business has become less competitive, due to 1) intensifying competition from local players; 2) slow business innovation; and 3) low and less-effective brand investments. Given ULVR’s divestment plan for Elida Beauty, we may see uncertainty over UNVR’s future earnings trajectory.

Fig 19: Sales



Source: Company, Maybank IBG Research

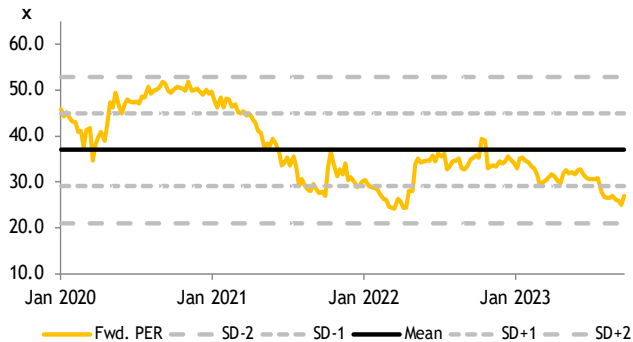
Fig 20: Reported NPATMI



Source: Company, Maybank IBG Research

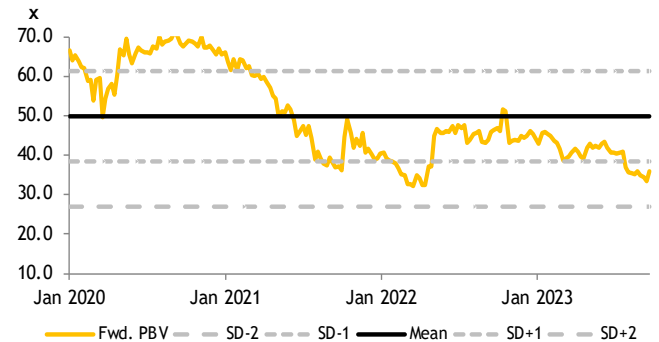
We lower our FY23-25E earnings by 8%/5%/3%. Meanwhile, we have not accounted for the potential impact of the sale of Elida Beauty pending on ULVR’s decision and future disclosure on the plan. At the same time, we have also rolled forward our valuation base to FY24E, resulting in a lower TP of IDR3,050, based on an unchanged 21x target FY24E PER.

Fig 21: Forward PER band



Source: Bloomberg, Maybank IBG Research

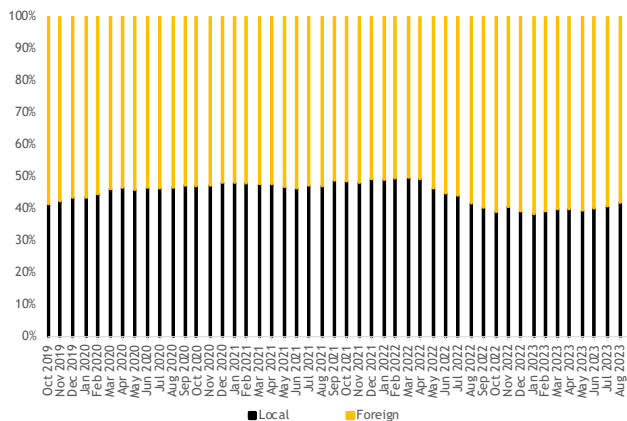
Fig 22: Forward PBV band



Source: Bloomberg, Maybank IBG Research

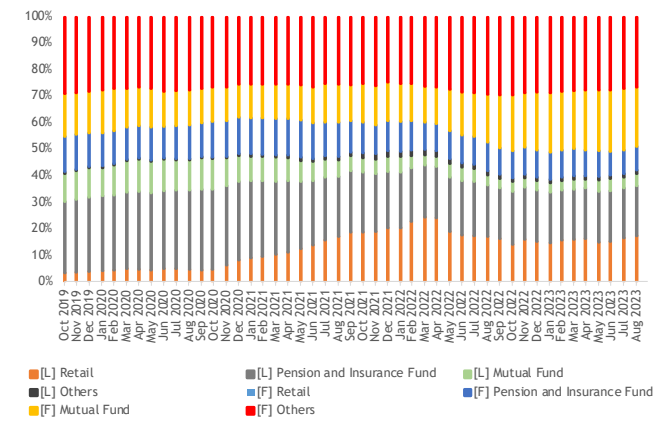
Main upside risks are: 1) stronger-than-expected gross margin recovery due to change in sales mix to higher-margin products; 2) lower-than-expected royalty costs; and 3) IDR/USD appreciation.

Fig 23: UNVR’s share ownerships by local/foreign...



Source: KSEI, Maybank IBG Research

Fig 24: ... and type of institution



Source: KSEI, Maybank IBG Research

*[L] and [F] denotes local and foreign shareholders, respectively

Appendix 1: ESG Scoring Methodology

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%), and ESG target (25%).

For the quantitative, qualitative, and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change. 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters is the score of each of the three parameters.

The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	35.6	31.6	27.1	25.6	23.2
Core P/E (x)	27.2	33.4	27.1	25.6	23.2
P/BV (x)	36.3	44.9	35.3	35.3	35.3
P/NTA (x)	36.3	44.9	35.3	35.3	35.3
Net dividend yield (%)	4.0	3.3	3.7	3.9	4.3
FCF yield (%)	4.4	4.1	3.4	4.4	4.3
EV/EBITDA (x)	18.5	22.6	18.5	17.5	16.1
EV/EBIT (x)	20.6	25.4	20.9	19.7	17.8

INCOME STATEMENT (IDR b)

Revenue	39,546.0	41,218.9	39,862.8	40,290.0	42,011.1
EBITDA	8,547.6	7,928.6	7,649.9	8,047.0	8,777.7
Depreciation	(834.7)	(811.5)	(830.0)	(830.0)	(830.0)
Amortisation	(35.0)	(47.4)	(47.4)	(47.4)	(47.4)
EBIT	7,677.9	7,069.8	6,772.5	7,169.6	7,900.3
Net interest income / (exp)	(182.9)	(75.0)	(93.6)	(111.0)	(112.0)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	1.5	(1.0)	0.0	0.0	0.0
Pretax profit	7,496.6	6,993.8	6,678.9	7,058.6	7,788.3
Income tax	(1,738.4)	(1,629.0)	(1,469.4)	(1,552.9)	(1,713.4)
Minorities	0.0	0.0	0.0	0.0	0.0
Reported net profit	5,758.1	5,364.8	5,209.5	5,505.7	6,074.9
Core net profit	5,758.1	5,364.8	5,209.5	5,505.7	6,074.9

BALANCE SHEET (IDR b)

Cash & Short Term Investments	325.2	502.9	908.0	1,113.9	1,150.9
Accounts receivable	4,516.6	3,924.5	4,368.5	4,194.6	4,604.0
Inventory	2,453.9	2,625.1	2,408.2	2,225.5	2,286.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	10,102.1	9,536.0	9,344.3	9,152.5	8,960.8
Intangible assets	134.1	76.0	38.8	17.8	7.4
Other assets	1,536.8	1,653.6	1,633.9	1,672.8	1,755.5
Total assets	19,068.5	18,318.1	18,701.7	18,377.2	18,765.4
ST interest bearing debt	1,850.0	600.0	1,500.0	1,000.0	1,000.0
Accounts payable	4,571.4	4,700.0	4,480.3	4,562.3	4,573.8
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	8,326.0	9,021.0	8,724.0	8,818.0	9,194.0
Total Liabilities	14,747.3	14,320.9	14,704.4	14,379.9	14,768.1
Shareholders Equity	4,321.3	3,997.3	3,997.3	3,997.3	3,997.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	4,321.3	3,997.3	3,997.3	3,997.3	3,997.3
Total liabilities and equity	19,068.5	18,318.1	18,701.7	18,377.2	18,765.4

CASH FLOW (IDR b)

Pretax profit	7,496.6	6,993.8	6,678.9	7,058.6	7,788.3
Depreciation & amortisation	869.7	858.8	877.4	877.4	877.4
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	1,081.7	549.4	(446.7)	438.6	(459.3)
Cash taxes paid	(1,738.4)	(1,629.0)	(1,469.4)	(1,552.9)	(1,713.4)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	7,611.5	8,065.8	5,414.7	6,830.4	6,671.6
Capex	(658.9)	(638.2)	(638.2)	(638.2)	(638.2)
Free cash flow	6,952.6	7,427.6	4,776.5	6,192.1	6,033.4
Dividends paid	(6,332.9)	(5,837.0)	(5,209.5)	(5,505.7)	(6,074.9)
Equity raised / (purchased)	(41.3)	148.2	0.0	0.0	0.0
Change in Debt	(1,165.0)	(1,250.0)	900.0	(500.0)	0.0
Other invest/financing cash flow	67.9	(311.2)	(61.8)	19.5	78.4
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(518.8)	177.6	405.1	205.9	37.0

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(8.0)	4.2	(3.3)	1.1	4.3
EBITDA growth	(17.4)	(7.2)	(3.5)	5.2	9.1
EBIT growth	(18.9)	(7.9)	(4.2)	5.9	10.2
Pretax growth	(18.6)	(6.7)	(4.5)	5.7	10.3
Reported net profit growth	(19.6)	(6.8)	(2.9)	5.7	10.3
Core net profit growth	(19.6)	(6.8)	(2.9)	5.7	10.3
Profitability ratios (%)					
EBITDA margin	21.6	19.2	19.2	20.0	20.9
EBIT margin	19.4	17.2	17.0	17.8	18.8
Pretax profit margin	19.0	17.0	16.8	17.5	18.5
Payout ratio	110.0	108.8	100.0	100.0	100.0
DuPont analysis					
Net profit margin (%)	14.6	13.0	13.1	13.7	14.5
Revenue/Assets (x)	2.1	2.3	2.1	2.2	2.2
Assets/Equity (x)	4.4	4.6	4.7	4.6	4.7
ROAE (%)	124.4	129.0	130.3	137.7	152.0
ROAA (%)	29.1	28.7	28.1	29.7	32.7
Liquidity & Efficiency					
Cash conversion cycle	9.1	2.8	0.9	(0.8)	(2.2)
Days receivable outstanding	44.7	36.9	37.4	38.3	37.7
Days inventory outstanding	44.4	41.3	44.3	41.1	38.9
Days payables outstanding	80.0	75.3	80.8	80.2	78.8
Dividend cover (x)	0.9	0.9	1.0	1.0	1.0
Current ratio (x)	0.6	0.6	0.6	0.6	0.7
Leverage & Expense Analysis					
Asset/Liability (x)	1.3	1.3	1.3	1.3	1.3
Net gearing (%) (incl perps)	35.3	2.4	14.8	net cash	net cash
Net gearing (%) (excl. perps)	35.3	2.4	14.8	net cash	net cash
Net interest cover (x)	42.0	94.3	72.4	64.6	70.5
Debt/EBITDA (x)	0.2	0.1	0.2	0.1	0.1
Capex/revenue (%)	1.7	1.5	1.6	1.6	1.5
Net debt/ (net cash)	1,524.8	97.1	592.0	(113.9)	(150.9)

Source: Company; Maybank IBG Research

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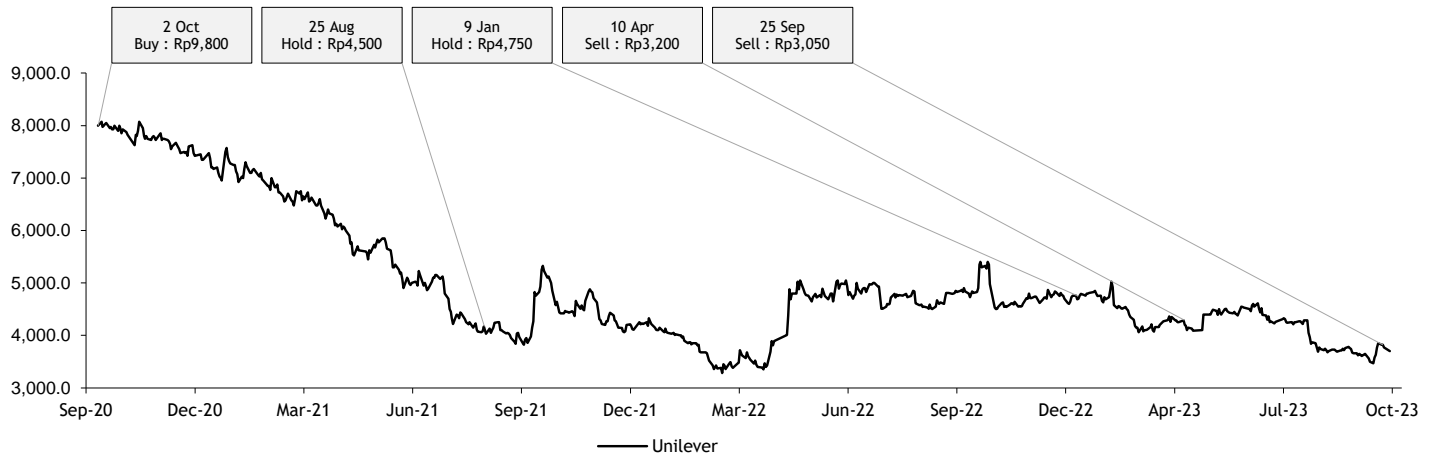
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