

# Indonesia Consumer

# NEUTRAL

 [Unchanged]

## 2H23 strategy marketing trip: cautiously optimistic tone

### Maintain NEUTRAL view; Continue to cherry-pick

We maintain a NEUTRAL view on the Indonesia consumer sector as earnings growth and recovery among the consumer names we cover will depend on their ability to expand their business presence and address competition risks. Our Top BUYs in order of preference are: 1) ICBP; 2) MYOR; and 3) MAPI. We tactically switch to MAPI (from INDF), in anticipation of its robust 3Q23E earnings (due on back-to-school and end-season sale). Meanwhile, Our Top SELLs are: 1) UNVR and 2) RALS. Main downside risks: 1) escalation in soft commodity prices; and 3) significant IDR depreciation.

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### Clients agree with MIBG's 2H23E investment thesis...

We met 10 Singapore and 13 Malaysia-based ASEAN funds to discuss our 2H23 consumer sector outlook. In general, they share our views as to: 1) uneven improvement in purchasing power among the various income groups; 2) positive earnings impact for our names due to the elections; and 3) sector overhang due to elevated soft commodity prices. Nevertheless, some clients are already looking beyond the elections and are worried about deceleration in the sector's 2H24E EPS growth YoY due to the high 2H23E earnings base as a result of pent-up demand in anticipation of the elections in Feb'24.

### ... with focus on spending power

Clients are focusing sharply on the recovery in spending power among low-income (c.70% of population) and high-income earners. Our data points regarding: 1) inflation-adjusted wage hikes (Fig 7); 2) informal worker composition (Fig 14); 3) fintech lending (Figs 15-16); 4) government's social spending (Figs 17-19); and 5) credit and debit card (Figs 21-22) transactions have become highly-requested charts. Meanwhile, clients are less concerned about implementation of the sugar tax on sweetened beverage and ready-to-drink (RTD) products.

### Clients favour the sector, but selective in their picks

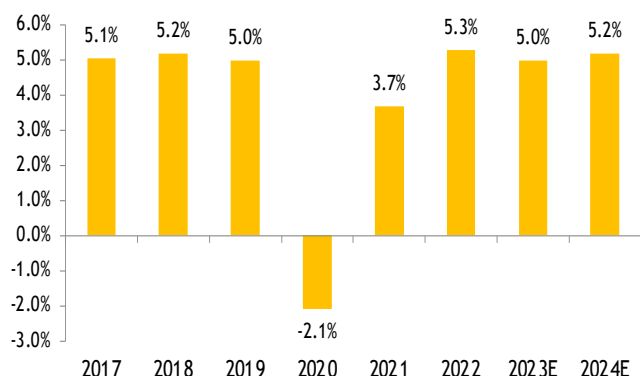
The takeaways from our meetings are: 1) investors still favour the sector; 2) they are focused on bottom-up investing and quality stocks (high earnings growth visibility and profit margins); and 3) they are already loaded up on our Top BUYs: ICBP and MYOR (mass-market consumption play), and MAPI (high-end discretionary play). However, the high-dividend stocks we favour are not on the top of clients' lists. Meanwhile, some clients are receptive to Sido Muncul (SIDO IJ, CP IDR585, Not Rated) and Nusantara Sejahtera Raya (CNMA IJ, CP IDR292, Not Rated) as earnings turnaround plays.

| Stock            | Tickers | Mkt cap (USDm) | Rating | Price (LC) | TP (LC) | Upside (%) | Core EPS growth (%) |      | PER (x) |      | ROAE (%) |       | PBV (x) |      |
|------------------|---------|----------------|--------|------------|---------|------------|---------------------|------|---------|------|----------|-------|---------|------|
|                  |         |                |        |            |         |            | 23E                 | 24E  | 23E     | 24E  | 23E      | 24E   | 23E     | 24E  |
| Top BUYs         |         |                |        |            |         |            |                     |      |         |      |          |       |         |      |
| Indofood CBP     | ICBP IJ | 8,199          | BUY    | 10,950     | 14,000  | 31.5       | 28.5                | 8.2  | 10.9    | 12.0 | 28.5     | 21.7  | 2.8     | 2.5  |
| Mayora Indah     | MYOR IJ | 3,632          | BUY    | 2,530      | 2,900   | 16.2       | 16.1                | 26.4 | 25.1    | 19.9 | 17.0     | 19.2  | 4.1     | 3.6  |
| Mitra Adiperkasa | MAPI IJ | 2,078          | BUY    | 1,950      | 2,600   | 34.7       | 3.5                 | 5.1  | 14.8    | 14.1 | 23.9     | 20.8  | 3.2     | 2.7  |
| Top SELLs        |         |                |        |            |         |            |                     |      |         |      |          |       |         |      |
| Unilever Indo    | UNVR IJ | 8,794          | SELL   | 3,590      | 3,050   | -11.2      | -2.9                | 5.7  | 26.3    | 24.9 | 130.3    | 137.7 | 34.3    | 34.3 |
| Ramayana         | RALS IJ | 251            | SELL   | 550        | 500     | -5.3       | -1.3                | 12.5 | 12.3    | 11.2 | 8.9      | 9.3   | 1.0     | 0.9  |

Source: Companies, Bloomberg, Maybank IBG Research | As of Closing price on 03 October 2023.

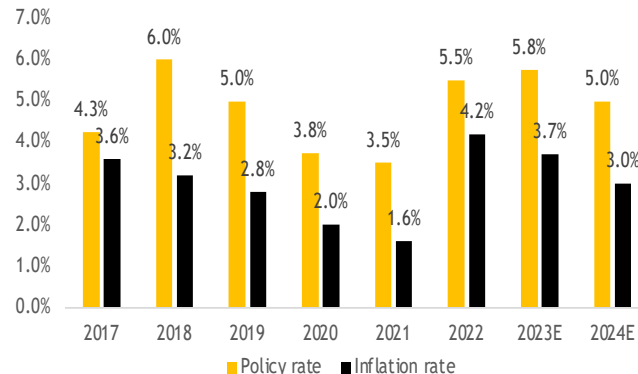
## Focus Charts

Fig 1: Indonesia's GDP growth...



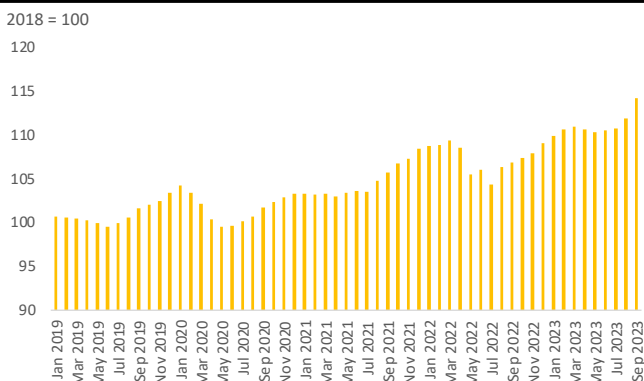
Source: CEIC, Bank Indonesia, Maybank IBG Research

Fig 2: ... policy and inflation rates



Source: CEIC, Bank Indonesia, Maybank IBG Research

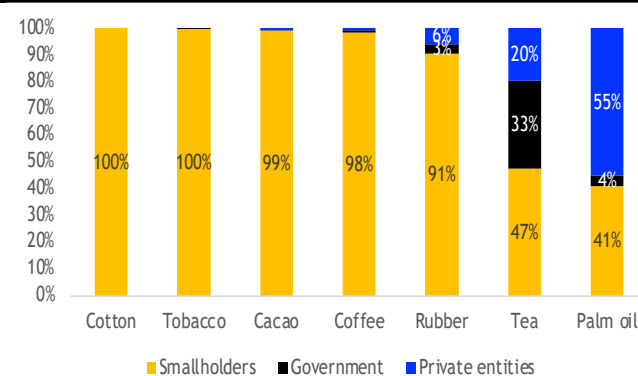
Fig 3: Farmer's terms of trade



Source: CEIC, Bank Indonesia, Maybank IBG Research

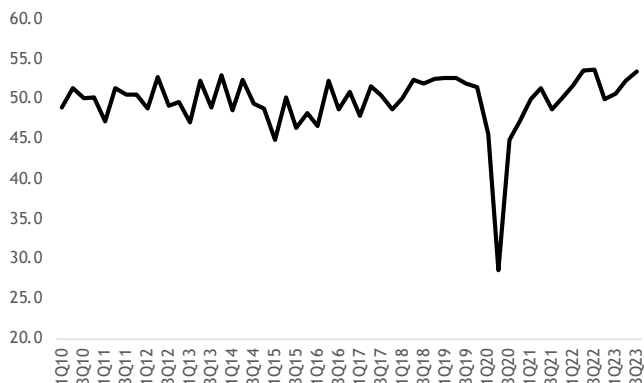
Farmer's Term of Trade (FTT) index measures the exchange value of products that is produced or sold by farmer and fisherman compare to the products needed by farmer and fisherman for process, production or consumption. If FTT is above 100, it means that purchasing power in a period of time is better than those in the base year. Meanwhile, if FTT is less than 100, it means that there is a decreasing in the purchasing power of farmers and fisherman

Fig 4: Key exporting commodities production by ownership



Source: Ministry of Agriculture, Maybank IBG Research

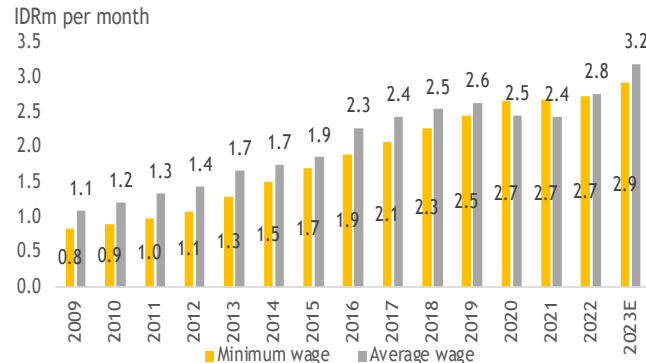
Fig 5: Bank Indonesia's Prompt Manufacturing Index (PMI)



Source: CEIC, Bank Indonesia, Maybank IBG Research

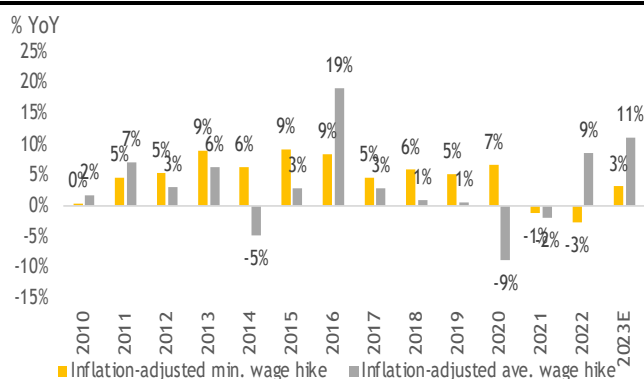
Prompt Manufacturing Index (PMI) is an indicator obtained from Bank Indonesia Business Survey (BIBS) on manufacturing sector. The BIBS respondents are large and medium sized companies. PMI above 50-level signals business expansion while PMI below 50-level indicates business contraction.

Fig 6: Monthly minimum and average wage



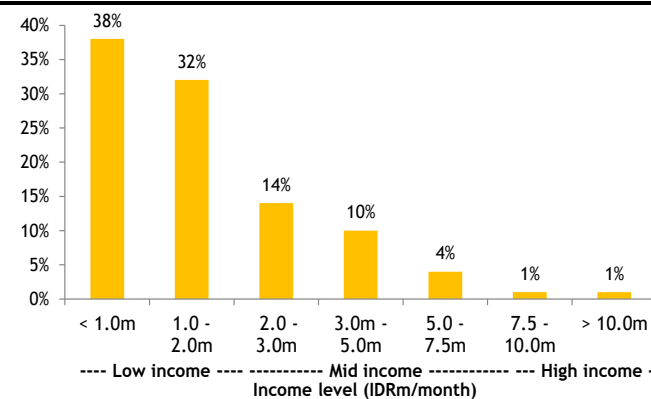
Source: CEIC, Maybank IBG Research

Fig 7: Inflation-adjusted minimum and average wage hikes



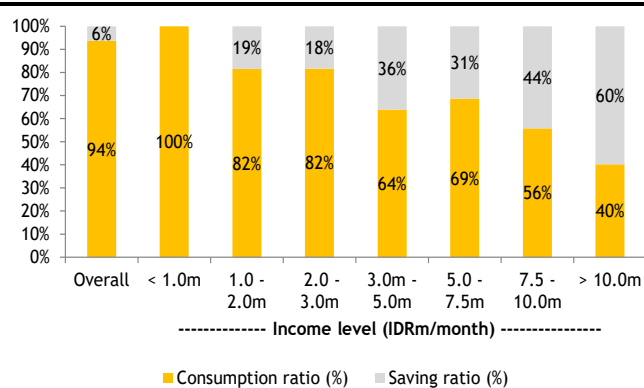
Source: CEIC, Bank Indonesia, Maybank IBG Research

Fig 8: Indonesia's population mix by income level



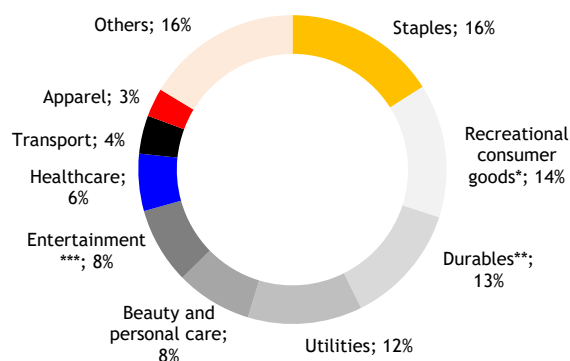
Source: Deloitte, Maybank IBG Research

Fig 9: Consumption and saving ratio by income levels



Source: Deloitte, Maybank IBG Research

Fig 10: Household's monthly spending allocation



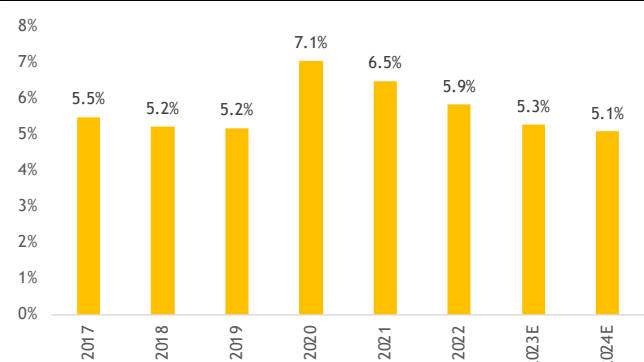
Source: Deloitte, Maybank IBG Research

\*Including beverage (alcoholic and non-alcoholic), confectionery, and tobacco.

\*\*Including audio &amp; video electronic products, mobile phones &amp; digital gadgets, small and major household appliances.

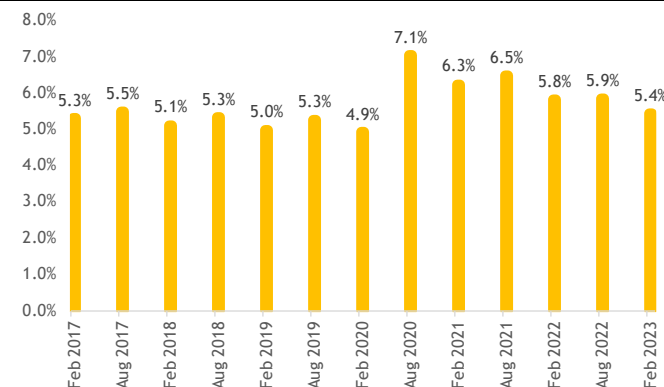
\*\*\*Including fitness, holiday, leisure, karaoke, and nightclubs.

Fig 11: Annual unemployment rates



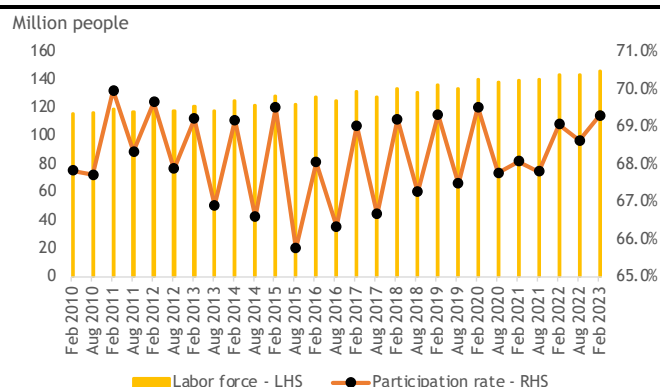
Source: CEIC, Maybank IBG Research

Fig 12: Monthly unemployment rates



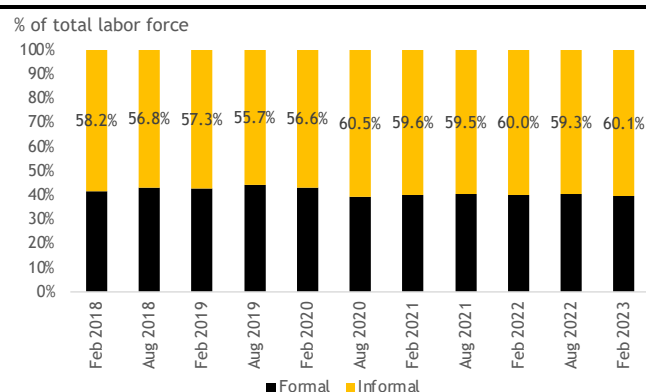
Source: CEIC, Maybank IBG Research

Fig 13: Labour force and participation rate



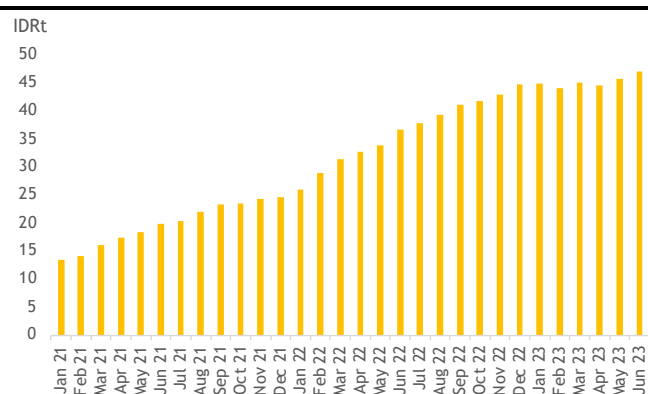
Source: CEIC, Maybank IBG Research

Fig 14: Formal and informal worker composition



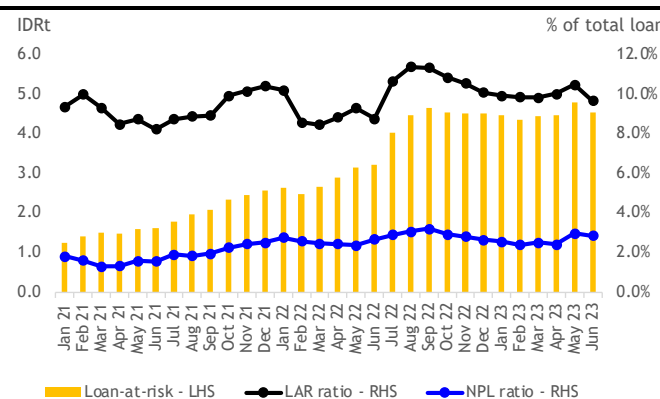
Source: Indonesia Statistics Bureau (BPS), Maybank IBG Research

Fig 15: Debt outstanding of Indonesia fintech companies...



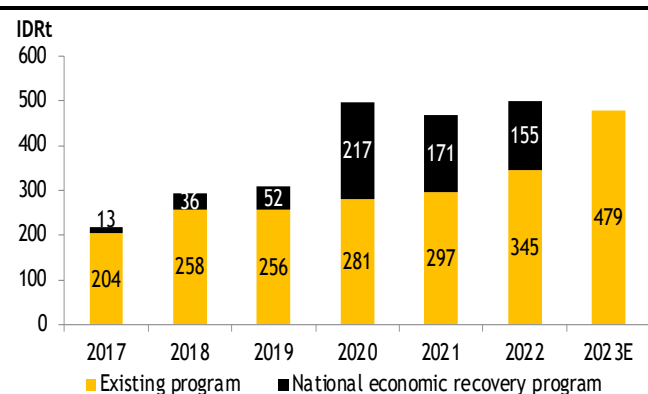
Source: Financial Service Authority (OJK), Maybank IBG Research

Fig 16: ... and the system loan quality



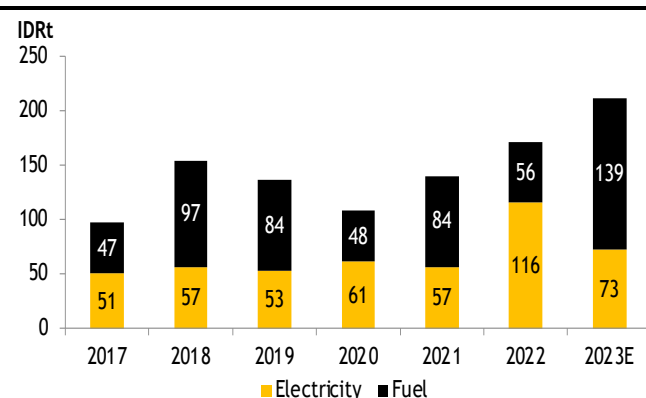
Source: Financial Service Authority (OJK), Maybank IBG Research

Fig 17: Government's social assistance...



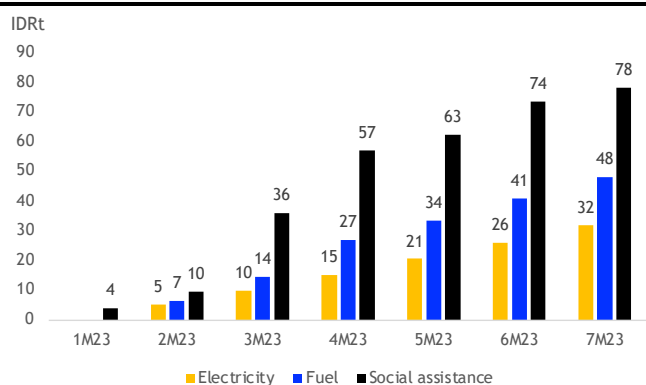
Source: Ministry of Finance, Maybank IBG Research

Fig 18: ... and energy subsidy budgets



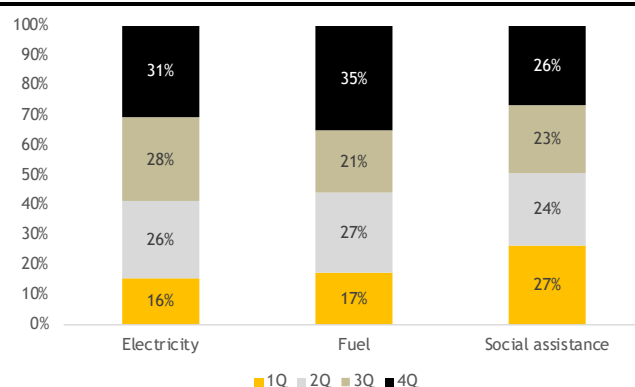
Source: Ministry of Finance, Maybank IBG Research

Fig 19: Actual spending of key government's subsidies...



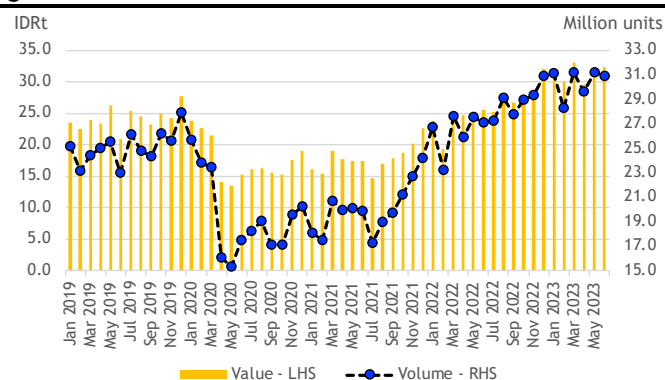
Source: Ministry of Finance, Maybank IBG Research

Fig 20: ... and its seasonality



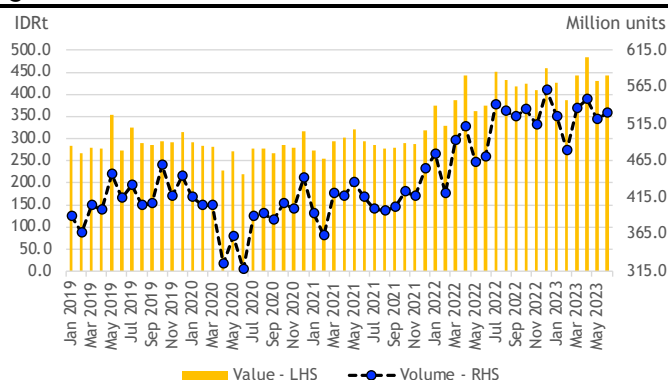
Source: Ministry of Finance, Maybank IBG Research

Fig 21: Indonesia's credit card...



Source: Bank Indonesia, Maybank IBG Research

Fig 22: ... and debit card transactions



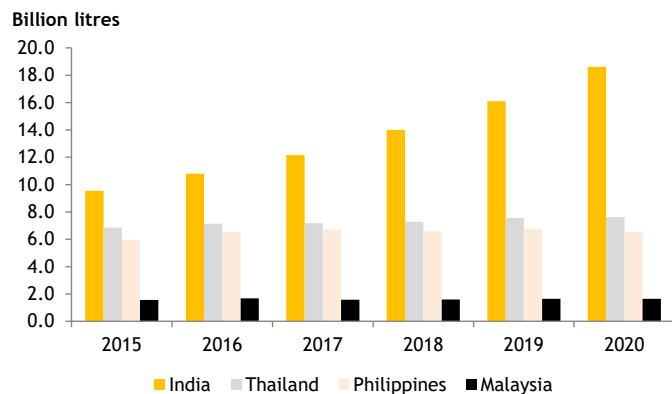
Source: Bank Indonesia, Maybank IBG Research

Fig 23: Elections and campaigning periods

| Period | Number of election(s) | First election | Second election | Campaigning period           |
|--------|-----------------------|----------------|-----------------|------------------------------|
| 2004   | 2                     | 05 July 2004   | 20 Sept 2004    | 11 Mar 2004 - 01 July 2004   |
| 2009   | 1                     | 08 July 2009   | -               | 17 Mar 2009 - 04 July 2009   |
| 2014   | 1                     | 09 July 2014   | -               | 16 Mar 2014 - 05 Jul 2014    |
| 2019   | 1                     | 17 April 2019  | -               | 23 Sept 2018 - 13 April 2019 |
| 2024   | -                     | 14 Feb 2024    | -               | 28 Nov 2023 - 10 Feb 2024    |

Source: General Elections Commission (KPU), Maybank IBG Research

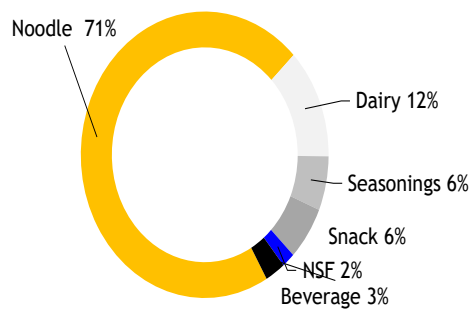
Fig 24: Sales volume of beverage products



Source: Euromonitor, Maybank IBG Research

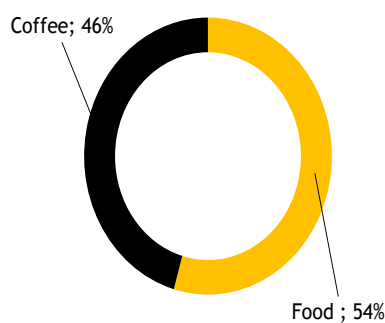
**Note:** The beverage products include bottled water, carbonates, concentrates, juice, RTD coffee, RTD tea, energy drinks, sports drink, and Asian specialty drinks.

Fig 26: ICBP's sales mix (FY24E)



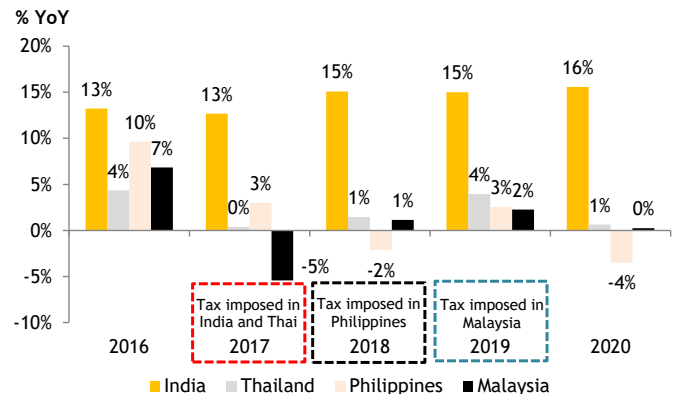
Source: Company, Maybank IBG Research

Fig 28: MYOR's sales mix (FY24E)



Source: Company, Maybank IBG Research

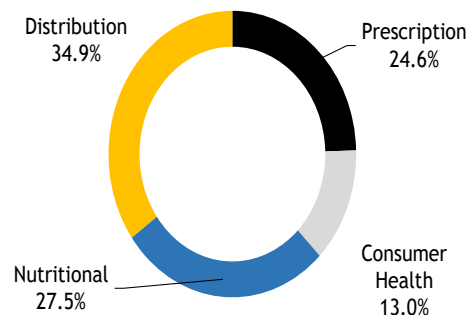
Fig 25: Sales volume growth of beverage products



Source: Euromonitor, Maybank IBG Research

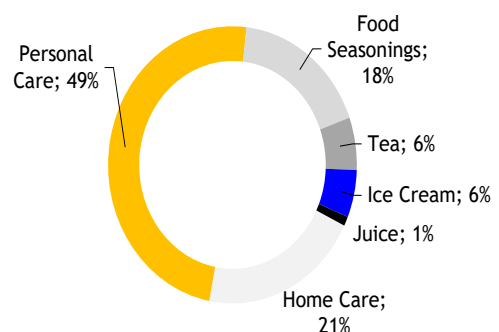
**Note:** The beverage products include bottled water, carbonates, concentrates, juice, RTD coffee, RTD tea, energy drinks, sports drink, and Asian specialty drinks.

Fig 27: KLBF's sales mix (FY24E)



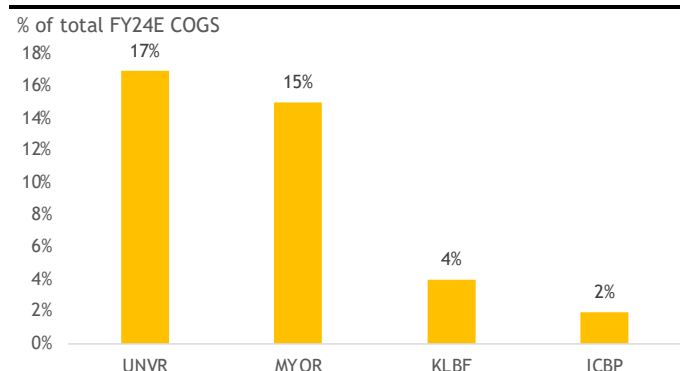
Source: Company, Maybank IBG Research

Fig 29: UNVR's sales mix (FY24E)



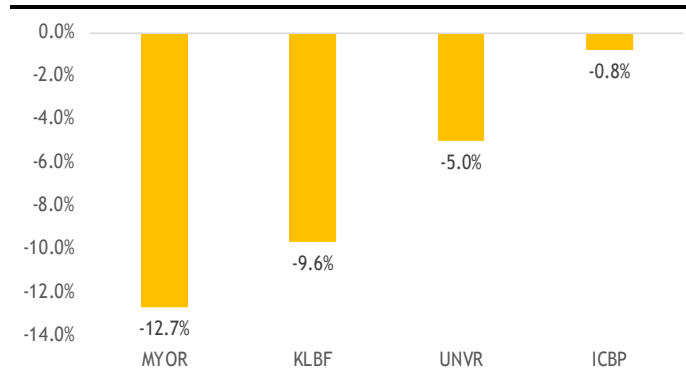
Source: Company, Maybank IBG Research

Fig 30: Sugar cost as a % of total COGS, ...



Source: Company, Maybank IBG Research

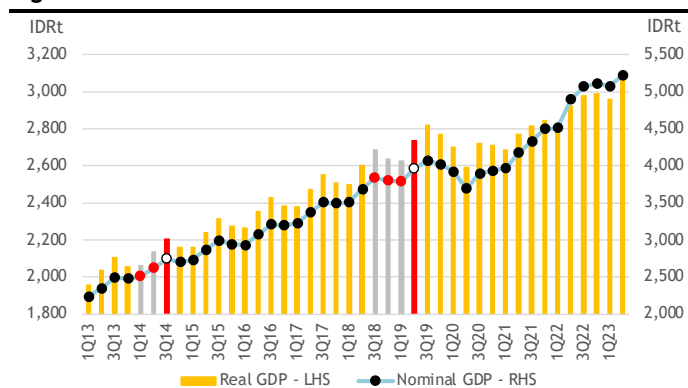
Fig 31: ... and the impact of 10% sugar cost hike to FY24E EPS



Source: Company, Maybank IBG Research

MYOR, KLBF, UNVR, and ICBP will only need to raise their ASP by 1.27%; 1.80%; 1.07%; and 0.13% to maintain their FY24E profit margins.

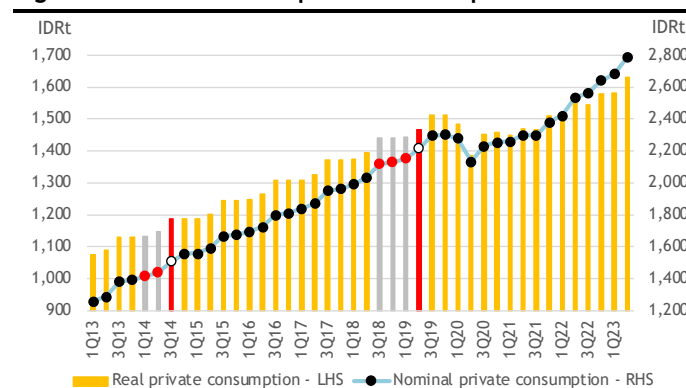
Fig 32: Real and nominal GDP



Source: Ministry of Finance, Maybank IBG Research

\*Grey-coloured and red-coloured bar graphs indicate campaigning and election period, respectively.

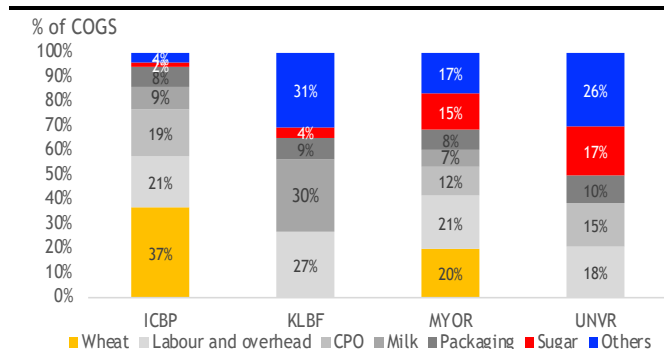
Fig 33: Real and nominal private consumption



Source: Ministry of Finance, Maybank IBG Research

\*Grey-coloured and red-coloured bar graphs indicate campaigning and election period, respectively.

Fig 34: COGS mix by type of commodities in FY24E



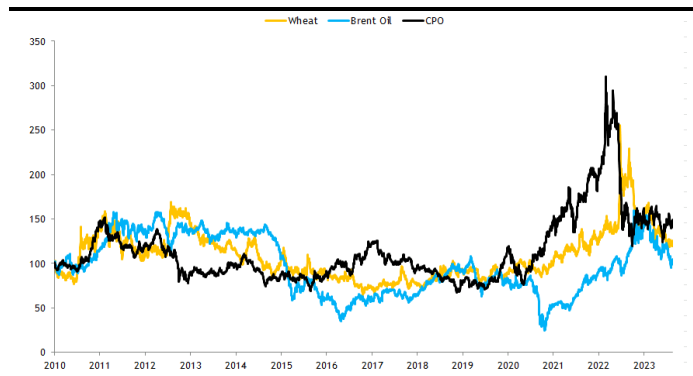
Source: Maybank IBG Research

Fig 35: Inventory cycle of key commodities

|      | O'all | Sugar   | Plastic | RBD Olein | Wheat | Milk  | Coffee | API | Oleo | Coconut sugar |
|------|-------|---------|---------|-----------|-------|-------|--------|-----|------|---------------|
| ICBP | 59    | 60-90   | 30      | 7         | 90    | 60-90 |        |     |      |               |
| KLBF | 110   | 60-90   | 30      |           |       |       | 270    | 180 |      |               |
| MYOR | 52    | 150-180 | 30      | 8         | 90    | 60-90 |        |     |      | 30            |
| UNVR | 40    | 60-90   | 40      | 10        |       |       |        |     | 45   | 30            |

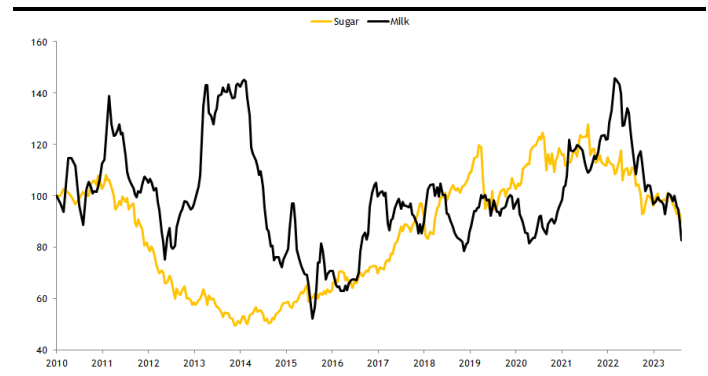
Source: Maybank IBG Research

Fig 36: Key soft commodity prices still remain elevated ...



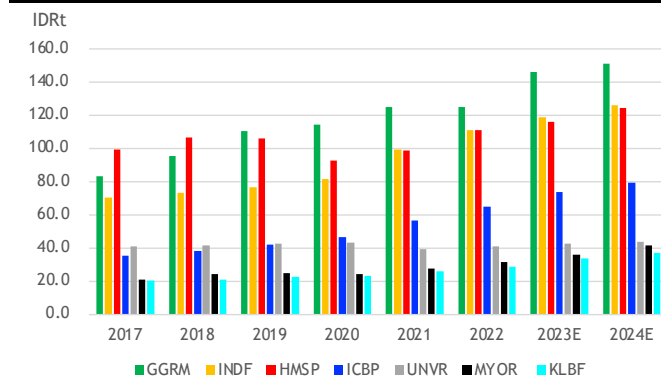
Source: Bloomberg, Maybank IBG Research

Fig 37: ... except powdered milk, which has reset to 2019 price levels



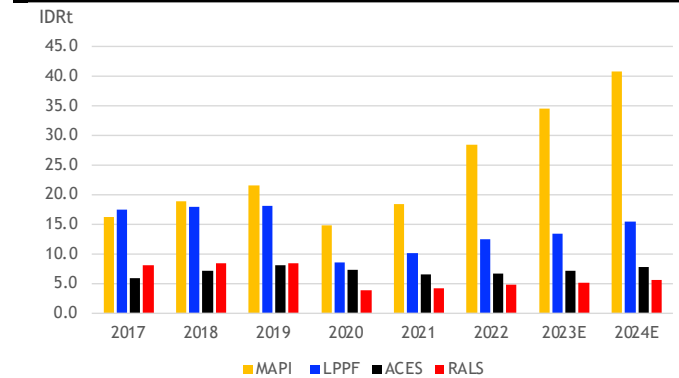
Source: Bloomberg, Maybank IBG Research

Fig 38: Sales of our consumer names



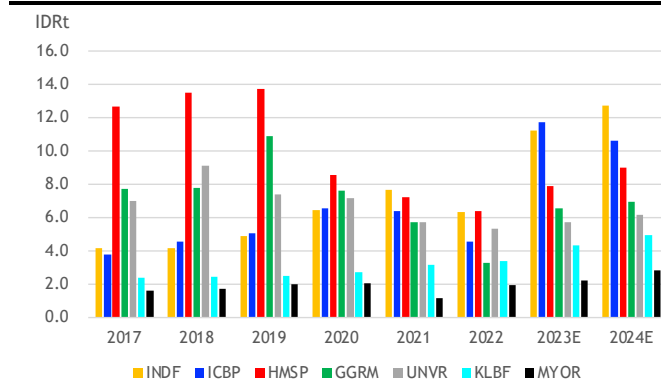
Source: Companies, Maybank IBG Research

Fig 39: Sales of our retail names



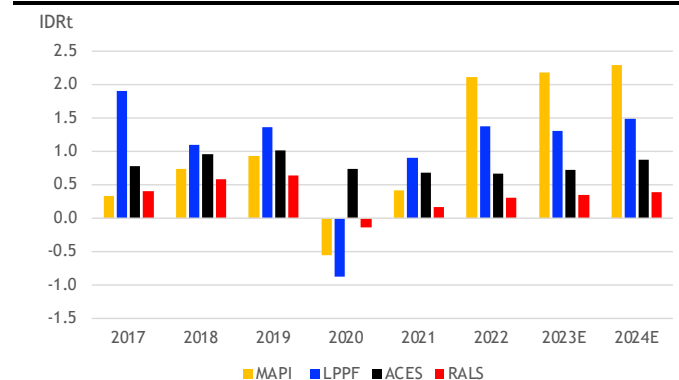
Source: Companies, Maybank IBG Research

Fig 40: NPATMI of our consumer names



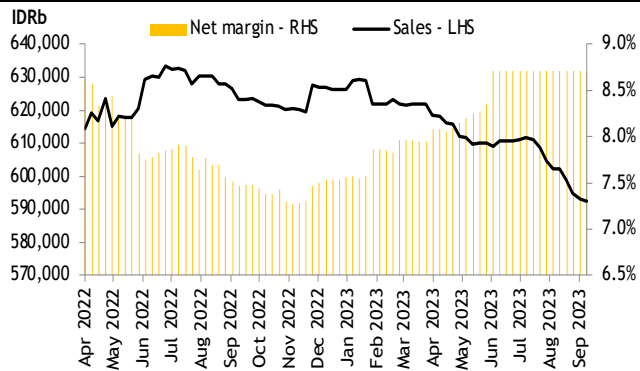
Source: Companies, Maybank IBG Research

Fig 41: NPATMI of our retail names



Source: Companies, Maybank IBG Research

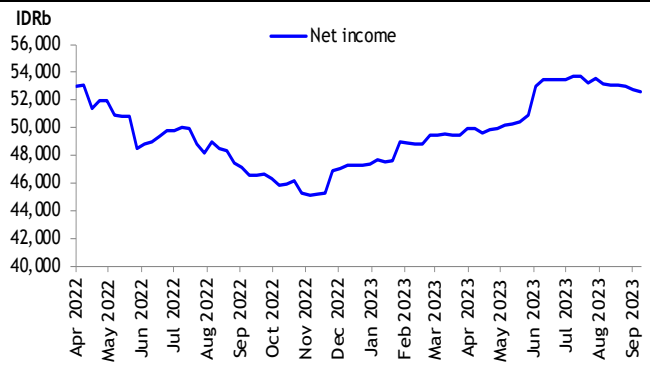
Fig 42: Sales, net margin, ,...



Source: Bloomberg, Maybank IBG Research

\*We include GGRM IJ, HMSP IJ, ICBP IJ, INDF IJ, KINO IJ, MYOR IJ, ROTI IJ, SDO IJ, ULTI IJ, UNVR IJ, and KLBF IJ to assess sector's earnings expectation.

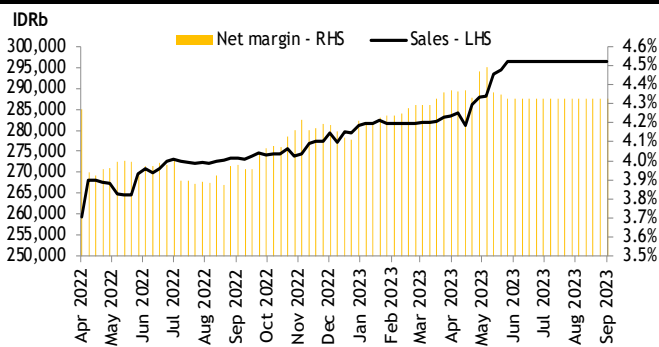
Fig 43: ... and net income expectation for staples in FY24E



Source: Bloomberg, Maybank IBG Research

\*We include GGRM IJ, HMSP IJ, ICBP IJ, INDF IJ, KINO IJ, MYOR IJ, ROTI IJ, SDO IJ, ULTI IJ, UNVR IJ, and KLBF IJ to assess sector's earnings expectation.

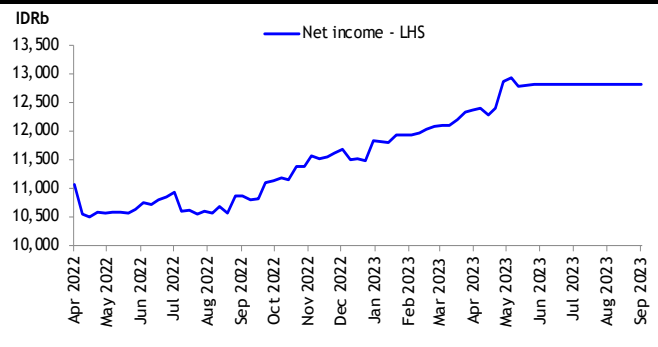
Fig 44: Sales, net margin, ,...



Source: Bloomberg, Maybank IBG Research

\*We include PZZA IJ, AMRT IJ, MPPA IJ, ACES IJ, ERAA IJ, MTDL IJ, MAPI IJ, LPPF IJ, MAPA IJ, and RALS IJ to assess sector's earnings expectation

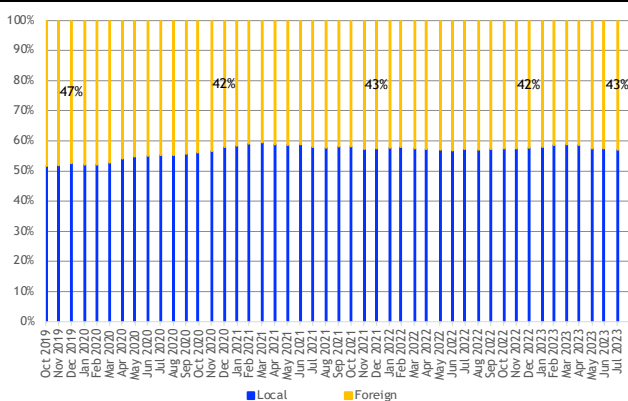
Fig 45: ... and net income expectation for retailers in FY24E



Source: Bloomberg, Maybank IBG Research

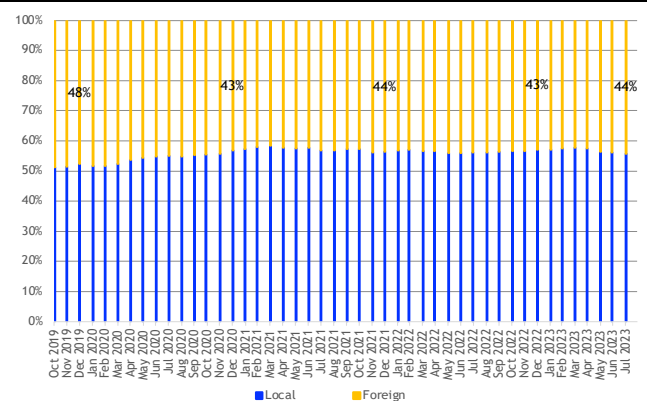
\*We include PZZA IJ, AMRT IJ, MPPA IJ, ACES IJ, ERAA IJ, MTDL IJ, MAPI IJ, LPPF IJ, MAPA IJ, and RALS IJ to assess sector's earnings expectation

Fig 46: Foreign and local share ownership in Indonesia consumer sector



Source: KSEI, Maybank IBG Research

Fig 47: Foreign and local share ownership in Indonesia consumer sector excluding cigarette names



Source: KSEI, Maybank IBG Research

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