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Consumer & Retail sector

Key Takeways from Trimegah market outlook 2016: Consumer-Sector Panel Discussion

Dian Octiana
(dian.octiana@trimegah.com)

OVERWEIGHT

Representatives from Aprindo (Indonesian Retail Businessmen Association)) and Perkosmi (Indonesian Cosmetics Association) joined us in our 2016 market outlook event to share their opinion about consumer and retail industry in 2016. Here are the key takeaways:

- 1) **Asia Pacific (APAC) countries are facing deceleration growth, not only Indonesia.** Deceleration growth has happened in some countries in Asia Pacific, showing by slowing growth in unit value, volume and nominal value. Yet, Indonesia was still one of countries in APAC that had high level of nominal growth in 3Q15.
- 2) **Main reason behind current harsh condition;** foreign debt, economic growth, and rupiah depreciation. We see that the most significant factors are low economic growth and rupiah depreciation. The current growth of consumer companies are mostly driven by ASP growth. According to APRINDO, national FMCG volume growth is as thin as 1.7% due to price growth.
- 3) **Changing in consumption patterns;** choosing other alternative products that more cheaper than their usual products, having less frequency time for shopping. According to Nielsen, the most impacted categories are flour based products (bread, instant noodle), milk based products, and personal care.
- 4) **Signs of market recovery.** In Oct' 15, CCI rose to 99.3 (vs 97.5 in Sept, the lowest point) reflecting slight improvement in demand, positive for consumer and retailers. Another sign is an improvement portion in companies' advertising spending portion.

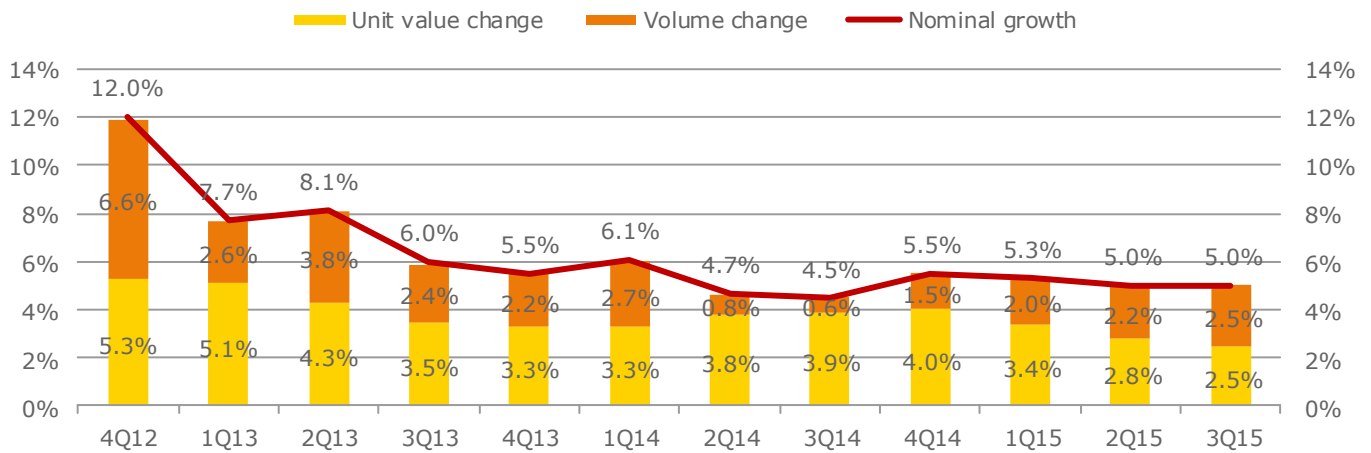
OVERWEIGHT. We see Indonesia's consumption on consumer and discretionary products would have positive growth, backed by the expectation of rising middle class segment, coupled with stronger purchasing power expectation.

- In consumer sector we like ICBP (**BUY, TP Rp16,600**) for its dominant position, its health balance sheet, and its strategy to enter into new business.
- In retail sector we like MPPA (**BUY, TP Rp2,800**) and LPPF (**BUY, TP Rp19,800**). We like MPPA for its potential growth, following expectation of better purchasing power, going forward. We like LPPF for its strong business model, its product mix strategy that generates it to have better margin than its competitors, resulting with health balance sheet and strong OCF.

1) Asia Pacific (APAC) countries are facing deceleration growth, not only Indonesia

They both agreed that Indonesia’s consumer (staples and discretionary) is currently facing stagnant growth. Yet, they see that deceleration growth has also happened in some countries in Asia Pacific, showing by slowing growth in unit value, volume and nominal value. Moreover, Indonesia was still one of countries in APAC that had high level of nominal growth.

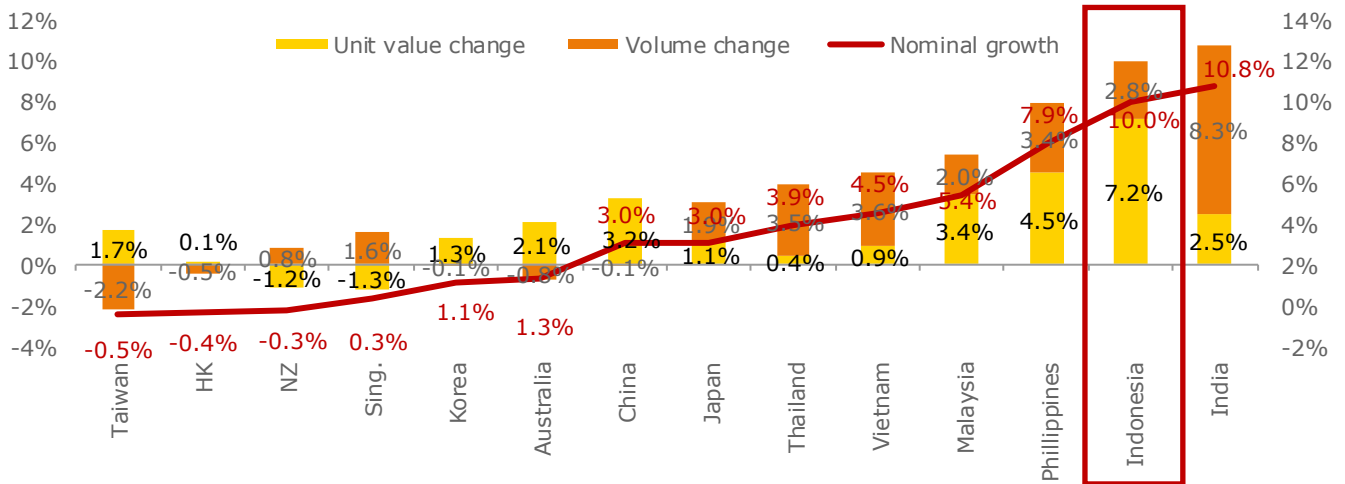
Figure 1. Deceleration growth rate across Asia Pacific countries



* Regional Summary for APAC is based on Australia, China, Hong Kong SAR, India, Indonesia, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand, and Vietnam. Indonesia has changed the retail census in 2010.

Source: APRINDO, Nielsen, TRIM Research

Figure 2. Indonesia was one of the countries that had highest nominal growth in Q3

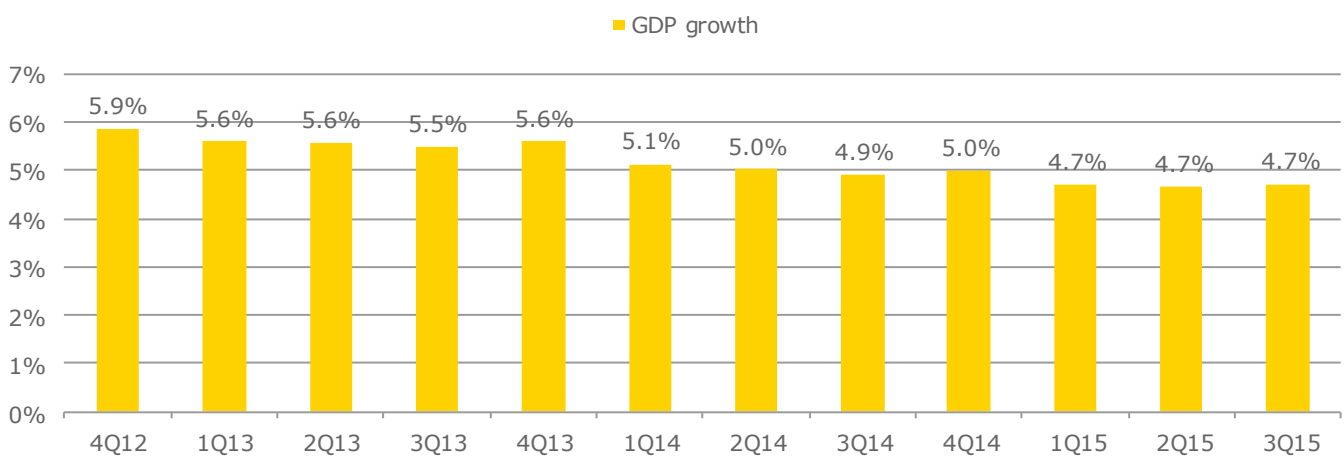


Source: APRINDO, Nielsen, TRIM Research

2) Main reason behind current harsh condition

Initially, industry players expected that 2015 would become a turnaround period from 2014. Unfortunately, Indonesia had to face another pebbles in its macro economic condition, given that Indonesia entered lower GDP level in the period of 1Q15-3Q15. Mr. Yongki argued that three main reasons behind the industry soft growth; foreign debt, economic growth, and rupiah depreciation. We see that the most significant factors are low economic growth and rupiah depreciation. The big players in certain industries are usually experiencing slowing growth in the first place (e.g. UNVR, GGRM, MYOR), followed by smaller players. Currently, growth of consumer companies are mostly driven by ASP growth, rather than volume growth. According to APRINDO, national FMCG volume growth is as thin as 1.7% due to price growth.

Figure 3. Indonesia economy went into downturn

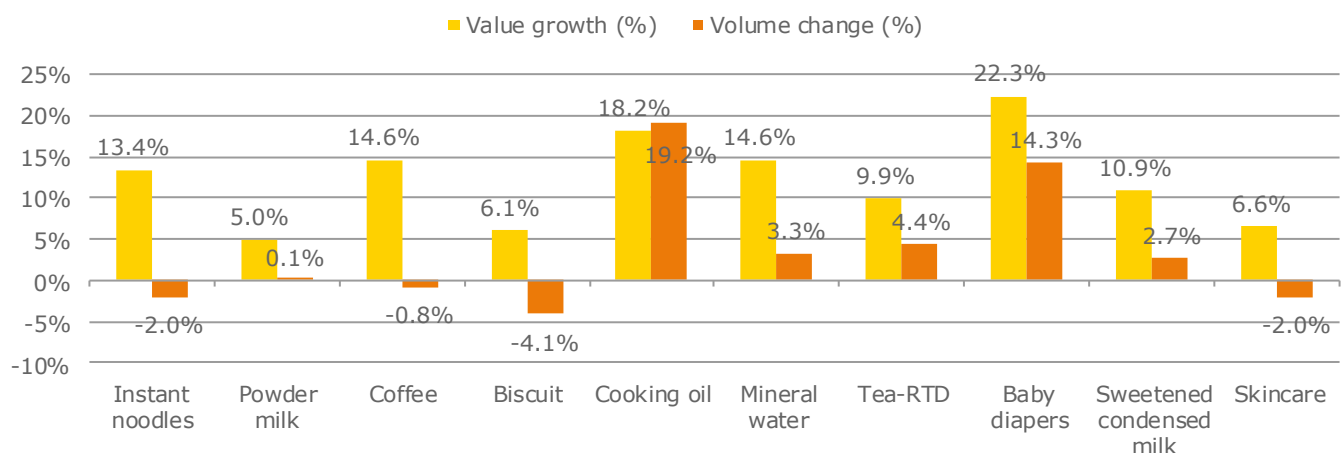


Source: Bank Indonesia, Bloomberg, TRIM Research

3) Changing in consumption patterns

Following continuous weak economic condition, consumers prefer to change their consumption patterns; choosing other alternative products that more cheaper than their usual products, having less frequency time for shopping. For example, people now prefer to buy sweetened condensed milk rather than powder milk, people now choose to buy Sarimi rather than Mie Sedap, people now go to supermarket 4x every month rather than 8x. According to Nielsen, the most impacted categories are flour based products (bread, instant noodle), milk based products, and personal care. Nielsen noted that beverage and baby diapers segment are still enjoying positive growth.

Figure 4. Declining volume growth in top 10 categories products



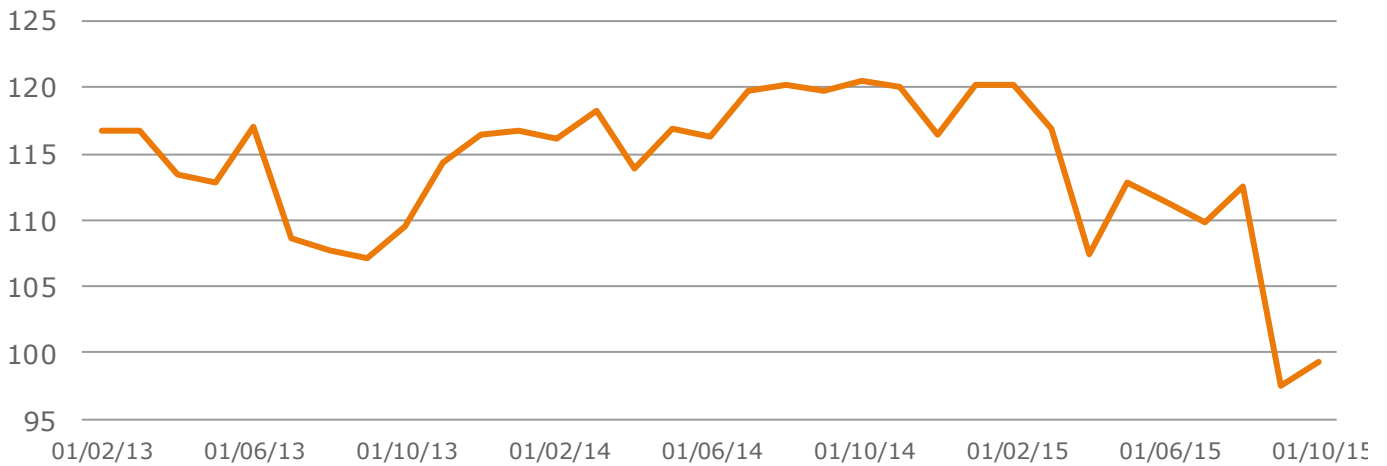
Source: APRINDO, Nielsen, TRIM Research

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4) Signs of market recovery

According to Nielsen, consumers in Southeast Asia remain among the most confident, despite rising recessionary sentiment. Indonesia took the 4th position in 3Q15, even though it was the lowest level ever happened. In Oct' 15, CCI rose to 99.3 (vs 97.5 in Sept, the lowest point) reflecting slight improvement in demand, positive for consumer and retailers.

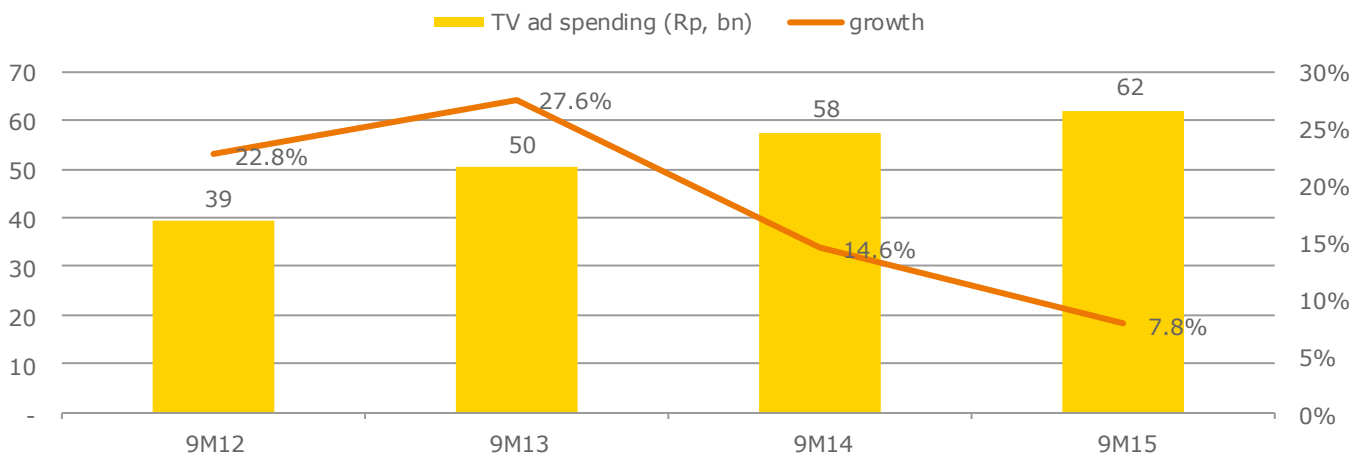
Figure 5. Indonesia CCI (Monthly)



Source: Bank Indonesia, Bloomberg, TRIM Research

We can also see sign of consumer industry optimism by looking at an improvement portion in their advertising spending portion. According to Nielsen, manufacture companies start increasing their TV ad spending to stimulate consumption, started in 3Q15. In 9M15, FMCG companies still dominated TV advertising spending; growing up milk products grew by 45% YoY, clove cigarettes products grew by 30% YoY, and facial care products grew by 19% YoY.

Figure 6. 9-month TV advertising spending



Source: APRINDO, Nielsen, TRIM Research

5) We put OVERWEIGHT for consumer and retail sector in FY16, with ICBP, MPPA, and LPPF as our top picks.

We see Indonesia's consumption on consumer and discretionary products would have positive growth, backed by the expectation of rising middle class segment, coupled with stronger purchasing power expectation.

We like ICBP (**BUY, TP Rp16,600**) for its dominant position that allows it to be a price maker, rather than a price taker. It also has health balance sheet. We also positive for its strategy to have more exposure in the industry by expanding into new business. We expect further margin improvement in ICBP, backed by softer commodity prices and improvement in non-noodle businesses. We note that ICBP's non-noodle segments have started to show its performance and contribution.

Figure 7. TRIM consumer companies valuation

TICKER	Price (Rp)		Ups. (%)	Rec.	EPS Growth (%)		PE (x)		P/BV (x)		EV/EBITDA (x)		ROE (%)	
	13-Nov	TP			2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
	ICBP	12,400			16,600	33.9	BUY	17.6	17.0	23.6	20.2	4.9	4.5	17.1
INDF	5,175	6,800	31.4	BUY	(41.5)	51.1	20.0	13.2	1.7	1.6	2.9	2.5	8.9	12.5
GGRM	47,500	56,700	19.4	BUY	(1.5)	(4.1)	17.3	18.0	2.5	2.3	7.8	8.0	15.2	13.3
MYOR	26,500	30,400	14.7	BUY	197.1	(14.4)	19.8	23.1	4.6	4.0	10.4	9.7	21.8	18.9
ROTI	1,220	1,380	13.1	BUY	13.3	23.2	28.9	23.5	5.4	4.5	12.6	11.0	18.7	19.3
UNVR	36,300	36,300	0.0	SELL	2.5	9.8	47.1	42.9	58.3	52.5	33.4	30.3	124.2	127.1

Source: TRIM Research

We like MPPA (**BUY, TP Rp2,800**) for its potential growth, following expectation of better purchasing power, going forward. MPPA expects to grab bigger market, by expanding into wholesale trading that covers haberdashers, which we think could generate more growth into its revenue. MPPA also has health balance sheet.

We like LPPF (**BUY, TP Rp19,800**) for its strong business model, its product mix strategy (direct purchase and consignment products) that allows it to generate better margin than its competitors, resulting with health balance sheet and strong OCF. We also notice that ~90% of its merchandises are locally sourced, avoiding it from forex risks.

Figure 8. TRIM retail companies valuation

TICKER	Price (Rp)		Ups. (%)	Rec.	EPS Growth (%)		PE (x)		P/BV (x)		EV/EBITDA (x)		ROE (%)	
	13-Nov	TP			2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
	MPPA	1,980			2,800	41.4	BUY	(17.8)	20.7	25.7	21.3	3.5	3.1	14.3
LPPF	14,650	19,800	35.2	BUY	26.7	32.0	23.4	17.7	31.6	14.6	16.7	13.9	n/m	n/m
CSAP	368	650	76.6	U/R	8.6	11.0	1.4	1.2	1.4	1.2	0.4	(0.1)	10.8	12.4
ACES	735	600	(18.4)	Neutral	(6.2)	17.7	26.8	22.7	4.9	4.3	20.1	17.5	20.7	21.9
MAPI	3,405	2,900	(14.8)	Sell	42.8	153.1	69.7	27.5	2.3	2.1	2.4	2.1	1.5	6.7

Source: TRIM Research

PT Trimegah Securities Tbk

Gedung Artha Graha 18th Floor
Jl. Jend. Sudirman Kav. 52-53
Jakarta 12190, Indonesia
t. +62-21 2924 9088
f. +62-21 2924 9150
www.trimegah.com

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