

NEUTRAL [Unchanged]

VAT hike not a concern

Indonesia Consumer

Maintain NEUTRAL with ICBP as our top pick

Maintain NEUTRAL on Indonesia's consumer sector. We favour export giant ICBP as our top pick as we think the Pinehill Company Limited (PCL) operations will significantly increase ICBP's market base. Also, we believe ICBP's future earnings recovery will be robust as its noodle products (c.73% of FY22E sales) remain essentials to its target segment. Main downside risks are significant IDR depreciation and lower than expected EBIT margin.

Inflation will remain modest post VAT hike

The VAT hike to 11% (from 10%) in 2022 and 12% in 2025 will be the first since the enactment of the law in 1984. But, we believe the VAT hike will have a limited impact on purchasing power as 1) most basic food products (c.22% of monthly household spending) remain exempted and 2) the inflation rate will remain modest. For the latter, our economists estimate the inflation rate will only increase by 10 to 20 bps, and have raised our 2022 forecast +3.2% (from 3.0%).

Remains affordable and essential

We believe most of the consumer companies under our coverage have strong product branding which will mitigate the potential downside to sales volume from the impact of higher VAT on ASPs. Also, their products are primarily essential goods and remain affordable for most consumers. Our estimates indicate that manufacturers will only need to raise ASP by IDR25 to IDR2,900 (<USD0.2) per item to pass on the VAT increase to their customers. In our view, the price adjustment is not significant on the average consumer's wallet.

Prefer export giant to buffer the impact from VAT

We prefer consumer names with a 1) large export market base (Fig.8) and 2) strong brand power. As the new VAT scheme will continue to exempt export products, we believe having a large export market is key to limiting the impact of the VAT hike and supporting future earnings recovery. Meanwhile, our sensitivity analysis suggests that every 5% decline in domestic sales will lower our FY22E EPS bv 4.5%/4.7%/3.1%/4.8% for ICBP/KLBF/MYOR/UNVR.

Bloomberg Upside PER PBV Div. yield ROE Mkt cap Price Stock TP (LC) Rating (%)** (USDm) (LC)* (x)*** (x)*** (%)*** (%)*** code ACE Hardware ACES IJ 1,565 Hold 1,305 1,500 17 26.5 3.8 1.6 14.9 Indofood CBP ICBP IJ 7,039 8,650 12,500 48 13.4 2.6 3.7 20.9 Buy Indofood SM INDF IJ 3,989 6,425 9,000 46 7.9 1.1 6.3 14.7 Buy 47 20.4 3.2 Kalbe Farma KLBF IJ 4,515 Buy 1,380 2,000 1.8 16.1 ahari Department S LPPF IJ 4,515 Sell 2,840 500 -81 17.5 4.2 1.7 26.2 Mitra Adi Perkasa MAPI IJ 900 Buy 775 950 24 14.3 1.9 1.5 14.4 MYOR IJ 2,900 22.9 1.7 17.7 Mayora Indah 3.604 Buv 2.310 27 3.8 RALS IJ 370 Hold 745 725 0 1.3 2.6 8.0 Ramayana 16.4 Unilever UNVR IJ 10,596 Hold 3,980 4,500 18 21.9 29.8 4.6 136.2

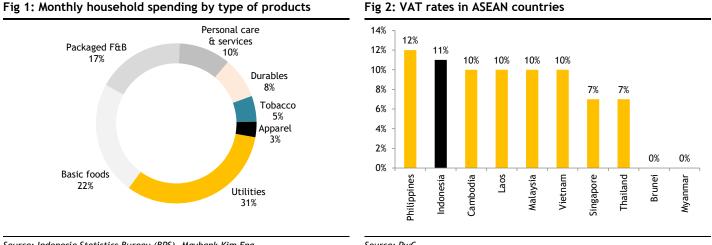
*As of 04 October 2021 | **Including FY22E div. yield | ***based on 2022 forecasts Source: Bloomberg, Maybank Kim Eng

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1. The impact of VAT hikes on consumers...

We believe the impact of the VAT increase on the consumer's purchasing power will likely be small as most basic food products (c.22% of monthly household spending) remain exempted from VAT. In our latest economic report by Lee Ju Ye dated 01 October 2021, we estimate that a 1% VAT hike will only increase the inflation rate by 10-20bps. Also, we have raised our 2022 inflation rate to +3.2% (from +3.0%), to factor in the VAT hike.



Source: Indonesia Statistics Bureau (BPS), Maybank Kim Eng

Source: PwC

On 30 September 2021, the parliamentary committee approved the proposed VAT hike. That said, the government will raise VAT to 11% (from currently 10%) in April 2022, and to 12% in 2025. While Indonesia's VAT rate is one of the highest in the ASEAN, it is still lower than the global average of 16.3%. Meanwhile, the earlier plan to expand VAT coverage to previously exempted goods and services was dropped due to concerns over inflation and impact on consumption.

Fig 3: List of goods and services under current VAT rate exemptions

No	Goods and services exempted from VAT
1	Export of taxable intangible and tangible goods
2	Export of services
3	Drilling or mining from direct extraction of their sources*
4	Basic commodities**
5	Food and drink services in hotel and restaurants (both dine-in and take away)
6	Medical and health services, mail services, and social services (e.g. funeral)
7	Religious services, insurance, art and entertainment
8	Educational, public transportation, hotel, and manpower services
9	Public telephone and non-advertising broadcasting services

Source: Compiled by Maybank Kim Eng

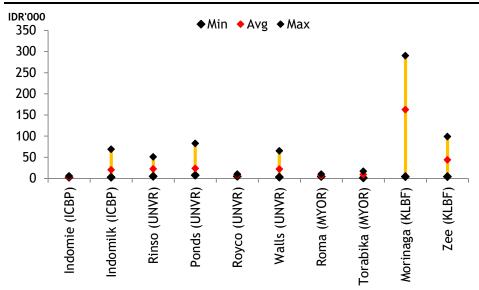
*Including natural gas, crude oil, coal, geothermal energy, gravel and sand, iron ore, copper ore, gold ore, tin ore, silver ore, etc. **Including rice, corn, sago salt, sugar, soy beans, meat, eggs, milk, fruits, vegetables, and spices.

2. ...and our consumer companies are limited

We believe our consumer names' products have 1) strong branding, 2) relatively affordable price points, and 3) primarily sell essential goods to their target customers. We think these attributes will limit downside to sales volume from the rise in VAT.

Our sensitivity analysis suggests that every 5% decline in domestic sales will lower our FY22E EPS by 4.5%/4.7%/3.1%/4.8% for ICBP/KLBF/MYOR/UNVR. Meanwhile, we note that the price points of a basket of the consumer products in our coverage (Fig.4) range from IDR2,500 to IDR290,000. Our estimates suggest the price tag of a basket of consumer products will rise by a range of IDR25 to IDR2,900 once a 1% VAT rate hike is implemented. In our view, the price increase is relatively insignificant on the consumer's wallet.

Fig 4: Price points of major consumer products in our coverage...



Source: Compiled by Maybank Kim Eng

Fig 5: ...before and after VAT hike

	Pre VAT hike			Post VAT hike			Price change		
	Min	Avg	Max	Min	Avg	Max	Min	Avg	Max
Indomie (ICBP)	2,500	3,453	5,850	2,525	3,487	5,909	25	35	59
Indomilk (ICBP)	2,805	20,266	68,900	2,833	20,468	69,589	28	203	689
Rinso (UNVR)	4,999	22,690	51,000	5,049	22,917	51,510	50	227	510
Ponds (UNVR)	7,350	23,790	82,600	7,424	24,028	83,426	74	238	826
Royco (UNVR)	4,800	7,902	10,000	4,848	7,981	10,100	48	79	100
Walls (UNVR)	3,000	22,200	65,000	3,030	22,422	65,650	30	222	650
Roma (MYOR)	4,500	6,751	10,000	4,545	6,819	10,100	45	68	100
Torabika (MYOR)	1,066	8,954	17,000	1,077	9,043	17,170	11	90	170
Morinaga (KLBF)	4,250	162,337	290,000	4,293	163,960	292,900	43	1,623	2,900
Zee (KLBF)	4,050	43,928	99,000	4,091	44,367	99,990	41	439	990

Source: Complied by Maybank Kim Eng

Fig 6: Market shares

Company	Product	Market share (%) 73% 10%		
Indofood CBP	Noodle			
	Drinking milk			
Unilever	Home Care	25%		
	Personal Care	25%		
	Cooking ingredients	22%		
	Ice Cream	40%		
Mayora	Sweet biscuits	11%		
	Coffee	11%		
Kalbe Farma	Kids nutritions	11%		
	Adult nutritions	41%		
	Specialities nutrition	37%		
	OTC	15%		

Fig 7: Our sensitivity analysis

	ICBP		KLBF		MYOR		UNVR	
	EPS (IDR)	Chg. (%)						
Domestic sales +5%	614	4.5%	72	4.7%	106	3.1%	185	4.8%
Base case	587		69		103		176	
Domestic sales -5%	561	-4.5%	65	-4.7%	100	-3.1%	168	-4.8%

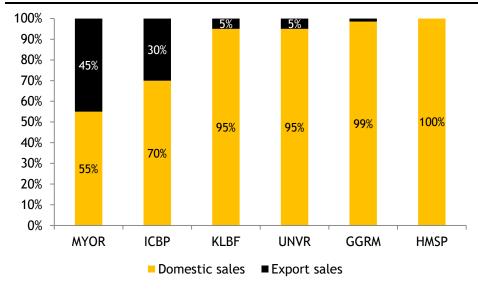
Source: Maybank Kim Eng

Source: Euromonitor, Maybank Kim Eng

3. ICBP is our top pick

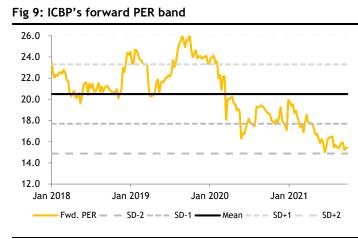
Maintain our neutral view on the consumer sector as we think the VAT policy on domestic goods and services will create short-term headwinds on earnings. Thus, we are selective and prefer names with strong brand power and a large export market base to buffer the negative impact of the VAT rate increase and help deliver solid earnings recovery. But, we believe the long-term earnings growth outlook will remain intact due to the rising income level.

Our top pick in the sector is ICBP as Pinehill Company Limited (PCL) operations will expand ICBP's market base. Also, ICBP's noodle products (c.73% of FY22E sales) remain essential to the mass market. Valuation-wise, ICBP looks attractive, trading at 14.7x FY22E P/E, 1SD below its three-year mean. The main downside risks are significant IDR depreciation and lower than expected EBIT margin.

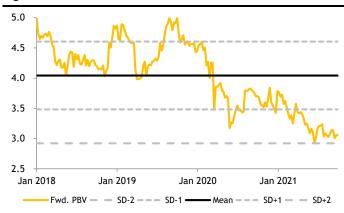




Source: Company, Maybank Kim Eng







Source: Bloomberg, Maybank Kim Eng

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