

### SECTOR UPDATE

#### Consumer – Indonesia

Raw Material Prices To Decline With Higher Selling Prices.

**CPO prices have declined 58.2% from the peak and wheat prices have fallen 34% from the peak. Polyethylene and skim milk prices tumbled 18% and 17.7% from their peaks. At almost all consumer companies, selling prices have been adjusted by 5-10% ytd. The new and higher selling prices are unlikely to drop even when raw material prices decline. Retailers should continue with their recovery. Maintain OVERWEIGHT. Our picks: ICBP, KBLF and ROTI.**

#### WHAT'S NEW

- **CPO prices dropped 58.2% from the peak.** From the peak of Rp28m/tonne on 1 Mar 22, CPO prices have declined by 58.2% to currently Rp11.68m. CPO is used in the production of instant noodle, margarine, edible fat, biscuit and many others. Ytd 22 average CPO price is Rp18.38m and the current price of Rp11.68m is 36.5% lower. If the current level persists throughout 2023, the cost of CPO which is usually about 15% of instant noodle production cost will decline yoy.
- **Wheat prices fell 34% from the peak.** Wheat prices have fallen 33.9% from the peak of Rp205,136/bushel to Rp135,543/bushel currently. Compared with the ytd average price of Rp136,158/bushel, spot wheat prices declined 0.5%. We think the global supply of wheat could rise in 2023 as US, Australian and European producers increase production to cover the decline in Ukraine's export. Thus, we expect wheat prices could further decline in 2023 during the harvest season.

#### MOVEMENT OF COMMODITY PRICES AFFECTING CONSUMER COMPANIES

	Current	Peak	Current Price vs peak	Average YTD 2022	Current Price vs YTD average
CPO	11,680,126	28,009,646	-58.3%	18,384,784	-36.5%
Wheat	135,543.27	205,136.23	-33.9%	136,158.16	-0.5%
Polyethylene	17,480,718	21,318,054	-18.0%	18,949,631	-7.8%
Skim Milk	55,671,928	67,605,184	-17.7%	59,785,505	-6.9%

Source: Bloomberg, UOB Kay Hian

- **Selling prices which have been adjusted by 5-10% across the board are unlikely to decline in 2023.** We observed that Indonesian consumer companies have adjusted their selling prices by 5-10% ytd across the board. History has shown that once prices are adjusted upwards, producers will not adjust them downwards even when raw material prices decline. Thus, we foresee margin improvement in 2023 for Indonesian consumer companies and their sales will rise as improvement in purchasing power will translate to higher demand.
- **Picks:** BUY ROTI, ICBP and KBLF. In this space, our picks are: ROTI, ICBP and KBLF.

### OVERWEIGHT (Maintained)

#### TOP PICKS

Ticker	Rec	Price 7-Oct-22 (Rp)	Target Price (Rp)	Potential Upside (%)
ROTI	BUY	1,255	1,600	27.5%
ICBP	BUY	8,900	10,700	20.2%
KBLF	BUY	1,845	2,000	8.4%

Source: Bloomberg, UOB Kay Hian

### PEER COMPARISON

Company	Ticker	Rec	Price 7-Oct-22 (Rp)	Target Price (Rp)	Potential Upside (%)	Market Cap (US\$m)	3M Avg Turnover (US\$m)	PE 2022F (x)	2023F (x)	P/B 2022F (x)	2023F (x)	ROE 2022F (%)	2023F (%)	Net Gearing (%)
NIPPON INDOSARI CORP	ROTI	BUY	1,255	1,600	27.5%	508	0.0	22.9	19.7	2.7	2.5	10.9	11.3	(7.9)
INDOFOOD CBP	ICBP	BUY	8,900	10,700	20.2%	6,792	4.3	14.9	13.1	2.8	2.5	17.0	18.6	38.5
KALBE FARMA	KBLF	BUY	1,845	2,000	8.4%	5,659	5.0	24.7	22.6	4.0	3.6	16.8	16.4	(27.5)

Source: Bloomberg, UOB Kay Hian

#### ANALYST(S)

**Stevanus Juanda**  
+6221 2993 3845  
stevanusjuanda@uobkayhian.com

### ESSENTIALS

- **Polyethylene and skim milk prices declined 18% and 17.7% respectively from their peaks.** From the peak price of Rp21.3m/tonne, polyethylene prices have tumbled by 18% to currently Rp17.5m/tonne and the spot price is 7.8% lower than ytd 22's price of Rp18.95m. Polyethylene is widely used in consumer products such as plastic packaging. Skim milk powder prices have dropped by 17.7% from the peak of Rp67.6m to currently Rp55.67m/tonne and the spot price is 6.9% lower than the ytd 22's price of Rp59.8m. Skim milk powder is used in production of powdered milk.

### SENSITIVITY TO RAW MATERIAL PRICES AND THE PERCENTAGE OF PRICE INCREASE NEEDED

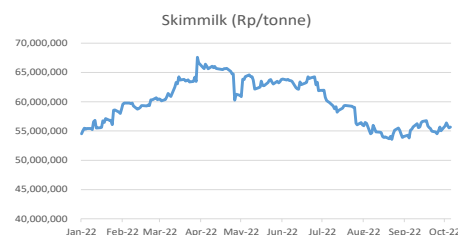
Ticker	Description	% of COGS	% Change	% Change	% Change	% Change
			2022F EBIT	2023F NPAT	2022F EBIT	2023F NPAT
ICBP	Price Increase		5.0%	24.4%	30.8%	44.5%
	Wheat	22.0%	5.0%	-3.9%	-5.4%	-7.2%
	CPO	16.7%	5.0%	-15.7%	-21.3%	-28.6%
	Skim Milk	15.0%	5.0%	-2.3%	-3.2%	-4.3%
	Plastic Packaging	13.0%	5.0%	-2.4%	-3.3%	-4.5%
	<b>Total Impact</b>			<b>0.0%</b>	<b>-2.3%</b>	<b>-0.1%</b>
MYOR	Price Increase		5.0%	84.7%	62.7%	96.9%
	Wheat	13%	5.0%	-8.1%	-5.8%	-9.2%
	CPO	12%	5.0%	-8.6%	-7.0%	-9.8%
	Plastic Packaging	21%	5.0%	-78.3%	-63.5%	-88.7%
	<b>Total Impact</b>			<b>-10.2%</b>	<b>-13.5%</b>	<b>-10.8%</b>
ROTI	Price Increase		5.0%	38.4%	39.3%	41.4%
	Wheat	25%	5.0%	-4.5%	-4.5%	-4.8%
	Plastic Packaging	13%	5.0%	-2.3%	-2.3%	-2.5%
	<b>Total Impact</b>			<b>31.5%</b>	<b>32.5%</b>	<b>34.0%</b>
UNVR	Price Increase		5.0%	23.5%	28.3%	24.3%
	% of Petrochemical	23%	5.0%	-6.4%	-7.7%	-6.6%
	Plastic Packaging	15%	5.0%	-4.5%	-6.4%	-4.6%
	<b>Total Impact</b>			<b>12.6%</b>	<b>14.2%</b>	<b>13.1%</b>

Source: UOB Kay Hian

### ACTION

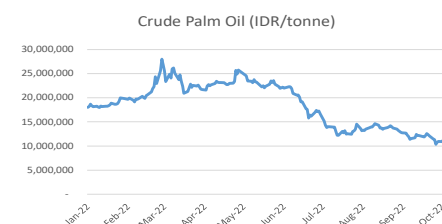
- **Maintain OVERWEIGHT on the consumer sector.** We see a potential decline in raw material cost which will improve margin and recovery of purchasing power to drive sales.
- **Indofood CBP (ICBP): Maintain BUY with a target price of Rp10,700.** Wheat, skim milk, CPO and plastic packaging account for 2/3 of ICBP's COGS. ICBP has raised its noodles prices by 5-10% and the new higher price is likely to stay. We maintain BUY with a target price of Rp10,700.
- **Kalbe Farma (KLBF): Maintain BUY with a target price of Rp2,000.** We think the decline in skim milk powder prices could benefit margin at the nutritional division at KLBF. Decline in polyethylene prices will lower packaging prices as it is widely used in its products. We maintain BUY with target price of Rp2,000.
- **Nippon Indosari (ROTI): Maintain BUY with a target price of Rp1,600.** ROTI is likely to generate 15.7% core NPAT growth in 2023 after the 21.3% yoy growth in 2022. ROTI expects that it should enjoy lower wheat prices starting 4Q22 onwards. Maintain BUY with target price of Rp1,600.

### SKIM MILK PRICES



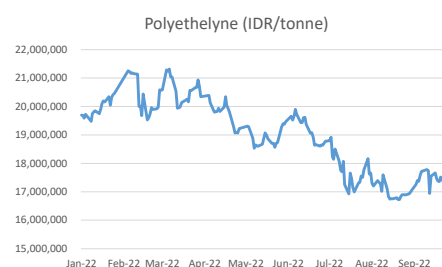
Source: Bloomberg

### CPO PRICES



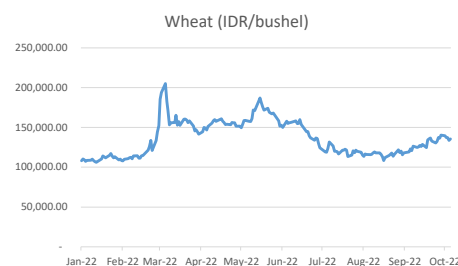
Source: Bloomberg

### POLYTHELENE PRICES



Source: Bloomberg

### WHEAT PRICES



Source: Bloomberg

### EXPECTED NPAT GROWTH OF CONSUMER CO

	2021	2022F	% Change	2023F	% Change
ICBP	6,850	6,305	-7.9%	7,807	23.8%
KLBF	3,184	3,500	9.9%	3,828	9.4%
MYOR	1,148	1,115	-2.9%	1,521	36.4%
ROTI	281	341	21.3%	395	15.7%
UNVR	5,758	6,642	15.3%	5,858	-11.8%
<b>Total</b>	<b>17,221</b>	<b>17,904</b>	<b>4.0%</b>	<b>19,409</b>	<b>8.4%</b>

Source: Bloomberg

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