Ciptadana

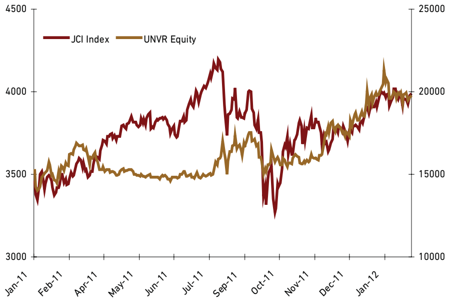
Research Report

February 20, 2012

PT Unilever Indonesia Tbk

Great Company with Premium Price

JCI vs UNVR



Source : Bloomberg

Target Price	:	17,900/sh
Recommendation	:	HOLD
Current price (02/20/2012)	:	19,700
52 Wk high (01/24/2012)	:	24,450
52 Wk low (10/05/2011)	:	14,000
Shares outstanding (mn)	:	7,630.0
Market cap (Rp bn)	:	150,311
Bloomberg code	:	UNVR IJ

source : Bloomberg

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PT UNILEVER INDONESIA - TP 17,900/sh

Great Company with Premium Price

We initiate our coverage on PT Unilever Indonesia Tbk (Unilever, UNVR) with a HOLD recommendation due to; 1) high premium on its current price relative to its intrinsic value 2) comparatively and historically high multiples implying an above average market valuation and 3) solid business in a growing sector that justify a long term position at the right price. Our valuation of Unilever uses the DCF method for an eight year forecast period, with a 9.15% WACC and a 3% terminal growth rate assumption. Target price from our valuation is at Rp17,900, implying a 9.14%% downside risk from its current price of Rp19,700. It projects a P/E ratio of 35.08 in 2012 and 30.86 in 2013.

Solid business in a growing sector, yet expensive from every angle

Our top line forecast for Unilever reflected stable growth throughout our forecasted eight years to 2020. Up to 2014 we projected double digit growth, before discounting its rate over the rest of the forecasted years. On the span of our forecasted years, we projected top line CAGR of 8.71%,

On top of a stable top line growth, we incorporated stable margins (49% gross and 21% operating) on the back of Unilever's diverse product categories and its significant experience in the sector that leads to effective, continuous innovation in product/ packaging. We believe that our projections are prudent and not overly pessimistic.

However, discounting our projections back to 2012 we still find that at its current price Unilever is trading at a substantial premium.

From a comparative angle Unilever's relatively high P/E ratio further attest to the premium in its price. In 2012 we projected Unilever to trade at 35.08 P/E as opposed to the JCI index estimated 13.55, JAKCONS index estimated 17.83, and its peer group average of 16.15.

Its premium implies higher downside risk and lower returns on Unilever's commons. Thus, we believe that at its current price Unilever offers a mediocre outlook as an investment.

On the other hand, we would like to point out that Unilever is a well managed company with significant competitive advantage in a fundamentally driven, growing sector. At the right price, we strongly believe that it is a great company to invest in.

HOLD with Rp17,900 target price

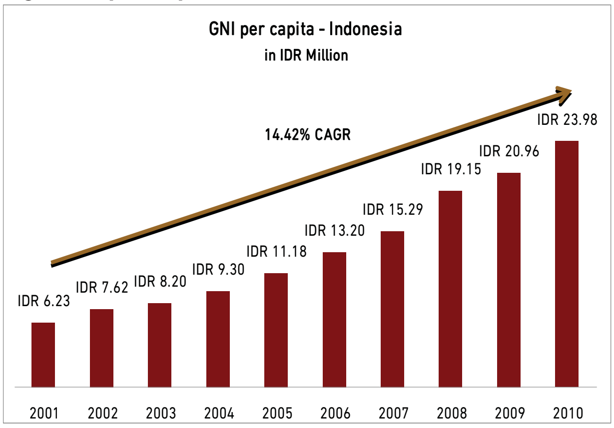
Our target price valuation uses the DCF method with a 9.15% WACC and a 3% terminal growth rate assumption at the end of our eight year forecast period. It implies a premium of 9.14% at its current price from its intrinsic value, which we think makes it a relatively expensive investment.

Too high a premium for future expected returns

Encouraging macro fundamentals can be expected to sustain growth

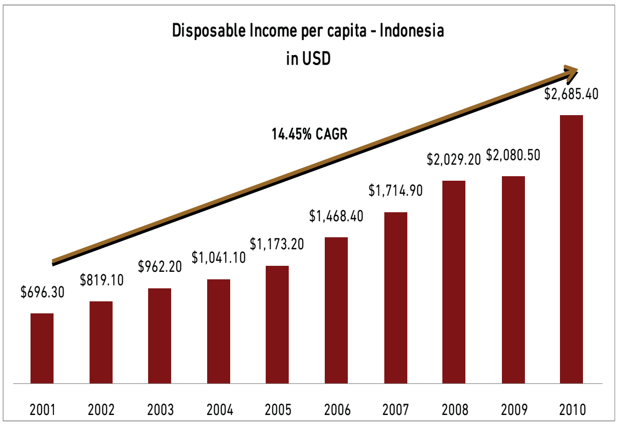
Historically, macro fundamentals have shown an encouragingly solid and stable growth. The outlook for Indonesia's GNI, GDP, urbanization trend, and household expense are expected to remain positive. For reference, in the ten year period 2001 - 2010 GNI per capita has grown at 14.42% CAGR and an average of 15.83% annually. We expect this positive trend to continue supporting and sustaining consumption growth in the fore-seeable future, benefiting Unilever.

Fig1. GNI per capita, Indonesia, 2001 – 2010



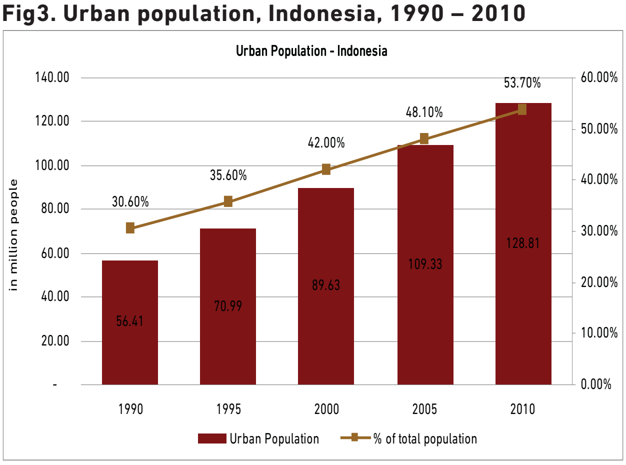
Source : BPS (2011)

Fig2. Disposable income per capita, Indonesia, 2001 – 2010



Source : CEIC (2011)

Fig3. Urban population, Indonesia, 1990 – 2010



Source : Wolrd Bank (2011), BPS (2011)

HPC, slower yet consistent growth

Unilever's Home and Personal Care (HPC) division represents a more stable component of its business. Its home care business is the more mature and the more highly penetrated component, where the huge bulk of its customers are the mid to mid low segment. This implies a limited pricing flexibility, and a volume/consumption driven growth. Its personal care business inhibits both a stable and a growth component. For its stable component such as oral care, consistent growth driven by increased consumption can be expected as the general population income's rises. Its growth components, such as deodorant, represent product categories with lower penetration that is posed to benefit from the ever more affluent consumers.

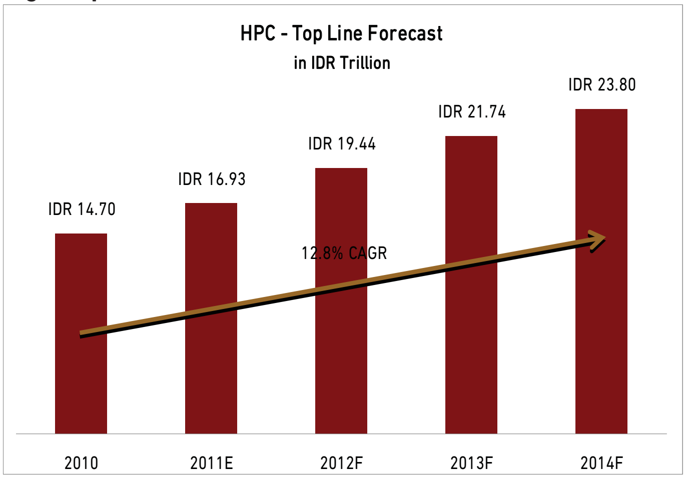
Going forward, competition in HPC is expected to be more intense. In the personal care segment, Unilever is facing reinvigorated competition from multinationals such as L'Oreal and P&G. In the home care segment, where pricing is more sensitive relative to its other businesses, Unilever is facing toughening competition from Wings Corp.

However, in the foreseeable future we still expect Unilever's HPC division to project consistent top line growth, albeit at slower rate in comparison to its Food and Ice Cream (FIC) division. In the personal care segment, continuous product and packaging innovation as well as marketing campaign in the personal care segment have allowed Unilever to maintain its leadership amidst toughening competition. In the home care segment, we expect consistent increase in real income to maintain consumption growth rate.

Overall, we expect no extraordinary gains in market share or price hike for Unilever as competition will keep these two factors in check. At the same time, we expect no extraordinary loss in market share or decrease in margin for Unilever as it leverages on its experience and brands.

We forecasted 2012 HPC's top line growth to be 14.8% using an average growth rate for the past four years. The growth rate is then discounted by 20% annually up to 2017, where top line growth is benched against an assumed Indonesia long term GDP growth rate of 5.77% through the rest of our eight year forecast period.

Fig4. Top line forecast, HPC, 2010 – 2014



Source : Ciptadana estimates

FIC to post faster growth

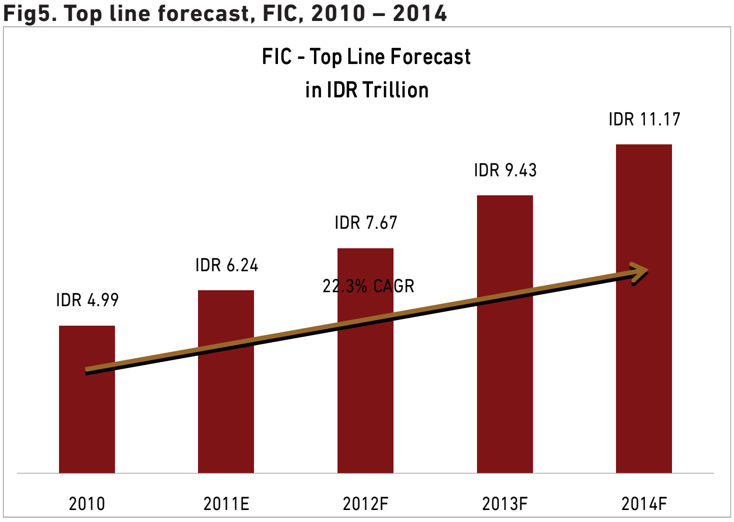
Unilever's Food and Ice Cream (FIC) division represents a portfolio of brands in product categories with a more discretionary nature. Its revenue, such as from Magnum and Buavita, is more aligned with macroeconomic sentiment as well as consumers' disposable income/spending power in comparison to HPC. It is also worth to note that Unilever far dominates the ice cream segment in Indonesia with 55% value share based on Euromonitor (2012).

However, we would like to point out that FIC also has established brands in product categories that are non discretionary, such as Bango and Blueband. These product categories will inhibit a much more similar dynamics as HPC.

For the past three years FIC projected faster CAGR of 18.86% in comparison to HPC's 12.59%, boosted by solid macroeconomic and an overall optimistic consumer sentiment. Encouraging urbanization and income trend as well as continued investment in infrastructure pose further growth opportunity for FIC, especially for its ice cream division. We expect sustainable growth for FIC in the next two to three years.

We projected FIC's top line to grow at a sustained faster rate in comparison to HPC's. Our forecast growth rate through to 2013 is 22.89% per year, which we derive from the average growth rate of the past four years. It represents one extra year where we believe FIC's growth rate will be sustained as opposed to HPC's. The rate is then discounted by a factor of 20% per year through to 2019, and is benched to the assumed long term GDP growth of 5.77% in 2020, reflecting 11.92% CAGR throughout our eight year forecast period as opposed to HPC's 7.23% CAGR for the same period.

Fig5. Top line forecast, FIC, 2010 – 2014



Source : Ciptadana estimates

Diverse portfolio of brands and tons of experience expected to sustain margins

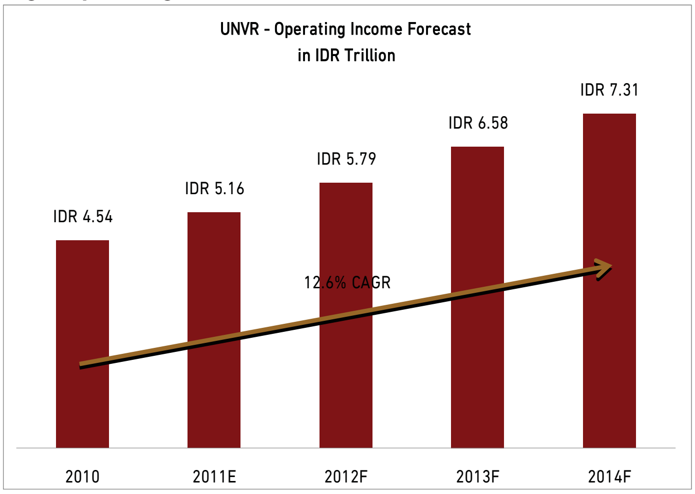
In terms of margin, in aggregate, Unilever has displayed resilient and stable gross margin for the past eight years with an average of 50.16%. Such resilience is also apparent should the figure be scrutinized from a per segment perspective (HPC and FIC) in the last four years the data has been available.

Its resilient gross margin reflected Unilever's entrenched position in the market, and its competitive advantage as an incumbent. With its long history in Indonesia, Unilever has established, and is currently holding a portfolio consisting of legacy brands. It has also displayed capability to adapt to changing consumers' needs which resulted in various products and packaging innovations. These factors are lasting competitive advantages of Unilever Indonesia that can be expected to persist in the foreseeable future, where we expect will be reflected in the form of a relatively stable gross margin for the company.

Stable low teen operating income growth through to 2014

Accounting for operating expense as a fixed percentage of revenue, we forecasted low teens growth for operating income in the next three years.

Fig6. Operating income, Unilever Indonesia, 2010 – 2014



Source : Ciptadana estimates

Current price still implies substantial premium over intrinsic value

Using such projections, we are comfortable that our valuation of Unilever at a base TP of Rp17,900 is prudent and is not overly pessimistic. However, at present, Unilever's current price signifies an 8.67% premium to our estimated value of the company; or a 0.25% premium in our bull case scenario. Thus, we are of the opinion that Unilever at its current price is trading at a significant premium.

Comparatively and historically expensive

Unilever posted relatively high P/E ratio to its consumer sector peers, to the overall consumer sector index, and the Jakarta Composite Index

Our peer group for Unilever includes PT Indofood CBP Sukses Makmur Tbk (Indofood CBP, ICBP), PT Gudang Garam Tbk (Gudang Garam, GGRM), and PT Indofood Sukses Makmur (Indofood, INDF). Out of the companies in the group, we are of the opinion that Indofood CBP provides the most direct comparison due to its incumbent position, as well as its portfolio of brands in both discretionary and non discretionary product categories.

Comparing Unilever's P/E ratio against its peer group, the Jakarta Consumer Goods Index (JAKCONS Index), and the Jakarta Composite Index (JCI), it is apparent that Unilever is trading at a significant premium relative to its peer group. Similar premium factor is also reflected in its EV/EBITDA in comparison to its peers. From these two comparative perspectives, we stipulate that Unilever is trading at a relatively expensive level at its current price.

Tab1. Comparative P/E ratio and EV/EBITDA ratio

Ticker	P/E 2012	P/E 2013	EV/EBITDA 2012	EV/EBITDA 2013
UNVR	35.08	30.86	24.83	21.86
ICBP	16.79	15.10	7.61	6.93
GGRM*	18.60	16.19	12.65	11.29
INDF*	11.87	10.67	5.80	5.33
JAKCONS Index*	18.45	NA	NA	NA
JCI Index*	13.30	NA	NA	NA

Source : Bloomberg & Ciptadana estimates

At its current price, Unilever is trading at a historically high P/E ratio

From a historical perspective, Unilever has also posted a higher P/E ratio at present. For the period 2001 to 2011, Unilever has been trading at an average P/E ratio of 24.54, as opposed to our projected 2012 P/E ratio of 36.70. This perspective further attests to our stipulation.

Tab2. Comparative average historical P/E ratio

Period	UNVR	INDF	GGRM	ICBP	JAKCONS	JCI
2006-2007	23.28	33.78	14.02	NA	18.41	16.75
2007-2008	26.29	21.87	16.39	NA	21.68	19.78
2008-2009	24.35	14.19	8.07	NA	16.09	13.55
2009-2010	28.03	13.97	8.93	NA	17.96	27.27
2010-2011	35.09	14.70	17.91	NA	21.48	18.56
2011-2012	33.95	15.27	20.64	14.81	21.83	17.36

Source : Bloomberg

Consistently higher P/E ratio

Historically, Unilever has consistently posted higher P/E ratio in comparison to its peer group as well as in comparison to the indexes. We believe few of the main reasons behind its persistently high multiple is its solid performance record over a long period of years in Indonesia and its reputation for good corporate governance. More importantly, Unilever pose as one of the few investment 'proxy' for Indonesia's home and personal care industries, encouraging higher multiple with limited investment alternative.

However, we are of the opinion that while such high multiple is probably well deserved for Unilever, at its current price it provides a limited potential return.

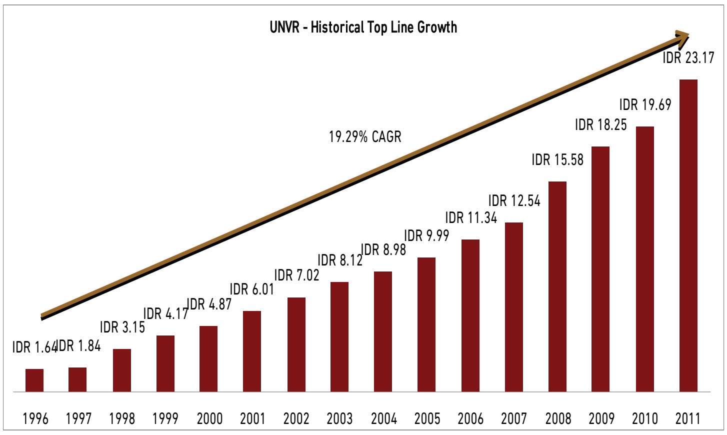
Still a well managed company and a good business in a growing sector

Solid reputation and performance record over its long presence in Indonesia puts Unilever in a well entrenched position

Unilever has established a solid presence in Indonesia's consumer sector over more then 75 years since it first entered the country. Through the years it has established an impeccable reputation as a well managed company with strong foothold in the market. Its experience in the market, its long brand history, and its established distribution network provided the company with sustainable competitive moat.

These factors are well reflected in Unilever's historical performance. In the past 15 years, Unilever posted a top line CAGR of 19.29%.

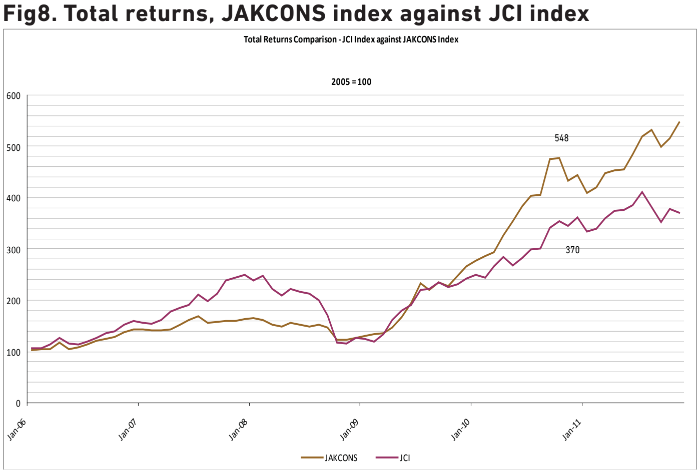
Fig7. Top line growth, Unilever Indonesia, 1996 – 2011



Source : Ciptadana estimates

Unilever has an entrenched position in the consumer sector, and can be expected to benefit from its resilience. Historically, the consumer sector has displayed a more resilient performance relative to the overall JCI index; the JAKCONS index posted a relatively stable total return during the 2008 – 2009 downturns before outperforming the JCI index in the subsequent years.

Fig8. Total returns, JAKCONS index against JCI index



Source : Bloomberg

Unilever is well positioned in the consumer sector that is expected to post resilient growth in the foreseeable future

As a still developing country, in Indonesia substantial portion of household expenditure still accounts for non discretionary spending. While there are signs of changing spending pattern of middle income consumers, we expect it to only be gradually reflected over several years as currently the majority of the population is still earning less then US$3,000 per annum (based on EIU projection; 63.4% in 2012). As such, we expect this resilient nature to still persist in Indonesia's consumer sector for the foreseeable future.

With exposure to both the non discretionary and discretionary portion of the consumer sector, Unilever is posed to benefit from the overall positive trend; higher income for the general population, increasing spending, and more affluent consumers.

With such encouraging outlook for the consumer sector, we are quite confident that Unilever is a good company with solid business operations in a growing sector. At the right price, we believe that Unilever is an advisable investment. However, as per our analysis, at its current price Unilever is trading at a substantially high premium.

Valuation

Our valuation uses the DCF method with WACC of 9.15% and terminal growth rate assumption of 3% at the end of our eight years forecast period. We arrived at a base target price of Rp17,900, implying that its current price exhibits a premium of 8.67%.

From the base scenario of our projections, we derived a bearish and bullish scenario by adjusting our assumption on various fundamental factors. The base scenario reflects an assumption of 1) a stable margin gained through Unilever's diverse brand portfolio and continuous product/packaging innovation, and 2) stable and maintained top line growth led by product categories in growing segment, especially in its FIC division.

The bearish scenario reflected the following differences in assumption to the base; 1) lower margin for FIC due to probable higher bargaining power of the rising modern retailers and tougher competition, especially for its discretionary product categories as both new entrants and existing competitors become more aggressive, 2) slower top line growth for FIC due to external fundamental factors such as infrastructure and electrification rate (crucial for ice cream which requires refrigeration), and 3) slower top line growth for HPC due to faster saturation in its more mature product categories with high penetration rate.

The bullish scenario reflected a stable margin with a more sustained top line growth rate due to an assumed faster realization of infrastructure development, slower saturating market, and sustained positive macroeconomic development as well as consumer sentiment.

Tab3. BBB Scenario table

Scenario	Target Price	P/E 2012	P/E 2013	Upside/(Downside)
Bearish	15,750	37.98	34.30	(20.05%)
Base	17,900	35.08	30.86	(9.14%)
Bullish	19,550	35.08	30.19	(0.76%)

Source: Bloomberg

Risk Factors

Infrastructure limitation

Unilever's ice cream division is highly reliant on the availability of refrigeration. This puts electrification rate as well as urban land area as two limiting factors to ice cream consumption growth.

As such FIC can be expected to benefit from Indonesian government's focus on infrastructure project realization. However, the time for meaningful infrastructure expansion to materialize will be a crucial risk factor to FIC's growth, especially for product categories with an already high penetration rate.

Slower than expected growth

In recent years Unilever has spent substantially larger capital investment and it plans to spend a further US$600 million in the 2011 – 2014 period. With its 100% dividend policy, Unilever has historically funded its capital investments mostly using cash flow from its business operations. Sudden impact to its operations might require Unilever to decrease its dividend rate or assume debt to sustain its operation as well as its expansion plan, risking deterioration in its financial position.

Adverse effects from the rising dominance of modern retailers

The predominantly traditional retail landscape in Indonesia is seeing a rise to prominence of modern retailers. In the past years the number of modern retail outlets has grown substantially, especially convenience stores. For both Unilever's HPC and FIC, modern retailers have posted continuous gain in share of its sales.

The risk is that as they grew in prominence, modern retailer will gain stronger bargaining power that will adversely affect Unilever. With its large scale and well established legacy brands, we expect Unilever to be capable in maintaining a substantial level of bargaining power. However, in the long run there is material risk of Unilever gradually losing its strong bargaining position along with toughening competition in addition to the modern retail trend.

Tab4. Key Ratios

	2010A	2011F	2012F	2013F	2014F
Revenue	7.91%	17.66%	17.00%	14.99%	12.17%
EBITDA	6.18%	14.44%	10.79%	13.58%	11.26%
Net income	11.26%	14.54%	10.44%	13.68%	11.29%
Profitability					
Gross margin	51.83%	51.24%	49.85%	49.60%	49.38%
Operating margin	23.07%	22.28%	21.38%	21.12%	20.90%
EBITDA margin	24.48%	23.81%	22.54%	22.27%	22.09%
Net margin	17.20%	16.74%	15.81%	15.63%	15.50%
ROE	87.43%	104.31%	115.52%	109.60%	102.66%
ROA	41.85%	42.67%	41.91%	41.25%	40.26%
Liquidity and Solvency					
Debt to equity ratio	4.70%	35.37%	29.81%	24.68%	21.06%
Current ratio	0.85	0.77	0.74	0.77	0.79

Tab5. Cash Flow

	2010A	2011F	2012F	2013F	2014F
Net income	3,386,970	3,879,355	4,284,508	4,870,503	5,420,483
Add depreciation and amortization	161,050	218,940	265,883	312,826	359,769
Change in working capital	119,883	119,883	119,883	119,883	119,883
Others	-2,208	573,181	238,168	248,626	233,110
CF from operation	3,665,695	4,791,360	4,908,441	5,551,838	6,133,245
Capital expenditure	-1,361,156	-1,288,731	-1,361,623	-1,361,623	-1,361,623
Others	4,681	-4,889	0	0	0
CF from investing activities	-1,356,475	-1,293,620	-1,361,623	-1,361,623	-1,361,623
Change in debt	190,000	1,010,000	0	0	0
Change in equity	0	0	0	0	0
Dividend payments	-3,037,461	-4,532,220	-3,651,884	-4,033,280	-4,584,915
Others	-2,322	0	0	0	0
CF from financing activities	-2,849,783	-3,522,220	-3,651,884	-4,033,280	-4,584,915
Net change in cash	-540,563	-24,480	-105,066	156,935	186,707

Source : Company & Ciptadana estimates

Tab6. Balance Sheet

	2010A	2011F	2012F	2013F	2014F
Assets					
Cash and equivalents	317,759	293,279	188,213	345,149	531,856
Receivables	1,567,538	1,400,967	1,639,171	1,884,921	2,114,296
Inventories	1,574,060	1,583,425	1,905,465	2,202,261	2,480,895
Others	288,773	267,661	305,193	349,949	391,777
Total current assets	3,748,130	3,545,333	4,038,042	4,782,280	5,518,824
Fixed assets - net	4,148,778	5,218,569	6,314,309	7,363,106	8,364,960
Intangible assets - net	646,356	532,919	419,482	306,045	192,608
OTHERS	157,998	184,068	191,093	197,982	204,030
Total non-current assets	4,953,132	5,935,556	6,924,883	7,867,133	8,761,598
Total assets	8,701,262	9,480,889	10,962,925	12,649,413	14,280,422
Liabilities and minority interests					
Accrued expenses	1,460,974	2,025,503	2,330,518	2,679,918	3,006,035
Account payables	1,816,593	1,584,632	1,950,476	2,243,714	2,519,783
Other current liabilities	1,125,373	1,005,134	1,143,328	1,309,999	1,465,818
Total current liabilities	4,402,940	4,615,269	5,424,322	6,233,630	6,991,636
Long term debt	0	1,200,000	1,200,000	1,200,000	1,200,000
Others	249,469	269,632	309,992	349,948	387,382
Total non-current liabilities	249,469	1,469,632	1,509,992	1,549,948	1,587,382
Total Liabilities	4,652,409	6,084,901	6,934,314	7,783,578	8,579,019
Minority Interest	3,434	3,434	3,434	3,434	3,434

Tab7. Income Statement

	2010A	2011F	2012F	2013F	2014F
Revenue	19,690,239	23,167,258	27,106,340	31,170,222	34,963,307
COGS	-9,485,274	-11,296,326	-13,593,793	-15,711,168	-17,698,971
Gross profit	10,204,965	11,870,932	13,512,547	15,459,054	17,264,336
Operating expense	-5,662,340	-6,708,125	-7,718,282	-8,875,435	-9,955,481
Operating profit	4,542,625	5,162,807	5,794,266	6,583,620	7,308,855
Other income/(expensese)	-3,982	13,706	-69,812	-76,227	-66,645
Income before tax	4,538,643	5,176,512	5,724,454	6,507,392	7,242,210
Income tax - net	-1,153,995	-1,306,264	-1,450,016	-1,648,336	-1,834,467
Minority interests	2,322	9,106	10,070	11,448	12,740
Net profit	3,386,970	3,879,355	4,284,508	4,870,503	5,420,483
EBITDA	4,819,576	5,515,336	6,110,220	6,940,101	7,721,862

Source : Company & Ciptadana estimates

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