



CONSUMER SECTOR UPDATE

Change in Consumer Patterns?

1H17: Purchasing Power and Retail Sales Growth is Declining

The strengthening of household consumption is still a major driver of national economic growth, with a contribution of 55.61% to total GDP in 1H17. The household consumption sector recorded growth of 4.95% YoY in 1H17 (vs. 5.07% YoY in 1H16) lower compared to Indonesia's economic growth of 5.01% in 1H17. Retail industry sales also served as an indicator to assess the growth of the consumption sector; a significant decrease was observed, to 4.6% by May 2017.

The Demographic Bonus and Increasing Purchasing Power are Positive Catalyst

We believe that the sector is still able to be in stable condition, mainly due to : 1) the strengthening of consumer sentiment in current economic and employment conditions, reflected in the improvement of the Indonesian Consumer Confidence Index (IKK), from the end of 2016 to June 2017 it stood at a level of 122.40; 2) a large population and middle-class income growth. In our view, FMCG sector are believed to be the most resilient businesses to resist any economic slowdown. However, we see that public purchasing power and rising imported raw material prices are inhibiting the growth of this sub-sector.

Commodity Price Increase and Exchange Rate Fluctuation Become Main Focus

Imported raw materials are mostly used by listed companies in the consumer sector, especially sugar, skimmed milk and wheat. Dependence on imported raw materials means the sector is vulnerable to USD / IDR exchange rate exposure; strengthening of the rupiah by 0.88% YTD in June 2017 became a positive catalyst for cheaper raw materials. On the other hand, the upward trend in commodity prices for imported raw materials such as sugar, skimmed milk and wheat in early 2017 overshadowed the production expenses of publicly-listed consumer manufacturers.

Neutral Outlook with Top Picks: INDF and ICBP

After appraising positive catalysts and risks, we recommend **NEUTRAL** for the consumer sector in Indonesia. Nevertheless, we still give a nod to several preferred shares: **INDF (BUY; TP: Rp9.400)**, which is able to generate fresh funds from the disposal of China Minzhong Food Corporation Limited (CMZ) shares, supported by the positive performance of majority of its subsidiaries in 2Q17, and **ICBP (BUY ; TP: Rp9.200)** which has strong financial performance and a distribution network and is supported by high consumer demand for the Company's products.



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Ticker	Market Cap (Rp bn)	PER (x)		EV/EBITDA (x)		Rec.	Target Price (Rp)
		FY17E	FY18F	FY17E	FY18F		
UNVR	350.65	51.09	45.20	36.64	31.95	HOLD	47,800
ICBP	102.33	24.06	21.86	14.65	12.97	BUY	9,200
INDF	75.29	16.10	15.33	7.10	6.50	BUY	9,400
KLBF	80.62	32.71	29.03	21.29	19.00	HOLD	1,760

Sources: MNCS Estimate (as of 13 September 2017)

The Demographic Bonus and Increasing Purchasing Power are Positive Catalyst

Indonesia has the fourth-largest population in the world, with a total of about 259 million. More than 65% of these citizens are at a productive age (15-64 years). A large population, Indonesia's demographic bonus, and middle-class income growth have the potential to drive consumption upward steadily over the long term. Improving growth in the consumer sector will surely have a major impact on improved economic growth in Indonesia in FY17E.

On the other hand, the minimum wage (which is watched closely) increased in all 34 provinces of Indonesia, although not as significantly as in previous years. On average, it rose by 8.25% YoY in 2017, compared to a 10%-14% YoY increase, respectively, in 2015 and 2016. We believe this can also act as a boost for consumer purchasing power in 2017.

Exhibit 01. Provincial Minimum Wages per Month by Province (Rp) 2014-2017

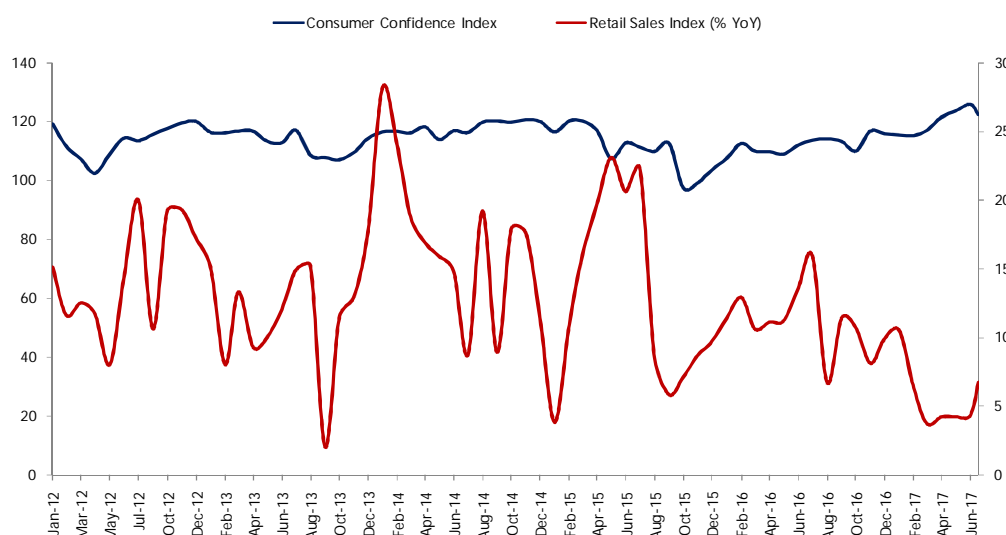
Province	2014	2015	2016	2017
Aceh	1,750,000	1,900,000	2,118,500	2,500,000
Sumatra Utara	1,505,850	1,625,000	1,811,875	1,961,354
Sumatra Barat	1,490,000	1,615,000	1,800,725	1,949,284
Bangka Belitung	1,640,000	2,100,000	2,341,500	2,538,673
Kepulauan Riau	1,665,000	1,954,000	2,178,710	2,358,454
Riau	1,700,000	1,878,000	2,095,000	2,266,722
Jambi	1,502,230	1,710,000	1,906,650	1,906,650
Bengkulu	1,350,000	1,500,000	1,605,000	1,730,000
Sumatra Selatan	1,825,600	1,974,346	2,206,000	2,388,000
Lampung	1,399,037	1,581,000	1,763,000	1,908,447
Banten	1,325,000	1,600,000	1,784,000	1,931,180
DKI Jakarta	2,441,000	2,700,000	3,100,000	3,355,750
Jawa Barat	1,000,000	1,000,000	2,250,000	1,420,624
Jawa Tengah	910,000	910,000	NA	1,367,000
Jawa Timur	1,000,000	1,000,000	NA	1,388,000
Yogyakarta	988,500	988,500	NA	1,337,645
Bali	1,542,600	1,621,172	1,807,600	1,956,727
Nusa Tenggara Barat	1,210,000	1,330,000	1,482,950	1,631,245
Nusa Tenggara Timur	1,150,000	1,250,000	1,425,950	1,525,000
Kalimantan Barat	1,380,000	1,560,000	1,739,400	1,882,900
Kalimantan Selatan	1,620,000	1,870,000	2,085,050	2,258,000
Kalimantan Tengah	1,723,970	1,896,367	2,057,558	2,227,307
Kalimantan Timur	1,886,315	2,026,126	2,161,253	2,354,800
Kalimantan Utara	-	2,026,126	2,175,340	2,030,000
Gorontalo	1,325,000	1,600,000	1,875,000	2,030,000
Sulawesi Utara	1,900,000	2,150,000	2,400,000	2,598,000
Sulawesi Tengah	1,250,000	1,500,000	1,670,000	1,807,775
Sulawesi Tenggara	1,400,000	165,200	1,850,000	2,002,625
Sulawesi Selatan	1,800,000	2,000,000	2,250,000	2,435,625
Sulawesi Barat	1,400,000	1,655,500	1,864,000	2,017,780
Maluku	1,415,000	1,650,000	1,775,000	1,925,000
Maluku Utara	1,440,746	1,577,617	1,681,266	1,975,000
Papua	2,040,000	2,193,000	2,435,000	2,663,646
Papua Barat	1,870,000	2,015,000	2,237,000	2,421,500

Source : Ministry of Manpower and Transmigration, Statistics Indonesia (BPS)

*NA : Central Java, DIY, and East Java did not set the provincial minimum wages in 2016

The strengthening of consumer sentiment in current economic and employment conditions is reflected in the improvement of the Indonesian Consumer Confidence Index (IKK), from the end of 2016 to June 2017 it stood at a level of 122.40. The pattern of Indonesian IKK growth is quite consistent with the recovery of the domestic economy. We believe that the IKK will continue its upward trend until the end of 2017, driven by stronger GDP growth and controlled inflation. Stronger purchasing power is a driver for growth in consumer product sales volume in FY17E. Currently the GDP per capita of Indonesian society exceeds US \$ 3,500, it is estimated that people's purchasing power potentially will continue to grow to US \$ 5,000 to US \$ 15,000 per year by 2020. The middle class will dominate with more than 58% of the total Indonesian population by 2020 (DataIndustri.com).

Exhibit 02. Trend of Consumer Confidence Index and Retail Sales Index (% YoY)



Source : Bloomberg, Bank Indonesia

...However, Purchasing Power and Retail Sales Growth Is Declining

Statistics Indonesia (BPS) notes that the strengthening of household consumption is still a major driver of national economic growth, with a contribution of 55.61% to total GDP in 1H17. The household consumption sector recorded growth of 4.95% YoY in 1H17 (vs. 5.07% YoY in 1H16) lower compared to Indonesia's economic growth of 5.01% in 1H17; it is projected to sit at 5.10% YoY in 2H17.

Retail industry sales also served as an indicator to assess the growth of the consumption sector; a significant decrease was observed, to 4.6% by May 2017. This figure is much lower than the average of 2Q16 growth, at 9.5%. It is also reflected in the performance of issuers operating in the retail sector in 2Q17, especially at PT Ramayana Lestari Sentosa Tbk (RALS) and PT Matahari Putra Prima Tbk (MPPA). RALS showed a decline in performance in 2Q17, recording a decrease in sales and net income growth of just 9.79% YoY (vs. 18.85% in 2Q16) and 48.95% YoY (vs. 146.25% in 2Q16), respectively. The same phenomenon is also seen in the performance of MPPA, which recorded a decrease in sales growth of 4.06% YoY (vs. +2.13% YoY in 2Q16) and a net loss of 718.80% YoY (against an increasing net loss of 111.82% YoY in 2Q16).

The 2Q17 decrease in retail sales can be attributed to the following factors: 1) Government canceled its 900 volt/ampere (VA) electricity subsidy; 2) Government policy to raise the fee for vehicle registration; 3) Expenses for the new school year, along with Idul Fitri festivities rearranges priorities for consumption; 4) Government policy in regulation of Highest Retail Price (Harga Eceran Tertinggi) as contained in Presidential Decree No. 112 Year 2007, regarding arrangement and development of traditional markets, shopping centers and modern stores.

Beside that, the decline in purchasing power is reflected in a lower inflation trend compared to 2014-2016. The World Bank predicts however that the effects of electricity fare increases at the end of May and Idul Fitri festivities in June are expected to peak in 4Q17. Rising world crude oil prices should drive higher production and transportation costs. The World Bank estimates the average annual CPI inflation rate will increase by 4.30% in FY17E, before dropping back to 3.80% in FY18F. This figure is still within the inflation target range of Bank Indonesia at 3% - 5%.

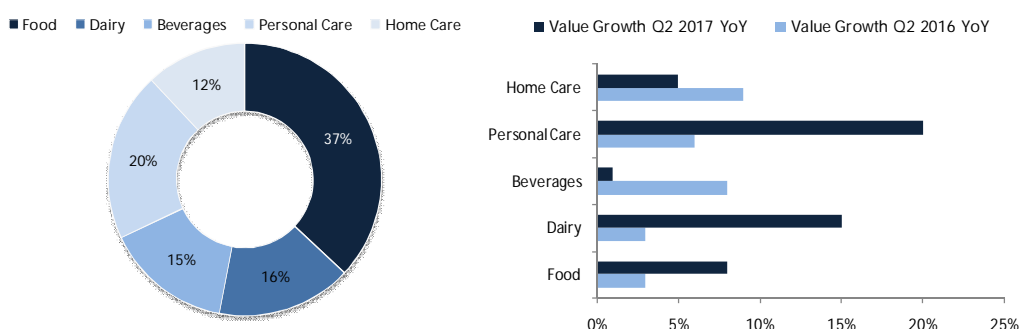
Commodity Price Increase and Exchange Rate Fluctuation Become Main Focus

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Sub Sector Selection: FMCG Still Attractive

The consumer sector is divided into several sub-sectors, namely, food and beverages, cigarettes, pharmaceuticals, cosmetics, household appliances, and retail issuers. From several sub-sectors, Food/Drink/Fast Moving Consumer Goods (FMCG) are believed to be the most resilient businesses to resist any economic slowdown. However, we see that public purchasing power and rising imported raw material prices are inhibiting the growth of this sub-sector. This is similar to the retail sector, which recorded a decline in performance in 2Q17 caused by changes in government regulations and less momentum.

Exhibit 03. FMCG Segment Performance by Value Contribution and Value Growth



Source : FMCG Monitor, Kantar World Panel

Exhibit 04. Consumer Sector Performance

Stock	Company	Market Cap (Rp triliun)	EPS 2016 (% YoY)	EPS 1Q17 (% YoY)	P/E (x)
GGRM	Gudang Garam Tbk	126.75	3.74	11.59	18.28
HMSP	Hanjaya Mandala Sampoerna Tbk	423.40	18.23	4.48	33.52
ICBP	Indofood CBP Sukses Makmur Tbk	102.04	20.00	16.05	27.45
INDF	Indofood Sukses Makmur Tbk	75.07	47.78	20.18	19.00
KAEF	Kimia Farma Persero Tbk	17.38	2.29	(30.42)	64.65
KLBF	Kalbe Farma Tbk	79.92	14.73	4.41	33.73
LPPF	Matahari Department Store Tbk	29.25	13.26	-	13.28
MAPI	Mitra Adiperkasa Tbk	11.45	447.83	288.89	33.91
MPPA	Matahari Putra Prima Tbk	3.28	(82.93)	(73.68)	-
RALS	Ramayana Lestari Sentosa Tbk	6.56	25.99	(64.75)	11.90
UNVR	Unilever Indonesia Tbk	386.08	9.40	24.76	57.48
ACES	Ace Hardware Tbk	18.01	0.12	0.17	22.36

Source : Bloomberg, as of July 31, 2017

Neutral Outlook with Top Picks: INDF and ICBP

After appraising positive catalysts and risks, we recommend **NEUTRAL** for the consumer sector in Indonesia. Nevertheless, we still give a nod to several preferred shares: **INDF (BUY; TP: Rp9.400)**, which is able to generate fresh funds from the disposal of China Minzhong Food Corporation Limited (CMZ) shares, supported by the positive performance of majority of its subsidiaries in 2Q17, and **ICBP (BUY ; TP: Rp9.200)** which has strong financial performance and a distribution network and is supported by high consumer demand for the Company's products.

Exhibit 05. Consumer Sector Stock Recommendations

Ticker	Market Cap (Rp bn)	PER (x)		EV/EBITDA		Rec	Target Price
		FY17E	FY18F	FY17E	FY18F		
UNVR	373,489	51.09	45.20	36.64	31.95	HOLD	47,800
ICBP	97,377	24.06	21.86	14.65	12.97	BUY	9,200
INDF	73,536	16.10	15.33	7.10	6.50	BUY	9,400
KLBF	81,328	32.71	29.03	21.29	19.00	HOLD	1,760

Source : MNCS Estimates as of July 31, 2017

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MNC Research Investment Ratings Guidance

BUY : Share price may exceed 10% over the next 12 months

HOLD : Share price may fall within the range of +/- 10% of the next 12 months

SELL : Share price may fall by more than 10% over the next 12 months

Not Rated : Stock is not within regular research coverage

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