

Matthew Ong

Professor Duke Bristow

BUAD 215

April 26, 2019

The Financial Analysis of Indonesian Public Companies

Executive Summary

PT Unilever and PT Indofood are two of the leading growing consumer packaged goods (CPG) businesses in Indonesia. Its large variety of products cater to individuals of all ages. Unilever. Overall, these two companies have worked with management consulting firm McKinsey and Company to help improve their profits and overall efficiency. The industry is currently booming, and the struggles that the two companies are facing are primarily similar, with their competitors aiming for capturing a large market share and increasing profits. Using the DuPont identity, one can see that the two companies not only vary in size, but also in product diversification and financial standing. The income statement of PT Unilever shows that there are successful net income and sales growth and the financial statement shows a decrease in liabilities and increase in stockholder's equity, with a lot of their cash flow being targeted to operating and financing. In contrast, PT Indofood's financial performance indicates a smaller profit margin, larger asset growth and an increase in investing cash flow. It can, therefore, be seen that PT Indofood is primarily struggling with the increase in sales growth, due to its low profitability margins and short-term efficiency causing uncertain business growth, whereas PT Unilever is suffering from short-term liquidity and asset turnovers. However, its higher return on equity value indicates a more positive performance in comparison to PT Indofood.

Business Industry Overview

Indonesia has a sprawling economy, with around 250 million people spread out among 6,000 islands.

With a growing population, the consumer goods industry has been filled with a multitude of retailers, with around 4.1 million stores around Indonesia - from large multi-national corporations to small independent store owners, such as hypermarkets. Middle and higher income consumers purchase goods in these hypermarkets and supermarkets, whereas lower income consumers purchase from Warungs, or local stores due to convenience. A lot of PT Indofood's products are targeted towards a larger universal consumer base, as they are priced around Rp 1,000 (7 ¢) to around 30,000 (\$2), whereas Unilever's is more towards the higher price range of Rp 40,000 (\$3) to 60,000 (\$4). Behavior wise, it can be seen that Indonesians tend to favor local brands, however, within personal hygiene, they like to expand into foreign brands, specifically those in a middle-high income household. This is the demographic group that PT Unilever is targeting.

The consumer produced goods market is also extremely competitive and everchanging due to the increase in e-commerce and the rise of online retailers, which is a reason why automation is essential. The industry The increase in tailoring assortment and promotions are important due to changing consumer tastes. Adapting pricing to changing tastes is a critical tactic, as companies are now using analytics due to the change in fluctuating prices. To remain in the industry, PT Indofood and PT Unilever must always understand what their consumers demand, as well as be flexible to changing trends in technology. The industry has only grown as years went on, causing the beverage expenditures to increase from 4% to 8% in total household spending whereas packaged food increased from 18 to 32%. Overall, this caused a 3.2% increase in the consumption of produced goods during 2018, causing the government to implement policies to help keep inflation under control.

Nielsen's analysis shows that during the fiscal year of 2017, the nation's retail industry has increased by 10% due to accelerating economic growth, low inflation (3.02%) and increased consumer price spending. One specific contributor to this increase is the penetration of minimarkets into rural markets. However, a lot of the sales have suffered due to the increase of halal and kosher food regulations in Indonesia, specifically during the year of 2018. PT Indofood was founded in 1982 and currently has grown to around 78,000 employees present day. Because of their more popular products, including snacks such as Lays and Pringles, Indomie Instant Noodles, dairy products such as local milk products, seasonings, as well as beverages such as Coca-Cola, 7Up and Tropicana. It has offices in Singapore, Hong Kong, and Thailand and has taken advantage of managing retail for local products. Indofood also has varying subsidiaries, such as PT Bogasari (flour milling), PT Prima Sejati (investment services) and PT Mileva Mandiri (dairy products) among others. On the other hand, the Unilever brand itself was founded in London, United Kingdom in 1933, but was only integrated in Indonesia in 1997, with the company having around 5,000 employees. It specializes in manufacturing soaps including local products such as Pepsodent and Lifebuoy, but also international names such as Vaseline and Pantene. It is currently growing in the Indonesian region and has entered a joint venture with Technopia Singapore (another Unilever based company) to expand within the ASEAN region.

Financial Statements

Income Statement

PT Indofood and Unilever's financial statements cover their income statements, balance sheets, and cash flow analysis, and in turn, these illustrate the company's successes. As of December 2018, we can see the key differences in Indofood and Unilever regarding net profits and total asset turnovers, which will be further examined with the DuPont identity. Although Indofood has increased financing to improve

marketing efforts through Bank of America, Citigroup and Mitsubishi, it is plagued with environmental social governance (ESG) criticisms. As we can see, although sales revenues and net income have increased, proportionally there is a decrease in sales growth (5.29% to 4.57%) and net income growth (9.34% to 0.24%), especially due to the increase of health regulations.

PT Indofood amounts (in millions IDR)	2016	2017	2018
Sales Revenue	66,659,484	70,186,618	73,394,728
Sales Growth	4.05%	5.29%	4.57%
Costs and Expenses	47,812,934	50,926,695	53,723,198
Net Income	3,801,096	4,156,222	4,166,101
Net Income Growth	47.79%	9.34%	0.24%

When further looking at PT Unilever, we can see that their sales growth, as well as their net income, has grown significantly in comparison to PT Indofood, with a 30.05% increase in the net income growth compared to 0.24% with PT Indofood. During 2018, PT Unilever went through a continuous amount of R&D which led them to utilize unique advertisements to market their products towards the older generation, including loyalty programs.

PT Unilever amounts (in millions IDR)	2016	2017	2018
Sales Revenue	40,053,732	41,204,510	46,702,073
Sales Growth	9.78%	2.87%	6.45%
Costs and Expenses	19,734,097	20,169,219	20,888,528
Net Income	6,390,672	7,004,562	9,109,445
Net Income Growth	9.21%	9.61%	30.05%

Balance Sheets

In 2016, PT Indofood went through a lot of corporate restructuring through the creation of new subsidiaries, specifically factory expansion in neighboring islands such as Sumatra and Kalimantan for PT Bogansari. Thus, we can see an increase in both current assets as well, which can be attributed to a rise in inventory and property, plant and equipment. The company is thus still able to maintain its financial stability to fund its needs. Because of the increase in asset growth (9.20%), we can see that this is mainly due to short term debt in total liabilities. The increase in liabilities during the 2017-2018 year is significantly bigger than the shareholder's equity, which means the company is not generating enough cash from its business to grow, so it's forced to take out loans to help support the asset growth. This is due to the company increasing in short term debt and borrowing.

PT Indofood amounts (in millions IDR)	2016	2017	2018
Total Current Assets	28,804,543	32,492,287	42,388,236
Total Assets	82,174,515	88,400,877	96,537,796
Asset Growth	-10.52%	7.58%	9.20%
Total Current Liabilities	19,219,441	21,637,763	31,204,102
Total Liabilities	38,233,092	41,298,111	46,620,996
Total Shareholder's Equity	43,941,423	47,102,766	49,916,800

On the other hand, PT Unilever's balance sheets show slower asset growth as it only grew by 3.26% in comparison to the 9.20% illustrated by PT Indofood. Its current assets are also growing at a slower rate, due to a lack of automation. In August 2018, PT Unilever finally announced that they were using robots to boost product lines, especially the Albertan Nao to boost marketing. However, it can be seen that the asset growth is mainly through the rise of shareholder's equity as there is a decrease in liabilities which

creates a more positive growth correlation. It is mainly increased due to a rise in retained earnings, through previous profits, which signals less risky investment.

PT Unilever amounts (in millions IDR)	2016	2017	2018
Total Current Assets	6,588,109	7,941,635	8,325,029
Total Assets	16,745,695	18,906,413	19,522,970
Asset Growth	6.46%	12.90%	3.26%
Total Current Liabilities	10,878,074	12,532,304	11,134,786
Total Liabilities	12,041,437	13,733,025	11,944,837
Total Shareholders Equity	4,704,258	5,173,388	7,578,133

Cash Flow

PT Indofood's net cash flow provided by operating and financing activities has declined. This is due to the drop in net income, as well as profit loss. Investing activities have greatly increased due to the increased investment of property, plant, and equipment. Operating cash flow has decreased due to the large increase in liabilities, as well as the small increase in net income growth. Stock values for Indofood have diminished, which can have contributed to the decrease in financial cash flow. However, this might change in the future as its instant noodles and seasoning unit is planning to IPO in 2019.

PT Indofood amounts (in millions IDR)	2016	2017	2018
Net cash flow provided by operations	7,175,603	6,507,806	5,935,829
Net cash used for investments	735,435	6,057,777	11,223,682
Net cash used for financing activities	5,921,305	155,600	48,125

Free Cash Flow	4,063,869	413,266	1,465,762
----------------	-----------	---------	-----------

On the other hand, PT Unilever is actually increasing in operational and financing cash flow, with only a slower growth in investing cash flow. Its positive operational cash flow due to increasing product diversification indicates greater investor confidence. One of the reasons its financing cash flow has increased is due to its partnership with Lazada, a leading fashion brand in Indonesia as its foray into e-commerce, increasing its stock valuation and reaching out to a new pool of consumers.

PT Unilever amounts (in millions IDR)	2016	2017	2018
Net cash flow provided by operations	6,684,219	7,059,862	7,914,537
Net cash used for investments	1,779,098	1,601,485	1,942,485
Net cash used for financing activities	5,150,214	5,437,015	9,916,201
Free Cash Flow	4,897,163	5,453,128	6,196,208

Financial Ratio Comparison

When looking at PT Unilever, one can see that although it is a smaller-sized company, it has stronger financial health and standing compared to PT Indofood. Using the DuPont Identity, which is a financial indicator that shows how equitable the returns of a company by weighing a company's profits and shareholder's equity. By looking at profit margin, total asset turnover, and equity multiplier, we can see that PT Unilever still has a stronger return on equity. PT Indofood struggles to liquidify its assets, and with its increased spending on investment and opening up factories around the Jakarta area, as well as its end of partnership with Nestle in 2017 caused it to struggle to find success, which caused a slower growth in sales and net cash flow from operations - lower than their competitors. The rising debt has further

affected its asset turnover and efficiency, impacting its growth. In contrast, PT Unilever is having greater success in total asset turnover due to its increasing automation and foray into developing products for the Indonesian older generation.

Indicators (2018)	PT Indofood	PT Unilever
Profit Margin	0.06	0.22
Total Asset Turnover	0.80	2.14
Equity Multiplier	1.98	2.52
Return on Equity	0.09	1.19

Suggestions

Some of the strategies that McKinsey has employed to improve the financial standing of these varying countries have already been seen. Regarding PT Indofood, McKinsey has tried to implement market development policies, in which they utilize the local products such as Tropicana/Indomie and marketing them towards expats coming into Indonesia to increase brand awareness. Furthermore, they are using market research techniques to analyze customer retention on the product by conducting surveys and focus groups. To increase sales revenue, McKinsey has suggested incentive programs to encourage more employment from employees in order to cut operating costs. Along with this, PT Indofood can use cheaper raw materials and negotiate production costs, which will improve its operating cash flow and decrease liabilities. In terms of PT Unilever, a lot of the suggestions have already been implemented through the usage of robots, as well as expansion into e-commerce as they are primarily regarding greater investment in new technology and machinery to increase velocity and traction. Another option was to promote efficient asset use, such as selling obsolete assets that do not produce income in order to improve inventory and supply chain management.

Conclusion

Overall, we can see that PT Unilever has stronger financial performance than PT Indofood during the 2018 fiscal year due its overall stronger profit margin, which can be attributed to its increase in sales growth due to its loyalty programs - specifically towards its middle to higher income crowd, as well as their R&D ventures to expand into the lower-income market. Furthermore, even though it has slower growth than PT Indofood, its total liabilities decreased which shows greater asset efficiency due to its automation. It's a partnership with Lazada has increased stock equity. These are all positive signals for investors to choose PT Unilever to invest in, however, PT Indofood's recent IPO on instant noodles and expansion into more-flavored instant noodles for the upcoming Ramadhan season might help increase its profits and match the strength of PT Unilever.

Works Cited

ASEAN in Focus: The Growing Consumer Market. Hong Kong Trade Development Council, 15 Feb. 2017.

Deloitte Consumer Insights: Capturing Indonesia's Target Markets. Deloitte, May 2015.

“Indonesia.” *McKinsey & Company*, www.mckinsey.com/id.

The Wall Street Journal, Dow Jones & Company, quotes.wsj.com/ID/XIDX/INDF/financials.

The Wall Street Journal, Dow Jones & Company, quotes.wsj.com/ID/XIDX/UNVR/financials.

“Understanding Indonesia's Consumer-Goods Market.” *McKinsey & Company*, Sept. 2015,