

Just Don't Expect a Feast

But Jakarta's food companies offer select dishes

By Steven K.C. Poh

WHY FILL UP ON Indonesian food-and-beverage companies? Falling food prices across the archipelago have kept local F&B firms' bottom lines looking unhealthily lean. Not helping investor appetite: mounting competition, especially from foreign makers. And aside from a handful of big-capitalization stocks, most listed Indonesian food stocks are too illiquid to interest big institutional investors anyway.

Still, for some bargain hunters, the beleaguered sector means buying opportunities. Mayora Indah, one of Indonesia's largest confectionery and biscuit producers, is trading at a 40% discount to the Jakarta stock market. But ING Baring analyst Luciana Budiman warns: "We don't see it performing this year." The firm targets the lower end of the sweets sector, which has witnessed the largest influx of new competitors. Because there are many alternatives to the company's products, "it's unlikely to increase prices," says Budiman, "resulting in weaker sales growth and smaller margins."

Despite the industry's drawbacks, there are a handful of choice buys, says Steven Koh, an analyst at Jakarta-based BDNI Securities Research. One of them is Indofood Sukses Makmur, among the world's biggest instant noodle-makers. The firm is majority-owned by the Salim Group, Indonesia's largest conglomerate.

In March, Indofood announced a five-for-one rights issue to partially finance the acquisition of 11 units from its parent, including the distribution firm PT Indomarco and several palm-oil and edible-oil plantation companies. The rest of the funding will come from bank loans. "We believe the internal acquisitions will provide synergy for the company," says Koh. He expects revenues to grow by 45% this year. Tycoon Putera Sampoerna, who controls cigarette maker HM Sampoerna, recently bought a small stake in the firm.

Not everyone is so bullish. Felix D'Souza of Peregrine Sewu Securities has a "sell" recommendation on the stock. Says he: "It has appreciated by 26% in the last three months. We believe there is very limited upside from this point on."

Among smaller F&B stocks, several are raising their free float to make themselves more attractive to foreign investors. Of these, D'Souza likes Davomas Abadi, which he believes will be Indonesia's largest cocoa grinder by 2000. It is expanding into chocolate production and has secured long-term sales contracts with several candy makers. "Given its high earnings growth, a strong balance sheet, steady revenue sources and rising global demand, we believe the counter represents excellent value," he says.

The Peregrine analyst also favors coffee-bean exporter Prasadha Aneka Niaga. Global prices have risen 34% and are expected to stay strong due to poor harvests, labor unrest in Colombia and a recent agreement by coffee-producing countries to cut exports. At a 1997 P/E of 10.4, the stock is still cheap, says D'Souza. And it is increasing its free float to about 40%. The company has plans for a packaging plant in China and a ground-pepper plant in Sumatra. Says he: "Diversifying into downstream industries will widen profit margins and provide a more stable long-term revenue base."

D'Souza likes Cahaya Kalbar, an oil producer and cocoa grinder. A new specialty fat plant is scheduled to start operating in 1999. And the firm has plans to buy a vegetable oil unit. "We expect an extra 21% increase in 1997 net profit from the acquisition," says D'Souza. It is also venturing into value-added projects including low calorie sugar-free chocolates.



All money values in U.S. dollars except share prices, which are in Indonesian rupiah. Sources: Asiaweek Research, Datastream,