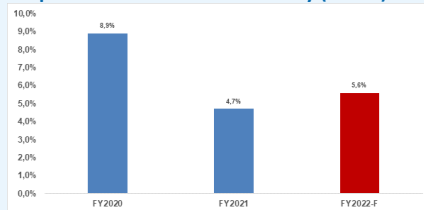


FOOD AND BEVERAGE

Snack | Indonesia | October 24, 2022

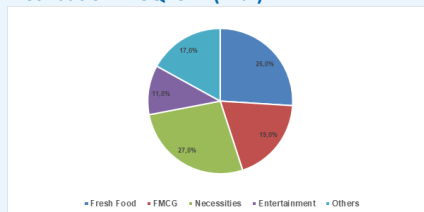
KEY GRAPHS

Graph 1: Growth of FMCG Industry (% YoY)



Source: Kantar Worldpanel Report, 2022

Graph 2: Indonesia's Household Spending Distribution in 3Q2021 (in %)



Source: Statista, Kantar Worldpanel Report

Growing but Should Be Aware of Rising Raw Material Prices

- Expecting Higher Growth of FMCG Industry in FY2022F
- Solid Growth of Snack's Sales Volume
- Millennials and Gen Z Dominate the Snack Consumption
- Raw Material Prices Rise

Expecting Higher Growth of FMCG Industry in FY2022F

The FMCG Industry in Indonesia grew by 4.7% in 2021 and projected to experience faster growth projection at 5.6% in 2022. The mid-upper class consumers are expected to grow faster while the lower class consumers will be growing slower in 2022.

Solid Growth of Snack's Sales Volume

The snack industry in Indonesia has been in a positive growth trend with an average CAGR growth of 7.8% since 2016. On average, the distribution of snacks is primarily dominated by Cookies & Crackers at approximately 84%, Tortilla Chips, Flips & Pretzels at 14.6% and followed by Potato Chips by the lowest segmentation of just above 1.3% as of 2021

Millennials and Gen Z Dominate the Snack Consumption

Millennials and Generation Z accounted for the majority of snacks demand in Indonesia with a total coverage of approximately 86% as of 2021. This is due to the tendencies of these generation in exploring new things.

Raw Material Prices Rise

Wheat and Sugar are considered as two of the major raw ingredients in the production of snacks. Both wheat and sugar price has been moving in an uptrend since the inception of COVID-19 pandemic in early Q1 2020. The price of sugar reached the lowest at \$0.10/lb in May 2020 and peaked at around \$0.20/lb which has doubled in price in less than two years. Furthermore, the price of wheat also spiked significantly from \$5/bushel in Q1 2020 to above \$12/bushel in Q1 2022.

Achmad Kurniawan Sudjatmiko

PT Kredit Rating Indonesia

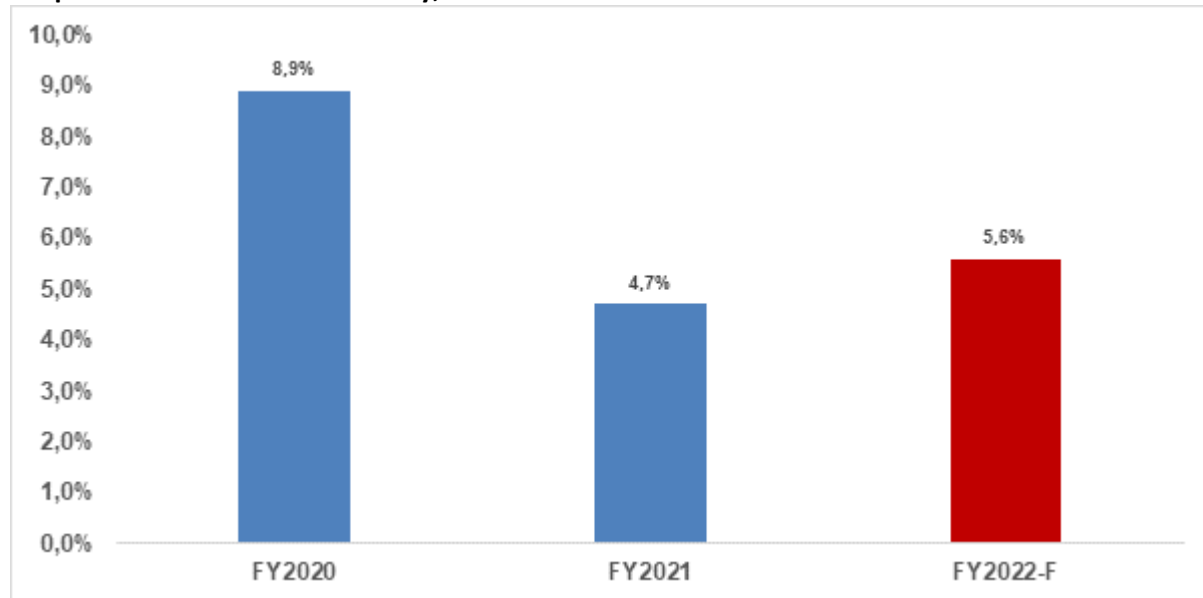
+62 21 3983 4411

SNACK SECTOR: GROWING BUT SHOULD BE AWARE OF RISING RAW MATERIAL PRICES

Faster Growth Projection in 2022

According to Kantar Worldpanel Report 2022, the FMCG Industry in Indonesia grew by 4.7% in 2021 and projected to experience faster growth projection at 5.6% in 2022. The mid-upper class consumers are expected to grow faster while the lower class consumers will be growing slower in 2022. Specifically, the dairy sector is projected to be the core growth driver in 2022 with a solid growth of 18%, followed by beverages, home care and personal care categories.

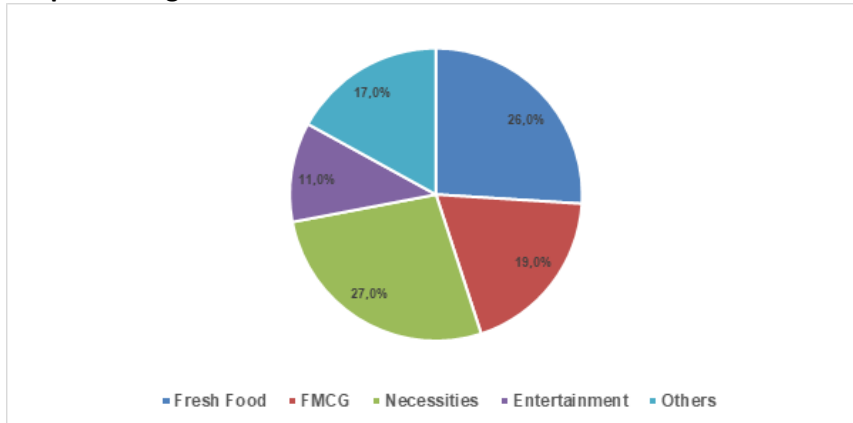
Graph 3: Growth of FMCG industry, FY2020 – FY2022F



Rising Budget Allocation, Especially for Home Care and Personal Care Products

As of Q3 2021, the mobility of people in Indonesia has almost recovered to pre-COVID level. Although the mobility level has gone back up, consumers are still concerned with the current and future situation related to the COVID-19 pandemic which primarily affects their spending priorities. Kantar Worldpanel Report 2022 further emphasized a rising budget allocation especially for home care and personal care (healthcare) products in 2021 while the budget allocation for fresh food and FMCG categories are projected to remain stable as these are considered to be priorities among the consumer goods class.

Graph 4: Budget Allocation for Indonesian in 3Q2021

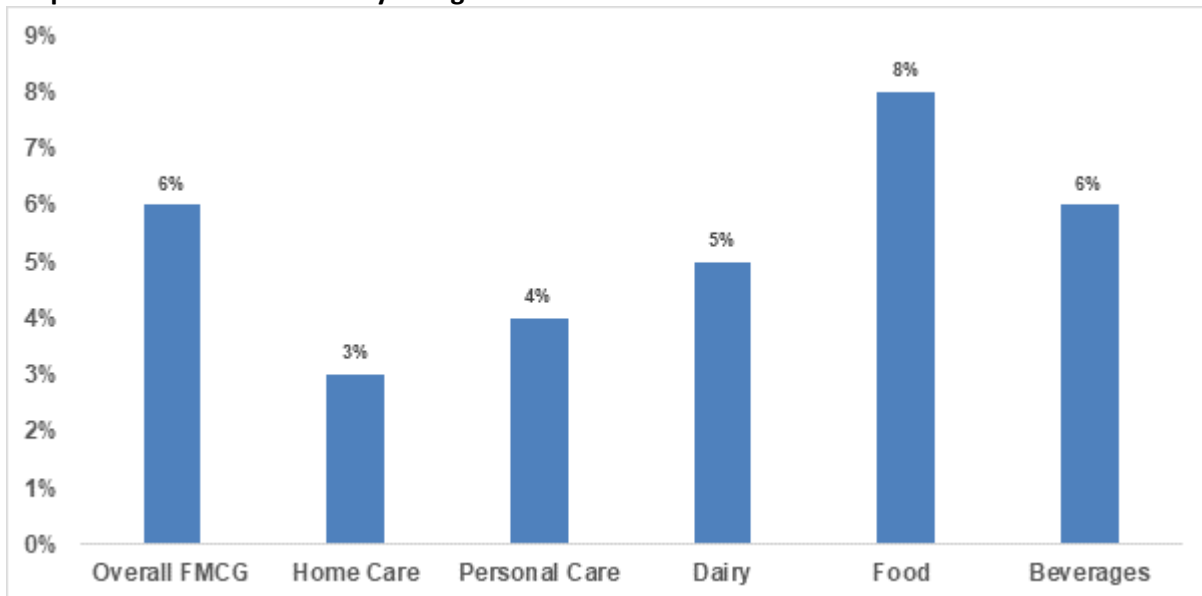


Source: Statista, Kantar Worldpanel Report 2022

Change of FMCG Packages During the Pandemic

The growing trend of consumers’ basket size is negatively correlated with the consumers’ numbers of trips, meaning that the consumers tend to purchase the bigger size of FMCG packages, including snack, during the people mobility restriction regulation was imposed by the Government compared to the pre COVID-19 era. This is evident as the number of trips are relatively lower by -2% YoY due to mobility restrictions, the basket size growth of overall FMCG was increased by 6%. In addition, food categories continued to be the main driver of the overall FMCG’s basket growth at 8% while beverages, dairy, personal care and home care stood at 6%, 5%, 4% and 3% respectively.

Graph 5: Basket Size Growth by Categories

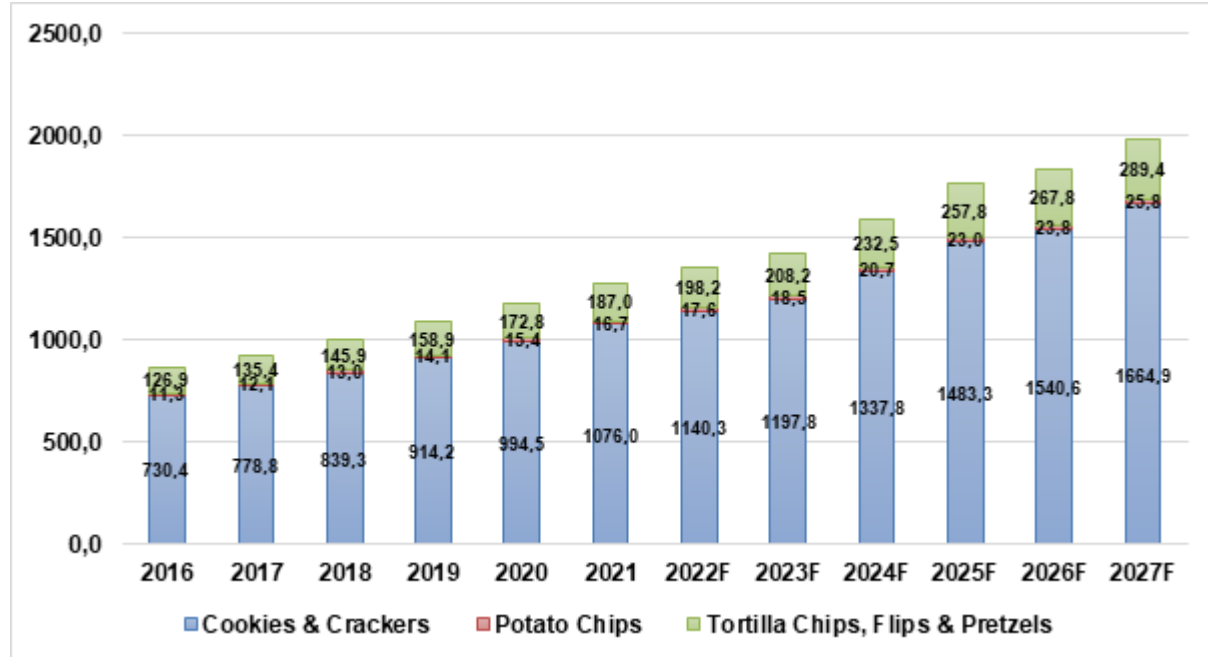


Source: Kantar Worldpanel Report, 2022

Solid Growth of Snack Volume in Indonesia

According to Statista 2022 & Data Industri 2021 Report, the snack industry in Indonesia has been in a positive growth trend with an average CAGR growth of 7.8% since 2016. On average, the distribution of snacks is primarily dominated by Cookies & Crackers at approximately 84%, Tortilla Chips, Flips & Pretzels at 14.6% and followed by Potato Chips by the lowest segmentation of just above 1.3% as of 2021. Furthermore, the distribution volume of snacks in 2021 was 1,281 million kilograms, recording +8% growth YoY while it is also predicted that the distribution volume of snacks in 2022 will reach 1,357 million kilograms with an increase of +6% as compared to 2021.

Graph 6: Total Distribution Volume of Snacks in Indonesia, 2016 – 2027F

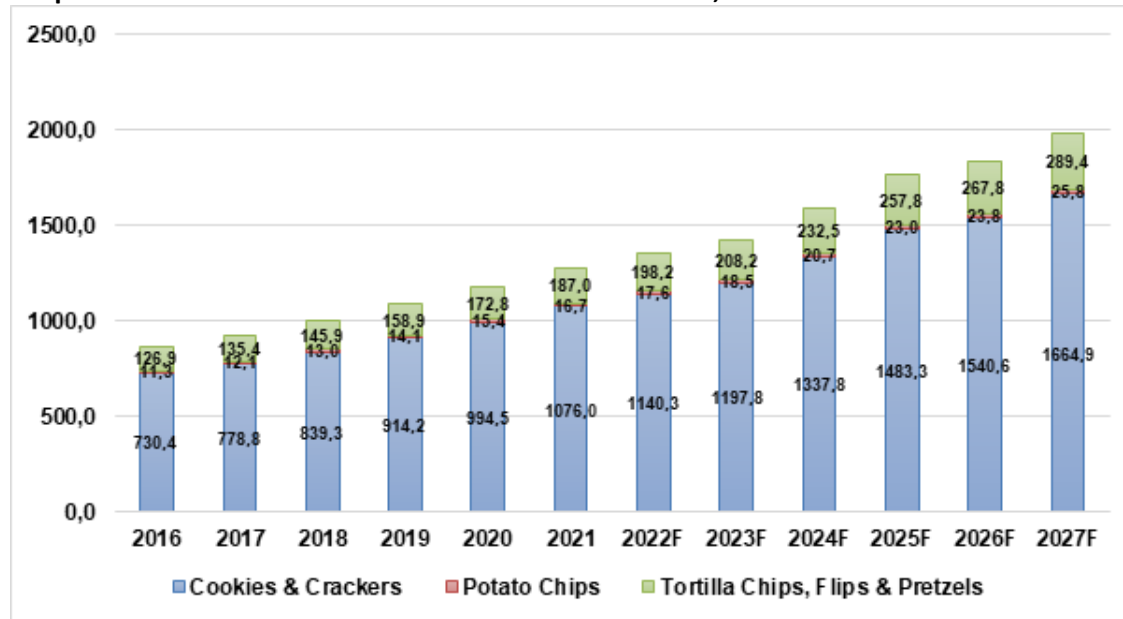


Source: Kantar Worldpanel Report, 2022

Snack Industry in Indonesia Posts a Positive Growth Trend

According to Statista 2022 & Data Industri 2021 Report, the snack industry in Indonesia has been in a positive growth trend with an average CAGR growth of 7.8% since 2016. On average, the distribution of snacks are primarily dominated by Cookies & Crackers at approximately 84%, Tortilla Chips, Flips & Pretzels at 14.6% and followed by Potato Chips by the lowest segmentation of just above 1.3% as of 2021. Furthermore, the distribution volume of snacks in 2021 was 1,281 million kilograms, recording +8% growth YoY while it is also predicted that the distribution volume of snacks in 2022 will reach 1,357 million kilograms with an increase of +6% as compared to 2021.

Graph 7: Total Distribution Volume of Snacks in Indonesia, 2016 – 2027F

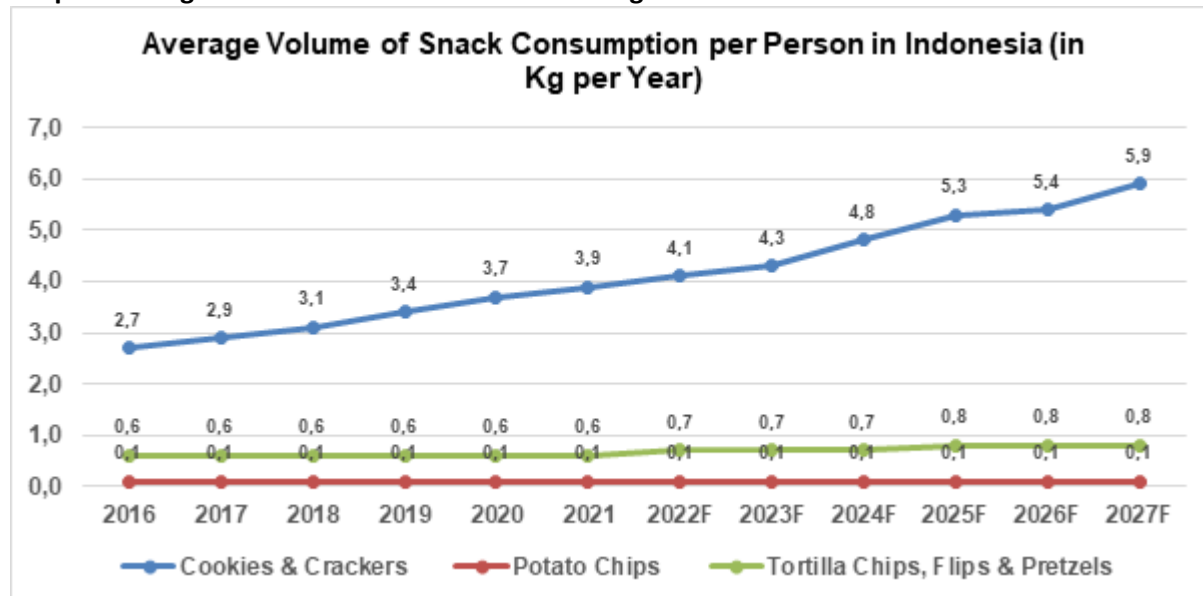


Source: Kantar Worldpanel Report, 2022

Higher Snack Consumption

As of 2021, it was analyzed that the average consumption of snacks per person was approximately 4.6 kg per year. This figure has been constantly increasing year by year as the volume distribution of Cookies & Crackers consumption has gained popularity and is projected to experience further growth while Potato Chips and Tortilla Chips, Flips & Pretzels will remain relatively flat with 0.8 kg and 0.1 kg respectively in 2025 onwards.

Graph 8: Rising Trend of Cookies and Crackers Categories

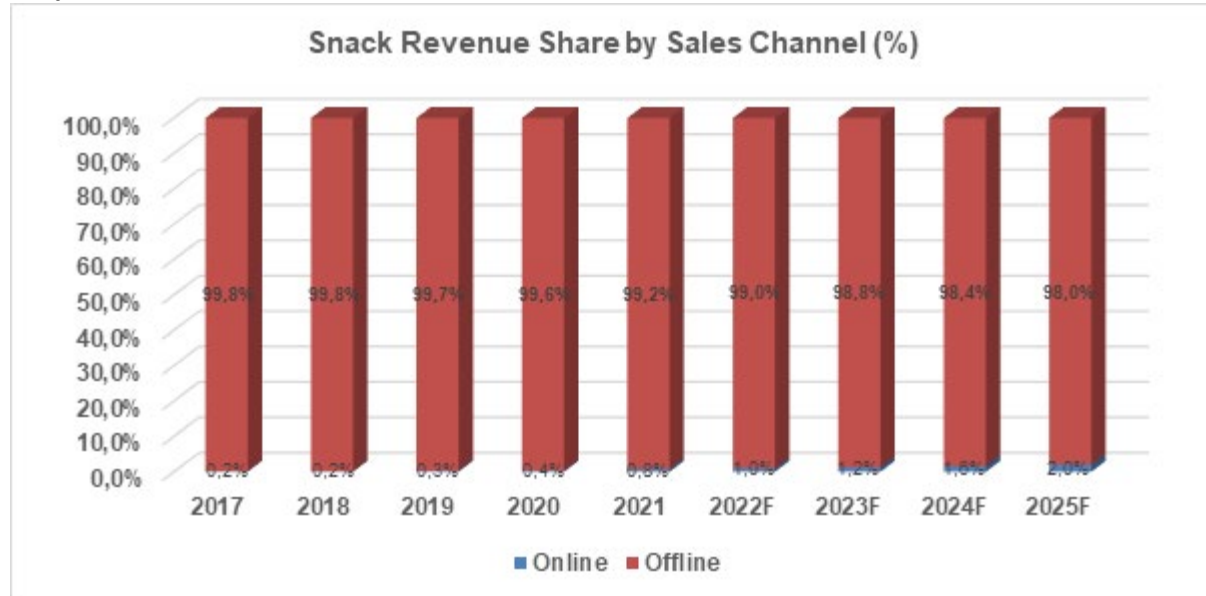


Source: Statista, 2022

Offline Sales Still Dominates

In terms of snacks distribution channel, the revenue is still heavily dominated by offline sales with a coverage of 99% as of 2022 and projected to slightly drop to 98% in 2025F. This is aligned with the slight increase of revenue derived from online sales which is projected to grow at a rate of CAGR 25% until 2025F.

Graph 9: Online vs Offline Sales



Source: Statista, 2022

The Domination of Millennials and Gen Z in the Indonesian Snack Industry

Based on Statista 2022 Report, Millennials and Generation Z accounted for the majority of snacks demand in Indonesia with a total coverage of approximately 86% as of 2021. This is due to the tendencies of these generation in exploring new things. As a result, snack manufacturers are able to capture these distinctive markets by offering numerous variants of snacks with unique new flavors.

Graph 10: Snack Consumers by Age

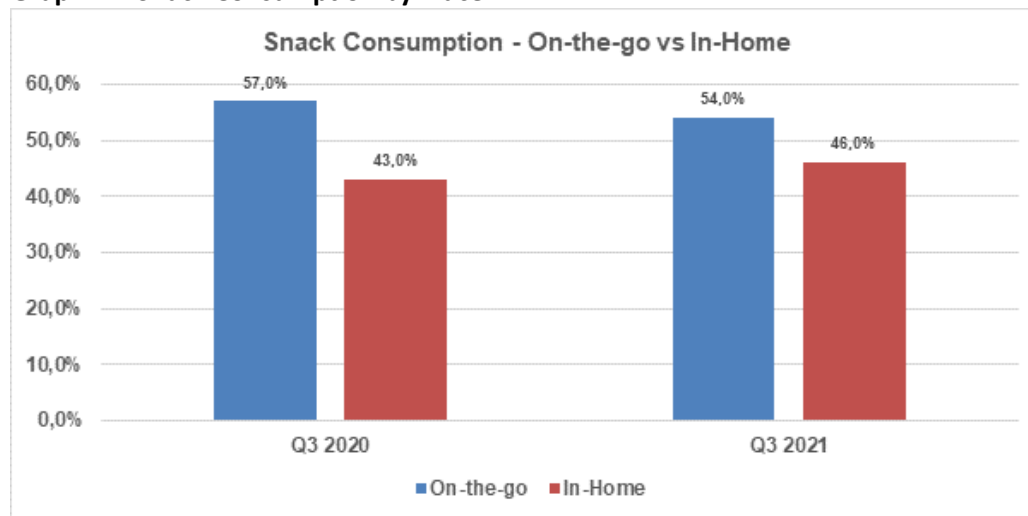


Source: Statista, 2022

Rising In-Home Snack Consumption During Pandemic

The consumption of snacks, by place, is divided into two categories: on-the-go consumption and in-home consumption. With the presence of mobility restriction imposed by government and local authorities, in-home snack consumption increased by 3% QoQ as compared to Q3 2020. Nevertheless, on-the-go consumption accounts as the main occasion for snacking activity as school age kids also become the main consumer for snacking on-the-go. The figure of on-the-go consumption also slightly fell as of Q3 2021 in line with school from home regulation remained in place and therefore on-the-go consumption slows down while in-home snacking increased. Overall, on-the-go consumption is projected to increase align with loosen mobility restriction in the near future (Kantar Worldpanel Report 2022).

Graph 11: Snack Consumption by Place



Source: Statista, 2022

Raw Material Prices Rise

Wheat and Sugar are considered as two of the major raw ingredients in the production of snacks. Cited from Capital IQ 2022, both wheat and sugar price has been moving in an uptrend since the inception of COVID-19 pandemic in early Q1 2020. The price of sugar reached the lowest at \$0.10/lb in May 2020 and peaked at around \$0.20/lb which has doubled in price in less than two years. Furthermore, the price of wheat also spiked significantly from \$5/bushel in Q1 2020 to above \$12/bushel in Q1 2022. These significant price increase of two commodities potentially create a negative impact towards the profitability of consumer goods company, imposing further pressure on its COGS of related products.

Graph 12: Rise of Wheat and Sugar Price



Source: CapitalIQ

Revenue Grows, but Gross Profit Margin Shrinks

To conclude our research, we see that the industry experienced an increasing revenue in 6M2022 as demand hiked. However, companies in this industry should be aware of the increasing raw material prices that have eroded their profitability margins. We have chosen five “big companies” in this industry, namely PT Mayora Indah Tbk, PT Siantar Food Tbk, PT FKS Food Sejahtera Tbk, PT Indofood CBP Sukses Makmur Tbk, PT Garudafood Putra Putri Jaya Tbk, and we saw that all of them experienced an increasing revenue in 6M2022. But, most of the aforementioned companies suffered from the increasing material prices as proved by decreasing gross profit margin in 6M2022. Only PT FKS Food Sejahtera Tbk that experienced a higher gross profit margin in this period.

Table 1: Comparison of Revenue and Gross Profit Margin

No.	Company	Products	Main Brands	Revenue (IDR, bn)		Gross Profit Margin (%)	
				6M2022	6M2021	6M2022	6M2021
1	PT Mayora Indah Tbk	Snack, Chocolate, Coffee Candy, etc	Roma, Beng-Beng, Kopiko, etc	14,375.4	13,153.7	19.6%	24.4%
2	PT Siantar Top Tbk	Noodles, Snack, Candy, Biscuits, etc	Mie Gemez, Twistko, Dr. Milk, GO!, etc	2,242.4	1,924.3	16.2%	22.6%
3	PT FKS Food Sejahtera Tbk	Snack, Noodles, Candy	Taro, Mie 2 Telor, Gulas, etc	862.8	687.9	29.5%	22.3%
4	PT Indofood CBP Sukses Makmur Tbk	Noodles, Snack, Dairy, Beverages, etc	Indomie, Chitato, Indomilk, Ichi Ocha, etc	32,593.3	28,199.1	29.4%	34.8%
5	PT Garudafood Putra Putri Jaya Tbk	Peanut, Snack, Chocolate, etc	Kacang Garuda, Gery, Chocolatos, etc	5,181.6	4,184.6	23.3%	27.7%