Financial Analysis of PT Unilever Indonesia Tbk: Q3 2025 Performance Review

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1. Business Overview

PT Unilever Indonesia Tbk, established in 1933, leads Indonesia's consumer goods sector with operations in personal care, home care, foods, and beverages. The Company is 85% owned by Unilever Indonesia Holding B.V., ultimately controlled by Unilever PLC (United Kingdom). Major brands include Dove, Sunsilk, Lifebuoy, Knorr, Bango, and Buavita.

The Company operates five manufacturing facilities in Cikarang and Surabaya, employing 4,061 people as of September 30, 2025 (down from 4,451 in 2024). This workforce reduction while maintaining output demonstrates strong productivity gains.

The most significant strategic development involves selling the ice cream business to PT The Magnum Ice Cream Indonesia for approximately Rp7 trillion. Independent shareholders approved this transaction on January 14, 2025, though completion depends on Unilever Group's global ice cream demerger, which had not received final approval as of September 30, 2025.

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2. Profitability Analysis: Strong Margins Despite Weak Revenue

Revenue Performance

Net sales for the nine months ended September 30, 2025 totaled Rp27.61 trillion, growing only 0.7% versus Rp27.42 trillion in 2024. This significantly lags Indonesian GDP growth (estimated 5.04%) and indicates real volume decline.

Segment Performance:

Segment	9M 2025	% of Total	Growth	9M 2024
Home and Personal Care	Rp17.53T	63.5%	-0.4%	Rp17.59T

Foods and Refreshment	Rp10.08T	36.5%	+2.7%	Rp9.82T

Foods and Refreshment grew 2.7%, reflecting demand for packaged foods and beverages. Home and Personal Care declined 0.4%, indicating intense competition from local manufacturers in detergents and personal care products.

Domestic sales (97% of total) grew 0.6%, while exports (3%) accelerated 5.3% to Rp827.39 billion, primarily to Unilever entities across Southeast Asia.

Exceptional Margin Expansion

Despite revenue stagnation, profitability improved significantly:

Margin Evolution:

- Gross margin: 48.5% vs 48.4% (+10 bps)
- Operating margin: 16.1% vs 14.3% (+180 bps)
- Net margin: 12.1% vs 11.0% (+110 bps)
- EBITDA margin: 18.6% vs 16.7% (+190 bps)

Key Drivers:

1. **Cost Management:** Marketing and selling expenses fell 6.1% from Rp6.88 trillion to Rp6.45 trillion, saving Rp422 billion. Advertising costs declined from Rp2.65 trillion to Rp2.43 trillion through more efficient digital marketing.
2. **Operational Efficiency:** Manufacturing productivity improved through automation and waste reduction, enabling gross margin expansion despite commodity inflation.
3. **Product Mix:** Shift toward higher-margin products within categories improved portfolio profitability.

Operating profit surged 13.8% to Rp4.45 trillion, translating to Rp3.34 trillion net profit after tax expense of Rp1.01 trillion (effective rate 23.3%). The tax rate exceeded the statutory 22% due to non-deductible expenses (Rp22.29 billion) and prior period adjustments (Rp37.44 billion).

EBITDA increased 11.9% to Rp5.13 trillion, demonstrating strong cash generation capacity.

Related Party Costs

General and administration expenses include substantial payments to Unilever Group entities:

- Trademark royalties: Rp670.82 billion (3% of sales)
- Technology royalties: Rp452.84 billion (2% of sales)
- Service fees and Enterprise Technology Solutions: Rp708.58 billion

Total related party payments of Rp1.83 trillion represent 6.6% of sales and 74% of general and administration expenses. While creating structural cost disadvantages versus local competitors, these arrangements provide access to global brands and capabilities difficult to replicate independently.

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3. Tax Disputes: Material Financial Risk

Overview of Tax Contingencies

The most significant financial risk involves disputes with Indonesian tax authorities (DJP) regarding corporate income tax and withholding tax for fiscal years 2018-2020. Total disputed amounts reached Rp1.38 trillion as of September 30, 2025, up 171% from Rp509.67 billion at December 31, 2024.

Dispute Details:

FY 2018:

- Original corporate income tax assessment: Rp467.33 billion
- DJP partial acceptance (November 2024): Rp17.58 billion
- Amount under appeal (filed February 2025): Rp509.67 billion
- Additional withholding tax dispute: Rp84.73 billion

FY 2019:

- Corporate income tax under objection: Rp190.57 billion
- Withholding tax under objection: Rp38.11 billion

FY 2020:

- Corporate income tax under objection: Rp533.43 billion
- Withholding tax under objection: Rp99.14 billion
- VAT under objection: Rp10.22 billion

Impact Analysis

These disputes represent 41% of shareholders' equity (Rp1.38 trillion disputed vs Rp3.35 trillion equity), creating material contingent liabilities. The disputes likely involve:

1. Transfer pricing arrangements with Unilever Group entities
2. Withholding tax on cross-border payments for royalties and services
3. Deductibility of certain expenses

Management maintains that tax positions are technically sound and compliant with regulations. However, Indonesian authorities frequently challenge multinational corporations' related party pricing as potential profit shifting.

Resolutions could take years through appeals and Tax Court proceedings. Adverse outcomes could require:

- Cash payments plus penalties and interest
- Changes to transfer pricing arrangements
- Restatement of prior period provisions

Conversely, a favorable resolution would release Rp1.38 trillion to operating cash flow. The binary nature creates significant valuation uncertainty.

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4. Working Capital and Capital Allocation

Superior Working Capital Management

Unilever Indonesia operates with a current ratio of 0.50x (current assets Rp6.04 trillion / current liabilities Rp12.10 trillion). While appearing weak, this reflects sophisticated working capital optimization.

Cash Conversion Cycle:

- Days Sales Outstanding: ~29 days (fast collection)
- Days Inventory Outstanding: ~68 days (efficient turnover)
- Days Payables Outstanding: ~117 days (extended terms)
- **Cash Conversion Cycle: (20) days** (negative)

The Company receives cash from customers approximately three weeks before paying suppliers, creating self-funding growth requiring minimal external capital.

Supply Chain Financing:

The Company uses supply chain financing (SCF) totaling Rp1.46 trillion (32% of trade payables). Suppliers can receive early payment from banks by factoring receivables, while the Company maintains extended payment terms at no additional cost. This benefits all parties without increasing Company financing costs.

Shareholder Returns and Capital Underinvestment

9M 2025 Distributions:

- Cash dividends: Rp1.79 trillion (Rp47 per share)
- Share buyback: Rp285.05 billion (168.77 million shares)
- **Total: Rp2.08 trillion (62% of net profit)**

The share buyback program, announced July 31, 2025, authorizes repurchasing up to 20% of capital (maximum Rp2 trillion) through October 30, 2025. This signals management's view that shares are undervalued while enhancing shareholder returns.

Capital Expenditure Concerns:

Capex of Rp385.15 billion in 9M 2025 fell below depreciation of Rp526.88 billion, continuing a pattern of underinvestment. While conserving cash for distributions, this risks:

- Equipment aging reducing efficiency
- Capacity constraints limiting growth
- Competitive disadvantage from outdated technology

The 1.4% of sales capital intensity appears barely sufficient to maintain existing capabilities without meaningful expansion or modernization.

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5. Financial Strength and Investment Assessment

Strengths

Exceptional Profitability: Operating margin of 16.1%, net margin of 12.1%, and EBITDA margin of 18.6% rank among Indonesia's highest-quality companies, reflecting brand power and operational excellence.

Strong Cash Generation: Operating cash flow of Rp3.21 trillion (+13% YoY) and negative cash conversion cycle provide self-funding growth and support substantial distributions without financial strain.

Conservative Balance Sheet: Net cash position (cash Rp879.80 billion exceeds debt Rp950.00 billion), minimal leverage (debt-to-equity 0.28x), and robust equity (Rp3.35 trillion) create financial resilience.

Market Leadership: Leading positions across diversified categories with globally recognized brands provide sustainable competitive advantages.

Weaknesses and Risks

Tax Litigation Overhang: Disputed assessments of Rp1.38 trillion (41% of equity) create the largest financial risk. Unfavorable resolution could materially impact cash flows.

Revenue Stagnation: 0.7% sales growth lags economic growth, indicating volume decline. Margin expansion cannot substitute indefinitely for top-line momentum.

Ice Cream Uncertainty: The pending Rp7 trillion sale awaits global demerger approval, creating strategic uncertainty.

Structural Costs: Related party payments of 6.6% of sales create permanent cost disadvantages versus purely local competitors.

Capital Underinvestment: Capex below depreciation risks long-term competitive erosion despite near-term cash benefits.

Summary

PT Unilever Indonesia Tbk demonstrates strong financial performance in Q3 2025, with net profit increasing 10.8% to Rp3.34 trillion despite revenue growth of only 0.7%. Operating margin expanded 180 basis points to 16.1% through cost discipline and operational efficiency. However, tax disputes totaling Rp1.38 trillion and the pending Rp7 trillion ice cream divestiture create significant uncertainties requiring careful analysis.