

Poultry

Less pressure from key input cost

Normalizing DOC price

We captured an anomaly in the movement of West Java live bird and DOC prices on Apr-22 and May-22. Live bird prices in Apr-22 strengthened by 10.3% MoM to IDR22,614/kg and slightly declined by 2.7% MoM to 22,000 in May-22 due to seasonally slower consumption after Ramadan period. However, DOC price fell considerably by 44.7% MoM in Apr-22, followed by a 38.0% MoM plunge in the subsequent month to IDR3,929/chick and IDR2,435/chick. This condition led to a question "Why broiler prices hover at a relatively high level while DOC price was too low?". Nevertheless, after we checked on the data and confirmed with poultry players, Jul-22 and Aug-22 DOC prices have reverted to around IDR5,500/chick.

Profitable chicken prices on the back of limited supply

Commonly in Muharram/ Suro month (30 days), broiler price most likely decreased. This was mainly driven by a lower chicken demand. However, until end of July-22 livebird price trades at IDR21,000-22,500/kg in West Java, while Central Java and East Java prices are even higher at IDR20,500-24,000/kg. As such, if the cost of poultry farmers is around IDR20,000/kg, they are obviously enjoying profits. Our channel mentioned that Inventory in cold storage of chicken slaughterhouse only last for 1 week, at the time of full cold storage, it can serve until 3-month. This can be an indication the broiler supply in the market is limited on the back of supply demand. We view poultry farmers have expected seasonally low demand during Suro month, whilst lead to a lower supply, yet the demand is still there in which affecting to limited supply. We foresee supply-demand dynamics sustain until end of year, hence average livebird price unlikely to drop below IDR20,000/kg.

Export to Singapore will not move a needle

In early July-22, Singapore Food Agency (SFA) has finally approved Indonesia as a new import source of poultry and poultry products with CPIN, JPFA and PT Ciomas that appointed so far by SFA. We notice that for a moment, the positive news become catalyst for poultry stocks, however we view the potential amount of revenue that may come from export to Singapore will not significant. Based on our back at envelope calculation, potential revenue is only around IDR800-900 bn per year if all volumes that banned from Malaysia to Singapore tackled by Indonesia. That is only 0.9% of total JPFA and CPIN's revenue combined.

BUY on CPIN and JPFA

We reiterate Buy recommendation on JPFA with TP of IDR2,500/sh and CPIN with TP of IDR7,000/sh. Our top pick for the sector is JPFA, as the company has been lagging relative to CPIN, cheaper multiple at 6.7x 2023F PE (vs. CPIN at 18.4x P/E) and more sensitive to changes in broiler prices. Key risks include: 1) higher-than-expected average corn and soybean meal price 2) Bleaker macroeconomic outlook that led to weaker purchasing power 3) Oversupply of chicken.

Sector Update

Poultry

Aug 9, 2022

Overweight

Company	Rating	TP (IDR)
JPFA	BUY	2,500
CPIN	BUY	7,000

CPIN share price



Source: Bloomberg

JPFA share price



Source: Bloomberg

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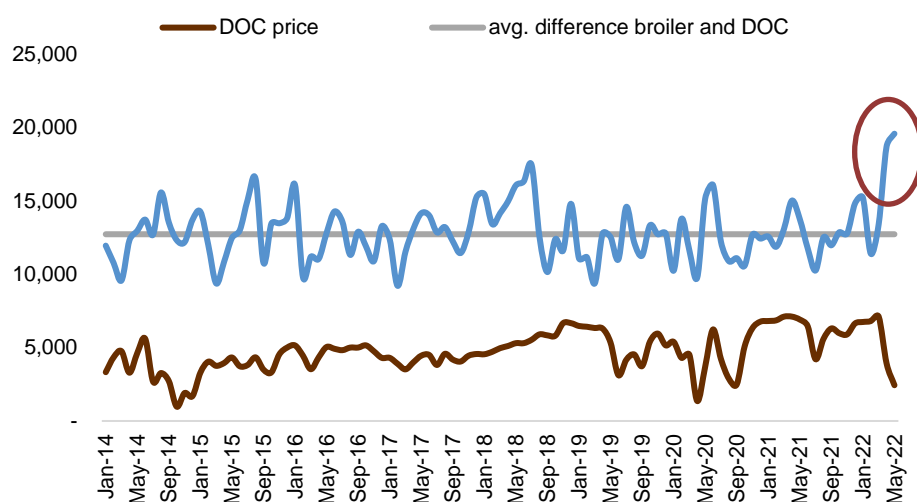
I. Normalizing DOC price

We captured an anomaly in the movement of West Java live bird and DOC prices on Apr-22 and May-22. Live bird prices in Apr-22 strengthened by 10.3% MoM to IDR22,614/kg and slightly declined by 2.7% MoM to 22,000/kg in May-22 due to seasonally slower consumption after Ramadan period. However, DOC price fell considerably by 44.7% MoM in Apr-22, followed by a 38.0% MoM plunge in the subsequent month to IDR3,929/chick and IDR2,435/chick.

This condition led to the question “Why broiler prices hover at a relatively high level while DOC price was too low?”. We analyzed the DOC and live bird prices within the period of Jan-14 until Mar-22, the data suggest that the average differences stood at IDR12,735, with the maximum deviation of IDR17,429 (Jul-18). Meanwhile, on Apr-22 and May-22, the differences were at IDR18,685 and IDR19,565, respectively.

We view during that time, consumer buying power was not really good, this resulted to farmers delaying chick in given their expectation of lower livebird demand. On top of that, lo HE (Hatching Egg) cutting as well, hence those reasons led to a drop in DOC prices. Nevertheless, it turns out that these discrepancies were temporary, and after we checked on the data and confirmed with poultry players, Jul-22 and Aug-22 DOC prices have reverted to around IDR5,500/chick.

Fig 1 DOC price and difference with broiler price



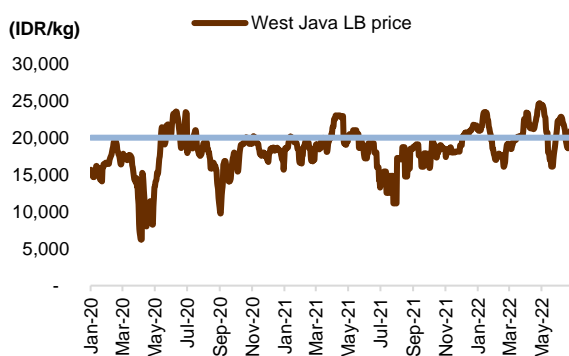
Source: Company, KISI

II. Limited chicken supply helps stabilize live bird prices

Learning from past years' seasonality, during Muharram / Suro month (30 days), broiler prices have tendencies to fall. This was mainly driven by a lower chicken demand. Until end of July-22 livebird price trades at IDR21,000-22,500/kg in West Java, while Central Java and East Java prices are even higher at IDR20,500-24,000/kg. As such, if the cost of poultry farmers is around IDR20,000/kg, they will enjoy period of profitable DOC and broiler business. In addition, we still think there will be a short-term contraction in livebird price in August-22, but the condition may be less severe compare to Suro month in FY20-21.

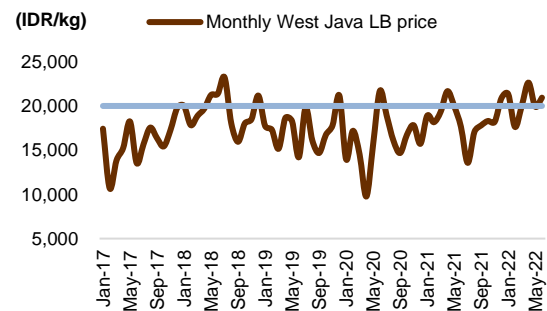
Our channel checks revealed that inventory in cold storage of chicken slaughterhouse only lasts for 1 week (vs. full capacity cold storage ability to serve 3 months). This can be an indication the broiler supply in the market is limited on the back of supply demand. We view poultry farmers have expected seasonally low demand during Suro month, which leads to a lower supply matching the expected lower demand. We foresee supply-demand dynamics to sustain until end of the year, hence average livebird prices unlikely to drop below IDR20,000/kg (below the poultry farmers' cost).

Fig 2. Daily West Java LB price



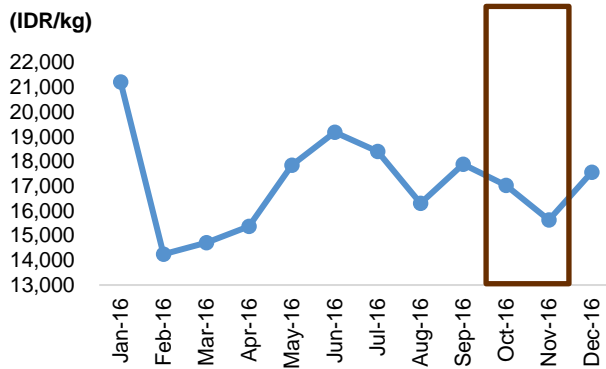
Source: Pinsar, KISI

Fig 3. Monthly West Java LB price



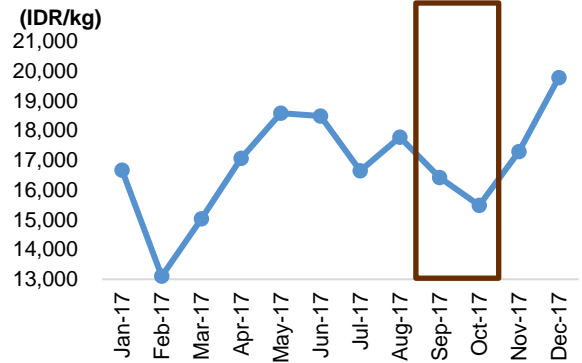
Source: Pinsar, KISI

Fig 4. Broiler price in 2016 (1 Suro: 3 October)



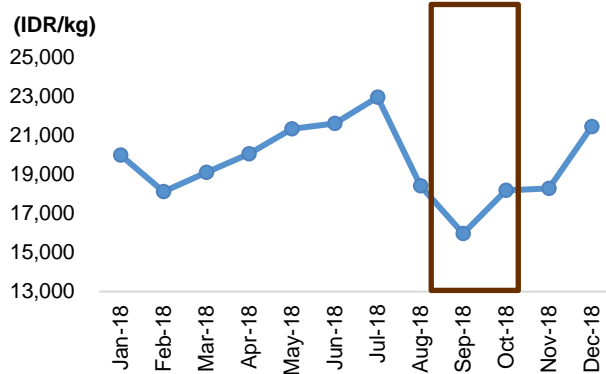
Source: Companies, KISI

Fig 5. Broiler price in 2017 (1 Suro: 21 September)



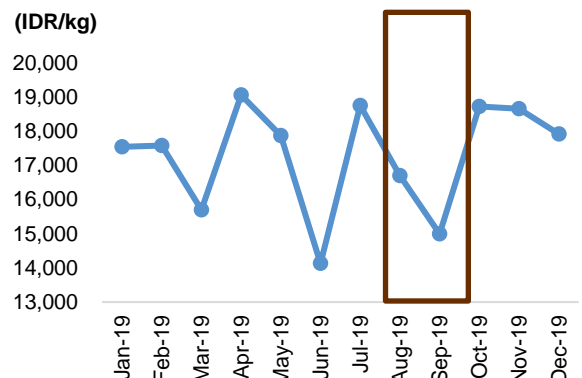
Source: Companies, KISI

Fig 6. Broiler price in 2018 (1 Suro: 11 September)



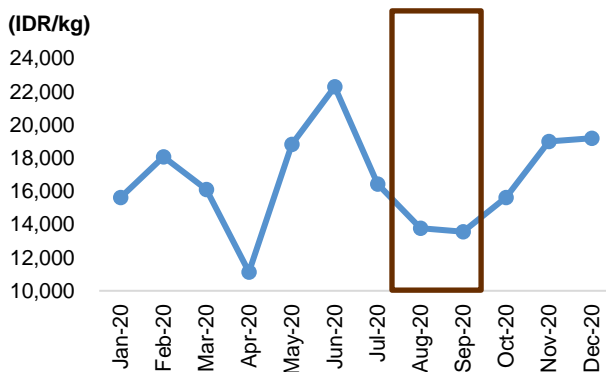
Source: Companies, KISI

Fig 7. Broiler price in 2019 (1 Suro: 1 September)



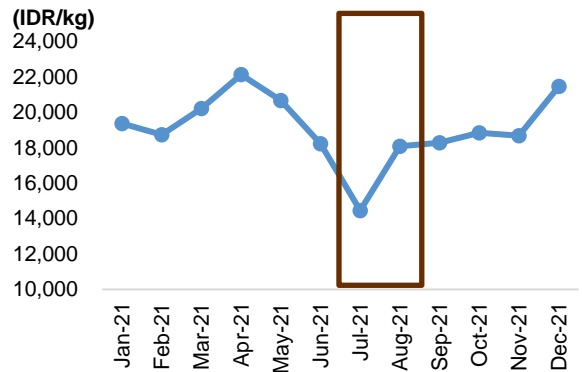
Source: Companies, KISI

Fig 8. Broiler price in 2020 (1 Suro: 20 August)



Source: Companies, KISI

Fig 9. Broiler price in 2021 (1 Suro: 10 August)



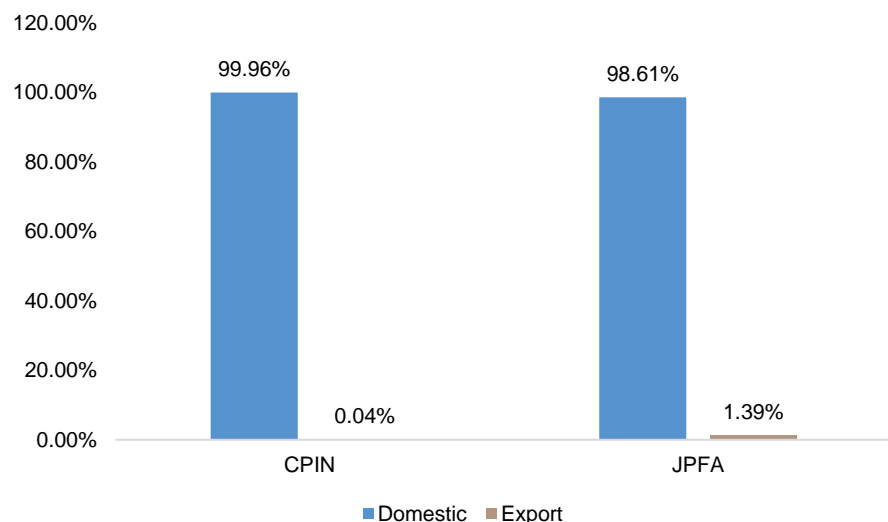
Source: Companies, KISI

III. Minimal impact from export

The sudden export ban of 3.6mn chickens per month in 1Jun2022 by Malaysia to Singapore has opened some opportunities for Indonesia poultry to increase sales. Our findings suggest that this initiative could also help lighten Indonesia's oversupply problem of around 30mn chickens per week. Though, this opportunity comes with a few barriers; 1) higher cost of production of livestock as compared to Malaysia and Brazil. In June-22 Malaysia and Brazil average livebird prices stood at IDR14,000-15,000/kg (vs IDR16,000-17,000/kg in Indonesia), this was mainly due to higher feed cost in Indonesia; 2) logistics issue (and export specification) as Singapore requires fresh carcass.

In early July-22, Singapore Food Agency (SFA) finally approved Indonesia as a new import source of poultry and poultry products with CPIN, JPFA, and PT Ciomas being appointed so far by SFA. This positive news has pushed poultry stocks lately, however, we view the potential amount of revenue that may come from export to Singapore will not move the needle. Based on our back-at-envelope calculation, potential revenue is only around IDR800-900 bn per year if all volumes that are banned from Malaysia to Singapore are taken over by Indonesia. It will be only ~0.9% of total JPFA and CPIN revenue combined.

Fig 10. CPIN and JPFA domestic vs. export revenue 2021



Source: Company, KISI

IV. Less expensive key input cost

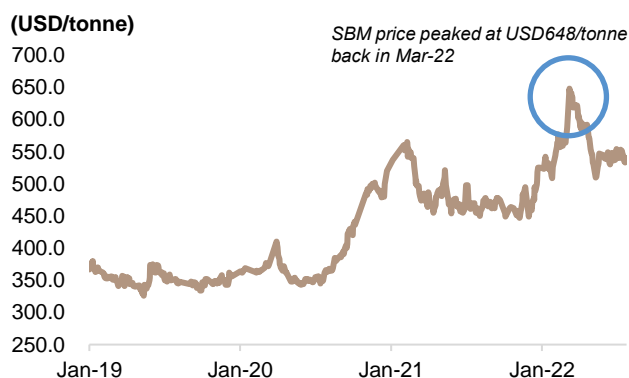
In 1H22, we view expensive raw material prices were the pivotal issue for feed millers. Note that, corn and soybean meal (SBM) are the key components of feed raw materials with 50% and 25-30% portions over feed COGS,

Domestic corn price in 1Q22 was traded at above IDR5,500/kg, or on average near IDR6,000 based on the data from Bulog. On April-22, referring to Ministry of Agriculture, corn price stood at IDR6,000/kg. However, starting in June-22 domestic corn prices have fallen significantly to around IDR4,300/kg.

Moreover, SBM price hit a record high at USD640/tonne back in 20Mar2022. Based on our calculation, the average 1Q22 SBM price surged by 21% QoQ/10.5% YoY. Meanwhile, it has somewhat declined by 2.8% QoQ in 2Q22 but is still 16.6% more expensive than the same period last year. Entering 3Q22, a month-to-date July-22 average stood at USD542.8/tonne, a 2% lower compared to 2Q22 average. As such, we can see SBM prices trending down, and given the higher expectation of SBM production from South America in 2H22, we should see a better COGS for feed millers.

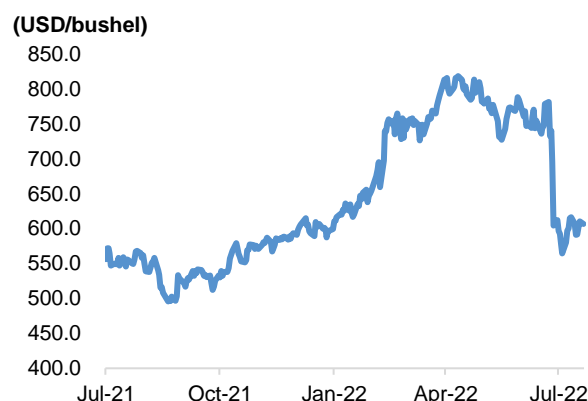
In our view, since poultry integrators have adjusted up their feed price in 1Q22 (JPFA and CPIN feed ASP rose by 15.0% YoY and 11.0% YoY, respectively), this is an indication of margins improvement in the upcoming quarters.

Fig 11. Argentina SBM price



Source: Bloomberg, KISI

Fig 12. Corn price



Source: Bloomberg, KISI

Since SBMs are all imported, unlike corn which are locally sourced, integrators may have concern on the foreign exchange. Rupiah has depreciated by around 2.4% against dollar from early Jun-22 until end of Jul-22. Further weakening in IDR is another risk for poultry integrators' margins.

Fig 13. USDIDR



Source: Bloomberg, KISI

V. Upgrade sector to Overweight

We turn bullish on Indonesia poultry sector as 1) the industry is expected to continue to deliver revenue growth in FY22-23F, in spite of a lower growth relative to 15.6% CAGR over 2012 to 2021 period, 2) softening commodity prices (corn and soybean meal) should ease the cost pressure, while ASP has been adjusted up previously (hence, margins are most likely to improve going forward), 3) without gov't culling program, live bird prices hover at above IDR20k (above cost of production), largely driven by a recovery in demand amidst manageable supply.

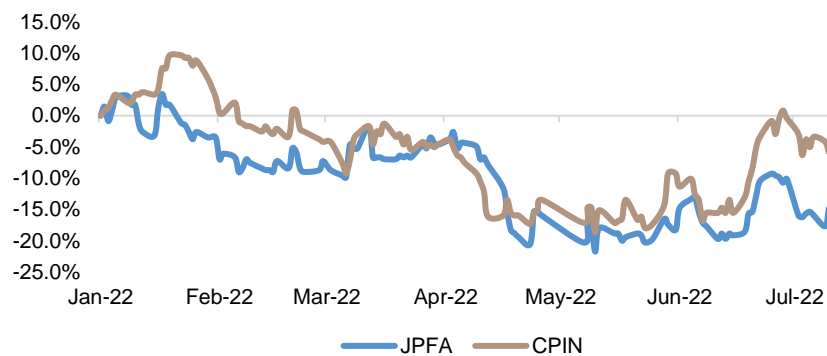
At the current juncture, we upgrade our call on the poultry sector to Overweight. We reiterate BUY recommendation on JPFA with TP of IDR2,500/sh and CPIN with TP of IDR7,000/sh. *Refer to individual reports on JPFA & CPIN for more details.* Our top pick is JPFA, laggard as compared to CPIN with a cheaper multiple at 6.7x 2023F PE (vs. CPIN at 18.4x P/E), and more sensitive to changes in broiler prices. Key risks include: 1) higher-than-expected average corn and soybean meal prices, and 2) softer macroeconomic outlook that led to weaker purchasing power

Fig 14. Peers average

Company	Bloomberg code	Market cap	PE (x)		EV/EBITDA (x)		ROE
		US\$m	FY22F	FY23F	FY22F	FY23F	%
Local							
Charoen Pokphand Indonesia Tbk	CPIN IJ Equity	6,447	21.6	18.4	13.6	11.9	12.1
Japfa Comfeed Indonesia Tbk PT	JPFA IJ Equity	1,202	8.8	6.7	5.1	4.2	17.4
Malindo Feedmill Tbk PT	MAIN IJ Equity	92	33.7	18.9	#N/A N/A	#N/A N/A	2.1
Widodo Makmur Unggas PT Tbk	WMUU IJ Equity	123	8.6	6.5	#N/A N/A	#N/A N/A	14.7
Weighted Average			19.6	16.4	11.9	10.4	12.8
Regional Peers							
Godrej Agrovet Ltd	GOAGRO IN Equity	1,195	25.9	21.5	16.6	15.2	16.1
PPB Group Bhd	PEP MK Equity	5,251	15.3	13.9	112.9	76.0	5.8
Masan Group Corp	MSN VN Equity	6,379	24.4	19.5	13.6	11.4	17.4
Weighted Average			20.7	17.3	54.0	37.8	12.6

Source: Bloomberg, KISI

Fig 15. CPIN and JPFA YTD share price return



Source: Bloomberg' KISI

Fig 16. CPIN 1H22 results

CPIN IJ Equity (IDR bn)	2Q21	1Q22	2Q22	q-q	y-y	6M21	6M22	y-y
Revenue	13,064	14,295	14,342	0.3%	9.8%	25,469.1	28,637.3	12.4%
Cost of Goods Sold	(10,391)	(11,907)	(11,839)	-0.6%	13.9%	(20,191.3)	(23,746.5)	17.6%
Gross Profit	2,673	2,388	2,503	4.8%	-6.4%	5,277.8	4,890.8	-7.3%
Operating Expense	(836)	(880)	(936)	6.4%	11.9%	(1,571.9)	(1,816.5)	15.6%
EBIT	1,836	1,508	1,567	3.9%	-14.7%	3,705.9	3,074.3	-17.0%
Interest Expense	(100)	(76)	(76)			(175.7)	(152.7)	
Interest Income	14	5	5			31.2	10.7	
Others	(6)	36	29			5.5	66.0	
Pretax Income	1,744	1,473	1,525	3.5%	-12.6%	3,566.9	2,998.3	-15.9%
Income Tax	(366)	(282)	(298)			(733.6)	(580.1)	-20.9%
Minority Interest	(0)	0	(1)			(0.3)	(1.2)	
Net Income	1,378	1,191	1,226	2.9%	-11.1%	2,833.0	2,417.0	-14.7%
GPM	20.5%	16.7%	17.5%			21%	17%	
OPM	14.1%	10.5%	10.9%			15%	11%	
Pre-tax margin (%)	13.4%	10.3%	10.6%			14%	10%	
NPM	10.6%	8.3%	8.5%			11%	8%	

Source: Company, KISI

Fig 17. JPFA 1H22 results

JPFA IJ Equity (IDR bn)	2Q21	1Q22	2Q22	q-q	y-y	1H21	1H22	y-y
Revenue	11,338.8	12,154.0	12,329.2	1.4%	8.7%	22,108.2	24,483.2	10.7%
Cost of Goods Sold	(8,931.1)	(10,019.3)	(10,062.5)	0.4%	12.7%	(16,908.8)	(20,081.8)	18.8%
Gross Profit	2,407.7	2,134.7	2,266.7	6.2%	-5.9%	5,199.3	4,401.4	-15.3%
Operating Expense	(1,194.7)	(1,156.0)	(1,325.2)	14.6%	10.9%	(2,511.4)	(2,481.2)	-1.2%
EBIT	1,213.1	978.7	941.5	-3.8%	-22.4%	2,688.0	1,920.2	-28.6%
Interest Expense	(282.8)	(196.6)	(210.8)	7.2%	-25.5%	(441.9)	(407.4)	-7.8%
Interest Income	4.1	1.3	1.4			12.0	2.7	
Pretax Income	973.7	810.5	725.9	-10.4%	-25.5%	2,153.5	1,536.3	-28.7%
Income Tax	(241.0)	(163.6)	(170.7)			(505.6)	(334.3)	
Minority Interest	(48.0)	(43.1)	(47.2)			(105.1)	(90.3)	
NPAT	684.7	603.7	508.0	-15.9%	-25.8%	1,542.8	1,111.7	-27.9%
GPM	21.2%	17.6%	18.4%			23.5%	18.0%	
OPM	10.7%	8.1%	7.6%			12.2%	7.8%	
Pre-tax margin (%)	8.6%	6.7%	5.9%			9.7%	6.3%	
NPM	6.0%	5.0%	4.1%			7.0%	4.5%	

Source: Company, KISI

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Japfa Comfeed Indonesia

Attractive valuation

2Q22 results review: in-line with estimates despite negative growth

JPFA booked a net profit of IDR508 bn (-15.9% QoQ/-25.8% YoY), bringing 1H22 bottom-line to IDR1.1tn (-27.9% YoY). The main reason for the falling performances was the high-cost environment. In 2Q22, GPM mildly improved to 18.4% (vs. 17.6% in 1Q22), however opex ratio widened to 10.7% (vs. 9.5% in 1Q22). Hence, net margin narrowed to 4.1% (vs. 5.0% in 1Q22). We believe that falling DOC prices during 2Q22 led to a much lower OPM. Nevertheless, overall results are largely in-line with consensus estimates.

Expecting a better condition in 2H22; good chicken demand

JPFA managed a positive top-line growth in both 1Q22 and 1H22 on the back of higher feed ASP. We do realize that it will not easy to know whether JPFA can increase its further ASP in 2H22. However, if the company can maintain its current feed price, coupled with normalizing key input costs, margins should improve.

Maintain its gross margin at a higher level as compared to CPIN

Before 2016, CPIN's gross margin has always been higher relative to JPFA. Due to improving cost efficiencies and financial leverage, JPFA GPM has never fallen below CPIN after 2016. We expect the trend to continue going forward. We project JPFA FY22/23F GPM to stand at 18.8%/20.1%.

Re-iterate Buy recommendation on JPFA

We re-iterate a Buy call in JPFA with a TP of IDR2,500/sh, based on 10.9x FY23F PE multiple. Currently, the counter trades at 6.7x 23F PE, or around -1stdev of its 5-year mean. The current valuation looks cheap as we believe JPFA potentially book a much better performance in subsequent quarters. JPFA is our top pick for Indonesia poultry sector.

FY-ending Dec. (IDR bn)	2020A	2021A	2022F	2023F	2024F
Sales (IDR)	36,964.9	44,878.3	48,511.1	52,295.6	56,392.9
OP (IDR)	2,635.0	3,221.7	3,829.5	4,795.2	5,393.4
EBT (IDR)	1,679.1	2,793.8	3,043.0	4,023.0	4,634.4
NP (IDR)	916.7	2,022.6	2,015.7	2,664.8	3,069.8
EBITDA (IDR)	3,728.7	4,348.1	4,982.7	6,068.3	6,796.0
OP margin (%)	7.1	7.2	7.9	9.2	9.6
ROE (%)	8.6	16.5	15.0	17.4	17.7
Dividend yield (%)	1.5	2.8	4.6	4.5	6.0
EPS (IDR)	78.5	173.8	173.3	229.0	263.9
chg. (% YoY)	(47.9)	121.5	(0.3)	32.2	15.2
BPS (IDR)	914.0	1,051.5	1,155.2	1,314.9	1,487.2
DPS (IDR)	22.1	42.0	69.5	69.3	91.6
PE (x)	19.4	8.8	8.8	6.7	5.8
PB (x)	1.7	1.5	1.3	1.2	1.0
EV/EBITDA (x)	6.5	6.2	5.1	4.2	3.7

Company Update

Poultry

Aug 9, 2022

12M rating **BUY (BUY)**
12M TP **IDR2,500**
(prev. IDR2,400)
Up/downside +63.9%

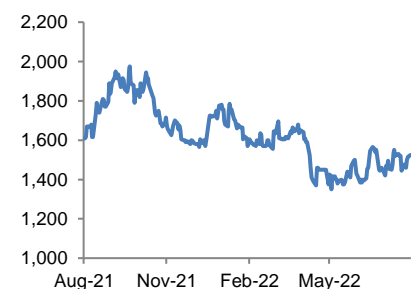
Stock Data

JCI (Month Day)	7.087
Stock price (Month Day, IDR)	1,525
Market cap (IDR Bn)	17,883
Shares outstanding (Mn)	11,726
52-week high/low (IDR)	1,990/1,330
6M avg. daily turnover (IDR Bn)	39.5
Free float (%)	43.123
Major shareholders (%)	
Japfa Ltd	55.3

Performance

	1M	6M	12M
Absolute (%)	4.8	(2.8)	(6.0)
Relative to JCI (%p)	0.0	(6.9)	(19.6)

JPFA share price

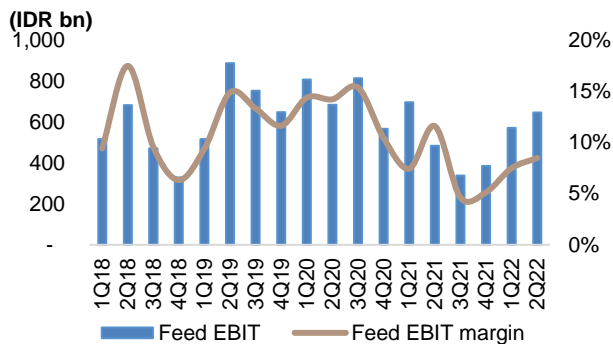


Source: Bloomberg

Fahressi Fahalmesta

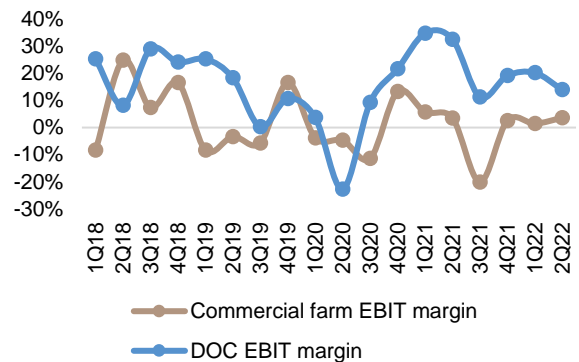
fahressi.f@kisi.co.id

Fig 1. EBIT and EBIT margin



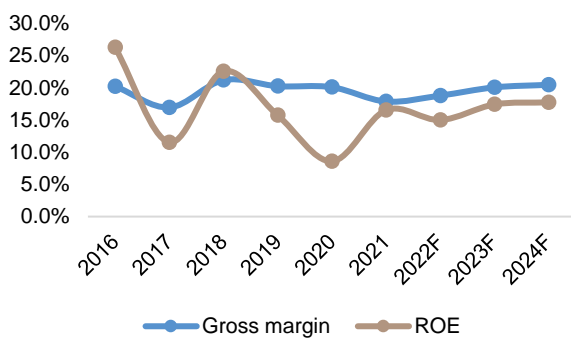
Source: Company, KISI

Fig 2. Quarterly broiler and DOC EBIT margin



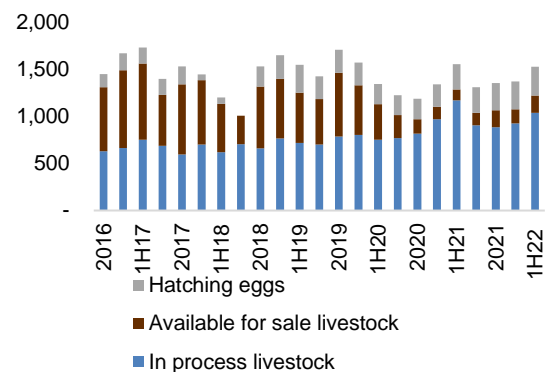
Source: Company, KISI

Fig 3. JPFA GPM and ROE



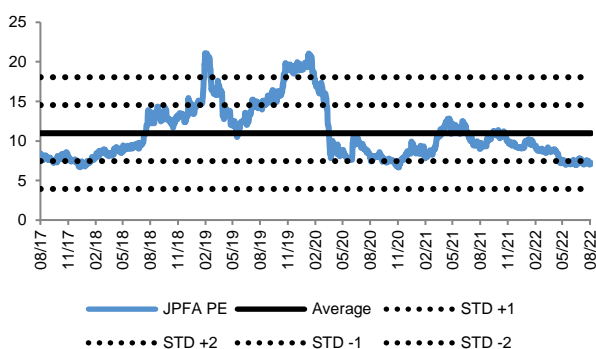
Source: Company, KISI

Fig 4. JPFA biological inventories



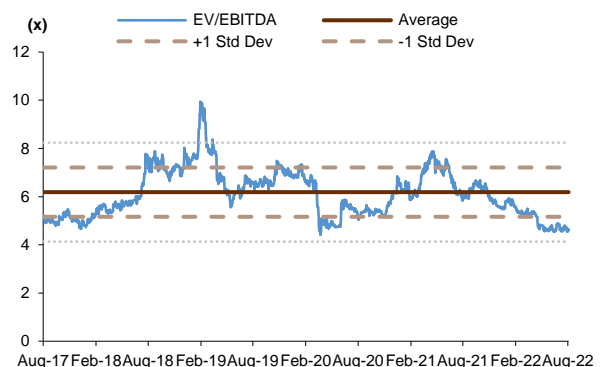
Source: Company, KISI

Fig 5. JPFA 5-year PE band



Source: Bloomberg, KISI

Fig 6. JPFA 5-year EVEBITDA band

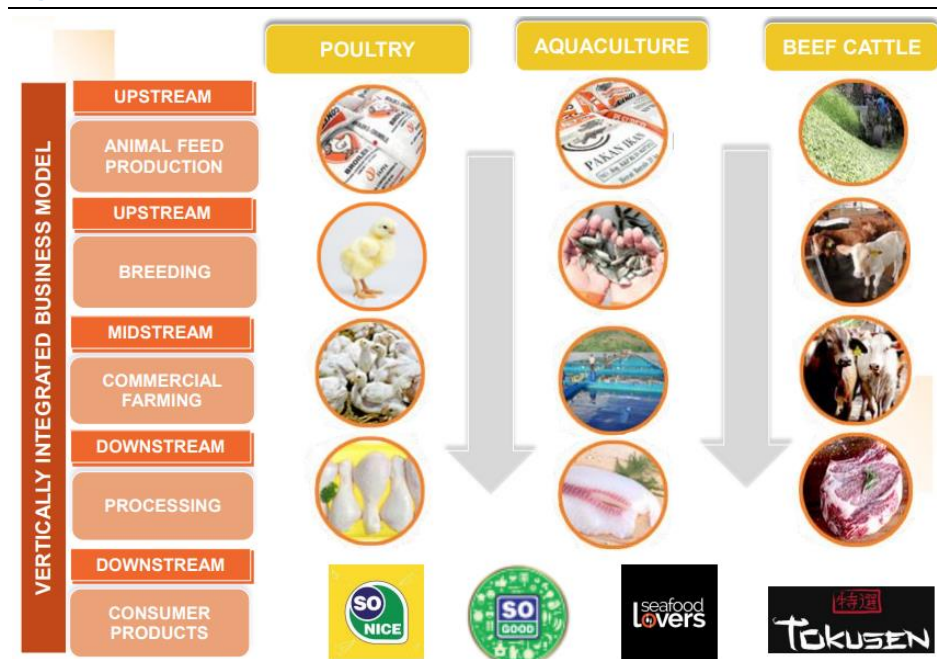


Source: Bloomberg, KISI

Company Overview

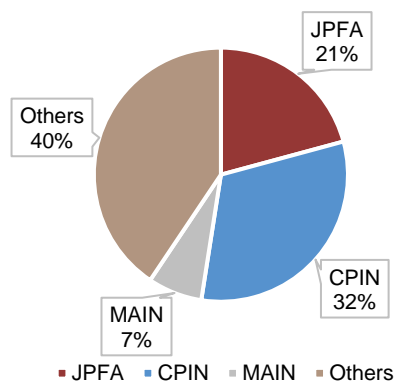
Japfa Comfeed Indonesia operates as an integrated agro-food company in Indonesia. Its main business activities include animal feed manufacturing, chicken breeding, poultry processing and agricultural cultivation. It has three divisions: poultry, aquaculture, and beef cattle. Core feed business offers stable profitability. Currently, it is the second largest Indonesian poultry feed and DOC producer. It has 16 feed mills, 75 breeding farms, and 30 hatcheries across Indonesia. In addition, it has over 100 company farms and over 10,000 contract farms.

Fig 7. Production Facilities & Distribution Network



Source : Company data, KISI Research

Fig 8. Market share based on feed capacity



Source : Company data, KISI Research

Balance sheet

FY-ending Dec. (IDR bn)	2020A	2021A	2022F	2023F	2024F
Current assets	11,745	14,161	15,939	17,273	18,800
Cash & cash equivalent	1,336	1,085	2,412	2,868	3,325
Accounts & other receivables	1,982	2,429	2,565	2,765	2,982
Inventory	6,861	9,068	9,174	9,734	10,445
Other current assets	1,566	1,579	1,788	1,906	2,047
Non-current assets	14,207	14,429	15,478	16,600	17,781
Fixed assets	11,144	11,510	12,539	13,620	14,755
Other assets	3,063	2,919	2,939	2,980	3,026
Total assets	25,952	28,590	31,417	33,873	36,580
Current liabilities	6,008	7,064	8,529	8,947	9,457
Accounts & other payables	4,907	4,032	5,430	5,738	6,129
ST debt & bond	423	1,315	1,407	1,517	1,635
Current portion of LT debt	677	1,717	1,692	1,693	1,693
Non-current liabilities	8,532	8,423	8,526	8,633	8,749
Debentures	1,713	1,282	1,384	1,491	1,606
LT debt & financial liabilities	6,819	7,141	7,142	7,142	7,143
Total liabilities	14,540	15,487	17,055	17,581	18,207
Controlling interest					
Capital stock	1,879	1,879	1,879	1,879	1,879
Capital surplus	1,148	1,148	1,148	1,148	1,148
Other Reserves	(120)	(223)	(223)	(223)	(223)
Retained earnings	7,770	9,429	10,636	12,494	14,498
Minority interest	734	869	922	994	1,071
Shareholders' equity	10,678	12,233	13,440	15,299	17,302

Cash flow

FY-ending Dec. (IDR bn)	2020A	2021A	2022F	2023F	2024F
C/F from operating	4,204	(346)	4,116	3,365	3,790
Net profit	917	2,023	2,016	2,665	3,070
Depreciation & amortization	1,094	1,126	1,153	1,273	1,403
Changes in noncash working capital	1,205	(2,940)	581	(642)	(779)
Other OCF	989	(554)	366	69	96
C/F from investing	(1,571)	(1,402)	(2,202)	(2,392)	(2,579)
CAPEX	(1,530)	(1,492)	(2,183)	(2,353)	(2,538)
Decr. in fixed assets					
Incr. in investment					
Net incr. in intangible assets					
Others	(41)	90	(19)	(38)	(41)
C/F from financing	(2,302)	1,497	(587)	(518)	(753)
Debt proceeds	(1,278)	2,253	68	111	120
Others FCF	(766)	(267)	154	178	192
Equity	(258)	(489)	(809)	(806)	(1,066)
C/F from others					
Increase in cash	332	(251)	1,327	456	458

Note: Based on K-IFRS (consolidated)

Income statement

FY-ending Dec. (IDR bn)	2020A	2021A	2022F	2023F	2024F
Sales	36,965	44,878	48,511	52,296	56,393
COGS	29,536	36,858	39,394	41,800	44,853
Gross profit	7,429	8,020	9,117	10,495	11,540
SG&A expense	4,794	4,798	5,288	5,700	6,147
Operating profit	2,635	3,222	3,830	4,795	5,393
Financial income					
Interest income	56	67	152	181	209
Financial expense					
Interest expense	(862)	(807)	(947)	(961)	(977)
Other non-operating profit	(150.0)	311.6	8.3	8.3	8.3
Gains (Losses) in associates, subsidiaries and JV					
Earnings before tax	1,679	2,794	3,043	4,023	4,634
Income taxes	(457)	(663)	(852)	(1,126)	(1,298)
Net profit	917	2,023	2,016	2,665	3,070
Net profit of controlling interest					
Other comprehensive profit					
Total comprehensive profit					
Total comprehensive profit of controlling interest					
EBITDA	3,729	4,348	4,983	6,068	6,796

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
EPS	78	174	173	229	264
BPS	914	1,051	1,155	1,315	1,487
DPS	22	42	70	69	92
Growth (%)					
Sales growth	(4.9)	21.4	8.1	7.8	7.8
OP growth	(16.0)	22.3	18.9	25.2	12.5
NP growth	(48.1)	120.6	(0.3)	32.2	15.2
EPS growth	(47.9)	121.5	(0.3)	32.2	15.2
EBITDA growth	(17.9)	16.6	14.6	21.8	12.0
Profitability (%)					
OP margin	7.1	7.2	7.9	9.2	9.6
NP margin	2.5	4.5	4.2	5.1	5.4
EBITDA margin	10.1	9.7	10.3	11.6	12.1
ROA	3.5	7.1	6.4	7.9	8.4
ROE	8.6	16.5	15.0	17.4	17.7
Dividend yield	1.5	2.8	4.6	4.5	6.0
Dividend payout ratio	28.2	24.2	40.1	30.3	34.7
Stability					
Net debt (IDR bn)					
Int.-bearing debt/equity (%)	61.7	74.3	58.3	48.9	41.3
Valuation (X)					
PE	19.4	8.8	8.8	6.7	5.8
PB	1.7	1.5	1.3	1.2	1.0
EV/EBITDA	6.5	6.2	5.1	4.2	3.7

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Charoen Pokphand Indonesia

Expecting better margins ahead

Negative 1H22 earnings growth; expect a better FY22 result

2Q22 net profit stood at IDR1.2 tn (+2.9% QoQ/-11.1% YoY), bringing 6M22 earnings to IDR2.8 tn (-14.7% YoY), forming 58.1% of consensus FY22F. We view 1H22 earnings are slightly ahead given the assumptions that 2H22 to be better-than-expected. 2Q22 revenue came in-line at IDR14.3 tn (+0.3% QoQ/9.8% YoY). 2Q22 gross margin modestly expanded to 17.5% (vs. 16.7% in 1Q22) and with higher opex ratio to 6.5% (vs. 6.2% in 1Q22), net margin edged higher to 8.5% (vs. 8.3% in 1Q22). However, margins were still below those achieved in 2Q21. In 1H22, CPIN's higher revenue (+12.4% YoY) on the back of higher feed ASP was offset by much higher COGS due to expensive key input material costs. This has led to decrease in earnings.

Minimal impact from export contract to Singapore

After Singapore Food Agency (SFA) approved Indonesia as a new import source of poultry and poultry products (chilled, frozen, and processed chicken), only CPIN which has exported its first shipment to the country with the volumes of 50 tonnes of frozen chicken in July-22. Meanwhile, JPFA has not yet started its export to Singapore. CPIN targeted to export up to 1,000 tonnes of chicken until the end of this year. Referring to the company's statement, if the value of the contract is estimated at only IDR30-40 bn, it only represents 0.05-0.07% of FY22F revenue, not moving a needle for now.

Re-iterate a Buy call on CPIN with TP of IDR7,000/share

CPIN currently trades at 18.4x forward PE (vs. 5-year mean of 22.6x). We expect moderate improvement in margins in 2H22. Normalizing soft commodities prices coupled with a recovery in chicken demand are the key drivers to boost the company's performance. We project CPIN to book net profit growth of 22.9%/20.4% in FY22/23F. We reiterate BUY rating with a TP of IDR7,000/share, pegging a PE multiple of 22x FY23F earnings.

FY-ending Dec. (IDR bn)	2020A	2021A	2022F	2023F	2024F
Sales (IDR)	42,519	51,698	57,141	60,992	64,917
OP (IDR)	5,372	4,610	6,096	7,083	7,558
EBT (IDR)	4,768	4,634	5,694	6,685	7,166
NP (IDR)	3,846	3,619	4,447	5,222	5,597
EBITDA (IDR)	6,234	5,592	7,181	8,262	8,842
OP margin (%)	12.6	8.9	10.7	11.6	11.6
ROE (%)	11.8	10.1	11.4	12.1	11.7
Dividend yield (%)	1.9	1.8	2.3	2.7	2.9
EPS (IDR)	235	221	271	318	341
chg. (% YoY)	5.6	(5.9)	22.9	17.4	7.2
BPS (IDR)	1,424	1,534	1,697	1,883	2,068
DPS (IDR)	112.00	108.00	132.72	155.83	167.02
PE (x)	24.9	26.5	21.6	18.4	17.1
PB (x)	4.1	3.8	3.4	3.1	2.8
EV/EBITDA (x)	15.5	17.8	13.6	11.9	10.9

Company Update

Poultry

Aug 9, 2022

12M rating **BUY**
12M TP **IDR7,000**
(prev. IDR7,600)
Up/downside +19.6%

Stock Data

JCI (Month Day)	
Stock price (Month Day, IDR)	5,850
Market cap (IDR Bn)	95,928
Shares outstanding (Mn)	16,398
52-week high/low (IDR)	6,750/4,800
6M avg. daily turnover (IDR Bn)	53.7
Free float (%)	44.5
Major shareholders (%)	
Central Agromina	55.53

Performance

	1M	6M	12M
Absolute (%)	3.1	(1.8)	(6.1)
Relative to JCI (%p)	(3.2)	(5.0)	(17.4)

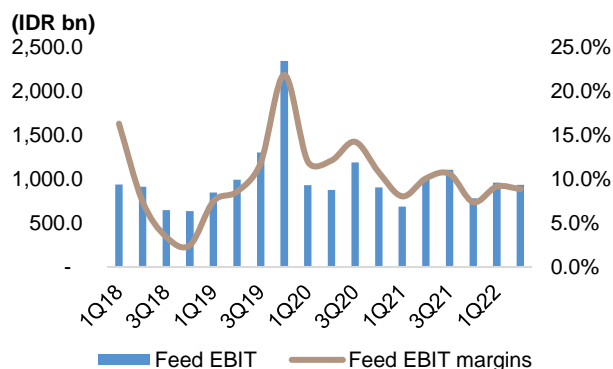
CPIN share price



Source: Bloomberg

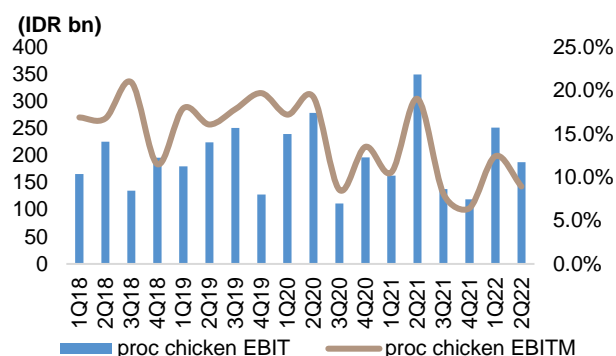
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Fig 1. Feed EBIT and EBIT margin



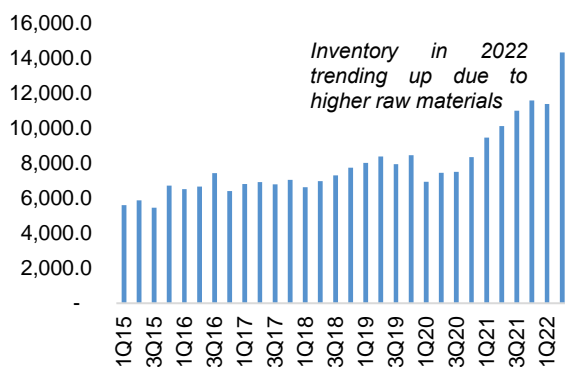
Source: Company, KISI

Fig 2. Positive processed chicken EBIT



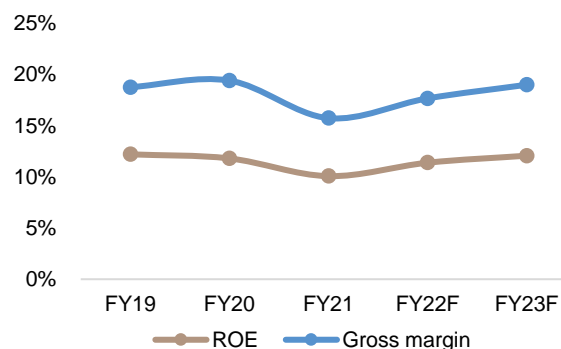
Source: Company, KISI

Fig 3. CPIN quarterly inventory



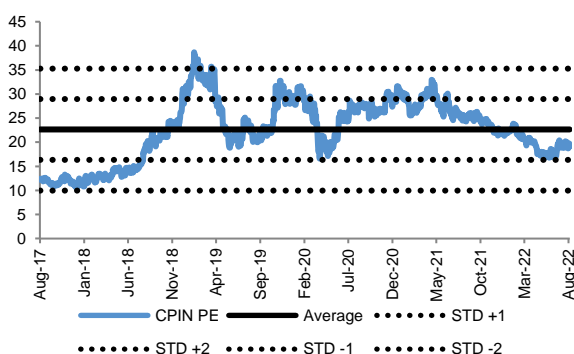
Source: Company, KISI

Fig 4. GPM and ROE



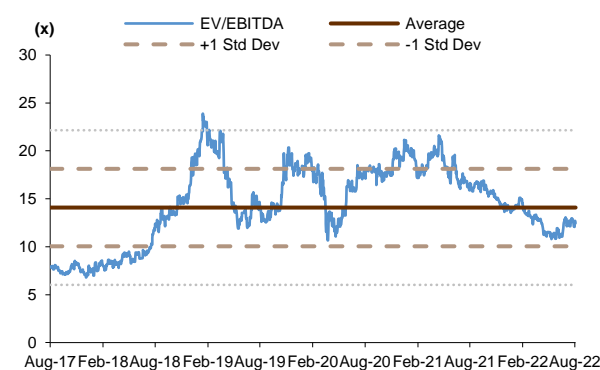
Source: Company, KISI

Fig 5. CPIN 5-year PE band



Source: Company, KISI

Fig 6. CPIN 5-year EV/EBITDA band

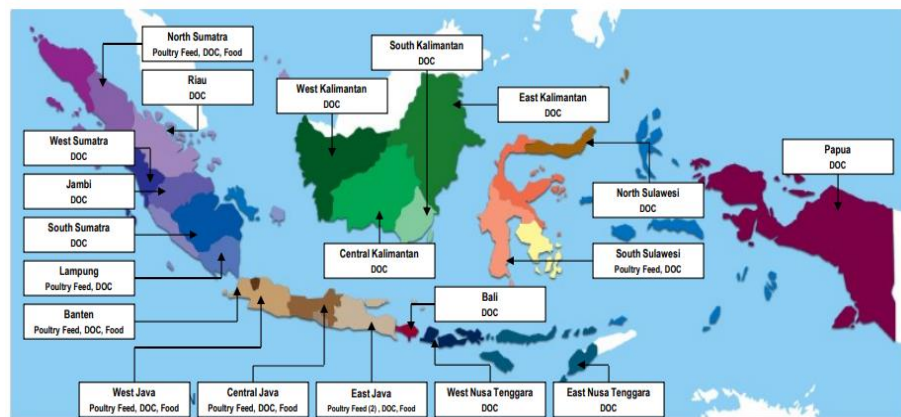


Source: Company, KISI

Company Overview

Charoen Pokphand Indonesia is Indonesia's largest producer of poultry feed, broilers, day old chicks, and processed chickens. Through its subsidiaries, it operates poultry feed, poultry farming, poultry equipment, and food and beverage. Its supporting activities include import and sell raw materials and pharmaceutical materials, wholesale trading including export, import, inter-island or inter-regional trade, transportation of goods by way of land, water, sea and air transportation, as well as warehousing and distribution center business. It has established astounding nationwide production facilities and distribution network across Indonesia. Currently, it has more than 1,200 agents or poultry shops across all regions.

Fig 7 Production Facilities & Distribution Network



Source : Company data, KISI Research

Balance sheet

FY-ending Dec. (IDR bn)	2020A	2021A	2022F	2023F	2024F
Current assets	13,532	15,715	17,100	18,960	19,294
Cash & cash equivalent	2,678	1,803	3,550	3,440	4,089
Accounts & other receivables	5,161	6,257	6,769	7,141	7,528
Inventory	5,693	7,655	6,780	8,379	7,677
Non-current assets	17,627	19,731	21,129	22,571	25,564
Fixed assets	14,494	16,256	17,480	18,740	21,540
Other assets	3,133	3,475	3,649	3,832	4,023
Total assets	31,159	35,446	38,230	41,532	44,858
Current liabilities	5,356	7,836	7,829	7,991	8,176
Accounts & other payables	1,171	1,572	1,481	1,555	1,647
ST debt & bond	2,770	4,587	4,587	4,587	4,587
Current portion of LT debt	1,416	1,677	1,761	1,849	1,942
Non-current liabilities	2,453	2,460	2,574	2,669	2,769
Debentures	1,125	1,102	1,216	1,311	1,411
LT debt & financial liabilities	1,328	1,358	1,358	1,358	1,358
Total liabilities	7,810	10,296	10,403	10,660	10,945
Controlling interest					
Capital stock	164	164	164	164	164
Capital surplus	(43)	(43)	(43)	(43)	(43)
Other Reserves	35	33	33	33	33
Retained earnings	23,194	24,996	27,673	30,718	33,760
Minority interest					
Shareholders' equity	23,350	25,150	27,827	30,872	33,913

Income statement

FY-ending Dec. (IDR bn)	2020A	2021A	2022F	2023F	2024F
Sales	42,519	51,698	57,141	60,992	64,917
COGS	34,264	43,559	47,045	49,404	52,326
Gross profit	8,255	8,139	10,097	11,588	12,592
SG&A expense	2,883	3,529	4,000	4,505	5,033
Operating profit	5,372	4,610	6,096	7,083	7,558
Interest income	67	40	44	48	53
Interest expense	(443.2)	(328.6)	(445.8)	(445.8)	(445.8)
Gains (Losses) in associates, subsidiaries and JV	(227.2)	311.9	-	-	-
Earnings before tax	4,768	4,634	5,694	6,685	7,166
Income taxes	922	1,015	1,247	1,464	1,569
Net profit	3,846	3,619	4,447	5,222	5,597
Other comprehensive profit					
Total comprehensive profit					
Total comprehensive profit of controlling interest					
EBITDA	6,234	5,592	7,181	8,262	8,842

Cash flow

FY-ending Dec. (IDR bn)	2020A	2021A	2022F	2023F	2024F
C/F from operating	4,846	2,122	5,827	4,609	6,005
EBIT	5,372	4,610	6,096	7,083	7,558
Depreciation & amortization	863	981	1,085	1,283	-
Changes in noncash working capital	416	(2,395)	355	(1,808)	500
Tax payment	(922)	(1,015)	(1,247)	(1,464)	(1,569)
Net cash payment of interest	(377)	(289)	(402)	(398)	(393)
Others	(465)	(41)	(60)	(88)	(92)
C/F from investing	(1,806)	(2,819)	(2,309)	(2,543)	(2,801)
CAPEX					
Decr. in fixed assets					
Incr. in investment					
Net incr. in intangible assets					
Others					
C/F from financing	(2,330)	(316)	(1,771)	(2,176)	(2,555)
Incr. in equity	-	1,817	-	-	-
Incr. in debts	(950)	30	-	-	-
Dividends	(52)	(326)	-	-	-
Others					
C/F from others	7	2	-	-	-
Increase in cash	716	(1,012)	1,747	(214)	1,932

Note: Based on K-IFRS (consolidated)

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
EPS	234.5	220.7	271.2	318.4	341.3
BPS	1,423.9	1,533.7	1,696.9	1,882.7	2,068.1
DPS	112.0	108.0	132.7	155.8	167.0
Growth (%)					
Sales growth	0.0	21.6	10.5	6.7	6.4
OP growth	4.0	(14.2)	32.2	16.2	6.7
NP growth	5.6	(5.9)	22.9	17.4	7.2
EPS growth	5.6	(5.9)	22.9	17.4	7.2
EBITDA growth	3.5	(10.3)	28.4	15.1	7.0
Profitability (%)					
OP margin	12.6	8.9	10.7	11.6	11.6
NP margin	9.0	7.0	7.8	8.6	8.6
EBITDA margin	14.7	10.8	12.6	13.5	13.6
ROA	13.8	11.6	12.9	13.9	13.7
ROE	11.8	10.1	11.4	12.1	11.7
Dividend yield	1.9	1.8	2.3	2.7	2.9
Dividend payout ratio	47.8	48.9	48.9	48.9	48.9
Stability					
Net debt (IDR bn)					
Int.-bearing debt/equity (%)	0.1	0.2	0.1	0.1	0.0
Valuation (X)					
PE	24.9	26.5	21.6	18.4	17.1
PB	4.1	3.8	3.4	3.1	2.8
EV/EBITDA	15.5	17.8	13.6	11.9	10.9

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