

Japfa Comfeed Indonesia

Tbk (JPFA IJ)

Remains Strong amid Competition

JPFA jostled for 2Q19 rosier performance as its animal feeds division became the revenues maker amid headwinds of a slowdown in the agro-food business of 2Q19. JPFA's fundamental is still robust albeit the intense poultry competition since the early of 2019.

Rosier Quarterly Performance

In 2Q19, JPFA booked revenues of IDR9.2 trillion (+9% YoY, +13% QoQ), gross profits of IDR1.8 trillion (-9% YoY, +33% QoQ), EBITDA of IDR1.1 trillion (-30% YoY, +40% QoQ), and net profits of IDR519 billion (-23% YoY, +67% QoQ). COGS surged to IDR7.7 trillion (+15% YoY, +8% QoQ) due to raw material cost ballooning to IDR6.6 billion (+112% YoY, -3% QoQ). In addition, GPM increased to 19% (vs. 1Q19 of 16%), and NPM grew to 5% (vs. 1Q19 of 3%).

Volatile Prices of Broiler

During 2Q19, prices of broiler were at IDR17,000-IDR19,000, lower than were those of 2018. The volatile prices hit the commercial farm & consumer products segment hardest as the segment posted only IDR3.8 trillion (+2% YoY). We project that prices of broiler from August to September, will pick up at the range of IDR20,000-IDR22,000, and in 2019F, JPFA is likely to obtain revenues of IDR13.5-IDR14 trillion, posted by the commercial farm & consumer products segment.

Animal Feeds Segment as JPFA's Backbone

The Animal Feeds segment was fundamental to the 2Q19 performance as it attained revenues of IDR3.5 trillion (+23% YoY, +6% QoQ). The 1Q19 backdrop when local poultry farming made use of substantial feeds to boost chicken supplies to markets ahead of Idulfitri impacted on the 2Q19 sound performance of animal feeds segment. The segment succeeded in posting operational margins of IDR886 billion (+40% YoY, +71% QoQ); thus, JPFA is estimated to be capable of receiving a 2019F revenue of IDR14.8-IDR15.5 trillion contributed by the animal feeds segment.

BUY Rating with the Price Target of IDR1,940

JPFA is the second's biggest agro-food company in term of market share domination, has a robust animal feeds segment, and benefits from the likely rising prices of broiler at the end of 2019. Those are basic reasons for our BUY recommendation on JPFA at the price target of IDR1,940 or a 22.8% upside potential based on a 4.8x (-1 SD) forward EV/EBITDA. JPFA is currently traded at a 6.7x 2019F EV/EBITDA.

Japfa Comfeed Indonesia Tbk | Summary

	2018A	2019F	2020F	2021F
Sales	34,013	36,877	40,609	41,045
Growth (%)	14.9%	8.4%	10.1%	1.1%
EBITDA	4,865	4,722	5,478	5,895
Net Profit	2,268	1,985	2,170	2,304
EPS (IDR)	185	169	185	196
Growth (%)	121.4%	-8.4%	9.3%	6.2%
P/E	11.6x	12.7x	11.6x	10.9x
P/BV	2.5x	2.2x	1.9x	1.6x
EV/EBITDA	6.3x	6.7x	5.8x	5.4x
ROE (%)	21.2%	17.1%	16.0%	14.9%
DER (%)	59.6%	75.5%	67.7%	60.1%
Net Debt	5,004	5,855	5,962	5,572

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Buy

Dec 2020 TP (IDR)	1,940
Consensus Price (IDR)	1,717
TP to Consensus Price	13.0%
vs. Last Price	22.8%

Shares data

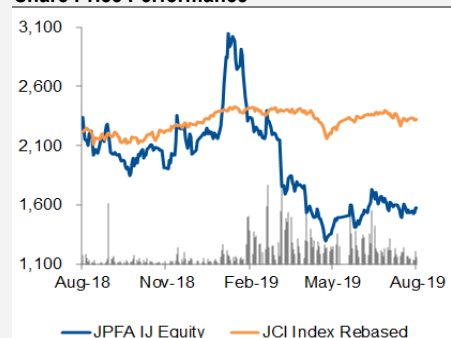
Last Price (IDR)	1,580
Price Date as of	Aug 23, 2019
52 wk Range (Hi/Lo)	3100 / 1280
Free Float (%)	47.52
Outstanding sh.(mn)	11,727
Market Cap (IDR bn)	18,297
Market Cap (USD mn)	1,283
Avg. Trd Vol - 3M (mn)	3.39
Avg. Trd Val - 3M (bn)	5.32
Foreign Ownership	99.9%

Basic Industry

Poultry

Bloomberg	JPFA.IJ
Reuters	JPFA.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-27.9%	0.6%	12.9%	-28.8%
Rel. Ret.	-29.1%	3.0%	9.2%	-33.4%

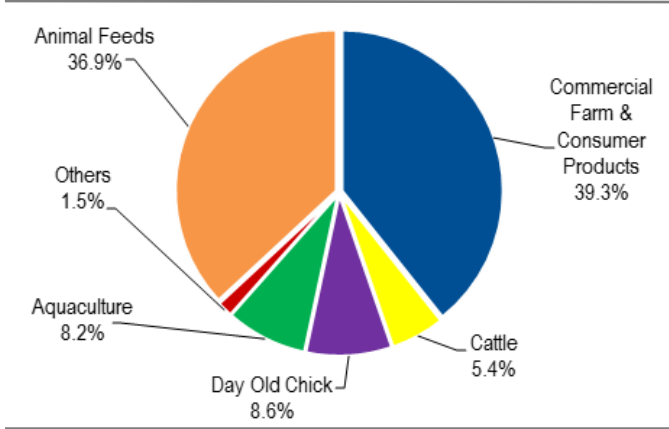
Meilki Darmawan

(021)797-6202, ext: 170

meilki.darmawan@nhsec.co.id

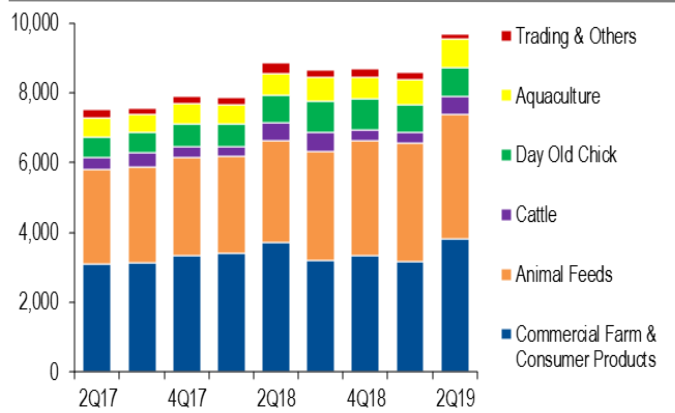
Performance Highlights in Charts

2Q19 Revenue Breakdown



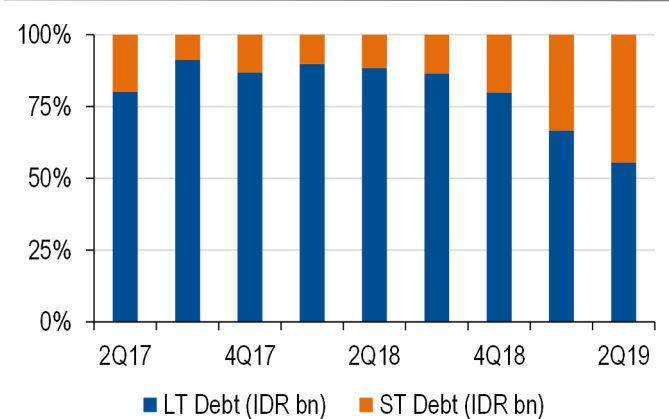
Source: Company Data, NHKS Research

Revenue Trend



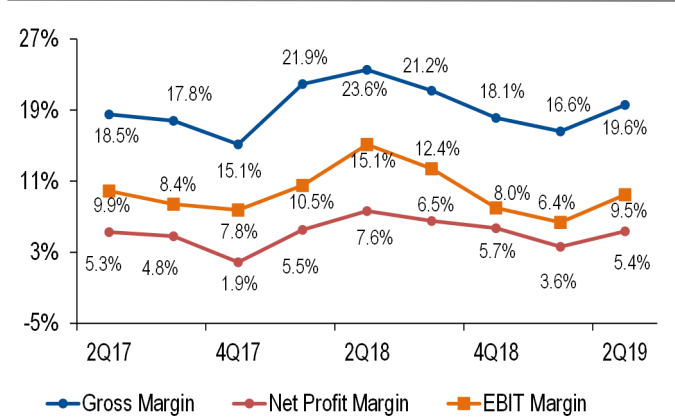
Source: Company Data, NHKS Research

LT Debt & ST Debt



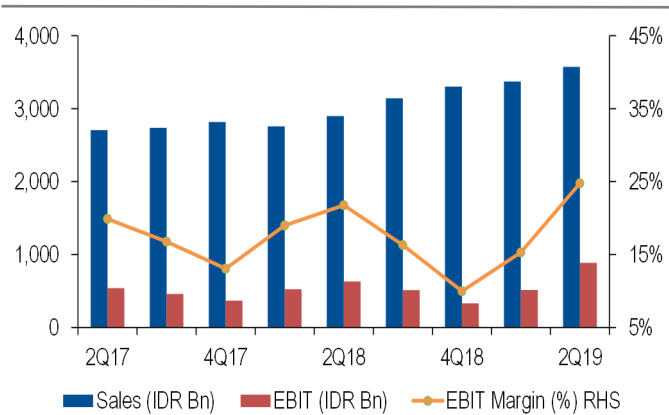
Source: Company Data, NHKS Research

Margin Ratio



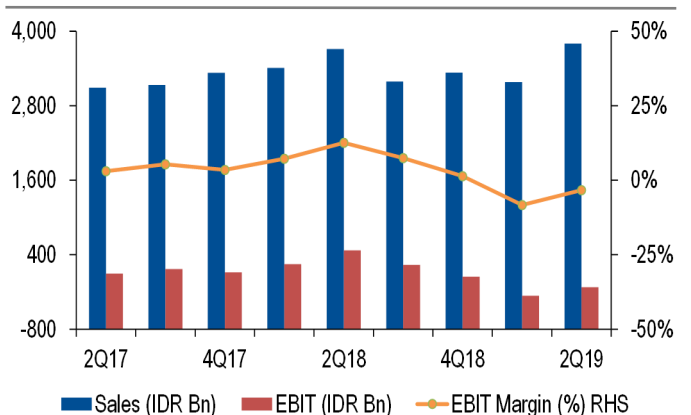
Source: Company Data, NHKS Research

Animal Feeds Division Metric



Source: Company Data, NHKS Research

Commercial Farm & Consumer Products Division Metric



Source: Company Data, NHKS Research

Valuation Highlights in Charts

12-Month Forward EV/EBITDA Band



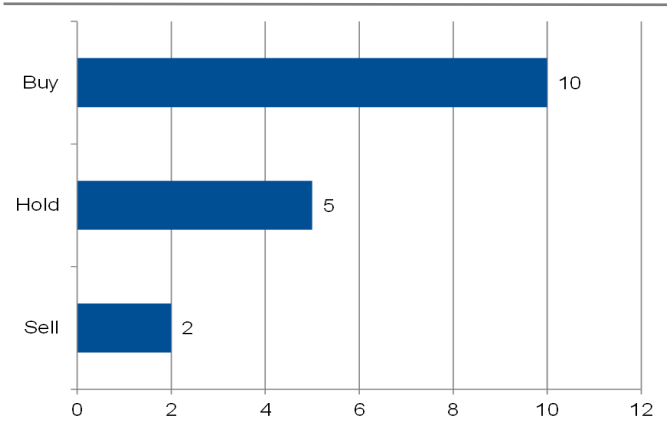
Source: Bloomberg, NHKS Research

12-Month Dynamic Forward EV/EBITDA Band



Source: Bloomberg, NHKS Research

Recommendations by Analysts



Source: Bloomberg, NHKS Research

Stock and USDIDR Correlated Negatively



Source: Bloomberg, NHKS Research

Quarterly Review

	2Q18	3Q18	4Q18	1Q19	2Q19			3Q19E	
					Actual	Estimate	Y-Y		Q-Q
Income statement									
Sales	8,844	8,633	8,675	8,565	9,678		9.4%	13.0%	9,256
Gross Profit	2,083	1,829	1,572	1,474	1,897		-8.9%	33.2%	2,036
EBIT	1,338	1,070	693	544	918		-31.4%	68.6%	981
EBITDA	1,572	1,165	1,090	781	1,101		-30.0%	40.9%	1,520
Net Profit	675	564	496	311	519		-23.2%	66.9%	539
Margin									
Gross Margin	23.6%	21.2%	18.1%	16.6%	19.6%		-4.0%	3.0%	22.0%
EBIT Margin	15.1%	12.4%	8.0%	6.4%	9.5%		-5.7%	3.1%	10.6%
EBITDA Margin	17.8%	13.5%	12.6%	9.1%	11.4%		-6.4%	2.3%	16.4%
Net Profit Margin	7.6%	6.5%	5.7%	3.6%	5.4%		-2.3%	1.7%	5.8%

Unit: IDR bn, %

Source: Company Data, NHKS Research

Earnings Revision

		2019F	2020F	2021F
Income Statement				
Sales	-Revised	36,877	40,609	41,045
	-Previous	38,864	41,311	
	-Change	-5.1%	-1.7%	
Gross Profit	-Revised	7,420	8,374	8,669
	-Previous	6,854	7,368	
	-Change	8.3%	13.7%	
EBIT	-Revised	3,543	4,105	4,354
	-Previous	3,055	3,330	
	-Change	16.0%	23.3%	
EBITDA	-Revised	4,722	5,478	5,895
	-Previous	3,864	4,231	
	-Change	22.2%	29.5%	
Net Profit	-Revised	1,985	2,170	2,304
	-Previous	2,016	2,278	
	-Change	-1.5%	-4.7%	
Margin				
Gross Margin	-Revised	20.1%	20.6%	21.1%
	-Previous	17.6%	17.8%	
EBIT Margin	-Revised	9.6%	10.1%	10.6%
	-Previous	7.9%	8.1%	
EBITDA Margin	-Revised	12.8%	13.5%	14.4%
	-Previous	9.9%	10.2%	
Net Profit Margin	-Revised	5.4%	5.3%	5.6%
	-Previous	5.2%	5.5%	

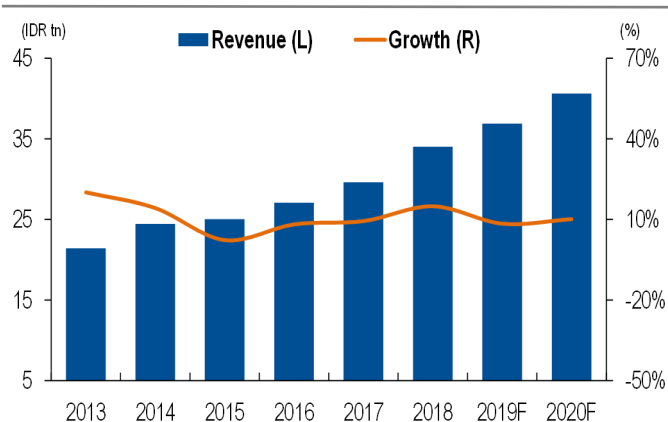
Unit: IDR bn, %

Source: Company Data, NHKS Research

Company Overview

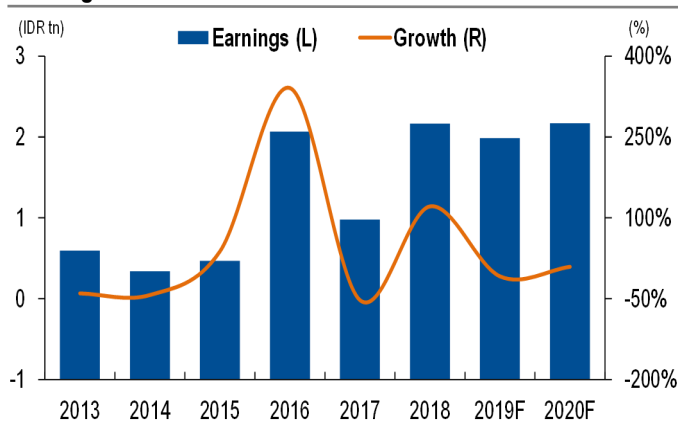
- JPFA is one of the biggest and most prominent agro-food companies in Indonesia because of its commitment to providing quality animal-based protein since 1975. Its stocks went public and listed on IDX of October 23, 1989, and Japfa Ltd is the major stockholder.
- JPFA has three major products & services: poultry, aquaculture, and beef cattle. Each of the products & services is screened through the cycle of R&D quality propositions for feed nutrition, breeding, commercial farming, and processing. Those products & services are divided into upstream, midstream, and downstream business lines.
- JPFA is the leading domestic producer of poultry feed, broiler or layer DOCs, with 17 feed mills, 76 commercial husbandry, and 25 poultry breeding farms. JPFA is currently cooperating with 100 commercial farms .
- JPFA have poultry expert teams, equipped with veterinary science to offer complete on-site support such as biosecurity for disease prevention and diagnostic assistance, subsuming isolation, sanitation& disinfectant; traffic control. It also cooperates with Aviagen broiler breeders for selecting a well-established genetic selection program.

Revenue and Growth Movements



Source: Company Data, NHKS Research

Earnings and Growth Movements



Source: Company Data, NHKS Research

Asia Pacific Companies Peers Analysis

	Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Profit Margin	ROE LTM	EV/EBITDA LTM	P/BV
Indonesia									
CHAROEN POKPHAND INDONESIA TBK	5,271	1,916	4,010	267	13.1%	6.7%	21.2%	13.1x	3.9x
JAPFA COMFEED INDONESIA TBK	1,298	1,597	2,461	131	18.7%	5.3%	20.2%	6.5x	1.9x
MALINDO FEEDMILL TBK	143	301	520	21	80.5%	4.1%	15.8%	6.3x	1.0x
India									
GODREJ AGROVET LTD	1,167	611	837	47	43.5%	5.6%	21.5%	23.1x	5.1x
AVANTI FEEDS LTD	538	233	499	39	-38.7%	7.8%	24.5%	12.3x	3.2x
Malaysia									
PPB GROUP BERHAD	6,381	5,623	1,114	278	9.6%	25.0%	5.5%	59.3x	1.3x
CAB CAKARAN CORPORATION BERHAD	75	302	437	5	-68.4%	1.2%	4.8%	12.0x	0.7x
Phillipines									
SAN MIGUAL FOOD & BEVERAGE	10,934	4,554	6,372	375	-5.6%	5.9%	30.9%	11.4x	6.8x
Thailand									
CHAROEN POKPHAND FOODS PUB	8,319	19,429	16,878	464	-7.4%	2.8%	9.3%	12.1x	1.5x
THAIFOODS GROUP PCL	881	703	893	39	41.1%	4.4%	15.0%	12.3x	2.8x
GFPT PUBLIC CO LTD	729	561	528	39	13.4%	7.3%	9.0%	9.6x	1.7x
China									
NEW HOPE LIUHE CO LTD-A	10,809	6,970	10,487	263	-21.2%	2.5%	8.2%	N/A	3.5x
JIANGXI ZHENBANG TECH-A	6,284	3,100	3,113	16	82.4%	0.5%	1.6%	N/A	5.9x
GUANDONG HAID GROUP CO-A	6,671	2,525	6,668	221	17.2%	3.3%	20.2%	N/A	5.8x
LIAONING WELLHOPE AGRI-TECH-A	1,805	1,008	2,434	109	41.5%	4.5%	18.0%	N/A	2.6x
TECON BIOLOGY CO LTD-A	1,399	1,237	814	43	-19.07%	5.3%	9.2%	N/A	2.9x

Unit: USD mn, %, X

Source: Bloomberg, NHKS Research

Summary of Financials

INCOME STATEMENT

(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Sales	34,013	36,877	40,609	41,045
<i>Growth</i>	14.9%	8.4%	10.1%	1.1%
COGS	(26,805)	(29,457)	(32,235)	(32,375)
Gross Profit	7,208	7,420	8,374	8,669
<i>Gross Margin</i>	21.2%	20.1%	20.6%	21.1%
Operating Expenses	(3,279)	(3,877)	(4,270)	(4,316)
EBIT	3,929	3,543	4,105	4,354
<i>EBIT Margin</i>	11.6%	9.6%	10.1%	10.6%
Depreciation	936	1,179	1,373	1,541
EBITDA	4,865	4,722	5,478	5,895
<i>EBITDA Margin</i>	14.3%	12.8%	13.5%	14.4%
Interest Expenses	(487)	(679)	(975)	(1,024)
EBT	3,087	2,999	3,279	3,481
Income Tax	(833)	(719)	(786)	(835)
Minority Interest	(85)	(295)	(322)	(342)
Net Profit	2,168	1,985	2,170	2,304
<i>Growth</i>	121.4%	-8.4%	9.3%	6.2%
<i>Net Profit Margin</i>	6.4%	5.4%	5.3%	5.6%

PROFITABILITY & STABILITY

	2018/12A	2019/12F	2020/12F	2021/12F
ROE	21.2%	17.1%	16.0%	14.9%
ROA	9.4%	7.1%	7.1%	7.1%
ROIC	18.1%	16.5%	15.3%	14.6%
Cash Dividend (IDR bn)	1,156	586	537	587
Dividend Yield	4.6%	2.3%	2.1%	2.3%
Payout Ratio	118.0%	27.0%	27.0%	27.0%
DER	59.6%	75.5%	67.7%	60.1%
Net Gearing	76.2%	94.3%	82.5%	72.2%
LT Debt to Equity	47.6%	41.8%	37.5%	33.3%
Capitalization Ratio	37.4%	43.0%	40.4%	37.5%
Equity Ratio	44.3%	41.4%	44.4%	47.4%
Debt Ratio	26.4%	31.3%	30.1%	28.5%
Financial Leverage	210.8%	211.3%	222.5%	210.7%
Current Ratio	179.8%	161.5%	166.9%	179.6%
Par Value (IDR)	200	200	200	200
Total Shares (mn)	11,727	11,727	11,727	11,727
Share Price (IDR)	2,150	2,150	2,150	2,150
Market Cap (IDR tn)	25.2	25.2	25.2	25.2

BALANCE SHEET

(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Cash	1,087	2,890	3,220	3,702
Receivables	1,693	2,153	2,371	2,396
Inventories	8,838	9,956	10,895	11,599
Total Current Assets	12,416	15,940	17,615	19,109
Net Fixed Assets	8,726	9,939	10,812	11,323
Other Non Current Asset	1,896	2,100	2,102	2,123
Total Assets	23,038	27,978	30,529	32,555
Payables	3,449	3,791	4,060	4,077
ST Bank Loan	1,224	3,900	4,095	4,136
LT Debt	4,867	4,845	5,087	5,138
Total Liabilities	12,823	16,391	16,969	17,129
Capital Stock & APIC	3,571	3,574	3,574	3,574
Retained Earnings	6,109	7,398	9,248	10,966
Shareholders' Equity	10,215	11,587	13,560	15,426

VALUATION INDEX

	2018/12A	2019/12F	2020/12F	2021/12F
Price/Earnings	11.6x	12.7x	11.6x	10.9x
Price/Book Value	2.5x	2.2x	1.9x	1.6x
Price/Sales	0.7x	0.7x	0.6x	0.6x
PE/EPS Growth	0.1x	-1.5x	1.2x	1.8x
EV/EBITDA	6.3x	6.7x	5.8x	5.4x
EV/EBIT	7.8x	8.9x	7.8x	7.3x
EV (IDR bn)	30,750	31,682	31,912	31,670
Sales CAGR (3-Yr)	10.8%	10.9%	11.1%	6.5%
EPS CAGR (3-Yr)	66.7%	-1.3%	30.4%	2.1%
Basic EPS (IDR)	185	169	185	196
Diluted EPS (IDR)	185	169	185	196
BVPS (IDR)	871	988	1,156	1,315
Sales PS (IDR)	2,901	3,145	3,463	3,500
DPS (IDR)	99	50	46	50

CASH FLOW STATEMENT

(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Operating Cash Flow	1,880	1,753	2,688	2,877
Investing Cash Flow	(2,249)	(2,069)	(2,382)	(2,048)
Financing Cash Flow	(228)	2,135	24	(347)
Net Changes in Cash	(597)	1,820	331	482

TOP OWNERSHIP

By Geography	% Shareholders	%
Singapore	92.8	Japfa Ltd 52.4
United States	4.9	Dimensional Fund 1.7
Luxembourg	0.8	Blackrock 0.6
South Korea	0.4	Fil Limited 0.4

Source: Company Data, NHKS Research

Closing and target price update



Source: Bloomberg, NHKS Research

Rating and target price update

Date	Rating	Target price	Consensus
2017.01.16	Buy	IDR2.400	IDR2.344
2017.03.16	Buy	IDR2.240	IDR2.029
2017.06.22	Buy	IDR1.860	IDR1.532
2017.08.10	Buy	IDR1.710	IDR1.489
2017.11.09	Buy	IDR1.740	IDR1.628
2018.03.28	Buy	IDR1.820	IDR1.715
2018.05.23	Buy	IDR2.000	IDR1.838
2019.08.26	Buy	IDR1.940	IDR1.717

Source: NHKS Research

NHKS stock ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
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