

Charoen Pokphand Indonesia Tbk (CPIN)

Expects Sound Results

Company Report | May 02, 2018

Buy

Dec 2018 TP (IDR)	4,200
Consensus Price (IDR)	3,497
TP to Consensus Price	+20.1%
vs. Last Price	+15.1%

Shares data

Last Price (IDR)	3,650
Price date as of	Apr 25, 2018
52 wk range (Hi/Lo)	3,530/2,660
Free float (%)	44.2
Outstanding sh.(mn)	16,398
Market Cap (IDR bn)	44,110
Market Cap (USD mn)	3,314
Avg. Trd Vol - 3M (mn)	6.97
Avg. Trd Val - 3M (bn)	19.94
Foreign Ownership	9.0%

Basic Industry

Poultry

Bloomberg

CPIN.IJ

Reuters

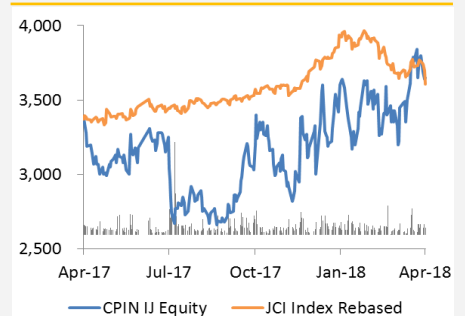
CPIN.JK

Joni Wintarja

+62 21 797 6202, ext:138

joni.wintarja@nhsec.co.id

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	10.9%	6.4%	0.6%	8.3%
Rel. Ret.	15.0%	8.5%	8.6%	1.3%

Potential Profit from Broiler Division

The aggressive growth of the broiler segment, the profit margin posted by this segment during the last two years was not yet capable of showing stability. The aggressive growth accomplished by the broiler segment can suppress the selling prices of broiler further as the broiler market in Indonesia suffers from excessive supplies.

However, we oversee that during 1Q18, the broiler selling prices for breeders was higher than the lowest broiler retail prices for breeders set by the government.

Upbeat Soybean Prices

The global soybean prices hiked by 4.7% in 1Q18 higher than its prices in 2017. Of note, CPIN dominates 31% market share of Indonesia's animal feeds. The market share domination enables CPIN to pass on the cost arising from the upbeat material cost to consumers. This quality is the bolster of upswing in the 2018 sales underlined by the raising selling price and stable margin.

Target Price of IDR4,200

We use an estimate of forward EV/EBITDA of 12.7x (0.6 SD higher than the 3-year average of 11.7x) as the basis of valuation method for obtaining the target price implying a 2018/E EV/EBITDA of 14.3x. Now, CPIN is traded at a 2018/E EV/EBITDA of 12.2x.

Charoen Pokphand Indonesia Tbk | Summary (IDR bn)

	2016/12A	2017/12A	2018/12E	2019/12E
Sales	38,257	49,367	51,766	57,293
<i>Sales growth</i>	27.1%	29.0%	4.9%	10.7%
EBITDA	5,200	4,538	5,114	5,629
Net profit	2,221	2,498	2,946	3,349
EPS (IDR)	135	152	180	204
<i>EPS growth</i>	20.9%	12.5%	17.9%	13.7%
BVPS (IDR)	863	958	1,076	1,209
EBITDA margin	13.6%	9.2%	9.9%	9.8%
NPM	5.8%	5.1%	5.7%	5.8%
ROE	16.6%	16.7%	17.7%	17.9%
ROA	9.1%	10.3%	11.7%	12.6%
ROIC	12.0%	13.5%	14.7%	16.0%
P/E	22.8x	24.0x	20.3x	17.9x
P/BV	3.6x	3.8x	3.4x	3.0x
EV/EBITDA	10.5x	14.1x	12.2x	10.7x
DPS (IDR)	29	56	61	72
<i>Dividend yield</i>	0.9%	1.5%	1.7%	2.0%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

A Glance at CPIN

CPIN has main business activities engaging in feed mill industry; chicken breeding and cultivation, processed chicken meat, chicken meat preservation; and cold storage units. It has 8 animal feed mills situated in Banten, East Java, North Sumatera, Central Java, South Sulawesi, and West Java. Besides, it also has 5 chicken meat processing mills located in Banten, Central Java, North Sumatera, and East Java.

Based on the consolidated sales, the biggest contribution stems from the animal feeds followed by the broiler, the day old chick (DOC), and the processed chicken. CPIN persistently paves a way for dominating the markets for the animal feeds, DOC, processed chicken with the market share of 31%, 38%, and 66% respectively.

Its Competitiveness in Asia Pacific

CPIN is potential for the third highest dividend yield after New Hope and Godrej. However, CPIN has the higher profit growth of double digits than its peers. Besides, it has the highest ROE among its Indonesia-based peers; accordingly, it is a top pick poultry stock.

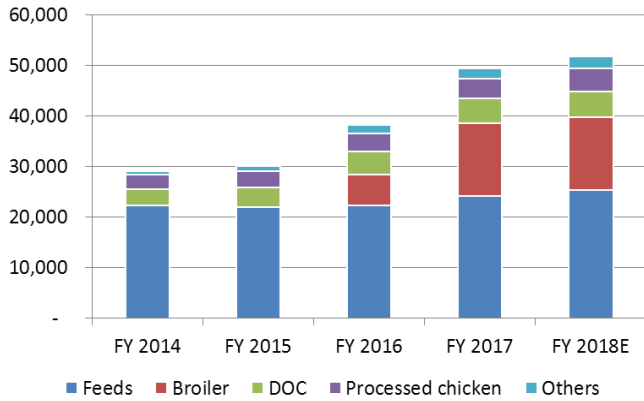
Asia Pacific Poultry

Company	Market Cap (USD mn)	Total Asset (USD mn)	Net Profit Growth	Net Profit Margin	ROE	P/E	P/BV	Dividend Yield
CPIN	4,082	1,788	17.9%	5.7%	17.7%	20.3x	3.4x	1.7%
JPFA	1,275	1,552	62.3%	4.8%	15.5%	10.6x	1.5x	1.6%
MAIN	113	289	648.3%	2.7%	8.5%	10.3x	0.8x	1.4%
Thailand								
CHAROEN POKPHAND FOODS	6,895	18,221	3.8%	3.0%	10.1%	12.8x	1.2x	3.8%
Malaysia								
CAB CAKARAN CORP BHD	146	252	68.7%	3.9%	19.2%	8.6x	1.4x	0.3%
India								
GODREJ AGROVET LTD	1,899	496	-5.7%	5.1%	27.8%	45.8x	11.8x	2.0%
AVANTI FEEDS LTD	1,506	163	162.4%	7.8%	45.0%	21.6x	3.7x	0.4%
Vietnam								
MASAN GROUP CORP	4,689	2,798	11.1%	8.2%	20.6%	35.5x	7.2x	1.1%
China								
CHUYING AGRO-PASTORA GROUP-A	1,934	2,439	-1.2%	14.3%	15.3%	16.3x	2.2x	1.7%
TECON BIOLOGY CO LTD - A	1,188	647	11.6%	8.9%	14.6%	18.9x	2.6x	1.3%
BAIYANG INVESTMENT GROUP -A	671	276	32.8%	2.9%	5.0%	42.9x	2.0x	0.5%
NEW HOPE LIUHE CO LTD-A	4,994	5,387	-10.0%	4.1%	11.2%	13.8x	1.5x	6.7%
JUEWEI FOOD CO LTD-A	2,152	283	26.4%	11.7%	28.7%	31.3x	8.2x	1.0%
SHANDONG LONGDA MEAT FOOD-A	1,232	331	-16.1%	4.3%	10.5%	40.9x	4.1x	0.9%

Source: Bloomberg, NHKS research

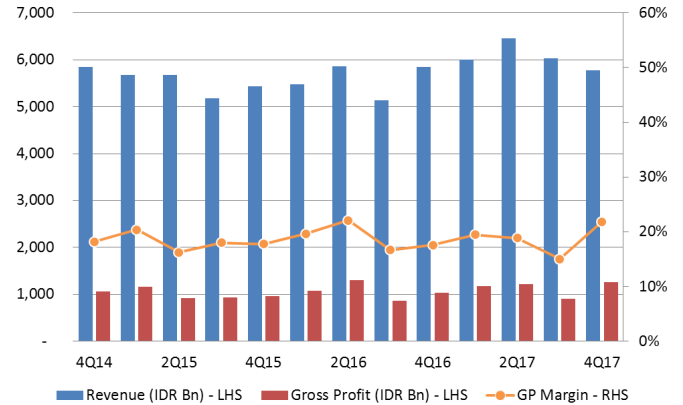
Performance Highlights

Revenue Trend | FY 2014 - FY 2018E



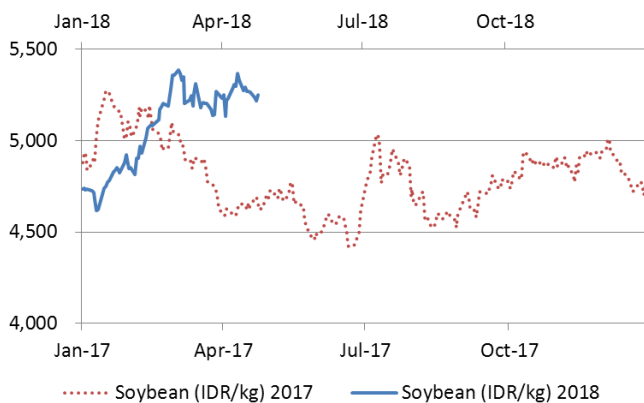
Source: Company, NHKS research

Feed Division Revenue and Margin | 2014 - 2017



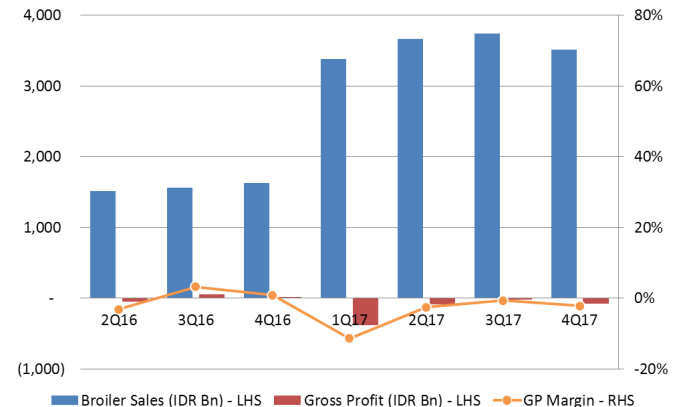
Source: Company, NHKS research

Soybean Price Comparison | 2017 vs 2018



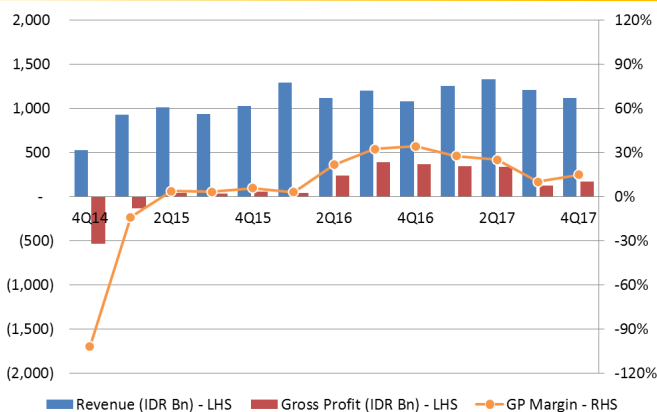
Source: Bloomberg, NHKS research

Broiler Revenue and Margin | 2014 - 2017



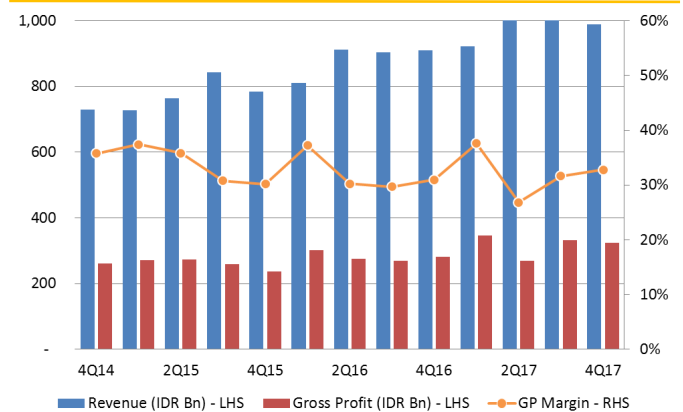
Source: Company, NHKS research

DOC Division Revenue and Margin | 2014 - 2017



Source: Company, NHKS research

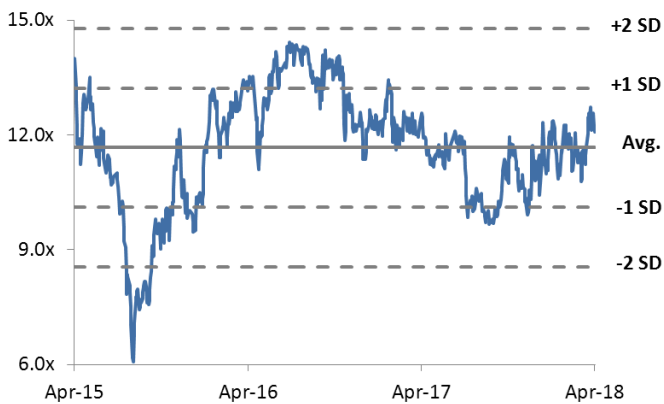
Processed Chicken Revenue and Margin | 2014 - 2017



Source: Company, NHKS research

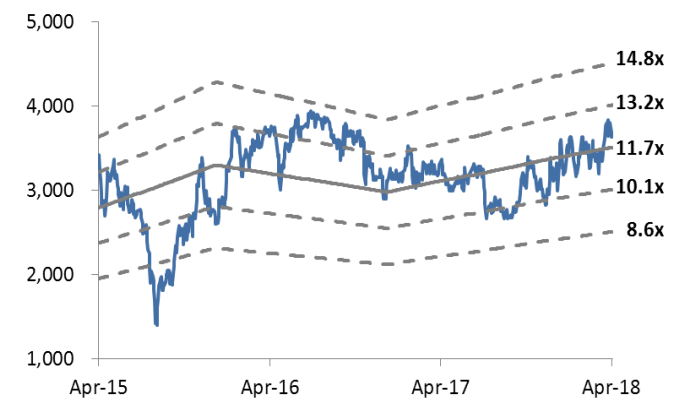
Multiple Valuation

Forward EV/EBITDA band | Last 3 years



Source: NHKS research

Dynamic Forward EV/EBITDA band | Last 3 years



Source: NHKS research

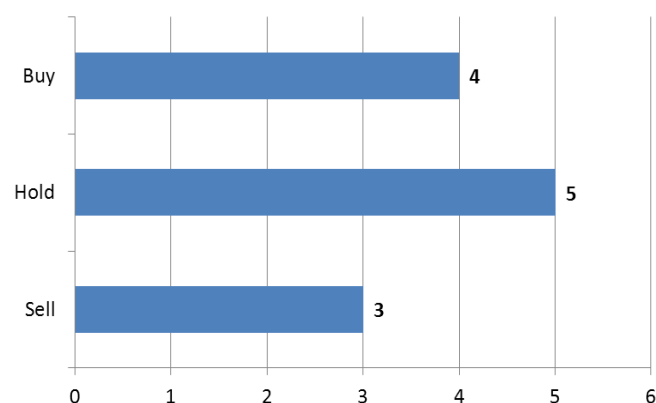
Rating and target price update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
06/12/2017	Buy	3,540 (Dec 2017)	3,030	3,210	+16.8%	+10.3%
09/27/2017	Buy	3,290 (Dec 2018)	2,720	3,005	+21.0%	+9.5%
12/21/2017	Buy	4,160 (Dec 2018)	3,270	3,175	+27.2%	+31.0%
05/02/2018	Buy	4,200 (Dec 2018)	3,650	3,497	+15.1%	+20.1%

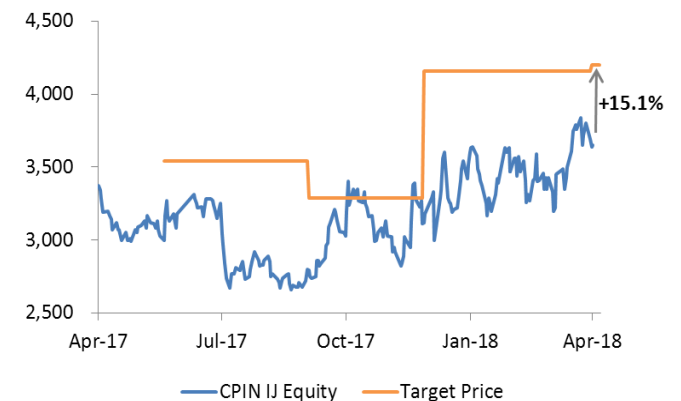
Source: NHKS research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKS research

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

Period: End of year target price

Rating system based on a stock's absolute return from the date of publication

- Buy : Greater than +15%
- Hold : -15% to +15%
- Sell : Less than -15%

Summary of Financials

CPIN Summary

Last Price (IDR)	April 25, 2018	3,650
Target Price (IDR)	Dec 2018	4,200
Analyst: Joni Wintarja	Rating:	Buy

INCOME STATEMENT

in IDR Bn	2016/12A	2017/12A	2018/12E	2019/12E
Sales	38,257	49,367	51,766	57,293
Growth (% y/y)	27.1%	29.0%	4.9%	10.7%
COGS	(31,743)	(43,116)	(44,774)	(49,532)
Gross Profit	6,514	6,251	6,992	7,761
Gross Margin	17.0%	12.7%	13.5%	13.5%
Operating Expenses	(2,099)	(2,535)	(2,658)	(2,942)
EBIT	4,414	3,716	4,334	4,819
EBIT Margin	11.5%	7.5%	8.4%	8.4%
Depreciation	786	822	781	810
EBITDA	5,200	4,538	5,114	5,629
EBITDA Margin	13.6%	9.2%	9.9%	9.8%
Interest Expenses	(545)	(421)	(368)	(312)
EBT	3,984	3,256	3,926	4,463
Income Tax	(1,732)	(759)	(981)	(1,116)
Minority Interest	(31)	1	1	1
Net Profit	2,221	2,498	2,946	3,349
Growth (% y/y)	20.9%	12.5%	17.9%	13.7%
Net Profit Margin	5.8%	5.1%	5.7%	5.8%

BALANCE SHEET

in IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Cash	2,504	1,793	2,724	3,517
Receivables	2,316	2,360	2,474	2,738
Inventories	6,421	7,039	7,310	8,087
Total Current Assets	12,059	11,721	13,171	14,938
Net Fixed Assets	11,234	11,009	10,819	10,661
Other Non Current Assets	912	1,793	1,793	1,793
Total Assets	24,205	24,523	25,782	27,392
Payables	1,267	1,023	1,063	1,176
ST Bank Loan	2,964	2,881	2,379	2,036
Other Current Liab.	1,319	1,155	1,211	1,552
LT Debt	3,646	3,005	2,612	1,983
Other Non Current Liab.	851	755	868	825
Total Liabilities	10,048	8,820	8,133	7,572
Shareholders' Equity	14,157	15,703	17,649	19,820

CASH FLOW STATEMENT

in IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Net Income	2,221	2,498	2,946	3,349
Deprec & Amortization	786	822	781	810
Chg. In Working Capital	1,151	(1,695)	(425)	(519)
CFO	4,157	1,624	3,301	3,640
Capex	(648)	(758)	(590)	(653)
CFI	(1,177)	(801)	(476)	(696)
Dividends Paid	(476)	(918)	(999)	(1,178)
Net Borrowing (PMT)	(1,670)	(619)	(895)	(972)
CCF	(2,155)	(1,534)	(1,894)	(2,150)
Net Changes in Cash	825	(711)	930	793

OWNERSHIP

By Geography	% Shareholders		%
Indonesia	91.0	Central Agromina, PT	55.5
United States	5.9	Vanguard Group	1.6
Ireland	0.8	Blackrock	1.2
Luxembourg	0.6	Dimensional Fund	0.3

PROFITABILITY & STABILITY

	2016/12A	2017/12A	2018/12E	2019/12E
ROE	16.6%	16.7%	17.7%	17.9%
ROA	9.1%	10.3%	11.7%	12.6%
ROIC	12.0%	13.5%	14.7%	16.0%
EBITDA/Equity	38.9%	30.4%	30.7%	30.0%
EBITDA/Assets	9.1%	10.3%	11.7%	12.6%
Cash Dividend (IDR bn)	476	918	999	1,178
Dividend Yield (%)	0.9%	1.5%	1.7%	2.0%
Payout Ratio (%)	25.9%	41.4%	40.0%	40.0%
DER	46.7%	37.5%	28.3%	20.3%
Net Gearing	46.7%	37.5%	28.3%	20.3%
LT Debt to Equity	25.8%	19.1%	14.8%	10.0%
Capitalization Ratio	31.8%	27.3%	22.0%	16.9%
Equity Ratio	58.5%	64.0%	68.5%	72.4%
Debt Ratio	27.3%	24.0%	19.4%	14.7%
Financial Leverage	184.8%	162.1%	147.1%	137.6%
Current Ratio	217.3%	231.7%	283.1%	313.6%
Quick Ratio	86.9%	82.1%	111.7%	131.3%
Cash Ratio	45.1%	35.4%	58.6%	73.8%
Cash Conversion Cycle	81.4	68.4	68.4	68.4
Par Value (IDR)	10	10	10	10
Total Shares (mn)	16,398	16,398	16,398	16,398
Share Price (IDR)	3,090	3,650	3,650	3,650
Market Cap (IDR tn)	50.7	59.9	59.9	59.9

VALUATION INDEX

	2016/12A	2017/12A	2018/12E	2019/12E
Price /Earnings	22.8x	24.0x	20.3x	17.9x
Price /Book Value	3.6x	3.8x	3.4x	3.0x
Price/Sales	1.3x	1.2x	1.2x	1.0x
PE/EPS Growth	1.1x	1.9x	1.1x	1.3x
EV/EBITDA	10.5x	14.1x	12.2x	10.7x
EV/EBIT	12.4x	17.2x	14.4x	12.6x
EV (IDR bn)	54,813	64,102	62,277	60,512
Sales CAGR (3-Yr)	14.2%	19.2%	19.8%	14.4%
EPS CAGR (3-Yr)	-4.3%	12.7%	17.0%	14.7%
Basic EPS (IDR)	135	152	180	204
Diluted EPS (IDR)	135	152	180	204
BVPS (IDR)	863	958	1,076	1,209
Sales PS (IDR)	2,333	3,011	3,157	3,494
DPS (IDR)	29	56	61	72

DCF, RIM & EVA

	2016/12A	2017/12A	2018/12E	2019/12E
DCF (IDR bn)				
NOPAT	2,495	2,850	3,250	3,614
+Depr./Amor.	786	822	781	810
-CAPEX	(648)	(758)	(590)	(653)
-Incr. (Decr.) in Working Cap.	1,151	(1,695)	(425)	(519)
(Unlevered) FCFF	3,784	1,219	3,016	3,253
WACC				
Cost of Debt (Tax Adj.)	6.7%	8.7%	8.5%	8.5%
Cost of Equity (COE)	10.1%	13.1%	13.1%	13.1%
WACC (%)	9.7%	12.7%	12.7%	12.8%
RIM				
Spread (FROE-COE) (%)	7.6%	4.6%	5.7%	5.9%
Residual Income (IDR bn)	958	647	893	1,042
Equity Charge	1,263	1,850	2,052	2,307
EVA				
Invested Capital (IDR bn)	20,825	20,767	21,589	22,640
ROIC-WACC (%)	2.3%	1.0%	2.3%	3.2%
EVA (IDR mn)	483	217	504	720

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