

PT. Japfa Comfeed Indonesia Tbk.

BUY

Investment Consideration

The Highest DOC and Broiler prices

- Broiler prices reached the highest level in July 2018 with 37.8% growth compared to July 2017, while Day Old Chick (DOC) prices reached the highest level in August 2018 and are 29% growth compared to August 2017.
- The higher prices of DOC and broiler are due to government action to ban the use of Antibiotic Growth Promoters (AGP) for DOCs and Broilers since January 2018. In addition, there was higher demand for broilers during Ramadan in 2Q2018.
- The ban on AGP caused the mortality rate of livestock to increase, the feed conversion ratio (FCR) of livestock to be lower, and broiler body weight to be lower compared to before when AGP was used.
- Furthermore its caused supply of DOC and broiler lower and higher prices of DOC and broiler.

Expecting Better Margins

- We expecting JPFA will have better margins in 2018 from lower prices of corn purchased during the recent harvest (~70% sourced domestically), and lower soybean mill prices since May 2018 (100% imported).
- Average selling prices of day old chicks (DOC) and broilers also boosted the margin from higher demand during Ramadan in the 2Q2018.
- We expecting GPM, OPM, NPM to recover from 2017's 17%, 7.7%, 3.4% to 21%, 11.7% and 6.9% respectively in 2018F.
- We revise our 2018F target bottom line to IDR 2.39 trillion from IDR 1.77 trillion, and operating profit and EBITDA to IDR 4.05 trillion and 4.5 trillion from IDR 2.91 trillion and 3.78 trillion previously.

Valuation: Upgrade to BUY TP 2,660, 30% upside

- We upgrade our target to BUY as good result in 1H2018 and many other positive factors will boost 2018 results.
- Using DCF valuation with WACC at 8.48% We are targeting JPFA to trade at 13x 2019F PE within a year. Target Price is IDR 2,660 which represents 30% upside. BUY

Financial Highlights	2013A	2014A	2015A	2016A	2017A	2018F	2019F	2020F
Sales (In IDR Bn)	21,412	24,459	25,023	27,063	29,603	34,605	39,625	45,357
Net Income (In IDR Bn)	595	339	468	2,065	998	2,389	2,736	3,132
EPS (IDR)	56	32	44	181	87	209	240	274
OPM (%)	6.0%	5.3%	6.9%	10.8%	7.7%	11.7%	11.7%	11.7%
EBITDA Margin (%)	8.3%	6.8%	7.8%	14.4%	10.1%	13.1%	13.2%	12.9%
NPM (%)	2.8%	1.4%	1.9%	7.6%	3.4%	6.9%	6.9%	6.9%
Net debt/ equity (x)	0.6	0.9	0.8	0.3	0.3	0.3	0.4	0.3

Source: Company and Binaartha

12 September 2018
Basic Industry – Poultry

Price	IDR	2,040
Target Price	IDR	2,660
JKSE Index		5,831.117



Stock Information

Bloomberg Code	JPFA IJ
Market Cap (IDR bn)	24,391.3
52-week high (IDR)	2,390
52-week low (IDR)	1,100
Shares issued (mn)	11,726.6
6-m avg. daily Val (IDR)	1,762
Free float	35.92%

Major share holders

JAPFA LTD	52.43%
KKR Jade Investment Pte Ltd	11.65%
Public	35.92%

USD/ IDR – YE (IDR)

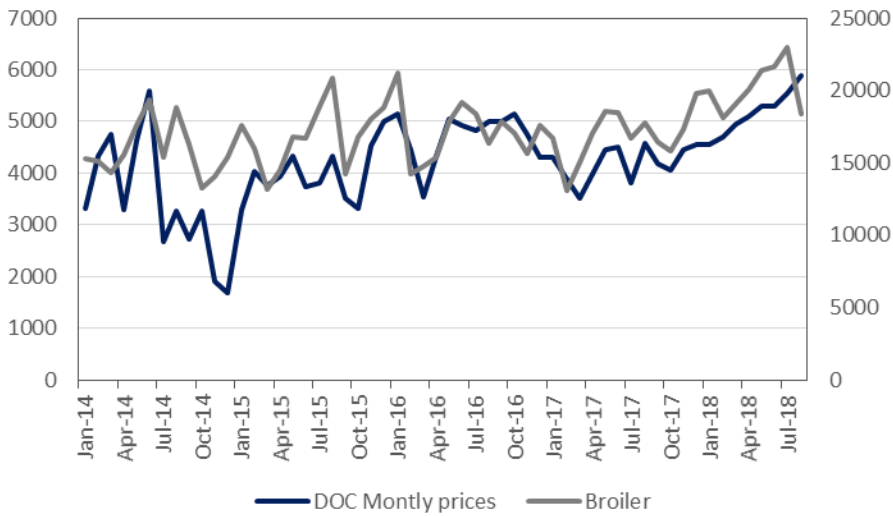
2017	13,480
2018F (6m-avg)	14,165

Pictures: Corn and Soybean mill price September 2017 – August 2018



Source: Bloomberg

Chart: DOC and Broiler Prices



Source: Binaartha

Table: Statement of Financial Position in IDR Billion YoY

	2013A	2014A	2015A	2016A	2017A	2018F	2019F	2020F
ASSETS								
CURRENT ASSETS								
Cash and Cash Equivalents	1,746	768	901	2,701	1,642	2,143	1,064	1,152
Trade Accounts Receivable	1,250	1,313	1,254	1,297	1,627	1,730	1,981	2,086
Inventories	4,727	5,134	5,855	5,500	6,414	7,613	9,034	9,979
Others Current Assets	1,281	1,494	1,594	1,562	1,506	2,076	2,377	2,721
Total Current Assets	9,005	8,709	9,604	11,061	11,189	13,562	14,457	15,939
NONCURRENT ASSETS								
Fixed Assets	5,350	6,461	6,978	7,539	8,346	9,097	9,916	10,808
Breeding Cattles	336	304	280	161	265	309	354	405
Other Noncurrent Assets	227	256	297	490	1,289	1,507	1,011	1,293
Total Noncurrent Assets	5,913	7,021	7,555	8,190	9,900	10,913	11,281	12,507
TOTAL ASSETS	14,918	15,730	17,159	19,251	21,089	24,475	25,738	28,446
LIABILITIES AND EQUITY								
LIABILITIES								
CURRENT LIABILITIES								
Short-term Bank Loans	2,559	2,213	1,863	759	797	978	1,186	336
Trade Account Payable	1,142	2,227	2,912	2,528	3,498	4,153	4,359	4,989
Others Current Liabilities	660	476	577	1,907	475	692	634	726
Total Current Liabilities	4,361	4,916	5,353	5,194	4,770	5,822	6,179	6,051
NONCURRENT LIABILITIES								
Long-term liabilities	1,145	1,287	1,436	1,066	1,241	1,280	1,466	1,678
Bonds Payable	4,148	4,223	4,246	3,609	5,271	5,495	4,660	5,405
Others Noncurrent Liabilitie	18	14	15	10	11	115	119	136
Total Noncurrent Liabilities	5,311	5,524	5,697	4,685	6,524	6,891	6,245	7,219
TOTAL LIABILITIES	9,672	10,440	11,050	9,878	11,293	12,713	12,424	13,270
Non-controlling interest	493	425	498	529	586	663	674	771
EQUITY	4,752	4,864	5,612	8,843	9,210	11,100	12,641	14,405
TOTAL LIABILITIES & EQUITY	14,917	15,729	17,159	19,251	21,089	24,476	25,739	28,446

Source: Company and Binaartha

Table: Income Statement in IDR Billion YoY

Income Statement (In IDR Bn)	2013A	2014A	2015A	2016A	2017A	2018F	2019F	2020F
Sales	21,412	24,459	25,023	27,063	29,603	34,605	39,625	45,357
Cost of Sales	(17,794)	(21,033)	(21,030)	(21,584)	(24,571)	(27,338)	(31,304)	(35,832)
Gross Profit	3,617	3,426	3,993	5,479	5,032	7,267	8,321	9,525
Operating Expenses	(2,325)	(2,141)	(2,265)	(2,558)	(2,756)	(3,218)	(3,685)	(4,218)
Operating Profit	1,292	1,285	1,728	2,921	2,276	4,049	4,636	5,307
Other Income (Expenses)	(396)	(733)	(1,030)	(154)	(535)	(692)	(792)	(907)
PBT	895	551	698	2,767	1,741	3,357	3,844	4,400
Tax	(255)	(160)	(173)	(595)	(633)	(839)	(961)	(1,100)
NIAT	640	392	525	2,172	1,108	2,517	2,883	3,300
Non-controlling Interest	(45)	(53)	(56)	(107)	(110)	(128)	(147)	(168)
Net Income	595	339	468	2,065	998	2,389	2,736	3,132
EPS	56	32	44	181	87	209	240	274
EBITDA	1,778	1,668	1,940	3,903	2,989	4,533	5,215	5,839

Source: Company and Binaartha

Table: Cash Flow in IDR Billion YoY

Cash Flow (In IDR Bn)	2013A	2014A	2015A	2016A	2017A	2018F	2019F	2020F
Net Income	595	339	468	2,065	998	2,389	2,736	3,132
Depreciation	373	468	561	626	679	751	819	892
Change in WC	(864)	(128)	(325)	185	(1,612)	(820)	(1,617)	(1,521)
Cash From Operating Activities	103	680	704	2,875	65	2,321	1,938	2,503
Capex	(1,754)	(1,576)	(1,095)	(1,261)	(2,389)	(1,765)	(1,186)	(2,119)
Cash From Investing Activities	(1,754)	(1,576)	(1,095)	(1,261)	(2,389)	(1,765)	(1,186)	(2,119)
Long-term liabilities	0	142	149	(370)	175	39	186	212
Bonds Payable	2,658	75	23	(638)	1,663	224	(835)	745
Others Noncurrent Liabilities	(21)	(4)	1	(5)	1	104	4	17
Equity	(113)	(295)	352	1,199	(575)	(423)	(1,184)	(1,271)
Cash From Financing Activities	2,524	(82)	525	186	1,264	(56)	(1,830)	(297)
Net Changes in Cash	873	(979)	134	1,800	(1,059)	501	(1,079)	88
Beginning Balance	872	1,746	768	901	2,701	1,642	2,143	1,064
Ending Balance	1,746	767	902	2,702	1,642	2,143	1,064	1,152

Source: Company and Binaartha

Table: Ratio Highlights YoY

	2013A	2014A	2015A	2016A	2017A	2018F	2019F	2020F
Growth (% YoY)								
Sales	20.1%	14.2%	2.3%	8.2%	9.4%	16.9%	14.5%	14.5%
OP	5.0%	-0.6%	34.5%	69.0%	-22.1%	77.9%	14.5%	14.5%
EBITDA	-15.1%	-6.2%	16.3%	101.2%	-23.4%	51.7%	15.0%	12.0%
NP	-40.0%	-42.9%	38.0%	340.8%	-51.7%	139.5%	14.5%	14.5%
EPS	-40.0%	-42.9%	38.0%	311.8%	-51.7%	139.5%	14.5%	14.5%
Profitability (%)								
Gross Margin	16.9%	14.0%	16.0%	20.2%	17.0%	21.0%	21.0%	19.7%
Operating Margin	6.0%	5.3%	6.9%	10.8%	7.7%	11.7%	11.7%	11.7%
EBITDA margin	8.3%	6.8%	7.8%	14.4%	10.1%	13.1%	13.2%	12.9%
NET Profit margin	2.8%	1.4%	1.9%	7.6%	3.4%	6.9%	6.9%	6.9%
ROA	4.0%	2.2%	2.7%	10.7%	4.7%	9.8%	10.6%	11.0%
ROE	12.5%	7.0%	8.3%	23.3%	10.8%	21.5%	21.6%	21.7%
Solvability (x)								
Net debt/ equity	0.6	0.9	0.8	0.3	0.3	0.3	0.4	0.3
Tot. debt/ Tot.equity	2.0	2.1	2.0	1.1	1.2	1.1	1.0	0.9
Debt Ratio	0.6	0.7	0.6	0.5	0.5	0.5	0.5	0.5
Int. Coverage	1.3	0.6	0.8	4.3	1.9	5.9	5.2	6.0
Liquidity (x)								
Current Ratio	2.1	1.8	1.8	2.1	2.3	2.3	2.3	2.6
Cash Ratio	0.4	0.2	0.2	0.5	0.3	0.4	0.2	0.2

Source: Company and Binaartha

Stock Ratings:

- Buy : a recommendation to purchase the security with upside potential of **20% or greater**
- Hold : a recommendation to neither buy nor sell a security with upside potential of **0-19%**.
- Sel : a recommendation to close out a long position in a security with upside potential **below 0% or negative**.

RESEARCH TEAM
(62 21) 520 6678 ext. 611

Disclaimer; PT Binaartha Sekuritas has compiled this report in good faith, using information believed to be reliable. PT Binaartha Sekuritas and its analysts take no responsibility for the accuracy of the information contained in this report. This report has been produced for distribution to clients of PT Binaartha Sekuritas only. This report is not an invitation to buy or sell any security. PT Binaartha Sekuritas may have used the information in this report prior to publication. The company or its clients may have positions in or may from time to time buy or sell the securities mentioned in this report or other related securities.