

## PT. Japfa Comfeed Indonesia Tbk.

**BUY**

### Investment Consideration

#### 1H2019 Result: Depressed by low broiler ASP

- As of June 2019, JPFA booked revenue of IDR 9.68 trillion up 9.4% yoy from IDR 8.84 trillion in 1H2018. Growth was mainly from higher sales volumes for poultry feed and aqua feed as well as higher ASP's for poultry feed and DOC.
- JPFA gross profit fell -12.8% yoy to IDR 3.32 trillion, while operating profit fell -29.2% yoy from 2.1 trillion in 1H2018 to IDR 1.48 trillion in 1H2019. An oversupply of broilers in the domestic market resulted in a low broiler ASP and muted the normally positive effect of Ramadan on broiler margins.
- Net profit was down -25.1% yoy to IDR 829 billion. Due to the lower 1H2019 results depressed by a low broiler ASP, we cut our 2019 forecasts such that net profit will now reach IDR 1.65 trillion, 24% lower than in 2018.

#### Stronger Poultry Feed and Breeding segments

- Poultry feed and DOC acted as a counterweight amid a decline in the commercial farm sector.
- In 2Q2019, due to the oversupply of broilers, commercial farm operations recorded an operating loss of IDR 126.3 billion compared to an operating profit of IDR 466.7 billion last year. The broiler ASP price in June 2019 was down to IDR 15,000 / kg from IDR 22,000 in June 2018.
- Meanwhile poultry feed and breeding operations recorded a strong operating profit on higher ASPs for poultry feed and DOC.
- Poultry feed operating profit was IDR 885.7 billion, up 31% yoy compared to IDR 675.7 billion of 2Q2018. Breeding recorded operating profits of IDR 321 billion inline with a higher DOC ASP.
- To stabilize broiler prices, on June 27, 2019 the government implemented a regulation to reduce Day Old Chicken Final Stocks in Central Java.

#### Valuation: Maintain BUY TP 2,040, 27% upside

- Using a DCF valuation with WACC at 8.18% We are targeting JPFA to trade at 11.8x 2020F PE within a year. Target Price is IDR 2,040 which represents 27% upside. Buy.

Financial Highlights	2014A	2015A	2016A	2017A	2018A	2019F	2020F
Sales (In IDR Bn)	24,459	25,023	27,063	29,603	34,013	40,209	47,661
Net Income (In IDR Bn)	339	468	2,065	998	2,168	1,653	1,960
EPS (IDR)	32	44	181	87	190	145	172
OPM (%)	5.3%	6.9%	10.8%	7.7%	11.3%	8.4%	8.4%
EBITDA Margin (%)	6.8%	7.8%	14.4%	10.1%	13.7%	9.8%	9.4%
NPM (%)	1.4%	1.9%	7.6%	3.4%	6.4%	4.1%	4.1%
Net debt/ equity (x)	0.9	0.8	0.3	0.3	0.6	0.7	0.6

2 August 2019  
Basic Industry – Poultry

Price IDR 1,605

Target Price IDR 2,040

JKSE Index 6,381.542



### Stock Information

<b>Bloomberg Code</b>	<b>JPFA IJ</b>
Market Cap (IDR bn)	18,762.58
52-week high (IDR)	3,100
52-week low (IDR)	1,280
Shares issued (mn)	11,726.6
6-m avg. daily Val (IDR)	1,868
Free float	39.20%

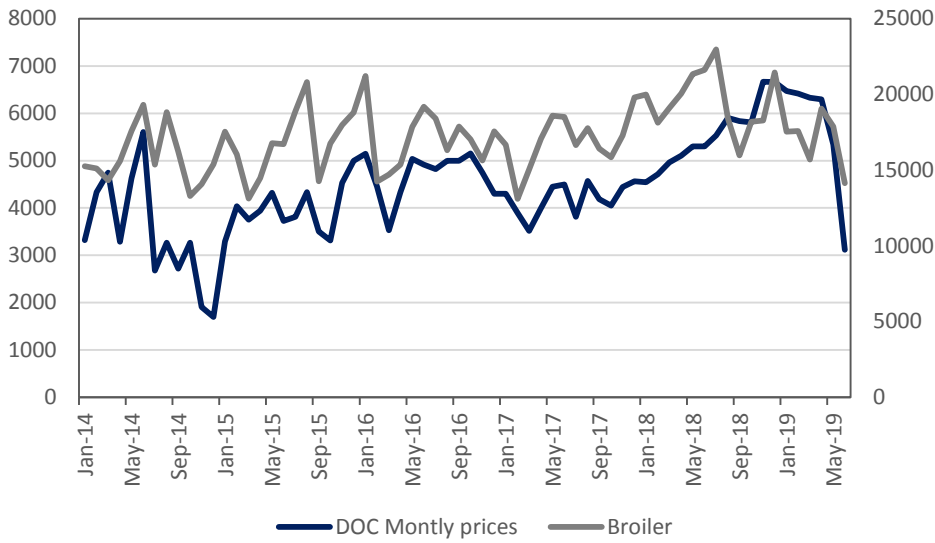
### Major share holders

JAPFA LTD	52.43%
KKR Jade Investment Pte Ltd	8.37%
Public	39.20%

### USD/ IDR – YE (IDR)

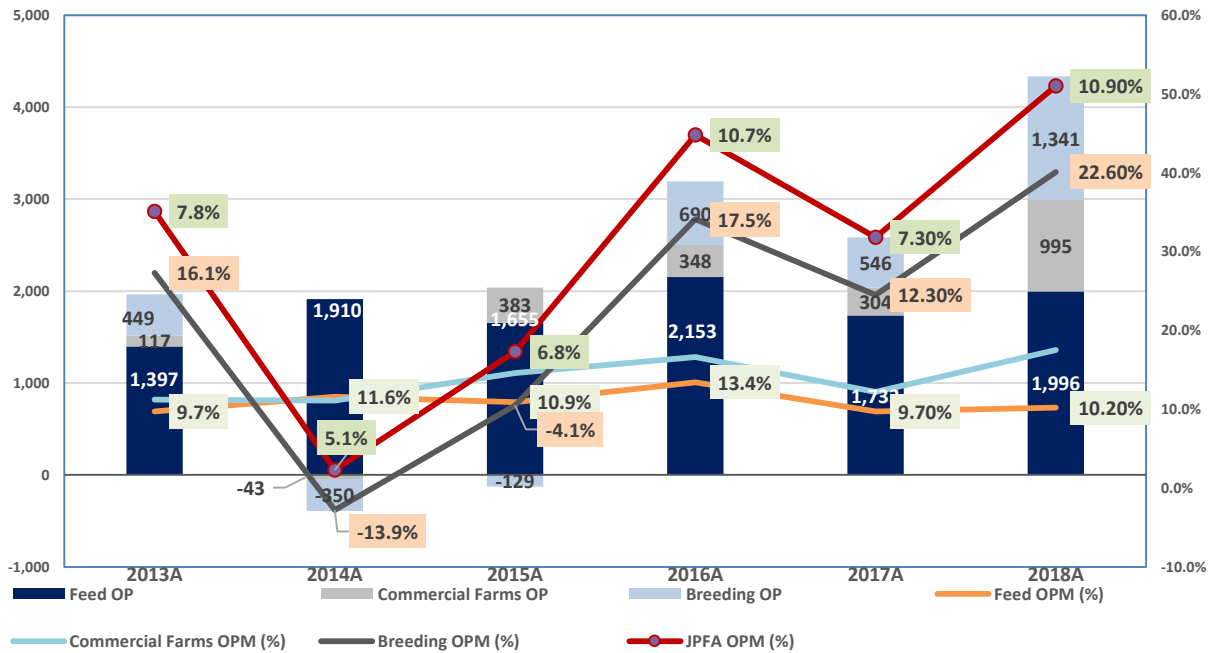
2018	14,390
2019F (6m-avg)	14,228

Chart: DOC and Broiler Prices



Source: Binaartha

Chart: JPFA Operating Profit Margin YoY



Source: Company and Binaartha

Table: Income Statement in IDR Billion YoY

Income Statement (In IDR Bn)	2013A	2014A	2015A	2016A	2017A	2018A	2019F	2020F
Sales	21,412	24,459	25,023	27,063	29,603	34,013	40,209	47,661
Cost of Sales	(17,794)	(21,033)	(21,030)	(21,584)	(24,571)	(26,805)	(32,770)	(38,844)
<b>Gross Profit</b>	<b>3,617</b>	<b>3,426</b>	<b>3,993</b>	<b>5,479</b>	<b>5,032</b>	<b>7,208</b>	<b>7,439</b>	<b>8,817</b>
Operating Expenses	(2,325)	(2,141)	(2,265)	(2,558)	(2,756)	(3,365)	(4,061)	(4,814)
<b>Operating Profit</b>	<b>1,292</b>	<b>1,285</b>	<b>1,728</b>	<b>2,921</b>	<b>2,276</b>	<b>3,844</b>	<b>3,378</b>	<b>4,004</b>
Other Income (Expenses)	(396)	(733)	(1,030)	(154)	(535)	(754)	(804)	(953)
<b>PBT</b>	<b>895</b>	<b>551</b>	<b>698</b>	<b>2,767</b>	<b>1,741</b>	<b>3,090</b>	<b>2,573</b>	<b>3,050</b>
Tax	(255)	(160)	(173)	(595)	(633)	(837)	(695)	(824)
<b>NIAT</b>	<b>640</b>	<b>392</b>	<b>525</b>	<b>2,172</b>	<b>1,108</b>	<b>2,253</b>	<b>1,879</b>	<b>2,227</b>
Non-controlling Interest	(45)	(53)	(56)	(107)	(110)	(85)	(225)	(267)
<b>Net Income</b>	<b>595</b>	<b>339</b>	<b>468</b>	<b>2,065</b>	<b>998</b>	<b>2,168</b>	<b>1,653</b>	<b>1,960</b>
EPS	56	32	44	181	87	190	145	172
EBITDA	1,778	1,668	1,940	3,903	2,989	4,648	3,935	4,459

Source: Company and Binaartha

Table: Cash Flow in IDR Billion YoY

Cash Flow (In IDR Bn)	2014A	2015A	2016A	2017A	2018A	2019F	2020F
Net Income	339	468	2,065	998	2,168	1,653	1,960
Depreciation	468	561	626	679	765	809	862
Change in WC	(128)	(325)	185	(1,612)	353	123	(691)
<b>Cash From Operating Activities</b>	<b>680</b>	<b>704</b>	<b>2,875</b>	<b>65</b>	<b>3,286</b>	<b>2,585</b>	<b>2,131</b>
Capex	(1,576)	(1,095)	(1,261)	(2,389)	(1,487)	(1,678)	(1,720)
<b>Cash From Investing Activities</b>	<b>(1,576)</b>	<b>(1,095)</b>	<b>(1,261)</b>	<b>(2,389)</b>	<b>(1,487)</b>	<b>(1,678)</b>	<b>(1,720)</b>
Long-term liabilities	142	149	(370)	175	(22)	218	319
Bonds Payable	75	23	(638)	1,663	(587)	(73)	(206)
Others Noncurrent Liabilities	(4)	1	(5)	1	5	225	45
Equity	(295)	352	1,199	(575)	(1,750)	(574)	(700)
<b>Cash From Financing Activities</b>	<b>(82)</b>	<b>525</b>	<b>186</b>	<b>1,264</b>	<b>(2,354)</b>	<b>(203)</b>	<b>(543)</b>
<b>Net Changes in Cash</b>	<b>(979)</b>	<b>134</b>	<b>1,800</b>	<b>(1,059)</b>	<b>(556)</b>	<b>704</b>	<b>(132)</b>
Beginning Balance	1,746	768	901	2,701	1,642	1,087	1,791
Ending Balance	767	902	2,702	1,642	1,087	1,791	1,659

Source: Company and Binaartha

Table: Statement of Financial Position in IDR Billion YoY

	2014A	2015A	2016A	2017A	2018A	2019F	2020F
<b>ASSETS</b>							
<b>CURRENT ASSETS</b>							
Cash and Cash Equivalents	768	901	2,701	1,642	1,087	1,791	1,659
Trade Accounts Receivable	1,313	1,254	1,297	1,627	1,822	2,211	2,621
Inventories	5,134	5,855	5,500	6,414	6,248	7,238	7,149
Others Current Assets	1,494	1,594	1,562	1,506	3,259	3,619	3,813
<b>Total Current Assets</b>	<b>8,709</b>	<b>9,604</b>	<b>11,061</b>	<b>11,189</b>	<b>12,416</b>	<b>14,859</b>	<b>15,242</b>
<b>NONCURRENT ASSETS</b>							
Fixed Assets	6,461	6,978	7,539	8,346	7,952	8,968	9,831
Breeding Cattles	304	280	161	265	224	201	238
Other Noncurrent Assets	256	297	490	1,289	2,447	2,321	2,280
<b>Total Noncurrent Assets</b>	<b>7,021</b>	<b>7,555</b>	<b>8,190</b>	<b>9,900</b>	<b>10,622</b>	<b>11,491</b>	<b>12,349</b>
<b>TOTAL ASSETS</b>	<b>15,730</b>	<b>17,159</b>	<b>19,251</b>	<b>21,089</b>	<b>23,038</b>	<b>26,350</b>	<b>27,591</b>
<b>LIABILITIES AND EQUITY</b>							
<b>LIABILITIES</b>							
<b>CURRENT LIABILITIES</b>							
Short-term Bank Loans	2,213	1,863	759	797	1,170	3,848	2,999
Trade Account Payable	2,227	2,912	2,528	3,498	3,776	3,418	3,813
Others Current Liabilities	476	577	1,907	475	1,958	1,500	1,778
<b>Total Current Liabilities</b>	<b>4,916</b>	<b>5,353</b>	<b>5,194</b>	<b>4,770</b>	<b>6,904</b>	<b>8,766</b>	<b>8,590</b>
<b>NONCURRENT LIABILITIES</b>							
Long-term liabilities	1,287	1,436	1,066	1,241	1,040	1,206	1,525
Long-term Bank loan					179	231	231
Bonds Payable	4,223	4,246	3,609	5,271	4,684	4,611	4,405
Others Noncurrent Liabilitie	14	15	10	11	16	241	286
<b>Total Noncurrent Liabilities</b>	<b>5,524</b>	<b>5,697</b>	<b>4,685</b>	<b>6,524</b>	<b>5,919</b>	<b>6,289</b>	<b>6,447</b>
<b>TOTAL LIABILITIES</b>	<b>10,440</b>	<b>11,050</b>	<b>9,878</b>	<b>11,293</b>	<b>12,823</b>	<b>15,056</b>	<b>15,037</b>
Non-controlling interest	425	498	529	586	607	684	810
<b>EQUITY</b>	<b>4,864</b>	<b>5,612</b>	<b>8,843</b>	<b>9,210</b>	<b>9,607</b>	<b>10,610</b>	<b>11,744</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>15,729</b>	<b>17,159</b>	<b>19,251</b>	<b>21,089</b>	<b>23,038</b>	<b>26,350</b>	<b>27,591</b>

Source: Company and Binaartha

Table: Ratio Highlights YoY

	2014A	2015A	2016A	2017A	2018A	2019F	2020F
<b>Growth (% YoY)</b>							
Sales	14.2%	2.3%	8.2%	9.4%	14.9%	18.2%	18.5%
OP	-0.6%	34.5%	69.0%	-22.1%	68.9%	-12.1%	18.5%
EBITDA	-6.2%	16.3%	101.2%	-23.4%	55.5%	-15.3%	13.3%
NP	-42.9%	38.0%	340.8%	-51.7%	117.2%	-23.7%	18.5%
EPS	-42.9%	38.0%	311.8%	-51.7%	117.2%	-23.7%	18.5%
<b>Profitability (%)</b>							
Gross Margin	14.0%	16.0%	20.2%	17.0%	21.2%	18.5%	18.9%
Operating Margin	5.3%	6.9%	10.8%	7.7%	11.3%	8.4%	8.4%
EBITDA margin	6.8%	7.8%	14.4%	10.1%	13.7%	9.8%	9.4%
NET Profit margin	1.4%	1.9%	7.6%	3.4%	6.4%	4.1%	4.1%
ROA	2.2%	2.7%	10.7%	4.7%	9.4%	6.3%	7.1%
ROE	7.0%	8.3%	23.3%	10.8%	22.6%	15.6%	16.7%
<b>Solvability (x)</b>							
Net debt/ equity	0.9	0.8	0.3	0.3	0.6	0.7	0.6
Tot. debt/ Tot.equity	2.1	2.0	1.1	1.2	1.3	1.4	1.3
Debt Ratio	0.7	0.6	0.5	0.5	0.6	0.6	0.5
<b>Liquidity (x)</b>							
Current Ratio	1.8	1.8	2.1	2.3	1.8	1.7	1.8
Cash Ratio	0.2	0.2	0.5	0.3	0.2	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.*