

PT. Japfa Comfeed Indonesia Tbk.

BUY

Investment Consideration

Feed profitability rises

- The Feed business recorded higher profit driven by both volume growth and higher margins. In 2019FY, Feed operating profit reached IDR 2.79 trillion an increase of 40% YoY, while breeding operating profit fell -33% to IDR 895 billion, and commercial farm operating profit recorded IDR -50 billion.
- The Feed margin increased from 10.9% to 12.4% in 2019, while the commercial farm margin dropped to -0.3% from 7.3%, and the breeding margin dropped from 22.6% to 14.0%.
- JPFA has been able to maintain the Feed margin around 10%-11% despite fluctuations in raw material prices and the currency.
- Meanwhile, the Breeding business is still depressed by lower broiler prices from an oversupply of broilers in the first three quarters. The government is continuing the day old chick (DOC) & broiler reduction program to control supply and stabilize prices in the domestic market.
- In 2020, the government has already enacted the program three times so far in 2020, on 22 January, 4 February and 17 – 29 February.

2019FY Result: Single digit revenue growth

- In 2019FY, JPFA booked revenue of IDR 36.74 trillion up 8.0% yoy from IDR 34.0 trillion in 2018. Growth was mainly from higher sales volumes for poultry feed (+9%) and aqua feed (+18%).
- JPFA gross profit fell slightly -1.1% yoy to IDR 7.13 trillion while the gross profit margin dropped to 8.6% from 11.3% in 2018.
- Operating profit fell -14.6% yoy from 3.72 trillion in 2018 to IDR 3.18 trillion in 2019, and the operating profit margin (OPM) fell to 8.7% from 10.9% in 2018. The weaker margin was due to low broiler prices in the first three quarters of 2019 but was compensated by feed volume growth and a higher feed operating margin. Net income also fell -19% yoy to IDR 1.76 trillion.
- Due to government efforts to control DOC supply we are expecting better pricing in 2020, and we estimate JPFA net income will grow 18% YoY to IDR 2.09 trillion in 2020F.

Valuation: Maintain BUY TP 2,010, 34% upside

- Using a DCF valuation with WACC at 9.6% We are targeting JPFA to trade at 11x 2020F PE within a year. Target Price is IDR 2,010 which represents 34% upside. We maintain our recommendation to Buy.

Financial Highlights	2015A	2016A	2017A	2018A	2019A	2020F	2021F
Sales (In IDR Bn)	25,023	27,063	29,603	34,013	36,743	45,325	53,754
Net Income (In IDR Bn)	468	2,065	998	2,168	1,765	2,087	2,475
EPS (IDR)	44	181	87	190	155	183	199
OPM (%)	6.9%	10.8%	7.7%	11.3%	8.6%	8.5%	8.5%
EBITDA Margin (%)	7.8%	14.4%	10.1%	13.7%	11.4%	10.5%	10.0%
NPM (%)	1.9%	7.6%	3.4%	6.4%	4.8%	4.6%	4.6%
Net debt/ equity (x)	0.8	0.3	0.3	0.6	0.6	0.6	0.5

4 March 2020
Basic Industry – Poultry

Price	IDR	1,495
Target Price	IDR	2,010
JKSE Index		5,518.630



Stock Information

Bloomberg Code	JPFA IJ
Market Cap (IDR bn)	17,120.8
52-week high (IDR)	2,430
52-week low (IDR)	1,280
Shares issued (mn)	11,726.6
6-m avg. daily Val (IDR)	1,590
Free float	39.20%

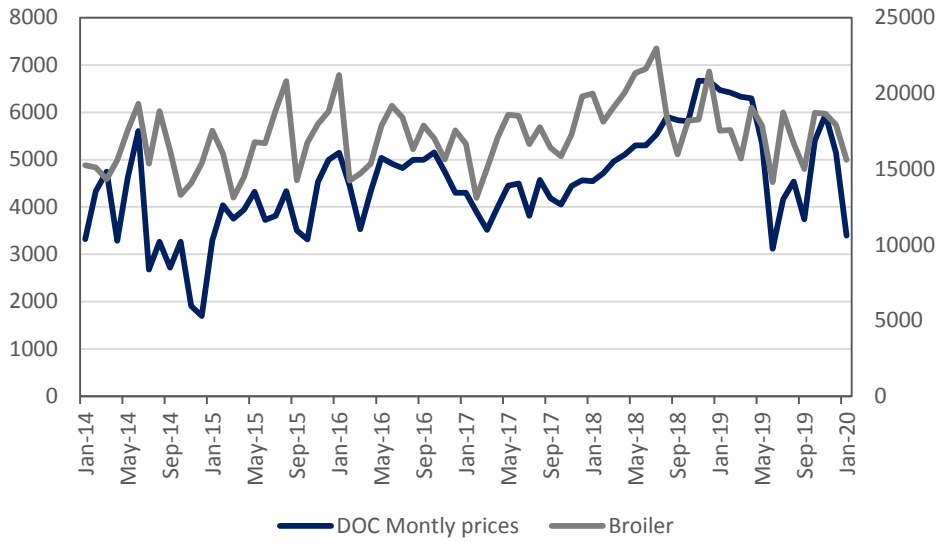
Major share holders

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

USD/ IDR – YE (IDR)

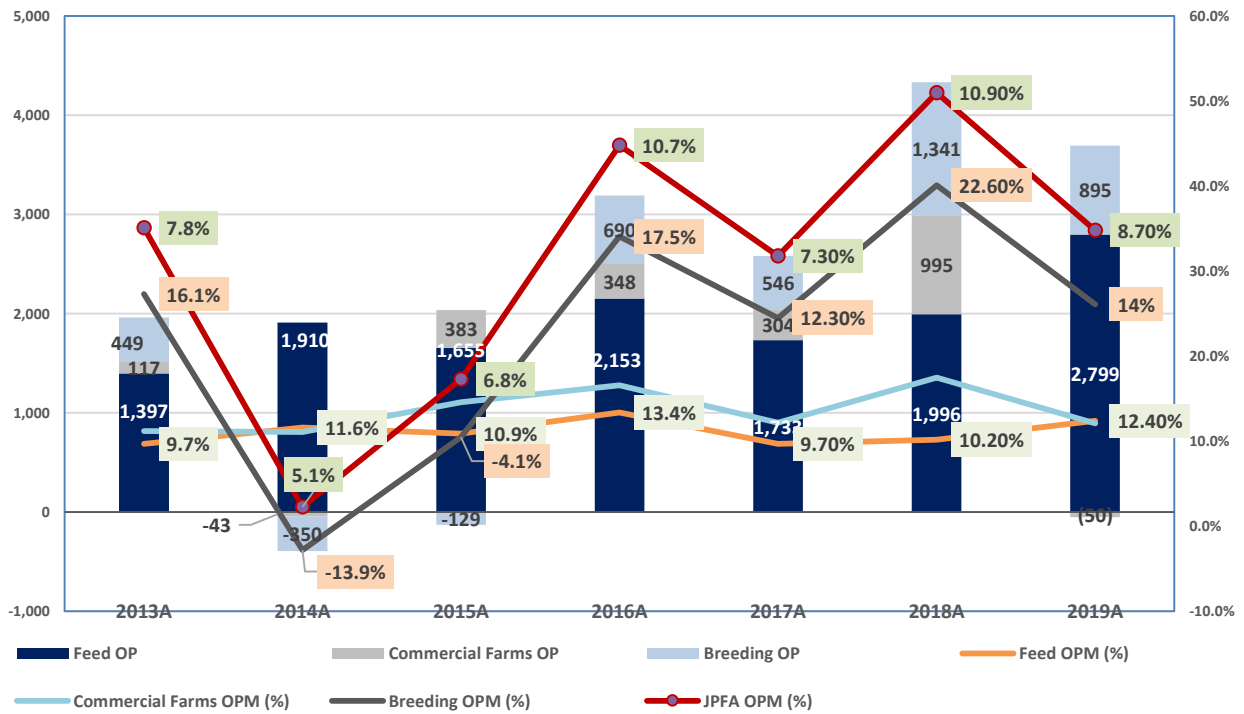
2019	14,375
2020F (6m-avg)	13,866

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)	2015A	2016A	2017A	2018A	2019A	2020F	2021F
Sales	25,023	27,063	29,603	34,013	36,743	45,325	53,754
Cost of Sales	(21,030)	(21,584)	(24,571)	(26,805)	(29,617)	(36,713)	(43,541)
Gross Profit	3,993	5,479	5,032	7,208	7,126	8,612	10,213
Operating Expenses	(2,265)	(2,558)	(2,756)	(3,365)	(3,976)	(4,759)	(5,644)
Operating Profit	1,728	2,921	2,276	3,844	3,150	3,853	4,569
Other Income (Expenses)	(1,030)	(154)	(535)	(754)	(577)	(906)	(1,075)
PBT	698	2,767	1,741	3,090	2,573	2,946	3,494
Tax	(173)	(595)	(633)	(837)	(689)	(678)	(804)
NIAT	525	2,172	1,108	2,253	1,884	2,269	2,690
Non-controlling Interest	(56)	(107)	(110)	(85)	(119)	(181)	(215)
Net Income	468	2,065	998	2,168	1,765	2,087	2,475
EPS	44	181	87	190	155	183	199
EBITDA	1,940	3,903	2,989	4,648	4,201	4,759	5,349

Source: Company and Binaartha

Table: Cash Flow in IDR Billion YoY

Cash Flow (In IDR Bn)	2015A	2016A	2017A	2018A	2019A	2020F	2021F
Net Income	468	2,065	998	2,168	1,765	2,087	2,475
Depreciation	561	626	679	765	882	966	1,059
Change in WC	(325)	185	(1,612)	353	204	(320)	(753)
Cash From Operating Activities	704	2,875	65	3,286	2,851	2,733	2,782
Capex	(1,095)	(1,261)	(2,389)	(1,487)	(3,253)	(2,186)	(2,191)
Cash From Investing Activities	(1,095)	(1,261)	(2,389)	(1,487)	(3,253)	(2,186)	(2,191)
Long-term liabilities	149	(370)	175	(22)	904	279	375
Bonds Payable	23	(638)	1,663	(587)	(120)	(159)	0
Others Noncurrent Liabilities	1	(5)	1	5	1	2	4
Equity	352	1,199	(575)	(1,750)	(532)	(706)	(910)
Cash From Financing Activities	525	186	1,264	(2,354)	253	(584)	(530)
Net Changes in Cash	134	1,800	(1,059)	(556)	(149)	(36)	60
Beginning Balance	768	901	2,701	1,642	1,087	938	902
Ending Balance	902	2,702	1,642	1,087	938	902	962

Source: Company and Binaartha

Table: Statement of Financial Position in IDR Billion YoY

	2015A	2016A	2017A	2018A	2019A	2020F	2021F
ASSETS							
CURRENT ASSETS							
Cash and Cash Equivalents	901	2,701	1,642	1,087	938	902	962
Trade Accounts Receivable	1,254	1,297	1,627	1,822	2,040	2,266	2,688
Inventories	5,855	5,500	6,414	6,248	5,940	6,799	6,988
Others Current Assets	1,594	1,562	1,506	3,259	3,274	3,326	3,763
Total Current Assets	9,604	11,061	11,189	12,416	12,192	13,293	14,400
NONCURRENT ASSETS							
Fixed Assets	6,978	7,539	8,346	7,952	10,063	11,029	12,087
Breeding Cattles	280	161	265	224	157	299	301
Other Noncurrent Assets	297	490	1,289	2,447	2,774	2,885	2,956
Total Noncurrent Assets	7,555	8,190	9,900	10,622	12,993	14,213	15,345
TOTAL ASSETS	17,159	19,251	21,089	23,038	25,185	27,505	29,745
LIABILITIES AND EQUITY							
LIABILITIES							
CURRENT LIABILITIES							
Short-term Bank Loans	1,863	759	797	1,170	3,006	2,999	2,663
Trade Account Payable	2,912	2,528	3,498	3,776	3,125	3,855	4,300
Others Current Liabilities	577	1,907	475	1,958	903	997	1,183
Total Current Liabilities	5,353	5,194	4,770	6,904	7,034	7,851	8,146
NONCURRENT LIABILITIES							
Long-term liabilities	1,436	1,066	1,241	1,040	1,193	1,471	1,847
Long-term Bank loan				179	930	930	930
Bonds Payable	4,246	3,609	5,271	4,684	4,564	4,405	4,405
Others Noncurrent Liabilitie	15	10	11	16	17	19	23
Total Noncurrent Liabilities	5,697	4,685	6,524	5,919	6,703	6,825	7,204
TOTAL LIABILITIES	11,050	9,878	11,293	12,823	13,737	14,676	15,350
Non-controlling interest	498	529	586	607	676	853	987
EQUITY	5,612	8,843	9,210	9,607	10,772	11,976	13,408
TOTAL LIABILITIES & EQUITY	17,159	19,251	21,089	23,038	25,185	27,505	29,745

Source: Company and Binaartha

Table: Ratio Highlights YoY

	2015A	2016A	2017A	2018A	2019A	2020F	2021F
Growth (% YoY)							
Sales	2.3%	8.2%	9.4%	14.9%	8.0%	23.4%	18.6%
OP	34.5%	69.0%	-22.1%	68.9%	-18.1%	22.3%	18.6%
EBITDA	16.3%	101.2%	-23.4%	55.5%	-9.6%	13.3%	12.4%
NP	38.0%	340.8%	-51.7%	117.2%	-18.6%	18.2%	18.6%
EPS	38.0%	311.8%	-51.7%	117.2%	-18.6%	18.2%	9.0%
Profitability (%)							
Gross Margin	16.0%	20.2%	17.0%	21.2%	19.4%	19.2%	19.9%
Operating Margin	6.9%	10.8%	7.7%	11.3%	8.6%	8.5%	8.5%
EBITDA margin	7.8%	14.4%	10.1%	13.7%	11.4%	10.5%	10.0%
NET Profit margin	1.9%	7.6%	3.4%	6.4%	4.8%	4.6%	4.6%
ROA	2.7%	10.7%	4.7%	9.4%	7.0%	7.6%	8.3%
ROE	8.3%	23.3%	10.8%	22.6%	16.4%	17.4%	18.5%
Solvability (x)							
Net debt/ equity	0.8	0.3	0.3	0.6	0.6	0.6	0.5
Tot. debt/ Tot.equity	2.0	1.1	1.2	1.3	1.3	1.2	1.1
Debt Ratio	0.6	0.5	0.5	0.6	0.5	0.5	0.5
Liquidity (x)							
Current Ratio	1.8	2.1	2.3	1.8	1.7	1.7	1.8
Cash Ratio	0.2	0.5	0.3	0.2	0.1	0.1	0.1

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

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