

HOLD | TP : IDR1,200
JPFA Stock Price Data

Last Price	: IDR1,295
52wk High	: IDR1,635
52wk Low	: IDR1,015
Share Out	: 11.7bn
Market Cap	: IDR15.2tn

JPFA Stock Price Performance

1-Day	: +4.0%
1-Week	: +4.4%
1-Month	: -4.4%
3-Month	: +24.5%
Year-to-Date	: +0.0%

Shareholders

Japfa Ltd (P)	: 55.4%
Public	: 43.7%
Treasury	: 0.9%

PT Japfa Comfeed Indonesia Tbk (JPFA IJ)
Another Obstacle to Overcome
JPFA's 2Q23 financial results: net profit turned positive

JPFA posted a revenue of IDR12.4tn (+16.7% QoQ/+0.5% YoY) in 2Q23 or IDR24.2tn (-1.3% YoY) in 1H23, which is below our/cons of FY23F target, with a realization at 45.7%/46.2%, respectively. This output is primarily driven by commercial farms (43.4% of revenue, +20.4% QoQ) and animal feed (23.9% of revenue, -14.3% QoQ) as the company's main revenue contributor. JPFA's net profit turned a corner in 2Q23, posting a profit of IDR331.9bn (vs net loss IDR249.9bn in 1Q23), making its 1H23's net profit to be IDR82.0bn. Overall, JPFA in 2Q23 recorded better profitability performance with a GPM/NPM at 16.7%/2.7% (vs 10.9%/-2.1% in 1Q23). The segment focused on animal feed and poultry breeding typically contributes the most significant margins. However, this segment underwent a contraction in its margin due to several key factors: 1) an increase in raw material costs, 2) reduced average selling prices resulting from an imbalance in supply and demand, and 3) delayed pricing adjustments.

A tailwinds from the long-term strategy

JPFA encountered challenges that led to a negative net cash flow of IDR257.4bn in 1H23, a significant shift from the surplus of IDR12.5bn in the same period of 2022. These challenges stemmed from unfavorable operational and investment outcomes. However, the company managed to maintain a positive financing situation by leveraging its short-term loans, which resulted in a DER of 1.1x in 1H23 (vs 0.9x in FY22). Cash and equivalents in 1H23 amounted to IDR1.6tn, squeezed from IDR1.8tn in FY22. For short-term strategy, JPFA will recalibrate its growth plans and cautiously adjust the capex, with realization in 1H23 reaching IDR1.0tn (FY22: IDR1.9tn; FY19: IDR3.0tn). Yet, we maintain our capex level at IDR1.5tn for FY23E. Moving into the long-term strategy, JPFA will strengthen its downstream business. We endorse this strategy as it has the potential to streamline revenue, particularly in the processing and consumer products business segment. This move could act as a safeguard for JPFA's future profit margins, particularly considering the uncertain prospects for the animal feed industry.

Extra culling is still necessary

In 2Q23, the broiler segment posted a remarkable growth of +20.4% QoQ/+7.6% YoY, reaching IDR5.4tn, and bringing its 1H23's revenue to IDR9.8tn (+2.2% YoY). Notably, the segment's EBIT margin demonstrated a significant improvement, rising to 6.4% after being in negative territory for the three previous quarters with an average of -10.7%. This positive performance was supported by the normalization of broiler prices in 2Q23, with an average of IDR21.2k (compared to IDR17.2k in 1Q23), along with additional culling in Apr-23 and Jun-23, which made broiler prices favorable. At that time, the culling for parent stock (PS) reached 6mn or equivalent to 136mn Day-Old-Chicken Final Stock (DOC FS), while FS Hatched Egg (HE) 19 days amounted to 58mn, bringing the total culling by YTD to 299mn DOC FS (104mn in Feb-23). However, our analysis indicates a potential oversupply of DOC FS in the range of 304mn - 430 mn for the entire FY23E ([refer to our report](#)), indicating the need for further culling of around 5mn - 131mn throughout this year. However, given the uncertain policy outlook and the potential impact of the post-suro months (which typically leads to price decreases), broiler and DOC prices remain vulnerable. Therefore, we maintain a cautious outlook for this segment going forward.

Valuation wise remained concern

JPFA has been removed from LQ45's index for the period of Aug-23 to Jan-24. Since the announcement, JPFA's stock has corrected by -3.5%, suggesting an outflow in our view. The loss in 1Q23 amounting to IDR249.9bn resulted in EPS TTM of IDR33.3/share with a PE TTM of 38.9x for now, which is the highest level in 11 consecutive quarters, with an average of 12.9x. As a tactical move, we are concerned that further price corrections may occur in the short term, potentially creating negative sentiment for the stock.

Recommendation: HOLD JPFA with a Target Price IDR1,200

We recommend HOLD for JPFA at a lower TP of IDR 1,200, implying PE/PBV of 9.6x/1.0x in FY23E. We trimmed our FY23E figures due to disappointing results in 1H23, and we will closely monitor the developments in broiler and DOC prices during 3Q23 to reassess our projection. Upside risks include: 1) favorable government policies; 2) lower-than-anticipated input costs.

Key Financial Highlight	FY20	FY21	FY22	FY23E	FY24F
Revenue (IDR Bn)	36,964.9	44,878.3	48,972.1	52,669.7	56,915.3
EBITDA (IDR Bn)	3,793.3	4,441.2	3,755.5	3,985.2	4,839.9
EBITDA Margin (%)	10.3	9.9	7.7	7.6	8.5
Net Income (IDR Bn)	916.7	2,022.6	1,419.9	1,361.0	1,839.3
ROA (%)	3.5	7.1	4.3	4.1	5.1
ROE (%)	8.0	15.4	10.4	9.3	11.6
PE (x)	16.6	7.5	10.7	11.2	8.3
PBV (x)	1.3	1.2	1.1	1.0	1.0

Sources : Company, MNCS


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Exhibit 01. JPFA's net profit in 2Q23 turned positive

IDR Bn	1Q23	2Q23	QoQ	1H22	1H23	YoY	% Cons	% MNCS
Revenues	11,761.8	12,394.0	5.4%	24,483.2	24,155.8	-1.3%	46.2%	45.7%
COGS	10,474.8	10,322.5	-1.5%	20,081.8	20,797.4	3.6%		
Operating Profit	(81.7)	737.7	1002.8%	1,933.9	656.0	-66.1%	24.7%	22.4%
Operating Profit Margin	-0.7%	6.0%		7.9%	2.7%			
PBT	(300.7)	479.74	259.6%	1,536.3	179.1	-88.3%	9.9%	8.9%
Net Profit	(249.9)	331.9	232.8%	1,111.7	82.0	-92.6%	6.5%	5.6%
Net Margin	-2.1%	2.7%		4.5%	0.3%			

Sources : Bloomberg, Company, MNCS

Exhibit 02. Favorable broiler & DOC prices given additional culling in late Apr-23
2021

Culling Program	Date Instructed	Target	Amount Culled	Total Culled
1	5 Jan – 3 Feb	FS Hatched Egg (HE) 19 days	13.9mn/week	69.4mn
2	5 Feb – 6 Mar	FS Hatched Egg (HE) 19 days	12.2mn/week	60.8mn
2 (add-on)	5 Feb-through the end of year	PS breeding life cycle limitation to max 58 weeks		
3	24 Apr – 8 May	FS Hatched Egg (HE) 19 days	20.7mn/week	41.4mn
4	5 Jun – 3 Jul	FS Hatched Egg (HE) 19 days	12.6mn/week	50.5mn
5	10 Jul – 11 Aug	FS Hatched Egg (HE) 19 days	14.2mn/week	71.2mn
6	7 Aug – 4 Sep	FS Hatched Egg (HE) 19 days	22.3mn/week	89.4mn
7	8 Sep – 2 Oct	FS Hatched Egg (HE) 19 days	18.9mn/week	75.6mn
8	9 Oct – 13 Nov	FS Hatched Egg (HE) 19 days	23.5mn/week	94.1mn
9	18 Nov – 25 Dec	FS Hatched Egg (HE) 19 days	25mn/week	149.9mn

2022

Culling Program	Date Instructed	Target	Amount Culled	Total Culled
1	8 Jan – 19 Feb	FS Hatched Egg (HE) 19 days	28mn/week	142.3mn
1 (add-on)	8 Jan-through the end of year	PS breeding life cycle limitation to max 64 weeks		
2	23 Feb – 30 Mar	FS Hatched Egg (HE) 19 days	21.7mn/week	130.3mn
2 (add-on)	23 Jan – 30 Mar	PS breeding life cycle limitation to max 60 weeks		
3	8 Oct – 19 Nov	FS Hatched Egg (HE) 19 days	2.3mn/week	14mn
3 (add-on)	8 Oct – 19 Nov	PS 55 weeks		
3 (add-on)	8 Oct – 19 Nov	PS breeding life cycle limitation to max 55 weeks		
4	16 Dec – 28 Jan'23	FS production control	6.1mn/week	42.7mn

2023

Culling Program	Date Instructed	Target	Amount Culled	Total Culled
1	25 Feb – 15 Apr	FS Hatched Egg (HE) 19 days	14.9mn/week	104.4mn
2	19 Apr – 3 Jun	PS 50-53 weeks, equal to 93.2mn DOC FS	0.56mn/week	3.9mn
2 (add-on)	26 Apr – 3 Jun	FS Hatched Egg (HE) 19 days	8.0mn/week	48.1mn
2 (add-on)	19 Apr-through the end of year	PS breeding life cycle limitation to max 53 weeks		
3	14 Jun – 23 Jul	PS 50 – 54 weeks, equal to 43.2mn DOC FS	0.32mn/week	1.9mn
3 (add-on)	29 Jul – 12 Aug	FS Hatched Egg (HE) 19 days	2.50mn/week	10.0mn
3 (add-on)	12 Jun-through the end of year	PS breeding life cycle limitation to max 54 weeks		

Sources : MoA, MNCS

Exhibit 03. Financial Projections

Income Statement						Balance Sheet					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F	in Billion IDR	FY20	FY21	FY22	FY23E	FY24F
Revenue	36,964.9	44,878.3	48,972.1	52,669.7	56,915.3	Cash & Equivalents	1,335.9	1,085.1	1,811.1	2,009.3	2,394.2
COGS	(29,535.7)	(36,858.2)	(41,288.9)	(44,753.2)	(48,001.3)	Trade Receivables	1,982.3	2,428.5	2,496.1	2,487.2	2,766.7
Gross Profit	7,429.2	8,020.1	7,683.2	7,916.5	8,914.1	Inventory	6,860.5	9,068.3	10,976.3	10,442.4	11,067.0
Selling Expense	(1,550.0)	(1,657.6)	(1,810.6)	(1,955.0)	(2,159.3)	Others Current Assets	1,566.4	1,579.2	1,718.0	1,847.7	1,996.6
G&A Expense	(3,244.2)	(3,140.8)	(3,069.7)	(3,031.1)	(3,135.8)	Total Current Assets	11,745.1	14,161.2	17,001.5	16,786.6	18,224.5
Other income (Expense)	(150.8)	303.3	(52.5)	(148.5)	(132.6)	Fixed Assets-net	11,143.8	11,509.7	12,497.2	13,049.4	14,061.1
Operating Income	2,484.2	3,525.0	2,750.3	2,781.9	3,486.4	Other Non-Current Assets	3,062.8	2,918.8	3,192.2	3,433.3	3,710.0
Finance Cost (Income)	(805.9)	(739.4)	(808.8)	(911.1)	(935.7)	Total Non-Current Assets	14,206.6	14,428.5	15,689.4	16,482.7	17,771.2
Other income (Expense)	0.8	8.3	13.0	4.4	10.1	TOTAL ASSETS	25,951.8	28,589.7	32,690.9	33,269.3	35,995.6
Profit Before Tax	1,679.1	2,793.8	1,954.5	1,875.2	2,560.8	Trade Payables	3,993.6	3,030.1	4,135.1	4,226.7	5,866.8
Tax Income (Expense)	(457.2)	(663.0)	(463.6)	(444.8)	(627.4)	Short-term Debt	1,100.4	3,032.1	4,436.2	4,227.3	4,118.7
Minority Interest	(85.7)	(108.3)	(71.1)	(69.5)	(94.1)	Other Current Liabilities	913.7	1,002.0	841.2	904.7	977.6
Net Income	916.7	2,022.6	1,419.9	1,361.0	1,839.3	Total Current Liabilities	6,007.7	7,064.2	9,412.4	9,358.7	10,963.1
EPS (IDR)	78.2	172.5	121.1	116.1	156.9	Long-term Debt	6,819.4	7,140.5	8,430.5	8,033.5	7,827.1
						Other Long-term Liabilities	1,712.7	1,282.3	1,193.2	1,283.3	1,386.8
						Total LT-Liabilities	8,532.1	8,422.8	9,623.7	9,316.8	9,213.9
						Total Equity	11,412.0	13,102.7	13,654.8	14,593.8	15,818.6
						TOTAL LIABILITY AND EQUITY	25,951.8	28,589.7	32,690.9	33,269.3	35,995.6

Cash Flow						Ratios					
in Billion IDR	FY20	FY21	FY22	FY23E	FY24F		FY20	FY21	FY22	FY23E	FY24F
Net Income	916.7	2,022.6	1,419.9	1,361.0	1,839.3	Revenue Growth (%)	(4.9)	21.4	9.1	7.6	8.1
D&A	1,093.7	1,126.4	850.9	975.2	1,151.1	Operating Profit Growth (%)	(20.5)	41.9	(22.0)	1.1	25.3
Changes in WC	2,055.9	(3,617.5)	(870.6)	634.4	736.0	Net Profit Growth (%)	(48.1)	120.6	(29.8)	(4.1)	35.2
Others	(88.1)	177.6	(219.7)	(66.2)	(76.0)	Current Ratio (%)	195.5	200.5	180.6	179.4	166.2
Operating CF	3,978.3	(290.9)	1,180.5	2,904.3	3,650.5	Receivable Days (x)	19.3	19.5	18.3	17.0	17.5
Capex	(1,529.7)	(1,492.2)	(1,838.4)	(1,527.4)	(2,162.8)	Inventory Days (x)	83.6	88.6	95.7	84.0	83.0
Others	7.2	144.0	(273.4)	(241.0)	(276.8)	Payable Days (x)	48.7	29.6	36.1	34.0	44.0
Investing CF	(1,522.5)	(1,348.3)	(2,111.8)	(1,768.4)	(2,439.5)	Net Gearing Ratio (x)	0.6	0.7	0.8	0.7	0.6
Dividend Paid	(233.2)	(466.3)	(697.2)	(449.1)	(600.5)	DER (x)	0.7	0.8	0.9	0.8	0.8
Net Change in Debt	(1,277.5)	2,252.8	2,694.1	(605.9)	(315.0)	Interest Coverage (x)	2.9	4.4	3.4	3.0	3.7
Equity Fund Raised	(486.9)	92.9	(273.0)	27.2	(14.0)	Dividend Yield (%)	1.5	3.1	4.6	3.0	4.0
Others	(126.5)	(491.1)	(66.6)	90.1	103.4	Gross Profit Margin (%)	20.1	17.9	15.7	15.0	15.7
Financing CF	(2,124.1)	1,388.4	1,657.3	(937.7)	(826.0)	Operating Profit Margin (%)	6.7	7.9	5.6	5.3	6.1
Cash at Beginning	1,004.3	1,335.9	1,085.1	1,811.1	2,009.3	EBITDA Margin (%)	10.3	9.9	7.7	7.6	8.5
Cash at Ending	1,335.9	1,085.1	1,811.1	2,009.3	2,394.2	Net Income Margin (%)	2.5	4.5	2.9	2.6	3.2
						BVPS (IDR)	973.2	1,117.4	1,164.4	1,244.5	1,349.0

Sources : Company, MNCS

MNC Research Industry Ratings Guidance

- **OVERWEIGHT** : Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months
- **NEUTRAL** : Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months
- **UNDERWEIGHT** : Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

- **BUY** : Share price may exceed 10% over the next 12 months
- **HOLD** : Share price may fall within the range of +/- 10% of the next 12 months
 - **SELL** : Share price may fall by more than 10% over the next 12 months
 - **Not Rated** : Stock is not within regular research coverage

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