Indonesia Company Update

Shariah Compliant

1 November 2024

Consumer Non-cyclical | Food & Beverage Products

Charoen Pokphand Indonesia (CPIN IJ)

Buy (from Neutral)

Target Price (Return):	IDR5,800 (10.5%)
Price (Market Cap):	IDR5,250 (USD5,484m)
ESG score:	3.1 (out of 4)
Avg Daily Turnover (IDR/USD)	39,460m/2.54m

Anticipating a Recovery; Upgrade To BUY

- **U/G to BUY from Neutral, new IDR5,800 TP from IDR5,100, c. 11% upside,** as we upgrade FY24F-26F earnings by 13%, 5%, 1%, and roll forward our valuation base to FY25F. 3Q24 net profit was soft mainly due to weak broiler and day-old chicks (DOC) prices. We do anticipate improved performances in 4Q24, driven by a recovery in poultry prices and positive developments in the processed chicken segment. More favourable FY25 supply and efforts from various stakeholders to stabilise broiler prices are anticipated, which will positively impact the sector going forward, in our view.
- **3Q24 net profit** of IDR619bn (-41.5% QoQ, -52.3% YoY) brought 9M24 at c.IDR2.4trn (-10.8% YoY) – above our FY24 estimates at c.83% but in line with Street's 74%. 3Q24 EBIT stood at c.IDR935bn (-45.4% QoQ, -45.6% YoY), with 9M24 EBIT at c. IDR3.7trn (-3.1% YoY). The 3Q24 EBIT decline was on an 81% QoQ and 77% YoY drop in the DOC segment. The broiler segment reported a 3Q24 EBIT loss of IDR235bn (2Q24: IDR585bn gain). The feed segment saw improved performances, with EBIT up 28.9% QoQ (+5.1% YoY) and EBIT margin up 1.3ppts QoQ (+0.3ppts YoY) to 8.5%.
- **Positives ahead in the processed chicken segment.** The processed chicken segment posted a positive EBIT of IDR14bn in 3Q24 following three quarters of losses. This improvement suggests the worst may be behind us, especially as finished goods inventory in processed chickens stood at c. IDR1.1trn in Sep 2024, down from c.IDR2.35trn in Dec 2023 and close to the c.IDR1-1.1trn levels seen in Dec 2022 and Jun 2023. We believe this indicates that inventory levels are nearly back to normal.
- **4Q24 outlook: Positive.** The sector should benefit from year-end seasonality, which typically boosts broiler consumption and prices. We expect supply-demand balance for broilers and DOC to be maintained via culling. Moreover, in early September, the Ministry of Agriculture (with key stakeholders) set a minimum price of IDR20k/kg for live birds weighing 1.6-2kg in major regions. We see stakeholders making efforts to stabilise broiler prices. Ground checks show broiler prices in West Java rising to c.IDR20.2k/kg (+11.5% MoM) in October. We expect to see favourable prices in 4Q24. Local corn prices may rise on average in 4Q24 as Statistics Indonesia projects a 17% MoM drop in 14% moisture corn production in November, with an 8.4% MoM recovery in December. We expect Charoen Pokphand Indonesia to face higher corn prices in 4Q24, though this may be partly offset by lower soybean meal prices. We do think higher poultry prices balance raw material costs, supporting margins.
- **The reduction of the grandparents stock import quotas** to 530k in FY24 (a nearly 20% YoY decrease) is expected to curb supply in FY25, particularly in 2H25. Additionally, the Government's free meal programme may boost broiler consumption. With the poultry sector previously grappling with oversupply, these measures are set to positively impact the sector and may reduce the need for culling in FY25 to help stabilise prices. Our new IDR5,800 TP includes a 2% premium based on CPIN's 3.1 ESG score.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (IDRb)	56,868	61,616	65,931	68,761	74,320
Recurring net profit (IDRb)	2,928	2,319	3,268	3,935	4,660
Recurring net profit growth (%)	(19.1)	(20.8)	41.0	20.4	18.4
Recurring P/E (x)	29.40	37.13	26.34	21.88	18.47
P/B (x)	3.3	3.2	2.9	2.7	2.5
P/CF (x)	39.13	24.52	23.90	18.67	17.80
Dividend Yield (%)	2.1	1.9	0.6	1.7	2.5
EV/EBITDA (x)	17.47	17.87	14.67	12.78	11.28
Return on average equity (%)	11.4	8.7	11.5	12.7	13.9
Net debt to equity (%)	26.3	25.5	18.0	13.9	12.5

Source: Company data, RHB

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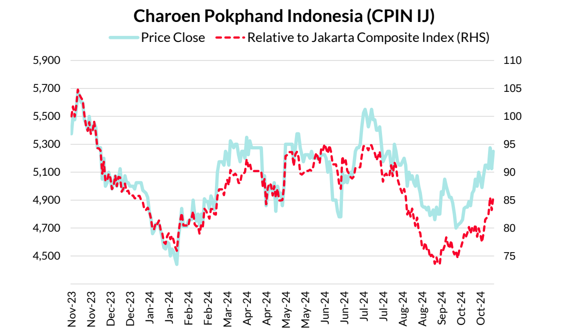
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.5	11.7	0.5	6.1	(9.5)
Relative	0.4	11.1	(3.9)	1.4	(21.7)
52-wk Price low/high (IDR)					4,440 –5,675



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: GOOD

CPIN is committed to creating a better environment by running a waste management plant (IPAL) at its production facilities. Moreover, the company carries out environmental quality testing periodically.

S: GOOD

CPIN implements initiatives that aim to improve public facilities around the locations where its businesses are present. Also, its corporate social responsibility is targeted towards improving educational facilities. It also gives scholarships as well as emergency response assistance in the event of a natural disaster.

G: EXCELLENT

CPIN always strives to organises integrated and consistent corporate governance activities. Annually, CPIN evaluates the performance of its boards of commissioners and directors as a whole and by individuals via an independent mechanism. The company also has a good level of transparency, business ethics, disclosure of information about its business activities.

Financial Exhibits

Asia
Indonesia
Consumer Non-cyclical
Charoen Pokphand Indonesia
CPIN IJ
Buy

Valuation basis

10-years DCF

Key drivers

i. Underpenetrated market, where Indonesia has one of the lowest poultry meat consumption per capita vs neighbouring countries;
ii. Softening commodity prices;
iii. Improving feed margins.

Key risks

i. Broiler price volatility;
ii. Higher-than-expected oversupply due to softer-than-expected demand;
iii. Regulatory risks;
iv. Spike in raw material prices.

Company Profile

Charoen Pokphand Indonesia produces and sells poultry feed, day-old chicks, processed chicken, and other food products in Indonesia.

Financial summary (IDR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Recurring EPS	178.58	141.39	199.31	239.94	284.18
DPS	108.00	100.00	30.00	89.59	131.97
BVPS	1,604.49	1,647.30	1,816.61	1,966.97	2,119.18
Return on average equity (%)	11.4	8.7	11.5	12.7	13.9

Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Recurring P/E (x)	29.40	37.13	26.34	21.88	18.47
P/B (x)	3.3	3.2	2.9	2.7	2.5
FCF Yield (%)	(0.5)	2.5	2.7	2.9	3.1
Dividend Yield (%)	2.1	1.9	0.6	1.7	2.5
EV/EBITDA (x)	17.47	17.87	14.67	12.78	11.28
EV/EBIT (x)	22.22	23.58	18.26	15.65	13.65

Income statement (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover	56,868	61,616	65,931	68,761	74,320
Gross profit	8,144	8,275	9,593	10,602	11,832
EBITDA	5,326	5,205	6,235	7,087	8,019
Depreciation and amortisation	(1,140)	(1,261)	(1,224)	(1,297)	(1,390)
Operating profit	4,186	3,944	5,011	5,789	6,629
Net interest	(399)	(670)	(707)	(554)	(439)
Pre-tax profit	3,537	2,997	4,304	5,181	6,136
Taxation	(607)	(679)	(1,033)	(1,243)	(1,473)
Reported net profit	2,928	2,319	3,268	3,935	4,660
Recurring net profit	2,928	2,319	3,268	3,935	4,660

Cash flow (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Change in working capital	(1,600)	(4)	(891)	(622)	(1,212)
Cash flow from operations	2,200	3,511	3,602	4,610	4,837
Capex	(2,594)	(1,382)	(1,300)	(2,080)	(2,184)
Cash flow from investing activities	(3,223)	(1,759)	(1,647)	(2,308)	(2,631)
Cash flow from financing activities	1,262	(1,466)	(954)	(2,121)	(3,572)
Cash at beginning of period	1,803	2,042	2,328	3,328	3,510
Net change in cash	239	286	1,000	182	(1,366)
Ending balance cash	2,042	2,328	3,328	3,510	2,144

Balance sheet (IDRb)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total cash and equivalents	2,042	2,328	3,328	3,510	2,144
Tangible fixed assets	17,628	17,690	17,766	18,549	19,343
Total assets	39,848	40,971	43,517	45,477	46,882
Short-term debt	6,649	7,393	6,700	6,000	5,000
Total long-term debt	2,312	1,841	2,000	2,000	1,500
Total liabilities	13,520	13,942	13,709	13,201	12,107
Total equity	26,327	27,029	29,808	32,276	34,776
Total liabilities & equity	39,848	40,971	43,517	45,477	46,882

Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Revenue growth (%)	10.0	8.3	7.0	4.3	8.1
Recurrent EPS growth (%)	(19.1)	(20.8)	41.0	20.4	18.4
Gross margin (%)	14.3	13.4	14.6	15.4	15.9
Operating EBITDA margin (%)	9.4	8.4	9.5	10.3	10.8
Net profit margin (%)	5.1	3.8	5.0	5.7	6.3
Dividend payout ratio (%)	60.5	70.7	15.1	37.3	46.4
Capex/sales (%)	4.6	2.2	2.0	3.0	2.9
Interest cover (x)	9.96	5.65	6.78	9.65	13.60

Source: Company data, RHB

Figure 1: Monthly ASPs for DOC and broiler in West Java areas

Source: Company data, RHB

Figure 2: 3Q24 results summary

CPIN IDRbn	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY (%)	FY24/ RHB	FY24/ Cons
Sales	16,237	17,049	16,757	*(1.7)*	*3.2*	**47,129**	**49,719**	***5.5***	**76.0**	**75.6**
COGS	13,452	14,224	14,733	*3.6*	*9.5*	40,215	42,743	*6.3*		
Gross profit	**2,785**	**2,826**	**2,023**	***(28.4)***	***(27.3)***	**6,914**	**6,975**	***0.9***	**79.1**	**74.0**
Selling expense	559	594	575	*(3.3)*	*2.9*	1,697	1,757	*3.6*		
G&A expense	508	520	514	*(1.2)*	*1.2*	1,406	1,524	*8.4*		
Operating expenses	1,066	1,114	1,089	*(2.3)*	*2.1*	3,103	3,281	*5.8*		
Operating profit	**1,718**	**1,712**	**935**	***(45.4)***	***(45.6)***	**3,811**	**3,694**	***(3.1)***	**85.8**	**75.1**
Net interest income/(expense)	(171)	(182)	(171)	*(6.1)*	*0.1*	(522)	(526)	*0.8*		
Interest income	8	8	11	*26.2*	*25.7*	17	24	*47.8*		
Interest expense	(179)	(191)	(181)	*(4.7)*	*1.3*	(538)	(550)	*2.3*		
Forex gain (expense)	(11)	(28)	(15)	*(44.4)*	*36.4*	(8)	(72)	*773.4*		
Other income/ (expense)	68	124	(187)	*nm*	*nm*	65	(41)	*nm*		
Total other income (costs)	(114)	(86)	(373)	*332.9*	*226.0*	(465)	(639)	*37.6*		
Pre-tax profit	**1,604**	**1,626**	**562**	***(65.4)***	***(65.0)***	**3,346**	**3,055**	***(8.7)***		
Taxation	(307)	(569)	56	*nm*	*(118.3)*	(672)	(668)	*(0.5)*		
Minority interest	0	(0)	0	*nm*	*289.9*	1	0	*(66.4)*		
Net profit	**1,297**	**1,057**	**619**	***(41.5)***	***(52.3)***	**2,676**	**2,387**	***(10.8)***	**83.3**	**74.3**
Margin (%)										
Gross margin (%)	17.2	16.6	12.1			14.7	14.0			
Operating margin (%)	10.6	10.0	5.6			8.1	7.4			
Pre-tax margin (%)	9.9	9.5	3.4			7.1	6.1			
Net margin (%)	8.0	6.2	3.7			5.7	4.8			

Source: Company data, RHB

Figure 3: Changes in earnings estimates

	New			Old			New/ Old (%)		
	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Income Statement (IDRbn)									
Total Turnover	65,931	68,761	74,320	65,429	69,620	74,062	0.8	(1.2)	0.3
Gross Profit	9,593	10,602	11,832	8,823	10,296	12,156	8.7	3.0	(2.7)
EBITDA	6,235	7,087	8,019	5,532	6,778	7,964	12.7	4.6	0.7
Net Profit	3,268	3,935	4,660	2,865	3,737	4,622	14.1	5.3	0.8

Source: Company data, RHB

Figure 4: RHB vs Street's estimates

	RHB			Street			RHB/Street (%)		
Income Statement (IDRbn)	2024F	2025F	2026F	2024F	2025F	2026F	2024F	2025F	2026F
Net Revenue	65,931	68,761	74,320	65,746	70,433	77,916	100.3	97.6	95.4
Gross Profit	9,593	10,602	11,832	9,421	10,513	12,205	101.8	100.9	96.9
EBITDA	6,235	7,087	8,019	6,168	6,789	7,893	101.1	104.4	101.6
EBIT	5,011	5,789	6,629	4,921	5,403	6,645	101.8	107.1	99.8
Pre-tax Profit	4,304	5,181	6,136	4,001	4,601	5,823	107.6	112.6	105.4
NPAT	3,268	3,935	4,660	3,214	3,590	4,551	101.7	109.6	102.4

Source: Company data, Bloomberg, RHB

Figure 5: DCF valuation

IDRbn	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F	2035F
EBIT	5,789	6,629	6,973	7,479	8,017	8,453	8,844	9,325	9,848	10,440	11,194
EBIT (1-t)	4,400	5,038	5,300	5,684	6,093	6,425	6,722	7,087	7,484	7,934	8,507
Depreciation & Amortization	1,297	1,390	1,547	1,653	1,764	1,880	2,225	2,368	2,518	2,676	2,843
Change in working capital	(324)	(739)	(380)	(458)	(489)	(500)	(529)	(514)	(533)	(504)	(520)
Capex	(2,080)	(2,184)	(2,293)	(2,408)	(2,528)	(2,655)	(2,787)	(2,927)	(3,073)	(3,227)	(3,453)
Net free cash flow to firm	3,293	3,505	4,174	4,471	4,839	5,150	5,631	6,015	6,397	6,879	7,377
Terminal Value											144,078
PV	**3,293**	**3,219**	**3,519**	**3,461**	**3,440**	**3,362**	**3,375**	**3,310**	**3,233**	**3,192**	**64,538**
Terminal growth	3.6%										
WACC	8.9%										
Total discounted firm value	97,943										
Less: net debt	4,507										
Less: minority interest	22										
Equity value	93,414										
Number of shares (bn)	16										
Equity value per share (IDR)	**5,697**										
ESG Premium (Discount)	2%										
Rounded TP (IDR)	**5,800**										
Assumption											
Risk free rate	6.7%										
Beta	0.5										
Equity market premium	6.0%										
WACC	8.9%										
Terminal growth	3.6%										

Source: Company data, Bloomberg, RHB

Emissions And ESG

Trend analysis
N/A

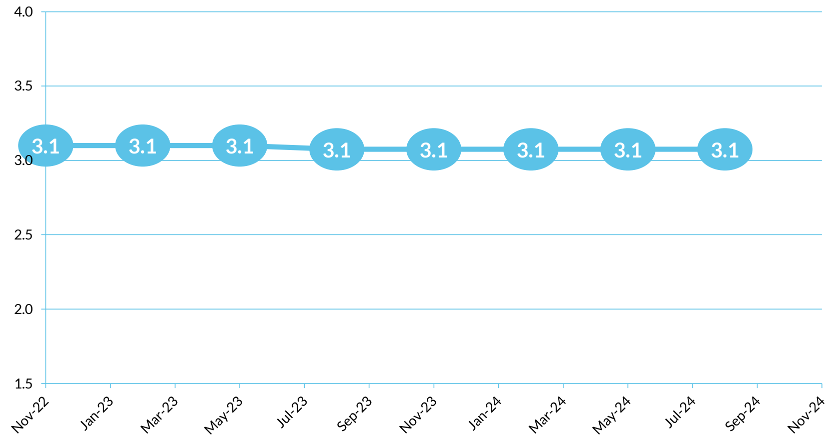
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	na	na	na
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

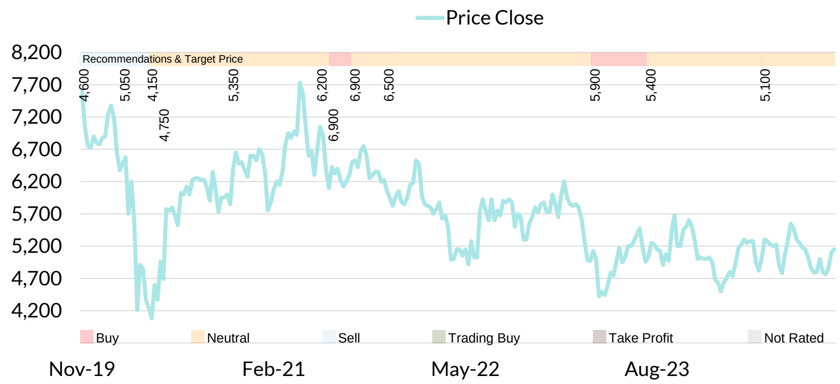
- CPIN's wastewater recycling programme at its food processing factory in Bandung, West Java is used to improve the water cycle around operational facilities and irrigate the surrounding community's rice fields during the dry season.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-05-02	Neutral	5,100	4,860
2023-08-02	Neutral	5,400	5,100
2023-03-21	Buy	5,900	4,970
2021-11-12	Neutral	6,500	6,050
2021-08-22	Neutral	6,900	6,500
2021-06-30	Buy	6,900	6,250
2021-06-03	Neutral	6,200	7,200
2020-11-02	Neutral	5,350	5,825
2020-05-20	Neutral	4,750	4,690
2020-04-24	Neutral	4,150	4,080
2020-04-21	Neutral	4,150	3,940
2020-02-17	Sell	5,050	6,575
2020-02-14	Sell	5,050	6,475
2019-11-01	Sell	4,600	6,850
2019-06-19	Neutral	4,900	4,480

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

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Take Profit:	Target price has been attained. Look to accumulate at lower levels
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