

1 October 2020

Consumer Non-cyclical | Food & Beverage Products

Japfa Ltd (JAP SP)

Not Rated

Too Cheap To Ignore

Target Price (Return): N/A
 Price: SGD0.60
 Market Cap: USD913m
 Avg Daily Turnover (SGD/USD) 1.5m/1.1m

• **Attractive valuation.** Japfa is an industrial agri-food company, which produces animal feed, poultry, swine and dairy products in emerging Asian markets. Its key markets include Indonesia, Vietnam and China. Currently trading at 6.8x FY19F P/E (c.7.6x P/E post-rights issue), we think its valuation is very attractive relative to peer average (10x FY21F P/E). Moreover, it has been generating record-high trailing 12-month PATMI since its IPO, and we see potential improvement in its 4Q20F Indonesia earnings.

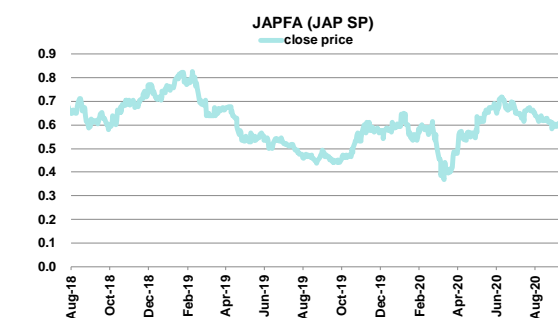
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.1	(4.0)	(12.4)	46.3	35.5
Relative	28.6	(1.4)	(7.6)	46.9	56.4
52-wk Price low/high (SGD)				0.38	– 0.67



Source: Bloomberg

• **Strong results to sustain into next year,** with two of its key divisions – Animal Protein Other (APO) and Dairy – still seeing elevated product prices due to industry supply shortages. Vietnam’s robust hog prices should continue to help the APO division’s earnings, as the country rebuilds its hog inventories after the African Swine Fever in 2019. This should help support Japfa’s feed sales volumes. Furthermore, its swine fattening volumes are likely to recover faster than the industry, as the company has built up its swine-breeding pyramid. In China, its dairy business continued to see resilient earnings in 1H20, despite the pandemic. Moving into 2H20 and FY21F, we expect earnings to remain strong on rising milk prices and faster consumption growth post-COVID-19. The company is also building its eighth dairy farm in China – expected to complete by end-2021.

• **Improvement to come from Indonesia.** Performance at its Indonesia poultry business, Japfa Comfeed (JPFA IJ, BUY, TP: IDR1,500), has stumbled significantly due to COVID-19 in 2Q20. It was severely impacted by the fall in poultry demand, which resulted in a major decline in live birds and day-old-chicks or DOC prices. However, we expect things to improve from 4Q20 as the Indonesian Government has put in place culling instructions for hatching eggs, and early retirement for parent stock. This should help mitigate Indonesia’s oversupply situation and stabilise prices.

• **It is a steal.** As at 1H20, the company has generated a core PATMI (ex-fx) of USD83m, representing 69% of its FY19 results, despite weakness in its JPFA division. It is likely to outperform its FY19 results, which makes JAP’s current valuation very compelling, compared to the peer average of 10x and its own average forward P/E of 8x.

• **Potential corporate action as catalyst.** Japfa recently announced that it is exploring a potential transaction relating to its Southeast Asian Dairy business, Greenfields Dairy Singapore (GDS). While this is still in a preliminary exploratory phase, we note that the market has yet price in the value of GDS for Japfa, as its contribution to bottomline is still immaterial. Any corporate action is thus positive in helping to unlock the value of GDS.

Forecasts and Valuation	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Total turnover (USDm)	2,787	3,033	3,190	3,533	3,890
Recurring net profit (USDm)	83	131	15	125	114
Recurring net profit growth (%)	65.2	57.2	(88.2)	710.7	(8.6)
Recurring P/E (x)	8.76	5.89	49.00	6.63	6.81
P/B (x)	1.2	1.2	1.1	1.0	0.9
P/CF (x)	4.30	2.57	10.39	4.63	2.80
Dividend Yield (%)	0.8	1.6	0.6	3.4	1.6
EV/EBITDA (x)	6.67	4.71	6.76	5.14	5.49
Return on average equity (%)	9.7	18.4	0.2	13.6	14.5
Net debt to equity (%)	68.6	46.2	69.4	92.8	90.8

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia	Financial summary (USD)	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Singapore	Recurring EPS	0.05	0.07	0.01	0.07	0.06
Consumer Non-cyclical	DPS	0.00	0.01	0.00	0.01	0.01
Japfa Ltd	BVPS	0.38	0.35	0.39	0.42	0.47
JAP SP	Return on average equity (%)	9.7	18.4	0.2	13.6	14.5
Not Rated						
	Valuation metrics	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
	Recurring P/E (x)	6.76	5.86	49.00	6.63	6.81
	P/B (x)	1.2	1.2	1.1	1.0	0.9
	FCF Yield (%)	4.0	15.2	(14.7)	(4.7)	1.3
	Dividend Yield (%)	0.8	1.6	0.9	3.4	1.6
	EV/EBITDA (x)	6.67	4.71	6.76	5.14	5.49
	EV/EBIT (x)	8.93	5.99	10.27	6.74	7.43
	Income statement (USDm)	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
	Total turnover	2,787	3,033	3,190	3,533	3,890
	Gross profit	520	665	574	770	814
	EBITDA	290	396	287	449	459
	Depreciation and amortisation	(73)	(85)	(98)	(107)	(120)
	Operating profit	217	311	189	342	339
	Net interest	(67)	(56)	(63)	(78)	(104)
	Pre-tax profit	112	255	108	244	247
	Taxation	(20)	(57)	(51)	(65)	(62)
	Reported net profit	65	119	1	100	120
	Recurring net profit	83	131	15	125	114
	Cash flow (USDm)	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
	Change in working capital	4	(29)	(86)	(118)	(47)
	Cash flow from operations	189	306	77	178	289
	Capex	(153)	(168)	(212)	(221)	(277)
	Cash flow from investing activities	(191)	(179)	(241)	(239)	(320)
	Dividends paid	0	(6)	(13)	(7)	(27)
	Cash flow from financing activities	(133)	63	66	(1)	77
	Cash at beginning of period	287	148	336	235	168
	Net change in cash	(135)	191	(98)	(63)	47
	Ending balance cash	152	339	239	172	215
	Balance sheet (USDm)	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
	Total cash and equivalents	148	336	235	168	209
	Tangible fixed assets	835	898	1,011	1,010	1,179
	Total investments	4	14	12	11	11
	Total assets	2,213	2,525	2,743	2,889	3,310
	Short-term debt	330	320	318	440	584
	Total long-term debt	510	520	627	777	793
	Total liabilities	1,204	1,436	1,720	1,759	2,024
	Total equity	1,009	1,089	1,023	1,130	1,287
	Total liabilities & equity	2,213	2,525	2,743	2,889	3,310
	Key metrics	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
	Revenue growth (%)	(5.4)	8.8	5.2	10.8	10.1
	Recurrent EPS growth (%)	65.2	57.2	(88.3)	689.1	(10.8)
	Gross margin (%)	18.7	21.9	18.0	21.8	20.9
	Operating EBITDA margin (%)	10.4	13.1	9.0	12.7	11.8
	Net profit margin (%)	2.3	3.9	0.0	2.8	3.1
	Dividend payout ratio (%)	10.0	10.6	495.5	27.1	11.1
	Capex/sales (%)	5.5	5.6	6.6	6.3	7.1
	Interest cover (x)	3.09	5.19	2.80	4.14	3.17

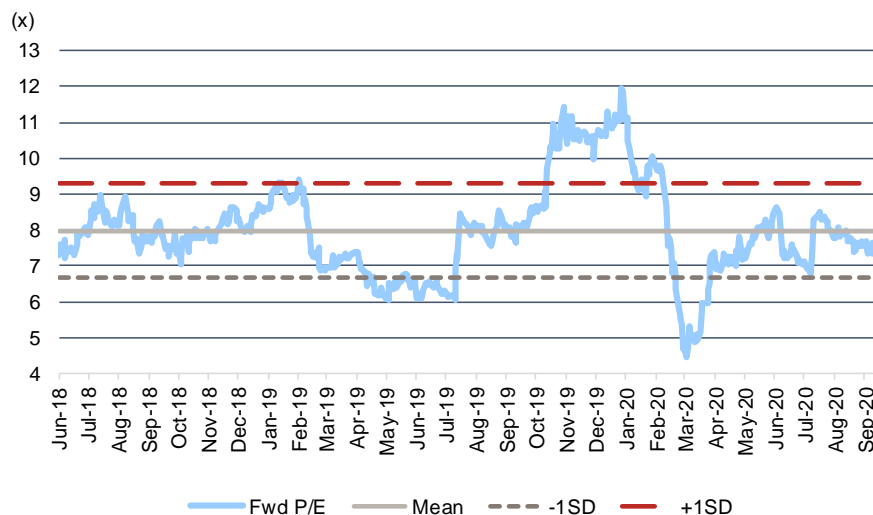
Source: Company data, RHB

Figure 1: Peer comparison

Company	BB Code	Market		P/E			EV/	P/BV			ROE			Div
		cap	FY20F	FY21F	FY22F	EBITD A FY20F	FY20F	FY21F	FY22F	FY20F	FY21F	FY22F	FY20F	
		(USD m)	(x)			(x)	(x)			(%)			(%)	
Japfa Ltd	JAP SP	896.8	7.5	7.1	6.5	6.0	0.8	0.8	0.7	13.1	11.4	11.0	2.3	
New Hope Liuhe	000876 CH	17497.0	9.9	7.0	8.3	9.3	3.1	2.2	1.7	32.9	32.3	19.0	1.8	
Charoen Pokphand Foods	CPF TB	7375.6	10.8	10.5	10.3	15.6	1.3	1.2	1.2	13.6	13.1	12.4	3.9	
Jiangxi Zhengbang	002157 CH	6694.3	5.0	4.7	7.1	5.6	2.6	1.9	1.6	51.9	38.1	21.3	4.6	
Charoen Pokphand Indo	CPIN IJ	6229.2	32.3	27.2	26.2	18.5	4.2	3.8	3.5	13.3	14.6	13.9	1.7	
Liaoning Wellhope	603609 CH	1814.7	8.1	7.5	6.9	7.5	1.8	1.5	1.3	21.4	20.3	18.5	2.6	
Japfa Comfeed	JPFA IJ	867.4	8.2	7.4	7.0	5.9	1.1	1.0	0.9	14.0	14.0	13.4	3.7	
Leong Hup	LHIB MK	623.0	17.8	11.8	11.8	8.0	1.5	1.4	1.3	9.0	11.4	11.8	1.4	
Malindo Feedmill	MAIN IJ	76.4	20.3	8.1	5.1	7.5	0.5	0.5	0.5	2.7	6.4	9.5	1.5	
AVERAGE			14.0	10.5	10.3	9.7	2.0	1.7	1.5	19.8	18.8	15.0	2.6	

Source: Bloomberg, RHB

Figure 2: Japfa is still trading below its forward P/E mean of 8x despite record high PATMI since the IPO



Source: Bloomberg

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-01-29	Not Rated	na	na

Source: RHB, Bloomberg

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