

23 June 2023

Consumer Non-cyclical | Food & Beverage Products

Japfa Comfeed (JPFA IJ)

Buy (Maintained)

A Glimpse Into JPFA's Operations; Keep BUY

Target Price (Return): IDR1,600 (+25%)
 Price (Market Cap): IDR1,280 (USD1,004m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (IDR/USD) 16,805m/1.10m

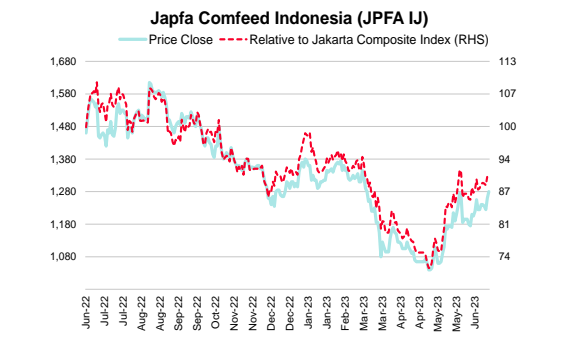
- **Maintain BUY and IDR1,600 TP, 25% upside and c.3% yield.** We recently joined Japfa Comfeed's site visit to see its commercial farm in Cisoka, poultry slaughterhouse (RPA), and F&B subsidiary So Good Food (SGF) in Cikupa. We note that management has been making an effort to strengthen its downstream business, particularly the processed food segment by launching new products and raising capacity. Together with the RPA, SGF should help to reduce JPFA's exposure to fluctuating farm gate prices.
- **Enhancing downstream through RPA...**The Cikupa plant is one of four RPAs that JPFA operates under its subsidiary, Ciomas Adisatwa. With the current capacity reaching 3,000 birds/hour, this facility is prominent in reducing the company's exposure to fluctuating broiler prices due to its ability to absorb live birds from commercial farms. In FY22, 30% of JPFA's live bird sales for the Banten region were taken up internally by SGF and RPA, while the rest was sold externally.
- **...and SGF at the forefront.** SGF enriched its product portfolio through product development, such as the crispy value added meat and premium So Nice ready-to-eat (RTE) chicken sausages, targeting consumers in the middle and upper-middle segments. We think this is positive to keep SGF competitive, while demand should also be more resilient. SGF stated that these products are showing strong traction despite we see being priced relatively higher than competitors. With its utilisation rate at c.75%, it has prepared an additional production line at the Boyolali plant, which is slated to operate in 2H23, to boost growth.
- **SGF's slight hiccup in 2Q23F.** A major portion of SGF's sales were from RTE sausages targeting consumers in the mid-to-low segment, which we deem to be more sensitive towards the inflationary pressure. We think there was likely a slowdown in 2Q23F in the midst of softer purchasing power. As such, volume will likely be impacted.
- **Ciomas commercial farm in Tangerang.** As at end-2022, JPFA has five commercial farms in Banten. Contract farmers contributed 49% of the capacity (2021: 47%) in the area. They are currently focusing to pick contract farmers with a closed house system to have a more optimal productivity.
- **2Q23 preview.** QTD average live bird price in West Java was c.IDR21,000, vs 1Q23 average of c.IDR17,200. Average day-old chick (DOC) price in the same area also rose to c.IDR4,500/bird in April and May (vs c.IDR2,440 in 1Q23). We think the price recovery was due to the last culling programme aimed at curbing the potential c.135m DOC oversupply from May to July. However, chicken prices should normalise in July on the back of the diminishing culling effect and low seasonality in 3Q. The feed segment's EBIT margin has been relatively stable in the past few quarters. We think JPFA will be able to continue to pass on the rising input costs from local corn (c.+11% YTD) and soybean meal prices (c.-12% YTD). Overall, we believe the company's margin will improve QoQ, with 2H23 outperforming 1H23 in light of the recovery for domestic consumption which may raise broiler demand. However, input costs could remain a challenge.

Analyst

Indonesia Research
 +6221 5093 9888
rhb.id.research@rhbgroup.com

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.2)	5.3	16.9	(1.9)	(12.3)
Relative	1.0	5.7	16.7	(0.1)	(8.3)
52-wk Price low/high (IDR)	1,040 – 1,615				



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: GOOD

JPFA launched two main initiatives of rainwater harvesting and reverse osmosis filtration. In March 2021, the company placed the first USD-denominated Sustainability-Linked Bond (SLB) from South-East Asia.

S: GOOD

JPFA formed the Japfa Peduli programme in 2017 to provide disaster relief such as providing essential food packages during flash flood and distributed aid during the Semeru Volcano eruption.

G: EXCELLENT

JPFA has implemented good corporate governance by always being transparent and disclose all of its activities to its investors and giving rights for its shareholders.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (IDRb)	44,878	48,972	52,547	55,952	59,707
Recurring net profit (IDRb)	1,781	1,468	1,788	2,181	2,725
Recurring net profit growth (%)	73.5	(17.6)	21.8	21.9	24.9
Recurring P/E (x)	8.43	10.22	8.39	6.88	5.51
P/B (x)	1.2	1.1	1.0	0.9	0.8
P/CF (x)	na	13.64	5.93	4.42	4.67
Dividend Yield (%)	1.6	4.6	3.3	4.1	5.0
EV/EBITDA (x)	5.50	7.03	5.60	4.90	4.50
Return on average equity (%)	17.4	11.0	12.9	14.2	15.9
Net debt to equity (%)	69.3	80.9	75.3	64.4	56.5

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (IDR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Indonesia	Recurring EPS	151.87	125.19	152.50	185.97	232.35
Consumer Non-cyclical	DPS	19.88	59.46	41.74	52.57	64.11
Japfa Comfeed	BVPS	1,062.24	1,130.68	1,241.45	1,374.84	1,543.09
JPFA IJ	Return on average equity (%)	17.4	11.0	12.9	14.2	15.9
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	8.43	10.22	8.39	6.88	5.51
Our 12M TP of IDR1,600 is based on a 10-year DCF valuation.	P/B (x)	1.2	1.1	1.0	0.9	0.8
	FCF Yield (%)	(13.4)	(5.6)	2.7	7.0	5.0
	Dividend Yield (%)	1.6	4.6	3.3	4.1	5.0
	EV/EBITDA (x)	5.50	7.03	5.60	4.90	4.50
	EV/EBIT (x)	7.58	9.41	7.53	6.53	5.63
	Income statement (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total turnover	44,878	48,972	52,547	55,952	59,707
	Gross profit	8,020	7,683	9,171	10,061	10,920
	EBITDA	4,437	3,753	4,770	5,356	5,819
	Depreciation and amortisation	(1,215)	(950)	(1,222)	(1,337)	(1,168)
	Operating profit	3,222	2,803	3,548	4,018	4,651
	Net interest	(739)	(809)	(887)	(773)	(763)
	Pre-tax profit	2,794	1,955	2,661	3,245	3,888
	Taxation	(663)	(464)	(798)	(974)	(1,050)
	Reported net profit	2,023	1,420	1,788	2,181	2,725
	Recurring net profit	1,781	1,468	1,788	2,181	2,725
	Cash flow (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(3,544)	(1,170)	(479)	(124)	(682)
	Cash flow from operations	(387)	1,101	2,532	3,394	3,212
	Capex	(1,617)	(1,937)	(2,131)	(2,344)	(2,461)
	Cash flow from investing activities	(1,357)	(2,112)	(2,464)	(2,392)	(2,516)
	Cash flow from financing activities	1,493	1,737	(789)	(942)	(646)
	Cash at beginning of period	1,336	1,085	1,811	1,090	1,149
	Net change in cash	(251)	726	(721)	59	49
	Ending balance cash	1,085	1,811	1,090	1,149	1,198
	Balance sheet (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	1,085	1,811	1,090	1,149	1,198
	Tangible fixed assets	11,510	12,497	13,406	14,413	15,705
	Total investments	535	601	601	601	601
	Total assets	28,590	32,691	33,891	35,404	37,794
	Short-term debt	3,031	4,435	4,100	5,300	3,600
	Total long-term debt	7,132	8,426	8,300	6,600	8,200
	Total liabilities	15,487	19,036	18,863	18,720	19,024
	Total equity	13,103	13,655	15,028	16,683	18,770
	Total liabilities & equity	28,590	32,691	33,891	35,404	37,794
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	21.4	9.1	7.3	6.5	6.7
	Recurrent EPS growth (%)	73.5	(17.6)	21.8	21.9	24.9
	Gross margin (%)	17.9	15.7	17.5	18.0	18.3
	Operating EBITDA margin (%)	9.9	7.7	9.1	9.6	9.7
	Net profit margin (%)	4.5	2.9	3.4	3.9	4.6
	Dividend payout ratio (%)	11.5	49.1	27.4	28.3	27.6
	Capex/sales (%)	3.6	4.0	4.1	4.2	4.1
	Interest cover (x)	3.99	3.43	3.58	4.82	5.63

Source: Company data, RHB

Figure 1: Cikupa plant is in a land area of 5 ha



Source: Company data

Figure 2: Waste water treatment plant as part of its health, safety and environment commitment



Source: Company data

Figure 3: Inside look at SGF's production facility



Source: Company data



Figure 4: New products such as crispy value added meat and premium RTE sausages should keep SGF high on the consumer radar

New Product : Crispy Value Added Meat

So Good Crispy Chicken Nugget 400 g

So Good Crispy BBQ Chicken Wings 400 g

SO NICE RTE Sausage Category : Fun Protein

Chicken, Fish & Beef Flavour 25 x 23 gram

Teman Mie 17 x 40 gram

Chicken, Beef & Character 3 x 20 gram

Cheese & Hot 1 x 45 gram

Original, Cheese, Smoked Bratwurst 1 x 60 gram

Chilled Product #PemadamKecaparam

Source: Company data

Figure 5: Premium So Nice RTE sausages are priced slightly higher vs competitors on average. Note that competitors' products are a mix of chicken and beef

Brand	Volume (grams)	Price (IDR/pack)	Price/gm
SGF			
SO NICE Sosis Premium Original	60	8,500	141.67
SO NICE Sosis Premium Smoked Bratwst	60	8,500	141.67
SO NICE Sosis Premium Keju	60	8,500	141.67
Competitors			
FIESTA Ready To Go Sausage	65	8,500	130.77
Kimbo Probites Mexican Jalapeno	60	8,600	143.33
Kimbo Probites NY Melting Cheese	60	8,600	143.33
Kimbo Probites Korean Hot & Spicy	60	8,600	143.33
Kanzler Single Gochujang	60	8,500	141.67
Kanzler Single Hot	65	8,500	130.77
Kanzler Single Keju	65	8,500	130.77

Source: Tokopedia, RHB

Figure 6: So Good Crispy Chicken Nugget priced at a c.12% premium vs competitors on average

Brand	Volume (grams)	Price (IDR/pack)	Price/ gram
SGF			
So Good Crispy Chicken Nugget	400	54,900	137.25
Competitors			
Fiesta Crispy Bubble Nugget	500	59,900	119.80
Sunny Gold Pop Nugget Crispy Chicken	440	56,900	129.32
Kanzler Nugget Crispy	450	53,900	119.78

Source: Tokopedia, RHB

Figure 7: Wide range of product offering to cater to different segments of consumers

OUR PRODUCT PORTOFOLIO
(83 SKUs under 3 brands)

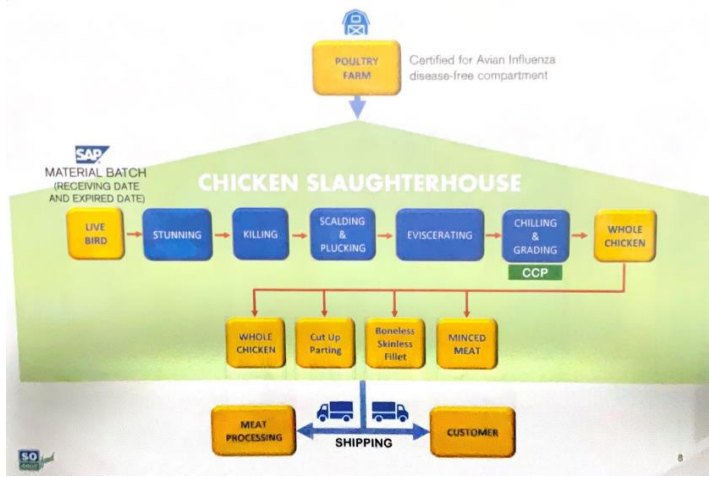


Brand	Product Samples	Category	# SKU	Target Consumer
SO GOOD		Frozen Food : • Ready to Cook	36	<ul style="list-style-type: none"> Moms with kids 5 – 10 years old 25 – 34 years old Middle-up class segment
		• Uncooked Chicken Cut	5	
		• Fresh Healthy Omega Egg	2	
SO NICE		Frozen Food : • Ready to Cook	12	Ready to Cook : • Moms • Middle class segment
		Dry : • Ready to Eat Sausage	12	Ready to Eat : • Kids • 5 – 14 years old
REAL GOOD		Dry : • Liquid UHT Milk	16	Real Good • Kids, 5 – 14 years old So Good Sterilized Milk • Adult, 15+ years old



Source: Company data

Figure 8: Production flow and final products from RPA



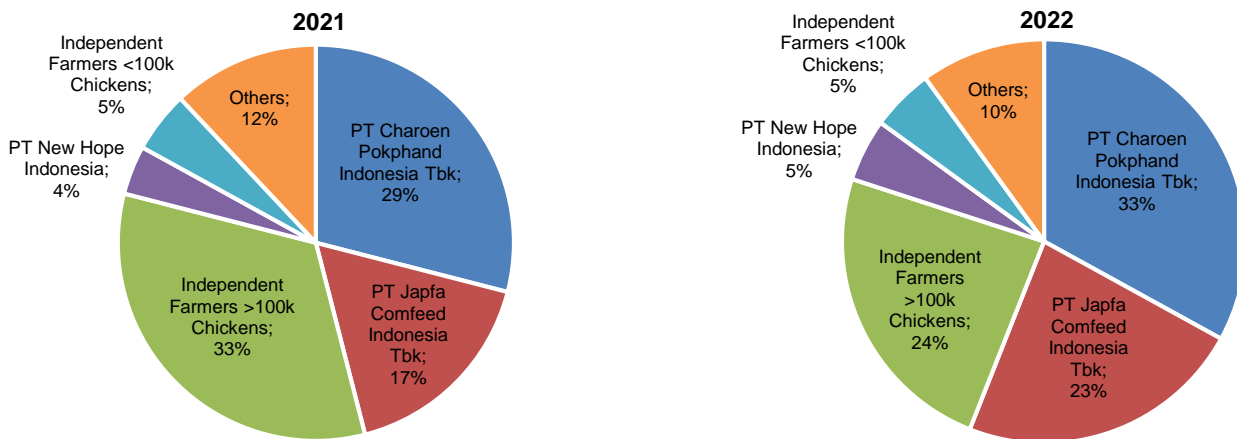
Source: Company data

Figure 9: Well organised production process inside the Cikupa RPA



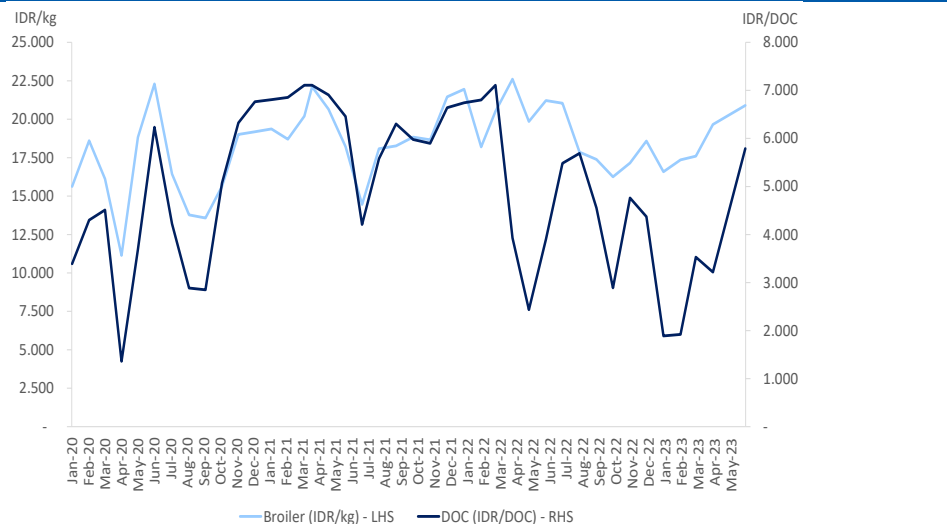
Source: Company data

Figure 10: Market share of live birds in the Banten region estimated by JPFA



Source: Company, RHB

Figure 11: Monthly DOC and broiler prices in West Java



Source: Company data, RHB

Figure 12: Cisoka commercial farm – 4.6 ha land area contains four double- and one single-deck barn closed house system



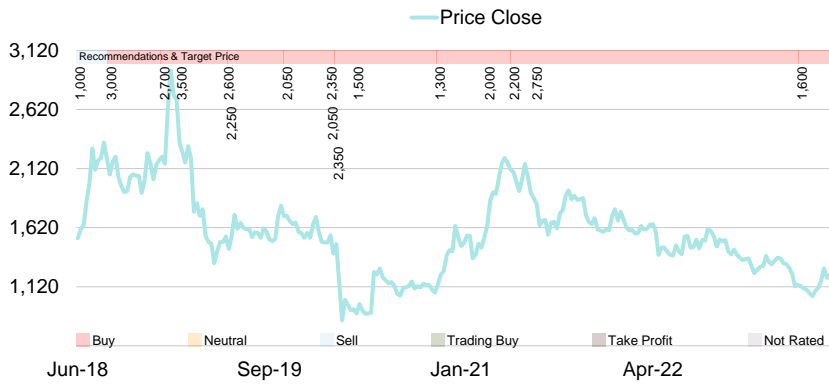
Source: Company data

Figure 13: Broiler growth process starting from DOC, 7 days old, 14 days old, and 24 days old



Source: Company data

Recommendation Chart

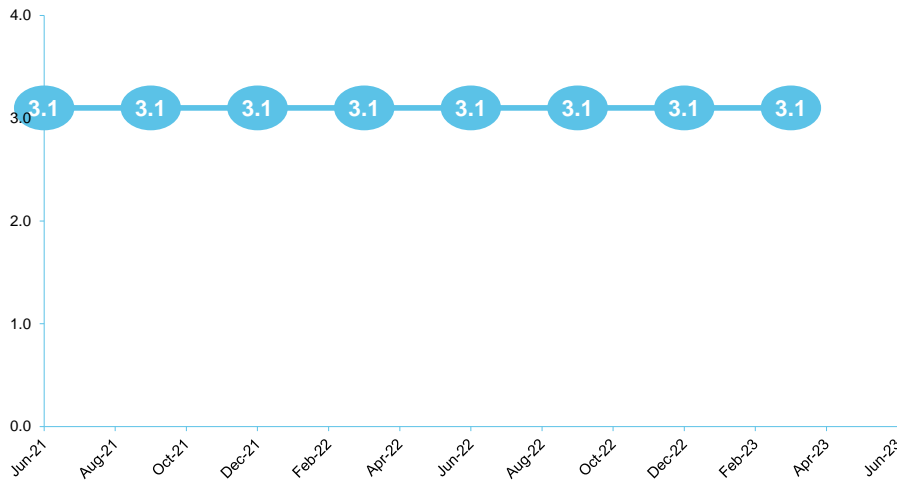


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-03-21	Buy	1,600	1,095
2021-11-01	Buy	2,750	1,750
2021-06-23	Buy	2,750	1,875
2021-04-30	Buy	2,200	2,110
2021-03-02	Buy	2,000	1,580
2020-11-02	Buy	1,300	1,055
2020-04-20	Buy	1,500	915
2020-03-02	Buy	2,350	1,460
2020-02-17	Buy	2,050	1,515
2020-02-14	Buy	2,350	1,495
2019-10-31	Buy	2,050	1,720
2019-06-19	Buy	2,250	1,440
2019-06-12	Buy	2,600	1,605
2019-03-12	Buy	3,500	2,200
2019-03-04	Buy	3,500	2,230

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470