

# PT Charoen Pokphand Indonesia Tbk (CPIN)

Company Focus

March 4, 2019

## Higher profitability from broiler improvement

**Background.** PT Charoen Pokphand Indonesia Tbk (CPIN) was established in 1972 by Charoen Pokphand Group, to engage in the feed mill industry, breeding and cultivation of chicken and its processing, food processing industry, preservation of chicken meat and beef, including cold storage units. The company has become the market leader in Indonesia within each business segment, with a market share of ~30% in poultry feed, ~30% for Day Old Chicks (DOC), and ~50% for processed chicken. As the leader in the agro-business industry, CPIN operating activities supported by 20 production facilities and extensive distribution network with more than 1,200 agents or poultry shops across all regions.

**Potential chicken consumption growth.** Chicken consumption per capita in Indonesia is expected to increase rapidly to more than 15 kg annually, from the current consumption of 10 kg. Indonesia poultry consumption is estimated to surpass its ASEAN peers, given its position as the fourth most populous country in the world and the largest Muslim nation. The demand for chicken meat will grow in line with Indonesian income per capita, which expected to reach USD 7,000 by 2028. In Indonesia, poultry is the most affordable source of animal protein. As of September 2018, the price of chicken meat was at IDR 35,000/kg with a protein content of 18.5%, while fish offered a higher price of IDR 49,000/kg but with a lower protein content of 17.5%, and beef is the most expensive with a price of IDR 120,000/kg and a protein content of 20%.

**Recovery of broiler segment.** Broiler segment gross profit expected to be positive after recording a loss in 2017. The selling price of broiler and DOC has been recovered after the government banned the use of antibiotics for growth promotion (AGP) in order to address the oversupply of chicken. The combined broiler and DOC segment contribution accounted for 36% of CPIN's total gross profit. The gross margin estimated to stabilize, even more after the government increase the reference price for eggs and broiler at the farm and consumer level.

**Well managed raw material cost.** We expected that CPIN's margin to improve due to the ease pressure from corn price fluctuation. The Trade Ministry estimated Indonesia will record a surplus of corn production by 2021, with total production to reach 32.65 million tons. Corn and soybean meal price is the key raw material for the company's poultry feed production. Corn price also expected to be less volatile after the government assign an additional 30,000 ton import of corn, which will be valid until the end of March, or right before the harvest season. Moreover, the company also has prepared a capex budget as much as 3.5Tn for the period 2019-2021, which mostly will be used for additions of poultry feed supporting facilities such as silos and warehouses for raw materials.

**Valuation.** We recommend overweight in CPIN, given its strong market share position to capture the potential growth of Indonesia attractive poultry market. The company also has better profitability compared to its domestic peers, including JPFA and MAIN. We derived out TP at IDR 8,500 (16% Upside) based on the blended DCF method. Our target price implies 2019F P/E of 28x.

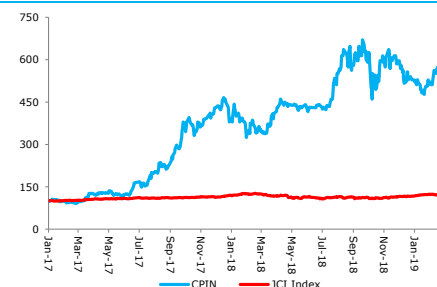
Year to Dec.	Sales (Bn IDR)	OP (Bn IDR)	Pre-tax (Bn IDR)	NP (Bn IDR)	EPS (IDR)	BPS (IDR)	PER (x)	EV/EBITDA (x)	PBV (x)	ROAE (%)
2016	38,257	4,417	3,984	2,221	136	863	38,257	4,417	3,984	2,221
2017	49,367	3,716	3,256	2,498	152	958	49,367	3,716	3,256	2,498
2018F	53,412	6,406	5,908	4,529	276	1,214	53,412	6,406	5,908	4,529
2019F	57,871	6,822	6,401	4,907	299	1,441	57,871	6,822	6,401	4,907
2020F	62,793	8,310	7,853	6,020	367	1,720	62,793	8,310	7,853	6,020

Source: Company, Shinhan Sekuritas Indonesia

## Overweight

Current Price (IDR) (28/02)	7,300
<b>Target price (IDR)</b>	<b>8,500</b>
Upside/Downside (%)	16%
52 Week High (IDR)	8,825
52 Week Low (IDR)	3,200
<b>Major Shareholders:</b>	
Charoen Pokphand Indonesia Group	56%

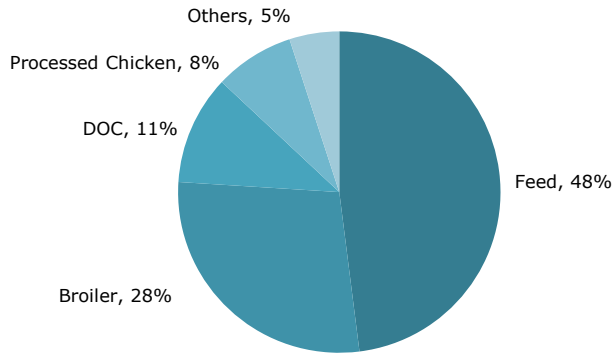
## Stock Price Movement



Source: Bloomberg, Shinhan Sekuritas Indonesia

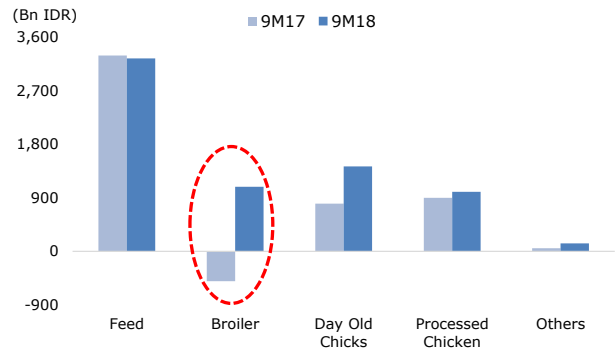
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**Poultry feed remained the main revenue contributor in 9M18**



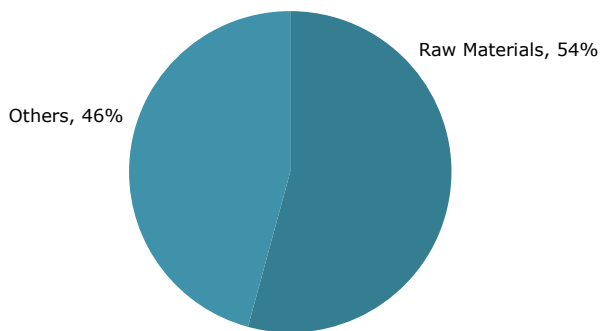
Source: Company, Shinhan Sekuritas Indonesia

**Broiler gross profits turned to positive in 9M18 due to higher sales volume and selling price**



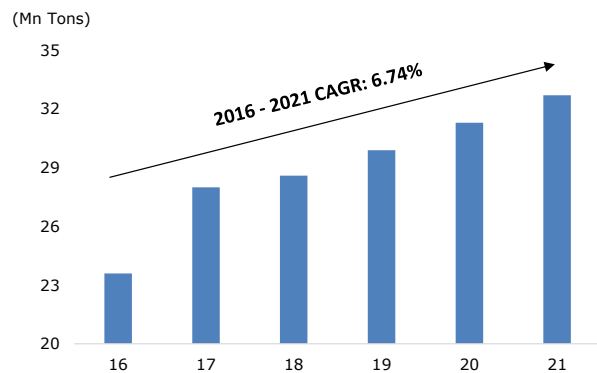
Source: Company, Shinhan Sekuritas Indonesia

**Raw materials used accounted for 45% of COGS in 9M18, with corn and soybean meal as the key component**



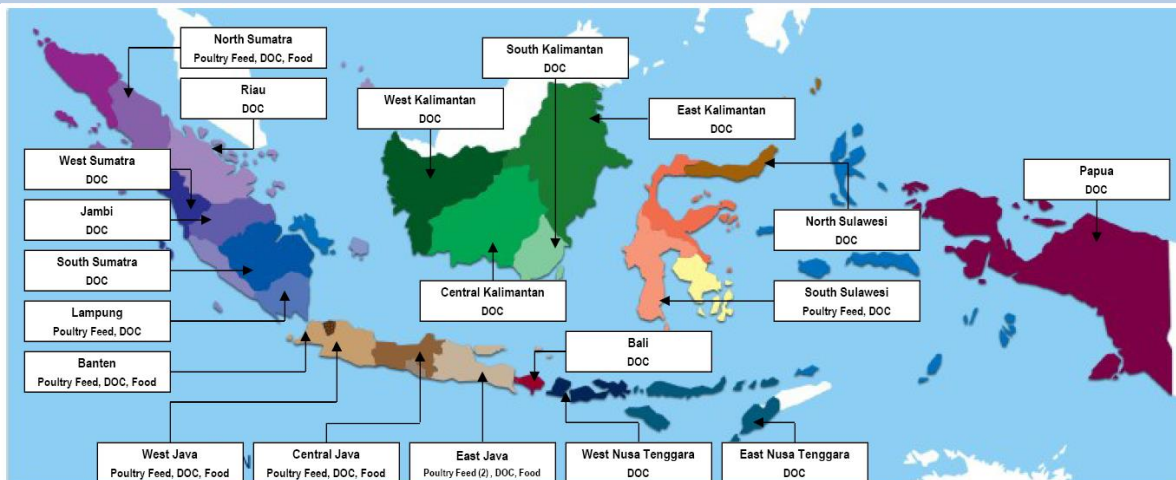
Source: Company, Shinhan Sekuritas Indonesia

**Corn Production expected to reach 32.65 million tons, with 2016-2021 CAGR: 6.74%**



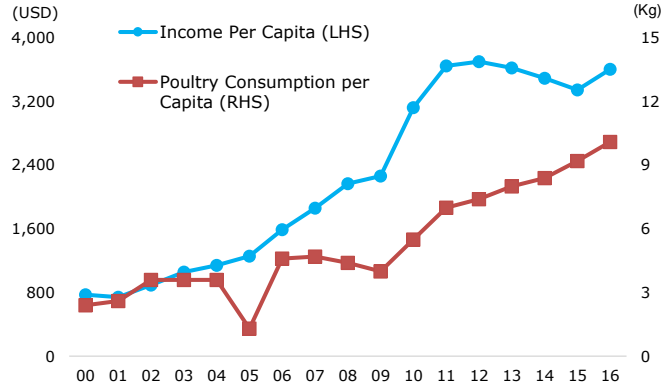
Source: Ministry of Trade, Shinhan Sekuritas Indonesia

**CPIN owned 20 nationwide production facilities**



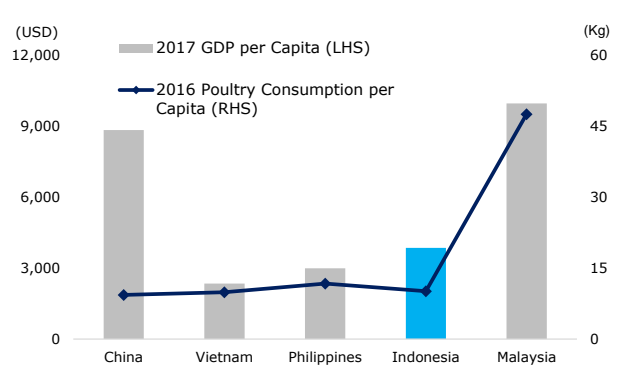
Source: Company

**Indonesia poultry consumption expected to grow in line with the gradual increase of income per capita**



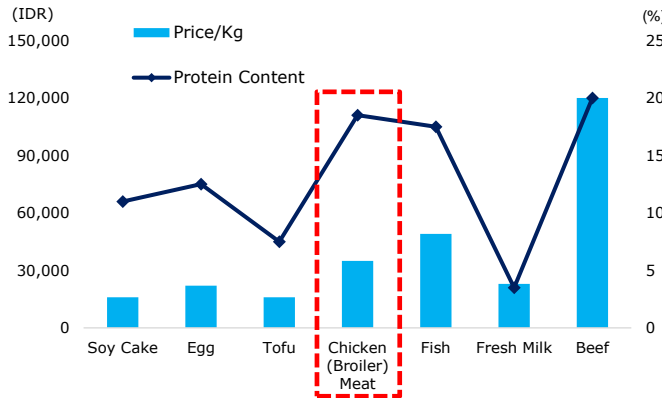
Source: Company, World Bank & FAO, Shinhan Sekuritas Indonesia

**Poultry consumption per capita in Indonesia is estimated to exceed Philippines, as estimated to grow to 15 kg**



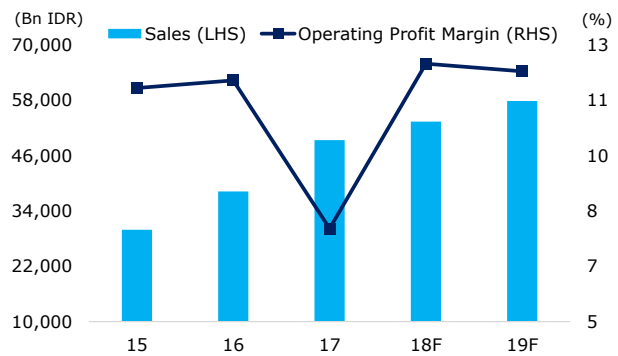
Source: Company, World Bank and Frost & Sullivan, Shinhan Sekuritas Indonesia

**Chicken (Broiler) Meat is the most affordable source of animal protein in Indonesia**



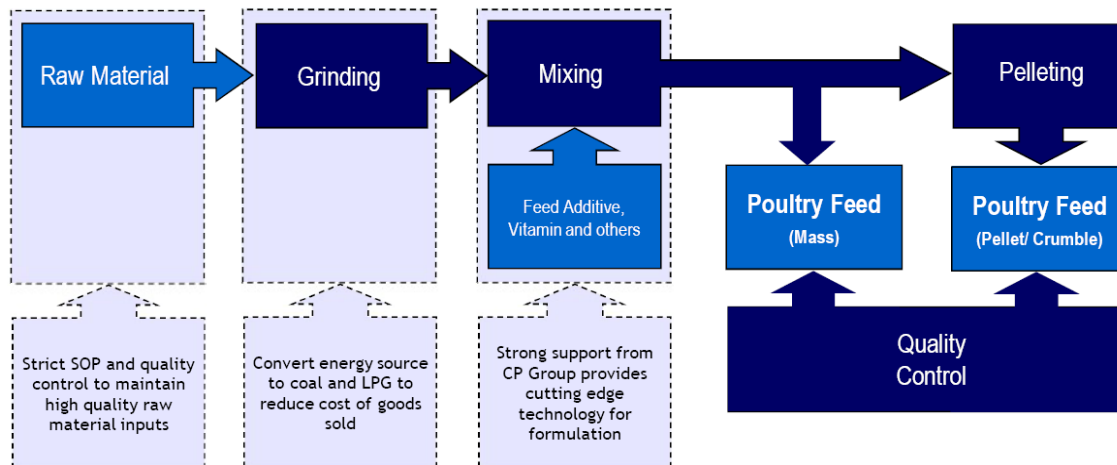
Source: Company, Shinhan Sekuritas Indonesia

**CPIN's net sales and operating profit margin**



Source: Company, Shinhan Sekuritas Indonesia

**Production processes poultry feed**



Source: Company

### Income Statement

Year-end 31 Dec (Bn IDR)	2016	2017	2018F	2019F
<b>Sales</b>	<b>38,257</b>	<b>49,367</b>	<b>53,412</b>	<b>57,871</b>
COGS	31,743	43,116	44,444	48,095
Gross Profit	6,514	6,251	8,968	9,777
<b>EBITDA</b>	<b>5,095</b>	<b>4,464</b>	<b>7,317</b>	<b>7,800</b>
Operating Expense	(2,097)	(2,535)	(2,562)	(2,954)
<b>Operating Profit</b>	<b>4,417</b>	<b>3,716</b>	<b>6,406</b>	<b>6,822</b>
Pre-Tax Profit	3,984	3,256	5,908	6,401
Income Tax - Net	1,732	759	1,377	1,492
<b>Net Profit</b>	<b>2,221</b>	<b>2,498</b>	<b>4,529</b>	<b>4,907</b>
EPS (IDR)	136	152	276	299

Source: Company, Shinhan Sekuritas Indonesia Estimates

### Cashflow Analysis

Year-end 31 Dec (Bn IDR)	2016	2017	2018F	2019F
<b>CFs from Operation</b>				
Net Profit	2,221	2,498	4,529	4,907
Change in NWC	(1,308)	(3,603)	(4,067)	(4,687)
<b>CFs from Operation</b>	<b>913</b>	<b>(1,105)</b>	<b>462</b>	<b>220</b>
<b>CFs from Investments</b>	<b>470</b>	<b>(415)</b>	<b>(1,769)</b>	<b>(275)</b>
<b>CFs from Financing</b>	<b>(2,088)</b>	<b>(738)</b>	<b>(209)</b>	<b>(515)</b>
Net Inc./ (Dec.) in Cash	825	(711)	1,926	3,159
<b>Cash at End Period</b>	<b>2,504</b>	<b>1,793</b>	<b>3,719</b>	<b>6,878</b>

Source: Company, Shinhan Sekuritas Indonesia Estimates

### Balance Sheet

Year-end 31 Dec (Bn IDR)	2016	2017	2018F	2019F
<b>Assets</b>				
Cash and Equivalent	2,504	1,793	3,719	6,878
Receivables	2,316	2,360	3,205	3,472
Inventories	6,421	7,039	7,111	7,695
Others	576	528	536	581
<b>Total Current Assets</b>	<b>11,818</b>	<b>11,721</b>	<b>14,571</b>	<b>18,626</b>
Net Fixed Assets	11,234	11,009	12,698	12,890
Other Assets	1,154	1,793	1,872	1,955
<b>Total Assets</b>	<b>24,205</b>	<b>24,523</b>	<b>29,142</b>	<b>33,472</b>
<b>Liabilities and Equities</b>				
Payables	2,562	2,160	2,671	3,472
Other Short-Term Liabilities	2,989	2,899	3,775	4,089
<b>Total Current Liabilities</b>	<b>5,550</b>	<b>5,060</b>	<b>6,446</b>	<b>7,562</b>
LT. Debt	3,646	3,005	2,033	1,518
Other Long Term Liabilities	851	755	755	755
<b>Total Long-Term Liabilities</b>	<b>4,497</b>	<b>3,760</b>	<b>2,788</b>	<b>2,273</b>
<b>Total Liabilities</b>	<b>10,048</b>	<b>8,820</b>	<b>9,234</b>	<b>9,835</b>
<b>Shareholders' Equity</b>	<b>14,157</b>	<b>15,703</b>	<b>19,908</b>	<b>23,637</b>
BVPS (Rp)	863	958	1,214	1,441

Source: Company, Shinhan Sekuritas Indonesia Estimates

### Key Ratio Analysis

Year-end 31 Dec (Bn IDR)	2016	2017	2018F	2019F
<b>Profitability</b>				
Gross Margin	17.0%	12.7%	16.8%	16.9%
Operating Margin	11.5%	7.5%	12.0%	11.8%
EBITDA Margin	13.3%	9.0%	13.7%	13.5%
Net Income Margin	5.8%	5.1%	8.5%	8.5%
ROAA	9.1%	10.2%	16.9%	15.7%
ROAE	16.5%	16.7%	25.4%	22.5%
<b>Growth</b>				
Revenue	27.9%	29.0%	8.2%	8.3%
Operating Profit	30.2%	-15.9%	72.4%	6.5%
EBITDA	28.1%	-12.4%	63.9%	6.6%
Net Income	20.9%	12.5%	81.3%	8.3%
<b>Solvability</b>				
Current Ratio (x)	2.1	2.3	2.3	2.5
Quick Ratio (x)	1.0	0.9	1.2	1.4
Debt to Equity (x)	0.7	0.6	0.5	0.4
Interest Coverage (x)	6.8	7.5	11.9	13.1

Source: Company, Shinhan Sekuritas Indonesia Estimates

### Valuation

Year-end 31 Dec	2016	2017	2018F	2019F
PER (x)	22.8	19.7	26.1	24.4
PBV (x)	3.6	3.1	6.0	5.1
EV/EBITDA (x)	11.4	12.6	16.9	15.7
EV/Sales (x)	1.5	1.1	2.3	2.1

Source: Company, Shinhan Sekuritas Indonesia Estimates



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