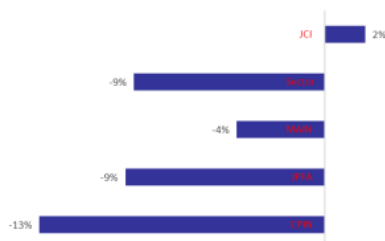


Friday, 22 September 2023

OVERWEIGHT

Maintain

YTD share price performance



Poultry sector EV/EBITDA band chart



Source : Bloomberg



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Poultry

Poised for 4Q23 recovery despite ST headwinds

While recent weak broiler prices and higher local corn prices may drive lower 3Q23 earnings (qoq), we maintain our Overweight view on the back of cheap valuation (at 9.2x EV/EBITDA, -1SD to 5-year average) in view of the potential earnings recovery in 4Q23 and FY24F (22% EPS growth).

Weak broiler prices in the second week of September, DOC remained robust. Despite the ongoing supply adjustment mechanism through culling, livebird (LB) prices in West Java dropped to IDR18k/kg in mid-September from IDR21k in the early month. In the past two years, LB prices have been weak during September. Meanwhile, DOC prices remained high at around IDR 7,500/chick signaling a tighter supply due to the culling programs. Hence, the pressure on LB prices is coming from the demand side, in our view.

Local corn prices surged amid El-Nino. Despite having reversed their uptrend in mid-September, the rising local corn prices, which have reached c. IDR 6,300 in early September, will affect the feed costs in 3Q23. We note that corn purchases by feedmiller declined 37% y-o-y/ 16% q-o-q in Aug23 indicating a tight supply or production. In Aug-23, the average water content of purchased corn came in lower at 15.97% (Aug-22/Jul-23: 16.60%/16.44%) which was attributed to less rainfall or hotter temperatures, in our view. Despite the ongoing El-Nino, government project corn demand for feedmill industry in 4Q23 to be 12% qoq lower, which should provide some cap for corn prices in 4Q23.

SBM prices fell to sub-USD 400/ton. SBM prices fell to below USD400/ton in mid-Sep23 as the market is anticipating US crops to produce good yields. Yield potential for soybeans ticked up slightly after declining for weeks due to a historic dry stretch across the US corn belt. YTD SBM prices stood at USD 443/ton, slightly lower than our FY23F of USD 455.

3Q23 outlook: lower q-o-q earnings. Driven by the higher local corn average prices, though slightly offset by lower SBM prices, we see a lower q-o-q margin for the players in 3Q23. We estimate 3Q23 net profit to range at IDR 930-1,232 billion and IDR 105-353 billion in 3Q23 for CPIN and JPFA respectively. As the consensus is expecting CPIN/JPFA FY23F earnings at IDR 3.2/1.2 trillion, we opine there could be some pressure on JPFA as our higher end 3Q23 forecast will put its 9M23 achievement at 36% of FY23F (CPIN is safer at 74%).

Overweight the sector. After recent underperformance, the sector now trades at attractive valuation at 9.2x (vs. 11.0x for 5-year average) with intact potential earnings growth post the elections in 2024 (our FY24F EPS growth of 22% and EBITDA at 17%) from moderation in raw material costs, a lower cost of culling, and more stable chicken prices. Our top pick is CPIN given the high contribution of its commercial farming business and underperformance YTD.

Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%) 2024F
					2023F	2024F	2023F	2024F	
Charoen Pokphand Indonesia	CPIN IJ	BUY	6,700	80,514.2	25.9	23.3	2.9	2.7	12.0
Japfa Comfeed Indonesia	JPFA IJ	BUY	1,500	13,720.1	13.2	8.6	1.0	0.9	11.5
Malindo Feedmill Indonesia	MAIN IJ	BUY	550	1,052.2	n/m	8.2	0.5	0.4	5.4

Weak broiler prices in the second week of September, DOC remained robust
 Despite the ongoing supply adjustment mechanism through culling, livebird (LB) prices in West Java dropped to IDR18k/kg in mid-September from IDR21k in the early month. In the past two years, LB prices have been weak during September. DOC prices remained high at around IDR 7,500/chick signaling a tighter supply due to the culling programs. Hence, the pressure on LB prices is coming from the demand side, in our view. We expect broiler prices to recover in 4Q23 driven by seasonality and higher government spending to support consumption.

Exhibit 1. Monthly livebird price (IDR/kg)



Source: Various sources, BRI Danareksa Sekuritas (until Sep, 15th 2023)

Exhibit 2. Monthly DOC price (IDR/chick)



Source: Various sources, BRI Danareksa Sekuritas (until Sep, 15th 2023)

Local corn prices surged amid El-Nino

Despite having reversed their uptrend in mid-September, the rising local corn prices, which have reached c. IDR 6,300 in early September, will affect the feed costs in 3Q23. We noted that corn purchases by feedmiller declined 37% y-o-y and 16% q-o-q in August 2023 indicating a tight supply or production. In Aug-23, the average water content of purchased corn came in lower at 15.97% (Aug-22/Jul-23: 16.60%/16.44%) which attributed to less rainfall or hotter temperatures, in our view. Despite the ongoing El-Nino, we project corn demand for feedmill industry in 4Q23 to be 12% lower qoq, which should provide some cap for corn prices in 4Q23.

Exhibit 3. Monthly corn price (IDR/kg)



Source: Various sources, BRI Danareksa Sekuritas (until Sep, 15th 2023)

Exhibit 4. Monthly SBM price (USD/ton)



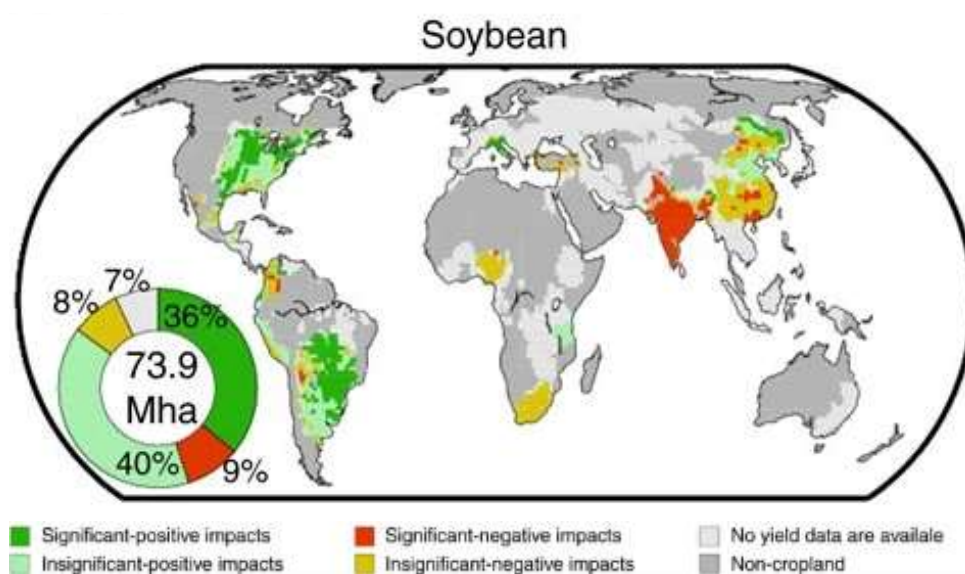
Source: Bloomberg, BRI Danareksa Sekuritas (until Sep, 15th 2023)

SBM prices declined to below USD 400/ton

Soybean meal (SBM) prices declined to below USD400/ton in mid-September as the market is anticipating US crops to produce good yields. Yield potential for soybeans ticked up slightly after declining for weeks due to a historic dry stretch across the US corn belt. YTD SBM prices stood at USD 443/ton, slightly lower than our FY23F of USD 455.

As some of the largest soybean producers are benefiting from the El Nino due to increasing yield, global soybean meal production is expected to increase. This is especially true for Argentina which have been faced with severe drought in the past two years.

Exhibit 5. El Nino impact to soybean yield anomalies

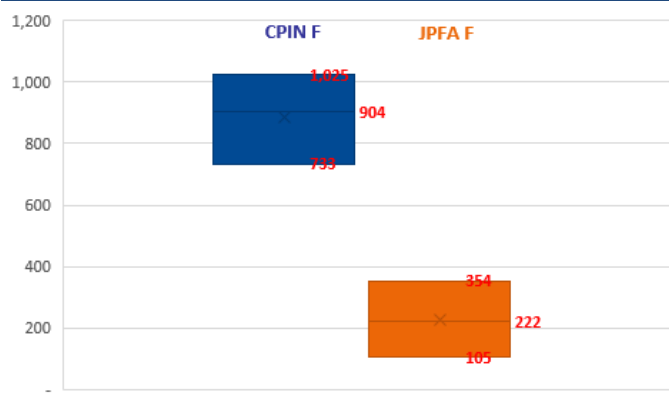


Source: Iizumi, T. et al. Impacts of El Niño Southern Oscillation on the global yields of major crops. *Nat. Commun.* 5:3712 doi: 10.1038/ncomms4712 (2014).

3Q23 preview: lower q-o-q earnings

Driven by the higher local corn average prices, slightly offset by lower SBM average prices, we estimate a lower q-o-q margin in 3Q23. We estimate 3Q23 net profit to range at IDR 930-1,232 billion and IDR 105-353 billion in 3Q23 for CPIN and JPFA respectively. As the consensus is expecting CPIN/JPFA FY23F earnings at IDR 3.2/1.2 trillion, we opine there could be some pressure on JPFA as our higher end 3Q23 forecast will put its 9M23 achievement at 36% of FY23F (CPIN is safer at 74%).

Exhibit 6. BRIDS estimates on 3Q23 earnings



Source: Company, BRI Danareksa Sekuritas

Exhibit 7. Quarterly earnings



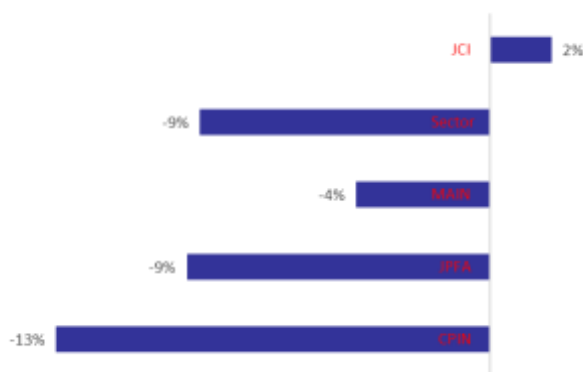
Source: Bloomberg, BRI Danareksa Sekuritas

Maintain Overweight on the sector

We maintain our Overweight stance on the sector as we believe the sector has underperformed amid its potential earnings growth post the elections in 2024 from moderation in raw material costs, a lower cost of culling, and more stable chicken prices. Our top pick is CPIN given the high contribution of its commercial farming business and underperformance YTD at -13% vs sector at -9%.

The sector is currently trading at 9.2x EV/EBITDA (-1SD of its 5-year average). CPIN and MAIN are trading at cheaper valuations of 14.4x and 6.5x respectively, slightly below their respective 5-year average. JPFA is trading at 6.8x EV/EBITDA, slightly below its 5-year average.

Exhibit 8. YTD share price performance



Source: Company, BRI Danareksa Sekuritas

Exhibit 9. Poultry sector forward 12M EV/EBITDA band chart

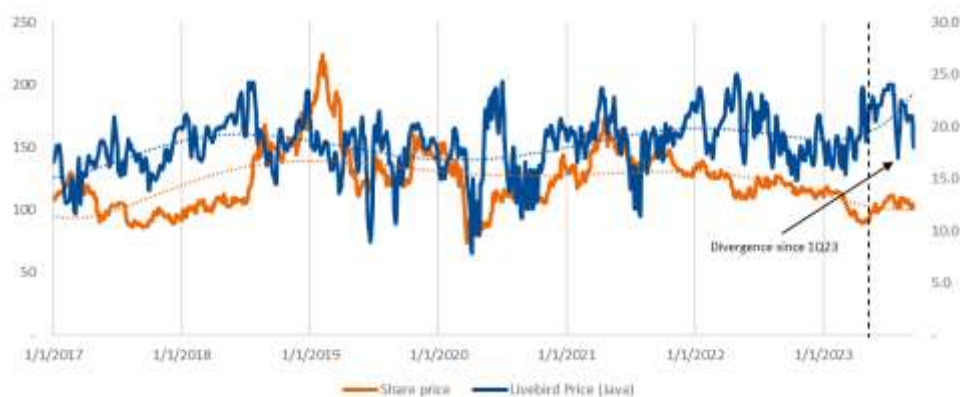


Source: Bloomberg, BRI Danareksa Sekuritas

Share price have been diverging from livebird price since 1Q23

We believe the positive correlation between the share price and livebird price ought to be maintained in the long term. We note that since 1Q23, which have been disappointing to the market, the share price has been underperformed. Since 1Q23, there have been three culling programs enacted by the government to reduce oversupply in the market and have helped to lift livebird prices thus far. As we look for continuous reduction in supply from culling, seasonally higher livebird prices, and higher government spending in 4Q23, we opine the current valuations are unjustified.

Exhibit 10. Correlation between share price and livebird price



Source: Bloomberg, various sources, BRIDS

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