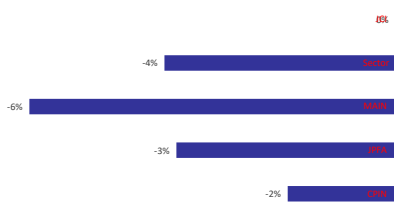


Overweight

(Maintained)

YTD share price performance



Sector EV/EBITDA band chart



Source: Bloomberg, BRIDS

Poultry

Weaker-than-expected data points in Dec23 might lead to 4Q23 earnings shortfall

- Dec23 livebird prices and corn costs missed expectations, leading to potentially weak 4Q23 earnings.
- We believe there is still downside risk to valuations from potentially soft 4Q23 results and weak chicken prices in 1Q24, similar to 2023.
- We currently have an Overweight rating on the sector but see ST downside on the possible 4Q23 earnings miss.

Negative surprises from livebird prices and costs in Dec23

Despite the expected strong seasonality and demand support from election money at year-end, livebird (LB) prices only averaged Rp17.5k (-2% mom, -8% yoy) in Dec23. Concurrently, local corn prices surged 25% in Dec23 to a record-breaking price of Rp7.5k/kg due to tight supply and limited corn and feed wheat imports. On a positive note, SBM prices eased to below US\$400/t in Dec23 due to improving weather in South America's dry crop growing areas.

Potentially weak 4Q23 earnings, hit by commercial and breeding farms

Post the strong 3Q23 earnings, we now see a possibility for earnings to turn into losses in 4Q23, especially for integrators with high contributions from breeding (DOC) and commercial (LB) farming businesses such as CPIN and JPFA. In 4Q23, average DOC prices declined 21% to Rp5.9k (flat yoy) while LB prices dropped 13% qoq to Rp18.2k. Potentially adding to the pain, feed costs will also be higher in 4Q23 due to higher local corn and Soybean Meal (SBM) prices during the quarter. Contrary to 3Q23, when feed wheat supported feed margins, feed wheat imports were down 97% qoq in 4Q23 (until Nov23). We expect the impact of higher feed raw material costs in 4Q23 to be spread across feed margins in both 4Q23 and 1Q24, meaning that MAIN will be in a relatively better position in terms of 4Q23 earnings.

Potential ST valuation downside risk, similar to 2023

The sector was subject to substantial share price declines in Feb-Mar23 which, we believe, was in anticipation of negative 4Q22 earnings results and weak chicken prices in 1Q23. During this downturn, CPIN and JPFA share prices dropped 22-24%, while MAIN's share price dipped by 15% supported by better 4Q22 earnings. We foresee a similar downside risk to valuations as we envisage potentially negative 4Q23 earnings and weak chicken prices in 1Q24 due to oversupply and a lack of further culling.

Short-term downside risk may prevail, despite the LT growth story

We currently have an OW rating on the sector's attractive LT revenue growth and below -1SD valuation, but see ST downside risk due to the disappointing year-end chicken and corn prices. We believe consensus 4Q23 earnings estimates of Rp685bn, Rp310bn, and Rp114bn for CPIN, JPFA, and MAIN, respectively, have yet to reflect the latest prices and costs. MAIN is our top pick given the potentially more resilient 4Q23 earnings.

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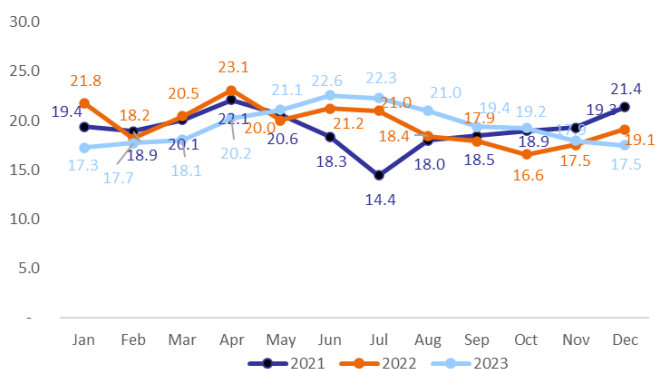
Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%)
					2023F	2024F	2023F	2024F	
Charoen Pokphand Indonesia	CPIN IJ	BUY	7,200	79,038.4	21.9	20.4	2.8	2.6	13.1
Japfa Comfeed Indonesia	JPFA IJ	BUY	1,800	13,192.4	7.5	6.9	0.9	0.9	13.0
Malindo Feedmill Indonesia	MAIN IJ	BUY	850	1,065.6	6.9	5.8	0.4	0.4	7.0

Weaker than expected data points at year-end might lead to disappointing 4Q23 earnings

Negative surprises from livebird prices and costs in Dec23

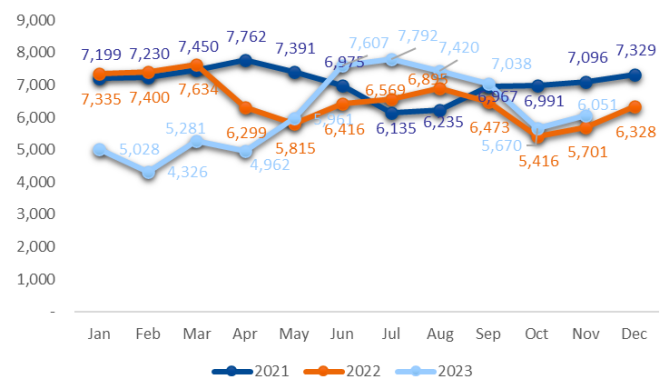
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Exhibit 1. West Java livebird price (Rp '000/kg)



Source: Various sources, BRIDS Estimates

Exhibit 2. Average DOC price (Rp/chick)



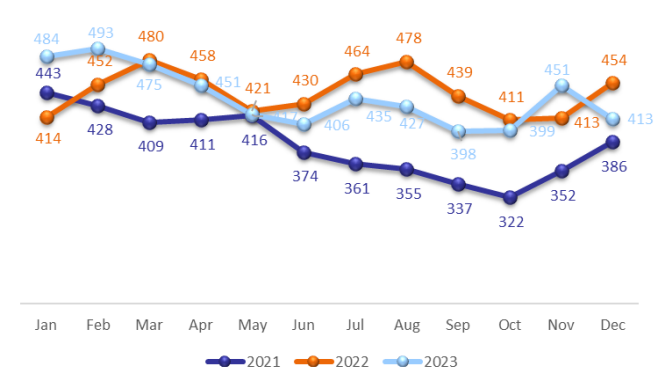
Source: Various sources, BRIDS Estimates

Exhibit 3. Average local corn price (Rp/kg)



Source: Various sources, BRIDS Estimates

Exhibit 4. Soybean meal price (US\$/t)

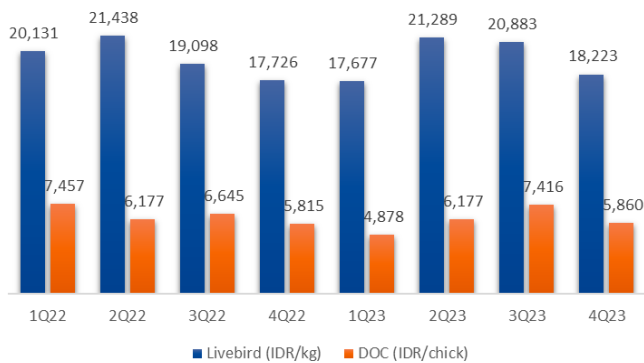


Source: Various sources, BRIDS Estimates

Potentially weak 4Q23 earnings, hit by commercial and breeding farms

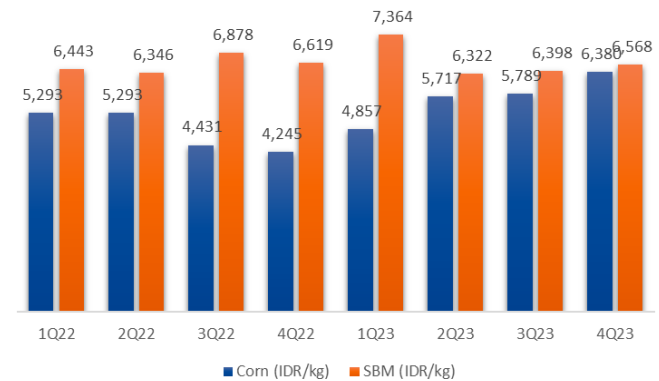
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Exhibit 5. Quarterly chicken prices



Source: Various sources, BRIDS Estimates

Exhibit 6. Quarterly feed raw material costs

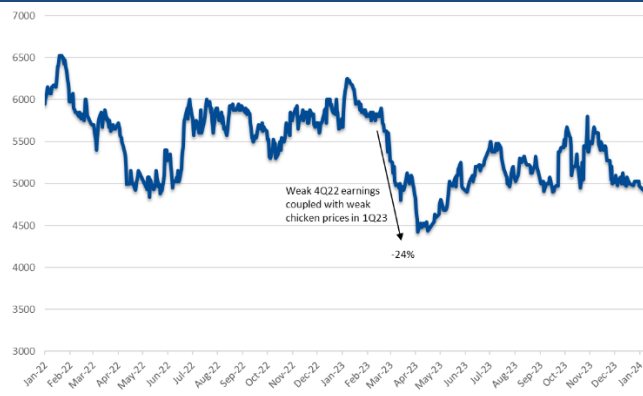


Source: Various sources, BRIDS Estimates

Potential ST valuation downside risk, similar to 2023

The sector was subject to substantial share price declines in Feb-Mar23 which, we believe, was in anticipation of negative 4Q22 earnings results and weak chicken prices in 1Q23. During this downturn, CPIN and JPFA share prices dropped 22-24%, while MAIN's share price dipped by 15% supported by better 4Q22 earnings. We foresee a similar downside risk to valuations as we envisage potentially negative 4Q23 earnings and weak chicken prices in 1Q24 due to oversupply and a lack of further culling.

Exhibit 7. CPIN share price



Source: Bloomberg, BRIDS Estimates

Exhibit 8. JPFA share price



Source: Bloomberg, BRIDS Estimates

Short-term downside risk may prevail, despite the LT growth story

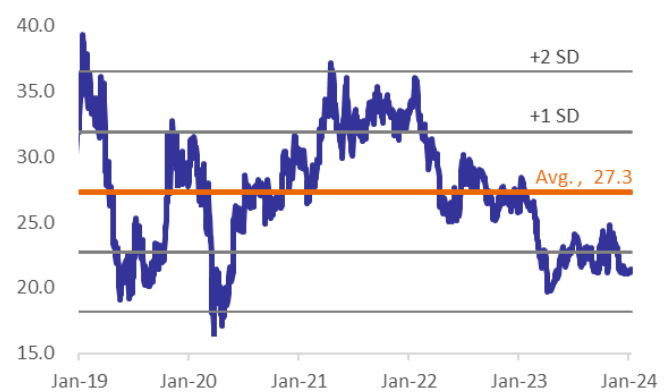
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Exhibit 9. CPIN EV/EBITDA band chart (5-year)



Source: Bloomberg, BRIDS Estimates

Exhibit 10. CPIN P/E band chart (5-year)



Source: Bloomberg, BRIDS Estimates

Exhibit 11. JPFA EV/EBITDA band chart (5-year)



Source: Bloomberg, BRIDS Estimates

Exhibit 12. JPFA P/E band chart (5-year)



Source: Bloomberg, BRIDS Estimates

Exhibit 13. MAIN EV/EBITDA band chart (5-year)



Source: Bloomberg, BRIDS Estimates

Exhibit 14. MAIN P/BV band chart (5-year)



Source: Bloomberg, BRIDS Estimates

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BUY	Expected total return of 10% or more within a 12-month period
HOLD	Expected total return between -10% and 10% within a 12-month period
SELL	Expected total return of -10% or worse within a 12-month period

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