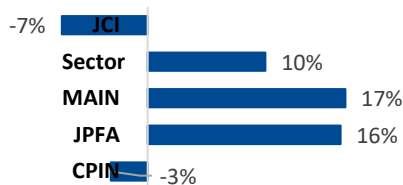


# Overweight

(Maintained)

## YTD share price performance



## Sector EV/EBITDA band chart



Source: Bloomberg, BRIDS

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# Poultry

## Encouraging chicken and raw material prices to support the sector's growth and re-rating potential

- Following sector underperformance due to the weakness in LB prices, we think the recent rebound may act as a potent catalyst.
- With the strong earnings growth outlook intact and the relatively light position of funds, we believe the sector could re-rate in FY24-25F.
- We maintain our Overweight rating on the sector, foreseeing higher margins from lower feed costs. CPIN remains our top pick in the sector.

**Lower LB prices in Jun24 had been expected, DOC prices remained robust**  
LB prices climbed back to above Rp20,000/kg in mid-June after bottoming at Rp16,000/kg in early June. In Jun24 MTD, the average LB prices stood at Rp18,400/kg, lower than May24's avg. price of Rp21,000/kg and the high base price in Jun23 of Rp22,600/kg. We believe lower prices in Jun24 had been expected due to the diminishing effect of supply adjustments, but expect the avg. price in 2Q24 to remain high (at Rp20,000/kg) due to the strong prices in April and May. As such, we believe integrators are on track to achieve good earnings momentum in 2Q24 as the relatively flat qoq LB prices shall be supported by higher DOC and lower feed costs. DOC prices have remained high at c. Rp9,000/chick since the middle of May24.

## Margins expansion from lower feed costs of both corn and SBM

Corn prices have continued to decline, touching Rp4,600/kg currently from Rp4,700/kg in early June. The corn prices, which are at their lowest point YTD, will positively impact integrators' margins as corn constitutes c. 50% of the total feed composition. Compared to the 1Q24 high base, avg. corn prices in 2Q24 will be c. 30% lower qoq (c. -15% yoy). In addition, SBM prices have remained calm over the course of 2024 (better than expected) with avg. prices in the range of US\$340-370/ton. YTD, avg. SBM prices are 23% lower yoy and they offer room for margins expansion, even with rupiah depreciation, as they constitute c. 25% of the total feed composition.

## Relatively light ownership suggests room for a re-rating

As of May24, the positioning of local funds in the poultry sector was relatively neutral (+0.03% weight). Albeit improving compared to the underweight position in the past two years, we believe the sector is poised for a re-rating from the strong earnings growth outlook for FY24-FY25F outpacing the JCI's single digit earnings growth. We continue to expect integrators to book 36/34% earnings growth for FY24/FY25F driven by margins expansion stemming from lower feed costs and better chicken prices in FY25F from a lower GPS import quota.

## Maintain Overweight with CPIN as our top pick

As we had previously anticipated lower LB prices in Jun24 and potential sequential weakness in 3Q24, we maintain our Overweight call on the sector with feed margins improvement as the key catalyst and high LB prices as potential upside. Our top pick is CPIN given its underperformance YTD and potentially higher sequential earnings growth compared to its peers. Risks to our view are volatility in earnings and weaker purchasing power.

Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%)
					2024F	2025F	2024F	2025F	
Charoen Pokphand Indonesia	CPIN IJ	BUY	5,900	80,350.2	27.3	19.9	2.8	2.6	13.5
Japfa Comfeed Indonesia	JPFA IJ	BUY	1,500	15,127.3	10.6	8.5	1.1	1.0	12.0
Malindo Feedmill Indonesia	MAIN IJ	BUY	850	1,309.7	10.1	6.1	0.5	0.5	7.8

## Encouraging chicken and raw material prices to support the sector's growth and re-rating potential

**Lower LB prices in Jun24 had been expected, DOC prices remained robust**  
Livebird prices climbed back to above Rp20,000/kg in mid-June after bottoming at Rp16,000/kg in early June. In Jun24 MTD, the average LB prices stood at Rp18,400/kg, lower than May24's avg. price of Rp21,000/kg and the high base price in Jun23 of Rp22,600/kg. We believe lower prices in Jun24 had been expected due to the diminishing effect of supply adjustments, but expect the avg. price in 2Q24 to remain high (at Rp20,000/kg) due to the strong prices in April and May. As such, we believe integrators are on track to achieve good earnings momentum in 2Q24 as the relatively flat qoq LB prices shall be supported by higher DOC and lower feed costs. DOC prices have remained high at c. Rp9,000/chick since the middle of May24.

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



Source: Various sources, BRIDS

**Exhibit 2. Wonokoyo Super DOC – East Java (Rp/chick)**



Source: Arboge, BRIDS

### Margins expansion from lower feed costs of both corn and SBM

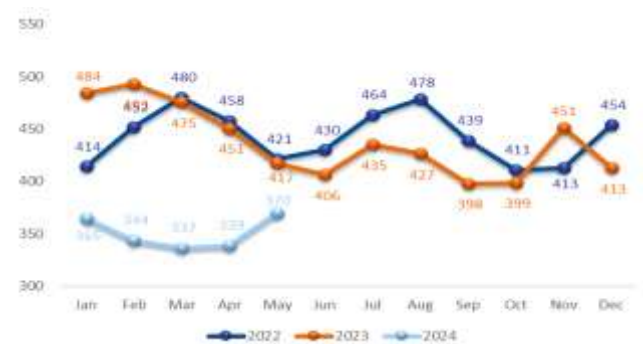
Local corn prices have continued to decline, touching Rp4,600/kg currently from Rp4,700/kg in early June. The lower corn prices, which are at their lowest point YTD, will positively impact integrators' margins as corn constitutes c. 50% of the total feed composition. Compared to the 1Q24 high base, avg. corn prices in 2Q24 will be c. 30% lower qoq (c. -15% yoy). In addition, SBM prices have remained calm over the course of 2024 (better than expected) with monthly avg. prices in the range of US\$340-370/ton. YTD, avg. SBM prices are 23% lower yoy and they offer room for margins expansion, even with rupiah depreciation, as they constitute c. 25% of the total feed composition.

**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

## Relatively light ownership suggests room for a re-rating

As of May24, the positioning of local funds in the poultry sector was relatively neutral (+0.03% weight). Albeit improving compared to the underweight position in the past two years, we believe the sector is poised for a re-rating from the strong earnings growth outlook for FY24-FY25F outpacing the JCI's single digit earnings growth. We continue to expect integrators to book 36/34% earnings growth for FY24/FY25F driven by margins expansion stemming from lower feed costs and better chicken prices in FY25F from a lower GPS import quota.

**Exhibit 5. CPIN's weighting and local funds position**



Source: KSEI, BRIDS

**Exhibit 7. MAIN's weighting and local funds position**



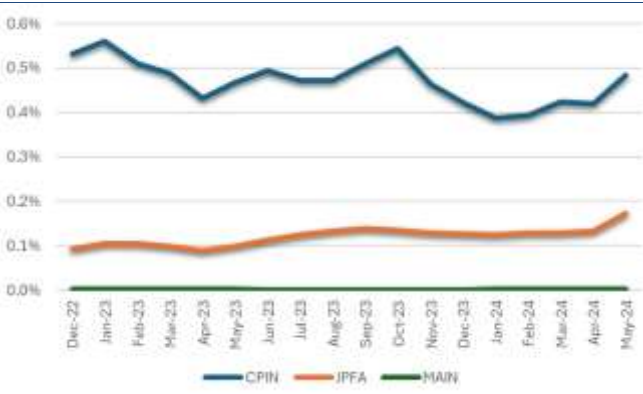
Source: KSEI, BRIDS

**Exhibit 6. JPFA's weighting and local funds position**



Source: KSEI, BRIDS

**Exhibit 8. Foreign funds ownership**



Source: KSEI, BRIDS

### Maintain Overweight with CPIN as our top pick

As we had previously anticipated lower LB prices in Jun24 and potential sequential weakness in 3Q24, we maintain our Overweight call on the sector with feed margins improvement as the key catalyst and high LB prices as potential upside. Our top pick is CPIN given its underperformance YTD and potentially higher sequential earnings growth compared to its peers. Risks to our view are volatility in earnings and weaker purchasing power.

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

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