

Singapore Company Flash Note

Japfa Ltd

Bloomberg: JAP SP | Reuters: JAPF.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 Dec 2015

BUY

Last Traded Price: S\$0.48 (STI : 2,855.94)

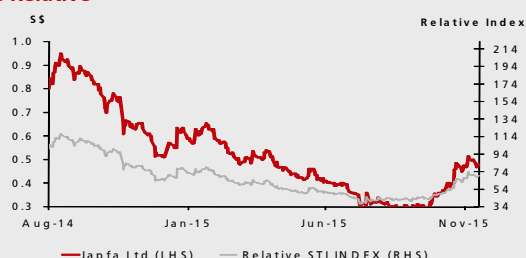
Price Target: S\$0.90 (88% upside)

Analyst

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Indonesia Research Team

Price Relative



Forecasts and Valuation

FY Dec (US\$ m)	2014A	2015F	2016F	2017F
Revenue	2,947	2,781	3,029	3,402
EBITDA	255	238	321	436
Pre-tax Profit	74	103	182	287
Net Profit	31	44	78	124
Net Pft (Pre Ex.)	71	44	78	124
EPS (S cts)	2.5	3.6	6.3	9.9
EPS Pre Ex. (S cts)	5.7	3.6	6.3	9.9
EPS Gth (%)	(91)	42	76	58
EPS Gth Pre Ex (%)	(76)	(38)	76	58
Diluted EPS (S cts)	2.5	3.6	6.3	9.9
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	52.9	60.3	66.5	76.4
PE (X)	19.2	13.5	7.6	4.8
PE Pre Ex. (X)	8.4	13.5	7.6	4.8
P/Cash Flow (X)	4.8	4.0	3.7	2.8
EV/EBITDA (X)	6.4	7.0	5.5	4.5
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.9	0.8	0.7	0.6
Net Debt/Equity (X)	0.7	0.6	0.6	0.5
ROAE (%)	5.8	6.3	9.9	13.8

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

DOC price ceiling mulled

- Recent spike in day-old-chick (DOC) prices prompted government to consider price ceiling
- Industry players have collectively culled 2m parent stock (PS) since Oct-15; 4m more in the pipeline
- No impact on FY15F/FY16F profitability; as forecast ASPs are below current level
- BUY rating reiterated on 88% upside to S\$0.90 TP (based on SOP)

Government mulling DOC price ceiling. *Bisnis Indonesia* newspaper reported yesterday that Indonesian Agriculture Ministry is mulling a proposal to establish DOC price ceiling mechanism to the Trade Ministry – in an effort to prevent further price spikes. According to the article, monitored DOC prices currently hover above Rp6,000/chick – significantly higher than Japfa's 3Q15 DOC ASP of Rp4,400/chick. A quick check on *Arboge.com* reveals that first-grade DOCs are trading between Rp5,400 and Rp6,250/chick; whereas second-grade DOCs are priced between Rp4,300 and Rp5,000/chick.

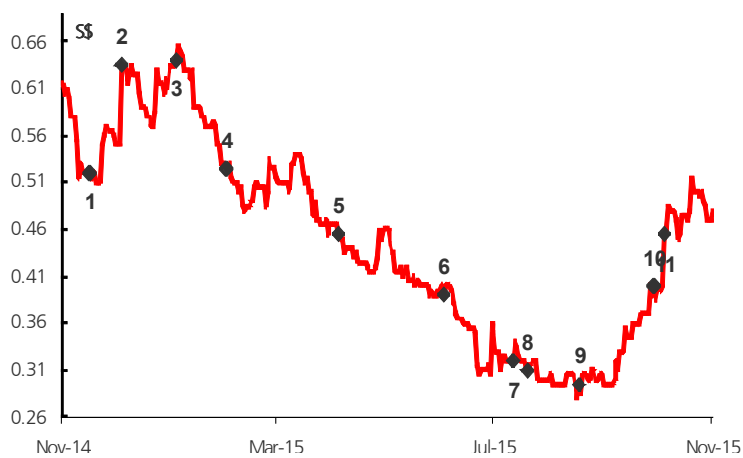
Current price strength linked to PS culling. Following a collective agreement to cull 6m PS held among 12 DOC breeders on 14-Sep-15, the article revealed that the initial stage of 2m PS cull had been completed – leaving 4m PS culling still in the pipeline. Whereas breeders have arbitrarily discarded 5-40% of unhatched DOC eggs to stabilise prices prior to the agreement, we believe the start of culling had further tightened supply. The current situation may be temporary, in our view – as breeders should no longer need to arbitrarily discard unhatched eggs. As production rebuilds, we expect the remaining culling target to be maintained.

No impact on FY15F/FY16F profitability. We do not expect the proposed price ceiling to impact Japfa's profitability, as our FY15F/FY16F ASP assumptions of Rp4,085/Rp4,207 remain well below current elevated prices. DOC prices are notably volatile, and breeders not only produce first-grade DOCs, but also second- and third-grade ones in different proportions. Hence, on an annual basis, we anticipate DOC prices to average below current price levels.

BUY rating reiterated for 88% upside to our TP of S\$0.90/share. At 25% EBITDA CAGR over the next three years, JAP remains undervalued at 7.6x forward PE. Stabilisation of DOC prices above breakeven cost, strong growth in China's raw milk output, Rupiah stabilisation, recovery in purchasing power and low soybean meal prices should boost Japfa's FY16F earnings, in our view.

Japfa Ltd

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	15 Dec 14	0.52	0.80	BUY
2:	02 Jan 15	0.64	0.80	BUY
3:	02 Feb 15	0.64	0.80	BUY
4:	02 Mar 15	0.53	0.76	BUY
5:	04 May 15	0.46	0.54	HOLD
6:	02 Jul 15	0.39	0.46	HOLD
7:	10 Aug 15	0.32	0.46	BUY
8:	18 Aug 15	0.31	0.46	BUY
9:	16 Sep 15	0.30	0.46	BUY
10:	28 Oct 15	0.40	0.46	BUY
11:	03 Nov 15	0.46	0.90	BUY

Source: DBS Bank

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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