

# Japfa Ltd

## Analyst Briefing Key Takeaways

SINGAPORE | CONSUMER | NON-RATED NOTE

03 November 2015

Japfa Ltd released their 3Q2015 results after market closed on 30<sup>th</sup> October 2015. We tuned in to the company's results teleconference on 2<sup>nd</sup> November 2015 to get a better understanding on its financial results and the latest corporate developments. Despite the unfavorable trend of IDR currency, we believe that Japfa's earnings will continue to improve sequentially in near-term, given its diversification strategy and improvement in overall margin.

These are the key takeaways from Japfa's 3Q2015 results briefing.

### Results at a glance

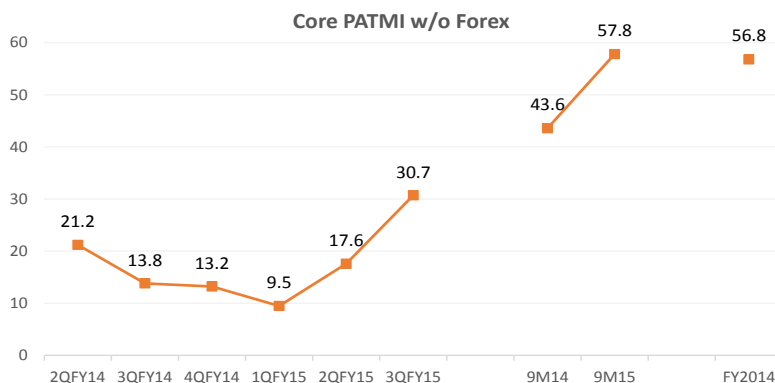
(USD mn)	3Q15	3Q14	y-y (%)	Comments
Revenue	695.3	784.7	-11%	Weaker IDR against USD (-19% y-y as at 30 Sep-15)
Operating profit	65.8	43.5	51%	PT Japfa Tbk's profitability significantly improved (higher selling prices of broilers combined with lower COGS for feed and DOC)
<i>Operating profit margin</i>	<i>9.5%</i>	<i>5.5%</i>		<i>Improvement in feed, breeding and commercial farming margins</i>
EBITDA	89.7	59.0	52%	
PBT w/o FX and Bio-Assets	56.3	22.2	153%	
PATMI	8.0	10.8	-26%	FX losses (US\$28.9m), bio-asset valuation losses (US\$9.3m; mainly from the dairy business)
Core PATMI	14.1	12.0	17%	
Core PATMI w/o FX	30.7	13.8	122%	

Source: Company, Phillip Securities Research (Singapore)

### Analyst briefing key takeaways:

- **Best quarter of 2015 so far**
  - a. **3Q2015 operating profit and EBITDA was up more than 50%** despite revenue logged an 11% decline.
  - b. **Core PATMIs (both with and without forex) improved**, implying that the company's businesses remain robust amidst currency turmoil and unfavorable bio-asset valuation.
  - c. **Core PATMI without forex** has improved y-y in second consecutive quarter. It also marked the **highest quarter since listing in Aug-14**. 9M2015 Core PATMI without forex **has exceeded 9M14 and FY2014**.

Figure 1: New record high in Core PATMI without Forex



Source: Company, Phillip Securities Research (Singapore)

### Non-rated

LAST TRADED PRICE	SGD 0.400
FORECAST DIV	N/A
TARGET PRICE	N/A
TOTAL RETURN	N/A

### COMPANY DATA

O/S SHARES (MN) :	1765
MARKET CAP (USD mn / SGD mn) :	503 / 706
52 - WK HI/LO (SGD) :	0.76 / 0.28
3M Average Daily T/O (mn) :	0.65

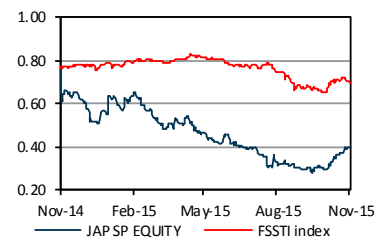
### MAJOR SHAREHOLDERS (%)

Rangi Management Limited	52.6%
Morze International Limited	16.0%
Tasburgh Limited	7.1%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	33.9	19.7	(48.4)
STI RETURN	7.55	(5.53)	(5.32)

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

RM MN	FY 11	FY 12	FY 13	FY 14
Revenue	2,030	2,322	2,697	2,947
EBITDA	174	242	262	259
NPAT (adj.)	44	53	42	31
EPS (USD)	0.03	0.04	0.03	0.02
P/BV, x (adj.)				211
P/BV, x				11
DPS (USD)		-	-	-
ROE, %		18.0%	11.4%	5.8%

Source: Bloomberg

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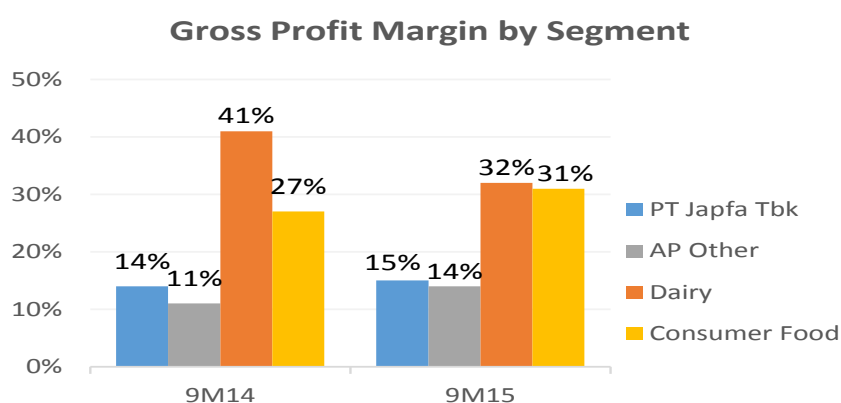
- **Double whammy of weaker IDR and bio-asset valuation.** 3Q15 profit after tax was battered by forex losses of US\$28.9m and bio-asset valuation losses of US\$9.3m. Nonetheless, US\$20m from its US\$25.3m forex losses recorded by PT Japfa Tbk are unrealized forex losses, arising from the translation of the US\$207m bond outstanding.

- **Segmental Highlights and Outlook:**

- a. **PT Japfa Tbk**

- Since 4Q14, weaker IDR has been eroding the sales of its Indonesian subsidiary in USD terms. Stripping off the forex effect, PT Japfa Tbk sales remained stable. Despite foreign exchange losses, its **3Q15 PAT bucked the trend by reverting to positive contribution.**
    - **Gross margins improved from 12.1% in 3Q14 to 18.9% in 3Q15.** Profitability has significantly improved due to higher selling prices of broilers as well as the lower cost of goods sold for feed and Day-Old Chick (“DOC”).

Figure 2: Improved Gross Profit Margin



Source: Company, Phillip Securities Research (Singapore)

- The Indonesian government-led culling project should **stabilize DOC prices in near term.** Meanwhile, the Group will continue to enhance efficiency and profitability to counter near-term price pressure on DOCs.

- b. **Animal Protein Other**

- Sales in Vietnam and Myanmar remain stable, but India saw a decline in sales.
    - **Tougher environment in poultry markets.** Softer selling prices for poultry DOC and Broiler in Vietnam and India. India also faced weaker selling prices for poultry Feed. Nonetheless, overall poultry feed volume was up 28% y-y.
    - **Lucrative swine business.** Swine feed volume and swine fattening volume were up 17% and 49%, respectively, compared to a year ago. Infrastructure set up for the swine business has improved efficiency.
    - **Needs more beefing up in its Beef business.** Its China beef project is still in start-up phase, dragging on profitability.

- c. **Dairy**

- **Higher sales volume and improved milk yields** helped to partially offset the impact from lower raw milk prices in China.
    - **Lower raw milk prices and global benchmark prices for heifers** affected the biological asset valuation. However, the Management expects the prices and demand for raw milk to stabilize in near term.

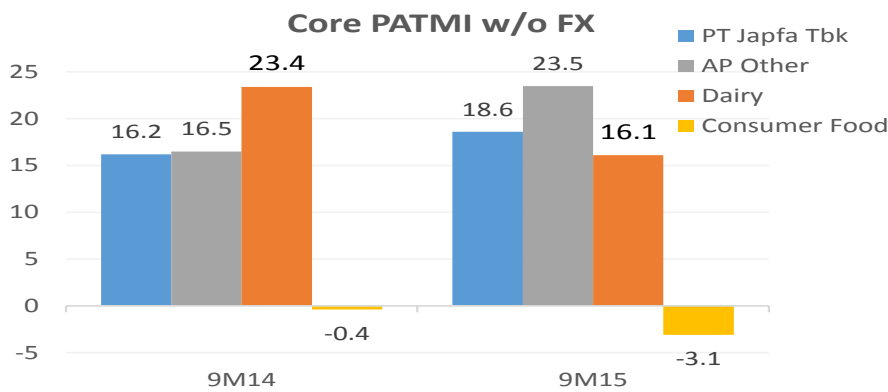
**d. Consumer Food**

- **Broke-even** with PAT of US\$0.5m and EBITDA of US\$1.8m, boosted by sales of Real Good milk (sales volume jumped 14% y-y).
- **Indonesia’s operations** remains **profitable** and continued to **help to offset the start-up losses of Vietnam’s operations**.

**What to expect?**

Strong headwinds remains, cautiously expanding. The Group guided that it has and will continue to rein in CAPEX in Indonesia due to macro headwinds. Meanwhile, it will also selectively grow its Vietnam and Myanmar business.

**Figure 3: Balanced contribution from the Group’s three major pillars, reflecting the effective diversification strategy**



Source: Company, Phillip Securities Research (Singapore)

**Figure 4: IDR stabilizing against USD**



Source: Company, Phillip Securities Research (Singapore)

Figure 5: Peer Comparison Table

Company	Bloomberg Ticker	Mkt Cap (SGD mn)	EV (SGD mn)	EV/EBITDA TTM	EV/EBITDA FY1	EV/EBITDA FY2	P/E	P/E FY1	P/E FY2	BEst PEG FY1	Net D/E (%)	ROA (%)	ROE (%)	P/B
JAPFA LTD	JAP SP	705.9	2,180.3	6.9	7.4	5.2	14.5	14.3	6.8	N/A	71.5	1.5	5.8	0.8
<b>Singapore</b>														
CHINA FISHERY GROUP LTD	CFG SP	324.1	1,448.8	9.4	4.8	4.2	4.5	4.2	3.1	N/A	89.6	1.1	2.2	0.2
<b>Indonesia</b>														
CHAROEN POKPHAND INDONESIA PT CPIN IJ		4,228.0	4,924.7	11.5	13.4	11.4	31.8	19.6	15.9	N/A	52.2	6.1	11.3	3.4
<b>Hong Kong</b>														
CP POKPHAND CO LTD	43 HK	4,053.2	5,494.3	10.0	7.7	6.7	12.5	10.9	10.9	0.9	48.3	8.8	24.9	2.9
<b>Japan</b>														
CHUBU SHIRYO CO LTD	2053 JP	358.1	432.3	6.1	N/A	N/A	11.2	14.0	N/A	N/A	27.8	3.6	6.1	0.7
FEED ONE CO LTD	2060 JP	321.6	668.6	12.0	N/A	N/A	11.3	11.0	10.5	N/A	114.2	N/A	N/A	1.1
SHOWA SANGYO CO LTD	2004 JP	855.7	1,292.7	8.7	N/A	N/A	15.1	12.9	12.1	N/A	50.3	3.0	7.4	1.1
<b>Average</b>				<b>8.9</b>	<b>N/A</b>	<b>N/A</b>	<b>12.5</b>	<b>12.6</b>	<b>11.3</b>	<b>N/A</b>	<b>64.1</b>	<b>3.3</b>	<b>6.7</b>	<b>0.9</b>
<b>Korea</b>														
FARMSCO	036580 KS	684.5	880.6	18.5	13.3	9.9	45.1	19.6	10.6	0.2	65.4	1.8	4.6	2.0
DAEHAN FLOUR MILLS CO LTD	001130 KS	409.6	310.9	2.5	N/A	N/A	9.0	N/A	N/A	N/A	Net Cash	4.1	6.0	0.5
EASY BIO INC	035810 KS	470.2	1,480.0	10.5	N/A	N/A	11.3	N/A	N/A	N/A	207.1	2.1	12.9	1.5
<b>Average</b>				<b>10.5</b>	<b>13.3</b>	<b>9.9</b>	<b>21.8</b>	<b>19.6</b>	<b>10.6</b>	<b>0.2</b>	<b>136.3</b>	<b>2.7</b>	<b>7.9</b>	<b>1.3</b>
<b>Taiwan</b>														
GREAT WALL ENTERPRISES	1210 TT	626.8	1,223.1	13.5	24.1	20.4	17.9	20.1	18.9	N/A	39.8	1.9	5.7	1.0
<b>Australia</b>														
RIDLEY CORP LTD	RIC AU	411.8	469.8	7.5	8.2	7.4	19.3	16.7	13.8	N/A	16.5	4.3	8.5	1.8
<b>Simple Average (Excl. SSG)</b>				<b>10.0</b>	<b>11.9</b>	<b>10.0</b>	<b>17.2</b>	<b>14.3</b>	<b>12.0</b>	<b>0.6</b>	<b>71.1</b>	<b>3.7</b>	<b>8.9</b>	<b>1.5</b>

Source: Bloomberg, Phillip Securities Research (Singapore) Estimates

### Investment Actions

No stock rating or price target provided, as we do not have coverage on Japfa Ltd.

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