

Thursday, 01 August 2019

**SELL**  
**Maintain**

Last price (IDR) 5,275  
Target Price (IDR) 4,700  
Upside/Downside -10.9%  
Previous Target Price (IDR) 4,500

#### Stock Statistics

Sector Poultry  
Bloomberg Ticker CPIN IJ  
No of Shrs (mn) 16,398  
Mkt. Cap (IDRbn/USDmn) 86,499/6,166  
Avg. daily T/O (IDRbn/USDmn) 67.4/4.8

#### Major shareholders (%)

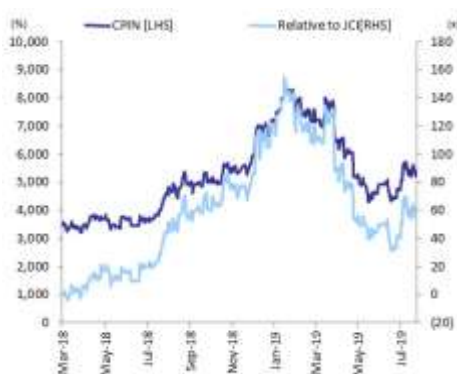
PT Charoen Pokphand Indonesia Group 55.5

Estimated free float 44.5

#### EPS Consensus (IDR)

	2019F	2020F	2021F
Danareksa	205.4	251.6	307.8
Consensus	236.0	255.9	264.0
Danareksa/Cons	(13.0)	(1.7)	16.6

#### CPIN relative to JCI Index



Source : Bloomberg



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## Charoen Pokphand Indonesia (CPIN IJ)

### Margins compression as expected

**CPIN booked net profits of IDR916bn in 2Q19 (-36% y-o-y, +13% q-o-q) bringing its 1H19 net profits to IDR1.7tn (-29% y-o-y). This figure is 51% of our full year estimate and 45% of the consensus which, we believe, is still in line with our estimate as we expect slower earnings delivery in 2H19. CPIN recorded a large fall in its gross margin to 12.8% in 2Q19 (2Q18: 19.8%) as the gross margin deteriorated across business segments due to higher corn costs and lower DOC and broiler prices, in our view. We expect lower margins in 2H19 on the back of corn harvest seasonality and normalizing DOC prices.**

**Continuous top line expansion.** CPIN booked revenues of IDR15tn in 2Q19 (+10% y-o-y, +5% q-o-q) supported by top line expansion across its business segments. On a yearly basis, CPIN's top line was supported by its volume growth (low base in 2018). Despite experiencing oversupply in 2Q19 which negated the Lebaran effect, CPIN's top line was supported by higher volume of feed and higher broiler volume, in our view.

**Margins compression from higher costs and lower ASP.** CPIN's gross margin fell significantly to 12.8% in 2Q19 (2Q18: 19.8%) due to higher corn costs and lower DOC and broiler ASP. On the back of favorable corn harvests this year, CPIN was able to maintain its feed gross margin at 11.0% in 2Q19 (2Q18: 12.0%, 1Q19: 9.7%) which also partly helped the DOC segment margins. By comparison, the broiler segment recorded a gross margin of -6.8% which is much worse compared to 2Q18's margin of 13.1% due to the higher DOC and feed prices coupled with lower broiler ASP.

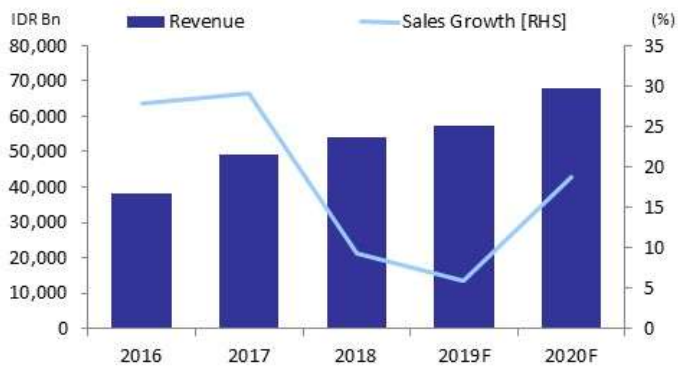
**Higher gearing from lower cash and higher debt.** CPIN's net gearing stood at 20% as of end Jun-19, a significant increase from 9% as of end Dec-18, caused by both higher debt and a lower cash position. We note that the higher net gearing is attributable to higher capex and higher cash dividends. The cash dividend led to lower cash and a lower equity base at the same time but will increase CPIN's ROE.

**Maintain SELL with a TP of IDR4,700.** We maintain our SELL call with an unchanged TP of IDR4,700 as we believe the street estimates are still too high. Our TP is derived by applying 12.3x (3-year average) FY20F EV/EBITDA, implying 22.9x FY19F and 18.7x FY20F PE.

#### Key Financials

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (IDRbn)	49,367	53,958	57,186	67,870	81,040
EBITDA (IDRbn)	4,507	7,284	5,544	6,471	7,650
EBITDA Growth (%)	(13.8)	61.6	(23.9)	16.7	18.2
Net profit (IDRbn)	2,498	4,554	3,369	4,125	5,047
EPS (IDR)	152.3	277.7	205.4	251.6	307.8
EPS growth (%)	11.2	82.3	(26.0)	22.5	22.3
BVPS (IDR)	956.5	1,176.2	1,279.5	1,455.6	1,670.9
DPS (IDR)	56.0	56.0	102.1	75.5	92.5
PER (x)	35.0	19.2	25.9	21.2	17.3
PBV (x)	5.6	4.5	4.2	3.7	3.2
Dividend yield (%)	1.1	1.1	1.9	1.4	1.7
EV/EBITDA (x)	20.3	12.2	16.1	13.8	11.6

Source : CPIN, Danareksa Estimates

**Exhibit 1. Revenues and Growth**


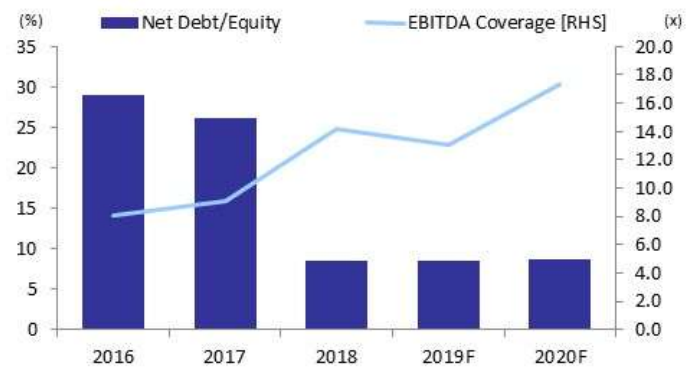
Source: Company, Danareksa Sekuritas estimates

**Exhibit 2. Net Profits and Growth**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 3. Margins**


Source: Company, Danareksa Sekuritas estimates

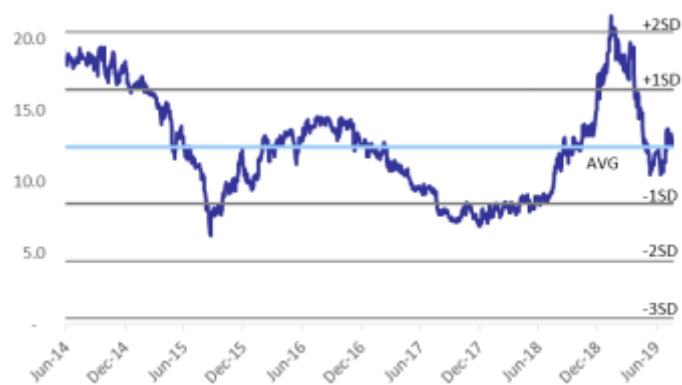
**Exhibit 4. Gearing Level**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. CPIN 2Q19 results summary**

CPIN (IDR bn)	2Q18	1Q19	2Q19	y-o-y	q-o-q	6M18	6M19	y-o-y	FY19F	FY19C	A/F	A/C
Revenue	13,758	14,455	15,118	10%	5%	25,613	29,573	15%	57,186	57,717	52%	51%
COGS	(11,031)	(12,740)	(13,189)	20%	4%	(20,891)	(25,929)	24%	(49,670)	(49,391)	52%	52%
Gross Profit	2,727	1,715	1,929	-29%	13%	4,721	3,644	-23%	7,516	8,326	48%	44%
Total Opex	(690)	(659)	(722)	5%	10%	(1,276)	(1,381)	8%	(2,906)	(2,706)	48%	51%
Operating Profit	2,037	1,056	1,207	-41%	14%	3,446	2,263	-34%	4,610	5,620	49%	40%
Pretax profit	1,884	1,004	1,143	-39%	14%	3,156	2,147	-32%	4,369	4,979	49%	43%
Net profit	1,440	812	916	-36%	13%	2,433	1,727	-29%	3,369	3,834	51%	45%
Gross margin	19.8%	11.9%	12.8%	-7.1%	0.9%	18.4%	12.3%	-6.1%	13.1%	14.4%		
Operating margin	14.8%	7.3%	8.0%	-6.8%	0.7%	13.5%	7.7%	-5.8%	8.1%	9.7%		
Net margin	10.5%	5.6%	6.1%	-4.4%	0.4%	9.5%	5.8%	-3.7%	5.9%	6.6%		

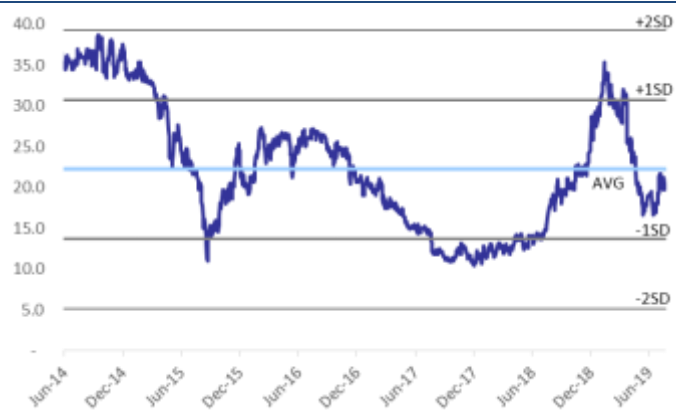
Source: Company, Danareksa Sekuritas estimates

**Exhibit 6. EV/EBITDA Band Chart (5-year)**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 7. EV/EBITDA Band Chart (3-year)**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 8. PE Band Chart (5-year)**


Source: Company, Danareksa Sekuritas estimates

**Exhibit 9. PE Band Chart (3-year)**


Source: Company, Danareksa Sekuritas estimates

### Exhibit 10. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
<b>Revenue</b>	<b>49,367</b>	<b>53,958</b>	<b>57,186</b>	<b>67,870</b>	<b>81,040</b>
COGS	(43,116)	(44,823)	(49,670)	(59,092)	(70,678)
<b>Gross profit</b>	<b>6,251</b>	<b>9,135</b>	<b>7,516</b>	<b>8,778</b>	<b>10,362</b>
<b>EBITDA</b>	<b>4,507</b>	<b>7,284</b>	<b>5,544</b>	<b>6,471</b>	<b>7,650</b>
<b>Oper. profit</b>	<b>3,685</b>	<b>6,394</b>	<b>4,610</b>	<b>5,470</b>	<b>6,564</b>
Interest income	49	77	100	140	204
Interest expense	(496)	(513)	(426)	(373)	(327)
Forex Gain/(Loss)	(14)	(145)	(13)	9	(6)
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	31	94	99	105	110
<b>Pre-tax profit</b>	<b>3,256</b>	<b>5,907</b>	<b>4,369</b>	<b>5,351</b>	<b>6,546</b>
Income tax	(759)	(1,356)	(1,003)	(1,228)	(1,502)
Minority interest	1	3	2	3	3
<b>Net profit</b>	<b>2,498</b>	<b>4,554</b>	<b>3,369</b>	<b>4,125</b>	<b>5,047</b>
<b>Core Net Profit</b>	<b>2,512</b>	<b>4,699</b>	<b>3,382</b>	<b>4,117</b>	<b>5,052</b>

### Exhibit 11. Balance Sheet

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	1,793	2,803	2,534	1,246	1,633
Receivables	2,568	3,020	2,961	3,515	4,197
Inventory	5,697	6,156	6,567	7,813	9,344
Other Curr. Asset	1,661	2,119	2,019	2,334	2,902
Fixed assets - Net	11,009	11,685	13,189	14,902	16,073
Other non-curr.asset	1,793	1,862	1,896	1,932	1,968
<b>Total asset</b>	<b>24,523</b>	<b>27,645</b>	<b>29,167</b>	<b>31,741</b>	<b>36,117</b>
ST Debt	2,881	1,700	2,704	1,700	1,700
Payables	1,791	2,195	2,209	2,628	3,143
Other Curr. Liabilities	387	838	688	830	1,003
Long Term Debt	3,005	2,750	1,634	1,640	1,646
Other LT. Liabilities	755	771	849	976	1,131
<b>Total Liabilities</b>	<b>8,820</b>	<b>8,254</b>	<b>8,084</b>	<b>7,773</b>	<b>8,623</b>
Shareholder's Funds	15,685	19,288	20,982	23,869	27,399
Minority interests	18	18	16	13	10
<b>Total Equity &amp; Liabilities</b>	<b>24,523</b>	<b>27,560</b>	<b>29,082</b>	<b>31,655</b>	<b>36,032</b>

### Exhibit 12. Cash Flow

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Net income	2,498	4,554	3,369	4,125	5,047
Depreciation and Amort.	822	890	935	1,000	1,086
Change in Working Capital	(1,041)	(515)	(389)	(1,553)	(2,093)
Other Oper. Cash Flow	(511)	107	(1)	(1)	(2)
<b>Operating Cash Flow</b>	<b>1,768</b>	<b>5,036</b>	<b>3,914</b>	<b>3,572</b>	<b>4,038</b>
Capex	(626)	(1,643)	(2,439)	(2,713)	(2,257)
Others Inv. Cash Flow	(175)	36	(34)	(34)	(35)
<b>Investing Cash Flow</b>	<b>(801)</b>	<b>(1,607)</b>	<b>(2,472)</b>	<b>(2,747)</b>	<b>(2,292)</b>
Net change in debt	(724)	(1,436)	(111)	(999)	6
New Capital	0	0	0	0	0
Dividend payment	(918)	(918)	(1,674)	(1,238)	(1,517)
Other Fin. Cash Flow	(88)	(84)	75	125	153
<b>Financing Cash Flow</b>	<b>(1,730)</b>	<b>(2,439)</b>	<b>(1,710)</b>	<b>(2,112)</b>	<b>(1,358)</b>
<b>Net Change in Cash</b>	<b>(763)</b>	<b>990</b>	<b>(269)</b>	<b>(1,288)</b>	<b>387</b>
Cash - begin of the year	2,504	1,793	2,803	2,534	1,246
Cash - end of the year	1,793	2,803	2,534	1,246	1,633

### Exhibit 13. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
<b>Growth (%)</b>					
Sales	29.0	9.3	6.0	18.7	19.4
EBITDA	(13.8)	61.6	(23.9)	16.7	18.2
Operating profit	(17.3)	73.5	(27.9)	18.7	20.0
Net profit	11.2	82.3	(26.0)	22.5	22.3
<b>Profitability (%)</b>					
Gross margin	12.7	16.9	13.1	12.9	12.8
EBITDA margin	9.1	13.5	9.7	9.5	9.4
Operating margin	7.5	11.9	8.1	8.1	8.1
Net margin	5.1	8.4	5.9	6.1	6.2
ROAA	10.3	17.5	11.9	13.5	14.9
ROAE	16.8	26.0	16.7	18.4	19.7
<b>Leverage</b>					
Net Gearing (x)	0.3	0.1	0.1	0.1	0.1
Interest Coverage (x)	7.4	12.5	10.8	14.7	20.1

Source : CPIN, Danareksa Estimates

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