

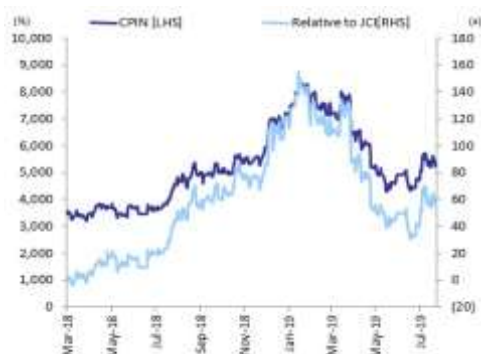
Monday, 05 August 2019

**UNDERWEIGHT**  
**Maintain**

# Poultry 2Q19 Guidance

## Margins compressions at 7.4 on the Richter scale

CPIN relative to JCI Index



JPFA relative to JCI Index



Source : Bloomberg

Most integrators recorded significantly lower y-o-y margins across all poultry segments, hit by higher corn costs and lower broiler ASP in 2Q19. The only exception was MAIN which recorded higher margins in its feed business arising from higher ASP and lower costs from higher economies of scale. All in all, integrators' margins in poultry segments dropped by 43-52% y-o-y in 2Q19. In terms of market share, JPFA recovered its lost market share in all poultry segments in 2Q19 with its DOC market share up from 31% in 1Q19 to 34% in 2Q19. In the same period, JPFA's feed market share rose from 30% with its broiler market share increasing from 41% to 42%.

CPIN and JPFA recorded q-o-q growth albeit down y-o-y. The operating profits of CPIN and JPFA were up 14% and 30% q-o-q in 2Q19 but down 45% and 42% on a y-o-y basis, respectively. CPIN's operating margin was down by more than a half from 10.9% in 2Q18 to 5.3% in 2Q19 while JPFA also experienced margins compression from 14.9% in 2Q18 to 7.4% in 2Q19. CPIN and JPFA booked higher q-o-q margins in the feed business thanks to lower local corn costs during the harvesting season. The DOC margin was lower on a q-o-q basis due to high feed prices and lower DOC selling prices. In the broiler business, operating losses persisted but they were less severe due to lower DOC prices and higher broiler prices during the Ramadan period.

MAIN recorded negative q-o-q growth but a smaller y-o-y decline. Unlike its peers, MAIN recorded negative quarterly growth of 23% in 2Q19 due to stagnancy in volumes which had greatly expanded since last year, in our view. For the same reason, the y-o-y decline was smaller at 29%. We note that MAIN's feed margin expanded from its lowest level in 4Q18, reflecting its ability to command higher prices, lower costs from higher economies of scale, and lower corn costs. Despite this, we believe that MAIN has been selling its feed at higher prices in the last two quarters which, we believe, is one reason behind the decline in DOC and broiler margins.

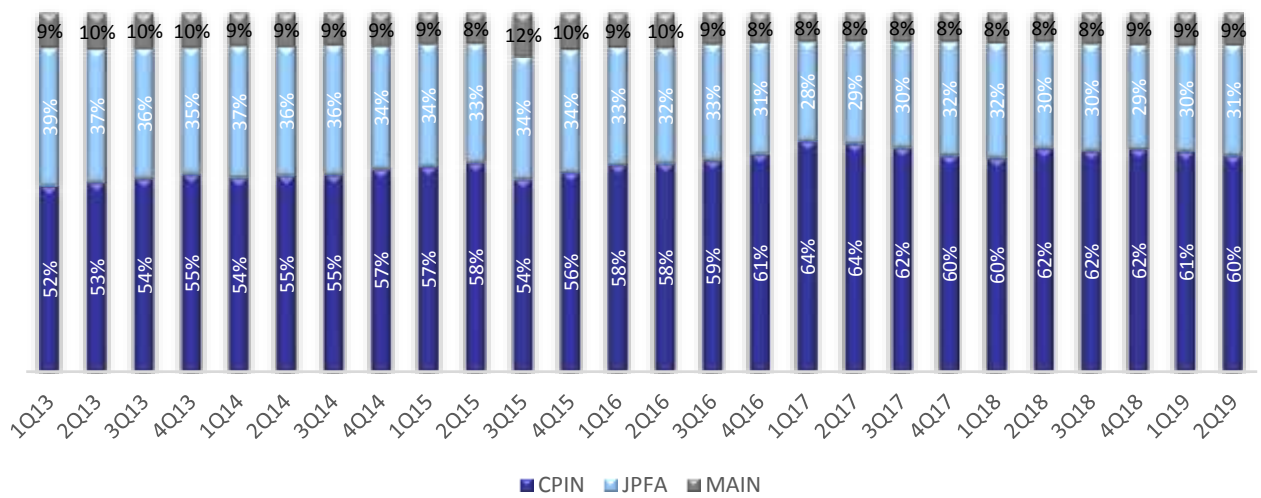
**Remaining cautious on its rich valuation.** We maintain our UNDERWEIGHT stance on the sector because there are no visible positive catalysts and the street's estimates are still too high in our view. We still believe that additional supply arising from higher GPS imports in 2018 (from Berdikari) and lower disposable income as a result of higher inflation will transpire in 2H19. Some negative catalysts are higher input costs and continuous budget reform which includes but is not limited to higher electricity tariffs and a reduction in non-taxable income.



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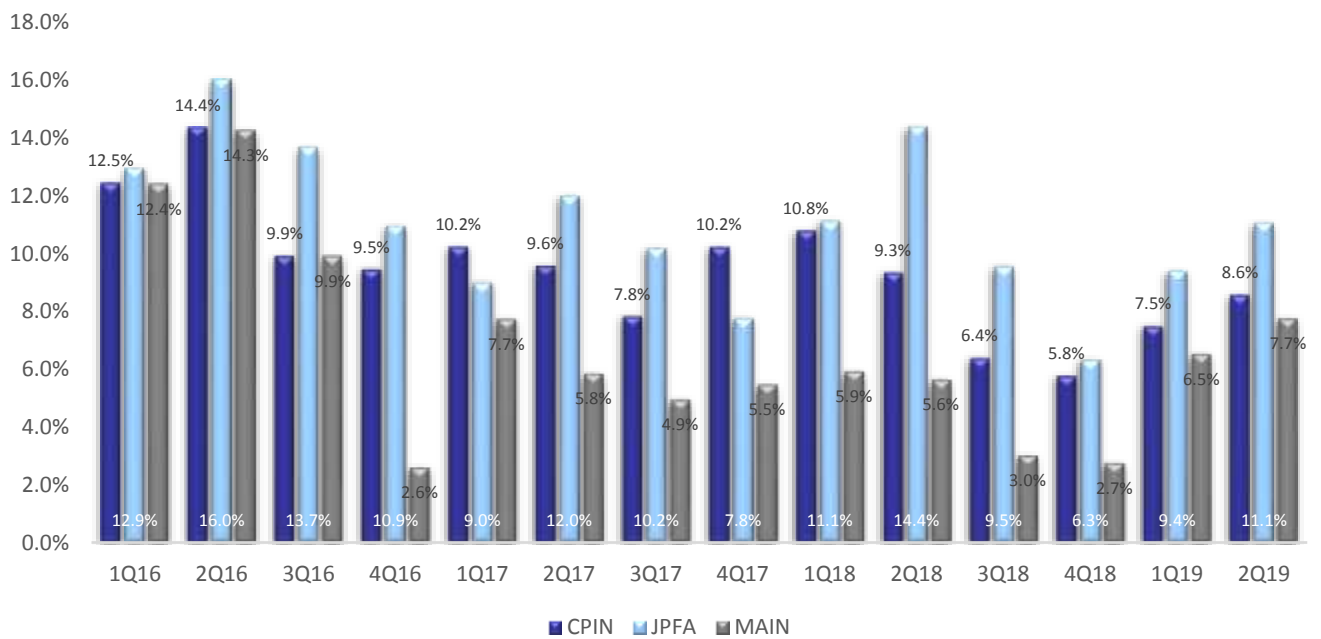
Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%) 2020F
					2019F	2020F	2019F	2020F	
Charoen Pokphand Indonesia	CPIN IJ	SELL	4,700	87,319.4	25.9	21.2	4.2	3.7	18.4
Japfa Comfeed Indonesia	JPFA IJ	HOLD	1,650	19,114.3	13.2	10.3	1.8	1.6	16.6
Malindo Feedmill Indonesia	MAIN IJ	HOLD	1,200	2,496.2	8.0	6.1	1.1	1.0	16.9

**Exhibit 1. Animal feed quarterly market share**



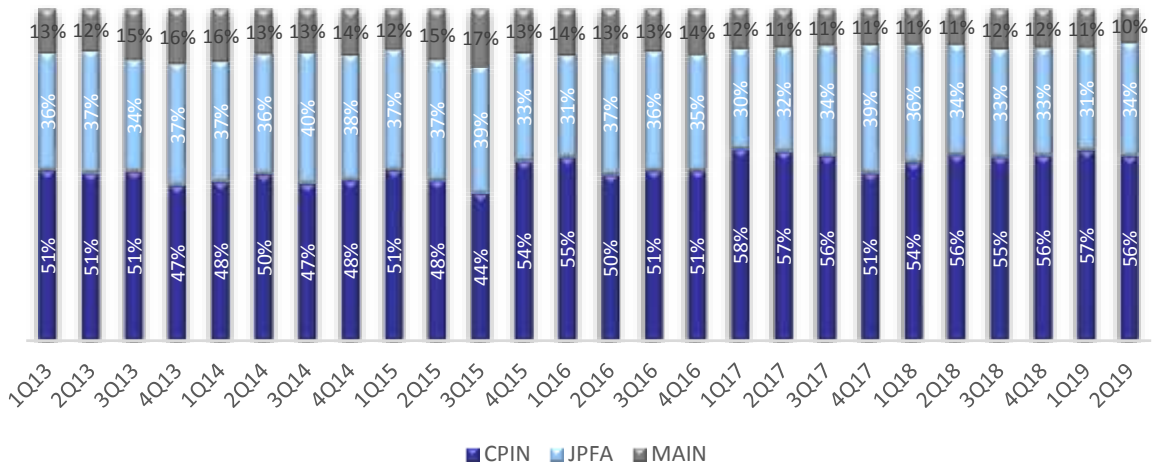
Source: Company, Danareksa Sekuritas

**Exhibit 2. Animal feed quarterly operating margin**



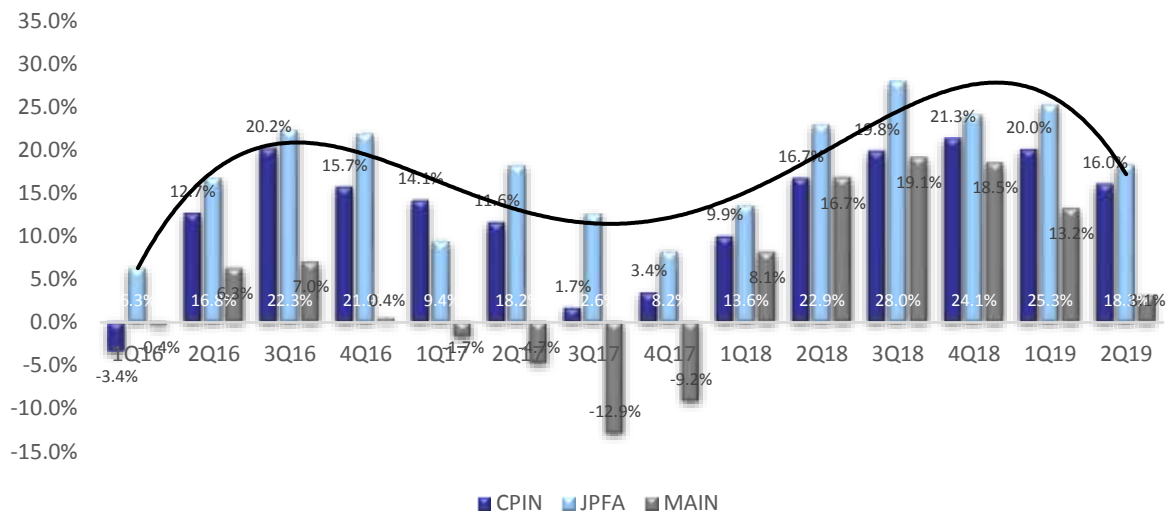
Source: Company, Danareksa Sekuritas

**Exhibit 3. Breeding farms quarterly market share**



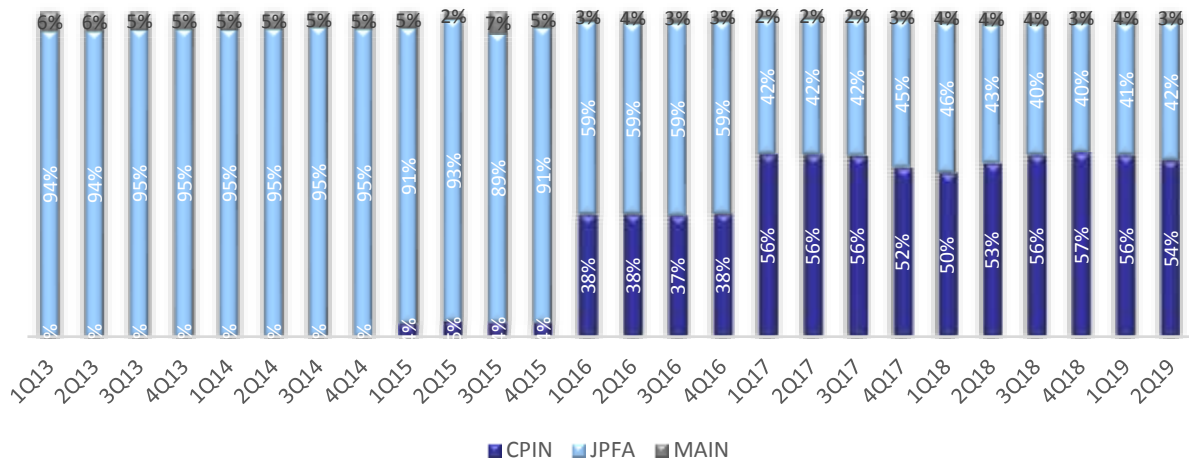
Source: Company, Danareksa Sekuritas

**Exhibit 4. Breeding farms quarterly operating margin**



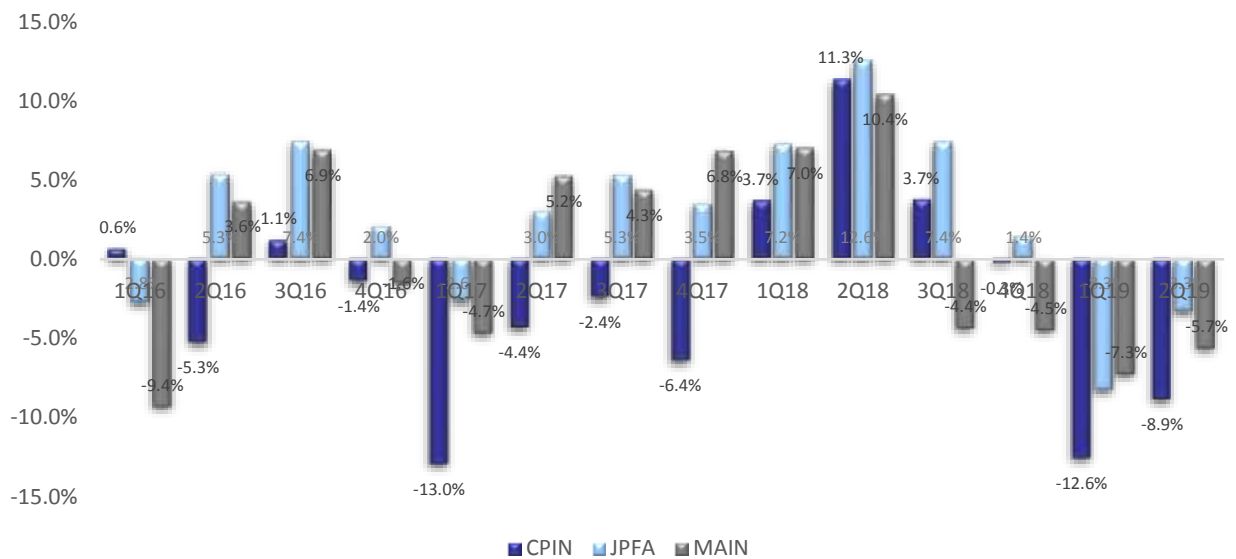
Source: Company, Danareksa Sekuritas

**Exhibit 5. Commercial farms quarterly market share**



Source: Company, Danareksa Sekuritas

**Exhibit 6. Commercial farms quarterly operating margin**



Source: Company, Danareksa Sekuritas

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