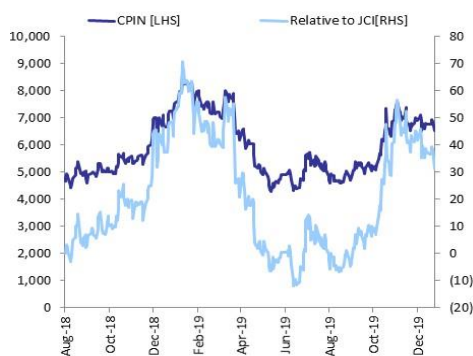


Thursday, 20 February 2020

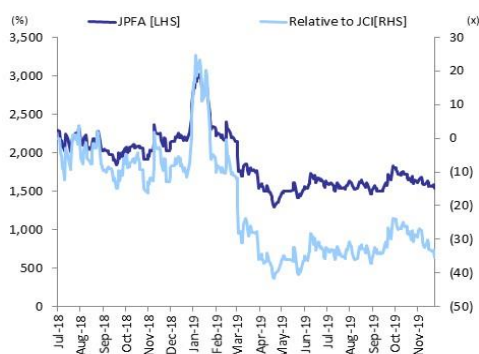
OVERWEIGHT

<Maintain>

CPIN relative to JCI Index



JPFA relative to JCI Index



Source : Bloomberg

Poultry

The Family Planning Program for Chickens

The government has instructed a PS culling program to limit the breeding age of PS at 60 weeks in the period from 17 February – 31 December 2020. If strictly implemented, this could reduce the mid-term supply of chickens by c. 18%, which, we believe, would be enough to address the current oversupply in the market. We maintain our Overweight stance on the sector given that this regulation will address the current oversupply conditions throughout 2020. Japfa will be the main beneficiary given its larger contribution from both the breeding and commercial farming segments.

New culling program to address mid-term oversupply. On February 18, 2020 the Ministry of Agriculture issued Circular Letter No. 2106/Se/PK.230/F/02/2020 regarding the culling of PS broilers aged 60 weeks and above. The main points of the letter are: 1) to reduce the number of DOC FS broilers by culling PS aged 60 weeks and above from 17 – 29 February 2020, 2) the culling will be implemented by removing male PS first, 3) the breeding age of PS throughout 2020 (17 February – 31 December 2020) will be capped at 60 weeks, and 4) the unqualified HE should not be hatched and instead be distributed under the CSR program which will be coordinated by the Coordinating Ministry for Economic Affairs. The implementation of the program will be supervised by the Central Supervision Team and/or its regional function, representatives of breeding companies (cross monitoring). Supervision may also involve the GPPU, the Food Task Force of the National Police, and related institutions.

Prices should be more stable in view of c.18% supply reduction. We believe this program - if strictly implemented - would stabilize both DOC and broiler prices throughout 2020 as supply would be reduced by c. 18% which, we think, is enough to address the current oversupply conditions. However, since we foresee lower supply from the lower GPS import quota in 2019 to materialize in 4Q20, the implementation of the age 60 weeks cap will result in undersupply towards the end of 2020. As such, we expect the program to be reviewed and adjusted if deemed necessary by the government to prevent increases in chicken prices.

Maintain Overweight as this regulation is in line with our expectation. We maintain our Overweight stance on the sector as we had already expected government intervention to help stabilize chicken prices in 2020. The program should be beneficial for integrators as they will enjoy higher margins in both the breeding and commercial segments which were hit badly in 2019. We also maintain JPFA as our top pick in the sector as we believe the higher margins for the breeding and commercial businesses will benefit JPFA the most. The two segments contributed 57% to JPFA's poultry business, higher than CPIN's contribution at 45% and MAIN's at 35%.



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Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%)
					2019F	2020F	2019F	2020F	
Charoen Pokphand Indonesia	CPIN IJ	HOLD	6,500	111,506.4	31.8	25.9	5.3	4.7	19.3
Japfa Comfeed Indonesia	JPFA IJ	BUY	2,000	18,293.5	12.7	9.8	1.7	1.5	16.6
Malindo Feedmill Indonesia	MAIN IJ	BUY	1,400	1,958.9	7.5	5.9	0.9	0.8	14.4

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