

Tuesday, 19 May 2020

SELL

Downgrade

Last price (IDR)	4,810
Target Price (IDR)	4,100
Upside/Downside	-14.8%
Previous Target Price (IDR)	3,900

Stock Statistics

Sector	Poultry
Bloomberg Ticker	CPIN JJ
No of Shrs (mn)	16,398
Mkt. Cap (IDRbn/USDmn)	78,874/5,311
Avg. daily T/O (IDRbn/USDmn)	48.0/3.2

Major shareholders (%)

PT Charoen Pokphand Indonesia Group	55.5
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Estimated free float	44.5
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EPS Consensus (IDR)

	2020F	2021F	2022F
Danareksa	126.3	178.9	207.8
Consensus	183.6	244.4	288.1
Danareksa/Cons	(31.2)	(26.8)	(27.9)

CPIN relative to JCI Index



Source : Bloomberg



Victor Stefano

(62-21) 5091 4100 ext.

victor.stefano@danareksa.co.id

Charoen Pokphand Indonesia

Lower corn costs, higher contribution from foods

CPIN booked net profits of IDR922bn (+14% y-o-y, -14% q-o-q) which is above our forecast and the consensus. This owed mostly to margins expansion in its feed business as the company was able to procure lower corn costs, in our view. The lower costs were partly reflected in lower feed ASP which were then able to ease pressure on DOC and broiler margins.

Negative turnaround in the broiler segment but still higher y-o-y. As prices of DOC fell, the DOC segment EBIT margin dropped to 13.3% in 1Q20 (1Q19: 20.0%, 4Q19: 16.3%). The weak broiler prices in 1Q20 were reflected in a negative EBIT margin of 9.4% which is a turnaround from the high broiler prices in 4Q19 which reflected an EBIT margin of +1.4%. However, due to lower feed and DOC prices, the broiler EBIT margin is still higher than in 1Q19 when it recorded a negative EBIT margin of 12.6%.

Higher than expected feed margin arising from lower corn costs. As one of the major costs in poultry feed, we believe lower than expected corn costs contributed to the feed margin expansion in 1Q20 amid the lower feed prices in the quarter. The feed EBIT margin improved to 11.2% in 1Q20 up 370bps from a low base of 7.5% in 1Q19 as corn costs were high owing to the weak harvesting in late 2018.

High contribution from processed foods. As a stable margin business, the processed food segment contributed 18% to CPIN's 1Q19 EBIT. This is higher compared to 1Q19's 17% and 4Q19's 15%. Revenues in processed foods rose 25% y-o-y and 13% q-o-q in 1Q20 indicating strong demand for the products during High Scale Social Distancing which was enacted by the government to mitigate the outbreak of the COVID-19 pandemic.

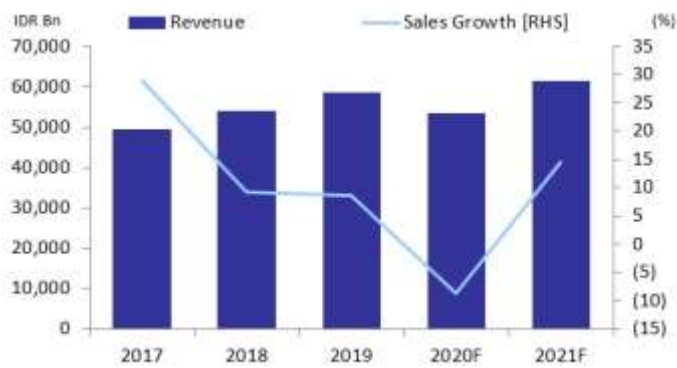
Strong performance to navigate hard times. CPIN was able to reduce its opex by 3% y-o-y, lower its net gearing to 10% as of the end of Mar-20 from 15% as of the end of Dec-19, and shorten its CCC by 5days to 47days during 1Q20. All these parameters should ensure that CPIN is able to navigate through the COVID-19 pandemic relatively well.

Downgrade to SELL with a slightly higher TP of IDR4,100. We downgrade our recommendation on CPIN to SELL as we believe the recent share price increase does not justify the earnings risk in 2H20. Our TP is derived by applying a 12.8x valuation to FY21F EBITDA (5-year average). Our TP implies a PE valuation of 32.5x FY20F and 22.9x FY21F.

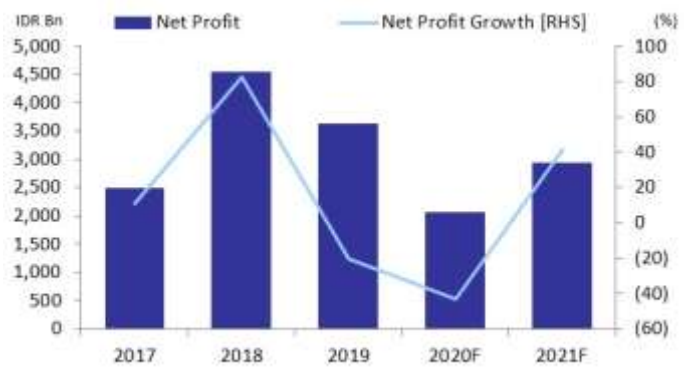
Key Financials

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue (IDRbn)	53,958	58,635	53,515	61,300	68,153
EBITDA (IDRbn)	7,284	6,104	4,219	5,378	6,098
EBITDA Growth (%)	61.6	(16.2)	(30.9)	27.5	13.4
Net profit (IDRbn)	4,554	3,635	2,070	2,934	3,408
EPS (IDR)	277.7	221.7	126.3	178.9	207.8
EPS growth (%)	82.3	(20.2)	(43.0)	41.7	16.2
BVPS (IDR)	1,181.6	1,284.2	1,316.3	1,441.6	1,573.4
DPS (IDR)	56.0	118.0	94.2	53.6	76.0
PER (x)	17.3	21.7	38.1	26.9	23.1
PBV (x)	4.1	3.7	3.7	3.3	3.1
Dividend yield (%)	1.2	2.5	2.0	1.1	1.6
EV/EBITDA (x)	11.1	13.4	19.3	15.1	13.2

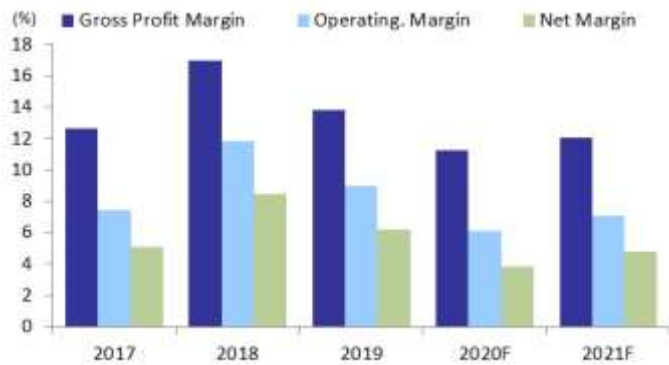
Source : CPIN, Danareksa Estimates

Exhibit 1. Revenues and Growth


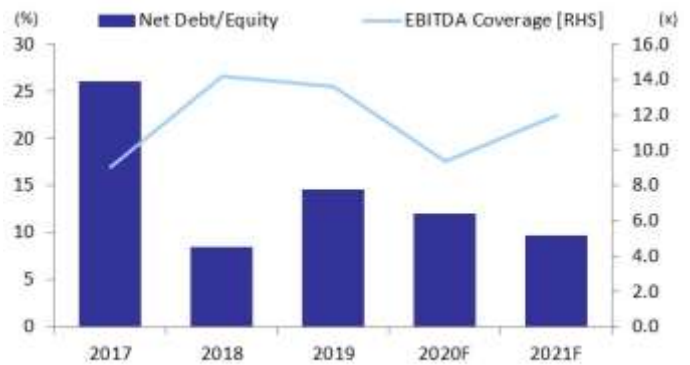
Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth


Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Margins


Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Gearing Level


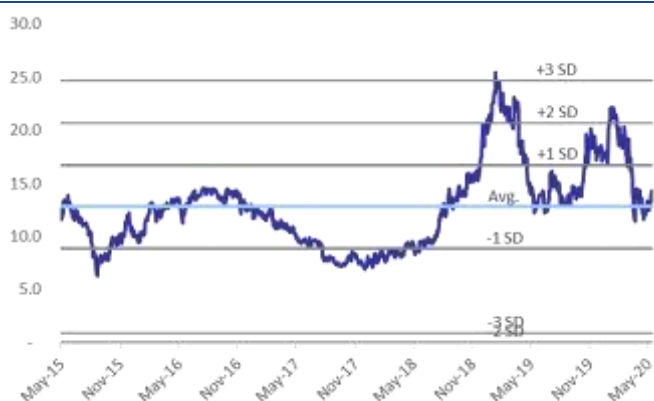
Source: Company, Danareksa Sekuritas estimates

Exhibit 5. CPIN 1Q20 results summary

CPIN (IDR bn)	1Q19	4Q19	1Q20	y-o-y	q-o-q	3M19	3M20	y-o-y	FY20F	FY20C	A/F	A/C
Revenue	14,455	14,735	13,890	-4%	-6%	14,455	13,890	-4%	53,515	56,437	26%	25%
COGS	(12,740)	(12,106)	(11,950)	-6%	-1%	(12,740)	(11,950)	-6%	(47,491)	(49,437)	25%	24%
Gross Profit	1,715	2,630	1,940	13%	-26%	1,715	1,940	13%	6,024	7,000	32%	28%
Total Opex	(659)	(794)	(641)	-3%	-19%	(659)	(641)	-3%	(2,737)	(3,270)	23%	20%
Operating Profit	1,056	1,835	1,299	23%	-29%	1,056	1,299	23%	3,287	3,730	40%	35%
Pretax profit	1,004	1,412	1,158	15%	-18%	1,004	1,158	15%	2,504	3,612	46%	32%
Net profit	812	1,070	922	14%	-14%	812	922	14%	2,031	2,576	45%	36%
Gross margin	11.9%	17.8%	14.0%	2.1%	-3.9%	11.9%	14.0%	2.1%	11.3%	12.4%		
Operating margin	7.3%	12.5%	9.4%	2.0%	-3.1%	7.3%	9.4%	2.0%	6.1%	6.6%		
Net margin	5.6%	7.3%	6.6%	1.0%	-0.6%	5.6%	6.6%	1.0%	3.8%	4.6%		

Source: Company, Danareksa Sekuritas estimates

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



Source: Company, Bloomberg, Danareksa Sekuritas estimates

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



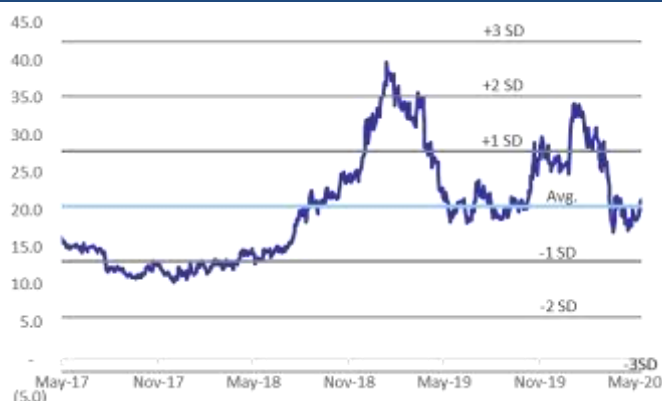
Source: Company, Bloomberg, Danareksa Sekuritas estimates

Exhibit 8. P/E Band Chart (5-year)



Source: Company, Bloomberg, Danareksa Sekuritas estimates

Exhibit 9. P/E Band Chart (3-year)



Source: Company, Bloomberg, Danareksa Sekuritas estimates

Exhibit 10. Income Statement

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Revenue	53,958	58,635	53,515	61,300	68,153
COGS	(44,823)	(50,538)	(47,491)	(53,917)	(59,883)
Gross profit	9,135	8,096	6,024	7,383	8,270
EBITDA	7,284	6,104	4,219	5,378	6,098
Oper. profit	6,394	5,248	3,287	4,347	4,961
Interest income	77	50	58	63	45
Interest expense	(513)	(448)	(449)	(450)	(449)
Forex Gain/(Loss)	(145)	60	(17)	(6)	(6)
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	94	(315)	(326)	(337)	(349)
Pre-tax profit	5,907	4,595	2,553	3,618	4,203
Income tax	(1,356)	(963)	(484)	(686)	(797)
Minority interest	3	2	1	2	2
Net profit	4,554	3,635	2,070	2,934	3,408
Core Net Profit	4,699	3,574	2,088	2,939	3,414

Exhibit 11. Balance Sheet

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	2,803	1,961	2,545	2,863	3,354
Receivables	3,020	3,239	2,856	3,272	3,638
Inventory	5,835	5,718	5,428	6,163	6,845
Other Curr. Asset	2,439	2,379	1,451	1,232	880
Fixed assets - Net	11,692	13,517	14,942	16,119	17,415
Other non-curr.asset	1,862	2,534	2,586	2,639	2,693
Total asset	27,652	29,349	29,809	32,288	34,824
ST Debt	1,700	2,770	2,770	2,770	2,770
Payables	2,195	1,779	1,867	2,120	2,355
Other Curr. Liabilities	838	639	402	490	550
Long Term Debt	2,750	2,278	2,371	2,377	2,383
Other LT. Liabilities	771	815	752	834	909
Total Liabilities	8,254	8,281	8,163	8,590	8,967
Shareholder's Funds	19,376	21,059	21,585	23,639	25,801
Minority interests	18	16	14	12	10
Total Equity & Liabilities	27,648	29,356	29,762	32,242	34,778

Exhibit 12. Cash Flow

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Net income	4,554	3,635	2,070	2,934	3,408
Depreciation and Amort.	890	856	932	1,031	1,136
Change in Working Capital	(515)	(656)	1,452	(591)	(400)
Other Oper. Cash Flow	107	(303)	(7)	(8)	(9)
Operating Cash Flow	5,036	3,532	4,447	3,365	4,135
Capex	(1,643)	(2,733)	(2,331)	(2,208)	(2,432)
Others Inv. Cash Flow	36	(325)	(43)	(44)	(46)
Investing Cash Flow	(1,607)	(3,058)	(2,374)	(2,252)	(2,477)
Net change in debt	(1,436)	598	93	6	6
New Capital	0	0	0	0	0
Dividend payment	(918)	(1,935)	(1,544)	(880)	(1,246)
Other Fin. Cash Flow	(84)	48	(65)	79	74
Financing Cash Flow	(2,439)	(1,288)	(1,516)	(795)	(1,167)
Net Change in Cash	990	(814)	556	318	491
Cash - begin of the year	1,793	2,803	1,961	2,545	2,863
Cash - end of the year	2,803	1,961	2,545	2,863	3,354

Exhibit 13. Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Growth (%)					
Sales	9.3	8.7	(8.7)	14.5	11.2
EBITDA	61.6	(16.2)	(30.9)	27.5	13.4
Operating profit	73.5	(17.9)	(37.4)	32.3	14.1
Net profit	82.3	(20.2)	(43.0)	41.7	16.2
Profitability (%)					
Gross margin	16.9	13.8	11.3	12.0	12.1
EBITDA margin	13.5	10.4	7.9	8.8	8.9
Operating margin	11.9	8.9	6.1	7.1	7.3
Net margin	8.4	6.2	3.9	4.8	5.0
ROAA	17.5	12.8	7.0	9.4	10.2
ROAE	26.0	18.0	9.7	13.0	13.8
Leverage					
Net Gearing (x)	0.1	0.1	0.1	0.1	0.1
Interest Coverage (x)	12.5	11.7	7.3	9.7	11.1

Source : CPIN, Danareksa Estimates

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