

Monday, 15 November 2021

**BUY**  
**Maintain**

Last price (IDR) 6,050  
Target Price (IDR) 6,900  
Upside/Downside +14.0%  
Previous Target Price (IDR) 8,400

**Stock Statistics**

Sector Poultry  
Bloomberg Ticker CPIN IJ  
No of Shrs (mn) 16,398  
Mkt. Cap (IDRbn/USDmn) 99,208/6,969  
Avg. daily T/O (IDRbn/USDmn) 38.4/2.7

**Major shareholders (%)**

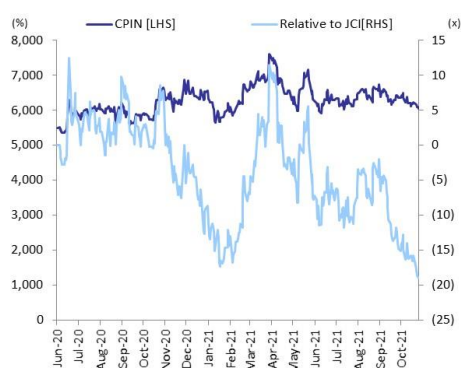
PT Charoen Pokphand Indonesia Group 55.5

Estimated free float 44.5

**EPS Consensus (IDR)**

	2021F	2022F	2023F
Danareksa	203.4	259.8	285.9
Consensus	297.8	319.0	359.0
Danareksa/Cons	(31.7)	(18.5)	(20.3)

**CPIN relative to JCI Index**



Source : Bloomberg



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# Charoen Pokphand Indonesia (CPIN IJ)

## Negative profits on margins compression

**CPIN booked net losses of IDR157bn in 3Q21 with a resilient feed margin but very low broiler margins. We expect 4Q21 to turn positive again on the back of slightly lower corn costs and higher broiler prices. CPIN's 9M21 net profits dropped to IDR2.7tn (+19% y-o-y) which is below our FY21F forecast and the consensus. We maintain our BUY call on CPIN as we foresee a recovery in chicken prices and lower corn costs in FY22F.**

**The first losses in the past ten years.** Despite being the market leader in Indonesia, CPIN reported net losses of IDR157bn in 3Q21 which was even not seen during the major oversupply in 2014-2015. CPIN's 3Q21 gross profits declined by 60% y-o-y and 74% q-o-q due to the compressed gross margin at 5.7%, its lowest level in the past ten years. Operating profits were negative as the gross profits were not enough to cover the operational costs during the quarter.

**Resilient margin in feed but commercial farming was loss making.** Despite the rising local corn and imported SBM prices, CPIN was able to record a resilient feed EBIT margin of 10.6% in 3Q21 compared to 10.1% in 2Q21, demonstrating, we believe, the company's strong capability to procure raw materials and raise feed ASP. However, the higher feed and DOC prices led to huge losses in commercial farming which reported an EBIT margin of -25.4% in 3Q21, or significantly down from 0.8% in 2Q21. Higher feed prices also led to a lower DOC margin of 16.9% in 3Q21 vs 18.8% in 2Q21.

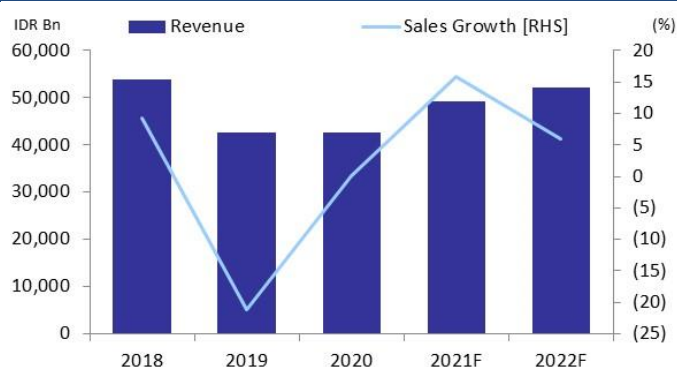
**FY21F/FY22F EBITDA estimates adjusted down by 30%/20%.** We tweak our FY21F/FY22F assumptions on broiler prices from IDR19/18.4k to IDR18.5/18.5k due to the lower-than-expected prices owing to emergency PPKM. We also tweak our corn costs growth estimate for this year from +11% to +16% y-o-y in FY21F due to the resilient prices in 3Q21. However, we are maintaining our 6% lower corn costs assumption for FY22F as we expect corn production to pick up given the high domestic prices.

**Maintain BUY with a TP of IDR6,900.** Despite the weak numbers we are maintaining our BUY call on the stock as we believe the current share price is attractive given the expected recovery of broiler prices and lower corn costs in FY22F. Our new TP is IDR6,900 after we roll forward our valuation with adjusted FY22F EBITDA and a multiple of 16.9x (+1SD of the five-year average) implying 26.5x FY22F P/E.

**Key Financials**

Year to 31 Dec	2019A	2020A	2021F	2022F	2023F
Revenue (IDRbn)	42,501	42,519	49,255	52,215	57,471
EBITDA (IDRbn)	6,022	6,234	5,673	6,880	7,466
EBITDA Growth (%)	(17.3)	3.5	(9.0)	21.3	8.5
Net profit (IDRbn)	3,645	3,842	3,335	4,261	4,688
EPS (IDR)	222.3	234.3	203.4	259.8	285.9
EPS growth (%)	(20.0)	5.4	(13.2)	27.8	10.0
BVPS (IDR)	1,273.5	1,422.9	1,526.8	1,700.2	1,875.7
DPS (IDR)	118.0	81.0	99.5	86.4	110.4
PER (x)	30.6	29.0	33.4	26.2	23.8
PBV (x)	5.3	4.8	4.5	4.0	3.6
Dividend yield (%)	1.7	1.2	1.5	1.3	1.6
EV/EBITDA (x)	19.0	18.1	20.1	16.4	15.0

Source : CPIN, Danareksa Estimates

**Exhibit 1. Revenues and Growth**


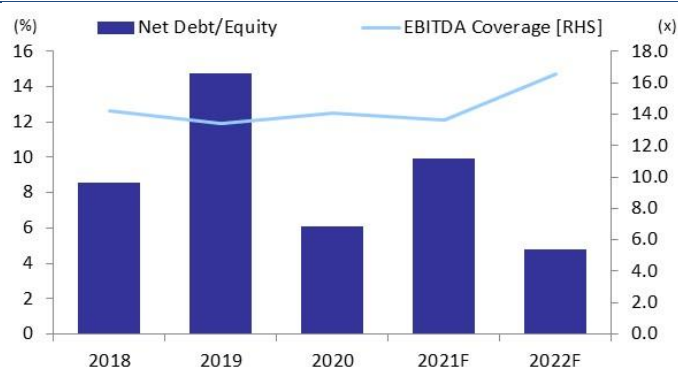
Source: Company, Danareksa Sekuritas estimates

**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 3Q21 results summary**

CPIN (IDR bn)	3Q20	2Q21	3Q21	y-o-y	q-o-q	9M20	9M21	y-o-y	FY21F	FY21C	A/F	A/C
Revenue	10,619	13,064	12,124	14%	-7%	30,392	37,593	24%	48,832	49,778	77%	76%
COGS	(8,904)	(10,391)	(11,436)	28%	10%	(25,063)	(31,628)	26%	(38,180)	(39,806)	83%	79%
Gross Profit	1,715	2,673	688	-60%	-74%	5,329	5,966	12%	10,652	9,972	56%	60%
Total Opex	(698)	(836)	(859)	23%	3%	(2,016)	(2,431)	21%	(3,471)	(3,268)	70%	74%
Operating Profit	1,017	1,836	(171)	n/a	n/a	3,313	3,535	7%	7,181	6,703	49%	53%
Pretax profit	756	1,744	(306)	n/a	n/a	2,795	3,261	17%	6,596	6,213	49%	52%
Net profit	617	1,378	(157)	n/a	n/a	2,254	2,676	19%	5,316	4,473	50%	60%
Gross margin	16.2%	20.5%	5.7%	-10.5%	-14.8%	17.5%	15.9%	-1.7%	21.8%	20.0%		
Operating margin	9.6%	14.1%	-1.4%	-11.0%	-15.5%	10.9%	9.4%	-1.5%	14.7%	13.5%		
Net margin	5.8%	10.6%	-1.3%	-7.1%	-11.8%	7.4%	7.1%	-0.3%	10.9%	9.0%		

Source: Company, BRI Danareksa Sekuritas

### Exhibit 6. Income Statement

Year to 31 Dec (IDRbn)	2019A	2020A	2021F	2022F	2023F
<b>Revenue</b>	<b>42,501</b>	<b>42,519</b>	<b>49,255</b>	<b>52,215</b>	<b>57,471</b>
COGS	(34,526)	(34,264)	(41,365)	(43,028)	(47,506)
<b>Gross profit</b>	<b>7,975</b>	<b>8,255</b>	<b>7,890</b>	<b>9,186</b>	<b>9,965</b>
<b>EBITDA</b>	<b>6,022</b>	<b>6,234</b>	<b>5,673</b>	<b>6,880</b>	<b>7,466</b>
<b>Oper. profit</b>	<b>5,166</b>	<b>5,372</b>	<b>4,723</b>	<b>5,838</b>	<b>6,324</b>
Interest income	50	67	75	117	170
Interest expense	(448)	(443)	(416)	(415)	(415)
Forex Gain/(Loss)	60	6	(5)	(5)	(6)
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	(220)	(234)	(239)	(247)	(255)
<b>Pre-tax profit</b>	<b>4,609</b>	<b>4,768</b>	<b>4,138</b>	<b>5,287</b>	<b>5,818</b>
Income tax	(966)	(922)	(800)	(1,022)	(1,125)
Minority interest	2	(4)	(3)	(4)	(5)
<b>Net profit</b>	<b>3,645</b>	<b>3,842</b>	<b>3,335</b>	<b>4,261</b>	<b>4,688</b>
<b>Core Net Profit</b>	<b>3,584</b>	<b>3,836</b>	<b>3,340</b>	<b>4,266</b>	<b>4,694</b>

### Exhibit 7. Balance Sheet

Year to 31 Dec (IDRbn)	2019A	2020A	2021F	2022F	2023F
Cash & cash equivalent	1,961	2,678	1,670	2,826	3,449
Receivables	2,123	1,978	2,303	2,441	2,687
Inventory	5,812	5,693	7,039	7,322	8,083
Other Curr. Asset	3,100	3,183	3,415	3,524	3,682
Fixed assets - Net	13,522	14,494	15,676	16,976	18,407
Other non-curr.asset	2,592	3,133	3,188	3,256	3,326
<b>Total asset</b>	<b>29,109</b>	<b>31,159</b>	<b>33,290</b>	<b>36,345</b>	<b>39,635</b>
ST Debt	2,770	2,770	2,770	2,770	2,770
Payables	1,825	1,894	2,439	2,537	2,801
Other Curr. Liabilities	525	692	500	570	626
Long Term Debt	2,278	1,328	1,382	1,387	1,393
Other LT. Liabilities	815	1,125	1,145	1,177	1,259
<b>Total Liabilities</b>	<b>8,214</b>	<b>7,810</b>	<b>8,235</b>	<b>8,441</b>	<b>8,848</b>
Shareholder's Funds	20,883	23,333	25,036	27,880	30,758
Minority interests	13	17	20	24	29
<b>Total Equity &amp; Liabilities</b>	<b>29,109</b>	<b>31,159</b>	<b>33,291</b>	<b>36,345</b>	<b>39,635</b>

### Exhibit 8. Cash Flow

Year to 31 Dec (IDRbn)	2019A	2020A	2021F	2022F	2023F
Net income	3,645	3,842	3,335	4,261	4,688
Depreciation and Amort.	856	863	949	1,043	1,142
Change in Working Capital	(670)	344	(1,478)	(362)	(846)
Other Oper. Cash Flow	(431)	(204)	4	(7)	(7)
<b>Operating Cash Flow</b>	<b>3,400</b>	<b>4,846</b>	<b>2,810</b>	<b>4,934</b>	<b>4,978</b>
Capex	(2,733)	(1,914)	(2,131)	(2,342)	(2,574)
Others Inv. Cash Flow	(122)	108	(55)	(56)	(58)
<b>Investing Cash Flow</b>	<b>(2,855)</b>	<b>(1,806)</b>	<b>(2,186)</b>	<b>(2,398)</b>	<b>(2,631)</b>
Net change in debt	598	(594)	(19)	5	6
New Capital	0	0	0	0	0
Dividend payment	(1,935)	(1,328)	(1,632)	(1,417)	(1,810)
Other Fin. Cash Flow	(38)	(408)	19	32	81
<b>Financing Cash Flow</b>	<b>(1,374)</b>	<b>(2,330)</b>	<b>(1,632)</b>	<b>(1,380)</b>	<b>(1,724)</b>
<b>Net Change in Cash</b>	<b>(829)</b>	<b>710</b>	<b>(1,008)</b>	<b>1,156</b>	<b>623</b>
Cash - begin of the year	2,803	1,961	2,678	1,670	2,826
Cash - end of the year	1,961	2,678	1,670	2,826	3,449

### Exhibit 9. Key Ratios

Year to 31 Dec	2019A	2020A	2021F	2022F	2023F
<b>Growth (%)</b>					
Sales	(21.2)	0.0	15.8	6.0	10.1
EBITDA	(17.3)	3.5	(9.0)	21.3	8.5
Operating profit	(19.2)	4.0	(12.1)	23.6	8.3
Net profit	(20.0)	5.4	(13.2)	27.8	10.0
<b>Profitability (%)</b>					
Gross margin	18.8	19.4	16.0	17.6	17.3
EBITDA margin	14.2	14.7	11.5	13.2	13.0
Operating margin	12.2	12.6	9.6	11.2	11.0
Net margin	8.6	9.0	6.8	8.2	8.2
ROAA	12.9	12.8	10.3	12.2	12.3
ROAE	18.2	17.4	13.8	16.1	16.0
<b>Leverage</b>					
Net Gearing (x)	0.1	0.1	0.1	0.0	0.0
Interest Coverage (x)	11.5	12.1	11.4	14.1	15.2

Source : CPIN, Danareksa Estimates

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