

FROM EQUITY RESEARCH

Charoen Pokphand Indonesia : Thank you, next (CPIN IJ. IDR 8,025 SELL .TP IDR 5,700)

We downgrade our recommendation on Charoen Pokphand Indonesia (CPIN) to SELL with a TP of IDR 5,700 given the outlook for negative earnings growth and the expensive valuation. We expect CPIN's earnings to decline by 14.4% y-o-y in FY19 (this compares to the consensus of 3.8% y-o-y earnings growth) on the back of margins compression stemming from higher raw material costs and lower DOC and broiler ASP. Aside from the lower earnings forecast, we also note that the stock is trading at above 3SD from its 3-year average, which we believe is unjustified.

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Danareksa Consumer Confidence: More Optimistic at the Beginning of the Year

The CCI (Consumer Confidence Index), PSI (Present Situations Index) and EI (Expectations Index) all rose in January 2019. Consumers are less worried by high foodstuff prices and the risk of crop failure. The Buying Intentions Index fell slightly but remains in an upward trend. The CCGI (Consumer Confidence in the Government Index) rebounded after recording declines in November and December 2018.

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- Government and Bank Indonesia to maintain inflation within 3.5%±1%

CORPORATE

- Pembangunan Perumahan and Wijaya Karya: Plan to issue perpetual bonds this year
- TOWR announces new contract Rp5.8tn for towers and fiber
- iForte of TOWR awarded contract to supply HTS satellite capacity

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KEY INDEX

	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
Asean - 5				
Indonesia	6.459	(0,4)	4,3	602
Thailand	1.625	0,1	3,9	1.521
Philippines	8.054	0,0	7,9	138
Malaysia	1.698	(0,2)	0,4	500
Singapore	3.200	(0,1)	4,3	596
Regional				
China	2.597	(0,2)	4,1	26.460
Hong Kong	27.577	0,0	6,7	11.915
Japan	20.649	(0,6)	3,2	10.110
Korea	2.173	(0,2)	6,5	6.311
Taiwan	10.013	0,4	2,9	3.017
India	35.657	(1,0)	(1,1)	451
NASDAQ	7.086	(1,1)	6,8	108.201
Dow Jones	24.528	(0,8)	5,1	10.020

CURRENCY AND INTEREST RATE

	Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah Rp/1US\$	14.072	1,1	3,4	2,2
BI7DRRR %	6,00	-	-	-
10y Gov Indo bond	8,12	0,0	0,1	0,1

HARD COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	99	-	(2,4)	(2,5)
Gold	US\$/toz	1.304	0,0	1,8	1,7
Nickel	US\$/mt.ton	11.761	(1,2)	10,5	10,9
Tin	US\$/mt.ton	20.785	(0,1)	6,5	6,5

SOFT COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	2.201	(1,0)	(3,0)	(6,9)
Corn	US\$/mt.ton	134	(0,3)	1,2	0,9
Oil (WTI)	US\$/barrel	52	0,2	14,9	14,7
Oil (Brent)	US\$/barrel	60	(2,8)	14,8	11,4
Palm oil	MYR/mt.ton	2.095	0,2	6,9	7,3
Rubber	US\$/kg	131	(1,3)	5,1	5,1
Pulp	US\$/tonne	1.205	N/A	2,8	20,5
Coffee	US\$/60kgbag	78	(0,9)	0,1	0,1
Sugar	US\$/MT	346	2,0	2,0	4,0
Wheat	US\$/ton	141	(0,2)	1,4	3,1
Soy Oil	US\$/lb	30	0,9	10,1	10,0
Soy Bean	US\$/by	923	(0,2)	4,6	4,6

Tuesday, 29 January 2019

SELL Downgrade

Last price (IDR)	8,025
Target Price (IDR)	5,700
Upside/Downside	-29.0%
Previous Target Price (IDR)	4,750

Stock Statistics

Sector	Poultry
Bloomberg Ticker	CPIN IJ
No of Shrs (mn)	16,398
Mkt. Cap (IDRbn/USDmn)	131,594/9,338
Avg. daily T/O (IDRbn/USDmn)	46.7/3.3

Major shareholders (%)

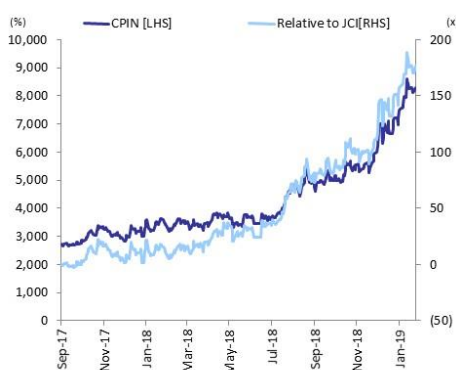
PT Charoen Pokphand Indonesia Group	55.5
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Estimated free float	44.5
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EPS Consensus (IDR)

	2018F	2019F	2020F
Danareksa	281.8	241.2	283.8
Consensus	277.5	300.5	319.1
Danareksa/Cons	1.5	(19.7)	(11.1)

CPIN relative to JCI Index



Source : Bloomberg



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Charoen Pokphand Indonesia (CPIN IJ)

Thank you, next

We downgrade our recommendation on Charoen Pokphand Indonesia (CPIN) to SELL with a TP of IDR 5,700 given the outlook for negative earnings growth and the expensive valuation. We expect CPIN's earnings to decline by 14.4% y-o-y in FY19 (this compares to the consensus of 3.8% y-o-y earnings growth) on the back of margins compression stemming from higher raw material costs and lower DOC and broiler ASP. Aside from the lower earnings forecast, we also note that the stock is trading at above 3SD from its 3-year average, which we believe is unjustified.

Negative earnings growth expected in FY19F. We expect CPIN to book net profits of IDR 3,956 billion in FY19F, down by 14.4% from our FY18F net profits estimate of IDR 4,620 billion. We expect lower gross margins in the DOC and broiler segment as we assume 8% and 5% lower DOC and broiler ASP, respectively. We also expect higher raw material costs (corn and soybean meal) to be passed through resulting in higher poultry feed ASP. Processed foods and the other business segment's gross margin are expected to remain flat. All in all, we expect CPIN's gross margin to inch down to 15.2% in FY19F (from 17.5% in FY18F) with the EBITDA margin slipping to 11.9% in FY19F from 14.2% in FY18F.

Trading at a blue sky valuation. After the stock rallied by c.70% since Sep 18, we note that CPIN is trading at a high base valuation which exceeds 3SD of its 3-year average (to include the commercial farm business) and 2SD of its 8-year average (to capture the full cycle of the poultry industry). The only time CPIN has ever had such a high valuation was during the poultry industry's down cycle back in 2014-2015.

Downgrade to SELL with a TP of IDR 5,700. We used a 13.9x EV/EBITDA multiple of FY19F EBITDA to arrive at our TP of IDR 5,700 which is at +1SD of its 3-year average. Our TP implies 23.6x FY19F PE. At the current share price, CPIN is trading at 34.2x PE and 20.3x EV/EBITDA. We believe that such a lofty valuation is unjustified given the volatility of earnings in the business model, especially since the broiler business segment is baked into the book.

(This report marks the transition of coverage from Adeline Solaiman to Victor Stefano)

Key Financials

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (IDRbn)	38,257	49,367	53,244	55,567	60,203
EBITDA (IDRbn)	5,227	4,507	7,540	6,595	7,444
EBITDA Growth (%)	29.1	(13.8)	67.3	(12.5)	12.9
Net profit (IDRbn)	2,247	2,498	4,620	3,956	4,653
EPS (IDR)	137.0	152.3	281.8	241.2	283.8
EPS growth (%)	29.1	11.2	85.0	(14.4)	17.6
BVPS (IDR)	862.2	956.5	1,175.3	1,300.0	1,484.0
DPS (IDR)	29.0	56.0	63.0	116.5	99.8
PER (x)	60.2	54.2	29.3	34.2	29.1
PBV (x)	9.6	8.6	7.0	6.3	5.6
Dividend yield (%)	0.4	0.7	0.8	1.4	1.2
EV/EBITDA (x)	26.7	30.9	18.1	20.4	17.8

Source : CPIN, Danareksa Estimates

DANAREKSA CONSUMER CONFIDENCE

February 2019

More Optimistic at the Beginning of the Year

Key Findings:

- **The CCI (Consumer Confidence Index), PSI (Present Situations Index) and EI (Expectations Index) all rose in January 2019.**
- **Consumers are less worried by high foodstuff prices and the risk of crop failure.**
- **The Buying Intentions Index fell slightly but remains in an upward trend.**
- **The CCGI (Consumer Confidence in the Government Index) rebounded after recording declines in November and December 2018.**

- ❑ January's survey data shows an improvement in consumer sentiment. The Danareksa Consumer Confidence Index (CCI) climbed 1.5% mom to 102.3 from 100.7 in December 2018. The index has now increased in 3 consecutive months. The Present Situations Index (PSI) and the Expectations Index (EI) both posted gains: up by 1.3% mom and 1.7% mom, respectively, to 86.7 and 114.0. In our survey, consumers gave more positive assessments on the current state of the national economy and the job market. In addition, they were also more upbeat on the prospects for the national & local economies over the next 6 months.
- ❑ Regionally, the CCI in urban areas (+1.1% mom) and rural areas (+2.6% mom) increased to 103.3 and 99.9, respectively. The CCI increased in Jakarta (+2.9% mom to 117.8), West Java (+4.4% mom to 102.1), East Java (+4.4% mom to 107.4), and South Sulawesi (+3.7% mom to 89.3). By contrast, the CCI fell in Central Java and North Sumatera to 116.7 (-0.4% mom) and 85.6 (-5.5% mom), respectively.
- ❑ By level of income, the CCI for low-income consumers (below IDR 1.5 mn/month) and mid-income consumers (between IDR 1.5 mn-3.0 mn/month) rose to 89.9 (+8.2% mom) and to 100.0 (+3.2% mom), respectively. By contrast, the CCI for high-income consumers (above IDR 3.0 mn/month) fell 1.2 percent to 109.1.
- ❑ Our survey reveals that consumers are less concerned by several key issues than in the previous month. Overall, 63.3 percent of consumers said that high foodstuff prices were a major factor weighing on the local economy in the last 3 months (down from 66.8% in December), while 37.7% were worried by job scarcity (vs 39.1% in December), 9.8% by high LPG prices/scarcity (vs 9.9% in December), and 3.7% by crop failure (vs 5.2% in December).
- ❑ Survey respondents mostly expect inflationary pressures to decline over the next 6 months, since the index measuring consumer sentiment toward general prices edged down by 0.2% to 176.7. This decline reflects lower prices of basic foodstuffs (due to the harvesting season), the normalisation of transportation costs after the holiday season, and reductions in the prices of non subsidized fuels. In regard to interest rates, consumers expect lower interest rates over the next six months (the index measuring sentiment toward interest rates fell 5.9% to 112.4). At the same time, consumers in the main cities are more pessimistic on the rupiah's outlook (the index measuring sentiment toward the rupiah fell 0.8% to 75.3).

MARKET NEWS

MACROECONOMY

Government and Bank Indonesia to maintain inflation within 3.5%±1%

The government and Bank Indonesia has agreed to take three strategic approaches to keep inflation in the targeted range of 3.5%±1% in 2019. The first approach is to maintain volatile foods inflation at 4-5% by managing the affordability, supply, and distribution of food items. The second strategy is to initiate the 2019-2021 National Inflation Control Roadmap by focusing on the provincial level. And the last strategy is to strengthen central and regional government through national coordinating meetings (Rakornas) with the help of the Regional Inflation Control Team (TPID). (Investor Daily)

CORPORATE

Pembangunan Perumahan and Wijaya Karya: Plan to issue perpetual bonds this year

Pembangunan Perumahan (PTPP) plans to issue IDR350bn of perpetual bonds this year. The bonds will be issued through mutual funds (RDPT) and they will be the second perpetual bonds issued by PTPP. In 2018, PTPP issued its first perpetual bonds amounting to IDR150bn carrying a 9.04%pa coupon. Furthermore, the other SOE contractor, Wijaya Karya (WIKA) is in the process of issuing IDR1.4tn of perpetual bonds. This will be WIKA's second issuance of perpetual bonds after the company issued IDR600bn of bonds in 4Q18. The first bond has an initial coupon rate of 10.5% which will increase to 12.5% if the issuer does not exercise its call option in the third year. The coupon rate will then increase to 17% in the fifth year if WIKA does not exercise its call option. Unlike PTPP, WIKA is not issuing its bonds under the mutual fund (RDPT) scheme. (Investor Daily)

TOWR announces Rp5.8tn of new contracts for towers and fiber optic cable

Sarana Menara Nusantara SMN (TOWR:IJ) has more than 1,600 new colocations and build-to-suit ("BTS") tower orders to be completed in 2019. The Company reported that it ended 2018 with 17,437 towers compared to 17,234 towers in 9M18 and 28,319 installed tenancies (leases) compared to 28,113 tenancies in 9M18. In addition, the company is beginning to receive contracts for new tower lease orders in 2019 and is in discussions for the renewal of tower lease contracts that will begin falling due in 2020.

Investment in fiber optic cable as of December 2018 reached approximately 9,400 km with 5,000 km of fiber optic cable for the telecommunications backbone and 4,400 km for tower fiberisation. SMN Group currently has orders on-hand for long-term fiber optic cable leases for approximately 13,600 kilometers for tower fiberisation. The new lease orders on hand will more than double the size of the existing fiber optic cable network. (Company)

Comment: Estimated future payments will significantly rise from the new contracted revenues expected to come through over the next 10 years. Telco orders for tenancies are on the rise contributed mainly by the likes of XL Axiata.

iForte of TOWR awarded contract to supply HTS satellite capacity

iForte, a subsidiary of SMN, has been awarded a contract to provide 1,939.2Mhz of High Throughput Satellite ("HTS") capacity for KOMINFO ministry procurement with a duration of five years. TOWR will be able to sublease the capacity on behalf of KOMINFO from the beginning of 2019. TOWR will be in charge of managing the transponders and ground transmission.

COVERAGE PERFORMANCE
LEADERS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		28-Jan-19	25-Jan-19					
Kimia Farma	KAEF	3.400	3.240	4,9	32,3	30,8	30,8	SELL
Puradelta Lestari	DMAS	208	200	4,0	7,2	30,8	30,8	BUY
Timah	TINS	1.315	1.295	1,5	42,2	74,2	74,2	BUY
Aneka Tambang	ANTM	920	910	1,1	10,8	20,3	20,3	HOLD
Indocement	INTP	19.975	19.800	0,9	-	8,3	8,3	SELL
Erajaya Swasembada	ERAA	2.300	2.280	0,9	(4,6)	4,5	4,5	BUY
Bank Central Asia	BBCA	27.700	27.475	0,8	(1,1)	6,5	6,5	HOLD
Bukit Asam	PTBA	4.380	4.350	0,7	(0,9)	1,9	1,9	BUY
BPD Jatim	BJTM	740	735	0,7	3,5	7,2	7,2	BUY
Alam Sutera	ASRI	356	354	0,6	5,3	14,1	14,1	HOLD

Sources: Bloomberg

LAGGARDS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		28-Jan-19	25-Jan-19					
Pembangunan Perumahan	PTPP	2.150	2.280	(5,7)	(6,9)	19,1	19,1	BUY
Charoen Pokphand	CPIN	7.900	8.300	(4,8)	(4,8)	9,3	9,3	HOLD
Adhi Karya	ADHI	1.595	1.675	(4,8)	(6,5)	0,6	0,6	BUY
Waskita Karya	WSKT	1.845	1.935	(4,7)	(7,5)	9,8	9,8	BUY
Media Nusantara Citra	MNCN	840	880	(4,5)	(1,2)	21,7	21,7	BUY
Wijaya Karya	WIKA	1.810	1.895	(4,5)	(2,2)	9,4	9,4	BUY
Matahari Department Store	LPPF	6.975	7.250	(3,8)	5,7	24,6	24,6	BUY
Adaro Energy	ADRO	1.340	1.390	(3,6)	(5,0)	10,3	10,3	BUY
Harum Energy	HRUM	1.765	1.825	(3,3)	3,8	26,1	26,1	HOLD
Surya Citra Media	SCMA	1.905	1.965	(3,1)	(4,8)	1,9	1,9	BUY

Sources: Bloomberg

PREVIOUS REPORTS

- Bank Mandiri: Standing firm [SnapShot20190129](#)
- BPD Jatim: Retaining its niche appeal [SnapShot20190128](#)
- Bank Tabungan Pensiunan Nasional: A new era, Bank Tab. Pensiunan Nasional Syariah: Still extremely profitable, Indosat Ooredoo: New debt adds gist to the ISAT story [SnapShot20190125](#)
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