

Buy

Current Price (Rp)	800
2017E P/E	14.4
Target Price (Rp)	880
2017E P/E	15.8

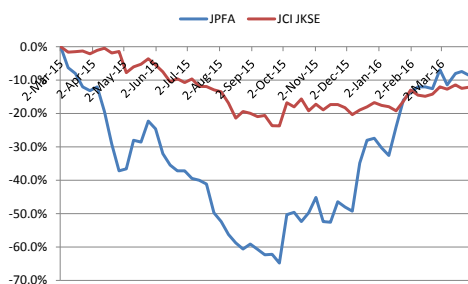
Basic Industry, Poultry

Bloomberg ticker	JPFA.IJ
Reuters ticker	JPFAJK
52-weeks-high (Rp)	860
52-weeks-low (Rp)	296
Shares Outstanding (mn shares)	10,661
Daily average vol ('000 shares)	8,505
Daily average val (Rp bn)	6.3
Daily average val (US\$ '000)	475
USDIDR	13,265
Current JCI JKSE	4,781
Market Cap (Rp tn)	8.5
Market Cap (US\$ mn)	642.9

Major Shareholders:

Japfa Ltd	57.6%
Public and others	42.4%

Relative Performance vs JCI JKSE:



Brief company profile

Japfa Comfeed Indonesia is currently one of the largest poultry feed producer in the country. Other than chicken feeds, JPFA's business segments also includes commercial farming, day-old-chick (DOC) nursery, aquaculture, and beef supplier under the brand 'Santori'.

FY2015 financial performance and other latest updates: lifted by bond buyback and asset revaluation program

Sales Revenue last year grew 2.3% to Rp25.02 trillion from Rp24.46 in the year before (*Exhibit 1*). The company also managed to book Rp6.14 bn and Rp105.6 bn of profit each from asset revaluation and bond buyback program at discount price, so Net Income managed to grow 38% yoy to Rp468.23 bn from Rp339.34 bn (*Exhibit 1*).

After partial buyback of outstanding bonds, the company still have Rp4.2 trillion of bonds payable due in January 2017, February 2017, and May 2018, where almost 70% of it is in foreign currency (*Exhibit 2*). We believe this high leverage could be a potential downside risk for the company's outlook in the future. According to our calculation, the company currently have more than 90% of Debt to Equity Ratio (*Exhibit 1*). However we expect this year JPFA could continue its bond buyback program as a part of debt restructuring plan that could reduce interest expense and increase profit margins.

Last year the company have signed export trade commitment cooperation with Myanmar for 93,500 parent stocks female eggs, and targeted to reach 348,905 eggs in the near future. Japfa also have received 1,000 of Australian breeding cattle to be quarantine in Lampung, and will be used as breeding assets.

Opportunities and challenges in the future: beef business prospect, bird flu, high leverage

We still see the company's decision to increase investment in cattle breeding business could be an added value in the future, regarding the high demand of beef in domestic market. However, with bird flu infection started to emerged again in several areas, we also feared that there will be a decline in domestic chicken consumption and selling price.

Currently the company also have high leverage where most of its debts are in foreign currency. However we expect this year JPFA could restructure debts furthermore and continue the bond buyback program to reduce interest expense and increase profit margins.

Rating and Recommendation: possibility of further buyback gain

We are upgrading to Buy rating with target price at Rp880 implying 15.8x of 2017E P/E Ratio.

Our projection is already based on the possibility of further financial gain from the company's bond buyback program, regarding most of its callable bonds are still at discount price in the market (*Exhibit 2*).

Risks to our estimates

Currency volatility is still a potential risk to the company's financial performance in the future, regarding most of the assets for cattle breeding business and some of the raw materials for poultry feed manufacturing is still have to be imported. Other than that, JPFA's high financial leverage could be a burden if the company cannot continue the bond buyback program and debt restructuring for some reasons.

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INCOME STATEMENT:

(Rp bn)	2014	2015	2016E	2017E	2018E
Net Sales	24,458.9	25,022.9	26,274.1	27,850.5	29,800.0
Gross Profit	3,425.6	3,993.0	4,324.0	4,653.1	5,053.3
EBT	551.4	697.7	798.8	882.8	984.0
EAT	391.9	524.5	600.5	663.7	739.7
Net Income (Loss)	339.3	468.2	536.1	592.5	660.4
EPS	31.8	43.9	50.3	55.6	61.9
Current Price				800	
P/E				14.4	
Target Price				880	
P/E				15.8	
Market Cap (tn Rp)				8.5	
Market Cap (mn US\$)				643	
Ratios and Margins:					
Net Sales growth	14.2%	2.3%	5.0%	6.0%	7.0%
Gross Profit margin	14.0%	16.0%	16.5%	16.7%	17.0%
EBT margin	2.3%	2.8%	3.0%	3.2%	3.3%
Net Profit margin	1.4%	1.9%	2.0%	2.1%	2.2%
Net Profit growth	-43.0%	38.0%	14.5%	10.5%	11.5%
ROA	2.2%	2.7%	3.0%	3.2%	3.5%
ROE	6.6%	7.7%	8.2%	8.4%	8.7%
Net Debt (Cash)	6,464.6	5,919.8	5,899.2	5,571.1	4,968.2
Total Equity	5,179.5	6,109.7	6,542.0	7,048.0	7,616.3
DER	125%	97%	90%	79%	65%
DPR (as paid)	31.4%	25.0%	23.8%	23.4%	22.6%
DPS (as paid)	10.0	11.0	12.0	13.0	14.0
BVPS	485.9	573.1	613.7	661.1	714.4
EQUITIES:					
Capital Stock	1,666.3	1,666.3	1,666.3	1,666.3	1,666.3
Additional Paid-in Capital	895.6	895.6	895.6	895.6	895.6
Forex diff,tmstlton adj	-	28.9	-	-	-
Treasury Stocks	(17.7)	(17.7)	(17.7)	(17.7)	(17.7)
Retained Earnings	2,299.2	2,797.6	3,223.5	3,688.3	4,210.3
Appropriated	165.0	175.0	185.0	195.0	205.0
Unappropriated	2,134.2	2,622.6	3,038.5	3,493.3	4,005.3
Differences, Other Equity	(88.7)	241.3	241.3	241.3	241.3
Sub Total Equity	4,754.7	5,611.9	6,009.0	6,473.7	6,995.7
Non Controlling Interest	424.8	497.8	533.0	574.2	620.5
Total Equity	5,179.5	6,109.7	6,542.0	7,048.0	7,616.3

Source: Company's financial report, Reliance Research estimates.

Exhibit 1:

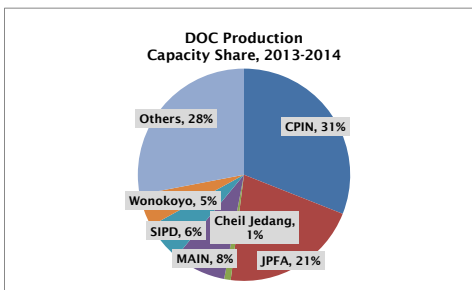
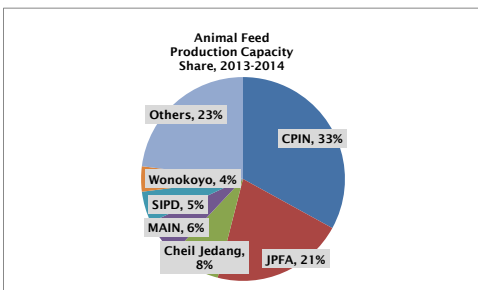
BALANCE SHEET:

	2014	2015	2016E	2017E	2018E
ASSETS:					
Cash & Equivalents	768.5	901.2	853.6	1,114.2	1,650.2
ST Investment	11.3	11.3	11.8	12.4	13.1
Trade acc receivables	1,242.6	1,199.7	1,259.7	1,322.6	1,388.8
Other trade acc rcvbls	70.1	54.2	56.9	59.8	62.8
Inventories	5,133.8	5,855.0	6,147.7	6,455.1	6,777.9
Breeding Chickens	702.7	632.3	616.5	604.2	598.1
Advances	303.9	422.0	443.1	465.3	488.5
Prepays	476.4	528.5	554.9	582.7	611.8
Taxes	436.3	481.8	505.9	531.2	557.8
Expenses	40.1	46.7	49.0	51.5	54.1
Total Current Assets	8,709.3	9,604.2	9,944.3	10,616.3	11,591.1
Restricted Cash	1.5	2.1	2.3	2.5	2.7
Deffered Tax Assets	129.2	116.2	127.8	140.6	154.7
Investment in shares of stock	0.2	0.2	0.2	0.2	0.2
Goodwill	70.1	70.1	70.1	70.1	70.1
Plantations-net	2.4	2.4	2.6	2.7	2.8
Breeding Cattles	304.0	279.9	277.1	274.3	271.6
Investment Properties	52.6	19.8	19.6	19.4	19.2
Fixed Assets	6,361.6	6,809.0	6,976.0	6,890.3	6,569.3
Unused Assets-net	21.1	142.4	156.7	172.4	189.6
Real Estate Assets	25.8	26.8	29.5	32.5	35.7
Other Assets	81.1	86.3	94.9	104.4	114.8
Total NC Assets	7,049.6	7,555.3	7,756.9	7,709.4	7,430.9
Total Assets	15,759.0	17,159.5	17,701.2	18,325.7	19,021.9
LIABILITIES:					
ST Bank Loans	2,212.9	1,863.2	1,844.5	1,826.1	1,807.8
Trade acc payable	2,004.3	2,745.8	2,883.1	3,027.3	3,178.7
Other acc payable	181.1	166.5	164.8	163.2	161.6
Taxes Payable	41.7	137.5	144.4	151.6	159.2
Accrued Expenses	147.7	190.8	200.4	210.4	220.9
Advances Received	45.7	45.1	47.3	49.7	52.2
Current Portion of LT Liabs	281.8	203.8	201.7	199.7	197.7
LT Loans	278.3	201.1	199.1	197.1	195.1
Fix Assets purchasing liabs	0.5	0.2	0.2	0.2	0.2
Leasing liabs	3.0	2.4	2.4	2.4	2.4
Total Current Liabilities	4,916.4	5,352.7	5,486.3	5,627.9	5,778.0
Defered Tax Liabs	10.4	10.4	10.7	11.0	11.2
LT Employee Benefit Liabs	907.0	925.6	948.7	972.5	996.8
LT Liabilities	522.5	514.6	509.4	504.3	499.3
LT Loans	518.8	510.2	505.1	500.1	495.1
Fix Assets purchasing liabs	0.7	3.2	3.1	3.1	3.1
Leasing Liabilities	3.0	1.1	1.1	1.1	1.1
Bonds Payable	4,223.1	4,246.5	4,204.0	4,162.0	4,120.4
Total NC Liabilities	5,663.0	5,697.1	5,672.9	5,649.7	5,627.7
Total Liabilities	10,579.4	11,049.8	11,159.2	11,277.7	11,405.7

JPFA and subsidiaries outstanding bonds

Issuer	Ticker	Coupon (%)	Maturity Date	Series	Bloomberg Comp Rating	Maturity Type	Announce Date	Currency	Ask Price
Japfa Comfeed Indonesia Tbk PT	JPFAIJ	9.9	12-Jan-17	OB	#N/A N/A	AT MATURITY	23-Dec-11	IDR	100.60
Japfa Comfeed Indonesia Tbk PT	JPFAIJ	9.9	1-Feb-17	OB	#N/A N/A	AT MATURITY	17-Jan-12	IDR	100.72
Comfeed Finance BV	JPFAIJ	6.0	2-May-18	REGS	B+	CALLABLE	24-Apr-13	USD	90.49
Comfeed Finance BV	JPFAIJ	6.0	2-May-18	144A	B+	CALLABLE	24-Apr-13	USD	90.13

Source: Bloomberg



Sources: Ministry of Agriculture, Rabobank International Research, Reliance Research.

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