

### Buy

Current Price (Rp)	1,885
2017E P/E	9.5
Target Price (Rp)	2,200
2017E P/E	11.1

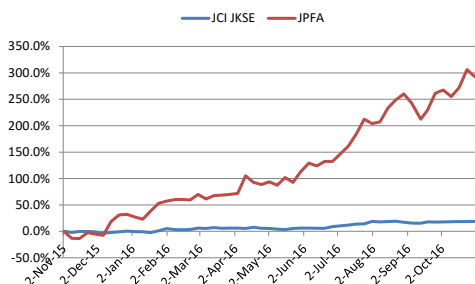
### Basic Industry, Poultry

Bloomberg ticker	JPFA.IJ
Reuters ticker	JPFA.JK
52-weeks-low (Rp)	379
52-weeks-high (Rp)	1,975
Shares Outstanding (mn shares)	10,661
Daily average vol ('000 shares)	7,751
Daily average val (Rp bn)	12.7
Daily average val (US\$ '000)	974
USDIDR	13,035
Market Cap (Rp tn)	21.5
Market Cap (US\$ mn)	1,650.1

### Major Shareholders (%):

Japfa Ltd	51.00
KKR Jade Investment Pte Ltd	11.98
Public & others	37.02

### Relative Performance vs JCI JKSE:



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, processed food under the brand 'So Good', aquaculture, and beef under the brand 'Santori'.

### Profitability Has Improved

Sales Revenue in 9M2016 period grew 10% to Rp20.6 tn from Rp18.7 tn in the year before (*Exhibit 1*). The company also managed to book net profit of Rp1.7 tn from Rp147 bn of net loss in the same period last year. (tn = trillion, bn = billion).

Net profit achievement is significantly above our previous estimate of Rp536 bn for FY2016 period, thanks to improving margins as a result of debt restructuring program after the arrival of KKR Jade Investment as Japfa's new strategic investor, earlier in June. The significant recovery of chicken and feeds selling price after culling program also managed to increase the company's sales revenue.

We believe the upcoming bond refinancing program (*Exhibit 2*) will be a positive catalyst that will improve the company's financial performance furthermore, however we also have to watch the ongoing legal process following the recent allegation from KPPU (*The Commission for the Supervision of Business Competition*) which requires the company to pay a significant amount of fine (*Exhibit 3*).

### Opportunities and challenges in the future: better leverage, legal issues

We see the company's decision to welcome new strategic investor that helps to improve financial leverage is a good decision especially in the effort to lower borrowing cost furthermore. With better debt and equity ratios, Japfa will have a slightly higher bargaining power for further financing. As for the commercial farm and feed industry, we believe the market will continue to grow, along with expected recovery in consumer's purchasing power that will improve protein consumption.

However, we hope there will be certainty in the near future about Japfa's decision to proceed the case of KPPU's chicken industry cartel allegation.

### Rating and Recommendation

We are maintaining Buy rating with higher target price at Rp2200 per share which implies 11x of 2017E P/E Ratio.

Our projection is already based on the possibility of further financial improvement as a result of the upcoming bond refinancing program, and expected further increase in chicken and feeds sales.

### Risks to our estimates

We see the chicken industry's legal issues with KPPU will take much effort to settle, that is feared to increase the volatility of supply, demand, and selling prices of chicken and feeds in the future.

### Analysts:

**Robertus Yanuar Hardy**  
[robertus@reliance-securities.com](mailto:robertus@reliance-securities.com)  
 +6221 5790 5455

### Shanti Dwi Jayanti

(Research Associate)  
[shanti@reliance-securities.com](mailto:shanti@reliance-securities.com)

#### INCOME STATEMENT:

(Rp bn)	2014	2015	2016E	2017E	2018E
Net Sales	24,458.9	25,022.9	27,743.1	31,036.5	35,031.1
Gross Profit	3,425.6	3,993.0	5,644.7	6,392.4	7,302.8
EBT	551.4	697.7	2,956.5	3,380.1	3,898.0
EAT	391.9	524.5	2,222.6	2,541.0	2,930.3
Net Income (Loss)	339.3	468.2	1,984.2	2,268.5	2,616.0
EPS	31.8	43.9	173.9	198.8	229.3
Current Price				1,885	
P/E				9.5	
Target Price				2,200	
P/E				11.1	
Market Cap (tn Rp)				21.5	
Market Cap (mn US\$)				1,650	

#### Ratios and Margins:

Net Sales growth	14.2%	2.3%	10.9%	11.9%	12.9%
Gross Profit margin	14.0%	16.0%	20.3%	20.6%	20.8%
EBT margin	2.3%	2.8%	10.7%	10.9%	11.1%
Net Profit margin	1.4%	1.9%	7.2%	7.3%	7.5%
Net Profit growth	-43.0%	38.0%	323.8%	14.3%	15.3%
ROA	2.2%	2.7%	11.0%	11.1%	11.2%
ROE	6.6%	7.7%	23.2%	20.9%	19.3%
Net Debt (Cash)	6,464.6	5,919.8	3,583.1	1,432.0	(1,250.7)
Total Equity	5,179.5	6,109.7	8,537.5	10,858.4	13,545.2
DER	125%	97%	42%	13%	-9%
DPR (as paid)	31.4%	25.0%	6.9%	6.5%	6.1%
DPS (as paid)	10.0	11.0	12.0	13.0	14.0
BVPS	485.9	573.1	748.2	951.6	1,187.1

#### EQUITIES:

Capital Stock	1,666.3	1,666.3	1,816.3	1,816.3	1,816.3
Additional Paid-in Capital	895.6	895.6	1,447.3	1,447.3	1,447.3
Forex diff,tmstion adj	-	28.9	23.3	23.3	23.3
Treasury Stocks	(17.7)	(17.7)	(17.7)	(17.7)	(17.7)
Retained Earnings	2,299.2	2,797.6	4,671.7	6,803.4	9,271.4
Appropriated	165.0	175.0	186.7	196.7	206.7
Unappropriated	2,134.2	2,622.6	4,485.0	6,606.7	9,064.7
Differences, Other Equity	(88.7)	241.3	(98.9)	(98.9)	(98.9)
<b>Sub Total Equity</b>	<b>4,754.7</b>	<b>5,611.9</b>	<b>7,841.9</b>	<b>9,973.7</b>	<b>12,441.6</b>
Non Controlling Interest	424.8	497.8	695.6	884.7	1,103.6
<b>Total Equity</b>	<b>5,179.5</b>	<b>6,109.7</b>	<b>8,537.5</b>	<b>10,858.4</b>	<b>13,545.2</b>

#### 9 MONTHS:

	2015	2016
Net Sales	18,735.6	20,601.3
change		10%
Gross Profit	2,708.4	4,397.7
margin	14.5%	21.3%
Net Income (Loss)	(147.3)	1,724.9
margin		8%

#### BALANCE SHEET:

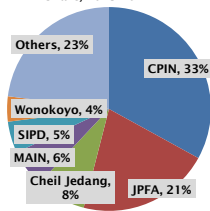
ASSETS:	2014	2015	2016E	2017E	2018E
Cash & Equivalents	768.5	901.2	1,142.0	3,260.8	5,911.6
ST Investment	11.3	11.3	11.3	11.8	12.4
Trade acc receivables	1,242.6	1,199.7	1,252.9	1,315.6	1,381.4
Other trade acc rcvbls	70.1	54.2	77.3	81.2	85.3
Inventories	5,133.8	5,855.0	6,197.8	6,507.7	6,833.1
Breeding Chickens	702.7	632.3	712.9	698.6	691.6
Advances	303.9	422.0	584.3	613.6	644.2
Prepays	476.4	528.5	368.7	387.1	406.4
Taxes	436.3	481.8	294.2	309.0	324.4
Expenses	40.1	46.7	74.4	78.1	82.0
<b>Total Current Assets</b>	<b>8,709.3</b>	<b>9,604.2</b>	<b>10,347.3</b>	<b>12,876.5</b>	<b>15,966.1</b>
Restricted Cash	1.5	2.1	1.8	2.0	2.2
Deferred Tax Assets	129.2	116.2	102.8	113.1	124.4
Investment in shares of stock	0.2	0.2	21.2	21.2	21.2
Goodwill	70.1	70.1	70.8	70.8	70.8
Plantations-net	2.4	2.4	2.5	2.6	2.7
Breeding Cattles	304.0	279.9	202.7	200.7	198.7
Investment Properties	52.6	19.8	161.0	159.4	157.8
Fixed Assets	6,361.6	6,809.0	6,955.5	6,901.3	6,660.7
Unused Assets-net	21.1	142.4	-	-	-
Real Estate Assets	25.8	26.8	27.1	29.8	32.8
Other Assets	81.1	86.3	81.6	89.8	98.7
<b>Total NC Assets</b>	<b>7,049.6</b>	<b>7,555.3</b>	<b>7,627.1</b>	<b>7,590.7</b>	<b>7,370.1</b>
<b>Total Assets</b>	<b>15,759.0</b>	<b>17,159.5</b>	<b>17,974.4</b>	<b>20,467.2</b>	<b>23,336.1</b>

#### LIABILITIES:

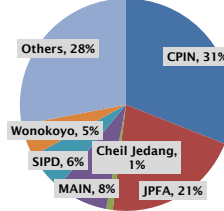
ST Bank Loans	2,212.9	1,863.2	491.2	486.3	481.4
Trade acc payable	2,004.3	2,745.8	2,838.9	2,980.8	3,129.9
Other acc payable	181.1	166.5	194.5	192.6	190.6
Taxes Payable	41.7	137.5	220.2	231.2	242.8
Accrued Expenses	147.7	190.8	247.0	259.4	272.4
Advances Received	45.7	45.1	33.0	34.6	36.4
Current Portion of LT Liabs	281.8	203.8	104.2	103.2	102.1
LT Loans	278.3	201.1	102.8	101.7	100.7
Fix Assets purchasing liabs	0.5	0.2	0.2	0.2	0.2
Leasing liabs	3.0	2.4	1.3	1.3	1.3
<b>Total Current Liabilities</b>	<b>4,916.4</b>	<b>5,352.7</b>	<b>5,628.4</b>	<b>5,787.5</b>	<b>5,955.0</b>
Deferred Tax Liabs	10.4	10.4	1.3	1.3	1.4
LT Employee Benefit Liabs	907.0	925.6	1,174.8	1,204.2	1,234.3
LT Liabilities	522.5	514.6	79.8	79.0	78.2
LT Loans	518.8	510.2	79.2	78.4	77.6
Fix Assets purchasing liabs	0.7	3.2	0.2	0.2	0.2
Leasing Liabilities	3.0	1.1	0.4	0.3	0.3
Bonds Payable	4,223.1	4,246.5	2,552.6	2,527.1	2,501.8
<b>Total NC Liabilities</b>	<b>5,663.0</b>	<b>5,697.1</b>	<b>3,808.4</b>	<b>3,811.5</b>	<b>3,815.6</b>
<b>Total Liabilities</b>	<b>10,579.4</b>	<b>11,049.8</b>	<b>9,436.9</b>	<b>9,599.0</b>	<b>9,770.6</b>

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

Animal Feed Production Capacity Share, 2013-2014



DOC Production Capacity Share, 2013-2014



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

**Exhibit 2:**

**Fitch Rates Japfa Comfeed's Bond Programme at 'A+(idn)'**

Fitch Ratings Indonesia has assigned PT Japfa Comfeed Indonesia Tbk's IDR3trn senior unsecured bond programme a National Long-Term Rating of 'A+(idn)'. The agency has also assigned a rating of 'A+(idn)' to the up to IDR1trn of bonds to be issued under this programme. 'A' National Ratings denote expectations of low default risk relative to other issuers or obligations in the same country. However, changes in circumstances or economic conditions may affect the capacity for timely repayment to a greater degree than is the case for financial commitments denoted by a higher rated category.

**KEY RATING DRIVERS**

**Improved Financial Profile:** Japfa's profitability and leverage have improved since 2H15, driven by better demand-supply balance for the poultry industry in Indonesia.

Sources: Reuters, Fitch.

*New series of bond will have lower coupon rate from the current rate of 9.9% p.a.*

**Exhibit 3:**

**Indonesia anti-monopoly watchdog says 12 poultry firms guilty of cartel practices**

Indonesia's anti-monopoly watchdog said on Thursday that 12 poultry companies including PT Charoen Pokphand Indonesia Tbk, PT Japfa Comfeed Indonesia Tbk and PT Malindo Feedmill Tbk were guilty of cartel practices.

The Commission for the Supervision of Business Competition (KPPU) fined the companies, which included chicken breeders and poultry feed producers, a total of nearly 120 billion rupiah (\$9.2 million) for allegedly agreeing to cut production or supply to raise prices.

Of the 12 companies, Charoen and Japfa were handed the biggest fines of 25 billion rupiah each.

Source: Reuters.

*We expect there will be certainty in the near future regarding this case. Otherwise it is feared to increase volatility in the supply, demand and selling price of chicken and feeds.*

## HEAD OFFICE

### Reliance Building

Jl. Pluit Kencana No. 15A,  
Pluit Penjaringan  
Jakarta 14450  
T +62 21 661 7768  
F +62 21 661 9884

## RESEARCH DIVISION

### Robertus Yanuar Hardy

*robertus@reliance-securities.com*

### Aji Setiawan

*aji@reliance-securities.com*

### Shanti Dwi Jayanti

*santi@reliance-securities.com*

### Lanjar Nafi Taulat I

*lanjar@reliance-securities.com*

Research Analyst

Associate Research Analyst

Associate Research Analyst

Technical Research Analyst

## EQUITY DIVISION

### Jakarta- Pluit

Jl. Pluit Kencana No. 15A  
Pluit Penjaringan  
Jakarta 14450  
T +62 21 661 7768  
F +62 21 661 9884

### Bandung

Jl.Cisangkuy No.58  
Bandung 40115  
T +62 22 721 8200  
F +62 22 721 9255

### Surabaya - Gubeng

Jl. Bangka No. 22  
Surabaya 60281  
T +62 31 501 1128  
F +62 31 503 3196

### Makassar

Jl. Boto Lempangan No. 34 J  
Makassar 90113  
T +62 411 3632388  
F +62 411 3614634

### Jakarta - Sudirman

Menara Batavia 27th floor  
Jl. KH. Mas Mansyur Kav 126  
Jakarta 10220  
T +62 21 5790 5455  
F +62 21 5795 0728

### Tasikmalaya

Ruko Tasik Indah Plaza No.21  
Jl. KHZ Mustofa No. 345  
Tasikmalaya 46121  
T +62 265 345000  
F +62 265 345003

### Surabaya – Diponegoro

Jl. Diponegoro 141-143  
Surabaya 60264  
T +62 31 567 0388  
F +62 31 561 0528

### Pekanbaru

Jl. Sumatera No. 9, Simpang  
Empat, Pekanbaru - Riau  
28000  
T +62 761 7894368  
F +62 761 7894370

### Jakarta – Kebon Jeruk

Plaza Kebon Jeruk  
Jl.Raya Perjuangan Blok A/2  
Jakarta 11530  
T +62 21 532 4074  
F +62 21 536 2157

### Surakarta

Jl. Slamet Riyadi 330A  
Solo 57145  
T +62 271 736599  
F +62 271 733478

### Bali - Denpasar

Dewata Square Blok A3  
Jl. Letda Tantular Renon  
Denpasar 802361  
T +62 361 225099  
F +62 361 245099

### Medan

Jl. Teuku Amir Hamzah No.26  
T +62 61 6638592  
F +62 61 6638023

### BSD

Jl. Pahlawan Seribu Ruko BSD  
Sektor 7 Blok RK kav. 9  
Tangerang 15310  
T +62 21 5387495  
F +62 21 5387494

### Malang

Jl. Guntur No. 19  
Malang 65112  
T +62 341 347 611  
F +62 341 347 615

### Pontianak

Jl. MT Haryono No. 6  
Pontianak 78121  
T +62 561 575674  
F +62 561 575670

### Jakarta – Centro

Ruko Centro Residence Kav. 4-5  
Tower C Lt. 1 No. 26-29  
Jl. Macan, Daan Mogot  
Jakarta 14450  
T +62 21 56945227  
F +62 21 56945226

### Balikpapan

Ruko Bukit Damai Indah  
Blok I, No. 3, Rt.34  
Jl. MT. Haryono, Gunung  
Bahagia, Balikpapan Selatan  
76114  
T +62 542 746313-16  
F +62 542 746317

## IDX CORNER & INVESTMENT GALLERY

### UPN "Veteran" Jakarta

Jl. RS Fatmawati, Pondok Labu  
Jakarta 12450  
T +62 21 7656971 ext. 197  
F +62 21 7656971 ext. 138

### President University

Resto Plaza 1F - Jababeka  
Education Park  
Jl. Ki Hajar Dewantara Raya  
Cikarang - Bekasi 17550  
T +62 21 89106030

### Universitas Siliwangi Tasikmalaya

Jl. Siliwangi No. 24  
Tasikmalaya 46151  
T +62 265 323685  
F +62 265 323534

### Universitas Muhammadiyah Sidoarjo

Jl. Majapahit 866B  
Sidoarjo, Jawa Timur  
T +62 31 8945444  
F +62 31 8949333

### Universitas Tanjungpura Pontianak

Jl. Jendral Ahmad Yani  
Pontianak 78124  
T +62 561 743465  
F +62 561 766840

### Universitas Islam Kalimantan FE UNISKA

Jl. Adiyaksa No. 2, Kayu Tangi  
Banjarmasin  
Tlp. 0511 3303871  
Fax. 0511 3303871

### STIE "AUB" Surakarta

Jl. Mr. Sartono 97, Cengklik  
Nusukan, Surakarta 57135  
T +62 271 854803  
F +62 271 853084

### Universitas Surabaya

Jl. Raya Kalirungkut  
Surabaya 60293  
T +62 31 298 1203  
F +62 31 298 1204

### Universitas Muhammadiyah Gresik

Jl. Sumatra 101 GKB  
Gresik 61121  
T +62 31 395 1414  
F +62 31 395 2585

### Universitas Negeri Malang

Jl. Surabaya No. 6  
Malang 65145  
T +62 341 585914  
F +62 341 552888

### Universitas Muhammadiyah Malang

Jl. Raya Tlogomas 246  
Malang 65144  
T +62 341 464318-9  
F +62 341 460782

### Universitas Pesantren Tinggi Darul 'Ulum

Gd. Pasca Sarjana UNIPDU  
Komplek PP Darul 'Ulum  
Peterongan, Jombang  
Jawa Timur  
Telp. 0321-873655  
Fax. 0321-875771

### Universitas Brawijaya

Jl. Veteran Malang 65145  
T +62 341 551611 / 575777  
F +62 341 565420

### STIE Malangkecewara

Jl. Terusan Candi Kalasan  
Malang 65142  
T +62 341 491813  
F +62 341 495619

### STIESIA Surabaya

Jl. Menur Pumpungan 30  
Surabaya  
T +62 31 5947505  
F +62 31 5932218

### Universitas 17 Agustus 1945

Banyuwangi  
Jl. Adi Sucipto 26  
Banyuwangi, Jawa Timur  
T +62 333 419613  
F +62 333 419163

### STIE Tri Bhakti

Jl. Teuku Umar No. 24  
Cut Meutia, Bekasi  
Tlp. 021 82429400  
Fax. 021 82429500

### Politeknik Kediri

Jl. Mayor Bismo No. 27  
Kediri 64121  
T +62 354 683128  
F +62 354 683128

### Sekolah Tinggi Manajemen Informatika dan Teknik Komputer Bali

Jalan Puputan No. 86, Renon,  
Denpasar  
Telp. +62361 244445  
Faks. +62361 264773

### Universitas Muhammadiyah Pontianak

Fakultas Ekonomi UM  
Pontianak  
Jl. Ahmad Yani, No. 111,  
Pontianak 78124  
Telp. +62561 743465  
Faks. +62561 766840

### Universitas Negeri Makassar

Fakultas Ekonomi Gedung BT  
Lt.2  
Jl. A.P. Pettarani, Kampus  
UNM, Gunungsari Baru  
Makassar 90222  
T +62 411 889464 / 881244  
F +62 411 887604

### STIE AAS Surakarta

Jl. Salmat Riyadi No. 361,  
Kartasura  
Sukoharjo, Jawa Tengah  
Tlp. 0271 726156  
Fax. 0271 726156

### Disclaimer:

Information, opinions and recommendations contained in this document are presented by PT Reliance Securities Tbk. from sources that are considered reliable and dependable. This document is not an offer, invitation or any kind of representations to decide to buy or sell stock. Investment decisions taken based on this document is not the responsibility of PT Reliance Securities Tbk. PT Reliance Securities Tbk. reserves the right to change the contents of this document at any time without prior notice.