

COMPANY RESULTS

Japfa (JAP SP)

1Q22: Results In Line; Weakness From Vietnam And High Feed Costs

Japfa's 1Q22 core PATMI of US\$24.6m (-64% yoy) was in line with our expectations, forming 24% of our full-year forecast. Performance from the Indonesia poultry segment improved qoq as the lockdown eased while Vietnam operations continued to experience weakness from low swine ASPs and high feed costs. Its China dairy segment continued to deliver a stable performance but recorded lower earnings due to listing expenses of AustAsia amounting to US\$7m. Maintain HOLD and SOTP-based target price of S\$0.63.

1Q22 RESULTS

| Year to 31 Dec (US\$m) | 1Q22 | 1Q21 | yoy % chg |
|---------------------------|---------|---------|-----------|
| Revenue | 1,246.0 | 1,103.1 | 13.0 |
| Operating Profit | 81.4 | 149.8 | (45.7) |
| Operating Margin (%) | 6.5 | 13.6 | (7.1ppt) |
| PATMI | 17.3 | 48.5 | (64.3) |
| PATMI Margin (%) | 1.4 | 4.4 | (3.0) |
| Core PATMI | 24.6 | 67.9 | (64.3) |
| Core PATMI Net Margin (%) | 2.0 | 6.2 | (4.2) |

Source: Japfa, UOB Kay Hian

RESULTS

- Results in line with expectations.** Japfa's 1Q22 core PATMI of US\$24.6m (-64% yoy) was within our expectations, forming 24% of our full-year forecast. Revenue rose 12% yoy to US\$1.2b, driven by higher sales volumes across all segments. The core PATMI weakened as major global external factors have worsened. The impact of high global raw material prices, inflationary pressures, ASF and COVID-19 weighed down profitability.
- Recovery for Japfa TBK but weak performance in APO continues.** Japfa TBK reported core PATMI of US\$22.4m (-30% yoy/+24% qoq), as it continues to show qoq recovery since 4Q21, due to better ability to pass on raw material cost increases in its feed selling prices. However, losses from the Animal Protein Other (APO) segment continued in 1Q22 at US\$11.2m vs US\$20.8m at 4Q21. Margins remained under pressure due to higher global raw material and shipping costs, resulting in higher production costs for both poultry and swine. African Swine Fever (ASF) resurgence in 4Q21 resulted in an increase in operational costs, while swine fattening prices declined due to pre-emptive sales on the market.
- China dairy delivered stable performance but earnings declined on listing expenses.** China's dairy revenue rose 18% yoy, driven by strong raw milk prices due to supply shortage in the market, as well as higher raw milk sales volumes, with the additional contribution from Farm 8 and the two recently acquired farms in Shandong. However, core PATMI for the dairy segment fell 44% yoy to US\$12.1m due to expenses related to the proposed listing of AustAsia amounting to US\$7m.

KEY FINANCIALS

| Year to 31 Dec (US\$m) | 2020 | 2021 | 2022F | 2023F | 2024F |
|-------------------------------|-------|-------|-------|-------|-------|
| Net turnover | 3,868 | 4,636 | 4,808 | 4,923 | 5,038 |
| EBITDA | 486 | 458 | 458 | 503 | 524 |
| Operating profit | 364 | 332 | 313 | 350 | 362 |
| Net profit (rep./act.) | 322 | 119 | 104 | 131 | 136 |
| Net profit (adj.) | 195 | 133 | 104 | 131 | 136 |
| EPS (US\$ cent) | 9.6 | 6.5 | 5.1 | 6.4 | 6.7 |
| PE (x) | 4.5 | 6.7 | 8.6 | 6.8 | 6.6 |
| P/B (x) | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 |
| EV/EBITDA (x) | 5.1 | 5.4 | 5.4 | 4.9 | 4.7 |
| Dividend yield (%) | 18.5 | 3.4 | 3.4 | 3.4 | 3.4 |
| Net margin (%) | 8.3 | 2.6 | 2.2 | 2.7 | 2.7 |
| Net debt/(cash) to equity (%) | 54.7 | 69.3 | 52.5 | 48.2 | 44.0 |
| Interest cover (x) | 4.9 | 4.9 | 4.9 | 5.0 | 5.2 |
| ROE (%) | 28.0 | 8.3 | 7.1 | 8.4 | 8.2 |
| Consensus net profit | - | - | 110 | 147 | 95 |
| UOBKH/Consensus (x) | - | - | 0.95 | 0.89 | 1.43 |

Source: Bloomberg, Japfa, UOB Kay Hian

HOLD

(Maintained)

| | |
|--------------|----------|
| Share Price | S\$0.605 |
| Target Price | S\$0.630 |
| Upside | +4.1% |

COMPANY DESCRIPTION

Japfa operates in the agri-food industry. The company breeds and processes chicken, pork and beef. Japfa also operates dairy farms.

STOCK DATA

| | |
|---------------------------------|------------------|
| GICS sector | Consumer Staples |
| Bloomberg ticker: | JAP SP |
| Shares issued (m): | 2,040.8 |
| Market cap (S\$m): | 1,234.7 |
| Market cap (US\$m): | 892.8 |
| 3-mth avg daily t'over (US\$m): | 1.4 |

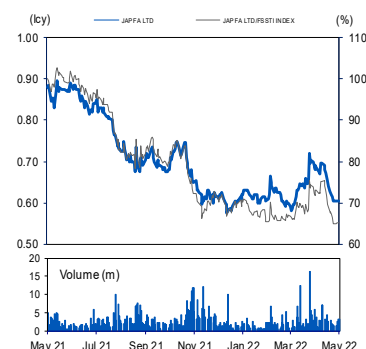
Price Performance (%)

| | | | | |
|------------------|-------------------|-------------|------------|------------|
| 52-week high/low | S\$0.890/S\$0.570 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| (12.3) | 0.0 | (6.9) | (31.6) | 0.0 |

Major Shareholders

| | % |
|----------------------------|------|
| Rangi Management Ltd | 50.3 |
| Morze Int'l | 15.3 |
| Tasburgh | 6.9 |
| FY22 NAV/Share (US\$) | 0.74 |
| FY22 Net Debt/Share (US\$) | 0.38 |

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

• **Indonesia poultry and Vietnam swine segments to face uncertainties from volatile ASPs and higher costs of raw materials.** In Indonesia, prices of broiler and day-old-chick (DOC) remain volatile. Similarly, in Vietnam, swine prices in 2022 and 2021 were lower compared to 2020 when the prices were exceptionally high due to supply shortage caused by ASF. In addition, disruptions in global logistics translated into higher costs of raw materials.

EARNINGS REVISION/RISK

• We maintain our financial forecasts.

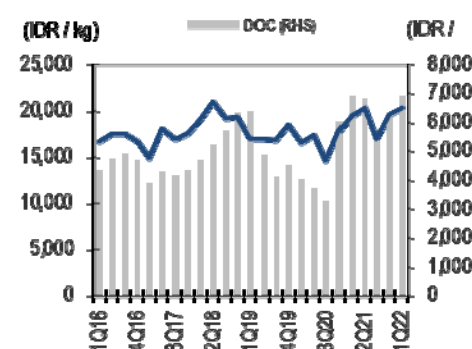
VALUATION/RECOMMENDATION

• **Maintain HOLD and SOTP-based target price of S\$0.63**, which implies 9.1x 2022F. Suggested entry price: S\$0.56.

SHARE PRICE CATALYST

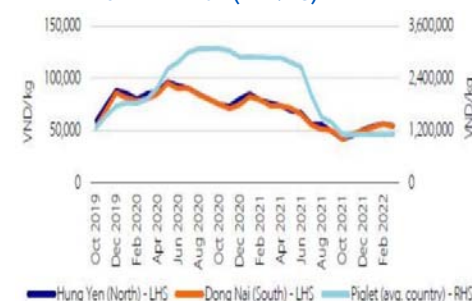
- Better-than-expected ASPs for Indonesia poultry, China dairy and Vietnam swine products.
- Successful value-unlocking activities such as spinning off the dairy or APO segment(s).
- Strengthening of currencies in Indonesia, Vietnam and China.

INDONESIA POULTRY AND DOC PRICE



Source: Arboge, Japfa, UOB Kay Hian

VIETNAM SWINE PRICE (VND/KG)



Source: DA, MARD, USDA, Rabobank 2022, Japfa

SOTP VALUATION

| | 2022F core net profit (US\$m) | Ascribed PE multiple (x) | Value (US\$m) | Remarks |
|----------------------------------|-------------------------------------|--------------------------------|------------------|--|
| PT Japfa Tbk (Indonesia Poultry) | 51.0 | 8.0 | 407.9 | Based on -1SD below the long-term mean PE of PT Japfa TBK, to reflect a more uncertain outlook. |
| Dairy | 79.5 | NA | 763.2 | Based on the transaction value of US\$254m to acquire a 25% stake by Meiji. This will value the entire business at US\$1,018m, of which Japfa will own 75% post transaction. |
| APO (Vietnam Swine) | (21.1) | 8.0 | - | Based on -1SD below the long-term mean PE of PT Japfa TBK, to reflect a more uncertain outlook. |
| Corporate net debt | | | (20) | |
| Total | | | 1,191.1 | |
| After 20% conglomerate discount | | | 952.9 | |
| Value per share (US\$) | | | 0.47 | |
| Value per share (S\$) | | | 0.63 | |

Source: UOB Kay Hian

PEER COMPARISON

| Company | Ticker | Price @ 5 May 22 (lcy) | Market Cap (US\$m) | PE | | P/B | | EV/EBITDA | | ROE 2022 (%) | Yield 2022 (%) |
|---------------------------------|-----------|------------------------------|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------------|----------------------|
| | | | | 2022 (x) | 2023 (x) | 2022 (x) | 2023 (x) | 2022 (x) | 2023 (x) | | |
| Indonesian Protein Peers | | | | | | | | | | | |
| Japfa Comfeed | JPFA IJ | 1450 | 1,178 | 8.7 | 7.5 | 1.2 | 1.1 | 5.3 | 5.0 | 14.3 | 4.7 |
| Charoen Pokphand Indo | CPIN IJ | 5150 | 5,852 | 19.3 | 15.4 | 3.1 | 2.7 | 12.7 | 11.2 | 15.7 | 2.0 |
| Malindo Feedmill | MAIN IJ | 640 | 99 | 14.3 | 7.8 | 0.6 | 0.5 | 6.8 | 6.1 | 4.3 | n.a. |
| Average | | | | 14.1 | 10.2 | 1.6 | 1.5 | 8.3 | 7.4 | 11.4 | 3.4 |
| Dairy Peers | | | | | | | | | | | |
| Inner Mongolia Yili | 600887 CH | 38.72 | 37,459 | 22.9 | 19.5 | 5.0 | 4.4 | 16.2 | 13.7 | 23.2 | 3.0 |
| China Mengniu Dairy | 2319 HK | 41.30 | 20,801 | 22.9 | 19.2 | 3.3 | 2.9 | 18.1 | 15.5 | 14.6 | 1.2 |
| China Modern Dairy | 1117 HK | 1.13 | 1,140 | 5.2 | 3.8 | 0.6 | 0.5 | 4.1 | 3.6 | 12.7 | 3.0 |
| Average | | | | 17.0 | 14.2 | 3.0 | 2.6 | 12.8 | 10.9 | 16.8 | 2.4 |
| Japfa | JAP SP | 0.605 | 896 | 8.6 | 6.8 | 0.6 | 0.6 | 5.4 | 4.9 | 7.1 | 3.4 |

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

| Year to 31 Dec (US\$m) | 2021 | 2022F | 2023F | 2024F |
|----------------------------------|--------------|--------------|--------------|--------------|
| Net turnover | 4,636.4 | 4,807.9 | 4,923.0 | 5,037.9 |
| EBITDA | 458.2 | 458.4 | 502.8 | 523.6 |
| Deprec. & amort. | 126.3 | 144.9 | 153.2 | 161.4 |
| EBIT | 331.9 | 313.5 | 349.5 | 362.2 |
| Total other non-operating income | 33.4 | 0.0 | 0.0 | 0.0 |
| Associate contributions | 1.0 | 0.0 | 0.0 | 0.0 |
| Net interest income/(expense) | (93.2) | (93.7) | (100.3) | (101.6) |
| Pre-tax profit | 266.8 | 219.7 | 249.2 | 260.6 |
| Tax | (54.1) | (41.7) | (42.4) | (46.9) |
| Minorities | 0.0 | (73.6) | (76.0) | (77.9) |
| Net profit | 212.7 | 104.4 | 130.9 | 135.9 |
| Net profit (adj.) | 132.7 | 104.4 | 130.9 | 135.9 |

BALANCE SHEET

| Year to 31 Dec (US\$m) | 2021 | 2022F | 2023F | 2024F |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Fixed assets | 1,341.7 | 1,418.8 | 1,494.3 | 1,568.6 |
| Other LT assets | 1,104.1 | 1,145.1 | 1,189.3 | 1,237.1 |
| Cash/ST investment | 320.6 | 520.9 | 536.2 | 557.4 |
| Other current assets | 1,535.9 | 1,459.5 | 1,508.5 | 1,560.2 |
| Total assets | 4,302.2 | 4,544.4 | 4,728.3 | 4,923.2 |
| ST debt | 573.8 | 573.8 | 573.8 | 573.8 |
| Other current liabilities | 467.8 | 562.0 | 569.0 | 580.2 |
| LT debt | 735.1 | 735.1 | 735.1 | 735.1 |
| Other LT liabilities | 379.1 | 379.1 | 379.1 | 379.1 |
| Shareholders' equity | 1,427.0 | 1,501.4 | 1,602.2 | 1,708.1 |
| Minority interest | 719.5 | 793.1 | 869.1 | 946.9 |
| Total liabilities & equity | 4,302.2 | 4,544.4 | 4,728.3 | 4,923.2 |

CASH FLOW

| Year to 31 Dec (US\$m) | 2021 | 2022F | 2023F | 2024F |
|--|----------------|----------------|----------------|----------------|
| Operating | 385.5 | 546.2 | 374.3 | 388.4 |
| Pre-tax profit | 266.8 | 219.7 | 249.2 | 260.6 |
| Tax | (65.2) | (41.7) | (42.4) | (46.9) |
| Deprec. & amort. | 126.3 | 144.9 | 153.2 | 161.4 |
| Associates | 1.0 | 0.0 | 0.0 | 0.0 |
| Working capital changes | (90.1) | 129.6 | (86.1) | (88.3) |
| Non-cash items | (5.2) | 0.0 | 0.0 | 0.0 |
| Other operating cashflows | 152.0 | 93.7 | 100.3 | 101.6 |
| Investing | (258.2) | (220.3) | (226.9) | (233.8) |
| Capex (growth) | (217.5) | (222.1) | (228.7) | (235.6) |
| Investments | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from sale of assets | 3.2 | 0.0 | 0.0 | 0.0 |
| Others | (43.8) | 1.8 | 1.8 | 1.8 |
| Financing | (30.0) | (125.6) | (132.1) | (133.4) |
| Dividend payments | (166.2) | (30.0) | (30.0) | (30.0) |
| Issue of shares | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 110.2 | 0.0 | 0.0 | 0.0 |
| Others/interest paid | 25.9 | (95.5) | (102.1) | (103.4) |
| Net cash inflow (outflow) | 97.3 | 200.4 | 15.2 | 21.2 |
| Beginning cash & cash equivalent | 224.3 | 320.6 | 520.9 | 536.2 |
| Changes due to forex impact | (1.0) | 0.0 | 0.0 | 0.0 |
| Ending cash & cash equivalent | 320.6 | 520.9 | 536.2 | 557.4 |

KEY METRICS

| Year to 31 Dec (%) | 2021 | 2022F | 2023F | 2024F |
|---------------------------|--------|--------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 9.9 | 9.5 | 10.2 | 10.4 |
| Pre-tax margin | 5.8 | 4.6 | 5.1 | 5.2 |
| Net margin | 2.6 | 2.2 | 2.7 | 2.7 |
| ROA | 3.0 | 2.4 | 2.8 | 2.8 |
| ROE | 8.3 | 7.1 | 8.4 | 8.2 |
| Growth | | | | |
| Turnover | 19.9 | 3.7 | 2.4 | 2.3 |
| EBITDA | (5.7) | 0.0 | 9.7 | 4.1 |
| Pre-tax profit | (36.8) | (17.7) | 13.4 | 4.6 |
| Net profit | (63.1) | (12.1) | 25.3 | 3.8 |
| Net profit (adj.) | (32.1) | (21.3) | 25.3 | 3.8 |
| EPS | (32.5) | (21.3) | 25.3 | 3.8 |
| Leverage | | | | |
| Debt to total capital | 37.9 | 36.3 | 34.6 | 33.0 |
| Debt to equity | 91.7 | 87.2 | 81.7 | 76.6 |
| Net debt/(cash) to equity | 69.3 | 52.5 | 48.2 | 44.0 |
| Interest cover (x) | 4.9 | 4.9 | 5.0 | 5.2 |

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