

## COMPANY RESULTS

### Japfa (JAP SP)

9M22: Results Below Expectations; Weakness Across All Sectors

Japfa's 9M22 core PATMI of US\$66m (-46% yoy) was below our expectations, forming 63% of our full-year forecast. 3Q22 core PATMI of S\$12m fell 58% qoq as high feed costs affected both the Indonesia poultry (-45% qoq) and China dairy segments (-24% qoq). Vietnam continued to incur losses of US\$4m in 3Q22 as the resurgence of ASF weakened its swine business. We cut our 2022 and 2023 EPS by 27% and 39% respectively. Our SOTP-based target price is cut by 10% to S\$0.57. Maintain HOLD.

#### 9M22 RESULTS

Year to 31 Dec (US\$m)	9M22	9M21	yoy % chg
Revenue	3,738.3	3,383.7	10.5
Operating Profit	223.7	266.5	(16.1)
Operating Margin (%)	6.0	7.9	(1.9ppt)
PATMI	46.3	113.9	(59.3)
PATMI Margin (%)	1.2	3.4	(2.1ppt)
Core PATMI	65.7	121.0	(45.7)
Core PATMI Net Margin (%)	1.8	3.6	(1.8ppt)

Source: Japfa, UOB Kay Hian

#### RESULTS

- Results below expectations.** Japfa's 9M22 core PATMI of US\$66m (-46% yoy) was below our expectations, forming 63% of our full-year forecast. Revenue rose 10.5% yoy to US\$3.7b, mainly driven by higher sales volume across all segments. Core PATMI weakened as all segments saw higher feed raw material costs and the African Swine Fever (ASF) in Vietnam challenged operations and tightened profitability.
- Japfa TBK's core PATMI declined qoq, APO losses also increased.** In 3Q22, Japfa TBK reported core PATMI of US\$10m (-24% qoq, vs loss of US\$4m in 3Q21). Although the ASPs for Indonesia's poultry segment have increased, profitability still remains under pressure as high feed raw material costs resulted in increased production costs across the vertically integrated operations. On the other hand, losses from the Animal Protein Other (APO) segment widened from a US\$2m loss in 2Q22 to a US\$4m loss in 3Q22 as the swine business remained weak due to a resurgence of ASF since 4Q21, with swine ASPs depressed by pre-emptive sales in the market. Vietnam's feed and poultry businesses were profitable but unable to cover the weaker performance from swine operations.

#### 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	421	436	451
Operating profit	364	332	276	283	290
Net profit (rep./act.)	322	119	77	80	84
Net profit (adj.)	195	133	77	80	84
EPS (US\$ cent)	9.6	6.5	3.8	3.9	4.1
PE (x)	3.9	5.8	10.0	9.6	9.2
P/B (x)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	4.9	5.2	5.6	5.4	5.3
Dividend yield (%)	20.7	3.8	3.8	3.8	3.8
Net margin (%)	8.3	2.6	1.6	1.6	1.7
Net debt/(cash) to equity (%)	54.7	69.3	55.3	55.9	56.2
Interest cover (x)	4.9	4.9	4.2	4.2	4.4
ROE (%)	28.0	8.3	5.3	5.3	5.4
Consensus net profit	-	-	100	136	143
UOBKH/Consensus (x)	-	-	0.76	0.59	0.59

Source: Japfa, Bloomberg, UOB Kay Hian

## HOLD

(Maintained)

Share Price	S\$0.53
Target Price	S\$0.57
Upside	+7.5%
(Previous TP)	S\$0.63)

#### 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

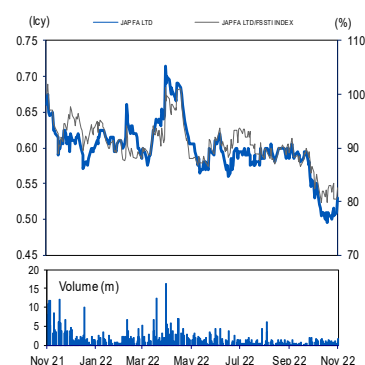
GICS sector	Consumer Staples
Bloomberg ticker:	JAP SP
Shares issued (m):	2,042.4
Market cap (S\$m):	1,082.5
Market cap (US\$m):	767.0
3-mth avg daily t'over (US\$m):	0.4
Price Performance (%)	

52-week high/low S\$0.715/S\$0.495

1mth	3mth	6mth	1yr	YTD
(4.5)	(9.4)	(12.4)	(19.7)	(11.7)

Major Shareholders	%
Rangi Management Ltd	50.3
Morze Int'l	15.3
Tasburgh	6.9
FY22 NAV/Share (US\$)	0.72
FY22 Net Debt/Share (US\$)	0.40

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- **China dairy's profitability affected by high feed costs.** Japfa's dairy revenue from China rose 9% yoy for 9M22, driven by higher raw milk sales volumes and additional contribution from Farm 8 and the two recently-acquired farms in Shandong. However, core PATMI for the dairy segment fell 57% yoy to US\$30m due to high feed costs, which resulted in increased production costs for both dairy and beef operations.

#### STOCK IMPACT

- **All segments to face uncertainties from higher costs of raw materials and volatile ASPs.** In Vietnam, swine prices in 2022 and 2021 were lower compared with 2020 when prices were exceptionally high due to the supply shortage caused by ASF. In addition, disruptions in global logistics have translated into higher costs of raw materials since 2022, which has led to high feed raw costs and resulted in increased production costs that may not be quickly passed on to end-consumers.

#### EARNINGS REVISION/RISK

- We cut our 2022/23/24 gross margin estimates by 0.7%/1.4%/1.5% to 17.2%/17.3%/17.3% to account for the higher feed costs, especially for Japfa's Vietnam swine and China dairy operations. Also, we now expect the Vietnam swine segment to incur core PATMI losses of around US\$20m for 2023 and 2024, vs an expected breakeven previously. On the other hand, we have reduced the core PATMI estimates of Japfa's China dairy segment by around 40% for 2022-24 to US\$46m-51m, after reducing our operating margin assumptions by 7ppt.
- After the reduction in gross margins, our 2022/23/24 core PATMI is lowered by 27%/39%/39%.

#### VALUATION/RECOMMENDATION

- **Maintain HOLD with a 10% lower SOTP-based target price of S\$0.57**, which implies 10.3x 2023F PE.

#### 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.

#### SOTP VALUATION

	2023F core net profit(US\$m)	Ascribed PE multiple (x)	Value (US\$m)	Remarks
PT Japfa Tbk (Indonesia Poultry)	57.9	8.0	463.6	Based on -1SD below the long-term mean PE of PT Japfa TBK, to reflect a more uncertain outlook.
Dairy	49.1		687.2	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 currently owns 67.5%.
APO (Vietnam Swine)	(22.7)		-	Based on -1SD below the long-term mean PE of PT Japfa TBK, to reflect a more uncertain outlook.
Corporate net debt			(120)	
Total			1,030.7	
After 20% conglomerate discount			824.6	
Value per share (US\$)			0.40	
Value per share (S\$)			0.57	

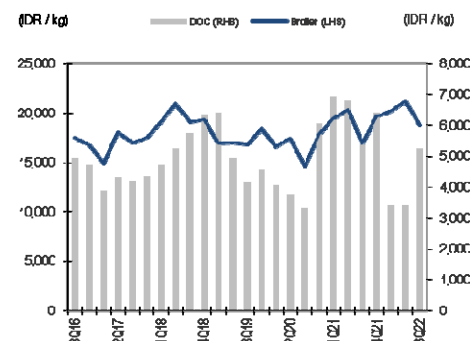
Source: UOB Kay Hian

#### PEER COMPARISON

Company	Ticker	Price @ 1 Nov 22 (1cy)	Market Cap (US\$m)	PE 2022 (x)	PE 2023 (x)	P/B 2022 (x)	P/B 2023 (x)	EV/EBITDA 2022 (x)	EV/EBITDA 2023 (x)	ROE 2022 (%)	Yield 2022 (%)
<b>Indonesian Protein Peers</b>											
Japfa Comfeed	JPFA IJ	1415	1,062	8.3	7.0	1.2	1.1	5.8	5.2	14.8	4.8
Charoen Pokphand Indo	CPIN IJ	5850	6,141	22.4	19.2	3.5	3.1	14.7	12.7	15.6	1.8
Malindo Feedmill	MAIN IJ	560	80	34.1	12.7	0.5	0.5	6.9	5.9	2.1	0.7
Average				21.6	13.0	1.7	1.6	9.1	7.9	10.8	2.4
<b>Dairy Peers</b>											
Inner Mongolia Yili	600887 CH	26.54	23,334	16.9	14.4	3.2	2.9	12.0	10.3	19.4	4.1
China Mengniu Dairy	2319 HK	27.3	13,756	17.1	15.2	2.4	2.2	14.8	13.2	15.1	1.8
China Modern Dairy	1117 HK	0.82	827	5.3	3.9	0.5	0.4	6.0	5.3	10.9	3.2
Average				13.1	11.2	2.0	1.8	10.9	9.6	15.1	3.0
Japfa	JAP SP	0.53	767	10.0	9.6	0.5	0.5	5.6	5.4	5.3	3.8

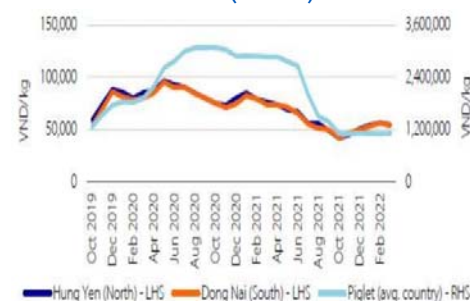
Source: Bloomberg, UOB Kay Hian

#### INDONESIA POULTRY AND DOC PRICE



Source: Japfa, UOB Kay Hian

#### VIETNAM SWINE PRICE (VND/KG)



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

## 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	421.4	436.3	451.1
Deprec. & amort.	126.3	144.9	153.2	161.4
EBIT	331.9	276.5	283.1	289.7
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)	(100.3)	(102.9)	(102.9)
<b>Pre-tax profit</b>	<b>266.8</b>	<b>176.2</b>	<b>180.2</b>	<b>186.8</b>
Tax	(54.1)	(31.7)	(30.6)	(31.8)
Minorities	(93.9)	(67.9)	(69.8)	(71.5)
<b>Net profit</b>	<b>118.8</b>	<b>76.6</b>	<b>79.7</b>	<b>83.6</b>
Net profit (adj.)	132.7	76.6	79.7	83.6

## 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	492.8	456.1	420.5
Other current assets	1,535.9	1,459.5	1,508.5	1,560.2
<b>Total assets</b>	<b>4,302.2</b>	<b>4,516.3</b>	<b>4,648.3</b>	<b>4,786.3</b>
ST debt	573.8	573.8	573.8	573.8
Other current liabilities	467.8	566.3	577.7	589.7
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	1,474.6	1,525.3	1,580.0
Minority interest	719.5	787.4	857.2	928.7
<b>Total liabilities &amp; equity</b>	<b>4,302.2</b>	<b>4,516.3</b>	<b>4,648.3</b>	<b>4,786.3</b>

## CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>385.5</b>	<b>523.6</b>	<b>323.9</b>	<b>331.8</b>
Pre-tax profit	266.8	176.2	180.2	186.8
Tax	(65.2)	(31.7)	(30.6)	(31.8)
Deprec. & amort.	126.3	144.9	153.2	161.4
Associates	1.0	0.0	0.0	0.0
Working capital changes	(90.1)	134.0	(81.8)	(87.5)
Non-cash items	(5.2)	0.0	0.0	0.0
Other operating cashflows	152.0	100.3	102.9	102.9
<b>Investing</b>	<b>(258.2)</b>	<b>(220.3)</b>	<b>(226.9)</b>	<b>(233.8)</b>
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
<b>Financing</b>	<b>(30.0)</b>	<b>(131.0)</b>	<b>(133.7)</b>	<b>(133.7)</b>
Dividend payments	(166.2)	(28.9)	(28.9)	(28.9)
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	(102.1)	(104.7)	(104.7)
<b>Net cash inflow (outflow)</b>	<b>97.3</b>	<b>172.3</b>	<b>(36.7)</b>	<b>(35.6)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>224.3</b>	<b>320.6</b>	<b>492.8</b>	<b>456.1</b>
Changes due to forex impact	(1.0)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>320.6</b>	<b>492.8</b>	<b>456.1</b>	<b>420.5</b>

## KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	9.9	8.8	8.9	9.0
Pre-tax margin	5.8	3.7	3.7	3.7
Net margin	2.6	1.6	1.6	1.7
ROA	3.0	1.7	1.7	1.8
ROE	8.3	5.3	5.3	5.4
<b>Growth</b>				
Turnover	19.9	3.7	2.4	2.3
EBITDA	(5.7)	(8.0)	3.5	3.4
Pre-tax profit	(36.8)	(34.0)	2.3	3.7
Net profit	(63.1)	(35.6)	4.1	4.9
Net profit (adj.)	(32.1)	(42.3)	4.1	4.9
EPS	(32.5)	(42.3)	4.1	4.9
<b>Leverage</b>				
Debt to total capital	37.9	36.7	35.5	34.3
Debt to equity	91.7	88.8	85.8	82.8
Net debt/(cash) to equity	69.3	55.3	55.9	56.2
Interest cover (x)	4.9	4.2	4.2	4.4

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