

COMPANY RESULTS

Japfa (JAP SP)

2022: Results Below Expectations; Uncertainties Remain

Japfa's 2022 core net PATMI of US\$34.6m (-73.9% yoy) was below expectations, forming 45% of our full-year forecast. 4Q22 core PATMI fell by 81% qoq to US\$1.9m as high feed costs affected Indonesia poultry, while Vietnam operations still face weaknesses as ASF continues to plague the livestock industry. Japfa continues to see near-term challenges for both segments. We cut our 2023 earnings by 71%. Our SOTP-based target price is reduced by 35% to S\$0.23. Maintain HOLD.

2022 RESULTS

Year to 31 Dec (US\$m)	2022	2021	yoy % chg
Revenue	4,363.8	4,091.8	6.6
Operating Profit	155.5	218.7	(28.9)
Operating Margin (%)	3.6	5.3	(1.7ppt)
Discontinued operation's profit after tax*	23.4	104.6	(77.6)
PATMI	8.2	118.8	(93.1)
PATMI Margin (%)	0.2	2.9	(2.7)
Core PATMI	34.6	132.7	(73.9)
Core PATMI Net Margin (%)	0.8	3.2	(2.4)

Source: Japfa, UOB Kay Hian

*On 30 December 2022, being the listing date of AustAsia Group (AAG), Japfa distributed its AAG shares to its shareholders and AAG ceased to be a subsidiary of Japfa. Accordingly, the "discontinued operations" accounting principle has been applied as at 31 December 2022, where AAG's profit after tax for 2022 was recorded as a separate line item "(loss)/profit after tax from Discontinued Operations".

RESULTS

- **Results below expectations.** Japfa's 2022 core net profit of US\$34.6m (-73.9% yoy) was below our expectations, forming 45% of our full-year estimates. Revenue rose 7% yoy to US\$4.4b, driven by higher feed raw material costs. Core PATMI margins fell by 2.4ppt from 3.2% to 0.8%, impacted by higher raw material costs, as well as the weak performance of swine in Animal Protein Other (APO) Vietnam, which recorded an operating loss.
- **Second quarter of decline in Japfa TBK's core PATMI, increased APO losses.** As ASPs did not keep pace with higher raw material costs, Japfa TBK reported core PATMI of US\$1.9m (-81% qoq, -90% yoy). This brings full-year core PATMI for the segment to US\$48.1m (-31% yoy). As for the APO segment, the swine business remained weak due to a resurgence of African Swine Fever (ASF) in Vietnam since 4Q21, with swine ASPs depressed by pre-emptive sales in the market and weaker-than-expected consumer demand. ASF had spread to a substantial number of Japfa's swine fattening livestock in Vietnam, leading to losses of approximately US\$20m incurred, and most significantly impacting 4Q22 figures. Additionally, higher feed raw material costs led to increased production costs across the vertically integrated operations in Vietnam. As a result, losses widened from US\$4.1m in 3Q22 to US\$30.4m in 4Q22, bringing full-year losses to US\$47m (-238% yoy).

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	4,092	4,364	4,408	4,507	4,608
EBITDA	345	264	316	361	410
Operating profit	219	156	212	230	255
Net profit (rep./act.)	119	8	38	49	65
Net profit (adj.)	133	35	38	49	65
EPS (US\$ cent)	6.5	1.7	1.8	2.4	3.1
PE (x)	2.8	10.9	9.9	7.7	5.8
P/B (x)	0.3	0.5	0.5	0.4	0.4
EV/EBITDA (x)	4.9	6.5	5.4	4.7	4.2
Dividend yield (%)	8.3	5.5	5.5	5.5	5.5
Net margin (%)	2.9	0.2	0.9	1.1	1.4
Net debt/(cash) to equity (%)	69.3	122.0	106.3	124.1	135.2
Interest cover (x)	4.8	3.2	3.6	4.1	4.7
ROE (%)	8.3	0.7	4.6	5.8	7.4
Consensus net profit	-	-	58	78	75
UOBKH/Consensus (x)	-	-	0.65	0.63	0.87

Source: Japfa, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$0.245
Target Price	S\$0.23
Upside	-6.1%
(Previous TP)	S\$0.37)

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

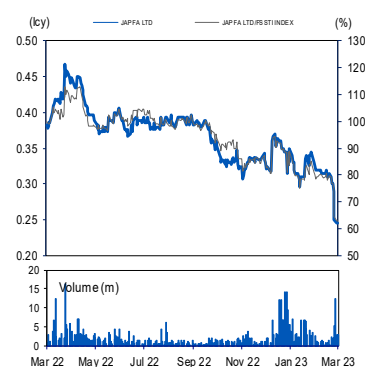
GICS sector	Consumer Staples
Bloomberg ticker:	JAP SP
Shares issued (m):	2,039.8
Market cap (S\$m):	499.8
Market cap (US\$m):	371.6
3-mth avg daily t'over (US\$m):	0.9
Price Performance (%)	

52-week high/low S\$0.467/S\$0.245

1mth	3mth	6mth	1yr	YTD
(25.8)	(26.6)	(37.1)	(37.1)	(29.0)

Major Shareholders	%
Rangi Management Ltd	50.3
Morze Int'l	15.3
Tasburgh	6.9
FY23 NAV/Share (US\$)	0.40
FY23 Net Debt/Share (US\$)	0.43

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **All segments to face uncertainties from higher costs of raw materials and volatile ASPs.** In Indonesia, prices of broiler and day-old-chick (DOC) continue to face volatility, falling by 24% and 72% respectively mom in Jan 23. In Vietnam, swine prices in 2022 were lower compared with 2021 when prices were higher due to the supply shortage caused by ASF. This is a result of lower-than-expected consumer demand, mainly due to export-oriented companies in Vietnam being affected by slowdowns in their respective key markets, such as the US and Europe.

EARNINGS REVISION/RISK

- We reduced our core PATMI for 2023/24 by 71%/64% after removing the estimated contributions for the dairy segment amounting to US\$49m/US\$51m, which has been discontinued on 30 Dec 22. To recap, Japfa has distributed its dairy's subsidiary (AustAsia Group) shares to its shareholders on 30 Dec 22, after listing the subsidiary in Hong Kong. We continue to assume weak ASPs and margin for the Vietnam swine segments. We expect 2023 to be a challenging year for the Vietnam swine segment due to the low swine ASP and higher feed raw material costs. Our core PATMI forecast for the Vietnam swine segment and Indonesia poultry segment remain largely unchanged, at US\$16m loss and US\$55m profit respectively.
- We also introduce 2025F earnings of US\$65m.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a 35% lower SOTP-based target price of S\$0.23**, which implies 10x 2023F PE. We believe there will be limited near-term catalysts until the ASPs of Indonesia poultry and Vietnam swine recover more significantly.

SHARE PRICE CATALYST

- Successful value-unlocking activities such as spinning off the APO segment.
- Strengthening of currencies in Indonesia and Vietnam.

SOTP VALUATION

	2023F core net profit (US\$m)	Ascribed PE multiple (x)	Value (US\$m)	Remarks
PT Japfa Tbk (Indonesia Poultry)	55.3	8.0	442.2	Based on -1SD below the long-term mean PE of PT Japfa TBK, to reflect a more uncertain outlook.
APO (Vietnam Swine)	(16.0)	8.0	-	Based on -1SD below the long-term mean PE of PT Japfa TBK, to reflect a more uncertain outlook.
Corporate net debt			(81)	
Total			361.2	
Value per share (US\$)			0.17	
USD/SGD conversion rate			1.33	
Value per share (S\$)			0.23	

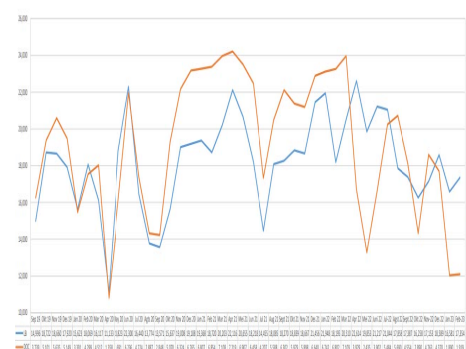
Source: UOB Kay Hian

PEER COMPARISON

Company	Ticker	Price @ 6 Mar 23 (lcy)	Market Cap (US\$m)	PE		P/B		EV/EBITDA		ROE 2023 (%)	Yield 2023 (%)
				2023 (x)	2024 (x)	2023 (x)	2024 (x)	2023 (x)	2024 (x)		
Indonesian Protein Peers											
Japfa Comfeed	JPFA IJ	1250	956	7.6	6.4	1.0	0.9	5.6	5.0	13.2	4.9
Charoen Pokphand Indo	CPIN IJ	5250	5,617	17.4	15.7	2.8	2.5	11.5	10.4	15.9	2.2
Malindo Feedmill	MAIN IJ	474	69	11.3	5.8	0.5	0.4	5.5	4.5	3.9	n.a.
Average				12.1	9.3	1.4	1.3	7.5	6.6	11.0	3.6
Japfa	JAP SP	0.245	372	9.9	7.7	0.5	0.4	9.1	8.0	4.6	4.1

Source: Bloomberg, UOB Kay Hian

INDONESIA POULTRY AND DOC PRICE



Source: Japfa, UOB Kay Hian

VIETNAM SWINE PRICE (VND/KG)



Source: Vietnam Ministry of Agriculture and Rural Development, Philippine Statistics Authority

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	4,363.8	4,408.3	4,507.1	4,608.2
EBITDA	264.4	316.4	360.6	409.6
Deprec. & amort.	108.9	104.6	130.3	154.3
EBIT	155.5	211.8	230.3	255.3
Total other non-operating income	(2.7)	0.0	0.0	0.0
Associate contributions	(0.2)	0.0	0.0	0.0
Net interest income/(expense)	(83.3)	(87.4)	(88.1)	(87.4)
Pre-tax profit	63.2	124.4	142.3	167.9
Tax	(25.0)	(35.3)	(40.3)	(47.6)
Minorities	(53.5)	(51.0)	(53.1)	(55.2)
Net profit	8.2	38.1	48.8	65.1
Net profit (adj.)	34.6	38.1	48.8	65.1

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	968.1	1,206.0	1,428.5	1,637.6
Other LT assets	492.7	495.9	499.5	503.3
Cash/ST investment	280.7	389.6	206.8	50.8
Other current assets	1,326.4	1,362.6	1,412.1	1,465.7
Total assets	3,067.9	3,454.1	3,546.9	3,657.4
ST debt	657.6	657.6	657.6	657.6
Other current liabilities	349.3	667.0	678.6	689.5
LT debt	617.0	617.0	617.0	617.0
Other LT liabilities	228.8	228.8	228.8	228.8
Shareholders' equity	814.9	832.4	860.6	905.0
Minority interest	400.3	451.3	504.4	559.6
Total liabilities & equity	3,067.9	3,454.1	3,546.9	3,657.4

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	113.9	559.5	278.8	315.4
Pre-tax profit	63.2	124.4	142.3	167.9
Tax	(48.9)	(35.3)	(40.3)	(47.6)
Deprec. & amort.	108.9	104.6	130.3	154.3
Associates	(0.2)	0.0	0.0	0.0
Working capital changes	(36.4)	278.3	(41.5)	(46.6)
Non-cash items	26.6	0.0	0.0	0.0
Other operating cashflows	0.8	87.4	88.1	87.4
Investing	(406.1)	(340.7)	(351.0)	(361.5)
Capex (growth)	(333.9)	(342.5)	(352.8)	(363.3)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	1.1	0.0	0.0	0.0
Others	(73.3)	1.8	1.8	1.8
Financing	261.2	(109.5)	(110.6)	(110.0)
Dividend payments	(21.9)	(20.7)	(20.7)	(20.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	219.7	0.0	0.0	0.0
Others/interest paid	63.4	(88.9)	(89.9)	(89.3)
Net cash inflow (outflow)	(31.0)	109.2	(182.7)	(156.1)
Beginning cash & cash equivalent	318.5	280.3	389.6	206.9
Changes due to forex impact	(6.8)	0.0	0.0	0.0
Ending cash & cash equivalent	280.7	389.6	206.8	50.8

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	6.1	7.2	8.0	8.9
Pre-tax margin	1.4	2.8	3.2	3.6
Net margin	0.2	0.9	1.1	1.4
ROA	0.2	1.2	1.4	1.8
ROE	0.7	4.6	5.8	7.4
Growth				
Turnover	6.6	1.0	2.2	2.2
EBITDA	(23.4)	19.7	14.0	13.6
Pre-tax profit	(60.4)	96.7	14.4	18.0
Net profit	(93.1)	367.2	28.2	33.3
Net profit (adj.)	(73.9)	10.2	28.2	33.3
EPS	(74.3)	10.2	28.2	33.3
Leverage				
Debt to total capital	51.2	49.8	48.3	46.5
Debt to equity	156.4	153.1	148.1	140.8
Net debt/(cash) to equity	122.0	106.3	124.1	135.2
Interest cover (x)	3.2	3.6	4.1	4.7

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