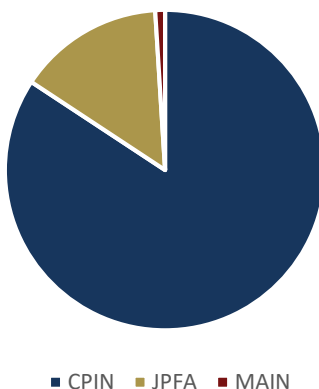


Underweight

Stock Recommendation

Ticker	Rating	Price (IDR)	TP (IDR)	Upside
CPIN	HOLD	5,075	5,500	8.4%
MAIN	SELL	428	380	-11.2%
JPFA	BUY	1,416	1,600	30.6%

Sector Market Cap Weighting



The Worst is Over.....Or Is It?

Searching for signs of recovery. Market players have been asking the same question over and over: when will signs of recovery for the poultry sector show up? We previously thought that the post-Covid economic reopening might be the catalyst, and it was, for a brief period of time. But then, a huge black swan spread its wings over us: the Russia-Ukraine war. The war led to a spike in raw material expenses of poultry players, as Ukraine is one of the world's largest wheat producers. Alas, the war still affects our major poultry players today; in 1Q23, MAIN booked a net loss of -IDR 173 billion (vs. IDR 10 billion in 1Q22), JPFA booked a net loss of -IDR 96 billion (vs. IDR 604 billion in 1Q22), and CPIN was the only poultry company managed to book a net profit (IDR 241 billion, -80% yoy). In addition, the collapse of the Nova Kakhovka dam in southern Ukraine, which is estimated to decimate 4 million tons of Ukraine's grains and oil crops, might become another negative catalyst for poultry players in the short term, as it might spark massive wheat price hike, further hurting poultry players' earnings.

What's causing our low chicken consumption? According to the latest chicken consumption data from OECD, Malaysia is still the largest chicken consumer in SEA (45.95 kg/capita per year), much higher than Indonesia (8.38 kg/capita per year). If we take a closer look, Indonesia's poultry industry situation is like a reverse mirror image of Malaysia's; Indonesia is currently experiencing a chicken oversupply, prompting the government to issue two culling instructions to stabilize prices. Meanwhile, Malaysia is experiencing a chicken supply shortage, 'forcing' the government to implement a price ceiling for poultry farmers. Another question came to our mind: How can this be? Especially considering the fact that our climate condition is similar to Malaysia's, and the average chicken prices in the two countries are relatively the same (Malaysia: MYR 8.9/kg or IDR 28,629/kg, Indonesia: IDR 20,900/kg). Our research revealed that one of Indonesians' biggest expenditure items is cigarettes, with an average monthly expenditure of IDR 82,000 per capita or 9% of their monthly household income. In contrast, Malaysians only spend around 2.9% of their total monthly household income on cigarettes, and they prefer to spend most of their budget on food. Looking at our consumer behavior and appetite for cigarettes (Indonesia is the world's third-largest tobacco consumer), we don't think that our chicken consumption will catch up to Malaysia's in the near future; thus, we don't see any huge demand boost for poultry coming our way soon.

Are there any signs of life for these chickens? We don't see a massive recovery coming anytime soon, at least until demand starts to pick up and raw material costs come down. The poultry sector is a margin-heavy industry; thus, market players will need to look at margin changes, especially going into an election year (2024), which is expected to boost both purchasing power and consumption.

Downgrade to UNDERWEIGHT, with JPFA as the most sensible pick. We downgraded our sector rating for poultry to UNDERWEIGHT as we don't see any positive catalyst that can boost the stocks, and we only expect to see minuscule growth from poultry players this year. However, signs of life might show in 2024 as the effect of the geopolitical tension should be gone by that time; however, at the moment, we see no further upside from the sector. We keep JPFA as our top pick for poultry as JPFA presents stable margin growth and sensible valuation. We have a BUY rating for JPFA with a TP of IDR 1,600, reflecting 13.3x FY23F P/E.

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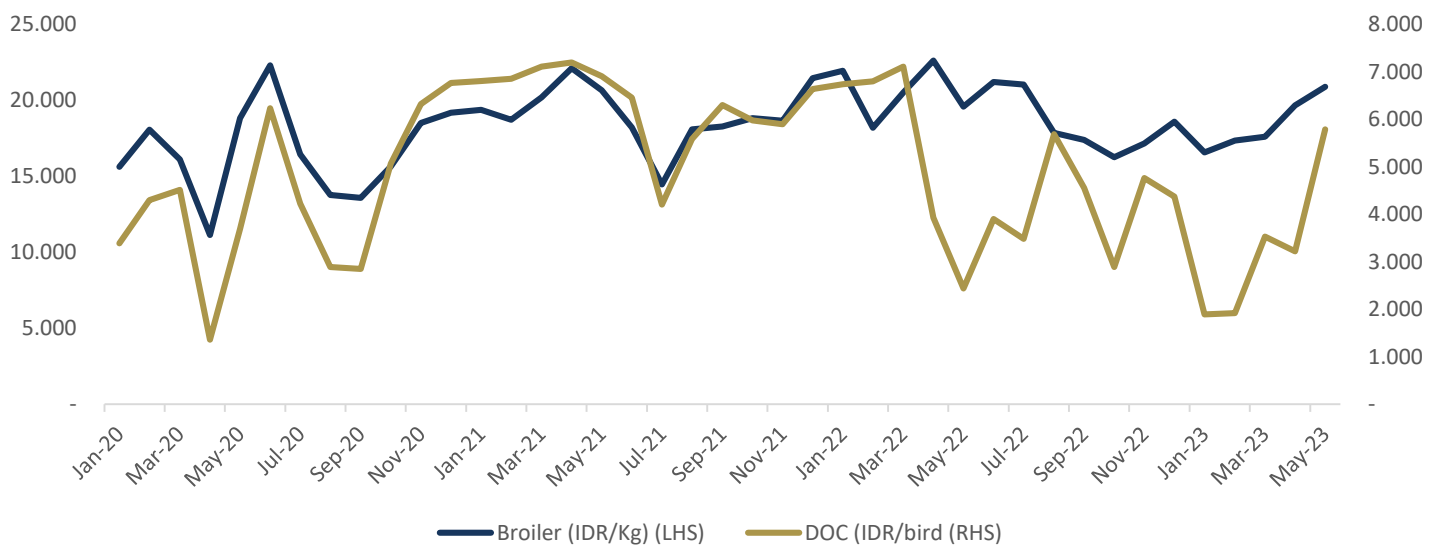
Figure 1. 2023 Culling Instruction(s)

Culling 2023

Program Culling	Target	Date Instructed	Amount Culled (Mn birds /Week)	Total Culled (Mn birds)
1st	DOC FS	25 Feb - 15 Apr	Meet the needs of broiler DOC FS for external breeders of at least 50% of the production of breeding companies according to Minister of Agriculture Number 32 of 2017	
			14.9	104.4
2nd	PS <55 Weeks FS HE 19 days	19 Apr - 3 Jun	Control Production 3.9 mn females	93.2
		26 Apr - 3 Jun	6.9	48.1

Source: Ministry of Agriculture

Figure 2. LB & DOC 10-Year Prices



Source: Arboge, Pinsar

Figure 3. Broiler Prices' Monthly Seasonality

	2016	2017	2018	2019	2020	2021	2022	2023
January	13%	-5%	14%	-18%	-13%	1%	2%	-11%
February	-33%	-21%	1%	0%	16%	-3%	-17%	5%
March	3%	0%	-9%	-11%	-11%	8%	13%	1%
April	4%	15%	5%	21%	-31%	9%	10%	12%
May	16%	14%	5%	-6%	69%	-7%	-13%	6%
June	7%	9%	6%	-21%	18%	-12%	8%	
July	-4%	0%	1%	33%	-26%	-21%	-1%	
August	-11%	-10%	6%	-11%	-16%	25%	-15%	
September	10%	7%	-30%	-10%	-1%	1%	-3%	
October	-5%	-8%	14%	25%	15%	3%	-6%	
November	-8%	-6%	1%	0%	18%	-1%	6%	
December	12%	12%	17%	-4%	4%	15%	8%	

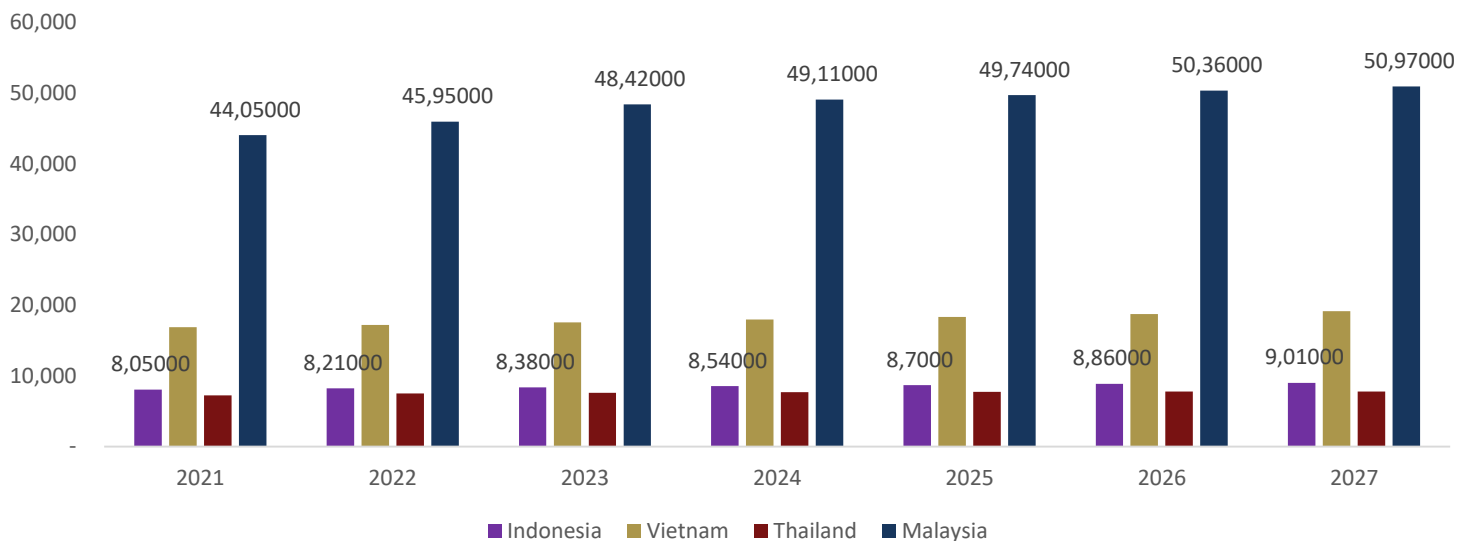
Source: Arboge, Pinsar

Figure 4. DOC Prices' Monthly Seasonality

	2016	2017	2018	2019	2020	2021	2022	2023
January	3%	0%	0%	-3%	-34%	1%	2%	-57%
February	-13%	-9%	4%	-1%	27%	1%	1%	2%
March	-21%	-10%	5%	-1%	5%	4%	5%	84%
April	23%	14%	3%	-1%	-70%	1%	-45%	-9%
May	16%	11%	4%	-15%	172%	-4%	-38%	80%
June	-2%	1%	0%	-42%	69%	-7%	60%	
July	-2%	-15%	4%	34%	-32%	-35%	-11%	
August	4%	20%	7%	8%	-32%	33%	63%	
September	0%	-9%	-1%	-17%	-1%	13%	-20%	
October	3%	-3%	0%	36%	78%	-5%	-37%	
November	-8%	10%	15%	10%	25%	-1%	65%	
December	-9%	3%	0%	-9%	7%	13%	-8%	

Source: Arboge, Pinsar, SSI Research

Figure 5. SEA Poultry Consumption Comparison (Kg/Annum)



Source: OECD, SSI Research

Figure 6. Broiler Prices' Quarterly Seasonality

	2016	2017	2018	2019	2020	2021	2022	2023
1Q	-6%	-9%	2%	-10%	-3%	2%	-1%	
2Q	9%	12%	6%	-2%	19%	-3%	2%	
3Q	-2%	-1%	-8%	4%	-15%	2%	-6%	
4Q	0%	-1%	11%	7%	12%	6%	2%	

Source: Arboge, Pinsar, SSI Research

Figure 7. DOC Prices' Quarterly Seasonality

	2016	2017	2018	2019	2020	2021	2022	2023
1Q	-10%	-6%	3%	-2%	-1%	2%	2%	
2Q	12%	9%	2%	-19%	57%	-3%	-8%	
3Q	1%	-1%	3%	8%	-22%	4%	11%	
4Q	-5%	3%	5%	13%	37%	2%	7%	

Source: Arboge, Pinsar, SSI Research

Peers Comparison

Ticker	Name	Mkt Cap (USDmn)	P/E (x)		P/B (x)		EV / EBITDA (x)	
			2023F	2024F	2023F	2024F	2023F	2024F
CPIN IJ	Charoen Pokphand Indonesia	5,572	29.40	18.36	2.93	2.60	16.44	12.71
JPFA IJ	Japfa Comfeed Indonesia	974	11.62	8.40	1.01	0.94	7.59	6.39
MAIN IJ	Malindo Feedmill	65	-13.91	7.55	0.42	0.40	10.12	5.57
Local Weighted Average			26.49	16.79	2.62	2.33	15.08	11.71

Ticker	Name	Mkt Cap (USDmn)	P/E (x)		P/B (x)		EV / EBITDA (x)	
			2023F	2024F	2023F	2024F	2023F	2024F
JBSS3 BZ	JBS SA	8,211	16.33	7.03	0.79	0.74	6.83	5.47
JAP SP	Japfa Ltd	342	20.96	6.45	0.42	0.40	7.76	6.22
LHIB MK	Leong Hup International BHD	379	10.91	8.73	0.81	0.77	6.83	6.30
GFPT TB	GFPT PCL	443	10.71	9.72	0.87	0.81	7.94	7.07
TSN US	Tyson Foods Inc	18,012	32.80	14.14	0.92	0.90	11.49	8.16
GOAGRO IN	Godrej Agrovet Ltd	1,035	20.73	16.59	3.21	2.89	14.67	12.12
002100 CH	Tecon Biology Co Ltd	1,544	8.76	6.77	1.27	1.10	7.20	5.59
PPC US	Pilgrim's Pride	5,459	18.87	10.11	1.79	1.53	9.33	6.70
TFG TB	THAIFOODS GROUP PCL	766	10.17	9.40	1.60	1.49	6.35	6.19
Regional & Global Weighted Average			24.50	11.39	1.11	1.03	9.78	7.24

Source: Bloomberg

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