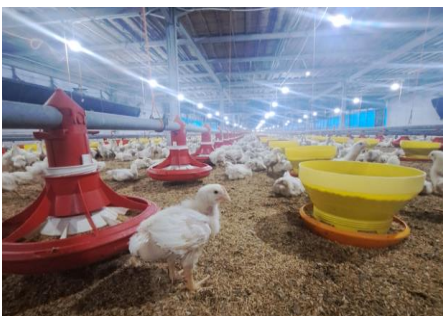


Poultry Sector: Neutral

Stock Recommendations

Ticker	Rating	Price (IDR)	TP (IDR)	Upside (%)
JPFA	BUY	1,595	1,790	12.2
CPIN	BUY	5,200	5,757	10.7

Ciomas' Tangerang Farm



Volume Driven Works Like a Charm

We recently visited two of JPFA's business units in Tengerang, **PT Ciomas Adisatwa** (commercial farm) and **So Good Food (SGF)** (slaughterhouse and meat processing). Ciomas Adisatwa runs a closed-house farm with total capacity of 23-25k livebirds/deck and 16 – 17 chicks/sqm, while SGF operates a slaughterhouse with capacity of 3,000 chickens/hour and a meat processing plant. The visit provided valuable insights into the upstream and downstream processes in the poultry industry, SGF's new products and upcoming strategies, as well as recent changes in demand trends.

Expansion to Keep Up with Demand due to Flat ASPs. To remain competitive in the increasingly crowded nugget market, SGF decided to focus on driving sales volumes rather than raising ASPs. By keeping its prices relatively stable throughout 2023-24, SGF achieved notable increases in sales volumes, bringing its facility's utilization rate to 80% - 90%. To keep up with demand, SGF recently added new nugget processing line with production capacity of 2.5 tons per hour, building on similar expansion in 2023 and increasing the company's value-added meat production capacity by +55%. Today, the company has five nugget processing lines with 70% utilization rate. Another highlight of SGF is its solid pricing strategy; 'Crispy Nuggets', SGF's best-selling nugget product, is sold for c.IDR 56,900/pack (400 grams). While more expensive in terms of price per gram (+11%) compared to competitors, it is slightly cheaper per package (-6%), making it more appealing to consumers. Furthermore, SGF will continue to innovate and introduce new products to the public; it recently launched an innovative product called the 'Mac and Cheese Nugget' priced at IDR 55,000/pack.

Penetrating into Yogurt. Having already entered UHT and sterilized milk market with various packaging combinations, SGF plans to penetrate the liquid yogurt market with new SKUs under the Real Good brand. However, we have some concerns about the move, considering the already oversaturated processed dairy market; as more consumer staples companies attempt to enter the dairy sector, the threat of price war and higher A&P run-rate looms. To mitigate these risks, SGF plans to focus on general trade (GT) market and use traditional advertising to reach wider audience.

Post-Election Demand Recovery. In the first two months of 1Q24, sales of SGF's grassroots product, 'So Nice' (c.IDR 1,000/pcs), weakened despite stronger public purchasing power thanks to social aid. Oddly, sales began to recover after the election, leading to solid QoQ growth in SGF's overall sales. Its YoY performance was quite robust as well, mainly due to low-base effect in 1H23 from Real Good's relatively unpolished marketing strategies. It is worth noting that So Nice products contribute c.50% of SGF's revenue, with a focus on the GT market and volume over price.

Raw Materials Outlook. SGF sources its raw materials, primarily chicken, from JPFA's commercial farm and several external suppliers, ensuring stable supply. However, some of its raw materials, such as packaging, seasonings, and additional ingredients, have been subject to price volatility, which impacted the company's 2022 bottom line and led to -5% drop in net profit despite +19.2% increase in top-line. To mitigate these pressures, SGF began negotiating with suppliers in 2023 to manage and control the increase in raw material costs. Looking ahead, we expect broiler prices to ease in the second half of 2024 due to seasonal factors, potentially boosting margins in the processed food segment.

BUY with 1,790 TP. While we retain a BUY and have upgraded our JPFA target price to 1,790 (from 1,600), implying P/E ratio of 8.4x, we are currently undergoing a transfer of coverage. At this stage, we anticipate favorable government policies, including reduced price relaxation starting from May 2024 and lower import quotas for Grand Parent Stock (GPS) in 2024 onwards. Maintain sector Neutral on poultry.

Belva Monica

+62 21 2854 8339

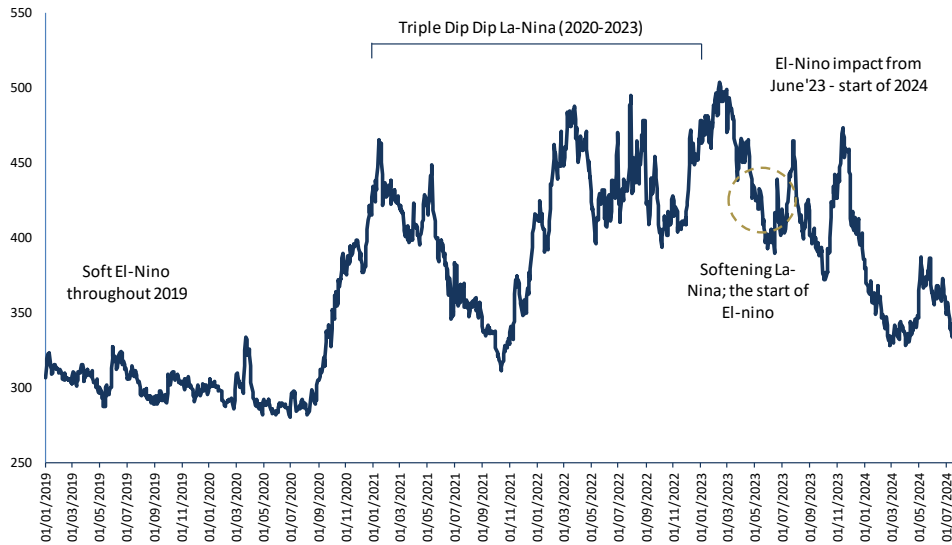
belva.monica@samuel.co.id

Jonathan Guyadi

+6221 2854 8846

Jonathan.guyadi@samuel.co.id

Figure 1. Historical SBM Prices Compared to Weather Conditions



La-Nina may lead to raw materials disruptions, ...

Year	Avg. FY	Change in Avg. Prices
2019	304.3199	
2020	319.5767	5%
2021	381.9023	20%
2022	436.155	14%
Average		13%

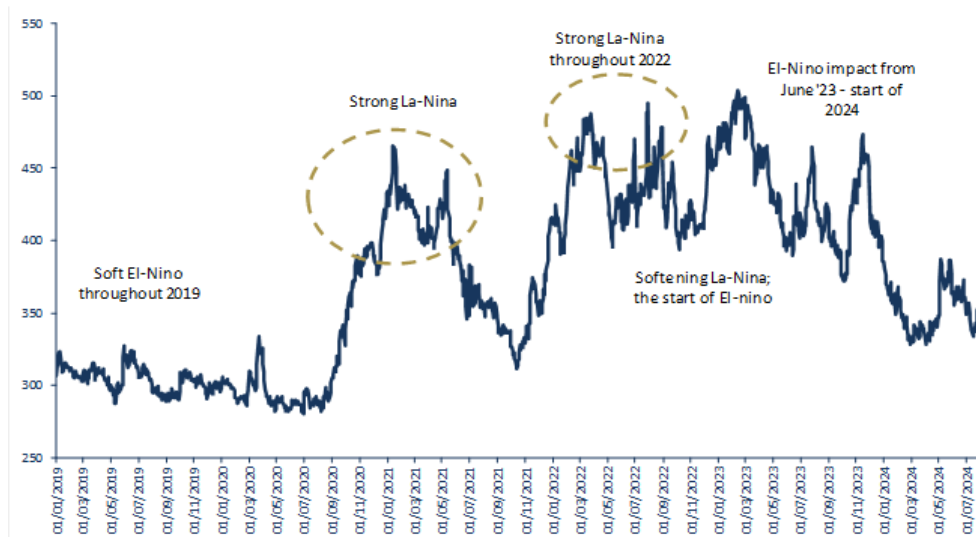
... potentially triggering price hikes ...

Source: SSI Research

La Niña and its Impact on Raw Materials. We anticipate La Niña, which is projected to occur at the end of 2H24, to cause raw material disruptions, especially soybean meal and corn, as La Niña may lead to drought in South America and heavy rainfall and flooding in Indonesia, which could negatively affect crop yields. Based on historical data, we estimate potential price hikes of approximately 13% for soybean meal and 4% for corn, which could lead to 6% increase in raw material-to-COGS ratio and c.5% decline in GPM, ceteris paribus. The optimal moisture content for corn used in feed production is around 15%. Under ideal harvesting conditions (rainfall < 10mm), freshly picked corn will have moisture content of approximately 25%. The corn will then be dried using corn dryer to reach the desired moisture content. We assume that if rainfall increases to 50-100 mm due to La Niña, the moisture content in corn could range from 25% to 35%, leading to quicker spoilage or longer drying time, potentially increasing operational costs.

... due to higher rainfall which may dampen crops yield and increasing operational costs

Figure 2. Baltic Dry Index Movement



Source: SSI Research

Moderate Shipping Outlook. As JPFA imports its soybean meal supply from abroad, any significant changes in shipping industry could substantially impact the company's expenses. UNCTAD (the UN's intergovernmental organization focusing on interest of developing countries in world trade) offers relatively moderate outlook on global shipping industry, as the sector has normalized following the historic boom in 2021. The normalization has led to shifts in capacity levels due to the influx of new container ships in 2023. Capacity is expected to shift further, with additional vessels coming into service in 2024 and 2025, which may lead to excess capacity and lower freight rates. To tackle this problem, liner operators are employing various strategies, including rerouting, blank sailing, reducing speeds, and idling ships.

Despite all indications pointing to relatively moderate freight rates for the foreseeable future, there remains risk of a surge in freight costs due to geopolitical tensions. The ongoing conflict in the Middle East has led to rerouting and higher fuel expenses. If the conflict persists, it could trigger freight rate hike, which could affect prices of imported products, including soybean meal.

Global geopolitical tension could drive up freight costs, ...

... leading to increased prices for imported products ...

... due to rerouting and higher fuel expenses

Figure 3. JPFA 2Q24 Results: Above Ours and Cons.

2Q24 Results: 31 July 2024										
(IDRbn)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	6M23	6M24	YoY (%)	6M24/ SSI (%)	6M24/ Cons. (%)
Revenue	12,394	13,925	13,723	(1.5)	10.7	24,156	27,649	14.5	49.5	51.3
Gross Profit	2,071	2,474	2,882	16.5	39.1	3,358	5,357	59.5	58.8	62.4
EBITDA	1,016	1,351	1,529	13.2	50.4	1,210	2,880	137.9	77.0	71.5
Operating Profit	746	1,072	1,525	42.3	104.4	670	2,597	287.5	90.3	85.8
Net Profit	332	665	814	22.5	145.4	82	1,479	1,704.5	105.9	95.8
Key Ratios										
GPM (%)	16.7	17.8	21.0	-	-	13.9	19.4	-	-	-
EBITDA Margin (%)	8.2	9.7	11.1	-	-	5.0	10.4	-	-	-
OPM (%)	6.0	7.7	11.1	-	-	2.8	9.4	-	-	-
NPM (%)	2.7	4.8	5.9	-	-	0.3	5.4	-	-	-

Source: SSI Research

JPFA's Results Review and Projections. JPFA booked 2Q24 top-line of IDR 13,723 billion (-1.5% QoQ; +10.7% YoY), with 1H24 revenue of IDR 27,649 billion (+14.5% YoY), in line with ours/cons at 49%/51%. The YoY top line growth was primarily driven by strong performances from feed (-12% QoQ; +9% YoY), poultry breeding (+21% QoQ; +46% YoY), and commercial farming (+2% QoQ; +18% YoY) segments, which benefited from higher livebird prices due to voluntary culling and increased sales volumes. However, the feed segment saw lower ASP (-7%) and volume (-3%), resulting in negative QoQ revenue growth for the segment.

On the profitability side, JPFA's 2Q24 gross margin improved to 21% (1Q24: 17.8%; 2Q23: 16.7%) thanks to lower raw material costs (corn: -30% QoQ; soybean meal: +3% QoQ), paving the way to higher 2Q24 operating margin of 11.1% (1Q24: 7.7%; 2Q23: 6.0%). This, coupled with stable opex run-rate of 9.82% (1Q24: 9.76%), led to impressive 2Q24 bottom line of IDR 814 billion (+22.5% QoQ; +145% YoY) with cumulative 1H24 net profit of IDR 1,479 billion (+1,704% YoY) above ours/cons at 106%/96%.

Going forward, we anticipate livebird prices to ease due to seasonal trends, though the company will continue to benefit from voluntary culling. Meanwhile, raw material prices are likely to rise towards the end of 2024 due to the potential impact of La Niña.

In 2Q24, all JPFA' business segments posted positive YoY growth, ...

... supported by lower raw materials (corn: -30% QoQ, soybean meal: +3% QoQ)...

... and higher livebird prices due to voluntary culling

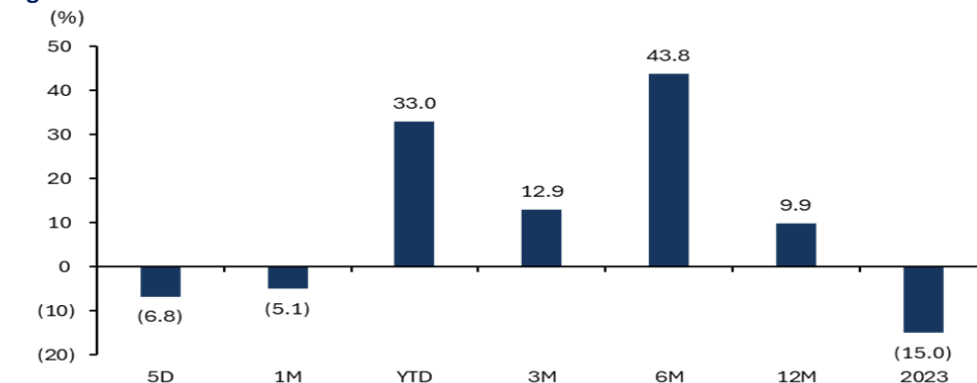
Figure 4. Corn and Soybean Meal Price Sensitivity Analysis

Corn Price Up by %	Impact	Soybean Meal Up by %	GPM
5%	-140 bps	5%	-122 bps
10%	-280 bps	10%	-245 bps
15%	-420 bps	15%	-367 bps

Source: SSI Research

Changes in prices of corn and soybean meal have considerable impact on JPFA's GPM

Figure 5. JPFA Relative to JCI



Source: SSI Research

Throughout 6M24, JPFA's share performance relative to JCI was relatively solid

Figure 6. So Good Food Banten Area



SGF's processing facility spans 5 hectares and includes 8 production lines: 5 for nuggets, 2 for ready-to-eat (RTE) products, and 1 for frozen food

Source: SSI Research

Figure 7. Chicken Slaughter Overview



SGF's slaughterhouse has total capacity of 3,000 chickens/hour

Source: SSI Research

Figure 8. Processed Food Products



SGF's sterilized milk line, which directly competes with Nestle's offering, will be reintroduced with new packaging

Source: SSI Research

Figure 9. SGF's SKU

83 SKUs under 3 brands

Brand	Product	Category	# SKU	Target Consumer
		Frozen Food : • Ready to Cook • Uncooked Chicken Cut • Fresh Healthy Omega Egg	36 5 2	• Moms with kids 5 – 10 years old • 25 – 34 years old • Middle-up class segment
		Frozen Food : • Ready to Cook Dry : • Ready to Eat Sausage	12 12	Ready to Cook : • Moms • Middle class segment Ready to Eat : • Kids • 5 – 14 years old
		Dry : • Liquid UHT Milk	16	Real Good • Kids, 5 – 14 years old So Good Sterilized Milk • Adult, 15+ years old

Among SGF's SKUs, So Nice is the largest revenue contributor (~45%), followed by So Good (~30%) and Real Good (~20%)

Source: SSI Research

Figure 10. Bubble-Coated Nugget Pricelist

Product	Image	Price	Gram	Price/Gram
So Good Crispy Chicken Nugget		56,900	400	142
Kanzler Crispy Chicken Nugget		58,900	450	131
Kanzler Crispy Chicken Nugget Stick		58,900	450	131
Fiesta Crispy Bubble		62,500	500	125

In terms of price/package, So Good Crispy Chicken Nugget is the cheapest bubble-coated nugget product available in the market

Source: SSI Research

Research Team			
Prasetya Gunadi	Head of Equity Research, Strategy, Banking	prasetya.gunadi@samuel.co.id	+6221 2854 8320
Fithra Faisal Hastiadi, Ph.D	Senior Economist	fithra.hastiadi@samuel.co.id	+6221 2854 8100
M. Farras Farhan	Oil & Gas, Coal, Metal, Renewables, Plantation	farras.farhan@samuel.co.id	+6221 2854 8346
Jonathan Guyadi	Consumer, Retail, Auto, Cigarettes	jonathan.guyadi@samuel.co.id	+6221 2854 8846
Daniel Aditya	Cement, Healthcare, Telco, Infra, Transportation	daniel.aditya@samuel.co.id	+6221 2854 8322
Adolf Richardo	Editor	adolf.richardo@samuel.co.id	+6221 2864 8397
Ashalia Fitri Yuliana	Research Associate	ashalia.fitri@samuel.co.id	+6221 2854 8389
Laurencia Hiemas	Research Associate, Media, Technology	laurencia.hiemas@samuel.co.id	+6221 2854 8392
Brandon Boedhiman	Research Associate	brandon.boedhiman@samuel.co.id	+6221 2854 8392
Belva Monica	Research Associate, Poultry	belva.monica@samuel.co.id	+6221 2854 8339
Ahnaf Yassar Lilo	Research Associate, Toll Roads, Property	ahnaf.yassar@samuel.co.id	+6221 2854 8392
Hernanda Cahyo Suryadi	Research Associate, Mining Contracting	hernanda.cahyo@samuel.co.id	+6221 2854 8392

Equity Institutional Team			
Widya Meidrianto	Head of Institutional Equity Sales	widya.meidrianto@samuel.co.id	+6221 2854 8317
Muhamad Alfatih, CSA, CTA, CFTe	Institutional Equity Chartist	m.alfatih@samuel.co.id	+6221 2854 8129
Ronny Ardianto	Institutional Equity Sales	ronny.ardianto@samuel.co.id	+6221 2854 8399
Fachruly Fiater	Institutional Sales Trader	fachruly.fiater@samuel.co.id	+6221 2854 8325
Lucia Irawati	Institutional Sales Trader	lucia.irawati@samuel.co.id	+6221 2854 8173
Alexander Tayus	Institutional Equity Dealer	alexander.tayus@samuel.co.id	+6221 2854 8319
Leonardo Christian	Institutional Equity Dealer	leonardo.christian@samuel.co.id	+6221 2854 8147

Equity Retail Team			
Joseph Soegandhi	Director of Equity	joseph.soegandhi@samuel.co.id	+6221 2854 8872
Damargumilang	Head of Equity Retail	damargumilang@samuel.co.id	+6221 2854 8309
Anthony Yunus	Head of Equity Sales	Anthony.yunus@samuel.co.id	+6221 2854 8314
Clarice Wijana	Head of Equity Sales Support	clarice.wijana@samuel.co.id	+6221 2854 8395
Denzel Obaja	Equity Retail Chartist	denzel.obaja@samuel.co.id	+6221 2854 8342
Gitta Wahyu Retnani	Equity Sales & Trainer	gitta.wahyu@samuel.co.id	+6221 2854 8365
Vincentius Darren	Equity Sales	darren@samuel.co.id	+6221 2854 8348
Sylviawati	Equity Sales Support	sylviawati@samuel.co.id	+6221 2854 8112
Handa Sandiawan	Equity Sales Support	handa.sandiawan@samuel.co.id	+6221 2854 8302
Michael Alexander	Equity Dealer	michael.alexander@samuel.co.id	+6221 2854 8369
Yonathan	Equity Dealer	yonathan@samuel.co.id	+6221 2854 8347
Reza Fahlevi	Equity Dealer	reza.fahlevi@samuel.co.id	+6221 2854 8359

Fixed Income Sales Team			
R. Virine Tresna Sundari	Head of Fixed Income	virine.sundari@samuel.co.id	+6221 2854 8170
Sany Rizal Keliobas	Fixed Income Sales	sany.rizal@samuel.co.id	+6221 2854 8337
Khairanni	Fixed Income Sales	khairanni@samuel.co.id	+6221 2854 8104
Muhammad Alfizar	Fixed Income Sales	Muhammad.alfizar@samuel.co.id	+6221 2854 8305

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