

Malindo Feedmill Tbk (MAIN IJ)

Is Potential for Growing

MAIN succeeded in increasing 9M19's revenues by 17.2% YoY, but a significant increase in the cost of revenues and financial costs decrease its net profits by 12.3% YoY. Although efficiencies and declining prices of broiler weaken MAIN's performance, its performance is still potential for growing for 2020 on grounds of increases in domestic chicken consumption.

Strengthening Top Line, Weakening Bottom Line

MAIN posted 9M19's revenue of IDR5.7 trillion (+17.2% YoY) dominated by increasing sales to IDR3.8 trillion (+37.4% YoY) contributed by the animal feeds segment and rising sales to IDR1.1 trillion (+16.6% YoY) contributed by the DOC segment. Yet, the costs of revenues surpassed increasing revenues of IDR5 trillion (+20.3% YoY), while financial costs increased dramatically to IDR134 billion (+47.9% YoY). Those costs throttled away MAIN's net profits to IDR129 billion (-12.3% YoY).

Growing Margins amid Oversupply

MAIN succeeded in increasing 3Q19's margins with GPM of 11.8% (vs. 10.9% in 2Q19), OPM of 5.4% (vs. 5.0% in 2Q19) and a stable NPM at 2.8%. For us, the performance was very positive amid the oversupply of poultry markets. Especially, from Sep. to Dec., 2019 there was a GEMA program as an extension of government regulation curbing the number of DOCs and resulting in stable broiler prices in the market. Thus, GEMA program helps to stabilize MAIN's revenues with 4Q19's NPM to grow at the level of 3.8%. We pencil in that MAIN is likely to book 2019F's revenues of IDR7.5 trillion based on the estimate that the feed segment will record sales of IDR5.1 trillion (+29.5% YoY).

Stable Prices and Market Penetration in Eastern Indonesia

Prices of broiler until the end of 2019, falling short in the range of IDR16,000-IDR19,000 for areas in Greater Jakarta, Sukabumi, Cianjur, and Subang gave MAIN opportunities to maintain stable performance until the end of the year. We believe that expansive markets to eastern Indonesia, i.e., Nusa Tenggara and Papua are strategies for sustainable growth appropriate in 2020.

BUY Rating with TP of IDR1,200

The poultry market still depends on the government's culling program, but the 2020's estimated chicken consumption at 10.5-11.5 kg/capita is a positive catalyst for the poultry companies. Thus, we provide BUY recommendations with TP of IDR1,200 or a 16.5% potential upside based on a 6.5x (-0.34 SD) forward EV/EBITDA. MAIN is currently traded at a 7.1x 2019F EV/EBITDA.

Malindo Feedmill Tbk | Summary

	2018A	2019A	2020F	2021F
Sales	6,706	7,553	8,244	8,613
Growth	23.2%	12.6%	9.1%	4.5%
EBITDA	622	599	676	723
Net Profit	321	268	292	302
EPS (IDR)	143	120	131	135
Growth	647.3%	-16.6%	9.2%	3.1%
P/E	7.9x	8.6x	7.9x	7.6x
P/BV	1.2x	1.0x	0.9x	0.9x
EV/EBITDA	6.4x	7.1x	6.5x	6.3x
ROE	16.1%	12.2%	11.9%	11.1%
DER	85.3%	94.4%	90.4%	86.4%
Net Debt	1,554	1,842	2,032	2,133

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Company Update | Jan 06, 2020

Buy

Dec 2020 TP (IDR)	1,200
Consensus Price (IDR)	1,332
TP to Consensus Price	-9.9%
vs. Last Price	+16.5%

Shares data

Last Price (IDR)	1,030
Price Date as of	Jan 03, 2020
52 wk Range (Hi/Lo)	1,920 / 855
Free Float (%)	42.7
Outstanding sh.(mn)	2,239
Market Cap (IDR bn)	2,496
Market Cap (USD mn)	163
Avg. Trd Vol - 3M (mn)	5.1
Avg. Trd Val - 3M (bn)	5.4
Foreign Ownership	99.9%

Basic Industry

Poultry

Bloomberg	MAIN IJ
Reuters	MAIN.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	2.0%	-2.8%	17.7%	-29.5%
Rel. Ret.	1.3%	-5.9%	13.0%	-31.1%

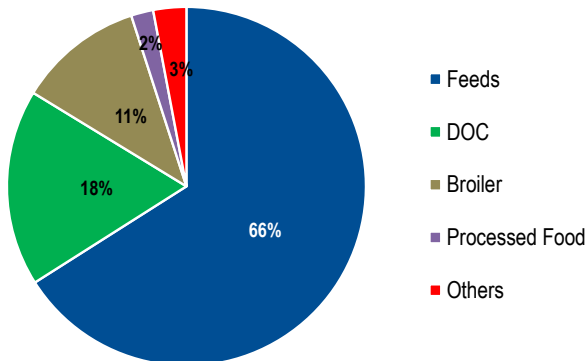
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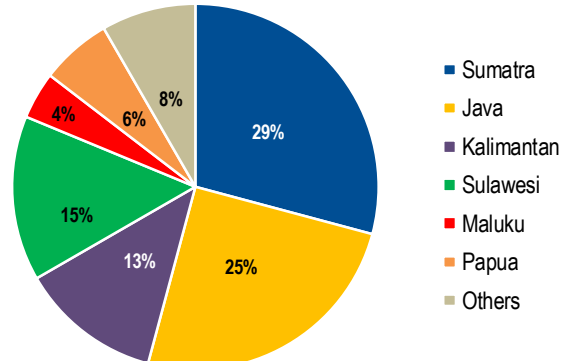
Performance Highlights in Charts

9M19 Revenue Breakdown



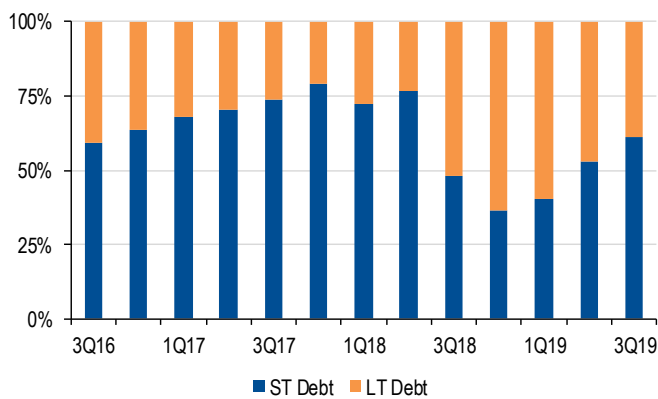
Source: Company Data, NHKS Research

9M19 Product Distribution



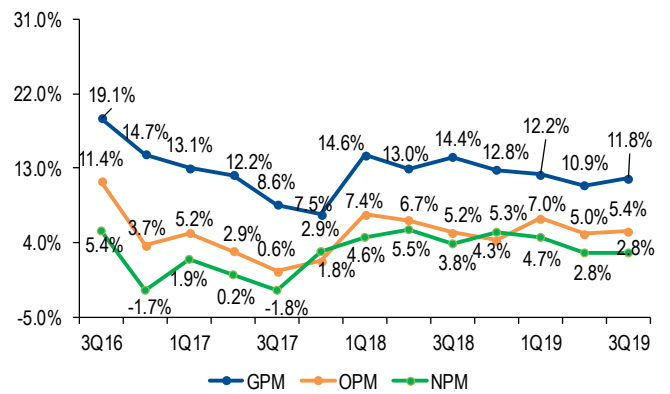
Source: Company Data, NHKS Research

Debt Portion



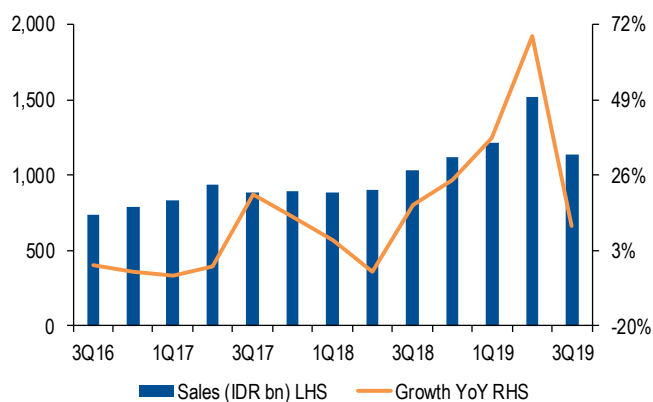
Source: Company Data, NHKS Research

Margin Ratios



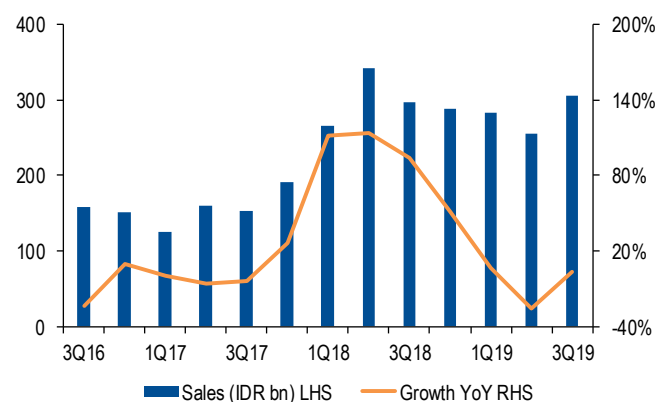
Source: Company Data, NHKS Research

Feeds Quarterly Sales



Source: Company Data, NHKS Research

Broiler Quarterly Sales



Source: Company Data, NHKS Research

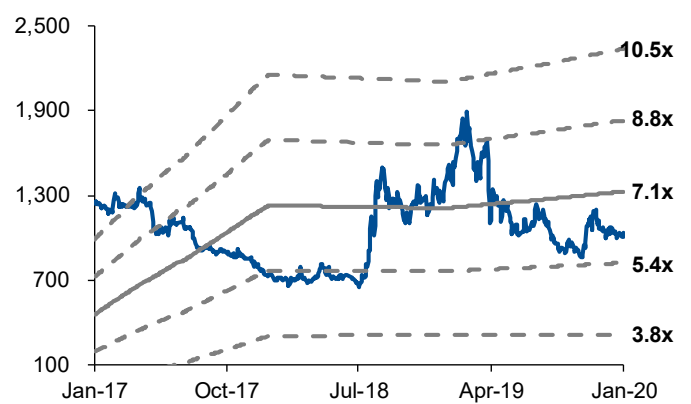
Valuation Highlights in Charts

3-Year Forward EV/EBITDA Band



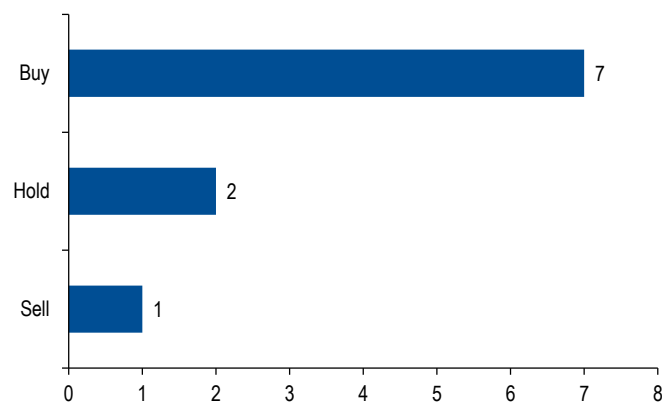
Source: Bloomberg, NHKS Research

3-Year Dynamic Forward EV/EBITDA Band



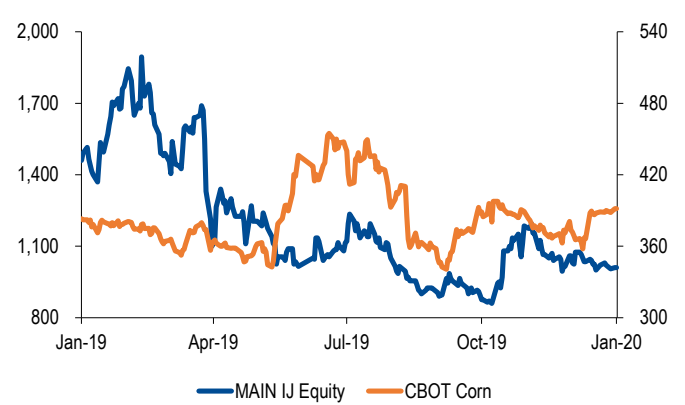
Source: Bloomberg, NHKS Research

Recommendations by Analysts



Source: Bloomberg, NHKS Research

Stock and CBOT Corn Correlated Positively



Source: Bloomberg, NHKS Research

Quarterly Review

	3Q18	4Q19	1Q19	2Q19	3Q19			4Q19E	
					Actual	Estimate	Y-Y		Q-Q
Income statement									
Sales	1,766	1,867	1,945	1,927	1,797		1.8%	-6.7%	1,884
Gross Profit	254	239	238	210	212		-16.2%	1.0%	223
EBIT	92	80	136	97	96		4.9%	-0.7%	31
EBITDA	151	137	196	157	155		2.8%	-1.1%	91
Net Profit	67	98	91	55	49		-26.6%	-9.4%	72
Margin									
Gross Margin	14.4%	12.8%	12.2%	10.9%	11.8%		-2.5%	0.9%	11.8%
EBIT Margin	5.2%	4.3%	7.0%	5.0%	5.4%		0.2%	0.3%	1.6%
EBITDA Margin	8.6%	7.3%	10.1%	8.1%	8.6%		0.1%	0.5%	4.8%
Net Profit Margin	3.8%	5.3%	4.7%	2.8%	-2.8%		-1.1%	-0.1%	3.8%

Unit: IDR bn, %

Source: Company Data, NHKS Research

Earnings Revision

		2019A	2020F	2021F
Income Statement				
Sales	-Revised	7,553	8,244	8,613
	-Previous	6,398		
	-Change	18.1%		
Gross Profit	-Revised	883	989	1,034
	-Previous	1,002		
	-Change	-11.8%		
EBIT	-Revised	360	418	436
	-Previous	486		
	-Change	-23.1%		
EBITDA	-Revised	599	676	723
	-Previous	720		
	-Change	-16.8%		
Net Profit	-Revised	268	292	302
	-Previous	226		
	-Change	34.1%		
Margin				
Gross Margin	-Revised	11.7%	12.0%	12.0%
	-Previous	15.7%		
EBIT Margin	-Revised	4.8%	5.1%	5.1%
	-Previous	7.3%		
EBITDA Margin	-Revised	7.9%	8.2%	8.4%
	-Previous	11.3%		
Net Profit Margin	-Revised	3.5%	3.5%	3.5%
	-Previous	3.5%		

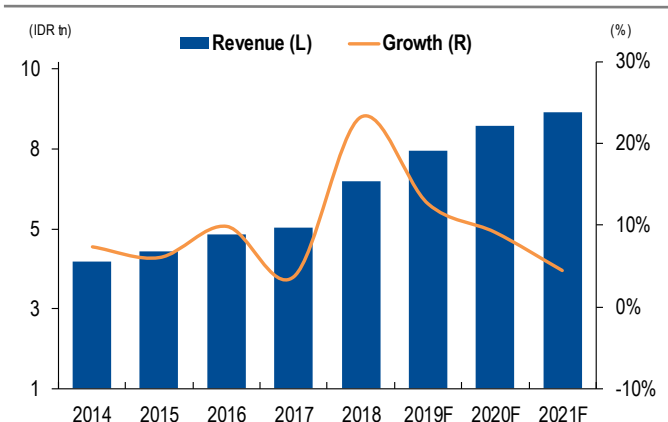
Unit: IDR bn, %

Source: Company Data, NHKS Research

Company Overview

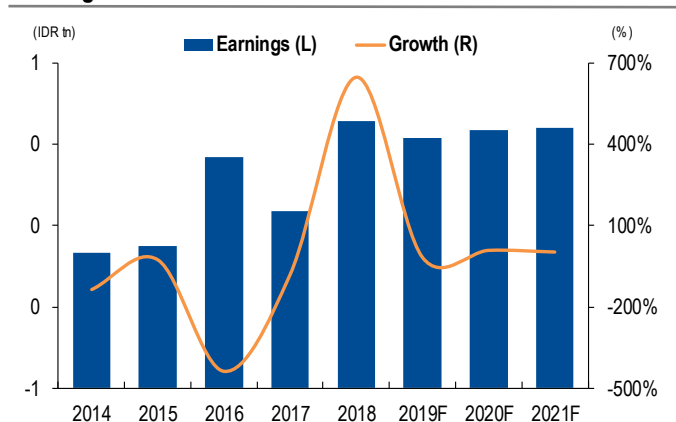
- PT Malindo Feedmill Tbk (MAIN) was established in 1997 as a subsidiary of two Malaysia-headquartered companies, namely Leong Hup Holding Berhad and Emivest Berhad.
- It produces and distributes poultry feed, particularly DOC feed and invests in subsidiaries producing and marketing DOC, Commercial DOC, and broiler chickens.
- Its stocks are listed on IDX in 2006 as the company invests in PT Bibit Indonesia and PT Prima Fajar starting in 2003 and 2007.
- Its commitment to maintaining quality products makes it one of the reputable poultry feed companies in Indonesia.

Revenue and Growth Movements



Source: Company Data, NHKS Research

Earnings and Growth Movements



Source: Company Data, NHKS Research

Asia Pacific Companies Peers Analysis

	Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Profit Margin	ROE LTM	EV/EBITDA LTM	P/BV
Indonesia									
CHAROEN POKPHAND INDONESIA TBK	7,758	1,916	4,083	255	-9.6%	6.2%	19.1%	15.6x	5.4x
JAPFA COMFEED INDONESIA TBK	1,295	1,597	2,504	107	-14.6%	4.3%	16.1%	7.3x	1.8x
MALINDO FEEDMILL TBK	163	301	526	20	11.5%	3.9%	14.6%	6.2x	1.1x
India									
GODREJ AGROVET LTD	1,401	611	837	47	43.6%	5.6%	21.5%	23.1x	6.1x
AVANTI FEEDS LTD	1,172	233	499	39	-38.7%	7.8%	24.5%	12.3x	6.9x
Malaysia									
PPB GROUP BERHAD	6,612	5,623	1,126	247	-16.4%	21.9%	4.9%	61.0x	1.3x
CAB CAKARAN CORP BERHAD	66	315	423	3	-54.8%	0.7%	2.8%	11.5x	0.6x
Philippines									
SAN MIGUEL FOOD & BEVERAGE	9,788	4,554	6,542	386	-5.4%	5.9%	23.2%	9.5x	5.4x
Thailand									
CHAROEN POKPHAND FOODS	7,922	19,429	16,907	509	-0.4%	3.0%	9.6%	11.6x	1.4x
THAIFOODS GROUP	803	703	912	42	84.6%	4.6%	14.9%	8.6x	2.3x
GFPT PUBLIC CO LTD	524	561	538	38	15.1%	7.0%	9.3%	11.9x	1.2x
China									
NEW HOPE LIUHE CO LTD	12,429	6,970	10,933	484	85.7%	4.4%	14.6%	N/A	3.5x
JIANGXI ZHENBANG TECH	5,812	3,100	3,213	30	36.5%	0.9%	3.0%	N/A	5.2x
GUANGDONG HAID GROUP	8,127	2,525	6,812	230	18.8%	3.4%	19.2%	N/A	6.4x
LIAONING WELLHOPE AGRI TECH	1,607	1,008	2,475	125	40.4%	5.1%	19.3%	N/A	2.1x
TECON BIOLOGY CO LTD	1,986	1,237	981	52	3.0%	5.3%	10.2%	N/A	3.4x

Unit: USD mn, %, X

Source: Bloomberg, NHKS Research

Summary of Financials

INCOME STATEMENT

(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Sales	6,706	7,553	8,244	8,613
<i>Growth</i>	23.2%	12.6%	9.1%	4.5%
COGS	(5,791)	(6,670)	(7,255)	(7,580)
Gross Profit	915	883	989	1,034
<i>Gross Margin</i>	13.6%	11.7%	12.0%	12.0%
Operating Expenses	(526)	(524)	(572)	(597)
EBIT	388	360	418	436
<i>EBIT Margin</i>	5.8%	4.8%	5.1%	5.1%
Depreciation	233	240	259	286
EBITDA	622	599	676	723
<i>EBITDA Margin</i>	9.3%	7.9%	8.2%	8.4%
Interest Expenses	(127)	(186)	(228)	(243)
EBT	444	339	371	382
Income Tax	(123)	(72)	(78)	(81)
Minority Interest	0	0	0	0
Net Profit	321	268	292	302
<i>Growth</i>	647.3%	-16.6%	9.2%	3.1%
<i>Net Profit Margin</i>	4.8%	3.5%	3.5%	3.5%

PROFITABILITY & STABILITY

	2018/12A	2019/12F	2020/12F	2021/12F
ROE	16.1%	12.2%	11.9%	11.1%
ROA	7.4%	5.4%	5.4%	5.2%
ROIC	7.9%	7.7%	7.7%	7.4%
Cash Dividend (IDR bn)	49	41	45	46
Dividend Yield	2.1%	1.8%	1.9%	2.0%
Payout Ratio	15.3%	15.3%	15.3%	15.2%
DER	85.3%	94.4%	90.4%	86.4%
Net Gearing	149.0%	153.2%	137.9%	125.6%
LT Debt to Equity	54.1%	36.8%	35.3%	33.7%
Capitalization Ratio	46.0%	48.6%	47.5%	46.4%
Equity Ratio	45.9%	44.6%	45.7%	46.9%
Debt Ratio	39.2%	42.1%	41.3%	40.5%
Financial Leverage	220.6%	206.7%	212.0%	208.1%
Current Ratio	163.7%	129.3%	135.0%	140.9%
Par Value (IDR)	20	20	20	20
Total Shares (mn)	2,239	2,239	2,239	2,239
Share Price (IDR)	1,030	1,030	1,030	1,030
Market Cap (IDR tn)	2.3	2.3	2.3	2.3

BALANCE SHEET

(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Cash	144	239	188	210
Receivables	347	513	725	894
Inventories	1,162	1,366	1,486	1,553
Total Current Assets	1,883	2,333	2,613	2,871
Net Fixed Assets	2,093	2,241	2,398	2,547
Other Non Current Asset	361	363	363	363
Total Assets	4,336	4,937	5,375	5,782
Payables	260	296	322	336
ST Bank Loan	621	1,269	1,354	1,429
LT Debt	1,077	812	866	914
Total Liabilities	2,344	2,734	2,921	3,071
Capital Stock & APIC	803	803	803	803
Retained Earnings	1,095	1,314	1,565	1,822
Shareholders' Equity	1,992	2,203	2,454	2,711

VALUATION INDEX

	2018/12A	2019/12F	2020/12F	2021/12F
Price/Earnings	7.2x	8.6x	7.9x	7.6x
Price/Book Value	1.2x	1.0x	0.9x	0.9x
Price/Sales	0.3x	0.3x	0.3x	0.3x
PE/EPS Growth	1.1x	-51.9x	85.3x	245.2x
EV/EBITDA	6.4x	7.1x	6.5x	6.3x
EV/EBIT	10.2x	11.8x	10.6x	10.4x
EV (IDR bn)	3,954	4,234	4,424	4,525
Sales CAGR (3-Yr)	12.0%	12.9%	14.9%	8.7%
EPS CAGR (3-Yr)	-272.2%	8.2%	89.5%	-2.1%
Basic EPS (IDR)	143	120	131	135
Diluted EPS (IDR)	143	120	131	135
BVPS (IDR)	890	984	1,096	1,211
Sales PS (IDR)	2,995	3,374	3,683	3,847
DPS (IDR)	22	18	20	20

CASH FLOW STATEMENT

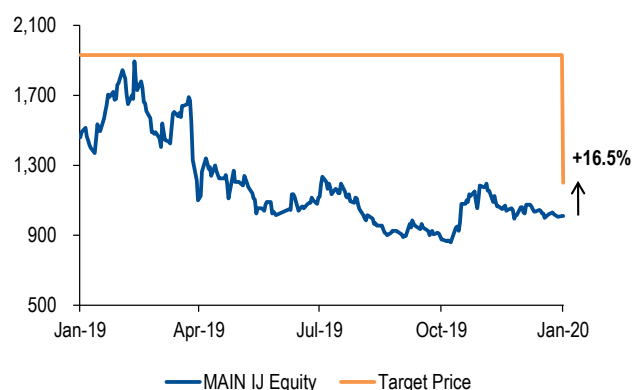
(IDR bn)	2018/12A	2019/12F	2020/12F	2021/12F
Operating Cash Flow	368	185	267	378
Investing Cash Flow	(318)	(404)	(416)	(435)
Financing Cash Flow	(15)	264	98	79
Net Changes in Cash	35	45	(51)	22

Source: Company Data, NHKS Research

TOP OWNERSHIP

By Geography	% Shareholders	%
Malaysia	95.5	Dragon Amity Ltd 57.2
United States	3.6	Dimensional Fund 2.0
Sweden	0.4	Kingdom of Sweden 0.3
Japan	0.1	RAM Systematic Fund 0.2

Closing and Target Price Update



Source: Bloomberg, NHKS Research

Rating and Target Price Update

Date	Rating	Target Price	Consensus
2017.03.02	Buy	IDR1,550	IDR1,520
2017.10.17	Buy	IDR1,100	IDR1,012
2017.12.29	Buy	IDR1,000	IDR975
2020.01.06	Buy	IDR1,200	IDR1,332

Source: NHKS Research

NHKS stock ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
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