

Charoen Pokphand Indonesia Tbk (CPIN)

High Raw Material Costs Still Weighing on Performance

In 1Q23, CPIN managed to record sales growth of 1.9% YoY to IDR 14.6 trillion (vs. 1Q22: IDR 14.3 trillion). The increase in raw material costs happened due to higher Soybean Meal (SBM) and Corn prices, by 3.5% YoY, which caused the cost of sales to increase by 10.0% YoY in 1Q23 and made gross profit contracted by 38.4% YoY to IDR 1.5 trillion. Net profit for 1Q23 also contracted by 79.8% YoY to IDR 241.0 billion (vs. 1Q22: IDR1.2 trillion), with NPM recorded at 1.7%, down from 1Q22's 8.3%, yet increasing from 4Q22's at -1.9%.

1Q23 Revenue Managed to Grow

- In 1Q23, CPIN managed to record sales growth of 1.9% YoY to IDR 14.6 trillion (vs. 1Q22: IDR 14.3 trillion). However, the Broiler segment, which was the largest sales contribution, recorded a decline of 4.8% YoY to IDR 7.6 trillion (vs. 1Q22: 8.0 trillion), followed by a 39.5% decline in the Day-Old Chick (DOC) segment to IDR 294.9 billion (vs. 1Q22: IDR 487.3 billion).
- Meanwhile, the second-largest contributor to sales, the Feed segment, managed to grow 17.7% YoY in 1Q23 to IDR 4.1 trillion (vs 1Q22: IDR 3.5 trillion), followed by the Processed Chicken segment (+4.4% YoY) to IDR 2.1 trillion (vs 1Q22: IDR 2.0 trillion), and the Other segment (+45.1% YoY) to IDR 470.9 billion (vs 1Q22: 324.5 billion).
- Geographically, sales in Bali led the growth in 1Q23 at 13.7% YoY, followed by Sulawesi and Kalimantan (+10.9% YoY), Java (+1.6% YoY), while sales in Sumatra fell 7.5% YoY.

1Q23 Profit Still Contracted

- The 3.5% YoY increase in raw material costs was due to higher Soybean Meal (SBM) and Corn prices, which caused cost of goods sold to increase 10.0% YoY in 1Q23 and contracted gross profit by 38.4% YoY to IDR 1.5 trillion. This brought GPM to 10.1% (lower than 1Q22: 16.7% higher than 4Q22: 9.1%).
- Operating profit decreased significantly by 72.6% YoY to IDR 422.2 billion due to higher selling expenses (+17.6% YoY) and general and administrative expenses (+5.5% YoY), resulting in lower OPM of 2.9% (vs. 1Q22: 10.8%). Yet, this recorded figure is a positive turnaround from 4Q22 at -1.4%. 1Q23 net profit also contracted by 79.8% YoY to IDR 241.0 billion (vs. 1Q22: IDR 1.2 trillion), with NPM recorded at 1.7%, down from 1Q22 at 8.3%, yet increased from 4Q22 at -1.9%.

Lower CapEx Allocation

- Throughout 2023, the Company will implement a strategy to improve efficiency, which is reflected in the lower capital expenditure allocation, which amounted to IDR 1.7 trillion (vs. 2022: IDR 2.7 trillion).
- This year's capital expenditure will focus on maintaining production equipment to maintain efficiency and for several ongoing projects. As for the Company's other strategy, will focus on production flexibility by adjusting to product development and demand.

Overweight Recommendation with TP at IDR5,500

- We maintain our Overweight recommendation for CPIN by lowering the target price to IDR5,500/share (P/E 22.3x), with a potential upside of 9.5%. We project revenue and net profit for 2023 to be IDR59.7 trillion and IDR3.1 trillion, respectively. However, the risks of our recommendation are rising raw material prices, consumer purchasing power, and declining product demand.

Charoen Pokphand Indonesia Tbk | Summary (IDR Bn)

| | 2022 | 2023F | 2024F | 2025F |
|----------------|--------|--------|--------|--------|
| Revenue | 56,868 | 59,656 | 63,531 | 67,264 |
| Growth | 10.0% | 4.9% | 6.5% | 5.9% |
| Net Profit | 2,928 | 3,143 | 4,058 | 5,127 |
| Growth | -19.1% | 7.3% | 29.1% | 26.3% |
| EPS (IDR) | 179 | 192 | 247 | 313 |
| P/E | 31.6x | 28.7x | 22.2x | 17.6x |
| P/BV | 3.5x | 3.1x | 2.6x | 2.3x |
| EV/EBITDA | 18.6x | 17.8x | 14.6x | 12.3x |
| ROE | 11.4% | 11.3% | 12.5% | 13.9% |
| DER | 35.5% | 37.3% | 29.0% | 30.3% |
| Dividend Yield | 1.9% | 1.6% | 1.6% | 1.6% |

Source: Company Data, Bloomberg, NHKSI Research
Please consider the rating criteria & important disclaimer

Overweight

| | |
|-----------------------|--------------|
| Target Price | 5,500 |
| Consensus Price (IDR) | 5,572 |
| TP to Consensus Price | -1.3% |
| Potential Upside | +9.5% |

Shares data

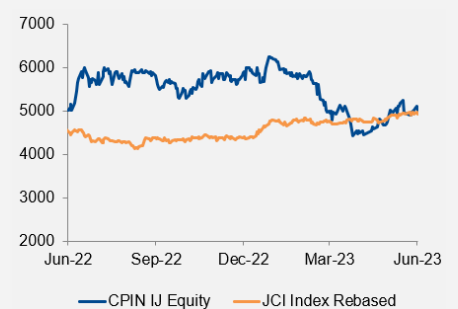
| | |
|------------------------|---------------|
| Last Price (IDR) | 5,025 |
| Price date as of | Jun 13, 2023 |
| 52 wk range (Hi/Lo) | 6,275 / 4,330 |
| Free float (%) | 44.5 |
| Outstanding sh.(mn) | 16,398 |
| Market Cap (IDR bn) | 82,400 |
| Market Cap (USD mn) | 5,541 |
| Avg. Trd Vol - 3M (mn) | 10.5 |
| Avg. Trd Val - 3M (bn) | 51.0 |
| Foreign Ownership (%) | 9.7 |

Consumer Non-Cyclicals

Food and Beverages

| | |
|-----------|----------------|
| Bloomberg | CPIN.IJ |
| Reuters | CPIN.JK |

Share Price Performance



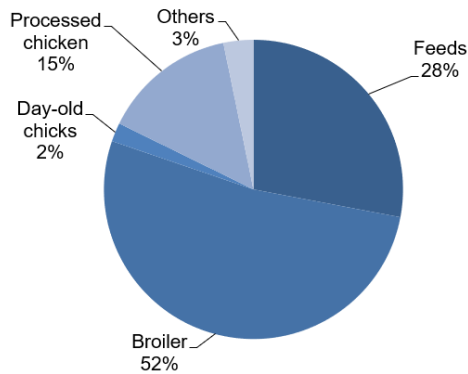
| | YTD | 1M | 3M | 12M |
|----------|--------|-------|------|------|
| Abs. Ret | -11.5% | 0.0% | 0.7% | 0.0% |
| Rel. Ret | -9.5% | -0.1% | 1.7% | 4.0% |

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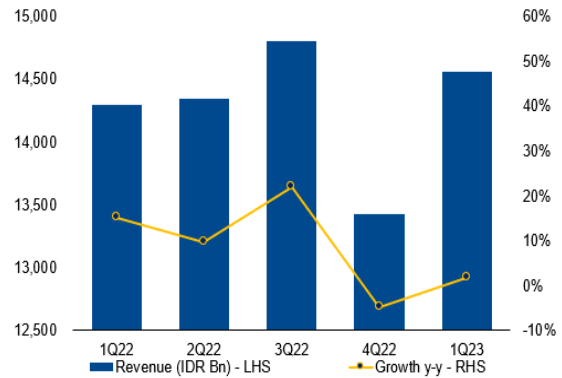
Performance Highlights

CPIN Revenue Breakdown 1Q23



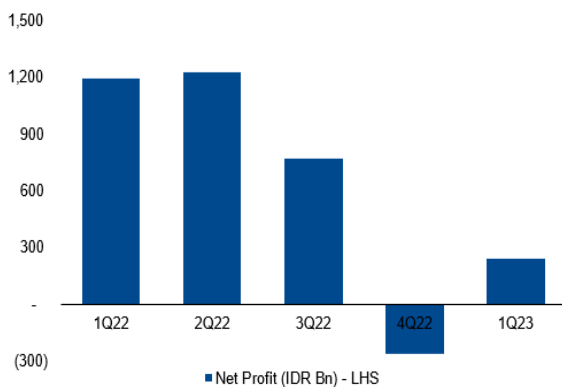
Source: Bloomberg, NHKSI Research

CPIN Net Revenue (1Q22 - 1Q23)



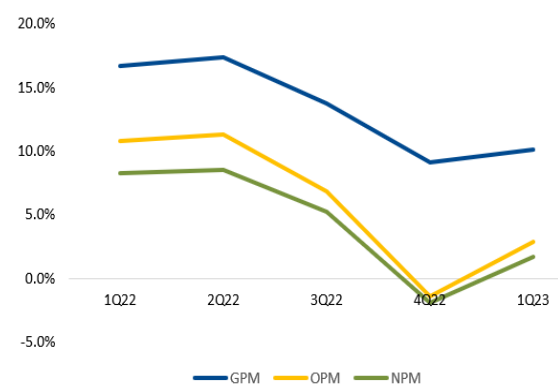
Source: Bloomberg, NHKSI Research

CPIN Net Profit (1Q22 - 1Q23)



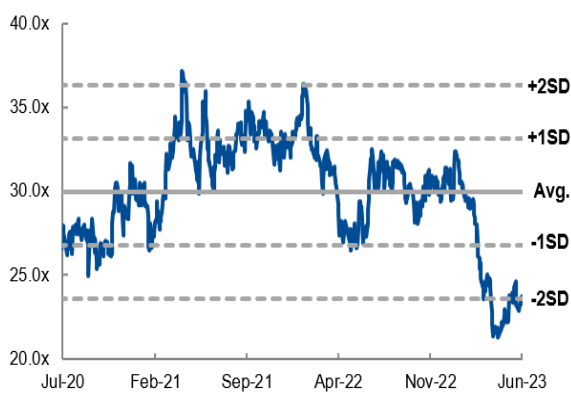
Source: Company Data, NHKSI Research

Margin Ratios (1Q22 - 1Q23)



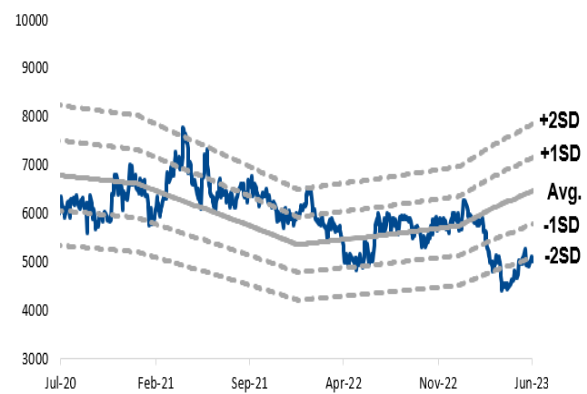
Source: Bloomberg, NHKSI Research

3-Year Forward P/E Band



Source: Company Data, NHKSI Research

3-Year Dynamic Forward P/E Band



Source: Company Data, NHKSI Research

Summary of Financials

INCOME STATEMENT

| (IDR bn) | 2022/12A | 2023/12E | 2024/12E | 2025/12E |
|--------------------------|---------------|---------------|---------------|---------------|
| Sales | 56,868 | 59,656 | 63,531 | 67,264 |
| <i>Growth</i> | 10.0% | 4.9% | 6.5% | 5.9% |
| COGS | (48,724) | (50,809) | (53,356) | (55,563) |
| Gross Profit | 8,144 | 8,847 | 10,174 | 11,700 |
| <i>Gross Margin</i> | 14.3% | 14.8% | 16.0% | 17.4% |
| Operating Expenses | (4,160) | (4,677) | (5,082) | (5,381) |
| EBIT | 3,984 | 4,170 | 5,092 | 6,319 |
| <i>EBIT Margin</i> | 7.0% | 7.0% | 8.0% | 9.4% |
| Depreciation | 1,395 | 1,326 | 1,361 | 1,361 |
| EBITDA | 5,380 | 5,496 | 6,452 | 7,680 |
| <i>EBITDA Margin</i> | 9.5% | 9.2% | 10.2% | 11.4% |
| Interest Expenses | (367) | (493) | (365) | (366) |
| EBT | 3,537 | 3,584 | 4,628 | 5,848 |
| Income Tax | (607) | (442) | (571) | (722) |
| Minority Interest | (2) | 1 | 1 | 1 |
| Net Profit | 2,928 | 3,143 | 4,058 | 5,127 |
| <i>Growth</i> | -19.1% | 7.3% | 29.1% | 26.3% |
| <i>Net Profit Margin</i> | 5.1% | 5.3% | 6.4% | 7.6% |

PROFITABILITY & STABILITY

| | 2022/12A | 2023/12E | 2024/12E | 2025/12E |
|------------------------|----------|----------|----------|----------|
| ROE | 11.4% | 11.3% | 12.5% | 13.9% |
| ROA | 7.8% | 7.4% | 8.5% | 9.7% |
| ROIC | 10.5% | 10.2% | 11.0% | 12.2% |
| Cash Dividend (IDR bn) | 1,771 | 1,417 | 1,445 | 1,474 |
| Dividend Yield | 1.9% | 1.6% | 1.6% | 1.6% |
| Payout Ratio | 48.9% | 48.4% | 46.0% | 36.3% |
| DER | 35.5% | 37.3% | 29.0% | 30.3% |
| Net Gearing | 35.5% | 37.3% | 29.0% | 30.3% |
| LT Debt to Equity | 9.9% | 9.8% | 8.1% | 8.5% |
| Capitalization Ratio | 26.2% | 27.2% | 22.5% | 23.3% |
| Equity Ratio | 66.1% | 64.9% | 70.1% | 69.7% |
| Debt Ratio | 23.4% | 24.3% | 20.3% | 21.1% |
| Current Ratio | 178.4% | 183.7% | 230.6% | 235.9% |
| Par Value (IDR) | 10 | 10 | 10 | 10 |
| Total Shares (mn) | 16,398 | 16,398 | 16,398 | 16,398 |
| Share Price (IDR) | 5,650 | 5,500 | 5,500 | 5,500 |
| Market Cap (IDR tn) | 92.6 | 90.2 | 90.2 | 90.2 |

BALANCE SHEET

| (IDR bn) | 2022/12A | 2023/12E | 2024/12E | 2025/12E |
|-----------------------------|---------------|---------------|---------------|---------------|
| Cash | 2,042 | 3,579 | 6,422 | 7,725 |
| Receivables | 1,820 | 2,157 | 5,326 | 5,639 |
| Inventories | 13,263 | 15,871 | 13,697 | 15,875 |
| Total Current Assets | 18,031 | 22,438 | 26,251 | 30,087 |
| Net Fixed Assets | 18,277 | 19,184 | 20,692 | 22,018 |
| Other Non Current Assets | 3,539 | 3,695 | 3,349 | 3,528 |
| Total Assets | 39,848 | 45,316 | 50,292 | 55,633 |
| Payables | 1,497 | 2,404 | 1,978 | 2,100 |
| ST Bank Loan | 6,732 | 8,116 | 7,364 | 8,477 |
| LT Debt | 2,611 | 2,874 | 2,856 | 3,288 |
| Total Liabilities | 13,520 | 15,886 | 15,046 | 16,847 |
| Capital Stock & APIC | 121 | 121 | 121 | 121 |
| Retained Earnings | 26,172 | 29,275 | 35,092 | 38,635 |
| Shareholders' Equity | 26,327 | 29,431 | 35,246 | 38,787 |

VALUATION INDEX

| | 2022/12A | 2023/12E | 2024/12E | 2025/12E |
|-------------------|----------|----------|----------|----------|
| Price /Earnings | 31.6x | 28.7x | 22.2x | 17.6x |
| Price /Book Value | 3.5x | 3.1x | 2.6x | 2.3x |
| Price/Sales | 1.6x | 1.5x | 1.4x | 1.3x |
| PE/EPS Growth | -1.7x | 3.9x | 0.8x | 0.7x |
| EV/EBITDA | 18.6x | 17.8x | 14.6x | 12.3x |
| EV/EBIT | 25.1x | 23.4x | 18.5x | 14.9x |
| EV (IDR bn) | 99,985 | 97,635 | 94,020 | 94,260 |
| Sales CAGR (3-Yr) | 10.2% | 12.0% | 7.1% | 5.8% |
| EPS CAGR (3-Yr) | -7.0% | -6.3% | 3.9% | 20.5% |
| Basic EPS (IDR) | 179 | 192 | 247 | 313 |
| Diluted EPS (IDR) | 179 | 192 | 247 | 313 |
| BVPS (IDR) | 1,606 | 1,795 | 2,149 | 2,365 |
| Sales PS (IDR) | 3,468 | 3,638 | 3,874 | 4,102 |
| DPS (IDR) | 108 | 86 | 88 | 90 |

CASH FLOW STATEMENT

| (IDR bn) | 2022/12A | 2023/12E | 2024/12E | 2025/12E |
|----------------------------|-------------|--------------|--------------|--------------|
| Operating Cash Flow | 1,674 | 2,105 | 4,371 | 4,215 |
| Investing Cash Flow | (2,613) | (2,168) | (2,498) | (2,981) |
| Financing Cash Flow | 928 | 1,627 | 970 | 69 |
| Net Changes in Cash | (11) | 1,563 | 2,843 | 1,303 |

OWNERSHIP

| By Geography | % Shareholders | % |
|---------------|----------------|-------------------------|
| Indonesia | 90.3 | CP Indonesia Group 55.5 |
| United States | 6.5 | Vanguard Group 1.7 |
| Ireland | 0.9 | Blackrock 1.3 |
| Japan | 0.5 | FlexShares Trust 0.5 |

Source: Bloomberg, NHKSI Research

NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings

1. Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
2. Rating system based on a stock's potential upside from the date of publication
 - Buy : Greater than +15%
 - Overweight : +5% to +15%
 - Hold : -5% to +5%
 - Underweight : -5% to -15%
 - Sell : Less than -15%

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