

Singapore

ADD (no change)

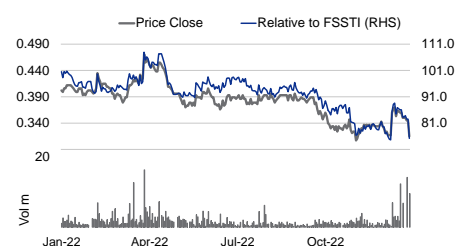
Consensus ratings*: Buy 1 Hold 2 Sell 0

Current price:	S\$0.315
Target price:	S\$0.42
Previous target:	S\$0.65
Up/downside:	33.3%
CGS-CIMB / Consensus:	5.2%
Reuters:	JAPF.SI
Bloomberg:	JAP SP
Market cap:	US\$480.0m
	S\$642.5m
Average daily turnover:	US\$0.46m
	S\$0.63m
Current shares o/s:	2,041m
Free float:	19.0%

*Source: Bloomberg

Key changes in this note

- Reduce FY23-24F EPS by 44.4%-49.0% post-removing AAG contribution to JAP.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-6.5	-11.8	-21.7
Relative (%)	-6.1	-16.3	-25.3

Major shareholders	% held
Rangi Management Ltd	51.8
Morze International Ltd	15.2
Tasburgh Ltd	5.2

Analyst(s)



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Japfa Ltd

Post-AAG listing update

- JAP's subsidiary AustAsia Group (AAG, 2425.HK, Non-rated) was listed on the Hong Kong Exchange (HKEX) on 30 Dec 2022 at HK\$6.40 per share.
- Eligible JAP shareholders will be entitled to a dividend-in-specie (DIS) of 200 AAG shares for every 1,000 JAP shares owned (c.S\$0.23/share in value).
- Reiterate Add, with a lower TP of S\$0.42, pegged at 8x FY24F P/E (historical mean), after removing value of AAG's DIS from JAP from FY23F.

Change in default election option for AAG shares

With the listing of AAG, eligible Japfa (JAP) shareholders would be required to elect for one of four options regarding their entitled AAG shares (Fig 1). Shareholders should take note that the default standing instruction has been changed from Option 3 (receive a physical AAG share certificate) previously to Option 4 (disposal of AAG shares by JAP's appointed broker and receive the net proceeds from the sale afterwards). Investors who wish to retain AAG shares should ensure that they mark the selected option in their Election and Sale Election Form and submit it to the company by 5pm on 19 Jan 2023.

Considerations for various election options

We think that poor market sentiments have led to a less-than-ideal IPO valuation of HK\$4.48bn for AAG despite its growing milking capacity, compared to the price tag of c.HK\$9.12bn in 2021 when AAG onboarded new strategic shareholders, i.e. New Hope (002946 SZ, non-rated), Genki Forest (not listed) and Honest Dairy (not listed). Given the growth prospects of China's dairy industry, we believe that opting for Options 1, 2 or 3 may allow shareholders to benefit over the longer term. However, the default option (Option 4) is convenient for shareholders entitled to less than the lot size of 1,000 AAG shares to dispose of odd lots, or for investors who do not wish to have exposure to AAG's business. Nevertheless, investors should also consider that it may take till 19 Apr 2023 (i.e. 90 days after the end of the Election Period) to receive sales proceeds from the disposal of AAG shares by JAP on behalf of investors, whereas those who choose Option 1 or 2 could have their AAG shares credited to a Hong Kong brokerage or nominee/counterpart by 30 Jan 2023, based on the indicative timelines provided by JAP (Fig 2).

Reiterate Add; discounted valuations due to APO's ongoing losses

We reduce our TP to S\$0.42, based on 8x FY24F P/E on JAP's remaining animal protein businesses after removing its stake in AAG from FY23F. JAP's current share price of S\$0.315 (3 Jan 2023) implies a 16% discount to its c.55% stake in Japfa Comfeed (JPFA, Add, TP: Rp2,180; CP: Rp1,360), while disregarding the value behind its Animal Protein Other (APO) business (Fig 3), although we understand that persistent losses in its APO business due to the persistent recurrence of African Swine Fever (ASF) have weighed on JAP's valuations. As a result, we expect the unpredictability of ASF to drag on JAP's consolidated earnings. Re-rating catalysts: subsiding of ASF and easing cost pressures; downside risks: weaker ASPs resulting in margin compression.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (US\$m)	3,868	4,636	4,589	4,041	4,115
Operating EBITDA (US\$m)	507.7	492.0	444.7	419.2	455.1
Net Profit (US\$m)	322.0	118.8	76.6	61.7	78.8
Core EPS (US\$)	0.096	0.065	0.038	0.030	0.039
Core EPS Growth	48.6%	(32.5%)	(42.3%)	(19.4%)	27.6%
FD Core P/E (x)	2.35	3.63	6.27	7.78	6.10
DPS (US\$)	0.11	0.02	0.02	0.02	0.02
Dividend Yield	46.7%	6.4%	6.4%	6.4%	8.5%
EV/EBITDA (x)	3.54	4.45	5.39	5.95	5.41
P/FCFE (x)	NA	NA	NA	NA	5.28
Net Gearing	39.6%	46.0%	49.1%	48.6%	42.3%
P/BV (x)	0.34	0.34	0.32	0.32	0.30
ROE	17.0%	9.3%	5.3%	4.1%	5.1%
% Change In Core EPS Estimates			0.0%	(49.0%)	(44.4%)
CGS-CIMB/Consensus EPS (x)			0.99	0.62	0.70

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Post-AAG listing update

Figure 1: Change in default election option from Option 3 to Option 4

- Upon approval of the Proposed Distribution, Entitled Shareholders (other than Overseas Shareholders) are entitled to select from the options below.
- Further detailed information will be outlined in the Election Form to be despatched to Entitled Shareholders on the earliest practicable date for such despatch after the Proposed Listing.



- The HK Share Certificate will be posted to the Entitled Shareholder's address that appears on the Register of Members or as per CDP's records (as the case may be) as at the Record Date or the specified address in the Election Form (if applicable) by ordinary mail and at the Entitled Shareholder's own risk. Entitled Shareholders who choose Option 3 should take note that in the event that such Entitled Shareholders wish to trade in AAG Shares on the SEHK after the Proposed Listing, they will need to deliver the HK Share Certificate and the duly executed transfer form to their brokers in Hong Kong for deposit into CCASS.
- The disposal is expected to complete within a two (2)-month period commencing from the date the Appointed Broker receives the AAG Shares for disposal. The Company may, in its absolute discretion, decide to extend the sale period having regard to the prevailing market conditions and any other relevant factors which the Company may consider appropriate. Following the disposal of the AAG Shares, such Entitled Shareholders who have opted for the Sale Election and Overseas Shareholders will receive a cash amount equal to the net proceeds of the sale of AAG Shares in respect of the respective number of AAG Shares which each such Entitled Shareholder and Overseas Shareholder has elected or has deemed to have elected to be disposed of under the Sale Election. The aggregate proceeds from the sale of AAG Shares under the Sale Election, net of all dealing and other expenses in connection therewith, will be paid to the relevant Entitled Shareholders and Overseas Shareholders in Singapore dollars (or in other currencies) in proportion to their AAG Shares that are sold pursuant to the Sale Election. Such net proceeds will be distributed as soon as reasonably practicable, and is expected to be within three (3) months following the end of the Election Period. However, where the net proceeds to which any particular Entitled Shareholder or Overseas Shareholder is entitled is less than S\$10.00, such net proceeds shall be retained for the benefit of the Company, and no Entitled Shareholder or Overseas Shareholder shall have any claim whatsoever against the Company, AAG, DBS Bank, CDP or the Appointed Broker (where applicable) in connection therewith.
- Shareholders whose registered addresses appearing in the Register of Members of the Company or the depository register maintained by CDP (as the case may be) are outside Singapore as at the Record Date, and who have not at least three (3) Market Days prior to the Record Date, provided the Share Registrar or CDP (as the case may be) with addresses in Singapore for the service of notices and documents.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Indicative timeline for sequence of events

Events	Indicative date
Expected <u>date of despatch</u> of (1) the Election and Sale Election Notice, (2) The Election and Sale Election Form and (3) the Shareholders' Guide	Thursday, 5 January 2023
Expected deadline for JAP to <u>receive</u> the Election and Sale Election Form	By 5p.m. on Thursday, 19 January 2023
Expected date of crediting of relevant AAG shares to the HK Brokerage or the Non-HK Brokerage's HK Nominee/Counterpart (for Options 1 and 2)	Monday, 30 January 2023
Expected date of despatch of HK Share Certificates to Entitled Shareholders (for Option 3)	On or after Tuesday, 21 February 2023
Expected date to receive cash amount equal to net proceeds of the sale (for Entitled Shareholders who have opted for the Sale Election and Overseas Shareholders) (for Option 4)	On or before Wednesday, 19 April 2023

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: JAP's stake in JPFA exceeds current valuations

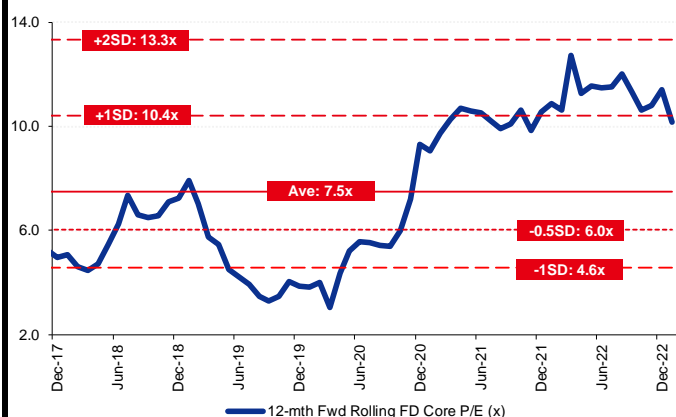
	Unit	Value
JPFA share price	Rp	1,360.0
Shares outstanding	million	11,726.6
JPFA market capitalisation	Rp tr	15.9
JAP stake in JPFA	%	55.43
Value of JAP stake in JPFA	Rp tr	8.8
@ 1 SGD:11,600 Rp	S\$m	762.1
Value of JAP stake in JPFA/share	S\$	0.375
Current JAP share price	S\$	0.315
Discount	%	16.0

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

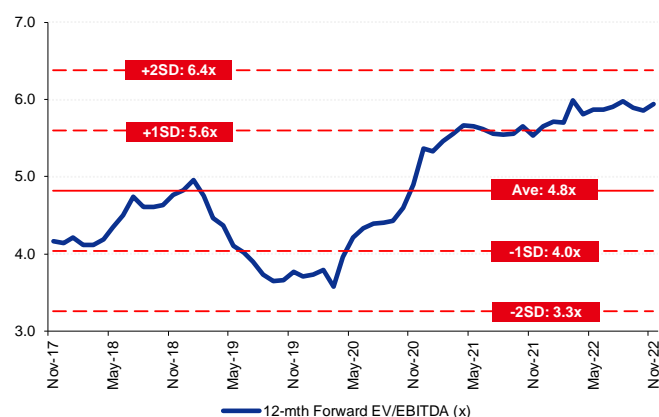
Figure 4: Forecast revisions

FYE Dec (US\$m)	New			Old			% Change		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Revenue	4,589.4	4,041.3	4,115.4	4,589.4	4,693.1	4,799.8	0.0%	-13.9%	-14.3%
Gross profit	780.7	682.4	711.0	780.7	873.0	911.1	0.0%	-21.8%	-22.0%
Operating costs	(470.1)	(414.0)	(421.5)	(470.1)	(480.7)	(491.6)	0.0%	-13.9%	-14.3%
EBIT	310.6	268.4	289.5	310.6	392.3	419.5	0.0%	-31.6%	-31.0%
Core net profit	76.6	61.7	78.8	76.6	121.0	141.8	0.0%	-49.0%	-44.4%
Core EPS (US cents)	3.75	3.02	3.86	3.75	5.93	6.95	0.0%	-49.0%	-44.4%
Group revenue	4,589.4	4,041.3	4,115.4	4,589.4	4,693.1	4,799.8	0.0%	-13.9%	-14.3%
PT Japfa Comfeed	3,179.8	3,236.8	3,295.0	3,179.8	3,236.8	3,295.0	0.0%	0.0%	0.0%
Animal Protein - Other	778.9	794.5	810.4	778.9	794.5	810.4	0.0%	0.0%	0.0%
Dairy	620.8	0.0	0.0	620.8	651.8	684.4	0.0%	-100.0%	-100.0%
Group EBIT	310.6	268.4	289.5	310.6	392.3	419.5	0.0%	-31.6%	-31.0%
PT Japfa Comfeed	190.8	242.8	247.1	190.8	242.8	247.1	0.0%	0.0%	0.0%
Animal Protein - Other	0.0	23.8	40.5	0.0	23.8	40.5	0.0%	0.0%	0.0%
Dairy	117.9	0.0	0.0	117.9	123.8	130.0	0.0%	-100.0%	-100.0%
Group EBIT margin (%)	6.8%	6.6%	7.0%	6.8%	8.4%	8.7%	0.0% pts	-1.7% pts	-1.7% pts
PT Japfa Comfeed	6.0%	7.5%	7.5%	6.0%	7.5%	7.5%	0.0% pts	0.0% pts	0.0% pts
Animal Protein - Other	0.0%	3.0%	5.0%	0.0%	3.0%	5.0%	0.0% pts	0.0% pts	0.0% pts
Dairy	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	0.0% pts	0.0% pts	0.0% pts

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 5: Japfa Ltd's 12-mth fwd rolling FD core P/E (x)


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 6: Japfa Ltd's 12-mth fwd rolling EV/EBITDA (x)


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

ESG in a nutshell



Refinitiv ESG Scores

C+	A+	C+	B+	C	C
ESG Score	ESG Controversies Score	ESG Combined Score	ESG Environment Pillar Score	ESG Social Pillar Score	ESG Government Pillar Score

JAP received a C+ from Refinitiv as its combined ESG score in 2020, with a B+/C/C for its E/S/G scoring. We believe that, as a commercial farmer, Jap's Environmental pillar (28.7%) should carry more weight in its overall ESG score, which is currently skewed towards the Social pillar (45.1%). We believe JAP will continue to play an important role in ensuring food security, especially in Indonesia, where it is the number two player in the country's commercial poultry farming industry. Refinitiv has yet to update JAP's ESG scores based on JAP's Sustainability Report 2021.

Keep your eye on

Ethical and responsible farming methodologies that could impact JAP's resource and waste management. JAP is looking at waste management, water use and appropriate care for its livestock as its ESG focus.

Implications

Currently, we do not measure the impact of farming methodologies. However, we believe ethical and responsible farming methodologies could manifest in the form of yield management and improve efficiency across JAP's various business segments.

ESG highlights

In 2020, JAP completed the Life Cycle Assessment (LCA) of its Indonesian poultry operations that was initiated in 2019, aimed at measuring the potential environmental impact of all the stages of its supply chain. This put JAP one step closer to obtaining an ecolabel or environmental product declaration (EPD), which will provide traceability of its sources and quality assurance to its commercial customers and consumers.

Implications

We have not ascribed any premium to JAP's valuation that could arise from investor recognition of its ESG efforts.

Trends

While JAP only received its first Refinitiv ESG rating in 2019, its Environmental score improved from B to B+ and its Social score improved from C- to C in 2020; however, there was a decline in Governmental score from B to C during the same period. The company had started its sustainability reporting in 2017 and embarked on an LCA on its Indonesian poultry operation as that is the largest contributor to its business, which we think could improve its score moving forward.

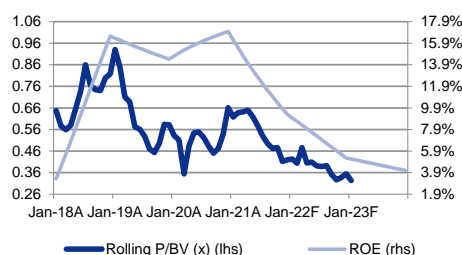
Implications

We have not reflected any ESG premium/discount in our valuation, but consistent disclosures with improving ESG metrics could warrant a valuation premium.

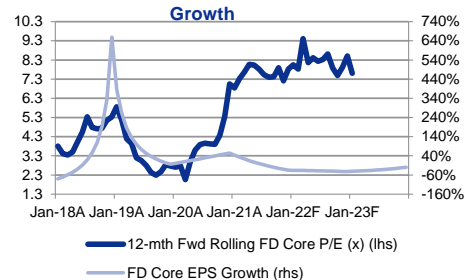
SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(US\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	3,868	4,636	4,589	4,041	4,115
Gross Profit	858	807	781	682	711
Operating EBITDA	508	492	445	419	455
Depreciation And Amortisation	(144)	(160)	(134)	(151)	(166)
Operating EBIT	364	332	311	268	289
Financial Income/(Expense)	(99)	(93)	(108)	(87)	(85)
Pretax Income/(Loss) from Assoc.	0	1	0	0	0
Non-Operating Income/(Expense)	158	27	0	0	0
Profit Before Tax (pre-EI)	422	267	202	182	205
Exceptional Items					
Pre-tax Profit	422	267	202	182	205
Taxation	(51)	(54)	(48)	(58)	(62)
Exceptional Income - post-tax					
Profit After Tax	372	213	154	124	143
Minority Interests	(50)	(94)	(77)	(62)	(64)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	322	119	77	62	79
Recurring Net Profit	195	133	77	62	79
Fully Diluted Recurring Net Profit	195	133	77	62	79

Cash Flow

(US\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	507.7	492.0	444.7	419.2	455.1
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(29.5)	(90.1)	(96.7)	9.7	111.6
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	36.6	48.8	108.3	86.8	84.8
Net Interest (Paid)/Received	(106.0)	(96.7)	(108.3)	(86.8)	(84.8)
Tax Paid	(25.8)	(65.2)	(48.2)	(57.9)	(62.0)
Cashflow From Operations	383.1	288.8	299.8	371.0	504.7
Capex	(211.6)	(297.7)	(300.0)	(300.0)	(300.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	0.0	(115.5)	0.0	0.0	0.0
Other Investing Cashflow	195.5	155.0	0.0	0.0	0.0
Cash Flow From Investing	(16.1)	(258.2)	(300.0)	(300.0)	(300.0)
Debt Raised/(repaid)	(402.6)	(94.0)	(138.3)	(116.8)	(113.8)
Proceeds From Issue Of Shares	66.7	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(14.9)	(182.1)	(21.9)	(21.9)	(21.9)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(350.8)	(276.1)	(160.2)	(138.7)	(135.6)
Total Cash Generated	16.3	(245.5)	(160.4)	(67.7)	69.1
Free Cashflow To Equity	(35.6)	(63.4)	(138.5)	(45.8)	91.0
Free Cashflow To Firm	473.0	127.3	108.2	157.8	289.5

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(US\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	225	321	160	92	162
Total Debtors	431	232	503	443	451
Inventories	788	1,121	997	994	879
Total Other Current Assets	161	183	183	183	183
Total Current Assets	1,604	1,856	1,843	1,712	1,675
Fixed Assets	1,205	1,342	1,507	1,657	1,791
Total Investments	39	60	60	60	60
Intangible Assets	418	512	512	512	512
Total Other Non-Current Assets	401	532	532	532	532
Total Non-current Assets	2,063	2,446	2,612	2,761	2,895
Short-term Debt	432	574	574	574	574
Current Portion of Long-Term Debt					
Total Creditors	358	403	453	400	405
Other Current Liabilities	42	42	42	42	42
Total Current Liabilities	833	1,019	1,069	1,016	1,021
Total Long-term Debt	569	735	705	675	646
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	274	379	379	379	379
Total Non-current Liabilities	843	1,114	1,084	1,054	1,025
Total Provisions	30	23	23	23	23
Total Liabilities	1,706	2,156	2,176	2,093	2,069
Shareholders' Equity	1,420	1,427	1,482	1,522	1,578
Minority Interests	542	719	797	859	923
Total Equity	1,962	2,146	2,279	2,380	2,501

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(0.6%)	19.9%	(1.0%)	(11.9%)	1.8%
Operating EBITDA Growth	10.7%	(3.1%)	(9.6%)	(5.7%)	8.6%
Operating EBITDA Margin	13.1%	10.6%	9.7%	10.4%	11.1%
Net Cash Per Share (US\$)	(0.38)	(0.48)	(0.55)	(0.57)	(0.52)
BVPS (US\$)	0.69	0.70	0.73	0.75	0.77
Gross Interest Cover	3.43	3.43	2.87	3.09	3.41
Effective Tax Rate	12.0%	20.3%	23.8%	31.9%	30.3%
Net Dividend Payout Ratio	50.0%	18.4%	28.6%	35.4%	37.0%
Accounts Receivables Days	31.06	26.08	29.22	42.71	39.75
Inventory Days	96.2	91.0	101.5	108.1	100.7
Accounts Payables Days	45.48	36.29	41.04	46.37	43.28
ROIC (%)	10.2%	8.3%	6.7%	5.4%	5.6%
ROCE (%)	13.0%	10.4%	8.8%	7.4%	7.8%
Return On Average Assets	12.8%	7.1%	5.4%	4.2%	4.6%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
ASP (% chg, main prod./serv.)	3.5%	2.0%	2.0%	2.0%	2.0%
Unit sales grth (% , main prod./serv.)	-9.8%	9.7%	2.0%	2.0%	2.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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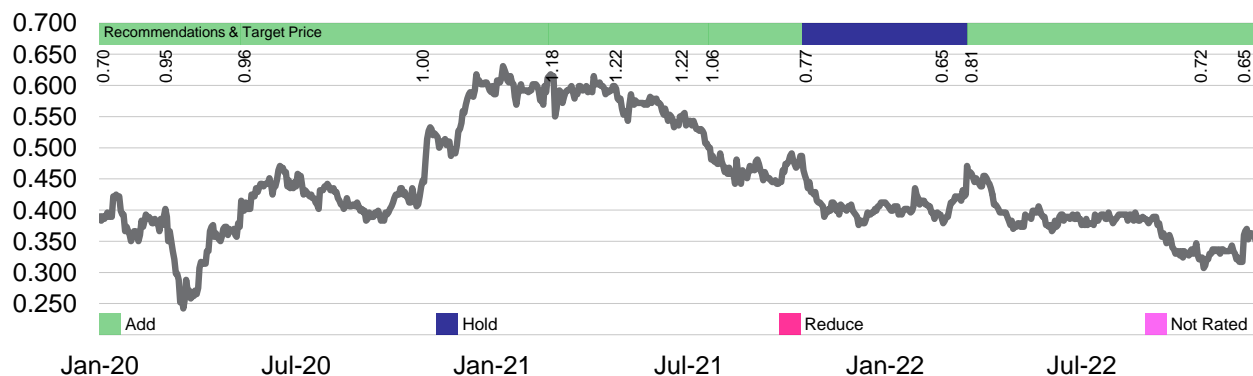
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2022		
646 companies under coverage for quarter ended on 30 September 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.6%
Hold	25.2%	0.2%
Reduce	8.0%	0.2%

Spitzer Chart for stock being researched (2 year data)

Japfa Ltd (JAP SP)

— Price Close



Recommendation Framework

Stock Ratings

Definition:

Add

The stock's total return is expected to exceed 10% over the next 12 months.

Hold

The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Reduce

The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight

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Neutral

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Underweight

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Neutral

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Underweight

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