

## JPFA: Few Short Term Challenges

JPFA reported Rp323bn net profit during 1H11, increased 22% YoY. This net profit excludes Rp331bn gain from the sale of PT So Good Food (SGF) to JPFA's related parties which classified as comprehensive income. Revenue increased 16.9% YoY and 6.4% QoQ. The increased mainly came from the consolidation of newly acquired commercial farm company in the beginning of 2Q11, namely PT Primatama Karya Persada (PKP). Taking into account PKP's revenue, commercial farm division recorded 388.3% revenue increased in QoQ basis. However, the division still posted Rp5.6bn carry forward loss from 1Q11.

### Animal Feeds: Margin Expand on Increasing Product Price

Animal feeds' revenue down 19% on QoQ basis as the business seasonality, however gross profit rose 8.9% QoQ from 10% price increased. 2Q11 GPM rose 580bps QoQ to 23.1%. Since the utilization rate of this division has reached 80%, JPFA plan a continuous expansion for the animal feeds division going forward. At the end of FY11, JPFA will add 200,000 tons new capacity from 2.69mn tons current capacity.

### DOC: Devastated Performance on 2Q11

MBAI, JPFA' subsidiary which engaged in DOC business became the negative catalyst on company's 1H11 performances. MBAI posted Rp74bn losses in 2Q11 compare to Rp86bn net profit in during 1Q11. JPFA's management has not given any comment on this disappointing performance.

### Cattle: Face Political Challenges

Cattle division top line still show another decline in 1H11, revenue fell 11.4% YoY and 2.4% QoQ. 2Q11 GPM is at 4.5% compare to 16.7% in 1Q11. We expect margin will rebound in 3Q11 along with increase in live cattle prices. However there were some short term challenges for the division; production process has delayed 1 month in early 3Q11 since the export ban on cattle by the governments of Australia to Indonesia and higher import quota of beef by Indonesian government which may lower beef's price.

JPFA						
QoQ (Rpbn)	2Q11	1Q11	QoQg (%)	Qtr Margin (%)	2Q11	1Q11
Revenue	4,030	3,788	6.4			
Gross Profit	554	769	(27.9)	GPM	13.7	20.3
Operating Profit	167	371	(54.8)	OPM	4.2	9.8
Net Profit	60	263	(77.2)	NPM	1.5	6.9
YTD YoY	1H11	1H10	YoYg (%)	YTD Margin (%)	1H11	1H10
Revenue	7,818	6,690	16.9			
Gross Profit	1,322	1,270	4.2	GPM	16.9	19.0
Operating Profit	538	506	6.3	OPM	6.9	7.6
Net Profit	323	265	22.0	NPM	4.1	4.0
Bloomberg Est			Realization (%)	Margin (%)		
Revenue	15,834		49.4			
Operating Profit	1,736		31.0	OPM	11.0	
Net Profit	967		33.4	NPM	6.1	

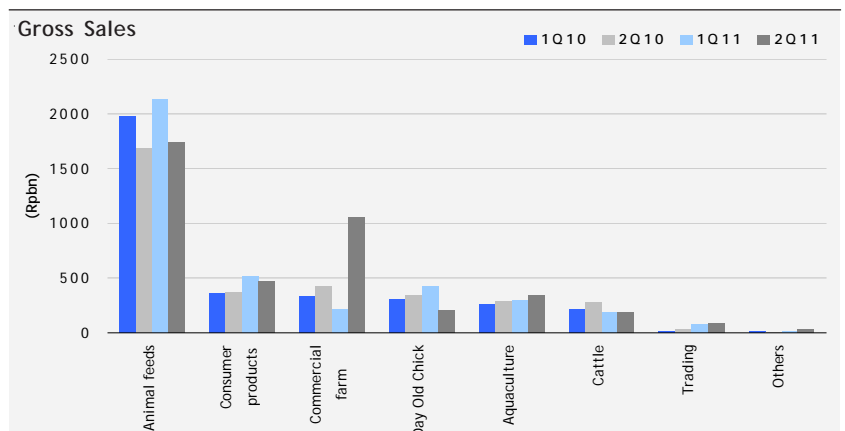
Source: Company, Bloomberg

## Long Term Outlook Remain Attractive

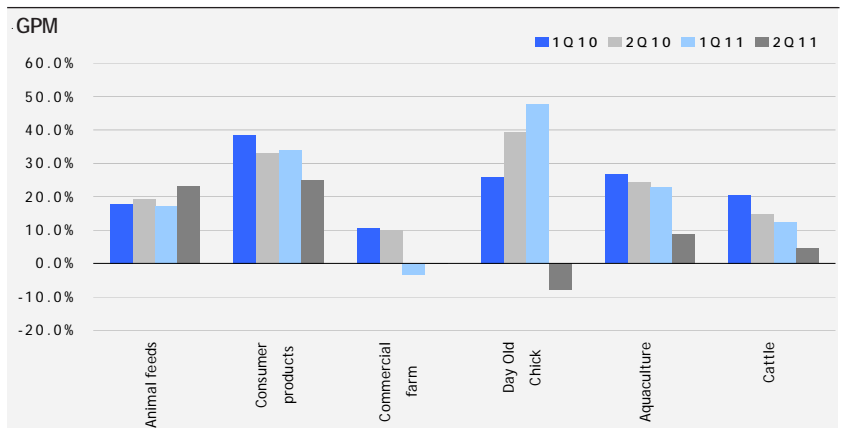
Despite a few challenges in short term performance, we believe JPFA offer an attractive long term growth. As an integrated protein provider, JPFA is direct beneficiaries of growing protein demand in Indonesia. In order to catch the future opportunity, JPFA also continue to expand its production capacity for the next few years. The company plan to conduct a corporate action in order to finance its expansion plan. We expect the corporate action to be a positive catalyst for the company. Moreover, the divestment of SGF will expand the bottom line margin as promotion expense will reduce 0.5% and 1.1% of sales in FY11 and FY12 respectively.

## Valuation and Recommendation

Market volatility may increase the risk to invest in this stock for short term period. Weakening IDR, lower corn and soybean prices become a mixed catalyst for JPFA as a soft commodities importer. Cheap valuation and positive long term prospect for protein demand are the main catalyst to invest in this stock. JPFA is trading on 7.4x FY12 PE.



Source: Company, TRIM Research



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