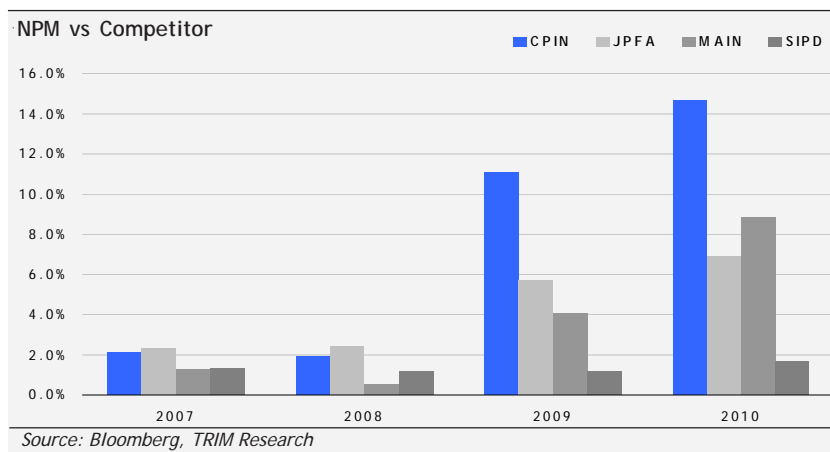
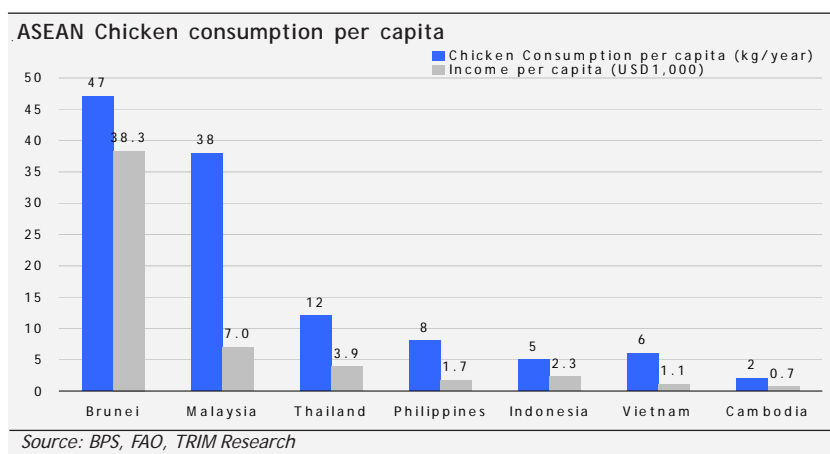


We visited CPIN yesterday, the largest producers of poultry feed, day old chicks (DOC), and processed chickens. Founded in 1972 by Charoen Pokphand group, CPIN is controlled by Jiaravanon family, who also managed BISI and CPRO. After suffered a loss due to Avian Influenza virus in 2004 and followed by 4 years of modest margin, CPIN started its turnaround story in 2009, when the company finally could passed through all the input cost increased to consumers. Now, with its economic of scale, CPIN is the lowest cost producers in poultry industry with the highest margin.



### Chicken consumption to grow 13.3% CAGR in next 5 Years

As the largest moslems country and the 4th most populous in the world, Indonesia has big potential growth of chicken consumption. Indonesian chicken consumption is lagging compare to other moslems country in South East Asia. Brunei Darussalam and Malaysia chicken consumption per capita is 47kg/year and 38kg/year respectively, while Indonesian chicken consumption per capita only 5kg/year. The main problem of this laggard is the weak purchasing power. Most of low to middle class Indonesian consumes soy cake (tempe) and tofu as the cheapest source of protein. But as their source of income improving, consumption of chicken will increase. Company expect chicken consumption per capita will increase to 8kg/year; assuming our population grow 1% a year, chicken consumption will grow 13.3% CAGR from 1.2mn tons/year to 2mn tons/year in 2015.

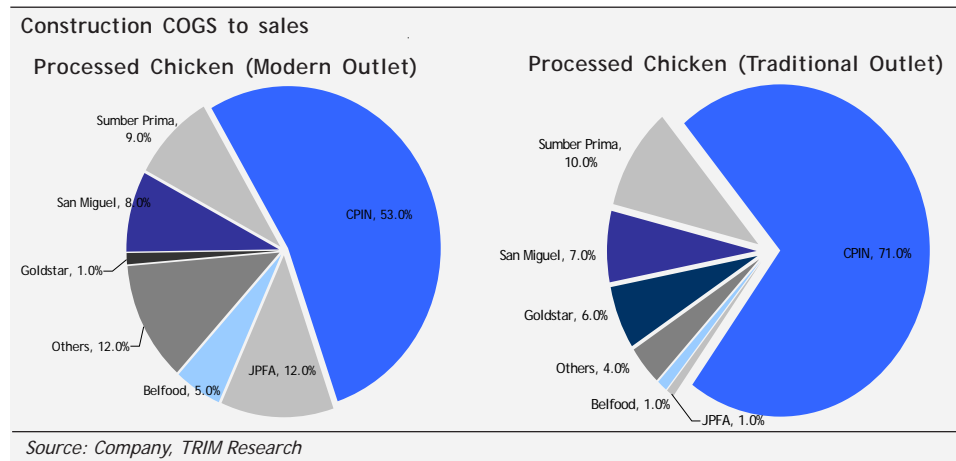
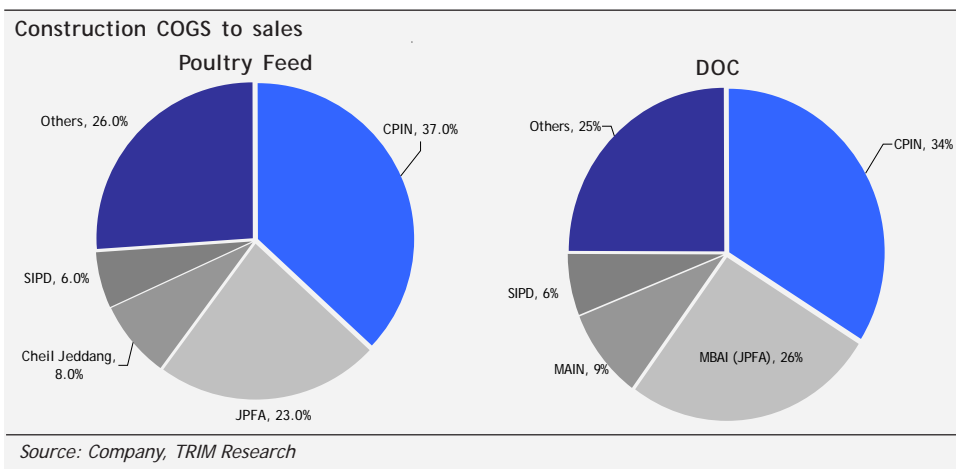


Protein Price/kg			
Protein Source	Price/kg Rp	Protein Content	Protein Price/Gram Rp
Soy Cake	10,000	11.0%	90
Egg	11,000	12.5%	90
Tofu	7,500	7.5%	100
Chicken (Broiler) Meat	18,500	18.5%	100
Fish	21,000	17.5%	120
Fresh Milk	6,500	3.5%	180
Beef	55,000	20.0%	275

Source: BPS, FAO, TRIM Research

### Why Breeders is Willing to Pay Higher Price..

In term of product price, CPIN is the most expensive among its peers. Based on company guidance, poultry feed price about 2% higher than JPFA and 5% higher than SIPD. Breeders willing to pay higher price due to CPIN's products has a more efficient conversion rates (1.8) vs JPFA (1.9) vs SIPD (2.0). Therefore, breeders just need 2.88kg of CPIN's feed to grow its DOC to become 1.6kgs broiler, compare to 3.04kg of JPFA's and 3.2kg of SIPD's. This translates 3.6% and 6.1% of expense retrenchment when breeders use CPIN's rather than JPFA's and SIPD's feed respectively. Moreover, sales volume still grew 15% YoY in 1H11 after company increase its price 20% early this year. CPIN is definitely has the biggest pricing power in the poultry industry. In the processed food division, CPIN hold 53% market share in modern outlet and 71% in traditional outlet with A&P expense just 14.3% of JPFA's A&P expense.



### In Expansion Mode..

CPIN set aside Rp2.5tr capex for its expansion until 2013. Rp1tr each for expanding poultry feed and DOC capacity 15% per year, and Rp500bn to doubling the processed food capacity. The company just got USD250mn syndicated loan to finance its capex and strengthen its working capital with interest rate LIBOR+2.75% for USD and JIBOR +2.75% for IDR loan.

Current Capacity		
Poultry Feed	tons/year	4,500,000
DOC	birds/year	615,000,000
Slaughter house	tons/year	38,400
Processed Chicken	tons/year	50,400

*Source: Company, TRIM Research*

### Valuation & Recommendation

Consider the market leadership, lowest cost producer, and best pricing power, we believe CPIN deserve the premium valuation. Also, we believe consensus FY11 earnings estimates were to conservative. Based on seasonality, we roughly expect CPIN FY11 earnings to reach Rp3tr rather than Rp2.3tr (consensus number). This translates 14.3x FY11 PE. As the market leader, we believe CPIN is in the front line to capture the long-term growth opportunities in poultry industry.

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