



## PRESS RELEASE

### JAPFA LTD

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## Japfa produces record quarterly Core PATMI excluding foreign exchange<sup>1</sup> of US\$51.9 million in 2Q 2016

- *Achieves best quarterly profitability since 2013 with growth across key performance indicators*
- *Significant improvement in operating margins, driven by PT Japfa Tbk's poultry business and the Group's Animal Protein Other operations*

**Singapore, 12 August 2016** – Leading agri-food company, **Japfa Ltd** ("Japfa", or together with its subsidiaries, the "Group") today announced its best quarterly results since 2013, as Core PATMI without foreign exchange ("Core PATMI w/o Forex")<sup>1</sup> for the second quarter ended 30 June 2016 ("2Q 2016") grew by 194.4% from US\$17.6 million in 2Q 2015 to US\$51.9 million in 2Q 2016.

During the quarter, the Group's three core pillars – PT Japfa Comfeed Indonesia Tbk ("PT Japfa Tbk"), Animal Protein Other and Dairy – together delivered a significant improvement in operating margin from 6.3% in 2Q 2015 to 13.8% in 2Q 2016. As a result, operating profit increased by 144.5% to US\$107.8 million, while EBITDA rose by 111.7% to US\$132.1 million in 2Q 2016.

The Group's improved financial results were in part driven by its majority-owned subsidiary, PT Japfa Tbk, which delivered its most profitable quarter since 2013, on the back of a strong growth in animal feed and breeding sales volumes which reached highest quarterly levels in the past two years, as well as higher average selling prices ("ASPs") for its day-old-chicks ("DOCs") and broilers. The Group's Animal Protein Other operations also performed well, particularly in Vietnam. Across all its geographical markets, the Group's feed operations continued to provide a stable base of profits.

Overall, the Group's PATMI, which includes foreign exchange and biological asset valuation losses, surged from US\$3.0 million in 2Q 2015 to US\$44.6 million in 2Q 2016. Core PATMI, which excludes biological asset valuation and extraordinary items, also improved significantly from US\$14.3 million in 2Q 2015 to US\$49.3 million in 2Q 2016.

Commenting on the Group's 2Q 2016 results, Mr Tan Yong Nang, Chief Executive Officer of Japfa, said, **"We have delivered our best quarterly profits in 2Q 2016, backed by a better operating environment and our ability to consistently improve operational efficiency across all our core animal protein segments. Looking at our quarterly performance on a rolling basis, our strategic focus on diversification into new proteins and geographies has clearly supported the Group through the ever-changing macro environment and local market fluctuations, and placed us on a stable footing to maintain a long-term growth momentum."**

<sup>1</sup> We derived "Core PATMI" from "Profit Attributable to Owners of the Parent, Net of Tax" by excluding changes in fair value of biological assets and derivatives attributable to owners of the parent (net of tax), and excluded extraordinary items (attributable to owners of the parent, net of tax) namely a gain from the buyback of USD bonds in PT Japfa Tbk.

"Core PATMI w/o Forex" is derived from Core PATMI by excluding foreign exchange gains/losses (before tax) attributable to the owners of the parent. As the majority of the foreign exchange gains/losses are unrealised and arises from the translation of USD bonds in PT Japfa Tbk, which has no tax implication, we have not made an estimate of the tax impact on foreign exchange gains/losses.

## FINANCIAL RESULTS AND SEGMENTAL REVIEW

Group Highlights (US\$m)	2Q 2016	2Q 2015	% change	1H 2016	1H 2015	% change
Revenue	782.1	704.3	+11.0%	1,499.7	1,379.9	+8.7%
Operating profit	107.8	44.1	+144.5%	163.0	75.6	+115.7%
<i>Operating profit margin</i>	<i>13.8%</i>	<i>6.3%</i>	<i>+7.5ppt</i>	<i>10.9%</i>	<i>5.5%</i>	<i>+5.4ppt</i>
EBITDA	132.1	62.4	+111.7%	209.2	112.8	+85.5%
Profit After Tax	69.6	1.4	+4,718.0%	106.7	6.4	+1,562.6%
PATMI	44.6	3.0	+1,405.7%	68.0	10.0	+582.9%
<b>Core PATMI w/o Forex</b>	<b>51.9</b>	<b>17.6</b>	<b>+194.4%</b>	<b>72.6</b>	<b>27.0</b>	<b>+168.9%</b>

### PT Japfa Tbk

In 2Q 2016, there was a more balanced supply and demand of DOCs and broilers in Indonesia, as compared to the industry-wide oversupply situation in the previous corresponding quarter which contributed to PT Japfa Tbk's poor performance in 2Q 2015. Consequently, selling prices of PT Japfa Tbk's DOCs and broilers have improved since the beginning of 2016.

The quarter under review was the most profitable quarter for PT Japfa Tbk since 1Q 2013, with record operating profit, operating margin, EBITDA and Core PATMI w/o Forex. Its revenue increased by 12.7% due to the increase in feed and breeding sales volumes, as well as the improvement of selling prices of DOCs and broilers.

Its feed operations continued to provide a stable base of profits, contributing to the bulk of operating profit. Lower costs of raw materials also resulted in a lower cost of goods sold ("COGS"), which led to better profitability in 2Q 2016. Meanwhile, its breeding and commercial farming operations also saw improvement in profitability.

As a result, PT Japfa Tbk generated a robust growth in operating profit from US\$17.6 million in 2Q 2015 to US\$75.8 million in 2Q 2016, while EBITDA more than tripled from US\$29.0 million in 2Q 2015 to US\$88.7 million in 2Q 2016. Consequently, PT Japfa Tbk's Core PATMI w/o Forex jumped from US\$1.3 million in 2Q 2015 to US\$31.0 million in 2Q 2016.

### Animal Protein Other<sup>2</sup>

The Group's Animal Protein Other operations turned in its best quarter in terms of profitability since 1Q 2013, primarily due to the contributions from Vietnam. This segment achieved a 6.8% increase in revenue to US\$140.6 million, with revenue growing across all geographies.

The Group's Vietnam operations, which contributed more than 60% of this segment's revenue and more than 70% of operating profit, recorded its best single quarter for profitability. Besides registering a 15% growth in feed volumes, the Vietnam operations successfully enhanced operational efficiency which led to record high swine fattening margins, which were further boosted by higher average selling prices ("ASP") and lower feed costs. In addition, the broiler business turned around from a loss in 2Q 2015 to a profit in 2Q 2016 as a result of higher ASP and lower feed costs.

Myanmar registered a growth in sales volumes for feed, DOCs and broilers, which were offset by lower ASPs. Similar to the Group's other operations, feed provided consistent profits, resulting in a stable performance in this country in 2Q 2016.

<sup>2</sup> Animal Protein Other refers to the animal protein operations in Vietnam, India, Myanmar and China

In India, the business unit also recorded its best single quarter for profitability, mainly due to higher ASPs for DOCs and broilers.

Collectively, the consolidated Animal Protein Other businesses posted a 71.5% rise in Core PATMI w/o Forex from US\$9.0 million in 2Q 2015 to US\$15.4 million 2Q 2016.

### Dairy

Despite the persistent downward pressure on raw milk prices in China, the Group's Dairy segment achieved higher profitability due to the improvement in milk yields and growth in sales volumes.

In 2Q 2016, revenue for this segment was higher by 2.3%, mainly attributed to higher raw milk volumes in China, as the number of milkable cows in China increased by 16% year-on-year to 30,875 heads as at 30 June 2016.

The enhancement of milk volumes and milk yields from 36.6 kg/head/day to 36.9 kg/head/day for China helped to offset the declining average selling price of raw milk in China, which declined by 7% year-on-year in 2Q 2016. At the same time, operating margin improved from 17.7% to 21.1% year-on-year, because of lower COGS arising from higher operational efficiency and lower feed costs.

In Indonesia, the dairy operations continued to show improvement in profitability since 1Q 2016. In addition, the Group is investing strategically in building the *Greenfields* brand.

As a result, EBITDA was up by 41.1%, increasing from US\$15.4 million in 2Q 2015 to US\$21.7 million in 2Q 2016. Overall, the Dairy business registered a Core PATMI w/o Forex of US\$7.6 million in 2Q 2016, as compared to US\$6.3 million in 2Q 2015.

### Consumer Food

Revenue for the Consumer Food business grew by 9.3% and contributed a revenue of US\$52.9 million in 2Q 2016, in tandem with the increase in sales volumes of frozen products, ambient foods and Real Good milk in Indonesia.

Operating profit decreased from US\$2.4m to US\$0.3m year-on-year, due to higher staff cost and advertising and promotion expenses, as the Group continued to invest strategically to build up its consumer brands in Indonesia, and particularly in Vietnam. The Indonesia operations remained profitable, while Vietnam incurred start-up losses.

Despite the losses, the Consumer Food business segment generated positive EBITDA but recorded a negative Core PATMI w/o Forex of US\$1.9 million in 2Q 2016, as compared to US\$0.1 million in 2Q 2015.

## **LOOKING AHEAD**

Having turned the corner in the second half of 2015, the poultry industry in Indonesia continued to recover, with prices of DOCs and broilers improving since the beginning of 2016. PT Japfa Tbk had also benefited from Ramadan which is traditionally a strong period of consumption for poultry.

That said, DOC and broiler prices are expected to fluctuate, as part of the poultry business, due to the seasonality and cyclical nature of the poultry industry. While the Indonesian Rupiah continued to strengthen in 2Q 2016, the Group expects the Indonesian Rupiah to remain volatile in the near term, which may affect consumer consumption.

In general, the Group's performance is impacted by the macroeconomic environment and currency fluctuations of the countries it operates in, as well as the market environment of the various animal protein industries. In China, for instance, raw milk prices are expected to remain sluggish in the near term.

Notwithstanding market volatilities, the Group believes in the long-term growth prospects of the emerging markets it operates in. Testament to the potential of the Indonesia market, global investment firm KKR has invested US\$81 million in PT Japfa Tbk through a combination of primary and secondary share purchase (3.87% stake from Japfa for US\$28 million, 6.57% stake via a private placement for US\$53 million).

Following the KKR transaction which was completed on 4 August 2016, Japfa recorded a capital gain of approximately US\$21 million from the transaction and maintained a 51.0% stake in PT Japfa Tbk. More importantly, the Group expects the deleveraging at PT Japfa Tbk to have a direct positive impact on the Group's consolidated balance sheet, while benefitting from KKR's operational experience and extensive network.

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#### **ABOUT JAPFA LTD**

*Japfa Ltd is a leading agri-food producer focused on feeding emerging Asian markets. The Group produces protein staples such as chicken, beef and milk, as well as protein-based consumer food products. From its headquarters in Singapore, Japfa operates its businesses in the fast growing economies of Indonesia, China, India and Indo-China. Backed by two generations of farming experience, it operates industrial-scale farms which are vertically integrated with its downstream food processing operations.*

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**This press release is issued on behalf of Japfa Ltd by Kreab Singapore. For media queries, please contact:**

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