



## Company report

# GUAN CHONG

(GUAN MK EQUITY, GUAN.KL)

1 June 2020

Ivory Coast expansion plans delayed to 2H2021

**BUY**

(Maintained)

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Rationale for report: Company results

Price	RM2.94
Fair Value	RM3.20
52-week High/Low	RM3.26/RM1.50

### Key Changes

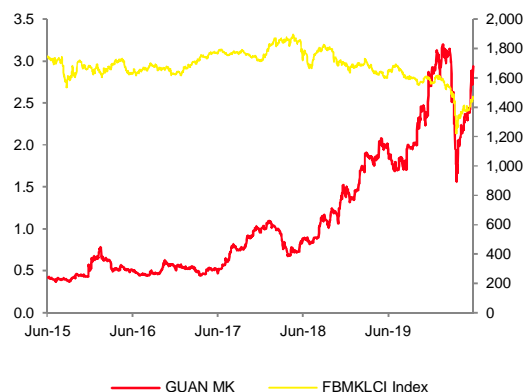
Fair value	⬇️
EPS	⬇️

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	2,941.6	3,043.5	3,383.9	4,014.2
Core net profit (RM mil)	209.9	231.2	248.2	313.7
FD Core EPS (sen)	20.8	22.9	24.6	31.1
FD Core EPS growth (%)	10.4	10.1	7.4	26.4
Consensus Net Profit (RM mil)	-	226.5	251.5	280.5
DPS (sen)	5.0	5.0	5.0	5.0
PE (x)	14.1	12.8	11.9	9.4
EV/EBITDA (x)	10.8	10.8	10.0	8.2
Div yield (%)	2.6	2.6	2.6	2.6
ROE (%)	25.9	22.6	20.8	22.1
Net Gearing (%)	66.9	83.1	70.3	58.4

### Stock and Financial Data

Shares Outstanding (million)	1,007.9
Market Cap (RM mil)	2,963.2
Book Value (RM/share)	0.94
P/BV (x)	3.1
ROE (%)	25.9
Net Gearing (%)	66.9
Major Shareholders	Guan Chong Resources (50.5%) Misi Galakan (5.8%) Tay Hoe Lian (5.6%)
Free Float	227.9
Avg Daily Value (RM mil)	6.0

Price performance	3mth	6mth	12mth
Absolute (%)	17.1	8.9	55.1
Relative (%)	17.9	15.4	73.8



### Investment Highlights

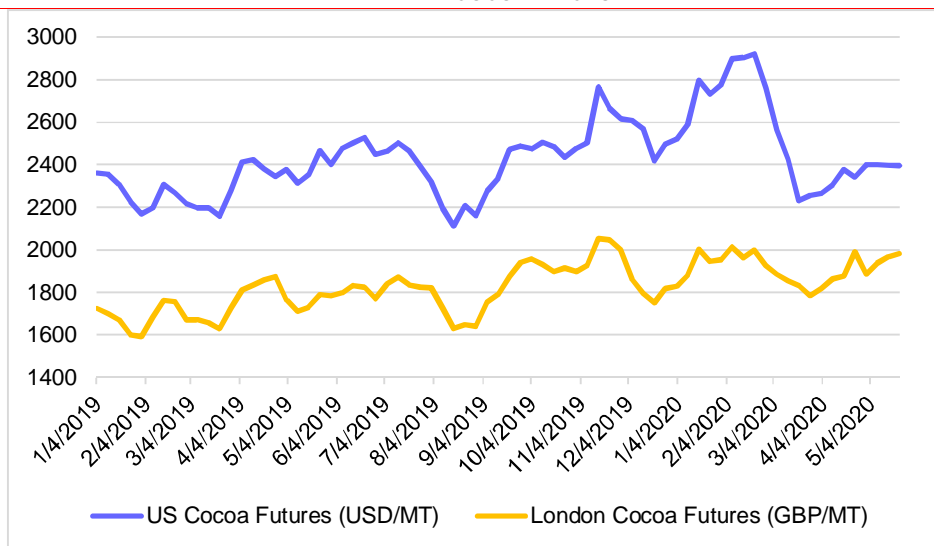
- We maintain our BUY call on Guan Chong with a slightly lower FV of RM3.20/share (RM3.22/share previously). Our valuation is based on a PE of 13x FY21F EPS.
- We like Guan Chong for: 1) its growth potential from expansion plans; 2) its position as the 4<sup>th</sup> largest cocoa bean grinder; and 3) its stable earnings trajectory supported by an experienced management.
- Guan Chong's 1QFY20 core net profit of RM82.4mil (+30.6% YoY) made up 35% of our full-year earnings forecast. The core net profit includes the RM27.8mil gain on the disposal of Fuji Oil Global Chocolate (FGC), an associate company. We have accounted for this gain in our forecasts as mentioned in our report on 3 March 2020. Hence, we deem the results as within expectations.
- However, we trim our earnings forecasts by 2.4% for FY20F and 8.3% for FY21F to account for the delay in its Ivory Coast expansion plan as well as the negative impact from global lockdowns due to Covid-19 pandemic. We assume EBITDA yields of roughly RM1,290 for FY20F and RM1,380 for FY21F–FY22F.
- Guan Chong's 1QFY20 revenue was RM909.4mil (+40% YoY; 14.2% QoQ) due to the contribution from newly acquired Schokinag Holding GMBH (SHG). Excluding the contribution from Schokinag of roughly RM196.9mil, the group's revenue expanded 10% YoY. The increase was attributed to higher selling price of cocoa products.
- 1QFY20 EBITDA grew 39% YoY (+29.1% QoQ) to RM82.4mil due to the gain from the disposal of FGC. However, EBITDA margin fell 1.1ppt to 10.0%. We believe this was largely due to higher bean cost (up 14–18% YoY; up 0–4% QoQ) to £1,913 and US\$2,644 per MT in 1QFY20.
- Moving forward, the group expects a challenging business environment due to impact of Living Income Differential (LID) implementation and Covid-19 outbreak. Lockdowns implemented worldwide has resulted in a slowdown of economy and shrunk the demand of chocolate consumption.
- The group also expects the lockdowns to cause some delay in shipment to customers and lower utilisation of grinding capacity in the near future. The upcoming new grinding facility in Ivory Coast is now slated to begin commissioning in 2H2021 (delayed from 1Q2021).
- However, Guan Chong remains confident of the long-term prospect and uptrend in future chocolate demand. We expect the group's earnings to recover in 2HFY21F, post-containment of the Covid-19 pandemic, growing by 7% in FY21F and 26% in FY22F.

## EXHIBIT 1: FINANCIAL RESULTS

YE Dec	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)
<b>Revenue</b>	<b>648.1</b>	<b>796.4</b>	<b>909.4</b>	<b>14.2</b>	<b>40.3</b>
<b>EBITDA</b>	<b>78.3</b>	<b>78.3</b>	<b>102.8</b>	<b>31.3</b>	<b>31.3</b>
Depreciation	6.5	9.3	12.0	29.4	84.5
<b>EBIT</b>	<b>71.8</b>	<b>69.0</b>	<b>90.8</b>	<b>31.5</b>	<b>26.4</b>
Interest expense	-8.6	-7.1	-7.4	4.3	-14.1
<b>Pretax profit</b>	<b>63.8</b>	<b>61.8</b>	<b>83.4</b>	<b>35.0</b>	<b>30.6</b>
Taxation	-10.7	-17.1	-11.2	-34.1	5.1
<b>Net Profit</b>	<b>53.1</b>	<b>44.7</b>	<b>72.2</b>	<b>61.3</b>	<b>35.8</b>
EI	0.0	-11.6	10.2		
<b>Core Net Profit</b>	<b>53.1</b>	<b>33.1</b>	<b>82.4</b>	<b>148.6</b>	<b>55.0</b>
Core EPS - Diluted (sen)	5.6	6.0	7.7	29.1	39.0
EBITDA margin (%)	12.1	9.8	11.3	1.5ppt	-0.8ppt
EBIT margin (%)	11.1	8.7	10.0	1.3ppt	-1.1ppt
Pretax margin (%)	9.9	7.8	9.2	1.4ppt	-0.7ppt
Effective tax rate (%)	-16.8	-27.6	-13.5	14.1ppt	3.3ppt
<b>Core net margin</b>	<b>8.2</b>	<b>4.2</b>	<b>9.1</b>	<b>4.9ppt</b>	<b>0.9ppt</b>

Source: Company, AmlInvestment Bank Bhd

## EXHIBIT 2: COCOA PRICES



Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

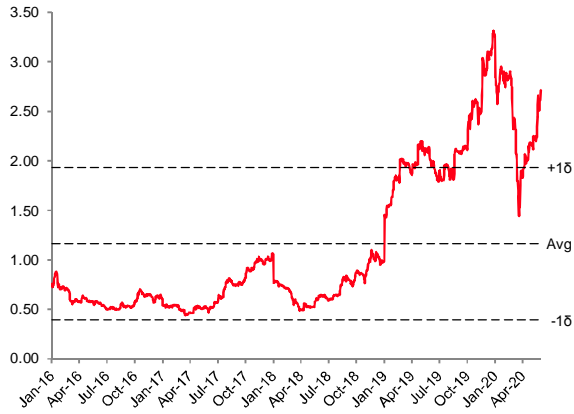
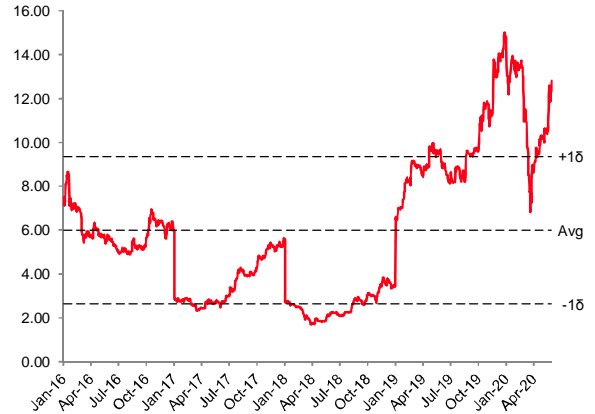


EXHIBIT 4: PE BAND CHART



## EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	2,273.4	2,941.6	3,043.5	3,383.9	4,014.2
EBITDA	261.5	333.6	359.9	388.8	469.5
Depreciation/Amortisation	(27.0)	(32.4)	(40.7)	(48.9)	(49.6)
Operating income (EBIT)	234.5	300.4	319.2	339.9	419.8
Other income & associates	1.1	1.4	-	-	-
Net interest	(26.8)	(32.9)	(37.3)	(37.3)	(37.3)
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	208.7	268.8	281.9	302.6	382.5
Taxation	(18.6)	(48.9)	(50.7)	(54.4)	(68.8)
<b>Minorities/pref dividends</b>	-	<b>(10.0)</b>	-	-	-
Net profit	190.1	209.9	231.2	248.2	313.7
Core net profit	190.1	209.9	231.2	248.2	313.7
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Fixed assets	447.8	476.8	686.1	710.6	707.8
Intangible assets	12.0	12.0	12.0	12.0	12.0
<b>Other long-term assets</b>	<b>40.3</b>	<b>42.4</b>	<b>30.4</b>	<b>30.4</b>	<b>30.4</b>
Total non-current assets	500.1	531.2	728.4	752.9	751.1
Cash & equivalent	44.8	46.8	30.0	30.0	30.0
Stock	868.9	1,035.7	1,143.1	1,260.6	1,496.7
Trade debtors	328.5	415.4	406.4	433.3	492.0
<b>Other current assets</b>	<b>41.9</b>	<b>13.3</b>	<b>13.3</b>	<b>13.3</b>	<b>13.3</b>
Total current assets	1,284.1	1,511.2	1,592.8	1,737.2	2,032.0
Trade creditors	431.4	322.8	693.4	838.9	1,091.3
Short-term borrowings	559.0	637.2	889.0	889.0	889.0
<b>Other current liabilities</b>	<b>12.7</b>	<b>26.4</b>	<b>26.4</b>	<b>26.4</b>	<b>26.4</b>
Total current liabilities	1,003.0	986.4	1,608.8	1,754.3	2,006.7
Long-term borrowings	43.4	45.5	48.4	48.4	48.4
<b>Other long-term liabilities</b>	<b>37.6</b>	<b>50.2</b>	<b>50.2</b>	<b>50.2</b>	<b>50.2</b>
<b>Total long-term liabilities</b>	<b>80.9</b>	<b>95.7</b>	<b>98.5</b>	<b>98.5</b>	<b>98.5</b>
Shareholders' funds	667.1	951.0	1,092.5	1,290.1	1,553.2
Minority interests	-	-	-	-	-
BV/share (RM)	1.39	0.94	1.08	1.28	1.54
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Pretax profit	208.7	268.8	281.9	302.6	382.5
Depreciation/Amortisation	27.0	32.4	40.7	48.9	49.6
Net change in working capital	77.6	(361.7)	272.3	1.1	(42.4)
<b>Others</b>	<b>21.7</b>	<b>(28.3)</b>	<b>37.3</b>	<b>37.3</b>	<b>37.3</b>
Cash flow from operations	335.0	(88.7)	632.2	389.9	427.1
Capital expenditure	(99.2)	(58.9)	(250.0)	(73.4)	(46.9)
Net investments & sale of fixed assets	-	-	-	-	-
<b>Others</b>	<b>(99.2)</b>	<b>(58.9)</b>	<b>(250.0)</b>	<b>(73.4)</b>	<b>(46.9)</b>
Cash flow from investing	(198.3)	(117.9)	(500.0)	(146.7)	(93.7)
Debt raised/(repaid)	(189.5)	87.6	(29.4)	73.8	90.0
Equity raised/(repaid)	-	92.5	-	-	-
Dividends paid	(9.6)	(34.0)	(50.4)	(50.4)	(50.4)
<b>Others</b>	<b>(0.5)</b>	<b>11.2</b>	-	-	-
<b>Cash flow from financing</b>	<b>(199.7)</b>	<b>157.4</b>	<b>(79.8)</b>	<b>23.4</b>	<b>39.6</b>
<b>Net cash flow</b>	<b>(63.0)</b>	<b>(49.2)</b>	<b>52.4</b>	<b>266.6</b>	<b>372.9</b>
<b>Net cash/(debt) b/f</b>	<b>44.8</b>	<b>46.8</b>	<b>30.0</b>	<b>30.0</b>	<b>30.0</b>
Net cash/(debt) c/f	(9.9)	(2.5)	82.4	296.6	402.9
<b>Key Ratios (YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Revenue growth (%)	5.8	29.4	3.5	11.2	18.6
EBITDA growth (%)	60.7	27.6	7.9	8.0	20.7
Pretax margin (%)	9.2	9.1	9.3	8.9	9.5
Net profit margin (%)	8.4	7.1	7.6	7.3	7.8
Interest cover (x)	8.7	9.1	8.6	9.1	11.3
Effective tax rate (%)	8.9	18.2	18.0	18.0	18.0
Dividend payout (%)	10.1	24.0	21.8	20.3	16.1
Debtors turnover (days)	45	46	49	45	42
Stock turnover (days)	139	118	131	130	125
Creditors turnover (days)	55	47	61	83	88

Source: Company, AmInvestment Bank Bhd estimates

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