



Company report

GUAN CHONG

(GUAN MK EQUITY, GUAN.KL)

2 June 2020

Steady demand for normal chocolates

BUY

(Maintained)

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Rationale for report: Company update

Price	RM3.02
Fair Value	RM3.43
52-week High/Low	RM3.26/RM1.50

Key Changes

Fair value	↑
EPS	↓

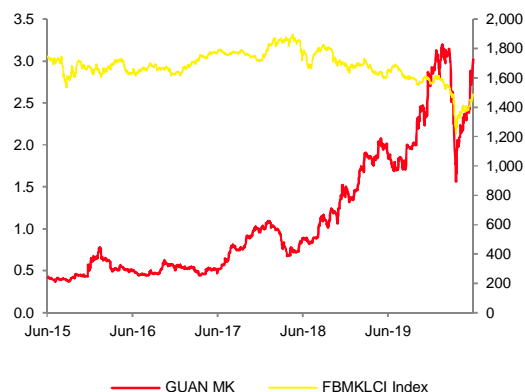
YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	2,941.6	3,043.5	3,406.4	4,093.5
Core net profit (RM mil)	209.9	203.4	230.5	293.6
FD Core EPS (sen)	20.8	20.2	22.9	29.1
FD Core EPS growth (%)	10.4	(3.1)	13.3	27.4
Consensus Net Profit (RM mil)	-	217.0	238.5	284.0
DPS (sen)	5.0	5.0	5.0	5.0
PE (x)	14.5	15.0	13.2	10.4
EV/EBITDA (x)	11.0	11.0	10.8	8.9
Div yield (%)	1.7	1.7	1.7	1.7
ROE (%)	27.2	22.6	19.5	21.1
Net Gearing (%)	66.9	83.1	71.3	59.9

Stock and Financial Data

Shares Outstanding (million)	1,007.9
Market Cap (RM mil)	3,043.9
Book Value (RM/share)	0.94
P/BV (x)	3.2
ROE (%)	27.2
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 (%)	20.3	11.9	59.4
Relative (%)	19.7	17.2	76.5

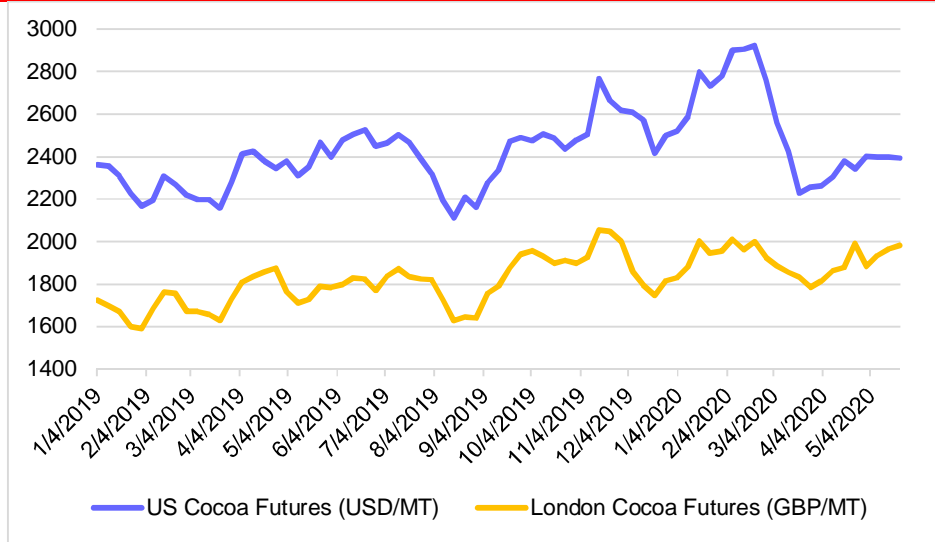


Investment Highlights

- We maintain our BUY call on Guan Chong with a higher FV of RM3.43/share (RM3.20 previously). We increase our PE multiple from 13x to 15x, which is at a discount to its international peers. This is to reflect the higher PE for its international peers of 21x (19x previously) as well as the synergistic value that Schokinag Holdings GMBH, which was recently acquired in 1Q2020, brings to the group.
- However, we are trimming our earnings forecasts to account for the adverse impact from the Covid-19 pandemic and the implementation of Living Income Differential on Ivory Coast and Ghana cocoa beans.
- We lower earnings forecasts by 7% for FY21F and 6% for FY22F. We also reduce our FY21F EBITDA yield assumption (after taking out contribution from Schokinag) to RM1,240–RM1,250 per MT from RM1,290/tonne.
- We continue to like Guan Chong for: 1) its growth potential from expansion plans; 2) its position as the 4th largest cocoa bean grinder; and 3) its stable earnings trajectory supported by an experienced management.
- Highlights from Guan Chong's 1QFY20 briefing;
 1. Sales tonnage dropped 0.7% YoY (-15.8% QoQ). Sales tonnage of cocoa solids grew 1.0% YoY (-12.1% QoQ) while that of cocoa butter dropped 2.2% YoY (-18.7% QoQ).
 2. The drop was largely attributed to logistic issues during the movement control order (MCO). Despite a strong utilisation rate of 96%, the inability to deliver the products dampened the group's revenue growth. Around 5–10% of sales volume were delayed.
 3. The Covid-19 pandemic has impacted the demand for premium chocolate, which typically uses more cocoa butter ingredient. This was partly attributed to the severity of the outbreak in key markets (Europe, the US) as well as the disruption to the tourism industry, which makes up a part of high-end chocolate consumption. On the other hand, consumption of normal chocolate remained resilient.
 4. Combined ratio jumped in 1Q20, driven by higher selling price of cocoa powder. The resilient demand for normal chocolate, which uses more cocoa powder, has buoyed selling prices for the ingredient.
 5. EBITDA yield was lower by 6.6% YoY (-2.6% QoQ) to RM1,210.30/tonne. The drop was partly attributed to the delay in delivery which lowered revenue for 1QFY20. The logistic issues have since been ironed out and the group does not expect a repeat of the issues.

6. Living Income Differential (LID) in Ivory Coast and Ghana has affected orders. Major chocolate manufacturers are not committing to purchases from 4Q20 onwards due to the uncertainty of the implementation of LID. Hence, we expect a more volatile FY21F as orders have not been filled in as usual (less than 10% orders secured instead of the usual 40%). However, we believe the resilient demand for chocolate confectionery will continue to buoy sales for the group.
7. Utilisation rate is expected to remain high throughout FY20F, at around 98%. Utilisation rate was around 70% at Schokinag. Guan Chong plans to ramp up utilisation at Schokinag to drive profitability.

EXHIBIT 1: COCOA PRICES



Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART

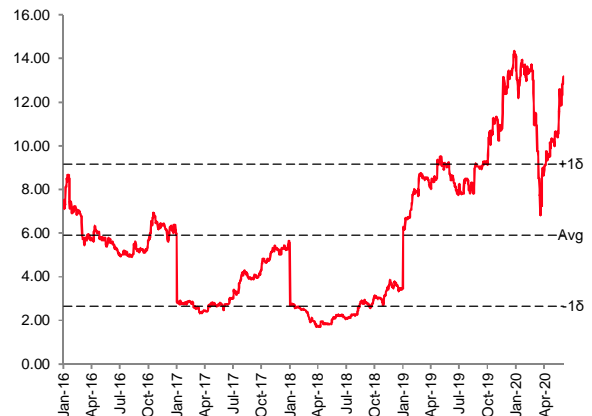


EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	2,273.4	2,941.6	3,043.5	3,406.4	4,093.5
EBITDA	261.5	333.6	359.9	367.3	445.0
Depreciation/Amortisation	(27.0)	(32.4)	(40.7)	(48.9)	(49.7)
Operating income (EBIT)	234.5	300.4	319.2	318.4	395.3
Other income & associates	1.1	1.4	-	-	-
Net interest	(26.8)	(32.9)	(37.3)	(37.3)	(37.3)
Exceptional items	-	-	-	-	-
Pretax profit	208.7	268.8	281.9	281.1	358.0
Taxation	(18.6)	(48.9)	(50.7)	(50.5)	(64.4)
Minorities/pref dividends	-	-	-	-	-
Net profit	190.1	219.9	231.2	230.5	293.6
Core net profit	190.1	209.9	203.4	230.5	293.6
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	447.8	476.8	686.1	711.1	709.2
Intangible assets	12.0	12.0	12.0	12.0	12.0
Other long-term assets	40.3	42.4	30.4	30.4	30.4
Total non-current assets	500.1	531.2	728.4	753.4	751.5
Cash & equivalent	44.8	46.8	30.0	30.0	30.0
Stock	868.9	1,035.7	1,143.1	1,279.3	1,540.4
Trade debtors	328.5	415.4	406.4	436.1	501.7
Other current assets	41.9	13.3	13.3	13.3	13.3
Total current assets	1,284.1	1,511.2	1,592.8	1,758.8	2,085.4
Trade creditors	431.4	322.8	693.4	851.8	1,123.8
Short-term borrowings	559.0	637.2	889.0	889.0	889.0
Other current liabilities	12.7	26.4	26.4	26.4	26.4
Total current liabilities	1,003.0	986.4	1,608.8	1,767.1	2,039.2
Long-term borrowings	43.4	45.5	48.4	48.4	48.4
Other long-term liabilities	37.6	50.2	50.2	50.2	50.2
Total long-term liabilities	80.9	95.7	98.5	98.5	98.5
Shareholders' funds	667.1	951.0	1,092.5	1,272.4	1,515.4
Minority interests	-	-	-	-	-
BV/share (RM)	1.39	0.94	1.08	1.26	1.50
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	208.7	268.8	281.9	281.1	358.0
Depreciation/Amortisation	27.0	32.4	40.7	48.9	49.7
Net change in working capital	77.6	(361.7)	272.3	(7.7)	(54.7)
Others	21.7	(28.3)	37.3	37.3	37.3
Cash flow from operations	335.0	(88.7)	632.2	359.6	390.3
Capital expenditure	(99.2)	(58.9)	(250.0)	(73.8)	(47.8)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(99.2)	(58.9)	(250.0)	(73.8)	(47.8)
Cash flow from investing	(198.3)	(117.9)	(500.0)	(147.7)	(95.6)
Debt raised/(repaid)	(189.5)	87.6	(29.4)	83.0	103.2
Equity raised/(repaid)	-	92.5	-	-	-
Dividends paid	(9.6)	(34.0)	(50.4)	(50.4)	(50.4)
Others	(0.5)	11.2	-	-	-
Cash flow from financing	(199.7)	157.4	(79.8)	32.6	52.7
Net cash flow	(63.0)	(49.2)	52.4	244.5	347.5
Net cash/(debt) b/f	44.8	46.8	30.0	30.0	30.0
Net cash/(debt) c/f	(9.9)	(2.5)	82.4	274.5	377.5
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	5.8	29.4	3.5	11.9	20.2
EBITDA growth (%)	60.7	27.6	7.9	2.1	21.2
Pretax margin (%)	9.2	9.1	9.3	8.3	8.7
Net profit margin (%)	8.4	7.5	7.6	6.8	7.2
Interest cover (x)	8.7	9.1	8.6	8.5	10.6
Effective tax rate (%)	8.9	18.2	18.0	18.0	18.0
Dividend payout (%)	10.1	22.9	21.8	21.9	17.2
Debtors turnover (days)	45	46	49	45	42
Stock turnover (days)	139	118	131	130	126
Creditors turnover (days)	55	47	61	83	88

Source: Company, AmInvestment Bank Bhd estimates

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