



## Company report

# GUAN CHONG

(GUAN MK EQUITY, GUAN.KL)

13 Jan 2022

Earnings recovery underway

## BUY

(Maintained)

AmInvestment Bank

www.amequities.com

0320362293

Rationale for report: Company update

Price	RM2.80			
Fair Value	RM3.40			
52-week High/Low	RM3.23/RM2.44			
<b>Key Changes</b>				
Fair value	↑			
EPS	↑			
<b>YE to Dec</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Revenue (RM mil)	3,685.0	3,801.1	4,256.6	4,721.8
Core net profit (RM mil)	195.4	143.0	267.8	295.1
FD Core EPS (sen)	16.6	12.2	22.8	25.1
FD Core EPS growth (%)	(21.2)	(26.8)	87.2	10.2
Consensus Net Profit (RM mil)	-	167.5	245.5	274.0
DPS (sen)	3.2	2.6	4.8	5.3
PE (x)	16.9	23.0	12.3	11.2
EV/EBITDA (x)	12.5	16.2	10.0	9.2
Div yield (%)	1.1	0.9	1.7	1.9
ROE (%)	20.9	11.5	19.0	18.1
Net Gearing (%)	87.9	79.7	65.1	54.2

### Stock and Financial Data

Shares Outstanding (million)	1,176.4
Market Cap (RM mil)	3,293.8
Book Value (RM/share)	1.01
P/BV (x)	2.8
ROE (%)	20.9
Net Gearing (%)	87.9
Major Shareholders	Guan Chong Resources (49.4%) Misi Galakan (5.2%) Employees Provident Fund (3.6%)
Free Float (%)	23.1
Avg Daily Value (RM mil)	1.1

<b>Price performance</b>	<b>3mth</b>	<b>6mth</b>	<b>12mth</b>
Absolute (%)	(7.6)	5.3	12.0
Relative (%)	(6.4)	1.9	15.5



### Investment Highlights

- **We reiterate BUY on Guan Chong with a revised fair value of RM3.40 (from RM3.12), based on unchanged PER of 15x 2022F EPS. We raise 2021F–23F earnings by 16%, 3% and 1% respectively for housekeeping purposes. There is no ESG-related price adjustment for our 3-star rating.**
- **We like Guan Chong for its overseas expansion plan prospect, giving the company an opportunity to tap into the European market, which has the biggest chocolate consumption. The stock is trading at an undemanding valuation of 12.3x PER 2022F EPS compared to the Bursa Malaysia Consumer Product Index's historical average of 19x PER. The company's 2022F strong earnings growth will be underpinned by: i) normalization of EBITDA yield; ii) recovering demand for cocoa butter; and iii) maiden earnings contribution from the Ivory Coast plant.**
- **LID confusion subsiding, EBITDA yield to improve.** We expect Guan Chong's EBITDA yield to gradually improve now that the industry has better clarity over the impact of the living income differential (LID) to cocoa bean price. Dipping below RM1,100/MT level, the company's 2021 EBITDA yield was negatively affected by the lack of clarity of the LID impact as Guan Chong had locked its sales at an unfavourable ratio prior to the policy's implementation.

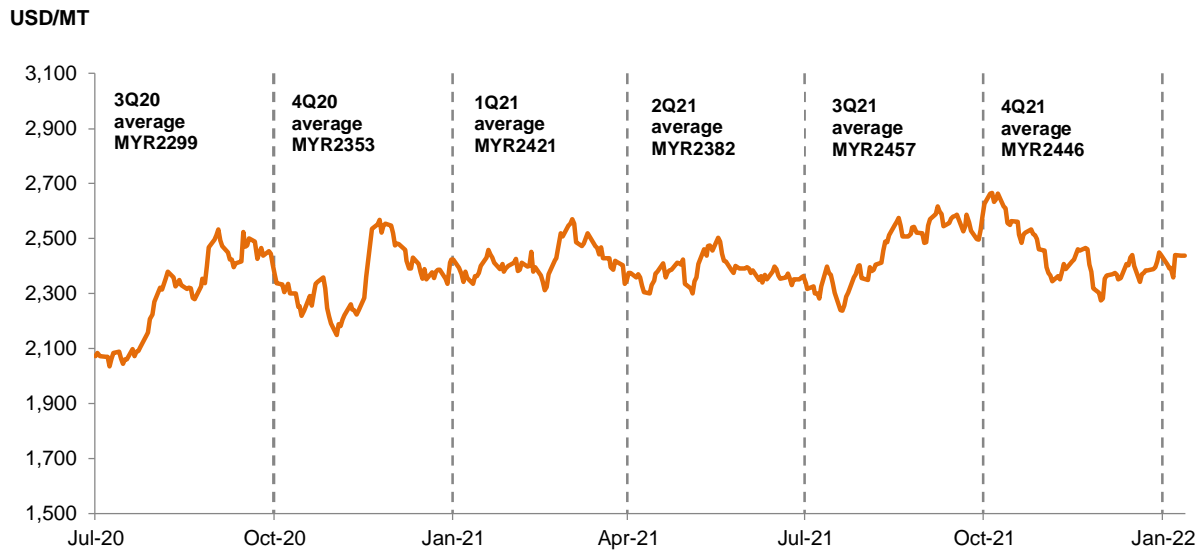
Following the LID implementation, the Ivory Coast and Ghana governments have been reducing the differential of their cocoa beans due to sluggish demand and this has neutralized the impact of the US\$400/MT LID premium to chocolate makers and cocoa bean grinders.

- **Recovering demand for upmarket chocolates to boost cocoa butter ASP.** In tandem with the recovering tourism and hotel industries, we expect demand for the luxury segment chocolate to gradually pick up its pace and this should augur well for cocoa butter's ASP. Recall that the company saw its cocoa butter ratio declining in 2021 as sales of tourism-dependent premium chocolate was disrupted by border closures and lockdowns.
- **Guan Chong's international expansion plans are progressing well. Here are the key updates:**

- Ivory Coast:** The beans' grinding facility is on track for a 1H22 commissioning. With a 60K MT capacity in this first phase, the facility is expected to contribute an additional c.RM70mil to the company's EBITDA, per annum. The initial phase's capacity will be mainly taken up by its German plant, Schokinag Holdings (Schokinag), hence we foresee no issue in ramping up production in the immediate term.

- ii. **Germany:** Guan Chong is spending an additional €10.5mil capex in 1H22 to increase the plant's industrial chocolate production capacity by 10K MT per annum (current capacity: 90K MT per annum) and purchase machineries to resolve the bottleneck at it's the production line currently.
- **Key risks:** Slower-than-expected recovery of tourism industry, high volatility of cocoa bean price and logistics cost to remain elevated pose downside risk to our earnings and fair value.

EXHIBIT 1: COCOA BEAN PRICE TREND



Source: International Cocoa Organization

**EXHIBIT 2: PB BAND CHART**



Source: AmInvestment Bank

**EXHIBIT 3: PE BAND CHART**



**EXHIBIT 4: ESG MATRIX**

<b>Overall</b>	★	★	★		
Biological preservation	★	★			
Water + energy conservation	★	★	★		
Pollution + waste regulation	★	★	★		
Sustainable sourcing	★				
Occupational safety + health	★	★	★		
Workplace diversity	★	★	★	★	
Employee training + wellbeing	★	★			
Volunteering + charitable giving	★	★	★		
Corruption-free pledge	★	★	★		
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5 stars

Source: AmInvestment Bank Bhd

## EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	2,941.6	3,685.0	3,801.1	4,256.6	4,721.8
EBITDA	333.2	347.6	267.4	430.0	463.0
Depreciation/Amortisation	(33.1)	(53.1)	(62.5)	(73.5)	(74.7)
Operating income (EBIT)	300.1	294.5	205.0	356.5	388.3
Other income & associates	1.4	0.3	1.0	1.2	1.4
Net interest	(33.5)	(25.6)	(31.7)	(31.3)	(30.2)
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	268.0	269.2	174.2	326.4	359.5
Taxation	(48.6)	(46.0)	(31.2)	(58.5)	(64.5)
<b>Minorities/pref dividends</b>	-	-	-	-	-
Net profit	219.4	223.2	143.0	267.8	295.1
Core net profit	219.4	195.4	143.0	267.8	295.1
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Fixed assets	481.7	834.8	892.3	918.8	934.1
Intangible assets	12.0	93.2	93.2	93.2	93.2
<b>Other long-term assets</b>	<b>41.1</b>	<b>37.0</b>	<b>38.0</b>	<b>39.2</b>	<b>40.6</b>
Total non-current assets	534.7	964.9	1,023.5	1,051.2	1,067.8
Cash & equivalent	46.8	78.2	106.7	108.1	116.7
Stock	1,035.1	1,302.1	1,343.4	1,457.7	1,617.1
Trade debtors	412.3	509.1	525.1	588.0	652.3
<b>Other current assets</b>	<b>12.8</b>	<b>60.8</b>	<b>60.8</b>	<b>60.8</b>	<b>60.8</b>
Total current assets	1,507.1	1,950.2	2,036.0	2,214.7	2,446.9
Trade creditors	325.2	364.2	375.7	420.7	466.7
Short-term borrowings	637.2	694.8	694.8	694.8	694.8
<b>Other current liabilities</b>	<b>35.8</b>	<b>111.0</b>	<b>111.0</b>	<b>111.0</b>	<b>111.0</b>
Total current liabilities	998.2	1,169.9	1,181.4	1,226.4	1,272.4
Long-term borrowings	45.5	428.9	448.9	398.9	368.9
<b>Other long-term liabilities</b>	<b>48.4</b>	<b>127.3</b>	<b>127.3</b>	<b>127.3</b>	<b>127.3</b>
<b>Total long-term liabilities</b>	<b>93.9</b>	<b>556.3</b>	<b>576.3</b>	<b>526.3</b>	<b>496.3</b>
Shareholders' funds	949.6	1,188.9	1,301.8	1,513.2	1,746.1
Minority interests	-	-	-	-	-
BV/share (RM)	0.91	1.01	1.11	1.29	1.48
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Pretax profit	268.0	269.2	174.2	326.4	359.5
Depreciation/Amortisation	33.1	53.1	62.5	73.5	74.7
Net change in working capital	(362.7)	(251.9)	(45.9)	(132.2)	(177.6)
<b>Others</b>	<b>(32.1)</b>	<b>(68.1)</b>	<b>(0.4)</b>	<b>(28.4)</b>	<b>(35.7)</b>
Cash flow from operations	(93.7)	2.3	190.3	239.2	221.0
Capital expenditure	(64.4)	(212.5)	(120.0)	(100.0)	(90.0)
Net investments & sale of fixed assets	1.9	0.1	-	-	-
<b>Others</b>	<b>0.5</b>	<b>(108.9)</b>	-	-	-
Cash flow from investing	(62.1)	(321.2)	(120.0)	(100.0)	(90.0)
Debt raised/(repaid)	90.5	331.3	20.0	(50.0)	(30.0)
Equity raised/(repaid)	103.7	42.3	-	-	-
Dividends paid	(48.6)	(37.6)	(30.1)	(56.4)	(62.2)
<b>Others</b>	<b>12.0</b>	<b>7.5</b>	<b>(31.7)</b>	<b>(31.3)</b>	<b>(30.2)</b>
<b>Cash flow from financing</b>	<b>157.6</b>	<b>343.5</b>	<b>(41.9)</b>	<b>(137.8)</b>	<b>(122.4)</b>
<b>Net cash flow</b>	<b>1.9</b>	<b>24.6</b>	<b>28.5</b>	<b>1.5</b>	<b>8.6</b>
<b>Net cash/(debt) b/f</b>	<b>31.4</b>	<b>33.1</b>	<b>58.3</b>	<b>86.8</b>	<b>88.3</b>
Net cash/(debt) c/f	33.1	58.3	86.8	88.3	96.8
<b>Key Ratios (YE 31 Dec)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Revenue growth (%)	29.4	25.3	3.2	12.0	10.9
EBITDA growth (%)	27.2	4.3	(23.1)	60.8	7.7
Pretax margin (%)	9.1	7.3	4.6	7.7	7.6
Net profit margin (%)	7.5	6.1	3.8	6.3	6.2
Interest cover (x)	9.0	11.5	6.5	11.4	12.9
Effective tax rate (%)	18.1	17.1	17.9	17.9	17.9
Dividend payout (%)	22.2	16.8	21.1	21.1	21.1
Debtors turnover (days)	46	46	50	48	48
Stock turnover (days)	118	116	127	120	119
Creditors turnover (days)	47	34	36	34	34

Source: Company, AmInvestment Bank Bhd estimates

**DISCLOSURE AND DISCLAIMER**

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.