

01 June 2018 | 1QFY18 Results Review

Can-One Berhad

Affected by raw material costs

Maintain BUY

Adjusted Target Price (TP): RM2.71
(previously RM3.46)


INVESTMENT HIGHLIGHTS

- **1QFY18 results below expectation**
- **Earnings declined by 24.2% yoy due to higher raw material and operating costs**
- **Revise net profit by 21.6% to due to higher costs**
- **Maintain BUY with adjusted TP of RM2.71**

1QFY18 results below expectation. Can-One Bhd's (Can-One) first quarter net profit of RM11.4m missed our expectations, making up 14% of our full year forecast. No dividend was announced, which is within expectation.

Earnings declined by 24.2% yoy due to higher raw material and operating costs. The net profit of RM11.4m came on the back of revenue that grew 19% yoy to RM310.5m. Earnings did not rise in tandem with revenue mainly due to higher raw material costs for its tin can division. The decrease in net profit is also attributed to the lower contribution from Kian Joo Can Factory (KJCF). Contribution from KJCF for the quarter dropped due to higher raw material costs and the continued losses at its cartons division. That said, sales for the all the divisions at Can-One grew, namely: general cans (+9.9%yoy), food (+30.5%yoy) and international trading (+46.2%yoy). Qoq, earnings fell 35% due to the reasons mentioned above.

Revise net profit by 21.6% to factor in higher costs and lower contribution from KJCF. Our earnings estimates for FY18F/FY19F are cut by 21.6%/19.3% to RM65.1m/RM75.4m. We have also revised our volume assumption and raise our revenue estimates by 4.2% for FY18F and FY19F. The lower earnings despite higher sales is due to margin compression as a result of higher raw material and operating costs. We expect second half to be stronger as it takes time for Can-One to pass on some of the raw material costs to its customers.

Maintain BUY with adjusted TP of RM2.71 (previously RM3.46). Our TP of RM2.71 is based on 8x FY18F EPS of 33.9 sen. Our valuation method of 8x PER based on Can-One's two-year average PE band is unchanged. We like Can-One for its attractive valuation, long-term prospects and earnings resilience as a proxy to the consumer staple industry. 

RETURN STATS

Price (31 st May 2018)	RM2.46
Target Price	RM2.71
Expected Share Price Return	+10.2%
Expected Dividend Yield	+1.6%
Expected Total Return	+11.8%

STOCK INFO

FBMKLCI	1,740.62	
Bursa / Bloomberg	5105/ CAN MK	
Board / Sector	Industrial	
Syariah Compliant	Yes	
Issued shares (m)	192.15	
Market cap. (RM'm)	472.70	
Price over NTA	0.61	
52-wk price Range	RM2.38-RM3.48	
Beta (against KLCI)	0.71x	
3-mth Avg Daily Vol	0.06m	
3-mth Avg Daily Value	RM0.14m	
Major Shareholders (%)		
Eller Axis Sdn Bhd	23.5	
Genkho Candoz Sdn Bhd	19.9	
Sanwoi Malaysia Sdn Bhd	4.0	
Price Performance (%)	Absolute	Relative
1 month	-2.4	4.5
3 months	-2.4	-5.6
12 months	-27.6	-26.6

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	886.5	928.2	1136.3	1238.2	1352.6
Pretax Profit (RM'm)	95.5	107.0	82.4	80.4	93.0
Net Profit (RM'm)	77.4	86.4	63.6	65.1	75.4
EPS (sen)	44.4	45.0	33.1	33.9	39.2
EPS growth	6%	1%	-26%	2%	16%
PER (x)	5.5	5.5	7.4	7.3	6.3
DPS (sen)	4.0	4.0	4.0	4.0	4.0
Dividend yield (%)	1.6	1.6	1.6	1.6	1.6
Gearing (x)	0.82	0.64	0.63	0.68	0.71
ROE (%)	11.7	11.5	8.0	8.2	9.4
ROA (%)	5.8	6.2	4.2	4.1	4.6
NTA per share (RM)	3.78	3.89	4.12	4.10	4.14
Price to NTA (x)	0.65	0.63	0.60	0.60	0.59

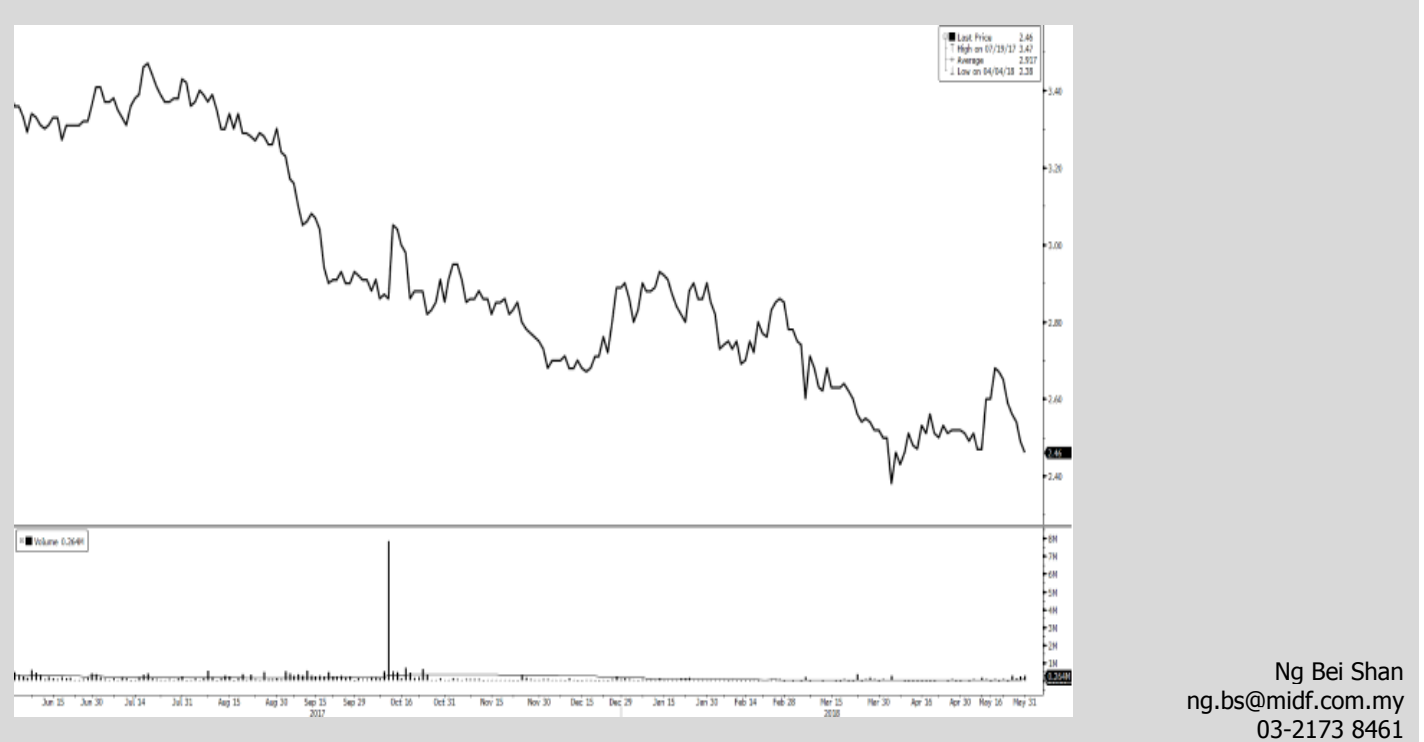
Source: Company, MIDF Research

CAN-ONE: 1QFY18 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	1QFY18	YoY	QoQ	FY18	YoY	
Revenue (RM'm)	310.5	19.0%	3.2%	310.5	19.0%	Higher sales from all divisions
Gross profit (RM'm)	33.4	5.6%	12.6%	33.4	5.6%	Higher raw material costs
EBIT (RM'm)	18.0	-5.9%	39.4%	18.0	-5.9%	Higher overheads
Pretax Profit (RM'm)	16.0	-19.4%	-29.2%	16.0	-19.4%	Lower contribution from KJCF
Net Profit (RM'm)	11.4	-24.2%	-35.0%	11.4	-24.2%	
EPS (sen)	5.9	-24.2%	-35.0%	5.9	-24.2%	
Net DPS (sen)	0.0	N.M.	N.M.	0.0	N.M.	
Margins						
EBIT (%/ ppt)	5.8%	-1.5ppt	1.5ppt	5.8%	-1.5ppt	
Pretax margin (%/ ppt)	5.1%	-2.4ppt	-2.3ppt	5.1%	-2.4ppt	

Source: Company, MIDF Research

DAILY PRICE CHART



Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.