

14 December 2018 | Corporate Update

## Can-One Berhad

*Triggered MGO on Kian Joo*

### INVESTMENT HIGHLIGHTS

- **Triggered MGO for acquiring additional 0.49% stake**
- **Net gearing could increase to 2.19x from 0.51x**
- **Negative view on the MGO**
- **Maintain recommendation and TP pending outcome of the MGO**

**Triggered MGO for acquiring additional 0.49% stake.** Can-One has triggered a mandatory general offer (MGO) for acquiring an extra 0.49% in its 32.9%-owned associate Kian Joo Can Factory Bhd (KJCF) from a single shareholder, the former general manager of Box-Pak (M) Bhd, Tan Kim Seng. The purchase consideration works out to RM6.7m based on its offer price of RM3.10 per share. As a result, Can-One has to make the same offer to other shareholders. Separately, its major shareholder, Yeoh Jin Hoe and parties acting in concert, were reprimanded and fined by the Securities Commission for failing to launch a MGO for the rest of KJCF shares after they triggered the 33% threshold.

**Net gearing could increase to 2.19x from 0.51x** upon full acceptance of the MGO as Can-One will have to gear up to fund the acquisition. We think that 2.19x is a stretch given uncertain macro economy and business outlook (in view of the still unresolved external issues such as the US-China Trade War and Brexit). Historically, Can-One's net gearing had ranged below 1.0x save for 2007 and 2008 at 1.13x and 1.24x respectively.

**Minimal earnings impact with 0.49% stake acquisition** but earnings will turn negative if MGO acceptance levels are higher. Based on our estimation, the 0.49% purchase will not have a meaningful impact on its FY19F earnings but, depending on the MGO acceptance levels, will have negative impact in a range of -8% to -30% due to higher finance costs which possibly offset the higher earnings contribution from KJCF.

**Negative view on the MGO due to steep price and potentially no earnings accretion.** While this presents an opportunity for Can-One to further increase its shareholding in its associate, additional earnings contribution could also be offset by higher borrowing costs. We think that the premium paid by Can-One for KJCF shares in relation to the latter's market price is steep, as it is 51.3% higher than its 5-day VWAP, 47.8% higher than its one-month VWAP, 40.2% higher than its 3-month VWAP, 30.6% higher than its 6-month VWAP and 14.7% higher than its 12-month VWAP. On the other hand, the indicative offer price represents a 6% discount to its net asset per share. PER of 15.3x is within peers' average but EV/EBITDA of 10.2x is higher than peer average.

**Maintain NEUTRAL**

**Unchanged Target Price (TP):RM2.09  
(Under Review)**

RETURN STATS	
Price (13 <sup>h</sup> December 2018)	RM1.93
Target Price	RM2.09
Expected Share Price Return	+8.3%
Expected Dividend Yield	+2.1%
<b>Expected Total Return</b>	<b>+10.4%</b>

STOCK INFO		
KLCI	1,676.00	
Bursa / Bloomberg	5105/ CAN MK	
Board / Sector	Industrial	
Syariah Compliant	Yes	
Issued shares (m)	192.15	
Market cap. (RM'm)	370.86	
Price over NTA	0.45	
52-wk price Range	RM1.92-RM2.99	
Beta (against KLCI)	0.93x	
3-mth Avg Daily Vol	0.0m	
3-mth Avg Daily Value	RM0.06m	
Major Shareholders (%)		
Eller Axis Sdn Bhd	23.5	
Genkho Candoz Sdn Bhd	19.9	
Sanwoi Malaysia Sdn Bhd	4.1	
Price Performance (%)	Absolute	Relative
1 month	-2.0	-1.3
3 months	-16.1	-12.7
12 months	-28.5	-25.0

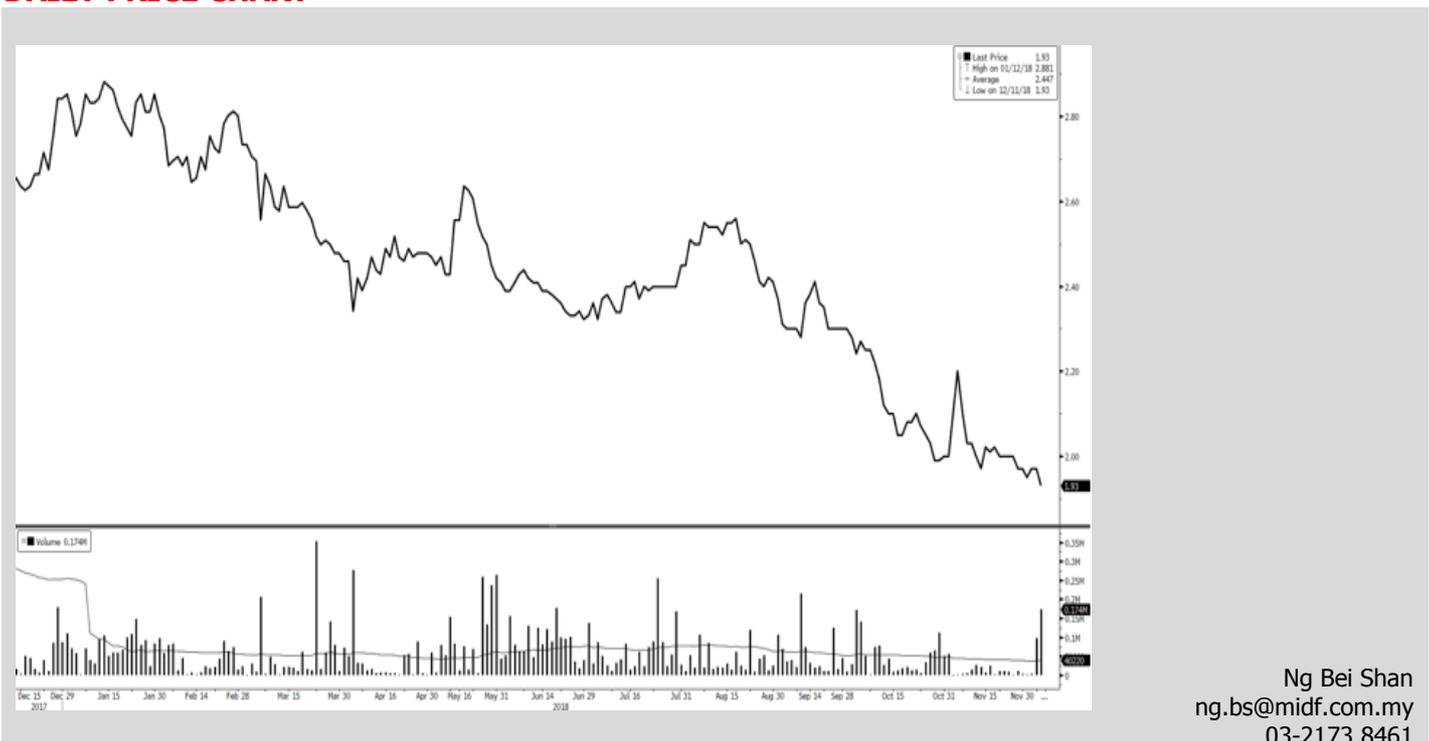
**Maintain recommendation and TP pending outcome of the MGO.** Our TP of RM2.09 (based on 8x FY19F EPS of 26.1 sen) is unchanged pending the outcome of the MGO. Likewise, we maintain our Neutral stance pending the outcome of the MGO. On this score, high MGO acceptance levels may result in a downward revision to our TP and possibly a downgrade in our recommendation.

## INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	886.5	928.2	1136.3	1212.1	1339.6
Pretax Profit (RM'm)	95.5	107.0	82.4	57.9	66.0
<b>Net Profit (RM'm)</b>	<b>77.4</b>	<b>86.4</b>	<b>63.6</b>	<b>43.5</b>	<b>50.3</b>
EPS (sen)	44.4	45.0	33.1	22.6	26.2
EPS growth	6%	1%	-26%	-32%	16%
PER (x)	4.4	4.3	5.8	8.5	7.4
DPS (sen)	4.0	4.0	4.0	4.0	4.0
Dividend yield (%)	2.1	2.1	2.1	2.1	2.1
Gearing (x)	0.82	0.64	0.63	0.67	0.77
ROE (%)	11.7	11.5	8.0	5.2	6.2
ROA (%)	5.8	6.2	4.2	2.7	2.9
NTA per share (RM)	3.78	3.89	4.12	4.31	4.21
Price to NTA (x)	0.51	0.50	0.47	0.45	0.46

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.