

CCK Consolidated Holdings Berhad

(7035 | CCK MK) Main | Consumer Products & Services | Retail

NON-RATED

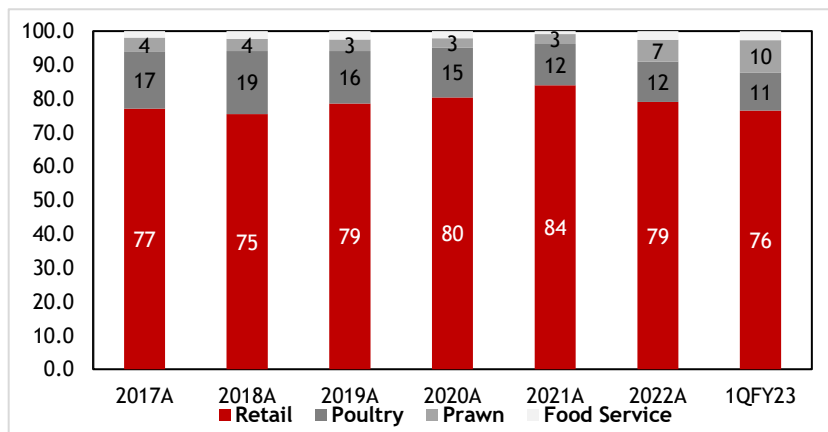
Exploring East Malaysia's Vertical Integration Leader

Fair Value: RM0.96

KEY INVESTMENT HIGHLIGHTS

- **Vertically Integrated Supply Chain**
- **Largest Fresh Mart Operator in East Malaysia**
- **Largest integrated poultry supplier in Sarawak**
- **Additional revenue from prawn segment ahead**
- **Solid earnings**
- **Non-rated with Fair Value of RM0.96**

Vertically Integrated Supply Chain. CCK Consolidated Holdings ("CCK") was listed on the Second board of KLSE on 10th December 1997. Its business operations are located in Sarawak, Sabah, and Indonesia (Jakarta, Pontianak, and Tarakan). The group has divided its business into four segments, namely retail, poultry, prawn, and food service. In FY22, the retail segment contributed the highest revenue, followed by poultry, prawn, and food service. Additionally, 80% of the group's revenue in FY22 came from its vertically integrated supply chain, which includes poultry products, prawns, CCK's house brands, frozen goods, and fresh fruits and vegetables.

Chart 1: Revenue Breakdown


Source: Company, MIDFR

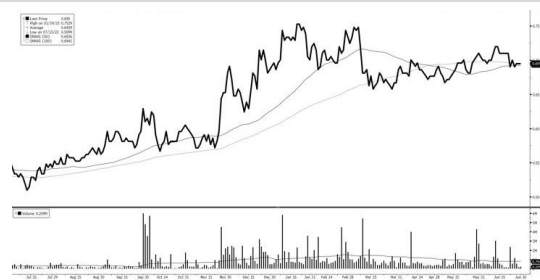
Retail segment

Largest Fresh Mart Operator in East Malaysia. The retail segment is the group's core business, accounting for 79.1% of the total revenue in FY22. It operates retail stores, supermarkets, and wholesale stores throughout East Malaysia. As of 1QFY23, CCK has 70 retail stores and 3 supermarkets under the CCK Local brands. Furthermore, the group has 1 wholesale store and 7 partner retail stores in Pontianak, Indonesia. These retail stores in Malaysia and Indonesia collectively serve approximately 20,000 customers daily. The group serves both B2B and B2C customers in this segment. Specifically, the group's retail stores and supermarkets cater to end-customers for food products, while the wholesale store serves bulk buyers from the HORECA industry, other supermarket operators, and sundry stores.

RETURN STATISTICS

Price @ 30 th June 2023 (RM)	0.695
Expected share price return (%)	+38.6
Expected dividend yield (%)	4.4
Expected total return (%)	+43.0

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.4	-1.1
3 months	0.0	3.4
12 months	21.9	28.4

INVESTMENT STATISTICS

FYE Dec	2023F	2024F	2025F
Revenue	962.9	999.6	1,052.5
EBITDA	104.8	112.6	117.7
Profit before tax (PBT)	81.6	86.0	90.5
Core PATANCI	63.3	66.7	70.2
Core EPS (sen)	10.1	10.7	11.3
DPS (sen)	3.0	3.2	3.4
Dividend Yield (%)	4.4	4.6	4.9

KEY STATISTICS

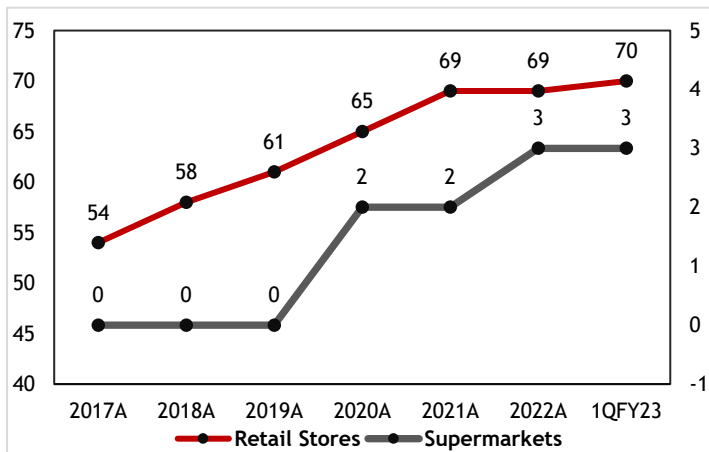
FBM KLCI	1,376.68
Issue shares (m)	630.72
Estimated free float (%)	33.47
Market Capitalisation (RM'm)	431.84
52-wk price range	RM0.53-RM0.79
3-mth average daily volume (m)	0.79
3-mth average daily value (RM'm)	0.57
Top Shareholders (%)	
CENTRAL COLDST SA SDN BHD	18.1
SK Tiong Enterprise Sdn Bhd	7.4
Tiong Su Kouk	5.8

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Diversified product offering. The group provides a wide range of products, including fresh chicken, processed foods (branded as CCK House Brand), frozen foods, ready-to-eat roasted chicken, fresh vegetables and fruits, as well as seasoning and spices. These products are competitively priced and cater to both urban and rural customers. We gather that the group sources all fresh chicken products internally, and 80% of the processed foods under CCK's brand are produced in its own factory, with the remaining 20% outsourced through OEM.

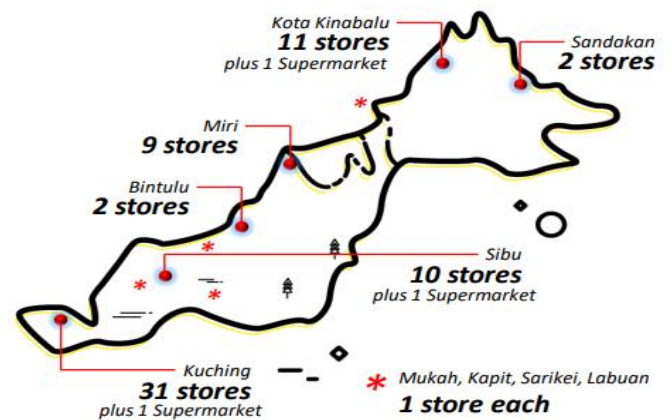
More retail store opening ahead. Moving forward, the group targets to open two CCK Fresh Mart outlets in FY23. The payback period for opening one retail store of standard size is approximately 6 months. Additionally, the group plans to establish one more supermarket with a significantly larger variety of products in East Malaysia within the next two years. Meanwhile, management highlighted that all store locations have been carefully chosen to ensure profitability.

Chart 2: Number of Retail Stores and Supermarkets



Source: Company, MIDFR

Chart 3: Retail Segments

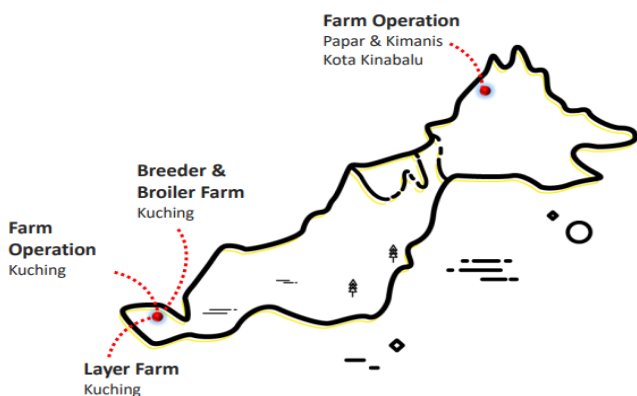


Source: Company

Poultry segment

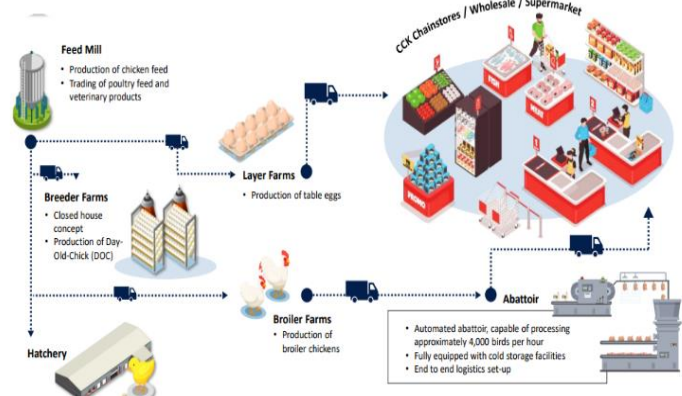
Largest integrated poultry supplier in Sarawak. CCK is the largest integrated poultry supplier in Sarawak, with its poultry segment being the second-largest contributor to FY22's revenue. The segment focuses on rearing and producing poultry products, with 100% of the production serving retail and institutional customers. The company operates farms, a feed mill, a hatchery, and an abattoir in Sarawak and Sabah. Moreover, to ensure quality, CCK's abattoir sources some of its chicken and eggs from local poultry farmers. In particular, CCK provides these farmers with animal feed and nutrition, thereby maintaining a high standard of quality throughout the supply chain.

Chart 4: Poultry segment



Source: Company

Chart 5: CCK's Poultry Business



Source: Company

Associate stake in Goldcoin Sarawak. CCK holds a 27.2% stake in Goldcoin Sarawak (engages in the manufacturing and sale of animal feeds) while the remaining 72.8% stake is owned by Aboitiz, a Philippines conglomerate. Note that Goldcoin Sarawak under the brand name of Goldcoin is a pioneering manufacturer of scientifically balanced animal feed and nutrition in Asia. We gather that Goldcoin Sarawak purchases raw materials such as corn and soybean meal to process into animal feeds. CCK, in turn, sources its animal feed and nutrition from Goldcoin. With Goldcoin's reputation as a pioneer and one of the largest manufacturers of animal feed in Asia, this ensures a stable supply of animal feed and provides economies of scale in sourcing raw materials for CCK, which may help mitigate potential raw material price increases. Additionally, CCK sources animal feeds and nutrition from Goldcoin to sell to local poultry farmers, thereby diversifying the risk of increased raw material costs.

Manageable impact of price ceilings for chicken and eggs. Similar to Peninsular Malaysia, price ceilings for chicken and eggs have been imposed in East Malaysia, but it varies across cities in Sabah and Sarawak. However, the impact is manageable because CCK has implemented effective cost control measures and benefits from a favorable product mix and economies of scale due to its stake in Goldcoin. Government subsidies for chicken and eggs further help offset the impact of price ceilings and the weakening ringgit. The normalization of forward prices for corn and soybean suggests lower raw material costs in the future, which will further lower input costs. This could support CCK's profit margin and encourage continued chicken and egg production to ensure an adequate supply in the market.

Higher chicken and egg prices in Sarawak. Historically, chicken and egg prices in Sarawak have been higher than the national average in Malaysia. Although there was a downward trend in prices for chicken and eggs in Sarawak on a monthly basis in May 2023, the average costs remained elevated compared to the previous year and 2021.

Table 1: Malaysia vs. Sarawak Monthly Hen's Egg and Chicken Statistics

Data	Average monthly data					vs. 2021		
	May-23	Apr-23	May-22	YoY (%)	MoM (%)	May-23	May-21	chg (%)
Malaysia:								
Hen's Egg Grade A (each)	0.47	0.47	0.45	4.3	(0.6)	0.47	0.38	24.0
Hen's Egg Grade B (each)	0.45	0.45	0.43	5.6	(0.9)	0.45	0.35	29.3
Hen's Egg Grade C (each)	0.43	0.44	0.41	4.9	(1.8)	0.43	0.32	34.6
Chicken (per kg)	10.45	10.45	9.70	7.7	0.0	10.45	8.44	23.8
Sarawak:								
Hen's Egg Grade A (each)	0.50	0.67	0.45	10.8	(25.1)	0.50	0.40	26.8
Hen's Egg Grade B (each)	0.54	0.58	0.43	25.2	(6.1)	0.54	0.37	45.8
Hen's Egg Grade C (each)	0.51	0.56	0.42	21.8	(9.1)	0.51	0.35	44.2
Chicken (per kg)	11.78	11.78	10.65	10.6	0.0	11.78	9.62	22.5


Sources: MIDFR

Other segment

Additional revenue from prawn segment ahead. The prawn segment, which accounted for only 6.5% of total revenue in FY22, is expected to receive a boost from the newly acquired business in Indonesia. The group is involved in prawn and seafood production for both domestic and export markets, including Australia, Hong Kong, Japan, Dubai, Vietnam, and Indonesia. Additionally, the group operates 81 ponds in Sarawak. Going forward, the normalized additional revenue contribution from the newly acquired PT.Bonanza Pramata Abadi in July FY22 is anticipated to drive revenue growth for FY23F.

Financial performance

Solid earnings. The group reported a higher FY22's core PATANCI of RM49.6m (+73.8%yoy), which in tandem with higher revenue growth of +29.2%yoy to RM885.7m. This was mainly driven by improvements in all business segments, particularly the retail segment, a turnaround in the poultry segment, and the additional revenue contribution from PT Bonanza in the second half of FY22, which bolstered the prawn segment. Looking ahead, we expect a 3-year CAGR of 13.6% for FY23F, driven by the additional revenue from the newly acquired PT Bonanza, resilient demand for staple food like poultry, prawn products. We also anticipate a higher 3-year core PATANCI CAGR of 19.6% for FY23F, primarily due to increased revenue and lower raw material costs resulting from normalized global prices for animal feed. Consequently, we project a dividend per share of 3.0sen for FY23F, based on the company's dividend policy of paying 30% of PATAMI. That translates into dividend yield of 4.4%.

Non-rated with Fair Value of RM0.96. Our FV is based on a PER of 9x (close to its 3-year historical mean PER) that pegged to a FY24F EPS of 10.70sen. We utilize CCK's 3-year historical mean PER to provide a more accurate reflection of its short-to-medium-term prospects. The company is currently trading at an attractive FY24F's PER of 6.5x, below its historical 3-year -mean PER of 9x. 

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023F	2024F	2025F
Revenue	685.6	885.7	962.9	999.6	1,052.5
Cost of Sales	(565.9)	(724.7)	(786.3)	(812.2)	(853.5)
Gross Profit	119.6	161.0	176.6	187.4	199.0
Other Income	4.7	32.4	35.2	36.5	38.5
Selling and Distribution expenses	(20.6)	(22.8)	(25.7)	(27.4)	(29.3)
Administrative expenses	(26.8)	(29.7)	(34.2)	(37.3)	(40.4)
Other operating expenses	(48.6)	(62.0)	(67.8)	(70.7)	(74.8)
EBITDA	49.5	105.0	104.8	112.6	117.7
EBIT	27.4	78.9	84.1	88.6	93.0
Net finance (expenses)/income	(1.7)	(2.1)	(2.6)	(2.6)	(2.6)
Profit before Associates & JV	25.7	76.9	81.6	86.0	90.5
Profit before tax (PBT)	31.2	81.4	81.6	86.0	90.5
Profit After tax (PAT)	24.5	63.1	63.3	66.7	70.2
Core PATANCI	28.5	49.6	63.3	66.7	70.2
Core EPS (sen)	4.6	7.9	10.1	10.7	11.3
DPS (sen)	1.3	3.5	3.0	3.2	3.4

Balance Sheet (RM'm)	2021A	2022A	2023F	2024F	2025F
Property, plant and equipment	204.6	200.8	217.3	230.2	242.8
Total Non-current assets	258.1	246.9	262.9	274.8	288.0
Inventories	57.2	106.1	92.5	98.9	109.8
ST - Trade and other receivables	45.6	62.1	64.9	68.1	72.2
Cash and cash equivalents	51.5	56.6	58.4	60.1	62.6
Total current assets	177.0	258.4	254.7	266.0	285.8
Total Assets	435.1	505.3	517.6	540.8	573.7
Total Equity	314.2	362.3	365.0	384.0	411.3
LT Loans and borrowings	7.1	6.3	6.3	6.4	6.5
Total Non-current liabilities	31.4	27.9	29.8	30.8	32.1
ST Trade and other payables	49.2	60.9	67.1	69.4	72.6
ST Loans and borrowings	33.2	42.1	42.5	42.9	43.4
Total Current Liabilities	89.4	115.2	122.8	126.1	130.3
Total Liabilities	120.8	143.1	152.6	156.8	162.4

Cash Flow (RM'm)	2021A	2022A	2023F	2024F	2025F
Pretax profit	31.2	81.4	81.6	86.0	90.5
Cash flow from operations	38.2	31.0	60.5	61.3	64.0
Cash flow from investing	(21.3)	(18.1)	(36.0)	(36.3)	(36.7)
Cash flow from financing	(19.3)	(10.8)	(23.0)	(23.3)	(24.7)
Net cash flow	(2.3)	2.1	1.4	1.6	2.6
(+/-) Adjustments	0.4	(2.2)	0.0	0.0	0.0
Net cash/(debt) b/f	59.1	57.2	57.0	58.4	60.1
Net cash/(debt) c/f	57.2	57.0	58.4	60.1	62.6

Key Metrics	2021A	2022A	2023F	2024F	2025F
Effective tax rate (%)	21.5	22.4	22.4	22.4	22.4
PER (x)	17.8	6.9	6.8	6.5	6.2
Dividend Yield (%)	1.8	5.0	4.4	4.6	4.9
Net Cash/Market Capitalisation (%)	2.6	1.9	2.2	2.5	2.9

Profitability Margins	2021A	2022A	2023F	2024F	2025F
Gross Profit Margin (%)	17.4	18.2	18.3	18.7	18.9
EBIT Margin (%)	4.0	8.9	8.7	8.9	8.8
Core PATANCI Margin (%)	4.2	5.6	6.6	6.7	6.7

Source: Bloomberg, MIDFR

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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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology