

# Guan Chong Berhad

(5102 | GUAN MK) Main | Consumer Products &amp; Services | Food &amp; Beverages

**NON-RATED**

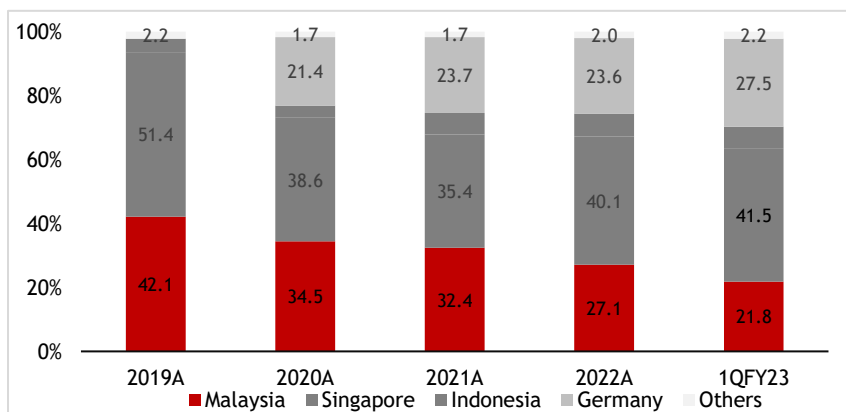
## Unveiling Asia's Largest Cocoa Processor

**Fair Value: RM2.55**

### KEY INVESTMENT HIGHLIGHTS

- **Largest cocoa processor in Asia**
- **Additional production capacity ahead**
- **Higher average selling prices ahead on the back of rising cocoa price**
- **Steady earnings anticipated in the near term**
- **Non-rated with Fair Value of RM2.55**

**Largest cocoa processor in Asia.** Guan Chong Berhad ("GCB") was listed on the Main Market of Bursa Malaysia in 2005. GCB involved in the manufacturing of premium cocoa mass, butter, cake, and powder, as well as industrial chocolate and consumer cocoa-based F&B products. Its products are marketed under trademarks such as Favorich, Carlyle Cocoa, Schokinag, and Favorich chocolate. GCB is the largest cocoa processor in Asia and 4th in the world. The group's business segment by location are Malaysia, Singapore, Indonesia, and Germany, with the major contributors being Malaysia and Singapore in FY2022.

**Chart 1: Revenue Breakdown**


Source: Company, MIDFR

**Visited Guan Chong plant.** We recently visited Guan Chong's production plant at Pasir Gudang, Johor. The manufacturing facility includes two production lines with a combined production capacity of 10 tonnes. In particular, the first production line has a capacity of 3 tonnes, while the second production line has a capacity of 7 tonnes. The plant only processes and packages products such as cocoa powder, cocoa cake, and cocoa butter. Additionally, as part of its sustainability efforts, the internally generated waste cocoa shells from production facility are sold as fertilizer and animal feed. Meanwhile, the manufacturing plant has an optimal utilization rate of 88%-90%, compared to the average utilization rate of 86% for the group. The plant is fully automated, reducing the dependency on labor. Specifically, it has around 170 workers in the production facility, including workers for operation, production, and maintenance.

### RETURN STATISTICS

Price @ 18 <sup>th</sup> Jul 2023 (RM)	2.21
Expected share price return (%)	+15.61
Expected dividend yield (%)	2.14
<b>Expected total return (%)</b>	<b>+17.75</b>

### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-7.1	-8.2
3 months	-4.3	-16.6
12 months	0.5	2.3

### INVESTMENT STATISTICS

FYE Dec	2023F	2024F	2025F
Revenue	4,725.4	5,028.7	5,569.2
<b>EBIT</b>	<b>282.4</b>	<b>296.0</b>	<b>344.0</b>
PBT	192.6	212.3	270.7
<b>Core PATANCI</b>	<b>190.0</b>	<b>206.3</b>	<b>253.2</b>
Core EPS (sen)	17.4	18.9	23.2
DPS (sen)	4.4	4.7	5.8
Dividend Yield (%)	2.0	2.1	2.6

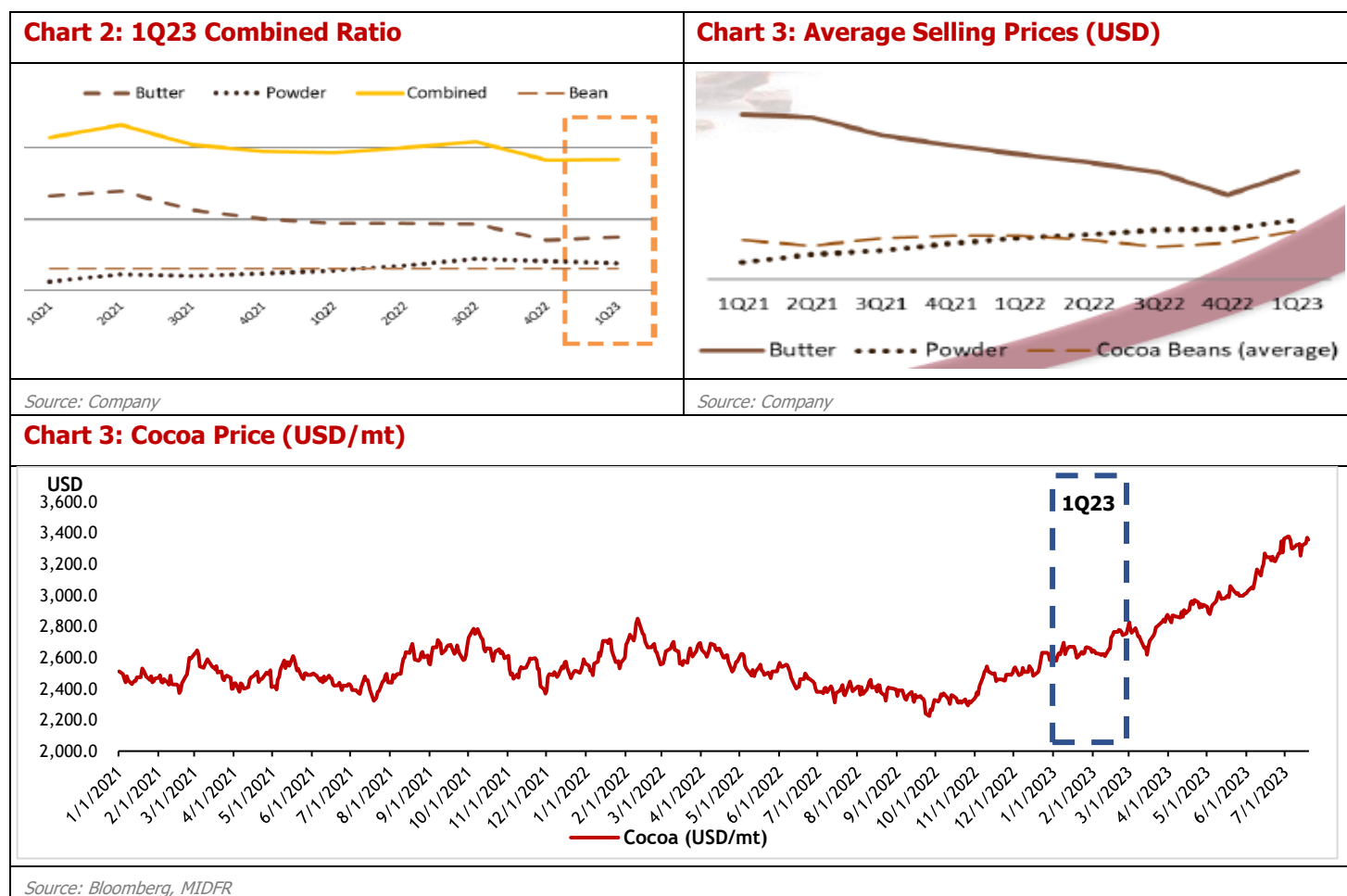
### KEY STATISTICS

FBM KLCI	1,403.03
Issue shares (m)	1,174.91
Estimated free float (%)	21.80
Market Capitalisation (RM'm)	2,595.68
52-wk price range	RM2.02 - RM2.8
3-mth average daily volume (m)	0.26
3-mth average daily value (RM'm)	0.63
Top Shareholders (%)	
Guan Chong Resources Sdn Bhd	49.77
MISI GALAKAN SDN BHD	4.70
Employees Provident Fund Board	3.94

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**Additional production capacity ahead.** As of 5 April 2023, GCB has a total bean grinding capacity of 337k mt per annum, a value-added capacity of 99k mt per annum, and an industrial chocolate capacity of 95k mt per annum. The group's average utilization rate for 1Q23 is 86%. Moving forward, the group expects an additional 21k mt of production capacity for industrial chocolate in CY23, supported by the new UK production facility (16k mt) and additional machinery set to be installed at the Schokinag plant (5k mt) in Germany.

**Higher average selling prices ahead on the back of rising cocoa price.** Moving forward, we gather that the combined ratio is expected to remain stable. However, we expect the cocoa price is expected to remain high due to continuous lower bean production, on the back of extreme weather conditions, swollen shoot virus, and fertilizer shortage. Therefore, with the rising cocoa prices and the stable combined ratio, we can expect higher average selling prices for both cocoa butter and powder in the near term.



**Steady earnings anticipated in the near term.** Guan Chong recorded a higher core PATANCI of RM184.3m (+31.2%yoy) for FY22, in line with a higher revenue growth of +12.7%yoy to RM4.42b. This was mainly driven by a higher ASP of cocoa powder, greater sales tonnage of other cocoa ingredients, as well as increased other income. Moving forward, we anticipate a revenue growth of 6.9%yoy for FY23F, driven by (1) higher ASP due to rising cocoa prices and a stable combined ratio, and (2) stable global demand. Meanwhile, we expect slower core PATANCI growth of +3.1%yoy due to higher finance costs resulting from increased borrowings and interest rate hikes across Malaysia, the USA, the UK, and Europe. Note that the group's borrowings are mostly in USD (39%), followed by RM (38%), GBP (14%), and EUR (9%) as of 1Q23. On the other hand, we anticipate a dividend per share of 4.4sen for FY23F, based on the company's dividend policy of paying at least 25% of net profit. This translates into a dividend yield of 2.6%.

**Non-rated with Fair Value of RM2.55.** Our FV is based on a PER of 13.5x (its 5-year historical mean PER) that pegged to a FY24F EPS of 18.93sen. We value GCB's at 5-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 11.7x, below its historical 5-year -mean PER of 13.5x.



**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
<b>Revenue</b>	<b>3,923.3</b>	<b>4,419.8</b>	<b>4,725.4</b>	<b>5,028.7</b>	<b>5,569.2</b>
Cost of sales	(3,575.2)	(4,042.2)	(4,295.7)	(4,566.8)	(5,032.5)
<b>Gross Profit</b>	<b>348.1</b>	<b>377.6</b>	<b>429.7</b>	<b>461.8</b>	<b>536.8</b>
Other Income	66.0	97.6	106.4	112.1	122.9
Selling and distribution costs	(61.3)	(64.1)	(68.6)	(72.6)	(79.6)
Administrative expenses	(98.2)	(100.0)	(112.3)	(125.4)	(145.9)
Other expenses	(25.5)	(66.8)	(72.9)	(79.9)	(90.2)
<b>EBIT</b>	<b>229.2</b>	<b>244.2</b>	<b>282.4</b>	<b>296.0</b>	<b>344.0</b>
Net finance (expenses) / income	(32.8)	(56.0)	(89.8)	(83.7)	(73.3)
Associate & JV	0.4	(0.1)	0.0	0.0	0.0
<b>Profit Before Tax (PBT)</b>	<b>196.8</b>	<b>188.1</b>	<b>192.6</b>	<b>212.3</b>	<b>270.7</b>
Income Tax expense	(41.9)	(40.7)	(40.3)	(44.4)	(56.6)
<b>Core PATANCI</b>	<b>140.4</b>	<b>184.3</b>	<b>190.0</b>	<b>206.3</b>	<b>253.2</b>
Core EPS (sen)	12.9	16.9	17.4	18.9	23.2
DPS (sen)	4.0	3.5	4.4	4.7	5.8

<b>Balance Sheet (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
Property, plant and equipment	957.5	1,196.1	1,291.8	1,356.3	1,437.7
<b>Total non-current assets.</b>	<b>1,072.4</b>	<b>1,308.2</b>	<b>1,401.5</b>	<b>1,463.8</b>	<b>1,543.1</b>
Inventories	1,875.5	1,589.2	1,620.1	1,619.0	1,623.5
Trade and other receivables	431.6	624.7	649.4	656.5	690.8
Cash and bank balances	73.8	69.1	124.4	126.9	129.4
<b>Total current assets</b>	<b>2,423.0</b>	<b>2,352.2</b>	<b>2,463.7</b>	<b>2,472.9</b>	<b>2,514.9</b>
<b>Total Asset</b>	<b>3,495.5</b>	<b>3,660.4</b>	<b>3,865.2</b>	<b>3,936.7</b>	<b>4,058.0</b>
<b>Total Equity</b>	<b>1,342.3</b>	<b>1,638.6</b>	<b>1,685.3</b>	<b>1,775.5</b>	<b>1,884.0</b>
Borrowings	391.8	364.4	911.0	883.7	813.0
<b>Total non-current liabilities</b>	<b>516.2</b>	<b>502.5</b>	<b>1,055.2</b>	<b>1,034.0</b>	<b>969.7</b>
Trade and other payables	683.2	611.6	380.4	424.6	491.3
Borrowings	391.8	364.4	911.0	883.7	813.0
<b>Total current liabilities</b>	<b>1,636.9</b>	<b>1,519.3</b>	<b>1,124.7</b>	<b>1,127.2</b>	<b>1,204.3</b>
<b>Total Liabilities</b>	<b>2,153.1</b>	<b>2,021.8</b>	<b>2,179.9</b>	<b>2,161.3</b>	<b>2,173.9</b>

<b>Cash Flow (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
Pretax profit	196.8	188.1	192.6	212.3	270.7
Cash flow from operations	(79.1)	277.7	85.4	418.0	445.3
Cash flow from investing	(164.6)	(274.1)	(350.1)	(301.1)	(325.4)
Cash flow from financing	241.2	(14.4)	341.8	(114.4)	(117.3)
<b>Net cash flow</b>	<b>(5.4)</b>	<b>(5.6)</b>	<b>77.1</b>	<b>2.5</b>	<b>2.5</b>
(+/-) Adjustments	(3.0)	5.1	0.0	0.0	0.0
<b>Net cash/(debt) b/f</b>	<b>58.3</b>	<b>52.9</b>	<b>47.3</b>	<b>124.4</b>	<b>126.9</b>
<b>Net cash/(debt) c/f</b>	<b>52.9</b>	<b>47.3</b>	<b>124.4</b>	<b>126.9</b>	<b>129.4</b>

<b>Key Metrics</b>	<b>2021A</b>	<b>2022A</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
Effective tax rate (%)	21.3	21.6	20.9	20.9	20.9
PER (x)	17.2	13.1	12.7	11.7	9.5
Inventories (Days)	162.2	156.4	137.7	129.4	117.7
Gearing ratio (x)	0.9	0.7	0.9	0.8	0.7

<b>Profitability Margins</b>	<b>2021A</b>	<b>2022A</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
EBIT Margin (%)	5.8	5.5	6.0	5.9	6.2
PBT Margin (%)	5.0	4.3	4.1	4.2	4.9
Core PATANCI Margin (%)	3.6	4.2	4.0	4.1	4.5

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