

26 April 2017

CAB Cakaran Corporation

Calling it a day with 166% gains

By The Research Team research@kenanga.com.my

INVESTMENT MERIT

Since our Trading Buy report dated 3-Mar-2015, CAB's share price has gained 166% amid an expansion-led earnings growth (FY13-FY16 CAGR of 29.3%). Notable M&A activities include the acquisition of 200.2 acres of agricultural lands with six breeder poultry farms for RM63m and more recently, the proposed acquisition of 26 broiler poultry farms for RM58.5m. Although CAB's growth prospects are promising, we believe the positives have already been priced in. Taking into account the warrants dilution, CAB currently trades at a FY18E FD PER of 17.3x which we believe is at best, fairly valued. As such we bring closure to our Trading Buy recommendations and downgrade the stock to **NOT RATED**.

CAB is the leading integrated broiler farmers in the country with a capacity of 5m broilers/month. For FY16, the Agricultural/poultry farming/food processing accounted for the bulk of revenue at 86.3%, followed by Supermarkets (11.3%), and others (2.4%).

CAB has stellar track records with CAB's revenue growing at a 3-year CAGR of 21.6% while its Net Profit ballooned at a higher CAGR of 29.3% (FY13-FY16). In the recent FY16 results, revenue crossed the billion-Ringgit mark with an 23.5% YoY growth to RM1,101.3m. Revenue was driven by an increase in the production of sales of day-old-chicks broilers, high trading volumes of feeds and higher ASPs. Concurrently, the higher trading volumes and ASPs also led to core net profit growing to RM20.5m (+28.0% YoY) and core net margins expanding by 7bps for the year.

Still on an expansion spree. Upon the completion of the Farm's Best poultry farms acquisition (1H17), CAB could add another 2.5 m broilers/month (+50%) to its existing 5m/month capacity and the production of day-old chicks will also increase from 4.5m/ month to 6m/month. Efforts are also being made to form a strategic partnership with Salim Group to set up integrated poultry farms in the Indonesian market where the per capita consumption is merely 6.3kg (Malaysia: 40.6kg). However, earnings will only begin to reflect in FY19 given the 1-year construction period. At the same time, CAB will continue to upgrade its farms to the more modern and hygienic closed-farm types, which enable incremental increase in capacities and efficiency.

Net profit to grow by 29.2%/18.9% for FY17E/FY18E Looking ahead, we are projecting revenue to grow by 17.0%/14.0%, taking into account the new capacities and a higher ASP assumption. At the same time, greater economies of scale and operational efficiency should also see net margins expanding by 20bps/9bps to 2.06%/2.15% in FY17E/FY18E.

Positives already priced-in? Although CAB's growth prospects are promising, we are guarded on valuations and believe that the positives have already been priced in. Taking into account the warrants dilution, CAB currently trades at a FY18E FD PER of 17.3x, compared to the peer average of 8.5x and FBMSC index at 12.5x. We believe that CAB is at best fairly valued. As such we bring closure to our former Trading Buy recommendation and downgrade the stock to **NOT RATED**.

	Rating	Fair Value
Last Price	-	RM2.47
Kenanga	Not Rated	RM2.47
Consensus	-	-

Stock Information

Shariah Compliant	Yes
Stock Name	CAB CAKARAN CORP BHD
CAT Code	7174
Industry	Food
Industry Sub-sector	Poultry
YTD stock price chg	60.39%
Market Cap (RM'm)	447.21
Issued shares (m)	181.05
52-week range (Hi)	2.62
52-week range (Low)	1.52
3-mth avg daily vol:	693750
Free Float	35%
Beta	0.37
Altman's Z-score	2.19

Major Shareholders

Ah Bee Chuah	31.31%
Plant Wealth Holding	18.84%
Kim Keow Chan	16.06%

Financials

FY Sep (RM m)	2016A	2017E	2018E
Revenue	1,101.3	1,288.2	1,469.2
EBITDA	73.5	80.2	89.9
PBT	46.7	41.8	48.3
Net Profit (NP)	26.0	26.5	31.6
Core NP	20.5	26.5	31.6
Basic EPS (sen)	14.9	14.7	17.4
FD EPS (sen)	9.3	12.0	14.2
BV/Share (RM)	1.4	1.5	1.6
FD PER (x)	26.9	20.8	17.5
Price/BV (x)	1.8	1.7	1.5
Net Gearing (x)	0.62	0.60	0.54
DPS (sen)	1.0	1.5	1.7
Div Yield (%)	0.4	0.6	0.7

Quarterly Financial Data (RM'm)

	3Q16	4Q16	1Q17
Revenue	272.1	307.9	349.5
PBT	10.6	29.6	12.9
Net Profit (NP)	5.2	18.8	7.3
Basic EPS (sen)	2.9	10.4	4.1
Revenue Growth (QoQ)	1.7%	13.2%	13.5%
EPS growth (QoQ)	-54.6%	259.0%	-60.9%
NP Margin	1.92%	6.10%	2.10%

Peers Comparisons

	PER (FY18E)	Div. Yld (%)	Mkt Cap (RM'm)
PWF	9.1	4.8	142.8
TEOSEN	8.0	3.2	309.0
LAYHONG	-	-	535.7

Average	8.5	4.0	329.2
FBMSC	12.5	2.6	-

Daily Charting – CAB Cakaran Corporation Bhd



Comment:

Until recently, CAB's share price had been stuck within a sideways hover for a year. Nevertheless, the share price finally broke out of this sideways trend at RM1.80 last month, before commencing a strong rally to as high as RM2.62 earlier this month. Overall, CAB's short-longer term trend is positive, with bias to remaining on the upside despite. However, volume would need to pick up substantially for a sustainable move past the RM2.62 (R1) towards RM2.87 (R2). Downside support levels are RM2.25 (S1) and RM2.08 (S2).

Source: Kenanga Research

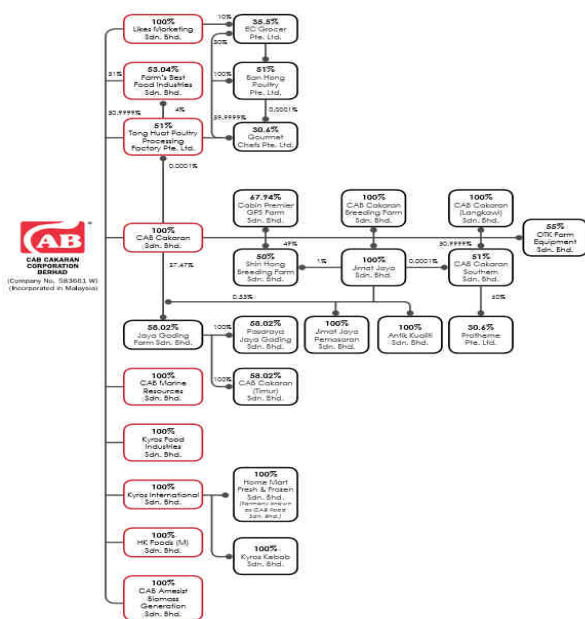
About the stock:

Name : CAB Cakaran Corporation Bhd
 Bursa Code : CAB
 CAT Code : 7174

Key Support & Resistance level

Resistance : RM2.62 (R1) RM2.87 (R2) RM3.00 (R3)
 Support : RM2.25 (S1) RM2.08 (S2) RM2.00 (S3)
 Outlook : Positive

TYPE OF PRODUCTS



BUSINESS OVERVIEW

CAB Cakaran Corporation Bhd (CAB) is one of the largest food producers in Malaysia listed on the Main Board of Bursa Malaysia. The company has more than 30 years' experience in the food business and is one of the largest poultry farmers in Malaysia with production capacity of 5m birds/month. Additionally, CAB is also involved in downstream business particularly value-added food products like frankfurters, nuggets, burgers and traditional dim sum.

BUSINESS SEGMENTS

CAB's segments include investment holding; agricultural/poultry farming/food processing; marine products manufacturing; fast food business; trading/value added products manufacturing, and supermarket.

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