



AmInvestment Bank

## Company report

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# CHIN TECK

(CTP MK, CTPB.KL)

Brought to you by BURSA MALAYSIA

RISE (Research Incentive Scheme)

22 Dec 2022

To complete acquisition of Fauzi-Lim by 31 Jan 2023

## HOLD

(Maintained)

Rationale for report: Company Update

Price	RM8.35
Fair Value	RM7.55
52-week High/Low	RM9.77/RM6.741

### Key Changes

Fair value	Unchanged
EPS	Unchanged

YE to Aug	FY22	FY23F	FY24F	FY25F
Revenue (RMmil)	260.3	196.3	196.3	196.3
Net Profit (RMmil)	107.5	69.2	71.8	76.7
EPS (sen)	117.7	75.8	78.6	84.0
EPS growth (%)	57.9	(35.6)	3.7	6.9
Consensus net (RMmil)	-	-	-	-
DPS (sen)	42.0	30.0	33.0	36.0
PE (x)	7.1	11.0	10.6	9.9
EV/EBITDA (x)	2.9	4.3	4.1	3.5
Div yield (%)	5.0	3.6	4.0	4.3
ROE (%)	14.0	8.3	8.2	8.4
Net gearing (%)	na	na	na	na

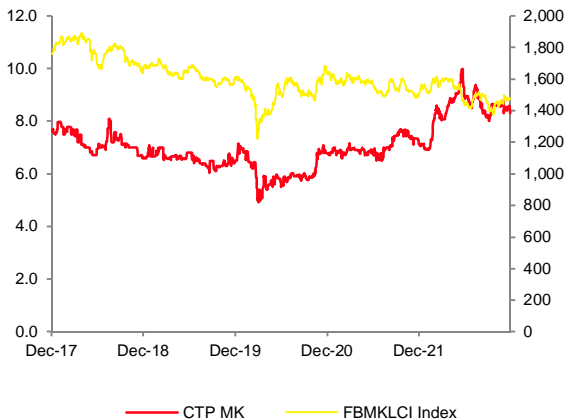
### Stock and Financial Data

Shares Outstanding (million)	91.4
Market Cap (RM mil)	763.2
Book value (RM/share)	8.00
P/BV (x)	1.0
ROE (%)	9.6
Net Gearing (%)	na

Major Shareholders  
 Tiong Thye Company (36.7%)  
 Gan Teng Siew Realty (11.6%)

Free Float (%)	63.3
Avg Daily Value (RM mil)	0.02

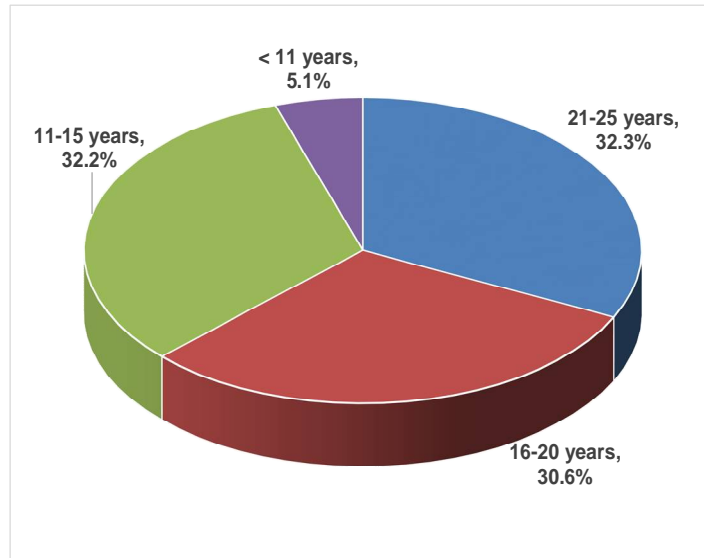
Price performance	3mth	6mth	12mth
Absolute (%)	+0.1	-5.4	+20.2
Relative (%)	+0.0	-5.6	+22.8



### Investment Highlights

- We maintain HOLD on Chin Teck Plantations (CTP) with an unchanged fair value of RM7.55/share. Our fair value for CTP is based on a FY23F PE of 10x. We ascribe a 3-star ESG rating to CTP.
- Recently, CTP announced that the proposed acquisition of Fauzi-Lim Plantation has become unconditional. The proposed acquisition is expected to be completed by 31 January 2023.
- We reiterate our view that the proposed acquisition is not expected to contribute significantly to CTP's FY23F net profit.
- This is due to the small size of Fauzi-Lim's oil palm estates of only 2,023ha. The estates produced 3,250 tonnes of FFB in FYE3/22. This is 1.8% of CTP's FFB production in FYE8/22. The estates are located in Gua Musang, Kelantan.
- Also, the acquired estates are unlikely to be profitable in FY23F due to low FFB yields and high costs of production. The cost of production for plantation companies is expected to increase by 20% to 30% in 2023F due to rising costs of wages and fertiliser.
- CTP will be making lease payments to Yayasan Islam Kelantan upon the completion of the acquisition. Based on current CPO prices, we estimate the lease payments to be RM1.5mil on a full-year basis. Fauzi-Lim Plantation does not own the estates. Instead, it leases the estates from Yayasan Islam Kelantan.
- CTP is not expected to face problems financing the RM45mil acquisition. The group's cash reserves stood at RM395.1mil as at end-August 2022
- CTP is currently trading at a FY23F PE of 11x, which is higher than its 2-year average of 10x.

EXHIBIT 1: AGE PROFILE OF CTP'S OIL PALM TREES



Source: Company

EXHIBIT 2: ESG RATING

<b>Overall</b>	★	★	★		
RSPO certification	★	★			
Supply chain auditing	★	★	★		
Migrant workers welfare	★	★	★		
Fires	★	★	★		
Work site safety	★	★	★		
Corporate social responsibility	★	★	★		
Corruption free pledge	★	★	★		
Accessibility and transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 3 : PB BAND CHART

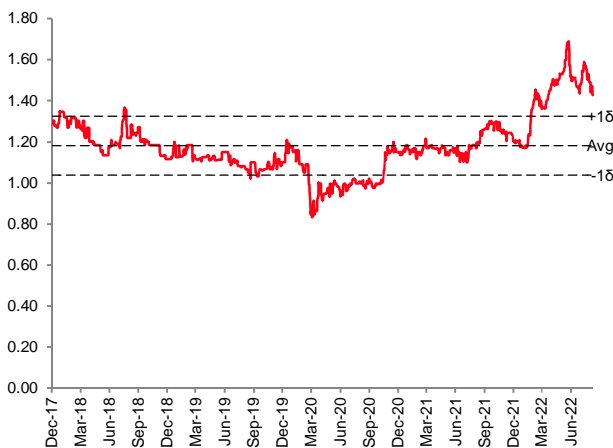


EXHIBIT 4 : PE BAND CHART



## EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Aug)	2021	2022	2023F	2024F	2025F
Revenue	182.7	260.3	196.3	196.3	196.3
EBITDA	82.7	129.0	77.0	73.7	74.2
Depreciation	(6.8)	(7.4)	(8.2)	(8.8)	(9.4)
Operating income (EBIT)	75.9	121.6	68.8	64.9	64.8
Other income & associates	5.8	11.4	10.7	11.0	11.3
Net interest	6.1	6.8	11.6	18.6	24.8
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>87.7</b>	<b>139.9</b>	<b>91.1</b>	<b>94.5</b>	<b>101.0</b>
Taxation	(19.7)	(32.4)	(21.9)	(22.7)	(24.2)
Minorities/pref dividends	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>68.1</b>	<b>107.5</b>	<b>69.2</b>	<b>71.8</b>	<b>76.7</b>
<b>Balance Sheet (RMmil, YE 31 Aug)</b>	<b>2021</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
Fixed assets	122.9	127.3	129.1	130.3	130.9
Intangible assets	-	-	-	-	-
Other long-term assets	256.3	289.3	295.5	302.0	308.8
<b>Total non-current assets</b>	<b>379.2</b>	<b>416.6</b>	<b>424.5</b>	<b>432.2</b>	<b>439.7</b>
Cash & equivalent	356.9	395.1	428.8	463.3	499.7
Stock	6.1	11.5	6.5	6.5	6.5
Debtors	20.3	16.3	21.5	21.5	21.5
Other current assets	8.7	11.3	11.3	11.3	11.3
<b>Total current assets</b>	<b>392.1</b>	<b>434.3</b>	<b>468.1</b>	<b>502.6</b>	<b>539.0</b>
Creditors	14.3	16.8	16.8	17.4	17.4
Short-term borrowings	-	-	-	-	-
Other current liabilities	2.2	-	-	-	-
<b>Total current liabilities</b>	<b>16.5</b>	<b>16.8</b>	<b>16.8</b>	<b>17.4</b>	<b>17.4</b>
Long-term borrowings	-	-	-	-	-
Other long-term liabilities	24.1	24.9	24.9	24.9	24.9
<b>Total long-term liabilities</b>	<b>24.1</b>	<b>24.9</b>	<b>24.9</b>	<b>24.9</b>	<b>24.9</b>
<b>Shareholders' funds</b>	<b>730.7</b>	<b>809.1</b>	<b>850.9</b>	<b>892.5</b>	<b>936.4</b>
Minority interests	-	-	-	-	-
BV/share (RM)	8.00	8.86	9.31	9.77	10.25
<b>Cash Flow (RMmil, YE 31 Aug)</b>	<b>2021</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
Pretax profit	87.7	139.9	91.1	94.5	101.0
Add:					
Adjustments for non cash items	(7.1)	(14.3)	(44.6)	(26.3)	(32.3)
Working capital	(19.1)	(37.9)	(22.1)	(22.0)	(24.2)
<b>Cash flow from operations</b>	<b>61.5</b>	<b>87.7</b>	<b>24.4</b>	<b>46.1</b>	<b>44.5</b>
Capital expenditure	(8.8)	(11.5)	(10.0)	(10.0)	(10.0)
Net investments & sale of fixed assets	0.5	0.0	0.0	0.0	0.0
Others	(39.2)	22.6	21.6	28.6	34.8
<b>Cash flow from investing</b>	<b>(47.5)</b>	<b>11.1</b>	<b>11.6</b>	<b>18.6</b>	<b>24.8</b>
Debt raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(27.4)	(38.4)	(27.4)	(30.1)	(32.9)
Others	1.0	2.0	3.0	4.0	5.0
<b>Cash flow from financing</b>	<b>(26.4)</b>	<b>(36.4)</b>	<b>(24.4)</b>	<b>(26.1)</b>	<b>(27.9)</b>
<b>Net cash flow</b>	<b>(12.4)</b>	<b>62.4</b>	<b>11.6</b>	<b>38.6</b>	<b>41.4</b>
<b>Net cash/(debt) b/f</b>	<b>116.7</b>	<b>104.0</b>	<b>167.2</b>	<b>175.9</b>	<b>210.4</b>
<b>Forex</b>	<b>0.7</b>	<b>2.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash/(debt) c/f</b>	<b>105.0</b>	<b>169.2</b>	<b>178.9</b>	<b>214.4</b>	<b>251.8</b>
<b>Key Ratios (YE 31 Aug)</b>	<b>2021</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
Revenue growth (%)	40.8	42.5	-24.6	0.0	0.0
EBITDA growth (%)	100.8	56.0	-40.3	-4.4	0.8
Pretax margins (%)	48.0	53.7	46.4	48.1	51.4
Net profit margins (%)	37.3	41.3	35.3	36.6	39.1
Interest cover (x)	na	na	na	na	na
Effective tax rate (%)	22.4	23.1	24.0	24.0	24.0
Net dividend payout (%)	40.3	35.7	39.6	42.0	42.9
Trade debtors turnover (days)	41	40	40	40	40
Stock turnover (days)	12	12	12	12	12
Trade creditors turnover (days)	63	60	60	60	60

Source: Company, AmlInvestment Bank estimates

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