



Company report

GUAN CHONG

(GUAN MK EQUITY, GUAN.KL)

31 May 2021

New German development to drive long-term growth
BUY

(Maintained)

AmInvestment Bank

www.amequities.com.my

03-2036 2290

Rationale for report: Company update

Price RM2.68
Fair Value RM3.48
52-week High/Low RM3.79/RM2.29

Key Changes

Fair value ⇄
EPS ⇄

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	3,685.0	3,875.2	4,400.2	4,625.2
Core net profit (RM mil)	211.9	174.1	289.1	298.7
FD Core EPS (sen)	17.0	14.0	23.2	23.9
FD Core EPS growth (%)	1.9	(17.8)	66.0	3.3
Consensus Net Profit (RM mil)	-	200.5	281.3	286.5
DPS (sen)	3.5	3.2	4.6	4.8
PE (x)	15.8	19.2	11.6	11.2
EV/EBITDA (x)	11.3	12.2	8.8	8.5
Div yield (%)	1.3	1.2	1.7	1.8
ROE (%)	20.8	13.8	21.7	22.1
Net Gearing (%)	87.9	65.4	81.4	81.7

Stock and Financial Data

Shares Outstanding (million)	1,079.0
Market Cap (RM mil)	2,891.8
Book Value (RM/share)	1.10
P/BV (x)	2.4
ROE (%)	20.8
Net Gearing (%)	87.9

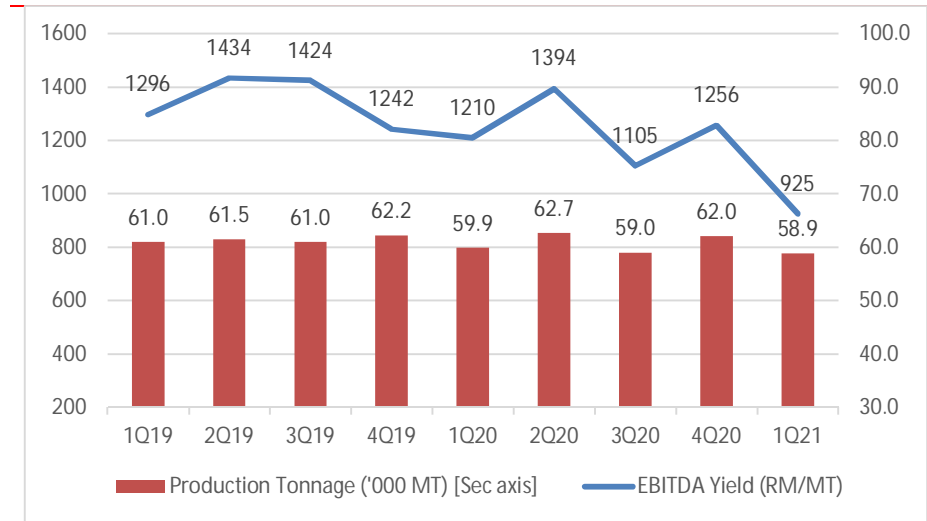
Major Shareholders	Guan Chong Resources (50.5%) Misi Galakan (5.8%) Tay Hoe Lian (5.6%)
Free Float	227.9
Avg Daily Value (RM mil)	4.0

Price performance	3mth	6mth	12mth
Absolute (%)	0.8	(7.3)	(8.8)
Relative (%)	(0.3)	(9.1)	(15.8)

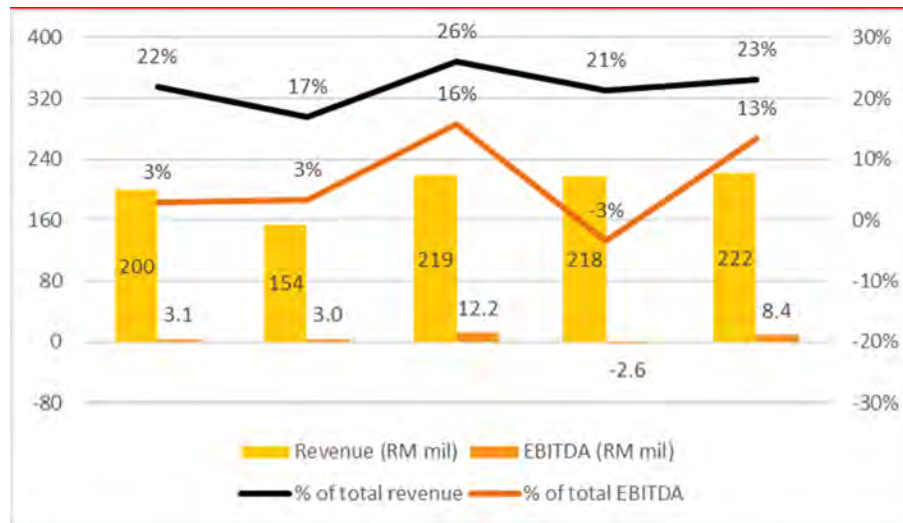

Investment Highlights

- We maintain our **BUY** call on Guan Chong (GCB) with an unchanged fair value of RM3.48/share, using an unchanged 15x FY22F EPS. There is no ESG-related price adjustment for our rating of 3 stars.
- We remain positive on the group's recovery prospects in FY22F as well as the addition of the planned German bean grinder facility to its pre-existing expansion plans.
- Here are some takeaways from GCB's meeting on last Friday:
 1. **GCB experienced its lowest quarterly EBITDA yield of RM924.5/MT in 3 years.** This is in line with shipping delays, high freight costs, a languishing premium chocolate market and uncertainty surrounding the Living Income Differential (LID) situation. Profit margins are expected to remain similarly depressed in 2QFY21, though surplus-induced lower bean prices may offset some downward pressure.
 2. **The group is poised for a mild recovery by 2HFY21, underpinned by the improving pandemic situation in Europe driving premium-chocolate sales.** Further catalysts include the reopening of borders and the arrival of shipments delayed from 1HY21. However, we note that the upcoming 60% workforce restriction in Malaysia will likely drive down utilisation rates.
 3. **Cocoa butter bookings for FY22F look promising, with 60% capacity of full-year orders being filled in.** In contrast, only 15% of FY21F sales were booked by this time last year.
 4. **The group's Schokinag (SHC) facility maintains a steady performance, contributing to 23% of quarterly revenue and 13% of EBITDA in 1QFY21.** It boasted a 12% YoY increase in revenue. The utilisation rate was at 75%.
 5. **In addition to its UK and Ivory Coast facilities, the group is now expending €58mil (RM292mil) for a German development that is set to take advantage of biomass incentives.** While planning is still in its initial changes, the development is scheduled to have a production capacity of 25,000 MT of cocoa butter and 30,000 MT bean grinder, as well as melting and pulverizing facilities. The group believes that commission date may be somewhere between late 2022 and mid-2023.

6. **GHC's Ivory Coast facility is set to come online in early 2022, with positive EBITDA contributions expected by 2HFY22.** Tapping into the lucrative European market via its strategic location, this factory is expected to produce chocolates with a +30% EBITDA yield premium over its operations in Asia.

EXHIBIT 1: PRODUCTION METRICS

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: SCHOKINAG OPERATIONS' CONTRIBUTION

Source: Company, AmInvestment Bank Bhd

EXHIBIT 3: UPCOMING EXPANSION PLANS

Facility	Est. Capex	Commission date	Details
Ivory Coast	EUR 50-60 mil	1Q22	60,000 MT grinding facility in first phase
UK	EUR 38 mil	1H22	Liquid industrial chocolate line Value-added capacity line
Germany	EUR 58 mil	late-2022 to mid-2023	Subject to change: 25K MT/year cocoa butter 30K MT/year bean grinder Melting & pulverising facilities

Source: Company, AmInvestment Bank Bhd

EXHIBIT 4: PB BAND CHART**EXHIBIT 5: PE BAND CHART****EXHIBIT 6: ESG MATRIX**

Overall	★	★	★		
Biological preservation	★	★			
Water + energy conservation	★	★	★		
Pollution + waste regulation	★	★	★		
Sustainable sourcing	★				
Occupational safety + health	★	★	★		
Workplace diversity	★	★	★	★	
Employee training + wellbeing	★	★			
Volunteering + charitable giving	★	★	★		
Corruption-free pledge	★	★	★		
Accessibility & 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-stars

Source: AmInvestment Bank Bhd

EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	2,941.6	3,685.0	3,875.2	4,400.2	4,625.2
EBITDA	332.1	349.1	308.8	452.0	471.3
Depreciation/Amortisation	(33.1)	(56.5)	(58.2)	(63.0)	(67.7)
Operating income (EBIT)	299.0	292.6	250.6	389.0	403.6
Other income & associates	1.4	0.3	-	-	-
Net interest	(33.5)	(25.6)	(40.7)	(40.7)	(43.7)
Exceptional items	(10.0)	(10.8)	-	-	-
Pretax profit	266.8	267.3	209.8	348.3	359.8
Taxation	(48.9)	(44.6)	(35.7)	(59.2)	(61.2)
Minorities/pref dividends	-	-	-	-	-
Net profit	217.9	222.7	174.1	289.1	298.7
Core net profit	207.9	211.9	174.1	289.1	298.7
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	481.7	834.8	879.2	942.4	980.9
Intangible assets	12.0	93.2	93.2	93.2	93.2
Other long-term assets	41.1	37.0	21.1	21.1	21.1
Total non-current assets	534.7	964.9	993.5	1,056.7	1,095.2
Cash & equivalent	46.8	78.2	180.2	216.1	279.0
Stock	1,035.1	1,302.1	1,369.4	1,531.1	1,610.2
Trade debtors	412.3	509.1	535.4	607.9	639.0
Other current assets	12.8	60.8	60.8	60.8	60.8
Total current assets	1,507.1	1,950.2	2,145.7	2,415.9	2,589.0
Trade creditors	325.2	364.2	383.0	428.3	450.4
Short-term borrowings	637.2	694.8	619.8	569.8	669.8
Other current liabilities	35.8	111.0	251.9	287.9	337.0
Total current liabilities	998.2	1,169.9	1,254.7	1,285.9	1,457.2
Long-term borrowings	45.5	428.9	428.9	728.9	728.9
Other long-term liabilities	48.4	127.3	127.3	127.3	127.3
Total long-term liabilities	93.9	556.3	556.3	856.3	856.3
Shareholders' funds	949.6	1,188.9	1,328.2	1,330.4	1,370.7
Minority interests	-	-	-	-	-
BV/share (RM)	0.91	1.10	1.23	1.07	1.10
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	266.8	267.3	209.8	348.3	359.8
Depreciation/Amortisation	33.1	56.5	58.2	63.0	67.7
Net change in working capital	(362.7)	(251.9)	(74.7)	(189.0)	(88.1)
Others	(30.9)	(69.6)	(146.0)	(178.9)	(390.4)
Cash flow from operations	(93.7)	2.3	47.4	43.3	(50.9)
Capital expenditure	(64.4)	(212.5)	(100.0)	(120.0)	(100.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	2.3	(108.8)	-	-	-
Cash flow from investing	(62.1)	(321.2)	(100.0)	(120.0)	(100.0)
Debt raised/(repaid)	90.5	331.3	175.0	150.0	250.0
Equity raised/(repaid)	92.5	42.8	-	-	-
Dividends paid	(34.0)	(20.4)	(34.8)	(57.8)	(59.7)
Others	8.6	(10.1)	18.3	18.5	21.5
Cash flow from financing	157.6	343.5	158.5	110.7	211.8
Net cash flow	1.9	24.6	105.8	34.0	60.9
Net cash/(debt) b/f	31.4	33.1	58.3	166.2	202.1
Net cash/(debt) c/f	33.1	58.3	166.2	202.1	265.0
Key Ratios (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	29.4	25.3	5.2	13.5	5.1
EBITDA growth (%)	27.0	5.1	(11.5)	46.4	4.3
Pretax margin (%)	9.1	7.3	5.4	7.9	7.8
Net profit margin (%)	7.4	6.0	4.5	6.6	6.5
Interest cover (x)	8.9	11.4	6.2	9.5	9.2
Effective tax rate (%)	18.3	16.7	17.0	17.0	17.0
Dividend payout (%)	15.6	9.2	20.0	20.0	20.0
Debtors turnover (days)	46	46	49	47	49
Stock turnover (days)	118	116	126	120	124
Creditors turnover (days)	47	34	35	34	35

Source: Company, AmInvestment Bank Bhd estimates

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