

27 November 2024

Consumer Non-cyclical | Food & Beverage Products

Guan Chong (GUAN MK)

Buy (Maintained)

QoQ Improvement On Stronger ASPs; Keep BUY

Target Price (Return): MYR6.22 (121%)
Price (Market Cap): MYR2.81 (USD740m)
ESG score: 3.0 (out of 4)
Avg Daily Turnover (MYR/USD) 5.20m/1.20m

- **Keep BUY, new MYR6.22 TP from MYR5.10, 121% upside and c.2% yield.** 9M24's record high core earnings of MYR242m (+183%) was a slight miss; mainly on higher-than-expected interest costs. We remain upbeat on Guan Chong's stellar earnings outlook from 4Q onwards, supported by forward sales at favourable ratios and normalised production volumes. Current P/E valuation of 6-7x is very compelling for Asia's largest grinder, supported by robust earnings growth. The recent proposed Transcao Côte d'Ivoire acquisition, with access to additional capacity, could provide further upside.
- **The record high 9M24 revenue of MYR7.1bn (+99.2% YoY) and core earnings of MYR242m** were slightly below our expectation at 61% but within Street's forecast at 68% of full-year estimates – with expectation of a strong close to 4Q24. Note: We added back the impairment loss of MYR26.2m (EUR5.2m) for its Germany operations related to the capitalised preliminary costs due to delays in its expansion plans there. It swung into an LBITDA of MYR12m (3Q23 EBITDA: MYR28m). Interest expenses increased by 109% YoY to MYR195m against our FY forecasts of MYR167m. Despite the increases in bean costs and working capital, the healthy YoY earnings growth were buoyed by increases in sales volumes for cocoa solids and higher ASPs. An interim dividend of 1 sen/share was declared, going ex on 11 Dec.
- **QoQ improvement.** 3Q24 core profit maintained GUAN's QoQ (+24.4%) and YoY (+146.1%) growth trajectories to MYR83.4m – on back of the stellar revenue growth of MYR2.9bn (+132% YoY, +33.9% QoQ). This is despite the efficiency loss and higher input costs on lower production tonnage (-6k tonne QoQ) in Jun–Aug 2024 on delays in beans delivery amid port congestion issues. EBITDA yield (per tonne) expanded YoY to MYR2,298, from MYR923 and MYR1,545 in 3Q23 and 2Q24, reflecting the higher cocoa solids ASPs and favourable hedging position. Gearing position further deteriorated to 1.94x (2Q24: 1.71x) due to higher working capital needs on elevated bean costs and additional bean inventory for any potential shipment delays.
- **Robust outlook remains.** We expect the high cocoa butter ASPs to prevail from 4Q24 onwards and into FY25, given the 9- to 12-month forward selling mechanism. The current robust cocoa market conditions are anticipated to continue in view of the ongoing supply shortage due to adverse weather, swollen shoot virus, and backlog levels – coupled with sustained strong demand – which results in the prolonged elevated combined ratio.
- **Forecasts.** We factored in higher interest costs assumptions, resulting in a 9% cut in our FY24F earnings but relatively unchanged for FY25F-26F. Our TP is now at MYR6.22 as we roll forward the valuation base year to FY25, pegged to an unchanged 15x P/E (5-year mean) – on par with the Consumer Product Index. Our TP includes a 0% ESG premium/discount. Key downside risks include sharp raw material price fluctuations, weakening cocoa demand, a softening USD/MYR rate, and counter-party risks.

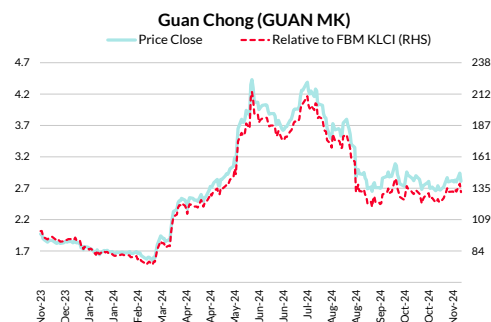
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	53.6	2.2	(16.1)	(28.7)	40.5
Relative	43.4	3.1	(13.9)	(27.7)	30.2
52-wk Price low/high (MYR)				1.55	–4.43



Source: Bloomberg

Overall ESG Score: 3.0 (out of 4)

E: GOOD

GUAN puts in continuous efforts to conserve the environment and has adopted green practices across its operations. It is an active member of a few key associations that promote cocoa sustainability.

S: GOOD

Child labour and poverty among cocoa farmers are the key social issues in the chocolate industry and pose a significant risk on the sustainability of cocoa production. However, this is not within GUAN's control – it has been supporting various sustainability programmes in its bean procurement processes.

G: GOOD

GUAN is very forthcoming with regards to the sharing of information with the market and is reachable by shareholders through its investor relations unit. Shareholders often have access to timely disclosures of material information and can exercise their voting rights during EGMs and AGMs.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	4,419	5,349	9,576	11,671	9,200
Recurring net profit (MYRm)	149	101	362	487	398
Recurring net profit growth (%)	(3.8)	(32.2)	258.6	34.4	(18.3)
Recurring P/E (x)	19.02	30.36	9.11	6.78	8.29
P/B (x)	1.7	1.9	1.6	1.3	1.2
P/CF (x)	10.20	na	7.41	3.39	3.20
Dividend Yield (%)	1.2	0.7	0.7	3.7	3.0
EV/EBITDA (x)	12.71	13.96	6.64	5.49	5.71
Return on average equity (%)	10.0	6.0	18.8	21.4	15.3
Net debt to equity (%)	66.6	119.6	94.8	56.6	23.0

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.15	0.09	0.31	0.41	0.34
Consumer Non-cyclical	DPS	0.04	0.02	0.02	0.10	0.08
Guan Chong	BVPS	1.63	1.49	1.78	2.09	2.35
GUAN MK	Return on average equity (%)	10.0	6.0	18.8	21.4	15.3
Buy						
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
We use a target P/E of 15x to value GCB.	Recurring P/E (x)	19.02	30.36	9.11	6.78	8.29
	P/B (x)	1.7	1.9	1.6	1.3	1.2
	FCF Yield (%)	0.1	(30.8)	12.0	26.5	28.9
	Dividend Yield (%)	1.2	0.7	0.7	3.7	3.0
Key drivers	EV/EBITDA (x)	12.71	13.96	6.64	5.49	5.71
i. Demand for cocoa products;	EV/EBIT (x)	15.98	17.77	7.40	6.09	6.59
ii. Combined ratio;						
iii. ASPs.						
Key risks	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Sharp fluctuation in cocoa bean prices;	Total turnover	4,419	5,349	9,576	11,671	9,200
ii. Execution and country risks in expansion plans;	Gross profit	377	356	977	1,042	885
iii. Drop in demand of cocoa products;	EBITDA	307	356	787	845	679
iv. Counter-party risk.	Depreciation and amortisation	(63)	(76)	(82)	(84)	(90)
	Operating profit	244	279	706	760	589
	Net interest	(56)	(140)	(259)	(159)	(97)
	Pre-tax profit	188	139	447	602	492
	Taxation	(39)	(38)	(85)	(115)	(94)
	Reported net profit	149	101	362	487	398
	Recurring net profit	149	101	362	487	398
Company Profile	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
GUAN is engaged in producing cocoa-derived food ingredients; manufacturing, marketing and promotion of cocoa related products; marketing and promotion activities of chocolate-related products and confectionery; and purchasing and distributing cocoa-derived food ingredients.	Change in working capital	37	(429)	(257)	244	447
	Cash flow from operations	278	(781)	445	973	1,032
	Capex	(275)	(165)	(50)	(100)	(80)
	Cash flow from investing activities	(274)	(164)	(50)	(100)	(80)
	Dividends paid	(70)	0	(24)	(122)	(99)
	Cash flow from financing activities	(14)	990	984	(1,081)	(696)
	Cash at beginning of period	74	69	86	1,465	1,257
	Net change in cash	(11)	44	1,379	(207)	256
	Ending balance cash	63	113	1,465	1,257	1,513
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	69	86	1,465	1,257	1,513
	Tangible fixed assets	1,196	1,407	1,375	1,391	1,381
	Total investments	24	56	56	56	56
	Total assets	3,660	5,391	7,501	6,931	6,425
	Short-term debt	796	1,534	2,800	2,000	1,500
	Total long-term debt	364	648	648	648	648
	Total liabilities	2,022	3,638	5,410	4,474	3,670
	Total equity	1,639	1,753	2,092	2,457	2,755
	Total liabilities & equity	3,660	5,391	7,501	6,931	6,425
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	12.6	21.1	79.0	21.9	(21.2)
	Recurrent EPS growth (%)	(3.8)	(37.3)	233.3	34.4	(18.3)
	Gross margin (%)	8.5	6.6	10.2	8.9	9.6
	Operating EBITDA margin (%)	6.9	6.6	8.2	7.2	7.4
	Net profit margin (%)	3.4	1.9	3.8	4.2	4.3
	Dividend payout ratio (%)	23.7	23.2	6.5	25.0	25.0
	Capex/sales (%)	6.2	3.1	0.5	0.9	0.9
	Interest cover (x)	4.37	1.99	2.73	4.79	6.09

Source: Company data, RHB

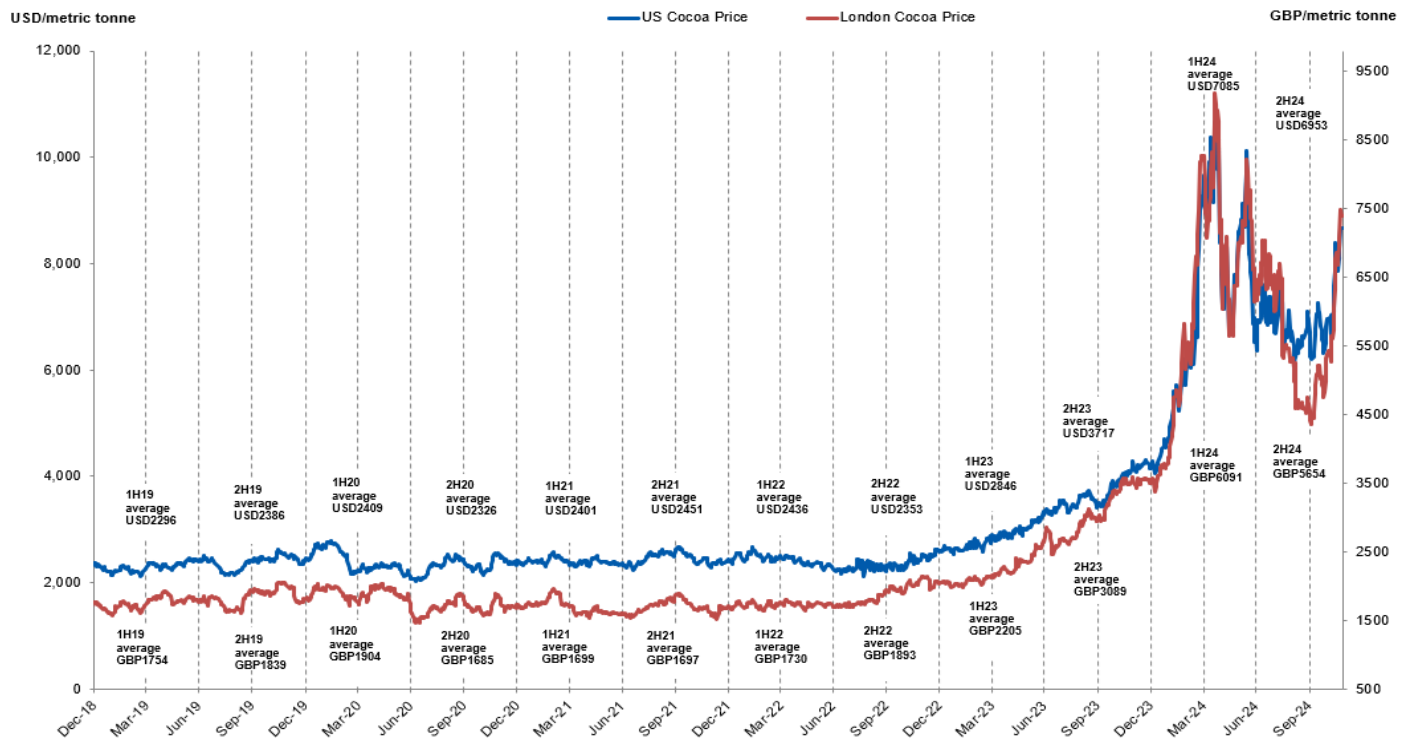
Results At a Glance

Figure 1: 9M24 earnings review

FYE Dec (MYRm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY (%)	Comments
Revenue	1,285.9	2,222.4	2,976.9	33.9	131.5	3,548.6	7,069.5	99.2	Higher sales volume and ASPs for all cocoa products.
- Schokinag	351.7	412.8	488.4	18.3	38.9	956.9	1,242.4	29.8	Higher sales volume and ASPs.
EBITDA	95.7	164.6	165.1	0.3	72.4	256.9	517.7	101.5	
EBITDA margin (%)	7.4	7.4	5.5			7.2	7.3		QoQ: Margin was affected by lower production tonnage and swing in hedging gain/loss.
- Schokinag (Germany)	28.7	32.8	(12.0)	Nm	Nm	70.2	27.4	(61.0)	Higher input cost and dragged by the impairment loss.
Depreciation and amortisation	(18.7)	(21.2)	(20.2)	4.8	(7.9)	(56.5)	(62.3)	(10.3)	
Net Interest	(35.3)	(63.3)	(74.2)	(17.2)	(110.0)	(93.3)	(194.8)	(108.7)	Higher financing costs from the extra debt taken on Ivory Coast expansion and working capital requirement amid surging cocoa bean prices and higher interest rate environment.
Associates & JV	(0.1)	0.1	0.6	525.0	Nm	0.1	1.1	1,586.8	
Pre-tax profit	41.6	80.2	71.3	(11.1)	71.3	107.2	261.8	144.3	
Pre-tax margin (%)	3.2	3.6	2.4			3.0	3.7		
Tax	(7.7)	(13.2)	(14.2)	7.1	(82.7)	(21.4)	(45.6)	(113.0)	
Eff tax rate (%)	(18.6)	(16.5)	(19.8)			(20.0)	(17.4)		Lower effective tax rate was due to tax-free status in its Ivory Coast venture.
Reported net profit	33.9	67.0	57.2	(14.7)	68.7	85.8	216.2	152.1	
EI	0.0	0.0	(26.2)	Nm	Nm	0.0	(26.2)	Nm	Impairment loss of EUR5.2m related to the capitalised preliminary cost due to delay in its expansion plan in Germany.
Core net profit	33.9	67.0	83.4	24.4	146.1	85.8	242.4	182.7	Slightly below expectation.
Net margin (%)	2.6	3.0	2.8			2.4	3.4		

Source: Company data, RHB

Figure 2: Cocoa bean price trends



Source: RHB, Bloomberg

Emissions And ESG

Trend analysis

The group's energy intensity per unit of product is on a declining trend from 3.6GJ/tonne to 3GJ/tonne thanks to improving energy efficiency by means of adopting more efficient use of energy resources, lowering fuel waste through optimisation of the heating process, and developing better process controls. In FY23, its reported emissions totalled 90,917tCO₂e, representing a decrease of 4.9% from FY22.

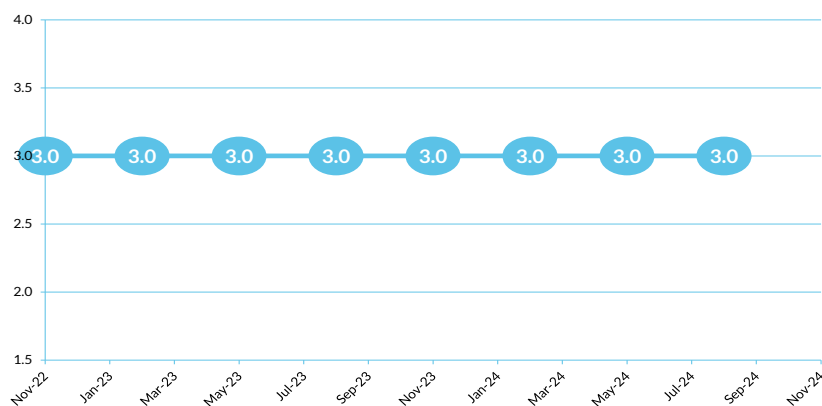
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	-	25,121	23,358
Scope 2	-	70,462	67,559
Scope 3	-	1,854	2,286
Total emissions	na	97,437	93,203

Source: Company data, RHB

Latest ESG-Related Developments

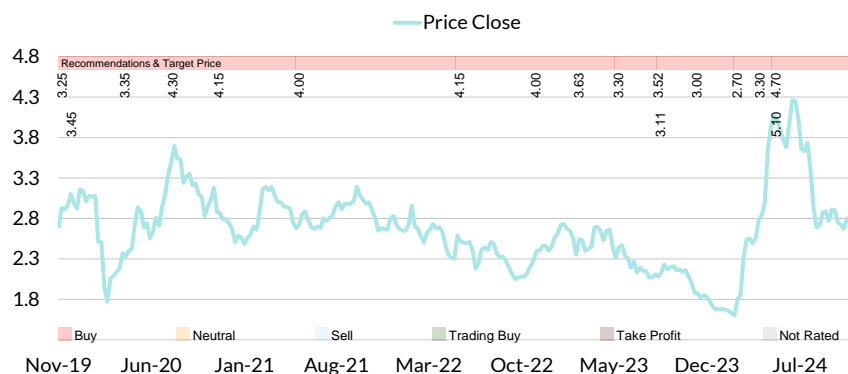
- GUAN is an active member of various associations including Cocoa & Forests Initiatives, German Initiative on Sustainable Cocoa, World Cocoa Foundation, etc – showing its desire to inculcate the principles of sustainability beyond the organisation and strives to identify the primary relevance of potential ESG impacts in its business activities across the supply chain.
- GUAN have established Caring Beyond Cocoa programme, being the blueprint to spearhead industry-wide sustainability. The programme is anchored on four sustainability pillars: Healthy Planet, Happy Employees, Thriving Communities, and Sustainable Supply Chain – and ensures on reducing its ecological footprint, fostering sustainable practices across the value chain, and prioritising the well-being of its employees and communities.
- The installation of solar panels at its Malaysian facilities recorded a cumulative 1,579tCO₂e of avoided emissions in FY23.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-05-29	Buy	5.10	4.43
2024-05-28	Buy	4.70	4.35
2024-04-21	Buy	3.30	2.56
2024-02-29	Buy	2.70	1.60
2023-11-28	Buy	3.00	1.97
2023-09-06	Buy	3.11	2.07
2023-08-30	Buy	3.52	2.08
2023-06-01	Buy	3.30	2.37
2023-03-01	Buy	3.63	2.28
2022-11-23	Buy	4.00	2.21
2022-05-31	Buy	4.15	2.44
2022-02-22	Buy	4.00	2.80
2021-11-23	Buy	4.00	2.87
2021-05-28	Buy	4.00	2.68
2021-02-28	Buy	4.15	2.66

Source: RHB, Bloomberg

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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