

12 September 2022

Consumer Non-cyclical | Food & Beverage Products

PT Resources (PTRB MK)

Frozen Seafood King

Fair Value (Return):	MYR0.37 (+3%)
IPO Price:	MYR0.36
Closing Application Date:	12 Sept 2022
Indicative Listing Date	27 Sept 2022

- **MYR0.37 FV based on 8x FY24F (Apr) P/E.** PT Resources will raise MYR48.6m from its IPO to primarily fund working capital and a new cold storage warehouse. Notwithstanding the sharp surge in export sales – largely driven by the China market (>7x YoY) – in FY22, we opt to be conservative with our sales growth assumptions, until a more sustainable sales trend emerges. We regard its IPO valuation as fair, and largely on par with the FBM Small Cap Index and its closest market peer.
- **Strategic location = competitive advantage.** The largest volume and value of fish landings in West Malaysia are from Kuantan, mainly due to work done by Malaysian Fisheries Development Authority (LKIM) there. The close proximity of Kuantan Integrated Fish Processing Park (KIFPP) to the LKIM complex allows PT Resources to boost efficiency – by reducing the delivery costs and time in supply procurement. Also, KIFPP is a project identified under the East Coast Economic Region Development Council (ECERDC) economic development masterplan to spearhead the growth of seafood processing and related downstream industries in the East Coast Economic Region (ECER). With this, PT Resources has been granted a 100% tax exemption on the processing and trading of frozen seafood products.
- **Major certifications open the door to big export markets.** The group has obtained several important quality and food safety management certifications including ISO 22000:2005, Hard Analysis Critical Control Point (HACCP), Good Manufacturing Practice (GMP), MeSTI Secure Food Certification Scheme and *halal* certification from Department of Islamic Development Malaysia (JAKIM). Meanwhile, Chinese Academy of Inspection and Quarantine (CAIQ) and Saudi Food and Drug Authority (SFDA) registrations have also paved the way for PT Resources to tap onto more sizeable opportunities abroad. In FY22, its export sales surged 155% YoY to MYR199.7m, thanks to a successful penetration into the China market, while Saudi Arabia was the major export sales driver in FY20-22 (Figure 5).
- **Well-equipped for production of quality frozen seafood products.** It can consistently deliver quality products to customers, due to its complete processing facilities – individual quick freeze (IQF) units and semi-contact blast freezers are vital in producing individually frozen units of seafood products from a whole frozen block of multiple types of seafood. This benefits end-customers, when it comes to consuming the exact quantity required. It also ensures a consistent supply of seafood by having a diversified network of suppliers comprising local and international wholesalers, aquaculture farms and fishing enterprises, in order to fulfil the supply-demand gap stemming from seasonal fishing activities and weather conditions.
- **Earnings forecast and valuation.** We project a 3-year earnings CAGR of 16.2% and ascribe a P/E of 8x to FY24F earnings to derive our FV of MYR0.37. The valuation is largely in line with the valuations of FBM Small Cap Index and the closest available market peer, CCK Consolidated. Risks: Termination of agreements on operations at the KIFPP processing facility, revocation of certifications, labour shortage, disruptions in the supply of raw materials, and adverse FX rate changes.

Analyst

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Company Description

PT Resources is principally involved in the processing and trading of frozen seafood products, as well as retail trading of meat and non-meat products. The group sells its products in Malaysia, and also exports directly to overseas clients in countries like Saudi Arabia, China, the Philippines and the United Arab Emirates.

IPO Details

Public Issue (%) of issued shares	74.8
Public Issue (%) of new shares	25.2
Shares outstanding (m)	535.0
Implied market cap	MYR192.6m

Major Shareholders (%)

Heng Chang Hooi	71.0%
Sonic Capital	3.7%

Utilisation of IPO Proceeds

	MYRm
Capital expenditure for new cold storage warehouse	17.6
Working capital expenditure	27.2
Estimated listing expenses	3.8
TOTAL	48.6

Additional Data

Listing Market	ACE
Bursa Code	0260

Forecasts and Key Data	Apr-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
Total turnover (MYRm)	186.5	349.1	398.6	481.7	555.4
EBITDA (MYRm)	22.4	22.7	27.3	28.1	32.4
Recurring net profit (MYRm)	15.8	18.2	22.7	24.6	28.5
Recurring net profit growth (%)	32.1	15.3	25.2	8.2	15.8
Recurring EPS (sen)	2.9	3.4	4.3	4.6	6.0
Recurring P/E (x)	12.2	10.6	8.5	7.8	6.8
P/BV (x)	3.7	2.6	1.4	1.2	1.0
Dividend yield (%)	-	-	2.4	2.6	3.0
ROE (%)	36.4	33.6	21.3	18.8	18.4
Net debt to equity (%)	0.45	0.02	Net Cash	Net Cash	Net Cash

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Overview And Valuation

FY22 results review. The group's FY22 revenue rose 87.3% YoY, mainly due to an increase in exports to existing and new customers in China, from MYR21.1m in FY21 to MYR154.3m in FY22. Positive growth was recorded in the processing and trading of frozen seafood products segment (+93.9% YoY), as well as retail trading of other products (+34% YoY).

Following the increase in revenue, PT Resources' gross profit increased by 34.5% YoY. However, the GPM narrowed to 11.11%, from 15.4% in FY21. The drop in GPM was mainly attributable to the competitive pricing of its frozen seafood products, which it offered to its China customers and local wholesalers – in view of their larger order size and to gain market share. There was also an increase in shipping costs and a deteriorating product mix (higher sales of high-value frozen seafood products which fetch lower GPMs). By geographical market, contributions from China (44.2%) accounted for the biggest chunk of revenue, while Malaysia (42.8%) was the second largest market.

Core earnings grew 15.3% YoY to MYR18.2m in FY22. The core earnings margin dropped 8.5% to 5.2% YoY, mainly due to a 90.8% spike in administrative and other expenses. There is an increase in staff costs by MYR1.1m as a result of the introduction of employee performance incentives and the provision of employees bonuses, an increase in forwarding and carriage outwards, as well as an increase in expenses related to COVID-19.

Forecasts. We forecast a 3-year revenue CAGR of 16.7% on its continual marketing strategies, penetration into China's end-user market as well as expansion of MO Foodmart outlets in Malaysia. The utilisation rate of its production capacity has dropped from 66% in FY22 to 60% in 1QFY23. We expect the utilisation rate at its production facility to pick up progressively, and hit a peak in 4QFY23 – in view of the imminent festive seasons and the relaxation of lockdown measures in China.

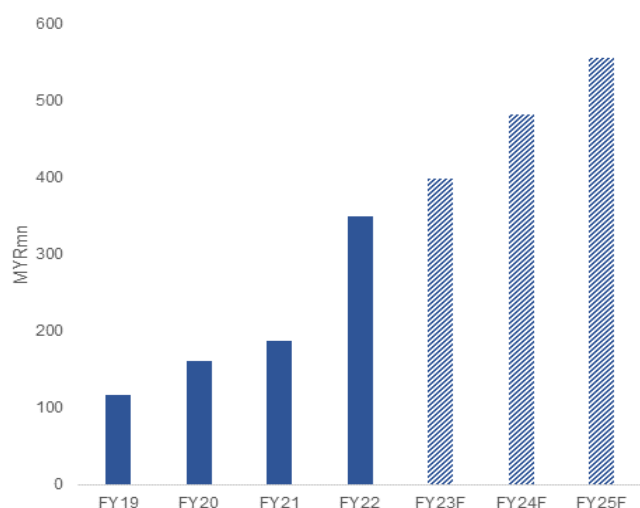
However, with the continuous price war in China and local promotion campaigns, we expect its GPM to continue narrowing until FY25, when we believe PT Resources will generate some cost savings from its cold room rental after the completion of its own new cold room. The margin compression would also be exacerbated by the price competitiveness of its peers, where the maximum PAT margin recorded by its peers is only at 7.7% (Source: Providence Strategic Partners).

On a bright note, the margin compression could somehow offset by the low tax rate and higher finance income. PT Resources has obtained a 100% income tax exemption for income earned from the processing and trading of frozen seafood products for 10 years, from year 2018. We expect its effective tax rate to remain low, as the frozen seafood segment should still account for about 92% of total revenue (Figure 3) going forward. Higher finance income is mainly attributable to higher cash balances, with the IPO proceeds raised together with an expected higher interest rate. With these, we are projecting a 3-year earnings CAGR of 16.2% following the completion of new cold rooms, the uplift of China lockdowns and restrictions, potential growth from the entrance into the China end-user market with own brand as well as future franchisee business.

Valuation. Pegged to a P/E of 8x based on FY24F earnings, we arrive at a FV of MYR0.37. The 8x P/E is in line with the 2-year forward P/E of its closest peer, CCK Consolidated. Despite its higher ROE and profit growth, the 8x P/E was ascribed in view of its lower market capitalization vs that of CCK Consolidated. The valuation is also on par with the 8.6x 2-year forward P/E of the FBM Small Cap Index.

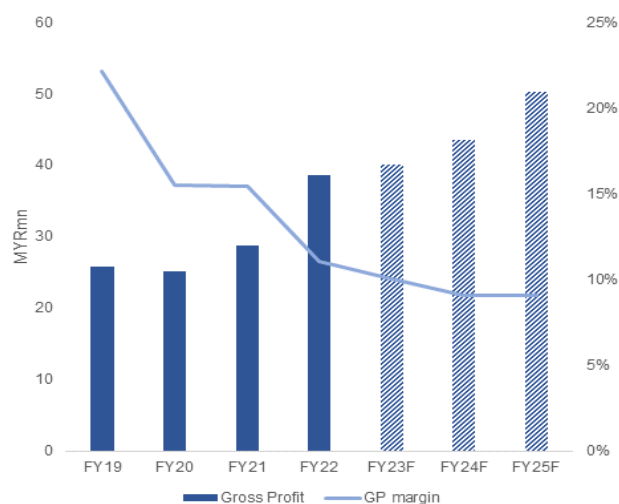
Dividends. The group has a policy of paying dividends amounting to 20% of the PAT attributable to owners going forward. With this, our forecasts indicate a FY23 yield of 2.6%, based on its IPO price.

Figure 1: Revenue trend



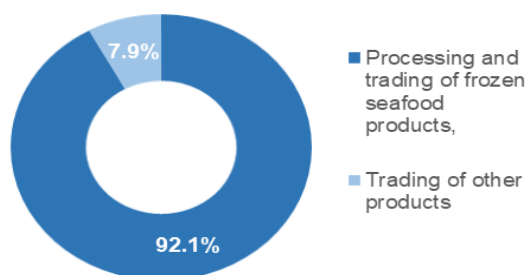
Source: Company data, RHB

Figure 2: Core profit trend



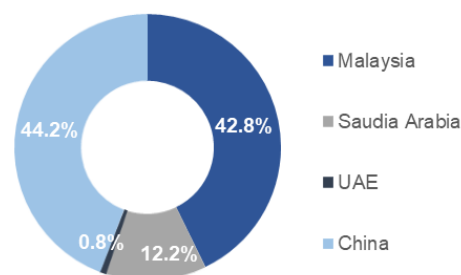
Source: Company data, RHB

Figure 3: FY22 segmental revenue



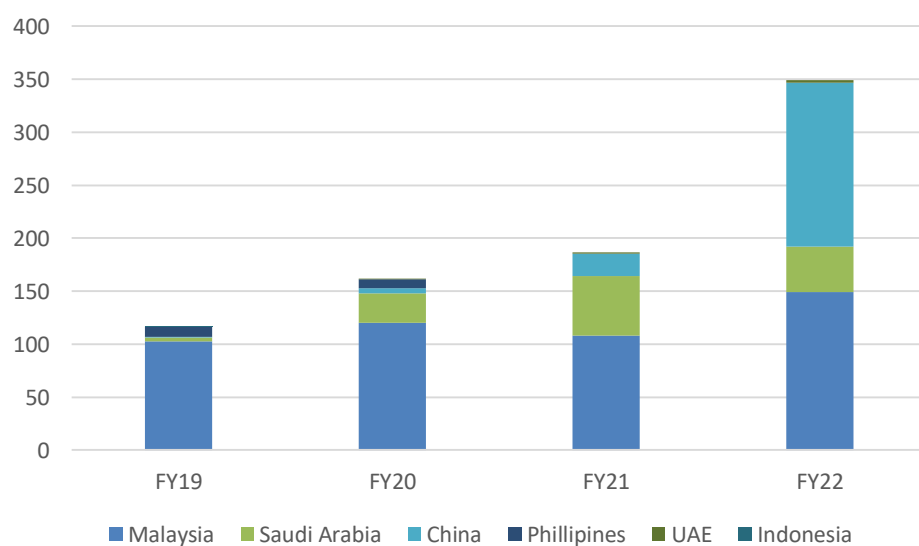
Source: Company data, RHB

Figure 4: FY22 revenue by geographical location



Source: Company data, RHB

Figure 5: Group structure after listing



Source: Company data

Figure 6: Peer comparison

Company	Country	FYE	Mkt Cap (USD bn)	P/E (x)			Div. Yld (%)	ROE (%)	NP Growth (%)	
				Current	1 Yr Fwd	2 Yr Fwd	1 Yr Fwd	Actual	1 Yr Fwd	2 Yr Fwd
PT Resources	MY	Apr	192.6	10.6	8.5	7.8	2.6	33.6	25.2	8.2
Local peers										
QL Resources	MY	Mar	2.20	41.1	35.5	33.2	0.9	9.1	15.6	7.1
CCK Consolidated	MY	Dec	0.09	9.4	8.5	8.2	3.1	8.2	10.8	2.8
International peers										
Thai Union Group	TH	Dec	0.09	12.4	11.0	9.8	5.2	16.7	12.8	12.4

Source: Bloomberg, RHB

Company Overview

PT Resources is principally involved in the processing and trading of frozen seafood products as well as retail trading of meat and non-meat products. The group sells its products domestically in Malaysia and exports directly to customers in the international market such as Saudi Arabia, China, the Philippines and the United Arab Emirates. An overview of its core business activities is as follows (Figure 8):

- i. **Processing and trading of frozen seafood products** (73% of FY22 revenue) – The processing activities include defrosting, cleaning and cutting, freezing using IQF freezers and semi-contact blast freezers, glazing, packaging such as master packaging as well vacuum and skin packs.

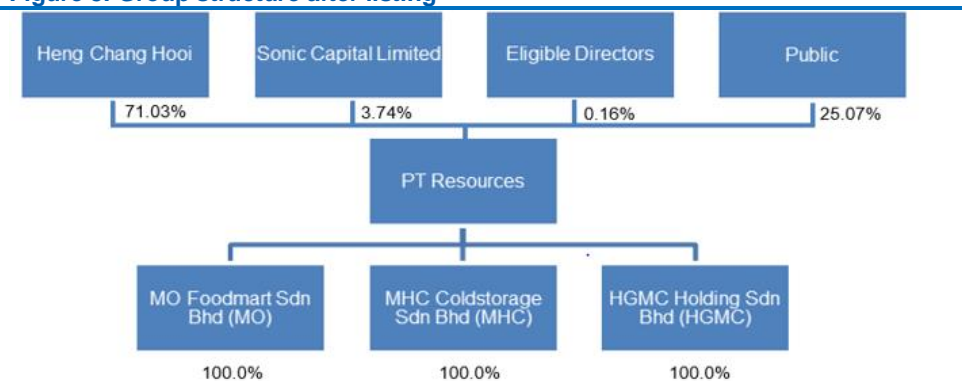
Figure 7: Examples of frozen seafood products



Source: Company, RHB

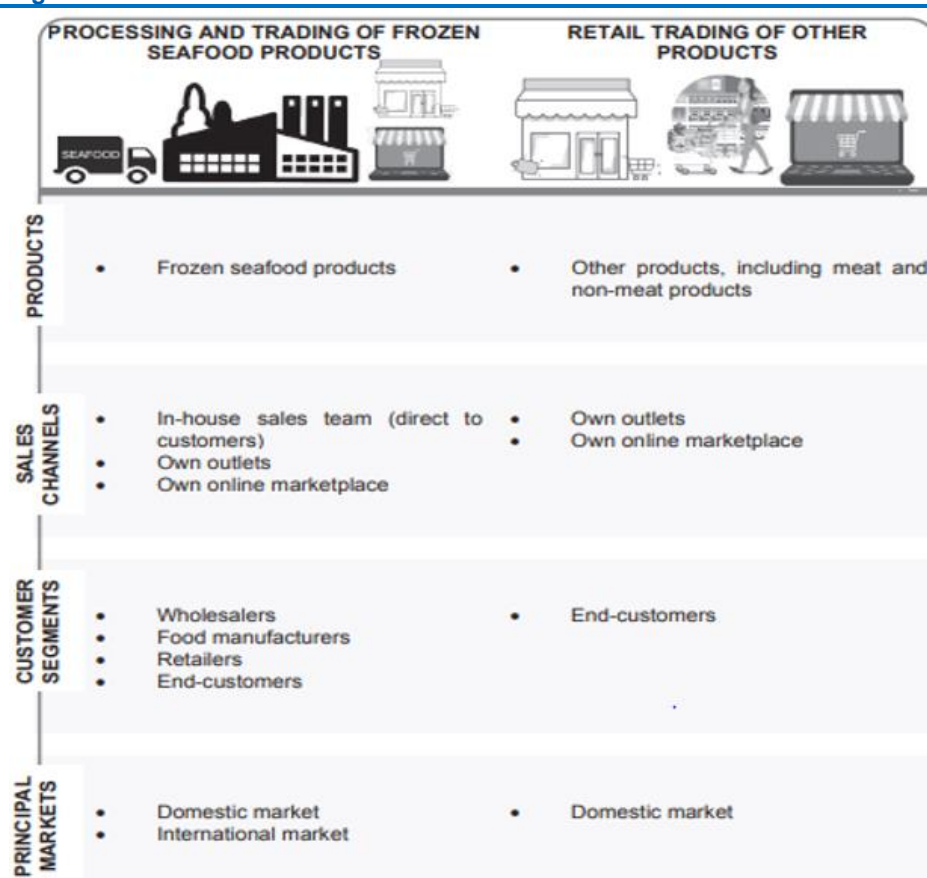
ii. **Trading of other products** (27% of FY22 revenue). PT Resources also sells other products that are externally sourced through its own outlets and online marketplace to provide a more comprehensive range of products to end-customers. Products include chilled and frozen meat that are certified *halal* and non-meat products.

Figure 8: Group structure after listing



Source: Company data

Figure 9: Business model



Source: Company data

Figure 10: Key machinery and equipment

Machinery and equipment	Functions	No. of units	Average Age (years)	NBV as at 30 Apr 2022 (MYR'000)
IQF freezer, freezer hardener and related equipment	Freezing and glazing of seafood supplies	1	5	3,520
Semi-contact blast freezer	Freezing of seafood supplies	3	5	193
Defrosting machine	Defrosting of frozen seafood supplies	1	5	2,118
Plate ice machine	Producing ice plates to keep seafood supplies chilled	2	3	315
Seafood cutting machine	Cutting of seafood supplies	4	3	-
Poultry and meat cutting machine	Cutting of meat products	19	5	78
Skin packaging machine	Skin packaging of frozen seafood products	2	3	402
Vacuum packaging machine	Vacuum packaging of frozen seafood products	2	4	108
Cold room refrigeration system	Storage of frozen seafood products	3	2	2,131
Display freezer	Display of frozen products at outlets	125	5	636
Total				9,501

Source: Prospectus

In FY22, the group sourced 69.8% of its seafood supplies from local wholesalers, 19.1% from international wholesalers, 2.4% from aquaculture farms and 0.3% from fishing enterprises (Figure 11).

Figure 11: Top suppliers in FY22

Suppliers	Location of supplier	Products purchased	Source of supply	Amount (MYR '000)	% of FY22 total revenue	Length of relationship (years)
Revitec Seafood Supply*	Malaysia	Frozen seafood	Imported, wild-caught and farm-raised	97,896	31.5	5
OKO Green (M)*	Malaysia	Frozen seafood	Farm-raised and wild-caught	44,614	14.4	2
Boon Huat Seafood Supplies*	Malaysia	Frozen seafood	Imported	37,242	12.0	4
Swee Lee Frozen (M) *	Malaysia	Frozen seafood	Imported and wild-caught	19,464	6.3	1
Nam Viet Corporation^	Vietnam	Frozen seafood	Imported	15,036	4.8	3

Note: 1) *Local wholesaler

2) ^International wholesaler

Source: Company data

Key customers. In addition to the sales of chilled and frozen seafood products at its outlet, PT Resources also sells products to wholesalers, food manufacturers and retailers. A list of its key customers in FY22 are detailed in Figure 12.

Figure 12: Top customers in FY22

Customer	Location of customer	Products offered	Amount (MYR '000)	% of FY22 total revenue	Length of relationship (years)
Fuzhou Ding Sheng Yuan Trade^	China	Frozen seafood	53,796	15.4	2
Fujian Jia He Yuan Aquatic Product^	China	Frozen seafood	45,846	13.1	1
KBT Food Supply*	Malaysia	Frozen seafood	37,335	10.7	5
Fitkar For International Trading^	Saudi Arabia	Frozen seafood	25,750	7.4	3
China National Township^	China	Frozen seafood	23,124	6.6	1

Note: 1) *Local wholesaler

2) ^International wholesaler

Source: Company data

Management team. The team is spearheaded by its managing director and major shareholder Heng Chang Hooi, who oversees the group's strategic planning, development and overall business operations. Ong Wen Qin, the group's financial controller, is responsible for the accounting and financial functions as well as legal, risk and compliance functions. She is a certified member of the Association of Chartered Certified Accountants and also a certified member of the Malaysian Institute of Accountants. Senior Manager (Planning and Development) Tan Oon Huat looks after the planning, strategising and oversees the implementation of new projects to expand the group's business. Yong Zi Fung is MHC Cold Storage's Head of Operations. He is responsible for overseeing the group's processing activities, from managing procurement, production and inventories as well as assisting the Managing Director in maintaining good relationships with customers and suppliers.

Future Plans And Strategies

Building a new cold storage warehouse. PT Resources intends to utilise MYR17.6m of its IPO proceeds for a new cold storage warehouse, which will increase maximum storage capacity from 700 tonnes at the KIFPP Processing Facility to 4,000 tonnes, to cater to the growing demand for its frozen seafood products. Furthermore, the group is expanding its outlets and, as such, expects the growth of other chilled and frozen product sales – and this means additional cold room storage space is needed. The new cold storage warehouse will also facilitate PT Resources in bidding for orders from potential customers that require suppliers to have a minimum storage capacity. It expects to finalise the building layout plan and obtain approval from the relevant authorities within six months after receiving the proceeds, and will immediately commence construction. The new cold storage warehouse is expected to be fully operational within 30 months from the commencement of construction.

Growing its exports of frozen seafood products to the international market. The group aims to further expand its sales, particularly in the Asia-Pacific and Middle East. Currently, it is taking in increasing orders from existing customers, as well as new ones through business referrals. To further grow its customer segments to include retailers and end-customers (existing customer base in these markets are wholesalers that typically request for frozen seafood products to be sold unbranded), PT Resources intends to launch its own brand of frozen seafood products. The group also obtained the CAIQ registration which enables it to market frozen seafood products through sellers in online marketplaces in China and grocery retailers.

Expanding its network of MO Foodmart outlets. The company currently operates six MO Foodmart outlets in Pahang and Terengganu. The outlets generally focus on selling frozen seafood products packaged in vacuum and skin packs, as well as a limited range of other products to complement the group's frozen seafood products. PT Resources plans to expand its network of outlets through a licensing business model – this will entail collaborating with licensees to set up MO Foodmart outlets. Through this, it will be able to expand the number of outlets without incurring capital expenditure. This will help the group increase its sales – albeit at a lower profit margin – as a result of offering lower prices to licensees.

Figure 13: Utilisation of IPO proceeds

Details of use of proceeds	Estimated timeframe	MYRm	% of proceeds
Capital expenditure for new cold storage warehouse	Within 36 months	17.6	36.3
Working capital	Within 12 months	27.2	55.9
Estimated listing expenses	Within 3 months	3.8	7.8
Total		48.6	100.0

Source: Prospectus

Key downside risks for the group include:

- i. Termination or non-renewal of agreements regarding operations at the KIFPP Processing Facility;
- ii. Revocation or non-renewal of certifications;
- iii. Labour shortage;
- iv. Disruptions in supply of raw materials;
- v. Adverse movement in FX rates.

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