



MERCURY SECURITIES SDN BHD

(A Participating Organisation of Bursa Malaysia Securities Berhad)

KIM TECK CHEONG BERHAD

“Initial Public Offering – ACE Market”

BACKGROUND

Kim Teck Cheong Berhad (KTC) provides market access and coverage of consumer product group (CPG) in East Malaysia, Sabah, Labuan and Sarawak where KTC involved in distribution and warehousing of 3rd party brands and own brands products.

Portfolio of 3rd party brands products consist of F&B products, personal care, household, baby care, OTC drugs and health supplements. The group also building on the distribution and warehousing of own brands CPG which includes frozen, dry food products and beverage products.

DETAILS OF IPO

Closing of the Retail Offering	:	12 th Nov 2015
Listing	:	25 th Nov 2015

IPO at an issue price of RM0.15 per IPO Share comprise of a total of 142.0 mil shares, representing 27.83% of the enlarged issued and paid-up share capital of KTC, details as follows:-

	New Shares (mil)
Institutional Offering	
(i) Placement to selected investors	91.75
Retail Offering	
(i) Application by public	34.00
(ii) Allocation to the eligible directors and employees	16.26
Total	142.00

VALUATION/RECOMMENDATION

We have a subscribe recommendation with a target price of RM0.18 derived based on 10.0x PE of our estimated EPS of 1.8sen for FYE 31 June 2016. The target price represents a potential return of 20.0% over the IPO price.

IPO Report

Monday, 2 November, 2015

ACE MARKET

TRAD/SERV

SUBSCRIBE

IPO Price	:	RM0.15
Fair Value (FV)	:	RM0.18
FV Upside	:	20%

LISTING DETAILS

Issuer Manager	:	RHB Investment Bank
Fund Raised (RM'mil)	:	21.30
Shares on Offer (mil)	:	-
New Shares (mil)	:	142.00

POST LISTING

Ordinary Share (mil)	:	510.28
Par value (RM)	:	0.10
Mkt Cap (RM'mil)	:	76.5
Est Free Float	:	27.8%
P/E	:	10.9
P/B	:	0.8

Major Shareholders

KTC Holdings	:	72.2%
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Prepared by:

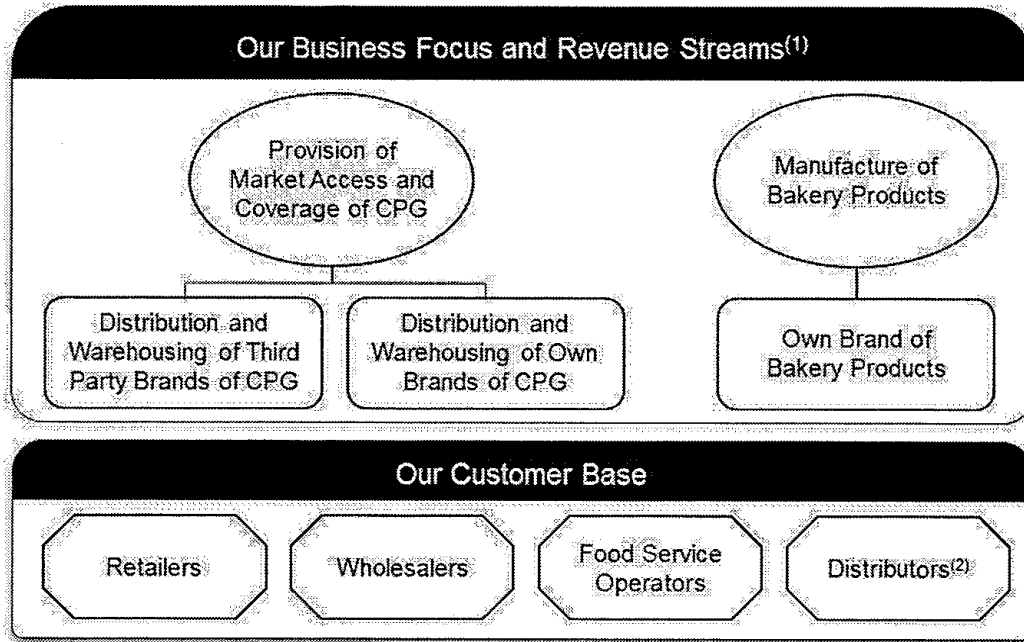
Edmund Tham / Research Team



OVERVIEW OF THE GROUP

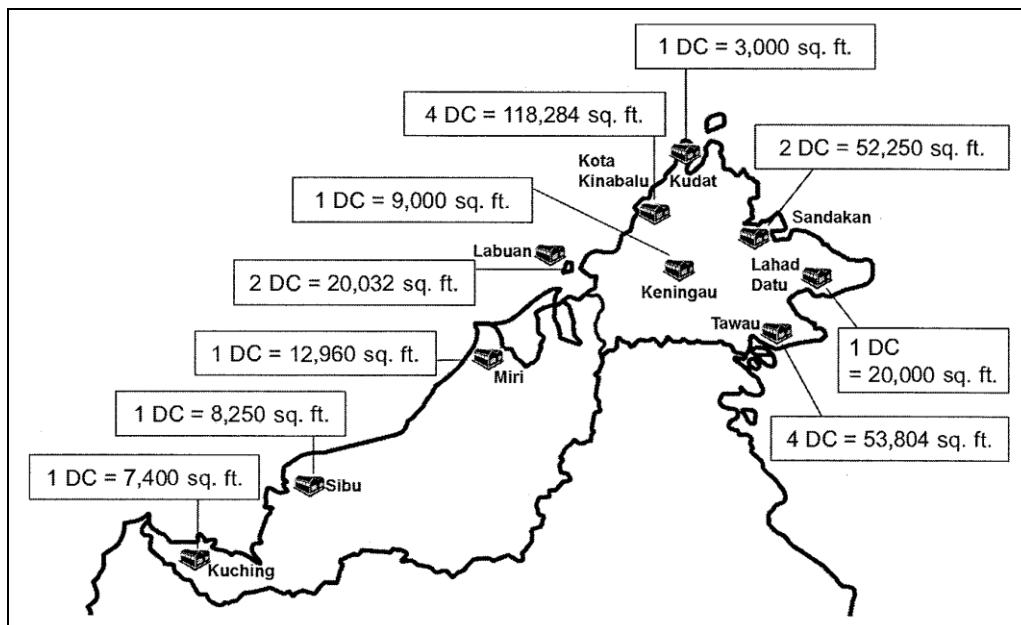
KTC history can be traced back to 1938 with the establishment of Kim Teck Cheong by its founder, the late Datuk Lau Yeong Ching, the business activity was initially started as an operator of sundry shop in Sabah. KTC has expanded the business to become a provider of market access and coverage of 3rd party brands as well as own brands of CPG in East Malaysia, with growing manufacturing business in bakery products.

KTC group’s market access and coverage activities are mainly focused in Sabah (90.8% revenue of FYE 2015) whereas Sarawak amounted to 4.51%. Its business model is depicted as follows:



(Source: Prospectus)

Currently, it has total of 18 distribution centres with warehousing facilities, 13 in Sabah and 3 in Sarawak and 2 in Labuan. Out of the 19 warehouses, 4 are owned, 5 are rented while the remaining 9 are provided by outsource partners, depicted as below:



(Source: Prospectus)



KTC's customer base mainly consists of retailers (87.9%), wholesalers (8.1%), distributors (2.1%) and food service operators (1.9%) based on revenue contribution for FYE 2015. Retailer including hypermarkets, supermarkets, departmental stores, sundry shops, convenience stores, pharmacies, petrol kiosks, Chinese medical halls, E7E hardware stores, clothing stores, stationery stores and book stores.

KTC distribute approximately 194 3rd party brands of CPG for approximately 36 brand owners as follows:

Product Categories	Number of Brands as at LPD	Brands
F&B Products	70	A&W Sarsaparilla, Akasa, Aquarius, Arifmam, Arifpap, Ayamas, Berri, Brahim's, Buttercup, Chef's Choice, Coca-Cola, Crispy, Dasani, Deka, Dua Kelinci, Dugro, Dulac, Dumil, Dupro, Fanta, Five Star, Glaceau, Goldenmaid, Gooal, Heaven & Earth, Horlicks, Hoya, Indomie, Just Juice, Kandos, Kara, Karta, Kewpie, Krip, Lactima, Ladaku, Leggo's, Life, Mack Marine, Mamex, Mamil, Marjerin Seri, McCain, Meadow Lea, Melbourne, Minute Maid, Mission, Morin, Mother's Choice, Nature's Own, Old Village, Olive Grove, Pampas, Pop Mie, Rich's, Sarimi, Schweppes, SCS, Simplot, Sprite, Sunshine, Sun Soya, Supermi, Tango, Toucan, Tudor Gold, Twin Cows, Uncle Sun, Wang Sheng and Wizefood.
Personal Care Products	79	Aiken, Alaisyah, Aqua Label, Aquafresh, Avene, Bio-Essence, Cutex, Darlie, Dashing, Elienna, Elite, Elizabeth, Enchanteur, Eternal, Eucerin, Eversoft, Everyday, Follow Me, Forum, Gervas, Gervenne, Gillette, Ginvera, Gorich, Head & Shoulder, Herbal Essences, Irise, Izzi, Kleenex, Kerastase, Kotex, Le Scentuer, L'Oréal Professionnel, Loving, Nano White, New and Trendy, Nivea, Nutox, O2, Olay, Oral B, P. Love, Panmate, Pantene, Poise, Polident, Pureology, Quicklean, Rainna, Redken, Reioice, Revlon, Revlon Absolute Radiance+, Revlon Brow Fantasy, Revlon ColorBurst, Revlon ColorSilk, Revlon ColorStay, Revlon Grow Luscious, Revlon New Complexion, Revlon Photoready, Revlon Super Lustrous, Romano, Safi, Sassy, Sawaday, Scott, Sensodyne, Shurah, Shurei, Silky, Skinz, Sumber Ayu, Syahirah, Teen, Tracia, Tsubaki, Uber, Whisper and ZA.
Household Products	18	Ambi Pur, Can Can, Carina, Downy, Duracell, Dynamo, Elastoplast, Fab, Febreze, Hansaplast, Joy, King Kong, King Lion, Maxkleen, Philips, Rowenta, Scott [#] , Supor and Tefal.
Baby Care Products	15	Barney, Basic, Carrie Junior, Disney, Dry 5, Dryplus, Drypro, Ekonomi, Family, Heinz, Huggies, Inco, Maternity, PNJ and Pureen.
OTC Drugs and Health Supplements	12	Ammeltz, Axe Oil, Breathe Right, Ebene, Eno, Eye Mo, Panadol, Paradontax, Scott's, Seirogan, Vicks and Zentel.
TOTAL	194	

(Source: Prospectus)



FUTURE PLAN AND STRATEGIES

KTC future plans are focused in the following areas:

- **Expansion of distribution operations**
 1. Establish a new distribution centre in Brunei
 2. Acquisition of warehousing facilities in Sarawak
 3. Construction of new warehousing facility in Kota Kinabalu, Sabah
 4. Expansion of own brands of CPG
- **Expansion of manufacturing operations**
 1. New markets for manufactured bakery products
 2. Expansion of manufacturing facility and new bakery products in Sabah
 3. Setting-up a new manufacturing facility for bakery products in Sarawak

PROSPECTS

KTC is a distributor of CPG thus prospects affected by prospects and outlook of the CPG industry. The immediate term prospects of CPG industry is affected my negative sentiments in consumers' minds mainly due to the following:

1. the fall in crude oil price which has impacted on the overall economy; and
2. Weakening of Ringgit which increases the cost of imported raw materials and products, servicing offshore loans and overseas services.

Nevertheless, the mid-term prospects and outlook of CPG industry is favourable premised on the following:

1. CPG regarded as essential products and thus the demand for CPG would always exist therefore opportunity to the entire value chain of the CPG industry including its distribution
2. Market size of CPG is relatively large (estimated RM38bil : 2014) compared to many other industries
3. Drive of growth include increase in population size (expected AAGR: 1.5%, 2015-2019), increase urbanisation (expected to grow by 6.8% up to 2020) and continuing growth of economy in Malaysia (projected 4.5% - 5.5%: 2015).
4. Government initiatives, NKEA initiative are expected to contribute RM107.8bil in terms of GNI and create 595k jobs by 2020.

UTILISATION OF PROCEEDS

The total gross proceeds from the IPO of RM21.3mil will be utilised in the following manner:-

Details of utilisation of proceeds	Estimated timeframe	RM'mil	%
Acquisition of warehousing facilities	Within 24 months	9.0	42.3
Construction of new warehousing facility	Within 24 months	2.0	9.4
Purchase of equipment	Within 24 months	3.0	14.1
Working capital	Within 24 months	4.7	22.0
Estimated listing expenses	Upon Listing	2.6	12.2
Total gross proceeds		21.3	100.0



DIVIDEND POLICY

KTC presently does not have any formal dividend policy however the Boards intend to adopt a stable and sustainable dividend policy, envisage a dividend payout ratio of up to 20% of future net profits in each financial year.

RISK FACTORS

Major risks relating to KTC business are as follows:-

1. Dependency on the distribution of 3rd party brands of CPG for brand owners;
2. Dependency on a group of customers;
3. Disruptions to warehousing facilities, manufacturing facility and business operations
4. Product misstatement and mislabelling
5. Competition from operators in the CPG market
6. Direct sourcing from brand owners
7. Depreciation in value of Ringgit

VALUATION/RECOMMENDATION

At retail price of RM0.15 per IPO Share, KTC is valued at 10.8x PE based on EPS of approximately 1.38sen, computed based on proforma PAT of RM7.05mil for FYE 2015 and representing P/B of 0.8 based on proforma consolidated NA per share of approximately RM0.18 per share upon listing.

The immediate outlook for CPG market is negative given depress oil price and weak ringgit however the mid-term outlook is favourable mainly due population growth, urbanisation and continue economy growth in Malaysia. Given its proven and established track record, wide distribution network and large market size for distribution of CPG in east Malaysia, we believe KTC would be able to continue register sustain growth with market expansion into Sarawak and Brunei.

We have a subscribe recommendation with a target price of RM0.18 derived based on 10.0x PE of our estimated EPS of 1.8sen for FYE 31 June 2016. The target price represents a potential return of 20.0% over the IPO price.

FINANCIAL INFORMATION

FY Dec (RM'mil)	2012A	2013A	2014A	2015A	2016E	Growth (%)	2012A	2013A	2014E	2015A	2016E
Revenue	200.3	222.7	229.5	299.9	389.8	Revenue	-	11%	3%	31%	30%
EBITDA	9.0	16.6	10.8	16.2	19.5	EBITDA	-	84%	-35%	50%	21%
Operating Profit	7.8	15.7	9.7	14.2	19.5	Operating Profit	-	102%	-38%	46%	38%
PBT	5.6	6.5	7.4	10.4	13.5	PBT	-	16%	13%	40%	30%
Profit after Tax	4.0	11.7	5.6	7.1	9.2	Net Profit	-	196%	-53%	28%	30%
Interest Exp	2.2	2.1	2.3	3.8	4.0						
Taxation	1.6	1.9	1.8	3.3	4.3						
EPS (Sen)	0.74	2.19	1.04	1.33	1.80						
Gearing Ratio (times)	0.93	0.93	1.02	1.07	1.00						
						Profitability (%)					
						EBITDA Margin	5%	7%	5%	5%	5%
						Operating Margin	4%	7%	4%	5%	5%
						PBT Margin	3%	3%	3%	3%	3%
						Net Margin	2%	5%	2%	2%	2%
						Effective Tax Rate	29%	29%	25%	32%	32%



Recommendation Framework

Subscribe	The stock's total return is expected to be +15% or better over the next 12 months.
Neutral	The stock's total return is expected to be within +/-15% over the next 12 months.
Do Not Subscribe	The stock's total return is expected to be -15% or worse over the next 12 months.

DISCLAIMER

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