

23 November 2015

Kim Teck Cheong Consolidated Berhad

The ACE Distributor in East Malaysia

By Soong Wei Siang | soongws@kenanga.com.my

INVESTMENT MERIT

- Strong foothold in East Malaysia.** Poised to float its shares in the Bursa ACE Market on 25th of November 2015, Kim Teck Cheong Consolidated (KTC) is principally engaged in providing market access and coverage of CPG (consumer packaged goods) in East Malaysia (EM) while it has also recently embarked on the bakery manufacturing business in February 2014. KTC is one of the largest distributors in EM region and currently distributes c.10,348 SKUs (stock keeping units) for 36 brand owners through its 18 distribution centres. Net profit grew at 3-year (FY12 to FY15 CAGR) of 21.9% thanks to the expansion in customer base as well as margin expansion driven by economies of scale.
- Resilient product mix portfolio.** Based on its FY15 figures, F&B products were the biggest contributor to its gross profit (43%), followed by personal care products (33%), manufacturing of bakery products (7%) and household products at 5%. We think that the favourable product mix is defensive and resilient against the economy slowdown as both F&B and personal care products are necessities, which are further aided by the strong brand image and profile of KTC's customers. Thus, we think that KTC may be one of the names to look out for in the consumer space, particularly in the current situation where consumer sentiment is weak.
- Raising the ante.** The Group has earmarked RM14.0m or 65.7% of its IPO proceeds for expansion both in the distribution business as well as the bakery manufacturing division. KTC is aiming to penetrate into the Sarawak market by acquiring warehousing facilities in Sibul, Miri and Kuching while it is also looking to strengthen its presence in key Sabah markets by constructing a new warehouse in order to cater for broader customer base. The Group also plans to add three (3) production lines in its existing bakery plant in Sabah as the sole production line is currently running at peak utilisation rate. While the expansion plan is key to provide the impetus for earnings growth, we think it also signifies the Group's optimism and confidence on its business as well as market potential.
- OBM and manufacturing to protect margin.** FY15 gross margin has expanded to 13.7% from 13.0% in FY12, which we deem impressive considering the huge revenue growth of 50% from RM200.3m in FY12 to RM299.9m in FY15 as established brand owners generally have more bargaining power by giving sizeable volume to distributors. We understand that the feat was achieved thanks to its OBM (original brand manufacturer) brands in which the Group markets and distributes in-house products through the Creamos brand (bakery products), Orie (frozen and dry food) and Bamble (personal care products). Moving forward, we think that the additional bakery production lines as well as the OBM initiative will be able to protect its earnings margin from the downside.
- Trading Buy with Fair Value of RM0.240 (60% upside).** We derived our FV by ascribing 11x PER to CY16E EPS, which represents c.13% discount from the industry peers' average due to its smaller market capitalization. Should the stock prove able to trade on par to industry peers' average of 12.6x PER, it could be valued at RM0.280. This is not entirely impossible given its penny stock status.

Profitability wise, we project its net profit to grow 37.9% and 31.1%, respectively, in FY16E and FY17E, underpinned by the capacity-boosting expansion plans, its strong position in EM to garner more customers, as well as margin expansion due to economies of scale and initiatives in OBM.

We also view KTC as a cheaper proxy to the consumer F&B sector which commands an average PER of 21.8x (F&B stocks under our coverage) due to its exposure in F&B products. Furthermore, worth noticing is that NTPM (NR; RM0.81), a personal care product manufacturer was pegged with a PER of 15.3x when it was featured under On Our Radar report back in September 2015.

- Key risk:** (i) Weaker-than-expected consumer sentiment, (ii) Stronger-than-expected competition, (iii.) Delay in expansion.

	Rating	Fair Value
IPO Price		RM0.150
Kenanga	TRADING BUY	RM0.240
Consensus	N.A.	N.A.

Stock Information

Shariah Compliant	No
Stock Name	KIM TECK CHEONG CONSOLIDATED BERHAD
CAT Code	0180
Industry	Distribution/Wholesale
Industry Sub-sector	Distribution/Wholesale
YTD stock price chg	N.A.
Market Cap (RM m)	76.5
Issued shares (m)	510.3
52-week range (Hi)	N.A.
52-week range (Low)	N.A.
3-mth avg daily vol:	N.A.
Free Float	N.A.
Beta	N.A.
Altman's Z-score	N.A.

Major Shareholders

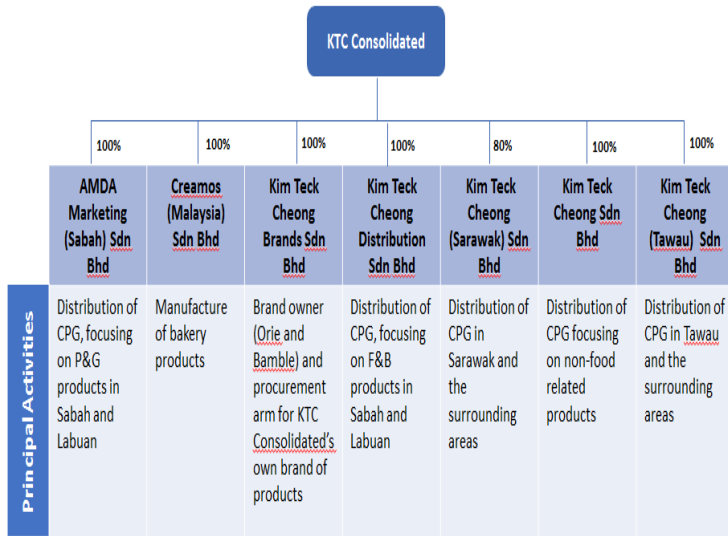
KTC Holdings	72.2%
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Financials

FYE June (RM'm)	2015A	2016E	2017E
Revenue	299.9	329.9	379.3
Gross profit	41.1	45.8	53.9
PBT	10.4	12.8	16.8
Net profit (NP)	7.1	9.7	12.7
EPS (sen)	1.38	1.91	2.50
BV/Share (RM)	0.14	0.18	0.20
PER	10.9	7.9	6.0
Price/BV (x)	1.07	0.82	0.75
Net Gearing (x)	0.60	0.42	0.38
NDPS (sen)	-	0.38	0.50

Peers Comparisons	PER (T12M)	Div. Yld (%)	Mkt Cap (RM'm)
DKSH	13.5	4.8	733
HARISON	10.4	4.6	223
YEELEE	14.0	1.5	357
Average	12.6	3.6	-
KTC	10.9	-	77
FBMKLCI	17.5	3.2	986b

CORPORATE STRUCTURE



BUSINESS OVERVIEW

- Kim Teck Cheong Consolidated Berhad is in the business of providing market access and coverage of CPG where it is involved in the distribution and warehousing of third party brands as well as its own brands of products. A small portion of its business is in the manufacture of its own brand of bakery products.
- Currently, the Group is supported by 18 distribution centres in East Malaysia and distributes 10,348 SKUs covering various locations within Sabah, Sarawak and Labuan.

BUSINESS SEGMENTS

- Provision of market access and coverage of CPG – Distributes approximately 194 third party brands of CPG for approximately 36 brand owners while also building on the distribution and warehousing of its own brands of CPG.
- Manufacturing of bakery products – Via its wholly-owned subsidiary, Creamos Malaysia, it manufactures its own brand of bakery products, which commenced operation in February 2014.

Key Brands



Source: Prospectus



23 November 2015

Indicative Timeline

Events	Tentative dates
Prospectus Launch / Opening of Malaysian Public Offering (via balloting)	28 October 2015
Closing of Malaysian Public Offering (via balloting)	12 November 2015
Announcement of Malaysia Public Offering Subscription Rates	16 November 2015
Listing Date	25 November 2015

Source: Prospectus, Kenanga Research

Utilisation of Proceeds

Details	Amount of proceeds	
	RM'm	%
Acquisition of warehousing facilities	9.0	42.3
Construction of new warehousing facilities	2.0	9.4
Purchase of equipment	3.0	14.1
Working capital	4.7	22.1
Estimated listing expenses	2.6	12.2
Total	21.3	100.0

Source: Prospectus, Kenanga Research

IPO Details

Details	Shareholdings	
	'm shares	%
KTC Holdings	368.3	72.2
Selected investors	91.7	18.0
Malaysia Public (via balloting)	34.0	6.7
Eligible Employees of KTC	16.3	3.2
Total	510.3	100.0

Source: Prospectus, Kenanga Research

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KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenanga.com.my



Chan Ken Yew
Head of Research