

Kim Teck Cheong Consolidated Berhad (BUY, NEW)

INDUSTRY: Consumer

SMALL-CAP IDEA

22 March 2016

Target Price: RM0.49

Share Price: RM0.385

Conquering the East

Business Profile

- **A fast-growing distributor in East Malaysia.** Kim Teck Cheong (KTC) was founded in 1938 and listed on ACE market of Bursa Malaysia on 25 Nov 2015. The company is headquartered in Kota Kinabalu, Sabah. It is engaged in the distribution of 3rd party brands (accounting for circa 95% of its total revenue) and in-house brands (circa 3%) of consumer packaged goods (CPG) in East Malaysia (EM). The company also manufactures its own bakery products (about 2%).

Investment Highlights

- **Top tier distributor of CPG in EM.** KTC currently distributes approximately 10,348 stock keeping units for 38 brands owners through its 19 distribution centres. Going forward, KTC is expanding its distribution operations and manufacturing operations in Sabah, Sarawak and Brunei.

- **Impressive expansion plans.** After its recent acquisitions of Popular Trading, Trans Paint and Grandtop Marketing as well as securing distribution contracts from SCGM's plastic cup and Anakku Sabah, we expect management to continue its efforts to further strengthen its distribution arm in EM. Management guided that a few negotiations between KTC and MNCs/local well-known companies are on-going and the acquisitions/distribution contracts are expected to conclude by mid-2016. The series of acquisitions/distribution contracts, if successful, are expected to significantly boost its FY17 performance.

- **Robust CPG market.** According to Vital Factor Consulting, CPG market size in EM is estimated at circa RM6.8bn. For the time being, KTC only captured about 10% or RM290m of the distribution in Sabah and Labuan and less than 1% in Sarawak, indicating that there is ample growth for KTC to strengthen its distribution points and grow its market share.

- **Sustainable margin.** While KTC's own brands of CPG (e.g. "Orie", "Bamble" and "Creamos") contributes circa 5% of total revenue, it offers higher GP margin of circa 28% as compared to the main contributor of 3rd party brands of about 13%. Coupled with the additional bakery production lines, we see strong cushion to protect KTC's earnings margin from the downside.

Catalysts

- Sustained run-up in its impressive expansion plans; margin expansion from its own brands of CPG; extensive distribution network; and experienced management team.

Risks

- High labour and transportation costs; unexpected economic downturn; dependency on distribution of 3rd party brands of CPG; and delay in its on-going acquisitions/distribution contracts.

Forecasts

- We expect its top and bottom line to grow by 54.6% and 56.7% respectively in FY17, given its aggressive on-going expansion plans; robust CPG market size and extensive distribution network.

Rating / Valuation

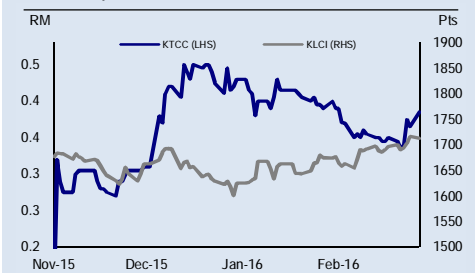
- We derive our TP of RM0.49, based on distribution industry peers' average P/E of 15.3x, which is justifiable given its proven and established track record since its listing, future strong earnings growth; experienced management team and margin expansion due to initiatives in own brands of CPG.

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KLCI	1718.4
Expected share price return	27.3%
Expected dividend return	1.0%
Expected total return	28.3%

Share price

Information

Bloomberg Ticker	KTCC MK
Bursa Code	0180
Issued Shares (m)	510
Market cap (RM m)	196
SC Shariah-compliant	No

Price Performance	1M	3M	12M
Absolute	-1.3	26.2	N/A
Relative	-3.8	19.7	N/A

Major Shareholders

KTC Holdings	72.2%
CIMB Principal Asset Mgmt	5.5%
Prudential Unit Trusts	3.7%
CIMB-Principal AM Bhd	3.7%

Summary Earnings Table

FYE Jun (RMm)	2015A	2016E	2017E
Revenue	299.9	329.9	510.1
EBITDA	16.2	20.9	31.7
PBT	10.4	14.5	22.7
PATAMI	7.1	10.4	16.3
Adj PATAMI	7.1	7.6	16.3
Rep EPS (sen)	1.4	2.0	3.2
DPS (sen)	0.0	0.4	0.4
Net DY (%)	0.0	1.0	1.0
PER (x)	27.9	19.0	12.1
P/Book (x)	2.7	2.1	1.8
Net debt to equity (%)	59.7	47.8	38.2
ROE (%)	9.6	11.1	14.8

HLIB

Peers Comparisons

Companies	P/E (T12m)	DY	Mkt Cap (RM'm)
DKSH	17.1	2.4	630.6
HARISON	13.3	0.0	208.8
Average	15.2	1.2	419.7
KTC	19.0	-	196.8

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Technical Analysis Outlook

DAILY CHART: BUYING MOMENTUM IS PICKING UP PACE



Source: HLIB

The bulls are back in town. The white Marubozu candlestick on 17 March 2016 could prove to be a positive signal that selling has come to an end as it has turned around the MACD, RSI and Slow Stochastics oscillators from oversold territory after share price retracement.

After hitting an all-time high of RM0.475 on 6 Jan 2016, share price fell by circa 29%. We deem the sharp drop in share price is extremely oversold as it has retraced to 61.8% Fibonacci Retracement (FR) level, signaling an abated selling pressure. The turnaround signal ignited by the white Marubozu candlestick has triggered a reversal signal to the North.

Buying momentum is picking up pace at an accelerating velocity. MACD created “GoldenCross” sign while its histogram already turned into positive zone. RSI has ricocheted from the critical support level of 30%. Meanwhile, Slow Stochastics surged from 7% to 82.2% within 4 trading days. All the readings suggest that bulls are in control.

As such, we are looking at RM0.425, RM0.475 and RM0.49 as major resistances while we expect strong supports at the 50% FR level of RM0.365, breaching below which could turn overall outlook negative. Cut loss at RM0.35 (10-d SMA).

Attractive risk to reward ratio with 27.3% upside against 9.1% downside. All in, we see an attractive risk to reward ratio for investor with a theoretical entry price of RM0.385 given that the downside to the cut loss zone of RM0.35 is 3.5 sen (-9.1%) while the upside to the LT price objective of RM0.49 is 10.5 sen (+27.3%).

Technical Readings

Daily MACD	Turning bullish
Daily RSI	Turning bullish
Daily Slow stochastic	Turning bullish
52-w High/Low	0.475/0.15
6-month Beta (x)	N/A
Avg daily volume (shares)	3M (15.24m)
Price performance: 1-d/1-wk	+5.48%/+11.59%
S1/S2/S3 (RM)	0.365/0.35/0.34
R1/R2/R3 (RM)	0.425/0.475/0.49
Bloomberg Target price (RM)	Not-rated
Upside to LT objective	+10.5 sen (+27.3%)
Downside to stop loss	-3.5 sen (-9.1%)
HLIB, Bloomberg	

Key Brands

BUSINESS ACTIVITIES

1 Provision of Market Access and Coverage of CPG
THIRD PARTY BRANDS

38 BRAND OWNERS 203 THIRD PARTY BRANDS OVER 10,300 PRODUCTS



Source: Company, HLIB

BUSINESS ACTIVITIES (CONT'D)

1 Provision of Market Access and Coverage of CPG
HOUSE BRANDS



Source: Company, HLIB

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Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage, and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.