

Team Coverage

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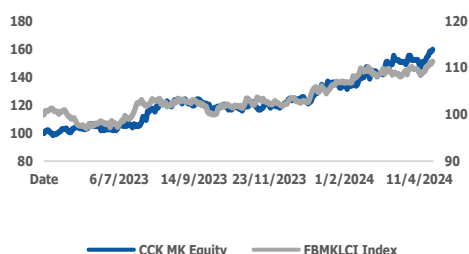
Recommendation:	HOLD
Current Price:	RM 1.10
Previous Target Price:	RM 1.04
Target Price:	RM 1.11
Upside/Downside:	0.9%

Stock information

Board	MAIN
Sector	Consumer Products
Bursa / Bloomberg Code	7035 / CCK MK
Syariah Compliant	Yes
FTSE4Good Index	Yes
FTSE ESG Rating	☆☆☆
Bloomberg ESG Rating	N/A
Shares issued (m)	620.9
Market Cap (RM' m)	683.0
52-Week Price Range (RM)	1.11-0.68
Beta (x)	0.8
Free float (%)	34.0
3M Average Volume (m)	1.1
3M Average Value (RM' m)	1.0

Top 3 Shareholders	(%)
CENTRAL COLDST SA SDN BHD	22.3
SK Tiong Enterprise Sdn Bhd	16.7
Chong Nyuk Kiong Enterprise Sdn Bh	5.4

Share Price Performance



	1M	3M	12M
Absolute (%)	7.8	22.9	54.9
Relative (%)	4.7	17.5	38.6

CCK Consolidated Holdings Berhad

Resilient Business Model in East Malaysia

Summary

- **CCK is eyeing to explore the Sabah market in the coming years, aiming to capitalise on the relatively low number of retail stores in the state against Sarawak.**
- **Although implementation of closed-house system is ineligible for Budget 2024 tax incentives aimed at poultry farmers transitioning from open to closed housing, CCK continues to receive subsidies for eggs.**
- **We downgrade our recommendation to HOLD recommendation with a TP of RM1.11 by pegging PE multiple of 8.0x to FY24F EPS of 13.8 sen.**

Results Review

- **Expansion in underappreciated Sabah market.** CCK is poised to expand within the Sabah market in the near future, noting the existing presence of only 16 retail outlets, including supermarkets, in Sabah, compared to 58 in Sarawak. Sabah offers significant opportunities for growth, with its slaughterhouse having the capacity to process approximately 10,000 chickens/day. Should retail expansion in Sabah progresses accordingly, CCK plans to increase its poultry production capacity, recognising the symbiotic relationship between these two businesses.
- **Not eligible for tax incentives aimed at poultry farmers willing to upgrade under Budget 2024.** CCK currently employs a closed-house system for poultry production. Tax incentives are aimed at supporting farmers transitioning from open-house to closed-house systems, potentially favoring sole proprietors and small to medium-sized enterprises (SMEs). While some contract farmers that are in the process of converting their operations may benefit from this transition, certain players may not be eligible for these incentives. After receiving the said subsidies in 2023, we reckon CCK will continue to eligible for subsidies for eggs.
- **Raw material prices stabilised.** We gathered that soybean meal prices have found stability in late-February 2024 before inching c.10% higher in recent months. Meanwhile, maize prices continue to inch downward since mid-2023 with latest Crop Progress report highlights favorable weather in the US led to an above-normal planting pace in many states alongside with better harvest in South African region. While soybean meal prices may turn relatively stable, we expect Maize prices to remain under pressured.
- **Resilient Business Model in East Malaysia.** Channel checks highlights that demand for poultry and prawn segments during the festive season does not exhibit drastic fluctuations, as sales demand in Sarawak remains stable. Therefore, we anticipate that the business will maintain stable demand in upcoming financial reporting quarter.
- **Valuation.** Following the appreciation in share price (+17.0% YTD), we downgrade our recommendation to **HOLD** (previously BUY) with a target price of RM1.11, by pegging 8.0x P/E multiple to FY24F EPS of 13.8sen.
- **Risk.** Volatility in poultry prices and feed expenses, along with vulnerability to currency fluctuations due to feed costs being denominated in US Dollars, while the company also exports a portion of its goods overseas.

Financial Highlights

Income Statement

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	685.6	878.0	994.9	1059.9	1072.6
Gross Profit	119.6	177.9	215.3	227.9	230.6
EBITDA	50.5	104.0	131.3	137.8	139.4
Depreciation & Amortisation	-23.1	-25.7	-23.0	-26.2	-26.8
EBIT	27.4	78.4	108.3	111.6	112.7
Net Finance Income/ (Cost)	-1.7	-2.8	-2.3	-2.3	-2.1
Associates & JV	5.5	5.3	4.8	5.0	5.0
Pre-tax Profit	31.2	80.9	110.8	114.3	115.6
Tax	-6.7	-18.8	-26.1	-27.4	-27.7
Profit After Tax	24.5	62.1	84.7	86.9	87.8
Minority Interest	0.0	0.0	0.1	0.0	0.0
Net Profit	24.5	62.1	84.6	86.9	87.8
Exceptionals	0.0	-6.0	0.0	0.0	0.0
Core Net Profit	24.5	56.1	84.6	86.9	87.8

Key Ratios

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
EBITDA margin	7.4%	11.8%	13.2%	13.0%	13.0%
EBIT margin	4.0%	8.9%	10.9%	10.5%	10.5%
PBT margin	4.5%	9.2%	11.1%	10.8%	10.8%
PAT margin	3.6%	7.1%	8.5%	8.2%	8.2%
NP margin	3.6%	7.1%	8.5%	8.2%	8.2%
Core NP margin	3.6%	7.1%	8.5%	8.2%	8.2%
ROE	7.8%	17.1%	19.6%	17.6%	15.8%
ROA	5.6%	12.3%	14.5%	12.7%	11.7%
Net gearing	0.5%	Net Cash	Net Cash	Net Cash	Net Cash

Key Assumptions

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
No of chickens sold/year (m)	12.3	12.4	12.3	13.0	13.5
Prawn production (tonne)	130.0	300.0	490.6	686.8	721.2
No. of stores	71	72	75	75	75

Valuations

	FY24F
Core EPS (RM)	0.138
P/E multiple (x)	8.0
Fair Value (RM)	1.11

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Cash	57.8	71.1	125.6	182.7	230.9
Receivables	45.6	48.7	69.3	49.4	50.0
Inventories	57.2	106.1	92.6	87.2	97.1
Other current assets	16.4	32.5	28.3	53.0	53.6
Total Current Assets	177.0	258.4	315.8	372.2	431.5
Fixed Assets	220.7	211.6	226.8	267.7	273.1
Intangibles	0.4	4.1	4.3	4.3	4.3
Other non-current assets	37.0	31.2	35.8	39.4	43.3
Total Non-current assets	258.1	246.9	267.0	311.4	320.8
Short-term Debt	36.3	45.5	43.4	48.2	49.7
Payables	49.2	41.3	57.4	39.0	38.8
Other Current Liabilities	3.9	28.4	19.1	19.1	19.1
Total Current Liabilities	89.4	115.2	119.9	106.3	107.5
Long-term Debt	23.0	19.8	20.3	20.7	21.1
Other non-current liabilities	8.4	8.1	10.8	63.3	67.7
Total Non-current Liabilities	31.4	27.9	31.1	84.0	88.9
Shareholder's equity	314.2	361.8	431.1	492.8	555.4
Minority interest	0.1	0.5	0.6	0.6	0.6
Equity	314.2	362.3	431.7	493.4	555.9

Cash Flow

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Pre-tax profit	31.2	80.9	110.8	114.3	115.6
Depreciation & amortisation	23.1	25.7	23.0	26.2	26.8
Changes in working capital	-4.4	-41.9	7.9	-3.4	-11.4
Others	-11.7	-30.3	-29.8	-29.8	-29.8
Operating cash flow	7.0	-46.6	1.0	-7.1	-14.5
Net capex	-21.4	-22.8	-27.8	-31.8	-32.2
Others	0.1	-0.2	0.0	0.0	0.0
Investing cash flow	-21.3	-23.0	-27.8	-31.8	-32.2
Dividends paid	-12.5	-7.8	-21.7	-25.2	-25.2
Others	-6.7	-3.0	0.3	0.3	0.3
Financing cash flow	-19.3	-10.8	-21.5	-25.0	-25.0
Net cash flow	-33.5	-80.5	-48.3	-63.8	-71.6
Forex	0.4	-0.6	1.8	1.8	1.8
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	59.1	57.2	57.1	121.3	173.6
Ending cash	57.2	57.1	121.3	173.6	219.3

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

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RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain + dividend yield

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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