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Recommendation: **Not Rated**

Current Price: **RM 0.88**

Previous Target Price: -

Target Price: **RM 1.22**

Upside/Downside: **38.6%**

Stock information

Board	MAIN
Sector	Agricultural Products
Bursa / Bloomberg Code	7134 / PW MK
Syariah Compliant	Yes
FTSE4Good Index	No
FTSE ESG Rating	N/A
Bloomberg ESG Rating	N/A
Shares issued (m)	317.9
Market Cap (RM' m)	279.7
52-Week Price Range (RM)	0.544-1.07
Beta (x)	0.5
Free float (%)	47.1
3M Average Volume (m)	0.9
3M Average Value (RM' m)	0.8

Top 3 Shareholders (%)

SL Gold Sdn Bhd	17.7
Siah Gim Eng	16.3
Law Hooi Lean	14.2

Share Price Performance



	1M	3M	12M
Absolute (%)	1.1	-2.2	58.6
Relative (%)	2.4	-1.4	44.5

PWF Corporation Bhd

Integrated farm to table poultry player

Summary

- PWF is an integrated poultry player, encompassing a vertically integrated structure from feed production to breeding of day-old chicks (DOC), broiler and egg farming.
- Core earnings are expected to accelerate on the back of lower feedmill cost and higher chicken prices.
- PWF is valued by pegging its FY25F core EPS of 15.2 sen to PE of 8.0x, leading to a FV of RM1.22 (38.6 % potential upside from current price).

Company Background

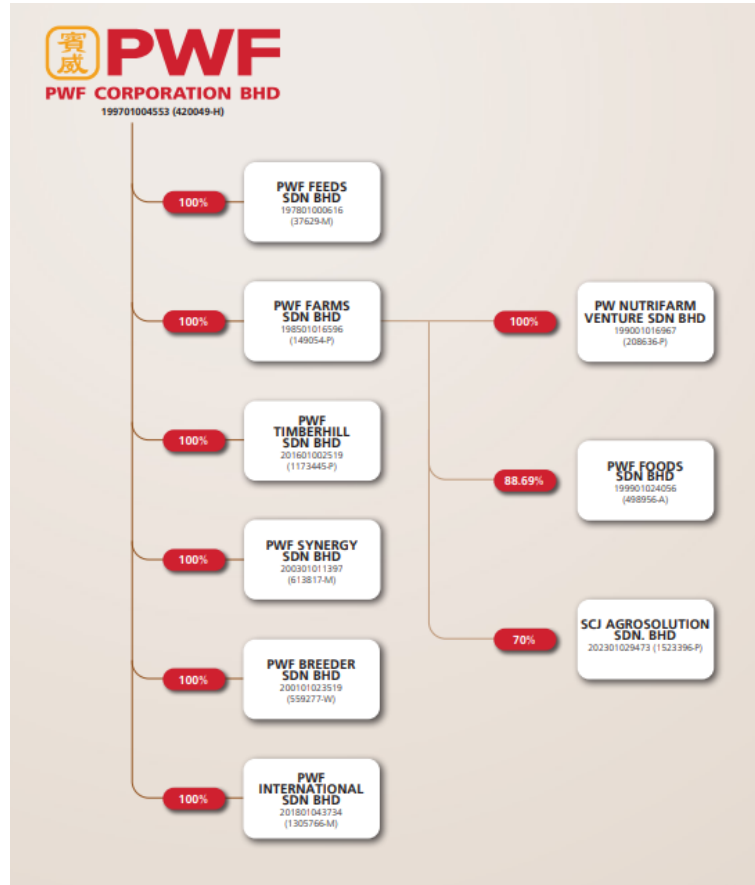
- PWF Corporation Bhd (PWF) business began in the 1970s with the establishment of a feedmill under PWF Feeds Sdn Bhd, initially producing poultry feed on a small scale for local farmers. The company grew over the years, and in 1997, PWF was incorporated as an investment holding company for the PWF Group of companies.
- PWF is principally involved in the poultry farming business, with its headquarters located in Bukit Minyak Industrial Park, Penang. The Group was listed on the Second Board of Bursa Malaysia in 2002 and transferred to the Main Market in 2004. Currently market capitalisation stood at approximately RM280.0m.
- At present, the Group operates over 50 broiler farms across Malaysia in Kedah, Penang, and Perak. It is the second-largest poultry company in the Northern region of Malaysia.
- The company operates through a well-integrated business model that encompasses various segments of the poultry production chain, including broiler breeder farming, broiler egg hatching, broiler farming, layer farming and feed milling, serving the Malaysian market.
- Their core products include broilers and table eggs, which are distributed to a wide range of customers such as wholesalers, supermarkets, grocery stores, processing plants, and market vendors.

HQ at Bukit Minyak, Penang



Source: Company

Corporate Structure



Source: Company, Annual Report

Business Overview

- PWF's primary business activity revolves around an integrated poultry farming, encompassing a vertically integrated structure from feed production to breeding of day-old chicks (DOC), broiler and egg farming.
- PWF is one of the major players in the local poultry industry, with a large presence in the northern and central regions of Peninsular Malaysia. Core products include broilers and table eggs, are distributed to a wide range of customers, including wholesalers, supermarkets, grocery stores, processing plants, and market vendors.
- The Group's broiler farms, located in Kedah, Perak, and Penang, have a combined output of up to 6.0m kg of broiler/month. The Group's chicken processing business is located in Batu Caves, Selangor. Most of the DOC in PWF's broiler farms are supplied by their own breeder farms in Sungai Batu, Kedah; Hulu Selama and Taiping, Perak; and Alor Gajah, Melaka. The eggs from the breeder farms are transported to the Group's modern and centralised hatchery facilities in Sungai Karangan, Kedah, and Alor Gajah for hatching, with a combined production capacity of approximately 3.2m DOC/month.

Business Overview

	Feedmill	Broiler Breeder Farming	Broiler Farming	Layer Farming
Location	Bukit Mintak Industrial Park, Penang	Sungai Batu, Kedah , Hulu Selama and Taiping, Perak , Alor Gajar, Melaka	Kedah, Perak and Penang	Kedah
Brief overview	Production of feedmill for the Group's poultry farms	Production of Day-old chicks (DOC)	Diversified farms across Peninsular Malaysia for risk mitigation	Raising egg-laying poultry birds, primarily hens, for the production of eggs
Capacity	26,000 metric tonnes/month	3.2 million DOC per month	6 million kg of broilers per month	1 million eggs per day (95% table eggs and 5% functional eggs)
Existing customers	14,000 MT of internal usage and balance of 8,000 MT for milling services *Milling services - charge only labour and other miscellaneous costs	Support internal operations (broiler), external customers (about 8%)	Domestic market consumption	Domestic market consumption

Source: Company, Apex Securities

Feedmil

Bukit Minyak Feedmill plant



Source: Company

- As feed cost represents one of the largest operating costs for a poultry farm, the Group primarily uses soybean (40%) and corn (40%) as the main components, mixed with other nutrients, for feed mill production
- The Group produces its own poultry feed at their feed mill plant in Bukit Minyak, Penang. The feed mill plant has the capacity to produce approximately 26,000 MT/month. In-house production is able support all poultry farms of the Group, and the Group also provide feed mill services to other poultry players.

Breeding



Source: Company

- Post incubation period, the Group produces Day-Old Chicks (DOC) from fertilised eggs, are then sent to PWF's broiler farms. PWF operates four breeder farms located in Alor Gajah (Malacca), Taiping (Perak), Hulu Selama (Perak), and Sungai Batu (Kedah) that produce a total of over 3.2m DOC/month.
- The Group's hatcheries are equipped to handle large-scale production, ensuring a steady supply of high-quality chicks for its broiler farms and external customers. Breeding farms mainly support internal operations (broiler), with only a small portion (c.8%) supplied to external customers.

Broiler farming



Source: Company

- The broiler farming segment is the major revenue contributor to the Group, as PWF breeds and raises chickens specifically for meat production.
- The Group raises broiler chickens in well-managed farms that prioritise animal welfare and biosecurity. PWF employs best practices in poultry husbandry, including optimal feeding regimes, health monitoring, and environmental control, to ensure the growth of healthy and robust birds. This segment plays a crucial role in meeting the growing demand for poultry meat in Malaysia.
- PWF operates one of the largest broiler farming businesses in the northern region of Peninsular Malaysia, with over 50 broiler farms on a total land area of around 500-ac in the states of Penang, Kedah, and Perak. Total production encompassed over 6.0m kg of live broilers for the northern and central Peninsular Malaysia market each month. Major customers include wholesalers, wet market retailers, and chicken processing plants.

Layer farming



Source: Company

- PWF raises egg-laying poultry birds for commercial egg production in their layer farming segment. The Group produces table eggs at their layer farm in Pendang, Kedah. Situated on a 70-ac site, the farm is fully automated and equipped with the latest poultry equipment technology, capable of producing over 1.0m eggs/day.
- The farm utilises a modern cage system, complete with automated feeding, drinking, and manure removal systems, designed and engineered for maximum efficiency and animal comfort.

Industry Overview

- The poultry industry is crucial for food security in Malaysia and plays a significant role in the agriculture sector, contributing 10.2% of the sector's total revenue, as shown in 2022 data.
- In 2023, Malaysia's per capita poultry consumption was 50.5kg, reflecting a slight increase from the previous year. Consumption is projected to rise, reaching an estimated 53.1kg by 2029, driven by the country's growing population and rising income levels, which boost the demand for protein-rich foods like poultry.
- Over the years, the Malaysian poultry industry has undergone consolidation. Mergers and acquisitions among parent stock farms are part of the ongoing restructuring of the broiler production system. New farms are increasingly adopting environmentally controlled closed poultry houses with various automation levels.
- Traditionally, most broiler farms in Malaysia use an open house system, where chickens are reared in open-air environments with minimal enclosure. However, many players are transitioning to closed house systems, which offer better protection against predators, consistent temperatures, and improved disease prevention. For instance, in Perak, the state government has mandated a three-year deadline for poultry farmers to transition from open house systems to closed houses, with the deadline set for 31 December 2025.
- Feedmill costs are a major component of poultry business expenses. Currently, the prices of corn and soybean, key inputs for feedmills, are trading below the levels seen from CY21 to CY23. This decline is due to excess supplies and favorable growing conditions for these crops, as well as weak export demand. This trend is expected to reduce cost pressures on poultry producers by lowering feedmill costs.

Corn futures



Source: Tradingview

Soybean futures



Source: Tradingview

Investment Highlights

- Resilient and rising chicken prices are expected to boost earnings.** As part of the national food security initiatives, the Malaysian government has abolished price controls and subsidies for chicken, a move touted to be positive development for producers like PWF. The move allows broiler farmers greater flexibility to adjust prices in response to changing market conditions. For instance, chicken prices have fluctuated from RM5.90/kg in Q4 2023 to RM6.50/kg in Q1 2024 and reached as high as RM7.00/kg in Q2 2024.
- Cost normalisation results in better margin.** The prices of soybean and corn, a major inputs for feed, have declined due to favorable global supply conditions. As feed costs constitute c.70% of PWF's production expenses, any changes are expected to impact margins. Reduction in cost pressure on these commodities prices benefits PWF's feedmill operations, leading to reduced input costs. With stability in chicken selling prices and lower feed costs, we expect PWF to achieve better margins in the coming quarters.
- Industry dynamic to benefit large farm long term.** Amid the changing competitive environment and advancements in farming technology, coupled with state government initiatives to transition farms to closed-coop systems, we foresee broiler production players are gradually adopting these changes. The move requires substantial CAPEX, likely leading to the shutdown of smaller and less profitable farms as well as consolidation into fewer, but larger players. Larger-scale players like PWF are poised to benefit from this trend, as reduced overall supply will support chicken prices. Additionally, further M&A opportunities for PWF to expand its capacity are on the cards.
- Attractive dividend.** The Group has consistently maintained a dividend payout ratio averaging 30-40% of their net profit over the years. Going forward, we expect a decent dividend pay-out, supported by anticipated stronger bottom line and cash inflows from government egg subsidies. Our forecast suggests a dividend yield of 5.1% and 5.7% in FY24F and FY25F respectively.

- **Table farming.** The Malaysian government has maintained subsidies for table eggs at RM0.10/egg, and PWF expects to receive RM25-30m subsidies in 2024 based on current capacity. Despite a RM0.03 reduction in the price ceiling for table eggs, we believe this impact will be mitigated by lower feed costs. Additionally, PWF plans to expand the output of functional eggs from 5% to 20% of their current layer farm capacity. With growing awareness over the benefits of functional foods, functional eggs, which are not subject to government price controls and command c.50.0% better pricing than table eggs. This will likely enhance earnings and margins contributions from this segment.

Financial Highlights

- **FY23 Financial Performance.** PWF achieved a revenue of RM556.5m in FY23, up from RM486.2m in FY22, driven by increased sales volumes of eggs and broilers and higher production levels.
- **Government Subsidies.** The Group received subsidies of RM66.2m and RM45.3m for broilers and eggs in FY22 and FY23, respectively. Looking ahead to FY24F and FY25F, with the abolishment of chicken subsidies, we anticipate the Group to receive lower subsidies from the government, forecasting RM26-27m for both fiscal years.
- **Earnings Outlook.** Despite the reduction in government subsidies, we forecast stronger core net profit growth driven by several factors: higher chicken prices, lower feed costs due to weakening commodity prices and favorable forex conditions with the strengthening MYR against USD, and higher margins from the increased contribution of functional eggs.

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	393.6	486.2	556.5	598.7	667.2
EBITDA	22.0	46.8	112.0	119.7	133.4
Pre-tax Profit	2.5	15.7	84.2	77.8	88.7
Pre-tax Profit ex government subsidy	2.5	-29.6	38.9	51.8	61.7
Net Profit	0.6	14.9	50.4	65.4	73.9
Core Net Profit ex government subsidy	0.6	-30.4	5.1	39.4	46.9
Core EPS (sen)	0.2	-9.9	1.6	12.8	15.2
Core P/E (x)	423.5	N/A	53.4	6.9	5.8
Dividend Yield (%)	4.6	5.7	5.7	5.1	5.7
P/B (x)	0.5	0.5	0.5	0.5	0.4
ROE (%)	0.2	4.6	13.6	17.1	18.5
Gearing (%)	48.2	37.4	24.4	23.4	23.3

Source: Company, Apex Securities

Valuation & Recommendation

- We favour PWF for to its position as a pure-play integrated poultry company supported by in-house feedmill plant, positioning as a direct beneficiary of low commodity prices and higher chicken prices.
- Our target price of RM1.22 is derived by applying a P/E multiple of 8.0x to the FY25F core EPS of 15.2 sen. The assigned P/E is in line with the peer forward PER.

- Our earnings valuation excludes the forecasted subsidies expected to be received from the government.
- The assigned PER also reflects our positive outlook on PWF, anticipating strong earnings growth in the coming quarters driven by improving margins.

Peers Comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM 'm)	P/E (x)		Gross DY (%)	Revenue RM 'm	Net Income RM 'm
					FY23	FY24F			
PWF Corp Bhd	MAIN	Dec	0.880	279.7	5.5	14.0	2.3%	556.5	50.5
CAB Cakaran Corp Bhd	MAIN	Sep	0.660	463.2	5.1	N/A	0.7	2246.0	107.1
Leong Hup International Bhd	MAIN	Dec	0.595	2171.8	6.5	7.3	4.6	9539.5	301.7
CCK Consolidated Holdings BHD	MAIN	Dec	1.480	918.9	10.3	11.4	2.7	980.7	83.3
Avg ex-PWF Corp Bhd					7.3	9.3	2.7	4255.4	164.0

Source: Bloomberg, Apex Securities

Investment Risk

- **Fluctuation of Commodities Costs and Chicken/Egg Prices.** The poultry industry is sensitive to changes in the prices of key inputs such as corn and soybean, as well as fluctuations in chicken and egg prices. These variations can significantly impact the Group's cost structure and profitability.
- **Risk of Biosecurity Issues.** The poultry sector faces risks related to biosecurity, including potential outbreaks of diseases. Such events can affect the health of poultry stocks, leading to production losses and increased costs for disease management and control.

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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