INTER-PACIFIC RESEARCH SDN. BHD. (449005-X)
For Internal Circulation Only
KDN PP8927/07/2013(032977)

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MAIN MARKET
Consumer Products & Services

29 June 2020

Guan Chong

Initiation Coverage

BUY

Current Price	**RM 2.55**
Target Price	**RM 3.10**
Consensus Price	**RM 3.39**

Stock Return Information

KLCI	1,488.14
Expected share price return (%)	21.7
Expected dividend return (%)	1.9
Expected total return (%)	23.7

Key Statistics

Shariah Compliant	YES
Bloomberg Ticker	GUAN MK
Masa Ticker / Stock Code	GCB/5102
Shares Issued (m)	1,022.7
Market Capitalisation (RM'm)	2,607.9
52 Week Hi/Lo Price (RM)	3.26/1.50
Avg Trading Volume (3-mth)	2,017,084
Est Free Float (%)	24.3
YTD Returns (%)	-17.2
Beta (x)	1.34

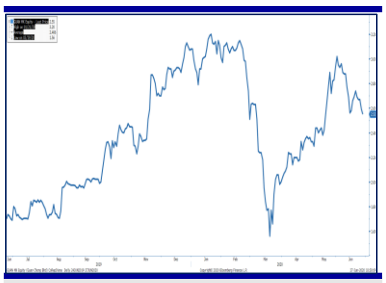
Share Price Performance (%)

Price change	Absolute	Relative
1 mth	-0.10	-0.11
3 mth	0.24	0.13
12 mth	0.50	0.61

Major Shareholders (%)

Guan Chong Resources Sdn Bhd	49.8
Misi Galakan Sdn Bhd	5.7

1-Year Share Price Performance



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Ivory Coast Expected To Be A Sweet Foray

We initiate coverage on **Guan Chong Bhd (GCB)** with a **BUY** recommendation and a TP of **RM3.10** by ascribing to a target PER of 13.0x, which is its historical 5-year average, to its forecast CY21 EPS of 23.9 sen. The assigned PER is lower than larger competitors in the global landscape (i.e.: Barry Callebaut); which is justifiable due GCB's much smaller market capitalisation. At the current price, GCB is trading at a prospective PER of only 10.7x-12.3x for the next two years, which is below the domestic consumer products' average PER of 16.0x, indicating potential upsides.

GCB is a leading cocoa processor in Asia and ranked the fourth largest grinder (joint-position with Fuji Oil) in the world, based on cocoa processing capacity, amongst other well-known grinders like Barry Callebaut, Olam and Cargill. Over the years, the group has expanded its grinding capacity from a mere 48,000 tonnes annually in 2003 to 250,000 tonnes last year. Moving forward, GCB is aiming to ramp up its capacity to 500,000 tonners within the next five years.

We like GCB for its: 1) leading market position in Asia's cocoa processing industry, 2) extensive distribution network and strong customer portfolio, 3) strong capacity expansion trajectory, and 4) the stable demand for cocoa-related products worldwide. Key downside risks include: 1) volatility in cocoa bean prices amid the ongoing LID issue imposed by top cocoa-exporting countries, and 2) resurgence of Covid-19 pandemic that could dampen demand.

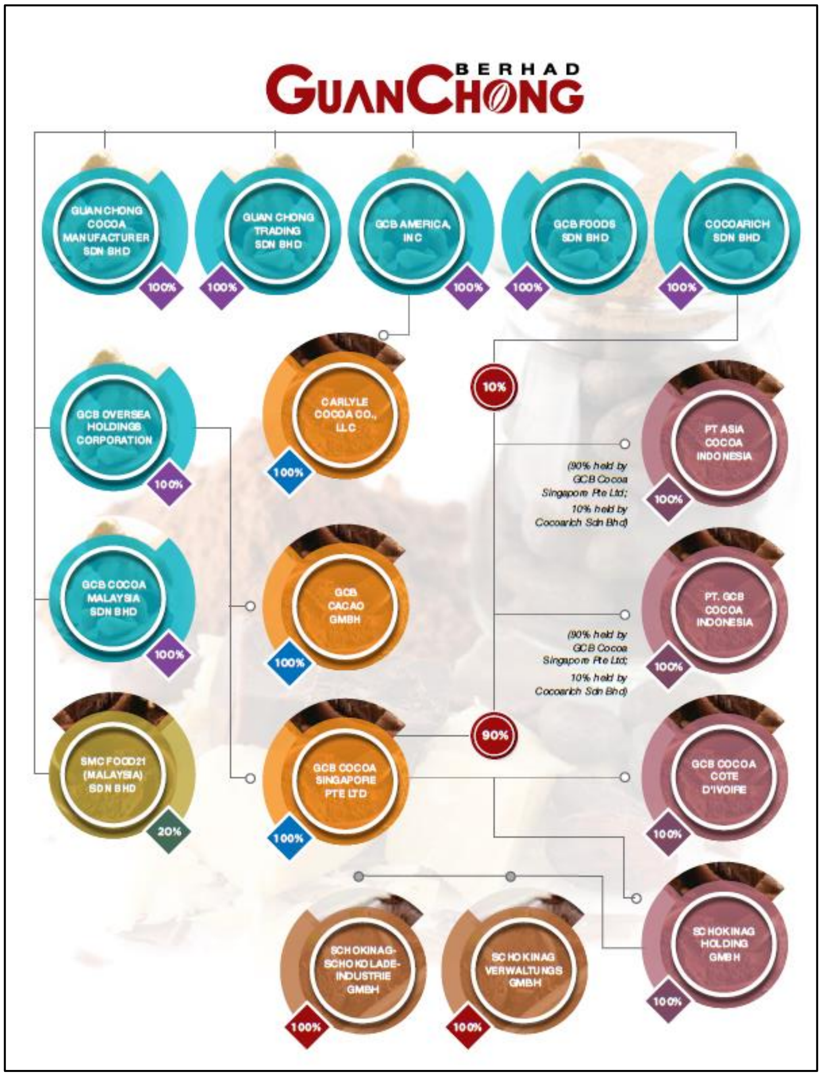
TABLE 1: FINANCIAL HIGHLIGHTS & EARNINGS FORECASTS

FYE Dec (RMm)	CY17	CY18	CY19	CY20(F)	CY21(F)
Investment Highlights (RM'm)					
Revenue	2147.9	2273.4	2941.6	3690.3	4288.7
EBITDA	162.8	263.3	332.8	331.7	379.1
Net profit	91.0	190.1	217.9	211.7	244.2
EPS (sen)	8.9	18.6	21.3	20.7	23.9
*Diluted EPS (sen)**	*7.7*	*16.2*	*18.5*	*18.0*	*20.8*
PER (x)	28.6	13.7	12.0	12.3	10.7
*Diluted PER (x)**	*32.9*	*15.8*	*13.8*	*14.2*	*12.3*
Dividend yield (%)	1.0	1.6	2.0	1.9	2.0
BV/share	0.5	0.7	0.9	1.0	1.2
P/B (x)	5.4	3.9	2.7	2.4	2.1
ROE (%)	19.0	28.5	23.0	19.8	19.3

**based on enlarged share capital of 1,175.4m outstanding shares (after adjusting for full warrant conversion)*

Source: Company, Inter-Pacific Research

ILLUSTRATION 1: CORPORATE STRUCTURE



Source: Company website

COMPANY HISTORY

Guan Chong Bhd (GCB) was incorporated as a public limited company on 22nd March 2004 as an investment holding company involved in the manufacturing of cocoa-derived food ingredients, cocoa liquor, cocoa butter, cocoa cake and cocoa powder.

Guan Chong Bhd's beginnings started in the early 1980s when the group's principal business involved the trading of cocoa beans, with a cocoa bean processing plant in Muar, Johor. Following its vision to become a market leader in the domestic cocoa processing industry, the group sold its plant in Muar and moved its manufacturing facilities to Pasir Gudang, Johor in 1990. In 1999, the group extended its product offerings to Japan via a joint-venture (JV) collaboration with SMC Food 21 Pte Ltd. It also expanded its capacity by another 50,000 tonnes after acquiring the Koko Budi plant - Pasir Gudang in 2017.

Today, GCB is hailed as Asia's largest cocoa processor and fourth largest grinder in the world. Being a major grinder in Malaysia, the group possesses about 43% of Malaysia's annual grinding capacity of 300,000MT. With its Chief Executive Officer (CEO) Brandon Tay Hoe Lian at the helm, the group has tripled its capacity to 250,000 tonnes in less than ten years, comprising 130,000 tonnes and 120,000 tonnes of grinding capacity in Malaysia and Indonesia respectively. Its main processing facilities are located in Pasir Gudang, Johor and Batam, Indonesia. The group also has a cake grinding plant, butter deodorising and liquor melting facility in the U.S., in-addition to trading units in Singapore and Indonesia. Under its in-house brand "Favorich", the exports its cocoa products to over 70 countries and to notable MNCs like Nestle, Mars, Hershey, Accor & Lotte.

Due to its export-centric nature, the group also has a wide global distribution reach of more than 80 distributors and agents supporting its export sales, which constitutes about 90% of its CY19 sales.

Source: Company

The group sold its 27.8% stake in in industrial chocolate associate, Fuji Oil Global Chocolate (M) Sdn Bhd (formerly known as GCB Specialty Chocolates Sdn Bhd) to Fuji Oil Asia Pte Ltd on 26 February 2020, for a total cash consideration of RM32.0m. Despite the disposal of the associate, GCB remains as the primary supplier of cocoa ingredient to Fuji Oil Group. The group also acquired German-based industrial chocolate producer Schokinag Holdings Gmbh (SCHOKINAG) last year, in a bid to expand its footprint the key European markets. Schokinag mainly produces industrial chocolates in Europe and has an annual grinding capacity of 7,000 MT and industrial chocolate manufacturing capacity of 90,000 MT per year.

Customer Base

Loacker, Lambertz, Unilever, Merba, Socado

Source: Company

BUSINESS OVERVIEW

GCB is mainly involved in the cocoa bean processing business that produces cocoa-related food ingredients like cocoa liquor, butter, cake and powder, as well as industrial chocolate and consumer cocoa-based food products. The group has a combined cocoa grinding capacity of 250,000 tonnes per annum and cocoa-grinding facilities located in Malaysia and Indonesia.

TABLE 2: ANNUAL GRINDING CAPACITY

List of cocoa grinding facilities	Location	Annual grinding capacity
Guan Chong Cocoa Manufacturer Sdn Bhd	Pasir Gudang, Malaysia	80,000 MT
GCB Cocoa Msia Sdn Bhd	Pasir Gudang, Malaysia	50,000 MT
PT Asia Cocoa Indonesia	Batam, Indonesia	120,000 MT
Total		250,000 MT

Source: Company, Inter-Pacific Research

In addition to the above, GCB also has a 7,000 tonnes/year cake grinding factory in Delaware and a 40,000MT/year cocoa butter and liquor melting factory in New Jersey, U.S. In a bid to support its wide presence globally, the group has also established an extensive net of global distribution network of more than 80 distributors/agents in over 70 different export countries and has about 800 employees at the group level in Malaysia.

GCB COCOA BEAN PROCESSING PROCESS

Cocoa beans need to go through a stringent process before it can be transformed into the final chocolate-food ingredient and sold to end users. Cocoa beans processing includes the following steps:

Step 1: The cocoa beans are cleaned to remove dirt and foreign materials

Step 2: The cocoa beans are pre-heated and go through the winnowing process to separate the husk of a cocoa bean from the nibs (crushed bits of cocoa bean).

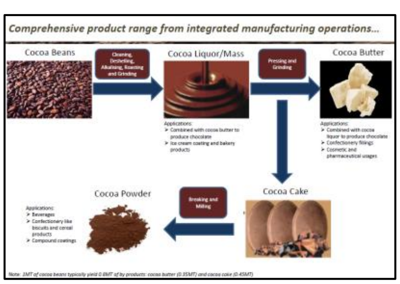
Step 3: The cocoa nibs will undergo alkalisation and roasting to develop its colour and flavour.

Step 4: The nibs are grinded to create cocoa liquor/mass (cocoa particles suspended in cocoa butter). Manufacturers generally blend more than one type of bean in their products according to the required formulas.

Step 5: The cocoa liquor is then pressed to extract the cocoa butter, leaving a solid mass called cocoa cake. The amount of butter extracted from the liquor is controlled by the manufacturer to produce cocoa cake with different proportions of fat.

Step 6: The cocoa cake is broken down into small pieces and pulverised to form cocoa powder.

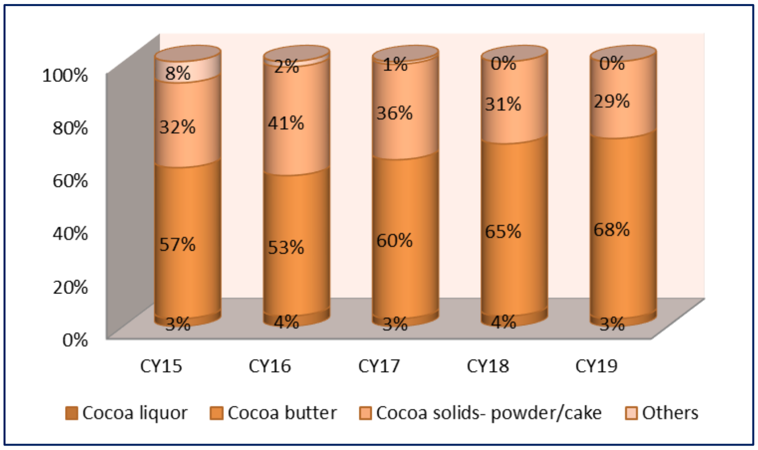
Step 7: The different types of cocoa derived food ingredients is then packaged for distribution to customers after stringent quality testing.



Source: Company

GCB's product portfolio include: i) cocoa powder, ii) cocoa butter, iii) cocoa powder and iv) cocoa cake. Cocoa butter is the largest revenue contributor of about 68% of CY19 group sales, followed by cocoa powder (23%), cocoa cake (6%) and cocoa liquor (3%). The cocoa products are marketed under the trade mark "Favorich" since 1996.

ILLUSTRATION 2: SALES BREAKDOWN (BY PRODUCT CATEGORY)



Source: Company, Inter-Pacific Research

As a norm of the industry, cocoa butter is typically sold forward, whereby both the buyer and grinder lock-in the quantity and ratio/multiple of the price of cocoa butter relative to the price of cocoa beans (quoted on the commodities exchanges). This is known as the butter ratio. Subsequently, the contract price will be fixed at a future date, based on the pre-agreed butter ratio. Combined ratio is the combined sales price for cocoa butter and cocoa powder, which indicate the grinder's overall selling price of its products compared to cocoa prices.

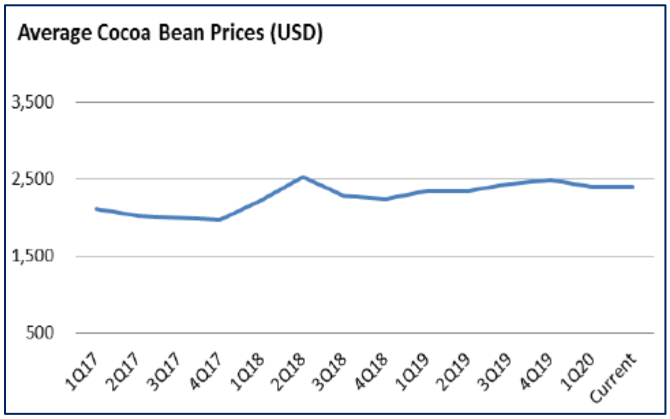
CUSTOMERS AND SUPPLIERS

As a giant cocoa processor, GCB's customers include leading chocolate and confectionery MNCs like Nestle, Mars, Hershey, Arcor & Lotte and Cadbury.

Source: Company

GCB mainly purchases the beans from international trading companies in large quantity via forward contracts usually six months to a year ahead, matching closely to the contract's tenure of cocoa butter contracts. Majority of the cocoa beans used by the group are imported from Indonesia and Ivory Coast, as well as Ghana due to the insufficient supply domestically. Cost-wise, cocoa beans - the basic raw materials of GCB's cocoa manufacturing process constitute about 85.0%-90.0% of the average total product costs and is traded on commodities exchanges in London (LIFFE) and New York (ICE).

ILLUSTRATION 3: COCOA BEAN PRICES ($/MT)

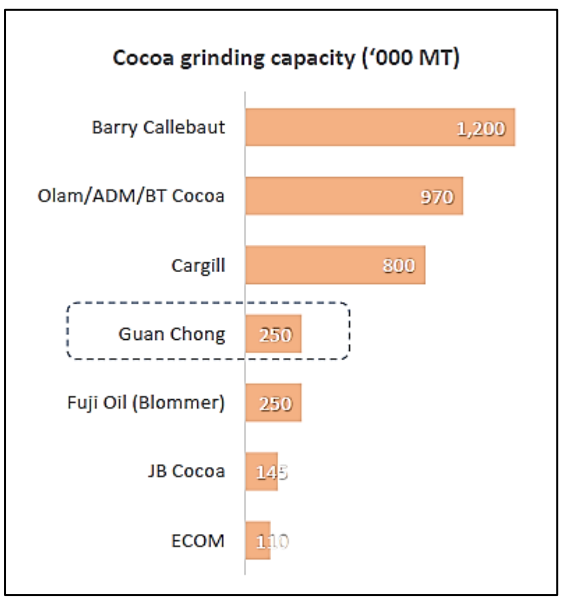


Source: London Cocoa Futures

COMPETITORS

Major cocoa grinders, other than GCB, include Barry Callebaut, Olam, ADM Cocoa (acquired by Olam), BT Cocoa (acquired by Olam), Cargill, JB Cocoa Pte Ltd and Fuji Oil, to name a few. Meanwhile, grinding capacity on a global scale is still concentrated within three players; Barry Callebaut, Cargill and Olam.

ILLUSTRATION 4: GRINDING CAPACITY OF MAJOR COCOA GRINDERS



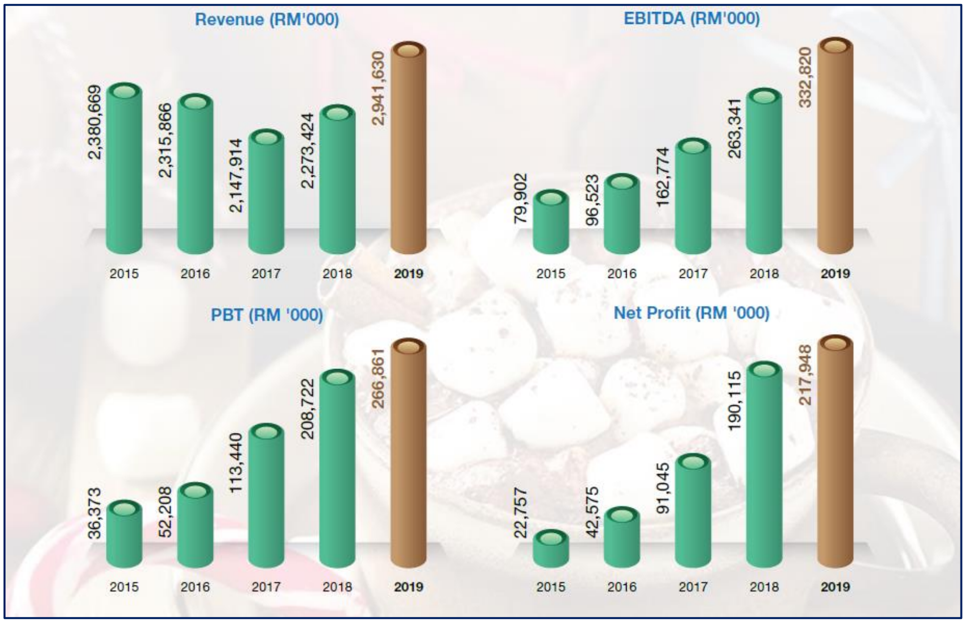
Source: Company

FINANCIAL OVERVIEW

Revenue grew 5.8% Y-o-Y in CY18 to RM2.27b, from RM2.15b in the previous year due to higher sales of cocoa ingredients, which offset lower ASPs. Subsequently, bottomline jumped 108.8% Y-o-Y to RM190.1m, backed by lower raw materials costs, higher floor utilisation and larger sales volumes.

CY19 revenue also expanded 29.4% Y-o-Y to RM2.94b, backed by stronger sales volume following the acquisition of GCB Cocoa Malaysia (previously known as Koko Budi Sdn Bhd) and higher ASPs. The strong topline performance helped GCB notched its record-high PATAMI, which jumped 14.6% Y-o-Y to RM217.9m, albeit weighed down by increased tax.

ILLUSTRATION 5: FINANCIAL HIGHLIGHTS



Source: Company Annual Report

EARNINGS OUTLOOK

Despite the stellar performance recorded in the previous years, we expect a muted year in CY20's core earnings due to volatile bean prices as a result of unresolved pricing conflicts after major chocolate producing countries like Ivory Coast and Ghana fixed the LID for the sale of cocoa beans. Meanwhile, GCB could also be hit by a double whammy from weaker chocolate demand, as well as logistic and supply-chain disruptions as many countries face lockdowns during the coronavirus pandemic.

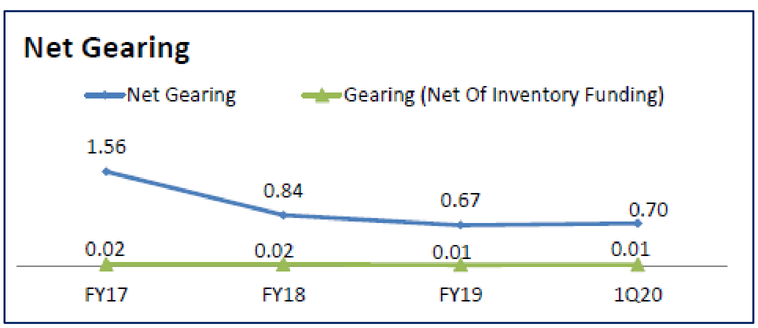
Nevertheless, we foresee CY20 revenue growing at a double-digit of more than 20% to RM3.69b, mainly owing to forward sales locked-in last year and contribution from its newly acquired subsidiary, Schokinag. Even so, net profit is expected fall slightly by about 2.9% Y-o-Y to RM211.7m, due to the abovementioned reasons and potential delay in deliveries.

Meanwhile, GCB's revenue and net profit rose 40.3% Y-o-Y and 35.8% Y-o-Y to RM909.4m and RM72.2m respectively in 1QCY20; supported by higher ASP and maiden contribution from Schokinag- The group also made a one-off gain from the disposal of an associate amounting to RM27.8m in 1QCY20. Excluding the one-off disposal gain, core net profit fell 16.5% Y-o-Y and 0.8% Q-o-Q respectively.

Moving forward, we think that EBITDA margins could fall to 8.8%-9.0% amid rising raw material prices, weaker demand and potential postponement of deliveries by customers next year. Meanwhile, the group financial leverage is considered reasonable compared to industry averages. CGB's net debt to-shareholder equity is about 67.0% in CY19, compared to 87.5% among the top four players (i.e.: Barry Callebaut, Mondelez, Olam and Fuji Oil).

The group's financial health has improved considerably over the years as net gearing fell to 0.7x in CY19, from 1.6x three years ago. Going forward, we expect its credit metrics to improve gradually as the group beefs up its cash reserves, on the back of consistent profitability. On the downside, high working capital needs and ongoing investment in new capacity could limit the pace of de-leveraging.

ILLUSTRATION 6: IMPROVING NET GEARING



Source: Company

We have also imputed conservative dividend yields of less than 2.0% from CY20-CY21 considering the group could conserve its war chest for its expansion plans and potential M&A undertakings.

RECENT DEVELOPMENTS

In 2019, GCB undertaken a bonus issue of 504.2m new GCB shares on the basis of one bonus share-for-one GCB share and 168.0m free warrants on the basis of one warrant-for-three GCB shares. As of today, there are about 152.7m outstanding warrants that are yet to be converted. The warrants are fixed to at a conversion price of RM1.65 per share on the basis of one warrant-for-one GCB share. The warrants will expire in three years on 4 November 2022 and is currently out-the money. The present premium and gearing are 1.2% and 2.7x respectively. We have included the bonus issue and warrants in our forecast.

FUTURE PROSPECTS

Robust demand will fuel sales growth: In the near-term, we expect the orders for selected cocoa products to contract due to the weaker demand in the premium chocolate sector, which was heavily affected by closure of shops, restaurants and travel confectionery retails amid the coronavirus lockdowns.

Even so, the long-term growth of the chocolate industry remains robust due to resilient demand in the mass consumer market and growing demand in Asia.

More capacity to come on-line: The group plans to double their annual grinding capacity over the next few years from 250,000 tonnes, to 500,000 tonnes, in-line with its long-term goal to become a full-fledged global cocoa producer. GCB has commenced constructing its new cocoa processing facility in Ivory Coast last year and the factory is expected to increase its annual grinding capacity to 310,000 tonnes by 2H2021. The group has allocated about RM120.0m in CY20 for the expansion in Ivory Coast.

Exciting opportunities in Europe: The increased capacity will boost GCB's presence in its traditional markets like America and Europe, in-addition to other high growth Asian markets. The group also acquired German-based industrial chocolate producer, Schokinag Holdings Gmbh (SCHOKINAG) last year in a bid to expand its footprint in key chocolate markets. Schokinag contributed about 22% of GCB's 1QCY20 revenue and aims to exceed 30% of the group's total revenue, moving forward.

Schokinag is also capable of utilising half of the cocoa ingredients produced by the Ivory Coast factory upon completion, allowing the group to scale up its business quickly and more efficiently.

Overall, we are optimistic of GCB's venture in the Ivory Coast and European markets, which is expected to strengthen its supply chain and distribution network, as well as provide another leg up to its profitability.

INVESTMENT MERITS

Unique positioning in the cocoa landscape: GCB is one of the leading cocoa processor in Asia and the fourth largest grinder the world (joint-position with Fuji Oil), based on cocoa processing capacity, alongside well-known chocolate and cocoa MNCs like Barry Callebaut, Olam and Cargill. The group is planning to ramp up capacity to 500,000 tonnes, within the next four years, with the added capacity to allow it to capitalize on the longer-term demand growth.

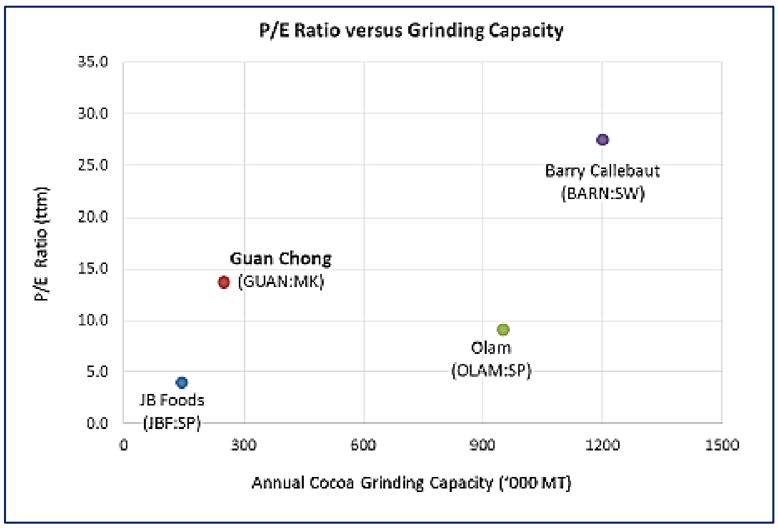
Growing demand for chocolate worldwide: GCB's expansion is supported by the growing demand for global cocoa products, which has hit $24.5b in 2019 according to Allied Market Research. Sales are also expected to grow steadily at a CAGR of 3.1% from 2019 to 2026. Specifically, chocolate consumption worldwide has reached 6.0m metric tonnes in CY18 and Asia, which is set to become the second largest consumer of cocoa ingredients in the world, is foreseen to increase at a five-year CAGR of 8.2%, driven by increased demand in the snack food categories.

As GCB's production output near its maximum efficiency and demand for cocoa products continues to grow, we think that the expansion in Ivory Coast is timely to promote long-term revenue and margins growth. Additionally, the group could also benefit from tax incentives granted by the government of Ivory Coast amid increasing efforts by the latter to promote domestic cocoa processing, as well lower logistics costs.

Difficulty for new players to enter the industry: We continue to see consolidation in the global cocoa processing industry following a number of mergers and acquisitions amongst the bigger players (i.e.: Olam's takeover of BT Cocoa in 2019) in the past years amid rising input prices and production costs. Moving forward, we believe that the high market concentration and capital-intensive requirements will act as a deterrent for new entrants into the market; ensuring tight control of market shares within the industry old timers. Consequently, we think GCB will continue to leverage on its extensive distribution network, strong customer portfolio, which consists of MNCs like Nestle, growing capacity and proven track record to maintain its position in the global landscape.

Attractive valuation considering size and potential growth: Valuations-wise, the group is relatively cheaper compared to premium grinders like Olam as it is trading at more reasonable PER despite achieving better margins and having significantly smaller market capitalisation. At current capacity, the group is also comparatively smaller against top-tier players, indicating ample room for market share growth, in-line with ongoing capacity growth, in our view.

ILLUSTRATION 7: INDUSTRY PER VS CAPACITY



Source: Company

RISKS

Increasing bean prices that could hurt profitability: Ivory Coast and Ghana, which accounts for more than 60% of the global bean production, has implemented a Living Differential Income (LID) of $400/tonne for the harvest in 2020-2021, in a bid to address the income disparity in the cocoa value chain. The move is expected to result in higher costs of bean processing from 2020 and potentially pressure market demand due to higher prices. Like other processors, GCB adopts a cost-pass through model that is expected to soften the blow to profitability from unexpected costs increases.

Currently, we expect the upside in bean prices to be capped by expectations of ample supply in the near-term. Previous endeavours by cocoa producers to set global prices have also proven to be difficult due to the tight control buyers and processors have over the market. Meanwhile, the proposed reforms to implement a premium on bean sales, if successful, are also likely to promote cocoa planting, potentially resulting in overproduction and lower bean prices.

Cocoa beans prices could also be affected by crop diseases, pest infestation, extreme weather, political instability and turmoil in producing countries.

Slowing economic growth in emerging markets: Slower economic growth in emerging markets could curb demand for cocoa- based products as a swelling middle class plays a key role in the growth of global cocoa consumption.

Rising environment costs: Cocoa processing bellwethers like Barry Callebaut and Cargill has set the tone for responsible business practices by increasing their supply-chain transparency and pursuing sustainable business practices in the cocoa sector. While beneficial to the industry and group in the longer-term, increasing environmental cost is likely to hit the group's profitability in the near-term, although it is not expected to be significant.

Demand seasonality: Majority of GCB's cocoa products is used in chocolate and confectionery manufacturing, which is largely affected by the demand of these cocoa products. In general, sales are weaker during summer months in the Northern Hemisphere and peak during the Christmas season. The seasonal effect, however, is cushioned by large trading companies which stocks up inventories for higher demand during the festive seasons.

Forex fluctuation risk: The group is exposed to foreign currency risk, albeit minimal as most of its transactions are denominated in US$ and GBP, while GCB's reporting currency is in RM. Although the group has taken reasonable steps to reduce its exposure to forex fluctuations, GCB may still be slightly affected due to the time lag between payment made for raw materials and payment received from sales.

VALUATION

We initiate coverage on **Guan Chong Bhd (GCB)** with a **BUY** recommendation and a TP of **RM3.10**, by ascribing to a target PER of 13.0x, which is its historical 5-year average, to its forecast CY21 EPS of 23.9sen. The assigned PER is lower than larger competitors in the global landscape (i.e.: Barry Callebaut); which is justifiable due to the much smaller market capitalisation of GCB. At the current target price, GCB is trading at a prospective PER of only 10.7x-12.3x, which is below the industry average PER of 16.0x, indicating potential upsides.

TABLE 3: PEER COMPARISON

	GUAN CHONG	JB FOODS	FUJI OIL	BARRY CALLEB.	OLAM INTL	MONDELEZ	AVERAGE
Last Price (US$)	0.59	0.36	26.39	1943.65	1.01	50.08	
Market Capitalisation (US$'m)	608.2	109.9	2310.5	10668.4	3233.5	71487.4	**14736.3**
Price Earnings Ratio (PE FY19)	13.7	5.4	13.7	30.0	11.3	22.4	**16.1**
Price Earnings Ratio (PE FY20)	12.8	NA	19.5	31.1	8.3	19.7	**18.3**
Price-to-Book Ratio (x)	1.6	1.0	2.1	4.6	1.1	2.9	**2.2**
Return on Equity (%)	*23.0*	*19.9*	*7.3*	*15.9*	*9.5*	*14.6*	***15.0***
Net debt to Shareholder Equity (%)	*67.0*	*111.0*	*87.8*	*53.3*	*144.0*	*64.8*	***88.0***
Dividend yield (%)	*2.0*	*5.5*	*2.1*	*1.4*	*5.7*	*2.3*	***3.2***
** For comparative purposes, all share prices are in USD*							

Source: Bloomberg, Inter-Pacific Research

TABLE 4: SWOT ANALYSIS

GUAN CHONG BHD	
Strength • Growing production capacity, boosted by venture into Ivory Coast and Europe • Improving balance sheet strength allows opportunities for further M&As and expansion	**Weaknesses** • Volatile raw materials prices due to LID imposed by Ivory Coast and Ghana • High working capital needed to support inventory (cocoa) purchases
Threats • Weaker demand and supply-chain disruptions amid the potential resurgence of coronavirus	**Opportunities** • Robust demand for cocoa globally

FINANCIAL INSIGHTS

FYE Dec (RMm)	CY17	CY18	CY19	CY20(F)	CY21(F)
Income statement (RM'm)					
Revenue	2147.9	2273.4	2941.6	3690.3	4288.7
EBITDA	162.8	263.3	332.8	331.7	379.1
Depreciation and amortisation	-26.8	-27.8	-33.1	-47.5	-49.2
Net interest (expense)/income	-22.6	-26.8	-32.9	-29.1	-32.0
Pre-tax profit	113.4	208.7	266.9	255.1	297.8
Tax	-22.4	-18.6	-48.9	-43.4	-53.6
Net profit	91.0	190.1	217.9	211.7	244.2
EPS (sen)	8.9	18.6	21.3	20.7	23.9

Source: Inter-Pacific Research

FYE Dec (RMm)	CY17	CY18	CY19	CY20(F)	CY21(F)
Balance Sheet (RM'm)					
Property, plant & equipment	373.0	447.8	481.7	620.2	658.2
Other LT assets	54.5	52.2	53.0	76.6	71.4
Total cash and equivalents	39.9	44.8	46.8	37.3	62.1
Other ST assets	1112.7	1239.3	1460.3	1369.9	1586.2
Total assets	1580.2	1784.2	2041.8	2104.0	2377.9
ST borrowings	769.8	559.0	637.2	738.1	814.9
Other ST borrowings	279.5	477.1	48.4	203.4	236.4
LT borrowings	17.5	43.4	45.5	64.2	61.3
Other LT borrowings	33.8	37.6	361.0	26.9	0.9
Total liabilities	1100.6	1117.0	1092.2	1032.5	1113.5
Share capital	121.8	121.8	220.4	220.4	220.4
Other equity and reserves	357.8	545.3	729.2	851.1	1044.0
Total equity	479.6	667.1	949.6	1071.5	1264.4
Total equity and liabilities	1580.2	1784.2	2041.8	2104.0	2377.9

Source: Inter-Pacific Research

FYE Dec (RMm)	CY17	CY18	CY19	CY20(F)	CY21(F)
Key metrics					
Revenue growth (%)	*-7.3*	*5.8*	*29.4*	*25.5*	*16.2*
EBITDA growth (%)	*68.6*	*61.8*	*26.4*	*-0.3*	*14.3*
Net profit growth (%)	*117.3*	*84.0*	*27.9*	*-4.4*	*16.7*
EBITDA margin (%)	*7.6*	*11.6*	*11.3*	*9.0*	*8.8*
Net profit margin (%)	*4.2*	*8.4*	*7.4*	*5.7*	*5.7*
Net gearing (x)	1.56	0.84	0.67	0.71	0.64

Source: Inter-Pacific Research

APPENDIX 1: BOARD OF DIRECTORS OF GUAN CHONG BHD

GUAN CHONG BHD (BOARD OF DIRECTORS)	
Y Bhg. Dato Dr. Mohamad Musa bin Md Jamil	**Chairman** Dato Dr Mohamad Musa bin Md Jamil joined the Board as Chairman on 1st April, 2013 and is responsible for the overall strategic business planning and advising in the R&D activities of GCB. Following his graduation from the University of Malaya with a Bachelor of Science in Biology in 1972, Dato Dr Mohamad joined the Malaysian Agricultural Research & Development Institute (MARDI) where he undertook various roles including research officer, Deputy Director, and Director of the Cocoa and Coconut Research division. During his stint in MARDI, he also obtained his PhD in Mycology and Plant Pathology from Queen's University, Belfast, Northern Ireland. In 1990, he left MARDI for MCB and was tasked as the Deputy Director General of the Market Development and Regulatory division, where he represented Malaysia in various meetings and trade negotiations held by International Cocoa Organisation (ICCO). In the later years, he was promoted to the position of the Director General, which he held until his retirement in 2001. Through the years, Dato Dr Mohamad has published more than 30 papers, mostly on cocoa. Currently, he is also a member of the Malaysian Plant Protection Society and the Incorporated Society of Planters (ISP).
Tay Hoe Lian	**Group Managing Director and Chief Executive Officer (CEO)** Mr. Tay Hoe Lian was appointed as the Managing Director and Chief Executive Officer of GCB on 8th January, 2005. He graduated with a Bachelor of Business Administration from the University of Toledo, College of Business Administration, USA in 1993. Prior to his appointment as the group MD, Mr. Tay was also a general manager and Managing director of Guan Chong Cocoa Manufacturer Sdn Bhd (GCC), where he played a key role in establishing the group as a top cocoa processor in the local cocoa industry.
Tay How Sik@Tay How Sick	**Executive Director and Chief Operating Officer (COO)** Mr. Tay How Sik was appointed as the Executive Director and COO of GCB on 8th January, 2005. He was a director and factory manager of GCC since 1989 and is currently responsible of the factory operations of GCC. He was involved in the initial setup of the cocoa beans processing plant including the construction of the factory, setting up of the production line and machinery installation.
Hia Cheng	**Executive Director and Chief Financial Officer (CFO)** Mr. Hia Cheng obtained his professional accounting certification from the Chartered Association of Certified Accountants (ACCA) in 1991. He was attached with TH Liew & Gan, a local audit firm before joining GCC as the Accounts supervisor in 1991. Currently, Mr. Hia is the Executive Director and Chief Financial Officer of GCB, and is responsible for the finance and trading division, in-addition to sourcing cocoa beans and marketing of cocoa products.
Tan Ah Lai	**Independent Non-Executive Director** Mr. Tan Ah Lai was appointed as the Independent Non-Executive Director of GCB on 26th October, 2007. He is also a member of ACCA and a Chartered Accountant of the Malaysian Institute of Accountants. He begin his career as an audit assistant in a public accounting firm in 1994 and is presently the audit and tax director of the firm. His expertise includes auditing, investigation, due diligence work and financial, as well as tax compliance roles. Concurrently, Mr. Tan is also a director of Crescendo Corporation Bhd.
Tay Puay Chuan	**Independent Non-Executive Director** Mr. Tay Puay Chan was appointed as an Independent Non-executive director of GCB on 8th January, 2005. His previous appointments include: i) Police Inspector with Polis Diraja Malaysia, ii) factory manager of Fajar Sawmill Sdn Bhd and iii) legal partner in Fazilah, Ong Chee Seong & Associates. Currently, Mr. Tay has established his own legal practice, Tay Puay Chuan & Co and is also the Independent Non-Executive director of Sern Kou Resources Bhd, Homertiz Corporation Bhd and Matang Holding Bhd.

Source: Company, Inter-Pacific Research

APPENDIX 2: TYPES OF COCOA PRODUCTS

Source: Company

Declaration of Independence of Opinions and of Interest in Securities

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(i) As of June 29, 2020, Inter-Pacific Research Sdn Bhd has a proprietary position in the securities (which may include but not limited to shares, warrants, call warrants and/or any other derivatives) in the following company or companies mentioned or recommended in this report: (a) Guan Chong Bhd - nil,

(ii) As of June 29, 2020, the analyst(s) who prepared this report, and the associate(s), has / have an interest in the securities (which may include but not limited to shares, warrants, call warrants and/or any other derivatives) in the following company or companies covered or recommended in this report: (a) Diana Cheok - nil.

Signed

Victor Wan Kum Seng
Head of Research
Inter-Pacific Research Sdn Bhd

Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
TRADING BUY	Total return is expected to exceed 10% in the next 3 months
NEUTRAL	Total return is expected to be between –15% to 15% in the next 12 months
SELL	Total return is expected to be below 15% in the next 12 months
TRADING SELL	Total return is expected to be below 10% in the next 3 months
NOT RATED	The stock is not within regular research coverage

Abbreviation

Abbreviation	Definition
PER	Price Earnings Ratio
PEG	PER to Growth
EPS	Earnings per Share
FYE	Financial Year End
FY	Financial Year
CY	Calendar Year
MoM	Month-on-Month
QoQ	Quarter-on-Quarter
YoY	Year-on-Year
YTD	Year-to-Date
p.a.	Per Annum
DCF	Discounted Cash Flow
FCF	Free Cash Flow
NAV	Net Asset Value

Abbreviation	Definition
CAGR	Compounded Annual Growth Rate
CAPEX	Capital Expenditure
DPS	Dividend per Share
ROA	Return on Asset
ROE	Return on Equity
PBT	Profit Before Tax
PAT	Profit After Tax
EV	Enterprise Value
EBIT	Earnings Before Interest And Tax
EBITDA	EBIT Depreciation &Amortisation
WACC	Weighted Average Cost of Capital
NTA	Net Tangible Asset
BV	Book Value

Published and Printed by:

Inter-Pacific Research Sdn Bhd (449005-X)
West Wing, Level 13,
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55100 Kuala Lumpur
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