

KAWAN FOOD BHD

Company Update

BUY

Current Price	RM 1.60
Target Price	RM 2.50
Consensus Price	RM 2.39

Stock Return Information

KLCI	1,618.54
Expected share price return (%)	56.4
Expected dividend return (%)	1.9
Expected total return (%)	58.3

Key Statistics

Shariah Compliant	YES
Bloomberg Ticker	KFB MK
Masa Ticker / Stock Code	KAWAN/7216
Shares Outstanding (m)	359.3
Market Capitalisation (RM'm)	574.9
52 Week Hi/Lo Price (RM)	2.19/1.45
Avg Trading Volume (3-mth)	153,938
Est Free Float (%)	31.2
YTD Returns (%)	-2.4
Beta (x)	1.00

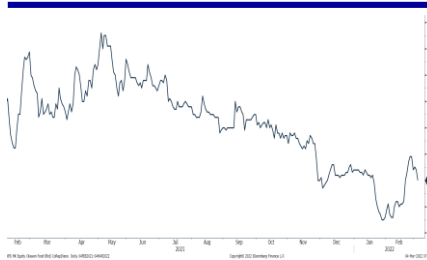
Share Price Performance (%)

Price change	Absolute	Relative
1 mth	6.0	-0.3
3 mth	1.9	-5.9
12 mth	-18.8	-21.1

Major Shareholders (%)

Gan Thiam Chai	24.5
VG Trustee Ltd	20.5
Gan Thiam Hock	6.3

1-Year Share Price Performance



Analyst: Research Team

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Expanding Client Base

We maintain our **BUY** call on Kawan with a higher **TP** of **RM2.50** (from RM2.27) by ascribing an unchanged forward PER of 19.0x to our higher CY22 EPS forecast of 13.2 sen, after gathering more information from the management during a briefing.

Key Updates

Sales. Kawan has managed to secure a few new customers in the first quarter of CY22, mainly from the U.S. The products that the group will be selling to them ranged from Paratha to other products. As a result, the management expects the new customers to make significant contributions to its topline for the year.

Production. The group has registered a high single-digit growth in its monthly production in the first month of its 1QCY22, indicating that its production recovery is on track.

Costs. Kawan sources its flour supply from various suppliers but not from Russia and Ukraine. Having said that, supply may be disrupted as the duo accounted for about 30% of the world grain exports. The reduced global supply, lost from either through war damage and/or sanctions might risk pushing up the raw material prices as demand is expected to surpass supply if the war causes a widespread shortage. The group is working closely with its supplier to quantify the impact and updates will be given in due course.

Capacity. The group has pre-registered 400 workers to join its workforce once the government permits the entry of new foreign workers, so we do not foresee any shortfall in terms of working capacity in near term. The utilisation rate of its plant sits at around 55% currently.

Risks. We are aware that the group still faces delays in shipments, but mostly due to arrival and clearance delays. Also, the outspread of the pandemic remains a concern and hence, Kawan has put in a policy for its staff to undertake bi-weekly RTK antigen tests.

Forecast. We adjusted our assumptions and valuation following the new information and guidance by the management. We raised our CY22 forecast by 10.4% and 10.3% on its top and bottomline respectively, on the grounds that export sales are gaining steam due to its expanding clientele, especially in the U.S.

Table 1: Historical Earnings and Forecasts

FYE Dec (RM m)	CY18	CY19	CY20	CY21	CY22(F)	CY23(F)
Revenue	200.0	214.1	254.7	251.8	295.8	345.2
GP	79.4	71.8	101.0	90.5	113.9	134.6
PBT	29.2	15.4	32.0	37.0	55.0	62.2
Net Profit	22.8	12.0	27.7	32.3	47.3	53.5
GP Margin (%)	39.7	33.5	39.7	36.0	38.5	39.0
PBT Margin (%)	14.6	7.2	12.6	14.7	18.6	18.0
Net margin (%)	11.4	5.6	10.9	12.8	16.0	15.5
EPS (sen)	6.3	3.4	7.8	9.0	13.2	14.9
PER (x)	25.8	49.1	21.3	18.3	12.5	11.0
DPS (sen)	2.5	2.5	2.5	3.5	3.0	3.0
Dividend Yield (%)	1.5%	1.5%	1.5%	2.1%	1.8%	1.8%
ROE (%)	7.1%	3.7%	8.0%	8.7%	11.6%	11.9%
Net Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Inter-Pacific Research

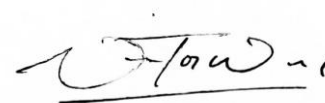
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Signed



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	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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