

Guan Chong

Recommendation: **BUY**

Stock Code: 5102

Bloomberg: GUAN MK

Price: MYR0.75

12-Month Target Price: MYR0.84

Date: August 2, 2007

Board: Main

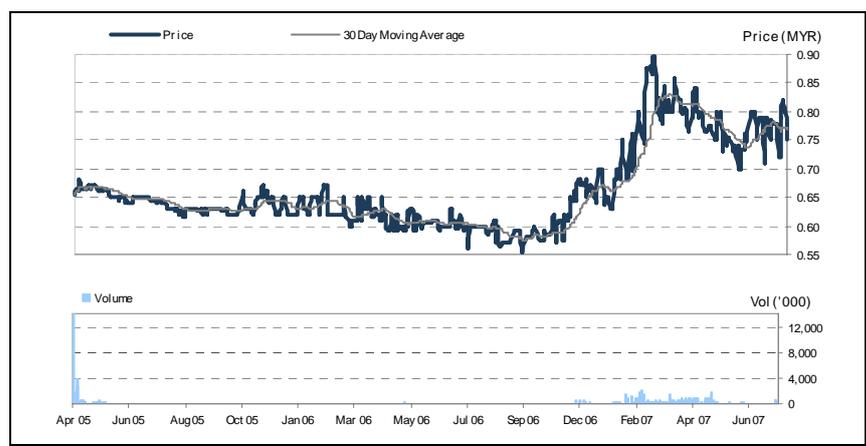
Sector: Consumer Products

GICS: Consumer Staples/Packaged Foods & Meats

Market Value - Total: MYR180.0 mln

Summary: Guan Chong (GCB) is principally involved in the manufacturing and trading of cocoa-derived food ingredients. It operates out of Malaysia, but derives almost all of its revenue from exports. GCB was listed on the Main Board of Bursa Malaysia in April 2005.

Analyst: Alison Seng



Recent Developments

- Perak government's rejection of a proposal by GCB to purchase a property represents a setback to GCB's plan to expand its processing capacity substantially and quickly.
- GCB had announced on Nov. 30, 2006 that it wished to acquire a piece of freehold industrial land together with a factory building and a separate piece of land with five units of bungalow houses for a total consideration of MYR6.9 mln. The factory houses a cocoa processing plant, which would enable GCB to raise its total processing capacity by 15,000 metric tons to 75,000 metric tons per annum, and to ramp up its sales volume quickly.
- Currently, GCB existing processing plant is operating at close to full capacity. We understand that the company will look elsewhere and possibly overseas to expand. As a stopgap, it has added production line and machinery to its existing plant to raise production.

Recommendation & Investment Risks

- We are maintaining our Buy recommendation although we are cutting our 12-month target price to MYR0.84 (from MYR0.85) after adjusting our valuation parameter and rolling forward our valuation period.
- We believe that GCB's earnings prospect remains bright with rising demand of cocoa ingredients from chocolate manufacturers. Capacity limitation is our main concern currently but we have updated our valuation parameter to factor in potential risk.
- We have ascribed a 9x 2008 PER (vs. 10x 2007 PER previously) to our 2008 EPS forecast of 8.9 sen. The target PER is in line with the median historical PER of peers in the snack and confectionary industry of about 9x. Our target price includes a net DPS of 4.3 sen.
- Risks to our recommendation and target price include (i) sharp falls in the selling prices of cocoa ingredients and (ii) failure to secure additional capacity.

Earnings Outlook

- We are maintaining our 2007 and 2008 earning projections.

Key Stock Statistics

FY Dec.	2006	2007E
Reported EPS (sen)	7.3	8.1
PER (x)	10.3	9.3
Dividend/Share (sen)	4.3	4.3
NTA/Share (MYR)	0.37	0.40
Book Value/Share (MYR)	0.37	0.40
No. of Outstanding Shares (mln)	240.0	
52-week Share Price Range (MYR)	0.56 - 0.90	
Major Shareholders:	%	
Guan Chong Resources Sdn Bhd	52.0	
Misi Galakan Sdn Bhd	10.5	
Lembaga Tabung Angkatan Tentera	8.3	

Per Share Data

FY Dec.	2004	2005	2006	2007E
Book Value (MYR)	0.28	0.33	0.37	0.40
Cash Flow (sen)	14.9	10.0	9.3	10.3
Reported Earnings (sen)	10.9	7.6	7.3	8.1
Dividend (sen)	NA	4.3	4.3	4.3
Payout Ratio (%)	NA	61.4	58.8	49.6
PER (x)	6.9	9.9	10.3	9.3
P/Cash Flow (x)	5.0	7.5	8.1	7.3
P/Book Value (x)	2.7	2.2	2.0	1.9
Dividend Yield (%)	NA	5.7	5.7	5.7
ROE (%)	NA	29.3	20.8	20.9
Net Gearing (%)	248.0	85.5	114.6	100.7

* Proforma for 2004

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Profit & Loss

FY Dec. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	412.7	379.8	421.6	452.3
Reported Operating Profit	23.6	24.6	28.0	29.9
Depreciation & Amortization	-5.3	-4.7	-5.4	-5.9
Net Interest Income / (Expense)	-3.8	-4.7	-5.1	-5.0
Reported Pre-tax Profit	19.8	20.9	22.9	24.9
Effective Tax Rate (%)	14.3	14.7	13.7	12.7
Reported Net Profit	16.8	17.6	19.3	21.3
Reported Operating Margin (%)	5.7	6.5	6.6	6.6
Reported Pre-tax Margin (%)	4.8	5.5	5.4	5.5
Reported Net Margin (%)	4.1	4.6	4.6	4.7

Source: Company data, S&P Equity Research

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Glossary

Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
New	Buy	0.84
12-Jun-07	Buy	0.85
7-Mar-07	Hold	0.84
29-Nov-06	Hold	0.70
8-Sep-06	Hold	0.61
12-Jun-06	Hold	0.64
31-Mar-06	Hold	0.69

