22 February 2016 | Small Cap Highlight

CAB Cakaran Corporation Berhad

Hatching New Opportunities

Non Rated

Fair Value (FV): RM2.29

INVESTMENT HIGHLIGHTS

- **RM1b revenue in sight**
- **Keen in buying Farm's Best assets worth RM242m**
- **Entering Indonesia through the Salim Group**
- **Expect FY16 earnings to grow 115%yoy**
- **We value the company at RM2.29 based on PER of 10x, which is the average of its peers**

Joining the billion Ringgit revenue club. CAB is on the cusp of hitting RM1b in revenue in FY16, growing +24%yoy as it reaps the benefits of capacity expansions and higher average selling prices (ASP). Meanwhile, the next impetus for growth will be CAB's expansion into Indonesia which will be aided by the Salim Conglomerate which operates >11k convenient outlets and >500 KFC restaurants.

Capacity to grow by a CAGR of 9% from FY16-FY19. CAB currently operates 140 broiler farms and 10 breeder farms in Peninsula Malaysia with total capacity of 4.5m birds/mth at >90% utilisation rate. In FY16, CAB's production capacity will increase by 11% (500k birds/mth) as it adds an additional 4 modern broiler houses while increasing existing capacity in Johor and northern states with capex of RM15-20mil. Thereafter, we forecast CAB's broiler capacity to grow at a CAGR of 9% from 5m in FY16 to 6.5m in FY19 through the further upgrading works and acquisition of smaller farms.

Ample demand through market share gains. Malaysia imports frozen poultry from Thailand and China that are about 10% cheaper than local products. With the strengthening of the THB (+6%yoy) and CNY (+10%yoy) against MYR, the price difference has narrowed to almost parity. We believe that CAB is well positioned to benefit from the reduction in import volume with its timely capacity expansion. Meanwhile, domestic demand is estimated to remain stable with a per capita chicken consumption CAGR of 1.6% between CY16-CY20.

Benefitting from higher ASP in Singapore. In FY16, CAB will be able to recognise the full year contribution (versus 1 mth contribution in FY15 only) from its 51%-owned Tong Huat Poultry Pte Ltd slaughter house in Singapore. We estimate that CAB will deliver 700,000 birds/mth (14% of total capacity) to Tong Huat in FY16 thus increasing its average ASP by 13%. We note that in Singapore, ASP is on average >100% higher due to currency translations.

RETURN STATS	
Price (19 February 2016)	RM1.81
Target Price	RM2.29
Expected Share Price Return	+26.5%
Expected Dividend Yield	-
Expected Total Return	**+26.5%**

STOCK INFO	
KLCI	1,674.88
Bursa / Bloomberg	7174 / CABC MK
Board / Sector	Main / Consumer
Syariah Compliant	Yes
Issued shares (m)	153.1
Par Value (RM)	0.50
Market cap. (RM'm)	277.0
Price over NA	1.61x
52-wk price Range	RM0.895 – RM1.86
Beta (against KLCI)	0.52x
3-mth Avg Daily Vol	1.36m
3-mth Avg Daily Value	RM2.19m
Major Shareholders (%)	
Chuah Ah Bee	35.12
Chan Kim Keow	19.2
Plant Wealth Holdings	8.14
Philip Securities	5.46

The emergence of the Salim Group as a substantial shareholder. Salim Group, one of the largest conglomerates in Indonesia, has taken up an 8.6% stake in CAB and is set to rise to 17.7% via a private placement exercise. The entry of the Salim Group is in addition to a JV agreement signed between CAB (10% stake) and Salim Group (90% stake) to produce 4-5m birds/mth in Indonesia over the next 3 years (FY17-FY19). CAB has 10% stake in the JV company and with the option of raising it to 30% if it sees fit. CAB will provide the know-how in setting up integrated poultry farms in Indonesia and oversee the operations. The JV company might tap into Salim Group's internal fund for the budgeted capex of RM400-500m over the 3-year period.

Salim Groups' immense presence in Asean's largest consumer market will be a launchpad to CAB's growth. We believe that the tie up between the Salim Group and CAB is positive given that the Indonesian conglomerate runs >11k Indomaret convenient stores and operates >500 KFC outlets. Possible collaborations include the supply of poultry to the KFC outlets and selling value-added frozen food at the convenient chain. Besides, CAB could expand its fast food brand Kyros Kebab in Indonesia riding on Salim's vast experience.

Acquisition of Farm's Best could increase capacity by 41-45%. CAB aims to become one of the top 3 largest broiler producers in Malaysia with market share of 13% from its current position of top 5 with market share of 8.5%. In this endeavour, it has signed a letter of intent (LOI) for the purchase of Farm's Best Berhad's poultry assets with deposits paid for exclusivity in conducting due diligence and feasibility studies. The indicative price amounts to RM242m (1.6x book value) with the acquisition involving 301.43 acres of broiler farms, 200.22 acres of breeder farms and other poultry facilities and equipment. If successful, the assets would raise CAB's FY17 capacity by 41-45% (2.11m-2.33m) birds/mth.

However, the deal could be dilutive to CAB's EPS in the short-run as we do not discount the possibility of a rights issue or private placement seeing that gearing would hit 2.36x from 1.05x now if the acquisition is funded entirely by debt. Nonetheless, we have not factored in any impact from the acquisition of Farm's Best.

Expect FY16 earnings to grow by 115% to RM27.9m. Earnings growth is mainly underpinned by contribution from Tong Huat and higher ASP in Johor. Subdue commodity prices will suppress feed price, which accounts for 65% of its cost. Meanwhile, its higher capacity will increase efficiency and enhance margins.

CAB could be fairly valued at RM2.29. Our fair value is based on 10x forward price-to-earnings ratio, on par with its poultry and egg producing peers. CAB offers visible near term growth prospects from its capacity expansion. Moreover, CAB has secured an established partner in the Salim Group which could accelerate its Indonesian expansion plans. Yet, management is not complacent, having set its sights on Farm's Best to cement its position as one of the largest poultry producers in Malaysia. While the upcoming 1QFY16 results could underwhelm due to seasonality, we are fairly optimistic that the remaining quarters of FY16 would compensate for the shortfall as seen in FY15.

INVESTMENT STATISTICS

FYE Sep	FY13	FY14	FY15	FY16F	FY17F
Revenue (RM'm)	609	672.41	891.69	1,044.82	1,176.31
Pretax Profit (RM'm)	15.62	19.06	29.29	36.74	40.69
Net Profit (RM'm)	13.53	11.62	20.94	27.92	30.92
EPS (sen)	9.07	8.49	10.65	22.88	25.34
EPS growth (%)	-	-6.39	+124	+114.8	+10.7
PER (x)	-	20.85	16.71	7.91	7.03
Net Dividend (sen)	-	-	-	-	-
Net Dividend (%)	-	-	-	-	-

Source: Company, MIDFR

DAILY PRICE CHART

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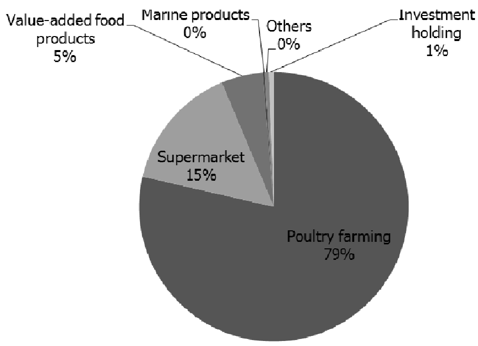
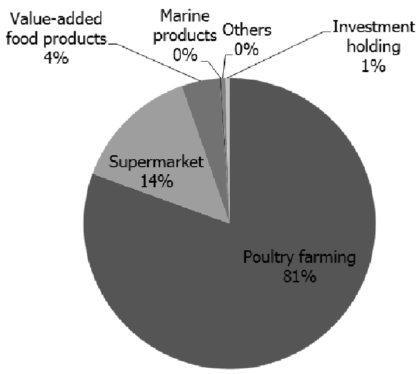
Source: MIDFR, Company

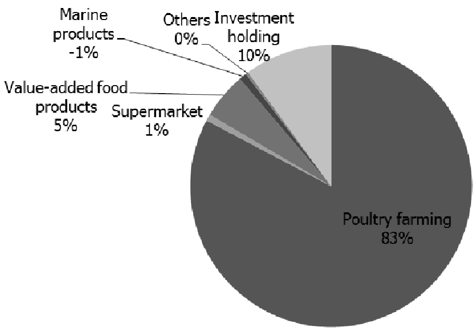
APPENDIX



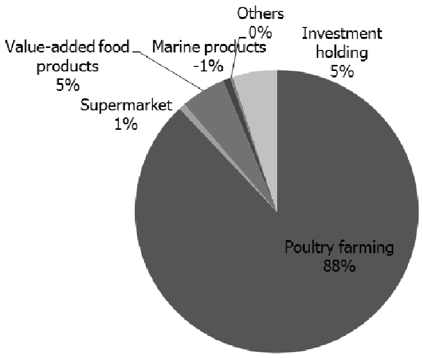
Revenue by Divisions FY15



Revenue by Divisions FY16F



Profit by Divisions FY15



Profit by Divisions FY16F

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STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.