

CHINA
DEVELOPMENT
FINANCIAL

JB Foods Limited

(JBF SP/JBFO.SI)

Anything is good if it's made of chocolate

Joel Ng / 62 6202 1192 / joel.ng@kqi.com

- JBF is a significant cocoa ingredient producer in Malaysia and one of the top 10 globally.
- The group has been in operation since the 1980s but started to expand capacity from mid-2000s onwards. JBF started processing 30,000mt cocoa ingredients in 2003 and increased production to 145,000mt tonnes in 2015.
- Quarterly net profit has been increasing YoY for the past 2 years. Net profit in most recent quarter (3Q18) rose 93% YoY to US\$9mn. Meanwhile, 9M18 profits surged 188% YoY to US\$22mn.
- Valuations are attractive – JBF is only trading at 5x Trailing 12 months P/E, which is around 70% cheaper compared to international peers.

Financials & Key Operating Statistics					
YE Dec (US\$ m)	2013	2014	2015	2016	2017
Revenue	194.8	218.7	226.5	300.6	295.6
PATMI	-15.3	-13.1	2.1	3.8	14.2
Net Margin (%)	(7.9%)	(6.0%)	0.9%	1.3%	4.8%
Net Gearing (%)	118%	114%	117%	128%	75%
Price P/B (x)	2.1	1.0	0.6	0.7	1.1
ROE (%)	(28.9%)	(21.8%)	3.1%	5.2%	18.0%

Source: Company data, KGI Research

Company background. JBF was founded in the 1980s but started processing cocoa in its own facilities in 2003, when it completed its 30,000mt processing plant in Port of Tanjung Pelepas, Malaysia. It subsequently added more processing lines over the years and now produces 145,000mt of cocoa bean equivalent per year in a Malaysian and Indonesian facility. JBF mainly produces cocoa butter, cocoa powder, cocoa mass and cocoa cake. The group listed on SGX in 2012.

Figure 1: JPF's key products



Source: Company data

Industry consolidation. There has been numerous M&A among local cocoa-related companies. Most notable among them was Barry Callebaut's acquisition of Delfi Ltd's (DELFI SP, not-rated, fka Petra Foods Limited) cocoa ingredients business for US\$860mn in 2013. Barry Callebaut was itself a result of the merger between Belgium's Callebaut and France's Cocoa Barry in 1996.

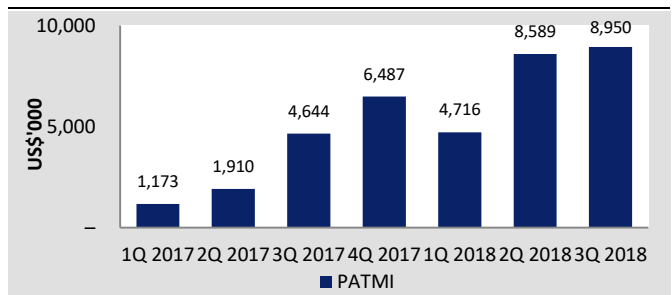
Sweet tooth. Global confectionary retail sales increased 2.7% YoY in 2017 to US\$186bn, according to Euromonitor International. While the two biggest consuming markets – the North America and Western Europe – account for more than 50% of total chocolate consumption, China and India are projected to be the fastest growing markets going

Not Rated		Performance (Absolute)	
Price as of 8 Feb 19 (SGD)	0.68	1 Month (%)	16.5
12M TP (\$)	na	3 Month (%)	11.0
Previous TP (\$)	na	12 Month (%)	37.5
Upside (%)	-		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	214		
Issued Shares (mn)	303		
Vol - 3M Daily avg (mn)	0.1		
Val - 3M Daily avg (\$mn)	0.1		
Free Float (%)	20.6%		
Major Shareholders		Previous Recommendations	
JB Cocoa Group	45.5%		
Tee Yih Jia	23.9%		
Ecom Agroindustrial	8.2%		

forward. JPF supplies cocoa ingredients to among the most recognisable names in the industry, including Mars, Mondelēz and Nestlé.

Improving profitability. JBF recorded losses in FY13 and FY14 due to high cocoa bean prices and oversupply in the cocoa processing industry. Management executed strategies during the downturn which began to bear fruit when it returned to profitability in FY15, and really began to accelerate from FY17 onwards. 2Q and 3Q FY18 are yet to be JBF's strongest quarters at around US\$9mn PATMI per quarter.

Figure 2: PATMI has accelerated from FY2017



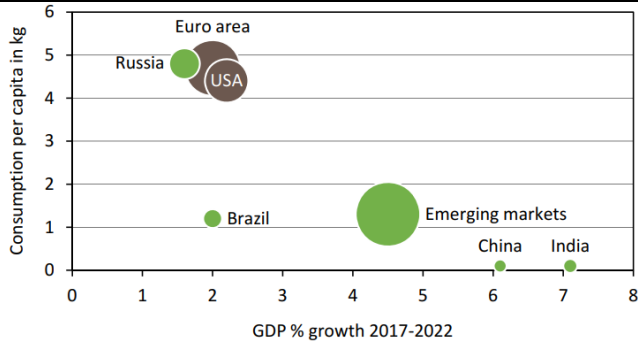
Source: Company data, KGI Research

Valuation & Action: JBF is only trading at 5x T12M P/E, which we believe undervalues the company when compared to peers who are trading between 10-20x P/E. Demand growth from China and India is expected to provide a positive tailwind to JBF's business as it continues to expand. JBF is due to report its FY18 results on 28 Feb.

Risks: Key risk mainly from oversupply in the cocoa processing market, where it will have a negative impact on prices and margins of JBF.

Asia Pacific growth market. While growth of the confectionary market in North America and Western Europe has stagnated from 2013-2018, Asia Pacific volume growth has increased 3.2% p.a. on average during the same period. Asia Pacific represents a huge opportunity as it currently only accounts for 14% of the total market compared to 50% for North America and Western Europe.

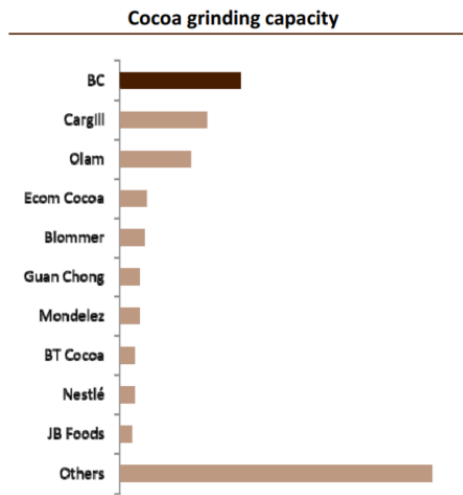
Figure 3: China and India represent the two largest growth markets for the cocoa industry.



Source: Barry Callebaut

Competition. JBF’s closest peer is Bursa-listed Guan Chong (GUAN MK), which has the 6th largest cocoa grinding capacity globally. GUAN currently has a production capacity of 250,000mt per year in Johor, Malaysia and Batam, Indonesia. GUAN is currently trading at 10x T12M P/E.

Figure 4: JB Foods has the 10th largest cocoa grinding capacity in the world



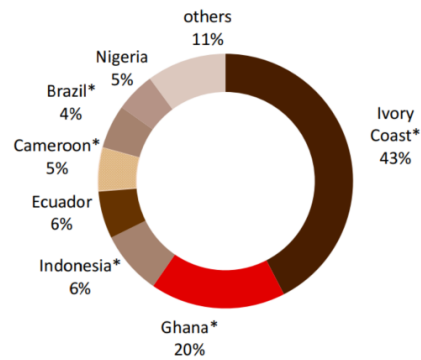
Source: Barry Callebaut estimates

Key input – cocoa beans. West Africa supplies more than 70% of the world’s cocoa beans to companies like Barry Callebaut and JBF. As such, a key risk to cocoa processing companies is the sustainability of cocoa bean supply over the next few years. However, in the short-term, Bloomberg Intelligence reports that cocoa bean price inflation may accelerate in the later part of 2019 due to bad weather (e.g., El Nino), combined with reduced plantation acreage and decline in investment after 2017’s low prices. We saw a similar surge in cocoa prices in 2015-2016 due to El Nino impact brought dry weather to West Africa and Indonesia.

So, this is an important data point to track going into 2H19 as supply disruption of cocoa beans will impact JBF’s ability to fulfil clients’ requirements.

Figure 5: West Africa supplies 70% of cocoa beans globally

Total world harvest (16/17): 4,748 TMT



Source: Barry Callebaut

KGI's Ratings

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

Disclaimer

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2019. KGI Securities (Singapore) Pte. Ltd. All rights reserved.