

## THE POULTRY INDUSTRY IN MALAYSIA

The poultry industry is an important source to supply meat protein to Malaysian. The total value of sales value for chicken eggs and chicken meat ex-farm are believed to exceed RM10 billion annually.

As an average, the consumption of chicken meat is averaged at 45 kg and chicken eggs 370 eggs per capita (person) annually. This translates to a daily demand of approximately 30 million eggs a day.

## POULTRY ECOSYSTEM

### Up-Stream

#### (i) Feedmill

In feedmill business producing animal feed to grow chicken. Main ingredient in chicken animal feed are corn and soybean meal which are imported.

#### (ii) Breeding

Breeder farm to breed fertilised eggs and then be incubated to be day-old chicks in hatchery. These day-old chicks will then be supplied to either boiler farm, layer farm, or back to breeder farm as parent chicken stocks.

#### (iii) Broiler farm

Growing day-old chicks to be reared into full-grown chicken for their meats (boiler).

#### (iv) Layer farm

Having day-old female chicks to be fed into hens to produce eggs. Largest producer currently is QL Resources Bhd with daily output of 3.6 million eggs a day.

### Mid-Stream and Down-Stream

Chicken meat, chicken processed meat and manufacturing egg trays.

Each listed company are involved differently in the activities.

## CORPORATE ACTIVITIES IN RECENT YEARS WITHIN THE POULTRY INDUSTRY HAS ATTRACTED INVESTOR'S ATTENTION TO THIS INDUSTRY

The poultry industry in Malaysia has gathered investors' attention especially caused by corporate exercises within the poultry industry in recent years. The increased attention has cause investors to bid for the counters resulting that most counters are fairly / over-valued, for most companies within the poultry industry.

In **2012**, **Leong Hup Holdings Bhd** was privatized. The poultry stocks have not been on investor's radar until the privatization of Leong Hup Holdings Bhd took place in 2012, followed by two other companies.

Prior to the privatization, most of the companies within the poultry sector had been traded at *low* price to earnings and *low* price to book. At the point of privatization offer by Leong Hup Holdings Bhd, with an offer privatization price of RM 1.80 per share, it translated to a P/E of 4.3 times and P/B of 0.8 times.

In **2014**, there was an attempted *hostile attempt* by **QL Resources Bhd** to acquire control **Lay Hong Bhd** but was unsuccessful that eventually leads to disposal of approximately 39% stake in Lay Hong held by QL Resources Bhd in **September 2015**. QL was reported to make a profit of RM 19 million from the sell-off.

Then, in **2016**, **Huat Lai Resources Bhd** was privatized at RM 5.00 per share translated to a P/E of 10 times and P/B of 1.7 times

All these corporate activities have attracted investors to focus on this industry. How does all these events affect the present valuation for most stocks within this sector?

## MOST COMPANIES ARE TRADED AT HIGH VALUATION POSSIBLY DUE TO CORPORATE PRIVATIZATION IN PAST YEARS.

In this article, I have studied 10 listed companies involved poultry business.

Most listed companies in the sector are traded at higher valuation than its fair value.

During the Leong Hup privatization in 2012, the P/E was 4.3 times and P/B was 0.8 times. Today, we see all the companies in the Poultry sector are commanding double digit P/E.

LISTED COMPANIES	Annual revenue, RM millions	Net Assets, RM millions	Closing price as at 7 November 2017, RM	TWR, % from 3 January 2017	Trading P/E	Trading P/B	Fair P/B	Net margin,%	Net Cash / (Borrowings), RM millions	Altman Z-Score	Average annual dividend yield, past three years, %
QL Resources Bhd	3,012	1,842	3.92	24%	33	3.6	2.0	6%	(728)	4.6	1%
CAB Cakaran Corporation Bhd	1,101	354	1.05	146%	12	2.2	2.5	4%	(215)	2.8	0.2%
Lay Hong Bhd	699	302	1.01	32%	27	2.6	1.7	3%	(165)	2.5	1%
CCK Consolidated Holdings Bhd	588	237	1.19	100%	14	1.5	1.4	4%	(40)	3.4	3%
Teo Seng Capital Bhd	434	208	0.94	-9%	Loss	1.4	1.3	-1%	(126)	2.8	7%
Sinmah Capital Bhd	344	96	0.56	-19%	50	0.4	0.7	0.3%	(150)	1.4	0%
PWF Consolidated Bhd	326	235	1.06	67%	11	0.8	1.4	5%	(100)	2.0	6%
LTKM Bhd	169	238	1.35	3%	20	0.7	0.5	5%	(72)	2.5	2%
D.B.E. Gurney Resources Bhd	113	60	0.04	-7%	Loss	0.6	0.5	-0.3%	(9)	1.4	0%
TPC Plus Bhd	94	73	0.40	-22%	Loss	1.3	1.2	-1%	(28)	1.2	0%

Tabulated by AER

## NEUTRAL VIEW

Generally, most of the stocks in the poultry sector are trading a bit higher than its fair value except some smaller companies which are not in investor's radar.

Most of these stocks are priced based on the future earnings and hence based on current earnings are a bit high in value.

Example: -

### **QL RESOURCES BHD**

For the past 11 years, QL Resources Bhd, had registered an annual net margin of between 6% to 7% a year. Its margin is consistent during the past ten years. It is a stable company with the high Altman Z-Score at 4.6. It is obvious as one of the investor's favorite considering that its price is a *bit overvalued* at this juncture. It is currently trading at a P/E of 33 times and a P/B of 3.6 times.

### **LAY HONG BHD**

Lay Hong is currently trading above its fair value. It is currently trading at a P/E of 27 times and a P/B of 2.6 times.

## POTENTIAL UPSIDE

### **PWF CONSOLIDATED BHD**

The lowest amongst the 10 companies being PWF Consolidated Bhd. PWF has a P/E of 11 times and P/B of 0.8 times. Possibly reason why it is priced lower is that investors are bidding for larger companies within this sector.

### **SOME COMPANIES WHICH ARE PERFORMED LESS WELL COMPARED TO ITS PEERS AND WITH ALTMAN Z SCORE LESS THAN 1.8**

When analyzing the Z-Score of a company, as a general rule of thumb, stocks below a score of 1.8 has a higher probability of bankruptcy / liquidity risk. For investors who are prudent and with long term investment horizon, it is best to avoid investing in companies with low Altman Z-Score.

### **DBE GURNEY RESOURCES BHD**

For the past 10 years, DBE registered losses every year, though begin to see breakeven since FY 2016. Altman Z-Score is at 1.4 since represents some risk of illiquidity.

### **TPC PLUS BHD**

TPC is involved in the production of eggs for the southern region in West Malaysia. Daily capacity is about 780,000 eggs. It has an Altman Z-score of 1.2, but considering that it is controlled by Huat Lai Resources Bhd, previously a listed company that was privatized in 2016, it should not be a major concern.

## REVENUE AND COST DRIVERS FOR POULTRY INDUSTRY

EARNINGS ARE DEPENDENT ON TWO ITEMS – SALE OF EGGS AND ANIMAL FEED

Animal feed such as corn and soy meal make up a substantial component of the cost of sales and they are imported. When price of animal feed such as corn and soy meal reduce and / or our exchange ringgit is strengthening, this is positive to all the companies within this sector.

For listed companies that are involved in production of eggs, such as QL Resources Bhd, Lay Hong Bhd, Teo Seng Capital, PWF Consolidated Bhd and LTKM Bhd, the increase in price of eggs is positive to the industry.

END

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