A sweet journey for JB Foods

- **JB** Foods should be in a sweet spot given the rising chocolate consumption in emerging economies and projections of robust cocoa production over the next few years

by **Doreenn Leong**

Singapore Stock Exchange (SGX)-listed JB Foods Ltd, based in Johor, may be much smaller in size and operations compared with its Malaysia-listed peer Guan Chong Bhd. But the cocoa ingredient producer's fortunes are very similar to Guan Chong's.

In fact, the owners of both companies are related. JB Foods' CEO Tey How Keong and Guan Chong's managing director and CEO Brandon Tay Hoe Lien are cousins. However, their shareholdings in their respective companies remain separate.

JB Foods has had its fair share of turbulence. Soon after it was listed on SGX in 2012, the company was hit by price volatility and an economic slowdown, resulting in subdued demand for cocoa ingredients, as well as oversupply issues.

To mitigate the overall financial impact and business risks, the company controlled its costs and slowed down its bean processing throughput.

"Two years, 2013/2014, were challenging for us and for many other players as well. So, after 2015, there were not many suppliers left and the industry saw improvements. We saw good topline growth in 2017/2018," JB Foods chief financial officer Edward Wong tells ***FocusM***.

"In 2013/2014, we asked ourselves what should we do and how to prepare for similar challenging times? This is when we decided to diversify our customer base and this has resulted in better results in 2017/2018.

"There was no new player in the market at that time and demand for chocolates was very strong. Since then, we have achieved consistent growth thanks to the support of our key clients including Mars, Nestle, Hershey and Mondelez. The US is our largest market while China is second," he adds.

The cocoa ingredient producer didn't just return to profitability in the financial year ended Dec 31, 2015. Its shares generated high returns of 274.6% in the last three years. With such commendable performance, the company has attracted international investors.

However, the company is not resting on its laurels.

"We will continue to expand with our proven strategy of careful investment. We are into cocoa processing, not upstream or downstream business," Wong stresses.

"We do not need to diversify into those businesses as there are currently no other big players in the cocoa processing business in Malaysia other than Guan Chong.

"We hope to gain more market share. Our current capacity is 145,000 metric tonnes (mt) a year while Guan Chong's is about 250,000 mt. Barry Callebaut is currently the world's largest cocoa/chocolate processing company in terms of capacity."

JB Foods' annual processing capacity ranks it as one of the top 10 players worldwide, behind Barry Callebaut, Cargill and Olam International.

Its products are all things cocoa – butter, powder, mass and cakes – which are mainly processed at the group's plant in the Port of Tanjung Pelepas, a free trade zone in Johor, as well as the Indonesian cocoa processing facility acquired in 2015.

Strengthen overseas presence

JB Foods says it will continue to develop new markets. "We remain confident in delivering double-digit growth in shipment volume for FY2019," it adds.

Already, JB Foods has subsidiaries in Switzerland and Estonia as part of its strategy to expand and strengthen its market position in Eastern Europe.

"Cocoa ingredient products are expected to remain in demand as it is a vital component in our customers' manufacturing process of a wide range of consumer goods, in particular chocolate, confectionery and food and beverages.

"Currently, our products are delivered to more than 50 countries," it adds.

Cocoa grinders such as JB Foods should be in a sweet spot given the rising chocolate consumption in emerging economies and projections of robust cocoa production in the next few years.

According to reports, the global chocolate market could grow at a compound annual rate of 7% between 2018 and 2024, with the increasing disposable income of emerging Asian economies expected to contribute to overall market growth.

The company has benefitted greatly from the favourable dynamics of the cocoa industry in FY2018, resulting in a record net profit of US$26.8 mil (RM110.75 mil) - an 88.5% increase from US$14.2 mil in the previous year - while revenue rose 10.7% to US$327.1 mil in FY2018 from US$295.6 mil.

In line with the higher revenue, gross profit increased 55% to US$49.4 mil in FY2018 from US$31.9 mil in FY2017 mainly due to the higher shipment volume and improvements in processing margin.

On the back of the higher shipment volume, it was able to benefit from economies of scale

Continues on page 14

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'No dual listing in Malaysia'

From page 12

and recorded a gross profit margin of 15.1% in FY2018, an improvement of 4.3 percentage points from 10.8% in FY2017.

This is due to the company's efforts in gradually increasing its sales mix towards premium products, which typically command a high margin.

To cater to the growing demand, it invested US$17.3 mil last year to upgrade its existing and new facilities to keep up with the competition.

Pull factors

The turnaround in JB Foods' fortunes has not gone unnoticed. Last year, its shares were more actively traded than in the 2015-2017 period.

According to analysts, apart from the company's strong financial performance, the pull factors include attractive total shareholder returns, undemanding valuations and good dividend yield.

In terms of share price, it was trading at a five-year low of 19.63 Singapore cents on Feb 17, 2016 but rose to a high of 76.5 cents on Oct 4, 2018. The counter closed at 62.5 cents on April 16, 2019.

Despite the run up in share price, JB Foods' current valuations are still undemanding, currently trading at a price-earnings ratio of 4.94 times compared with Guan Chong's PE ratio of 9.3 times.

JB Foods' products are all things cocoa – butter, powder, mass and cakes

For long-term investors, dividend payout or yield is an important factor to consider when investing in a stock.

JB Foods has continued to pay dividends even during challenging times. It paid a total dividend of three cents a share for FY2018, which is 50% higher than the two cents paid out in the previous financial year.

According to Wong, the company does not have any dividend policy but its dividend yield is about 3%, which is around the market benchmark.

Rewarding journey

Indeed, the company has done well since its listing on SGX. with Wong describing its journey on the Singapore bourse as rewarding.

"JB Foods was a family-owned business before it was listed in 2012. Initially, it was challenging having to comply with stringent requirements as a public-listed company. We took some time to manage this transition but we are fine now," he says.

"Companies need to be prepared to meet more extensive compliance and disclosure requirements once they are listed on the SGX compared with Bursa Malaysia.

"But being an SGX-listed company has helped raised our profile and we get better recognition. We managed to attract international investors from the US and France."

Given its local presence, investors wonder if the company would consider a dual listing in Malaysia. However, Wong says this is not an option now.

"We are not looking at it currently as we raised some funds via a rights issue last year for expansion purposes. Our capacity was 30,000 mt before we expanded it to 145,000 mt.

"We are running at almost full capacity now," he explains. FocusM

Best performing Malaysia-based companies on SGX

ACCORDING to the Singapore stock exchange (SGX), it lists more than 700 companies with a combined market cap of nearly US$670 bil (RM2.769 tril), with overseas listings contributing more than 45% to this total market cap. In particular, Southeast Asia-based companies account for more than 20% of SGX's total market cap.

Notably, over 40 stocks listed on SGX are either headquartered in Malaysia or have core operations based in the country, and have a combined market cap of over S$60 bil (RM183.12 bil). Their businesses are categorised under the consumer, healthcare, real estate, information technology, energy, materials and industrials sectors.

Among these Malaysia-based listings, the five best performers in the year-to-date (YTD) as at Feb 26 were Silverlake Axis (+33.5%), Aspen Group (+28.0%), JB Foods (+16.1%), ISEC Healthcare (+13.7%), and Frencken Group (+11.9%).

"They have averaged a total return of 20.6% in the YTD, bringing their one-year and three-year total returns to -8.3% and +101.4% respectively," the stock exchange says.

Silverlake Axis Ltd

The company provides technology and related services to the banking, insurance, payments, retail and logistics industries. Founded in 1989, the Petaling Jaya-based company has built a strong track record of successful core banking implementations.

Its core business involves providing the backend software and ongoing maintenance services to banks in Southeast Asia (primarily Malaysia). In fact, over 40% of the top 20 largest banks in the region run on Silverlake Axis' core banking solutions.

In its second quarter ended Dec 31, 2018, earnings doubled to RM67.5 mil while revenue increased by 20% to RM169 mil, compared to 2Q18. This was mainly due to wider margins stemming from licensing revenue jumping 98% yoy as it continued to implement a major Malaysian contract.

Aspen Holdings Ltd

The Penang-based property developer recently announced its intention to develop a RM300mil residential development scheme in Seri Kembangan with Selangor Agriculture Development Corp (PKPS) as part of its strategy to penetrate the central region.

Aspen is investing RM58.8mil to acquire the development rights in the redevelopment of commercial land of 12,185 sq m in Seri Kembangan, Selangor, via a joint venture with PKPS.

Its flagship project, Aspen Vision City, a 99.15 ha freehold mixed development project in Bandar Cassia, Batu Kawan – Penang's third satellite city - is a joint partnership with IKEA Southeast Asia.

The company also has several ongoing developments in Penang Island as well as a land bank in Selangor.

Over the last three years Aspen has grown its earnings per share (EPS) by an average of 24% a year.

In the financial year ended Dec 31, 2018, its net profit fell 50% to RM40.92 mil from RM82.14 mil in the previous year despite posting higher revenue of RM570 mil from RM453.1 mil.

ISEC Healthcare Ltd

ISEC Healthcare provides a comprehensive suite of specialist medical eye care services with ambulatory surgical centres in Malaysia and Singapore.

Its International Specialist Eye Centres (ISEC) are located at Centrepoint South Mid Valley Kuala Lumpur; Jalan Burma, Penang; Sibu, Sarawak; and Southern Specialist Eye Centre (SSEC) Malacca.

For its financial year ended Dec 31, 2018, net profit was flattish at S$8.4 mil on the back of 9% higher revenue of S$40.44 mil versus S$37 mil in the previous year.

Best-performing Malaysia-based stocks YTD, sorted by YTD total return

NAME	MARKET CAP (S$MIL)	TOTAL RETURN YTD (%)	TOTAL RETURN 1Y (%)	TOTAL RETURN 3Y (%)	P/E (X)	DIV YLD (%)	P/B (X)	ROE (%)
Silverlake Axis	1,402	33.5	0.3	14.1	22.3	2.3	8.7	28.6
Aspen Group	154	28	-33.3	0	4.6	0	1.2	31.1
JB Foods	218	16.1	24.1	274.6	5.2	1.4	1.4	29
ISEC Healthcare	142	13.7	-7.6	26.4	18.6	5.1	2.3	12.9
Frencken Group	202	11.9	-25.2	191.8	6.5	4.6	0.7	11.7
Duty Free Intl	237	5	-20.8	-28.4	15.9	9	1.2	8.8
Astaka Holdings	165	4.8	-63.3	-58.1	0	0	2.1	-2.5
Starhill Global Reit	1,516	4.6	2.9	12.9	15.2	6.4	0.8	5.1
IHH Healthcare	16,662	4.5	-8.8	-11.7	0	0.5	2	-0.7
LY Corp	120	0	-22.1	0	24.4	0	1.7	7.5
Average		12.2	-15.4	42.2	11.3	2.9	2.2	13.2

Sources: Bloomberg & StockFacts (as at Feb 26, 2019)