

Oriental Food Industries

Export Driving Growth

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INVESTMENT MERIT

- Steady growth.** As of 9M15, OFI registered a net profit of RM14.6m (+12.2%) on the back of higher revenue of RM178.1m (+3.8%), mainly driven by stronger export sales (+6.6%). It is well on track to surpass FY14 net profit of RM16.2m which grew 26.6% compared to FY13 net profit of RM12.8m. Moving forward, we project net profit growths of 25.8% and 11.4% for FY15 and FY16, respectively, as we expect the stronger USD on the back of higher export sales to drive earnings. Over the longer term, the Group will only embark on its next expansion phase starting end FY16.
- Expansion plan in the pipeline.** To recap, the Group acquired a piece of 10.5 acres leasehold industrial land located adjacent to its current plant for RM12.8m in end-2014. The purchase price (including existing building and other assets) translates into average price of RM27.9/sf, relatively cheaper than RM30-RM45/sf transacted in the vicinity, according to channel checks. Financing should not be an issue in view of the net cash position the Group. Moving forward, the land will be utilised for OFI's next phase of expansion into new food products of which the management declined to reveal at this juncture.
- Export gaining further traction.** Export sales increased 6.6% in 9M15, sustaining the momentum from the 10.7% surge in FY14. The main driving force behind the commendable growth was due to the robust demand in key Asian market, which contributes approximately one-third of the Group's total revenue and we also understand that its sales in South American markets were encouraging. Meanwhile, potato-based products are the largest contributor to OFI's export market as 70% of the potato chips produced are exported. Currently, export sales accounted for c.55% of the Group's total revenue and management indicated that under the current strengthening USD against MYR scenario; every 10 sen appreciation will result in extra RM1.5m in profit for OFI.
- Sturdy balance sheet sustaining dividend pay-out.** OFI has been consistently paying out quarterly dividend to reward shareholders on the back of its dividend policy of paying out at least 35% of its net profit. Total DPS of 9.5 sen was paid in FY14 whereas 6.0 sen has been declared so far in FY15 while we expect another 6.5 sen to be announced in 4Q15. We believe the decent dividend payout can be sustained or even be improved in view of its healthy balance sheet and strong cash flow. The Group is in a net cash position (RM27m or 45.0 sen/share) while recording net operating cash flow of RM13.9m as of 9M15.
- Not Rated.** We believe OFI deserves to trade at 12.8x PER FY16E, a 40% discount to the average PER we ascribed to F&B stocks under our coverage in view of its smaller market capitalisation, which will translate into a fair value of RM4.85. We like the Group for its: (i) robust earnings growth, underpinned by strong USD and robust overseas demand, (ii) high export content of >55% which made it a strong thematic play in view of the strong USD, (iii) net cash position, backed by healthy balance sheet and cash flow, and (iv) regular dividend payout to reward shareholders.
- Key risk:** (i) Unfavourable forex, (ii) Sharp rise in operating costs.

	Rating	Fair Value
Last Price		RM4.51
Kenanga	Not Rated	-
Consensus	N.A.	N.A.

Stock Information

Stock Name	Oriental Food Industries
CAT Code	5196
Industry	Consumer Goods
Industry Sub-sector	Food Products
YTD stock price chg	63.4%
Market Cap (RM m)	270.6
Issued shares (m)	60.0
52-week range (Hi)	4.99
52-week range (Low)	2.40
3-mth avg daily vol:	130,282
Free Float	52%
Beta	1.2
Altman's Z-score	5.62

Major Shareholders

CHEN CHUAN SON	30.5%
SYARIKAT PERNIAGAAN	14.3%
BRITISH & MALAYAN TR	3.1%

Financials

FYE March (RM'm)	2014A	2015E	2016E
Revenue	226.9	241.7	257.4
EBIT	21.3	25.7	28.7
Net Profit (NP)	16.2	20.3	22.7
EPS (sen)	27.0	33.9	37.8
BV/Share (RM)	2.40	2.62	2.84
PER	16.7	13.3	11.9
Price/BV (x)	1.9	1.7	1.6
Net Gearing (x)	N.Cash	N.Cash	N.Cash
NDPS (sen)	9.5	12.5	15.1
Dividend Yield (%)	2.1	2.8	3.4

Quarterly Financial Data

	1Q15	2Q15	3Q15
Revenue	60.6	54.3	63.3
Revenue Growth (QoQ)	10.4%	-10.4%	16.6%
PBT	4.2	4.9	8.7
PBT Margin	6.9%	9.0%	13.7%
Net Profit (NP)	3.2	4.1	7.3
EPS (sen)	5.4	6.8	12.2
EPS Growth (QoQ)	12.3%	26.1%	79.0%

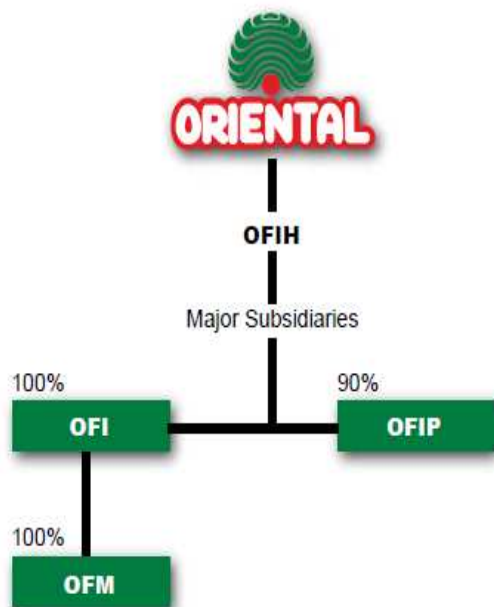
Peers Comparisons

	PER (FY14)	Div. Yld (%)	Mkt Cap (RM'm)
DLADY	28.1	2.3	3,083.5
NESTLE	32.2	3.1	17,700.1
OLDTOWN	15.9	3.4	773.7
QL	27.0	0.9	4,979.6
OFI	16.7	2.1	270.6
FBMKLCI	17.0	3.1	-





CORPORATE STRUCTURE



BUSINESS OVERVIEW

- Oriental Food Industries Sdn Bhd was established and incorporated in 1978. From its modest beginnings, the Group made its mark in the food manufacturing industry and is holding the leading position in the snack food and confectionery industry in Malaysia.
- OFI’s manufacturing plants are located in Air Keroh Industrial Estate in Malacca, which is well recognized as Malacca’s industrial hub, covering approximately 15 acres of prime industrial property.
- OFI has obtained several certifications in line with its quest for optimum quality control procedures, namely MS ISO 9001:2008 and HACCP. OFI is also certified by the Malacca State Islamic Department as a manufacturer of ‘Halal’ products.
- Currently, OFI exports its products to more than 40 countries globally, with Asian market being its key market.

BUSINESS SEGMENTS

- Generally the products can be divided into four (4) broad categories:
- Potato snacks
 - Snack food
 - Wafer
 - Bakery products

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