

Petra Foods (PETRA SP)

Consumer Non-cyclical - Food & Beverage Products

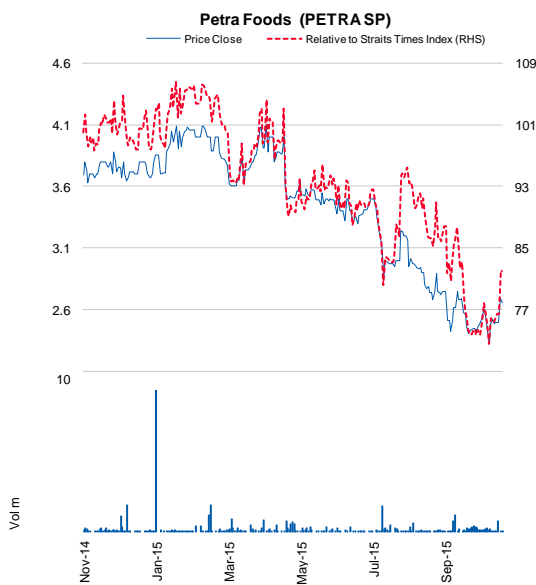
Market Cap: USD1,145m

Sell (Maintained)

 Target Price: **SGD2.00**

 Price: **SGD2.66**

In a Tough Spot

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	0.33m/0.23m
Cons. Upside (%)	45.5
Upside (%)	-24.9
52-wk Price low/high (SGD)	2.33 - 4.10
Free float (%)	33
Share outstanding (m)	611
Shareholders (%)	
John Chuang	51.1
Aberdeen	9.0
Prudential PLC	5.0

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(30.0)	3.9	(11.3)	(24.4)	(27.9)
Relative	(17.9)	6.3	(7.9)	(10.3)	(18.0)

3Q15 results were below expectations, with profit plunging into the red, even excluding a one-off USD19.5m charge following the dispute settlement with Barry Callebaut. With the alarming decline in volumes and persistent regional currency weakness, we do not think there will be a quick turnaround. Maintain SELL with a lower DCF-derived TP of SGD2.00 (from SGD2.50, 25% downside).

- ◆ **Profit plunges into the red for 3Q15.** Petra Foods recognised a one-time loss of USD19.5m, following the dispute settlement with Barry Callebaut. This reverses part of the earlier USD67.6m gain, following the sale of its cocoa ingredients business in 2013. Even excluding this item, PATMI came in at -USD1.2m for the quarter. This was largely on the back of demand weakness and IDR depreciation in its core market Indonesia.
- ◆ **Alarming decline in revenue.** 3Q15 revenue in USD terms was down 28% YoY. In local currency terms, revenue in its core market Indonesia was down an alarming 21% YoY. We believe it was a function of weaker consumer demand as well as distributors cutting back on inventory in light of the economic and currency uncertainties. Regional markets fared better in terms of volume, but USD revenue was still down 17% YoY, which we believe was largely due to the Malaysian market.
- ◆ **Unlikely to improve in 4Q15.** As a result of higher promotional activities and higher USD-input costs, gross margins reduced to 28% this quarter from 32% in 3Q14. We do not expect this situation to turn around quickly, considering the IDR's persistent weakness. Price increases will also take time to pass through without affecting volumes.
- ◆ **Maintain SELL.** Following the payment of USD39m to Barry Callebaut to settle the dispute, the company is still in a net cash position of USD43m, which should help it withstand the current situation. We now only expect a marginal profit for FY15, and slashed our FY16-17 profit estimates by 25%. The company is still potentially liable for another USD12.8m as notified by the Brazilian tax authorities as part of the same cocoa ingredient business sale, though Petra intends to contest this.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (USDm)	509	504	403	409	459
Reported net profit (USDm)	20.5	48.7	1.2	26.3	35.4
Recurring net profit (USDm)	59.3	50.3	1.2	26.3	35.4
Recurring net profit growth (%)	9.1	(15.1)	(97.5)	2030.3	34.5
Recurring EPS (USD)	0.10	0.08	0.00	0.04	0.06
DPS (USD)	0.06	0.06	0.03	0.04	0.05
Recurring P/E (x)	19	23	928	44	32
P/B (x)	3.95	3.85	3.85	3.85	3.79
P/CF (x)	1.3	35.6	30.2	31.8	28.6
Dividend Yield (%)	3.4	3.1	1.9	2.3	2.6
EV/EBITDA (x)	11.5	13.6	31.2	25.8	19.6
Return on average equity (%)	6.7	16.6	0.4	8.8	11.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(98.4)	(72.8)	(63.4)

Source: Company data, RHB

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Figure 1: 3Q15 results

FYE Dec (USDm)	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	9M14	9M15	YoY (%)	Comments
Revenue	118.2	115.1	84.6	(26.5)	(28.4)	372.7	305.9	(17.9)	Dragged down by currency depreciation
EBITDA	17.7	14.0	4.3	(69.2)	(75.7)	59.6	32.5	(45.5)	
<i>EBITDA Margin (%)</i>	<i>15.0</i>	<i>12.1</i>	<i>5.1</i>			<i>16.0</i>	<i>10.6</i>	(33.6)	
Depreciation & Amortisation	1.9	1.9	1.8	(6.1)	(8.2)	5.9	5.7	(2.3)	
EBIT	16.1	12.1	(16.5)	(236.3)	(202.4)	51.5	3.5	(93.2)	
<i>EBIT Margin (%)</i>	<i>1.4</i>	<i>1.1</i>	<i>(2.0)</i>			<i>1.4</i>	<i>0.1</i>		
Other income	0.7	1.8	1.5	(16.4)	136.6	2.4	4.3	80.2	
Net Interest	(1.0)	(1.1)	(0.9)	(23.0)	(15.3)	(2.3)	(3.0)	28.8	
JV and Associates	0.1	0.3	(0.0)	n.m	n.m	0.3	0.3	(8.1)	
Pretax profit	15.1	11.0	(17.4)	(258.0)	(215.0)	51.6	4.8	(90.7)	Lower GP margins and higher promotional expenses
<i>Pretax Margin (%)</i>	<i>12.8</i>	<i>9.6</i>	<i>(20.6)</i>			<i>13.8</i>	<i>1.6</i>	(88.7)	
Tax	(4.6)	(3.6)	(3.3)	(7.8)	(27.7)	(15.2)	(10.3)	(31.9)	
<i>Effective tax rate (%)</i>	<i>(30.2)</i>	<i>(32.5)</i>	<i>19.0</i>			<i>(29.4)</i>	<i>(215.8)</i>		
Minorities	0.0	(0.0)	0.0	n.m	n.m	(0.1)	(0.0)	n.m	
Net Profit	10.5	7.4	(20.7)	(378.5)	(296.9)	36.5	(5.5)	(115.1)	
Core Profit	10.6	7.4	(1.2)	(116.2)	(111.4)	36.4	14.5	(60.1)	Excluding one-off expense
<i>Net Margin (%)</i>	<i>8.9</i>	<i>6.5</i>	<i>(1.4)</i>			<i>9.8</i>	<i>4.7</i>		

Source: Company, RHB

Figure 2: 3Q15 segmental breakdown

FYE Dec (USDm)	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	9M14	9M15	YoY (%)
Revenue								
Indonesia	96.3	81.2	57.1	(29.7)	(40.7)	269.5	211.8	(21.4)
Regional Markets	33.1	33.8	27.5	(18.8)	(17.0)	103.2	94.0	(8.9)

Source: Company, RHB

Figure 3: DCF assumptions

USD m	FY16F	FY17F	FY18F	FY19F	FY20F
Net income	26.3	35.4	42.4	50.9	58.6
D&A costs	8.5	9.1	10.4	12.0	13.3
Net capex	(25.0)	(15.0)	(10.0)	(10.0)	(10.0)
Change in net working capital	2.0	(3.3)	(2.5)	(2.5)	(2.5)
Change in debt	(10.0)	0.0	0.0	0.0	0.0
Free cash flow to equity (FCFE)	1.8	26.1	40.4	50.4	59.4
Terminal value					1,252.8
Present Value	1.5	1.5	19.6	27.6	810.1
Total discounted FCFE	860.2				
Value/ share (USD)	1.41				
Exchange rate: USDSGD	1.42				
Value/ share (SGD)	2.00				
Cost of equity	9.98%				
Risk-free rate	8.75%				
Beta	0.70				
Market expected return	10.50%				
Market risk premium	1.75%				
Terminal growth	5.00%				

Source: RHB, Company

Financial Exhibits

Profit & Loss (USDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	509	504	403	409	459
Cost of sales	(346)	(343)	(286)	(287)	(319)
Gross profit	163	161	117	123	140
Gen & admin expenses	(20)	(20)	(19)	(18)	(19)
Selling expenses	(65)	(68)	(69)	(69)	(72)
Other operating costs	(1)	(3)	(3)	(3)	(3)
Operating profit	78	69	26	33	45
Operating EBITDA	86	77	33	41	54
Depreciation of fixed assets	(8)	(8)	(7)	(8)	(9)
Amortisation of intangible assets	(0)	(0)	(0)	(0)	(0)
Operating EBIT	78	69	26	33	45
Net income from investments	(0)	1	1	1	1
Interest income	7	4	7	7	7
Interest expense	(2)	(3)	(3)	(3)	(3)
Other non-recurring income	(39)	-	(20)	-	-
Pre-tax profit	44	70	10	38	51
Taxation	(24)	(21)	(9)	(11)	(15)
Minority interests	(0)	(0)	-	-	-
Profit after tax & minorities	21	49	1	26	35
Reported net profit	21	49	1	26	35
Recurring net profit	59	50	1	26	35

Source: Company data, RHB

Cash flow (USDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	78	69	26	33	45
Depreciation & amortisation	8	8	7	8	9
Change in working capital	966	(21)	5	2	(3)
Other operating cash flow	(108)	2	10	5	6
Operating cash flow	944	58	48	48	56
Interest received	1	2	2	2	2
Interest paid	(20)	(3)	(3)	(3)	(3)
Tax paid	(18)	(24)	(9)	(11)	(15)
Cash flow from operations	907	32	38	36	40
Capex	(35)	(29)	(15)	(25)	(15)
Other investing cash flow	646	(0)	(0)	-	-
Cash flow from investing activities	610	(29)	(15)	(25)	(15)
Dividends paid	(26)	(38)	(21)	(26)	(30)
Increase in debt	(399)	20	(19)	(10)	-
Other financing cash flow	(3)	-	1	-	3
Cash flow from financing activities	(428)	(19)	(39)	(36)	(27)
Cash at beginning of period	33	197	172	154	129
Total cash generated	1,089	(16)	(16)	(26)	(2)
Forex effects	(1)	0	-	-	-
Implied cash at end of period	1,121	181	156	129	127

Source: Company data, RHB

Financial Exhibits

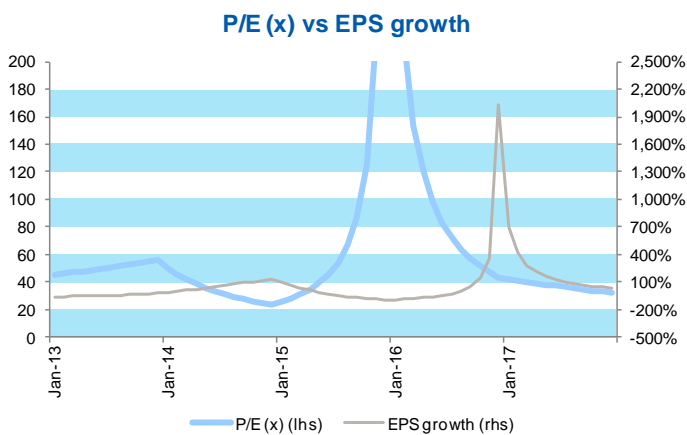
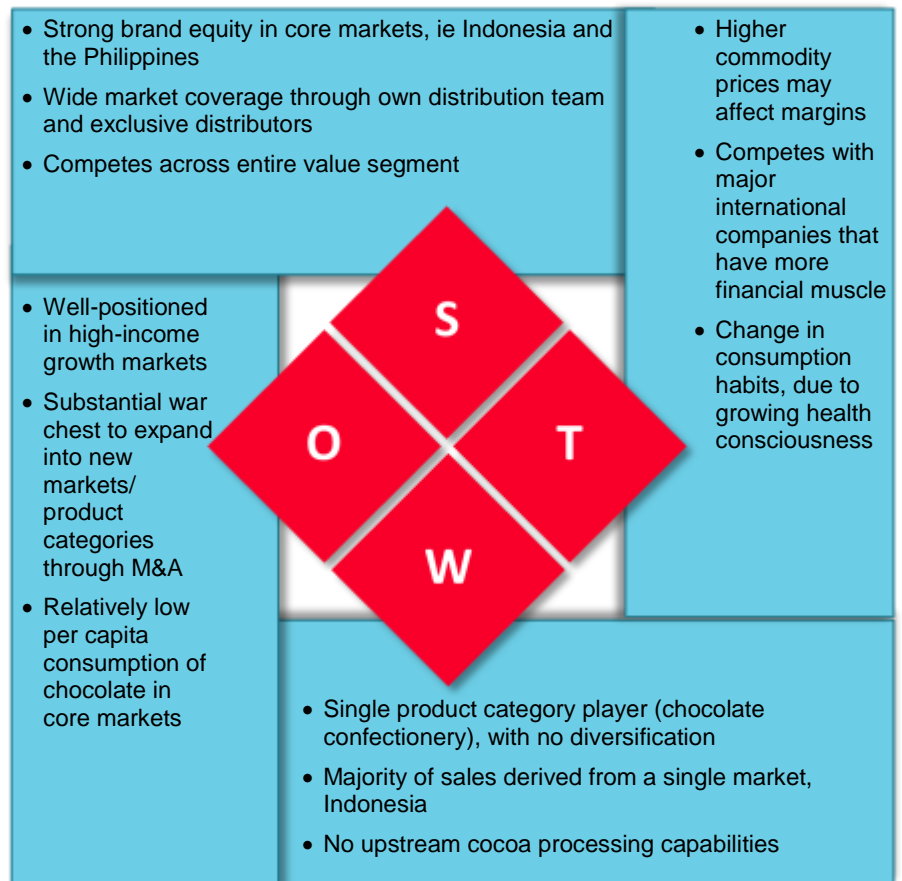
Balance Sheet (USDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	197	172	154	129	127
Inventories	66	73	63	59	61
Accounts receivable	77	82	61	64	73
Other current assets	34	21	20	20	20
Total current assets	373	348	298	272	281
Total investments	6	6	7	8	9
Tangible fixed assets	82	111	119	135	141
Intangible assets	5	5	5	5	5
Total other assets	1	1	1	1	1
Total non-current assets	93	123	131	149	156
Total assets	466	470	429	420	437
Short-term debt	39	65	50	40	40
Accounts payable	120	84	57	58	66
Other current liabilities	3	1	5	5	5
Total current liabilities	162	150	112	103	111
Total long-term debt	0	9	5	5	5
Other liabilities	13	14	15	15	18
Total non-current liabilities	14	23	20	20	23
Total liabilities	176	173	132	123	134
Other reserves	290	297	297	297	302
Shareholders' equity	290	297	297	297	302
Minority interests	0	0	0	0	0
Other equity	(0)	(0)	(0)	(0)	(0)
Total equity	290	297	297	297	303
Total liabilities & equity	466	470	429	420	437

Source: Company data, RHB

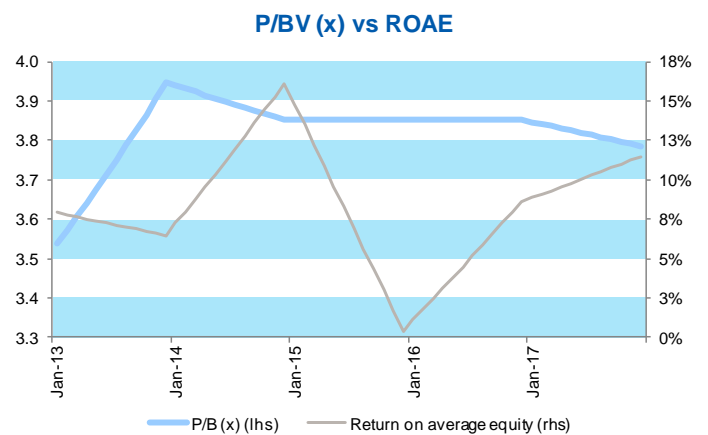
Key Ratios (USD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	7.9	(0.9)	(20.0)	1.5	12.1
Operating profit growth (%)	2.0	(11.0)	(62.3)	25.3	38.5
Net profit growth (%)	(20.2)	137.3	(97.5)	2030.3	34.5
EPS growth (%)	(20.2)	137.3	(97.5)	2030.3	34.5
BVPS growth (%)	(11.2)	2.4	0.0	0.0	1.8
Operating margin (%)	15.3	13.7	6.5	8.0	9.8
Net profit margin (%)	4.0	9.7	0.3	6.4	7.7
Return on average assets (%)	2.4	10.4	0.3	6.2	8.3
Return on average equity (%)	6.7	16.6	0.4	8.8	11.8
Net debt to equity (%)	(54.2)	(32.9)	(33.4)	(28.2)	(27.0)
DPS	0.06	0.06	0.03	0.04	0.05
Recurrent cash flow per share	1.48	0.05	0.06	0.06	0.07

Source: Company data, RHB

SWOT Analysis



Source: Company data, RHB



Source: Company data, RHB

Company Profile

Petra Foods (Petra) is a chocolate confectionery company headquartered in Singapore. It is an integrated player that is involved in segments ranging from chocolate production to distribution. Other than distributing its own chocolate confectionery brands, it also distributes agency brands. Petra's core markets are Indonesia, where it has a more than 50% market share and the Philippines, where it is a top-5 player with an estimated 10% market share.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-08-17	Sell	2.50	3.24
2015-02-26	Buy	4.55	4.06
2014-11-13	Buy	4.25	3.80
2014-10-07	Buy	4.50	3.99
2014-09-09	Buy	4.50	3.89
2013-08-19	Not Rated	na	3.90

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

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