

18 May 2023

SDS Group

Sliced Bread and More

By Tan Jia Hui | ijhtan@kenanga.com.my; Raymond Ng | ngiy@kenanga.com.my

	Rating	Fair Value
Last Price	-	RM0.705
Kenanga	ADD	RM1.02
Consensus	-	-

INVESTMENT MERIT

We recommend ADD for SDS with a revised FV of RM1.02 (from RM1.15). SDS manufactures bakery and confectionery products for distribution via wholesale and retail channels. Subsequent to our report dated 7 Dec 2022, SDS reiterated its guidance for expansion in both its wholesale and retail segments. It is also introducing more SKUs and acquiring land in Johor for future expansion. We lower our earnings forecasts to reflect higher operating cost.

Fleet expansion. Its wholesales segment contributed two thirds of total revenue in FY22. It has a wide distribution network across Peninsular Malaysia. SDS will be adding another 25 trucks in FY24 to its existing fleet of 281 as at Apr 2023. The large fleet enable SDS to increase the distribution frequencies at its established markets and expand geographically.

More retail outlets. SDS plans to add 3-5 retail outlets (café and bakery) in FY24 vs. 36 outlets as at end-3QFY23. The new outlet will be located in the Klang Valley and Johor Bahru, which will be launched by 3QCY23.

Acquiring land for future expansion. SDS recently announced the acquisition of two pieces of land measuring a total of c.6.9 acres in Tebrau, Johor, for RM9.4m, where It plans to construct a new facility for future demand. Meanwhile, SDS is adding 2-3 new SKUs with new flavours to boost sales. We understand that it recently launched some new croissant bread in Johor Bahru to gauge the response from the market.

Forecasts. We cut our FY23F and FY24F earnings by 12% and 11%, respectively, to reflect higher operating cost, particularly, staff cost pursuant to the recent amendment to Employment Act that reduces the maximum weekly working hours to 45 (from 48) and utility cost. That said, we still project the company to deliver earnings growth of 134% and 28% in FY23 and FY24, respectively.

We reiterate ADD with a revised FV of RM1.02 (from RM1.15), premised on a 13x FY24F EPS, which is line with the domestic staple food producer peers' one-year PER mean of 13x. We believe this is justified by its long-term expansion plans and affordable price advantage for the B40 group. Nevertheless, the valuation is considered inexpensive, reflective of high earnings growth potential compared to consensus peers' projection of 12% in FY23. A ROE of c.28% also outweighs peers' mid-teens marking. There is no change to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

Risks to our call include: (i) its inability to raise prices for certain price-controlled products, (ii) low entry barriers for bread and bakery products, and (iii) inability to make significant inroads into markets beyond its home turf in Johor.

Stock Information

Shariah Compliant	Yes
Stock Name	SDS GROUP BHD
CAT Code	0212
Industry	Food
Industry Sub-sector	Food-Wholesale/Distrib
YTD stock price chg	-4.73%
Market Cap (RM'm)	288.79
Shares Outstanding (m)	409.63
52-week range (Hi)	0.965
52-week range (Low)	0.32
3-mth avg daily vol:	1,574,555
Free Float	24.7%
Beta	1.00
Altman's Z-score	5.32

Major Shareholders

Tan Kim Seng	24.2%
Tan Kim Chai	24.1%
Tan Yon Haw	4.7%

Financials

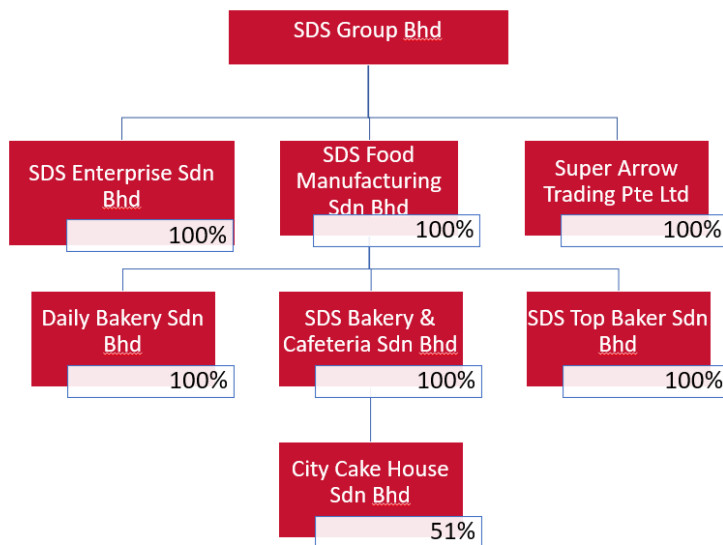
FYE Mar (RM m)	2022A	2023F	2024F
Revenue	198.3	267.0	301.2
Gross Profit (GP)	61.6	83.0	105.4
Profit Before Tax (PBT)	14.1	33.1	42.4
Net Profit (NP)	10.6	24.8	31.8
EPS (sen)	2.6	6.1	7.8
EPS growth (%)	46.0	134.6	27.9
BV/Share (RM)	0.2	0.3	0.3
PER (x)	26.8	11.5	8.9
Price/BV (x)	3.5	2.7	2.1
Net Gearing (x)	N. Cash	N. Cash	N. Cash
DPS (sen)	0.8	0.5	0.5
Div Yield (%)	1.1	0.7	0.7

Quarterly Financial Data (RM m)

	1Q23	2Q23	3Q23
Operating Revenue	60.9	74.1	75.0
PBT	6	11.6	9.1
PATAMI	4.5	8.7	6.8
Basic EPS (sen)	1.1	2.1	1.7
Revenue Growth (QoQ)	2.50%	21.67%	1.23%
EPS growth (QoQ)	7.90%	90.91%	-20.48%
Net Profit Margin	7.40%	11.74%	9.13%

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CORPORATE STRUCTURE



Source: Company

BUSINESS OVERVIEW

SDS is primarily involved in the manufacturing and distribution of bakery products through its retail and wholesale networks. The group produces varieties of loafs, breads, buns, rolls and cakes which are distributed across Peninsular Malaysia under brand name of "Top Baker" and "Daily's". Also, its retail segment which mainly operates F&B outlets under "S.D.S" brand within high footfall neighbourhood areas to distribute baked goods and confectionery products.

BUSINESS SEGMENTS

- Wholesale of baked products via supermarkets, chain value stores and grocery stores
- Selling of bakery goods as well as confectionery products through its F&B outlets with a variety of coffee and meal offerings.

Valuations of Food Product Manufacturers in Malaysia

Name	Market Cap (RM m)**	Last Price (RM)**	Revenue growth 1 Yr Fwd (%)	EPS growth 1 Yr Fwd (%)	PE (x)	ROE	Dividend Yield
SDS GROUP BHD	305.2	0.745	33.3%	142.3%	11.1	27.4	0.7
Peers							
APOLLO FOOD HOLDINGS BHD	320.0	4.00	-1.1%	-40.8%	11.2	12.6	3.8
ORIENTAL FOOD INDUST HLDGS	273.6	1.14	-2.6%	3.9%	12.9	9.8	3.3
POWER ROOT BHD	905.4	2.12	12.5%	-4.0%	16.2	20.3	5.1
BERJAYA FOOD BHD	1447.3	0.825	39.1%	141.5%	10.3	30.8	3.9
Average	736.6		12%	25%	12.7	18.4	4.0

**Updated as of 17 May 2023

Source: Bloomberg, Kenanga Research

Daily Charting – SDS Group Bhd



Comment:

After retracing from the peak of RM0.965 in mid-Feb 2023 to as low as RM0.635 on 10 May 2023, SDS's share price has bounced up and subsequently staged a break-out from the immediate descending resistance to close at RM0.705 yesterday. Technically speaking, the stock is poised to climb higher triggered by the bullish technical signals such as: (i) the appearance of golden cross in MACD, and (ii) the emerging Parabolic SAR uptrend. Ergo, the stock could be making its way to challenge our resistance targets of RM0.80 (R1) and RM0.89 (R2). Our stop loss price level is pegged at RM0.62 (S1) and RM0.54 (S2). Notably, SDS has successfully transferred to the Main Market of Bursa Malaysia from the Ace Market on 8 May 2023.

About the stock:

Name : SDS Group Bhd
Bursa Code : SDS
CAT Code : 0212

Key Support & Resistance level

Resistance : RM0.80 (R1) RM0.89 (R2)
Support : RM0.62 (S1) RM0.54 (S2)
Outlook : Positive

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	☆		
SPECIFIC	Guest Worker Welfare	★	★	★		
	Sustainability Certification	★	★	☆		
	Waste Management	★	★	☆		
	Energy Efficiency	★	★	★		
	Work Site Safety	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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KENANGA INVESTMENT BANK BERHAD (15678-H)
 Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

