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IPO Note
Friday, November 8, 2024
Research Team Coverage
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Supreme Consolidated

Bigger Space, Bigger Gains

Main Market
Consumer Sector
SUBSCRIBE
IPO Price: RM0.25
Fair Value: RM0.29

Valuation / Recommendation

We have a SUBSCRIBE recommendation on Supreme Consolidated Resources Berhad (SCRB) with an **FV of RM0.29 based on 10x FY25F EPS**, translating to 18% upside to the IPO price. Our target PE is based on the valuation of its closest peer (10.3x PE of CCK Consolidated), given the similarity of their business model and geographical locations.

Investment Highlights

Flattish revenue due to limited capacity. SCRB is a key distributor of consumer products in Sarawak (>98% of sales), which includes frozen, chilled, and ambient F&B products. The company has maintained a relatively flattish revenue trend of between RM188m-210m over the past three years, reflecting the capacity limits at its warehousing and cold storage facilities, which operate near full utilisation (~3,268 pallets). Despite the flattish revenue, SCRB has managed to improve both its EBITDA and PAT over FY21-23, helped by effective cost management and increases in average selling prices (ASP) to protect margins.

Expanding warehouse capacity by 58%. SCRB plans to utilise RM11m from IPO funds, supplemented by RM7m from either bank financing or internal funds, to expand its warehousing capacity significantly. This new facility, expected to be completed within 12 months, will add approximately 2,800 sq. m and 1,500 pallets to its branch in Kuching, raising the total pallet capacity to 4,088 (+58%). We believe this expansion will enable improved order fulfilment, positioning SCRB to better meet customer demand while reducing its reliance on costly rented storage from third parties.

Strong growth in FY25F-26F. Due to current capacity constraints, we project that SCRB's revenue for FY24F will peak at RM227m, reflecting near-full capacity utilisation. Growth is expected to begin in FY25F, as new facilities address these limitations. Following the expansion, we anticipate a decline in utilisation rates to 75%-83% in FY25-26F, but with higher volume handled at 3,589 and 3,957 pallets, respectively. Consequently, we expect SCRB's revenue to rise to RM249m and RM274m in FY25-26F respectively. Historically, SCRB has maintained stable margins in its distribution business, with GP margins of 10%-12% and PAT margins of 3.9%-4.6% over the past three years. We foresee gradual improvements in margins, driven by enhanced operational efficiency and lower rental costs for third-party storage.

Risk factors for Supreme include (1) Shipping disruptions and freight rates; (2) Product quality risks; and (3) Exposure to forex risk.

FY Sep	FY22	FY23	FY24F	FY25F	FY26F
Revenue (RM m)	210.0	199.6	226.6	248.9	274.4
EBITDA (RM m)	15.3	16.6	18.3	21.2	23.0
PAT (RM m)	8.2	9.2	10.9	12.7	13.8
PAT Margin (%)	3.9	4.6	4.8	5.1	5.0
EPS (sen)	2.3	2.6	2.5	2.9	3.2
EPS Growth (%)	6.7	13.0	-1.4	16.8	8.6
BV Per Share (sen)	22.8	24.4	25.8	27.2	28.8
PE (x)	11.0	9.8	9.9	8.5	7.8
Net Gearing (%)	0.4	0.2	Cash	Cash	Cash
ROE (%)	9.9	10.5	9.8	10.8	11.1

Business Overview

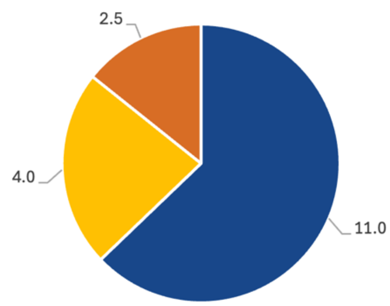
Supreme Consolidated Resources Berhad provides market access and distribution for consumer products across Sarawak and Sabah, focusing on both third-party brands and its own lines of frozen and chilled food, ambient F&B, and non-F&B products.

Listing Details	
Listing date	29 Nov 2024
New shares (m)	70.0
Offer for sale (m)	-
Funds raised (RM m)	17.5

Post Listing	
Ordinary shares (m)	430.0
Market cap (RM m)	107.5
Free float (%)	16.3
P/E (FY24F)	9.9

Top 3 Shareholders	
BNDM Incorporated S/B	34.1%
Lim Ah Ted	22.0%
Tan Chiew Ting	6.3%

Utilisation of Proceeds	RM m
Expansion of warehouse facility	11.0
Working capital	4.0
Listing expenses	2.5



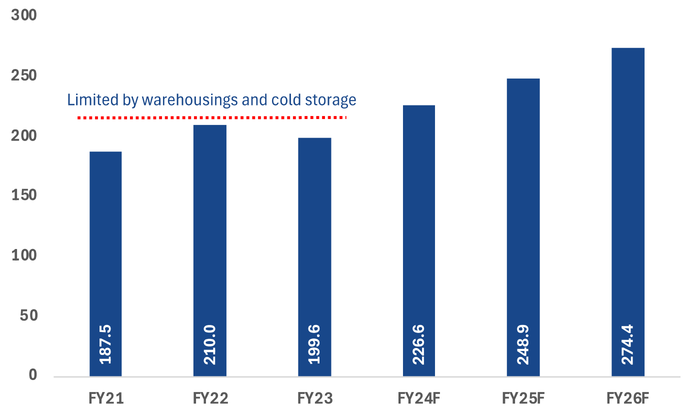
Source: Company, Mercury Securities

Financial Highlights and Valuation

Flattish revenue due to storage bottlenecks. Supreme Consolidated Resources Berhad (SCRB) has shown a flattish revenue trend over the past three years, primarily due to storage limitations. With its warehousing and cold storage facilities operating close to full capacity, SCRB had to occasionally rent additional space to meet demand. While this workaround has provided some relief, it is a costly and temporary solution that does not address the more significant issue of capacity constraints.

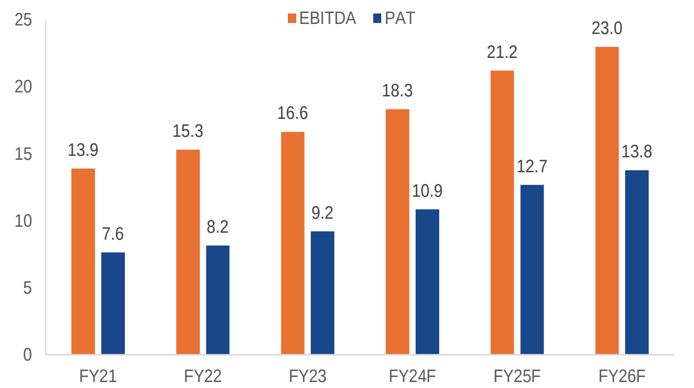
From FY21 to FY23, SCRB's two main facilities had a combined maximum capacity of 3,268 pallets. The primary warehouse in Kuching, which covers 7,806.1 sq. m, operated at an impressive 96% utilisation rate. In contrast, the Miri facility, spanning 1,253 sq. m, had more capacity to spare with a 60% utilisation rate. This disparity highlights a recurring challenge: Kuching facility is consistently at full capacity, while the Miri facility operates at a more moderate utilisation rate, ranging from 55% to 65%.

Figure 1: SCRB's revenue trend (in RM m)



Source: Company, Mercury Securities

Figure 2: EBITDA and PAT trend (in RM m)



Source: Company, Mercury Securities

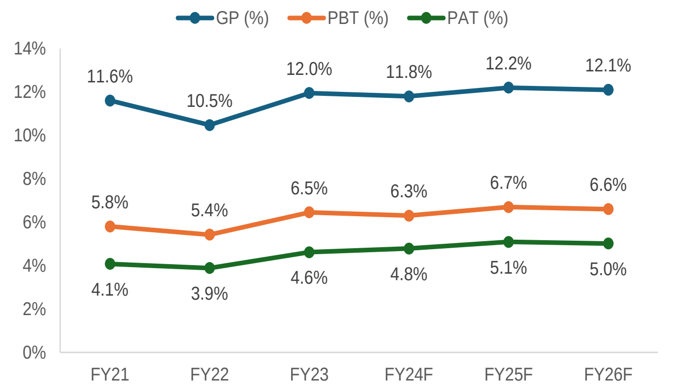
Resilient business. Despite flattish revenue ranging from RM188m-RM210m, SCRB has shown improvement in its net profit, which rose from RM7.6m in FY21 to RM9.2m in FY23. The company's resilient EBITDA throughout the COVID-19 period highlights its effective cost management, particularly in core warehousing operations. This efficiency is further evidenced by a consistent average ROE of 10%. To enhance its profit margins, SCRB has successfully managed rising supplier prices while also benefiting from a stronger Ringgit, given that 60% of its costs are denominated in USD.

Expanding warehouse capacity by 58%. SCRB plans to allocate RM11m from its IPO proceeds, along with an additional RM7m from bank financing or internal funds, to enhance its warehouse capacity. This new facility, expected to be completed within 12 months, will add approximately 2,800 sq. m and 1,500 pallets to its branch in Kuching, raising the total pallet capacity to 4,088 (+58%). This expansion will enable improved order fulfilment, positioning SCRB to better meet customer demand while reducing its reliance on costly rented storage.

Strong earnings growth in FY25F-26F. In light of current capacity constraints, we project that FY24 revenue will peak at RM227m (near full capacity), with growth only anticipated from FY25 onwards after new facilities alleviate these capacity limitations. Post capacity expansion, we expect the utilisation rate to trend lower at 75%-83% in FY25-26F, but with higher volume handled at 3,589 and 3,957 pallets, respectively. This shall facilitate revenue growth to RM249m and RM274m in FY25-26F, respectively.

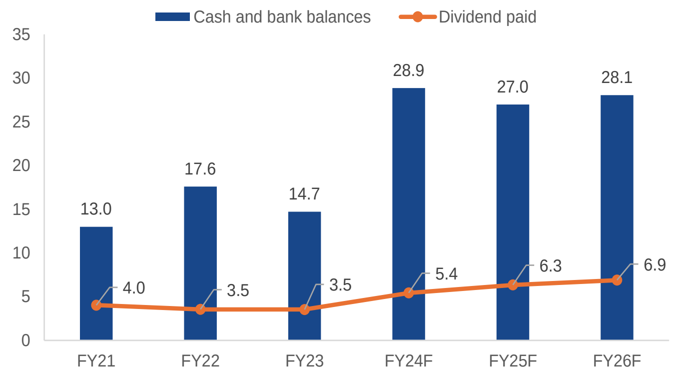
Historically, SCRB has maintained stable margins in its distribution business, with GP margins ranging from 10%-12% and PAT margins between 3.9%-4.6% over the past three years. Looking ahead, we anticipate gradual improvements in margins, driven by enhanced operational efficiency and a reduction in rental cost for third-party storage.

Figure 3: SCRB's margin trend (%)



Source: Company, Mercury Securities

Figure 4: Cash reserves and dividends paid (in RM m)



Source: Company, Mercury Securities

Healthy balance sheet. SCRB maintains a solid balance sheet with a healthy cash position and a low net gearing ratio of 0.16x. Cash reserves have been steady, ranging from RM13m to RM17.6m between FY21 and FY23. Post-IPO, the company is expected to shift to a net cash position, with its cash reserves expected to reach approximately RM28m over the next three years.

Attractive dividend outlook. Although SCRB has no fixed dividend policy, its strong cash flow generation allows management to consider a potential dividend payout of up to 50%. Based on this payout ratio and an IPO price of RM0.25, the projected dividend yields for SRCB could reach 5.0%-6.4% for FY24-26F.

RM0.29 FV based on 10x FY25 EPS. We peg a target PE valuation of 10x for SCRB, which at a discount compared to the average valuation of comparable peers, but in line with a smaller capitalisation. By applying our FY25F EPS forecast of 2.9 sen, we derived an FV of RM0.29 for SCRB.

Figure 5: Peer Comparison (as at 7 Nov 2024)

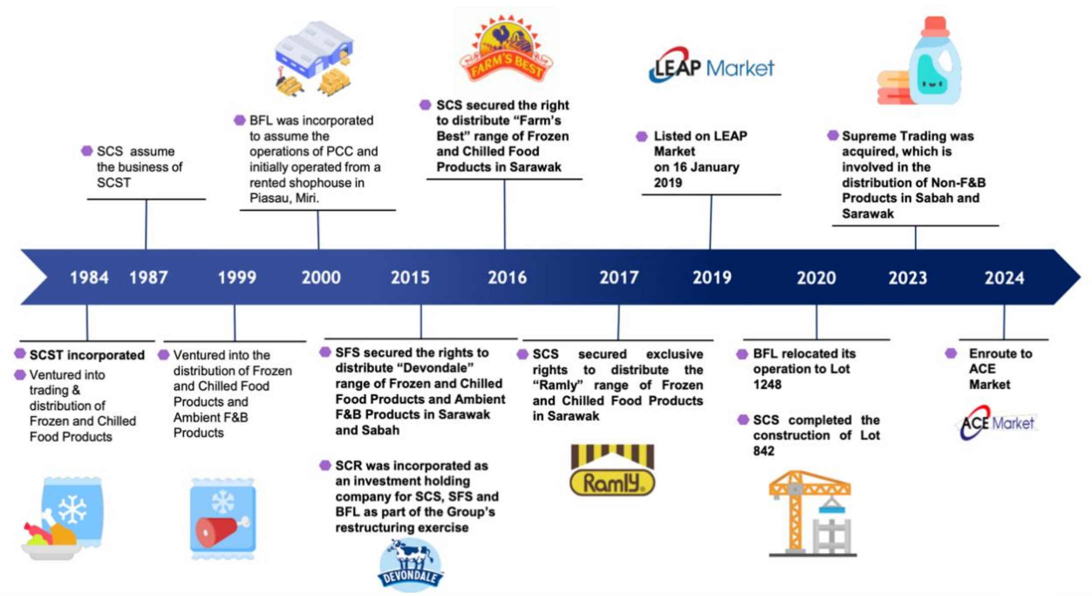
Company	Bloomberg Ticker	Share Price	Mkt Cap (m)	Earnings Growth (%)	P/E (x)	P/B (x)	ROE (%)	Net yield (%)
CCK Consolidated	CCK MK	1.49	950.0	24.8	10.3	2.1	22.1	2.8
Kim Teck Cheong	KTCC MK	0.20	133.0	(24.9)	8.1	0.7	8.9	n/a
Simple Average				**(0.0)**	**9.2**	**1.4**	**15.5**	**2.8**
Supreme Consolidated	SCRB MK	0.25	107.5	16.8	9.9	1.0	10.8	5.9

Source: Bloomberg, Mercury Securities

Company Background

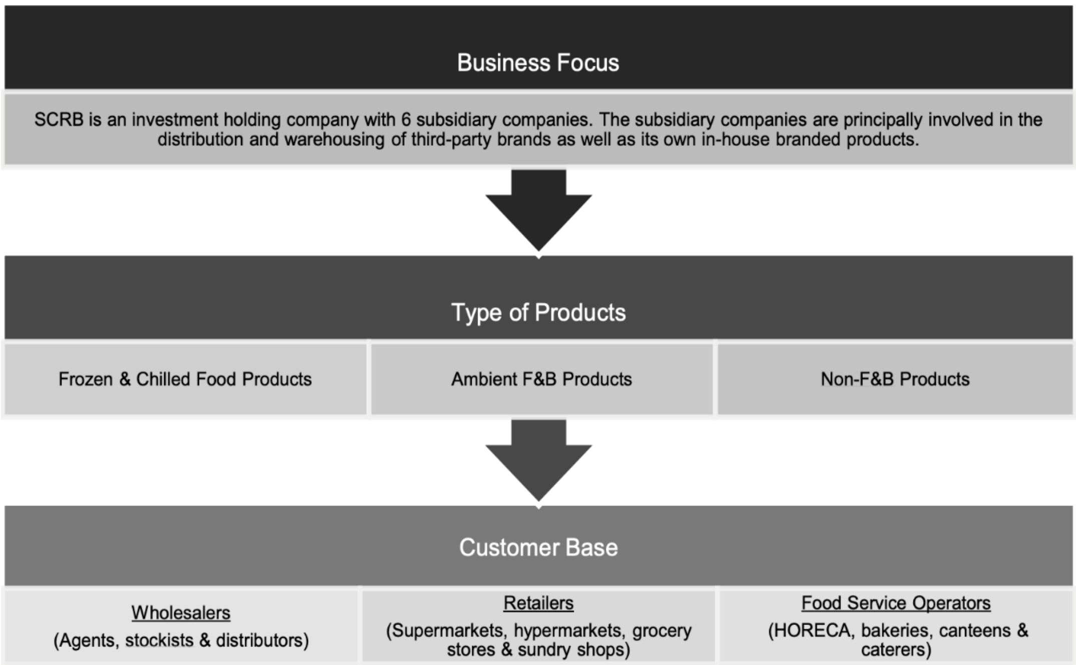
Key player in Sarawak consumer products distribution. Supreme Consolidated Resources Berhad (SCRB) operates as a key distributor of consumer products in Sarawak and Sabah, focusing on both third-party brands and its own product lines. The company specialises in frozen and chilled food products, including meat, seafood, vegetables, fruits and dairy items, alongside Ambient F&B Products such as milk, pasta, juices, bread and seasonings. In 2023, it expanded into non-F&B Products, distributing cleaning and hygiene items following its acquisition of Supreme Trading.

Figure 6: Supreme history and corporate milestones



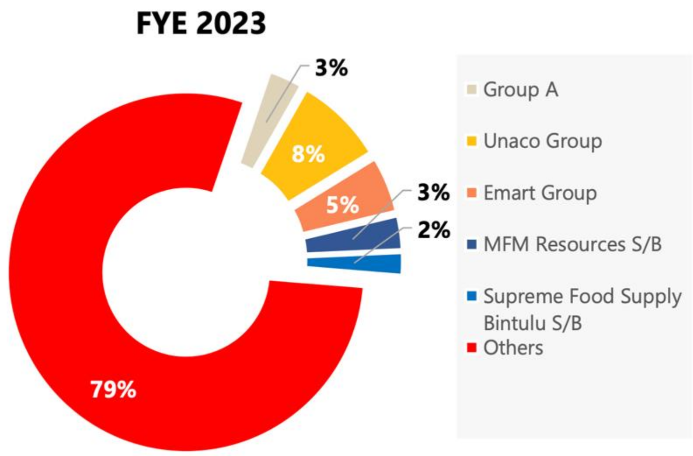
Source: Company

Figure 7: Business overview



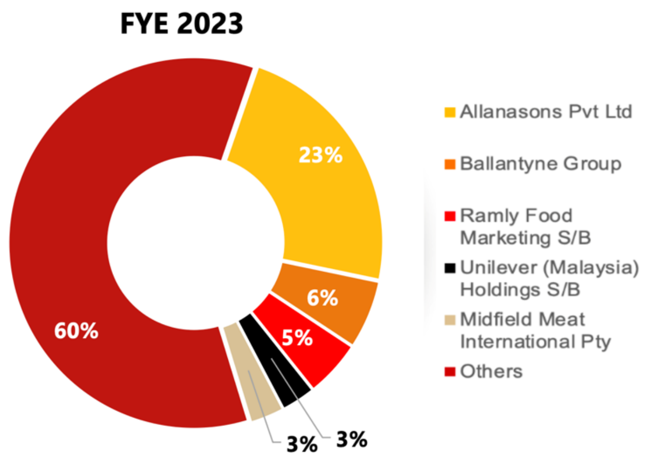
Source: Company

Figure 8: Top 5 major customers



Source: Company

Figure 9: Top 5 major suppliers



Source: Company

Diverse customer base. The top five customers have accounted for approximately 15% to 21% of total revenues over recent financial periods, with none surpassing the 10% threshold in any given year. This diversification minimizes dependency on a single customer, effectively reducing financial risk and enhancing overall stability. Strong relationships have been established with these major customers, spanning from 6 to 31 years. These long-term connections have led to consistent repeat orders and have also helped attract new clients, showcasing SCRB's effectiveness in delivering quality products and meeting customer expectations in a timely manner.

Figure 10: Wide range of brands and products

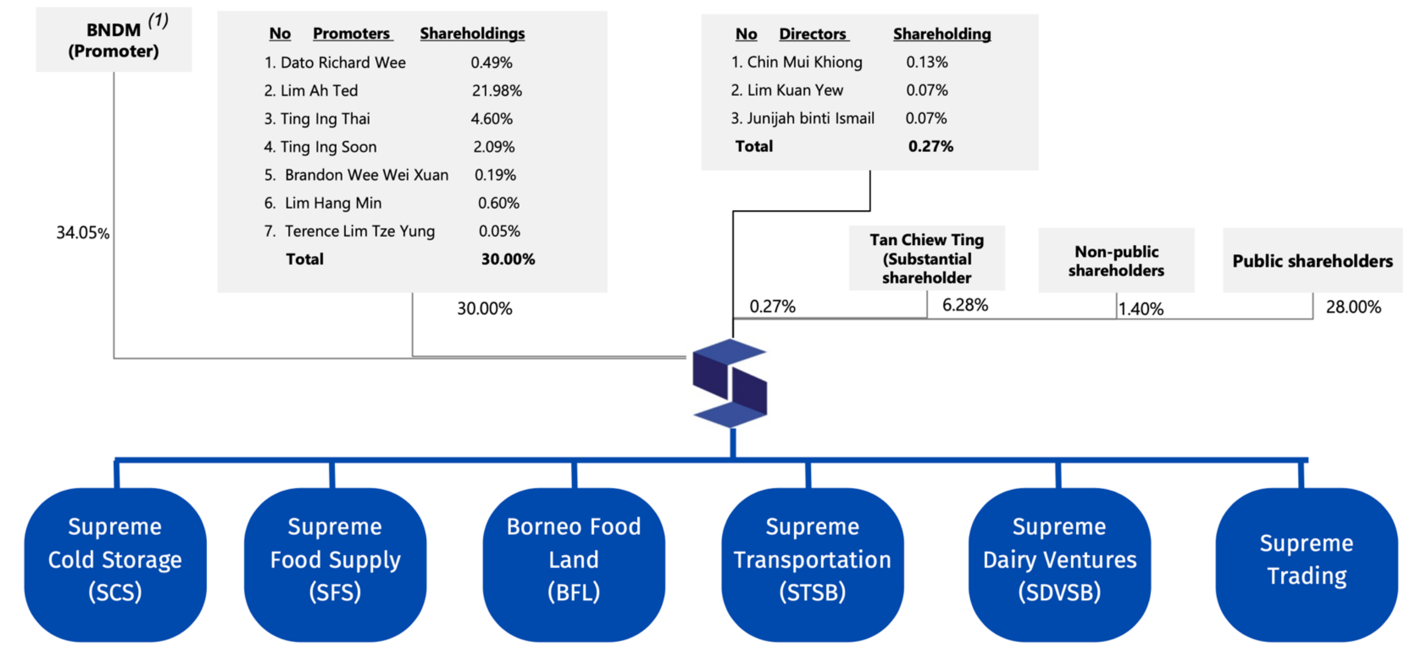
A portfolio that meets every demand. As at September 2024, SCRB's portfolio comprises approximately 1,472 SKUs, including 1,417 third-party SKUs and 55 in-house SKUs. These products are sourced from a total of 79 brands, consisting of 32 local and 44 foreign third-party brands, along with three proprietary brands under SCRB. Across these partnerships, the company offers 30 different product types under third-party brands and seven types under its own brands, covering a wide spectrum of product categories.

Figure 11: Key management team

Name and Designation	Age	Profile
Dato Richard Wee Promoter, Non-Independent Executive Chairman	65	• Oversees the management and operations and is responsible for the overall strategy and business development of the Group. • Over 29 years of experience in shipping and logistics services under Hubline Berhad. • One of the main controlling shareholders in BNDM. • Member of the Board of Trustees for The Sarawak Foundation • Diploma in Management Development from Asian Institute of Management, Manila
Tay Pick Chong Group General Manager	52	• Responsible for the overall daily operations, administration, management and implementation of the Group's business strategies. • More than 28 years of experience in distribution and distributor management in East Malaysia. • Honors in Hospitality Management from Stamford College, Kuching.
Ho Mui Siok Group Finance Manager	55	• Responsible for all financial matters of the company. • More than 30 years of experience in accounting, finance and internal audit, and over 7 years of experience in the Group • She is a Chartered Accountant with a member of ACCA and MIA since July 2000.
Justin Ho Tze Shiuan Assistant General Manager, Sales and Marketing Manager	47	• Primarily responsible for leading Group's sales activities. • Over 20 years of working experience in the fields of food and beverages industry. • Bachelor of Science in Business Administration from Hawaii Pacific University, USA. • Master of Business Administration at the University of Sunderland, USA.
Lim Kok Cheng General Manager of BFL	61	• Responsible for the overall daily operations and implementation of BFL's business strategies. • More than 18 years of experience in sales, agencies and distributor in F&B industry. • Chung Ling Private High School, Penang

Source: Company, Mercury Securities

Figure 12: Group Structure Post Listing



Source: Company, Mercury Securities

Future Plans & Business Strategies

Expansion of warehouse capacity. SCRB has allocated RM11m, or 62.9% of the gross proceeds from its IPO, for expanding its warehouse facility to support product growth. It is currently identifying a suitable location for a new industrial site within a 10km radius of its existing facility, estimated at 2 acres. The total expansion cost is RM18m, including RM2.5m for land acquisition and RM15.5m for construction. The new facility will feature a warehousing area, cold storage, offices, and loading bays, adding 1,500 pallet spaces for frozen and chilled food products to the existing 2,588. SCRB plans to finance the RM7m shortfall through bank borrowings and/or internally generated funds.

Growing the product line. SCRB plans to broaden its product range to meet evolving consumer needs by securing new agency rights for local and international products and exploring potential distributor acquisitions. The Group aims to introduce new frozen and chilled meat products from South America and Thailand, subject to due diligence. Additionally, a new subsidiary, Supreme Dairy Ventures S/B, will focus on trading dairy products, with plans to launch fresh milk under the Supreme brand.

Distribution network expansion. The company plans to enhance its distribution network in Sarawak and Sabah, which is currently served by warehouses in Kuching and Miri. This expansion will establish a more efficient internal network in key districts, reducing dependence on third-party distributors. Target areas include Sibu, Bintulu, and Kota Kinabalu, with potential growth through acquisitions or new distribution setups. Selection criteria for distributors will focus on product range, financial performance, and market reach in underserved locations.

Key Risks

Disruptions to warehousing and cold storage facilities. SCRB's business operations are dependent on the continued operations of the warehousing and cold-storage facilities as well as transportation vehicles. Any disruptions to warehousing and cold-storage facilities as well as transportation vehicles such as fire, power failure or breakdown or theft may have an adverse impact on operations.

Risk of product liability. As a provider of market access for consumer products, SCRB is involved in distributing both third-party and its own brands, exposing it to product liability claims that could affect revenue and profitability. Such claims can arise from manufacturing defects, contamination, mislabelling, and uncertified ingredients.

Shipping disruptions and freight rates. A significant portion of the company's purchases comes from overseas suppliers, making it heavily reliant on marine and air transportation. This exposes the company to shipping and freight disruptions due to adverse weather, political turmoil, social unrest, port strikes, and lost shipments, all of which can negatively impact operations. Additionally, major fluctuations in shipping and freight rates may affect costs and gross profit margins.

Fluctuation in foreign currency. Any unfavourable fluctuations in foreign currency rates could negatively affect the company's financial performance. A depreciation of the RM against the currencies used for transactions will result in higher revenue in RM after conversion. However, it will also lead to increased costs of purchases in RM after conversion.

IPO Details

	Offer for Sale (m)	Public Issue (m)	Total (m)	(%)
Retail Offering				
Eligible Persons	-	7.7	7.7	1.8
Malaysian Public (Bumiputera)	-	4.3	4.3	1.0
Malaysian Public (Non-Bumiputera)	-	4.3	4.3	1.0
Institutional Offering				
Selected investors	-	53.8	53.8	12.5
Total	-	70.0	70.0	16.3

Source: Company

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