

Can - Lah!

Can-One Berhad, Malaysia

The price is right

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Luminance Global Fund has a long position in the stocks Can-One and Kian Joo Can. The fund may change its positions at any time without notice. This is not an offer for the Luminance Global Fund.

The price is right

- ❖ Market cap is USD 145mn
- ❖ Stake in Kian Joo Can (KJC) is worth USD 146 mn.
- ❖ KJC is selling itself this month. Shareholders will get paid in a capital reduction and repayment exercise.
- ❖ Get the rest of the business for free. Can-One makes tin cans, jerry cans, trades diary products and invests in property.
- ❖ Data is as of 04 April 2014

Overview of running business

- ❖ Can-One has 4 divisions. As of 31 Dec 2013:
 - ❖ Can division (36% of 2013 revenues/24% of profits)
 - ❖ Food (61%/45%)
 - ❖ Dairy (3%/1%)
 - ❖ Property division (0%/30%)
 - ❖ Owns an associate accounted for using equity method

Can business

- ❖ Recession-resistant mature industry
- ❖ Cans and other pack aching materials are low-tech goods, expected to grow at GDP rates.
- ❖ Malaysia GDP growth rate expected is 5.0-5.5% in 2014 (Company estimate).
- ❖ Business moat: None. Value it as a commodity business, with no technological edge.
- ❖ Given no difference in product, or price, customer is more worried about timeliness and punctuality.

Food business

- ❖ 80% ownership of F&B Nutrition Berhad.
- ❖ Producer of sweetened condensed milk, exported to Middle East, Africa, ASEAN and South Asia
- ❖ Additional of evaporated milk business in 2009
- ❖ Business moat: None. Value it as a commodity business, with no technological edge.
- ❖ Given no difference in product, or price, customer is more worried about quality control and reliability.

See's candies : Kian Joo Can (KJC)

- ❖ KJC Share price = MYR 3.12 (as of 04 April, 2014).
- ❖ The selling family was the See family.
- ❖ KJC was bought at a bargain price of MYR 1.68 in 2012 – after a 3-year court battle.
- ❖ Bargain purchase gain of KJC recognized in 2012 is MYR 103mn.
- ❖ Book value per share of Can-One (31 Dec 2013) = MYR 3.17
- ❖ Carrying value of KJC stake per share = MYR 2.50
- ❖ Book value of remainder per share = MYR 0.67
- ❖ Adjust for current market cap of KJC, its per share value is MYR 3.17 : adjusted book value of remainder is 0.

Shareholder dynamics

- ❖ Shareholder base: concentrated, 61% free float
- ❖ Yeoh Jin Hoe (YJH: age: 66) controls 51.85mn shares, i.e. 34%, most of it through Eller Axis, a holding company
- ❖ Director resigned to make the offer for KJC.
 - ❖ COO Chee Khay Leong, associated since 1977, resigned in November 2013 to make the successful takeover offer for KJC.
 - ❖ 11 July 2012: appointed as COO cum Executive Director of KJC; resigned before making offer

Board dynamics

- ❖ Other directors: 1%
- ❖ COO Marc Francis Yoeh Min Chang (28) is the son of YJH
- ❖ A brother of YJH is also on the board.
- ❖ 2013: No options granted, no changes in equity structure
- ❖ Dividends paid for at least last 8 years without a break.
- ❖ Board has 6 members, 4 of whom are non-Executive Directors, 2 of whom are independent.
- ❖ Board size decreased by 2 in 2013.
- ❖ Next AGM: April 24, 2014: **Buyback resolution** tabled along with new share issue resolution (both capped at 10%)

Conclusion

- ❖ **A low-risk business, seeing an imminent catalyst for value recognition.**
- ❖ **Underfollowed, with no analyst coverage, and low institutional ownership, sets the stage.**

Appendix: Ratios and data

- ❖ Ticker: CAN MK Equity on Bloomberg
- ❖ Founded: 1957
- ❖ Head office: Petaling Jaya, Malaysia
- ❖ Market cap (04-April-2014): MYR 475.48 mn (USD 142.64 mn USD at 0.30 USD/MYR)
- ❖ Price per share: MYR 3.12
- ❖ Shares outstanding: 152.4mn
- ❖ Free float: 61%
- ❖ Price/book: 1.03
- ❖ Price/sales: 0.6
- ❖ Dividend yield: 1.25% (indicative yield, based on 4 sen per share. 100 sen = MYR 1)
- ❖ Debt/Capital = 41%
- ❖ EBIT/ Total Interest = 3.9x
- ❖ Auditor: KPMG
- ❖ Data is from Bloomberg (04 April 2014), company data is 31 December 2013 from the Annual Report.