GUAN CHONG BERHAD
Twentieth Annual General Meeting
Monday, 27 May 2024

ANNEXURE 3

Questions & Answers (Q&A) Session

Question No.1 from Mr Jackson Tan (MSWG)

(a) How does GCB mitigate the impact of climate change to ensure sustainability of cocoa beans?

Answer:

Our capacity, in comparison to global production, is considered relatively small. Therefore, acquiring beans to run the factory is not expected to pose significant difficulties for us. Furthermore, our sustainability program includes training farmers in plantation skills and investing in fertilizers, pesticides, and advanced technology to enhance cocoa bean production.

Over the next 3-5 years, the industry anticipates significantly improved production levels. The Ivory Coast is projected to experience a slightly improved crop next year, driven by better prices, favorable weather conditions, and farmers taking better care of their crops by applying more fertilizers. However, the outlook for Ghana is less optimistic due to a long-term structural deficit. In contrast, since last year, South American producers have benefited from higher prices, leading to increased production. Ecuador aims to reach 600,000 MT in 2-3 years (noting that it takes 2-3 years to harvest), with further increases anticipated in 5 years' time. Peru shows a similar trend. Additionally, Indonesian farmers are returning to cocoa cultivation, contributing to this positive outlook. Overall, we anticipate cocoa production returning to normal from 2026 onward.

(b) Referring to page 103 of the annual report, renewal energy accounted for 7% of total energy consumption in 2023, a reduction from 12% in 2022. Why is this? What is GCB's target mix of renewable energy sources?

Answer:

The reduction in 2023 is primarily due to the lower biomass consumption as we ceased the operation of our old biomass plant at the Timah site. We are planning to acquire a new biomass plant this year. We do not set a specific target for the proportion of renewable energy. However, we are actively installing solar panels at most of our locations.

Question No.2 from Mr Gor Ching Ruey (Proxy)

(a) Will sales margin be higher or lower if cocoa bean prices are higher?

Answer:

Product ratios continue to be on a rise mainly due to product shortage. This will contribute to higher sales margin.

(b) What is the expectation of cocoa bean prices in the next 6 months to 1 year?

Answer:

Prices are influenced by two key factors: supply and demand.
It is already known that there is a supply shortage, which drives up bean prices, though the extent of this increase is uncertain. Major cocoa manufacturers have already secured beans at lower prices since last year, so the high prices this year do not significantly impact them. Next year's supply will depend on weather conditions, which we expect to improve compared to this year. Therefore, we anticipate a better crop next year, potentially lowering bean prices. However, even with increased production, bean prices are unlikely to drop significantly in the next 6 months to 1 year.

At present, we do not observe significant inflation in chocolate prices for end consumers despite the high cocoa prices. This is due to a time lag in chocolate manufacturers to pass on the increased raw material costs. However, chocolate prices are expected to rise next year as manufacturers begin to factor in the higher raw material costs, which may reduce demand. With lower demand and reduced supply, cocoa prices will drop. In response, chocolate manufacturers may seek to cover more of their cocoa requirements, causing prices to fluctuate. Consequently, we expect the market to be choppy, but at a slightly lower price level than the current one.

(c) Is the current inventory enough to fulfill operation for the coming year?

Answer:

We are covered for beans for this year and are running at optimal level. Nevertheless, we actively follow up with suppliers to ensure timely delivery of beans and continue to source for new bean contracts.

(d) Is the cash flow sufficient for current operation?

Answer:

Due to high bean prices, our working capital has increased. However, we are managing this impact effectively by securing additional financing and shortening the trade cycle through inventory reduction.

Despite increased interest costs from additional borrowing, our margins are anticipated to rise. This is attributed to our doubling turnover and stagnant costs (other than interest costs).

(e) Where do you see GCB in 3 years and what can investors expect?

Answer:

We remain focused on our core business of bean grinding and industrial chocolate manufacturing. Our three- to five-year plan concentrates on expansion, aiming to increase our capacity to 500,000 MT when the timing is right. Currently, due to a shortage of beans, we are holding off on major expansions. Instead, we will continue implementing debottlenecking projects and will expand further once the bean supply situation becomes clearer. We already have warehouse space ready for expansion at our factories in Ivory Coast and Indonesia. Additionally, we plan to expand our customer base and grow our presence in Europe. Building a strong customer base and improving our margins are our key priorities at this time.

Question No.3 from Mr Tan Sin Su (Shareholder)

(a) Inventory last year stands at RM 2.5 billion, almost double of 2022. Is this all delivered or how long will it last for?

Answer:

RM 2.5 billion is equivalent to approximately five months of stock, including two months of goods in transit, two months of raw materials, and one month of finished goods. Therefore, it is not an excessive amount. In 2024, we expect inventory to be lower as we plan to reduce inventory to shorten the trade cycle. Additionally, both beans and products are in short supply in 2024.

(b) Even though sales revenue is historical record high, the profit margin of 0.18% is historical low. What is the reason for this?

Answer:

This is mainly attributable to the lower combined ratio of butter and powder in 2023. Despite the surge in bean prices in the latter half of 2023, there was still some global inventory of cocoa beans and cocoa products. Consequently, product prices did not rise proportionally to the increase in bean prices. This led to lower margins in Q3 and Q4 of 2023.

However, during Q1 of 2024, there was suddenly a product shortage. Many suppliers stopped offering products, but we continued to sell due to our higher inventory levels carried forward from the previous year. The product shortage led to a rise in the combined ratio. As a result, we anticipate higher margins in 2024.