

SDS Group Berhad (0212)



Adding Yeast to SDS

By Tan Jia Hui / jiahui@tradeviewcapital.my

BUY (Initiation)

TP: RM 1.67 (+31%)

Current Share Price: RM 1.27

Growth

**Investment Horizon
12 months**

Valuation

Our target price is based on:

FY26F PE of 15x, in line with its indirect peer that serve baked goods to the mass market, we are projecting stronger earnings growth from both wholesales and retail segments.

Strong demand for baked goods and well-known retail outlets



After the reopening of the economy, the group has experienced robust growth with better contributions from both segments, thanks to better management plan execution and cost control. We believe that SDS is gaining more market shares due to (i) its price competitive, makes it attractive to price-sensitive consumers during times of inflation, (ii) the expansion of its fleet to increase regional reach through both general and modern trade channels, and (iii) gaining more shelf space and visibility for its ready-to-eat products in retail chains. The strengthening ringgit against the US dollar also presents a favorable tailwind for SDS. As many raw materials are imported, a stronger ringgit reduces material costs, leading to better profit margins.

Improving distribution channels via fleet expansion



SDS plans to expand its fleet by adding 20 more trucks in FY25, complementing its current fleet of 320 as of 1QFY25. This more extensive fleet will allow SDS to increase distribution frequency in established markets while strategically expanding into new regions, including Klang Valley and the Northern area. The enhanced distribution capacity is expected to boost revenue for the wholesale segment, which accounted for two-thirds of total revenue in FY24. We project steady revenue growth of 10% annually for the wholesale segment from FY25F to FY27F, reinforcing our confidence in the company's growth plan.

Retail outlet expansion

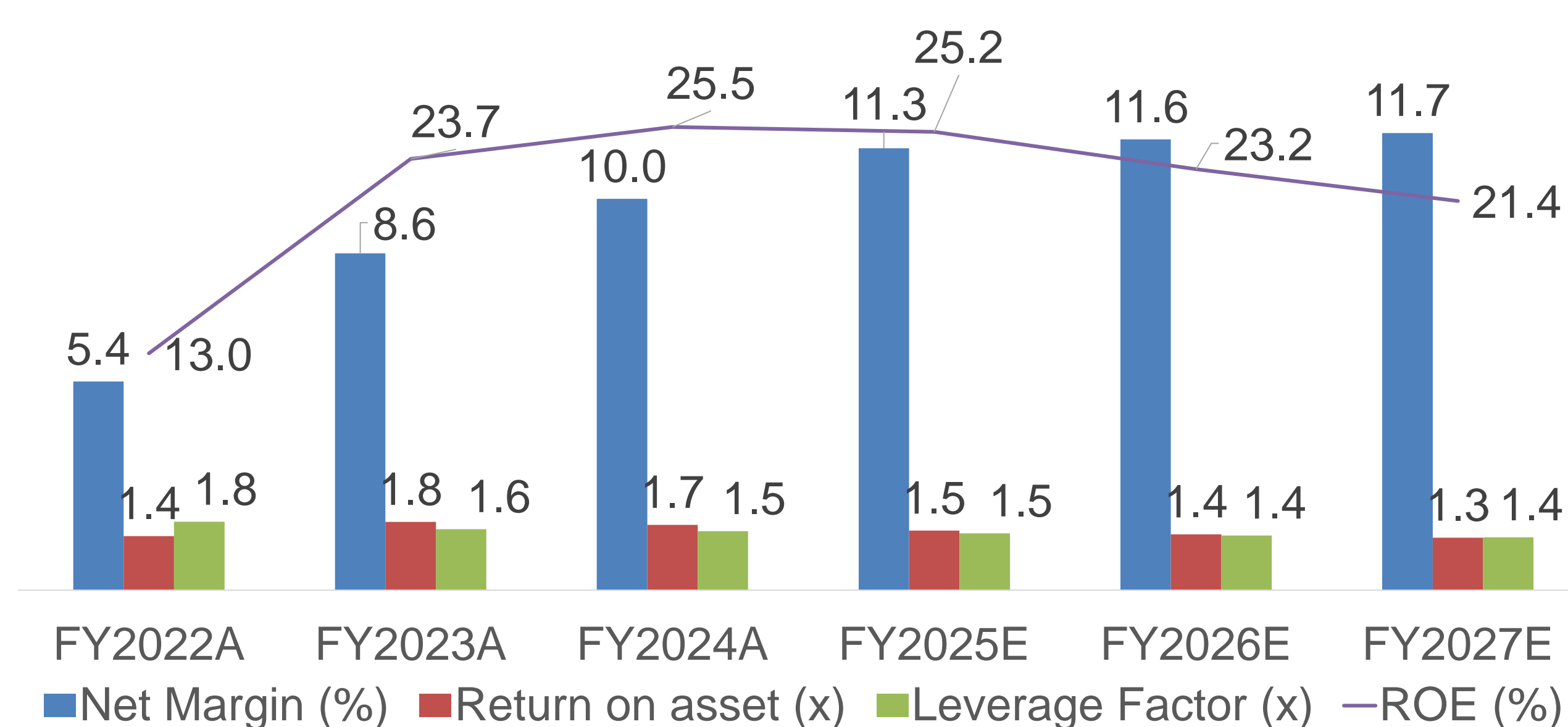


SDS plans to open 4-5 new retail outlets, combining café and bakery concepts, in FY25, adding to its existing 39 stores as of 1QFY25. This strategic combination has successfully attracted higher foot traffic and increased brand awareness, appealing to the mass market with its affordable pricing. Notably, Singaporean tourists have been a critical driver for this segment, especially with most outlets in Johor, which has seen a surge in revenue post-pandemic. We anticipate revenue growth of 9%-12% for FY25F-FY27F, supported by positive same-store sales growth (SSSG) of 2% annually vs 13% in FY24.

Financial Exhibits

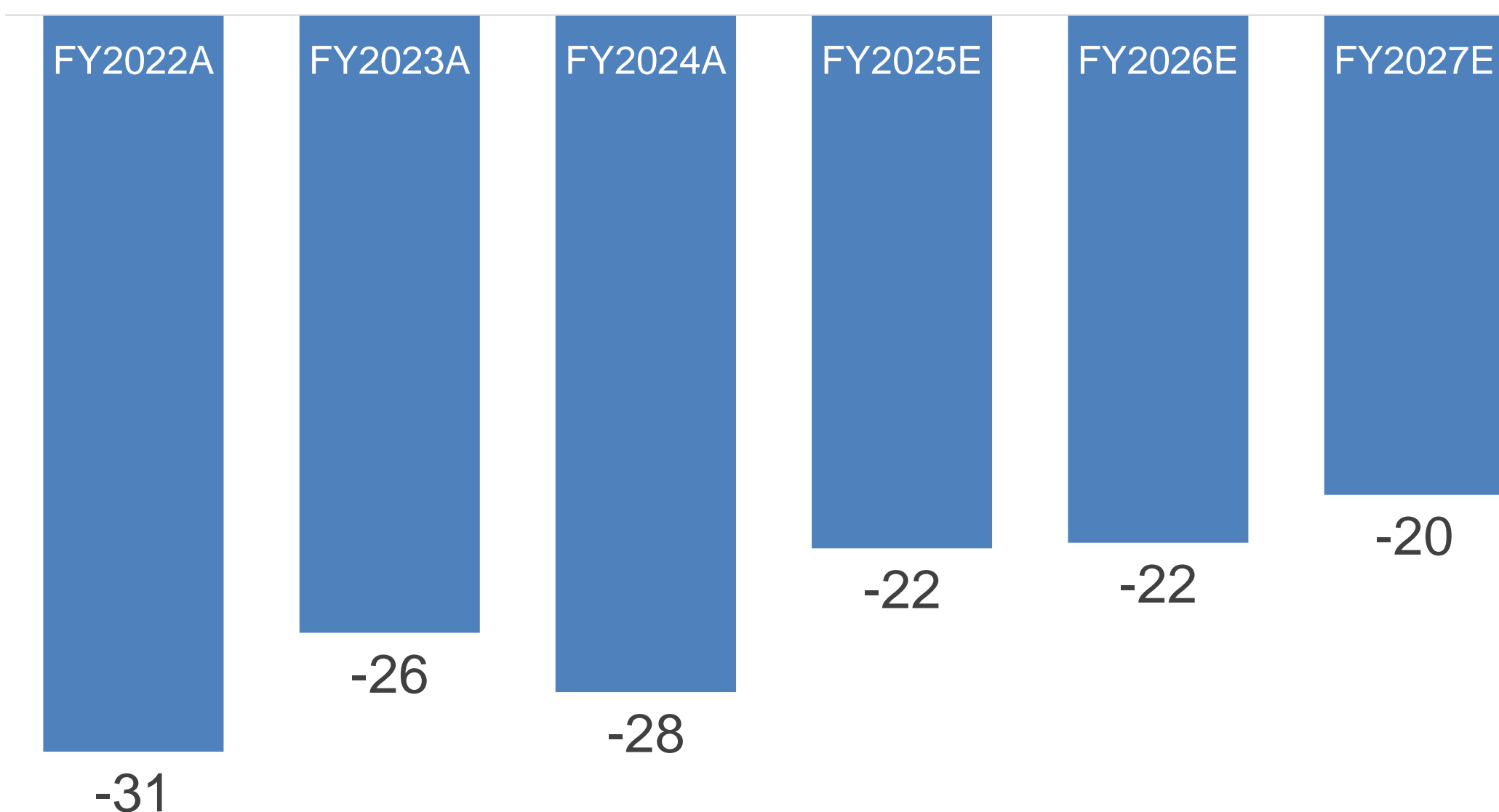
FYE 31 Mar	FY2022A	FY2023A	FY2024A	FY2025E	FY2026E	FY2027E
Revenue (RMm)	198.3	283.7	324.1	355.6	393.2	433.6
EBITDA (RMm)	30.3	48.9	62.0	72.5	80.1	87.8
Pretax profit (RMm)	14.1	32.8	43.3	53.6	60.5	67.6
Net profit (RMm)	10.6	24.8	32.9	40.7	46.0	51.4
EPS (sen)	2.6	6.1	8.0	9.9	11.2	12.5
PER (x)	49.1	20.9	15.8	12.8	11.3	10.1
Core net profit (RMm)	10.6	24.5	32.6	40.3	45.5	50.9
Core EPS (sen)	2.6	6.0	7.9	9.8	11.1	12.4
Core EPS growth (%)	46.0	131.0	32.7	23.9	12.8	11.8
Core PER (x)	49.0	21.2	16.0	12.9	11.4	10.2
Net DPS (sen)	0.8	1.3	1.7	2.1	2.3	2.5
Dividend Yield (%)	0.6	1.0	1.3	1.6	1.8	2.0
ROE (%)	13.0	23.7	25.5	25.2	23.2	21.4
P/BV (x)	6.4	5.0	4.0	3.2	2.6	2.2

Return of Equity

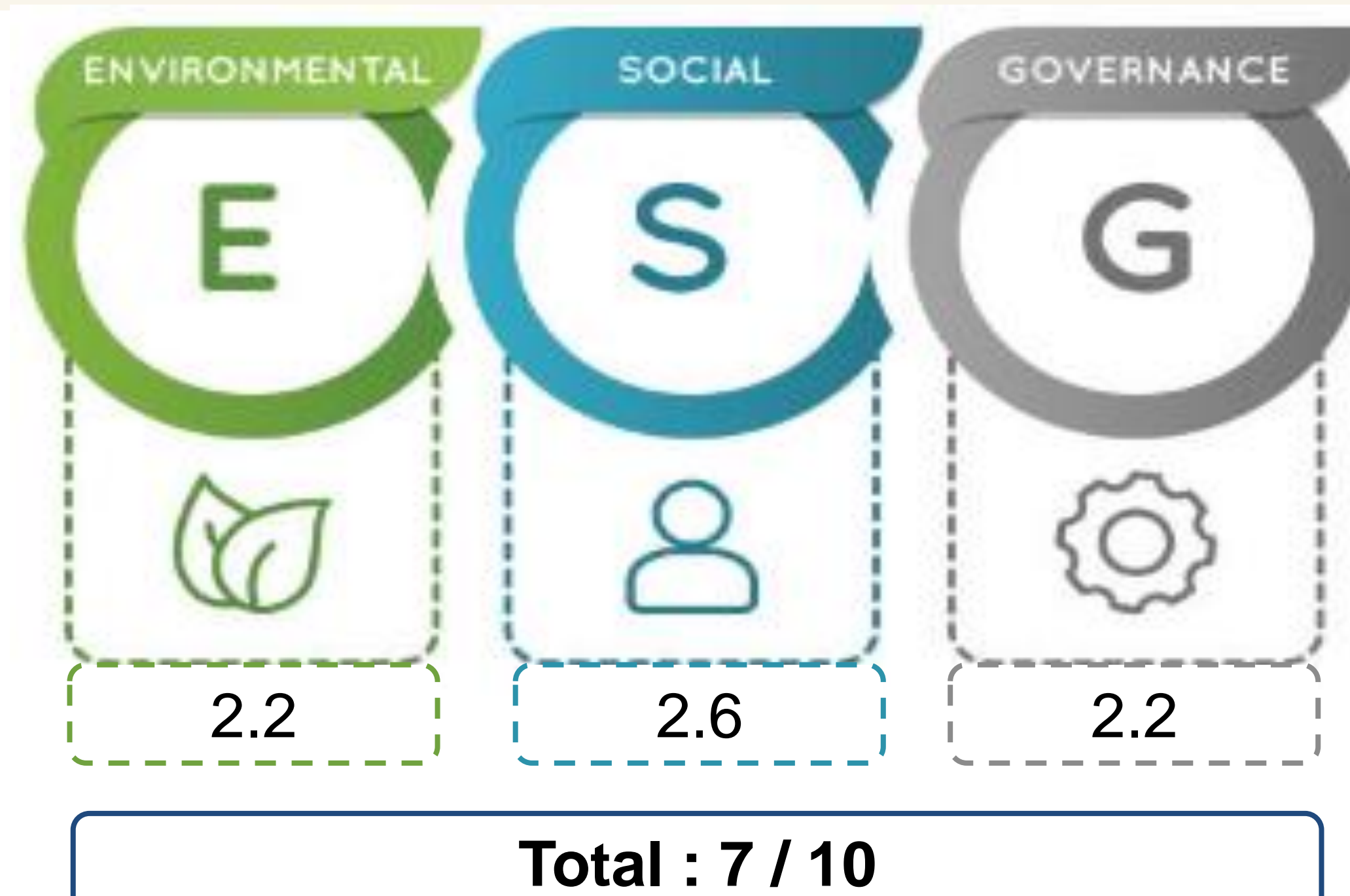


➡➡➡ We project the ROE to exceed 20% from FY25F to FY27F, indicating strong and sustained profitability.

Cash Conversion Cycle



ESG Matrix



Key Assumptions

	FY2024A	FY2025E	FY2026E	FY2027E
Wholesale revenue growth	12.9%	10.0%	10.0%	10.0%
# of retail outlet	39	43	46	49
Same store sales growth	13.2%	2.0%	2.0%	2.0%
Overall GP margin	34.0%	34.5%	34.5%	34.4%

Company Background

SDS specializes in the manufacturing and distribution of bakery products through its retail and wholesale channels. The group offers a wide range of baked goods, including loaves, breads, buns, rolls, and cakes, which are sold across Peninsular Malaysia under the "Top Baker" and "Daily's" brands. Additionally, its retail division operates F&B outlets under the "S.D.S" brand, strategically located in high-traffic neighborhood areas, offering a variety of baked goods and confectioneries.

SWOT Analysis

Strengths

- Strong brand presence via wholesales and retail channels
- Unique café and bakery concept
- Affordable pricing strategy
- Diverse product offerings

Weakness

- Insufficient staff
- Limited geographic reach
- High dependency on key region – Johor
- Exposure to commodity price fluctuations

Opportunities

- Expansion into new markets
- Tourism-driven growth
- Increase brand presence in high-traffic locations
- Partnership with modern retail chains
- Rising demand for ready-to-eat products

Threat

- Supply chain disruption
- Ability to maintain competitive pricing
- Brand and reputation risks
- Shifts in consumer behaviour and market competition

Peer Comparison

Name	Last price	Market Cap	FYE	Earnings Growth			PE		Div. Yield	ROE
				1-yr Fwd	2-yr Fwd	Hist.	1-yr Fwd	2-yr Fwd	1-yr Fwd	Hist.
HUP SENG INDUSTRIES BHD	1.08	864.0	12/2024	4.7	10.6	17.4	18.3	16.4	3.9	31.8
POWER ROOT BHD	1.38	616.5	03/2025	9.4	13.7	19.4	14.8	12.9	5.7	9.8
APOLLO FOOD HOLDINGS BHD	6.6	528	04/2025	N.A.	N.A.	9.4	N.A.	N.A.	N.A.	23.4
ORIENTAL FOOD INDUST HLDGS	1.83	439.2	03/2025	N.A.	N.A.	8.6	N.A.	N.A.	N.A.	20.0
Simple Avg				7.1	12.1	18.4	16.6	14.6	4.8	21.3
SDS GROUP BHD	1.2	491.6	03/2025	23.7	11.5	13.5	10.8	9.7	1.7	30.4

As 24 September 2024

Investment Risk

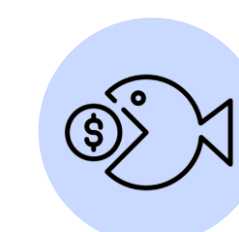
The following represent the greatest risks to our investment thesis:



Increase in raw material cost



Low entry barriers for bread and bakery products



Low penetration of markets



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