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DBE Gurney to convince sceptics



by Lim Cian Yai

AFTER sustaining losses for years, poultry operator DBE Gurney Resources Bhd is hoping to see light at the end of the tunnel with its diversification into the food and beverage market. However, it has its work cut out to convince sceptical investors who have been disappointed with its poor performance in the past.

The company is hoping to turn around this year and to trade at a valuation closer to peers like CAB Cakaran Corp Bhd, Huat Lai Resources Bhd and LTKM Bhd. If things proceed as planned, the market will see the company returning to the black and trading at seven to eight times price-to-earnings (PE) ratio within three years.

DBE is banking on a venture into the retail consumer market with the new Harumi fried chicken brand – a creation of the company and seven Taiwanese enterprises.

It inked a memorandum of understanding on Feb 22 which will see the company collaborating with these Taiwanese companies in the secondary processing of chicken and marketing of these value-added chicken products

under the Harumi brand. Three Harumi kiosks have opened thus far since late last year.

For its new financial year, group managing director Alex Ding Seng Huat aims to have 33% of its targeted RM100 mil revenue from the new business. It is seeking to enjoy a 20% gross margin from the segment. The ratio will gradually increase to 66% next year. By 2018, the company targets to be fully transformed into a full-fledged food and beverage operator.

Its plan entails a pipeline to open 3,000 Harumi kiosks, 300 mobile food trucks and 30 retail outlets by 2018. Sceptics will say these targets are highly ambitious given the short timeframe and the fact that it will likely have to go head-to-head against fast-food chains like KFC and Marrybrown.

Interestingly, KFC is one of DBE's clients. Three months ago, the fast-food chain awarded a RM50 mil yearly contract to the company for the supply of poultry products to 77 KFC outlets in Perak and Selangor beginning Jan 1.

Ding acknowledges that the company's performance in the past had dampened shareholders' confidence in the counter.

"When a company is not making money, investors say we have no future.



DBE Gurney's processed meat products

They also start questioning us after so many years of losses and are afraid we might eventually go into PN17 [status].

"In the early days, the market condition was beyond our control. Crude oil prices shot up to more than US\$100 [RM425] per barrel, price of feeds increased by 50% but industry selling prices remained," he explains.

In the past, the company was only involved in upstream segments like breeding, hatching and broiler farming. Once chicks hit 35 days, they will be sent to the processing factory for marketing and distribution of fresh chicken meat to fast-food chains, supermarkets and wholesalers.

However, due to the volatility in commodity prices and rising cost of doing business, DBE had run into losses since 2006.

It has a market capitalisation of about RM39 mil.

Assuming the existing sale of processed chicken meat is neither profitable nor loss-making, the new fried chicken business could reap RM6.6 mil of gross

profit. Based on the 673.33 million shares currently available in the market, that will translate into a gross earnings per share (EPS) of 0.98 sen.

Once the company making profit, the share price will be closer to peers' valuation.

Poultry products supplier and manufacturer CAB's PE is at 10.47 times. Other mid-size players like Huat Lai Resources, LTKM and Teo Seng Capital Bhd which are involved in table eggs production are traded at 7.34 times, 5.25 times and 9.29 times respectively.

Though DBE may not have met shareholders' expectations, Ding believes the company is now financially healthier than when it was first listed in 2004. "Back then, we had RM100 mil of debts, but now it has been reduced to RM20 mil."

Apart from the retail business, there will be a change in its product mix. The company wants to completely exit the business of selling live broilers this year. It has 5% to 10% sales exposure in the live broilers segment. [FocusM](#)