



MARC RATINGS BERHAD

P R E S S A N N O U N C E M E N T

FOR IMMEDIATE RELEASE

MARC RATINGS REVISES RATING OUTLOOK OF COCOA GRINDERS GUAN CHONG AND JB COCOA TO NEGATIVE

MARC Ratings has revised its rating outlook on the sukuk programmes of its rated cocoa grinders, Guan Chong Berhad (**AA-*IS***) and JB Cocoa Sdn Bhd (**A+*IS***), to **negative** from stable.

The rating action is driven by the prevailing abnormal price environment for cocoa beans, having risen steeply from USD3,835/MT to USD9,193/MT between end-October 2023 and end-March 2024, that has weighed sharply on the working capital requirement of Guan Chong and JB Cocoa. This could lead to a sharp increase in their borrowing levels, with leverage positions potentially increasing to above 1.5x.

The rating agency notes that the recent adverse weather conditions, exacerbated by the El Niño effect, have severely impacted cocoa bean production, particularly in key cocoa-producing countries, Côte d'Ivoire and Ghana, which account for 60% of global production. The International Cocoa Organisation estimates a supply deficit of 374,000 MT for the current 2023/24 crop year (ending September 30, 2024), compared to a deficit of 74,000 MT in the previous corresponding period. Cocoa production is expected to decline by 10.9% y-o-y to 4.45 million MT for the current crop year.

While price is projected to trend downwards over the near term from the peak of USD10,080/MT recorded on March 26, 2024, it is still expected to hover at an elevated level, higher than the USD3,000/MT prior to the commencement of the price escalation. MARC Ratings understands that Guan Chong and JB Cocoa are procuring beans from other countries in West Africa, Ecuador and Indonesia to be able to fulfil their supply contracts with minimal impact on their operations and cash flow generation as of date. They have also put in place mitigation plans to shore up their financial position including strengthening their balance sheets.

Notwithstanding these initiatives, the rating agency remains concerned about the impact on the credit profile of the cocoa grinders from a prolonged supply-demand dislocation due to the high cocoa bean price environment. MARC Ratings will undertake a full assessment on both issuers in the next few months. Upon the conclusion of the rating reviews, any rating action will consider, among other factors, the effectiveness of measures that have been put in place to withstand the current challenges. The rating outlook could be revised back to stable if the impact on credit profiles from the change in cocoa industry dynamics is well mitigated.

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