

3 July 2018

Consumer Cyclical | Restaurants

## Kimly

**Buy** (Maintained)

### Moving Into Beverages

Maintain BUY, with a new SGD0.46 TP from SGD0.43, 24% upside. Kimly has acquired ASC for SGD16m. The latter is involved in the domestic manufacturing & distribution of a variety of beverages. This includes the *Asian Story* line, which has a 7.7% local market share. If we assume a PBT of SGD2m for FY18, this acquisition will be completed at ~14-15x P/E, fairly reasonable for a high-growth beverage firm. It also complements Kimly's business model and provides an overseas expansion angle to the mix. With accretion from the acquisition, we raise our DCF-backed TP. Note that Kimly is one of our Singapore mid-cap picks, and we are one of only two brokers covering this counter.

Kimly has acquired Asian Story Corp (ASC) for SGD16m in cash. ASC's *Asian Story* brand portfolio comprises nine different drinks. This brand has a 7.7% market share and is ranked 3<sup>rd</sup> largest in the domestic Asian drinks market. We understand that it will also be distributing *Pepsi* and coconut water in the near term. With more beverages in its arsenal, especially *Pepsi*, this could further boost ASC's profitability. In addition, Kimly could actually replace its current canned drink choices with the beverages ASC distributes, which is likely to further boost the latter's bottomline. This in turn should benefit Kimly, as it owns 100% of ASC.

Management is keen to expand *Asian Story* into other countries. This brand is currently distributed by Pokka Corp in Singapore, Malaysia and Brunei, and is in the midst of working with a foreign partner to distribute the beverages in Thailand. In addition, there are also plans to join a few trade shows in Europe, as Kimly has noticed the increasing demand for Asian beverages there. This is due to the growing number of Asians residing in this region.

Acquisition done only at 14-15x FY18F P/E. With the first three months of PBT already reaching SGD0.55m despite a PBT of just SGD1.15m in FY17, the growth signs are very encouraging. We understand the introduction of *Pepsi*, as well as its new *bandung* drink into the mix, has boosted profitability. With more beverage types like coconut water – coupled with the replacement of drinks at Kimly's drink stores and coffeeshops, as well as the overseas expansion plans – we foresee that a FY18 PBT of SGD2m is achievable. We also expect a FY19 PBT of ~SGD3m due to the aforementioned factors.

Maintain BUY, with our DCF-based TP raised to SGD0.46 from SGD0.43, 24% upside. Despite the amortisation of intangibles for this acquisition likely increasing by SGD2m/year for the first 30 months, the longer-term growth, profit accretion and cash flow to Kimly will be quite positive, in our view. As a result, even after adjusting for a maximum earn-out – which includes SGD3m worth of new shares being issued at SGD0.40 each – our DCF-backed TP has been raised. With SGD50-60m in cash remaining, we think there will likely be more similar style acquisitions to come, which should further propel Kimly's profitability. Key risks to our call include a rise in rental rates and labour shortages.

Target Price:	SGD0.46
Price:	SGD0.37
Market Cap:	USD313m
Bloomberg Ticker:	KMLY SP

#### Share Data

Avg Daily Turnover (SGD/USD)	0.16m/0.12m
52-wk Price low/high (SGD)	0.33 - 0.41
Free Float (%)	40
Shares outstanding (m)	1,158
Estimated Return	24%

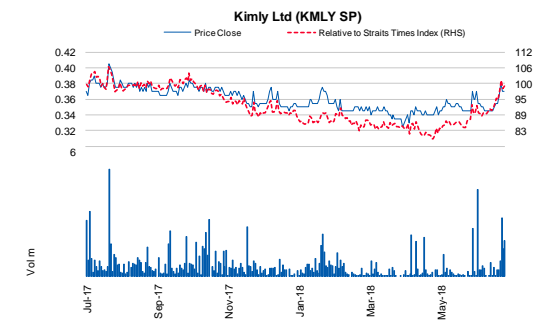
#### Shareholders (%)

Lim Hee Liat	42.3
Peh Oon Kee	8.6
Ng Lay Beng	5.7

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.2	7.2	10.4	5.7	1.4
Relative	9.0	12.7	16.0	11.3	1.0

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F
Total turnover (SGDm)	172	192	210	228	246
Reported net profit (SGDm)	24.2	21.4	22.7	25.0	27.3
Recurring net profit (SGDm)	24.2	21.4	22.7	25.0	27.3
Recurring net profit growth (%)	7.7	(11.5)	5.7	10.4	9.2
Recurring EPS (SGD)	0.05	0.02	0.02	0.02	0.02
DPS (SGD)	0.06	0.01	0.01	0.01	0.01
Recurring P/E (x)	7.5	20.0	18.9	17.1	15.7
P/B (x)	17.9	5.8	5.0	4.4	3.9
P/CF (x)	6.4	14.8	15.2	13.6	12.6
Dividend Yield (%)	16.4	3.3	2.6	2.9	3.2
EV/EBITDA (x)	5.8	12.6	10.9	9.5	8.3
Return on average equity (%)	214.2	51.2	28.6	27.4	26.2
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

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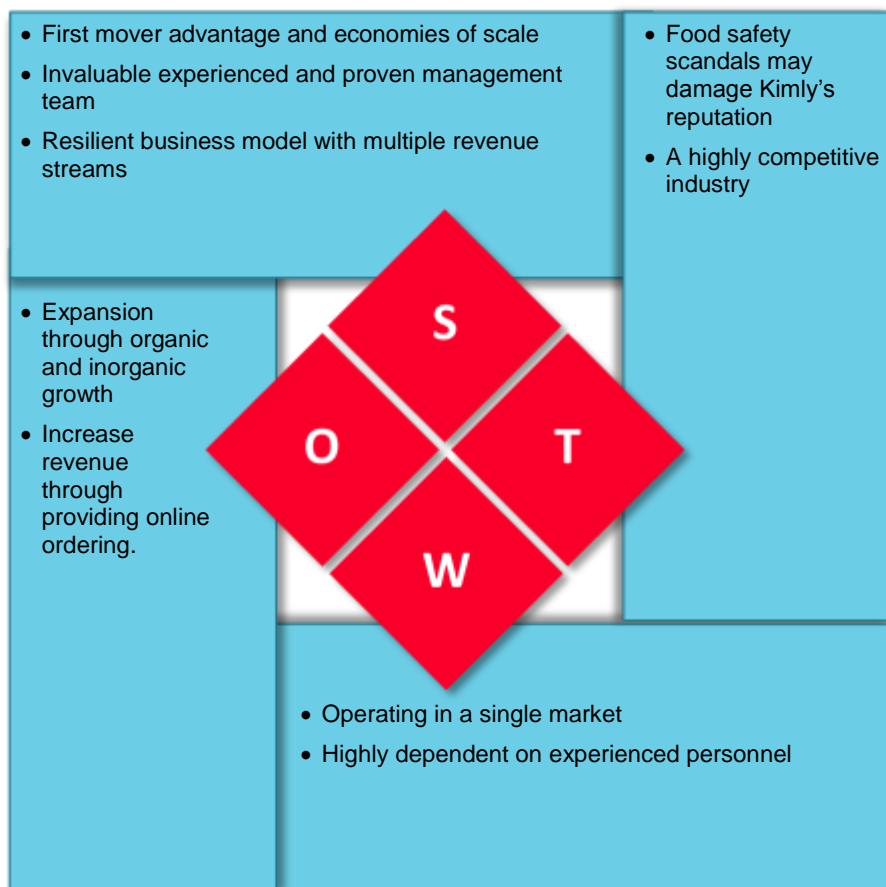
## Financial Exhibits

Financial model updated on: 2018-07-03.

Asia	<b>Financial summary</b>	<b>Sep-16</b>	<b>Sep-17</b>	<b>Sep-18F</b>	<b>Sep-19F</b>	<b>Sep-20F</b>
Singapore	Recurring EPS (SGD)	0.05	0.02	0.02	0.02	0.02
Consumer Cyclical	EPS (SGD)	0.05	0.02	0.02	0.02	0.02
<b>Kimly</b>	DPS (SGD)	0.06	0.01	0.01	0.01	0.01
Bloomberg KMLY SP	BVPS (SGD)	0.02	0.06	0.07	0.08	0.10
<b>Buy</b>	Weighted avg adjusted shares (m)	490	1,158	1,158	1,158	1,158
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Sep-16</b>	<b>Sep-17</b>	<b>Sep-18F</b>	<b>Sep-19F</b>	<b>Sep-20F</b>
DCF-derived TP of SGD0.46, with WACC of 7.5% and TG of 1%.	Recurring P/E (x)	7.5	20.0	18.9	17.1	15.7
<b>Key drivers</b>	P/E (x)	7.5	20.0	18.9	17.1	15.7
i. M&A;	P/B (x)	17.9	5.8	5.0	4.4	3.9
ii. Expanding new outlets through store openings and managing third party brands.	FCF Yield (%)	14.7	5.8	5.4	6.2	6.8
	Dividend Yield (%)	16.4	3.3	2.6	2.9	3.2
	EV/EBITDA (x)	5.8	12.6	10.9	9.5	8.3
	EV/EBIT (x)	6.3	13.8	12.6	11.0	9.6
<b>Key risks</b>	<b>Income statement (SGDm)</b>	<b>Sep-16</b>	<b>Sep-17</b>	<b>Sep-18F</b>	<b>Sep-19F</b>	<b>Sep-20F</b>
i. Shortage of manpower;	Total turnover	172	192	210	228	246
ii. Intense competition in the food & beverage (F&B) industry;	Gross profit	37	38	42	47	51
iii. Possible food contamination and tampering	EBITDA	28	27	30	33	36
iv. Theft, fraud and corruption.	Depreciation and amortisation	(2)	(2)	(4)	(4)	(5)
	Operating profit	26	25	26	29	32
	Net interest	(0)	(0)	(0)	(0)	(0)
	Pre-tax profit	26	25	26	29	31
	Taxation	(1)	(3)	(3)	(4)	(4)
	Recurring net profit	24	21	23	25	27
<b>Company Profile</b>	<b>Cash flow (SGDm)</b>	<b>Sep-16</b>	<b>Sep-17</b>	<b>Sep-18F</b>	<b>Sep-19F</b>	<b>Sep-20F</b>
Kimly operates and manages coffee shops and food courts. The company offers prepared foods and drinks for on-premise consumption. Kimly serves customers in Singapore.	Change in working capital	1.2	1.9	1.2	1.9	1.8
	Cash flow from operations	28.4	29.0	28.1	31.4	34.0
	Capex	(1.7)	(4.4)	(5.0)	(5.0)	(5.0)
	Cash flow from investing activities	(1.7)	(4.4)	(5.0)	(5.0)	(5.0)
	Proceeds from issue of shares	(0.3)	40.3	0.0	0.0	0.0
	Dividends paid	(29.7)	(14.2)	(11.3)	(12.5)	(13.7)
	Cash flow from financing activities	(26.6)	31.0	(11.3)	(12.5)	(13.7)
	Cash at beginning of period	29.3	29.4	85.1	96.8	110.7
	Net change in cash	0.1	55.6	11.8	13.9	15.3
	Ending balance cash	29.4	85.1	96.8	110.7	126.1
	<b>Balance sheet (SGDm)</b>	<b>Sep-16</b>	<b>Sep-17</b>	<b>Sep-18F</b>	<b>Sep-19F</b>	<b>Sep-20F</b>
	Total cash and equivalents	29.4	85.1	96.8	110.7	126.1
	Tangible fixed assets	4.1	8.5	9.5	10.0	10.1
	Intangible assets	0.3	1.3	1.3	1.3	1.3
	Total other assets	4.1	4.9	4.9	4.9	4.9
	Total assets	43.4	106.2	119.2	134.2	150.2
	Other liabilities	0.9	0.6	0.6	0.6	0.6
	Total liabilities	25.1	32.5	34.2	36.7	39.0
	Shareholders' equity	10.1	73.7	85.0	97.5	111.2
	Minority interests	8.2	0.0	0.0	0.0	0.0
	Total equity	18.3	73.7	85.0	97.5	111.2
	Net debt	(29.4)	(85.1)	(96.8)	(110.7)	(126.1)
	Total liabilities & equity	43.4	106.2	119.2	134.2	150.2
	<b>Key metrics</b>	<b>Sep-16</b>	<b>Sep-17</b>	<b>Sep-18F</b>	<b>Sep-19F</b>	<b>Sep-20F</b>
	Revenue growth (%)	10.4	11.6	9.2	8.7	7.7
	Recurrent EPS growth (%)	7.7	(62.6)	5.7	10.4	9.2
	Gross margin (%)	21.6	20.0	20.2	20.4	20.7
	Operating EBITDA margin (%)	16.0	14.2	14.4	14.6	14.8
	Net profit margin (%)	14.1	11.2	10.8	11.0	11.1
	Dividend payout ratio (%)	122.5	66.4	50.0	50.0	50.0
	Capex/sales (%)	1.0	2.3	2.4	2.2	2.0
	Interest cover (x)	12,792	61	64	71	77

Source: Company data, RHB

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-04-16	Buy	0.43	0.35

Source: RHB, Bloomberg

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**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

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**Not Rated:** Stock is not within regular research coverage

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