

26 June 2020

Consumer Cyclical | Restaurants

Kimly (KMLY SP)

Buy (from Neutral)

Valuation Very Attractive; U/G To BUY

Target Price (Return): SGD0.26 (+13%)
 Price: SGD0.23
 Market Cap: USD189m
 Avg Daily Turnover (SGD/USD) 0.05m/0.04m

- **Upgrade to BUY from Neutral, with new DCF-backed TP of SGD0.26 from SGD0.24, 13% upside and c.5% yield.** With Singapore at Phase 2 of the CB, we believe Kimly will benefit from larger crowds going outdoors. Also, the acquisition of four coffee shops, three industrial canteens and a restaurant unit, should contribute positively to its PATMI. Despite the impact of COVID-19 on F&B business, the company's defensive qualities are likely to enable it to still enjoy PATMI growth over the next few years.
- **Back to its bread and butter business.** The group announced a strategic shift to acquire more long-term and direct assets ownership of food outlets and food stalls to increase its revenue stream and reduce risks associated with leasing and tenancy. Management is also streamlining outlet operations and further optimising its central kitchen to improve profitability. To enhance front-end outlet efficiency, it has commenced several enhancement and work process improvements at its central kitchen. In addition to preparing marinated meat products, which are then supplied to "mixed rice" stalls, the central kitchen has commenced the preparation of sliced meat and semi-finished food products for its seafood *zi char* stalls. Centralisation simplifies food preparation at the stall front, and accordingly, reduces labour hours and skill required.
- **Attractive yield of 4.7%.** We expect Kimly's business to remain durable amidst this pandemic, and it will likely continue to reward shareholders with attractive dividends despite falling slightly for FY20F (Sep) of 4.7%. We expect dividends to pick up over the next few years as things return to normal for the company post Circuit Breaker (CB).
- **Attractive value proposition.** We think that most of the bad news for Kimly has already been priced in, and valuation at this level seems attractive, being a cash generative and defensive business. Despite expecting a weaker 2H20F due to the CB, its prospects remain positive as Singapore has entered into Phase 2, and will eventually move to Phase 3, where things should eventually return to normal. Coupled with a 4.7% yield, we upgrade to BUY with a higher DCF-backed TP of SGD0.26.
- Downside risks to our call include a rise in rental rates, and labour shortage.

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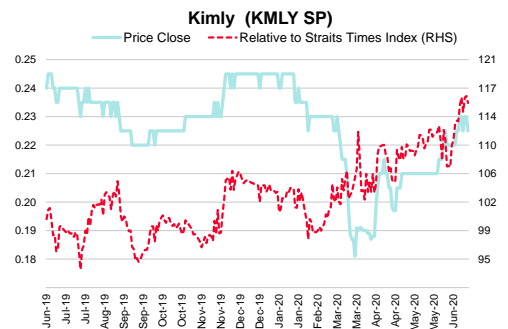


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.2)	7.1	17.8	(8.2)	(6.3)
Relative	11.4	3.5	14.4	11.4	15.3
52-wk Price low/high (SGD)				0.18	0.25



Source: Bloomberg

Forecasts and Valuation	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Total turnover (SGDm)	202	208	220	235	251
Recurring net profit (SGDm)	22	20	21	22	23
Recurring net profit growth (%)	2.1	(8.4)	3.2	6.1	5.5
Recurring P/E (x)	11.89	12.96	12.56	11.84	11.22
P/B (x)	3.1	2.9	2.6	2.5	2.4
P/CF (x)	35.96	7.14	12.28	10.26	9.72
Dividend Yield (%)	4.3	5.5	4.8	6.3	6.7
EV/EBITDA (x)	6.87	6.53	6.53	5.90	5.34
Return on average equity (%)	27.7	23.0	21.9	21.7	21.7
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Singapore	Recurring EPS	0.02	0.02	0.02	0.02	0.02
Consumer Cyclical	DPS	0.01	0.01	0.01	0.01	0.02
Kimly	BVPS	0.07	0.08	0.09	0.09	0.10
KMLY SP	Return on average equity (%)	27.7	23.0	21.9	21.7	21.7
Buy						
	Valuation metrics	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Valuation basis	Recurring P/E (x)	11.89	12.96	12.56	11.84	11.22
DCF-derived TP of SGD0.26 with WACC of 7.5%, TG 1%	P/B (x)	3.1	2.9	2.6	2.5	2.4
	FCF Yield (%)	1.1	13.0	7.0	8.6	9.1
	Dividend Yield (%)	4.3	5.5	4.8	6.3	6.7
Key drivers	EV/EBITDA (x)	6.87	6.53	6.53	5.90	5.34
i. M&A,	EV/EBIT (x)	7.67	7.57	7.08	6.42	5.83
ii. Expanding new outlets through store openings and managing third party brands.						
	Income statement (SGDm)	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Key risks	Total turnover	202	208	220	235	251
i. Shortage of manpower;	Gross profit	40	41	44	47	50
ii. Intense competition in the F&B industry;	EBITDA	27	26	26	27	29
iii. Possible food contamination and tampering risk;	Depreciation and amortisation	(3)	(4)	(2)	(2)	(2)
iv. Theft, Fraud and corruption risk .	Operating profit	25	23	24	25	27
	Net interest	0	1	1	1	1
Company Profile	Pre-tax profit	25	24	25	26	28
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	Taxation	(3)	(4)	(4)	(4)	(4)
	Reported net profit	22	20	21	22	23
	Recurring net profit	22	20	21	22	23
	Cash flow (SGDm)	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
	Change in working capital	(18.2)	12.8	(1.5)	1.2	1.1
	Cash flow from operations	7.2	36.4	21.2	25.3	26.8
	Capex	(4.3)	(2.7)	(3.0)	(3.0)	(3.0)
	Cash flow from investing activities	(4.3)	(2.7)	(3.0)	(3.0)	(3.0)
	Dividends paid	(11.1)	(14.3)	(12.4)	(16.5)	(17.4)
	Cash flow from financing activities	(16.1)	(18.3)	(12.4)	(16.5)	(17.4)
	Cash at beginning of period	85.1	71.7	87.2	92.9	98.8
	Net change in cash	(13.2)	15.4	5.8	5.9	6.4
	Ending balance cash	71.9	87.1	92.9	98.8	105.2
	Balance sheet (SGDm)	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
	Total cash and equivalents	72	87	93	99	105
	Tangible fixed assets	10	10	11	12	12
	Total assets	116	121	131	138	146
	Total liabilities	32	33	34	37	38
	Total equity	84	88	96	102	107
	Total liabilities & equity	116	121	131	138	146
	Key metrics	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
	Revenue growth (%)	5.3	3.0	5.4	7.2	6.5
	Recurrent EPS growth (%)	2.2	(8.3)	3.2	6.1	5.5
	Gross margin (%)	19.9	19.5	20.0	20.0	20.0
	Operating EBITDA margin (%)	13.6	12.7	11.6	11.6	11.6
	Net profit margin (%)	10.8	9.6	9.4	9.3	9.2
	Dividend payout ratio (%)	50.8	71.3	60.0	75.0	75.0
	Capex/sales (%)	2.1	1.3	1.4	1.3	1.2
	Interest cover (x)	158	5,705	5,896	6,270	6,632

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-11-28	Neutral	0.24	0.25
2019-08-13	Neutral	0.23	0.24
2019-02-14	Neutral	0.24	0.25
2018-12-03	Neutral	0.27	0.25
2018-09-12	Buy	0.46	0.33
2018-08-10	Buy	na	0.34
2018-07-03	Buy	0.46	0.37

Source: RHB, Bloomberg

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