

21 June 2019

Consumer - Cyclical | Restaurants

Jumbo Group (JUMBO SP)

Buy

The Hottest Chilli Crab In Town; Initiate BUY

Target Price (Return)	SGD0.47 (+24%)
Price:	SGD0.38
Market Cap:	USD178m
Avg Daily Turnover (SGD/USD)	0.2m/0.1m

- **Initiate coverage on Jumbo with BUY and SGD0.47 TP**, 24% upside plus 4% yield. Jumbo is one of the leading consumer foodservice retailers in Singapore. Today, the group has five brands across 32 F&B outlets in Asia. With new store openings and expansion of its franchisee network, we project earnings to grow at 15% CAGR over FY18-21F. We expect its share price to rerate upwards as it continues to deliver earnings.

- **Store expansion to drive earnings growth.** *Jumbo Seafood* Singapore is the group's single largest earnings driver, contributing c.60% of revenue in FY18. Well-known for its chilli crabs, *Jumbo Seafood's* strong brand equity in Singapore enables it to consistently deliver positive SSSG. Each new outlet typically breaks even in less than six months. Given that the group opened two new *Jumbo Seafood* restaurants at Ion Orchard and Changi Airport Jewel this year, we expect the new stores to contribute positively to FY19F-20F earnings growth.

The group also launched two new Teochew cuisine restaurants – *Zui Yu Xuan* and *Chao Ting* in April this year. Located in the central business district of Singapore, these brands help to diversify Jumbo's customer base by targeting business dining and the office lunch crowd. We expect them to ramp up and break even by next year. Moving into FY20F, the group's expansion plans include bringing its *Ng Ah Sio Bak Kut Teh* brand into China and opening more *Tsui Wah* outlets in Singapore.

- **More franchisees, better margins.** The group has franchised out its *Jumbo Seafood* and *Ng Ah Sio Bak Kut Teh* brands. Over the last 12 months, its franchisees have expanded another five outlets, bringing the total number of franchised outlets to seven. In addition, its South Korean franchisee is likely to open a new outlet in the upcoming quarter. While franchise income is small relative to revenue, we believe it would help to boost FY19F-20F operating margins for Jumbo.

- **An undemanding price for the best chilli crab.** We think the stock is undervalued as it is currently trading at 19x FY19F P/E, well below its peer average of 23x and historical average of 25x, despite its superior growth outlook (Figure 14). Our DCF valuation further suggests an intrinsic value of SGD0.47, which puts it at 23x FY19F P/E, in line with the peer average.

- **Key risks** include rise in operation expenses, economic slowdown in China, intensifying competition and food safety issues.

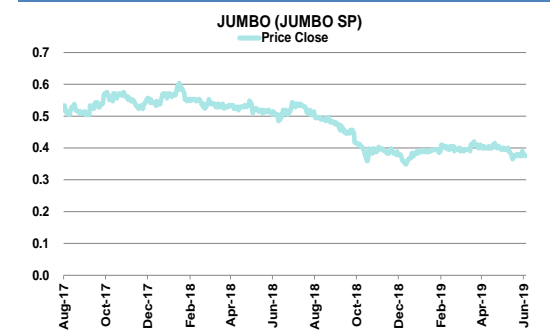
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.3)	(6.3)	(5.1)	(3.8)	(29.2)
Relative	(5.9)	(6.3)	(5.3)	(6.9)	(24.8)
52-wk Price low/high (SGD)	0.36 – 0.56				



Source: Bloomberg

Forecasts and Valuation	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
Total turnover (SGDm)	145	153	167	197	209
Recurring net profit (SGDm)	14.5	11.0	13.0	14.9	16.7
Recurring net profit growth	(6.7)	(23.8)	18.2	14.1	12.3
Recurring P/E (x)	16.8	22.1	18.7	16.4	14.6
P/BV (x)	3.6	3.5	3.4	3.2	3.0
P/CF (x)	21.0	15.1	15.0	11.9	10.5
Dividend Yield (%)	4.5	3.2	3.7	4.3	4.8
EV/EBITDA (x)	9.1	11.0	9.7	8.3	7.4
ROE (%)	22.2	16.9	18.8	20.2	21.2
Net debt to equity (%)	na	na	na	na	na
Interest coverage (x)	na	na	na	na	na

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
Singapore	Recurring EPS (SGD)	0.02	0.02	0.02	0.02	0.03
Consumer Cyclical Restaurants	DPS (SGD)	0.02	0.01	0.01	0.02	0.02
Jumbo Group	BVPS (SGD)	0.11	0.11	0.11	0.12	0.13
Jumbo SP	ROE (%)	22.2	16.9	18.8	20.2	21.2
BUY						
Valuation basis	Valuation metrics	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
Our DCF assumptions	Recurring P/E (x)	16.8	22.1	18.7	16.4	14.6
i. COE of 8.2%;	P/B (x)	3.6	3.5	3.4	3.2	3.0
ii. Risk free rate of 2.5%;	FCF Yield (%)	2.3	4.1	3.0	6.0	6.9
iii. 2% long-term growth.	Dividend yield (%)	4.5	3.2	3.7	4.3	4.8
	EV/EBITDA (x)	9.1	11.0	9.7	8.3	7.4
	EV/EBIT (x)	11.5	14.9	12.9	11.2	9.9
Key drivers	Income statement (SGDm)	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
Our FY19 forecasts are most sensitive to changes in:	Total turnover	145	153	167	197	209
i. Rate of new store openings;	Gross profit	92	96	104	124	132
ii. SSSG;	EBITDA (adj.)	22	18	21	24	27
iii. Operational expenses.	Depreciation & amortisation	-5	-5	-5	-6	-7
	Operating profit	18	14	16	18	20
	Net interest	0	0	0	0	0
	Pre-tax profit	18	13	15	18	20
	Taxation	-3	-3	-3	-4	-4
	Net profit	15	11	12	14	16
	Recurring net profit	14	11	13	15	17
Key risks	Cash flow (SGDm)	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
The downside risks include:	Change in working capital	(8)	1	(2)	(0)	(0)
i. Slowdown in China's economy;	Cash flow from operations	12	16	16	21	23
ii. Surge in manpower cost;	Capex	(6)	(6)	(9)	(6)	(6)
iii. Intensifying competition;	Cash flow from investing activities	(6)	(11)	(9)	(6)	(6)
iv. Food safety issues.	Dividends paid	(14)	(11)	(9)	(10)	(12)
	Cash flow from financing activities	(14)	(10)	(9)	(10)	(12)
	Cash at beginning of period	59	51	47	45	49
	Net change in cash	(8)	(5)	(2)	4	5
	Ending balance cash	51	47	45	49	54
Company Profile	Balance sheet (SGDm)	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
Jumbo is a multi-dining concept food & beverage (F&B) company. The company's network of F&B outlets spans across Singapore and China and has franchises across Asia. Its key brands include <i>Jumbo Seafood</i> , <i>Ng Ah Sio Bak Kut Teh</i> , <i>Chui Huay Lim</i> , <i>Zui Yu Xuan</i> , <i>Chao Ting</i> and <i>Tsui Wah</i> .	Total cash and equivalents	51	47	45	49	54
	Tangible fixed assets	19	21	25	24	23
	Total investments	1	2	2	2	2
	Total assets	83	88	91	97	103
	Short-term debt	-	-	-	-	-
	Total long-term debt	-	-	-	-	-
	Total liabilities	15	18	18	21	21
	Total equity	68	70	73	77	81
	Total liabilities & equity	83	88	91	97	103
	Key metrics	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
	Revenue growth (%)	6.1	5.5	8.9	18.1	6.1
	Recurrent EPS growth (%)	(6.7)	(23.8)	18.2	14.1	12.3
	Gross margin (%)	63.4	62.7	62.7	63.0	63.4
	Operating EBITDA margin (%)	15.3	12.0	12.5	12.4	13.1
	Net profit margin (%)	10.0	7.2	7.8	7.6	8.0
	Capex/sales (%)	4.1	4.1	5.4	3.0	3.0
	Interest cover (x)	n.a	n.a	n.a	n.a	n.a

Source: Company data, RHB

Investment Merits

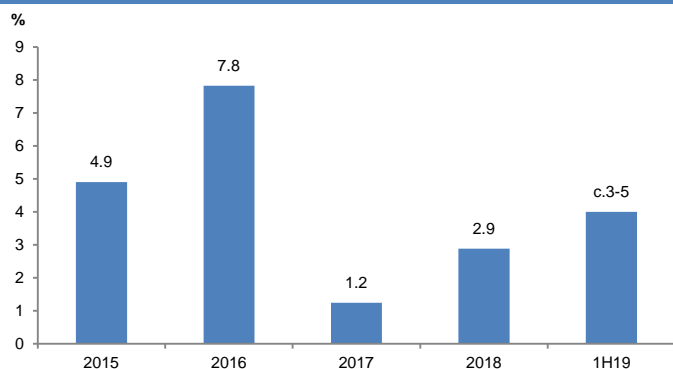
Strong brand equity of *Jumbo Seafood*

Popular seafood restaurant brand in Singapore. *Jumbo Seafood* is Jumbo's flagship brand, contributing c.80% (Singapore and China) to the group's total revenue. Well-known for its signature chilli crab, *Jumbo Seafood* is a household name in Singapore's food and beverage (F&B) scene. Amongst the locals, it is a common dining choice for festivities, family gatherings and special occasions such as Mother's Day and Father's Day. For tourists, *Jumbo Seafood* is a reputable and reliable brand to go to for the highly recommended local delicacy, chilli crab.

- ◆ Strong brand name allows *Jumbo Seafood* to consistently generate positive SSSG in Singapore.

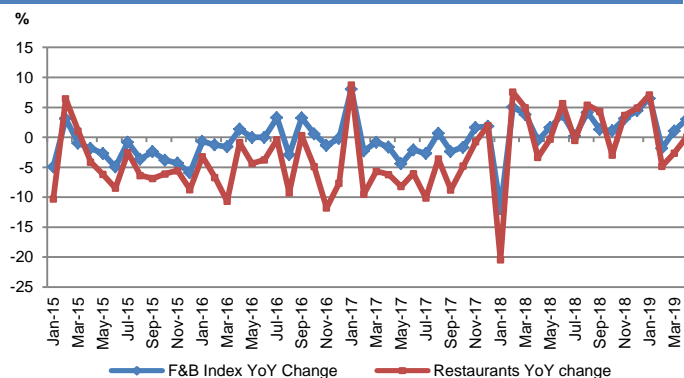
As a result of its solid brand name, *Jumbo Seafood* is one of the few listed-restaurant brands in Singapore that could consistently generate positive same-store sales growth (SSSG) despite the challenging operating environment.

Figure 1: *Jumbo Seafood's* Singapore SSSG has been positive despite negative SSSG for the restaurant industry



Source: Company, RHB

Figure 2: F&B industry in Singapore has been challenging, SSSG for restaurants has been negative this year



Source: Singstats

Growing through store expansions and strategic business alliances

Seven brands across 11 cities and 31 outlets. Today, Jumbo operates 19 F&B outlets under its five brands – *Jumbo Seafood*, *Ng Ah Sio Bak Kut Teh*, *Chui Huay Lim*, *Zui Yu Xuan* and *Chao Ting*. It also operates *Tsui Wah* as a JV partner and franchisee in Singapore and franchised out its *Jumbo Seafood* and *Ng Ah Sio Bak Kut Teh* brand to the overseas market.

- ◆ Today, Jumbo operates 19 stores across five brand names, seven franchised outlets and five stores under its JV/ associates.

Figure 3: Jumbo's portfolio of brands and outlets

Brands owned and operated by Jumbo	Operated by franchisees	Operated via JV/associates
<i>Jumbo Seafood</i>	<i>Jumbo Seafood</i>	<i>Tsui Wah</i>
Singapore 6	Fuzhou 1	Singapore 1
Shanghai 4	Taichung 1	
Beijing 1	Taipei 1	
Xi'an 1	Ho Chi Minh 1	
	Bangkok 1	
<i>Ng Ah Sio Bak Kut Teh</i>	<i>Ng Ah Sio Bak Kut Teh</i>	<i>Singapore Seafood Republic</i>
Singapore 4	Taipei 2	Singapore 1
		Tokyo 2
		Osaka 1
Teochew Cuisine		
<i>Chui Huay Lim</i> - Singapore 1		
<i>Zui Yu Xuan</i> - Singapore 1		
<i>Chao Ting</i> - 1		
Total: 19	Total: 7	Total: 5

Source: Company, RHB

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Expansion through new store openings under Jumbo and subsidiaries. This year, the group opened two *Jumbo Seafood* restaurants in Singapore at Ion Orchard and Changi Airport Jewel. We note that Singapore's *Jumbo Seafood* outlets typically break even in less than six months, and have a payback period of less than two years; we expect these two restaurants should contribute positively to earnings growth in FY19F-20F.

◆ Four new restaurants opened in the current financial year to drive earnings growth in FY19F-20F.

The group also launched two new Teochew cuisine brands in April this year, namely *Zui Yu Xuan* and *Chao Ting*, located at Far East Square in Singapore. The former is a higher-end Chinese restaurant, we expect it to target business dining or family occasions; while the latter is a more mass-market brand to target the office lunch crowd. We are positive on the expansion of Jumbo's brand portfolio, as it helps to diversify its customer base. Our recent channel checks also suggest that *Chao Ting* has seen great traction during weekday lunch time, while *Zui Yu Xuan* was seen featured by food bloggers in early June.

Looking ahead, the group will continue to expand its store count to drive earnings growth. Management intends to potentially expand its *Ng Ah Sio Bak Kut Teh* brand to Shanghai or Beijing.

Figure 4: Jumbo's new outlet openings in FY19 that would drive earnings growth for the next two years

Date	Brand	Location	Country
12-Dec-18	<i>Jumbo Seafood</i>	Ion Orchard	Singapore
8-Apr-19	<i>Zui Yu Xuan</i>	Far East Square	Singapore
8-Apr-19	<i>Chao Ting</i>	Far East Square	Singapore
17-Apr-19	<i>Jumbo Seafood</i>	Changi Airport Jewel	Singapore

Near-term potential store openings by Jumbo Group	
Shanghai	1 new outlet
Beijing	1-2 new outlets

Source: Company

Figure 5: Jumbo Seafood at Changi Airport Jewel on a weekday evening



Source: RHB

Figure 6: Zui Yu Xuan restaurant at Far East Square



Source: RHB

Figure 7: Chao Ting spotted with long queue on a weekday afternoon



Source: RHB

Aside from own-store openings, management aims to expand its footprint through franchises and/or JVs. Over the last 12 months, three franchised *Jumbo Seafood* restaurants and two franchised *Ng Ah Sio Bak Kut Teh* outlets were opened. While we estimate franchisee income constitutes only 1-2% of Jumbo's revenue, we note that this additional income would flow directly to its bottomline, and certainly help to raise the group's overall margins.

◆ Higher franchise income would boost margins and bottomline.

Figure 8: Franchisee outlets opened over the last 12 months that would contribute positively to FY19 margins and earnings

Date	Franchised outlets opened in last 12 months	City
26-Jul-18	Ng Ah Sio Bak Kut Teh	Taipei
27-Jul-18	Jumbo Seafood	Taichung
1-Oct-18	Jumbo Seafood	Fuzhou
9-Nov-18	Jumbo Seafood	Bangkok
12-Dec-18	Ng Ah Sio Bak Kut Teh	Taipei

Source: Company

Figure 9: Potential franchise plans

Countries	Potential franchise plans	Current number of outlets
Taiwan	6-8	4
Thailand	2-4	1
South Korea	2-4	
Hong Kong	2-4	
Macau	1-2	
Vietnam	2-4	1
Indonesia	4-6	
Fuzhou		1
Other Chinese cities	Shenzhen, Xiamen etc	

Source: Company

The group also brought *Tsui Wah* into the Singapore restaurant scene as a JV partner cum franchisee last year. We note that *Tsui Wah* is currently loss-making, but EBITDA positive. The group has plans to open another two *Tsui Wah* outlets in Singapore. We expect at least one outlet to open by the end of this year, which should help to improve economies of scale and share the overhead costs.

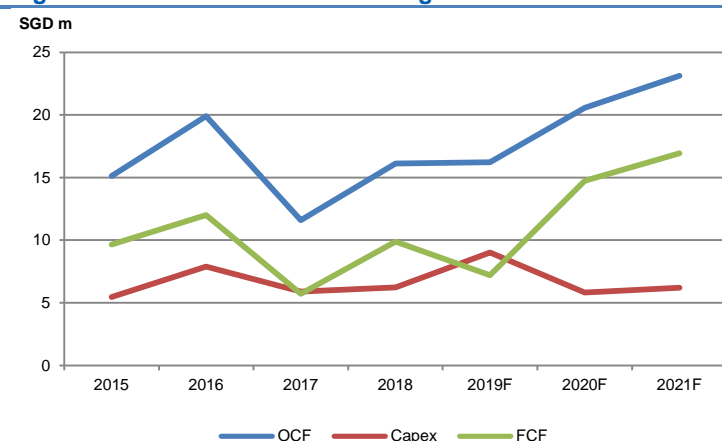
Free cash flow generative company

Dividend yield of 4%. As with most retail business, Jumbo has a cash flow generative business model and a negative cash conversion cycle. Over the last five years, the group generated c.SGD15m worth of operating cash flow pa, and spent c.SGD6m for capex each year. This would leave free cash flow of approximately SGD10m per year.

◆ Dividend payout ratio of 70-75%.

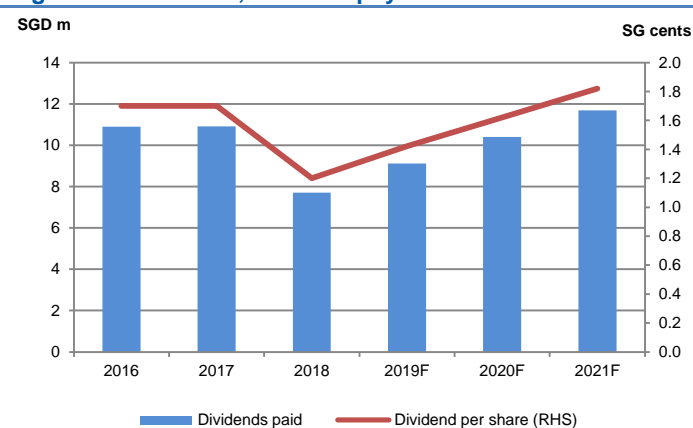
While there is no fixed dividend policy in place, the company strives to pay 70-75% of the group's PATMI to shareholders as dividends. We estimate this to translate to 3.7% dividend yield for FY19F.

Figure 10: Jumbo is free cash flow generative...



Source: Company data, RHB

Figure 11: ... hence, dividend payout is sustainable



Source: Company data, RHB

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Valuation

We derive our TP of SGD0.47 based on DCF valuation. Our DCF assumes 8.2% cost of equity and 2% terminal growth. We believe this is justified given Jumbo's strong brand names in Singapore and its ability to generate consistent positive SSSG of c.3-5% even when F&B revenue in Singapore was stagnant. Our TP also implies a forward P/E of 23x, in line with peer average.

◆ BUY with TP of SGD0.47.

Figure 12: DCF assumptions

SGDm	FY19F	FY20F	FY21F	FY22F	FY23F
Net income	13.0	14.9	16.7	18.2	19.7
D&A costs	5.22	6.32	6.95	6.5	6.5
Net capex	-9.00	-5.82	-6.20	-6.5	-6.5
Change in net working capital	-1.62	-0.29	-0.11	0	0
Change in debt	0.0	0.0	0.0	0.0	0.0
Free cash flow to equity (FCFE)	7.6	15.1	17.3	18.2	19.7
Terminal value					325.7
Present value	7.6	13.9	14.8	14.4	252.4
Total discounted FCFE	303.2				
Value/ share (USD)	0.47				
Cost of equity	8.2%				
Risk-free rate	2.5%				
Beta	0.9				
Market expected return	9.0%				
Terminal growth	2.0%				

Source: Company, RHB

Figure 13: TP sensitivity to cost of equity and terminal growth rate

TG/COE	7.2%	7.7%	8.2%	8.7%	9.2%
0%	0.43	0.40	0.38	0.35	0.33
1%	0.48	0.45	0.42	0.39	0.36
2%	0.56	0.51	0.47	0.43	0.40
3%	0.67	0.60	0.55	0.50	0.46
4%	0.86	0.74	0.66	0.59	0.53

Source: RHB

Undervalued stock. The stock is trading at 19x FY19F P/E and 10x FY19F EV/EBITDA – well below its peer average of 23x FY19F P/E and 13x FY19F EV/EBITDA. This is in spite of its superior growth outlook of 15% earnings CAGR over FY18-21F, better ROE and dividend yield.

◆ Trading at lower P/E and EV/EBITDA despite better growth, ROE and dividend yield.

Figure 14: Peer comparison

Company	BB Code	Share	Market	P/E			3-yr EPS	EV/ EBITDA	P/BV	ROE	Div Yield
		price	cap	FY19F	FY20F	FY21F	CAGR	FY19F	FY19F	FY19F	FY19F
		(lcl ccy)	(USDm)	(x)	(x)	(x)	(%)	(x)	(x)	(%)	(%)
Jumbo Group	Jumbo SP	0.38	178	18.7	16.4	14.6	14.8	9.7	3.4	18.8	3.7
BreadTalk	Bread SP	0.78	319	30.7	27.0	23.6	13.6	6.3	3.2	10.5	2.6
Japan Foods	Jfood SP	0.44	56	21.8	19.8	16.6	-3.4	11.2	2.1	12.5	4.5
Koufu	Koufu SP	0.68	273	13.5	12.7	11.1	8.7	4.5	3.6	28.5	3.4
Kimly	KMLY SP	0.24	197	14.3	13.8	13.4	-1.0	8.8	2.9	22.3	4.3
Sarimelati Kencana	Pzza IJ	1,090	230	16.1	14.3	13.0	11.3	6.9	2.5	16.1	2.6
After You	AU TB	11.50	299	48.9	41.1	37.1	19.9	35.4	9.4	18.4	1.3
Max's Group	MAXS PM	13.60	283	15.6	13.1	11.3	15.0	11.6	1.6	12.2	1.0
Shakey's Pizza	Pizza PM	13.76	404	22.4	19.7	18.0	11.7	14.8	4.0	18.4	1.2
China Quanjude	002186 CH	11.45	510	24.1	39.5	36.9	9.4	N/A	N/A	5.6	N/A
Amiyaki Tei	2753 JP	3,460	218	12.1	14.4	13.8	-5.4	N/A	N/A	8.9	2.9
Genki Sushi	9828 JP	3,775	309	15.7	24.5	19.8	47.1	N/A	3.8	27.1	0.8
Coffee Day	CCD IN	221.80	670	42.9	35.4	25.8	19.6	17.9	1.9	3.4	N/A
AVERAGE ex Jumbo				23.2	22.9	20.0	12.2	13.1	3.5	15.3	2.5

Source: Company data, RHB

Financial Discussion

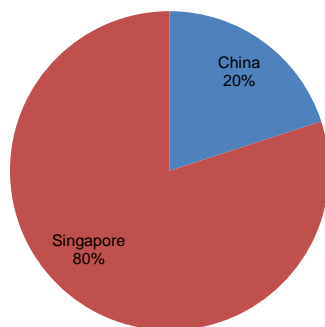
Earnings growth driven by new store openings and SSSG in Singapore

We forecast revenue to grow 10% CAGR over FY18-21F. 80% of Jumbo's revenue is derived from Singapore while 20% is derived from China. In 1H19, Jumbo recorded slight YoY decline in revenue by 1.4%. This was largely attributed to slow sales in China and the closure of two *Ng Ah Sio Bak Kut Teh* outlets (located at Ngee Ann City and Tanjong Katong) and one *Jumbo Seafood* restaurant (National Service Resort & Country Club) in Singapore.

◆ Revenue to grow at 10% CAGR over FY19F-21F, led by SSSG and new stores opening.

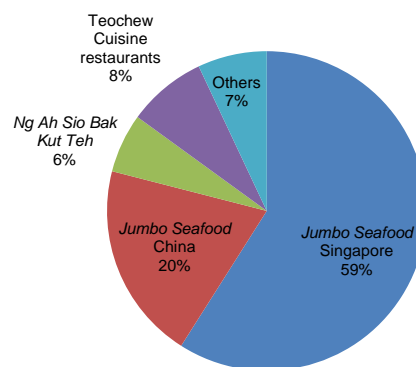
Moving ahead, we expect stronger revenue to come from new store openings and SSSG from its Singapore operations. We forecast revenue to grow at a 10% CAGR over FY18-21F, led by the net addition of three stores pa (Figures 16-17). In the near term, contribution from Singapore would increase at a faster pace, led by the newly-opened *Jumbo Seafood* restaurants and Teochew cuisine restaurants, while contributions from China may moderate on the back of weaker consumer confidence.

Figure 15: Revenue breakdown by geography



Source: Company data, RHB

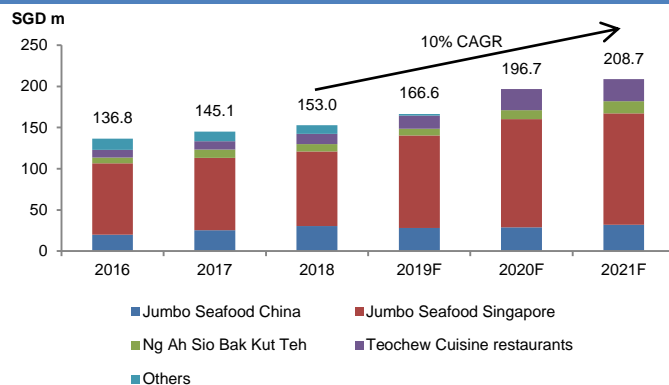
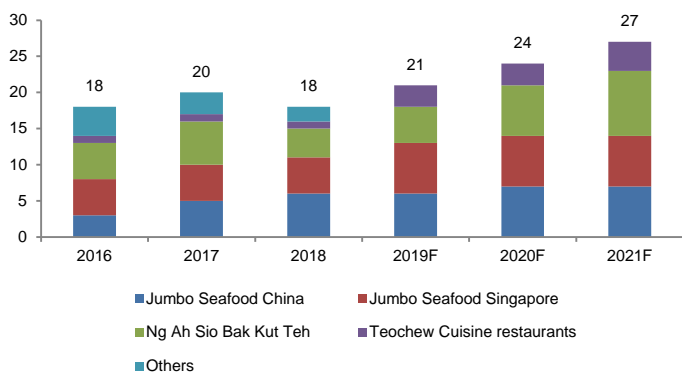
Figure 16: Revenue breakdown by segments



Source: Company data, RHB

Figure 17: We forecast store count to grow by three pa

Figure 18: Revenue breakdown by segments



Source: Company data, RHB

Source: Company data, RHB

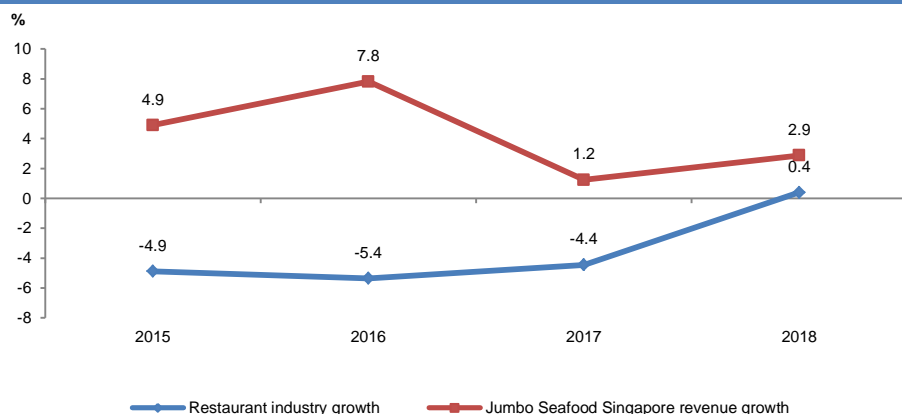
Bringing Ng Ah Sio Bak Kut Teh to China. The group sees potential to bring its *Ng Ah Sio Bak Kut Teh* brand to China. We project 2-3 *Ng Ah Sio Bak Kut Teh* outlets to materialise in China by FY20F. We are generally positive on this development as we think *Ng Ah Sio Bak Kut Teh*'s smaller ticket size would allow it to target the mass market in China and bring more recurring patrons and sales. Using its peer, BreadTalk's *Song Fa* franchise in China as a benchmark, the *Ng Ah Sio Bak Kut Teh* store should be able to achieve breakeven in two months, with an estimated payback period of one year.

SSSG of Jumbo Seafood Singapore to maintain. We forecast SSSG of *Jumbo Seafood* Singapore to stay at c.3%. We think this is achievable despite the tough F&B operating environment, given that revenue from this segment has grown at 4% CAGR over the last four years since IPO. The lowest pa growth was recorded in 2017, when the National Parks Board (NParks) restricted the outdoor seating space of its flagship store in East Coast Park, and construction near the National Service Resort & Country Club outlet affected footfall. Nevertheless, *Jumbo Seafood* Singapore, as a whole, still generated 1.2% YoY growth in revenue that year, with the expansion of space at the Riverside outlet. This was well above the overall performance of Singapore's restaurant industry, which shrank 4%.

◆ *Jumbo Seafood* has consistently delivered positive SSSG.

We expect SSSG of *Jumbo Seafood* Singapore to be supported by the growth of tourist arrivals in Singapore. The new outlet at Changi Airport Jewel would allow the group to easily tap arriving tourists. At the new Ion Orchard outlets, Jumbo introduced Dim Sum and High Tea menus. We believe this would allow the store to cater to off-peak crowds.

Figure 19: Since IPO, revenue growth from *Jumbo Seafood* Singapore has consistently beat the industry average



Source: Company data, Singstat

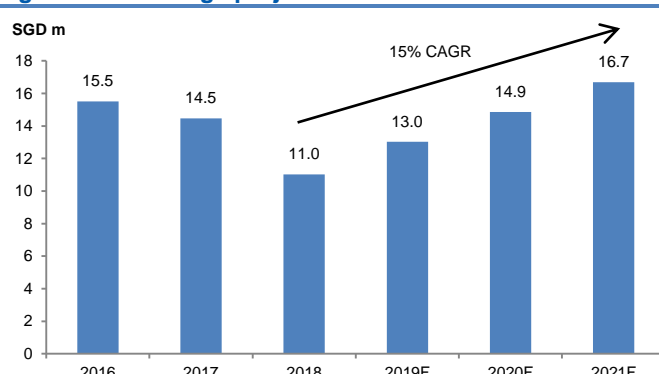
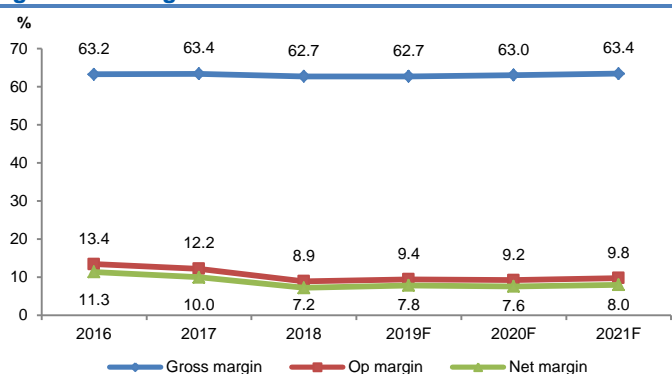
Expect earnings to grow at 15% CAGR over FY18-21F. Besides revenue growth, we expect some margin expansion to boost earnings on the back of the following factors:

◆ Earnings to grow at 15% CAGR over FY18-21F with higher-margin brands and increased franchise income.

- i. **Replacement of lower-margin brands and underperforming stores with higher-margin brands.** In FY18, the group closed down two of its *Ng Ah Sio Bak Kut Teh* outlets and one *Jpot* outlet; in FY19, the group closed the worst performing *Jumbo Seafood* outlet in Singapore at the National Service Resort & Country Club and closed its last *Jpot* outlet. These are replaced by two *Jumbo Seafood* restaurants at better locations and two Teochew restaurants, which we believe have better odds at achieving better margins.
- ii. **More franchisees.** Based on its FY18 annual report other income breakdown, Jumbo received franchise income of SGD0.6m last year. We note that Jumbo has since reclassified franchise income under revenue as of FY19 and does not disclose this figure separately in the quarterly announcement. However, we expect franchise income to increase by c.SGD1m as a result of the one-off royalty fee coming from the granting of franchise rights to Le Xie F&B Management (Fuzhou *Jumbo Seafood* franchisee) and its JV company, JD F&B (South Korea *Jumbo Seafood* franchisee), as well as the increase in the number of franchisee stores. The bulk of this franchise income should flow directly to the bottomline.

Figure 20: Margins forecast

Figure 21: Earnings projections



Source: Company data, RHB

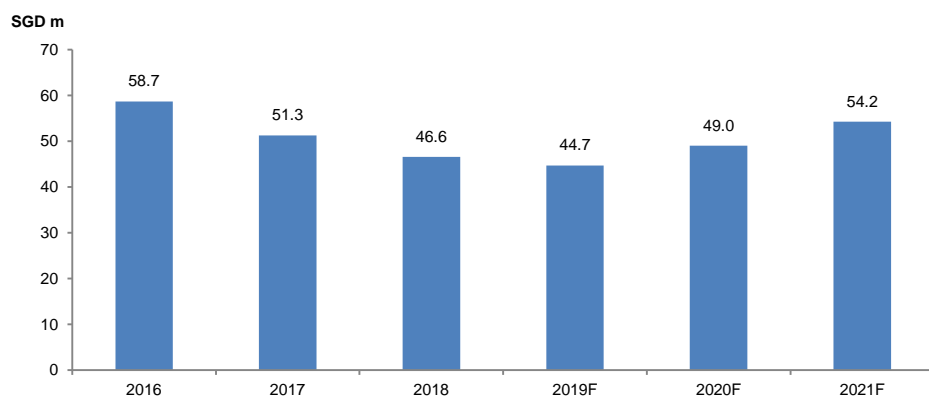
Source: Company data, RHB

Strong balance sheet

The group has no debt and a cash pile of SGD47m. Given that the group is free cash flow positive and has a decent cash stash, we believe its historical dividend payout ratio of 70-75% is sustainable. The absence of debt also gives the group ample room to gear up for future M&A.

◆ Zero debt on balance sheet.

Figure 22: Net cash levels

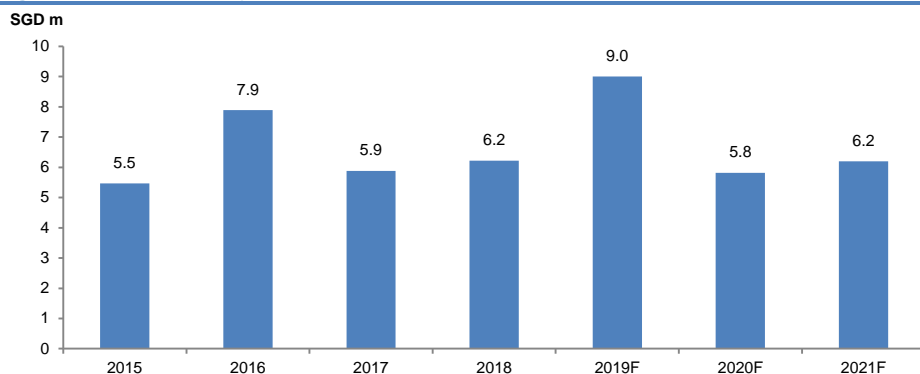


Source: Company data, RHB

Capex. Over the last four years, Jumbo has typically spent approximately SGD6m on capex pa. We expect FY19 capex to expand to SGD9m. This is mainly due to the opening of Jumbo seafood restaurants and Teochew cuisine restaurants in Singapore, which are all wholly-owned by Jumbo Group and have a higher capex of c.SGD2m each vs its smaller brands like *Ng Ah Sio Bak Kut Teh* and its China *Jumbo Seafood* that is not 100% owned by the group. Post FY19, we think capex would normalise to SGD6m pa, as the group expands the store count of its smaller brands.

◆ Capex of c.SGD6m pa could be easily funded with operating cash flow.

Figure 23: Capex projections



Source: Company data, RHB

Key Risks

Surge in costs – manpower

Manpower costs. Approximately one-third of Jumbo’s expenses go to manpower costs. The tightening of the foreign workers dependency ratio ceiling (DRC) in Singapore’s service sector would affect Jumbo. Effective 1 Jan 2020, Singapore would lower the DRC to 38% from 40% and the S Pass Sub-DRC to 13% from 15%. These would be further tightened to 35% and 10% on 1 Jan 2021.

◆ Key risks include rising opex, economic slowdown in China and food safety scandals.

Figure 24: Change in DRC or foreign worker quotas for Singapore’s service sector

	DRC	S Pass Sub-DRC
Current	40%	15%
Effective 1 Jan 20	38%	13%
Effective 1 Jan 21	35%	10%

Source: Company data, RHB

According to management, the current costs of hiring locals and foreign workers are similar, after including the levies and other benefits paid to foreign workers. As such, the company would look to hire more Singaporeans to mitigate the rise in costs.

COGS. 40% of Jumbo’s total expenses go to COGS and 40-50% of Jumbo’s sales are derived from crabs. However, we think the increase in seafood costs would not have a significant impact on Jumbo as they are repriced daily based on market prices. Moreover, Jumbo has diversified its sources of suppliers to mitigate price increases.

Intensifying competition

Entrance of stronger F&B players. Singapore’s F&B industry is highly competitive. While Jumbo is currently one of the leading consumer foodservice retailers in Singapore, the continued entrance of strong F&B players such as the likes of *Hai Di Lao* would dilute *Jumbo Seafood’s* share of mind when it comes to dining choices for festivities or family occasions.

Exposure to the China market

Slowdown in China. Currently, the group operates six *Jumbo Seafood* restaurants in China. China constitutes 20% of Jumbo’s sales and is currently loss-making. A slowdown in China’s economy, and decline in consumer confidence could lower sales and widen Jumbo’s losses in China.

Food safety and reputation risk

While Jumbo has a long established reputation in Singapore, disease outbreak involving key food ingredients or food contamination would result in loss of consumer confidence with regards to particular food sold by Jumbo or Jumbo’s brand name. This would adversely impact Jumbo’s business and long-term reputation.

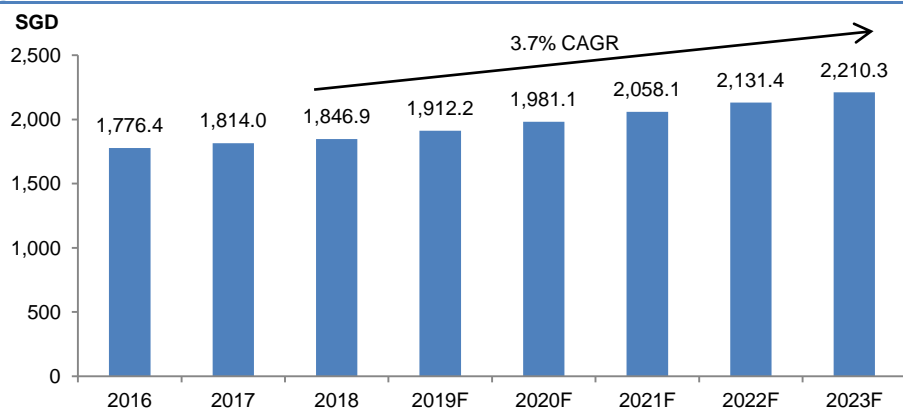
Jumbo franchised out its *Jumbo Seafood* brand and *Ng Ah Sio Bak Kut Teh* brand to third parties. Lapses in quality of Jumbo’s business partners could also have a negative impact on Jumbo’s reputation.

Industry Overview

Rising affluence to motivate spending on food. Singaporeans have strong habits of dining out. With rising disposable income, we do expect consumer expenditure on food to grow over the long term. *Euromonitor* forecasts Singapore’s per capita expenditure on food to grow at 3.7% over the next five years, which is beneficial to the F&B industry as a whole in the medium term.

◆ Rising affluence motivates higher spending on food...

Figure 25: Per capita expenditure on food



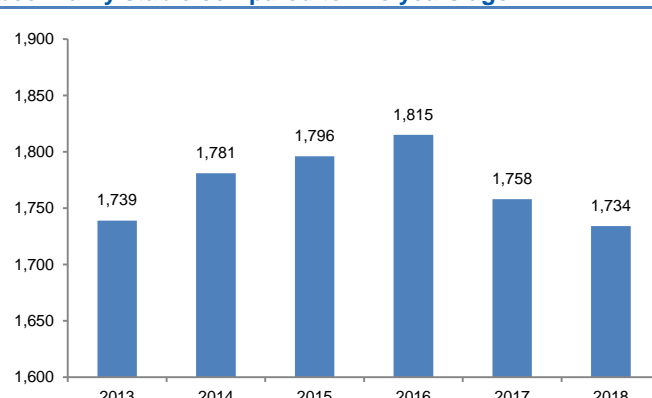
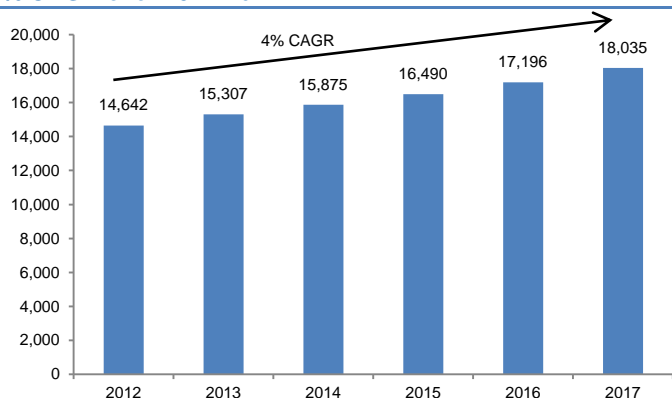
Source: Euromonitor

The F&B industry is highly competitive in Singapore... According to *Singstat*, the number of licensed F&B retailers in Singapore has grown at 4% CAGR over 2012-2017, and reached 18,035 as at end 2017. However, we note that the number of full-service restaurants in Singapore has been fairly stable at 1,734 over the last five years, based on *Euromonitor’s* data. The number of hawker centres, cafés, limited-service restaurants, on the other hand, have been increasing.

◆ ... but the F&B industry is highly competitive, with the full-service restaurant segment not doing very well.

Figure 26: Number of licensed food shops has increased at 4% CAGR over 2012-2017...

Figure 27: ...but the number of full-service restaurants has been fairly stable compared to five years ago



Source: Singstat

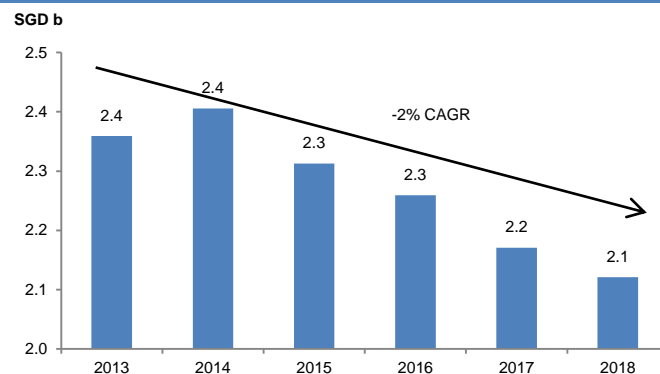
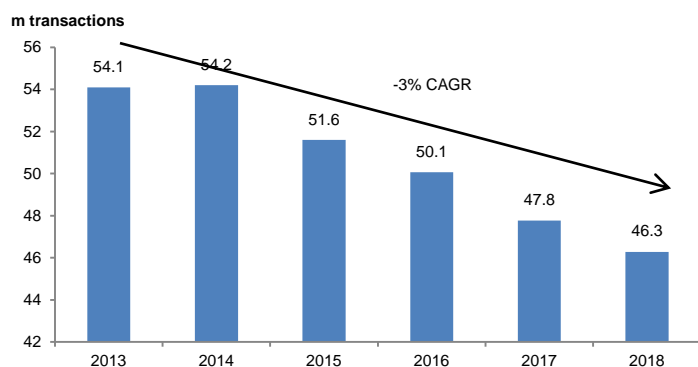
Source: Euromonitor

As a result, the number of transactions made in full-service restaurants has fallen at c.3% pa over the last five years, while total receipts declined c.2% last year. We believe that that slowdown in economic growth and market uncertainties from trade tensions could have caused consumers to trade down from full-service restaurants to cafés or limited-service restaurants. In addition, due to manpower shortages and rising labour costs, firms are also more keen to open limited-service restaurants or smaller-sized cafés than full-service restaurants.

◆ Total receipts and number of transactions have fallen for full-service restaurants.

Figure 28: Number of transactions at full-service restaurants has fallen 3% pa over 2013-2018

Figure 29: Total receipts from full-service restaurants have also declined by 2% CAGR over 2013-2018



Source: Euromonitor

Source: Euromonitor

... but popular brands gain market share and survive tough times. Our channel checks on some of the listed F&B players in Singapore suggest that firms find it difficult to generate positive same-store sales in the current operating environment. These days, sales growth is largely driven by new store openings. But we note the popular food service retailers including names like *Din Tai Fung*, *Hai Di Lao* and *Jumbo Seafood* are still generating positive SSSG.

◆ But the popular brands are able to gain market share and sustain positive SSSG despite tough times.

According to Euromonitor's 2018 data, BreadTalk's *Din Tai Fung* is ranked No. 1 amongst Singapore full-service restaurants based on retail sales value. Although Jumbo is not mentioned in the list, using *Jumbo Seafood* revenue from Singapore, we estimate it could have ranked in 3rd position after *Din Tai Fung* and *Hai Di Lao*.

Figure 30: Top 10 full-service restaurant brands in Singapore based on foodservice value (retail price) in 2018

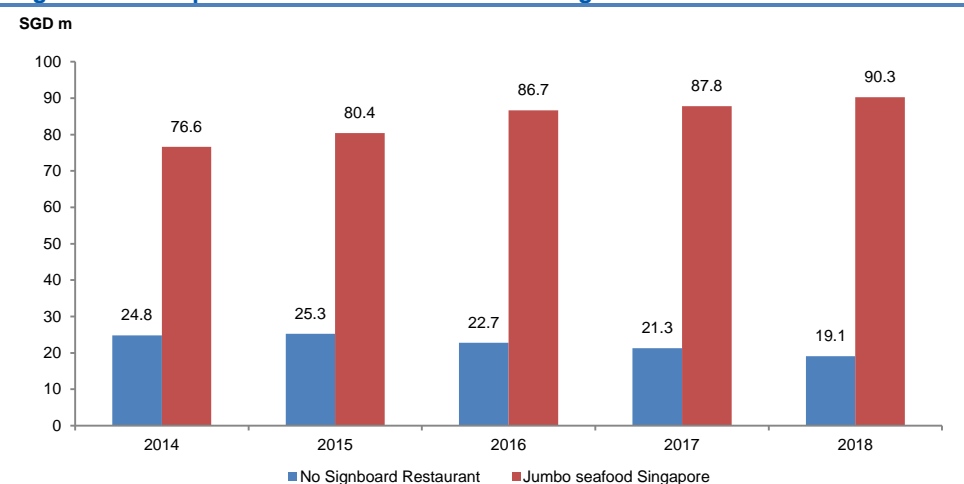
Rank	Brand name	Company	Market share (%)
1	Din Tai Fung	BreadTalk	5.9
	Hai Di Lao	Haidilao	5.2
	Jumbo Seafood	Jumbo	4.3
2	Tung Lok Restaurants	Tung Lok Restaurants	3.5
3	Swensen's	ABR	3.3
4	Paradise restaurants	Paradise Group Holdings Pte Ltd	2.8
5	Crystal Jade	Crystal Jade Culinary Concepts Holding	2.8
6	Pizza Hut	Yum! Brands Inc	2.1
7	Imperial Treasure	Imperial Treasure Restaurant Group Pte Ltd	2.1
8	Soup Restaurant	Soup Restaurant	1.6
9	Sakae Sushi	Sakae	1.3
10	Xin Wang Hong Kong Café	Minor International	1.1

Source: Euromonitor, Company data, RHB

The tastier crab. We believe Jumbo could also be gaining market share from rival seafood restaurant operator, No Signboard Holdings (NSB SP, NR), which has seen declining revenue in its restaurant segment.

◆ Jumbo has performed better than No Signboard.

Figure 31: Comparison of revenue between No Signboard and Jumbo

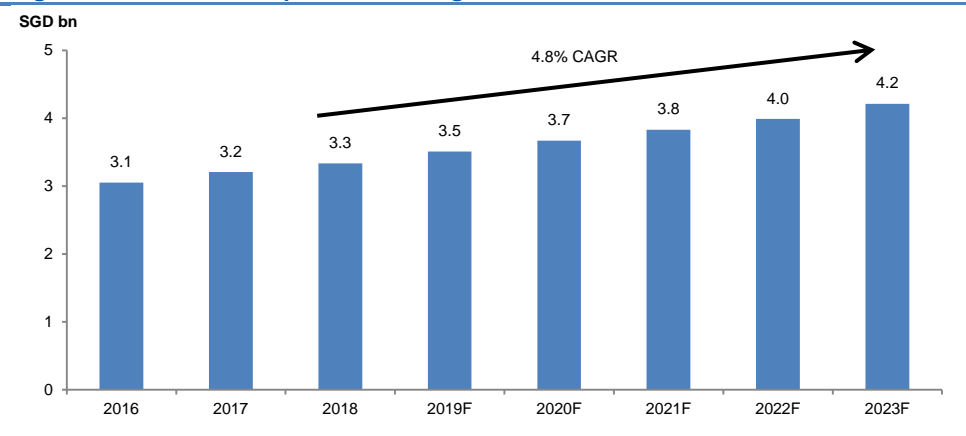


Source: Company data

Rising tourist arrivals provide an added boost. Chili crab is one of the must-try local delicacies for tourists coming into Singapore. 4Q (Jul-Sep) is thus one of the seasonally stronger quarters for Jumbo, due to higher tourist arrivals. *Euromonitor* estimates Singapore's tourist receipts on food to grow at 4.8% CAGR over 2018-2023. This should give a small boost to Jumbo, since it is a popular dining choice for tourists, and given its new outlet at Changi Airport Jewel to woo travellers.

◆ A growing tourism sector is positive for *Jumbo Seafood*.

Figure 32: Tourist receipts on food to grow at 4.8% CAGR over 2018-2023



Source: Euromonitor

Company Profile

No.1 seafood restaurant in Singapore. Established in 1987 as a single outlet in the East Coast, today, Jumbo is the leading seafood chain in Singapore with six outlets in the lion city. It was awarded Best Seafood Platinum Winner in 2018 by Diners’ Choice and One Diamond Restaurant by Meituan-Dianping’s 2018 Black Pearl Restaurant Guide. The group has since ventured into new markets with six *Jumbo Seafood* outlets in China and five franchisee-operated stores across China, Taiwan, Vietnam and Thailand. It sells more than 1.8 tonnes of crabs per day.

The group also has other brands including *Ng Ah Sio Bak Kut Teh*, *Chui Huay Lim*, *Zui Yu Xuan* and *Chao Ting* and manages two JV brands - *Singapore Seafood Republic* and *Tsui Wah*. Including franchisees, the group has 32 F&B outlets in Asia.

Figure 33: Jumbo in a nutshell

8 BRANDS
11 CITIES, 32 OUTLETS



JUMBO Seafood
Singapore: 6
Shanghai: 4
Beijing: 1
Xi’an: 1
Fuzhou: 1*
Taichung: 1*
Taipei: 1*
Ho Chi Minh: 1*
Bangkok: 1*

NG AH SIO Bak Kut Teh
Singapore: 4
Taipei: 2*

Chui Huay Lim Teochew Cuisine
Singapore: 1

Zui Yu Xuan Teochew Cuisine
Singapore: 1

Chao Ting
Singapore: 1

JPOT - Hotpot Singapore Style
Singapore: 1

Singapore Seafood Republic
Singapore: 1
Tokyo: 2
Osaka: 1

Tsui Wah
Singapore: 1*

* Denotes Franchises



Source: Company

21 June 2019

Consumer - Cyclical | Restaurants

Geographical breakdown. 80% of Jumbo's revenue is derived from Singapore, and 20% from China. Jumbo China operations have two minority partners. BreadTalk owns 30% of *Jumbo Seafood* operations in Shanghai (four outlets), and SKP owns 49% of *Jumbo Seafood* operations in Beijing and Xi'an (one outlet each).

In the Singapore market, *Jumbo Seafood* is driving the bulk of the revenue. However, chilli crab is not a staple food to eaten frequently. We expect the Jumbo group to diversify its brand portfolio and focus on growing other brands including its *Ng Ah Sio Bak Kut Teh*, *Teochew Cuisine* brands as well as its JV, *Tsui Wah*. We believe the group might also bring other new brands into Singapore through JV or franchise rights.

Key management

Mr Ang Kiam Meng, group CEO and executive director. Jumbo is considered Mr Ang's family business. It is 45.5% owned by JBO Holdings, which is controlled by Mr Ang's family. Mr Ang has been working with the group for over 25 years, and is a hands-on leader. In 2017, he relinquished his role as chairman of the Board to focus on Jumbo's business strategies and development. He is also responsible for the group's overall management and operations.

Mr Tay Peng Huat, chief financial officer. Mr Tay was appointed CFO for the group in Dec 2014. He is responsible for the group's overall finance functions and accounting matters. Mr Tay has over 30 years of experience in finance and accounting, and graduated with a Bachelor of Accountancy from the National University of Singapore in 1988. He is a Fellow Chartered Accountant of Singapore with the Institute of Singapore Chartered Accountants.

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