

19 July 2018

Consumer Non-cyclical | Food & Beverage Products

BreadTalk

Priced for Perfection

Maintain NEUTRAL with new SGD1.04 TP from SGD0.93, with 5% downside, as we roll over our valuation to FY19F. Our conversation with management has us expecting earnings growth to accelerate in FY19F-20F, as BreadTalk's new F&B concepts mature. Still, given YTD uptick in share price, we think investors have priced in the strong execution of new store concepts and future earnings delivery. Potential catalyst includes stronger-than-expected earnings growth. Key risks are longer-than-expected gestation periods and poor traction of new concepts in new geographies.

Song Fa – surpassing expectations. Based on our conversation with BreadTalk CFO, Mr Chan Ying Jian, last Monday, we understand that the *Song Fa* outlets in China have been doing well. It currently has two *Song Fa* outlets in Shanghai, located in Jin An Kerry Centre and IAPM Mall. Mr Chan cited that the outlets were profitable from the first month of operations and are expected to have a payback period of less than one year. We raise our FY18F earnings by 2.5% on better-than-expected performance of *Song Fa*.

Positive on the long-term prospects. Aside from *Song Fa*, BreadTalk has onboarded/established several new food & beverage (F&B) concepts including *Wu Pao Chun*, *Sergeant Kitchen*, *Nayuki* and *Tai Gai*. These concepts are expected to have much smaller capex (<SGD0.5m/store) and higher margins compared to BreadTalk's existing bakery, *Din Tai Fung* and food atrium businesses. New concepts would be incubated in the fourth division, which Mr Chan expects to contribute 20% to topline in 3-5 years.

Also, with the partnership with Shinmei Corp, we expect more cost-saving measures to be implemented over the long run. The first project carried out in the partnership is standardising all the bottled water sold by BreadTalk. This is estimated to generate net-saving of SGD80,000-100,000 pa. We expect margin expansion to come from cost-saving initiatives, as Shinmei helps to consolidate and procure more raw materials and packaging needs.

Prized for perfection. Currently, trading at 25x FY19F P/E (ex investment properties value), we think the market has priced in the accelerated growth from the new F&B concepts. As we see it, BreadTalk will have to outperform market expectations for further re-rating. Maintain NEUTRAL with SOP-based SGD1.04 TP. Key risks are longer-than-expected gestation period and inability to generate consumer interests to the new concepts in new geographies.

Neutral (Maintained)

Target Price: SGD1.04
 Price: SGD1.10
 Market Cap: USD453m
 Bloomberg Ticker: BREAD SP

Share Data

Avg Daily Turnover (SGD/USD) 0.70m/0.52m
 52-wk Price low/high (SGD) 0.77 - 1.25
 Free Float (%) 36
 Shares outstanding (m) 563
 Estimated Return -6%

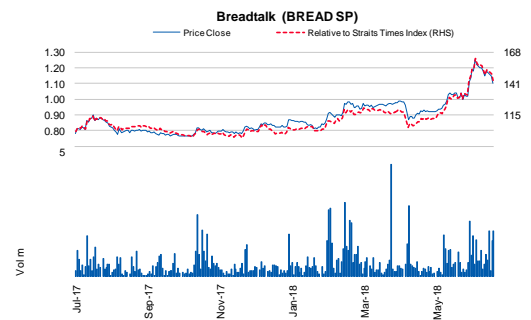
Shareholders (%)

George Quek 34.0
 Katherine Lee 18.6
 Primacy Investment 14.0

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	29.4	8.9	12.8	32.5	40.6
Relative	34.2	11.4	21.7	40.5	42.6

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	615	600	658	735	811
Reported net profit (SGDm)	11.4	21.8	15.8	18.3	22.2
Recurring net profit (SGDm)	6.9	17.7	19.8	22.3	26.2
Recurring net profit growth (%)	35.9	155.2	11.6	12.7	17.5
Recurring EPS (SGD)	0.02	0.06	0.04	0.04	0.05
DPS (SGD)	0.04	0.07	0.02	0.02	0.03
Recurring P/E (x)	44.7	17.5	31.4	27.8	23.7
P/B (x)	2.35	2.29	4.47	4.32	4.14
P/CF (x)	3.7	3.8	33.8	8.4	7.7
Dividend Yield (%)	3.5	6.4	2.0	2.2	2.5
EV/EBITDA (x)	3.80	3.56	7.87	7.34	6.71
Return on average equity (%)	8.8	16.4	11.5	12.9	15.1
Net debt to equity (%)	40.0	25.8	45.0	46.8	40.8
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

Analyst

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Financial Exhibits

Financial model updated on : 2018-07-18

Asia	Financial summary	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Singapore	Recurring EPS (SGD)	0.02	0.06	0.04	0.04	0.05
Consumer Non-cyclical	EPS (SGD)	0.04	0.08	0.03	0.03	0.04
BreadTalk	DPS (SGD)	0.04	0.07	0.02	0.02	0.03
Bloomberg BREAD SP	BVPS (SGD)	0.47	0.48	0.25	0.25	0.27
Neutral	Weighted avg adjusted shares (m)	282	282	563	563	563
Valuation basis	Valuation metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
SOP	Recurring P/E (x)	44.7	17.5	31.4	27.8	23.7
	P/E (x)	27.1	14.2	39.3	33.9	28.0
Key drivers	P/B (x)	2.35	2.29	4.47	4.32	4.14
i. Divestment of real estate investment;	FCF Yield (%)	15.4	15.3	(8.3)	2.2	3.3
ii. Margin improvements;	Dividend Yield (%)	3.5	6.4	2.0	2.2	2.5
iii. Potential M&A target.	EV/EBITDA (x)	3.80	3.56	7.87	7.34	6.71
	EV/EBIT (x)	9.4	6.8	16.2	15.2	13.4
Key risks	Income statement (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
i. Slowdown in consumer consumption;	Total turnover	615	600	658	735	811
ii. Higher-than-expected start-up losses from <i>Din Tai Fung</i> in UK and <i>Song Fa</i> in China and Thailand.	Gross profit	337	333	372	417	462
	EBITDA	88	84	83	91	100
	Depreciation and amortisation	(52)	(40)	(43)	(47)	(50)
	Operating profit	35	44	40	44	50
	Net interest	(5)	(3)	(6)	(6)	(6)
	Income from associates & JVs	(1)	0	1	1	1
	Pre-tax profit	30	41	35	39	45
	Taxation	(12)	(11)	(10)	(12)	(13)
	Minority interests	(6)	(8)	(9)	(9)	(9)
	Recurring net profit	7	18	20	22	26
Company Profile	Cash flow (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
BreadTalk operates bakery, food, and restaurant businesses in Asia and the Middle East. It operates through three segments: bakery, food court, and restaurant.	Change in working capital	10	15	(48)	0	0
	Cash flow from operations	84	81	18	74	81
	Capex	(37)	(34)	(70)	(60)	(60)
	Cash flow from investing activities	(26)	(40)	(71)	(70)	(61)
	Dividends paid	(8)	(17)	(12)	(14)	(16)
	Cash flow from financing activities	(32)	(19)	62	(13)	(20)
	Cash at beginning of period	95	121	141	177	168
	Net change in cash	26	22	10	(9)	(0)
	Ending balance cash	121	141	151	168	168
	Balance sheet (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Total cash and equivalents	121	141	177	168	168
	Tangible fixed assets	181	169	202	215	226
	Intangible assets	6	6	6	5	5
	Total investments	58	76	78	80	82
	Total other assets	76	76	76	85	85
	Total assets	534	557	620	644	665
	Short-term debt	31	57	55	55	50
	Total long-term debt	150	126	200	200	200
	Other liabilities	14	14	16	17	18
	Total liabilities	382	397	447	458	463
	Shareholders' equity	132	135	139	143	150
	Minority interests	20	25	34	43	52
	Total equity	152	160	173	186	202
	Net debt	61	41	78	87	82
	Total liabilities & equity	534	557	620	644	665
	Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Revenue growth (%)	(1.5)	(2.5)	9.8	11.6	10.3
	Recurrent EPS growth (%)	36.0	155.5	(44.2)	12.7	17.5
	Gross margin (%)	54.9	55.6	56.5	56.8	57.0
	Operating EBITDA margin (%)	14.2	14.1	12.6	12.4	12.4
	Net profit margin (%)	1.9	3.6	2.4	2.5	2.7
	Dividend payout ratio (%)	94.4	90.1	77.0	74.1	70.8
	Capex/sales (%)	6.0	5.6	10.6	8.2	7.4
	Interest cover (x)	5.95	8.11	4.22	4.79	5.29

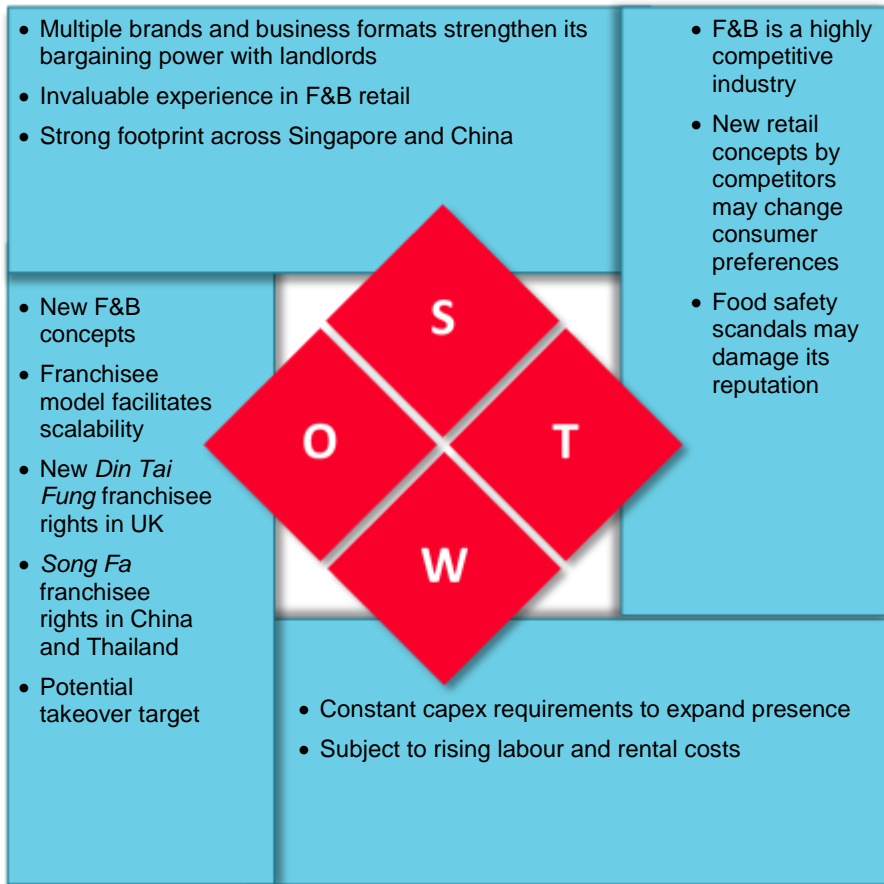
Source: Company data, RHB

Figure 1: SOP valuation

Target EV/EBITDA for core business	7x	
Estimated EV	625	
Target Market Cap for core business	513	(i)
Investment Properties	72	(ii)
SOP Valuation	585	(i) + (ii)
Target Price per share	1.04	

Source: RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-05-22	Neutral	0.93	0.93
2018-05-04	Neutral	0.93	0.87
2018-03-19	Take Profit	1.00	0.95
2018-02-23	Buy	1.00	0.91
2018-01-26	Buy	1.04	0.86
2017-11-06	Buy	0.92	0.80
2017-11-06	Buy	0.92	0.80
2017-08-03	Neutral	0.92	0.87
2017-05-04	Buy	0.80	0.75
2017-02-23	Buy	0.75	0.66

Source: RHB, Bloomberg

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