Singapore Results Review

28 November 2019

Consumer Cyclical | Restaurants

Kimly (KMLY SP)

Neutral (Maintained)

A Better Year Ahead; Stay NEUTRAL

Target Price (Return)	SGD0.24 (0%)
Price:	SGD0.24
Market Cap:	USD202m
Avg Daily Turnover (SGD/USD)	0.05m/0.04m

- **Maintain NEUTRAL, new DCF-based TP of SGD0.24 from SGD0.23,** 0% downside with 6% FY20F (Sep) yield. FY19 revenue rose 3% YoY, but PATMI dropped 8.4% from higher selling and distribution expenses. We expect Kimly to continue growing its footprint and diversifying product offerings. It recently synergised central kitchen operations, and announced the acquisition of 10 coffee shops and industrial canteens for SGD59m. With the ongoing investigations likely to create an overhang effect, we make no change to our call.
- **FY19 results are below expectations**. Despite its topline growth of 3% YoY – propelled by contributions from Japanese restaurant chain Tonkichi and Japanese-French confectioner Rive Gauche – PATMI declined 8.4% YoY due to the hike in selling and distribution expenses, which in turn stemmed from higher online delivery fees and packing materials used, as well as a hike in administrative expenses.
- **Back to bread-and-butter business**. The group recently announced a strategic shift to acquire more long-term and direct assets in the form of food outlets and food stalls, to increase revenue streams and reduce risks associated with leasing and tenancy. It did this by acquiring a portfolio of 10 coffee shops and canteens for SGD59m. The acquisition was funded by SGD46.06m in cash and SGD10m worth of shares at a premium of SGD0.25/share.

  Management is streamlining outlet operations and further optimising its central kitchen to improve profitability. To enhance front-end outlet efficiency, it has commenced several enhancements 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, in recent weeks, commenced the preparation of sliced meats 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.
- **Maintain NEUTRAL**. As the acquisition of Asian Story Corp Pte Ltd has been called off, our investment thesis is no longer valid. Ongoing investigations on the matter are likely to be an overhang on the stock, and dampen investor sentiment. We believe any potential upside will be limited, despite Kimly's reasonable valuations. Dividends are likely to increase, as management has doubled the interim payout, which affirms the positive strong cash generation from its core business. Our DCF-based TP rises to SGD0.24, to reflect the inclusion of profits from its recent acquisition.
- **Downside risks** to our call include a rise in rental rates, and labour shortages.

Forecasts and Valuation	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Total turnover (SGDm)	202.2	208.3	224.0	231.9	239.9
Recurring net profit (SGDm)	21.9	20.1	22.2	22.9	23.5
Recurring net profit growth (%)	2.1	(8.4)	10.7	3.0	3.0
Recurring P/E (x)	12.7	13.8	12.5	12.1	11.8
P/BV (x)	3.3	3.2	3.0	2.8	2.6
P/CF (x)	29.2	7.1	10.2	9.2	8.9
Dividend Yield (%)	4.0	5.2	6.0	6.2	6.4
EV/EBITDA (x)	7.5	7.2	6.8	6.4	6.0
ROE (%)	26.18	22.82	23.75	23.05	22.41
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage (x)	na	na	na	na	na

Source: Company data, RHB

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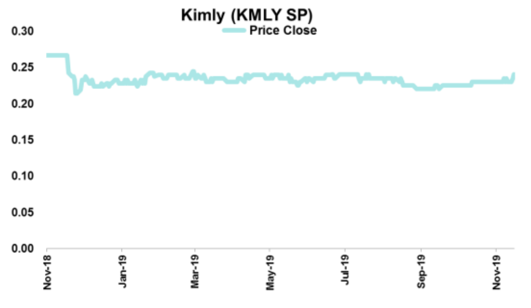
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	4.3	2.1	0.0	(14.3)
Relative	(4.7)	3.5	(2.6)	(1.3)	(18.2)
52-wk Price low/high (SGD)					0.22 – 0.27



Source: Bloomberg

Financial Exhibits

Asia
Singapore
Consumer Cyclical
Restaurants

Major shareholders (%)

Lim Hee Liat	42.6
Peh Oon Kee	8.6
Ng Lay Beng	6.7

Valuation basis

DCF-derived TP of SGD0.24

Key drivers

The key drivers are:
i. Food prices;
ii. Acquisition of more coffee shops;
iii. End of investigation overhang.

Key risks

The downside risks include:
i. Rise in rental rates;
ii. Labour shortage.

Company Profile

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.

Financial summary	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Core EPS (SGD)	0.02	0.02	0.02	0.02	0.02
EPS (SGD)	0.02	0.02	0.02	0.02	0.02
DPS (SGD)	0.01	0.01	0.01	0.01	0.02
BVPS (SGD)	0.07	0.08	0.08	0.09	0.09
ROE (%)	26.2	22.8	23.8	23.1	22.4
ROA (%)	18.9	16.6	17.3	16.9	16.6

Valuation metrics	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Core P/E (x)	12.7	13.8	12.5	12.1	11.8
P/B (x)	3.3	3.2	3.0	2.8	2.6
Dividend yield (%)	4.0	5.8	6.0	6.2	6.4
EV/EBITDA (x)	7.5	7.2	6.8	6.4	6.0

Income statement (SGDm)	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Total turnover	202	208	224	232	240
Gross profit	40	41	45	46	48
EBITDA	27	26	27	28	29
Operating profit	25	23	25	26	27
Net interest	0	1	1	1	1
Exceptional items	0	0	0	0	0
Pre-tax profit	25	24	27	27	28
Taxation	-3	-4	-4	-4	-5
Net profit	22	20	22	23	24
Core net profit	22	20	22	23	24

Cash flow (SGDm)	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Cash flow from operations	7	36	23	26	27
Capex	-4	-3	-3	-3	-3
Cash flow from investing activities	-9	-5	-3	-3	-3
Cash flow from financing activities	-12	-16	-17	-17	-18
Cash at beginning of period	85	72	87	91	96
Net change in cash	-13	16	3	6	6
Ending balance cash	72	87	91	96	102

Balance sheet (SGDm)	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Total cash and equivalents	72	87	91	96	102
Tangible fixed assets	10	10	11	12	12
Intangible assets	4	6	6	6	6
Total investments	0	0	0	0	0
Total other assets	29	18	21	22	22
Total assets	116	121	128	135	142
Short-term debt	0	0	0	0	0
Total long-term debt	0	0	0	0	0
Total liabilities	32	33	35	36	37
Shareholders' equity	84	88	93	99	105
Minority interests	1	2	3	4	4
Total equity	84	88	93	99	105
Total liabilities & equity	116	121	128	135	142

Key metrics	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Revenue growth (%)	5.3	3.0	7.5	3.5	3.5
Core net profit growth (%)	2.1	-8.4	10.7	3.0	3.0
Core EPS growth (%)	-6.0	-8.2	10.7	3.0	3.0
Gross margin (%)	19.9	19.5	20.0	20.0	20.0
Core net profit margin (%)	10.8	9.6	9.9	9.9	9.8
Dividend payout ratio (%)	50.7	80.7	75.0	75.0	75.0

Source: Company data, RHB

Figure 1: FY19 results summary

SGDm	4QFY19	4QFY18	+/- %	FY19	FY18	+/- %
Revenue	52.5	53.0	-0.9%	208.3	202.2	3.0%
Gross Profit	10.7	11.0	-2.7%	40.7	40.2	1.2%
Gross Profit Margin	20.4%	20.8%		19.5%	19.9%	
Profit Before Tax	6.8	6.1	12.3%	23.9	25.1	-4.5%
PATMI	5.4	5.7	-6.0%	20.1	21.9	-8.4%
Net Profit Margin	10.2%	10.7%		9.6%	10.8%	

Source: Company data

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