

18 May 2020

Consumer Cyclical | Consumer Products

Jumbo Group (JUMBO SP)

Sell (from Neutral)

Social Distancing Diminishes Appetite For Crabs; D/G To SELL

Target Price (Return): SGD0.19 (-24.0%)
 Price: SGD0.25
 Market Cap: USD112m
 Avg Daily Turnover (SGD/USD) 0.10m/0.07m

• **Downgrade to SELL from Neutral, with a slightly lower TP of SGD0.19, from SGD0.20, 24% downside.** 1HFY20 (Sep) PATMI declined 72% YoY to SGD2.1m. It was 31% of our previous FY20F estimates and below our expectations. With the circuit breaker measures in place, 3Q20 is likely to be more severely impacted with the ban of on-premise dining. We now expect 3Q20 to go into losses before a gradual recovery in 4Q20. No interim dividend was declared.

• **1H20 revenue declined 13% YoY** largely due to COVID-19. The pandemic affected China's footfall since January and escalated to store closures for certain outlets during the Lunar New Year period. Footfall remained low even when shops reopened. On the other hand, Singapore was impacted by the ban of Chinese tourists at the end of January and subsequent social distancing measures as COVID-19 cases increased. High fixed costs from labour and rental expenses resulted in PATMI declining more than the topline. Ultimately, 1H20 was saved by a SGD3m worth of a Government grant from the Job Support Scheme (JSS).

• **Circuit breaker measures further exacerbated the situation.** 3Q sales and profitability are likely to be adversely impacted by the absence of tourist demand coupled with the ban of on-premise dining, with the implementation of circuit breaker measures in Singapore. Even though the circuit breaker is expected to be lifted on 2 June, ministers have cited that dining out would take a longer time to resume. Currently, the group has temporarily closed 10 out of 16 outlets in Singapore, with only 6 outlets opened to cater for takeaways and delivery. We expect takeaways and delivery to be <20% of normal sales.

• **Some mitigating factors.** Jumbo has implemented a reduction in variable and base salaries, cut down on casual labours and overtime work to reduce its fixed cost. It has also managed to negotiate for some rental waivers for the circuit breaker period. The enhanced JSS for April and May could also provide some relief for the group. But, overall, with the major decline in Singapore sales and a slow recovery in China's footfall, we think 3Q20 might go into losses, before a gradual recovery in 4Q20 when more social distancing restrictions could be eased.

• **No appetite for crab.** We cut our FY20-22F earnings by 82/29/26% in light of the prolong impact of social distancing and international travel restrictions caused by COVID-19. Our DCF-derived TP only declined slightly to SGD0.19 as management guided on a more prudent expansion plan in the near-term therefore reducing any major capex requirements. In view of the challenging outlook, we do not expect any dividends for FY20F.

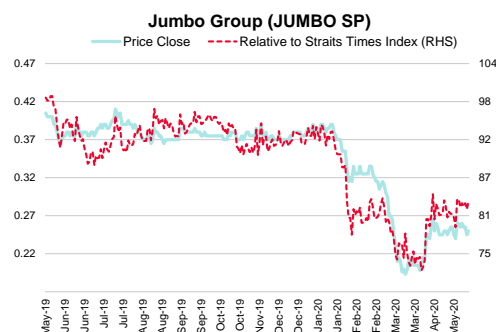
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(34.2)	(5.7)	(23.1)	(32.4)	(38.3)
Relative	(12.5)	(2.5)	(1.5)	(10.3)	(16.7)
52-wk Price low/high (SGD)	0.19 – 0.41				



Source: Bloomberg

Forecasts and Valuation	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Total turnover (SGDm)	153	154	101	144	168
Recurring net profit (SGDm)	11	12	1	10	11
Recurring net profit growth (%)	(23.8)	5.9	(89.6)	711.8	13.3
Recurring P/E (x)	14.56	13.75	132.12	16.28	14.36
P/B (x)	2.5	2.3	2.3	2.2	2.1
P/CF (x)	9.90	10.99	26.21	9.81	8.20
Dividend Yield (%)	0.7	0.7	0.1	0.6	0.7
EV/EBITDA (x)	6.29	5.73	34.56	8.92	7.54
Return on average equity (%)	16.9	17.4	1.8	13.9	15.0
Net debt to equity (%)	net cash	net cash	net cash	0.2	7.6

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (SGD)	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Singapore	Recurring EPS	0.02	0.02	0.00	0.02	0.02
Consumer Cyclical	DPS	0.00	0.00	0.00	0.00	0.00
Jumbo Group	BVPS	0.10	0.11	0.11	0.11	0.12
JUMBO SP	Return on average equity (%)	16.9	17.4	1.8	13.9	15.0
Sell						
	Valuation metrics	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Valuation basis	Recurring P/E (x)	14.56	13.75	132.12	16.28	14.36
DCF	P/B (x)	2.5	2.3	2.3	2.2	2.1
	FCF Yield (%)	6.2	5.3	(12.3)	(12.4)	1.1
Key drivers	Dividend Yield (%)	0.7	0.7	0.1	0.6	0.7
i. Rate of new store openings;	EV/EBITDA (x)	6.29	5.73	34.56	8.92	7.54
ii. SSSG; and	EV/EBIT (x)	8.52	7.83	na	15.83	13.03
iii. Operational expenses.						
	Income statement (SGDm)	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
Key risks	Total turnover	153	154	101	144	168
i. Deterioration of China operations;	Gross profit	96	98	63	90	106
ii. Surge in manpower cost;	EBITDA	18	20	4	18	22
iii. Intensifying competition; and	Depreciation and amortisation	(5)	(5)	(6)	(8)	(9)
iv. Food safety issues.	Operating profit	14	15	(2)	10	13
	Net interest	0	0	0	1	1
Company Profile	Pre-tax profit	13	14	(3)	11	13
Jumbo is a multi-dining concept food and beverages (F&B) company. The Company's network of F&B outlets spans across Singapore and China and have franchises across Asia. Its key brands include Jumbo Seafood, Ng Ah Sio Bak Kut Teh, Chui Huay Lim, Zui Yu Xuan, Chao Ting and Tsui Wah.	Taxation	(3)	(3)	1	(2)	(3)
	Reported net profit	11	12	1	10	11
	Recurring net profit	11	12	1	10	11
	Cash flow (SGDm)	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
	Cash flow from operations	16.2	14.6	6.1	16.4	19.6
	Capex	(6.2)	(6.1)	(25.8)	(36.2)	(17.8)
	Cash flow from investing activities	(7.6)	(6.7)	(25.8)	(36.2)	(17.8)
	Dividends paid	(10.9)	(7.7)	(0.8)	(6.4)	(7.3)
	Cash flow from financing activities		(7.7)	(0.8)	23.6	(12.3)
	Cash at beginning of period	51.3	46.6	46.6	26.1	29.8
	Net change in cash		0.2	(20.5)	3.8	(10.5)
	Ending balance cash		46.8	26.1	29.8	19.3
	Balance sheet (SGDm)	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
	Total cash and equivalents	46.6	46.6	26.1	29.8	19.3
	Tangible fixed assets	20.8	21.8	41.3	69.7	78.4
	Total investments	2.1	1.4	1.1	1.4	1.3
	Total assets	88.0	90.3	82.1	118.3	118.3
	Short-term debt	0.0	0.0	0.0	10.0	5.0
	Total long-term debt	0.0	0.0	0.0	20.0	20.0
	Total liabilities	18.5	18.4	13.2	46.8	43.5
	Total equity	69.5	72.0	68.9	71.5	74.8
	Total liabilities & equity	88.0	90.3	82.1	118.3	118.3
	Key metrics	Sep-18	Sep-19	Sep-20F	Sep-21F	Sep-22F
	Revenue growth (%)	5.5	0.4	(34.0)	42.2	16.3
	Recurrent EPS growth (%)	(23.9)	5.9	(89.6)	711.8	13.3
	Gross margin (%)	62.7	63.8	62.0	62.5	63.0
	Operating EBITDA margin (%)	12.0	13.2	3.8	12.3	12.9
	Net profit margin (%)	7.2	7.6	1.2	6.8	6.7
	Dividend payout ratio (%)	10.9	10.3	10.1	10.1	10.1
	Capex/sales (%)	4.1	4.0	25.5	25.1	10.6
	Interest cover (x)				(11)	(17)

Source: Company data, RHB

Figure 1: 1HFY20 result summary

FYE Sep (SGDm)	1H20	1H19	YoY (%)	Comments
Revenue	66.7	76.7	-13.1	Sales fell 13.1% YoY with China sales declining 35.5% YoY and Singapore sales falling 13.5%.
Gross profit	41.7	49.2	-15.3	Gross margin declined as more promotions were carried out to push sales of the live seafood which are perishable items.
Gross margin	62.6%	64.2%		
Other income	3.63	1.53	137.5	Increased Government grant largely from JSS.
Staff cost	-22.8	-23.7	-3.6	Staff cost declined minimally in 1H20 despite major decline in sales but more cost reduction efforts have been put in since 3Q20.
Rental related expense	-7.5	-6.8	9.3	Overall rental related expenses increased YoY due to new store opening in FY19 and adoption of SFRS16.
operating lease expense	-2.5	-6.8	-62.8	
depreciation of ROUs	-4.6	0.0	n/a	
lease interest expense	-0.3	0.0	n/a	
Depreciation of PPE	-3.3	-2.6	25.8	Depreciation of PPE also increased due to the new stores.
Pretax profit	1.6	8.5	-80.5	
Net profit	1.0	7.0	-86.0	
PATMI	2.1	7.4	-71.5	Decline in PATMI was much sharper than sales decline due to major operational deleverage.
PATMI margin	3.2%	9.7%		

Source: Company data, RHB

Figure 2: DCF assumptions

SGD m	FY20F	FY21F	FY22F	FY23F
Net income	1.2	9.9	11.2	12.2
D&A costs	6.3	7.7	9.1	10.0
Net capex	(10.0)	(10.0)	(10.0)	(10.0)
Change in net working capital	1.7	(0.0)	(0.2)	0.0
Change in debt	0.0	30.0	(5.0)	(5.0)
Free cash flow to equity (FCFE)	(0.8)	37.6	5.1	7.2
Terminal value				103.2
Present value	-0.8	34.4	4.3	85.0
Total discounted FCFE	122.9			
Value/ share (SGD)	0.19			
Cost of equity	9.1%			
Risk-free rate	1.0%			
Beta	0.9			
Market expected return	10.0%			
Terminal growth	2.0%			

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-03-25	Neutral	0.20	0.21
2019-12-03	Buy	0.44	0.37
2019-08-07	Buy	0.47	0.38

Source: RHB, Bloomberg

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