

10 August 2018

Consumer Cyclical | Restaurants

Kimly

Buy (Maintained)

A Better 4QFY18 Ahead

Maintain BUY, with an unchanged DCF-backed SGD0.46 TP, 35% upside. Kimly reported a steady topline growth of 4.2% YoY, while 3QFY18 PATMI was down 4.8% YoY on PPE depreciation costs. We expect a better 4QFY18 ahead, mainly on contributions from its recent acquisition: ASC. With SGD60m-plus in cash remaining after the acquisition, we think there will likely be more similar-styled acquisitions to come – this should further propel Kimly's profitability.

3QFY18 (Sep) impacted by expenses. Despite revenue growth remaining steady at 4.2% YoY, PATMI was negatively impacted. This was due to higher property, plant & equipment (PPE) depreciation costs. However, we do expect such costs to continue to increase following the acquisition of Asian Story Corp (ASC), but will likely be offset by the canned drinks manufacturer's profitability.

Management is keen to expand the Asian Story brand into other countries. This brand is currently distributed by Pokka Corp in Singapore, Malaysia and Brunei, and is in the midst of working with a foreign partner to distribute its beverages in certain ASEAN markets. It is also looking at the possibility of entry into the European market as well via local trade fairs. This is because Kimly has noticed the increasing demand for Asian beverages there due to the growing number of Asians residing in Europe.

More acquisitions expected. As at 2QFY18, Kimly's net cash on the balance sheet stood at SGD84m. After the ASC acquisition, it is likely left with ~SGD60m in net cash. We believe management is keen in expanding in the beverage space and will likely seek a similar-styled, but potentially much larger acquisition(s) to rapidly expand the company's presence. The beverage wing is also complimentary to Kimly's existing business, as the firm can sell such beverages at all its coffee shop outlets.

A better 4Q18 ahead – maintain BUY and SGD0.46 TP, 35% upside. Despite the amortisation of intangibles for the ASC acquisition likely to increase by SGD2m/year for the first 30 months, the longer-term growth, profit accretion and cash flow to Kimly should be quite positive, in our view. With ~SGD60m in cash remaining post acquisition, we think there will likely be larger and similar-styled acquisitions to come, as management is keen to expand Kimly's presence rapidly in the beverage space – this should further propel the company's profitability.

With the earnings accretion from ASC's fast-growing PATMI, we do expect the inclusion of the latter's earnings – from 4QFY18 onwards – to help further boost Kimly's PATMI. As a result, we do expect a better 4Q18 ahead and maintain our recommendation and DCF-backed TP on this counter.

Downside risks to our call include a rise in rental rates and labour shortages.

Target Price:	SGD0.46
Price:	SGD0.34
Market Cap:	USD284m
Bloomberg Ticker:	KMLY SP

Share Data

Avg Daily Turnover (SGD/USD)	0.17m/0.13m
52-wk Price low/high (SGD)	0.33 - 0.39
Free Float (%)	40
Shares outstanding (m)	1,158
Estimated Return	35%

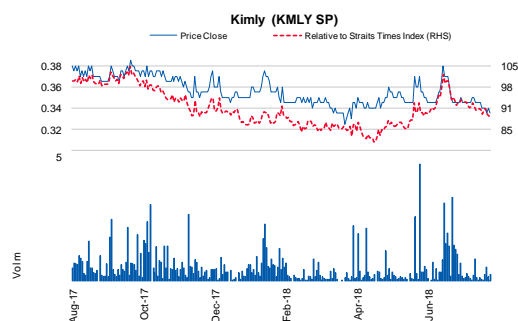
Shareholders (%)

Lim Hee Liat	42.3
Peh Oon Kee	8.6
Ng Lay Beng	5.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.6)	(2.9)	(2.9)	(7.0)	(11.9)
Relative	(3.4)	(7.1)	3.2	(4.4)	(12.2)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F
Total turnover (SGDm)	172	192	210	228	246
Reported net profit (SGDm)	24.2	21.4	22.7	25.0	27.3
Recurring net profit (SGDm)	24.2	21.4	22.7	25.0	27.3
Recurring net profit growth (%)	7.7	(11.5)	5.7	10.4	9.2
Recurring EPS (SGD)	0.05	0.02	0.02	0.02	0.02
DPS (SGD)	0.06	0.01	0.01	0.01	0.01
Recurring P/E (x)	6.8	18.1	17.1	15.5	14.2
P/B (x)	16.2	5.3	4.6	4.0	3.5
P/CF (x)	5.8	13.4	13.8	12.4	11.4
Dividend Yield (%)	18.1	3.7	2.9	3.2	3.5
EV/EBITDA (x)	5.2	11.1	9.6	8.3	7.2
Return on average equity (%)	214.2	51.2	28.6	27.4	26.2
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

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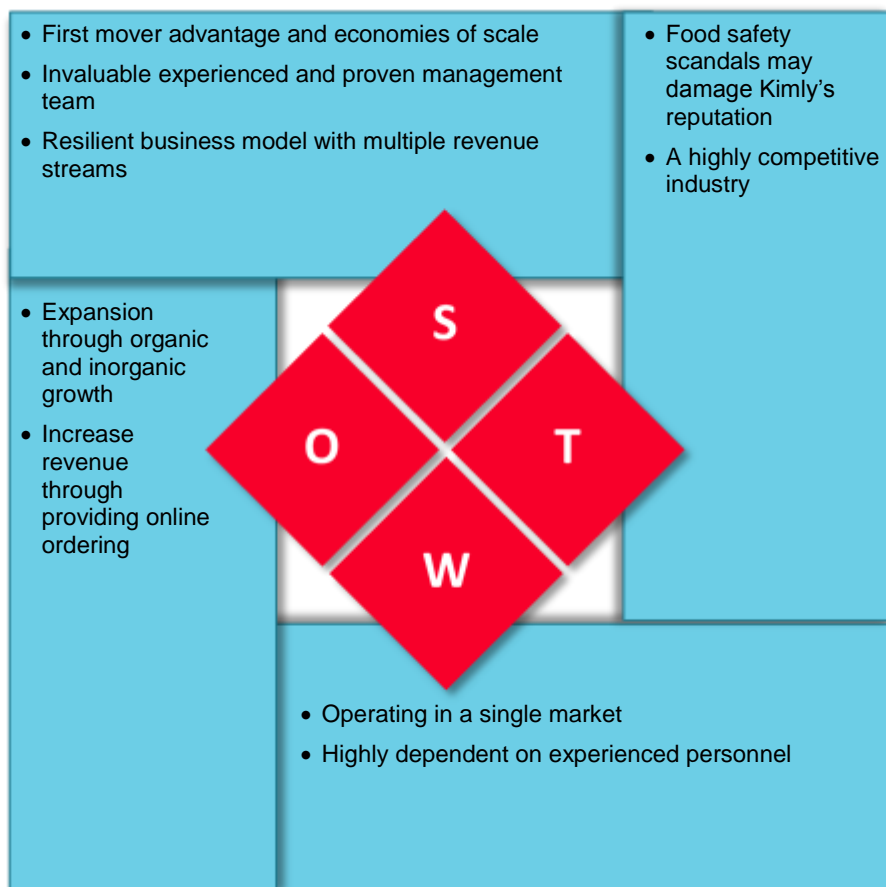
Financial Exhibits

Financial model updated on: 2018-07-03.

Asia	Financial summary	Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F
Singapore	Recurring EPS (SGD)	0.05	0.02	0.02	0.02	0.02
Consumer Cyclical	EPS (SGD)	0.05	0.02	0.02	0.02	0.02
Kimly	DPS (SGD)	0.06	0.01	0.01	0.01	0.01
Bloomberg KMLY SP	BVPS (SGD)	0.02	0.06	0.07	0.08	0.10
Buy	Weighted avg adjusted shares (m)	490	1,158	1,158	1,158	1,158
Valuation basis	Valuation metrics	Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F
DCF-derived TP of SGD0.46 with WACC of 7.5% & TG of 1%.	Recurring P/E (x)	6.8	18.1	17.1	15.5	14.2
Key drivers	P/E (x)	6.8	18.1	17.1	15.5	14.2
i. M&A;	P/B (x)	16.2	5.3	4.6	4.0	3.5
ii. Expanding new outlets via store openings;	FCF Yield (%)	16.3	6.4	6.0	6.8	7.5
iii. Managing third-party brands.	Dividend Yield (%)	18.1	3.7	2.9	3.2	3.5
Key risks	EV/EBITDA (x)	5.2	11.1	9.6	8.3	7.2
i. Shortage of manpower;	EV/EBIT (x)	5.6	12.2	11.1	9.6	8.3
ii. Intense competition in the food & beverage (F&B) industry;	Income statement (SGDm)	Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F
iii. Possible food contamination and tampering;	Total turnover	172	192	210	228	246
iv. Theft, fraud and corruption.	Gross profit	37	38	42	47	51
Company Profile	EBITDA	28	27	30	33	36
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.	Depreciation and amortisation	(2)	(2)	(4)	(4)	(5)
	Operating profit	26	25	26	29	32
	Net interest	(0)	(0)	(0)	(0)	(0)
	Pre-tax profit	26	25	26	29	31
	Taxation	(1)	(3)	(3)	(4)	(4)
	Recurring net profit	24	21	23	25	27
	Cash flow (SGDm)	Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F
	Change in working capital	1.2	1.9	1.2	1.9	1.8
	Cash flow from operations	28.4	29.0	28.1	31.4	34.0
	Capex	(1.7)	(4.4)	(5.0)	(5.0)	(5.0)
	Cash flow from investing activities	(1.7)	(4.4)	(5.0)	(5.0)	(5.0)
	Proceeds from issue of shares	(0.3)	40.3	0.0	0.0	0.0
	Dividends paid	(29.7)	(14.2)	(11.3)	(12.5)	(13.7)
	Cash flow from financing activities	(26.6)	31.0	(11.3)	(12.5)	(13.7)
	Cash at beginning of period	29.3	29.4	85.1	96.8	110.7
	Net change in cash	0.1	55.6	11.8	13.9	15.3
	Ending balance cash	29.4	85.1	96.8	110.7	126.1
	Balance sheet (SGDm)	Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F
	Total cash and equivalents	29.4	85.1	96.8	110.7	126.1
	Tangible fixed assets	4.1	8.5	9.5	10.0	10.1
	Intangible assets	0.3	1.3	1.3	1.3	1.3
	Total other assets	4.1	4.9	4.9	4.9	4.9
	Total assets	43.4	106.2	119.2	134.2	150.2
	Other liabilities	0.9	0.6	0.6	0.6	0.6
	Total liabilities	25.1	32.5	34.2	36.7	39.0
	Shareholders' equity	10.1	73.7	85.0	97.5	111.2
	Minority interests	8.2	0.0	0.0	0.0	0.0
	Total equity	18.3	73.7	85.0	97.5	111.2
	Net debt	(29.4)	(85.1)	(96.8)	(110.7)	(126.1)
	Total liabilities & equity	43.4	106.2	119.2	134.2	150.2
	Key metrics	Sep-16	Sep-17	Sep-18F	Sep-19F	Sep-20F
	Revenue growth (%)	10.4	11.6	9.2	8.7	7.7
	Recurrent EPS growth (%)	7.7	(62.6)	5.7	10.4	9.2
	Gross margin (%)	21.6	20.0	20.2	20.4	20.7
	Operating EBITDA margin (%)	16.0	14.2	14.4	14.6	14.8
	Net profit margin (%)	14.1	11.2	10.8	11.0	11.1
	Dividend payout ratio (%)	122.5	66.4	50.0	50.0	50.0
	Capex/sales (%)	1.0	2.3	2.4	2.2	2.0
	Interest cover (x)	12,792	61	64	71	77

Source: Company data, RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-07-03	Buy	0.46	0.37
2018-04-16	Buy	0.43	0.35

Source: RHB, Bloomberg

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Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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