

26 February 2020

Consumer Non-cyclical | Food & Beverage Products

BreadTalk (BREAD SP)

Neutral (Maintained)

Time To Cash Out And Accept Offer

Target Price (Return): SGD0.77 (+19%)
 Price: SGD0.65
 Market Cap: USD260m
 Avg Daily Turnover (SGD/USD) 0.82m/0.60m

- Accept SGD0.77 cash offer, 19% upside.** A conditional cash offer of SGD0.77/share was made by George Quek, Katherine Lee and Minor Group to delist BreadTalk. Shareholders should accept it, as the offer price is 15% above our previous TP of SGD0.67. Moreover, BreadTalk is undergoing major challenges across key markets, and reported losses for FY19. A quick turnaround is unlikely, with the COVID-19 outbreak further exacerbating the situation. The offer presents a good opportunity for shareholders to realise their investments.
- 4Q19 results are below expectations.** The group's 4Q19 loss of SGD8.1m took the FY19 total to a loss of SGD5.2m. Excluding fair value gains, FY19 core F&B losses widened to SGD11.7m. This was mainly attributed to losses across China, Hong Kong, Indonesia and Thailand in the bakery division, and gestation costs for new store openings in the 4orh division. The group also recorded SGD6.1m of impairments due to the closure of bakery outlets.
- Near-term challenges to intensify due to COVID-19 outbreak.** BreadTalk's food and beverage (F&B) retail business is highly exposed to markets that are disrupted by the virus epidemic. As at FY19, 56% of revenue is derived from Singapore, while 31% is from Greater China (Mainland China and Hong Kong). We expect Singapore sales to dip c.3-5% YoY while sales from Greater China could fall >10% YoY this year. This would have a negative impact on operating leverage. There may also be more store closures in FY20 in the bakery division, and a slower turnaround from the 4orh division.
- Offer is fair.** The offer price represents premiums of c.30%, 24% and 25% over the volume-weighted average price (VWAP) per share for the 1-month, 3-month and 6-month periods respectively, up to and including 21 Feb. The offer price also implies 34x FY18 P/E and 2.9x FY20F P/BV. After excluding the fair value of the investment properties and investment securities (SGD245m), the offer price still implies a decent 15x P/E, based on FY18 core F&B PATMI of SGD12.7m (FY19 recorded a loss while we estimate FY20 earnings to remain sub-par due to the COVID-19 outbreak). This is in line with the Singapore-listed food service retailers' average, despite its weaker outlook.
- Time to cash out.** The near-term outlook is very challenging. Although George Quek previously publicised his targets to grow the group's market cap to >SGD1bn and raise its net margin to 8% by FY22, we think they would require a much longer timeframe to realise – given the current difficult operating environment and losses across key markets of the bakery division. We recommend that shareholders exit their investment with this offer.

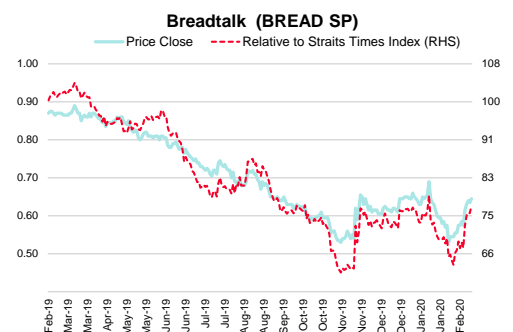
Analyst

Juliana Cai
 +65 6232 3871
juliana.cai@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	2.4	2.4	(9.2)	(25.9)
Relative	2.0	5.1	3.5	(10.3)	(22.2)
52-wk Price low/high (SGD)	0.53 – 0.89				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	610	665	663	712	757
Recurring net profit (SGDm)	13	(12)	2	11	16
Recurring net profit growth (%)	0.8	(192.1)	-	336.9	51.0
Recurring P/E (x)	28.61	na	146.58	33.54	22.21
P/B (x)	2.7	2.5	2.4	2.4	2.3
P/CF (x)	6.31	1.12	7.18	5.49	4.74
Dividend Yield (%)	2.3	2.3	na	1.9	2.8
EV/EBITDA (x)	4.47	9.47	8.37	6.36	5.41
Return on average equity (%)	11.3	(3.7)	1.7	7.1	10.4
Net debt to equity (%)	25.2	103.5	99.4	92.1	85.5

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Regional	Recurring EPS	0.02	(0.02)	0.00	0.02	0.03
Consumer Non-cyclical	DPS	0.02	0.02	-	0.01	0.02
BreadTalk	BVPS	0.24	0.26	0.27	0.27	0.28
BREAD SP	Return on average equity (%)	11.3	(3.7)	1.7	7.1	10.4
Neutral						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	28.61	na	146.58	33.54	22.21
SOP	P/B (x)	2.7	2.5	2.4	2.4	2.3
	FCF Yield (%)	2.7	76.4	1.5	4.5	4.6
Key drivers	Dividend Yield (%)	2.3	2.3	-	1.9	2.8
i. Divestment of real estate investment;	EV/EBITDA (x)	4.47	9.47	8.37	6.36	5.41
ii. Margin improvements;	EV/EBIT (x)	9.20	34.75	44.60	19.65	14.68
iii. Potential privatisation target.						
	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	610	665	663	712	757
i. Slowdown in consumer consumption;	Gross profit	343	370	368	395	420
ii. Higher-than-expected start-up losses from Din Tai Fung in UK and Song Fa in China and Thailand.	EBITDA	80	55	61	79	92
	Depreciation and amortisation	(41)	(40)	(50)	(54)	(58)
	Operating profit	39	15	11	26	34
	Net interest	(6)	(7)	(7)	(7)	(6)
	Pre-tax profit	31	7	5	19	28
	Taxation	(11)	(11)	(2)	(7)	(10)
	Reported net profit	15	(5)	2	11	16
	Recurring net profit	13	(12)	2	11	16
Company Profile						
BreadTalk Group operates bakery, food, and restaurant businesses in Asia and the Middle East. It operates through three segments: bakery, food court, and restaurant.						
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(9)	130	(2)	1	1
	Cash flow from operations	58	324	51	66	77
	Capex	(48)	(47)	(45)	(50)	(60)
	Cash flow from investing activities	(55)	(153)	(46)	(51)	(61)
	Dividends paid	(11)	(11)	0	(7)	(10)
	Cash flow from financing activities	39	(38)	0	(7)	(10)
	Cash at beginning of period	141	185	158	162	171
	Net change in cash	42	134	5	8	6
	Ending balance cash	183	319	162	171	176
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	185	158	162	171	176
	Tangible fixed assets	173	712	708	705	707
	Total investments	75	71	72	74	75
	Total assets	608	1,257	1,259	1,272	1,288
	Short-term debt	98	347	0	0	0
	Total long-term debt	128	0	347	347	347
	Total liabilities	446	1,074	1,073	1,081	1,088
	Total equity	163	183	186	192	200
	Total liabilities & equity	608	1,257	1,259	1,272	1,288
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	1.7	9.0	(0.3)	7.4	6.3
	Recurrent EPS growth (%)	(49.6)	(192.1)	0.0	337.1	51.0
	Gross margin (%)	56.3	55.6	55.5	55.5	55.5
	Operating EBITDA margin (%)	13.2	8.2	9.2	11.1	12.2
	Net profit margin (%)	2.5	(0.8)	0.4	1.5	2.2
	Dividend payout ratio (%)	55.6	(106.8)	0.0	62.6	61.7
	Capex/sales (%)	7.8	7.0	6.8	7.0	7.9
	Interest cover (x)	4.24	1.70	1.32	2.95	3.92

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-09-04	Neutral	0.67	0.65
2019-09-02	Neutral	0.71	0.67
2019-08-05	Neutral	0.71	0.69
2019-05-08	Neutral	0.81	0.82
2019-02-21	Neutral	0.81	0.87
2018-11-07	Sell	0.75	0.91

Source: RHB, Bloomberg

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8
- SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

HONG KONG

RHB Securities Hong Kong Ltd.
12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office
Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

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**RHB Securities Singapore
Pte Ltd.**
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211