

12 September 2018

Consumer Cyclical | Restaurants

Kimly

Buy (Maintained)

Visit To a Productive Coffee Shop

Maintain BUY, TP of SGD0.46, 44% upside, based on our expectations of a better 4Q. For the first instalment of our Expedition Series, we visited Kimly's productive coffee shop which focuses on automation and digital solutions to improve efficiency, while reducing the reliance on manpower. While adapting a QR code payment system will still take a while, its tray-return initiative is mutually beneficial for customers and should enable Kimly to save on manpower costs.

A new productive coffee shop. Kimly has launched a productive coffee shop this year, tapping on automation and digital solutions to improve operational efficiency and decrease reliance on manpower. We visited the coffee shop on 5 Sep, tried out the NETS QR code payment and the tray return system.

It will take time for consumers to use the QR code payment system. Kimly has built-in self-service kiosks for patrons to pay by scanning unique QR codes. We think, however, the adaption of the QR code system will take awhile, with more improvements to be made. Currently, customers have to make their way to kiosks to process the payment physically, after the QR code has been printed and handed out by an employee. Elderly consumers who are not tech-savvy may also find this harder to get used to.

Tray-return initiative quite successful. As customers are rewarded with a discount if they return their trays to the station, 80-90% of customers cleared their own dishes after finishing up their meal during our visit. This initiative is more successful and effective, we believe, when compared to the other food outlets where patrons pay a deposit for a tray, and receive a refund when the tray is returned. Management said this initiative has been well-received by customers, and the rate of people making use of the initiative is high.

A better 4QFY18 (Sep) ahead; maintain BUY and SGD0.46 TP. With ~SGD60m in cash remaining after acquiring Asian Story Corp (ASC), 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 – which should further improve profitability. Kimly has also gone on to place *Asian Story* drinks on the top rows of the shelves at their coffee shops.

With the earnings accretion from ASC's fast-growing PATMI, we expect its numbers to be included in the group's financials from 4QFY18 onwards – which will further boost Kimly's PATMI. As a result, we do expect a better 4QFY18 ahead, and maintain our recommendation and DCF-backed TP.

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

Target Price: SGD0.46
Price: SGD0.32
Market Cap: USD273m
Bloomberg Ticker: KMLY SP

Share Data

Avg Daily Turnover (SGD/USD) 0.1m/0.1m
52-wk Price low/high (SGD) 0.4 - 0.33
Free Float (%) 31.7
Shares outstanding (m) 1,155
Estimated Return 44%

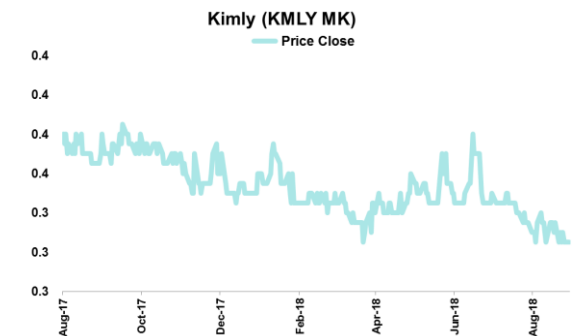
Shareholders (%)

Lim Hee Liat 42.4
Peh Oon Kee 8.6
Ng Lay Beng 6.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.5)	(3.0)	(8.5)	(5.8)	(11.0)
Relative	0.3	2.5	1.3	5.1	(7.1)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Sep-16	Sep-17	Sep 18F	Sep 19F	Sep 20F
Total turnover (SGDm)	172.2	192.1	203.7	217.6	231.4
Reported net profit (SGDm)	24.2	21.4	21.8	23.5	25.3
Recurring net profit (SGDm)	24.2	21.4	21.8	23.5	25.3
Recurring net profit growth (%)	7.7	(11.5)	1.8	7.9	7.5
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	17.3	16.0	14.9
P/B (x)	16.2	5.3	4.4	3.9	3.5
P/CF (x)	5.8	3.4	15.4	13.8	12.9
Dividend Yield (%)	18.1	2.0	2.9	3.1	3.4
EV/EBITDA (x)	5.2	11.1	10.3	9.1	8.0
Return on average equity (%)	214.2	51.1	25.8	24.4	23.2
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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Productive coffee shop at Blk 292, Bukit Batok Ave 6. Kimly has launched a productive coffee shop this year, tapping on automation and digital solutions to improve operational efficiency, and reduce its reliance on manpower. We visited the coffee shop on 5 Sep, and tried out the NETS QR code payment and the tray-return system.

Figure 1: Foodclique at Blk 292 Bukit Batok Ave 6

Figure 2: The coffee shop is next to HDB blocks and industrial properties



Source: RHB

Source: RHB

Going cashless. To increase efficiency and productivity, one of Kimly’s business strategies and future plans laid out during its IPO was to pilot test cashless electronic payment systems at its food count in SIM University. If successful, Kimly will extend it to other food outlets – and it has been implemented at the Blk 292, Bukit Batok outlet. This system removes the need to search for change, hence reduces time spent on managing cash and the risk of mishandling cash.

Figure 3: Kimly employee processing a NETS payment

Figure 4: Signs showing the shop takes NETS and Ezlink payments



Source: RHB

Source: RHB

Initiative to improve productivity. We observed the two initiatives that were rolled out at the food outlet, ie the QR code payment system and tray-return station.

Kimly has installed built-in self-service kiosks for patrons to pay by scanning the QR code. As customers are rewarded with a discount if they return their trays to the station, 80-90% of customers cleared their own dishes after finishing up their meal during our visit. This initiative is more successful and effective, we believe, when compared to the other food outlets where patrons pay a deposit for a tray, and receive a refund when the tray is returned. Management said this initiative has been well received by customers, and the rate of people making use of the initiative is high.

Figure 5: Steps showing the process From food ordering to making payment



Source: RHB

Figure 6: Self-service kiosks



Source: RHB

Figure 7: Scanning of QR code



Source: RHB

Figure 8: Tray return station



Source: RHB

Figure 9: A SGD0.10 discount voucher issued upon a tray return



Source: RHB

Affordable food options. Some of the stalls at the coffee shops have included a budget-friendly meal on its menu for patrons who are looking for a more affordable alternative. For instance, the mixed vegetable rice stall offers a SGD2.00 per bowl of porridge in place of the mixed vegetable rice which is priced upwards from SGD2.00-3.00, depending on what is ordered.

Figure 10: Mixed vegetable rice stall signboard



Source: RHB

New bidding system for Housing and Development Board (HDB) coffee shops. HDB will start to evaluate tenders for coffee shops based on the price-quality method. Here, the price and quality components have a 50% weighting.

The quality component evaluation includes affordable food options and initiatives to improve productivity. As such, Kimly's long-term strategies should keep it in good stead, as it will enable the company to have a competitive edge when bidding for new coffee shop leases from HDB.

There are about 750 coffee shops built by HDB currently and another 31 will be completed over the next five years. Of the 69 food outlets that Kimly manages, 14 are rented from HDB.

SGD1.10 for one cup of kopi-o. We checked out the prices at its drinks stalls (Bukit Batok and Tampines) and made a comparison with its neighbours. Across the board, the other coffee shops priced one cup of kopi-o at SGD1.00-1.20. A canned drink purchased from a Kimly coffee shop costs SGD1.50, ie a slight premium from competitors.

Competitive food prices at Kimly coffee shop. We also went on to check out the prices at the different stalls at the coffee shop, vs other coffee shops and food courts. One plate of chicken rice costs SGD2.50 (competitors charged SGD2.50-3.30) at the coffee shops. Food courts, where prices were the highest, were charging SGD3.50-4.00 a plate.

For a plate of economy rice, Kimly charges around SGD3.00 for a plate of rice with two vegetable dishes and one meat dish (other places charged SGD2.50-3.00, while the food court stalls charged SGD3.50). Prices differ between stalls in Kimly coffee shops, as tenants set their own food prices.

Figure 11: Kimly coffee shop at Tampines Blk 826 on a typical late morning on Tuesday



Source: RHB

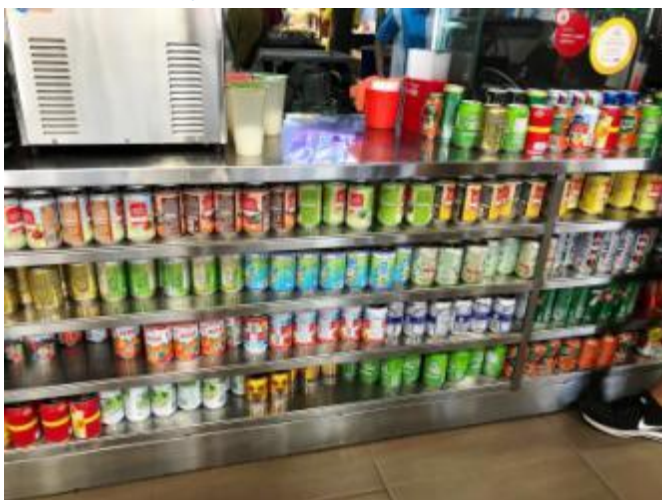
Figure 12: Close proximity to other coffee shops



Source: RHB

Asian Story beverages on sale. Since acquiring Asian Story, Kimly has placed *Asian Story* drinks on the top rows of shelves at their coffee shops (other shops stock beverages from Coca-Cola and F&N). Kimly will likely enjoy higher margins with more Asian Story beverages sold, which could boost earnings.

Figure 13: *Asian Story* drinks on the top row of the shelf at Kimly coffee shop



Source: RHB

Figure 14: Mixed vegetable rice, a staple for the local residents



Source: RHB

Figure 15: Comparing the drinks shelves at other coffee shops



Source: RHB

Vibrancy the key to successfully running a coffee shop. At the outlets we visited, all the lots were occupied by stalls. The Blk 826 Tampines coffee shop manages about 16 stalls, including two Muslim stalls to offer patrons a good variety of food options.

The majority of its stalls are shared by two tenants offering different food choices. We also note that outlets vary – depending on the size, location and the tenants. The occupancy rate is as high as 98% across nearly 500 stalls within its managed food outlets.

Figures 17 & 18: Food stalls at Blk 826 Tampines coffee shop



Source: RHB



Figure 16: Maximising food variety by leasing out one food stall lot to two tenants



Source: RHB

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