

8 March 2019

Consumer Cyclical | Restaurants

## Japan Foods (JFOOD SP)

**Neutral** (Maintained)

### Near-Term Headwinds; Prefer Sheng Siong

Target Price (Return) SGD0.45 (+5%)  
 Price: SGD0.43  
 Market Cap: USD55m  
 Avg Daily Turnover (SGD/USD) 0.01m/0.01m

- **Stay NEUTRAL with SGD0.45 TP from SGD0.48, 5% upside, with c.5% FY20F (Mar) yield** as we lower FY19F-20F earnings by 12%. The ongoing rationalisation of stores and moderating consumer discretionary spending amidst slowing economic growth has dragged profits lower in FY19. While Japan Foods continues to improve operational efficiencies, expand regional presence, refresh its ageing brands and launch new franchise brands, intense competition and tight labour supply could keep near-term profits depressed. A net cash balance sheet, strong FCF generation and c.5% yield should provide support to its share price. Sheng Siong (SSG SP, BUY, TP: SGD1.25), a grocery retailer, is our preferred pick in the Consumer sector.

- **Further reduction in dependence on foreign labour.** In the 2019 budget announcement, Finance Minister Heng Swee Keat flagged F&B as a labour-intensive business, while announcing a reduction in foreign worker dependency ratio ceiling (DRC) for the services sector. The DRC, which limits the proportion of foreign workers in a firm, will fall to 35% from 40% in 2021. In an already tight labour market, further reduction in DRC will make it difficult for F&B players to grow their businesses. Moreover, the need to improve productivity and implement technological solutions will lead to higher costs.

- **Brand portfolio management and weak consumer spending have dragged revenue lower for its key brands.** Japan Foods continues to practice good restaurant portfolio management, by taking into account market demand and the individual restaurant's profitability. In the last 12 months, it closed two *Ajisen Ramen* restaurants and has witnessed temporary closure of one restaurant for re-sizing of floor space. In FY18, this brand accounted for c.40% of its total revenue. For other key brands, revenue declined YoY during 9M19 due to negative same-store sales growth.

- **There are still some bright spots.** In Dec 2018, Japan Foods announced a 50:50 JV with Minor Singapore (Minor), which will allow it to bring Minor's Thai restaurants to Japan, while enabling the latter to expand Japan Foods' brands in Thailand and China. While we are yet to incorporate the earnings impact, we remain upbeat on the JV as it will make it possible for Japan Foods to leverage on operational strengths and industry experience of a strong partner and grow its business outside Singapore.

- **5% yield should provide price support.** While near-term earnings growth is expected to remain weak, net cash balance of SGD22m (30% of its market cap) and quarterly FCF generation of c.SGD1m should support a yield of c.5%. Strong earnings contribution from its new brands as well as from its JV with Minor could re-rate the stock.

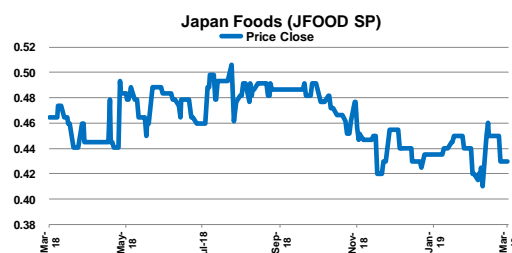
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.1)	2.4	(5.5)	(13.1)	(11.3)
Relative	(6.4)	1.5	(9.3)	(16.2)	(4.9)
52-wk Price low/high (SGD)	0.40 – 0.53				



Source: Bloomberg

Forecasts and Valuation	Mar-17	Mar-18	Mar-19F	Mar-20F	Mar-21F
Total turnover (SGDm)	65.5	67.8	72.5	74.2	77.2
Recurring net profit (SGDm)	4.7	5.8	4.3	4.8	5.6
Recurring net profit growth	23.3	24.0	(25.6)	10.7	18.6
Recurring P/E (x)	16.1	12.9	17.2	15.6	13.1
P/BV (x)	2.4	2.2	2.1	2.1	1.9
P/CF (x)	6.6	8.0	8.6	7.9	7.0
Dividend Yield (%)	4.7	4.9	4.2	4.7	5.1
EV/EBITDA (x)	9.3	8.9	10.6	9.7	8.6
ROE (%)	14.9	17.6	12.5	13.4	15.1
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

Figure 1: Recently launched brands

## Updates from Our Latest Brands

### Konjiki Hototogisu



- First franchisee in Asia.
- Launched in June 2018 at CHIJMES

**Brand highlights:**

- ✓ Originated in Shinjuku in Tokyo, Japan
- ✓ Featured in Michelin Guide Tokyo's Bib Gourmand for four consecutive years between 2015 and 2018
- ✓ **Accorded "1 Michelin Star" status in the Tokyo Michelin Guide 2019**
- ✓ Famed for its full-bodied clam, chicken and pork base broth



### Kagurazaka Saryo



- First franchisee in Asia
- Launched in July 2018 at VivoCity

**Brand highlights:**

- ✓ 20-year old brand
- ✓ Began in back street of Kagurazaka ("Little Kyoto") in Tokyo, Japan
- ✓ Offers variety of traditional Japanese desserts including cakes and ice creams with matcha as key ingredient



- ◆ Recently launched brands have been doing well with a strong and growing contribution to revenue.

Source: Company data

Figure 2: There are plans to launch a new franchise brand and refresh its ageing Ajisen Ramen brand

## Upcoming New Brands

### AFURI Ramen



**Brand highlights:**

- ✓ Origin: Kanagawa, Japan
- ✓ Location: Most outlets are in Tokyo Metropolitan area
- ✓ Known for: Healthy Yuzu-flavoured broth
- ✓ Target group: Health-conscious diners

### Kara-Men



**Brand highlights:**

- ✓ Origin: Kyushu, Japan.
- ✓ Extension of "Ajisen Ramen" flagship brand
- ✓ Features: Broth with different levels of spiciness

Expected launch dates for both brands: Next 12 months



- ◆ in Jan 2019, Japan Foods secured a new franchise brand, *Afuri Ramen*, from Kanagawa Japan, which is known for its yuzu-flavoured broth. The group has planned a new extension for its *Ajisen Ramen* brand. To be named *Kara-Men by Ajisen*, the new extension forms part of the group's plans to rejuvenate its twenty-year-old flagship *Ajisen Ramen* brand.

Source: Company data

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Figure 3: Peer valuation

Company name	BBG ticker	Price (LCY)	M Cap (USD m)	Last year	P/E			EV/EBITDA			P/BV			D Yield 1FY	ROE 1FY
					Last	1FY	2FY	Last	1FY	2FY	Last	1FY	2FY		
BreadTalk	BREAD SP	0.87	361	Dec-18	30.2	33.5	26.4	5.9	5.9	5.4	3.67	3.48	3.22	2.3%	11.5%
Kimly Limited	KMLY SP	0.24	204	Sep-18	12.7	12.0	12.0	6.4	-	-	3.31	-	-	4.2%	22.2%
Jumbo	JUMBO SP	0.40	189	Sep-18	22.1	20.0	17.4	11.0	10.5	9.3	3.80	3.64	3.33	3.5%	19.2%
ABR Holdings	ABR SP	0.75	111	Dec-18	52.5	-	-	8.1	-	-	1.58	-	-	na	na
No Signboard Holdings	NSB SP	0.09	32	Sep-18	-	-	-	-	-	-	1.97	-	-	na	na
RE&S Holdings	RES SP	0.20	51	Jun-18	14.5	-	-	4.1	-	-	1.94	-	-	na	na
Tung Lok Restaurant	TUNG SP	0.17	33	Mar-18	-	-	-	18.2	-	-	3.07	-	-	na	na
Katrina	KTG SP	0.20	33	Dec-18	91.5	-	-	10.8	-	-	3.27	-	-	na	na
Soup Restaurant	SOUP SP	0.17	34	Dec-18	20.9	-	-	8.5	-	-	4.20	-	-	na	na
Sakae Holdings	SAKAE SP	0.15	15	Jun-18	4.9	-	-	6.2	-	-	0.50	-	-	na	na
<b>Weighted average</b>			<b>1,065</b>		<b>28.1</b>	<b>24.3</b>	<b>20.2</b>	<b>7.7</b>	<b>7.5</b>	<b>6.7</b>	<b>3.21</b>	<b>3.53</b>	<b>3.26</b>	<b>2.2%</b>	<b>11.5%</b>
Japan Foods	JFOOD SP	0.43	55	Mar-18	12.9	17.2	15.6	4.9	5.8	5.2	2.19	2.15	2.05	4.2%	12.5%

Note: Data as at 7 Mar 2019

Source: Company data, Bloomberg, RHB

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