

29 May 2024

Consumer Cyclical | Restaurants

## Japan Foods (JFOOD SP)

**Neutral** (Maintained)

### Hoping For a Better FY25

Target Price (Return): SGD0.26 (+0%)  
 Price (Market Cap): SGD0.26 (USD33.5m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (SGD/USD) 0.01m/0.00m

- **NEUTRAL, new TP of SGD0.26 from SGD0.29, 0% upside with c.2% FY25F (Mar) yield.** Japan Foods' FY24 PATMI was well below our forecast, amidst higher-than-estimated operating costs. Its *halal*-concept restaurants have seen strong growth in outlet count and revenue. It plans to take a breather in expanding its restaurant and café network, and focus more on improving the profitability of its existing outlets. It has lowered dividend payouts, and is now in cash conservation mode. We cut FY25-26 earnings estimates by 9-11%, as we expect cost pressures to be sustained.
- **2HFY24 saw a recurring net loss.** Based on our estimate, JFOOD reported a recurring loss of SGD1.2m in 2HFY24 (Mar). This led to negative full-year recurring earnings, ie a loss of SGD0.3m vs a profit of SGD4m in FY23. Although its GPM remained healthy at 84.7%, higher labour, utilities and depreciation costs led to a material rise in operating costs - which, in turn, resulted in an operating loss.
- **More cautious on adding new outlets.** JFOOD recorded net additions of six, nine and 14 outlets in FY22, FY23 and FY24. For the current financial year, it aims to take a breather on expanding its outlet count. We estimate a net addition of just one outlet in the *halal* segment for FY25. This should lead to lower capex requirements compared to the last two years, when the capex was around SGD8-9m. JFOOD will continue to replace its ailing brands and concepts with new ones, in both the *halal* and non-*halal* segments.
- **Halal segment is the star; focus on cost control.** Management indicated SSSG turned negative in FY24. Despite a higher outlet count, the non-*halal* segment's total revenue and revenue per outlet declined by 13% YoY and 15% YoY in FY24. The saving grace was the *halal* segment, where total revenue and revenue per outlet grew by 55% YoY and 3.4% YoY. To offset some labour cost pressure, JFOOD plans to introduce a pay-at-the-table option for its customers in the near future.
- **Cash conservation.** To prepare for uncertain market conditions, JFOOD has adjusted its dividend policy from paying 100% of earnings to paying at least 50% of its earnings as dividends. During 2HFY24, JFOOD also sold its club membership for a cash gain of SGD0.5m. This revised dividend policy, lower near-term capex, and strong operating cash flow generation ability should lead to a gradual rise in its cash balance
- **Unchanged ESG estimate.** Our TP includes a 2% discount applied to the JFOOD's fair value, given that its ESG rating of 3.0 is below the country median of 3.1.

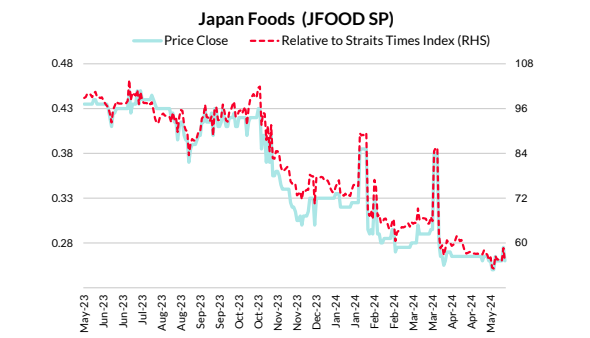
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(21.2)	(1.9)	(5.5)	(17.5)	(40.2)
Relative	(24.0)	(3.4)	(11.6)	(26.1)	(44.0)
52-wk Price low/high (SGD)				0.25	-0.45



Source: Bloomberg

#### Overall ESG Score: 3.0 (out of 4)

##### E: GOOD

JFH is identified its gas, electricity and water consumption rates as the key environmental factors to focus on. For FY21 (Mar), while the absolute consumption of gas, electricity and water was lower YoY, the rate of consumption measured as a ratio to revenue increased as revenue declined at faster rate amidst the pandemic.

##### S: GOOD

Customer satisfaction, food quality and inclusive workplace are key social factors being monitored. For FY21, 98% of its restaurants were graded A by Singapore Food Agency. It had zero food safety incidents and zero workplace fatalities. The number of non-fatal workplace injuries also declined YoY.

##### G: EXCELLENT

JFH has a proven track record of receiving awards that recognise our good corporate governance and transparency practices. The company assesses its corporate governance framework through the Singapore Governance and Transparency Index score measured by the National University of Singapore Business School. In FY21, the score fell by 8 points.

#### Note:

Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

Forecasts and Valuation	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Total turnover (SGDm)	79	86	90	98	106
Recurring net profit (SGDm)	4	(0)	2	3	5
Recurring net profit growth (%)	-	(106.9)	-	74.2	38.0
Recurring P/E (x)	11.30	na	22.81	13.10	9.49
P/B (x)	1.4	1.5	1.5	1.4	1.2
P/CF (x)	4.92	7.60	6.23	4.52	3.82
Dividend Yield (%)	9.0	5.0	1.9	2.2	3.8
EV/EBITDA (x)	3.37	9.16	4.60	3.24	2.42
Return on average equity (%)	12.6	(1.6)	6.5	10.7	13.6

Source: Company data, RHB

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## Financial Exhibits

Asia	Financial summary (SGD)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Singapore	Recurring EPS	0.02	0.00	0.01	0.02	0.03
Consumer Cyclical	DPS	0.02	0.01	0.01	0.01	0.01
<b>Japan Foods</b>	BVPS	0.19	0.17	0.18	0.19	0.21
JFOOD SP	Return on average equity (%)	12.6	(1.6)	6.5	10.7	13.6
Neutral						
	Valuation metrics	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	Recurring P/E (x)	11.30	na	22.81	13.10	9.49
	P/B (x)	1.4	1.5	1.5	1.4	1.2
	FCF Yield (%)	1.8	(8.6)	8.3	13.3	16.2
	Dividend Yield (%)	9.0	5.0	1.9	2.2	3.8
	EV/EBITDA (x)	3.37	9.16	4.60	3.24	2.42
	EV/EBIT (x)	5.94	na	15.67	7.70	4.95
	Income statement (SGDm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	Total turnover	78.5	86.4	90.0	97.7	106.0
	Gross profit	66.4	73.1	76.3	82.8	89.8
	EBITDA	8.0	3.7	6.9	9.1	11.0
	Depreciation and amortisation	(3.4)	(4.7)	(4.9)	(5.2)	(5.6)
	Operating profit	4.5	(1.0)	2.0	3.8	5.4
	Net interest	0.1	0.1	0.1	0.1	0.1
	Pre-tax profit	4.9	(0.6)	2.4	4.2	5.8
	Taxation	(0.7)	0.1	(0.4)	(0.8)	(1.0)
	Reported net profit	4.1	(0.5)	2.0	3.4	4.7
	Recurring net profit	4.0	(0.3)	2.0	3.4	4.7
	Cash flow (SGDm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	Change in working capital	(0.7)	(0.8)	(1.1)	(0.3)	(0.3)
	Cash flow from operations	9.2	6.0	7.2	10.0	11.8
	Capex	(8.4)	(9.8)	(3.5)	(4.0)	(4.5)
	Cash flow from investing activities	(8.5)	(9.6)	(3.6)	(4.1)	(4.6)
	Dividends paid	(4.1)	(2.3)	(0.9)	(1.0)	(1.7)
	Cash flow from financing activities	(4.5)	(2.8)	(0.9)	(1.0)	(1.7)
	Cash at beginning of period	23.2	18.5	11.5	13.1	15.7
	Net change in cash	(3.8)	(6.4)	2.8	4.9	5.5
	Ending balance cash	19.4	12.0	14.3	18.0	21.2
	Balance sheet (SGDm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	Total cash and equivalents	18.5	11.5	13.1	15.7	18.4
	Tangible fixed assets	11.8	16.2	14.9	13.7	12.7
	Total investments	2.1	2.5	2.5	2.5	2.5
	Total assets	90.6	93.4	102.3	109.7	116.2
	Total liabilities	57.9	63.6	71.4	76.4	79.9
	Total equity	32.7	29.8	30.9	33.3	36.3
	Total liabilities & equity	90.6	93.4	102.3	109.7	116.2
	Key metrics	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	Revenue growth (%)	43.8	10.0	4.3	8.5	8.5
	Recurrent EPS growth (%)	0.0	(106.9)	0.0	74.2	38.0
	Gross margin (%)	84.6	84.7	84.7	84.7	84.7
	Operating EBITDA margin (%)	10.1	4.3	7.7	9.3	10.4
	Net profit margin (%)	5.3	(0.6)	2.2	3.5	4.5
	Dividend payout ratio (%)	99.3	(457.6)	44.0	28.8	36.4
	Capex/sales (%)	10.7	11.4	3.9	4.1	4.2

Source: Company data, RHB

## Emissions And ESG

### Trend analysis

Although JFOOD's total GHG emissions increased in FY23 vs FY22, its business grew during the period – its outlet count increased to 65, from 56 in the previous year. The group's GHG emissions intensity, measured as tonnes of CO2e per SGD'000 of revenue, declined to 0.2 from 0.3 over the corresponding period.

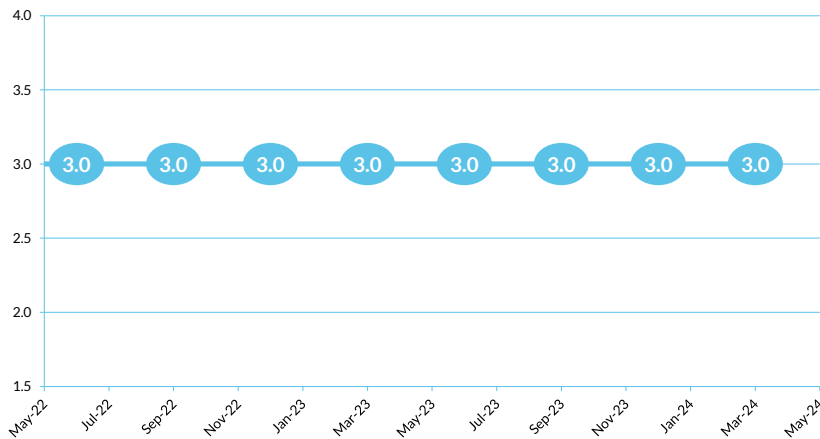
Emissions (tCO2e)	Mar-22	Mar-23	Mar-24
Scope 1	14,462	16,247	na
Scope 2	2,508	3,143	na
Scope 3	na	na	na
Total emissions	16,970	19,390	na

Source: Company data, RHB

## Latest ESG-Related Developments

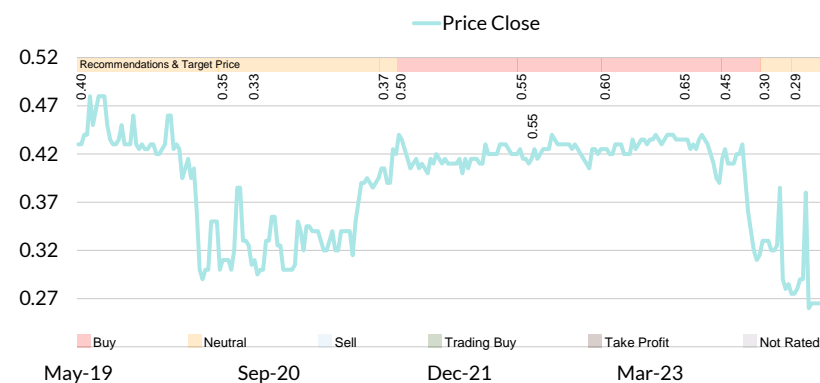
- JFOOD has reduced its water consumption intensity, LPG consumption intensity, and electricity consumption intensity in the last two years.
- As a target for FY24, it aims to reduce or maintain both the energy consumption intensity and the GHG emissions intensity.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-21	Neutral	0.29	0.30
2023-12-08	Neutral	0.30	0.32
2023-09-04	Buy	0.45	0.40
2023-05-29	Buy	0.65	0.44
2023-03-09	Buy	0.60	0.43
2022-11-17	Buy	0.60	0.43
2022-05-26	Buy	0.55	0.42
2022-04-29	Buy	0.55	0.42
2021-07-11	Buy	0.50	0.42
2021-05-30	Neutral	0.37	0.40
2020-07-22	Neutral	0.33	0.33
2020-05-06	Neutral	0.35	0.30
2019-11-08	Neutral	0.40	0.43
2019-08-22	Neutral	0.40	0.43
2019-05-23	Neutral	0.40	0.44

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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