

15 August 2023

Berjaya Food (BFD MK)

Value Emerges; Upgrade To BUY

- **Upgrade to BUY from Neutral, MYR0.77 TP maintained, 15% upside and 4% yield.** FY23 (Jun) core earnings met our and Street's expectations. We believe the worst is now over, considering the easing of input costs, whilst Berjaya Food's robust expansion plans should continue to underpin growth. Following a 34% YTD share price correction, the stock is now trading below its 5-year mean, which we deem as attractive – in view of Starbucks' extensive retail presence and established brand equity.
- **Within expectations.** FY23 core earnings of MYR102.4m (-18.9% YoY) came in within expectations, at 99.4% and 97.8% of our and Street's full-year estimates. A fourth interim DPS of 0.5 sen was declared (4QFY22: 2 sen) and will go ex on 11 Sep, bringing YTD DPS to 3.5 sen.
- **Results review.** YoY, FY22 revenue surged 11.8% to MYR1.12bn, primarily driven by the opening of new Starbucks stores (+c.37 to a total of 393 stores), coupled with aggressive promotional discounts to stimulate consumer spending. However, FY23 EBIT margin slipped 5.4ppts to 16.5% on higher raw material and operating costs, as well as the strengthening of the USD. QoQ, 4QFY23 sales rose 2.2% despite the more meaningful impact of *Ramadan*, thanks to new store openings and *Aidil Fitri* festive season. This, along with better operational efficiencies in labour cost management, lifted 4QFY23 core earnings by 16.7% QoQ to MYR19m.
- **Outlook.** We expect gradual margin recoveries in 2H23, given the easing and stabilising of raw material costs, coupled with the expected seasonal uptick during this period. Besides, we gather that BFD is targeting to open at least 40 Starbucks stores in FY24 to drive topline growth. Moving forward, we believe the group will continue to execute its effective marketing engagements and innovative product launches to sustain competitiveness and stimulate consumer spending. These would be further complemented by increasing arrival of tourists, in our view, which should boost footfall to retail areas.
- **Forecast and ratings.** We maintain our estimates and DCF-derived MYR0.77 TP, implying 15x FY24F P/E, ie close to its mean. We also ascribe a 4% ESG premium on BFD's intrinsic value to derive our TP, as the group's ESG score of 3.2 is higher than the country median of 3.0. We upgrade our recommendation to BUY, as we believe the current undemanding valuation – 13x FY24F P/E – presents a favourable opportunity for investors to accumulate positions.
- **Key risks:** Weaker-than-expected consumer sentiment and lower-than-expected margins.

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (MYRm)	998	1,116	1,256	1,368	1,458
Recurring net profit (MYRm)	125	102	90	97	102
Recurring net profit growth (%)	163.3	(18.2)	(12.0)	7.1	5.7
Recurring P/E (x)	9.42	11.51	13.08	12.21	11.55
P/B (x)	2.4	2.4	2.2	2.1	2.0
P/CF (x)	5.18	7.65	8.47	6.63	6.17
Dividend Yield (%)	8.2	5.2	4.4	4.7	5.0
EV/EBITDA (x)	3.84	4.36	4.53	4.10	3.51
Return on average equity (%)	27.9	21.1	16.9	16.9	16.8
Net debt to equity (%)	28.2	38.9	45.5	43.3	23.1

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Malaysia Results Review

Consumer Cyclical | Restaurants

Buy (from Neutral)

Target Price (Return): MYR0.77 (15.0%)
 Price (Market Cap): MYR0.67 (USD255m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (MYR/USD) 5.63m/1.23m

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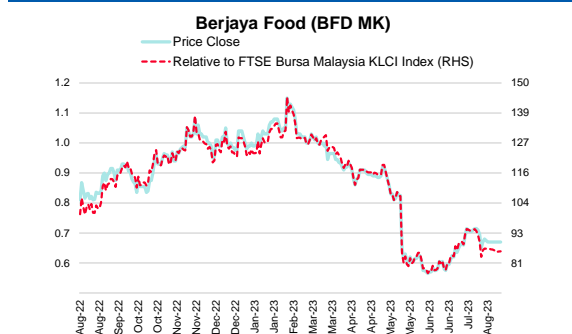


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(35.6)	(6.3)	(17.3)	(40.2)	(14.1)
Relative	(33.0)	(9.5)	(19.7)	(38.4)	(10.8)
52-wk Price low/high (MYR)	0.57 – 1.15				



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E: EXCELLENT

BFD endeavours to reduce its environmental footprint by advocating recycling and reusing cups and containers to reduce wastage – introducing Bring Your Own Tumbler and i.care boxes and bags. Starbucks has been innovating on sustainable ways to produce coffee and reduce water usage, and has seen 86% of its stores switching to LED lighting as of FY22.

S: EXCELLENT

BFD ensures that offerings are safe for consumption and complies with standards set by the Islamic Development Malaysia Department or JAKIM, Quality Assurance Standards Audit or QASA, and Good Catering Practices or GCP among others. The group also provides adequate training hours for workers, and employs 25 employees with disabilities. BFD's contributions to COVID-19 frontliners and the community are also commendable.

G: GOOD

The board comprises three independent non-executive directors and two non-independent non-executive directors – two of which are women. The tenure of an independent non-executive director is capped at 12 years, and details of remunerations in the annual report are on a named basis.

Note:

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

Financial Exhibits

Asia	Financial summary (MYR)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Malaysia	Recurring EPS	0.07	0.06	0.05	0.05	0.06
Consumer Cyclical	DPS	0.06	0.04	0.03	0.03	0.03
Berjaya Food	BVPS	0.28	0.28	0.30	0.32	0.34
BFD MK	Return on average equity (%)	27.9	21.1	16.9	16.9	16.8
Buy						
	Valuation metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Valuation basis	Recurring P/E (x)	9.42	11.51	13.08	12.21	11.55
DCF	P/B (x)	2.4	2.4	2.2	2.1	2.0
	FCF Yield (%)	11.3	3.2	(0.9)	2.4	11.1
Key drivers	Dividend Yield (%)	8.2	5.2	4.4	4.7	5.0
i. Strong growth in Starbucks;	EV/EBITDA (x)	3.84	4.36	4.53	4.10	3.51
ii. Turnaround at Malaysian Kenny Rogers Roasters or KRR;	EV/EBIT (x)	6.00	7.44	8.68	8.13	7.12
iii. Acquisition of quality brands.						
	Income statement (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Key risks	Total turnover	998	1,116	1,256	1,368	1,458
i. Weaker-than-expected consumer sentiment;	Gross profit	523	580	634	713	778
ii. Lower-than-expected margins.	EBITDA	342	313	312	346	374
	Depreciation and amortisation	(123)	(130)	(149)	(171)	(190)
Company Profile	Operating profit	219	183	163	175	185
Berjaya Food develops and operates the Kenny Rogers Roasters restaurant and Starbucks Coffee café chains in Malaysia. The company also develops and operates Jollibean Foods, which consists of the Jollibean, Kopi Alley, Sushi Deli, and DanGo brands in Singapore and Malaysia.	Net interest	(26)	(28)	(27)	(29)	(31)
	Pre-tax profit	188	157	133	143	151
	Taxation	(65)	(55)	(45)	(48)	(51)
	Reported net profit	121	103	86	93	98
	Recurring net profit	125	102	90	97	102
	Cash flow (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Change in working capital	0	0	(13)	6	5
	Cash flow from operations	228	154	139	178	191
	Capex	(94)	(117)	(150)	(150)	(60)
	Cash flow from investing activities	(116)	(62)	(151)	(151)	(62)
	Dividends paid	(16)	(82)	(52)	(56)	(59)
	Cash flow from financing activities	(190)	(189)	(128)	(134)	(140)
	Cash at beginning of period	28	69	51	22	37
	Net change in cash	(79)	(97)	(139)	(108)	(10)
	Ending balance cash	(51)	(28)	(89)	(85)	27
	Balance sheet (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Total cash and equivalents	69	51	22	37	162
	Tangible fixed assets	1,134	757	828	877	817
	Total investments	0	0	1	2	3
	Total assets	1,338	1,434	1,500	1,573	1,646
	Short-term debt	111	186	196	206	216
	Total long-term debt	95	55	65	75	85
	Total liabilities	854	946	977	1,011	1,043
	Total equity	485	488	524	562	603
	Total liabilities & equity	1,338	1,434	1,500	1,573	1,646
	Key metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Revenue growth (%)	39.1	11.8	12.5	8.9	6.6
	Recurrent EPS growth (%)	163.3	(18.2)	(12.0)	7.1	5.7
	Gross margin (%)	52.5	52.0	50.5	52.1	53.4
	Operating EBITDA margin (%)	34.3	28.0	24.8	25.3	25.7
	Net profit margin (%)	12.1	9.3	6.9	6.8	6.7
	Dividend payout ratio (%)	80.3	59.5	60.0	60.0	60.0
	Capex/sales (%)	9.5	10.5	11.9	11.0	4.1
	Interest cover (x)	8.24	6.46	6.00	5.96	5.88

Source: Company data, RHB

Results at a Glance

Figure 1: Earnings review

FYE Jun (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Revenue	291.3	265.8	271.7	2.2	(6.7)	997.7	1,116.0	11.8	Driven by 37 net new Starbucks stores openings.
Operating costs	(188.9)	(202.5)	(196.6)	(2.9)	4.1	(656.3)	(802.7)	22.3	
Adjusted EBITDA	102.4	63.4	75.1	18.6	(26.6)	341.4	313.3	(8.2)	
Adjusted EBITDA margin (%)	35.2	23.8	27.7			34.2	28.1		
Depreciation	(32.8)	(30.6)	(36.3)	18.5	10.7	(122.9)	(129.7)	5.5	
Adjusted EBIT	69.6	32.8	38.9	18.6	(44.2)	218.5	183.6	(16.0)	EBIT margin narrowed due to higher raw material, rental, and staff costs.
EBIT margin (%)	23.9	12.3	14.3			21.9	16.5		
Interest Income	0.1	0.1	0.3	213.1	324.7	0.3	0.6	87.8	
Interest Expense	(6.4)	(7.0)	(8.2)	18.5	28.0	(26.3)	(28.4)	7.9	
Share of associate	0.0	(0.4)	0.0	Nm	Nm	0.0	(0.4)	Nm	
EI/Others	0.2	(0.2)	(1.9)	Nm	Nm	(3.5)	1.0	Nm	FX gain/loss, write-down of PPE, and fair value changes on investment.
Reported PBT	63.4	25.4	29.0	14.4	(54.2)	189.0	156.5	(17.2)	
Tax	(23.9)	(10.2)	(11.9)	17.0	(50.0)	(68.2)	(55.3)	(18.9)	
Effective tax rate (%)	37.6	40.1	41.1			36.1	35.3		
Minority Interest	1.1	0.9	(0.0)	Nm	Nm	2.0	2.2	11.0	
Net Profit	40.7	16.1	17.1	6.1	(57.9)	122.7	103.4	(15.8)	
Core Profit	40.5	16.3	19.0	16.7	(53.0)	126.3	102.4	(18.9)	Within expectations.
Core net margin (%)	13.9	6.1	7.0			12.7	9.2		DPS of 0.5 sen was declared.

Source: Company data, RHB

Figure 2: DCF valuation

FYE Dec	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F
EBIT	163	175	185	193	202	212	222	234	247	261
EBIT*(1-tax rate)	118	126	133	139	145	152	159	166	174	183
Add: D&A	38	48	55	58	61	64	66	69	72	75
Less: WC investments (WC Inv)	-13	6	5	5	3	3	4	4	4	4
Less: Fixed investments (FC Inv)	-150	-150	-60	-60	-60	-60	-60	-60	-60	-60
FCFF	-7	31	134	142	149	159	169	179	190	202
Disc. FCFF	-7	25	97	92	87	84	80	76	73	69
Terminal value at T=10	2223									
PV of terminal value	764									
NPV	677									
Less Debt	-137									
Less Minority Interest	-2									
Equity Value of Firm	1303									
ESG premium/discount	4%									
Fair Value per share	0.77									
Implied FY24F P/E	15.0									
Rf	4.0%									
Beta	1.5									
Risk premium	6.0%									
Rm	10.0%									
TG (%)	2.0%									
CoE	12.9%									
CoD	4.0%									
WACC	11.3%									

Source: RHB

Recommendation Chart

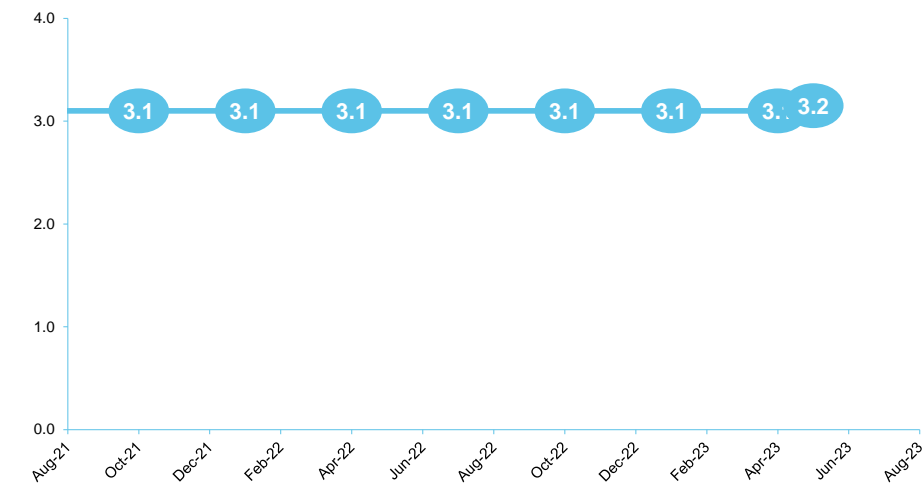


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-05-19	Neutral	0.77	0.65
2023-03-09	Buy	1.29	1.00
2023-02-14	Buy	1.29	1.12
2023-02-08	Buy	1.29	1.05
2022-09-25	Buy	1.13	0.93
2022-08-17	Buy	4.80	0.84
2022-05-12	Buy	4.80	0.81
2022-03-16	Buy	4.20	0.66
2022-02-11	Buy	3.05	0.60
2022-01-20	Buy	2.64	0.43
2021-11-12	Buy	2.55	0.42
2021-10-13	Buy	2.55	0.41
2021-09-13	Buy	2.50	0.41
2021-08-19	Buy	2.40	0.41
2021-08-17	Buy	2.33	0.38

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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