

29 April 2022

Consumer Cyclical | Restaurants

Japan Foods (JFOOD SP)

Buy (Maintained)

Growth To Resume After Surviving COVID-19; BUY

Target Price (Return): SGD0.55 (31.0%)
Price (Market Cap): SGD0.42 (USD52.8m)
ESG score: 3.00 (out of 4)
Avg Daily Turnover (SGD/USD) 0.00m/0.00m

- **BUY with new SGD0.55 TP from SGD0.50, 31% upside and c.5% FY22F (Mar) yield.** Amidst expectation of a gradual revival in consumer discretionary spending, as Singapore is now fully open for business and tourism, we made small upgrades to the FY23F-24F earnings. The TP increase was largely driven by rolling forward of our valuation basis to FY23 from FY22 estimates. While a return to pre-pandemic earnings may still be few years away, Japan Foods' plans to gradually resume its international expansion should support higher profits in the medium term.
- **Beneficiary of the economic reopening.** Singapore has reopened the domestic economy with most of the safe-management measures related to the pandemic being relaxed. This has led to higher footfall/visits to workplaces as well as retail and recreational places. International borders have also opened up, creating opportunity for higher tourist inflows into the country. We see these factors as positive for Singapore's F&B industry and believe it will boost JFH's revenue over the next 12 months. The firm is also in a much better position to ride the recovery, as the pandemic has lowered competition, with many F&B operators either shutting or scaling back operations. During the pandemic, JFH cut its restaurant count to 50. However, as at Sep 2021, its number of restaurants has increased to 52.
- **Addressing new business segments without much effort.** JFH's flexible business model puts it in a favourable position to expand market share. We like its ability to: i) Rotate restaurant brands across the 50+ leased spaces in major retail locations and ii) constantly introduce new concepts. Despite COVID-19, JFH launched its new *halal* concept restaurant Tokyo Shokudo, which has received positive responses from the Muslim community since its Nov 2020 launch. In c.10 months, Tokyo Shokudo restaurant numbers have expanded from one to six, generating SGD3.2m of revenue in 1HFY22 or c.15% of 1HFY22's total revenue.
- **Strong cost controls, net cash balance sheet and higher dividends.** JFH has remained focused on raw material costs and was able to keep its gross margins above 84% throughout the pandemic (1HFY22: 84.7%). While FY21 EBIT was supported by government grants, our FY23F EBIT already factors in a zero government support. As at Sep 2021, JFH had no borrowings and a cash balance of SGD18.2m (c.25% of market cap). During FY18-20, its dividend payout ratio stood at 68-214%. In its 1HFY22 results presentation, JFH said it will be revising its dividend policy to distribute at least 100% of net profit as dividends from FY22. We estimate JFH's dividend yield at >5% for FY22F-23F.
- **We assess JFH's ESG score to be at 3.0.** As this is in line with the country median score, we ascribe a 0% premium/discount to its fair value to arrive at our TP.

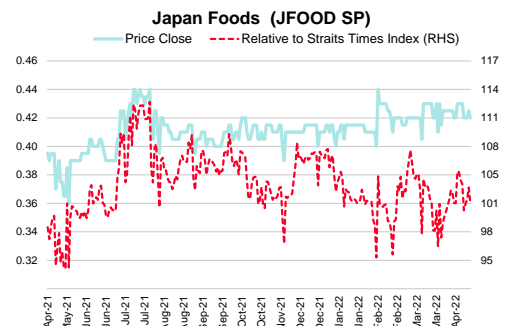
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.7	0.0	2.4	3.7	6.3
Relative	(3.1)	2.8	(0.3)	(0.4)	2.7
52-wk Price low/high (SGD)	0.36 – 0.44				



Source: Bloomberg

Overall ESG Score: 3.00 (out of 4)

E: GOOD

JFH has 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 capitalisation of less than USD0.5bn.

Forecasts and Valuation	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
Total turnover (SGDm)	68	51	63	74	78
Recurring net profit (SGDm)	1	(5)	3	4	4
Recurring net profit growth (%)	(69.5)	(634.8)	-	25.6	6.5
Recurring P/E (x)	71.82	na	25.85	20.57	19.32
P/B (x)	2.3	2.2	2.3	2.3	2.3
P/CF (x)	10.28	9.94	9.39	9.98	9.16
Dividend Yield (%)	5.0	2.4	5.4	5.1	4.9
EV/EBITDA (x)	9.41	6.42	7.56	6.58	6.07
Return on average equity (%)	3.1	11.2	8.6	11.0	11.7

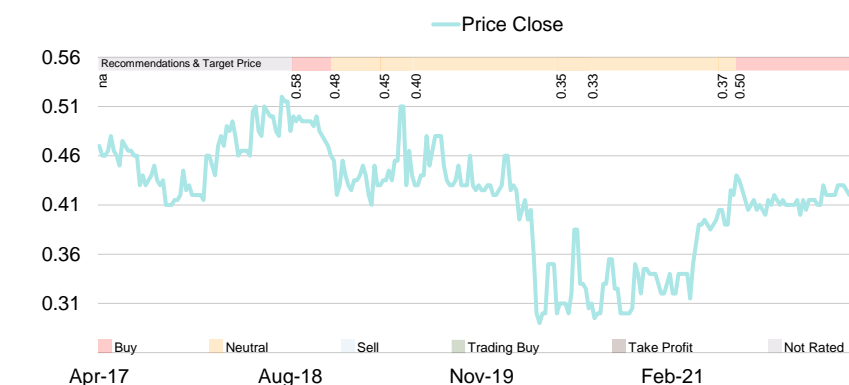
Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
Singapore	Recurring EPS	0.01	(0.03)	0.02	0.02	0.02
Consumer Cyclical	DPS	0.02	0.01	0.02	0.02	0.02
Japan Foods	BVPS	0.18	0.19	0.19	0.18	0.19
JFOOD SP	Return on average equity (%)	3.1	11.2	8.6	11.0	11.7
Buy						
Valuation basis	Valuation metrics	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
Our TP is derived by using an average of forward P/E, P/BV, EV/EBITDA and DCF of adjusted free cash flow.	Recurring P/E (x)	71.82	na	25.85	20.57	19.32
	P/B (x)	2.3	2.2	2.3	2.3	2.3
	FCF Yield (%)	3.8	9.0	4.5	3.9	4.8
	Dividend Yield (%)	5.0	2.4	5.4	5.1	4.9
	EV/EBITDA (x)	9.41	6.42	7.56	6.58	6.07
	EV/EBIT (x)	33.21	11.90	15.39	12.81	12.00
Key drivers	Income statement (SGDm)	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
i. Continuing revenue growth from addition of new restaurant and brands;	Total turnover	68.4	51.0	63.4	74.3	78.5
ii. Positive contributions from its JV with Minor Singapore and recent expansion into Hong Kong.	Gross profit	57.8	43.2	53.6	62.8	66.3
	EBITDA	5.6	7.8	6.7	7.9	8.5
	Depreciation and amortisation	(4.0)	(3.6)	(3.4)	(3.8)	(4.2)
	Operating profit	1.6	4.2	3.3	4.0	4.3
	Net interest	0.2	0.1	0.1	0.1	0.1
	Pre-tax profit	1.4	4.2	3.5	4.3	4.6
	Taxation	(0.4)	(0.6)	(0.6)	(0.8)	(0.8)
	Reported net profit	1.0	3.6	2.8	3.6	3.8
	Recurring net profit	1.0	(5.4)	2.8	3.6	3.8
Key risks	Cash flow (SGDm)	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
i. Rising operating costs and rental expenses;	Change in working capital	0.2	(1.7)	1.5	(0.0)	(0.0)
ii. Weakening consumer discretionary spending amidst a weakening economic outlook.	Cash flow from operations	7.1	7.4	7.8	7.3	8.0
	Capex	(4.3)	(0.8)	(4.5)	(4.5)	(4.5)
	Cash flow from investing activities	(4.6)	(2.2)	(4.6)	(4.6)	(4.6)
	Dividends paid	(3.7)	(1.7)	(3.9)	(3.7)	(3.6)
	Cash flow from financing activities	(4.9)	(2.5)	(3.9)	(3.7)	(3.6)
	Cash at beginning of period	22.1	20.4	23.1	22.4	21.5
	Net change in cash	(2.5)	2.6	(0.7)	(0.9)	(0.1)
	Ending balance cash	19.6	23.1	22.4	21.5	21.3
Company Profile	Balance sheet (SGDm)	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
Japan Foods operates Japanese restaurants in Singapore, Malaysia, and Indonesia. The company franchises some of its restaurants in Malaysia and Indonesia, and serves fried rice and pan-fried noodles.	Total cash and equivalents	20.4	23.1	22.4	21.5	21.3
	Tangible fixed assets	9.3	6.1	7.3	8.0	8.4
	Total investments	2.2	2.1	2.1	2.1	2.1
	Total assets	78.1	68.1	68.2	69.3	70.0
	Total liabilities	46.7	34.8	35.9	37.2	37.7
	Total equity	31.4	33.4	32.3	32.1	32.4
	Total liabilities & equity	78.1	68.1	68.2	69.3	70.0
	Key metrics	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
	Revenue growth (%)	0.5	(25.4)	24.4	17.1	5.7
	Recurrent EPS growth (%)	(69.5)	(634.7)	0.0	25.6	6.5
	Gross margin (%)	84.4	84.7	84.5	84.5	84.5
	Operating EBITDA margin (%)	8.2	15.3	10.6	10.6	10.9
	Net profit margin (%)	1.5	7.1	4.5	4.8	4.8
	Dividend payout ratio (%)	359.0	48.0	138.5	104.1	94.0
	Capex/sales (%)	6.3	1.5	7.1	6.1	5.7

Source: Company data, RHB

Recommendation Chart

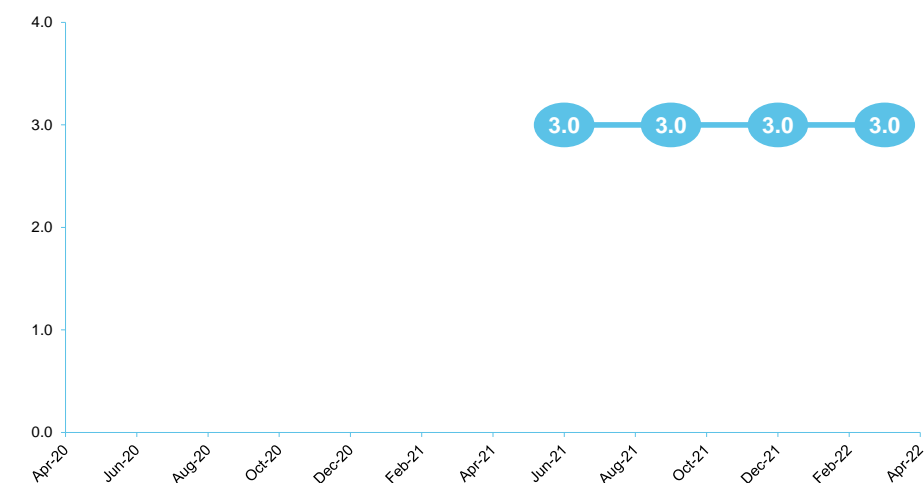


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-05-23	Neutral	0.40	0.44
2019-03-08	Neutral	0.45	0.43
2018-11-09	Neutral	0.48	0.46
2018-08-29	Buy	0.58	0.49
2018-08-08	Buy	na	0.50
2018-08-07	Buy	0.58	0.49

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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