27 May 2022

Consumer Cyclical | Restaurants

Japan Foods (JFOOD SP)

Buy (Maintained)

Strong Earnings Recovery On The Cards; Still BUY

Target Price (Return):	SGD0.55 (+31%)
Price (Market Cap):	SGD0.42 (USD53.2m)
ESG score:	3.00 (out of 4)
Avg Daily Turnover (SGD/USD)	0.00m/0.00m

- **Keep BUY and SGD0.55 TP, 31% upside and c.6% FY23F (Mar) yield.** Japan Foods' FY22 reported profit exceeded our estimate. With monthly revenue at its restaurants returning to pre-pandemic levels within the first few months of relaxation of COVID-19 restrictions in Singapore, and JFOOD looking to aggressively grow its number of outlets, we expect strong growth over FY23F-25F, with profit quickly reverting to FY19 levels. Our FY21-22 recurring profit excluded the government grants to make the forecast numbers comparable.
- **FY22 earnings in line.** FY22 reported profit of SGD3.2m, was significantly ahead of our estimate of SGD2.8m. This was largely aided by a strong recovery in customer footfall across all its restaurants and higher sales intensity for its new *halal* brand restaurants during 2HFY22. The *halal* restaurants accounted for c.21% of FY22 revenue. As at Mar 2022, it had 56 restaurants in Singapore (Mar 2021: 50), while the number of *halal* restaurants increased to nine (Mar 2021: one). JFOOD noted that monthly revenue for its restaurants at suburban malls has reverted back to pre-pandemic levels.
- **Return of outlet expansion.** The group is looking to add seven new restaurants in FY23, of which five would be *halal* restaurants. Out of the five halal restaurants, it has already opened two restaurants in the current quarter. We conservatively estimate JFOOD to have 60 restaurants by end Mar 2023. This translates to FY23F capex of SGD4.5m.
- **There is cost pressure, but confident of maintaining margin.** Growth in the number of outlets would also mean YoY higher operating costs, especially from increased labour and input expenses. However, JFOOD remains confident of being able to sustain its margins due to its efficient central kitchen operations and improved labour productivity. The group is focusing on diversifying its raw material sourcing, while keeping the costs under control. It was able to keep its gross margin above 84% throughout the pandemic (FY22: 84.6%). We estimate FY23 gross margin at 84.4%.
- **Large cash balance opens up growth opportunities.** As at Mar 2022, JFOOD had no borrowings and a cash balance of SGD23m (c.43% of market cap). It believes this large cash balance gives it a buffer to survive any unexpected decline in economic activity and also provides it with sufficient firepower to aggressively expand the number of outlets in Singapore or regionally, if needed.
- **High dividend yield.** As disclosed earlier, JFOOD announced 100% of net profit to be paid as dividends in FY22, which it expects to sustain in the future. We estimate its dividend yield at >5% for FY23F-25F.
- **ESG.** JFOOD's score is 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.

Forecasts and Valuation	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Total turnover (SGDm)	51	55	69	73	75
Recurring net profit (SGDm)	(5)	(0)	4	4	5
Recurring net profit growth (%)	(634.8)	(95.0)	-	24.9	4.9
Recurring P/E (x)	na	na	20.58	16.48	15.72
P/B (x)	2.2	2.2	2.3	2.2	2.2
P/CF (x)	9.94	9.43	12.79	9.25	8.51
Dividend Yield (%)	2.4	5.4	5.6	4.9	6.1
EV/EBITDA (x)	6.42	8.31	7.18	6.07	5.76
Return on average equity (%)	11.2	9.8	11.0	13.6	14.1

Source: Company data, RHB

Analyst

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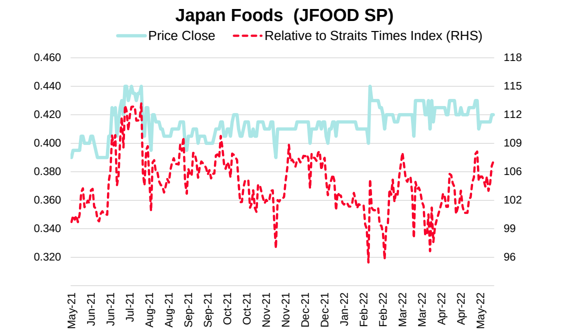
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.7	0.0	0.0	2.4	7.7
Relative	1.9	4.8	3.5	3.7	6.6
52-wk Price low/high (SGD)					0.39 – 0.44



Source: Bloomberg

Overall ESG Score: 3.00 (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 capitalisation of less than USD0.5bn.

Financial Exhibits

Asia
Singapore
Consumer Cyclical
Japan Foods
JFOOD SP
Buy

Valuation basis

Our TP is derived by using an average of forward P/E, P/BV, EV/EBITDA and DCF of adjusted free cash flow.

Key drivers

i. Continuing revenue growth from addition of new restaurant and brands;
ii. Positive contributions from its JV with Minor Singapore and recent expansion into Hong Kong.

Key risks

i. Rising operating costs and rental expenses;
ii. Weakening consumer discretionary spending amidst a weakening economic outlook.

Company Profile

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.

Financial summary (SGD)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Recurring EPS	(0.03)	(0.00)	0.02	0.03	0.03
DPS	0.01	0.02	0.02	0.02	0.03
BVPS	0.19	0.19	0.18	0.19	0.19
Return on average equity (%)	11.2	9.8	11.0	13.6	14.1

Valuation metrics	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Recurring P/E (x)	na	na	20.58	16.48	15.72
P/B (x)	2.2	2.2	2.3	2.2	2.2
FCF Yield (%)	9.0	5.2	1.7	4.7	5.6
Dividend Yield (%)	2.4	5.4	5.6	4.9	6.1
EV/EBITDA (x)	6.42	8.31	7.18	6.07	5.76
EV/EBIT (x)	11.90	16.35	12.94	10.39	10.07

Income statement (SGDm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Total turnover	51.0	54.6	68.7	72.9	75.4
Gross profit	43.2	46.2	58.0	61.6	63.6
EBITDA	7.8	6.0	7.4	8.8	9.3
Depreciation and amortisation	(3.6)	(3.0)	(3.3)	(3.6)	(4.0)
Operating profit	4.2	3.1	4.1	5.1	5.3
Net interest	0.1	0.1	0.1	0.1	0.1
Pre-tax profit	4.2	3.2	4.3	5.4	5.7
Taxation	(0.6)	0.0	(0.8)	(1.0)	(1.0)
Reported net profit	3.6	3.2	3.6	4.4	4.7
Recurring net profit	(5.4)	(0.3)	3.6	4.4	4.7

Cash flow (SGDm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Change in working capital	(1.7)	2.3	(1.1)	(0.2)	(0.0)
Cash flow from operations	7.4	7.8	5.7	7.9	8.6
Capex	(0.8)	(4.0)	(4.5)	(4.5)	(4.5)
Cash flow from investing activities	(2.2)	(3.5)	(4.6)	(4.6)	(4.6)
Dividends paid	(1.7)	(3.9)	(4.1)	(3.6)	(4.4)
Cash flow from financing activities	(2.5)	(5.7)	(4.1)	(3.6)	(4.4)
Cash at beginning of period	20.4	23.1	23.2	20.3	20.0
Net change in cash	2.6	(1.4)	(2.9)	(0.2)	(0.4)
Ending balance cash	23.1	21.7	20.3	20.0	19.6

Balance sheet (SGDm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Total cash and equivalents	23.1	23.2	20.3	20.0	19.6
Tangible fixed assets	6.1	7.2	8.5	9.4	10.0
Total investments	2.1	1.9	1.9	1.9	1.9
Total assets	68.1	77.8	77.0	78.3	78.8
Total liabilities	34.8	45.1	44.8	45.2	45.5
Total equity	33.4	32.7	32.2	33.1	33.3
Total liabilities & equity	68.1	77.8	77.0	78.3	78.8

Key metrics	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Revenue growth (%)	(25.4)	7.1	25.9	6.1	3.4
Recurrent EPS growth (%)	(634.7)	(95.0)	0.0	24.9	4.9
Gross margin (%)	84.7	84.6	84.4	84.4	84.4
Operating EBITDA margin (%)	15.3	11.0	10.7	12.0	12.4
Net profit margin (%)	7.1	5.9	5.2	6.1	6.2
Dividend payout ratio (%)	48.0	121.4	115.1	80.1	95.4
Capex/sales (%)	1.5	7.3	6.5	6.2	6.0

Source: Company data, RHB

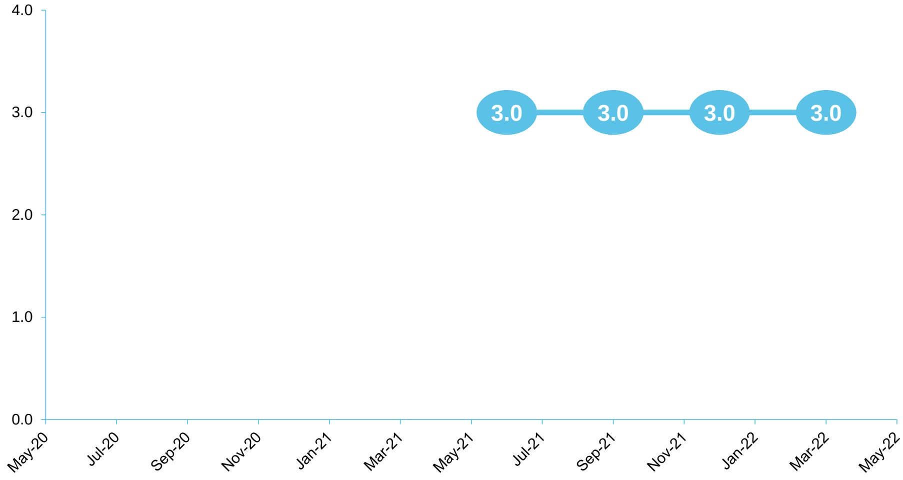
Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-05-23	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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