

7 December 2022

Consumer Cyclical | Restaurants

Japan Foods (JFOOD SP)

Buy (Maintained)

Expect Strong F&B Demand To Sustain; Keep BUY

Target Price (Return): SGD0.60 (41.2%)
 Price (Market Cap): SGD0.43 (USD54.8m)
 ESG score: 3.00 (out of 4)
 Avg Daily Turnover (SGD/USD) 0.01m/0.01m

- **Reiterate BUY with SGD0.60 TP offering 41% upside and c.5% FY23F (Mar) yield.** As per SingStat, the restaurant industry in Singapore has continued to register strong (+61.1%) YoY sales growth in October. While we expect the rate of growth to moderate, we still expect the industry to deliver positive growth in 2023. Japan Foods' strong balance sheet, which has helped it to survive the pandemic, its ability to sustain strong gross margins, and its recent expansion into halal restaurant brands should continue to support strong profit growth during FY23-25.
- **Expecting positive retail sales growth in 2023.** As per the Singapore department of statistics ([SingStat](#)), sales of F&B services grew 36.9% YoY in October, extending the 29.6% YoY increase in September. The large growth in F&B sales in October was mainly attributed to the low base in Oct 2021, when there were stricter restrictions on dining-in at F&B establishments. The turnover of restaurants increased by 61.1% YoY during this period. On a seasonally adjusted basis, sales of F&B services increased 1.0% MoM, while the turnover of restaurants fell 0.9% MoM in October. While we expect sales momentum to slow in 1H23 due to the economic headwinds and higher GST rates effective 1 Jan 2023, we still expect F&B sales to register positive growth in 2023.
- **Margins have held up well despite high inflation.** We believe Japan Foods' standardised food inputs across all its operations, an efficient central kitchen operations, and improved labour productivity should enable it to maintain its margins. Its gross margin widened to 84.7% in 1HFY23 from 83.8% in 1HFY22 (FY22: 84.6%), despite the inflationary environment. To offset some rise in input costs, Japan Foods is gradually passing on higher costs to customers by raising its prices as the demand remains strong.
- **Halal franchise offers strong growth prospects.** Japan Foods has expanded its halal restaurant offering and grown the number of its halal restaurants from six in 1HFY22 to 12 in 1HFY23. It also expanded its portfolio of halal brands to five as of Oct 2022. Halal restaurants contributed a net revenue YoY increase of SGD6.4m in 1HFY23 to SGD9.6m and accounted for 25.2% of Japan Foods' total revenue in 1HFY23. We see this segment as an untapped market that offers strong growth potential.
- **Above market dividend yield and compelling valuation.** Japan Foods paid 100% of its net profit as dividends in FY22, which we expect it to maintain in FY23-25. This implies a dividend yield of more than 5%, which is higher than what the Singapore market offers. We view its ex-cash FY23F P/E of 12x as compelling, given its robust growth potential. Our TP includes a 0% ESG premium/discount to its fair value.

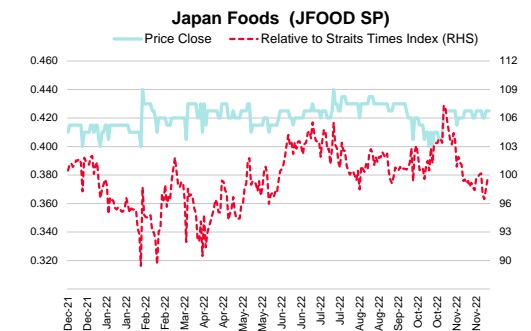
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.9	0.0	(1.2)	2.4	3.7
Relative	0.8	(3.9)	(2.3)	1.8	(1.1)
52-wk Price low/high (SGD)	0.40 – 0.44				



Source: Bloomberg

Overall ESG Score: 3.00 (out of 4)

E: GOOD

JFH identified its gas, electricity and water consumption rates as 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-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Total turnover (SGDm)	51	55	69	73	75
Recurring net profit (SGDm)	(5)	(0)	4	5	5
Recurring net profit growth (%)	(634.8)	(95.0)	-	23.4	4.8
Recurring P/E (x)	na	na	19.16	15.52	14.82
P/B (x)	2.2	2.3	2.3	2.2	2.2
P/CF (x)	10.06	9.54	12.30	8.99	8.28
Dividend Yield (%)	2.3	5.3	5.5	5.2	6.4
EV/EBITDA (x)	6.53	8.45	6.90	5.87	5.57
Return on average equity (%)	11.2	9.8	11.9	14.5	14.9

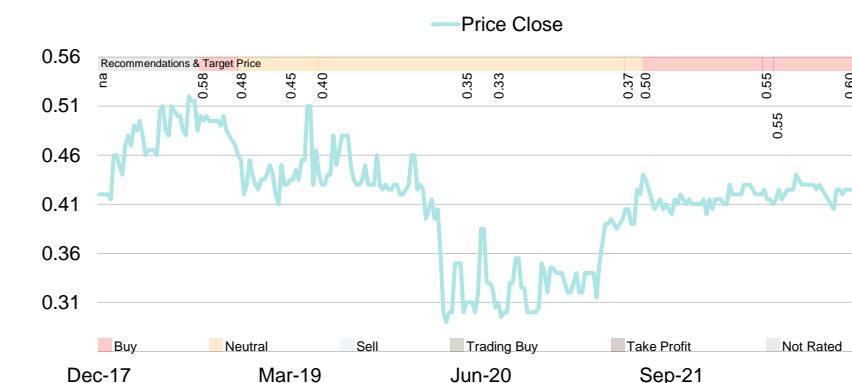
Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Singapore	Recurring EPS	(0.03)	(0.00)	0.02	0.03	0.03
Consumer Cyclical	DPS	0.01	0.02	0.02	0.02	0.03
Japan Foods	BVPS	0.19	0.19	0.19	0.19	0.19
JFOOD SP	Return on average equity (%)	11.2	9.8	11.9	14.5	14.9
Buy						
Valuation basis	Valuation metrics	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
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)	na	na	19.16	15.52	14.82
	P/B (x)	2.2	2.3	2.3	2.2	2.2
	FCF Yield (%)	8.9	5.1	2.1	5.1	6.0
	Dividend Yield (%)	2.3	5.3	5.5	5.2	6.4
	EV/EBITDA (x)	6.53	8.45	6.90	5.87	5.57
	EV/EBIT (x)	12.11	16.63	11.98	9.73	9.44
Key drivers	Income statement (SGDm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
i. Continuing revenue growth from addition of new restaurant and brands;	Total turnover	51.0	54.6	68.7	72.9	75.4
ii. Positive contributions from its JV with Minor Singapore and recent expansion into Hong Kong.	Gross profit	43.2	46.2	58.1	61.6	63.7
	EBITDA	7.8	6.0	7.8	9.2	9.7
	Depreciation and amortisation	(3.6)	(3.0)	(3.3)	(3.6)	(4.0)
	Operating profit	4.2	3.1	4.5	5.5	5.7
	Net interest	0.1	0.1	0.1	0.1	0.1
	Pre-tax profit	4.2	3.2	4.7	5.8	6.1
	Taxation	(0.6)	0.0	(0.8)	(1.0)	(1.1)
	Reported net profit	3.6	3.2	3.9	4.8	5.0
	Recurring net profit	(5.4)	(0.3)	3.9	4.8	5.0
Key risks	Cash flow (SGDm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
i. Rising operating costs and rental expenses;	Change in working capital	(1.7)	2.3	(1.1)	(0.2)	(0.0)
ii. Weakening consumer discretionary spending amidst a weakening economic outlook.	Cash flow from operations	7.4	7.8	6.0	8.2	9.0
	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)	(3.9)	(4.8)
	Cash flow from financing activities	(2.5)	(5.7)	(4.1)	(3.9)	(4.8)
	Cash at beginning of period	20.4	23.1	23.2	20.6	20.4
	Net change in cash	2.6	(1.4)	(2.6)	(0.2)	(0.4)
	Ending balance cash	23.1	21.7	20.6	20.4	20.0
Company Profile	Balance sheet (SGDm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
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	23.1	23.2	20.6	20.4	20.0
	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	77.3	78.6	79.1
	Total liabilities	34.8	45.1	44.8	45.2	45.5
	Total equity	33.4	32.7	32.5	33.4	33.6
	Total liabilities & equity	68.1	77.8	77.3	78.6	79.1
	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	23.4	4.8
	Gross margin (%)	84.7	84.6	84.5	84.5	84.5
	Operating EBITDA margin (%)	15.3	11.0	11.3	12.6	12.9
	Net profit margin (%)	7.1	5.9	5.6	6.5	6.6
	Dividend payout ratio (%)	48.0	121.4	105.9	81.1	95.5
	Capex/sales (%)	1.5	7.3	6.5	6.2	6.0

Source: Company data, RHB

Recommendation Chart

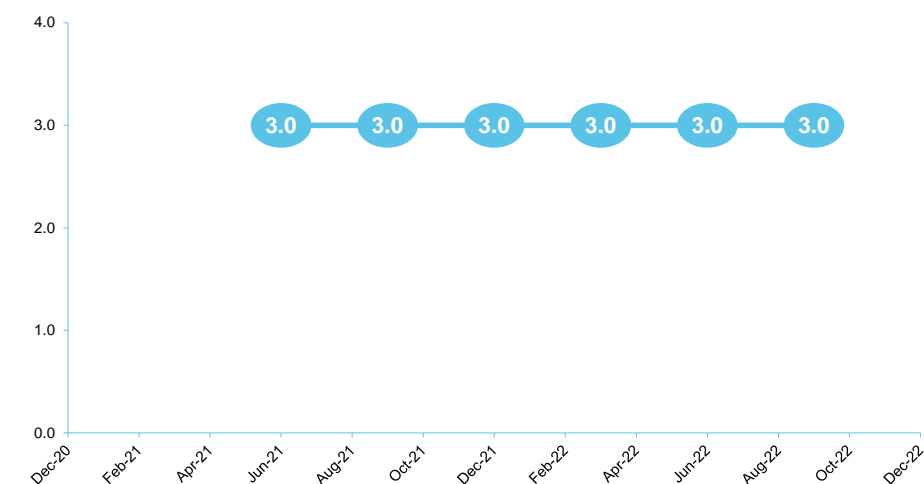


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-11-17	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
2019-04-17	Neutral	0.45	0.46
2019-03-08	Neutral	0.45	0.43
2018-12-10	Neutral	0.48	0.46
2018-11-09	Neutral	0.48	0.46
2018-08-29	Buy	0.58	0.49

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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