

12 May 2022

Consumer Cyclical | Restaurants

Berjaya Food (BFD MK)

Buy (Maintained)

Surprised On The Upside, Again; Maintain BUY

Target Price (Return): MYR4.80 (+30%)
Price (Market Cap): MYR3.70 (USD305m)
ESG score: 3.10 (out of 4)
Avg Daily Turnover (MYR/USD) 3.32m/0.79m

- **Keep BUY, with new DCF-derived MYR4.80 TP from MYR4.20, 30% upside and c.4% yield.** 3QFY22 (Jun) results beat expectations again, attributable to management's effective business strategies implemented over the past year, that led to robust SSSG. With Berjaya Food currently trading at an undemanding 13x FY23F P/E, below its 5-year mean, we deem the valuation attractive, considering its strong positioning as a cyclical play, improving fundamentals, and consistently strong earnings delivery.
- **Exceeding expectations again.** BFD reported 9MFY22 core net profit of MYR85.1m (+139% YoY), making up 93% and 100% of our and consensus' full-year forecasts. Although QoQ performance was softer (with 3QFY22 revenue and earnings dropping by 9.8% and 25% for off-season factors), YoY performance remained strong. 3Q/9MFY22 revenue grew by 35.4% and 31.7% YoY and earnings by 153% and 139% YoY on the back of healthy SSSG, particularly for Starbucks, thanks to the resumption of interstate travel. We were previously a tad conservative in our expectation for 3QFY22 due to the Omicron wave and likelihood of waning revenge spending. Nevertheless, note that 3QFY22 earnings of MYR31.7m are also significantly higher than the MYR4m reported in 4QFY19 (Apr) – a testament to the effective business rationalisation efforts over the past couple of years that are bearing fruit. A third interim dividend of 1.5 sen was declared for the quarter.
- **Outlook.** The broader economic reopening should lead to foot traffic across BFD's brands continuing the upward momentum, complemented by strong purchasing power, and underpinned by income recovery and improving employment rates. Its aggressive seasonal promotions also work well in reviving consumption habits, with consumers having been in lockdown for a majority of the past two years. Growth in the medium term should be driven by its expansion plans of 30-35 Starbucks outlets a year (18 new Starbucks outlets YTD), and we believe that the brand's already entrenched network suggests that the expansion will be into smaller towns and cities – which could contribute to sustainable sales improvements moving forward. We also like its focus on drive-through store formats which have fared well through the pandemic. KRR remained profitable in 3QFY22 and should continue to be, post-rationalisation (menu revamp and store closures) – on track to report its first profitable full year since FY16. In essence, the improvement in BFD's fundamentals, driven by sound business strategies, indicates that strong earnings delivery should be sustainable in the upcoming quarters – yet to be priced in by the market, in our view.
- **Maintain BUY.** We raise FY22F-24F earnings by 16-11%, refreshing our sales growth assumptions. Our new MYR4.80 TP implies an 18x FY23F P/E, which is +1SD from its 5-year mean. We ascribe a 2% ESG premium to our TP, considering BFD's ESG score of 3.1, which is above the country median.

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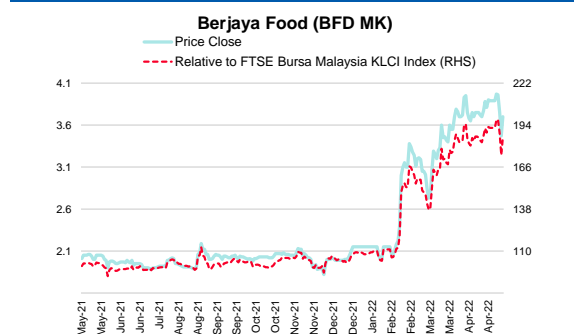


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	72.1	(1.3)	23.3	81.4	84.1
Relative	72.9	1.7	24.8	79.0	85.5
52-wk Price low/high (MYR)				1.82 – 3.97	



Source: Bloomberg

Overall ESG Score: 3.10 (out of 4)

E: EXCELLENT

BFood 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 70% of its stores switching to LED lighting as of FY20.

S: EXCELLENT

Ensures that the offerings are safe for consumption and adhere to laws set by JAKIM, QASA, GCP etc. The Group also provides adequate training hours for employees, and employs a total of 79 senior citizens and 23 persons with disabilities. The group'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 the details of remuneration in the Annual Report is on a named basis.

Note:

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

Forecasts and Valuation	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Total turnover (MYRm)	633	717	965	998	1,052
Recurring net profit (MYRm)	(22)	37	107	102	111
Recurring net profit growth (%)	(188.7)	-	191.7	(4.8)	8.8
Recurring P/E (x)	na	38.61	13.24	13.91	12.78
P/B (x)	4.2	3.8	3.3	2.9	2.6
P/CF (x)	9.12	7.56	6.58	7.43	6.88
Dividend Yield (%)	0.5	1.7	3.8	3.6	3.9
EV/EBITDA (x)	25.35	10.83	6.72	7.04	6.32
Return on average equity (%)	(7.2)	13.3	26.5	22.4	21.8
Net debt to equity (%)	85.2	68.9	54.4	47.0	40.0

Source: Company data, RHB

See important disclosures at the end of this report

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

Financial Exhibits

Asia	Financial summary (MYR)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Malaysia	Recurring EPS	(0.06)	0.10	0.28	0.27	0.29
Consumer Cyclical	DPS	0.02	0.06	0.14	0.13	0.15
Berjaya Food	BVPS	0.87	0.98	1.12	1.26	1.40
BFD MK	Return on average equity (%)	(7.2)	13.3	26.5	22.4	21.8
Buy						
	Valuation metrics	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Valuation basis	Recurring P/E (x)	na	38.61	13.24	13.91	12.78
Discounted Cash Flow	P/B (x)	4.2	3.8	3.3	2.9	2.6
	FCF Yield (%)	7.3	11.1	9.5	7.8	8.5
Key drivers	Dividend Yield (%)	0.5	1.7	3.8	3.6	3.9
i. Strong growth in Starbucks;	EV/EBITDA (x)	25.35	10.83	6.72	7.04	6.32
ii. Turnaround at Malaysian KRR;	EV/EBIT (x)	81.94	15.75	9.69	10.11	8.97
iii. Acquisition of quality brands.						
	Income statement (MYRm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Key risks	Total turnover	633	717	965	998	1,052
i. Intense competition;	Gross profit	265	366	493	510	537
ii. Slower-than-expected recovery in its KRR turnaround.	EBITDA	66	152	241	229	254
	Depreciation and amortisation	(46)	(48)	(74)	(70)	(75)
Company Profile	Operating profit	20	105	167	160	179
Berjaya Food develops and operates the Kenny Rogers Roasters restaurant chain as well as Starbucks Coffee café chain in Malaysia. The company also develops and operates Jollibean Foods, which consists of Jollibean, Kopi Alley, Sushi Deli and DanGo brand in Singapore and Malaysia.	Net interest	(34)	(30)	(18)	(17)	(16)
	Pre-tax profit	(14)	75	150	143	162
	Taxation	(12)	(29)	(43)	(41)	(52)
	Reported net profit	(25)	47	107	102	111
	Recurring net profit	(22)	37	107	102	111
	Cash flow (MYRm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Change in working capital	79	(45)	16	2	4
	Cash flow from operations	155	187	215	190	205
	Capex	(52)	(31)	(80)	(80)	(85)
	Cash flow from investing activities	(56)	(48)	(98)	(98)	(103)
	Dividends paid	(11)	(7)	(53)	(51)	(55)
	Cash flow from financing activities	(95)	(139)	(101)	(68)	(82)
	Cash at beginning of period	22	27	28	24	32
	Net change in cash	5	(0)	16	25	21
	Ending balance cash	27	27	44	49	53
	Balance sheet (MYRm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Total cash and equivalents	27	28	24	32	33
	Tangible fixed assets	286	269	312	357	405
	Total investments	24	22	22	22	22
	Total assets	1,229	1,178	1,237	1,293	1,346
	Short-term debt	190	170	140	140	140
	Total long-term debt	121	116	116	116	106
	Total liabilities	896	803	810	815	813
	Total equity	333	375	428	478	534
	Total liabilities & equity	1,229	1,178	1,237	1,293	1,346
	Key metrics	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Revenue growth (%)	(19.9)	13.3	34.5	3.4	5.4
	Recurrent EPS growth (%)	(188.7)	0.0	191.7	(4.8)	8.8
	Gross margin (%)	41.8	51.1	51.1	51.1	51.1
	Operating EBITDA margin (%)	10.4	21.2	25.0	23.0	24.1
	Net profit margin (%)	(4.0)	6.6	11.1	10.2	10.5
	Dividend payout ratio (%)	(30.4)	50.0	50.1	50.1	50.1
	Capex/sales (%)	8.2	4.3	8.3	8.0	8.1
	Interest cover (x)	0.59	3.50	9.41	9.50	10.84

Source: Company data, RHB

Results at a Glance

Figure 1 : BFD's results review

FYE Jun (MYRm)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)	Comments
Revenue	181.7	272.8	246.0	(9.8)	35.4	536.5	706.5	31.7	Higher YoY from successful business rationalisation efforts and better-than-expected sales performance
EBIT	25.7	67.0	52.4	(21.8)	103.7	74.8	145.2	94.1	
EBIT Margin (%)	14.2	24.6	21.3	(3.3)	7.1	13.9	20.6	6.6	
Interest expense	(7.6)	(6.8)	(6.2)	(8.9)	(18.0)	(22.8)	(19.9)	(12.8)	
Pretax profit	18.2	60.3	46.3	(23.3)	154.0	52.0	125.6	141.5	Effective cost-optimisation initiatives supporting earnings
Pretax Margin (%)	10.5	23.2	18.8	(4.4)	8.3	10.2	18.2	8.1	
Tax	(7.1)	(21.7)	(15.0)	(30.5)	110.5	(19.7)	(44.4)	125.5	
Effective tax rate (%)	(37.4)	(34.2)	(32.5)	1.7	4.9	(36.1)	(34.4)	1.7	
Net Profit	11.6	38.9	31.6	(18.8)	172.1	33.1	81.8	147.1	
Core Net Profit	12.5	41.9	31.7	(24.5)	153.0	35.6	85.1	138.9	Above expectations
Net Margin (%)	6.9	15.4	12.9	-2.5	6.0	6.6	12.1	5.4	DPS of 1.5 sen declared for the quarter

Source: Company data, RHB

Recommendation Chart

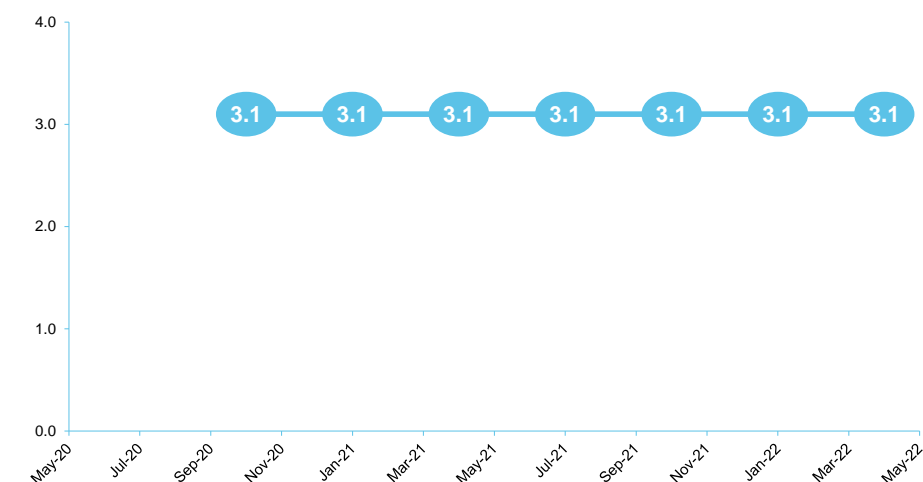


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-03-16	Buy	4.20	3.30
2022-02-11	Buy	3.05	3.00
2022-01-20	Buy	2.64	2.15
2021-10-13	Buy	2.55	2.03
2021-09-13	Buy	2.50	2.04
2021-08-19	Buy	2.40	2.06
2021-05-07	Buy	2.33	1.93
2021-02-10	Buy	1.77	1.59
2020-11-13	Buy	1.46	1.35
2020-08-24	Buy	1.38	1.16
2020-06-01	Sell	0.97	1.09
2020-04-09	Buy	1.38	1.15
2020-02-07	Buy	1.62	1.22

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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