



Company report

BERJAYA FOOD

(BFD MK EQUITY, BJFO.KL)

2 June 2020

A bitter 3QFY20 due to MCO

HOLD

(Maintained)

Nafisah Azmi

nafisah-azmi@ambankgroup.com

03-2036 2250

Rationale for report: Company results

Price	RM1.09
Fair Value	RM1.02
52-week High/Low	RM1.80/RM1.00

Key Changes

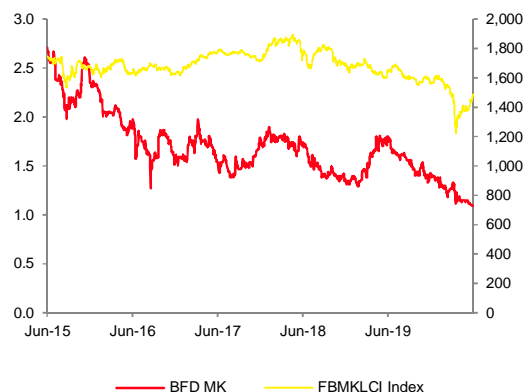
Fair value	⬇️
EPS	⬇️

YE to Jun	14MFY19\$	FY20F	FY21F	FY22F
Revenue (RM mil)	789.0	742.7	795.3	876.7
Core net profit (RM mil)	24.4	15.5	19.9	25.8
FD Core EPS (sen)	6.4	4.1	5.2	6.8
FD Core EPS growth (%)	13.8	(36.2)	27.8	29.7
Consensus Net Profit (RM mil)	-	22.7	27.0	30.3
DPS (sen)	4.0	4.0	4.0	4.0
PE (x)	17.1	26.8	20.9	16.1
EV/EBITDA (x)	6.0	4.2	4.8	4.9
Div yield (%)	3.7	3.7	3.7	3.7
ROE (%)	6.5	4.2	5.4	6.8
Net Gearing (%)	72.8	77.1	88.3	87.8

Stock and Financial Data

Shares Outstanding (million)	358.6
Market Cap (RM mil)	390.9
Book Value (RM/share)	0.97
P/BV (x)	1.1
ROE (%)	6.5
Net Gearing (%)	72.8
Major Shareholders	Berjaya Corporation (46.1%) DBS Bank (5.2%) Albizia ASEAN (5.2%)
Free Float	113.5
Avg Daily Value (RM mil)	0.7

Price performance	3mth	6mth	12mth
Absolute (%)	(13.5)	(23.2)	(39.4)
Relative (%)	(13.9)	(19.6)	(32.9)



Investment Highlights

- We maintain our HOLD call on Berjaya Food (BFood) with a lower FV of RM 1.02/share (vs. RM1.23 previously). Our fair value of RM1.02/share is based on a P/E of 17x on FY21F EPS. Our P/E is at a slight discount to BFood's historical average 1-year forward P/E as the group would be negatively affected by the Covid-19 pandemic.
- BFood's 9MFY20 core net profit of RM11.2mil came in at 68% of our and 49% of consensus' full-year earnings forecasts, missing expectations.
- We cut our earnings forecasts by 7% for FY20F, 18% for FY21F and 17% for FY22F. We anticipate weak sales in 4QFY20 but its bottom line should improve QoQ, underpinned by BFood's cost savings measures.
- 9MFY20 revenue was RM523.2mil (roughly +1.7% YoY based on our calculations). Starbucks' revenue grew about 3.2% YoY to RM438.0mil in 9MFY20 while that of KRR's fell 1.8% to RM62.5mil.
- We believe Starbucks' sales improved due to new store openings in 9MFY20. Some 25 stores were added, making up 316 Starbucks stores in 3QFY20. SSSG was flattish for Starbucks in 9MFY20.
- 9MFY20 SSSG was lower by 6% for Jollibean and by 8% for KRR. Jollibean has 33 stores (+2 YoY) while KRR has 82 stores (+1 YoY).
- Comparing 3QFY20 with 2QFY20, BFood's revenue slid 13.9% to RM158.6mil. Starbucks' revenue dropped 12.4% to RM134.0mil while KRR's was lower by 23.1% at RM17.7mil. Starbucks' SSSG shrank 0.5% QoQ while KRR's contracted 21% QoQ. Jollibean's revenue fell 12.9% to RM5.4mil.
- The poor sales performance in 3Q20 was largely attributed to the Covid-19 pandemic outbreak which resulted in a marked reduction of tourist arrivals to Malaysia and Singapore. Furthermore, around half of BFood's stores were closed during the movement control order (MCO) which started on 18 March 2020. The group was also affected by the circuit breaker in Singapore which affected its Jollibean operations.
- BFood's 3QFY20 EBIT of RM5.9mil (-70.9% QoQ) brought EBIT margin to 3.7% (-7.3ppt). Starbucks' EBIT tumbled 53.3% to RM9.8mil as EBIT margin slipped 6.4ppt to 7.3%. KRR's dropped to a loss of RM2.2mil while Jollibean dipped to a bigger loss of RM1.3mil.
- BFood's fixed costs are high. Hence when revenue and EBITDA dropped, the group sank into the red as it still had to incur fixed costs like depreciation and rental expenses. BFood recorded a loss before tax of RM763K in 3QFY20. Excluding the adverse impact of MFRS 16, PBT would have been higher at RM1.3mil.

- During the MCO, only 150 Starbucks outlets (roughly half) were opened. Sales were split almost equally among the three platforms of delivery, drive-thru and take-away. The outbreak has increased delivery service sales for Starbucks to around 30% of sales from 1%, and to 80% for Kenny Rogers Roasters from 10%.
- We expect operating profit margins to be better QoQ in 4QFY20 due to cost-saving measures. Rental rebates are still in negotiations but we believe that the group will receive at least 20% rental rebates for some of its outlets. We expect BFood to reduce its costs by managing its labour costs (40% of outlet workers are on part-time basis). Lower raw material prices should also alleviate some of the pressure on margins.
- We believe the group's sales in 4QFY20 will be volatile. We expect depressed sales during the MCO in April but we anticipate improved sales in May and June as the government implemented the conditional MCO on 4 May 2020. More stores have opened (around 290 stores are operational now). The Hari Raya festive season should also improve sales for the group.
- Beyond 4QFY20, we expect BFood's performance to gradually recover. We anticipate earnings growth of 28% in FY21F and 30% in FY22F. We believe that BFood's FY21F and FY22F sales growth would be driven largely by the opening of new stores. BFood plans to open up around 20 Starbucks stores in FY21F. We believe the group will take this opportunity to close down underperforming stores in 4QFY20F.

EXHIBIT 1: BERJAYA FOOD RESULTS REVIEW

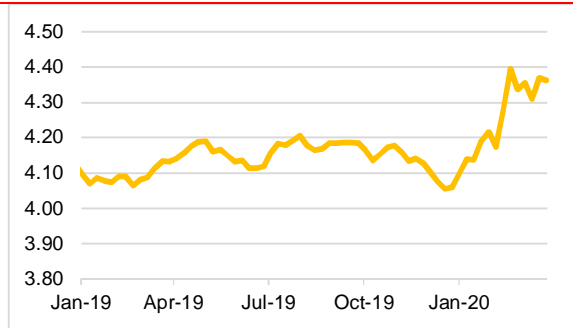
YE Jun (from Apr previously)	Jan - Mar 2019*	20Q2	20Q3	QoQ (%)	YoY (%)	Jul 2018 - Mac 2019^	9MFY20	YoY (%)
Revenue	173.5	184.1	158.6	-13.9	-8.6	514.2	523.2	1.7
EBITDA	24.3	51.7	5.9	-88.7	-75.9	77.0	41.8	-45.8
Depreciation	-9.9	-31.6	0.0	-100.0	-100.0	-30.4	0.0	-100.0
EBIT	14.4	20.2	5.9	-70.9	-59.2	46.6	41.8	-10.3
Interest expense	-3.9	-7.1	-6.7	-5.6	73.2	-11.3	-21.1	86.9
Interest income	0.1	0.1	0.1	0.0	-22.1	0.3	0.2	-4.3
Pretax profit	10.6	13.1	-0.8	-105.8	-107.2	35.5	20.9	-41.1
Taxation	-4.9	-5.1	-1.1	-78.8	-77.8	-14.7	-10.2	-30.8
Minority interest	0.0	0.0	0.5			0.0	0.5	
Net profit - Basic	5.7	8.0	-1.4	-117.3	-124.3	20.8	11.2	-46.0
Core EPS - Diluted (sen)	1.6	2.2	-0.4	-117.4	-124.9	6.0	#DIV/0!	#DIV/0!
Gross DPS (sen)	1.0	1.0	0.0			3.0	0.0	-100.0
EBIT margin (%)	8.3	11.0	3.7	-7.3	-4.6	9.1	8.0	-1.1
Pretax margin (%)	6.1	7.1	-0.5	-7.6	-6.6	7.3	4.0	-3.3
PAT margin (%)	3.3	4.4	-0.9	-5.2	-4.2	4.0	2.1	-1.9
Effective tax rate (%)	46.1	39.0	-142.1	-181.0	-188.2	40.3	48.7	8.4
			0.0					
Segmental revenue								
Malaysia	165.8	176.2	151.7	-13.9	-8.5	491.2	500.5	1.9
Sbucks	143.5	153.0	134.0	-12.4	-6.6	424.5	438.0	3.2
KRR	21.1	23.0	17.7	-23.0	-16.2	63.6	62.5	-1.8
Singapore	6.1	6.2	5.4	-12.9	-11.2	18.2	17.9	-1.2
Others	1.6	1.7	1.4	-14.0	-8.5	4.8	4.7	-0.6
Segmental earnings								
Malaysia	15.4	21.3	7.6	-64.4	-50.7	51.2	45.6	-11.0
Sbucks	17.2	21.0	9.8	-53.3	-43.1	35.8	47.8	33.3
KRR	-1.7	0.4	-2.2	-730.6	28.6	-2.1	-2.2	7.2
Singapore	-0.6	-0.7	-1.3	81.8	125.0	-1.0	-2.4	147.8
Others	-0.1	0.1	0.0	-66.1	-146.4	-0.1	0.1	-216.5
Segmental margins								
Malaysia (%)	9.3	12.1	5.0	-7.1	-4.3	10.5	9.1	-1.4
Sbucks	12.0	13.7	7.3	-6.4	-4.7	8.4	10.9	2.5
KRR	-8.1	1.5	-12.5	-14.0	-4.3	-3.2	-3.5	-0.3
Singapore (%)	-9.3	-11.3	-23.5	-12.2	-14.2	-5.3	-13.2	-7.9
Others (%)	-5.6	7.2	2.8	-4.4	8.5	-1.8	2.1	3.9

*The Jan-Mar 2019 numbers are calculated on a pro rata basis of 1 month from 3QFY19 and 2 months from 4QFY19.

^The Jul 2018 -Mar 2019 numbers are calculated on a pro rata basis of 1 month from 1QFY19, 2QFY19, 3QFY19 and 2 months from 4QFY19.

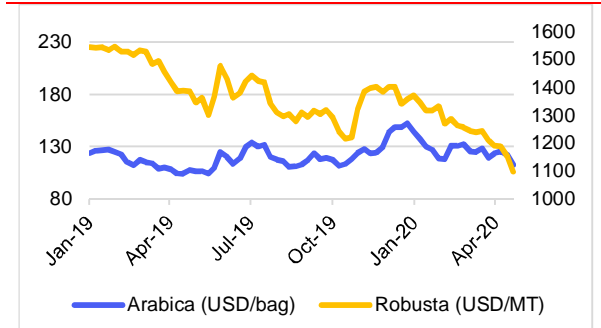
Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: USD/MYR



Source: Bloomberg, AmInvestment Bank Bhd

EXHIBIT 3: COFFEE PRICES



Source: Bloomberg, AmInvestment Bank Bhd

EXHIBIT 4: PB BAND CHART

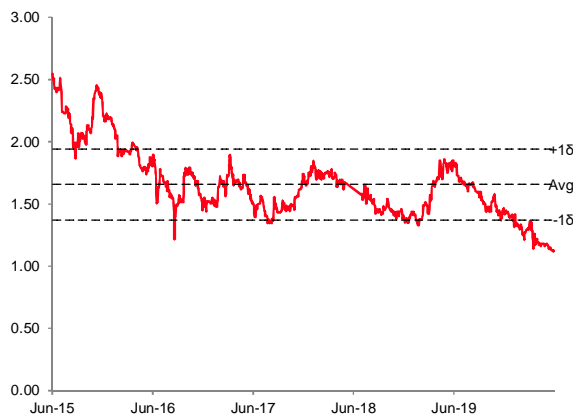


EXHIBIT 5: PE BAND CHART



EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY18	14MFY19§	FY20F	FY21F	FY22F
Revenue	639.7	789.0	742.7	795.3	876.7
EBITDA	71.8	110.4	158.6	150.7	148.0
Depreciation/Amortisation	(36.4)	(45.7)	(106.6)	(91.7)	(79.4)
Operating income (EBIT)	35.4	64.7	52.0	59.0	68.7
Other income & associates	-	-	-	-	-
Net interest	(16.0)	(18.1)	(26.2)	(25.9)	(25.8)
Exceptional items	15.4	-	-	-	-
Pretax profit	34.8	46.6	25.8	33.1	42.9
Taxation	(19.0)	(22.4)	(10.3)	(13.2)	(17.1)
Minorities/pref dividends	1.0	0.2	-	-	-
Net profit	16.8	24.4	15.5	19.9	25.8
Core net profit	16.8	24.4	15.5	19.9	25.8
Balance Sheet (RMmil, YE 30 Jun)	FY18	14MFY19§	FY20F	FY21F	FY22F
Fixed assets	234.1	275.5	550.7	553.3	556.0
Intangible assets	457.1	459.6	459.6	459.6	459.6
Other long-term assets	28.1	30.8	30.8	30.8	30.8
Total non-current assets	719.3	765.9	1,041.2	1,043.7	1,046.5
Cash & equivalent	32.3	22.5	25.4	(0.2)	11.9
Stock	34.1	37.2	32.6	34.7	37.4
Trade debtors	24.3	27.4	24.3	26.1	28.7
Other current assets	3.7	3.9	3.9	3.9	3.9
Total current assets	94.3	90.9	86.2	64.4	81.9
Trade creditors	68.7	116.3	84.1	89.6	96.6
Short-term borrowings	141.8	161.1	162.7	164.4	166.0
Other current liabilities	65.8	72.8	72.8	72.8	72.8
Total current liabilities	276.3	350.2	319.7	326.7	335.4
Long-term borrowings	137.5	127.4	144.8	163.2	181.6
Other long-term liabilities	12.7	12.7	12.7	13.7	17.7
Total long-term liabilities	150.2	140.1	157.6	176.9	199.3
Shareholders' funds	385.8	365.3	366.2	371.3	382.4
Minority interests	1.4	1.2	1.2	1.2	1.2
BV/share (RM)	1.03	0.97	0.97	0.99	1.02
Cash Flow (RMmil, YE 30 Jun)	FY18	14MFY19§	FY20F	FY21F	FY22F
Pretax profit	34.8	46.6	25.8	33.1	42.9
Depreciation/Amortisation	36.4	45.7	106.6	91.7	79.4
Net change in working capital	(21.4)	41.3	(24.5)	1.6	1.6
Others	44.3	(1.7)	15.9	12.7	8.7
Cash flow from operations	94.1	131.9	123.9	139.1	132.6
Capital expenditure	(45.8)	(86.6)	(100.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	(3.9)	(5.3)	-	-	-
Others	0.2	0.8	0.2	0.1	0.2
Cash flow from investing	(49.5)	(91.1)	(99.8)	(99.9)	(99.8)
Debt raised/(repaid)	20.4	8.2	20.0	20.0	20.0
Equity raised/(repaid)	2.0	0.3	0.3	0.3	0.3
Dividends paid	(15.0)	(14.7)	(15.0)	(15.0)	(15.0)
Others	(13.5)	(49.5)	(26.3)	(70.1)	(26.0)
Cash flow from financing	(6.2)	(55.6)	(21.0)	(64.8)	(20.7)
Net cash flow	38.4	(14.9)	3.0	(25.6)	12.1
Net cash/(debt) b/f	26.3	28.8	15.0	17.9	(7.7)
Net cash/(debt) c/f	64.7	13.9	17.9	(7.7)	4.4
Key Ratios (YE 30 Jun)	FY18	14MFY19§	FY20F	FY21F	FY22F
Revenue growth (%)	5.7	23.3	(5.9)	7.1	10.2
EBITDA growth (%)	(2.2)	53.7	43.7	(5.0)	(1.8)
Pretax margin (%)	5.4	5.9	3.5	4.2	4.9
Net profit margin (%)	2.6	3.1	2.1	2.5	2.9
Interest cover (x)	2.2	3.6	2.0	2.3	2.7
Effective tax rate (%)	54.6	48.1	39.8	39.9	39.9
Dividend payout (%)	89.7	61.7	96.7	75.6	58.3
Debtors turnover (days)	13	12	13	12	11
Stock turnover (days)	20	16	17	15	15
Creditors turnover (days)	46	43	49	40	39

Source: Company, AmInvestment Bank Bhd estimates

§ From this year onwards year end is Jun

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.