

Koufu Group Limited

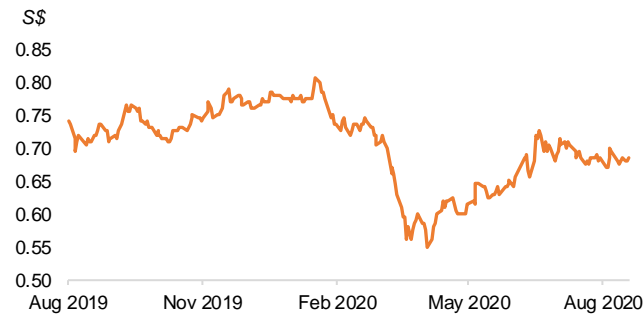
Date: 20 August 2020

BUY
(Maintained)

Target Price: S\$0.800
(+16.8%)

VL6.SI

Price: S\$0.685 (as at 19 August 2020)



Share price	1M	3M	6M	1Y
Koufu Group Limited	0.0%	8.7%	-6.8%	-4.9%
Straits Times Index	-2.1%	-0.8%	-20.3%	-18.1%

Market Capitalisation	S\$379.9 million
Current Price	S\$0.685
Shares Outstanding	554.6 million
Free Float	22.7%
Major Shareholder	Jun Yuan Holdings Pte. Ltd. 77.2% ¹
Recommendation of other brokers	3 Buy 1 Add

¹Mr. Pang Lim and Mdm. Ng Hoon Tien are deemed to be interested in 428,048,800 shares held by Jun Yuan Holdings Pte. Ltd. pursuant to Section 4 of the Securities and Futures Act ("SFA") and 150,000 shares held by their son, Pang Xue Ru pursuant to Section 133(4)(a) of the SFA.

Source: Company data, Bloomberg, SAC Capital

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Recovery in Sight

COVID-19 impacted 1HFY20 earnings. 1HFY20 revenue fell 23% to S\$89.0m, due to the lockdown in April and May that decimated businesses at the eating places. Net profit fell by a larger 82% to S\$2.5m, aided by S\$5.1m job support grant and rental rebates from the landlords.

Recovery in sight from 3QFY20. We expect progressive recovery in 2HFY20 due to: 1) gradual easing of mobility from June, allowing more dine-in patrons per table; 2) acquisition of Deli Asia from July which enable Koufu to move up the food value chain to include food manufacturing and processing; and 3) completion of the integrated facility in 4QFY20 which add kitchen capacity and enables Koufu to extend the cloud kitchen concept to other food operators.

Strong balance sheet. As at end June 2020, it has net cash of S\$72.0m. Acquisition of Deli Asia¹ for S\$22.04m in July 2020 is funded through internal resources, which include the net proceeds from IPO previously. Net cash is expected to decrease as a result. However, cash holdings could rise as Koufu looks to dispose off the two existing central kitchens when the integrated facility is operational. Despite a 1HFY20 EPS of 0.45 cents, Koufu is paying an interim dividend of 0.5 cents per share.

Focus on local expansion. After the expansion of R&B bubble tea in Indonesia in July 2020, Koufu will add one food court each in Singapore in Q3 and Macau in Q4. All overseas expansion plans has been put on hold.

Maintain BUY rating, lower fair value to S\$0.80 (from S\$0.87). Our DCF-derived target price translates into a FY21E P/E of 12.9x. Though we expect significantly lower net profit in FY2020, with the upcoming integrated facility, synergies from Deli Asia, and plans for future expansion, we remain positive that Koufu Group will recover, beyond FY2020. Our target price implies a 16.8% upside to the last traded price.

Key Risks: Uncertain economy, food delivery competitors, and ability to successfully integrate the acquisition of Deli Asia.

¹ Refer to page 2 for details

Key Financials

Year ended 31 Dec	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
Revenue (S\$'000)	223,840	237,507	200,814	249,731	259,871
% Growth	3.3%	6.1%	-15.4%	24.4%	4.1%
Profit/(loss) before tax (S\$'000)	29,431	33,958	21,837	41,991	48,686
Profit/(loss) before tax margin	13.1%	14.3%	10.9%	16.8%	18.7%
Profit/(loss) attributable to owners (S\$'000)	24,509	27,688	17,900	34,420	39,908
EPS (Singapore cents)	4.75	4.99	3.23	6.21	7.20
P/E (x)	15.5	13.6	21.2	11.0	9.5
P/B (x)	4.2	3.7	3.4	2.9	2.5
Net Debt/Equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

[^]EPS is computed based on the profit from continuing operations attributable to owners of the company divided by total shares outstanding Singapore Financial Reporting Standards (International) ("SFRS(I)") SFRS 16 has been implemented in FY2019.

Investment Highlights

1HFY20 NPAT fell 82.0% YoY

Koufu saw a 23.2% decline in revenue from S\$115.9 million in 1HFY2019 to S\$89.0 million in 1HFY20 due to COVID-19 pandemic, which led to a 2-month circuit breaker in Singapore during 2Q2020. The decrease in revenue was partially offset by an increase in government grants of S\$5.1 million to support wages and property tax rebates extended by landlords. As a result, despite taking a substantial hit, net profit remained positive.

Business Overview:

Koufu is an established Singapore household name known for its chain of food courts and coffee shops under management, offering food options to the mass market. Since 2002, Koufu has expanded quickly over the years by opening numerous outlets and launching new food and beverage brands and established presence into Malaysia, Indonesia and Macau.

Despite being able to continue operating under the ambit of being an essential service, Koufu said some of its food courts had been impacted by "significantly lower" footfall. The group had previously suspended the operations of 10 food courts (out of 48), 3 quick-service restaurants (out of 7) and two full-service restaurants (out of 4) temporarily due to low footfall, in order to reduce operating costs. With the government's Job Support Scheme and foreign worker levy waiver, as well as rental relief from its landlords, Koufu remained profitable. With its operations focusing on the mass market segment, we expect a recovery from 2HFY20 as operations gradually resume.

Acquisition of Deli Asia

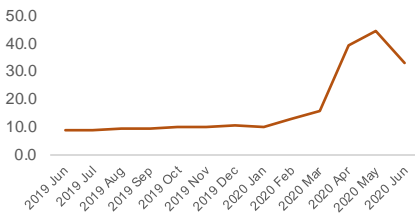
Koufu Group's completed acquisition of Deli Asia Group (Deli Asia, DeliSnacks, Dough Culture and Dough Heritage) for \$22.04 million will allow them to capture further the high takeaway market. Following this acquisition, Deli Asia Group is now a wholly-owned subsidiary of Koufu Group.

Deli Asia Group is principally involved in the business of the manufacture and production of fried food and dough products, supply of frozen and partial fried food products to third party businesses and retail of fried food and dough products under its Delisnacks and Dough Culture brands, respectively.

This vertical integration will be profitable in the future if Deli Asia can properly value-add to the current Koufu business. The Koufu Board believes that the business of the Deli Asia Group is complementary and will have synergistic effects as the Group will be able to develop its supply chain for its food and beverage retail business segment. The deal will also give Koufu immediate access to third-party businesses locally and overseas as well as provide opportunities to expand the F&B retail business to include frozen and partially fried food products to supermarkets and export markets. Koufu intends to expand the Dough Culture kiosk network from seven to at least 20 in the next five years. Once the integrated facility is completed, Koufu plans to gradually shift Deli Asia's production facilities and warehouse there. This will consolidate its food preparation and processing with Koufu's central kitchens to optimise economies of scale and operating synergies.

“Koufu Eat” Mobile application

Online F&B Sales as a % of Industry



Source: SingStat



Koufu Eat (4.4)
KOUFU PTE LTD
#29 in Food & Drink
★ ★ ★ ★ 4.4, 1.2K Ratings
Free

Source: Apple Store

Fuelled by the Pandemic, Singapore’s online F&B sales picked up significantly to account for 32.7% of total F&B sales in June 2020, from 8.7% a year ago. Noticing a change in consumption patterns among diners, the group has doubled down on efforts to improve its "Koufu Eat" mobile app to facilitate food deliveries. It has partnered banks, such as DBS on its cards/Paylah! Platforms to encourage consumers to download the app.

Koufu believes that this will also help to soften the impact on dine-in numbers with the limit on seating capacity at eating places. About 70 to 80 per cent of its stall tenants are already registered on the app.

However, the take up rate is still low – as at end July 2020, total reviews on Apple and Android app stores were about 1200 and 1500 respectively. More efforts is needed to push the digital initiative. Based on the reviews on the app, customers still prefer patronising physical outlets.

Recovery from 2HFY20

We believe Q2 felt the full brunt of the impact of COVID-19. As lockdown eased from June 2020, dine-out activities is picking up. Restaurant sales rose 35% in June over May, and café, food courts and other eating places were 13% higher. YOY however, both segments are still down 59% and 33% respectively. We expect the number of diners to continue to improve over the rest of the year as the virus spread is contained and consumer confidence recover.

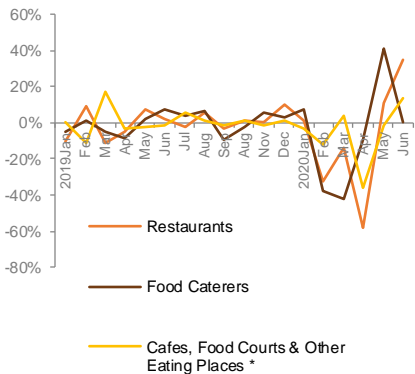
We expect recovery in 2HFY20 due to: 1) gradual easing of mobility restrictions from June, allowing more dine-in patrons; 2) acquisition of Deli Asia from July 2020 which enables Koufu to move up the food value chain to include food manufacturing and processing; and 3) scheduled completion of the integrated facility in 4QFY20 to add kitchen capacity and allows the extension of cloud kitchen concept to other food operators.

We continue to believe that Koufu’s strong balance sheet will help tide them through now and in the future. As of 30 June 2020, Koufu has net cash of S\$72.0m, which makes up 73.5% of net assets.

Maintain BUY Rating at a lower target price of S\$0.80

We maintain a BUY rating on Koufu Group but lower fair value to S\$0.80 (from S\$0.87). Our DCF-derived target price translates into a FY21E P/E of 12.9x. Though we expect significantly lower net profit in FY2020, with the upcoming integrated facility, synergies from Deli Asia, and plans for future expansion, we remain positive that Koufu Group will recover, beyond FY2020. Our target price implies a 16.8% upside to the last traded price.

F&B Services M-o-M (%)



Source: SingStat

Competitive Advantage

Integrated facility anticipated to be completed from 4QFY20 onwards

The Group's integrated facility is currently expected to be completed from the fourth quarter of 2020 onwards, from the initial schedule of second quarter. The integrated facility will comprise a larger central kitchen and its corporate headquarters. It serves to expand central procurement, preparation, processing and distribution functions. The new facility will bring the group's processing facilities under one roof. The integrated facility can better support all F&B Outlets and self-operated F&B stalls and aims to improve productivity and operational efficiency.

It expects a GFA of 20,000 sqm, more than 5 times larger than their current central kitchens and corporate headquarters, with a price tag of S\$40.0 Million. With the facility, Koufu can better provide support for all F&B Outlets and self-operated F&B stalls. Up to 30% of total GFA will be rented out to their stallholders to build their own central kitchen.

Once the integrated facility is completed, Koufu plans to gradually shift Deli Asia's production facilities and warehouse there. This will consolidate its food preparation and processing with Koufu's central kitchens to optimise economies of scale and operating synergies.



Artist's impression of the completed integrated facility

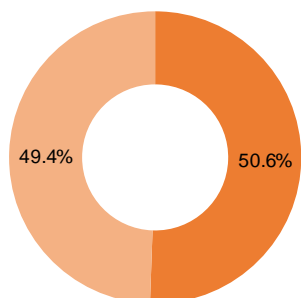
Koufu's Central Kitchen

Location	Tenure	Gross Floor Area	Lessor	Usage
18 Woodlands Terrace Singapore	30 years from 1 Jul 1994	1,297 m ²	JTC Corporation	Corporate HQ and central kitchen
20 Woodlands Terrace Singapore	30 years from 16 Dec 1993	2,193 m ²	JTC Corporation	Central kitchen
Woodlands Avenue 12	30 years from 1 Mar 2018	20,000 m ²	JTC Corporation	Integrated facility

Source: Company Data

Business Segments

Revenue Breakdown by Business Segment (FY2019)



■ Outlet & Mall Management ■ F&B Retail Management

Source: Company Data, SAC Capital

As at 30 June 2020, Koufu operates a multitude of brands at various locations, including 48 food courts, 18 coffee shops, 1 hawker centre, 1 commercial mall, 74 F&B stalls, 28 kiosks, 7 quick-service restaurants and 4 full-service restaurants in Singapore. In addition, Koufu operates 2 food courts, 4 F&B stalls and 1 kiosk in Macau, and 1 kiosk in Malaysia. The Group's operations are mainly classified under 2 complementary business segments, namely outlet & mall management, and F&B retail.

Outlet & Mall Management

The Group signs on leases averaging 3 to 4 years with property owners. These comprise food courts, coffee shops, hawker centre and commercial malls. As the master leaseholder, it then leases out food outlet premises to tenants for a term of 2 to 3 years. The group also provides cleaning and utilities services, and manages third party food courts.

The tenants at the food courts pay a fixed monthly rent, or a variable rent based on the stall's gross turnover. The tenants at the coffee shops pay a fixed monthly rental.

Koufu has enjoyed high occupancy rates of over 90% at the food outlets. We do not expect this to fall as the high footfall to the outlets helps in attracting and retaining tenants.

F&B Retail

This covers direct food retailing to consumers at the self-run F&B stalls, the majority of which are beverage stalls located in Koufu's own food courts, coffee shops and hawker centre. Also in this segment are Koufu's kiosks, Quick Service Restaurants and Full-Service Restaurants.



Income Statement

(S\$'000)	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
Revenue	223,840	237,507	200,814	249,731	259,871
Other income	5,331	5,723	10,074	6,099	6,099
Cost of inventories consumed	(35,063)	(36,917)	(27,031)	(39,360)	(41,115)
Staff costs	(36,894)	(39,901)	(38,732)	(48,167)	(50,123)
Depreciation of PPE and Investment Properties	(11,851)	(76,551)	(82,647)	(79,045)	(75,510)
Property rentals and related expenses	(105,073)	(42,520)	(28,114)	(27,470)	(28,586)
Distribution and selling expenses	(2,020)	(806)	(965)	(1,234)	(1,289)
Administrative expenses	(6,278)	(5,011)	(4,217)	(5,244)	(5,457)
Other operating expense	(2,946)	(4,204)	(4,016)	(9,990)	(11,875)
Results from operating activities	29,046	37,320	25,166	45,320	52,015
Finance income	424	851	851	851	851
Finance costs	(280)	(4,433)	(4,433)	(4,433)	(4,433)
Share of profit of associates and partnership, net of tax	241	220	253	253	253
Profit before tax	29,431	33,958	21,837	41,991	48,686
Tax expense	(4,955)	(6,122)	(3,937)	(7,570)	(8,777)
Profit for the year	24,476	27,836	17,900	34,420	39,908
Profit attributable to:					
Owners of the Company	24,509	27,688	17,900	34,420	39,908
Non-controlling interest	(33)	148	-	-	-
Profit for the year	24,476	27,836	17,900	34,420	39,908

Balance Sheet

(S\$'000)	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
Property, plant and equipment	21,383	209,989	205,913	235,162	242,598
Intangible assets	143	150	171	148	124
Investment properties	13,765	19,867	14,796	11,469	10,696
Other investments	1,600	1,600	1,600	1,600	1,600
Deferred tax assets	-	455	455	455	455
Trade and other receivables	11,329	10,434	10,434	10,434	10,434
Total non-current assets	52,140	242,495	233,622	259,773	266,665
Inventories	1,288	1,435	997	1,452	1,516
Trade and other receivables	10,158	9,955	8,503	10,574	11,003
Time deposits	35,000	4,600	4,600	4,600	4,600
Cash and cash equivalents	60,979	90,396	100,855	103,949	118,590
Total current assets	107,555	106,386	114,954	120,574	135,710
Total assets	159,695	348,881	348,576	380,347	402,374
Trade and other payables	46,021	41,179	31,924	46,485	48,558
Lease liabilities	-	63,250	63,250	63,250	63,250
Loans and borrowings	411	605	605	605	605
Current tax liabilities	6,009	6,019	6,019	6,019	6,019
Provision for reinstatement	1,329	1,524	1,524	1,524	1,524
Total current liabilities	6,763	7,369	7,369	7,369	7,369
Trade and other payables	6,763	7,369	7,369	7,369	7,369
Lease liabilities	-	117,631	117,631	117,631	117,631
Loans and borrowings	4,364	4,113	4,113	4,113	4,113
Deferred tax liabilities	14	81	81	81	81
Provision for reinstatement	3,256	4,096	4,096	4,096	4,096
Total non-current liabilities	14,397	133,290	133,290	133,290	133,290
Total liabilities	68,167	245,867	236,612	251,173	253,246
Share capital	44,961	44,961	44,961	44,961	44,961
Foreign currency translation reserve	(287)	(389)	(389)	(389)	(389)
Treasury shares	-	(240)	(240)	(240)	(240)
Retained earnings	46,737	57,953	66,903	84,113	104,068
Equity attributable to owners of the Company	91,411	102,285	111,235	128,445	148,400
Non-controlling interest	117	729	729	729	729
Total equity	91,528	103,014	111,964	129,174	149,129
Total equity and liabilities	159,695	348,881	348,576	380,347	402,374

Ratios

	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
<i>Adoption of SFRS 16 Leases increased lease liability in FY2019</i>					
Profitability (%)					
Profit/(loss) before tax margin	13.1%	14.3%	10.9%	16.8%	18.7%
Profit/(loss) after tax margin	10.9%	11.7%	8.9%	13.8%	15.4%
Liquidity (x)					
Current ratio	2.0	0.9	1.1	1.0	1.1
Quick ratio	2.0	0.9	1.1	1.0	1.1
Interest coverage ratio	106.1	8.7	5.9	10.5	12.0
Net Debt to Equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Valuation (x)					
P/S	1.7	1.6	1.9	1.5	1.5
P/E	15.5	13.6	21.2	11.0	9.5
Core P/E at target price	18.2	16.0	24.8	12.9	11.1
P/B	4.2	3.7	3.4	2.9	2.5
P/NTA	4.2	3.7	3.4	2.9	2.5
Cash Conversion Cycle					
Trade receivable days	2	2	2	2	1
Inventory days	13	14	13	13	13
Trade payable days	43	40	48	38	37
CCC days	-27	-24	-32	-23	-22

Cash Flows Statement

(S\$'000)	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
Profit for the year	24,476	27,836	17,900	34,420	39,908
Depreciation of PPE and Investment Properties	11,851	76,551	82,647	79,045	75,510
Finance cost	280	4,433	4,433	4,433	4,433
Finance income	(424)	(851)	(851)	(851)	(851)
Tax expense	4,955	6,122	3,937	7,570	8,777
Others	781	1,194	(191)	(146)	(146)
Change in working capital	(3,041)	881	(7,365)	12,035	1,579
Tax paid	(5,637)	(6,063)	(3,937)	(7,570)	(8,777)
Net cash generated from operating activities	33,241	110,103	96,573	128,936	120,434
Net investment in associates	85	221	-	-	-
Interest received	387	793	851	851	851
Payment for lease prepayment	(3,466)	-	-	-	-
Proceeds from disposals	755	513	-	-	-
Purchases	(18,994)	(26,969)	(73,582)	(105,050)	(82,256)
Others	(35,000)	31,535	-	-	-
Net cash from / (used in) investing activities	(56,233)	6,093	(72,731)	(104,199)	(81,405)
Net borrowings	8,833	(6,002)	-	-	-
Interest paid	(246)	(4,301)	(4,433)	(4,433)	(4,433)
Dividends paid	(18,052)	(12,210)	(8,950)	(17,210)	(19,954)
Net proceeds from IPO	45,462	-	-	-	-
Others	(5,127)	109,269	-	-	-
Net cash (used in) / from financing activities	30,870	86,756	(13,383)	(21,643)	(24,387)
Net increase/(decrease) in cash and cash equivalents	7,878	29,440	10,459	3,094	14,641
Effect of exchange rate fluctuations on cash held	58	(23)	-	-	-
Cash and cash equivalents	60,979	90,396	100,855	103,949	118,590

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Analyst name	Quantum of position
Nil	Nil

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