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SG Weekly (10/11 - 16/11/22)

Tung Lok Restaurants (TLR) <1H2022> | 1H22 revenue rose S\$39.1m (+92.4% yoy) on the back of (i) removal of dining restrictions and lifting of borders as compared to 1H21, leading to higher footfall in restaurants; (ii) 3 new outlets and 3 new rebranded outlets; (iii) more catering orders for larger events. This is partially offset by the closure of 6 outlets, and (iv) higher menu prices. Gross margins improved to 71.6% (+2.8pp yoy).

Associates of TLR, three Singapore Seafood Republic outlets which are based in Japan, recorded a S\$0.08m gain compared to a loss of S\$0.007. Net profit improved to S\$1.0m from a loss of S\$3.5m.

We expect revenue to continue improving from tourist arrivals as well as larger size events. However, we also have to be cautious of the rising inflationary environment which might alter consumers' preference from fine dining to cheaper options such as QSR and fast dining.

The Group has a healthy net cash of S\$7.4m and is trading at a PE and PB of 17.5x and 3.1x respectively.

Food Empire <3Q2022> | 3Q22 revenue surged by 42.1% to US\$108.6m with revenue from all markets showing double-digit growth. Interestingly, despite the Russian-Ukraine conflict, revenue from Russia (39% of total sales) increased by 34% and Ukraine, Kazakhstan & CIS (23% of total sales) increased by 50%. South Asia (10% total sales) grew by 149%. This result was driven by a higher average selling price which also led to gross margins rising by 3.3pp to 29.0%.

With the population of Ukraine declining by ~1.6% since 2021 and revenue showing huge success, Food Empire might be gaining market share in the region.

Net profit rose by 630.7% to US\$22.6m attributed to the disposal of US\$15m non-core assets and lower promotional expenses.

Coffee remains a resilient business segment despite the political tensions. We expect the team to (i) ramp up marketing activities to push for volume growth; (ii) achieve higher economies of scale with the completion of non-dairy creamer factory expansion by 2024; (iii) reach higher utilization capacity from its spray dry and freeze dry coffee plants.

The Group is trading at a PE and PB of 11.7x and 1.0x respectively.

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