

Koufu Group Limited

Date: 11 December 2019

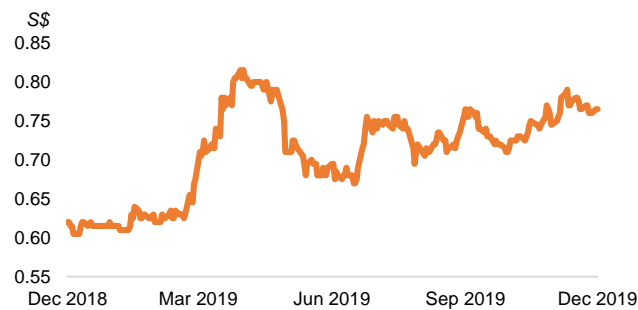
BUY
(Initiating coverage)

Target Price: S\$0.87
(+14%)

Steady growth, primed for acceleration

VL6.SI

Price: S\$0.765 (as at 10 December 2019)



Share price	1M	3M	6M	1Y
Koufu Group Limited	2.7%	0.0%	10.1%	23.4%
Straits Times Index	-3.1%	0.2%	-0.8%	2.9%

Market capitalisation	S\$424.4 million
Current Price	S\$0.765
Shares outstanding	554.8 million
Free Float	22.8%
Major shareholder	Jun Yuan Holdings Pte. Ltd. 77.2% ¹
Recommendation of other brokers	2 Buys

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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Koufu is an established household name for well-managed food courts and coffee shops in retail malls, housing estates, hospitals and tertiary educational institutions, offering food options to the mass market.

Koufu leases out stalls at these outlets and operates some of the F&B stalls at these premises. It benefits from the trade tariff-induced economic slowdown, with consumers trading down from restaurant-dining.

Koufu also develops and runs F&B concepts covering F&B kiosks, Quick Service Restaurants and Full-Service Restaurants, offering different price points that cater to both low and high-end consumers. At the same time, it is broadening its footprint into other ASEAN countries.

New integrated facility operational in 1H2020 will consolidate and expand central kitchen capacity. This will enable central procurement, food preparation, processing and distribution to the eateries. About 30% of the space could be leased to third party food processors. Koufu has the potential to extend into food catering to institutions and corporate customers.

Attractive ROE. Koufu boasts of strong net margin of 12%, and ROE of 29%, even with net cash of S\$93.5m accounting for 97% of net assets. 9M19 net earnings rose 24.6%, fuelled by re-opening of the food court at Marina Bay Sands and high operating leverage. Network expansion will translate into greater growth at the bottomline.

Initiating coverage with BUY call and target price of S\$0.87. Our DCF-derived target price translates into FY20E P/E of 15.3x, or 12.4x P/E ex cash. We like the strong ROE, cash generative and defensive business model. And we expect more new outlets, new facility and overseas expansion will be the impetus for earnings growth.

Key Risks: Intensifying competition, rising labour costs and tightening foreign worker quotas, increasing overseas exposure.

Key Financials

Year ended 31 Dec (S\$'000)	FY2017A	FY2018A	FY2019E	FY2020E	FY2021E
Revenue	216,679	223,840	240,811	257,094	271,738
% Growth	0.7%	3.3%	7.6%	6.8%	5.7%
Profit/(loss) before tax	32,114	29,431	34,283	37,478	38,841
Profit/(loss) before tax margin	14.8%	13.1%	14.2%	14.6%	14.3%
Profit/(loss) attributable to owners	26,869	24,509	28,813	31,498	32,643
EPS (Singapore cents)	5.56	4.75	5.19	5.68	5.88
P/E (x)	13.8	16.1	14.7	13.5	13.0
P/B (x)	9.8	4.6	4.0	3.5	3.1
Net Debt/Equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash

¹EPS is computed based on the profit from continuing operations attributable to owners of the company divided by total shares outstanding

Financial figures have not been adjusted to Singapore Financial Reporting Standards (International) ("SFRS(I)") and may not be comparable to the latest company financials

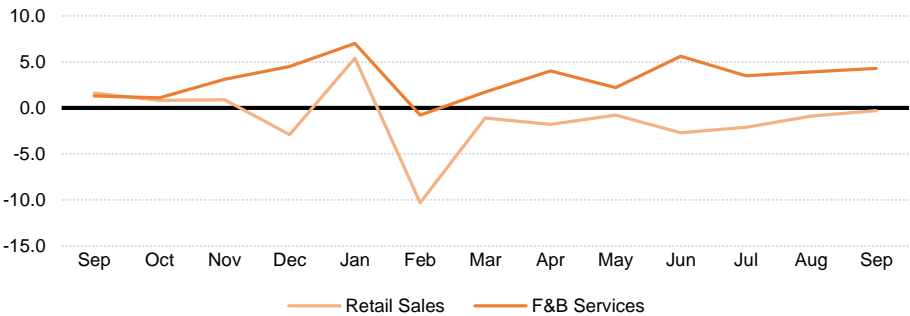
Investment Highlights

Defensive earnings model. About 50% of revenue is derived from outlet and mall management. Typically each property has one food court. Koufu leases these spaces from property owners, and leases out the stalls at a fixed monthly rental and a percentage of gross receipts. In addition to cleaning and facility management services, Koufu also handles cash collection on behalf of the stallholders. Cash flow collection is highly predictable and stable. With high operating leverage, securing new outlets would translate into higher margin and earnings.

Growing its brand franchise. Besides operating some of the F&B stalls in the food courts, Koufu has built up a range of F&B concepts under its own brand names to cater to the different market segments. These include F&B kiosks, Quick Service Restaurants and Full-Service Restaurants. Koufu plans to bring these brands to the ASEAN market through tie-ups with JV partners.

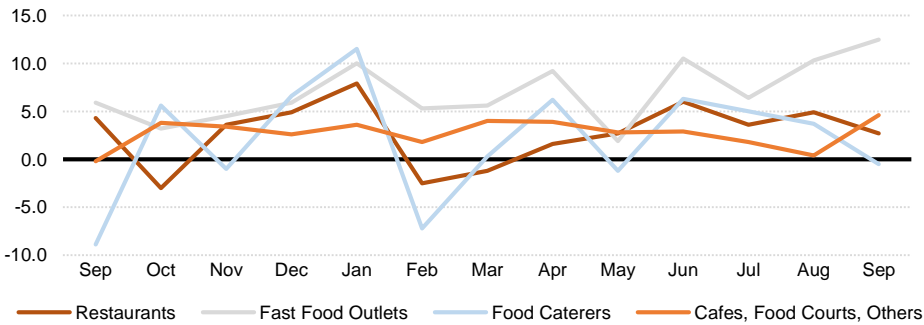
Growth in Singapore's F&B sector. The US-China trade war weighed on Singapore's GDP growth and consumer sentiment. Overall retail sales have been on the decline since Feb 2019, save only for F&B services, which registered positive growth from Mar 2019. And sales at fast food outlets, cafes and food courts are rising faster as consumers trade downwards from restaurant-dining and food catering. Koufu's 9M19 revenue grew 6.2% yoy, ahead of the increase in the F&B services index.

Retail sales vs F&B services percentage change y-o-y



Source: Singapore Department of Statistics, SAC Capital

F&B Services Index %yoy



Source: Singapore Department of Statistics, SAC Capital

New integrated facility operational from 1H 2020 will expand its central kitchen, as well as further strengthen its procurement, food preparation, processing and distribution functions. The central kitchen supplies to the self-operated F&B stalls. Koufu could also offer meal catering services from this facility.

Overseas expansion plans. Koufu opened its first food court in Macau in 2012, which now accounts for 8% of sales. The third food court is expected to be ready in 1H2020. In 2017, Koufu formed a JV with the owners of “R&B Tea” and “Supertea”, both established brands in China, to build a network of bubble tea outlets in Singapore, Macau, Malaysia, Indonesia, Myanmar and the Philippines.

Strong balance sheet. Koufu boasts of strong net margins of 12% and ROE of 29%, even with net cash of S\$93.5m accounting for 97% of net assets. Net cash per share is S\$0.168. The strong cash holdings aid in procuring raw materials at more attractive prices, tendering and securing new sites, and overseas expansion.

Industry consolidation. In Sep 2019, Singapore-listed Breadtalk Group paid S\$80m to acquire Food Junction, which runs 12 food courts in Singapore and 3 in Malaysia. This brings Breadtalk’s network of food courts to 26 in Singapore and 5 in Malaysia. The acquisition valued Food Junction at 6.5x book value. Food Junction made a marginal net profit of S\$3,183 in 1H2019.

In late 2018, NTUC Foodfare acquired the Kopitiam chain for an undisclosed sum. The combined entity is now the largest operator with 64 food courts, 35 coffee shops, 12 hawker centres and 2 central kitchens. We believe Koufu is one of the top three outlet operators, with management of 68 outlets and 1 commercial mall in Singapore and Macau.

With size, the operator can achieve greater economies of scale in securing new sites, tenants and supplies, and in facility management.

Initiate coverage with a BUY and target price of S\$0.87. Our DCF-derived target price translates to FY20E P/E of 15.3x. Excluding cash, P/E drops to 12.4x. We are factoring in its proven track record, strong cash generation and potential for growth from overseas expansion.

Company Background

History

Koufu is an established Singapore household name known for its chain of food courts and coffee shops under management. From just 2 food courts and 1 coffee shop in 2002, Koufu has expanded quickly over the years by establishing 2 central kitchens, opening numerous outlets and launching new food and beverage brands.



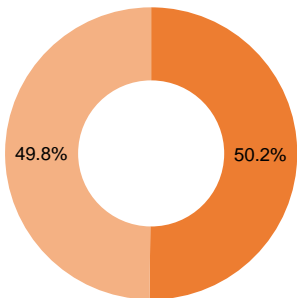
In 2004, Koufu diversified into the operation and management of commercial malls with its successful tender for Punggol Plaza. Another key milestone was achieved with the launch of the “Rasapura Masters” brand at Marina Bay Sands in 2010. Building on this relationship with the Sands Group, the Group opened its first overseas food court at Sands Cotai Central, Macau in 2012.

Koufu’s initial public offering on the Mainboard of the Singapore Exchange on 18 July 2018 raised gross proceeds of about S\$45.5 million, the bulk of which for the development of an integrated facility which commenced construction in 4Q18, and which is expected to be completed in 1H2020.

As at 30 Sep 2019, Koufu operates a multitude of brands at various locations, including 49 food courts, 16 coffee shops, 1 hawker centre, 1 commercial mall, 74 F&B stalls, 23 kiosks, 7 quick-service restaurants and 4 full-service restaurants in Singapore. In addition, Koufu operates 2 food courts, 4 F&B stalls and 2 kiosks in Macau. The Group’s operations are mainly classified under 2 complementary business segments, namely outlet & mall management, and F&B retail.

Business Segments

Revenue Breakdown by
Business Segment
(FY2018)



■ Outlet & Mall Management ■ F&B Retail Management

Source: Company Data, SAC Capital

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.

Construction of Integrated Facility

Koufu's new integrated facility at Woodlands Avenue 12 is slated for completion in 1H2020. The S\$40 million project was largely funded by IPO proceeds. With a gross floor area of 20,000 sq m - 5x larger than the current central kitchens and HQ - the new facility will bring the group's processing facilities under one roof.

Besides a bigger central kitchen and corporate HQ, the facility will also house a training centre for the employees, a 132-bed employee dormitory, and a food court. It will also include a R&D centre for development of F&B products and recipes, and research on food preparation processes. Approximately 30% of the space can be rented out to 3rd parties.

The new facility will expand central procurement, preparation, processing and distribution capabilities, raise output and efficiency at the F&B outlets and self-operated F&B stalls. This lays the groundwork for network expansions into new housing estates, hospitals, malls and tertiary education institutions. Koufu signed 3 additional leases in Singapore as at Jun 2019.



Source: Company Data

Artist's impression of the completed integrated facility

The existing central kitchen properties at 18 and 20 Woodlands Terrace are likely to be sold after the shift into the new premises. The disposal proceeds will be ammunition for expansion or could be distributed to shareholders.

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

Growing a Diversified F&B Portfolio

Over the years, Koufu has launched a plethora of F&B brands in multiple categories to diversify its business, with each brand focused on targeting a different market segment at different price ranges. By limiting the overlaps in target audience, expansion within land-scarce Singapore has been made possible. For example, Koufu's self-titled food courts and "Happy Hawkers" coffee shops are predominantly located in Singapore's heartlands, providing affordability and convenience to local neighbourhoods. The "Fork & Spoon" brand is similarly located and priced, but is distinguished by specialising in Halal food. At the highest end of Koufu's food courts, "Rasapura Masters" at Marina Bay Sands features local food at a higher price point.

Going beyond food courts and coffee shops, Koufu has expanded into F&B kiosks, QSRs and full-service restaurants. "Elemen" and "Grove" are the Group's meatless cuisine brands, respectively under the full-service restaurants and QSR categories. In 2017, in order to capitalise on the fast-growing tea beverages market, the Group entered into a joint venture with the owners of the "R&B Tea" and "Supertea" brands to bring them into Singapore, Macau, Malaysia, Indonesia, Myanmar and the Philippines. We believe that this has led to positive reception here despite the presence of numerous competitors, which prompted the Group's fast rate of expansion. In just over 2 years since local operations began, Koufu currently owns 22 "R&B Tea" and 1 "Supertea" outlets in Singapore. With 10 more leases secured for FY2019 and beyond, the Group is on track for at least 29 total outlets by end FY2019, up from the initial target of 25 outlets. Management has indicated that aggressive expansion is expected to continue in FY2020, albeit at a slower pace, with a target of 10 new outlets while closing underperforming outlets upon lease expiry.

Koufu continues to strengthen its presence in the F&B industry with a constant stream of new store openings, and with the new integrated facility, we expect the pace of local expansion to pick up in the near future.

Summary of Recent Openings













F&B Outlet	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019
Food Courts	1	1	1		2	1 ^c	2
Coffee Shops				1		1	
Kiosks		2 ^a	1	2	6 ^b	4	5
QSRs	1	1					
Full-service Restaurants							2

Source: Company Data, SAC Capital

a: includes 1 new kiosk opened in Cotai Sands, Macau

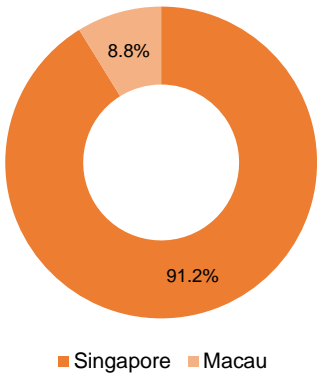
b: includes 1 new kiosk opened in University of Macau

c: new food court opened in University of Macau

Price Range	Food Courts	Coffee Shops	Kiosks	Quick Service Restaurants	Full-service Restaurants
S\$2 – S\$5					
S\$3 – S\$8	    				
S\$4 – S\$12					
S\$5 – S\$15				 	
S\$20 – S\$50					

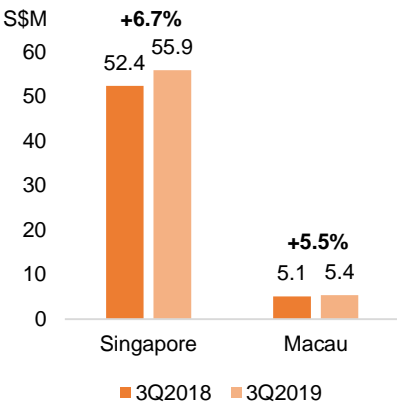
Expansion into Macau and Beyond

3Q2019 Revenue Breakdown by Geography



Source: Company Data, SAC Capital

Revenue Breakdown by Geography



Source: Company Data, SAC Capital

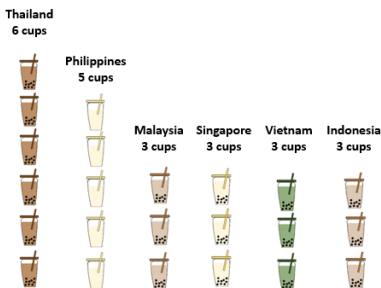
Citing ease of accessibility in the Greater Bay Area, Koufu selected Macau as its initial point of entry for overseas expansion, and has been favourably received by consumers and landlords. Since the opening of the first overseas Koufu food court at Sands Cotai Central in 2012, the Group has been actively growing its presence in Macau, also bringing the “1983 – A Taste of Nanyang” and “Supertea” brands there. As at 30 September 2019, the Group operates 2 food courts, 4 F&B stalls and 2 F&B kiosks in Macau. Koufu’s second overseas food court in Macau University recently opened in April 2019, and the lease for a third food court in Macau, targeted for opening in 1H2020 has been finalised.



Source: Company Data

Koufu at Sands Cotai Central

Bubble tea consumption in selected ASEAN countries



Average bubble tea consumption by cups per person per month

Source: Grab

Koufu has kickstarted expansion into neighbouring region, with the “R&B Tea” and “Supertea” brands. In Indonesia, the Group has formed a joint venture to bring tea beverages to Jakarta’s Grade A malls. In Malacca, Malaysia, Koufu secured a lease to open its first “R&B Tea” outlet in November 2019. The Group is looking for partners to expand to the Philippines, Thailand and beyond. Data from food delivery service provider GrabFood highlights that from data collected on their platform, the Filipinos and Thais consume an average of 5 to 6 cups every month, compared with 3 in Singapore, pointing to a sizeable target market for the “R&B Tea” and “Supertea” brands.

Through building up overseas experience and network, Koufu hopes to seek overseas opportunities for its other F&B retail brands, such as its “Elemen” full-service restaurant.

Management

Mr. Pang Lim – Executive Chairman & Chief Executive Officer

Together with Mdm. Ng Hoon Tien, Mr. Pang founded Koufu in 2002. He has over 27 years of experience in the F&B and food service management industry, and oversees overall management and operations of the Group. He is responsible for the Group's strategic direction and expansion plans, and sources for investment opportunities to grow the business.

Mdm. Ng Hoon Tien – Executive Director

Mdm. Ng was a founding member of Koufu alongside Mr. Pang Lim. She oversees operations of the Group and assists Mr. Pang Lim in the formulation and implementation of business strategies and F&B operations. She has over 15 years of experience in the F&B and food service management industry.

Ms. Chua Sher Lin – Chief Financial Officer

Ms. Chua joined Koufu in 2005 as its Finance Manager, and is responsible for the Group's corporate finance matters and financial management. She oversees the finance, human resource and information technology departments and is also involved in formulating the Group's policies and strategies. Ms. Chua graduated with a Diploma in Accountancy from Ngee Ann Polytechnic in 1999, was the Finance Manager at Goldin Enterprise Pte Ltd and was a Senior Corporate Tax Consultant at KPMG before joining Koufu.

Mr. Choo Teck Chuan – Chief Operating Officer

Since joining the Group in April 2018, Mr. Choo oversees Koufu's operations and its brand and marketing division. Prior to his current appointment, he retired from the Singapore Armed Forces with the rank of Lieutenant Colonel and subsequently served as the Vice President, Operations & Development of Moove Media Pte Ltd, the advertising arm of ComfortDelGro Corporation Ltd.

Mr. Tham Poh Cheong – Chief Strategy Officer

Mr. Tham joined the Group in August 2018 and assists Mr. Pang Lim with the developing, communicating, executing and sustaining corporate strategic initiatives. He also oversees development of the Group's upcoming integrated facility. Before joining Koufu, he was the Group Director of International Enterprise Singapore's Infrastructure Services Group, followed by serving as the Secretary-General of the Singapore Chinese Chamber of Commerce & Industry. Mr. Tham holds a Degree in Mechanical Engineering and Master of Business Administration (1994) from the National University of Singapore, and completed an Executive Program at the Tsinghua University, Beijing in 2001.

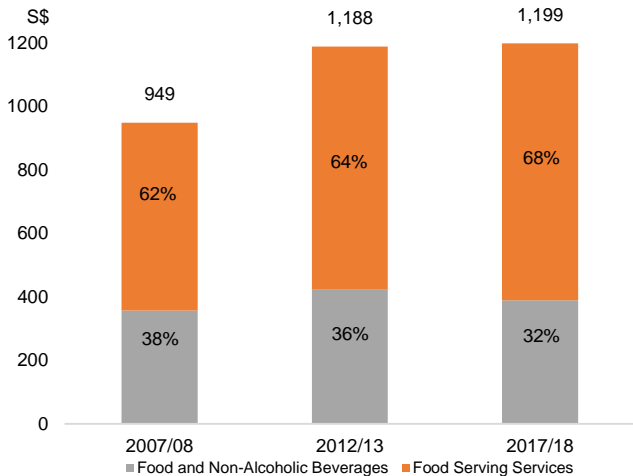
Industry Prospects

Stable Long Term Prospects

According to the 2017/18 Household Expenditure Survey conducted by the Singapore Department of Statistics, food accounted for the largest proportion of monthly household expenditure in Singapore, with average household spending on the category amounting to S\$1,199, a 26.3% increase from a decade ago.

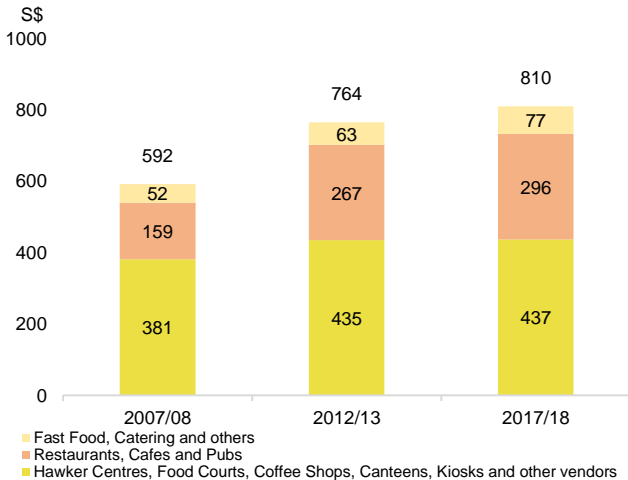
Food serving services' share of household expenditure rose from 62% in 2007/08 to 68% in 2017/18. Dining at restaurants, cafes and pubs grew at a higher CAGR of 6.4%, compared with 1.3% growth at food courts, coffee shops, canteens, kiosks and street vendors. Still, the latter accounted for 54% of total household food expenditure.

Average monthly household expenditure, Food



Source: Singapore Department of Statistics, SAC Capital

Average monthly household expenditure, food serving services



Source: Singapore Department of Statistics, SAC Capital

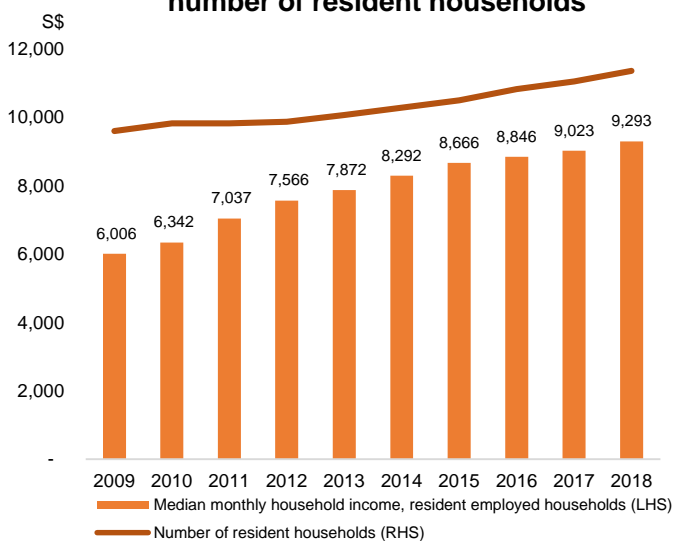
With F&B brands and concepts that span a wide price range (*Happy Hawkers* ~S\$2-S\$5 – *Elemen* ~S\$20-S\$50), Koufu has a comprehensive range of food offerings to cater to all market segments.

Industry Prospects

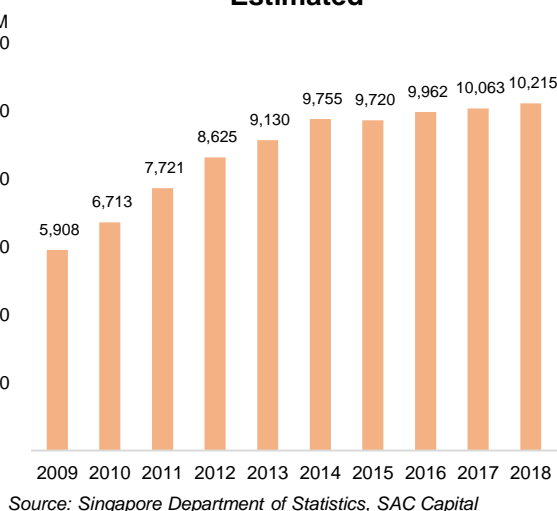
Stable Long Term Prospects

Concurrently, there have been uptrends in both household income and the number of resident households. Together with a larger proportion of expenditure on eating out, the F&B industry should see continued resilient demand.

Median monthly household income, number of resident households



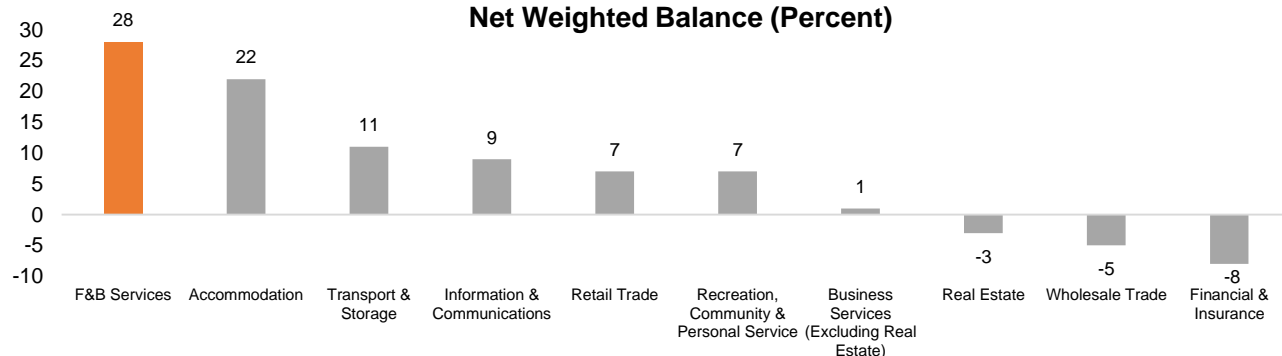
Value Of Food & Beverage Sales - Estimated



Positive Short Term Outlook

The services sector Business Expectations Survey for 4Q19 revealed that respondents in F&B Services had the most favourable business outlook among all services sectors. The defensive nature of the industry makes it more resilient than other services to slower economic growth – and is a bright spot amidst broader macroeconomic uncertainty such as the ongoing US-China trade conflict.

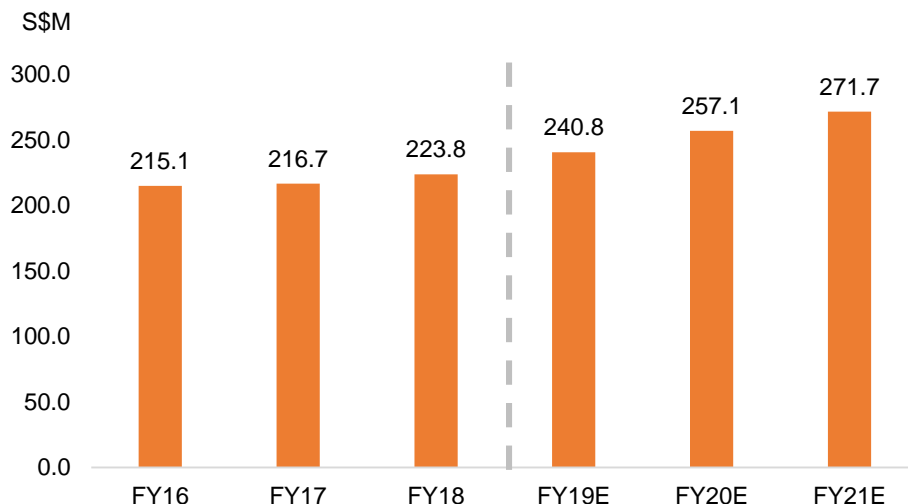
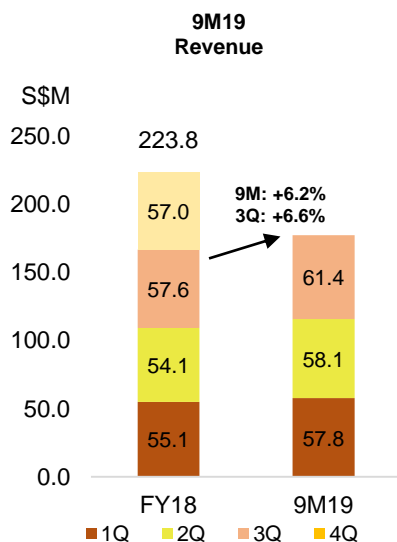
**Business Outlook for Oct 2019 -Mar 2020
Net Weighted Balance (Percent)**



Respondents are asked about their expectations of the business situation in the next six months and their views are expressed in terms of directional change (i.e., “up”, “same” or “down”). Enterprises’ responses are then weighted and aggregated to derive the weighted percentages for “up”, “same” or “down” at industry level.

Financial Summary

Revenue

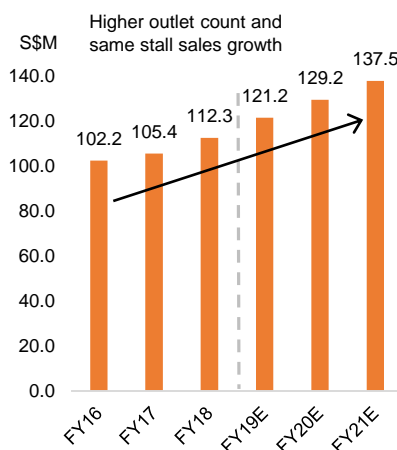


3Q19 Update – Steady Growth Continues in 9M2019 and 3Q2019

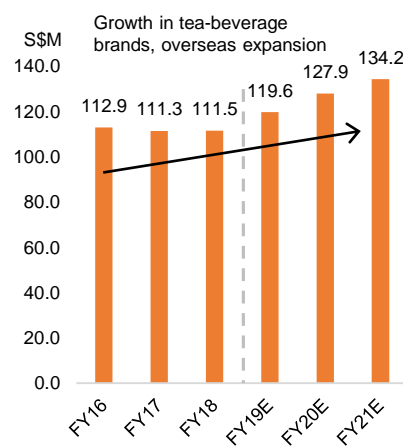
Koufu's stable business shows a clear pattern of increasing revenue over the years as the Group continues to open more outlets and achieve modest same-store sales growth, and this trend has continued into the latest 3 quarters. Revenue growth in 3Q2019 was mainly due to the opening of 2 new food courts and 5 new "R&B Tea" outlets in Singapore.

Notably, 2Q2019 revenue increased by 7.3% yoy as the food court at MBS under renovation from April to July 2018 re-opened fully. Management indicated that post-renovation, increased seating capacity and improved store layouts have been key drivers for growth in the last 2 quarters. 2Q2019 was also the first quarter with revenue from the Macau University food court, which opened in April 2019.

Outlet & Mall Management



F&B Retail



Financial Summary

Outlook

We think that the outlook for both of Koufu's business segments remains positive. Koufu's strong track record and experience in tendering for Food Courts and Coffee Shops should continue to serve it well as it expands to new housing estates, commercial malls and educational institutions. We expect households to continue spending an increasing proportion of total food expenditure on food services – this is evident from the rapid growth in recent years of food delivery services in Singapore. New housing estates with younger households are likely to spend a larger proportion of household expenditure on food services, as time-crunched dual income families tend to dine out more often.

Revenue Breakdown	FY2016	FY2017	FY2018	FY2019E	FY2020E	FY2021E
Outlet & Mall Management	47.5%	48.6%	50.2%	50.3%	50.3%	50.6%
F&B Retail	52.5%	51.4%	49.8%	49.7%	49.7%	49.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company data, SAC Capital

Koufu's financial performance compares favourably with Kimly's, its closest peer in Singapore. We believe Koufu's P/E premium to Kimly is deserving given stronger revenue and earnings performance.

(S\$'000)	Koufu Group Limited (9M2019)	Kimly Limited (FY2019)
Revenue	177,210	208,299
Growth	6.2%	3.0%
Net Profit	21,185	20,053
Growth	24.6%	-8.4%
Net Margin	12.0%	9.6%
ROE*	29.4%	22.8%
ROA*	8.2%	16.6%
Net Cash	93,457	87,189
P/E (x)*	15.0	14.1
P/B (x)	4.4	3.2
Number of food courts	49	3
Number of coffee shops	16	67 [^]

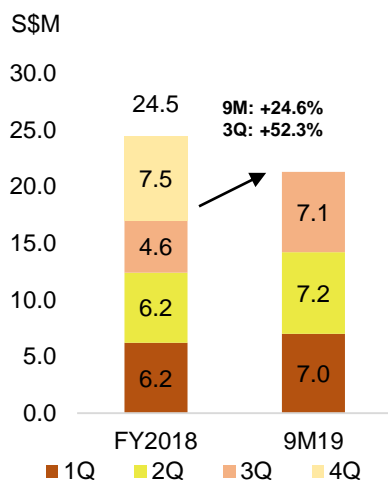
*Annualised

[^]Includes 4 industrial canteens

Source: Company Data, SAC Capital

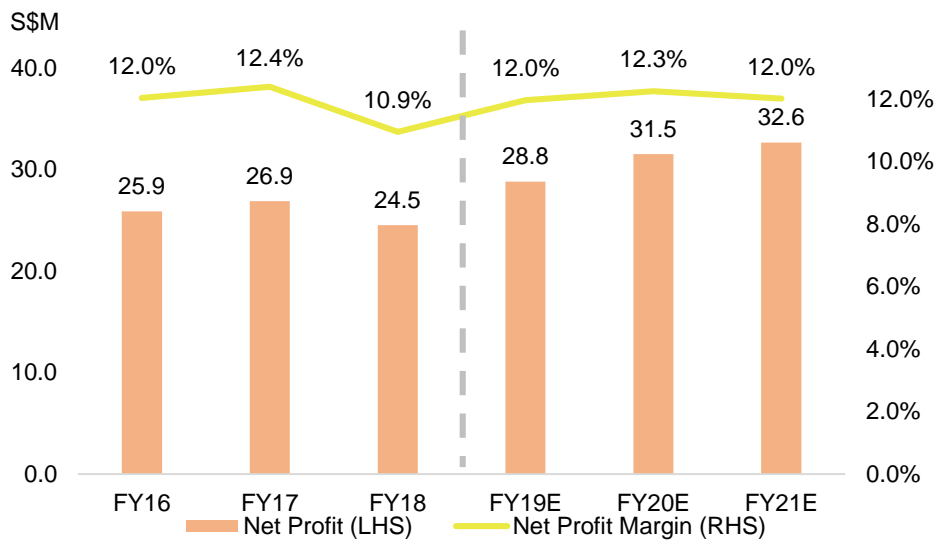
Financial Summary

9M19 Net Profit



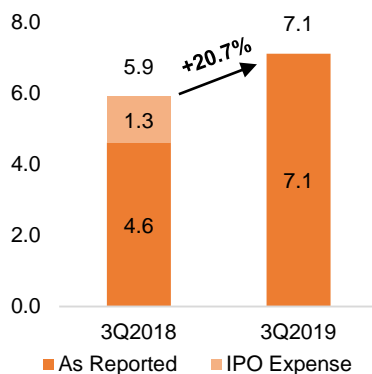
Source: Company Data, SAC Capital

Net Profit



Source: Company Data, SAC Capital

Adjusted 3Q2018/2019 Net Profit

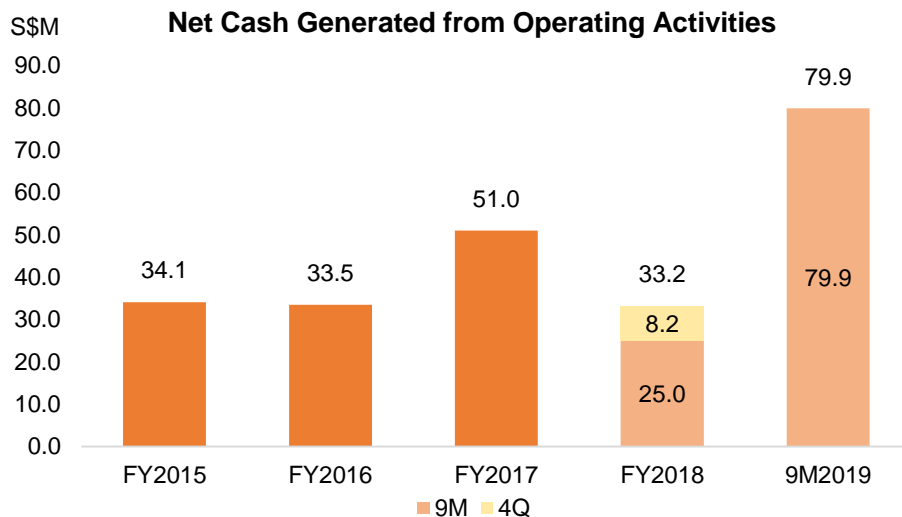


Source: Company Data, SAC Capital

The Group's net profit dipped in FY18 due to IPO expenses. Excluding IPO expenses in 3Q18, net profit rose 20.7% yoy in 3Q19. Net margins have held and is sustainable at above 10%.

Financial Summary

Track Record of Operating Cash Flow and Strong Balance Sheet



The cash-generative nature of Koufu's business is also clearly visible in the financials, which exhibit a strong track record of operating cash flow. In addition to having low customer concentration risk, the outlet and malls management segment mainly collects an initial deposit followed by rental payment on a monthly basis, while the F&B retail segment collects cash upfront from customers, thereby resulting in minimal exposure to default risk for the Group. The significant increase in operating cash flows for 9M2019 as compared to 9M2018 was mainly due to the adoption of SFRS(I) 16 Leases in FY2019, which increased non-cash adjustment of depreciation by about S\$31 million. As at 30 September 2019, balance sheet has net cash of S\$93.5m.

With robust cash flows, we believe the group is able to keep dividend distribution of at least 50% of net profit. When the new integrated facility is up and running, we expect the group to divest its existing premises. After migrating operations to the upcoming integrated facility in 1H2020, we can expect another influx of approximately S\$10 million in cash arising from the disposal of the 2 existing corporate headquarters and central kitchens at 18 and 20 Woodlands Terrace. It is likely that additional dividends could be distributed from any excess resources in the near future.

Furthermore, although Koufu has a diverse array of F&B brands that cater to different market segments, the bulk of its outlets are currently under the flagship Koufu brand of food courts that serve economical meals to the masses in Singapore's heartlands, hospitals and tertiary education institutions. This defensive business model, with ample cash reserves, makes Koufu highly resilient to economic slowdowns.

Recommendation

DCF Assumptions

WACC **5.0%**

EV/EBITDA exit multiple **7.2x**

Source: SAC Capital

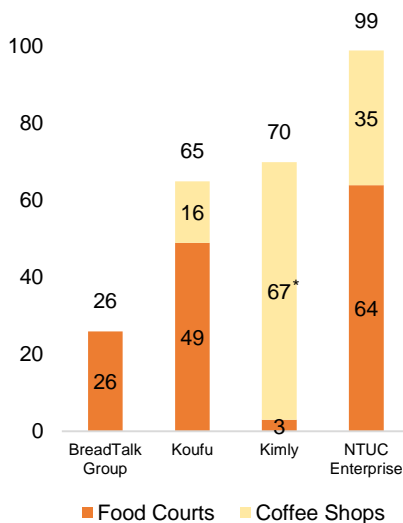
We initiate coverage on Koufu Group Limited with BUY and target price of S\$0.87. Our DCF-derived target price translates to 15.3x FY20E P/E, which is at a discount to average P/E of listed peers. We believe this is undemanding given Koufu's proven earnings track record, strong cash position and growth from overseas expansion. EV/EBITDA exit multiple of 7.2x is based on industry average. Our target price of S\$0.87 represents a 14% upside to the last closing price of S\$0.765.

Ticker	Name	Last Price (\$)	Market Cap (\$m)	P/E (x)	P/B (x)	Dividend Yield
KOUFU SP Equity	Koufu Group	0.765	424.4	16.1	4.6	1.3
BREAD SP Equity	BreadTalk Group	0.625	351.9	30.1	3.2	0.8
KMLY SP Equity	Kimly	0.245	281.5	14.1	3.2	5.7
JUMBO SP Equity	Jumbo Group	0.370	237.1	19.7	3.6	3.2
ABR SP Equity	ABR Holdings	0.700	140.7	120.7	1.5	2.9
JFOOD SP Equity	Japan Foods Holding	0.425	74.0	22.6	2.2	4.9
RES SP Equity	RE&S Holdings	0.155	54.9	14.1	1.4	2.9
TUNG SP Equity	Tung Lok Restaurants 2000	0.175	48.0	N/A	3.5	N/A
SOUP SP Equity	Soup Restaurant Group	0.150	42.0	34.1	4.2	4.3
KTG SP Equity	Katrina Group	0.140	32.4	N/A	2.7	N/A
NSB SP Equity	No Signboard Holdings	0.056	25.9	N/A	1.2	N/A
SAKAE SP Equity	Sakae Holdings	0.071	9.9	N/A	0.3	N/A
PAV SP Equity	Pavillon Holdings	0.020	7.8	N/A	0.3	N/A
Average (excluding Koufu)				36.5	2.3	

Source: Bloomberg, SAC Capital, data as at 10 Dec 2019

Investment Risks

Number of Coffee Shop and Food Court Outlets by Operator (Singapore)



* Includes 4 industrial canteens

Source: Company Data, Food Republic, Food Junction, NTUC Foodfare, Kopitiam, Kimly, SAC Capital

Highly competitive industry landscape

The food court and coffee shop segment is subject to a high level of competition. Some of Koufu's largest competitors include BreadTalk Group's Food Republic and recently acquired Food Junction, NTUC Enterprise's Foodfare and Kopitiam, as well as Kimly.

NTUC Enterprise's acquisition of Kopitiam in late 2018 firmly places them as the largest operator of food courts and coffee shops in Singapore. Their objective is to fill the role as a social enterprise offering affordable food prices. This might add pricing pressure to other operators.

Similarly, the Group is trying to break into market segments with numerous established players. Koufu's relatively young tea beverage business face strong competition from the likes of Koi, LiHo and Gong Cha, amongst others. Key challenges are the contest for prime outlet locations, in addition to fast-changing and unpredictable consumer preferences.

Rising labour cost and tightening of foreign labour quotas

Koufu runs a labour intensive business and employs a significant number of foreign staff. The Group is hence susceptible to regulations and policies imposed on foreign labour by both the governments of Singapore and the foreign employees' countries of origin. Notably, Singapore's Ministry of Manpower has imposed levies and quotas that raise the cost of foreign labour. The service sector's dependency ratio ceiling or the maximum permitted proportion of foreign staff in a company's workforce, is set to be lowered from 40% currently to 38% from Jan 2020 and 35% from Jan 2021. As a result, Koufu will likely be facing incremental labour costs, and be subjected to further policy tightening. Its active pursuit of technology could serve to mitigate this concern – by embracing innovations such as smart tray return robots and its mobile ordering application, productivity is enhanced with reduced reliance on human labour.

Increasing overseas exposure

Koufu's business is mainly based in Singapore, with Macau contributing a relatively small 8.8% of revenue in 3Q2019. However, as Koufu expands its footprint in Macau and other countries, Singapore's share of contribution to the group will become smaller. Koufu's exposure to risks associated with overseas operations will therefore grow more significant over time. As with any overseas expansion plan, the Group faces unfamiliarity with the foreign markets and uncertainty about consumer preferences. However, Koufu's decision to enter new jurisdictions through joint ventures with local partners could aid to overcome and mitigate execution risk.

Income Statement

	Fiscal Year Ended 31 Dec				
(\$'000)	FY2017A	FY2018A	FY2019E	FY2020E	FY2021E
Revenue	216,679	223,840	240,811	257,094	271,738
Other income	4,051	5,331	3,612	3,512	5,412
Cost of inventories consumed	(35,414)	(35,063)	(38,226)	(40,861)	(42,896)
Staff costs	(37,192)	(36,894)	(41,924)	(42,521)	(44,943)
Depreciation of investment properties and PPE	(8,970)	(11,851)	(10,957)	(12,902)	(14,934)
Property rentals and related expenses *	(95,855)	(105,073)	(109,462)	(116,864)	(123,520)
Distribution and selling expenses	(1,836)	(2,020)	(1,978)	(1,903)	(1,998)
Administrative expenses	(5,109)	(6,278)	(5,889)	(5,658)	(5,981)
Other operating expenses	(5,652)	(2,946)	(2,172)	(2,587)	(4,206)
Results from operating activities	30,702	29,046	33,815	37,310	38,673
Finance income	1,470	424	453	153	153
Finance costs*	(351)	(280)	(246)	(246)	(246)
Share of profit of associates and partnership, net of tax	293	241	261	261	261
Profit before tax	32,114	29,431	34,283	37,478	38,841
Tax expense	(5,295)	(4,955)	(5,471)	(5,980)	(6,198)
Profit attributable to:					
Owners of the Company	26,869	24,509	28,813	31,498	32,643
Non-controlling interest	(50)	(33)	-	-	-
Profit for the year	26,819	24,476	28,813	31,498	32,643

Cash Flow Statement

	Fiscal Year Ended 31 Dec				
(\$'000)	FY2017A	FY2018A	FY2019E	FY2020E	FY2021E
Profit for the year	26,819	24,476	28,813	31,498	32,643
Depreciation and amortisation	9,078	12,036	11,171	13,132	15,180
Finance cost	351	280	246	246	246
Finance income	(1,426)	(424)	(453)	(153)	(153)
Tax expense	5,295	4,955	5,471	5,980	6,198
Others	3,248	596	(261)	(261)	(261)
Change in working capital	11,595	(3,041)	(827)	127	87
Tax paid	(4,002)	(5,637)	(5,471)	(5,980)	(6,198)
Net cash generated from operating activities	50,958	33,241	38,689	44,589	47,742
Net investment in associates	(108)	85	-	-	-
Interest received	1,427	387	453	153	153
Payment for lease prepayment	(430)	(3,466)	-	-	-
Proceeds from disposals	76,114	755	-	-	-
Purchases	(11,776)	(18,994)	(22,357)	(39,179)	(13,919)
Others	-	(35,000)	35,000	-	-
Net cash from / (used in) investing activities	65,227	(56,233)	13,096	(39,026)	(13,766)
Net borrowings	(24,904)	8,833	-	-	-
Interest paid	(351)	(246)	(246)	(246)	(246)
Dividends paid	(84,827)	(18,052)	(14,406)	(15,749)	(16,322)
Net proceeds from IPO	-	42,416	-	-	-
Others	(1,496)	(2,081)	(240)	0	0
Net cash (used in) / from financing activities	(111,578)	(30,870)	(14,892)	(15,995)	(16,568)
Net increase in cash and cash equivalents	4,607	7,878	36,892	(10,433)	17,409
Effect of exchange rate fluctuations on cash held	(607)	58	-	-	-
Cash and cash equivalents	53,043	60,979	97,871	87,439	104,847

Balance Sheet

	Fiscal Year Ended 31 Dec				
(\$'000)	FY2017A	FY2018A	FY2019E	FY2020E	FY2021E
Property, plant and equipment	18,886	21,383	33,409	60,313	59,923
Lease prepayment	-	3,658	3,554	3,449	3,345
Investment properties	9,990	13,765	13,037	12,308	11,580
Trade and other receivables	11,129	11,329	11,329	11,329	11,329
Others	2,181	2,005	2,262	2,504	2,729
Total Non-Current Assets	42,186	52,140	63,591	89,903	88,907
Lease prepayment	-	130	126	123	119
Inventories	1,295	1,288	1,432	1,531	1,607
Trade and other receivables	10,687	10,158	10,165	10,253	10,333
Time deposits	-	35,000	-	-	-
Cash and cash equivalents	53,043	60,979	97,871	87,439	104,847
Total current assets	65,025	107,555	109,595	99,346	116,906
Total Assets	107,211	159,695	173,186	189,249	205,813
Trade and other payables	45,206	46,021	45,346	45,660	45,902
Loans and borrowings	184	411	411	411	411
Others	8,075	7,338	7,338	7,338	7,338
Total Current Liabilities	53,465	53,770	53,095	53,409	53,651
Trade and other payables	6,492	6,763	6,763	6,763	6,763
Loans and borrowings	1,573	4,364	4,364	4,364	4,364
Others	2,565	3,270	3,270	3,270	3,270
Total Non-current Liabilities	10,630	14,397	14,397	14,397	14,397
Total Liabilities	64,095	68,167	67,492	67,806	68,048
Share capital	1,000	44,961	44,961	44,961	44,961
Retained earnings	42,361	46,737	61,143	76,892	93,214
Others	(395)	(287)	(527)	(527)	(527)
Equity attributable to owners of the Company	42,966	91,411	105,577	121,326	137,648
Non-controlling interest	150	117	117	117	117
Total Equity	43,116	91,528	105,694	121,443	137,765
Total Equity and Liabilities	107,211	159,695	173,186	189,249	205,813

Ratios

	Fiscal Year Ended 31 Dec				
(\$'000)	FY2017A	FY2018A	FY2019E	FY2020E	FY2021E
Profitability (%)					
Profit/(loss) before tax margin	14.8%	13.1%	14.2%	14.6%	14.3%
Profit/(loss) after tax margin	12.4%	10.9%	12.0%	12.3%	12.0%
Liquidity (x)					
Current ratio	1.2	2.0	2.1	1.9	2.2
Quick ratio	1.1	1.9	2.0	1.8	2.1
Interest coverage ratio	92.5	106.1	140.4	153.3	158.9
Net Debt to Equity	Net cash	Net cash	Net cash	Net cash	Net cash
Valuation (x)					
P/S	2.0	1.9	1.8	1.7	1.6
P/E	13.8	16.1	14.7	13.5	13.0
Core P/E at target price	15.6	18.3	16.8	15.3	14.8
P/B	9.8	4.6	4.0	3.5	3.1
P/NTA	9.9	4.6	4.0	3.5	3.1
Cash Conversion Cycle					
Trade receivable days	2	2	2	2	2
Inventory days	14	13	14	14	14
Trade payable days	41	43	43	43	43
CCC days	-25	-28	-28	-28	-28

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