

Koufu Group Limited

17 August 2021

BUY
(Maintained)

Price: S\$0.670 (as at 16 August 2021)

Target Price: S\$0.775 (+15.7%)

BBG	KOUFU SP
Market cap	S\$371.6m
Price (16 August 2021)	S\$0.670
52-week range	S\$0.620 – S\$0.700
Target Price	S\$0.775
Shares Outstanding	554.3m
Free Float	22.7%
Major Shareholder	Jun Yuan Holdings 77.2%
P/BV (06/21)	3.5x
Net Debt to EBITDA (12/20)	Net cash

Source: Company data, Bloomberg, SAC Capital

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Seeing light ahead

1HFY21 revenue was 47.0% of our FY21E forecasts, and 46.2% of Bloomberg consensus forecasts, slightly lower due to the P2HA measures in place from 16 May to 13 June, and low footfall that remained at tertiary institutions and tourist-dependent outlets in 1H. On the bright side, outlets in the heartlands continue to see higher footfall and higher delivery sales.

1HFY21 revenue rose 18.8% yoy from S\$89.0m to S\$105.7m, with the F&B retail business segment increasing by 37.4% yoy, from S\$41.2m to S\$56.6m and the outlet and mall management segment increasing by 2.7% yoy from S\$47.8m to S\$49.1m. With an improvement in footfall at food outlets, Koufu managed to increase rental income. PATMI surged 3.9x.

Hoping for higher footfall as Singapore moves towards endemic state. Singapore has moved out of P2HA partially from 10 Aug and will continue to be further from 19 Aug, which will see more relaxed limits on dining-in. Food courts and F&B outlets in tertiary institutions will continue to pick up pace as more returns to school for FTF classes. In addition, with the pandemic fatigue kicking in, we expect overall F&B dining in will pick up. Further, as Singapore looks to reopening its borders gradually to some countries with its travel corridor plans, we see this boding well for outlets catered towards tourists.

New outlets secured, likely at lower rental rates. In 1H, Koufu had opened 1 new food court and 6 F&B kiosks/stalls. We expect these leases were locked in at lower rental rates, lowering expenses until they get renewed. As at 30 Jun 2021, Koufu has net cash of S\$68.8m (up from S\$65.7m in 31 Dec). This makes up 64.9% of net assets.

Maintain BUY rating at marginally higher fair value of S\$0.775 (from S\$0.770). Our DCF-derived target price translates into a FY21E/FY22E P/E of 19.5x and 15.8x. We maintained our FY21/FY22 topline estimates, with adjustments to bottomline (-7.6% / -7.9%) due to higher rental expenses and staff costs with the new businesses, and higher staff incentives in 1H; slightly offset by the lower depreciation expense. We expect further HoH improvements in 2H, with i) new outlet contributions, and ii) as Singapore moves towards an endemic state with more relaxation of limits and measures. Our target price implies a 15.7% upside to the last traded price.

Key Risks: Further restriction measures

Key Financials

FY ended 31 Dec	FY2018	FY2019	FY2020	FY2021E	FY2022E
Revenue (S\$m)	223.8	237.5	192.4	224.8	245.9
EBIT (S\$m)	29.3	37.5	16.1	29.9	36.9
Net profit (S\$m)	24.5	27.7	9.9	22.0	27.3
Basic EPS (S cents)	4.75	4.99	1.78	3.98	4.92
Dividend per share (S cents)	1.00	2.20	2.00	2.49	2.74
Net cash / (debt)	91.2	90.3	65.7	81.4	85.9
Valuation					
EBIT margin (%)	13.1	15.8	8.4	13.3	15.0
ROIC (%)	490.2	22.0	9.3	17.7	20.3
EV/EBITDA (x)	6.8	2.5	3.3	2.8	2.5
P/E (x)	15.1	13.4	37.6	16.8	13.6
Dividend yield (%)	1.5	3.3	3.0	3.7	4.1

* Excluded lease liabilities

Investment Highlights

Seeing light ahead

Revenue (S\$m)	1H21	1H20
Outlet & mall mgmt	49.0	47.8
F&B retail	56.6	41.2
Others	0.1	-
Total	105.7	89.0

Source: Company Data, SAC Capital

1H FY21 revenue was 47.0% of our FY21E forecasts, and 46% of Bloomberg consensus forecasts, slightly lower due to the P2HA measures in place from 16 May to 13 June, and low footfall that remained at tertiary institutions and tourist-dependent outlets in 1H. On the bright side, outlets in the heartlands continue to see higher footfall and higher delivery sales.

1H FY21 revenue rose 18.8% yoy from S\$89.0m to S\$105.7m, with the F&B retail business segment increasing by 37.4% yoy, from S\$41.2m to S\$56.6m and the outlet and mall management segment increasing by 2.7% yoy from S\$47.8m to S\$49.1m. With an improvement in footfall at food outlets, Koufu managed to increase rental income. PATMI surged 3.9x.

In March, Macau reopened its borders to tourists entering from Mainland China. Londoner Macao food court saw a significant improvement in footfall, which is expected to continue as long as its quarantine-free travel remains open to Chinese visitors. However, as most of Macau's share of revenue comes from Chinese tourists, we are cautious of the spread of the Delta variant currently ongoing in China.

In 1H, with the restrictions in place in Singapore and Malaysia (source of some materials), the integrated facility is expected to commence operations in Q3/Q4 2021 (from the previously scheduled Q2). It has achieved full tenancy for the remaining 25% of facility's GFA (Koufu will be occupying the remaining 75%).

Hoping for higher footfall as Singapore moves towards endemic state

Singapore has moved out of P2HA partially from 10 Aug and will continue to be further from 19 Aug, which will see more relaxed limits on dining-in.

In 1H, Koufu temporarily suspended several business outlets in low footfall areas such as tertiary institutions. With higher vaccination rates in Singapore, the plans to move towards an "endemic" state are becoming more concrete. Food courts and F&B outlets in tertiary institutions will continue to pick up pace as more returns to school for face-to-face lessons. In addition, with the pandemic fatigue kicking in, social gatherings, retail activity and entertainment activities have been picking up, which we expect would continue further as increasingly more becomes fully vaccinated.

Currently, as Koufu's heartlands outlets pick up pace, tourist-dependent outlets are still facing drags. With Singapore's travel corridor plans and aims to reopen its borders gradually to some countries, we see this boding well for outlets catered towards tourists.

Investment Highlights

New outlets secured, likely at lower rental rates

In 1H, Koufu has opened 1 new food court and 1 self-operated stall at Sun Plaza, and 5 other F&B retail kiosks/stalls including 2 R&B Tea, 3 Dough Culture kiosks. In July/August, they additionally opened 2 new food courts at Marina Square, Nanyang Technological University and 1 new food court shop at the new Koufu Headquarters in Q3 2021. A few other F&B outlets are underway with leases secured. We expect these leases were locked in at lower rental rates, lowering expenses until they get renewed.

According to Management, expansion within Singapore will have a focus on new housing estates, hospitals, commercial malls and tertiary educational institutions. For overseas expansion, their focus will be to continue to build their network in Macau.

As at 30 Jun 2021, Koufu has net cash of S\$68.8m (up from S\$65.7m in 31 Dec). This makes up 64.9% of net assets.

Maintain BUY rating at marginally higher fair value of S\$0.775 (from S\$0.770)

We maintained our FY21/FY22 topline estimates, with adjustments to bottomline (-7.6% and -7.9%) due to higher rental expenses and staff costs with the new businesses, and higher staff incentives in 1H; slightly offset by the lower depreciation expense due to the lower carrying amount of ROU assets.

We expect further HoH improvements in 2H, with i) new outlet contributions, and ii) as Singapore moves towards an endemic state with more relaxation of limits and measures. With the high depreciation charge w.r.t. EBIT, and higher cash position, our DCF-derived target price is marginally higher, and translates into a FY21E/FY22E P/E of 19.5x and 15.8x. Our target price implies a 15.7% upside to the last traded price.

Income Statement

	Fiscal Year Ended 31 Dec				
(\$'m)	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Revenue	223.8	237.5	192.4	224.8	245.9
Other income	5.3	5.7	15.3	10.1	7.1
Cost of inventories consumed	-35.1	-36.9	-33.9	-40.2	-42.9
Staff costs	-36.9	-39.9	-36.0	-43.2	-45.7
Depreciation of Investment Properties and PPE	-11.9	-76.6	-76.2	-74.2	-76.9
Property rentals and related expenses	-105.1	-42.5	-31.7	-33.7	-35.7
Distribution and selling expenses	-2.0	-0.8	-1.2	-1.4	-1.6
Administrative expenses	-6.3	-5.0	-5.4	-6.4	-6.6
Other operating expense	-2.9	-4.0	-5.2	-4.5	-5.2
Results from operating activities	29.0	37.3	16.1	29.9	36.9
Finance income	0.4	0.9	0.4	0.6	0.6
Finance costs	-0.3	-4.4	-4.9	-3.9	-4.7
Profit before tax	29.4	34.0	11.6	26.6	32.8
Tax expense	-5.0	-6.1	-2.0	-4.5	-5.6
Profit for the year	24.5	27.8	9.6	22.0	27.3
Profit attributable to:					
Owners of the Company	24.5	27.7	9.9	22.0	27.3

Ratios

	Fiscal Year Ended 31 Dec				
	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
<i>Adoption of SFRS 16 Leases increased lease liability in FY2019</i>					
Profitability (%)					
Gross profit/(loss) margin	84.3	84.5	82.4	82.1	82.6
Profit/(loss) before tax margin	13.1	14.3	6.0	11.8	13.4
Liquidity (x)					
Current ratio	2.0	0.9	0.9	0.9	0.9
Quick ratio	2.0	0.9	0.9	0.8	0.9
Interest coverage ratio	104.6	8.5	3.3	7.6	7.9
Net Debt to Equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Valuation (x)					
P/E	15.1	13.4	37.6	16.8	13.6
P/B	4.1	3.6	3.7	3.4	3.1
EV/EBITDA	6.8	2.5	3.3	2.8	2.5
Cash Conversion Cycle					
Trade receivable days	35	31	63	38	36
Inventory days	13	14	19	15	15
Trade payable days	86	75	93	91	89
CCC days	-38	-29	-11	-39	-38

Balance Sheet

	Fiscal Year Ended 31 Dec				
(\$'m)	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Property, plant and equipment	21.4	210.0	191.1	207.8	221.5
Intangible assets	0.1	0.2	16.0	15.7	15.4
Investment properties	13.8	19.9	14.9	14.3	13.7
Trade and other receivables	11.3	10.4	13.2	11.6	12.1
Total non-current assets	52.1	242.5	238.7	249.5	262.8
Inventories	1.3	1.4	1.8	1.6	1.8
Trade and other receivables	10.2	10.0	20.0	11.6	12.1
Time deposits	35.0	4.6	3.1	0.0	0.0
Cash and cash equivalents	61.0	90.4	76.4	92.6	95.1
Total current assets	107.6	106.4	102.9	107.6	110.7
Total assets	159.7	348.9	341.6	357.1	373.4
Trade and other payables	46.0	41.2	44.0	50.0	52.6
Lease liabilities	-	63.3	64.7	66.0	67.3
Loans and borrowings	0.4	0.6	2.7	2.4	2.2
Current tax liabilities	6.0	6.0	3.5	4.8	4.1
Total current liabilities	53.8	112.6	116.4	124.7	127.7
Trade and other payables	6.8	7.4	5.2	6.1	7.1
Lease liabilities	-	117.6	102.9	105.5	107.5
Loans and borrowings	4.4	4.1	11.0	8.8	7.1
Total non-current liabilities	14.4	133.3	123.9	124.2	125.5
Total liabilities	68.2	245.9	240.3	249.0	253.3
Share capital	45.0	45.0	45.0	45.0	45.0
Foreign currency translation reserve	-0.3	-0.4	-0.3	-0.3	-0.3
Treasury shares	-	-	-	-	-
Retained earnings	46.7	58.0	56.7	65.0	77.1
Equity attributable to owners of the Company	91.4	102.3	101.0	108.0	120.1
Non-controlling interest	0.1	0.7	0.3	0.1	0.1
Total equity	91.5	103.0	101.3	108.1	120.2

Cash Flows Statement

	Fiscal Year Ended 31 Dec				
(\$'m)	FY2018A	FY2019A	FY2020A	FY2021E	FY2022E
Profit for the year	24.5	27.8	9.6	22.0	27.3
Depreciation of PPE and Investment Properties	11.9	76.6	76.2	74.2	76.9
Finance cost	0.3	4.4	4.9	3.9	4.7
Finance income	-0.4	-0.9	-0.4	-0.6	-0.6
Tax expense	5.0	6.1	2.0	4.5	5.6
Others	41.9	115.2	97.4	104.0	114.0
Change in working capital	-3.0	0.9	-18.2	17.0	2.5
Tax paid	-5.6	-6.1	-6.3	-4.5	-5.6
Net cash generated from operating activities	33.2	110.1	73.0	116.6	111.0
Net investment in associates	0.1	0.2	0.0	0.0	0.0
Interest received	0.4	0.8	0.4	0.6	0.6
Proceeds from disposals	0.8	0.5	0.0	0.8	0.0
Purchases	-19.0	-27.0	-15.8	-19.8	-22.5
Others	-0.0	0.0	-0.0	0.0	0.0
Net cash from / (used in) investing activities	-56.2	6.1	-29.6	-15.4	-21.9
Net borrowings	8.8	-6.0	8.8	-2.5	-2.0
Interest paid	-0.2	-4.3	-4.5	-3.9	-4.7
Dividends paid	-18.1	-12.2	-11.4	-14.1	-15.5
Lease payments	-	-64.4	-50.9	-64.4	-64.4
Others	0.0	-0.1	-0.1	-0.1	-0.1
Net cash (used in) / from financing activities	30.9	-86.8	-57.6	-85.0	-86.7
Net increase in cash	7.9	29.4	-14.1	16.3	2.5
Effect of exchange rate fluctuations on cash held	0.1	-0.0	0.1	0.0	0.0
Cash and cash equivalents	61.0	90.4	76.4	92.6	95.1

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