

Jumbo Group Ltd

1 August 2022

BUY (Initiation)

BBG	JUMBO
Market cap	S\$164m
Price (1 August 2022)	S\$0.255
52-week range	S\$0.250 – S\$0.335
Target Price	S\$0.380
Shares Outstanding	642.3m
Free Float	29.1%
Major Shareholder	Ang Hon Nam 47.3% Tan Gee Jian 6.6% Kuang Ming Investments Pte Ltd 7.0% Ron Sim Chye Hock 10%
P/BV (09/21)	3.5x
Net Debt to EBITDA (09/21)	net cash

Source: Company data, Bloomberg, SAC Capital

Analyst

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Sales rebound from pent-up domestic demand and tourist arrivals

A renowned household brand offering numerous dining concepts. Established in 1987 with its Flagship Jumbo Seafood at the East Coast Seafood Centre, Jumbo has grown its Jumbo Seafood outlets in Singapore and overseas, and ventured into other cuisines through acquisitions, franchise and franchise-in model. Jumbo currently has 8 F&B brands, with a presence in 11 cities in 6 countries.

The growth drivers are 1) With the reopening of the economy and removal of border restrictions, there is a strong pent-up demand for dining-out and increase in tourists visits; 2) After two months of strict lockdowns in Beijing and Shanghai, China is also relaxing movement restrictions, which help to rejuvenate consumption demand at restaurants; 3) Enlargement of the footprints of Jumbo Seafood and other brands in Asia through the franchise model; 4) Potential to raise prices in an inflationary environment.

The headwinds going forward are 1) Manpower shortage due to the low unemployment rate and stringent cap on foreign dependency ratio in Singapore; 2) China's zero-Covid policy presents uncertainty in business operations; 3) Rising input costs with higher commodity prices. Thus far, Jumbo has been able to pass this on and maintain gross margin, but it could face resistance if the macro environment weakens; 4) Recessionary pressure might lead to cut back in discretionary spendings, especially on high-ticket meals.

BUY at TP of S\$0.38. We expect earnings to improve ahead from a net loss of S\$11.8m (FY21) to a smaller net loss of S\$5.7m in FY22E and a net profit of S\$5.3m in FY23E. The stock is currently trading at a forward PE of 30.8x, and EV/EBITDA of 4.5x for FY23E respectively. We initiate coverage with a BUY at a DCF-derived TP of S\$0.38 (COE: 11%).

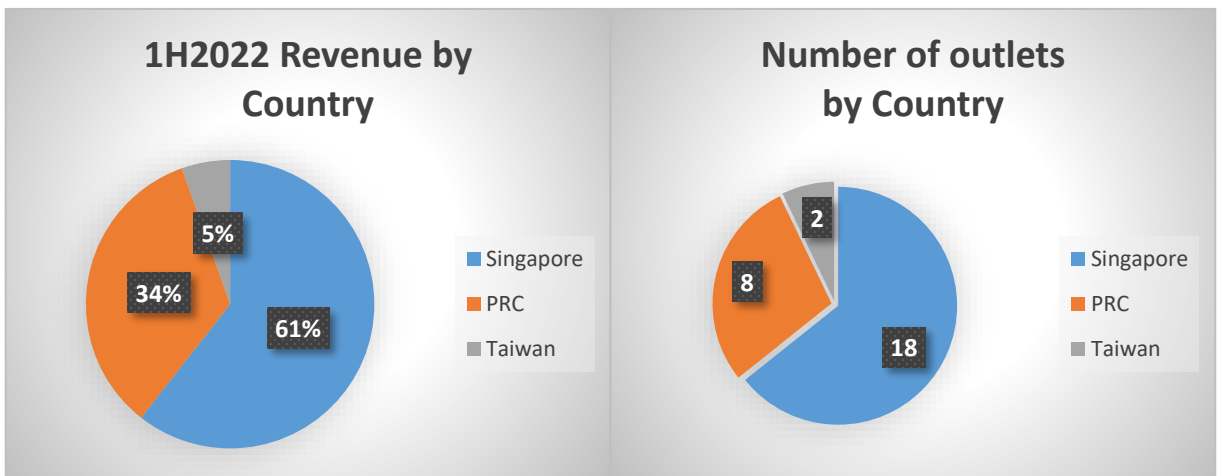
FYE 30 Sep (\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	153.6	97.6	81.8	129.8	202.9
EBIT	14.0	(9.1)	(13.7)	(4.0)	9.1
Net profit (loss)	11.7	(8.2)	(11.8)	(5.7)	5.3
EPS (S cents)	1.8	(1.3)	(1.8)	(0.9)	0.8
DPS (S cents)	1.2	-	-	-	0.6
Net cash (Net debt)	47.0	26.0	14.0	19.5	33.1
Valuation					
EBIT margin (%)	9.1	(9.4)	(16.8)	(3.1)	4.5
ROIC (%)	38.8	(32.4)	(29.0)	(8.6)	25.7
EV/EBITDA (x)	10.0	50.4	104.2	10.2	4.5
P/E (x)	20.6	(23.1)	(13.9)	(28.7)	30.8
Dividend yield (%)	3.2	-	-	-	2.2

Background

Jumbo Group is a well-known household brand for seafood restaurants in Singapore with a signature Chili Crab cuisine. Established in 1987, it has expanded into other dining concepts, ranging from full-service dining to casual to Quick-Service-Retail (QSR), and other types of cuisines through acquisitions and a franchise-in model. It has a portfolio of eight F&B brands, including a virtual brand, 'Hack It', for online orders and delivery.

Brand	Concept	Location	No. of Outlets	Stake	
JUMBO SEAFOOD	Full-Service	Singapore	5	100%	
		Shanghai	3	70%	
		Beijing	2	51%	
		Xi'an	2	51%	
		Fuzhou	1		Franchise
		Taipei	1	80%	
		Ho chi Minh City	3		Franchise
		Bangkok	2		Franchise
		Seoul	1		Franchise
JUMBO SIGNATURES	Full-Service	Singapore	1	100%	
JUMBO KITCHEN	Full-Service	Taipei	1		Franchise
ZUI YU XUAN TEOCHEW CUISINE	Full-Service	Singapore	2	100%	
CHAO TING	Fast Casual	Singapore	1	100%	
NG AH SIO BAK KUT TEH	Fast Casual	Singapore	2	100%	
		Shanghai	1	100%	
KOK KEE WANTON NOODLE	Fast Casual	Singapore	8	75%	
LAU LIM MEE POK	Fast Casual	Singapore	1	60%	
XINYAO HAINANESE CHICKEN RICE	Fast Casual	Shanghai	1	100%	
TSUI WAH CHA CHAAN TENG	Casual Dining	Singapore	4	49%	Franchise-in
SINGAPORE SEAFOOD REPUBLIC (20% stake)	Full-Service	Japan	3		Franchise
Love, Afare	Retail packs			100%	
HACK IT	Virtual	Singapore		100%	
	TOTAL		45		

Jumbo's owned outlets are located in Singapore, China and Taiwan.



Background

Jumbo started its franchise model in 2017 with the first Jumbo Seafood in HCMC, Vietnam. Under the franchise model, it derives a fee of 3-5% of the franchisees' revenue. It currently has 6 outlets under franchise. Franchise revenue is still small at S\$0.43m in FY21. Jumbo began its first franchise-in in 2018 with the Tsui Wah Cha Chaan Teng brand from HK which is renowned for Hong Kong cuisines.

Jumbo Group partners with Tung Lok, Palm Beach Seafood, Seafood International Market & Restaurant and M.R.S restaurant to take a 20% stake in the Singapore Seafood Republic brand. There are currently 3 franchised outlets in Japan under this brand.

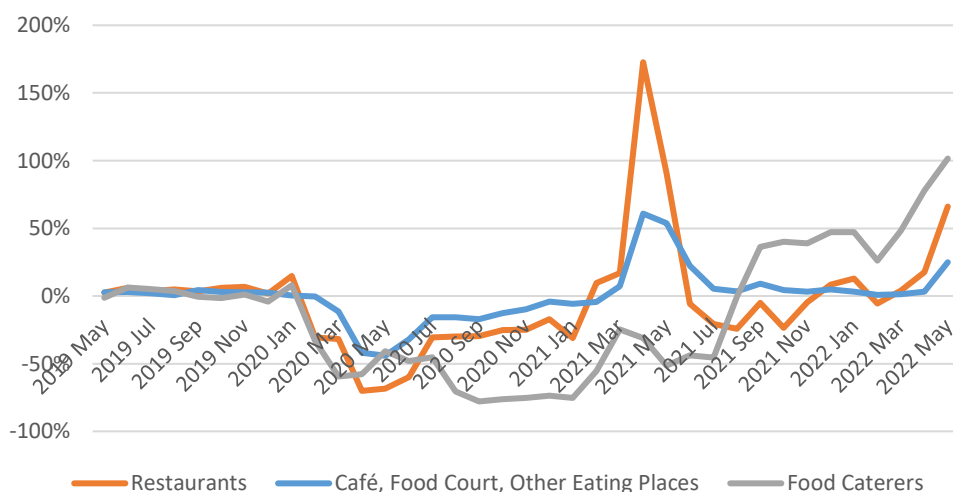
The company operates a central kitchen at its corporate headquarter in Singapore that produces the essential base for various key dishes for use at its outlets, as well as packaged retail packs for distribution and sale through supermarkets and convenience stores. The central kitchen gives it an edge in terms of 1) ensuring consistent quality among its outlets; 2) reducing food preparation time and the number of chefs at the food outlets; and 3) cutting down on space required at the outlets hence enabling a higher seating capacity.

CEO Ang Kiam Meng has an interest of 1.6% in the Group. The founder, Mr Ang Hon Nam and co-Founder, Mr Tan Gee Jian hold 47.3% and 6.6% shares respectively.

Re-opening fueled sales rebound

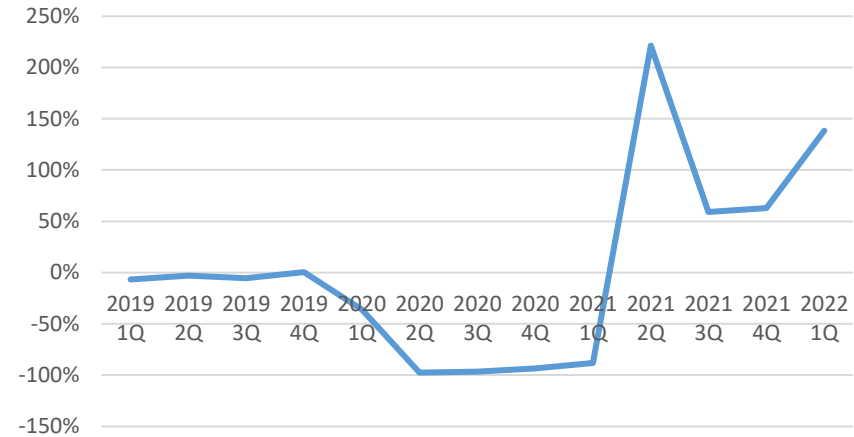
Sales in FY21 and FY22 were affected by lockdowns and movement restrictions. However, from 26 April 2022, substantially all COVID restrictions were lifted in Singapore. The borders are also opened and quarantine rules are relaxed to allow more tourist arrivals. Although covid cases rise to more than 10,000 in late June, Singapore's strategy is to co-live with the variants. Pent-up demand and more tourist spendings are likely to drive 2H22 (Apr-Sep 2022) recovery.

Retail Sales Growth (YOY %)

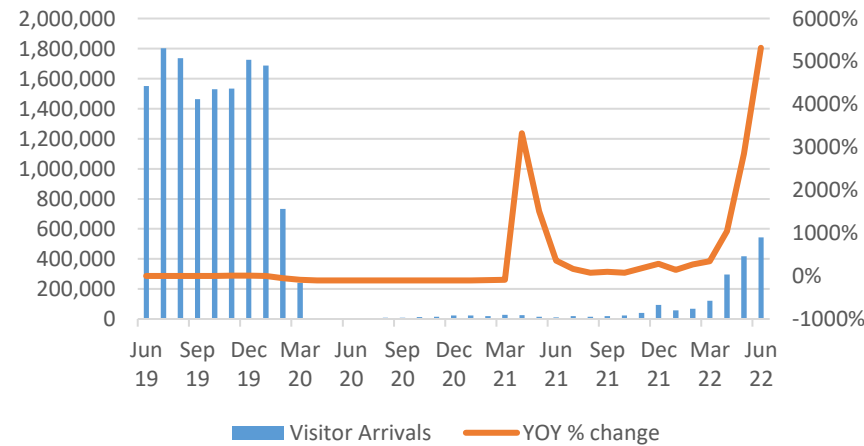


Re-opening fueled sales rebound

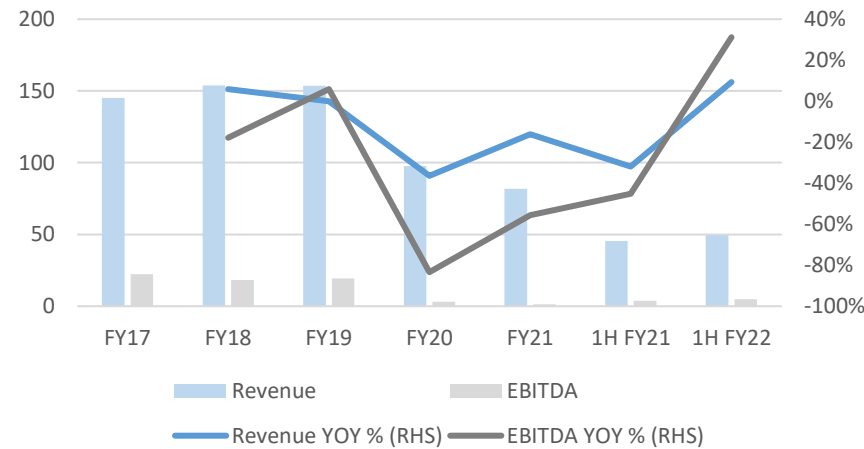
Tourism Receipts - F&B (YOY %)



Tourist Arrivals

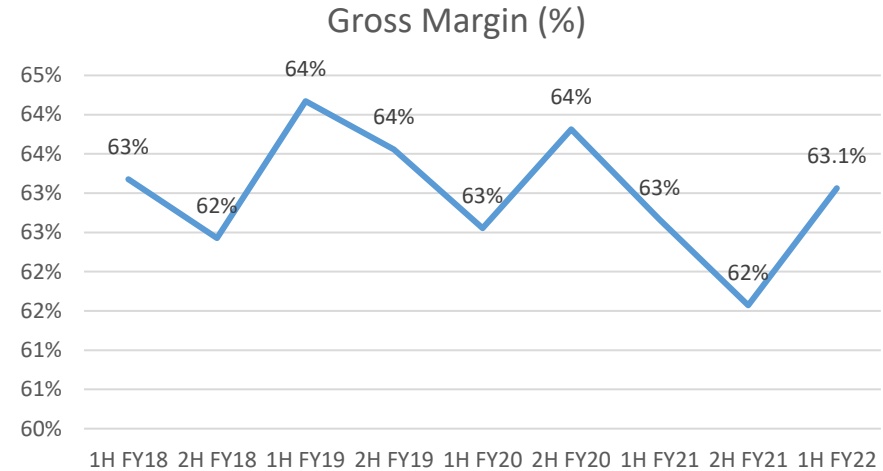
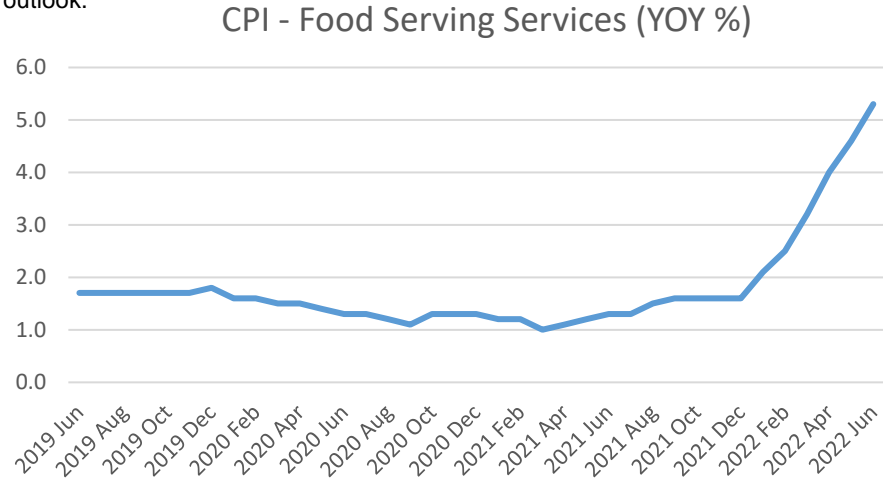


Revenue & EBITDA (\$m)

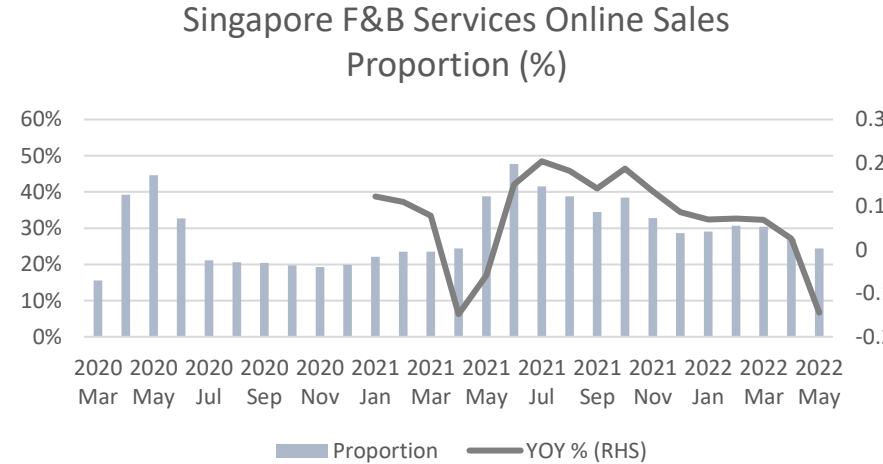


Price increase to offset higher input costs

Jumbo is able to enjoy operating leverage with higher volume. Jumbo has also raised prices in tandem with the higher demand, which is sufficient to offset the rise in input costs and keep the gross margin at about 63%. However, we think further price increases could become challenging in an environment of softening economic outlook.

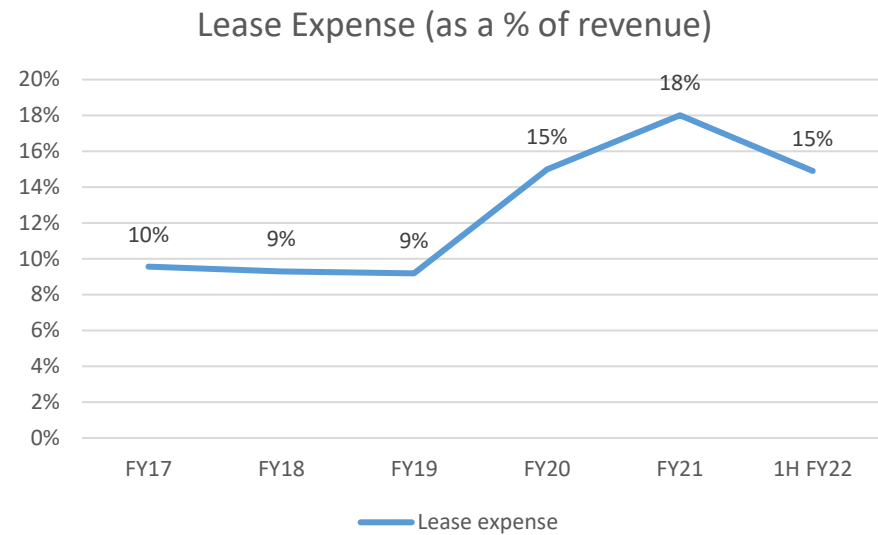
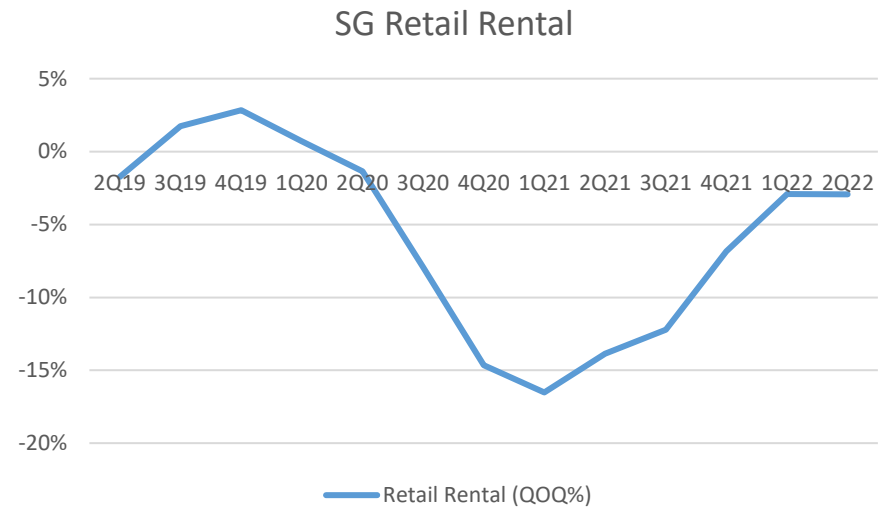


Margins for online sales and takeaway orders are lower as the delivery service charge a fee amounting to 20-25% of revenue. Besides this cost savings, restaurants also enjoy a higher margin for dine-in as they typically charge a 10% service charge. Hence, a lower proportion of online sales will translate into a higher margin. Jumbo's revenue from online sales as a percentage of revenue has decreased from double to a single digit.



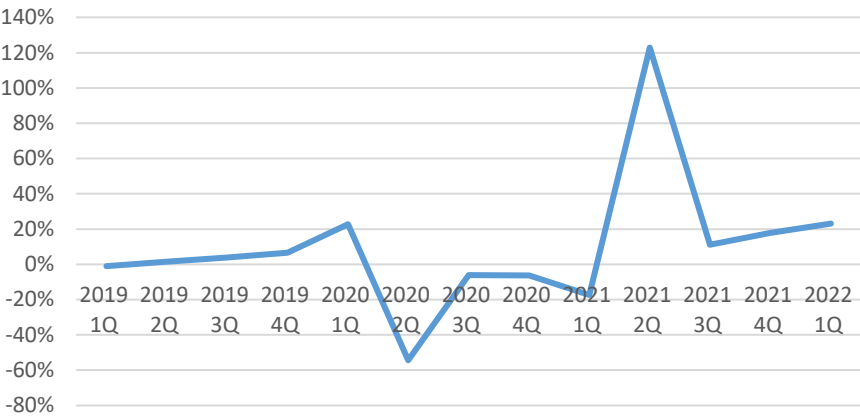
Rental rates increase remained subdued

Retail rental has remained subdued. Rents account for 15% of operating costs in 1HFY22.

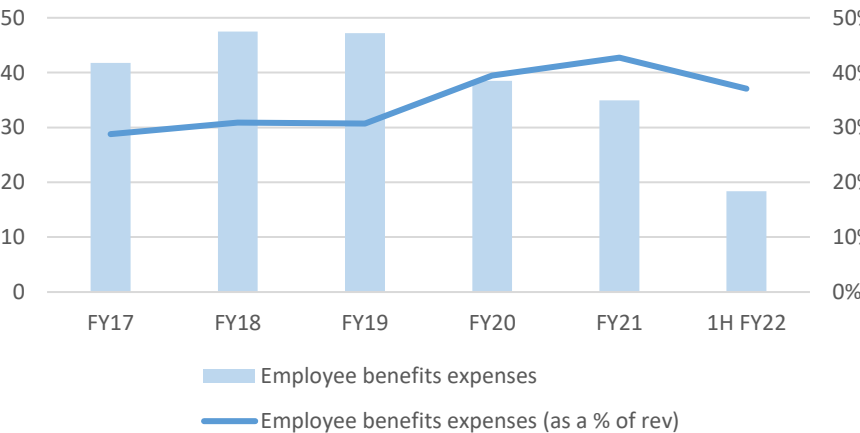


Surge in staff costs is a concern

Unit Labour Cost Of Food & Beverage Services (QoQ %)



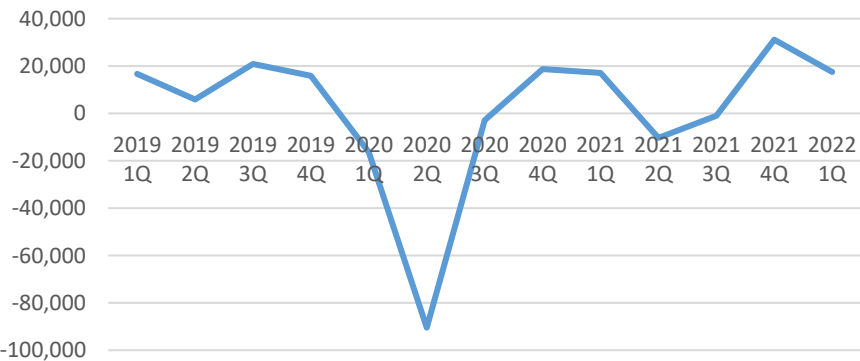
Employees Benefits Expense (\$\$m)



The long-term objective is to reduce dependency on foreign workers also applies to restaurant operators.

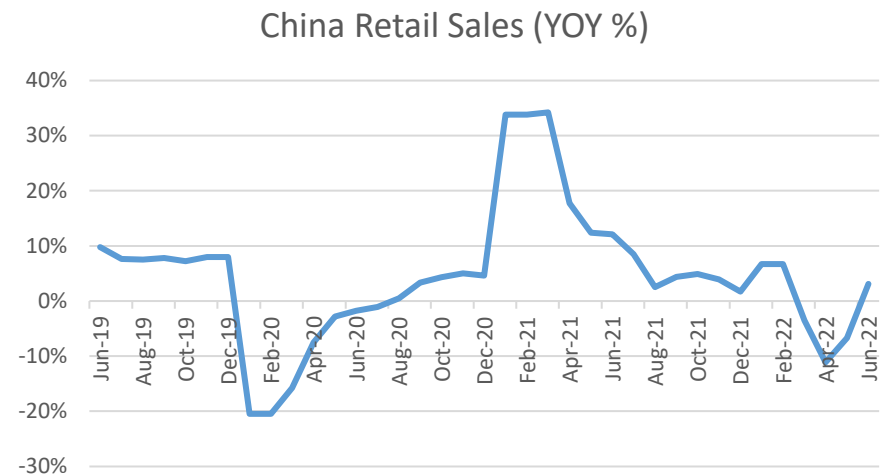
The dependency ratio ceiling (DRC) for the service sector is 35%. During COVID, many non-residents have left for home. All in, the service sector had a net reduction of 91,100 workers in 2021. The recovery in 1Q22 has been slowed at about 36,800 workers.

Change in Employment - Services Producing Industries (QoQ)



China's demand stays weak for FY22

The sporadic lockdowns in Shanghai, Beijing and Xian which began in April, had negatively impacted the restaurant operations. The zero-COVID policy that the authority adopts means that random checks and lockdowns are likely to become a norm, further exacerbating the challenges for food operators that relies on the dine-in crowd.

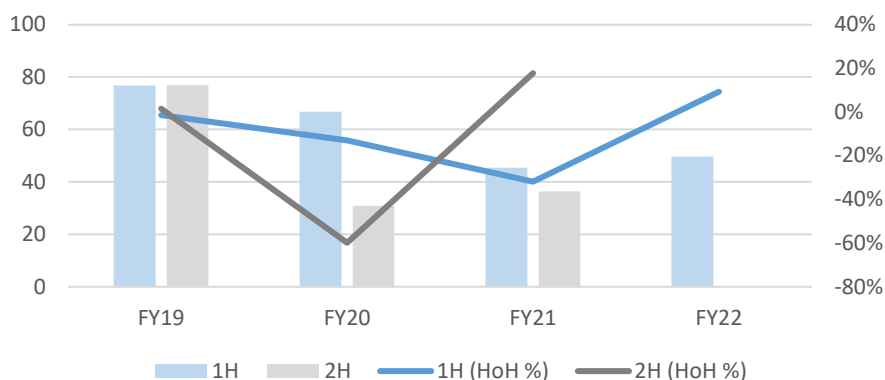


Future expansion to adopt the franchise model

With the franchise model, Jumbo has a higher chance of success in Asia as its partner is more familiar with the grounds. The franchise model has worked well for Jumbo in Vietnam and they are looking to expand to 4 outlets by FY22. However, franchise income is still small and contributed to 0.53% of revenue in FY21.

Financials

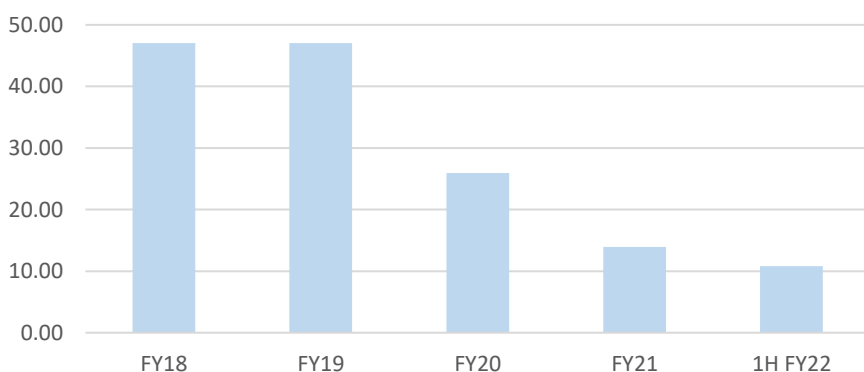
Half Year Revenue (\$m)



The demand for the Jumbo Group's full-service restaurants is generally higher during the festive period, especially Chinese New Year which falls on 1H of the Group's fiscal year.

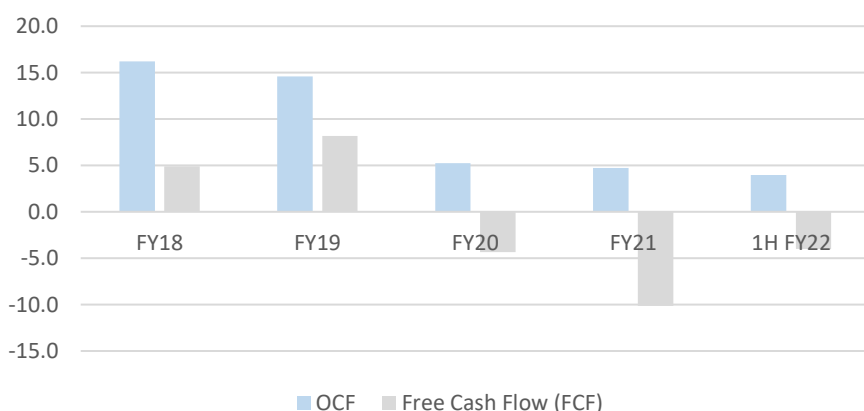
Although during the Chinese Year New period in 1HFY2022 the dine-in size was 5-pax as compared to 8-pax in 1H2021, the Group's revenue improved by 9% yoy. Due to the dining restrictions, Jumbo Seafood's sales improved marginally by 3% YoY, Zui Teochew Cuisine's sales dropped by 10.1% YoY while the casual restaurants, fast-casual restaurants and virtual brands brought an incremental revenue of S\$4.2m compared to 1H2021.

Net Cash (\$m)



Jumbo took bank loans and increased its investments in structured deposits to 7.5m and listed equities to 7.1m in 1HFY22, intending to generate returns to offset interest expense.

Cash Flows (\$m)



The operations are cash-generative where it generates an operating cash flow of about S\$5.2m in FY20 and S\$4.7m in FY21, and S\$4.0m in 1H22. Free cash flow was negative as the Group opens more stalls and make other investments.

Peer comparison

Jumbo's closest competitor for crab cuisines is No Signboard Seafood. However, NSS has faced financial difficulties when the outlets could not operate when COVID hit. Its premium flagship outlet at Esplanade and Vivocity outlet was closed, leaving only the Geylang Road outlet.

Other close competitors that serve seafood cuisines include listed Tunglok Restaurants and non-listed Crystal Jade and Paradise Dynasty. RE&S, Sakae Holdings and Japan Foods focus on Japanese cuisines, while Soup Restaurants offer traditional Chinese dishes.

Jumbo is an outlier in terms of Price/Book and EV/EBITDA. This could be due to a strong brand recognition amongst the locals as well as tourists.

Name	Mkt Cap	Revenue	EBIT	EBITDA	NI	GM	ROE	ROIC	EV/EBITDA (x)	EV/EBIT (x)	P/E (x)	P/B (x)
JUMBO GROUP LTD	179.8	81.8	-13.3	6.1	-11.8	62.3%	-23.5%	-11.8%	39.9	-	-	4.3
TUNG LOK RESTAURANTS	31.0	52.2	-1.4	7.8	-1.8	70.8%	-14.6%	-5.0%	5.4	-	-	3.1
JAPAN FOODS HOLDING LTD	74.1	54.6	3.8	24.4	3.2	84.6%	9.8%	5.7%	3.5	25.0	22.2	2.2
KATRINA GROUP LTD	11.6	53.8	2.7	21.4	-0.2	0.9%	N/A	480.6%	3.2	24.8	-	-
ABR HOLDINGS LTD	90.4	74.6	1.7	18.7	2.5	41.4%	2.6%	1.9%	4.5	49.5	37.9	1.0
RE&S HOLDINGS LTD	66.6	123.9	15.2	40.8	9.5	72.5%	28.6%	11.2%	3.7	12.3	6.5	1.7
SAKAE HOLDINGS LTD	13.4	21.1	3.8	9.1	2.3	65.8%	4.6%	3.4%	7.8	21.8	8.6	0.4
SOUP HOLDINGS LTD	23.8	29.6	0.9	7.5	0.8	76.8%	7.5%	5.0%	2.4	20.3	27.9	2.1
Mean									8.8	25.6	20.6	2.1
Median									4.1	23.3	22.2	2.1

Valuation

Our DCF-derived TP is S\$0.38/share (COE 11%). We expect revenue to grow by 58.7% in FY22E as the economy opens, restrictions are removed and economic activities resume. We expect the company to remain in the red in FY22E with a smaller net loss of S\$5.7m, but turn around in FY23E to net profit of S\$5.3m.

Income Statement

FYE 30 Sep (\$\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	153.6	97.6	81.8	129.8	202.9
Cost of sales	(55.5)	(36.1)	(30.9)	(48.0)	(75.1)
Gross profit (loss)	98.1	61.4	50.9	81.8	127.8
Employee costs	(47.2)	(38.5)	(34.9)	(45.4)	(66.9)
Other gains	1.5	1.9	1.2	0.8	0.0
Other operating expenses	(33.1)	(21.5)	(15.7)	(23.1)	(31.7)
EBITDA	19.4	3.2	1.4	14.1	29.2
D&A	(5.4)	(17.1)	(19.5)	(18.2)	(19.8)
Associates & JV	(0.8)	(0.3)	(0.4)	(0.4)	(0.3)
Exceptional Items	0.9	5.0	4.7	0.5	0.0
EBIT	14.0	(9.1)	(13.7)	(4.0)	9.1
Finance costs	0.0	(0.8)	(1.1)	(2.2)	(2.0)
Pretax profit (loss)	14.0	(10.0)	(14.9)	(6.2)	7.1
Tax credit (expense)	(3.1)	0.1	3.7	1.1	(1.2)
Non-controlling interest	0.8	1.7	(0.6)	(0.6)	(0.6)
Net profit (loss)	11.7	(8.2)	(11.8)	(5.7)	5.3

Balance Sheet

FYE 30 Sep (\$\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Assets					
Investments	1.5	1.5	1.1	0.6	0.3
Intangible assets	0.0	0.2	0.5	0.0	0.0
ROU	0.0	23.3	23.4	22.0	18.8
PPE	21.8	23.6	23.8	19.5	15.9
Deferred tax assets	0.0	0.0	3.8	3.8	3.8
Other non-current assets	4.2	5.8	6.3	6.3	6.3
Total non-current assets	27.5	54.4	58.8	52.2	45.1
Cash and cash equivalents	46.6	27.7	20.5	22.9	40.2
Trade and OR	14.1	11.1	11.5	15.8	20.7
ST Investments	0.4	0.3	8.8	15.0	11.2
Inventories	1.7	2.4	2.3	(2.8)	(3.2)
Total current assets	62.8	41.6	43.1	50.8	68.9
Total Assets	90.3	96.0	102.0	103.0	114.0
Liabilities					
Lease Liabilities	0.0	12.9	14.4	14.4	14.4
Bank borrowings	0.0	0.5	10.9	10.9	10.9
Deferred tax liability	0.4	0.4	0.0	0.0	0.0
Total non-current liabilities	0.4	13.8	25.3	25.3	25.3
Trade and other payables	13.5	9.2	11.0	15.3	21.7
Provision for reinstatement costs	2.1	2.0	3.5	3.5	3.5
Lease Liabilities	0.0	11.8	10.6	10.6	10.6
Bank borrowings	0.0	1.6	4.5	7.5	7.5
Income tax payable	2.5	0.4	0.0	(1.1)	1.2
Total current liabilities	18.0	24.9	29.6	35.8	44.5
Total Liabilities	18.4	38.7	54.9	61.1	69.8
Net Assets	72.0	57.3	47.1	41.9	44.2
Equity					
Share Capital	48.8	48.8	49.4	49.4	49.4
Treasury shares	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Currency translation reserve	(0.5)	(0.2)	0.2	0.2	0.2
Merger reserve	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)
(Accumulated losses)/Retained earnings	23.7	10.0	(1.8)	(7.5)	(5.8)
Owner's Equity	68.7	55.3	44.6	38.9	40.6
Non controlling interests	3.2	2.0	2.5	3.0	3.6
Total Equity	72.0	57.3	47.1	41.9	44.2

Cash Flow Statement

FYE 30 Sep (\$\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Pretax profit (loss)	14.0	(10.0)	(14.9)	(6.2)	7.1
D&A	5.4	17.1	19.5	18.2	19.8
Impairment	0.0	3.7	0.1	0.0	0.0
Interest Expense	0.0	0.8	1.1	2.2	2.0
Interest income	(0.3)	(0.2)	(0.1)	0.0	0.0
Associate	0.8	0.3	0.4	0.4	0.3
Others	0.1	0.9	(0.7)	0.0	0.0
Changes in working capital	(2.9)	(4.8)	1.1	5.1	2.0
Interest income received	0.3	0.2	0.1	0.0	0.0
Interest paid	0.0	(0.8)	(1.1)	(2.2)	(2.0)
Income tax paid	(2.9)	(2.0)	(0.8)	0.0	1.1
Operating cash flow	14.6	5.2	4.7	17.6	30.2
Capex	(6.1)	(7.5)	(5.0)	(12.0)	(13.0)
Others	(0.3)	(2.1)	(9.8)	(6.1)	3.7
Investing cash flow	(6.4)	(9.6)	(14.8)	(18.1)	(9.3)
Free cash flow	8.2	(4.4)	(10.1)	(0.6)	20.9
Dividends paid	(7.7)	(4.5)	0.0	0.0	(3.6)
Net borrowings	0.0	(0.3)	13.2	3.0	0.0
Others	(0.5)	(9.7)	(10.5)	0.0	0.0
Financing cash flow	(8.2)	(14.5)	2.7	3.0	(3.6)
Net change in cash & equivalents	(0.0)	(18.9)	(7.5)	2.4	17.3

Ratios

FYE 30 Sep (\$\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Profitability (%)					
Gross margin	63.9	63.0	62.2	63.0	63.0
EBIT margin	9.1	(9.4)	(16.8)	(3.1)	4.5
Liquidity (x)					
Current ratio	3.5	1.7	1.5	1.4	1.5
Interest coverage ratio	-	-	-	-	-
Net Debt to Equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Valuation (x)					
P/E	20.6	(23.1)	(13.9)	(28.7)	30.8
P/B	3.3	3.3	3.5	3.9	3.7
EV/EBITDA	10.0	50.4	104.2	10.2	4.5
Cash Conversion Cycle (CCC)					
Trade receivable days	33.5	41.7	51.5	44.3	37.2
Inventory days	11.3	24.3	27.0	21.3	15.7
Trade payable days	88.5	92.8	129.9	116.0	105.5
CCC days	(43.7)	(26.8)	(51.4)	(50.3)	(52.6)

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Nature of Business Relation	Date of Business Relation
Issue Manager	31 December 2021

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