

Old Chang Kee Ltd.

Good things take time

SINGAPORE | CONSUMER | RESULTS

- 1H FY17 Revenue/NPAT met 50.1%/48.6% of our FY17 full year forecasts
- Signs of bottoming out and momentum could extend into 2H FY17 with gross margin sustaining at c.63%
- Maintain our view of 2.8% yoy growth in FY17 NPAT after two consecutive years of contraction
- Declared interim dividend of 1.5 Cents per share, same as 1H FY16

Results at a glance

(SGD mn)	2Q17	2Q16	y-y (%)	Comments
Revenue	20.3	19.1	5.9%	Contributions from 2 new outlets and higher revenue from existing outlets; partially offset by temporary closure of 3 outlets due to mall revamps
Gross profit	12.9	12.1	6.9%	Lower raw material and production staff costs
EBITDA	3.5	3.1	13.0%	Higher government grant income
Net profit	1.6	1.2	30.5%	
DPS (cents)	1.50	1.50	0.0%	

Source: Company, Phillip Securities Research Pte Ltd estimates

New outlets and new products underpin demand, and momentum could sustain into 2H FY17. Sales from retail outlets increased 5.8%/4.2% year-on-year (“yoy”) in 2Q FY17/1H FY17, driven by:

- Two new outlets in Mar-16 (Chinatown Heritage Centre and Waterway Point); and
- New flavours of puffs (sales for puffs increased 11.6%/12% yoy in 2Q FY17/1H FY17).

Puffs remained as its major contributor to its revenue, accounting for c.33% to its total revenue in both 2Q and 1H FY17.

Moving forward, we expect a higher sales in 2H FY17. As mentioned in our [initiation report](#), new products such as *Ready Meals* and *Popcorn Squids* were only introduced in late 2Q FY17. In addition, OCK’s latest BBQ Chicken ‘O Curry Puff only made its debut in November 2016 (mid 3Q FY17). We are positive that these new flavour and products could boost sales in 2H FY17, bringing full year Revenue/NPAT yoy growth to 4.9%/2.8% despite a weak 1H FY17. Revenue grew 4.1% yoy in 1H FY17 but NPAT contracted 6.5% yoy.

New outlet in Changi Airport Terminal 2, and reopening of the three outlets in revamped malls in 3Q FY17, namely Compass One, VivoCity and Tiong Bahru Plaza, should also lift 2H FY17 revenue.

1H FY17 gross margin maintained above 63%; 2Q FY17 gross margin improved by 6 basis points (“bps”) yoy to 63.9%. We think that Old Chang Kee Ltd. (“OCK”) has started to reap benefits from its new factory facilities in 4 Woodlands Terrace and Iskandar Malaysia. The enlarged factory facilities provide:

- Storage space for inventories, enabling OCK to bulk purchase raw materials at favourable price; and
- New machineries, lowering production staff costs, increasing productivity and enhancing operating efficiencies.

While festival promotions in 2H FY17 could weigh against gross margin, we think that gross margin could sustain at c.63% for the rest of FY17.

5 December 2016

BUY (Maintained)

CLOSING PRICE	SGD 0.77
FORECAST DIV	SGD 0.03
TARGET PRICE	SGD 0.98
TOTAL RETURN	32.0%

COMPANY DATA

O/S SHARES (MN) :	121
MARKET CAP (USD mn / SGD mn) :	65 / 93
52 - WK HI/LO (SGD) :	0.83 / 0.61
3M Average Daily T/O (mn) :	0.04

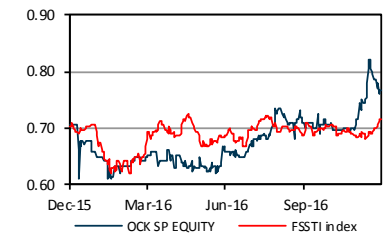
MAJOR SHAREHOLDERS (%)

HAN KEEN JUAN	58.6%
GOODVIEW PROPERTIES PTE LTD	11.7%
LIM TAO-E WILLIAM	7.3%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	12.2	8.3	14.3
STIRETURN	4.17	4.19	6.02

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY 15	FY 16	FY 17F	FY 18 F
Revenue (SGD mn)	71.6	73.9	77.5	80.3
Gross (SGD mn)	44.7	46.6	48.9	51.0
EBITDA (SGD mn)	11.9	11.7	12.3	12.7
NPAT, adj.	5.3	5.0	5.1	5.4
EPS (Cents)	4.35	4.10	4.21	4.42
PER, adj. (x)	18.4	19.5	15.8	17.3
P/B (x)	2.9	2.8	2.5	2.7
DPS (Cents)	3.0	6.0	3.0	3.0
Div Yield (%)	4%	8%	5%	4%
ROE (%)	16%	15%	15%	16%

Source: Company Data, PSR est.

Valuation Method

DCF (WACC:6.4%; Terminal g: 1.0%)

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Maintained 'Buy' rating and DCF-derived TP of S\$0.98

We continue to view OCK as a defensive growth play with a 28% capital upside to our TP of S\$0.98 and a 4% dividend yield.

The completion of its reconstruction work in 2 Woodlands Terrace in 1Q FY18 and integration with the adjacent new factory would be the inflection point for OCK. We expect better earnings by 2Q FY18, on the back enhanced manufacturing efficiencies, and introduction of new product offerings with better margins.

We remain upbeat that its new factory facilities in Singapore and Malaysia would bode well with its expansion strategy to grow domestically and regionally. Strategy execution remains the main risk.

Comparables

Bloomberg Ticker	Company	FYE	Mkt Cap (\$GD mn)	EV (\$GD mn)	Gorss Margin	Operating Margin	Net Margin	P/E TTM	P/E FY1	P/B	Div Yield (%)	Div Yield FY1 (%)	Net D/E (%)	ROE (%)	
OCK SP	Old Chang Kee Ltd	03/2016	93	80	63	10.1	6.7	18.7	18.2	2.7	7.8	3.9	Net Cash	14.6	
Simple Average (Excl. OCK)						39	4.1	-1.0	26.4	19.7	2.3	4.0	3.3	38.3	-3.3
ABR SP	ABR Holdings Ltd	12/2015	141	61	46	9.3	7.6	21.6	N/A	1.4	3.6	N/A	Net Cash	6.7	
QAF SP	QAF Ltd	12/2015	753	744	47	7.0	5.3	9.3	8.9	1.6	3.7	N/A	Net Cash	18.5	
BREAD SP	BreadTalk Group Ltd	12/2015	309	410	53	5.6	1.2	37.9	26.8	2.5	2.6	1.6	68.0	7.0	
AP SP	Auric Pacific Group Ltd	12/2015	172	94	42	2.0	-9.4	N/A	9.1	1.0	N/A	N/A	Net Cash	-6.7	
DELFI SP	Delfi Ltd	12/2015	1,467	1,463	30	6.9	-1.2	44.3	33.7	5.1	6.3	5.0	Net Cash	10.6	
FEH SP	Food Empire Holdings Ltd	12/2015	229	259	N/A	6.8	0.1	19.0	N/A	1.1	N/A	N/A	8.7	2.3	
CSFG SP	China Star Food Group Ltd	03/2016	63	17	44	24.2	3.5	N/A	N/A	0.9	N/A	N/A	Net Cash	N/A	
SMOON SP	Sunmoon Food Co Ltd	12/2015	31	30	7	-29.2	-14.9	N/A	N/A	4.5	N/A	N/A	Net Cash	-61.6	

Source: Bloomberg

Ex-dividend, OCK is currently trading at a forward price-to-earnings (P/E) ratio of 18.2x, which is c.8% discount to its Singapore packaged food peers' 19.7x.

Financials

Income Statement

Y/E Mar, SGD mn	FY15	FY16	FY17F	FY18F	FY19F
Revenue	71.6	73.9	77.5	80.3	83.6
Gross Profit	44.7	46.6	48.9	51.0	53.5
EBITDA	11.9	11.7	12.3	12.7	14.1
Depreciation & Amortisation	3.8	4.1	4.5	4.7	4.7
EBIT	8.1	7.5	7.7	8.0	9.4
Net Finance Inc/(Exp)	(0.1)	(0.2)	(0.3)	(0.2)	(0.2)
Profit before tax	6.7	6.1	6.2	6.5	7.7
Taxation	(1.4)	(1.1)	(1.0)	(1.1)	(1.3)
Net profit, reported	5.3	5.0	5.1	5.4	6.4

Per share data (SGD Cents)

Y/E Mar	FY15	FY16	FY17F	FY18F	FY19F
EPS, reported	4.35	4.10	4.21	4.42	5.29
DPS	3.00	6.00	3.00	3.00	4.00
BVPS	27.43	28.52	26.73	28.15	30.44

Cash Flow

Y/E Mar, SGD mn	FY15	FY16	FY17F	FY18F	FY19F
CFO					
Profit before tax	6.7	6.1	6.2	6.5	7.7
Adjustments	4.2	4.5	4.8	4.9	4.9
WC changes	(1.8)	1.4	(0.4)	(0.3)	0.2
Cash generated from ops	9.1	12.0	10.6	11.1	12.8
Others	(1.6)	(1.4)	(1.0)	(1.1)	(1.3)
Cashflow from ops	7.5	10.6	9.5	10.0	11.5
CFI					
CAPEX, net	(8.3)	(7.1)	(7.8)	(5.2)	(5.5)
Others	0.0	0.0	0.0	0.0	0.0
Cashflow from investments	(8.2)	(7.1)	(7.7)	(5.2)	(5.4)
CCF					
Loans, net of repayments	4.3	(0.4)	4.8	(1.9)	(2.2)
Dividends	(3.6)	(3.6)	(7.3)	(3.6)	(3.6)
Others	(0.1)	(0.2)	(0.3)	(0.2)	(0.3)
Cashflow from financing	0.5	(4.3)	(2.8)	(5.8)	(6.1)
Net change in cash	(0.2)	(0.7)	(1.0)	(1.0)	0.0
CCE, end	20.1	19.4	18.4	17.5	17.5

Source: Company, Phillip Securities Research (Singapore) Estimates

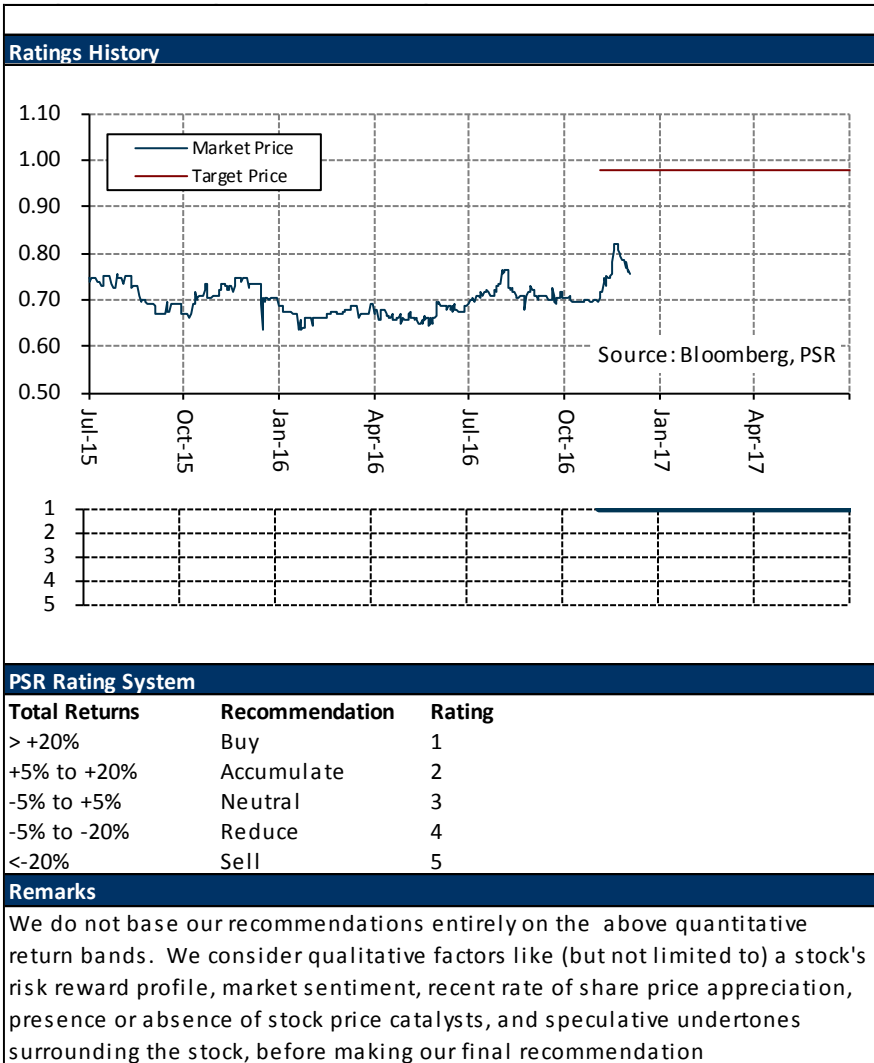
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Mar, SGD mn	FY15	FY16	FY17F	FY18F	FY19F
ASSETS					
PPE	26.4	28.9	32.2	32.7	33.5
Others	-	-	-	-	-
Total non-current assets	28.4	31.3	34.6	35.1	35.8
Accounts receivables	0.1	0.2	0.2	0.2	0.2
Cash	20.1	19.4	18.4	17.5	17.5
Inventories	0.5	0.7	0.6	0.6	0.7
Others	-	-	-	-	-
Total current assets	23.6	23.1	22.1	21.1	21.2
Total Assets	52.1	54.5	56.6	56.2	57.0
LIABILITIES					
Accounts payables	5.4	7.1	6.7	6.4	6.6
Short term loans	1.0	1.1	1.1	1.1	1.1
Others	-	-	-	-	-
Total current liabilities	10.0	10.9	10.5	10.2	10.4
Long term loans	7.7	7.3	12.1	10.2	8.0
Others	-	-	-	-	-
Total non-current liabilities	8.8	8.9	13.7	11.8	9.7
Total Liabilities	18.8	19.9	24.2	22.1	20.1
EQUITY					
Shareholder Equity	33.3	34.6	32.4	34.2	36.9

Valuation Ratios

Y/E Mar	FY15	FY16	FY17F	FY18F	FY19F
P/E (X), adj.	18.4	19.5	15.8	17.1	14.3
P/B (X)	2.9	2.8	2.5	2.7	2.5
EV/EBITDA (X), adj.	8.1	8.3	6.6	7.2	6.5
Dividend Yield (%)	3.8%	7.5%	4.5%	4.0%	5.3%
Growth & Margins (%)					
Growth					
Revenue	4.0%	3.1%	4.9%	3.7%	4.1%
EBITDA	0.1%	-2.1%	5.3%	3.7%	10.7%
EBIT	-3.6%	-7.0%	3.0%	3.7%	16.6%
Net profit, adj.	-12.2%	-5.9%	2.8%	4.9%	19.6%
Margins					
EBITDA margin	16.6%	15.8%	15.9%	15.9%	16.9%
EBIT margin	11.3%	10.2%	10.0%	10.0%	11.2%
Net profit margin	7.4%	6.7%	6.6%	6.7%	7.7%
Key Ratios					
ROE (%)	16.3%	14.6%	15.2%	16.1%	18.1%
ROA (%)	10.7%	9.3%	9.2%	9.5%	11.3%
Net Debt/(Cash)	(11.4)	(11.1)	(5.3)	(6.2)	(8.4)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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