Old Chang Kee Ltd.

Delivered as promised

14 February 2017

SINGAPORE | CONSUMER | RESULTS

- Results in line with our forecasts. 9M FY17 Revenue/NPAT met 76%/75% of our FY17 full year forecast.
- Turnaround in sight and materialising its growth strategy. 9M FY17 NPAT -0.9% yoy growth.
- Maintain our view of 2.8% yoy growth in FY17 NPAT after two consecutive years of contraction, with gross margin sustaining at c.63%.

Results at a glance

(SGD mn)	3Q17	3Q16	y-y (%)	Comments
Revenue	20.3	18.9	7.5%	Contributions from new outlets mitigated lower revenue from existing outlets and temporary closure of outlets due to mall revamps
Gross profit	12.9	11.8	9.6%	Improved factory efficiency
EBITDA	3.2	2.9	11.1%	
Net profit	1.4	1.2	11.1%	

Source: Company, Phillip Securities Research Pte Ltd estimates

Expansion in distribution channel and product range should continue to lift sales. Sales from retail outlets increased 7.0% year-on-year ("yoy") in 3Q FY17, driven by:

(i) **Contribution from more outlets.** Total number of outlets increased to 88 by end December 2016 from 82 a year ago. The new outlets at Tampines Hub (Nov-16) and Smart Energy Serangoon Petrol (Jan-17), as well as the reopening of revamped Novena Square outlet (Feb-17) would lift sales in 4Q FY17.

(ii) **Higher turnover from new flavours of puffs.** Puffs remained as its major contributor to its revenue, accounting for c.33% to its total revenue in both 3Q FY17 and 9M FY17. Sales for puffs increased c.12% yoy in both 3Q FY17 and 9M FY17.

The results reflect Old Chang Kee's ("OCK") successful implementation of its strategy which has started to bear fruits, in our view. Its move to build two new factory facilities in 4 Woodlands Terrace and Iskandar Malaysia to increase its production capacity and enhance economies of scale has driven margin expansion.

(i) As promised, it has **ramped up its pace of innovation.** We saw a continuous stream of new products and new flavours of puff introduced since 2Q FY17.

We remain upbeat that these new products and flavours of puff will boost sales, bringing full year Revenue/NPAT yoy growth to 4.9%/2.8%. Revenue grew 5.3% yoy in 9M FY17 with NPAT flattish at -0.9% yoy.

(ii) **Improved factory efficiency** lifted 2Q FY17 gross margin by 1.2 percentage points ("pp") yoy to 63.8%, while 9M FY17 gross margin maintained above 63%. We think that gross margin could sustain at c.63% for the rest of FY17.

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

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.

BUY (Maintained)

CLOSING PRICE	SGD 0.84
FORECAST DIV	SGD 0.03
TARGET PRICE	SGD 0.98
TOTAL RETURN	21.0%

COMPANY DATA

O/S SHARES (MN) :	121
MARKET CAP (USD mn / SGD mn) :	71/ 101
52 - WK HI/LO (SGD) :	0.84 / 0.62
3M Average Daily T/O (mn) :	0.03

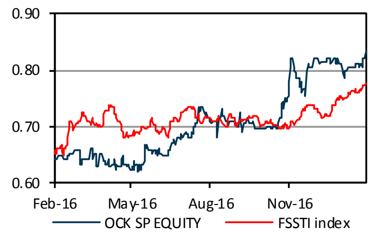
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	1.2	11.5	34.6
STI RETURN	3.34	9.95	24.87

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY15	FY16	FY17F	FY18F
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	18.9
P/B (x)	2.9	2.8	2.5	3.0
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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Appendix

In our intiation report, we have mentioned OCK's intention of moving into bigger space to accommodate a seating area for dine-in customers. The move enables OCK to increase its avenues to sell *Ready Meals* to its customers.

As mentioned, opportunities prevailed during the recent mall refurbishments drive – one of the example is Novena Square Outlet, which was reopened in February 2017.

Renovated Novena Square Outlet with New Dine In Concept and New Menu

Source: Old Chang Kee Singapore's Facebook Page

New Product launched in January 2017

Source: Old Chang Kee Singapore's Facebook Page

New Flavour launched in February 2017

Source: Old Chang Kee Singapore's Facebook Page

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)**
CFF					
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**

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**

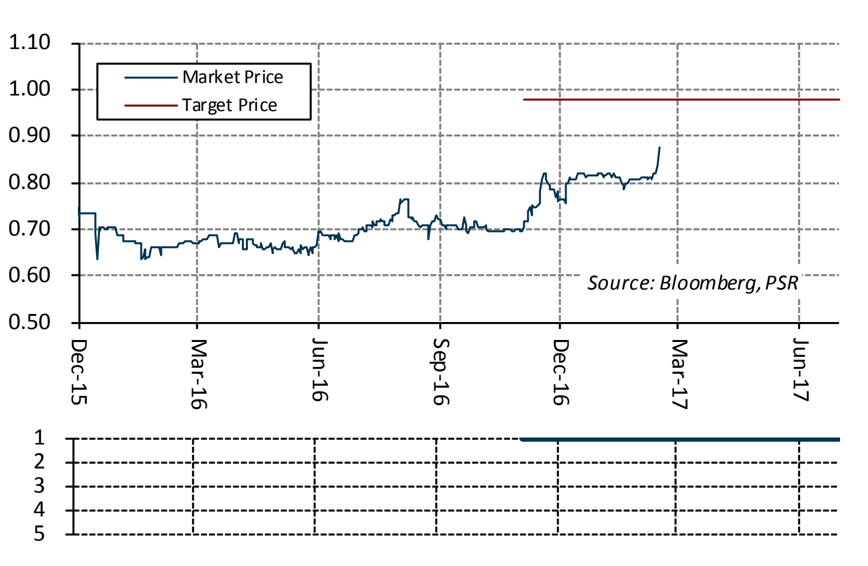
Valuation Ratios

Y/E Mar	FY15	FY16	FY17F	FY18F	FY19F
P/E (X), adj.	18.4	19.5	15.8	18.9	15.8
P/B (X)	2.9	2.8	2.5	3.0	2.7
EV/EBITDA (X), adj.	8.1	8.3	6.6	8.0	7.2
Dividend Yield (%)	3.8%	7.5%	4.5%	3.6%	4.8%
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

Source: Company, Phillip Securities Research (Singapore) Estimates

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

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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