

Old Chang Kee Ltd.

Hit by one-off non-cash item; Execution as planned



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SINGAPORE | CONSUMER | 4Q17 RESULTS

2 June 2017

- FY17 earnings missed our forecast by 66%; Excluding one-off non-cash item, FY17 NPAT was 4% below our expectation due to higher-than-expected operating expenses
- New outlets and new products should continue to drive sales; Expect three new outlets by FY18
- Reconstruction work in 2 Woodlands Terrace on track for TOP in 1Q FY18; Expect full integration and operations by 3QFY18
- Better efficiency should sustain FY18e gross margin at c.63% despite higher operating expenses

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

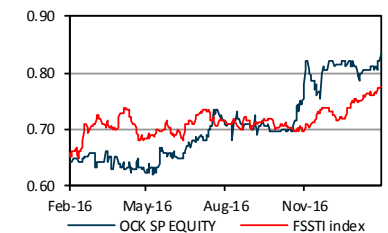
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	12	115	34.6
STI RETURN	3.34	9.95	24.87

PRICE VS. STI



Source: Bloomberg, PSR

Results at a glance

S\$ mn	FY17	FY16	YoY (%)	Comments
Revenue	78.3	73.9	6.1%	Contributions from new outlets mitigated lower revenue from existing outlets and temporary closure of outlets due to mall revamps
Gross profit	49.6	46.6	6.4%	Improved factory efficiency <i>Gross Margin +0.2pp YoY to 63.3%</i>
EBITDA	10.3	10.4	-1.6%	Higher operating expenses <i>EBITDA Margin -1.0pp YoY to 13.1%</i>
Net profit	1.7	5.0	-64.9%	S\$3.0mn revaluation deficit for SG and MY factory buildings
Net profit, adj.	4.9	5.0	-1.7%	Exclude one-off non-cash item and FX impact
DPS (cents)	3.00	6.00		Unchange (FY16 includes 3.0 cents Special dividend)

Source: Company

New outlets and new products lifted demand; Three new outlets by FY18

Sales from retail outlets increased 5.9% YoY in FY17, mainly driven by (i) Six new stores; and (ii) New flavours of puffs (sales for puffs increased 6.7% YoY). Puffs remain the major contributor to revenue, accounting for 31.8% to its total revenue in FY17.

Total number of outlets in Singapore increased to 89 as at end-FY17 from 83 a year ago. The Group has three new outlets in the pipeline. This will bring the total number of outlets to 91 by end-FY18, including the closure of Golden Shoes outlet in end-July 2017. Expansion in distribution channel and product range will continue to boost FY18e top line.

Gross margin continues to improve; Further margin expansion post-integration

FY17 gross margin improved further by 2 bps yoy to 63.3%, benefiting from the enlarged new factory facilities and machineries in 4 Woodlands Terrace and Iskandar Malaysia. The reconstruction work in 2 Woodlands Terrace is on track to complete by 1QFY18. Management expects full integration with the adjacent factory and operations by 3QFY18.

The integrated factory facilities, which are equipped with advanced machinery and c.60% additional production area, would improve OCK's productivity and operating efficiency. We expect better earnings in 4QFY18, on the back enhanced manufacturing efficiencies, and introduction of new product offerings with better margins.

FY17 earnings was hit by S\$3mn one-off non-cash item

OCK recorded a revaluation deficit of c.S\$3mn for the Group's Singapore and Malaysia factory buildings. The revaluation exercise was conducted by an independent valuer. Nonetheless, the two factories assessed (in 4 Woodlands Terrace and Iskandar Malaysia) have just been renovated with brand new cold rooms, lifts and M&E works. Management shared that these were excluded from the assessment, leading to the revaluation deficit. Excluding the revaluation deficit and FX impacts, net profit was marginally down by 1.7%.

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	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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Revenue from Malaysia grew by 7.5 times on product innovations and growing B2B sales

OCK's Malaysia business has turned profitable for the first time since its inception six years ago, thanks to the new factory in Iskandar Malaysia. As mentioned in our [initiation report](#), OCK intends to expand its B2B business in Malaysia. Management shared that it has engaged some hotel chains in Malaysia for puff sales.

While recording an encouraging 32.2% operating profit margin in Malaysia, it registered a S\$511,000 pre-tax loss, dragged by two non-cash items, i.e. S\$333,000 revaluation deficit and S\$266,000 depreciation expenses. Nonetheless, we are optimistic that the new products innovation (supported by the Iskandar factory facility) and the growing B2B sales will continue to boost the topline of its Malaysia operations.

First foray outside Asia Pacific region – an outlet in central London by this year

The outlet is part of the expansion plan from its 60:40 Joint Venture with 13 Wonders. It will be funded from OCK's initial paid-up share capital of GBP500,000 (S\$873,000).

Despite the competitive food and beverage business in London, management noted that there are no direct competitor in the United Kingdom for such fried snack food. While there are other delicacies which offer curry dishes (e.g. in Indian, Thai and Japanese eateries), OCK will position itself as a curry puff specialist, with Hainanese touch. Its key target market will be the affluent hip and young working adults in London. It has tested water with a pop-up event in London, which was well received with primary customers being overseas based Singaporeans.

Despite operating in a niche market, we expect the gross margin from its London business should be somewhat similar to its Singapore's, i.e. at c.63%. The London outlet will operate as per its foreign outlets in Australia and Malaysia. The curry pastes and key dough ingredients will be controlled from Singapore to ensure consistency in quality and tastes. OCK envisage to replicate the model across London should the pilot project succeed.

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

The completion of its reconstruction work in 2 Woodlands Terrace and integration with the adjacent new factory would be the inflection point for OCK.

We remain upbeat that its new factory facilities in Singapore and Malaysia would bode well with its expansion strategy to grow domestically and regionally.

Financials

Income Statement

Y/E Mar, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
Revenue	73.9	78.3	82.0	85.4	88.8
Gross Profit	46.6	49.6	52.1	54.2	56.8
EBITDA	10.4	10.3	10.9	11.3	12.6
Depreciation & Amortisation	4.1	4.6	4.8	5.0	5.0
EBIT	6.3	2.5	6.1	6.3	7.6
Net Finance Inc/(Exp)	(0.2)	(0.1)	(0.1)	(0.0)	(0.0)
Profit before tax	6.1	2.4	6.0	6.3	7.5
Taxation	(1.1)	(0.7)	(1.0)	(1.1)	(1.3)
Net profit, reported	5.0	1.7	4.9	5.2	6.2
Net profit, adj.	5.0	4.9	4.9	5.2	6.2

Per share data (SGD Cents)

Y/E Mar	FY16	FY17	FY18e	FY19e	FY20e
EPS, reported	4.10	1.44	4.07	4.29	5.13
DPS	6.00	3.00	3.00	4.00	4.00
BVPS	28.52	22.55	23.62	24.92	26.05

Cash Flow

Y/E Mar, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
CFO					
Profit before tax	6.1	2.4	6.0	6.3	7.5
Adjustments	4.5	8.1	4.9	5.1	5.1
WC changes	1.4	(0.5)	(1.2)	(0.2)	0.2
Cash generated from ops	12.0	10.0	9.7	11.2	12.7
Others	(1.4)	(0.5)	(1.0)	(1.1)	(1.3)
Cashflow from ops	10.6	9.6	8.7	10.1	11.5
CFI					
CAPEX, net	(7.1)	(8.3)	(5.4)	(5.6)	(5.8)
Others	0.0	0.1	0.0	0.0	0.0
Cashflow from investments	(7.1)	(8.2)	(5.3)	(5.5)	(5.8)
CFF					
Loans, net of repayments	(0.4)	2.2	(1.5)	(1.7)	(1.4)
Dividends	(3.6)	(7.3)	(3.6)	(3.6)	(4.9)
Others	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)
Cashflow from financing	(4.3)	(5.2)	(5.3)	(5.5)	(6.3)
Net change in cash	(0.7)	(3.9)	(2.0)	(0.9)	(0.6)
CCE, end	19.4	15.6	13.6	12.7	12.0

Source: Company, Phillip Securities Research (Singapore) Estimates

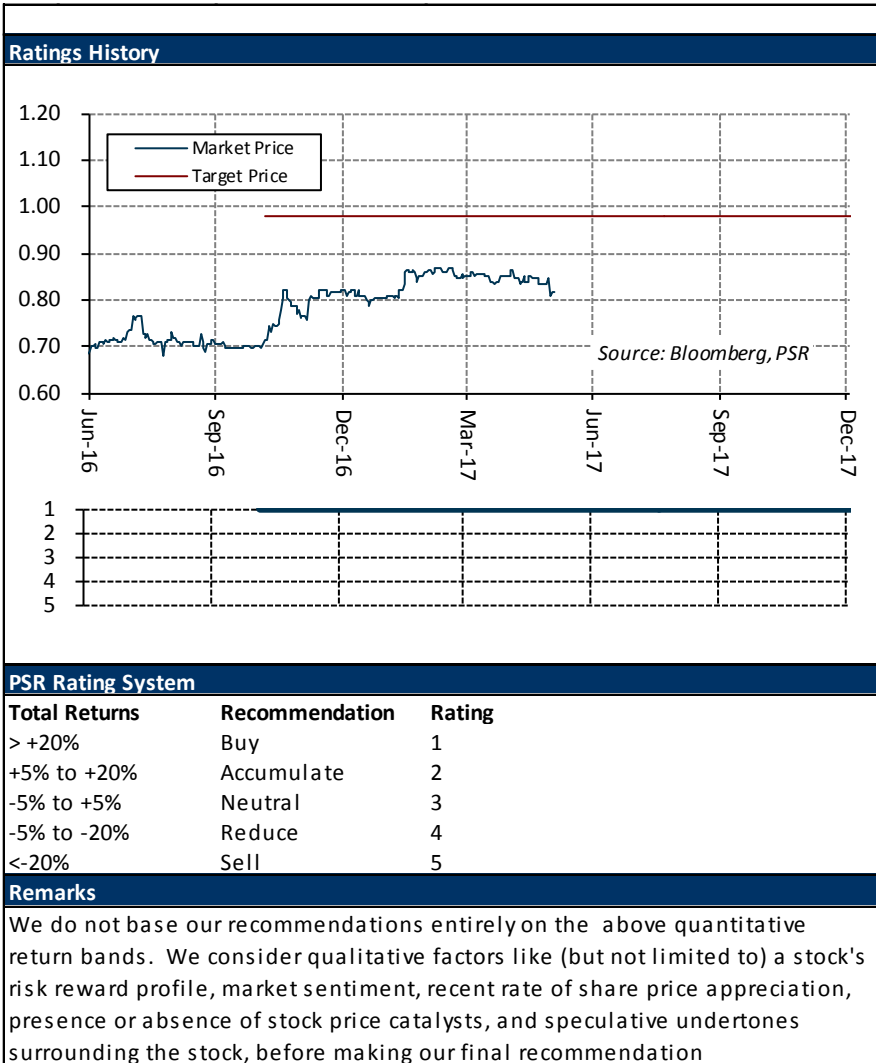
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Mar, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
ASSETS					
PPE	28.9	27.6	28.1	28.7	29.5
Others	-	-	-	-	-
Total non-current assets	31.3	30.2	30.8	31.3	32.1
Accounts receivables	0.2	0.3	0.2	0.2	0.2
Cash	19.4	15.6	13.6	12.7	12.0
Inventories	0.7	0.7	0.7	0.7	0.7
Others	-	-	-	-	-
Total current assets	23.1	20.5	18.4	17.6	17.0
Total Assets	54.5	50.7	49.2	48.9	49.0
LIABILITIES					
Accounts payables	7.1	8.3	7.0	6.8	7.0
Short term loans	1.1	4.3	4.3	4.3	4.3
Others	-	-	-	-	-
Total current liabilities	10.9	16.2	14.9	14.8	14.9
Long term loans	7.3	6.2	4.7	2.9	1.5
Others	-	-	-	-	-
Total non-current liabilities	8.9	7.2	5.6	3.9	2.5
Total Liabilities	19.9	23.3	20.5	18.6	17.4
EQUITY					
Shareholder Equity	34.6	27.4	28.7	30.2	31.6

Valuation Ratios

Y/E Mar	FY16	FY17	FY18e	FY19e	FY20e
P/E (X), adj.	16.2	59.1	20.0	19.0	0.0
P/B (X)	2.3	3.8	3.4	3.3	0.0
EV/EBITDA (X), adj.	7.7	10.1	9.1	8.7	(0.0)
Dividend Yield (%)	7.4%	3.7%	3.7%	4.9%	4.9%
Growth & Margins (%)					
Growth					
Revenue	3.1%	6.1%	4.7%	4.1%	4.1%
EBITDA	-2.7%	-1.6%	6.3%	4.1%	11.0%
EBIT	-7.9%	-59.6%	140.5%	4.1%	19.5%
Net profit, adj.	-7.1%	-1.7%	0.6%	5.5%	19.6%
Margins					
EBITDA margin	14.1%	13.1%	13.3%	13.3%	14.2%
EBIT margin	8.5%	3.2%	7.4%	7.4%	8.5%
Net profit, adj. margin	6.8%	6.3%	6.0%	6.1%	7.0%
Key Ratios					
ROE (%)	14.6%	5.6%	17.6%	17.7%	20.1%
ROA (%)	9.3%	3.3%	9.9%	10.6%	12.7%
Net Debt/(Cash)	(11.1)	(5.0)	(4.6)	(5.4)	(6.2)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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