

# Old Chang Kee Ltd.

Transformation almost complete



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## SINGAPORE | CONSUMER | 2Q18 RESULTS

- 1H18 revenue was in-line with expectation but earnings missed on costs pressures
- New factory and equipment to provide new capacity to boost product innovations and margins from 3Q18 onwards
- Declared an interim dividend of 1.50 cents per share, same as last year
- Maintained 'Buy' with unchanged DCF-derived TP of S\$0.98

### Results at a glance

S\$ mn	1H18	1H17	YoY (%)	Comments
Revenue	42.0	38.8	8.2%	Contributions from new outlets and increased sales in existing outlets <i>Zero net store opening YoY; no. of outlets in SG at 87</i>
Gross profit	25.4	24.6	3.5%	Higher raw material costs and one-time factory test-runs <i>Gross margin -2.7pps to 60.5%</i>
EBITDA	5.0	6.1	-18.2%	Lower government grant <i>EBITDA margin -3.8pp to 11.9%</i>
Net profit	1.4	2.5	-42.9%	-40.7% YoY if exclude S\$0.53mn start-up losses in UK <i>Higher Effective Tax Rate at 24.2% vs 20.7% in 1H17</i>
DPS (cents)	1.50	1.50	0.0%	<i>Dividend payout ratio at 128% of NPAT vs 73% in 1H17</i>

Source: Company, PSR

### The positives

- Strong performance from its retail outlets.** Revenue from retail outlets +8.7% YoY in 1H18, driven by contribution from new outlets and higher same store sales growth.

During the past 12 months, the Group had closed two stores (at Golden Shoe Complex and Century Square) and opened two new stores (at Tampines Hub and Smart Energy Serangoon Petrol), bringing total store count in Singapore unchanged at 87.

- Continue its store network expansion, locally and globally.** The Group's first flagship outlet in London, United Kingdom is targeted to open in 2018. While we do not expect the new revenue stream generated (with only 1 store) to contribute significantly to the Group's bottom line, it will serve to uplift Old Chang Kee's brand positioning in the global platform.

Meanwhile, we expect 3 net new stores in 3Q18. The Group has opened four new stores (at Wisma Atria, Changi Airport Terminal 4, Ang Mo Kio MRT, and Suntec City Mall) and has closed one store at One KM Mall, since Oct-17 till-date. We maintained our view that OCK's store count would reach 92 by end-FY18.

### The negatives

- One-off disruptions during factory integration process in 2Q18**

**(a) Slower puff innovations:** Historically, new puffs are the key revenue growth driver. However, 1H18 puff sales only grew by 3.5% YoY, dragged by subdued 2Q18 puff sales. Nonetheless, puff products remained the major contributor to its revenue and accounted for c.32% of 1H18 Revenue vs 33% in 1H17.

**(b) Integration cost, coupled with higher raw material costs eroded gross margin.** The factory test-runs for the commissioning of the Group's new factory equipment is one-off in nature. Management shared that majority of the factory integration has been completed and is on track for full integration by 3Q18. On the other hand, management noted higher prices\* for chicken meat, cooking oil and margarine during the period.

\* Chicken and cooking oil prices increased c.5% and c.1% YoY respectively in the period (Source: CEIC)

14 November 2017

## BUY (Maintained)

LAST CLOSE PRICE	SGD 0.75
FORECAST DIV	SGD 0.03
TARGET PRICE	SGD 0.98
<b>TOTAL RETURN</b>	<b>34.7%</b>

### COMPANY DATA

BLOOMBERG CODE:	OCK SP
O/S SHARES (MN):	121
MARKET CAP (USD mn / SGD mn):	67 / 91
52 - WK HI/LO (SGD):	0.88 / 0.74
3M Average Daily T/O (mn):	0.02

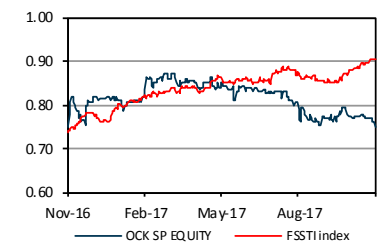
### MAJOR SHAREHOLDERS (%)

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	(2.6)	(5.6)	5.3
STI RETURN	4.10	3.65	24.76

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Mar	FY 16	FY 17	FY 18 e	FY 19 e
Revenue (SGD mn)	73.9	78.3	82.0	85.4
Gross (SGD mn)	46.6	49.6	51.3	54.2
EBITDA (SGD mn)	10.4	10.3	10.1	11.3
NPAT, adj.	5.0	1.7	4.2	5.2
EPS (Cents)	4.10	1.44	3.43	4.25
PER, adj. (x)	16.2	59.1	219	17.7
P/B (x)	2.3	3.8	3.3	3.1
DPS (Cents)	6.0	3.0	3.0	4.0
Div Yield (%)	8%	4%	4%	5%
ROE (%)	15%	6%	15%	18%

Source: Company Data, PSR est.

### Valuation Method

DCF (WACC:6.7%; Terminal g: 1.0%)

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Following the commissioning of new factory equipment, production has now stabilized with a higher production capacity and efficiency.

#### Outlook

**Near term headwinds but positive on long-term outlook.** New stores opening and product innovations will continue to drive topline growth. The Group is currently reviewing its pricing and promotional strategies. However, we do not expect FY18e gross margin to restore to the 63% level. Nonetheless, we are optimistic that the new factory will yield manufacturing efficiencies and new product offerings.

#### Maintained Buy with unchanged DCF-derived TP of S\$0.98

Successful integration with the adjacent new factory by 3Q18 would be the inflection point for OCK. We remain upbeat that its new factory facilities will increase capacity to fuel their expansion domestically and regionally.

## Financials

### Income Statement

Y/E Mar, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
<b>Revenue</b>	<b>73.9</b>	<b>78.3</b>	<b>82.0</b>	<b>85.4</b>	<b>88.8</b>
<b>Gross Profit</b>	<b>46.6</b>	<b>49.6</b>	<b>51.3</b>	<b>54.2</b>	<b>56.8</b>
<b>EBITDA</b>	<b>10.4</b>	<b>10.3</b>	<b>10.1</b>	<b>11.3</b>	<b>12.6</b>
Depreciation & Amortisation	4.1	4.6	4.8	5.0	5.0
<b>EBIT</b>	<b>6.3</b>	<b>2.5</b>	<b>5.2</b>	<b>6.3</b>	<b>7.6</b>
Net Finance Inc/(Exp)	(0.2)	(0.1)	(0.1)	(0.0)	(0.0)
Associates & JVs	-	-	(0.1)	(0.1)	(0.0)
<b>Profit before tax</b>	<b>6.1</b>	<b>2.4</b>	<b>5.0</b>	<b>6.2</b>	<b>7.5</b>
Taxation	(1.1)	(0.7)	(0.9)	(1.1)	(1.3)
<b>Net profit, reported</b>	<b>5.0</b>	<b>1.7</b>	<b>4.2</b>	<b>5.2</b>	<b>6.2</b>
<b>Net profit, adj.</b>	<b>5.0</b>	<b>4.9</b>	<b>4.2</b>	<b>5.2</b>	<b>6.2</b>

### Per share data (SGD Cents)

Y/E Mar	FY16	FY17	FY18e	FY19e	FY20e
EPS, reported	4.10	1.44	3.43	4.25	5.12
DPS	6.00	3.00	3.00	4.00	4.00
BVPS	28.52	22.55	22.98	24.23	25.35

### Cash Flow

Y/E Mar, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
<b>CFO</b>					
<b>Profit before tax</b>	<b>6.1</b>	<b>2.4</b>	<b>5.0</b>	<b>6.2</b>	<b>7.5</b>
Adjustments	4.5	8.1	5.1	5.1	5.1
WC changes	1.4	(0.5)	(0.0)	0.1	0.2
Cash generated from ops	12.0	10.0	10.1	11.4	12.8
Others	(1.4)	(0.5)	(0.9)	(1.1)	(1.3)
<b>Cashflow from ops</b>	<b>10.6</b>	<b>9.6</b>	<b>9.2</b>	<b>10.4</b>	<b>11.5</b>
<b>CFI</b>					
CAPEX, net	(7.1)	(8.3)	(5.4)	(5.6)	(5.8)
Others	0.0	0.1	(0.5)	0.0	0.0
<b>Cashflow from investments</b>	<b>(7.1)</b>	<b>(8.2)</b>	<b>(5.8)</b>	<b>(5.5)</b>	<b>(5.8)</b>
<b>CFF</b>					
Loans, net of repayments	(0.4)	2.2	0.0	(2.1)	(1.6)
Dividends	(3.6)	(7.3)	(3.6)	(3.6)	(4.9)
Others	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)
<b>Cashflow from financing</b>	<b>(4.3)</b>	<b>(5.2)</b>	<b>(3.8)</b>	<b>(5.8)</b>	<b>(6.6)</b>
<b>Net change in cash</b>	<b>(0.7)</b>	<b>(3.9)</b>	<b>(0.4)</b>	<b>(0.9)</b>	<b>(0.8)</b>
<b>CCE, end</b>	<b>19.4</b>	<b>15.6</b>	<b>15.1</b>	<b>14.2</b>	<b>13.3</b>

### Balance Sheet

Y/E Mar, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
<b>ASSETS</b>					
PPE	28.9	27.6	28.1	28.7	29.5
Associates & JVs	-	-	0.4	0.3	0.3
Others	-	-	-	-	-
<b>Total non-current assets</b>	<b>31.3</b>	<b>30.2</b>	<b>31.2</b>	<b>31.7</b>	<b>32.4</b>
Accounts receivables	0.2	0.3	0.2	0.2	0.2
Cash	19.4	15.6	15.1	14.2	13.3
Inventories	0.7	0.7	0.8	0.8	0.8
Others	2.9	4.0	4.0	4.0	4.0
<b>Total current assets</b>	<b>23.1</b>	<b>20.5</b>	<b>20.1</b>	<b>19.2</b>	<b>18.4</b>
<b>Total Assets</b>	<b>54.5</b>	<b>50.7</b>	<b>51.3</b>	<b>50.8</b>	<b>50.8</b>

### LIABILITIES

Accounts payables	7.1	8.3	8.3	8.4	8.6
Short term loans	1.1	4.3	4.3	4.3	4.3
Others	2.8	3.6	3.6	3.6	3.6
<b>Total current liabilities</b>	<b>10.9</b>	<b>16.2</b>	<b>16.2</b>	<b>16.3</b>	<b>16.5</b>
Long term loans	7.3	6.2	6.2	4.2	2.5
Others	1.7	1.0	1.0	1.0	1.0
<b>Total non-current liabilities</b>	<b>8.9</b>	<b>7.2</b>	<b>7.2</b>	<b>5.1</b>	<b>3.5</b>
<b>Total Liabilities</b>	<b>19.9</b>	<b>23.3</b>	<b>23.4</b>	<b>21.4</b>	<b>20.0</b>

### EQUITY

<b>Shareholder Equity</b>	<b>34.6</b>	<b>27.4</b>	<b>27.9</b>	<b>29.4</b>	<b>30.8</b>
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### Valuation Ratios

Y/E Mar	FY16	FY17	FY18e	FY19e	FY20e
P/E (X), adj.	16.2	59.1	21.9	17.7	14.6
P/B (X)	2.3	3.8	3.3	3.1	3.0
EV/EBITDA (X), adj.	7.7	10.1	9.0	8.0	7.2
Dividend Yield (%)	8.0%	4.0%	4.0%	5.3%	5.3%

### Growth & Margins (%)

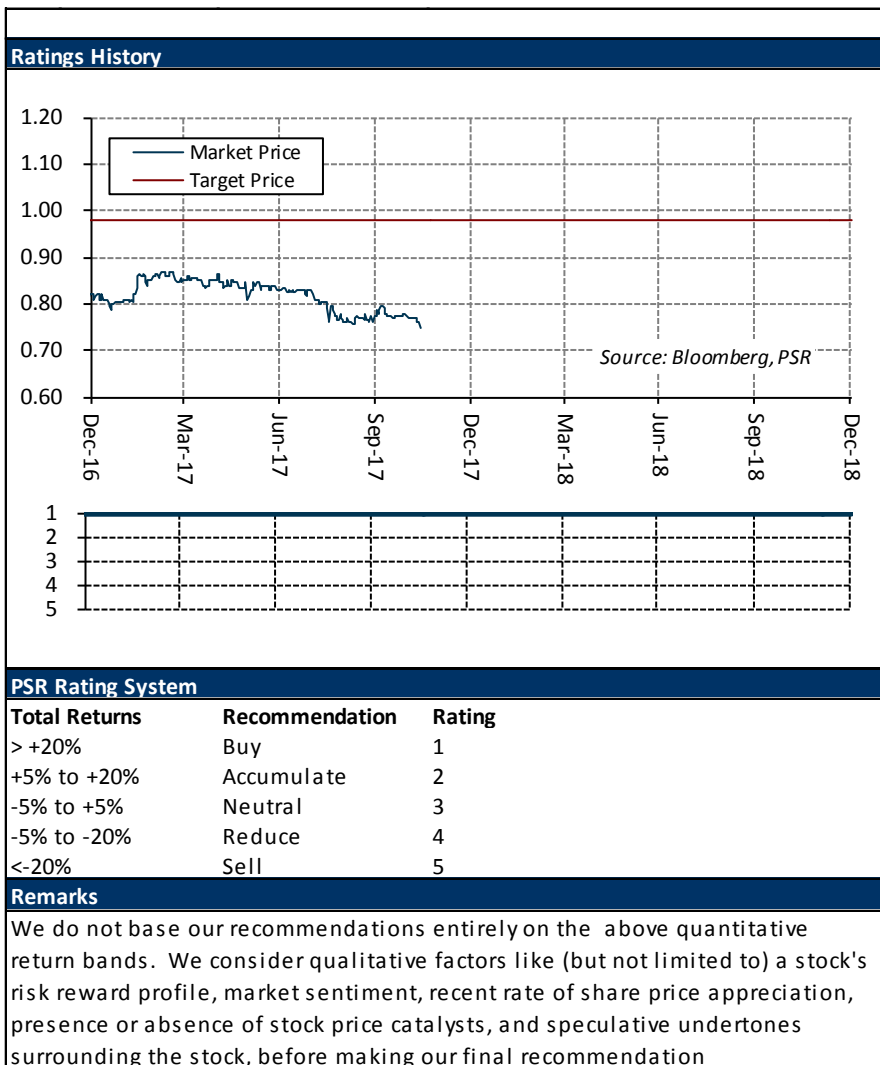
<b>Growth</b>					
Revenue	3.1%	6.1%	4.7%	4.1%	4.1%
EBITDA	-2.7%	-1.6%	-1.7%	12.5%	11.0%
EBIT	-7.9%	-59.6%	108.0%	20.3%	19.5%
Net profit, adj.	-7.1%	-1.7%	-15.3%	23.9%	20.6%
<b>Margins</b>					
EBITDA margin	14.1%	13.1%	12.3%	13.3%	14.2%
EBIT margin	8.5%	3.2%	6.4%	7.4%	8.5%
Net profit, adj. margin	6.8%	6.3%	5.1%	6.0%	7.0%

### Key Ratios

ROE (%)	14.6%	5.6%	15.1%	18.0%	20.7%
ROA (%)	9.3%	3.3%	8.2%	10.1%	12.2%
Net Debt/(Cash)	(11.1)	(5.0)	(4.6)	(5.7)	(6.5)
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.



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