

RE&S Holdings Limited

Quick-Service Restaurants to drive growth



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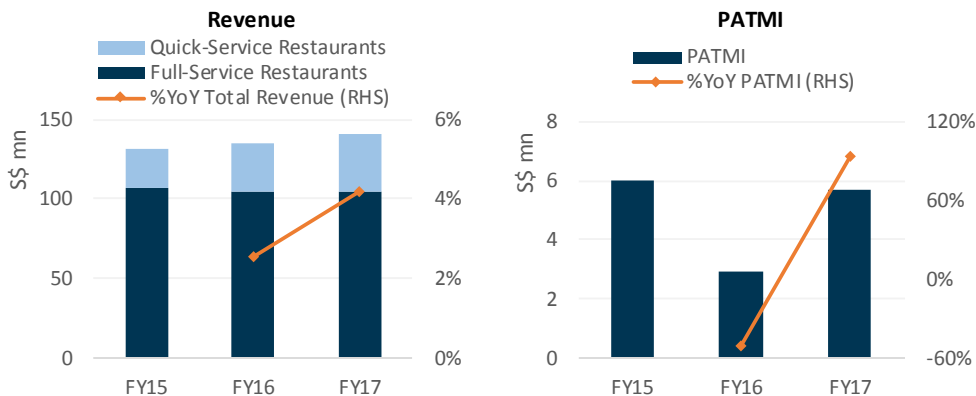
17 November 2017

- Resilient and scalable business model. A diversified portfolio with (a) strong track record over 25 years, (b) a wide range of offerings with multi-price point strategy, and (c) is operated by a team of experienced management.
- Expansion into the fast-growing and higher margin Quick-Service Restaurants segment and ready-to-eat meals; While potential margin gains from its central kitchen should drive bottom-line growth.
- With improving margins, positive operating cash flows, a high return on equity (FY17 ROE at 18.3%, post-invitation), RE&S Holdings Limited trades at a post-IPO historical P/E of 13.7x, 13.8% discount to the industry average of 15.9x. **Subscribe.**

Investment Summary

The Group is a concept owner and operator of F&B Outlets in Singapore and Malaysia that provides customers with authentic Japanese cuisine and dining experiences, via (a) 39 Full-Service Restaurants, and (b) 38 Quick-Service Restaurants, Food Kiosks, Japanese Bakery and Food Retail Outlets. The Group also supply Japanese food products which it manufactures to third-party businesses in Singapore.

Financial Highlights



Source: IPO Prospectus

Dividend Policy

No fixed dividend policy, but intends to **distribute dividends of at least 35.0% of PATMI in each of FY2018 and FY2019.**

Peer Comparison

Company	Mkt Cap (SGD mn)	Gross Margin	Operating Margin	Net Margin	P/S TTM	P/E TTM	P/B	Div Yield (%)	Net D/E (%)	ROE (%)
RE&S Holdings Ltd	78	71.9	5.4	4.0	0.6	13.7	2.5	N/A	52.7	18.3
Market Cap Weighted Average (ex. RE&S)	46.9	9.1	5.5	1.1	15.9	2.8	2.6	10.7	38.7	
Japan Foods Holding Ltd	75	84.9	7.7	7.1	1.1	17.2	2.3	4.6	Net Cash	13.7
ABR Holdings Ltd	151	44.4	5.8	5.2	1.4	30.4	1.6	3.3	Net Cash	5.1
Sakae Holdings Ltd	43	62.3	-10.4	-14.6	0.6	N/A	1.3	N/A	112.5	-20.5
Soup Restaurant Group Ltd	45	N/A	2.7	2.6	1.1	32.0	4.8	3.1	Net Cash	15.0
Jumbo Group Ltd	375	63.2	13.3	11.3	2.7	24.4	5.8	3.8	Net Cash	25.5
Katrina Group Ltd	46	14.8	6.0	4.2	0.7	17.9	3.2	3.0	Net Cash	15.6
Tung Lok Restaurants 2000 Ltd	63	71.9	-0.3	0.5	0.8	N/A	4.2	N/A	Net Cash	-4.9
BreadTalk Group Ltd	442	54.9	5.7	1.9	0.7	20.8	3.3	3.2	29.1	16.4
Kimly Ltd	423	21.6	14.9	7.1	N/A	N/A	N/A	0.8	Net Cash	107.7

Source: Bloomberg, IPO Prospectus

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IPO Price SGD 0.22

IPO STATISTICS

Total New Share Issue	54,000,000
- Placement tranche	35,000,000
- Public tranche	3,000,000
- Cornerstone placement	16,000,000
Listing Status	Catalist
Closing date (Public)	20-Nov-17
Trading date	22-Nov-17
Lead Manager	DBS Bank

MAJOR SHAREHOLDERS (%)

HIROSHI TATARA	61.9%
YEK HONG LIAT JOHN	21.2%
ORCHID 2 INVESTMENTS PTE. LTD.	4.5%

KEY FINANCIALS

SGD M N	FY 15	FY 16	FY 17
Revenue	131.9	135.3	140.9
Gross Profit	95.5	96.8	101.3
PBT	8.1	3.8	7.3
NPAT	5.8	2.9	5.7
PATMI	6.0	2.9	5.7
Post-invitation EPS (cents)	1.7	0.8	1.6
PER, x	13.0	26.5	13.7
BVPS (cents)	N/A	N/A	8.8
P/B, x	N/A	N/A	2.5
Dividend	≥35% Payout for FY18-19		

Source: IPO Prospectus

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COMPANY OVERVIEW

Established in 1988, RE&S Holdings Limited (RE&S) is a concept owner and operator of 77 F&B Outlets in Singapore and Malaysia that provides customers with authentic Japanese cuisine and dining experiences.

The company has a diversified portfolio of 20 unique and distinct brands under its two key business segments: (a) Full-Service Restaurants; and (b) Quick-Service Restaurants, Convenience and Others.

The Group also has a central kitchen (aggregate floor area of approximately 41,570 sqft) to:

- Support the operations of its F&B Outlets across Singapore by preparing various finished and semi-finished food items that are used in its food offerings; and
- Produce a variety of Japanese food items to supply to third-party businesses in Singapore.

It has a procurement office in Japan, RE&S Japan, which also exports seafood products to various countries in the Asian region, such as the Macau Special Administrative Region.

Business Segments

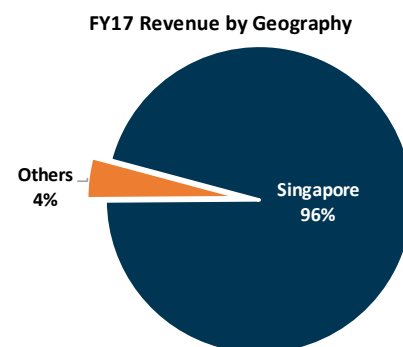
1. Full-Service Restaurants Segment (74.4% of FY2017 Revenue)

- Caters to customers seeking the full dining experience where they may sit down to have their meals and are provided with table service.
- Operates on premises which have a gross floor area of between approximately 1,600 sqft and 6,500 sqft.
- Comprises a total of 34 Full-Service Restaurants in Singapore; and 5 Full-Service Restaurants in Malaysia.

2. Quick-Service Restaurants, Convenience and Others segment (25.6% of FY2017 Revenue)

- Caters to customers seeking a quicker meal experience and/or in which they may order their meals for take-away. Also supply Japanese food products which it manufactures, such as bento and onigiri (Japanese rice balls), to third-party businesses in Singapore.
- Operate on premises which have a gross floor area of between 200 sqft and 1,500 sqft (excluding the Food Retail Outlets which are operated under consignment arrangements).
- A total of 38 Quick-Service Restaurants, Food Kiosks, Japanese Bakery and Food Retail Outlets in Singapore.
 - (a) 9 Quick-Service Restaurants which cater primarily to customers who seek a quicker sit-down meal experience;
 - (b) 16 Food Kiosks which cater primarily to customers seeking to order their meals for take-away;
 - (c) a Japanese Bakery operating under Gokoku Japanese Bakery brand; and
 - (d) 12 Food Retail Outlets comprising: (i) 8 Food Retail Outlets which are operated under Kuriya Japanese Market brand, offering customers a wide selection of Japanese food items; and (ii) 4 Food Retail Outlets which are operated in Singapore within the premises of four supermarkets belonging to the same chain under consignment arrangements, offering, among other things, freshly prepared food items such as sashimi and sushi platters and take-away bentos.

Figure 1:



Source: IPO Prospectus

Figure 2: Overview of F&B Brands and Outlets

Brands	Description/Specialty	No. of outlets (Geographical location)
Full-Service Restaurants		
Kuriya Dining	Upmarket Japanese dining	1 (SG); 1 (MY)
Ichiban Boshi	Japanese casual dining	13 (SG); 4 (MY)
Ichiban Sushi	Japanese family dining	9 (SG)
Shimbashi Soba	Healthy soba	2 (SG)
Kabe no Ana	Original Japanese pasta	2 (SG)
Shabu Tontei	Shabu shabu and tonkatsu	2 (SG)
Kuishin Bo	Authentic Japanese buffet	1 (SG)
Sumiya	Charcoal grilled seafood	1 (SG)
Ami Ami	Seafood, tempura and robatayaki	1 (SG)
Yaki Taki Bo	Teppanyaki grill	1 (SG)
Shabu-ichi	Hokkaido hotpot buffet	1 (SG)
Quick-Service Restaurants, Convenience and Others		
Kuriya Japanese Market	Japanese fresh food and ingredients	8 (SG)
Men-ichi	Homemade ramen	5 (SG)
Ichiban Bento	Take-away bento	9 (SG)
Idaten Udon	Udon and assorted tempura	5 (SG)
Wadori	Yakitori	3 (SG)
Gokoku Japanese Bakery	Japanese bread and pastries	1 (SG)
Tokyo Eater	Trending Japanese cuisines	1 (SG)
Ginzushi	Sushi bar	1 (SG)
Tenfuku	Tempura donburi (rice bowls)	1 (SG)

Source: IPO Prospectus

INVESTMENT THESIS

Strong track record, supported by a team of experienced management

- A leading F&B group in Singapore with over 25 years of operating track record.
 - (a) The Group introduced one of Singapore's first conveyor belt sushi restaurants, Ichiban Sushi (formerly Fiesta), and Singapore's first Japanese food street Shokutsu Ten.
 - (b) Awards and Accreditations evidencing quality solutions and services: ISO 22000:2005-certified central kitchen; all F&B Outlets are HACCP-compliant; Epicurean Star Awards; Excellent Service Award and AsiaOne People's Choice Awards.
- Management team, led by founder, Executive Director and President, Mr. Hiroshi Tatara, and CEO, Mr. Yek Hong Liat John, who each have over 25 years of experience in the F&B industry.
 - (a) Active management of food offerings and network of F&B Outlets in response to changes in market trends, customer demand and economic conditions.
 - (b) Regular introduction of new Japanese food trends to Singapore by bringing in new concepts from Japan, while refining these concepts to suit local customer tastes.
 - (c) In-house product development team of 11 chefs who create, test and refine concepts before introducing them to the market.

Developed a diversified brand portfolio with established and proprietary brand names

- Multi price point strategy offers resiliency somewhat. Multi-dining strategy provides diversity and income streams which are more resilient to changing economic cycles.
- Capturing different market segments via 20 well-recognized brands across the full spectrum of the Japanese dining segment, ranging from upmarket to family-style and convenience.
- Enable store expansion without significantly cannibalizing own stores in proximity. E.g. the Japanese food street concepts under its Shokutsu Ten brand. These food streets house various brands or concepts at a single location.
- Provide bargaining power with lessor: (a) ability to switch brands to meet the evolving consumer preferences; and (b) ability to take up a large retail area. E.g. it occupies more than 18,000 sqft of retail area in Jurong Point Shopping Centre.

Average ticket:

- (a) Full-Service Restaurants
 - Kuriya Dining: S\$150 – 200
 - Specialty Dining: S\$30-35
 - Casual Dining: S\$15-25
- (b) Quick-Service Restaurants, Convenience and Others
 - Below S\$10-15

More room for margin gains

- Central kitchen, equipped with specialized automated technology, offers economies of scale through integrated, end-to-end food processing and distribution capabilities. It has yet to reach its full capacity. Current utilization rate is at c.60%.
- The central kitchen enables the Group to:
 - (a) Increase restaurant productivity with lower operating and labour costs through central production.
 - (b) Enhance product consistency and safety through centralized process control. The central kitchen has 12 food processing lines to maintain a high standard of consistency and food quality.
 - (c) Conduct research and development of new concepts, dishes or to improve food preparation processes.
 - (d) Tapping into the fast-growing and higher margin Quick-Service Restaurants segment and ready-to-eat meals. Underpinned by the increasing demand for

convenience and food delivery services in Singapore, the Group can leverage on the factory capacity to ramp up production for its takeaway and ready-to-eat meals. Quick-Service Restaurants has a faster turnover and lesser operating costs, thus yielding higher margins. This positive upside can be materialized faster than a Full-Service Restaurant due to lesser capital expenditure required to set up a new store and shorter period to break even.

Acquisitions, joint ventures and strategic alliances (including franchise opportunities), to expand domestically or overseas. Although there is no concrete plan in the pipeline, management is open to both vertical integration (synergistic or complementary businesses) and vertical integration (food suppliers, manufacturers and/or other service providers).

IPO price at a discount to peers. With improving margins, positive operating cash flows, a high return on equity (FY17 ROE at 18.3%, post-invitation), RE&S Holdings Limited trades at a post-IPO historical P/E of 13.7x, 13.8% discount to the industry average of 15.9x.

SWOT ANALYSIS

Strength	<ul style="list-style-type: none"> • Established track record and well-recognised brand in Singapore • Strong and dedicated management team and employees • Diversified business portfolio: <ul style="list-style-type: none"> (a) Advantage in bargaining for new or to renew leases (b) Different price points capturing different market segments and to weather through economic cycle (c) Diversify risk of fast-changing consumer preferences • Economies of scale: <ul style="list-style-type: none"> (a) Ability to scale up fast; and (b) Increase efficiency with consistent quality 	Weakness	<ul style="list-style-type: none"> • Competitive business landscape • Labour intensive
Opportunities	<ul style="list-style-type: none"> • Refurbish and improve production processes at its existing F&B Outlets • Expand its stores network domestically or regionally • Increase its sales channels under consignment arrangement or via online food delivery • Introduction of new dining concept or brands • Tap into the market for ready-to-eat (RTE) meals • Acquisitions, joint ventures and strategic partnerships 	Threats	<ul style="list-style-type: none"> • Regulatory changes • Supply shock on raw materials and labour • Outbreaks of diseases or viruses in livestock or food scares

FINANCIAL HIGHLIGHTS

Do not expect a rosy 1H18 earnings. 1H18 earnings will be dampened by:

- (a) Downtime costs and equipment write-offs from the reconstruction of Shokutsu Ten food street into a Japanese food alley at Jurong Point Shopping Centre in 1Q18; and
- (b) IPO expenses in 2Q18.

Note:

The Japanese food alley is a self-serving dining space which houses a number of its Quick-Service Restaurants and Food Kiosks at a single location.

Nonetheless, earnings should normalize in 2H18.

Currently, the company is in a net debt position of S\$13mn and net gearing at 0.63x. The financial position should improve post-IPO, with net debt of S\$2.65mn and net gearing at 0.17x. The debt is manageable with its healthy operating cash flow of over S\$17mn p.a.

Figure 3:

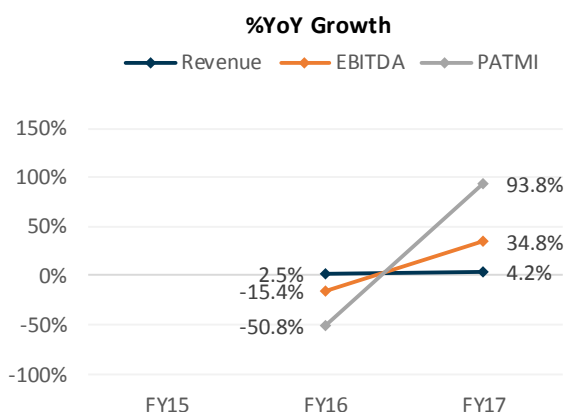


Figure 4:

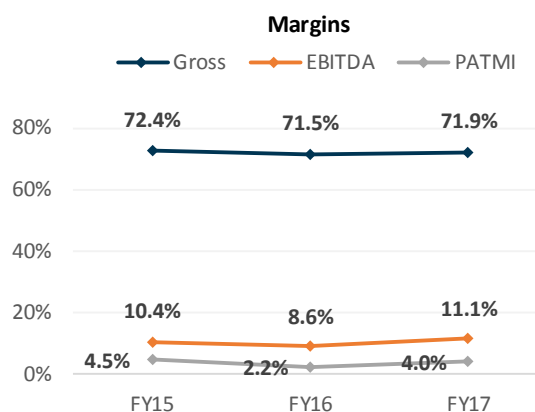


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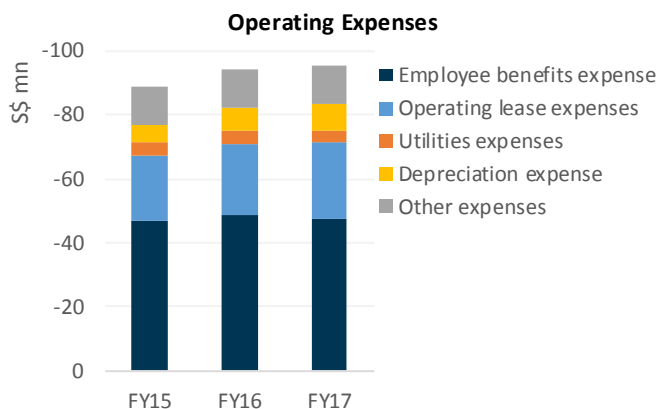
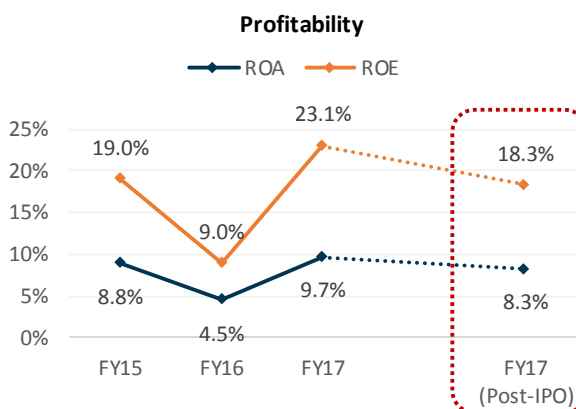


Figure 6:



Source: IPO Prospectus

By Business Segments

Figure 7:

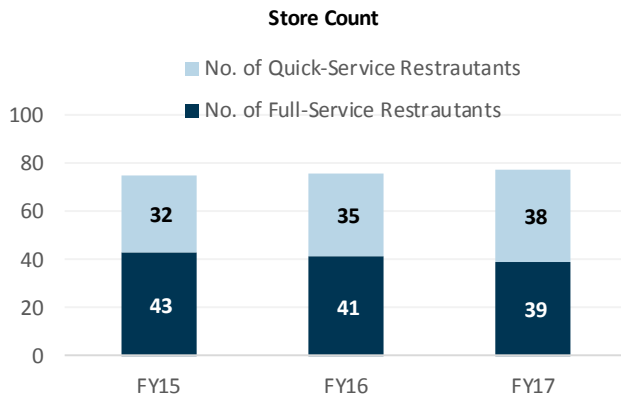


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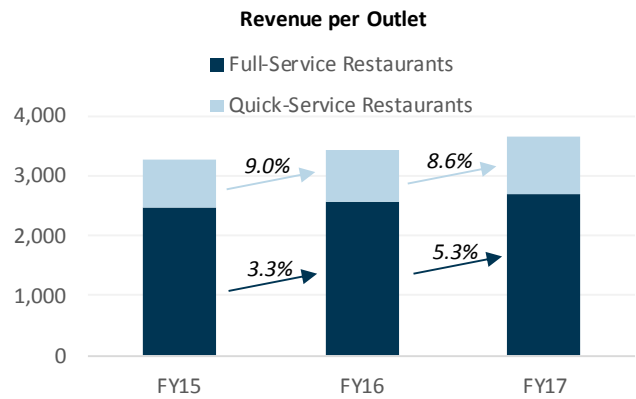


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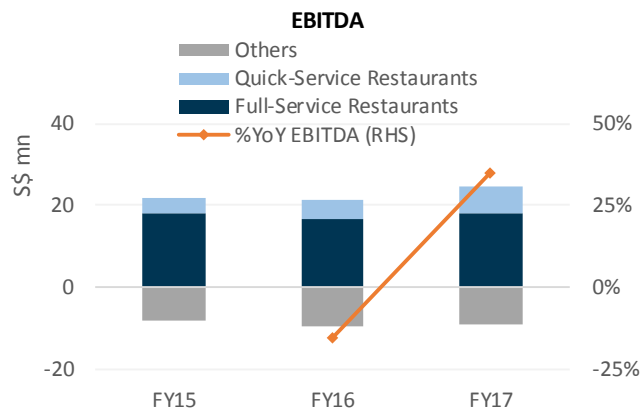
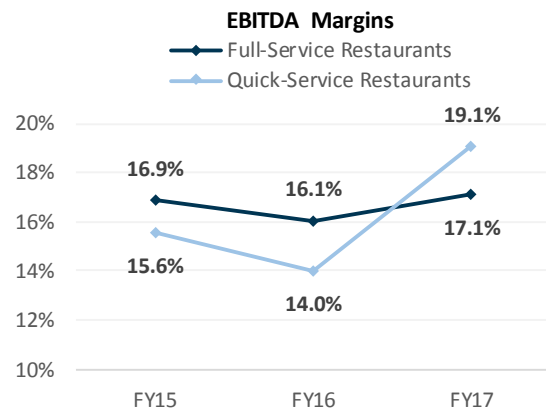


Figure 10:



Source: IPO Prospectus

PEER COMPARISON

Figure 11: Higher growth but lower margin

Company	Mkt Cap (SGD mn)	Gross Margin	Operating Margin	Net Margin	P/S TTM	P/E TTM	P/B	Div Yield (%)	Net D/E (%)	ROE (%)	Revenue Growth (%)	EBIT Growth (%)	Profit Growth (%)
RE&S Holdings Ltd	78	71.9	5.4	4.0	0.6	13.7	2.5	N/A	52.7	18.3	4.2	79.4	95.4
Market Cap Weighted Average		46.9	9.1	5.5	1.1	15.9	2.8	2.6	10.6	38.7	5.1	-59.8	16.7
Japan Foods Holding Ltd	75	84.9	7.7	7.1	1.2	17.4	2.4	4.6	Net Cash	13.7	4.2	24.8	23.3
ABR Holdings Ltd	151	44.4	5.8	5.2	1.4	30.4	1.6	3.2	Net Cash	5.1	3.5	-35.4	-29.2
Sakae Holdings Ltd	43	62.3	-10.4	-14.6	0.6	N/A	1.3	N/A	112.5	-20.5	-10.1	-2463.7	-172.9
Soup Restaurant Group Ltd	45	N/A	2.7	2.6	1.1	32.0	4.8	3.1	Net Cash	15.0	-6.4	-9.6	3.0
Jumbo Group Ltd	375	63.2	13.3	11.3	2.7	24.4	5.8	3.8	Net Cash	25.5	11.4	22.0	46.3
Katrina Group Ltd	47	14.8	6.0	4.2	0.8	18.3	3.3	3.0	Net Cash	15.6	8.4	-33.5	-44.4
Tung Lok Restaurants 2000 Ltd	63	71.9	-0.3	0.5	0.8	N/A	4.2	N/A	Net Cash	-4.9	-1.2	N/A	-30.9
BreadTalk Group Ltd	439	54.9	5.7	1.9	0.7	20.7	3.3	3.2	29.1	16.4	-1.5	1.8	50.4
Kimly Ltd	423	21.6	14.9	7.1	N/A	N/A	N/A	0.8	Net Cash	107.7	10.4	8.6	5.3

Source: Bloomberg, Company

Figure 12:

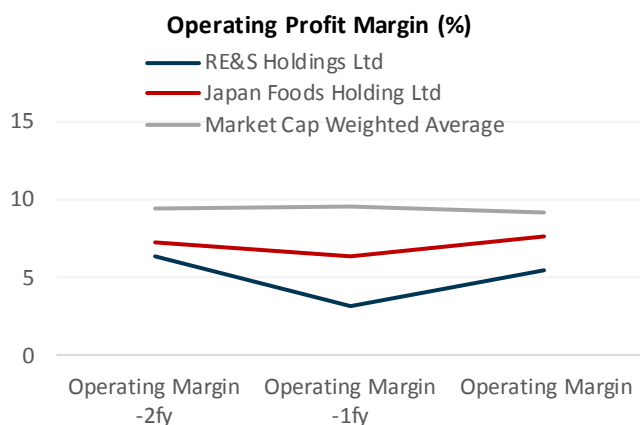


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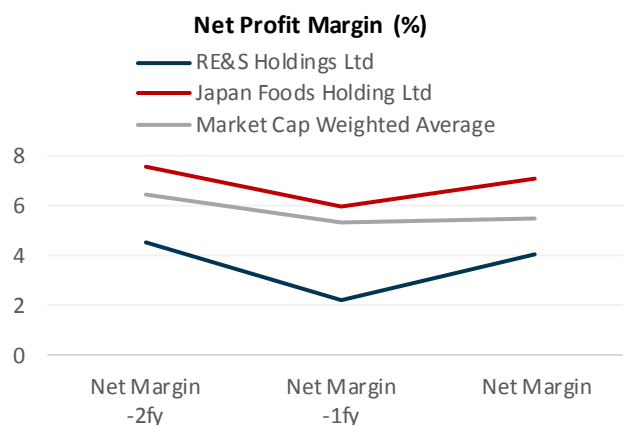
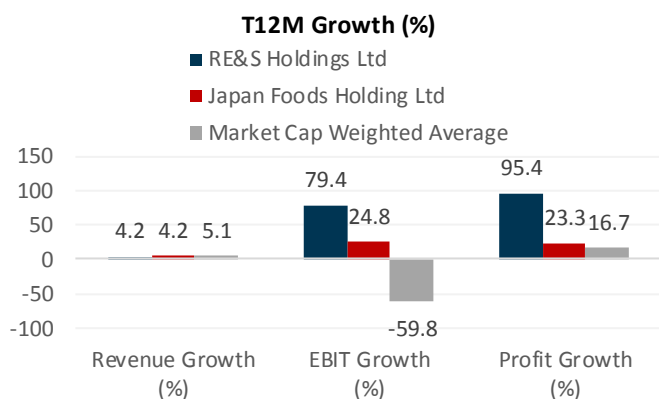


Figure 14:



Source: Bloomberg, Company, PSR

USE OF PROCEEDS

Figure 15:

	Amount in aggregate (S\$'million)	Estimated amount allocated for each Singapore dollar of the gross proceeds from the Invitation and the issuance of the Cornerstone Shares (S\$)
Use of Proceeds		
Business expansion through (a) establishment of new F&B Outlets and/or (b) suitable acquisitions, joint ventures or strategic alliances	7.0	0.59
Refurbishment and improvement of our existing F&B Outlets	2.0	0.17
General working capital requirements	1.4	0.11
Payment of underwriting and placement commissions as well as offering expenses ⁽¹⁾	1.5	0.13
Gross proceeds from the Invitation and the issuance of the Cornerstone Shares	11.9	1.00

Note:

(1) Please refer to the section titled "Use of Proceeds and Listing Expenses – Expenses" below for further details.

Source: IPO Prospectus

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