

KOUFU GROUP LIMITED

Speed bump on road to recovery

SINGAPORE | CONSUMER | Operational update

- Jobs Support Scheme (JSS) grants to be enhanced to 50% from 10%.
- Footfalls at food courts dropped following Singapore's move to Phase 2 (Heightened Alert).
- Commencement of integrated facility operations delayed to 3Q21.
- Downgrade from ACCUMULATE to NEUTRAL with a lower target price of S\$0.64 from S\$0.68. Still based on 18.5x FY21e, the average of its peers. We cut revenue for FY21e/FY22e by 1.8%/1.9% and PATMI by 6.1%/8.0% as the consumption recovery is taking longer to pan out.

Koufu provided an operational update on the impact of Singapore's move from Phase 3 (Heightened Alert) to Phase 2 (Heightened Alert) following a sharp spike in unlinked community COVID-19 cases. In a bid to curb the chain of transmissions, further restrictions have been imposed. These include prohibition of dining in at all food outlets, a capping of social gatherings and activities to two persons, reduced capacity for malls and work from home as the default mode of operations.

Positives

+ JSS support to be enhanced to 50% from 10%. To tide the F&B sector during this period, government support under the JSS will be enhanced to 50% instead of the initial 10% for wages paid up to June 2021. We estimate the Group will receive about S\$600,000 in government grants, which would lift its total government grants to S\$1.6mn in FY21e.

+ Marginal improvements in Macau. Macau reopened its borders to foreigners via mainland China on 16 March 2021. This led to a slight improvement in footfalls at malls and food courts during the recent Labour Day holidays in May 2021. All of Koufu's food courts at the University of Macau, Nova City and Cotai Sands remained operational, though footfall and revenue were lower than pre-COVID levels. The negative impact has been mitigated partially by rental waivers and rebates from landlords.

Negatives

– Footfalls dropped after Singapore's move into Phase 2 (Heightened alert). The Group's operations in food courts, coffee shops and restaurants have been hurt by lower footfalls in malls and tertiary institutions. While its food outlets remain operational for takeaway and delivery, food courts near offices and in downtown areas, tourist hotspots and tertiary institutions where staff and students have transitioned to home-based learning has been affected the most.

Outlet & mall management: While the Group's revenue from outlet & mall management comprises mainly fixed rental income from stall tenants, a portion is directly linked to the performance of stallholders in certain food outlets, where a component of the fee is variable in nature and pegged to the gross turnover of the stall.

F&B retail business: Earnings negatively impacted by lower footfalls in malls and tertiary institutions. Koufu has temporarily suspended the operations of both the Koufu food court and Grove quick service restaurant at Singapore Management University and two R&B Tea kiosks at Far East Square and Change Alley Mall during this period due to low footfalls at these outlets.

24 May 2021

NEUTRAL (Downgrade)

LAST CLOSE PRICE	SGD 0.630
FORECAST DIV	SGD 0.017
TARGET PRICE	SGD 0.640
TOTAL RETURN	4.4%

COMPANY DATA

BLOOMBERG CODE:	KOUFU SP
O/S SHARES (MN):	554
MARKET CAP (USD mn / SGD mn):	263 / 349
52 - WK HI/LO (SGD):	0.73 / 0.62
3M Average Daily T/O (mn):	0.24

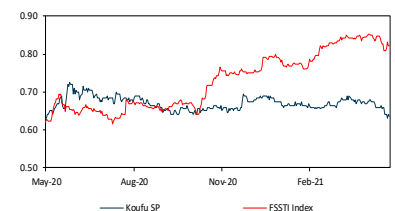
MAJOR SHAREHOLDERS (%)

JUN YUAN HOLDINGS	77.2%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(3.5)	(2.8)	4.9
STI RETURN	1.9	(7.9)	1.5

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$, 'mn)	FY19	FY20	FY21e	FY22e
Revenue	237.5	192.4	211.0	225.8
Gross Profit	206.3	173.8	185.9	198.5
EBITDA	156.4	124.0	141.4	151.0
NPAT	27.8	9.6	16.9	20.9
P/NAV (x)	3.39	3.45	3.16	2.86
P/E (x)	13	35	18	15
ROE (%)	28.6%	11.2%	18.3%	20.0%

Source: Company, PSR

VALUATION METHOD

P/E Multiple @ 18.5x FY21e

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Negatives

– **Commencement of integrated facility operations delayed to 3Q2021.** Construction of this facility has been delayed by COVID-19 measures introduced in both Singapore and Malaysia, where certain materials are sourced. The Group now expects to commence operations in 3Q21 rather than 2Q21. Temporary occupation permit (TOP) for this facility was obtained in April 2021. The Group will be occupying 75% of the total gross floor area with the balance 25% fully tenanted out.

Outlook

In light of the slower-than-expected recovery in consumption, we lower our revenue estimates for FY21e and FY22e by 1.8% and 1.9% respectively. Consequently, profits are reduced by 6.1% and 8.0% from negative operating leverage and the delay in completion of its integrated facility.

Downgrade to NEUTRAL with lower TP of S\$0.64 (previously S\$0.68)

We downgrade our ACCUMULATE rating to NEUTRAL with a lower TP of S\$0.64, still based on 18.5x FY21e, following our earnings revision.

Financials

Income Statement

Y/E Dec, (\$'000)	FY18	FY19	FY20	FY21e	FY22e
Revenue	223,840	237,507	192,375	211,009	225,793
Cost of sales	(29,732)	(31,194)	(18,594)	(25,060)	(27,253)
Gross Profit	194,108	206,313	173,781	185,949	198,540
Depreciation and property expe	(116,924)	(119,071)	(107,898)	(117,096)	(121,970)
Administrative expenses	(6,278)	(5,011)	(5,448)	(4,959)	(5,306)
Other items	(41,860)	(44,911)	(44,362)	(39,590)	(42,192)
EBIT	29,046	37,320	16,073	24,304	29,072
Net finance expenses	144	(3,582)	(4,476)	(3,894)	(3,894)
Taxation	(4,955)	(6,122)	(1,958)	(3,470)	(4,280)
Share of profit of associates an	241	220	-	-	-
Net Profit	24,476	27,836	9,639	16,940	20,898
Net Profit (incl. Deli Asia)	24,476	27,836	11,465	19,375	23,333
Profit attributable to owners	24,509	27,688	9,880	19,616	23,574

Per share data (S\$ cents)

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
BVPS	16.5	18.6	18.3	20.0	22.0
DPS	2.2	2.5	1.2	1.7	2.1
EPS	4.4	5.0	1.8	3.5	4.3

Cash Flow

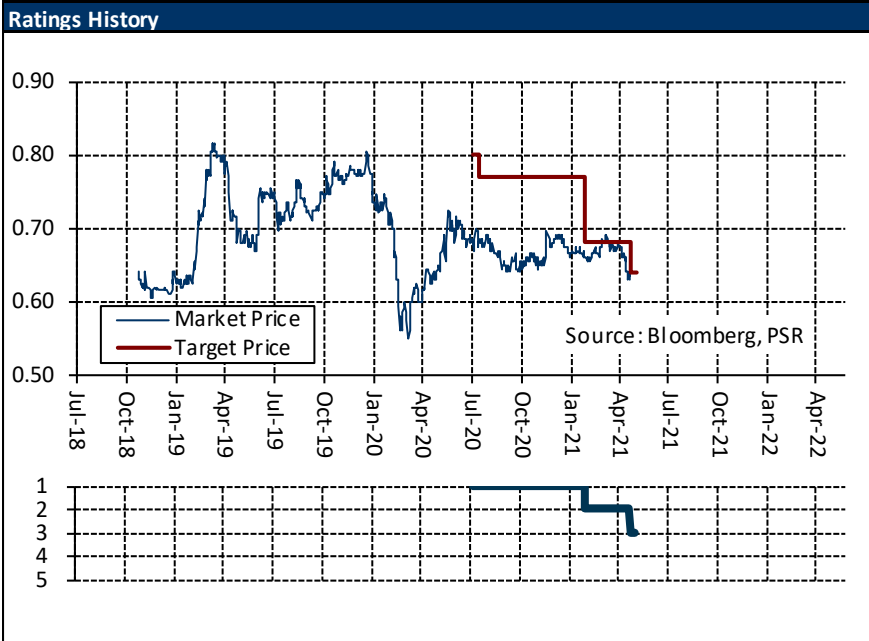
Y/E Dec, (\$'000)	FY18	FY19	FY20	FY21e	FY22e
CFO					
Net income	24,476	27,836	9,639	16,940	20,898
Adjustments	17,443	87,449	87,838	90,151	95,232
WC changes	(3,041)	881	(18,188)	484	(135)
Cash generated from ops	38,878	116,166	79,289	107,576	115,995
Others	(5,637)	(6,063)	(6,310)	(3,470)	(4,280)
Cashflow from ops	33,241	110,103	72,979	104,106	111,715
CFI					
CAPEX, net	(18,953)	(26,903)	(15,724)	(35,621)	(23,393)
Others	(37,280)	32,996	(13,843)	28	28
Cashflow from investments	(56,233)	6,093	(29,567)	(35,593)	(23,365)
CFF					
Proceeds from issuance of units	45,462	-	-	-	-
Proceeds from borrowings, net	3,018	(57)	9,000	-	-
Interest paid	(246)	(4,301)	(4,478)	(4,316)	(4,316)
Others	(17,364)	(82,398)	(62,080)	(73,875)	(74,135)
Cashflow from financing	30,870	(86,756)	(57,558)	(78,191)	(78,451)
Net change in cash	7,878	29,440	(14,145)	(9,678)	9,899
Cash at the start of the period	53,043	60,979	90,396	76,352	66,674
Currency translation	(1,825)	(27)	(27)	(27)	(27)
Others	-	-	-	-	-
Ending cash	60,979	90,396	76,352	66,674	76,573

*nm - not meaningful

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (\$'000)	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
PPE & Investment Properties	35,148	229,856	206,035	225,557	227,125
Others	16,992	12,639	32,658	32,658	32,658
Total non-current assets	52,140	242,495	238,693	258,215	259,783
Cash and cash equivalents	60,979	90,396	76,352	66,674	76,573
Inventories	1,288	1,435	1,810	1,225	1,280
Trade receivables	10,158	9,955	19,961	20,062	20,142
Others	35,130	4,600	4,799	4,799	4,799
Total current assets	107,555	106,386	102,922	92,760	102,794
Total Assets	159,695	348,881	341,615	350,975	362,577
LIABILITIES					
Trade payables	46,021	41,179	43,964	43,877	44,054
ST borrowings	411	605	2,672	2,672	2,672
Others	7,338	70,793	69,769	69,769	69,769
Total current liabilities	53,770	112,577	116,405	116,318	116,495
LT borrowings	4,364	4,113	11,046	11,046	11,046
Others	10,033	129,177	112,898	112,898	112,898
Total non-current liabilities	14,397	133,290	123,944	123,944	123,944
Total liabilities	68,167	245,867	240,349	240,262	240,439
EQUITY					
Share Capital	44,961	44,961	44,961	44,961	44,961
Retained profits	46,737	57,953	56,741	66,429	78,095
Others	(170)	100	(436)	(677)	(918)
Total equity	91,528	103,014	101,266	110,713	122,138
Total equity and liabilities	159,695	348,881	341,615	350,975	362,577
Valuation Ratios					
Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	14.3	12.6	35.4	17.8	14.8
P/B (x)	3.8	3.4	3.5	3.2	2.9
EV/EBITDA (x)	2.1	1.9	2.4	2.1	2.0
Dividend yield (%)	3.5%	4.0%	1.9%	2.8%	3.3%
Growth & Margins (%)					
Growth					
Revenue	3.3%	6.1%	-19.0%	9.7%	7.0%
Gross profit	4.7%	6.3%	-15.8%	7.0%	6.8%
EBITDA	7.7%	13.0%	-64.3%	98.5%	20.2%
EBIT	-5.4%	28.5%	-56.9%	51.2%	19.6%
Margins					
Gross profit margin	86.7%	86.9%	90.3%	88.1%	87.9%
EBITDA margin	65.2%	65.8%	64.4%	67.0%	66.9%
EBIT margin	13.0%	15.7%	8.4%	11.5%	12.9%
Net profit margin	10.9%	11.7%	6.0%	9.2%	10.3%
Key Ratios					
ROE	36.4%	28.6%	11.2%	18.3%	20.0%
ROA	18.3%	10.9%	3.3%	5.6%	6.5%
Net Gearing (%)	-61.4%	-83.2%	-61.9%	-47.8%	-51.5%



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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